

INTERNATIONAL MONETARY FUND



# Staff Country Reports



# SURINAME

## 2012 ARTICLE IV CONSULTATION

October 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 10, 2012, with the officials of Suriname on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 13, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice (PIN)**
- **Statement by the Executive Director for Suriname**

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# SURINAME

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

July 13, 2012

### KEY ISSUES

**Background.** The economy continues to recover at a steady pace, buoyed by strong activity in the oil and gold sectors, as well as public investment. In the wake of the January 2011 devaluation and concurrent increase in taxes, the fiscal balance shifted from a deficit of 3 percent of GDP in 2010 to a surplus of 1 percent in 2011. The balance of payment also strengthened significantly, boosting reserves to nearly US\$1 billion (5¼ months of imports) at end-2011. With still-tight monetary conditions, 12-month inflation dropped to 3.6 percent in May 2012, from a peak of over 22 percent in April 2011.

**Focus of discussions.** Discussions focused on the need to continue building on the sound policies implemented over the past 18 months, in order to sustain macroeconomic stability and boost long-term growth. Staff advised the authorities to save surplus mineral revenues for future generations and to continue restraining current spending growth while resisting large, backward-looking wage increases. With respect to capital outlays, staff recommended carefully selecting and prioritizing investments in human and physical capital.

**Exchange system.** In the wake of the devaluation, the authorities established a currency band (SRD 3.25–3.35 per US\$1) within which foreign exchange market transactions are allowed to take place. Suriname maintains multiple currency practices subject to Fund approval under Article VIII, Section 3.

**Past surveillance.** During the 2011 Article IV consultation, Executive Directors encouraged the authorities to tighten fiscal and monetary policies to avoid the development of a wage-price spiral. In the aftermath of the January 2011 devaluation, the authorities did tighten policies significantly, contributing to an impressive stabilization of the economy, with the fiscal accounts improving noticeably and inflation coming down to lower single digits.

Approved By  
**Gilbert Terrier (WHD) and  
 Dhaneshwar Ghura (SPR)**

The team that visited Paramaribo during April 26–May 10, 2012 comprised Messrs. El-Masry (head), Amo-Yartey, and Mansilla, and Ms. Peter (all WHD). Mr. Orié, Advisor to the Executive Director for Suriname, participated in the policy discussions. The team met with Minister of Finance Wijnerman; Central Bank Governor Hoefdraad; Speaker of the National Assembly Geerlings-Simons; Minister of Natural Resources Hok; other senior government officials; and representatives of the private sector, labor, the diplomatic community, and the opposition.

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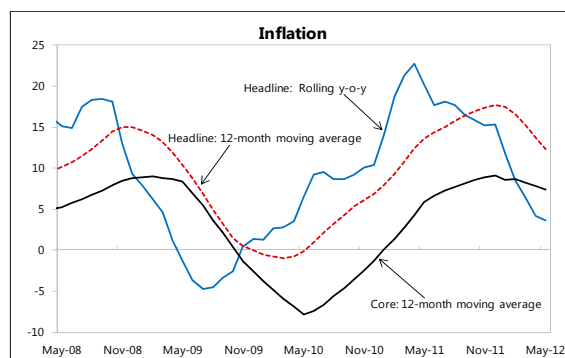
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## RECENT DEVELOPMENTS

**1. The pace of economic activity has remained strong, and inflation pressures have abated considerably (Figure 1).** Newly-released national accounts data, rebased to 2007, show that the level of nominal GDP in 2010 was about 20 percent higher than previously assessed (Box 1). After slowing to 3 percent in 2009, economic growth picked up to just over 4 percent in both 2010 and 2011, supported by robust activity in the oil and gold sectors, as well as public investment. In the wake of the 20 percent currency devaluation against the U.S. dollar in the official exchange market in January 2011, and a simultaneous 70 percent increase in domestic fuel taxes, 12-month inflation spiked to 22.6 percent in April 2011. Since then, it has fallen steadily, to 3.6 percent in May 2012. Core inflation has leveled off, to around 4½ percent.



**2. The fiscal balance strengthened markedly in 2011 (Figure 2).** Despite a significant drop in grants (1¼ percent of GDP), on account of the near-depletion of the Netherlands Treaty Funds, the fiscal balance shifted from a deficit of about 3 percent of GDP in 2010 to an estimated surplus of just under 1 percent in 2011. Revenue benefitted from:

- The positive impact on tax collections from the devaluation;
- A spike in direct taxes, driven primarily by record profits in the oil and gold sectors;
- Stronger indirect tax collections, thanks to higher taxes on domestic fuel products (January 2011) and on alcohol, tobacco, and casinos (October 2011); and
- A sharp increase in nontax revenue, mainly in the form of dividend payments from Staatsolie, the state-owned oil company (Box 2).

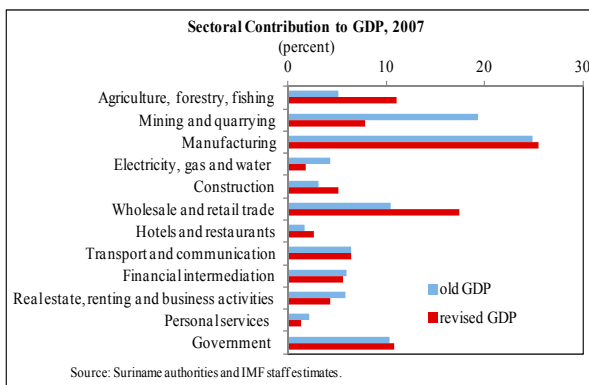
Contribution to Improvement in Fiscal Balance in 2011 (In percent of GDP)	
Revenues and grants	3.2
Direct taxes	1.9
Indirect taxes	1.2
Nontax revenue (incl. dividends)	1.3
Grants	-1.2
Expenditures & statistical discrepancy	0.8
Wages	1.0
Goods and services	0.6
Capital expenditure	-1.1
Other spending & statistical discrepancy	0.3
<b>Total improvement</b>	<b>4.0</b>

### Box 1. Rebasing the National Accounts

**Suriname's national accounts estimates have undergone a major revision.** Current and constant price estimates of GDP by production were revised and rebased from 1990 to 2007, using improved and updated methodologies. The broader coverage (including with respect to financial intermediation), and the conceptual and methodological changes and improvements (using System of National Accounts 1993 concepts and methods) led to higher estimates of nominal GDP. On average, nominal GDP was revised upward during 2007–2010 by about 18.5 percent. Real GDP growth rates have also been affected, albeit only slightly.

Comparison of Revised and Old GDP Series				
	2007	2008	2009	2010
<b>Nominal GDP</b> (in million SRD)				
Revised GDP	8,060.5	9,698.1	10,683.4	11,943.8
Old GDP	6,763.0	8,461.4	8,927.3	9,913.3
Difference (percentage)	19.2	14.6	19.7	20.5
Average increase 2007-2010				18.5
<b>Real GDP Growth</b> (percentage change)				
Revised GDP	5.1	4.1	3.0	4.1
Old GDP	4.6	4.1	3.5	4.5
<b>GDP deflator</b> (percentage change)				
Revised GDP	6.4	15.5	6.9	7.4
Old GDP	9.7	20.2	1.9	6.2

Source: Suriname authorities.



**The composition of the economy has not changed considerably.** The main contributors to GDP growth remain mining and quarrying, manufacturing, and trade. However, while the mining and quarrying sector is contributing less to GDP under the revised estimates (down from 19 percent to 8 percent), the contributions of manufacturing (which includes the processing and refining of bauxite, gold, and oil) and, particularly, trade (up from 10 percent to 17 percent) have been revised upward.

**The higher nominal GDP estimates affected the main fiscal and external ratios proportionally.** For instance, the debt ratio in 2010 was about 3 percentage points of GDP lower under the revised GDP estimates. Another example is per capita GDP, which increased in 2010 from US\$ 6,123 under the old data series to US\$ 8,192 under the new estimates.

Comparison of Key Economic Ratios (In percent of GDP)					
	2007	2008	2009	2010	Est. 2011
<b>Overall fiscal balance</b>					
Revised GDP	2.2	1.6	-2.4	-3.1	0.9
Old GDP	2.6	1.8	-2.8	-3.8	1.0
<b>Total public debt</b>					
Revised GDP	17.5	15.6	15.5	18.5	19.1
Old GDP	20.8	17.9	18.5	22.3	22.9
<b>Current account balance</b>					
Revised GDP	8.1	6.6	-0.5	6.4	5.5
Old GDP	9.6	7.6	-0.6	7.8	6.6
<b>GDP per capita (in US\$)</b>					
Revised GDP	5,758	6,833	7,425	8,192	8,452
Old GDP	4,210	4,765	5,881	6,123	5,577

Source: Suriname authorities; and IMF staff estimates.

**Box 2. Suriname's Oil Trade Balance**

**While Suriname produces moderate volumes of crude oil, it remains a net importer of oil.** Staatsolie, the state-owned oil company, is the sole producer and exporter of oil in Suriname, with a production volume of about 6 million barrels of crude oil per year. However, given the lack of refining capacity, a large portion of Staatsolie's crude oil production is exported, while refined petroleum products such as gasoline and diesel are imported. Overall, the oil balance is in a small deficit, amounting in value terms to 1.3 percent of GDP during 2010 and 2011.

**While high oil prices increase the oil import bill, they also tend to raise Staatsolie's profitability and its contribution**

**to Suriname's public finances.** An automatic pricing mechanism ensures that domestic petrol prices at the pump are not subsidized and move in tandem with international oil prices. Meanwhile, given that Staatsolie's crude oil production costs are well below international market prices, its overall operations are not only very profitable, but also improve with rising oil prices. In 2011, Staatsolie's profits before taxes amounted to about US\$467 million (about 10¼ percent of GDP). Being wholly state owned, its contributions to government revenue during that year amounted to just under US\$300 million (6.5 percent of GDP), mainly in the form of corporate tax and dividends payments, and equivalent to one quarter of total government revenue.

**Over the past few years, the realized price for Staatsolie's crude oil sales has increased substantially.** Apart from the general upward movement in international oil prices, the benchmark price for Staatsolie's crude oil (U.S. Gulf Coast No. 6, 3 percent sulfur) has risen more sharply than other reference prices, due to idiosyncratic developments in the oil market. Thus, between 2005 and 2011, the price for Suriname's oil increased by 161 percent, while that of APSP (the simple average of the spot prices for Brent, West Texas Intermediate, and Dubai) rose by 95 percent.

	International Oil Price Developments				
	US\$ Per Barrel			Percentage Change	
	2005	2008	2011	2005-11	2008-11
Staatsolie's realized price	38.6	78.9	100.5	160.6	27.4
APSP	53.4	97.0	104.0	94.9	7.2

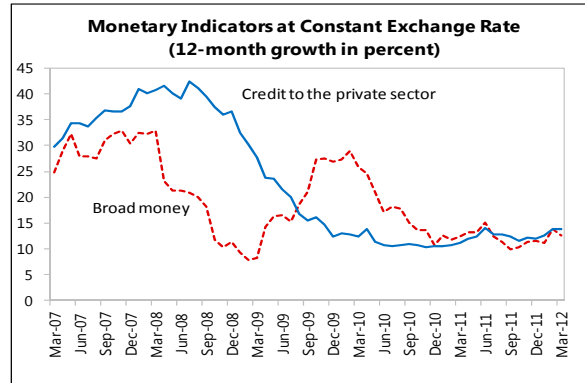
**With the completion of a US\$700 million new refinery, the structure of Suriname's oil trade will change significantly.** At present, Staatsolie exports (including sales to ships) about 60 percent of its total crude oil production, up from 40 percent in 2007. The remaining balance is sold to SURALCO, the aluminum mining and refining company, and EBS, the state-owned electricity company. Once the refinery is completed in 2014, Staatsolie's refining capacity will more than double, potentially covering all its crude oil production. With a higher value added accruing domestically, the oil trade balance will improve, as locally-refined petroleum products replace those that are currently being imported.

Oil Trade Balance		
	2010	2011
<b>Value (in millions of US\$)</b>		
Exports	175.3	266.4
Imports	230.9	323.4
Balance	-55.6	-57.0
<i>(in percent of GDP)</i>	-1.3	-1.3
<b>Volume (in millions of barrels)</b>		
Exports	2.4	2.7
Imports	2.5	2.9
<b>Unit price (US\$/barrel)</b>		
Exports	74.5	100.5
Imports	92.8	112.3

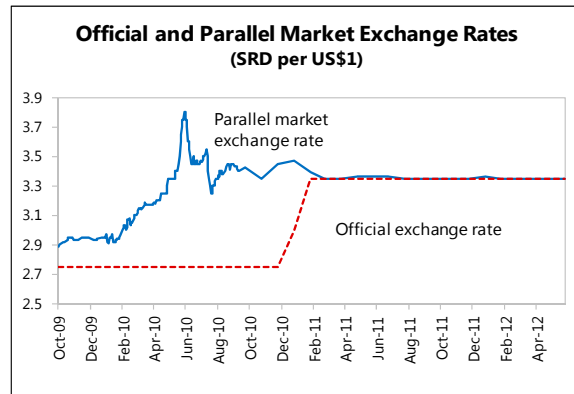


On the expenditure side, savings on wages (1 percent of GDP) and spending on goods and services (0.6 percent of GDP) were offset in part by a jump in capital spending (1.1 percent of GDP), reflecting stepped-up implementation of large donor-financed public infrastructure projects. The authorities also appeared to have cleared most domestic payments arrears, estimated at about SRD 100 million at end-2010 (0.7 percent of GDP). The non-mineral fiscal deficit remained practically unchanged in 2011, at just over 7 percent of GDP.

**3. Monetary conditions have been appropriately tight.** Twelve-month private sector credit growth remained moderate, at about 12 percent in December 2011, marginally higher than in 2010.<sup>1</sup> Similarly, broad money growth remained subdued, at 11.7 percent in 2011. These growth rates, which were less than half the growth rate of nominal GDP in 2011, have been accompanied by a steady decline in inflation. Meanwhile, the government shifted from a position of net borrower from the domestic banking system to that of a net depositor in 2011, thanks to its stronger fiscal performance and a deliberate switch in debt composition toward foreign borrowing.



**4. The exchange rate has stabilized, and the balance of payments has improved significantly.** Since the devaluation, the parallel market premium has practically disappeared. Meanwhile, mineral exports, particularly gold, have increased considerably, reflecting both higher prices and volumes. The trade surplus rose markedly in 2011, but this improvement was more than offset by a deterioration in the services and income accounts, reflecting in part higher profit repatriations by foreign-owned mining companies. As a result, the current account surplus narrowed from 6½ percent of GDP in 2010 to 5½ percent in 2011. The financial account improved noticeably, with lower grant inflows more than counteracted by higher loan disbursements (mainly from the IADB) and foreign direct investment inflows. The overall balance of payments registered a surplus of more than US\$200 million, bringing gross international reserves to nearly US\$1 billion (5¼ months of imports) at end-2011.



<sup>1</sup> The computations were made at a constant exchange rate so as to eliminate the stock effect of the devaluation on credit aggregates in foreign currency.

**5. The authorities have now cleared all their longstanding external payments arrears.** In July 2011, Suriname signed an agreement with the United States to repay, over a period of three years, the last of its outstanding external payments arrears (US\$32 million), which had accumulated since the 1990s. In May 2012, the authorities paid off the remaining balance on this loan (US\$21.6 million) ahead of schedule. In recent months, citing the clearance of all external payments arrears and the improved economic outlook, both Fitch and Standard and Poor's upgraded Suriname's sovereign debt rating by one notch, to B+ and BB-, respectively.<sup>2</sup>

## OUTLOOK AND RISKS

**6. Building on the macroeconomic stabilization in 2011, the medium-term economic outlook is favorable.** Continued strong commodity prices and FDI inflows would help improve the balance of payments and raise international reserves to very comfortable levels.

- Large planned private and public investments in the mining, energy, and transportation sectors are expected to boost construction activities in the short term and raise the country's growth potential in the medium term.<sup>3</sup> As a result, growth is expected to pick up to about 5 percent over the coming years.
- Staff presented to the authorities an illustrative medium-term scenario that would bring the non-mineral fiscal deficit back to around 5 percent of GDP, similar to the level that was achieved prior to the 2009 deterioration. This would be consistent with an overall fiscal surplus of 1–1½ percent of GDP over the medium term—with significantly higher surpluses in the longer term, once revenues from major resource projects (gold, oil refining, and bauxite) materialize.
- The proposed fiscal path would allow the authorities to sustain increased levels of public investment, aimed at developing the country's human and physical capital. The fiscal surplus would also provide for a gradual decline in the already-low public debt levels, while setting aside some savings in the proposed sovereign wealth and stabilization fund (Appendix I).

<sup>2</sup> On July 10, 2012, Fitch upgraded Suriname's sovereign debt rating by another step to BB-.

<sup>3</sup> Of these, the expansion of Staatsolie's oil refinery at a cost of US\$700 million (about 15 percent of GDP) is on course to be completed by April 2014. Other oil drilling and exploration activities are also continuing in both on- and off-shore fields.

Medium-Term Outlook								
(In percent of GDP, unless otherwise indicated)								
	2010	Est.		Projected				
		2011	2012	2013	2014	2015	2016	2017
Real GDP growth (annual percentage change)	4.1	4.2	4.0	4.5	4.5	5.0	5.0	5.0
GDP deflator (annual percentage change)	7.4	20.8	7.6	6.9	4.0	4.0	4.0	4.0
Overall fiscal balance	-3.1	0.9	0.5	0.0	1.0	1.5	1.6	1.6
Non-mineral balance	-8.0	-8.1	-7.8	-7.4	-6.9	-6.1	-5.6	-5.0
Total public debt	18.5	19.1	18.6	18.1	17.8	16.9	15.9	15.0
External current account balance	6.4	5.5	-0.1	-2.1	-4.1	-1.3	2.4	3.1
Gross international reserves (months of imports)	4.9	5.3	5.6	6.6	7.6	8.2	8.6	8.4

Sources: Suriname authorities; and IMF staff estimates and projections.

**7. While the economic outlook for Suriname is positive, it is predicated on a benign external environment and continued buoyant commodity prices.** The recent international financial crisis was accompanied by a sustained increase in gold and international oil prices—despite some weakening in recent weeks. Should commodity prices fall significantly and remain at low levels for a prolonged period of time, affecting all of Suriname’s major commodity exports, this would negatively impact Suriname’s economy. The authorities recognized that under such an adverse confluence of events, economic activity and government revenue would decline considerably, and planned investments in the mineral sector might be put on hold or cancelled altogether. They agreed that the best way to mitigate these risks was for them to continue building buffers and reserves in the near term. Over the medium term, they agreed to press ahead with meaningful structural reforms that would strengthen the country’s human capital and institutions, thereby helping to diversify economic activity in Suriname.

## POLICY DISCUSSIONS

**8. Policy discussions focused on the challenges faced by the authorities in the context of expected strong growth over the medium term.** There was general agreement that the policies implemented in recent years have helped set the stage for strong and sustainable growth. The authorities agreed on the need to ensure that public finances remain well managed and the domestic financial market is appropriately regulated and supervised. In the area of public finances, there was agreement that it would be critical, as mineral revenues increase over the medium term, to save the surpluses for future generations. In this context, the authorities reiterated their plans to establish a sovereign wealth fund (SWF) by year’s end. They also reaffirmed their plans to restrain current spending growth, with a view to making space for carefully selected and executed capital projects. Staff and the authorities also concurred that there might be some space for easing monetary conditions in the coming months, provided that inflation and demand pressures remained in check.

## A. Fiscal policies

**9. The authorities reaffirmed the importance that they attach to maintaining strong fiscal policies.** They indicated that they were aiming at achieving a small overall surplus in the accounts of the central government in 2012, as in 2011. The sharp improvement registered in the fiscal accounts in 2011 had enabled the authorities to put on hold their envisaged plans to raise the sales tax rate by 2 percentage points and reinstate the motor vehicle tax. At the same time, however, they have reiterated their plans of introducing a VAT system by end-2013.<sup>4</sup> Staff encouraged them to press ahead with their efforts in that area and, in view of the need to strengthen the domestic non-mineral revenue base, recommended that the proposed VAT system aim at enhancing revenue.

**10. The authorities are also aiming at boosting tax collections from the informal gold sector.** So far, progress in collecting a fairer share of revenue from the growing informal gold sector has been slow. The authorities explained that their work in this area had been hampered by the lack of adequate administrative capacity and the inaccessibility of the regions where informal mining is taking place. Staff encouraged them to pass legislation that would enable them to increase collections from the informal gold sector through higher license fees or other presumptive taxation schemes.

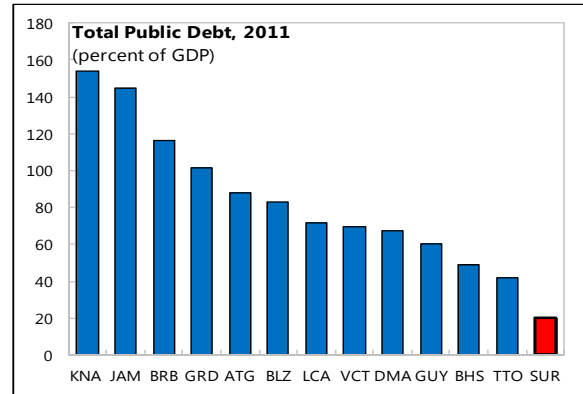
**11. Staff advised the authorities to maintain tight controls on current spending.** Average non-interest current spending during 2009–10 was about 2 percent of GDP higher than in the previous two years, driven mainly by marked increases in spending on civil service wages and goods and services. While the authorities succeeded in stemming this trend in 2011, staff encouraged them to seek further gains over the medium term in this area, by ensuring that current spending increases at a slower rate than nominal GDP. In this context, staff underscored the importance for the 2012 civil service wage settlements to be forward looking and reflect the improved outlook for stable prices. Staff also noted that this year's round of civil service wage negotiations was being closely watched by the private sector, and its outcome would be critical to preserving Suriname's international competitiveness. With respect to social policies, the authorities agreed that it was important to rationalize and improve the targeting of transfers programs to the most vulnerable groups. They considered that this would help open fiscal space for sustaining higher levels of capital investments. The authorities noted that they were availing themselves of technical assistance from the Fund and the IADB to strengthen their public expenditure management capabilities.

**12. Staff welcomed the authorities' plans to establish a SWF.** The President's announcement in October 2011 that his government would work toward establishing a Sovereign Wealth and Stabilization Fund was met with widespread support across the political spectrum and civil society. It underscores the importance of maintaining prudent fiscal policies that would allow the government to save surplus mineral revenues and accumulate buffers that can be used in the

<sup>4</sup> This project, which is supported by technical assistance from CARTAC and FAD, has fallen behind schedule, and the authorities will need to step up their implementation efforts significantly to launch the VAT system in the second half of 2013.

event of negative shocks. Staff advised the authorities to ensure that the proposed fund is clear in its mandate, has an efficient and representative governance structure, and is transparent in its operations and finances. It will also be important that the legislation establishing the SWF clearly defines the rules and conditions governing the payments into, and withdrawals from, the fund, as well as its main objectives.

**13. Suriname’s public debt is among the lowest in the region.** Following the successful clearance of the arrears with the United States, Suriname has no external payments arrears outstanding. The strong fiscal performance in 2011 also allowed the authorities to clear short-term arrears to domestic suppliers. At present, Suriname’s public debt and debt-service burdens are the lowest among its Caribbean neighbors (at 19 percent and 2 percent of GDP, respectively), and there is only a low risk of debt distress. The authorities explained that they would seek to continue expanding foreign borrowing prudently and at favorable terms. These loans would be mainly sourced from bilateral and multilateral partners, from whom Suriname would also benefit through valuable transfers of technical expertise. In that respect, the authorities noted that the IADB has raised its lending portfolio to Suriname to US\$300 million for the period 2011–15, in support of programs to strengthen government institutions, diversify the economy, and improve the social safety net. The authorities agreed with staff that it was important for them to strengthen their capacity to select, plan, and implement large capital projects across relevant line ministries, including public works.



## B. Monetary and exchange rate policies

**14. Staff’s computations suggest that the exchange rate level is broadly in line with fundamentals (Appendix II).** The introduction of a band, within which the Suriname dollar has been trading vis-à-vis the U.S. dollar, has served the country well. Calculations using 2009 data pointed to a substantial overvaluation prior to the January 2011 devaluation. All three CGER methods suggest that the current exchange rate presently lies near, or somewhat below the equilibrium exchange rate. The positive external environment, combined with prudent domestic policies, has allowed for a comfortable build-up of reserves and contributed to a stable foreign currency market.

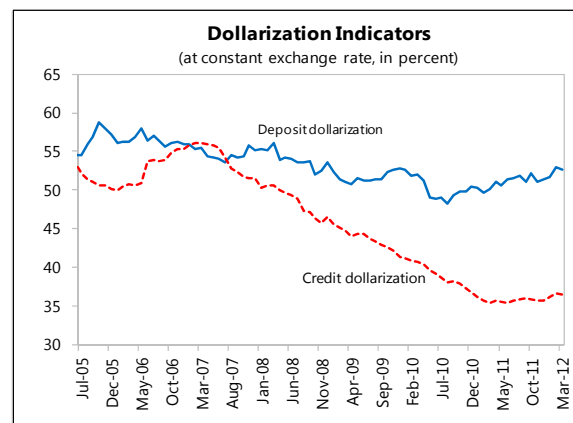
**15. Suriname maintains multiple currency practices (MCPs).** These arise from: (i) the existing spread of more than 2 percent between the buying and the selling rates in the official market for the government’s foreign exchange transactions; and (ii) from the potential spread of more than 2 percent between the official rates for government transactions and those in the

commercial markets. Staff recommended that the authorities eliminate the remaining MCPs, by narrowing the current exchange rate band to less than two percent.<sup>5</sup> Staff also advised the authorities to move toward a more market-determined exchange rate regime over time. While agreeing in principle, the authorities pointed to the continued volatility in international markets as well as the extreme sensitivity attached to foreign exchange market developments by economic agents in Suriname. Against this backdrop, they argued that this was not an opportune time to introduce further reforms in this market.

**16. Monetary conditions have been appropriately tight in the wake of the devaluation, and there may be space for the central bank to gradually loosen its stance in the future.** Over the past year, tight financial policies have contributed to a sharp reduction in inflation to lower single digits. As noted, in recent months the government also switched from a position of net borrower from the domestic banking system to that of a net depositor. Against this background, and assuming that moderate wage settlements in the public and private sectors are concluded, staff considered that there may be room for a somewhat more accommodative monetary policy stance in the second half of this year by gradually reducing reserve requirements. The authorities agreed that their policy actions would greatly depend on the outcome of ongoing wage negotiations. They also indicated that they planned to gradually move away from reserve requirements, which remain the central bank's primary monetary policy tool, and toward a more market-based framework. The Fund has been providing the authorities with technical assistance in developing indirect monetary policy instruments.

### C. Financial sector policies

**17. In recent years, significant progress has been made toward de-dollarizing the loan portfolio of banks.** Measured at a constant exchange rate, the ratio of foreign currency credit to total credit declined significantly between 2007 and 2010, before leveling off in 2011. During that period, however, the ratio of foreign currency deposits to total deposits remained broadly stable. This development reflected in part the introduction of higher reserve requirements on foreign currency deposits than on domestic ones. In recent months, the authorities also required the government to conduct all its domestic commercial and financial transactions in local currency. Staff encouraged them to complement this policy with additional prudential measures—such as higher provisioning requirements for foreign currency loans and the establishment of limits on open foreign currency positions, on the grounds that



<sup>5</sup> As of end-June 2012, the spread was about 3 percent.

this would help financial institutions internalize better the risks of lending in foreign currency. The authorities saw merit in these measures and agreed with staff that, ultimately, de-dollarization would remain a gradual process that can be best achieved through sustained efforts to promote macroeconomic and political stability. Staff also recommended that the authorities monitor real estate prices closely, with a view to identifying and forestalling any emergence of asset-price inflation at an early stage. The monetary authorities indicated that they planned to seek expert advice in this area from abroad.

**18. After several years of preparation, a new Bank Supervision Law (BSL) was enacted in 2011.** Staff welcomed the new law, which benefitted from Fund technical assistance and has bolstered the regulatory regime and supervisory powers of the central bank considerably. Building on this legal framework, it advised the authorities to take steps to strengthen the Supervision Department, introduce more rigorous training of staff, and reinforce supervisory procedures and practices. Staff welcomed the authorities' ongoing efforts to issue prudential regulations for financial institutions in the areas of risk management, corporate governance, consolidated supervision, and audit and licensing procedures. The authorities explained that they had recently engaged a long-term foreign expert to advise them on strengthening the Supervision Department's work.

**19. Commercial banks are generally well capitalized, although the financial position of three small state-owned banks remains weak.** Commercial bank profitability, which had declined in recent years, has stabilized since the devaluation. The nonperforming loan (NPL) ratio for the banking sector as a whole has remained practically unchanged over the past three years, at about 8 percent. Staff noted that there was considerable variance among banks, with the NPL ratio for the three small state-owned banks standing at about twice the system's average. An MCM mission advised the authorities on options to address the weaknesses of three small state-owned banks. The authorities explained that, in line with MCM's recommendations, they had recently engaged an external auditor to conduct a proper valuation of these banks' assets and liabilities. Based on the outcome of the audits, they plan to develop a strategy for these institutions.

**20. The authorities agreed with staff that further efforts are needed to improve their anti-money laundering and combating the financing of terrorism (AML/CFT) regime.** The 2009 Caribbean Financial Action Task Force (CFATF) assessment report shows overall low compliance with the international AML/CFT standards. While progress has been made with the enactment of a law criminalizing the financing of terrorism in 2011, bills are pending regarding the reporting of suspicious transactions and customer due diligence. Staff noted that, once enacted, this revised legal framework would need to be effectively implemented.

## D. Structural issues

**21. The authorities are taking steps to improve the management of large state-owned enterprises.** Some of these enterprises suffer from structural and institutional weaknesses that had been aggravated by the large increases in public sector wages granted during 2009–11. Staff encouraged the authorities to provide more light on the complex system of cross-subsidization and arrears accumulation within the public sector, especially with respect to the production and

distribution of electricity and water (Box 3). Staff noted that this web of subsidies and transfers was contributing to resource misallocation while likely benefiting household income groups that did not require such support. The authorities recognized the need to address these weaknesses, and explained that they had commissioned a reputable international auditing firm to conduct an assessment of the accounts of several large state-owned companies. They indicated that they would use the auditor's assessments, expected to be completed by end-2012, to define a strategy to improve the productivity and efficiency of public utilities. They were also seeking technical assistance from the IADB and the World Bank to help articulate a comprehensive program to improve the management and governance of these enterprises, and reform the tariff structure of key utilities.

**22. The authorities are continuing to improve the business environment and diversify the economy.** The government has streamlined its licensing procedures for new enterprises, thus significantly reducing the time needed to register a limited liability company. Staff noted the authorities' efforts, with the support of the IADB, to modernize public agricultural and extension services, disseminate new technologies among farmers, and improve transport, drainage, and irrigation systems in rural areas. They are also investing in developing the Port of Paramaribo, the largest in the area, to become a regional cargo hub. With assistance from the EU, France, and China, port facilities are being upgraded, and the road corridors along the northern coast are being broadened and asphalted to accommodate heavy trucks to neighboring countries. In the tourism sector, the authorities are taking steps to professionalize the industry and target new markets.

**23. Discussions are at an advanced stage with two gold mining companies for long-term mining concessions.** Specifically, a large Canadian mining company is negotiating with the government to expand its current mining concession and area of activity, with a view to significantly raise its gold production.<sup>6</sup> In addition, a joint venture between two American companies has been negotiating the development of a large new mining and refining operation in Eastern Suriname. If these negotiations are successful and the envisaged investments (US\$1–1.5 billion) materialize as planned, Suriname could, over the next 3–4 years, more than double its commercial gold production. Given the importance and long-term impact that such mining agreements would have on Suriname's economy, staff advised the authorities to conclude these agreements only after a careful assessment of their economic and environmental impact. It was also important for the authorities to put in place an appropriate and efficient taxation and royalty regime for the mining sector that would ensure that the country collects a fair share of revenue from the exploitation of its natural resources. To this end, staff encouraged the authorities to avail themselves of Fund technical assistance in this area.

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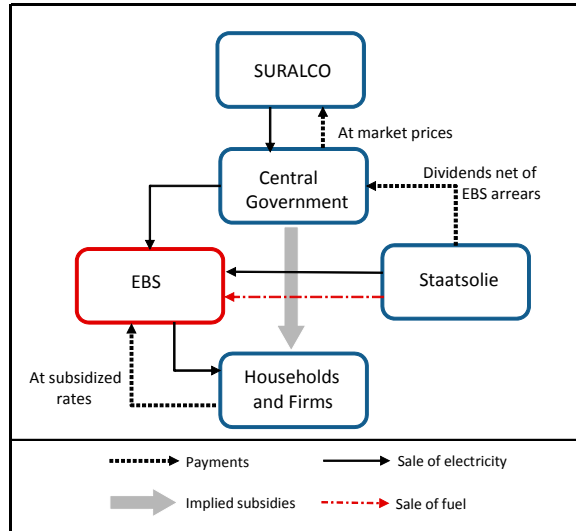
<sup>6</sup> It is estimated that exports of this company account for about 40 percent of total gold exports, with the remaining 60 percent originating from the "informal" gold sector (small and medium-size gold mining enterprises).



### Box 3. Subsidies and Arrears in the Public Sector

**The authorities support state-owned utility companies through a complicated web of cross subsidies and transfers.** While most of these payments are made to the electricity company and, to a lesser extent, the water companies, they are not always reflected explicitly in the central government budget. In the case of the energy sector, they involve primarily the *de facto* free provision of hydro-generated electricity and crude oil for the thermal generation of electricity.

**The country's only source of hydroelectric power is a dam and generation plant owned by SURALCO, a subsidiary of the US-based aluminum company ALCOA.** In accordance with the pre-independence Brokopondo Agreement, dating back to 1958, SURALCO sells a minimum of 80 megawatts to the government (in 2011, these sales averaged 125 megawatts) at market prices that are linked to international oil prices. The central government, in turn, sells part of this energy to EBS, the state-owned electricity distribution company.



However, over the past years, EBS has not reimbursed the government for these energy purchases, thus accumulating large arrears, which in 2011 alone amounted to US\$47 million (1 percent of GDP).<sup>1</sup>

**The country's energy supply is supplemented by thermal generation plants.** One such plant is owned and run by EBS, which buys diesel fuel for its generators, imported by Staatsolie, the state-owned oil company. As a general practice, EBS does not pay Staatsolie for these fuel deliveries. In order to recover its importing costs, Staatsolie has an agreement with the central government that allows it to deduct these unpaid claims from the regular dividend payments that it makes to the government. In 2011, these deductions amounted to US\$37 million (0.8 percent of the GDP). Finally, Staatsolie also has its own thermal generation plant, and it sells the excess electricity that it generates to EBS for distribution to the local market. The electricity provided from this source also remains unpaid by EBS. As of 2011, the cumulative amount arising from these unpaid bills and other obligations by EBS amounted to US\$24 million (½ percent of GDP).

**These transactions mask the full extent of the government transfer payments.** On a consolidated public sector basis, while these payments are fully effected and do not generate arrears vis-à-vis the rest of the economy, they constitute opaque subsidies that, for 2011, were estimated at US\$84 million (about 1.8 percent of GDP). Moreover, these netting out operations involving cross payments and accumulation of arrears at various institutions understate not only the full amount of transfer payments from the budget but also the gross revenue that is due to the budget.

<sup>1</sup> The remaining part of the hydro-generated electricity (about 25 megawatts) is sold by the government at market prices to a large Canadian commercial gold mining and refining company. In 2011, these sales amounted to US\$18 million.

**24. Staff welcomed improvements in the compilation, processing, and dissemination of macroeconomic data.** As noted, in the national accounts area, work was recently completed on revising and rebasing the nominal and constant GDP series to 2007. The authorities have also enhanced the presentation and dissemination of monetary and other economic data on the external webpage of the Central Bank of Suriname (CBvS). Commendable efforts have also been made in revising the balance of payments data for 2010 and 2011. Staff encouraged the authorities to press on with their efforts, particularly with respect to balance of payments data, price statistics, compiling the national accounts from the expenditure side, and generating higher frequency indicators for economic activity.

## STAFF APPRAISAL

**25. Suriname's economic outlook remains favorable.** The tight financial policies implemented in the wake of the January 2011 devaluation have helped contain domestic demand pressures and stabilize prices. The Suriname economy is likely to continue expanding at a respectable pace in 2012 and over the medium term, buoyed by strong prices for its key commodity exports and large private and public investments in the mining, energy, and transportation sectors. Once completed, these projects are expected to raise the country's growth potential, boost government revenue, and strengthen the balance of payments.

**26. A challenge for policymakers will be to manage well the projected increase in mining revenue over the medium term.** The authorities' plans to establish a sovereign wealth fund are well taken, as this will help them build fiscal buffers while key commodity prices remain strong. Staff commends the authorities on this initiative and advises them to ensure that the proposed fund is clear in its mandate, relies on an efficient and representative governance structure, and is transparent in its operations and finances.

**27. Staff welcomes the significant improvement registered in the fiscal accounts in 2011.** Revenues benefitted from stronger tax and nontax collections, reflecting the effects of the devaluation, record profits in the oil and gold sectors, and higher indirect tax rates. Current expenditures—mainly on wages and goods and services—were kept under tight control. The regularization and clearance of all external payments arrears is a welcome development, as recognized by the upgrades extended by credit rating agencies.

**28. Staff supports the authorities' objective to achieve a modest increase in the fiscal surplus in 2012.** To this end, it encourages them to continue to hold current spending under check. In the wake of the devaluation, wage adjustments in the public and private sectors will need to be moderate and forward looking, in order to avoid entering into a new wage-inflation spiral and to preserve international competitiveness.

**29. Staff encourages the authorities to press ahead with fiscal reforms to strengthen the domestic revenue base and reduce the budget's dependence on volatile mineral revenues.** It calls on the authorities to continue with their efforts to introduce a VAT system by the end of next year. They should also press ahead with their preparations to collect a fairer share of revenue from

the informal gold sector. On the expenditure side, it will be important to gradually reduce current spending and enhance the quality of public spending, including by better targeting transfer payments to vulnerable groups and prioritizing capital investments.

**30. While firm monetary conditions have helped bring inflation down to lower single digit levels, there may be space for a more accommodating stance in the coming months.** A moderate conclusion of the current wage negotiations and continued price stability will be essential for any monetary easing. Staff computations suggest that the exchange rate level is broadly in line with fundamentals. The authorities continue to maintain two multiple currency practices and, in the absence of a firm timetable for their removal, staff does not recommend their approval by the Board.

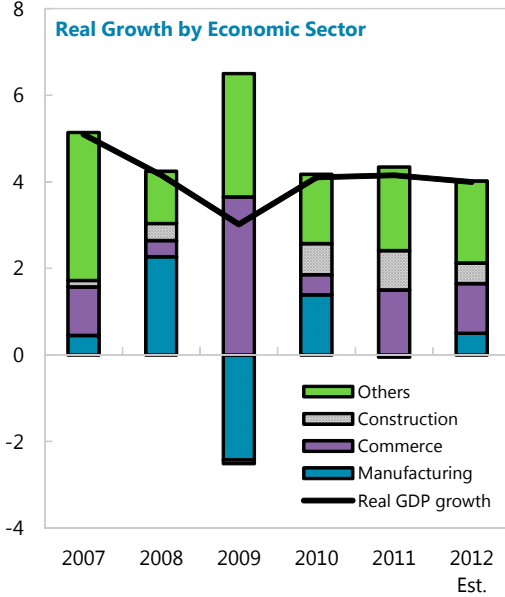
**31. Staff welcomes the authorities' steps to strengthen the supervision of the banking sector.** The recent passage of the new Bank Supervision Law is an important milestone in these efforts. The authorities are encouraged to enhance the supervision of financial institutions by issuing prudential regulations to ensure that banks' lending standards and risk-management practices are strengthened. Staff also welcomes the authorities' intention to take prompt action with respect to three weak, small state-owned banks, once proper audits have been completed.

**32. The authorities are making commendable strides to improve the business environment and diversify the economy.** To that effect, they have streamlined licensing procedures, reduced the time needed to register a limited liability company, and are seeking assistance from multilateral agencies to improve the management of public utility companies. They are also working with international partners to develop the agriculture, tourism, and trans-shipment services sectors. Finally, staff congratulates the authorities' on important progress that they have made in improving their data compilation and dissemination capabilities, and encourages them to persevere in these efforts.

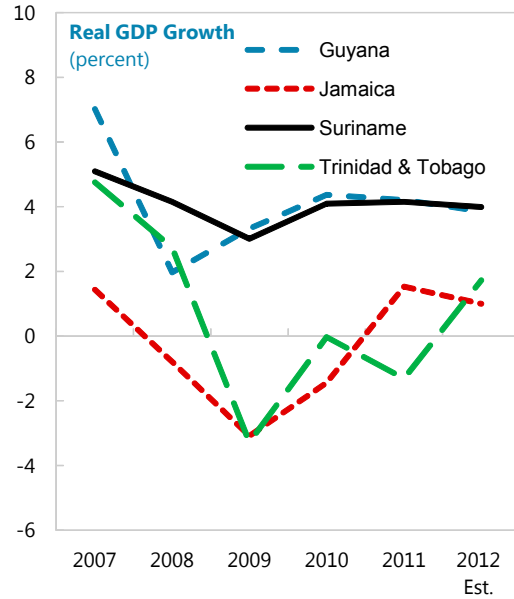
**33. Staff recommends that the next Article IV consultation with Suriname be conducted on the standard 12-month cycle.**

**Figure 1. Suriname: Macroeconomic Developments**

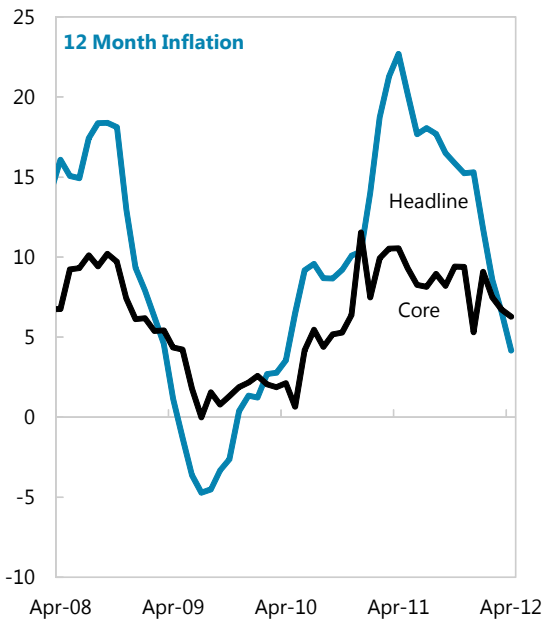
*Economic activity remained buoyant in 2011, thanks to strong performance in the commerce and construction sectors...*



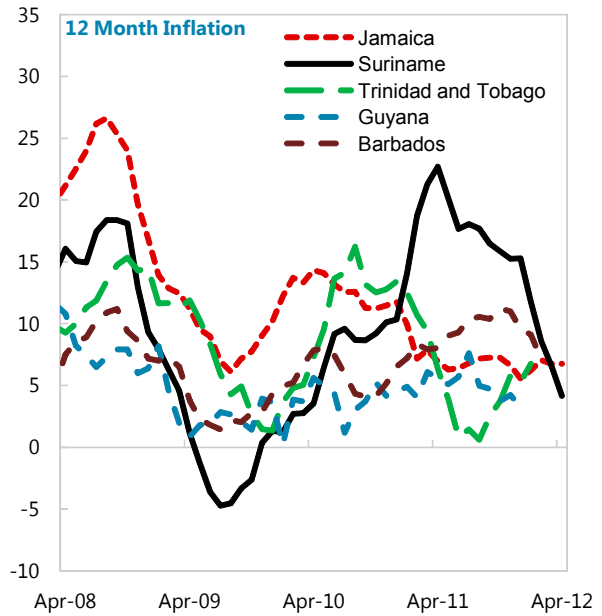
*...while GDP growth continues to outperform Suriname's regional peers.*



*Inflation, which had spiked in the wake of the devaluation has since fallen substantially...*

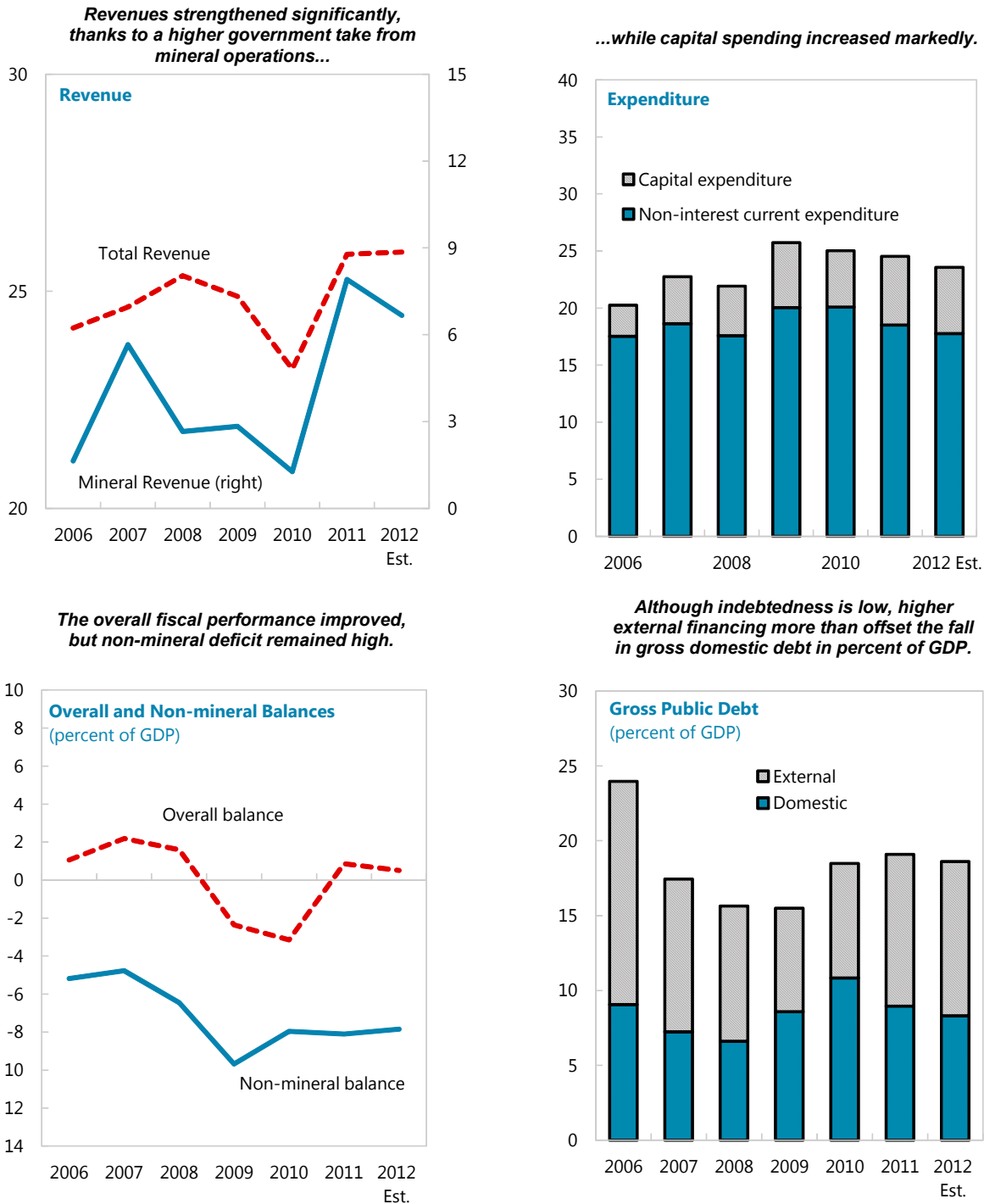


*... and converging back to levels prevalent in the region.*



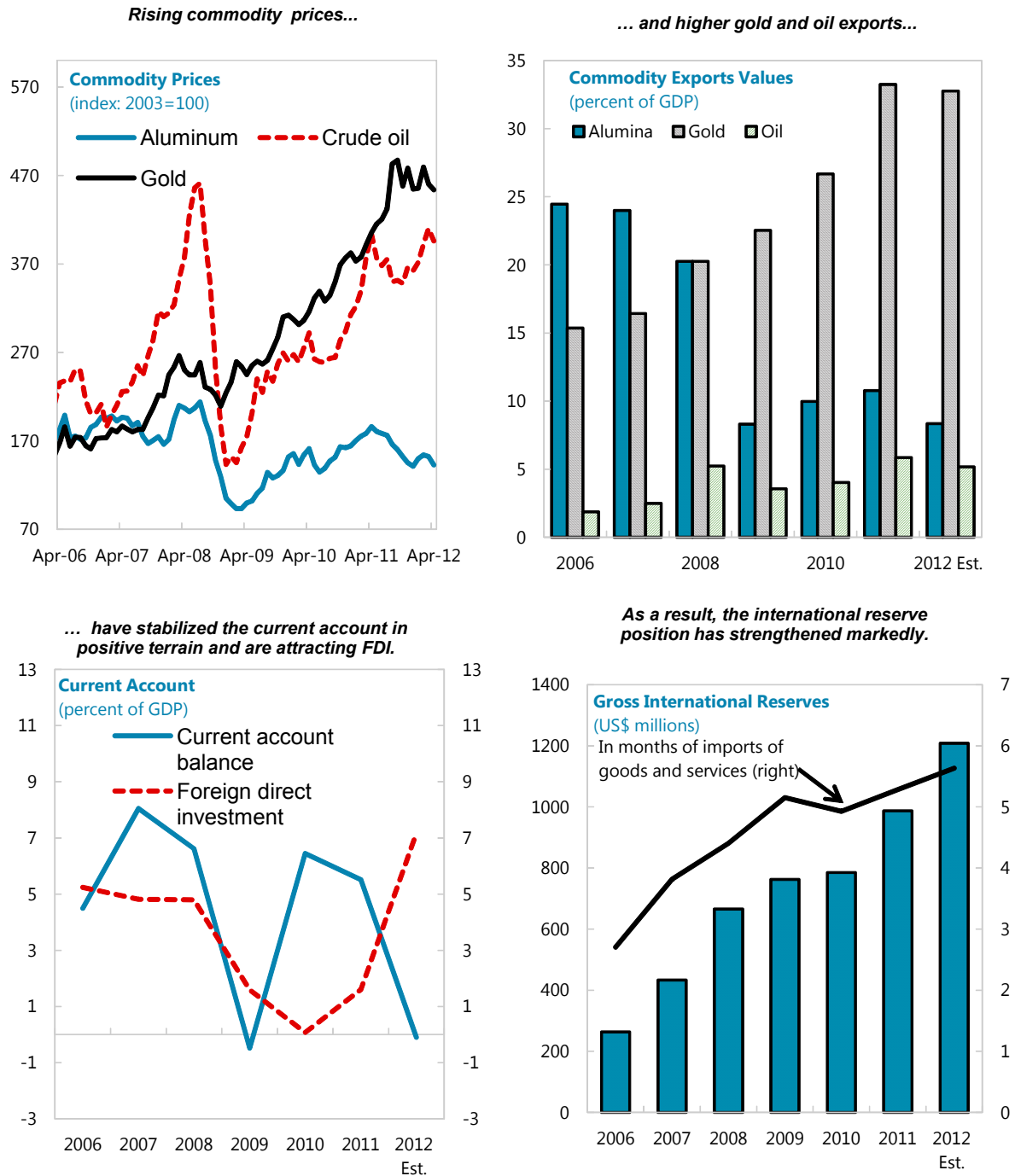
Sources: National authorities; and IMF staff estimates and projections.

**Figure 2. Suriname: Fiscal Indicators**



Sources: Ministry of Finance; and IMF staff estimates and projections.

**Figure 3. Suriname: External Indicators**



Sources: Surinamese authorities; Information Notice System; and IMF staff estimates and projections.

Table 1. Suriname: Selected Economic and Social Indicators

Population (in thousands, 2010)	531	Unemployment rate (2010)				7.6
GDP per capita (current US\$, 2010)	8,192	Adult illiteracy (percent of population ages 15 and above, 2008)				5.0
Rank in UNDP Human Development Index (out of 187, 2011)	104					
Life expectancy at birth (years, 2010)	70.3					
				Est.	Projections	
	2008	2009	2010	2011	2012	2013
	(Annual percentage change, unless otherwise indicated)					
<b>Real sector</b>						
GDP at current prices (SRD millions)	9,698	10,683	11,944	15,022	16,812	18,780
GDP at constant prices (SRD millions)	8,395	8,648	9,003	9,377	9,751	10,188
Real GDP Growth	4.1	3.0	4.1	4.2	4.0	4.5
Nominal GDP Growth	20.3	10.2	11.8	25.8	11.9	11.7
GDP deflator	15.5	6.9	7.4	20.8	7.6	6.9
Consumer prices (end of period)	9.3	1.3	10.3	15.3	5.7	5.0
Consumer prices (period average)	15.0	0.0	6.9	17.7	6.2	5.5
Exchange rate (end of period)	2.75	2.75	2.75	3.30	3.30	
<b>Money and credit 1/</b>						
Banking system net foreign assets	25.5	11.4	3.1	19.3	15.7	15.8
Broad money	11.3	26.6	11.2	11.7	14.9	12.8
Private sector credit	36.3	12.2	10.9	12.0	12.3	11.8
	(In percent of GDP, unless otherwise indicated)					
<b>Savings and investment</b>						
Private sector balance (savings-investment)	5.0	1.9	9.6	4.7	-0.6	-2.0
Public sector balance	1.6	-2.4	-3.1	0.9	0.5	0.0
Savings	6.0	3.3	1.8	6.9	6.3	5.6
Investment	4.4	5.7	4.9	6.0	5.8	5.7
Foreign savings	-6.6	0.5	-6.4	-5.5	0.1	2.1
<b>Central government</b>						
Revenue and grants	23.8	25.2	22.8	26.0	25.0	24.1
Total expenditure	22.2	27.6	26.0	25.2	24.5	24.1
Of which : noninterest current expenditure	17.6	20.1	20.1	18.5	17.8	17.5
Statistical discrepancy	0.3	-0.7	-0.1	0.3	0.0	0.0
Overall balance	1.6	-2.4	-3.1	0.9	0.5	0.0
Net domestic financing	-1.9	2.1	1.9	-3.5	-1.7	-1.6
Net external financing	0.3	0.3	1.2	2.7	1.2	1.7
<b>Central government debt 2/</b>	15.6	15.5	18.5	19.1	18.6	18.1
Domestic	6.6	8.6	10.8	9.0	8.3	7.2
External	9.0	6.9	7.6	10.1	10.3	10.9
<b>External sector</b>						
Current account balance	6.6	-0.5	6.4	5.5	-0.1	-2.1
Capital and financial account	2.7	3.5	-5.6	0.2	4.4	6.8
Change in reserves (- increase in US\$ millions)	-232	-97	-22	-202	-222	-268
<b>Memorandum Items</b>						
Terms of trade (percent change)	3.3	-1.6	-0.2	0.6	0.9	-0.3
Gross international reserves (US\$ millions)	666	763	785	987	1,209	1,477
In months of imports	4.4	5.2	4.9	5.3	5.6	6.6
Exchange rate (SRD per US\$, eop)	2.75	2.75	2.75	3.30	...	...

Sources: Suriname authorities; and IMF staff estimates and projections.

1/ Data for 2011 are at a constant exchange rate of SRD 2.75 per US\$ 1.

2/ Includes central government and government-guaranteed public debt.

Table 2. Suriname: Central Government Operations

(In percent of GDP)

	2008	2009	2010	Est. 2011	Projections	
					2012	2013
<b>Revenue</b>	<b>23.8</b>	<b>25.2</b>	<b>22.8</b>	<b>26.0</b>	<b>25.0</b>	<b>24.1</b>
Taxes	18.0	15.3	15.7	18.9	18.9	18.5
Direct taxes	9.1	7.2	8.1	10.0	10.0	9.2
Indirect taxes	8.9	8.1	7.6	8.8	8.9	9.2
Grants	2.1	3.3	2.0	0.8	0.6	0.2
Other revenue	3.8	6.6	5.1	6.4	5.6	5.3
<b>Expenditure</b>	<b>22.5</b>	<b>26.9</b>	<b>25.9</b>	<b>25.5</b>	<b>24.5</b>	<b>24.1</b>
Expense	18.1	21.2	20.9	19.4	18.7	18.4
Compensation of employees	7.8	9.1	9.0	8.0	7.9	7.8
Purchases of goods and services	4.3	5.1	4.9	4.3	3.8	3.8
Subsidies and transfers	5.5	5.9	6.1	6.2	6.0	5.9
Interest	0.6	1.1	0.8	0.9	0.9	0.9
Domestic	0.4	0.5	0.7	0.7	0.7	0.6
Foreign	0.2	0.6	0.1	0.2	0.3	0.3
Net acquisition of nonfinancial assets	4.4	5.7	4.9	6.0	5.8	5.7
Capital expenditure	4.4	5.7	4.9	6.0	5.8	5.7
Statistical discrepancy	0.3	-0.7	-0.1	0.3	0.0	0.0
Gross Operating Balance	6.0	3.3	1.8	6.9	6.3	5.6
<b>Overall Balance (Net lending/borrowing)</b>	<b>1.6</b>	<b>-2.4</b>	<b>-3.1</b>	<b>0.9</b>	<b>0.5</b>	<b>0.0</b>
<b>Net financial transactions</b>	<b>-1.6</b>	<b>2.4</b>	<b>3.1</b>	<b>-0.9</b>	<b>-0.5</b>	<b>0.0</b>
Net incurrence of liabilities	-1.6	2.4	3.1	-0.9	-0.5	0.0
Domestic	-1.9	2.1	1.9	-3.5	-1.7	-1.6
Commercial banks	-0.8	-0.5	0.8	0.0	0.0	0.0
Central bank	-1.3	2.2	-0.1	-2.8	-0.7	-1.6
Other domestic 1/	0.1	0.5	1.2	-0.7	-1.0	0.0
Foreign	0.3	0.3	1.2	2.7	1.2	1.7
Amortizations 2/	-0.4	-3.0	-0.4	-0.5	-0.9	-0.5
Disbursements	0.8	2.2	1.6	3.1	2.2	2.1
Bilateral agencies	0.5	1.8	1.0	1.3	1.1	1.1
Multilateral agencies	0.3	0.4	0.6	1.8	1.1	1.1
Exceptional external financing 3/	....	1.1	....	....	....	....
<b>Memorandum items:</b>						
Primary balance	2.2	-1.2	-2.3	1.8	1.4	0.9
Non-mineral balance	-6.4	-9.7	-8.0	-8.1	-7.8	-7.4
Mineral revenue	8.0	7.3	4.8	9.0	8.3	7.4
Central government debt 4/	15.6	15.5	18.5	19.1	18.6	18.1

Sources: Suriname authorities; and IMF staff estimates and projections.

1/ Assumes SRD100 million arrears accumulation in 2010, starting in 2012 includes a national contribution to the sovereign wealth fund.

2/ In 2009, includes repayment of debt, arrears and penalties on the Brazilian debt.

3/ Debt cancellation.

4/ Includes central government and government-guaranteed public debt.



Table 3. Suriname: Balance of Payments 1/  
(In millions of U.S. dollars)

	2010	Est. 2011	Projections					
			2012	2013	2014	2015	2016	2017
<b>Current account</b>	<b>280</b>	<b>251</b>	<b>-5</b>	<b>-117</b>	<b>-256</b>	<b>-89</b>	<b>178</b>	<b>246</b>
Trade balance	601	788	649	574	511	814	1208	1364
Exports, f.o.b.	2084	2467	2564	2572	2591	2741	3022	3312
<i>Of which</i> : alumina, gold, and petroleum	1770	2271	2358	2371	2421	2588	2867	3154
Imports, f.o.b.	-1483	-1679	-1916	-1998	-2080	-1926	-1814	-1949
Services, net	-221	-362	-454	-486	-551	-582	-616	-656
Exports	209	201	204	207	211	216	222	228
Imports	-430	-563	-658	-693	-762	-799	-838	-884
Income, net	-187	-262	-288	-294	-309	-416	-511	-562
Private sector	-181	-254	-275	-279	-294	-402	-498	-550
Public sector	-6	-9	-13	-16	-15	-14	-13	-12
<i>Of which</i> : NFPS interest	-6	-9	-13	-16	-15	-14	-13	-12
Current transfers, net	87	87	89	90	93	95	98	100
<b>Capital and financial account</b>	<b>-242</b>	<b>9</b>	<b>226</b>	<b>385</b>	<b>569</b>	<b>161</b>	<b>-144</b>	<b>-168</b>
Capital account (public sector grants)	86	35	29	14	7	7	6	6
<b>Financial account</b>	<b>-328</b>	<b>-26</b>	<b>198</b>	<b>371</b>	<b>562</b>	<b>154</b>	<b>-151</b>	<b>-174</b>
Public sector	53	121	63	94	85	46	36	42
Nonfinancial public sector	53	118	23	62	62	46	46	46
<i>Of which</i> : Disbursements	70	141	110	120	120	80	80	80
<i>Of which</i> : Amortization	-17	-21	-47	-26	-35	-34	-44	-38
Private sector	-381	-147	134	277	477	107	-187	-217
Foreign direct investment	3	73	365	550	700	425	95	75
Portfolio investment	0	0	0	0	0	0	0	0
Other	-384	-220	-231	-273	-223	-318	-282	-292
Errors and omissions	-16	-58	0	0	0	0	0	0
<b>Overall balance</b>	<b>22</b>	<b>202</b>	<b>222</b>	<b>268</b>	<b>313</b>	<b>72</b>	<b>34</b>	<b>78</b>
Change in reserves (- = increase)	-22	-202	-222	-268	-313	-72	-34	-78
<b>Memorandum items:</b>								
Gross international reserves 2/	785	987	1209	1477	1789	1861	1895	1973
In months of imports of goods and services	4.9	5.3	5.6	6.6	7.6	8.2	8.6	8.4
Current account balance (in percent of GDP)	6.4	5.5	-0.1	-2.1	-4.1	-1.3	2.4	3.1
GDP in current US dollars	4351	4552	...	...	...	...	...	...

Sources: Suriname authorities; and IMF staff estimates and projections.

1/ Historical figures correspond to the Balance of Payments revised by the CBvS.

2/ For 2009, includes the share of Suriname in the IMF SDR allocation which amounted to SDR 80.4 million.

Table 4. Suriname: Summary Accounts of the Banking System

	2008	2009	2010	Est. 2011	Projections	
					2012	2013
	(In millions of Surinamese dollars)					
<b>Net foreign assets</b>	<b>2,679</b>	<b>2,983</b>	<b>3,074</b>	<b>4,402</b>	<b>5,093</b>	<b>5,898</b>
Net international reserves	1,827	2,093	2,155	3,253	3,984	4,868
Net other foreign assets	851	890	919	1,150	1,110	1,030
<b>Net domestic assets</b>	<b>1,296</b>	<b>2,022</b>	<b>2,513</b>	<b>2,399</b>	<b>2,705</b>	<b>2,942</b>
Net claims on the public sector	-757	-281	-54	-508	-626	-663
Central government (net)	-49	124	208	-219	-344	-654
Rest of the public sector (net)	-708	-405	-262	-289	-281	-9
Credit to the private sector	2,319	2,601	2,884	3,460	3,886	4,343
Net unclassified assets	9	-24	-53	14	61	64
Official capital and surplus	-274	-275	-264	-567	-617	-802
<b>Liabilities to the private sector</b>	<b>3,975</b>	<b>5,005</b>	<b>5,588</b>	<b>6,801</b>	<b>7,798</b>	<b>8,840</b>
Broad money	3,650	4,620	5,137	6,255	7,187	8,110
Monetary liabilities	1,243	1,578	1,839	1,925	2,155	2,407
Currency in circulation	464	568	669	685	767	856
Demand deposits	779	1,010	1,169	1,240	1,388	1,550
Quasi-money (including gold certificates)	698	900	1,048	1,220	1,552	1,814
Foreign currency deposits	1,709	2,141	2,251	3,111	3,481	3,889
Other liabilities	325	385	451	545	610	730
	(Percent changes, unless otherwise indicated)					
Liabilities to the private sector	12.2	25.9	11.6	21.7	14.7	13.4
Broad money	11.3	26.6	11.2	21.8	14.9	12.8
Money	14.8	26.9	16.5	4.7	11.9	11.7
Quasi-money	14.0	29.0	16.4	16.4	27.2	16.9
Foreign currency deposits	8.0	25.3	5.1	38.2	11.9	11.7
Credit to the private sector	36.3	12.2	10.9	19.9	12.3	11.8
In percent of GDP	23.9	24.3	24.1	23.0	23.1	23.1
In percent of beginning of period M2	70.7	71.3	62.4	67.3	62.1	60.4
Broad money (percent of GDP)	37.6	43.2	43.0	41.6	42.8	43.2
	(Changes as a percent of liabilities of the previous period)					
Net foreign assets of the banking sector	15.4	7.7	1.8	23.8	10.2	10.3
Central bank international reserves	18.0	6.7	1.2	19.6	10.7	11.3
Other net foreign assets	-2.6	1.0	0.6	4.1	-0.6	-1.0
Net domestic assets of the banking sector	-3.2	18.2	9.8	-2.1	4.5	3.0
Credit to the public sector	-16.9	12.0	4.5	-8.1	-1.7	-0.5
Credit to the private sector	17.4	7.1	5.7	10.3	6.3	5.9
Liabilities to the private sector	12.2	25.9	11.6	21.7	14.7	13.4
<b>Memorandum items:</b>						
Deposit dollarization ratio (percent) 1/	53.6	52.9	50.4	55.8	54.2	53.6
Credit dollarization ratio (percent) 2/	46.6	41.4	36.8	40.0	...	...
Domestic currency interest rate spread (%)	5.3	5.4	5.6	5.1	...	...
Foreign currency (US\$) interest rate spread (%)	6.5	6.5	6.2	6.9	...	...
Reserve requirement for domestic deposits (percent) 3/	25.0	25.0	25.0	25.0	...	...
Reserve requirement for foreign currency deposits (%)	33.3	33.3	33.3	40.0	...	...

Sources: Central Bank of Suriname; and IMF staff estimates and projections.

1/ Foreign currency deposits in percent of total commercial bank deposits.

2/ Foreign currency credit in percent of total private sector credit by commercial banks.

3/ Excludes commercial bank use of required reserves for mortgage lending.

Table 5. Suriname: Financial System Structure and Financial Soundness Indicators 1/

	2008	2009	2010	2011
<b>Number 2/</b>				
Banks	8	8	9	9
Large banks	3	3	3	3
Small banks	5	5	6	6
Reporting non-bank financial institutions				
Pension funds	18	26	...	...
Insurance companies	10	11	...	...
Credit unions and cooperatives	6	5	...	...
	(In percent of total)			
Assets	100.0	100.0	100.0	100.0
Banks	73.5	74.9	...	...
Large banks	60.7	61.8	...	...
Small banks	12.8	13.1	...	...
Pension funds	14.4	15	...	...
Insurance companies	9.7	7.7	...	...
Credit unions and cooperatives	2.4	2.4	...	...
Deposits				
Banks	100.0	100.0	100.0	100.0
Large banks	76.5	76.6	70.6	...
Small banks	23.5	23.4	29.4	...
Capital adequacy				
Regulatory capital to risk-weighted assets (*)	10.1	10.8	12.2	12.1
Regulatory Tier I capital to risk-weighted assets (*)	8.7	9.5	10.8	10.9
Capital (net worth) to assets	5.6	5.6	6.2	6.3
Asset composition				
Sectoral distribution of loans to total loans (*)				
Agriculture	4.2	4.3	4.3	3.7
Manufacturing	7.9	7.8	7.7	8.3
Commerce	26.9	26.2	23.9	26.3
Housing construction	17.5	18.2	17.9	16.8
Other	43.5	43.5	46.2	44.9
Asset quality				
Foreign currency loans to total loans	45.8	41.2	37.1	40.7
NPLs to gross loans (*)	7.9	7.9	7.9	8.0
NPLs net of provisions to capital (*)	49.8	50.1	44.6	44.0
Large exposures to capital (*)	104.5	105.1	98.1	106.8
Earnings and profitability				
ROA (*)	2.8	2.5	2.2	1.9
ROE (*)	52.7	45.3	36.9	27.2
Interest margin to gross income (*)	72.9	69.4	73.3	71.7
Noninterest expenses to gross income (*)	56.2	57.4	58.3	57.9
Personnel expenses to noninterest expenses	59.8	59.2	59.9	58.9
Trading and fee income to total income	28.1	31.9	28.8	30.7
Spread between reference loan and deposit rates	8.1	8.0	8.2	8.0
Liquidity				
Liquid assets to total assets (*)	32.6	29.8	29.2	26.4
Liquid assets to total short-term liabilities (*)	58.4	52.9	54.4	49.2
FX liabilities to total liabilities	49.6	50.3	47.0	51.5
Net position in foreign currency to capital 3/	39.0	28.7	19.2	...

Source: Central Bank of Suriname.

(\*) Included in the "core set" of financial soundness indicators identified by the IMF's Executive Board.

1/ Indicators refer to banks, which comprise over 70 percent of financial system assets at end-2008.

2/ The three largest banks hold more than 57 percent of total financial system assets.

3/ Net position in foreign currency (total assets minus total liabilities) as a proportion of banks' shares and other equity.

Table 6. Suriname: Central Government Debt

	2007	2008	2009	2010	Est. 2011
Total Debt (US\$ mln) 1/	509.9	552.1	602.1	806.1	869.0
(In millions of Surinamese dollars; end of period)					
Domestic Debt	582.9	640.3	916.0	1,295.6	1,346.7
Debt to CBvS	302.6	397.3	652.5	880.6	858.3
Debt to other banks	151.1	85.5	64.0	171.1	148.2
Debt to other private sector	126.1	147.4	196.4	242.6	339.4
Other	3.1	10.1	3.1	1.3	0.8
(In millions of U.S. dollars; end of period)					
External debt	297.9	319.3	269.1	335.0	460.9
Multilateral	70.4	73.8	82.3	115.3	199.1
Bilateral	227.5	245.4	186.8	219.7	261.8
(In percent of GDP)					
Total debt 1/	17.5	15.6	15.5	18.5	19.1
Domestic debt	7.2	6.6	8.6	10.8	9.0
Debt to CBvS	3.8	4.1	6.1	7.4	5.7
Debt to other banks	1.9	0.9	0.6	1.4	1.0
Debt to other private sector	1.6	1.5	1.8	2.0	2.3
Other	0.0	0.1	0.0	0.0	0.0
External debt	10.2	9.0	6.9	7.6	10.1
Multilateral	2.4	2.1	2.1	2.6	4.4
Bilateral	7.7	6.9	4.8	5.0	5.8
Memorandum Items					
Total debt (net, percent of GDP) 2/	17.5	15.6	15.5	18.5	17.6
Exchange rate (SRD per US\$,e-o-p)	2.75	2.75	2.75	2.75	3.30

Sources: IMF staff projections and estimates.

1/ Includes arrears. In 2011 arrears with the U.S. were cleared and an outstanding balance of US\$13.7 million with China is still reflected in the total although, no creditor action has been taken on this claim.

2/ Excluding government deposits in the domestic banking system.

## APPENDIX I. ILLUSTRATIVE MEDIUM-TERM PROJECTIONS AND DEBT SUSTAINABILITY ANALYSES

Staff undertook fiscal and external debt sustainability analyses, based on reasonable assumptions and a medium-term outlook that were discussed with the authorities.

### A. Government Finances

#### Key assumptions and outlook

**Revenue, as a percent of GDP, is projected to fall somewhat from its exceptionally high level of 2011.** The outlook for weaker oil prices will reduce the profitability of Staatsolie and, thus, oil revenues accruing to the budget over the next 2–3 years. However, this decline in Staatsolie’s profitability and contribution to the budget is likely to be partially reversed starting in 2015, i.e., once the refinery, currently under construction, is completed. In the latter years, it is assumed that revenues will be boosted by large planned gold projects that would come on line. Meanwhile, indirect tax collections are projected to increase starting in 2014, reflecting the introduction of a revenue-enhancing VAT system in late-2013.

**On the expenditure side, it is assumed that current spending will continue to moderate, particularly spending on wages and goods and services.** This will be achieved by the authorities’ holding the growth rate of non-interest current spending below that of nominal GDP. These savings will allow them to maintain capital expenditure at a sustainable and relatively high level of about 5½ percent of GDP over the medium term.

**The fiscal balance will decline in the early years of the projection period, before picking up to about 1½ percent of GDP over the medium term.** As revenues stabilize and total spending moderates, the government will be in a position to save about 1 percent of GDP of the annual fiscal surpluses in a sovereign wealth and stabilization fund.

#### Assessment of the fiscal DSA

**Suriname’s public debt position and vulnerability is low.** Over the medium term the debt-to-GDP ratio is projected to decline to 15 percent (down from its current level of 19 percent), thanks to a robust fiscal position and prudent debt management. The outlook thus assumes that foreign borrowing will be contracted on favorable terms, mainly from bi- and multilateral sources. The debt levels will be sensitive to standard shocks. However, even under various stress scenarios, the debt-to-GDP level is not likely to exceed 20 percent. Accordingly, there is only a low risk of debt distress.

## B. External Sector

### Key assumptions

**The medium-term projections for the balance of payments are predicated on the assumptions that current external sector policies will be maintained.** Specifically, it is assumed that a number of large projects in the energy and mining sectors will be completed, with their financing provided for through: (a) self-financing combined with limited commercial borrowing (for Staatsolie's refinery expansion); or (b) foreign direct investment (for the large anticipated gold mining projects).

**The medium-term outlook assumes a continued stable macroeconomic environment.**

Construction activity in connection with the large mining and energy projects is expected to boost economic growth in the early years of the projection period. Thereafter, as these projects are completed and production is scaled up, the country's growth potential is expected to be lifted to about 5 percent. With domestic demand well contained, inflation is expected to remain below 5 percent.

**Despite an initial weakening of the current account balance, gross reserves are expected to increase over the medium term.** In the early years of the projection period, the large planned investment projects will be associated with large imports of capital goods. However, since these imports will be financed externally (through FDI and other private inflows), the overall balance of payments would remain in surplus, and gross reserves would rise to 8½ months of imports by 2017. These reserves would include the funds that would be set aside in the context of a sovereign wealth and stabilization fund.

### Assessment of the external DSA

**Suriname's external debt burden is low, at 10 percent of GDP.** Following the clearance of all external payments arrears, the authorities have carefully increased their foreign borrowing from multilateral sources to support their reform and infrastructure projects. Once these projects are completed and mineral exports pick up, the current account balance is expected to improve substantially, to a surplus of over 3 percent of GDP. Looking ahead, external debt is projected to remain flat and, even under most stress scenarios, it is unlikely to rise above 20 percent of GDP. The sole exception is a non-interest current account shock, which would increase the external debt level almost three-fold. This reflects the country's reliance on widening current account deficits over the next 3-4 years in connection with the sizable capital projects.

Appendix I Table 1. Suriname: Public Sector Debt Sustainability Framework, 2007-2017  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>Baseline: Public sector debt 1/</b>	17.5	15.6	15.5	18.5	19.1	18.6	18.1	17.8	16.9	15.9	15.0	<b>-0.8</b>
o/w foreign-currency denominated	10.2	9.0	6.9	7.6	10.1	10.3	10.9	11.4	11.1	10.7	10.3	
Change in public sector debt	-6.5	-1.8	-0.1	3.0	0.6	-0.5	-0.5	-0.3	-0.9	-1.0	-0.9	
Identified debt-creating flows (4+7+12)	-4.7	-4.5	0.9	1.5	-3.4	-2.5	-1.9	-2.5	-3.0	-3.0	-3.0	
Primary deficit	-3.4	-2.2	1.2	2.3	-1.8	-1.4	-0.9	-1.8	-2.2	-2.1	-2.1	
Revenue and grants	25.4	23.8	25.2	22.8	26.0	25.0	24.1	24.6	24.9	24.7	24.6	
Primary (noninterest) expenditure	21.9	21.7	26.4	25.1	24.3	23.6	23.2	22.8	22.7	22.6	22.5	
Automatic debt dynamics 2/	-1.3	-2.4	-0.3	-0.8	-1.6	-1.1	-1.1	-0.6	-0.9	-0.9	-0.9	
Contribution from interest rate/growth differential 3/	-1.3	-2.4	-0.3	-0.8	-2.9	-1.1	-1.1	-0.6	-0.9	-0.9	-0.9	
Of which contribution from real interest rate	-0.2	-1.8	0.1	-0.2	-2.2	-0.4	-0.3	0.1	0.0	-0.1	-0.1	
Of which contribution from real GDP growth	-1.1	-0.6	-0.4	-0.6	-0.6	-0.7	-0.7	-0.7	-0.8	-0.8	-0.7	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	1.2	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-1.8	2.7	-1.1	1.5	4.0	2.1	1.4	2.2	2.1	2.0	2.1	
Public sector debt-to-revenue ratio 1/	68.8	65.6	61.5	81.0	73.3	74.4	75.2	72.3	68.0	64.1	60.9	
<b>Gross financing need 6/</b>	8.2	2.5	7.8	9.0	3.6	4.3	2.7	0.5	-1.8	-2.8	-3.7	
in billions of U.S. dollars	0.2	0.1	0.3	0.4	0.2	0.2	0.2	0.0	-0.1	-0.2	-0.3	
<b>Scenario with key variables at their historical averages 7/</b>						<b>18.6</b>	<b>16.9</b>	<b>16.0</b>	<b>15.3</b>	<b>14.5</b>	<b>13.9</b>	<b>-1.8</b>
<b>Scenario with no policy change (constant primary balance) in 2012-2017</b>						<b>18.6</b>	<b>17.5</b>	<b>17.6</b>	<b>17.5</b>	<b>17.1</b>	<b>16.8</b>	<b>-0.9</b>
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	5.1	4.1	3.0	4.1	4.2	4.0	4.5	4.5	5.0	5.0	5.0	
Average nominal interest rate on public debt (in percent) 8/	5.8	3.9	8.0	6.1	6.3	5.5	5.3	4.8	3.9	3.5	3.3	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.6	-11.6	1.1	-1.3	-14.4	-2.1	-1.7	0.8	-0.1	-0.5	-0.7	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	-16.8	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	6.4	15.5	6.9	7.4	20.8	7.6	6.9	4.0	4.0	4.0	4.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	18.1	2.9	25.7	-1.0	0.6	1.0	2.8	2.7	4.5	4.7	4.5	
Primary deficit	-3.4	-2.2	1.2	2.3	-1.8	-1.4	-0.9	-1.8	-2.2	-2.1	-2.1	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as  $[(r - \pi(1+g) - g + \alpha c(1+r))/(1+g+\pi+g\pi)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $\alpha$  = share of foreign-currency denominated debt; and  $c$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as  $\alpha c(1+r)$ .

5/ For projections, this line includes exchange rate changes.

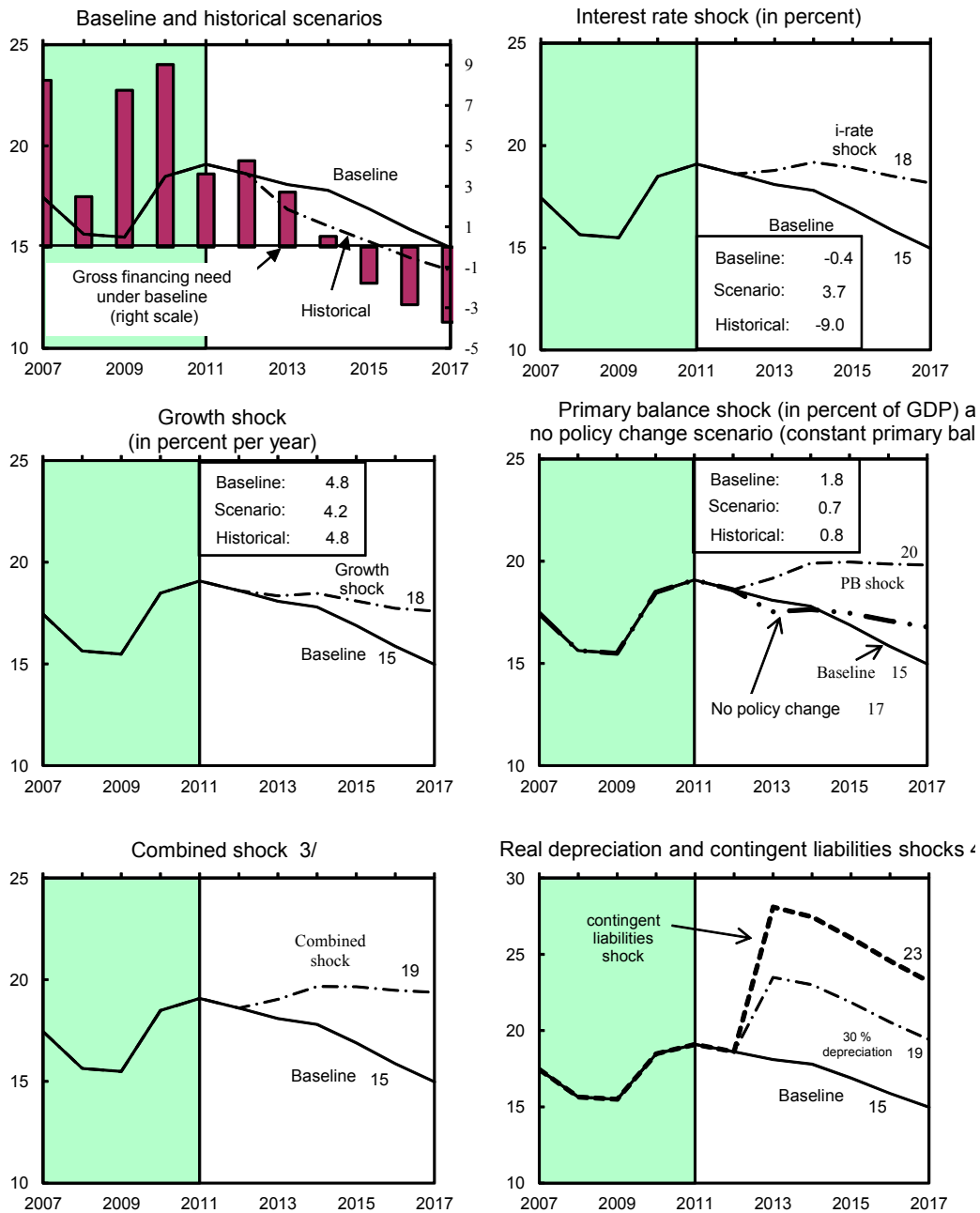
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Appendix I Figure 1. Suriname: Public Debt Sustainability: Bound Tests 1/ 2/  
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).



Appendix I Table 2. Suriname: External Debt Sustainability Framework, 2007-2017  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 6/ -1.7	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
<b>Baseline: External debt</b>	10.2	9.0	6.9	7.6	10.1	<b>10.3</b>	<b>10.9</b>	<b>11.4</b>	<b>11.1</b>	<b>10.7</b>	<b>10.3</b>		
Change in external debt	-4.7	-1.2	-2.1	0.7	2.5	0.2	0.6	0.5	-0.3	-0.4	-0.4		
Identified external debt-creating flows (4+8+9)	-14.4	-13.1	-1.9	-7.2	-7.5	-7.4	-8.0	-7.6	-5.5	-4.2	-4.5		
Current account deficit, excluding interest payments	-8.6	-6.8	2.5	-6.6	-5.7	-0.2	1.8	3.9	1.1	-2.6	-3.2		
Deficit in balance of goods and services	-8.5	-6.1	1.8	-8.7	-9.4	-3.8	-1.5	0.6	-3.4	-8.0	-8.8		
Exports	54.9	57.4	43.9	52.7	58.6	54.3	48.8	45.3	43.8	44.0	43.9		
Imports	46.4	51.3	45.6	44.0	49.2	50.5	47.3	46.0	40.4	36.0	35.1		
Net non-debt creating capital inflows (negative)	-4.8	-4.8	-1.6	-0.1	-1.6	-7.2	-9.7	-11.3	-6.3	-1.3	-0.9		
Automatic debt dynamics 1/	-1.0	-1.6	-2.8	-0.6	-0.2	-0.1	-0.1	-0.2	-0.3	-0.3	-0.3		
Contribution from nominal interest rate	0.5	0.2	-2.0	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.1		
Contribution from real GDP growth	-0.7	-0.4	-0.2	-0.3	-0.3	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5		
Contribution from price and exchange rate changes 2/	-0.9	-1.4	-0.6	-0.5	0.0	...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	9.8	12.0	-0.2	8.0	9.9	7.6	8.6	8.1	5.2	3.8	4.1		
External debt-to-exports ratio (in percent)	18.6	15.7	15.8	14.5	17.3	18.9	22.2	25.1	25.4	24.2	23.4		
<b>Gross external financing need (in billions of US dollars) 4/</b>	-0.1	-0.2	0.1	-0.3	-0.2								
in percent of GDP	-3.7	-6.2	3.5	-6.1	-5.1	10-Year	10-Year	1.0	2.5	4.7	1.8	-1.8	-2.6
<b>Scenario with key variables at their historical averages 5/</b>						<b>10.3</b>	<b>16.0</b>	<b>19.8</b>	<b>20.1</b>	<b>19.0</b>	<b>18.0</b>	<b>-5.6</b>	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation						
Real GDP growth (in percent)	5.1	4.1	3.0	4.1	4.2	4.8	1.3	4.0	4.5	4.5	5.0	5.0	5.0
GDP deflator in US dollars (change in percent)	6.4	15.5	6.9	7.4	0.4	10.1	5.0	7.6	6.9	4.0	4.0	4.0	4.0
Nominal external interest rate (in percent)	4.0	1.8	-24.0	2.3	2.4	0.1	8.5	2.8	3.0	2.4	2.0	1.7	1.5
Growth of exports (US dollar terms, in percent)	15.7	25.8	-15.8	34.3	16.3	19.8	20.5	3.8	0.4	0.9	5.5	9.7	9.1
Growth of imports (US dollar terms, in percent)	16.4	33.1	-2.1	7.7	17.2	14.6	13.5	14.8	4.6	5.6	-4.1	-2.7	6.8
Current account balance, excluding interest payments	8.6	6.8	-2.5	6.6	5.7	-1.3	8.8	0.2	-1.8	-3.9	-1.1	2.6	3.2
Net non-debt creating capital inflows	4.8	4.8	1.6	0.1	1.6	3.2	2.0	7.2	9.7	11.3	6.3	1.3	0.9

1/ Derived as  $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)] / (1+g+\rho+g\rho)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $\rho$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,

$\varepsilon$  = nominal appreciation (increase in dollar value of domestic currency), and  $\alpha$  = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as  $[-\rho(1+g) + \varepsilon\alpha(1+r)] / (1+g+\rho+g\rho)$  times previous period debt stock.  $\rho$  increases with an appreciating domestic currency ( $\varepsilon > 0$ ) and rising inflation (based on GDP deflator).

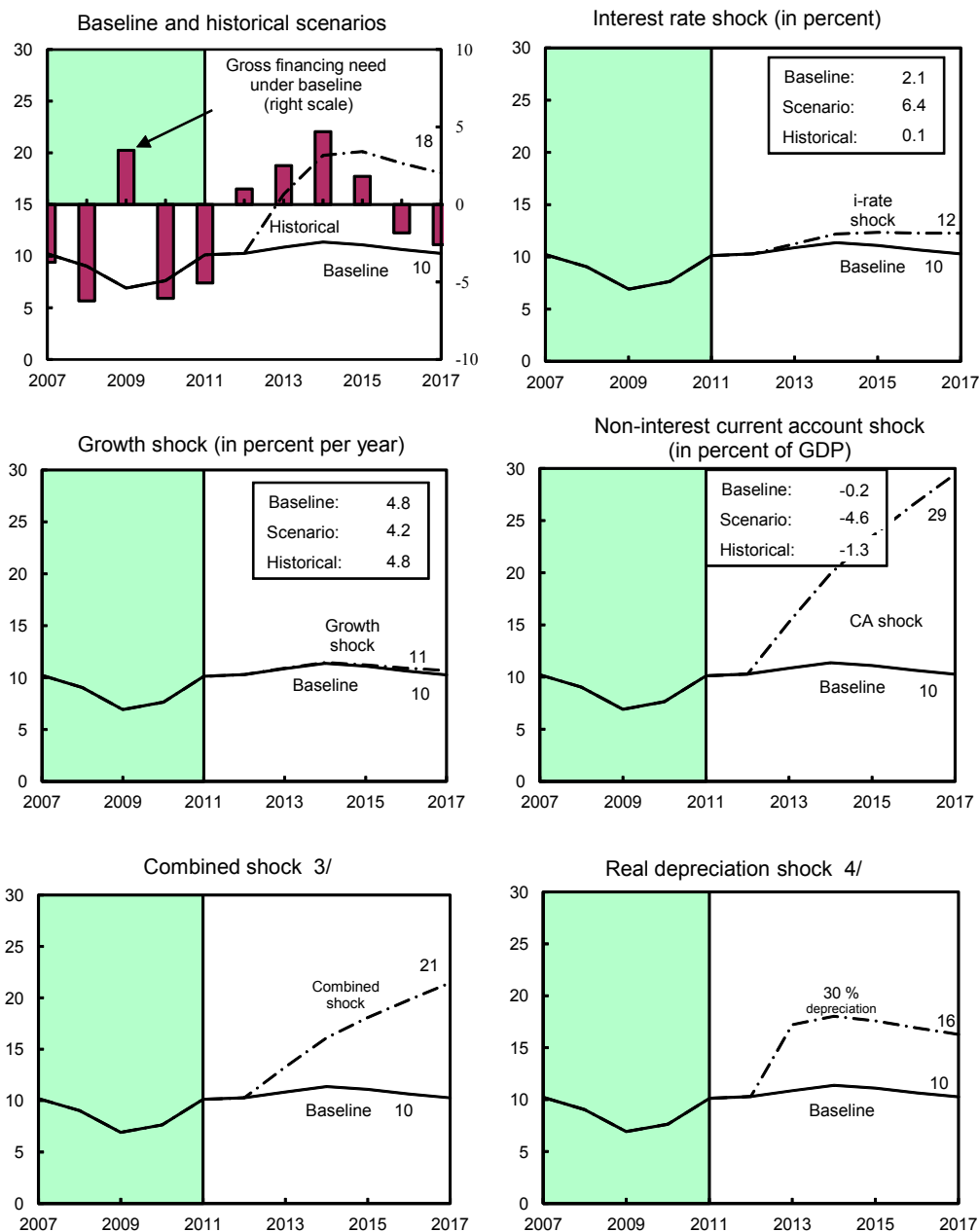
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels

Appendix I Figure 2. Suriname: External Debt Sustainability: Bound Tests 1/ 2/  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

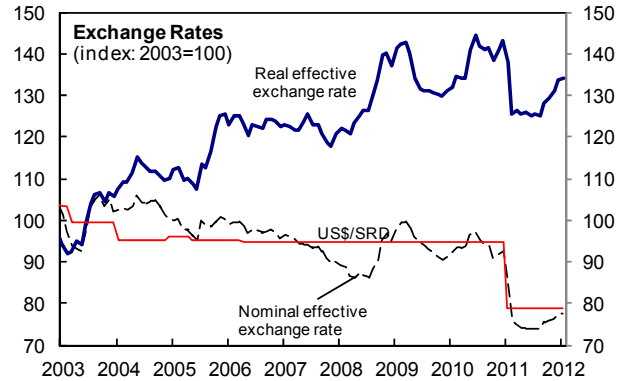
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

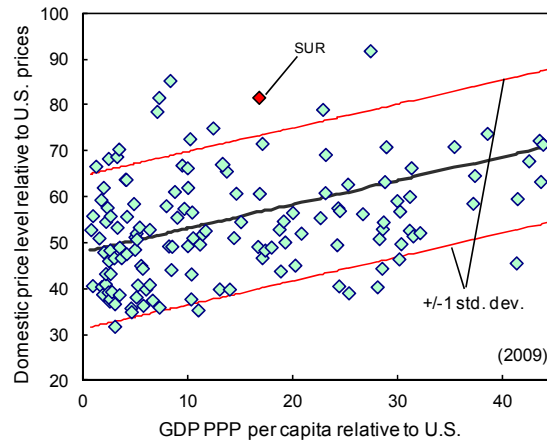
4/ One-time real depreciation of 30 percent occurs in 2012.

## APPENDIX II: EXTERNAL STABILITY ASSESSMENT

**The devaluation of the Surinamese dollar in January 2011 corrected an appreciation of the currency that had built up since early 2008.** The real effective exchange rate appreciated markedly in 2008 and early-2009 and again in 2010, before easing with the January 2011 devaluation. However, inflation differentials have offset part of these competitiveness gains during 2011.



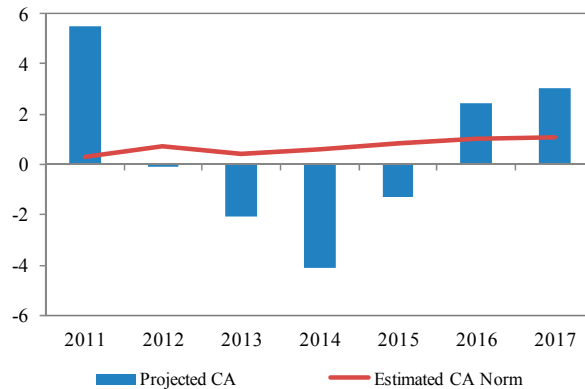
**PPP estimates (based on 2009 data) show an overvaluation of the currency.** Using a sample of 169 countries from all regions and income levels, these estimates show that the pre-devaluation exchange rate was about 11 percent above the one-standard-deviation band around its expected value. The 20 percent devaluation of the exchange rate in January 2011 corrected the overvaluation and is likely to have placed the current exchange rate within the band.



**Estimates from CGER-type methodologies suggest that the exchange rate is broadly in line with medium-term fundamentals.**

The macroeconomic balance approach shows that, over the medium term, the projected current account is around 4.7 percent higher than the estimated norm. The current account norm is estimated based on a set of indicators using the generalized method of moments (GMM).<sup>7</sup> For Suriname, the main determinants of the current account norm include the fiscal balance, relative income, and terms of trade. Over the short term, the projected current account lies below the

Current Account Balance, Projected and Estimated Norm (In percent of GDP)

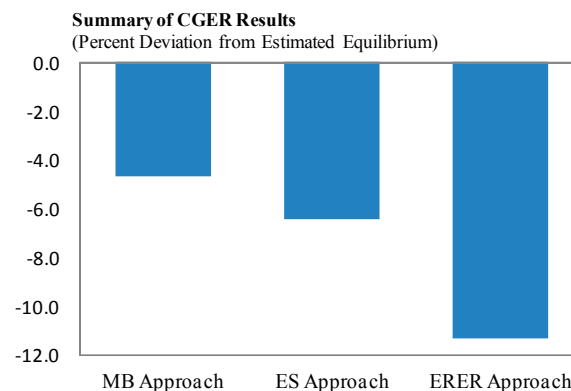
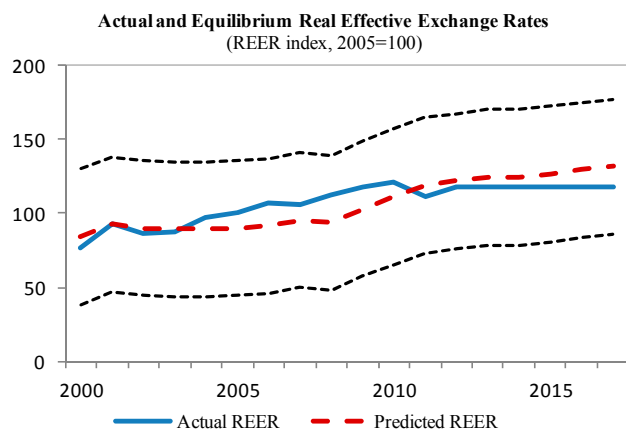


<sup>7</sup> See Beidas-Strom and Cashin (2011): "Are Middle Eastern Current Account Imbalances Excessive?" IMF WP/11/195. The regression is based on a sample of 67 countries, including Suriname.

estimated norm due to large anticipated foreign direct investment projects, which entail high imports of capital goods and construction-linked services.

**The external stability approach suggests that the projected current account is above the level needed to stabilize the net foreign asset position.** Using reasonable elasticities, these projections indicate an undervaluation of the exchange rate of around 6.4 percent.

**Finally, the equilibrium real exchange rate approach indicates that the projected real effective exchange rate is expected to be below the predicted equilibrium exchange rate over the medium term.** This approach relates the real exchange rate to a set of indicators including: goods terms of trade, relative productivity (compared to trade partners), relative government consumption, and remittances. Over the medium term, the projected real effective exchange rate lies on average less than 10 percent below the predicted equilibrium real exchange rate.



**Based on the three methods that were applied there is no evidence of significant deviation of the exchange rate from fundamentals.** In the next few years, given Suriname's continued comparative advantage in natural resources, the country is expected to attract substantial amounts of capital inflows, reflecting large foreign direct investment projects in the booming gold and oil sectors. As the business environment improves and efforts to diversify the economy take hold, new opportunities for forward and lateral linkages will emerge. Such capital inflows will also entail the import of large stocks of capital goods and related services, leading to a temporary deterioration of the current account. Over the medium term, as capital inflows abate and mineral exports strengthen, the current account balance is expected to revert to a healthy surplus.



# SURINAME

## STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 13, 2012

Prepared By

Western Hemisphere Department

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# I. FUND RELATIONS

(As of May 31, 2012)

**I. Membership Status:** Joined: April 27, 1978;

Article VIII

## II. General Resources Account:

	<b>SDR Million</b>	<b>%Quota</b>
<u>Quota</u>	92.10	100.00
<u>Fund holdings of currency (Exchange Rate)</u>	85.98	93.35
<u>Reserve Tranche Position</u>	6.12	6.65

## III. SDR Department:

	<b>SDR Million</b>	<b>%Allocation</b>
<u>Net cumulative allocation</u>	88.09	100.00
<u>Holdings</u>	80.61	91.51

**IV. Outstanding Purchases and Loans:** None

**V. Latest Financial Arrangements:** None

## VI. Projected Payments to Fund <sup>1/</sup>

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Principal					
Charges/Interest	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>
<b>Total</b>	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>

<sup>1/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Implementation of HIPC Initiative:** Not Applicable

**VIII. Implementation of Multilateral Debt Relief Initiative (MDRI):** Not Applicable

**IX. Implementation of Post-Catastrophe Debt Relief (PCDR):** Not Applicable

## Nonfinancial Relations with the Authorities

### Exchange rate arrangements

The national currency is the Surinamese dollar (SRD), which replaced the Surinamese guilder in January 2004 at a conversion rate of 1,000 guilders per SRD 1. On January 20, 2011, the authorities devalued the currency by 20 percent vis-à-vis the U.S. dollar in the official market. With the devaluation, the authorities set a band of SRD 3.25–3.35 per US\$1, within which all official and commercial market transactions are allowed to take place. The de facto exchange rate arrangement is classified as “stabilized.” In conjunction with the devaluation, the authorities also did away with an existing multiple currency practice (MCP), in the form of a special exchange rate for imports of infant formula. Suriname maintains MCPs arising from the spread of more than 2 percent between the buying and the selling rates in the official market for government transactions and also from the possible spread of more than 2 percent between these official rates for government transactions and those in the commercial markets that can take place within the established band.

### Last Article IV consultation

The last Article IV consultation was concluded by the Executive Board on May 2, 2011 (IMF Country Report No. 11/256). Suriname is on the standard 12-month consultation cycle.

### Participation in the GDDS

In July 2004, the IMF officially announced Suriname’s formal participation in the General Data Dissemination System (GDDS).

### Technical assistance since 2008

#### CARTAC

- Mission in January 2008 on revenue forecasting issues.
- Mission in October 2009 to discuss tax reform and other TA needs.
- Several missions from September 2010 through early 2012 on VAT implementation.
- Several missions from October 2010 through February 2012 on national accounts.
- Mission in 2011 on improving insurance supervision.
- Mission in early 2012 on pension fund supervision.
- Missions in 2011 on PEFA assessment and developing a PFM Action Plan.
- Missions in early 2012 on improving fiscal projection and budget preparation capacity.

#### FAD

- Mission in November 2010 on tax policy.
- Mission in February 2011 on revenue administration assessment.

**LEG**

- Mission in August and November 2011 on fiscal law

**MCM**

- Missions in November 2010 on foreign exchange market.
- Mission in March 2011 on banking system assessment
- Mission in June 2011 on the introduction of indirect monetary instruments
- Mission in December 2011 on bank resolution
- Mission in February 2012 on technical assistance results management

**STA:**

- Mission in August 2008 improving external sector data.

**Consents and acceptances:** Suriname has consented to the Executive Board reform and 2010 quota increase.

**Resident Representative:** None.



## II. RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 31, 2012)

In 1980 Suriname joined the Inter-American Development Bank (IADB), which at present is its largest multilateral lender. As of May 2012, Suriname's outstanding debt to the IADB stood at US\$177 million. Disbursements have increased markedly due to improved absorptive capacity and the use of new financing instruments.

Through the IADB Country Strategy with Suriname 2011-2015, the government of Suriname is expanding its partnership for development with the IADB. The Strategy proposes a notable increase in lending, from US\$103 million (in the previous Country Strategy period, 2007-2010), to about US\$300 million. The main focus is on supporting the transition to modern public governance structures, diversifying the economy, and expanding social benefits. The priority areas include: (i) agriculture, (ii) energy, (iii) education, (iv) financial sector development, (v) public investment management, (vi) social protection, and (vii) transport. Dialogue will continue on other areas in need of strengthening: water and sanitation, disaster risk management, tax administration, health, private sector development, and natural resources and environmental management with a view to possible additional lending support.

The portfolio has improved significantly, especially as four operations (Basic Education Improvement Project, Health Sector Facility, Strengthening of Public Sector Management, and Trade Sector Support Program) exited. The active loan portfolio consists of seven operations, totaling US\$115 million. The average age of the loans in the entire portfolio is 2.5 years. In 2012, new operations will support (i) the rehabilitation of the Meerzorg-Albina road; (ii) improvements in public capital expenditure management; (iii) the education sector; and (iv) the energy sector.

The Technical Cooperation portfolio for Suriname comprises of 12 operations (US\$6.5 million), of which 40 percent has been disbursed.

**Pipeline and Portfolio Summary**

<b>Project Category</b>	<b>Number</b>	<b>Total (US\$ millions)</b>	<b>Disbursed (in percent)</b>
Loans in execution	7	117.0	37.7
TCs in execution	12	6.5	40.0
Loans in pipeline (2012)	4	89.0	Not applicable

**NET FLOWS CONVERTIBLE CURRENCIES**

(US\$ Millions)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012*</b>
a. Loan Disbursements	13.5	27.7	80.3	60.0
b. Repayment (principal)	-4.7	-6.6	-4.3	-5.5
<b>c. Net Loan flow (a+b)</b>	<b>8.8</b>	<b>21.1</b>	<b>76.0</b>	<b>54.5</b>
d. Interest and Charges	-2.1	-2.4	-2.4	-4.1
e. Capital Contribution (OC+FSO)	0.0	0.0	0.0	0.7
<b>f. Net Cash flow (c+d+e)</b>	<b>6.7</b>	<b>18.7</b>	<b>73.6</b>	<b>51.1</b>

### III. RELATIONS WITH THE WORLD BANK GROUP

(As of March 31, 2012)

The World Bank Group is now in the process of re-engaging with the Surinamese authorities after a 30 years hiatus. Its involvement in Suriname has been limited to a few knowledge products and the last significant activity was a proposal for a hydropower plant in 1980. In September 2011, Suriname became the 183rd member of the IFC and 14th in the Latin America Region. At the request of the authorities, the World Bank Group conducted an Auditing and Accounting Report on the Observance of Standards and Codes (ROSC) and began activities towards Candidate status in the Extractive Industries Transparency Initiative (EITI). An Interim Strategy Note (ISN), which sets out the World Bank Group's support to the government's reform program, is expected to be approved by the Board in September 2011. It has been agreed with the government that initial World Bank support would focus primarily on providing knowledge services for institutional strengthening and capacity building for the Government and the Central Bank. The IFC support focus on advisory services for Public and Private Partnerships (PPPs).

## IV. STATISTICAL ISSUES

### I. Assessment of Data Adequacy for Surveillance

**General:** Data provided to the Fund has some shortcomings, but they are broadly adequate for surveillance purposes. Although timeliness remains an issue with some data, the authorities are making an effort to improve the quality and dissemination of economic data. In March 2012, the authorities published newly rebased national accounts data.

**National accounts:** The lack of timely, reliable source data on price indices for tourism services, transportation and communication adversely affect production-based GDP estimates. Component weights of sub-indices within the CPI are not available.

The expenditure breakdown of national accounts is still limited, and there is also no reconciliation between the national accounts and the balance of payments, which hampers an accurate evaluation of the savings and investment balance.

With extensive support from CARTAC, the General Bureau of Statistics concluded and released its revision of the National Accounts Statistics, with 2007 as the new base year. This revision improves substantially the coverage and quality of GDP data by sectors of production. Work is ongoing on GDP data from the expenditure side.

**Government finance statistics:** Public finance statistics are limited to those for the central government. Estimates for revenue and expenditure components often differ among the Ministry of Finance, the Central Bank of Suriname, and the Central Paymaster data, increasing the uncertainty about the true fiscal position.

The institutional coverage of fiscal statistics needs to be broadened to the nonfinancial public sector so as to better assess the fiscal risks associated with total public sector debt. The actual number of public enterprises remains difficult to determine, and most of these enterprises do not produce accounts on a timely basis. In 2012, the authorities commissioned the audit of the five main nonfinancial public enterprises, which is expected to provide the basis for widening the scope of fiscal analysis and policy action. Available public debt statistics cover only debt contracted or guaranteed by the central government.

**Monetary and financial statistics:** More recently, the timeliness of monetary and financial statistics has been improved to two weeks for the central bank accounts and two months for the accounts of other depository corporations. The quality of monetary and financial statistics continues to improve, and the reporting to the IMF's Statistics Department is regular. The central bank has started to publish regularly monetary and financial data on its external website.

**External sector:** The authorities are working with an external expert to improve the coverage and accuracy of the balance of payments data. They have recently revised and significantly improved the coverage of external data for 2010 and 2011. However, there still remain significant shortcomings in the area of balance of payments statistics, particularly for earlier years, such as weak data collection, under-coverage, misclassification, and deviations from the balance of payments manuals. Going forward, while trade data are relatively reliable, efforts should continue to enhance compilation of data on services and private capital in- and outflows. Estimates of the components of the financial account (especially private external debt) also need to be improved.

## II. Data Standards and Quality

Suriname participates in the GDDS.

## III. Reporting to STA

Suriname currently does not report fiscal statistics for inclusion in either *International Financial Statistics*, or the *Government Financial Statistics Yearbook*.

**SURINAME: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE**  
(As of March 31, 2012)

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of publication <sup>7</sup>
Exchange Rates	5/12	5/12	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	3/12	3/12	M	M	Q
Reserve/Base Money	3/12	3/12	M	Monthly Less than 1 month lag	Q
Broad Money	3/12	2/12	M	Monthly 2 month lag	Q
Central Bank Balance Sheet	3/12	3/12	M	Monthly Less than 1 month lag	Q
Consolidated Balance Sheet of the Banking System	3/12	2/12	M	M	Q
Interest Rates <sup>2</sup>	3/12	3/12	M	Monthly 2 month lag	Q
Consumer Price Index	05/12	06/12	M	Monthly Less than 1 month lag	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	12/11	03/12	Q	NA	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	01/12	03/12	M	M	M
External Current Account Balance	Q1/12	05/12	Q	Q	A
Exports and Imports of Goods and Services	Q1/12	05/12	Q	Q	A
GDP/GNP	2010	04/12	A	A	A
Gross External Debt	01/12	03/12	M	M	A
International Investment Position <sup>6</sup>	...	...	NA	NA	NA

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Includes external gross financial asset and liability positions vis-à-vis nonresidents. The unavailability of international investment position data stems from the authorities' lack of capacity to provide the information.

<sup>7</sup> Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 12/106  
FOR IMMEDIATE RELEASE  
September 10, 2012

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Concludes 2012 Article IV Consultation with Suriname**

On September 7, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.<sup>1</sup>

### **Background**

Economic activity in Suriname remains strong, and inflation pressures have abated considerably. Gross domestic product (GDP) growth is estimated to have picked up to about 4¼ percent in 2011, from 4 percent in 2010, supported by robust activity in the oil and gold sectors, as well as in public investment. In the wake of the 20 percent devaluation of the official exchange rate in January 2011, and the simultaneous increase in domestic fuel taxes, twelve-month inflation spiked to 22.6 percent in April 2011. Since then, it has fallen steadily, to 3.6 percent in May 2012. Core inflation has levelled off, at around 4½ percent.

The fiscal balance strengthened markedly in 2011, shifting from a deficit of about 3 percent of GDP in 2010 to an estimated surplus of just under 1 percent. Revenue benefitted from strong tax collections related to the devaluation and new taxes introduced during the year. On the expenditure side, savings on current spending were offset in part by a jump in capital outlays on infrastructure projects.

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<sup>1</sup> 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. 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>.

Monetary conditions in the wake of the devaluation have been appropriately tight. While the external current account surplus narrowed from 6½ percent of GDP in 2010 to 5½ percent in 2011, the capital and financial accounts improved noticeably. Gross international reserves rose to nearly US\$1 billion (5¼ months of imports) at end-2011. The Surinamese dollar is now trading at virtually the same level in the official and parallel markets.

In May 2012, the authorities cleared long-standing arrears with the United States. Citing the clearance of external payments arrears and improved economic outlook, Fitch, Standards and Poor's, and Moody's have recently upgraded Suriname's sovereign debt rating.

### **Executive Board Assessment**

Executive Directors commended the authorities for their tight financial policies, implemented in the wake of the January 2011 devaluation, which have helped contain domestic demand pressures and stabilize prices. The outlook for the economy remains favorable, underpinned by strong prices for key commodity exports and large private and public investments. Once completed, these projects should raise the country's growth potential, boost government revenue, and strengthen the balance of payments. Directors welcomed the clearance of all external payments arrears, which contributed to Suriname's recent sovereign rating upgrades.

Directors underscored the need for sound management of future mining revenues and building policy buffers. They welcomed the plan to establish a sovereign wealth fund that has a strong governance structure with transparent operations, in accordance with best international practices and the Santiago Principles.

Directors welcomed the significant improvement in fiscal accounts, and the authorities' commitment to prudent policies going forward. To broaden the revenue base, they looked forward to the timely introduction of a VAT and an efficient taxation regime for the mining sector. On the expenditure side, it will be important to continue current spending restraint, better target transfer payments to vulnerable groups, and prioritize capital investments. Moderation in public and private wage adjustments will avoid a new wage-inflation spiral and preserve international competitiveness.

Directors noted that tight monetary and fiscal policies contributed to a sharp decline in inflation and that there might be room for a more accommodative monetary policy stance. A moderate conclusion of the current wage negotiations and continued price stability will be essential preconditions for any monetary easing. Directors welcomed the stabilization of the exchange rate and the practical elimination of parallel market premiums. They encouraged the authorities to take steps towards removal of the remaining multiple currency practices, and to move gradually towards a more market-determined exchange rate regime, over time and as conditions permit.



Directors commended the steady progress in de-dollarization and the steps being taken to strengthen bank supervision. They welcomed the passage of the Bank Supervision Law and looked forward to additional prudential regulations. Directors called for further efforts to address the weaknesses of three small state-owned banks and effective implementation of the AML/CFT regime.

Directors supported the authorities' efforts underway to diversify the economy by enhancing the business environment and pursuing other structural reforms, including improving the management of state-owned enterprises. They commended the important progress made in strengthening Suriname's data compilation and dissemination capabilities, and encouraged the authorities to persevere in these efforts.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

### Suriname: Selected Economic Indicators

	2008	2009	2010	Est. 2011	Proj.	
					2012	2013
(Annual percentage change, unless otherwise indicated)						
<b>Real sector</b>						
GDP at 2007 prices	4.1	3.0	4.1	4.2	4.0	4.5
GDP at current market prices	20.3	10.2	11.8	25.8	11.9	11.7
Consumer prices (end of period)	9.3	1.3	10.3	15.3	5.7	5.0
Consumer prices (period average)	15.0	0.0	6.9	17.7	6.2	5.5
<b>Money and credit 1/</b>						
Banking system net foreign assets	25.5	11.4	3.1	19.3	15.7	15.8
Broad money	11.3	26.6	11.2	11.7	14.9	12.8
Private sector credit	36.3	12.2	10.9	12.0	12.3	11.8
(In percent of GDP, unless otherwise indicated)						
<b>Savings and investment</b>						
Private sector balance (savings-investment)	5.0	1.9	9.6	4.7	-0.6	-2.0
Public sector balance	1.6	-2.4	-3.1	0.9	0.5	0.0
Foreign savings	-6.6	0.5	-6.4	-5.5	0.1	2.1
<b>Central government</b>						
Revenue and grants	23.8	25.2	22.8	26.0	25.0	24.1
Total expenditure	22.2	27.6	26.0	25.2	24.5	24.1
<i>Of which: noninterest current expenditure</i>	17.6	20.1	20.1	18.5	17.8	17.5
Statistical discrepancy	0.3	-0.7	-0.1	0.3	0.0	0.0
Overall balance	1.6	-2.4	-3.1	0.9	0.5	0.0
Net domestic financing	-1.9	2.1	1.9	-3.5	-1.7	-1.6
Net external financing	0.3	0.3	1.2	2.7	1.2	1.7
<b>Central government debt</b>						
Domestic	6.6	8.6	10.8	9.0	8.3	7.2
External	9.0	6.9	7.6	10.1	10.3	10.9
<b>External sector</b>						
Current account balance	6.6	-0.5	6.4	5.5	-0.1	-2.1
Capital and financial account	2.7	3.5	-5.6	0.2	4.4	6.8
Change in reserves (US\$ millions, - increase)	-232	-97	-22	-202	-222	-268
Gross international reserves (US\$ millions)	666	763	785	987	1,209	1,477
In months of imports	4.4	5.2	4.9	5.3	5.6	6.6
Terms of trade (percent change)	3.3	-1.6	-0.2	0.6	0.9	-0.3
Exchange rate (SRD per US\$, end of period) 2/	2.75	2.75	2.75	3.30	3.30	...

Sources: Suriname authorities; and IMF staff estimates and projections.

1/ Data for 2011 are at a constant exchange rate of SRD 2.75 per US\$1.

2/ 2012 data as of end-May.

**Statement by Paulo Nogueira Batista, Executive Director for Suriname;  
Kevin Finch, Senior Advisor to the Executive Director; and  
Karel Eckhorst, Advisor to the Executive Director  
September 7, 2012**

1. On behalf of the Surinamese authorities, we thank the mission chief and his team for very constructive meetings and the well-researched staff report. The authorities highly appreciate the report and concur with most of the recommendations. They remain committed to the identified needs for capacity building in the public sector and for reforms in the regulation and supervision of the financial system. The authorities seek the continued support of the Fund for technical assistance in these and other areas as they believe this assistance is critical to Suriname's economic stability and reform efforts.

**Recent macroeconomic developments**

2. The macroeconomic outlook has remained favorable since the mission's visit on account of both domestic policies and the external environment. A prudent fiscal stance has been sustained. The authorities have kept a tight lid on current spending and continued the policy of increasing the local currency component of government transactions. Despite a moderate rise in investment spending, a fall in international commodity prices and an expected initial transfer into the Sovereign Wealth Fund (SWF), the overall fiscal balance for 2012 is projected to remain in slight deficit at an estimated ½ percent of GDP.

3. The authorities are also closely monitoring developments in the interbank, credit, and foreign exchange markets, with a view to gauging monetary and financial conditions and stand ready to deal with any pressures as they arise. The outlook confirms relative stability in the foreign exchange market, while moderate growth in net credit to the private sector seems to be indicative of continued robust activity in primary and non-primary sectors. The combined ratio of non-performing loans has continued to come down, although for foreign currency loans the ratio has tended to fluctuate somewhat. The rate of growth of monetary aggregates through August appears in line with the forecast for the year.

4. In recognition of the authorities' measures to improve macroeconomic stability and the external debt indicators, Fitch upgraded Suriname's sovereign debt rating one notch to BB- in July 2012. In August, Moody's upgraded the foreign currency rating of the Government of Suriname to Ba3 and changed the outlook from stable to positive. This means that during the past 18 months, Suriname has received four rating upgrades. The latest upgrade from Moody's is based on their expectation of continued prudent fiscal management, positive short-to-medium-term growth prospects, anticipated greater resilience to external economic shocks and enhanced access to concessional financing from multilateral and bilateral creditors.

5. The Surinamese authorities, while grateful for this recognition of diminished economic risks for the medium-term horizon, remain aware that there are non-negligible problems going forward. Two main problems were identified: (i) vulnerability of the Surinamese economy to fluctuations in the international prices of primary export products; and (ii) limited institutional capacity. The authorities are taking measures to mitigate these problems through the establishment of the SWF, economic diversification to limit vulnerabilities to exogenous shocks, capacity building and institutional and regulatory reforms.

#### **Authorities' views on the report and staff recommendations**

6. The authorities concur with the staff's view on the fiscal path going forward. Reducing the non-mining deficit gradually will not only be achieved through expenditure moderation, but also by the net positive revenue impact of tax reforms.

7. The staff report notes that the illustrative fiscal path will allow some savings to be set aside in the proposed SWF. This is somewhat inaccurate. The SWF bill defines the maximum growth rate in mining-related tax revenue that can accrue to the budget with all extra income to be transferred to the SWF. The revenue going to the SWF is therefore independent of the fiscal stance. By limiting growth in revenue that accrues to the budget, the SWF acts as a stabilizing mechanism.

8. In 2011, the authorities increased the reserve requirement on foreign currency-denominated deposits at the commercial banks from 33 percent to 40 percent to stabilize the exchange rate and discourage dollarization in the immediate aftermath of the Surinamese dollar (SRD) devaluation. At the same time, they continue to see merit in prudential measures – such as higher provisioning requirements for foreign currency loans and the establishment of limits on open foreign currency positions – which can help financial institutions to better internalize the risks of lending in foreign currency. De-dollarization will remain a gradual process that can best be achieved through sustained efforts to promote macroeconomic stability and growth, which in turn will foster confidence in the currency.

9. There may be space for a more accommodating monetary stance in the coming months. Careful monetary and fiscal policies and a benign international inflation environment have helped to bring down inflation faster than projected in the staff report. Inflation has fallen further from 3.6 percent in the 12-months to May to 2.8 percent at end-July. In addition, wage agreements in the public and private sectors have been moderate. With labor union consent, there have been no salary increases for public sector employees for 2012. The private sector appears to have taken this signal, granting on average only moderate wage increases. Further moderate wage agreements and continued price stability would create opportunities for possible monetary easing.

10. The authorities concur with the staff's view that the exchange rate level is in line with fundamentals. However, they are of the opinion that it is not an opportune time to alter or fundamentally reform the foreign exchange market, in particular by changing the width of the band between official buying and selling rates. With continued volatility and uncertainty in international markets, the close attention placed on foreign exchange market developments by local market participants and the lack of depth and integration of the foreign exchange market in Suriname, any change could be destabilizing at this juncture.

### **Structural reforms and capacity building**

11. The authorities are committed to a more diversified production base, which will better shield the economy from global economic cycles and reduce dependency on non-renewable resource mining. As for current policies in this regard, windfall surpluses from the oil and gold industries are being saved and will be placed in the SWF after its establishment or allocated for prioritized and carefully selected projects in the non-mining sectors.

12. During the staff visit, the authorities discussed their plan for a SWF that would be the vehicle for such savings. The SWF also aims at insulating the economy and the budget from fluctuations in international mining prices and from pro-cyclical fiscal spending, as strict accumulation and spending rules would apply. Such rules will be transparent and will allow only minimal political decision-making. Legislation for the SWF has been drafted in accordance with international best practices and the Santiago Principles. The draft has been circulated to the Cabinet and other stakeholders for comments and a final draft is scheduled for presentation to Parliament in October 2012. The asset management team is being trained and supported by international advisors and the World Bank.

13. In the meantime, higher growth potential from mining is still being sought. Discussions are at an advanced stage with two international gold mining companies for long-term mining concessions. These are expected to be concluded before the end of the year.

### *Money and banking sector*

14. As discussed with staff, the authorities plan to gradually move away from reserve requirements toward indirect monetary policy instruments, such as open market operations, to manage liquidity in the economy. However, the scope for conducting open market operations for monetary purposes would improve with more developed local money and capital markets. In a broader context, the authorities are contemplating strategies for deeper and more dynamic domestic bond and equity markets.

15. Legislation amending the Reporting of Suspicious Transaction Act and the Identification Requirement for Service Providers Act was adopted by Parliament in July and entered into force in August.

16. The bill concerning Supervision of Money Transaction Offices was forwarded to Parliament for discussion and approval. Parliament started deliberations in August and is expected to conclude in the first week of October 2012.

#### *Fiscal sector*

17. Financial management and fiscal monitoring will be improved by a thorough reform of the Public Finance Management framework, which will enable real-time revenue and expenditure monitoring and significantly improve the budgetary management capabilities of the Ministry of Finance. Within the Ministry, two special units for investments and procurement were established, streamlining the administrative operations and enabling better monitoring and cost control. The implementation plan for a new integrated financial management and information software from an international company is being finalized. The system will be put in place gradually in the coming years, with operationalization expected in early-2013. In addition, the tax authorities anticipate that the VAT system will be implemented in the second half of next year. A draft of the law is being finalized with technical support from the Fund, after which hearings will be held with the business community. The draft will be sent to Parliament for approval in late-2012.

18. Legal and administrative reforms are also being contemplated for state-owned enterprises. This would allow an expansion of the coverage of public sector operations, including public sector financial operations and debt statistics. An external auditor's assessment of five public enterprises has been finalized and is currently being studied by the government. The authorities may seek technical assistance from the Inter-American Development Bank (IDB) and the World Bank to help articulate a comprehensive program to improve the management and governance of public sector enterprises and reform the tariff structure of key utilities.

19. The tax authorities have prepared a draft law to regulate and tax the informal gold sector. The draft has been submitted to the government. Simultaneously, and in cooperation with the Presidential Gold Sector Planning Committee, the authorities have identified key entrepreneurs such as machine owners and shopkeepers operating in the main gold mining areas and have sent out tax assessment forms. Improved enforcement is however awaiting the passage and implementation of the new law.

#### *Social sector*

20. The government is taking measures to enhance the targeting and spending efficiency of non-contributory social protection programs, in particular through a Conditional Cash Transfers (CCT) program supported by a loan from the IDB. The reform also includes capacity strengthening at the Ministry of Social Affairs and Public Housing to plan, implement, monitor, and evaluate the program. It also includes the design of additional social

services such as health and education to meet any further demand generated through the CCT. Preparations are underway to implement a pilot CCT project in January 2013.

## Statistics

21. Substantive progress has been made in all areas of macroeconomic statistics in the last two years with regards to the quality of compilation, expansion of coverage and public dissemination. The authorities regret that the staff report has failed to effectively capture the vast progress made. Instead, the *statistical issues* section of the Informational Annex makes various erroneous references to untimeliness and unavailability of data and their breakdown, while downplaying the extent and impact of improvements.

22. The authorities would like to report on the achievements in the reform of the statistical compilation and reporting systems. Data quality assessments were conducted in late-2010 for the most relevant datasets, which were used to develop comprehensive action plans to improve the quality of statistics. Such assessments aimed at covering all relevant aspects, such as the legal and institutional environment to compile data, the adequacy of resources dedicated to statistical functions in data-producing agencies, the methodological soundness and accuracy of the data, existing procedures for disseminating the data and the adequacy of data to support sound policy making and monitoring. In addition, a wide public awareness campaign was carried out to emphasize the importance of reliable and timely statistics and to generate support for the government's efforts to produce good statistics. The Central Bank of Suriname (CBvS) has collaborated closely with the Ministry of Finance and the General Bureau of Statistics on the statistical reform and its implementation.

23. In the process, the authorities organized hands-on training for compilers and seminars for users of macroeconomic statistics both within and outside the CBvS. In addition, the CBvS prepared and posted on its website a comprehensive set of data and metadata for public dissemination. Although the country does not subscribe to SDDS, Suriname is publishing a National Summary Data Page (NSDP) and the data are maintained by the CBvS on its website which is updated regularly. At the same time, the Suriname page on the IMF's Data Standards Bulletin Board is updated for both data and metadata. Since March 2012, an advance release calendar for monetary and balance of payments statistics has been posted on the CBvS website.

24. In light of the limited and somewhat erroneous coverage of statistical issues in the staff report, the substantive progress achieved so far and the continued commitment to enhance the availability and quality of statistics, the authorities believe it is useful to highlight in more detail the progress achieved thus far.

- National Accounts – The General Bureau of Statistics concluded and released its revision of the National Accounts Statistics, with 2007 as the new base year. This revision improves substantially the coverage and quality of GDP data by all sectors of production. Work is ongoing on GDP data from the expenditure side. Further work on

reconciliation between the national accounts and other macroeconomic data needs to be undertaken.

- **External Sector** – Work is ongoing to improve the coverage and accuracy of external sector statistics, starting with data for 2010 and 2011. Improvements include the coverage and accuracy of services and financial accounts, which has also facilitated the publication of data on private external debt. Balance of payments transactions and valuation changes are also separated. Efforts have also focused on improving source data collection. A detailed electronic survey-reporting has been introduced for a more efficient and timely capture of bank transaction data. Training to statistics compilers and source data providers forms part of the efforts.
- **International Reserves** – With support of the IMF’s Statistics Department, Suriname now compiles international reserves data consistent with the IMF’s Data Template on International Reserves and Foreign Currency Liquidity. The first section of this data template will be published within a few weeks on the CBvS website. Furthermore, preliminary International Investment Position (IIP) data for 2011 has been estimated based on a survey of major companies that collect information on foreign direct investment flows and positions.
- **Monetary and Financial Statistics** – There have been important improvements to quality and timeliness of monetary and financial statistics. The depository corporations survey, the central bank analytical accounts, and the other depository corporations analytical accounts are published on the CBvS website within 5 weeks. The regular reporting to the IMF’s Statistics Department is usually within 2 days after the national release timeline.
- **Government Finance Statistics** – Substantial efforts have been made over the last year to improve public sector statistics. Detailed financing data and the overall fiscal position are now published monthly on the CBvS website, while the accuracy of revenue and expenditure data has improved significantly. Legal and administrative reforms are underway to reform revenue management and the timely provision of revenue data. At the same time, an integrated financial programming framework was put in place which has increased the inter-sectoral consistency of data and also focuses on correcting statistical deficiencies. Within the framework of a reform of state-owned enterprises, efforts are underway to monitor enterprises, which would allow an expansion of the coverage of public sector operations and an inclusion of their liabilities in the debt statistics.