IMF Executive Board Concludes 2009 Article IV Consultation with Suriname

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On February 3, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.[1]

Background

After growing at an annual rate of 5−6 percent over the past two years, economic activity weakened in 2009 in the context of lower alumina and oil prices and a sharp output decline in the alumina sector. However, economic growth is estimated to have remained positive at 2.5 percent, supported by buoyant activity in the gold and construction sectors. Inflation has fallen sharply, thanks to lower international food and fuel prices and softer domestic demand, and is estimated to have averaged less than 1 percent during 2009. The external current account balance deteriorated from a surplus of 4 percent of GDP in 2008 to a deficit of 2 percent of GDP in 2009. International reserves rose to over 5 months of imports at end-2009, in part reflecting the SDR allocations of about US$125 million.

The fiscal balance is estimated to have shifted from a surplus of 2 percent of GDP in 2008 to a deficit of 1.75 percent of GDP in 2009. Revenue has been holding rather well, with a decline in tax revenue more than offset by exceptionally high profit transfers from the state-owned oil company and the central bank. However, in 2009 expenditures rose substantially, particularly noninterest current spending. Public debt has declined considerably in recent years and is estimated at 19 percent of GDP at end-2009.

Reflecting in part higher government spending financed by the central bank, growth in reserve and broad money supply has picked up in recent months. Given its limited exposure to the international financial market, Suriname's banking sector has weathered the global financial crisis reasonably well. While the nonperforming loan ratio for the banking sector as a whole rose moderately in 2009, most banks appear well capitalized. The dollarization of the banking sector has been declining over the past few years, but remains high, with deposit and credit dollarization ratios at end-September 2009 at 43 percent and 54 percent, respectively.

Executive Board Assessment

Executive Directors noted that Suriname has weathered the global economic crisis relatively well, with strong performance in the gold and construction sectors and international reserves remaining at a comfortable level. Directors praised the authorities' prudent macroeconomic policies, which have helped reduce the level of public debt to among the lowest in the region, while providing room to implement countercyclical policies during the global slowdown. Looking ahead, Directors agreed that Suriname's medium-term prospects are favorable, with large alumina and gold projects expected to come on stream. The key challenge will be to sustain the economic recovery and enhance the long-term growth potential, while ensuring continued macroeconomic stability and fiscal sustainability.

Directors considered that the fiscal expansion in 2009 was appropriate to boost domestic demand, but encouraged the authorities to avoid unsustainable increases in spending. Directors recommended a more gradual implementation of the second phase of civil service reform, given its potentially inflationary impact. They supported the authorities' efforts to strengthen tax administration, including through technical assistance from the Caribbean Regional Technical Assistance Center (CARTAC). Directors welcomed the authorities' decision to postpone the reduction in the corporate tax rate, as this would adversely affect tax collections. They encouraged the authorities to continue working toward normalizing relations with all creditors.

Directors viewed the monetary policy stance as broadly appropriate. They cautioned that monetary conditions might need to be tightened if fiscal spending were to threaten macroeconomic stability. Over the medium term, Directors encouraged the authorities to develop a secondary market for government securities and gradually move toward market-based monetary policy tools.

Directors noted the staff's assessment that the Suriname dollar may be slightly overvalued. They encouraged the authorities to work toward gradually unifying the official and commercial market exchange rates, and moving over time to a more flexible exchange rate regime.

Directors noted that Suriname's banking sector remained generally well capitalized and appeared to be resilient to the global financial crisis, with non-performing loan ratios rising only moderately. They advised the authorities to strengthen the capital base of two small state-owned banks. Directors welcomed the acquisition of CLICO-Suriname's operations by a local insurance company, and encouraged the authorities to facilitate their smooth integration into the new parent company at a minimum cost to the budget. Directors supported Suriname's request to participate in an FSAP review.

Most Directors supported the authorities' plans for more public participation in the mining sector, noting that it would increase the share of revenue generated from the country's natural resources. At the same time, Directors encouraged the authorities to intensify their efforts to improve the business environment and diversify the economy so as to promote greater private-sector led growth. They advised the authorities to continue financing public sector investment through concessional external borrowing.

Suriname: Selected Economic Indicators

	2005	2006	2007	Est. 2008	Proj. 2009	2010
	(Annual percentage change, unless otherwise indicated)					
Real sector						
GDP at 1990 prices [1/]	4.4	3.8	5.2	6.0	2.5	4.0
GDP current market prices [1/]	20.8	19.3	13.8	26.2	-3.1	12.3
Consumer prices (end of period)	15.8	4.7	8.4	9.3	5.7	5.5
Consumer prices (period average)	9.9	11.3	6.4	14.6	0.7	5.5
Exchange rate (end of period)	2.74	2.75	2.75	2.75	...	...
Money and credit						
Banking system net foreign assets	3.7	37.5	49.1	26.1	6.2	9.1
Broad money	11.7	21.1	30.5	10.9	19.1	12.9
Private sector credit	25.1	27.6	31.2	36.3	12.9	13.7
Public sector credit (percent of GDP)	-0.1	-6.8	-10.9	-18.9	10.7	...
	(In percent of GDP, unless otherwise indicated)					
Savings and investment						
Private sector balance (savings-investment)	-12.3	6.6	4.6	2.0	-0.2	-2.2
Public sector balance	-0.7	0.9	3.0	2.0	-1.8	-3.5
Foreign savings	13.0	-7.5	-7.5	-3.9	2.0	5.7
Central government						
Revenue and grants	27.6	27.4	30.5	27.5	31.2	27.8
Total expenditure	30.1	28.7	28.3	25.6	33.1	31.3
Of which: noninterest current expenditure	23.2	23.3	21.9	19.9	26.6	24.0
Statistical discrepancy	1.7	2.2	0.7	0.0	0.0	0.0
Overall balance	-0.7	0.9	3.0	2.0	-1.8	-3.5
Net domestic financing	0.1	-0.4	-2.8	-2.3	2.0	1.6
Net external financing	0.6	-0.4	-0.2	0.3	-0.2	1.9
Total public debt	36.6	30.2	21.1	17.9	19.2	21.0
Domestic	15.3	11.9	8.8	7.6	10.6	11.1
External	21.4	18.3	12.2	10.3	8.6	10.0
External sector						
Terms of trade (percent change)	-0.8	-2.8	-0.6	1.0	1.6	-0.2
Current account	-13.0	7.5	7.5	3.9	-2.0	-5.7
Change in reserves (-increase)	-1.6	-4.9	-7.0	-7.6	-3.8	-1.1
Gross international reserves (US$ millions)	161	264	433	666	778	813
In months of imports	1.6	2.6	3.6	4.2	5.2	4.8

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

1/ GDP data include estimates of the informal sector.

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