



# CENTRALE BANK VAN CURACAO EN SINT MAARTEN

## Medium term projections of Sint Maarten's gross financing need and financing gap

### 1. Introduction

Following the massive destruction caused by Hurricane Irma in 2017 that resulted in a deep economic contraction and a worsening of the public finances, Sint Maarten is facing yet another big external shock. The COVID-19 coronavirus pandemic and local containment measures put economic activity in particularly the tourism and transportation sectors to a halt during the second quarter of 2020. In March 2020, Sint Maarten closed its borders for commercial flights and maritime traffic for a period of approximately 3 months and subsequently went at the beginning of April into a total lockdown for a period of approximately 6 weeks. In June 2020, the measures were gradually relaxed but restrictions are still in place to contain a second wave of the coronavirus. Against this background, the Centrale Bank van Curaçao and Sint Maarten (CBCS) projects that the economy of Sint Maarten will contract by 24.8% in 2020.

Amid this deep economic contraction, Sint Maarten's public finances are expected to worsen considerably in 2020. Following Hurricane Irma in 2017, Sint Maarten was already allowed to deviate from the budgetary rules as stipulated by the Kingdom Law on Financial Supervision for Curaçao and Sint Maarten. The Kingdom Council of Ministers has agreed to prolong the allowed deviation from the rules amid the adverse effects of the border closure and lockdown. Furthermore, Sint Maarten requested liquidity support of NAf.250.0 million from the Netherlands to limit the negative social-economic and financial consequences of the corona crisis through stimulus and relief measures, including payroll support for businesses and income support for affected groups in society, and compensate for a loss of government income. As a result, the Kingdom Council of Ministers agreed in April 2020 to provide Sint Maarten NAf.50.2 million liquidity support related to the year 2019. In addition, in May 2020, a first tranche of liquidity support of NAf.20.0 million related to the COVID-19 crisis was transferred to Sint Maarten. Also in May, the Kingdom Council of Ministers approved a second tranche of liquidity support of NAf.53.0 million bound to certain conditions. So far, Sint Maarten has received part NAf.24.1 million in May and NAf.19.4 million in August of the second tranche). All liquidity support has been provided in the form of a 2-year interest-free bullet loan. Furthermore, the Kingdom Council of Minister has set some strict conditions for a third tranche of support of NAf.63.0. So far, no agreement has been reached between the government of Sint Maarten and the Netherlands regarding the conditions.

Against this background, the CBCS has calculated three scenarios of Sint Maarten's gross financing need and financing gap for the period 2020 – 2023:

1. A scenario assuming that Sint Maarten will not receive any additional COVID-19 liquidity support.
2. A scenario assuming that Sint Maarten will only receive the remaining NAf.9.7 million of the second tranche of liquidity support.
3. A scenario assuming that Sint Maarten will receive the remaining NAf.9.7 million of the second tranche of liquidity support and an additional third tranche of liquidity support of NAf.63.0 million.

It should be noted that the CBCS is currently calculating some scenarios of the financial-economic implications if no agreement is reached between the Netherlands and Sint Maarten regarding further COVID-19 liquidity support. Given its complexity, the CBCS expects to finish this exercise in approximately two weeks.

## **2. Background figures**

The current revenues and expenditures for 2020 are based on the actual figures for the period January – August and the projection for the period September - December. Both the actual figures and the projections are from the Ministry of Finance. Furthermore, the projected capital expenditures are derived from the September 2020 Aide Mémoire – Sint Maarten Macro-Fiscal Framework of the IMF.

The CBCS also used the medium-term projections of the government operations from the same IMF report to calculate the current revenues, current expenditures and capital expenditures for the period 2021 – 2023. Specifically, the CBCS used the same growth assumptions as the IMF.

Based on these figures, the current budget deficit of Sint Maarten is projected to increase from NAf.34.4 million in 2019 to NAf.233.3 million in 2020. The significantly higher deficit is caused by a rise in current expenditures (including the expenditures related to COVID-19) combined with lower revenues. In particular, tax revenues are projected to drop because of the decline in economic activity.

## **3. Results**

Table 1 shows the gross financing need and financing gap for Sint Maarten for the period 2020 – 2023. In addition, the financing gap including the debt service in 2022 related to the COVID-19 liquidity support is included in this table.

As shown in the table, the total gross financing need over the period 2020 – 2023 is the same in all three scenarios, namely NAf.457.5 million. However, the financing gap differs between the three scenarios. In the first scenario, based on the assumption that Sint Maarten will not receive any further liquidity support related to COVID-19, the total financing gap is NAf.344.0 million. In scenario 2, it is assumed that Sint Maarten will receive the remaining part of the second tranche of liquidity support

in 2020 of NAf.9.7 million, reducing the financing gap to NAf.334.4 million. Meanwhile, in scenario 3, the financing gap in 2020 is NAf.272.4 million as it is assumed that Sint Maarten will also receive a third tranche of liquidity support of NAf.62.0 million in 2020.

**Table 1. Medium term projections of gross financing need and financing gap**

	Scenario 1	Scenario 2	Scenario 3
Millions NAf.			
<b>Gross financing need, of which</b>	<b>457.5</b>	<b>457.5</b>	<b>457.5</b>
2020	322.0	322.0	322.0
2021	67.0	67.0	67.0
2022	98.2	98.2	98.2
2023	-29.7	-29.7	-29.7
<b>Financing gap, of which</b>	<b>344.0</b>	<b>334.4</b>	<b>272.4</b>
2020	208.5	198.9	136.9
2021	67.0	67.0	67.0
2022	98.2	98.2	98.2
2023	-29.7	-29.7	-29.7
<b>Financing gap including debt service related to COVID-19 support, of which</b>	<b>407.5</b>	<b>407.5</b>	<b>407.5</b>
2020	208.5	198.9	136.9
2021	67.0	67.0	67.0
2022	161.7	171.3	233.3
2023	-29.7	-29.7	-29.7

As the liquidity support is in the form of a 2-year bullet loan, the more liquidity support Sint Maarten receives, the higher the financing gap will be in 2022, i.e., the year in which these loans mature. Hence, the financing gap including the repayment of the COVID-19 bullet loans in 2022 amounts to NAf.161.7 million, NAf.171.3 million and NAf.233.3 million in scenarios 1, 2 and 3, respectively. Over the period 2020 – 2023, the total financing gap including the debt service related to the COVID-19 liquidity support is NAf.407.5 million.

Tables 2, 3 and 4 in the appendix provide a detailed overview of the projections made in each scenario.

#### 4. Conclusion

The corona crisis affects the Sint Maarten economy deeply. The public finances are projected to worsen considerably in 2020. Therefore, Sint Maarten requested liquidity support from the Netherlands to provide (social) assistance to the most affected groups in society and compensate for the sharp decline in government revenues.

The projections of the CBCS show that over the period 2020 – 2023, the gross financing need and the financing gap of Sint Maarten will be considerable. Furthermore, even if Sint Maarten receives the remainder of the second tranche of liquidity support and an additional third tranche, the financing gap for 2020 will remain significant.

These projections emphasize the urgency of reaching an agreement with the Netherlands or finding other feasible solutions to bridge the financing gap. The CBCS is currently calculating the financial-economic implications if no agreement is reached between the Netherlands and Sint Maarten regarding further COVID-19 liquidity support.

The Bank would like to underscore that irrespective whether Sint Maarten receives additional liquidity support from the Netherlands or alternative financing options are sought to close the financing gap, measures will have to be taken to achieve sustainable public finances and economic recovery. However, compared to additional support from the Netherlands, alternative financing options may implicate even more drastic measures.

**Centrale Bank van Curaçao en Sint Maarten**  
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## Appendix

Table 2. Scenario 1: No additional COVID-19 liquidity support

	2020	2021	2022	2023
Millions NAF	IMF projections			
<b>Current revenues</b>	<b>344.5</b>	<b>369.3</b>	<b>447.6</b>	<b>513.4</b>
Taxes	282.9	288.2	353.4	409.0
Other revenues	61.6	81.1	94.2	104.4
<b>Total expenditures</b>	<b>597.8</b>	<b>416.5</b>	<b>475.8</b>	<b>461.9</b>
Current expenditures	577.8	361.5	401.8	410.9
<i>Expenditures related to the budget</i>	462.1	361.5	401.8	410.9
<i>Expenditures related to COVID-19</i>	115.7	0.0	0.0	0.0
Capital expenditures	20.0	55.0	74.0	51.0
<b>Overall balance</b>	<b>-253.3</b>	<b>-47.2</b>	<b>-28.2</b>	<b>51.5</b>
Amortization	11.0	11.0	11.0	11.0
<b>Financial balance<sup>2</sup></b>	<b>-264.3</b>	<b>-58.2</b>	<b>-39.2</b>	<b>40.5</b>
<b>Debt service</b>	<b>57.7</b>	<b>8.8</b>	<b>59.0</b>	<b>10.8</b>
<b>Gross financing need</b>	<b>322.0</b>	<b>67.0</b>	<b>98.2</b>	<b>-29.7</b>
Liquidity support	113.5	0.0	0.0	0.0
Received	107.5			
<i>Liquidity support Hurricane Irma</i>	44.0			
<i>Liquidity support COVID-19</i>	63.5			
Pending	6.0			
<i>Liquidity support Hurricane Irma</i>	6.0			
<i>Liquidity support COVID-19</i>	0.0			
<b>Financing gap</b>	<b>208.5</b>	<b>67.0</b>	<b>98.2</b>	<b>-29.7</b>
Debt service COVID-19 bullet loan	0.0	0.0	63.5	0.0
<b>Debt service incl. COVID-19 bullet loan</b>	<b>208.5</b>	<b>67.0</b>	<b>161.7</b>	<b>-29.7</b>

<sup>1</sup> +sign represents a surplus / - sign represents a deficit.

**Table 3. Scenario 2: Sint Maarten only receives the remainder of the second tranche of COVID-19 liquidity support (NAf.9.7 million).**

	2020	2021	2022	2023
Millions NAf	IMF projections			
<b>Current revenues</b>	<b>344.5</b>	<b>369.3</b>	<b>447.6</b>	<b>513.4</b>
Taxes	282.9	288.2	353.4	409.0
Other revenues	61.6	81.1	94.2	104.4
<b>Total expenditures</b>	<b>597.8</b>	<b>416.5</b>	<b>475.8</b>	<b>461.9</b>
Current expenditures	577.8	361.5	401.8	410.9
<i>Expenditures related to the budget</i>	462.1	361.5	401.8	410.9
<i>Expenditures related to COVID-19</i>	115.7	0.0	0.0	0.0
Capital expenditures	20.0	55.0	74.0	51.0
<b>Overall balance</b>	<b>-253.3</b>	<b>-47.2</b>	<b>-28.2</b>	<b>51.5</b>
Amortization	11.0	11.0	11.0	11.0
<b>Financial balance<sup>2</sup></b>	<b>-264.3</b>	<b>-58.2</b>	<b>-39.2</b>	<b>40.5</b>
<b>Debt service</b>	<b>57.7</b>	<b>8.8</b>	<b>59.0</b>	<b>10.8</b>
<b>Gross financing need</b>	<b>322.0</b>	<b>67.0</b>	<b>98.2</b>	<b>-29.7</b>
Liquidity support	123.1	0.0	0.0	0.0
Received	107.4			
<i>Liquidity support Hurricane Irma</i>	44.0			
<i>Liquidity support COVID-19</i>	63.4			
Pending	15.7			
<i>Liquidity support Hurricane Irma</i>	6.0			
<i>Liquidity support COVID-19</i>	9.7			
<b>Financing gap</b>	<b>198.9</b>	<b>67.0</b>	<b>98.2</b>	<b>-29.7</b>
Debt service COVID-19 bullet loan	0.0	0.0	73.1	0.0
<b>Debt service incl. COVID-19 bullet loan</b>	<b>198.9</b>	<b>67.0</b>	<b>171.3</b>	<b>-29.7</b>

<sup>1</sup> +sign represents a surplus / - sign represents a deficit.

**Table 4. Scenario 3: Sint Maarten receives the remainder of the second tranche (NAf.9.7 million) and an additional third tranche (NAf.63.0 million) of liquidity support**

	2020	2021	2022	2023
Millions NAf	IMF projections			
<b>Current revenues</b>	<b>344.5</b>	<b>369.3</b>	<b>447.6</b>	<b>513.4</b>
Taxes	282.9	288.2	353.4	409.0
Other revenues	61.6	81.1	94.2	104.4
<b>Total expenditures</b>	<b>597.8</b>	<b>416.5</b>	<b>475.8</b>	<b>461.9</b>
Current expenditures	577.8	361.5	401.8	410.9
<i>Expenditures related to the budget</i>	462.1	361.5	401.8	410.9
<i>Expenditures related to COVID-19</i>	115.7	0.0	0.0	0.0
Capital expenditures	20.0	55.0	74.0	51.0
<b>Overall balance</b>	<b>-253.3</b>	<b>-47.2</b>	<b>-28.2</b>	<b>51.5</b>
Amortization	11.0	11.0	11.0	11.0
<b>Financial balance<sup>2</sup></b>	<b>-264.3</b>	<b>-58.2</b>	<b>-39.2</b>	<b>40.5</b>
<b>Debt service</b>	<b>57.7</b>	<b>8.8</b>	<b>59.0</b>	<b>10.8</b>
<b>Gross financing need</b>	<b>322.0</b>	<b>67.0</b>	<b>98.2</b>	<b>-29.7</b>
Liquidity support	185.1	0.0	0.0	0.0
Received	107.4			
<i>Liquidity support Hurricane Irma</i>	44.0			
<i>Liquidity support COVID-19</i>	63.4			
Pending	77.7			
<i>Liquidity support Hurricane Irma</i>	6.0			
<i>Liquidity support COVID-19</i>	71.7			
<b>Financing gap</b>	<b>136.9</b>	<b>67.0</b>	<b>98.2</b>	<b>-29.7</b>
Debt service COVID-19 bullet loan	0.0	0.0	135.1	0.0
<b>Debt service incl. COVID-19 bullet loan</b>	<b>136.9</b>	<b>67.0</b>	<b>233.3</b>	<b>-29.7</b>

<sup>1</sup> +sign represents a surplus / - sign represents a deficit.