10 years autonomy in the Kingdom
New decade, new opportunities

Tomorrow, ten years ago, on October 10, 2010, Curaçao and Sint Maarten became autonomous countries in the Kingdom of the Netherlands. We commemorate this special day in an extraordinary time that requires unprecedented measures by countries around the world. The COVID-19 pandemic poses a direct threat on our lives and our livelihoods. However, it also provides a unique chance to reset our agenda and ensure that in the new decade we capitalize on all opportunities to achieve sustainable and inclusive economic growth.

The dissolution of the Netherlands Antilles ten years ago removed one layer of government with the ambition to create a more effective and representative governance. On the same day, the two new countries Curaçao and Sint Maarten became a monetary union with a common currency and central bank. The newly born countries got off to a fresh start as a substantial debt relief program was agreed upon between the Netherlands and the entities of the Netherlands Antilles. As a result, Curaçao and Sint Maarten entered their new constitutional status with a sound debt position, as reflected by a low public debt-to-GDP burden of 35% and 19%, respectively. To avoid unsustainable public finances in the future, the debt relief program was bound to strict fiscal rules - most notably a requirement to keep the current expenditure at or below fiscal revenue - as stipulated by the Kingdom Law on Financial Supervision.

Looking back to the past decade, the economic performance of the monetary union was mixed. Between 2010 and 2019, the economy of Sint Maarten grew on average by 0.4% annually. Meanwhile, the average real GDP growth per year in Curaçao was over the same period negative, namely, -0.9%. At the same time, the monetary union delivered low inflation and a stable exchange rate with no significant pressures on the international reserves. The government debt remained lower than in peer Caribbean countries. The pandemic abruptly changed this picture and both economies are projected to shrink by more than 20% in 2020. With these numbers we belong to the group of countries that is economically most severely affected by this pandemic.

Despite a relatively high deficit on the current account of the balance of payments by on average 15% of GDP per year, the import coverage remained well-above the norm of 3 months over the past ten years. This comfortable position is, however, not something we can be complacent about. The current account deficit could easily be financed as a result of the unprecedented debt relief program and the implementation of the standing subscription rule by the Dutch State when the governments of Curaçao and Sint Maarten issue bonds. However, the resulting increase in foreign indebtedness cannot continue forever.

To a great extent, the disappointing economic performance of both countries can be ascribed to events that are beyond the control of Curaçao and Sint Maarten. Both countries have small and open economies which are highly susceptible to external shocks. Besides the pandemic, two major shocks affected our economies during the past ten years. The lingering effects of the deep economic and humanitarian crisis in Venezuela severely hit key economic pillars of the economy of Curaçao including the refinery and its supporting sectors, tourism, transport, and free-zone areas. Imports and exports with Venezuela were approximately 40% of Curacao's GDP ten years ago; they are only 5% now. Meanwhile, hurricanes Irma and Maria inflicted enormous damage to Sint Maarten in 2017, followed by only a partial recovery before the pandemic.

These adverse economic developments made it difficult to comply with the agreed-upon fiscal rules. As a result, the Kingdom Council of Ministers issued official instructions to take measures to compensate current budget deficits incurred in the past and prevent future deficits; Curaçao in 2012 and 2019 and Sint Maarten in 2015. Consequently, both countries took several fiscal consolidation measures, including the 2013 pension reform in Curaçao. Despite these measures, the public debt level continued to increase. Due primarily to the deep economic contraction as a result of the coronavirus crisis, the public finances in both countries are projected to worsen significantly in 2020 with the debt-to-GDP ratio increasing above 85% in Curaçao and 60% in Sint Maarten.

Against this background, one can conclude that both Curacao and Sint Maarten had quite a challenging first decade as autonomous countries. So, what are the main lessons that can be learnt from the past decade and how should we move forward to ensure a brighter economic future for Curaçao and Sint Maarten?

One important lesson from the past decade is that the existing fiscal framework could benefit from fine-tuning to reflect the realities of small open economies subject to significant shocks. In times of economic crises, fiscal policy can help the economy through automatic changes in taxes and transfers in response to declines in output and employment, the so-called automatic stabilizers. For example, as unemployment increases during an economic contraction, government spending on unemployment benefits will rise. At the same time, income tax earnings will drop. Well-functioning automatic stabilizers help ensure a timely fiscal reaction that can cushion the effects of negative shocks on the expenditure side of the economy. However, for automatic stabilizers to function well, government revenues should exceed expenditures in times of economic growth to build up fiscal buffers. Conversely, in times of economic contraction, these buffers will be used to moderate declines in disposable income and private expenditures.

However, the balanced budget rule stipulated in the Kingdom Law of Financial Supervision limits the functioning of automatic stabilizers. In times of economic downturns, the government is not allowed, without prior approval by the Kingdom Council of Ministers, to record deficits on its current budget. As a result, the governments are forced to conduct pro-cyclical fiscal policy which deepens the economic contraction. This is to a great extent what happened in Curaçao and Sint Maarten in the past decade amid the external shocks that hit the two countries. The experience of the past ten years therefore calls for a more tailored budgetary framework that strengthens discipline when the economy grows and supports economic recovery in a recession.

As a start, Curaçao and Sint Maarten would benefit from developing their own medium-term macro-fiscal framework featuring a credible medium-term anchor and sustainable fiscal targets. Making responsible policy choices, setting realistic budget projections and always being on guard against various fiscal risks would improve fiscal resilience. Currently, the Centrale Bank van Curaçao en Sint Maarten is working closely with the governments of both countries for the development of such a framework for each country.

Another important lesson is that besides a sound fiscal framework, structural reforms are important for sustainable and inclusive growth. Even though the countries started with a sound fiscal position, failure to address the structural weaknesses of the economies of Curaçao and Sint Maarten has been an impediment to deal with the external shocks and achieve a higher growth path. These structural weaknesses are well known and include the functioning of the labor and capital markets, red tape, and lengthy administrative procedures. We need to ensure that the effects of adverse shocks are as short and limited as possible to prevent lasting damage to the economies of our countries.

Economic resilience can be improved through more diversification, although this is easier said than done. Curaçao used to be relatively diversified compared to other Caribbean islands with the refinery, tourism, transport, and international financial services as key economic pillars. Over the past decade, however, the contribution of the refinery and the international financial services industry has faded while the share of tourism has become more pronounced. Meanwhile, Sint Maarten has always been very dependent on the tourism and tourism-related sectors such as the time-share industry and the transportation sector. Diversification will be harder to achieve but options need to be explored, also within the tourism and transportation sector itself. The pandemic underscores how vulnerable highly tourism dependent economies are. The current trend of diminishing diversification needs to be reversed by further developing and strengthening other economic sectors besides tourism, including renewable energy, transnational education, and agriculture.

Curaçao and Sint Maarten have arrived at an important crossroad. Exactly ten years after obtaining an autonomous status in the Dutch Kingdom, the countries face an unprecedented economic and social crisis caused by the COVID-19 pandemic. The economy needs substantial targeted and well-timed support to preserve its human capital and productive capacity. Amid this crisis, the governments of Curaçao and Sint Maarten face significant financing needs. Debt sustainability can only be guaranteed through Dutch loans at favorable terms to smoothen the costs of the pandemic. At the same time, a comprehensive economic reform program is needed to increase economic resilience and boost growth.

The priorities for the comprehensive reform program are clearly spelled out in many reports by the CBCS and international organizations such as the International Monetary Fund: (1) a more consistent and credible macro framework based on better data; (2) addressing vulnerabilities in the financial sector; (3) strengthening the tax framework, public financial management and governance; (4) restoring financial sustainability of the health sector; (5) strong efforts to improve the business environment, the functioning of the labor market and addressing the skills gaps; and (6) investments in education, public infrastructure and business development to support the recovery.

The crisis presents a unique opportunity to refocus the agenda on economic development and reform. Resetting the relationship between the countries in the Kingdom would help move towards these objectives. Intensified cooperation will provide room for investments and incentives for reform. Both are desperately needed and if done well ensure a brighter future in the decades to come.

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