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STRATEGIES FOR SUSTAINABLE LONG TERM ECONOMIC DEVELOPMENT IN CURACAO

Macroeconomic Diagnostic and Policy Issues

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Macroeconomic diagnostic & policy issues

- Constraints on small island states
- Structural macro issues for Curacao
- Short-term tensions and exogenous factors
- Key policy issues

Usual constraints on small islands states

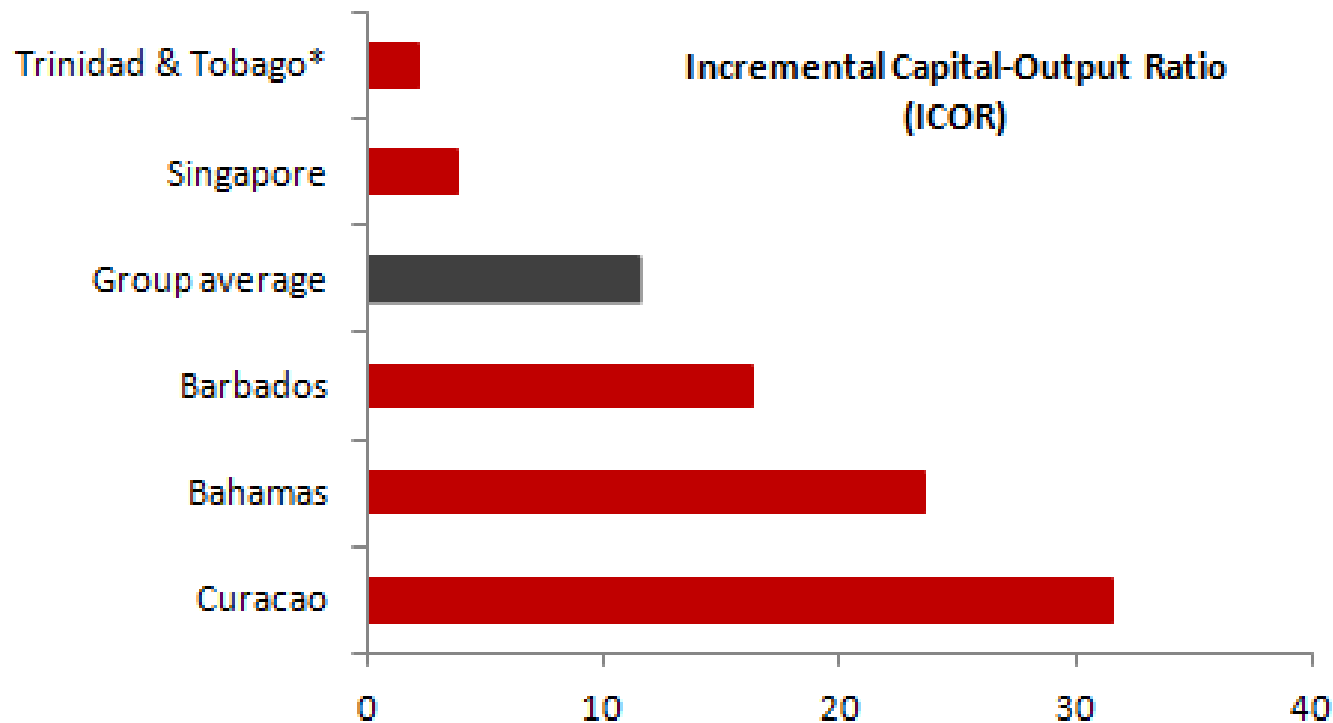
- Fully import dependent (imposes an open trade regime, fx stability and buffers against exogenous shocks)
- No economies of scale and imperative to move up the value chain
- Potential for sudden / large changes in population (migrations)
- Usually (not always) reliant on a limited number of « supporting revenues » (natural resources, remittances, services)

Structural macro issues for Curacao

- Investment is high, but associated with low economic returns: *productive / efficient* investment is too low
- Domestic saving too low and poorly intermediated into the domestic economy
- Lack of “profitable opportunities” acting as a disincentive for investment (low profits, burdensome regulatory / business environment)
- Inadequate skills and low productivity

Macro diagnostic - Illustration

*Illustration: comparison of economic efficiency of investment
(the higher the ratio, the lower the efficiency)*

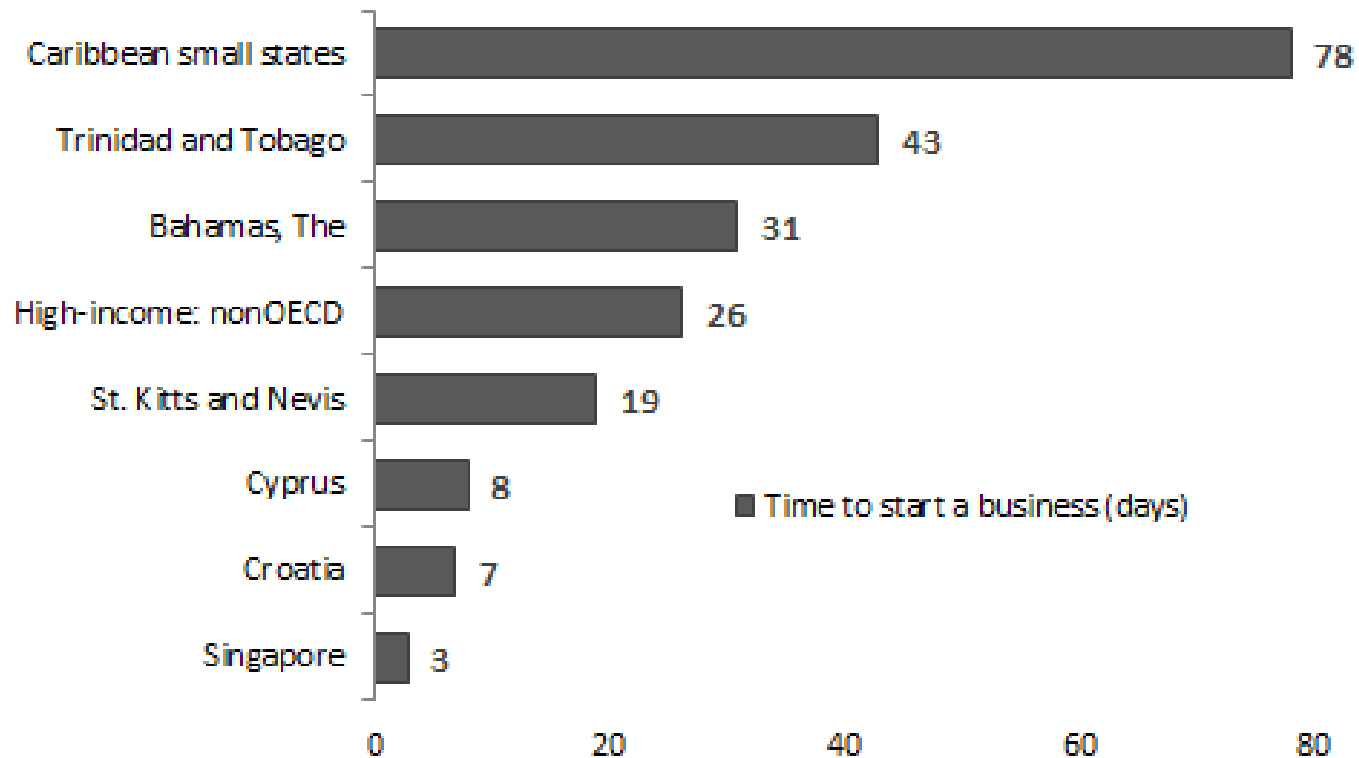


* Reflects average from 2001-2005

Sources: TAC, World Bank, CBS

Macro diagnostic - Illustration

Illustration: time required to start a business (WB 2011)



Source: World Bank

Short-term tensions and exogenous events

- Low growth, large fiscal and external deficit, low foreign currency reserves
- Exogenous events substantially affecting Curacao:
 - Overall difficulties in the Eurozone (demand / tourism, remittances...)
 - Structural changes in international financial architecture (off-shore centers, regulation, ...)
 - Changes in Latin America (Venezuela, Cuba...)

Key Policy Issues

- Fiscal sustainability and current budget tensions suggest that any reforms should be “budget neutral”.
- Fiscal shift to higher indirect taxes and lower direct taxes provides benefits similar to currency depreciation.
- Expansion of the tax base by capturing more of indirect taxes on transactions.
- Focus on policies that ease the “binding constraints”, (improving business environment and human capital)

Key Policy Issues

- Importance of “stability” (currency, rules and regulatory environment, predictability...)
- Need to have a substantial buffer in fx reserves, possibly with larger FDI, and implying a fully open access to capital markets and favorable rating
- Improve domestic financial intermediation and SME access to finance
- Disincentive for investment with low macroeconomic returns (e.g. real estate, retail...) and incentives for the others (e.g. telcom, logistics...)

Thank you for your attention

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