

Suriname: 2003 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Suriname

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **July 16, 2003**, with the officials of Suriname on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on August 29, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its October 17, 2003 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Suriname.

The document(s) listed below have been or will be separately released.

Selected Issues and Statistical Appendix

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

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SURINAME

Staff Report for the 2003 Article IV Consultation

Prepared by the Staff Representatives for
the 2003 Consultation with Suriname

Approved by Jorge Márquez-Ruarte and Anthony R. Boote

August 29, 2003

- Discussions for the 2003 Article IV consultation took place in Paramaribo during June 30–July 16, 2003. The mission consisted of T. Alleyne (Head), O. Hendrick, J. Prat, and A. Simone (all WHD).
- This year, the authorities have made strong efforts to stabilize macroeconomic conditions following a relaxation of financial policies in 2002. There was a small fiscal surplus in the first half of 2003, compared with a deficit of over 7 percent of GDP last year. As a result, the exchange rate has stabilized and inflation pressures eased. Economic growth slowed slightly to 3 percent in 2002 owing mainly to problems in agriculture.
- It is important that the authorities continue to make macroeconomic stability a priority, especially in the face of spending pressures that will likely arise in 2004 from civil service wage demands and the general election campaign. Continued wage restraint and improved tax administration will be key.
- Public sector reform aimed at rationalizing the size of the civil service, correcting mismatches between personnel and needed occupations, and privatization will be crucial for achieving medium-term fiscal sustainability and raising economic efficiency. Removing bureaucratic obstacles to investment is vital for the growth of the private nonmining sector and employment generation.
- Overall, the banking system appears relatively healthy, but there is a need to resolve some small insolvent state-owned banks, bring foreign exchange houses under central bank supervision, and tighten regulations on foreign exchange lending. New prudential regulations, once fully implemented, and ongoing training of supervisory personnel, including with Fund technical assistance, should help strengthen the banking system and its supervision.
- Despite improvements in all areas, the quality and timeliness of economic statistics still needs to be raised substantially in order not to compromise surveillance. Suriname has formally expressed its intention to subscribe to the GDSS.
- Suriname has accepted the obligations of Article VIII, Sections 2, 3, and 4 and maintains a multiple currency practice subject to Fund approval under Article VIII, Sections 2 (a) and 3 arising from the spreads of more than 2 percent between the official and nonofficial foreign exchange rates as described in paragraph 42 and in Appendix II.

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I. BACKGROUND AND NEAR-TERM OUTLOOK

Social and Demographic Indicators

Area (thousand square kilometers)	163,820		
Population (2002)		Nutrition (2000)	
Total (midyear population)	449,323	Calorie Intake (per capita a day)	2,809
Rate of Growth (in percent)	1.3		
Density (per sq.km)	2.7		
		Access to safe water (2000)	
GDP (2002 US\$ mn.at official exchange rate)	989	Urban areas (percent)	93
<i>Of which:</i> Share of mining sector (in percent)	4.7	Rest of the Country (percent)	67
GDP per capita (2002 US\$ at official exchange rate)	2,201		
Population characteristics (2001)		Education (2001)	
Life expectancy (in years)	67	Adult illiteracy rate (percent)	14
Infant mortality rate (per thousand live births)	32		

A. Perspective

1. **Over the past 10 years, Suriname's mining based economy has suffered from generally poor macroeconomic management.** Loose fiscal policies have been the main culprit, and have been associated, in part, with the expansion of a large and inefficient central government, which employs over 50 percent of all formal sector workers. As a result, there have been two episodes of hyperinflation, economic growth has been highly volatile, and vulnerabilities associated with debt sustainability and dollarization have increased. A sustained commitment to macroeconomic stability and a comprehensive public sector reform are crucial to reducing these vulnerabilities and raising the long-run rate of economic growth.

Box. Political Situation

The political situation appears stable and calm. The New Front government, headed by President Ronald Venetiaan, was elected in 1999, after popular discontent, manifested by widespread strikes and civilian demonstrations, forced the previous government to call early elections. The next elections are scheduled for May 2005. The New Front is a coalition of four political parties, each of which has as its base one of the country's three main ethnic groups: African/Creole (40 percent of population), East Indian (35 percent), Javanese (15 percent). The main opposition group, the Millennium Combination, is also composed of similar ethnic-based political parties. Although politics are strongly ethnically influenced, Suriname has avoided the social tensions encountered in some neighboring countries. Political leaders tend to be highly sensitive to the possible effects of economic policies on the social equilibrium.

B. Recent Developments, 2002–03

2. **A strong effort to stabilize the economy in 2001 was followed by a relaxation of macroeconomic policies in 2002.** The central government balance shifted from a surplus of 3 percent of GDP in 2001 to a deficit of 7 percent of GDP in 2002. The shift reflected lower revenue, owing to labor disputes in the tax administration department and a fall in bauxite company profits, as well as higher expenditure because of a large salary increase to civil servants (equivalent to an increase in the wage bill of 6½ percent of 2001 GDP). Reserve money growth increased from 15 percent in December 2001 to 32 percent a year later, reflecting mainly an increase in central bank lending to the government.

3. **The weakening of macroeconomic policy during 2002 resulted in major pressures in the foreign exchange (FX) market.** The guilder depreciated by more than 35 percent during the period January–August 2002, at which point the central bank imposed ceilings on the nonofficial exchange rate below the market clearing level.¹ These ceilings resulted in the diversion of FX transactions to the illegal parallel market, where the premium stood at about 5 percent by the end of 2002 (Figure 1).

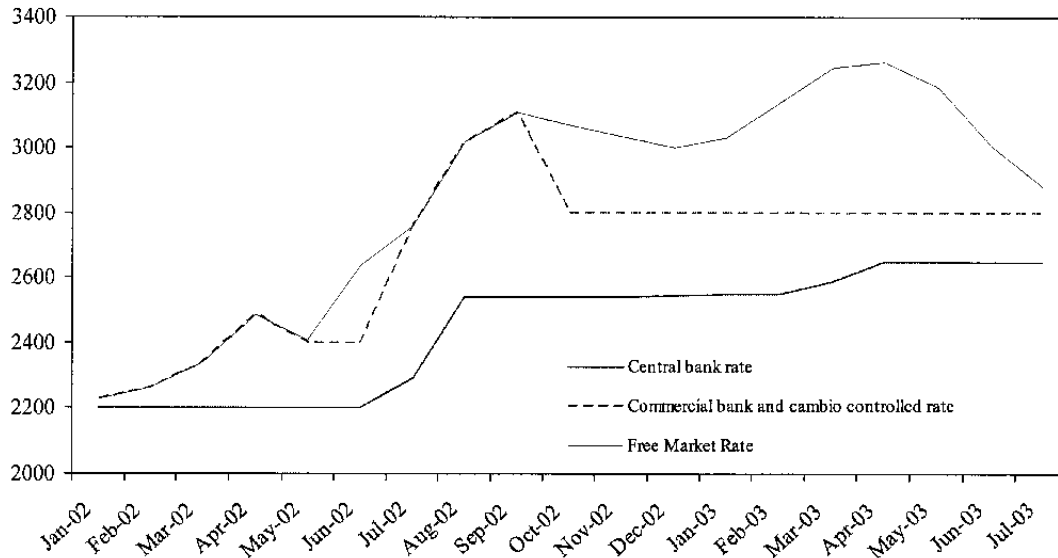
4. **The depreciation of the currency was quickly transmitted to domestic prices.** CPI inflation rose rapidly from a rate of 5 percent in December 2001 to 35 percent in March 2003. To counter the inflation pressures, the central bank raised the (unremunerated) reserve requirement on domestic currency deposits from 27.5 percent to 35 percent in August 2002.

5. **Economic activity slowed in 2002.** Real GDP growth fell from 4.5 percent in 2001 to 3 percent last year because of negative growth in agriculture and mining. Agriculture was hurt by a prolonged shut down of Surland, the state banana company, which was beset with financial and labor problems, and mining suffered from declining global aluminum prices. Services, notably transportation, communication, and electricity, and the informal sector, were the main engines of growth.

6. **Reflecting the slowdown in activity and the depreciation of the guilder, the external current account deficit narrowed.** However, the official statistics for the external current account, particularly in 2001, appear to contain large measurement errors, as the statistics imply implausibly large swings in the private sector savings-investment balance over the 2000–02 period. Net international reserves increased slightly to US\$101.9 million, equivalent to about two months of imports of goods and services.

¹ A unified exchange rate at Sf 2,200 per U.S. dollar existed until April 2002. The official rate (used for government transactions, e.g., oil and bauxite remittances and debt service) is currently Sf 2,650 per U.S. dollar. The ceiling on the nonofficial rate, which covers all other transactions, is currently Sf 2,800 per U.S. dollar. There is a special exchange rate of Sf 1,400 per U.S. dollar for the importation of baby milk products.

**Figure 1. Suriname: Evolution of Exchange Rates 2002-03
(guilders per dollar)**



7. **In the first half of 2003, the authorities made a new effort to regain control of the public finances.** They raised sales tax rates by 3 percentage points to 8 percent for goods and 10 percent for services; introduced a casino tax and a temporary (one year) 10 percentage point tax on corporate incomes and the highest personal incomes; and raised gasoline prices.² There has been no increase in civil service salaries and the authorities have kept a tight rein on nonwage spending.

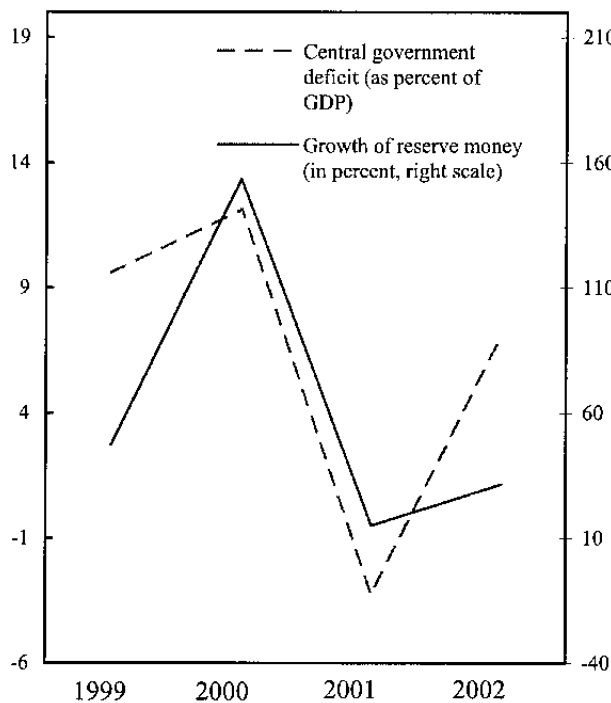
8. **The overall tightening of fiscal and monetary policies has resulted in more stable macroeconomic conditions.** Despite lower than envisaged yields from the tax measures, the fiscal balance shifted to a surplus of 2.7 percent of period GDP for the first five months of 2003, compared with a deficit of 0.1 percent for the same period in 2002. Expenditures on goods and services fell 26 percent in real terms, while tax revenue was flat, owing mainly to a large decline in nonbauxite corporate taxes.³ Reserve money growth (12-month basis) declined from 32 percent in December 2002 to 20 percent in June 2003. In January, the central bank introduced a reserve requirement of 17.5 percent on FX deposits, which reduced

² The gasoline price had been fixed since October 2000. As the gasoline tax is computed as a residual, the increase in global petroleum prices during 2002 eroded the yield from the tax. The mission's recommendation to change the methodology of computing the tax has not yet been implemented.

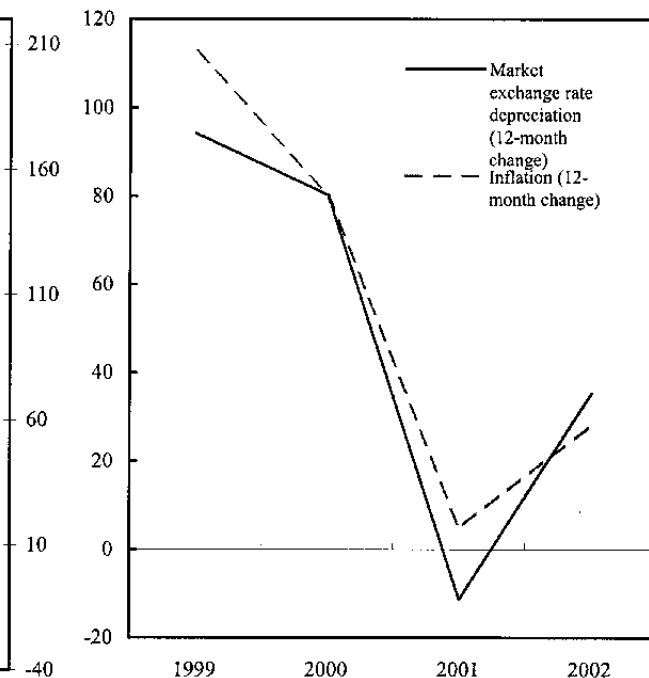
³ Corporate taxes were down, in part because of some administrative delays, but also probably because of increased evasion in response to the higher rates.

Figure 2. Suriname: Selected Economic Indicators, 1999–2002

A large fiscal deficit emerged in 2002, financed mainly by the central bank

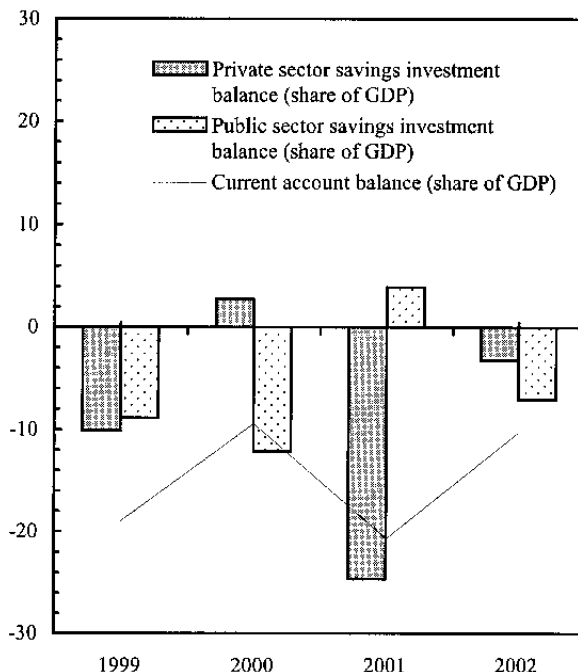
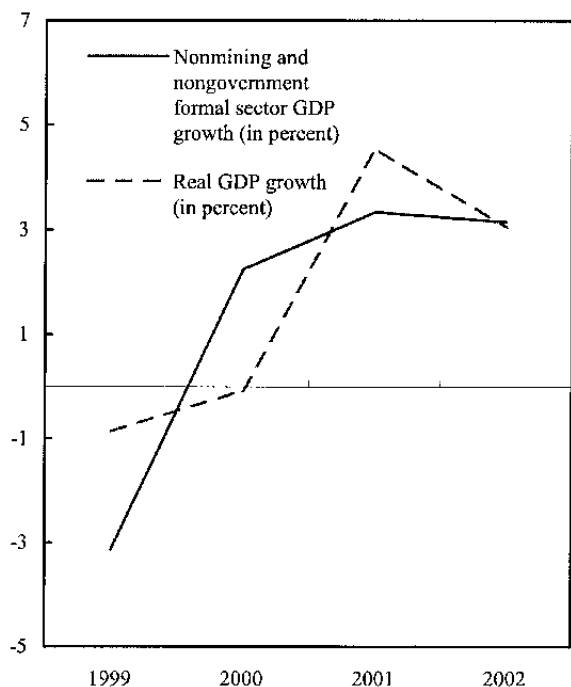


As a result, the currency depreciated sharply, inflation pressures re-emerged



The external current account deficit narrowed, despite the increase in government dissavings

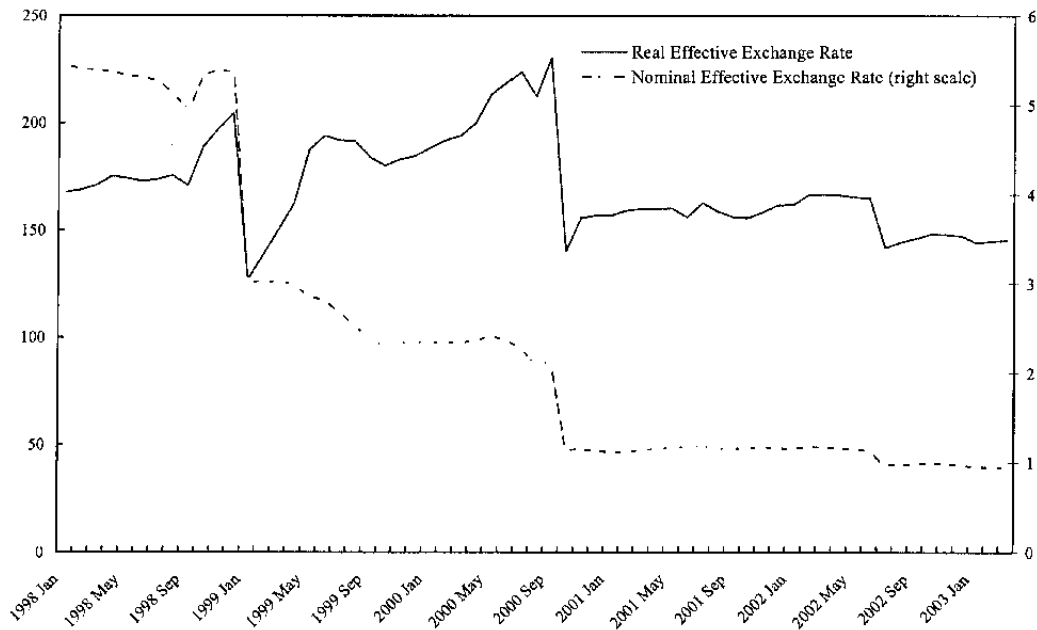
Economic growth slowed



the incentive for increased dollarization of deposits.⁴ The 12-month inflation rate in June 2003 was 28.4 percent, unchanged from December 2002, while quarterly inflation decelerated sharply from 6.2 percent in the first quarter of 2003 to 3.1 percent in the second quarter. The illegal parallel market exchange rate appreciated by 5 percent since the beginning of the year, virtually eliminating the spread with the nonofficial rate by July.

9. **During the past year, the authorities embarked on a number of structural reforms designed to address vulnerabilities in the economy.** To improve fiscal governance, budget processes, and tax administration, the authorities launched a three-year institutional strengthening program with technical assistance from the government of the Netherlands. To strengthen the financial system, a new banking supervision law was passed and the central bank introduced new prudential regulations, in line with Basel Core Principles.⁵ An anti-money laundering law was passed in August last year. However, progress on public sector reform has been limited.

Figure 3. Suriname: Nominal and Real Effective Exchange Rate, 1998-2003
(1990=100)



Sources: Suriname authorities; and Fund staff estimates.

⁴ Foreign currency deposits account for 49 percent of total banking system deposits, while FX loans account for 45 percent of total bank lending.

⁵ These regulations, which were designed with Fund technical assistance, cover capital adequacy, loan classification and provisioning, large exposure, insider lending, and fixed assets revaluation.

C. Near-Term Macroeconomic Outlook

10. **The outlook for 2003–04 assumes a continuation of the relatively tight macroeconomic policy stance.** No adjustment to civil service salaries is expected in 2003, while nonwage current spending should remain under strict control. For 2004, in line with the authorities' preliminary budget outline, the temporary income tax surcharge will not be renewed, noninterest current spending (including wages) is projected to remain constant in real terms, and capital spending is projected to increase. As a result, the fiscal deficit is projected to narrow to 3.6 percent of GDP this year and widen slightly to 3.8 percent next year. The authorities expect to be able to obtain new external gross financing of US\$25 million (2.4 percent of GDP) in each of these years to close the financing gap.⁶ Monetary policy is projected to remain tight, with negligible central bank financing to the government, given that the legal lending limit has almost been reached.⁷

11. **Economic growth is projected to rise and the external current account deficit to widen, while inflation is projected to decline.** Real GDP growth is projected to rise to 5.6 percent in 2003, reflecting mainly an increase in construction associated with a US\$100 million private foreign investment in a gold mining project. The external current account deficit is projected to widen as a result of imports related to that project, but not enough to prevent a small accumulation of international reserves. In line with the outturn of recent months, inflation is projected to fall to 20 percent this year and further to 13 percent in 2004. Real GDP growth is projected to remain above 5 percent in 2004 reflecting a large increase in gold and banana production, and planned foreign investments in the bauxite sector.

Macroeconomic Framework			
	2002	2003	2004
Real GDP growth (in percent)	3.0	5.6	5.1
Inflation (end period, in percent)	28.4	20.0	13.0
Fiscal balance (percent of GDP)	-7.0	-3.6	-3.8
Primary fiscal balance (percent of GDP)	-4.5	-1.0	-1.2
External current account (percent of GDP)	-10.3	-20.7	-11.7
Net foreign assets of the CBS (million of US\$)	101.9	110.8	123.8
NFA in months of imports FOB	1.9	1.7	1.8
Public sector debt-to-GDP (in percent)	51.0	47.7	46.6
<i>Of which: external</i>	35.2	32.7	32.3

⁶ The authorities are in discussions with potential bilateral and multilateral creditors and are exploring options for bond placements, loans from private banks, and loans from public enterprises.

⁷ According to the Central Bank Act, the central bank is obligated to finance the government up to a ceiling on the stock of advances equivalent to 10 percent of budgeted revenues.

II. POLICY DISCUSSIONS

12. **Over the past year, the authorities have taken important steps to address key policy challenges cited during the 2002 Article IV consultation.** At that time, Directors urged the authorities to act decisively to restore macroeconomic stability, and to move ahead forcefully with planned structural reforms. As noted above, the authorities have strengthened the fiscal policy stance and maintained a prudent monetary policy. On the main structural reform challenges cited, the authorities have taken steps to strengthen the financial system, while major reforms in the area of the civil service and public enterprises are still pending.

13. **With macroeconomic policy once again steered in the appropriate direction, the main theme of the 2003 Article IV consultation discussions was how to bring more consistency, discipline, and transparency to macroeconomic policymaking and thus avoid the wide swings in macroeconomic performance over the past decade.** The authorities were aware of the need to address these challenges and reaffirmed their commitment to macroeconomic stability, despite likely spending pressures from new civil service wage demands and the campaign for the May 2005 general elections. On the key issue of the civil service reform, the authorities indicated that they had sought help from international institutions to develop a strategy.

A. Fiscal Policy

14. **The key to demonstrating the authorities' commitment to macroeconomic stability is to maintain strict control over civil service wages and move ahead with public sector reform.** The mission emphasized that likely demands for salary adjustments in 2004 should be assessed within the context of a comprehensive civil service reform strategy and consistency with the macroeconomic framework. Adjustments that do not satisfy these conditions risk repeating the problems associated with the 2002 wage increase (see table below). The authorities agreed and indicated that they planned no nominal increase in wages in 2003 and no real increase in recurrent spending in 2004.⁸

15. **Comprehensive reform of the civil service and restructuring of public enterprises are needed to make the fiscal situation sustainable and improve economic efficiency.** The authorities agreed with the staff on the need to rationalize the civil service, including through a reduction in its size and correcting mismatches between existing personnel and needed skills.⁹ However, they also emphasized concern about causing a large

⁸ At the time of the mission, planning for the 2004 budget was still at an early stage, but the authorities indicated that they were basing their expenditure plans on expected inflation of 10–15 percent in 2004.

⁹ In 2002, central government expenditure on wages and salaries was over 15 percent of GDP, among the largest in Latin America and the Caribbean.

Fiscal Sensitivity Analysis

	Effect on the Fiscal Deficit		Effect on the Public Debt	
	Short Run (first year)	Long Run (after five years)	Short Run (first year)	Long Run (after five years)
	In percent of GDP			
One time real wage increase of 10 percent	0.9	1.0	0.9	3.8
Increase in external borrowing costs by 7 p.p. (consistent with costs in international private capital markets)	0.3	1.4	0.3	4.2
Improvement in tax administration (5 percent increase in real tax revenue)	-1.1	-1.3	-1.0	-5.0
Extra debt-financed capital spending of US\$100 million	9.6	0.5	9.6	7.9

increase in unemployment or adversely affecting the country's social equilibrium. Nevertheless, they had sought assistance from the IDB and UNDP to help design a strategy and timetable of action and launched a number of initiatives, including to improve discipline and work ethic, and create a central registry of workers. On public enterprise restructuring, the mission urged the authorities to (i) move ahead with their plans to privatize the banana, rice, and forestry companies;¹⁰ and (ii) intensify their efforts to gather information on the large number of public enterprises that had not submitted financial statements to the government for many years, including through the withholding of government transfers.

16. **The authorities indicated that they planned to increase capital spending in 2004 and were exploring financing options.** While acknowledging Suriname's enormous infrastructure needs, including road and bridge construction, electricity, irrigation, hospitals, and schools, the mission noted that government debt, at 51 percent of GDP, was already high, and urged that any increase in infrastructure spending should not undermine macroeconomic stability or jeopardize medium-term debt sustainability. It also urged that sound economic criteria be used to rank and prioritize projects and encouraged the authorities to seek assistance from the IDB and World Bank for project evaluation and financing. The authorities have also requested assistance from the Fund to develop a strategy to access international financial markets.¹¹

¹⁰ According to the plan to restructure the banana sector, which is partly funded by the EU, privatization should take place within the next year. For the other sectors, target dates are yet to be specified.

¹¹ Suriname has never placed an international bond issue. It has a sovereign credit rating of B- (stable outlook) from Standard and Poor's.

17. **The mission highlighted the need for a substantial improvement in tax administration to increase collections and equity of the tax burden.** The mission did not recommend the renewal in 2004 of the temporary income tax surcharge that was introduced for 2003 only, or other increases in income or sales taxes. Rather, attention should be focused on the widespread tax evasion and uneven tax collection effort, partly related to governance problems, which had resulted in volatile tax revenue. To this end, the mission urged the authorities to take full advantage of technical assistance to improve tax administration provided recently by the Inter-American Center for Tax Administration and currently by the government of the Netherlands.

B. Monetary Policy

18. **Monetary policy should be aimed at lowering inflation.** Over the past decade, monetary policy has been largely subordinated to fiscal financing requirements, with only secondary importance given to the implications for macroeconomic stability. The mission commended the authorities for the current central bank policy of strictly enforcing the limit for advances to the government and keeping liquidity conditions tight.¹² It proposed that the central bank target reserve money growth consistent with a reduction in inflation to around 20 percent this year and to 10–15 percent in 2004.

19. **The mission welcomed plans to amend the Central Bank Act aimed at institutionalizing better governance and allowing the institution to better pursue the goal of promoting price stability.** Planned amendments include strengthening of the central bank president's authority to deny financing to the treasury that exceeds the central bank lending limit to the government; and penalties (including imprisonment) for top central bank officials found in dereliction of their duties. The mission recommended that ensuring price stability and protecting the health of the banking system be specified as the primary missions of the bank, instead of being on par with various other objectives. It would be important to set a limit on overall lending by the central bank to the government instead of just on advances, as is now the case. Moreover, lending within the limit ought to be at the central bank's discretion, consistent with monetary policy objectives, and not obligatory, as is now the case.¹³

20. **The central bank stated that its priority in the upcoming months was preparing for the introduction of a new currency in January 2004.** Three zeros will be removed from the old denomination to simplify calculations and transactions. Because of its focus on this project, other planned reforms recommended by the mission would be put on hold until

¹² The main instruments of monetary policy are the reserve requirement on banks and the provision of credit to the government.

¹³ The authorities requested and have received MFD and LEG comments on the draft act.

next year, such as unification of the reserve requirements on FX and domestic currency deposits, and the introduction of open market operations.

C. Exchange Rate Policy

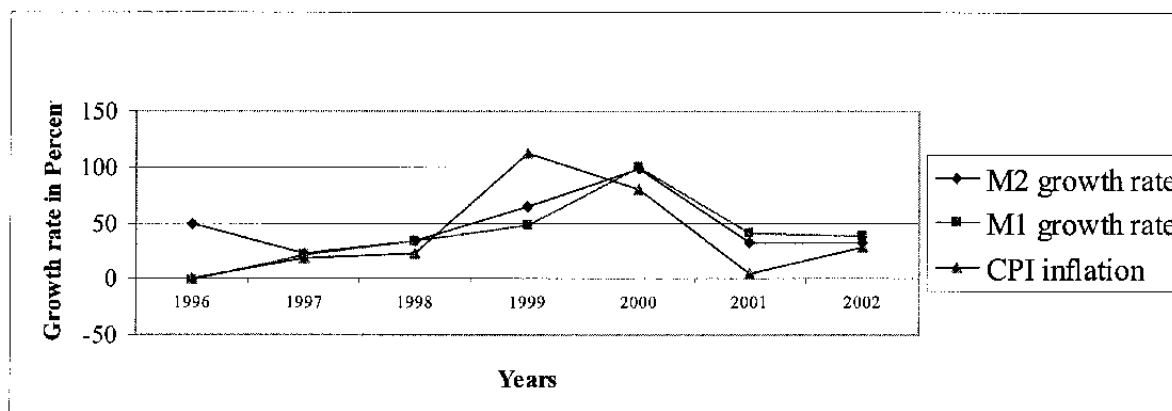
21. **The mission urged the authorities to return to a unified managed float exchange rate system that should allow the exchange rate to be market determined.** The current system, which is characterized by nonmarket-clearing multiple exchange rates, creates an anti-export bias and undermines government revenue, including from dollar-denominated mining taxes. In addition, most FX transactions were taking place in the illegal parallel market, reducing the capacity for effective monitoring of money laundering.

22. **The mission recommended that there should be a deliberate plan to gradually build FX reserves,** which are currently well below the traditional prudential guideline of three months of imports.¹⁴ The lack of depth of the FX market in Suriname may naturally create conditions for excessive exchange rate volatility when market sentiment changes. By purchasing FX strategically in the FX market, the central bank could create a cushion of reserves that could be used to reduce excessive short-term volatility in the exchange rate.

23. **The authorities argued that the imposition of exchange rate ceilings was a temporary measure** designed to calm exchange rate and inflation expectations during an extremely volatile period last year and a still unsettled though much improved macroeconomic environment so far this year. They indicated that they were already taking steps to gradually unify the central bank rate with the bank/*cambio* rate. The mission noted that since most FX transactions have been diverted to the illegal parallel market, domestic price movements have tended to reflect changes in the illegal exchange rate rather than the official rate (Figure 4).

¹⁴ Reserves are 54 percent of the monetary base and 160 percent of 2003 external public debt service.

Figure 4. Suriname: Money Definitions and Inflation



D. Banking System Issues

24. **On the basis of official data, the three main banks appear relatively healthy, but three small state-owned banks have problems.**¹⁵ The nonperforming loan ratio for the three largest banks is about 8 percent, while that of the small state-owned banks is over 25 percent. In addition, while the capital adequacy ratio for the large banks is above Basel minimum guidelines, that of the small state banks is negative. The authorities are aware of the need to resolve the small state banks and have obtained support from the IDB to review the banks' financial situation and recommend possible solutions. A final decision regarding the future of the small state banks is expected by the beginning of 2004.

25. **Implementation of new bank supervision and prudential regulations is still at an early stage.** For example, banks are still adapting their computer and accounting systems to incorporate the new provisioning calculation methods. The large banks are expected to be fully compliant with the new regulations by the beginning of 2004, while the small state banks are not expected to comply until their situation is resolved. Fund technical assistance has already been scheduled to assist the authorities in implementing the new regulations. The mission urged that regulations for foreign exchange houses (*cambios*) be tightened and they be brought under the supervision of the central bank.

¹⁵ The three main banks comprise about 84 percent of the banking system.

Capital Adequacy and Nonperforming Loans Ratios
(In percent)

	Main Three Banks	Small State Banks
Nonperforming loans (2002) ¹	8.0	25.8
Capital adequacy (2003) ²	9.8	-4.0

Source: Central Bank of Suriname, Banking Supervision Division.

¹Caution must be exercised when interpreting the ratios since they were calculated on the basis of nonstandardized classification of loans and, in the case of the small state banks, unaudited balance sheets. Ratios calculated using the new loan classification regulations for 2003 are still not available.

²Preliminary calculations, using a transition methodology close to the one established in the new regulations.

26. **Prudential regulations governing FX lending should be strengthened.** Despite the apparent resiliency of the banking system to exchange rate shocks thus far, the mission highlighted the need for regulations to limit the inherent risks from dollarization, such as possible large net open foreign positions, currency mismatches, and liquidity constraints. The authorities noted that since FX operations were liberalized in 1992, the absence of appropriate prudential guidelines had not resulted in serious consequences for the banking system despite huge exchange rate changes during the period. This was likely due to the practice of over-collateralization of loans and expeditious processes to seize collateral assets, the dollarized nature of the market for real estate and consumer durable goods (which are most often used as collateral), and the fact that many households have significant FX resources, including social welfare income from the Netherlands.

E. Trade and Investment Policy

27. **Suriname, which is a member of WTO and CARICOM and is a signatory to the Cotonou convention, has a fairly open trade system.** The unweighted average rate tariff is 9.7 percent and there are no nontariff barriers. Suriname has enacted the CARICOM Single Market and Economy treaty into law and implemented the fourth phase of the common external tariff (20 percent).

28. **The mission urged the authorities to accelerate reforms to promote the development of the nonmining private sector.** While the economy will likely continue to be dominated by the mining sector in the medium term, the capital intensive nature of that sector precluded it from generating the growth in employment required to absorb new entrants in the labor force or reductions in public sector employment. The mission encouraged the authorities to adopt the recommendations of a recent IFC report to remove a host of administrative and bureaucratic obstacles to investment. It is also important to focus the country's investment promotion strategy on meeting international standards in areas such

as investors' basic rights and dispute resolution systems, rather than on fiscal incentives, which are the focus in the existing investment law. Following through on plans to privatize the banana, rice, and forestry companies, and to open up the telecommunications market would send a strong signal about the government's commitment to private sector led economic development.

F. Statistics

29. **The quality and timeliness of economic statistics has improved significantly over the past two years owing to strong efforts by the authorities.** They have worked closely with STA to upgrade national income, monetary, and BOP statistics and have formally indicated their desire to participate in the GDDS program. A population census was conducted this year for the first time since 1980. Nevertheless, continued effort is required to bring statistics up to the level that is adequate for policy analysis.

III. MEDIUM-TERM OUTLOOK AND SUSTAINABILITY

30. **The baseline medium-term scenario assumes no substantive changes on fiscal policies and only slow progress on structural reforms.** After the jump in mining-related production in 2003–04, real GDP growth would gradually revert to its long-run rate of 2.8 percent. Inflation would stabilize at about 10 percent. The fiscal deficit is projected to fall to 2.5–2.7 percent in the 2005–08 period, while public debt would decline gradually from 51 percent of GDP in 2002 to 46 percent in 2008. The external current account deficit would stabilize at a little over 10 percent of GDP, with about two-thirds of it financed by private long-term capital flows. International reserves would average 2.2 months of imports.

31. **The baseline scenario is subject to both downside and upside risks.** The main downside risk to this scenario would be a significant relaxation in the fiscal stance, which could have explosive inflation and debt dynamics. On the other hand, if the authorities are able to accelerate their public sector reform and take steps to promote investment in the nonmining private sector, the resulting improvement in macroeconomic stability and economic efficiency could raise long-run growth in the nonmining sector by between ½–1 percentage point a year and lower inflation into the single digits. This “active” scenario is presented in Figure 5. In addition, the baseline scenario is somewhat conservative with respect to mining sector. The two multinational bauxite and alumina companies in Suriname have signed an agreement with the government to explore and develop the bauxite reserves in the western part of Suriname. The potential size of the project, which envisages the possible construction of a hydroelectric dam and a new aluminum smelter, is projected to be in the order of US\$2.5 billion (i.e., 250 percent of GDP).¹⁶

¹⁶ This project could start as early as 2005 but because of uncertainty about its size, it has been omitted from both the baseline and the active scenarios.

32. **Suriname's medium-term debt dynamics are quite sensitive to real and financial shocks that could adversely affect public debt sustainability.** In the baseline scenario, overall public debt as percentage of GDP is projected to gradually decline but still remain relatively high. However, lower primary balances (owing to substantial increases in wages and salaries, for instance), or a sharp increase in real interest rates on the public debt (for example, owing to increased reliance on financing from international capital markets), could put the public debt to GDP ratio on an unsustainable path (Figure 6 and Appendix I).

IV. STAFF APPRAISAL

33. **The authorities have made strong efforts to stabilize macroeconomic conditions in 2003.** Expenditure restraint and new tax measures have resulted in a substantial improvement in the public finances. These measures, supported by a tight monetary policy, have helped stabilize the exchange rate and reduce inflation pressures.

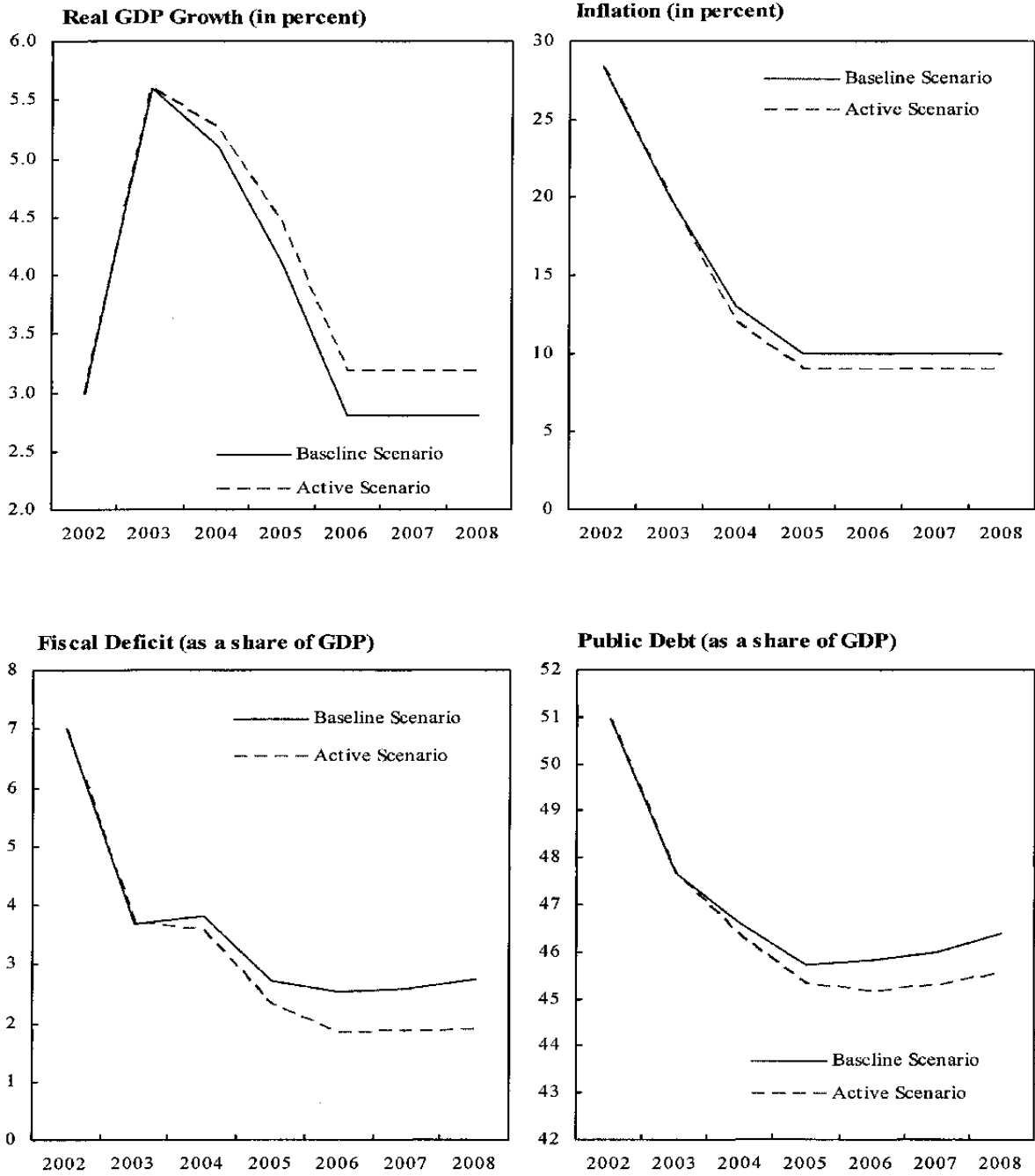
34. **Macroeconomic stabilization should remain a policy priority, especially in the face of spending pressures that will likely arise in 2004 from wage demands and the general election campaign.** Continued wage restraint and improved tax administration will be key. This will help generate the fiscal savings that, supplemented by an appropriate external borrowing program, could finance much needed infrastructure development without jeopardizing macroeconomic stability or medium-term fiscal sustainability.

35. **Government debt is relatively high and debt dynamics are sensitive to real and financial shocks.** In particular, a continuation of the historical pattern of civil service wage adjustments or a substantial jump in debt service costs from existing low rates could adversely affect medium-term debt sustainability.

36. **Civil service wage policy should also be placed within the context of overall civil service reform, which is crucial to ensure medium-term fiscal sustainability and increase economic efficiency.** The staff urges the authorities to move ahead, with IDB and UNDP assistance, in formulating and implementing a comprehensive strategy in this area. There is a clear need to reduce the size of the civil service as well as to better match personnel with needed occupations. If changes in salaries take place in a policy vacuum, the probability of unforeseen adverse consequences, as happened in 2002, increases.

37. **A strong effort to improve tax administration is vital to increase collections and bring about a more equitable distribution of the tax burden.** It is important to take full advantage of the technical assistance provided by the Inter-American Center for Tax Administration and the government of the Netherlands aimed at strengthening the institutional capacity of the tax department and improving administrative efficiency and governance.

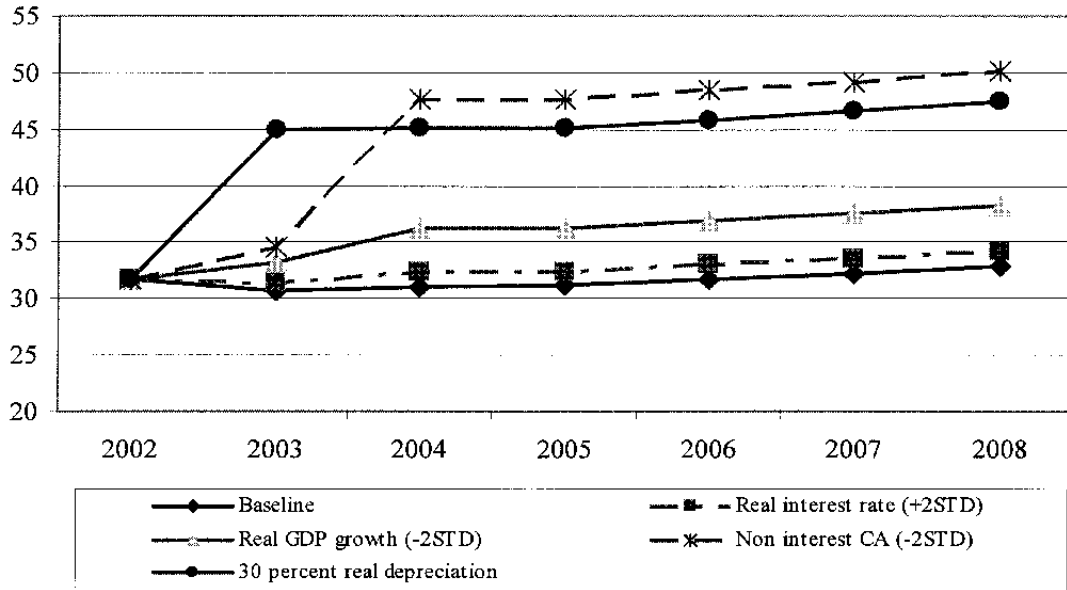
Figure 5. Suriname: Medium-Term Projections, 2002-08



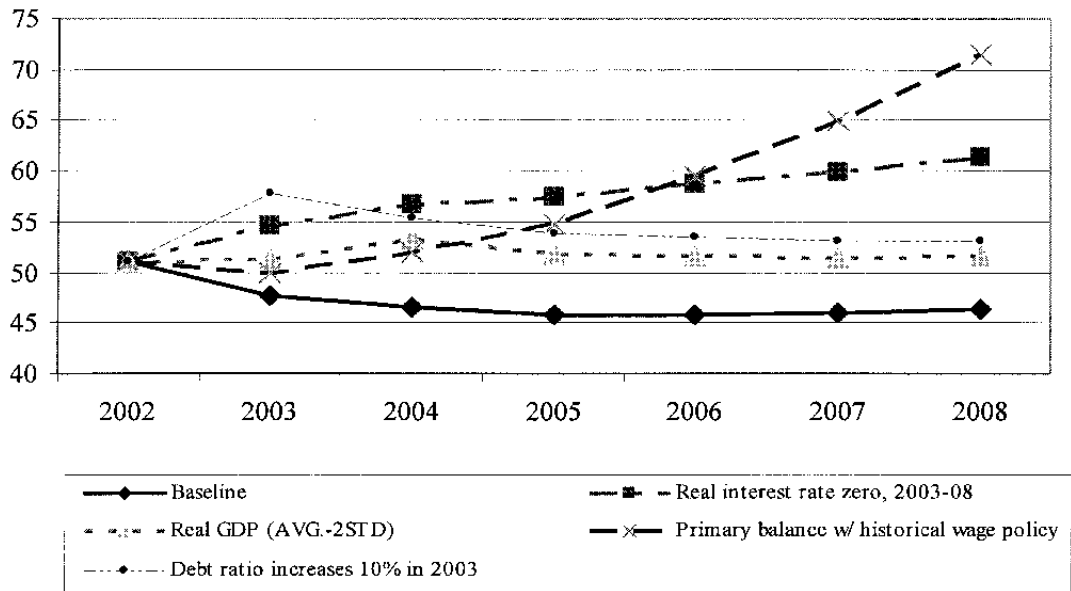
Sources: Suriname authorities; and Fund staff estimates.

Figure 6. Suriname: Public Debt Sustainability Analysis

External Debt as Percentage of GDP



Total Debt as Percent of GDP



Sources: Ministry of Finance; and Fund staff estimates.

38. **Monetary policy needs to be consistently aimed at ensuring price stability, as described in the Central Bank Act.** The high and volatile inflation observed in Suriname in the last eight years is mainly the result of subordinating monetary policy to fiscal financing needs and giving secondary importance to the implications for inflation or macroeconomic stability.

39. **The staff endorses the preparations under way to amend the Central Bank Act so as to strengthen the ability of the central bank to carry out its price stability mission.** Promoting price stability and the health of the banking system need to be established as the primary missions of the bank. In addition, it would be important to set limits on overall lending by the central bank to the government and to specify that any such lending be at the central bank's discretion, consistent with monetary policy objectives.

40. **The staff supports the introduction earlier this year of a reserve requirement on FX deposits,** which tightened monetary conditions and reduced an artificial incentive for increased dollarization of deposits. The staff recommends that the central bank continue to adjust both domestic and FX reserve requirements in order to achieve convergence between the two ratios, while ensuring that the overall monetary policy stance remains sufficiently tight.

41. **The staff supports the authorities' plan to introduce a new currency, which will help improve administrative efficiency for banks and convenience for the public.** A strong public education campaign will be needed to smooth the way for the launch of the new currency at the beginning of next year.

42. **The authorities should return quickly to a unified managed floating exchange rate system.** The current system, characterized by nonmarket clearing multiple exchange rates has created distortions that have adversely affected resource allocation, the public finances, and banking system operations. Moreover, there was hardly any beneficial effect on dampening inflation expectations, since domestic prices have moved in tandem with the illegal exchange rate. Suriname continues to maintain a multiple currency practice subject to Fund approval under Article VIII, Sections 2 (a) and 3 arising from the different exchange rates applying to government transactions and export surrender requirements imposed on the mining sector, as well as a nonofficial rate applicable to all other transactions. In the absence of a definite schedule for the removal of the multiple currency practice, the staff does not recommend Fund approval for the retention of this measure.

43. **On the basis of official data, the banking system, as a whole, appears relatively healthy.** The three largest banks, which account for 84 percent of the system, have capital adequacy ratios in line with minimum Basel guidelines and relatively low nonperforming loan ratios. Three small state banks, however, have serious solvency problems, and the staff urges the authorities to act quickly to resolve them. Careful implementation of the newly introduced prudential regulations will help strengthen supervision and regulation of the banking system. Stronger prudential regulations on FX lending are required, especially given the inherent risks arising from the already large dollarization of banking system.

44. **The development of the nonmining private sector is key for generating employment growth**, especially as the authorities contemplate a rationalization of the civil service and given the capital-intensive nature of the mining sector. The authorities' advances in trade liberalization, in particular through the adoption of CARICOM protocols, will help increase competitiveness, as will ongoing efforts to improve infrastructure. It will also be important to move ahead with their plans to privatize their banana, rice, and forestry companies, and in removing a host of obstacles to investment, as recommended by a recent IFC report.

45. **Notwithstanding improvements in all areas, the quality and timeliness of economic statistics still needs to be raised substantially so as not to compromise surveillance.** The authorities continue to make strong efforts to improve their statistics and the staff welcomes their decision to become part of the GDSS.

46. It is proposed that the next Article IV consultation with Suriname be held on the standard 12-month cycle.

Table 1. Suriname: Selected Economic Indicators

	1999	2000	2001	Prel. 2002	2003	2004	Projected			
							2005	2006	2007	2008
(Annual percentage change; unless otherwise indicated)										
Real economy										
GDP at 1990 prices	-0.9	-0.1	4.5	3.0	5.6	5.1	4.1	2.8	2.8	2.8
GDP current market prices (including informal sector)	97.1	54.6	41.4	34.3	31.7	21.7	15.9	13.1	13.1	13.1
Consumer prices (end of period)	112.8	80.4	4.9	28.4	20.0	13.0	10.0	10.0	10.0	10.0
Consumer prices (period average)	98.8	58.9	38.9	30.3	24.8	15.7	11.3	10.0	10.0	10.0
(In percent of GDP, including informal sector)										
National accounts										
Gross domestic investment	15.3	11.9	27.8	22.7	33.4	31.7	22.8	22.7	22.7	22.5
Private sector	9.2	9.6	25.4	20.9	30.4	27.7	19.6	19.8	19.8	19.6
Public sector	6.1	2.3	2.4	1.8	3.0	4.0	3.2	2.9	2.9	2.9
Gross national savings	-3.7	2.5	7.1	12.4	12.9	19.9	13.1	12.5	12.3	12.1
Foreign savings	19.0	9.4	20.7	10.3	20.5	11.8	9.7	10.2	10.4	10.4
(In percent of GDP, including informal sector)										
Central government										
Revenue and grants	23.7	27.2	38.7	29.3	31.4	30.4	30.7	30.7	30.6	30.6
Direct taxes	7.7	12.6	17.4	10.4	11.1	10.3	10.7	10.7	10.7	10.7
Indirect taxes	12.0	10.5	16.1	14.1	14.5	14.6	14.6	14.6	14.6	14.6
Nontax revenues	1.3	2.2	3.6	3.5	3.9	3.7	3.7	3.7	3.7	3.7
Grants	2.7	1.9	1.6	1.3	1.9	1.8	1.7	1.7	1.7	1.6
Total expenditure	33.3	39.3	35.5	36.3	35.1	34.2	33.4	33.2	33.2	33.3
Wages and salaries	12.5	13.1	12.0	15.2	14.5	12.6	12.6	12.6	12.6	12.6
Current transfers	5.6	7.0	9.1	6.5	5.8	5.9	5.9	5.9	5.9	5.9
Interest	0.4	0.6	2.9	2.6	2.7	2.6	2.6	2.6	2.6	2.7
Goods and services	8.0	16.3	8.4	10.3	9.1	9.1	9.1	9.1	9.1	9.1
Capital expenditure and net lending	6.8	2.3	3.1	1.8	3.0	4.0	3.3	3.0	3.0	3.0
Overall balance	-9.6	-12.1	3.2	-7.0	-3.6	-3.8	-2.7	-2.5	-2.6	-2.7
(Annual percentage change; unless otherwise indicated)										
Money and credit										
Domestic assets (net)	65.5	89.4	4.3	45.7	29.3	20.3	13.7	10.4	10.6	10.7
<i>Of which</i>										
Public sector	93.4	177.3	-63.5	186.6	16.1	14.8	9.4	7.8	8.4	8.9
Private sector	47.6	10.1	73.9	59.3	31.7	21.7	15.9	13.1	13.1	13.1
Money and quasi-money (M2) 1/	64.8	98.2	33.1	32.3	30.6	20.0	15.2	17.0	15.5	16.8
(In percent of GDP, including informal sector)										
External sector 2/ 3/ 4/										
Current account	-19.0	-9.4	-20.7	-10.3	-20.7	-11.7	-10.4	-10.5	-10.5	-10.6
Merchandise exports, f.o.b.	54.5	57.9	58.8	53.5	51.1	62.4	64.4	64.4	64.4	64.4
Merchandise imports, f.o.b.	-57.8	-56.4	-56.8	-48.2	-55.5	-57.8	-58.5	-58.5	-58.5	-58.5
Capital and financial Account	10.9	5.1	24.1	7.5	21.6	12.9	12.2	12.3	12.4	12.5
<i>Of which: External borrowing: central government</i>	3.1	-1.8	10.6	-3.0	0.6	1.9	1.4	1.3	1.4	1.6
Errors and omissions (net)	-0.5	4.1	8.0	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Reserves (-)=increase	8.5	0.2	-11.4	-0.2	-0.9	-1.2	-1.8	-1.8	-1.9	-1.9
Gross official reserves (in months of imports)	0.2	0.2	2.0	1.9	1.7	1.8	2.0	2.3	2.5	2.8
Total public debt:	50.2	74.7	50.6	51.0	47.7	46.6	45.7	45.8	46.0	46.4
Domestic	16.8	30.4	9.1	15.8	15.1	14.3	13.7	13.3	12.9	12.6
External 5/	33.4	44.3	41.5	35.2	32.7	32.3	32.0	32.5	33.1	33.8

Sources: Central Bank of Suriname; Ministry of Finance; General Bureau of Statistics; and Fund staff estimates and projections.

1/ Beginning in 2000, the Central Bank of Suriname began to record the foreign currency demand deposits of nationals, as part of the banking system liabilities to the private sector.

2/ Based on amounts expressed in U.S. dollars.

3/ Beginning in 2002, remittances, estimated at 2.5 percent of GDP, and informal gold sector exports, estimated at 10 percent of GDP are removed from net errors and omissions and included in their appropriate current account categories.

4/ Suriname experienced high inflation during 2000, while the average exchange rate did not depreciate significantly. Hence, dollar denominated GDP is abnormally high, distorting external sector numbers for that year.

5/ Includes arrears (to Brazil and United States) amounting to 10.9 percent of external debt at the end of 2002. Suriname has begun to pay off U.S. arrears and is negotiating a new payment schedule with Brazil.

Table 2. Suriname: Central Government Operations

(In percent of GDP)

	1999	2000	2001	2002	Projected	
					2003	2004
Revenues and grants	23.7	27.2	38.7	29.3	31.4	30.4
Revenues	21.1	25.3	37.0	27.9	29.5	28.6
Direct taxes	7.7	12.6	17.4	10.4	11.1	10.3
Indirect taxes	12.0	10.5	16.1	14.1	14.5	14.6
Nontax revenues	1.3	2.2	3.6	3.5	3.9	3.7
Grants	2.7	1.9	1.6	1.3	1.9	1.8
Expenditures and net lending	33.3	39.3	35.5	36.3	35.1	34.2
Current expenditures	26.5	37.0	32.4	34.5	32.1	30.2
Wages and salaries	12.5	13.1	12.0	15.2	14.5	12.6
Goods and services	8.0	16.3	8.4	10.3	9.1	9.1
Subsidies and transfers	5.6	7.0	9.1	6.5	5.8	5.9
<i>Of which</i>						
Private sector	0.5	0.9	1.0	0.2	0.0	0.0
Public sector	0.1	1.1	1.5	1.0	1.1	1.1
Households	5.1	5.0	6.7	5.2	4.7	4.8
Interest	0.4	0.6	2.9	2.6	2.7	2.6
Net lending	1.1	0.0	0.7	0.0	0.0	0.0
Capital expenditures	5.7	2.3	2.4	1.8	3.0	4.0
Primary balance	-9.2	-11.6	6.1	-4.5	-1.0	-1.2
Overall balance	-9.6	-12.1	3.2	-7.0	-3.6	-3.8
External amortization	-0.2	-12.8	-9.6	-3.3	-3.4	-2.9
Gross financing requirement	9.8	25.0	6.4	10.3	7.1	6.7
Net domestic borrowings	5.9	14.5	-9.8	10.3	3.1	1.9
Domestic commercial banks	0.4	3.5	1.9	0.2	1.1	0.8
Central bank	6.5	12.5	-12.9	8.8	0.5	0.7
Other domestic private sector	0.0	0.0	0.0	0.0	1.4	0.5
Nonidentified financing	-0.9	-1.5	1.3	1.3	0.0	0.0
Gross external borrowing	3.9	10.4	16.2	0.1	4.0	4.8
Bilateral agencies	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral agencies	0.0	0.0	0.0	0.1	1.6	1.3
Foreign commercial banks	3.9	10.4	16.2	0.0	0.0	0.9
Foreign nonbanks	0.0	0.0	0.0	0.0	2.4	2.6

Sources: Ministry of Finance; Central Bank of Suriname; and Fund staff estimates.

Table 3. Suriname: Summary Accounts of the Banking System

	1999	2000	2001	2002	Projected	
					2003	2004
(In billions of guilders)						
Net international reserves	18.6	27.4	216.6	253.3	330.7	417.5
Net other foreign assets	96.1	199.9	264.6	296.7	394.5	450.6
Net domestic assets	259.0	490.6	511.7	745.6	963.9	1,159.6
Net claims on the public sector	106.3	294.8	107.5	308.1	357.9	410.9
Central government (net)	100.6	289.6	105.4	305.7	354.4	406.9
Rest of the public sector (net)	5.7	5.2	2.1	2.4	3.4	4.0
Credit to the private sector	134.3	147.8	257.0	409.5	539.4	656.3
Claims on other financial institutions	0.5	0.6	0.7	0.8	1.0	1.3
Net unclassified assets	47.4	67.3	101.3	68.9	90.7	110.4
Official capital and surplus	-29.4	-19.9	45.2	-41.6	-25.2	-19.2
Liabilities to the private sector	373.7	717.9	993.0	1,295.6	1,689.2	2,027.6
Broad money	352.8	699.3	931.0	1,231.6	1,608.5	1,929.5
Monetary liabilities	136.0	269.4	382.2	527.6	689.1	826.6
Currency in circulation	81.7	150.6	182.4	203.8	236.7	297.9
Demand deposits	54.4	118.8	199.8	323.8	452.4	528.8
Quasi-money (including gold certificates)	111.9	175.1	190.8	223.7	292.2	350.5
Foreign currency deposits	104.9	254.7	357.9	480.2	627.2	752.4
Other liabilities	20.9	18.7	62.0	64.0	80.7	98.1
(Percent changes)						
Liabilities to the private sector	64.9	92.1	38.3	30.5	30.4	20.0
Broad money	64.8	98.2	33.1	32.3	30.6	20.0
Money	48.5	98.1	41.9	38.0	30.6	20.0
Quasi-money	26.8	56.5	9.0	17.2	30.6	20.0
Foreign currency deposits	205.6	142.8	40.5	34.2	30.6	20.0
Net domestic assets of the banking sector	65.5	89.4	4.3	45.7	29.3	20.3
Credit to the public sector	93.4	177.3	-63.5	186.6	16.1	14.8
Credit to the private sector	47.6	10.1	73.9	59.3	31.7	21.7
Liabilities to the private sector (in percent of GDP)	49.1	61.0	59.7	58.0	57.4	56.6
(Changes in guilders as a percent of liabilities of the previous period)						
Net foreign assets of the banking sector	19.6	30.1	35.4	6.9	13.5	8.5
Central bank international reserves	-9.1	2.4	26.4	3.7	6.0	5.1
Other net foreign assets	28.8	27.8	9.0	3.2	7.6	3.3
Net cosmetic assets of the banking sector	45.3	62.0	2.9	23.6	16.8	11.6
Credit to the public sector	22.7	50.4	-26.1	20.2	3.8	3.1
Credit to the private sector	19.1	3.6	15.2	15.4	10.0	6.9
Liabilities to the private sector	64.9	92.1	38.3	30.5	30.4	20.0
Money	19.6	35.7	15.7	14.6	12.5	8.1
Quasi-money	10.4	16.9	2.2	3.3	6.2	6.2
Foreign currency deposits	31.1	40.1	14.4	12.3	11.3	7.4
Other liabilities	3.7	-0.6	6.0	0.2	1.3	1.0

Source: Central Bank of Suriname.

Table 4. Suriname: Balance of Payments

(In millions of U.S. dollars)

	1999	2000	2001	2002	Projected	
					2003	2004
Current account	-168.2	-83.1	-158.0	-102.4	-216.3	-128.4
Trade balance	-29.5	13.3	15.3	52.6	-46.1	50.4
Exports, f.o.b.	482.5	513.9	449.0	529.4	533.2	685.3
Imports, f.o.b.	-512.1	-500.6	-433.7	-476.8	-579.3	-634.9
Services, net	-95.4	-115.0	-115.3	-127.6	-139.7	-146.9
Exports	79.1	91.0	59.4	38.5	43.9	34.1
Imports	-174.5	-206.0	-174.7	-166.1	-183.6	-181.0
Income, net	-63.9	-1.5	-80.0	-43.6	-47.7	-50.0
Private sector	-57.9	6.0	-67.6	-32.8	-34.6	-36.4
Public sector	-6.0	-7.5	-12.4	-10.8	-13.0	-13.6
<i>Of which</i> : NFPS interest	-6.0	-7.5	-12.4	-10.8	-13.0	-13.6
Current transfers, net	20.6	20.1	22.0	16.2	17.1	18.0
Capital and financial account	96.9	45.7	184.1	74.7	225.3	141.4
Capital account (public sector grants)	22.5	17.3	12.6	22.3	22.0	23.0
Financial account	74.4	28.4	171.5	52.4	203.3	118.4
Public sector	27.8	-15.9	80.7	-29.6	5.8	20.7
Nonfinancial public sector	27.8	-15.9	80.7	-29.6	5.8	20.7
Disbursements 1/	35.0	93.8	123.8	0.8	41.4	52.3
Amortization	-7.2	-109.7	-43.1	-30.4	-35.6	-31.6
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	20.4	19.7	50.1	58.1	161.3	69.6
Direct investment	24.0	14.0	11.4	14.8	115.6	21.5
Portfolio investment	0.0	0.0	0.0	0.0	0.0	0.0
Loans	-3.6	5.7	38.7	43.3	45.7	48.1
Short-term flows	26.2	24.6	40.7	23.9	36.2	28.1
Errors and omissions	-4.0	36.0	60.8	30.0	0.0	0.0
Overall balance	-75.3	-1.3	86.9	2.3	9.0	12.9
Financing	75.3	1.3	-86.9	-2.3	-9.0	-12.9
NFA of the central bank (-) increase	75.3	1.3	-86.9	-2.3	-9.0	-12.9
Memorandum items:						
Current account as percent of GDP	-19.0	-9.4	-20.7	-10.3	-20.7	-11.7
Long-term private capital flows as percent of current account	12.1	23.7	31.7	56.7	74.6	54.2
GDP in current U.S. dollars	885.4	887.6	764.2	989.3	1,044.3	1,097.9

Sources: Surinamese authorities; and Fund staff estimates.

1/ Includes financing gap disbursements beginning in 2003.

Table 5. Suriname: Indicators of the External Position and Financial Vulnerability

(In percent of GDP; unless otherwise stated)

	1999	2000	2001	Prel. 2002	Proj 2003
Financial indicators					
12-month percent change in broad money	64.8	98.2	33.1	32.3	30.6
12-month percent change in credit to the private sector	47.6	10.1	73.9	59.3	31.7
12-month percent change in net credit to the central government	106.5	187.8	-63.6	190.1	15.9
Deposit rates 1/	15.9	15.2	11.0	8.5	8.1
Lending rates 1/	28.5	29.0	24.2	22.3	21.9
External indicators					
12-month percent change in exports	-5.4	6.5	-12.6	17.9	0.7
12-month percent change in imports	-8.5	-2.2	-13.4	9.9	21.5
Current account balance	-19.0	-9.4	-20.7	-10.3	-20.7
Capital and financial account balance	10.9	5.1	24.1	7.5	21.6
<i>Of which</i> : private direct investment	2.7	1.6	1.5	1.5	11.1
External public sector debt	33.4	44.3	41.5	35.2	32.7
Stock of short-term public sector debt	7.4	4.9	2.5	2.0	2.0
Total public sector external debt (in percent of exports of goods and services)	45.9	39.6	62.3	55.4	55.5
External interest payments (in percent of exports of goods and nonfactor services)	1.1	1.2	2.4	1.9	2.3
Net Foreign assets (in U.S. dollars)	14.0	12.6	99.5	101.9	110.8
Exchange rate (per US\$, official market)	859.0	1,322	2,178	2,259	2,750
Exchange rate (per US\$, parallel market)	1,386	2,499	2,217	3,000	3,750
12-month REER percent change (depreciation (-))	-3.9	-16.8	2.7

Sources: Ministry of Finance; Central Bank of Suriname; and Fund staff estimates.

1/ Weighted average deposit rates.

2/ Based on the average index in the last quarter of each year.

Suriname: Baseline Scenario External Sustainability Framework, 1997-2008

(In percentage of GDP; unless otherwise indicated)

	Actual							Projections						
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
I. Baseline Medium-Term Projections														
I. Baseline scenario														
1. External debt/exports of G&S	28.3	28.0	41.5	53.5	46.6	70.6	59.4	60.1	49.8	48.4	49.2	50.1	51.2	
2. External debt	17.6	17.1	19.1	29.1	27.0	41.5	31.8	30.7	31.1	31.2	31.7	32.2	32.9	
3. Change in external debt		-0.5	2.0	10.0	-2.1	14.5	-9.7	-1.1	0.4	0.1	0.5	0.5	0.7	
4. Net debt-creating external flows (5+9+12)		6.2	10.6	21.1	7.7	23.5	-0.6	8.0	8.2	7.2	7.7	7.7	7.8	
5. Current account deficit, excluding interest payments	0.6	5.8	13.5	18.3	8.5	19.0	9.3	19.5	10.5	9.2	9.2	9.2	9.2	
6. Deficit in balance of goods and services	-7.0	-2.9	4.5	3.3	-1.5	-2.0	-5.3	4.4	-4.6	-5.9	-5.9	-5.9	-5.9	
7. Exports	62.2	61.1	46.0	54.5	57.9	58.8	53.5	51.1	62.4	64.4	64.4	64.4	64.4	
8. Imports	55.2	58.2	50.4	57.8	56.4	56.8	48.2	55.5	57.8	58.5	58.5	58.5	58.5	
9. Minus net nondebt creating inflows	-2.2	1.0	-0.8	-2.7	-1.6	-1.5	-1.5	-11.1	-2.0	-2.0	-2.0	-2.0	-2.0	
10. Net foreign direct investment, equity	2.2	-1.0	0.8	2.7	1.6	1.5	1.5	11.1	2.0	2.0	2.0	2.0	2.0	
11. Net portfolio investment, equity	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	
12. Automatic debt dynamics (14/13)		-0.6	-2.0	5.5	0.8	6.0	-8.3	-0.4	-0.3	0.0	0.5	0.5	0.6	
13. Adjustment factor: $1+g+p+gp$		1.1	1.2	0.8	1.0	0.9	1.3	1.1	1.1	1.0	1.0	1.0	1.0	
14. $(r-g-(p+gp))\text{debt}/\text{GDP}$ (15+16+17)		-0.7	-2.4	4.4	0.8	5.1	-10.8	-0.4	-0.3	0.0	0.5	0.5	0.6	
15. Contribution from nominal interest rate		0.6	1.0	0.5	0.8	1.4	1.4	1.3	1.3	1.3	1.4	1.4	1.5	
16. Contribution from real GDP growth		-1.0	-0.4	0.2	0.0	-1.2	-1.3	-1.8	-1.6	-1.3	-0.9	-0.9	-0.9	
17. Contribution from price and exchange rate changes		-0.3	-3.0	3.7	-0.1	5.0	-11.0	0.0	0.0	0.0	0.0	0.0	0.0	
18. Residual, incl. change in gross foreign assets (3-4)	0.0	-6.7	-8.6	-11.1	-9.9	-9.1	-9.1	-9.1	-7.9	-7.1	-7.2	-7.1	-7.1	
Additional macroeconomics and external assumptions														
Nominal GDP (local currency)	346,939	371,843	445,059	761,482	1,176,909	1,664,355	2,234,399	2,943,446	3,581,311	4,152,314	4,695,309	5,309,311	6,004,002	
Nominal GDP (U.S. dollars)	865	927	1,110	885	888	764	989	1,044	1,098	1,143	1,175	1,208	1,242	
Real GDP growth (in percent per year)		5.8	2.2	-0.9	-0.1	4.5	3.0	5.6	5.1	4.1	2.8	2.8	2.8	
Exchange rate (LC per U.S. dollar)	401	401	401	860	1,326	2,178	2,259	2,819	3,262	3,632	3,995	4,395	4,834	
Nominal GDP deflator (in US dollars, change in percent per year)		1.4	17.1	-19.5	0.3	-17.6	25.6	0.0	0.0	0.0	0.0	0.0	0.0	
External interest rate (percent per year)		3.5	5.7	2.8	2.9	5.2	3.4	4.1	4.3	4.3	4.4	4.4	4.7	
Growth of exports of G&S (U.S. dollar terms, in percent per year)		5.3	-9.9	-5.4	6.5	-12.6	17.9	0.7	28.5	7.4	2.8	2.8	2.8	
Growth of imports of G&S (U.S. dollar terms, in percent per year)		13.1	3.7	-8.5	-2.2	-13.4	9.9	21.5	9.6	5.3	2.8	2.8	2.8	
II. Sensitivity Analysis for External Debt-to-GDP Ratio														
II. Stress Tests for External Debt Ratio														
1. If interest rate in 2003 and 2004 is average plus two standard deviations, others at baseline								31.8	31.4	32.4	32.5	33.0	33.6	34.3
2. If real GDP growth rate in 2003 and 2004 is average minus two standard deviations, others at baseline								31.8	33.3	36.4	36.5	37.1	37.7	38.5
3. If US\$ GDP deflator in 2003 is average minus two standard deviations, others at baseline								31.8	47.5	47.8	47.9	48.7	49.5	50.5
4. If non-interest current account (in percent of GDP) in 2003 and 2004 is average minus two standard deviations, others at baseline								31.8	34.5	47.7	47.9	48.6	49.4	50.4
5. One time 30 percent depreciation in year 2003 (-30 percent GDP deflator shock), others at baseline.								31.8	44.1	44.4	44.5	45.2	46.0	46.9
Memorandum items:														
Current account deficit, excluding interest payments (percent of GDP, average of past 6 years)									12.4					
Current account deficit, excluding interest payments (percent of GDP, standard deviation of past 6 years)									5.4					
Net non-debt creating capital inflows (percent of GDP, average of past 6 years)									1.2					
Interest rate (average of past 6 years)									3.9					
Interest rate (standard deviation of past 6 years)									1.2					
Real GDP growth rate (average of past 6 years)									2.4					
Real GDP growth rate (standard deviation of past 6 years)									2.6					
GDP deflator, U.S. dollar terms (average of past 6 years)									1.2					
GDP deflator, U.S. dollar terms (standard deviation of past 6 years)									18.1					

Sources: Surinamese authorities; and Fund staff estimates.

Suriname: Baseline Scenario Public Sector Debt Sustainability Framework, 1998-2008

(In percent of GDP; unless otherwise indicated)

	Actual					Projections					
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
I. Baseline Medium-Term Projections											
I. Baseline Scenario											
1. Public sector debt^{1/}	30.5	50.2	74.7	50.6	51.0	47.7	46.6	45.7	45.8	46.0	46.4
<i>Of which: foreign currency denominated</i>	<i>19.1</i>	<i>33.4</i>	<i>44.3</i>	<i>41.5</i>	<i>35.2</i>	<i>32.7</i>	<i>32.3</i>	<i>32.0</i>	<i>32.5</i>	<i>33.1</i>	<i>33.8</i>
2. Change in public sector debt	6.7	19.8	24.5	-24.1	0.4	-3.3	-1.1	-0.9	0.1	0.2	0.4
3. Identified net debt-creating flows (4+5)	5.8	-3.1	-5.6	-25.1	-5.9	-8.7	-4.8	-3.8	-2.8	-2.8	-2.7
4. Primary deficit	8.8	9.2	11.6	-6.1	4.5	0.9	1.1	0.1	-0.2	-0.1	-0.1
Revenue and grants	34.3	23.7	27.2	38.7	29.3	31.6	30.6	30.9	30.9	30.8	30.8
Noninterest expenditure	43.2	32.9	38.8	32.6	33.7	32.5	31.7	31.0	30.7	30.7	30.7
5. Automatic Debt dynamics (7/6) 2/	-3.1	-12.2	-17.2	-19.0	-10.3	-9.6	-5.9	-3.8	-2.7	-2.7	-2.6
6. Adjustment factor: $1+g+\pi+g\pi$	1.2	1.7	1.5	1.4	1.3	1.3	1.2	1.2	1.1	1.1	1.1
7. Contributions from interest/growth differential	-3.7	-21.0	-26.5	-26.8	-13.9	-12.6	-7.1	-4.5	-3.0	-3.0	-2.9
8. <i>Of which: contributions from real interest rates</i>	<i>-3.0</i>	<i>-21.4</i>	<i>-26.6</i>	<i>-22.2</i>	<i>-11.9</i>	<i>-9.1</i>	<i>-4.3</i>	<i>-2.3</i>	<i>-1.6</i>	<i>-1.6</i>	<i>-1.5</i>
9. <i>Of which: contributions from real GDP growth</i>	<i>-0.6</i>	<i>0.5</i>	<i>0.1</i>	<i>-4.6</i>	<i>-2.0</i>	<i>-3.5</i>	<i>-2.8</i>	<i>-2.1</i>	<i>-1.4</i>	<i>-1.4</i>	<i>-1.4</i>
10. Residual, incl. asset changes (2-3)	0.9	22.8	30.1	1.0	6.2	5.5	3.6	2.9	2.9	3.0	3.0
Public debt in percent of revenues	88.7	211.7	274.6	130.8	174.2	150.8	152.3	147.9	148.5	149.3	150.8
Gross Financing 3/	9.8	9.8	25.0	6.4	10.3	6.4	3.7	2.7	2.4	2.5	2.7
In million of U.S. dollars	108.8	87.0	221.5	49.0	102.2	67.1	41.1	30.3	28.8	30.3	33.1
Additional macroeconomics and external assumptions											
Nominal GDP (local currency)	445,059	761,482	1,176,909	1,664,355	2,234,399	2,943,446	3,581,311	4,152,314	4,695,309	5,309,311	6,004,002
Real GDP growth (in percent per year)	2.2	-0.9	-0.1	4.5	3.0	5.6	5.1	4.1	2.8	2.8	2.8
Consumer price index (change, in percent per year)	19.0	98.8	58.9	3.3	15.5	24.8	15.7	11.3	10.0	10.0	10.0
Exchange rate (SF per U.S. dollar)	401	860	1,326	2,178	2,259	2,819	3,262	3,632	3,995	4,395	4,834
Nominal appreciation of local currency against US dollar	0.0	-53.4	-35.1	-39.1	-3.6	-19.9	-13.6	-10.2	-9.1	-9.1	-9.1
GDP deflator (change, in percent per year)	17.1	72.6	54.7	35.3	30.3	24.8	15.7	11.3	10.0	10.0	10.0
Average interest rate on public debt (percent per year)	4.3	2.3	1.7	5.5	6.9	6.9	6.7	6.4	6.4	6.5	6.7
Average real interest rate (nominal rate minus change in GDP deflator, percent)	-12.7	-70.3	-53.0	-29.8	-23.4	-17.9	-9.0	-5.0	-3.6	-3.5	-3.3
Growth of revenues (deflated by GDP deflator, in percent per year)	15.4	-31.5	14.6	48.7	-22.1	14.2	1.6	5.2	2.6	2.6	2.7
Growth of noninterest expenditure (deflated by GDP deflator, in percent per year)	32.4	-24.5	17.9	-12.1	6.6	1.8	2.5	1.8	1.8	2.8	2.8
II. Stress Tests for total public debt											
II. Stress Tests											
1. If real interest rate in 2003 and 2004 is zero during 2003-08					51.0	54.6	56.7	57.4	58.6	59.9	61.3
2. If real GDP growth rate in 2003 and 2004 is average minus two standard deviations, others at baseline					51.0	51.2	53.3	51.9	51.6	51.4	51.5
3. Primary balance (in percent of GDP) following historical wages and salaries policies					51.0	49.9	51.9	54.8	59.5	65.0	71.4
4. If debt ratio in 2003 rises by (additional) 10 percent of GDP, others at baseline					51.0	57.7	55.4	53.8	53.4	53.1	53.1
Memorandum Items:											
Primary deficit (percent of GDP, average of past 6 years)											5.2
Primary deficit (percent of GDP, standard deviation of past 6 years)											6.4
Real interest rate (nominal rate minus change in GDP deflator, average of past 6 years)											-37.8
Real interest rate (nominal rate minus change in GDP deflator, standard deviation of past 6 years)											23.4
Nominal interest rate (average of past 6 years)											3.9
Nominal interest rate (standard deviation of past 6 years)											2.0
Real GDP growth rate (average of past 6 years)											2.4
Real GDP growth rate (standard deviation of past 6 years)											2.6
GDP deflator (average of past 6 years)											35.2
GDP deflator (standard deviation of past 6 years)											25.6

Sources: Surinamese authorities; and Fund staff estimates.

1/ Gross debt of the general government.

2/ Derived as $((r - p) - g(1 + p)) / (1 + g + p + gp)$ times previous debt ratio, with r = interest rate, π = GDP deflator, growth rate; and g = real GDP growth rate.

3/ Define as fiscal deficit, plus amortization of medium and long-term public sector debt.

SURINAME—FUND RELATIONS

(As of August 06, 2003)

I. Membership Status: Joined 4/27/78.**A. Financial Relations**

II. General Resources Account:	SDR Million	Percent of Quota
Quota	92.1	100.0
Fund holdings of currency	86.0	93.3
Reserve position in the Fund	6.1	6.6

III. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	7.7	100.0
Holdings	1.4	17.6

IV. Outstanding Purchases and Loans:	None
V. Financial Arrangements:	None

VI. Projected Payments to the Fund: (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.05	0.10	0.10	0.10	0.10
Total	0.05	0.10	0.10	0.10	0.10

B. Nonfinancial Relations with the Authorities**VII. Exchange Rate Arrangements**

The national currency is the Surinamese guilder. Suriname continues to maintain multiple effective foreign exchange rates. The central bank uses a fixed exchange rate of 2,650 guilders per dollar for government and mining sector transactions and a rate of 1,400 guilders per U.S. dollar for baby milk imports. There is a ceiling on the exchange rate used by commercial banks and *cambios* is also fixed at a higher rate of 2,800 guilders per dollar.

There is an illegal parallel market that currently trades in the range 2,850–2,950 guilders per dollar.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on October 16, 2002 (SM/02/258). Suriname is on the standard 12-month consultation cycle.

IX. Technical Assistance

STA:

- (GDDS)—A GDDS mission will visit Suriname in November of 2003 to assist authorities in preparing their meta-data.
- (BOP)—A mission from the Statistical Department visited Suriname in October 2002 to make recommendations for improving the compilation and reporting of Balance of Payments Statistics.
- (MAB)—A mission from the Money and Banking Division of the Statistical Department visited Suriname in January 8, 2001 to make recommendations for improving the compilation and reporting of Banking Statistics, particularly, those of the central bank, and to complete a diagnostic study of the Banking system.
- (MAB)—A follow-up mission from the Money and Banking Division of the Statistical Department visited Suriname in August 28–September 10, 2001 to make recommendations for improving the compilation and reporting of Banking Statistics of the commercial banks.

MFD: An MFD expert visited Suriname during November 14–21, 2000, to review the exchange rate system and to advise the authorities on methods to improve the efficiency of the foreign exchange operation of the bank and cambios.

- An MFD bank supervision expert visited the central bank from May 1998 to February 2003. He assisted the authorities in the creation and implementation of the new banking supervision acts.

WHD: A mission from the Western Hemisphere Department visited Suriname in January 2003 at the request of the authorities to help assess the macroeconomic situation at the end of 2002 and suggest measures to help them reduce the central government's fiscal deficit.

Consents and acceptances: Quota increase approved.

Resident Representative: None.

Relations with the World Bank Group and the Inter-American Development Bank

A. World Bank Group

The Foreign Investment Advisory Service (FIAS) of the IFC completed a report in April 2003 that outlined recommendations on how to structure and improve the country's new investment initiative, including the 2001 Investment Law and the planned investment promotion agency InvestSur. A workshop to present the findings was held in Paramaribo in July 2003.

B. Inter-American Development Bank

Public Sector Reform

The IDB is in discussions with the government on terms of reference for a study that would set out the reform agenda (road map) for public sector reform.

Banking System

The authorities are working with the IDB to develop a reform and rationalization of the state banks. To this end, the IDB approved in May 2003 a technical cooperation project (Financial Sector Strengthening and Rationalization – US\$500,000) that will support a financial evaluation of the state banks and identify state bank reform strategies. If authorities decide to pursue a reform strategy, which is consistent with sound financial and public policy criteria, the project would also finance the development of a detailed implementation plan, the execution of which the IDB could support with a subsequent loan program.

Privatization

In 2002, the government requested IDB assistance with the privatization of state-owned enterprises in the agricultural sector (but excluding the banana company – Surland – for which the government is receiving assistance from the European Union). In April 2003, the IDB approved a technical cooperation project (Preparation of an Action Plan for the Privatization of Agro-industries – US\$150,000) that will assist the government in preparing for the privatization of state-owned agricultural enterprises. A consulting firm will be hired shortly and the assistance will take place over the next few months.

Financial Relations (as of May 2003)

	Total	Disbursed	Available
	Millions of U.S. dollars		
Loans in execution	58.40	20.90	37.50
Technical cooperations in execution	8.48	5.00	3.48

SURINAME—STATISTICAL ISSUES

The quality and timeliness of economic statistics has improved significantly over the past two years owing to strong efforts by the authorities. They have worked closely with STA to upgrade national income, monetary and balance of payments statistics and have formally expressed their interest in subscribing to the GDDS. Nevertheless, continued effort is required to bring statistics up to the level that is adequate for policy analysis. A new law upgrading the status of the Statistical Bureau was passed in late 2002, giving the agency more autonomy and power to enforce reporting requirements from the private sector. Planned amendments to the new central bank act also contain stricter reporting requirements by the private sector pertaining to the compilation of balance of payments statistics. The authorities successfully carried out a national population census in June 2003, which will be a key input in upgrading various economic statistics (e.g., labor force, consumer prices, informal sector activities).

Real Sector

The latest real sector data available are the preliminary estimates of the national income accounts for 2002. The Statistical Office has a measure for the informal sector but that still significantly underestimates its size.

Some efforts were made to improve the GDP data by production approach. The constant price series were rebased to the year 1990. The estimates in the different economic sectors are now based on indicator variables.

Notwithstanding these improvements, there are still no national accounts by expenditure approach and no labor statistics. There is also no reconciliation between the national accounts data and the balance of payments data. The CPI is reported and published regularly.

Public Finances

The only public sector financial data available are those for the central government; however, a substantial amount of additional information is needed to get a relatively accurate and comprehensive picture of the fiscal accounts. With respect to revenue, data are collected on a cash basis by the Inland Revenue Department and the Nontax Revenue Division. There is a Central Paymaster Department which also produces records on a cash basis, for both revenue and expenditure. The records of the paymaster are the basis for the central bank's statement of Central Government Operations, (produced daily, weekly, and monthly) and these, in turn, are the basis for the liquidity report on revenue and expenditure prepared by the Ministry of Finance (MoF). Some capital expenditure items pass through the Central Paymaster account but the majority of them seem to be recorded at the ministerial level and are not reflected in the paymasters' accounts. Consequently, capital expenditure has to be inferred from the level of external grants, which source is the external agency, as there are no central domestic records for receipts of external grants. In the compilation of nontax revenue, the official data include a number of nontax items such as grants and domestic and foreign loans.

Since there is no centralized data source for the compilation and reconciliation of the GFS from Suriname, at any point of time, the MoF, the Treasury department, the central bank, and the Central Paymaster data can differ in the amount obtained for the same category of revenues and expenditures. The authorities have begun the process of streamlining the system of fiscal reporting, improving the reconciliation process and standardizing the reporting format. There is a pressing need for standardization of expenditure by economic classification and more coordination between the MoF and other ministries for GFS compilation and reporting, as well as between the MoF and the central bank. Since 1991, no data on the central government operations in Suriname has been published in the IFS and no data are reported for publication in the *GFSY*.

For the rest of the public sector, there is an enormous statistical challenge with respect to the collection of financial data. Technical assistance from the Netherlands has been stationed recently in this area. The actual number of enterprises remains unknown, with officially 120 companies, but some are dormant, others are social associations (for the blind, handicapped, etc.) and many of them are small enterprises. Most of them, however, do not produce accounts on a timely basis and their impact on fiscal operations, domestic credit and employment is not known with any certainty.

Monetary Accounts

An STA mission visited Suriname in January 2001 to advise on the country's reporting format on monetary data, to help prepare a template for more transparent accounting of the assets and liabilities of the central bank, and to advise on ways to prepare and promote a faster and more accurate dissemination of monetary data. The authorities took seriously the suggestions and recommendations of this mission and since mid-2001 data on central bank activities are reported with lags of less than a month. The quality of the accounts make them suitable for publication in *IFS*.¹

To address the difficulties that still existed with the reporting of commercial banks' data, another STA mission visited the country in September 2001. The mission designed a new report form that expands the presentation and coverage to allow a proper sectorization of the accounts. The central bank has implemented the mission's recommendations, and in May 2002 the commercial banks started reporting data using the new format, with an average lag of three months.

¹ The mission will attempt to assess whether the provision of data on reserves and external debt is consistent with the SDDS benchmarks.

Balance of Payments

The balance of payments data are still prepared on a cash basis in Suriname. While trade data are relatively reliable, data on services and capital inflows suffer from poor compilation systems and procedures, misclassification and poor procedures of reconciliation. During October 2002, a STA technical assistance mission visited Suriname to assess progress in improving balance of payments compilation consistent with the *Balance of Payments Manual Fifth Edition (BMP5)*, and to design new survey and reporting formats that would allow for detailed *BPM5* classifications.

The mission noted the need for additional human and technological resources and the need to strengthen the legal framework within which the central bank can request data from private enterprises. The authorities are contemplating the drafting of new paragraphs to the Central Bank Act to strengthen the ability of the central bank to collect data from private sector firms and to impose stronger penalties on noncompliant firms. The need for additional staff training, and the possibility of further technical assistance were also identified.

Suriname: Core Statistical Indicators
(as of August 6, 2003)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Public Debt
Date of latest observation	06/03	06/03	06/03	06/03	04/03	04/03	06/03	12/02	12/02	05/03	2002	12/02
Date received	07/03	07/03	07/03	07/03	07/03	07/03	07/03	05/03	07/03	07/03	07/03	06/03
Frequency of data	Daily	Monthly	Daily	Daily	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Annually	Monthly
Frequency of reporting	Monthly	Monthly 1 month lag	Monthly Less than 1 month lag	Monthly Less than 1 month lag	Monthly 1 month lag	Monthly 3-4 month lag	Monthly Less than 1 month lag	Monthly 3-6 months	Quarterly	Monthly 1 month Lag	Annually	Monthly 1 month Lag
Source of update	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency	Official Agency
Mode of reporting	Fax E-Mail	Fax E-Mail	Fax E-Mail	Fax E-Mail	Fax E-Mail	Fax E-Mail	Fax E-Mail	Fax E-Mai	E-Mail	E-Mail	Staff Visit	E-Mail
Confidentiality	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Use by staff only
Frequency of publication	Monthly	Monthly	Annually	Quarterly	Quarterly	Quarterly	Monthly	Annually	Annually	Annually	Annually	...



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

IMF Concludes 2003 Article IV Consultation with Suriname

On October 17, 2003 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.¹

Background

This year, the authorities have taken strong steps to stabilize macroeconomic conditions following a sharp depreciation of the currency and a rise in inflation in 2002. Real GDP growth slowed from 4.5 percent in 2001 to 3 percent last year. In 2003, the authorities raised the sales tax by 3 percentage points, introduced a casino tax and a temporary, one-year 10-percentage point "bridging" tax on corporate incomes and the highest personal incomes, and adjusted gasoline prices. In addition they maintained a tight rein on spending, including resisting any increases in civil service salaries.

Despite lower than envisaged yields from the tax measures, the fiscal balance shifted to a surplus of 1 percent of period GDP for the first eight months of 2003, compared with a deficit of 7½ percent for the same period in 2002. The improved fiscal performance was complemented by a tightening of monetary policy. The 12-month growth rate of reserve money declined from 32 percent in December 2002 to negative 2 percent in August 2003.

As a result of these measures, the 12-month inflation rate in June 2003 was 28.4 percent, unchanged from December 2002, while quarterly inflation decelerated sharply from 6.2 percent

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

in the first quarter of 2003 to 3.1 percent in the second quarter. The illegal parallel market exchange rate appreciated by 5 percent since the beginning of the year, virtually eliminating the spread with the commercial bank exchange rate by July.

During the past year, the authorities embarked on a number of structural reforms designed to address vulnerabilities and improve economic efficiency. To improve fiscal governance, budget processes, and tax administration, the authorities launched a three-year institutional strengthening program with technical assistance from the government of the Netherlands. To strengthen the financial system, a new banking supervision law was passed and the central bank introduced new prudential regulations, in line with Basel Core Principles. An anti-money laundering law was passed in August last year. In trade policy, Suriname implemented the final phase of the CARICOM common external tariff and approved the CARICOM Single Market and Economy Treaty. However, progress on public sector reform has been limited.

Executive Board Assessment

Directors commended the Surinamese authorities for their efforts in 2003 to stabilize the economy, noting that fiscal and monetary policies have been tightened and that the authorities have embarked on a number of structural reforms to address external vulnerabilities. As a result, the fiscal balance has improved in 2003, and exchange market and inflation pressures have abated. Directors stressed that macroeconomic stabilization and sustained economic growth over the medium term will require continued fiscal consolidation, rapid progress toward exchange rate unification, economic diversification, structural reforms, and improvements in governance.

Directors urged that macroeconomic stabilization remain a priority in the face of spending pressures that could arise in 2004 from wage demands and the general election campaign. They congratulated the authorities for having kept a tight rein on government spending and urged that fiscal policy should continue to emphasize wage restraint. At the same time, improving tax administration and moving ahead with public sector reform will be key for macroeconomic stability and fiscal sustainability in the medium term. Directors also noted that raising government saving will be necessary to help finance much needed infrastructure investment.

Directors highlighted the need to substantially improve tax administration in order to increase collections and improve the equity of the tax system. They noted that widespread tax evasion and an uneven tax collection effort, partly related to governance problems, have resulted in volatile tax revenue over many years. They encouraged the authorities to take advantage of technical assistance provided by donors to strengthen the institutional capacity of the tax department and to improve administrative efficiency and governance.

Directors emphasized the importance of public sector reform for raising overall economic efficiency as well as for fiscal sustainability. They noted that a reform of the civil service is urgently needed to reduce its size, better match personnel with needed occupations, and improve public service delivery. In addition, a restructuring of the public enterprise sector, including rationalizing its size through closures and privatization, would be key to improving its

productivity and profitability. Directors encouraged the authorities to move ahead with plans to formulate a comprehensive public sector reform strategy, while paying due attention to the possible impact on unemployment and poverty.

Directors recognized the key role played this year by the tightening of monetary conditions in reducing volatility in the foreign exchange market and subduing inflation expectations. They noted that the high and volatile rate of inflation observed in Suriname in the last eight years was mainly the result of subordinating monetary policy to fiscal financing needs. They therefore supported plans to amend the Central Bank Act so as to strengthen the ability of the central bank to enforce the limit on advances to the government and to manage liquidity conditions in order to achieve price stability. In this context, it would be important to make the limits and conditions for central bank financing of the government more explicit and transparent, and to develop indirect instruments of monetary control to supplement reserve requirements.

Directors urged the authorities to return quickly to a unified, market-determined exchange rate system. They were encouraged by the authorities' plans to phase out the temporary ceiling on the commercial bank exchange rate as soon as conditions allow. They considered this reform to be important for building credibility in the new currency that is to be introduced next year.

Directors noted that the overall banking system appears to be relatively healthy, but urged the authorities to take action to resolve problems in three small insolvent state-owned banks. In this context, they commended the authorities on the introduction of new bank regulations aimed at upgrading the supervisory and regulatory framework in line with the Basel Core Principles and encouraged them to press ahead with their full implementation. Directors encouraged the authorities to take steps to strengthen the supervision and regulation of foreign exchange bureaus. They welcomed the introduction of an anti-money-laundering law in August last year.

Directors supported the introduction of reserve requirements on foreign currency deposits, but saw the need for additional prudential safeguards to deal with the potential risks from the relatively high rate of dollarization. Directors also encouraged the authorities to unify the reserve requirements on foreign currency deposits and those on domestic currency deposits, in order to discourage dollarization of deposits.

Directors noted that the development of the nonmining private sector is key for generating employment growth, especially as the authorities contemplate a rationalization of the civil service and given the capital intensive nature of the mining sector. Directors emphasized that advances in trade liberalization, in particular through the adoption of CARICOM protocols, would help increase competitiveness, as would ongoing efforts to improve infrastructure. In this context, they encouraged the authorities to move ahead expeditiously with removing a host of obstacles to investment, as recommended by a recent International Finance Corp. report, and with their plans to privatize their banana, rice, and forestry companies.

Directors observed that significant progress has been made in all areas in improving the quality and timeliness of economic statistics, and encouraged further progress to make surveillance more effective. In this connection, they welcomed the authorities' decision to subscribe to the

General Data Dissemination System, and encouraged them to continue to take full advantage of the technical assistance being provided by the Fund and the Inter-American Development Bank.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Suriname is also available.

Suriname: Selected Economic Indicators

	2000	2001	2002	Projections	
				2003	2004
(Annual percentage change, unless otherwise indicated)					
Real economy					
GDP at 1990 prices 1/	-0.1	4.5	3.0	5.6	5.1
GDP current market prices	54.6	41.4	34.3	31.7	21.7
Consumer prices (End of period)	80.4	4.9	28.4	20.0	13.0
(In percent of GDP, including informal sector)					
National accounts					
Gross domestic investment	11.9	27.8	22.7	33.3	31.5
Gross national saving	2.5	7.1	12.4	12.6	19.8
Foreign saving	9.4	20.7	10.3	20.7	11.7
Central government					
Revenue and grants	27.2	38.7	29.3	31.6	30.6
Expenditure and net lending	39.3	35.5	35.3	35.2	34.3
Overall balance	-12.1	3.2	-6.1	-3.6	-3.7
(Annual percentage change, unless otherwise indicated)					
Money and credit					
Domestic assets (net)	89.4	4.3	45.7	29.3	20.3
<i>Of which</i>					
Public sector	177.3	-63.5	186.6	16.1	14.8
Private sector	10.1	73.9	59.3	31.7	21.7
Money and quasi-money (M2) 2/	98.2	33.1	32.3	30.6	20.0
(In percent of GDP, including informal sector)					
External Sector 3/					
Current account	-9.4	-20.7	-10.3	-20.7	-11.7
Merchandise exports, f.o.b.	57.9	58.8	53.5	51.1	62.4
Merchandise imports, f.o.b.	-56.4	-56.8	-48.2	-55.5	-57.8
Capital and financial account	5.1	24.1	7.5	21.6	12.9
<i>Of which: External borrowing: Central government</i>	-1.8	10.6	-3.0	0.6	1.9
Errors and omissions (net)	4.1	8.0	3.0	0.0	0.0
Change in reserves (-)=increase	0.2	-11.4	-0.2	-0.9	-1.2
Gross official reserves (In months of imports)	0.2	2.0	1.9	1.7	1.8
Stock of external public debt	44.3	41.5	35.2	32.7	32.3

Sources: Central Bank of Suriname; Ministry of Finance; General Bureau of Statistics; and IMF staff estimates and projections.

1/ Includes estimate of informal sector as of 1995.

2/ Beginning in 2000, the Central Bank of Suriname began to record the foreign currency demand deposits of nationals, as part of the banking system liabilities to the private sector.

3/ Based on amounts expressed in U.S. dollars.

**Statement by Murilo Portugal, Executive Director for Suriname
and Charles de Silva, Advisor to Executive Director
October 17, 2003**

1. We thank the staff for the Article IV report which presents a candid and helpful assessment of policy developments in Suriname. Our authorities have welcomed the dialogue with the Fund and express their appreciation of the valuable policy advice emanating from the discussions.

Recent Economic Developments

2. Over the last three years, our Surinamese authorities have made strenuous efforts to turn around the precarious macroeconomic conditions that greeted their accession to office, including successive years of declining output. The last triennium has been marked by a series of courageous but unavoidable steps on the external front, including a sharp devaluation of the guilder and rationalization of a disorderly system of multiple exchange rates. Domestically, our authorities have taken firm action to minimize price controls, raise water and electricity tariffs, and eliminate the subsidy on gasoline. On the fiscal-monetary front, they moved decisively to curtail Central Bank financing of government fiscal deficits. In short, our Surinamese authorities launched a concerted assault on many of the structural and policy distortions that had given rise to past economic underperformance and macroeconomic imbalances, sending strong signals of their commitment to build a robust and competitive economy.

3. Macroeconomic indicators improved dramatically in response to policy reforms, and growth returned at a strong rate of 4.5 percent in 2001, but this was not sustained as financial and industrial problems in the agricultural sector and weakening prices for key commodity exports combined to slow GDP growth in 2002. The strong fiscal performance which had resulted in a healthy surplus in the previous year also could not be repeated in 2002 as revenue slippages coincided with the government's need to meet its higher expenditure obligations arising from a long-deferred rationalizing of public service pay structures. These developments on the external and internal fronts ignited considerable pressures in the foreign exchange market and triggered a depreciation of the guilder, which the authorities felt constrained to arrest in the interest of exchange market and price stability. In this context, temporary ceilings on the non-official exchange rate were introduced.

4. The authorities have now reasserted the firm macroeconomic stance required to stabilize macroeconomic conditions and support sound economic growth, which is expected to accelerate to 5.6 percent in 2003 and retain much of this momentum into the following year. The fiscal balance for the first five months of 2003 has returned to a surplus while exchange rate pressures have abated and, aided by appropriately tight monetary policy, are contributing to a lowering of inflationary expectations. Against the backdrop of a generally stable economic outlook, investment prospects look strong –especially with regard to the mining sector, and although current account deficits are expected over the next two years as a

result of large projected investments, financing flows should be sufficient to enable small build-ups in external assets.

Fiscal Policy

5. Our authorities have signaled their determination to ensure that public finances continue to evolve in line with the requirements of macroeconomic stability. In this regard, they have moved swiftly to re-consolidate the fiscal accounts after a fall-off in revenue collections and a rise in the public sector wage bill in 2002 combined to reverse some of the progress that had been achieved earlier. They have taken firm measures to strengthen revenues, including increases in the rates of sales taxes, introduction of a casino tax, and implementation of a further rise in fuel prices.

6. Following the large increase in 2002 to correct long-standing wage distortions in the public sector, our authorities are keenly mindful of the need to keep further increases in the public sector wage bill in check, and have effected no increases in 2003. They have also committed to keep a tight rein on non-wage expenditure and will ensure that there will be no real increase in recurrent spending in the coming fiscal year. At the same time, they are understandably anxious to begin addressing the badly deteriorated state of the country's infrastructure to bring sorely needed relief to the population, and as an essential part of efforts to build a durable platform for future growth. Nevertheless, they will do so while staying within the parameters of sound financial management and with due regard to considerations of debt sustainability. In this connection our authorities indicate that, having made the final balloon payment on September 15, Suriname has now fully repaid the loan for the construction of two bridges across two of her major rivers. Consequently, the lien as collateral security on foreign exchange revenues from one of the bauxite companies has now been released.

7. Our authorities also recognize that if the public service is to play its part in the thrust towards a more efficient and competitive economy, as well as support the rationalization of the public finances, it will need to be carefully streamlined. They are therefore committed to reducing the size of the public service in line with these objectives, but remain mindful of the need to manage sensitively the social fall-out of this initiative. Our authorities are seeking to develop a close working partnership with both the IDB and the UNDP with the aim of accelerating progress towards their public service reform objectives.

Monetary and Financial Sector Policies

8. Price and exchange rate stability, and maintenance of a strong and healthy financial system, are viewed as important linchpins in the authorities' efforts to restore macroeconomic stability. In this regard they have placed the highest priority on ensuring that the Central Bank remains focused on these key objectives, and on enhancing the independence and internal governance of the Bank to enable it to better discharge its functions. The country's painful inflationary experience during most of the last decade, and the role of monetary accommodation in fueling inflation, have strengthened the authorities' resolve and commitment to the goal of a firm and independent monetary policy.

9. Consequently, Central Bank legislation will be reinforced to further limit the possibilities of excessive or injudicious financing of the treasury and to place a heavier burden of accountability on Bank officials at key decision-making levels. The authorities are also aware of the fact that moving to the use of open market operations, which could allow for the reduction of existing high reserve requirements, would bring significant efficiency gains to the conduct of monetary policy and to the financial intermediation process. They therefore intend to give priority to this objective in 2004 once the introduction of a new currency early in the year is completed.

10. Given the healthy condition of all three of the systemically important banks, including provisioning levels in excess of the minimum guidelines, the banking system remains in generally sound condition. Nevertheless, the authorities take very seriously the need for measures to resolve as quickly as possible the situation of three smaller state-owned banks whose financial condition remains somewhat doubtful. They have already set in train a course of action, involving technical assistance from the IDB, which should allow this matter to be conclusively determined in 2004.

11. At the same time the authorities are determined to put in place, in the shortest possible time, a modernized and robust regulatory framework to preserve the sound operation of the financial system. To this end, they have recently legislated stronger and more extensive supervisory powers for the central bank, on the basis of which the bank has issued new prudential regulations that conform to international standards. Commercial banks are also making strong efforts and reasonably good progress in gearing their systems to comply with the updated supervisory requirements and prudential regulations. Our authorities value highly their collaborative relationship with the Fund in their ongoing efforts to build capacity for implementing the new regulations.

Exchange Rate Policy

12. Our authorities are aware that there are some costs associated with maintaining the current exchange rate arrangements but consider that for the time being they continue to play a useful role in stabilizing the exchange rate and in anchoring inflation. They wish to assure the Board that they regard the existing exchange rate ceilings as temporary, and it is their intention to phase them out as soon as conditions allow. In this regard there has been some recent strengthening of the currency, as a result of which the premium on the U.S. dollar in parallel markets has narrowed.

Economic Statistics

13. The authorities are continuing their efforts to improve the quality and timeliness of economic statistics and, in this regard, they have benefited immensely from technical assistance by the Fund. Nevertheless, they are aware that a great deal remains to be done. Our authorities have taken important steps to address the problem of data responsiveness and increase the flow of data to collection agencies, including the passage of legislation to strengthen the powers of the Statistical Bureau. They are optimistic that these efforts will

pave the way for early subscription to the GDDS, having officially signaled their intention to participate.

Conclusion

14. Our authorities wish to convey to the Executive Board assurance of their commitment to maintaining a sound macroeconomic policy framework, and to implementing structural policies conducive to the long-term growth and development of Suriname and to the well-being of its population.