

## The current economic situation: working toward a common future

Speech by Dr. E.D. Tromp on the occasion of the presentation of Jan Thiel Bay Destination Resort in Curaçao  
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Ladies and gentlemen, good afternoon,

Let me first thank Eduardo for putting together this presentation and for the opportunity to speak to you this afternoon. The topic of my speech is: "The Current Economic Situation: Working Toward a Common Future." It is fitting that we, at this juncture of our adjustment efforts, are discussing investment projects like "The Jan Thiel Bay Destination Resort". Investments like this are crucial for the future development of our economy.

Ladies and gentlemen, I think it is fair to say that we have passed the point of no return on the journey towards adjustments. Praise is well deserved for the progresses that have been achieved so far, the endurance, patience and courage of the authorities. But ladies and gentlemen, dramatization is not productive. Any serious assessment would recognize that considerable work still remains to be done.

Let me first review with you where we stand in the critical process of economic adjustment. The adjustment effort as envisioned in the Memorandum of Economic Policies concluded with the International Monetary Fund on September 15, 2000 took place against a background of a strong global economic upturn. The outlook has since then been affected by rising oil prices. There are clearly risks, which are now coming mainly from the advanced industrial countries.

They include the volatility in the US stock markets, and the large US current account deficit; the fragility of the economic recovery in Japan; and, of course, misalignments among the major currencies. But, ladies and gentlemen, with good policy management, these risks should not materialize.

Turning our attention back home, what have been some of the progresses I alluded to? As you all know, our economy suffered a severe recession during the last few years. Triggered by unsustainable high budget deficits, the financial crisis of the government has spread throughout our society, creating a social and economic crisis accompanied by increasing poverty and a migrating population. During the year 2000, the Antillean economy shrunk by an estimated 4.4% due to weak domestic demand, migration, tax measures, and reduced private consumption. Private investment also declined due to lack of confidence and uncertainty surrounding the government's commitment to adjustment. In addition, the financial situation of the government constrained domestic public expenditures.

The inflation rate accelerated from 0.8% in 1999 to 5.1% in 2000, mainly due to the increase in turnover tax rates, the sharp increase in oil prices and the increase in inflation rates of our main trading partners.

The first area where good progress has been achieved, ladies and gentlemen, is in the field of fiscal consolidation. The recently approved budgets by the respective parliaments indicate that the budget deficits of the general government have been reduced from NAf. 160 million in 2000 to NAf. 80 million in 2001. A reduction of 50 percent.

If the progress achieved is preserved, fiscal balance should be achievable in the not so distant future. Substantial progress has also been made in reducing the number of civil servants, fiscal transparency, tax administration, budgetary control, governance and financial discipline.

The second area of progress is in laying the groundwork for future sustainable growth. While the past few years have been characterized by economic contractions, the trend is definitely pointing toward resumption in economic growth. In addition to local efforts, several international organizations are also working in a complementary fashion in assessing our business climate. The Foreign Investment Advisory Service, a subsidiary of the Worldbank, is looking at the attractiveness of the Netherlands Antilles as a location to invest, while the OECD has evaluated the legislation for the international financial and business services sector. The Worldbank is also developing a long-term growth strategy for the Netherlands Antilles. All these efforts are directed to promote sustainable economic growth for the benefits of all.

There has also been progress in many other areas of structural reforms. Several measures related to the labor market directed at increasing the flexibility and the functioning of the market have been implemented. The procedures for obtaining a permit for establishing a business are being streamlined, and more flexibility in regulations on shop opening hours will be introduced. Legislation on e-commerce has been adopted by parliament and draft legislation on the establishment of economic zones (E-zones) has been sent to parliament in order to promote business development. The phased elimination of market barriers has been put in place by a gradual reduction of market

protection.

At the same time ladies and gentlemen, there have been disappointments. Some key sectors are still in decline whereas decline in output associated with the adjustment has also brought with it an increase in marginalisation in certain sectors of our society. It is critically important for the reversal of this downward trend that we concentrate on investment projects like the one we will be discussing today. Little progress has also been achieved in the area of privatization. Privatization must be at the fore of the national agenda. This is essential, but must be done with care. It is critically important that the process be transparent and competitive and that appropriate regulatory structures be in place.

From this experience, what lessons can be drawn? As a result of these ongoing adjustments, we should already be better placed today to prevent a crisis. But there is no room for complacency. There is a risk that reforms could lose momentum. Implementation is only beginning, and much remains to be done.

Most fundamentally, commitment to both structural reform and macroeconomic stability is decisive. We have to pursue both if we are to be successful.

Second, the highest attention must be paid to building sound institutions, strong governance, at all stages of the adjustments.

Poor governance and weak institutions create too many opportunities for corruption, undermining investor confidence and eroding public support for reform.

Third, in formulating policy, close attention should be paid to the social implications of the adjustment process. A certain minimum level of social security, healthcare, and education are essential to ensure that the benefits are shared by all. Otherwise there will be no sustained political support for reform.

Fourth, the reform process is most likely to take root when the policy agenda reflects the preferences of the various sectors of our country. We have to find our own path toward economic prosperity. Where financial support is provided, conditionality is necessary. But it must be done in a way that enhances ownership of the program. In this regard the ongoing dialogue with the various sectors of our society is necessary to meet their varying needs and we have to focus on the measures needed to achieve macroeconomic stability and growth. Effective coordination among the various international agencies that are involved in this process becomes indispensable.

Taking these lessons into account, what are the main challenges ahead? I see two main areas: preserving the hard-won macroeconomic adjustment efforts and financing the economic growth.

As we increasingly move into the growth phase of this adjustment and "adjustment fatigue" comes to the fore, it will be very important to preserve progress made so far. To this end, maintaining macroeconomic stability calls for action in a number of areas:

- Designing sound medium-term fiscal plans. This will involve difficult choices, as it requires balancing necessary expenditures and tight financial constraints. On the expenditure side, these include strengthening social safety nets, improvements in public infrastructure and education and taking into account the implications of the aging populations. These need to be weighed, however, in a context where tax burdens and debt ratios are already on the high side.
- Much work needs to be done to strengthen institutions to make them effective for the development of the country. Government should be a facilitator not a player in the market.
- As we are making successful progress, we may receive large capital inflows. As a consequence, new challenges for managing the economy will arise. Sound fiscal policy will therefore be essential, to reduce the risks of a disruptive reversal.

Ladies and gentlemen, on another occasion some years ago I tried my hands at suggesting that the issue of constitutional reform be removed from the national agenda. I went on by saying that the political debate should concentrate on accelerating the agenda of fiscal consolidation and structural reforms to achieve sustainable economic growth. Ladies and gentlemen, growth is not everything, but without growth we get nowhere.

The responsibility lies with us to mobilize the energies and talents of our citizens and take advantage of the opportunities of the global market place. I view with apprehension the attention being given today to the issue of constitutional reform. Placing the issue of constitutional reform on the political agenda may divert the much-needed

scarce resources--both human and financial--away from economic reform. I hope time will prove me wrong.

Ladies and gentlemen, this brings me to my concluding remarks, which deals with the main challenge of the day. How can we finance this growth? To put it more succinctly, how are we going to finance projects like the one Eduardo is about to present to us, i.e., The Jan Thiel Bay Destination Resort, the Santa Barbara projects, the Caracasbaai projects and the like? Will they be realized or will they be relegated to the historical footnote of "too good to be true?"

Ladies and gentlemen, I believe that those projects and more are financeable if first and foremost they are realistic. They have to be economically viable and provide prospects for sufficient profitability for the prospective investors at market related financing. In order to accelerate this process, ladies and gentlemen, I envision the establishment of a Development Fund with the sole mandate to finance private sector investments, which is essential for our long-term growth. This Fund can provide long-term loans to private investors be it subordinated or at concessionary terms or can take equity stakes when it concerns projects that can be earmarked as infrastructural or contain infrastructural elements which cannot profitably be embedded in those projects.

Given the large number of projects on stream, this calls for a Fund of the size of NAf 300 to NAf 400 million. The question becomes, given the current state of our economy, how are we going to fund such a Fund. I suggest the following. The new Tax Arrangement of the Kingdom which is about to be concluded calls for the dividend profit which is now being levied by the Netherlands on the dividend flows from the Netherlands to the Netherlands Antilles be transferred to the Netherlands Antilles. This represents an annual windfall, as long as it lasts, to the amount of NAf 50 to NAf 60 million. Over a period of five to eight years we may have accumulated sufficient funds to achieve most of our growth objectives since not all those projects can be executed simultaneously. This windfall should be transferred immediately to the Fund. This with an initial capital--being the loss incurred due to the protracted NFR negotiations and the ensuing uncertainty--should provide sufficient financing for all the viable projects that have been presented so far.

Ladies and gentlemen, we should not be tempted to use this windfall to finance unsustainable entitlement programs as we so often did in the past. Let us use this windfall to lay a solid foundation for a better future for the generations to come. Let this be the start toward a common future. This strategy together with sound policies, strong institutions, and good governance should become a permanent feature of our society. To a remarkable extent--and notwithstanding severe strains and hardships--we have already embraced this challenge.

Eduardo and Curaçao good luck with your endeavor and I thank you all for your attention.