



# SURINAME

## 2013 ARTICLE IV CONSULTATION

December 2013

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 2013 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF for Executive Board's consideration on September 30, 2013, following discussions that ended on July 2, 2013, 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 September 11, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Staff Statement** of September 30, 2013 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its September 30, 2013 consideration of the staff report that concluded the Article IV consultation with Suriname.
- A **Statement by the Executive Director** for Suriname.

The documents listed below have been or will be separately released.  
Selected Issues Paper

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

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# SURINAME

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

September 11, 2013

### KEY ISSUES

**Context.** Growth remains robust while inflation has fallen to very low levels. However, declining commodity export prices and a substantial fiscal slippage have weakened the external position. The authorities have already tightened fiscal policy, but more will be needed to buttress macroeconomic stability and entrench fiscal sustainability. International reserves have dipped but remain adequate. Price competitiveness appears acceptable, but warrants continued vigilance. Good progress is being made to strengthen the monetary policy framework, financial sector resilience, the fiscal framework, and structural competitiveness, with TA from the Fund and other institutions.

**Focus of the consultation.** The consultation focused on policies to offset recent fiscal slippages and safeguard the fixed exchange rate, ensure long-term fiscal sustainability, strengthen financial sector resilience, and advance structural reforms to enhance competitiveness and growth.

#### Policy recommendations:

- Tighten fiscal policy to strengthen macroeconomic stability and ensure sustainability.
- Establish a fiscal framework appropriate for this resource-rich country. This should comprise a fiscal anchor consistent with sustainability, medium-term expenditure ceilings, a Sovereign Wealth Fund, and revenue diversification including a VAT.
- The monetary authorities should stand ready to contain demand pressures if fiscal adjustment proves insufficient, and press ahead with efforts to establish indirect instruments of monetary policy and strengthen the financial sector resilience.
- Structural reforms to improve the business environment and increase the efficiency of public utilities will be needed to enhance competitiveness.

**Past surveillance.** During the 2012 Article IV consultation, Executive Directors underscored the need for sound management of future mining revenues and building of policy buffers, and welcomed the significant improvement in the fiscal position in 2011 as well as the authorities' commitment to strengthening financial sector resilience and implementing prudent policies going forward. While there has been good progress in strengthening monetary and financial sector policies, and public financial management is being improved, the fiscal stance has slipped significantly.

Approved By  
**Charles Kramer (WHD)**  
**and Chris Lane (SPR)**

The team that visited Paramaribo during June 18–July 2, 2013 comprised Messrs. Kanda (Head), Mansilla, and Schmittmann, and Ms. Chen (all WHD). Mr. Dorinnie, Advisor to the Executive Director for Suriname, participated in the policy discussions. The team met with Vice President Ameerli, Minister of Finance Wijnerman; Central Bank Governor Hoefdraad; Speaker of the National Assembly Geerlings-Simons; other senior government officials; and representatives of the private sector, labor, and the diplomatic community.

## CONTENTS

<b>DEVELOPMENTS, OUTLOOK AND RISKS</b>	<b>3</b>
<b>POLICY DISCUSSIONS</b>	<b>9</b>
A. Buttressing Macro Stability and Ensuring Fiscal Sustainability	9
B. Strengthening the External Position and Financial Sector Resilience	12
C. Enhancing Structural Competitiveness	14
D. Other	14
<b>STAFF APPRAISAL</b>	<b>15</b>
<b>BOXES</b>	
1. External Competitiveness	6
<b>FIGURES</b>	
1. Macroeconomic Developments	19
2. Comparative Regional Economic Development	20
3. Money and Credit	21
4. Financial Soundness Indicators	22
5. Fiscal Indicators	23
6. External Indicators	24
7. Structural Competitiveness Indicators	25
<b>TABLES</b>	
1. Selected Economic and Social Indicators	26
2. Central Government Operations	27
3. Balance of Payments	28
4. Summary Accounts of the Banking System	29
5. Financial System Structure and Financial Soundness Indicators	30
<b>APPENDIX</b>	
I. Illustrative Debt Sustainability Analysis	31

## DEVELOPMENTS, OUTLOOK, AND RISKS

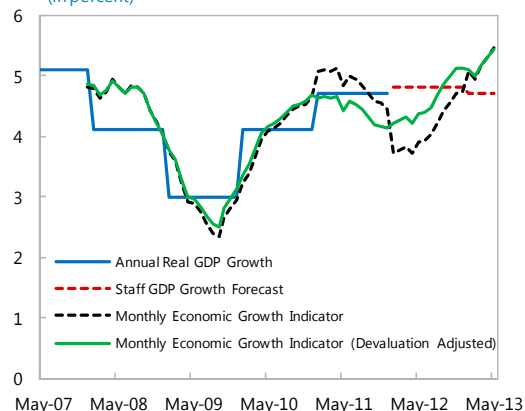
1. **Macroeconomic performance has strengthened markedly over the past decade, but there are challenges ahead.** The period prior to 2000 was marred by large swings in GDP growth and episodes of near-hyperinflation, reflecting political turmoil and policy missteps. Since 2000, however, stronger policies and buoyant commodity prices, supported by political stability, have improved macroeconomic performance, prompting upgrades from major ratings agencies. Public debt declined from 52 percent of GDP in 2000 to 20½ percent in 2011, supported by increased fiscal prudence and the establishment of robust debt ceilings. At this juncture, however, with gold prices declining after a long upswing, the main challenges are to strengthen institutions and adjust policies to avoid the onset of a boom-bust cycle.

2. **Growth remains robust while inflation has declined considerably.** Staff estimates that in 2012 GDP grew 4¾ percent; broadly similar to 2011 and among the highest in the region, supported by buoyant gold and oil prices (Figures 1&2 and Table 1).<sup>1</sup> Available data indicates that wholesale and retail trade, construction, transport and communications services, and financial services all expanded significantly. However, while export volumes for gold grew strongly, they were anemic for the other two main commodities—oil and aluminum—contracting one and 14¾ percent, respectively. For oil, the weakness reflected limited reserves (currently estimated to be depleted in 15 years absent new discoveries) and temporary equipment failure. The aluminum export decline was largely due to persistently low international prices. Following a surge after the 20 percent devaluation in 2011, inflation has dropped sharply, and stood at 2½ percent in May 2013, reflecting improved credibility of the exchange rate peg to the US dollar and the high import content of demand.<sup>2</sup>

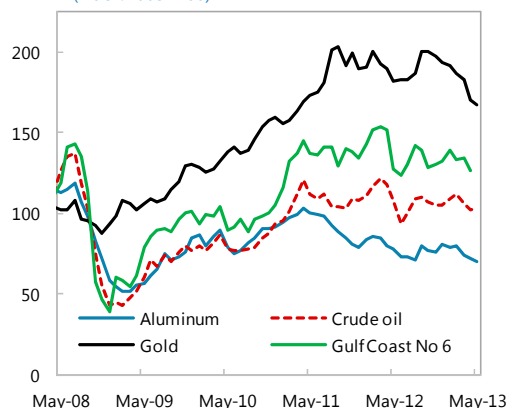
<sup>1</sup> Chapter I of the accompanying Selected Issues Paper develops a high-frequency economic growth indicator for Suriname.

<sup>2</sup> 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 (see Informational Annex).

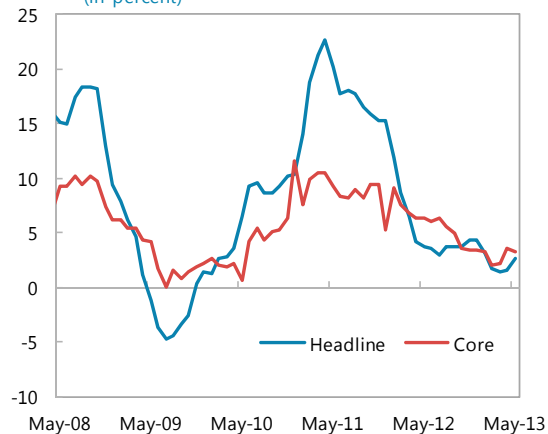
Monthly Economic Growth Indicator  
(in percent)



Commodity Prices  
(index: 2008=100)



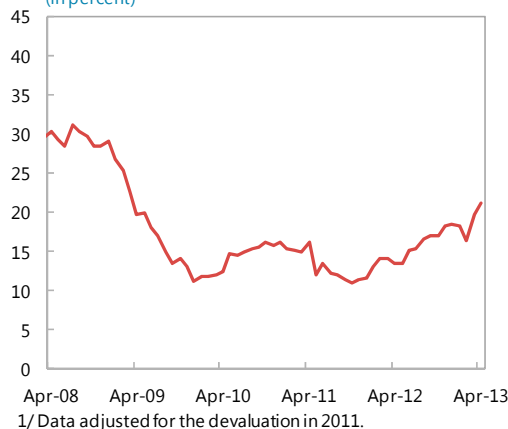
Suriname: Inflation  
(in percent)



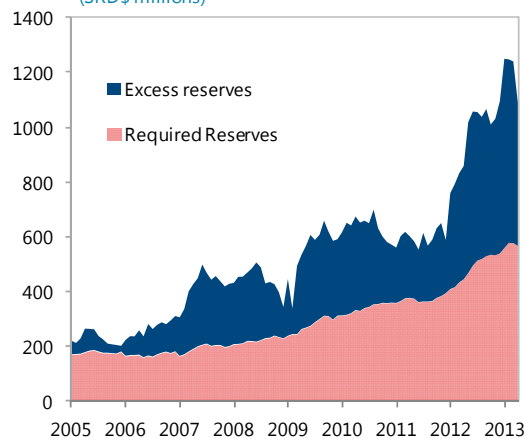
**3. Bank credit is growing strongly, stimulating demand (Figures 3&4).**<sup>3</sup> Credit growth to the private sector has risen to a robust 17¼ percent (y/y) in May 2013, led by trade and housing construction, with stable lending rates in both domestic and foreign currency. Financial intermediation remains low, however, with private sector credit at 26 percent of GDP in 2012. Deposit and credit dollarization have remained broadly stable, contained by recent measures such as a significant increase in reserve requirements on foreign currency deposits and a requirement that all government transactions be carried out in SRDs. Banking system return on equity is above regional norms at almost 25 percent in 2012. Bank capital, at 12.3 percent of risk weighted assets, is above the regulatory 8 percent minimum, though below the regional average. NPL ratios are somewhat high, but declined from about 8 percent in 2011 to 7.1 percent currently. Banks have ample liquid assets and excess reserves.

**4. However, the fiscal position has weakened substantially (Figure 5 and Table 2).** The overall fiscal balance fell by 5 percentage points to a deficit of 4 percent of GDP in 2012. While nontax revenues and grants fell significantly, much of the deterioration was due to a jump in spending. Subsidies and transfers rose by 1½ percent of GDP, led by pension, child care, and disability benefit increases. Official data also indicate that goods and services expenditure (G&S) rose by 2¼ percent of GDP, while capital expenditure declined by 1¾ percent of GDP. However, in addition to substantial added spending on education and health, a significant part of the increase in G&S appears to be mis-classified capital expenditures, a result of shortcomings with the classification of expenditures.<sup>4</sup> The statistical

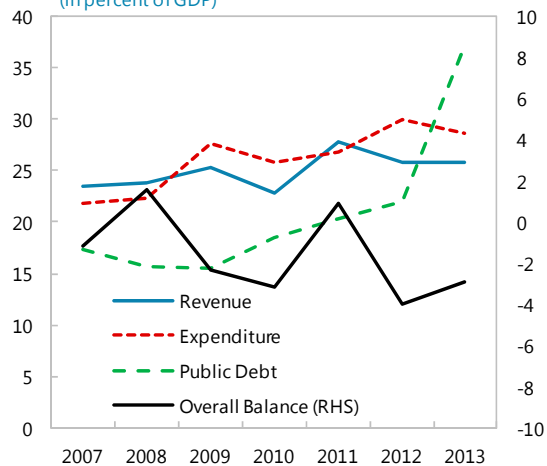
**Credit growth to the Private Sector, (12-month)1/**  
(in percent)



**Excess and Required Reserves**  
(SRD\$ millions)



**Fiscal Position**  
(in percent of GDP)



<sup>3</sup> Chapter II of the accompanying Selected Issues Paper discusses Suriname’s monetary and financial system structure, soundness, and recent developments.

<sup>4</sup> Notably, in the last few months of 2012 there was a surge in infrastructure spending (including roads and bridges) that is at odds with the significant decline in capital expenditure indicated by the official data.

discrepancy (essentially unclassified expenditure) also increased by 1¼ percent of GDP. Fiscal pressures intensified further in Q1 2013 as a result of wage hikes granted in December 2012 and a pickup in capital spending. While measures have been taken since March to contain spending (monthly spending by all Ministries has been capped at levels consistent with expected monthly revenue, with a view to run at least a balanced budget over Q2–Q4 2013), the overall deficit for 2013 is likely to be around 3 percent of GDP.

**5. And the external balance has also declined considerably (Figure 6 and Table 3).**

A gap in trade data for the latter part of 2012 hampers diagnosis, but staff estimate that the current account surplus declined by 1½ percentage points to 4¼ percent of GDP in 2012 primarily because a decline in commodity exports was not offset by a corresponding decline in imports as a share of GDP. In Q1 2013, the weakening intensified and a current account deficit was recorded, as the usual seasonal decline in receipts was accompanied by an acceleration of imports and declining commodity export prices. Alongside, international reserves dipped moderately but remain adequate at 4¼ months of imports, 900 percent of short term debt, and 36 percent of broad money. There are reports of a slightly depreciated exchange rate in the informal foreign exchange market. Price competitiveness currently appears broadly adequate, though vigilance is warranted (Box1).

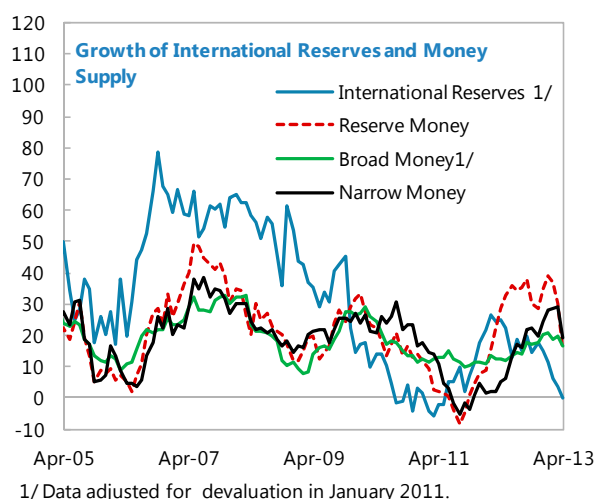
**6. Unsterilized foreign exchange intervention has had monetary implications.**

Money supply growth has been heavily influenced by central bank purchase and sale of foreign exchange in the pursuit of its primary objective of maintaining the stability of the exchange rate, lacking tools for sterilization. This has likely had a pro-cyclical effect on the economy by increasing banking system liquidity in times where buoyant commodity prices or substantial capital inflows have led to the accumulation of international reserves, thus stimulating credit.

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

	2011-Est 2012	Est 2012-Proj 2013
Current Account Balance	-1.6	-7.9
Exports of Goods and Services	-4.4	-7.6
o/w Gold	1.1	-6.2
o/w Oil	-0.7	-0.6
o/w Aluminum	-3.8	-0.5
o/w Other goods	0.0	-0.2
o/w Services	-1.0	-0.1
Imports of Goods and Services	1.3	-0.1
o/w FDI and major-exporter related goods	0.9	0.6
o/w External grant-related goods	0.5	0.0
o/w Other goods	-0.7	0.1
o/w Services	0.6	-0.8
Net Income	2.0	-0.1
Net Current Transfers	-0.5	-0.1

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



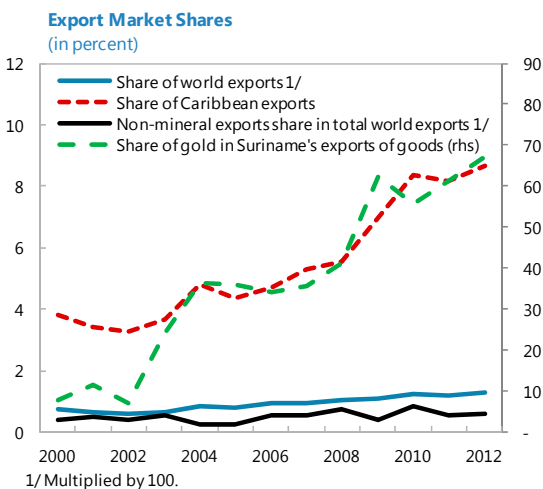
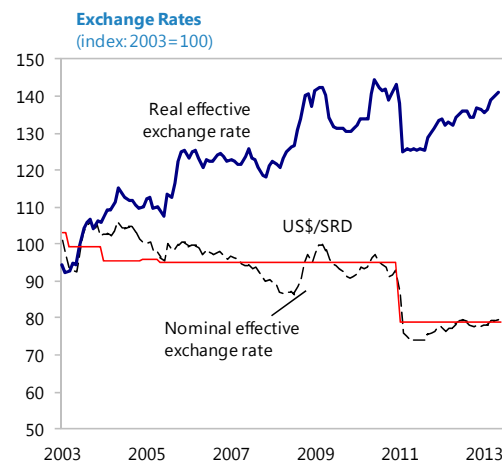
**Box 1. Suriname: External Competitiveness**

A range of indicators suggest that competitiveness is broadly adequate, though the REER and CGER results suggest that continued vigilance is warranted:

- **The REER has appreciated significantly, offsetting much of the competitiveness gains from the devaluation in January 2011.** Since the devaluation the Surinamese dollar has appreciated about 13 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. Inflation has since declined to low levels in 2013, however.

- **Exports have grown strongly and market share has risen due to increasing gold production.** With an expansion of around 16 percent on average per year since 2001, nominal export growth has outpaced the Caribbean average of close to 7½ percent. Consequently, Suriname has almost doubled its share in world exports and more than doubled its share in Caribbean exports. This performance largely represents one commodity, gold, which currently accounts for about 67 percent of exports compared to only 7 percent ten years ago. However, non-mineral exports have held their ground.

- **Estimates from two of the three CGER-type methodologies suggest that the exchange rate may be somewhat on the strong side.** The external sustainability (ES) and equilibrium real exchange rate approaches suggest a moderate overvaluation, while the macroeconomic balance (MB) approach suggests an exchange rate broadly in line with fundamentals. 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. These vulnerabilities are also not fully reflected in the calculation of the current account (CA) norm, which justifies a medium-term CA above the norm.



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

Methodology		
Macroeconomic balance approach	-1.5	
External sustainability approach	8.9	
Equilibrium real exchange rate approach	7.6	
Memorandum items:		
Current account balance (percent of GDP)		
	2012	4.2
	2018	2.1
CA Norm 1/		1.4

Source: IMF staff estimates  
1/ Macroeconomic balance approach

7. **The near term outlook depends heavily on commodity prices.** Suriname is highly exposed to gold which accounts for two-thirds of exports and 13 percent of fiscal revenues. Fiscal exposure to oil is also high, as it accounts for 29 percent of revenues. In line with the latest WEO commodity price projections, staff's baseline projection assumes moderate declines in gold and oil prices over 2013–14. At the same time, however, the substantial fiscal impulse and robust credit growth stimulated activity in the first half of 2013. Thus, on balance, GDP growth in 2013 is expected to be similar to that of 2012, but will ease to about 4 percent in 2014. Without additional measures the fiscal deficit is likely to widen in 2014 as commodity prices decline and activity eases. Given current trends, and FDI inflows expected in the mineral sector that will boost imports, the current account balance is expected to decline substantially. Inflation is likely to remain relatively low assuming policy settings consistent with the continued stability of the exchange rate regime.

Medium-Term Outlook (In percent of GDP, unless otherwise indicated)									
	2010	2011	Est. 2012	Projected					
				2013	2014	2015	2016	2017	2018
Real GDP growth (annual percentage change)	4.1	4.7	4.8	4.7	4.0	4.3	4.5	4.6	4.7
GDP deflator (annual percentage change)	8.2	12.1	6.5	0.6	3.3	4.2	4.3	4.5	4.5
Overall fiscal balance	-3.1	0.9	-4.0	-2.9	-4.0	-3.5	-3.2	-2.9	-2.8
Non-mineral balance	-7.9	-8.6	-15.3	-13.4	-13.3	-12.4	-11.7	-11.0	-10.6
Total public debt	18.5	20.4	22.0	37.1	39.6	40.5	40.7	40.5	40.2
External current account balance	6.4	5.8	4.2	-3.5	-6.1	-7.6	-0.2	1.4	2.1
Gross international reserves (months of imports)	4.9	5.0	5.3	4.3	4.5	4.3	5.4	5.6	5.6

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

8. **Over the longer run growth is expected to increase moderately if commodity prices hold up.** Two large international gold mining projects are expected to start operations over 2015–17, boosting production. Plans for infrastructure investment, if well implemented, will also support growth. On this basis, GDP growth is expected to rise to about 4¾ percent over the medium term. Higher gold output and a new oil refinery to be opened in 2014 should also help improve the fiscal position and current account balance as large projects complete. This favorable outlook assumes that commodity prices stay somewhat buoyant over the medium term, and that macroeconomic stability will be maintained by appropriate fiscal and monetary policies. At the same time, however, a substantially higher growth path for the non-mineral part of the economy is unlikely without progress in the authorities' efforts to upgrade the business environment, as Suriname scores significantly worse than regional peers on many indicators of the business environment (Figure 7).



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

- Downside risks to gold prices are elevated, with recent substantial declines signaling a souring investor appetite.<sup>5</sup> A sustained decline would have a major adverse impact on the macroeconomic outlook. Staff estimates that the first round effect of a reduction in the gold price from levels of \$1670/ounce in 2012 to a (still relatively high) price of \$1200/ounce, would reduce the current account by 8½ percent of GDP and cut growth by ¼ percentage point. Alongside, fiscal revenues would decline by ¼ percent of GDP in 2013 and 1 percent in 2014. At \$1000/ounce international reserves would decline substantially, and at still-lower prices the adverse impact could increase in a nonlinear fashion as prices fall below production costs.
- Also, plans to issue a sovereign bond to finance the purchase of minority stakes in the two new gold mining ventures will increase the central government's debt burden by over 8 percent of GDP in 2013, reducing fiscal space. While the participation could increase future fiscal revenues, it significantly increases fiscal exposure to gold price fluctuations.
- Fiscal buffers appear limited, as accumulated savings from mineral revenues during the commodity price upswing are small, and while public debt is low the scope for borrowing is constrained by the lack of a government securities market and restrictions on central bank financing of deficits. Thus, pro-cyclical fiscal tightening is likely if key commodity prices decline, intensifying the associated downturn. Any offsetting monetary stimulus under such a scenario would be constrained by the fixed exchange rate and limited monetary instruments.
- Inward spillovers from adverse movements in the outlook for emerging markets or the euro area, provided they do not dampen commodity prices, are unlikely to have a major impact on Suriname's economy. Growth has been robust in recent years despite global economic weaknesses, because commodity prices have remained high. Nevertheless, there could be some confidence effects if the medium term global outlook were to worsen substantially. Also, inward remittances from the Netherlands could slow if euro area stress were to intensify sufficiently to significantly affect the core.
- The banking system has limited international links and low domestic levels of leverage and risk, and has been resilient to international financial spillovers.
- Upside risks on the other hand, particularly over a longer horizon, could originate from unexpectedly strong global growth raising commodity prices, the discovery of large oil or mining reserves, or structural reforms that promote growth in the non-commodity sector.

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<sup>5</sup> Chapter III of the accompanying Selected Issues Paper discusses the exposure of the Surinamese economy to gold price fluctuations and the macroeconomic implications of a number of adverse price scenarios.

## POLICY DISCUSSIONS

*The discussions centered on downside risks and weakening fiscal and external positions, with staff recommending policy tightening to buttress macroeconomic stability. The authorities agreed, and indicated that the brunt of adjustment would be borne by the fiscal sector, with monetary tightening if fiscal measures prove insufficient to safeguard the external position. There was also agreement on the need to establish an appropriate fiscal framework to insulate policy making from commodity price movements and build buffers for effective countercyclical policy. Staff also commended the authorities' efforts to upgrade the monetary policy framework and to strengthen financial sector resilience, and urged additional steps to improve the business environment and strengthen competitiveness.*

### A. Buttressing Macro Stability and Ensuring Fiscal Sustainability

10. **There was consensus that fiscal consolidation is warranted.**<sup>6</sup> Over the near term, the authorities plan to implement sufficient fiscal measures to bolster external and overall macro stability. They have already tightened spending controls on line Ministries, and there is ongoing work to improve the efficiency of customs and tax administration and increase taxes on the informal gold sector. Additional options for consolidation are being considered. In this regard, staff observed that the required fiscal effort to ensure sustainability was substantial. While estimates of mineral wealth are subject to considerable uncertainty (total deposits are unknown, and their value depends on a volatile long run price outlook), staff estimates of the fiscal stance consistent with long run sustainability, based on a conservative valuation of mineral wealth, indicate that targeting a non-mineral deficit of around 5 percent of GDP over the medium term would be desirable. This corresponds to a headline surplus of about 2½ percent of GDP in 2018, and would require a rapid reversal of the recent fiscal slippage and an overall medium term adjustment effort estimated at about 10½ percent of GDP, as a projected medium term decline in mineral revenues of about 3½ percent of GDP would also need to be offset, and the headline improvement would be partly limited by the deceleration of growth that would accompany the fiscal tightening.<sup>7</sup> The authorities noted that achieving this target would be challenging.

11. **Given the substantial adjustment effort needed to ensure sustainability, the authorities are considering both revenue and expenditure measures.** Staff welcomed these efforts, noting the need to accelerate steps to establish a VAT, and suggested that spending restraint should be a major part of the adjustment effort. In this context, public wage moderation would strengthen consolidation efforts and help restrain private sector wage growth. Moreover, the targeting of subsidies should be improved: for example, electricity subsidies are estimated at 2 percent of GDP, largely benefiting the higher-income urban population. Ongoing efforts to contain spending on

<sup>6</sup> Chapter IV of the accompanying Selected Issues Paper discusses the outlook for natural resource wealth and the implications for Suriname's fiscal sustainability.

<sup>7</sup> Substantial frontloading of adjustment is advisable in light of still-favorable cyclical conditions, the large adjustment effort required, and the downside risks to the gold price outlook (see also Chapter III of the Selected Issues Paper).

goods and services and prioritize capital projects should also be intensified. Staff also noted the need to clarify a provision in one of the gold agreements which appears to guarantee government provision of electricity at a fixed below-market price, potentially creating a large unbounded subsidy, and encouraged the authorities to make subsidies explicit in the fiscal accounts.

12. **The authorities were receptive to staff's recommendations to enhance the fiscal framework in light of the considerable sensitivity to mineral sector developments.** Indeed, they indicated that they would consider options to embed some of the recommended elements of the framework, such as the fiscal anchor and medium term expenditure ceilings, within a draft Public Financial Management (PFM) law under preparation.

- **Fiscal anchor.** There was agreement that a clear fiscal anchor, based on a target for the non mineral balance (which has the advantages of transparency and relative robustness to political pressures) is needed to entrench fiscal sustainability and guide the consumption of mineral revenues. The fiscal target would need to be periodically reviewed and adjusted as estimates of mineral wealth are updated, consistent with long run sustainability. Staff stressed that significantly weaker budget targets could lead to large and disruptive fiscal adjustments if commodity prices decline significantly.
- **Medium term expenditure ceilings.** There was consensus that developing 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. In this context, the authorities are already taking steps to upgrade public financial management, including the newly established financial programming framework, the new ICT system being put in place, and the draft PFM law. These efforts would provide an essential underpinning for the successful implementation of expenditure ceilings and controls.
- **The sovereign wealth fund (SWF).** The SWF, as the repository for savings out of mineral revenues, would help to dampen the impact of commodity price fluctuations on fiscal policy and build up fiscal buffers. Staff welcomed the authorities' efforts to establish an SWF, while observing that it would be preferable to fund the SWF more aggressively over the near term than currently envisaged. The draft SWF law before parliament apportions mineral revenues to the budget in any year by applying prescribed growth rates to previous-year levels (with higher rates if commodity prices are expected to increase), with the remainder going to the SWF. As the starting level of on-budget mineral revenue used for the calculations is that for 2013, this implies that little savings would be diverted to the SWF over the near term, though more could be saved once the large gold mining projects bear fruit. Moreover, proposed amendments would divert some mineral revenues into a separate investment fund. Staff cautioned that these amendments limit scope for needed savings and may also fragment the planning and oversight of capital spending. Also, to safeguard government net worth, funding should ideally be allocated to the SWF only in years where there is a fiscal surplus.

- **Revenue diversification.** The authorities noted that a diversified revenue base would enhance the resilience of the budget to commodity price shocks, observing that the relatively low ratio of revenue to GDP indicates scope for significant increases in revenue from the non-mineral sector. In this context, they welcomed staff's offer of additional IMF technical assistance to support their efforts to introduce the VAT.

**13. There was agreement that VAT implementation would also support efforts to improve structural**

**competitiveness.** A revenue-increasing VAT would create scope for the authorities' plans to lower rates on personal income and corporate taxes, currently higher than regional averages, thus enhancing the business environment for both domestic and foreign investors.

**14. The authorities emphasized that their plans to set up a nation-wide social safety net for health care and pensions would be implemented in a fiscally sustainable fashion.**

The authorities have committed to set up a national social security scheme by early 2014, which will help improve health outcomes, labor mobility, and old age security. While spending related to the health insurance scheme will partly be offset by savings from current social welfare spending on health care, the pension scheme will be established on a PAYG basis.<sup>8</sup> Staff observed that these are laudable social objectives, but could add significantly to fiscal spending pressures. The authorities agreed, and indicated that their objective is to introduce the reforms in a budget-neutral fashion, though some overruns could not be ruled out. In any case, they would be vigilant to ensure that the scheme is affordable over the near and long term, and any additional expenditure implications for the budget would be offset by measures elsewhere to safeguard fiscal health. Staff suggested that possible measures to create space for the scheme could include the streamlining of electricity subsidies and a revenue-increasing VAT.

**15. Public debt increases significantly in 2013, but appears sustainable over the medium term (Appendix 1).** The jump of 15 percentage points of GDP in 2013 is largely due to a sovereign bond worth over 12 percent of GDP to be issued for two purposes, namely (i) the purchase of equity stakes in the new gold mining projects (8 percent of GDP), and (ii) for on-lending to the state oil

**Regional Comparison of Tax Rates**

(In percent, last updated in May 2013)

Country	PIT (Highest rate)	CIT	VAT/ tax on consumption
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 1/	12.5
Curaçao	49.0	27.5	6.0
Dominica	35.0	30.0	15.0
Guyana	33.3	45 2/	16.0
Jamaica	25.0	33.3 3/	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
<b>Suriname</b>	<b>38.0</b>	<b>36.0</b>	<b>10 4/</b>
Trinidad and Tobago	25 5/	25.0	15.0
Unweighted average	32.4	31.0	12.9

Source: IBFD.

1/ 0.75% to 25% depending on type of income.

2/ 30% to 45% depending on type of company.

3/ 25% for non-regulated companies.

4/ 8% on services.

5/ 35% for gas/petrochemical and wholesale companies.

<sup>8</sup> Details of the health care scheme are being finalized, but it is envisaged that 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.

company for its investment plans.<sup>9</sup> Staff baseline projections indicate that debt rises to a peak of 40¾ percent of GDP in 2016, but declines thereafter as fiscal deficits fall. These projections are robust to growth and interest rate shocks, but more sensitive to shocks to the exchange rate or contingent liabilities—though debt remains manageable even with the latter shocks. However, gross financing needs are projected to increase significantly over the medium term, and there is a risk of a sharp increase when the bond comes due, indicating growing liquidity risks. Given the fiscal risks and resource dependence, entrenching long run sustainability will require strong consolidation efforts.

16. **Staff urged the authorities to implement reforms to put the main public electricity and water companies on a sound financial footing.** The current complex and nontransparent web of subsidization, large arrears, and untargeted below-cost tariffs has led to perennial loss-making in the two companies, sapped morale, and hampered investment in these critical sectors. Staff observed that with the authorities contemplating substantial new investments in these sectors, this would be an opportune time to modernize their regulatory frameworks and tariff structures to ensure the efficient allocation of resources. The authorities agreed in principle but noted that adjusting tariff structures would be politically sensitive, and required delicate handling.

## B. Strengthening the External Position and Financial Sector Resilience

17. **There was consensus that moderating credit growth, together with fiscal tightening, would help contain demand, thus safeguarding the external position.** Significant demand containment is needed to help offset the substantial adverse impact of commodity price declines on the current account balance. The authorities agreed to consider the use of available monetary policy instruments, including reserve requirements, sales of treasury bills, and intervention in the foreign exchange market if fiscal adjustment proves inadequate to contain the weakening of the external position.

18. **Welcome steps have been taken to establish indirect instruments of monetary policy.** Supported by IMF technical assistance, the authorities are planning to commence regular Treasury bill auctions in early 2014 as the main vehicle for the development of an interbank money market and a government securities market. The authorities agreed that these efforts should be complemented by the other elements needed for open market operations (OMO), including a liquidity monitoring/management framework and standing facilities. These additional tools would improve the effectiveness of the monetary authorities in maintaining macroeconomic stability.

19. **The fixed exchange rate regime is broadly appropriate.** Following the devaluation in 2011, the authorities established a fixed regime with buying and selling rates of SRD 3.25 and SRD 3.35 to the US dollar, respectively, for official transactions. Commercial banks and cambios are

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<sup>9</sup> It is envisaged that the sovereign bond would be a 10-year bond, with the bulk of principal repayment at the end of the term of the bond. However, the final terms would reflect market conditions and negotiations at the time the bond is issued.

legally allowed to quote buying and selling rates anywhere within this 3 percent band in line with demand and supply, but not outside the band. 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. Thus, a regime that prevents such volatility in exchange rates would serve the country well, but only if supported by an appropriate macro policy stance.

20. **However, Suriname maintains multiple currency practices (MCPs).** 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. Staff encouraged the authorities to phase out the MCPs, bringing the exchange rate regime in line with international norms. Options in this regard could include (i) reducing the spread between the official buying and selling rate to 2 percent or less, or (ii) using the midpoint of the commercial buying and selling rates for official transactions. The authorities considered that given public sensitivity to any news about the regime, changes could potentially be disruptive and would have to be done at a politically opportune time.

21. **The financial sector appears relatively sound, but rapid credit growth particularly to the housing sector, and relatively high NPLs, merit increased supervisory vigilance (Tables 4&5).** Banks dominate the financial system, holding about 77 percent of financial sector assets, with pension funds and insurance companies holding 14 percent and 8¾ percent of financial sector assets, respectively. One of the fastest growing segments of financial sector credit is to the housing sector, with banks and pension funds substantially invested in mortgages. Average growth of bank credit for housing construction has been 28 percent over the past six years, and mortgages make up around 70 percent of pension fund assets. Insurance companies also reportedly have significant exposures to mortgages. Although mortgage lending standards appear prudent and loan-to-value ratios are reportedly moderate at up to 60 percent, rapid growth in mortgage lending has often preceded banking sector turmoil internationally, and should be carefully monitored. Also, rapid credit growth tends to bias NPL ratios downward, potentially blurring the assessment of credit quality and suggesting need for vigilance.

22. **In this context, the authorities have made significant progress to strengthen financial sector supervision.** A new banking law was passed in 2011, followed by increased staffing and training in the central bank's banking supervision department. New banking regulations, including stronger capital, loan classification, and provisioning standards (incorporating a more rigorous treatment of real estate collateral), are to be implemented before the end of 2013. Other regulatory improvements being finalized include those on corporate governance, risk management, internal audit, and consolidated supervision. On-site banking supervision has also been strengthened. An insurance law is being developed—there is currently no insurance law, and insurance supervision is based on general financial sector legislation. A credit bureau and a deposit insurance scheme are also under development. The authorities are also considering options to restructure three small state-owned commercial banks and one small nonbank financial institution, and substantially reduce

government participation in a large majority-state-owned bank. An FSAP (the first for Suriname) is expected in 2014.

23. **There was agreement that efforts to reduce dollarization should continue.** While observing that dollarization is likely to decline gradually as confidence in macro policy grows, staff suggested that additional measures, such as higher provisioning or risk-weighting on foreign currency lending and limits on net open positions in foreign currency, should be deployed, particularly as banks' interest margins on foreign currency lending are significantly higher than those in SRDs.

24. **Progress in improving the AML/CFT regime is ongoing.** The most recent follow-up report to the 2009 assessment by the Caribbean Financial Action Task Force (CFATF) indicates improvements, including recent legislation covering the identification requirements for service providers, and the reporting of unusual transactions. However, some gaps remain, including in areas related to the risks of smuggling of precious minerals and combating corruption. The authorities are considering the next steps forward and are also improving AML/CFT supervision of financial institutions to strengthen the implementation of the requirements already in place.

### C. Enhancing Structural Competitiveness

25. **A more supportive business environment would enhance growth prospects.** 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.<sup>10</sup> The authorities have already made important steps in easing the impediments to starting a business, and staff encouraged them to continue in this direction. Staff also noted that labor market flexibility could be improved by some relaxation of the relatively stringent employment protection regulations, and stressed that plans for a minimum wage should not compromise job creation for the lower skilled.<sup>11</sup>

### D. Other

26. **The authorities continue their efforts to strengthen macroeconomic data.** While there has been much improvement in data quality, and the data are broadly adequate for surveillance, there are still significant quality and coverage gaps in most macroeconomic data, sometimes complicating macroeconomic diagnosis. Staff welcomed the authorities' plans to upgrade the statistics law including by strengthening reporting requirements for surveyed institutions.

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<sup>10</sup> 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/jieg/doingbusiness](http://www.worldbank.org/jieg/doingbusiness)).

<sup>11</sup> Chapter V of the accompanying Selected Issues Paper discusses the characteristics of Suriname's labor market. According to the 2012–2013 World Competitiveness Report, Suriname is ranked 137 out of 144 countries in hiring and firing practices.

## STAFF APPRAISAL

27. **Growth performance has been strong, but the outlook is heavily dominated by commodity price movements.** Political stability and stronger policies have provided essential underpinnings for growth, but a key driver has been the very strong increase in key commodity prices over the past decade, particularly gold. This is evident also from the large role of gold in exports and FDI inflows, and the heavy fiscal dependence on mineral-related revenues. With gold and oil prices far above historical norms, and given the recent souring of investor appetite for gold, downside risks to the outlook predominate, requiring policy adjustments to build up buffers in case an adverse scenario materializes.

28. **The large fiscal slippage threatens macroeconomic stability, and staff welcomes the authorities' commitment to consolidation.** Given the high import content of demand, the large fiscal impulse has stimulated imports rather than inflation, helping to weaken the current account balance and international reserves. Targeting a significant medium term fiscal surplus of about 2½ percent of GDP would be appropriate to bolster the external position, entrench sustainability, and build up fiscal buffers for countercyclical policy and intergenerational saving. Commendably, the authorities have already taken steps to begin to reverse the slippage and are committed to doing more to buttress macroeconomic stability.

29. **In addition to planned revenue measures, successful fiscal consolidation will require substantial and politically difficult streamlining of expenditure.** While the relatively low ratio of revenue to GDP indicates scope for significant increases in fiscal revenues, the bulk of efforts should be focused on restraining the spending pressures that have been a key driver of the fiscal slippage. Efforts in this area should include public wage moderation, improved targeting of subsidies, streamlining of spending on goods and services, and prioritization of capital projects. Also, plans to set up a nation-wide social safety net, while laudable, should be implemented in a fiscally sustainable fashion. These measures are likely to be politically painful, but are necessary for a durable return to a sustainable fiscal path.

30. **Staff welcomes the authorities' intentions to strengthen the fiscal framework in light of the considerable sensitivity to mineral sector developments.** Ongoing work on drafting a new PFM law, the new financial programming framework, and the new ICT system being installed will provide a sound basis for establishing a fiscal anchor consistent with sustainability and medium term expenditure ceilings. In addition, staff commends the authorities for their efforts to establish a SWF, and cautions against any amendments that limit scope for savings or fragment policymaking. Efforts to implement a VAT should also be intensified. Ongoing steps to strengthen revenue from customs and improve tax administration are welcome. Staff also encourages the authorities to modernize the regulatory frameworks and tariff structures in the electricity and water sectors.

31. **Plans to purchase minority stakes in two new gold mining ventures financed by a sovereign bond issue increase fiscal risks, though future fiscal revenues would rise if gold prices stay buoyant.** Fiscal exposure to gold price fluctuations would increase considerably (the



share of gold in total revenues would rise significantly, and the value of the purchased asset would also fluctuate with the gold price), while also reducing fiscal space given the size of the bond issue. There are also risks of sharp increase in gross financing needs beyond the medium term when the bond comes due. The portion of the sovereign debt issue that is onlent to the state oil company does not appear to carry significant risk as the project appears sound, and the oil company is very profitable and has been run in an arms-length fashion by professional managers.

32. **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.

33. **The fixed exchange rate regime is broadly appropriate.** 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, but only if supported by an appropriate macro policy stance.

34. **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.

35. **The progress being made to upgrade financial sector resilience is welcome.** Commendably, a major overhaul of the banking sector legislative and regulatory framework is nearing completion, while similar efforts are being contemplated in the insurance sector. Progress in strengthening the AML/CFT regime is ongoing. A credit bureau and a deposit insurance scheme are also being contemplated. Plans to substantially reduce state ownership in the banking sector are laudable, and should be carefully designed and managed to ensure a smooth transition. In addition, efforts to reduce dollarization should continue.

36. **Structural competitiveness should be reinforced.** Efforts should focus on areas such as starting a business, enforcing contracts, protecting investors, and registering property. Importantly, the authorities have already made important steps in easing the impediments to starting a business, and are committed to continuing in this direction. Also, labor market flexibility could be improved by some relaxation of employment protection regulations, and plans for a minimum wage should not compromise job creation for lower skilled persons.

37. **While there has been much improvement in macroeconomic data there are still significant gaps, sometimes complicating diagnosis.** Plans to upgrade the statistics law and strengthen reporting requirements are welcome.

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

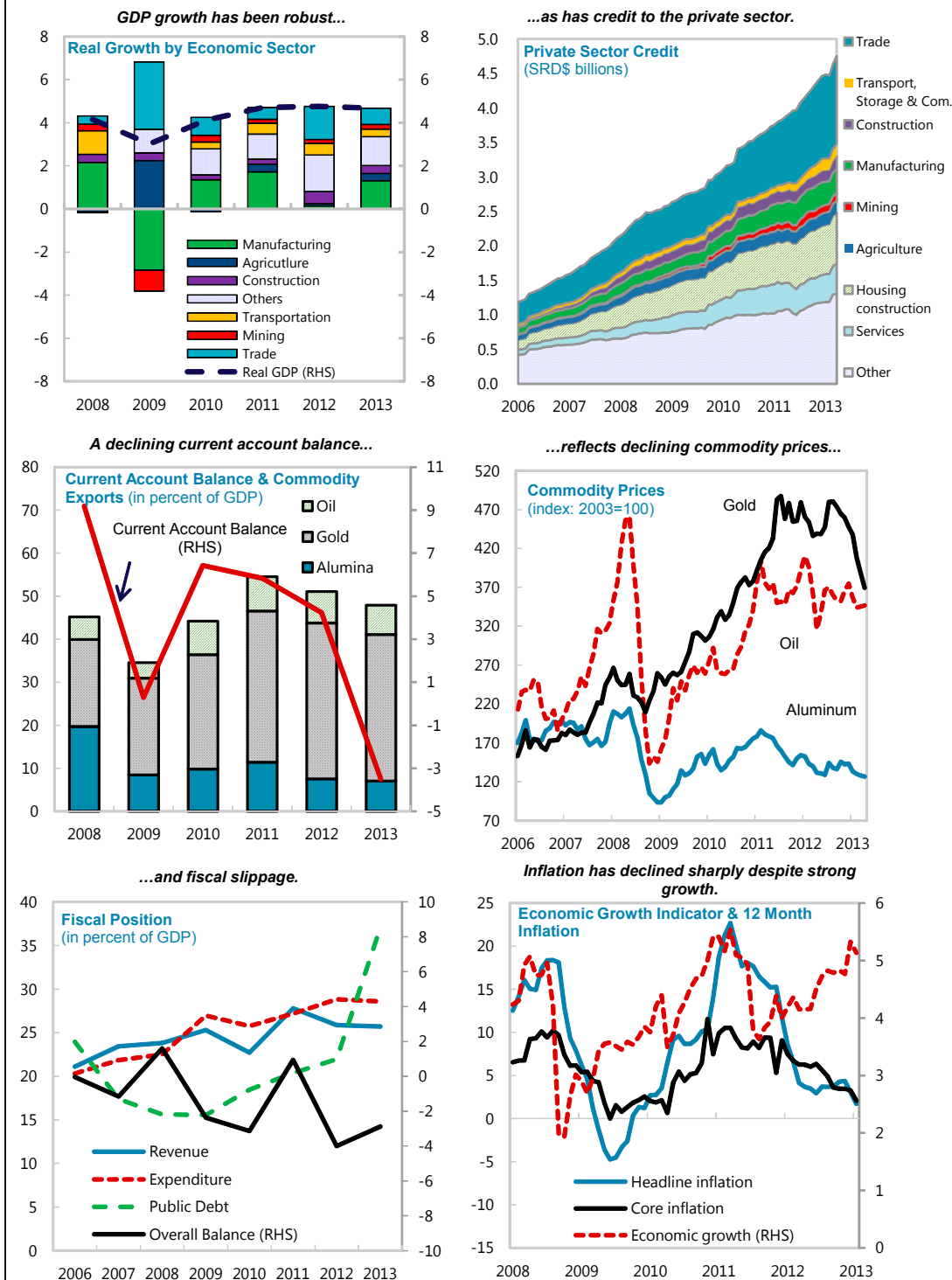
## Suriname: Risk Assessment Matrix<sup>12</sup>

<b>Main Threats</b>	<b>Likelihood of Realization of the Threat</b>	<b>Expected Impact if Threat is Realized</b>	<b>Policy Response</b>
A sharp and sustained drop in gold and oil prices	<b>Low/Medium</b> Global recovery may increase the likelihood of a decline in gold prices as risk aversion falls. Investor appetite for gold has recently dimmed. However, prospects of a severe fall in crude oil prices are fading as a nascent global recovery is becoming more evident.	<b>High</b> The dependency of Suriname's economy on gold and oil is substantial and increasing. The main channel of spillovers would be the deterioration of government revenues and exports, which could prompt pro-cyclical adjustment measures.	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.
Deeper than expected slowdown in Emerging Market economies	<b>Medium</b> Growth slowdown is already observable in key emerging economies, and could intensify.	<b>Medium</b> Suriname's growth outlook could be reduced if the slowdown leads to downward pressure on commodity prices and lower FDI (e.g. from China).	See above response in relation to a sustained decline in commodity prices. Also, intensifying efforts to enhance competitiveness would help sustain FDI and also encourage domestic private investment.
Contagion from debt distress in some countries in the region.	<b>Medium</b> Debt restructuring in some Caribbean countries could generate adverse trade and financial spillovers to the region.	<b>Low</b> Financial sector and trade linkages with the region are limited but growing.	The ongoing strengthening of financial regulation and supervision, and the planned deposit insurance scheme will help limit financial sector risks.

<sup>12</sup> 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 of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities.

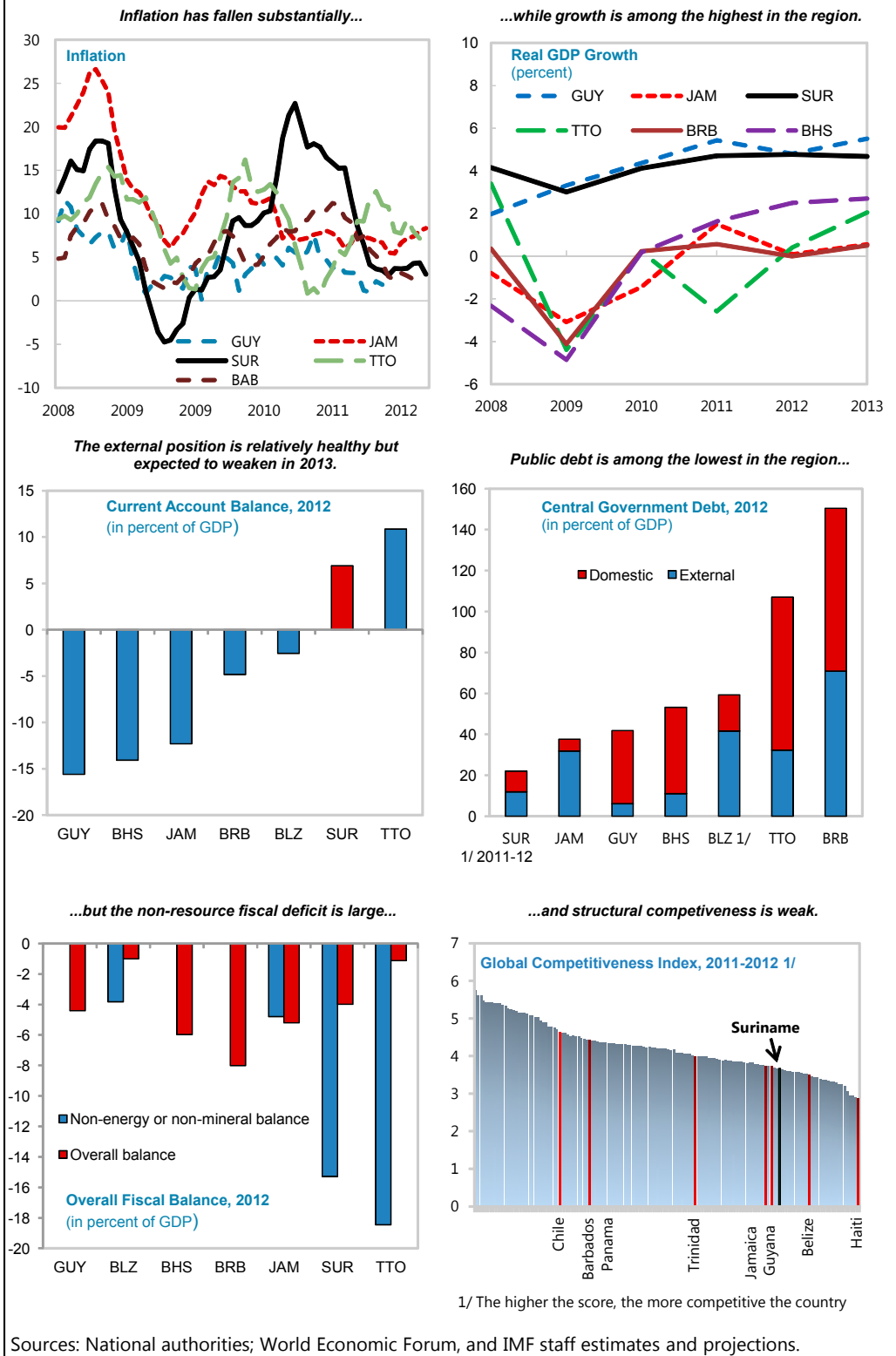
<p>Financial stress in the euro area re-emerges (triggered by stalled or incomplete delivery of national and euro area policy commitments).</p>	<p style="text-align: center;"><b>Medium</b></p> <p>Financial stress in the euro area could re-emerge and bank-sovereign-real economy links could re-intensify as a result of stalled or incomplete delivery of policy commitments at the national or euro area level (e.g. Banking Union), or adverse developments in some peripheral countries.</p>	<p style="text-align: center;"><b>Low</b></p> <p>Suriname's growth outlook could be reduced if euro area stress leads to a decline in commodity prices. There could also be an adverse impact via a slowdown in remittances from the Netherlands.</p>	<p>See above response in relation to a sustained decline in commodity prices. A significant decline in remittances could require policy tightening to safeguard the external position and improved targeting of the social safety net.</p>
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Figure 1. Macroeconomic Developments



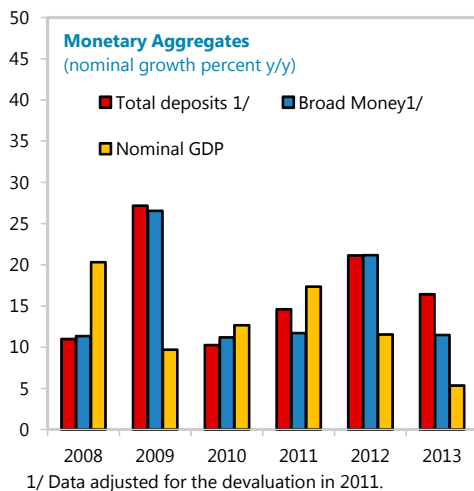
Sources: National authorities; and IMF staff estimates and projections.

**Figure 2. Comparative Regional Economic Development**

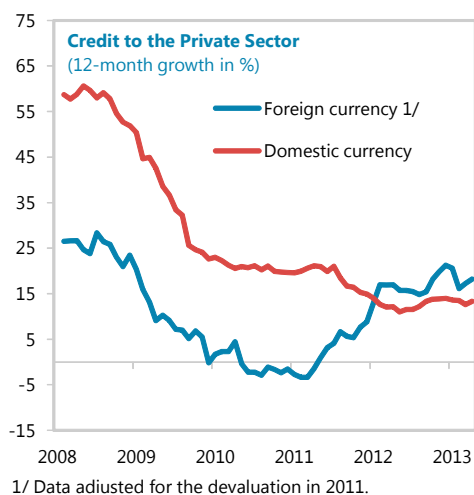


**Figure 3. Money and Credit**

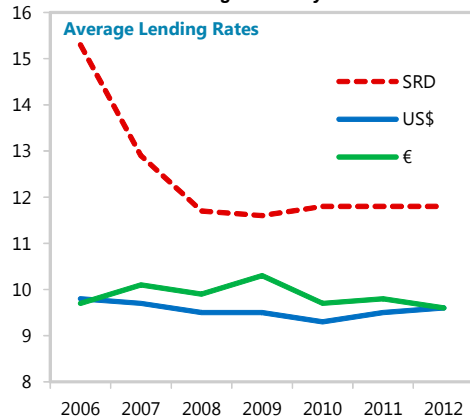
*Monetary aggregates have grown robustly...*



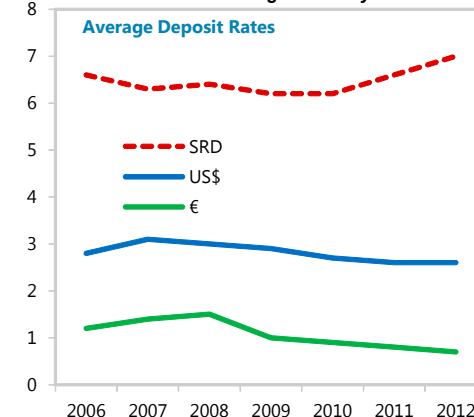
*...and credit growth picked up in 2012.*



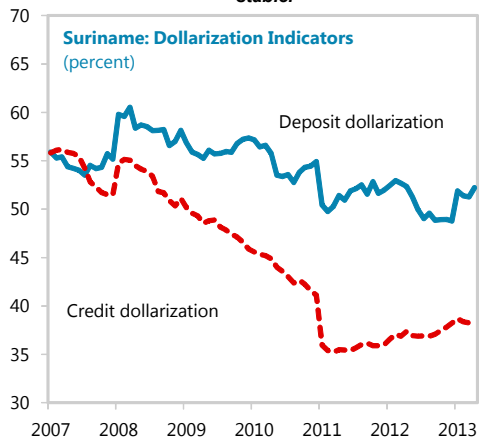
*Lending rates in SRD remain above those in foreign currency...*



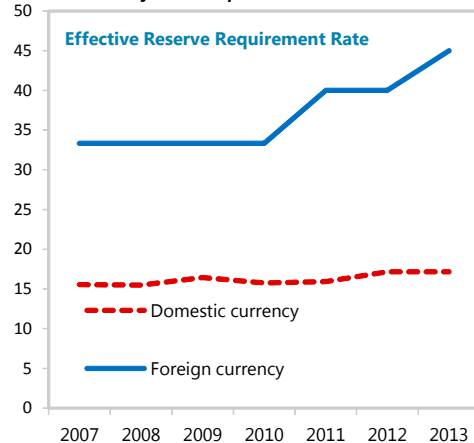
*...but interest margins in SRD are well below those in foreign currency.*



*Deposit and credit dollarization are broadly stable.*



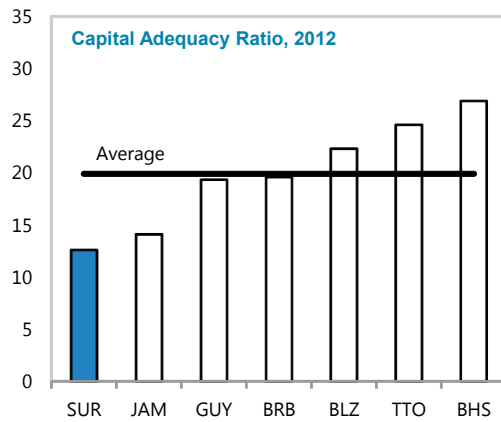
*Higher reserve requirements on foreign currency have helped contain dollarization.*



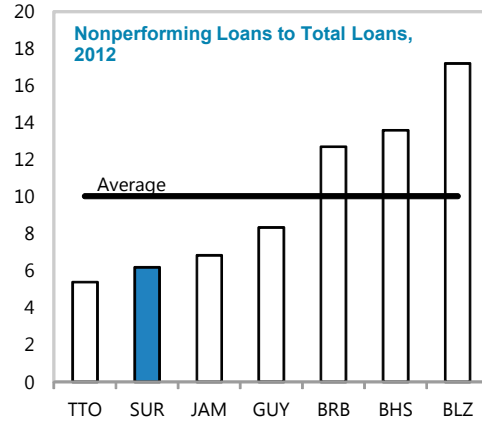
Sources: Central Bank of Suriname; and IMF staff estimates and projections.

**Figure 4. Financial Soundness Indicators**

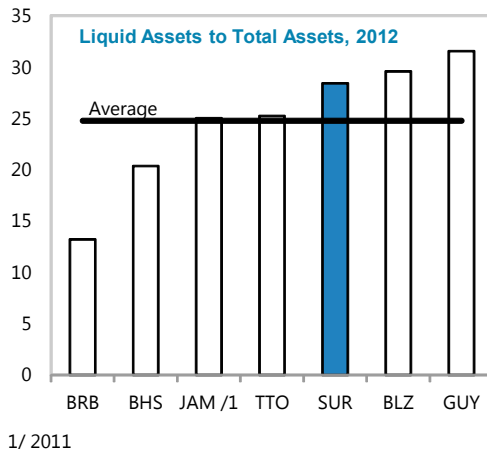
*Capital is lower than the regional average, but above regulatory limits.*



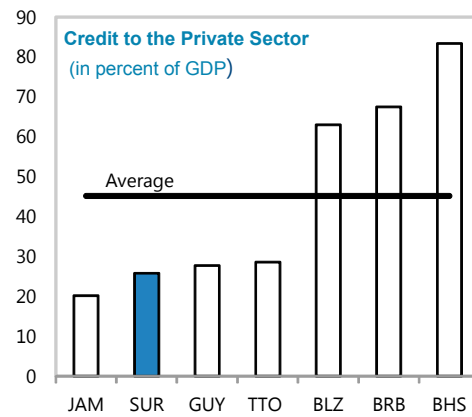
*NPLs are relatively high but below the regional average.*



*The banking system is liquid...*

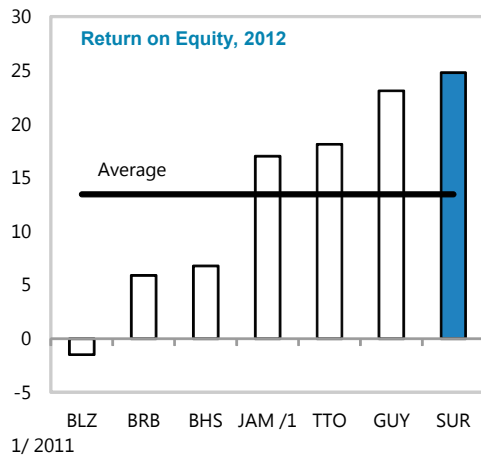


*...but financial intermediation is low.*

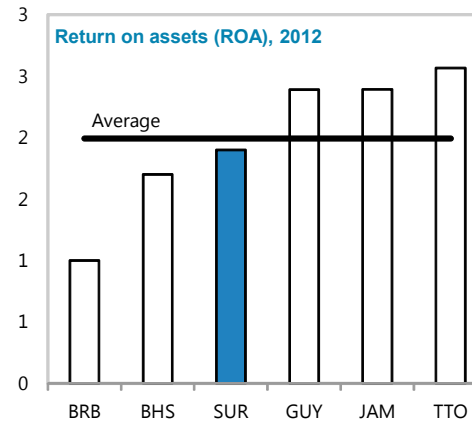


1/2011

*Relatively high return on equity...*



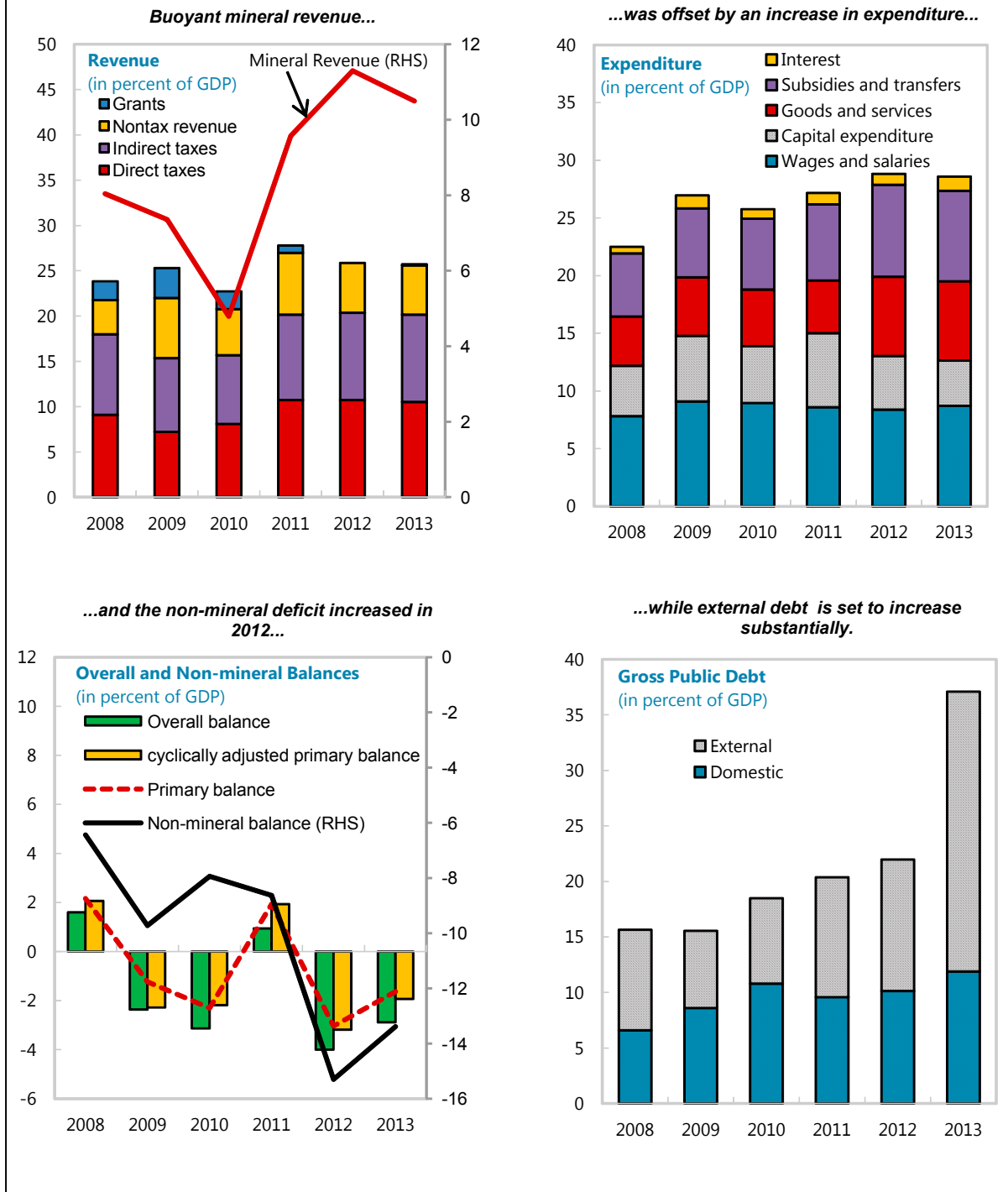
*...partly reflects relatively low equity.*



1/2011

Source: National authorities.

**Figure 5. Fiscal Indicators**

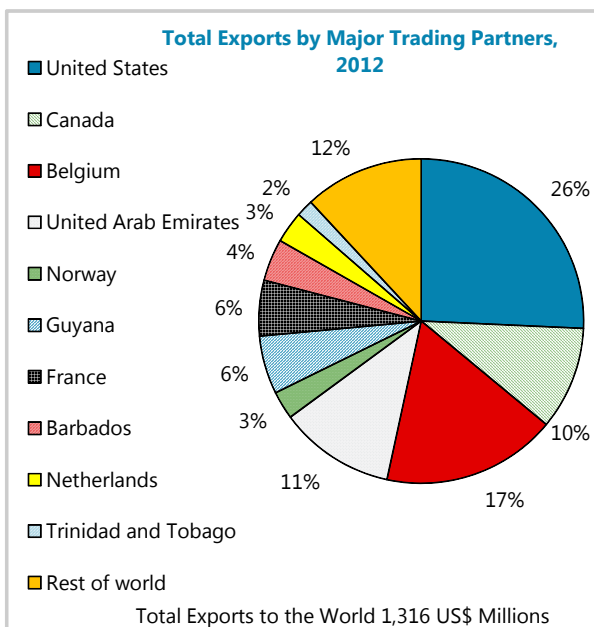


Sources: Ministry of Finance; and IMF staff estimates and projections.

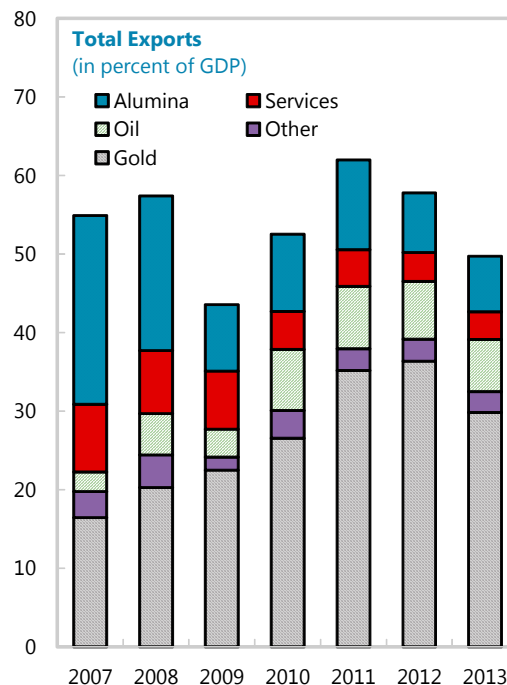


**Figure 6. External Indicators**

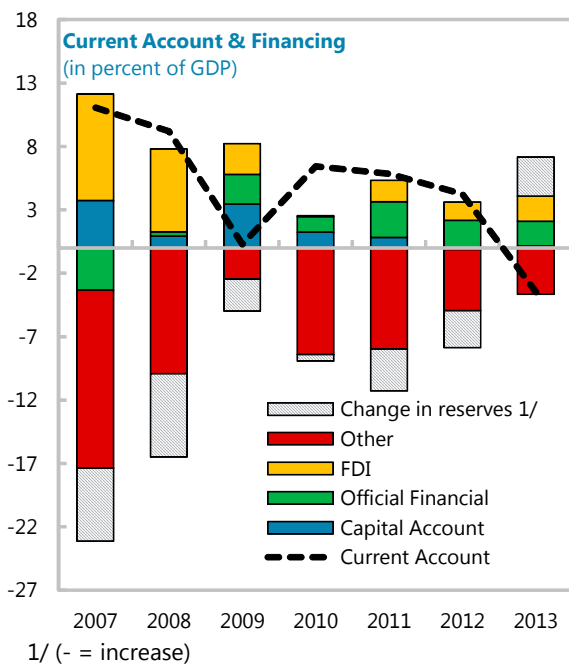
*The largest export destinations are to the U.S. Canada and Belgium...*



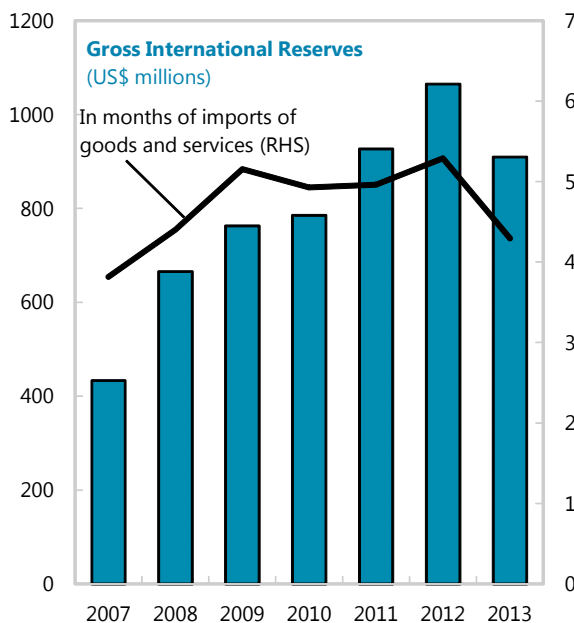
*...exports are denominated by gold.*



*International reserves are expected to decline in 2013...*



*...but remain adequate.*

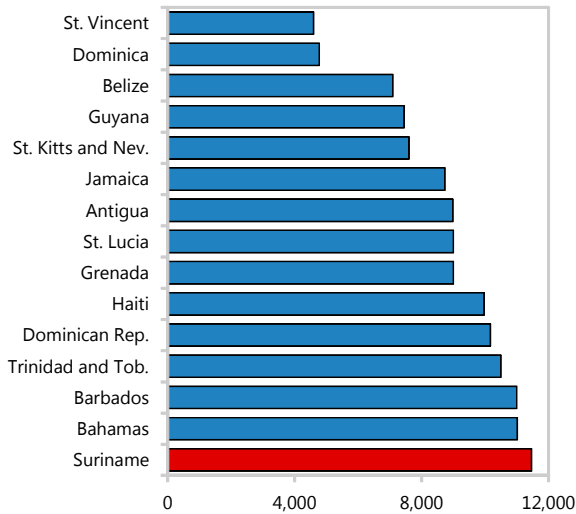


Sources: Surinamese authorities; Information Notice System; and IMF staff estimates and projections.

**Figure 7. Structural Competiveness Indicators**

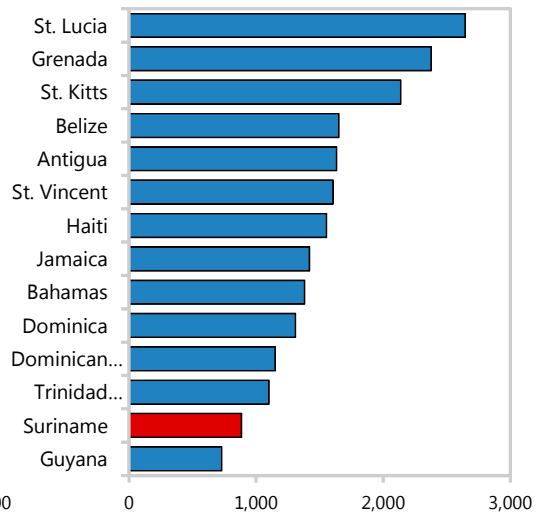
*Suriname scores well on airport capacity...*

**Airport Capacity**  
(Runway length in feet)



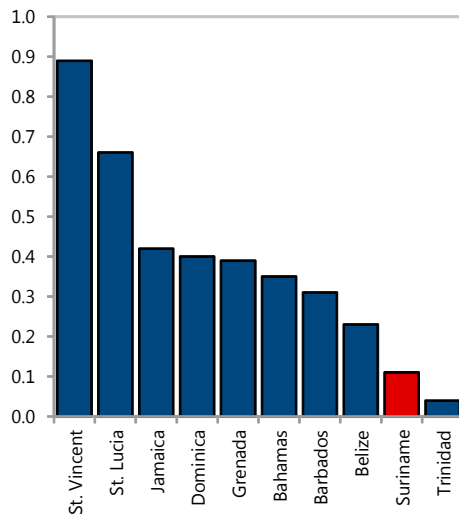
*...and import costs...*

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



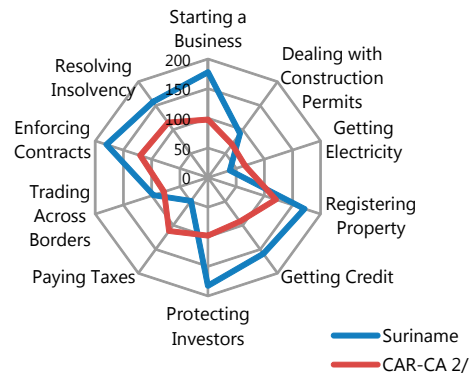
*...as well as electricity tariffs...*

**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.

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

**Table 1. Suriname: Selected Economic and Social Indicators**

	Est.			Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018
(Annual percentage change, unless otherwise indicated)									
<b>Real sector</b>									
GDP at current prices (SRD billions)	12.0	14.1	15.7	16.5	17.8	19.3	21.1	23.0	25.2
Real GDP Growth	4.1	4.7	4.8	4.7	4.0	4.3	4.5	4.6	4.7
GDP deflator	8.2	12.1	6.5	0.6	3.3	4.2	4.3	4.5	4.5
Consumer prices (end of period)	10.3	15.3	4.4	3.0	4.0	4.0	4.0	4.0	4.0
Consumer prices (period average)	6.9	17.7	5.0	2.8	4.7	4.0	4.0	4.0	4.0
<b>Money and credit 1/</b>									
Banking system net foreign assets	3.1	19.3	17.5	-7.7	5.6	3.9	11.3	9.3	8.7
Broad money	11.2	11.7	19.6	11.5	7.7	8.7	8.0	8.2	9.3
Private sector credit	10.9	12.0	16.7	14.2	11.4	9.3	9.8	12.8	9.4
Public sector credit (increase in % of M2)	4.5	-8.3	0.4	11.4	2.4	3.3	-2.2	0.7	1.4
(In percent of GDP, unless otherwise indicated)									
<b>Savings and investment</b>									
Private sector balance (savings-investment)	9.6	4.9	8.2	-0.6	-2.0	-4.1	3.0	4.3	4.9
Public sector balance	-3.1	0.9	-4.0	-2.9	-4.0	-3.5	-3.2	-2.9	-2.8
Savings	1.8	7.4	0.7	1.0	-0.1	0.4	0.7	1.0	1.1
Investment	4.9	6.4	4.6	3.9	3.9	3.9	3.9	3.9	3.9
Foreign savings	-6.4	-5.8	-4.2	3.5	6.1	7.6	0.2	-1.4	-2.1
<b>Central government</b>									
Revenue and grants	22.7	27.8	25.9	25.7	24.8	25.3	25.6	25.8	25.7
Total expenditure	25.9	26.9	29.9	28.6	28.8	28.8	28.8	28.7	28.6
<i>Of which</i> : noninterest current expenditure	20.0	19.8	23.2	23.4	23.3	23.2	23.1	23.0	22.8
Overall balance	-3.1	0.9	-4.0	-2.9	-4.0	-3.5	-3.2	-2.9	-2.8
Net domestic financing	1.9	-3.7	1.8	0.9	2.4	2.7	2.6	2.4	2.4
Net external financing	1.2	2.8	2.1	2.0	1.6	0.8	0.6	0.5	0.4
<b>Central government debt 2/</b>									
Domestic	10.8	9.6	10.1	11.9	14.6	16.7	18.3	19.5	20.6
External	7.7	10.8	11.8	25.2	25.0	23.8	22.4	21.0	19.6
<b>External sector</b>									
Current account balance	6.4	5.8	4.2	-3.5	-6.1	-7.6	-0.2	1.4	2.1
Capital and financial account	-6.3	0.2	5.2	0.4	6.6	7.6	1.9	-0.2	-1.0
Change in reserves (- increase in US\$ millions)	-22	-142	-138	155	-31	3	-108	-84	-80
<b>Memorandum Items</b>									
Terms of trade (percent change)	-3.8	-2.5	0.8	0.7	1.1	0.4	0.4	0.3	0.3
Gross international reserves (US\$ millions)	785	936	1,065	910	941	938	1,046	1,129	1,210
In months of imports	4.9	5.0	5.3	4.3	4.5	4.3	5.4	5.6	5.6
Exchange rate (SRD per US\$, eop)	2.75	3.30	3.30	...	...	...	...	...	...
Sources: Suriname authorities; and IMF staff estimates and projections.									
1/ Data for 2011 are at a constant exchange rate of SRD 2.75 per US\$ 1.									
2/ Includes central government and government-guaranteed public debt.									

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

	2010	2011	Est.		Proj.				2018
			2012	2013	2014	2015	2016	2017	
<b>Revenue</b>	<b>22.7</b>	<b>27.8</b>	<b>25.9</b>	<b>25.7</b>	<b>24.8</b>	<b>25.3</b>	<b>25.6</b>	<b>25.8</b>	<b>25.7</b>
Taxes	15.7	20.2	20.3	20.1	19.7	20.3	20.8	21.1	21.1
Direct taxes	8.1	10.7	10.7	10.5	9.4	9.3	9.3	9.3	9.5
Indirect taxes	7.6	9.4	9.6	9.6	10.3	11.0	11.5	11.8	11.6
Grants	2.0	0.8	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	5.1	6.8	5.5	5.4	5.0	4.9	4.7	4.6	4.5
<b>Expenditure 1/</b>	<b>25.9</b>	<b>26.9</b>	<b>29.9</b>	<b>28.6</b>	<b>28.8</b>	<b>28.8</b>	<b>28.8</b>	<b>28.7</b>	<b>28.6</b>
Expense	20.9	20.8	24.2	24.7	24.9	24.9	24.9	24.8	24.7
Compensation of employees	9.0	8.6	8.4	8.7	8.7	8.7	8.7	8.6	8.6
Purchases of goods and services	4.9	4.6	6.9	6.9	6.7	6.7	6.7	6.7	6.6
Subsidies and transfers	6.1	6.6	8.0	7.8	7.8	7.8	7.7	7.7	7.6
Interest	0.8	1.0	1.0	1.3	1.6	1.7	1.8	1.8	1.9
Domestic	0.7	0.8	0.7	0.8	0.9	1.1	1.2	1.3	1.4
Foreign	0.1	0.2	0.2	0.5	0.7	0.6	0.6	0.5	0.5
Net acquisition of nonfinancial assets	4.9	6.4	4.6	3.9	3.9	3.9	3.9	3.9	3.9
Capital expenditure	4.9	6.4	4.6	3.9	3.9	3.9	3.9	3.9	3.9
Statistical discrepancy	0.1	-0.3	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Operating Balance	1.8	7.4	0.7	1.0	-0.1	0.4	0.7	1.0	1.1
<b>Overall Balance (Net lending/borrowing)</b>	<b>-3.1</b>	<b>0.9</b>	<b>-4.0</b>	<b>-2.9</b>	<b>-4.0</b>	<b>-3.5</b>	<b>-3.2</b>	<b>-2.9</b>	<b>-2.8</b>
<b>Net financial transactions</b>	3.1	-0.9	4.0	2.9	4.0	3.5	3.2	2.9	2.8
Net acquisition of financial assets 2/	....	....	....	-12.0	....	....	....	....	....
Net incurrence of liabilities	3.1	-0.9	4.0	14.9	4.0	3.5	3.2	2.9	2.8
Domestic	1.9	-3.7	1.8	-11.1	2.4	2.7	2.6	2.4	2.4
Commercial banks	0.8	0.0	0.5	0.6	1.5	1.9	1.8	1.6	1.7
Central bank	-0.1	-3.0	1.1	-11.7	0.9	0.8	0.9	0.8	0.7
Other domestic 3/	1.2	-0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.2	2.8	2.1	25.9	1.6	0.8	0.6	0.5	0.4
Amortizations	-0.4	-0.5	-0.9	-0.4	-0.6	-0.6	-0.7	-0.7	-0.6
Disbursements	1.6	3.3	3.1	26.4	2.2	1.4	1.3	1.1	1.0
Bilateral agencies	1.0	1.3	1.9	1.2	1.1	0.7	0.6	0.6	0.5
Multilateral agencies	0.6	2.0	1.2	1.2	1.1	0.7	0.6	0.6	0.5
Other 4/	....	....	....	12.0	....	....	....	....	....
<b>Memorandum items:</b>									
Primary balance	-2.3	1.9	-3.0	-1.6	-2.4	-1.8	-1.4	-1.1	-0.9
Non-mineral balance	-7.9	-8.6	-15.3	-13.4	-13.3	-12.4	-11.7	-11.0	-10.6
Mineral revenue	4.8	9.6	11.3	10.5	9.3	8.9	8.5	8.1	7.7
Public debt 5/	18.5	20.4	22.0	37.1	39.6	40.5	40.7	40.5	40.2

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

1/ Includes statistical discrepancy.

2/ In 2013, includes the planned purchase of domestic financial assets with proceeds of an international bond issue.

3/ Assumes SRD100 million arrears accumulation in 2010.

4/ In 2013, reflects the proceeds from an international bond issue.

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

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

	2010	Est. 2011	Est. 2012	Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Current account</b>	<b>280</b>	<b>251</b>	<b>201</b>	<b>-176</b>	<b>-326</b>	<b>-445</b>	<b>-13</b>	<b>96</b>	<b>158</b>
Trade balance	601	788	741	450	361	244	716	872	994
Exports, f.o.b.	2084	2467	2563	2327	2160	2108	2290	2501	2742
<i>Of which</i> : alumina, gold, and petroleum	1930	2347	2429	2195	2024	1968	2146	2352	2587
Imports, f.o.b.	-1483	-1679	-1822	-1878	-1800	-1864	-1574	-1629	-1748
Services, net	-221	-362	-419	-489	-546	-535	-560	-590	-625
Exports	209	201	175	177	181	196	201	206	211
Imports	-430	-563	-594	-666	-727	-731	-760	-796	-836
Income, net	-187	-262	-194	-211	-216	-231	-248	-267	-294
Private sector	-195	-270	-209	-187	-177	-193	-211	-232	-255
Public sector	-6	-9	-11	-24	-39	-38	-37	-36	-39
<i>Of which</i> : NFPS interest	-6	-9	-11	-24	-39	-38	-37	-36	-39
Current transfers, net	87	87	73	74	75	77	79	81	83
<b>Capital and financial account</b>	<b>-274</b>	<b>9</b>	<b>249</b>	<b>20</b>	<b>357</b>	<b>442</b>	<b>120</b>	<b>-12</b>	<b>-78</b>
Capital account (public sector grants)	54	35	-7	7	7	7	7	7	7
<b>Financial account</b>	<b>-328</b>	<b>-26</b>	<b>256</b>	<b>14</b>	<b>350</b>	<b>435</b>	<b>114</b>	<b>-19</b>	<b>-84</b>
Central government borrowing	53	121	102	698	86	47	36	35	31
<i>of which</i> Disbursements 2/	70	141	147	720	120	80	80	80	80
<i>of which</i> Amortization	-17	-21	-45	-22	-34	-33	-44	-45	-50
Foreign direct investment	3	73	69	100	290	360	135	60	60
Portfolio investment 2/	0	6	1	-374	1	1	1	1	1
Other	-384	-225	84	-410	-27	27	-58	-114	-176
Errors and omissions	16	-118	-313	0	0	0	0	0	0
<b>Overall balance</b>	<b>22</b>	<b>142</b>	<b>138</b>	<b>-155</b>	<b>31</b>	<b>-3</b>	<b>108</b>	<b>84</b>	<b>80</b>
Change in reserves (- = increase)	-22	-142	-138	155	-31	3	-108	-84	-80
<b>Memorandum items:</b>									
Gross international reserves 3/	785	927	1065	910	941	938	1046	1129	1210
In months of imports of goods and services	4.9	5.0	5.3	4.3	4.5	4.3	5.4	5.6	5.6
Current account balance (in percent of GDP)	6.4	5.8	4.2	-3.5	-6.1	-7.6	-0.2	1.4	2.1
GDP in current US dollars	4367	4304	...	...	...	...	...	...	...

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

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

2/ Includes a USD 600 mn bond issue by the government in 2013. Of this amount USD 375 mn is used to purchase equity from international gold mining companies and USD 225 mn is passed on to the state oil company to finance capital goods imports.

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

Table 4. Suriname: Summary Accounts of the Banking System

	2009	2010	2011	Est.	Proj.	
				2012	2013	2014
(In millions of Surinamese dollars)						
<b>Net foreign assets</b>	<b>2,983</b>	<b>3,074</b>	<b>4,402</b>	<b>5,171</b>	<b>4,771</b>	<b>5,040</b>
Net international reserves	2,093	2,155	3,055	3,510	2,997	3,100
Net other foreign assets	890	919	1,348	1,661	1,774	1,940
<b>Net domestic assets</b>	<b>2022</b>	<b>2513</b>	<b>2399</b>	<b>2988</b>	<b>4341</b>	<b>5,221</b>
Net claims on the public sector	-281	-54	-518	-489	440	641
Central government (net)	124	208	-229	17	170	599
Rest of the public sector (net)	-405	-262	-289	-506	270	42
Credit to the private sector	2,601	2,884	3,460	4,036	4,608	5,134
Net unclassified assets	-24	-53	24	-115	-78	-85
Official capital and surplus	-275	-264	-567	-444	-629	-469
<b>Liabilities to the private sector</b>	<b>5,005</b>	<b>5,588</b>	<b>6,801</b>	<b>8,159</b>	<b>9,196</b>	<b>10,269</b>
Broad money	4,620	5,137	6,255	7,485	8,343	8,985
Monetary liabilities	1,578	1,839	1,925	2,392	2,519	2,708
Currency in circulation	568	669	685	831	876	941
Demand deposits	1,010	1,169	1,240	1,560	1,643	1,766
Quasi-money (including gold certificates)	900	1,048	1,220	1,617	2,162	2,342
Foreign currency deposits	2,141	2,251	3,111	3,476	3,661	3,935
Other liabilities	385	451	545	675	853	1,284
(Percent changes, unless otherwise indicated)						
Liabilities to the private sector	25.9	11.6	21.7	20.0	12.7	11.7
Broad money	26.6	11.2	21.8	19.6	11.5	7.7
Money	26.9	16.5	4.7	24.2	5.3	7.5
Quasi-money	29.0	16.4	16.4	32.6	33.7	8.3
Foreign currency deposits	25.3	5.1	38.2	11.7	5.3	7.5
Credit to the private sector	12.2	10.9	19.9	16.7	14.2	11.4
In percent of GDP	24.5	24.1	24.6	25.7	27.9	28.9
In percent of beginning of period M2	71.3	62.4	67.3	64.5	61.6	61.5
Change in net credit to the public sector (% of beginning of	13.1	4.9	-9.0	0.5	12.4	2.4
Broad money (percent of GDP)	43.4	42.9	44.5	47.7	50.5	50.6
(Changes as a percent of liabilities of the previous period)						
Net foreign assets of the banking sector	7.7	1.8	23.8	11.3	-4.9	2.9
Central bank international reserves	6.7	1.2	16.1	6.7	-6.3	1.1
Other net foreign assets	1.0	0.6	7.7	4.6	1.4	1.8
Net domestic assets of the banking sector	18.2	9.8	-2.1	8.7	16.6	9.6
Credit to the public sector	12.0	4.5	-8.3	0.4	11.4	2.2
Credit to the private sector	7.1	5.7	10.3	8.5	7.0	5.7
Liabilities to the private sector	25.9	11.6	21.7	20.0	12.7	11.7
<b>Memorandum items:</b>						
Deposit dollarization ratio (percent) 1/	52.9	50.4	55.8	52.2	49.0	48.9
Credit dollarization ratio (percent) 2/	41.4	36.8	40.0	...	...	...
Domestic currency interest rate spread (%)	5.4	5.6	5.1	...	...	...
Foreign currency (US\$) interest rate spread (%)	6.6	6.6	6.9	...	...	...
Reserve requirement for domestic deposits (percent) 3/	25.0	25.0	25.0	...	...	...
Reserve requirement for foreign currency deposits (%)	33.3	33.3	40.0	...	...	...
Sources: Central Bank of Suriname; and IMF staff estimates and projections.						
1/ Foreign currency deposits in percent of total commercial bank deposits.						
2/ Foreign currency credit in percent of total private sector credit by commercial banks.						
3/ Excludes commercial bank use of required reserves for mortgage lending.						

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

	2009	2010	2011	2012	Mar-13
<b>Number 2/</b>					
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	26	21	17	7	...
Insurance companies	11	9	9	7	...
Credit unions and cooperatives	5	5	5	4	...
	(In percent of total)				
Assets	100.0	100.0	100.0	100.0	100.0
Banks	74.9	76.9	77.2	...	...
Large banks	61.8	79.1	78.4	...	...
Small banks	13.1	20.9	21.6	...	...
Pension funds	15	15.1	13.9	...	...
Insurance companies	7.7	7.8	8.7	...	...
Credit unions and cooperatives	2.4	0.3	0.3	...	...
Deposits					
Banks	100.0	100.0	100.0	100.0	100.0
Large banks	82.5	80.0	79.1	78.3	77.4
Small banks	17.5	20.0	20.9	21.7	22.6
Capital adequacy					
Regulatory capital to risk-weighted assets (*)	10.8	12.2	12.1	12.6	12.3
Regulatory Tier I capital to risk-weighted assets (*)	9.5	10.8	10.9	11.5	11.2
Capital (net worth) to assets	5.6	6.2	6.3	6.3	6.2
Asset composition					
Sectoral distribution of loans to total loans (*)					
Agriculture	4.3	4.3	3.7	3.2	3.1
Manufacturing	7.8	7.7	8.3	8.5	8.1
Commerce	26.2	23.9	26.3	29.8	3.0
Housing construction	18.2	17.9	16.8	17.3	1.7
Other	43.5	46.2	44.9	41.1	41.9
Asset quality					
Foreign currency loans to total loans	41.2	37.1	40.7	42.2	41.6
NPLs to gross loans (*)	7.9	7.9	8.0	6.2	7.1
NPLs net of provisions to capital (*)	50.1	44.6	44.0	30.6	37.0
Large exposures to capital (*)	105.1	98.1	106.8	83	90.3
Earnings and profitability					
ROA (*)	2.5	2.2	1.9	1.9	2.1
ROE (*)	45.3	36.9	27.2	24.8	29.1
Interest margin to gross income (*)	69.4	73.3	71.7	74.6	69.6
Noninterest expenses to gross income (*)	57.4	58.3	57.9	58.6	55.3
Personnel expenses to noninterest expenses	59.2	59.9	58.9	62.2	59
Trading and fee income to total income	31.9	28.8	30.7	26.6	30.9
Spread between reference loan and deposit rates	8.0	8.2	8.0	8.0	8.0
Liquidity					
Liquid assets to total assets (*)	29.8	29.2	26.4	28.4	29.7
Liquid assets to total short-term liabilities (*)	52.9	54.4	49.2	54.6	59.1
FX liabilities to total liabilities	50.3	47.0	51.5	48.8	47.1
Net position in foreign currency to capital 3/	28.7	19.2	...	...	...

Source: Central Bank of Suriname.

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

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

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

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

## Appendix I. Illustrative Debt Sustainability Analysis

### A. Government Finances

Suriname's public debt-to-GDP ratio is projected to increase under the baseline debt scenario to slightly above 40 percent of GDP, but begin to decline thereafter. Plans to issue a sovereign bond to finance the purchase of minority stakes in two new gold mining ventures and the construction of a refinery by the state-owned oil company (Staatsolie) will increase government debt by over 12 percent of GDP in 2013. It is assumed in staff projections that the bond will carry an interest rate of 6.5 percent, similar to current rates for similarly rated sovereigns. About a third of the proceeds of the planned bond issue will be passed on to Staatsolie which appears to be in a comfortable position to service this debt.

The fiscal balance is assumed to remain in deficit through the medium-term. On the revenues side, royalties and taxes from the gold sector are expected to decline as a result of a weaker gold price. Rising gold production from 2015 onwards will however reverse this trend. Staatsolie's contribution to the budget is assumed to increase moderately over time as production is expanded and construction of the refinery is completed. From 2014 onwards the introduction of a revenue-enhancing VAT system is projected to increase indirect tax collection. On the expenditure side, spending controls implemented by the government in recent months are expected to remain in place to help reduce expenditure as a percent of GDP over time.

These projections are robust to growth and interest rate shocks, but more sensitive to shocks to the exchange rate or contingent liabilities—though debt remains manageable even with the latter shocks.

Public debt levels appear sustainable over the medium-term, but risks to the outlook have increased. While the participation in new gold mining projects could increase future fiscal revenues, it significantly increases fiscal exposure to gold price fluctuations. If gold prices were to revert to historical averages the bond-financed equity stakes in mining projects could substantially decline in value. Efforts to strengthen revenue collection and contain spending need to continue to stabilize public debt. Rising gross financing needs over the medium term, and the risk of a significant jump when the bond comes due point to growing liquidity risks.

### B. External Sector

Plans to issue a sovereign bond will substantially increase Suriname's external debt burden to 33½ percent of GDP. The bond is expected to mature in 10 years and to finance investments in the gold and oil sectors. Other external borrowing from multilateral sources to support reform and infrastructure projects is projected to decline over the medium-term. External debt is expected to fall to 26½ percent of GDP at the end of the projection period.

Medium-term projections for the balance of payments depend crucially on the outlook for gold prices. Gold's share in exports is projected to increase from ⅔ to ¾ at the end of the projection



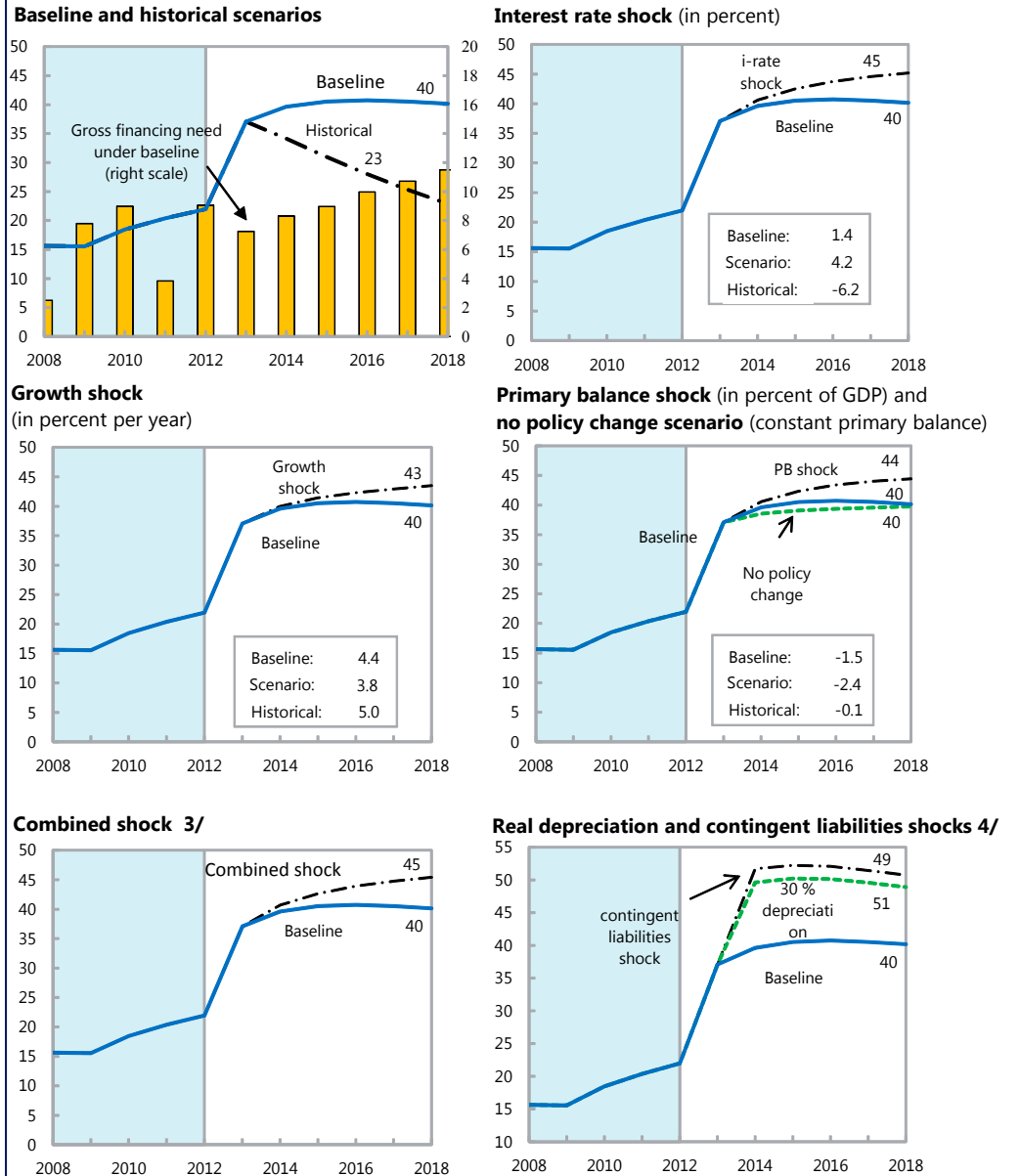
period as new gold mining projects are completed. With the current outlook for gold prices, the current account is expected to revert to a surplus in 2017 following the completion of large gold-related FDI projects and the completion of Staatsolie's refinery. The refinery will substitute for a significant portion of oil imports.

Suriname's external sector 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 bond issuance stemming from a devaluation alone is limited, because the funds will finance projects related to gold and oil, both of which generate U.S. dollar revenue streams.

**Appendix I. Table 1. Suriname: Public Sector Debt Sustainability Framework, 2008-2018**  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing primary balance 9/ -1.4
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
<b>Baseline: Public sector debt 1/</b>	15.6	15.6	18.5	20.4	22.0	<b>37.1</b>	<b>39.6</b>	<b>40.5</b>	<b>40.7</b>	<b>40.5</b>	<b>40.2</b>	
o/w foreign-currency denominated	9.0	6.9	7.7	10.8	11.8	25.2	25.0	23.8	22.4	21.0	19.6	
Change in public sector debt	-1.7	-0.1	2.9	1.9	1.6	15.1	2.5	0.9	0.2	-0.2	-0.4	
Identified debt-creating flows (4+7+12)	-4.5	1.0	1.4	-2.3	1.9	1.8	1.7	0.6	0.1	-0.4	-0.4	
Primary deficit	-2.2	1.2	2.3	-1.9	3.0	1.6	2.4	1.8	1.4	1.1	0.9	
Revenue and grants	23.8	25.3	22.7	27.8	25.9	25.7	24.8	25.3	25.6	25.8	25.7	
Primary (noninterest) expenditure	21.7	26.5	25.0	25.9	28.9	27.3	27.2	27.1	27.0	26.9	26.7	
Automatic debt dynamics 2/	-2.4	-0.2	-0.9	-0.4	-1.2	0.2	-0.7	-1.2	-1.3	-1.4	-1.4	
Contribution from interest rate/growth differential 3/	-2.4	-0.2	-0.9	-1.7	-1.2	0.2	-0.7	-1.2	-1.3	-1.4	-1.4	
Of which contribution from real interest rate	-1.8	0.2	-0.3	-1.0	-0.3	1.2	0.7	0.4	0.4	0.3	0.4	
Of which contribution from real GDP growth	-0.6	-0.4	-0.6	-0.7	-0.9	-1.0	-1.4	-1.6	-1.7	-1.7	-1.7	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	1.4	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	2.8	-1.1	1.5	4.2	-0.3	13.3	0.8	0.3	0.2	0.1	0.1	
Public sector debt-to-revenue ratio 1/	65.6	61.4	81.3	73.3	84.9	144.2	159.7	160.1	159.0	157.0	156.1	
<b>Gross financing need 6/</b>	2.5	7.8	9.0	3.8	9.1	7.2	8.3	9.0	10.0	10.7	11.5	
in billions of U.S. dollars	88.0	301.9	392.1	164.5	430.7	363.0	447.5	525.2	636.8	748.2	876.8	
<b>Scenario with key variables at their historical averages 7/</b>						<b>37.1</b>	<b>34.1</b>	<b>31.0</b>	<b>28.0</b>	<b>25.3</b>	<b>22.9</b>	<b>-2.4</b>
<b>Scenario with no policy change (constant primary balance) in 2013-2018</b>						<b>37.1</b>	<b>38.5</b>	<b>39.1</b>	<b>39.4</b>	<b>39.6</b>	<b>39.8</b>	<b>-1.5</b>
<b>Key Macroeconomic and Fiscal Assumptions Underlying Baseline</b>												
Real GDP growth (in percent)	4.1	3.0	4.1	4.7	4.8	4.7	4.0	4.3	4.5	4.6	4.7	
Average nominal interest rate on public debt (in percent) 8/	3.9	8.0	6.1	6.3	5.3	6.4	5.5	5.4	5.5	5.5	5.6	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-11.6	1.5	-2.1	-5.8	-1.2	5.7	2.2	1.3	1.2	1.0	1.2	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	-16.8	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	15.5	6.5	8.2	12.1	6.5	0.6	3.3	4.2	4.3	4.5	4.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.6	26.2	-1.8	8.2	17.1	-1.0	3.4	3.9	4.3	4.1	3.8	
Primary deficit	-2.2	1.2	2.3	-1.9	3.0	1.6	2.4	1.8	1.4	1.1	0.9	
1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.												
2/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with $r$ = interest rate; $p$ = 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).												
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$ .												
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$ .												
5/ For projections, this line includes exchange rate changes.												
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.												
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.												
8/ Derived as nominal interest expenditure divided by previous period debt stock.												
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.												

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



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

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

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

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

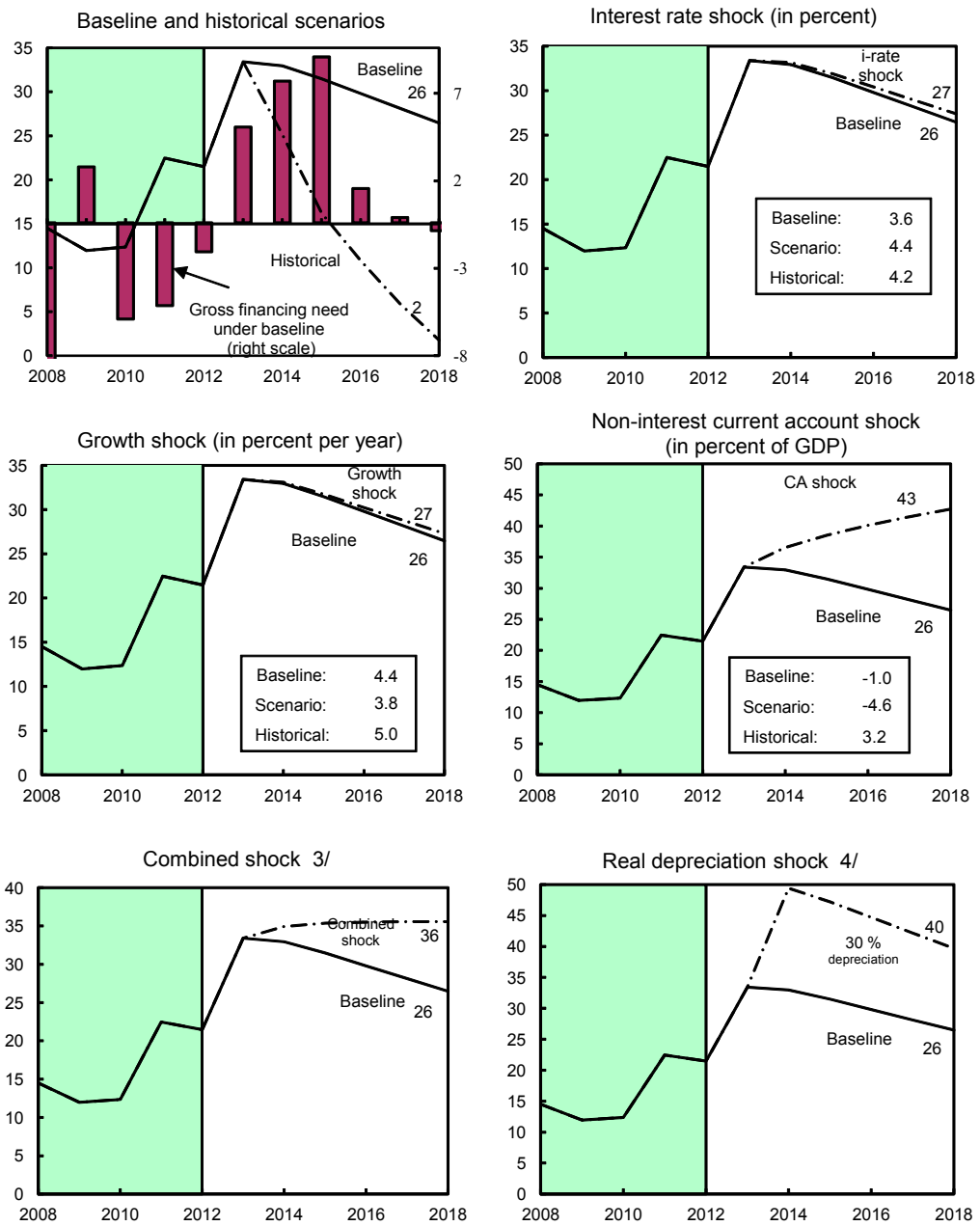
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix I. Table 2. Suriname: External Debt Sustainability Framework, 2008-2018  
(In percent of GDP, unless otherwise indicated)

	Actual					Projections							Debt-stabilizing non-interest current account 6/ -2.2
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
<b>Baseline: External debt</b>	14.5	12.0	12.4	22.5	21.5	<b>33.4</b>	<b>32.9</b>	<b>31.5</b>	<b>29.8</b>	<b>28.1</b>	<b>26.5</b>		
Change in external debt	-2.0	-2.5	0.4	10.1	-1.0	11.9	-0.5	-1.5	-1.7	-1.7	-1.7		
Identified external debt-creating flows (4+8+9)	-18.5	-4.0	-7.8	-7.2	-8.0	0.6	-0.6	0.1	-3.2	-3.5	-4.1		
Current account deficit, excluding interest payments	-9.6	-1.1	-6.8	-6.7	-5.1	2.5	4.9	6.5	-0.8	-2.3	-3.0		
Deficit in balance of goods and services	-6.1	2.3	-8.7	-9.9	-6.8	0.8	3.4	5.0	-2.4	-4.0	-4.8		
Exports	57.4	43.6	52.5	62.0	57.6	50.0	43.5	39.4	39.0	38.8	38.7		
Imports	51.3	45.8	43.8	52.1	50.8	50.8	46.9	44.3	36.6	34.8	33.9		
Net non-debt creating capital inflows (negative)	-6.5	-2.4	-0.1	-1.7	-1.5	-2.0	-5.4	-6.2	-2.1	-0.9	-0.8		
Automatic debt dynamics 1/	-2.4	-0.4	-1.0	1.2	-1.5	0.0	-0.1	-0.2	-0.3	-0.3	-0.3		
Contribution from nominal interest rate	0.4	0.8	0.4	0.9	0.8	1.0	1.2	1.1	1.0	1.0	0.9		
Contribution from real GDP growth	-0.6	-0.4	-0.4	-0.6	-1.0	-1.0	-1.3	-1.3	-1.3	-1.3	-1.2		
Contribution from price and exchange rate changes 2/	-2.2	-0.9	-0.9	0.9	-1.4	...	...	...	...	...	...		
Residual, incl. change in gross foreign assets (2-3) 3/	16.5	1.4	8.2	17.3	7.0	11.4	0.1	-1.6	1.6	1.8	2.4		
External debt-to-exports ratio (in percent)	25.3	27.5	23.5	36.3	37.3	66.8	75.8	80.0	76.4	72.5	68.4		
<b>Gross external financing need (in billions of US dollars) 4/</b>	-0.3	0.1	-0.2	-0.2	-0.1	0.3	0.4	0.6	0.1	0.0	0.0		
in percent of GDP	-8.2	3.2	-5.5	-4.7	-1.7	10-Year	10-Year	5.5	8.1	9.5	2.0	0.3	-0.5
<b>Scenario with key variables at their historical averages 5/</b>						<b>33.4</b>	<b>25.2</b>	<b>16.2</b>	<b>10.8</b>	<b>5.9</b>	<b>1.8</b>	<b>-3.4</b>	
<b>Key Macroeconomic Assumptions Underlying Baseline</b>						Historical Average	Standard Deviation						
Real GDP growth (in percent)	4.1	3.0	4.1	4.7	4.8	5.0	1.2	4.7	4.0	4.3	4.5	4.6	4.7
GDP deflator in US dollars (change in percent)	15.5	6.5	8.2	-6.8	6.5	8.8	6.7	0.6	3.3	4.2	4.3	4.5	4.5
Nominal external interest rate (in percent)	3.0	6.4	3.5	7.2	4.2	4.2	1.4	4.7	3.9	3.7	3.6	3.5	3.6
Growth of exports (US dollar terms, in percent)	25.8	-16.7	35.8	16.3	2.7	22.6	20.1	-8.5	-6.5	-1.6	8.1	8.7	9.1
Growth of imports (US dollar terms, in percent)	33.1	-2.1	7.7	17.2	7.8	18.4	16.3	5.3	-0.7	2.7	-10.0	3.9	6.5
Current account balance, excluding interest payments	9.6	1.1	6.8	6.7	5.1	3.2	7.2	-2.5	-4.9	-6.5	0.8	2.3	3.0
Net non-debt creating capital inflows	6.5	2.4	0.1	1.7	1.5	3.2	3.1	2.0	5.4	6.2	2.1	0.9	0.8

1/ Derived as  $[r - g - \rho(1+g) + \epsilon\alpha(1+r)](1+g+\rho+g\rho)$  times previous period debt stock, with  $r$  = nominal effective interest rate on external debt;  $\rho$  = change in domestic GDP deflator in US dollar terms,  $g$  = real GDP growth rate,  $\epsilon$  = nominal appreciation (increase in dollar value of domestic currency), and  $\alpha$  = share of domestic-currency denominated debt in total external debt.  
2/ The contribution from price and exchange rate changes is defined as  $[-\rho(1+g) + \epsilon\alpha(1+r)](1+g+\rho+g\rho)$  times previous period debt stock.  $\rho$  increases with an appreciating domestic currency ( $\epsilon > 0$ ) 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.

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



Sources: International Monetary Fund, Country desk data, and staff estimates.  
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.  
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.  
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.  
 4/ One-time real depreciation of 30 percent occurs in 2014.



# SURINAME

## STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 5, 2013

Prepared By

Western Hemisphere Department

### CONTENTS

FUND RELATIONS	2
RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK	5
RELATIONS WITH THE WORLD BANK	7
STATISTICAL ISSUES	8

## FUND RELATIONS

(As of June 30, 2013)

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

Article VIII

**General Resources Account:**

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

**SDR Department:**

	<b>SDR Million</b>	<b>%Allocation</b>
<u>Net cumulative allocation</u>	88.09	100.00
<u>Holdings</u>	80.60	91.50

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:** None

**Projected Payments to Fund <sup>1/</sup>**

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

	<u>2013</u>	<u>2014</u>	<u>Forthcoming</u> <u>2015</u>	<u>2016</u>	<u>2017</u>
Principal					
Charges/Interest	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>
<b>Total</b>	<u>0.00</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>	<u>0.01</u>

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

**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, maxima and minima 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.

### Last Article IV consultation

The last Article IV consultation was concluded by the Executive Board on September 7, 2012 (IMF Country Report No. 12/281). Suriname is on the standard 12-month consultation cycle.

### Participation in the GDDS

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

### Technical assistance since 2008

#### CARTAC

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



**FAD**

- Mission in November 2010 on tax policy.
- Mission in February 2011 on revenue administration assessment.
- Mission in 2013 on tax and customs administration.
- Mission in 2013 to implement public financial management infrastructure.

**LEG**

- Mission in August and November 2011 on fiscal law.
- Mission in 2012 on Anti Money Laundering activities.

**MCM**

- Missions in November 2010 on foreign exchange market.
- Mission in March 2011 on banking system assessment.
- Mission in June 2011 on the introduction of indirect monetary instruments.
- Mission in December 2011 on bank resolution.
- Mission in February 2012 on technical assistance results management.
- Mission in early 2013 on monetary and exchange rate operations.
- Several technical assistance missions to assist the central bank in the implementation of indirect monetary instruments and in the development of the foreign exchange market.

**STA:**

- Mission in August 2008 improving external sector data.

**EXR:**

- Training of journalists in economic analysis.

**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 April 30, 2013)

In 1980 Suriname joined the Inter-American Development Bank (IADB), the country's largest multilateral lender. As of May 2013, Suriname's outstanding debt to the IADB stood at US\$230 million. The disbursement rate increased since 2011 due to improved absorptive capacity for investments.

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. By December 2012, IADB had already approved more than 50 percent of the programmed resources in the country strategy.

The active investment loan portfolio, of which 40 percent is disbursed, consists of eight sovereign guaranteed loans that total US\$155 million. The median age of the loans in the entire portfolio is 1.8 years. The 2013 pipeline will support reforms in agriculture while collaboration in the energy and financial sectors continues. The 2013 pipeline includes one investment loan for US\$20 million, and three programmatic PBLs for up to US\$125 million.

The technical cooperation portfolio for Suriname comprises 14 operations (US\$7.6 million), of which 36 percent has been disbursed. The IADB also approved an investment grant, funded by the Global Environment Facility, for US\$4.4 million during the first quarter of 2013.

**Pipeline and Portfolio Summary**

<b>Project Category</b>	<b>Number</b>	<b>Total (US\$ millions)</b>	<b>Disbursed (in percent)</b>
Loans in execution	8	155.0	40.0
TCs in execution	15	7.6	36.0
Investment grant	1	4.4	0.0
Loans in pipeline (2013)	4	145.0	Not applicable

**NET FLOWS CONVERTIBLE CURRENCIES**

(US\$ Millions)

	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
a. Loan Disbursements	13.5	27.7	82.93	57.8	107.0
b. Repayment (principal)	-4.7	-6.6	-4.3	-5.9	-4.7
<b>c. Net Loan flow (a+b)</b>	<b>8.8</b>	<b>21.1</b>	<b>78.6</b>	<b>51.9</b>	<b>102.3</b>
d. Interest and Charges	-2.1	-2.4	-2.6	-3.7	-4.4
e. Capital Contribution (OC+FSO)	0.0	0.0	0.0	0.7	0.0
<b>f. Net Cash flow (c+d+e)</b>	<b>6.7</b>	<b>18.7</b>	<b>76.0</b>	<b>47.5</b>	<b>97.9</b>

## RELATIONS WITH THE WORLD BANK GROUP

(As of May 15, 2013)

The World Bank Group recently re-engaged with the Surinamese authorities after a 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. IFC support focuses on advisory services for Public and Private Partnerships (PPPs).

### Technical Assistance

**Tariff Reform Impact Simulation Tool (TRIST):** TRIST is an interactive Excel based tool designed to simulate the short term impacts of tariff reform and to indicate which sectors of the domestic economy are likely to be most affected. The model is has been developed and will be used, among other things, as a tool in trade negotiations. Training and handover was done in May 2013.

**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.

### Other Activities

The Government and the Bank have been in discussions on widening the support base particularly in the following two areas:

- 1) **Development of a National Broadband Strategy:** The objective of the Broadband Strategy is to promote widespread access to high-speed broadband services throughout the country (including the hinterland) as a significant driver for poverty alleviation, economic growth and job creation. The strategy will also serve as a critical input to Government's broader national objective of building a knowledge-based economy.
- 2) **Reform of the State-Owned Entities (SOEs) Sector in Suriname:** The objective of the reform is to: strengthen the public financial management capacity, strengthen corporate governance practices and assist with the development of a SOE reform strategy. The reform of the sector is intended to improve reporting, transparency service delivery through greater efficiency.

## STATISTICAL ISSUES

### I. Assessment of Data Adequacy for Surveillance

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

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

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

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

**Government finance statistics:** Public finance statistics are limited to those for the central government. Estimates for revenue and expenditure components often differ among the Ministry of Finance, the Central Bank of Suriname, and the Central Paymaster data, increasing the uncertainty about the true fiscal position. The improvement of the central bank data reports on its website, including early estimates of the fiscal position on a monthly basis with 2–3 months lag, is a welcome development.

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

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

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

## II. Data Standards and Quality

Suriname participates in the GDDS.

## III. Reporting to STA

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

**SURINAME: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE**  
(As of July 18, 2013)

	Date of latest observation	Date received	Frequency of Data <sup>7</sup>	Frequency of Reporting <sup>7</sup>	Frequency of publication <sup>7</sup>
Exchange Rates	7/13	7/13	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	6/13	7/13	M	M	Q
Reserve/Base Money	6/13	7/13	M	Monthly Less than 1 month lag	Q
Broad Money	6/13	7/13	M	Monthly less than 1 month lag	Q
Central Bank Balance Sheet	6/13	7/13	M	Monthly Less than 1 month lag	Q
Consolidated Balance Sheet of the Banking System	5/13	7/13	M	Monthly, 2 months lag	Q
Interest Rates <sup>2</sup>	5/13	7/13	M	Monthly 2 months lag	Q
Consumer Price Index	5/13	6/13	M	Monthly Less than 1 month lag	M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – General Government <sup>4</sup>	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> – Central Government	3/13	6/13	Q	NA	Q
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	3/13	06/13	M	M	M
External Current Account Balance	Q4/12	03/13	Q	Q	A
Exports and Imports of Goods and Services	Q4/12	03/13	Q	Q	A
GDP/GNP	2011	03/13	A	A	A
Gross External Debt	3/13	6/13	M	M	A
International Investment Position <sup>6</sup>	...	...	NA	NA	NA

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

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

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

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

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

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

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

**Statement by the IMF Staff Representative on Suriname  
September 30, 2013**

1. **This statement summarizes developments in Suriname since the issuance of the staff report.** The additional information does not change the thrust of the staff appraisal.
2. **In line with the staff's recommendations, monetary and fiscal policies are being tightened.**
  - 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.
  - Alongside, the authorities announced their intention to tighten fiscal policy. The authorities have drawn up a menu of options for consolidation, and are finalizing measures to be taken in next year's budget. Further details will be provided in the President's Budget Speech on September 30, but so far the authorities have indicated that options being considered include increasing environmental taxes, terminating several customs duty exemptions, and reducing subsidies to public utilities, including by adjusting tariff structures. The tax system is also to be simplified by discontinuing several nuisance taxes and stamp duties. However, at this point, there is not enough specificity to quantify the impact of these measures on the fiscal position.
3. **Plans to issue the sovereign bond have been delayed as a result of recent unfavorable market trends.** However, the authorities still intend to go ahead with the bond issue later, as market conditions permit, and in the meantime they are exploring the possibility of bridge financing to enable them meet their commitments in the gold sector, while the state oil company also has alternative financing for the oil sector investment. If the bond issuance were to be delayed into next year, it would defer somewhat the increase in government debt resulting from this transaction in staff's macro framework. At this point, no major implications for near term gold or oil production of such a delay are foreseen.





INTERNATIONAL MONETARY FUND



Press Release No. 13/409  
FOR IMMEDIATE RELEASE  
October 18, 2013

International Monetary Fund  
Washington, D. C. 20431 USA

### **IMF Executive Board Concludes 2013 Article IV Consultation with Suriname**

On September 30, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.<sup>1</sup>

Suriname's macroeconomic performance has strengthened markedly over the past decade. Since 2000, stronger policies and buoyant commodity prices, supported by political stability, have helped improve macroeconomic performance, enabling Suriname to enjoy several recent upgrades from major ratings agencies. At this juncture, however, with gold prices declining after a long upswing, the main challenges are to strengthen institutions and adjust policies to avoid the onset of a boom-bust cycle.

Growth remains robust while inflation has declined considerably. In 2012 Gross Domestic Product (GDP) grew an estimated 4.75 percent; similar to 2011 and among the highest in the region, supported by buoyant commodity prices particularly gold. However, while export volumes for gold grew strongly, they were anemic for the other two main commodities—oil and aluminum. Inflation has dropped sharply, and stood at 2.5 percent in May 2013.

Bank credit growth to the private sector has risen to a robust 17.25 percent (year on year) in May 2013, led by trade and housing construction, with stable lending rates in both domestic and foreign currency. Financial intermediation remains low, however, with private sector credit at 26 percent of GDP in 2012. Commercial banks remain profitable and liquid. Non-performing

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

loan (NPL) ratios are somewhat high, but declined from about 8 percent in 2011 to 7.1 percent currently.

However, the fiscal position has weakened substantially. The overall fiscal balance fell by 5 percentage points to a deficit of 4 percent of GDP in 2012. Much of the deterioration was due to a jump in current spending, including on subsidies. Fiscal pressures intensified further in the first quarter of 2013 as a result of wage hikes and a pickup in capital spending. While measures have been taken since March to contain spending, the overall deficit for 2013 is likely to be around 3 percent of GDP. Public debt remains low at 22 percent of the GDP.

The external balance has also declined considerably. The current account surplus declined by about 1.5 percentage points to an estimated 4.25 percent of GDP in 2012. In the first quarter of 2013, the weakening intensified and a current account deficit was recorded, as the usual seasonal decline in receipts was accompanied by increased imports and declining commodity export prices. International reserves dipped moderately but remain adequate at 4.25 months of imports.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors welcomed Suriname's strong growth supported by sound policies and buoyant commodity prices. They noted, however, that the country's heavy reliance on commodity exports has exposed fiscal and external vulnerabilities. Directors stressed the need to build up buffers, promote fiscal sustainability, strengthen the financial sector, and enhance competitiveness.

Directors welcomed the authorities' commitment to fiscal consolidation. They recommended targeting a moderate fiscal surplus over the medium term. Adjustment efforts should aim to streamline expenditure on goods and services, moderate public wages, improve the targeting of subsidies, and prioritize capital projects. It will also be important to ensure that the planned social security scheme is fiscally sustainable.

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<sup>2</sup> 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 commended the authorities' plans to strengthen the fiscal framework. The public financial management law when completed would provide a sound basis for a fiscal anchor and medium-term expenditure ceilings. Directors also lauded efforts to establish a sovereign wealth fund and strengthen customs and tax administration, and recommended intensifying efforts to implement a properly-designed value-added tax. Directors urged caution regarding the authorities' plans to purchase minority stakes in two gold mining ventures financed by a sovereign bond issue.

Directors supported monetary tightening in case fiscal measures prove inadequate to contain demand pressures. They urged the authorities to press ahead with plans to establish open market operations. Directors underscored the importance of prudent macroeconomic policies to support the fixed exchange rate. They encouraged the authorities to remove the remaining multiple currency practices when the opportunity arises.

Directors noted that the financial sector appears relatively sound, but urged vigilance over the rapid growth of credit. They welcomed the progress in overhauling the banking sector regulatory framework and strengthening the Anti Money Laundering /Combating the Financing of Terrorism regime. They looked forward to the authorities' plans to upgrade the insurance sector regulatory framework, establish a credit bureau and a deposit insurance scheme, and reduce state ownership in the banking sector. They recommended continued efforts to reduce dollarization.

Directors underscored the need to boost competitiveness through reinvigorated steps to strengthen the business environment. They also recommended action to improve labor market flexibility.

Directors looked forward to plans to upgrade the statistics law and strengthen reporting requirements to help address data gaps.

## Suriname: Selected Economic Indicators

				Est.	Proj.	
	2009	2010	2011	2012	2013	2014
(Annual percentage change, unless otherwise indicated)						
<b>Real sector</b>						
GDP at 2007 prices	3.0	4.1	4.7	4.8	4.7	4.0
GDP at current market prices	9.7	12.7	17.3	11.6	5.3	7.5
Consumer prices (end of period)	1.3	10.3	15.3	4.4	3.0	4.0
Consumer prices (period average)	0.0	6.9	17.7	5.0	2.8	4.7
<b>Money and credit 1/</b>						
Banking system net foreign assets	11.4	3.1	19.3	17.5	-7.7	5.6
Broad money	26.6	11.2	11.7	19.6	11.5	7.7
Private sector credit	12.2	10.9	12.0	16.7	14.2	11.4
(In percent of GDP, unless otherwise indicated)						
<b>Savings and investment</b>						
Private sector balance (savings-investment)	2.7	9.6	4.9	8.2	-0.6	-2.0
Public sector balance	-2.4	-3.1	0.9	-4.0	-2.9	-4.0
Foreign savings	-0.3	-6.4	-5.8	-4.2	3.5	6.1
<b>Central government</b>						
Revenue and grants	25.3	22.7	27.8	25.9	25.7	24.8
Total expenditure	27.7	25.9	26.9	29.9	28.6	28.8
<i>Of which: noninterest current expenditure</i>	20.1	20.0	19.8	23.2	23.4	23.3
Overall balance	-2.4	-3.1	0.9	-4.0	-2.9	-4.0
Net domestic financing	2.1	1.9	-3.7	1.8	0.9	2.4
Net external financing	0.3	1.2	2.8	2.1	2.0	1.6
<b>Central government debt 2/</b>						
Domestic	8.6	10.8	9.6	10.1	11.9	14.6
External	6.9	7.7	10.8	11.8	25.2	25.0
<b>External sector</b>						
Current account balance	0.3	6.4	5.8	4.2	-3.5	-6.1
Capital and financial account	1.0	-6.3	0.2	5.2	0.4	6.6
Change in reserves (US\$ millions, - increase)	-97	-22	-142	-138	155	-31.1
Gross international reserves (US\$ millions)	763	785	927	1,065	910	941.1
In months of imports	5.2	4.9	5.0	5.3	4.3	4.5
Terms of trade (percent change)	3.1	-3.8	-2.5	0.8	0.7	1.1
Exchange rate (SRD per US\$, end of period)	2.75	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 Mr. Nogueira Batista, Executive Director for Suriname  
and Mr. Oliveira Lima, Mr. Orie, and Mr. Gaurisankar  
September 30, 2013**

1. The Surinamese authorities appreciate the continued open dialogue and frank discussions with the staff mission, which reflect a now well-established close collaboration. While noting the remarkable progress achieved in the last three years, the report highlights the need for further strengthening the fiscal framework to maintain robust and stable growth under very challenging external circumstances.

**Recent Developments and Outlook**

2. The Surinamese economy recorded growth of 4.8 percent in 2012 driven by the mining and construction sectors. Growth is continuing at the same pace in 2013 induced by ongoing construction activities under the US\$700 million expansion of the oil refinery and increased credit-driven demand. Despite the negative impact of lower commodity prices on the domestic demand for goods and services, the outlook for the medium term remains favorable as a result of substantial foreign direct investment in gold mining and continued investments by the state-owned oil company, Staatsolie.

3. Two gold mining deals were approved by Parliament. The first one was signed with the Canadian gold mining company Iamgold for the expansion of its existing gold mine in Suriname. The second one awaits the official signing by the Surinamese government and the American gold mining company Newmont for the construction of a new mine, involving an investment of about US\$1.1 billion or 22 percent of GDP. The government can opt for an equity participation of up to 30 percent in the Iamgold deal and 25 percent in the Newmont deal, amounting to an investment of approximately US\$400 million if both options are fully exercised. The authorities have examined the issue carefully and firmly believe that equity participation would be in the best interest of the Surinamese population, as it will increase fiscal income over the medium term and help expand the economic linkages of the mining industry to the rest of the economy. While the resulting higher exposure to gold price fluctuations is of concern, the authorities are setting up a Sovereign Wealth Fund (SWF) that will absorb a large part of the windfall income and most of the revenue fluctuations, while at

the same time discussing with capital markets the possibility of making use of appropriate hedging instruments to reduce future income volatility. It is expected that the government will access international capital markets to raise the necessary funds for these investments.

4. Staatsolie is undertaking large investments in oil refining and ethanol production. The expansion of the oil refinery is slated to be completed in late-2014 and will substantially reduce exports of crude oil and imports of refined products, with a positive net effect on the trade balance projected at around 2½ percent of GDP. The successful conclusion of a pilot ethanol project led the company to approve a large scale sugarcane ethanol project that is expected to have sizeable effects on employment and export diversification. Also, a new local privately owned kaolin mining company has recently commenced operations in East Suriname. This raw material is processed in the country by the cement industry, which is experiencing rapid growth because of the construction boom.

5. The Surinamese economy experienced continued low inflation despite acceleration in domestic demand and some pressure on the exchange rate caused by the fall in international gold prices. Inflation measured 2.5 percent in August 2013 on a year-over-year basis, mainly because of stable international food and fuel prices. Aware of the downside risks posed by the external environment and the rapid expansion of domestic demand, the authorities have begun to tighten monetary and fiscal policies.

6. Falling government revenue triggered by lower gold prices, public sector wage increases, and increases in capital expenditure and purchases of goods and services widened the fiscal deficit in late-2012. The fiscal deficit increased further in the first quarter of 2013, again as a consequence of falling gold prices and higher spending. The authorities responded by imposing cash management measures. Goods and services expenditure authorizations have been reduced, while capital investment is slowing down. As a result, the government recorded a small surplus in the second quarter of 2013. Further revenue measures are under preparation and will be put in place gradually to ensure macroeconomic stability and maintain the growth momentum of the economy. Additional revenue measures will be announced in the President's September 30 budget speech. Despite increased government

borrowing, public debt remained far below the statutory ceilings set out in the State Debt Act (25 percent of GDP for domestic debt and 35 percent of GDP for external debt). The projected increase in the debt-to-GDP ratio in 2013 is entirely related to the intended international bond issuance to finance the gold mining investments.

7. In the first half of 2013, the current account balance shifted to a deficit after a prolonged period of surpluses. This shift reflects lower international prices for gold and alumina, a strong seasonal decline in exports, and a marked increase in imports of goods and services. Higher imports resulted in turn primarily from the construction of the new refinery and, to a smaller extent, from elevated domestic demand. As a consequence, international reserves declined to US\$874 million in August 2013.

8. Monetary expansion in the first half of 2013 was primarily fueled by increased credit demand associated to accelerated growth in the small-scale gold mining sector and construction industries and higher government spending. The Central Bank has tightened monetary policy to protect the stability of the economy. Specifically, the reserve requirement ratios on domestic and foreign currency deposits were increased by 5 percentage points each, while the discount rate was also raised. The Central Bank is closely monitoring developments and will tighten monetary policy further in case fiscal and monetary policy measures prove insufficient to correct the demand imbalance or if domestic inflationary pressures should emerge.

9. The banking system is adequately capitalized, liquid, and profitable. The main challenge is the still high financial dollarization in the banking system. To reduce incentives for dollarization, the Central Bank has been increasing reserve requirements on foreign currency deposits compared to the reserve requirements on domestic currency. As a result, deposit and credit dollarization have fallen gradually.

10. The Central Bank is strengthening the regulatory and supervisory framework of the financial system, while also tightening AML/CFT reporting requirements. To safeguard private sector deposits, the establishment of a Deposit Insurance Scheme is under

consideration drawing on technical assistance provided by the Caribbean Regional Technical Assistance Center (CARTAC).

### **Fiscal Policy and Public Financial Management**

11. The authorities are committed to containing the 2013 fiscal imbalance at below 3 percent of GDP. After a small fiscal surplus was recorded in Q2 2013, it is expected that the additional fiscal revenue measures to be announced on September 30 and the continued containment of current and capital expenditure will suffice to counter the reduction in mining revenue and the increase in expenditures in late 2012 and early 2013.

12. Over the medium-term, the government is committed to a series of important reform measures to ensure fiscal sustainability, reduce reliance on volatile mining revenue, reduce tax collection costs, increase reliance on consumption taxes as opposed to income taxes, and increase the tax base. The introduction of a Value Added Tax (VAT) has been delayed due to problems related to its design, infrastructure, and ownership. With a new draft law being prepared, it is expected that a revenue-positive VAT will be introduced in 2015. Simultaneously to the introduction of the VAT, the government intends to simplify the direct tax regime and reduce income tax rates. Preparations are underway and a new fiscal reform project manager has been hired by the Ministry of Finance to oversee and put in place these reforms.

13. Budget execution and fiscal policy have been hampered by an outmoded budget design and execution regime. With the support of the IDB, a new budget execution and information management system is being implemented and is expected to be fully operational in 2014. In parallel, a new public financial management law has been drafted with the support of Fund technical assistance and is being discussed with stakeholders before submission to Parliament. Significant improvements in statistical data collection and a new financial programming framework are also contributing to enhance macroeconomic policymaking.



14. Production in the small-scale gold mining sector exceeds that of the large gold mines. Yet, the government earns only minimal royalties from these gold producers. Efforts to collect income tax and increase royalties from small gold miners are ongoing and a draft tax law has been completed and sent to Parliament for discussion and approval. Meanwhile, the Revenue Service is stepping-up efforts to expand tax collection from this sector based on the existing tax law.

15. A reform of the Customs Administration is being implemented with the help of a specialized international firm. The main objective is to reduce the under-invoicing of imports. Pre-shipment inspections are in the process of being introduced, pending adjustments to minimize the impact of those inspections on the time required for import handling.

16. Appropriately designed fiscal rules can entrench stability and reduce the highly disruptive impact of sharp fluctuations of mining-related revenue, the main source of fiscal sector instability in Suriname. As a first step, the authorities have placed in the draft SWF law fiscal rules that stabilize revenue stemming from oil and mining operations. Since SWF-embedded rules can only affect revenue, a broader fiscal anchor may be necessary. Staff has advocated a target for the non-mineral balance complemented by medium-term expenditure ceilings. The authorities would appreciate further discussions with staff and technical assistance from the Fund in this matter.

### **Structural Issues and Capacity Building**

17. The authorities have made significant progress in the establishment of a SWF for revenue stabilization, savings, and inter-generational equity purposes. Parliamentary discussions on the SWF are in the final stages. Staff cautioned the authorities on the amendments to the original draft SWF law, particularly the temporary allocation of some mineral windfall revenue to a domestic investment fund. The staff's cautionary remarks are understandable, but this is a typical case where garnering political support in the legislature required amendments to an otherwise impeccable draft law. In any case, these amendments

do not affect the thrust of the legislation proposed by the government; they are only valid for two years and the envisaged fiscal rules will apply fully after that.

18. The authorities have already made important steps to create a more supportive business environment that would enhance growth prospects. The licensing system has been simplified and the time required to start a business has been reduced. In addition, the authorities have established a financing fund for small and medium-sized enterprises with the support of the IDB.

19. The Central Bank continues to function as a catalyst for knowledge. It embarked on an ambitious program to train young graduates in various areas of interest for the central bank, such as financial sector supervision and surveillance, open market operations and capital market development. In addition, the Bank established a financial literacy training program for several target groups, such as financial institutions as well as small and medium-sized enterprises. In this regard, the Bank joined the OECD's International Network on Financial Education (INFE), which will be instrumental for its financial education programs.