



Press release 2020-016

*Based on calculations of the CBCS*

## **Despite redistribution, a solidarity levy will have a negative effect on the economy**

**Willemstad/Philipsburg – The Centrale Bank van Curaçao en Sint Maarten (CBCS) has calculated the macroeconomic effects of a solidarity levy on the request of the minister of Finance of Curaçao. “The analysis reveals that the solidarity levy will result in an even deeper economic contraction in 2020 than was initially projected”, even though part of the revenues from the levy will be allocated for income support for some of the vulnerable and most affected groups in society,” according to dr. Jose Jardim, interim-president of the CBCS.**

The economy of Curaçao has been hit hard by the global outbreak of the COVID-19 coronavirus and the measures that the government has taken to contain a local spread of the virus. Assuming a closure of the borders for a period of 3 months and a lockdown of 1 month followed by a gradual recovery after re-opening, the CBCS projected an economic contraction of 17.7%. It should be noted, however, that the longer the duration of the lockdown and border closure, the deeper the contraction will be.

“The deep economic contraction will cause a further increase of unemployment, more poverty, and a worsening of the public finances. Curaçao was already facing major socio-economic challenges before the outbreak of the pandemic that are currently aggravated”, explains dr. Jardim. “The government of Curaçao has requested financial support from the Netherlands. The first tranche of liquidity support covering 6 weeks up till mid-May was, however, significantly lower than the amount the government had requested to finance the support measures. Therefore, other options should be explored”.

One of the options that is being considered by the Curaçao government is the introduction of a general solidarity levy on all income equal or above the wage limit for the ZV-OV premium for the year 2020, i.e., a gross monthly income of NAf.5,781 or higher. The CBCS assumes in her calculations that the solidarity levy will be in place for a period of 6 months. “Even though

part of the revenues from the solidarity levy will be allocated to for income support of some of the vulnerable and most affected groups in society, it will have a procyclical effect on the economy. The solidarity levy will cause a deeper economic contraction of 18,9% aggravating the 17.7% expected contraction”, according to dr. Jardim.

The consumption of the group that will pay the solidarity levy will drop, caused by a decline in its disposable income. Part of the revenues from the solidarity levy will be allocated for securing jobs (and thereby securing disposable income) for the group under the wage limit. The government of Curaçao intends to use the other part of the revenues from the solidarity levy for other purposes, namely replenishment of the reserves of the SVB, compensation for the loss of revenues of the government, and financing of the operational costs of the support measures. In addition, not all affected groups in society will be eligible for support, resulting in a decline of their consumption. “Consequently, there is only a partial redistribution of income from the group with an income above the wage limit towards the group with an income below the wage limit. That explains the projected decline in private consumption as a result of the solidarity levy. The greater the share of the revenues that will not be allocated for redistribution, the greater the negative effect on the economy”, explains dr. Jardim further.

Based on a rate of 10%, the net revenues of the government as a result of the solidarity levy will be only NAf.67 million. “Therefore, it is not realistic to expect that an economy that was already contracting for a few years before the outbreak of the pandemic, will generate substantial revenues through a solidarity levy to finance the remaining package of support measures”, according to the interim-president. “It is recommended that the government explores ways of reducing its expenditures instead of introducing an additional tax. The freed up funds can be complemented by additional financing from the Netherlands and to a lesser extent loans on the local capital market. The limited available funds to cover the income that has been lost as a result of the lockdown call for restarting, in a responsible yet swift manner, of key economic activities that are currently in a standstill in order to reduce the costs of the lockdown and initiate the economic recovery”, concludes dr. Jardim.

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CENTRALE BANK VAN CURACAO EN SINT MAARTEN