Presentation: “Economic Platform Bonaire”

DRS. A.G. ROMERO
JANUARY 31, 2010
Zonder risico
geen
Rendement
Length of recession in the USA (in months)
Source National Bureau of Economic Research

In months

Aug 1929: 43
May 1937: 13
Feb 1945: 8
Nov 1948: 11
July 1953: 10
Aug 1957: 8
April 1960: 10
Dec 1969: 11
Nov 1973: 16
Jan 1980: 6
July 1981: 16
July 1990: 8
March 2001: 8
Dec 2007: 21
IMF report on the total costs related to the financial crisis

- IMF reported on Augustus 9, 2009 the following results of an investigation on the world financial crisis:

- Total costs **11,9 trillion** (11,9 x 10^{12}) dollar:
  - Of which 10,2 trillion dollar only in the developed ("rich") economies. (G-20 countries).
  - Caused by: 1) write-offs on risky investments (products), 2) loan guarantees provided by countries and 3) liquidity injection in the financial markets.
  - **20%** of the world production.
Subprime loans (US $ Billions) and market shares in % of total.
Daling huizenprijzen na kredietcrisis

- VS, 1929
- VK, 2007
- IJsland, 2007
- Maleisië, 1997
- Thailand, 1997
- Korea, 1997
- Ierland, 2007
- Noorwegen, 1899
- VS, 2007
- Argentinië, 2001
- Zweden, 1991
- Spanje, 1977
- Gemiddeld 36%
- Japan, 1992
- Noorwegen, 1987
- Indonesië, 1997
- Finland, 1991
- Colombia, 1998
- Filippijnen, 1997
- Hong Kong, 1997

-60% -50% -40% -30% -20% -10% 0%
Lessons learned from the current financial crisis

- Refine + re-assess current risk models and risk control mechanisms by financial institution
- Revise role “Rating Bureau’s/ Agencies”
- Shortcomings in the implementation of “Accounting Standards (IFRS)” (refer to sheet 10)
- Improve Central bank’s liquidity control
- Supervisors had no good control over the risks associated with financial derivatives (MBS, CDO, Credit Default SWAPS, Interest SWAPS). Risks were underestimated based on the risk-profiles.
- Bonus systems (fixed + variable compensation of top-management) (refer to sheet 11)
Leverage of banks

- Excessive leverage of banks contributed to the global financial crisis

- How to prevent this:
  - Add a measure of leverage, a leverage ratio of 3% to complement the risk sensitive capital requirements. Leverage ratio defined as total assets divided by total capital and shows the maximum percentage that a bank can sustain on its assets before its capital is depleted: but problem with different accounting systems IFRS vs. GAAP
  - Align regulatory capital requirement more closely to the underlying risks (create buffers)
Deutsche Bank
Assets according to IFRS vs GAAP

Total assets: Analysis of major categories
In EUR bn, as of 31 Dec 2008

Source: VoxEU.org
Bonus
## Latest IMF projections
(year over year percent change)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Difference from October 2009 WEO projections</th>
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<tr>
<td><strong>World output</strong></td>
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<td>Advanced economies</td>
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<td>2.4</td>
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<td>2.4</td>
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<td>1.9</td>
<td>1.2 0.4</td>
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<td>-2.3</td>
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<td>1.7</td>
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<td>0.9</td>
<td>0.1 0.0</td>
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<td>Japan</td>
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<td>-5.3</td>
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<td>2.2</td>
<td>0.0 -0.2</td>
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<td>2.7</td>
<td>0.4 0.2</td>
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<tr>
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<td><strong>Other advanced economies</strong></td>
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<td>Newly industrialized Asian economies</td>
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<td>3.6</td>
<td>0.7 -0.1</td>
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<td>Emerging market and developing economies</td>
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<td>6.3</td>
<td>0.9 0.2</td>
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<td>Sub-Saharan Africa</td>
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<td>Commonwealth of Independent States</td>
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<td>Russia</td>
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<td>Excluding Russia</td>
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<td>4.3</td>
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<td>7.8</td>
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<td>ASEAN-5(^1)</td>
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<td>1.2 0.2</td>
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<td>Mexico</td>
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<td>-6.8</td>
<td>4.0</td>
<td>4.7</td>
<td>0.7 -0.2</td>
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</table>

\(^1\)Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.
USA GDP trend 1980-2007

USA: Real GDP Growth, Percent change

Source: IMF World Economic Outlook Database
USA Labor productivity trend 1980-2007

Source: OECD Statistical Database
Japan GDP trend 1980-2007

Source: IMF World Economic Outlook Database
Euro area GDP trend 1992-2007

Euro Area: Real GDP Growth, Percent change

Source: IMF World Economic Outlook Database
Euro zone Labor productivity trend 1996-2007

Source: OECD Statistical Database
Emerging markets GDP trend 1980-2007

Emerging and Developing Economies: Real GDP Growth, Percent change

Source: IMF World Economic Outlook Database
Share of US dollar as reserve currency

Percent of U.S. Dollars in Official Foreign Exchange Reserves

Chart showing the percentage of U.S. dollars in official foreign exchange reserves from 1999 to 2008.*
Issues related to international crisis

- Bonus payment (variable and fixed income);
- Has the personal drive for higher bonus by senior management add to bizarre risk taking?
- Risk taking by financial institutions (e.g. financial conglomerates) will have to be reviewed;
- Need for better cooperation between supervisors around the world;
- Higher capital ratio’s for banks in general;
- Additional capital reserves for international operating banks with higher risk profiles (financial conglomerates).
- Accounting standards and capital ratio.
Discussion on bonus for the institutions that are receiving public funds (TAX MONEY) to avoid bankruptcy.

- **USA.**
  - **Proposal president Obama:**
    - Variable income (compensation/bonus) max. 250 thousand dollar
    - Fixed income 250 thousand dollar
    - Bank capital ratio (reserves) will have to increase in the near future
    - Banks should be prohibited to invest savings and depository funds of customers into risky investments and speculative Hedge funds

- **Holland.**
  - Balkenende norm (181 thousand euro per year)
  - Variable compensation = max. 1 x fixed income (Code for Bankers starting Jan. 1-2010)
  - Early leave bonus for top-management will be limited to max. 1 x the fixed income.

- **Proposal EU countries for the G-20 countries**
  - One set of uniformed rules and set of agreements on the payments of bonuses to senior managers in banks
Discussion on bonus for the institutions that are receiving public funds (TAX MONEY) to avoid bankruptcy.

- **(Plans) international committee of banking supervisors.**
  - Mechanism to reserve additional capital in ‘good times’ to create buffers for periods with limited and negative economic growth (recessions)
  - Higher capital buffers for those banks operating in the international market (‘too big to fail’ syndrome financial institutions)
  - Bank bonds should be automatically converted into equity during rough years.
Challenges for 2010 and further.

- **Global economy**
  - Early discharge of stimulus policies
  - Oil prices moving up with economic recovery
  - High fiscal deficits and growing public debt
  - Higher interest rates

- **BES islands.**
  - New Pensionfund (PF) ; ---. Independent PF with investments policy done by a third party;
  - New social security system; “Health care reform”
  - Introduction of the US dollar;
  - New tax system ; (flat tax and higher indirect taxes).
Selected Direct Tax Revenues Bonaire

<table>
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<tr>
<th>Year</th>
<th>Profit tax</th>
<th>Wage tax</th>
<th>Income tax</th>
<th>Land tax</th>
<th>Motor vehicle tax</th>
<th>Hotel room tax</th>
<th>Car rental tax</th>
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<td>2005</td>
<td></td>
<td>22.5</td>
<td>17.5</td>
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<td>2007</td>
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Questions?