

Recent international economic developments and related challenges for the Netherlands Antilles



Speech delivered by Dr. E. Tromp, President of the Bank van de Nederlandse Antillen, on the occasion of the Caribbean Financial Action Taskforce ("CFATF") Plenary lunch meeting, Willemstad, October 28, 2009

Ladies and gentlemen,

Allow me to welcome the member countries of the Caribbean Financial Action Task Force, the Cooperating and Supporting Nations, and the representatives of other international organizations. It is indeed with a great deal of pleasure that I am addressing you this afternoon on the occasion of the plenary meeting of the Caribbean Financial Action Task Force (CFATF). It has been almost 20 years since the G-7, on the occasion of its annual meeting, issued 40 recommendations to prevent the misuse of the financial systems for criminal activities. The issuing of these recommendations can be considered as the beginning of concerted actions by the world community to address in a consistent and effective way the issue of laundering the proceeds of criminal activities. These areas have subsequently been extended to include terrorism financing in the aftermath of the 9/11 attacks.

The Caribbean countries followed rapidly with the creation of the CFATF to deal more effectively with this misuse of the financial system since the international financial services sector represents an important pillar of our economies. Since then, important progress has been achieved on this front. Needless to say, that we have to continue to adjust our legislations to the constantly changing international environment.

I believe that this CFATF meeting is a significant event, as professionals from different parts of the world come together to discuss, develop, and promote the enforcement of policies to combat money laundering and terrorist financing.

Having these policies in place would certainly put our countries in a better position in the world, making us more attractive to foreign investors. Naturally, this enhanced attractiveness would have a favorable impact on our economic growth and employment.

Since the establishment of the CFATF in 1990, the Netherlands Antilles has been an active member of this organization, supporting efforts to fight money laundering and terrorist financing. The Netherlands Antilles fully supports the efforts of both the CFATF and the FATF. The Central Bank of the Netherlands Antilles is doing its utmost to implement and comply with the recommendations of both organizations through the supervision of our financial institutions. Therefore, it is a privilege for the Netherlands Antilles to host this conference.

Ladies and gentlemen, since July 2007 the global economy has experienced a severe financial crisis originating in the US housing and credit sectors. Due to increased integration of goods, services, and financial markets, the crisis spread from the housing and credit markets in the United States to other markets and countries around the world. This crisis has resulted in a deep worldwide recession with severe economic and social impacts. Few, if any economies have not been affected. Output has contracted in the major industrial countries, including the United States and the Euro area, and slowed in emerging economies.

Fortunately, global economic growth has recently started to rebound, and financial conditions have improved markedly.

World economic recovery has been driven largely by wide-ranging and coordinated public intervention, particularly in industrial countries, by supporting demand and reducing uncertainty and systemic risk in financial markets.

However, the pace of recovery is expected to be slow as uncertainties remain in the financial markets, and public intervention will gradually have to be withdrawn. Against this background, it is projected that the world economy will contract by 1% in 2009 and recover by 3% in 2010.

Ladies and gentlemen, the global downturn has had severe repercussions for the Caribbean region. Our region consists of nations some of which are relatively small, very open, and prone to external shocks. Geographically, we are located in the path of one of nature's most destructive phenomena, namely, annually recurring hurricanes. At the same time, we also have been endowed with beautiful weather and beaches, which make our shores very attractive to foreign visitors. As a consequence, tourism has become an important pillar of our economies. In fact, the Caribbean is one of the most tourism-intensive regions in the world. In addition, many Caribbean economies depend heavily on inflows from remittances and foreign direct investments. Needless to say, we have become increasingly susceptible to the health of the world economy.

Due to the global economic downturn, foreign exchange revenues from tourism have been dropping, reflecting the weakening US, Canadian, and European markets.

Furthermore, foreign exchange receipts from international financial services have dropped, reflecting the crisis in the international financial markets. Inflows from remittances and foreign direct investments also have been declining. As a consequence, real Gross Domestic Product is expected to contract in most countries in 2009.

It should be noted, however, that in contrast to other regions, the Latin American and Caribbean financial systems have not experienced widespread episodes of distress. The economies in this region have been able to withstand some of the financial turmoil because of several key structural improvements including stronger policy frameworks that promote resilience and allow for the implementation of timely policy responses to support economic activity. Also, in many cases, fiscal discipline brought down public debt levels significantly. Finally, banks in the region relied on domestic deposits to fund domestic credit and had put prudent lending practices in place. As a result, the Latin American and Caribbean region is showing signs of stabilization and recovery.

Nevertheless, the pace of recovery is projected to be slow in those countries that are highly dependent on tourism and remittances. Despite signs of recovery in the United States and the Euro area, tourism revenues will pick up slowly because of a projected increase in private savings in these tourism markets. Remittances, which depend on employment conditions in the advanced economies, notably the United States, also are expected to recover gradually.

To become more resilient to external shocks, many countries in the region have attempted to diversify their economies. International financial services have been relatively appealing to countries seeking to diversify due to its perceived high value-added component. In addition, the ability to establish an international financial center quickly and without substantial physical investments, as required in other industries, has made the sector attractive to many islands in the region. However, activities in this industry also have been affected by the world economic crisis. As a consequence, foreign exchange revenues from international financial services have dropped recently.

It should be noted, however, that this sector is not only affected by developments in the rest of the world, but also depends on how the sector is perceived by the rest of the world.

Ladies and gentlemen, the current world economic crisis had its origin in the US housing crisis, which spilled over to the financial and other sectors and to other countries around the globe. Nonetheless, when the G-20 countries met in Washington, London, and Pittsburgh, their main focus was on those jurisdictions offering financial services. The impression was thereby created that we are in part to blame for the current world economic ills. As a consequence, despite many efforts to comply with the OECD recommendations, many Caribbean jurisdictions are now on the "gray" list of this organization. Needless to say, this negatively affects the development of the international financial services industry and, hence, economic development in our countries. I do endorse, however, the point that the fight against money laundering and terrorist financing should be a priority on the international agenda.

Ladies and gentlemen, as you all know, money laundering and terrorist financing activities can undermine the integrity and stability of financial institutions and systems and negatively affect foreign investment and other capital flows. In today's world, the problems presented by money laundering and terrorist financing activities are global. Money launderers constantly seek out for loopholes in anti-money laundering laws and schemes among countries. Those jurisdictions that have weak or ineffective controls become special targets of money launderers. As a consequence, problems in one country may spread to other countries in the region and other parts of the world.

It is imperative, therefore, that we take all the necessary actions to continue to enhance our respective jurisdictions to meet the world's best practices. Not only will this lead to a more transparent and resilient sector, but it also will enhance our reputation and prevent our jurisdictions from being misused for criminal activities.

In addition to a framework to fight money laundering and terrorist financing, there are certain requirements for both attaining the status of an international financial center and successfully maintaining it. Allow me to outline some broad areas that I believe are the most important.

Ladies and gentlemen, the first requirement is macroeconomic and political stability. Sound and sustainable macroeconomic policies support the stability of the financial system. In addition, political stability is a precondition for building business confidence in all sectors of the economy, including the international financial services sector.

Therefore, to succeed as an international financial center, the financial community must be able to rely on the stability of the economy and the government.

Another important requirement is a strong fiscal and legal infrastructure. A strong legal system includes property rights, contract enforcement, a functional and credible court system, and bankruptcy procedures. The fiscal and legal infrastructure of the financial industry should be able to continuously reform itself to adapt to the constantly changing international business community. Relevant legislation must be introduced and adapted in a timely manner.

The success of an international financial center also depends to a great extent on the competence of its professionals operating in the sector. For that reason, access to a pool of skilled labor, including well-trained legal, taxation, accounting, auditing, and company management professionals is crucial.

In addition, good communication and support services are an important requirement for a successful international financial center. This requirement is particularly important for the quick and efficient transmission of market information to participants.

Finally, but not the least important, is a sound regulatory framework, promoting strong and credible banks and institutional investors. The regulatory framework should support economic development and growth, financial stability, and protect investors and depositors. In addition, it must be responsive to the changing financial environment.

The international financial crisis has demonstrated quite clearly through the case of Icesave that small countries are severely limited in pursuing autonomous rescue operations when the size of the financial institutions is big compared to their GDP. Furthermore, determining one's own supervisory policies has proven illusory. International coordination and cooperation have become the rule, led by international institutions such as the Bank of International Settlements and the International Monetary Fund. These institutions set the standards for their members. However, if countries do not follow these rules, they run the risk of being blacklisted, thereby undermining confidence in their financial sector and investment climate.

Ladies and gentlemen, as the world is struggling to get out of the deepest recession since the Great Depression, the G-20 and OECD countries will continue to keep us at the forefront of their attention to see how and to what extent we are compliant with the best practices. Given the relatively high degree of global financial integration, it is crucial for the supervisory authorities in the Caribbean and the Latin American jurisdictions to collaborate closely to address cross-border financial issues and to comply with the internationally supported recommendations.

Ladies and gentlemen, I wish to conclude my address by restating the importance of developing and promoting policies that contribute to the establishment of a solid economic and institutional infrastructure that fosters sound and sustainable economic development in the Caribbean and Latin American countries.

This infrastructure includes a sound and internationally approved financial system with effective anti-money laundering policies and regulation aimed at preventing the financing of terrorism. I wish you fruitful discussions in the remaining meetings and a pleasant stay on our island.

Thank you for your attention.