

Central Bank Strategy Rethought: Enhancing Stability and Growth

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CENTRALE BANK
VAN SURINAME



Agenda

1. Main Functions CBvS
2. Modernization Monetary Policy Framework
3. Exchange Rate Policy
4. Recent Economic Developments
5. Challenges Facing CBvS
6. Policy Responses
7. Road Ahead



1 MAIN FUNCTIONS OF DE CENTRALE BANK VAN SURINAME





According to Article 9 of the Bank Act (1956), the main functions of the CBvS are:

- promoting monetary stability;
- issuing/circulating the national currency and facilitating cashless payments;
- promoting financial stability;
- supervising the financial sector;
- promoting and facilitating international transactions;
- promoting sustainable socioeconomic development.

Furthermore, the CBvS is banker of the Government and commercial banks



2 MODERNIZATION MONETARY POLICY FRAMEWORK





Monetary Policy Framework since March 2019

- Since March 2019 the Central Bank pursues an active monetary policy.
- The Bank not only monitors and forecasts liquidity, but also actively manages it – in line with the main mandate of the Central Bank in the Bank Act, namely, monetary stability.
- New monetary policy instruments have been developed and successfully implemented recently.
- Introduction of reviewed Monetary Policy Advisory Committee (MPAC) and Senior Credit Committee



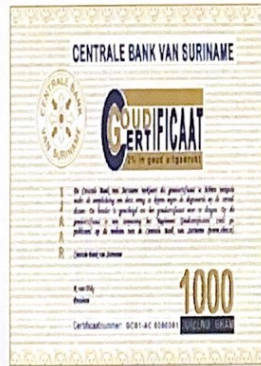
The Bank focuses on Active Management of Liquidity...

Introduction of New Monetary Policy Instruments

- ❖ Certificate of Deposit (July 2019)



- ❖ Gold Certificates (July 2019)



- ❖ Standing facilities (Sept 2019):
 - Intra-day liquidity facility
 - Short-term lending facility
 - Deposit facility



- ❖ Emergency Liquidity Assistance (Sept 2019)

Unwind FX Swaps





3 EXCHANGE RATE POLICY



The FX market in Suriname - Feature & Bugs

The feature: The market has an oversupply of € cash and an excess demand of US\$ cash.

Bug #1: The economy is highly dollarized. Some transactions are only carried out in foreign currency, e.g. real estate is transacted in Euros, cars are sold in US\$.

Bug #2: The FX market is extremely thin.

- a) Trading volumes of FX are far below the exports of goods and services.
- b) The market has always required the CBvS to facilitate transactions, e.g., for large-scale oil import transactions that would otherwise disrupt the market.



The FX market in Suriname - Feature & Bugs (cont'd)

Bug #3: The Dutch authorities seized €19.5 million in cash exports.

- a) Dramatic effect on the thin and dysfunctional market.
- b) Aggravated with continued inflow of € from visitors and outflows of US\$ from travelers.
- c) The market began to seize up: Banks started limiting US\$ cash withdrawals, the cross rate started to deviate substantially from the international cross rate, hoarding started.
- d) The demand of US\$ increased as hoarding was setting in.

Bug #4: The elections in May 2020.

- a) There is a history of post-election devaluations and Surinamese expect this trend to continue. Despite the fact that we can technically not have a devaluation in a floating exchange rate regime - it is a depreciation.
- b) The more people expect a "devaluation," the more speculative behavior will tend to depreciate the spot rate.



CBvS policy approach

1. Manage demand for FX by actively managing excess liquidity

- Sterilization of excess liquidity
- Introduction of new monetary instruments
- Unwinding of FX swaps (no effect on IR)
- Operationalization of standing facilities

2. Supporting the supply of FX

- The CBvS has been supporting the supply of FX due to the shortage of cash US dollars.
- FX sales to cater excess import demand and the demand of the public for payments in foreign currency
- FX is made available to importers of basic goods, medicines, or building materials through commercial banks under certain conditions:
 - FX is transferred directly to the foreign supplier of the imported goods.
 - Purchase of FX is financed by own SRD-funds and not through SRD-credit .





CBvS policy approach (cont'd)

3. Other measures

- Import US\$ cash to mitigate the growing disparity in the market: **Service Agreement with FED** → Banks are supplied with cash US dollars.
- Sue the Dutch authorities to undo the seizure, which we consider illegal.
- Resumption of Euro shipments in the near future
- Financial Inclusion policies → make the informal bankable.
- Encouraging electronic payments (FinTech).
- Improving communications to the public.
- Improving monitoring
 - MoU with Financial Intelligence Unit and Gaming Board for Compliance with AML rules
 - Financial Intelligence Department
 - Impose necessary sanctions (Act Supervision of Money Transfer Offices)
- Preferable: repatriation of export earnings to Suriname.



CBvS policy approach (cont'd)

4. How to deal with the election jitters.

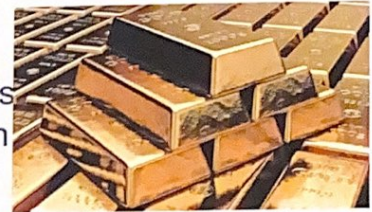
- The CBvS will act when necessary to smoothen exchange rate fluctuations.
- Election-typical fears of an exchange rate change are a temporary problem, and in itself will normalize after the election of May 2020. There is only limited need for action by the CBvS:
 - An increase in speculation and hoarding can have a serious impact on the foreign exchange market
 - An increase in speculation and hoarding can have a meaningful impact on the exchange rate. This can lead to a self-fulfilling depreciation cycle and then to inflation.
- The CBvS will act to prevent market seizures.





Strengthening International Reserve position...

- Required FX reserves of commercial banks are being transferred to the Bank
 - Boost IR and confidence
 - Enhance resilience of the financial system
- Buy gold against SRD and sell the FX proceeds into the market. This is a net zero transaction in the economy.
- Establishment of Strategic Investment Committee and drafting new investment policy
 - Pooling of FX required reserves and investment portfolio of the Bank to gain higher returns on investment.

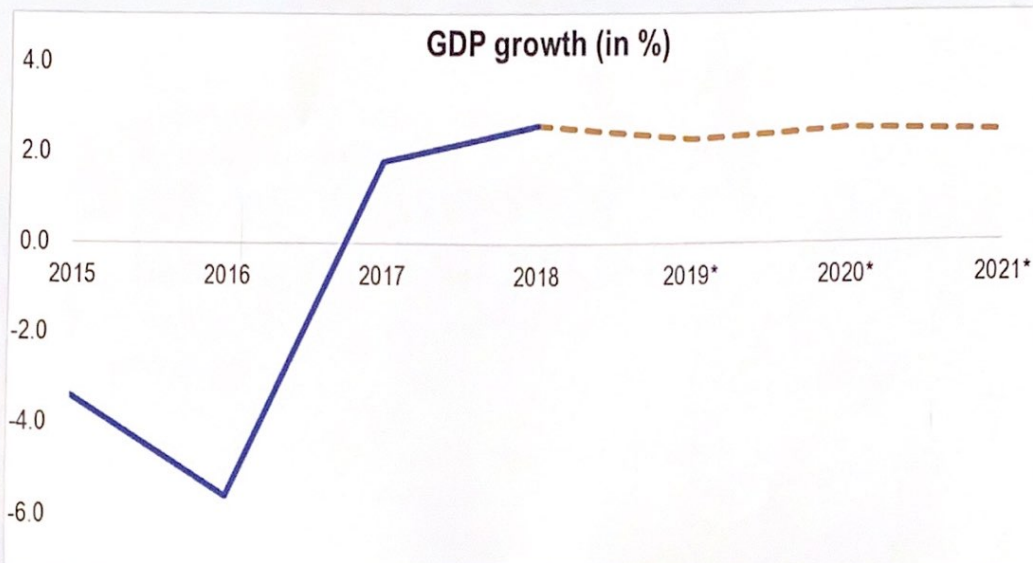


4 RECENT ECONOMIC DEVELOPMENTS





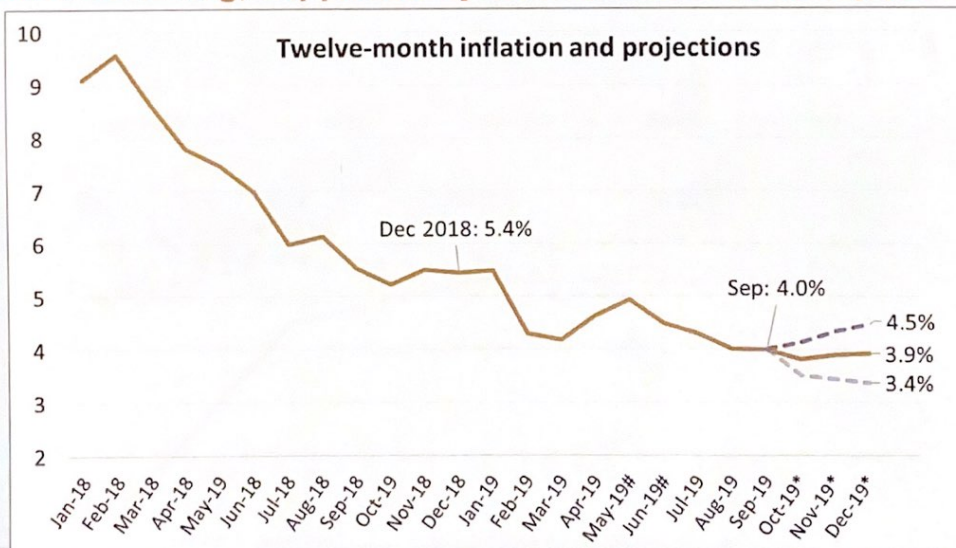
Economy on a positive growth trajectory...



Source: ABS, IMF
* projections



Inflation is falling, supported by Central Bank monetary policy...

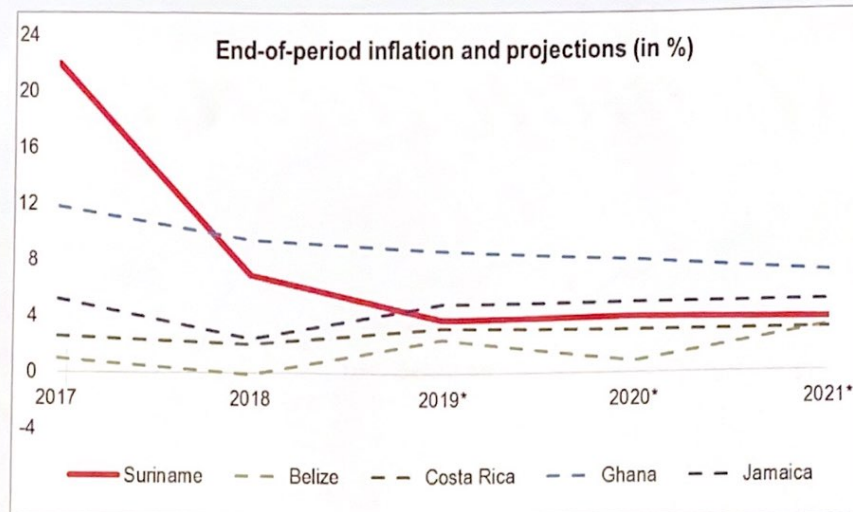


Note: These projections are subject to change due to policy measures or domestic and external developments.

Source: Realizations GBS and projections CBvS
Estimations CBvS | * Projections CBvS



Inflation in Suriname performs well compared to other B-rated countries

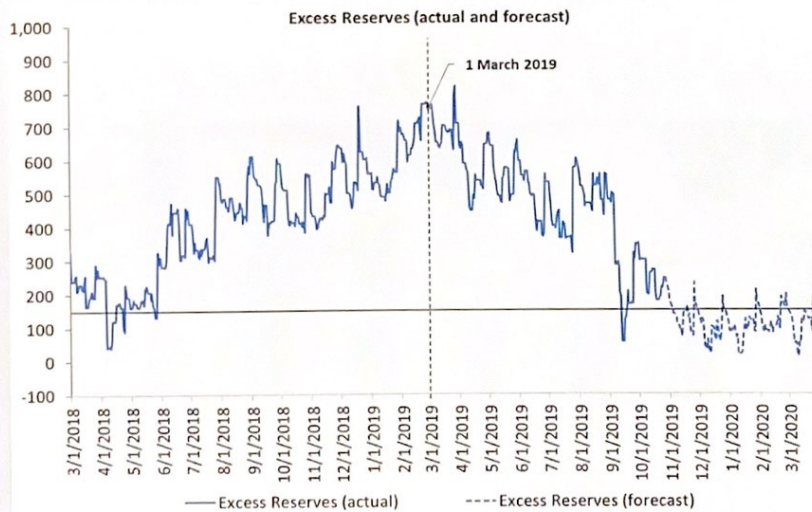


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Source: CBvS, GBS, IMF
*Projections



Central Bank is steering Excess Liquidity on a downward path



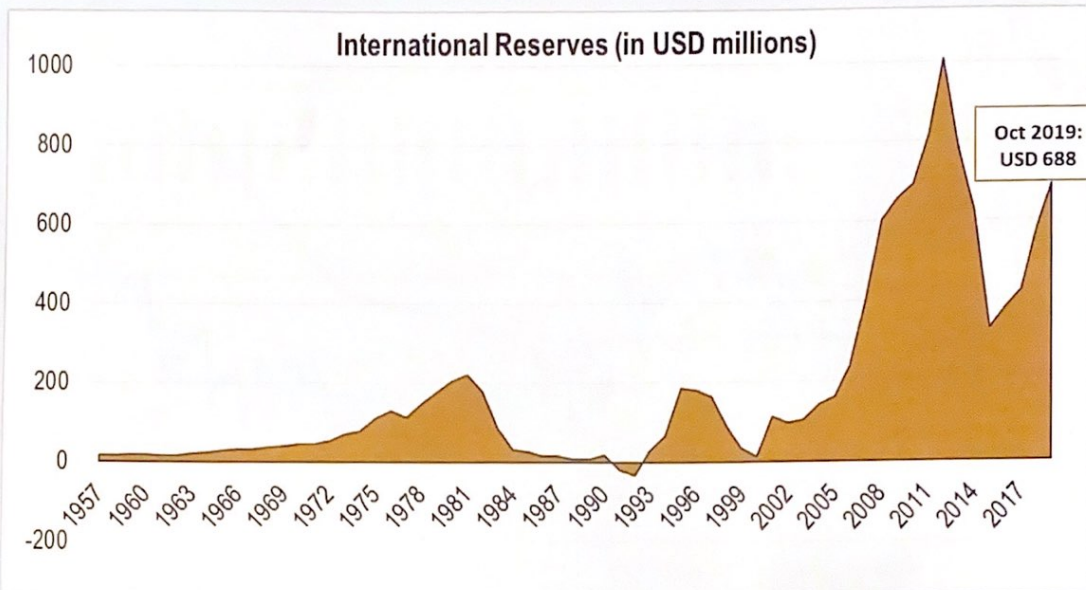
The Central Bank successfully **absorbed excess liquidity** since the beginning of **March 2019**.

The policy of the Bank: keep liquidity at manageable level (around SRD 150 million).

Source: CBvS



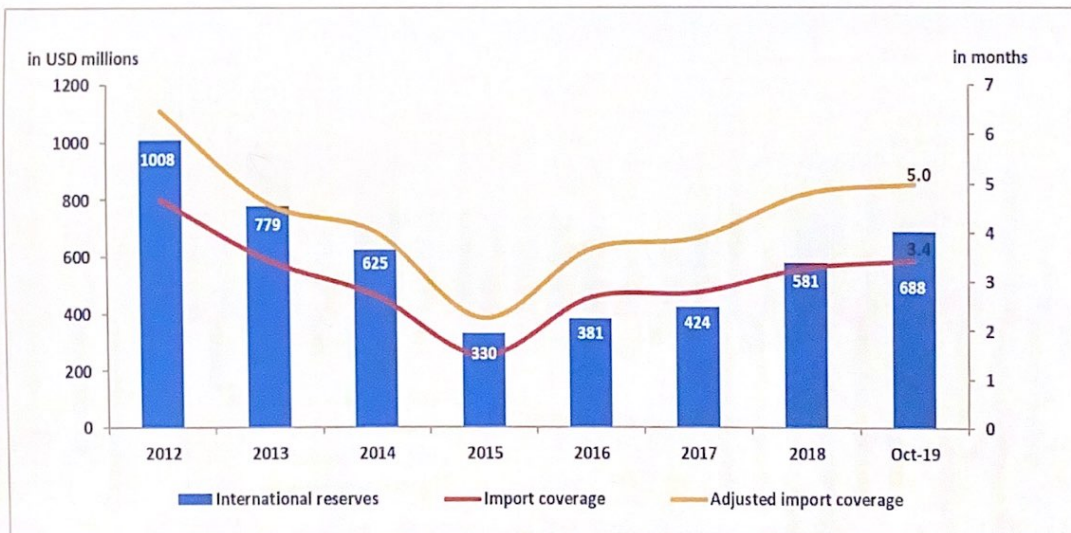
International Reserves exceeding US\$ 800 million by end 2019..



Source: CBvS



International Reserves and Import Coverage

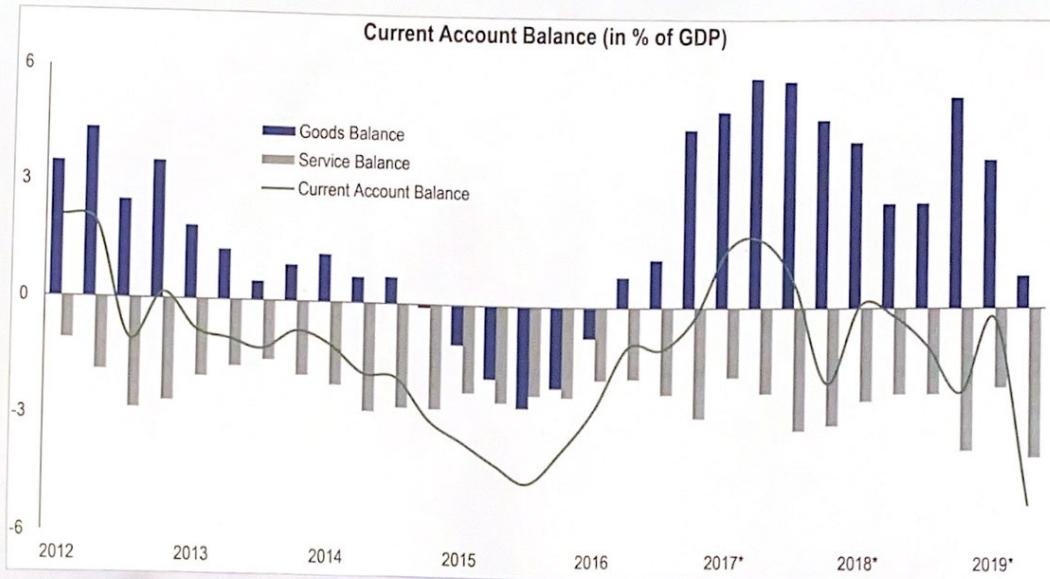


Adjusted import coverage: ratio of gross international reserves to non-mining imports of goods and services, expressed in months. The mining sector is not dependent on the country's international reserves as it finances its own imports. This excludes the imports of goods and services by Rosebel Gold Mines, Newmont Suriname, local gold companies, Staatsolie, and Suralco.

Source: CBvS



Current Account

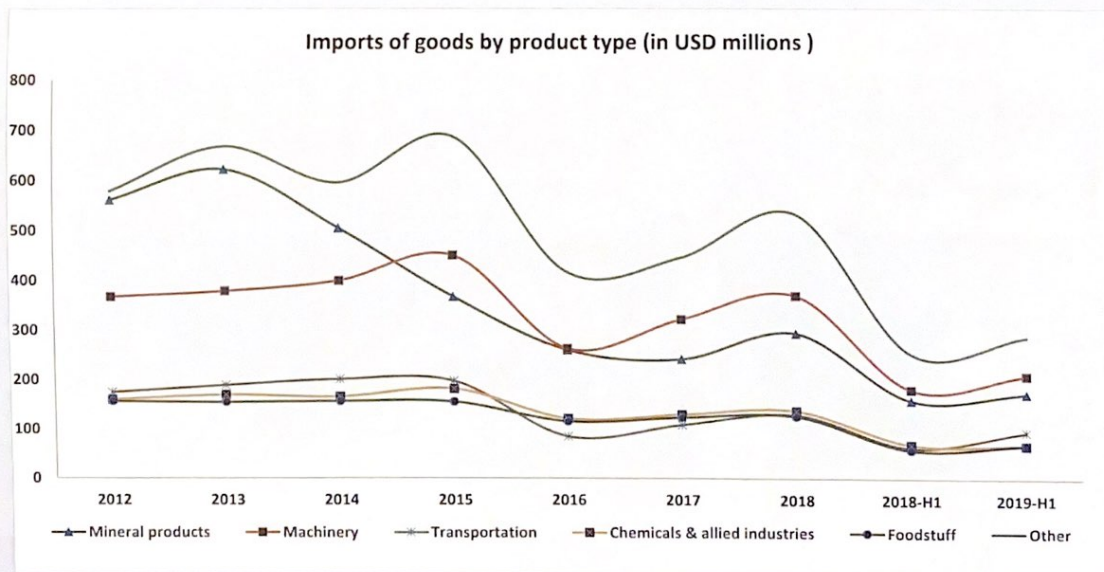


Recent current account deficits driven by mining sector related imports, mostly financed by FDI. Increased imports in 2019 are partly related to the Near Shore Drilling Project of Staatsolie N.V. which started on April 1, 2019

Source: CBvS
* Preliminary figures



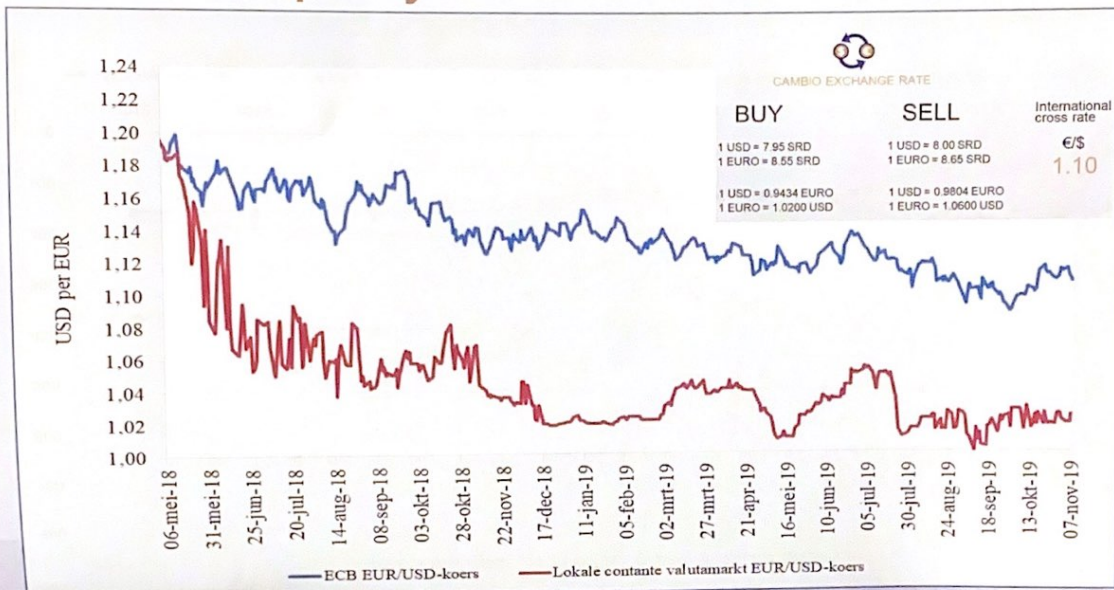
Current Account (cont'd)



Source: CBvS



Artificial temporary effect on cross rates...

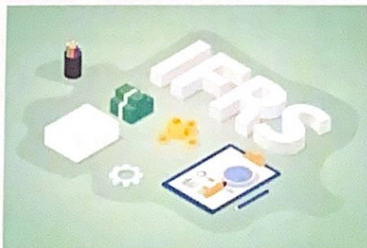


Source: CBvS, ECB



Developments in the Financial Sector...

- Integrity/ Compliance to AML/CFT Supervision
- International Financial Reporting Standard (IFRS)
- Strengthening supervision on Money Transfer Office





Performance of the Banking Sector

The performance of the banking sector improved since 2017. More stringent supervision has been enforced to ensure that banks comply with regulations.

| | Dec-14 | Dec-15 | Dec-16 | Dec-17 | Dec-18 |
|--|--------|--------|--------|--------|--------|
| Capital Adequacy | | | | | |
| Regulatory capital/RWA | 11.5 | 11.3 | 5.5 | 9.3 | 9.9 |
| Regulatory Tier 1 capital/RWA | 11.4 | 11.3 | 5.5 | 8.7 | 9.3 |
| Capital (net worth)/assets | 8.8 | 7.9 | 3.3 | 5.0 | 4.9 |
| Asset Quality | | | | | |
| NPLs/gross loans | 6.2 | 8.4 | 10.8 | 13 | 10.8 |
| NPLs net of provision/capital | 33.0 | 39.8 | 76.8 | 52.1 | 31.8 |
| Earnings and profitability | | | | | |
| ROA | 1.7 | 1.3 | -0.7 | 0.9 | 0.1 |
| ROE | 20.3 | 15.4 | -11.9 | 16.2 | 2.3 |
| Liquidity | | | | | |
| Liquid assets/total assets | 30.9 | 32.1 | 32.7 | 37.9 | 40.2 |
| Liquid assets/total short-term liabilities | 63.0 | 69.1 | 69.2 | 82.3 | 82.3 |

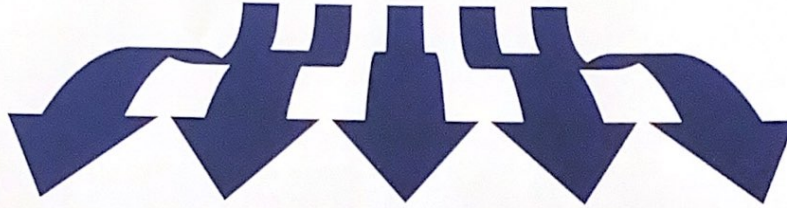
Source: CBvS



5 CHALLENGES FACING CBvS



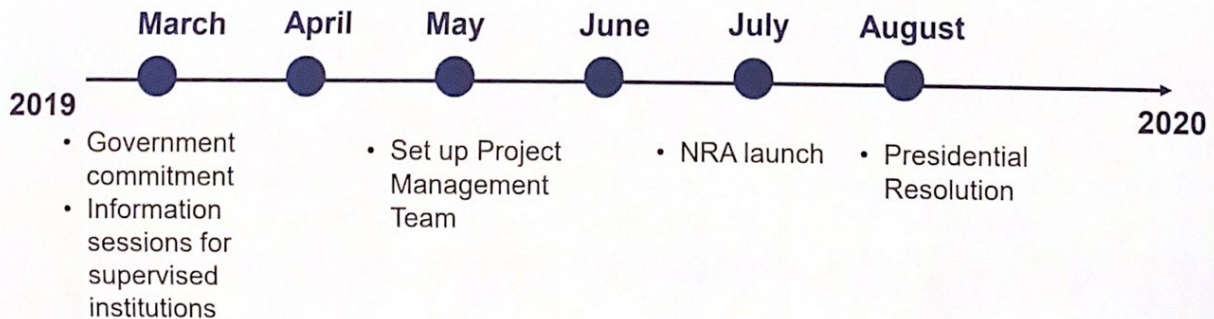
CBvS operates in a dynamic environment



- Complete National Risk Assessment by 2020
- Unjustified seizure of money shipment in April 2018 adversely affects the economy
- Innovation (FinTech) and financial inclusion challenges
- Need for strengthening of the legal framework for the Financial Sector
- Need for institutional strengthening CBvS



Complete National Risk Assessment by 2020



Presidential Resolution for implementation of AML/CFT National Risk Assessment signed in August 2019:

- Compilation of National Risk Assessment report with technical assistance from Inter-American Development Bank (IDB).
- Project Management Team directly under CBvS since August 2019



Update on Money Shipments

- Service agreement with FED to guarantee cash US-dollars.
 - Banks are provided with cash USD against cashless USD, so that they can meet the demand of cash dollars from their account holders.
- Unjustified seizure of money shipment in April 2018 adversely affects the economy and FX market.
 - The Bank has filed a formal complaint against the Dutch Public Prosecution on June 28th 2019.
 - The lawsuit is in process



6 Policy Responses CBvS



CBvS Strategic Framework

Vision

De Centrale Bank van Suriname, an autonomous monetary and financial authority that co-directs the sustainable economic development of our country in a professional and transparent manner.



Strategic Pillars

1. Monetary stability
2. Financial stability
3. Payments
4. Internal operations
5. Governance
6. Communication
7. Sustainable economic development



Ensuring Financial Stability...

- Implementation of the National Risk Assessment (NRA)
- The draft Bank Resolution Act is expected to be sent to Parliament by the end of 2019
- Drafting a comprehensive contingency plan for systemic risk by the end of 2019
- Establishing a macro-prudential framework
- Strengthening supervisory capacity through additional staff and IT systems



Steps taken towards promoting Financial Inclusion

FinTech

- FinTech Department
- CBvS has leading role while regulating
- Innovation hub
- Regulatory sandbox approach
- Awareness sessions started in July

Financial Inclusion

- Financial Inclusion assessment
- Financial Inclusion Awareness sessions started from 18th of July, CEMLA project.

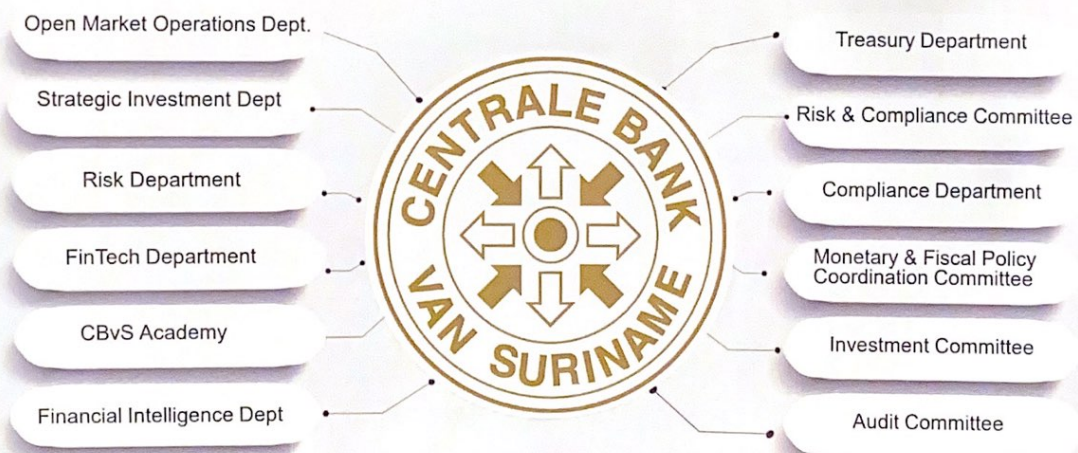
SNEPS

- Connect Free Balance to SNEPS system
- Straight-Through Processing: Integration current system Olympic and SNEPS
- Removal of SRD fees
- USD transactions accommodated in SNEPS.



Institutional Strengthening CBvS

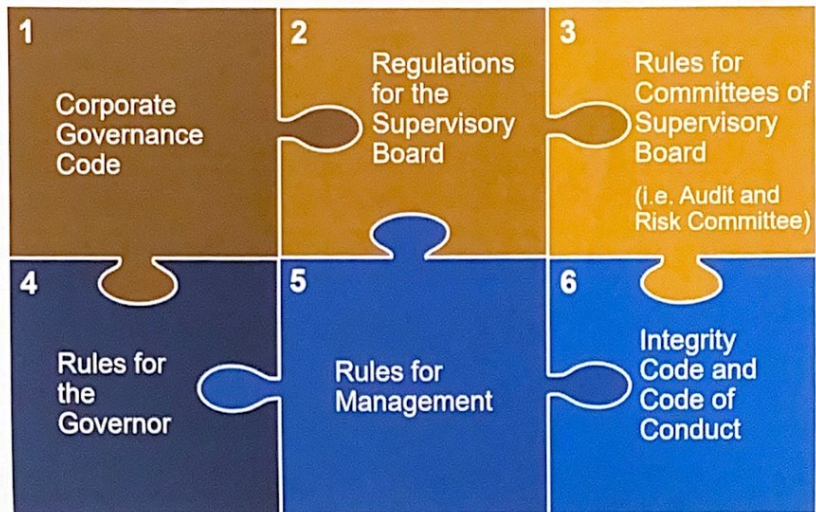
New Departments and Committees in support of CBvS new policy direction





Strengthening Central Bank Governance...

CBvS Handbook for Corporate Governance and relevant regulations in accordance with international standards:



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Modernizing & strengthening of financial legislation



Amended or drafted legislation presented to Parliament:

- The Central Banking Act 1956
 - Art.21 (10% monetary financing rule) eliminated
- The Banking and Credit System Supervision Act
- The Money Transaction Offices Supervision Act
- Pension Funds Supervision Act
- Bank Resolution Act
- Deposit Insurance Act
- Electronic Payment System Act
- Insurance Supervision Act
- Credit Registration Office Act

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7 Road Ahead



Overview key achievements in past 6 months





The Way Forward...

Going forward, the CBvS will focus on:

- Ensuring monetary and financial stability
 - Actively managing liquidity
 - Further developing of the FX market
 - Boosting International Reserves
- Promoting Financial Inclusion and Awareness
- Promoting a de-cashing policy
- Implementing Capital Requirements
- Building capacity (CBvS Academy)
- Modernizing law and regulations

