



**Speech delivered
by Mr. Prakash Mungra
Executive Director Supervision and Enforcement of
the Centrale Bank van Aruba (CBA).**

**On the occasion of
the Business Networking Event
organized by
Comerciantenan Uni Aruba (CUA)
on March 22, 2023
at the Hyatt Place Aruba airport.**



Honorable minister Geoffrey Wever, board members and members of CUA, colleague speakers of the CBA, ladies and gentlemen,

It is with great pleasure that I have accepted the invitation of Mr. Francis Saladin to deliver some opening remarks on this important occasion.

As you will know, Aruba has rebounded very strongly from the economic crisis induced by the covid-19 pandemic. The growth of the tourism sector in 2022 was one of the highest, if not the highest, within this region. My colleague speakers from the CBA, Mr. Giantcarlo Croes and Mrs. Lorraine Tromp, will provide you with further data and insights on the state of Aruba's economy.

This network event could not have been held at a better moment. The global financial system is once again under a high level of stress and there is a lot of speculation in the financial media whether we are on the eve of a new global banking crisis, like the one that started in 2008 with the fall of Lehman brothers and triggered one of the most severe global recessions since the great depression that started in 1929 and lasted almost a decade.

In this regard, mr Saladin asked me to discuss the chances of a new global banking and economic crisis, and especially on the possible ramifications for Aruba's economy, as well as its financial sector, if such situation would occur.

I will try to be as briefly as possible in responding to these very interesting questions posed by mr Saladin.

Before doing so, I would like to make the disclaimer that the views expressed by me do not necessarily reflect the point of view of the CBA.

Question 1: Are we at the eve of a new global banking crisis?

So far, it does not seem that the recent turmoil in the banking sector in the USA, as a result of the failure and seizure of silicon valley bank and signature bank, and in Switzerland with respect to Credit Suisse, will destabilize the global financial system and global economy. Although it is still too early to draw final conclusions, it appears that the decisive actions taken by the monetary, regulatory and supervisory authorities in the USA and Switzerland have calmed the financial markets, at least to a large extent, thereby preventing a spill-over of these events to the global financial system and global economy.

It should also be noted that the global financial system is nowadays much stronger compared to the situation at the start of the financial and economic crisis in 2008. As a response to the 2008 financial and economic crisis, the minimum capital and liquidity standards were significantly strengthened worldwide. The implementation of the so-called Basel III capital and liquidity standards have significantly increased the robustness and resiliency of the global financial sector and has herewith contributed to maintaining global financial stability, as also witnessed during the global economic crisis induced by the covid-19 pandemic. In contrast to the 2008 economic crisis, the banking system was this time not part of the problem, but part of the solution.

It must be noted, though, that the monetary authorities have now a much tougher task striking the right balance between fighting inflation and preserving financial stability. The sharp rises in the interest rates were necessary to fight the double-digit inflation witnessed in the main economies worldwide, but on the other hand the sharp rises of interest rates have led, amongst other things, to imbalances in the banking sector.

As part of the deregulation agenda of the former Trump administration, mid-size banks in the USA with balance sheet total less than USD 250 billion were brought under a much lighter supervisory regime, as they were no longer considered systemically important banks. In the European union, the bar of being considered as a systemically important bank has been set at the much lower threshold amount of 30 billion euro. As clearly demonstrated in the cases of silicon valley bank and signature bank a bank-run on mid-size banks have the potential of turning into a systemic

banking crisis. With the rescue of Swiss bank by the forced merger with UBS, orchestrated and facilitated by the Swiss authorities through stop-loss guarantees, a full-fledge global banking crisis seems to have been prevented.

An interesting question that has arisen from the Swiss bank rescue operation last weekend is whether UBS, whose assets have increased considerably due to the merger with Swiss bank, has become too big now to be saved by the Swiss authorities in case of severe financial problems in the future.

Question 2: In the case of a new global banking crisis, what would this mean for Aruba's economy as well as its financial sector?

With respect to the first part of the question I would like to note that – also with the assistance of the Dutch government – Aruba has weathered the economic storm induced by the covid-19 pandemic quite well and has meanwhile recovered back to pre-covid 19 levels in terms of economic activities. However, without any doubt, a severe new economic shock would definitely bring new and significant challenges for Aruba. Therefore, it is of utmost importance that the economic resiliency of Aruba is strengthened to withstand possible future severe economic shocks. The CBA has also advised the goa in this regard to consider the establishment of a resilience fund that can be used in times of crisis, but also to fund the significant investments that will have to take place in the probably not so far future to cope with the potentially very damaging effects of climate change. Although the debt-to-GDP ratio has come down significantly after peaking during the covid-19 pandemic - thanks to the strong economic recovery - the debt is still too high for a small and one-sided economy as that of Aruba. Therefore, further measures remain necessary to reduce the debt significantly in coming years, also taking stock of the ageing of the Aruban population and the associated costs herewith in terms of health care and pensions.



With regard to the second part of Mr. Saladin's question, I can inform that the financial sector, which has grown significantly over the years, is very solid and highly resilient for external shocks. The capital and liquidity buffers are sufficiently high to absorb severe external shocks, as also evidenced by the results of the yearly stress tests performed by the CBA on the banking sector and the most recent economic crisis induced by the covid-19 pandemic. Nonetheless, there is room for further strengthening of these buffers, also considering the one-sidedness of the Aruban economy and the risks associated herewith.

Aruba, March 22, 2023