



Translation of: Advice pertaining to the draft budget for 2025

Original title: Advies bij de ontwerpbegroting 2025

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 September 13th, 2024, you requested the Board of financial supervision of Curacao and Sint Maarten (Cft) to issue an advice regarding the draft budget (OB) 2025 of the country of Sint Maarten.¹ You hereby receive the Cft's advice pertaining to the OB.² In Annex 1 to this letter you will find a further clarification and substantiating figures.

Conclusion

The budget shows surpluses on the operational budget for the period of 2025-2028. The Cft observes an improvement of the explanation of the OB. However, the Cft cannot sufficiently assess to which extent the estimated income is realistic. The Cft considers the development of the income to be uncertain, and can therefore not assess if the central budgetary norm is being met.³ It is a positive thing that in the OB, Sint Maarten makes an effort to control expenses.

Explanatory statement

Result

In the OB, Sint Maarten presents surpluses that increase from ANG 2 million in 2025 to ANG 13 million in 2026. For 2027 and 2028, surpluses of respectively ANG 11 million and ANG 9 million are anticipated. However, considering the uncertain development of the income, there is a risk that these surpluses will have to be adjusted downwards, resulting in a deficit on the operational budget. Sint Maarten is working on a plan to compensate the realized deficits of previous years.⁴ The Cft requests you submit this plan as soon as possible.

Income

For 2025, Sint Maarten budgets the income at ANG 562 million. This estimate is based on the budget amendment (BW) for 2024. In its reaction to the second implementation report (UR) for 2024, the Cft already drew attention to a considerable risk at a lower realization of income than was budgeted, and requested the country to report monthly regarding the realization.⁵ Also for the period 2025-2028, the Cft foresees a real risk

that the realization of the income will not reach the budgeted level, and it recommends to base the budget on the most recent realization figures. The Cft observes that the main uncertainty lies with the assessment of the budgeted income from profit tax. Over the past years, the realization on this item has fluctuated greatly. The Cft recommends to closely monitor the realization of the income over the coming months, in order to adjust the budget accordingly, if necessary.

Expenses

The expenses budgeted for 2025 are ANG 560 million. In 2025, the personnel expenses increase by ANG 15 million in comparison to 2024. For ANG 8 million thereof, this is caused by the fact that from 2025 onwards, some cost items are allocated to the personnel expenses. The remaining ANG 7 million concern among others an indexation of the salaries and an increase of the vacation allowance. For 2025, Sint Maarten does not include any additional vacancies in the budget, and the expenses for goods and services remain at the level of the preliminary realization of 2023. In doing so, Sint Maarten gives substance to the earlier recommendation of the Cft to control expenses.

Capital budget

Towards the end of 2024, Sint Maarten intends to take out a capital loan of ANG 133 million for investments. Also in 2025, the country intends to take out capital loans for ANG 46 million. This intention is not sufficiently explained in the OB. While it is positive that Sint Maarten is working on increasing the investment level, the implementation of the investment projects falls behind. The Cft stresses the importance of expediting the implementation of the intended projects. Before October 10th, 2024, the loans for liquidity support must be refinanced. The Cft requests Sint Maarten to adequately incorporate the repayment(s) on these loans in the budget.

ENNIA

Sint Maarten is working on a solution for the ENNIA issue. If no agreement is reached regarding a solution before October 10th, 2024, the interest on the refinancing of the loans for liquidity support will be increased.⁶ It is expected that this shall lead to the interest expense norm being exceeded,⁷ which in turn shall lead to Sint Maarten being unable to take out a loan pursuant to the Kingdom Act on Financial Supervision Curacao and Sint Maarten. The Cft understands that the parties involved have now reached a more advanced stage in reaching an agreement.

Taxes and healthcare

The Cft again draws attention to two important challenges in the implementation of a sustainable budgetary policy by Sint Maarten. 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 also are a risk factor to the budget. In order to reduce the increasing deficits, reforms must be implemented. The OB shows that no specific action

has been taken yet regarding these two issues. The Cft recommends you still address these issues promptly.

Subsequent steps

The Cft recommends you implement the following amendments to the OB before submitting it to Parliament:

1. If the most recent realization figures give reason to do so, amend the budget. In this context, the Cft requests you share the monthly report for August 2024 with the Cft as soon as possible.
2. Adequately incorporate the repayment(s) on the loans for liquidity support pursuant to the refinancing agreement in the budget.
3. Provide an adequate substantiation for the loan request for ANG 52 million for investments in 2025.

It is of the utmost importance that Sint Maarten adopts the budget before the statutory deadline of December 15th, 2024. Considering the timely submission of the OB, the Cft considers that this year, it is possible to adopt the budget in a timely manner. In doing so, the country ensures a solid base for 2025.

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 Minister of Finance, Request Article 11 advice budget 2025, DIV nr.: 5201-A, dated September 13th, 2024. Pursuant to Article 11 of the Kingdom Act on Financial Supervision Curacao and Sint Maarten (*Rijkswet financieel toezicht Curaçao en Sint Maarten – Rft*), administration may request the Cft to issue an advice for the draft budget (OB).

² The Rft and the instruction given by the Kingdom Council of Ministers (*Rijksministerraad* - RMR) to the Sint Maarten administration in September of 2015 form the framework for the assessment of the OB. 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 operational budget in the period of 2010-2014, to fully include the health care and pension expenses in the budget for 2015 and the multiannual 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 never been decided.

³ Article 15 of the Rft.

⁴ Over the period 2011-2023, Sint Maarten realized a (preliminary) deficit of ANG 594 million.

⁵ Cft, reference 202400110, Reaction to the second implementation report 2024, dated September 6th, 2024.

⁶ Dutch Parliament, meeting year 2023–2024, 36 410 IV, no. 70.

⁷ Article 15 paragraph c of the Rft. Despite repeated requests to do so, Sint Maarten has not yet submitted the 2021 and 2022 figures for the public sector to the Cft. Based on the second UR for 2024, the Cft anticipates that if the interest on the loan for liquidity support is increased, the interest expense standard will be exceeded.