



THE FINANCIAL SITUATION OF ARUBA AND THE ROLE OF SUPERVISION

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Aruba, February 27, 2015

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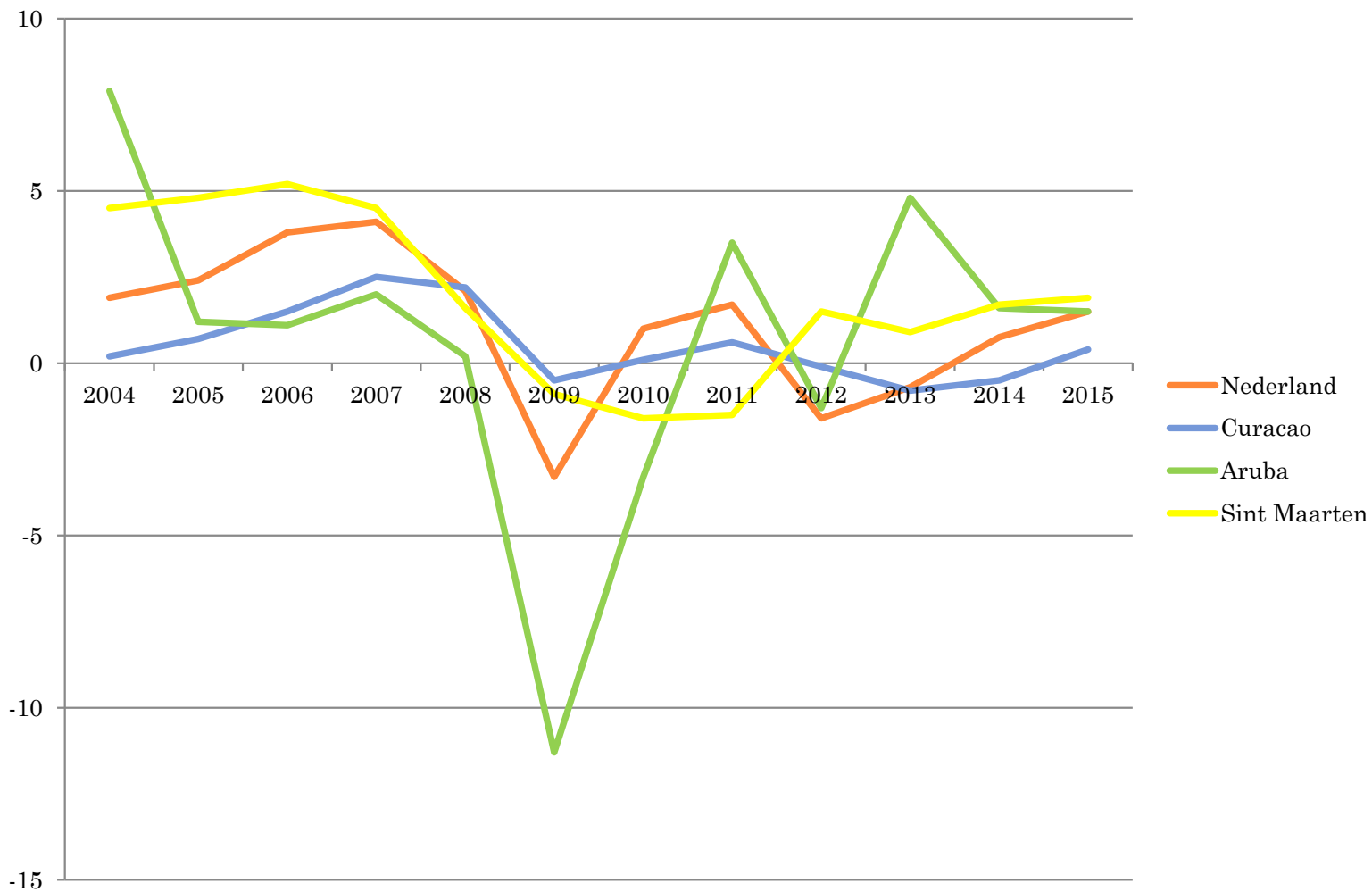
AN OUTSIDE PERSPECTIVE

- Appealing long-term vision for Aruba
 - is facing short-term headwind
- How to restore confidence in the economy?
- How to combine economic reforms with need to stabilize government finance?
- These challenges are a global phenomenon
 - but countries have followed different approach

AGENDA

- Where do we stand?
 - Update on the financial and economic situation of Aruba
- What's ahead?
 - Structural challenges for the economy
- How can financial supervision help?
 - Role of supervisor

ECONOMIC GROWTH IN THE KINGDOM



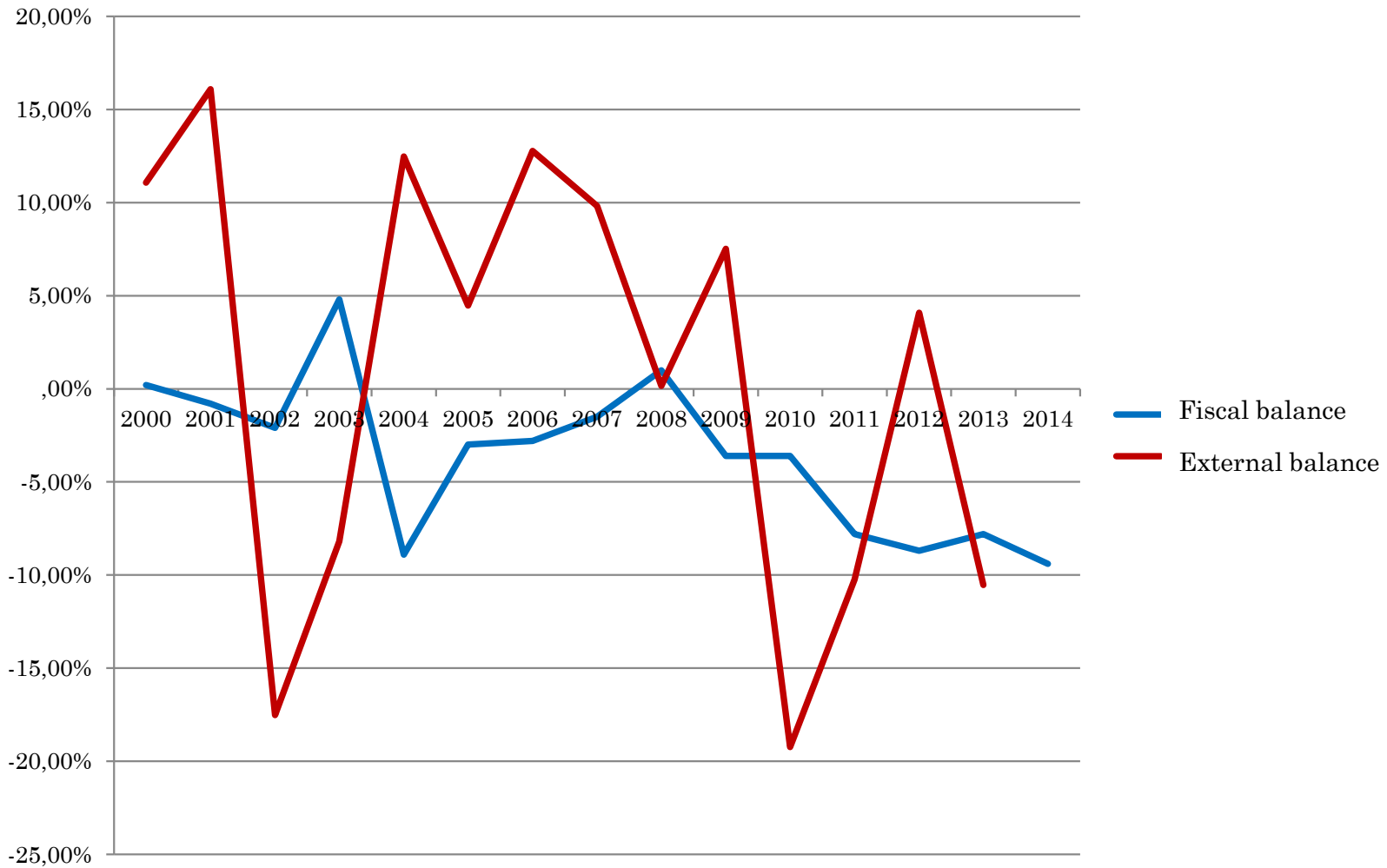
3 CHALLENGES

- Sensitivity to external shocks
- Fiscal and external deficits
- Aging population and low labor productivity

Limited possibilities for new policies

Need to restore trust

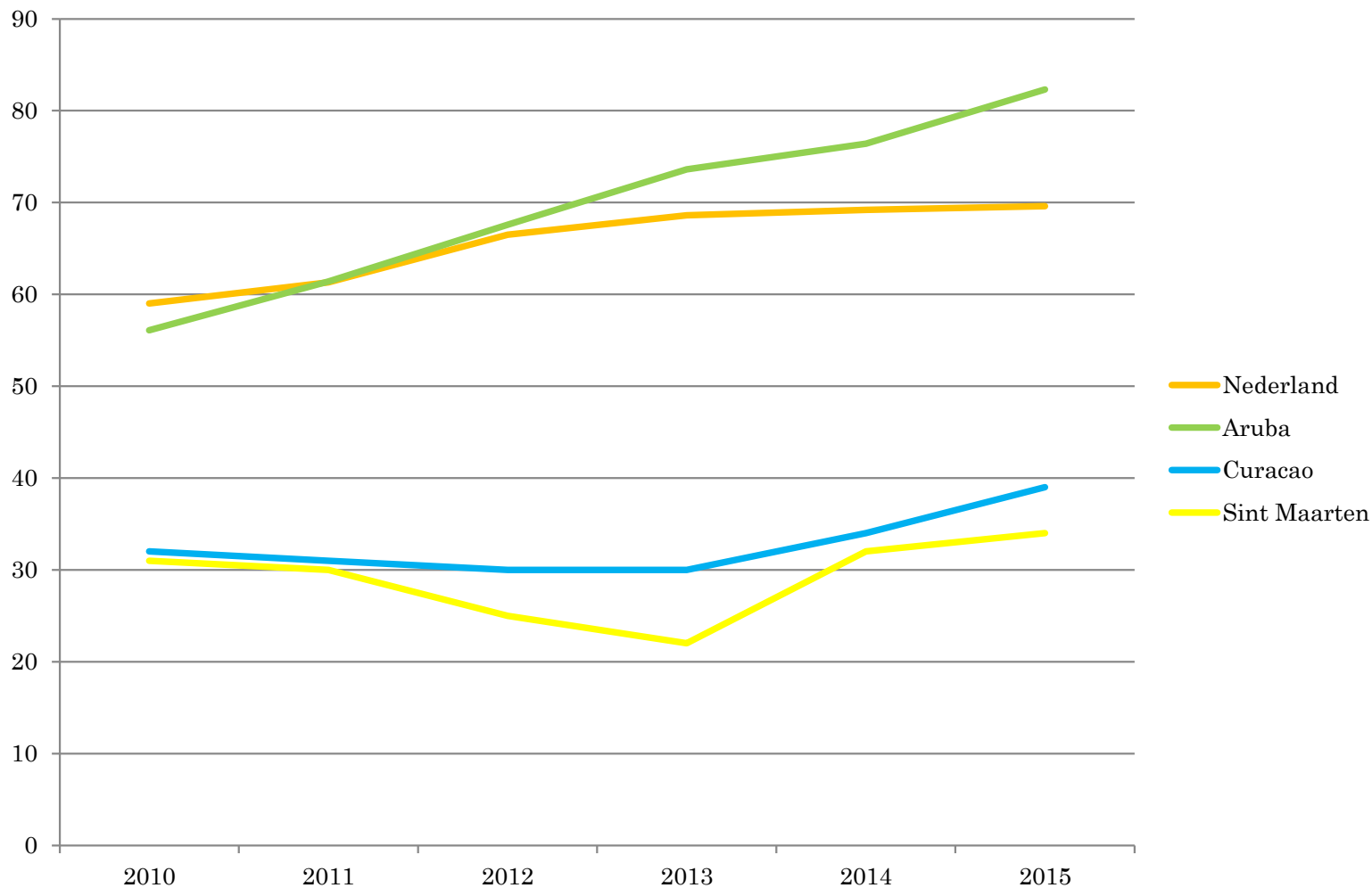
DOUBLE DEFICIT



BEING A SMALL AND OPEN ECONOMY

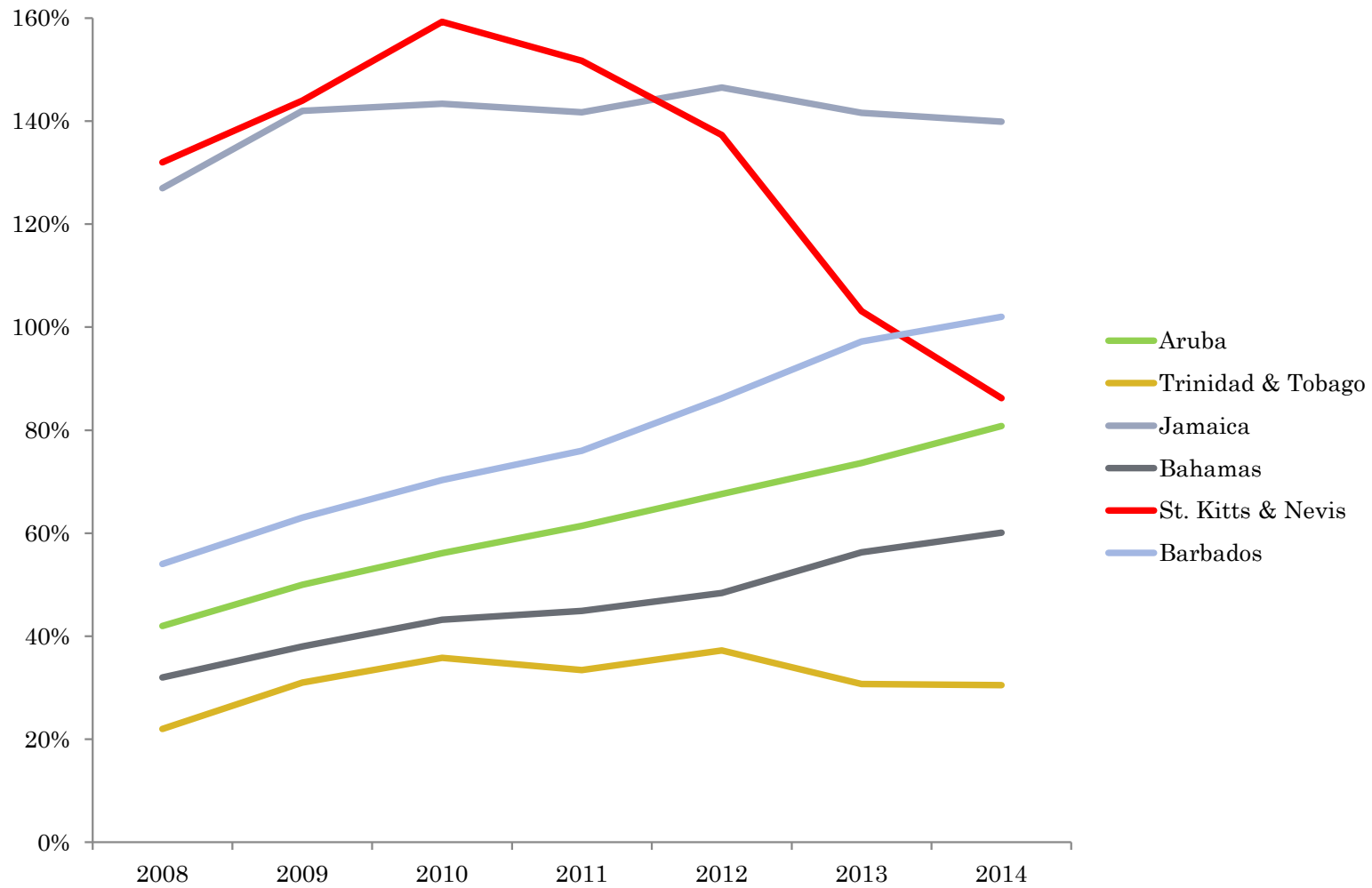
- All countries in the Kingdom are small and open economies relative to their peers
 - High import ratio relative to GDP
- A fiscal stimulus easily leaks abroad in form of increased imports
 - Especially if stimulus takes form of consumption

GOVERNMENT DEBT AS % OF GDP

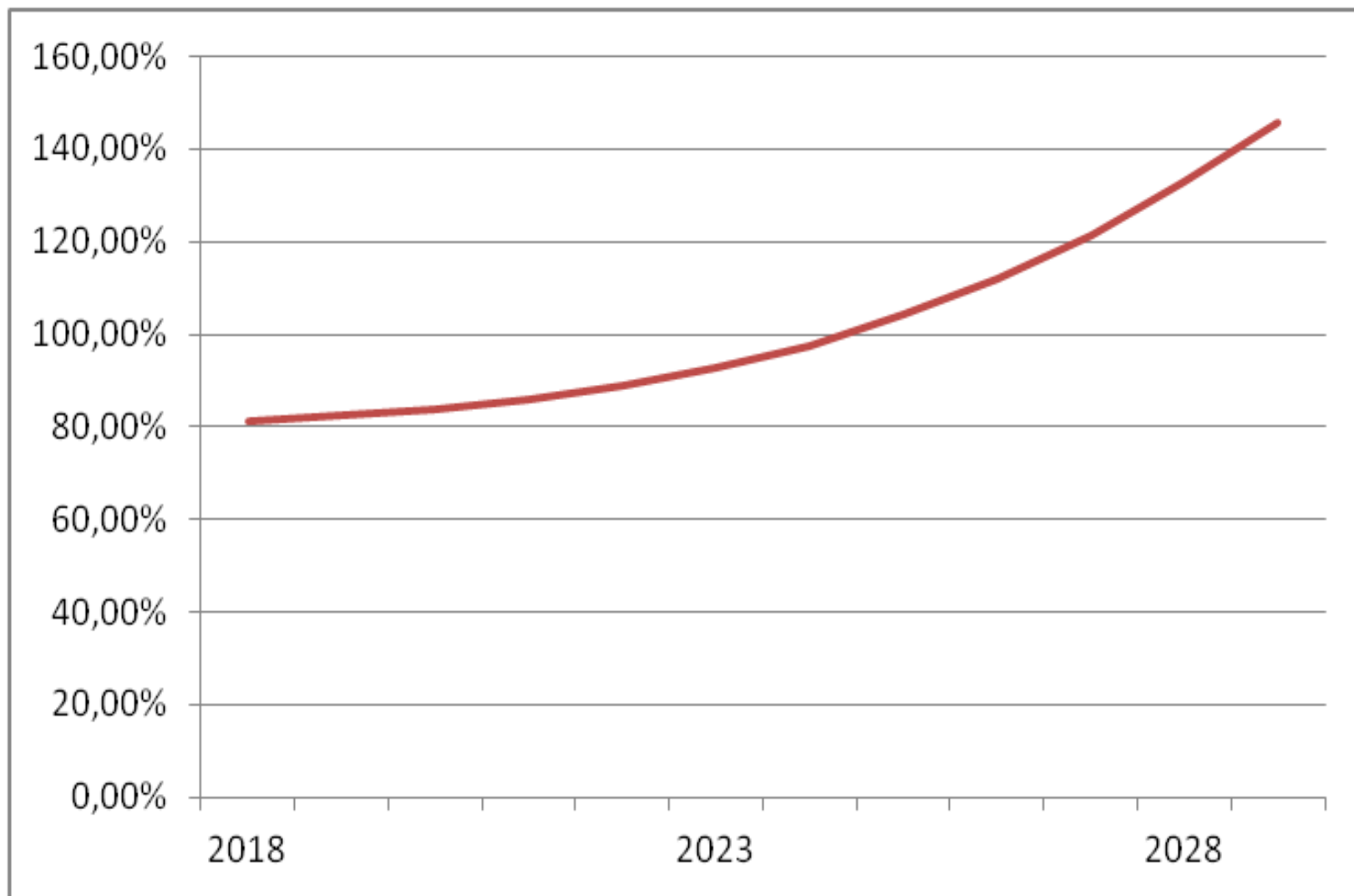


Bron: CBCS 2010, 2014a, 2014b, CBA 2014a, Cft2014a, CPB2014b

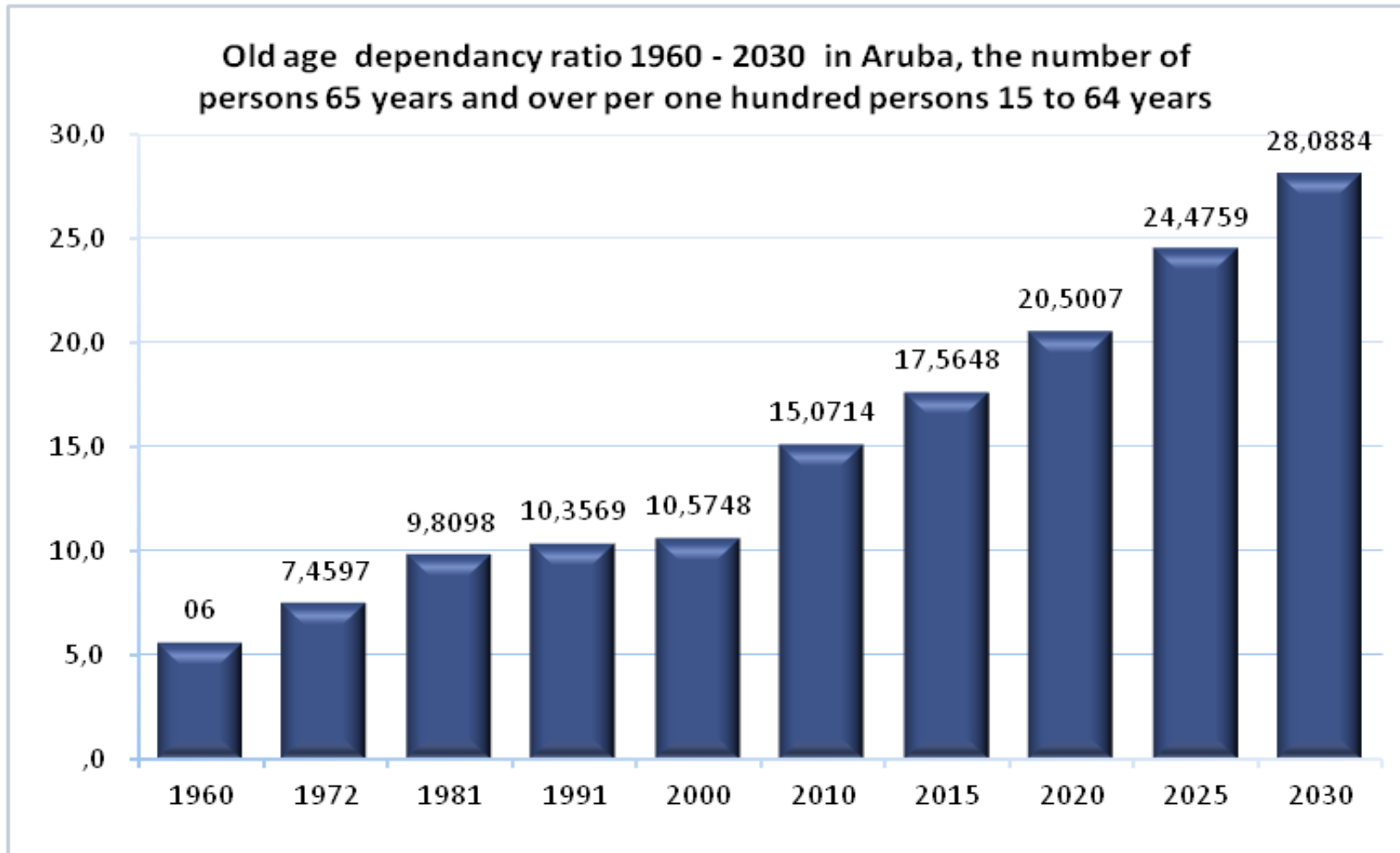
REGIONAL COMPARISON



IF NOTHING IS DONE ...



AGING POPULATION



COMPOSITION OF GOVERNMENT EXPENDITURES

- Between 2009 and 2014
- Expenditures + 21.5%
 - personnel + 20%
 - interest payments + 50%
- Revenues + 12.5%
- Public investment, including FDA fund 1.5% of GDP

ARUBA'S RATING

- Standard and Poor's:
 - 2013 Downgrade: A- to BBB+
 - 2014 Confirmation of BBB+ and stable outlook
- Fitch:
 - 2013 Outlook from stable to negative
 - 2013 Downgrade: BBB to BBB-

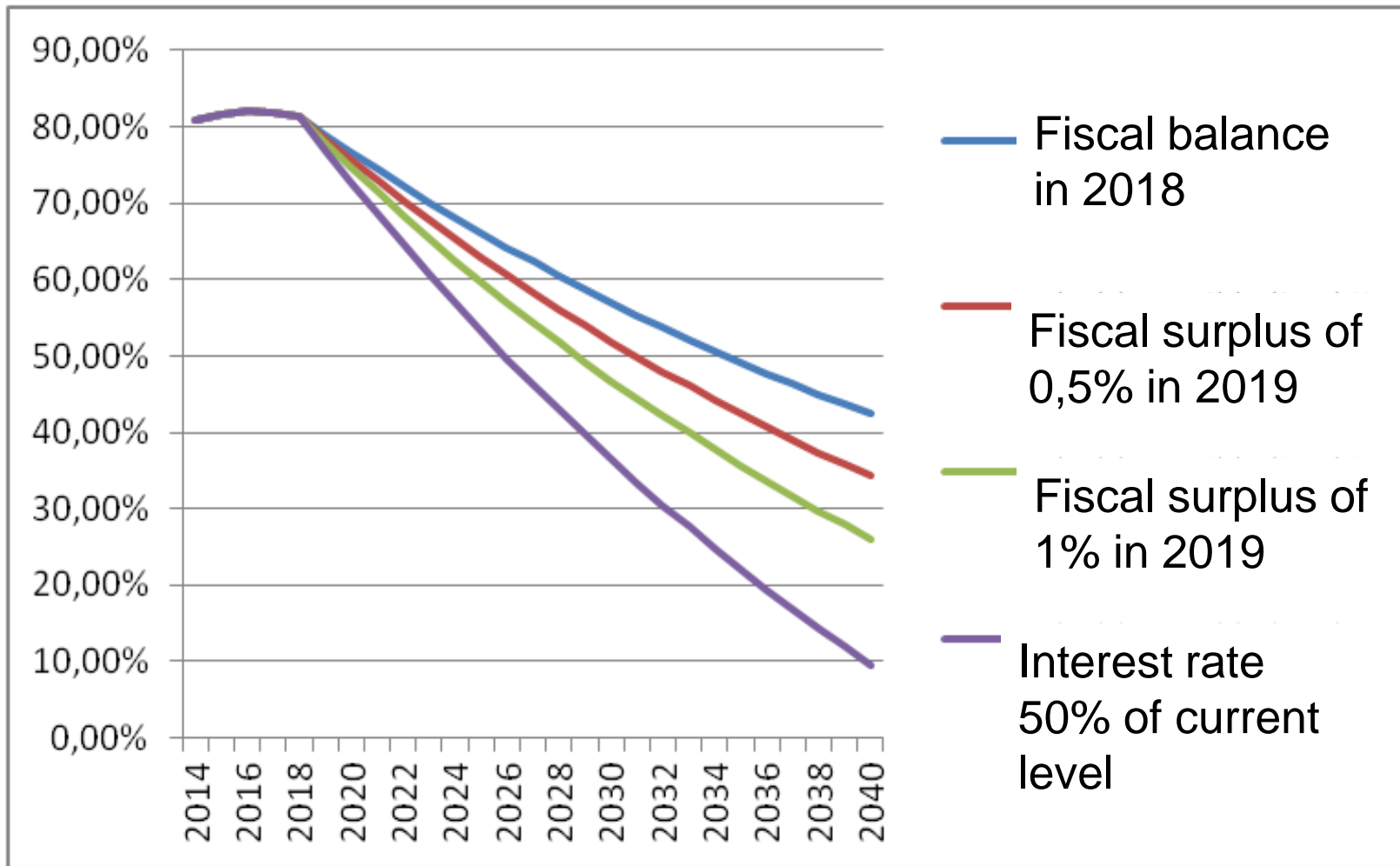
EXPLAINING THE RATINGS

- Positive:
 - Being part of the Kingdom
 - High per capita income
 - Commitment of government to redress deficit
- Negative:
 - Lack of diversification
 - Double deficit
 - Insufficient international reserves

COMPARING ARUBA

Land	Rating
Argentina	CCC-
Venezuela	CCC+
Costa Rica	BBB-
Brazil	BBB+
Aruba	BBB+
Sint Maarten	BBB+
The Bahamas	BBB+
Honduras	B+
Colombia	A-
Curaçao	A-
Panama	AAA

FUTURE DEBT LEVELS



DUAL ROLE OF CFT

- Oversee the budget during preparation, execution and accounting
 - Cft is not the Raad van Advies
 - Cft is not an accountant
 - Cft is not the audit chamber
- Give advice to:
 - Council of Ministers of the country
 - Parliament, especially Financial Committee
 - Minister of Finance
 - Council of Ministers of the Kingdom

WHAT DO WE OVERSEE?

- We test if the agreed norms are met
 - We have no opinion about policy issues
 - Countries are autonomous in making policy choices
- We take the entire public sector into account
 - Including state owned enterprises and social security funds
- Offering support in improving financial management
 - Regular monitoring of budget execution

THE BUDGET NORMS

- Countries agree on ‘the golden rule’
 - Current account of the budget needs to balance
 - Country may borrow for capital expenditures
 - Interest payments must be less than 5% of total income
- Check-up during execution of the budget
 - Every 3 months the countries report about the execution of the budget and draw up budget amendments.
- For Aruba: balanced budget rule is leading

SUMMARY

- This is time to bring debt back to healthy level
- Investing in Aruba should be given top priority
- Financial supervision can help restore trust