The financial crisis and its impact on St. Maarten’s economy

Origin financial crisis

- Period of low interest rates
- Stimulated take up of mortgages, facilitated by flexible application of lending standards
- Promotion of asset price bubble, inducing the take up of more credit
- When the bubble burst and home prices started to decline, the crisis was born
The fallout of the global financial crisis

- Late 2005, US housing market under stress/weakness in subprime underwriting resulting in asset price bubbles
- Banking organizations experienced:
  - Significant write downs
  - Increasing exposures
  - Management changes
  - Capital raising

Consequences of the fallout (1)

- Large investment banks (Merrill Lynch, Goldman Sachs, Morgan Stanley, Lehman) are sold, went bankrupt or converted into bank holding companies. AIG required Federal Reserve action
- Banking sector consolidation has taken place around the globe
- Substantial fiscal and output cost
Consequences of the fallout (2)

- Spillover financial sector crisis into the real economy
  - Credit crisis and inflation spike are global events
  - Lower consumer confidence

- Dysfunctional money market
  - Blockage in the money market
  - Lending between financial institutions froze up
  - Instead of inter-bank lending, now lending by central banks
  - Decoupling FED rates from Libor rates

Measures taken to improve the confidence in the financial system and to restore the supply of credit

- Liquidity facilities: injection of cash by central banks, emergency cash auctions
- Interest rate cuts by central banks in an attempt to:
  - Restart the flow of credit
  - Mitigate the impact on the economic downturn
United States of America

- Emergency Economic Stabilization Act of 2008 ($700 billion):
  - Purchase of distressed assets from financial institutions
  - Addressing the root cause of current crisis - the housing crisis and the implosion of the mortgage markets

United States of America (cont’d)

- Stimulus plan of $819 billion by President Obama; Stimulate the economy by:
  - Investing in infrastructure
  - Providing tax breaks
  - Increase spending on education
  - Temporary increase in unemployment benefits
  - Aid to states for Medicaid costs
Euro Area

No banks joint bail-out fund for Europe

- Nationalization and participation in financial institutions
- Providing insurance for citizens by guaranteeing 100% of their savings
- Broker deals between large financial institutions to ensure that there won’t be failures

Euro Area (cont’d)

Economic stimulus packages:

- **Germany**: stimulus package $67 billion includes tax breaks and investments in infrastructure

- **France**: Economic stimulus plan $33 billion contains investments in new buildings, house renovations, and investment in higher education
Great Britain

Package of measures aimed at rescuing the banking system £400bn ($692bn):

✓ Government buying stakes in some of the biggest lenders
✓ Cut in benchmark interest rate
✓ New capital requirements
✓ Loan guarantee to encourage interbank lending

China

Stimulus package of measures aimed at the banking system and the economy: 4 trillion Yuan ($584billion):

✓ Dropped quotas on annual lending by banks
✓ Cut in benchmark interest rate
✓ Reduction in export taxes
✓ Tax cuts and subsidies for steel and auto industry
Development in lending rates

Stock market development

Stock indices
## Macroprudential indicators of banks in the Netherlands Antilles

### Macroprudential indicators (at quarter end in %)

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<tbody>
<tr>
<td><strong>Capital adequacy</strong></td>
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</tr>
<tr>
<td>Total capital/ total assets</td>
<td>9.3%</td>
<td>9.3%</td>
<td>8.8%</td>
<td>9.8%</td>
<td>10.1%</td>
<td>10.3%</td>
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<tr>
<td><strong>Asset quality</strong></td>
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<tr>
<td>Non-performing loans/ total loans</td>
<td>2.9%</td>
<td>4.7%</td>
<td>4.6%</td>
<td>4.6%</td>
<td>4.3%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Provisions for loan losses/ non-performing loans</td>
<td>106.1%</td>
<td>64.8%</td>
<td>66.8%</td>
<td>66.1%</td>
<td>70.0%</td>
<td>78.9%</td>
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<tr>
<td><strong>Earnings</strong></td>
<td></td>
<td></td>
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<tr>
<td>Gross-earning-assets yield</td>
<td>7.6%</td>
<td>7.5%</td>
<td>6.9%</td>
<td>7.4%</td>
<td>7.4%</td>
<td>6.9%</td>
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<tr>
<td>Net interest margin</td>
<td>4.8%</td>
<td>4.8%</td>
<td>4.4%</td>
<td>4.6%</td>
<td>4.9%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Return-on-assets</td>
<td>1.8%</td>
<td>2.0%</td>
<td>1.8%</td>
<td>2.3%</td>
<td>2.7%</td>
<td>2.5%</td>
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<tr>
<td><strong>Liquidity</strong></td>
<td></td>
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</tr>
<tr>
<td>Total loans/ total deposits</td>
<td>71.1%</td>
<td>64.0%</td>
<td>61.4%</td>
<td>63.1%</td>
<td>58.7%</td>
<td>63.9%</td>
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Institutional investors sector

- Survey conducted at the institutions
- Indirectly affected by financial crisis
- International portfolio to a certain extent affected, but limited due to 40-60 rule

Economic outlook of main trading partners

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>United States</td>
<td>2.2</td>
<td>3.5</td>
<td>1.3</td>
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<tr>
<td>The Netherlands</td>
<td>1.3</td>
<td>2.3</td>
<td>1.0</td>
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<tr>
<td>Venezuela</td>
<td>8.5</td>
<td>6.0</td>
<td>2.0</td>
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Inflation rate of main trading partners

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>The Netherlands</th>
<th>Venezuela</th>
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</thead>
<tbody>
<tr>
<td>2007</td>
<td>2.9</td>
<td>1.6</td>
<td>18.7</td>
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<tr>
<td>2008</td>
<td>3.8</td>
<td>2.5</td>
<td>30.4</td>
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<tr>
<td>2009</td>
<td>1.6</td>
<td>2.2</td>
<td>35.0</td>
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</table>

Caribbean area: effects of the financial crisis

- Rescue plan of the Central Bank of Trinidad & Tobago, backed by government to bailout CL Financial
- Decelerated growth/decline in tourism turnover
- Reduced air transportation
- Expansion plans halted and stalled investment in tourism
- Increase in unemployment
- Tighter international controls on the international financial services sector
- Remittances shrinking considerably
Caribbean area: economic outlook

Economic growth and change in unemployment

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP growth rate (%)</th>
<th>Change in unemployment rate (percentage point)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008 *</td>
<td>2009p</td>
</tr>
<tr>
<td></td>
<td>98-08*</td>
<td>03-08*</td>
</tr>
<tr>
<td>World</td>
<td>3.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>4.5</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>-0.1</td>
<td>-0.9</td>
</tr>
<tr>
<td></td>
<td>-0.3</td>
<td>-1.2</td>
</tr>
</tbody>
</table>

*2008 are preliminary estimates; 2009p are projections


Caribbean area: resolutions

- Summits on the financial crisis
- “Policy, technical and financial support to minimize any negative impact” (IMF statement)
- Jamaica cuts taxes
Performance of the domestic economy 2008

Higher inflation, owing mostly to high global energy and food prices

Developments and preliminary estimates:
- During the period Jan. - Oct. 2008, the tourism sector recorded the following:
  - Number of total tourists declined by 4.6%, led solely by cruise tourism, which accounts for 72% of total tourism.
  - Contrary, tourism revenues remained relatively steady at 1.5%, due to stay-over tourism spending, which represents 73% of total tourism spending.
- Preliminary estimates:
  - Weaker private demand, owing largely to the loss in purchasing power, caused by the high inflation.
  - Weaker foreign demand, leading to slower export of services, mainly by tourism industry.

Developments in sales tax receipts

Turnover tax (BBO) St. Maarten (mln Naf)
Outlook on the domestic economy 2009

Deceleration in inflation rate, due to lower commodity prices

Expenditure side:
- Worsening in private demand
- Worsening in foreign demand

Production side:
- Slowdown in the wholesale & retail trade, tourism, and transportation sectors

Impact of financial crisis on domestic economy

- Tightening of credit standards
- Intensifying financial supervision
- Increasing costs in the financial sector
- Weaker economic growth
- Slower pace of inflation
THANK YOU!