Describes the preliminary findings of IMF staff at the conclusion of certain missions (official staff visits, in most cases to member countries). Missions are undertaken as part of regular (usually annual) consultations under Article IV of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, and as part of other staff reviews of economic developments.

IMF Mission for the 2012 Article IV Consultation with Suriname- Concluding Statement

Paramaribo, May 9, 2012

At the end of its two-week visit to Paramaribo, the IMF mission for the 2012 Article IV consultations with Suriname, headed by Gamal El-Masry, presented the following concluding statement to the authorities:

The mission would like to thank the authorities for their warm welcome and hospitality, and for their kind assistance in coordinating our meetings with government officials and representatives of the private business sector, labor, the diplomatic community, and Members of the National Assembly. These discussions have greatly informed our understanding of economic and political developments in Suriname.

I. Recent Economic Developments and Near-Term Outlook

1. Economic activity remains buoyant, while public finances have improved and inflation pressures declined.

• GDP growth: We welcome the release last month of revised and improved national accounts data, rebased to 2007, that indicate that nominal GDP in 2010 was about 20 percent higher than previously assessed. The new data suggest that after slowing to 3 percent in 2009, economic growth accelerated in 2010 to just over 4 percent. It is likely to have picked up slightly in 2011 to about 4¼ percent, and we expect it to remain in the 4-4¼ percent range in 2012, supported by strong activity in the oil and gold sectors, as well as in public investment.

• Price developments: Following the 20 percent devaluation of the currency in the official market in January 2011, and a concurrent 70 percent adjustment in domestic fuel taxes, twelve-month inflation spiked to 22.6 percent in April 2011. Since then, reflecting in part tight financial conditions, inflation has fallen steadily, reaching 6.5 percent in March 2012, despite recent international oil price increases.

• Public finances: In spite of a marked drop in grants (1¼ percent of GDP), mainly on account of the near-depletion of the Netherlands Treaty funds, the fiscal balance shifted from a deficit of 3 percent of GDP in 2010 to an estimated surplus of about 1 percent in 2011.

• Revenues benefitted from buoyancy in the oil and gold sectors, including record profits at Staatsolie, the state-owned oil company; and stronger indirect tax collections—thanks to higher taxes on domestic fuel that took effect in January 2011, and on alcohol, tobacco, and casinos in October 2011.

•Expenditures moderated, as lower nominal growth in wages and spending on goods and services was offset in part by a steep rise in capital spending.

•Public debt remains at a relatively low level. The authorities regularized the remaining external arrears with the United States of about US$32 million. On the domestic front, payments arrears on goods and services, estimated at about SRD 100 million, were also cleared. Reflecting the strong fiscal performance in 2011, public debt, net of government deposits at the Central Bank of Suriname (CBvS), fell from about 18.5 percent of GDP at end-2010 to 17.6 percent of GDP at end-2011.

• The balance of payments has strengthened considerably. Mineral exports, particularly gold, increased significantly on the back of higher prices and volumes. The capital and financial accounts also improved noticeably, with lower grant inflows more than compensated by higher loan disbursements (mainly from the IADB and China) 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 (more than 4.9 months of imports) at end-2011.

• Monetary conditions in 2011 were appropriately tight. Excluding the effects of the devaluation, as of December 2011, twelve-month growth in private sector credit and in broad money remained moderate, at about 12 and 13 percent, respectively. These growth rates were significantly lower than that of nominal GDP in 2011 and were accompanied by a steady decline in inflation.

• Exchange rate: In the wake of the currency devaluation in early 2011, combined with prudent macroeconomic policies, the Suriname dollar has stabilized vis-à-vis the U.S. dollar, and the parallel market premium has disappeared.

• The near-term outlook for the Surinamese economy is favorable. Provided that current commodity price levels broadly prevail, large private and public investments projects in the mining, energy, transportation, and housing sectors can be expected to boost construction activity in the near term and raise the country's growth potential in the medium to long run. As a result, growth is expected to gradually pick up to about 5-6 percent in the coming years, especially when large mining projects are completed, boosting the production of gold and other mining resources.

II. Policy Recommendations

2. The main challenges facing the authorities over the near to medium term are to ensure that domestic demand remains contained against a background of rapidly growing commodity exports. To this end, it will be critical that public finances are well managed, and the domestic financial market is well regulated and supervised. Accordingly, the authorities will need to ensure that: (i) wage settlements are moderate and forward looking; (ii) other government current spending is contained, particularly on goods and services; (iii)

public capital projects are carefully selected in line with the country’s needs, priorities, and implementation capacity; and (iv) a balanced approach is taken between saving surplus mineral revenues and investing in human and physical capital.

Fiscal policy

3. As noted above, the 2011 boon from commodity prices was strong, and the authorities succeeded in saving most of the windfall profits from Staatsolie. Building on this fiscal prudence, the authorities are encouraged to persevere with reducing the non-mineral deficit by about 3-4 percentage points of GDP by 2017. To achieve this, it will be important to strengthen the domestic revenue base, while expanding current expenditure at a rate that is below that of nominal GDP. The proposed fiscal path will also allow for a moderate and sustainable increase in high-valued public investments aimed at developing the country’s human and physical capital, consistent with the country’s absorptive capacity. In this context, it will be important for the authorities to strengthen the capacity of line ministries, including in the Ministry of Public Works, to select, plan, and implement capital projects.

4. The government is moving ahead with efforts to strengthen tax administration and introduce a VAT system. These efforts, which are supported by technical assistance from CARTAC and the IMF’s Fiscal Affairs Department, have fallen somewhat behind schedule. The mission fully concurs with the authorities’ assessment that the VAT project is a critical element to broaden the revenue base and enhance non-mineral tax collections. It therefore encourages them to redouble their efforts and press ahead with the implementation of this project so that the VAT system is up and running in the second half of 2013.

5. Progress in collecting a fairer share of revenue from the growing informal gold sector has been slow. Nevertheless, commendable efforts have been made to better regulate and organize this sector, which is active in very remote and inaccessible regions of the country. The mission encourages the authorities to pass the necessary legislation to increase revenue collection from this sector through higher license fees and other presumptive taxation schemes, as well as to strengthen their policing and tax enforcement capacity in the interior.

6. The mission advises that the government keep current spending under tight control. Average non-interest current expenditure during 2009-10 was about 2 percent of GDP

higher than in the previous two years, driven mainly by increases in spending on civil service wages and goods and services. While this trend was partly reversed in 2011, the mission encourages the authorities to seek further gains in this area by ensuring that current spending increases at a slower rate than that of nominal GDP over the medium term. This would contribute to containing domestic demand pressures and allow the authorities to save surplus revenues for investments and future generations (see below). In this context, it will be important for the authorities to improve the targeting of social support programs to vulnerable groups. To this end, the mission welcomes the authorities' efforts, supported by technical assistance from the IMF and the IADB, to strengthen public expenditure management.

7. The mission welcomes the authorities' announcement to establish a Sovereign Wealth Fund (SWF). This decision underscores the importance of maintaining prudent fiscal policies to allow the government to save mineral revenues, while at the same time building reserves that could be tapped in the event that the country suffers from negative shocks. In this context, it will be essential that the SWF is supported by a broad consensus in society, 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 flows in and out of the proposed SWF as well as its main objectives. These will need to strike an appropriate balance between, on the one hand, saving surplus mineral revenues for future generations and for commodity stabilization purposes; and, on the other hand, investing in human capital (like health, education, and vocational training) and productive physical infrastructure (such as transportation and communication systems).

Monetary and exchange rate policies

8. The level of the Suriname dollar is broadly in line with fundamentals. 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. The positive external environment, together with prudent domestic financial policies, has allowed a comfortable build-up of reserves and contributed to a stable foreign currency market. The mission encourages the authorities to eliminate the remaining multiple currency practices, as conditions allow, and, over the medium term, to move toward a more market-determined exchange rate regime. In this connection, it also encourages the central bank to gradually move away from reserve requirements as its primary monetary policy tool, and toward a more market-

based framework of indirect instruments, aided by technical assistance from the IMF.

9. While monetary conditions in 2011 were appropriately tight, the central bank could consider adjusting its monetary policy stance. The improved fiscal performance in 2011 and the authorities' deliberate switch toward more foreign debt have allowed the government to shift from a position of a net borrower from the domestic banking system to that of a net depositor. Provided that government spending remains under control, price pressures continue to abate and wage settlements for 2012 are moderate and forward looking, there may be some room in the second half of 2012 for monetary policy to be more accommodating. In this context, it will be important to ensure that banks' lending standards and risk-management practices are strengthened. The mission also recommends that the authorities monitor real estate prices closely to identify and forestall the emergence of asset-price inflation.

Financial sector issues

10. Progress in de-dollarizing the domestic banking system has been masked by the effects of the devaluation. Measured at constant exchange rates, the ratio of foreign

currency credit to total credit has declined significantly since 2007, while that of foreign currency deposits to total deposits has remained broadly stable. This development reflects in part the presence of higher reserve requirements on foreign currency deposits than on domestic ones. The authorities' new policy that all domestic commercial and financial transactions with the government be conducted in local currency is a step in the right direction. The mission encourages them to complement this policy with prudential measures—such as higher provisioning requirements for foreign currency loans and the establishment of limits on open foreign exchange positions—that would compel financial institutions to internalize the risks of foreign currency lending. Ultimately, however, de-dollarization will remain a gradual and long-term process that will best be achieved through sustained efforts to foster macroeconomic and political stability.

11. After several years of preparation, a new Bank Supervision Law (BSL) was enacted in 2011. The new law strengthens considerably the regulatory regime and supervisory powers of the CBvS. The mission encourages the central bank to build on the new authority vested in it and take determined steps to boost the capacity of its Supervision Department, by introducing more rigorous training of current and new staff, and by strengthening its

supervisory procedures and practices. To this end, it welcomes preparations by the CBvS to issue improved prudential regulations for financial institutions in the areas of risk management, corporate governance, consolidated supervision, and audit and licensing procedures.

Structural issues

12. The authorities are taking important steps to improve the management of large state-owned enterprises, some of which suffer from structural and institutional weaknesses. The mission encourages them to shed more light on the complex and opaque system of cross-subsidies and arrears accumulation within the public sector, especially the production and distribution of electricity and potable water. This web of non-transparent subsidies and transfers to corporate entities is likely to be contributing to the misallocation of public resources. The mission welcomes the commissioning by the authorities of a reputable international auditing firm to conduct a thorough assessment of the accounts of several large public entities. The auditors' assessment, to be concluded by mid-year, will help the authorities define a strategy to improve the productivity and efficiency of key public utilities. Progress in this area is critical to Suriname's economic future, as large investments in the energy sector will be needed to provide power for the

expansion of the economy in general and the mining sector, in particular.

13. The business climate is steadily improving. The government has streamlined its licensing procedures for new enterprises, thus significantly reducing the time needed to register a limited liability company. The government also aims, with the support of the donor community, at modernizing rural infrastructure and extension services. The authorities are also investing in developing the Port of Paramaribo as a regional hub and improving transportation corridors to its neighbors. Paramaribo currently has the largest port in the area, and its cargo and customs clearing procedures have improved considerably over the past few years.

14. While the economic outlook for Suriname is favorable, it is predicated on a benign external environment and continued buoyant commodity prices. Should international commodity prices fall precipitously and for a protracted period of time, this would severely and negatively impact Suriname’s economy. While such external shocks would be beyond the control of the authorities, they are nevertheless advised to strengthen the country’s resilience and mitigate their impact by pressing ahead with financial sector reforms and continuing to build financial buffers in the context of a

SWF. Over the medium term, the authorities should redouble their efforts to diversify the Surinamese economy. To this end, the mission welcomes recent initiatives to improve the productivity and infrastructure of the agricultural sector, especially rice, as well as to broaden and professionalize the tourism industry.

15. The mission commends the authorities for their efforts to improve the compilation, processing, and dissemination of macroeconomic data. As noted, in the area of the national accounts, work was recently completed on revising and rebasing the nominal and constant GDP series to 2007. The authorities have also improved the presentation and dissemination of monetary and other economic data on the external webpage of the CBvS. The mission encourages them to continue these efforts, particularly in the areas of balance of payments and price statistics, as well as national accounts by expenditure. In this connection, the mission welcomes the authorities' plans to establish a single Treasury account at the CBvS, which would also allow them to improve the quality and reliability of fiscal data.

16. The mission recommends that the next Article IV consultation be conducted on the standard 12-month cycle. In the interim, it would be useful if a small team would visit

Suriname in about six months, to continue the policy dialogue.

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