INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/141

SURINAME

June 2016

REQUEST FOR STAND-BY ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SURINAME

In the context of the request for Stand-By Arrangement, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 27, 2016, following discussions that ended on April 12, 2016, with the officials of Suriname on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on May 18, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- A **Statement by the Executive Director** for Suriname.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Suriname*
Memorandum of Economic and Financial Policies by the authorities of Suriname*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 16/251
FOR IMMEDIATE RELEASE
May 27, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$478 Million Stand-By Arrangement for Suriname

The Executive Board of the International Monetary Fund (IMF) today approved a 24-month Stand-By Arrangement (SBA) for Suriname, in an amount equivalent to SDR 342 million (about US$478 million or 265 percent of quota), to support the government's economic reform program. The Board's approval of the arrangement enables the immediate disbursement of an amount equivalent to SDR 58 million (about US$81 million).

The home-grown program supported by the arrangement aims to facilitate Suriname's adjustment to the fall in the prices of major commodity exports, restore confidence, and pave the way to economic recovery. A critical ingredient of the program is fiscal consolidation, to restore fiscal and external current account stability. The program also includes reforms to the exchange rate and monetary policy framework, to enhance Suriname's resilience to the current and to possible future shocks, and allow a steady rebuilding of foreign reserves. It contains a comprehensive set of structural reforms to support private-sector led growth. Crucially, the program includes support measures to protect the most vulnerable during this period of economic adjustment. The program will also catalyze support from other multilateral institutions, including the Caribbean Development Bank, the Inter-American Development Bank (IDB), the Islamic Development Bank, and the World Bank Group, as well as from bilateral creditors.

Following the Executive Board's discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair of the Board, issued the following statement:

"Suriname has been hit hard by the drop in the international prices of its main exports and the closure of the country's alumina production. Combined with a delayed policy response in the context of an election cycle, these developments have caused substantial fiscal and external current account deficits, a run-down of international reserves and an economic downturn. In the second half of 2015, the authorities started to tighten fiscal policy and prepared a comprehensive reform program to address Suriname's challenges.

"The main objectives of the authorities' program are to restore macroeconomic stability and confidence, and to pave the way to economic recovery while protecting the most vulnerable during the adjustment process. Fiscal consolidation is a critical ingredient of this program to reduce imbalances. The authorities' fiscal reforms include elimination of electricity price subsidies and the introduction of a value added tax. To soften the impact of the adjustment on the poor, the authorities' agenda emphasizes a strengthening of the social safety net.

"The program aims to rebuild Suriname's international reserves. The authorites' decision to move to a market-determined exchange rate will strengthen the economy's resilience to commodity price shocks. Together with the expected expansion in gold exports and the program's catalytic effect on external financing, this step will improve the current account balance and contribute to raising reserves to prudent levels.

"To reduce inflation and stabilize expectations, the program includes steps to tighten liquidity conditions. The start of T-bill auctions and the planned roll out of open market operations will support the goal of returning inflation to single digits. The Central Bank of Suriname also needs to stand ready to address rising banking sector risks.

"Implementing the structural reform agenda is essential to ensure a prosperous future for Suriname. To support the recovery and to raise medium-term growth, the authorities' program includes reforms to improve the business environment. These reforms will promote economic diversification and encourage foreign direct investment. The reforms will be supported by technical assistance from the IMF and other development partners."

ANNEX

Recent Developments

Suriname has been hit hard by the drop in the international prices of its main export commodities, gold and oil, and the closure of the country's alumina production. In 2011, revenues from the sale of the three commodities accounted for 88 percent of exports and 40 percent of government revenue. The subsequent price declines and the closure of alumina refinery Suralco in late-2015 have cut these revenues and caused substantial fiscal and external current account deficits. The fiscal deficit reached 8.8 percent of GDP in 2015, compared with a small surplus in 2011, with the bulk of the worsening reflecting the drop in government mineral revenue. The current account has worsened from a surplus of 5.7 percent of GDP in 2011 to a deficit of 15.6 percent of GDP in 2015 due to the drop in mineral exports. Reflecting the fall in net exports and intervention by the Central Bank of Suriname (CBvS), official foreign reserves have declined to perilously low levels. These negative external developments, combined with the closure of Suralco's alumina refinery in late 2015, have pushed the economy into a recession, with growth of -2 percent expected in 2016. Consumer price inflation has reached 37 percent in March 2016, up from an average of 4 percent during 2013–15, on the back of the fall in the value of the exchange rate and utility tariff hikes.

Program Summary

Against this background, the Surinamese authorities have embarked on a program to restore macroeconomic stability and confidence, and pave the way to economic recovery, while protecting the most vulnerable during the process of adjustment. To support this program, they have requested IMF financial assistance.

The program includes the following key elements:

Fiscal policy: The large drop in mineral revenues necessitates bold fiscal measures to bring government finances back to a sustainable level. The program targets a reduction of the fiscal deficit from 8.8 percent of GDP in 2015 to less than 1.5 percent of GDP by 2018. The fiscal adjustment is based primarily on phasing out electricity subsidies, wage restraint, an increase in fuel taxes, and, to create an efficient source of non-mineral revenue, introducing a value added tax (VAT). To support the fiscal adjustment, the program will introduce reforms to strengthen the fiscal policy framework, including a Sovereign Wealth Fund Law to improve mineral revenue management; setting up a procurement department to ensure cost-effectiveness of public sector purchases; and the building of a modern Treasury Department. Technical assistance from both the IMF and the Inter-American Development Bank (IDB) will develop necessary capacity in these areas.

Social protection: To help soften any negative impact of the macroeconomic adjustment on the poor, the program includes measures to strengthen the social safety net, including through increased spending on social cash transfer programs. The prospective increases in electricity prices will be structured so that those who are the biggest consumers will bear more of the adjustment than the small consumers. The program also provides tax breaks to protect taxpayers' purchasing power.

Monetary and foreign exchange policy: The program envisages strengthening the country's international reserve position and calibrating monetary policy to return inflation to single digits. The system of foreign currency auctions, and, more recently, the authorization of commercial banks and foreign exchange bureaus to freely determine exchange rates, have facilitated Suriname's transition to a floating market-determined exchange rate, which will strengthen the economy's resilience to commodity price shocks.

Structural reforms: The program also includes substantial structural reforms to improve the business environment, support the recovery, and strengthen medium-term growth. The reforms will promote the economy's diversification and attract foreign direct investment, and will be supported by technical assistance from the IMF, the Caribbean Development Bank, the IDB, the Islamic Development Bank, and the World Bank. Enhancing the productivity and competitiveness of Suriname's agricultural sector is of particular importance. The program also includes legal reforms to accelerate the process of starting a company, enforcing contracts, promoting competition, protecting investors, registering property, and expanding access to finance.

Suriname, which joined the Fund on April 27, 1978, has a quota of SDR 128.90 million (about US$181.75 million). For additional information on IMF and Suriname see: http://www.imf.org/external/country/SUR/

Suriname: Selected Economic Indicators

	2012	2013	2014	Prel. 2015	Proj. 2016	Proj. 2017
(Annual percentage change, unless otherwise indicated)						
Real sector						
GDP at current prices (SRD billions)	16.4	16.9	17.2	17.6	22.8	25.8
Real GDP growth	3.1	2.8	1.8	0.1	-2.0	2.5
GDP deflator	10.3	0.2	-0.3	2.2	32.3	10.4
Consumer prices (end of period)	4.4	0.6	3.9	25.0	24.1	8.9
Consumer prices (period average)	5.0	1.9	3.4	6.9	36.8	12.5
Money and credit						
Banking system net foreign assets	17.5	-11.3	-16.3	-22.0	48.3	21.6
Broad money	19.6	14.1	8.0	10.2	19.9	5.7
Private sector credit (devaluation adjusted)	16.7	18.4	9.0	7.3	5.3	7.7
Public sector credit (increase in percent of M2)	0.4	8.4	10.1	12.6	1.0	-0.5
(In percent of GDP, unless otherwise indicated)						
Savings and investment						
Private sector balance (saving-investment)	7.7	0.5	-1.0	-8.5	-1.0	3.9
Public sector balance	-4.5	-4.4	-7.0	-7.0	-7.7	-3.4
Saving	0.0	0.1	-1.8	-4.6	-4.9	0.3
Investment	4.4	4.5	5.2	2.5	2.8	3.7
Foreign saving	-3.3	3.8	8.0	15.6	8.7	-0.5
Central government						
Revenue and grants	25.7	25.9	24.2	21.0	20.6	23.6
Total expenditure 1/	29.6	33.6	32.1	29.7	27.0	27.0
Primary expenditure	28.6	32.2	31.3	28.3	25.0	25.3
Overall balance (net lending/borrowing)	-3.9	-7.7	-7.9	-8.8	-6.4	-3.4
Primary balance	-2.9	-6.4	-7.0	-7.4	-4.4	-1.7
Net acquisition of financial assets	0.0	0.0	0.0	0.0	-1.3	0.0
Net incurrence of liabilities	3.9	7.7	7.9	8.8	7.7	3.4
Net domestic financing	1.8	4.5	6.4	7.2	-0.3	0.4
Net external financing	2.1	3.3	1.5	1.5	8.1	3.0
Central government debt	21.7	31.7	29.4	43.5	46.2	44.0
Domestic	10.1	16.8	13.1	22.8	17.3	15.4
External	11.6	14.9	16.2	20.6	28.9	28.6
External sector						
Current account balance	3.3	-3.8	-8.0	-15.6	-8.7	0.5
Capital and financial account	9.6	8.4	13.2	13.4	0.4	1.0
Gross international reserves (US$ millions)	1,008	779	625	355	538	837
In months of imports	4.4	3.4	2.8	1.9	2.8	4.2

Sources: Suriname authorities; and Fund staff estimates and projections.
1/ Includes statistical discrepancy.

INTERNATIONAL MONETARY FUND

SURINAME

REQUEST FOR STAND-BY ARRANGEMENT

May 18, 2016

EXECUTIVE SUMMARY

Motivation. Foreign reserves have fallen perilously low, reflecting the drop in commodity export prices, the closure of alumina production, fiscal and external current account deficits, and central bank intervention. The authorities began adjusting to the shock in the second half of 2015 with fiscal consolidation and, in November, a 21 percent devaluation. They floated the currency in March 2016, which has resulted in a further depreciation of about 60 percent. The authorities have requested a Stand-By Arrangement (SBA) with the Fund to smooth the ongoing adjustment, restore confidence, and pave the way to economic recovery.

Program content. The proposed 24-month SBA (265 percent of quota or SDR 342 million) aims to support Suriname's adjustment to the fall in commodity export prices, and to restore external and fiscal sustainability. It foresees an improvement of the fiscal balance by 7.4 percent of GDP, which would reverse the rise in the government debt-to-GDP ratio; restoring foreign reserves to adequate levels—4 months of imports; and a monetary policy stance calibrated to reduce inflation to single digits. It also strengthens the foundations for private-sector growth through the implementation of a comprehensive set of structural reforms.

Publication. The authorities have agreed to the publication of the staff report.

Approved By:
Charles Enoch (WHD) and Petya Koeva Brooks (SPR)

The staff team consisted of D. Leigh (Head), Q. Chen, H. Kim, and M. Ronci (all WHD), E. Hanedar (FAD), P. Lohmus (MCM), and B. Shukurov (SPR). They were assisted at headquarters by F. Loyola, H. Canelas, and E. Moreno. C. Enoch (WHD) and K. Eckhorst (OED) participated in the discussions. The mission took place during March 30–April 12. Staff met with President Bouterse, Vice President Adhin, Minister of Finance Hoefdraad, Speaker of the National Assembly Geerling-Simmons, Central Bank of Suriname Governor Gersie, other members of the government, senior officials, and representatives of trade unions, the banking sector, and the business and diplomatic community.

CONTENTS

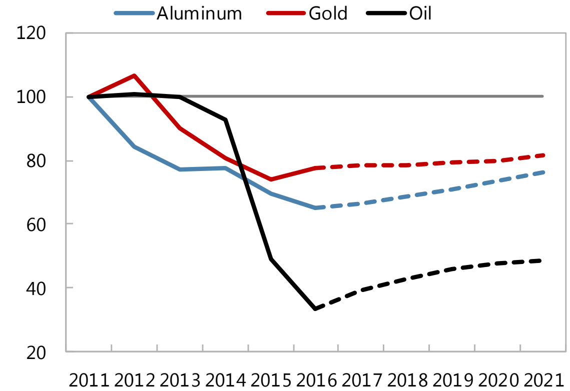
ANNEXES

APPENDIX

THE CURRENT CONTEXT

1. **Nature of the shock.** Large commodity export price drops have undermined Suriname's external and fiscal positions. Suriname's economic performance has depended strongly on the production of alumina, gold, and oil, whose prices have fallen, with only a limited rebound expected over the medium term. In 2011, revenues from the sale of the three commodities accounted for 88 percent of exports and 40 percent of government revenue. The subsequent price declines and the closure of alumina refinery Suralco in late-2015 have cut these revenues, caused substantial fiscal and external current account deficits, and pushed the economy into recession.[1]

Commodity Export Prices
(US$; 2011 = 100)



2. **Public finances.** The fiscal deficit reached 8.8 percent of GDP in 2015, up from 7.9 percent of GDP in 2014 and a small surplus in 2011, before the fall in commodity prices. The bulk (82 percent) of the worsening in the fiscal balance since 2011 reflects the drop in government mineral revenue.[2] The remainder results from a rise in government spending, including a 1.1 percentage point of GDP rise in the wage bill reflecting an election-related surge in public sector employment in 2015. Faced with limited domestic private financing in 2015, the authorities turned to the central bank: in September, the government obtained a large loan from the central bank (SRD 2.5 billion, 15 percent of GDP), with a fixed rate of 3.5 percent and a 30-year maturity.[3] Of this, about SRD 1 billion represents new financing, while the remainder replaced existing government debt, substantially

Net Exports and Fiscal Performance, 2011–15
(In percent of GDP)

	2011	2015	change: 2011-15
Current account balance	**5.7**	**-15.6**	**-21.2**
Net exports	**9.6**	**-16.3**	**-25.9**
Exports	60.3	35.8	-24.6
of which: Mineral exports	53.3	25.1	-28.2
of which : Alumina	11.1	4.5	-6.6
Gold	34.4	17.7	-16.7
Oil	7.8	3.0	-4.8
Imports	50.7	52.0	1.3
Fiscal balance	**0.5**	**-8.8**	**-9.3**
Revenue	26.7	21.0	-5.7
of which: Mineral revenue	10.7	3.1	-7.6
of which : Alumina	0.6	0.1	-0.5
Gold	3.3	0.8	-2.5
Oil	6.8	2.2	-4.6
Expenditure	26.1	29.7	3.6

Sources: National authorities; IMF, *World Economic Outlook;* and Fund staff estimates.

[1] Factors that led to Suralco's closure included, reportedly, unfavorable global market conditions, and declining bauxite reserves. Suralco's previous importance to the economy was significant: exports of alumina amounted to 4.5 percent of GDP in 2015.

[2] The decline in oil prices also reduced profits of the state oil company which recently completed the construction of an oil refinery, reducing its prospective contribution to government revenue.

[3] Article 21 of the Central Bank Act permits the CBvS to provide advances of up to 10 percent of the budgeted revenue for the current financial year, but no detail is provided about long-term lending. To prevent a recurrence of such monetary financing, the Minister of Finance and CBvS Governor signed a Memorandum of Understanding terminating monetary financing of the deficit on April 25, 2016 (¶26).

lengthening its maturity and lowering the average interest rate. The bulk of the new financing was used to pay down a large stock of domestic arrears (MEFP ¶10), and this repayment significantly increased local currency liquidity in the system. The government debt-to-GDP ratio, while still low, has more than doubled since 2011, reaching 43.5 percent in 2015.

3. **External sector.** Suriname's current account has worsened sharply in recent years, from a surplus of 5.7 percent of GDP in 2011 to a deficit of 15.6 percent of GDP in 2015, with the drop in mineral exports accounting for more than the full decline (there was a small offsetting rise in non-mineral exports). Suriname's current account deficit in 2015 is estimated to have been substantially larger than, and its real effective exchange rate (REER) substantially overvalued compared with, estimated equilibrium levels. Based on the IMF's EBA-lite modeling approach, staff estimates that Suriname's current account balance norm is about -0.8 percent of GDP, which is significantly tighter than the 2015 level of -15.6 percent of GDP, and implies that the REER was substantially overvalued in 2015, on average, by about 70 percent (Box 1).

4. **Foreign reserves.** Reflecting the fall in net exports and intervention by the Central Bank of Suriname (CBvS) to support the currency, gross official reserves have declined to US$302 million as of March 31, 2016 (1.7 months of imports), compared with more than US$1 billion in 2012. Adjusted international reserves—which exclude foreign currency swaps and reserve requirements on banks' foreign currency deposits—have declined to US$1.7 million.

International Reserves

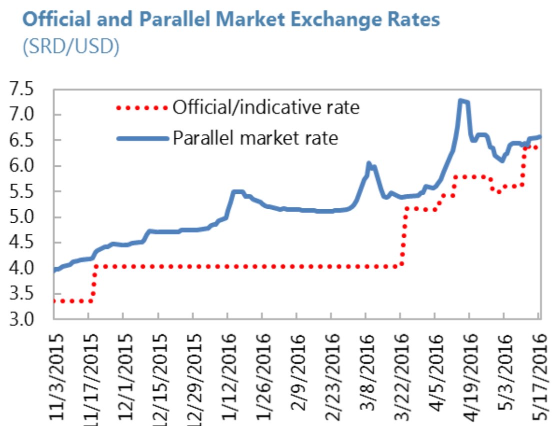
(US$ million, unless otherwise specified)

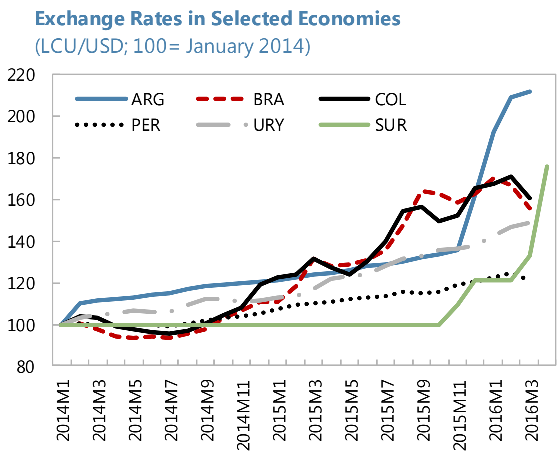
	31-Mar-16
Official foreign assets	**301.7**
IMF reserve position	13.0
IMF SDR	50.8
Monetary gold	53.2
Investments	3.0
Cash and deposits abroad	181.7
Adjustments	**300.0**
Foreign currency swaps	269.4
Reserve requirements on banks' foreign currency deposits	30.6
Adjusted international reserves	**1.7**

Source: Central Bank of Suriname and Fund staff calculations.

5. **Exchange rate.** Faced with the run-down of foreign reserves, the authorities devalued the currency by 21 percent on November 19, 2015. Exchange rate pressure persisted after the devaluation, with the spread between the parallel and official market rates reaching 50 percent in early March. The authorities achieved a temporary narrowing in the spread by intervening in the unofficial market in January-February. On March 22, 2016 the authorities floated the currency based on a system of foreign exchange auctions aimed at ensuring a convergence of the official exchange rate with the market rate. Based on the auctions, the spread between the official and parallel market rates has narrowed, and the authorities have since taken further steps to allow the official rate to respond to changing market conditions, as discussed in what follows (¶22-23). Overall, in cumulative terms, the official SRD/USD exchange rate has depreciated by some 90 percent since October 2015, a depreciation that is comparable to that of a number of other commodity exporters in the region.[4]

[4] Since October, there has been a 21 percent devaluation, and a subsequent depreciation of about 60 percent in the SRD/USD rate, which cumulates to a change of about 90 percent ((1.21 × 1.60) – 1 = 0.94).





6. **Monetary conditions.** The monetary base (reserve money) has fluctuated in recent months. It declined in the first half of 2015 due to unsterilized foreign exchange market intervention, with the contraction peaking at -21.7 percent (year on year) in July 2015. This contraction was partly reversed in the second half of 2015, after the CBvS provided monetary financing for government operations based on the issuance of a 30-year loan of SRD 2.5 billion (15 percent of GDP) in September 2015, of which about SRD 1 billion represented new financing. The monetary financing together with about SRD 110 million in net lending to commercial banks contributed to a rebound in reserve money by 14.7 percent by end-2015 (year on year). The CBvS has since contained commercial bank lending by raising required reserve ratios on domestic currency deposits from 30 percent to 35 percent in November, and by introducing a requirement to deposit 5 percent of deposits at the central bank as part of the new payment system (SNEPS). In the first quarter of 2016, when the government drew on its deposits at the central bank to finance the budget deficit, reserve money expanded by 4 percent (quarter on quarter).

7. **Inflation.** Consumer prices have increased on the back of the devaluation and utility tariff hikes. CPI (12-month) inflation rose to 37 percent in March, up from an average of 4 percent during 2013-15. Much of the inflation spike reflects a doubling in "housing and utilities" prices associated with the hike in electricity tariffs in October, 2015. Month-over-month inflation declined to less than 4 percent in December 2015, reflecting the one-off (price level) nature of the tariff hikes.

8. **Financial system.** Banking sector risks are mounting. The average ratio of non-performing loans (NPL) to gross loans increased from 5.9 percent in 2013 to 7.5 percent at end-September 2015 and 8.4 percent at end-December 2015. Loan quality is expected to worsen further on the back of the weakening economy and currency depreciation. The reported capital adequacy ratio for the system as a whole was at 10.7 percent as of end-2015, down from 10.8 percent as of end-September 2015, but still well above the regulatory minimum (currently at 8.8 percent but increasing to 10 percent in June 2017). As of end-December 2015, two banks were undercapitalized with one of them—a state-owned bank with 2.1 percent of system assets—insolvent. The recapitalization needed to return capital adequacy ratios for all banks back to 10 percent amounted to 0.26 percent of GDP. Relatively low provisioning (42.7 percent of NPLs) suggests that further adjustments to capital are warranted, and, as discussed in Box 2, the recent sharp drop in the value of the currency

may have eroded loan quality further. A number of banks have been relying on central bank liquidity facilities to meet their reserve requirements. Banks' foreign currency positions, while within prudential limits, have weakened recently.

THE FUND-SUPPORTED PROGRAM

A. Program Objectives

9. **The authorities see the program as an opportunity to minimize social and economic disruptions during the economy's adjustment to the permanent export commodity price shock, and to pave the way to financial stability and economic recovery.** The program's overarching goals are to restore fiscal and external sustainability, to rebuild foreign reserves, and to enhance the economy's resilience to shocks through reforms to the monetary and exchange rate framework, and through measures to foster economic diversification and an improved business environment (MEFP ¶7-8). The SBA framework supports Suriname's short-term external financing needs and the authorities' policies designed to address the crisis and to restore confidence and growth. It addresses short-term balance of payment problems, including low international reserves, and provides financing to smooth the economy's adjustment to the external shock. The current account balance is expected to narrow from a deficit of 15.6 percent of GDP in 2015 to near zero by the end of the SBA. The Fund staff has provided considerable technical assistance in the months leading up to the SBA, and will continue to help to develop capacity, in coordination with other technical assistance providers. Recent Fund technical assistance in the areas of foreign exchange policy, monetary operations, and Treasury bills (T-bills) has, in particular, supported Suriname's move to a flexible exchange rate, and the development of the CBvS's monetary policy toolkit. Planned technical assistance to support the program's key fiscal reforms, including the introduction of a Value Added Tax (¶12) will also be crucial for the program's success.

10. **The program's macroeconomic framework, which reflects the authorities' measures, has the following key features (Table 1):**

- *Growth recovery.* Economic growth in 2016 is projected at -2 percent, reflecting the fall in commodity export prices, fiscal consolidation, and the closure of the alumina refinery in late 2015. In 2017, however, growth is expected to recover to 2.5 percent, reflecting the opening of the new gold mine. In 2018-19, fiscal consolidation associated with VAT introduction is expected to moderate growth. Thereafter, supported by structural reforms included in the program, growth is assumed to converge to a medium-term rate of 3 percent, which is in line with Suriname's long-term historical average but well below the 5 percent average growth observed during the recent commodity boom.

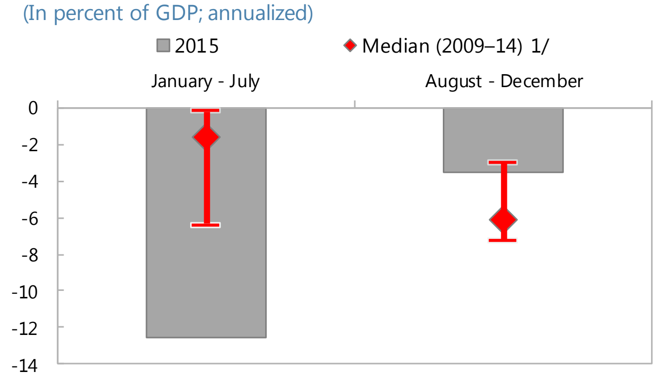
- *Disinflation.* Consumer price inflation (12-month) is projected to peak at 24 percent at end-2016, largely reflecting the level effect of higher electricity tariffs discussed in ¶12, and exchange rate depreciation. Inflation is expected to decline to 8.9 percent in 2017 and to 6.1 percent by 2018, reflecting tight monetary and fiscal policies, before leveling off at 4 percent over the medium term (MEFP ¶6).

- *External current account improvement*. The current account balance is expected to narrow from -15.6 percent of GDP in 2015 to -8.7 percent of GDP in 2016, and to near zero during 2017–18. The bulk of this adjustment (almost 13 percentage points of GDP) reflects the projected rise in exports on the back of expanded gold output, as well as an increase in gold and oil prices, based on forecasts published in the April 2016 IMF *World Economic Outlook*. A contraction in imports also contributes to the adjustment, reflecting the economic downturn, currency depreciation, and the end of capital imports associated with the construction of the new gold mine. Disbursements by the Fund and other international financial institutions (IFIs) are expected to be the primary financing items, along with FDI, which is projected to average 4.3 percent of GDP in 2016-18. Both public and private saving are expected to increase over the program period, although the new gold mine is expected to increase private saving by more, particularly in 2017. The improvement in the current account balance, the disbursements by the Fund and other IFIs, and FDI contribute to the build-up in foreign reserves to 4 months of imports by end-2018. Over the medium term, a small current account deficit (of less than 2 percent of GDP) is projected, reflecting the expected stabilization of gold production.

B. Restoring Fiscal Sustainability

11. **Since August 2015, the authorities have embarked on a path of fiscal consolidation.** They have kept authorizations of government purchases below budgetary allocations, which has contributed to reducing the budget deficit from an annualized 12.5 percent of GDP during January–July to 3.5 percent of GDP during August-December (MEFP ¶9). This adjustment does not reflect seasonal factors: on average, over the past 6 years, the budget deficit has worsened rather than improved in the second half of the year. Spending restraint in 2015 coincided with a concerted effort to clear domestic arrears related to expenditure in 2013–15. Payments to resolve these arrears, reflected below the line in the fiscal accounts, amounted to SRD 666 million (3.8 percent of GDP) in 2015. A highly visible fiscal consolidation measure has been the reduction in electricity tariff subsidies, with a near-doubling in electricity tariffs, on average, in October. Overall, the fiscal deficit for 2015 is estimated at 8.8 percent of GDP. Domestic banks and the non-bank sector reduced their lending to the government, resulting in the increase of direct borrowing from the central bank already mentioned.

Fiscal Deficit
(In percent of GDP; annualized)



1/ Chart reports median and interquartile range.

12. **The program targets a reduction of the fiscal deficit from 8.8 percent of GDP in 2015 to 1.4 percent of GDP by 2018 (Table 2 and MEFP ¶11).** The proposed fiscal anchor for the

program is the primary deficit, with a targeted reduction supported by clear fiscal consolidation measures. The primary fiscal balance would improve from a deficit of 7.4 percent of GDP in 2015 to a surplus of 0.3 percent of GDP in 2018. The adjustment is based on the following key components (see Text Table):

- *Elimination of electricity subsidies.* The authorities' phased elimination of electricity subsidies, announced by the President and begun in October 2015, is expected to reduce the fiscal deficit by 1.1 percent of GDP in 2016 and an additional 1.3 percent of GDP in 2017. To achieve these savings, the authorities raised electricity tariffs to cover 60 percent of the cost of electricity production on May 1, 2016 (prior action). They plan to raise the average tariff further to cover 90 percent of the cost of electricity production on September 1, 2016 (structural benchmark). On January 1, 2017, they plan to raise tariffs to cover 100 percent of the cost, which will result in the elimination of the subsidy (structural benchmark). Thereafter, the Technical Electricity Commission will develop a new formula, with input from the Fund staff, to regularly adjust electricity tariffs in line with the cost formula by January 31, 2017 (structural benchmark). To protect lower-income households from the impact of the tariff adjustment, the government has structured the electricity tariff in a progressive manner—with smaller tariff adjustments for smaller-quantity consumers.

Contribution to Fiscal Adjustment
(In percent of GDP)

Primary balance (2015)	**-7.4**
Change: 2015-16	2.9
Policy changes in 2016	3.8
Capital spending	-0.3
Electricity subsidy phased elimination	1.1
Fuel tax increase	0.9
Income tax break	-0.2
Insurance corporate tax increase	0.1
Other primary current expenditure restraint	1.1
Sales tax increase	0.1
Social programs spending increase	-0.1
Vehicle tax	0.1
Wage bill restraint	0.9
Non-policy factors in 2016	-0.8
Of which: mineral revenue	-0.9
Primary balance (2016)	**-4.4**
Change: 2016-17	2.7
Policy changes in 2017	0.7
Capital spending	-0.9
Electricity subsidy phased elimination	1.3
Insurance corporate tax increase	0.1
Sales tax increase	0.2
Reversal of income tax break	0.1
Social programs spending increase	-0.1
Vehicle tax	0.1
Non-policy factors in 2017	2.0
Of which: mineral revenue	2.4
Primary balance (2017)	**-1.7**
Change: 2017-18	2.0
Policy changes in 2018	2.1
Capital spending	-0.4
VAT introduction	2.5
Non-policy factors in 2018	-0.1
Of which: mineral revenue	-0.1
Primary balance (2018)	**0.3**

- *Elimination of exemption for insurance companies*. The exemption in income taxation that Surinamese-owned insurance companies enjoy over foreign owned insurance companies will be eliminated. This measure, to be implemented in the second half of 2016, is estimated to raise 0.1 percent of GDP additional revenue in 2016, and an additional 0.1 percent of GDP in 2017.

- *Higher fuel taxes.* The authorities raised taxes on gasoline and diesel sales (the Solidarity tax) in September 2015, and will introduce a tax on kerosene in the supplementary budget. These fuel tax measures together are estimated to generate additional fiscal revenue of 0.9 percent of GDP in 2016.

- *Income tax break*. To support the purchasing power of taxpayers in 2016, the authorities have decided to increase the general allowance in the income tax from the current level of SRD 50 to SRD 125 per month for all taxpayers. The measure is expected to lower income tax revenue by 0.2 percent of GDP in 2016.

- *Non-policy factors.* Non-policy factors contributing to the adjustment primarily reflect shifts in mineral revenues. In 2017, on the back of expanding gold production and the projected rise gold and oil prices, a rise in mineral government revenue contributes 2.4 percent of GDP to the fiscal adjustment.

- *Other primary current expenditure restraint.* The authorities will maintain the growth of non-social primary current expenditure (mainly goods and services and transfers to state-owned enterprises, SOEs) below the rate of inflation in 2016. This will result in saving of about 1 percent of GDP.

- *Sales tax adjustment*. The authorities decided to increase sales tax rates by 2 percentage points for all the taxable goods and service categories, and to broaden the base in the service and luxury goods categories. These adjustments are estimated to raise government revenue by 0.1 percent of GDP in 2016 and by an additional 0.2 percent of GDP in 2017.

- *Supporting social and capital spending*. The program supports spending on social cash transfer programs for the most vulnerable coordinated by the Ministry of Social Affairs, which provide financial assistance to lower-income households, the disabled, the elderly, and also include child allowances. Spending on such programs is expected to increase by about 0.2 percent of GDP by 2017. The authorities have requested technical assistance from the Caribbean Development Bank (CDB) in the area of strengthening the social sector protection framework, and enhancing the country poverty assessment. Planned steps include conducting a feasibility study for the implementation of the Bridge/Puente Program for families to social services; developing more effective targeting mechanisms; assessing constraints acting as barriers to women accessing the labor market and the drafting of a strategic approach to overcoming these challenges; and an assessment of the possible impact of the envisaged implementation of the VAT on vulnerable segments of the population, including poor households and women. The authorities' program also foresees restoring capital spending to above 4 percent of GDP following its decline to 2.5 percent of GDP in 2015. In this regard, setting up a procurement department and a submitting a Procurement Law to the National Assembly (MEFP ¶13, structural benchmark end-June 2017) will be essential for ensuring a transparent process related to the appraisal, selection, and approval of investment projects, and for enhancing the efficiency of capital spending.

- *VAT introduction*. The authorities plan to introduce a Value Added Tax (VAT) by January 1, 2018 (structural benchmark) to provide an efficient new source of non-mineral revenue. The authorities' objective is to achieve a net revenue increase of 2.5 percent of GDP on a full-year basis by introducing the VAT, which would replace the existing sales tax. VAT implementation by January 1, 2018 is feasible, but requires intensive preparations supported by technical assistance from Caribbean Technical Assistance Center (CARTAC) and the Inter-American Development

Bank (IDB). Key steps of this reform have been identified as structural benchmarks (MEFP Table 2) including: finalizing a detailed, comprehensive, time-bound implementation plan for the VAT with clear accountabilities, and setting up and assigning staff to the Project Coordination Unit (end-June, 2016); preparing a White Paper on the VAT policy objectives, and a draft VAT Law, with input from the Fund staff, and submitting them to stakeholders for review (end-August 2016); preparing detailed functional specifications for the VAT IT systems, including specifications for registration, filing (and e-filing), payment (and e-payment), stop-filing control, taxpayer current accounts, support to arrears collection, audit, and appeals (end-December 2016); submitting the VAT Law to the National Assembly, and finalizing regulations, by end-September 2017 (structural benchmark).

- *Vehicle tax introduction*. This tax will be levied on each vehicle in Suriname in the second half of 2016, and will vary depending on the category of the vehicle. The measure is estimated to raise revenues by 0.1 percent of GDP in 2016, and by an additional 0.1 percent of GDP in 2017, when it is implemented on a full-year basis.

- *Wage bill restraint*. Reducing the public sector wage bill is needed following its rise to 8.7 percent of GDP in 2015, well above the 8.0 percent of GDP average of the previous five years, on the back of an election-related hiring surge during which the number of central government employees increased by about 12 percent. The program targets a reduction in the wage bill to 7.8 percent of GDP in 2016, achieved by keeping unchanged the number of public sector employees, while also ensuring that wage growth remains below the rate of inflation.

- *Contingency measures*. Since a number of factors create risks to the fiscal path, the authorities stand ready to deploy additional fiscal measures if these risks materialize. Such measures could include streamlining overlapping transfer programs to generate savings while achieving better targeting to protect the poor, based on the technical assistance already mentioned; and increasing indirect taxation, including by increasing the vehicle tax.

13. **Over the program period, the fiscal deficit is projected to be mostly financed by budget support from IFIs.** In 2016, the fiscal deficit of 6.4 percent of GDP is expected to be fully financed by external borrowing from IFIs and through external commercial borrowing (¶19). Additional financing needs, including for the payment of domestic arrears and other debt payments, will also be financed by issuing T-bills to domestic banks and non-bank institutions.

14. **Staff's bottom-line assessment is that public debt is sustainable although vulnerabilities to particular macroeconomic shocks exist.** Government debt has increased substantially over the last few years, reflecting weak real GDP growth and large fiscal deficits. Based on the upcoming fiscal consolidation, government debt is expected to peak at 46 percent of GDP in 2016, and to decline thereafter, reaching around 36 percent of GDP by 2021. A higher reliance on more concessional sources of financing, particularly from IFIs, will help to reduce gross financing needs and rollover risks by lengthening the debt maturity. The debt sustainability analysis (DSA) reported in Annex I highlights vulnerabilities to various scenarios including (i) weaker-than-projected growth as a result of fiscal adjustment; (ii) lower-than-projected commodity prices;

(iii) exchange rate risk, given the high share of foreign-currency debt; (iv) higher than projected interest rates; (v) fiscal slippages, in particular in the outer years, due to consolidation fatigue or implementation delays; and (vi) the realization of contingent liabilities in the banking sector, including possible recapitalization of central bank.

15. **A supplementary budget based on the program's macroeconomic assumptions and fiscal measures is now under preparation.** To signal commitment to the fiscal strategy and support the process of budget preparation, the Council of Ministers issued a Decision on April 28 that highlights the macroeconomic assumptions and measures underpinning the 2016 supplementary budget (MEFP ¶12). The supplementary budget will be submitted to the National Assembly by end-June 2016, and the authorities will seek its approval before the first review of the program.

16. **To support the fiscal adjustment, the government will introduce the following reforms to strengthen the fiscal policy framework (MEFP ¶13):**

- *Sovereign Wealth Fund (SWF) law*. To help improve revenue management through a stabilization of mineral revenue flowing to the government and provide the institutional basis for saving future surpluses from mineral revenues, authorities are drafting a SWF law, with input from the Fund staff, which they will submit to the National Assembly by end-June 2017 (structural benchmark).

- *Public Financial Management (PFM) law*. A new PFM law, with input from the Fund staff, will be presented to the National Assembly by end-June 2017 (structural benchmark). The new law will improve the annual budget preparation process and help to strengthen budgetary discipline. Medium-term fiscal planning will be introduced based on realistic projections for revenue and financing. Budget implementation will be strengthened by the improved administrative, managerial, and control mechanisms, with the Integrated Financial Management Information System (IFMIS) being implemented, while strengthening top-down budgeting.

- *Procurement department*. A procurement department will be established at the Ministry of Finance to monitor the procurement procedures of the central government and ensure cost-effectiveness and control. The process of strengthening the procurement process will include centralizing the publishing of tenders and contract awards, and expanding IFMIS to cover procurement, audits, and controls. To support these efforts, authorities will submit a Procurement Law to the National Assembly by end-June 2017 (structural benchmark). The goods and services that will be part of the procurement system will be quantified and qualified in a way to prevent delays in budget execution.

- *Treasury department*. With the assistance of the IDB, the Ministry of Finance will build a modern Treasury department to combine the treasury functions currently being carried out by various departments of the Ministry of Finance and the CBvS by end-September 2016. The Treasury department will also help advance the work of the Ministry of Finance and the CBvS to improve liquidity forecasting, debt management, and cash planning and payment capacity. In particular, the authorities will assign the responsibility for cash management activities to a trained and dedicated Cash Management Unit (structural benchmark, end-September 2016).

- *Revenue administration*. To improve revenue administration, the authorities will take decisive steps to strengthen the efficiency and effectiveness of the administration's operations through significant investment in equipment, personnel, and capacity development. These improvements are important, as the current capacity of the administration poses a major risk for VAT introduction and a property tax (to replace the wealth tax) in January 2018.

Additional steps planned by the authorities include identifying and containing fiscal risks associated with SOEs by identifying all SOEs and publishing their financial reports, where available, for 2014 and 2015, by end-December 2016 (structural benchmark), and, to improve fiscal management, by continuing to install additional modules of IFMIS.

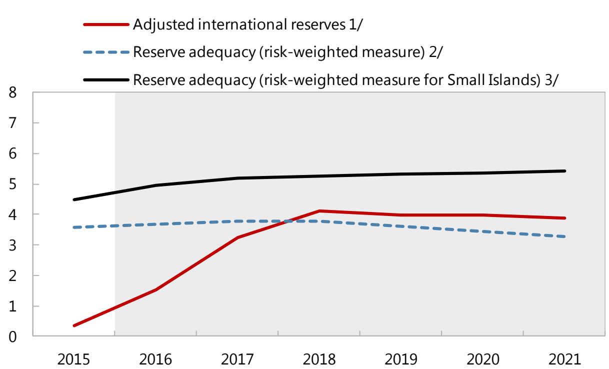
17. **The authorities also plan to strengthen capacity at the Ministry of Finance in the areas of medium-term budget planning and economic affairs.** Based on technical assistance provided by the IMF and the IDB, including through the retention of long-term consultants, the authorities will develop the analytical capacity of the macroeconomic unit (Financial Programming and Policies group) to carry out macroeconomic forecast and economic analysis needed for preparing multi-year budgets.

C. Rebuilding Foreign Reserves

18. **Rebuilding foreign reserves to prudent levels is a critical objective of the program**. An adequate reserves cushion will be important to restore confidence in the Surinamese dollar (SRD) and to preserve economic and financial stability. The program aims to raise adjusted international reserves to about 4 months of imports by the end of the SBA, including by conducting foreign exchange purchases as needed (MEFP ¶15).

19. **Program financing, together with fiscal adjustment and an expected improvement in the external current account, will allow Suriname to build up international reserves to prudent levels.** Staff expects a substantial improvement in the current account from -15.6 percent of GDP in 2015 to near balance in 2017-18, on the back of a flexible exchange rate, fiscal consolidation, the projected expansion in mineral exports, and more favorable international prices for oil and gold:

Gross International Reserves
(In months of imports)



1/ Official reserve assets excluding the PBOC swap, domestic banks' swap, and reserve requirements on banks' foreign currency deposits.
2/ Based on IMF "Assessing Reserve Adequacy" (2015).
3/ Based on "How much should I hold? Reserve Adequacy in Emerging Markets and

- Staff projects a balance of payments' financing gap of about 13 percent of GDP in 2016 and about 5 percent of GDP in 2017 before program financing.

- The CBvS is facing large upcoming sales of foreign exchange in May-December of 2016, including (i) to the government to honor external debt payments (about US$85 million); (ii) to the government to cover contributions to capital expenses on the new gold mine (US$30 million); (iii) to SOEs and other companies for imports of fuel and other essential products (about US$70 million); (iv) to local banks to reverse the maturing currency swaps (US$57 million); and (v) to government units (about US$15 million).

- The projected balance of payments gaps will be financed by the proposed Fund disbursement under the SBA (around US$478 million) and budget support provided by the other IFIs (US$470 million) during 2016-18. The authorities have agreed with the IDB and the World Bank that, conditional on satisfactory program performance, they would each provide US$100 million in budget support in 2016, while the CDB would provide budget support of US$50 million in 2016. They expect a similar amount of budget support from the IDB and CDB in 2017, conditional on successful implementation of the programs supported by the Fund and other IFIs. The authorities contracted an 18-month loan from international capital markets totaling US$86 million in April 2016, which constituted the first-ever sovereign issue of the government of Suriname, and contributed to filling in the balance of payments gaps.

20. **Based on these considerations, staff projects that adjusted international reserves will increase to about US$290 million in 2016, to about US$650 million in 2017, and to about US$860 million in 2018.** The program target is to raise the level of adjusted international reserves—including through purchases of foreign exchange—to 4 months of imports by end-2018 and to maintain it at around this level thereafter. This objective is inside the range of reserve adequacy metrics of IMF (2015) and Mwase (2012), which, when calibrated for Suriname, imply foreign reserves about 3.5-5.5 months of imports.[5]

D. Exchange Rate, Monetary, and Financial Sector Policies for Increasing Resilience

Exchange Rate Policy

21. **Staff supports the authorities' decision to move to a market-determined exchange rate**. A flexible exchange rate will facilitate Suriname's adjustment to the current external shocks, and strengthen the economy's resilience to future shocks. Staff judges that the 21 percent devaluation in late November 2015 and the subsequent depreciation of about 60 percent were an

[5] See IMF, 2015, "Assessing Reserve Adequacy—Specific Proposals," IMF Policy Paper, and Nkunde Mwase, 2015, "How Much Should I Hold? Reserve Adequacy in Emerging Markets and Small Islands," IMF Working Paper WP/12/205.

important step towards eliminating the exchange rate misalignment already mentioned.[6] In addition, rising gold exports will contribute to a significant improvement in the current account balance from 2017 onwards (Table 3), which is an important factor in determining the degree of exchange rate misalignment (based on EBA-lite).

22. **To facilitate the transition to a market-determined exchange rate, the CBvS started conducting foreign currency auctions on March 22, 2016.** The main purpose of the foreign currency auctions was to find the market rate that balances demand for and supply of foreign currency, and to facilitate the development of the foreign exchange market (MEFP ¶19). The CBvS conducted its first foreign currency auction on March 22, selling US$10 million, and the official exchange rate determined in the auction depreciated by 27 percent to 5.16 SRD/USD, with the spread between the official and parallel market rates narrowing from 34 percent to about 5 percent. In subsequent weeks, the CBvS took a number of steps to enhance the effectiveness of the foreign currency auctions to ensure that the auction outcomes reflected underlying market conditions. It sold significantly smaller amounts of foreign reserves than in the first two auctions; conducted the auctions a number of times per week; and allowed commercial banks to bid on their own behalf (nostro bids), rather than only on the behalf of specific customers. To ensure a transparent process, after each auction, the CBvS published the amount sold, the cut-off (marginal) price, and the weighted average rate of successful bids. However, the spread between the official and parallel market exchange rates widened, averaging 11 percent in the last three auctions conducted (through May 2).

23. **To complete the transition to a floating exchange rate, the CBvS authorized, on May 10, commercial banks and foreign exchange bureaus to freely determine exchange rates (prior action, MEFP ¶21).** Bid and ask exchange rates are now determined by banks and foreign exchange bureaus (cambios) directly with their customers and the daily official exchange rate is set equal to a weighted average of these transactions. This step will allow banks to compete more effectively in the foreign exchange market, and should increase the volume of foreign currency transactions handled by them. The move has led to a significant narrowing in the spread between the official (indicative) exchange rate and the parallel market rate, which is a crucial indicator of the liberalization of the exchange rate market and the achievement of a free float. The official (indicative) exchange rate used for CBvS foreign currency transactions with government or official bodies is now set, on a daily basis, to equal the weighted average of commercial buy and sell spot rates (prior action).

24. **The authorities have indicated their willingness to take steps to support the commercial banks' capacity to trade among themselves (MEFP ¶22).** These steps include setting up a transparent foreign currency trading and pricing infrastructure, and introduce guidelines governing interbank and customer trading. To further support the development and deepening of

[6] Staff will reassess the extent to which exchange rate fundamentals were affected by the move to a flexible exchange rate in 2016 once 2016 data for the current account and other variables are available.

the foreign currency market, the CBvS should monitor and strengthen compliance of the 60-day repatriation requirement on exporters.

25. **To rebuild its international reserves, the CBvS will also intervene in the market to acquire foreign exchange at market rates (MEFP ¶23).** In doing so, the CBvS will work with the market on the timing, modality, and volumes so that there are no surprises. Over the medium term, the CBvS's role in the market will be limited to smoothing out large fluctuations. The CBvS has explained this ultimate goal to the public in a press release published on April 4, 2016.

Monetary Policy

26. **The CBvS is carrying out number of institutional and operational reforms to make monetary policy effective and ensure price stability in the context of a floating exchange rate (MEFP ¶24-25).** The goal is to reduce inflation to single digits during the program, and to 4 percent over the medium term. Under the program, in 2016, the CBvS is targeting reserve money growth of about 3 percent, which will result in the reserve money-to-GDP ratio declining to about 11 percent in 2016 (from 14.3 percent in 2015). This tightening is necessary to stabilize inflation expectations. To carry out the required policy tightening, the CBvS has set NDA as its operational target, which is determined by the projection of reserve money and net foreign assets. The CBvS will meet these targets by conducting open market operations (OMOs), including using T-bill and deposit auctions. Lending facilities will be used to fine tune liquidity conditions. In addition, the CBvS is strengthening its liquidity monitoring and forecasting framework to facilitate the OMOs, including through close coordination with the Ministry of Finance. Critical for controlling liquidity is stopping CBvS financing of the budget deficit. To this end, the Ministry of Finance and the CBvS have signed a Memorandum of Understanding, which terminates the extension of any further credit to the government (MEFP ¶24 and MEFP Attachment III). The government will also revise the Central Bank Act to strengthen its operational independence, including by prohibiting any monetary financing by end-December 2016.

27. **To further stabilize inflation expectations in the current environment, the CBvS needs to significantly and promptly tighten domestic liquidity conditions (MEFP ¶25).** The fiscal cost of higher interest rates associated with monetary policy tightening is covered in the program framework. Also, given that the CBvS's capital position has substantially weakened, based on technical assistance from the Fund, the CBvS will prepare a strategic plan of the CBvS's financial position, for review and ongoing monitoring by the Supervisory Board, which will aim to strengthen the CBvS balance sheet and protect the financial autonomy of the CBvS by end-December 2016 (structural benchmark, MEFP ¶25). Significant monetary tightening is envisaged through the program's tight reserve money targets, which will be supported by the planned roll out of monetary tools, including the following (MEFP ¶26):

- *Conducting T-bill sales*. The authorities launched monthly T-bill auctions by the Ministry of Finance on May 3, 2016, supported by Fund TA. The auctions should help sterilize the monetary financing that occurred in April and support meeting monetary program targets. The T-bill auctions have achieved a significant increase in short-term interest rates, which should help stabilize inflation expectations. The T-bill auction on May 3 resulted in 3-month yields of

23 percent and 12-month yields of 18 percent, up from 9 percent. The T-bills auction system is also almost ready to be used for OMOs (structural benchmark, end-June 2016) by the CBvS. To deepen the CBvS's portfolio of T-bills, the government will convert part of a 30-year loan from the CBvS (SRD 2.5 billion with a fixed rate of 3.5 percent) into tradable T-bills to strengthen the CBvS's ability to carry out OMOs.

- *Deposit auctions*. Deposit auctions are also nearly available to control liquidity in the short term until T-bills are fully available for OMOs. A fixed rate tender with full allotment would be appropriate, given the need to significantly increase interest rates, with a maturity period of 14 days.

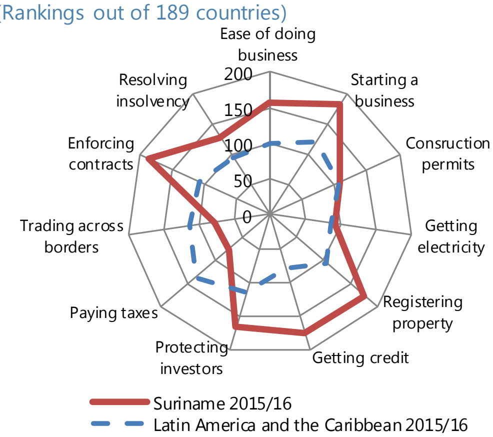
- *Raising reserve requirements*. The CBvS has already raised required reserve ratios on local and foreign currency deposits to high levels—35 and 50 percent, respectively. A further tightening may be necessary, but should only be undertaken after taking into account of the liquidity draining effect of the foreign exchange auctions, and the implications for banking sector stability.

- *Streamlining liquidity management policies.* The CBvS is significantly tightening the existing framework, reducing the duration of short-term lending from 28 days to 14 days, and will phase out the extended liquidity support to commercial banks. An immediate priority is to ensure that supervisors have a clear view of the financial positions of the domestic banks relying on CBvS's liquidity support. The CBvS will also introduce an overnight standing facility, which will replace the existing longer-term liquidity facility, by end-June 2016 (structural benchmark).

Financial Sector

28. **The CBvS should closely monitor the impact of the exchange rate realignment on the economy and on the financial sector (MEFP ¶27).** Widespread dollarization (53 percent of bank deposits and 34 percent of credit) and the fixed exchange rate may have created currency mismatches and exposures to exchange rate fluctuations, raising the risk of balance sheet losses, with repercussions for the banking sector. To better monitor these risks, the CBvS has set up a Financial Stability Department. Currently, the crisis management framework and the capacity to intervene and resolve banks at a short notice are limited. The CBvS has therefore indicated that it intends to bring the banking resolution and contingency planning framework up to international standards, and, to this end, has requested Fund technical assistance.

Doing Business Indicators, 2015-16
(Rankings out of 189 countries)



29. **The CBvS plans to take a number of steps to strengthen bank supervision and address vulnerabilities in bank balance sheets (MEFP ¶28).** To strengthen central bank legislation, the CBvS has upgraded the regulatory

and macro-prudential framework by introducing new regulations on capital adequacy, asset classification and provisioning, corporate governance, internal audit, foreign exchange risk, liquidity risk, interest rate risk, large exposures, and open foreign currency positions, which is consistent with the recommendations of the 2014 FSAP. The CBvS should closely monitor banks' liquidity and the evolution of non-performing loans, and increase their provisioning levels as necessary. Finally, the CBvS should unwind foreign currency swaps with local banks worth about US$110 million, as these swaps mature. Fully unwinding swaps with banks will help to address financial stability concerns and support monetary tightening.

E. Structural Reforms for Diversification and Improving the Business Environment

30. **Following the decline in commodity prices, a more supportive business environment is needed to diversify the economy and boost productivity growth, particularly in the non-mineral sector.** Widely-used indicators of the ease of doing business have their limitations, but Suriname ranks poorly along these dimensions compared with the regional average, underscoring the need for wide-ranging reforms. For example, as of 2015, Suriname ranks 155th out of all 189 countries covered in the overall *Ease of Doing Business* indicator. There is room for improvement in areas such as starting a business, enforcing contracts, protecting investors, registering property, and access to finance. The authorities are determined to take steps to improve the business environment and promote medium-term growth, based on the advice and technical assistance of both the Fund and other multilateral financial institutions (MEFP ¶30).

31. **The government plans to implement initiatives to promote the economy's diversification and to attract FDI**. Of particular importance is the agricultural sector, which accounts for 10 percent of total export earnings, second to mining, and 17 percent of the labor force. To increase productivity and competitiveness of agriculture, the authorities plan to improve the provision of the related public services, such as those related to plant health, animal health, and fishery sustainable management. To attract FDI, the authorities plan to update the institutional and legal framework laying out investor protections and guarantees for investment and eliminating exchange restrictions regarding investment income transfers and controls related to FDI flows. In this context, the government is working with the World Bank to update the investment policy framework, and with the IDB in preparing structural reforms to facilitate moving to a more diversified economy (MEFP ¶31).

32. **To support businesses and entrepreneurs, the authorities are taking steps to accelerate the process of starting a company, strengthen the enforcement of contracts, protect investors, facilitate the registration of property, ease trade across borders, and expand access to finance.** Planned reforms include submitting new legislation to the National Assembly on competition policy, limited liability company formation, electronic gazettes to reduce company startup costs, intellectual property, consumer protection, electronic transactions, and establishing a secured transactions framework. The authorities also plan procedural reforms to streamline cross-border trade (MEFP ¶32).

33. **To further strengthen the business environment, the authorities are carefully reviewing the AML/CFT framework to address remaining deficiencies.** In November 2015, the Caribbean Financial Action Task Force (CFATF) issued a public statement on the significant strategic deficiencies in Suriname's AML/CFT regime. Since then, the authorities have taken a number of corrective measures to address these deficiencies (MEFP ¶33). To support this objective, and to address the risk of weakening corresponding banking relationships, the program includes a structural benchmark on reforms to the legal framework to ensure compliance with the international AML/CFT standard (MEFP Table 2).

PROGRAM MODALITIES AND RISKS

34. **Staff proposes a 24-month stand-by arrangement (SBA).** This form of Fund engagement would support the authorities' adjustment program in response to the commodity export price shock, and provide a bridge to 2017–18, when new productive capacity in the commodities sector is expected to come online. Adjusted foreign reserves have been depleted, and identified financing together with the sharp fiscal consolidation and floating exchange rate under the program would be sufficient to rebuild them. The program includes quarterly reviews.

35. **Access under the SBA would be within the normal access limits.** Access of 265 percent of quota (SDR 342 million—equivalent to about US$478 million) under a 24 month SBA, phased in eight disbursements, would provide sufficient financing to rebuild foreign reserves toward adequate levels. To bolster confidence, the intention is to mildly front-load the access to make about 30 percent of the total available in the first six months. The program plays an important catalytic role for attracting additional external financing, which, together with Fund financing, would allow adjusted foreign reserves to rise to 4 months of imports in 2018 (the end of the proposed program). Based on current commitments of development partners, the program is fully financed for 2016–17.

36. **Safeguards issues.** A first-time safeguards assessment of the Central Bank of Suriname (CBvS) is underway. The safeguards mission to the CBvS conducted in February found significant risks, including in the areas of governance, central bank legislation, financial reporting, and the external audit of the central bank. The CBvS has committed to address the assessment's findings and to implement the key recommendations of the assessment to be implemented during the program period (see MEFP Table 2).

37. **Program conditionality is motivated by ensuring that its objectives are met:**

- *Prior actions*. To strengthen the credibility of the authorities' fiscal strategy, electricity tariffs have risen to 60 percent of the cost recovery level, and the Council of Ministers has issued a Decision stating that the 2016 supplementary budget will be based on the program's macroeconomic assumptions and fiscal measures. To address the risk of fiscal dominance, the CBvS and Ministry of Finance have signed a Memorandum of Understanding, with input from the Fund staff, which terminates the extension of any further credit to the government (MEFP Attachment III). To strengthen accountability and transparency practices, the CBvS has published the 2014 audited financial statements and audit opinion. To clarify the authorities' commitment to a floating exchange rate, the CBvS has authorized commercial banks to determine foreign exchange rates, and sets the daily official (indicative) exchange rate to equal the weighted average of commercial market rates (prior actions, MEFP Table 2).

- *Fiscal targets*. Quantitative performance criteria include a floor on the primary (cash) balance of the central government, a zero ceiling on gross credit to the government by the central bank, and a zero ceiling on the non-accumulation of external arrears of the central government. Indicative targets include (i) the non-accumulation of domestic arrears; (ii) a floor on social programs to protect the most vulnerable in society (including cash transfer programs provided by the Ministry of Social Affairs and Housing); (iii) a floor on non-mineral revenues; and (iv) a zero ceiling on the net increase in central government guaranteed debt (MEFP Table 1).

- *Monetary and reserves targets*. Monetary quantitative performance criteria include a ceiling on the cumulative change in net domestic assets of the central bank (in addition to the zero ceiling on gross credit to the central government already mentioned). To support the objective of rebuilding foreign reserves, the program features a quantitative performance criterion that sets a floor on net international reserves (MEFP Table 1).[7] Monetary structural benchmarks are as follows: the submission to the National Assembly of a revision to the Central Bank Act that strengthens provisions on autonomy, governance, accountability and transparency, and regulates and limits the extension of credit to the government; and establishing a liquidity monitoring and forecasting system based on CBvS and Ministry of Finance liquidity data, to support improvements in the monetary policy toolkit (MEFP Table 2).

- *Clearance of external and domestic arrears*. The authorities have contacted the Chinese authorities to inform them of their intention to resolve a US$17 million external arrear to the Government of China, which dates back to loans made in the period of 1984–1994. Staff is not aware of any other external arrears. The government plans to resolve the remaining domestic arrears of SRD 255 million in 2016 (MEFP ¶10).

38. **Program risks are substantial:**

- *Implications of a floating exchange rate for the financial sector.* The implications of a flexible exchange rate for corporate and bank solvency and financial stability, and potential related fiscal risks, are obscured by data limitations and will require continued vigilance.

- *Commitment to key fiscal policy measures*. There is a risk that key reforms to restore fiscal sustainability are not completed during the program due to political pressure. The expressed commitment of the authorities to the program's objectives and policy reforms provides comfort,

[7] The difference between adjusted international reserves (a medium-term reserve anchor) and net international reserves (program definition) is that upcoming IMF SBA disbursements and other CBvS foreign liabilities (currently about US$ 1.7 million) are excluded from net international reserves. As of end-March 2016, adjusted international reserves amounted to US$1.7 million, while net international reserves amounted to zero.

and continued support for the program from the President, the Council of Ministers, and Parliament is crucial.

- *Data reporting.* The quality of data reporting, including on fiscal data, should be improved. Staff has insisted that the authorities strengthen the monitoring and reporting of key economic data, and is assisting them in identifying areas in need of technical assistace.

- *Macroeconomic risks.* Program implementation could be affected by number of unexpected macroeconomic developments, including a disorderly and greater than expected overshooting of the exchange rate, deposit outflows and bank runs, delays in the completion of the new gold mine and the arrival of the associated government revenues, and other external risks shown in the Risk Assessment Matrix (Annex II).

39. **The risks to Suriname's repayment capacity are high and contingent on sustained successful program implementation.** Suriname has no outstanding debt to the Fund. With proposed access of 265 percent of quota, Fund credit outstanding would reach a maximum of 9 percent of GDP and 20 percent of exports of goods and services in 2018. However, payments to the Fund are sizeable in three consecutive years 2020–22—reaching almost 15 percent of adjusted foreign reserves in 2021—while the adjustment is subject to major risks (including lower-than-projected gold and oil prices) (Table 6). In addition, although the government debt-to-GDP ratio is projected to decline after peaking in 2016, it is vulnerable to further currency depreciation and contingent liability shocks. Moreover, the current account, while balancing in the medium term, is expected to be in a modest deficit over the repayment period. A market-based floating exchange rate is a critical element in allowing the authorities to rebuild foreign reserves to adequate levels and to repay the Fund.

STAFF APPRAISAL

40. **Suriname is facing challenging conditions, caused to a large extent by the sharp decline in the international prices of its commodity exports.** The sustained drop in the prices of gold and oil, and the authorities' delayed response, have caused substantial external and fiscal deficits, and international reserves have declined to perilously low levels. The authorities have confronted this situation by putting forward an ambitious reform program to stabilize Suriname's economy and set the stage for its recovery.

41. **The authorities' program tackles the main vulnerabilities currently being faced by the country.** The intended fiscal consolidation is a clear and critical ingredient of the program, to restore fiscal and external stability. The consolidation is based on both revenue and expenditure measures underpinned by an appropriate fiscal framework, in line with earlier staff advice. The spending restraint that started in late 2015, the start of the phased elimination of electricity tariff subsidies in October 2015, and the fiscal consolidation planned for 2016, will place the public finances on a sustainable path. The Council of Ministers issuing a Decision stating that the 2016 supplementary budget will be based on the program's macroeconomic assumptions and measures shows broad political ownership of the program. Prudent wage bill policies are needed to preserve

the stabilization objectives of the program. It will be crucial to complete the phased elimination of electricity subsidies announced by the authorities last year—a central piece of the fiscal consolidation strategy.

42. **Critically, to help soften any negative impact of the macroeconomic adjustment on the poor, measures to strengthen the social safety net are needed, as envisaged in the program.** The Surinamese authorities should strengthen targeted social support programs to protect the most vulnerable members of the society. The prospective increases in electricity prices should be structured so that the biggest consumers bear more of the adjustment effort than the small consumers.

43. **It will be essential for the CBvS to continue allowing the currency to move flexibly, in line with market conditions.** The foreign exchange auctions introduced in March, and the subsequent authorization of commercial banks to determine exchange rates, have moved Suriname to a flexible and market-determined exchange rate, which will facilitate its adjustment to the present and possible future external shocks. The move toward a market-determined exchange rate is consistent with earlier staff advice, which called for greater exchange rate flexibility in view of the large exposure to commodity price shocks and the low (and declining) level of reserves. The authorities should ensure that the official exchange rate remains market-determined, which should result in the volume of foreign exchange handled by commercial banks to increase, and the gap between the commercial and parallel market rates to narrow.

44. **To stabilize inflation expectations, the authorities need to tighten liquidity conditions in the near term.** The T-bill auctions that started in May should support this goal. The CBvS has also started restraining domestic liquidity by tightening the short-term lending facility, and conducting deposit auctions in the near term is needed. Over the coming weeks, the CBvS should stand ready to tighten monetary conditions further based on open market operations as soon as these are available. Staff anticipates that, once confidence has been restored, there should be scope for reducing interest rates. However, given the uncertain economic environment, the CBvS will need to be prepared to tighten monetary conditions should there be a decline of reserves or a faster depreciation of the currency. The CBvS also needs to be prepared to act decisively should further problems be revealed in the banking system as a result of the structural shift in exchange rate and monetary conditions.

45. **Decisive steps are needed to improve competitiveness and the business environment.** The program includes substantial structural reforms to improve the business environment and to promote medium-term growth. It will seek to promote the economy's diversification and to attract foreign direct investment, supported by technical assistance from the IMF, the CDB, the IDB, and the World Bank, who are also discussing the possibility of providing financial support to Suriname. Enhancing the productivity and competitiveness of Suriname's agricultural sector is of particular importance. The program also includes legal reforms to accelerate the process of starting a company, enforcing contracts, promoting competition, protecting investors, registering property, and expanding access to finance.

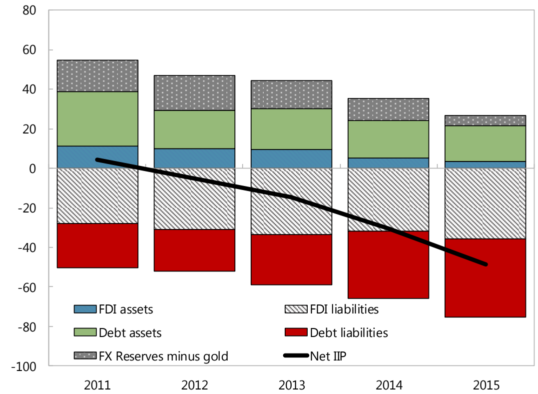
46. **The program faces substantial risks, as outlined above.** The risks relate to the effects of the exchange rate adjustment on corporate and bank balance sheets, ownership and implementation of key fiscal measures, capacity and associated data reporting quality, and further external shocks. These risks need to be weighed against the risks of not having the framework of a Fund-supported program in place. Without a program, spending pressures could build in response to the exchange rate depreciation, which, in turn, could risk triggering a wage-price spiral. With few options, the government could then be forced to resort to monetary financing of the deficit. Without the additional foreign currency cushion, the currency could overshoot, threatening banking sector stability. The social consequences of the adjustment without a program could also be highly destabilizing. The program's success will ultimately depend on the government's willingness to implement politically challenging measures. However, the authorities are strongly committed to the program's goals and the government has a majority in parliament. On balance, the Fund-supported program, with all its inherent risks, provides a guide for needed policies and charts a course towards stability and economic recovery.

47. **Overall, while risks remain, the government's program is ambitious and merits Fund support.** Staff therefore recommends the approval of the requested Stand-By Arrangement.

Box 1. External Sector Assessment

Following the drop in commodity export prices, Suriname's external position deteriorated significantly with large current account deficit and declining reserves in 2015, and is substantially weaker than the levels indicated by fundamentals and desired policies. Suriname's net international investment position (IIP) has declined dramatically, from 7 percent of GDP in 2011 to -48 percent of GDP in 2015. This is mainly the result of the rapid drop of official foreign exchange reserves (by 15 percentage points of GDP) and a significant increase of government external borrowing (by 7 percentage points of GDP), reflecting the fall in key commodity export prices (gold and oil), and the closure of alumina production in late 2015.

IIP Composition, by Instrument
(In percent of GDP)



Source: IMF Balance of Payments Statistics.

The IMF's external sustainability approach (based on EBA-lite) suggests that the current account deficit of about 16 percent of GDP in 2015 was substantially higher than the levels needed to stabilize Suriname's IIP. A current account balance of -4.8 percent of GDP would stabilize Suriname's IIP at the 2015 level (Scenario 1 in the Table below). However, the IIP at -47.8 percent of GDP is significantly lower than its long-term average (about zero over the last 20 years). A current account balance of -1.7 percent of GDP would gradually bring the IIP back to its long-term average level (Scenario 2). For the IIP to reach a zero target by 2025, the current account would need to be in a surplus of 1.6 percent of GDP (Scenario 3).

	CA norm (percent of GDP)	Underlying CA (percent of GDP)	CA gap	REER gap
Scenario 1: Stabilizing net IIP at -47.8 percent of GDP	-4.8	-1.8	3.0	-14.1
Scenario 2: Stabilizing net IIP at 0 percent of GDP	-1.7	-1.8	-0.2	0.8
Scenario 3: Reaching net IIP at 0 percent of GDP in 2025	1.6	-1.8	-3.4	15.9

Suriname's current account deficit for 2015 is estimated to have been substantially larger, and its REER substantially overvalued, compared to the levels implied by fundamentals and desired policies. This assessment is reached based on the IMF's (EBA-lite) current account (CA) model, which suggests a current account norm of -0.8 percent of GDP. With the current account balance at -15.6 percent of GDP in 2015, the current account gap is estimated to have been -14.8 percent of GDP in 2015. Policy contributions (gap) to the current account gap are estimated to have been about 10 percent of GDP. This policy gap constituted mostly fiscal and foreign exchange intervention policy gaps.[1] Overall, the REER is estimated to have been substantially overvalued at end-2015, by about 70 percent on average.

Current Account-to-GDP Ratio and REER Gap in 2015
(EBA-lite's CA model, in percent)

CA-Actual	-15.6
CA-Norm	-0.8
CA-Gap	-14.8
Of which: Policy Gap	*-9.9*
Real Exchange Rate Gap	69.6

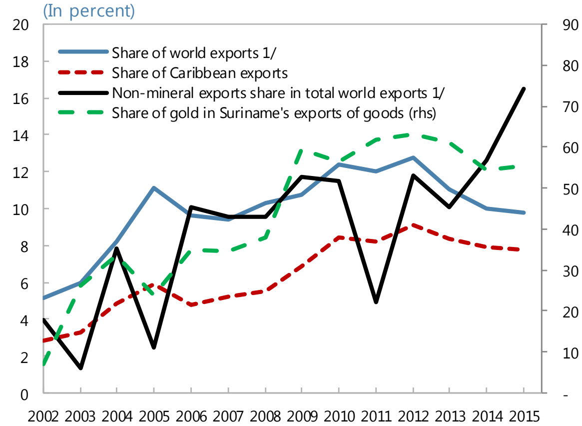
Source: Fund staff calculations.

Box 1. External Sector Assessment (Concluded)

Suriname's share of world exports has fallen since 2013, primarily reflecting the drop in commodity prices and the closure of alumina refinery Suralco. Conversely, Suriname's world share of non-mineral exports (mainly banana, rice, and lumber) has increased, reflecting strong but volatile growth, from a relatively low base.

Export Market Shares

(In percent)



Source: IMF Balance of Payments Statistics and staff calculations.
1/ Multiplied by 1000.

To reduce the large imbalances, a set of macroeconomic policy adjustments is urgently needed. Fiscal consolidation should aim to bring primary deficits to near zero in the medium term, and the nominal exchange rate needs to reflect market conditions continuously. Structural reforms, including by improving the business environment, are needed to boost productivity and competitiveness; reduce commodity dependence; and strengthen the stability of external receipts. These measures would help to restore fiscal and external sustainability, bolster foreign reserves, and enhance the economy's resilience to future shocks.

---

[1] Policy gaps measure the difference between actual and desirable policy levels. Desirable policies are here defined as those that are in line with the program projections. For further details on the definition of policy gaps, see IMF,2016, "Methodological Note on EBA-Lite," IMF Policy Paper, February 2016.

Box 2. Banking Sector Stress Tests

Stress tests conducted by Fund staff suggest that the banking sector is broadly resilient to currency depreciation, but a number of individual banks are vulnerable. The tests need to be interpreted cautiously, given data limitations. Based on available data for end-December 2015, the stress tests suggest that the currency depreciation observed from end-December to end-April (approximately 40 percent) could cause 3 banks to go below the forthcoming (June 2017) minimum capital adequacy ratio (CAR) of 10 percent, assuming no corrective actions by the banks. This would imply a total of 5 banks being undercapitalized (the 2 banks already undercapitalized as of December, plus 3 due to the shock) and would raise the total recapitalization need to 0.6 percent of GDP. A more severe 80 percent depreciation shock could cause 5 banks to go below the minimum capital requirement (implying a total of 7 undercapitalized banks). A large depreciation would also hurt bank balance sheets by worsening asset quality. An illustrative 50 percent and 100 percent increases in NPLs could cause 2 banks to go below the minimum capital requirement, with one of the banks becoming insolvent in the latter scenario. The recapitalization costs of these two shocks, on top of preexisting needs, amount to 0.4 percent and 0.9 percent of GDP, respectively.

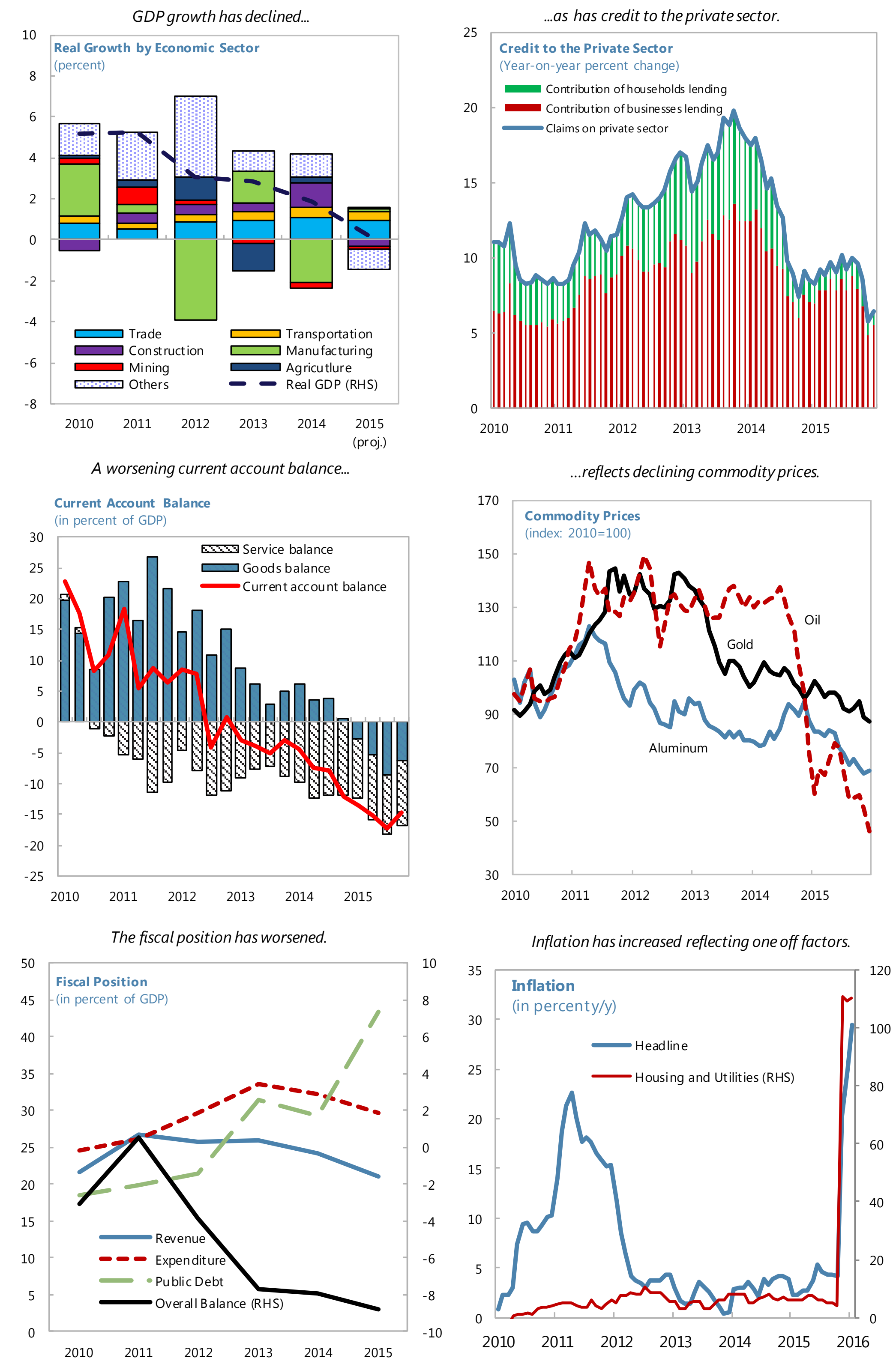
Regarding liquidity risks, weekly data on bank deposits through end-April show little sign of deposit outflows thus far, and staff analysis, based on the available end-December data, suggests that the banking system is largely resilient to liquidity stress. The analysis assumes a sustained five-day outflow of SRD deposits, and, in a separate scenario, of foreign currency deposits. The deposit outflows are assumed to be 5 percent per day over the first three days, and 10 percent per day over the next two days. Most banks remain liquid in the scenario with local currency deposit outflows, but one large bank and two small-sized banks exhaust their foreign currency liquidity on the fifth day. The three banks would all be able to cover this foreign currency liquidity shortfall if their existing foreign currency swaps with the CBvS (amounting to US$ 60 million) were unwound.

Bank Stress Test

	Sensitivity Analysis for 9 Banks					Outlier Banks			
	All Banks	Large Banks	Mid-Size Banks	Small Banks	State Banks	Number of Banks with CAR<10 percent	Percent of Assets of Banks with CAR<10 percent	Number of Insolvent Banks	All Banks Recapitalization (percent of GDP)
Baseline									
Pre-shock capital adequacy ratio (CAR)	**10.7**	**10.9**	**12.1**	**4.7**	**6.0**	**2**	**6.5**	**1**	**0.3**
Exchange Rate Risk									
Exchange rate risk: Shock to net open position									
Shock 1: Devaluation of SRD by 40 percent	10.0	11.1	7.0	0.4	3.2	5	34.8	2	0.6
Shock 2: Devaluation of SRD by 80 percent	9.2	11.5	1.2	-3.9	0.3	7	82.3	3	1.2
Credit Risk									
Credit risk: Increase in NPLs									
Shock 3: NPLs increase by 50 percent	9.4	9.6	11.1	2.3	3.9	4	69.0	1	0.7
Shock 4: NPLs increase by 100 percent	8.1	8.4	10.1	-0.3	1.7	4	69.0	2	1.3

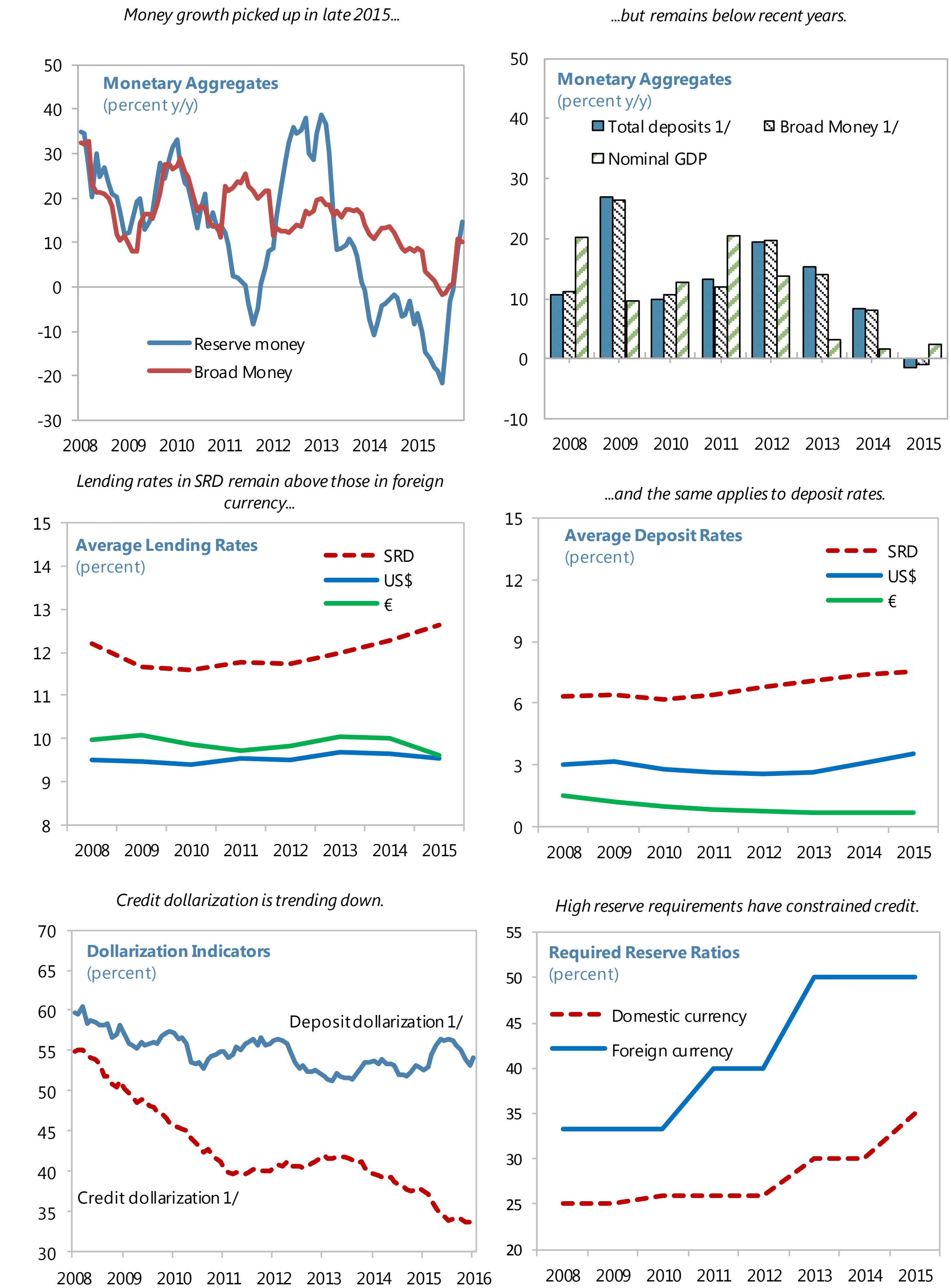
Source: Fund staff estimates.

Figure 1. Suriname: Macroeconomic Developments



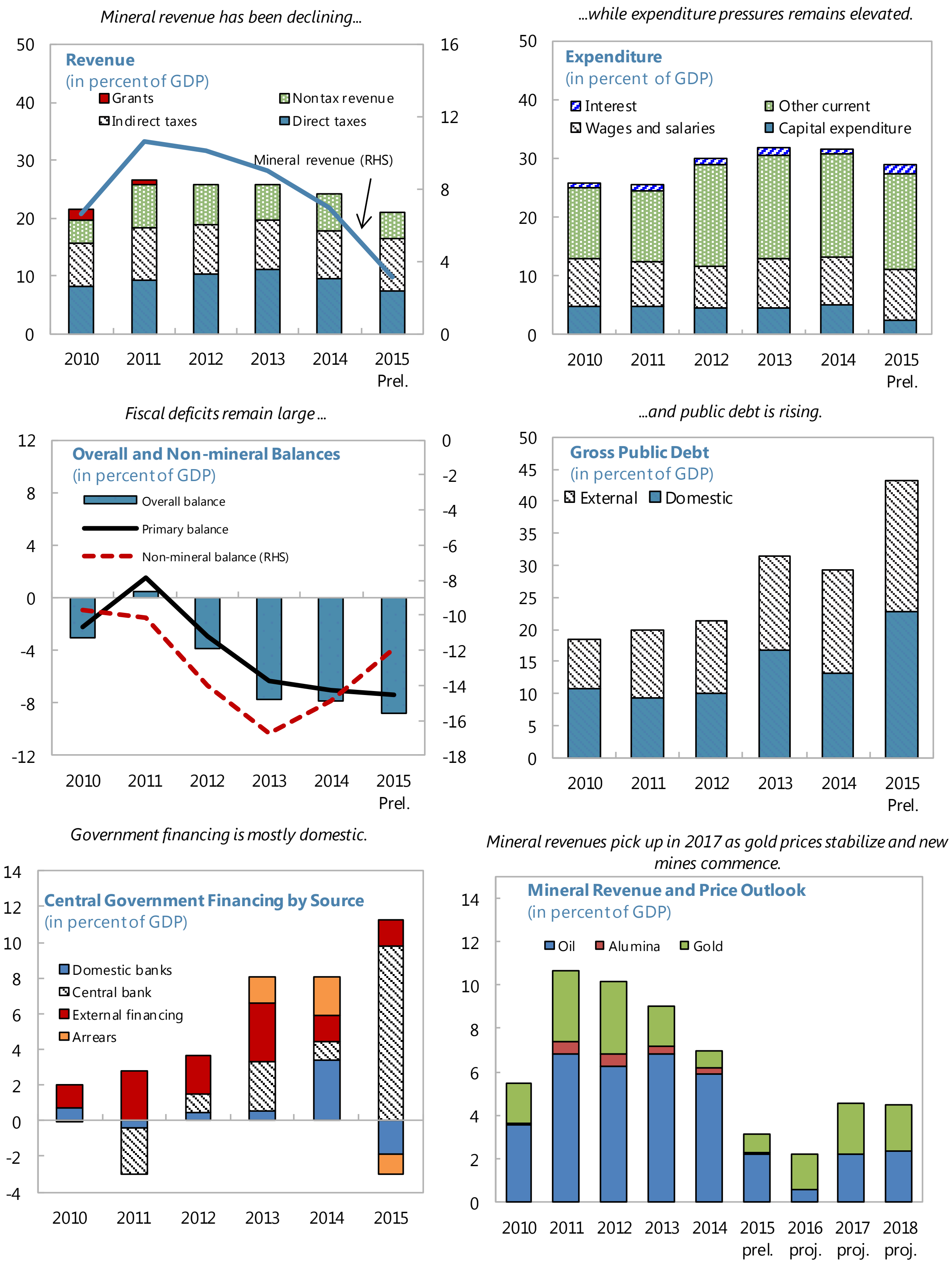
Sources: National authorities; and Fund staff calculations.

Figure 2. Suriname: Money and Credit



Sources: Central Bank of Suriname; and Fund staff calculations.
1/ Adjusted for the effects of devaluation in 2011 and 2015.

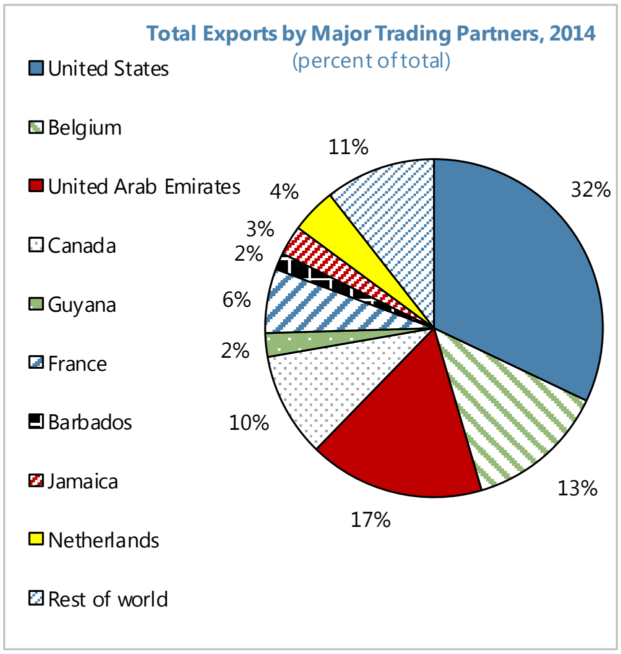
Figure 3. Suriname: Fiscal Indicators



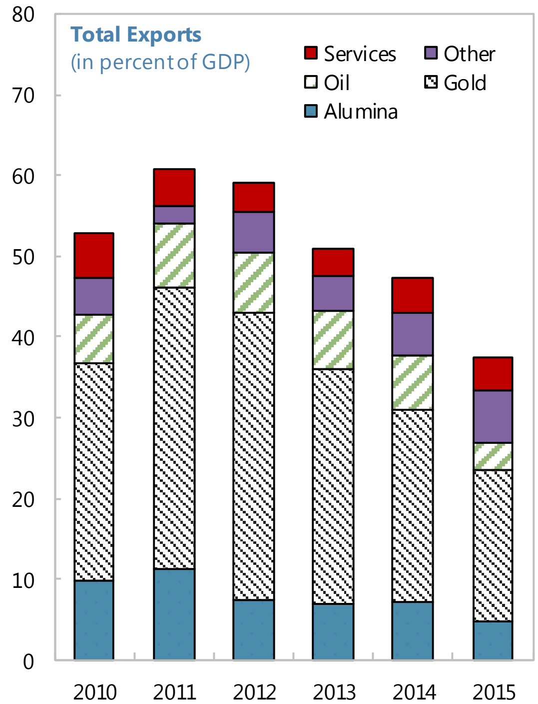
Sources: National authorities; and Fund staff estimates and projections.

Figure 4. Suriname: External Indicators

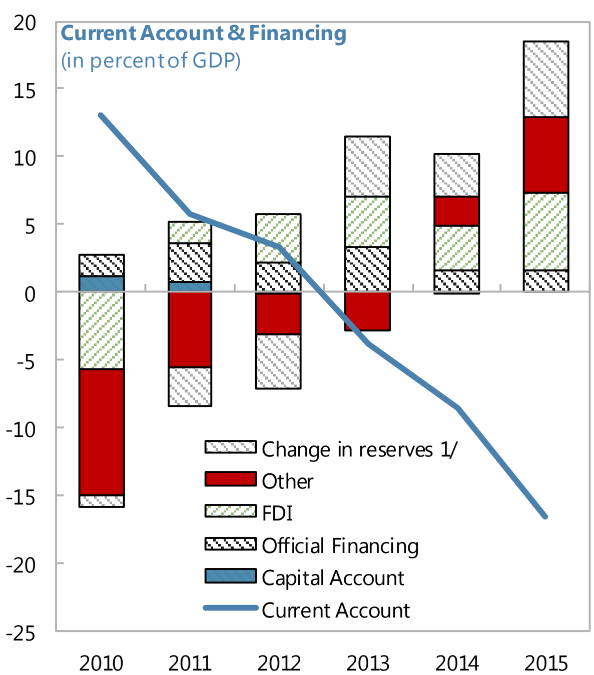
The largest export destinations are the U.S., Belgium, and United Arab Emirates.



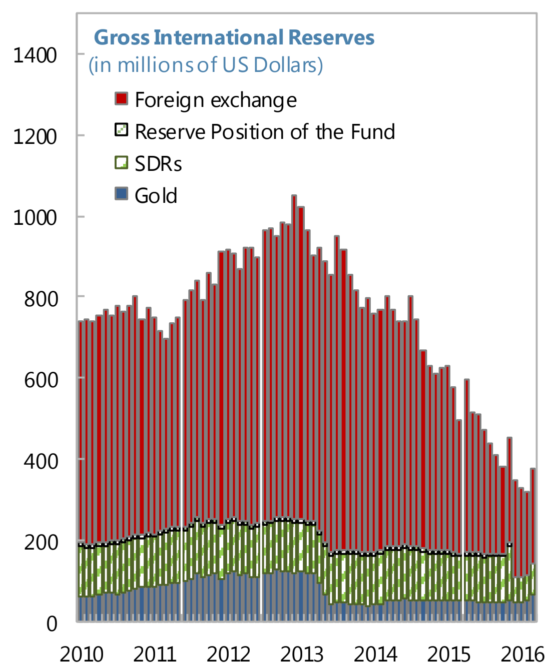
Exports are dominated by gold.



External balance has deteriorated...



...resulting in declining international reserves.



Sources: National authorities; Information Notice System; and Fund staff estimates and projections.
1/ (- = increase)

Table 1. Suriname: Selected Economic and Social Indicators

Population (in thousands, 2014)	559	Unemployment rate (2014)	7.0
GDP per capita (current US$, 2014)	9,325	Adult illiteracy (percent of population	
Rank in UNDP Human Development Index (out of 187, 2012)	105	ages 15 and above, 2008)	5.0
Life expectancy at birth (years, 2012)	70.8		

						Est.	Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
(Annual percentage change, unless otherwise indicated)												
Real sector												
GDP at current prices (SRD billions)	12.0	14.5	16.4	16.9	17.2	17.6	22.8	25.8	29.1	31.6	33.6	36.0
Real GDP growth	5.1	5.3	3.1	2.8	1.8	0.1	-2.0	2.5	2.3	2.0	2.5	3.0
GDP deflator	7.2	14.5	10.3	0.2	-0.3	2.2	32.3	10.4	10.1	6.6	3.6	4.0
Consumer prices (end of period)	8.7	17.0	4.4	0.6	3.9	25.0	24.1	8.9	6.1	4.0	4.0	4.0
Consumer prices (period average)	6.7	17.8	5.0	1.9	3.4	6.9	36.8	12.5	7.9	4.0	4.0	4.0
Money and credit												
Banking system net foreign assets	66.4	43.2	17.5	-11.3	-16.3	-22.0	48.3	21.6	8.4	4.5	7.4	5.7
Broad money	11.2	21.8	19.6	14.1	8.0	10.2	19.9	5.7	7.8	8.1	8.3	7.9
Private sector credit (devaluation adjusted)	10.7	20.1	16.7	18.4	9.0	7.3	5.3	7.7	8.4	9.8	10.8	11.8
Public sector credit (increase in percent of M2)	4.4	-7.4	0.4	8.4	10.1	12.6	1.0	-0.5	-1.2	-0.1	-0.1	-0.4
(In percent of GDP, unless otherwise indicated)												
Savings and investment												
Private sector balance (saving-investment)	17.2	3.7	7.7	0.5	-1.0	-8.5	-1.0	3.9	1.3	0.4	0.2	-0.5
Public sector balance	-4.2	2.0	-4.5	-4.4	-7.0	-7.0	-7.7	-3.4	-1.4	-1.3	-1.4	-1.3
Saving	0.7	6.8	0.0	0.1	-1.8	-4.6	-4.9	0.3	2.8	3.0	3.4	3.7
Investment	4.9	4.8	4.4	4.5	5.2	2.5	2.8	3.7	4.2	4.3	4.7	5.0
Foreign saving	-13.0	-5.7	-3.3	3.8	8.0	15.6	8.7	-0.5	0.1	0.9	1.2	1.8
Central government												
Revenue and grants	21.5	26.7	25.7	25.9	24.2	21.0	20.6	23.6	25.8	25.8	25.9	26.0
Total expenditure 1/	24.6	26.1	29.6	33.6	32.1	29.7	27.0	27.0	27.2	27.1	27.3	27.3
Primary expenditure	23.8	25.2	28.6	32.2	31.3	28.3	25.0	25.3	25.5	25.5	25.8	25.9
Overall balance (net lending/borrowing)	-3.1	0.5	-3.9	-7.7	-7.9	-8.8	-6.4	-3.4	-1.4	-1.3	-1.4	-1.3
Primary balance	-2.2	1.5	-2.9	-6.4	-7.0	-7.4	-4.4	-1.7	0.3	0.3	0.1	0.1
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	-1.3	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.1	-0.5	3.9	7.7	7.9	8.8	7.7	3.4	1.4	1.3	1.4	1.3
Net domestic financing	1.8	-3.3	1.8	4.5	6.4	7.2	-0.3	0.4	-1.0	0.2	0.2	-0.1
Net external financing	1.2	2.8	2.1	3.3	1.5	1.5	8.1	3.0	2.4	1.1	1.2	1.4
Central government debt	18.9	20.3	21.7	31.7	29.4	43.5	46.2	44.0	40.4	38.5	37.6	36.4
Domestic	10.8	9.4	10.1	16.8	13.1	22.8	17.3	15.4	12.7	11.8	11.3	10.5
External	8.1	10.9	11.6	14.9	16.2	20.6	28.9	28.6	27.8	26.6	26.3	25.9
External sector												
Current account balance	13.0	5.7	3.3	-3.8	-8.0	-15.6	-8.7	0.5	-0.1	-0.9	-1.2	-1.8
Capital and financial account	-10.2	-1.1	9.6	8.4	13.2	13.4	0.4	1.0	-2.2	1.5	4.1	5.1
Memorandum items												
Terms of trade (percent change)	9.2	10.4	4.3	-10.1	-4.1	1.1	6.3	0.2	-0.8	-0.7	-0.7	0.2
Gross international reserves (US$ millions)	691	817	1,008	779	625	355	538	837	896	901	940	961
In months of imports	3.7	3.8	4.4	3.4	2.8	1.9	2.8	4.2	4.3	4.2	4.1	4.0
Adjusted international reserves (US$ millions) 2/	...	...	...	...	...	61	291	647	861	866	905	926
In months of imports	...	...	...	...	...	0.3	1.5	3.2	4.1	4.0	4.0	3.9
Reserve adequacy (risk-weighted measure), US$ millions 3/	...	...	...	...	...	654	695	754	791	786	784	786
In months of imports	...	...	...	...	...	3.6	3.7	3.8	3.8	3.6	3.4	3.3
Reserve adequacy (risk-weighted measure for SIDS), US$ millions 4/	...	...	...	...	...	820	936	1,031	1,099	1,157	1,223	1,300
In months of imports	...	...	...	...	...	4.5	4.9	5.2	5.2	5.3	5.4	5.4
Real effective exchange rate (percent change)	3.1	-7.7	4.8	1.4	3.0	...	...	...	...	...	...	...
Exchange rate (SRD per US$, eop)	2.7	3.3	3.3	3.3	3.3	4.0	...	...	...	...	...	...

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

1/ Includes statistical discrepancy.

2/ Official reserve assets excluding foreign currency swaps and reserve requirements on banks' foreign currency deposits.

3/ Based on IMF, 2015 "Assessing Reserve Adequacy".

4/ Based on N. Mwase, 2012 "How much should I hold? Reserve Adequacy in Emerging Markets and Small Islands" (SIDS).

Table 2. Suriname: Central Government Operations

(In millions of SRD; cumulative from the start of the year)

							Proj.						Proj.		
	2010	2011	2012	2013	2014	2015	2016				2017	2018	2019	2020	2021
							Q1	Q2	Q3	Q4					
Revenue	**2,585**	**3,853**	**4,230**	**4,384**	**4,168**	**3,688**	**782**	**1,996**	**3,372**	**4,687**	**6,083**	**7,494**	**8,153**	**8,695**	**9,358**
Taxes	1,879	2,668	3,119	3,333	3,058	2,886	572	1,507	2,538	3,589	4,493	5,703	6,193	6,588	7,097
Direct taxes	971	1,341	1,685	1,886	1,649	1,291	269	682	1,046	1,409	1,911	2,125	2,328	2,504	2,722
Of which : mineral taxes	410	903	1,166	1,026	758	315	27	135	194	294	616	667	742	820	888
Indirect taxes	908	1,327	1,435	1,447	1,409	1,595	303	824	1,492	2,180	2,582	3,578	3,865	4,084	4,375
Grants	236	115	0	0	0	0	0	0	0	0	0	0	0	0	0
Other revenue	471	1,070	1,111	1,051	1,110	802	211	490	835	1,098	1,590	1,791	1,960	2,108	2,262
Of which : mineral revenues	387	637	499	499	444	231	51	103	151	199	555	625	692	761	819
Expenditure 1/	**2,951**	**3,779**	**4,865**	**5,692**	**5,527**	**5,230**	**1,077**	**2,714**	**4,483**	**6,156**	**6,967**	**7,896**	**8,560**	**9,163**	**9,821**
Primary expenditure 1/	2,850	3,639	4,706	5,460	5,375	4,982	987	2,508	4,139	5,698	6,519	7,405	8,057	8,652	9,310
Compensation of employees	973	1,097	1,196	1,426	1,373	1,533	251	721	1,293	1,772	2,006	2,259	2,456	2,609	2,795
Other primary current expenditure	1,288	1,845	2,780	3,279	3,109	3,015	686	1,539	2,441	3,287	3,549	3,931	4,232	4,449	4,717
Of which : Social programs	…	…	…	519	561	634	211	422	633	844	981	1,105	1,201	1,276	1,367
Of which : Statistical discrepancy	139	-107	49	-285	-80	-152	0	0	0	0	0	0	0	0	0
Net acquisition of nonfinancial assets	589	697	729	756	893	434	50	247	405	639	964	1,215	1,369	1,594	1,798
Interest	101	140	159	232	153	249	90	206	343	459	449	491	504	512	511
Domestic	84	112	121	184	100	189	66	151	249	283	200	252	232	223	212
Foreign	17	28	38	48	53	59	24	55	94	175	249	239	272	289	298
Overall balance (Net lending/borrowing)	**-367**	**74**	**-635**	**-1,309**	**-1,359**	**-1,543**	**-295**	**-718**	**-1,110**	**-1,469**	**-884**	**-402**	**-408**	**-468**	**-462**
***Of which* : Primary balance**	**-266**	**214**	**-476**	**-1,077**	**-1,207**	**-1,294**	**-205**	**-512**	**-767**	**-1,011**	**-436**	**89**	**96**	**44**	**48**
Net financial transactions	**367**	**-74**	**635**	**1,309**	**1,359**	**1,543**	**295**	**718**	**1,110**	**1,469**	**884**	**402**	**408**	**468**	**462**
Net acquisition of financial assets	0	0	0	0	0	0	0	-159	-268	-296	0	0	0	0	0
Net incurrence of liabilities	367	-74	635	1,309	1,359	1,543	295	877	1,378	1,765	884	402	408	468	462
Domestic	221	-479	288	754	1,101	1,275	304	255	110	-74	109	-290	61	56	-24
Commercial banks	91	-56	81	98	582	-329	18	42	87	126	126	-85	75	63	14
Central bank	-7	-382	166	458	175	1,717	165	144	73	-30	-185	-85	-85	-85	-85
Other domestic	138	-41	41	-58	-26	87	130	160	124	85	167	-121	71	77	46
Arrears 2/	0	0	0	256	370	-200	-10	-92	-173	-255	0	0	0	0	0
Accumulation of arrears	0	0	0	256	472	466	0	0	0	0	0	0	0	0	0
Payment of arrears	0	0	0	0	-102	-666	-10	-92	-173	-255	0	0	0	0	0
Foreign	146	404	348	555	258	268	-9	622	1,268	1,838	775	692	347	412	487
Amortizations	-46	-69	-150	-60	-113	-120	-57	-435	-528	-601	-756	-326	-389	-409	-448
Disbursements	192	474	498	615	372	388	48	1,056	1,796	2,439	1,531	1,018	736	822	935
Project based	192	474	498	615	372	388	48	120	310	513	706	633	736	822	935
Budget support	0	0	0	0	0	0	0	936	1,486	1,926	825	385	0	0	0
Memorandum items:															
Primary cash balance	-266	214	-476	-821	-836	-1,494	-215	-603	-940	-1,265	-436	89	96	44	48
Electricity tariff subsidy	…	…	…	…	599	418	63	140	221	302	0	0	0	0	0
Non-mineral balance	-1,164	-1,465	-2,300	-2,833	-2,562	-2,089	-373	-956	-1,455	-1,962	-2,056	-1,694	-1,842	-2,049	-2,170
Non-mineral primary balance	-1,063	-1,326	-2,141	-2,601	-2,409	-1,840	-283	-750	-1,112	-1,504	-1,607	-1,203	-1,339	-1,537	-1,659
Mineral revenue	797	1,540	1,665	1,525	1,202	546	78	238	345	493	1,171	1,292	1,434	1,581	1,707
Central government debt	2,264	2,932	3,560	5,363	5,049	7,647	7,919	9,652	10,153	10,540	11,350	11,752	12,160	12,628	13,090

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

1/ Includes statistical discrepancy.

2/ Estimated of SRD1.2 million arrears accumulation since 2013.

Table 2. Suriname: Central Government Operations (Concluded)

(In percent of GDP)

	2010	2011	2012	2013	2014	Prel. 2015	Proj. 2016 Q1	Q2	Q3	Q4	Proj. 2017	2018	2019	2020	2021
Revenue	**21.5**	**26.7**	**25.7**	**25.9**	**24.2**	**21.0**	**3.4**	**8.8**	**14.8**	**20.6**	**23.6**	**25.8**	**25.8**	**25.9**	**26.0**
Taxes	15.7	18.5	19.0	19.7	17.8	16.4	2.5	6.6	11.1	15.7	17.4	19.6	19.6	19.6	19.7
Direct taxes	8.1	9.3	10.3	11.1	9.6	7.3	1.2	3.0	4.6	6.2	7.4	7.3	7.4	7.5	7.6
Of which : mineral taxes	3.4	6.2	7.1	6.1	4.4	1.8	0.1	0.6	0.9	1.3	2.4	2.3	2.3	2.4	2.5
Indirect taxes	7.6	9.2	8.7	8.5	8.2	9.1	1.3	3.6	6.5	9.6	10.0	12.3	12.2	12.2	12.2
Grants	2.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	3.9	7.4	6.8	6.2	6.5	4.6	0.9	2.1	3.7	4.8	6.2	6.2	6.2	6.3	6.3
Of which : mineral revenues	3.2	4.4	3.0	2.9	2.6	1.3	0.2	0.5	0.7	0.9	2.2	2.1	2.2	2.3	2.3
Expenditure 1/	**24.6**	**26.1**	**29.6**	**33.6**	**32.1**	**29.7**	**4.7**	**11.9**	**19.7**	**27.0**	**27.0**	**27.2**	**27.1**	**27.3**	**27.3**
Primary expenditure 1/	23.8	25.2	28.6	32.2	31.3	28.3	4.3	11.0	18.1	25.0	25.3	25.5	25.5	25.8	25.9
Compensation of employees	8.1	7.6	7.3	8.4	8.0	8.7	1.1	3.2	5.7	7.8	7.8	7.8	7.8	7.8	7.8
Other primary current expenditure	10.7	12.8	16.9	19.4	18.1	17.1	3.0	6.7	10.7	14.4	13.7	13.5	13.4	13.2	13.1
Of which : Social programs	…	…	…	3.1	3.3	3.6	0.9	1.9	2.8	3.7	3.8	3.8	3.8	3.8	3.8
Of which : Statistical discrepancy	1.2	-0.7	0.3	-1.7	-0.5	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	4.9	4.8	4.4	4.5	5.2	2.5	0.2	1.1	1.8	2.8	3.7	4.2	4.3	4.7	5.0
Interest	0.8	1.0	1.0	1.4	0.9	1.4	0.4	0.9	1.5	2.0	1.7	1.7	1.6	1.5	1.4
Domestic	0.7	0.8	0.7	1.1	0.6	1.1	0.3	0.7	1.1	1.2	0.8	0.9	0.7	0.7	0.6
Foreign	0.1	0.2	0.2	0.3	0.3	0.3	0.1	0.2	0.4	0.8	1.0	0.8	0.9	0.9	0.8
Overall Balance (Net lending/borrowing)	**-3.1**	**0.5**	**-3.9**	**-7.7**	**-7.9**	**-8.8**	**-1.3**	**-3.1**	**-4.9**	**-6.4**	**-3.4**	**-1.4**	**-1.3**	**-1.4**	**-1.3**
***Of which* : Primary balance**	**-2.2**	**1.5**	**-2.9**	**-6.4**	**-7.0**	**-7.4**	**-0.9**	**-2.2**	**-3.4**	**-4.4**	**-1.7**	**0.3**	**0.3**	**0.1**	**0.1**
Net financial transactions	3.1	-0.5	3.9	7.7	7.9	8.8	1.3	3.1	4.9	6.4	3.4	1.4	1.3	1.4	1.3
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	-1.2	-1.3	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	3.1	-0.5	3.9	7.7	7.9	8.8	1.3	3.8	6.0	7.7	3.4	1.4	1.3	1.4	1.3
Domestic	1.8	-3.3	1.8	4.5	6.4	7.2	1.3	1.1	0.5	-0.3	0.4	-1.0	0.2	0.2	-0.1
Commercial banks	0.8	-0.4	0.5	0.6	3.4	-1.9	0.1	0.2	0.4	0.6	0.5	-0.3	0.2	0.2	0.0
Central bank	-0.1	-2.6	1.0	2.7	1.0	9.8	0.7	0.6	0.3	-0.1	-0.7	-0.3	-0.3	-0.3	-0.2
Other domestic	1.1	-0.3	0.3	-0.3	-0.2	0.5	0.6	0.7	0.5	0.4	0.6	-0.4	0.2	0.2	0.1
Arrears 2/	0.0	0.0	0.0	1.5	2.2	-1.1	0.0	-0.4	-0.8	-1.1	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	0.0	0.0	0.0	1.5	2.7	2.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payment of arrears	0.0	0.0	0.0	0.0	-0.6	-3.8	0.0	-0.4	-0.8	-1.1	0.0	0.0	0.0	0.0	0.0
Foreign	1.2	2.8	2.1	3.3	1.5	1.5	0.0	2.7	5.6	8.1	3.0	2.4	1.1	1.2	1.4
Amortizations	-0.4	-0.5	-0.9	-0.4	-0.7	-0.7	-0.3	-1.9	-2.3	-2.6	-2.9	-1.1	-1.2	-1.2	-1.2
Disbursements	1.6	3.3	3.0	3.6	2.2	2.2	0.2	4.6	7.9	10.7	5.9	3.5	2.3	2.4	2.6
Project based	1.6	3.3	3.0	3.6	2.2	2.2	0.2	0.5	1.4	2.3	2.7	2.2	2.3	2.4	2.6
Budget support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	6.5	8.4	3.2	1.3	0.0	0.0	0.0
Memorandum items:															
Gold price (US$ per troy ounce)	1,225	1,569	1,669	1,411	1,266	1,160	1,175	1,232	1,233	1,219	1,231	1,234	1,243	1,255	1,277
Oil price (US$ per barrel)	79	104	105	104	96	51	31	34	36	35	41	45	48	49	51
Primary cash balance	-2.2	1.5	-2.9	-4.8	-4.9	-8.5	-0.9	-2.6	-4.1	-5.5	-1.7	0.3	0.3	0.1	0.1
Electricity tariff subsidy	…	…	…	…	3.5	2.4	0.3	0.6	1.0	1.3	0.0	0.0	0.0	0.0	0.0
Non-mineral balance	-9.7	-10.1	-14.0	-16.7	-14.9	-11.9	-1.6	-4.2	-6.4	-8.6	-8.0	-5.8	-5.8	-6.1	-6.0
Non-mineral primary balance	-8.9	-9.2	-13.0	-15.4	-14.0	-10.5	-1.2	-3.3	-4.9	-6.6	-6.2	-4.1	-4.2	-4.6	-4.6
Mineral revenue	6.6	10.7	10.1	9.0	7.0	3.1	0.3	1.0	1.5	2.2	4.5	4.4	4.5	4.7	4.7
Central government debt	18.9	20.3	21.7	31.7	29.4	43.5	…	…	…	46.2	44.0	40.4	38.5	37.6	36.4

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

1/ Includes statistical discrepancy.

2/ Estimated of SRD1.2 million arrears accumulation since 2013.

Table 3. Suriname: Balance of Payments 1/

(In millions of U.S. dollars)

							Proj.					
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Current account	**568.5**	**251**	**162**	**-196**	**-415**	**-808**	**-379**	**25**	**-5**	**-52**	**-73**	**-120**
Exports of goods and services	**2326**	**2668**	**2875**	**2595**	**2356**	**1856**	**1765**	**2275**	**2368**	**2445**	**2520**	**2610**
Imports of goods and services	**-1657**	**-2242**	**-2593**	**-2726**	**-2773**	**-2702**	**-2192**	**-2275**	**-2391**	**-2514**	**-2606**	**-2737**
Trade balance	686.2	788	707	243	133	-375	-99	157	132	88	74	38
Exports, f.o.b.	2084.1	2467	2700	2416	2145	1652	1555	2056	2139	2209	2278	2361
Of which : Alumina, gold, and petroleum	1869.4	2358	2434	2183	1849	1306	1204	1667	1698	1734	1776	1831
Imports, f.o.b.	-1397.9	-1679	-1993	-2174	-2012	-2028	-1654	-1899	-2007	-2121	-2204	-2323
Services, net	-17.6	-362	-425	-374	-550	-470	-327	-157	-156	-157	-160	-165
Exports	241.4	201	175	179	211	204	210	219	229	236	242	249
Imports	-259.0	-563	-600	-552	-761	-674	-538	-376	-384	-392	-402	-414
Income, net	**-186.6**	**-262**	**-192**	**-131**	**-69**	**-27**	**-32**	**-54**	**-55**	**-52**	**-54**	**-56**
Credit	14	16	27	27	22	15	15	15	15	16	16	16
Debit	-201	-278	-220	-158	-91	-42	-47	-69	-70	-68	-70	-72
Current transfers, net	**86.5**	**87**	**73**	**67**	**71**	**65**	**80**	**78**	**73**	**69**	**67**	**63**
Capital and financial account	**-447.7**	**-50**	**480**	**429**	**688**	**696**	**19**	**48**	**-115**	**86**	**248**	**333**
Capital account	**53.9**	**35**	**-7**	**0**	**0**	**1**	**0**	**0**	**0**	**0**	**0**	**0**
Financial account	**-501.6**	**-85**	**487**	**429**	**688**	**695**	**19**	**48**	**-115**	**86**	**248**	**333**
Public sector												
Central government medium-long term borrowing	66	121	104	165	80	79	-12	77	56	63	75	89
Disbursements	70	141	149	184	111	114	95	128	115	134	149	170
Amortization	-17	-21	-45	-19	-31	-35	-107	-51	-59	-71	-74	-81
Foreign direct investment	-247.7	73	173	188	163	276	270	176	159	162	165	168
Portfolio investment	-12.0	6	-6	-1	1	-9	-2	-2	-4	-3	-5	-5
Other investment	-242	-284	216	78	444	349	-237	-203	-325	-136	13	81
Errors and omissions	**-168.1**	**-77**	**-462**	**-382**	**-422**	**-155**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**-47.3**	**124**	**180**	**-149**	**-150**	**-266**	**-360**	**72**	**-120**	**34**	**175**	**213**
Financing	**47**	**-124**	**-180**	**149**	**150**	**266**	**360**	**-72**	**120**	**-34**	**-175**	**-213**
Change in reserves (- = increase)	**-33.8**	**-126**	**-192**	**230**	**154**	**270**	**-183**	**-299**	**-59**	**-6**	**-38**	**-21**
Financing gap	**0**	**0**	**0**	**0**	**0**	**0**	**542**	**226**	**179**	**-28**	**-137**	**-192**
IMF financing(net)	0	0	0	0	0	0	206	162	109	-28	-137	-192
Other IFIs	0	0	0	0	0	0	250	150	70	0	0	0
Market access	0	0	0	0	0	0	86	-86	0	0	0	0
Memorandum items:												
Gross international reserves	691	817	1008	779	625	355	538	837	896	901	940	961
In months of imports of goods and services	3.7	3.8	4.4	3.4	2.8	1.9	2.8	4.2	4.3	4.2	4.1	4.0
Adjusted international reserves 2/						61	291	647	861	866	905	926
In months of imports of goods and services						0.3	1.5	3.2	4.1	4.0	4.0	3.9
Current account balance (in percent of GDP)	13.0	5.7	3.3	-3.8	-8.0	-15.6	-8.7	0.5	-0.1	-0.9	-1.2	-1.8
GDP in current US dollars	4369	4422	4980	5131	5210	5192	4336	4693	5286	5748	6105	6540
Gold price (US$ per troy ounce)	1225	1569	1669	1411	1266	1160	1219	1231	1234	1243	1255	1277
Oil price (US$ per barrel)	79	104	105	104	96	51	35	41	45	48	49	51
Aluminum price (US$ per MT)	2173	2401	2023	1847	1867	1665	1558	1599	1644	1700	1767	1825
External debt (in percent of GDP) 3/	12.3	29.7	29.8	34.9	38.6	45.3	72.4	70.5	65.4	58.4	53.6	48.7

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

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

2/ Official reserve assets excluding foreign currency swaps and reserve requirements on banks' foreign currency deposits.

3/ Includes both private and public sector debt.

Table 3. Suriname: Balance of Payments 1/ (Concluded)

(In percent of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018 Proj.	2019	2020	2021
Current account	**13.0**	**5.7**	**3.3**	**-3.8**	**-8.0**	**-15.6**	**-8.7**	**0.5**	**-0.1**	**-0.9**	**-1.2**	**-1.8**
Exports of goods and services	**53.2**	**60.3**	**57.7**	**50.6**	**45.2**	**35.8**	**40.7**	**48.5**	**44.8**	**42.5**	**41.3**	**39.9**
Imports of goods and services	**-37.9**	**-50.7**	**-52.1**	**-53.1**	**-53.2**	**-52.0**	**-50.6**	**-48.5**	**-45.2**	**-43.7**	**-42.7**	**-41.9**
Trade balance	15.7	17.8	14.2	4.7	2.6	-7.2	-2.3	3.3	2.5	1.5	1.2	0.6
Exports, f.o.b.	47.7	55.8	54.2	47.1	41.2	31.8	35.9	43.8	40.5	38.4	37.3	36.1
Of which : alumina, gold, and petroleum	42.8	53.3	48.9	42.5	35.5	25.1	27.8	35.5	32.1	30.2	29.1	28.0
Imports, f.o.b.	-32.0	-38.0	-40.0	-42.4	-38.6	-39.1	-38.1	-40.5	-38.0	-36.9	-36.1	-35.5
Services, net	-0.4	-8.2	-8.5	-7.3	-10.6	-9.1	-7.6	-3.3	-2.9	-2.7	-2.6	-2.5
Exports	5.5	4.5	3.5	3.5	4.0	3.9	4.9	4.7	4.3	4.1	4.0	3.8
Imports	-5.9	-12.7	-12.0	-10.8	-14.6	-13.0	-12.4	-8.0	-7.3	-6.8	-6.6	-6.3
Income, net	**-4.3**	**-5.9**	**-3.9**	**-2.6**	**-1.3**	**-0.5**	**-0.7**	**-1.1**	**-1.0**	**-0.9**	**-0.9**	**-0.9**
Credit	-4.5	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Debit	-0.1	-6.3	-4.4	-3.1	-1.7	-0.8	-1.1	-1.5	-1.3	-1.2	-1.1	-1.1
Current transfers, net	**2.0**	**2.0**	**1.5**	**1.3**	**1.4**	**1.3**	**1.9**	**1.7**	**1.4**	**1.2**	**1.1**	**1.0**
Capital and financial account	**-10.2**	**-1.1**	**9.6**	**8.4**	**13.2**	**13.4**	**0.4**	**1.0**	**-2.2**	**1.5**	**4.1**	**5.1**
Capital account	**1.2**	**0.8**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial account	**-11.5**	**-1.9**	**9.8**	**8.4**	**13.2**	**13.4**	**0.4**	**1.0**	**-2.2**	**1.5**	**4.1**	**5.1**
Public sector												
Foreign direct investment	-5.7	1.6	3.5	3.7	3.1	5.3	6.2	3.7	3.0	2.8	2.7	2.6
Portfolio investment	-0.3	0.1	-0.1	0.0	0.0	-0.2	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Other investment	-5.5	-6.4	4.3	1.5	8.5	6.7	-5.5	-4.3	-6.2	-2.4	0.2	1.2
Errors and omissions	**-3.8**	**-1.7**	**-9.3**	**-7.4**	**-8.1**	**-3.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-1.1**	**2.8**	**3.6**	**-2.9**	**-2.9**	**-5.1**	**-8.3**	**1.5**	**-2.3**	**0.6**	**2.9**	**3.3**
Financing												
Change in reserves (- = increase)	**-0.8**	**-2.9**	**-3.8**	**4.5**	**2.9**	**5.2**	**-4.2**	**-6.4**	**-1.1**	**-0.1**	**-0.6**	**-0.3**
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**12.5**	**4.8**	**3.4**	**-0.5**	**-2.2**	**-2.9**
IMF Financing(net)	0.0	0.0	0.0	0.0	0.0	0.0	4.8	3.5	2.1	-0.5	-2.2	-2.9
Other IFIs	0.0	0.0	0.0	0.0	0.0	0.0	5.8	3.2	1.3	0.0	0.0	0.0
Market access	0.0	0.0	0.0	0.0	0.0	0.0	2.0	-1.8	0.0	0.0	0.0	0.0
Memorandum items:												
Gross international reserves (in US$ millions)	691	817	1008	779	625	355	538	837	896	901	940	961
In months of imports of goods and services	3.7	3.8	4.4	3.4	2.8	1.9	2.8	4.2	4.3	4.2	4.1	4.0
Adjusted international reserves (in US$ millions) 2/						61	291	647	861	866	905	926
In months of imports of goods and services						0.3	1.5	3.2	4.1	4.0	4.0	3.9
External debt (in percent of GDP) 3/	12.3	29.7	29.8	34.9	38.6	45.3	72.4	70.5	65.4	58.4	53.6	48.7
GDP in current US dollars	4369	4422	4980	5131	5210	5192	4336	4693	5286	5748	6105	6540

Sources: Suriname authorities; and Fund staff estimates and projections.
1/ Historical figures correspond to the Balance of Payments revised by the CBvS.
2/ Official reserve assets excluding foreign currency swaps and reserve requirements on banks' foreign currency deposits.
3/ Includes both private and public sector debt.

Table 4. Suriname: Monetary Survey and Central Bank Account 2014–17

	2014	2015				2016				2017
		Mar.	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Dec.
								proj.		
	(Millions of Suriname dollars)									
Monetary Survey										
Net foreign assets	3839	3454	3105	2817	2996	3796	4311	4507	4442	5403
Net international reserves (hold by the central bank)	2031	1604	1639	1296	1303	1509	1595	1735	1814	2564
Net other foreign assets	1808	1850	1466	1521	1694	2287	2715	2772	2628	2838
Net domestic assets	5377	5451	5710	6226	7174	7611	7903	7879	7738	7478
Net claim on the public sector	1164	1211	1406	1969	2448	2652	2655	2628	2564	2506
Of which : central government	1330	1395	1593	2163	2655	2839	2842	2815	2751	2693
Credit to the private sector	5194	5252	5434	5524	5995	6589	7041	7207	7098	7642
Other items, net	-981	-1012	-1130	-1266	-1269	-1629	-1793	-1956	-1924	-2670
Broad money	9217	8904	8815	9043	10157	11408	12213	12386	12181	12881
Currency in circulation	901	845	785	825	951	986	991	1001	1001	1071
Foreign currency deposits	4412	4391	4513	4572	5359	6680	7521	7620	7368	7737
Local currency deposits	3904	3668	3517	3646	3847	3742	3702	3764	3811	4073
Central Bank										
Net foreign assets	1675	1258	798	453	378	369	404	544	623	1373
Net international reserves	2031	1604	1639	1296	1303	1509	1595	1735	1814	2564
Net other foreign assets	-356	-346	-841	-843	-925	-1140	-1191	-1191	-1191	-1191
Net domestic assets	523	713	1029	1737	2144	2264	2143	2033	1968	1470
Net claims on public sector	552	570	776	1748	2219	2384	2363	2292	2189	2004
Of which: central government	552	570	776	1748	2219	2384	2363	2292	2189	2004
Net claims on commercial banks	94	281	424	187	143	115	100	85	70	55
Open market operation	0	0	0	0	0	0	1	-46	-16	-355
Other items, net	-122	-138	-172	-197	-219	-236	-320	-344	-291	-235
Reserve money	2198	1971	1826	2190	2522	2633	2548	2578	2591	2843
Currency in circulation	1114	1011	943	971	1124	1174	1179	1192	1192	1275
Bankers deposits	1007	935	803	1196	1355	1413	1322	1340	1353	1522
Other demand deposits in national currency	59	7	62	6	23	21	21	21	21	21
Gold certificates	18	18	18	17	19	25	25	25	25	25
Memorandum items:										
Broad money growth (12-month percentage change)	8.0	3.5	-0.1	0.3	10.2	28.1	38.6	37.0	19.9	5.7
Broad money growth (12-month percentage change, local currency only)	7.3	7.7	1.1	5.8	8.7	4.8	9.1	6.6	0.3	6.9
Broad money growth (quarter on quarter percentage change, local currency only)	4.4	2.3	-4.7	3.9	7.3	-1.5	-0.8	1.6	1.0	4.0
Credit to the private sector growth (12-month percentage change) 2/	9.0	9.4	11.1	10.4	7.3	7.4	7.5	8.5	5.3	7.7
Reserve money growth (end of period; quarter on quarter percentage change)	-2.8	-10.3	-7.4	19.9	15.2	4.4	-3.2	1.2	0.5	5.0
Reserve money growth (end of period; 12-month percentage change)	-8.5	-14.5	-19.0	-3.1	14.7	33.6	39.5	17.7	2.7	9.7
Money multiplier (broad money/reserve money)	4.2	4.5	4.8	4.1	4.0	4.3	4.8	4.8	4.7	4.5
Velocity (GDP/broad money; end of period)	1.9	2.0	2.0	1.9	1.7	2.0	1.9	1.8	1.9	2.0
Central bank net domestic assets (program)	…	…	…	…	2144	2264	2209	2110	2050	2637
Gross international reserves (US$ millions)					355	302	372	461	538	837
Gross adjusted international reserves (US$ millions) 1/					61	2	73	175	291	647
Net international reserves (program definition, SRD millions)3/	…	…	…	…	240	0	-53	163	454	729
Net international reserves (program definition, US$ millions) 3/					59	0	-10	30	83	133
Reserve requirement for domestic deposits (percent)	30	30	30	30	35	35	…	…	…	…
Reserve requirement for foreign currency deposits (percent)	50	50	50	50	50	50	…	…	…	…

Source: Central Bank of Suriname and Fund staff estimates and projections

1/ Official reserve assets excluding foreign currency swaps and reserve requirements on banks' foreign currency deposits.

2/ Credit growth adjusted for devaluation.

3/ NIR based on the program definition is official reserve assets minus foreign currency swaps, reserve requirements on banks' foreign currency deposits, other CBvS' liabilities, and IMF SBA purchases/repurchases. NIR targets are a cumulative change from end-March 2016, in US$ millions.

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

	2010	2011	2012	2013	2014	2015
			(Number of institutions)			
Banks	9	9	9	9	9	9
Large banks	3	3	3	3	3	3
Small banks	6	6	6	6	6	6
Reporting non-bank financial institutions						
Pension funds	28	28	29	27	28	29
Insurance companies	12	12	12	12	12	12
Credit unions and cooperatives	29	24	24	24	24	24
			(In percent of total)			
Assets	100	100	100	100	100	100
Banks	76.4	75.6	76.8	77.5	79.5	86.3
Large banks	60.5	59.2	60.2	60.6	62.2	67.4
Small banks	16.0	16.4	16.6	16.8	17.2	18.9
Pension funds	14.6	14.3	12.9	13.3	13.1	13.5
Insurance companies	7.7	8.5	8.6	9.0	7.1	na
Credit unions and cooperatives	1.3	1.6	1.7	0.2	0.2	0.2
Deposits						
Banks	100	100	100	100	100	100
Large banks	79.1	79.0	79.1	79.3	71.1	73.0
Small banks	20.9	21.0	20.9	20.7	28.9	27.0
Capital adequacy						
Regulatory capital to risk-weighted assets (*)	12.2	12.1	12.6	12.4	11.5	11.3
Regulatory Tier I capital to risk-weighted assets (*)	10.8	10.9	11.5	11.2	11.4	11.3
Capital (net worth) to assets	6.2	6.3	6.3	6.3	7.0	7.0
Asset composition						
Sectoral distribution of loans to total loans (*)						
Agriculture	4.3	3.7	3.2	2.9	2.1	2.5
Manufacturing	7.7	8.3	8.5	7.8	7.8	8.0
Commerce	23.9	26.3	29.8	30.1	28.8	29.8
Housing construction	17.9	16.8	17.3	16.8	16.3	11.0
Other	46.2	44.9	41.1	42.4	44.9	48.7
Asset quality						
Foreign currency loans to total loans	37.1	40.7	42.2	40.1	39.0	39.1
NPLs to gross loans (*)	7.9	8.0	6.2	5.9	6.2	8.4
NPLs net of provisions to capital (*)	44.6	44.0	30.6	32.6	33.0	39.8
Large exposures to capital (*)	98.1	106.8	83.0	103.5	135.2	124.5
Earnings and profitability						
ROA (*)	2.2	1.9	1.9	1.7	1.7	1.3
ROE (*)	36.9	27.2	24.8	21.8	20.3	15.4
Interest margin to gross income (*)	73.3	71.7	74.6	76.0	75.9	74.7
Noninterest expenses to gross income (*)	58.3	57.9	58.6	62.1	61.9	60.9
Personnel expenses to noninterest expenses	59.9	58.9	62.2	61.4	58.4	55.2
Trading and fee income to total income	28.8	30.7	26.6	24.9	26.3	30.1
Spread between reference loan and deposit rates	8.2	8.0	8.0	8.0	7.7	7.5
Liquidity						
Liquid assets to total assets (*)	29.2	26.4	28.4	29.3	30.9	32.1
Liquid assets to total short-term liabilities (*)	54.4	49.2	54.6	59.0	63.0	69.1
FX liabilities to total liabilities	47.0	51.5	48.8	51.8	51.9	55.6
Net position in foreign currency to capital 2/	27.8	28.9	29.5	24.1	…	18.2

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/ Net position in foreign currency (total assets minus total liabilities) as a percentage of banks' shares and other equity. Break of series in 2015.Prior to 2015, the NOP included on-balance sheet items only but from June 2015, it includes also off-balance sheet items. Also this ratio is calculated using Tier 1 capital only for 2015.

Table 6. Suriname: Indicators of Capacity to Repay the Fund, 2016–23

	2016	2017	2018	2019	2020	2021	2022	2023
Fund obligations based on prospective purchases (millions of SDR) 1/								
Principal	0	0	0	20	97	136	74	15
Charges and interest	1	3	5	6	4	2	1	0
Fund obligations based on existing and prospective purchases (millions of SDR) 1/								
Principal	0	0	0	20	97	136	74	15
Charges and interest	1	3	5	6	4	2	1	0
Total obligations based on existing and prospective purchases 1/								
SDR millions	1	3	5	26	102	138	74	15
US millions	2	4	7	36	143	195	105	21
Percent of exports of goods and services	0	0	0	1	6	7	4	1
Percent of debt service	1	1	3	12	48	66	36	7
Percent of GDP	1	0	0	1	2	3	2	0
Percent of government revenue	0	0	1	2	9	12	6	1
Percent of quota	0	2	4	20	79	107	58	11
Outstanding Fund credit (based on existing and prospective drawings) 1/								
SDR millions	148	264	342	322	225	88	15	0
US millions	206	370	479	452	316	124	21	0
Percent of exports of goods and services	12	16	20	18	13	5	1	0
Percent of debt service	73	91	169	148	105	42	7	0
Percent of GDP	5	8	9	8	5	2	0	0
Percent of government revenue	23	33	35	30	20	7	1	0
Percent of quota	115	205	265	250	174	69	11	0
Net use of Fund credit (millions of SDR) 1/								
Purchases	148	116	78	0	0	0	0	0
Repurchases	0	0	0	20	97	136	74	15
Percent of adjusted gross international reserves	0.0	0.0	0.0	2.3	10.8	14.7	7.8	1.5
Memorandum items:								
Exports of goods and services (millions of US dollars)	1,765	2,275	2,368	2,445	2,520	2,598	2,678	2,761
External debt service (millions of US dollars)	282	404	283	304	300	296	292	288
Nominal GDP (millions of US dollars)	4,336	4,693	5,286	5,748	6,105	6,485	6,888	7,316
Government revenue (millions of US dollars)	891	1,106	1,363	1,482	1,581	1,686	1,799	1,918
adjusted gross international reserves (millions of US dollars)	291	647	861	866	905	926	948	970
Quota (millions of SDR)	128.9	128.9	128.9	128.9	128.9	128.9	128.9	128.9

Sources: Fund staff estimates and projections.
1/ Assumes prospective SBA disbursements in 2016-2018 (baseline scenario).

Table 7. Suriname: Gross Financing Requirements, 2016–18

	2016	2017	2018
		(In millions of US dollars)	
Gross Financing Requirements	486	27	65
Current account deficit	-379	25	-5
Amortization of medium and long term public debt	-107	-51	-59
Sources of Financing	-56	-200	-115
Capital account (net)	0	0	0
Foreign direct investment (net)	270	176	159
Government loans	95	128	115
Gross reserves of the Central Bank of Suriname (- increase)	-183	-299	-59
Other financing inc. net erros and omissions 1/	-239	-205	-329
Financing need	542	226	179
IMF	206	162	109
IFIs	250	150	70
Market access	86	-86	0
Gap	0	0	0
		(In percent of GDP)	
Gross Financing Requirements	11.2	0.6	1.2
Current account deficit	-8.7	0.5	-0.1
Amortization of medium and long term public debt	-2.5	-1.1	-1.1
Sources of Financing	-1.3	-4.3	-2.2
Capital account (net)	0.0	0.0	0.0
Foreign direct investment (net)	6.2	3.7	3.0
Government loans	2.2	2.7	2.2
Net Foreign assets of the Central Bank of Suriname	-4.2	-6.4	-1.1
Other financing inc. net erros and omissions	-5.5	-4.4	-6.2
Financing need	12.5	4.8	3.4
IMF	4.8	3.5	2.1
IFIs	5.8	3.2	1.3
Market access	2.0	-1.8	0.0
Gap	0.0	0.0	0.0

Sources: Fund staff estimates and projections.

1/ In 2018, the PBOC swap totaling US$154 million will be reversed.

Table 8. Suriname: Proposed Schedule of Purchases Under the Stand-By Arrangement, 2016–18

	Amount of Purchase				
	Millions of SDR	Percent of Quota	Test Dates	Date Available	Conditions Necessary for Purchase
	58	45		May 27, 2016	Executive Board approval of the 24-month SBA arrangement
	45	35	June 30, 2016	September 15, 2016	Executive Board approval of the first review under the 24-month SBA
	45	35	September 30, 2016	December 15, 2016	Executive Board approval of the second review under the 24-month SBA
	32	25	December 31, 2016	March 15, 2017	Executive Board approval of the third review under the 24-month SBA
	45	35	March 31, 2017	June 15, 2017	Executive Board approval of the fourth review under the 24-month SBA
	39	30	June 30, 2017	September 25, 2017	Executive Board approval of the fifth review under the 24-month SBA
	39	30	September 30, 2017	December 25, 2017	Executive Board approval of the sixth review under the 24-month SBA
	39	30	December 31, 2017	April 25, 2018	Executive Board approval of the seventh review under the 24-month SBA
Total	**342**	**265**			
Memorandum item					
Quota	128.9				

Annex I. Debt Sustainability Analysis

A. Public Sector Debt

The Public Debt Sustainability Analysis (DSA) indicates that Suriname's public debt is sustainable under the baseline (program) scenario but subject to a number of vulnerabilities. Public debt levels, having increased substantially over the last few years, are expected to decline gradually, based on a sizable fiscal consolidation and low effective interest rates due mainly to the concessional borrowing expected from IFIs. Despite the rapid increase over recent years, gross financing needs are forecasted to be contained and rollover risk is expected to remain manageable. The programmed fiscal adjustment is sizable but needed for reversing the upward trend in public debt, and for restoring fiscal and external sustainability. Given the high share of external (foreign currency) borrowing, public debt is vulnerable to a further depreciation of the currency. There are also risks related to weaker-than-projected growth as a result of the programmed fiscal adjustment; lower-than-projected commodity prices; higher-than-projected interest rates; fiscal slippages, in particular in the outer years, due to consolidation fatigue or implementation delays; and the realization of contingent liabilities in the banking sector, including possible central bank recapitalization needs.

Recent developments

1. **Suriname's public debt has increased significantly in recent years**. Total gross debt reached 43.5 percent of GDP in 2015, doubling since 2012. The debt ratio remains low compared with other countries in the region, but its rapid increase is worrisome. Weak real GDP growth and large fiscal deficits, driven primarily by declining mineral revenues but also by rising government spending, have been the main causes. The primary fiscal deficit increased from an average of 0.3 percent of GDP in 2005-2013 to an average of 7.2 percent in 2014-15. Growth declined from an average of 4.5 percent in 2005-2013 to an average of 1 percent in 2014-15. Together with the 21 percent currency devaluation in 2015, these factors raised the debt-to-GDP ratio by over 10 percentage points in 2015.[1]

2. **For the purposes of this DSA, public debt is defined as including central government debt and debt guaranteed by the central government**. The authorities have just begun collecting debt data on the broader public sector. Central government guaranteed debt constitutes only a small portion of public debt: at end-2015, central government guaranteed debt was about 0.1 percent of GDP, including borrowing by an electricity parastatal company.

3. **Gross financing needs in 2015 increased, reflecting the large fiscal deficit (8.8 percent of GDP).** Gross financing needs have increased from an average of 3.5 percent of GDP in 2005–2013 to about 9 percent of GDP in 2014 and 15 percent of GDP in 2015. This increase reflects the rapid buildup of debt over recent years because of persistent fiscal deficits, and a growing reliance on

[1] In 2014, despite the large primary fiscal deficit, the debt-to-GDP ratio declined to 29.4 percent, reflecting a netting out operation between government deposits and an overdraft with the central bank that, of itself, reduced public debt by about 8 percent of GDP.

short-term domestic debt financing. In 2015, T-bills issued in 2014-2015 were not rolled over, and the government made principal payments of about 5 percent of GDP, which increase gross financing needs. In addition, in late 2015, the central bank issued a 30-year long-term loan of SRD 2.5 billion (15 percent of GDP) to the central government at an interest rate of 3.5 percent, which was aimed at (i) consolidating the existing stock of short-term borrowing from the CBvS and extending its maturity; (ii) paying off domestic arrears (of around SRD 1.2 billion, or 7 percent of GDP); and (iii) recapitalizing state-owned banks. The issuance of the long-term loan by the CBvS resulted in lower gross financing needs for the central government over the projection period by delaying and stretching short-term debt payments over 30 years, and by reducing reliance on short-term debt by 14 percent of GDP.

Baseline scenario

4. **The DSA is based on the macroeconomic assumptions that underpin the program's framework**. Real GDP growth is expected to decline from 0.1 percent in 2015 to -2 percent in 2016 as a result of a number of factors, including fiscal consolidation and the closure of Suralco. Economic recovery is projected thereafter, with growth rising toward 3 percent, supported by structural reforms that improve competitiveness and the business environment. CPI inflation in 2016 is forecast at 37 percent (year on year, average) on the back of exchange rate depreciation and utility tariff increases. Based on macroeconomic policy tightening, inflation is expected to decline to single digits during the program, and to about 4 percent over the medium term. The multi-year fiscal consolidation program that encompasses wage restraint, electricity tariff reforms and the introduction of a VAT, among other measures, coupled with a rise in mineral revenues from late 2016 based on expanded production and higher prices, should raise the primary balance from a deficit of 7.4 percent of GDP in 2015 to a small surplus by end-2018. Finally, the current account deficit is expected to narrow from 15.6 percent of GDP in 2015 to 1.8 percent by 2021, strongly supported by higher gold exports.

5. **Under the baseline scenario, Suriname's public debt-to-GDP ratio peaks at 46 percent in 2016, and then declines, reaching 36.5 percent by 2021 (Figure A1.3).** For 2016, staff projects that a low growth rate, a still sizeable primary deficit, and exchange rate depreciation will raise the debt ratio. The baseline also includes the external commercial loan totaling US$86 million secured in April 2016, and the government's purchase of an equity stake in the gold mine, which was partially financed by this loan. With the depreciation associated with Suriname's transition to a floating exchange rate, the external debt-to-GDP ratio will rise by 6 percentage points. Conversely, the spike in inflation in 2016 will directly dampen the rise in the debt ratio. Over the medium term, a small primary fiscal surplus, and low effective interest rates—mainly due to the low interest rates on loans from IFIs—and the recovery in economic activity, will help to place the debt-to-GDP ratio on a downward trajectory. A greater reliance on more concessional sources of financing, particularly from IFIs, which the IMF-supported program is expected to catalyze, will help to reduce gross financing needs and rollover risks by lengthening the debt maturity profile.

Risks to the baseline scenario

6. **Suriname's large projected fiscal adjustment is justified and feasible, although not without risks (Figure A1.2).** The three-year rise in the cyclically adjusted primary balance over the program period (2016-2018) is around 9 percent of GDP. However, the change in Suriname's cyclically-adjusted primary balance needs to be interpreted cautiously given the important role of mineral revenue shifts. Part of the adjustment during 2016–18—amounting to 2.4 percent of GDP—reflects a rise in mineral revenue from the opening of the gold mine in 2017 and the rise in gold and oil prices, which are not fully removed using the standard cyclical-adjustment approach used, and thus improve the cyclically-adjusted primary balance. Staff estimates that the budgetary impact of fiscal policy measures introduced over 2016-18 amounts to about 6.5 percent of GDP, which is still large but justified given Suriname's fiscal adjustment need. However, the risk of fiscal slippages should not be ruled out, in particular in the outer years, due to consolidation fatigue or implementation delays.

7. **There are risks to the baseline macroeconomic forecasts.** Past primary balance forecast errors were mainly caused by (negative) commodity price shocks, which lowered mineral revenues (Figure A1.2). Gold and oil prices declined more than expected in 2014–2015, which led to weaker real GDP growth, lower inflation, and lower government revenues. Risks exist from (i) weaker than projected growth as a result of the programmed fiscal adjustment; (ii) lower-than-projected commodity prices, which could lead to a weaker exchange rate path, government revenues, and real GDP growth; and (iii) higher-than-projected real interest rates, should currency depreciation and inflation pass through more quickly into nominal domestic interest rates.

8. **The fan charts illustrate the baseline public debt dynamics, along with a symmetric and asymmetric distribution of risks (Figure A1.1).** The bands show how the debt ratio would evolve if shocks to growth, inflation, the exchange rate, and the primary balance were to materialize, where the distribution of the shocks is based on the country-specific historical forecast errors. In the asymmetric scenario, which only allows negative shocks to the primary balance to occur, the debt ratio path is broadly stable rather than declining as in the baseline scenario.

9. **Risks arising from the high reliance on external debt are large (Figures A1.1 and A1.4).** The heat map highlights a key risk arising from the large share of Suriname's public debt held by non-residents, which is currently above the upper-risk assessment benchmark of 45 percent of the total debt.

Alternative scenario and stress tests

10. **The debt path and gross financing needs remain broadly manageable under various scenarios.** A relatively low debt-to-GDP ratio, which is projected to decline during the program's sizable fiscal consolidation, implies that debt remains below the 70 percent of GDP benchmark under various (adverse) macroeconomic shock scenarios. Financing risks arising from gross financing needs are also expected to remain manageable under all adverse shock scenarios with the exception of contingent liability shocks. This is primarily due to the conversion of short-term borrowing from

the CBvS into the long-term loan already mentioned, which has reduced short-term financing needs and rollover risks substantially.

11. **The historical scenarios confirm that the program's fiscal consolidation is essential for reducing the debt-to-GDP ratio (Figure A1.4).** Medium-term projections using (i) historical averages for real GDP growth and the primary balance; (ii) a constant primary balance; and (iii) a 20 percent reduction in mineral revenue, all imply an increase in the level of public debt, and this underscores the importance of implementing the fiscal adjustment that the baseline (program) scenario envisages. In particular, under the constant primary balance scenario, where the primary balance is set to -4.4 percent of GDP in the medium term, the debt-to-GDP ratio rises to 58 percent of GDP by 2021, with gross financing increasing to 13 percent of GDP. Under the historical scenario, despite relatively high real GDP growth, the larger primary deficit increases the debt-to-GDP ratio as well as gross financing needs. Finally, under the 20 percent lower mineral revenue scenario, primary balance is about 1 percent of GDP lower than in the baseline scenario. This results in a debt-to-GDP ratio of about 41 percent of GDP by 2021, compared to 36.5 percent in the baseline, and gross financing needs of about 7 percent of GDP, compared with 5 percent of GDP in the baseline.

12. **The public debt projection is vulnerable to a number of macroeconomic shocks (Figure A1.5).** The paths of debt and of gross financing needs are sensitive to real interest rate, real exchange rate, and primary balance shocks. In the baseline scenario, staff projects higher nominal interest rates than the historical average for domestic borrowing to reflect the higher inflation. However, this increase is offset by low interest rates on large multilateral and bilateral loans, which rise to 65 percent of total debt by 2017. Stress tests show that lower inflation or higher nominal interest rates than in the baseline scenario could raise the debt-to-GDP ratio to as high as 41 percent—about 5 percentage points more than in the baseline—and gross financing needs to 8 percent of GDP by 2021. Real exchange rate depreciation and primary fiscal balance shocks would also adversely affect the debt path and gross financing needs in the short-term.

13. **A contingent liability shock could result in public debt rising by 5 percentage points of GDP in 2017 (Figure A1.5).** Public debt would then slowly decline to around 45.5 percent of GDP in the medium term. According to stress tests conducted by Fund staff, the banking sector is moderately vulnerable to credit and exchange rate risks. However, the tests need to be interpreted cautiously given data limitation. In the contingent liability shock scenario, staff assumes that 10 percent of total bank assets are recapitalized, which results in additional 5 percent of GDP in non-interest expenditure compared to the baseline. Under this shock, the debt-to-GDP ratio and gross financing needs increase significantly in the short-term. In addition to banking sector recapitalization costs, staff cautions that risks arising from the weak financial position of the CBvS could imply additional recapitalization costs and an even larger budgetary impact (MEFP ¶25).

B. External Sector Debt

14. **External debt is expected to reach 72.5 percent of GDP in 2016, up from 45.3 percent of GDP in 2015, and to decline thereafter.** The external debt stock in 2015 consists of debt to the central government (36 percent share), central bank debt (11 percent share), commercial bank debt

(4 percent share), debt of other sectors that include oil, mining, and other companies (34 percent share), and intercompany lending (15 percent share).

15. **This increase is due to the following factors:**

- **External borrowing.** Disbursements by multilateral financial institutions (Caribbean Development Bank, Inter-American Development Bank, Islamic Development Bank, and the World Bank), as well as loans from international capital markets, are expected to be catalyzed by IMF financial support for the authorities' program. Including IMF financing, Suriname is expected to receive about US$950 million in loans over the program period (2016–2018). In 2016 alone, Suriname is expected to secure US$336 million in loans, including the US$86 million loan attracted from international capital market in April, raising the total external debt-to-GDP by about 8 percentage points compared to end-2015.

- **Depreciation of the exchange rate.** The exchange rate was devalued by 21 percent in November 2015, and has depreciated further by about 60 percent since the move to a floating exchange rate. This exchange rate impact alone will increase the external debt-to-GDP ratio by about 10 percent of GDP in 2016.

16. **Over the medium term, the external debt-to-GDP ratio is expected to decline to around 49 percent of GDP, mainly on the back of an improved current account balance and renewed FDI inflows.** The current account balance excluding interest payments is projected to improve from a deficit of 14.7 percent of GDP in 2015 to a surplus of around 3 percent of GDP in the medium term. This reflects a significant improvement in the trade balance, partly associated with the fiscal adjustment embedded in the program scenario, and support from gold mining activities starting 2017.[2] Economic growth is expected to recover, and staff forecasts FDI inflows at around 2.7 percent of GDP in the medium term, on average.

17. **The external debt path is particularly sensitive to real exchange rate depreciation shocks**. As shown in the shock scenarios, a further 30 percent real depreciation would cause external debt to exceed 100 percent of GDP in the short-run and to remain above 75 percent of GDP over the projection period. Other shocks, in particular combined shocks of a permanent one-quarter standard deviation applied to the real interest rate, growth rate, and current account balance, would also have a significant impact on the debt level.

C. Authorities' Views

18. **The authorities broadly concurred with staff's views.** They agreed with the baseline scenario's macroeconomic assumptions (including, for example, for real GDP growth and inflation) which underpin the DSA, and are aware of the risks associated with the increase in external debt in 2016–17. The authorities also agreed that a sizable fiscal adjustment is required to restore fiscal and external sustainability, as well as to reverse the upward trend in public debt.

[2] The balance of payments depends crucially on the outlook for gold prices, as gold constitutes close to two-thirds of exports.

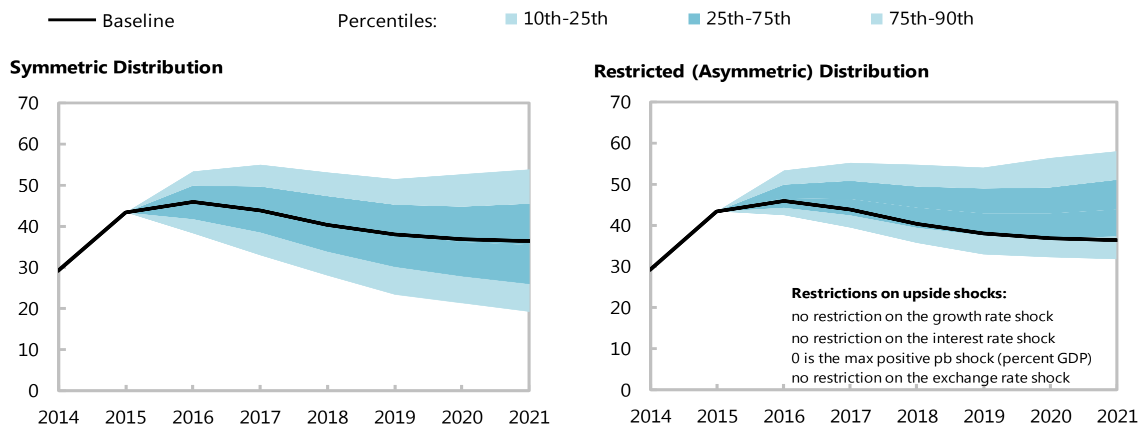
Figure A1.1. Suriname Public DSA Risk Assessment

Heat Map

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

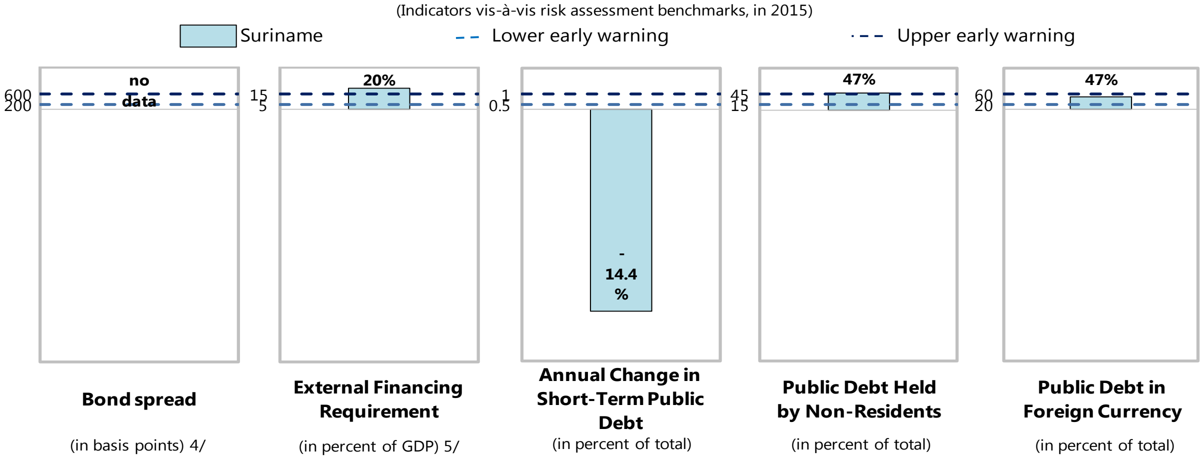
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: Fund staff estimates.

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

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

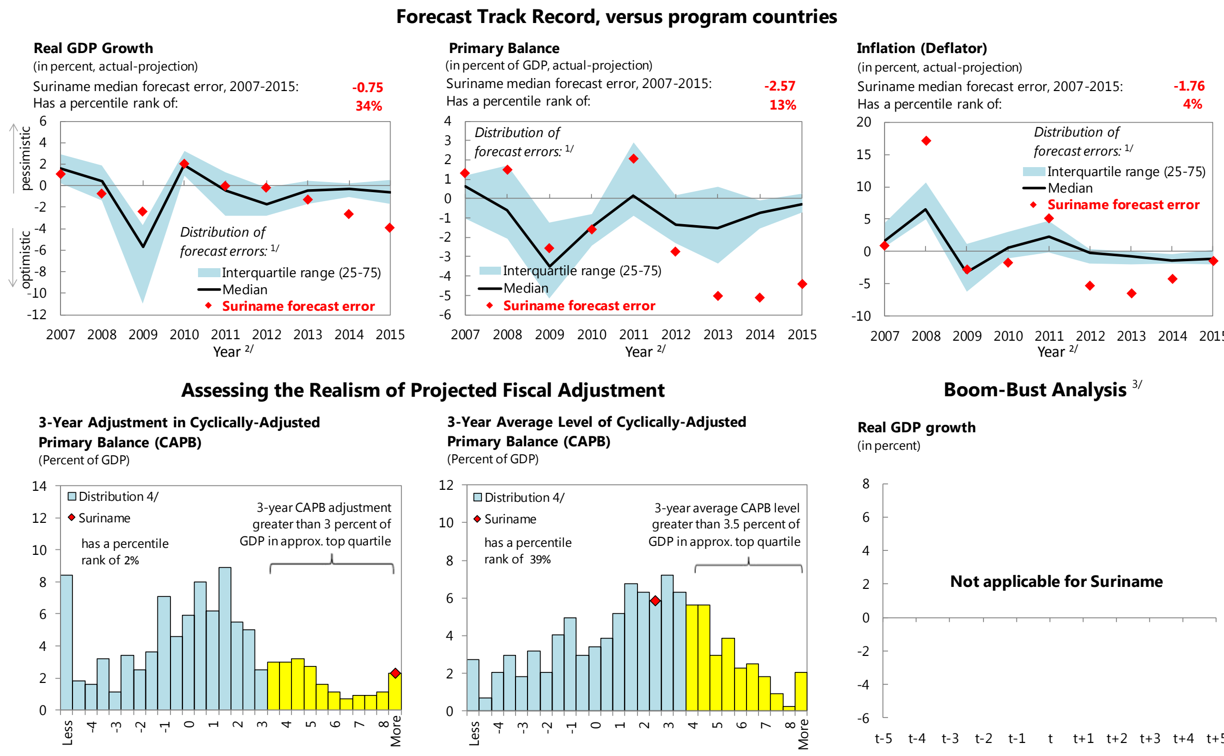
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 26-Jan-16 through 25-Apr-16.

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

Figure A1.2. Suriname Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes program countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Suriname, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A1.3. Suriname Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

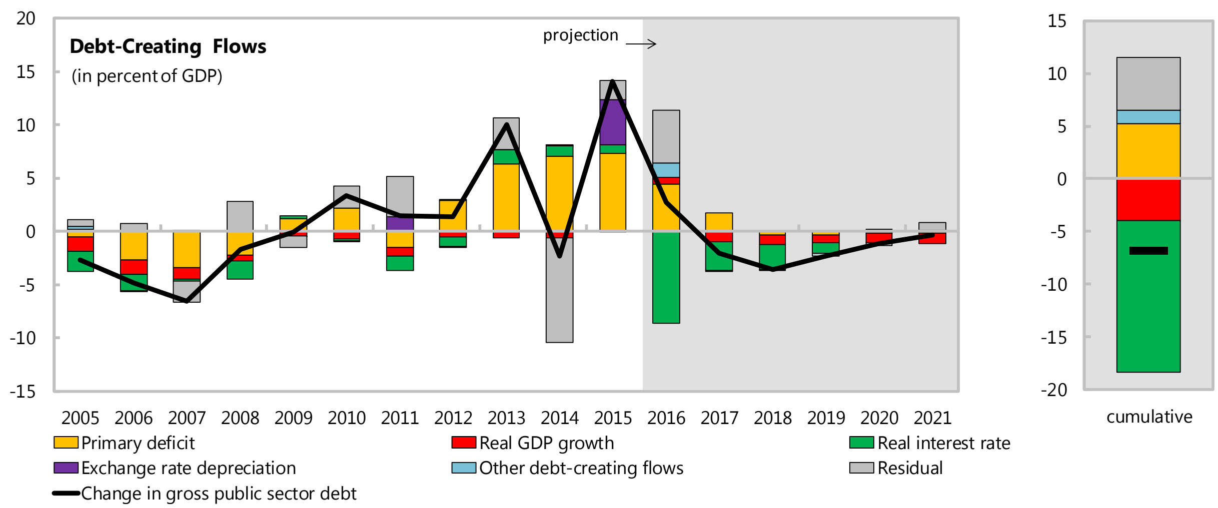
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2005-2013 [2/]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	21.5	29.4	43.5	46.2	44.1	40.5	38.1	37.0	36.6
Public gross financing needs	3.5	9.2	14.8	12.5	11.0	4.9	5.0	4.9	5.2
Real GDP growth (in percent)	4.4	1.8	0.1	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation (GDP deflator, in percent)	9.6	-0.3	2.2	32.3	10.4	10.1	6.6	3.6	4.0
Nominal GDP growth (in percent)	14.4	1.5	2.3	29.6	13.2	12.6	8.7	6.2	7.1
Effective interest rate (in percent) [4/]	6.1	2.9	5.0	5.8	4.2	4.2	4.1	4.3	4.3

As of May 11, 2016		
Sovereign Spreads 3/		
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	n.a.	Ba3
S&Ps	n.a.	BB-
Fitch	n.a.	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.0	-2.3	14.1	2.7	-2.1	-3.6	-2.3	-1.1	-0.4	-6.8	
Identified debt-creating flows	-1.1	7.6	12.3	-2.2	-2.0	-3.6	-2.0	-0.8	-1.1	-11.8	
Primary deficit	0.3	7.0	7.4	4.4	1.7	-0.3	-0.3	-0.1	-0.1	5.2	-1.0
Primary (noninterest) revenue and grants	23.8	24.2	21.0	20.6	23.6	25.8	25.8	25.9	26.0	147.6	
Primary (noninterest) expenditure	24.1	31.3	28.3	25.0	25.3	25.5	25.5	25.8	25.9	152.8	
Automatic debt dynamics [5/]	-1.4	0.5	5.0	-8.0	-3.6	-3.3	-1.7	-0.7	-1.0	-18.3	
Interest rate/growth differential [6/]	-1.5	0.4	0.8	-8.0	-3.6	-3.3	-1.7	-0.7	-1.0	-18.3	
Of which: real interest rate	-0.7	1.0	0.8	-8.6	-2.6	-2.4	-1.0	0.2	0.1	-14.4	
Of which: real GDP growth	-0.8	-0.6	0.0	0.7	-1.0	-0.9	-0.7	-0.9	-1.0	-3.9	
Exchange rate depreciation [7/]	0.2	0.1	4.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	1.3	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	1.1	-9.9	1.8	5.0	-0.1	0.0	-0.3	-0.3	0.7	5.0	



Source: Fund staff projections.

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

2/ Based on available data.

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

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

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

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

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

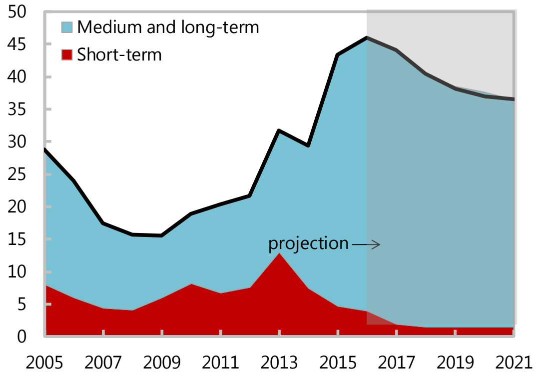
8/ Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

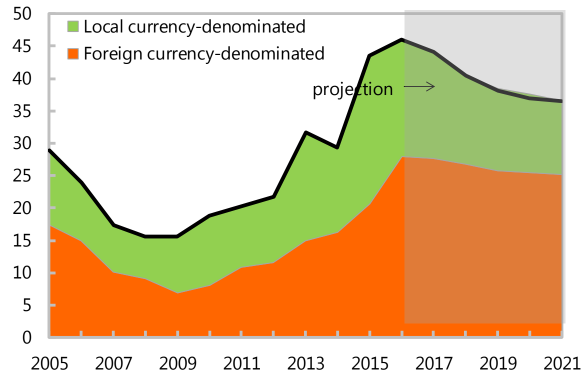
Figure A1.4. Suriname Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



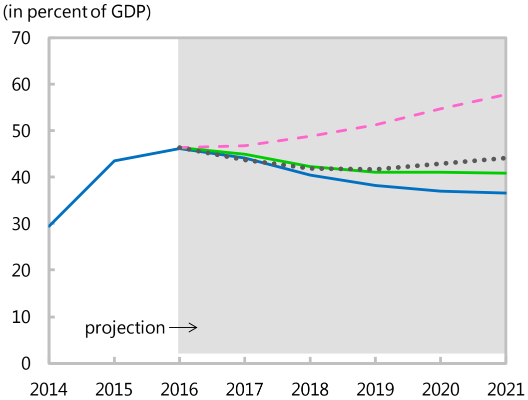
By Currency
(in percent of GDP)



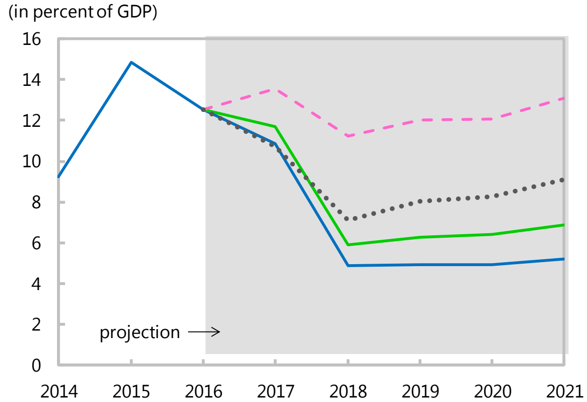
Alternative Scenarios

Baseline
Historical
Low -mineral Revenue
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

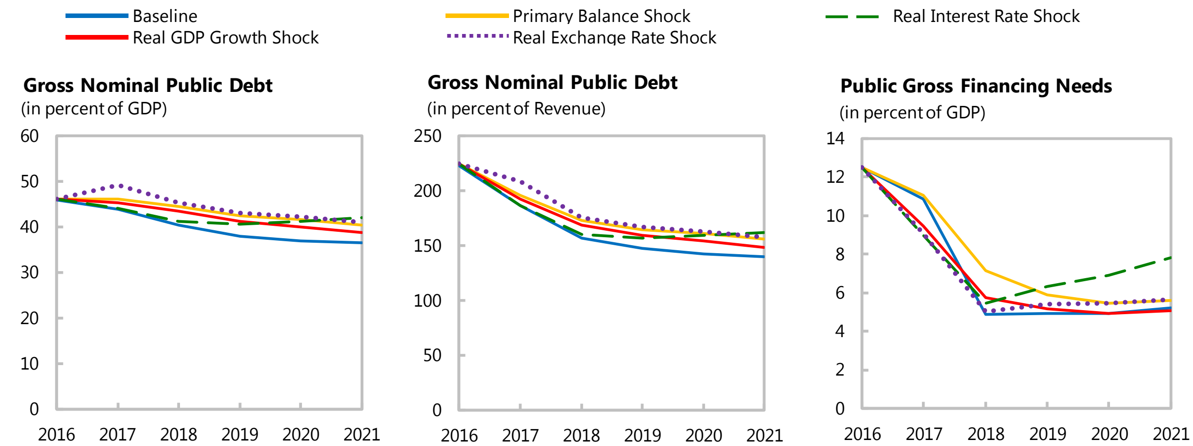
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation	32.3	10.4	10.1	6.6	3.6	4.0
Primary Balance	-4.4	-1.7	0.3	0.3	0.1	0.1
Effective interest rate	5.8	4.2	4.2	4.1	4.3	4.3
Constant Primary Balance Scenario						
Real GDP growth	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation	32.3	10.4	10.1	6.6	3.6	4.0
Primary Balance	-4.4	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	5.8	3.8	4.2	4.1	4.3	4.3

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.0	3.6	3.6	3.6	3.6	3.6
Inflation	32.3	10.4	10.1	6.6	3.6	4.0
Primary Balance	-4.4	-1.7	-1.7	-1.7	-1.7	-1.7
Effective interest rate	5.8	3.8	5.0	5.4	5.9	6.3
Low-Mineral Revenue Scenario						
Real GDP growth	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation	32.3	10.4	10.1	6.6	3.6	4.0
Primary Balance	-4.4	-2.6	-0.6	-0.6	-0.8	-0.8
Effective interest rate	5.8	3.8	4.1	4.2	4.2	4.2

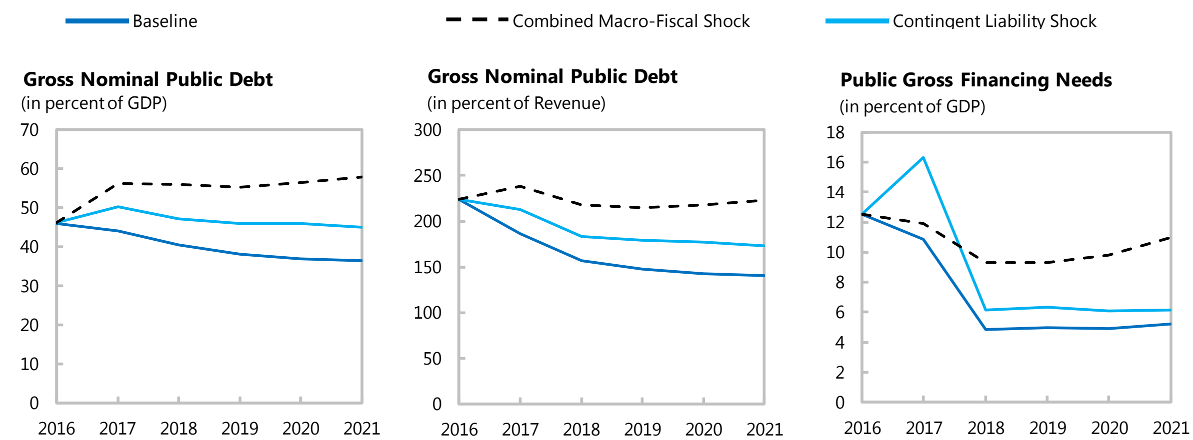
Source: Fund Staff estimates.

Figure A1.5. Suriname Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



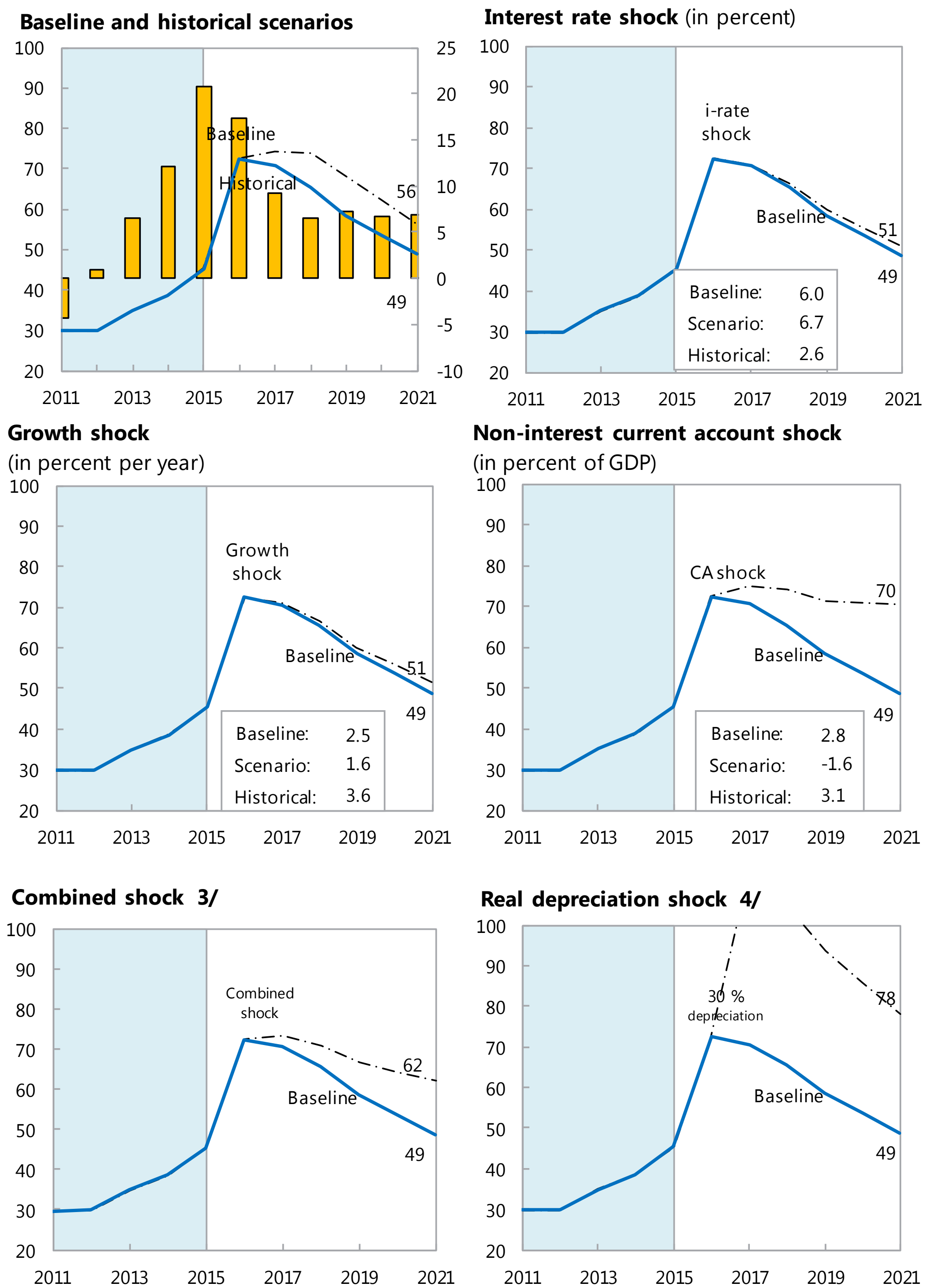
Underlying Assumptions
(in percent)

Primary Balance Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation	32.3	10.4	10.1	6.6	3.6	4.0
Primary balance	-4.4	-3.8	-1.8	0.3	0.1	0.1
Effective interest rate	5.8	4.0	4.4	4.5	4.5	4.5
Real Interest Rate Shock						
Real GDP growth	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation	32.3	10.4	10.1	6.6	3.6	4.0
Primary balance	-4.4	-1.7	0.3	0.3	0.1	0.1
Effective interest rate	5.8	4.0	6.4	7.4	8.6	9.6
Combined Shock						
Real GDP growth	-2.0	0.7	0.5	2.0	2.5	3.0
Inflation	32.3	10.0	9.6	6.6	3.6	4.0
Primary balance	-4.4	-3.8	-1.8	0.3	0.1	0.1
Effective interest rate	5.8	4.8	6.5	7.8	8.9	9.9

Real GDP Growth Shock	2016	2017	2018	2019	2020	2021
Real GDP growth	-2.0	0.7	0.5	2.0	2.5	3.0
Inflation	32.3	10.0	9.6	6.6	3.6	4.0
Primary balance	-4.4	-2.2	-0.8	0.3	0.1	0.1
Effective interest rate	5.8	3.5	3.7	3.7	3.8	3.8
Real Exchange Rate Shock						
Real GDP growth	-2.0	2.5	2.3	2.0	2.5	3.0
Inflation	32.3	19.1	10.1	6.6	3.6	4.0
Primary balance	-4.4	-1.7	0.3	0.3	0.1	0.1
Effective interest rate	5.8	4.8	4.2	4.3	4.4	4.4
Contingent Liability Shock						
Real GDP growth	-2.0	0.7	0.5	0.2	0.7	1.2
Inflation	32.3	10.0	9.6	6.2	3.2	3.6
Primary balance	-4.4	-6.8	0.5	0.3	0.4	0.8
Effective interest rate	5.8	4.3	4.7	4.6	4.6	4.5

Source: Fund staff estimates.

Figure A1.6. Country: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Table A1.1. Country: External Debt Sustainability Framework, 2011-2021
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2011	2012	2013	2014	2015			2016	2017	2018	2019	2020	2021	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	29.7	29.8	34.9	38.6	45.3			**72.4**	**70.5**	**65.4**	**58.4**	**53.6**	**48.7**	**-3.0**
Change in external debt	17.4	0.0	5.2	3.7	6.7			27.1	-1.9	-5.1	-7.0	-4.8	-4.9	
Identified external debt-creating flows (4+8+9)	-7.6	-9.9	-0.7	4.3	10.5			3.7	-5.9	-4.3	-3.1	-2.8	-2.2	
Current account deficit, excluding interest payments	-6.0	-3.6	3.1	7.2	14.7			6.7	-4.5	-3.7	-2.7	-2.1	-1.1	
Deficit in balance of goods and services	-37.0	-36.0	-27.0	-33.7	-41.7			-50.0	-52.2	-53.6	-57.1	-62.5	-67.7	
Exports	87.7	88.1	80.1	87.0	93.7			100.5	100.7	98.9	100.9	105.2	109.6	
Imports	50.7	52.1	53.1	53.2	52.0			50.6	48.5	45.2	43.7	42.7	41.9	
Net non-debt creating capital inflows (negative)	-1.8	-3.4	-3.6	-3.1	-5.1			-6.2	-3.7	-2.9	-2.8	-2.6	-2.5	
Automatic debt dynamics 1/	0.2	-3.0	-0.1	0.2	1.0			3.1	2.3	2.3	2.4	1.9	1.5	
Contribution from nominal interest rate	0.3	0.3	0.8	0.7	0.8			2.0	4.0	3.8	3.6	3.2	3.0	
Contribution from real GDP growth	-0.6	-0.8	-0.8	-0.6	-0.1			1.1	-1.7	-1.4	-1.2	-1.4	-1.5	
Contribution from price and exchange rate changes 2/	0.5	-2.5	-0.1	0.1	0.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	25.0	10.0	5.8	-0.6	-3.8			23.4	4.0	-0.9	-3.9	-2.0	-2.7	
External debt-to-exports ratio (in percent)	33.9	33.8	43.6	44.4	48.4			72.0	70.0	66.2	57.9	51.0	44.4	
Gross external financing need (in billions of US dollars) 4/	-0.2	0.0	0.3	0.6	1.1			0.8	0.4	0.3	0.4	0.4	0.4	
in percent of GDP	-4.3	0.9	6.5	12.1	20.7	10-Year	10-Year	17.3	9.2	6.5	7.2	6.7	6.8	
Scenario with key variables at their historical averages 5/								**72.4**	**74.2**	**73.9**	**67.9**	**62.2**	**56.1**	**-2.0**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	5.3	3.1	2.8	1.8	0.1	3.6	1.8	-2.0	2.5	2.3	2.0	2.5	3.0	
GDP deflator in US dollars (change in percent)	-3.8	9.3	0.2	-0.3	-0.5	5.2	6.1	-14.8	5.6	10.1	6.6	3.6	4.0	
Nominal external interest rate (in percent)	2.7	1.2	2.6	2.1	2.2	2.6	1.4	3.8	6.0	6.0	6.0	5.9	5.9	
Growth of exports (US dollar terms, in percent)	12.8	13.1	-6.3	10.2	7.4	12.4	13.3	-10.4	8.4	10.6	11.0	10.7	11.7	
Growth of imports (US dollar terms, in percent)	35.3	15.7	5.1	1.7	-2.6	7.2	18.3	-18.9	3.8	5.1	5.1	3.7	5.0	
Current account balance, excluding interest payments	6.0	3.6	-3.1	-7.2	-14.7	3.1	8.9	-6.7	4.5	3.7	2.7	2.1	1.1	
Net non-debt creating capital inflows	1.8	3.4	3.6	3.1	5.1	-1.3	5.3	6.2	3.7	2.9	2.8	2.6	2.5	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex II. Risk Assessment Matrix

Table A2.1 Risk Assessment Matrix[1]			
Main Threats	**Likelihood of Realization of the Threat**	**Expected Impact if Threat is Realized**	**Policy Response**
Tighter or more volatile global finance conditions	**High** Sharp asset price decline and widening of credit spreads as investors reassess risk and respond to unanticipated changes in growth and financial fundamentals in large economies, the Fed policy rate path, and increases in U.S. term premia, with poor market liquidity amplifying volatility. In addition, a surge in the US dollar, reflecting improving U.S. economic prospects versus the rest of the world.	**Small** Relatively low external debt and reliance on FDI make Suriname's economy less vulnerable to tighter or more volatile global finance conditions, or to a surge in the US dollar.	Careful external debt management, more borrowing from IFIs, and measures to attract FDI.
Significant slowdown in China and other emerging market economies.	**Medium** Significant China slowdown, triggered by corporate distress that propagates through shadow banks, precipitating deleveraging, uncertainty and capital outflows, and significant slowdown in other large EMs as investors withdraw from EM corporate debt, generating disorderly deleveraging, with potential spillbacks to advanced economies, leading to weaker growth and demands for commodities.	**High** Downward pressures on commodity export prices, including oil and gold prices, are likely to be significant, causing external and fiscal deterioration and slower growth.	Further depreciation and policy tightening, backed by structural reforms to ensure that competitiveness gains are not eroded over the medium term.
Structurally weak growth in key advanced and emerging economies.	**High/Medium** Weak demand and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to low medium-term growth and persisting financial imbalances in the Euro area and Japan (high likelihood). Easy global financial conditions coming to an end and insufficient reform progress undermine medium-term growth in emerging markets and suppress commodity prices.	**High** Downward pressures on commodity export prices, including oil and gold prices, are likely to be significant, causing external and fiscal deterioration and slower growth.	Further depreciation and policy tightening, backed by structural reforms to ensure that competitiveness gains are not eroded over the medium term.
Reduced financial services by global and regional banks ("de-risking")	**Medium** Further loss of correspondent banking services significantly curtails cross-border payments, trade finance, and remittances in small economies.	**High** Impact on banks and trade could be substantial.	Review the AML/CFT framework to address remaining deficiencies and strengthen enforcement.

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

Appendix I. Letter of Intent

Paramaribo, Suriname
May 11, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

Suriname's economy is in distress, following the sharp fall in the international prices of our main commodity exports. The sustained drop in the prices of alumina, gold, and oil, together with the closure of alumina production in late 2015, have caused substantial fiscal and external current account deficits, contributed to the decline in our foreign reserves, and pushed the economy into a recession.

To address these challenges, the government has embarked on a comprehensive economic program designed to stabilize Suriname's economy and set the stage for its recovery. Fiscal consolidation is a clear and critical ingredient of the program, to restore fiscal and external stability. It is being supported by reforms to our exchange rate and monetary policy framework, and structural reforms to boost business confidence. The strong and front-loaded macroeconomic adjustment the government is implementing will also ensure a steady rebuilding of foreign reserves. Crucially, our program includes measures of social support to protect the most vulnerable during this period of economic adjustment.

The Government of Suriname is deeply committed to the objectives underlying this program and has already implemented significant reforms regardless of any formal financing arrangement with the International Monetary Fund (Fund). In the current context, however, support from the Fund and other multilateral financial institutions would provide a liquidity cushion to smooth the economy's adjustment to the external shocks and boost investor confidence. To this end, the government hereby requests a Stand-By Arrangement (SBA) with the Fund for a period of 24 months, in the amount of SDR 342 million (equivalent to 265 percent of quota or about US$478 million). Beyond the SBA, the government will continue to work toward a medium-term agenda of structural reforms to enhance long-term growth and competitiveness.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the program of reforms that the Government of Suriname has adopted for the period of 2016-2018. The government believes that the policies described in the MEFP are adequate to achieve the program's objectives. However, if necessary, the government stands ready to take any additional measures that may be required. In such cases, the government will consult in advance with the Fund on the adoption of these measures or revisions to the policies contained in the MEFP to ensure that the objectives of the government's adjustment program are met and in accordance with the Fund's policies on such consultation.

The government will also provide the Fund staff with all the relevant information required to complete the scheduled program reviews and monitor performance on a timely basis. The government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, and imposing or intensifying import restrictions for balance of payments reasons.

As part of our communication policy, we intend to publish this letter on the websites of the Ministry of Finance and the Central Bank of Suriname to keep our citizens and international partners informed about our policy actions and intentions. In that regard, we authorize the Fund to publish this letter, its attachments, and the related staff report, including placement of these documents on the IMF website.

Very truly yours,

__________/s/__________
Desiré Delano Bouterse
President of Suriname

_________/s/_________
Gillmore A. Hoefdraad
Minister of Finance
Paramaribo, Suriname

______/s/______
Glenn H. Gersie
Governor, Central Bank of Suriname
Paramaribo, Suriname

Attachments: – Memorandum of Economic and Financial Policies
– Technical Memorandum of Understanding
– Memorandum of Understanding

I. Memorandum of Economic and Financial Policies for 2016–2018

1. **This memorandum reports on recent economic developments and outlines the economic and financial program for which the Government of Suriname is requesting IMF support under a 24-month Stand-by Arrangement (SBA).**

A. Recent Economic Developments

2. **Suriname is facing challenging conditions in the near term, caused by the sharp decline in the international prices of our commodity exports and the closure of alumina production**. The sustained drop in the prices of alumina, gold, and oil has caused substantial external and fiscal deficits, and a significant loss of international reserves. These negative external developments, combined with the closure of Suralco's alumina refinery in late 2015, which ended 100 years of bauxite mining and alumina production in Suriname, have pushed the economy into a recession. Following little growth in 2015, real GDP is expected to contract by 2 percent in 2016.

3. **The medium-term growth outlook remains favorable, however, in view of the prospective expansion in the mineral sector.** The new oil refinery, which has started operations, will likely double oil refinery production in 2016, while the start of operations at a new gold mine is expected to increase gold production by 33 percent by end-2017. We therefore expect that real GDP growth will recover to 2.5 percent in 2017, and further to 3.0 percent over the medium term.

4. **As a result of the fall in commodity exports, our international reserves have dropped below prudent levels.** Official international reserves have reached US$302 million as of end-March, compared with more than US$1 billion at the end of 2012. Adjusted international reserves—which exclude foreign currency swaps and reserve requirement on bank's foreign currency deposits—declined to about US$1.7 million.

5. **To fundamentally address the undue effects that commodity price volatility has on a pegged exchange rate and to avoid a recurrence of sharp declines in foreign reserves, the government has allowed more flexibility to the exchange rate.** We devalued the exchange rate by 21 percent on November 19, 2015, and, in early March, decided to allow the official exchange rate to be fully determined by demand and supply. To facilitate the transition to a floating exchange rate, the CBvS introduced a system of foreign currency auctions on March 22, as described in ¶19.

6. **Consumer prices have increased, reflecting pass-through from the weaker currency and utility tariff increases.** CPI (12-month) inflation rose to 37 percent in March, up from an average of 4 percent during 2013-15. Much of the inflation spike reflects the rise in utility charges associated with the government's reform of electricity and water tariffs, as well as the fall in the value of the currency. Owing to the largely one-off nature of these price increases, we expect that inflation will peak at 24 percent (end of period) in 2016, but return to single digits over the following two years.

7. **Without further decisive policy actions, Suriname would face severe balance of payment pressures, which could lead to economic and social disruptions.** The Government of Suriname has therefore embarked on a strong program of wide-ranging reforms that will stabilize the economy, rebuild international reserves and confidence, and set the stage for the recovery. The program rests on four pillars:

- Returning the public finances to a sustainable path.
- Rebuilding international reserves.
- Strengthening the monetary and exchange rate policy framework to promote domestic price stability and strengthen Suriname's resilience to external shocks.
- Enhance the business environment and medium-term growth through structural reforms.

8. **To help soften any negative impact of the macroeconomic adjustment on the poor, the program includes important measures to strengthen the social safety net.** The government is well aware that the poor are the most affected by the weakness in economic activity and the increase in the prices of basic goods. The government is therefore increasing spending on targeted social support programs to protect the most vulnerable.

B. Fiscal Policy

9. **Since August 2015, the Government of Suriname has embarked on a path of fiscal consolidation.** The government achieved a significant reduction in expenditure approvals and strengthened administrative controls to prevent expenditure commitments without corresponding ministerial budget funding. As a result, the budget deficit dropped from an annualized 12.5 percent of GDP during January-July to 3.5 percent of GDP during August-December.

10. **In parallel with this spending restraint, the government has made a concerted effort to clear domestic arrears accumulated in 2013–15.** Payments to resolve these arrears amounted to SRD 666 million (3.8 percent of GDP) in 2015. The government plans to resolve the remaining SRD 255 million in 2016. We also plan to work closely with the line ministries. The Ministry of Finance will utilize the new Integrated Financial Management and Information System (IFMIS) system to provide a faster and more transparent execution of purchase and procurement of government goods and services, thereby prevent the incidence of arrears (unpaid bills exceeding 90 days). We have identified external arrears that will be resolved promptly. In particular, we have contacted the Chinese authorities to inform them of our intention to resolve a US$17 million external arrear to the government of China, which dates back to loans made in the period of 1984–1994.

11. **Our fiscal consolidation plan for 2016-18 will arrest the rise in government debt and reduce the fiscal deficit from 8.8 percent of GDP in 2015 to 1.4 percent of GDP by 2018**. The fiscal reforms will set government debt as a share of GDP on a declining trajectory, following a peak

of about 46 percent in 2016. The targeted reduction in the primary deficit-to-GDP ratio is 3.0 percent in 2016, 2.7 percent in 2017, and 2.0 percent in 2018, respectively, which will result in a primary surplus of 0.3 percent of GDP by 2018. At the same time, to help soften any negative impact of the adjustment on the poor, we are committed to increasing spending on the social cash transfer programs administered by the Ministry of Social Affairs. The measures that drive this adjustment include the following:

- *Elimination of electricity subsidies.* The phased elimination of electricity subsidies, initiated in October 2015, will reduce the fiscal deficit by an estimated 1.1 percent of GDP in 2016 and an additional 1.3 percent of GDP in 2017, and make space for better targeted social spending. To achieve these savings, we raised electricity tariffs to cover 60 percent of the cost of electricity production on May 1, 2016 (prior action); to 90 percent of the cost of electricity production by September 1, 2016 (structural benchmark); and to 100 percent of the cost by January 1, 2017 (structural benchmark), which will result in the elimination of the subsidy. Thereafter, the Technical Electricity Commission will develop a new formula, with input from the Fund staff, to regularly adjust electricity tariffs in line with the cost formula (structural benchmark, January 31, 2017). To protect lower-income households from the impact of the tariff adjustment, the government has structured the electricity tariff in a progressive manner—with lower tariffs for smaller-quantity consumers.

- *Higher fuel taxes.* The government raised taxes on gasoline and diesel sales (the Solidarity tax) in September 2015, and will introduce a tax on kerosene in the supplementary budget. These fuel tax measures will together generate additional fiscal revenue of 0.9 percent of GDP in 2016.

- *Higher income taxes on insurance companies*. Profits of Suriname's insurance companies will be redefined to include the "reserve," which was previously exempted from income taxation. We estimate that this measure will raise 0.1 percent of GDP in additional revenue in 2016, after it is implemented in the second half the year, and an additional 0.1 percent of GDP in 2017.

- *Higher sales taxes.* The government has decided to increase sales tax rates by 2 percentage points for all the taxable goods and service categories, and to broaden the base in the service and luxury goods categories. These adjustments are estimated to raise government revenue by 0.1 percent of GDP in 2016 and by an additional 0.2 percent of GDP in 2017.

- *Income tax break*. To support the purchasing power of taxpayers in 2016, we have decided to increase the income tax break from the current level of SRD 50 to SRD 125 per month for all taxpayers. The direct impact will lower income tax revenue by 0.2 percent of GDP in 2016.

- *Other primary current expenditure restraint*. We will also maintain the growth in non-social primary current expenditure below the rate of inflation in 2016, which will result in saving of around 1 percent of GDP.

- *Supporting social and capital spending*. We are committed to increasing spending on the social programs administered by the Ministry of Social Affairs. The social programs provide financial assistance to lower-income households, the disabled, the elderly, and also include child allowances. Spending on such programs is expected to increase by about 0.2 percent of GDP by 2017. We have requested technical assistance from the Caribbean Development Bank (CDB) in the area of strengthening the social sector protection framework. We are also committed to raising capital spending to above 4 percent of GDP by 2018 following its decline to 2.5 percent of GDP in 2015. In this regard, setting up a procurement department and a submitting a Procurement Law to the National Assembly (¶13) will enhance the efficiency of capital spending.

- *VAT introduction*. To provide an efficient new source of non-mineral revenue, and to fundamentally shift the taxation regime from volatile income-based taxation to a more stable consumption-based taxation system, the Government of Suriname will introduce a Value Added Tax (VAT) on January 1, 2018 (structural benchmark). The VAT will replace the existing sales tax, and our policy objective is for it to generate a net revenue increase of 2.5 percent of GDP. VAT implementation by January 1, 2018 (structural benchmark) requires intensive preparations, which we are undertaking, supported by technical assistance from Caribbean Technical Assistance Center (CARTAC) and the Inter-American Development Bank (IDB). We have installed a Steering Committee to oversee the work. Key steps include finalizing a detailed, comprehensive, time-bound implementation plan for the VAT with clear accountabilities, and setting up and assigning staff to the Project Coordination Unit (structural benchmark, end-June, 2016); preparing a White Paper on the VAT policy objectives, and a draft VAT Law, with input from the Fund staff, and submitting them to stakeholders for review (end-August 2016); preparing detailed functional specifications for the VAT IT systems, including specifications for registration, filing (and e-filing), payment (and e-payment), stop-filing control, taxpayer current account, support to arrears collection, audit, and appeals (structural benchmark, end-December 2016); submitting the VAT Law to the National Assembly, and finalizing regulations, by end-September 2017 (structural benchmark).

- *Vehicle tax introduction*. This tax will be levied on each vehicle in Suriname in the second half of 2016, and will vary depending on the category of the vehicle. We estimate that the measure will raise 0.1 percent of GDP in revenues in 2016, and an additional 0.1 percent of GDP in 2017, when it is implemented on a full-year basis.

- *Wage bill restraint*. The 2016 budget, approved by Parliament on February 11, 2016, limits the public sector wage bill to 7.8 percent of GDP, compared with 8.7 percent of GDP in 2015, which was unsustainable and well above the average of the previous five years.

- *Contingency measures*. To ensure the attainment of our fiscal consolidation objectives, we stand ready to take additional fiscal measures. Such measures could include streamlining overlapping transfer programs to generate savings while achieving better targeting to protect the poor; and increasing indirect taxation, including by increasing the vehicle tax.

12. **The measures driving fiscal adjustment in 2016 will be reflected in the supplementary budget now under preparation.** To send a strong signal of commitment to the fiscal strategy and support the process of budget preparation, the Council of Ministers issued on April 28 a Decision

that highlights the macroeconomic assumptions and measures underpinning the 2016 supplementary budget (prior action). The supplementary budget will be submitted to the National Assembly by end-June 2016 (structural benchmark), and we will seek its approval before the first review of the program.

13. **To support the fiscal adjustment, the government will introduce reforms to strengthen the fiscal policy framework.**

- *Sovereign Wealth Fund (SWF) law:* To help improve revenue management through a stabilization of mineral revenue flowing to the government and provide the institutional basis for saving future surpluses from mineral revenues, we are drafting a SWF law, with input from the Fund staff, which we will submit to the National Assembly by end-June 2017 (structural benchmark).

- *Public Financial Management (PFM) law:* A new PFM law that will reflect best international practice will be presented to the National Assembly by end-June 2017 (structural benchmark). The new law will promote a credible fiscal strategy and improve the budget preparation process. Medium-term fiscal planning will be introduced based on realistic projections for revenue and financing. Budget implementation will be strengthened by the improved administrative, managerial, and control instruments provided by IFMIS, currently being implemented, while strengthening top-down budgeting.

- *Procurement department:* A procurement department will be established at the Ministry of Finance to monitor the procurement procedures of the central government to ensure cost-effectiveness and control. The process of strengthening the procurement process will include centralizing the publishing of tenders and contract awards, establishing an appropriate IT system, audits, and controls based on the IFMIS system currently being implemented. To support these efforts, we will submit Procurement Law to the National Assembly by end-June 2017 (structural benchmark). The goods and services that will be part of the procurement system will be quantified and qualified in a way to prevent delays in budget execution.

- *T-bill issuance through auctions.* The Ministry of Finance has started the issuance of T-bills through a market-based auction system on May 3, broadening the non-monetary sources of financing of the fiscal deficit. The yield realized at the auction has been reflective of market conditions with respect to the expected rate of inflation.

- *Treasury department:* With the assistance of the IDB, the Ministry of Finance will build a modern Treasury department to combine the treasury functions currently being carried out by various departments of the Ministry of Finance, as well as establish the needed data information flows and coordination with the Suriname Debt Management Office (SDMO) and the CBvS, to improve liquidity forecasting and debt management capacity by end-September 2016. The Treasury department will also help advance the work currently being carried out with regard to improving the efficiency of cash planning and payments. We will, in particular, assign the responsibility for cash management activities to a trained and dedicated Cash Management Unit (structural benchmark, end-September 2016).

- *Revenue administration*. To improve tax administration, the government will strengthen customs compliance and efficiency through investment in equipment and personnel. The government will also implement a property tax by January 2018, which will partly replace the wealth tax, and the recently established Steering Committee will take steps to improve the effectiveness of revenue administration.

Additional steps include identifying and containing fiscal risks associated with state-owned enterprises (SOEs) by identifying all SOEs, and publishing their financial reports where available, for 2014 and 2015 (structural benchmark, end-December 2016), and, to improve fiscal management, by continuing to install additional modules of IFMIS.

14. **We also plan to strengthen capacity at the Ministry of Finance in the areas of medium-term budget planning and economic affairs.** Based on technical assistance provided by the IMF staff and the IDB staff, including through the retention of long-term consultants, we will develop the analytical capacity of the macroeconomic unit (Financial Programming and Policies group) to carry out macroeconomic forecast and economic analysis needed for preparing multi-year budgets.

C. International Reserves

15. **The CBvS aims to rebuild international reserves to prudent levels over the course of the program**. In conjunction with the sound policies that are at the heart of our reform program, an adequate reserves cushion will be important to restore confidence in the dollar (SRD) and to preserve economic and financial stability. Our objective is to raise adjusted international reserves to about 4 months of imports by the end of the SBA, including by conducting foreign exchange purchases as needed.

16. **Program financing, together with fiscal adjustment and an expected improvement in the external current account, will allow Suriname to build up international reserves to adequate levels**. We expect a substantial reduction in the current account deficit from 15.6 percent of GDP in 2015 to near balance in 2017-18, on the back of a flexible exchange rate, fiscal consolidation, the projected expansion in mineral exports, and more favorable international prices for oil and gold.

- We project a balance of payments gap of about 13 percent of GDP in 2016 and about 5 percent of GDP in 2017.

- The CBvS is facing large upcoming sales of foreign exchange in May-December 2016, including (i) to the government to honor external debt payments (about US$85 million); (ii) to the government to cover contributions to capital expenses on the new gold mine (US$30 million); (iii) to SOEs and other companies for imports of fuel and other essential products (about US$70 million); (iv) to local banks to reverse the maturing currency swaps (US$57 million); and (v) to government units (about US$15 million).

- We expect that the proposed Fund disbursement under the SBA would be around US$478 million and that budget support provided by the other IFIs would total US$470 million during 2016-18. This should provide ample financing to close balance of payments gaps. We have agreed with the IDB staff and the World Bank staff that, conditional on satisfactory program implementation, each institution would provide US$100 million in budget support in 2016. We have agreed with the Caribbean Development Bank (CDB) staff that, conditional on satisfactory program implementation, the CDB would provide budget support of US$50 million in 2016. We expect a similar amount of budget support from the IDB and CDB in 2017, conditional on successful implementation of the programs supported by the Fund and other IFIs. We have also contracted an 18-month loan from international capital markets totaling US$86 million, which also contributed to filling in the balance of payments gaps.

- Based on these considerations, adjusted international reserves would increase to about US$290 million in 2016, to about US$650 million in 2017, and to about US$860 million in 2018. Our goal is to raise the level of adjusted international reserves—including through purchases of foreign exchange—to 4 months of imports by end-2018 and to maintain it broadly at this level thereafter.

- We expect that our adjustment program will help restore external stability, which we will aim to maintain by continued prudent policies, in the medium term.

D. Exchange Rate, Monetary, and Financial Sector Policies

17. **The overall policies of the CBvS are aimed at price stability as mandated by the Bank Act.** In this connection, from a monetary policy perspective, we have designed a path towards reaching sustainable stability based on the introduction of indirect instruments such as open market operations. We consider liquidity management as crucial in this regard, while another key element is the development of financial markets. Given the current state of our financial system, it is fair to argue that we are at the very beginning. The CBvS is confident that with a determined, gradual, and well-balanced approach, significant progress will be made in a relatively short period. In this connection, the CBvS will introduce monetary targets to anchor inflation expectations, consistent with the program. In addition, given Suriname’s substantial exposure to large commodity export price shocks, the government decided to move to a flexible exchange rate, which will facilitate Suriname’s adjustment to the current and to future external shocks.

Exchange Rate Policy

18. **Currently, the CBvS’s focus is on supporting the development of the foreign currency market so that, through the operation of the forces of demand and supply, the exchange rate reaches equilibrium.** We believe that greater involvement of commercial banks in this process is crucial, given their role in financing international trade and in settling local and international payments.

19. **To facilitate the transition to a market-determined exchange rate, the CBvS introduced foreign currency auctions on March 22 2016, following intensive preparations and consultations.** The main purpose of the foreign currency auctions is to find the market rate at which suppliers as well as buyers of foreign currency are willing to do business with each other, and to facilitate the development of foreign exchange market. After the first auction, on March 22, in which the CBvS sold US$10 million, the official exchange rate determined in the auction depreciated by 27 percent, with the spread between the official and parallel market rates narrowing to about 5 percent.

20. **To enhance the effectiveness of the auctions, the CBvS increased the frequency of the auctions and decreased the amounts sold per auction.** The CBvS also updated the auction regulations to allow banks to bid on their own behalf. To ensure a transparent unification of the exchange rate, the government has refrained from short-term measures to influence the parallel market rate. The CBvS sold US$0.5-1.0 million per auction, a number of times per week since the auctions held on April 12. The CBvS will ensure that NIR targets (Table 1) are met by additional purchases of foreign exchange if necessary. The CBvS has, after each auction, published the amount sold, the cut-off price, and the weighted average rate of successful bids.

21. **On May 10, to complete the move to a floating exchange rate, the CBvS authorized commercial banks and foreign exchange bureaus to freely determine exchange rates (prior action).** Bid and ask exchange rates are now determined by banks and foreign exchange bureaus (cambios) directly with their customers. We expect that this step will allow banks to compete more effectively in the foreign exchange market, leading to a rise in the volume of foreign currency transactions handled by them. The move has led to a significant narrowing in the spread between commercial exchange rates and the parallel market rate. In time, this will also allow state-owned enterprises to buy foreign currency directly from commercial banks. The official (indicative) exchange rate used for CBvS foreign currency transactions with government or official bodies is now set, on a daily basis, to equal the weighted average of commercial buy and sell spot rates (prior action).

22. **The CBvS is also planning steps to support the commercial banks' capacity to trade among themselves.** We are working with market participants to set up a pricing infrastructure (electronic trading platform) to boost transparency, which will also facilitate the CBvS's participation as both buyer and seller in the foreign exchange market. To further support the development and deepening of the foreign currency market, we will monitor and strengthen compliance of the 60-day repatriation requirement on exporters.

23. **Over the coming weeks, as the market settles, the role of the CBvS in the market will be limited to smoothing out large fluctuations.** To strengthen its international reserves, the CBvS will then also intervene in the market to acquire foreign exchange at market rates. In doing so, the CBvS will work with the market on the timing, modality, and volumes so that there are no surprises. At that stage, the exchange rate will be determined by demand and supply in the interbank foreign exchange market. We have explained this plan to the public in a press release published on April 4 (prior action).

Monetary Policy

24. **The CBvS is carrying out a number of institutional and operational reforms to ensure a successful transition to greater exchange rate flexibility.** We are developing a nominal anchor to replace the exchange rate, and monetary policy operations to support that anchor. Under the program, in 2016, we are targeting reserve money growth of about 3 percent, which will result in a significant decline in the reserve money-to-GDP ratio. This tightening is necessary to stabilize inflation expectations. To carry out the required policy tightening, we have set NDA as our operational target. The CBvS will meet these targets by conducting open market operations (OMOs), including using T-bill and deposit auctions. Lending facilities (14 days lending facility and overnight standing facility) will be used to fine tune liquidity conditions. Critical for controlling liquidity is stopping CBvS financing of the budget deficit. To this end, the Ministry of Finance and the CBvS have signed a Memorandum of Understanding (Attachment III), which terminates the extension of any further credit to the government (prior action). The government will also revise the Central Bank Act to strengthen its operational independence, including by prohibiting any monetary financing by end-December 2016 (structural benchmark). We have strengthened our liquidity monitoring and forecasting to allow a better management of banks' reserves, an essential step to carry out OMOs and meet monetary targets (structural benchmark, June 30, 2016). The CBvS will coordinate closely with the Ministry of Finance to forecast liquidity.

25. **The CBvS is ready to tighten the monetary policy stance to ensure price stability.** We will work toward a significant reduction of reserve money growth in 2016 to curb the excessive expansion in liquidity in recent years and contain spillover effects of reform and adjustment measures. Reflecting the tightening in monetary policy, inflation is expected to decline to single digits during the program, and to stabilize at 4 percent over the medium term. We will ensure that the cost of monetary policy operations is covered by the government, starting with the 2016 supplementary budget. The CBvS's capital position has substantially weakened. In this context, based on technical assistance from the Fund, we will prepare a strategic plan of the CBvS's financial position, for review and ongoing monitoring by the Supervisory Board, which will aim to strengthen the CBvS balance sheet to protect the financial autonomy of the CBvS (structural benchmark, end-December 2016).

26. **We have accelerated the calendar for developing our monetary policy toolkit, building on Fund technical assistance.** The policy instruments at our disposal for tightening the monetary policy stance include the following:

- *Conducting T-bill sales*. We rolled out T-bill auctions by the Ministry of Finance on May 3, and the CBvS is almost ready to start conducting open market operations. To further support the CBvS's portfolio of T-bills, the government will convert part of a 30-year loan from the CBvS (SRD2.5 billion with a fixed rate of 3.5 percent) into tradable Treasury bills to provide the CBvS a means to carry out OMOs by end-June 2016. T-bill sales will also be used by the government to finance its budget, including the planned payments of remaining domestic arrears in 2016.

- *Conducting deposit auctions*. We are planning to conduct deposit auctions to control liquidity in the short term until T-bills are fully available for OMOs (structural benchmark, end-June 2016).

- *Raising reserve requirements*. We have already raised required reserve ratios on local and foreign currency deposits to high levels—35 and 50 percent, respectively—but are ready to tighten liquidity in the system further if necessary after taking into account the liquidity draining effect of the foreign exchange auctions, and the implications for banking sector stability.

- *Streamlining liquidity management policies.* The CBvS will significantly tighten the existing framework and phase out the extended liquidity support to commercial banks in the current format. The CBvS will introduce a 14 days lending facility and an overnight standing facility, which will replace the existing longer-term liquidity facility, by end-June 2016 (structural benchmark).

Financial Sector

27. **The CBvS will continue to monitor the impact of exchange rate realignment on the economy and the financial sector**. Widespread dollarization (53 percent of bank deposits and 34 percent of credit) and the fixed exchange rate may have created currency mismatches and exposures to exchange rate fluctuations, raising the risk of balance sheet losses, with repercussions for the banking sector. To better monitor these risks, the CBvS has set up a Financial Stability Department. We also intend to bring the banking resolution and contingency planning framework up to international standards and for which we will request Fund technical assistance.

28. **We have taken a number of decisive steps to strengthen banking supervision and to address vulnerabilities in banks' balance sheets, and plan to continue this process.** Banks' net open foreign exchange positions have deteriorated in recent months, making them more vulnerable to depreciation. To strengthen central bank legislation, we have upgraded the regulatory and macro-prudential framework by introducing new regulations on capital adequacy, asset classification and provisioning, corporate governance, internal audit, foreign exchange risk, liquidity risk, interest rate risk, large exposures, and open foreign currency positions, in line with the recommendations of the 2014 FSAP. Going forward, we will strengthen the toolkit in bank resolution and supervision and closely monitor banks' liquidity and the evolution of non-performing loans, and will increase their provisioning levels as necessary. Finally, the CBvS will unwind foreign currency swaps with local banks worth about US$110 million as these swaps mature. Fully unwinding swaps with banks will help to address financial stability concerns and aid with monetary tightening.

29. **The government fully recognizes the importance of increasing the transparency and accountability of the central bank.** In that regard, we have published the 2014 audited financial statements and related audit opinion (prior action).

E. Structural Reforms

30. **The Government of Suriname is determined to improve the business environment and promote medium-term growth, based on the advice and technical assistance of both the Fund and other multilateral financial institutions.**

31. **The government plans to implement initiatives to promote the economy's diversification and to attract FDI**. Of particular importance is the agricultural sector, which accounts for 10 percent of total export earnings, second to mining, and 17 percent of the labor force. To improve the performance of Suriname's agricultural sector, its productivity and competitiveness need to be increased, and its access to new international markets expanded. To address these issues, we will improve the provision of the related public services, such as those related to plant health, animal health, and fishery sustainable management. To attract FDI, we plan to update the institutional and legal framework laying out investor protections and guarantees for investment and eliminating exchange restrictions regarding investment income transfers and controls related to FDI flows. In this context, the government is working with the World Bank to update the investment policy framework, which will pave the way for submitting to the National Assembly a new Investment Law by end-2017 (structural benchmark), and we will submit a Foreign Exchange Law to the National Assembly by end-June 2017 (structural benchmark). We are also engaged with the IDB in preparing structural reforms to transition to a new economic model, with a diversified product basket and a less vulnerable economic base to foster greater participation of Suriname's private sector in economic activity and the growth of Small and Medium Enterprises (SMEs). The Islamic Development Bank (IsDB), who has been our partner for years, amongst others with projects for the development of modern ports and in the health sector, is currently broadening its project support to the rice sector. The Caribbean Development Bank (CDB) will co-finance with IsDB the operations in the health sector and will provide support to technical vocational education and to small and medium-sized businesses.

32. **To support businesses and entrepreneurs, we are taking steps to accelerate the process of starting a company, to strengthen the enforcement of contracts, to protect investors, to facilitate the registration of property, to trade across borders, and to expand access to finance.** Our planned reforms include legislation we will submit to the National Assembly on competition policy, limited liability company formation, electronic gazettes to reduce company startup costs, intellectual property, consumer protection, electronic transactions (structural benchmark, June 2017), and establishing a secured transactions framework. We also plan procedural reforms to streamline cross-border trade.

33. **Moreover, the Government of Suriname is carefully reviewing the AML/CFT framework to address remaining deficiencies.** The Caribbean Financial Action Task Force (CFATF) noted favorably in its November 2015 Plenary the amended AML/CFT regulations issued by the CBvS to address recommendations regarding internal controls, regulation, and wire transfers. The CFATF found some remaining deficiencies in the AML/CFT legal framework and made a number of recommendations, in particular: (i) the Council of Ministers approving a State Decree giving effect to

the International Sanctions Act provisions on freezing of terrorist assets, in line with FATF R.6; (ii) submitting a Law ensuring the enforcement of foreign final court sentences to the National Assembly, in line with FATF R.36; and (iii) amending the Financial Intelligence Unit (MOT) Act to enable the CBvS to adequately share information with relevant competent authorities, in line with FATF R.9, and to enable the MOT to request further information in response to requests from foreign financial intelligence units, in line with FATF R.40. These amendments have been enacted by the National Assembly and entered into force on March 3, 2016. Once accepted by the CFATF Plenary meeting in May 2016, we believe that we will have made sufficient progress to apply for exiting the follow-up process in November 2016. The Ninth Follow-Up Report will be discussed at the next CFATF Plenary in May 2016.

F. Statistics

34. **The government is committed to improving the quality and dissemination of economic data, supported by Fund technical assistance.** We have made important improvements to the quality and timeliness of monetary, financial, and balance of payments statistics. The government recognizes that timeliness of data availability remains an issue, and the need for data quality improvements for GDP, CPI, and labor statistics, and is resolving these issues. We are committed to publishing social indicators to support social policy design for inclusive growth, including the most recent household survey. We have started the work on converting fiscal statistics into the 2001 GFSM format with the help of the new IT system. The government is improving the recording of domestic arrears accumulation. In addition, we will work towards broadening the institutional coverage of fiscal statistics to the nonfinancial public sector so as to better assess fiscal risks. Moreover, to ensure program data reliability, and for calibrating any needed policy adjustments, we will ensure that an internationally reputable external audit firm with experience in auditing central banks provides assurances on Fund-supported program reporting through an objective review of the compilation of monetary program data (NIR, NDA and gross credit to government) in compliance with International Standards on Auditing (ISA) and for compliance with the TMU (benchmark, no later than 60 days after each test date).

35. **Program implementation will be monitored through prior actions, reviews, quantitative and continuous performance criteria, indicative targets, and structural benchmarks**. These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding (TMU). Quantitative performance criteria and indicative targets have been set for end-June, end-September and end-December 2016, and end-March 2017. The first review is scheduled to take place in September 2016 with the following reviews scheduled to be completed on a quarterly basis.

Table 1. Suriname: Quantitative Performance Criteria and Indicative Targets under the SBA, 2016-2017 1/

(In millions of Suriname dollars, unless otherwise indicated)

	2016	2016			2017
	end Mar.	end Jun.	end Sep.	end Dec.	end Mar.
	actual stock	PC	PC	PC	PC
Quantitative Performance Criteria					
Fiscal targets					
1. Primary cash balance of central government (floor) 2/		-603	-940	-1,265	-100
2. Gross credit to the central government by the central bank (ceiling) 3/	2,511	0	0	0	0
3. Non-accumulation of external arrears (continuous QPC)		0	0	0	0
Monetary targets					
4. Net international reserves of the central bank (floor) 4/	0.0	-9.6	30	83	133
5. Net domestic assets of the central bank (ceiling) 3/	2,264	-55	-154	-213	-798
Indicative target					
6. Non-accumulation of domestic arrears (continuous IT)		0	0	0	0
7. Social Spending (floor) 2/		422	633	844	245
8. Non-mineral revenues (floor) 2/		1,758	3,027	4,194	794
9. Net increase in central government guaranteed debt (ceiling) 3/		0	0	0	0
Memorandum items					
Mineral revenues 2/		238	345	493	234
Reserve money 3/	2,633	-96	-66	-53	53
Gross international reserves (millions of U.S. dollar)	302	372	461	538	617
Adjusted international reserves (millions of U.S. dollar) 5/	1.7	73	175	291	341
Program exchange rate	5.064	5.064	5.064	5.064	5.064

1/ Targets as defined in the Technical Memorandum of Understanding.

2/ Cumulative flows from begining of the year.

3/ Cumulative flows from end-March 2016.

4/ Cumulative change from end-March 2016, in US$ millions.

5/ Official reserve assets excluding foreign currency swaps and reserve requirements on banks' foreign currency deposits.

Table 2. Suriname: Prior Actions and Structural Program Conditionality

Measures	Status/Timing		Macro-criticality
Prior Actions	**Timing**	**Implementation**	
1. The CBvS and Ministry of Finance sign a Memorandum of Understanding, with input from the Fund staff, which terminates the extension of any further credit to the government.		Met	Critical for strengthening central bank independence and reducing the risk of fiscal dominance.
2. The Council of Ministers issues Decision announcing that the 2016 supplementary budget will be based on the Fund-supported program's macroeconomic assumptions and measures.		Met	Demonstrates the government's ownership of the Fund-supported program's goals, and its commitment to implementation of its measures.
3. Electricity tariffs rise to cover 60 percent of the production cost.	Before the Board approval of the SBA arrangement	Met	A central part of the authorities' fiscal consolidation strategy, with a significant fiscal impact.
4. The CBvS publishes the 2014 audited financial statements and audit opinion.		Met	Publication of audited financial statements is a cornerstone of transparency and accountability.
5. The CBvS authorizes commercial banks to determine foreign exchange rates, and sets the daily official (indicative) exchange rate to equal the weighted average of commercial market rates.		Met	Underpins the transition to a floating exchange rate, which facilitates the economy's adjustment to the fall in commodity export prices.
Structural Benchmarks			
Fiscal sector			
1. Develop a detailed, comprehensive, time-bound implementation plan for the VAT with clear accountabilities; and establish and assign staff to the Project Coordination Unit.	June 30, 2016		Necessary to ensure on-time VAT introduction, which will provide a new source of non-mineral tax revenue.
2. Submit a supplementary 2016 budget based on the Fund-supported program's macroeconomic assumptions and measures to the National Assembly.	June 30, 2016		Strengthens the credibility of the Fund-supported program's deficit reduction strategy.
3. Prepare a VAT Policy and Administration White Paper and a draft VAT Law, with input from the Fund staff, and submit them to stakeholders for review.	August 31, 2016		Essential for fostering understanding and support for the VAT among key stakeholders.
4. Reorganize the Treasury Department to assign the responsibility for cash management activities to a trained and dedicated Cash Management Unit.	September 30, 2016		Essential for improving cash planning and avoiding arrears.
5. Electricity tariffs rise to cover 90 percent of the production cost.	September 1, 2016		A central part of the authorities' fiscal consolidation strategy, with a significant fiscal impact.
6. Prepare detailed functional specifications for the VAT IT systems (MEFP ¶11).	December 31, 2016		Critical to ensure the successful implementation and subsequent administration of the VAT.
7. Identify all SOEs, and publish their financial reports, where available, for 2014 and 2015.	December 31, 2016		Critical for identifying and contain fiscal risks from SOEs.
8. Electricity tariffs rise to cover 100 percent of the production cost, and the Technical Electricity Commission develops a new formula, with input from the Fund staff, to regularly adjust electricity	January 31, 2017		A central part of the authorities' fiscal consolidation strategy, with a significant fiscal impact.
9. Submit to the National Assembly a new procurement law, with input from the Fund staff.	June 30, 2017		Central for improving PFM and the quality of public spending.
10. Submit to the National Assembly a draft Sovereign Wealth Fund law, with input from the Fund staff.	June 30, 2017		Contributes to long-term fiscal sustainability and limits the volatility of government income from the mineral sector.
11. Present to the National Assembly a comprehensive Public Financial Management law, with input from the Fund staff.	June 30, 2017		Critical for improving the budget process and for addressing other PFM shortcomings.
12. Submit to the National Assembly the VAT law and finalize regulations for the introduction of the VAT, with input from the Fund staff.	September 30, 2017		Necessary to ensure on-time VAT introduction, which will provide a new source of non-mineral tax revenue.
13. Implement the VAT.	January 1, 2018		Will provide a new source of non-mineral tax revenue.

Table 2. Suriname: Structural Program Conditionality (Concluded)

Measures	Status/Timing: Timing	Status/Timing: Implementation	Macro-criticality
Structural benchmarks	**Timing**	**Implementation**	
Monetary and financial sector			
1. An internationally reputable external audit firm with experience in auditing central banks provides assurances on Fund-supported program reporting through a review of the compilation of monetary program data (NIR, NDA, and net credit to government) for compliance with the TMU.	No later than 60 days after each test date		Critical for ensuring Fund-supported program data reliability, and for calibrating any needed policy adjustments.
2. Review the AML/CFT legal framework to address deficiencies against the FATF standard. In particular: (i) The Council of Ministers approves a State Decree giving effect to the International Sanctions Act provisions on freezing of terrorist assets, in line with FATF R.6; (ii) a Law ensuring the enforcement of foreign final court sentences is submitted to the National Assembly, in line with FATF R.36; and (iii) the MOT Act [1] is amended to enable the CBvS to adequately share information with relevant competent authorities, in line with FATF R.9, and to enable the MOT to request further information in response to requests from foreign financial intelligence units, in line with FATF R.40.	May 31, 2016		Important to reduce the risk that AML/CFT issues destabilize the financial system, and, consequently, fiscal and macroeconomic performance.
3. Establish a liquidity monitoring and forecasting system based on CBvS and Ministry of Finance liquidity data.	June 30, 2016		Strengthening liquidity management is a key step to facilitate the operation of monetary policy.
4. Establish CBvS overnight standing facilities, and conduct deposit auctions and T-Bill auctions.	June 30, 2016		Critical for managing liquidity and for conducting open market operations.
5. Prepare a strategic plan of the CBvS's financial position, with input from the Fund staff, for review and ongoing monitoring by the Supervisory Board. The plan aims at strengthening the balance sheet to protect the financial autonomy of the CBvS.	December 31, 2016		Strengthening the CBvS's balance sheet would protect its independence and its ability to conduct monetary policy.
6. Submit to the National Assembly a revised Central Bank Act, with input from the Fund staff, that strengthens provisions on autonomy, governance, accountability and transparency, and regulates and limits the extension of credit to the government.	December 31, 2016		Critical for strengthening central bank independence and reducing the risk of fiscal dominance.
Real sector			
1. Present to the National Assembly draft law on competition policy, limited liability company formation, electronic gazettes, intellectual property, consumer protection, and electronic transactions.	June 30, 2017		Critical for attracting FDI, for diversifying the economy, and for increasing the economy's resilience to external shocks.
2. Submit to the National Assembly a new Investment Law.	June 30, 2017		
3. Submit to the National Assembly a revised Foreign Exchange Law.	June 30, 2017		

1 MOT stands for Meldpunt Ongebruikelijke Transacties (Financial Intelligence Unit).

II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Surinamese authorities and the IMF staff regarding the definition of quantitative performance criteria (QPC) and indicative targets (IT). It also sets out the QPC and IT adjusters, and data reporting requirements for the duration of the Stand-By-Arrangement (SBA), as described in the authorities' Letter of Intent (LOI) dated May 5, 2016, and the attached Memorandum of Economic and Financial Policies (MEFP). The TMU also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in the LOI/MEFP, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

The QPC and IT are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP.

For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program accounting exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. Unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Central Bank of Suriname (CBvS) will be valued at the official exchange rate of the Surinamese dollar to the U.S. dollar of 5.064 set by the CBvS as of March 31, 2016. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the following cross-rates as of March 31, 2016: the Euro valued at 1.132306 U.S. dollars, Pound Sterling valued at 1.440956 U.S. dollars, the Chinese Yuan valued at 0.154423 U.S. dollars, the Special Drawing Right (SDR) valued at 1.408820 U.S. dollars. Official gold holdings were valued at 1,236.25 U.S. dollars per fine ounce.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Definitions: The central government (CG), for the purposes of the program, consists of the set of institutions and government units currently covered under the state budget.

The fiscal year is the calendar year, starting on January 1 and ending on December 31.

A. Cumulative Floor of the Central Government Primary Cash Balance

Definitions: The primary cash balance of the CG is calculated as CG interest payments minus total net borrowing requirements. Net borrowing requirements (NBR) are measured at official (current) exchange rates and are defined as the sum of:

i. Net CBvS credit to the CG, including changes in the government deposit position at the CBvS;

ii. Net credit from other depository corporations and other financial corporations, which includes changes in CG deposits and the net issuance of treasury bills, lending, and other CG securities to commercial banks;

iii. Net non-bank credit to the CG, which includes net issuance of Treasury bills and other CG securities to non-banks, and other CG claims and debts vis-à-vis nonbank institutions;

iv. New external loan disbursements net of external loan amortization (excluding the IMF);

v. Net payments of domestic and external arrears; and

vi. Privatization receipts received during the relevant period.

Definition: Mineral revenue is defined as the government's tax and non-tax proceeds from state-oil company Staatsolie Suriname and from gold companies. This includes corporate tax, wage tax (including old age fund contributions), dividend tax, indirect taxes, dividends, royalties and others. Royalties from small scale gold mining are also included in mineral revenue (Table 1).

The QPC for the fiscal balance is calculated based on the projected exchange rate. Reporting and adjustments, as defined below, will be made using current exchange rates.

Table 1. Suriname: Mineral Revenues

	(Millions of SRD)
Cumulative flows from the beginning of the fiscal year	
End June 2016	238.4
End September 2016	345.1
End December 2016	492.9
End March 2017	233.6

Reporting: Data will be provided to the Fund with a lag of no more than six weeks after the end of the month.

Adjusters: The floor on the cumulative primary cash balance of the CG will be adjusted downward (upward) to the full extent that project loans are more (less) than project loans given in Table 3. With the objective of shielding fiscal objectives from uncertainties regarding mineral prices and output, the floor of the primary balance will be adjusted upward (downward) to the full extent of any rise (fall) in mineral revenue above (below) the baseline projections in a given quarter.

B. Ceiling on Gross Credit to the Government by the Central Bank

Definitions: A ceiling applies on the change in gross credit to the CG by the CBvS measured from end-March.

Reporting: Data will be provided to the Fund with a lag of no more than two weeks after the end of the month. At each program test date, the quarterly data on gross credit to the government submitted by the CBvS to the IMF will be audited by the CBvS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports should be submitted to the CBvS, with a copy to the IMF, no later than 60 days after each test date.

C. Ceiling on Non-Accumulation of External Arrears

Definition: The non-accumulation of arrears by the CG to external creditors will be a continuous performance criterion throughout the program period. External payments arrears for program monitoring purposes are defined as payments (by the CG), which have not been made within 30 days after falling due. Arrears resulting from the nonpayment of debt service, for which a rescheduling agreement is sought, based on good faith negotiations, are excluded from this definition.

The stock of external arrears of the CG will be calculated based on the schedule of external payment obligations reported by the Ministry of Finance (MoF). Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

Reporting: The MoF will provide the final data on the stock of external arrears of the CG to the IMF, with a lag of not more than two weeks after the end of the month.

D. Floor on Cumulative Change in CBvS Net International Reserves

Definitions: For program monitoring purposes, net international reserves (NIR) of the CBvS are defined as the U.S. dollar value of the difference between foreign reserve assets of the CBvS and its foreign reserve liabilities, as defined in what follows.

- Reserve assets of the CBvS are readily available claims on nonresidents denominated in foreign convertible currencies. They include foreign exchange (foreign currency cash, deposits with foreign correspondents, holdings of foreign securities), monetary gold, IMF reserve position, SDR holdings, and IMF SBA disbursements. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts), CBvS claims on resident banks and nonbanks, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, illiquid swaps, and any reserve assets that are not readily available for intervention in the foreign exchange market.

- Reserve liabilities of the CBvS are defined as all short-term foreign liabilities of the CBvS vis-à-vis nonresidents denominated in convertible foreign currencies with an original maturity of one year or less; the stock of IMF SBA disbursements outstanding; the nominal value of all derivative positions (including swaps, options, forwards, and futures) of the CBvS and CG, implying the sale of foreign currency or other reserve assets; and all foreign exchange liabilities of the CBvS to resident entities (e.g., claims in foreign exchange of domestic banks, reserve requirements of domestic banks on their foreign currency deposits, and CBvS credits in foreign exchange from the domestic market) excluding foreign exchange liabilities to the CG.

- The stock of foreign assets and liabilities of the CBvS shall be valued at fair value and converted at program exchange rates. As of March 31, 2016, the stock of NIR amounted to US$0.0 million (at the program exchange rates).

Reporting: Data on foreign reserves and the foreign exchange cash flow of the CBvS will be provided by the CBvS to the Fund twice a week. Data on the statistics indicated in Table 2 will be provided to the Fund on a monthly basis, in both official and program exchange rates, with a lag of no more than two weeks after the end of the month. At each program test date, the quarterly data on net international reserves submitted by the CBvS to the IMF will be audited by the CBvS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports from the external auditors should be submitted to the CBvS, with a copy to the IMF, no later than 60 days after each test date.

Table 2. Suriname: International Reserves for Program Monitoring Purposes

(US$ million, unless otherwise specified)

	31-Mar-16
Reserve assets	**147.3**
IMF reserve position	13.0
IMF SDR	50.8
Monetary gold	53.2
Foreign currency cash and deposits with foreign banks	30.3
Reserve liabilities	**147.3**
Domestic banks' currency swaps	115.0
Reserve requirements on foreign currency deposits	30.6
Other liabilities	1.7
Net international reserves	**0.0**

Source: Central Bank of Suriname and Fund staff calculations.

Table 3. Suriname: External Program Disbursements (Baseline Projection)

Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilaterals for budget support	
End-June 2016	70
End-September 2016	170
End-December 2016	250
End-March 2017	38
External loans from international capital markets	
End-June 2016	86
End-September 2016	0
End-December 2016	0
End-March 2017	0
External loans for project financing	
End-June 2016	24
End-September 2016	58
End-December 2016	95
End-March 2017	32
External loans from official bilateral creditors for budget support	
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0

Adjusters: NIR targets will be adjusted upward (downward) by the full amount of the cumulative surplus (shortfall) in program loan disbursements from multilateral institutions (such as the CDB, IDB, and WB) relative to the baseline projections reported in Table 3. Program loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the CG. NIR targets will be adjusted upward by the full amount of the cumulative surplus in loans from official bilateral and private creditors (including international capital markets) relative to the baseline projections reported in Table 3. NIR targets will be adjusted upward (downward) to the full extent (by 50 percent) of any rise (fall) in mineral revenue above (below) the baseline projections in a given quarter.

E. Ceiling on Net Domestic Assets of the Central Bank of Suriname

Definitions: The CBvS's net domestic assets (NDA) are defined as the difference between reserve money (as defined below) and net foreign assets (NFA, as defined below). Items in foreign currencies will be valued at program exchange rates. Thus defined, the stock of NDA amounted to SRD 2,263.6 million as of March 31, 2016 (Table 4).

- Reserve money at program exchange rates is defined as currency in circulation, commercial banks' deposits in correspondent accounts at the CBvS, and statutory cash reserve requirements against prescribed liabilities in SRDs and foreign currency held by commercial banks at the CBvS, other deposits in national and foreign currency, other demand deposits in national and foreign currency, and gold certificates (Table 4).

The value of NFA at program exchange rates of the CBvS is calculated as the difference between the CBvS's claims on nonresidents and its liabilities to nonresidents. Thus defined, NFA amounted to US$ 73.0 million as of March 31, 2016 (Table 4).

Reporting: Data will be provided to the IMF with a lag of no more than two weeks after the end of the month. At each program test date, the quarterly data on net domestic assets submitted by the CBvS to the IMF will be audited by the CBvS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports should be submitted to the CBvS, with a copy to the IMF, no later than 60 days after each test date.

Adjusters: Consistent with the NIR target adjustment mechanism defined above, NDA targets will be adjusted downward (upward) by the full amount of the cumulative surplus (shortfall) in program loan disbursements from multilateral institutions (such as the CDB, IDB, and WB) relative to the baseline projections reported in Table 3. NDA targets will be adjusted downward by the full amount of the cumulative surplus in loans from official bilateral and private creditors (including international capital markets) relative to the baseline projections reported in Table 3. For the purposes of calculating adjusters, these flows will be valued at program exchange rates.

Table 4. Suriname: NFA, NDA, and Reserve Money

(SRD millions)

	March 31, 2016
Net foreign assets	369.5
Foreign assets	1529.3
Foreign liabilities	-1159.8
Net domestic assets	2263.6
Net claims on the government	2384.4
Claim on the government in local currency	2511.4
Liabilities of th government in local currency	205.0
Claim on the government in foreign currency	0.0
Liabilities of government in foreign currency	-332.0
Net claims on commercial banks	115.2
Claim on commercial banks in local currency	113.1
Liabilities of commercial banks in local currency	0.0
Claims on commercial banks in foreign currency	2.1
Liabilities of commercial banks in foreign currency	0.0
Other items net	-236.0
Reserve money	2633.1
Reserve money in local currency	2446.3
Reserve money in foreign currency	161.7
Gold certificate	25.1
Memorandum item	
Program exchange rate	5.064

OTHER CONTINUOUS PERFORMANCE CRITERIA

During the period of the Stand-By Arrangement, Suriname will not (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payments reasons.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Ceiling on Net Increase in Central Government Guaranteed Debt

Definitions: The ceiling on net increase on CG guaranteed debt will apply to the amount of guarantees issued by the CG. The official exchange rate will apply to all non-SRD denominated debt.

The cumulative net increase in CG guaranteed debt will be monitored on a continuous basis.

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

B. Ceiling on Central Government Accumulation of Domestic Arrears

Definitions: Domestic arrears are defined as payments to residents determined by contractual obligations of the CG that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. CG domestic arrears include arrears on domestic CG direct debt, including to suppliers, and all recurrent and capital expenditure commitments.

The ceiling on CG accumulation of domestic arrears will be monitored on a continuous basis.

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

C. Floor on Central Government Social Spending

Definition: Social spending includes all the spending of the Ministry of Social Affairs and Public Housing (Ministerie van Sociale Zaken en Volkshuisvesting) on social protection programs as articulated in the CG budget for a particular fiscal year. These programs are funded by government resources only, and include conditional cash transfers.

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

D. Cumulative Floor on Central Government Non-Mineral Revenue

Definition: The program will have a floor on CG non-mineral revenue. Non-mineral revenue refers to revenue from tax and non-tax collection and excludes all revenue from asset sales, grants, and mineral revenue. The revenue target is calculated as the cumulative flow from the beginning of the fiscal year (January 1).

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

VALIDATION OF PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

Prior Action and Structural Benchmark on Elimination of Electricity Subsidies

By end-January 2017, the government will establish by administrative ordinance a Technical Electricity Commission (TEC). The commission will review calculations of the electricity company (EBS) cost recovery under the cost-recovery formula, will review and approve the (at least) quarterly adjustments in electricity tariffs, and review the EBS report on progress on its efficiency and investment program, including cost comparisons with peers. The TEC will post on the EBS website the calculations of the EBS cost-recovery formula, the revised average electricity tariff, the revised tariff structure, and the EBS report on its progress on its efficiency and investment program.

Electricity tariffs will be raised on May 1 2016 to cover 60 percent of the cost of electricity production (prior action). Electricity tariffs will be further raised to cover 90 percent of the cost of electricity production on September 1, 2016 (structural benchmark). The cost calculation will be based on the latest actual monthly EBS data, and only updated to take account of the most recent official exchange rate and the latest oil forecasted price from *World Economic Outlook*. Electricity tariffs will be further raised to cover 100 percent of the cost of electricity production on January 1, 2017 (structural benchmark). The cost calculation will be based on the latest actual monthly EBS data, and updated with the most recent official exchange rate and the latest oil forecasted price from *World Economic Outlook*. Beginning in April 2017, average tariffs will be updated on an (at least) quarterly basis according to the cost-recovery formula, reviewed jointly by EBS and the TEC.

Validation: For the adjustments in electricity tariffs on May 1, 2016, September 1, 2016, and January 1, 2017, the authorities will share with the Fund staff the calculations of the EBS cost formula, the revised average electricity tariff, and the revised tariff structure. The average electricity tariff will be calculated by dividing the total billing to all EBS electricity customers (excluding Rosebel) by the total electricity consumption (excluding Rosebel) for the month for which the tariff calculation is made.

Validation of the benchmark will be done by comparing the average electricity tariff with the benchmark.

Structural Benchmark on VAT Implementation

By January 1, 2018, the authorities will introduce a Value Added Tax (VAT).

Validation: Implementation of the VAT is defined as the VAT being effective as of January 1, 2018, and this will be monitored based on verifying that the following actions having been taken: (i) the VAT Law has been approved by the National Assembly; (ii) the supporting regulations to the VAT Law have been published; (iii) the projected number of registrants has been registered to charge the VAT; (iv) the refund, business, and export systems have been established; and (v) an institutional framework has been established to administer the VAT.

Information Requirements

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information:

Daily/Semi-weekly

- Official foreign reserve assets' composition and foreign exchange cash flow of the CBvS.
- Official and parallel nominal exchange rates.
- Volumes of foreign exchange transactions (purchases and sales) by banks and cambios.

Weekly

- Deposits and liquidity assistance to institutions, by institution.
- CBvS purchases and sales of foreign currency.
- Amounts offered, demanded and placed in CBvS open market operations, including rates on offer for each tenor.
- CBvS' balance sheet.

Monthly

- CG operations (revenues and expenditure) data in GFS format within six weeks of the end of the month.

- CG detailed revenues data from the tax office by revenue category, including (i) direct tax by item, (ii) indirect tax by item, and (iii) non-tax revenues by item within six weeks of the end of the month.

- Mineral tax and non-tax revenue of major mineral companies and small gold miners, by revenue item and type of mineral. Data is to be provided within four weeks of the end of the month.

- Number of public civil servants and total wage bill by Ministry within six weeks of the end of the month.

- CG authorized spending data by Ministry within four weeks of the end of the month.

- CG subsidies data by Ministry and programs within six weeks of the end of the month.

- CG balance from the financing side by sources and by currency, with a lag of no more than six weeks after the end of the month.

- CG domestic and external debt stock, including by (i) creditor, (ii) currency, (iii) instrument, (iv) direct, and (v) guaranteed. The reporting lag should not exceed six weeks after the end of the month.

- Amortization and debt payments of CG and government guaranteed debt by creditor, instrument, and currency. In the case of issuance of government guaranteed debt, the name of the guaranteed individual/institution should be provided. The reporting lag should not exceed six weeks after the end of the month.

- Interest payments on CG and government guaranteed debt by creditor, instrument, and currency. The reporting lag should not exceed six weeks after the end of the month.

- Stock of CG expenditure arrears, separately including payment of existing arrears and creation of new domestic arrears. The reporting lag should not exceed four weeks after the end of the month.

- Stock of CG domestic and external debt arrears, and CBvS external debt arrears. The reporting lag should not exceed four weeks after the end of the month.

- CG spending on social protection programs as defined for the indicative target on social spending. The reporting lag should not exceed six weeks after the end of the month.

- Holdings of domestic bonds (SRD-denominated and US$-denominated) by investor, maturity, and currency. The reporting lag should not exceed six weeks after the end of the month.

- Legal measures that affect the revenue of the CG, such as tax rates, import tariffs, and exemptions. The reporting lag should not exceed six weeks after the end of the month.
- Balance sheet of the CBvS within two weeks of end of the month.
- A summary of the monetary survey of the banking system (including central bank and deposit-taking institutions). This information should be received with a lag of no more than six weeks after the end of the month.
- Income statement of the CBvS on a cash and accrual basis, with a lag of no more than three weeks from the end of the month.
- Deposits in the banking system: demand deposits and term deposits within six weeks after month end; average monthly interest rates on loans and deposits within six weeks of the end of the month; and weighted average deposit and loan rates within six weeks after the end of the month.
- Monthly balance sheet data of deposit taking institutions, as reported to the CBvS within six weeks of the end of the month.
- Data on foreign reserve assets and foreign reserve liabilities for NIR target purposes (Table 2) evaluated at both official and program exchange rates, within two weeks of the end of the month.
- Data on NDA, NFA, and reserve money (Table 4) evaluated at both official and program exchange rates, within two weeks of the end of the months.
- Consumer price index, including by sub-components of the CPI index within four weeks after the end of the month.
- Cash flow of EBS showing government transfers to cover the gap between the average electricity tariff and EBS recovery cost within eight weeks after the end of the month.
- Electricity tariff, total electricity consumption volume, total billing and amount collected (in SRD) to be provided by consumption categories (household, commercial, and industrial) and by consumption volume. This information should be received with a lag of no more than eight weeks after the end of the month.
- Electricity costs including, (i) production costs: fuel costs, Staatsolie electricity costs, hydropower costs, separately; (ii) other operational costs: personnel costs and financing costs, and (iii) investment costs. This information should be received with a lag of no more than eight weeks after the end of the month.

- EBS committed and executed payment to Staatsolie for purchases of fuel and electricity, and to Suralco. This information should be received with a lag of no more than eight weeks after the end of the month.

Quarterly

- Detailed balance of payments data within 60 days after the end of the quarter.

- Detailed International Investment Position data within two months after the end of the quarter.

- A full set of quarterly Financial Soundness Indicators (FSI) calculated by the CBvS within 60 days after the end of the quarter.

Annual

- Financial statements of EBS within six months of year end.

- Nominal GDP and real GDP within eight months of year end.

- Labor market statistics (including the unemployment rate and labor participation ratio) within twelve months of the year end.

III. Memorandum of Understanding

The REPUBLIC OF SURINAME, for the purpose hereof duly represented by the Minister of Finance, Mr. Gillmore Hoefdraad, with his office at Tamarindelaan 3, Paramaribo, Suriname, party of the one part, hereafter referred to as "the STATE";

and

The CENTRALE BANK VAN SURINAME, a legal entity established pursuant to article 2 of the Bank Act 1956 with its registered office at Waterkant 16-20, Paramaribo, Suriname, for the purpose hereof duly represented by its Governor, Mr. Glenn Gersie, following the approval of the Board of Supervisory Directors, party of the other part, hereafter referred to as "the BANK";

IN CONSIDERATION OF:

1. The Bank Act 1956 (G.B. 1956 No. 97, prevailing text S.B. 2010 No. 173);

2. The State Debt Act (S.B. 2002 No. 27, as last amended by S.B. 2011 No. 5);

3. The forthcoming signing of Letter of Intent to the Managing Director of the IMF -;

4. The Loan agreement of September 18, 2015, between the Ministry of Finance and the BANK.

IT IS HEREBY AGREED:

Article 1 – Definitions

In this Memorandum, the following terms shall have the respective meanings specified in this paragraph: "Monetary financing" shall mean (i) any overdraft facility which may result in an overnight debit balance with regard to the net position of the Treasury Single account, or any other type of short or long term credit facility furnished by the BANK funding the obligations, whether denominated in foreign or local currency, of the STATE, regional, local authorities, or the other bodies of the public sector (collectively referred to as "public authorities"), including State-owned enterprises vis-à-vis third parties, (ii) the issuance of guarantees by the BANK on behalf of the STATE, any public authority or State-owned enterprise, and (iii) the purchase by the BANK of Treasury Bills or other debt instruments issued by any of the aforementioned public authorities or State-owned enterprises directly on the primary market.

Article 2 – Applicability

1. Parties agree that as from the date of signing of this Memorandum of Understanding there will be no further monetary financing at any time to the STATE, other public authorities, and State-owned enterprises;

2. This Memorandum of Understanding will be in effect until the Bank Act of 1956 has been fully amended to eliminate the possibility of monetary financing/credit to the STATE;

3. Any purchases of Treasury Bills or other debt instruments issued by the State on the secondary market must not be used to circumvent the limitation of purchases of such debt instruments by the BANK on the primary market;

4. Servicing of the existing stock of monetary financing, both principal and interest, would, if overdue be considered new monetary financing.

Article 3 – Exceptions

The provisions of Article 2, paragraph 1 will not apply to the following forms:

1. Conversion of the principle of the Loan agreement of September 18, 2015 into Treasury Bills;

2. Provision of liquidity by the Bank to credit institutions of which the State is the shareholder, provided that this liquidity arrangement sets the same requirements as applicable to private credit institutions, and is executed subject to the provisions within the Banking Act 1956 that aim at maintaining financial stability and carrying out monetary policy.

Article 4 – Changes

Modifications to this Memorandum of Understanding shall be made in writing by both parties following prior approval from the Supervisory Board of the BANK.

Done in Paramaribo, April 25, 2016.

For the Republic of Suriname,

/s/
Gillmore Hoefdraad
Minister of Finance

For the Centrale Bank van Suriname,

/s/
Glenn Gersie
Governor of the Centrale Bank van Suriname

INTERNATIONAL MONETARY FUND

SURINAME

May 18, 2016

REQUEST FOR STAND-BY ARRANGEMENT—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of March 31, 2016)

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

General Resources Account:	**SDR Million**	**%Quota**
Quota	128.90	100.00
Fund holdings of currency (Holdings Rate)	119.70	92.86
Reserve Tranche Position	9.20	7.14

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	88.09	100.00
Holdings	36.06	40.94

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund [1/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

			Forthcoming		
	2016	2017	2018	2019	2020
Principal					
Charges/Interest	0.02	0.03	0.03	0.03	0.03
Total	0.02	0.03	0.03	0.03	0.03

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

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

A. 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; in November 2015, the authorities devalued the currency by 20 percent, to SRD 4.04 per U.S. dollar and set a band of SRD 3.80–4.20 per U.S. dollar, within which all official and commercial market transactions may take place. Accordingly, the de facto exchange rate arrangement was classified as a stabilized arrangement. On March 22, the authorities floated the currency based on a system of foreign exchange auctions aimed at ensuring a convergence of the official exchange rate to the market rate. 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 October 1, 2014 (IMF Country Report No. 14/316). 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).

B. Technical Assistance Since 2011

CARTAC

- Mission in 2011 on improving insurance supervision
- Missions in 2011 on PEFA assessment and developing a PFM action plan
- Missions in early 2012 on improving fiscal projection and budget preparation capacity
- Mission in June 2012 and April 2013 to discuss treasury single account and chart of accounts issues
- Mission in August 2012 to conduct a seminar on central treasury management
- Mission in October 2012 to provide support during post VAT implementation

- Mission in October 2012 on banking supervision and securities regulation
- Missions from July 2012 through July 2013 and February 2014 on national accounts and expenditure based GDP
- Mission in January and June, July 2013 on deposit insurance scheme
- Mission in October through to November 2013 to review existing reforms including the chart of accounts and IFMIS implementation
- Mission in November 2013 on capital market development
- Mission in January 2014 to deliver electronic auditing course
- Mission in February 2014 on balance of payments statistics assessment
- Mission in June 2014 to provide assistance on MTEF and the budget process also present at the ICAC conference
- Mission in June 2014 to assist with improvements to macroeconomic projection frameworks and train staff in forecasting techniques
- Mission in April 2015 on developing macroprudential indicators and measures of systemic risk
- Mission in April 2015 on national account
- Mission in May 2015 on developing a stress-testing methodology for the insurance sector
- Mission in June 2015 on development of financial soundness indicators for insurance sector
- Mission in July 2015 on enhancement of financial stability analysis

FAD

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

LEG

- Mission in August and November 2011 on fiscal law

MCM

- Mission in March 2011 on banking system assessment
- Mission in June 2011 on the introduction of indirect monetary instruments
- Mission in December 2011 on bank resolution
- Mission in February 2012 on technical assistance results management
- Mission in May 2013 on T-bills auction
- Mission in July 2013 on T-bills auction

- Mission in September 2013 on central bank modernization
- Mission in October 2013 on modernizing payments system at the Central Bank of Suriname
- Mission in December 2013 on T-bill auctions
- Mission in December 2013 on central bank accounting and treasury account rationalization
- Mission in January 2014 on establishment of a single treasury account and improving financial reporting
- Mission in July 2014 on T-bills auction
- Mission in September 2015 on macroeconomic and monetary operations
- Mission in September 2015 on TA needs assessment
- Mission in November 2015 on exchange rate policy
- Mission in March 2016 on monetary framework operations
- Mission in April 2016 on T-bills auction

STA

- Mission in Jan 2012 on workshop on national account
- Mission in July 2012 on national account
- Mission in Feb 2014 on national account
- Mission in March 2014 on BOP and external sector statistics
- Mission in December 2015 on government finance statistics (GFS)

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

Resident Representative: None.

RELATIONS WITH THE WORLD BANK GROUP

(As of April 13, 2016)

In April 2015 the World Bank Group Board of Directors endorsed a Country Partnership Strategy (CPS) for Suriname for FY15–19. The overarching goal of the CPS program is to support Suriname's efforts to promote a more sustainable, inclusive, and diversified growth model through two areas of engagement: (i) creating a conducive environment for private sector development, and (ii) reducing vulnerability to climate change-related floods. The program also includes one cross-cutting theme, namely, improving capacity to measure and analyze data on poverty and gender to support evidence-based policy-making, in particular with regard to how the engagement can have an impact on the goals of reducing poverty and boosting shared prosperity. The initial proposed financial envelope for IBRD's engagement was to be US$60 million.

In January 2016, the World Bank increased its IBRD envelope to US$100 million from US$60 million, which is planned to be provided under the form of two Development Policy Lending (DPL) operations of US$50 million each in FY17, to respond to Suriname's needs for additional financing. The World Bank shifted its program from Investment Lending to DPL operations, complemented by on-going and planned technical assistance. The first DPL is expected to be ready for Board approval in September, pending solid implementation of the Government reform program.

Lending Activities:

IBRD has no active lending operations at the present time.
IFC financed a trade financing line with a leading local commercial bank, but currently has no exposure.
MIGA has no exposure at this time.

Technical Assistance:

The World Bank has three active trust fund-supported projects: Development of Accounting & Auditing Standards, Competitiveness in the agriculture and extractive industries sectors, Paramaribo Flood Risk Management Program. The World Bank is also providing technical support to the General Bureau of Statistics to improve its collection and analysis of household survey data.

IFC is also providing advisory support for the establishment of a credit bureau, for trade facilitation and customs reform.

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

(As of March 15, 2016)

Highlights

- *The financing envelope to cover the strategy period is now estimated at US$486 million*

- *Execution remains healthy. In 2015, the loan disbursements totaled US$40.45 million, of which US$25.45 million related to investment loans (87 percent of original projections for investment loans).*

- *In 2015 one investment loan in the Education Sector (US$20 million), one IIC private sector loan (US$10 million) and two non-reimbursable technical co-operation projects (US$1.1 million and US$0.28 million) were approved. The 2016 pipeline proposes to support reforms and investments in energy, revenue and finance administration, agriculture and urban rehabilitation. All initiatives are consistent with the priority and dialogue areas outlined in the 2011–2015 Country Strategy (which commenced its transitional year in November 2015). A new Country Strategy is under preparation and is expected to be presented for approval in the fourth quarter of 2016.*

2016 Program

- The *2011–2015 Country Strategy (CS)*, approved in November 2011, focuses on structural, institutional, and governance reforms and comprises seven priority areas for intervention over the period: (i) agriculture; (ii) energy; (iii) financial sector; (iv) social protection; (v) public capital investment; (vi) transport; and (vii) education. Further, the dialogue areas of (a) revenue management; and (b) private sector development were incorporated into the strategic areas of intervention during implementation.

- The financing required to cover the strategy period is now estimated at US$486 million (including US$50M from the China Co-financing Facility), up from US$300 million that was originally envisioned in the CS. By the end of 2015, the Bank delivered US$366.7 million in SG loans, US$14.8 million in private sector loans and grants and another US$11.1 million in technical cooperation (TCs) and investment grants.

- SG Lending Program. The current 2016 pipeline proposes to support reforms and investments in energy, revenue and finance administration, agriculture and urban rehabilitation. The program includes a total of six loans; in the "A" pipeline: two investment loans and one policy-based loan (PBL), with a total estimated value of US$45 million and in the "B" pipeline, four PBLs for a total estimated value of US$80 million.

Portfolio in Execution

- Portfolio execution remains healthy. As of March 15, 2016, the active loan portfolio comprised eight sovereign guaranteed (SG) operations for an approved amount of US$158.7 million. The undisbursed balance is US$83.97 million.

- The average age of the investment loan portfolio is 3.1 years of which 47.1 percent is disbursed. In 2015 a total of US$41.4 million was disbursed (of which US$40.5 million came from the loan portfolio). There is one loan disbursing that is classified as "alert" and one as "problem."

- The **Multilateral Investment Fund** (MIF) has active operations for a total of US$3.5 million of which US$1.13 million has been disbursed. They focus on: (i) distance learning education; (ii) community-based rural energy; and (iii) the development of small and medium enterprises (SMEs) in the interior through a micro-franchising mechanism.

IDB 2016 Lending Program (Millions of U.S. dollars)		
Project #	**SG Lending 2016 "A" Pipeline**	**Amount US$m**
SU-L1020	Agricultural Competitiveness	15
SU-L1040	Revenue Policy and Administration II (PBL)	10
SU-L1046	Paramaribo Urban Rehabilitation Program	20
	Sub-Total "A" Pipeline	**45**
Project #	**SG Lending 2016 "B" Pipeline**	**Amount US$m**
SU-L1029	Public Expenditure Management III (PBL)	20
SU-L1030	Financial Sector Strengthening II (PBL)	20
SU-L1032	Modernization of Agricultural Public Services II (PBL)	10
SU-L1036	Support to the Institutional & Operational Strengthening of the Energy Sector III (PBL)	30
	Sub-Total "B" Pipeline	**80**
	Grand Total	**125**
Source: *Finance Data Mart.*		

Main Portfolio Indicators Public and Private	
Loan in Execution	
Numbers	8
Available balance (US$ million)	83.97
% Available balance of total portfolio in execution	52.9
Average age of portfolio (years)	3.1
Alert/Problem Projects	
Number	2
Available balance (US$ million)	20.57
MIF Operations	
Number	3
Available balance (US$ million)	2.37
TC and Other Investment Grants in Execution	
Number	12
Available balance (US$ million)	7.7
Source: *Finance Data Mart.*	

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of April 18, 2016)

The South American nation of Suriname became a full member of the Caribbean Development Bank (CDB) at the 259th Meeting of the Board of Directors on December 12, 2013. Suriname is the only Dutch-speaking member of the CDB. Less than one year after membership, the first Country Strategy Paper (CSP) for the period 2014-2018 between Suriname and the CDB was approved. This early engagement was guided by a set of important principles including: selectivity, flexibility, collaboration and partnerships.

In terms of selectivity, the Country Strategy in supporting the Government of Suriname's (GOS) development efforts focuses on interventions which reflect the Bank's comparative advantage, as well as those that reflect key country priorities. The strategy reflects deep and extensive policy discussions with the authorities and key stakeholders in Suriname during its preparation. This notwithstanding, the Bank recognizes that meaningful development support for the country over the strategy period must involve flexibility that can accommodate unforeseen shifts in country priorities triggered, for instance, by exogenous shocks, including natural hazards and the way the country chooses to address those priorities. Further, in the spirit of donor harmonization and aid coordination the CDB will work closely with existing development partners in joint areas of interest.

Against this backdrop, the proposed Strategy is mapped onto the planning pillars as identified in the country's NDP. This provides an excellent development framework within which to anchor strategic support and sustained policy dialogue for meaningful engagement between CDB and GOS. As such, the thematic outcomes of the Country Strategy are promoting: (i) economic sustainability; (ii) social sustainability; (iii) environmental sustainability; and (iv) good governance in Suriname. In order to pursue enhanced gender-based reporting in the Strategy, CDB and GOS commit to including gender analysis and sex-disaggregated data in planning, implementation and M&E at the project and sector levels. In so doing, special attention will be paid to the sufficiency of budgets to conduct gender analysis throughout the development cycle. Indicators will be disaggregated by sex, wherever possible. The preferred indicative envelope is two hundred and sixty-six point eight million United States dollars (US$266.8 million) including US$10 million under the Special Development Fund (SDF) 8 allocation for Suriname and a grant component of US$3.3 million.

Within this context the CDB launched its first project in Suriname in April 2016. The US$21.94 million intervention supports the Government of Suriname's program of reform to improve the quality of and expand access to Technical and Vocational Education and Training (TVET) at the Lower Secondary School level. Through the Enhancement of Technical and Vocational Education and Training (E-TVET) Project, eight Practical Instruction Centers will be built and 101 classrooms and workshops constructed or upgraded. They will accommodate over 3,500 students at the Lower Secondary School level.

The CSP will be subject to a mid-term review in the latter half 2016 to determine the appropriateness of the existing strategy going forward.

RELATIONS WITH THE ISLAMIC DEVELOPMENT BANK

(As of April 18, 2016)

The Republic of Suriname joined the Islamic Development Bank (IsDB) on August 5th, 1997, the only member from the Latin America and the Caribbean region. The country is also member of two IsDB Group entities the Islamic Trade Finance Corporation (ITFC) and the Islamic Corporation for the Development of Private Sector (ICD).

In September 2013, the IsDB Management approved the Interim Member Country Partnership Strategy (MCPS) for Suriname for the period 2014–2015 to start its re-engagement with the country. Through the Interim MCPS, which is now principal dialogue instrument, the IsDB Group seeks to enhance alignment, selectivity and focus of development aligned with development priorities of the Government of Suriname (GoS). The IsDB's Interim MCPS provides support in the four major areas: i) healthcare services; ii) skills development and vocational training; iii) improving sea transport; and iv) building capacity .The Interim MCPS also include the Reverse Linkage initiative: under this initiative, the experts from Malaysia in areas of Cyber Security and enhancing the Rice production agreed to support the GoS in these two important sector with financial support from IsDB. Enhancing the rice production Reverse Linkage initiative is under implementation, which will not only fulfill the local rice demand, but it will also support and train the local farmers to enhance and produce high value rice for export. Over this interim period, the IsDB is expected to provide a total sovereign-guaranteed lending envelope of US$65 million, which increased to US$112 Million. The Interim MCPS cover the following major projects:

- Reforming the Technical and Vocational Education and Training (TVET) was approved in 2014, with an overall goal to contribute towards the development of skilled and competitive human resources. The project will create an enabling environment to the enhance skills acquisition and employability of graduates. A total amount of US$16 million allocated to this project.

- The IsDB is supporting the Government of Suriname in the implementation of its National Health Sector Plan (2011–2018) through strengthening the health system for disease prevention and control. The emphasis will be on prevention, early detection, diagnosis, treatment, control and elimination measures for communicable diseases, coordinated action for new medical products and techniques, capacity building and attaining MDG targets. In this regard, the Bank's Health System Strengthening Project supports projects including: (i) upgrading the National Teaching Hospital; (ii) renovating existing facility (iii) building new health centers and (v) supporting development of human resources (i.e. training of health staff). The operations approved in 2014 with a total amount of US$70 million.

- Secondary Education Expansion Project of an amount of US$31 million was approved in 2015 to contribute towards the development of secondary education through the provision of equitable access for children in interior regions. The project will specifically provide a stimulating boarding secondary school environment.

- Enhancing Rice Production, Reverse Linkage initiative between Suriname and Malaysia with a total amount of US$6 million was approved in 2015. The main objective of the operations is to improve the capacity of Suriname in rice production and productivity through (i) introduction of new suitable rice varieties with aromatic, high yielding, site-specific, and disease and pest resistant characteristics, together with their breeding programs; (ii) strengthening of soil fertility; and (iii) development of integrated water management system in the country.

2016–2019

In the current macroeconomic context, the IsDB Group intervention is aligned with current priorities of the GoS and IDB 10-Year Strategy Framework, with the key focus on growth-oriented sectors (infrastructure and agriculture), while ensuring growth inclusiveness (rural development, social sectors). At the same time, the IsDB Group is contributing, through the International Islamic Trade Finance Corporation (ITFC), to enhance trade and the competitiveness of Suriname's economy with integrated programs and short to medium term financing. In this regards, ITFC and GoS have signed on April 25, 2016 a US$30 million financing for strategic energy supply imports. Moreover, the IDB will support the GoS in the following development sectors and sub-sectors:

- **Infrastructure** (Energy, Transport, Water Sanitation, Public Utilities)
- **Agricultural and Rural development** (Livestock including Halal Meat Production, Irrigation & Drainage, Horticulture and Crop development)
- **Human Development** (Healthcare, Social Housing, Institutional Capacity)
- **Islamic Banking and Finance** (Enabling Environment, Islamic Banking)
- **Trade and Competitiveness** (Forex Optimization, Energy Efficiency)
- **Private Sector Support** (Micro Finance)

STATISTICAL ISSUES

A. Assessment of Data Adequacy for Surveillance

General: Data provided to the Fund are broadly adequate for surveillance purposes, but has shortcomings, reflecting capacity constraints and limited resources. The authorities are making an effort to improve the quality and dissemination of economic data, notably through the central bank's website. Since 2014, the Central Bank publishes an Advance Release Calendar (ARC) for monetary and external sector statistics, and updates regularly the National Summary Data Page (NSDP) on its website, although timeliness remains an issue with some important data, such as GDP and labor statistics. The authorities also need to compile social indicators for enabling social policy design to support inclusive growth.

National accounts: With extensive support from CARTAC, the General Bureau of Statistics (ABS) has improved the quality and coverage of production-based GDP and has made progress in the reconciliation of the national accounts with the Balance of Payments and the compilation of expenditure-based GDP. One milestone recently accomplished by the ABS was the compilation of household final consumption expenditure. ABS has also reconciled the data on imports and exports in the expenditure-based GDP estimates with the Balance of Payments for 2012. The ABS has compiled Gross Domestic Product (GDP) by production for 2006–2014 at current and constant 2007 prices. GDP by expenditure is available for 2010 by main aggregates but at current prices only. ABS has also published on its website the component weights of the CPI sub-indices as recommended by the 2013 Article IV report.

Government finance statistics: The Ministry of Finance (MoF) only compiles the fiscal data in national definition, which uses concepts that could lead confusion in analyzing in GFSM formats. The Central Bank of Suriname (CBvS) has made the effort to convert the main fiscal statistics into 2001 GFSM format and publish monthly data on the CBvS website; however, the estimates often differ from what MoF provides. There is no report available on arrears accumulation in the current debt recording system, but recently the MoF has been improving its collection of arrears information. Staff strongly encourages the MoF to publish detailed fiscal data on a timely basis for a thorough analysis. Public finance statistics and public sector debt data are limited to the central government. The institutional coverage of fiscal statistics needs to be broadened to the nonfinancial public sector so as to better assess the fiscal risks associated with total public sector debt. The actual number of public enterprises remains difficult to determine, and most of these enterprises do not produce accounts on a timely basis. Currently, the authorities are seeking TA from FAD and CARTAC to improve government finance statistics.

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

Suriname is compiling financial soundness indicators (FSIs) for the banking system on a quarterly basis with a lag of about one quarter. The FSIs are currently not reported to the Statistic Department (STA) for dissemination on the IMF's FSI website. The authorities are encouraged to adopt the IMF FSI methodology for reporting Suriname's FSIs to STA on a regular basis and to start compiling FSIs also for insurance companies and other financial institutions. An STA technical assistance mission on FSI compilation is expected to visit Suriname next year.

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

Since 2014, the CBvS has strengthened the compilation and coverage of foreign direct investment, and the compilation and quality of the current data sources of services, remittances and financial account. The CBvS also has full coverage of private sector external debt through the financial system and is working on broadening coverage of other private external debt. However, continued efforts need to be made to improve statistics on services (freight, insurance and pension services, financial, and other business services), with particular emphasis on travel through the implementation of a recurrent survey in coordination with the Suriname Tourism Office, and remittances through non-formal channels, using the annual household survey by the General Bureau of Statistics (ABS).

B. Data Standards and Quality

Suriname participates in the GDDS.

C. Reporting to STA

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

Table of Common Indicators Required for Surveillance

(As of April 20, 2016)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	4/18/2016	4/18/2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/31/2016	4/15/2016	Bi-weekly	Bi-weekly, less than 1-week lag	M
Reserve/Base Money	3/31/2016	4/10/2016	M	Monthly, less than 1-month lag	M
Broad Money	2/29/2016	4/20/2016	M	Monthly, 2 month lag	M
Central Bank Balance Sheet	3/31/2016	4/15/2016	M	Monthly, less than 1-month lag	M
Consolidated Balance Sheet of the Banking System	2/29/2016	4/20/2016	M	Monthly, 2-month lag	Q
Interest Rates[2]	2/29/2016	4/20/2016	M	Monthly, 1-month lag	M
Consumer Price Index	3/31/2016	4/15/2016	M	Monthly, less than 1-month lag	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	1/30/2016	4/5/2016	M	Monthly, 6-week lag	M
Stocks of Central Government and Central Government-Guaranteed Debt	12/31/2015	4/15/2016	M	M	M
External Current Account Balance	Q4/2015	3/15/2016	Q	Q	Q
Exports and Imports of Goods and Services	Q4/2015	3/15/2016	Q	Q	Q
GDP	2014	8/15/2015	A	A	A
Gross External Debt	Q4/2015	4/15/2016	Q	Q	Q
International Investment Position[6]	Q4/2015	3/15/2016	Q	Q	Q

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

[2] Official discount rate. Deposit and lending rates available as of February 2016.

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

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

[6] 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.

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

INTERNATIONAL MONETARY FUND

SURINAME

May 27, 2016

REQUEST FOR STAND-BY ARRANGEMENT—SUPPLEMENTARY INFORMATION

Approved By
Charles Enoch (WHD) and Steven Barnett (SPR)

This note updates staff's assessment of Suriname's exchange rate system and arrears to private external creditors, taking into account additional information that has been brought to staff attention since the Staff Report (EBS/16/42) and supplementary information (EBS/16/42, Sup. 1) were circulated to the Executive Board. It does not alter the thrust of the staff appraisal.

Recent Developments and Staff's Assessment

- *Exchange rate system*. On May 10, 2016, the Central Bank of Suriname authorized commercial banks and foreign exchange bureaus to freely determine exchange rates, completing Suriname's transition to a floating exchange rate system. Suriname was previously assessed as maintaining two multiple currency practices (MCPs) that arose from the spread of more than two percent between the buying and the selling rates in the official market for government transactions and also from the possible spread of more than two percent between these official rates for government transactions and those in the commercial markets that can take place within the established band (EBS/16/42, Sup. 1). In light of the recent developments, staff assessment is that these two MCPs have been removed.

- *Private external creditors*. Information provided to staff on May 24 indicates the existence of a sovereign external arrear of US$12.8 million (0.3 percent of GDP) to a private company in the Netherlands. Previously, staff was not aware of any external arrears beyond the arrear to the Government of the People's Republic of China discussed in the Staff Report (¶37). Staff assesses that the authorities are making a good-faith efforts to resolving the new external private arrear, in conformity with the Fund's lending into arrears (LIA) policy. In particular, staff has discussed the arrear directly with the private company and has established that the arrear arose in early 2016 in connection with two public works projects; that the creditor then entered into discussions with the government of Suriname on how to reschedule the payment; that the creditor had access to non-confidential information regarding the financial difficulties facing the government; and that they were given an early opportunity to give input on the design of restructuring strategies. The creditor is currently in discussions with the authorities on finalizing an agreement on repayment of the arrear. Accordingly, attached hereto is an amended Stand-By Arrangement, including a financial assurances review clause (¶3d) applicable so long as Suriname has outstanding sovereign external payments arrears to private creditors, which is proposed for approval.[1]

[1] In the amended arrangement, item (c) there is also a minor correction to clarify that the understandings regarding reviews that will be made are of Suriname with the Fund.

Statement by Otaviano Canuto, Executive Director for Suriname and Mr. Karel Steven Eckhorst, Advisor May 27, 2016

1. On behalf of the Surinamese authorities, we thank staff for the constructive meetings held in Paramaribo and the comprehensive report. The authorities concur with most of staff's findings and recommendations. The sharp fall of commodity prices since 2013 and the closure of an alumina refinery in 2015 affected public sector revenues, exports, international reserves, employment and private sector activity, resulting in a significant twin deficit that requires substantial macroeconomic adjustments.

2. The authorities have designed a home-grown stabilization and reform program that has been in progress since August 2015. This comprehensive package was presented to the Fund and other multilateral financial institutions to seek financial and technical support. In this context, the authorities emphasize the need for technical assistance in different areas as they believe that structural reforms are critical to strengthen macroeconomic stability and inclusive growth.

Recent macroeconomic developments

3. Economic growth and employment have been challenged by the substantial decline in international prices of gold and oil. After the economy was hit by a major commodity shock, a significant loss of short-term economic dynamism and employment occurred. Nevertheless, growth outlook remains robust, mainly because of important ongoing expansion in oil and mining investment. A new oil refinery—which started operating in late 2015—will likely double oil refinery production this year and again in 2017. A new gold mine is expected to increase gold production and exports by a third in 2017.

4. International reserves dropped to levels that the authorities consider too low to ensure continued confidence in the stability of the exchange rate regime, after the terms of trade shock and insufficient adjustment in domestic demand. The Central Bank of Suriname (CBvS) intervened strongly in the exchange rate market, and tightened monetary policy by raising banks' reserve requirements on both foreign and domestic currency deposits to 50 and 35 percent, respectively. In spite of these strong measures, international reserves continued to decline, reaching less than 2 months of exports by end-2015. Faced with the perspective of continuous drain on foreign reserves, the government devalued the currency by 21 percent in November 2015, followed by a fundamental shift toward a flexible exchange rate regime last February. These far-reaching decisions were necessary to enhance Suriname's resilience to potential external shocks and to strengthen the banking system's robustness to operate under a flexible exchange rate regime.

5. The Ministry of Finance (MoF) has implemented substantive fiscal consolidation since August 2015. The authorities have rapidly reduced arrears and new spending commitments, while increasing tax and non-tax revenues. After those decisive measures, the fiscal deficit

dropped from over 10 percent of GDP between January and July 2015 to around 2 percent of GDP in the last quarter of 2015, despite the payment of arrears.

6. The authorities are fully aware that continued and decisive policy measures are needed to smooth the adjustment caused by the exogenous shock and to strengthen external and domestic stability. They are strongly committed to modernize Suriname's regulatory and administrative frameworks and to ensure that social support is safeguarded to protect the most vulnerable members of the Surinamese society. The authorities are also committed to growth enhancing structural policies to prevent a backlash of workers and small and medium sized enterprises, thus facilitating the transition to a larger middle class. In this regard, the tax-exemption bracket in the income tax system has been temporarily raised to compensate the losses in purchasing power.

7. The authorities prepared and later agreed with staff on a set of quantitative targets and a calendar of economic reforms in their home-grown program. They are confident that these policy measures are sufficient to restore macroeconomic stability and advance the ambitious reform agenda. Since the impact of these planned measures is subject to uncertainties, the government stands ready to take any additional action that may be required to achieve the necessary results.

Fiscal policy

8. The authorities underscore their commitment to maintain a sustainable fiscal stance and put public debt back to prudent levels over medium term. The fiscal anchor will be a reduction in primary deficit through a transparent and frontloaded fiscal consolidation. The program aims at bringing primary fiscal deficit from 7.4 percent to 1.7 percent of GDP over 2015-17. The current budget has an ambitious goal of reducing the overall fiscal deficit to 6.4 percent of GDP in 2016. The fiscal consolidation will put public debt as a share of GDP in a clear downward path by 2017.

9. A tightening on the expenditure authorization framework was put in place in August 2015. A substantive reduction in expenditure approvals was adopted and subsequently administrative measures were taken to prevent new commitments without corresponding ministerial budget funding. Different measures have been put in place and will be implemented during 2016, including the following for emphasis:

- <u>Phasing out of electricity subsidies</u>: As of September 2015, electricity tariffs in Suriname were among the lowest in the world, covering one-third of operating costs. The implied electricity subsidies were significant and not-well targeted—the largest 10 percent of electricity consumers received 92 percent of all subsidies. After a number of consultations with social stakeholders, the decision was to phase out electricity subsidies in three steps. The first step occurred in October 2015, with electricity tariffs rising by an average of 52 percent, implying a reduction in electricity subsidies by about 1.5 percent of GDP in 2016. After the first phase of the subsidy elimination, the largest 10 percent of consumers receives 64 percent of all subsidies. The second phase of the electricity subsidy elimination took place in May 2016, including a shift towards to a progressive tariff system that protects the most vulnerable sectors. The government is committed to finalize the process of electricity subsidy elimination by December 2016. To support these reforms, the government will establish a Technical Electricity Commission (TEC) that will regularly review calculations of electricity costs, based on a cost-plus formula and setting electricity tariffs accordingly. The TEC will also review the plans of the electricity company (EBS) to reduce inefficiencies. These reforms are embedded in two Electricity Acts, which were recently approved by Parliament. During 2016, the authorities will review the overall cost structure to reduce inefficiencies and put in place a broader reform agenda for the sector in collaboration with the IDB.

- Higher fuel taxes: A new tax was introduced on gasoline and diesel in September 2015, with an estimated fiscal impact of 0.9 percent of GDP in 2016. The authorities also plan to introduce a tax on kerosene. In the interim, kerosene imports have been prohibited except for the airline industry.

- Water subsidies: Water subsidies were small in 2015 (less than 0.1 percent of GDP). The government increased water tariffs as of October 2015 and is committed to maintain zero water subsidies going forward.

- Wage bill: In a regional perspective, Suriname maintains a large public sector work force and a high wage bill, requiring immediate and medium term actions. In 2016 and 2017, the government will limit the rise in compensation per employee to well below the expected inflation rate. The wage bill as a share of GDP is expected to decline by 0.6 percent of GDP by end-2017. Over medium term, the wage bill should be reduced gradually by measures carefully crafted to address structural problems of the government’s wage bill and employment.

- Inspection fee: The inspection fee for customs clearance—levied on activities related to the verification of quantity, value, and clearance of imported goods—will be increased in 2016. Revenue is estimated to increase by 0.3 percent of GDP.

- Tax reform: the taxation regime will be reformed from a volatile income taxation to a more stable taxation of consumption. A key element for this process is the introduction of a Value Added Tax (VAT) by end 2017, which is intended to be revenue-positive reflecting the shift towards a consumption-based taxation. The VAT would replace the current sales tax, whose base has eroded significantly in the last years, with revenue declining from 4½ percent of GDP in 2005 to 2½ percent of GDP in 2015. In the short term, the initial goal would be to recover the loss of the sales tax over recent years. The VAT will have a broad base, a single rate, a very small number of exemptions, and a zero rate for exports. As a second element, reforms of direct tax regime and elimination or modernization of smaller nuisance taxes should be dealt with. This part of the reform intends to improve overall efficiency, but could be revenue-positive. It will be implemented after the VAT reform is in place to ensure fiscal sustainability and reform consistency.

- Income tax break: The authorities decided to offset the decline of disposable income of taxpayers in 2016 by increasing the general allowance from SRD 50 to SRD 125 per month. As a result, income tax revenue will decline by 0.2 percent of GDP in 2016.

- SWF law: The authorities will resubmit the draft of the Sovereign Wealth Fund (SWF) law to the National Assembly to improve revenue management through a stabilization of mineral revenue and to provide an institutional basis for saving future surpluses from mining and oil-related revenue.

- PFM law: A new Public Financial Management law, reflecting best international practices, will be presented to the National Assembly. The new law will promote a credible fiscal strategy and improve the budget preparation process. Medium term fiscal planning will be strengthened based on more precise projections for revenue and financing. A clear fiscal anchor and corresponding expenditure ceilings will be adopted to support fiscal sustainability.

- Expenditure control: A real-time expenditure control system will be introduced using an Integrated Financial Management and Information System (IFMIS). The IFMIS will have a wider functional scope than the outdated Financial Management System (FINIS) and will enable integrated support for budget preparation, payments, cash management, procurement, accounting, Treasury operations, and fiscal reporting and transparency. Budget implementation will be strengthened by the improved administrative, managerial, and control instruments provided by IFMIS, while strengthening and accelerating top-down budgeting.

- Procurement Department: A procurement department will be established at the MoF to harmonize procurement of central government to ensure cost-effectiveness and control. The administrative process of setting up a well-functioning Procurement Department will include appropriate IT systems, audits, and controls based on the IFMIS system currently being implemented. A draft Procurement Law will be submitted to the National Assembly.

- Treasury Department: The MoF will build up a modern Treasury Department to combine the Treasury functions currently being carried out by various departments of the MoF and CBvS. The Treasury Department will also help advance the work currently being carried out jointly by the MoF and CBvS to improve liquidity forecasting and management.

10. These fiscal efforts require not only a quantitative adjustment, which has been achieved since August 2015, but also technical improvements. The MoF has indeed embarked on

ambitious reforms to modernize the administrative and regulatory frameworks, aiming at permanently minimizing the vulnerability of fiscal revenue to commodity price shocks and putting in place a more efficient and agile administrative apparatus. In this regard, the authorities appreciate the fundamental technical assistance provided and prepared by the Fund's Fiscal Affairs Department (FAD), CARTAC, and IDB.

11. The MoF has identified domestic arrears and unexecuted payments totaling SRD 1.4 billion, accumulated since 2013. The government paid off SRD 660 million between August and December 2015, and plans to clear the remaining balance in equal amounts in 2016 and 2017, after auditing for unjustified spending commitments and excluding ongoing unpaid bills. The new IFMIS should provide a faster and more transparent execution of purchase and procurement of government goods and services, thereby reducing incidence of unpaid bills.

12. The authorities are committed to protect the most vulnerable citizens from the hardships resulting from the necessary fiscal consolidation and the external shock brought upon Suriname. Program projections assume that a monetary and fiscal tightening will weaken economic activity—real GDP is expected to contract by 2 percent in 2016—compared to Suriname's estimated potential growth rate of 3.5 percent. At the same time, the combined impact from exchange rate devaluation, electricity price increases and fuel tax hikes raised consumer inflation rate to 25 percent in 2015 and it is expected to reach 24.1 percent in 2016. The authorities will take stock of existing social programs in the current budget framework and focus all efforts to secure the existing safety net, while savings from this envelope should only come from efficiency gains and improved targeting.

External balance and international reserves

13. The authorities agree with staff that raising international reserves to prudent levels is needed to enhance sustainability of the exchange rate regime. A higher reserve cushion would allow fiscal measures and reforms to gain traction in a more stable environment. The fiscal and monetary stabilization program, combined with financial support from multilateral financial institutions, will enable the build up of international reserves.

The authorities project a substantial improvement in current account deficit from 15.6 percent of GDP in 2015 to a surplus of 0.5 percent of GDP in 2017 due to exchange rate devaluation, fiscal consolidation, and expected expansion in mining exports. Their objective is to raise and maintain international reserves at 4.2 months of imports by end 2017, which includes the Fund's financial support and budget support from the World Bank, IDB, and Caribbean Development Bank.

Monetary and exchange rate polices

14. Monetary policy will continue to target domestic price stability. Taking into account Suriname's substantial exposure to large commodity price shocks and the capacity of CBvS and the financial system to operate with more flexibility in foreign exchange (FX) market, the authorities decided to implement a flexible exchange rate regime. This transition requires

reforms to strengthen monetary and exchange rate frameworks, including to develop indirect monetary policy instruments, to refocus operational targets of the CBvS to a quantitative monetary anchor, and to advance FX and money markets. The government will also review the Central Bank Act to strengthen its operational independence, including eliminating short and long term government financing.

15. The MoF and CBvS signed a Memorandum of Understanding (MoU) to stop monetary financing of budget deficits. In this regard, the authorities wish to express their gratitude for the Fund's technical assistance, which is invaluable to retool and refocus the CBvS instruments.

16. The authorities have improved monitoring, forecasting and management of liquidity conditions in the economy. The CBvS is developing a new operational framework to carry out monetary operations. It currently relies mostly on reserve requirements as main policy instrument. Treasury bills are not sufficiently liquid, preventing efficient open market operations. The MoF has begun to auction Treasury bills to improve the yield curve and tradability as conditions for CBvS open market operations. Government's long-term loans with the CBvS will be converted to Treasury bills to further develop public debt market and its liquidity.

17. Central government interest payments to CBvS, as well as profit transfers, will be reflected transparently in the budget. In addition, CBvS will limit its FX transactions aiming at smoothing large fluctuation in the exchange rate and at building up international reserves. Finally, the CBvS will remove all exemptions from banks' SRD reserve requirements, except for those related to low-income mortgages.

Structural reforms and institutional strengthening

18. The government is promptly implementing its strategy to enhance the economy's resilience to shocks and improve the business environment. Given rising macroeconomic risks, measures to strengthen financial sector supervision are needed. Non-performing loans are relatively high and need to continue trending lower. As noted by the 2014 Financial Sector Assessment Program (FSAP), there may be rising risks in the real estate sector, though data constrains limit a deeper analysis. Other vulnerabilities include sensitiveness to credit and concentration risks. In line with the FSAP recommendations, CBvS is strengthening the regulatory and macroprudential frameworks, including 14 new regulatory measures on capital adequacy, asset classification and provisioning, corporate governance, internal audit, FX risk, liquidity risk, interest rate risk, large exposures, and open FX positions. Moreover, a modern payment system has been phased in. A Financial Stability Department was established in CBvS. The first Financial Stability Report was published last year, whereas the next one will be issued in the beginning of the second half of 2016.

19. Several important financial sector reforms have been prioritized by the authorities. Those reforms are underway regarding credit reporting, deposit insurance, accounting, and auditing. Given the limited resources, they will prepare a comprehensive plan to coordinate and integrate different initiatives to ensure timely implementation, supported by technical assistance from the

Fund as needed. The authorities will also strengthen and extend their capacity to manage banking resolutions, in line with FSAP recommendations.

20. The government is making efforts to promote a more supportive business environment to boost productivity growth, particularly in the non-mining sector. The authorities have identified several areas of improvement such as starting a business, enforcing contracts, protecting investors, registering property, and access to finance, all of which were pointed out by the World Bank *Doing Business*. The authorities will submit a draft legislation to the National Assembly on competition policy, limited liability company formation, and electronic gazettes to reduce company startup costs, and strengthen intellectual property, consumer protection and electronic transactions. Promoting job-rich growth over medium term will also require increasing labor market flexibility, supported by a well-targeted social safety net.

21. The government has made progress in improving the AML/CFT regime. The Caribbean Financial Action Task Force (CFATF) assessed favorably the amended AML/CFT regulations issued by the CBvS to address recommendations regarding internal controls, regulation, and wire transfers. The CFATF found some remaining deficiencies in AML/CFT legal frameworks, including the *Act on the Identification Requirements for Service Providers*, *Disclosure of Unusual Transactions Act* and *International Sanctions Act*. The National Assembly approved new legislation to address all these deficiencies in February 2016 and the authorities expect that the next CFATF Plenary will report favorably and remove Suriname from the follow-up list of countries.

Conclusion

22. The Surinamese authorities wish to thank the Executive Board for considering their request for financial support under a two-year Stand-By Arrangement (SBA) amounting to 265 percent of quota. This would be the first program of Suriname since the country joined the Fund in April 1978. The authorities are confident that Fund support will help restore macroeconomic and financial stability and to improve the living standards of the Surinamese people over the medium term.