



Press release 2019-029

***Traa during VBC luncheon:***

**Supply side of the economy requires more attention**

During today's luncheon of the *Curaçao Business Association* ("Vereniging Bedrijfsleven Curaçao"), Mr. Bob Traa, acting president of the *Centrale Bank van Curaçao en Sint Maarten* (CBCS), sparked the interest of those present with his diagnosis of and possible solutions for the current economic situation in Curaçao.

Traa pointed out that labor productivity shows a negative trend in Curaçao, while at the same time the growth of potential working age persons is shrinking. As a result, the potential growth of the economy is negative. When productivity declines, business firms reduce employment to lower costs, which increases unemployment. Curaçao not only has a high unemployment rate, there is also too much unused capital, e.g., empty houses and hotel buildings, and an excess liquidity in our banking system. Furthermore, as a result of the negative productivity, Curaçao lacks competitiveness and has a high deficit on the current account of the balance of payments. The economic structure is gradually shifting from industry to tourism.

Based on this diagnosis, Traa argues that economic policy in Curaçao should be focused on both aggregate demand and aggregate supply. Given the high deficit on the current account of the balance of payments, Traa sees little room to stimulate the economy from the demand side. Moreover, in respect of fiscal policy, the speed at which measures are implemented must be taken into account. If we try to adjust fiscal policy too strongly, economic activity could additionally be stalled.

The possibilities for monetary policy actions are also limited, as the NAf is pegged to the US dollar. Furthermore, the economic dynamics of Curaçao and Sint Maarten are different. Sint Maarten's recession is V-shaped and may well be in a recovery phase already, while Curaçao has a structural adjustment path recession (L-shaped).

The focus should therefore be on reinforcing aggregate supply in order to boost potential growth. Curaçao should strive towards the implementation of a structural reform plan. These reforms should be focused on making both the labor and product markets, as well as the government apparatus, more efficient and productive. The emphasis should be on a tripartite commitment and *flexicurity*, i.e., protecting people and not jobs. The government, the labor

unions and the business community should actively work together on defining the structural reform agenda.

With his speech, Mr. Traa intends to stimulate a dialogue to achieve a broadly supported structural reform agenda.

Mr. Traa's presentation can be downloaded from the CBCS website at <https://www.centralbank.cw/publications/speeches-presentations>.

Willemstad, August 21, 2019

CENTRALE BANK VAN CURACAO EN SINT MAARTEN