The Curaçao economy: Recent economic developments and prospects for 2011

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Outline presentation

- International economic environment
- Curaçao economy
  - Developments in 2010
  - Prospects for 2011
  - Opportunities and threats
Real GDP growth (%) in selected countries / areas

<table>
<thead>
<tr>
<th>Country</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.8</td>
<td>-0.6</td>
<td>4.8</td>
<td>4.2</td>
</tr>
<tr>
<td>Advanced economies</td>
<td>0.2</td>
<td>-3.2</td>
<td>2.7</td>
<td>2.2</td>
</tr>
<tr>
<td>USA</td>
<td>0.0</td>
<td>-2.6</td>
<td>2.6</td>
<td>2.3</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.5</td>
<td>-4.1</td>
<td>1.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.9</td>
<td>-3.9</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Emerging &amp; developing economies</td>
<td>6.0</td>
<td>2.5</td>
<td>7.1</td>
<td>6.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>5.1</td>
<td>-0.2</td>
<td>7.5</td>
<td>4.1</td>
</tr>
<tr>
<td>Venezuela</td>
<td>4.8</td>
<td>-3.3</td>
<td>-1.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Colombia</td>
<td>2.7</td>
<td>0.8</td>
<td>4.7</td>
<td>4.6</td>
</tr>
</tbody>
</table>
Economic environment USA

- Economic activity increasing at moderate rate
- Unemployment rate at elevated level
- Consumer spending picking up
- Continuing business spending in equipment and software
- Exports are rising
Economic environment USA (2)

- Longer-run inflation is expected to remain stable
- Core inflation is trending lower
- Labor demand is rising
- Inventory investments rose sharply in Q3 2010
- Interest rates: intermediate and longer maturities rose substantially in Q3
- Credit spreads remained roughly unchanged
US: Rates long term treasury paper

Yield curve rates (long-end)
Outlook Euro area

- Sovereign debt situation (1. Greece, 2. Ireland, Portugal and Spain too?)
- Crisis resolutions mainly through government involvement (2008 and 2009).
- Tighter fiscal policies and spending restraint (2010 and 2011).
- Bank funding needs (2010 and 2011)
Outlook emerging markets

- Continuing robust growth driven by strong domestic demand and investments:
  - Brazil
- Demographic: 35 million new middle class
- Jobless rate: 6.7% (September 2010)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>5.9%</td>
<td>5.3%</td>
<td>4.5%</td>
</tr>
<tr>
<td>GDP</td>
<td>7.7%</td>
<td>4.5%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>
Curaçao economy: estimated economic indicators 2010

- A subdued growth of 0.4% in 2010, owing largely to gains in the financial services and the public sector.
- Higher inflation of 2.7%, led mainly by higher petrol and utility prices.
- Unemployment rate is somewhat higher at 9.9%, as the labor market adjusts with a lagged effect.
Economic developments
(Annual % change)

Real GDP
Inflation

<table>
<thead>
<tr>
<th>Year</th>
<th>Real GDP (%)</th>
<th>Inflation (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2007</td>
<td>3.0</td>
<td>2.0</td>
</tr>
<tr>
<td>2008</td>
<td>7.0</td>
<td>1.0</td>
</tr>
<tr>
<td>2009</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>2010</td>
<td>2.7</td>
<td>0.4</td>
</tr>
</tbody>
</table>
Curaçao economy: sectoral developments in 2010

In the first half of 2010:

- Improvement in the financial services sector, as net income of the domestic commercial banks expanded;
- Further growth in the public sector, due to more outlays on wages & salaries;
- Declines in the manufacturing, wholesale & retail trade, tourism, construction, and transport, storage & communication sectors.
Development of stay-over tourism

Number of tourists

Jan Feb Mar Apr May June July Aug Sept Oct Nov Dec

2008 2009 2010
Container movements

The chart depicts container movements over the years 2008 to 2010. The movements are measured in thousands of containers.

- **2008**: Blue line
- **2009**: Red line
- **2010**: Green line

The chart shows fluctuations in container movements across the months from January to December for each year.
Development int’l crude oil price vs Curaçao gasoline price

- Red line: Crude oil price
- Black line: Curacao gasoline (Mogas 95) price

Chart shows the comparison of international crude oil prices and Curacao gasoline (Mogas 95) prices from 2002q1 to 2010q1.
Developments in public finance

- Debt relief program: NAF.3.434 billion was taken over by the Netherlands.
- Claim of the Netherlands on Curaçao (NAF.1.684 billion) to offset excess amount taken over on October 10, 2010.
- New country of Curaçao issued bonds (NAF.1.667 billion) on October 15, 2010 to pay off its liability to the Netherlands.
Development debt-to-GDP ratio

Debt-to-GDP ratio of the Netherlands Antilles

Projection

*=estimate
Development general government budget balance and interest payments (in millions NAf.)

General government budget balance
Interest payments

* = estimate
Total outstanding government securities
(in millions NAf.)

- Island government of Curaçao
- Central government
- Country of Curaçao
- Taken over by NL
- Country of Sint Maarten
Maturity schedule of the country of Curaçao
(in millions NAF.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Local ownership</th>
<th>NL ownership</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>18.0</td>
<td>82.0</td>
<td>100.0</td>
</tr>
<tr>
<td>2025</td>
<td>0.3</td>
<td>139.7</td>
<td>140.0</td>
</tr>
<tr>
<td>2030</td>
<td>0</td>
<td>370.0</td>
<td>370.0</td>
</tr>
<tr>
<td>2035</td>
<td>0.1</td>
<td>474.9</td>
<td>475.0</td>
</tr>
<tr>
<td>2040</td>
<td>0</td>
<td>582.4</td>
<td>582.4</td>
</tr>
<tr>
<td>Total</td>
<td>18.4</td>
<td>1,649.0</td>
<td>1,667.4</td>
</tr>
</tbody>
</table>
Development balance of payments

- Current account worsened in 2010 compared to 2009:
  - Increased imports of goods and services
    - Higher international oil prices
    - Increased domestic demand & higher tourism spending
  - Decline in exports of goods and services
    - Lower re-exports by the free zone
    - Decline in refining fee
    - Drop of foreign exchange revenues from the international financial services
  - Net current transfers declined due to lower debt relief grants received compared to 2009
Development balance of payments

- Current account deficit was largely financed by external financing
  - Increased net direct investments
  - Increased loans and credits received from abroad
  - In contrast, net portfolio investment abroad rose

- Strong capital inflow resulted in balance of payments surplus, albeit lower than in 2009.
## Balance of payments

(transaction basis, NAF mln)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current account</strong></td>
<td>-465.2</td>
<td>-1,063.0</td>
<td>-1,560.9</td>
<td>-669.2</td>
<td>-1,080.7</td>
</tr>
<tr>
<td><strong>Capital account</strong></td>
<td>179.6</td>
<td>219.0</td>
<td>244.8</td>
<td>200.6</td>
<td>90.7</td>
</tr>
<tr>
<td><strong>External financing</strong></td>
<td>315.0</td>
<td>976.3</td>
<td>1,579.8</td>
<td>866.1</td>
<td>970.5</td>
</tr>
<tr>
<td><em>Direct investments</em></td>
<td>140.5</td>
<td>-425.1</td>
<td>449.0</td>
<td>196.4</td>
<td>198.5</td>
</tr>
<tr>
<td><em>Loans and credits</em></td>
<td>353.9</td>
<td>700.5</td>
<td>1,257.4</td>
<td>858.4</td>
<td>987.6</td>
</tr>
<tr>
<td><em>Portfolio investments</em></td>
<td>101.6</td>
<td>149.3</td>
<td>126.6</td>
<td>188.7</td>
<td>-215.6</td>
</tr>
<tr>
<td>Change in reserves</td>
<td>-84.1</td>
<td>-277.5</td>
<td>-371.6</td>
<td>-539.0</td>
<td>-116.3</td>
</tr>
</tbody>
</table>

*Projection CBCS
Domestic interest rates
(commercial bank lending rates)

Mortgages
Time loans
Domestic interest rates
(borrowing rates)

Passbook savings  Time Deposits (12 months)
Outlook 2011

- Real GDP growth expected to remain anemic at 0.6% in 2011, due to uncertainty about the strength of the recovery of advanced economies.
- Rising inflation of 4.8%, fueled largely by higher domestic energy prices.
- Slow economic growth will translate into higher unemployment rate of 10.5%.
- Curaçao is projected to run a NAf.50 million budget surplus.
Outlook 2011
(continued)

- Net exports of goods and services will decline as increase in imports will offset export growth.
- Balance of payments will record a surplus, albeit lower than in 2010.
Opportunities

- New country of Curaçao offers more business opportunities with less bureaucratic red tape.
- With proposed lower profit tax rate, more attractive to investors.
- Expand business ventures with the BES islands.
Since Curaçao has now achieved a sustainable level of public debt (about 34% of its GDP), the prospects for long-term stable economic growth in general, and investments in infrastructure and socio-economic projects in particular, are much improved.

Lower interest costs as result of the standing subscription of the Dutch State, at rates equal to those valid for similar public debt issues in the Netherlands.

The compulsory balanced budget rule and the interest burden rule are in place, aimed at avoiding the unrestraint build up of public debt in the future.
Opportunities (continued)

- Fund to improve infrastructure
  - Physical infrastructure
    - Improvement road drainage
    - Rebuilding of damaged roads
  - Educational infrastructure
    - Improving educational and training opportunities

- Phased implementation in coming (5) years
Threats

- Sint Maarten has been struggling to draft a balanced budget for 2011. This could have negative effects for the stability of the monetary union between Curaçao and Sint Maarten.
- Coordination of economic policies in the two countries could be trickier than expected.
- Fiscal policy credibility: no track record, will the government commit to balanced budget.
- New governmental organization still not in place.
Threats
(continued)

- Uncertainty with regards to:
  - Implementation of tax reform
  - Policies to strengthen economic growth, to attract outside investors
  - Competitive position taking into account what Aruba, Bonaire, Sint Maarten are doing to improve their investment climate
  - Health care, will the AZV lead to higher costs for the government?
  - The currency system: the Caribbean guilder or the US$?