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IMF Executive Board Concludes Article IV Consultation with Suriname

On December 11, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Suriname.

Suriname's economy is growing steadily with low inflation. Real GDP grew by 2.6 percent in 2018, following 1.8 percent in 2017. Activity growth has been broad based with expansions in wholesale and retail trade, construction, hotels, restaurants, and manufacturing, while mining has remained stable. Inflation has fallen below 5 percent mainly arising from exchange rate stability and control over excess liquidity. The unemployment rate was 7.6 percent in 2017 and is expected to have declined further in 2018. Real GDP is expected to expand annually by 2¼ to 2½ percent during 2019–24, while inflation is expected to remain low. However, the balance of risks to this outlook is negative, mainly due to fiscal imbalances. The overall fiscal deficit is expected to reach 8.6 percent of GDP in 2019 while public debt remains high at around 72 percent of GDP.

This year's Article IV consultation focused on policies to bolster the economy in the medium term. These include fiscal measures to enhance revenues and efficiency and lower expenditures, policies to improve the monetary and financial sector supervision frameworks, and structural policies to boost potential growth.

Executive Board Assessment²

Executive Directors took positive note that the Surinamese economy is growing steadily, with a falling unemployment rate, low inflation, and a stable exchange rate. They stressed that this stabilization presents an opportunity to address the central challenges facing the economy, including a weak fiscal position and rising public debt, monetary and financial

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Suriname: Selected Economic Indicators

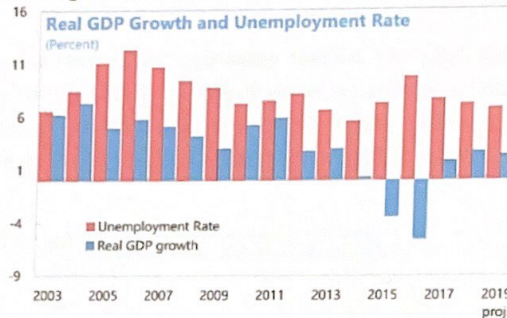
	2016	2017	2018	Proj.					
				2019	2020	2021	2022	2023	2024
Real sector (percent change)									
Real GDP	-5.6	1.8	2.6	2.3	2.5	2.4	2.0	2.4	2.5
Nominal GDP	19.1	23.3	7.4	11.8	12.6	8.0	10.7	6.0	6.7
GDP deflator	26.2	21.2	4.6	9.3	9.9	5.5	8.5	3.6	4.1
Consumer prices (period average)	55.5	22.0	6.9	4.5	5.8	4.7	10.2	5.1	4.8
Consumer prices (end of period)	52.4	9.3	5.4	4.8	4.8	5.7	8.3	5.2	4.4
Labor market (percent)									
Unemployment rate	9.7	7.6	7.1	6.7	6.3	5.9	5.5	5.1	4.7
Labor force participation rate	59.6	59.9	60.2	60.6	60.9	61.2	61.5	61.8	62.2
Money and credit (percent change)									
Broad money (constant exchange rate)	5.9	8.6	8.1	9.5	9.4	7.6	7.5	7.5	7.0
Broad money (local currency, percent of GDP)	27.7	25.3	28.0	28.8	29.3	29.7	29.4	30.2	30.7
Reserve money (constant exchange rate)	8.1	22.2	35.4	14.8	12.6	8.6	8.5	8.5	7.6
Reserve money (percent of GDP)	15.4	15.3	19.3	19.9	19.9	20.1	19.7	20.2	20.4
Private sector credit (constant exchange rate)	-5.7	0.9	-4.5	-4.7	7.4	12.8	10.6	14.5	12.8
Private sector credit (percent of GDP)	38.6	31.7	28.2	24.3	23.4	24.8	25.0	27.1	28.9
Central government (percent of GDP)									
Revenue and grants	18.9	22.0	23.9	25.4	24.9	24.9	26.3	26.2	26.0
Total expenditure	28.0	30.9	31.0	34.0	33.8	33.2	32.7	33.8	33.5
<i>Of which: Primary expenditure</i>	25.4	26.6	27.1	30.2	29.9	29.1	28.9	28.8	28.7
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (net lending/borrowing) 1/	-9.1	-8.8	-7.1	-8.6	-8.9	-8.2	-6.4	-7.6	-7.5
Primary balance	-6.5	-5.3	-3.5	-4.8	-5.0	-4.1	-2.7	-2.6	-2.7
Net acquisition of financial assets 2/	13.2	0.3	-11.9	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	22.3	9.1	-4.8	8.6	8.9	8.2	6.4	7.6	7.5
Net domestic financing	-11.1	5.9	8.3	2.8	2.8	2.7	2.3	2.6	2.6
Net external financing	18.9	7.4	1.4	5.8	6.1	5.5	4.2	5.0	4.9
Central government debt 3/ (percent of GDP)									
Domestic	76.1	74.6	72.1	72.3	74.6	79.5	79.5	83.8	87.4
External	21.4	22.4	22.5	21.0	21.8	23.3	23.8	25.6	27.2
	54.7	52.2	49.6	51.3	52.8	56.3	55.7	58.2	60.1
External sector (percent of GDP)									
Current account balance	-5.1	1.9	-3.4	-6.1	-5.9	-4.5	-3.3	-4.8	-4.3
Capital and financial account	16.1	3.5	8.6	9.5	8.5	4.4	4.2	4.6	3.6
Overall balance	1.6	1.3	4.5	3.4	2.6	-0.1	0.9	-0.2	-0.6
Financing									
Change in reserves (- = increase)	-1.6	-1.3	-4.5	-3.4	-2.6	0.1	-0.9	0.2	0.6
Memorandum items									
GDP at current prices (SRD billions)	19.5	24.0	25.8	28.8	32.5	35.1	38.8	41.2	43.9
Terms of trade (percent change)	8.9	-2.8	-3.7	6.7	7.7	1.0	0.2	-0.2	-0.5
Gross international reserves (USD millions)	381	424	581	710	819	814	857	847	813
In months of imports	2.5	2.4	2.9	3.6	3.7	3.6	3.7	3.5	3.3
Gold price (USD per troy ounce)	1,248	1,257	1,269	1,400	1,531	1,558	1,580	1,599	1,619
Oil price (USD per barrel)	42.8	52.8	68.3	61.8	57.9	55.3	54.6	54.7	55.3

Sources: Surinamese authorities and Fund staff calculations and projections.

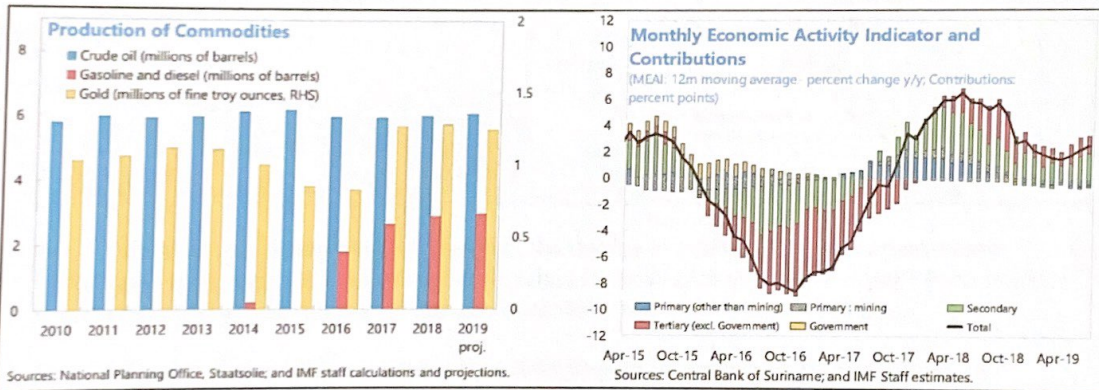
1/ The overall balance is computed using net financial transactions, and therefore, includes statistical discrepancy.

RECENT DEVELOPMENTS

1. **The economy is growing steadily and the unemployment rate is falling.** Real GDP growth was 2.6 percent in 2018, following 1.8 percent growth in 2017. The Monthly Economic Activity Indicator (MEAI) has, however, slowed during 2019 to 2.5 percent (y/y; 12-m moving average) in July. Activity growth has been broad based with expansions in wholesale and retail, construction, hotels, restaurants, and manufacturing. Gold and oil production were broadly flat, but gasoline production increased in 2018 due to earlier refinery improvements. The unemployment rate fell to 7.6 percent in 2017 and is estimated to have declined further in 2018.



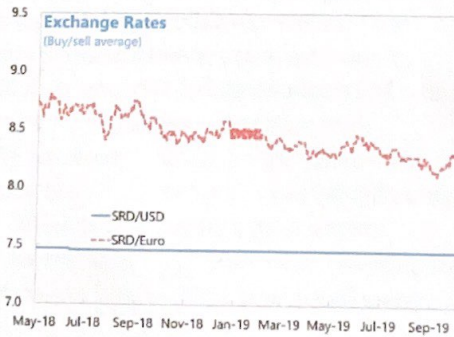
Sources: General Bureau of Statistics, National Planning Office, and IMF staff calculations and projections.
Note: Unemployment rate is calculated based on the survey in Paramaribo and Wanica.



Sources: National Planning Office, Staatsolie, and IMF staff calculations and projections.

Sources: Central Bank of Suriname; and IMF Staff estimates.

2. **The official U.S. dollar exchange rate remained virtually unchanged last year.** Suriname's *de jure* exchange rate regime is floating but the official central bank exchange rate path indicates a *de facto* stabilized arrangement. The CBvS continues to provide FX directly to the private sector at the official rate for specific import items (notably fuel and pharmaceuticals) and has injected some FX into the banks this year to stabilize the exchange rate. The CBvS does not report any parallel market rates on a regular basis, but occasional information from government officials indicate that exchange houses (cambios) offer a parallel exchange rate, which is more depreciated and more volatile than the official rate.¹ To boost international reserves, a Foreign

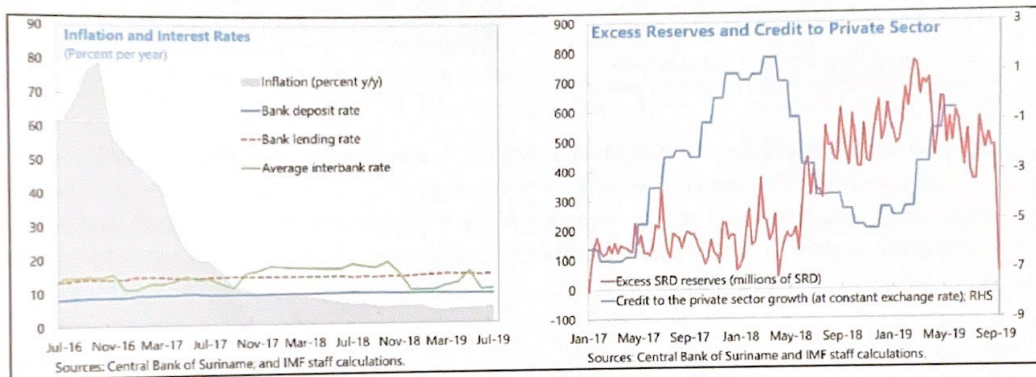


Source: Central Bank of Suriname.

¹ For example, on October 18, 2019, President Boutse indicated in a public speech that the SRD/USD rate at cambios varied between 8.0–8.40 (about 6–11 percent more depreciated than the official exchange rate).

Exchange Commission decree requires small-scale gold miners to sell a portion (currently set at 20 percent) of the FX proceeds of their gold exports or their gold exports themselves to the CBvS. While boosting reserves should be a policy priority for the central bank, in an economy with a flexible exchange rate it would not be necessary to do so through targeting the FX or gold of a specific group.

3. The central bank (CBvS) has maintained a restrained monetary stance. The CBvS has mopped up excess liquidity partly by unwinding foreign currency swap lines with commercial banks. Ex-ante real interest rates became positive in 2018 as inflation declined. While private sector credit has partially recovered, banks have increased the share of total assets that they hold as reserves with the central bank.



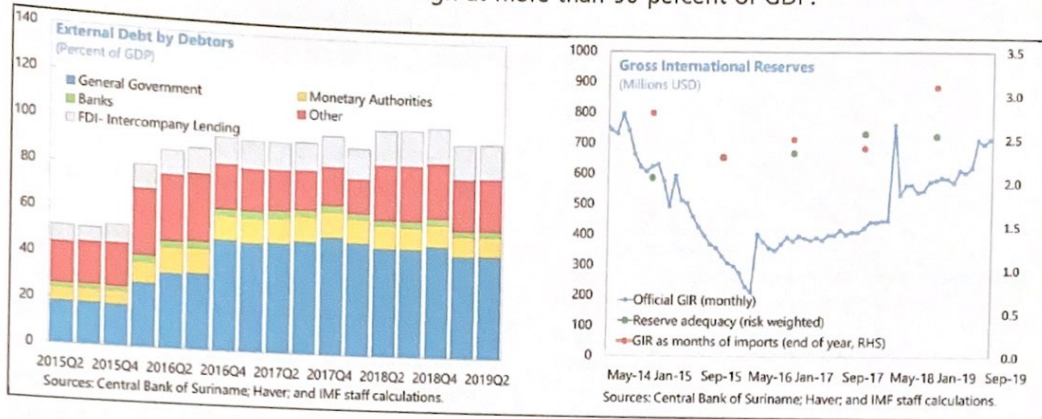
4. Inflation has fallen below 5 percent. The decline in inflation has been broad-based. Exchange rate stability and control over excess liquidity have kept inflation in check.² Price controls in certain household items (such as fuel and eggs) have also helped contain inflation.

5. The external position weakened in 2018 largely as a result of rising imports, as domestic demand strengthened, and oil exploration led to an increase in capital goods and service imports. The external position is assessed to be weaker than implied by medium-term fundamentals and desirable policies (Annex II). The current account balance worsened from +1.9 percent of GDP in 2017 to -3.4 percent of GDP in 2018, mostly due to higher imports of capital goods and services. This is weaker than the current account norm implied by medium term fundamentals and desirable policies, which is assessed to be between -0.9 to 1.1 percent of GDP.³ The real effective exchange rate appreciated by 4.9 percent (y/y) in 2018 due to inflation differentials with trading partners and staff assess the real exchange rate is overvalued by 5 to 9 percent. International reserves were at 73 percent of the Fund's Reserve Adequacy (ARA) metric in end-2018 but are expected to rise to around 83 percent of the ARA metric by end-2019 (with banks being

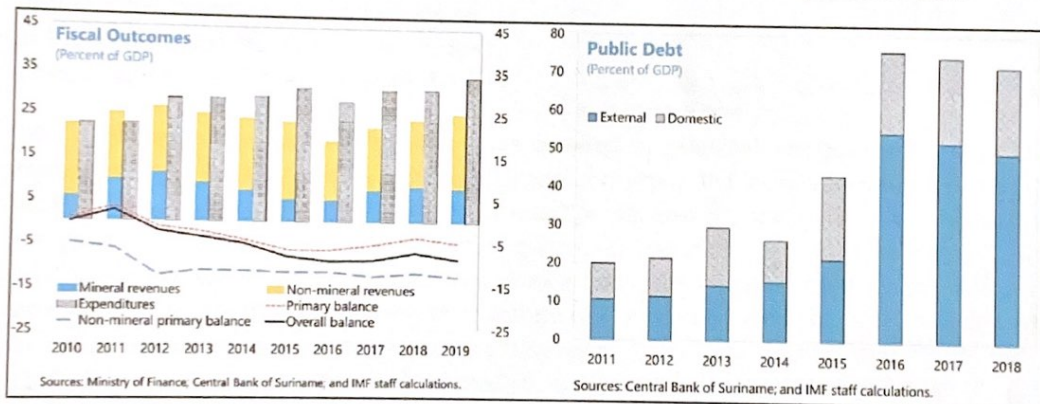
² Exchange rate passthrough is relatively high in Suriname (see Selected Issues Paper, "Exchange Rate Passthrough in Suriname"), partly due to its high dollarization (see Selected Issues Paper, "Dollarization in Suriname: Curse or Cure?").

³ Note that this is a range reflecting a confidence band around the point estimate reported in Annex II.

required to bring part of their reserve requirements on FX deposits back under central bank management). Total external debt is high at more than 90 percent of GDP.



6. Fiscal imbalances remain large. The central government's overall fiscal deficit and debt stood at 7.1 and 72.1 percent of GDP, respectively, in 2018. Around half of the fiscal deficit is accounted for by spending on untargeted electricity subsidies. The National Assembly recently approved a new law, in which the public debt limit was raised from 60 to 95 percent of GDP.

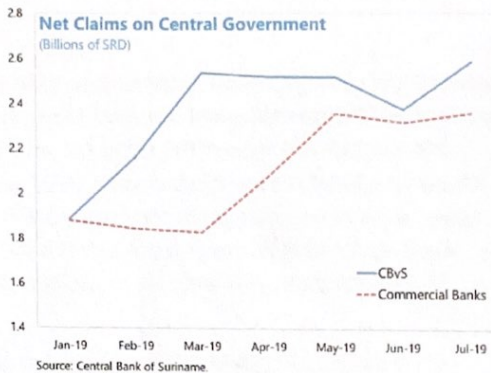
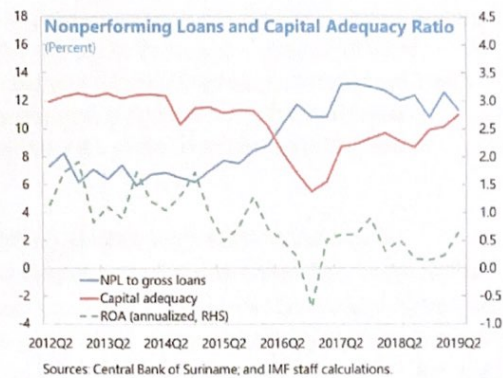


7. Suriname's first report of the Extractive Industries Transparency Initiative (EITI) was published in 2019. This report was based on information from Suriname's extractive industry in 2016. It highlighted the key steps taken by the authorities, and important recommendations to strengthen governance in the extractive sector (see Annex V). Compliance with the EITI standards is scheduled to be next assessed at end-2019.

8. The banking system faces pressing vulnerabilities. Based on the latest (July 2019) data, the capital adequacy ratio for the banking system stood at 10.5 percent (above the 10 percent minimum requirement), but non-performing loans in the banking system remained high (12.5 percent of gross loans), and profitability was low (0.7 percent return on assets). Deposit and loan dollarization remain high (see Selected-Issues Paper: "Dollarization in Suriname: Curse or

Cure?"). Publicly-available data indicates that some large banks do not meet the minimum regulatory capital requirements despite an ongoing supervisory response to bring them back into compliance.

9. The CBvS is making progress in implementing the IFRS standards. Annual financial statements of the CBvS and all CBvS-supervised financial institutions⁴ are to be prepared in accordance with IFRS standards starting January 1, 2021.⁵ The implementation of the IFRS will help strengthen banks' credit risk management and improve loan classification, loss provisioning, financial reporting and audit, and transparency. Successful implementation will require enhancing supervisory guidelines on credit risk management, loan loss allowances, capital treatment, and regulatory reports. Implementation challenges remain, however, due to capacity constraints and a lack of clarity on how regulations will be affected by the IFRS.



10. Monetary financing of the budget has resumed. In early-2019, the government revoked a memorandum of understanding with the central bank that prohibited monetary financing of the budget. Since then, the CBvS has provided new credit (which was also subsequently rolled over) to the government up to the limit of 10 percent of government revenues specified in legislation. The CBvS's interpretation of the current legal framework is that it does not allow them to continue to provide credit to government in excess of 10 percent of estimated government revenues budgeted for the current fiscal year (and any excess should be repaid within three months). Accordingly, the CBvS is not planning to provide any direct credit to government in excess of 10 percent of government revenues. The new draft Bank Act (prepared by the CBvS, in collaboration with the Ministry of Finance and currently under review by the Ministry of Finance) would eliminate these types of direct monetary financing of the fiscal deficit.

11. The CBvS has moved toward international best practice of having banks hold their FX required reserves under central bank's management. Banks are now required to place half of their

⁴ The CBvS supervises banks, pension funds, insurance companies, credit unions, and money exchange houses (cambios) and money transfer offices.

⁵ CARTAC is providing technical assistance on IFRS implementation including enhancing regulations in key areas of capital adequacy, credit exposure classification and provisioning, large exposures, insider loans, fixed assets, and internal audits.

U.S. dollar required reserves⁶, and all of their euro required reserves under the CBvS's management (previously, much of these reserves were managed by the banks themselves, subject to CBvS guidelines). A newly-instituted Strategic Investment Subcommittee for banks, provides banks with more representation than the CBvS, giving them a significant influence over how international reserves are managed⁷ (although the CBvS governor has veto power over the subcommittee's investment decisions).

12. The CBvS has made good progress in drafting various legislative initiatives to strengthen the monetary and financial policy frameworks (Box 1 and Annex VI). These drafts include the (Central) Bank Act, Credit Institutions Resolution Act, Banking and Credit Supervision Act, Insurance Supervision Act, Deposit Insurance Act, Pension Funds and Provident Funds Act, General Pensions Act, Money Transactions Offices Supervision Act, Electronic Payment Transactions Act, and Credit Bureaus Act.

13. The authorities launched a money laundering and terrorist financing (ML/TF) National Risk Assessment (NRA) in 2019, with technical support from the Inter-American Development Bank. A project management team that was established earlier in 2019 under the National Anti-Money Laundering Commission is implementing the NRA, which is designed to identify key ML/TF threats and vulnerabilities. The NRA will provide the foundation for the application of a risk-based approach to AML/CFT and help prepare Suriname for the Caribbean Financial Action Task Force (CFATF) Mutual Evaluation, scheduled for 2020. The authorities are amending various AML/CFT regulations to:

- Strengthen the legal basis for taking corrective action against non-AML/CFT compliant institutions;
- Introduce clear rules and procedures for reporting suspicious transactions;
- Have domestic politically-exposed persons covered in the AML/CFT rules; and
- Enhance international coordination.

The CBvS is also taking steps to improve compliance of banks and other financial institutions with their AML/CFT-related obligations, including by increasing on-site inspections and off-site monitoring as well as an ML/TF institutional risk rating system.

OUTLOOK AND RISKS

14. Staff's baseline projects an improvement in the real economy through the medium term, but with increased imbalances (baseline scenario in the panel chart). Real GDP is

⁶ The reserve requirement rate is set at 50 percent for foreign currency deposits and 35 percent for local currency deposits. However, the effective required reserve rates are lower due to concessions whereby banks are permitted to lend a certain part of their required reserves for private residential construction.

⁷ While the subcommittee's composition is highly unusual and is not considered as 'best practice', it has been justified by the CBvS using some mitigating circumstances in Suriname. These circumstances relate in part to the credibility of the CBvS given its past policies of using the proceeds of FX swaps undertaken with the commercial banks for FX intervention to support the exchange rate.

market and support FX reserve accumulation. In the meanwhile, the CBvS should publish a reference for the parallel FX rate, ideally at a daily frequency, to provide further clarity to the market.

Box 1. Recent Central Bank Measures

Monetary Policy Instruments Implemented:

- *1-Day Liquidity Facility (ILF)*: Intra-day lending facility for banks to improve transaction payments.
- *5-day Lending Facility*: Lending facility to help banks meet temporary liquidity needs.
- *Multi-day Deposit Facility*: Interest-bearing deposit facility to help in mopping excess liquidity in the banking system and serve as a fund for other lending facilities.
- *Emergency Liquidity Assistance (ELA)*: Helps banks to cover temporary liquidity shortages.
- *Gold-indexed Bonds*: Pay a fixed interest rate over the nominal gold value of the gold certificates, expressed in gold but paid out in Surinamese dollars.
- *Certificates of Deposit*: Pay fixed interest rate over the nominal value in Surinamese dollars.

New Committees Formed:

- *Monetary Policy Advisory Committee (MPAC)*: To provide advice on monetary policy.
- *Monetary and Fiscal Policy Coordination Committee (MFPC)*: To forecast liquidity needs and ensure consistency of fiscal and monetary policies.
- *Commercial Bank Credit Oversight Committee (CBCOC)*: To develop a framework for liquidity assistance to banks.

Draft Legislations Prepared:

- *Bank Act*: Provides for revisions to strengthen the governance and operations of the central bank.
- *Credit Institutions Resolution Act*: Allows the institution of preventive, early intervention and resolution measures on troubled banks by the CBvS.
- *Banking and Credit Supervision Act*: Amendments to enhance supervisory authority of the CBvS.
- *Insurance Supervision Act*: Amendments to improve insurance and enhance supervision by the CBvS.
- *Deposit Insurance Act*: Establishes a scheme for compensation of depositors in case of bank failures.
- *The Pension Funds and Provident Funds Act*: Provides rules for managing pension and provident schemes, and supervision by the central bank.
- *General Pensions Act*: Establishes rules for a general pension as part of a national social security system.
- *Money Transactions Offices Supervision Act*: Amendments to enhance AML/CFT framework.
- *Electronic Payment Transactions Act*: Provides for licensing, regulations, operational guidelines and supervision of electronic transactions by the CBvS.
- *Credit Bureaus Act*: Established to enhance development of the credit market by reducing information asymmetry between borrowers and credit providers.

20. The CBvS has taken important steps in a number of areas in line with the 2016 Safeguards recommendations, but further work is needed. Steps taken include: engaging an external auditor to audit past financial statements and establishing an audit committee. The CBvS appointed an international firm to conduct the long-outstanding financial statements' audits of