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"Solidarity is now more important than ever"

THE IMPACT OF THE COVID-19 PANDEMIC PRESENTS MAJOR CHALLENGES TO CURAÇAO AND SINT MAARTEN

WILLEMSTAD/PHILIPSBURG - The *Centrale Bank van Curaçao en Sint Maarten* (CBCS) is preparing an economic and financial impact analysis on the COVID-19 pandemic, partly at the request of the governments of Curaçao and Sint Maarten. The analysis involved is highly complex and any comments on its results can only be presented in quite general terms at this stage. That explains why the economic forecasts of larger and more prominent international institutions are also still pending publication.

The monetary union's economic outlook was bleak even before the start of this pandemic, showing a further contraction of Curaçao's economy (by approximately -2.5%) due to the structural adjustments as a result of developments in Venezuela (measures to improve public finances and a further decline in refining activities in Curaçao) and a slowdown in Sint Maarten's economic growth (from 5.0% to 2.9%) mainly due to weaker growth in cruise tourism.

This outlook has now deteriorated. The inevitable decision to close borders to protect the local populations against COVID-19 will be at great cost. Tourism, the monetary union's main export sector, is basically coming to a standstill—Cruise ships no longer call at the islands and, in the absence of air connections with the outside world, stay-over tourism has ceased. This will result in economic contractions on both Curaçao and Sint Maarten. "Given the already fragile state of the monetary union's economy as a result of Hurricane Irma and the situation in Venezuela, businesses will not be able to absorb this blow on their own," according to CBCS Interim President Dr. José Jardim.

This is a direct result of Curaçao and St. Maarten's size and economic structure. Both are small service-based economies that are heavily dependent on foreign countries. By way of illustration: Exports of goods and services account for around 70 percent of the combined Gross Domestic Product (GDP) of the monetary union's two economies and imports account for around 90 percent. This makes the monetary union's economy particularly vulnerable to external shocks.

The exact extent of the contraction will depend on how long the current situation will continue. It is impossible to predict how quickly the situation may return to normal, but the current exponential increase in the number of infections in Europe is an indication that the peak has not yet been reached. It will take at least a few months before some level of normalcy returns.

The seriousness of the situation is also reflected in the fact that the US Federal Reserve cut its interest rate down twice in just a few days, to the level just marginally above zero, bringing it back to the all-time low of the 2008-2009 financial crisis. In both Europe and the US, several governments are considering fiscal stimulus packages ranging into the hundreds of billions and even trillions of dollars in order to prevent the economy from imploding.

According to the CBCS: "Curaçao and Sint Maarten do not have the tools and resources to mitigate such a crisis." The governments do not have the budgetary scope to absorb it. Moreover, under the Kingdom Law on Financial Supervision, Curaçao and Sint Maarten are not allowed to borrow in order to deal with the situation. Jardim is adamant: "Curaçao and Sint Maarten are facing a difficult task. It is precisely in times like these that the countries within the Kingdom of the Netherlands should provide each other with support and assistance. Solidarity is now more important than ever." What sets this situation apart is that all parts of the Kingdom are facing these same profound challenges at the same time.

In view of the large current-account deficits that will inevitably accumulate, the CBCS sees no other option than to make allowance for the countries to deviate from the financial standards laid down in the Kingdom Law on Financial Supervision of Curaçao and Sint Maarten. The CBCS also considers it extremely important that an aid package (in the form of an emergency credit line) be implemented for the governments of Curaçao and Sint Maarten and the countries' respective private sectors, to cover public deficits and provide financial support to the private sector; the latter with the aim of preventing mass redundancies. "The harm to be suffered by society can only be alleviated if salaries continue to be paid despite the loss of sales," said Interim President Dr. Jardim.

The challenges of the coming period will undoubtedly put enormous pressure on the governments of both countries. The CBCS will therefore make every effort to be of assistance to the governments of Curaçao and Sint Maarten. Finally, the CBCS is currently in close consultation with the representative organizations of the banking sector to arrive at adjustments that will help banks to meet their customers' needs and on the other hand be better able to absorb any (un)foreseeable shocks themselves.

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CENTRAL BANK OF CURACAO AND SINT MAARTEN