Press release 2018-015

IMF-economist talks about economics of natural disasters and the cost of crime

CBCS hosts 2nd Central Banking Conference

WILLEMSTAD – The *Centrale Bank van Curaçao en Sint Maarten* held its second central banking conference at the Bank's headquarters in Curaçao on March 22nd and 23rd. Several dignitaries from both Curaçao and Sint Maarten attended, including both governors and both finance ministers from their respective countries in the monetary union. The theme of the conference was "Addressing challenges to achieve a higher growth path in small open economies." On the opening day economist Dr. Sebastian Acevedo from the IMF's Western Hemisphere Department gave two presentations. The first presentation echoed the conference's subject matter of strengthening resilience and growth in Caribbean nations, while the second touched upon a particularly relevant topic for Sint Maarten in the aftermath of Hurricane Irma: the macroeconomic implications of natural disasters on small economies.

In his first presentation, Dr. Acevedo highlighted several structural challenges confronting the region that many small island economies have in common, such as high risk to natural disasters, high costs of doing business, high public debt levels, and high rates of violent crime, which are on average the highest in the world. While Caribbean countries have generally scored well in the past in comparison to other parts of the developing world when it comes to GDP per capita and life expectancy, their GDP growth rates and competitiveness have been slowing down since the early 2000s and this slowdown is particularly acute among tourism-intensive economies like Sint Maarten and Curaçao. Both countries have recorded lackluster economic growth rates on average since becoming autonomous countries in the Dutch kingdom in 2010.

Dr. Acevedo pointed out that high crime rates drive up the costs of doing business in the Caribbean because it means increased security and investing in public infrastructure to combat or control crime. Since such investments could otherwise have gone into more productive economic ventures, they further slow down GDP growth. Mounting public debt in many Caribbean countries remains a structural impediment to growth as well, since governments have limited scope or fiscal buffers for further productive investment as they service their debt, he added. Caribbean islands, the IMF economist suggested, need a multi-pronged approach to strengthen their resilience and boost growth. That means diversifying energy sources, improving their crime reduction techniques and policies, and reversing the loss of talented locals to richer, more advanced economies thereby lowering their high cost of doing business.

The presentation on the macroeconomic implications of natural disasters on small economies proved extremely timely and relevant to Sint Maarten, in particular in the wake of Hurricane Irma. Unfortunately for many islands in the Caribbean, the region has the highest frequency per square kilometer of natural disasters, including high vulnerability to hurricane strikes. And because of their relatively small size, the negative shocks to Caribbean economies of natural disasters is higher than for larger countries like the US and China, often setting back GDP on average by 4.4% over 7 years.

But there are things that Caribbean countries can do, Dr. Acevedo advises, such as building buffers in the annual government budget and carefully adapting critical infrastructure. Other adaptations include strictly enforcing building codes and insurance policy coverage, or the purchase of catastrophe risk bonds, though the market for such bonds is still developing.

For Dr. Acevedo's full presentations, please visit the Bank's website at www.centralbank.cw and click on Seminars & Conferences under the Publications & Research section. It should be noted that the views expressed in the presentation were of Dr. Acevedo and do not necessarily represent the views of the IMF.

CENTRALE BANK VAN CURACAO EN SINT MAARTEN
Willemstad, April 20, 2018