



# Translation of: Advice pertaining to the adopted budget 2024

Original title: Advies bij de vastgestelde begroting 2024

*In case of differences in interpretation between the English translation and the Dutch version of the text, or in legal proceedings or escalation procedures pursuant to applicable regulations, the original Dutch version shall always be leading.*

Dear Ms. Gumbs,

On May 15<sup>th</sup>, 2024, the Board of financial supervision of Curacao and Sint Maarten (Cft) received Sint Maarten's adopted budget for 2024 (the budget). This exceeds the statutory term set to December 15<sup>th</sup>, 2023 by almost six months.<sup>1</sup> You hereby receive the advice of the Cft pertaining to this budget.<sup>2</sup> In Annex 1, you will find a further clarification and substantiating figures.

## **Conclusion**

In the budget, Sint Maarten presents surpluses on the operational budget for the period of 2024-2027. However, the Cft is of the opinion that the income and expenses have not been realistically budgeted. As an example, the Cft observes an overestimation of the tax income of ANG 11 million. The Cft considers Sint Maarten's intentions for 2024 to introduce a tourist tax and to sell Winair shares not sufficiently substantiated and not feasible in accordance with the planning. In addition to these uncertainties on the income side, in comparison to 2023 the expenses increase by ANG 78 million (16 percent) in 2024. Furthermore, the budget you submitted is not sufficiently substantiated, not orderly and not verifiable.<sup>3</sup> As a consequence, the Cft is unable to determine if the budget meets the standards set forth in the Kingdom Act on Financial Supervision Curacao and Sint Maarten (*Rijkswet financieel toezicht Curaçao en Sint Maarten* - Rft).<sup>4</sup> Considering the administrative challenges Sint Maarten currently faces, the Cft recommends the country to amend the budget in such a manner that it contains little new or additional policies as possible.

For 2024, Sint Maarten budgets ANG 263 million in investments. Considering the limited implementation capacity, the Cft does not consider this to be realistic. Furthermore, part of the proposed investments for 2024 has not been adequately substantiated. The multi-annual budgeted investments also lacks substantiation. In its budget, Sint Maarten assumes there will be a refinancing of ANG 74 million. Refinancing has not been explicitly regulated in the Rft, which means that as a general rule, Sint Maarten is obligated to repay this loan. Since Sint Maarten does not include a liquidity planning in its budget, the Cft cannot assess if repayment is indeed possible.

Due to the uncertainties in the budget, the Cft is unable to assess if Sint Maarten will meet the legally required deficit compensation in the period 2024-2027.<sup>5</sup> In its advice pertaining to the adopted budget amendment (BW) 2023, the Cft requested Sint Maarten to multi-annual include higher surpluses than were budgeted to date.<sup>6</sup> The Cft considers a surplus of 0.5 percent of the gross domestic product (GDP) from 2024 onwards to be feasible and reasonable. This means a surplus of ANG 16 million in 2024.<sup>7</sup>

The Cft considers it important that Sint Maarten implements amendments to the budget and recommends the following:<sup>8</sup>

1. Base the estimate of the income and expenses on the most recent actual figures. Adapt the interest expenses in accordance with the agreements regarding refinancing of the loans for liquidity support.
2. Revise the intentions to implement a tourist tax (ANG 9 million) and to sell the Winair shares (ANG 13 million) on the basis of feasibility and amend the budget accordingly.
3. Ensure structural control of the budgeted expenses and provide these with adequate substantiation.
4. Amend the budget in such a manner that from 2024 onwards, it shows surpluses on the operational budget of a minimum of 0.5 percent of the GDP. This means a surplus of ANG 16 million in 2024.
5. Provide sufficient substantiation for the proposed investments for 2024, with due regard for the limited implementation capacity and the late adoption of the budget. Provide the multi-annual capital budget with an explanation and start drawing up a multi-annual investment agenda.
6. Draw up a multi-annual liquidity planning, based on which repayment and the possible necessity of (refinancing of) loans can be assessed.

### **Explanatory statement**

The budget shows surpluses on the operational budget for the period 2024-2027. The multi-surplus increases from ANG 2 million in 2024 to ANG 13 million in 2027. The budget has been drawn up based on the BW 2023. When assessing the budget, the Cft used the most recent actual figures displayed in the fourth implementation report (UR) of 2023. However, the realization in the UR deviates from the BW 2023. According to the Cft, this leads to an overestimation, particularly of turnover tax and lodging tax, of approximately ANG 11 million.

The Cft considers Sint Maarten's intentions to introduce a tourist tax as of July 1<sup>st</sup>, 2024, and to sell Winair shares not sufficiently substantiated. Furthermore, the expenses in the budget contain several measures and increases that also lack substantiation. According to the Cft, the increase of the expenses by ANG 78 million (16 percent) in 2024 in comparison to 2023, is not realistic. To realize surpluses of 0.5 percent of the GDP on the operational budget from 2024 onwards, it is necessary that Sint Maarten structurally controls its expenses. The deficit compensation will lead to the restoration of Sint Maarten's own capital, which due to the realized deficits decreased considerably over the last years.<sup>9</sup>

For 2024, Sint Maarten budgets ANG 263 million in investments. ANG 90 million thereof relates to delayed projects from 2023. For these investments, Sint Maarten aims to take out a loan of ANG 122 million in 2024. The Cft does not consider this investment ambition to be realistic. Also, not all intended investments have been sufficiently substantiated. For example, part of the planned investments lacks an explanation of the purpose and the timeline, as well as the expected multi-annual impact on the budget. For the period 2025-2027, Sint Maarten budgets an investment level of 1 percent of the GDP. The fact that Sint Maarten budgets the multi-annual investments is positive, however, the previously recommended multi-annual investment agenda has not yet been included in the budget.<sup>10</sup>

After years of crises and restoration, it is important that Sint Maarten pursues a sustainable budgetary policy.<sup>11</sup> In this context, the Cft sees there are several challenges. The limited capacity to achieve amendment of the tax system and its implementation on the part of the Tax Authorities, is an increasingly limiting factor for the sustainability of public finance. It is of crucial importance to modernize both the tax system and the Tax Authorities. This will have a positive effect on the tax income and therefore on the room in the budget that Sint Maarten will have for new (policy) initiatives and investments. The persistent deficits with the healthcare funds are also a risk factor to the country's budget. For the period of 2024 to 2030, the preliminary prognosis of the Executive Organization for Social Security and Health Care Insurance (*Uitvoeringsorgaan Sociale en Ziektekosten Verzekeringen - SZV*) shows a cumulative deficit of ANG 174 million. The Cft estimates this deficit to be higher. To prevent a further decrease of the reserves of the social funds, reforms must be implemented to reduce the deficits with the health care funds.

### **Subsequent steps**

The Cft request that within 14 days, therefore no later than on June 12<sup>th</sup>, 2024, you indicate in writing the manner in which Sint Maarten intends to give substance to the Cft's recommendations regarding the budget.<sup>12</sup> While understanding the current administrative situation you are in, the Cft does want to stress the importance of a prompt amendment of the budget for 2024, so that it aligns with the standards of the Rft and the implementation of the budget corresponds accordingly. Therefore, the Cft recommends you incorporate the recommendations in an amendment of draft budget to be submitted to the Cft on July 1<sup>st</sup>, 2024 at the latest.<sup>13</sup>

The Cft request to also state on June 12<sup>th</sup>, 2024, when you intend to submit the information below to the Cft. You will find further clarification of these matters in Annex 1.

1. The previously requested perspective on the status of the debt of the healthcare funds to the other funds of the Executive Organization for Social Security and Health Care Insurance (*Uitvoeringsorgaan Sociale en Ziektekosten Verzekeringen - SZV*).<sup>14</sup>
2. The annual accounts and reports on the expense, income, deficit and debt figures of the public sector for 2021 and 2022 of all government (affiliated) entities.

Lastly, the Cft expects an explanation of the progress of the ongoing projects for the improvement of financial management in the upcoming UR of Sint Maarten.

Trusting to have provided you with sufficient information.

Sincerely,

The Chair of the Board of financial supervision of Curacao and Sint Maarten

[signature]

Ms. L.M.C. Ongerling, MA

A copy of this letter was sent to:

The Prime Minister of Sint Maarten

The Secretary General of the Ministry of Finance of Sint Maarten

## Annex 2: End notes

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<sup>1</sup> Article 14 paragraph 1 of the Rft. Sint Maarten did not comply with the statutory term set to December 15<sup>th</sup>, 2023. On February 16<sup>th</sup>, 2024, the Kingdom Council of Ministers (*Rijksministerraad* - RMR) urged Sint Maarten to adopt the budget for 2024 before March 31<sup>st</sup>, 2024. This deadline was also not observed by Sint Maarten. Ministry of the Interior and Kingdom Relations, reference 20240000143328, Processing Cft notification in Kingdom Council of Ministers of February 16<sup>th</sup>, 2024, dated March 14<sup>th</sup>, 2024.

<sup>2</sup> The Kingdom Act on Financial Supervision Curacao and Sint Maarten (*Rijkswet financieel toezicht Curaçao en Sint Maarten* - Rft), supplemented by the instruction given by the Kingdom Council of Ministers (*Rijksministerraad* - RMR) to the Sint Maarten administration in September 2015 form the framework for the assessment of the budget. Official Gazette 2015, Decree of October 30<sup>th</sup>, 2015, to issue the Decree of September 8<sup>th</sup>, 2015, regarding the issuance of an instruction to the Sint Maarten administration to resolve the payment arrears that have arisen, to compensate the realized deficits on the operational budget in the period of 2010-2014, to fully include the health care and pension expenses in the budget for 2015 and the multi-annual budget, and to take measures for the benefit of a sustainable system for pensions and social security. On April 18<sup>th</sup>, 2019, the RMR decided to extend the instruction, however, the new deadlines have not yet been decided.

<sup>3</sup> Article 15 paragraph 2 sub b and c of the Rft.

<sup>4</sup> Article 15 of the Rft.

<sup>5</sup> Article 18 of the Rft.

<sup>6</sup> Cft, reference Cft 20240002, Advice pertaining to the adopted amendment of budget 2023, dated January 4<sup>th</sup>, 2024.

<sup>7</sup> The Cft based its assessment on the nominal bbp of ANG 3.1 billion published by the International Monetary Fund (IMF) in IMF, 2023 Article IV Consultation discussion Curaçao and Sint Maarten, Press Release and Staff Report, dated July 2023. The preliminary result for 2023 is also ANG 16 million.

<sup>8</sup> Article 15 paragraph 2 of the Rft and Article 12 paragraph 4 of the Rft.

<sup>9</sup> Over the period 2011-2023, Sint Maarten realized a (preliminary) deficit of ANG 594 million.

<sup>10</sup> Cft, reference 202300033, Advice pertaining to the adopted budget 2023, dated April 19<sup>th</sup>, 2023.

<sup>11</sup> In 2017, Sint Maarten was hit by hurricanes Irma and Maria, and from 2020 onwards by the COVID-19 crisis.

<sup>12</sup> Article 12 paragraph 2 of the Rft.

<sup>13</sup> The Cft then advises regarding the amendment of draft budget pursuant to Article 11 of the Rft.

<sup>14</sup> Cft, reference Cft 202300022, Reaction to the fourth implementation report 2022, dated March 1<sup>st</sup>, 2023.