CENTRALE BANK VAN CURAÇAO EN SINT MAARTEN

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May 7, 2020

Parliament of Sint Maarten
Mr. R. Brison
Chairman
Wilhelminastraat 1
Sint Maarten

Our ref.: JJ/CH/mmh/2020-003519
Re: Urgent action needed by CBCS

Dear Mr. Brison,

We refer to your letter of April 21, 2020, in which you mention 6 points that require urgent action by the CBCS, and like to inform you as follows.

You refer to and quote Kenneth Rogoff to introduce the ideas you presented in your letter. You have not explicitly mentioned the source but you quoted: "the whole point of not relying on debt excessively in normal times is precisely to be able to use debt massively and without hesitation in situations like this".

An internet search showed that this statement was made by Rogoff in reference to the United States. Without expressing any view on the validity of the quoted argument to the specific case of the U.S., this is not applicable to the case of our monetary union. Contrary to the U.S., our currency is not an internationally accepted means of payment but pegged to the US dollar, our domestic market is very small, and we rely on import for most of the goods we consume. Applying Rogoff's quote to the case of our monetary union without securing foreign financing would inevitably compromise the external stability of the common currency (i.e., the peg of the guilder to the US dollar). That is why in our advices to the governments of Curaçao and Sint Maarten, we have emphasized the importance of requesting financial support from the Dutch government to finance the government programs to alleviate the impact of the coronavirus crisis.

We want to clarify also that the 1% license fee you are referring to is not benefitting neither the banking institutions nor the CBCS. The proceeds from the license fee are transferred entirely to the member country where it was generated. The license fees collected from international transactions that took place on Sint Maarten are transferred monthly to the benefit of the budget of Sint Maarten. In 2019, the CBCS transferred NAf.26.1 million of license fee revenues to the government of Sint Maarten.[1]

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[1] Refer to the website of the CBCS for an overview of the license fee transferred to the government of Sint Maarten since 2010:
https://cdn.centralbank.cw/media/license_fee_breakdown/20200428_license_per_eiland.pdf.

It is also important to emphasize that a profitable and financially sound banking system is important to the whole society that holds deposits at the banks. This is confirmed by the major consequences of the financial crisis of 2007 – 2008.

1. National Development Bank for Sint Maarten.

The CBCS welcomes any initiative to incorporate a development bank for Sint Maarten and has therefore no objection against such initiative. However, the party or parties planning to incorporate such a bank must request the CBCS a license for the development bank to become operational under the terms of article 3 of the National Ordinance on the Supervision of Banking and Credit Institutions (NG 1994, no 4)[2] (hereafter "NOSBCI"). To obtain a license, the development bank must meet all requirements for the license. The application is considered to have been filed when the CBCS has received the correct and complete information. The requirements can be found through the following link: https://www.centralbank.cw/applications-forms/applications-forms/credit-institutions/specialized-credit-institutions-and-savings-banks.

2. Reserve requirement and super-low interest rates for commercial banks.

The more liquid the banks are, the easier it is to extend credit. The banking system in the monetary union of Curaçao and Sint Maarten is still in a situation of excess liquidity, meaning that their balances at the CBCS are much higher than needed to settle their daily transactions and for precautionary reasons. For example, on May 4, 2020, the banks operating in Sint Maarten held NAf. 123 million on their current accounts with the CBCS (7.5% of GDP). So no lowering of the reserve requirement is needed under the current circumstances to stimulate the banks to provide more loans. The CBCS recognizes, however, that although there is excess liquidity in the banking sector, individual banks may confront an individual tight liquidity situation. Therefore, on March 20, the CBCS took some measures that makes it easier and that lowers the costs for the banks to borrow at the central bank. The borrowing rate, i.e., pledging rate, was reduced from 2.50 to 1.00 percent. Furthermore, the surcharge on the pledging rate of 200 basis points on loans exceeding NAf.20.0 million has been suspended temporarily. The CBCS also reduced the interest rates on Certificates of Deposit (CD), a money market instrument in which the banks can invest with terms between 2 weeks to 1 year. This step made the CD-instrument less attractive for the banks resulting in more liquidity available to support bank customers with debt service postponement and more credit. Through these measures, the CBCS aims at guaranteeing the commercial banks' access to liquidity in case this may be required while maintaining the cost of financing low. Thereby, the financing of the economy can be ensured. The CBCS monitors the liquidity of the banking sector closely and stands ready to ease its monetary policy further if liquidity conditions warrant this, at all times without prejudice to its main statutory goals to preserve the external stability of the common currency and financial stability.

In addition, the CBCS eased some banking supervision rules on March 20. Commercial banks and credit institutions are allowed to provide a 3 to 6-month payment moratorium on interest and principal of all outstanding loans, without having to make an adequate provision. Furthermore, banks may exceed the debt service ratio, which is currently set at 37%, to a maximum of 50%.

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[2] As amended by the harmonisation ordinance (Landsverordening actualisering en harmonisatie toezichtlandsverordeningen Centrale Bank van Curaçao en Sint Maarten, AB 2015, no 5)

3. CBCS must insist on unconditional, fully postponed mortgages from banks.

Pursuant to article 21, paragraph 1 of the NOSBCI, the CBCS can issue general binding regulations to credit institutions for their business operations in the interest of their solvency or liquidity. In accordance to paragraph 2, these regulations/directives relate to:

a. the minimum amount and composition of the qualifying capital in relation to the credit, market and operational risks;
b. the minimum amount of liquid assets in relation to the withdrawal risks;
c. the prohibition, restriction or stipulation of conditions for high-risk activities or high-risk commitments on or off balance sheet;
d. the scope of the consolidation;
e. the conduct of business operations relating to the administrative organization, including the financial accounting and the internal control.

Your suggestion that commercial banks should be instructed to postpone mortgage payments and interest collection goes against the supervisory task of the CBCS to safeguard the interest of the creditors of supervised institutions. The CBCS is and will continue to be in dialogue with the sector to encourage them to evaluate on a case by case basis whether it is prudent to accommodate clients that are in need of some relief in the interest of the development and maintenance of a sound banking and credit system as well as for the protection of the interest of present and future creditors of their institutions.

4. Banker of last resort – bond issuance and liquidity support from government

According to article 16, paragraph 6 of the Kingdom Act Financial Supervision Curaçao and Sint Maarten (RFT), the government of Sint Maarten can approach the CBCS to assist with the issuance of bonds. The bond issuance will follow the stipulations in article 16, paragraphs 6 and 7 of the RFT. If the Dutch government does not subscribe according to the standing subscription, the bond issuance process can be finalized by the CBCS with a local placement according to local conditions. In the case of a local placement, the government indicates the amount it wants to raise and the CBCS will approach the local capital market to get an idea at what terms (type of loan, term and interest rate) local investors are interested to subscribe to the bond issue. The CBCS presents an advice on the terms to the government and after approval finalizes the prospectus and announces the issuance. After the subscription closes, the CBCS presents the results to the government and advices on the most convenient conditions to issue the bond loan. The government has to decide at what rate the subscriptions will be accepted. Once the participants have deposited their shares in the bond loan, the funds are available to the government.

The CBCS has discussed several options with the government of Sint Maarten to finance its program to alleviate the impact of the coronavirus crisis. Once the government has decided on the way it wants to proceed, the CBCS will assist further.

The CBCS can buy or sell government bonds, which is done primarily for monetary policy purposes or investment purposes. According to the Central Bank Charter, the objective of CBCS' monetary policy is to maintain the external stability of the common currency (i.e., the peg of the guilder to the US dollar). This means that any investment is conditional on preserving the external stability of the common currency.

Although the CBCS can directly buy government bonds, this should be done sparsely given its monetary implications. Buying government bonds directly is called monetary financing. Monetary financing stimulates spending that through imports and, hence, the use of foreign exchange can put the foreign exchange reserves under pressure. The foreign exchange reserves of the monetary union will inevitably come under increased pressure because the main foreign exchange generating sector, tourism, has come to a standstill because of the closure of the borders while necessary imports still have to be paid. Once the lockdown is gradually lifted, imports will increase while it will take much more time for exports starting to recover (and principally so after reopening of the borders). Therefore, the preferred way to finance the government programs to alleviate the impact of the coronavirus crisis is foreign financing, particularly from the Netherlands. Namely, this results in a compensating foreign exchange inflow in the short term, which will slow the decline in foreign exchange reserves.

To guarantee that the monetary union will have sufficient foreign exchange reserves for the coming months, the CBCS emphasized in its advises to the governments of Curaçao and Sint Maarten the importance of requesting financial support from the Dutch government to fund the social and economic aid programs. The accompanying foreign exchange inflow helps slow down the inevitable increasing pressure on the union's reserves. The CBCS also recommended the governments to include a request for balance of payments support to the Dutch government in case the foreign exchange reserves drop to a critical level. As a result, the Kingdom Council of Ministers has asked the Dutch central bank (DNB) to advice on this request. The CBCS clarified to DNB the purpose of the balance of payments support and provided macroeconomic and balance of payments data.

The CBCS has also regular (video) meetings with its regional peers during which, among other things, the policy responses to the coronavirus crisis are shared. The information received from these meetings is, whenever relevant, taken into account in the formulation of the CBCS' policies to address the impact of the crisis.

Finally, on the request of governments that advocated dollarization, the CBCS has made various analyses and presentations on the pros and cons of dollarization.

5. Immediate right to bank accounts and consumer protection laws.

We do not have an ordinance nor a guideline yet similar to the Netherlands with reference to the right of a basic bank account. Furthermore, the CBCS cannot force any commercial bank to open a bank account for an individual or a business. At this moment, before opening a bank account (or in general when providing financial products), a commercial bank assesses the risk profile and background of its potential customers (both individuals and businesses) based on Know Your Customer ("KYC")/Customer Due Diligence ("CDD".

The KYC and CDD requirements are incorporated in the National Ordinance Combatting Money Laundering and the Financing of Terrorism and outlined in the Provisions and Guidelines on the Detection and Deterrence of Money Laundering and Terrorist Financing for Credit Institutions of the CBCS, available on our website by clicking on the following link:

https://cdn.centralbank.cw/media/legislation_guidelines/20190120_pg_for_ci_white_november_2013.pdf

Adherence to these directives, that are derived from international standards, is necessary to limit the risk of further loosing correspondent banking relations, which would impede any cross border transaction including buying goods and servicing the tourism industry.

The Consumer Banking Protection Law was not attached to your letter. Once a copy of this draft law is submitted by the government of Sint Maarten to the CBCS, we will review it.

6. Making central bank expertise available to government and parliament.

Since its inception as an autonomous country in the Kingdom of the Netherlands, the CBCS has provided numerous solicited and unsolicited advices and support to the government of Sint Maarten. Examples of the most recent advices and support by the CBCS are:

- Economic impact analysis of a proposed U.S. preclearance facility at PJIA.
- Macroeconomic scenario analysis of the Sint Maarten Recovery, Reconstruction and Resilience Trust Fund.
- Macroeconomic effects of the closure of the borders of Sint Maarten due to the coronavirus (COVID-19).
- Revised growth projections as a result of the global outbreak of the coronavirus (COVID-19) and domestic preventive measures.
- Placed our economist of the Sint Maarten office at the disposal of the Minister of TEATT.
- Enterprise Recovery project.
- Assistance to World Bank consultants for a project to promote electronic payments as part of the digitalization of the government.
- Advice on opening of bank accounts for gambling businesses.
- Local settlement of Mastercard and VISA payments.
- OECD Peer Review 3 of Sint Maarten.
- CFATF Follow Up Report Sint Maarten.

The CBCS is currently also assisting the government of Sint Maarten with the organization of a Bitcoin conference.

Sincerely,
Centrale Bank van Curaçao en Sint Maarten

J. Jardim
Acting President

L. Matroos- Lasten
Director Secretary