



Translation of: Advice pertaining to modification of draft budget 2024

Original title: Advies ontwerpbegrotingswijziging 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 29th, 2024, the Board of Financial Supervision of Curacao and Sint Maarten (Cft) assessed that it cannot 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*).¹ The Cft made six recommendations to rectify the identified shortcomings and recommended Sint Maarten to incorporate the recommendations in a draft budget amendment (OBW). On June 28th, 2024, the Cft received the OBW.² You hereby receive the advice of the Cft pertaining to this OBW.³ In Annex 1 to this letter you will find a further clarification and substantiating figures to this advice.

Conclusion

In the OBW, Sint Maarten adopts the majority of the Cft's recommendations. In doing so, Sint Maarten takes an important step to produce a budget that meets the standards prescribed in the Rft. However, according to the Cft, the OBW still lacks sufficient substantiation with regard to several items, and is therefore insufficiently orderly and verifiable.

Explanatory statement

Income

In the OBW, the tax income has been decreased by ANG 27 million, in line with the preliminary realization of the first quarter of 2024. Sint Maarten includes ANG 6 million in additional long lease income. The explanation does not clarify if the totality of this income can be included in 2024. Furthermore, other additional income is added, which is not sufficiently substantiated. These are ANG 2 million in income regarding the Ontwikkelingsbank van de Nederlandse Antillen (OBNA) and ANG 4 million in Temporary Work Organization contributions. Also, shifts are made with regard to the other income regarding the GEBE concessions and the casino fees. Due to unfeasibility, the introduction of the tourist tax is no longer included in the budget. The other tax income has been lowered by ANG 18 million. The intention to sell the Winair shares has also been revised in the OBW.

Expenses

In its response to the Cft's advice, Sint Maarten stated that it would modify the expenses with at least ANG 32 million.⁴ With the OBW, Sint Maarten lowers the expenses by only ANG 26 million. This regards particularly lowering the staff expenses and the expenses for goods and services. However, when compared to the preliminary realization in 2023, the budgeted expenses show a considerable increase, which is not adequately substantiated. Hereby, Sint Maarten misses out on an additional surplus of ANG 6 million.

Result

The budget shows limited surpluses on the operational budget for the period of 2024-2027. For 2024 and 2025, surpluses are budgeted of ANG 3 million and ANG 2 million, respectively, increasing to ANG 13 million in 2026 and ANG 14 million in 2027. The income and expenses for 2024 have been based on the most recent realization figures, which is in accordance with the recommendation the Cft made in its advice pertaining to the adopted budget 2024. In the context of the expense reduction you committed to earlier, the Cft urges you to make the utmost effort to achieve a more positive result in 2024. In that regard, the Cft recommends that Sint Maarten clarifies as soon as possible in which manner it intends to multiannually give substance to the deficit compensation.⁵

Capital budget

For 2024, Sint Maarten budgets ANG 269 million in investments. ANG 90 million thereof relates to delayed projects from 2023. Sint Maarten intends to take out a loan for the construction of a new prison (ANG 43 million), three generators for the benefit of GEBE (ANG 75 million) as well as for a building for the Mental Health Foundation (ANG 14 million). This leaves the total loan request at ANG 132 million. The loan request that was included in the OBW is not in accordance with this amount. The interest expenses for the capital budget loans are included multiannually at 1 percent interest rate. The Cft does not consider this to be realistic, given the current interest rate. Regarding the intended investment for GEBE, the Cft observes that it is of the utmost importance that insight is gained into the financial status of this entity, before trying to come to a solution through the country Sint Maarten. Considering the social significance, the Cft understands the included solution, despite the improper nature of the intended loan structure.

Subsequent steps

Sint Maarten adopted the majority of the recommendations. However, due to a partially insufficient substantiation of the budget, with the the OBW the budget still does not meet the standards of Article 15 of the Rft. The Cft considers it of great importance that Sint Maarten will implement a number of additional modifications in the OBW before submitting it to Parliament, and therefore recommends the following:⁶

1. Provide sufficient substantiation of the additionally included income.
2. Ensure the budgeted expenses for goods and services and staff expenses are structurally and optimally controlled and provide sufficient explanation of these expenses.

3. Ensure that the amounts for investments align with the substantiations and the figures, and adapt the loan request in accordance with the intended investments for which Sint Maarten wants to take out a loan.
4. Incorporate the interest expenses of the intended loan in the budget multiannually.

In the OBW, Sint Maarten does not yet provide clarity regarding the form and the pace in which substance shall be given to the compensation of the preliminarily realized deficit in the period 2011-2023 of a total of ANG 594 million.⁷ The Cft considers an annual compensation of 0.5 percent of the gross domestic product to be reasonable and feasible. Regarding the form and pace in which substance will be given to the deficit compensation, further deliberations between Sint Maarten and the Cft shall take place. In this context, it is of importance that Sint Maarten does not delay drawing up a plan by means of which it multiannually gives substance to the legally required deficit compensation.

The Cft stresses the importance of rapidly adopting the BW, in order for Sint Maarten to produce a budget that meets the requirements of the Rft, and that provides a reliable, realistic and up-to-date view of the financial positioning of the country. This is also of importance in the context of the financing of the intended investments.

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: Endnotes

¹ Article 15 of the Rft.

² Ministry of Finance, ref. no. 5129-A, Request article 11 advice amended budget 2024, dated June 28th, 2024.

³ Pursuant to Article 12 of the Kingdom Act on Financial Supervision Curacao and Sint Maarten (*Rijkswet financieel toezicht Curaçao en Sint Maarten* – Rft), the Cft responds to the National Ordinance concerning the amendment of the budget 2024. The 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 OBW. Official Gazette 2015, Decree of October 30th, 2015, to issue the Decree of September 8th, 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 ordinary service 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 18th, 2019, the RMR decided to extend the instruction, however, the new deadlines have not yet been decided.

⁴ Ministry of Finance, ref. no. 5120, Response to article 12 advice CFT, dated June 12th, 2024.

⁵ Cft, reference Cft 202400069, Reaction to the first implementation report 2024, dated June 25th, 2024.

⁶ Article 11 of the Rft.

⁷ Article 18, paragraph 3 and paragraph 6 of the Rft.