



FINANCIAL SUPERVISION IN CURACAO AND THE EURO AREA: WHAT CAN WE LEARN FROM EACH OTHER?

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INTRODUCTION

- Curacao faces huge budgetary challenges
- In this Curacao is not alone
 - fiscal cliff in the US
 - sovereign debt crisis in Europe
 - Greek drama
 - severe budgetary cuts in the Netherlands

THE VIEW OF THE CREDIT RATING AGENCIES

- AAA Finland, Germany, Netherlands
- AA Austria, Belgium, France, USA, Bermuda
- A Trinidad and Tobago
- A- Aruba, Brazil, Curaçao, Mexico

- BBB Ireland, Italy, Spain
- BB Portugal, Suriname, Barbados
- B Greece

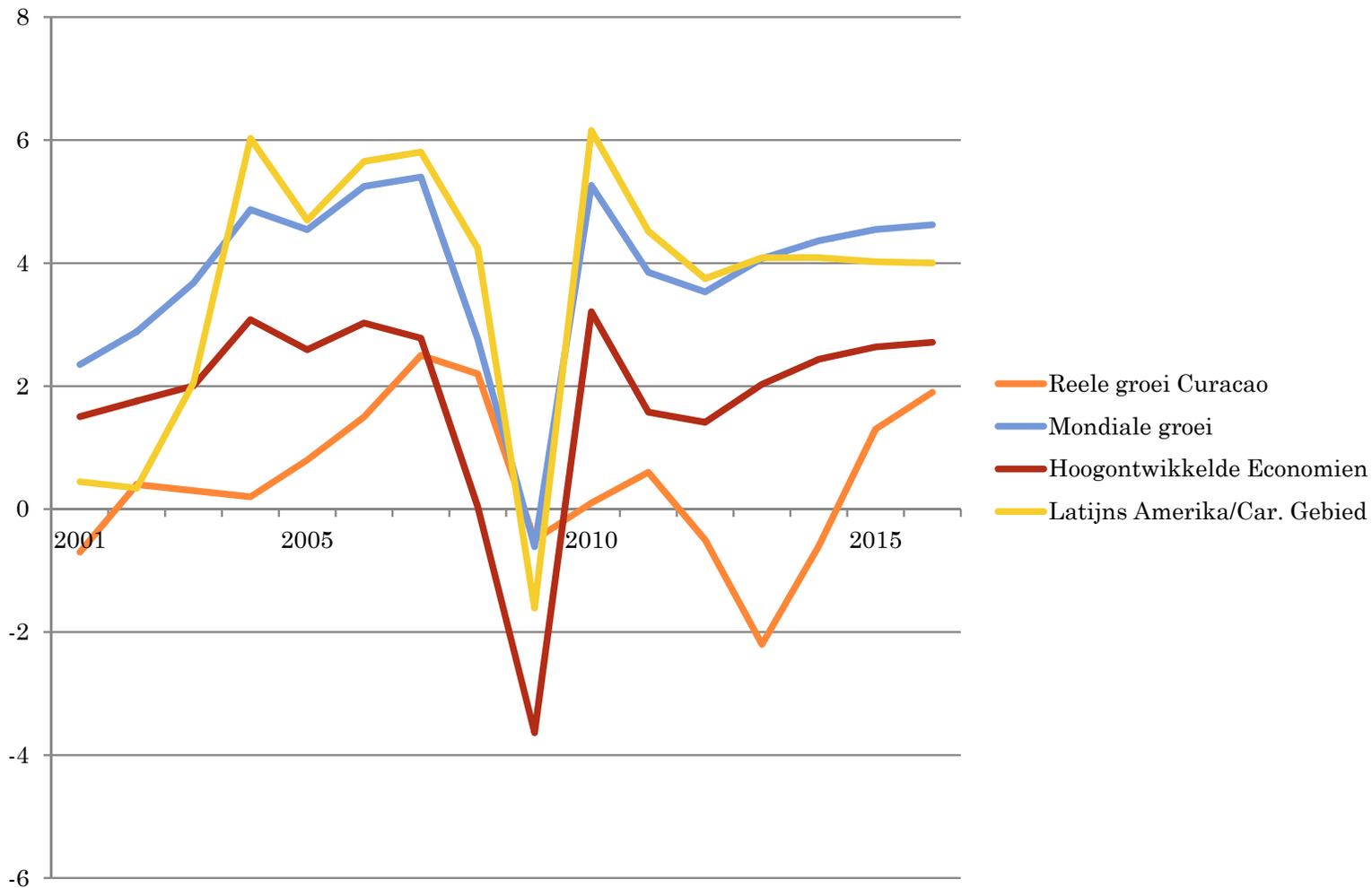
INTRODUCTION

- Similar reasons for budgetary challenges
 - The worldwide economic crisis hits everybody
 - Life expectancy is increasing, population is greying
 - Health costs are soaring due to technological progress
 - In a global economy investors demand a prudent and predictable budgetary policy

CURACAO FOLLOWS THE TREND

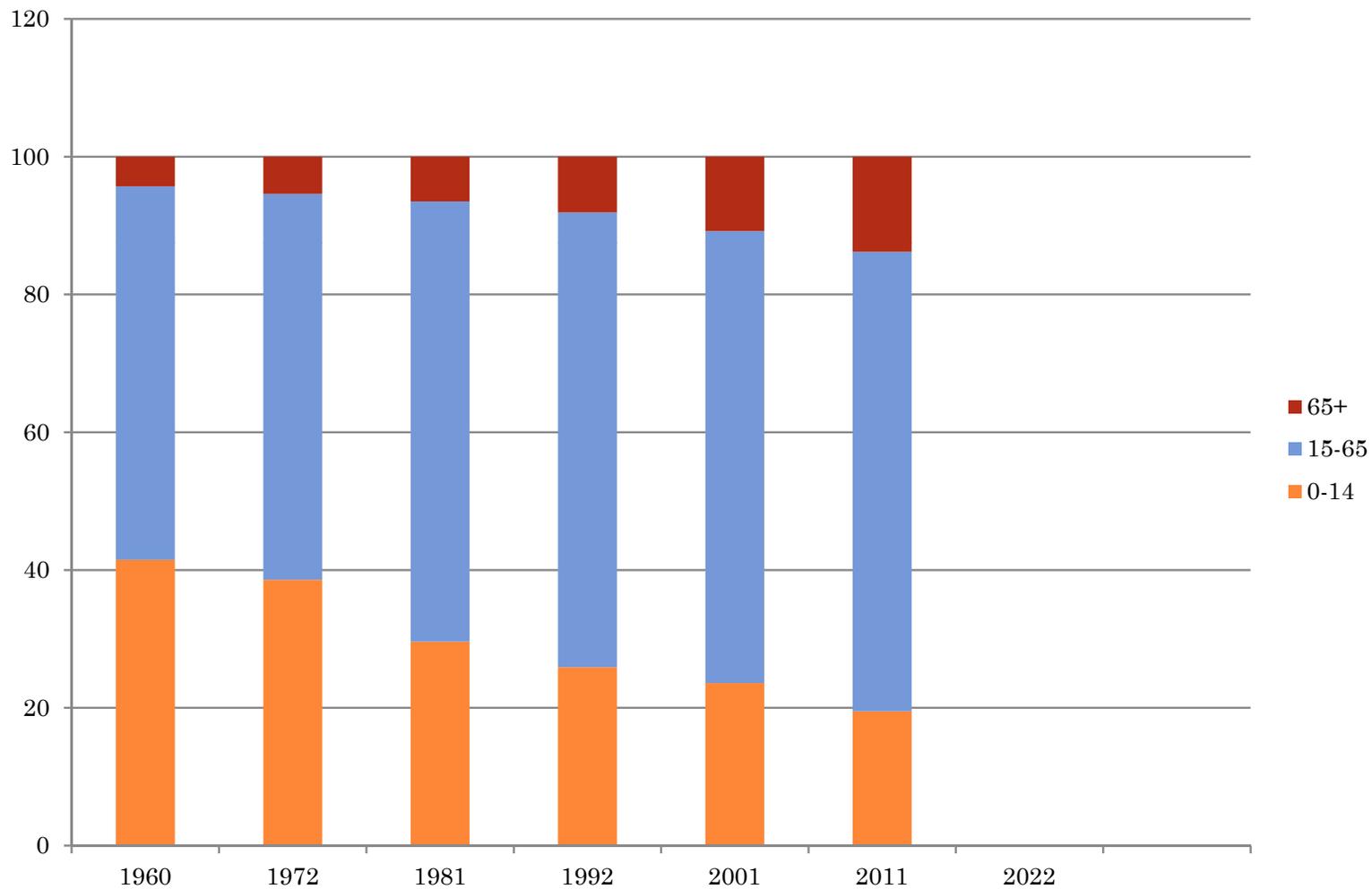
- Since 10-10-10 large fiscal deficits
 - increasing from 5% of GDP in 2011 for the collective sector to 9% of GDP in 2015 if nothing is done
 - reserve position is depleted; threat of payment arrears
- Same trends
 - Low economic growth
 - Greying of population
 - Soaring health costs

ECONOMIC GROWTH (GDP)



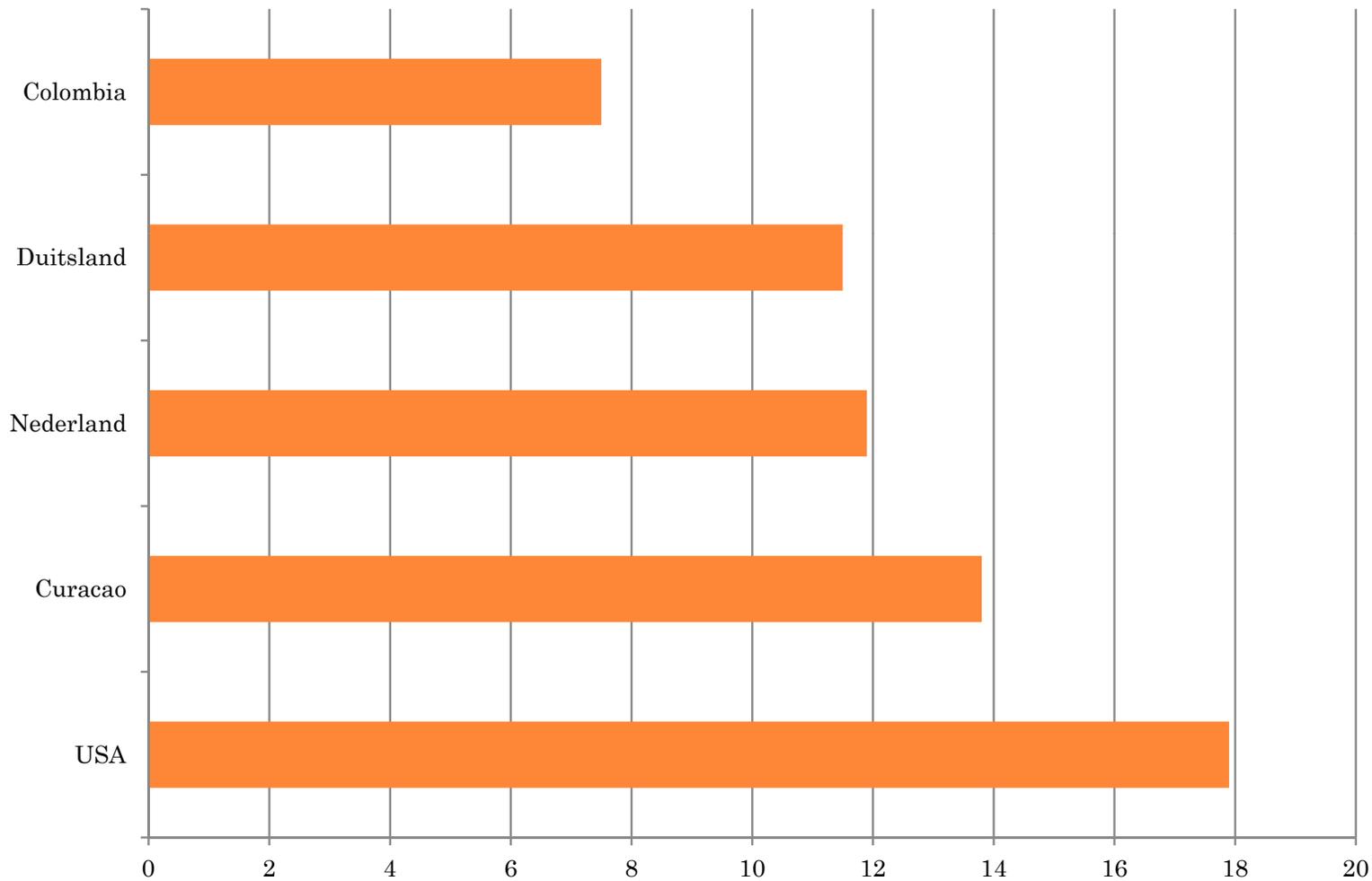
Source: IMF, Central Bank for Curacao and Sint Maarten, budget 2013 Curacao

POPULATION IS GETTING OLDER



Source: CBS Curacao, census 2011.

HEALTH CARE COSTS IN PERSPECTIVE



Source: Volksgezondheidsinstituut Curacao, Zorgrekeningen 2008-2011, december 2012

COMPARE THE SITUATION IN EUROPE

- The single currency needed comparable economic fundamentals in EU-countries
- The Treaty of Maastricht set criteria for countries who wanted to join the Euro ...
 - criteria for government debt, deficits and inflation
- ... because once the exchange rate is gone, there would be no other mechanism to correct for external shocks

MAJOR FLAWS IN MAASTRICHT TREATY

- The weakness of the 'E' of EMU
 - no binding economic policy coordination
 - no supranational fiscal authority
 - limited power of Commission and European Parliament
- The weakness of financial supervision
 - Obligations formulated 'as a rule'
 - Ministers of Finance themselves decide on compliance with obligations and on sanctions

MAIN IMPROVEMENTS

- More automaticity in sanctions
 - Including fines for incomplete or incorrect data
- Rejection of Commission proposals only possible with very large majority
 - No longer veto for combination of large countries
 - Commissioner Rehn is 'super' euro minister
- Medium term budgetary objectives (MTO)
 - Surpluses in good times

LEGAL FRAMEWORK

Curacao

- Kingdom law
- Staatsregeling and Landsverordening

Euro Area

- Treaty
- Stability and Growth Pact
- Balanced budget rule in national law?

SUPERVISORY AUTHORITY

Curacao

- Rijksministerraad (RMR)
- Cft
 - Advisory power

Euro Area

- Council of Ministers
- European Commission
 - Advisory power
 - Sanctions power

NORMS AND DATA VERIFICATION

Curacao

- Golden rule
 - Current budget 0%
 - Borrow for capital expenditures
- CBS

Euro Area

- Two norms
 - Total budget $\leq 3\%$
 - Government debt $\leq 60\%$
- CBS-type institutions
- Eurostat for verification

PREVENTIVE ARM

Curacao

- Positive advice Cft on balanced budget
- Budget needs to be multiannually balanced
- Uitvoeringsrapportages

Euro area

- Positive advice Commission on budget
- Multiannual sustainability check
- Early warnings

CORRECTIVE ARM

Curacao

- Advice by Cft on supplementary budget
- Compensation of deficits in 3 years
- Instruction by RMR

Euro area

- Advice by Commission on supplementary budget
- Sanctions and cuts on European funds

WHAT HAVE WE LEARNED?

- 1. Supervision needs to be independent
- 2. Quality and completeness of information is key
- 3. Supervision has to be on a broad collective sector basis, including social funds
- 4. Use independent forecast of economic growth
- 5. There needs to be a credible threat of sanctions

RESTORING A BALANCED BUDGET

- Budget 2013 foresees balanced budget through:
 - Introduction health insurance (basisverzekering)
 - Increase of retirement age
 - Tax measures and expenditure savings
- Implementation is key

A NEW START

- Once fiscal order is restored, Curacao is well placed to resume growth
 - Healthy, well-capitalized and liquid financial sector
 - Debt levels relatively low at 35% of GDP
- Once budget is balanced, government can borrow for capital expenditures for infrastructure
 - Low interest rate due to triple A status Netherlands
- Trust in government is key
 - Independent financial supervision is a strength