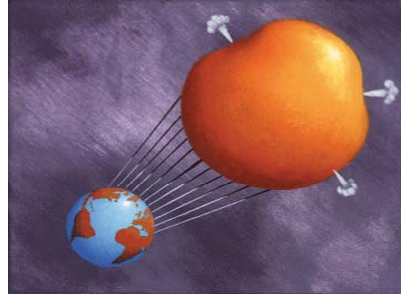


The financial crisis and its impact on St. Maarten's economy



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 sub prime underwriting resulting in asset price bubbles
- Banking organizations experienced:
 - ✓ Significant write downs
 - ✓ Increasing exposures
 - ✓ Management changes
 - ✓ Capital raising

Falling off the property ladder

US house prices*, peak=100

US foreclosures, '000

Sources: Standard & Poor's; RealtyTrac

*S&P/Case-Shiller 20-city index

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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

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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


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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

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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

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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

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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

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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

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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

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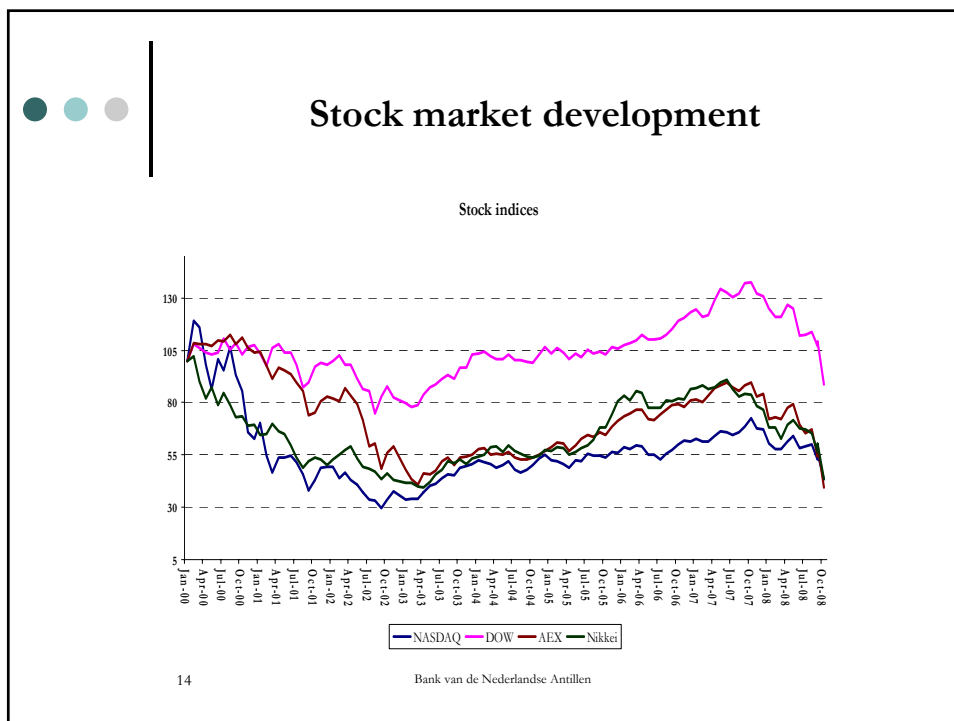
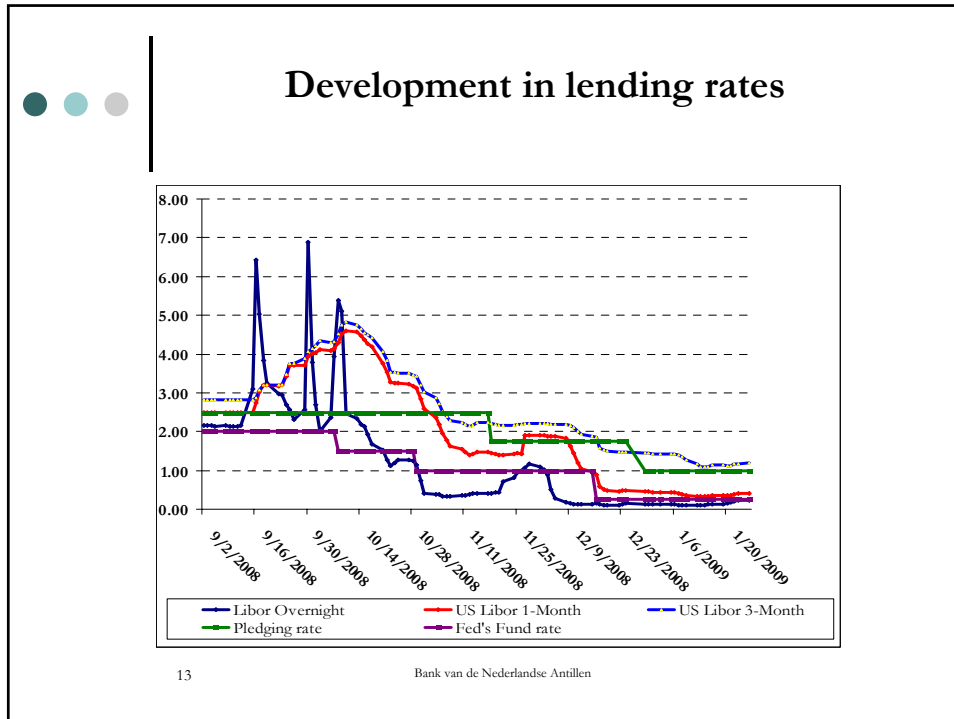


China

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

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Domestic banking sector

- No securitized loans
- Risk averse lending
- No predatory lending
- Sound operation

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Macroprudential indicators of banks in the Netherlands Antilles

Macroprudential indicators (at quarter end in %)

	2007-II	2007-III	2007-IV	2008-I	2008-II	2008-III
Capital adequacy						
Total capital/ total assets	9,3%	9,3%	8,8%	9,8%	10,1%	10,3%
Asset quality						
Non-performing loans/ total loans	2,9%	4,7%	4,6%	4,6%	4,3%	3,5%
Provisions for loan losses/ non-performing loans	106,1%	64,8%	66,8%	66,1%	70,0%	78,9%
Earnings						
Gross-earning-assets yield	7,6%	7,5%	6,9%	7,4%	7,4%	6,9%
Net interest margin	4,8%	4,8%	4,4%	4,8%	4,9%	4,5%
Return-on-assets	1,8%	2,0%	1,8%	2,3%	2,7%	2,5%
Liquidity						
Total loans/ total deposits	71,1%	64,0%	61,4%	63,1%	58,7%	63,9%

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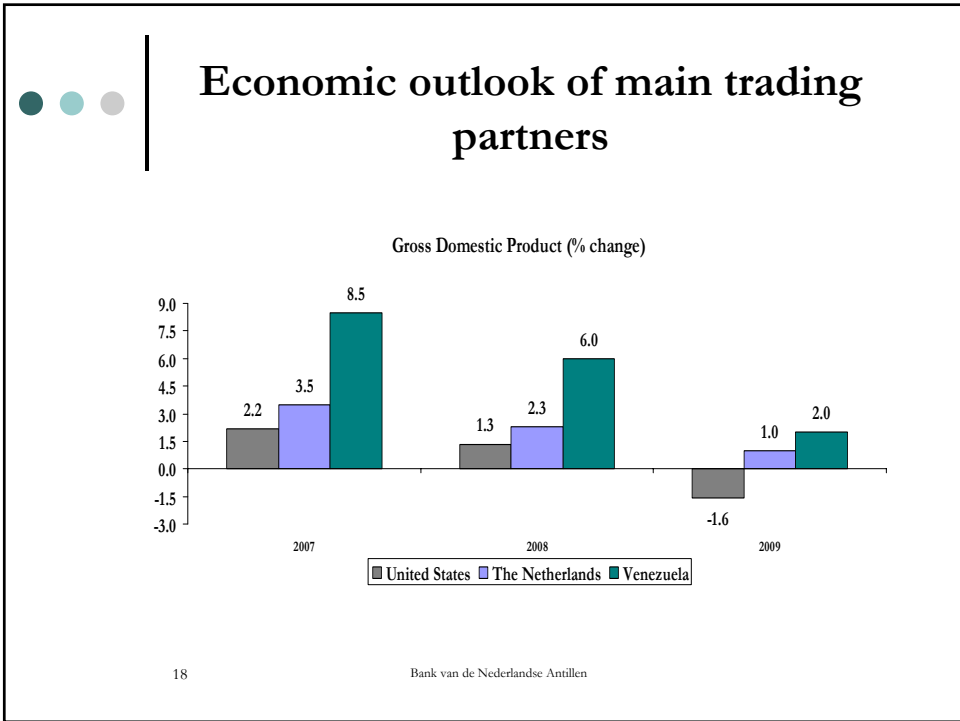


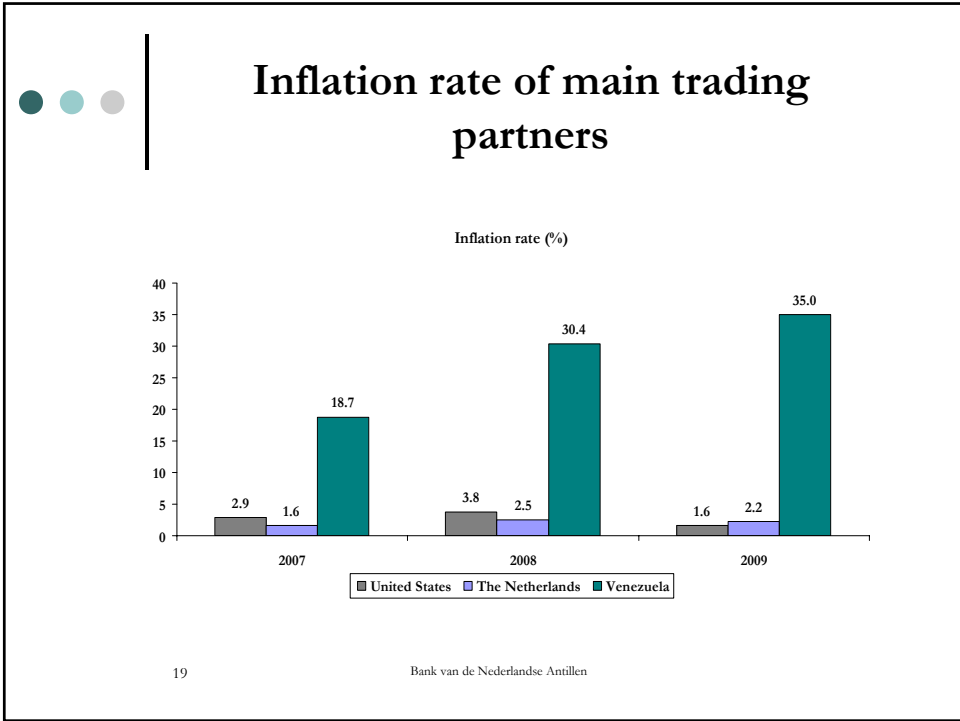
Institutional investors sector

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

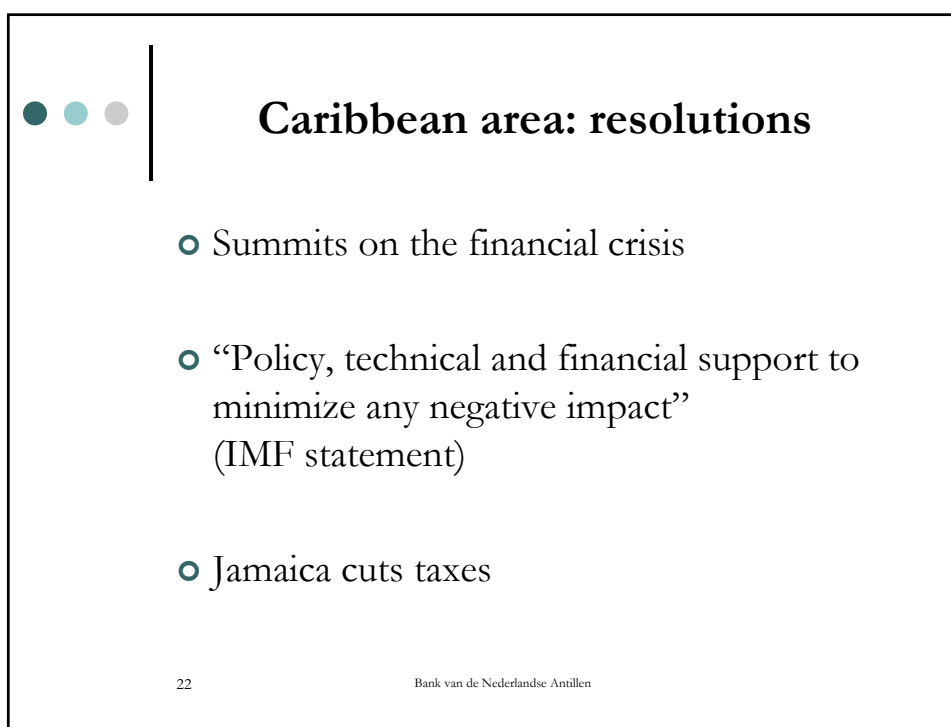
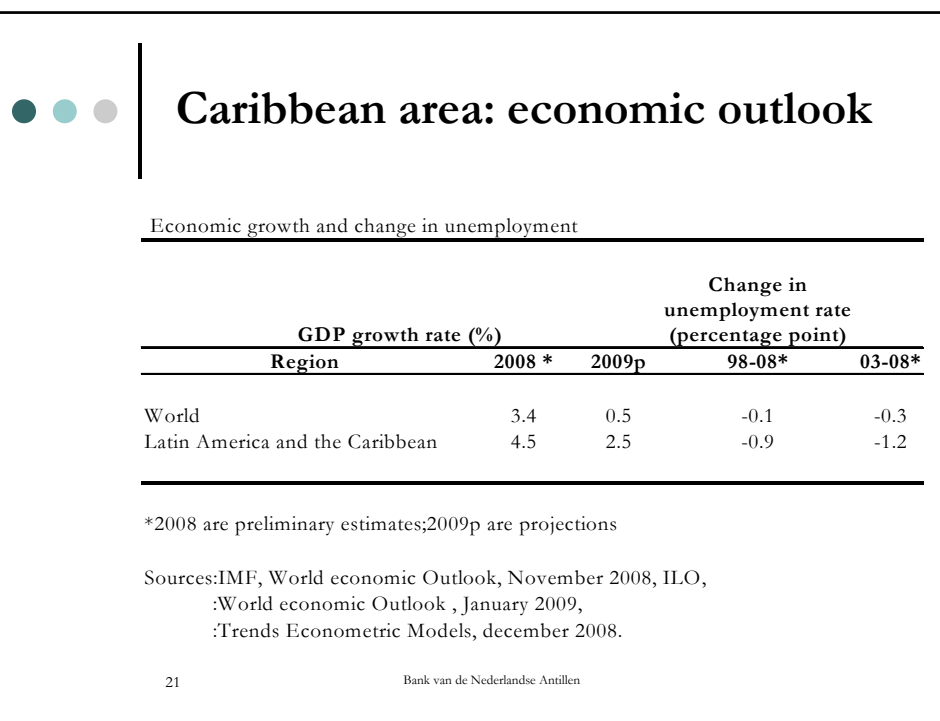
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- ### Caribbean area: effects of the financial crisis
- Rescue plan of the Central Bank of Trinidad & Tobago, backed by government to bailout CL Financial
 - Decelerated growth/decline in tourism turnover
 - Reduced air transportation
 - Expansion plans halted and stalled investment in tourism
 - Increase in unemployment
 - Tighter international controls on the international financial services sector
 - Remittances shrinking considerably
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Performance of the domestic economy 2008

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

Developments and preliminary estimates:

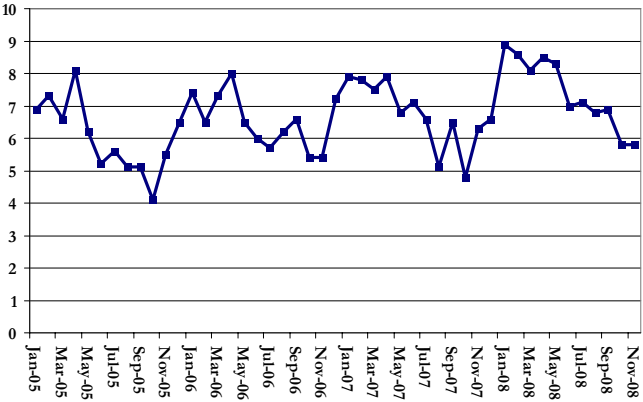
- During the period Jan. - Oct. 2008, the tourism sector recorded the following:
 - ✓ Number of total tourists declined by 4.6%, led solely by cruise tourism, which accounts for 72% of total tourism.
 - ✓ Contrary, tourism revenues remained relatively steady at 1.5%, due to stay-over tourism spending, 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

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Developments in sales tax receipts

Turnover tax (BBO) St. Maarten (mln Naf)



Month	Turnover tax (mln Naf)
Jan-05	7.0
Feb-05	7.5
Mar-05	7.0
Apr-05	8.0
May-05	6.5
Jun-05	5.5
Jul-05	5.5
Aug-05	5.0
Sep-05	5.0
Oct-05	4.0
Nov-05	5.5
Dec-05	6.5
Jan-06	7.5
Feb-06	6.5
Mar-06	7.5
Apr-06	8.0
May-06	6.5
Jun-06	6.0
Jul-06	6.0
Aug-06	6.5
Sep-06	6.5
Oct-06	5.5
Nov-06	5.5
Dec-06	7.5
Jan-07	8.0
Feb-07	8.0
Mar-07	7.5
Apr-07	8.0
May-07	7.0
Jun-07	7.0
Jul-07	6.5
Aug-07	5.0
Sep-07	6.5
Oct-07	4.8
Nov-07	6.5
Dec-07	6.5
Jan-08	8.8
Feb-08	8.5
Mar-08	8.0
Apr-08	8.5
May-08	8.5
Jun-08	7.0
Jul-08	7.0
Aug-08	7.0
Sep-08	6.5
Oct-08	6.0
Nov-08	6.0

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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

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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

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THANK YOU !

