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**The Curaçao economy:  
Recent economic developments  
and prospects for 2011**

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ADECK luncheon  
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# Outline presentation

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

	2008	2009	2010	2011
World	2.8	-0.6	4.8	4.2
Advanced economies	0.2	-3.2	2.7	2.2
USA	0.0	-2.6	2.6	2.3
Euro area	0.5	-4.1	1.7	1.5
Netherlands	1.9	-3.9	1.8	1.7
Emerging & developing economies	6.0	2.5	7.1	6.4
Brazil	5.1	-0.2	7.5	4.1
Venezuela	4.8	-3.3	-1.3	0.5
Colombia	2.7	0.8	4.7	4.6

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# 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
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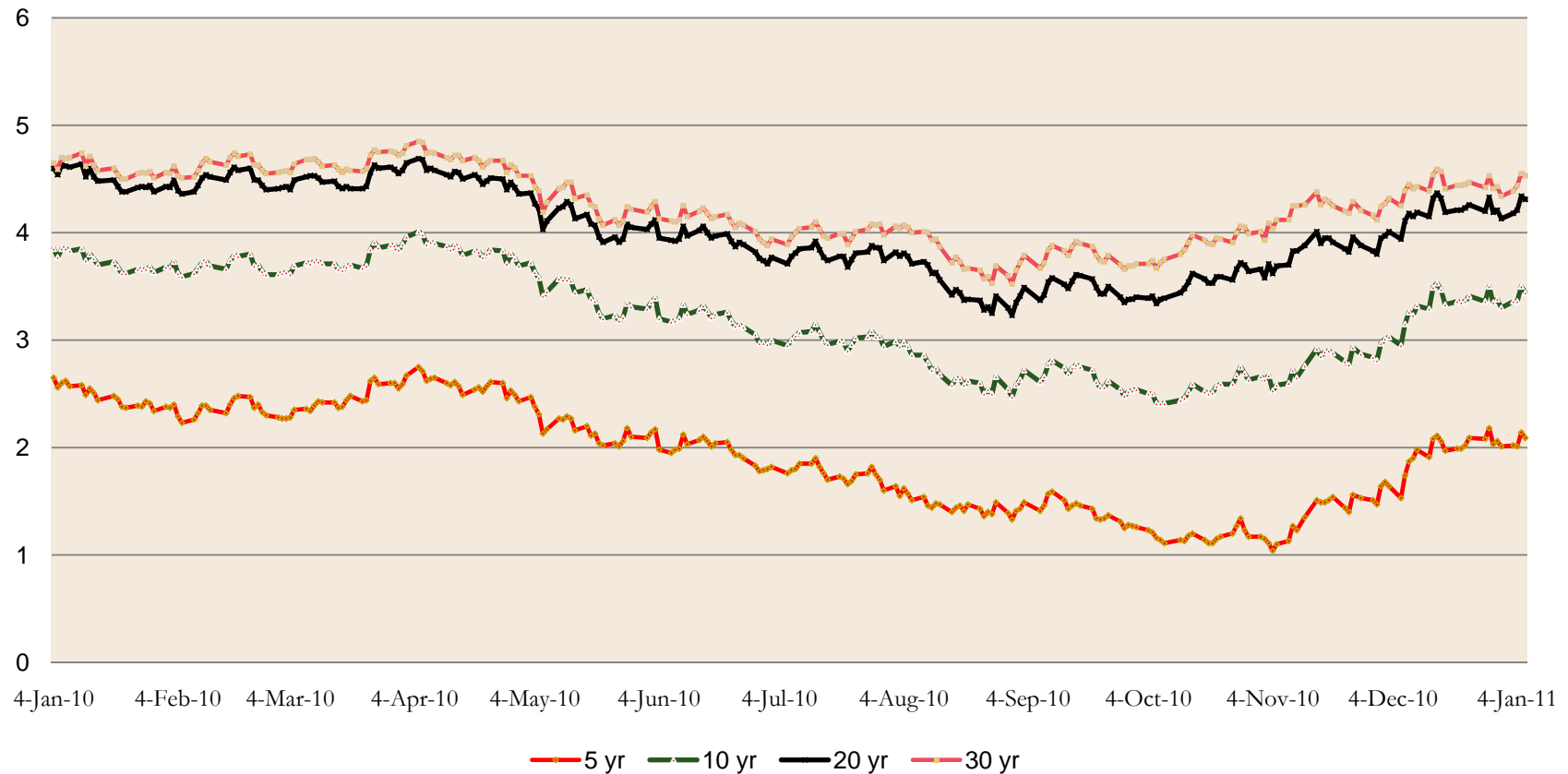
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## Economic environment USA (2)

- 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
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# US: Rates long term treasury paper

Yield curve rates (long-end)



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# 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)
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# 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)

	<b>2010</b>	<b>2011</b>	<b>2012</b>
■ Inflation	5.9%	5.3%	4.5%
■ GDP	7.7%	4.5%	4.5%

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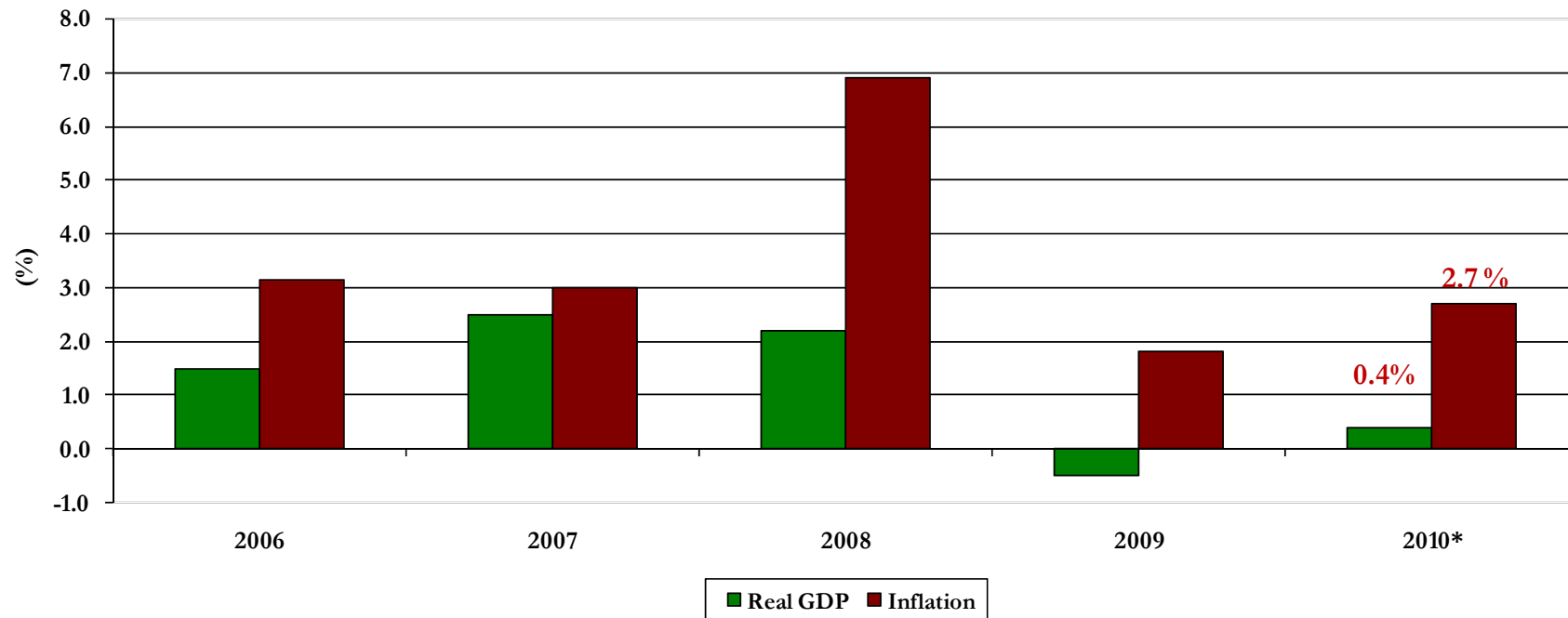


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## Curaçao economy: estimated economic indicators 2010

- 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.
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# Economic developments (Annual % change)



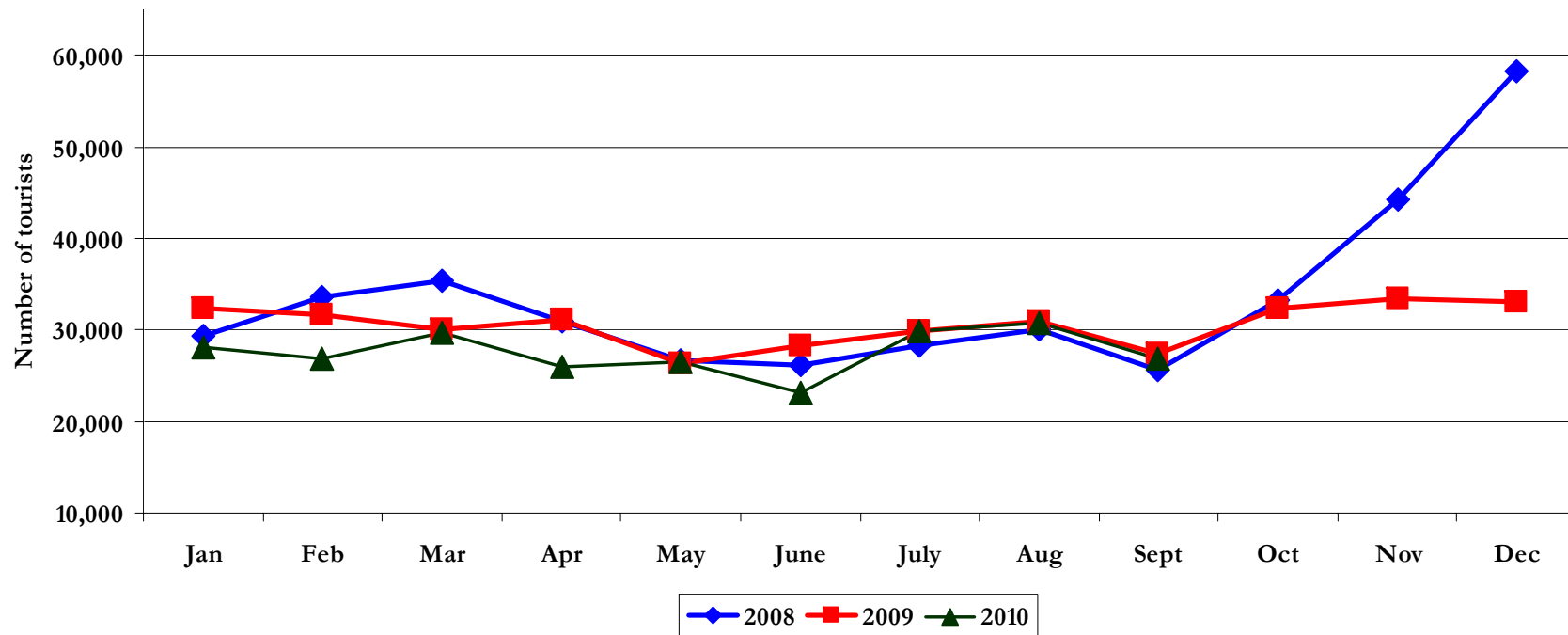
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# Curaçao economy: sectoral developments in 2010

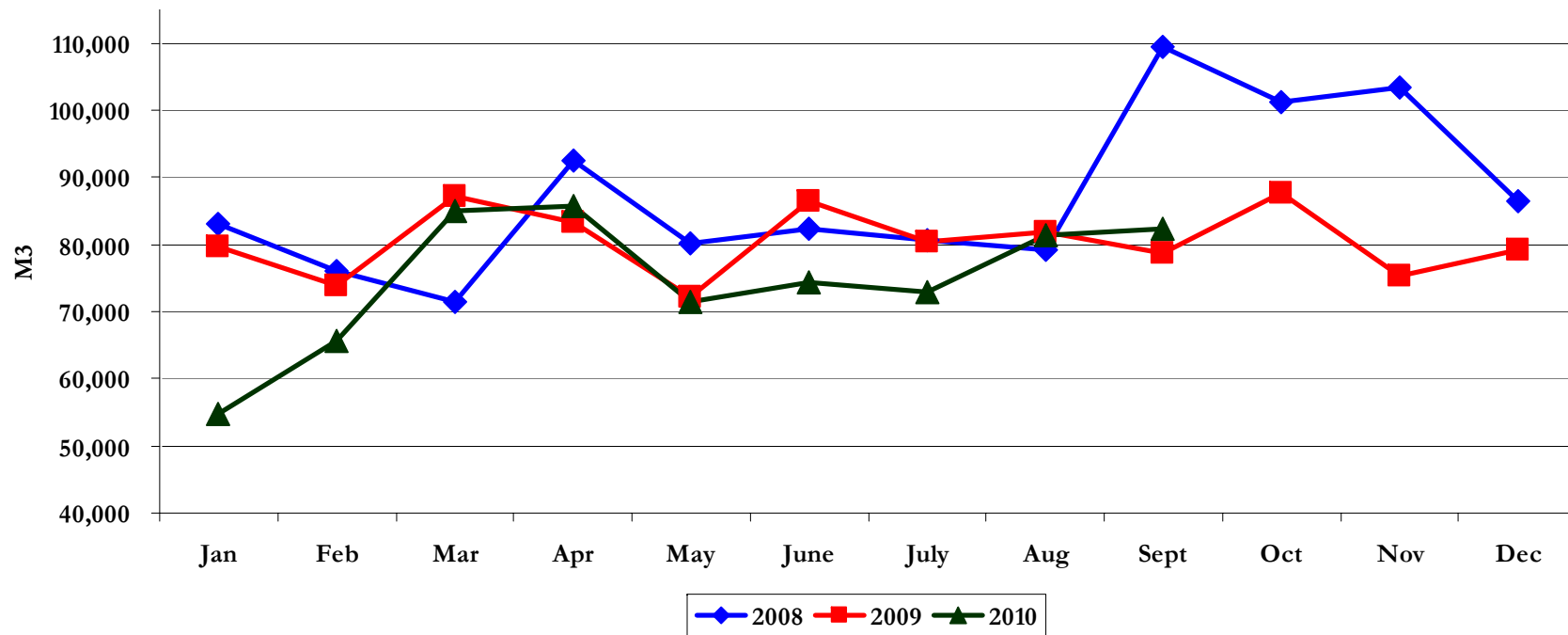
In the first half of 2010:

- ✓ 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.
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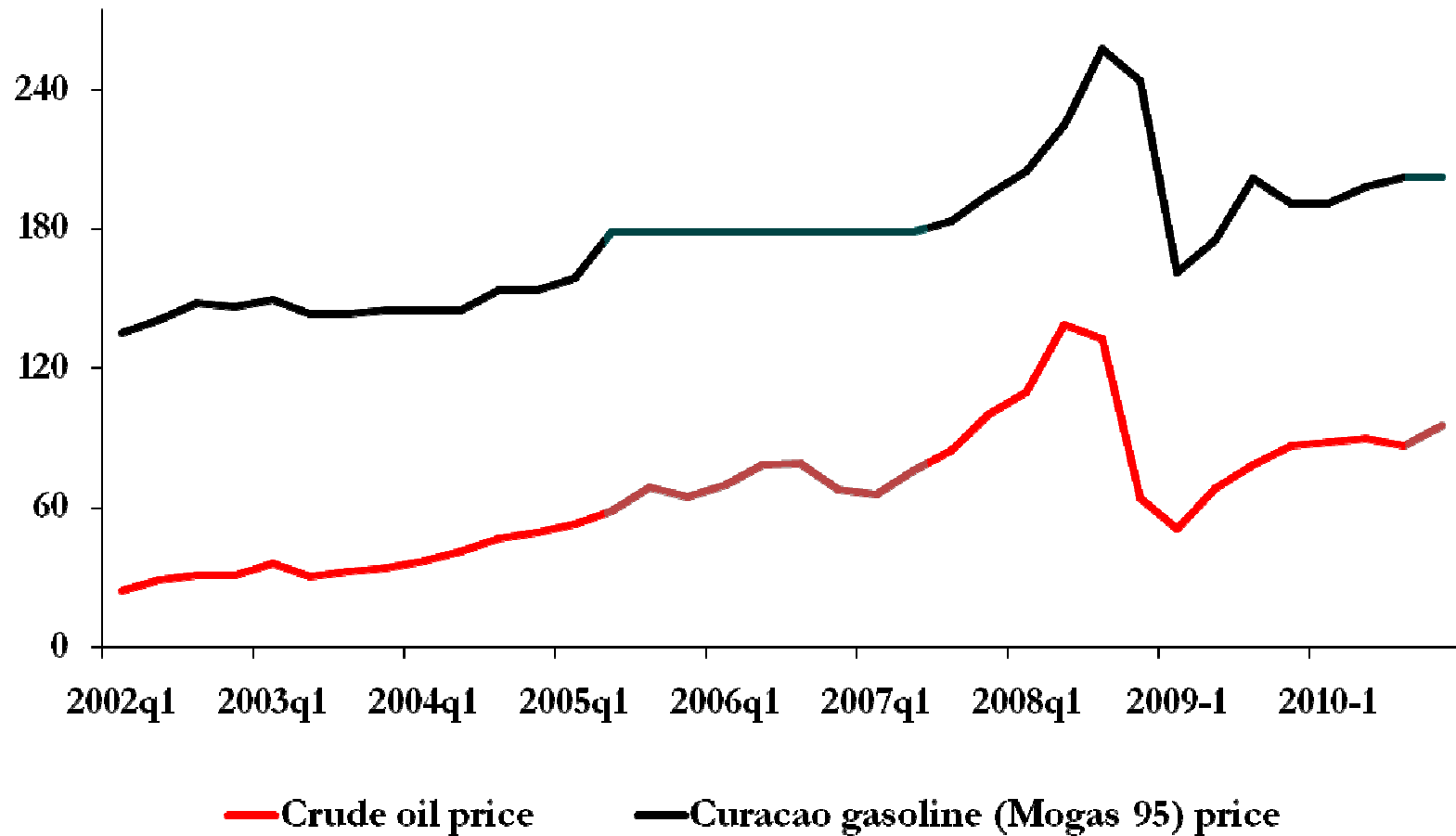
# Development of stay-over tourism



# Container movements



# Development int'l crude oil price vs Curaçao gasoline price

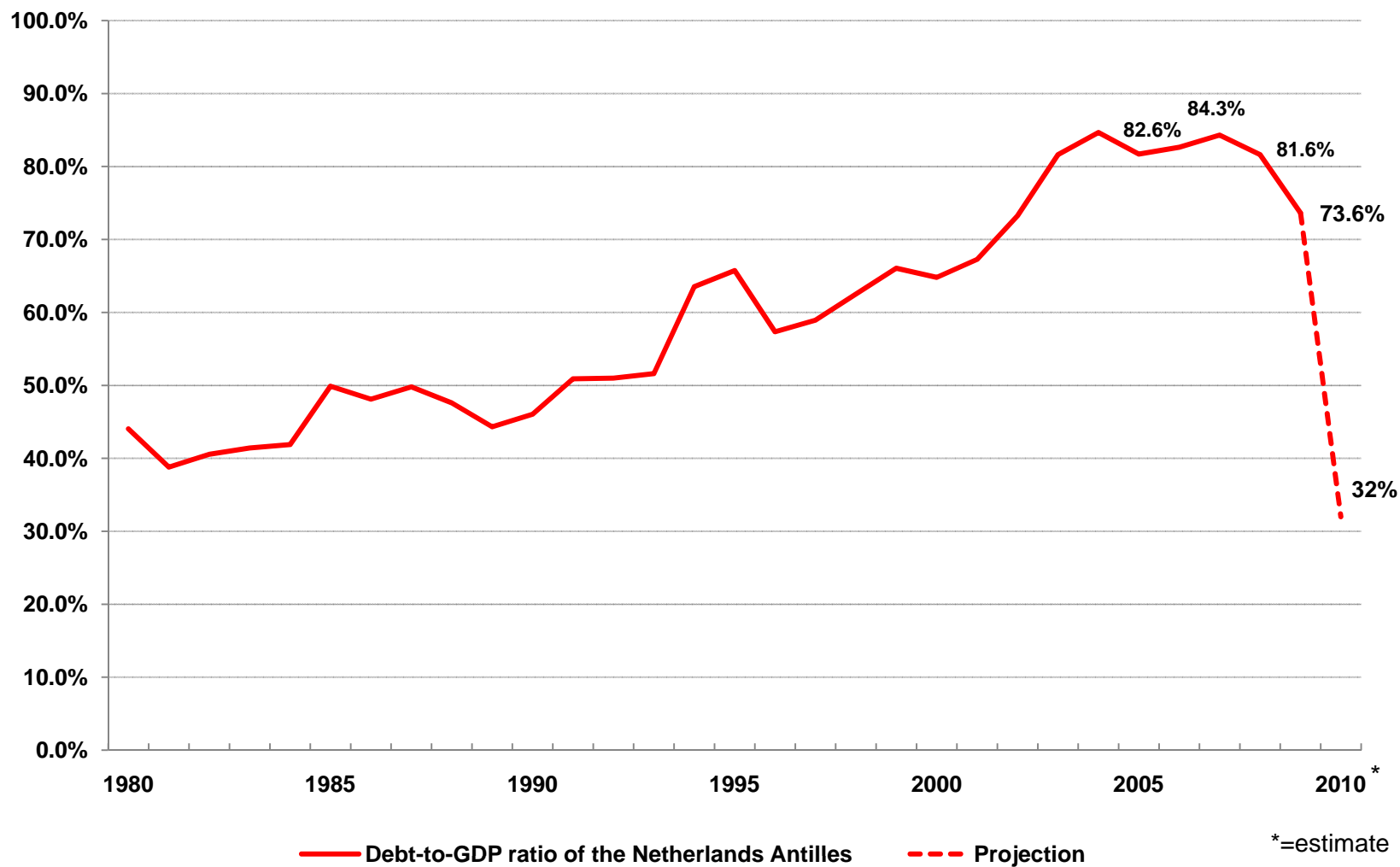


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# Developments in public finance

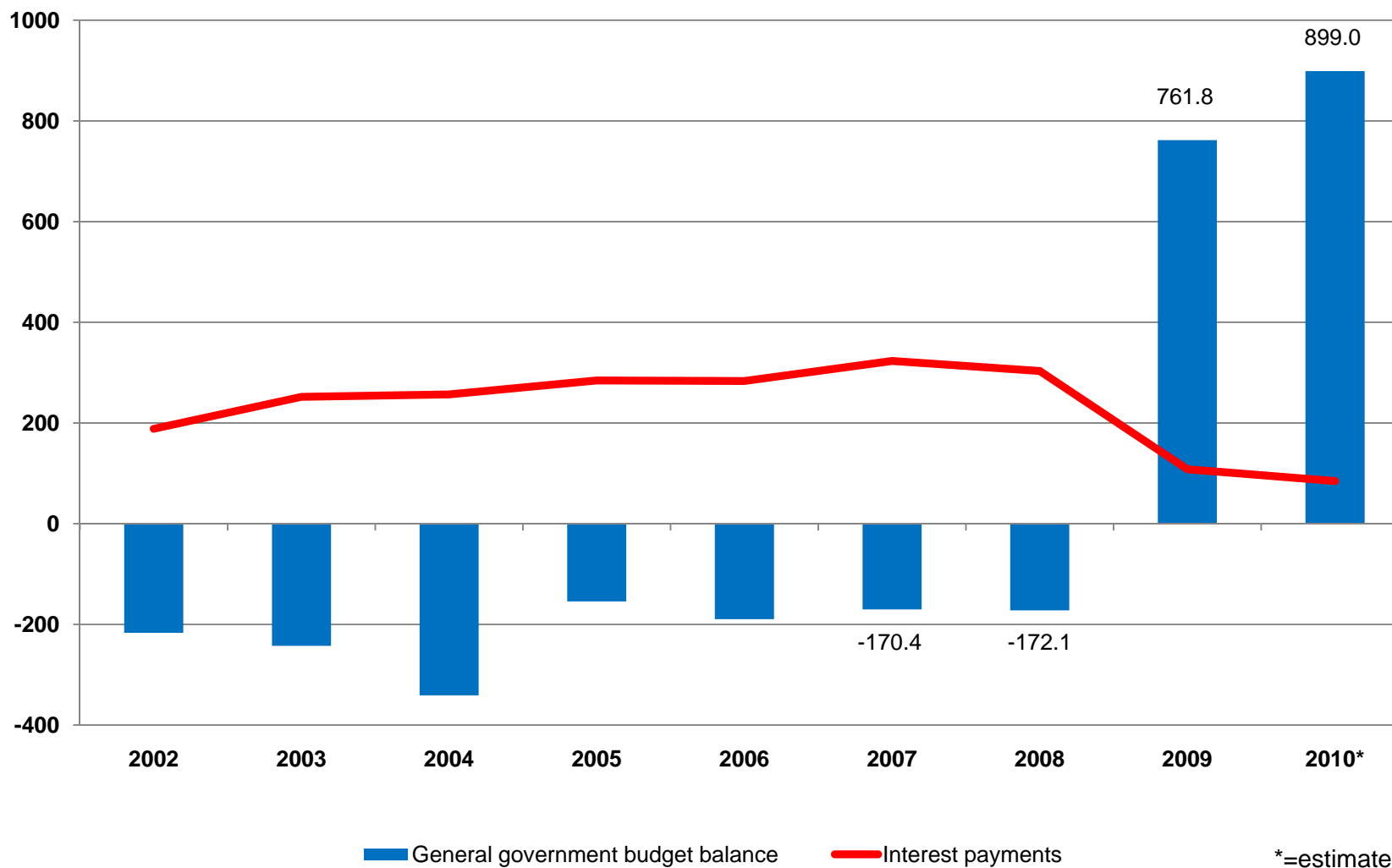
- Debt relief program: NAf.3.434 billion was taken over by the Netherlands.
  - Claim of the Netherlands on Curaçao (NAf.1.684 billion) to offset excess amount taken over on October 10, 2010.
  - New country of Curaçao issued bonds (NAf.1.667 billion) on October 15, 2010 to pay off its liability to the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



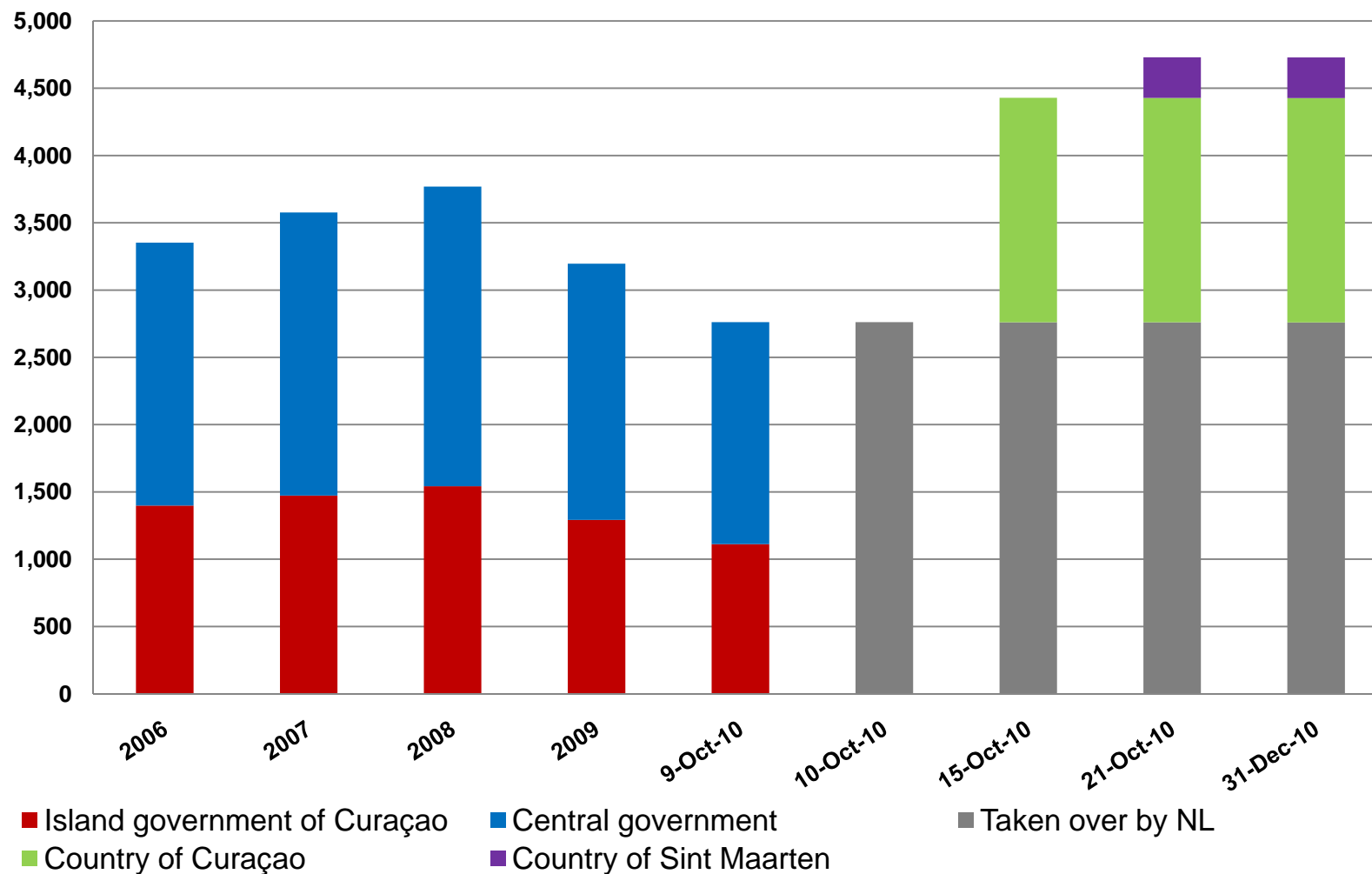


## Development general government budget balance and interest payments (in millions NAf.)



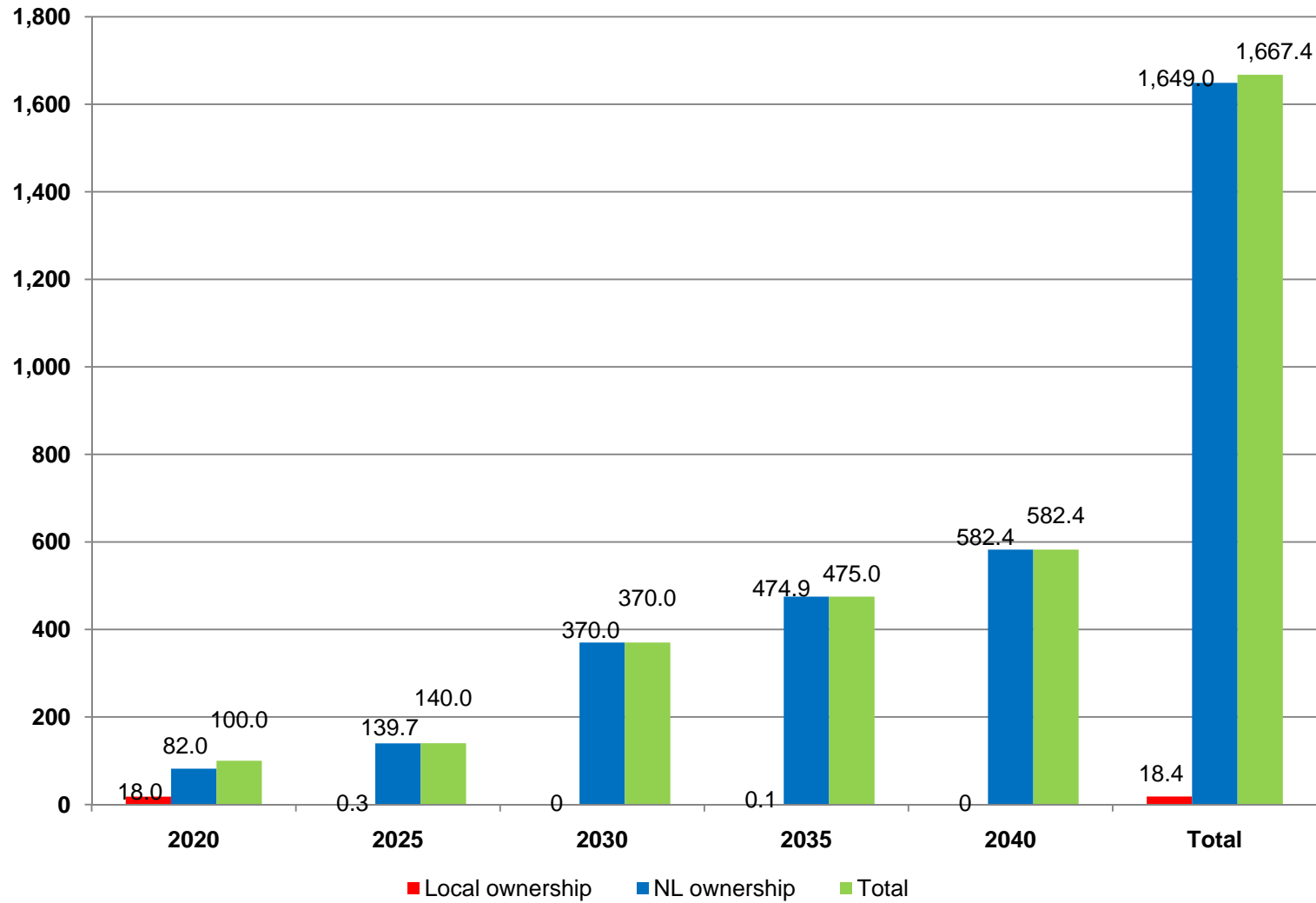
# Total outstanding government securities

(in millions NAf.)



# Maturity schedule of the country of Curaçao

(in millions NAf.)



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# 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
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# 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.
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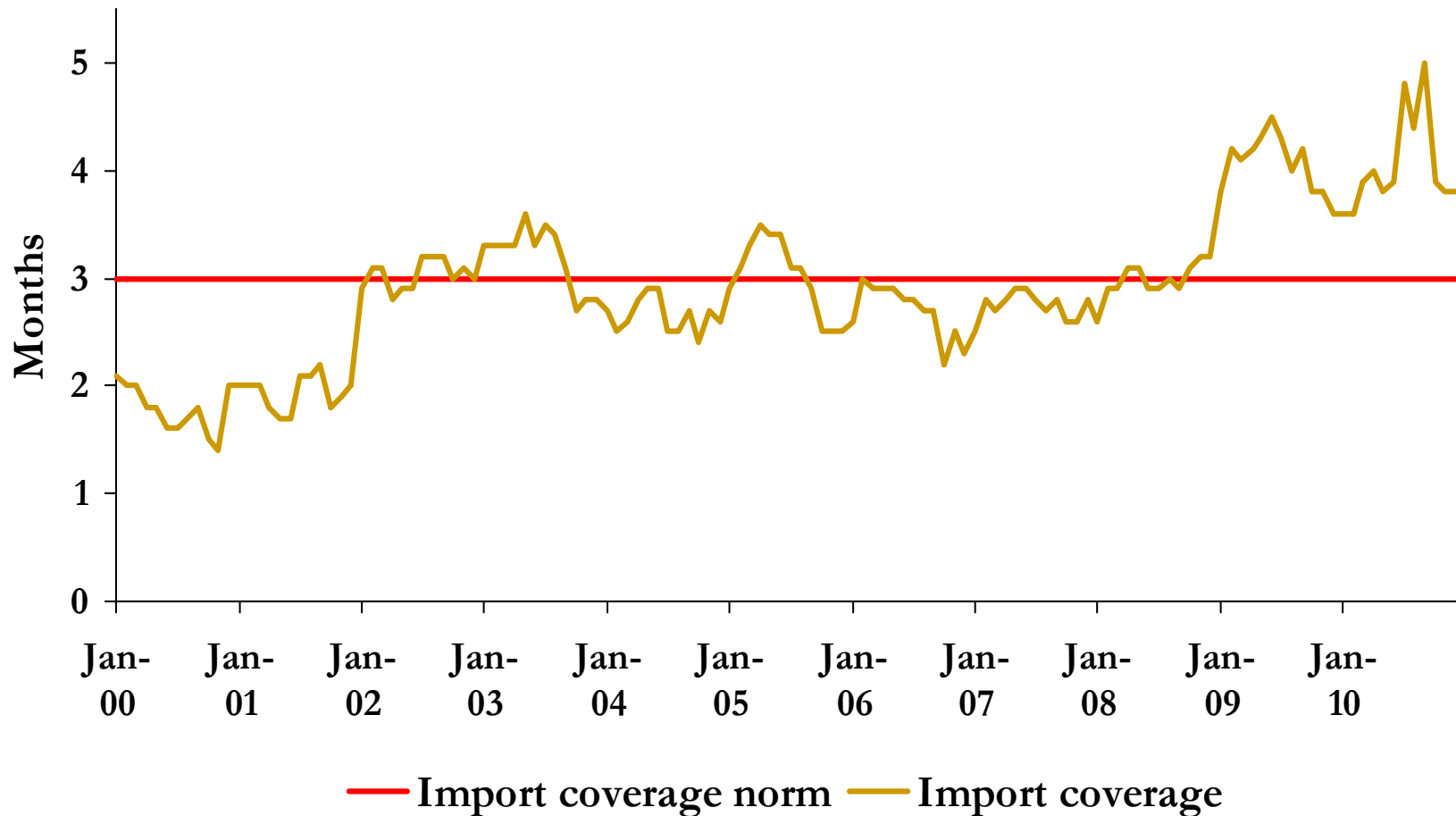
# Balance of payments

(transaction basis, NAf mln)

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

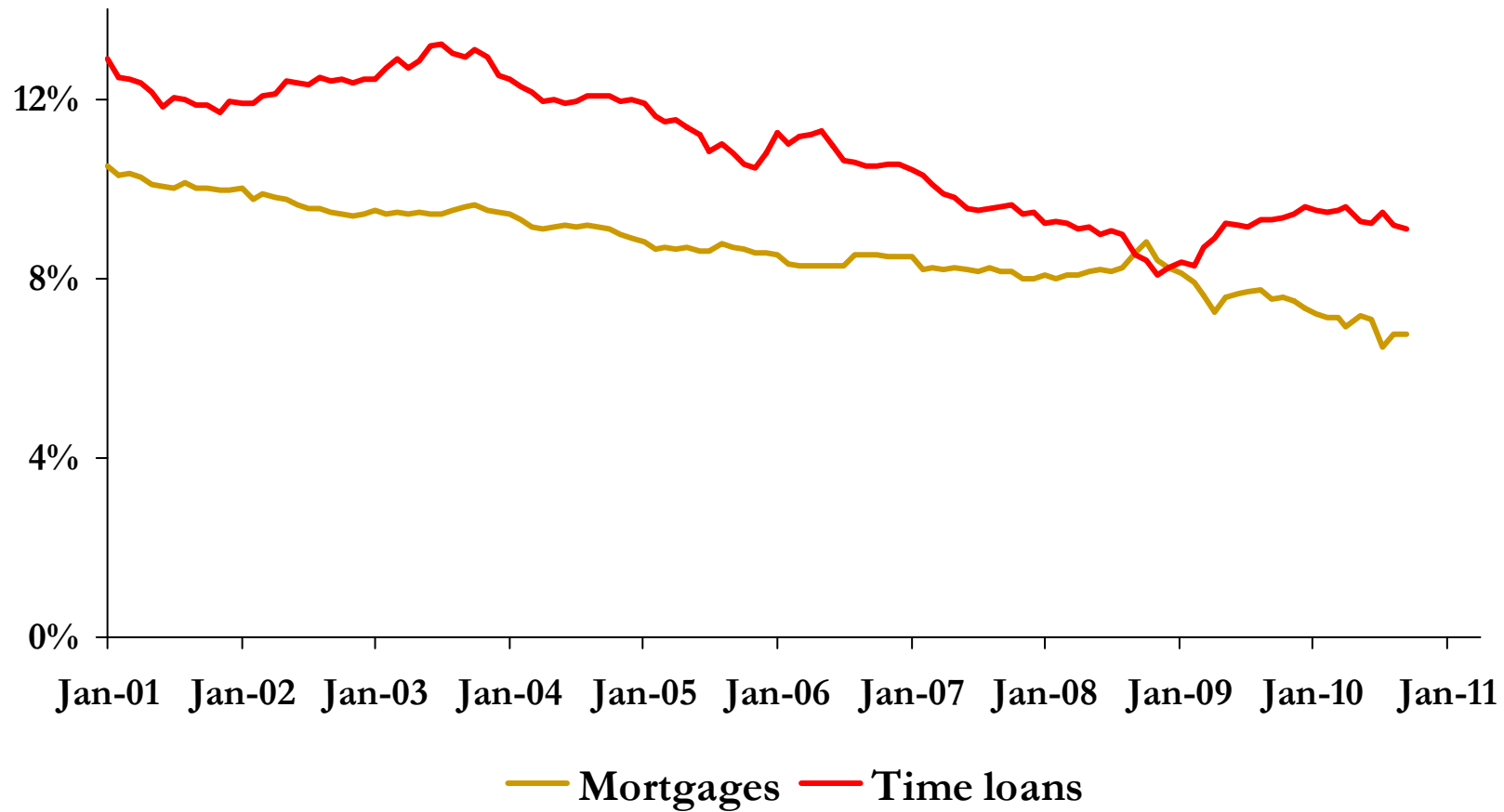
\*Projection CBCS

# Monthly import coverage



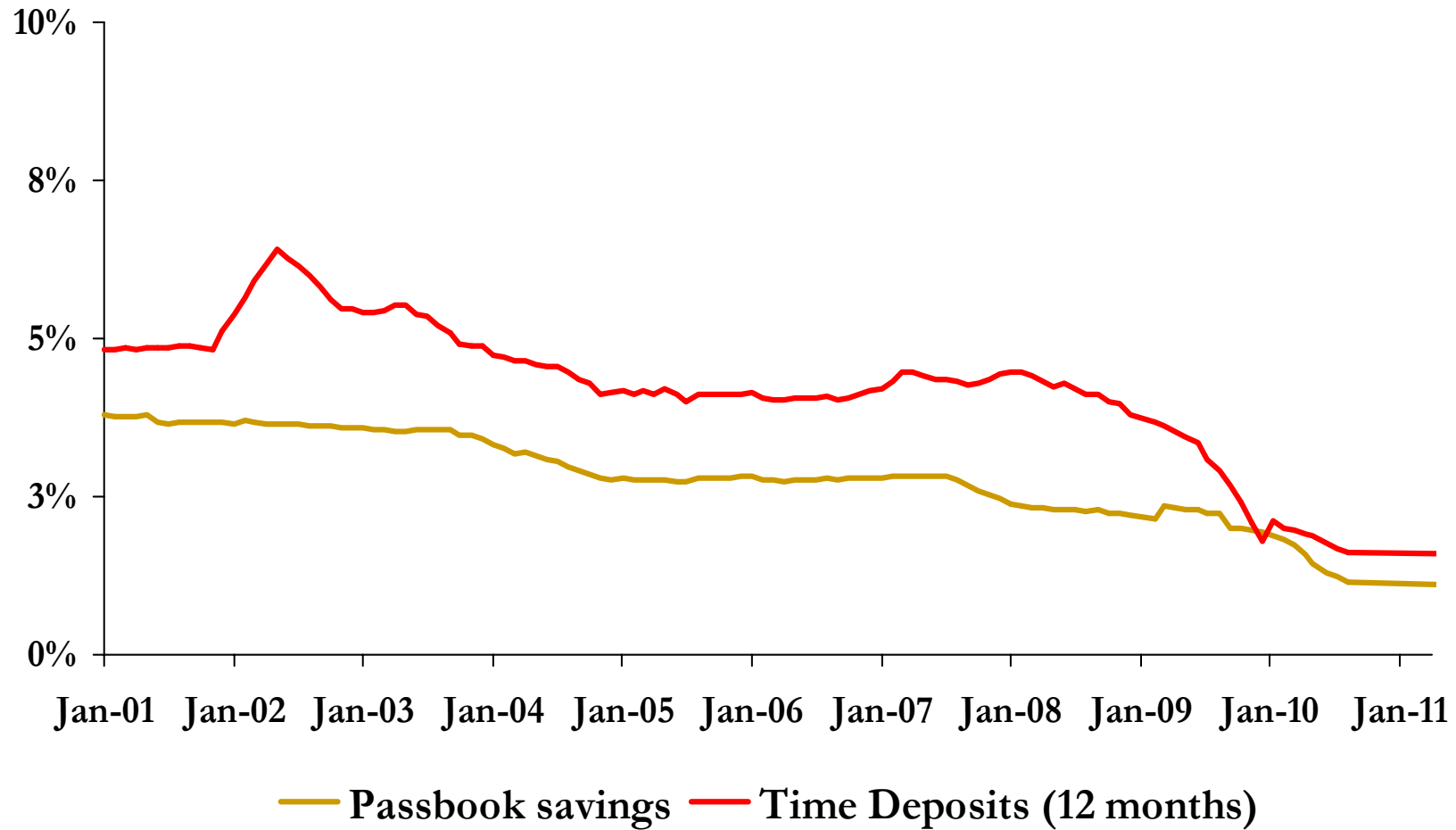
# Domestic interest rates

(commercial bank lending rates)





# Domestic interest rates (borrowing rates)



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# 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.
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# 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.
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# 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.
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# Opportunities

## (continued)

- 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.
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# 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
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# 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.
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# 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\$?
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