



ARUBA AND SUSTAINABLE PUBLIC FINANCE

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CONTENT LECTURE

- I. Aruba pre-COVID: On track
- II. Economy and public finance 2000-2021
- III. Financial Supervision and COVID crisis
- IV. Perspective of sustainable public finance

PART I

Aruba pre-COVID: On track

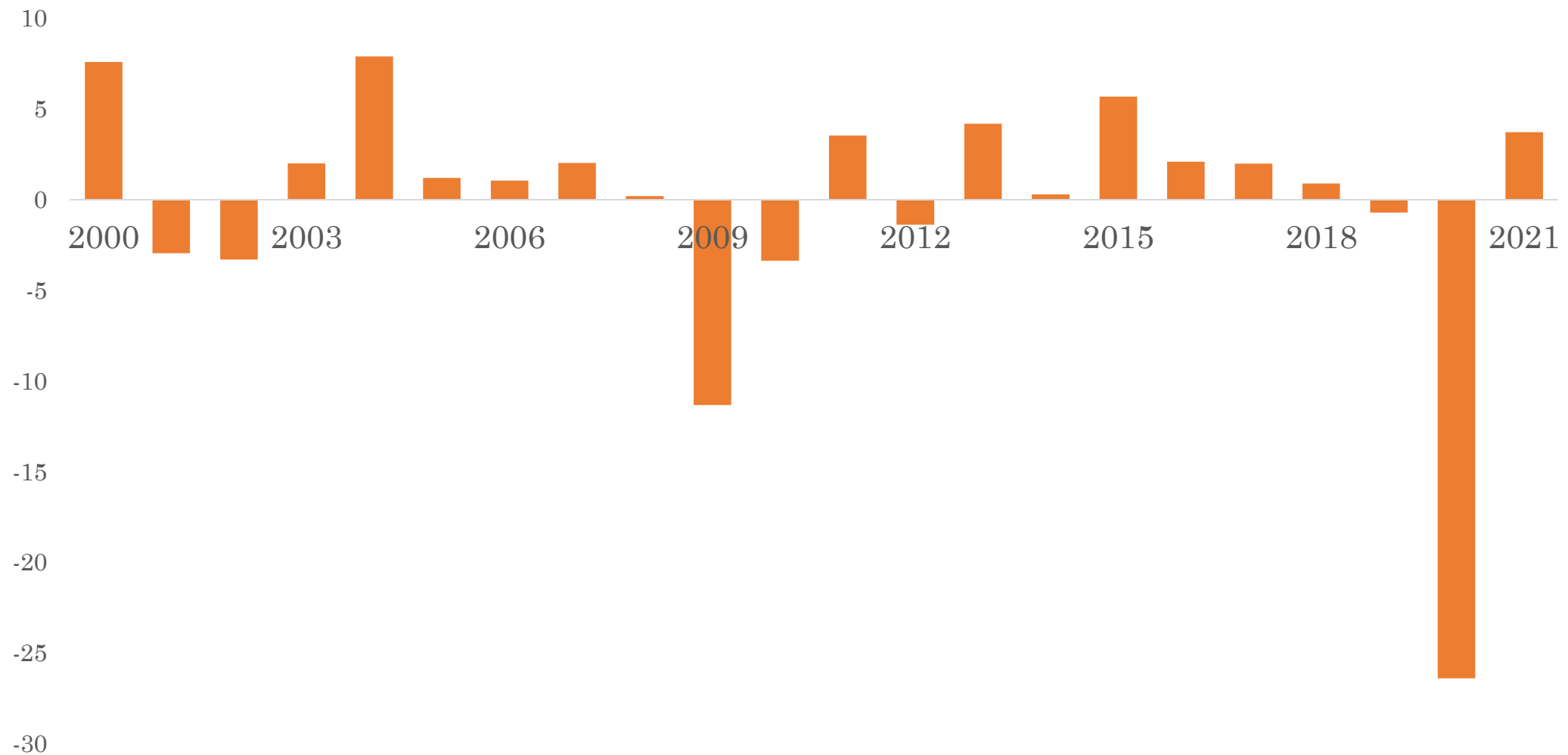
ARUBA: STARTING POSITION PRE-COVID

- Gdp per capita: \$ 29.500 (2019)
- Unemployment: 5,2% (2019)
- Tourism: 3,2% increase (2019)
- Safety
- Kingdom of the Netherlands

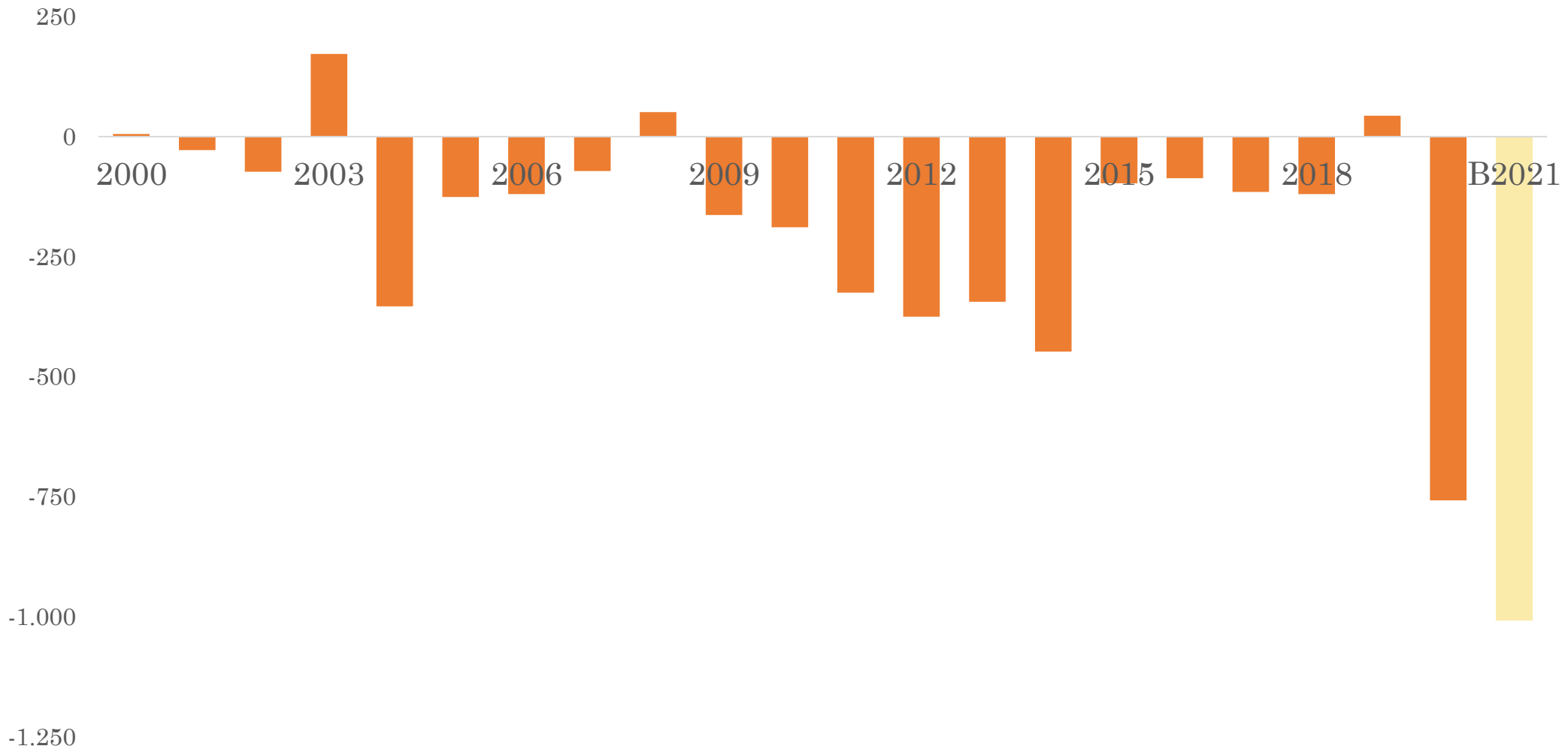
PART II

Economy and public finance 2000-2021

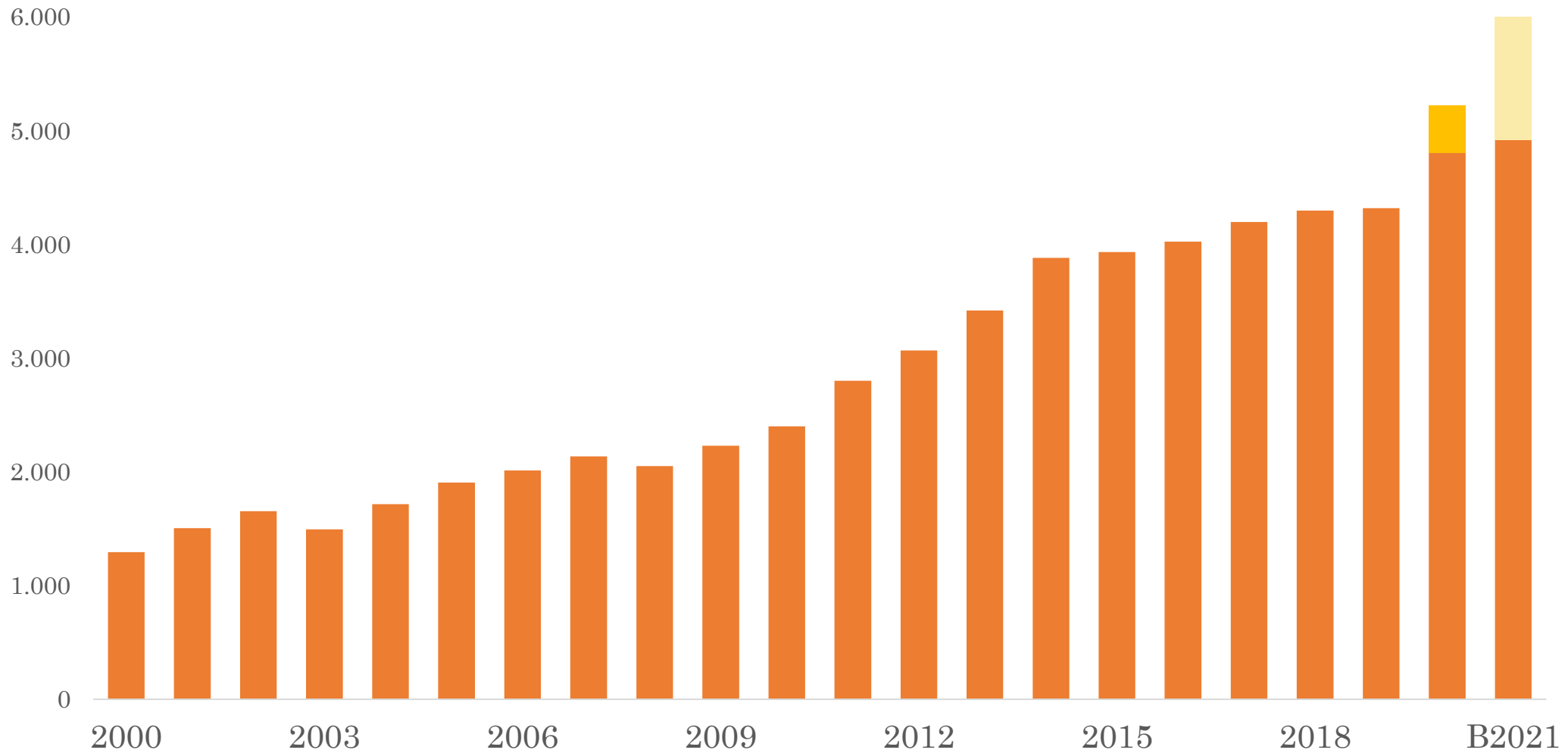
REAL ECONOMIC GROWTH(% GDP): HIGHLY VOLATILE



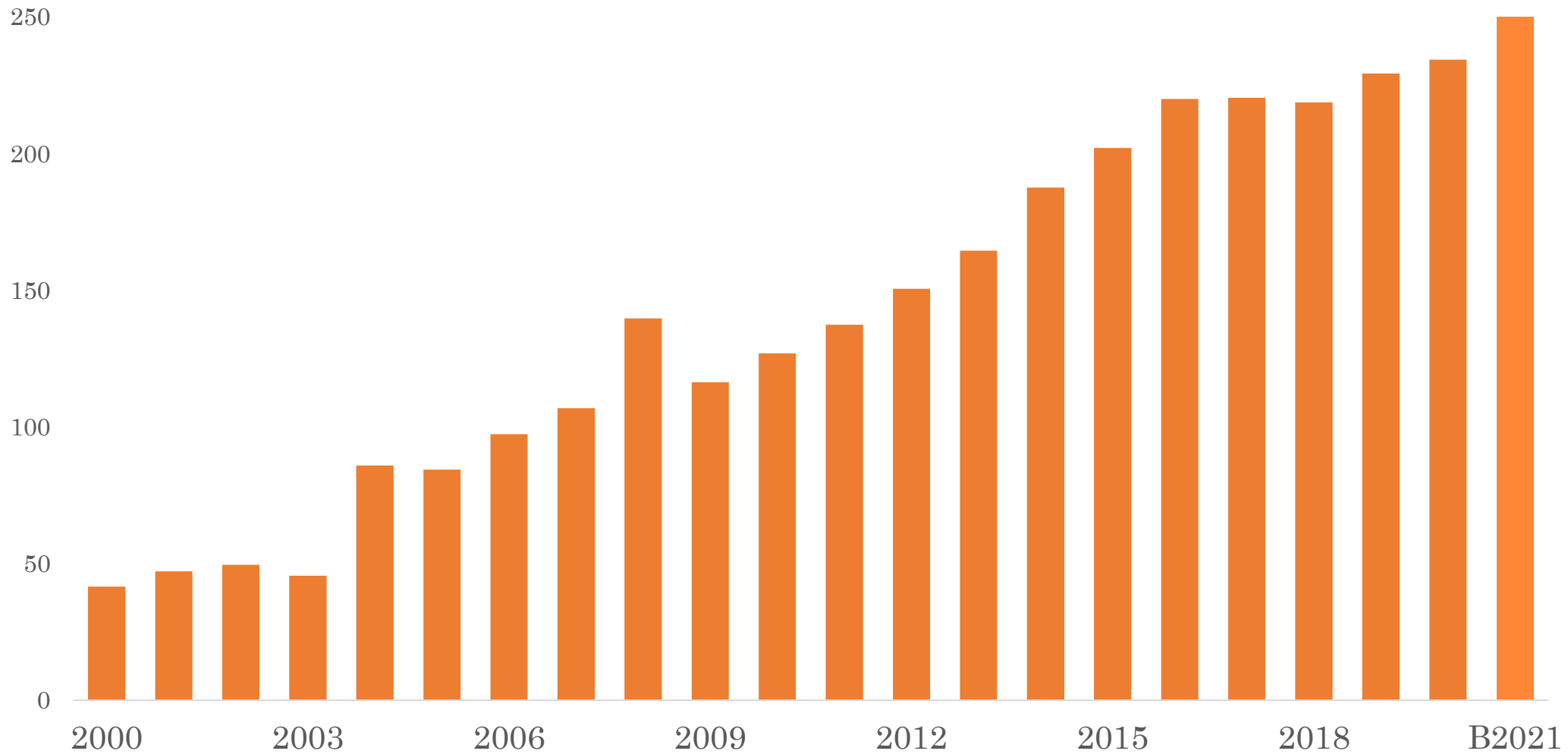
FINANCING GAP (AWG MILLION): DEFICITS, EVEN IN GOOD YEARS 2011 AND 2013



GOVERNMENT DEBT (AWG MLN.): DEBT RISES SHARPLY



WITH SHARPLY INCREASING INTEREST PAYMENTS (AWG MLN.)



BUDGET DEFICIT AND THE LAFT NORM

- LAft norm was not met in 2017 and 2018; the norm was met in 2015 and 2016, albeit with many incidental measures; in 2019 a surplus was realized

	Laft norm	Financial Statement
2015	-3,7%	-3,3%
2016	-2%	-1,8%
2017	-0,5%	-2,4%
2018	0,5%	-2,1%
2019	-0,5%	0,7%

- Early 2018 the Financieel Economisch Memorandum 2018-2021 (FEM) with the premise of prudent growth
- Fiscal consolidation mainly through of tax increases and too few spending restrictions

INTERIM CONCLUSION

- Aruba is a (reasonably) prosperous country, but the economy is highly cyclical and therefore prone to crises;
- Public finances and rising interest costs are major concerns
- From 2015 (until 2020) a structural change in public finance development, but insufficient to allow nominal debt to decrease
- After the crisis, restructuring of public finances and strengthening the economy must be undertaken

PART III

Financial Supervision and COVID crisis

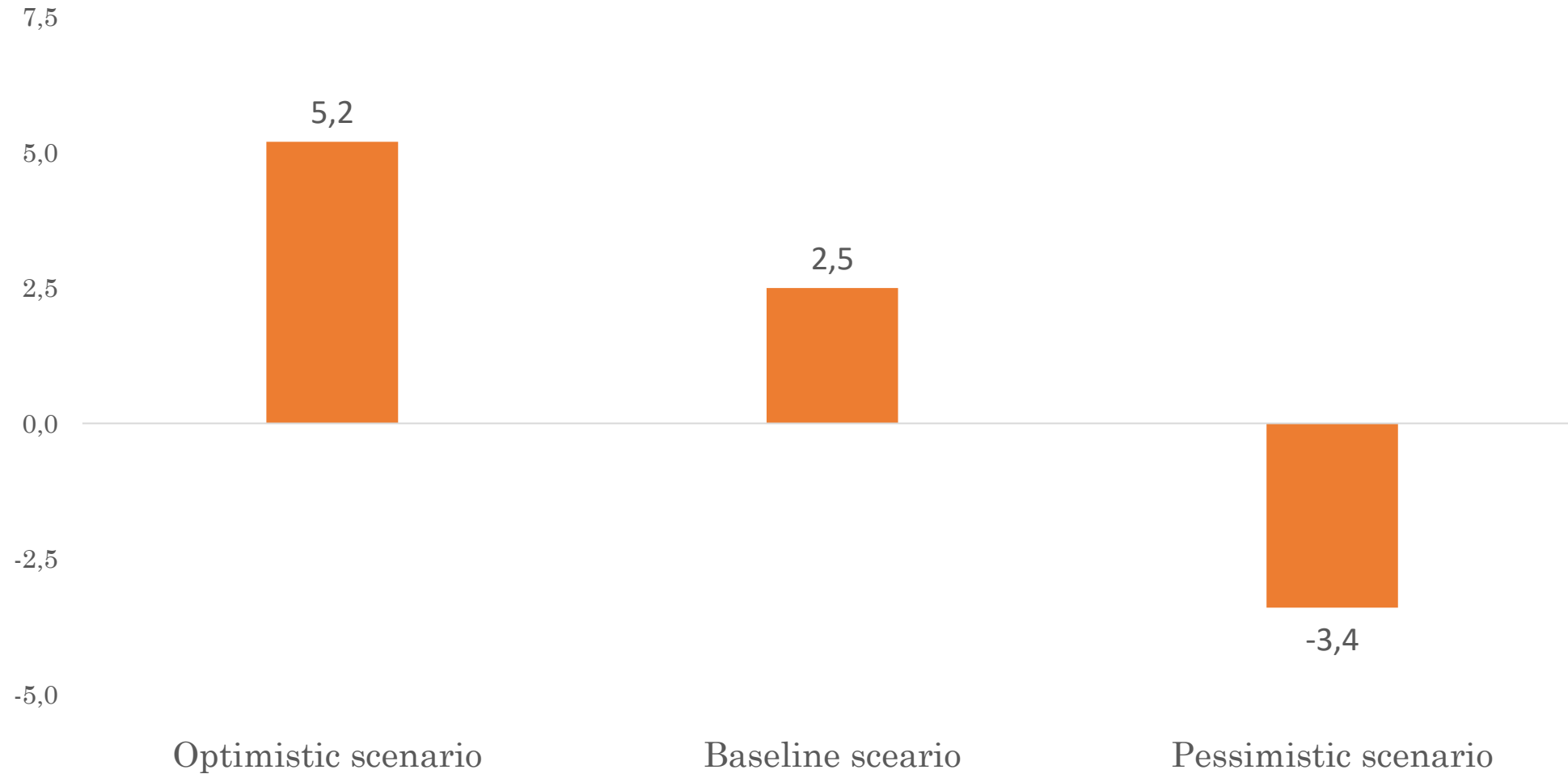
FINANCIAL SUPERVISION BY CAFT

- Supervision by CAft since 2015
- Oversees the entire budget process as well as financial management
- The public debate about public finances is being intensified and more attention is paid to financial management quarterly reports
- Financial Statements are drawn up and adopted (in 2020 the financial statement will be audited for the first time)

COVID-CRISIS AND CAFT ADVICE

- CAft also advises on liquidity support (against zero interest rate and ending in 2022)
- 2020: AWG 414 million, of which AWG 271 million on wage subsidies; 2021: advance payment of AWG 71 million
- The Netherlands supports control of interest payments in 2021 and 2022 by refinancing the foreign loans at low interest rates

2021 UNCERTAIN YEAR BUT RECOVERY AFTERWARDS



PART IV

Perspective of sustainable public finances

TAKE ON THE RESTRUCTURING OF PUBLIC FINANCES

- Not easily to divert -rising- expenses:
 - Interest payments (also rising interest rates)
 - Availability payments (PPP projects)
- Increased tax and premium burden:
 - Extreme caution from a competitive perspective
- Reduce expenses:
 - Wage bill (including overtime and extra allowances)
 - Infrastructure and buildings
 - Health care and social security

HEALTH CARE

- Healthcare expenses increased from AWG 359 million in 2011 to AWG 463 million in 2019
- The AZV levy has existed since 2015, which amounted to AWG 215.3 million in 2019 (levy percentage increased from 2 to 3 % in 2018)
- Due to aging population and more people with chronic diseases: additional healthcare expenses will amount to approximately AWG 200 million in the next 10 years
- In the most unfavorable case, the health care expenses will rise to 18% of GDP

WHAT ARE POSSIBLE SOLUTIONS?

- A further increase of the premiums and the (destination) tax or any other form of structural raise of tax burden is not desirable!
- At least AWG 200 million in health care savings must be found in the coming years
- Limit health care coverage options; personal contributions in healthcare; introduction of listed medicines, restriction on privately owned health care facilities; fewer treatment abroad, etc.
- On November 30, 2020 'finally' a decision was made on limitation of claims for medicines and bandages

REFORMS: ABSOLUTELY NECESSARY

- Public wage bill and other costs of civil service
- Sustainability AOV/AWW
- Tax reform
- Inclusive labor market
- Modernization of the business environment
- Economic diversification

CONCLUDING

- Aruba has a considerable debt and unsustainable interest payments: necessary to sustain a surplus of 1% in the coming years
- The aging population and diseases of affluence also require reforms in health care and social security. This is necessary to maintain public facilities such as health care and education for future generations
- Realizing economic growth through labor market and capital market reforms, among other things