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SURINAME

October 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE AUTHORITIES OF SURINAME

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 2014 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on October 1, 2014, following discussions that ended on June 16, 2014, 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 August 13, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Staff Supplement** updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its October 1, 2014, consideration of the staff report that concluded the Article IV consultation with Suriname.
- A **Statement by the Authorities** of Suriname.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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Washington, D.C.

SURINAME

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

August 13, 2014

KEY ISSUES

Context: The fiscal and external positions further deteriorated in 2013, reflecting declining commodity export prices and substantial fiscal relaxation, and international reserves declined to 3½ months of imports. However, strong fiscal tightening is being undertaken in 2014, and higher bank reserve requirements in late 2013 are also helping to curb demand pressures. More consolidation will be needed over the medium term to entrench fiscal sustainability and safeguard external stability. In line with FSAP recommendations, efforts to strengthen the monetary policy framework and financial sector resilience are ongoing. Structural competitiveness is being reinforced.

Focus of the consultation: The consultation focused on measures to strengthen fiscal sustainability and external stability, as well as policies to enhance financial sector resilience, structural competitiveness and inclusive growth.

Policy recommendations:

- Both revenue and expenditure measures will be needed to support fiscal consolidation efforts. Successful consolidation will also require establishing an appropriate fiscal framework and a clear fiscal anchor consistent with sustainability.

- Further credit tightening will be needed if fiscal adjustment proves insufficient to secure macro stability. Also, FSAP recommendations to strengthen bank capital and the financial sector regulatory framework should be rigorously implemented to enhance financial sector stability.

- Improving the business environment and labor market flexibility would enhance structural competitiveness and inclusive growth.

Past surveillance: During the 2013 Article IV consultation, Executive Directors noted that Suriname's heavy reliance on commodity exports has exposed fiscal and external vulnerabilities, and they stressed the need to build up buffers, promote fiscal sustainability, strengthen the financial sector, and enhance competitiveness. However, the fiscal position deteriorated further in 2013, and progress in strengthening monetary and financial sector policies and public financial management slowed. There are however signs of renewed policy momentum in 2014.

Approved By
Charles Kramer (WHD) and Vikram Haksar (SPR)

The team that visited Paramaribo during June 3–16, 2014 comprised Mr. Kanda (Head), Ms. Chen, Ms. Kim, and Mr. Tintchev, (all WHD). Mr. Orie, Advisor to the Executive Director for Suriname, participated in the discussions. The team met with Vice President Ameerali, Minister of Finance Rusland; Central Bank Governor Hoefdraad; Speaker of the National Assembly Geerlings-Simons; other senior government officials; and representatives of the private sector, labor, and the association of economists.

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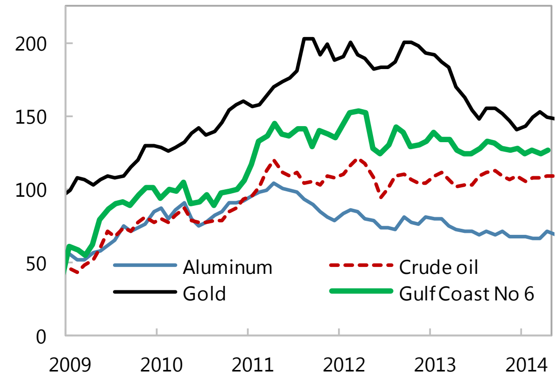
APPENDICES

DEVELOPMENTS, OUTLOOK, AND RISKS

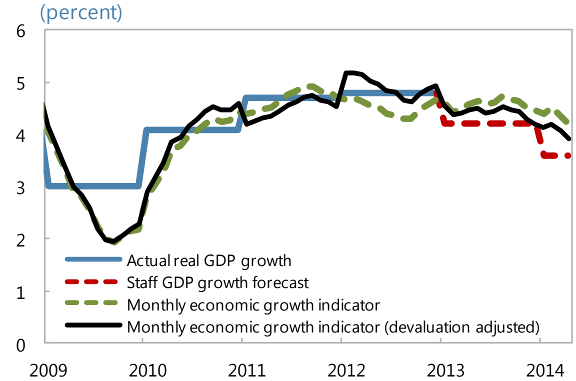
1. **Suriname's macroeconomic situation continued to deteriorate in 2013 as the long boom in oil and gold prices appeared to come to an end**. With gold and oil prices falling below recent peaks, the large fiscal and external sector exposures to the mineral sector, together with inadequate adjustment of domestic (particularly fiscal) policies, led to further fiscal and external sector deterioration in 2013 and a significant decline in international reserves. Thus, the main challenges are to strengthen institutions and adjust policies to reverse the recent deterioration and avoid undermining the stability of the fixed exchange rate.[1]

Commodity Prices
(index: 2008=100)

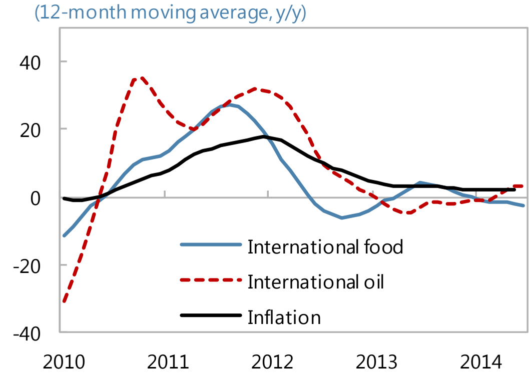


2. **Growth continued to be robust in 2013, supported by fiscal relaxation and strong credit growth, while inflation remained low.** Staff estimates GDP growth of 4 percent (Figures 1 and 2 and Table 1). In contrast with recent years, however, export volumes declined, subtracting from GDP growth. Gold export volume (close to two-thirds of total) contracted by 1½ percent in 2013, down sharply from positive growth of almost 6 percent in 2012, as gold prices declined. Moreover, exports of the other two main commodities continued to be weak—contracting 5 percent for aluminum and increasing by 1¼ percent for oil—reflecting persistently low aluminum prices and limited oil reserves. Inflation remained low in 2013, averaging 2 percent, but has picked up to almost 3 percent in May 2014 largely because of higher food and fuel prices.

Monthly Economic Growth Indicator
(percent)



Inflation
(12-month moving average, y/y)



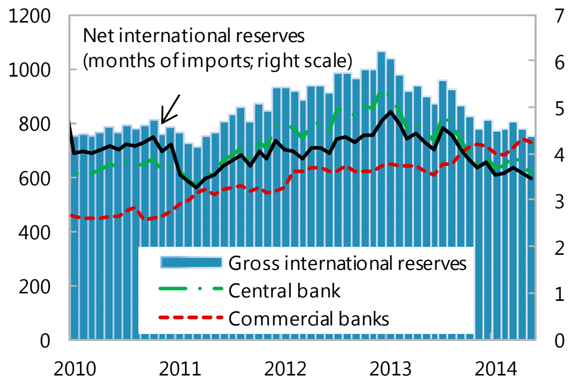
3. **Following monetary tightening, bank credit growth is edging downward (Figures 3 and 4)**. The central bank increased bank reserve requirements on domestic and foreign currency deposits by 5 percentage points each to 30 and 50 percent respectively in September 2013. Subsequently, credit growth to the private sector has declined from its peak of 20 percent (y/y) in October 2013 to 15 percent in April 2014. Deposit and credit

[1] While the de jure exchange rate classification is "floating" the de facto regime is a "stabilized arrangement" because the Surinamese dollar is anchored to the US dollar in a narrow band.

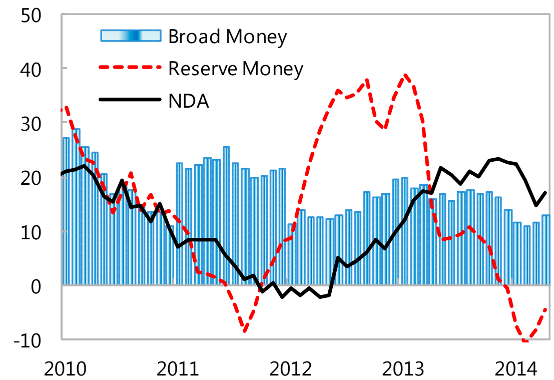
dollarization have remained broadly stable. Banking system profitability declined slightly in 2013, with the return on equity falling 3 percentage points to 21¾ percent. Bank capital adequacy remained broadly unchanged at 12½ percent of risk weighted assets, above the regulatory 10 percent minimum, but well below the regional average of 20 percent. NPL ratios are somewhat high but declined from 6.2 percent in 2012 to 5.9 percent in 2013. Bank liquidity appears adequate, with liquid assets accounting for almost half of total assets and about 87 percent of short-term liabilities.

4. **Unsterilized foreign exchange intervention also helped tighten the monetary stance**. Central bank sales of foreign exchange to maintain the stability of the fixed exchange rate, lacking adequate tools for sterilization, reduced reserve money and broad money growth alongside the decline in international reserves, with a resulting tightening of domestic financial conditions that supported other measures—particularly the increase in reserve requirements—to contain domestic demand pressures.

Net Foreign Assets
(In millions of USD)

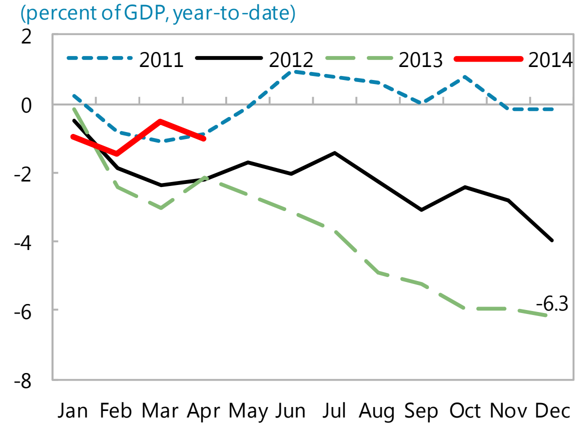


Contribution to Broad Money Growth
(Year-on-year percent change)



5. **However, the fiscal deterioration that began in 2012 continued in 2013 (Figure 5 and Table 2)**. An attempt in March 2013 to limit government spending proved short-lived in the absence of broad political consensus, and the fiscal balance on a cash basis fell by 2 percentage points to a deficit of 6¼ percent of GDP in 2013. In addition, staff's rough estimates indicate a buildup of arrears of about ½ percent of GDP, and thus the overall deficit for 2013 is estimated at 6¾ percent of GDP. Revenues fell by 2 percent of GDP as taxes, royalties, and dividends from the mineral sector declined. Government expenditure increased by ¾ percent of GDP, but with the official data plagued by shortcomings on classification of non-wage spending it is not fully clear what items drove the increase. The data indicate that a 3¼ percentage point of GDP jump in current spending was mostly offset by a decline in the statistical discrepancy, while capital

Central Government Overall Balance (cash basis)
(percent of GDP, year-to-date)



expenditure stayed broadly flat. Notable increases in current spending were for the wage bill, which increased one percentage point to 9½ percent of GDP as a result of a 10 percent public sector wage hike, and goods and services expenditure (G&S) which also rose one percent of GDP. However, a part of the increase in G&S could be misclassified capital expenditure or could be capturing some of the changes to the statistical discrepancy. Subsidies and transfers rose by ½ percent of GDP while interest payments also increased by ½ percent of GDP.

6. **And the external balance also declined considerably (Figure 6 and Table 3)**. The current account balance fell 7¼ percentage points to a deficit of 4 percent of GDP in 2013, primarily reflecting the substantial adverse impact of falling gold prices on exports.[2] In addition, domestic demand pressures manifested in strong goods imports, which offset the beneficial impact of declining imports for large projects on the current account balance. Alongside, international reserves declined to 3½ months of imports. REER appreciation has eroded much of the gains from the 2011 devaluation, and CGER type estimates together with the large fiscal policy gap suggest that the exchange rate may now be quite strong (Box 1).

Current Account: Changes 1/
(in percent of GDP)

	2012-2013	2013-Proj 2014
Current Account Balance	-7.3	-0.6
Exports of Goods and Services	-8.4	-6.8
o/w Gold	-6.1	-4.4
o/w Oil	-0.6	-0.5
o/w Alumina	-0.6	-1.5
o/w Other Goods	-1.0	-0.2
o/w Services	-0.1	-0.1
Imports of Goods and Services	-0.3	5.7
o/w Goods	-1.8	3.2
o/w Services	1.6	2.5
Net Income	1.5	0.5
Net Current Transfers	-0.2	0.0

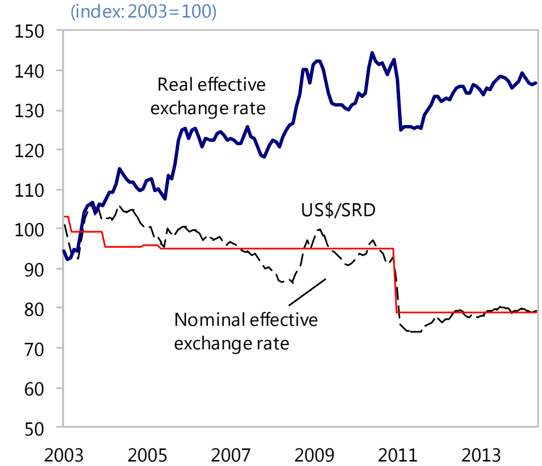
1/ A positive sign implies an improvement of the current account balance.

[2] Suriname is highly exposed to gold which accounts for 62 percent of exports and 7 percent of fiscal revenues. Fiscal exposure to oil is also high, as it accounts for 21 percent of revenues.

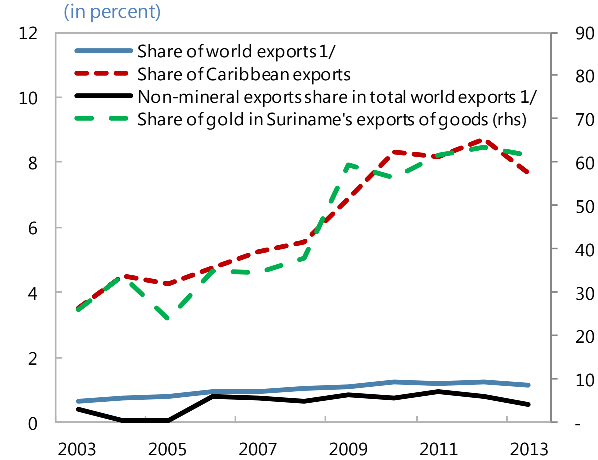
Box 1. Suriname: External Competitiveness

A range of indicators suggest that the exchange rate may now be quite strong:

- ***REER appreciation slowed significantly in 2013, but much of the competitiveness gains from the devaluation in January 2011 had already been eroded***. Since the devaluation the Surinamese dollar has appreciated about 10 percent in real effective terms, reflecting in part the high inflation experienced in the immediate aftermath of the devaluation, and also the relative strength of the US dollar to which the SRD is pegged. Low inflation in 2013 helped contain further appreciation, but inflation is picking up in 2014.



- ***Export shares fell in 2013 reflecting declining gold prices***. Nominal export growth has outpaced the Caribbean average of close to 7½ percent, largely due to one commodity, gold, which currently accounts for about 62 percent of exports compared to only 7 percent ten years ago. Consequently, Suriname has almost doubled its share in world exports and more than doubled its share in Caribbean exports. However, declining gold prices have depressed exports recently.



1/ Multiplied by 100.

- ***CGER-type methodologies suggest that the exchange rate may be somewhat on the strong side***. The external sustainability (ES), equilibrium real exchange rate (ERER), and macroeconomic balance (MB) approaches all suggest a moderate overvaluation. The ES approach is adjusted to allow for a buildup of net foreign assets in line with staff's medium term projections, to reflect the high dependence of Suriname on one exhaustible resource and uncertainty about future gold revenues.

However, CGER type estimates do not adjust for policy gaps. The large fiscal gap indicates a stronger overvaluation than indicated by the CGER type estimates.

Estimates of Competitiveness Margin Using CGER-type Methodologies
(Level relative to equilibrium in percent; minus indicates undervaluation)

Methodology		
Macroeconomic balance approach		2.4
External sustainability approach		9.8
Equilibrium real exchange rate approach		7.5
Memorandum items:		
Current account balance (percent of GDP)		
	2013	-3.9
	2019	1.0
CA Norm 1/		2.1

Source: IMF staff estimates
1/ Macroeconomic balance approach

7. **The outlook for 2014 is for a modest slowdown in economic activity, reflecting anemic commodity prices and policy tightening**. In addition to the higher bank reserve requirements implemented in 2013, substantial fiscal tightening is underway. Recent data indicate a fiscal deficit (cash basis) for January–May of 1¾ percent of annual GDP, about 1¼ percent of GDP lower than for the same period of 2013, together with a substantial reduction in the stock of arrears, and additional measures are also planned for the second half of 2014. Thus, domestic demand pressures are expected to decline this year. Together with WEO forecasts of additional decline in the gold price and flat oil prices, staff's baseline projection is for GDP growth to decline to 3 percent in 2014. Falling gold prices, reduced aluminum production, and additional imports related to the construction of a new gold mine will also cause the current account deficit to widen to about 4½ percent of GDP in 2014. Inflation is likely to remain contained assuming international food and fuel prices stay subdued and policy settings remain consistent with the continued stability of the exchange rate regime.

8. **Over the medium term growth is expected to increase moderately, with the external balance swinging back into surplus as mining operations expand**. WEO projections indicate slightly rising gold prices over the medium term, and two large international gold mining projects are expected to start operations over 2017–18, thus boosting production and exports. A new oil refinery will improve the oil trade balance by over 2 percent of GDP from 2015 onward. On this basis, GDP growth is expected to rise to a peak of about 5 percent by 2018, while the current account balance improves to a surplus of about one percent of GDP over the medium term. Upside potential for growth could be harnessed if significant progress were achieved in strengthening structural competitiveness.

9. **Risks to the outlook broadly appear tilted downwards:**

- While gold prices have fallen below recent peaks, downside risks still appear to dominate as price levels remain well above long run historical averages. Strengthening U.S. activity and the associated exit from quantitative easing are also likely to dampen investor demand for gold, and moreover, the expected moderation in China's growth rate is likely to have a dampening impact on a broad range of commodity prices. Moreover, rising global supply could reduce oil prices beyond that projected over the medium term. Given Suriname's large exposures, declines in gold and oil prices would pressure the fiscal and external positions and potentially delay or cancel planned investments in the mineral sector, dampening the outlook for growth.

    - In a severe shock scenario where gold prices immediately fall to $1000/ounce, the large gold mining projects are cancelled, and there is no policy response beyond that incorporated in the baseline, GDP growth and the fiscal and external balances fall, and there would be a large decline in international reserves. Incorporating policy tightening to mitigate reserve loss would imply a larger output loss than estimated for the shock scenario.

Table. Suriname: Medium-Term Outlook, 2012-2019
(In percent of GDP, unless otherwise indicated)

		Est.	Proj.					
	2012	2013	2014	2015	2016	2017	2018	2019
Baseline Scenario								
Real GDP growth (annual percentage change)	4.8	4.1	3.1	3.7	4.2	4.6	5.0	4.4
Overall fiscal balance	-4.0	-6.8	-3.7	-3.4	-3.2	-3.0	-2.6	-2.5
Total public debt	22.2	29.8	33.8	37.0	41.0	41.1	40.7	40.3
External current account balance	3.4	-3.9	-4.5	-3.9	-3.0	0.2	0.5	1.0
Gross international reserves (in mn USD)	1,008.4	775.4	717.7	665.5	694.7	807.8	877.9	886.6
Gross international reserves (months of imports)	4.7	3.4	3.4	3.1	3.2	3.5	3.6	3.5
Gold price (US$ per troy ounce)	1,668.8	1,411.1	1,326.5	1,343.3	1,370.4	1,398.1	1,437.8	1,486.7
Shock Scenario[1]								
Real GDP growth (annual percentage change)	4.8	4.1	2.6	2.5	…	…	…	…
Overall fiscal balance	-4.0	-6.8	-5.5	-6.0	…	…	…	…
Total public debt	22.2	29.8	36.1	40.8	…	…	…	…
External current account balance	3.4	-3.9	-5.8	-5.2	…	…	…	…
Gross international reserves (in mn USD)	1,008.4	775.4	400.5	257.4	…	…	…	…
Gross international reserves (months of imports)	4.7	3.4	2.1	1.4	…	…	…	…
Gold price (US$ per troy ounce)	1,669	1,411	1,146	1,000	1,000	1,000	1,000	1,000

[1] In the shock scenario, staff assumed that the gold price drops to $1000/oz at the end of July 2014, resulting in the cancelation of planned gold mining projects. No additional policy response is assumed.

- While an adjustment of the currency under a severe scenario could improve competitiveness and the valuation of foreign currency denominated fiscal revenues, these effects would be short-lived if not supported by policy tightening to minimize price and wage pressures. The banking system weathered the 2011 devaluation well, with NPL ratios rising by only 0.1 percentage point, but that was in the context of rising commodity prices which supported buoyant activity. With falling commodity prices the adverse effects on NPLs and bank capital could be significantly larger (further dampening GDP growth), even though banks' long net foreign exchange position provides protection from direct exchange rate risk. FSAP stress test results suggest that in a scenario where (i) GDP growth declines one percentage point; (ii) fiscal deterioration causes a sharp increase in arrears that elevates the NPLs of government suppliers; and (iii) the exchange rate is adjusted; NPLs could increase by around 5 percentage points, which would require about 0.7 percent of GDP to bring regulatory capital to the minimum requirement of 10 percent.

- Inward spillovers from protracted slower growth in advanced or emerging countries are unlikely to have a major impact on Suriname's economy, provided they only have a limited impact on commodity prices. Growth was robust despite recent global economic weaknesses because commodity prices remained high. Nevertheless, there could be some confidence effects if the medium term global outlook were to worsen substantially.

- The banking system has limited international links and low domestic levels of leverage, and has been resilient to international financial spillovers. However, if policy settings weaken, the resulting deterioration of the macro-environment could elevate risks to financial stability, further undermining the growth outlook.

- Fiscal policy implementation risks are also substantial ahead of next year's elections. Public debt rollover risks are moderate: short term debt constitutes only 16 percent of total debt, and gross financing needs are about 10 percent of GDP in 2014. However, rollover risks are projected to rise over the medium term as the debt-GDP ratio increases, with gross financing need rising to 13 percent of GDP by 2019.

- Upside risks on the other hand, particularly over a longer horizon, could originate from unexpectedly strong global growth raising commodity prices, geopolitical events that boost gold prices, the discovery of large oil or mining reserves, or structural reforms that promote growth in the non-commodity sector. Notably, several international oil companies are actively exploring the offshore area, and there is a sense of optimism that these efforts will bear fruit.

10. **The authorities were more optimistic about the outlook and balance of risks**. They expected medium-term growth to be somewhat higher than projected by staff, given the numerous large projects in train, and they considered the downside risks to gold prices presented by staff to be overstated. Also, they expected that the new oil refinery would sufficiently insulate the external balance and fiscal revenues from any adverse impact of declining oil prices. In addition, they emphasized their commitment to adopting all necessary policy measures to maintain macro stability.

POLICY DISCUSSIONS

There was consensus that strengthening macroeconomic stability and the growth outlook would require substantial policy tightening and a broad range of institutional reforms. Strong fiscal consolidation is needed to achieve sustainability and also contribute to external stability. An appropriate fiscal framework would insulate policy making from commodity price volatility and enable countercyclical policy. Additional credit tightening will be needed if fiscal adjustment proves insufficient to ensure external stability. Implementing plans to develop indirect tools of monetary policy would provide additional instruments for managing domestic demand. FSAP findings indicate that strengthening financial sector stability will require building capital buffers, building a liquidity management framework, and strengthening prudential standards and the intensity of supervision. Legislation is pending to overhaul the business environment and strengthen structural competitiveness.

A. Fiscal Consolidation to Strengthen Sustainability and Macro Stability

11. **Suriname has a large long run fiscal sustainability gap, which indicates the need for substantial consolidation (Figure 7).**[3] While estimates of public mineral wealth are subject to considerable uncertainty (total deposits are unknown, and their long run price outlook is volatile), staff estimates, based on a conservative valuation approach, indicate a fiscal sustainability gap of

[3] The fiscal sustainability gap is the total amount of fiscal measures that (if immediately implemented) would assure a non-explosive path for government debt over the long run.

about 12½ percent of GDP.[4] Clearly it is not feasible to attempt such a large adjustment in the near term, as it would open up an untenably large output gap. However, delaying adjustment increases the total amount of measures required for sustainability. Staff estimates of the optimal fiscal path that balances the twin conflicting objectives of closing the sustainability and output gaps suggest that targeting a fiscal surplus of at least 1½ percent of GDP in 2019 would be desirable. This would require an overall medium term adjustment effort estimated at about 8½ percent of GDP, as the effect of declining commodity prices on revenues would also need to be offset. Substantial frontloading of adjustment is advisable to help safeguard external stability, and in light of still-favorable cyclical conditions and the downside risks to the commodity price outlook. Given the scale of the required adjustment effort, both revenue and expenditure measures would be needed.

12. **Against this background, the authorities are implementing strong consolidation in 2014, though there are risks ahead of next year's election**. Expenditure controls and tax collection efforts were strengthened from January. Moreover, the wage bill in the first half of 2014 declined relative to that of 2013, as retroactive payments for wage increases granted in December 2012 ended in mid 2013, and the authorities are committed to moderation in forthcoming wage negotiations. Reforms spearheaded by the Vice President's office are helping to contain public health expenditures (see paragraph 16). In the second half of 2014, the authorities plan revenue measures including increasing the royalty rate on small scale gold miners, higher taxation of logging concessions, and sales of government land to leaseholders. At the same time, however, a 10 percent increase in government pensions, and a pending increase in hydro electricity costs will increase government spending moderately. Overall, the fiscal deficit is expected to decline by 3 percentage points to 3¾ percent of GDP in 2014. The authorities acknowledged potential implementation risks ahead of next year's elections, but reiterated their strong commitment to restoring the fiscal position to health.

Contribution to Improvement in Fiscal Balance in 2014 1/

	Jan. - May	Jun. - Dec.	Total
(In percent of GDP)			
Total revenue and grants	**-0.1**	**0.8**	**0.6**
Tax revenue	0.3	-0.9	-0.6
Nontax revenues	-0.4	1.7	1.2
of which: Informal gold sector royalties	0.0	0.1	0.1
Land conversion	0.0	0.9	0.9
Wood concession fee	0.0	0.4	0.4
Others	-0.4	0.3	-0.1
Capital revenues and grants	0.0	0.0	0.0
Total expenditures (incl. statistical discrepancy)	**1.3**	**0.5**	**1.8**
Wages	0.7	-0.2	0.5
Goods and services	0.3	0.4	0.7
Transfers	0.4	0.0	0.4
of which: Health sector	0.3	0.1	0.3
Interest payment	0.1	0.3	0.4
Capital expenditure and net lending	1.0	-0.3	0.7
Statistical discrepancy	-1.2	0.2	-1.0
Paydown of arrears	**0.6**	**0.0**	**0.6**
Total improvement	**1.8**	**1.3**	**3.1**

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

1/ A positive sign implies an improvement of fiscal balance. Non-wage expenditure classification is provisional and subject to revision.

[4] Kanda and Mansilla (IMF WP/14/121) describes the analytical approach underpinning the estimates. Staff's revised estimates incorporate revisions to the data on mineral revenues. The estimate excludes the impact of aging pressures on fiscal expenditures. Incorporating aging would significantly increase the size of the sustainability gap.

13. **Moderate additional consolidation beyond 2014 is built into the baseline fiscal projections**. Staff projects a further decline in the deficit to 2½ percent of GDP by 2019, supported by continued spending restraint and a pickup in mineral revenues as new mines commence. Alongside, public debt rises to over 40 percent of GDP, partly reflecting the effect of external borrowing to fund the purchase of equity stakes in two international gold mining projects.[5]

14. **However, there was consensus that achieving fiscal sustainability would require more measures over the medium term**. Staff noted that the consolidation envisaged under the baseline, while substantial, fell short of the levels that would be desirable for sustainability, and the downside risks to the outlook warrant stronger consolidation. Notably, the 2019 fiscal balance under the baseline is about 4 percent of GDP lower than the 1½ percent of GDP surplus that would be desirable for sustainability. Also, land sales would provide one-off revenues for a few years, but not improve the underlying structural fiscal position. Deeper reforms and strong resolve will be needed to reduce the wage bill and other public spending to more sustainable levels over the medium term. Also, with central bank financing near legal limits and banks reportedly cautious about increasing holdings of public debt, domestic financing constraints could bind in an adverse scenario, potentially leading to another buildup of arrears.[6] The authorities indicated that they would be implementing deeper reforms over the medium term with precise details being discussed, but noting that some politically sensitive measures would have to wait until after the elections.

15. **On the revenue side, the authorities intend to implement the long-delayed VAT, together with reform of the entire tax structure**. A revised draft of the VAT law is being reviewed, with a view to implementation around early 2016. There are also plans to modernize and lower direct tax rates with technical assistance from the IDB. Staff observed that the relatively low ratio of revenue to GDP indicates scope for significant increases in non-mineral revenue. A VAT would provide an efficient new source of revenues, stimulate improvements in tax administration, and improve the resilience of revenues to commodity price shocks. Given the revenue need, the VAT should target increasing revenue by at least 2½ percent of GDP. Ambitious revenue mobilization under the VAT would also create scope for the authorities' plans to lower direct tax rates,

Regional Comparison of Tax Rates
(In percent, last updated in July 2014) 1/

Country	PIT (Highest rate)	CIT	VAT/ Indirect Tax
Antigua and Barbuda	25.0	25.0	15.0
Aruba	59.0	28.0	1.5
Barbados	35.0	25.0	17.5
Belize	25.0	25 2/	12.5
Curaçao	49.0	27.5	6.0
Dominica	35.0	30.0	15.0
Guyana	33.3	30-45 3/	16.0
Jamaica	25.0	33.3 4/	16.5
St. Kitts and Nevis	N/A	33.0	17.0
St. Lucia	30.0	33.3	15.0
St.Vincent & the Grenadines	32.5	32.5	15.0
Suriname	**38.0**	**36.0**	**10 5/**
Trinidad and Tobago	25 6/	25.0	15.0
Simple average	34.3	30.7	13.2

Source: Deloitte, IBFD, and KPMG.
1/ Data for Antigua and Barbuda, Belize, Jamaica, St. Kitts and Nevis, St. Kucia, and St. Vincent & the Grenadines are as of May 2013.
2/ 0.75% to 25% depending on type of income.
3/ 30% to 45% depending on type of company.
4/ 25% for non-regulated companies.
5/ 8% on services.
6/ 35% for gas/petrochemical and wholesale companies.

[5] 6¾ percentage points of the increase in debt represents expected market borrowing to finance the purchase of equity stakes in two large gold mining ventures.

[6] The legal limit for central bank financing of government deficits is 10 percent of budgeted revenues.

currently higher than regional averages, thus enhancing the business environment. The authorities also indicated renewed momentum on customs administration reform, stalled in 2013 by opposition from the business community. Currently, poor valuation of imports reportedly results in 30–40 percent losses in customs duty. The ASYCUDA World software, including the risk management module, is to be introduced by the end of 2014, together with increased physical inspection of containers. Finally, enhancing tax collection efforts would also help boost revenues, notably in the informal gold mining sector.

16. **The authorities emphasized that spending restraint would be a major part of the adjustment effort, while protecting the most vulnerable segments of society**. Staff agreed, and observed that while there is room to enhance the efficiency of public capital expenditure, the bulk of expenditure measures should fall on current expenditures other than those for the social safety net. In this regard, public wage moderation would strengthen consolidation efforts and help enhance competitiveness by restraining private sector wage growth in line with productivity. Moreover, the targeting of electricity and water subsidies should be improved, as they are sizable at over 2 percent of GDP and largely benefit the upper-income urban population. A comprehensive database of recipients of social benefits across relevant Ministries would provide a sound basis for upgrading and improving the targeting of the social safety net.[7] More generally, all subsidies should be made explicit in the fiscal accounts to improve clarity about the trade-offs in public spending. Efforts to contain spending on goods and services should also be intensified, as G&S has increased much faster than other expenditure categories in recent years.

17. **Staff reiterated that the fiscal framework needs improvement in light of the sensitivity to mineral sector developments**. A clear fiscal anchor that promotes long run sustainability, based on a target for the non mineral balance (which has the advantages of transparency and relative robustness to political pressures), is needed to support consolidation efforts. Also, medium-term expenditure ceilings consistent with the fiscal anchor would complement efforts to contain expenditure pressures, aid fiscal planning, and strengthen the top-down aspect of the budgeting process. Staff urged the authorities to continue efforts in this area, including the full installation of the Integrated Financial Management Information System, passage of a Public Financial Management (PFM) law that incorporates a fiscal anchor and corresponding expenditure ceilings, and passage of the sovereign wealth fund (SWF) law to help improve revenue management and provide the institutional basis for saving future surpluses from mineral revenues. The authorities were receptive to staff's recommendations, but were not yet ready to specify a time-bound agenda or specific plans for establishing a fiscal anchor.

18. **The establishment of a national health care and pension system commenced in mid 2013 and is to be completed in 2014, but the overall fiscal impact remains uncertain.** Public social assistance for health care will now be in the form of paying premiums for private sector

[7] Suriname has a variety of social programs targeting indigent people, disabled people, senior citizens, children & youth. Social assistance is in the form of cash transfers and the provision of goods and services including health care and school supplies. However there is fragmentation of social programs, and targeting could be strengthened.

provided health insurance (rather than directly paying hospital bills of patients), while pensions will be defined-benefit on a PAYG basis.[8] The authorities reiterated their objective to introduce the reforms in a budget-neutral fashion, but also acknowledged that overruns could not be ruled out. Data so far indicates significant savings on health expenditure, as premium payments to cover the young, old, and unemployed segments of the population have been below previous public spending on health care. Enhanced monitoring and benchmarking of hospital billing practices has also reduced costs and intensified competition among hospitals. However aging pressures could present significant risks to sustainability. Health premiums are likely to increase as the share of the aged in the population increases. Moreover, the authorities' estimates indicate that pension contribution rates would need to rise from 3 percent to 28 percent over the long run to keep the system sustainable. Staff expressed doubts about the sustainability of such a high contribution rate, and suggested that more flexibility should be to be built into pension benefit parameters to allow greater scope to mitigate the effects of aging. The authorities however considered that the projected contribution rates were feasible.

B. Monetary Policy to Safeguard the Fixed Exchange Rate

19. **The fixed exchange rate regime remains an appropriate anchor for policy, but substantially tighter fiscal policy settings need to be delivered to support the current level of the currency**. There was agreement that given the relatively thin foreign exchange market and substantial capital flows, a fully flexible exchange rate would likely be subject to considerable volatility, with corresponding sizable shocks to competitiveness and confidence that would be difficult to manage given institutional capacity constraints. Staff noted, however, that the burden of substantial macroeconomic adjustment to achieve consistency with the fixed exchange rate regime lies primarily with addressing remaining fiscal imbalances. Moreover, the large exposure of the external position to commodity price swings indicates a need to strengthen institutional capacity to be able to manage a more flexible exchange rate regime in the future.

20. **Staff encouraged the authorities to phase out the existing multiple currency practices (MCPs) as soon as practicable.** The exchange rate regime gives rise to MCPs arising 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) the potential spread of more than 2 percent between the official rates for government transactions and those in the commercial markets. The authorities responded that any change to the exchange rate regime could potentially be disruptive, and would have to be done at an opportune time.

21. **Although the exchange rate regime constrains monetary policy, there is scope to dampen credit growth if needed to enhance external stability**. Capital controls in place create

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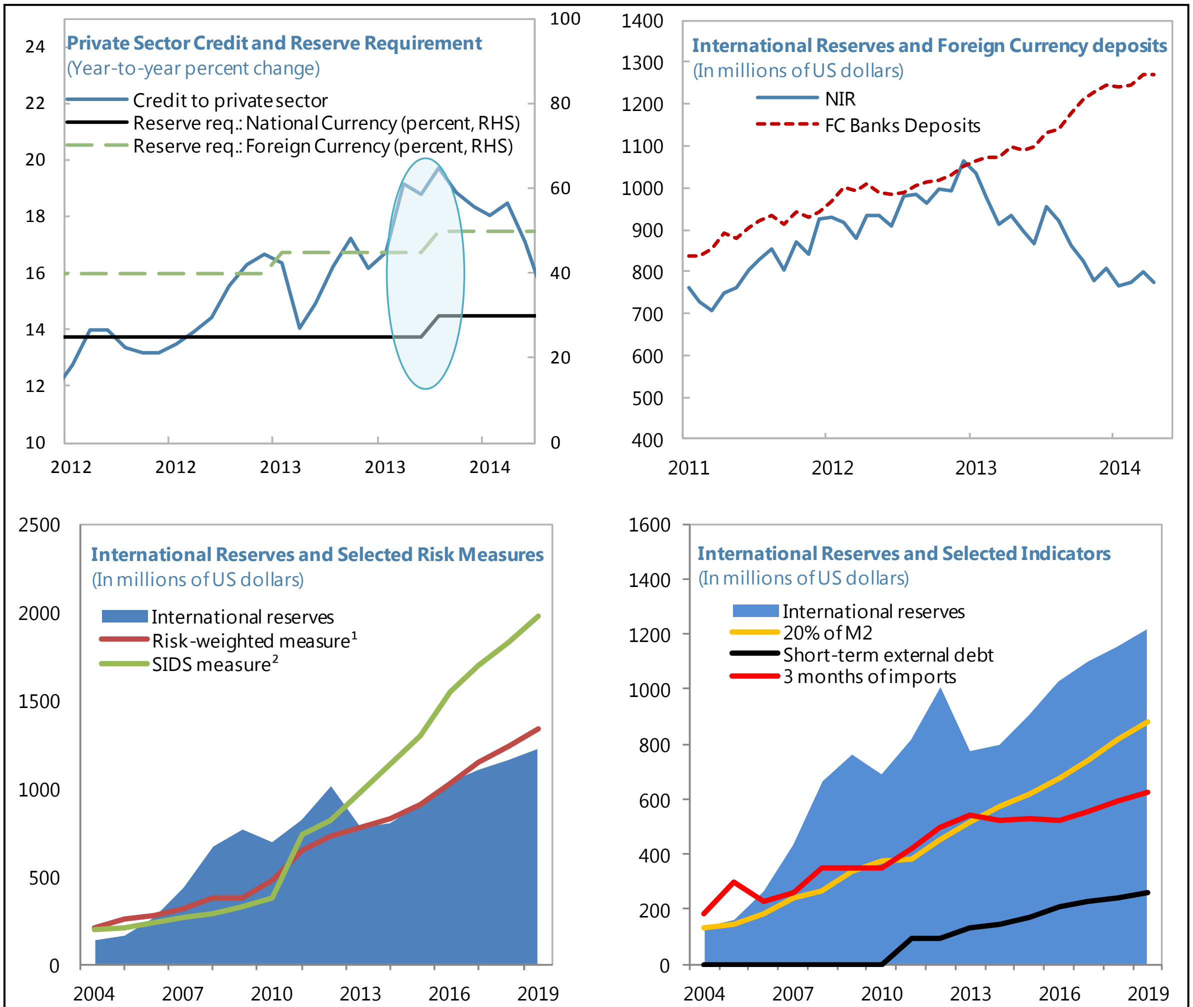
[8] Financing of health care premiums will involve employer and employee contributions for employed persons, with government paying premiums for the other members of the population. Health insurance coverage would be provided by the private sector in all cases. For those on the government program, the government negotiates a fixed-term group insurance contract with a private provider after a competitive bidding process.

some scope for an independent monetary policy. International reserves have been broadly stable in 2014 and are adequate under traditional benchmarks, but they are slightly below levels considered adequate under more stringent risk-weighted benchmarks, indicating need for a more aggressive policy stance. Thus, there was agreement that further steps would be taken to moderate credit if fiscal adjustment proves inadequate to stabilize the external position. Possible short term measures could include further increases in reserve requirements (although they are already high), sales of treasury bills to mop up bank liquidity, intensified bank supervision to enhance compliance with the existing rules and with the new capital rules coming into effect, and intervention in the foreign exchange market. Staff also encouraged the authorities to implement plans to commence regular Treasury bill auctions in Q4 2014, complemented by the other elements needed for open market operations (OMO), including a liquidity monitoring/management framework and standing facilities. This would strongly improve the monetary toolkit.



[1] Risk-weighted measure is taken from IMF "Assessing Reserve Adequacy" (February 2011). The measure for fixed exchange rate regimes is 30 percent of short-term debt at remaining maturity + 15 percent of other portfolio liabilities + 10 percent of broad money + 10 percent of exports.
[2] Small Island Developing States (SIDS) measure is taken from Nkunde Mwase, "How much should I hold? Reserve Adequacy in Emerging Markets and Small Islands" (WP/12/205), which is defined as 95 percent of short-term debt at remaining maturity + 10 percent of broad money + 35 percent of exports.

C. Strengthening Financial Sector Resilience

22. **Staff welcomed the authorities' efforts to strengthen supervision in view of increased macro risks**. Nonperforming loans could rise further and capital positions deteriorate in an adverse scenario. Data on house prices is not available, but there may be rising risks in the real estate sector, a particular concern given that banks, insurance companies, and pension funds all have large exposures to mortgages, and a significant portion of mortgages are in foreign currency. Moreover, even non-mortgage loans are reportedly often collateralized by property, further increasing the exposure of the financial sector to real estate. Although loan-to-value (LTV) ratios are reportedly moderate at around 50 percent, the valuation of collateral is subject to substantial uncertainty, raising potential risks. Comprehensive data on exposures to government is not available and would be an important source of non performance in the event fiscal issues are not resolved. Analysis by the FSAP points to other vulnerabilities including the presence of currency mismatches and high sensitivity to credit and concentration risk. In view of these risks, and in line with the recommendations of the accompanying FSAP (Box 2), the authorities are implementing plans to strengthen the macro-prudential framework and improve monitoring of risks, including enhanced data gathering and analysis and the recently established financial stability unit in the central bank.

23. **There was agreement that capital buffers need to be strengthened**. Capital adequacy ratios for the banking system, at 12½ percent of risk weighted assets, exceed the regulatory minimum of 8 percent, but are well below the regional average of 20 percent, and it would be prudent to increase buffers in light of the macro risks. The FSAP's stress tests suggest that some banks could become undercapitalized in an adverse scenario. The authorities on July 1 implemented stronger capital, loan classification and provisioning standards (incorporating a more rigorous treatment of real estate collateral), and intend to intensively monitor their implementation, which will require capital planning on the part of banks.

24. **Several important reforms are in the pipeline.** Draft regulations on corporate governance, risk management, internal audit, and consolidated supervision are well advanced. The Insurance Act, which will finally give the central bank legal powers in the sector and the ability to monitor and address real estate exposure and other risks in the sector, is now before Parliament. Major efforts are underway on credit reporting, development of the payment system, deposit insurance, accounting and auditing, and secured transactions. There is also a need to complete plans to restructure three small state-owned commercial banks and one small nonbank financial institution. In line with the FSAP, the mission encouraged the authorities to prepare a comprehensive plan to coordinate and integrate the various reform initiatives to ensure timely implementation given limited resources.

25. **There was consensus that the central bank should continue on its path to modernize and develop its credibility as a financial sector supervisor**. This will require developing a strong financial sector strategy and building key supervisory and crisis resolution skills. Changes to its legal framework, including extending its ability to resolve banks, would be made in line with FSAP recommendations.

26. **Progress in improving the AML/CFT regime is ongoing**. The Caribbean Action Task Force (CFATF) reported in May 15, 2014 the positive efforts aimed at closing the gaps in Suriname's AML/CFT framework, including the enactment of the State Decree on Indicators of Unusual Transactions. CFATF asked authorities to report back in November on outstanding recommendations, namely legislative actions to criminalize insider trading and market manipulation, and to give effect to international sanctions. On May 20, 2014, the authorities passed the Capital Market Act and the Law on International Sanctions, which the CFATF will assess in the coming months. Staff urged the authorities to address all remaining deficiencies in a timely fashion.

Box 2: Suriname: 2014 FSSA Main Findings and Recommendations

The financial sector remains relatively underdeveloped and shows signs of vulnerability in the face of elevated macro risks. Credit intermediation levels are low, lagging behind countries with a similar economic structure and per capita incomes. Banks are generally profitable and liquid, but profitability has been declining over the last five years. The capital adequacy ratio of the banking sector is above the required minimum (8 percent), although three small banks are undercapitalized. Stress tests suggest vulnerabilities in the banking system owing to high levels of loan concentration and inadequate accounting for nonperforming loans. The central bank has limited tools to conduct monetary policy and monitor/manage system liquidity. Weak data is a pervasive problem in effective risk analysis and supervision; improving data collection and analysis is a high priority for the CBvS.

The authorities are taking steps to strengthen prudential standards and supervision, though significant implementation challenges remain. The new Banking and Credit System Supervision Act took effect in 2011 and the central bank has made progress in improving on-site examination and adopting the CAMELS approach. On July 1 2014, a capital adequacy rule was adopted to raise the minimum capital adequacy ratio to 10 percent and strengthen provisioning requirements. However, a large number of other regulations and guidelines covering liquidity, consolidated supervision, corporate governance, and external audit have been drafted but not yet issued and challenge the authorities' resources and capacity to implement them. Enforcement of compliance with rules remains an on-going challenge.

Capital buffers and prudential regulation should be improved. Specifically, the new capital adequacy rules should be implemented in a timely fashion and the supervisor should work intensively with banks that need to build up capital to ensure there is no slippage. Small state-owned commercial banks should be restructured and banks' compliance with loan classification rules should be improved.

A liquidity management framework should be established. As a first step, the operation of T-bill auctions system should be accelerated. The central bank should develop liquidity monitoring standards for banks, and establish a systemic liquidity monitoring and forecasting framework with a contingency plan for emergency liquidity in foreign currency in place.

The central bank should continue to develop its credibility and effectiveness. A coherent financial sector development strategy needs to be developed and communicated with industry and the public. The central bank should also build up its human resources and skill sets to effectively oversee the on-going reforms. Changes to its legal framework including extending its ability to resolve banks are required as well.

Supervision over non-bank financial institutions should be enhanced. In particular, the Insurance Act should be enacted to enhance the central bank's supervisory authorities. A resolution strategy for pension plans that are unlikely to meet regulatory requirement should be developed.

D. Enhancing Structural Competitiveness

27. **There was agreement that enhancing growth prospects would require strengthening the business environment (Figure 8)**. With commodity prices cooling, a more supportive business environment is needed to boost productivity growth, particularly in the non-mineral sector. While Suriname scores well on some indicators such as airport capacity and import costs the latest World Bank Doing Business Indicators suggest room for improvement in several areas such as starting a business, enforcing contracts, protecting investors, and registering property.[9] The Competitiveness Unit in the office of the Vice President has spearheaded the preparation of several pieces of draft legislation that would overhaul the regulatory framework for business—which in some cases is decades out of date. Draft legislation on competition policy, limited liability company formation, and electronic gazettes to reduce company startup costs has been approved by the Council of Ministers and is before Parliament, while others such as those on intellectual property, consumer protection, and electronic transactions are in the pipeline.[10] Staff welcomed these efforts and urged early parliamentary passage of the reforms.

28. **Staff stressed that promoting job-rich inclusive growth will require taking decisive steps to increase labor market flexibility, supported by a well targeted social safety net**. Employment protection regulations are among the most stringent in the world, and the 2012–2013 World Competitiveness Report ranked Suriname 137 out of 144 countries in hiring and firing practices. Such strong employment protection discourages job creation, and may have encouraged the growth of the informal sector, which is reportedly large. At the same time, however, there is no unemployment insurance, and the existing social programs focus on helping the poorest segments of society. Thus, the cost to an individual worker of being dismissed is severe, ensuring that there would be considerable political resistance to efforts to reduce employment protection. The mission therefore recommended that reductions in employment protection should be complemented by establishing well designed unemployment insurance.

E. Other

29. **The authorities continue to progress in strengthening macroeconomic data quality**. The data are now broadly adequate for surveillance, and welcome progress is being made toward introducing a monthly indicator of economic activity and producing expenditure side GDP estimates. However, there are still quality and coverage gaps, complicating diagnosis. Detailed fiscal outturn data are sometimes not available. There is a need for timely and comprehensive data on social indicators for enabling social policy design to support inclusive growth, which will likely require the

[9] As pointed out in an independent evaluation of the Doing Business survey, care should be exercised when interpreting these indicators given subjective interpretation, limited coverage of business constraints, and a small number of informants which tend to overstate the indicators' coverage and explanatory power (see www.worldbank.org/ieg/doingbusiness).

[10] All new companies in Suriname are required to announce their formation via paper-based gazette. Because of the high cost and long-waiting time of this process, it is one of the key barriers for start-up of companies. Electronic gazette will allow companies to publish information online and significantly reduce start-up costs.

allocation of additional resources. Important data such as GDP and labor statistics come with some lag. Staff encouraged the authorities to complete plans to upgrade the statistics law and to further strengthen the statistical system, including by strengthening reporting requirements for surveyed institutions.

STAFF APPRAISAL

30. **Suriname has suffered significant external shocks as the commodity super-cycle ends, requiring a strong policy response to maintain macro stability**. Recent declines in gold and oil prices, together with insufficient fiscal policy response, led to fiscal and external sector deterioration in 2012–13 and a significant decline in international reserves. Thus, the main challenges are to strengthen institutions and adjust policies to reverse the recent deterioration and avoid undermining the stability of the fixed exchange rate.

31. **Given the large fiscal sustainability gap and recent deterioration in macro performance, the authorities' resolve to implement strong fiscal consolidation is welcome**. Targeting a significant fiscal surplus over the medium term would be appropriate to entrench sustainability, bolster the external position, and build up fiscal buffers for countercyclical policy and intergenerational saving. Commendably, the authorities are implementing substantial tightening for 2014, and are committed to additional measures to restore fiscal health over the medium term. However, policy implementation risks are significant ahead of elections in mid-2015, and the uncertainties inherent in elections imply risks to the medium term policy agenda of the authorities.

32. **Successful fiscal consolidation will require revenue and expenditure measures beyond those envisaged for 2014, supported by an appropriate fiscal framework**. On the revenue side, establishing a revenue enhancing VAT, together with the modernization of customs and the entire tax structure are key for achieving sustainability. In addition, expenditure restraint should be a major part of the adjustment effort, while protecting the most vulnerable segments of society. Efforts in this area should include public wage moderation, improved targeting of electricity and water subsidies, streamlining of spending on goods and services, and prioritization of capital projects. Also, plans to set up a national pension and health care system, while laudable, should be implemented in a fiscally sustainable fashion. Establishing a fiscal anchor consistent with sustainability, supported by medium term expenditure ceilings, would support consolidation efforts.

33. **Monetary tightening should be deployed to safeguard the external position if fiscal measures prove inadequate to contain demand pressures**. In this context, the authorities should consider the use of available monetary policy instruments, including reserve requirements, sales of treasury bills, and intervention in the foreign exchange market to achieve this objective if needed. Staff encourages the authorities to press ahead with plans to establish open market operations, thus providing additional monetary policy tools to help maintain macroeconomic stability.

34. **The fixed exchange rate regime remains an appropriate anchor for policy, but substantially tighter fiscal policy settings need to be delivered to support the current level of**

the currency. Given the relatively thin foreign exchange market and substantial capital flows, a fully flexible exchange rate would likely be subject to considerable volatility, with corresponding sizable shocks to competitiveness and confidence that would be difficult to manage given institutional capacity constraints. Thus, limiting exchange rate volatility would serve the country well. Staff considers that the burden of substantial macroeconomic adjustment to achieve consistency with the fixed exchange rate regime lies primarily with addressing remaining fiscal imbalances. Moreover, given the large exposure of the external position to commodity price swings, there is a need to strengthen institutional capacity to be able to manage a more flexible exchange rate regime in the future.

35. **Article VIII issues**. Suriname is an Article VIII member and maintains two MCPs. Staff does not recommend the approval of these MCPs as there is no clear timetable for their removal.

36. **The progress being made to upgrade financial sector resilience is welcome**. As noted by the FSAP, the financial sector remains relatively underdeveloped and shows signs of vulnerability in the face of elevated macro risks. Stress tests suggest vulnerabilities in the banking system owing to high levels of loan concentration and inadequate accounting for nonperforming loans. The central bank has limited tools to conduct monetary policy and monitor/manage system liquidity. Weak data is a pervasive problem in effective risk analysis and supervision; improving data collection and analysis is a high priority for the central bank. Commendably, stronger capital regulations have been put in place, and a major overhaul of the banking sector legislative and regulatory framework is nearing completion, while the financial sector infrastructure is also to be strengthened by the establishment of a credit bureau, a modern payment and settlement system and a deposit insurance scheme. Similar efforts are being contemplated to strengthen the insurance sector regulatory framework, and there has been significant progress recently in strengthening the AML/CFT regime.

37. **It would be important to craft a coherent financial sector development strategy to continue to develop the credibility and effectiveness of the central bank**. The central bank should also build up its human resources and skill sets to effectively oversee the on-going reforms. In addition, building a liquidity management framework should be a priority. Changes to its legal framework including extending its ability to resolve banks are required as well.

38. **Momentum is increasing on policies to enhance structural competitiveness**. Notably, the draft legislation spearheaded by the competitiveness unit, if passed, will modernize the business environment and support stronger growth and economic diversification. Also, labor market flexibility and job-rich inclusive growth could be improved by some relaxation of employment protection regulations together with well designed unemployment insurance.

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

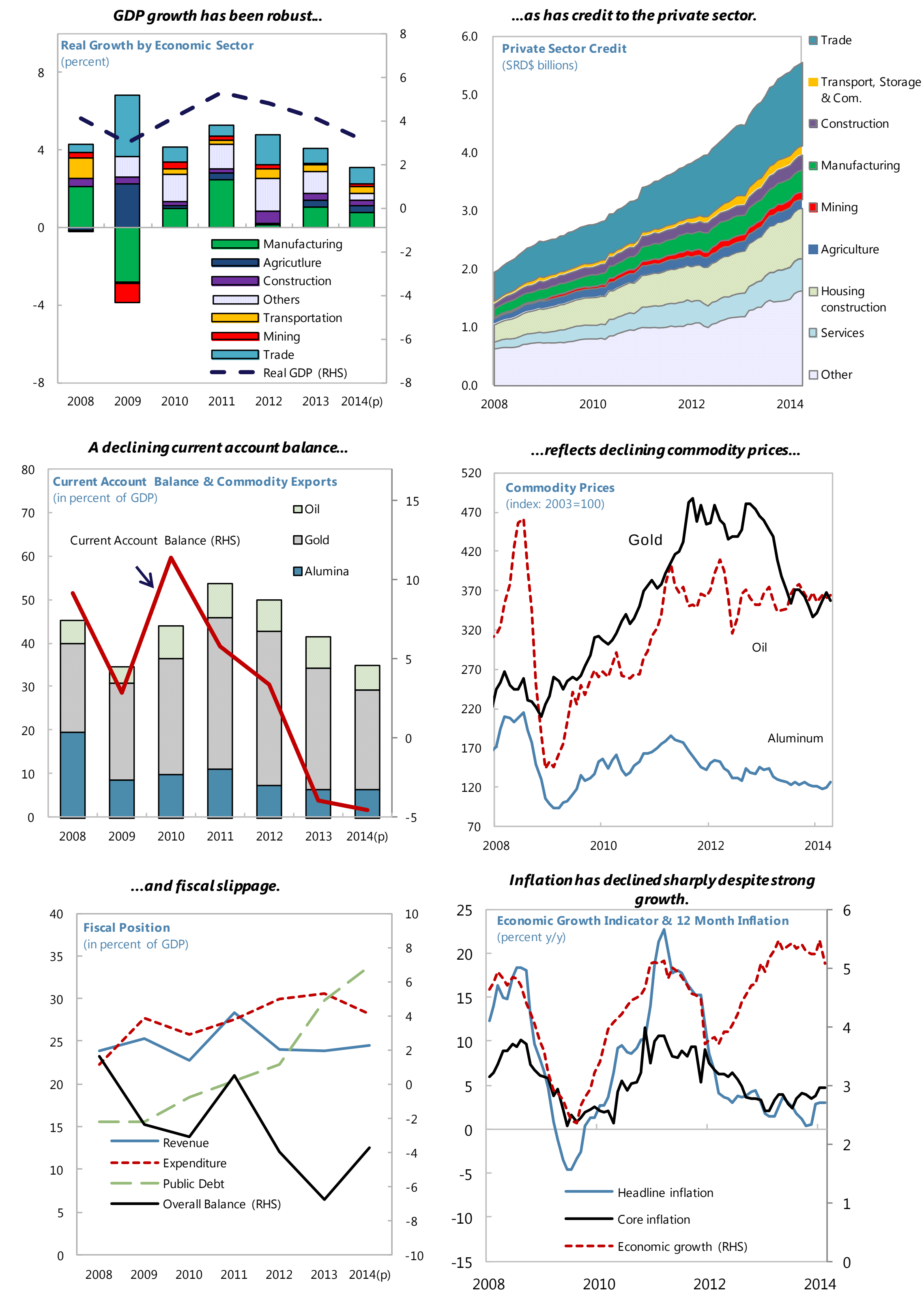
Suriname: Risk Assessment Matrix[11]

Main Threats	Likelihood of Realization of the Threat	Expected Impact if Threat is Realized	Policy Response
Sustained drop in gold and oil prices	**Medium** Global recovery increases the likelihood of a decline in gold prices as risk aversion falls. Slower growth in China could also dampen commodity prices in general. Large new oil projects may generate global excess capacity, depressing oil prices.	**High** Suriname's economy is highly exposed to gold and oil prices. The main channel of spillovers would be the decline of government revenues and exports, which could prompt pro-cyclical adjustment measures. In a severe shock scenario where gold prices fall to $1000/ounce the adverse impact on the external position could increase in a nonlinear fashion as prices fall below production costs, with substantial declines in international reserves.	Fiscal consolidation, supported by monetary tightening if needed to safeguard external stability. Structural reforms to enhance diversification away from the commodity sector would also be necessary.
Growth slowdown in China	**Medium** Continued buildup and eventual unwinding of excess capacity, eventually resulting in a sharp growth slowdown and large financial and fiscal losses (medium-term).	**High** Downward pressures on commodity prices are likely to be significant, causing external and fiscal deterioration and slower growth.	See above response in relation to a sustained decline in commodity prices.

[11] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

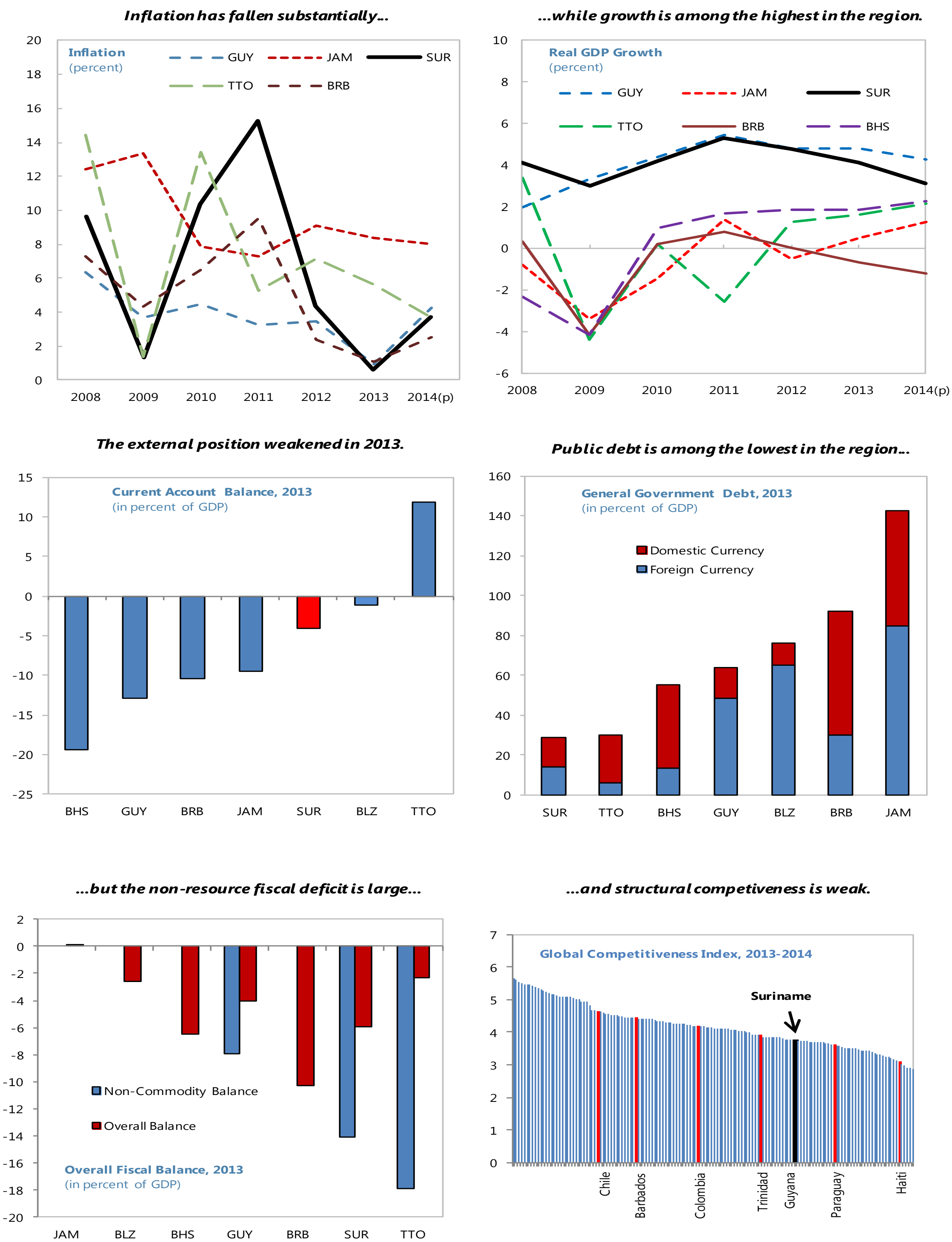
Protracted period of slower growth in advanced and emerging countries.	**High** **Advanced economies**: Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation. **Emerging markets**: Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	**Medium** Suriname's growth outlook could be reduced if the slowdown leads to downward pressure on commodity prices and lower FDI.	See above response in relation to a sustained decline in commodity prices. Also, intensifying efforts to enhance competitiveness would help sustain FDI and encourage domestic private investment.
Inadequate implementation of fiscal consolidation.	**Medium** Political considerations related to elections in 2015 could undermine prospects for implementing tough reforms.	**High** The fiscal sustainability gap is large, and the weak outlook for commodity prices suggests intensified risks to external stability in the absence of fiscal consolidation.	Strong and frontloaded consolidation, supported by reforms to the fiscal framework.
Credit risk in the banking sector	**Medium** A continuation of rapid credit growth and the substantial exposure to the real estate sector and government could lead to elevated risks to financial stability if left unaddressed.	**Medium/High** Capital buffers exceed regulatory levels, but are inadequate in the face of risks and vulnerabilities arising from concentration in lending and challenges in real estate asset pricing. Reported LTV ratios are moderate, but uncertainties with the valuation of collateral are significant. Banks are also under-provisioned.	Implementation of draft regulations to enhance capital requirements and provisioning. Also monetary and prudential measures to dampen credit growth, and institutional reforms to strengthen central bank supervisory and crisis resolution powers.

Figure 1. Macroeconomic Developments



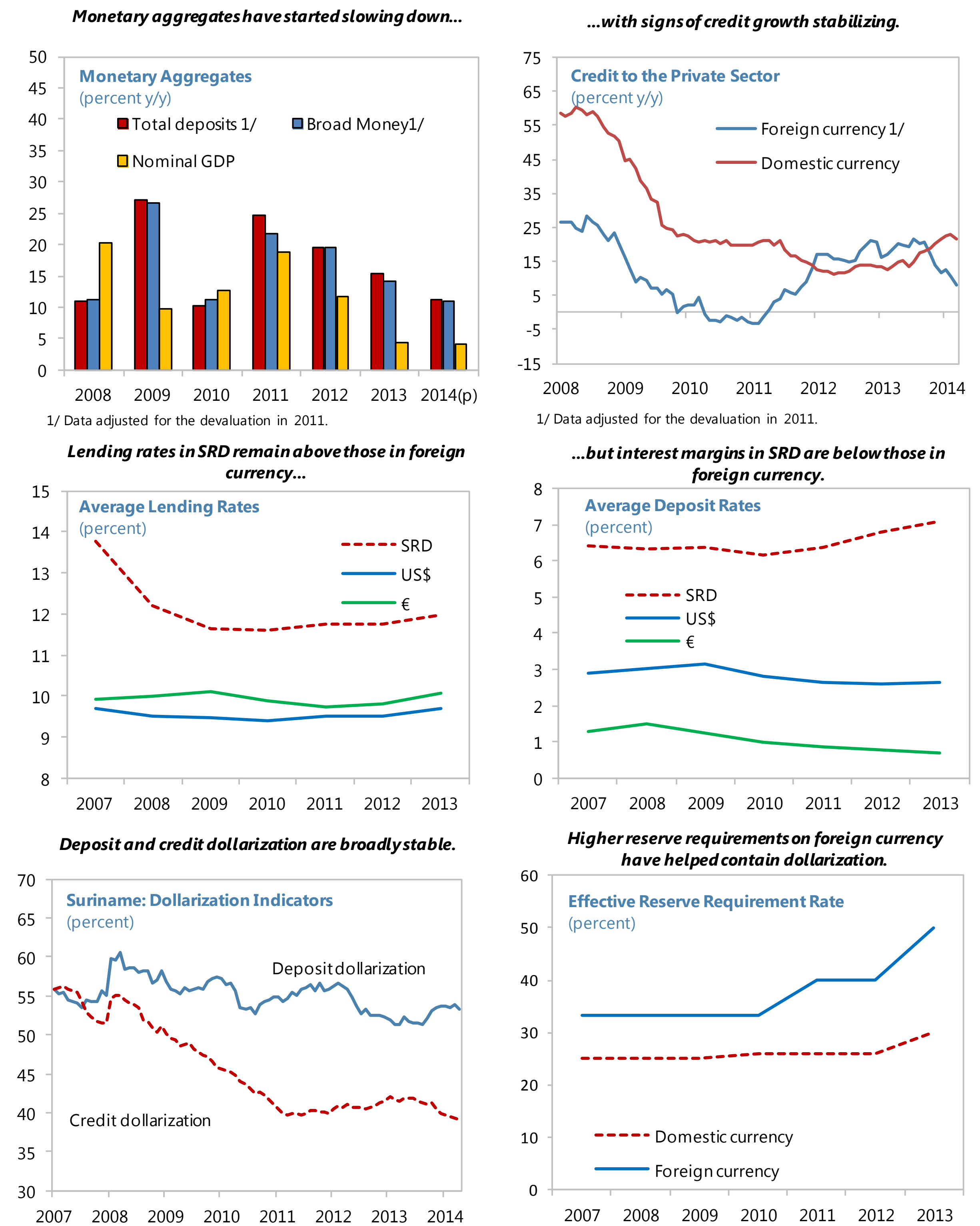
Sources: National authorities; and IMF staff estimates and projections.

Figure 2. Comparative Regional Economic Developments



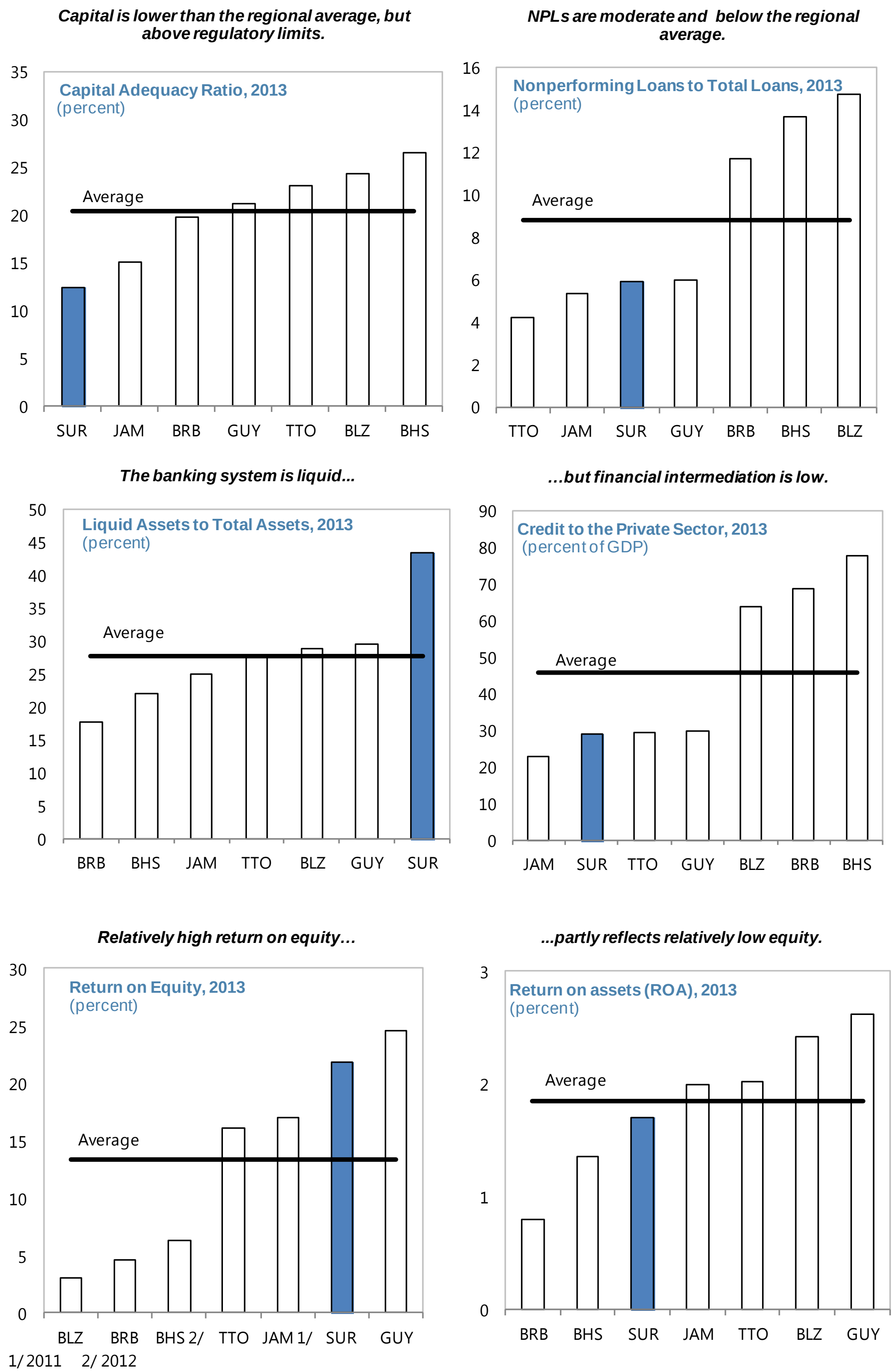
Sources: National authorities; World Economic Forum, and IMF staff estimates and projections.

Figure 3. Money and Credit



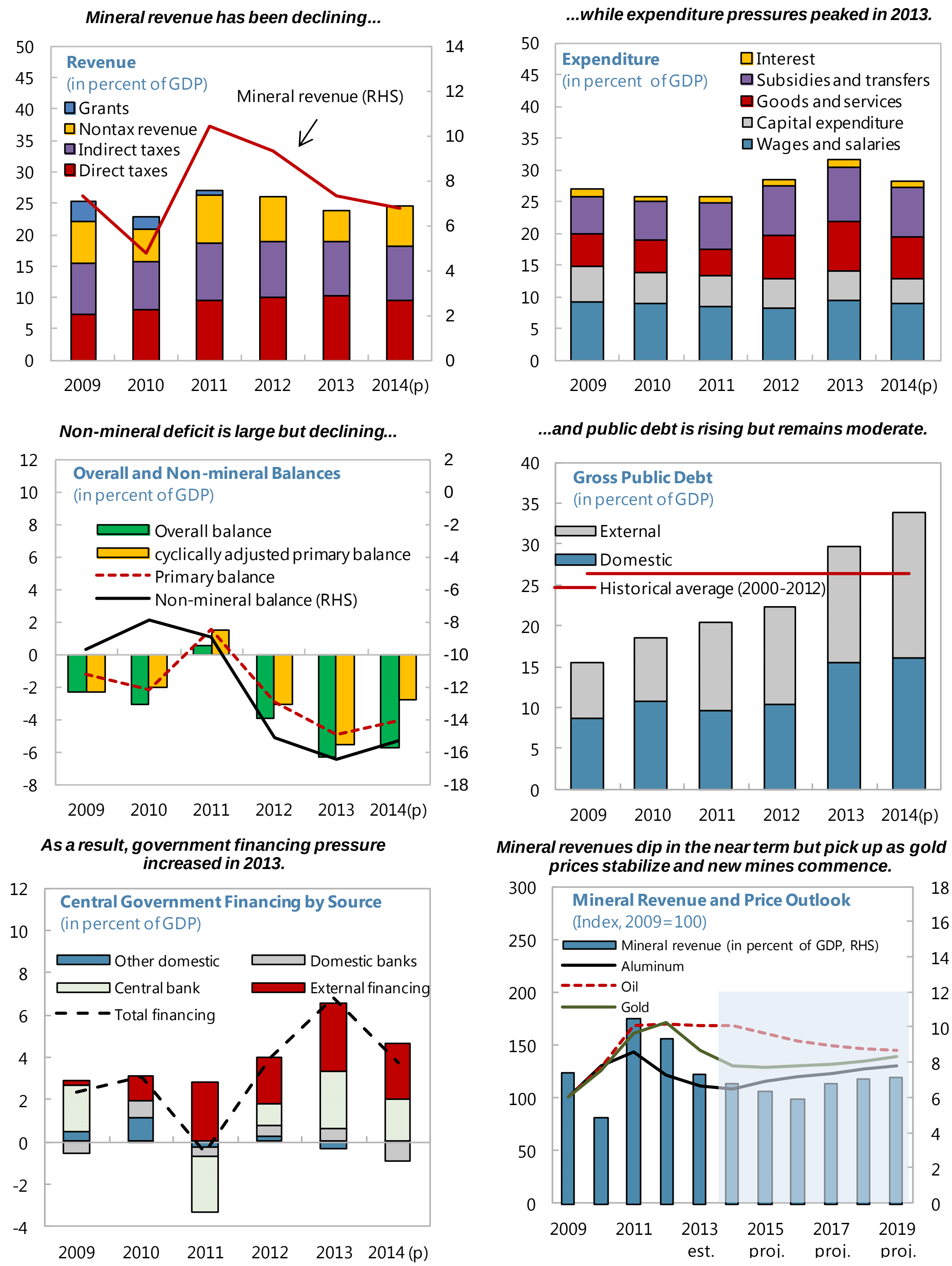
Sources: Central Bank of Suriname; and IMF staff estimates and projections.

Figure 4. Financial Soundness Indicators



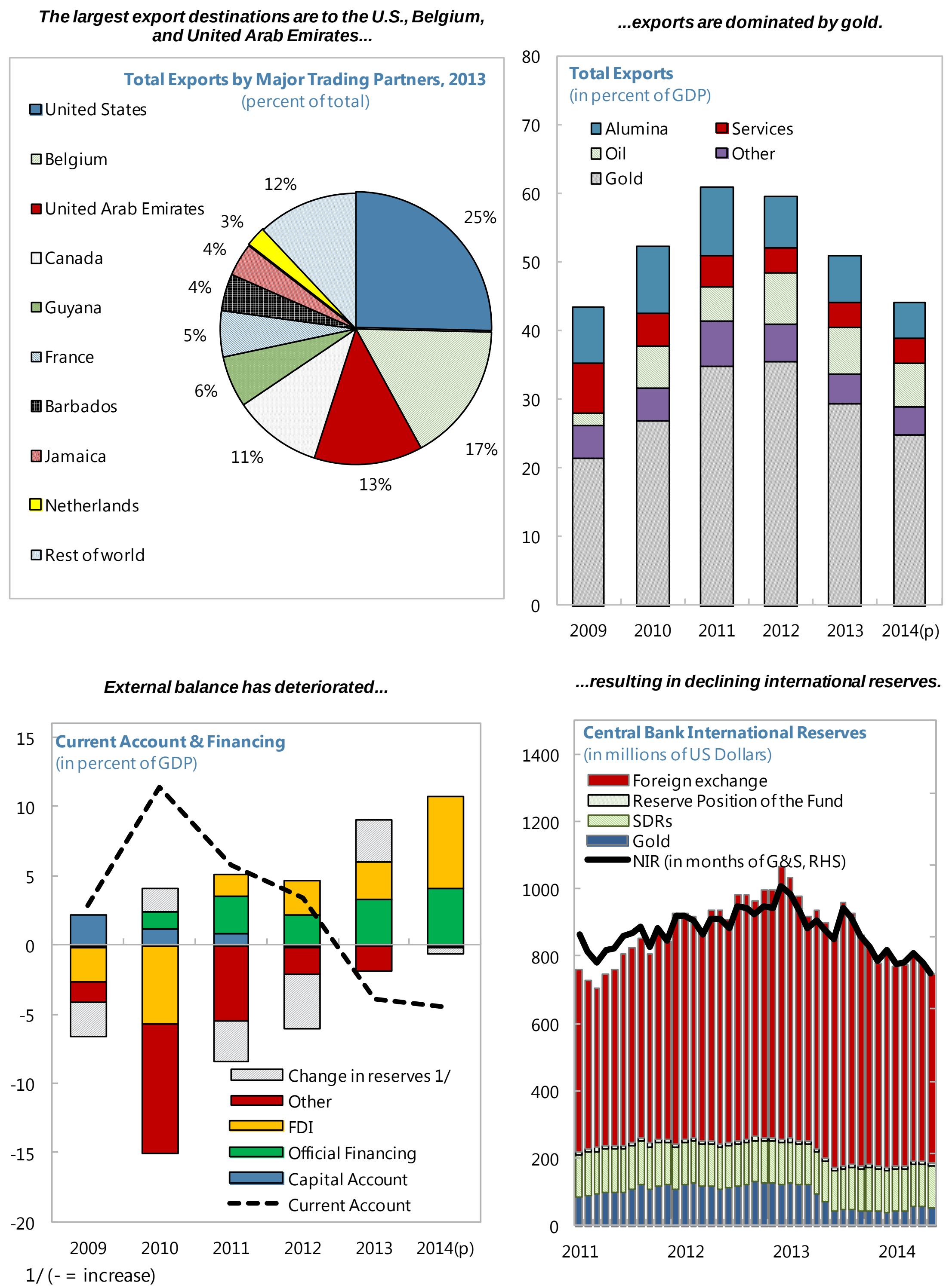
Source: National authorities.

Figure 5. Fiscal Indicators



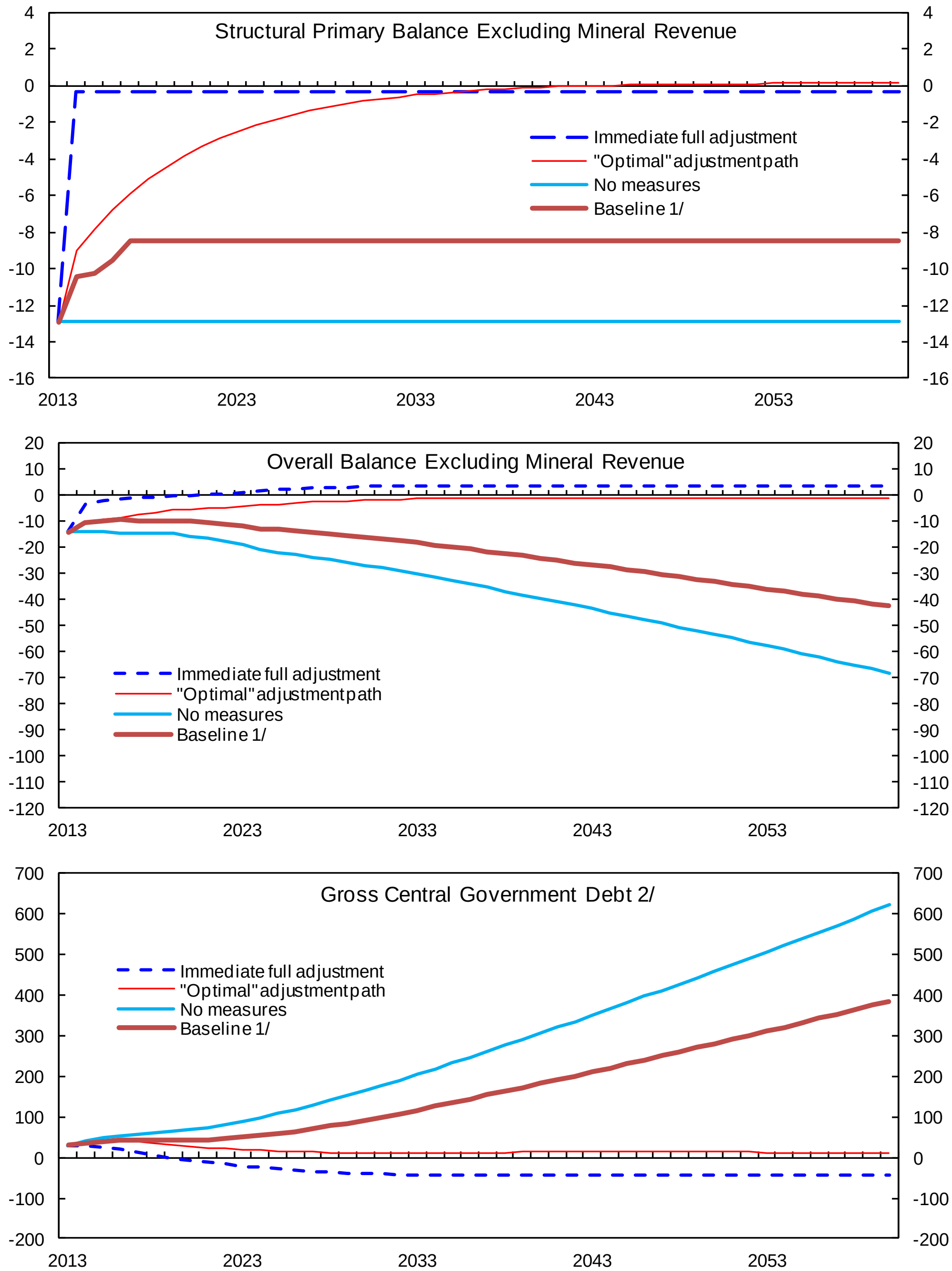
Sources: National authorities; and IMF staff estimates and projections.

Figure 6. External Indicators



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

Figure 7. Suriname: Fiscal Sustainability, 2013-60
(Percent of GDP)



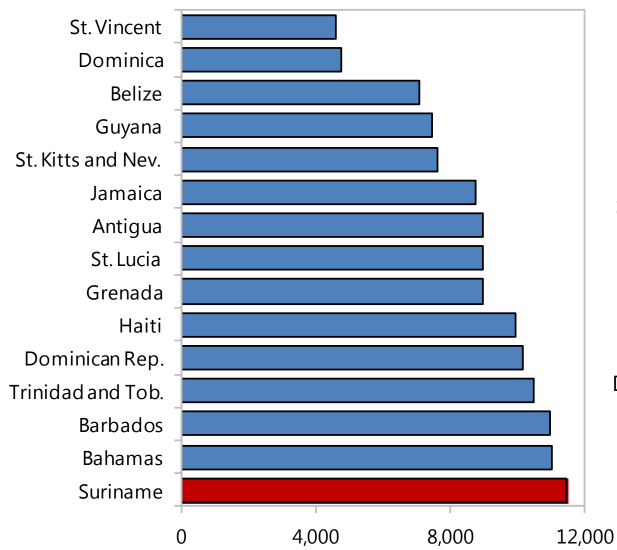
Sources: Authorities data, and Staff calculations.

1/ Baseline incorporates staff medium term baseline projections up to 2019, and assumes no further fiscal adjustment thereafter.
2/ Negative debt reflects the accumulation of assets

Figure 8. Structural Competiveness Indicators

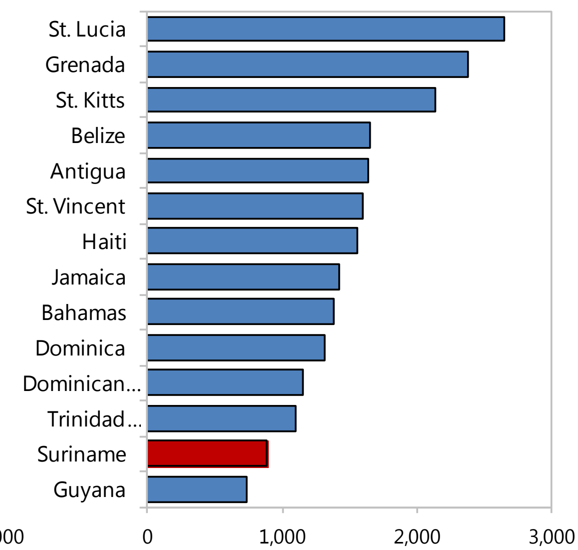
Suriname scores well on airport capacity...

Airport Capacity
(Runway length in feet)



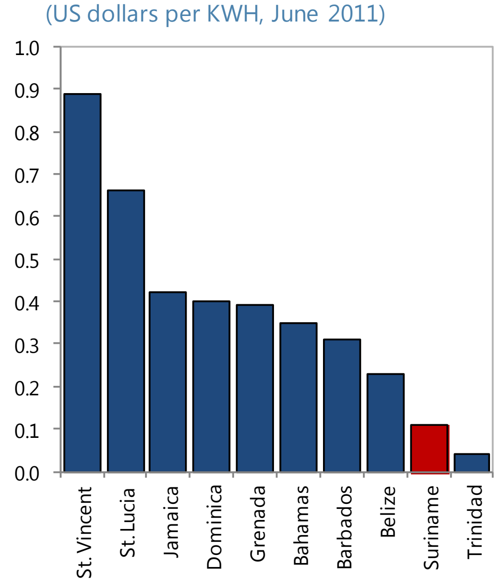
...and import costs...

Import Costs, 2008-09
(US$ per 20 foot container)



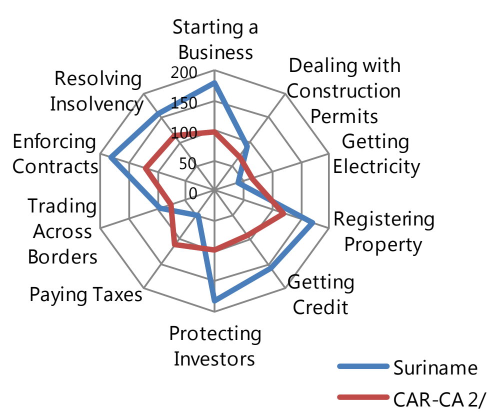
...as well as electricity tariffs...

Electricity Tariffs
(US dollars per KWH, June 2011)



...but the regulatory environment needs improvement.

Doing Business Indicators, 2013 1/
(rankings out of 185 countries)



1/ The closer the line to the center of the chart, the more conducive the regulatory environment is to the starting and operating a local firm.
2/ Simple average of Caribbean and Central American

Sources: World Bank, Doing Business Indicators, Utility Companies, International Energy Agency and azworldairport.

Table 1. Suriname: Selected Economic and Social Indicators

Population (in thousands, 2012)	542	Unemployment rate (2012)	8.5
GDP per capita (current US$, 2012)	8,910	Adult illiteracy (percent of population	
Rank in UNDP Human Development Index (out of 187, 2012)	105	ages 15 and above, 2008)	5.0
Life expectancy at birth (years, 2010)	70.3		

			Est.			Proj.			
	2011	2012	2013	2014	2015	2016	2017	2018	2019
	(Annual percentage change, unless otherwise indicated)								
Real sector									
GDP at current prices (SRD billions)	14.3	15.9	16.6	17.3	18.5	19.8	21.3	23.0	24.7
Real GDP Growth	5.3	4.8	4.1	3.1	3.7	4.2	4.6	5.0	4.4
GDP deflator	12.9	6.6	0.3	1.0	3.0	2.7	2.7	2.8	2.9
Consumer prices (end of period)	15.3	4.3	0.6	3.7	3.1	3.0	3.0	2.9	3.0
Consumer prices (period average)	17.7	5.0	1.9	2.6	3.4	3.0	3.0	3.0	3.0
Money and credit 1/									
Banking system net foreign assets	19.3	17.5	-11.3	4.6	11.5	12.5	8.7	8.4	6.8
Broad money	11.7	19.6	14.1	10.9	7.4	9.4	9.3	11.2	7.4
Private sector credit	12.0	16.7	18.3	15.0	15.0	13.0	13.0	13.0	13.0
Public sector credit (increase in % of M2)	-9.0	0.5	9.6	2.8	0.9	4.7	1.1	3.0	3.3
	(In percent of GDP, unless otherwise indicated)								
Savings and investment									
Private sector balance (savings-investment)	5.2	7.4	2.9	-0.8	-0.6	0.2	3.2	3.0	3.5
Public sector balance	0.5	-4.0	-6.8	-3.7	-3.4	-3.2	-3.0	-2.6	-2.5
Savings	5.4	0.6	-2.3	0.1	0.5	0.4	0.2	0.7	1.0
Investment	4.9	4.6	4.5	3.8	3.9	3.7	3.1	3.3	3.5
Foreign savings	-5.8	-3.4	3.9	4.5	3.9	3.0	-0.2	-0.5	-1.0
Central government									
Revenue and grants	27.0	25.9	23.8	24.5	24.8	24.3	23.6	23.8	23.9
Total expenditure 2/	26.5	29.9	30.6	28.2	28.2	27.5	26.6	26.4	26.4
Of which : noninterest current expenditure	19.9	22.9	25.7	23.4	23.3	22.8	22.2	21.9	21.7
Overall balance	0.5	-4.0	-6.8	-3.7	-3.4	-3.2	-3.0	-2.6	-2.5
Net domestic financing	-3.4	1.8	3.6	1.1	0.3	2.3	0.5	1.5	1.7
Net external financing	2.8	2.2	3.2	2.6	3.1	1.0	2.5	1.1	0.7
Central government debt 3/	20.4	22.2	29.8	33.8	37.0	41.0	41.1	40.7	40.3
Domestic	9.5	10.4	15.5	16.0	15.3	16.5	15.9	16.2	16.8
External	10.8	11.9	14.2	17.8	21.8	24.4	25.3	24.5	23.5
External sector									
Current account balance	5.8	3.4	-3.9	-4.5	-3.9	-3.0	0.2	0.5	1.0
Capital and financial account	-1.1	8.6	7.7	5.0	5.9	5.1	0.9	0.3	-0.2
Change in reserves (- increase in US$ millions)	-124	-180	152	-23	-108	-123	-72	-55	-63
Memorandum Items									
Terms of trade (percent change)	5.6	1.7	-10.5	-7.9	2.5	2.2	2.1	2.1	2.3
Gross international reserves (US$ millions)	817	1,008	775	798	906	1,029	1,101	1,156	1,219
In months of imports	4.4	4.7	3.4	3.8	4.2	4.8	4.8	4.8	4.8
Exchange rate (SRD per US$, eop)	3.30	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/ Includes statistical discrepancy.
3/ Includes central government and government-guaranteed public debt.

Table 2. Suriname: Central Government Operations
(In percent of GDP)

	2011	2012	Est. 2013	2014	2015	Proj. 2016	2017	2018	2019
Revenue	**27.0**	**25.9**	**23.8**	**24.5**	**24.8**	**24.3**	**23.6**	**23.8**	**23.9**
Taxes	18.7	19.0	18.8	18.2	17.9	17.6	18.0	18.3	18.3
Direct taxes	9.4	9.9	10.1	9.5	9.2	8.9	9.3	9.6	9.6
Indirect taxes	9.3	9.0	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Grants	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	7.5	7.0	5.0	6.2	6.9	6.6	5.6	5.6	5.6
Expenditure 1/	**26.5**	**29.9**	**30.6**	**28.2**	**28.2**	**27.5**	**26.6**	**26.4**	**26.4**
Expense	20.9	23.9	27.1	24.4	24.3	23.8	23.4	23.1	22.9
Compensation of employees	8.5	8.3	9.4	8.9	8.9	8.8	8.7	8.6	8.5
Purchases of goods and services	4.0	6.8	7.9	6.6	6.5	6.3	6.0	5.9	5.9
Subsidies and transfers	7.4	7.9	8.4	8.0	7.9	7.7	7.5	7.4	7.3
Interest	1.0	1.0	1.4	1.0	1.0	1.1	1.3	1.2	1.2
Domestic	0.8	0.8	1.1	0.6	0.6	0.5	0.6	0.6	0.6
Foreign	0.2	0.2	0.3	0.3	0.4	0.5	0.7	0.7	0.6
Net acquisition of nonfinancial assets	4.9	4.6	4.5	3.8	3.9	3.7	3.1	3.3	3.5
Capital expenditure	4.9	4.6	4.5	3.8	3.9	3.7	3.1	3.3	3.5
Statistical discrepancy	0.7	1.4	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Operating Balance	5.4	0.6	-2.3	0.1	0.5	0.4	0.2	0.7	1.0
Overall Balance (Net lending/borrowing)	**0.5**	**-4.0**	**-6.8**	**-3.7**	**-3.4**	**-3.2**	**-3.0**	**-2.6**	**-2.5**
Net financial transactions	-0.5	4.0	6.8	3.7	3.4	3.2	3.0	2.6	2.5
Net acquisition of financial assets 2/	0.0	0.0	0.0	-1.5	-2.0	-3.1	0.0	0.0	0.0
Net incurrence of liabilities	-0.5	4.0	6.8	5.3	5.4	6.4	3.0	2.6	2.5
Domestic	-3.4	1.8	3.6	1.1	0.3	2.3	0.5	1.5	1.7
Commercial banks	-0.4	0.5	0.6	-0.9	-1.8	0.5	-1.0	0.0	0.3
Central bank	-2.7	1.0	2.8	2.0	2.0	1.7	1.4	1.4	1.4
Other domestic	-0.3	0.3	-0.4	0.1	0.1	0.1	0.0	0.0	0.0
Foreign	2.8	2.2	3.2	4.2	5.1	4.1	2.5	1.1	0.7
Amortizations	-0.5	-1.0	-0.4	-0.7	-0.6	-1.5	-2.3	-3.3	-4.7
Disbursements	3.3	3.1	3.6	4.8	5.7	5.7	4.8	4.4	5.5
Bilateral agencies	1.4	1.9	0.4	2.3	2.6	1.8	3.4	3.1	3.9
Multilateral agencies	1.9	1.3	3.3	1.0	1.1	0.7	1.4	1.3	1.6
Other 2/	....	....	....	1.5	2.0	3.1	....	....	....
Memorandum items:									
Gold price (US$ per troy ounce)	1,569	1,669	1,411	1,266	1,249	1,257	1,281	1,312	1,356
Oil Price (US$ per barrel)	104	105	104	104	100	95	92	91	89
Output gap (In percent)	0.1	0.6	0.6	-0.3	-0.7	-0.7	-0.5	-0.1	-0.2
Primary balance	1.5	-3.0	-5.4	-2.8	-2.3	-2.2	-1.7	-1.3	-1.3
Non-mineral balance	-9.9	-13.3	-14.1	-10.5	-9.7	-9.2	-9.8	-9.6	-9.6
Non-mineral structural primary balance	-8.9	-12.4	-12.8	-10.4	-10.3	-9.5	-8.5	-8.4	-8.4
Mineral revenue	10.4	9.3	7.3	6.8	6.4	5.9	6.8	7.0	7.1
Public debt 3/	20.4	22.2	29.8	33.8	37.0	41.0	41.1	40.7	40.3

Sources: Suriname authorities; and IMF staff estimates and projections.
1/ Includes statistical discrepancy.
2/ In 2014–2015, the government plans to purchase equities of the two gold mining companies with the proceeds from an international market borrowing.
3/ Includes central government and government-guaranteed public debt.

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

	2011	2012	2013	Proj. 2014	2015	2016	2017	2018	2019
Current account	**251**	**164**	**-198**	**-238**	**-221**	**-183**	**15**	**32**	**75**
Trade balance	788	701	221	47	98	156	425	472	547
Exports, f.o.b.	2467	2695	2394	2143	2217	2250	2646	2837	3053
Of which : alumina, gold, and petroleum	2178	2435	2176	1926	1995	2018	2401	2578	2778
Imports, f.o.b.	-1679	-1993	-2174	-2096	-2119	-2095	-2221	-2365	-2506
Services, net	-362	-419	-363	-251	-290	-309	-320	-331	-343
Exports	201	175	179	182	187	191	196	200	204
Imports	-563	-594	-542	-433	-477	-501	-516	-531	-547
Income, net	-262	-191	-122	-102	-99	-100	-163	-183	-206
Credit	16	27	27	28	28	29	30	30	31
Debit	-278	-219	-149	-130	-127	-129	-193	-214	-237
Current transfers, net	87	73	67	68	70	71	73	75	76
Capital and financial account	**-50**	**417**	**386**	**261**	**329**	**305**	**58**	**23**	**-12**
Capital account	35	-7	0	0	0	0	0	0	0
Financial account	**-85**	**424**	**386**	**261**	**329**	**305**	**58**	**23**	**-12**
Central government borrowing	121	104	165	215	281	244	159	75	54
Disbursements	141	149	183	249	316	334	304	304	404
Amortization	-21	-46	-18	-34	-36	-91	-145	-230	-350
Foreign direct investment	73	121	139	350	330	405	175	110	80
Portfolio investment	6	-6	-1	-83	-111	-186	-2	-2	-2
Other investment	-284	206	83	-222	-170	-157	-274	-161	-172
Errors and omissions	-77	-406	-341	0	0	0	0	0	0
Overall balance	**124**	**180**	**-152**	**23**	**108**	**123**	**72**	**55**	**63**
Change in reserves (- = increase)	-124	-180	152	-23	-108	-123	-72	-55	-63
Memorandum items:									
Gross international reserves	817	1008	775	798	906	1029	1101	1156	1219
In months of imports of goods and services	4.4	4.7	3.4	3.8	4.2	4.8	4.8	4.8	4.8
Current account balance (in percent of GDP)	5.8	3.4	-3.9	-4.5	-3.9	-3.0	0.2	0.5	1.0
GDP in current US dollars	4363	4826	5038	...	...	...	...	...	...
Gold price (US$ per troy ounce)	1568.6	1668.8	1411.1	1265.8	1248.9	1257.3	1281.1	1312.4	1355.9
Oil Price (US$ per barrel)	104.0	105.0	104.1	104.1	99.6	95.1	92.3	90.6	89.4
Alumina Price (US$ per MT)	2401	2023	1847	1803	1918	1989	2056	2119	2174
External Debt (in percent of GDP)	30	29	34	39	42	48	48	46	43

Sources: Suriname authorities; and IMF staff estimates and projections.
1/ Historical figures correspond to the Balance of Payments revised by the CBvS.

Table 3b. Suriname: Balance of Payments 1/
(In percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Proj.					
Current account	**5.8**	**3.4**	**-3.9**	**-4.5**	**-3.9**	**-3.0**	**0.2**	**0.5**	**1.0**
Trade balance	18.1	14.5	4.4	0.9	1.8	2.6	6.6	6.8	7.3
Exports, f.o.b.	56.5	55.8	47.5	40.8	39.5	37.5	41.0	40.7	40.8
Of which : alumina, gold, and petroleum	49.9	50.5	43.2	36.7	35.5	33.6	37.2	37.0	37.1
Imports, f.o.b.	-38.5	-41.3	-43.1	-39.9	-37.8	-34.9	-34.4	-34.0	-33.5
Services, net	-8.3	-8.7	-7.2	-4.8	-5.2	-5.2	-5.0	-4.8	-4.6
Exports	4.6	3.6	3.5	3.5	3.3	3.2	3.0	2.9	2.7
Imports	-12.9	-12.3	-10.8	-8.3	-8.5	-8.3	-8.0	-7.6	-7.3
Income, net	-6.0	-4.0	-2.4	-1.9	-1.8	-1.7	-2.5	-2.6	-2.7
Credit	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Debit	-6.4	-4.5	-3.0	-2.5	-2.3	-2.1	-3.0	-3.1	-3.2
Current transfers, net	2.0	1.5	1.3	1.3	1.2	1.2	1.1	1.1	1.0
Capital and financial account	**-1.1**	**8.6**	**7.7**	**5.0**	**5.9**	**5.1**	**0.9**	**0.3**	**-0.2**
Capital account	0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	**-1.9**	**8.8**	**7.7**	**5.0**	**5.9**	**5.1**	**0.9**	**0.3**	**-0.2**
Central government borrowing	2.8	2.2	3.3	4.1	5.0	4.1	2.5	1.1	0.7
Disbursements	3.2	3.1	3.6	4.7	5.6	5.6	4.7	4.4	5.4
Amortization	-0.5	-0.9	-0.4	-0.6	-0.6	-1.5	-2.3	-3.3	-4.7
Foreign direct investment	1.7	2.5	2.8	6.7	5.9	6.7	2.7	1.6	1.1
Portfolio investment	0.1	-0.1	0.0	-1.6	-2.0	-3.1	0.0	0.0	0.0
Other investment	-6.5	4.3	1.6	-4.2	-3.0	-2.6	-4.2	-2.3	-2.3
Errors and omissions	-1.8	-8.4	-6.8	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**2.8**	**3.7**	**-3.0**	**0.4**	**1.9**	**2.0**	**1.1**	**0.8**	**0.8**
Change in reserves (- = increase)	-2.8	-3.7	3.0	-0.4	-1.9	-2.0	-1.1	-0.8	-0.8
Memorandum items:									
Gross international reserves (in millinons of US	817	1008	775	798	906	1029	1101	1156	1219
In months of imports of goods and services	4.4	4.7	3.4	3.8	4.2	4.8	4.8	4.8	4.8
External Debt (in percent of GDP)	30.3	29.4	33.7	38.8	42.1	48.2	47.9	45.9	43.2
GDP in current US dollars	4363	4826	5038	…	…	…	…	…	…

Sources: Suriname authorities; and IMF staff estimates and projections.
1/ Historical figures correspond to the Balance of Payments revised by the CBvS.

Table 4. Suriname: Summary Accounts of the Banking System

	2010	2011	2012	2013	Proj. 2014	Proj. 2015
	(In millions of Surinamese dollars)					
Net foreign assets	**3,074**	**4,402**	**5,171**	**4,586**	**4,795**	**5,345**
Net international reserves	2,155	3,055	3,510	2,658	2,634	2,991
Net other foreign assets	919	1,348	1,661	1,928	2,162	2,354
Net domestic assets	**2513**	**2399**	**2988**	**4758**	**5,480**	**6,337**
Net claims on the public sector	-54	-518	-489	232	469	555
Central government (net)	208	-229	17	573	759	802
Rest of the public sector (net)	-262	-289	-506	-341	-290	-247
Credit to the private sector	2,884	3,460	4,036	4,775	5,492	6,316
Net unclassified assets	-53	24	-115	174	0	0
Official capital and surplus	-264	-567	-444	-424	-481	-534
Liabilities to the private sector	**5,588**	**6,801**	**8,159**	**9,343**	**10,439**	**11,335**
Broad money	5,137	6,255	7,485	8,537	9,471	10,174
Monetary liabilities	1,839	1,925	2,392	2,546	2,784	3,052
Currency in circulation	669	685	831	866	947	1,068
Demand deposits	1,169	1,240	1,560	1,680	1,838	1,984
Quasi-money (including gold certificates)	1,048	1,220	1,617	1,879	2,140	2,238
Foreign currency deposits	2,251	3,111	3,476	4,112	4,546	4,883
Other liabilities	451	545	675	806	968	1,161
	(Percent changes, unless otherwise indicated)					
Liabilities to the private sector	11.6	21.7	20.0	14.5	11.7	8.6
Broad money	11.2	21.8	19.6	14.1	10.9	7.4
Money	16.5	4.7	24.2	6.5	9.4	9.6
Quasi-money	16.4	16.4	32.6	16.2	13.9	4.6
Foreign currency deposits	5.1	38.2	11.7	18.3	10.6	7.4
Credit to the private sector	10.9	19.9	16.7	18.3	15.0	15.0
In percent of GDP	24.1	24.3	25.3	28.7	31.7	34.1
In percent of beginning of period M2	56.1	55.3	53.9	55.9	58.0	62.1
Change in net credit to the public sector (% of beginning of period M2)	4.4	-7.4	0.4	8.4	2.5	0.8
Broad money (percent of GDP)	42.8	43.9	47.0	51.3	54.6	54.9
	(Changes as a percent of liabilities of the previous period)					
Net foreign assets of the banking sector	1.8	23.8	11.3	-7.2	2.2	5.3
Central bank international reserves	1.2	16.1	6.7	-10.4	-0.3	3.4
Other net foreign assets	0.6	7.7	4.6	3.3	2.5	1.8
Net domestic assets of the banking sector	9.8	-2.1	8.7	21.7	9.5	3.3
Credit to the public sector	4.9	-9.0	0.5	9.6	2.8	0.9
Credit to the private sector	5.7	10.3	8.5	9.1	7.7	7.9
Liabilities to the private sector	11.6	21.7	20.0	14.5	11.7	8.6
Memorandum items:						
Deposit dollarization ratio (percent) 1/	50.4	55.8	52.2	53.6	53.3	53.6
Credit dollarization ratio (percent) 2/	36.8	40.0	41.6	39.9	…	
Domestic currency interest rate spread (%)	5.6	5.1	4.8	4.8	…	
Foreign currency (US$) interest rate spread (%)	6.6	6.9	7.0	6.9	…	
Reserve requirement for domestic deposits (percent) 3/	26.0	26.0	26.0	30.0	…	
Reserve requirement for foreign currency deposits (%)	33.3	40.0	40.0	50.0	…	

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/

	2009	2010	2011	2012	2013
Number 2/					
Banks	8	9	9	9	9
Large banks	3	3	3	3	3
Small banks	5	6	6	6	6
Reporting non-bank financial institutions					
Pension funds	28	28	28	29	30
Insurance companies	12	12	12	12	12
Credit unions and cooperatives	30	29	24	24	24
		(In percent of total)			
Assets	100	100	100	100	100
Banks	74.7	76.4	75.6	76.8	...
Large banks	61.6	60.5	59.2	60.2	...
Small banks	13.1	16.0	16.4	16.6	...
Pension funds	14.5	14.6	14.3	12.9	...
Insurance companies	7.7	7.7	8.5	8.6	...
Credit unions and cooperatives	3.1	1.3	1.6	1.7	...
Deposits					
Banks	100	100	100	100	100
Large banks	82.5	79.1	79.0	79.1	79.3
Small banks	17.5	20.9	21.0	20.9	20.7
Capital adequacy					
Regulatory capital to risk-weighted assets (*)	10.7	11.9	12.0	12.8	12.4
Regulatory Tier I capital to risk-weighted assets (*)	9.5	10.7	11.0	11.7	11.2
Capital (net worth) to assets	5.5	6.2	6.2	6.3	6.3
Asset composition					
Sectoral distribution of loans to total loans (*)					
Agriculture	4.3	4.3	3.7	3.2	2.9
Manufacturing	7.8	7.7	8.3	8.5	8.0
Commerce	26.2	23.9	26.3	29.8	29.9
Housing construction	18.2	17.9	16.8	17.3	16.8
Other	43.5	46.2	44.9	41.1	42.4
Asset quality					
Foreign currency loans to total loans	41.2	37.1	40.7	42.2	40.1
NPLs to gross loans (*)	7.9	7.9	8.0	6.2	5.9
NPLs net of provisions to capital (*)	56.6	50.3	48.5	33.7	36.1
Large exposures to capital (*)	93.3	98.9	106.8	87.7	103.5
Earnings and profitability					
ROA (*)	2.5	2.1	1.9	1.9	1.7
ROE (*)	35.3	29.1	27.2	24.8	21.8
Interest margin to gross income (*)	72.3	79.7	77.6	78.0	79.1
Noninterest expenses to gross income (*)	59.8	63.4	62.8	61.2	64.6
Personnel expenses to noninterest expenses	59.2	59.9	58.9	62.2	61.4
Trading and fee income to total income	31.9	28.8	30.7	26.6	24.9
Spread between reference loan and deposit rates	6.7	6.7	6.6	6.4	6.6
Liquidity					
Liquid assets to total assets (*)	44.8	43.2	43.3	47.1	43.4
Liquid assets to total short-term liabilities (*)	75.4	77.2	80.1	88.5	87.3
FX liabilities to total liabilities	54.1	50.8	55.7	52.9	52.2
Net position in foreign currency to capital 3/	33.0	27.8	28.9	29.5	24.1

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.

Appendix I. Debt Sustainability Analysis

Suriname's public debt sustainability risks have risen significantly. Public debt jumped 8 percentage points to 30 percent of GDP in 2013, and is expected to climb further to 40 percent of GDP by 2019. Though this level of debt is still moderate the sharp increase is cause for concern. The deterioration largely reflects the rapid worsening of the primary deficit and the moderate consolidation efforts assumed in staff's baseline. However, about 6¾ percentage points of the projected increase in debt over the medium term reflects borrowing for the purchase of equity stakes in two large gold mining projects. The debt path is robust to a variety of shocks to growth, interest rates, the exchange rate, and the primary balance, though a combined shock could raise projected debt to around 51 percent of GDP and financing needs to 18 percent of GDP in 2019.

Risks arising from the maturity of public debt are low, as short term debt constitutes a small fraction of total debt. A spike in short term debt in 2013 due to a sharp rise in recourse to the central bank overdraft facility was eliminated in early 2014 by rationalizing government accounts with the central bank, using government deposits to payoff liabilities. Risks arising from the currency composition of debt have risen, and foreign currency denominated debt is now over half of total debt. Importantly, fiscal consolidation will be key to mitigating the risks to the baseline scenario—medium term projections using historical averages for the macroeconomic and fiscal paths indicate a substantial decline in public debt, emphasizing the need to return to the stronger fiscal stance prevailing in the recent past. Moreover, projections using a constant primary balance indicate a further rise in projected debt to over 50 percent of GDP, with elevated financing needs as well.

Gross financing needs rise significantly under the baseline but remain moderate. The DSA indicates that gross financing needs will be 10.1 percent of GDP in 2014—up from an average of 1.6 percent for 2003–2011—and will rise to 13 percent of GDP in 2019, below the 15 percent benchmark. The heat map highlights rising risks in gross financing needs under real interest rate shocks.

The forecast track record shows a degree of pessimism in forecasts of real GDP growth, suggesting some possibility that the public debt path realization could be somewhat lower than staff forecasts, but this effect is unlikely to be significant. In the aftermath of the devaluation in 2011, staff inflation forecasts for 2012–13 were well above the actual, but staff has since lowered its forecasts for inflation over the medium term to correct this error. Average forecast error for the primary balance is close to zero. Given the robustness of the debt path to macro shocks based on historical precedent, any forecast bias is unlikely to be substantial. The projected fiscal adjustment looks realistic in comparison with other countries, and indeed the low percentile rank (81 percent) in the 3-year average level of the CAPB, corresponding to -1.5 percent of GDP, confirms that the country has more room to implement stronger fiscal measures if necessary.

External debt rises to a peak in 2016, reflecting government external borrowing to finance the purchase of equity in two gold mining projects. Beyond 2016, however, external debt falls as the current account balance improves, ending at 43 percent of GDP in 2019. Other external borrowing from multilateral sources to support reform and infrastructure projects is projected to remain strong, while external borrowing from the private sector declines over the medium-term as several large projects are completed. Medium-term projections for the balance of payments depend crucially on the outlook for gold prices, as gold constitutes close to two-thirds of exports. With the current outlook for gold prices, the current account is expected to revert to a surplus in 2017 following the completion of large gold-related FDI projects and the completion of Staatsolie's oil refinery which will substitute for a significant portion of oil imports. Suriname's external debt ratio is robust to interest and growth shocks, but sensitive to large and permanent current account and exchange rate shocks. The primary source of a large current account shock would be falling gold prices. An exchange rate depreciation would also raise external debt levels substantially. However, the additional risk from the planned market borrowing of government stemming from devaluation alone is limited, because the funds will finance projects related to gold which generate U.S. dollar revenue streams.

Suriname Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

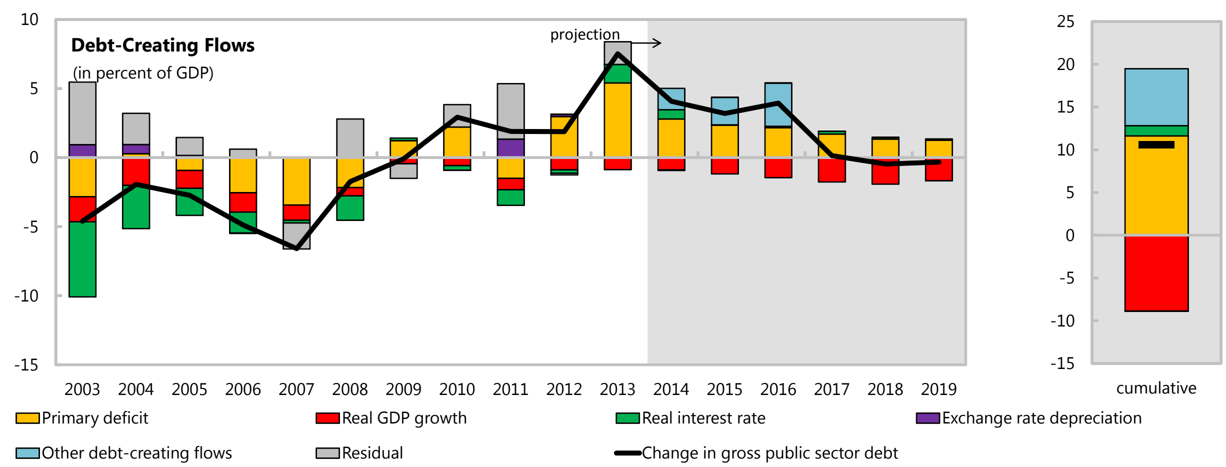
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2003-2011 [2/]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	22.8	22.2	29.8	33.8	37.0	41.0	41.1	40.7	40.3
Public gross financing needs	1.6	4.7	6.5	10.1	10.0	10.2	10.6	11.3	12.9
Real GDP growth (in percent)	5.1	4.8	4.1	3.1	3.7	4.2	4.6	5.0	4.4
Inflation (GDP deflator, in percent)	12.3	6.6	0.3	1.0	3.0	2.7	2.7	2.8	2.9
Nominal GDP growth (in percent)	18.1	11.7	4.4	4.2	6.8	7.0	7.4	8.0	7.4
Effective interest rate (in percent) [4/]	5.7	5.5	6.6	3.3	3.2	3.1	3.4	3.3	3.2

As of August 13, 2014		
Sovereign Spreads 3/		
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	Ba3
S&Ps	n.a.	BB-
Fitch	n.a.	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-2.0	1.9	7.5	4.1	3.2	3.9	0.1	-0.5	-0.3	10.6	-1.6
Identified debt-creating flows	-3.5	2.0	5.9	4.1	3.2	3.9	0.1	-0.5	-0.3	10.6	
Primary deficit	-1.1	3.0	5.4	2.8	2.3	2.2	1.7	1.3	1.3	11.6	
Primary (noninterest) revenue and grants	22.9	25.9	23.8	24.5	24.8	24.3	23.6	23.8	23.9	144.9	
Primary (noninterest) expenditure	21.8	28.9	29.2	27.2	27.2	26.4	25.3	25.2	25.2	156.5	
Automatic debt dynamics [5/]	-2.5	-1.0	0.5	-0.2	-1.2	-1.4	-1.6	-1.8	-1.6	-7.7	
Interest rate/growth differential [6/]	-2.8	-1.1	0.5	-0.2	-1.2	-1.4	-1.6	-1.8	-1.6	-7.7	
Of which: real interest rate	-1.7	-0.3	1.3	0.7	0.0	0.1	0.2	0.1	0.1	1.2	
Of which: real GDP growth	-1.1	-0.9	-0.9	-0.9	-1.2	-1.5	-1.8	-1.9	-1.7	-8.9	
Exchange rate depreciation [7/]	0.3	0.2	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	1.5	2.0	3.1	0.0	0.0	0.0	6.7	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.6	-0.1	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees, defined as .

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

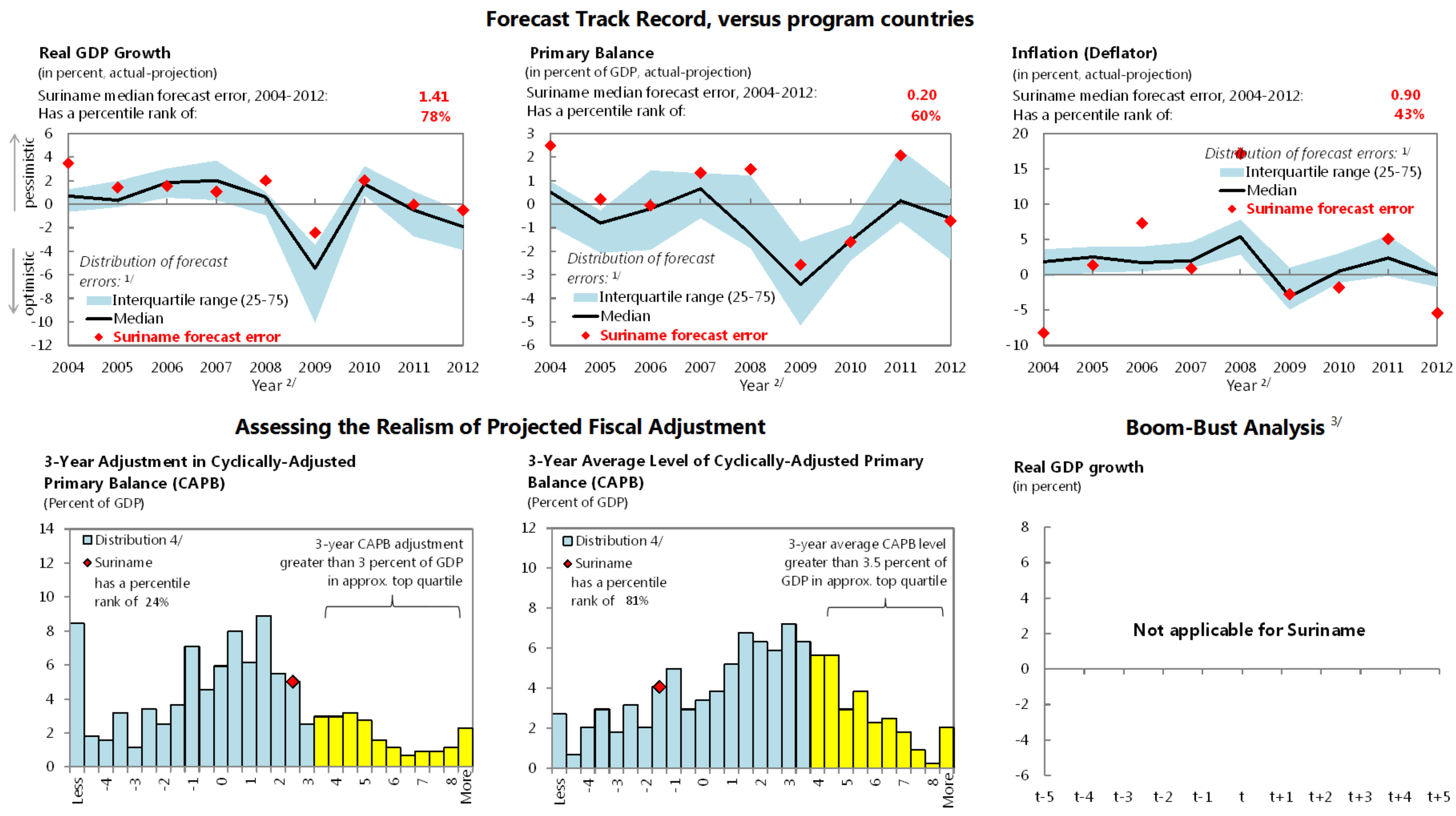
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

Suriname Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes program countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Suriname.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Suriname Public DSA Risk Assessment

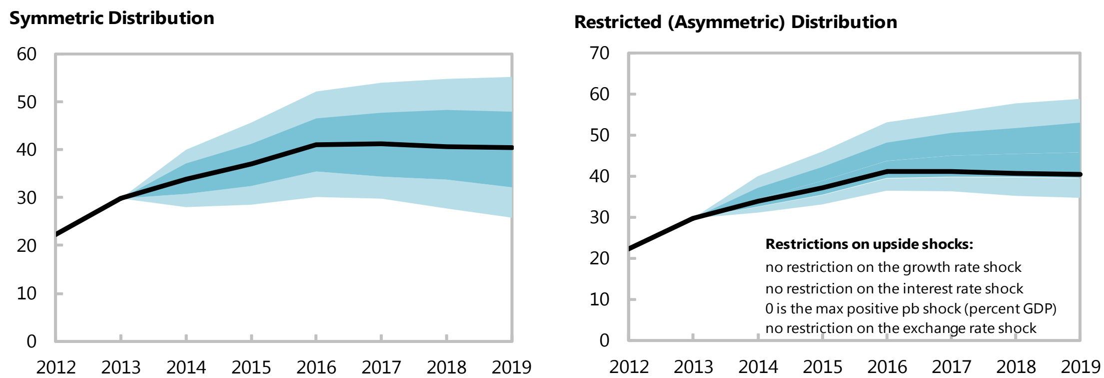
Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)

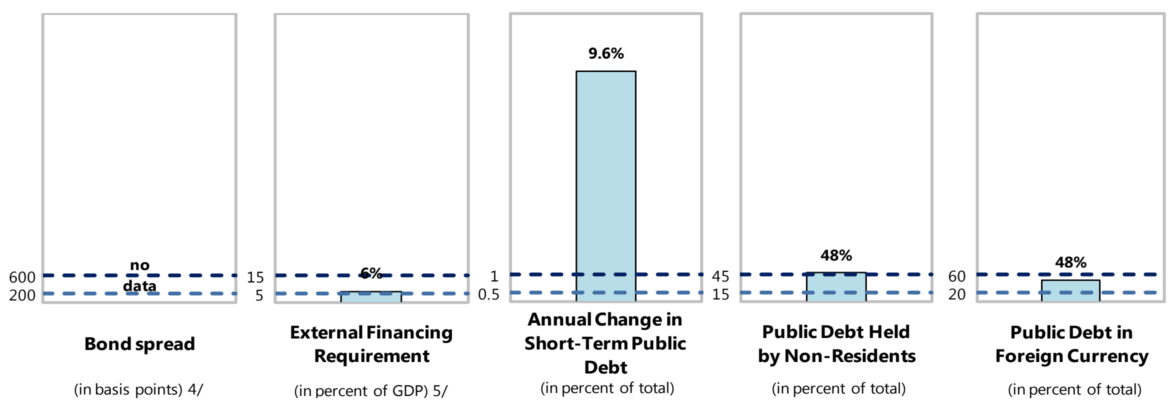
Baseline Percentiles: 10th-25th 25th-75th 75th-90th



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)

Suriname Lower early warning Upper early warning



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 24-Apr-14 through 23-Jul-14.

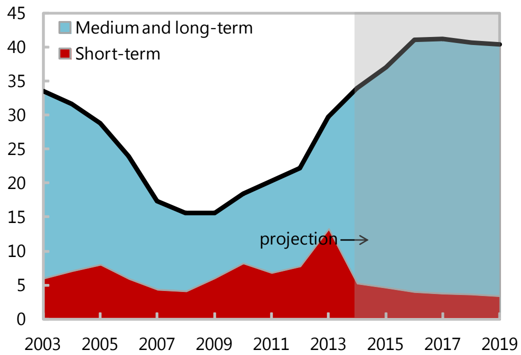
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Suriname Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

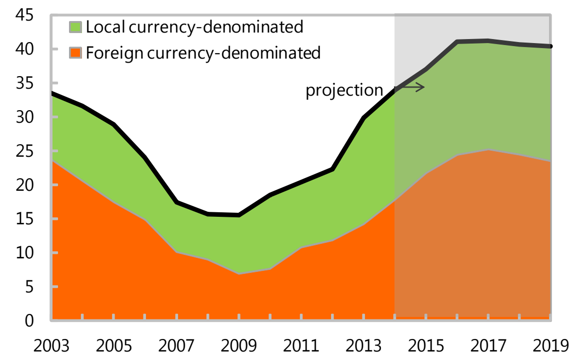
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

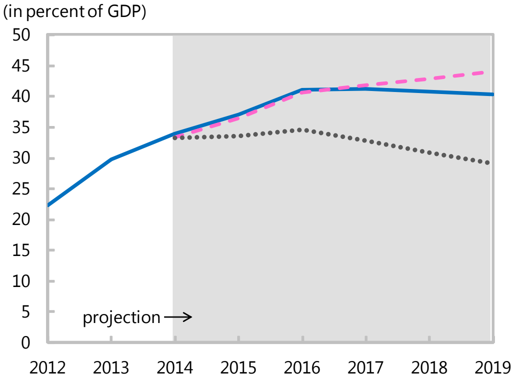


Alternative Scenarios

Baseline　　Historical　　Constant Primary Balance

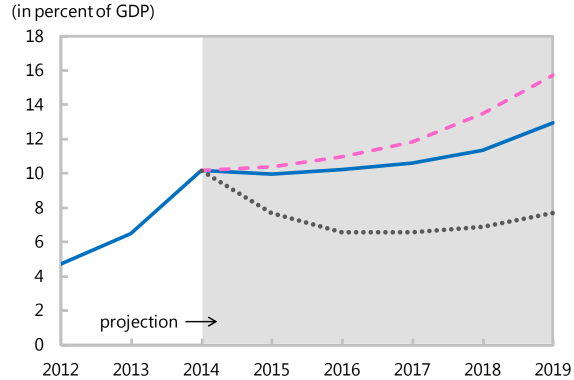
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

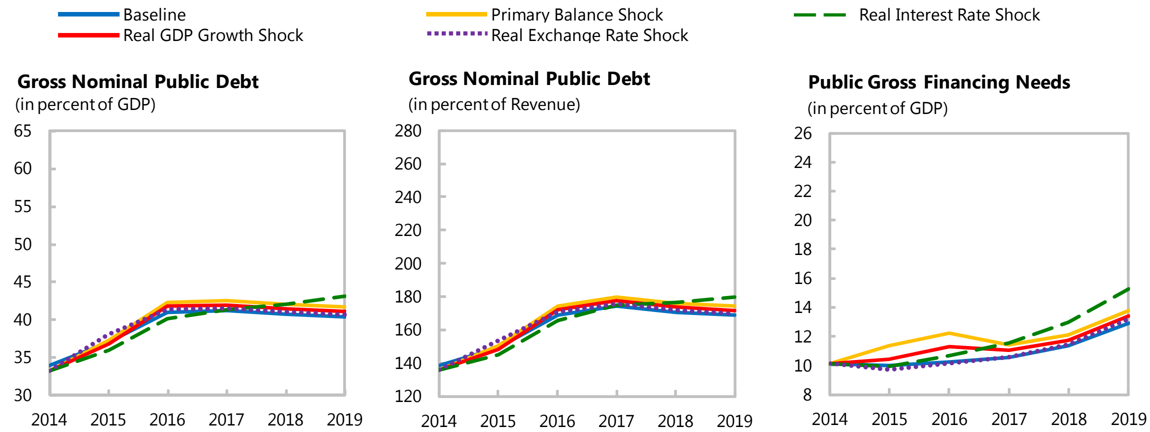
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.1	3.7	4.2	4.6	5.0	4.4
Inflation	1.0	3.0	2.7	2.7	2.8	2.9
Primary Balance	-2.8	-2.3	-2.2	-1.7	-1.3	-1.3
Effective interest rate	3.3	3.2	3.1	3.4	3.3	3.2
Constant Primary Balance Scenario						
Real GDP growth	3.1	3.7	4.2	4.6	5.0	4.4
Inflation	1.0	3.0	2.7	2.7	2.8	2.9
Primary Balance	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Effective interest rate	3.3	3.2	3.1	3.3	3.3	3.2

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	3.1	4.9	4.9	4.9	4.9	4.9
Inflation	1.0	3.0	2.7	2.7	2.8	2.9
Primary Balance	-2.8	-0.2	-0.2	-0.2	-0.2	-0.2
Effective interest rate	3.3	3.2	1.8	1.5	1.1	0.8

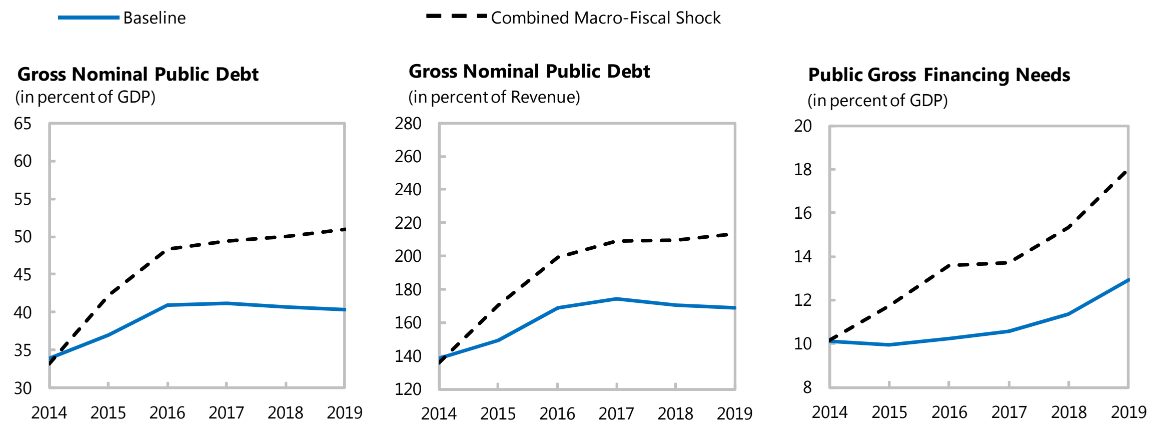
Source: IMF staff.

Suriname Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	3.1	3.7	4.2	4.6	5.0	4.4
Inflation	1.0	3.0	2.7	2.7	2.8	2.9
Primary balance	-2.8	-3.7	-3.6	-1.7	-1.3	-1.3
Effective interest rate	3.3	3.2	3.3	3.6	3.4	3.3
Real Interest Rate Shock						
Real GDP growth	3.1	3.7	4.2	4.6	5.0	4.4
Inflation	1.0	3.0	2.7	2.7	2.8	2.9
Primary balance	-2.8	-2.3	-2.2	-1.7	-1.3	-1.3
Effective interest rate	3.3	3.2	4.8	5.9	6.4	6.8
Combined Shock						
Real GDP growth	3.1	2.6	3.0	4.6	5.0	4.4
Inflation	1.0	2.7	2.4	2.7	2.8	2.9
Primary balance	-2.8	-3.7	-3.6	-1.7	-1.3	-1.3
Effective interest rate	3.3	3.5	4.8	6.0	6.4	6.8

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	3.1	2.6	3.0	4.6	5.0	4.4
Inflation	1.0	2.7	2.4	2.7	2.8	2.9
Primary balance	-2.8	-2.8	-2.9	-1.7	-1.3	-1.3
Effective interest rate	3.3	3.2	3.1	3.4	3.3	3.2
Real Exchange Rate Shock						
Real GDP growth	3.1	3.7	4.2	4.6	5.0	4.4
Inflation	1.0	9.8	2.7	2.7	2.8	2.9
Primary balance	-2.8	-2.3	-2.2	-1.7	-1.3	-1.3
Effective interest rate	3.3	3.5	3.0	3.2	3.2	3.1

Source: IMF staff.

Table 1. Country: External Debt Sustainability Framework, 2009-2019

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018	2019	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	11.9	12.3	30.3	29.4	33.7			**38.8**	**42.1**	**48.2**	**47.9**	**45.9**	**43.2**	**-1.7**
2 Change in external debt	-0.2	0.4	17.9	-0.8	4.3			5.1	3.2	6.2	-0.3	-2.1	-2.7	
3 Identified external debt-creating flows (4+8+9)	-1.3	-6.8	-7.5	-8.7	0.0			-1.6	-1.3	-2.3	-5.0	-4.2	-3.9	
4 Current account deficit, excluding interest payments	-3.5	-11.5	-6.5	-4.1	2.4			2.7	1.9	0.8	-3.0	-3.1	-3.4	
5 Deficit in balance of goods and services	-0.3	-11.8	-9.8	-5.9	2.8			3.9	3.4	2.6	-1.6	-2.0	-2.7	
6 Exports	43.6	52.5	61.1	59.5	51.1			44.3	42.9	40.7	44.1	43.6	43.6	
7 Imports	43.2	40.7	51.4	53.6	53.9			48.2	46.3	43.3	42.4	41.6	40.8	
8 Net non-debt creating capital inflows (negative)	2.7	5.9	-1.7	-2.4	-2.7			-5.1	-3.9	-3.6	-2.7	-1.6	-1.0	
9 Automatic debt dynamics 1/	-0.5	-1.2	0.7	-2.2	0.3			0.8	0.7	0.6	0.7	0.4	0.6	
10 Contribution from nominal interest rate	0.6	0.1	0.7	0.7	1.6			1.8	2.0	2.2	2.7	2.6	2.4	
11 Contribution from real GDP growth	-0.3	-0.4	-0.7	-1.3	-1.2			-1.0	-1.4	-1.7	-2.1	-2.2	-1.9	
12 Contribution from price and exchange rate changes 2/	-0.7	-0.9	0.7	-1.6	-0.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	1.1	7.2	25.4	7.9	4.3			6.7	4.5	8.4	4.7	2.2	1.2	
External debt-to-exports ratio (in percent)	27.4	23.5	49.5	49.5	66.0			87.6	98.1	118.6	108.7	105.1	99.0	
Gross external financing need (in billions of US dollars) 4/	-0.1	-0.5	-0.3	-0.1	0.3			0.4	0.4	0.4	0.2	0.2	0.1	
in percent of GDP	-2.9	-11.4	-5.8	-1.5	5.8	10-Year	10-Year	7.1	6.5	5.8	3.5	3.1	1.8	
Scenario with key variables at their historical averages 5/								**38.8**	**39.6**	**43.6**	**43.8**	**41.7**	**38.8**	**-0.6**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.0	4.2	5.3	4.8	4.1	4.9	1.2	3.1	3.7	4.2	4.6	5.0	4.4	
GDP deflator in US dollars (change in percent)	6.5	8.1	-5.1	5.5	0.3	7.0	6.1	1.0	3.0	2.7	2.7	2.8	2.9	
Nominal external interest rate (in percent)	5.5	1.3	5.7	2.4	5.6	3.4	1.7	5.5	5.6	5.7	6.1	5.9	5.7	
Growth of exports (US dollar terms, in percent)	-16.7	35.8	16.3	7.6	-10.4	19.4	27.2	-9.6	3.4	1.6	16.4	6.9	7.2	
Growth of imports (US dollar terms, in percent)	-7.6	6.1	26.1	15.4	4.9	17.8	25.1	-6.9	2.6	0.0	5.4	5.8	5.4	
Current account balance, excluding interest payments	3.5	11.5	6.5	4.1	-2.4	4.0	6.9	-2.7	-1.9	-0.8	3.0	3.1	3.4	
Net non-debt creating capital inflows	-2.7	-5.9	1.7	2.4	2.7	-2.4	4.3	5.1	3.9	3.6	2.7	1.6	1.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

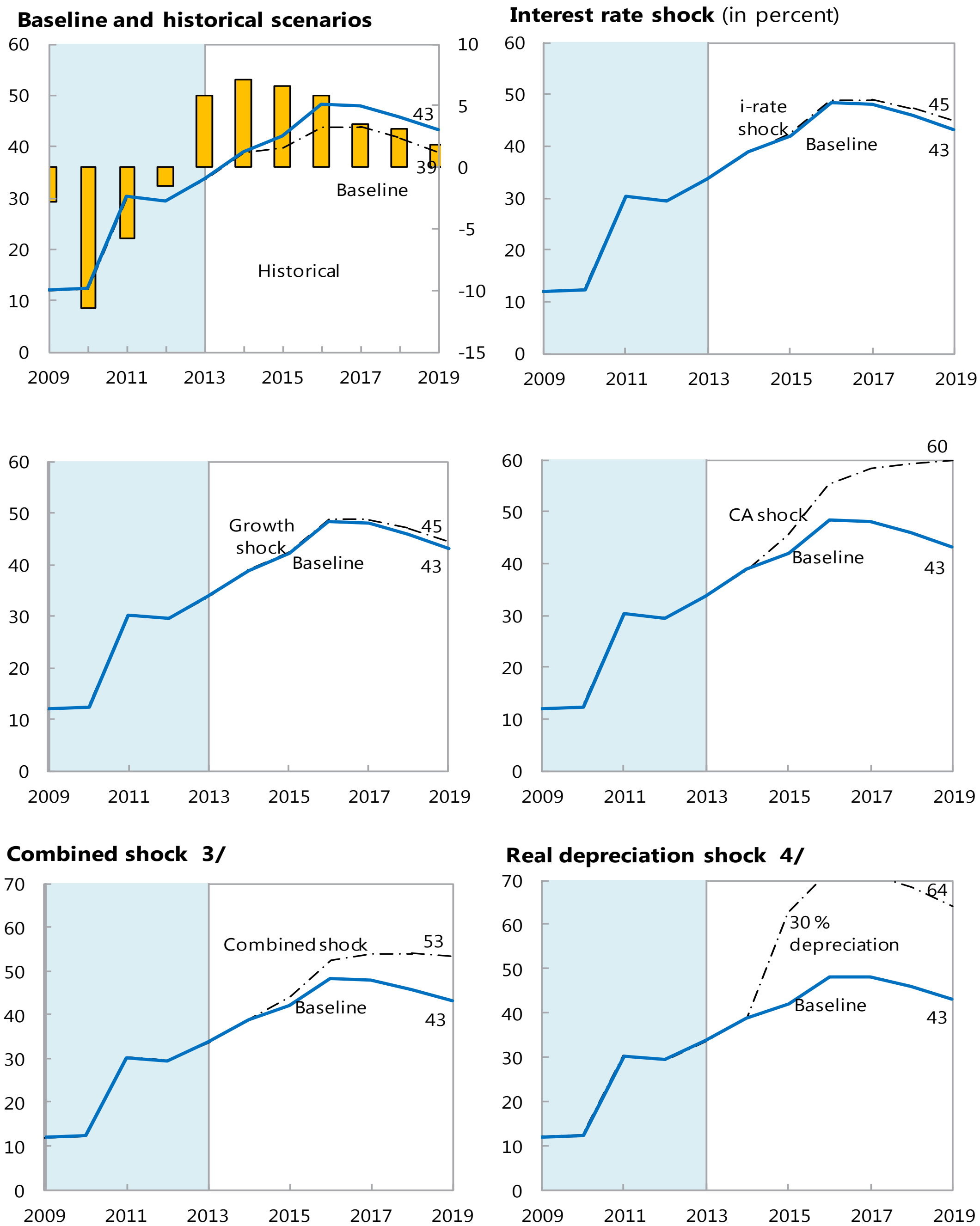
3/ For projection, line includes the impact of price and exchange rate changes.

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 of the last projection year.

Figure 1. Country: 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 2014.

Appendix II. Authorities' Response to Past IMF Policy Recommendations

IMF 2013 Article IV Recommendations	Authorities' Response
<u>Fiscal Policy:</u> (i) Substantial adjustment, requiring both revenue and expenditure measures, is needed to strengthen macroeconomic stability and ensure sustainability. Notably: • Tighten public spending. In particular, public wage should be moderated and subsidies should be better targeted. Diversify revenue base including implementation of VAT. (ii) Establish a sound fiscal framework considering the sensitivity of revenues to mineral sector developments. This should comprise a fiscal anchor consistent with sustainability, medium-term expenditure ceilings, and a Sovereign Wealth Fund (SWF).	(i) The authorities have implemented strong consolidation in 2014, including both revenue and expenditure measures. However, deeper reforms such as VAT and improved targeting of subsidies are to be tackled after the 2015 elections. (ii) The authorities were receptive to staff's recommendation of establishing clear fiscal framework, but have not yet taken concrete action to establish a fiscal anchor. The SWF law is currently stalled.
<u>Monetary and Exchange Rate Policy</u>: (i) Monetary tightening should be deployed to safeguard the external position if fiscal measures prove inadequate to contain demand pressures. (ii) The monetary authorities should press ahead with efforts to establish indirect instruments of monetary policy.	(i) The central bank tightened monetary policy on September 16. It raised reserve requirements on both domestic and foreign currency deposits by 5 percentage points to 30 percent and 50 percent, respectively, as part of efforts to constrain credit growth and help strengthen macroeconomic stability. (ii) T-bill auction as a first step to establish indirect monetary policy framework is in progress although the implementation is delayed to Q4 2014 /Q1 2015.
<u>Structural Reforms</u>: (i) Structural reforms to improve the business environment and increase the efficiency of public utilities will be needed to enhance competitiveness. (ii) Labor market flexibility could be improved by some relaxation of employment protection regulations.	(i) Legislation is pending to overhaul the business environment. Draft laws on competition policy, limited liability company formation, and electronic publication of the registration of new firms have been approved by the Council of Ministers and are before Parliament. Other important legislation in the pipeline includes laws on intellectual property, consumer protection, and electronic transactions.
<u>Financial Sector:</u> (i) Plans to substantially reduce state ownership in the banking sector should be carefully designed and managed to ensure a smooth transition. (ii) Efforts to strengthen financial sector resilience and reduce dollarization should continue.	(i) The authorities are still discussing with the relevant banks on how to divest government shares to reduce potential negative impact on market. (ii) The authorities passed new capital rules on July 1, 2014 to raise minimum CAR ratio to 10 percent for all banks and require banks to raise provisions by an estimated SRD40 million.

INTERNATIONAL MONETARY FUND

SURINAME

August 13, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31, 2014)

Membership Status: Joined: April 27, 1978; Article VIII

General Resources Account:	SDR Million	%Quota
Quota	92.10	100.00
Fund holdings of currency (Exchange Rate)	85.98	93.35
Reserve Tranche Position	6.12	6.65

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	88.09	100.00
Holdings	81.27	92.26

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund [1/]

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

			Forthcoming		
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

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

Implementation of HIPC Initiative: Not Applicable

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

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. The de jure exchange rate arrangement is classified as floating. In accordance with a July 1994 presidential decree (Resolution and Besluit of 1994), the exchange rate is determined based on the demand and supply of foreign exchange. With the amendment in 2000 ("Wijzigingen Resolutie") the Central Bank of Suriname was mandated to establish, at its discretion, maximum and minimum rates. The exchange rate of the Surinamese dollar vis-à-vis the U.S. dollar in the official market remained stable until January 20, 2011, when the authorities devalued the currency by 20 percent to SRD 3.3 per U.S. dollar and set a band of SRD 3.25–3.35 per U.S. dollar, within which all official and commercial market transactions may take place. Accordingly, the de facto exchange rate arrangement is classified as a stabilized arrangement. Suriname is an Article VIII member and maintains two multiple currency practices (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. Staff does not recommend the approval of these MCPs as there is no clear timetable for their removal.

Last Article IV consultation: The last Article IV consultation was concluded by the Executive Board on September 7, 2013 (IMF Country Report No. 13/340). 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 2011:

CARTAC

- Mission in 2011 on improving insurance 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.

- Mission in June 2012 and April 2013 to discuss Treasury Single Account and Chart of Accounts issues.
- Mission in August 2012 to conduct a seminar on Central Treasury Management.
- Mission in October 2012 to provide support during post VAT Implementation.
- Mission in October 2012 on Banking Supervision and Securities Regulation.
- Missions from July 2012 through July 2013 and February 2014 on National Accounts and expenditure based GDP.
- Mission in January and June, July 2013 on Deposit Insurance Scheme.
- Mission in October through to November 2013 to review existing reforms including the Chart of Accounts and IFMIS implementation.
- Mission in November 2013 on Capital Market Development.
- Mission in January 2014 to deliver Electronic Auditing Course.
- Mission in February 2014 on Balance of Payments Statistics Assessment.
- Mission in June 2014 to provide assistance on MTEF and the Budget Process also present at the ICAC conference.
- Mission in June 2014 to discuss Financial Stability needs with Central Bank Officials.
- Mission in June 2014 to assist with improvements to macroeconomic projection frameworks and train staff in forecasting techniques.

FAD

- Mission in February 2011 on revenue administration assessment.
- Mission in August 2012 on public financial management.
- Mission in May 2013 on IFMIS design and implementation.

LEG

- Mission in August and November 2011 on fiscal law.

MCM

- 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.
- Mission in September 2013 on central bank modernization.
- Mission in November 2013 on T-bill auctions.
- Mission in December 2013 on central bank accounting and treasury account rationalization.
- Mission in January 2014 on establishment of a single treasury account and improving financial reporting.

STA

- Mission in Jan 2012 on workshop on national accounts.
- Mission in July 2012 on national accounts.
- Mission in Feb 2014 on national accounts.
- Mission in March 2014 on BOP and external sector statistics.

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

Resident Representative: None.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of May 31, 2014)

1. **In 1980 Suriname joined the Inter-American Development Bank (IADB), the country's largest multilateral lender**. As of May 2014, Suriname's outstanding debt to the IADB stood at US$388 million.

2. **Through the IADB Country Strategy with Suriname 2011–2015, the government of Suriname expanded its partnership for development.** The strategy calls for 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 modernizing 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.

3. **The active investment loan portfolio, of which 52.9 percent is disbursed, consists of 10 sovereign guaranteed loans that total US$200 million.** The median age of the loans in the entire portfolio is 2.4 years. The 2014 pipeline will support reforms in agriculture and the business climate while collaboration in the energy and financial sectors continues. The 2014 pipeline includes one investment loan for US$40 million, and five programmatic PBLs for up to US$70 million.

4. **The technical cooperation portfolio for Suriname comprises 16 operations (US$13.7 million), of which 19 percent has been disbursed.**

RELATIONS WITH THE WORLD BANK GROUP

(As of June 3, 2014)

The World Bank Group recently re-engaged with the Surinamese authorities after 30 years hiatus. In September 2011, Suriname became the 183rd member of the IFC and 14th in the Latin America Region. In October 2012 the Board of Directors also endorsed the Interim Strategy Report (ISN) which will guide engagement in the country over the next two years. 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 ISN was successfully implemented. The Government and the Bank Group are currently engaged with the preparation of a Country Partnership Strategy (CPS) expected to be finalized by the end of calendar year 2014.

Lending Activities

IFC financed a trade financing line with a leading local commercial bank.

Technical Assistance

Report on the Observance of Standards and Codes – Accounting and Auditing (ROSC): Based on findings of the ROSC completed in 2012, a $300,000 grant for the Development of Accounting and Auditing Standards and Practices has been secured. The recipient of the grant is the Ministry of Finance and the Central Bank of Suriname.

The Reserves Advisory & Management Program (RAMP) first initiative was completed. A proposal for further work was submitted for Government's approval.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provided to the Fund are broadly adequate for surveillance purposes, but has shortcomings, reflecting capacity constraints and limited resources. The authorities are making efforts to improve the quality and dissemination of economic data, notably through the central bank's website. In 2014, the Central Bank publishes an Advance Release Calendar (ARC) for monetary and external sector statistics, and updates regularly the National Summary Data Page (NSDP) on its website, although timeliness remains an issue with some important data, such as GDP and labor statistics. The authorities also need to compile social indicators for enabling social policy design to support inclusive growth.
National accounts: With extensive support from CARTAC, the General Bureau of Statistics (ABS) has improved the quality and coverage of production-based GDP and has made progress in the reconciliation of the national accounts with the Balance of Payments and the compilation of expenditure-based GDP. One milestone recently accomplished by the ABS was the compilation of household final consumption expenditure. ABS has also reconciled the data on imports and exports in the expenditure-based GDP estimates with the Balance of Payments for 2012. ABS will carry out the exercise back to 2007 in consultation with the Central Bank and plans to publish expenditure-based GDP in 2014. ABS has also published on its website the component weights of the CPI sub-indices as recommended by the 2013 Article IV report.
Government finance statistics: The Ministry of Finance (MoF) primarily compiles the fiscal data in national definition and concepts which could lead to confusion in analyzing in GFSM formats. By the same token, although the effort that Central Bank of Suriname (CBvS) made to convert the fiscal statistics into 2001 GFSM format is welcome, the estimates are often different from what MoF provides. The operations of central government data (in 2001 GFSM format) on a monthly basis are available in the CBvS website, often with a few months lag. Staff notes that the limited data are generally due to capacity constraint, and strongly encourages publishing the detailed fiscal data on a timely basis for a thorough analysis. The MoF is upgrading the IT system to help collect detailed fiscal data. Separately, the authorities provide public debt data on a regular basis. However, the available public debt statistics cover only debt contracted or guaranteed by the central government, and as a result, it is difficult to capture the buildup or payoff of arrears in the current debt recording system. Public finance statistics are limited to those for the central government. 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.

Monetary and financial statistics: The Central Bank (CBvS) uses the standardized report forms (SRFs) to regularly report data for the central bank and other depositary corporations (ODCs) on a monthly basis. The CBvS does not report the SRF for other financial corporations. There have been important improvements to quality and timeliness of monetary and financial statistics. The surveys for the central banks and ODCs and depository corporations are disseminated on the CBvS's website within five weeks of the reference month.

Suriname does not report financial soundness indicators (FSIs) to the Statistic Department (STA) for dissemination on the IMF's FSI website. The authorities are encouraged to adopt the FSI methodology for reporting Suriname's FSIs to STA on regular basis.

External sector: The Central Bank has made important progress in the compilation of quarterly balance of payments and International Investment Position (IIP) statistics. The current classification and methodology of the *Balance of Payments Manual,* Fifth Edition (*BPM5*) is adopted to the extent that national data sources have permitted and the authorities are looking forward to the transition to the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). With the aim of embracing new statistical initiatives, the CBvS reported for the first time in 2013, quarterly IIP pertaining to 2012 for dissemination purposes in the Fund's *International Financial Statistics* (*IFS)* and national publications. The authorities also reported to the World Bank in June 2014 for the first time the Quarterly External Debt Statistics (QEDS), which are available on its website.

Going forward, the CBvS should formulate a medium term strategy to improve the compilation and coverage of: a) foreign direct investment; b) services (freight, insurance and pension services, financial, and other business services), with particular emphasis on travel through the implementation of a recurrent survey in coordination with the Suriname Tourism Office, and; (c) remittances through non-formal channels, using the annual household survey by Suriname Statistics Office (ABS). 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 June 30, 2014)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	6/14	6/14	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/14	6/14	M	Monthly Less than 1 month lag	M
Reserve/Base Money	5/14	6/14	M	Monthly Less than 1 month lag	M
Broad Money	514	6/14	M	Monthly with 6-7 weeks lag	M
Central Bank Balance Sheet	5/14	614	M	Monthly Less than 1 month lag	M
Consolidated Balance Sheet of the Banking System	4/14	6/14	M	Monthly with 6-7 weeks lag	M
Interest Rates[2]	5/14	6/14	M	Monthly with 6-7 weeks lag	M
Consumer Price Index	5/14	7/14	M	Monthly Less than 1 month lag	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	5/14	6/14	M	I	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	4/14	6/14	M	M	M
External Current Account Balance	Q1/14	6/14	Q	Q	Q
Exports and Imports of Goods and Services	Q1/14	6/14	Q	Q	Q
GDP/GNP	2012	6/14	A	A	A
Gross External Debt	4/14	6/14	Q	Q	Q
International Investment Position[6]	Q1/2014	6/14	Q	Q	Q

[1] Any reserve assets that are pledged of 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.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents. The authorities have commenced reporting quarterly data on a regular basis, starting with the 2014Q1 data.

[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

SURINAME

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

September 24, 2014

Approved By: Charles Enoch (WHD) and Vikram Haksar (SPR)

Staff wishes to highlight some developments supplementary to the staff report issued to the Board. The passage of the minimum wage law alters the thrust of the staff appraisal.

1. **Recent available high frequency indicators are broadly in line with staff projections**. Bank credit growth to the private sector has continued trending down to 13.4 percent (y/y) in July from 15 percent in April. June data show that public spending remained contained, amounting to about 11.7 percent of annual GDP in H1 2014 compared to the projected 28.2 percent of GDP for the full year. International reserves remain broadly stable, and stood at about US$800 million in end-August, close to 4 months of imports. Foreign exchange market conditions have remained orderly. Inflation has risen moderately to almost 4 percent in July, primarily reflecting movements in food and fuel prices.

2. **In line with staff's recommendations, the authorities announced a phased withdrawal of electricity subsidies on September 7**. Electricity tariffs for large corporations and foreign embassies are to rise from US$0.06/kWh to market rates (US$0.26/kWh), while rates for households will rise from US$0.06/kWh to US$0.08/kWh, implying that households will still enjoy a sizable electricity subsidy. The authorities have indicated that further adjustments to electricity subsidies for households could come after the completion of a study on its distributional impact. The exact timing for the transition to the new tariff rates was not mentioned.

3. **The authorities introduced a minimum wage on August 28, effective January 2015, starting around the bottom end of the public sector wage scale, but rising by 43 percent in the next two years**. A tri-partite labor council was also established to make future recommendations about the minimum wage and other labor market policies. Sizable data gaps on wage distribution make it difficult to accurately assess the impact of this measure, but the authorities' view is that the initial level will not significantly affect the distribution of wages in the public and formal

private sector, which has some support in staff's past assessments though these are hampered by data constraints.[1]

4. **However, the substantial increases planned for the next two years raise concerns, particularly given recent external pressures and fiscal slippages, and staff would advise deferring further increases**. Moreover, the ability of the new labor council to maintain the minimum wage at a level that does not undermine competitiveness is untested. Staff are also concerned that this measure could hurt job creation among the low-skilled or drive some low-wage activities underground, which would be detrimental to the very people the law is designed to help. It would be advisable to gather more data about the distribution of wages to inform the decision on the appropriate minimum wage.

[1] Details of staff's past assessment can be found in chapter V of the 2013 Selected Issues Paper, as well as the 2013 Staff Report and chapter II of the 2014 Selected Issues Paper.

Press Release No. 14/492
FOR IMMEDIATE RELEASE
October 31, 2014

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Suriname

On October 1, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Suriname.

Suriname's macroeconomic conditions weakened in 2013 as gold and oil prices declined. With those prices falling below recent peaks, the large fiscal and external sector exposures to the mineral sector continued their deterioration in 2013, along with a significant decline in international reserves. Thus, the main challenges the authorities are addressing continue to be to strengthening institutions and adjusting policies to reverse the recent deterioration and strengthen external stability.

Growth is estimated at a robust 4 percent in 2013, supported by fiscal relaxation and strong credit growth. In contrast with recent years, however, export volumes declined, subtracting from GDP growth. Gold export volume growth (three-fifths of total export of goods) contracted by 1.3 percent in 2013, down from positive growth of almost 6 percent in 2012, as gold prices declined. Moreover, exports of the other two main commodities continued to be weak—contracting 5 percent for alumina and increasing by 1.3 percent for oil—reflecting persistently low alumina prices and limited oil reserves. Inflation remained low in 2013, averaging 2 percent but has picked up to about 3 percent in May 2014 largely because of higher food and fuel prices.

Following increased reserve requirements in September 2013, bank credit growth to the private sector has declined from its peak of 20 percent (y/y) in October 2013 to 13.4 percent in July 2014. Deposit and credit dollarization have remained broadly stable. Banks are profitable and liquid. Bank capital adequacy remained broadly unchanged at 12.4 percent of risk weighted assets, above the regulatory 8 percent minimum, but well below the regional average of 20 percent. Non-performing loan (NPL) ratios were somewhat high at 5.9 percent in 2013.

[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.

However, fiscal deterioration continued in 2013. The overall fiscal balance fell by 2.8 percentage points of GDP to a deficit estimated at 6.8percent of GDP. Much of the deterioration reflected a significant decline in mineral revenues, but fiscal expenditures also increased. Strong fiscal consolidation is being implemented in 2014, and the fiscal deficit is expected to decline to 3.7 percent of GDP this year. Public debt is rising but remains relatively low at about 30 percent of GDP.

The external balance has also declined considerably. The current account balance fell 7.3 percentage points to a deficit of 4 percent of GDP in 2013, primarily reflecting the substantial adverse impact of falling gold prices on exports. In addition, domestic demand pressures manifested in strong goods imports, which offset the beneficial impact of declining imports for large projects on the current account balance. Alongside, international reserves declined to 3.4 months of imports.

Executive Board Assessment[2]

Executive Directors welcomed Suriname's robust economic growth and commended the authorities for their recent consolidation efforts to address the widening fiscal and external imbalances, and the progress made on financial sector reform. Noting the challenges posed by the exposure to uncertain commodity prices, Directors called for continued prudent policies and reforms to ensure macroeconomic stability, support diversification, and make growth more inclusive.

Directors welcomed the authorities' recent expenditure control and tax collection efforts and called for continued resolve in the run up to the 2015 elections. They encouraged the authorities to target a fiscal surplus over the medium term to bolster the external position and help build buffers. Directors underscored that successful fiscal consolidation will require additional measures, supported by a rules-based framework, incorporating a fiscal anchor. They encouraged the authorities to exercise expenditure restraint by phasing out untargeted subsidies, containing the wage bill, and prioritizing spending on goods and services and capital projects while protecting the vulnerable. Timely implementation of the VAT, together with further reform and modernization of the customs and tax structure, will strengthen revenues. Directors also encouraged the authorities to ensure the sustainability of the newly established national pension and health care system.

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

Directors considered the monetary policy stance to be appropriate but advised the authorities to stand ready to tighten monetary policy, if needed, to safeguard external stability. They encouraged pushing ahead with plans to establish open market operations, which will expand available monetary policy tools. Directors noted that the fixed exchange rate regime remains an appropriate anchor for policymaking for now, but requires a substantial fiscal tightening to support the current level of the currency. They encouraged the authorities to phase out existing multiple currency practices as soon as possible, and to improve data collection on foreign currency lending to better inform regulation.

Directors commended the progress in upgrading financial sector resilience. They looked forward to the implementation of the Financial Sector Assessment Program (FSAP) recommendations, focusing on further improvements in prudential standards, supervision, the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT regime), and continued efforts to bolster the institutional capacity and effectiveness of the central bank. Directors supported plans to establish a credit bureau and deposit insurance, modernize the payment and settlement system, and strengthen the insurance sector regulatory framework.

Directors welcomed the authorities' focus on improving competitiveness and diversifying the economy. They looked forward to the timely passage of the draft legislation spearheaded by the Competitiveness Unit, which will modernize the business environment. They also saw scope for increased labor market flexibility, supported by a well-targeted social safety net, to foster job creation. Directors advised a cautious approach regarding the planned increases in the minimum wage. Further progress in strengthening the data quality would enable sound policymaking.

Suriname: Selected Economic Indicators

				Est.	Proj.	
	2010	2011	2012	2013	2014	2015
(Annual percentage change, unless otherwise indicated)						
Real sector						
GDP at 2007 prices	4.2	5.3	4.8	4.1	3.1	3.7
GDP at current market prices	12.7	18.9	11.7	4.4	4.2	6.8
Consumer prices (end of period)	10.3	15.3	4.3	0.6	3.7	3.1
Consumer prices (period average)	6.9	17.7	5.0	1.9	2.6	3.4
Money and credit 1/						
Banking system net foreign assets	3.1	19.3	17.5	-11.3	4.6	11.5
Broad money	11.2	11.7	19.6	14.1	10.9	7.4
Private sector credit	10.9	12.0	16.7	18.3	15.0	15.0
(In percent of GDP, unless otherwise indicated)						
Savings and investment						
Private sector balance (savings-investment)	14.5	5.2	7.4	2.9	-0.8	-0.6
Public sector balance	-3.1	0.5	-4.0	-6.8	-3.7	-3.4
Foreign savings	-11.4	-5.8	-3.4	3.9	4.5	3.9
Central government						
Revenue and grants	22.7	27.0	25.9	23.8	24.5	24.8
Total expenditure	25.8	26.5	29.9	30.6	28.2	28.2
Of which: noninterest current expenditure	20.0	19.9	22.9	25.7	23.4	23.3
Overall balance	-3.1	0.5	-4.0	-6.8	-3.7	-3.4
Net domestic financing	1.8	-3.4	1.8	3.6	1.1	0.3
Net external financing	1.2	2.8	2.2	3.2	2.6	3.1
Central government debt 2/						
Domestic	10.8	9.5	10.4	15.5	16.0	15.3
External	7.7	10.8	11.9	14.2	17.8	21.8
External sector						
Current account balance	11.4	5.8	3.4	-3.9	-4.5	-3.9
Capital and financial account	-10.2	-1.1	8.6	7.7	5.0	5.9
Change in reserves (US$ millions, - increase)	72	-124	-180	152	-23	-108
Gross international reserves (US$ millions)	691	817	1008	775	798	906
In months of imports	5.0	4.4	4.7	3.4	3.8	4.2
Terms of trade (percent change)	7.9	5.6	1.7	-10.5	-7.9	2.5
Exchange rate (SRD per US$, end of period)	2.75	3.30	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/ Includes central government and government-guaranteed public debt.

Statement by the Surinamese Authorities
October 30, 2014

1. The Surinamese authorities are thankful to the Executive Board of Directors for their balanced assessment of the economic and financial developments and outlook of Suriname, and to the Article IV and the Financial Sector Assessment Program (FSAP) teams for the constructive discussions. The Article IV report, in spite of its unwarranted negative tone, recognizes Suriname's favorable growth perspectives despite the challenges posed by lower commodity prices. It also acknowledges the significant efforts toward fiscal consolidation in 2014, in which the Surinamese authorities are determined to persevere. The first FSAP assessment is welcomed by the authorities. Its recommendations will be used as inputs to the ongoing efforts to modernize and strengthen the financial sector.

Recent macroeconomic developments and outlook

2. Suriname is one of the fastest growing countries in the Caribbean region and South America. The economy continues to expand at healthy rates, and the authorities forecast real GDP growth rates between 4 and 5 percent in the next few years on account of robust domestic investments, notably in the construction sector, and the large investments in oil and mining that will come on-stream in the period 2015-17.

3. In the oil sector, the start of operations of a new large refinery will all but eliminate oil derivative imports, improving the current account balance by an estimated 2 percent of GDP from 2015. A new gold mining project – the Merian Gold Project, involving investments of about 20 percent of GDP – will increase gold exports by around 8 percent of GDP starting in 2017. This project is a partnership between the US-based Newmont Mining Corporation and the Government of Suriname. While these ongoing projects will have an extraordinary effect on the balance of payments of Suriname, the staff decided to devote unusually little space to them in the report.

4. The authorities have embarked on a process of fiscal consolidation in 2014, following the slippages of 2013. In the first eight months of 2014, the deficit was reduced to 2.9 percent of the GDP projected for the year[1], compared to 4.7 percent of GDP in the same period of 2013. Such improvement was entirely due to cuts in expenditure, as revenue has stagnated in nominal terms with the continued fall in fiscal receipts from the gold sector. Measures to enhance revenue have also been taken – such as increasing the royalty rate on small-scale gold miners, higher taxation on logging and mining concessions, and sales of government land to lease holders – but will only start to have an effect in the second half of 2014 due to the usual implementation and collection lags. Fiscal consolidation is taking place, as recognized by staff, but the report does not acknowledge the fact that this is happening in a pre-election year and was set in motion before the Article IV mission arrived in Suriname. More recently, some politically difficult decisions have been made, such as a gradual phasing out of electricity subsidies, which currently amount to about 2 percent of GDP. With such decisions, the authorities reaffirm their commitment to take adjustment measures as needed even in the run-up to the general elections of May 2015.

[1] The National Planning Office of Suriname projects real GDP growth at 3.5 percent in 2014.

5. To correct for the imbalances of 2013 and arrest the decline in international reserves, the Central Bank increased the reserve requirement ratios on domestic and foreign currency deposits by 5 percentage points in late-2013 and the Central Bank will not hesitate to further tighten monetary policy if needed. To render monetary policy more agile, the Central Bank is broadening its monetary policy toolkit, modernizing the domestic payment system, and deepening money and capital markets. In the coming months, the introduction of open market operations will allow the Central Bank to better control liquidity.

6. Suriname is amongst the countries in the Caribbean with the lowest debt to GDP ratio. The Government's external liabilities consist mainly of debt to multilateral creditors and official creditors. Commercial loans are negligible. In this respect, the 25 percent public sector participation in the Merian Gold Project will be owned and operated by the state-owned energy corporation Staatsolie.

The financial sector: Suriname's first FSAP

7. The Surinamese authorities welcome the completion of the first FSAP. It comes after many years – and much insistence on the part of the Surinamese authorities and their representatives at the IMF. The authorities wish to express their appreciation to the staff for the significant effort that was undertaken and the meticulous care with which the FSAP was carried out. The authorities agree with the thrust of the conclusions, and intend to make the best use of the FSAP as guidance in their ongoing efforts to modernize and strengthen the financial system.

8. Prior to the FSAP mission, the Central Bank had embarked on an extensive reform program which included upgrading bank supervision. Some of the measures already taken were the introduction of the CAMELS[2] approach to risk assessment and the strengthening of the classification of bank loans and credit risk frameworks. In light of the FSAP, a Central Bank inter-departmental working group has been created and tasked with amending or refocusing the existing reform program and with coordinating the implementation of the FSAP's recommendations. The Central Bank implemented new capital rules as of July 1, 2014, increasing the capital adequacy ratio from 8 to 10 percent. Moreover, the Bank is preparing to issue financial stability reports regularly, starting in 2015. The Caribbean Financial Action Task Force follow-up reports recognize the significant progress Suriname has made and is still making in its Anti-Money Laundering/Combating the Financing of Terrorism framework.

Structural issues

9. The current administration has been committed from the very beginning to social inclusion and development. In pursuit of this guiding principle, the authorities have recently adopted legislation on a minimum wage, on national pensions, and a comprehensive health insurance reform. The adoption of these laws improves sustainable social equality, which has been a hallmark of this administration's policy thrust. The authorities have been mindful of the possible fiscal costs of these

[2] Where the six letters stand for (C)apital adequacy, (A)sset quality, (M)anagement competence, (E)arning ability, (L)iquidity risk, and (S)ensitivity to market risk.

reforms. Nevertheless, given the broad-based support these laws have gathered, the authorities are convinced that reallocations in the budget could create space for any unplanned additional financing related to these reforms in order to preserve fiscal sustainability.

10. In light of the historically high dependency of the economy on the mineral sector and of many episodes of volatility in commodity prices, the diversification of the economy is of high priority. In this regard, the Vice-President of Suriname, a former chairman of the Chamber of Commerce, has been tasked with coordinating the enhancement of the business environment. The Competitiveness Unit Suriname (CUS) was created under the Vice-Presidency to lead this process. Efforts currently underway focus on modernizing the legal framework for doing business. The Council of Ministers has recently approved draft laws on competition policy, limited liability companies, and electronic publication of the registration of new firms. Furthermore, 16 new laws in areas ranging from protection of intellectual property to access to finance for small and medium-sized enterprises (SMEs) are currently being drafted.

11. Global Competitiveness and Doing Business reports identify low access to financing as a key constraint for firms in Suriname. Given the links between access to finance and competiveness, the CUS elaborated a roadmap which identified three major areas for development. Initiatives in these three areas are already underway, including training programs for SMEs and support to banks' own training programs focused on SMEs. In addition, a law on secured transactions has just been drafted and will pave the way for the creation of a registry of movable assets. Finally, a draft law for the establishment of a credit bureau is being finalized.

12. The Central Bank is spearheading financial education. It carries out several projects in this area on a regular basis, coordinated by its "Training Institute and Study Center". Those projects target four groups: the young, the financial sector, SMEs, and the general public. The Central Bank has participated this year for the first time in the Global Money Week (GMW), an initiative of the Child and Youth Finance International Movement (CYFI) aimed at enhancing the financial capabilities of children and youth. The Bank was nominated for an award and was invited to share its experience on the CYFI's high level stakeholder's forum at the United Nations. Preparations for the 2015 GMW have commenced. This year, a financial literacy baseline study will be executed, which will result in a financial education strategic plan. The Central Banks of Suriname and Trinidad and Tobago have recently signed a memorandum of understanding regarding a "Knowledge Transfer" program aimed at financial education for SMEs. We encourage staff to focus on this issue in next year's Article IV consultation.

13. Capacity building is a major and ongoing challenge for small states. The authorities highly appreciate the Fund's training and technical assistance. Surinamese professionals have gained enormously from the support the Fund has provided in the field of statistics, monetary policy design, and others. Further capacity building efforts will be required in order to follow staff's recommendations, including those from the FSAP. The Surinamese authorities will seek continued Fund's technical support in their development endeavors.