

SPEECH PRESS CONFERENCE – 20 FEBRUARY 2020

Good morning members of the press, thank you for being here on the last day of the visit of Cft to Sint Maarten.

As usual, during this visit we have spoken with the Governor of Sint Maarten, the minister of finance, the council of ministers and the Dutch representative on the island. In addition, we had a meeting with the management of the Social and Health Insurances organization (SZV) about the current state of the healthcare and social security costs. We have also received a presentation by representatives of the Sint Maarten Medical Center with regards to the construction of the new hospital. We have spoken with the airport management. It is now important to quickly take the necessary steps to ensure reconstruction of the airport, as a fully operational airport contributes to further economic recovery. Finally, we had a meeting with the harbor management and discussed among others the strategic plans of the company.

I will now give a state of affairs on the regular financial topics starting with the budget performance in 2019.

- **Budget performance 2019**

The fourth quarterly report for 2019 should have been submitted to the Cft by February the 15th. We have understood that this report will be available this week. Based on the monthly report of November, we expect that Sint Maarten will have a deficit of about 45 million guilders in 2019. The tax income estimated at around 350 million guilders, rose sooner than expected to almost the same level as before the 2017

hurricanes. For comparison: in 2016 the total tax income was around 365 million guilders. We see a strong recovery of the economy of Sint Maarten with an economic growth of 5,5% in 2019, also due to the resilience of Sint Maarten.

The need of liquidity support for 2019 and the conditions thereof have recently been discussed by the Kingdom Council of Ministers. The Cft had advised on the liquidity norm of two months reserves and is awaiting the decisions made by the Kingdom Council on this matter.

- **The 2020 draft budget**

I come to the 2020 draft budget. Recently, Sint Maarten submitted a revised version of the draft budget 2020 to the Cft. The original draft budget was reviewed in October 2019 and we have relayed our conclusions with respect to this during our previous visit to Sint Maarten. In the revised draft budget, both income and expenses have been decreased by about 4 million. The revised draft budget shows estimated income of 461 million guilders, expenses of 486 million guilders and a deficit of 25 million guilders. The Cft has advised on this revised draft budget on February 5th.

Given that the draft budget still presents a deficit for 2020, Sint Maarten will need the approval of the Kingdom Council of ministers based on article 25 set in the Rft, for deviation from, in particular, the balanced budget norm set in article 15 of the Rft. We have urged government to take the necessary steps in ensuring an efficient and effective process for getting the 2020 budget adopted. In the budget also a loan of 31 million guilders for capital investments has been included. Importantly, if the budget is approved, Sint Maarten can eventually borrow against a

low interest percentage from the Netherlands. So, also from this point of view we urged the government to speed up this process.

- **Working towards a surplus budget**

It is also crucial that government explores all available options for income increasing and cost saving measures in order to achieve surpluses from 2021 onwards. This brings me to the tax system.

In 2019 Sint Maarten has drawn up a project plan for restructuring the tax authority. It is expected that this will lead to an improvement in tax compliance and will bring the tax revenues to a much-needed higher level. The Cft considers implementation of this plan, which was approved by the Council of Ministers of Sint Maarten in April 2019, absolutely necessary to achieve budget surpluses in the future so that the government can compensate past budget deficits and pay back accumulating arrears, and more important for achieving sustainability in public finance.

Figures by the IMF shows that while in 2012 the tax to GDP ratio of Sint Maarten was at the same level to that of its regional peers at about 20 percent, this ratio for Sint Maarten has decreased to about 18 percent at the end of 2018 while the neighboring islands noticed an increase to about 23 percent. Therefore, we advise government to also look at the current tax system of Sint Maarten and identify areas where additional revenues can be generated in the most effective way.

In addition to income- increasing measures, government has yet to implement any cost-saving measures. The passing of the pension reform in order to increase civil servant pension age from 62 to 65 years

and change to an average wage salary pension as well as the collection of personal contributions to the healthcare costs of civil servants are measures which the Cft has come to stress in most of its correspondences.

- **Financial management**

We are quite concerned with the lack of financial management improvements of Sint Maarten. We have noticed that to date little to no progress has been made with rolling out the plan which was approved in April last year. With the government of Sint Maarten, in October 2018, we agreed to work towards an unqualified audit opinion on the financial statements of 2021 and again we want to emphasize the importance of obtaining this result.

To stay on the topic, the quality and timeliness of financial statements has been repeatedly addressed by the Cft. However, we have noticed further delays regarding the financial statements of past reporting periods. Sint Maarten should at this time be working on closing its 2019 financial year also a building stone for the budget 2021. Instead, it is still working on the 2017 and 2018 financial statements in order for these to be audited. And the financial statements of 2013 and 2014 still must be send to the Governor and for the years 2015 and 2016 these statements have to be approved by Parliament. We have understood from the ministry of finance that external support has been hired to finalize the financial statements of 2017 and 2018. Nevertheless, more actions by the government and parliament are needed to speed up this process.

- **Payment arrears**

In accordance with the instruction, Sint Maarten did finalize agreements for debt settlement with the government companies GEBE and Telem and drew up a letter of intent with SZV. In addition, the arrears have been steadily decreasing in 2019. It is of utmost importance that further action is taken to ensure a continued reduction of these arrears. A debt settlement agreement with APS still has to be made.

Moreover, in a meeting with the SZV they have raised another concern about the rising amount of OZR costs that government owes to SZV. The sole purpose of OZR ('Overheids Ziektekosten Regeling') is the regulation of healthcare for government employees. This fund is solely funded by government contribution. In 2019 the OZR arrears have risen to 39 million guilders, marking a stark contrast in the contributions and the actual cost of healthcare for government employees. And this automatically brings me to the next topic.

- **Sustainable Healthcare and old-age pension**

In many countries and in Curacao and Aruba ageing is on top of agenda as this threatens the sustainability of health care and old age pension. In Sint Maarten changes to the healthcare and old age pension system are part of the instruction given by the Kingdom Council of Ministers in 2015. I would like to mention a couple of things about this:

Affordable and sustainable healthcare

We strongly encourage Sint Maarten to reform the healthcare system quickly given the rising pressure the current system is putting on funds managed by SZV as well as on the Government budget. We have taken notice of an amount of approximately 200 million guilders in cumulative deficits of the sickness and accident insurance fund and the cost for the healthcare of government personnel. I want to give you an indication of

how expensive this has become for the government of Sint Maarten. In 2012 costs were a total of 25 million guilders for the OZR and PP. In 2019 these costs have doubled to about 50 million guilders, more than 10 percent of the total government budget.

We also must bear in mind the higher expense level the new hospital will bring. This week we also took notice of plans for the new hospital and it is good that a grant from the trust fund is used to make the current and new hospital more hurricane proof.

Sustainable old age pension

With respect to the old age pension system a distinction is drawn between the pension for civil servants and the AOV funds for the public. New legislation has been drafted for both pension systems to make them sustainable by increasing the AOV and pension age from 62 to 65. However, while the legislation for civil servant pension reform is with parliament since 2018 it is not yet approved, and the legislation for AOV still has to be presented to parliament.

Remarkably, the pension scheme for civil servants is still based on final pay. I want to refer you to the analysis performed by the actuarial company Keesen, which was also presented to parliament. According to them, “no employer has such an expensive pension plan anymore”. Therefore, it is important that to replace final pay by average wage salary pension. To illustrate, the current pension premium for government employees in Sint Maarten is at 25 percent, of which government itself covers about 17 percent. In comparison, in Curacao the pension premium for government employees is set at 18 percent, with government contributing 12 percent. The pension legislation reform includes a lowering of the pension premium of Sint Maarten to

the level of Curacao. This reform is beneficial for the government and the whole Sint Maarten society from the viewpoint of a healthy and sustainable old-age pension system for its civil servants.

Government should take the necessary steps in order to ensure that these reform legislations are passed in a timely manner to ensure that everyone entitled to a pension will also receive it in the future.

Closing remarks

Looking back at the targeted instruction of September 2015 and the press briefings in the past years, unfortunately it must be said that the Cft has been repeating the same advices over and over again, without significant results on behalf of the successive governments of Sint Maarten. All the topics mentioned today are on the table for too long now. It is of the utmost importance that Sint Maarten finalize the 2020 budget and makes clear decisions regarding, as an example, its healthcare and old age pension system, and therefore guarantee budget surpluses from 2021 onwards.

I thank you for your time and attention.