

**LAPSE OF
TIME**

SM/21/138

Correction 2

August 17, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Kingdom of the Netherlands—Curaçao and Sint Maarten—Staff Report for the 2021 Article IV Consultation Discussions**

Board Action: The attached correction to SM/21/138 (7/15/21) has been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 57

Questions: Mr. Kovtun, WHD (ext. 39785)
Mr. Oshima, WHD (ext. 36670)
Mr. Dowling, WHD (ext. 39952)

Annex VI. Public Debt Sustainability Assessment

A. Public Debt

Recent Developments

1. In both Curaçao and Sint Maarten, the COVID-19 pandemic led to sharp accumulation of government debt stocks. In both cases, the government debt is defined as debt liabilities of budgetary central government. Thus, it does not cover liabilities issued by other government entities, such as state-owned enterprises (SOEs) or social security/health insurance funds (SVB and SZV). A significant improvement in data framework is needed to expand DSA coverage to the public sector. A combination of much lower fiscal revenue and higher spending needs opened significant financing requirements that were filled by zero-interest bullet loans from the Netherlands maturing in 2022. The loans are denominated in local currency (i.e. not subject to the currency risk for Curaçao/Sint Maarten), but transferred mostly in the US dollars.

2. Curaçao. The debt-to-GDP ratio increased from 55.9 percent of GDP in 2019 (preliminary data) to 89.1 percent of GDP in 2020. The primary fiscal deficit contributed 14.9 percent of GDP, of which 5.8 percent of GDP (NAf 267 million) was attributed to a takeover of CBCS' claim on Girobank by the budget giving rise to a corresponding liability to the CBCS to be repaid over long term. The automatic debt dynamics—stemming mainly from the collapse of nominal GDP—contributed 14 percent of GDP.

3. Sint Maarten. As the latest available financial statements—that show final debt stock figures—are as of 2016, the debt stocks for 2017-20 are estimated using a combination of preliminary data on liabilities and operating data, suggesting that the debt in 2020 was 64.7 percent of GDP. However, the stock-flow analysis suggests that it could be underestimated by about 6 percent of GDP. The increase in 2020 was due to a combination of the primary deficit (10.2 percent of GDP) and automatic debt dynamics (12.4 percent of GDP). The government reduced the legacy arrears by NAf 14 million (0.8 percent of GDP) to domestic creditors, including the social security fund (SZV) and the public pension fund (APS).

Baseline Projections

4. In both countries, the debt-to-GDP ratio is expected to peak in 2021 and to gradually decrease over the medium term. Staff assume that the gross financing need (GFN) would be financed mainly by local-currency denominated loans from The Netherlands with long maturities and low interest rates from the standing subscription arrangement.

5. Curaçao. The debt stock is projected to reach 103.2 percent of GDP in 2021 and remain above 85 percent of GDP even in 2026. In 2021, the increase is driven by the primary fiscal deficit (contributing 13.5 percent of GDP) and a loan from the Netherlands for resolving Girobank, which is on-lent to the special purpose vehicle (3.7 percent of GDP). Afterwards, the debt-to-GDP ratio would decline due to the economic recovery.