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Sint Maarten's Road to Sustainable Public Finances
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SHEET 1. Sint Maarten's Road to Sustainable Public Finances

I would like to welcome everyone here tonight to this lecture *"Sint Maarten's Road to Sustainable Public Finances."*

SHEET 2. Table of contents

This evening I would like to guide you through the following topics. I will start with 'setting the scene'. In the second part, I will give you an insight into the economy of Sint Maarten and the public finances until 2020. In part three I will focus on the economic recovery of Sint Maarten after the Covid-19 pandemic. After this, I would like to reflect on the financial supervision as laid down in the Kingdom Act on financial supervision, the 'Rijkswet Financieel toezicht'. I would like to conclude with the perspective of sustainable public finances, where I would like to point out the main issues on which Sint Maarten should focus on its road to sustainable public finances.

SHEET 3. Part I - Setting the scene

SHEET 4. Starting position pre-Irma and pre-corona

Let me start with the position of Sint Maarten just before the outbreak of the Covid-19 pandemic. With an average income per capita of more than USD 29,000 in 2019, Sint Maarten is one of the islands in the Caribbean with the highest income per capita. Curaçao, for example, has a significantly lower income per capita of approximately USD 20,000. The average income per capita in the Caribbean is USD 16,300. In the years before 2017, from 2010 until 2016, the foreign exchange income from tourism in Sint Maarten grew annually with 4 percent. The unemployment rate in 2017, prior to hurricanes Irma and Maria, was 6.2 percent. This is low compared to regional peers, which have a long-term average unemployment rate of 11 percent.

The cumulative economic contraction in 2017 and 2018 was 17 percent of GDP. In 2019, Sint Maarten was still recovering from the hurricanes in September 2017. Compared to 2018, tourism in 2019 had increased by 50 percent. The economy in 2019 grew by 8 percent. Sint Maarten has, therefore, shown remarkable resilience after the hurricanes.

Regarding the position of Sint Maarten in general it is important to mention here that Sint Maarten is part of the Kingdom of the Netherlands. This provides all countries within the Kingdom with a legal framework (the Statute) that strengthens the checks and balances. The Statute states that countries assist each other (this can be referred to as the 'waarborgfunctie van het Statuut'). It was on this basis that the Netherlands provided military assistance and financial support during and after the hurricanes and the Covid-19 pandemic. Moreover, it should be stated that Sint Maarten has had ten different governments over the last ten years. This has undoubtedly been a complicating factor for progress and continuity in decision-making. The current government of Sint Maarten is the longest seated government since 2015.

SHEET 5. Sint Maarten in regional perspective

Even after the devastating hurricanes in September 2017, the debt-to-gross domestic product (GDP) ratio in 2019 was low compared to the regional average of 66 percent, and on a safe level of 43 percent. However, the debt-to-GDP ratio of Sint Maarten has increased more sharply in 2020 and 2021 than in other Caribbean countries. This is partly caused by liquidity loans from the Netherlands as well as the loan for the reconstruction of the airport. From 2011 to 2019, Sint Maarten's average capital expenditure amounts 1.1 percent of the GDP annually. Compared to the average of 4.6 percent in the available Caribbean benchmark, in which Anguilla was the lowest at 1.4 percent, this is on the low side. The government of Sint Maarten is investing less than its regional peers.[1] I will come to this point later.

SHEET 6. Tax revenues, percentage of GDP

Sint Maarten has one of the lowest tax-to-GDP ratios in the Caribbean at 16.6 percent in 2016. An increase in taxes, and, therefore, an increase in the tax-to-GDP ratio, must be achieved. It should be mentioned here that Curaçao has a tax-to-GDP ratio of more than 25 percent in 2017. Also recently, Curaçao has made considerable progress to raise tax compliance and, therefore, they no longer need additional liquidity support in 2022. I also will come back to this point in more detail.

SHEET 7. Development of the real minimum wage

In 2010 the real minimum wage of Sint Maarten was USD 4.31 per hour. The minimum wage in Aruba in 2010 was USD 4.88 and in Curaçao USD 3.97. From 2010 to 2021, the minimum wage in purchasing power 2010 in Sint Maarten fell by 50 dollar cents from USD 4.30 to USD 3.80. Whereas in Curaçao and Aruba the purchasing power increased by 30 to 40 dollar cents.

SHEET 8. Statutory minimum wage to GDP per capita, percentage 2019

The ratio between the minimum wage and the average GDP per capita gives an indication of the income distribution. In Curaçao, this ratio was 55 percent in 2019. This means that an employee in Curaçao who earns minimum wage, earns 55 percent of the average GDP per capita. In Aruba that was 39 percent, whereas in Sint Maarten this was only 35 percent, which indicates a more skewed income distribution in Sint Maarten compared to Curaçao and Aruba.

SHEET 9. Part II - Economy and public finances until 2020

I now move on to the second part of this lecture; the economy and public finances of Sint Maarten until 2020.

SHEET 10. Real economic growth (percentage GDP), 2000-2019

The average yearly real economic growth from 2000 to 2016 was 1.6 percent. Tourism receipts grew with almost 70 percent in nominal terms between 2000 and 2016, exceeding the Caribbean average. As the graph shows, two phases of economic growth can be distinguished. First, after the negative impact on tourism from the events in the United States on September 11, 2001, a period of high economic growth followed, until the financial crisis in 2007/2008. After economic recovery, the economic growth was positive from 2012 to 2016.

SHEET 11. Current budget balance (x ANG mln), 2010-2019

[1] IMF, Strengthening Public Investment Management in the Eastern Caribbean Currency Union: Getting more bang for the dollar!, 2020, IMF Working Paper, WP/2020/177.

In the period from 2010-2019 there was a current budget surplus of one percent of GDP only in 2012. In 2013, the current budget was balanced. In all other years there were budget deficits. After 2013, a period of modest economic growth followed, but current budget deficits were nevertheless reported. In 2015 an instruction was given by the Council of Ministers of the Kingdom to the government of Sint Maarten. The instruction stated that Sint Maarten had to solve its payment arrears by surpluses and measures had to be taken to keep the social funds sustainable. In 2017 and 2018, after Sint Maarten was hit by the hurricanes Irma and Maria, revenues declined, and the current budget show a large deficit.

SHEET 12. Government debt, (x mln ANG); Government debt, (percentage GDP), 2010-2019

The debt-to-GDP ratio increased from 33 percent GDP in 2013 to 43 percent in 2019, which is still at a relatively safe level. [2] Interesting is that the IMF in their recent article IV consultation suggests a debt-to-GDP target around 50-55 percent, would keep the government debt below 70 percent of GDP in 90 percent of simulations of hurricane damage.[3] This means that a debt anchor of 50-55 percent should be low enough for public finances to withstand severe impact by hurricanes, but not low enough to buffer the impact of most powerful hurricanes.

SHEET 13. Conclusions I

I would like to conclude this section with a few sub-conclusions. The economy of Sint Maarten grew with 1.6 percent yearly in 2000-2016. Sint Maarten is a country with a high per capita income, but the distribution of income is skewed. The purchasing power of the minimum wage dropped significantly and fell behind the levels of Aruba and Curaçao. Low-income groups have become more vulnerable in a difficult environment. The public finances of Sint Maarten show a cumulated current budget deficit of almost ANG 350 million over the period 2010-2019, mainly caused in 2017-2018. Nevertheless, the debt-to-GDP ratio did not rise to an unsustainable level in 2019. Tax revenues are low compared to countries in the region and Sint Maarten's public investment lags behind compared to other Caribbean countries. An increase in tax revenues can be part of a strategy to improve the sustainability of public finances.

SHEET 14. Part III - Corona pandemic and recovery

I will give you an insight into Sint Maarten’s situation during the Covid-19 pandemic and the recovery phase.

SHEET 15. Increased government debt, 2020-2021

The government debt-to-GDP ratio increased significantly in 2020 and 2021 to 73 GDP at the end of 2021. The increase in debt consists of ANG 292 million liquidity support from the Netherlands and a bank loan of ANG 91 million from the European Investment Bank for the reconstruction of the Princess Juliana International Airport.[4] With this liquidity support, Sint Maarten was able to carry out the Relief and Economic Stimulus plan, the SSRP program, during the pandemic. The SSRP was designed to prevent mass unemployment and to support the businesses. The wage subsidy was an important instrument of the SSRP program with the aim to keep employees out of unemployment.

The Kingdom Council of Ministers decided on the fourth of February 2022 that Sint Maarten is allowed to deviate from article 15 of the Kingdom Act on financial supervision (the Rft) in 2022. The amount of liquidity

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[2] From 2010 to 2019 the government debt of Sint Maarten increased from ANG 659 million to ANG 938 million. In the period 2010 to 2013 the nominal government debt remained stable, between ANG 660 and 680 million. In 2018 and 2019 liquidity loans from the Netherlands added up to ANG 116 million.

[3] Sint Maarten: Staff Concluding Statement of the 2022 Article IV Mission, May 20, 2022

[4] In 2020, Sint Maarten received ANG 175 million in liquidity support and in 2021 ANG 117 million.

support Sint Maarten needs in 2022 will be substantially lower compared to 2020 and 2021. The decision about liquidity support for the third quarter of 2022 is still in process.

SHEET 16. Economic growth forecasts: Strong recovery, 2019-2026

The corona pandemic caused an unprecedented economic contraction of 24 percent of GDP in 2020. Based on IMF estimates, the graph shows that the economy in nominal terms, will be at the level of 2019 in 2023. In real terms, the economy will recover to the level of 2019 in the year 2024. The latest forecast of the Central Bank of Curaçao and Sint Maarten is that the economy, in nominal terms, will already be back this year on the level of 2019, partly caused by high inflation. The IMF does not yet include the possible positive impacts of the country package reforms in their forecasts. Estimates for Aruba show that an additional annual economic growth from the reforms of 0.5 percent of GDP is possible.

SHEET 17. Multi-year budget (x ANG mln); Government debt, (percentage GDP), 2020-2025

The economy is now in a recovery phase. The tax revenues are not yet at the level of 2019, a year that is used as a benchmark. The government expenditures, which were higher in 2020 and 2021 than in 2019, due to Covid-19-related spending, should be reduced in this phase.

The graph shows the expenditures and revenues from the current budget that was adopted by the Parliament van Sint Maarten. The current budget runs deficits until 2025. An important recommendation of the Cft in the budget was to reduce expenditures to lower levels and to raise a few taxes. We are now awaiting the adjustments of the budget. If the recommendations of the Cft are adopted, a balanced current budget in 2023 is possible. After 2023 surpluses are possible.

During the recovery phase it is important that the government of Sint Maarten take control over and reduce current expenditures and at the same time stimulate economic recovery with public investments. The Council of Ministers of the Kingdom has recognized the exceptional situation of the economy and public finances and, despite the current budget deficit in 2022, Sint Maarten has been offered the opportunity to take out loans from The Netherlands on favorable terms to finance public investments. Of course, these investments should fit within a framework of sustainable development.

According to the adopted budget, the debt-to-GDP ratio will be 59 percent of GDP in 2025, excluding loans for public investments. The debt anchor of 50-55 percent of GDP recommended by the IMF will not be reached in 2025. If the government is able to get surpluses from 2024, a debt ratio of just above 50 percent, excluding loans for public investment, in 2025 will be feasible.

With this strategy, Sint Maarten could be steering towards the path of sustainable public finances.

SHEET 18. Sub-conclusions II

I would like to conclude this section with a few insights. First, nominal in 2023 and real in 2024 the economy of Sint Maarten is expected to return to the level of 2019. The Cft expects tax revenues to return to the level of 2019 in 2023. To support economic recovery Sint Maarten may have fiscal space to take out loans to finance public investments without the debt-to-GDP ratio rising to unsustainable levels.

SHEET 19. Part IV - Financial supervision within the Kingdom

In the fourth part of this presentation, I will give you a short overview of the role of the Cft.

SHEET 20. The Board on financial supervision

The Boards on financial supervision (the Cft) have been an independent advisor since 2010 for both the countries within the Kingdom of the Netherlands and the Council of Ministers of the Kingdom. Each country has a representative in the Board. Let me introduce you to the members of the Board for Curaçao and Sint Maarten: mister Gregory Damoen (member for Curaçao), mister Hans Hoogervorst (member for the Netherlands) and miss Julisa Frans (member for Sint Maarten). The members perform their duties without burden or consultation. The Boards supervise the countries' complete budget cycle, from the draft budget to the annual report. All based on the central budget norm as stated in article 15 of the Kingdom Act on financial supervision (the Rft). This norm, among others, states that there is a balance for the current budget.

SHEET 21. Results financial supervision

Let's review the results of more than ten years of financial supervision. There have been a few steps towards improved budget discipline. It has also led to more attention in the public debate about public finances. Quarterly reports and annual financial statements are drawn up, and annual financial statements are submitted and adopted. Timeliness for the annual financial statements, however, remains an important issue. And finally, Sint Maarten has particularly low interest expenditures as a result of the subscription by the Netherlands for capital loans on favorable terms, including low interest rates.

SHEET 22. Importance of a timely budget

But why does Sint Maarten not succeed in the timely adoption of the budget? Since 2010 Sint Maarten has never succeeded in timely adopting the budget. This should change, the country should start the year with an adopted budget as a starting point to properly control its government finances. To achieve this, the draft budget should be offered to Parliament on the second Tuesday of September prior to the financial year.

SHEET 23. Part V - Perspective of sustainable public finances

In this part I will discuss four important elements that can contribute to sustainable public finances:

1. A balanced current budget in 2023 and surpluses from 2024
2. The strengthening and broadening of the tax base
3. Sustainable social security funds and
4. Better financial management.

SHEET 24. Balanced current budget and surpluses

Let me start with the balanced current budget and surpluses. Sint Maarten has had deficits on the current budget since 2017. If the government can gain control over spending and implements a few new taxes, then a balanced current budget is feasible Even a surplus on the current budget in 2023 is feasible, if Sint Maarten increases tax compliance. As mentioned before, Curaçao already accomplished a steep increase in tax revenues as a result of improved compliance.

Sint Maarten must use surpluses for the re-payment of loans thereby reducing debt, for investments and building financial buffers. In the coming years, Sint Maarten must start with the repayment of several sinking bonds related to loans for liquidity support in 2018.[5] In 2025, a bond of ANG 73.5 million expires and must be repaid by Sint Maarten to The Netherlands. As stated before, Sint Maarten has made limited public investment over the past few years and needs to invest in improvement of its infrastructure, such as the hospital and the prison, and the public administration reforms (which are also included in the country

[5] In 2018 and 2019 liquidity loans from the Netherlands added up to ANG 116 million. Consisting of a sinking bond of ANG 50 million (0 percent interest rate, looptijd 2018 – 2048); a sinking bond of ANG 32.9 million (0.74 percent interest rate, looptijd 2019 – 2049); and a sinking bond of ANG 32.6 million (0 percent interest rate, looptijd 2018-2052).

package). Moreover, Sint Maarten should pay more attention to the governance that an investment program requires. Proper use of resources for investments requires an investment program with good planning and safeguarding of the correct selection and implementation of investment projects. Proper planning of infrastructure maintenance is also part of this.

SHEET 25. Strengthening and broadening tax base

First, in the short term, as of 2023, Sint Maarten can generate additional tax revenues by introducing a taxation of casinos.[6] The tax on timeshares should also be reformed to a system where Airbnb collects this tax on behalf of the government of Sint Maarten. Sint Maarten currently does not enforce the recurrent property tax. This tax is levied worldwide, including on all the other islands of the former Dutch Antilles. From 2023 Sint Maarten should create a level playing field with the retail sales by taxing online sales, because currently, consumers do not pay taxes on on-line purchases.

Second, Sint Maarten must reform the tax system. The tax system of Sint Maarten has been designed over time to compete with other countries. This strategy is outdated and has led to a complex system with all kinds of exemptions. The system has become subject to erosion of the tax base and there are serious compliance issues. This poses a risk to the sustainability of public finances. The indirect taxes, personal income tax and profit tax should be simplified, and the rates of these taxes should be adjusted downwards to bring them more in line with international levels. Also a gambling tax should be considered.

Third, the Tax Administration needs to be reorganized. Digitalization of processes and professionalization of employees and organization are important in this regard. Economies of scale can be achieved by combining the tax and social insurance contributions. It should be considered to place the Tax Administration at arm's length from the government, with independent operational decision-making. In the context of the country package, ANG 32 million is made available for the improvement of financial management, which includes the reorganization of the Tax Administration. Due to this compliance will increase.

SHEET 26. Room for tax increases

If Sint Maarten would increase tax revenues by two percent of GDP, about ANG 30 to 40 million is feasible, the tax-to-GDP ratio would still be at the bottom half of the Caribbean countries. Therefore, a tax increase does not necessarily harm the competitive position of Sint Maarten.

SHEET 27. Social security funds

Like many countries in the Caribbean, Sint Maarten has a rapidly aging population and seeing an increasing prevalence in chronic diseases. The share of the population aged 60 and older has increased from 5 percent in 2002 to 11 percent in 2012. In 2018 the share was already 13.5 percent, and it is expected to rise to 39 percent in 2050. The AOV operational balance is expected to turn negative in 2031. If no measures are taken, expenditures on health care and old age pension will increase unsustainably. The premium contribution per worker will increase.

The healthcare funds of Sint Maarten face large deficits and the accumulated deficit in 2021 was ANG 325 million.[7] The deficits are being financed by lending from other funds, mostly the AOV-fund, at de facto zero percent interest rate. A structural cross-subsidization from old age provision to the health care insurance is an unintended income transfer from the employed to the elderly generation. Of course, this is not sustainable, and Sint Maarten has to solve this issue. Sint Maarten has approved legislation to increase the wage limit for the ZV/OV insurance and legislation regarding the allowance of generic medicines. This

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[6] International Moneary Fund, Sint Maarten Sustainable Tax Reforms, March 2021.

[7] The Health and accident insurance (ZV/OV fund) deficit was ANG 280 million and the Health Insurance Fund for Government Retirees (FZOG fund) deficit was ANG 45 million.

legislation should be implemented as soon as possible. Sint Maarten can further optimize cost savings by minimizing medical referrals and cooperate closely with the hospitals within the Kingdom.

There is need for further structural reforms such as a general health insurance and an increase in retirement age. Through the country package Sint Maarten will work on this.

SHEET 28. Public finance in times of rising energy prices extra challenging

Sint Maarten imports (almost) all energy and food. Due to the price increases on the world market countries that import energy and food are getting poorer. Insofar as these price increases cannot be incorporated in the prices of Sint Maarten's exports, tourism-related services, this has a negative impact on your national income. Low-income groups in particular are vulnerable to price increases. Your government currently considers raising the minimum wage and as a previous figure shows that is quite reasonable and recommendable. In addition, there is currently very little room in the government budget for policies to react on these price increases. Measures to lower fuel prices should have a clear sunset clause. During the period in which the measures are in force, households and businesses can gradually adjust to the higher prices. The government cannot keep the high fuel prices structurally low with subsidies. This would lead to current budget deficits and rising debt. Moreover, the interest rate at which Sint Maarten borrows via the Netherlands is expected to rise in the coming years, which may reduce the current budget surpluses in the coming years.

SHEET 29. Financial management

The country package includes measures to improve the financial management of Sint Maarten. These include building institutional capacity and the timely adoption and publication of planning and control documents, including the financial statements.

Until now, the multi-year current budget of Sint Maarten was not based on financial planning. With the recently developed framework for the multi-year financial overview, a first step will be made when Sint Maarten includes this overview in the draft 2023 budget.

Sint Maarten should work towards an unqualified audit opinion for the annual financial statements of 2023. The progress on the improvement of financial management remains vulnerable given the limited capacity of the government of Sint Maarten. On the other hand, Saba has been receiving unqualified audit opinions for many years, despite limited capacity. I believe this should be possible for Sint Maarten as well.

SHEET 30. Conclusions

The prospects for the sustainable public finances of Sint Maarten are favorable. This is partly due to a good starting position just before the outbreak of the Covid-19 pandemic. The Covid-19 pandemic disrupted the economic recovery of Sint Maarten. This year Sint Maarten must take steps on the road to sustainable public finances by getting expenditure under control and at the same time starting to implement public investment projects. A balanced current budget in 2023 and budgetary surpluses from 2024 should be achieved. There is room for raising taxes especially, as also from an internationally perspective Sint Maarten collects very little taxes. Targeted and planned investments must be made in infrastructure, which certainly also includes an energy transition, in order to stimulate the sustainable development of Sint Maarten.

I look forward to seeing Sint Maarten embark on this journey.