

Sound public finances: A solid foundation for sustainable growth

By Mr. Richard Gibson,
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Ladies and Gentleman!

It is quite an honor to be here today to speak to this distinguished audience on the occasion of the 18th trade mission organized in our country. This week the celebrations of the 200th anniversary of the Kingdom of the Netherlands is taking place on Sint Maarten as well. It therefore makes sense to me to talk about supervision and economic development - as I have been asked to do - which goes hand in hand with talking about the kingdom, and the advantages the kingdom has to offer.

Permit me to give you a short overview of my presentation.

First of all, I will take you back in time to recollect the state of affairs of the Netherlands Antilles as a country, and to contrast this with the opportunities the new organization of the kingdom brought for the countries of Curacao and Sint Maarten after 10-10-10. Opportunities that are not readily available to other countries in the region. Opportunities are accompanied with obligations and require discipline. Obligations to pay attention to good governance and the discipline to follow a path to exploit such opportunities. After all, now that Curacao and Sint Maarten have become autonomous countries, we have become responsible for the well being of the countries. There is no one else we can blame if things go wrong; if we can't balance our budget, or if we don't take advantage of economic opportunities available to us. Are we prepared to handle those obligations? Do we, as a people have the discipline? Do we know what our obligations are? Are we paying attention to the short term and long term risks that lie ahead?

In this regard the Kingdom Financial Supervision Committee, the CFT, plays an extremely important role. It identifies the risks and confront the decision makers in our country with questions regarding these risks and the obligations we have as an autonomous country. Of course this is sometimes not fully appreciated. Especially, if it conflicts with political expediency for short term gain. We don't always want to deal with the inhaerent risks that have to be addressed to avoid falling blindly into an abyss or that affect our long term economic development potential.

The Kingdom Financial Supervision Committee, the Cft, is only one of the advantages available to members of the Kingdom and since 10-10-10 it has significantly contributed in improving the public financial administrations of the countries. This has resulted in balanced budgets on the islands, and opened the floodgates for significant capital investments in Curacao and Sint Maarten. Supporting the Board of the CFT is a contingent of economists, accountants, lawyers, administrators and other disciplines that are available to all the countries for advice and counsel. The entire organization is financed and paid for by the Kingdom government.

I would be remiss if I do not also point out that there is a problem in the Kingdom. That problem is the lack of trust between the countries that make up the Kingdom. There is a lack of trust between the islands, but more importantly there is a lack of trust between The Netherlands and the islands. When trust is lacking between parties, one cannot blame one party. As a rule all of the parties are to be blamed. I won't be able to solve this lack of trust problem today, but I feel that if we talk about the opportunities of the Kingdom, that if we celebrate 200 years existence of the Kingdom of the Netherlands, we should also be honest with each other and mention that there is a lack of trust that needs to be repaired. Once this is recognized, we can start to work on repairing it.

Finally, when all this is said and done, it is time to move to the future and decide where we want to go to. Where the Kingdom wants to go to, but also where we want to go as countries. What is the agenda for the next years

when we are faced with economic challenges; when we face the needs of our populations and when we face the need for our countries to grow.

Ladies and Gentleman,

It has been almost four years now since the new countries Curacao and Sint Maarten came into existence. Four years since the former Netherlands Antilles ceased to exist. There are some people, predominantly outside of Sint Maarten, who yearn for a return to the Netherlands Antilles and the former constitutional framework of the Kingdom. Personally, as one of the last ministers of constitutional affairs of The Netherlands Antilles and who played a major role from beginning to end in extracting Sint Maarten from the Netherlands Antilles, I am not one of them. The former island territories of Curacao and Sint Maarten had to become autonomous countries. One might even say that it was long overdue. There were different reasons. First of all the countries differed too much culturally, but also economically. Sint Maarten might be the most Anglo-Saxon country in the Kingdom, economically tied to North America. Culturally Sint Maarten has a can-do mentality. People on Sint Maarten see an opportunity and act. This is in sharp contrast with Curacao, which has a European mentality that favors big government and a population that relies too much on government for everything.

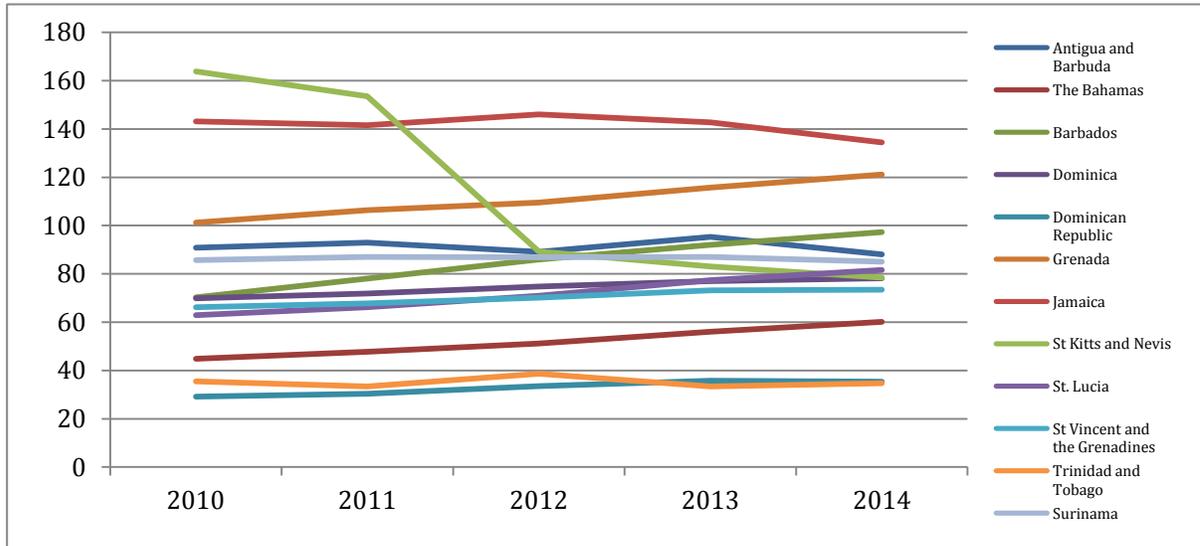
The different economic and cultural factors basically led to paralysis in the country as a whole. This became painfully clear after 1985 when Aruba was the first island to leave the Netherlands Antilles. The prediction launched by former Prime-Minister Juancho Evertsz that Six minus one is zero became a reality. No new initiatives were taken and the islands looked at each other with mistrust. The country the Netherlands Antilles itself was big and expensive to operate and was facing bankruptcy. The debt of the Netherlands Antilles reached a staggering 90% of GDP with interest rates that soared. Loans with interest rates of 8% to 9% were no exception. The Netherlands Antilles was no longer in a position to pay its debts and sustain its operational expenses to meet the needs of its people. The

country the Netherlands Antilles saw no light at the end of the tunnel and could not continue in this manner. They had to be bailed out. Debt relief from the Kingdom and constitutional change was the only way out of the quagmire. Constitutionally change alone would not get the job done. Curacao and Sint Maarten as two new autonomous countries with an inheritance of a 90% debt to GDP ratio was simply not realistic. The experiment would have failed even before it began. So, with the debt relief provided by the Kingdom debt levels were brought down to around 30% of GDP. Sint Maarten even enjoyed a debt level of 23% in 2013. These debt levels make us unique in the region and in most of the world and created a tremendous opportunity for both countries to build up their institutions and to improve their economies. It should be mentioned that questions still remain as to whether or not Sint Maarten received the debt relief it was promised. The fact that Sint Maarten ended up with a debt level of 23% to GDP, which is extremely low, does not remove the fact that promises were made and not kept in this regard. Whilst the Netherlands has closed the door on this promise rumblings of dissatisfaction and mistrust can still be heard amongst the population of Sint Maarten.

If we take a look at debt levels in the region (figure 1) we see that none of the selected countries has debt levels as low as Sint Maarten and Curacao. High debt levels are a curse that haunts the Caribbean region as well as other countries in the world. High debt levels in countries in the Caribbean have resulted in interest obligations on borrowing between 16% and 42% of their income. Compare that with the 2,5% interest Sint Maarten had to pay in 2013 and the 3% of Curacao had to pay on their borrowings. Countries that traditionally had lower debt levels because they had lots of natural resources, such as Trinidad and Tobago and Suriname, now are starting to feel the pinch of rising debt levels as well. Of course these high debt levels are not sustainable, certainly not when compared with a deficit on the balance of payments, an endemic situation that plagues the Caribbean region as well. That problem was not cured with the new constitutional arrangement in the kingdom, and continues in my opinion to

be the most important problem we have to solve in the near future. I will return to this later on.

Figure 1: Debt levels Caribbean region.



Source: IMF; WEO-statistics.

The debt relief made available by the kingdom also brought into existence the Board of Financial Supervision (CFT), of which I have been a member for almost 3 years. Supervision is often seen as non-democratic. As a rule supervision in a democracy is first and foremost in the hands of Parliament. This however, has not worked in the past and almost resulted in the bankruptcy of the Netherlands Antilles. The price that had to be paid for a bail out in the form of debt relief from the kingdom was to agree to independent CFT supervision to avoid repeating history. It should be noted that independent supervision of government budgets more and more is becoming the rule in the world. The Netherlands and all of the countries in Europe are subject to supervision of their budgets by Brussels. The relative stable debt position that Curacao and Sint Maarten enjoy today and their access to capital at very low interest rates to develop their economies is a clear result of the existence of Cft supervision. Without Cft supervision the debt of Sint Maarten and Curacao would no doubt be on an equal footing with the countries in figure 1 and would result in harsh measures on the population to be able to get back to a normal debt level. Look at our

neighbors in St Kitts and Nevis that had to call in the IMF a couple of years ago for a bailout. I don't think one of the countries in the Kingdom wants this to happen to them. It should be noted that Aruba is not under CFT supervision and Aruba today is drowning in debt. Its population is on the threshold of having to face harsh measures to try to bring these high debt levels back to normal and avoid the situation that faced the Netherlands Antilles.

Figure 2: debt positions in the Kingdom

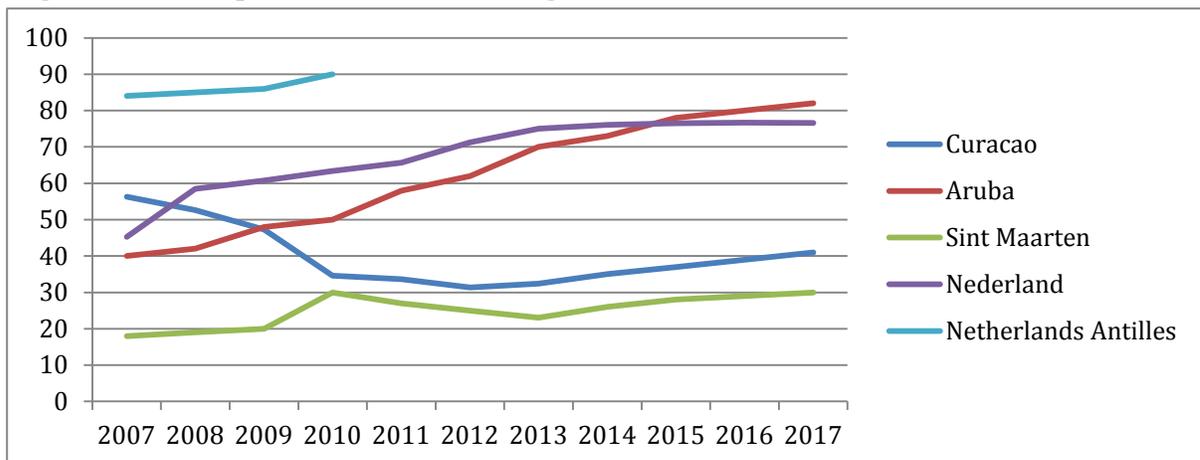


Figure 2 gives an overview of the debt positions in the Kingdom. Aruba takes the crown with the highest debt level in the kingdom, followed closely by the Netherlands itself. Since the start of the financial crisis in 2008 we can see a sharp increase in the debt of the Netherlands and Aruba. The debt of the Netherlands Antilles also rose year by year, until its demise in 2010. Sint Maarten was not allowed to borrow as an island territory and inherited a part of the debt of the former country, while the debt of Curacao was reduced. In the coming years we will see a gradual increase of the debt of Curacao and Sint Maarten as balanced budgets make it possible for them to borrow and invest in their economies. A word of caution however is necessary. A responsible borrowing policy framework should be adopted. Borrowing comes hand in hand with risks and the hole the Netherlands Antilles dug for itself should be avoided at all costs. The debt of the Netherlands will stabilize in the coming years as a result of measures taken by the government of the Netherlands, but the debt of Aruba

continues to grow and remain a serious source for concern if no measures are taken by the government of Aruba.

There are those who have said that supervision keeps government in a state of scarcity and prevents government from improving its economy. Their views are that government should be allowed to run up deficits and make expenditures without corresponding revenues. I don't agree with this view. A healthy government with a low debt position instills confidence in investors and the population at large. No one wants to invest in a country that will have to increase taxes overnight because loans from lenders have to be repaid. No investor will invest money if it doesn't trust the financial and political stability of the government. These two things have been achieved by Curacao and Sint Maarten with the new structure of the Kingdom and the value of those things for our economic development can hardly be over stated.

Recent economic research of the worldbank and the IMF have proven two things. First of all that debt levels above 35% in small island states like the Caribbean countries are a threat to sustainable economic development. Secondly, international comparisons of countries that have independent supervision over countries that lack supervision, prove that financial supervision free of political influences is necessary for healthy economic development.

The question that arises is: Shouldn't supervision be carried out by organizations within the country itself? Isn't it best for a young country to work on its institutions and improve the national checks and balances? Ladies and gentleman, I couldn't agree more. Of course, every country should work on its own checks and balances. The effectiveness of institutions in Sint Maarten and Curacao however need to be improved to accomplish this. The reality is that we have been at it for almost four years now and a lot has been done, especially on Sint Maarten where we had to start from scratch. But, both countries are nowhere near the desired goal. And they can't expect to be at the end position at this time! The countries

are small and need to do a lot of work. Curacao is of course way ahead of Sint Maarten because most of the former institutions of the Netherlands Antilles were located there. But even Curacao is far from ready. Sint Maarten came a long way, but is still struggling heroically. At the same time huge demands are being made by the Kingdom on all institutions on Sint Maarten to improve. We simply lack the capacity to get there overnight. We will get there, but give us time. Pulling on the leaves of the growing plant will not make the plant grow faster. In fact pulling at the leaves might stunt the growth of the plant. Four years is a very short period of time. Again, Aruba can serve as an example. Aruba has been autonomous for almost thirty years and today I dare say that even Aruba is nowhere near the desired end goal.

As far as the Cft is concerned, financial management is of course the most important point to look at. As you know supervision of the budget needs to be carried out by parliament. We also know that parliament has to listen to the internal accountants and to the audit chamber. These three institutions are crucial for proper internal supervision. It is no secret that the effectiveness of these three institutions as far as internal supervision is concerned leaves a lot to be desired. The Cft carries out annual examinations of the state of financial management using the international Public Expenditure and Financial Accountability framework. The supervision of parliament and the work of the accountant and the audit chamber is part of these assessments and the figures don't lie. In both Curacao and Sint Maarten we see that the supervision on the budgets and annual accounts by the parliaments is below standard. Reports of the audit chamber and recommendations of the corporate governance councils are not being dealt with adequately.

So, should the countries, taking these circumstances into consideration, decide now to abolish the Cft? In my humble opinion this would be grossly premature! We are not there yet. The Cft has proven its role internationally and nationally. Internationally, because it has guided the islands to attaining a healthy debt position and Nationally, because it has

supplemented the weaknesses of nationally supervisory institutions. A national budget chamber would in these circumstances mean nothing else than another weak institution on top of others, unless it is manned with the expertise and experience similar to the CFT, consisting of economists, lawyers, accountants, administrators and other budget specialists, and have the access and reach that the CFT has.

Ladies and gentleman,

The Cft is the supervisor that works for and within the Kingdom. The Cft and the financial stability it brings to the budgets of the countries is one of the advantages of being part of the Kingdom. There are many other advantages. Many people from Sint Maarten remember the hurricanes Luis & Marilyn that devastated Sint Maarten. There is always a chance of being struck again and it is comforting to know that help from the Kingdom is readily available. We all know how fragile a small country can be and how dependent we are on others. The same applies to institutions that Curacao and Sint Maarten has to build. As mentioned earlier we are small and need capacity to build up our institutions in financial management; in building an effective tax department; in creating effective law enforcement; in central banking and other areas as well. It is good to know that there is a kingdom that can help us in our efforts. Since 10-10-10 with the assistance of the Kingdom Progress Committee Sint Maarten succeeded in substantially improving our Census Office, our Public Works department; our legislative department; our Police Corps; immigration department and prison facilities. We have made tremendous progress and are ahead of our sister countries and the region in many areas. Together we can continue to make significant progress.

We can also work together in developing new markets and on ways of doing business. Enough has not been done in this respect and it can contribute to economic growth. Lets make money together as prime minister Rutte said some time ago. But to work together and to do business together there needs to be a minimum of trust. Trust is lacking in

my opinion. We have to get to now each other better. Trust is not something you can buy or demand. Trust is something that has to be earned. But earning trust is difficult as the rules of the game are not clear and knowledge of each others' culture and background leaves a lot to be desired. Let's use an example.

Within in the Kingdom, the countries have to get used to different mentalities. For the Netherlands for example it is difficult for them to get used to a country that desires to have a small government and that allows people and corporations to take their own initiatives. These perceptions of the role of government are an important reason for the lack of trust between the countries of Sint Maarten and The Netherlands. We do business here and use the opportunities that are available. In the process we might just skip some regulation that the Netherlands has or choose to apply a reigning regulation we have creatively to accomplish our goals. Does this necessarily constitute corruption? Of course not. But, to a country such as the Netherlands where everything is regulated and that probably has a few regulations too many, that is difficult to understand. This is just one source of misunderstandings that might arise when a country from the North Sea has to work with a country in the Caribbean. But we are a Kingdom together. So we have to find a way to work together. I would be very much in favor of a way, call it an action plan or whatever, to increase the level of understanding of each other's cultures and habits. To improve understanding and find workable solutions for shared problems, respecting our differences. We have historically always been defined by Willemstad being the capital of the Netherlands Antilles. That is no longer the case. We have to now find a way to redefine ourselves in the eyes of our Dutch partner and the only way to do so is to get to know each other better.

Ladies and gentlemen,

Curacao and Sint Maarten are autonomous countries in the Kingdom. And just like all the countries surrounding us, we have the problems that are endemic to being small island economies. We are remote islands, far away

from the continent and in a natural disaster prone geographic area. We are unable to compete on a level playing field seeing the high price level that our small economy is confronted with. Electricity, water and commodities are expensive. Diseconomies of scale result in further upward pressures on prices. We have many inefficient government entities, a weak government administration, a high level of emigration of our smartest minds, resulting in brain drain. And we have public means; infrastructure; healthcare and education that leaves a lot to be desired. We need to invest, especially in education. A former minister of the Netherlands Antilles, Rutsel Martha, expressed the view that the only investments we should focus on is education. I would not go as far as that, but the underlying message is clear. Effective investments in education of our people has to occupy a very high position on our priority list.

The countries in our region also face a combination of two deficits: government deficits and staggering debts and a deficit on the balance of payments. One could say that we spend too much as a government and as a people. We need to invest! But, we also need to produce more ourselves if we want to continue spending at the levels we do. Sint Maarten luckily earns a lot of money from its tourist industry, but we have trade imbalances, not to mention Aruba and Curacao as well that both face a lack in international reserves. When facing our challenges we also have to pay keen attention to our imports and our exports and the challenges to produce more ourselves to attract the interest of foreign capital.

Comparing Curacao and Sint Maarten we see that we can learn from each other. The differences are clear. Curacao has an older population, Sint Maarten a younger one. But the younger population of Sint Maarten will grow old soon. And then Sint Maarten will have the same problems as Curacao had just after 2010; a huge problem with funding its old age and health care systems. Sint Maarten can learn from Curacao in that respect. Curacao on the other hand can learn from Sint Maarten in the way Sint Maarten handles government entities. Government entities in Curacao are weak, but in Sint Maarten strong. Our educational system is in dire need of

repair. It is clear what the consequences are: a population that lacks critical mass and a will to take initiatives; a government that does not have a pool of human resources to draw from to provide required services to its people; employers who can't find capable employees to hire; government institutions that can't be manned because of a lack of competent staff and perhaps most of all: not enough entrepreneurs to take advantage of opportunities our economy offers. Every country needs to have access to pool of skills that it can draw from to be able to grow its economy.

When we talk about improving economic growth, everybody always looks in the direction of the government. In Curacao perhaps more so than in Sint Maarten, but in both countries reliance on government is big. Government can't steer the economy and does not create jobs. Jobs are created by the private sector. Don't rely on government to make a living, but rely on yourself. Place your fate in your own hands.

The public investments in Curacao and Sint Maarten this year will help the economy a little bit. But after a very short time, the effects of the investments to a great degree will disappear abroad. Government's budget won't lead to higher growth, especially not in small and open economies as ours in the Kingdom. Governments know that, and have used the government bureaucracy to create jobs, leading to a huge government apparatus that is inefficient and expensive. Jobs have to be created in the private sector. And government should limit its interference to a bare minimum, because government doesn't know where the economic opportunities are. The task of government is to make it attractive for investors to invest and for entrepreneurs to take risks. A government won't know if business opportunities exist in the harbor or if there is a need for a hub at the airport. Businessmen, entrepreneurs, risk takers, will. The issuance of licenses should become flexible and rapid. The cost should not be prohibitive and not be an impediment to doing business. Businesses need to be able find skilled personnel and not be hampered in the process with high fees and lengthy waiting times as is the case today. To be able to do business banks are needed and investors must be able to trust in the

society they operate in and in the politics that rules our society. Taxes should be steady, as low as possible but mainly steady and everyone has to pay their fair share. Special favors only result in destruction of competition.

Lets learn from the countries surrounding us. Lets understand the reasons why for example countries like Panama and Columbia are doing so well. Both countries have been outperforming the region in recent years with growth rates of 6% in Colombia and 10% for Panama, notwithstanding the worldwide economic downturn. To be frank, both Columbia and Panama aren't there yet. Unemployment levels remain high, especially youth unemployment. The income per capita is still below the countries in our Kingdom. Income per capita has remained relatively stable in Aruba, Curacao and Sint Maarten in the last couple of years. Economic growth in Curacao has been anemic if not completely absent since the start of the century and the economies of Aruba and Sint Maarten came to a virtual stand still during the financial crisis and only hesitantly started to grow anemically, now that the US seems to be getting back on track. At the same time however average income in Panama rose from \$13.000 per capita to over \$17.000 per capita since 2010. In Colombia the growth was less impressive but still significant. The per capita income grew there from \$10.000 per capita tot \$13.000 today. If this trend continues Panama will surpass our countries in per capita income as we remain stuck at around \$20.000 per capita level.

What can explain the success of Panama and Columbia? Striking similarities are visible in the fiscal policy of both countries. Their debt levels are around 40% of GDP. Panama still has a deficit, but at 2% well below European levels. Columbia on the other hand reached a small surplus in recent years. Confidence and trust is back and investors have again become interested in investing their capital in these countries.

We also need investors to develop our economy. Foreign investors look for trust, stability and safety. Yes, a safe environment is crucial for investments and the absence of drugs on the streets and the absence of violence is

absolutely necessary. Panama and Columbia has come a long way as far as this is concerned. But, most importantly the impact of their new tax policies have contributed to their success. Tax income averages between 25% and 30% in both countries and has been a magnet in stimulating entrepreneurs and attracting investors.

I feel that the countries of Curacao, Sint Maarten, Aruba and even The Netherlands need the same answers to the questions they face after the economic crisis of 2008-2013. Governments that ensure stability and welcome supervision. Governments that create a climate to attract investments and stimulate entrepreneurship. Governments that educate its population. But, also businessmen that seize the opportunities the economy has to offer and not wait for government to act. It is time for all of us to take our responsibilities and act. The new constitutional arrangements made sure that we can't blame others anymore; we are now all responsible for our own actions.

Sint Maarten has come a long way and contrary to expectations has proven to many unbelievers that it was right to choose the constitutional path that it did. The miracles Sint Maarten performed during the past four years, starting a country from scratch, with little or no resources, but admittedly with lot's of help, grit and determination, hopefully will continue to amaze many in future. That however, will only happen if the spirit and resourcefulness displayed by Sint Maarten in pursuing its country status against all odds and diligently building up its institutions continue in future.