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Acting CBCS president:

Address Structural weaknesses to achieve higher growth

WILLEMSTAD/PHILIPSBURG – Both Curaçao and Sint Maarten need to address structural weaknesses in their macroeconomic environment that are impeding growth, urged acting Centrale Bank van Curaçao en Sint Maarten (CBCS) president Leila Matroos in the Bank’s 2017 Annual Report. “These weaknesses include complex and lengthy administrative procedures that can delay the execution of investment projects or even discourage investors from starting a new venture,” Matroos said.

“Another barrier to growth is the limited access to risk capital and long-term financing, particularly for small and medium enterprises (SMEs) that are the backbone of our economies. Although excess liquidity exists in our capital market, largely because of the debt relief program agreed upon as part of the dissolution of the Netherlands Antilles, the market for high risk capital is rather underdeveloped in Curaçao and Sint Maarten,” Matroos explained. “In Sint Maarten, priority should be given to establishing a development bank. Particularly considering the country’s reconstruction needs, a development bank that can provide loans and credits to small and medium enterprises at more favorable terms than commercial banks is crucial for faster economic recovery. Meanwhile in Curacao, the market for high risk financing is rather fragmented with three different institutions more or less serving the same goal. To enhance effectiveness, these entities could consider working more closely together, complementing each other, and eventually, merging in the future.”

The acting central bank president also warned that the high cost of doing business is another impediment to growth in Curaçao and Sint Maarten. “Because of their small size, both countries face diseconomies of scale that result in relatively high costs of doing business, including energy costs. However, the recent technological advancements provide opportunities to reduce these costs through diversification towards alternative sources of energy such as wind, sun, and cold sea water. Of course, shifting towards alternative sources of energy demands high investments that cannot be covered by the public sector alone. Thus, public–private partnerships are a viable option for more sustainable and cheaper sources of energy in the near future. The expansion of the windmill park in Curaçao in 2017 is an example of a successful collaboration between the private and public sectors.”

Since becoming autonomous countries in the Dutch Kingdom, economic growth in Curaçao and Sint Maarten has been low, Matroos noted. “Our underperformance can be ascribed to both

external factors and internal weaknesses. Building resilience is crucial to help mitigate the adverse effects of external shocks, which in most cases are unpredictable. Meanwhile, our internal weaknesses have long been identified but not adequately addressed,” she continued.

According to Matroos, both Curaçao and Sint Maarten need to develop a strategy aimed at transforming their economies to achieve a higher and more inclusive growth path. “This strategy should be aimed at new approaches and policies for economic growth and social development. Structural reforms to improve the investment climate are therefore crucial. After all, a more enabling investment climate will unleash private investment, which is ultimately the driver of sustainable growth,” she stated.

“Private sector investments frequently also demand public investments in key infrastructure and human resources. Curaçao and Sint Maarten have been trapped in a low-growth environment for some time now, and their governments do not have the financial resources to execute these investments,” Matroos explained. “In addition, following the dismantling of the Netherlands Antilles and the associated debt relief, development aid that was allocated for economic and social development also was halted. Therefore, the growth strategy for the future should include public sector investments for improving the public infrastructure and strengthening our human resources. This strategy should not be considered a plea to increase public sector debt to unsustainable levels. Rather, it is a strategy that focuses on transforming our economies to achieve a sustainable higher and more inclusive growth path,” Matroos argued.

“In accordance with the Kingdom Law on Financial Supervision Curaçao and Sint Maarten, government borrowing should not be aimed at financing current expenditures but at financing projects that contribute to higher economic growth and/or improving social indicators. Also, the implementation of these projects should be well-managed and transparent. At the same time, sound macroeconomic, fiscal, and debt sustainability frameworks should be in place to absorb external shocks and ensure that the debt can be serviced in the future. Hence, deviations from the envisaged growth and development path can be mitigated,” Matroos concluded.

The complete text of the Report of the President and the Bank’s 2017 Annual Report can be viewed on the Bank’s website at www.centralbank.cw under the Publications & Research section.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN