April 2005
IMF Country Report No. 05/143

Suriname: 2004 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 2004 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 15, 2004 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 March 8, 2005. 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 March 25, 2005 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Suriname.

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

Selected Issues Paper

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SURINAME

Staff Report for the 2004 Article IV Consultation

Prepared by the Staff Representatives for
the 2004 Consultation with Suriname

Approved by Christopher Towe and Michael Hadjimichael

March 8, 2005

Discussions for the 2004 Article IV consultation took place in Paramaribo during November 30–December 16, 2004. The mission consisted of Messrs. B. Fritz-Krockow (Head), T. Roy, G. El-Masry, and Ms. M. Torres (all WHD). The mission met with Minister of Finance Hildenberg, Central Bank President Telting, and other senior government officials, representatives of the business community, labor unions, and opposition political parties. Ms. K. Florestal (OED) participated in the policy discussions.

Last Article IV consultation. At its conclusion on October 17, 2003, Directors commended the authorities for their efforts to stabilize the economy in 2003 by tightening fiscal and monetary policies. They stressed that macroeconomic stabilization should remain a priority and highlighted the need to substantially improve tax administration and reform the public sector.

Recent developments. Economic growth has accelerated reflecting increased mining output and a return of confidence as a result of a more stable macroeconomic situation. More disciplined monetary and fiscal policies have helped reduce inflation and stabilize the exchange rate, although pressures on prices are reemerging as a result of somewhat more expansionary policy stance and uncertainties related to the forthcoming elections.

Key policy issues. The main short-term challenge for Suriname is to maintain disciplined fiscal and monetary polices before and after the May 2005 elections. Over the medium term, Suriname will need to develop and entrench a consistent macroeconomic policy framework and advance critical public sector reforms to minimize the vulnerability to exogenous shocks, ensure continued growth in income and employment, and maintain a sustainable debt position.

Exchange arrangement. The authorities have made progress in unifying exchange rates under the managed float regime, but Suriname still maintains multiple currency practices.

Statistics. Despite Suriname's subscription to the GDDS in June 2004, there remain serious problems in the quality, coverage, and provision of economic data, in particular national accounts and trade statistics.

Contents Page

EXECUTIVE SUMMARY

The authorities tightened macroeconomic policies in late 2002, which stabilized the economy, helped reduce inflation, and supported growth. A reduction in the fiscal deficit from 6½ percent of GDP in 2002 to near balance in 2003, coupled with a tighter monetary policy, helped lower inflation from 23 percent in 2002 to 9 percent in 2004. The stable macroeconomic policy environment and strong mining exports helped boost real GDP growth to around 5 percent in 2003 and 2004.

The policy stance eased somewhat in 2004. The central government deficit widened to about 1¾ percent of GDP on account of larger capital expenditure, and the Central Bank of Suriname reduced reserve requirements on domestic deposits, partly aimed at stimulating the housing sector.

On current policies, the medium-term outlook would appear manageable, but there are significant vulnerabilities. Suriname has a history of sudden and highly destabilizing shifts in policy, especially in the face of shocks to global commodity prices, and there is the risk of policy slippages both before and after the May 2005 elections.

The key challenge is to maintain and entrench stable macroeconomic policies. It is important to resist pre-election spending pressures and to avoid undermining the credibility of recently enacted fiscal responsibility legislation. On the monetary policy front, care will be needed to ensure that the policy stance remains consistent with low inflation and helps stem recent pressure toward dollarization, while moving to a unified exchange rate. In addition, it will be important to advance far-reaching reforms of the civil service and to deal with the large number of public enterprises.

Over the medium term, the authorities should strive to reduce the country's vulnerability to shocks. Key priorities are to broaden the fiscal revenue base and reduce its dependency on mining exports, reform the domestic fuel taxation, and explore amendments to the fiscal framework that would limit its vulnerability to volatility in the mining sector. Similarly, there is scope for establishing a firmer anchor for monetary policy, possibly based on targets for a monetary aggregate. In addition, there is a need to strengthen prudential regulations and banking supervision, in particular to mitigate the balance sheet risks emanating from dollarization.

I. BACKGROUND

A. A Brief Perspective

1. **In the past, Suriname has been prone to exogenous shocks and poor macroeconomic management.** The economy is heavily dependent on bauxite and gold exports, as well as private remittances from abroad. A large and inefficient public sector, which includes about 120 public enterprises, accounts for about 60 percent of formal employment. Fiscal and monetary policies have tended to amplify the effects of negative shocks to bauxite export receipts, and since the 1970s the economy has suffered through two separate episodes of hyperinflation; output growth has been highly volatile; and there have been repeated instances of external payment difficulties.

Social Indicators

	Suriname	Latin America & Caribbean Average
Rank in UNDP Human Development Index, out of 177 countries (2004)	67	78
GDP per capita in PPP, US dollars (2002)	6,590	7,223
Life expentancy at birth (years) (2002)	71	71
Infant mortality (1,000 live births) (2002)	40	27
Access to safe water (2000) (percent of population)	82	86
Adult illiteracy (2002) (percent of population)	6	11
Secondary school net enrollment (2002) (percent of population)	63	64

Sources: UNDP, Human Development Report 2004; and World Bank Development Data.

2. **Suriname's social indicators are above the average for Latin America and the Caribbean**. However, the country has limited sources of employment outside of the mining industry and the public sector.[1] The latest poverty survey highlights the fact that poor and rural households in Suriname were particularly affected by erratic macroeconomic policies and their impact on inflation and real household incomes.[2]

3. **General parliamentary and indirect presidential elections are scheduled for May 2005.** The political landscape comprises shifting coalitions among a large number of small, mostly ethnically-based political parties. The coalition supporting the present

[1] While the formal mining sector is capital intensive, the informal gold mining sector provides employment for a very large segment of the rural population. See the chapter on the gold sector in the accompanying Selected Issues paper.

[2] RobVos, Niek de Jong, and Geske Dijkstra, "Employment, Poverty and Income Distribution," in: van Dijck (Ed.), "The Suriname Economy, Prospects for Sustainable Developments," 2001.

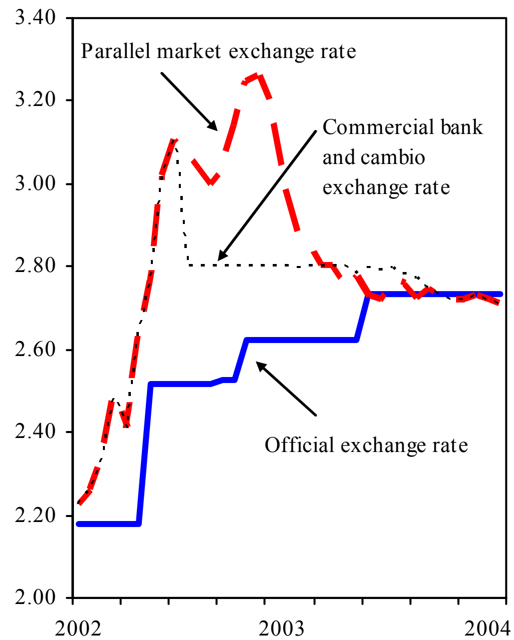
administration, led by President Ronald Venetiaan, favors maintaining stable macroeconomic policies, while some of the main opposition groups have stated a preference for a more expansionary policy stance.

B. Recent Developments

4. **A tighter monetary and fiscal policy stance helped stabilize the exchange rate and moderate inflation pressures in 2003.** Reserve requirements were increased in late 2002. Coupled with a substantial narrowing of the fiscal deficit, the Central Bank of Suriname (CBvS) was able to moderate growth of credit to the central government and of reserve money, and broad money growth halved from 32 percent in 2002 to 16 percent in 2003, with the banking system's net domestic assets contributing a mere 4 percentage points. These policies contributed to an easing of inflation to an estimated 13 percent in 2003 and an estimated 9 percent in 2004.[3]

5. **Economic growth accelerated in 2003 and 2004, reflecting increased mining output and the effects of macroeconomic stability on confidence.** Growth is estimated to have averaged around 5 percent in both 2003 and 2004, mainly owing to continued large-scale investment in the mining sector, a new gold mine in Rosebel that became operational in April 2004, and an expansion of the Suralco alumina refinery. In addition, activity was boosted by investment in public housing, with about 4,000 new units having been constructed since 2003.

Exchange Rates, 2002-04
(Surinamese dollars per U.S. dollar)



Source: Central Bank of Suriname.

6. **The more stable macroeconomic environment laid the foundation for the successful launch of the Suriname dollar.**[4] In January 2004, the CBvS replaced the Suriname guilder with the Suriname dollar (SRD) at a rate of Sf1,000 per SRD. Shortly thereafter, the CBvS devalued the official exchange rate by 4 percent, thereby reducing the spread against the parallel market rate to less than 2½ percent.

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[3] Data for 2003 and 2004 are Fund staff estimates. CPI data are not available between July 2003 and March 2004, owing to a fire that destroyed the General Bureau of Statistics' (ABS) building. The ABS resumed monthly CPI data collection and processing only after moving into new facilities in March 2004.

[4] See the chapter on Monetary Policy and the Exchange Rate Regime in the accompanying Selected Issues paper.

In June 2004, the CBvS eliminated ceilings and floors on trading at the parallel exchange rate. Since then, the parallel rate has further converged toward the official rate of SDR 2.75 per U.S. dollar.[5]

7. **The fiscal stance eased somewhat in 2004.** The central government's overall deficit narrowed substantially during 2003, falling from 6½ percent of GDP in 2002 to 0.1 percent of GDP, as a result of wage restraint and tight controls on current outlays. However, the deficit rose to an estimated 1.8 percent of GDP in 2004, owing to a substantial increase in capital expenditure on account of several large infrastructure and road improvement projects and a drop in petroleum taxes. These factors more than offset the effects of higher tax payments by the bauxite sector and the lagged effect on revenues of a temporary corporate income tax surcharge for 2003.[6]

8. **Monetary policy also became somewhat more accommodative in 2004.** The CBvS lowered reserve requirements on domestic currency deposits from 35 percent to 30 percent and allowed commercial banks to invest up to 7 percentage points of the required reserves on domestic currency deposits in low-interest housing loans to low-income groups. This measure reduced the effective reserve ratio on domestic deposits to about 26½ percent at end-December 2004.[7] Broad money growth accelerated to 29 percent in 2004, reflecting a strong increase in net international reserves and an expansion of credit to the private sector of 32½ percent.

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[5] The official rate is determined by the CBvS and is used for its transactions, including the surrender of mining export proceeds; the commercial rate is determined by commercial banks and foreign exchange houses (*cambios*); the black market rate is used by nonbank financial intermediaries, but has become less important since the CBvS eliminated the ceilings and floors for the commercial rate. There are also highly subsidized official exchange rates for imports of infant formula and milk powder.

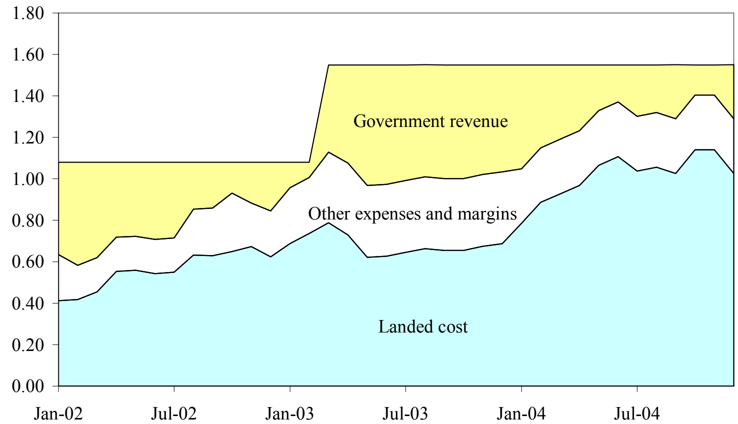
[6] Even though Suriname's tax-to-GDP ratio is high, the income tax relies heavily on the mining industry and taxation of the nonmining sector is further hampered by a weak tax and customs administration. The authorities have requested technical assistance to address these issues.

[7] Commercial banks have invested about 2½ percent of their deposit liabilities in such mortgages since the announcement. The effective reserve requirement ratio is calculated by excluding these mortgages.

Box: Taxation of Petroleum Products

Government revenue from petroleum products comprises an import duty, a turnover tax, a road levy, and a variable petroleum consumption tax. The latter tax is collected as the residual difference between the pump price and landed cost plus margins for transportation and distribution. Pump prices and the margins for domestic distribution are fixed by the government.

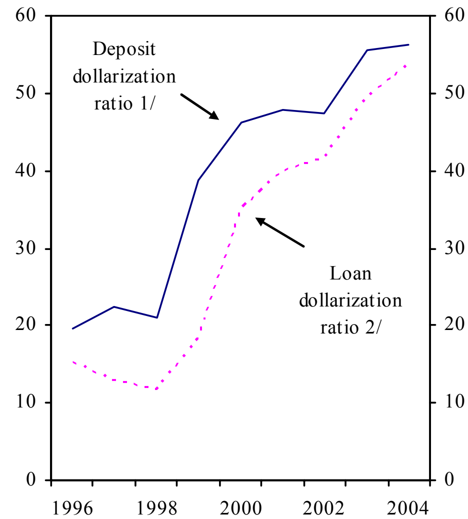
Gasoline Prices and Composition
(SRD/Liter)



The last price adjustment took place in March 2003, when the pump price for diesel fuel was raised from SRD1.00 per liter to SRD1.40 per liter and for gasoline from SRD1.08 to SRD1.55. The significant increase in international oil prices in 2004 caused a corresponding reduction in government revenue from 4.1 percent of GDP in 2003 to 2.2 percent of GDP in 2004.

9. **The economy has become increasingly dollarized in recent years.** [8] During 2002–04, the share of foreign currency deposits rose from 47 percent to 56 percent of the total deposit base, and the share of private sector credit denominated in foreign currency rose from 42 percent to 54 percent. Dollarization has reflected the lingering effects on confidence of the earlier episodes of near-hyperinflation, the liberalization of foreign exchange controls and bank lending regulations during 2002–03, and reserve requirements that strongly favor foreign currency intermediation.[9] The CBvS has begun to address the latter by raising the minimum reserve requirement on foreign currency deposits to 22 percent in October 2004.

Financial Dollarization, 1996-2004



Source: Central Bank of Suriname.
1/ Forex deposits in percent of total deposits.
2/ Forex loans in percent of total loans.

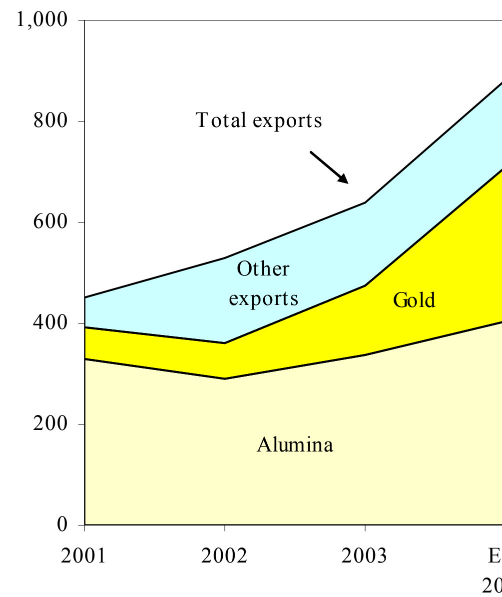
10. **Banking supervision has improved, but weaknesses remain.** The new Banking Supervision Law enacted in January 2003 tightened norms on capital adequacy and those relating to banks' risk assessment and management. However, implementation has suffered from a lack of staff resources, which led to delays in reporting and deficiencies in conducting onsite inspections.

[8] See the chapter on dollarization in the accompanying Selected Issues paper. Foreign currency deposits and loans are denominated in euros and U.S. dollars.

[9] The reserve ratio for foreign currency deposits was set at 17.5 percent since February 2003, compared with 35 percent for domestic deposits. Moreover, required reserves for foreign currency deposits can be held in interest-bearing accounts abroad, while those for domestic currency deposits are held as unremunerated deposits at the CBvS. The spread between lending and deposit rates in 2003 was 12.5 percentage points for domestic currency and 6.9 percentage points for foreign currency instruments.

11. **The external current account deficit has remained wide, financed largely through foreign direct investment.** The current account deficit rose from 6 percent of GDP in 2002 to 14 percent in 2003, narrowing only marginally in 2004, despite the cumulative 66 percent increase in export proceeds in 2003-04. Prices for alumina and gold were very favorable in 2004, while exports of gold also benefited from regulatory changes facilitating gold purchases from the informal sector, significantly reducing the smuggling of gold to neighboring countries.[10] This was more than offset by a surge in imports due to large investments by the mining companies in 2003 and 2004, as well as imports of consumer goods, which increased significantly with the rise in real incomes and a more stable economic environment. Nonetheless, the continued large inflows of foreign direct investment helped reserves to rise by almost 3 percent of GDP in 2004.

Merchandise Exports, 2001-04
(In millions of U.S. dollars)



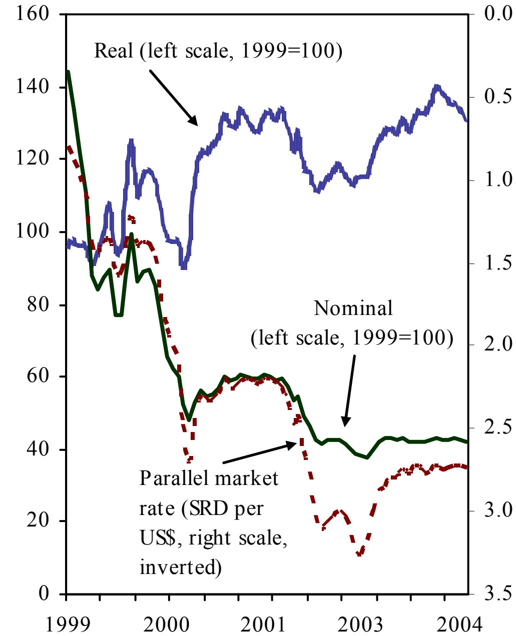
Sources: Suriname authorities; and Fund staff estimates.

12. **Weak debt management has left Suriname with external arrears and a poor credit rating.** Suriname maintains arrears on bilateral loans since 1999, despite the country's relatively comfortable reserves position. Standard & Poor's (S&P) temporarily downgraded Suriname's long-term foreign currency rating from B- to SD (selective default) in August 2004, citing the country's inadequate debt management and weak debt payment discipline as key factors behind the arrears accumulation.[11] In late 2004, the Suriname Debt Management Office (SDMO) became operational, improving significantly the country's debt reporting system. The authorities had considered floating a US$100-200 million bond on international capital markets—Suriname's first—in early 2004, but this plan was shelved in October 2004.

[10] See the chapter on the gold sector in the accompanying Selected Issues paper. The value of gold exports from informal sources increased from US$70 million in 2002 to US$140 million in 2003 (12 percent of GDP) and to US$195 million in 2004.

[11] S&P reversed its downgrade and placed Suriname's rating back to B- after it received information from the Surinamese authorities that arrears were held on official bilateral loans rather than commercial obligations.

Effective Exchange Rate and Parallel Market Rate, 1999-2004



Sources: Suriname authorities; and Fund staff estimates.

13. **External competitiveness of non-mining industries has been affected by the high and volatile real effective exchange rate.** Suriname's real effective exchange rate has exhibited a high volatility in the past, due mainly to the country's macroeconomic policy instability.[12] Although the nominal exchange rate has stabilized in recent years, the real effective rate appreciated by a cumulative 19 percent between August 2002 and December 2004, reflecting Suriname's relatively high inflation rate. The real appreciation has undermined the competitiveness of nonmineral exports, which have remained stagnant since 2002.[13]

14. **Progress on the structural reform agenda has been limited.** A comprehensive civil service reform is being supported by the IDB and UNDP, aimed at reducing staffing levels, overlapping responsibilities, and absenteeism, and improving recruitment and remuneration policies. The IDB also advised the government on the restructuring of four ailing state-owned banks, while efforts are being undertaken to tackle governance problems at the customs administration and improve revenue collection. The authorities have also been working with the World Bank's Foreign Investment Advisory Service (FIAS) with a view to facilitating private investment by removing unnecessary impediments, eliminating public monopolies, and streamlining regulations.

II. Short-term Outlook

15. **Economic growth will likely remain strong in 2005.** The economy is projected to grow by almost 5 percent in 2005 in response to continued large mining investments and a

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[12] Empirical analysis suggests that there has been no long-run relationship between Suriname's real effective exchange rate and the world prices of its principal exports. See Paul Cashin, Luis Céspedes, and Ratna Sahay, 2002, " Keynes, Cocoa, and Copper: In Search of Commodity Currencies," IMF Working Paper 02/223. These issues are also discussed in the chapters on monetary policy and fiscal revenue instability in the accompanying Selected Issues paper.

[13] See the chapter on the rice and bananas sectors in the accompanying Selected Issues paper.

further loosening of the fiscal stance. These factors, as well as uncertainties in the run-up to the elections, would keep inflation at about 9 percent in 2005.

16. **Based on the authorities' 2005 budget, the staff projects that the central government deficit will increase to 2¾ percent of GDP in 2005.** Capital expenditure is expected to increase from 5½ percent of GDP in 2004 to around 6¾ percent of GDP in 2005, mainly on account of a large road expansion project, while current expenditure is projected to remain about unchanged in real terms.[14] Total revenue and grants are projected to increase from 35½ percent of GDP in 2004 to 36½ percent of GDP in 2005 as a result of higher indirect tax revenue. Direct tax revenue is projected to fall with the expiration of the corporate income surcharge, offsetting the effect of anticipated higher tax revenue from the new gold mine.

17. **The authorities are expected to maintain a disciplined monetary stance.** In view of the recent tightening of reserve requirements on foreign currency deposits and uncertainties in the run-up to the elections, it is projected that private credit expansion will decelerate during 2005, while money supply growth is projected to slow to around 16 percent. Dollarization is projected to slow considerably as a result of the increase in reserve requirements on foreign currency deposits that was introduced in late 2004.

18. **The external current account deficit is projected to remain substantial.** As a result of large investments in the bauxite mining sector to replace the aging mines at Mungo and Lelydorp, the current account deficit will only narrow marginally to around 12 percent of GDP. Exports are projected to increase by 16 percent in U.S. dollar terms due to continued growth in the alumina and gold output, while imports are projected to rise on account of new investments in the mining industry. With continued inflows of foreign direct investment, it is projected that reserves will increase by about 3 percent of GDP.

III. Policy Issues and Discussions

19. **The team stressed that the short-term challenge facing policymakers in Suriname was to maintain policy discipline in the run-up to the May 2005 elections.** The authorities indicated that they were mindful of the potentially destabilizing effects of a looser policy stance in an environment of heightened political uncertainty and emphasized their commitment to preserving the price and exchange rate stability that had been achieved in recent years.

20. **The discussions centered on the medium-term challenge of placing policies within a consistent and forward-looking macroeconomic framework.** The authorities concurred that a long-term policy framework was needed to entrench stable policies, minimize the impact of export revenue volatility, ensure stable and continued growth in real

[14] As in previous years, the 2005 budget envisages a substantial increase of capital expenditure, which is unlikely to be fully executed.

income and employment, reduce poverty in rural areas, and maintain a sustainable debt position.

A. Medium-Term Outlook and Risks

21. **The staff's baseline for the medium-term outlook appears relatively favorable.** In the baseline scenario, macroeconomic policies are assumed to remain disciplined, with a primary fiscal surplus of around 1.3 percent of GDP maintained during 2006–09. The current account deficit would remain significant due to the limited outlook for alumina, gold, and nontraditional exports, but continued foreign direct investment is expected to finance a small balance of payments surplus. As a result of only modest fiscal deficits, public sector debt would fall from around 52 percent of GDP at end-2003 to around 41 percent at end-2009.[15]

Macroeconomic Framework

	2003	2004	2005	2006	2007	2008	2009
Real GDP growth (in percent)	5.3	4.6	4.8	3.3	3.7	3.7	3.7
Inflation (end of period in percent)	13.1	9.1	9.0	4.6	5.3	4.7	5.2
Fiscal balance (in percent of GDP)	-0.1	-1.8	-2.8	-1.4	-1.0	-1.0	-0.9
Primary fiscal balance (in percent of GDP)	2.3	0.3	-0.5	1.2	1.3	1.3	1.3
External current account (in percent of GDP)	-13.8	-13.2	-12.3	-8.7	-10.7	-10.4	-10.9
Net foreign assets of the CBvS (million of US$)	100.6	131.5	165.3	193.4	201.5	212.1	215.7
Gross international reserves in months of imports	1.4	1.6	1.7	2.1	2.1	2.1	2.1
Public sector debt (in percent of GDP)	52.3	48.7	48.1	46.1	44.8	43.2	41.6
Of which: external debt	39.5	34.5	34.3	32.2	31.0	29.3	27.7

[15] The medium-term scenario assumes a fall in commodity prices as projected by WEO, an absence of terms of trade shocks, and does not incorporate the impact of possible new large-scale FDI projects.

22. **Against this background, the team stressed the importance of maintaining a disciplined policy stance to guard against the key risks to the outlook:**

- **Policy slippages:** The period leading up to the May 2005 election will undoubtedly include pressures to increase labor-intensive capital spending. Moreover, while the current administration has maintained relatively disciplined policies and has been successful in stabilizing the economy, the challenge will be to ensure that these policy successes are sustained after the election, especially given Suriname's history of highly destabilizing economic policies and bouts of near-hyperinflation.[16]

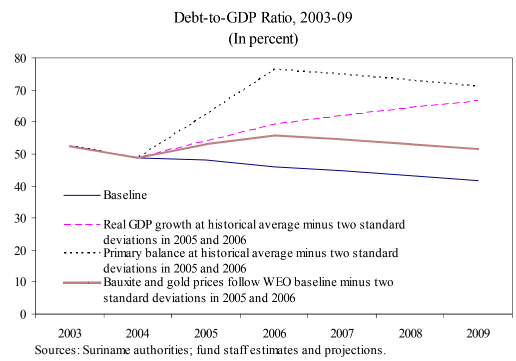
- **Capital flight:** Although increased dollarization may have reduced the risk of large-scale deposit flight, political uncertainties before and after the elections, erratic macroeconomic policies, or a loss in confidence in the domestic banking system have left the economy vulnerable to large-scale deposit outflows.

- **External shocks:** Bauxite and aluminum prices are projected to remain broadly stable and the export base is becoming somewhat more diversified with the exports of gold.[17] Nonetheless, Suriname remains highly reliant on mining exports and is very vulnerable to global commodity price shocks.

- **Upside opportunities:** The medium-term growth and employment outlook could improve substantially in light of possible large-scale foreign direct investment projects. The authorities pointed in particular to the feasibility studies being undertaken for a new bauxite-aluminum complex, which could lead to new investment of about US$3 billion in 2007–11; and the ongoing offshore petroleum exploration.

[16] See also the chapters on fiscal volatility and monetary policy and the exchange regime in the accompanying Selected Issues paper.

[17] The impact of the recent diversification might be limited as gold and alumina prices have shown a high positive correlation in the past. International oil price changes have only a limited impact on the BOP and the budget, as fuel-related payments and receipts are about equal.



23. **A debt sustainability analysis illustrates the country's vulnerabilities, especially to fiscal shocks.** Suriname's fiscal position has been highly volatile in the past and a policy shock that caused a deterioration of the primary fiscal balance to its historical average minus two standard deviations in 2005 and 2006 would increase the debt-to-GDP ratio to 76 percent by 2006, 30 percentage points above the baseline scenario. The analysis also illustrates the risks related to output and commodity prices. A shock to real GDP in 2005 and 2006 that took the rate to its historical growth rate minus two standard deviations would lead to a gradual increase in the debt-to-GDP ratio to 66½ percent by 2009. Furthermore, a deterioration of aluminum and gold prices by two standard deviations relative to the WEO baseline in 2005–06—assuming no corrective policy response—would lead to a fiscal deficit of 5 percent of GDP in 2006 and would increase public debt to 56 percent of GDP by 2006.

24. **Against this background, the team stressed the importance of reforms to entrench a policy framework geared towards ensuring macroeconomic stability and growth over the medium term.** The authorities broadly agreed that while recent legislation had strengthened fiscal responsibility, there would be merit in exploring amendments to the framework to reduce the risk of global commodity price shocks undermining fiscal discipline and debt sustainability, to unify the exchange rate, and to develop a more explicit medium-term anchor for monetary policy. They agreed with the staff that windfall revenues from high international prices for alumina and gold should be used to lower debt levels and increase the economy's resilience to shocks. It would also be important to pursue structural reforms to reduce the economy's reliance on the mining and government sectors for employment. At the same time, however, the authorities cautioned that substantive progress on these fronts would depend on the outcome of the elections, and that in any event a cautious and deliberate approach to reform would be required in light of Suriname's under-developed financial markets and the need to maintain social consensus.

B. Fiscal Policy

25. **The staff stressed the importance resisting pressures to loosen fiscal policies in the run-up to the elections.** In particular, the mission broadly endorsed the 2005 budget targets, which assumed relatively tight control over both current and capital spending, and welcomed the authorities' medium-term objective of maintaining a moderate fiscal policy stance with a view to reducing public sector debt below 40 percent of GDP by 2009. However, the team noted that large public sector wage increases had been difficult to resist in the past, and that boosting capital expenditure prior to the elections would lead to waste and inefficiency, given the limited project implementation capacity, and undermine confidence in the authorities' commitment to fiscal discipline.

26. **The authorities agreed on the importance of maintaining fiscal discipline.** In particular, they acknowledged that containing wage demands was a pre-requisite for containing pressures on prices and the exchange rate. The authorities also agreed on the need to advance the technical work for the IDB-supported reform of the civil service, but emphasized the importance of tailoring the reform to avoid social dislocation and large increases in unemployment. As for investment spending, the authorities indicated that they would not seek commercial external borrowing to finance pre-election capital expenditure, and would limit infrastructure investment to bilaterally and multilaterally financed and supervised projects.

27. **The authorities also pointed to the recent steps taken to strengthen the fiscal framework.** In order to improve the efficiency and transparency of the budget process, the February 2002 fiscal responsibility law established a ceiling on public sector debt of 60 percent of GDP and a subceiling on domestic public sector debt of 15 percent of GDP. These limits can be exceeded only with parliamentary approval and under exceptional circumstances.[18] The team and the authorities agreed that the inherent vulnerability of the country to exogenous shocks and the history of very poor macroeconomic policies required further efforts to strengthen the fiscal framework. The team remarked that the debt ceiling appeared high given the country's low credit rating and market access, its vulnerability to exogenous shocks, and its high revenue volatility.[19] The mission noted that soon after the new ceilings were introduced, the authorities considered requesting a breach, and the team stressed the importance of respecting the ceilings except in cases of national emergency.

28. **The authorities and the mission agreed on the need to diversify the revenue base and reduce revenue volatility.** The team noted that about 22½ percent of the revenue base was tied to the fortunes of the bauxite, gold and oil export sectors, and that shocks to commodity prices had in the past caused sharp swings in the overall fiscal position. Moreover, revenue volatility was further amplified by the domestic fuel tax system. The authorities agreed to work towards expanding the tax base to improve nonmining revenue collection and to study ways to amend the fuel tax system to eliminate revenue volatility, and requested technical assistance to help in the design and implementation.

29. **The team suggested that consideration could be given to other mechanisms for coping with the fiscal effects of volatility in the natural resource sector.** In particular, the mission noted that a revenue stabilization fund or similar fiscal rules could be introduced to

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[18] There is also a subceiling since 1986 on government's access to central bank financing of 10 percent of budgeted annual current fiscal revenue, but this limit has been frequently violated. A new Central Bank Act that is awaiting parliamentary approval would strengthen the central bank president's authority to limit financing in excess of the lending limit and establish penalties for central bank officials if the limit was exceeded.

[19] The September 2003 World Economic Outlook illustrates that developing country debt ratios should fall into the 20–60 percent range, with the higher end reserved for countries with higher credit ratings and revenue-to-GDP ratios, and lower revenue volatility.

the fiscal framework, which could both make it easier to cope with shocks to revenues from the mining sector and assist in ensuring inter-generational equity. The authorities expressed interest in studying further such mechanisms, but cautioned that administrative and political constraints would likely limit the scope for their introduction in the near term.

30. **The authorities agreed on the need for a comprehensive plan to improve the efficiency of state-owned companies and encourage non-mining private sector activity.** As a first step, the authorities were committed to the privatization of the banana, rice, and forestry companies in the course of 2005. A large number of public enterprises had not submitted financial statements to the government for many years, and the authorities had intensified efforts to gather information on these enterprises, including through the withholding of government transfers.

C. Monetary and Exchange Rate Policies

31. **The team stressed that the monetary authorities would need to stem incipient inflation pressures.**[20] In particular, although inflation had remained at 9 percent in 2004, broad money growth had accelerated to 29 percent, in part due to the unsterilized increase in central bank reserves. The mission also noted that despite the recent success in limiting central bank credit to the government, the authorities had demonstrated in the past a tendency to subordinate monetary policy to fiscal financing needs, with scant importance to the impact on inflation. However, the authorities stressed their commitment to tighten policies as necessary to contain inflation and noted that proposal had been made to amend the Central Bank Act and strengthen the limits on central bank lending to the government.

32. **The team suggested that the monetary policy framework could be strengthened by moving toward the adoption of a more explicit policy anchor.** Recent steps to cement the CBvS's ability to limit financing of the central government and the elimination of restrictions on the commercial bank exchange rate were encouraging, but the mission suggested that the adoption of a pre-announced monetary target could provide a more solid anchor for monetary policy and strengthen confidence in the central bank. However, successful implementation would require a credible and continuous commitment to fiscal discipline, independence of the central bank to conduct monetary policy, and the availability of indirect monetary policy instruments. The authorities noted that the rapidly changing conditions in Suriname's financial markets and the limited success of the CBvS in projecting monetary aggregates would make if difficult to adopt a more formal monetary target in the near future.[21]

[20] Monetary policy instruments consist of reserve requirements on deposits and CBvS credit to the government.

[21] For a description of Suriname's monetary policy framework and exchange rate regime, see the chapter in the accompanying Selected Issues paper.

33. **The authorities agreed that policy implementation would benefit from expanding the range of monetary instruments.** However, while they acknowledged that adjustments to reserve requirements on deposits and the statutory limits on fiscal financing were relatively blunt tools, they saw limited scope at present to introduce more indirect instruments in light of the underdeveloped financial markets and the limited marketability of government or CBvS securities. Moreover, in response to the team's argument that social policy goals should be addressed transparently through the budget rather than through the use of monetary policy instruments, the authorities saw limited political scope for eliminating housing loans from the list of approved reserve assets.

34. **The mission recommended moving to a unified exchange rate regime.** While welcoming the steps that led to the convergence of exchange rates and greater exchange rate flexibility, the team noted Suriname's poor track record in maintaining a free and market-determined exchange rate. The mission, therefore, recommended adopting the bank/cambios daily rate as the official rate, which would also help to eliminate the existing multiple currency practice. Similarly, the mission suggested the elimination of the special exchange rates for infant formula and milk powder imports in favor of direct budgetary subsidies. However, the authorities were reluctant to consider the mission's recommendation at this stage, citing uncertainties in the market place prior to the election and the risk of exchange rate volatility given the thin market.

35. **There is a need to regularize relations with external creditors and eliminate payment arrears**. The staff noted that external debt levels are high but manageable and welcomed the establishment of the Suriname Debt Management Office (SDMO). While focused primarily on the regularization and management of public sector external debt, the SDMO could also become instrumental in improving the marketability of government securities. The mission noted that improvements in Suriname's payment record and the elimination of arrears to bilateral creditors, which amounted to US$145 million at end-2004, would likely improve the country's credit rating, lower borrowing costs, and increase access to international capital markets. A first encouraging step has been taken in February 2005 with the regularization of outstanding liabilities to the German Euler Hermes credit insurance group, which had been incurred in the second half of the 1980s.

D. Financial System

36. **The financial system is underdeveloped and highly concentrated.**[22] The system consists of the CBvS, commercial banks, and a number of nonbank financial institutions—mainly pension funds and insurance companies—that represent less than a third of financial sector assets. The banking system is highly concentrated, with the largest three banks accounting for about 85 percent of total claims, assets, and deposits. There are three small

[22] Suriname constitutes one of the pilot case countries to increase financial sector surveillance in the context of Article IV consultations. In this respect, a more detailed review of the financial sector and its vulnerabilities can be found in Appendix Table 4 and the accompanying Selected Issues paper.

state-owned banks that provide credit to low-income households for agriculture and housing under mostly social criteria.

37. **Banking sector indicators appear relatively robust, but point to inherent vulnerabilities.** Core indicators appear healthy, but the financial sector remains vulnerable to credit risk events, as evidenced by the relatively low level of bank capitalization and the increase in the nonperforming loan ratio from 13.3 percent at end-2002 to 15.3 percent in 2004.[23] Supervision also continues to be weak due to inadequate staff resources and delays in data collection to control compliance, while questions remain about the system's capacity to prevent money laundering, particularly at the casinos and unregulated foreign exchange houses. In addition, there are no specific limits on the foreign currency position of the banks or regulations for foreign currency lending. The staff recommended strengthening prudential regulations and supervision to address possible currency mismatch risks at banks and the recent increase in nonperforming loans. The authorities agreed that there was a need to improve banking supervision and were prepared to consider participating in a Financial Sector Assessment Program.

38. **The staff cautioned that dollarization exposed the banking system to balance sheet risks.** In this context, the authorities agreed with the mission's recommendation to remove the remaining gap between foreign and domestic currency reserve requirements, which favored financial intermediation in foreign currencies. Subsequent to the discussions, the authorities raised the reserve requirement on foreign currency deposits to 33⅓ percent.

E. Structural Policies and Other Issues

39. **Suriname has a relatively open trade system.** As reported in the recent WTO's Trade Policy Review, the unweighted average rate tariff is 11 percent and there are no protectionist nontariff barriers. Suriname has enacted the CARICOM Single Market and Economy Treaty and implemented the fourth phase of the common external tariff (20 percent).

40. **There is a need to promote the development of the nonmining private sector.** While the economy will likely continue to be dominated by bauxite and gold mining in the medium term, there is a need to diversify the economy to help avoid the excessive fluctuations in employment and real incomes that the country experienced in the past. In this respect, the mission recommended reducing the reliance on fiscal and tariff incentives, while concentrating on simplifying licensing procedures and promoting a more stable and rule-based climate for investment, including through strengthening the protection of property rights and dispute settlement procedures. In this context, a World Bank study found that the Investment Act of 2002 provided incentives for the nonmining private sector at high fiscal costs, while private sector investment continues to be hampered by governance issues,

[23] Part of the deterioration in the indicators is attributable to the tightening of regulatory guidelines in 2003, in particular with respect to capital adequacy ratios.

uncertain and complex licensing procedures, weak administrative capacity, and excessive scope for administrative discretion.

41. **There are serious data reporting problems in Suriname.** Notwithstanding the recent accession to the GDDS and improvements in the coverage and timeliness of monetary data, there are severe shortcomings in the quality, coverage, and provision of economic statistics, in particular with respect to national accounts and trade data. The staff stressed the importance of improvements in the provision of statistics to facilitate more timely and accurate economic analysis and planning.

IV. Staff Appraisal

42. **The authorities have achieved considerable success on the macroeconomic front since 2003.** Continued expenditure moderation and higher tax revenue have resulted in a substantial improvement in the public finances. Fiscal discipline, supported by a cautious monetary policy stance and a favorable external environment, have helped stabilize the exchange rate and lower inflation, improving investor confidence and achieving a solid growth performance.

43. **Nonetheless, Suriname still faces important challenges.** In the near term, the key priority will be to resist pressures to relax the fiscal stance ahead of the elections, including by limiting pre-election capital expenditure and civil service wage increases, and to rein in the growth of broad money. Over the medium term, institutional changes are needed to help avoid the procyclical monetary and fiscal responses that have exacerbated the effects of terms-of-trade shocks and led to destabilizing bouts of near hyperinflation.

44. **The fiscal framework has been strengthened, but further steps could yield important dividends.** On the revenue side, tax reforms are needed to broaden and diversify the domestic revenue base and reduce the reliance on the mining sector, and to amend the fuel pricing and taxation. On the expenditure side, civil service reform will be critical for improving the efficiency of the large public sector, and the authorities are urged to accelerate the IDB-supported project in this area, while maintaining moderate wage and employment policies prior to its completion. From a broader perspective, the new limits that have been placed on public sector debt are a welcome innovation, but these appear high given Suriname’s vulnerability to external shocks and consideration should be given to more stringent targets. In any event, care will be needed to respect the legal debt ceilings except in cases of national emergency.

45. **Inflation pressures may be reemerging and it is important to maintain a firm control over credit growth.** The authorities have been successful in lowering inflation over the past two years, but these gains may be threatened by the strong growth of broad money during 2004. Against this background, the central bank should stand ready to tighten monetary conditions and slow the rate of broad money growth.

46. **In addition, there is scope for strengthening the monetary policy framework**. In the past, monetary policy has been subordinated to fiscal financing needs, with limited regard for the implications for inflation or macroeconomic stability. Encouragingly, the envisaged

amendments to the Central Bank Act will define more clearly the central bank's responsibility to provide credit to the government. However, consideration should be given to anchoring monetary policy more firmly on a pre-announced monetary target and to expanding the range of monetary policy instruments.

47. **Care is also needed to ensure that the recent increase in dollarization does not expose the banking system to balance sheet risks**. The authorities have taken the welcome step of removing the difference between foreign and domestic currency reserve requirements, which should reduce the incentives that favored foreign currency-denominated intermediation in Suriname. Nonetheless, there is a need for the regulatory and other authorities to examine closely the risks to the financial system that dollarization poses.

48. **The authorities should move quickly to a managed unified floating exchange rate regime.** With the introduction of the Suriname dollar in 2004, steps have been taken that led to the convergence of exchange rates and greater flexibility in the market. The authorities are urged to seize the present opportunity to move to a unified and floating exchange rate regime by adopting the daily commercial rate as the official exchange rate. This would also help eliminate one of the multiple currency practices that are subject to Fund approval under Article VIII, Sections 2 (a) and 3 arising from the existence of an official exchange rate for government transactions and the partial surrender of export proceeds, and the nonofficial rate for all other transactions. The preferential rate for milk powder and infant formula imports also gives rise to a multiple currency practice. In the absence of a schedule for the removal of these multiple currency practices, the staff does not recommend Fund approval for the retention of these measures.

49. **The authorities are encouraged to tighten prudential regulations and improve banking supervision.** Key priorities are to limit potential currency mismatch risks in the system, and to increase staff training and resources devoted to banking supervision, particularly in light of the recent increase in nonperforming loans in the system and the continuing problems at the small state-owned banks. The staff also encourages the authorities to consider participating in a Financial Sector Assessment Program.

50. **There is a need to clarify relations with external creditors and eliminate payment arrears**. Although debt levels are manageable, Suriname's erratic payment record and long-standing arrears to bilateral creditors have undermined the country's creditworthiness and increased borrowing cost, and should be addressed without further delay. In this regard, staff welcomes the recent regularization of old bilateral debt arrears with Germany, which took place after the departure of the mission.

51. **The development of the nonmining private sector is needed to generate sustainable employment and income growth.** In this respect, the authorities should simplify licensing procedures and promote a more stable and rule-based climate for investment, including through a strengthening of property-right protection and dispute settlement procedures. It is important also to move ahead with the design of a comprehensive plan to improve the efficiency of state-owned companies and encourage nonmining private sector activity, including privatizing the banana, rice, and forestry companies.

52. **There are serious data reporting problems in Suriname.** The staff welcomes the recent accession to the GDDS, but notes that data provision—while adequate—is severely impaired due to the substantial shortcomings in the quality and timeliness of economic statistics.

53. **The staff proposes that the next Article IV consultation take place on the standard 12-month cycle**.

Table 1. Suriname: Selected Economic Indicators

	2001	2002	2003	Prel. 2004	Proj. 2005
(Annual percentage change, unless otherwise indicated)					
Real economy					
GDP at 1990 prices 1/	4.5	3.0	5.3	4.6	4.8
GDP current market prices 1/	41.4	34.3	18.8	14.1	13.8
Consumer prices (end of period)	4.9	28.4	13.1	9.1	9.0
Consumer prices (period average)	39.8	15.5	23.1	9.0	8.6
Exchange rate (Suriname dollars per US$, end of period	2.18	2.52	2.63	2.74	...
(In percent of GDP)					
National accounts					
Gross domestic investment	28.9	25.0	28.5	27.9	30.8
Private sector	26.5	21.9	24.7	22.4	24.0
Public sector	2.4	3.0	3.7	5.6	6.8
Gross national savings	13.7	18.7	14.6	14.8	18.4
Foreign savings	15.2	6.3	13.8	13.2	12.3
Central government					
Revenue and grants	38.7	29.3	34.7	35.5	36.2
Direct taxes	17.4	10.4	11.6	13.3	12.8
Indirect taxes	16.1	14.1	16.2	15.6	16.9
Nontax revenues	3.6	3.5	4.5	4.4	4.3
Grants	1.6	1.3	2.3	2.2	2.2
Total expenditure	35.0	35.9	34.8	37.3	39.0
Wages and salaries	12.0	15.2	15.3	15.2	15.3
Current transfers	9.1	6.5	5.2	5.1	5.2
Interest	2.4	2.6	2.5	2.1	2.4
Goods and services	8.4	8.3	7.7	9.3	9.3
Capital expenditure and net lending	3.1	3.2	4.1	5.6	6.8
Overall balance	3.7	-6.6	-0.1	-1.8	-2.8
Statistical discrepancies	-3.2	0.4	1.7	-0.7	0.0
Net domestic financing	-11.1	9.3	0.3	3.1	1.2
Net external financing	10.6	-3.1	-1.8	-0.5	1.6
(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)					
Money and credit 2/					
Banking system net foreign assets	36.2	7.4	12.7	17.7	10.8
Banking system net domestic assets	2.7	25.1	3.8	15.2	5.4
Of which					
Public sector credit	-27.0	21.6	-4.6	2.1	0.8
Private sector credit	15.6	16.4	13.8	13.4	7.2
Broad money	32.8	32.3	15.9	28.8	16.2
Real credit to the privat sector (annual percentage change)	65.7	24.1	24.4	21.5	7.3
Foreign currency deposits as share of broad money	38.4	39.4	47.2	48.7	49.0
(In percent of GDP, unless otherwise indicated)					
External sector 3/					
Current account	-15.2	-6.3	-13.8	-13.2	-12.3
Merchandise exports, f.o.b.	58.8	55.6	62.6	79.6	86.8
Merchandise imports, f.o.b.	-56.8	-50.1	-65.6	-73.5	-78.4
Capital and financial account	24.3	7.2	12.7	15.3	15.3
Of which : central government net borrowing	10.6	-3.1	-1.8	-0.5	1.6
Change in reserves (-=increase)	-11.4	-0.2	0.1	-2.8	-3.0
Gross official reserves (in months of imports)	3.49	1.90	1.41	1.58	1.74
Total public debt	54.3	58.1	52.3	48.7	48.1
Domestic	7.6	14.9	12.8	14.3	13.7
External 4/	46.8	43.3	39.5	34.5	34.3
Of which: external debt arrears	11.4	11.8	12.8	13.2	...

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

1/ GDP numbers include estimates of the informal sector.

2/ Pre- and post-2002 data are not comparable. Percentage changes in 2002 are calculated on basis of estimates for end-2002 data according to the old data classification.

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

4/ Includes arrears.

Table 2. Suriname: Central Government Operations

(In percent of GDP)

	2001	2002	2003	Est. 2004	Proj. 2005
Revenue and grants	**38.7**	**29.3**	**34.7**	**35.5**	**36.2**
Revenue	37.0	27.9	32.3	33.2	34.0
Direct taxes	17.4	10.4	11.6	13.3	12.8
Indirect taxes	16.1	14.1	16.2	15.6	16.9
Nontax revenue	3.6	3.5	4.5	4.4	4.3
Grants	1.6	1.3	2.3	2.2	2.2
Expenditure and net lending	**35.0**	**35.9**	**34.8**	**37.3**	**39.0**
Current expenditure	31.9	32.6	30.7	31.7	32.2
Wages and salaries	12.0	15.2	15.3	15.2	15.3
Goods and services	8.4	8.3	7.7	9.3	9.3
Subsidies and transfers	9.1	6.5	5.2	5.1	5.2
Interest	2.4	2.6	2.5	2.1	2.4
Domestic	0.8	1.5	1.3	1.2	1.3
External	1.6	1.1	1.1	0.9	1.0
Net lending	0.7	0.2	0.4	0.1	0.1
Capital expenditure	2.4	3.0	3.7	5.6	6.8
Primary balance	**6.1**	**-4.0**	**2.3**	**0.3**	**-0.5**
Overall balance	**3.7**	**-6.6**	**-0.1**	**-1.8**	**-2.8**
Statistical discrepancy	-3.2	0.4	1.7	-0.7	0.0
Financing	**-0.5**	**6.2**	**-1.6**	**2.6**	**2.8**
Net domestic financing	-11.1	9.3	0.3	3.1	1.2
Commercial banks	1.9	0.2	0.0	2.1	0.3
Central bank	-12.9	8.8	-0.3	1.0	0.1
Other domestic private sector	0.0	0.3	0.6	0.0	0.8
Net external financing	10.6	-3.1	-1.8	-0.5	1.6
Amortization	-5.6	-3.1	-3.4	-2.2	-2.7
Disbursements	16.2	0.1	1.6	1.7	4.4
Bilateral agencies	16.0	0.0	0.0	1.0	3.1
Multilateral agencies	0.0	0.1	1.6	0.7	0.8
Foreign commercial banks	0.0	0.0	0.0	0.0	0.0
Foreign nonbanks, including trade credit	0.2	0.0	0.0	0.0	0.4
Memorandum item					
Total revenue from bauxite and gold mining operations	...	4.7	6.0	7.5	7.6

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

Table 3. Suriname: Summary Accounts of the Banking System, 2000-2005 1/

	2001	2002	2003	Prel. 2004	Proj. 2005
(In millions of Surinamese dollars)					
Net foreign assets	**481.3**	**598.5**	**751.7**	**999.4**	**1,193.1**
Net international reserves	216.6	253.3	263.4	359.0	483.2
Net other foreign assets	264.6	345.3	488.3	640.5	710.0
Net domestic assets	**511.7**	**680.2**	**726.1**	**937.7**	**1,034.4**
Net claims on the public sector	107.5	269.6	213.9	243.8	259.0
Central government (net)	105.4	305.4	296.2	388.8	403.2
Rest of the public sector (net)	2.1	-35.8	-82.3	-145.0	-144.1
Credit to the private sector	257.0	409.2	575.5	762.4	891.9
Claims on other financial institutions	0.7	0.8	0.7	0.7	0.7
Net unclassified assets	100.7	41.2	23.2	54.9	32.1
Official capital and surplus	45.8	-40.6	-87.1	-124.1	-149.4
Liabilities to the private sector	**993.0**	**1,278.8**	**1,477.8**	**1,937.1**	**2,227.5**
Broad money	931.0	1,203.8	1,395.7	1,797.2	2,087.6
Monetary liabilities	382.2	505.8	498.2	621.5	722.6
Currency in circulation	182.4	203.8	209.0	246.8	282.4
Demand deposits	199.8	302.0	289.2	374.7	440.2
Quasi-money (including gold certificates)	190.8	224.0	238.7	299.9	342.2
Foreign currency deposits	357.9	474.0	658.7	875.8	1,022.8
Other liabilities	62.0	75.0	82.2	139.9	139.9
(Percent changes, unless indicated otherwise)					
Liabilities to the private sector	37.9	30.5	15.6	31.1	15.0
Broad money	32.8	32.3	15.9	28.8	16.2
Money	40.8	38.0	-1.5	24.7	16.3
Quasi-money	9.0	17.2	6.6	10.0	15.8
Foreign currency deposits	40.5	34.2	39.0	29.8	16.8
Net domestic assets of the banking sector	3.9	45.7	6.7	29.1	10.3
Credit to the public sector	-63.8	186.6	-20.7	14.0	6.2
Credit to the private sector	73.9	59.3	40.7	32.5	17.3
Liabilities to the private sector (in percent of GDP)	59.7	58.0	55.7	64.0	64.7
(Changes in Surinamese dollars as a percent of liabilities of the previous period)					
Net foreign assets of the banking sector	35.3	6.9	12.0	16.8	10.0
Central bank international reserves	26.3	3.7	0.8	6.5	6.4
Other net foreign assets	9.0	3.2	11.2	10.3	3.6
Net domestic assets of the banking sector	2.7	23.6	3.6	14.3	5.0
Credit to the public sector	-26.3	20.2	-4.4	2.0	0.8
Credit to the private sector	15.2	15.4	13.0	12.6	6.7
Liabilities to the private sector	37.9	30.5	15.6	31.1	15.0
Memorandom items					
Deposit dollarization ratio (in percent) 2/	47.8	47.4	55.5	56.5	56.7
Credit dollarization ratio (in percent) 3/	40.0	41.5	49.4	54.6	54.6
Lending interest rates (percentage per annum)					
In domestic currency	23.5	21.3	21.0	19.5	...
In foreign currency	12.0	10.2	9.2	9.4	...
Deposit interest rate (percentage per annum)					
In domestic currency	11.1	8.4	8.5	8.1	...
In foreign currency	1.7	1.8	2.3	1.7	...
Reserve requirement for domestic deposits (in percent)	27.5	35.0	35.0	30.0	...
Reserve requirement for foreign currency deposits (in percent)	...	17.5	17.5	22.5	...

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

1/ For commercial banks data, a new data compilation method in line with the *Monetary and Financial Statistics Manual* was adopted from May 2002 onward, resulting in an irreconcilable data break. Therefore, pre- and post-2002 data are not comparable. Figures involving percentage changes in 2002 over 2001 are calculated on basis of estimates for end-2002 data as according to the old methodology, to achieve compatibility with data prior to May 2002.

2/ Foreign currency deposits in percent of total commercial bank deposits.

3/ Foreign currency credit in percent of total private sector credit by commercial banks.

Table 4. Suriname: Financial System Structure and Banking System Soundness Indicators 1/

	1999	2000	2001	2002	2003	Sep. 2004
Number						
Banks	8	8	8	8	8	8
Large banks	3	3	3	3	3	3
Small banks	5	5	5	5	5	5
Reporting non-bank financial institutions						
Pension funds 2/	31	31	29	31	31	31
Insurance companies	10	10	10	10	10	10
Credit unions and cooperatives	12	24	18	16	8	…
Concentration: Banks 3/	2	2	2	2	2	2
(In percent of total)						
Assets	100.0	100.0	100.0	100.0	100.0	…
Banks	70.2	67.3	70.1	67.7	70.7	…
Large banks	54.3	54.6	56.8	57.3	59.8	…
Small banks	15.9	12.7	13.4	10.4	10.9	…
Pension funds	24.2	25.2	21.5	23.3	19.7	…
Insurance companies	4.7	6.4	7.1	7.7	7.9	…
Credit unions and cooperatives	0.8	1.1	1.3	1.4	1.6	…
Deposits						
Banks	100.0	100.0	100.0	100.0	100.0	100.0
Large banks	76.6	79.7	81.6	85.3	87.3	87.1
Small banks	23.4	20.3	18.4	14.7	12.7	12.9
(In percent)						
Capital Adequacy 4/						
Regulatory capital to risk-weighted assets (*)	10.1	19.0	17.6	14.8	9.2	9.3
Regulatory Tier I capital to risk-weighted assets (*)	5.4	13.0	10.3	8.6	7.2	7.7
Capital (net worth) to assets	3.4	5.5	6.3	6.0	4.2	4.4
Asset composition						
Sectoral distribution of loans to total loans (*)						
Agriculture	41.0	19.0	16.6	7.0	5.0	5.3
Manufacturing	9.6	12.1	12.3	8.0	10.7	11.0
Commerce	23.7	30.2	28.0	34.1	31.6	32.2
Housing construction	10.0	10.4	10.4	11.5	11.4	11.0
Other	15.7	28.2	32.8	39.4	41.3	40.4
Asset quality						
FX loans to total loans	24.6	10.7	47.5	54.4	50.0	52.9
NPLs to gross loans (*)	…	10.9	6.7	8.7	10.4	10.1
NPLs net of provisions to capital (*)		29.3	15.0	14.7	48.1	49.9
Large exposures to capital (*)	…	30.1	41.3	33.7	133.9	102.9
Earnings and Profitability						
ROA (*)	…	1.4	1.5	1.5	1.7	1.5
ROE (*)	…	24.7	20.1	19.3	27.7	27.6
Interest margin to gross income (*)	…	52.0	66.4	65.7	67.5	68.4
Noninterest expenses to gross income (*)	…	83.4	82.2	83.1	78.4	71.3
Personnel expenses to noninterest expenses	…	47.1	55.5	46.8	49.4	52.5
Trading and fee income to total income	…	33.9	31.5	31.6	28.4	30.6
Spread between reference loan and deposit rates	…	…	16.6	17.5	16.3	15.8
Liquidity						
Liquid assets to total assets (*)	53.0	40.9	34.4	30.2	38.9	34.9
Liquid assets to total short-term liabilities (*)	119.6	110.8	86.3	67.3	60.9	53.0
FX liabilities to total liabilities	38.7	46.3	47.8	47.4	54.3	57.5

Sources: Central Bank of Suriname, Supervision Department, and Fund staff estimates..
(*) Included in the "core set" of financial soundness indicators identified by the IMF's Executive Board.
1/ Indicators refer to large banks, which comprise about 84 percent of banking system assets at end-Sep. 2004.
2/ For 2003 staff estimate.
3/ Number of institutions with 75 percent of total assets.
4/ Decline in 2003 partly reflects the implementation of new prudential regulation standards.

Table 5. Suriname: Balance of Payments

(In millions of U.S. dollars)

	2001	2002	2003	Est. 2004	Proj. 2005
Current account	**-116.3**	**-60.1**	**-140.9**	**-145.7**	**-145.6**
Trade balance	15.6	52.5	-30.2	67.8	99.5
Exports, f.o.b.	449.3	529.3	638.5	880.6	1024.7
Of which : alumina and gold	365.4	360.0	476.1	708.7	847.3
Imports, f.o.b.	-433.7	-476.8	-668.7	-812.8	-925.1
Services, net	-115.3	-127.6	-132.6	-143.8	-153.4
Exports	59.4	38.5	59.5	64.5	68.8
Imports	-174.7	-166.1	-192.1	-208.4	-222.2
Income, net	-80.0	-43.6	-49.1	-138.9	-166.9
Private sector	-67.6	-32.8	-33.7	-129.2	-134.6
Public sector	-12.4	-10.8	-15.4	-9.7	-32.3
Current transfers, net	63.4	58.6	71.0	69.3	75.1
Capital and financial account	**185.5**	**68.5**	**129.9**	**169.0**	**180.6**
Capital account (public sector grants)	**14.0**	**16.2**	**22.0**	**23.0**	**24.0**
Financial account	**171.5**	**52.3**	**107.9**	**146.0**	**156.6**
Nonfinancial public sector	80.7	-29.2	-18.5	-5.4	19.4
Disbursements	123.8	0.8	16.1	18.7	51.6
Amortization	-43.1	-30.0	-34.5	-24.1	-32.2
Private sector	90.8	81.4	126.4	151.4	137.2
Errors and omissions	**17.7**	**-6.6**	**10.4**	**7.6**	**0.0**
Overall balance	**86.9**	**1.7**	**-0.6**	**30.9**	**34.9**
Memorandum items					
Current account as percent of GDP	-15.2	-6.3	-13.8	-13.2	-12.3
Long-term private capital flows as percent of current account	78.1	135.5	89.7	103.9	94.2
GDP in current US dollars	764.0	952.1	1,020.0	1,106.5	1,179.9
Stock of gross international reserves	177.1	101.6	101.1	134.4	166.0
in months of imports of goods and services	3.5	1.9	1.4	1.6	1.7

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

Table 6. Suriname: Indicators of the External Position and Financial Vulnerability

(In percent of GDP; unless otherwise indicated)

	2001	2002	2003	Est. 2004	Proj. 2005
Financial indicators					
12-month percent change in broad money	32.8	32.3	15.9	28.8	16.2
12-month percent change in credit to the private sector	73.9	59.3	40.7	32.5	17.0
12-month percent change in net credit to the central government	-63.6	186.6	-3.0	31.3	3.7
Deposit rates 1/	11.1	8.4	8.5	8.1	...
Lending rates 1/	23.5	21.3	21.0	19.5	...
External indicators					
12-month percent change in exports	-12.6	17.8	20.6	37.9	16.4
12-month percent change in imports	-13.4	9.9	40.3	21.5	13.8
Current account balance	-15.2	-6.3	-13.8	-13.2	-12.3
Capital and financial account balance	24.3	7.2	12.7	15.3	15.3
Of which : private direct investment	1.5	1.5	11.5	12.6	9.2
External public sector debt	46.8	43.3	39.5	34.5	34.3
Stock of short term public sector debt	0.2	0.0	0.0	0.0	0.0
Total public sector external debt (in percent of exports of goods and nonfactor services)	70.2	67.7	57.3	40.4	36.9
External interest payments (in percent of exports of goods and nonfactor services)	2.4	1.9	2.2	1.0	3.0
Net foreign assets (in million U.S. dollars, end-of-period)	99.5	101.2	100.6	131.5	165.3
Exchange rate (per US$, official market)	2.18	2.35	2.60	2.74	...
Exchange rate (per US$, parallel market)	2.22	3.00	2.80	2.71	...
12-month REER percent change (depreciation (-)) 3/	9.8	-11.3	8.3	2.9	...

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

1/ Weighted average rates for domestic currency instruments.
2/ 2004 comprises October data.

Table 7. Suriname: Medium-Term Outlook

	2005	2006	2007	2008	2009
(Annual percentage change, unless otherwise indicated)					
Real economy					
GDP at 1990 prices 1/	4.8	3.3	3.7	3.7	3.7
GDP current market prices 1/	13.8	10.1	8.9	8.9	8.9
Consumer prices (period average)	8.6	6.6	5.0	5.0	5.0
(In percent of GDP)					
National accounts					
Gross domestic investment	30.8	24.3	24.1	26.0	28.3
Private sector	24.0	20.4	21.1	23.0	25.3
Public sector	6.8	3.9	3.0	3.0	3.0
Gross national savings	18.4	15.6	13.5	15.7	17.4
Foreign savings	12.3	8.7	10.7	10.4	10.9
Central government					
Revenue and grants	36.2	35.0	33.9	33.4	32.9
Total expenditure	39.0	36.4	34.9	34.4	33.8
Overall balance	-2.8	-1.4	-1.0	-1.0	-0.9
Net domestic financing	1.2	1.4	1.1	1.1	1.1
Net external financing	1.6	0.0	-0.1	-0.1	-0.2
(In percent of GDP, unless otherwise indicated)					
External sector 2/					
Current account	-12.3	-8.7	-10.7	-10.4	-10.9
Merchandise exports, f.o.b.	86.8	81.1	77.1	74.1	71.2
Merchandise imports, f.o.b.	-78.4	-70.7	-69.6	-67.8	-66.1
Capital and financial account	15.3	10.9	11.3	11.1	11.2
Of which : central government net borrowing	1.6	0.0	-0.1	-0.1	-0.2
Change in reserves (-=increase)	-3.0	-2.3	-0.6	-0.8	-0.2
Gross official reserves (in months of imports)	1.7	2.1	2.1	2.1	2.1
Total public debt	48.1	46.1	44.8	43.2	41.6
Domestic	13.7	13.9	13.9	13.8	13.8
External 3/	34.3	32.2	31.0	29.3	27.7

Source: IMF staff projections.

1/ GDP numbers include estimates of the informal sector.
2/ Based on amounts expressed in U.S. dollars.
3/ Includes arrears.

Table 8. Suriname: Public Sector Debt Sustainability Framework, 1999-2009

(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003			Projections 2004	2005	2006	2007	2008	2009	
								I. Baseline Projections						**Debt-stabilizing primary balance 12/**
Public sector debt 1/	51.7	79.7	54.3	58.1	52.3			**48.7**	**48.1**	**46.1**	**44.8**	**43.2**	**41.6**	**-0.4**
Of which : Foreign-currency denominated	34.9	49.4	46.8	43.3	39.5			34.5	34.3	32.2	31.0	29.3	27.7	
Change in public sector debt	19.2	28.0	-25.4	3.8	-5.8			-3.6	-0.7	-1.9	-1.3	-1.7	-1.6	
Identified debt-creating flows	15.7	22.7	-27.1	-1.7	-7.4			-4.6	-3.1	-3.0	-2.8	-2.6	-2.6	
Primary deficit	9.2	11.7	-6.1	4.0	-2.3			-0.3	0.5	-1.2	-1.3	-1.3	-1.3	
Revenue and grants	26.5	27.4	38.7	29.3	34.7			35.5	36.2	35.0	33.9	33.4	32.9	
Primary (noninterest) expenditure	35.7	39.1	32.6	33.2	32.3			35.2	36.6	33.8	32.6	32.1	31.6	
Automatic debt dynamics 2/	6.5	11.0	-21.0	-5.7	-5.1			-4.3	-3.5	-1.8	-1.4	-1.3	-1.3	
Contribution from interest rate/growth differential 3/	-12.6	-17.3	-21.0	-11.2	-6.7			-4.3	-3.5	-1.8	-1.4	-1.3	-1.3	
Of which : Contribution from real interest rate	-12.8	-17.3	-18.4	-10.0	-4.1			-2.2	-1.5	-0.4	0.2	0.2	0.2	
Contribution from real GDP growth	0.2	0.0	-2.6	-1.2	-2.6			-2.1	-2.1	-1.4	-1.6	-1.5	-1.5	
Contribution from exchange rate depreciation 4/	19.1	28.3	0.0	5.6	1.7			...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	3.6	5.3	1.7	5.5	1.6			1.0	2.4	1.1	1.5	0.9	1.0	
Public sector debt-to-revenue ratio 1/	195.5	290.6	140.4	198.7	150.9			137.4	132.8	131.9	132.1	129.2	126.5	
Gross financing need 6/	20.5	39.0	23.0	14.9	15.0			13.8	16.9	15.0	10.0	9.0	8.4	
In billions of U.S. dollars	181.4	346.9	175.5	141.5	153.2			152.7	198.8	186.1	130.6	124.1	122.7	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	-0.9	-0.1	4.5	3.0	5.3	2.5	2.3	4.6	4.8	3.3	3.7	3.7	3.7	4.0
Average nominal interest rate on public debt (in percent) 7/	4.7	2.9	4.2	6.5	5.0	4.6	1.6	4.6	5.5	5.9	5.5	5.7	5.6	5.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-67.9	-51.8	-31.1	-23.8	-7.8	-90.4	144.1	-4.4	-3.0	-0.7	0.5	0.7	0.6	-1.0
Nominal appreciation (increase in US dollar value of local currency, in percent)	-59.4	-54.7	0.0	-13.4	-4.2	-20.7	30.5	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	72.6	54.7	35.3	30.3	12.8	94.9	144.8	9.0	8.5	6.6	5.0	5.0	5.0	6.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-18.2	9.6	-12.9	5.1	2.4	6.9	19.1	13.9	9.1	-4.7	0.0	2.0	2.0	3.7
Primary deficit	9.2	11.7	-6.1	4.0	-2.3	2.0	6.3	-0.3	0.5	-1.2	-1.3	-1.3	-1.3	-0.8
Revenue to GDP ratio	23.7	27.2	38.7	29.3	32.7	30.8	4.6	35.5	36.2	35.0	33.9	33.4	32.9	34.5
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 12/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 8/								**48.7**	**50.7**	**52.4**	**55.1**	**57.3**	**59.7**	**0.1**
A2. No policy change (constant primary balance) in 2005-09								**48.7**	**47.4**	**46.3**	**46.1**	**45.4**	**44.9**	**-0.5**
A3. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 9/								**48.7**	**48.1**	**46.1**	**44.8**	**43.2**	**41.6**	**-0.4**
A4. Selected variables are consistent with market forecast in 2005-09								**48.7**	**48.1**	**46.1**	**44.8**	**43.2**	**41.6**	**-0.4**
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006 10/								**48.7**	**138.1**	**393.0**	**390.9**	**386.2**	**381.3**	**-3.9**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**48.7**	**53.9**	**59.1**	**62.0**	**64.3**	**66.6**	**-0.7**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**48.7**	**62.3**	**76.2**	**74.8**	**72.9**	**71.0**	**-0.7**
B4. Combination of B1-B3 using one standard deviation shocks								**48.7**	**84.8**	**139.3**	**137.8**	**135.4**	**132.9**	**-1.3**
B5. One time 30 percent real depreciation in 2005 11/								**48.7**	**66.6**	**64.5**	**63.2**	**61.4**	**59.6**	**-0.6**
B6. 10 percent of GDP increase in other debt-creating flows in 2005								**48.7**	**58.1**	**56.1**	**54.8**	**53.0**	**51.3**	**-0.5**

1/ Public sector debt covers the central government. Public external debt is on a gross basis. Public domestic debt held by the domestic banking system is on a net basis.

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

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ Derived as nominal interest expenditure divided by previous period debt stock.

8/ The key variables include real GDP growth and primary balance. The real interest rate corresponds to the baseline scenario, as historical real interest rates were highly negative due to inflation and would have led to implausible results.

9/ The implied change in other key variables under this scenario is discussed in the text.

10/ Standard deviation of the real interest rate is extremely high, owing to highly erratic inflation rates in the past. The informational value of this test is hence somewhat limited.

11/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

12/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Table 9. Suriname: External Debt Sustainability Framework, 1999-2009 1/
(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003			Projections 2004	2005	2006	2007	2008	2009	
											I. Baseline Projections			**Debt-stabilizing non-interest current account 7/**
1 **External debt**	30.4	30.0	46.8	40.4	39.2			**34.5**	**34.2**	**32.7**	**31.4**	**29.8**	**28.1**	**-8.1**
2 Change in external debt	9.3	-0.4	16.8	-6.4	-1.2			-4.7	-0.3	-1.5	-1.4	-1.6	-1.7	
3 Identified external debt-creating flows (4+8+9)	21.6	2.1	18.7	-4.4	-0.4			-1.1	1.5	0.6	2.1	1.9	2.4	
4 Current account deficit, excluding interest payments	18.3	3.0	13.6	5.2	12.7			12.3	11.3	7.5	9.6	9.3	10.0	
5 Deficit in balance of goods and services	-140.9	-147.4	-146.2	-127.2	-152.8			-177.7	-189.9	-176.4	-171.5	-166.7	-162.2	
6 Exports	63.4	68.0	66.6	59.6	68.4			85.4	92.7	86.9	83.0	80.1	77.3	
7 Imports	-77.5	-79.4	-79.6	-67.5	-84.4			-92.3	-97.2	-89.5	-88.5	-86.6	-84.9	
8 Net non-debt creating capital inflows (negative)	-2.7	-1.6	-1.5	-1.5	-11.5			-12.6	-9.2	-7.0	-7.4	-7.3	-7.5	
9 Automatic debt dynamics 2/	6.0	0.7	6.6	-8.1	-1.6			-0.8	-0.5	0.0	-0.1	0.0	-0.1	
10 Contribution from nominal interest rate	0.7	0.8	1.6	1.1	1.1			0.9	1.0	1.1	1.1	1.1	1.0	
11 Contribution from real GDP growth	0.2	0.0	-1.6	-1.1	-2.0			-1.7	-1.6	-1.1	-1.2	-1.1	-1.0	
12 Contribution from price and exchange rate changes 3/	5.1	-0.2	6.5	-8.1	-0.7			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 4/	-12.3	-2.5	-1.9	-2.0	-0.8			-3.6	-1.8	-2.1	-3.5	-3.5	-4.1	
External debt-to-exports ratio (in percent)	48.0	44.1	70.2	67.7	57.3			40.4	36.9	37.7	37.8	37.2	36.4	
Gross external financing need (in billions of US dollars) 5/	235.4	208.5	187.2	94.0	175.4			169.8	177.8	144.3	183.5	181.8	199.5	
in percent of GDP	26.6	23.4	24.5	9.9	17.2			15.3	15.1	11.6	14.1	13.2	13.7	
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	-0.9	-0.1	4.5	3.0	5.3	2.5	2.3	4.6	4.8	3.3	3.7	3.7	3.7	4.0
GDP deflator in US dollars (change in percent)	-19.5	0.5	-17.9	20.9	1.7	12.2	28.2	3.7	1.7	1.8	1.0	2.0	2.1	2.1
Nominal external interest rate (in percent)	2.6	2.8	4.7	3.0	2.9	3.4	1.2	2.4	3.2	3.4	3.4	3.6	3.4	3.3
Growth of exports (US dollar terms, in percent)	-3.6	7.7	-15.9	11.6	22.9	4.5	13.6	35.4	15.7	-1.4	0.0	2.1	2.1	9.0
Growth of imports (US dollar terms, in percent)	-9.3	2.9	-13.9	5.7	33.9	6.5	15.4	18.6	12.4	-3.2	3.6	3.6	3.8	6.5
Current account balance, excluding interest payments	-18.3	-3.0	-13.6	-5.2	-12.7	-5.5	9.4	-12.3	-11.3	-7.5	-9.6	-9.3	-10.0	-10.0
Net non-debt creating capital inflows	2.7	1.6	1.5	1.5	11.5	1.2	4.6	12.6	9.2	7.0	7.4	7.3	7.5	8.5
											II. Stress Tests for External Debt Ratio			**Debt-stabilizing non-interest current account 8/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 6/								**34.5**	**34.2**	**33.8**	**32.3**	**31.3**	**30.2**	**-4.2**
A2. Country-specific shock in 2005, with reduction in GDP growth (relative to baseline) of one standard deviation 7/								**34.5**	**34.2**	**32.7**	**31.4**	**29.8**	**28.1**	**-8.1**
A3. Selected variables are consistent with market forecast in 2005-09								**34.5**	**34.2**	**32.7**	**31.4**	**29.8**	**28.1**	**-8.1**
B. Bound Tests														
B1. Nominal interest rate is at historical average plus two standard deviations in 2005 and 2006								**34.5**	**35.1**	**34.4**	**33.0**	**31.4**	**29.6**	**-8.2**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**34.5**	**35.8**	**35.1**	**32.4**	**29.5**	**26.4**	**-9.1**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2005 and 2006								**34.5**	**53.1**	**74.5**	**48.1**	**22.4**	**-4.5**	**-24.8**
B4. Non-interest current account is at historical average minus two standard deviations in 2005 and 2006								**34.5**	**47.2**	**62.3**	**60.6**	**58.4**	**56.1**	**-8.8**
B5. Combination of B1-B4 using one standard deviation shocks								**34.5**	**44.5**	**56.8**	**54.6**	**51.9**	**49.2**	**-13.0**
B6. One time 30 percent nominal depreciation in 2005								**34.5**	**42.0**	**37.5**	**32.5**	**27.4**	**22.1**	**-10.5**

1/ Excludes private sector debt.

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

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

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

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ The implied change in other key variables under this scenario is discussed in the text.

8/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP) remain at their of the last projection year.

Table 10. Suriname: Millennium Development Goals

(In percent, unless otherwise specified)

	1990 Benchmark 1/	2015 Goal	Latest Estimate	Status
1. Poverty				
Halve poverty	…	…	59.7–69.5 (1993)	…
Halve population below minimum dietary energy consumption	13.0	6.5	11.0 (2001)	Unlikely
2. Education				
Achieve full enrollment in primary education	78.0	100.0	97.3 (2001)	On track
3. Gender equality				
Raise girls/boys ratio in primary and secondary education to 100 percent	104.6	100.0	112.9 (2001)	…
4. Child mortality				
Reduce child mortality under 5 years of age by two-thirds	44.0	14.7	40.0 (2002)	On track
5. Maternal health				
Reduce maternal mortality rate (for each 100,000 live births) by three-fourths	…	…	110.0 (2001)	…
Raise births attended by skilled health staff	95.0 (1995)	n/a	84.5 (2001)	Off track
6. Environment				
Halve the proportion of individuals without access to improved water source	…	…	18.0 (2001)	…
Halt forest degradation (percent of total land)	90.5	90.5	90.5 (2001)	On track
7. Global partnership for development 2/				
Develop and implement strategies for youth employment (youth unemployment rate in percent of total labor force ages 15/24)	36.6	n/a	…	…
Make available the benefits of new information technologies (access to personal computers - per 1,000 people)	…	n/a	45.5 (2001)	…

Sources: IADB, World Bank, UNDP, and Vos, DeJong Dijkstra, in: van Dijck (Ed.), "Suriname. The Economy", 2001.

1/ Data refers to 1990 unless otherwise noted.
2/ The objective has various qualitative targets.

SURINAME: FUND RELATIONS

(As of January 31, 2005)

I. Membership Status: Joined 4/27/78.

A. Financial Relations

II. General Resources Account:	SDR Million	Percent of Quota
Quota	92.10	100.00
Fund holdings of currency	85.98	93.35
Reserve position in the Fund	6.12	6.65

III. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	7.75	100.00
Holdings	1.21	15.67

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				
	2005	**2006**	**2007**	**2008**	**2009**
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.15	0.15	0.15	0.15	0.15
Total	**0.15**	**0.15**	**0.15**	**0.15**	**0.15**

B. Nonfinancial Relations with the Authorities

VII. Exchange Rate Arrangements

The national currency is the Surinamese dollar (SRD), which replaced the Surinamese guilder in January 2004 at a conversion rate of 1,000 guilders per SRD. The central bank uses an official exchange rate of SRD 2.75 per U.S. dollar for government and mining transactions and a rate of SRD 1.4 per U.S. dollar for baby milk powder imports. Most private transactions take place at a commercial bank/cambio rate. In June 2004, the central bank removed the ceiling and the floor on this rate, which had previously been set at SRD 2.8 and 2.6 per U.S. dollar respectively. Since then, the commercial bank/cambio rate has traded between SRD 2.8 and 2.71 per U.S. dollar.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on October 17, 2003 (IMF Country Report No. 03/356). Suriname is on the standard 12-month consultation cycle.

IX. Participation in the GDDS

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

X. Technical Assistance

STA:

- (GDDS)—A GDDS mission visited Suriname in March of 2004 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 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.
- (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. A follow-up mission visited Paramaribo in February 2005.

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 reduce the central government deficit.

Consents and acceptances: Quota increase approved.

Resident Representative: None.

SURINAME: 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 investment promotion agency InvestSur. A workshop to present the findings was held in Paramaribo in July 2003. The Government has requested a follow-up report on fiscal incentives, amendments to the Investment Law, and setting up of the Investment Promotion Agency. This report was delivered to the Government in October 2004, and subsequently presented at a workshop.

B. Inter-American Development Bank

Suriname joined the Inter-American Development Bank (IDB) in 1980. Since then, the IDB has approved 15 loans (13 projects) to Suriname amounting to US$101.6 million and 82 technical cooperation operations totaling US$26.8 million.

The IDB is the only major multilateral lender operating in Suriname at this time. The other main sources of financing for public sector investment are The Netherlands and the European Union. As of December 2004, Suriname’s outstanding debt to the IDB stood at US$44 million, mostly on Intermediate Fund Financing (IFF) terms.

Bank strategy in Suriname is outlined in the current Suriname Country Strategy approved in 2000. The main premise of the strategy is that Suriname’s recent development was constrained, not so much by a lack of capital resources, but by a deficient policy and institutional framework. Consequently, the main thrust of Bank strategy since 2000 has been to support policy and institutional reforms as the basis for promoting private-sector-led growth. In addition, this approach has been followed with the help of an active Technical Cooperation program. A new country strategy is due to be prepared for Board approval in 2005.

Structural reform projects

Public sector. In June 2004 the IDB approved a $5 million loan to Suriname to support the strengthening of public sector management. Public sector management and reform is considered to be a critical element of institutional reform in the country, given the large size and importance of the public sector. The executing agency is now actively working to fulfill the conditions prior to first disbursement. The loan is complemented by TC (technical cooperation) to elaborate a road map which will help to guide implementation of the public sector reform project. Preparation of this road map is expected to begin in April 2005.

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 reform options. 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 that could be executed with IDB financial support through a subsequent loan program.

Financial relations (as of December 2004)

At present, 7 loan projects are in execution amounting to US$51 million in IDB contribution and 18 technical cooperation projects in execution with total IDB contributions of US$11 million. The undisbursed portion of the loan portfolio in execution is entirely on OC terms with IFF subsidy.

Pipeline and Portfolio Summary

PROJECT CATEGORY	**NUMBER**	**Total (In millions of US$)**	**DISBURSED (In percent)**
Loans in Execution	7	51.0	12
TCs in Execution	18	11.2	75
Projects in Pipeline	16	313.0	Not applicable
TCs in Pipeline	10	3.2	Not applicable

Net cash flow

Although the net cash flow to Suriname has been negative for 4 years in 1999-2004, the total financing inflow over the period has been overwhelmingly positive. This is mainly due to disbursements of a policy-based loan in 1999 and 2003.

	1999	2000	2001	2002	2003	Proj. 2004
	(In millions of US dollars)					
Loan Disbursements	18.6	0.6	0.2	0.8	15.7	4.4
Repayments	0.4	0.7	0.8	0.7	1.8	2.4
Net Loan Flow	18.2	-0.1	-0.6	0.1	13.9	2.0
Interest and charges	0.8	0.8	1.9	0.9	2.0	2.8
Net Cash Flow	17.4	-0.9	-2.5	-0.8	11.9	-0.8

Loan repayments from Suriname are projected to increase through 2009. Negative net cash flows could be expected in the absence of substantial increase in loan approvals and disbursements.

Total projected loan repayments
(In millions of US dollars equivalent)

	2005	2006	2007	2008	2009
Principal	3.1	3.5	4.0	4.3	5.0
Income	2.7	3.4	3.6	3.6	3.5
Total	5.8	6.9	7.6	7.9	8.5

SURINAME—STATISTICAL ISSUES

I. OVERVIEW

The quality and timeliness of economic statistics has improved over the past two years. The authorities have worked with STA to improve national accounts, monetary, and balance of payments statistics. Suriname started participating in the GDDS in June 2004, and its metadata are posted on the IMF's Dissemination Standards Bulletin Board. These provide information on Suriname's statistical production and dissemination practices, as well as plans for improvement. In addition, the newly created Suriname Debt Management Office started operations in 2004, improving the quality of public debt data. Notwithstanding these advances, continued effort is required to bring statistics up to a level that is adequate for policy analysis.

Real Sector

The latest national income accounts data are 2002. Preliminary estimates for 2003 became available in late-2004, but without the details on informal sector activity.

Some efforts were made to improve the GDP data by production approach. The constant price series were rebased to 1990 and the estimates in the different economic sectors are now based on indicator variables. However, indicators of sectoral activities still suffer from poor response rates to questionnaires.

There are no national accounts by expenditure approach and no labor statistics. There is also no reconciliation between the national accounts and the balance of payments data.

The production and dissemination of Suriname's consumer price index (CPI) was disrupted by the temporary cessation of work by the General Statistics Bureau (ABS) due to a fire (June 2003 - March 2004). In the absence of data collection and processing, it will not be possible to publish those monthly data or annual figures for 2003 and 2004.

Public Finances

The only public sector financial data available are those for the central government. In addition, a substantial amount of additional information is needed to derive an accurate 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 that also provides revenue and expenditure data on a cash basis, which is used by the Central Bank of Suriname (CBvS) to furnish a 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 are recorded by the Central Paymaster, but the majority of them seems to be recorded only at the ministerial level. As there are also no centralized records for receipts of external grants, capital expenditure has to be inferred from partial donor information.

As the estimates for revenue and expenditure components can differ significantly among the MoF, the Treasury department, the CBvS, and the Central Paymaster data, 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 central government operations have been published in the IFS and no data are reported for publication in the *GFSY*.

For the rest of the public sector, the collection of comprehensive and consistent financial data remains a challenge. The Netherlands has recently provided technical assistance in this area. The actual number of public enterprises remains is unknown, and estimated at 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, do not produce accounts on a timely basis and their impact on fiscal operations, domestic credit and employment is not known with any certainty.

Statistics on public external debt and external payment arrears suffer from non-transparent reporting procedures across ministries. However, the startup of the Suriname Debt Management Office in 2004 has helped centralize the flow and quality of data.

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 CBvS, and to advise on ways to prepare and promote a faster and more accurate dissemination of monetary data. In response to the mission's recommendations, data on central bank activities are reported with lags of less than a month since mid-2001. The quality of the accounts makes them suitable for publication in *IFS*.

To address remaining difficulties with the reporting of commercial banks' data, STA missions visited Suriname in September 2001 and February 2005. The missions helped design new report forms to allow a proper sectorization of the accounts. Although still experiencing some irregularities, the periodicity of the reporting has improved recently and the time-lag was reduced to two months.

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. In addition, the ABS does not provide a sufficiently detailed breakdown of merchandise exports by products and destination. During October 2002, a STA technical assistance mission assessed 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. A GDDS mission that visited Suriname in March 2004 found that little progress had been made in implementing the recommendations, although a proposed revision to the CBvS Act before parliament would make the reporting of statistical information to the CBvS compulsory.

II. Adequacy of Data Provision to the Fund for Surveillance Purposes

Data provision can generally be considered adequate for surveillance purposes. However, there are serious shortcomings in the areas of the expenditure breakdown of national accounts, exports, and informal sector activity, which significantly hinders staff's analysis and hampers the development of a reliable quantitative medium-term policy framework:

- **Real sector performance.** Poor collection and presentation methodologies and long delays in the provision of data compound the lack of data on the informal sector and seriously undermine the accuracy of GDP estimates.

- **Saving-investment balances.** As an expenditure breakdown of national accounts is unavailable, the estimate of saving and investment balances relies largely on balance of payments data, rendering problematic the estimation of private investment.

- **Exports.** The lack of detailed data on exports by goods and destination requires trading partner country inferences of exports and renders timely and accurate analysis difficult.

SURINAME: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE AS OF FEBRUARY 9, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	12/04	01/05	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]					
Reserve/Base Money	12/04	01/05	D	Monthly Less than 1 month lag	Q
Broad Money	12/04	01/05	M	Monthly 2 month lag	Q
Central Bank Balance Sheet	12/04	01/05	D	Monthly Less than 1 month lag	W
Consolidated Balance Sheet of the Banking System	11/04	01/05			
Interest Rates[2]	12/04	01/05	M	Monthly 2 month lag	Q
Consumer Price Index	11/04	01/05	M	Monthly Less than 1 month lag	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government					
Stocks of Central Government and Central Government-Guaranteed Debt[5]					
External Current Account Balance	12/03	07/04	Q	Q	A
Exports and Imports of Goods and Services					
GDP/GNP	2003	09/04	A	A	A
Gross External Debt					

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 05/54
FOR IMMEDIATE RELEASE
April 20, 2005

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

IMF Executive Board Concludes 2005 Article IV Consultation with Suriname

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

Background

Tighter fiscal and monetary policies helped stabilize the exchange rate and moderate inflation pressures in 2003 and 2004. The fiscal deficit narrowed from 6.5 percent of GDP in 2002 to near balance in 2003, while a tighter monetary policy helped to reduce inflation from 28 percent in 2002 to 13 percent in 2003 and 9 percent in 2004. Concurrently, investment and employment strengthened, and real GDP growth accelerated to about 5 percent in both 2003 and 2004. The more stable macroeconomic framework also laid the foundation for the successful launch of the Suriname dollar (SRD) which replaced the Suriname guilder in January 2004.

The policy stance became somewhat more expansionary in 2004. The central government's overall deficit widened to about 1.75 percent of GDP in 2004, owing to a substantial increase in capital expenditure and a drop in domestic fuel taxes. Monetary policy also became somewhat more accommodative, as the Central Bank of Suriname (CBvS) lowered reserve requirements on domestic currency deposits and allowed commercial banks to invest part of their required reserves in low-interest housing loans.

The financial system has become increasingly dollarized in recent years, reflecting the lingering effects on confidence of earlier episodes of price instability, as well as regulatory changes

[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.

favoring foreign currency intermediation. The share of foreign currency deposits rose from 47 percent to 56 percent of the total deposit base during 2002–04, while the share of private sector credit denominated in foreign currency increased from 42 percent to 54 percent.

The external current account deficit has remained wide, as imports surged in response to large investments in the mining sector during 2003-04 and an increase in consumer demand. While mineral exports have increased rapidly in recent years, exports from non-mining sectors have been stagnant, affected in part by the relatively high level of the real effective exchange rate. The large current account deficit has been more than financed by continued large inflows of foreign direct investment, and international reserves rose by almost 3 percent of GDP in 2004. Weak, albeit improving, debt management and significant arrears on bilateral loans since 1999 have contributed to Suriname's poor international credit rating.

Executive Board Assessment

Directors commended the authorities for their successful macroeconomic management in recent years, and observed that prudent fiscal policies, combined with a cautious monetary policy stance, had helped stabilize the exchange rate and lower inflation, and fostered a solid growth performance in 2004.

Directors stressed that macroeconomic stability should remain a policy priority to strengthen growth and tackle poverty supported by reforms to diversify the economy and improve the business climate. They encouraged the authorities to resist pressures to relax the fiscal stance in light of the upcoming general elections. Over the medium term, Directors underscored the importance of establishing an institutional framework to help avoid procyclical monetary and fiscal responses to terms-of-trade shocks that in the past had led to destabilizing cycles of inflation and currency depreciation, and emphasized the need to reduce expenditure inefficiencies.

In this connection, Directors welcomed the recent strengthening of the fiscal framework. Looking forward, Directors suggested the development and adoption of a medium-term fiscal framework to help cope with the volatility of revenue from mining operations and to broaden the domestic revenue base in order to reduce reliance on mining. They also recommended that steps be taken to amend the fuel pricing mechanism to reduce the vulnerability of tax revenues to world energy prices. They noted that civil service reform and downsizing would be critical for improving the efficiency of the public sector, which was large by international standards, and they urged the authorities to accelerate the Inter American Development Bank-supported project in this area. More broadly, Directors welcomed the statutory limits that had been established for public debt, but cautioned that these limits appeared high given the sensitivity of Suriname's fiscal position to exogenous shocks.

With regard to monetary policy, Directors stressed the importance of maintaining firm control over credit growth, noting that the strong growth of broad money in 2004 could threaten the gains achieved in lowering inflation over the past two years. They encouraged the authorities to follow through with plans to amend the Central Bank Act in order to define more clearly the central bank's scope and responsibility in the provision of credit to the government. Directors also observed that policy implementation would benefit from being anchored more firmly, possibly on a pre-announced monetary target, and by expanding the range of monetary policy instruments.

Directors, pointing to the recent increase in dollarization, urged the authorities to take further steps to protect the banking system from balance sheet risks. They welcomed the central bank's recent moves to reduce the difference between the reserve requirements on foreign and domestic currency deposits, which had favored foreign currency-denominated financial intermediation in Suriname, and encouraged the authorities to tighten prudential regulations and improve banking supervision, with a view to limiting potential currency mismatch risks in the system. Directors viewed that an increase in resources for banking supervision and staff training would be

worthwhile, in light of the recent increase in nonperforming loans and continuing problems at the small state-owned banks. They also welcomed the authorities' interest in participating in a Financial Sector Assessment Program.

Directors commended the successful launch of the Suriname dollar in 2004 and welcomed the steps taken by the central bank that had led to the convergence of exchange rates.
They urged authorities to seize the present opportunity to move to a unified and floating exchange rate regime.

Directors stressed the importance of the authorities clarifying relations with external creditors and eliminating payment arrears without delay. Noting that Suriname's erratic payment record in the past had undermined the country's creditworthiness and increased borrowing costs, they welcomed the recent regularization of bilateral arrears with Germany.

Directors underscored Suriname's continued vulnerability to external shocks and encouraged the authorities to implement policies that would support a reduction in reliance on the mining sector. They advised the authorities to simplify licensing procedures and promote a more stable and rule-based climate for investment. They also suggested that the authorities begin designing a comprehensive plan to improve the efficiency of state-owned companies and to foster nonmining private sector activity, including through the privatization of the banana, rice, and forestry companies.

Directors welcomed Suriname's recent accession to the General Data Dissemination System (GDDS). They urged the authorities to address the remaining serious data reporting problems, particularly in the areas of real sector and trade statistics.

Public Information Notices (PINs) fform part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued afte Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Suriname: Selected Economic Indicators

	2001	2002	2003	Est. 2004	Proj. 2005
(Annual percentage change, unless otherwise indicated)					
Real Economy					
GDP at 1990 prices 1/	4.5	3.0	5.3	4.6	4.8
GDP current market prices	41.4	34.3	18.8	14.1	13.8
Consumer prices (End of period)	4.9	28.4	13.1	9.1	9.0
(In percent of GDP, including informal sector)					
National accounts					
Gross domestic investment	28.9	25.0	28.5	27.9	30.8
Gross national saving	13.7	18.7	14.6	14.8	18.4
Foreign saving	15.2	6.3	13.8	13.2	12.3
Central government					
Revenue and grants	38.7	29.3	34.7	35.5	36.2
Expenditure and net lending	35.0	35.9	34.8	37.3	39.0
Overall balance	3.7	-6.6	-0.1	-1.8	-2.8
(Annual percentage change, unless otherwise indicated)					
Money and credit 2/					
Domestic assets (net)	3.9	45.7	6.7	29.1	10.3
Of which					
Public sector	-63.8	186.6	-20.7	14.0	6.2
Private sector	73.9	59.3	40.7	32.5	17.0
Money and quasi-money (M2) 3/	32.8	32.3	15.9	28.8	16.2
(In percent of GDP, including informal sector)					
External Sector 4/					
Current account	-15.2	-6.3	-13.8	-13.2	-12.3
Merchandise exports, f.o.b.	58.8	55.6	62.6	79.6	86.8
Merchandise imports, f.o.b.	-56.8	-50.1	-65.6	-73.5	-78.4
Capital and financial account	24.3	7.2	12.7	15.3	15.3
Of which: external borrowing: central government	10.6	-3.1	-1.8	-0.5	1.6
Errors and omissions (Net)	2.3	-0.7	1.0	0.7	0.0
Change in reserves (-)=increase	-11.4	-0.2	0.1	-2.8	-3.0
Gross official reserves (In months of imports)	3.5	1.9	1.4	1.6	1.7
Stock of external public debt 5/	46.8	43.3	39.5	34.5	34.3

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

1/ Includes estimate of the informal sector.
2/ Pre-2002 data are not comparable. Percentage changes in 2002 are calculated on basis of estimates for end-2002 data based on the old data classification.
3/ Includes foreign-currency deposits held by residents.
4/ Based on amounts expressed in U.S. dollars.
5/ Includes public external payments arrears.

Statement by Murilo Portugal, Executive Director for Suriname
and Ketleen Florestal, Advisor to Executive Director
March 25, 2005

1. The Surinamese authorities have achieved substantial progress on the macroeconomic front during the past two years curbing decisively the negative trends of 2002. Careful and responsible macromanagement coupled with increases in the international prices of minerals -Suriname's most important exports- has led to economic stability, social progress, and economic growth. Fiscal discipline and tight monetary policy allowed for the successful introduction of the Surinamese dollar, the quasi unification of the parallel and official exchange rates, and a significant reduction of the inflation rate to single digits, with the monthly inflation rate estimated to be null in February 2005. Suriname is also on track with most MDGs. A significant number of structural reforms to address vulnerabilities and increase economic efficiency have either been implemented or are well on their way towards implementation.

2. Nevertheless, the Surinamese authorities recognize that the economy remains vulnerable to external shocks, particularly due to its narrow production and export bases. Furthermore, they believe that additional reforms continue to be necessary to raise the efficiency of the public sector, to ensure fiscal sustainability, to encourage private sector investment, and to strengthen banking supervision. While significant progress has been made in improving the quality and timeliness of economic statistics, the authorities acknowledge that further progress is also warranted. In that regard, they wish to thank the Fund for the prompt delivery of technical assistance following the staff visit of December 2004.

3. The Surinamese authorities have asked us to convey their determination to pursue structural reforms. However, they believe that long lasting structural reforms require general consensus not only on the thrust of the reforms to be undertaken but also on the timing of their implementation. The coalition government presently in place believes that increased uncertainty due to the coming elections pleads against major reforms. A renewed mandate will send a powerful signal that the social consensus needed to accelerate the pace of structural reforms particularly in the public sector is not lacking. Consequently, the authorities have chosen to advance cautiously on the structural reform agenda. For the moment, priority is set at maintaining a stable macro-economic environment notwithstanding substantial pressures to loosen their policy stance.

4. In public finance, the authorities consider as priorities public service reform, the overhauling of the inefficient management systems of certain public enterprises and state owned banks, and the reduction of the negative impact on fiscal revenue of the domestic fuel tax system. Given this year's socio-political constraints, the authorities are advancing as far as feasible with pre-implementation measures. With technical support from the IDB and the UNDP, a comprehensive roadmap for the strengthening of public sector management has been drafted. The technical work achieved so far includes the redefinition of the Personnel Act, the introduction of a Procurement Act, and the strengthening of the registrar of civil servants. Technical assistance on the restructuration of the state-owned banks has

also been provided by IDB. Reform options include a shutdown of one of the state owned banks and mergers.

5. As a first step towards major transformation, public enterprises are being required by the government to have more transparent financial management systems. Substantial progress has been made towards the privatization of the banana, rice, and forestry companies. With help of the EU, the banana company is being brought to a sound level before privatization. The government is examining different options suggested for the rice company by a consultant financed by the IDB.

6. Fund staff warns against three major downside risks, which were extensively discussed on the occasion of the Article IV visit in December 2004, namely (i) policy slippages resulting from pre-election pressures, (ii) capital flight, and (iii) the high degree of vulnerability of the economy to external shocks.

7. It is pleasing to note that the risks of policy slippages at the eve of general elections in Suriname did not materialize. The authorities have been able to maintain a satisfactory fiscal performance complemented by prudent monetary policy. Budget execution and financing needs continue to be jointly monitored weekly by the highest authorities at the Ministry of Finance and the Central Bank of Suriname. The government has been able to resist pressures calling for substantial wage increases for public servants. The authorities are fully committed to continue respecting newly established debt ceilings (60 percent of GDP for all public sector debt with a sub ceiling of 15 percent of GDP on domestic debt) that have been fixed at realistic levels.

8. The exchange rate has been stabilized and there are no conclusive indications that confidence in the new national currency, the Surinamese dollar, is waning. To correct the bias in favor of increased dollarization and reduce the associated balance sheet risk to the commercial banking sector, the reserve requirement on deposits in foreign currency, which had already been raised to 22 percent in October 2004, was further increased to 33 percent in February 2005.

9. Central Bank Independence is being strengthened. Amendments to the Central Bank Act, which include the establishment of personal penalties including jail for central bank officials who do not respect the statutory limits set for financing government deficit and contracting external debt, are presently under debate in the Parliament. The Government is confident that these amendments will gain approval and hopefully be signed into law before the election day of May 25. Additional stringent prudential norms are also under Parliamentary consideration.

10. Several structural and conjunctural factors have impeded adequate debt management. To address this problem the authorities created late in 2004 the Suriname Debt Management Office and have gradually eliminated all arrears to multilateral creditors. Suriname remains committed to honoring its engagements and is working with bilateral creditors to solve pending debt issues. Recently, for instance, Suriname reached agreement with the German Ministry of Economic and Labor Affairs recognizing some old contingent liabilities arising from finance by Hermes to damage cases in the 1980s.

11. Amendments to the Bank Act and the law governing transfer houses have been introduced to Parliament with a view to give more authority to the Central Bank to demand information necessary to ensure the production of quality and timely statistics. Suriname has also put in place anti money laundering legislation.

12. Staff recommends immediate adoption of a flexible pricing mechanism for petroleum products. While our authorities are convinced of the necessity to adopt a more direct and targeted subsidization mechanism and decrease the vulnerability of fiscal revenues to changes in the landed cost of fuel, they do not believe it to be wise to cause a general price increase during this period of uncertainty.

13. Successful introduction of the Surinamese dollar and removal of the ceiling and the floor on the exchange rate movements was achieved without endangering stability in the foreign exchange market because careful attention was given to the timing of the change, including a widespread public communication campaign. Similarly, civil service reform will be implemented after careful planning so as to minimize social disruptions and to reduce pressures on the unemployment rate. Likewise, the authorities do not see the scope for removing in the short run the February 2004 measure allowing commercial banks to use up to 7 percentage points of the reserve requirement to expand their mortgage loan portfolio. However, the activation of open market operations to reduce the reliance of monetary policy on reserve requirement remains a priority on the reform agenda.

14. Suriname is well aware of the limited life span of its gold and bauxite mines. The authorities welcome the idea of setting up a Non Renewable Resource Fund (NRF). They are already looking into ways of stimulating non mining production and diversifying the export base while preferential treatment of their traditional agricultural exports (banana, rice...) is being eroded. With technical assistance from the World Bank (FIAS/IFC), they are investigating ways to improve investment incentives including reviewing the Investment law and setting up of an Investment Promotion Agency.

15. On behalf of the Surinamese authorities, we would like to commend the staff for the excellent collaboration and helpful recommendations both during their visits in Paramaribo and throughout the year while at the Fund's headquarters. We would also like to thank the staff for the candid assessment of the macroeconomic framework and a very helpful set of papers on key economic issues.

16. Finally, allow me to recall that the authorities are looking forward to Suriname's participation in the Financial Sector Assessment Program.