Press release 2014-015

Meeting the requirements stipulated in the Kingdom Act Financial Supervision is a challenging task for both Curaçao and Sint Maarten

Willemstad / Philipsburg – As part of the dismantling process of the Netherlands Antilles, a debt relief arrangement was agreed upon between the Netherlands and the Netherlands Antillean entities in 2006. As a result, Curaçao and Sint Maarten entered their new constitutional status with a low public debt burden. However, at the same time the new countries became bound by a number of budget rules as stipulated in the Kingdom Act Financial Supervision. An assessment of the fiscal developments in Curaçao and Sint Maarten reveals that fiscal policies in both countries have been centered primarily on meeting with these budget rules.

The developments in the public finances of Curaçao throughout 2013 were characterized by measures to comply with the instruction that Curaçao received in 2012 from the Kingdom Council of Ministers. These measures included the introduction of a general health insurance scheme and the increase of the retirement age from 60 to 65 years. The reforms were aimed at containing government spending on social benefits and health care. Another measure taken by the government of Curaçao was the differentiation of the sales tax rate. Although these measures had a negative impact on real GDP growth in Curaçao, they led to an improvement of the public finances. Following a deficit of NAf.35.5 million in 2012, the government of Curaçao registered a budget surplus of NAf.82.5 million in 2013.

In the case of Sint Maarten, presenting a balanced budget was a challenge for the government in 2013. Basically, the country lacks the human and financial resources to develop a full fledged public administration. As the budget was not presented until September 16, 2013, many policy initiatives were not executed or were implemented with delay. In 2013, Sint Maarten posted a budget deficit of NAf.4.9 million. Although the 2013 deficit was lower than the deficit of NAf.23.2 million recorded in 2012, the country has not complied with the balanced budget rule in either year.

Meanwhile, fiscal head winds lie ahead for both countries. Because of the ageing population, the Curaçao government must address inefficiencies in the health care system that currently put a high burden on the government budget. Also, the operational costs of the government apparatus must be reduced. In the case of Sint Maarten, the government needs to build the necessary capacity to execute its public tasks effectively, including well functioning tax administration. Although the country of Sint Maarten has been experiencing economic growth, tax revenues are lagging behind. Hence, Sint Maarten needs to increase its tax revenues, but this can only be addressed if the necessary resources are in place.

At the same time, Curaçao and Sint Maarten must prevent uncontrolled buildup of future debt. Recently, both countries have issued debt securities to finance public investments. Because of the the standing subscription, the financing cost of public investments is lower than under normal

circumstances, which is beneficial for the public finances. In the Kingdom Act Financial Supervision, the main mechanism to prevent the uncontrolled buildup of debt in the future is the interest burden rule. This rule stipulates a yearly interest ceiling of 5% of the average government revenues of the three preceding years. The debt-to-GDP ratio, which is an important indicator of a country's capability to service its debt obligations in the long run, is not taken into consideration in the current arrangement. Although the debt-to-GDP ratio of Curaçao and Sint Maarten is still relatively low, it could increase rapidly in the current low interest environment, especially since GDP growth in both countries has been weak. Hence, to keep the debt ratio on a sustainable level, i.e., below 40% of GDP, government borrowing should not exceed GDP growth.

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