

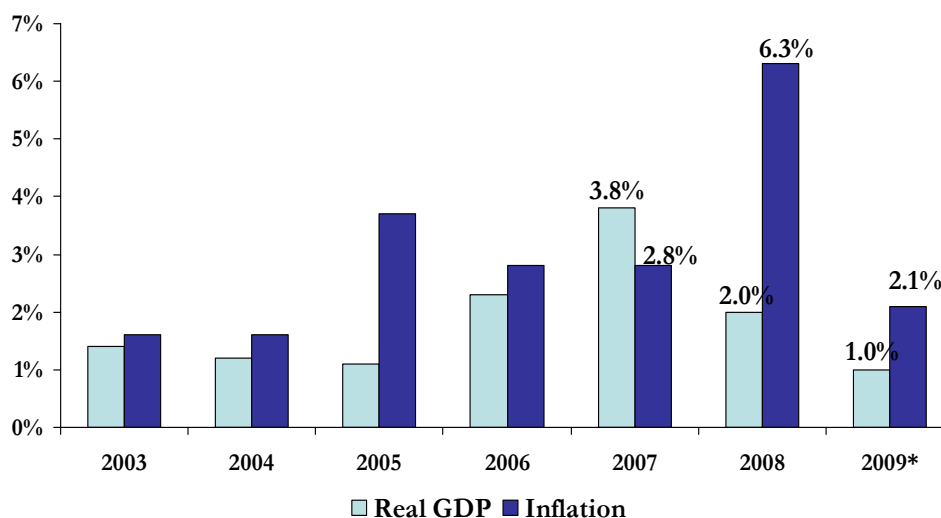


The Netherlands Antillean economy grew by 2.0% in 2008. Expectations for 2009 are less favorable

According to estimates of the Bank van de Nederlandse Antillen, the economy of the Netherlands Antilles grew by 2.0% in 2008. For 2009, the growth of the economy is expected to slow to 1.0%, as a result of the global economic downturn.

In its annual report of 2008, the Bank van de Nederlandse Antillen states that in the wake of the global financial crisis, the pace of economic activity in the Netherlands Antilles slowed from 3.8% in 2007 to 2.0% in 2008. This less favorable performance was backed by fewer domestic activities, caused by both weaker private and public demand. Growth in private demand decelerated, as the soaring consumer price inflation put perceptible strains on consumer spending and investments. The rise in food and energy prices tightened consumers' purchasing power. Private investments weakened slightly, supported by the ongoing tourism-related projects. Public demand decreased in real terms, reflected in both public consumption and investment. As opposed to 2007, the external component had a less negative influence on real GDP growth. This was due to the fact that exports grew at a faster pace, stemming mostly from gains in bunker sales, free-zone, and tourism activities. Exports have relatively high import content, hence the considerable import growth was backed by positive developments in construction, free-zone, and tourism as well as the soaring food and oil prices. As a result, the current account deficit of the balance of payments worsened in 2008, but at a more moderate pace than in 2007. This higher current account deficit was financed primarily by net borrowing from abroad.

Netherlands Antilles: Real GDP growth and inflation



* projection

In terms of production, the slowdown in GDP growth stemmed from all sectors, except the hotels & restaurants and the real estate, renting & business services sectors. The outturn in the hotels & restaurants sector was associated with the strong gain in stay-over tourist arrivals, mainly from Curaçao, which benefited especially from the dollar tourism phenomenon from Venezuela. Cruise tourism registered a slight increase, stemming largely from a significant growth in Bonaire. The real estate, renting & business services sector provided a positive stimulus over the course of 2008, mainly because of the purchase of properties and investments by nonresidents and the ongoing tourism project developments.

Activities in the construction sector continued to expand, resulting from ongoing tourism-related and real estate projects. The transport, storage & communication sector performed well, owing to both the air transport and harbor sectors. In addition, the production growth in the financial services sector remained stable in 2008. This development was backed by a perceptible gain in domestic financial services in terms of value added, outweighing the reduction in the activities in the international financial services sector. The domestic financial services sector reported an increase in credit extension as well as profits. In contrast, the contraction in the international financial services sector was largely the result of the global financial crisis.

The only sector that recorded a drop in activities in 2008 was “manufacturing,” due entirely to the poor performance of the Isla refinery in Curaçao. The decline in refining activities outbalanced the gain in activities in the ship repair industry.

Consumer price inflation in the Netherlands Antilles rose considerably in 2008, as the inflation rate jumped from 2.8% in 2007 to 6.3% in 2008, the highest since 2000. External factors, such as the sharp increases in oil and other commodity prices were mainly responsible for this price acceleration. The internal contributor partly accountable to the higher inflation was the 15% increase in the minimum wage to compensate the lower wage earners for the loss of purchasing power.

In spite of the slowdown in economic growth, employment continued to grow in the Netherlands Antilles. This performance can be explained by the fact that developments in production have a lagged effect on the labor market. The jobless rate declined from 11.5% in 2007 to 9.7% in 2008. All islands contributed to the improved labor market situation, marred only by a slight increase in Curaçao’s youth unemployment rate.

Real GDP growth is projected to decelerate further to 1.0% in 2009, but there are some downside risks. The growth estimate for 2009 reflects the deepening of the global financial and economic crisis of 2008. The easing of economic expansion will be due largely to slower domestic and foreign demand. The ongoing crisis is expected to adversely affect our tourist arrivals and foreign direct investment inflows, which have been an important source of finance for private sector investments. Expectations are that inflationary pressures will

decline in 2009, as the inflation rate is projected to decelerate to 2.1%, led by lower world oil and food prices. The less optimistic economic outlook will translate into fewer job opportunities, leading to a higher unemployment rate of 10.2% in 2009, up from 9.7% in 2008.

BANK VAN DE NEDERLANDSE ANTILLEN
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