



CURAÇAO ECONOMIC OUTLOOK

Towards a Sustainable and Inclusive
Development Approach in 2023 and
Onward

Willemstad, January, 2023

**BLANCRUX**
COGNAC



PREFACE



Minister Ruisandro Cijntje
Minister of Economic
Development

Dear Citizens,

I am honored to announce that the Ministry of Economic Development (MEO) is returning with a new edition of the Economic Outlook. The purpose of this new edition is to provide the reader with up-to-date information that is relevant to society, both on the global and local macro-economic level, complemented by a specific outline of developments at the sectoral level and an outlook to what the future will bring for Curaçao.

Chapter one presents the international context, followed by global developments such as trade, risks and inflation, completed by a regional overview. The second chapter zooms into the local context, with specific interest for labor productivity as well as risks, sustainability and incentives.

The subchapter on “reforms, finance & policy” not only refers to the reform agenda and the budgetary and financial challenges, but also covers the essence of the National Export Strategy (NES), bringing forward six priority sectors that should become catalysts for local development and international investors. While the first two chapters deal with an overview of the socioeconomic situation up till 2022, chapter three looks ahead to the near future in 2023.

During my term as your Minister of Economic Development, my focus will be on the development of our tourism sector, stimulating and initiating industrial activities, and attracting foreign investors. The NES has outlined some objectives that are perfectly complementary to these focus areas. In addition, together with my ministry, some necessary measures are being taken to accelerate the energy transition process, next to the setup of a guarantee fund, aimed at further economic recovery and sustainable development of Curaçao in the short and long term.

The current context shows me that there is no shortage of challenges on this beautiful island. Therefore, it is my hope that this Economic Outlook will be read and can be marked as a quick and useful reference work for practical applications.

“*Nos mester kere, nos mester traha i nos tin ku siña koperá,
ya asina mañan nos tur ta mihó prepará!*”

*We must believe, we must work and should learn to cooperate
in order to be better prepared for tomorrow!*

The Economic Outlook is a yearly publication by the Ministry of Economic Development (MEO) appearing in December. The Economic Outlook is prepared by MEO staff and has benefited from comments and suggestions by external experts. The views expressed in this publication are those of both the MEO staff and external experts.

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INTRODUCTION

In the aftermath of 2020 and 2021, the world is experiencing an eventful year in 2022. Environmental, economic, social, geopolitical and technological risks are shaping the landscape. Curaçao is no stranger to these developments.

On the environmental side, there was the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27), held in Sharm el-Sheikh, Egypt, in November. Developing countries experienced a breakthrough in their endeavor to get financial assistance for loss and damage to rescue and rebuild the physical and social infrastructure because of extreme weather events. After more than three decades of lobbying efforts, the summit agreed on the setup of a fund.¹ With respect to the 1.5°C temperature limit, the summit did not deliver. Countries failed to strengthen their efforts on cutting greenhouse emissions in order to stay within the 1.5°C limit. Although the final text did contain a provision to boost “low emissions energy,” gas, fossil fuels and nuclear energy will continue dominating the global energy supply.

From the economic, social and geopolitical side, surging inflation has been a big concern around the world. The conflict between Russia and Ukraine that started on February 24 put pressure on food and energy prices and disrupted supply chains, following the corona pandemic. As the conflict continues, supply and demand tensions are further increasing, thereby influencing consumer sentiment and threatening global economic growth. In an attempt to dampen the soaring inflation, the Federal Reserve (Fed)² started to increase interest rates from nearly 0 percent in March to 4 percent at the beginning of November. Similar measures³ were applied by – amongst others – both the Bank of England and the European Central Bank (ECB), though at lower levels.

With regard to technology, cybersecurity is the leading risk area for IT audit departments. According to an IT Audit Technology Risks Survey,⁴ security breaches are the greatest concerns, data governance and integrity are under scrutiny, and there is a rapid increase of regulatory compliance burdens and risks.

In their aim to build a better future, governments and communities around the globe must deal with increasing pressure on basic needs such as water, food, housing, health and energy. The pandemic and subsequent developments since the beginning of this year have put extra emphasis on the need to balance economic growth and financial health. While the first is focused on higher output, the latter requires reforms. Creating such a balance is the single most important exercise for the years to come.

The first chapter in this document will provide an overview of the main (economic) developments globally, such as in the US and the Netherlands, which are Curaçao’s main trading partners. Chapter 2 discusses the local situation in Curaçao, as well as some social and environmental aspects. It also covers reforms and sector performance in 2022. Chapter 3 will outline a macroeconomic outlook for 2023, based on current input and future expectations.

1 <https://www.theguardian.com/environment/2022/nov/20/cop27-climate-summit-egypt-key-outcomes>

2 <https://www.dw.com/en/us-federal-reserve-raises-interest-rates-to-14-year-high/a-63629837>

3 J. Knightley, C. Brzeski, J. Smith, “Central banks: what next from the Fed, ECB and Bank of England?,” Economic and Financial Analysis, ING, October 6, 2022

4 <https://www.isaca.org/resources/news-and-trends/newsletters/atisaca/2022/volume-27/top-takeaways-from-new-it-audit-technology-risks-survey>



EXECUTIVE SUMMARY

SITUATION UNTIL 2022

Global

On the global scene, the geopolitical stress around the Russia-Ukraine conflict has further exacerbated economic and social risks with spiking energy prices and supply chain disruptions, pushing inflation to its highest level in decades. In an effort to keep inflation well anchored, the U.S. Federal Reserve (Fed) gradually increased interest rates from almost 0 percent in the first quarter of 2022 to a level of 4 percent at the beginning of November. These attempts are the most rapid and aggressive interest rate increases since the 1980s. Whether this interest rate will further increase or decrease depends on price developments. Other central banks followed by using their monetary instruments to increase interest rates, hoping for soaring prices to calm down. While at the beginning of this year global growth was forecasted at +4.4 percent, the Russia-Ukraine conflict set back global recovery, leading to a lower forecast of 3.6 percent.

Despite the Russia-Ukraine conflict, trade will continue to grow, though slowly, in 2022 and 2023. Open trade and countries that work together will remain crucial drivers of prosperity in the future. Economists of the World Trade Organization (WTO) expect global merchandise trade volumes to grow by 3.5 percent in 2022, with the Middle East having the strongest trade volume growth of any region. In terms of energy, Europe had to deal with a year-on-year 350 percent increase in its natural gas prices, while the US saw gas prices going up by 120 percent. Next to energy, prices of other commodities such as food, grains, crude oil and fertilizers are impacting the social and economic situation of many people around the world.

A Global Risks Perception Survey (GPRS) showed that risks to economic growth are considerable, including risks from a potential resurgence of COVID-19 as new variants emerge. Commodity shocks, price instability and debt crises are considered critical medium-term concerns, while for the next decade, environmental risks such as climate action failure, extreme weather and loss of biodiversity top the list.

To get the economic activity going, countries around the globe are looking for a balance between curbing the inflation rate and keeping the real incomes at purchasing power strength. This balance comes with a financial burden, where choices need to be made between fiscal discipline (and debt position) on the one hand and economic growth—ideally supported by sustainable development—on the other.

Local

After a deep contraction of 18.4 percent in 2020, Curaçao recovered from major shocks with a 4.2 percent growth in 2021, and an expected real growth of 3.8 percent in 2022, while inflation is forecasted at 7.3 percent⁵. From a global point of view, increasing energy, transport and commodity prices, in particular costs of transport since the fall of 2020, have fueled anxiety for further rising inflation. In response to higher expected interest rates on the international financial market, particularly the Fed funds rate, the CBCS tightened its monetary policy stance by raising the pledging rate to a level of 4.75 percent by the end of November 2022.

As economic growth is very much needed, it is important to know that labor productivity, which has been dropping since the beginning of this century, has been above average in sectors like agriculture, fisheries and mining, manufacturing, utilities, transportation, storage and communication, financial intermediation and real estate. Many of these activities correspond to the six priority sectors (tourism, creative industries, financial services, port & maritime services, ICT services, education services), as identified in the National Export Strategy (NES) elaborated by the Ministry of Economic Development (MEO). These sectors have the potential to generate high economic returns, recognized by the TAC report on “Strategies for Sustainable Long-Term Economic Development in Curaçao,” as an incentive for high-efficiency investment. These are in a way connected to the issue of sustainability, with the National Development Plan putting emphasis on six Sustainable Development Goals (SDGs), i.e., no poverty, good health and well-being, quality education, affordable and clean energy, decent work and economic growth, and life below water.

During the exceptional COVID-19 year 2020, with its severe lockdown(s), the Curaçao government had no other option but to appeal for liquidity support to the Dutch government. As a result, public debt and the budget deficit increased significantly. The budget deficit skyrocketed at 16 percent of GDP, while the public debt ratio exceeded 85 percent of GDP.

Two years later, in 2022, the budget deficit has dropped and is expected to decline to a level of 1.4 percent of GDP, while the debt position, which peaked at 87 percent in 2021, is expected to decline to a level of 79 percent of GDP. To ensure long-term debt sustainability as urged by the IMF, the additional financing should be accompanied by a strong commitment to deep structural reforms that were urgently needed even before the shocks. Depending on financing, the pace of fiscal consolidation during the acute period of the crisis should be as gradual as feasible, so as to minimize its adverse impact on growth. A decision has been taken with the signing of the Landspakket—a coherent reform program encompassing economic, financial, social and institutional reforms. To create that necessary economic growth, a strategy like the NES, built around technology and aiming at diversification, could be a catalyst to reduce the current account deficit.

Among the priority sectors, tourism picked up in 2022, with stayover arrivals and nights above the pre-pandemic levels since the second quarter, and cruise tourism cautiously recovering from the two previous years. Real tourism exports increased by nearly 50 percent, showing a positive contribution to employment on the island. All priority sectors have been scrutinized through an update of the NES, with a specific 2022-2027 priority sector update adding one extra sector to the portfolio, i.e., the “Blue-Bioeconomy sector.”

OUTLOOK 2023

Global

The global economic outlook for 2023 looks gloomy, with recession, declining inflation and interest rate cuts as dominant factors. Shocks in geopolitics, energy and economics are clouding the world. A very moderate growth of the US economy (+0.5%) is expected, while economies in Europe and the U.K. are likely to contract and emerging market economies to recover modestly. Slowing growth and cooling inflation may make the Fed decide to announce a pause in future rate hikes, and in such a scenario, the US economy should experience a soft landing and a modest rebound. In Europe, inflation is expected to remain well above target for the remainder of 2022 and 2023, and the ECB may increase rates to 2.5 percent in the first quarter of 2023, before starting to cut rates in early 2024, while the region's unemployment rate is at a record low level. In Asia, India seems to be the country with the highest growth perspectives, pushed forward by three main pillars, i.e., global offshoring, digitization and energy transition, while Latin-America's projection is down to only 1.4 percent, with the increasing cost of living as a major concern.

As for Africa, heightened geopolitical tensions, ongoing supply-chain disruption, business and consumer price pressures, and the rising cost of international and domestic finance are just some examples of risks that may jeopardize economic performance.

Local

Curaçao's outlook and performance for 2023 depend on both external and internal risks, as well as policy measures and any initiatives taken. External risks are the war in Ukraine, tighter global financial conditions, fiscal consolidation without room for public investments, the emergence of new coronavirus variants, the appreciation of the dollar vis-à-vis the euro, and the decrease in airline seat capacity. Internal risks involve the mismatch between supply and demand on the labor market as well as delays in the resumption of the refining activities. To cope with the possible risks, and to further bolster economic recovery, an Economic Recovery Action Plan and a National Recovery Plan are being developed.

MEO's outlook for 2023 will depict a scenario without the resumption of refining activities. For 2023, MEO expects inflation to drop back to a level of 2.9 percent due to a stabilization in the international markets. In terms of real output, MEO expects the economy to grow by 1.2 percent compared to 2022.

POLICY ACTION

To further bolster economic recovery, an Economic Recovery Action Plan and a National Recovery Plan are being developed in 2023.

The Economic Recovery Action Plan outlines a short-term strategy for Curaçao to recover and become a sustainable economy that is inclusive and more flexible after the COVID-19 crisis, amidst increasing food and commodity prices and globally exacerbating inflationary pressures.

With regards to the National Recovery Plan, the Government of Curaçao intends to establish, in conjunction with the economic, financial, social and institutional reforms and measures already initiated under the 'Landspakket' agreed for Curaçao, a National Recovery Plan within four to six months, within which measurable and sustainable development goals and milestones can be achieved in the following policy areas: the economy, education, social, financial, infrastructure, administrative and general affairs, health care and justice.

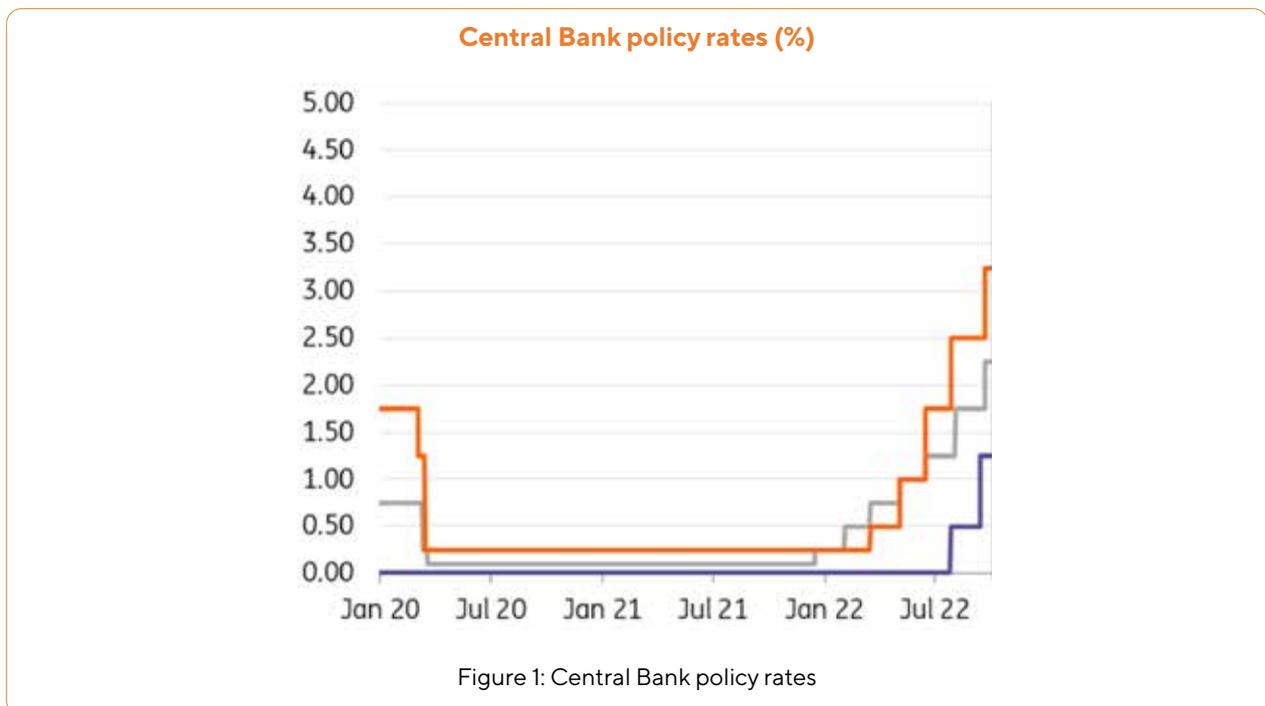


CHAPTER 1: GLOBAL PICTURE

1.1. Global context

At the beginning of this year, the International Monetary Fund (IMF)⁶ was expecting a global growth of 4.4 percent in 2022. Next to the new Omicron COVID-19 variant spreads, with reimposed mobility restrictions, there were concerns about the energy prices and supply disruptions that resulted in higher and more broad-based inflation than anticipated, especially in the United States and many emerging markets and developing countries. There were also worries about the ongoing retrenchment of China's real-estate sector and the slower than expected recovery of private consumption. The IMF assumes that inflation expectations will stay well anchored. Therefore, inflation should gradually decrease as supply-demand imbalances wane and monetary policy in major economies responds. Furthermore, debt levels (in some cases requiring debt restructurings), geopolitical tensions, climate emergencies and an effective global health strategy are put under a microscope.

Four months later, the conflict between Russia and Ukraine set back the global recovery, leading to a 3.6 percent global growth forecast. The IMF⁷ states that war-induced commodity price increases and broadening price pressures have led to inflation projections of 5.7 percent in advanced economies and 8.7 percent in emerging-market and developing economies, which is 1.8 and 2.8 percentage points higher than what was calculated in January. Meanwhile, a lot of effort is put into preventing further economic fragmentation, responding to the humanitarian crisis, maintaining liquidity, managing debt distress, tackling climate change including investing in climate policies, and ending the pandemic.



6 <https://www.imf.org/en/Publications/WEO/Issues/2022/01/25/world-economic-outlook-update-january-2022>

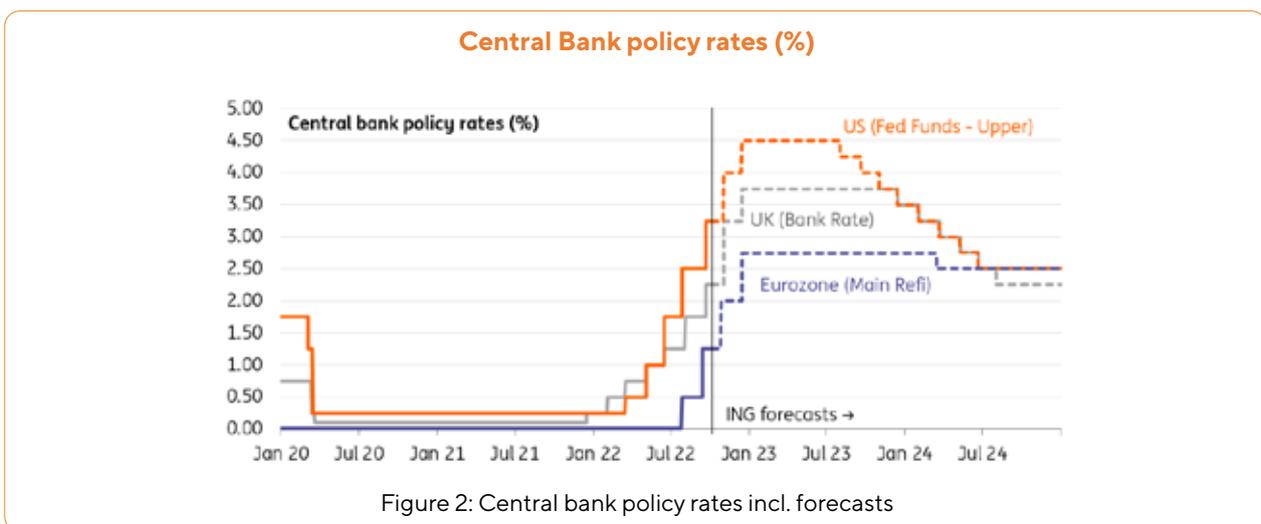
7 <https://www.imf.org/en/Publications/WEO/Issues/2022/04/19/world-economic-outlook-april-2022>



Past halfway 2022, the forecast is set at 3.2 percent, 0.4 percentage points lower than the April outlook. Several risks are at stake. There is anxiety that the war in Ukraine could lead to a sudden stop of European gas imports from Russia. The IMF states that inflation could be harder to bring down than anticipated either if labor markets are tighter than expected or inflation expectations unanchor. Meanwhile, the Federal Reserve⁸ (Fed) is gradually increasing its interest rates from 0.25 to 1.75 percent per July of 2022⁹ (Figure 1), hoping to control inflation.

Other central banks follow and use their monetary instruments to increase interest rates, hoping for soaring prices to calm down. During the second quarter of 2022, global inflation has been revised up due to supply-chain strains, and food and energy prices. The Ukraine-Russia¹⁰ region plays a vital role as an exporter of primary staples like wheat and fertilizer. Uncertainty pushes up the price. Also, risks and uncertainty in China with respect to the renewed COVID-19 outbreaks and lockdowns, next to the further escalation of the property market, has negatively impacted the growth outlook for 2022.

From the policy side, taming inflation is key. Since government budgets have been stretched due to the pandemic and given the need for a disinflationary macroeconomic policy stance, such policies will need to be offset by increased taxes or lower government spending, not to forget that tighter monetary policy by central banks will also affect financial stability, according to the IMF. There is also need for policies that address specific impacts on energy and food prices for the most affected, without distorting prices.



The most recent¹¹ update of the IMF puts emphasis on countering the cost-of-living crisis. Global economic activity is further affected by higher inflation, the ongoing conflict between Russia and Ukraine, the tightening financial conditions in most regions and the lingering COVID-19 pandemic. On November 2, the FED decided to increase its interest rate by 0.75 percentage points, bringing it at a level of 4 percent.

These attempts were the most rapid and aggressive interest rate increases since the 1980s. The endgame is to get the inflation rate back at a level of 2 percent. However, according to some analysts,¹² in order to curb inflation, borrowing costs will likely have to remain elevated for an extended period. “When inflation’s been running at 6, 7, 8 percent and the target is 2, it’s going to take a while.”

8 J. Knightley, C. Brzeski, J. Smith, “Central banks: what next from the Fed, ECB and Bank of England?”, Economic and Financial Analysis, ING, October 6, 2022

9 Orange line = Fed; grey line = The Bank of England; blue line = European Central Bank (ECB)

10 <https://www.cnn.com/2022/04/21/from-food-to-inflation-the-russia-ukraine-war-has-a-global-impact.html>

11 <https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

12 <https://www.npr.org/2022/11/02/1133195996/fed-federal-reserve-interest-rates-hike-increase-inflation-unemployment-powell>

The monetary instrument is closely monitored by the FED and central banks around the world, and even further interest rate increases may be required, as depicted in Figure 2.¹³

Whether the interest rate will further increase or decrease depends on price developments, although some economists, such as Wharton professor Jeremy Siegel, point out the danger of a recession in 2023. Inflation is not the only factor that makes central banks increase interest rates. In Japan¹⁴ for example, which is still facing slow economic growth that has persisted for years, the Central Bank holds firm and is not increasing interest rates, as it does not want to slow down the economy even more.

1.2. Global trade

Despite the Russia-Ukraine conflict, trade will continue to grow, though slowly, in 2022 and 2023. The war is expected to have a much smaller impact on global trade than the pandemic.



Figure 3: Annual growth of trade in goods and services

According to CEO Frank Appel of Deutsche Post DHL Group,¹⁵ global trade remains resilient in the face of global shocks. “Open trade and countries that work together will remain crucial drivers of prosperity in the future – as they have been for centuries.”

The yellow line in Figure 3 depicts actual trade volume growth through 2021. The red dotted line shows the IMF’s forecast before the start of the war in Ukraine. The grey dotted line represents the first downgrade and the yellow one, the second downgrade based on more recent forecasts with new insights towards trade volumes. Trade is expected to turn southwards, towards Southeast and South Asia, as well as Sub-Saharan Africa. These regions will have the fastest trade growth by volume in the next five years.

The global value of trade rose to a record USD7.7 trillion per the first quarter of 2022, good for an increase of about USD 1 trillion relative to Q1 2021. In its Global Trade Update, the UNCTAD¹⁶ says that this growth, good for a rise of about USD 250 million, is fueled by rising commodity prices rather than trade volumes as the latter have increased to a much lower extent.

13 J. Knightley, C. Brzeski, J. Smith, “Central banks: what next from the Fed, ECB and Bank of England?”, Economic and Financial Analysis, ING, October 6, 2022

14 <https://www.forbes.com/sites/qai/2022/09/28/inflation-is-taking-hold-worldwide-where-is-it-hitting-the-hardest/?sh=35d1d56c275c>

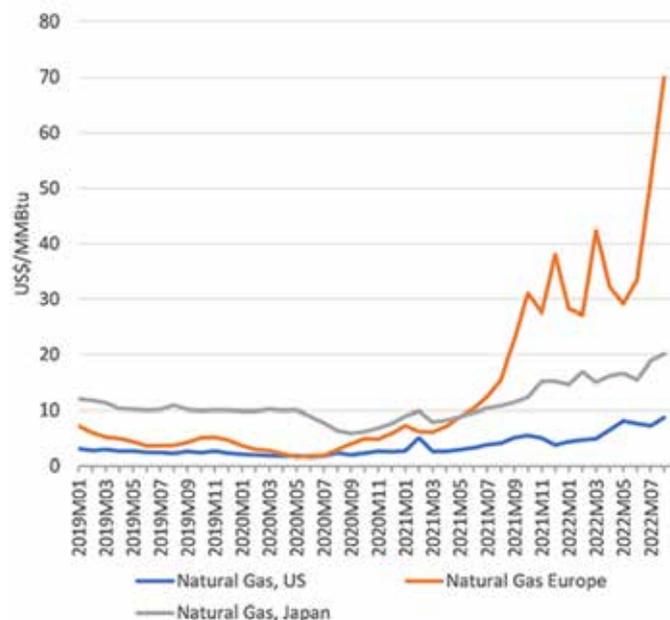
15 <https://www.weforum.org/agenda/2022/09/global-trade-growth-2022/>

16 <https://unctad.org/news/global-trade-hits-record-77-trillion-first-quarter-2022>

Economists of the World Trade Organization (WTO) expect global merchandise trade volumes to grow by 3.5 percent in 2022, which is slightly better than the 3 percent forecast in April. The organization states that GDP at market exchange rates will increase by 2.8 percent in 2022, while trade output will be weighed down by several related shocks, as already described under the previous paragraph (1.1. Global context). The Middle East will have the strongest trade volume growth of any region in 2022 on both the export side (14.6%) and the import side (11.1%). In the US, merchandise trade was up 17 percent year-on-year in the second quarter of 2022, while merchandise exports of the Commonwealth of Independent States (CIS) region fell 10.4 percent quarter-on-quarter and imports plunged 21.7 percent.

COMMODITIES

Figure 4: Energy prices¹⁷



Source: World Bank

With respect to the commodity energy, natural gas prices have diverged strongly across regions. Per August of 2022, Europe had to deal with a year-on-year 350 percent increase, while the U.S. saw gas prices going up by 120 percent (Figure 4). Furthermore, the WTO states that European demand for liquified natural gas (LNG) reduced supplies from the Russian Federation, pushing up energy costs in Asia by 87 percent. On the other hand, European gas prices moderated, falling 34 percent between August 31 and September 23 of this year, although still high by historical standards.

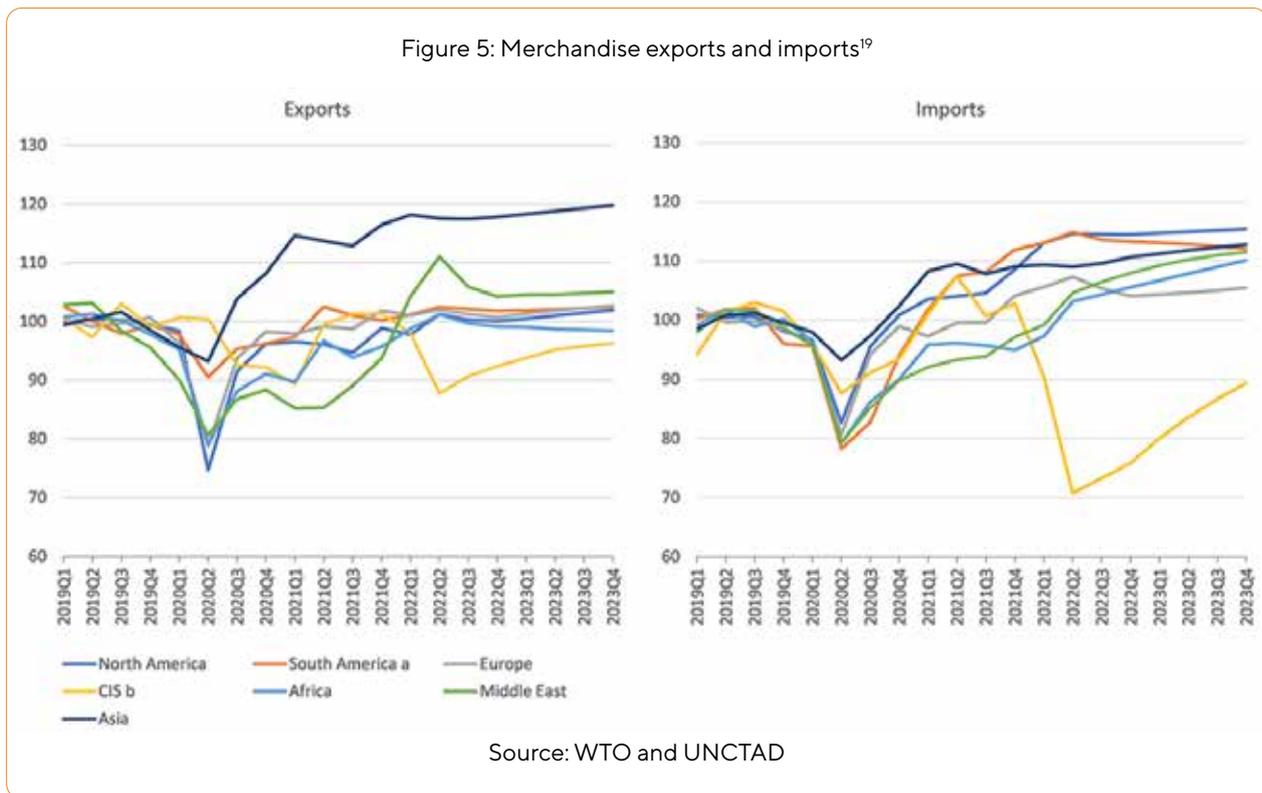


Next to energy, there are commodities such as food, grains, crude oil and fertilizers. Food prices in USD have risen sharply, as Russia and Ukraine are both suppliers of grains and fertilizers. As a consequence, food security in many countries came under pressure, particularly low-income ones that tend to spend a large fraction of household income on food. There was also the appreciation of the dollar vis-à-vis many currencies, making food and fuels even more expensive in national currency terms.

The WTO sees a worrying development with regard to fertilizer prices, which were up 60 percent year-on-year in August after nearly tripling since 2020. This is a potential threat for reduced fertilizer imports and use and could reduce crop yields and increase food insecurity in 2023.

MERCHANDISE EXPORTS AND IMPORTS

The WTO forecasted¹⁸ a 3.5 percent growth in the volume of world merchandise trade in 2022. A notable observation is the resilience of trade growth in the Middle East and Africa. The Middle East is expected to record the strongest export (+14.6%) and import (+11.1%) growth. Africa follows as second in terms of export (+6.0%), and third on the import side (+7.2%). Trade volumes are expected to increase considerably on both sides in the CIS region, mostly due to the reduced base for 2022.



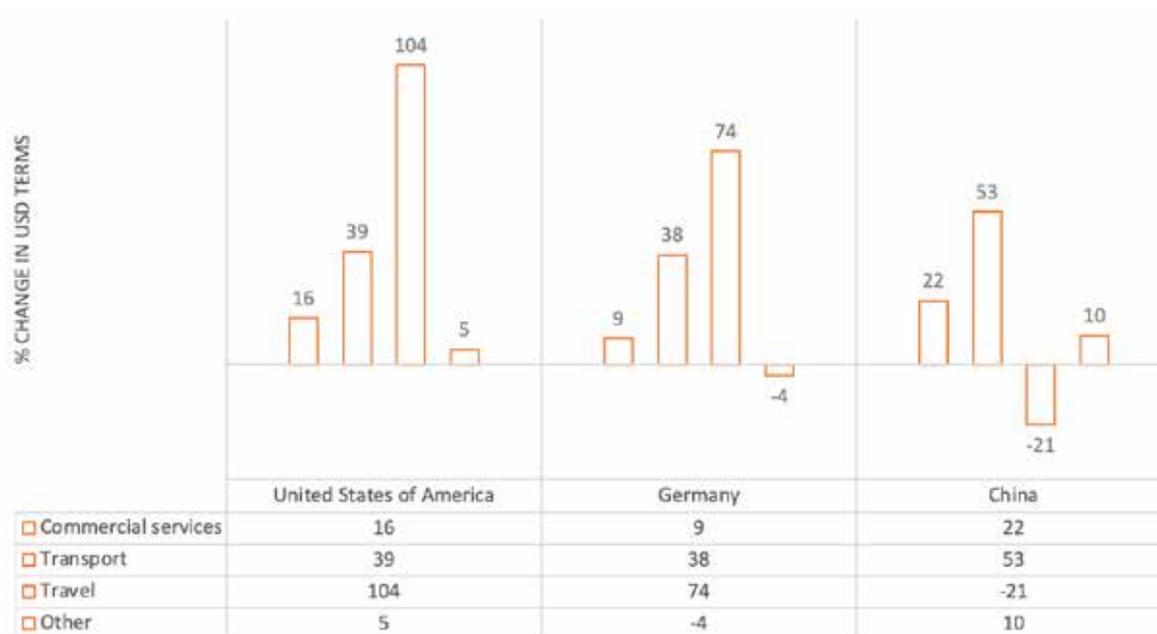
In 2022, there was a small positive impact on imports by North America and Asia, reflecting the clearance of backlogs at U.S. West Coast ports and increased container handling in Chinese ports, following pandemic-related stoppages earlier this year.

18 As per October 5, 2022 – Trade growth to slow sharply in 2023 as global economy faces strong headwinds – WTO – Press/909 International Trade Statistics

19 **a:** refers to South and Central America and the Caribbean; **b:** refers to the Commonwealth of Independent States, including certain associate and former member States

SERVICES

Figure 6: Year-on-year growth in commercial services export



Source: WTO estimated based on national statistics

During the first half of 2022, commercial service exports were on the rise, especially travel services in the US and Germany, where pandemic-related restrictions were eased. China is an exception, with travel spending restricted due to the country's zero-COVID policy. Exports of "Other" Commercial Services grew at a modest pace, partly because they did not decline much during the pandemic. Other services include financial and business services.

1.3. Global risks

In the Global Risks Report 2022,²⁰ outlining the results of the latest Global Risks Perception Survey (GPRS) based on economic, societal, environmental, geopolitical and technological factors, the following key findings were identified: (a.) global risk perceptions highlight societal and environmental concerns, (b.) a divergent economic recovery threatens collaboration on global challenges, (c.) a disorderly climate transition will exacerbate inequalities, (d.) growing digital dependency will intensify cyberthreats, (e.) barriers to mobility risk compounding global insecurity, and (f.) opportunities in space could be constrained by frictions.

Risks to economic growth are considerable, including from a potential resurgence of COVID-19 as new variants emerge. Commodity shocks, price instability and debt crises are considered critical medium-terms concerns. When asked to identify the most severe risks on a global scale over the next 10 years, the GPRS respondents came up with a top-3 of risks, all environmentally related.

20 The Global Risks Report 2022, 17th Edition, Insight Report, In partnership with Marsh McLennan, SK Group and Zurich Insurance Group, World Economic Forum

Figure 7: Top risks next 10 years



Source: World Economic Forum Global Risks Perception Survey 2021-2022

Climate action failure, extreme weather and biodiversity loss top the agenda, followed by three societal risks. Note that this top-10 overview does not include any technological risks and that the debt crisis is ranked ninth. Seeing the Russia-Ukraine conflict since the beginning of this year, one can expect that geoeconomic confrontation, being a geopolitical risk, will increase in next year's survey.²¹

The recent COP 27 climate summit came with an announcement of a historic loss and damage fund, particularly for nations most vulnerable to the climate crisis. The UN²² Environment Programme states that the fund is expected to see developing countries particularly vulnerable to the adverse effects of the climate crisis supported for losses arising from droughts, floods, rising sea levels and other disasters that are attributed to climate change. On the other hand, there was no agreement on the greenhouse gas emissions in relation to the temperature increase bracket of 1.5 degrees Celsius, which could be seen as a climate action failure.

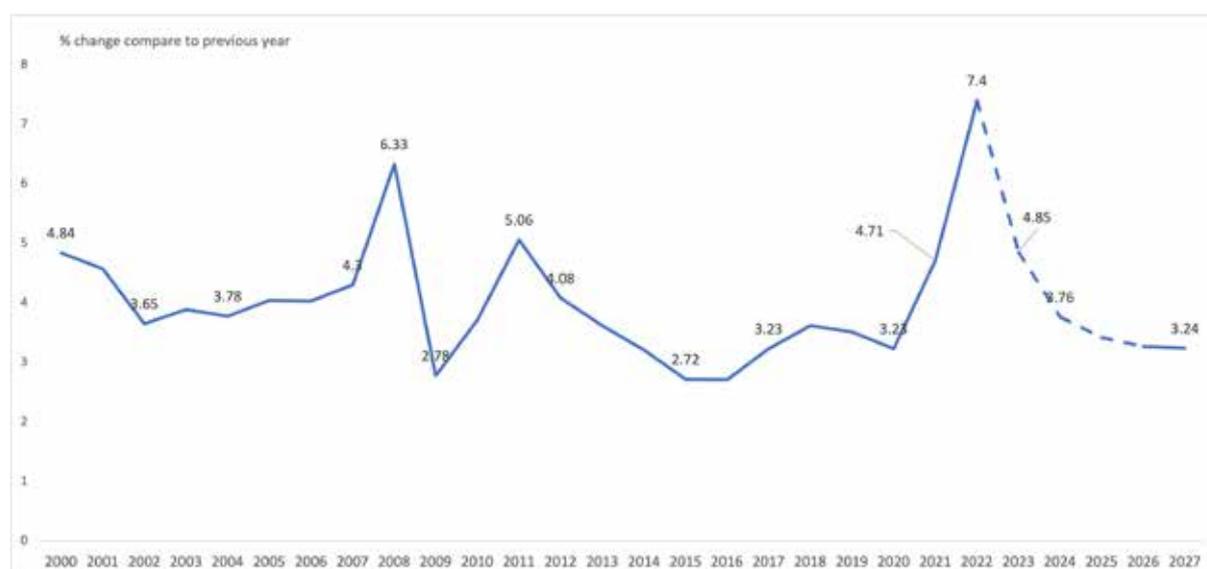


21 Will be The Global Risks Report 2023

22 <https://www.unep.org/news-and-stories/story/cop27-ends-announcement-historic-loss-and-damage-fund>

1.4. Inflation and monetary action

Figure 8: Global inflation rate from 2000 to 2021,²³ with forecasts until 2027



In 2022, the world economy fell under the spell of inflation. Many countries have been experiencing double digit inflation figures. Various factors²⁴ contributed to this, such as government spending, supply chain issues, higher wages, strong consumer demand, slow policy responses and the Russian invasion of Ukraine. What made inflation a major topic of discussion was its steep rise, which took off in 2020 and accelerated from 2021 to 2022. Central banks with a price stability mandate are keeping a watchful eye on inflation developments. In 2020, after the lockdowns, fiscal and monetary measures were required to counterbalance the economic downturn.

Governments came up with stimulus packages to help businesses survive and keep consumption levels at acceptable levels. That came at a cost, i.e., the increase of debt. From the monetary side, the US central bank – the Fed – embarked on an expansionary monetary policy by lowering interest to near zero rates. This measure²⁵ helped encourage spending and led to a quicker recovery, but also fueled inflation through an overheated economy. As fear for unanchored inflation increased in 2022, the Fed (later followed by other central banks), tightened monetary policy by gradually increasing interest rates to a level of nearly 4 percent as per November of this year. However, any change in interest rates takes time to have an impact.

Figure 8 shows inflation expectations²⁶ until 2027 as going back to the 2020 level over time. This expectation is followed by Wharton professor Jeremy Siegel, who predicts that the Fed will pivot from hiking interest rates to cutting them to 2 percent next year. Siegel says that the U.S. inflation threat is receding, and the economy is weakening. He expects US labor and housing markets to soften in the months ahead. In order to avoid further economic slowdown, interest rates will need to go down. The year ahead will show us how these expectations will pan out.

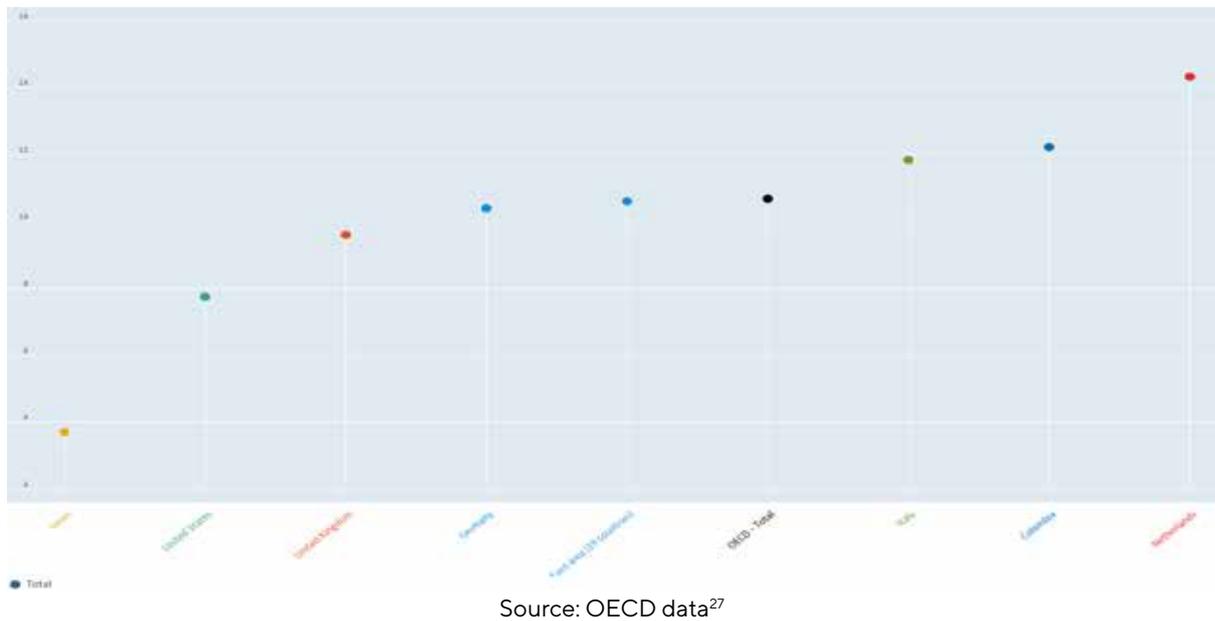
23 <https://www.statista.com/statistics/256598/global-inflation-rate-compared-to-previous-year/>

24 <https://www.forbes.com/sites/qai/2022/09/28/inflation-is-taking-hold-worldwide-where-is-it-hitting-the-hardest/?sh=35d1d56c275c>

25 Economic Bulletin, Navigating the Soaring Prices, Centrale Bank Curaçao & Sint-Maarten, September 2022

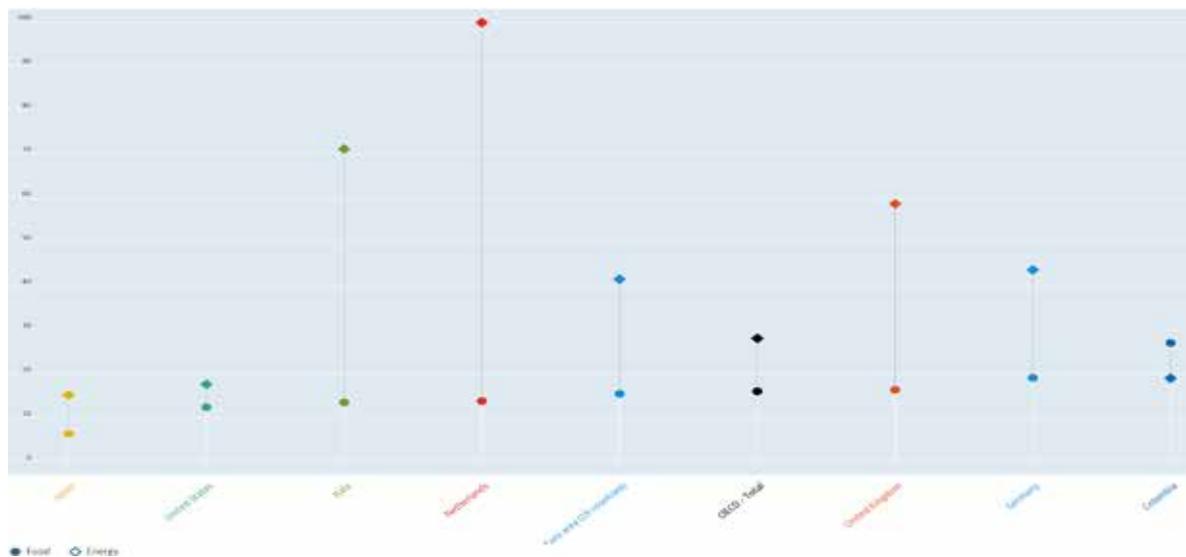
26 There are three primary ways to track inflation expectations: surveys of consumers and businesses, economists' forecasts, and inflation related financial instruments - <https://www.brookings.edu/blog/up-front/2020/11/30/what-are-inflation-expectations-why-do-they-matter/>

Figure 9: Inflation (CPI) Total, Annual Growth Rate (%), Oct 2022 or latest available



Inflation is more of a threat in Europe than it is in the U.S. As per October of 2022, inflation rates were well above 10 percent in European countries such as Germany, Italy and the Netherlands. The average for the Euro area was also above 10 percent. Breaking it down to food and energy gives us the following chart:

Figure 10: Inflation (CPI) Food, Energy, Annual growth rate (%), Oct 2022 or latest available

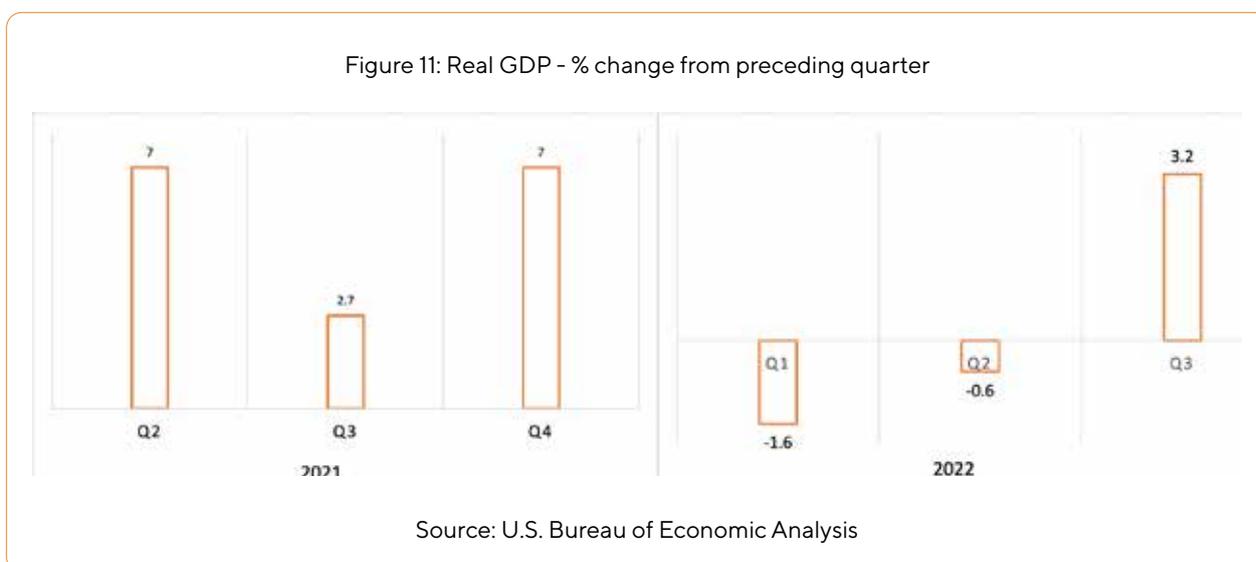


A striking observation is the energy dependence of the Netherlands, showing a 100 percent growth rate on an annual basis. European countries are far more impacted from the Russia-Ukraine conflict in their energy needs than countries like the US or Japan. Food prices mainly vary in a bandwidth between 5 and 10 percent increase as per October 2022.

1.5. Regional overview

1.5.1. Large economies

US



The US economy grew by 2.9 percent in the third quarter of 2022, after two quarters of contraction. Fear for a recession has therefore weakened. In Q3, most signs²⁸ pointed to a resilient if slow-moving economy, led by steady hiring, plentiful job openings and low unemployment.

According to the Bureau of Economic Analysis (BEA), the increase in the third quarter primarily reflected increases in exports and consumer spending that were partly offset by a decrease in housing investment, the latter as a consequence of higher interest rates.

After expanding by 5.1 percent in 2021, and contracting²⁹ during the first and second quarters of 2022, the earlier projections for 2022 may be upgraded to a percentage above the 1.5 percent earlier predicted by the UN Department of Economic and Social Affairs.³⁰

28 US economy grew by 2.9% in Q3, easing recession fears, New York Post, Associated Press, November 30, 2022. <https://www.msn.com/en-us/money/markets/us-economy-grew-by-29-in-q3-easing-recession-fears/ar-AA14K6dm>

29 For definitions on recession, see <https://www.forbes.com/advisor/investing/what-is-a-recession/>.

30 A bleak outlook for the global economy, Monthly Briefing on World Economic Situation and Prospects, UN Department of Economic and Social Affairs, September 2022

CHINA

New waves of COVID-19 infections and rising geopolitical tensions with the US slowed down projections to only 4 percent growth for 2022. Accelerated issuance of local government special bonds is set to boost infrastructure investment, while tax cuts will support businesses. This is expected to take off during the second half of the year. As per October of 2022, China's inflation rate was down to 2.1 percent,³¹ which was below target and caused the central bank to maintain its supportive policy stance by lowering its 5-year and 1-year rates in Q3 of 2022. In addition to the downside of infection risks and accompanied actions, the real estate market is another threat for macroeconomic stability. Deleveraging measures could improve economic stability in the medium term, but risk affecting the wider financial sector into a crisis in the near term. The Chinese economy is projected to grow by 2.8 percent³² in 2022, which is a sharp decline compared to 8.1 percent in 2021.



EUROPE AND CENTRAL ASIA

The economy in the European Union is expected to grow by about 2.5 percent in 2022. Persisting downside risks are the energy crisis, high inflation and monetary policy tightening. Uncertainty around a potential shutdown of Russian gas during the upcoming winter could lead to severe energy shortages and likely push Germany, Hungary and Italy into recessions, says the UN. Households are suffering from soaring energy and food prices, which is impacting consumer confidence levels. These downward risks are to some extent cushioned by a strong rebound in the labor market and exceptionally low unemployment rates in the European Union.



The World Bank³³ claims that hardest hit will be the countries with medium to high reliance on natural gas imports for heating, industry, or electricity, as well as countries closely connected with EU energy markets. "These countries must prepare for gas shortages and put in place emergency plans to mitigate the worst impact on households and firms, including saving energy, boosting energy efficiency, and implementing quota/rationing plans." As a consequence of Russia's invasion, Ukraine's economy is projected to contract by 35 percent in 2022, despite the destruction of productive capacity, damage to agricultural land, and reduced labor supply. World Bank estimates display an amount of USD 349 billion required for recovery and reconstruction needs across social, productive and infrastructure sectors.

31 See <https://data.oecd.org/price/inflation-cpi.htm>.

32 <https://www.worldbank.org/en/news/press-release/2022/10/04/regional-economic-updates>

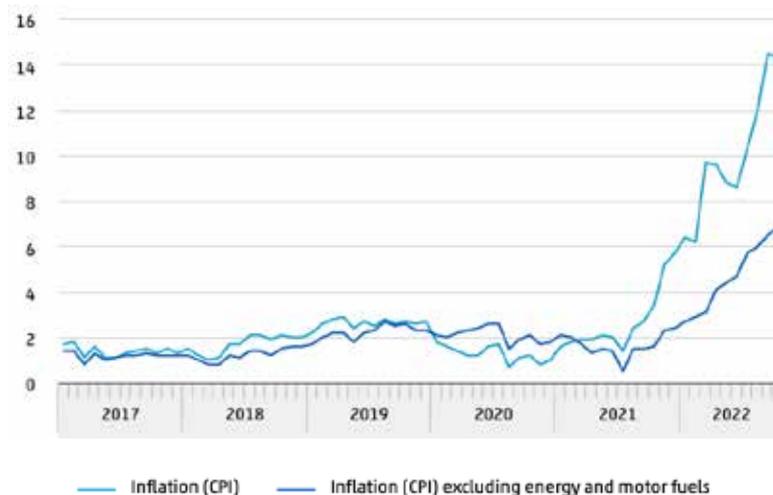
33 <https://www.worldbank.org/en/news/press-release/2022/10/04/russian-invasion-of-ukraine-impedes-post-pandemic-economic-recovery-in-emerging-europe-and-central-asia>

THE NETHERLANDS

The Netherlands reported a 14.3 percent higher consumer price index (CPI) in October 2022, compared to the same month of the year before. This is slightly lower than the 14.5 percent in September. Energy was 173 percent more expensive than in October of the previous year, a less steep increase compared to September, with a year-on-year increase of 200 percent. If we would exclude the effects of energy and motor fuels, inflation rate would be around 7 percent. Furthermore, food increased by 14.0 percent in October on a year-on-year basis, while clothing showed a 9.4 percent price increase during that same period.



Figure 12: Inflation (CPI) year-on-year % change



Source: CBS Nederland³⁴

In the third quarter (Q3) of 2022, the Dutch economy shrank by 0.2 percent³⁵ vis-à-vis Q2, because of a decline in investments, particularly in housing and infrastructure. There was a negative contribution³⁶ to economic development, specifically by sectors such as financial services, trade, transport, hotels, restaurants and construction activities, while business services such as management, consulting, architectural and engineering firms showed the most positive improvement to output. Consumption during Q3 showed a pattern with more spending on services like culture, sports, recreation, hospitality, transport and communication, while durable goods such as home furniture and food were less popular than in Q3 2021. For 2022, the Centraal Planbureau³⁷ (CPB), expects the economy to grow by 3 percent, compared to 4 percent in 2021.

34 Inflation rate at 14.3 % in October, CBS, November 8, 2022 - <https://www.cbs.nl/en-gb/news/2022/45/inflation-rate-at-14-3-percent-in-october>

35 Though still 3.1 % higher than Q3 2021

36 Economie krimpt in derde kwartaal 2022 met 0,2 procent - <https://www.cbs.nl/nl-nl/nieuws/2022/46/economie-krimpt-in-derde-kwartaal-2022-met-0-2-procent>

37 <https://www.cpb.nl/sites/default/files/omnidownload/CPB-Raming-Macro-Economische-Verkenning-MEV-2023.pdf>

1.5.2. Economies in transition

In its September monthly briefing on the world economic situation and prospects, the UN states that “the economic prospects for the Commonwealth of Independent States (CIS) and Georgia are heavily affected by the conflict in Ukraine and the stringent sanctions against the Russian Federation. Economic activity in the Russian Federation has so far defied expectations, with GDP declining by only 4 percent in the second quarter of 2022. The strong appreciation of the Russian ruble helped stabilize inflation, sustaining private consumption and allowing the central bank to drastically cut policy rates. GDP is now forecast to contract by about 6 percent in 2022, relative to our earlier projection of a 10.6 percent decline. Most other CIS economies have also shown strong resilience, with the region’s energy exporters benefiting from high oil and gas prices. Inflation, however, reached very high levels across the region in recent months, threatening food security and forcing many central banks to sharply tighten their policy stances. The Ukrainian economy, however, faces enormous challenges, including destruction of physical infrastructure, suspension of production and trade activities, and displaced population. The post-conflict reconstruction will require immense financial resources.”

1.5.3. Developing countries

EAST ASIA AND THE PACIFIC

According to the World Bank,³⁸ growth in this region—outside of China—is forecasted to accelerate to 5.3 percent in 2022. Growth has been driven by recovery in domestic demand, thanks to the relaxation of COVID-related restrictions, and a growth in exports. Current policy measures provide relief to households and firms who suffer from higher food and energy prices but add to existing policy distortions. Vice President Manuela V. Ferro of the World Bank East Asia and Pacific states that “... countries should address domestic policy distortions that are an impediment to longer-term development.” The reason is that controls on food and energy subsidies benefit the wealthy and draw government spending away from infrastructure, health and education. “Controls and subsidies muddy price signals and hurt productivity. Better policies for food, fuel, and finance would spur growth and insure against inflation,” says World Bank Chief Economist Aaditya Mattoo.

For SIDS³⁹ in this region, the short-term outlook remains bleak. Tourism arrivals till May of 2022 were still almost 90 percent below the pre-pandemic level.

MIDDLE EAST & NORTH AFRICA (MENA)

A growth of 5.5 percent⁴⁰ is expected in 2022, good for the fastest rate since 2016. However, this growth is unevenly distributed across the region, as countries, still struggling to overcome the consequences of the pandemic face new shocks due to higher food and oil prices caused by the war in Ukraine, as well as rising global interest rates and slowdowns in the US, China and the Euro area. Yet, the region’s oil exporting countries are benefiting from high fuel prices, though oil important nations confront different circumstances.

38 <https://www.worldbank.org/en/news/press-release/2022/09/26/east-asia-and-pacific-sustaining-growth-restraining-inflation-but-facing-risks-ahead>

39 UNWTO (2022), International tourism consolidates strong recovery amidst growing challenges, August

40 <https://www.worldbank.org/en/news/press-release/2022/10/04/regional-economic-updates>



AFRICA

The continent is dealing with rising inflation, hindering progress on poverty reduction. The World Bank⁴¹ states that the risk of stagflation comes at a time when high interest rates and debt are forcing African governments to make difficult choices as they try to protect people's jobs, purchasing power and development gains. Economic growth in Sub-Saharan Africa (SSA) is set to decelerate from 4.1 percent in 2021 to 3.3 percent in 2022: slowdown in global growth, fueled by flagging demand from China for commodities produced in Africa are the main reason, not to forget the war in Ukraine causing high inflation and weighing on the production by both business investments and household consumption.

The most worrisome seems to be the impact of high food prices on people struggling to feed their families, which compromises poverty reduction efforts that were already set back by the impact of the pandemic. SSA debt is projected to remain ample at a level of 58.6 percent of GDP in 2022, while African governments spent 16.5 percent of their revenues servicing external debt in 2021, compared to less than 5 percent in 2010. The World Bank stresses the importance of improving efficiency, both in general and in the use of existing resources, and optimizing taxes. For example, governments should reallocate their public spending away from poorly targeted subsidies toward nutrition-sensitive social protection programs, irrigation works, and research and development known to have high returns.

LATIN AMERICA & THE CARIBBEAN

According to the World Bank,⁴² economies in the region have recovered their pre-pandemic levels and the region has regained some sense of normalcy. However, economies need to be reignited in order to avoid a new low-growth cycle. Regional GDP is expected to grow by 3.0 percent in 2022. Nonetheless, strong global uncertainty as a result of the conflict in Ukraine, higher interest rates in developed countries and persisting high inflation will impact economies in the region.



41 <https://www.worldbank.org/en/news/press-release/2022/10/04/african-governments-urgently-need-to-restore-macro-economic-stability-and-protect-the-poor-in-a-context-of-slow-growth>

42 <https://www.worldbank.org/en/news/press-release/2022/10/04/perspectivas-inversiones-sociales-infraestructura-pueden-impulsar-crecimiento-america-latina-caribe>

On average, 4.4 percent of GDP, or 17 percent of public spending, is currently wasted on badly targeted transfers, poor procurement practices and inefficient HR policies. According to Carlos Felipe Jaramillo, World Bank Vice President for Latin America and the Caribbean, governments need to address the structural costs—the lost years of education, missed vaccines, and the delayed impacts of food insecurity that the recovery of GDP obscures. On the upside, higher oil prices are providing a windfall for oil exporting countries such as Colombia, Venezuela and Ecuador. For SIDS⁴³ in the region, the outlook remains bleak, as tourism has not fully recovered from the pandemic. In 2022, recovery in this sector was around 55 to 70 percent of pre-pandemic levels.

LEAST DEVELOPED COUNTRIES (LDC)

The higher energy and food prices have impacted many of the LDC countries, as they are both food and oil dependent. This makes these countries most vulnerable to external shocks. The rise of global prices and disruptions of global food supplies are severely impacting the LDCs, raising fiscal and balance of payment needs and increasing food insecurity. Living costs increase, real incomes erode, and domestic demand weakens. Also, these countries lack productive capacity.

1.6. Conclusion

Barely recovered from the pandemic, the world suffered another blow in 2022, particularly the skyrocketing energy and food prices resulting from the conflict between Russia and Ukraine. Inflation was already on the radar of central banks in 2021, but it was not until the conflict in Ukraine exploded that central banks around the world, spurred by the Fed, tightened their monetary policy in the first half of 2022. Interest rates were gradually increased from near zero levels, aimed to curb inflation (back) to anchored levels.

The geopolitical stress of the Ukraine conflict has impacted growth projections during the year, ranging from 4.4 percent global growth at the beginning of this year to 3.2 percent as per October of 2022. By the end of 2022, it seems as if the inflation tiger has been tamed a bit, also impacted by monetary tightening of central banks, whereby some economists already propose cutting interest rates again in 2023, bringing them back to 2 percent. The logic behind this idea is that the US inflation threat is receding and the economy is weakening, and therefore interest rates will need to go down. In Japan, interest rates were not increased, due to a slow economic growth that has persisted for years.

Although environmental risks, i.e., climate action failure, extreme weather and biodiversity loss, are among the top-3 risks for the next decade, the COP-27 outcome does not seem to answer the urgent, dire need of getting temperature increase down to proportions below the 1.5 degrees Celsius limit. On the other hand, there was a breakthrough with the installment of a recovery fund for developing countries.

In order to get the economic activity ongoing, countries around the globe are looking for a balance between curbing the inflation rate and keeping the real incomes at purchasing power strength. This balance comes with a financial burden, where choices need to be made between fiscal discipline (and debt position) on the one hand and economic growth, ideally supported by sustainable development, on the other.

43 UNWTO (2022), International tourism consolidates strong recovery amidst growing challenges, August

CHAPTER 2: LOCAL PICTURE

2.1. Local context

2.1.1. Inflation and growth

After a deep contraction of 18.4 percent in 2020, Curaçao recovered from major shocks with a 4.2 percent growth in 2021, and an expected real growth of 3.8 percent in 2022.⁴⁴ Before the pandemic, the closing of the refinery had a negative effect on output, and with the pandemic and its lockdowns, tourism collapsed in Curaçao, leading to a sharp decline in 2020. To tackle the economic standstill and save livelihoods, the government came up with comprehensive economic support measures, financially supported by the Netherlands. After the phase out of COVID-19 support during the second half of 2021, the economy started to recover.



From a global point of view, increasing energy, transport and commodity prices, in particular costs of transport since the fall of 2020, have fueled anxiety about a further rise of inflation. As a Small Island Development State (SIDS), Curaçao is at the mercy of developments in the international market. These so-called external factors have a major impact on the socioeconomic development of the island. Stakeholders have been looking with interest at price developments, especially price increases of container transport, putting extra stress on the purchasing power of people in Curaçao. The Ukraine conflict exacerbated the inflation tiger, with monetary tightening as a consequence.

However, unlike the Fed or the ECB, the CBCS does not have an inflation targeting mandate. One of its core tasks is to maintain the stability of the peg to the dollar, although due to the (rapidly) raising interest rates, financial and economic ripples affecting the monetary union⁴⁵ of Curaçao and Sint Maarten are to be expected, given their small open and highly dependent economies. In response to higher expected interest rates on the international financial market, particularly the Fed funds rate, the CBCS tightened⁴⁶ its monetary policy stance by raising⁴⁷ the pledging rate (the rate at which commercial banks can borrow at the CBCS in case of a liquidity deficit) to 4.75 percent by the end of November 2022. Regarding the peg to the dollar, the import coverage⁴⁸ has gone down from 5.2 months in January 2022 to an estimated 4.7 months as per end of November, which is still well above the 3-months requirement.

In an economy with negative growth rates for five consecutive years (2016 till 2020, – see figure 13), with increasing deficits and budgetary constraints, purchasing power is under high pressure. It will therefore be important to give a meaningful interpretation to the fragile balance between reforms on the one hand (see, e.g. Landspakket) and economic development on the other.

44 Forecast MEO, December 2022.

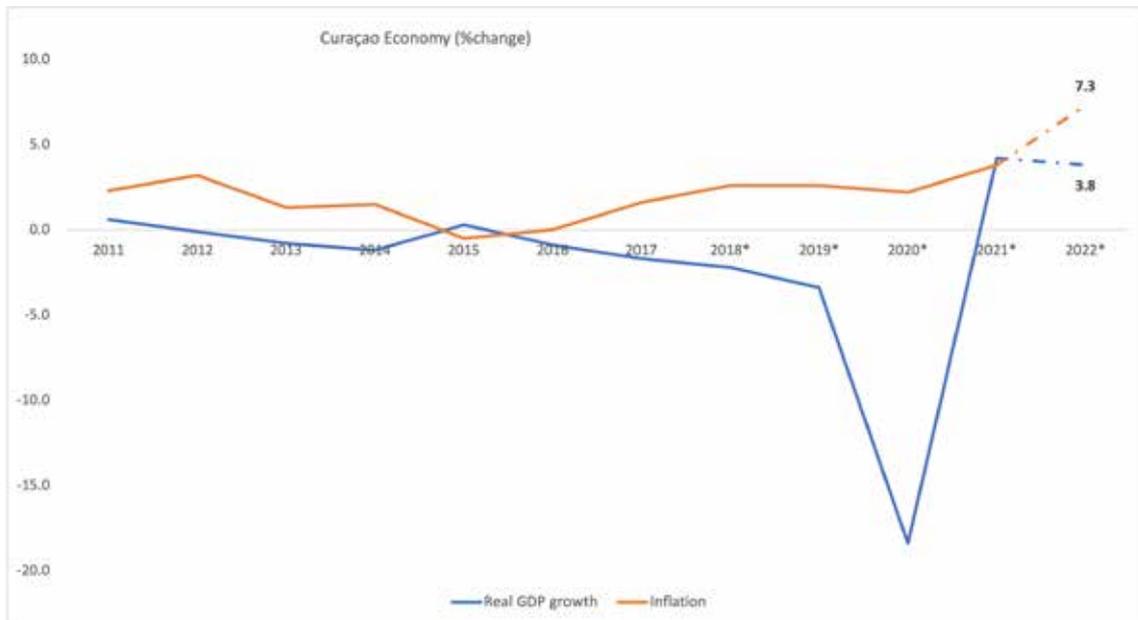
45 CBCS – Economic Bulletin – September 2022

46 Press release No. 2022-032 and 2022-040, CBCS Further Increases the Pledging Rate, September 2, and November 28, 2022.

47 Took place by 3 adjustments this year to eventually 4.75 percent, effective November 29, 2022

48 CBCS, International Reserves Statement, December 8, 2022

Figure 13: Inflation and GDP growth in Curaçao 2011-2022



Source: Data derived from statistics of the CBS

Average inflation over the last decade (2011-2020) was equal to 1.7 percent, meaning that prices were well in check with the inflation target of max 2 percent. In 2021, prices went up, leading to a general inflation rate of 3.8 percent, further expected to increase in 2022 to a level of 7.3 percent,⁴⁹ which is well below the inflation rates in the Netherlands and other European countries.⁵⁰ Main drivers were the soaring international commodity prices, both oil and non-oil, strengthened in 2022 by the Russian-Ukraine conflict and supply chain disruptions. The IMF states that the inflation could disproportionately affect the vulnerable population not covered by the existing social safety net and create a drag on the recovery as it erodes disposable income and increases costs of doing business. Under the assumption that the refinery is not going to reopen, recovery of employment and output is expected to be sluggish, with real GDP back at pre-pandemic level by 2026.

2.1.2. Employment & labor productivity

Both the size of the population and the rate of employment have fluctuated over the years (period 2014-2020). In 2019, employment increased slightly while population was going down. Although employment went up by 1.3 percentage points, the unemployment rate increased by 4 percentage points to 17.4 percent in 2019, due to a steep increase in the unemployed population by 3,568 people. Unemployment further increased to 19.1 percent in 2020, due to COVID-19 and the lockdowns. During the first pandemic year, the employed population declined by almost 4,500 people, while the unemployed population remained quite stable with an increase of only 450 people. Government measures such as the compensation towards wages (NOW) contributed to mitigate the effects of employment loss in the private sector.

49 Forecast MEO, December 2022

50 Severely hit by the spiking energy prices

Figure 14: Population and employment in Curaçao 2014-2020



Source: Data derived from CBS statistics

Since the beginning of this century, overall labor productivity, often used to observe how a country's production efficiency changes over time and in different economic sectors, has been going down. In a study conducted by the CBCS over four specific periods,⁵¹ research showed that Curaçao's labor productivity has contributed negatively to output growth. The hotel and restaurant sector, part of tourism, registered below-average labor productivity levels in all four periods and below-average labor productivity growth rates in the two more recent ones. The CBCS follows the IMF's recommendation whereby growing labor productivity can unlock growth potential, thereby suggesting that focusing only on promoting tourism without increasing labor productivity will not lead to a higher sustainable growth path.

Another aspect for labor market projections is the employment-growth elasticity.⁵² For Curaçao, this elasticity points to positive economic growth over the three decades that corresponded with employment growth but no or negative productivity growth. More specifically, the CBCS calculated that on average a 1 percent increase in real GDP results in a 1.11 percentage point increase in employment, coming from the explanatory variables "restaurants & hotels," "transport & communication," and "other." The low performance productivity levels have led the government to reflect on activities that have the potential to boost labor productivity. In the National Export Strategy 2020-2025 (NES),⁵³ the government identified six priority sectors, i.e.: tourism, creative industries, education services, financial services, IT services & port and maritime services.

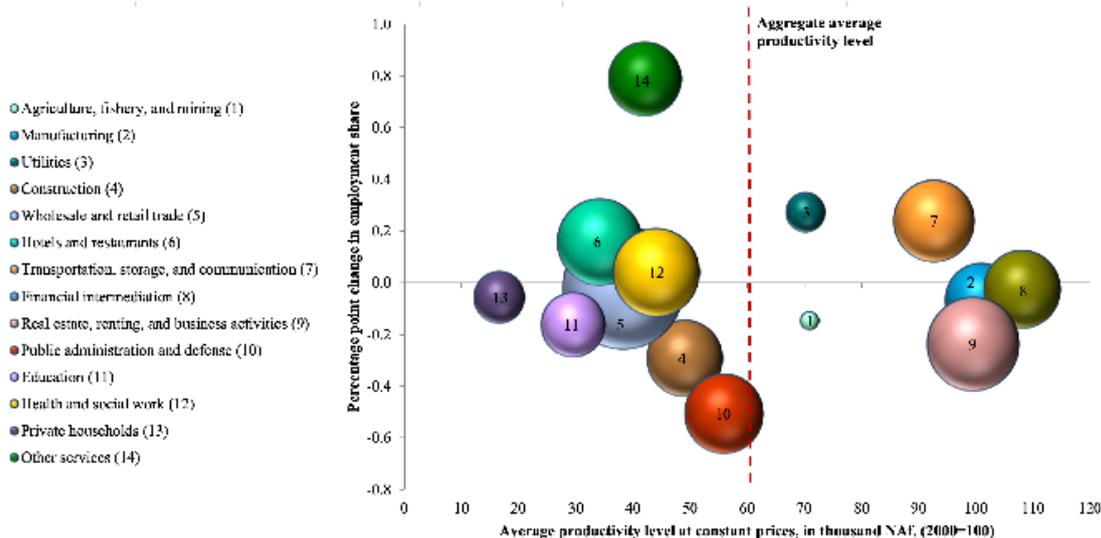
Looking at the most recent period of 2012-2015, which was scrutinized by the CBCS for its labor productivity assessment, one can see that six sectors performed at above average productivity levels, as shown in Figure 15.

51 From 2003 until 2015, i.e.: 2003-2006; 2006-2009; 2009-2012; 2012-2015

52 A Projection of the Labor Market Situation in Curaçao and Sint Maarten Amid the COVID-19 Crisis, Centrale Bank van Curaçao en Sint Maarten

53 NES

Figure 15: Average static shift effect by economic sector in the period 2012-2015

Source: CBCS⁵⁴

Agriculture, fishery and mining, manufacturing, utilities, transportation, storage and communication, financial intermediation and real estate, renting and business activities have all shown above average productivity levels. Many of these activities correspond to the six priority sectors identified in the NES. Note that “Other services” consists of other community, social and personal services such as arts, entertainment and recreation, other service activities, and activities of extraterritorial organizations and bodies. Some of these activities could be grouped under the creative industry, one of the priority sectors identified in the NES.

In its analysis of the labor market⁵⁵ in 2020, the Central Bureau of Statistics Curaçao (CBS) identified Wholesale and Retail Trade; Repair of Motor Vehicles, Human Health and Social Work, Accommodation and Food Services, Financial and Insurance Activities, and Administrative and Support Services as the largest sectors by the number of persons employed, of which 37 percent are highly educated. Unemployment rates in the younger⁵⁶ categories of 15-24 years (42.2%) and 25-34 years (24.2%) remain well above the average. Youth, i.e., the 15-24 age category, is a special case since nearly 70 percent of this population remains economically inactive, which is no surprise given the fact that many of these youngsters (66 percent) are still attending school.

2.1.3. Risks, sustainability & binding constraints

Economic, environmental, social, geopolitical and technological risks also affect Curaçao. The ongoing war in Ukraine could keep food and energy prices high for an extended period and erode purchasing power longer than projected. This geopolitical risk would potentially slow down the economies of Curaçao’s main trading partners, i.e., the US and the Netherlands. These economies could be further impacted, which would affect the local economy and could even lead to social unrest.

54 Measuring Labor Productivity in Curaçao, CBCS Working Paper, July 2017

55 De aanbodkant van de arbeidsmarkt, Resultaten van het Arbeidskrachtenonderzoek 2020, CBS, juni 2021

56 Situation as per Sep-Oct 2020 – source: CBS



The IMF sees global monetary tightening as a potential threat for (could stifle) foreign investment, but it could also generate outflows. Moreover, loss of correspondent banking relationships could impact finance and trade. Another socioeconomic risk is the mismatch between supply and demand on the labor market.

The theme of sustainability, included in the National Development Plan,⁵⁷ based on a long-term vision of change for Curaçao, relates to environmental responsibility in terms of (a.) ensuring access to affordable, reliable, sustainable and modern energy for all; and (b.) conserving and sustainably using the oceans, seas and marine resources for sustainable development. Finally, technology⁵⁸ (and therefore, technological risks) is recognized as an important tool, able to connect priority sectors, i.e., tourism, creative industries, financial services, port & maritime services, ICT services and education services, and support trade support functions. Curaçao will be focusing⁵⁹ on six SDGs,⁶⁰ specifically: SDG1 (No Poverty), SDG3 (Good Health and Well-Being), SDG4 (Quality Education), SDG7 (Affordable and Clean Energy), SDG8 (Decent Work and Economic Growth), and SDG14 (Life Below Water).

In its report on “Strategies for Sustainable Long-Term Economic Development in Curaçao,” TAC has identified the following binding constraints: low human capital, ineffective governance related to micro risks (e.g., taxes, labor regulations, and administrative barriers), poor intermediation and low domestic savings. Low human capital (solution in the medium and long run) and ineffective government policy (solution in the short run possible) appeared to be the most binding constraints. Reform policies targeted to these two areas have the greatest potential for raising trend growth while reducing the impact of the other two constraints.

Measures taken under the wings of the Landspakket should address and ease these binding constraints (see also paragraph 2.2. Reforms & policy). Nevertheless, with respect to the macroeconomic diagnostics, the TAC report addressed two important macro weaknesses. First of all, the overall spending in the economy is high, but is associated with low economic returns, indicating efficient investment is insufficient. Second, domestic savings are also too low and poorly intermediated into the domestic economy, with large liquidity coinciding with persistent difficulties in access to finance by SMEs.⁶¹

With respect to investments, and seen from a macro perspective, TAC suggests providing (a.) disincentives for low-efficiency investment (real estate sector, retail sector, some infrastructure) compensated by (b.) incentives for high-efficiency investment (health sector, private education sector, R&D, telecommunication sector, some infrastructure/efficiency enhancing investment).

The importance of purpose-driven investments is key because they relate to the problem (what does the world require from you?), the plan (how are you going to make the difference?), and the execution (why will this have a positive impact?).

57 Executive Summary National Development Plan Curaçao, UNDP-Government of Curaçao, 2015
 58 Curaçao National Export Strategy, Strategic Trade Development Roadmap, MEO-ITC, 2020-2025
 59 Source: <https://www.Curaçao2030.cw/sustainable-development-goals>
 60 Of the 17 SDGs in total
 61 Small and Medium Enterprises

2.2. Reforms, finance & policy

2.2.1. Budget and debt position⁶²

During the exceptional COVID-19-year 2020, with its severe lockdown(s), the Curaçao government had no other option but to appeal to the Dutch government for liquidity support. As a result, the level of public debt and the budget deficit increased significantly. The budget deficit skyrocketed at 16 percent of GDP, while public debt ratio exceeded 85 percent of GDP. Two years later, in 2022, the budget deficit has dropped and is expected to decline to a level of 1.4 percent of GDP, while the debt position, which peaked at 87 percent in 2021, is expected to decline to a level of 79 percent of GDP.

On July 13, 2020, the IMF wrote the following regarding long-term debt sustainability: “To ensure long-term debt sustainability, the additional financing should be accompanied by a strong commitment to deep structural reforms that were urgently needed before the shocks. Depending on financing, the pace of fiscal consolidation during the acute period of the crisis should be as gradual as feasible to minimize its adverse impact on growth.” This cascading approach was also defended by the former and current presidents of the CBCS.

The general rule imposed at the time of debt restructuring, the balanced budget requirement, restricted the government’s discretion to pursue an expansionary policy through fiscal legislation or an increase in government expenditures in times of economic downturn. This strict budgetary discipline, not allowing any deficit without prior approval of the Council of Ministers, has forced local governments, in view of the poor economic results since 10-10-10, to pursue a pro-cyclical fiscal policy, resulting in a further contraction of the economy. The experiences of the past decade argue for a tailored fiscal framework, which tightens discipline when the economy is growing, allowing for financial buffers to be generated, and deployed when the economy is in a downward spiral and/or recession. Current president Doornbosch of the CBCS advocates for the development of an own macro-fiscal framework, a credible anchor for the medium term, and sustainable tax solutions. Responsible policy choices, realistic budget projections and the various fiscal risks should add to an increase in fiscal resilience on the island. In addition, structural reforms to increase sustainable and inclusive growth are important, next to diversification of the economy.

2.2.2. Landspakket

On November 2, 2020, the Curaçao and Dutch governments signed an agreement referred to as the “Landspakket.”⁶³ The rationale behind this agreement is that without reforms, and after the coronavirus crisis, Curaçao’s economy will at best return to the low-growth trajectory of recent decades. Back then, a lower growth path was considered more realistic because of the increased debt burden, higher unemployment and reduced international demand for tourism. The aim of this “package” is to work towards a resilient economy and society. Economic, financial, social and institutional reforms are therefore required—but also investments.

62 Economic Bulletin, Navigating Soaring Prices, Centrale Bank van Curaçao en Sint Maarten, September 2022

63 LANDSPAKKET Curaçao

The entity in charge of the execution of these reforms is COHO⁶⁴ (Caribisch orgaan voor hervorming en ontwikkeling). Its purpose is to promote the wellbeing of the people of Curaçao and make sure that reforms of administrative nature, sustainable public finances and economic resilience, including the necessary constitutional embedding, are taken care of. The “country package” is said to be a coherent program, seen through the lens of eight interconnected themes: financial management (theme A), public sector costs and effectiveness (theme B), taxes (theme C), financial sector (theme D), economic reforms (theme E), healthcare (theme F), education (theme G), and strengthening the rule of law (theme H). For instance, labor market reform should be considered and implemented in conjunction with social-security reform, improvements in education, tackling poverty and the informal economy.

The goal of the economic reforms is to achieve a resilient and dynamic economy, as well as to implement a robust and affordable social security system. COHO’s Q4-2022 implementation agenda states that priority will be given to the necessary legislation in order to ensure balance in the social security swing fund (schommelfonds). The implementation agenda, released every quarter, is a continuation of ongoing measures that require action and implementation. Ideally, these should be “SMART”-defined. As goes with any policy, the proof of the pudding will be in the eating. But reforms alone won’t do the job to create a resilient economy. Therefore, government has also embarked on a NES with six priority sectors that are recognized as the anchor for sustained development, stimulating labor productivity and creating opportunities to make the local community grow and create value and jobs.

2.2.3. Government program⁶⁵ & National Export Strategy

GENERAL

The government has promised the people of Curaçao to raise their level of wellbeing by restoring, stabilizing and strengthening the social, financial and economic foundations of Curaçao. Its vision is based on five strategic pillars: (1) high quality of life, (2) a high standard of living, (3) social cohesion, (4) governing for the people, and (5) a facilitator and safety net. This vision will be promoted through the core values: integrity, respect, focus on results and trust. Although the ambition level is high, government is aware of the bumpy road that lies ahead. The aim is to keep on working and maintaining people’s trust to make a difference for the community.

In its strategic assessment, the government’s objectives and priorities include the coalition agreement 2021-2025, core tasks and policy standpoints of the various ministries, the agreements under the Landspakket and other fundamental reforms, the focus areas of the United Nations 2030 Agenda for Sustainable Development (SDG), impact and urgency of proposed projects, and coherence of policy and implementation.

MISSION MEO

The focus of the Ministry of Economic Development (MEO) is on improving competitiveness, increasing resilience to shocks and creating conditions to further stimulate economic activities in priority sectors. This should lead to the creation of new jobs, innovations, and increased productivity. Preconditions for such an outcome are a good business and investment climate, productive investments, and good access to finance.

64 For execution currently represented by the Tijdelijke Werkorganisatie (TWO)

65 2022-2025 Government Program: Op weg naar herstel en een betere kwaliteit van leven voor het volk (On the Road to Recovery and a Better Quality of Life for the People)

NATIONAL EXPORT STRATEGY

There is a clear link with the objectives and priorities in the government program, including reforms in the Landspakket. On the other hand, increasing productivity and openness for innovations requires more than only reforms—reason why MEO has developed the National Export Strategy (NES). The strategy is built around technology and aims at diversifying the country through six priority sectors that have high growth and foreign-exchange earnings potential. This will help to reduce the large current account deficit that is driven by a large trade in goods deficit, only partially compensated by a positive trade in the services balance.

Figure 16: Priority sector and trade support functions



The NES identifies three strategic objectives: (1) forging better connections to markets through enhanced trade and investment policies, (2) strengthening institutions and fostering effective coordination for a conducive business environment, and (3) facilitating entrepreneurship and innovation to promote value addition.

Furthermore, the NES states that trade support functions, i.e., trade facilitation, trade information, trade and investment promotion and skills and entrepreneurship development, culminate in an e-government system for business to foster entrepreneurship, export and investment. The six prioritized sectors generating added value through labor productive activities for the island are tourism (smart and demand oriented), creative industries, education services, financial services, information technology services, and port & maritime services.

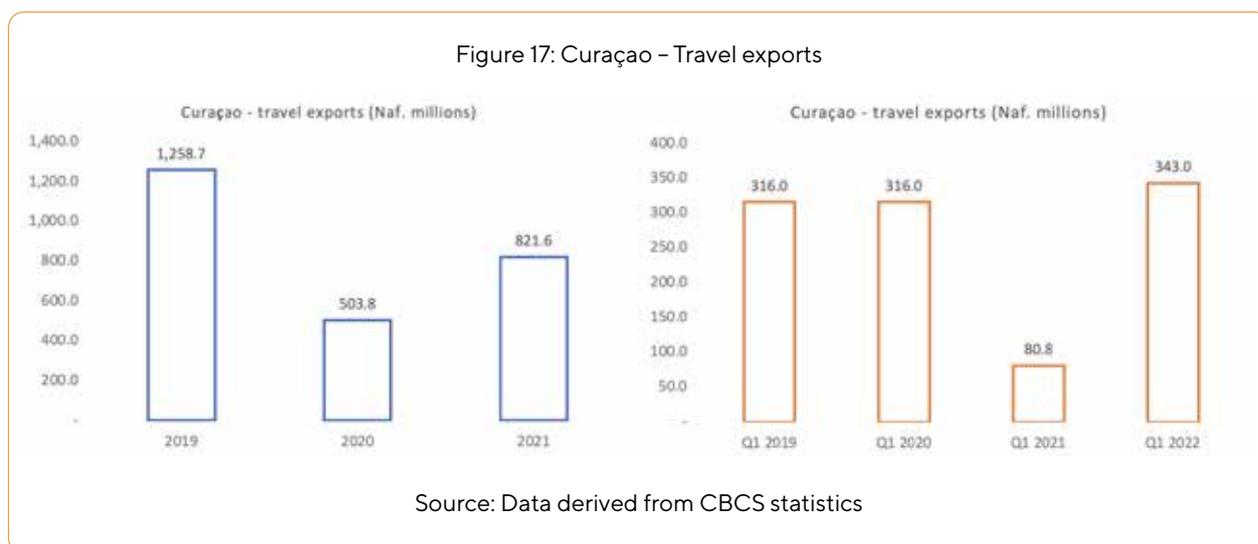
As such, the priority trade support functions can be considered as necessary building blocks for the priority sectors, allowing the strategic objectives to be met.

2.2.4. Balance of payments

CURRENT ACCOUNT (CA)

According to data derived from CBCS statistics, the deficit on the current account (CA) of the balance of payments for the monetary union dropped from Naf.1,721.1 million in 2020 to Naf.1,570.2 in 2021. These data were slightly updated to Naf.1,722.1 (2020) and Naf.1,576.7 (2021) as per December 13, 2022, with data for the first quarter of 2022 included. Here we can conclude that the CA deficit for the first quarter of 2022 (Q1-2022), being Naf.312.1, is substantially lower than Q1-2021, being Naf.590.4. This lower deficit in 2021 versus 2020, as well as Q1-2022 vis-à-vis Q1-2021, is mainly due to an increase in the net export of goods and services.

When we look at Curaçao, we see that tourism activities have increased significantly over the last year, compared to 2020. Travel exports grew from Naf. 503.8 million in 2020 to Naf. 821.6 million in 2021, an increase of 63 percent. This is in line with the sharp increase in stayover tourism recorded during that same period, although this recovery does not take tourism back to the pre-pandemic levels. However, the first quarter of 2022 shows a promising development, with travel exports above the pre-pandemic level (Naf. 343 million compared to Naf. 316 million).



Other noticeable developments were the foreign exchange revenues from bunkering activities that increased in 2021 (+22.5%) as a combination of both higher oil prices and volumes, while oil exports increased as a result of the auctioning of crude oil derivatives that were stored at Bullenbaai. Ship-repair activities, construction services, re-export of merchandise by free-zone companies, and higher receipts from computer & information services also added to the revenues.

In 2021, we also saw import prices increasing for import by the wholesale & retail sector. Container transport costs, especially from Asia, increased spectacularly. The higher import bill was also the consequence of a sharp increase in international oil prices, combined with higher volumes purchased.



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INCOME AND CURRENT TRANSFERS BALANCE

The CBCS recorded a deterioration of the income balance by Naf. 5.1 million, mainly due to a drop in interest payments received on foreign assets, combined with lower labor income earned from abroad and higher labor expenditures to abroad. On the other hand, the current transfer balance improved by Naf. 6.3 million, essentially because of a decline in current transfers, such as medical fees and benefits, paid to abroad.

FINANCIAL AND CAPITAL ACCOUNT

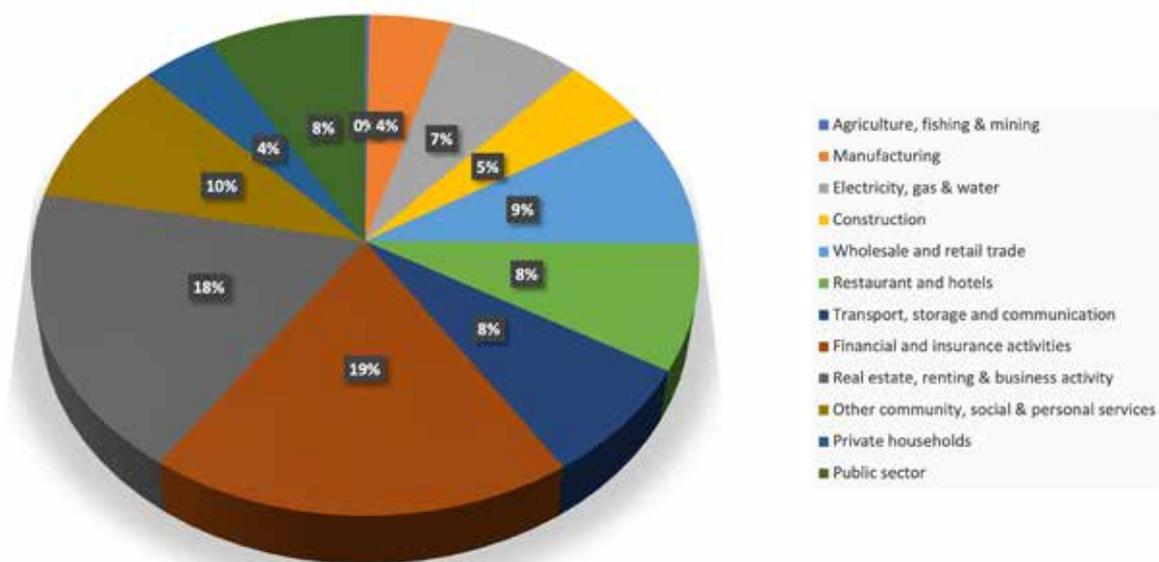
In brief, external financing into the monetary union rose by Naf. 1,584.5 million in 2021, of which Naf. 499.3 million (32%) went to the governments and Naf. 1,085.2 million (68%) to the private sector. The governments of Curaçao and Sint Maarten received liquidity support from the Dutch government related to the pandemic, which, among other things, substantially deteriorated the loans and credits balance (including external financing) by Naf. 1,202.7 million.

2.3. Sectoral performance

2.3.1. General

Sectors and industries are often used as synonyms. Based on data of the CBS, industry activities are based on the national accounts derived from the ISIC standards, in particular the ISIC, Rev.4 standards,⁶⁶ referring to the fourth revision. In its GDP values, the CBS displays an overview of GDP by industry. Figure 18 shows the contribution per sector to the economy for 2021, based on a combination of data derived from CBS, MEO and CBCS statistics and information.

Figure 18: Curaçao GDP-share by sector 2021



Source: Data derived from CBS and CBCS statistics

In 2021, the public sector's contribution to the economy was 8.4 percent. Financial intermediation (financial and insurance activities) almost equaled one fifth of the economy, while Real Estate, Renting & Business Activities took a share of 18.4 percent.

Projections of the CBCS as per September 2022 show that real output shrank in the construction sector (-4.6%), reflecting primarily a decline in turnover. Compared to 2021, Restaurants & Hotels (+38.3%) and Transport, Storage & Communication (+15.8%) show a substantial increase due higher activity, followed by an increase in Wholesale and Retail Trade (+9.8%).

2.3.2. Priority sectors

Seeing the strategic relevance of the priority sectors for the future development of Curaçao, as described in the NES, the context of each of these sectors will be put in perspective. Where possible, there will be a brief review of policy, performance and projects.

FREE ZONE

In 2020, the Free Zone, consisting of three parks, i.e., Airport Free Economic Zone, Harbor Free Economic Zone, and Industriepark Brievengat, counted for 9.1 percent of GDP, representing a value of Naf. 352.7 million. This share increased in 2021 to 9.4 percent and an estimated 9.8 percent of GDP in 2022. Total employment of all three parks is around 1,239 people, working for 145 companies.

2021 DEVELOPMENTS

Curinde, the facilitator of these zones, in its aim to improve the financial results, was planning to improve its services through:

- Additional rent sourced from the New Haven Industrial Zone;
- Export facilitated via its E-commerce platform (local & international merchants); through the website www.tropicshopping.com;
- Visitors/shoppers visiting the Free Zone once again after COVID-19 has subsided;
- Strategic alliances with local and international stakeholders with the aim to stimulate more investors;
- Facilitating more maritime connections to stimulate the transport of cargo;
- Taking the opportunity to spread the news about Curaçao when invited to participate as speaker/panelist in international conferences/forums.

Furthermore, Curinde maintained its ISO 28001 and ISO 18788 certifications. There was also an increased interest in the industrial area.

In terms of projects, it is essential to have a well-maintained building and working site. After receiving the mandate to rent in the New Haven Industrial area, Curinde will start to implement additional measures to maintain the buildings on its premises, adding to the quality of service rendered. Throughout 2021, focus was on more promotional international activities, export facilitation via the E-commerce platform, opening the Venezuela borders as soon as possible, the hub innovation for the Caribbean in food and agriculture projects, and target potential establishment of Call Centers. The Free Zone's gross value added in 2022 equals Naf. 378.1 million, equivalent to 9.4 percent of GDP.

2022 DEVELOPMENTS

A couple of developments have come to fruition in 2022, as shown in Table 1.

Table 1: Free Zone developments 2022

Destination Change – The New Industrial Zone	<ul style="list-style-type: none"> ✓ Re-shift of focus to more commercial activities, resulting in higher occupancy rates; ✓ Commercial industrial activities are common practice in Free Zones around the world; ✓ The MEO and the Ministry of Finance are working with Curinde to finalize the necessary laws and regulations that need to be in place to allow the New Haven Industrial Zone to start welcoming new /additional investors
New Tax Regime Law & Modernization Economic Zones Law	<ul style="list-style-type: none"> ✓ Workgroup (including Curinde) installed by the Minister of Finance ✓ Objective is to make the Free Zones fiscally attractive again to investors, while complying with local and international (OECD) regulations.
National Export Strategy (NES)	<ul style="list-style-type: none"> ✓ Curinde’s strategy is aligned to the NES, in particular with regard to the priority sectors.

The Industrial Park has outperformed the Free Economic Zone parks over the last three years. As of 2022, Curinde continues to actively apply the Fraud Risk Policy and its management of related risks such as Money Laundering. The facilitator, in cooperation with its private security company, has successfully been re-certified for ISO 28001:2007 Standard - Security Management systems for the supply chain, and for ISO 18788:2015 Standard - Management System for private security operations. The certification process was conducted based on annual audits from an international entity. Being ISO certified shows stakeholders as well as future investors that Curinde is transparent, well organized and well documented.

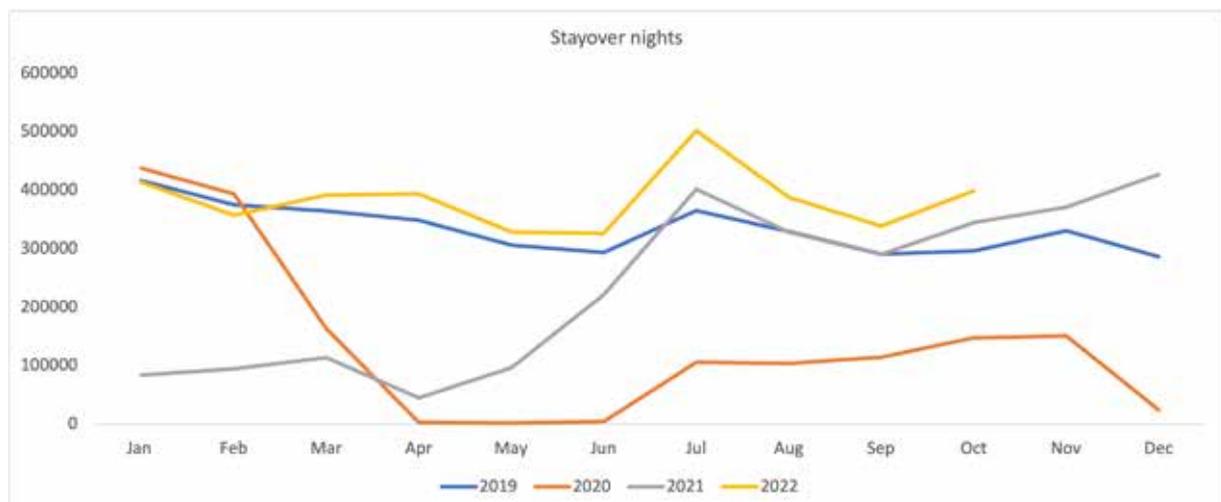
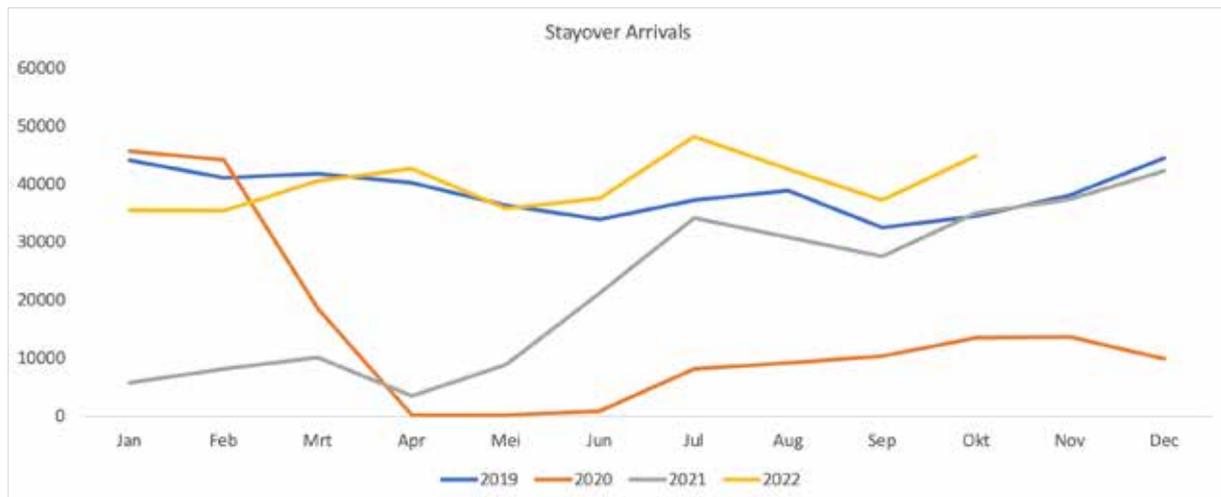
With respect to E-commerce, there was the launch of Curinde’s NFT Marketplace TropicalArts.com (an NFT marketplace for local and Caribbean artists). Next there were approximately 1.600 merchants on the tropicshopping.com website. In terms of sustainable energy, there were projects like solar, waste management, cannabis processing and plantation exclusively for export, as well as work towards obtaining the Authorized Economic Operator (AEO) status, and laws and regulations including those required by the OECD. Value added to GDP is estimated at 9.8 percent.

TOURISM

Stayover tourism

Tourism⁶⁷ picked up in 2021, and further accelerated in 2022. A rather slow start during the first quarter of 2021 was followed by a steady recovery in the second half. Curaçao was labeled by the Netherlands as a temporary orange-code destination due to the high infection rate of its inhabitants, but saw its code destination eased to yellow around mid-May. As per June 2021, recovery began with the arrival of the first cruise visitors since March 2020. Tourists visiting the island had to submit to the prescribed health-safety protocol guidelines stipulated by the national crisis team.

Figure 19: Curaçao stayovers 2019 - 2022



Source: Data derived from CTB statistics

Looking at 2022, we can see that stayover arrivals and nights surpassed pre-pandemic levels since the second quarter. This also translates in terms of occupancy rate, with an average rate of 70 percent from September through October. During that period, there were 355 thousand stayover visitors and 3.4 million stayover nights. The top 7 markets provide 84 percent of all visitors. These are:

Table 2: Curaçao visitors: top markets 2022

Market	Market Share (percent)
The Netherlands	51
United States of America	18
Colombia	6
Germany	3
Aruba	2
Brazil	2
Belgium	2

Source: Data derived from CTB statistics

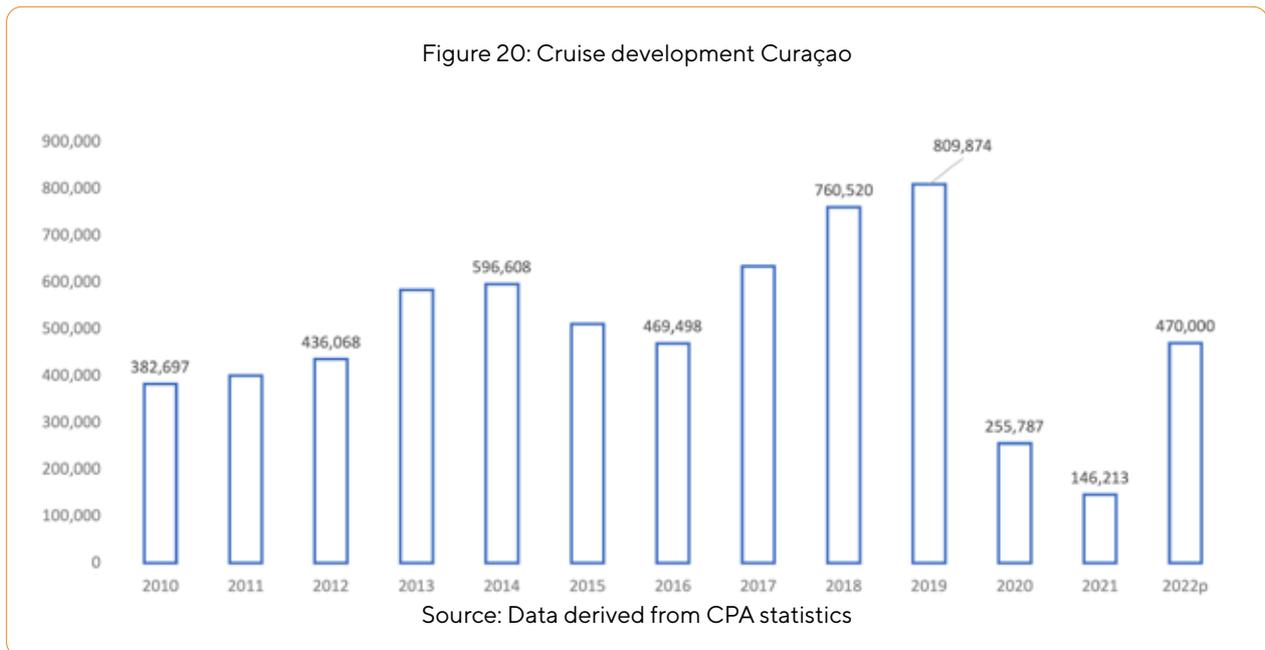
In October of 2022, there was a steep increase in visitors from the Netherlands (26.6%) and the US (20.0%) compared to October 2019. The average room occupancy rate during the first 10 months was 70 percent (compared to 71.7% in 2019), while the average daily rate YTD as of October is USD 207.01, which is below the Caribbean average of USD 277.39.



Cruise tourism

The cruise industry⁶⁸ has shown resilience since its restart in July 2020. Nearly 80 percent of travelers who have cruised before say they will cruise again, which is about the same percentage as before the pandemic. With worldwide volumes below 20 percent in 2020 and 2021, nearly 100 percent of Cruise Lines International Association (CLIA) ocean-going capacity is projected to be in operation by the end of July 2022.

Cruise tourism in Curaçao is picking up. For 2022, there is potential to exceed the original projection of 470,000 passengers, based on current schedules and a continued occupancy of 80+ percent.



There are a number of interesting developments in the cruise field. In May of 2022, cruise line New Oasis Class, with a capacity of 6,320 passengers (Allure of the Seas), achieved an average occupancy of 80 percent. Some inaugural calls have taken place, such as Norwegian Prima (3,315 capacity) and Celebrity Beyond (capacity 3,200) per October 2022, and Harmony of the Seas (6,360 capacity) per November. And for 2023, there is a terminal upland development projected to enhance logistics and experience.

ECONOMIC IMPACT

The Ministry of Economic Development (MEO) made an impact study for the tourism sector, based on the tourism impulse, excluding investment projects. Calculations were based on the tourist nights (up by 47% compared to the previous year) and cruise tourists (up by 342%) from January through September 2022.

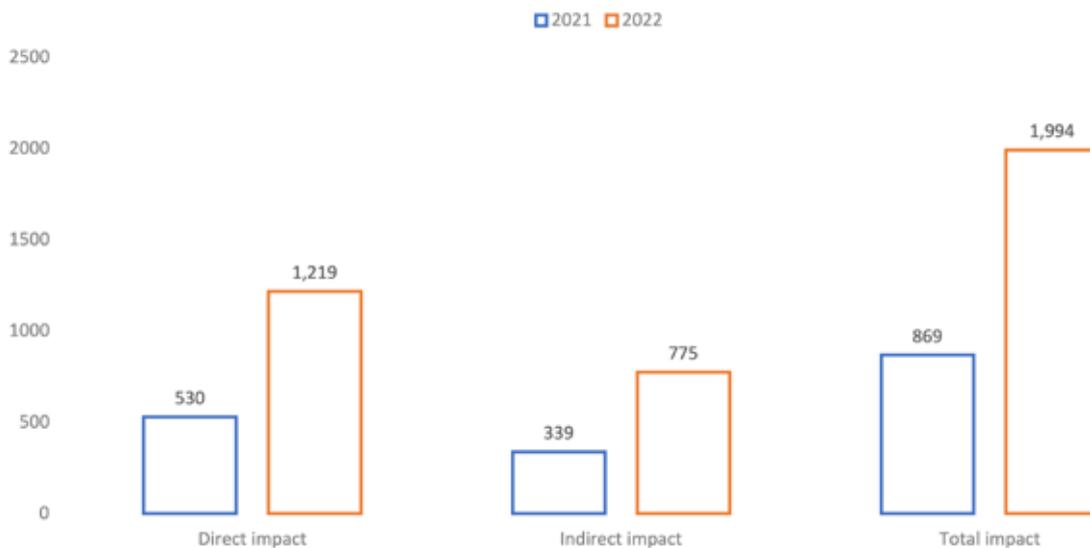
Table 3: Tourism Macro Impact 2022

Changes in % with respect to the previous year	2022
Prices, % mutations	
Wage rate enterprises	3.5
Consumption prices	2.2
Volume, % mutations	
Real tourism export	48.5
Exports	18.7
Imports	11.2
Private consumption	7.3
Private investments	13.8
Production business	13.9
Real GDP growth	12.4
Amount*1000	
Employment	5.3

Source: Curalyse macroeconomic model

The projection shows an upward trend in consumer prices and wage rate because of the higher demand. This higher demand gives a positive impulse to private consumption, investments and production. While real tourism export is expected to increase by almost 50 percent, real GDP in this sector is pushed forward by 12.4 percent. The impact on employment shows a positive contribution of 5,300 people.

Figure 21: Tourism—Total economic impact



Source: Curalyse Macroeconomic Model

The total economic impact of stayover tourism saw an increase of 129 percent in 2022 to a level of Naf. 1,994 million. This represents a 47 percent share of real GDP. As for direct impact, the Naf. 1,219 million corresponds to a share of 29 percent in the economy. Contribution to government revenues⁶⁹ (Naf. 146 million) is expected to be above the pre-pandemic level (2019: Naf. 13 million), and 124 percent above the 2021 level of Naf. 65 million.

Direct effects mainly refer to trade, hospitality, transport & communication, and electricity/water supply. As these activities are not stand-alone operations, they have their impact on other sectors as well. These are what we call the indirect effects, and sectors involved include financial intermediation, education, health, food products, and agriculture. The value of these indirect effects is a consequence of the multiplier, which is around 1.6 in the model, meaning that each Naf. directly invested in the tourism sector generates an output of Naf 1.60.

PORT

The Curaçao Ports Authority (CPA) and the Refineria di Kòrsou (RdK) have joined forces to work on the commercial details for port development, as a result of the approved port development master plan elaborated with the Port of Rotterdam. As a consequence, specific policies may need to be updated or even created, as long as the idea behind it remains in line with the master plan and the export strategy.

An essential aspect of ports is their potential to drive economic renewal.⁷⁰ CPA is not only engaged in the management of shipping and port facilities, but increasingly also in creating opportunities for new economic activities. According to CEO De Castro, CPA has four main roles: as a developer, developing port-related areas and facilities; as a service provider, providing tugs, pilotage, quays and buoys; as a sector manager, clustering service providers; finally, as a supervisor, monitoring enforcement, registration, legislation, inspection, environment/nature and safety.

Common sense shows that it is not economically profitable for each island in the Caribbean to develop its own infrastructure. For a full range of goods flows, it is logical for Curaçao to position itself as a hub, for example for LNG, says president-director Castelein of the Port of Rotterdam. The use of modern equipment and smart systems will increase efficiency and reduce costs. This benefits not only companies that use the port as a hub, but the entire economy. Next to this partnership with the Port of Rotterdam, CPA already has strategic agreements with ports like Miami, Aruba, Panama and Cuba. It is also a member of international organizations such as the Caribbean Shipping Association (CSA), the Florida Caribbean Cruise Association (FCCA), and the American Association of Port Authorities (AAPA).

CPA has divided maritime sector activities into five main categories including freight (cargo), Tanker (refinery and other), cruise (passengervessels), local (various vessels active locally) and other (various vessels, primarily tugs, drill ships, cable layers, etc.). Overall, there has been a substantial increase of 24 percent in vessels piloted inward and about 94 percent in Gross Tonnage piloted inward compared to 2021 (January through November). The increase is primarily related to the return to service of the cruise industry which has shown a strong performance in 2022 (see also cruise tourism). However, there is a bottleneck for marine activities and traffic (tankers) due to the lack of activity at the refinery and, up till now, at Bullenbaai. While there has been a slight decline in freighters piloted inward, an increase in freighter GT piloted inward suggests that the freighters that did call the port were larger (an increase of 13% of the average GT supports this).

69 Government revenues from tourism include room tax and sales tax from tourist expenditures, including cruise tourism

70 <https://dossierkoninkrijksrelaties.nl/2021/10/15/streep-door-participatie-havenbedrijf-rotterdam-in-Curaçao-ports-authority/>



Other developments in 2022 include the Port Commercial Development Plan in cooperation with the RdK, the implementation of a smart camera system, the Wharf (Kop van Scharloo apartments), the Rif terminal upland development planning, an LOI (letter of intent) for Batipaña/West Warf & Parera development, and finally MOUs (memorandums of understanding) with the Port in Surinam and Kingston wharves.

In terms of employment, a total number of 168 people are employed among the three companies: CPA (80), CPO (13) and KTK (75).

EDUCATION

Transnational Education (TNE) has been identified by MEO as a promising economic sector. It involves the provision of high-quality education by high-quality knowledge and research institutes that settle on the island. The purpose is to attract foreign students as a spin-off for economic growth, employment and foreign exchange generation. Furthermore, MEO puts emphasis on a red-carpet treatment through a TNE Committee that proactively provides information, facilitates and attracts new accredited institutions. The government of Curaçao has an official Transnational Education (TNE) policy by National Decree 2016/13124 dd. February 11, 2015.

TNE is not new as a sector, as five medical schools have been established for quite some time on the island. The government drafted a policy in 2014, which was ratified in 2015, creating preconditions for the establishment of TNE schools, and three non-medical schools received a charter to start their TNE activities. Currently, three applications from non-medical schools and one application from a medical school are pending to obtain a charter.

Cross-border knowledge education is relevant for the region. The main objective of the TNE policy is to attract institutions, investors, faculties and students. TNE is a form of export of knowledge education, as foreign students (80% requirement) are not allowed to enter the local labor market. The 20 percent local students who are admitted to the TNE institutes will contribute to the local labor market. However, the focus is not on locals getting TNE.

The current economic spinoff is based on certain assumptions.⁷¹ First of all, the estimated spending per student equals USD 2,250 per month, or USD 27,000 per year. Add to these an estimated two visitors per year per student, for an amount of USD 2,000, which brings the total spending per year per student at USD 29,000. Based on historical data, a faculty member of an institute spends 1.5 times that amount of USD 29,000, equating USD 44,000 per year. Another assumption is that there are eight faculty members per 100 students.

Table 4: Economic spinoff TNE

	USD	Naf.		
Per student				
Average monthly spending per student	2,250	4,005		
Average yearly spending per student	27,000	48,060		
Average yearly spending per student, incl. visitors	29,000	51,620		
Faculty member spends 1.5 times per student	43,500	77,430		

TNE landscape (MEO)				
Number of students		100		2073
Number of faculty members		8		166

	Estimates		Estimates	
	USD	Naf.	USD	Naf.
Total spending per year per student incl. visitors	2,900,000	5,162,000	60,117,000	107,008,260
Total spending per year faculty members	348,000	619,440	7,214,040	12,840,991
Grand total	3,248,000	5,781,440	67,331,040	119,849,251

Source: MEO Calculation

Based on the assumption of 2,073 international students currently studying on the island, the total economic impact in terms of spending would be almost Naf. 120 million, or approximately 2.8 percent of GDP.

CREATIVE SECTOR

For this sector, a national definition under the ISIC classification is yet to be identified. MEO, together with the CBS, is working on this and plays with the concept of introducing a satellite account similar to the one created in Colombia for the orange economy. Supporting documents for this new sector are the NES, in particular the execution of Strategic Objective 1: Forge better connections to markets through enhanced trade and investment policies, via trade agreements, access to finance and streamlining of formalities and procedures for export and import. The NES is supported by the NES Creative Industries 2022-2027 document.

Thoughts have been put forward to create a Committee for Creative Industries and an overarching association for the Creative Industries.

According to the NES, the creative industries (often referred to as the orange economy in the Caribbean), are a diverse sector, building on the interplay between human creativity, knowledge and technology. As such, it includes a wide range of subsectors, including design, animation, film, audio-visual, art, literature, cultural festivals and performing arts. The development of this sector was identified as a priority in Curaçao's National Development Plan.

FILM

Things are happening on the island in the film sector. The government is committed to develop the film sector on the island, reason why a Film Commissioner was installed as of 2017. On May 3, 2019, the Policy Document for the Film Industry in Curaçao was adopted by the Council of Ministers. Next to other objectives, it focuses on a Red-Carpet treatment for foreign film productions. As of January 1 of 2021, the Dutch Film Fund is open to producers from Curaçao.

At the beginning of 2021, the sector was still recovering from the pandemic. Exemptions were needed for several productions to proceed, which made filming appealing. A UK production meant for Curaçao had to be forcefully cancelled due to UK regulations.

In 2022, the government started adapting the film tax incentive proposal of 2019 to fit better into current best practices for film tax incentives. The Bioscoopverordening 1952 has been replaced by the Productie en Distributieverordening, provided with an obligatory film permit as part of the film policy.

Also, during 2022, Curaçao won two Golden Calf statuettes at the Dutch Film Festival. Interest for local filming (Dutch Caribbean) is increasing thanks to the Dutch Film Festival exposure and developments around topics such as diversity and inclusion. Productions ranged from reality and fiction to travel and documentary, while the total projection budget⁷² was around USD 2.5 million.

Employment in the sector is fluid because of the many freelancers who work on a project basis. The efforts for a classification of the creative sector should contribute to a better understanding and a more accurate estimate of the number of persons employed. In 2021, 34 companies were registered in the Curaçao Film Office's production database.

FINANCIAL SECTOR

The financial sector plays a pivotal role in the development of the island and this will remain the case, although the interpretation of its role is evolving, given the fact that it is extremely important for Curaçao to respond to current trends and developments. The entire sector's performance, described under the CBS nomenclature as "Financial and insurance activities,"⁷³ shows a contribution to GDP of 19 percent in 2019. During the first quarter of 2022, real value added declined by 3.3 percent because of a contraction in both the domestic and international financial services.

This trend was reversed during the second quarter, with an increase of 1.9 percent, as a result of a better performance in both the domestic and international financial services. Locally,⁷⁴ there was a rise in other fees and commissions of the commercial banks related to more financial transactions and a growth in net interest income, while internationally, value added in the sector was reflected by higher wages and salaries, moderated by a decrease in operational expenses.

72 MEO – Production Report creative industries (film sector)

73 While the CBS refers to "GDP by industry," i.e. 'Financial and insurance activities,' the CBS refers to "GDP by sector," i.e. 'Financial intermediation.'

74 Economic Bulletin CBS, Sailing the Shifting Global Winds Towards Inclusive Recovery, December 2022



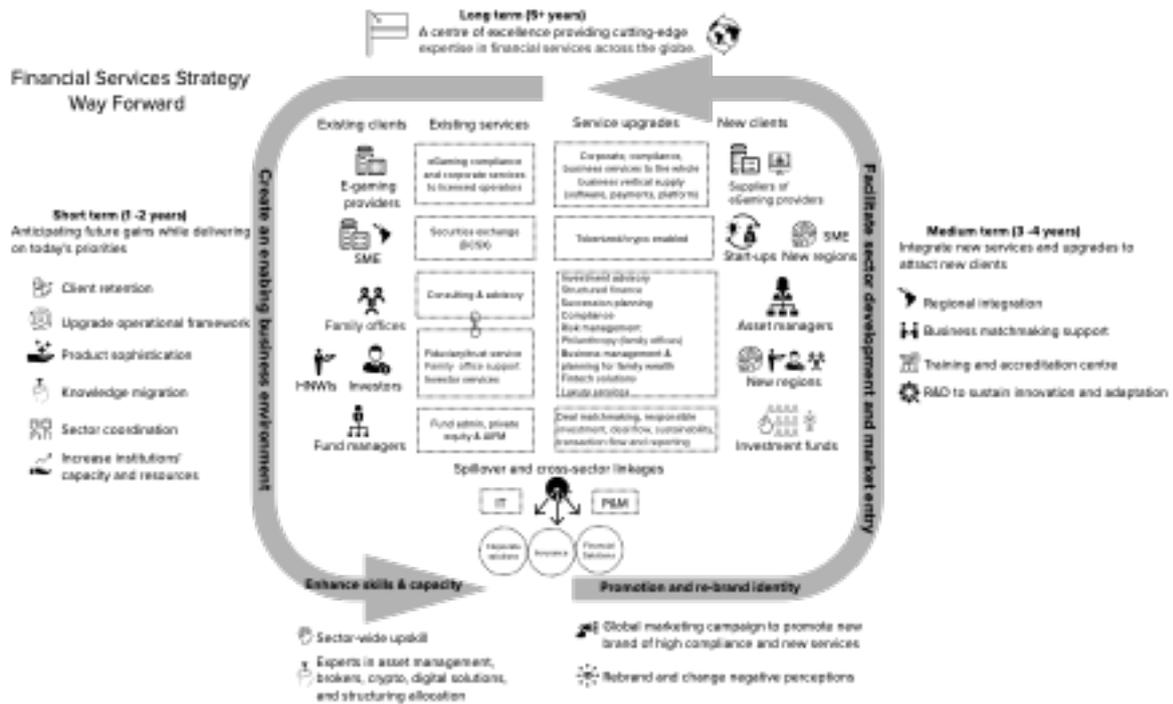
A look into the future with a sense of the present shows that although banks and other financial institutions maintain affiliates abroad for operations, they are adapting to changes in consumers' preferences by offering an increasing number of services online.

These include credit card transactions, person-to-person payments, and finance management. In the Curaçao NES 2022-2027 report on Financial Services, one of the conclusions is that Curaçao would have to adapt to recent developments and propose even more to its clients in terms of new products and additional services, putting special emphasis on human capital and infrastructure as a crucial factor⁷⁵ for the sector's growth.

Curaçao wants to develop a financial services ecosystem and has identified three vehicles to improve its international financial competitiveness: first, through the Dutch Caribbean Securities Exchange (DCSX) capital market and its intermediary services; second, through fund services and wealth management services, and third, by becoming an eGaming services provider regionally and internationally. A strategic framework has been designed, outlining short, middle and long-term objectives, to tackle the sector's endeavors in a balanced way.

⁷⁵ Other areas of competitiveness include the business environment, financial sector development and reputation (source: see also footnote 75, page 9)

Figure 22: Financial Services Strategy

Source: NES⁷⁶ Financial Sector 2022-2027

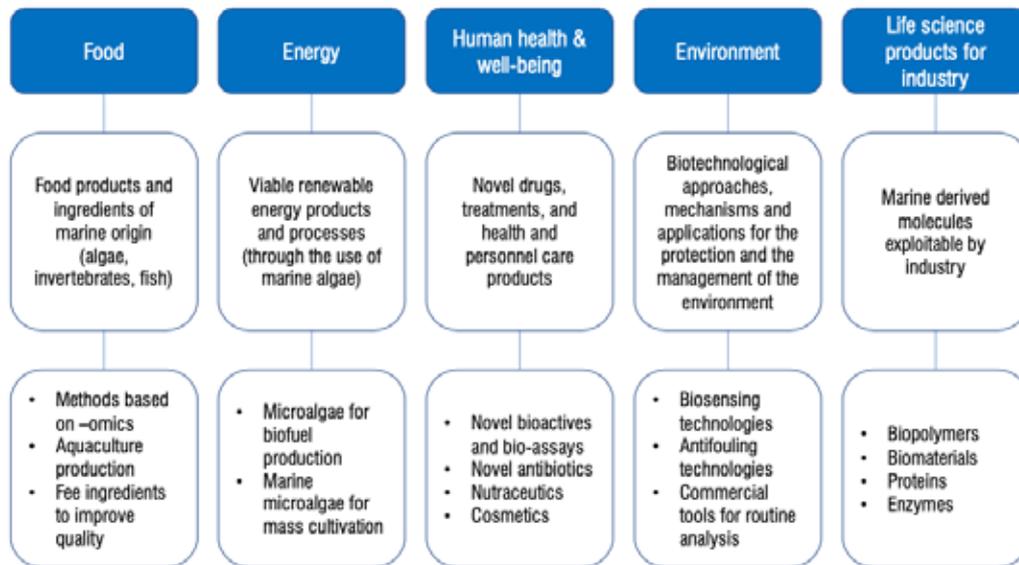
BLUE BIOECONOMY

This sector has been recognized as a very promising industry of the future, thanks to Curaçao's unique genetic and biochemical pool of marine biomes. The NES strategy for this specific sector is set to make the island a hotspot for biodiversity business opportunities. All of this through collaboration projects among research institutions, university spinoffs and incubators, contract research and manufacturing organizations. These activities will involve adequate student training with a set of marine biotechnology industry and real market skills. It will also entice, promote and improve businesses' perception of marine biotechnology courses and degrees, and attract young people to new employment opportunities in this area. It also puts Curaçao on the spot as an attractive pool for large international players of the pharmaceutical industry who are keen to discover the marine environment and seek for scientific discoveries that may lead to new breakthroughs in the medical field. Awareness could be created among these players through hosting big-name conferences on marine biotechnology (e.g., Curaçao's coral spawning event) and other national and international conferences.

It is very important to acknowledge that the potential value of this promising sector benefits the island, reason why the following strategic objectives have been identified in the Curaçao NES strategy for this sector: (1) Strengthening the legal and regulatory framework for a conducive business environment; (2) Reinforcing institutions and blue bioeconomy sector development coordination, and (3) Improving research, skills and knowledge transfers in the sector to stimulate investment opportunities, development and innovation. The blue bioeconomy offers endless possibilities, applicable to sectors as health, cosmetics, food, energy, aquaculture, marine environmental health and even biorefineries for biomass.

Specific products areas include anti-cancer drugs, wound healing, dental biomaterials, medical devices, omega-3 supplements, antioxidants, additives for textile printing, fish oils produced from algae, disease-resistant strains, removal of toxic elements including metals, biomarkers and biosensors for soil sediment and water testing, biodiesel, and proteins and carbohydrates for food. Figure 24 gives a pretty good overview of sectors with their application potential.

Figure 23: Sectors with biotechnological applications from marine bioprospecting



Source: NES 2022-27, Blue bioeconomy, page 7

The momentum seems right given the fact that this sector, seeing its systemic relationship with other sectors, is rapidly expanding. In 2019, the global market for marine genetic resources in the biotechnology sector was estimated at USD 4.7 billion and is expected to reach USD 7.4 billion in 2026. Growth is mainly driven by the increasing demand for new pharmaceuticals, health and personal care products, as well as advances in genetic technology and increasing financial support for new pharmaceuticals.

Another reason why exploiting the potential of this sector can be so valuable is its capacity to generate high value-added activities, thereby contributing to and stimulating higher labor productivity, next to the fact that blue-bioeconomy activities add to diversification as well.



2.4. Conclusion

As a SIDS, Curaçao is sensitive to the international context, reason why price developments, mainly driven by imported inflation, are carefully monitored. In response to higher expected interest rates on the international financial market, the CBCS tightened its monetary policy stance by raising the pledging rate to 4.75 percent by the end of November 2022. For 2022, inflation is expected to be 7.3 percent, with real growth at 3.8 percent. This is a promising performance. As for the issue of labor productivity, the government worked proactively by elaborating a National Export Strategy (NES), identifying six priority sectors (plus the Blue bioeconomy sector), all based on strategic objectives that should contribute to these sectors to create value, prosperity and growth.

Curaçao is facing both budgetary and debt challenges as a result of poor economic performance over more than a decade, substantially exacerbated by the pandemic in 2020, and rising public debt to a level of almost 90 percent of GDP. The island is recovering and, this year, despite the high inflation rate, economic performance is on the rise. However, the government is aware of the fact that measures under the Landspakket, incorporating an integrated approach to reforms across eight policy areas, should be implemented in a balanced way, so that economic growth, necessary to alleviate the fiscal and debt position of the island, is not nipped in the bud before it can even take off.

CHAPTER 3: OUTLOOK 2023

3.1. Global Outlook

The global economic outlook for 2023⁷⁷ looks gloomy, with recession, declining inflation and interest rate cuts as dominant factors. Shocks in geopolitics, energy and economics are clouding the world. A more or less stagnant US economy (+0.5% growth) is expected, while economies in Europe and the UK are likely to contract, and emerging market economies to recover modestly.⁷⁸ “The last 12 months have seen the fastest increase in the Federal funds rate since 1981 and the fastest increase in European Central Bank (ECB) rates since the establishment of the Eurozone,” says Seth B. Carpenter, Morgan Stanley’s Chief Global Economist. With the recovery of consumer goods supply chains and labor markets seeing less friction, inflation may fall, which in turn would ease policy measures and sustain higher global growth.

The US

Slowing growth and cooling inflation may make the Fed decide to announce a pause in future rate hikes. In such a scenario, the US economy should experience a soft landing and a modest rebound, compared to the earlier prevailing view of a hard landing and faster recovery. In the labor market, net job gains have slowed over the year and, together with a modest rise in labor force participation, a slightly higher unemployment rate of 4.3 percent is expected by late 2023.

Euro Area and the UK

Inflation is expected to remain well above target for the remainder of 2022 and 2023. According to Morgan Stanley, the euro area will contract by 0.2 percent in 2023 on the back of the ongoing energy crisis and tightening monetary policy. They expect the ECB, driven by inflation concerns, to increase rates to 2.5 percent in the first quarter of 2023, before starting to cut rates in early 2024. The region’s unemployment is at a record 6.6 percent low, with labor market participation higher than before the energy crisis.

After a growth of 7.5 percent in 2021 and an estimated 4.2 percent in 2022, the UK economy is set to decline by -1.5 percent in 2023. This is the steepest decline of all major economies⁷⁹ and it is expected that the Bank of England will end its rate hikes at 4 percent, following the Fed in cutting early 2024. Chief UK Economist Bruna Skarica says that the ongoing hit to real disposable income will continue to weigh on consumer spending, with elevated economic uncertainty prompting people to hold on to their savings. Also, a sharp decline in sales of residential real estate is to be expected as a consequence of the spike in mortgage rates.

77 <https://www.abnamro.com/en/news/gloomy-economic-outlook-for-2023-but-bright-spots-for-2024>

78 <https://www.morganstanley.com/ideas/global-macro-economy-outlook-2023>

79 Except for Russia – see also footnote 77



Asia

Three of the largest economies, i.e., China, Japan and India, will help to lead the way to recovery for the Asian region. China is forecasted to grow by 5 percent in 2023, in particular during the second half of the year, when the economy is expected to fully reopen following the repeal of COVID-zero policies early in the year, says Chief China Economist Robin Xing. Recovering private consumption could lead the way.

In Japan, forecasted at 1.2 percent GDP growth in 2023, households have significant excess cash and deposits that should support growth, while India seems to be on track to expand by 6.2 percent in real terms and 6.4 percent in 2024. Global offshoring, digitization and energy transition are setting the scene for unprecedented⁸⁰ economic growth in this country, expecting to surpass Japan and Germany and become the world's third largest economy by 2027.

Latin America

Average growth for 2022 is forecasted at 3.2 percent, and down to only 1.4 percent in 2023. The war in Ukraine, leading to the supply shock and contributing to inflation, causing food inflation and increasing the cost of living, has hit the poorest people most. The region's major concern is therefore the cost of living. While Brazil (+1%), Bolivia (+3%) and Argentina (+1%) are showing modest growth figures, Chile is projected to contract by 0.9 percent in 2023. For this country, the price of exports, the price of copper, and also a little bit of internal demand are especially important, says ECLAC executive secretary Jose Manuel Salazar.⁸¹

Brazil is faced with challenges like the environmental agenda to stop deforestation and achieve sustainable development, next to social gaps and challenges. Colombia, another country rich in assets (including natural resources, energy sources) has a particularly strong and solid institutional framework of policies in different areas, such as the president's program to set out a number of social and economic priorities to focus on education. Salazar states that with the tax reform, a fiscal space can be created to finance several of the program's priorities.

80 <https://www.morganstanley.com/ideas/investment-opportunities-in-india>

81 <https://www.bloomberglia.com/english/exclusive-eclac-sees-no-good-news-for-latin-americas-economic-growth-in-2023/>

Africa

In its projection of October 25, 2022, the Economist⁸² forecasted a growth of 3.2 percent in 2023 for the African continent. Although most states are expected to show growth, some of them will stagnate and teeter on the brink of recession. Regional heavyweights will remain stuck in slow-growth mode, amid more challenging domestic and external conditions, among them, higher interest rates, power supply issues, weak demand weighing on domestic and export-oriented business activity (see South Africa: +1.5% growth in 2023). In Nigeria, growth is forecasted at 3.1 percent, thanks to resilient commodities trade and dynamic consumer goods and services markets in major cities, while Egypt will post just under 3 percent, which is less than half the figure recorded the year before. Kenya is expected to be the fastest-growing major economy in Africa, showing a 5 percent estimate for 2023.

However, heightened geopolitical tensions, ongoing supply-chain disruption, business and consumer price pressures, and the rising cost of international and domestic finance are just some of the risks that could create an unsettled backdrop for the continent throughout 2023.

3.2. Local Outlook

Curaçao's outlook and performance for 2023 depend on both external and internal risks, as well as policy measures and any initiatives taken. External risks are the war in Ukraine, tighter global financial conditions, fiscal consolidation without room for public investments, the emergence of new coronavirus variants, the appreciation of the dollar vis-à-vis the euro, and the decrease in airline seat capacity. Internal risks involve the mismatch between supply and demand on the labor market as well as delays in the resumption of the refining activities. To cope with the possible risks, and to further bolster economic recovery, an Economic Recovery Action Plan and a National Recovery Plan are being developed. MEO's outlook for 2023 will depict a scenario without the resumption of refining activities.

MEO ASSUMPTIONS

For 2023, MEO expects inflation to drop back to a level of 2.9 percent due to a stabilization in the international markets. This, after a turbulent period of energy supply guarantees, supply chain crises and geopolitical unrest in 2022. The projection on private investments is set to increase by USD 72.2 million, allocated among the tourism (USD 43.6 million), real estate (USD 15.4 million)- and renewable energy (USD 13.2 million) sectors. In terms of volume, this implies a positive change of 2.0 percent compared to the previous year. Public investments are forecasted at USD 48.9 million and involve investments in the public sphere, such as buildings, homes, office design and equipment. The projection for 2023 shows an increase in private consumption of 0.6 percent as a result of a job increase (+800) and the moderation of inflation expectations.

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<http://country.eiu.com/article.aspx?articleid=1952522378&Country=Nigeria&topic=Economy&subtopic=Outlook&subsubtopic=Overview>

Figure 24: Curaçao economic outlook 2023⁸³

Macro-economic Indicators		Macro-economic Indicators	
Changes with respect to the previous year	2022	Changes with respect to the previous year	2023
Inflation in %	7.3	Inflation in %	2.9
Volume, % mutations		Volume, % mutations	
Tourism exports	44.2	Tourism exports	8.0
Exports	19.8	Exports	1.4
Imports	2.2	Imports	0.9
Private consumption	-0.1	Private consumption	0.6
Private investments	4.5	Private investments	2.0
Production businesses	5.1	Production businesses	1.3
Real GDP growth	3.8	Real GDP growth	1.2
Amount * 1000		Amount * 1000	
Employment	2.3	Employment	0.8

Source: Macro-economic model CuraLyse

Source: macro-economic model CuraLyse

After a successful year in 2022, with an increase of 48 percent compared to 2021, stayover nights are expected to increase further by 8 percent in 2023. This same percentage is also reflected in the volume mutations of tourism exports. A higher influx is especially forecasted vis-à-vis travelers from North America (+22%) and South America (+17%), while the biggest market—i.e., Europe—remains stable with a minor increase of 2 percent.

Non-tourism exports show a slowdown as a reaction to the expected slowdown in global activities. MEO expects a 0.5 percent increase for goods exports, as well as for International Financial Services (IFS) and other export activities (including bunkering and fisheries). Refining activities are not expected to resume in the first two quarters of 2023, and no information on this investment is available at the time of this writing, reason why this particular export activity is not included in the outlook for 2023. In terms of real output, MEO expects the economy to grow by 1.2 percent compared to the previous year.

3.3. Policy action

Despite the expected strong tourism demand, it is expected that negative socioeconomic and financial consequences will be inevitable if Curaçao returns to business as usual and does not take immediate and effective actions to realize sustainable development. To obtain different results, a different policy approach will be required. Based on this, the aforementioned external and internal risks are being tracked closely and elaborated in a host of scenarios that could derail the post-pandemic recovery globally, causing imbalances locally. To cope with these, and to further bolster economic recovery, an Economic Recovery Action Plan and a National Recovery Plan are being developed.

The Economic Recovery Action Plan outlines a short-term strategy for Curaçao to recover and become a sustainable economy that is inclusive and more flexible after the COVID-19 crisis, amidst increasing food and commodity prices and globally exacerbating inflationary pressures.

83 MEO's forecast does not include the refinery

The strategy proposed focuses on the following aspects:

- Prioritization of projects and an improved investment agenda, both backed up by the Council of Ministers;
- A governance structure for implementation that is centrally coordinated and adequately resourced (with stakeholder participation) under strong leadership and clear outputs.

Goal

To improve economic resilience and competitiveness.

With regards to the National Recovery Plan, the Government of Curaçao intends to establish, in conjunction with the economic, financial, social and institutional reforms and measures already initiated under the 'Landspakket' agreed for Curaçao, a National Recovery Plan within four to six months, within which measurable and sustainable development goals and milestones can be achieved in the following policy areas: the economy, education, social, financial, infrastructure, administrative and general affairs, health care and justice. As a result, the active participation of the public authorities through the nine ministries, industry, labor and non-governmental organizations and other relevant representatives is indispensable to ensure coherence and integrity. In view of the Country of Curaçao's current situation as mentioned above, and seeing that coherence between the different policy areas must be sought, it is crucial that in the formulation and subsequent implementation of the National Recovery Plan, well-considered, shared and sustainable, equitable and robust macroeconomic and structural policies be formulated, based on an approach that takes into account the effects of Green, Resilient and Inclusive Development (GRID). The GRID approach is a concept of the World Bank and is a development strategy that promotes economic growth accompanied by environmental objectives and social inclusion.

Through the dual objectives of poverty reduction and shared prosperity and including the aspect of sustainability, the GRID approach aims to address the risks to people, the planet and the economy in an integrated way that is tailored to the country's needs and objectives. This approach specifically pursues a development path that pursues sustainable economic progress and picks up the lost momentum of the Sustainable Development Goals (SDGs) in the short and medium term.

3.4. Conclusion

While on a global scale the outlook looks gloomy, with shocks and risks that dampen growth prospects, Curaçao is heading for a real GDP growth of 1.2 percent in 2023. The positive trend in tourism continues to penetrate the market, especially stimulated by visitors from North and South America, while the influx of visitors from the main market (Europe, i.e., the Netherlands), is expected to improve slightly.

However, the government is not blind to the reality. Despite the expected strong tourism demand, negative socioeconomic and financial consequences are seen as inevitable if Curaçao returns to business as usual. Therefore, an Economic Recovery Action Plan and a National Recovery Plan are being developed. The goal of this policy action plan is primarily directed towards improving local resilience and competitiveness, while the essence of the National Recovery Plan is to come up with an overall integrated and tailor made plan that pushes sustainable economic development forward, based on the principles of green, resilient and inclusive development.



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