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*“CURRENT SITUATION DEMANDS INTEGRATED APPROACH”*

## **The countries in the Dutch Kingdom should work closely together on a medium-term adjustment plan**

Willemstad/Philipsburg – “The corona crisis combined with the spillover effects of the economic crisis in Venezuela on Curaçao and the impact of Hurricane Irma in Sint Maarten have caused a deep imbalance in the public finances and the budget dynamics of both countries,” Centrale Bank van Curaçao en Sint Maarten (CBCS) interim president Dr. Jose Jardim stated in the Central Bank’s 2019 annual report. “Given the magnitude of this imbalance, single-track fiscal policy will not be effective in achieving recovery,” he argued. “The current situation demands an integrated approach in which the countries in the Dutch Kingdom work closely together on a medium-term adjustment plan of fiscal consolidation and growth-enhancing structural reforms tied to a strict timeline.”

The economic repercussions of the global pandemic for Curaçao and Sint Maarten are immense. “The economies of both Curaçao and Sint Maarten are projected to contract by more than 20% in 2020. This severe economic contraction will result in rising unemployment, more poverty, and a further worsening of the public finances”, Dr. Jardim stated. “The corona crisis has exposed our macroeconomic weaknesses and vulnerabilities including unsustainable public finances, rigidities in the labor market, and an overall poor investment climate. If these weaknesses had been addressed effectively earlier, the countries would have been in a better position to cope with the current crisis”, he continued.

The Kingdom Council of Ministers agreed to deviate from the budgetary rules stipulated in article 25 of the Kingdom Law on Financial Supervision for Curaçao and Sint Maarten. Furthermore, both countries requested financial support from the Netherlands to mitigate the negative social-economic consequences of the corona crisis through stimulus and relief measures, including payroll subsidies for businesses and income support for the most affected groups in society. In addition, part of the financial support from the Netherlands will be used

to compensate for the loss of tax revenues incurred because of the deep economic contraction.

However, the financial support has been tied to strict conditions by the Kingdom Council of Ministers. “Tying financial support to structural reforms is in principle not unreasonable. However, the current conditions imposed by the Kingdom Council of Ministers are not addressing our macroeconomic weaknesses in a structural manner,” Dr. Jardim pointed out. “Some of these conditions include measures that are counterproductive due to their procyclical nature exacerbating unemployment conditions and poverty”.

Instead of single-track fiscal policy that will not be effective in achieving recovery, Dr. Jardim argues for a medium-term plan of fiscal consolidation and growth-enhancing structural reforms. “This plan should include economic reforms that increase the growth potential of Curaçao and Sint Maarten. Both countries should finally draft and implement measures that improve the investment climate, address labor market rigidities, and foster a better match between labor demand and supply”, he explained. “In the area of fiscal policy, government expenditures should be controlled by reducing spending and changing the budget dynamics, i.e., expenditures should grow less than revenues. Therefore, the annual increase in wages & salaries in the public sector is not sustainable.” In addition, Dr. Jardim recommended taking measures to improve tax compliance to increase government revenues without undue reliance on raising tariffs.

“Curaçao and Sint Maarten should also negotiate with the Dutch government to transform part of the financial support into a grant to reduce the public debt burden,” Dr. Jardim recommended. After all, the borrowing due to the corona crisis will not only result in unsustainable public debt levels but also increase the foreign indebtedness of the monetary union, which will affect the balance of payments in the future. “Turning these loans into a grant could be conditional on progress made with fiscal consolidation and structural reform,” he proposed.

The complete text of the Report of the President and the Bank’s 2019 Annual Report can be viewed on the Bank’s website at [www.centralbank.cw](http://www.centralbank.cw) under the Publications section.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN