



Sociaal Economische Raad  
Social Economic Council

To the Honorable Prime Minister of Sint Maarten  
Mrs. S.A. Wescot-Williams  
Philipsburg  
Sint Maarten

Philipsburg, September 18, 2013

Our reference: SER /13/AA/51

Re: Letter of advice on monetary union in view of recent alarming balance of payments developments

Honorable Prime Minister,

On February 28<sup>th</sup>, 2013 the SER presented the advice entitled "Sint Maarten stepping out of the monetary union" (SER 2013-001) to the government of Sint Maarten. The gist of this advice was for Sint Maarten to leave the monetary union with Curaçao, and to adopt the US dollar as the sole legal tender in our country. The SER based this advice on the risks caused by the divergence of the Sint Maarten and the Curaçao economies, and the real possibility of a subsequent devaluation of the Netherlands Antilles guilder.

The research and preparation of the February 2013 SER advice took place in 2012. However, based on information that has become available since, the SER perceives an important recent deterioration in our external monetary situation. It is therefore with renewed urgency that the SER presents this follow-up letter of advice.

Based on the annual balance of payments numbers over the year 2012, and the annual report of the Central Bank of Curaçao and Sint Maarten over the same year, the SER makes the following observations.

Regarding the balance of payments situation of the monetary union and the value of our currency:

- The 2012 current account of the monetary union shows a deficit of ANG 1,382 million, the third consecutive deficit of around ANG 1.4 billion. (CBCS annual report 2012, p. 19)
- For the first time however, it has not been possible to finance this deficit by way of foreign (direct) investments in our economy, or by external borrowing.
- Consequently, an important part of the current account deficit has been financed by a decrease in the official (currency) reserves of ANG 277 million. (CBCS annual report 2012, p. 20, 21)
- The internationally accepted minimum level of official reserves is expressed as the value of 3 months of imports. This level has been exceeded or maintained for many years. For the first time in 2012, the monetary union's reserves fell below the 3-month import coverage mark, and deteriorated further in 2013. (CBCS: The Economy of Curaçao and Sint Maarten in Charts 2010 – 2013- June).
- Persistence of the present trend will make the peg of the Netherlands Antilles guilder to the US dollar untenable. Devaluation of the guilder will become inevitable. In their 2011 Article IV consultation, the IMF expressed their serious concern about this scenario (IMF 2011, p. 1, p. 14), which in turn was reflected in the SER advice "Stepping out of the monetary union".
- Devaluation will have devastating socio-economic consequences. As the import component of the average basket of consumer goods is extremely high in our country, a given percentage of



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devaluation will mean almost the same percentage loss in purchasing power, or real income, for the consumer whose income is expressed in guilders.

- Due to our already mixed dollar/guilder economy, devaluation would cause several deep disruptions in our economy. Those who earn a dollar income will be unaffected while a worker who earns an equivalent wage in guilders will suffer a loss from devaluation. Similarly, those who earn guilders and pay rent or mortgage payments in dollars will find themselves in financial problems. Conversely, businesses earning dollars while paying their expenses in guilders will receive a windfall profit.

Regarding the imbalance between the balance of payments of Sint Maarten and that of Curaçao:

- Calculated separately, the balance on the current account of Sint Maarten shows a surplus of ANG 170 million. Curaçao registers a deficit of ANG 1,573 million. (CBCS 2012 balance of payments figures Curaçao, Sint Maarten)
- Hence, the entire balance of payments current account deficit of the monetary union is caused by Curaçao, while the contribution of Sint Maarten reduces the deficit somewhat.
- The measures taken by the Central Bank (the 2012 credit freeze followed by a curtailed growth) to reduce money supply and thereby slow down imports, have a very detrimental effect on the Sint Maarten economy already. These measures however address a problem Sint Maarten did not contribute to in any degree.
- Without the monetary union, Sint Maarten would not have reduced its currency reserves, and would have been able to maintain them at a very safe level.
- Lower levels of borrowing, or paying off of existing debt might have been possible as well.
- The foreign currency that becomes available through foreign investments in Sint Maarten or loans taken by Sint Maarten could have been spent on imports caused by public or private investments or even for higher levels of consumption. Instead, this part of our balance of payments is now used to finance Curaçao's current account deficit, while our imports are curtailed.

Moreover, from the point of view of risk aversion, it is important to stress that a well-prepared and organized move to dollarization will probably take at least a full year. On the other hand, in a situation where confidence in the Netherlands Antilles guilder would be lost, the peg to the dollar could become untenable in a matter of weeks. In other words, if and when the risk of devaluation becomes imminent, it will be far too late to dollarize.

As an additional point, the SER wishes to clarify that the choice for leaving the monetary union and dollarization in no way implies criticism of the functioning of the Central Bank of Curaçao and Sint Maarten. In a post-monetary union situation Sint Maarten would have to create or find an institution to execute the bank supervision task. Outsourcing of this task, or indeed cooperation with Kingdom partners Curaçao, Aruba and the Netherlands might very well be viable options.



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## ADVICE

In view of the risks and imbalances mentioned above, and referring to their earlier advice "Sint Maarten stepping out of the monetary union" (SER 2013-001) the SER advises government to urgently take the following measures (summarizing):

- Immediately take the necessary steps to plan and prepare for an orderly transition to the circulation of the US dollar as the single currency in Sint Maarten;
- Take measures to avoid any negative price effects on consumer goods from the elimination of the guilder;
- Find an efficient solution for the remaining Central Bank tasks, specifically supervision of the financial sector, as part of the transition plan;
- Accept compliance with fiscal rules and benchmarks, - such as those implemented by the CFT - measures to compensate for the loss of seigniorage and license fee revenues, as well as maintenance of sufficient reserves in the event of external shocks, as central concerns in the new dollarized situation.
- In connection with the points mentioned above, the SER emphatically requests government to make its position known on the content of the advice SER 2013-001.

Should you require any additional information after reading the above, please feel free to contact us at your earliest convenience.

Respectfully,

R.A. Richardson  
Chairman

G. Richardson  
Secretary-general

c.c.

- the Honorable Minister of Finance, mr. Martinus J. Hassink
- the Honorable Minister of Tourism, Economic Affairs, Transport & Telecommunication, mr. T. Richardson

### Attached:

- Appendix 1. Selected figures Balance of Payments Sint Maarten and Curaçao 2012
- Appendix 2. Sources
- "Sint Maarten stepping out of the monetary union" (SER 2013-001)

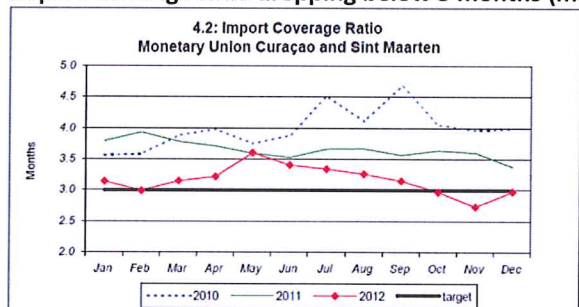




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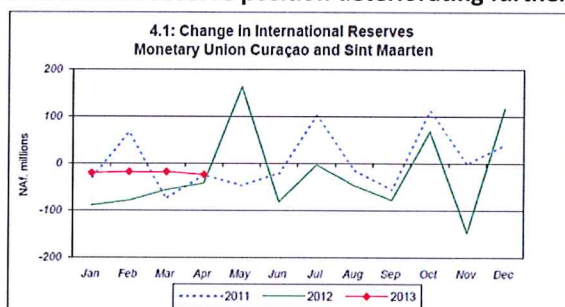
## Appendix 1. Selected figures Balance of Payments Sint Maarten and Curaçao 2012

Import coverage ratio dropping below 3 months (minimum acceptable level) for the first time in 2012



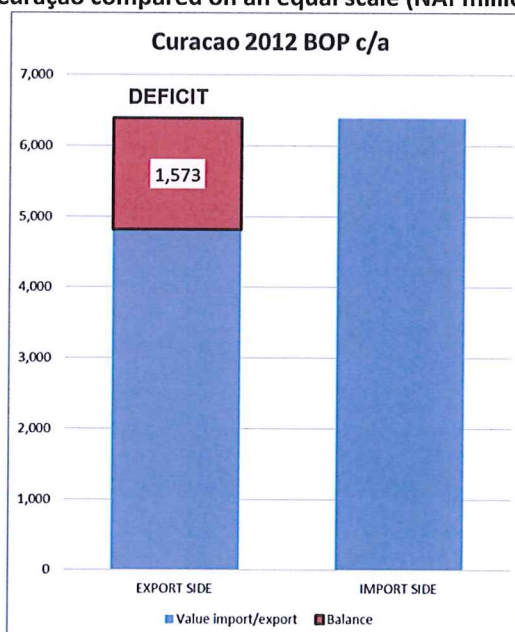
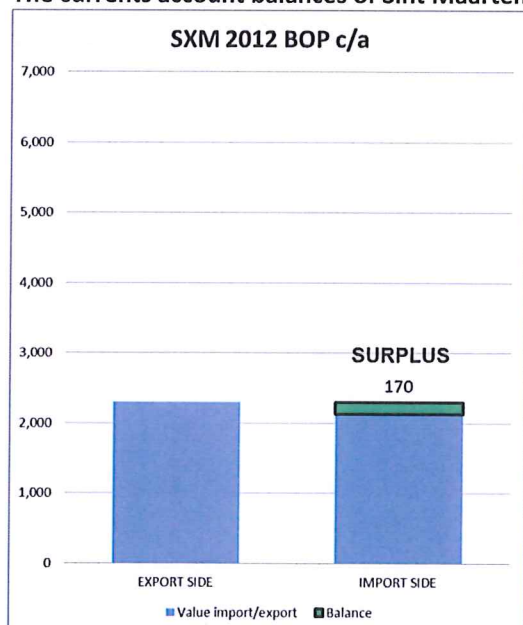
Source: website CBCS: "The Economy of Curaçao and Sint Maarten in Charts 2010 – 2013- June"

International reserve position deteriorating further in the first 4 months of 2013



Source: website CBCS: "The Economy of Curaçao and Sint Maarten in Charts 2010 – 2013- June"

The current account balances of Sint Maarten and Curaçao compared on an equal scale (NAf millions)



Sources: website CBCS: "Balance of payments statistics Curaçao" and "Balance of payments statistics Sint Maarten"



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## Appendix 2. Sources

### Central Bank of Curaçao and Sint Maarten

*2012 annual report*

<http://www.centralbank.an/uploads/files/Annual%20Report%202012.pdf>

### Central Bank of Curaçao and Sint Maarten

*Balance of payments statistics Curaçao*

<http://www.centralbank.an/tables/488.xls>

### Central Bank of Curaçao and Sint Maarten

*Balance of payments statistics Sint Maarten*

<http://www.centralbank.an/tables/489.xls>

### Central Bank of Curaçao and Sint Maarten

*The Economy of Curaçao and Sint Maarten in Charts 2010 – 2013- June*

<http://www.centralbank.an/uploads/files/short%20term%20graphs%202013-juni%20Real.pdf>

## IMF

*KINGDOM OF THE NETHERLANDS—CURAÇAO AND SINT MAARTEN STAFF REPORT FOR THE 2011  
ARTICLE IV CONSULTATION*

<http://www.imf.org/external/pubs/ft/scr/2011/cr11342.pdf>