August 2008
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Suriname: 2008 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion for Suriname; 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 2008 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 4, 2008, 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 May 2, 2008. 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 June 2, 2008 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.

Statistical Appendix

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

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SURINAME

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Article IV Consultation with Suriname

Approved by Ranjit Teja and Michael T. Hadjimichael

May 2, 2008

- **Context.** A narrow economic base, terms-of-trade swings, and a weak policy/institutional framework have in the past led to macroeconomic instability. However, performance has strengthened in recent years, on the back of high commodity prices and improved policies.
- **Developments.** Although economic growth is strong and reserves are being rebuilt, inflation has risen to double digits, driven by large increases in food and fuel prices, rapid domestic demand growth (terms-of-trade improvements have raised real income by over 10 percent), and depreciation of the nominal effective exchange rate. Against the backdrop of a *de facto* peg to the U.S. dollar, monetary policy easing is contributing to a credit boom, while a large fiscal expansion is envisaged for 2008. These are adding to macroeconomic pressures.
- **Policy advice.** Policies need to rein in domestic demand growth and lower inflationary pressures, while reducing financial sector risks. Specifically, staff recommend to:
  - Tighten monetary conditions to lower booming credit growth. This should be done through T-bill issuance or, as a second-best option, higher reserve requirements.
  - Strengthen the fiscal balance by 2–3 percent of GDP relative to the current target for 2008. This would require a slower expansion of capital spending, more modest wage growth, and savings from likely revenue overperformance.
  - Consider utilizing the flexibility allowed by the *de jure* managed float to deal with inflationary pressures, while moving to a more flexible exchange rate regime over time, as institutions and policies strengthen.
  - Bolster the medium-term fiscal framework to increase resilience to shocks. Annual budgets should be set in a multi-year framework, while targeting public debt of no more than 20–25 percent of GDP and a sustainable non-mineral balance.
- **Authorities' reactions**. Rising core inflation reflects mainly spillovers from supply shocks. In any event, strengthening the fiscal stance in 2008 would be very difficult given political pressures for higher spending and lower taxes. Strengthening the medium-term fiscal framework is a priority.
- **Data**. Statistics have been inadequate for surveillance purposes (Appendix I), reflecting capacity limitations. The authorities are planning to address deficiencies, particularly in the area of national accounts, and may request Fund technical assistance.
- **Fund relations.** Suriname is an Article VIII country, but maintains two multiple currency practices (Appendix I).

Contents

I. BACKGROUND

1. **Suriname's narrow economic base makes it prone to macroeconomic volatility**. Three commodities (alumina, gold and oil) account for 80 percent of export receipts and 50 percent of GDP, and generate one-fourth of central government revenues. The prices of these products have exhibited large swings, and during the 1990s sharp downturns led to sizable fiscal deficits, external arrears, central bank budget financing and episodes of near-hyperinflation. Weak policy and institutional frameworks have contributed to higher economic volatility and lower growth than in other commodity-exporting countries (Figure 1). These have undermined the credibility of policies and contributed to high financial dollarization, with over half of deposits denominated in foreign currency.

Suriname: Commodity Revenues, 2007
(In percent unless otherwise indicated)

	Gold	Bauxite	Oil	Total
Share in exports	31.7	41.9	7.0	80.6
Share in government revenue and grants	2.6	9.6	13.5	25.8
Export revenue (percent of GDP)	20.2	26.7	4.5	51.4
Government revenue (percent of GDP)	0.8	2.9	4.1	7.8

Sources: Surinamese authorities; and staff estimates and projections.

2. **Aided by strong commodity prices and an improvement in policies, macroeconomic performance has strengthened markedly in recent years (Figure 2)**. The terms of trade have improved by about 30 percent since 2005, implying an increase in real income of over 10 percent. Supported by this environment, improved policies—strengthening of the non-mineral balance, bolstering central bank independence, and reduction of foreign exchange market fragmentation—have contributed to higher growth, lower inflation, large reserve accumulation, and a sharp decline in public debt.

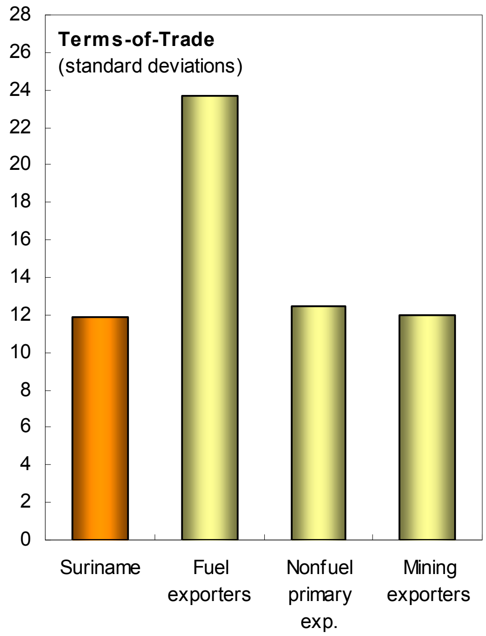
3. **Economic growth in 2007 was strong and the external accounts improved, but inflation has risen to double digits.**

- Aided by high commodity prices and improved confidence, GDP growth is estimated at 5½ percent, with strong performance in both the mineral and non-mineral sectors.

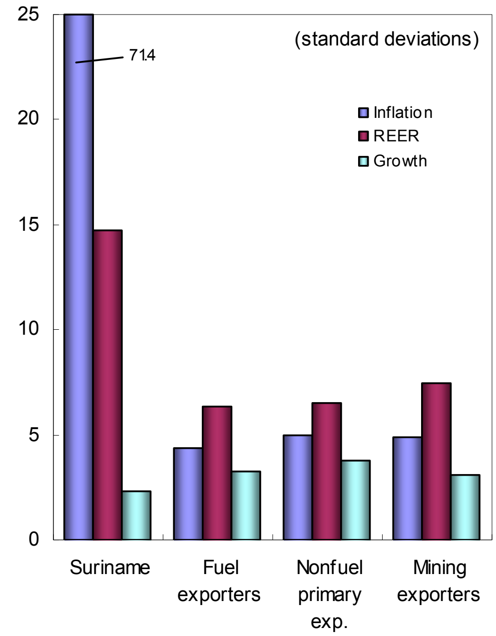
- Twelve-month inflation more than trebled to almost 14 percent in March, driven in large measure by food and fuels prices (Figure 2). However, non-tradables inflation, a better measure of underlying excess demand pressures, has also picked up significantly since November. Tradables inflation excluding food and fuels has also risen rapidly, reflecting depreciation of the nominal effective exchange rate.

Figure 1. Suriname: International Perspective on Economic Performance, 1995-2004

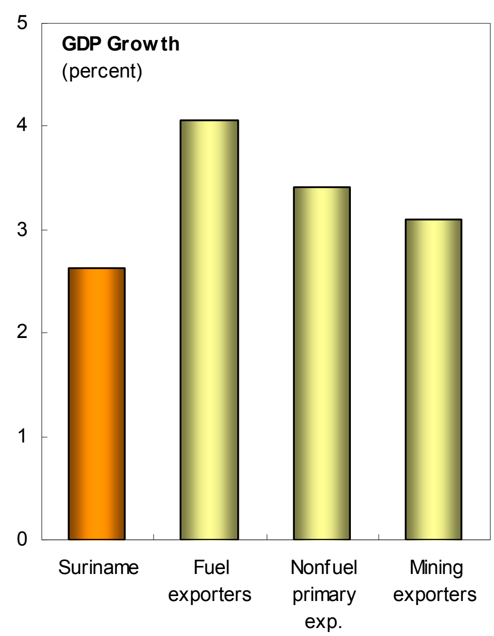
Terms-of-trade volatility has been similar to that in other commodity-exporting countries...



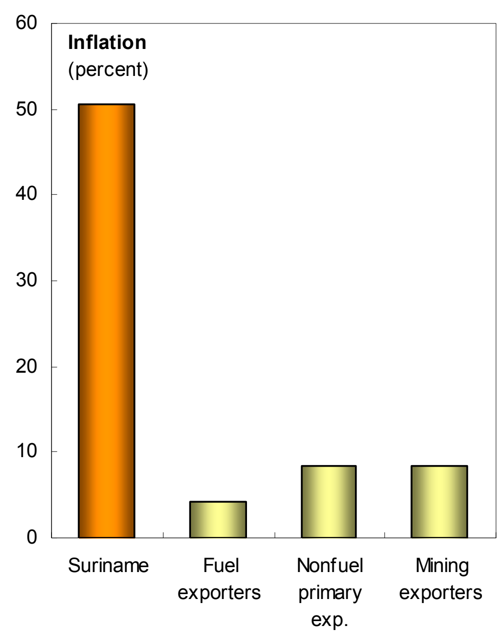
... but inflation and REER volatility have been much higher.



Real GDP growth has been lower...



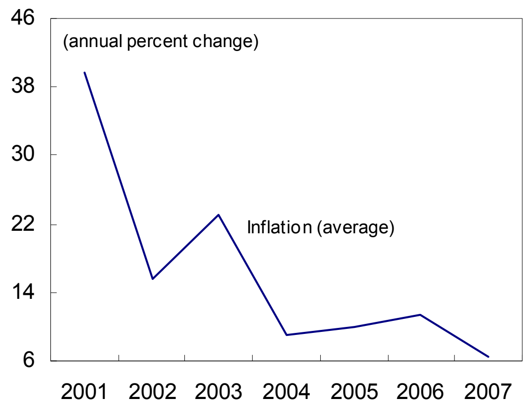
... while inflation has been much higher.



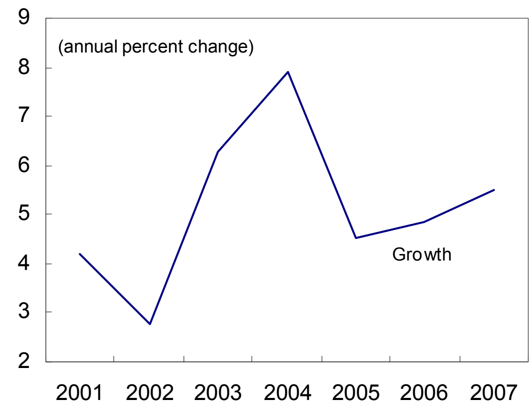
Sources: World Bank; World Economic Outlook; and Fund staff estimates.

Figure 2. Suriname: Recent Macroeconomic Performance

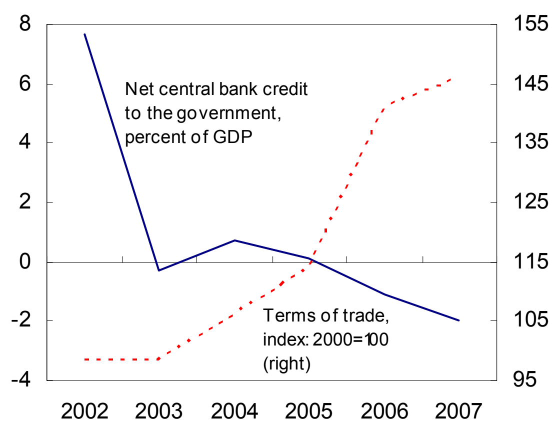
Inflation has declined in recent years ...



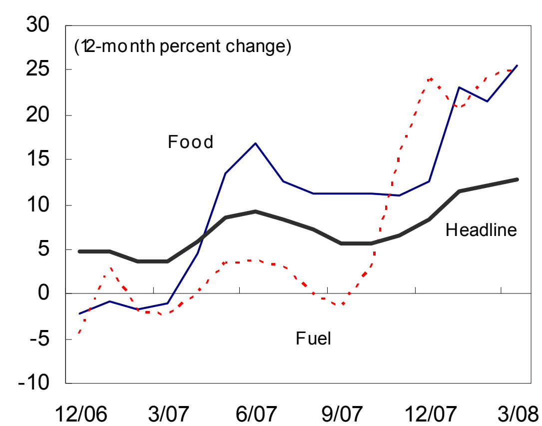
.... while economic growth has risen...



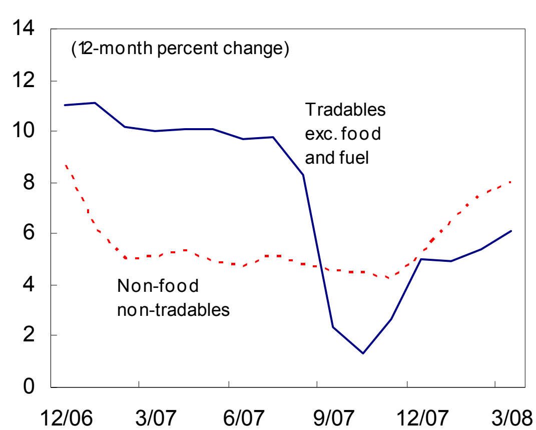
... aided by favorable external conditions and improved macroeconomic policies.



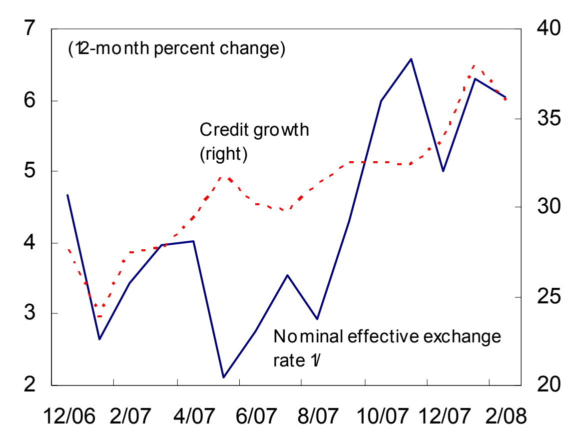
More recently, inflation has risen to double digits, driven largely by food and fuel prices...



... but both tradables and non-tradables inflation have also been rising...



... while credit growth has accelerated and the nominal effective exchange rate depreciated.



Sources: Central Bank of Suriname; Ministry of Finance; and Information Notice System.

1/ An increase denotes depreciation.

- Reflecting higher commodity prices and oil output, the current account surplus rose to 3 percent of GDP, leading to a sharp increase in reserves (Figure 3).

Suriname: Selected Macroeconomic Indicators

	2002	2003	2004	2005	2006	Est. 2007
Real GDP growth	2.8	6.3	7.9	4.5	4.8	5.5
Inflation, eop	28.4	13.1	9.1	15.8	4.7	8.4
External current account (in percent of GDP)	-5.5	-10.7	-2.1	-4.3	1.8	2.9
NIR (in millions of U.S. dollars)	102	101	135	160	264	433
GIR (in months of imports)	1.9	1.4	1.7	1.4	2.0	2.9

Source: Surinamese authorities.

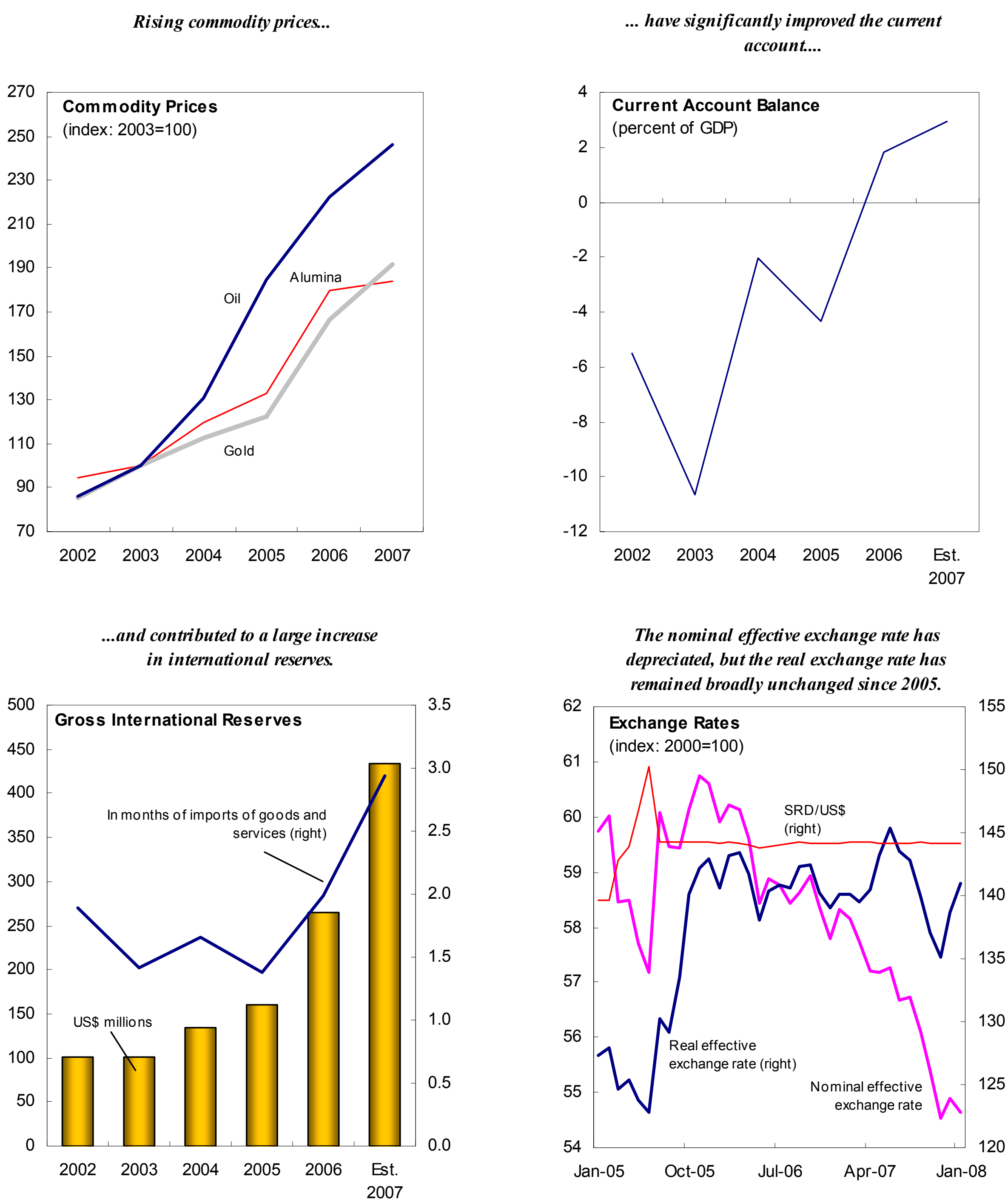
4. **Fiscal performance strengthened in 2007, reflecting mainly a lower *non-mineral* deficit (Figure 4)**.

- The central government posted an overall surplus of 3 percent of GDP. Driven mainly by higher excise taxes (which doubled for tobacco and alcoholic drinks in June) and improvements in income tax administration, revenue increased sharply, while expenditure growth was kept under control.

- Public debt declined to 21 percent of GDP, aided by a large pre-payment to the Netherlands (4 percent of GDP). Progress has been made on the clearance of external arrears, but these remain large at 5½ percent of GDP. The authorities have contacted creditors to settle these arrears, which are mainly to Brazil (71 Percent) and the United States (22 Percent). Standard and Poor's has raised Suriname's rating from B to B+, citing improved fiscal discipline and arrears clearance.

5. **Bank credit grew by 35 percent over the last year.** This large liquidity increase resulted from incomplete sterilization of reserve accumulation (base money grew by 30 percent) and a reduction in reserve requirements on domestic-currency deposits in early 2007. The latter were lowered by 3 percentage points in effective terms to 15 percent. Nominal lending rates fell by 2½ percentage points in the last year. Credit to the private sector is now well above trend, suggesting the presence of a credit boom (Figure 5).

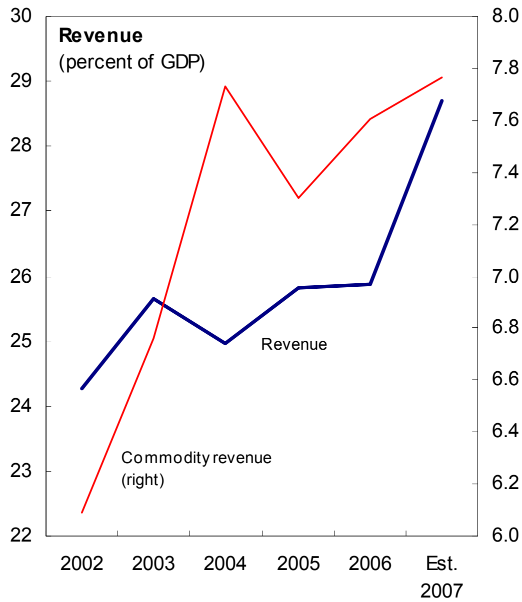
Figure 3. Suriname: External Sector Indicators



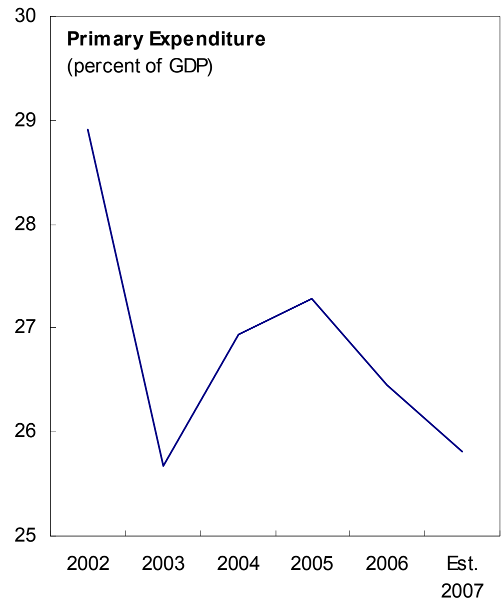
Sources: Surinamese authorities; World Economic Outlook; Information Notice System; and Fund staff estimates and projections.

Figure 4. Suriname: Fiscal Indicators

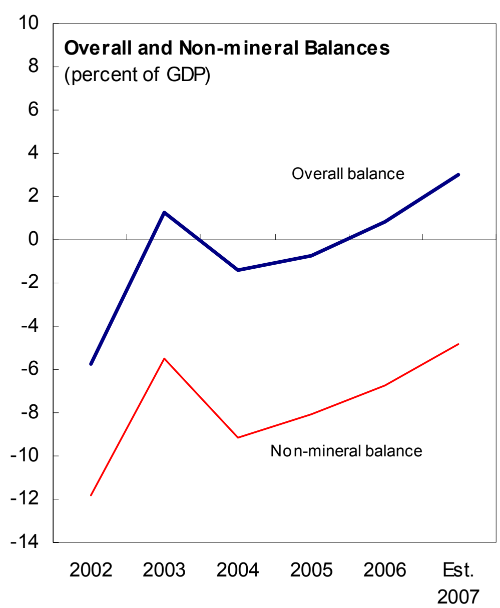
Revenue growth has been strong...



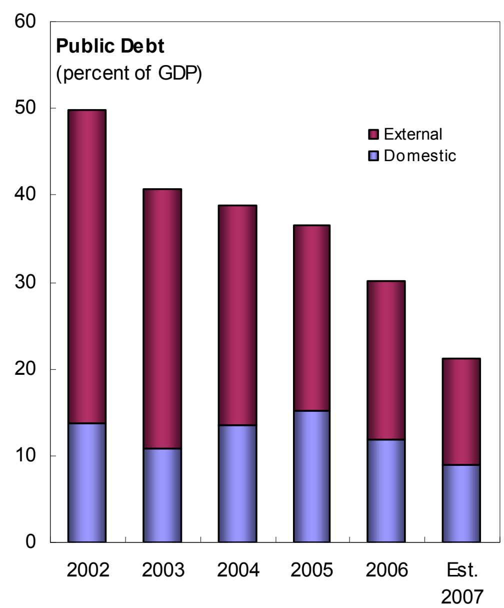
... while primary spending has been declining,.



As a consequence, fiscal balances have strengthened...

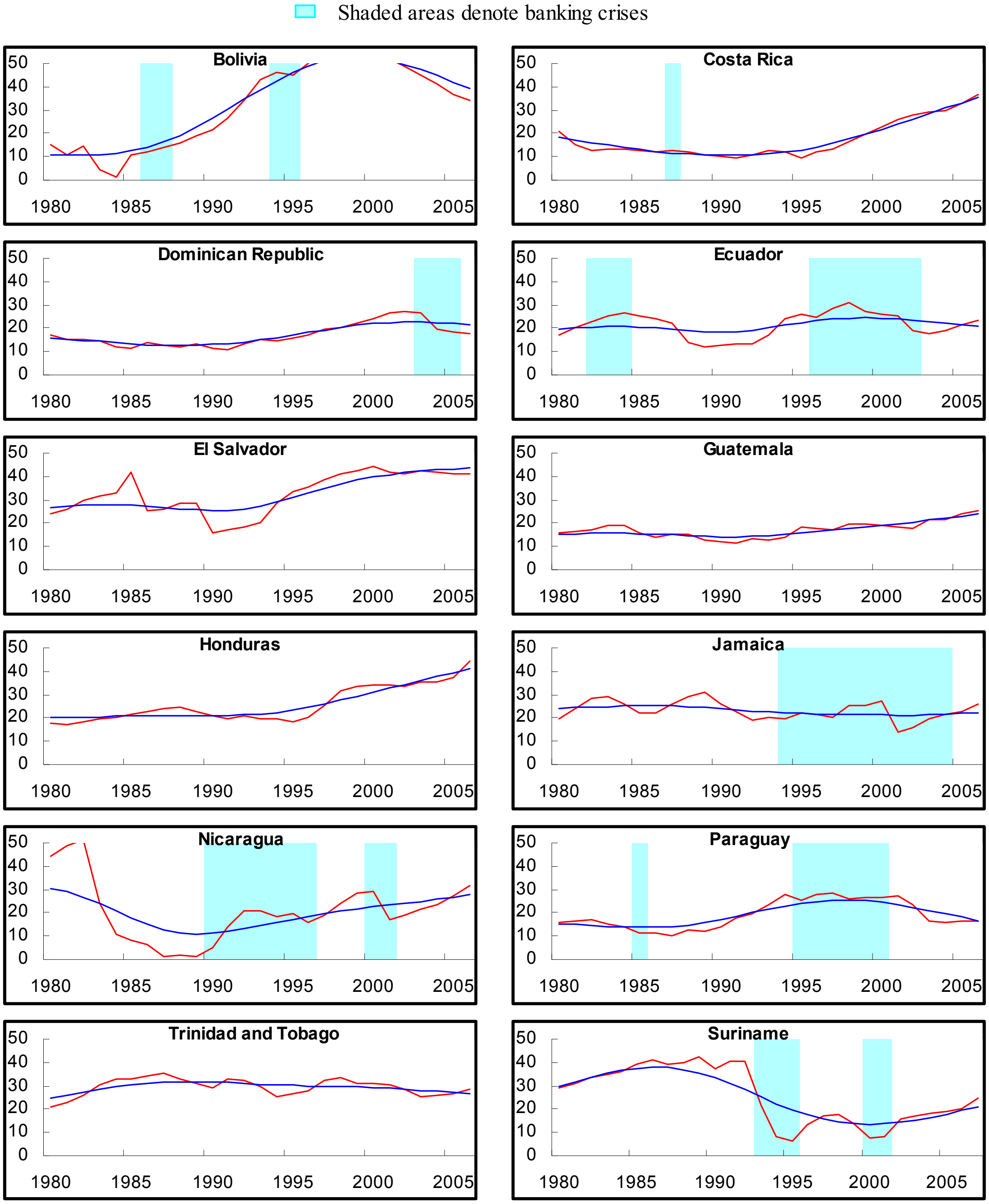


... and public debt has declined sharply.



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

Figure 5. Actual and Trend Private Sector Credit 1/
(In percent of GDP)



Sources: *Regional Economic Outlook* , Western Hemisphere, November 2007; and Fund staff calculations.
1/ Credit is the deposit-taking institutions' claims on the nonbank private sector. Staff used one of the approaches employed in the Western Hemisphere *Regional Economic Outlook* of November 2007 to identify credit booms. This specifies thresholds for the difference between actual and trend credit relative to GDP for a credit growth episode to qualify as a boom. The trend is obtained by fitting an HP filter for each country. For Suriname, the approach suggests the presence of a credit boom in 2007.

6. **Financial soundness indicators have generally strengthened, but there is room for further improvement (Figure 6).** Nonperforming loans (NPLs) have been falling but remain high, owing mainly to problems in state-owned banks (with an NPL ratio of one-quarter). Capital adequacy ratios declined in 2007, but on average are above minimum requirements—except for state-owned banks. Dollarization ratios remain high.

Suriname: Banking System Indicators
(In percent)

	2003	2004	2005	2006	2007
Capital adequacy	9.2	8.9	10.1	11.7	10.5
NPLs to gross loans	10.4	11.0	13.5	11.9	8.7
Earnings to assets	1.1	1.8	3.0	3.1	3.1
Liquid assets to total assets	38.1	34.3	31.1	32.1	33.9
Foreign currency loans to total loans	49.4	54.7	49.6	52.5	49.6
Foreign currency deposits to total deposits	55.5	56.6	57.2	56.3	55.4

Source: Central Bank of Suriname.

7. **Progress has been made on structural reforms, but much remains to be done.** The domestic telecommunications sector was opened to private investors in 2007, with two foreign companies entering the market. An agricultural company is being liquidated, while another one has been put under private management with a foreign company. However, there are a large number of inefficient public enterprises that hinder the development of the private sector and whose operations are weakly monitored. A comprehensive civil service reform, needed to increase public sector efficiency and reduce a large wage bill, is still outstanding.

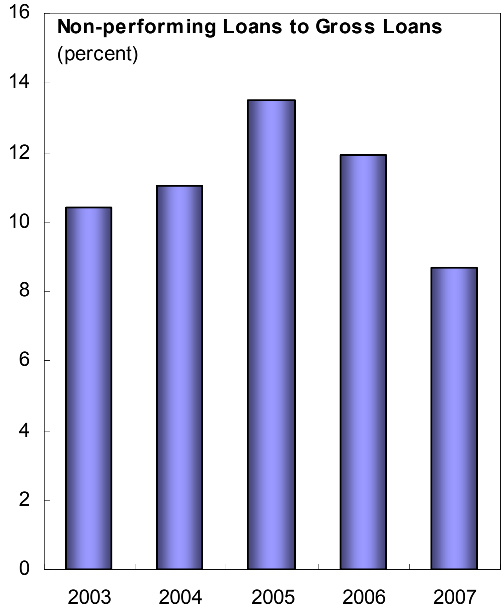
II. Outlook and Risks

8. **Given the elevated WEO commodity price baseline, growth is projected to accelerate in 2008 and remain high for some time.** Higher commodity prices and an expansionary macroeconomic policy stance would raise GDP growth to 7 percent this year. The authorities' target of a broadly balanced budget would imply a large fiscal stimulus, while their objective of substantial reserve accumulation will result in continued strong monetary growth if not fully sterilized. Moreover, abundant liquidity and reduction (in January) of the T-bill rate (from 8 to 7½ percent) are expected to lead to further declines in lending rates. GDP growth is projected to ease over the medium term, in line with WEO's projected overall decline in commodity prices and staff estimates of potential growth.

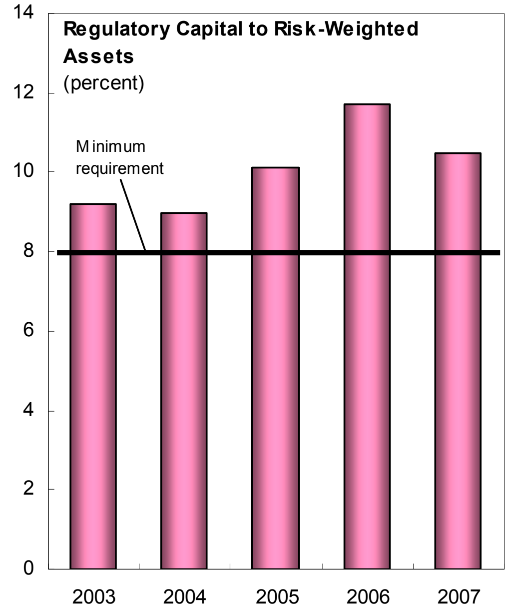
9. **Inflation is projected to continue rising in 2008 and to decline only slowly over the medium term**. The central bank is targeting inflation below double digits in 2008. The macroeconomic policy stance and an unchanged *de facto* peg to the U.S. dollar would, however, complicate achieving the inflation objective (Box 1). Staff projects a positive output gap of 1–2 percent in 2008, and average inflation of 11¼ percent, compared to 6½ percent in 2007. This assumes that inflation expectations do not ratchet up and that, consistent with the current WEO baseline, food and fuel inflation declines in late 2008. Provided that economic growth moderates and imported inflation falls over the medium term, headline inflation would ease to an average of 7 percent in 2009–13.

Figure 6. Suriname: Financial Sector Indicators

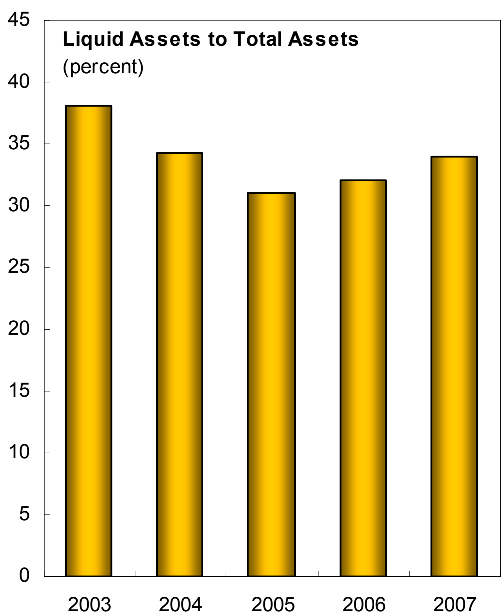
Non-performing loans have declined, but remain high.



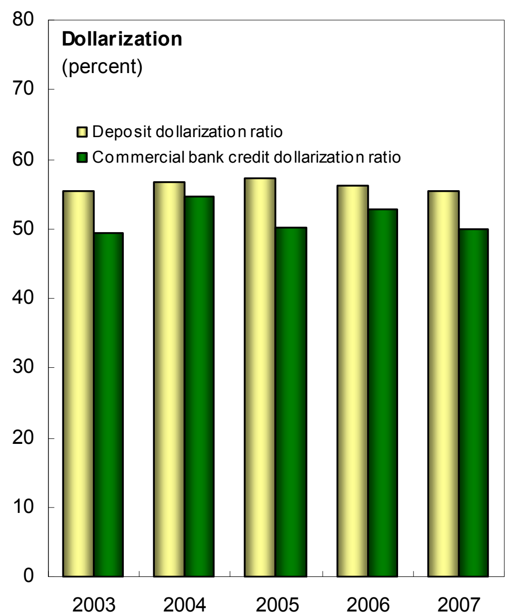
Capital ratios remain adequate on average.



Liquidity levels are high.



Dollarization ratios have fallen slightly, but remain high.



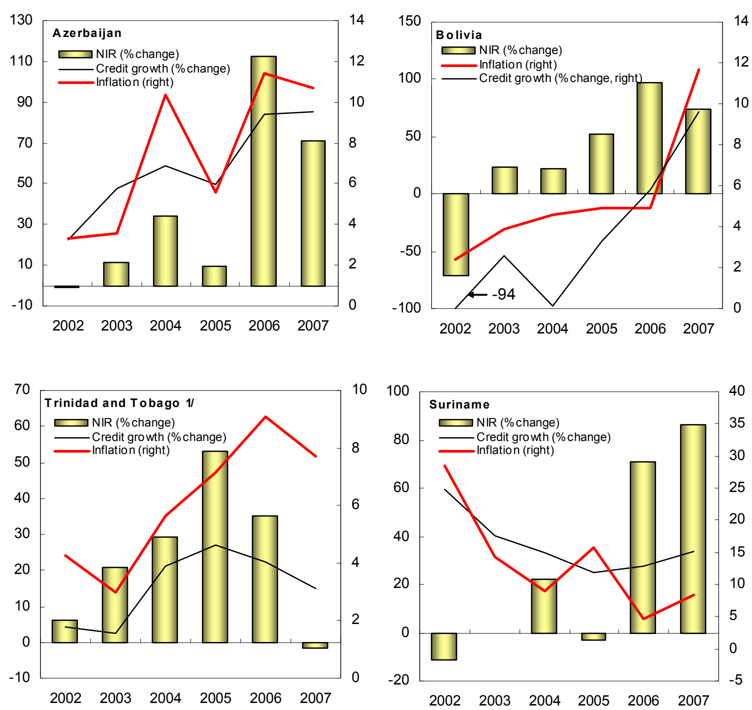
Sources: Central Bank of Suriname.

Box 1. Commodity Booms, Credit Growth and Inflation—A Comparison

The experience of several countries undergoing large commodity booms points to some common macroeconomic features. Absent well-developed financial systems, these countries have found it difficult to fully sterilize large increases in reserves, with rapid monetary growth fueling inflationary pressures. Exchange rate policy has also contributed to a rise in inflation.

- **Azerbaijan.** The central bank undertook large unsterilized purchases of foreign exchange to limit exchange rate appreciation. The strong increases in base money led to credit growth exceeding 80 percent and inflation accelerating from 3½ in 2003 to double digits in 2006. In 2007, the monetary and exchange rate policy response to the continued fiscal expansion was less than expected. In the face of a large one-off increase in energy and fuel prices and higher import prices, this contributed to inflation reaching about 20 percent by year-end.
- **Bolivia.** The modest appreciation of the currency under the crawling peg regime led to strong growth in broad money. While Bolivia's financial system liquidity has not affected growth of private sector credit, fiscal policy has fueled rapid demand growth, with an expansionary stance in 2007–08. This policy mix resulted in raising inflation, which reached 14 percent in March 2008.
- **Trinidad and Tobago.** Large increases in reserves under the *de facto* peg regime resulted in strong credit growth. Inflation, which was only 3 percent in 2003, rose to 9 percent in 2006. In response, the authorities raised repo rates, stepped up open market operations, and foreign exchange sales, while more long-term bonds were placed domestically to mop up liquidity.

Suriname seems to be on a path to a similar dynamics. Increased reserve accumulation has led to high money supply growth and –combined with an expansionary monetary policy—has resulted in a credit boom. This, together with an unchanged peg, is contributing to rising inflation.



1/ 2007 data for Trinidad and Tobago refer to November 2007.

10. **Public debt is projected to decline slightly over the medium term.** Gross public debt would remain broadly unchanged in 2008 in light of large loan disbursements for infrastructure projects. Over the medium term, declining commodity prices and increases in capital spending will turn the current primary surplus into a deficit. Even so, debt would stay slightly under 20 percent of GDP, leaving fiscal space to cushion future shocks (Table A1). Debt could decline further if the authorities' plans to settle external arrears materialize.

Suriname: Medium-Term Baseline Scenario

	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (in percent)	5.5	7.0	5.7	4.7	4.3	4.3	4.3
Inflation (end of period in percent)	8.4	10.0	8.0	7.4	7.0	6.4	6.0
Inflation (period average in percent)	6.4	11.2	8.4	7.5	7.2	6.5	6.1
Terms of trade (in percent change)	3.4	3.4	-3.9	-4.3	-1.9	-0.8	-0.9
External current account (in percent of GDP)	2.9	3.8	2.6	2.1	2.1	2.4	2.8
Gross international reserves (in months of imports)	2.9	3.5	4.5	5.4	6.2	7.0	7.6
Primary balance (in percent of GDP)	4.4	1.3	-0.2	-1.0	-1.2	-0.9	-1.0
Overall balance (in percent of GDP)	3.0	0.0	-1.2	-1.8	-2.1	-1.7	-1.7
Non-mineral overall balance (in percent of GDP)	-4.8	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9
Public sector debt (in percent of GDP)	21.1	20.8	19.5	19.2	19.2	18.9	18.8

Sources: Surinamese authorities; and staff estimates and projections.

11. **The outlook is subject to several risks**. So far, the slowdown in world growth and stress in financial markets have had little impact on Suriname, mainly because the turmoil has been accompanied by high commodity prices and because the country relies mainly on FDI for external financing. However, a more pronounced slowdown and/or a worsening of the terms of trade may dampen domestic growth, while significantly weakening the external sector and the public finances. For example, staff estimates that a one standard deviation (16 percent) decline in commodity prices would worsen the current account by some 3 percent of GDP and the overall fiscal balance by about 1 percent of GDP. Political pressures for additional spending are likely to increase ahead of the 2010 presidential elections. At the same time, a sharp deterioration in inflation expectations would lead to higher inflation than projected. On the upside, investment projects in the mining sector could be larger than assumed over the medium term, boosting GDP growth and the public finances.

III. Policy Discussions

12. **The discussions focused on four interrelated areas:**

- An assessment of external stability, and the current level of the real effective exchange rate;
- Policies for maintaining external and domestic stability, including the appropriate mix of monetary, exchange rate and fiscal policy to deal with inflation pressures;
- An assessment of financial sector risks and policy responses; and
- Strengthening the medium-term policy framework to increase resilience to shocks.

External stability and exchange rate policy

13. **The staff's assessment is that the real exchange rate is slightly undervalued (Box 2).** A forward-looking assessment that considers the need to accumulate savings to sustain the current account after mineral resources are exhausted suggests that the underlying current account position is sustainable. PPP-based estimates suggest that the Suriname dollar is somewhat below its expected value. Indeed, the real effective exchange rate has remained broadly constant since 2005, despite the significant improvement in the terms of trade.

14. **The *de jure* managed float has in practice hardened into a *de facto* peg to the U.S. dollar.** With the global weakening of the dollar, the nominal effective exchange rate has depreciated, exacerbating inflation pressures. The upward trend in inflation could become entrenched in expectations, which would be a risk for a country with a history of high inflation. Therefore, consideration could be given to utilizing the flexibility allowed by the *de jure* managed float to help deal with these pressures.

15. **As Suriname's financial system develops and institutions and the policy framework strengthen, a more flexible regime would be more appropriate to adjust to shocks.** The authorities concurred with this assessment. Staff noted, however, that tighter monetary and fiscal policies would be needed to support the current *de facto* peg. The mission advised unifying the current dual exchange rate system, which gives rise to a multiple currency practice (Appendix I).

Preserving domestic and external stability

16. **Staff advised tightening credit policy to lower inflation and to reduce potential risks to asset quality in the banking system**. Instruments to manage liquidity are limited and the authorities have tended to rely on reserves requirements and moral suasion.[1] As a preferred approach, staff proposed issuance of treasury or central bank bills to withdraw liquidity. In the near term, this would consist mainly of direct placements, with auctions introduced gradually over time. A second-best option would be to lower the proportion of reserves that banks are allowed to use low-cost mortgages. Staff also suggested phasing out this facility over time and channel the subsidy through the budget. To avoid providing additional incentives for dollarization, the mission proposed two alternative options: (i) leveling the playing field for both types of deposits; or (ii) raising *pari pasu* reserves requirements on foreign-currency deposits. The authorities were not prepared to take measures to curtail credit growth at this stage. They were of the view that the rise in core inflation reflected mainly spillovers from global supply shocks. They also said that asset quality had not deteriorated so far.

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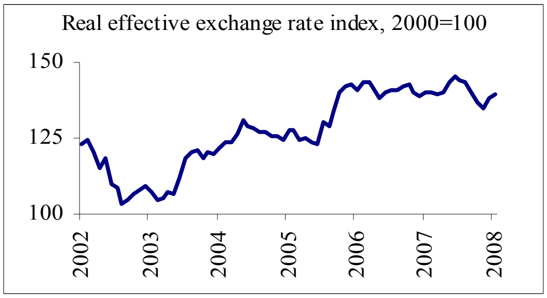
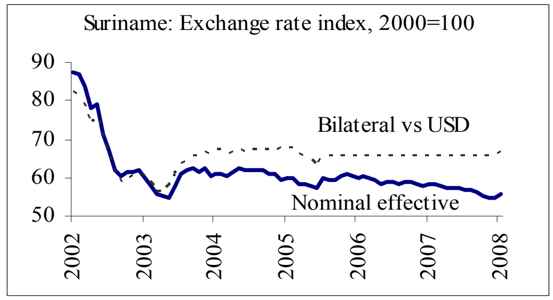
[1] Suriname has higher reserve requirements on foreign-currency (one-third) than on domestic-currency deposits (one-fourth) in order to discourage dollarization. Foreign-currency reserves can be kept abroad in interest-bearing accounts in correspondent banks, while domestic-currency reserves are unremunerated and kept at the central bank. However, banks are allowed to use up to 10 percentage points of reserves on domestic currency for low-cost housing.

Box 2. Assessments of the Equilibrium Real Exchange Rate and Current Account

The real effective exchange rate has been broadly stable since 2005. The de facto peg to the U.S. dollar has resulted in a depreciation of the nominal effective rate, which has offset the inflation differential between Suriname and its trading partners.

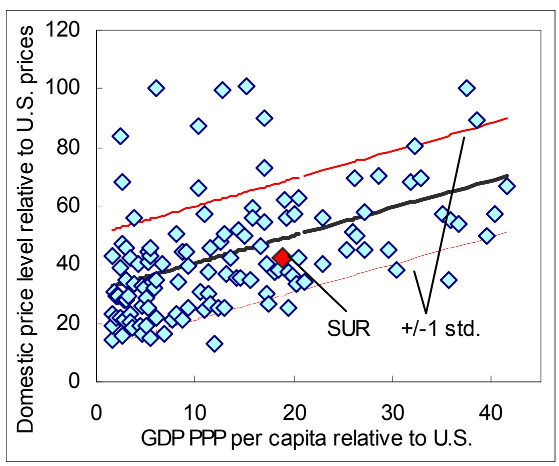




The external sustainability approach suggests that the exchange rate is slightly below its equilibrium level. In light of the large weight of mineral exports, staff adapted the external sustainability approach to consider the non-renewable nature of Surname's mineral resources. The approach uses estimates of reserves of bauxite, gold and oil, and assumptions on extraction rates, international prices and discount rates. Staff estimates that a 2¾ percent current account surplus is consistent with sustaining a constant real annuity from mineral revenues. This estimate is below the underlying current account for 2007. The differential implies an undervaluation of 3-6 percent under reasonable assumptions for trade elasticities.

Actual Current account in 2007	**2.9**
adjustment for mineral exports prices	0.6
adjustment for cyclical FDI on imports	-0.7
adjustment for cyclical income payments	-0.1
adjustment for temporary grants	0.5
adjustment for business cycle	0.0
Underlying current account	**3.2**

PPP-based estimates point in the same direction. The exchange rate is somewhat below its expected value (by about 10 percent) in a sample of over 150 countries. Suriname's lack of a sufficiently long series for an adequate set of economic fundamentals precludes an analysis based on a single country model of the real exchange rate. Using CGERs' estimates (which are primarily based on a sample of non-mineral producers) to implement the macrobalance approach would be inappropriate.



The tradable non-mineral sector is performing well, suggesting that the exchange rate is not overvalued. Non-mineral exports have growth at double digits in volume terms in 2006-07, while there has been healthy growth in agriculture and a strong expansion of tourism.

17. **Staff recommended tightening fiscal policy in 2008 to rein in domestic demand growth.** The mission indicated that a tighter fiscal policy would help contain monetary growth and lower the burden on monetary policy for demand management. It advised an overall surplus of 2–3 percent of GDP. A surplus of 3 percent of GDP would imply an underlying fiscal stance (measured through the non-mineral balance) stronger by close to 1 percent of GDP than in 2007. The authorities thought that it would be very difficult to achieve such a target, given strong pressures and initiatives being proposed for large wage increases and lower taxes. They stressed that they were against such initiatives, which risk a permanent deterioration of the public finances. The mission shared these concerns and emphasized the need to protect revenues; it also suggested caution with a proposed job-regrading scheme and new salary structure, and recommended keeping the wage bill broadly in line with the budget. Staff agreed with the authorities that the latter would also contribute to keeping inflation expectations under control. The mission also recommended a more modest expansion of capital spending and saving any revenue overperformance, which likely would be ½–¾ percent of GDP.

Suriname: Medium-Term Staff Scenario

	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (in percent)	5.5	5.8	5.2	4.9	4.8	4.8	4.8
Inflation (end of period in percent)	8.4	5.9	5.6	5.0	4.6	4.2	4.2
Inflation (period average in percent)	6.4	8.6	5.7	5.3	4.6	4.3	4.1
Terms of trade (in percent change)	3.4	3.4	-3.9	-4.3	-1.9	-0.8	-0.9
External current account (in percent of GDP)	2.9	4.3	3.4	2.6	2.3	2.5	2.7
Gross international reserves (in months of imports)	2.9	3.7	4.7	5.7	6.6	7.4	7.7
Primary balance (in percent of GDP)	4.4	2.9	1.3	0.3	-0.3	0.2	0.1
Overall balance (in percent of GDP)	3.0	2.0	0.7	-0.1	-0.6	0.0	0.0
Non-mineral overall balance (in percent of GDP)	-4.8	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Public sector debt (in percent of GDP)	21.1	19.6	17.0	15.7	14.7	13.4	12.3

Sources: Surinamese authorities; and staff estimates and projections.

18. **Staff recommended a constant non-mineral balance over the medium term to help eliminate excess demand pressures**. This should be accompanied by a better composition of public spending to support growth. The mission recommended reducing unproductive current spending (such as untargeted subsidies for electricity) to create room for higher priority spending (such as capital outlays that target known bottlenecks in infrastructure).

Strengthening the financial sector

19. **Staff pointed to several risks in the financial sector, which the authorities viewed as manageable**.

State-owned banks. While recognizing that financial indicators of state-owned banks are weak, the authorities said that they are improving and that these institutions do not benefit from public resources. They indicated that they have been gradually reducing regulatory forbearance towards them, especially on reserves requirements.

Nonperforming loans. Staff indicated that while private banks' NPLs are significantly lower than those of state banks, they are high (6 percent of gross loans) by international standards, and provisions are low. While recognizing this, the authorities explained that NPLs are declining, bank lending in Suriname is backed by strong collateral, and foreclosure procedures are effective. They thus saw few risks from current NPL levels.

Financial dollarization. The mission stressed the importance of maintaining tight demand management policies to continue lowering inflation and strengthening credibility to reduce dollarization. It also recommended eliminating incentives to dollarization by leveling the playing field for financial transactions in domestic and foreign currency.[2] Staff proposed adopting prudential regulations to limit banks' net open foreign exchange positions and to deal with risks from currency mismatches in the balance sheets of borrowers. (Banks can lend to borrowers that do not have foreign-currency earnings and it is estimated that about 40 percent of foreign-currency loans are made to such borrowers).

Structural reforms

20. **The mission supported several tax reform initiatives planned for 2008**. These include (i) measures to improve customs administration; (ii) income tax reform aimed at modernizing and simplifying the regime and reducing administration costs; (iii) a new investment law that would, *inter alia*, reduce exemptions on import duties. The authorities agreed it is important to ensure that the income tax reform is revenue-neutral. Staff advised caution on a separate initiative seeking to raise the wage tax threshold, and recommended a thorough assessment of its fiscal cost and offsetting measures to protect revenue. The authorities indicated that any revenue losses were expected to be offset by continued improvement in income tax administration.

21. **The mission welcomed the authorities' interest in establishing a medium-term fiscal framework (MTFF) and encouraged them to move as fast as feasible on this front**.

- Staff proposed that fiscal discipline over the medium term be anchored on a debt target of no more than 20–25 percent of GDP when revenues are at trend. This would allow some room for debt to temporarily rise when commodity revenues were unusually low, without threatening sustainability. The authorities found this ceiling somewhat restrictive, and preferred a ceiling of some 30 percent.

- Staff indicated that an MTFF should also include a target for the non-mineral balance. The authorities explained that setting a formal target for this would require changing legislation, which could take time. They will consider the staff's recommendation to

[2] During 2007, the combination of existing reserves requirements and interest rates appeared to provide banks an incentive to fund themselves with dollar deposits. At the same time, given the interest rate differential between loans in U.S. dollars and loans in Suriname dollars, and the flatness of the exchange rate, it was cheaper for borrowers to contract loans in U.S. dollars.

present a measure of the non-mineral balance in budget documents (perhaps in an appendix). Staff also indicated that it would be advisable to supplement the MTFF by a ceiling on expenditure growth, especially since the debt ceiling is non-binding and formal adoption of a target for the non-mineral balance may take time.

- A well-managed natural resource fund (NRF) could help safeguard surpluses and accumulate financial assets as future mining projects come on stream. Staff stressed that an NRF should be fully integrated into the budget, with no independent spending authority. The authorities agreed that, since new large mining projects are not expected to come on stream in the near term, priority should be given to establishing an MTFF. Staff also pointed to the need to settle external arrears before starting asset accumulation in an NRF, and supported plans to normalize relations with creditors.

22. **The mission urged better assessment of fiscal risks.** Available public debt statistics cover only debt contracted or guaranteed by the central government. In addition, some state-owned enterprises are legally allowed to borrow without government guarantee, and reporting on their operations is incomplete. The mission recommended improving monitoring mechanisms and reporting their operations in budget documents. The authorities noted that cases of public enterprises borrowing with no government guarantee had been very rare, and that for external loans, creditors consistently asked for a government guarantee even for financially sound enterprises. They explained that a ministry of finance unit was already charged with monitoring public enterprises, although they were not yet in a position to comprehensively report these entities' operations in budget documents.

23. **The mission encouraged the authorities to continue moving forward with the privatization of state-owned enterprises and civil service reform**. The authorities indicated that plans to privatize the banana company are moving forward. This may take place in 2008. Another agricultural company that has been dependent on budget support is being liquidated. Staff also pointed to the need for a civil service reform to increase public sector efficiency and reduce the large wage bill. This would also help free up resources for more productive uses (e.g., social spending and basic infrastructure). The authorities said that there are currently no plans for a civil service reform beyond the job regrading scheme and new wage structure under discussion, although a more comprehensive reform may be considered in coming years. They were of the view that Suriname's wage bill is broadly comparable to similarly-sized Caribbean countries.

IV. Staff Appraisal

24. **Supported by favorable terms of trade and improved economic policies, economic performance has improved in recent years**. Economic growth has risen, inflation has fallen and international reserves have strengthened. Public debt has declined sharply, and financial supervision has improved.

25. **However, the global commodity boom, combined with a rigid peg and an expansionary macroeconomic policy stance, are contributing to rising inflation**. An unchanged *de facto* peg would lead to continued depreciation of the nominal effective exchange rate in 2008. Monetary growth is set to remain strong, as the central bank continues to accumulate reserve and interest rates keep declining. At 35 percent, credit growth is too high, even if it is from a relatively low base. It also increases the risk of a high incidence of nonperforming loans. A large fiscal expansion would also contribute to excess demand pressures. Against this background, inflation is projected to rise in 2008 and remain high over the medium term, even if global supply shocks subside.

26. **With the real effective rate unchanged since 2005, despite a large improvement in the terms of trade, staff estimates point to a slight undervaluation of the Suriname dollar.** The current *de facto* peg does not preclude adjustment of the exchange rate, and indeed the *de jure* managed float regime envisages such adjustment when necessary. Over the longer term, as institutions develop and the policy framework strengthens, the *de facto* exchange rate system should give way to a more flexible regime to better respond to shocks. Staff does not recommend approval of the multiple currency practices, since there is no timetable for their removal.

27. **More restrictive macroeconomic policies would help reduce inflation and lower financial sector risks**. Issuance of treasury or central bank bills or higher reserves requirements would help lower credit growth to more sustainable rates. Staff considers that the fiscal stance for 2008 should be significantly tighter than currently envisaged.

28. **Setting up a sound medium-term fiscal framework would help strengthen fiscal discipline and should be a priority**. The key components of such a framework would be a low debt ceiling to provide an adequate cushion for external shocks, and a target on the non-mineral balance consistent with macroeconomic stability and fiscal sustainability. These two anchors would help ensure that fiscal policy avoids procyclicality in the short run and is sustainable over the long run. A well-designed natural resource fund could help protect surpluses and accumulate financial assets once new mining projects come on stream and external arrears have been settled. Progress made in the last year on clearing arrears is welcome and should be followed up with resolving remaining arrears.

29. **There is scope for further strengthening the financial system**. State-owned banks continue to have weak indicators and could give rise to fiscal liabilities, while private banks' NPLs remain high. While slowly declining, financial dollarization is high and there is a need to eliminate policy-related incentives to it. Maintaining sound demand management policies would strengthen credibility and help lower dollarization over time. There is room to reduce risk from dollarization by introducing prudential regulations to limit banks' foreign exchange open positions and protect against the risk of currency mismatches.

30. **Ongoing efforts toward tax reform are welcomed,** including improved customs administration and modernizing income tax and investment legislation. Staff emphasizes that modifications to the income tax law should be revenue-neutral. It advises caution with a separate initiative seeking to adjust the wage tax threshold and a thorough assessment of its revenue impact before committing to it.

31. **Better monitoring of public enterprises is needed to reduce fiscal risks**. Existing monitoring mechanisms and legal provisions need strengthening to ensure regular and timely reporting. There is also a need to modify the current legal framework that allows public enterprise to borrow without a formal government guarantee. The coverage of debt statistics needs to be broadened to include non-government guaranteed public debt. Staff supports steps to privatize state-owned companies in the agricultural sector, and encourages the authorities to extend these efforts to other areas, including the financial sector.

32. **It is recommended that the next Article IV consultation with Suriname be held on the 12-month cycle.**

Table 1. Suriname: Selected Economic Indicators

	2004	2005	2006	Est. 2007	Staff Proj. 2008
(Annual percentage change, unless otherwise indicated)					
Real sector					
GDP at 1990 prices 1/	7.9	4.5	4.8	5.5	7.0
GDP current market prices 1/	21.9	20.8	19.4	12.9	18.8
Consumer prices (end of period)	9.1	15.8	4.7	8.4	10.0
Consumer prices (period average)	9.1	9.9	11.3	6.4	11.2
Exchange rate (end of period)	2.72	2.74	2.75	2.75	...
Money and credit					
Banking system net foreign assets	32.7	6.8	36.6	48.1	30.7
Broad money	28.5	11.7	21.1	30.5	27.6
Private sector credit	32.9	25.1	27.6	33.8	27.4
Deposit dollarization ratio (percent)	56.6	57.2	56.3	55.4	54.1
Credit dollarization ratio (percent)	54.7	50.1	52.9	50.0	49.0
Public sector credit (percent of GDP)	6.0	5.0	1.8	-2.4	-3.9
(In percent of GDP, unless otherwise indicated)					
Savings and investment					
Private sector balance (savings-investment)	0.1	-2.2	2.6	0.0	3.6
Public sector balance	-2.2	-2.1	-0.8	3.0	0.2
Savings	1.4	2.3	2.6	6.4	6.0
Investment	3.6	4.4	3.4	3.4	5.8
Foreign savings	2.1	4.3	-1.8	-2.9	-3.8
Central government					
Revenue and grants	26.3	27.5	27.3	30.2	29.3
Total expenditure	28.6	29.7	28.3	27.2	29.3
Statistical discrepancy	0.8	1.4	1.9	0.0	0.0
Overall balance	-1.4	-0.7	0.9	3.0	0.0
Net domestic financing	2.3	0.1	-0.4	-2.8	-3.4
Net external financing	-0.8	0.6	-0.4	-0.2	3.4
Total public debt	38.9	36.5	30.0	21.1	20.8
Domestic	13.5	15.2	11.8	8.9	7.0
External	25.5	21.3	18.2	12.3	13.8
Of which : arrears	8.2	7.8	7.0	5.6	4.7
External sector					
Terms of trade (percent change)	7.8	7.4	23.8	3.4	3.4
Current account	-2.1	-4.3	1.8	2.9	3.8
Change in reserves (-=increase)	-2.1	-1.6	-4.8	-7.0	-5.9
Gross international reserves (in months of imports)	1.7	1.4	2.0	2.9	3.5

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

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

					Est.	Staff Projections					
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue and grants	**27.5**	**26.3**	**27.5**	**27.3**	**30.2**	**29.3**	**28.1**	**27.6**	**27.4**	**27.7**	**27.5**
Revenue	25.7	25.0	25.8	25.9	28.7	27.8	26.6	26.1	25.9	26.2	26.1
Direct taxes	9.2	10.4	11.0	10.4	11.7	11.0	10.3	9.8	9.6	9.7	9.6
Indirect taxes	12.9	11.5	10.3	11.5	12.1	12.1	12.1	12.1	12.1	12.1	12.1
Nontax revenue	3.6	3.1	4.5	4.0	4.8	4.7	4.3	4.2	4.2	4.4	4.4
Grants	1.9	1.4	1.7	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Expenditure and net lending	**27.6**	**28.6**	**29.7**	**28.3**	**27.2**	**29.3**	**29.3**	**29.4**	**29.4**	**29.4**	**29.2**
Current expenditure	24.4	24.9	25.2	24.7	23.8	23.3	23.1	22.9	22.9	22.9	22.8
Wages and salaries	12.2	10.7	10.9	10.3	10.2	9.9	9.9	9.9	9.9	9.9	9.9
Goods and services	6.1	9.1	8.7	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9
Subsidies and transfers	4.2	3.5	3.2	3.7	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Interest	2.0	1.7	2.4	1.8	1.4	1.3	1.0	0.9	0.8	0.8	0.7
Domestic	1.1	1.0	1.6	1.2	0.9	0.9	0.6	0.5	0.4	0.3	0.3
External	0.9	0.7	0.7	0.6	0.6	0.3	0.4	0.4	0.4	0.5	0.5
Net lending	0.3	0.1	0.1	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Capital expenditure	3.0	3.6	4.4	3.4	3.4	5.8	6.1	6.3	6.3	6.3	6.2
Statistical discrepancy	1.3	0.8	1.4	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**3.2**	**0.2**	**1.6**	**2.7**	**4.4**	**1.3**	**-0.2**	**-1.0**	**-1.2**	**-0.9**	**-1.0**
Overall balance	**1.2**	**-1.4**	**-0.7**	**0.9**	**3.0**	**0.0**	**-1.2**	**-1.8**	**-2.1**	**-1.7**	**-1.7**
Financing	**-1.2**	**1.4**	**0.7**	**-0.9**	**-3.0**	**0.0**	**1.2**	**1.8**	**2.1**	**1.7**	**1.7**
Net domestic financing	0.2	2.3	0.1	-0.4	-2.8	-3.4	-0.4	-0.1	0.1	0.2	0.2
Commercial banks	0.0	1.6	-0.2	0.4	-0.9	0.6	0.4	0.4	0.4	0.3	0.3
Central bank	-0.3	0.7	0.1	-1.1	-2.0	-5.0	-1.3	-0.2	0.1	-0.2	0.1
Other domestic private sector	0.5	0.0	0.2	0.2	0.2	1.0	0.5	-0.3	-0.4	0.1	-0.2
Net external financing	-1.4	-0.8	0.6	-0.4	-0.2	3.4	1.6	1.9	1.9	1.5	1.5
Amortization	-2.7	-1.6	-1.8	-1.9	-1.3	-0.6	-0.7	-0.6	-0.6	-0.5	-0.8
Disbursements	1.3	0.8	2.4	1.4	1.2	4.0	2.3	2.5	2.5	2.0	2.2
Exceptional external financing	...	...	...	...	0.0	...	...	...	...	...	...
Debt prepayment	...	...	...	...	-4.2	...	...	...	...	...	...
Special grant	...	...	...	...	4.2	...	...	...	...	...	...
Memorandum items:											
Primary expenditure	25.7	26.9	27.3	26.5	25.8	28.1	28.3	28.5	28.6	28.6	28.5
Non-mineral balance	-5.5	-9.2	-8.0	-6.7	-4.8	-6.9	-6.9	-6.9	-6.9	-6.9	-6.9
Mineral revenue	6.8	7.7	7.3	7.6	7.8	6.9	5.6	5.1	4.8	5.2	5.2
Public debt	48.1	38.9	36.5	30.0	21.1	20.8	19.5	19.2	19.2	18.9	18.8

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

Table 3. Suriname: Summary Accounts of the Banking System 1/

	2003	2004	2005	2006	2007	Staff Proj. 2008
(In millions of Surinamese dollars)						
Net foreign assets	**752**	**997**	**1,065**	**1,454**	**2,154**	**2,816**
Net international reserves	266	366	440	725	1,190	1,652
Net other foreign assets	486	632	625	729	964	1,164
Net domestic assets	**726**	**936**	**1,107**	**1,178**	**1,297**	**1,532**
Net claims on the public sector	214	245	244	107	-158	-310
Central government (net)	296	389	386	347	153	-24
Rest of the public sector (net)	-82	-144	-142	-240	-312	-287
Credit to the private sector	576	766	958	1,223	1,636	2,084
Claims on other financial institutions	0	0	0	0	0	0
Net unclassified assets	23	49	47	23	82	77
Official capital and surplus	-87	-124	-141	-174	-263	-318
Liabilities to the private sector	**1,478**	**1,934**	**2,172**	**2,632**	**3,425**	**4,348**
Broad money	1,396	1,794	2,003	2,425	3,165	4,039
Monetary liabilities	498	618	665	853	1,084	1,424
Currency in circulation	209	247	279	341	409	535
Demand deposits	289	371	386	512	675	889
Quasi-money (including gold certificates)	239	300	352	399	553	721
Foreign currency deposits	659	876	986	1,173	1,528	1,894
Other liabilities	82	140	169	207	260	309
(Percent changes, unless indicated otherwise)						
Liabilities to the private sector	15.6	30.9	12.3	21.2	30.1	27.0
Broad money	15.9	28.5	11.7	21.1	30.5	27.6
Money	-1.5	24.1	7.5	28.4	27.0	31.3
Quasi-money	6.6	25.6	17.5	13.3	38.5	30.4
Foreign currency deposits	39.0	33.0	12.6	18.9	30.3	24.0
Credit to the private sector	40.5	32.9	25.1	27.6	33.8	27.4
In percent of GDP	17.3	18.8	19.5	20.8	24.7	26.5
Credit to the public sector (percent of GDP)	6.4	6.0	5.0	1.8	-2.4	-3.9
Liabilities to the private sector (percent of GDP)	44.2	47.5	44.2	44.8	51.7	55.2
Memorandum items:						
Deposit dollarization ratio (percent) 2/	55.5	56.6	57.2	56.3	55.4	54.1
Credit dollarization ratio (percent) 3/	49.4	54.7	50.1	52.9	50.0	49.0
Domestic currency interest rate spread (percentage per annum)	12.5	11.0	9.6	8.7	6.6	...
Lending rate (nominal, end of period)	21.0	19.1	16.3	15.3	12.9	...
Deposit rate (nominal, end of period)	8.5	8.1	6.7	6.6	6.3	...
Lending rate (real)	7.0	9.2	0.4	10.1	4.2	...
Deposit rate (real)	-4.1	-0.9	-7.9	1.8	-1.9	...
Foreign currency interest rate spread (percentage per annum)	6.9	7.8	7.1	7.0	6.6	...
Lending rate	9.2	9.5	9.7	9.8	9.7	...
Deposit rate	2.3	1.7	2.6	2.8	3.1	...
Reserve requirement for domestic deposits (percent)	35.0	30.0	30.0	27.0	25.0	25.0
Effective reserve requirement for domestic deposits (percent) 4/	31.0	24.4	22.7	18.3	16.2	15.0
Reserve requirement for foreign currency deposits (percent)	17.5	22.5	33.3	33.3	33.3	33.3

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. Percentage changes in 2002 over 2001 are calculated on basis of estimates for end-2002 data as according to the old methodology.

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/

	2003	2004	2005	2006	2007
Number					
Banks	8	8	9	9	9
Large banks	3	3	3	3	3
Small banks	5	5	6	6	6
Reporting non-bank financial institutions					
Pension funds	22	22	24	18	...
Insurance companies	10	10	8	12	...
Credit unions and cooperatives	8	9	6	10	...
Concentration: Banks 2/	2	2	3	3	...
(In percent of total)					
Assets	100.0	100.0	100.0	100.0	...
Banks	68.9	79.3	68.1	71.1	...
Large banks	58.3	66.8	57.1	59.5	...
Small banks	10.7	12.4	11.0	11.6	...
Pension funds	21.8	10.2	21.6	18.1	...
Insurance companies	7.7	8.3	8.3	8.7	...
Credit unions and cooperatives	1.6	2.2	2.0	2.1	...
Deposits					
Banks	100.0	100.0	100.0	100.0	100.0
Large banks	78.5	78.3	78.4	78.2	77.3
Small banks	21.5	21.7	21.6	21.8	22.7
(In percent)					
Capital Adequacy					
Regulatory capital to risk-weighted assets (*)	9.2	8.9	10.1	11.7	10.5
Regulatory Tier I capital to risk-weighted assets (*)	7.2	6.6	8.1	9.7	8.9
Capital (net worth) to assets	4.2	4.3	5.0	5.5	5.3
Asset composition					
Sectoral distribution of loans to total loans (*)					
Agriculture	5.0	6.0	5.1	4.8	3.7
Manufacturing	10.7	10.9	9.6	9.1	8.6
Commerce	31.6	32.2	32.9	30.9	29.1
Housing construction	11.4	11.8	14.4	15.0	16.5
Other	41.3	39.1	38.0	40.2	42.1
Asset quality					
Foreign currency loans to total loans	49.4	54.7	49.6	52.5	49.6
NPLs to gross loans (*)	10.4	11.0	13.5	11.9	8.7
NPLs net of provisions to capital (*)	48.1	53.7	80.2	65.1	47.2
Large exposures to capital (*)	133.9	63.1	55.7	80.7	110.0
Earnings and Profitability					
ROA (*)	1.1	1.8	3.0	3.1	3.1
ROE (*)	22.9	35.5	40.8	44.2	56.1
Interest margin to gross income (*)	64.7	65.1	73.0	73.5	70.2
Noninterest expenses to gross income (*)	72.0	65.7	63.0	61.6	55.7
Personnel expenses to noninterest expenses	56.4	57.6	59.6	59.2	61.2
Trading and fee income to total income	35.3	34.9	31.0	32.2	30.8
Spread between reference loan and deposit rates	12.5	11.0	10.5	10.8	8.4
Liquidity					
Liquid assets to total assets (*)	38.1	34.3	31.1	32.1	33.9
Liquid assets to total short-term liabilities (*)	64.3	56.4	52.8	54.9	58.0
FX liabilities to total liabilities	49.3	50.6	48.6	50.7	51.4

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 banks, which comprise over 70 percent of financial system assets at end-2006.
2/ Number of institutions with 57 percent or more of total financial system assets.

Table 5. Suriname: Medium-Term Outlook

		Est.	Staff Projections					
	2006	2007	2008	2009	2010	2011	2012	2013
(Annual percentage change, unless otherwise indicated)								
Real economy								
GDP at 1990 prices 1/	4.8	5.5	7.0	5.7	4.7	4.3	4.3	4.3
GDP current market prices 1/	19.4	12.9	18.8	14.2	12.0	12.1	11.5	10.8
Consumer prices (period average)	11.3	6.4	11.2	8.4	7.5	7.2	6.5	6.1
(In percent of GDP)								
Savings and investment balances								
Private sector balance (savings-investment)	2.6	0.0	3.6	3.8	3.9	4.3	4.2	4.4
Public sector balance	-0.8	3.0	0.2	-1.2	-1.8	-2.1	-1.8	-1.6
Savings	2.6	6.4	6.0	5.0	4.6	4.5	4.8	4.7
Investment	3.4	3.4	5.8	6.2	6.4	6.6	6.6	6.3
Foreign savings	-1.8	-2.9	-3.8	-2.6	-2.1	-2.1	-2.4	-2.8
Central government								
Revenue and grants	27.3	30.2	29.3	28.1	27.6	27.4	27.7	27.5
Total expenditure	28.3	27.2	29.3	29.3	29.4	29.4	29.4	29.2
Overall balance	0.9	3.0	0.0	-1.2	-1.8	-2.1	-1.7	-1.7
Net domestic financing	-0.4	-2.8	-3.4	-0.4	-0.1	0.1	0.2	0.2
Net external financing	-0.4	-0.2	3.4	1.6	1.9	1.9	1.5	1.5
Public Debt	30.0	21.1	20.8	19.5	19.2	19.2	18.9	18.8
External sector								
Terms of trade (percent change)	23.8	3.4	3.4	-3.9	-4.3	-1.9	-0.8	-0.9
Current account	1.8	2.9	3.8	2.6	2.1	2.1	2.4	2.8
Merchandise exports, f.o.b.	63.4	63.8	64.5	57.3	52.7	49.8	46.8	44.1
Merchandise imports, f.o.b.	-60.6	-60.2	-59.9	-55.1	-51.9	-49.7	-47.4	-45.4
Capital and financial account	-7.8	-2.6	5.4	5.4	5.5	5.5	5.3	8.8
Of *which* : foreign direct investment	4.4	3.9	6.5	6.0	5.6	5.3	5.1	4.9
Memorandum items:								
Nominal GDP (in million Suriname dollars)	5,873	6,630	7,875	8,989	10,066	11,281	12,583	13,938
Gross international reserves (in months of imports)	2.0	2.9	3.5	4.5	5.4	6.2	7.0	7.6

Source: National authorities, and Fund staff estimates and projections.

1/ GDP numbers include estimates of the informal sector.

Table 6. Suriname: Balance of Payments

(In millions of U.S. dollars)

				Est.	Staff Projections					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Current account	**-31**	**-78**	**39**	**71**	**109**	**86**	**76**	**83**	**104**	**130**
Trade balance	170	14	61	88	131	71	26	3	-26	-56
Exports, f.o.b.	874	1,059	1,358	1,542	1,850	1,858	1,874	1,948	2,000	2,050
Of which: alumina, gold, and petroleum	732	838	1,147	1,242	1,479	1,471	1,469	1,528	1,559	1,578
Imports, f.o.b.	-703	-1,045	-1,297	-1,454	-1,718	-1,786	-1,848	-1,945	-2,026	-2,106
Services, net	-130	-148	-53	-62	-63	-31	-3	25	69	118
Exports	141	204	243	250	297	336	368	408	456	507
Imports	-271	-352	-296	-312	-360	-367	-372	-383	-387	-389
Income, net	-163	-90	-100	-114	-143	-145	-147	-156	-161	-165
Private sector	-140	-83	-91	-101	-133	-133	-132	-138	-141	-143
Public sector	-23	-7	-9	-13	-10	-13	-15	-17	-20	-22
Of which: NFPS interest	-9	-7	-9	-13	-10	-13	-15	-17	-20	-22
Current transfers, net	91	146	131	159	183	191	200	211	222	233
Capital and financial account	-34	2	1	-81	60	116	117	122	91	42
Capital account (public sector grants)	35	31	33	69	74	78	82	86	91	97
Financial account	-70	-29	-32	-149	-14	38	35	36	0	-55
Public sector	-15	-18	-4	-110	98	52	68	75	63	68
Disbursements	9	14	36	24	114	74	88	98	86	103
Amortization	-24	-32	-40	-134	-16	-22	-20	-23	-23	-35
Private sector	-55	-11	-28	-39	-112	-15	-33	-39	-63	-123
Foreign direct investment	37	28	95	95	188	196	200	208	218	228
Other	-18	-37	67	-134	-300	-210	-232	-247	-281	-351
Errors and omissions	96	104	64	-58	0	0	0	0	0	0
Overall balance	31	29	104	-68	169	202	193	205	195	172
Financing	-31	-29	-104	-68	-169	-202	-193	-205	-195	-172
NFA of the central bank (- = increase)	-31	-29	-104	-169	-169	-202	-193	-205	-195	-172
Exceptional grants	...	...	...	101	...	...	...	...	...	...
Memorandum items:										
Current account as percent of GDP	-2.1	-4.3	1.8	2.9	3.8	2.6	2.1	2.1	2.4	2.8
Stock of gross international reserves	135	160	264	433	602	804	996	1,201	1,396	1,568
in months of imports of goods and services	1.7	1.4	2.0	2.9	3.5	4.5	5.4	6.2	7.0	7.6

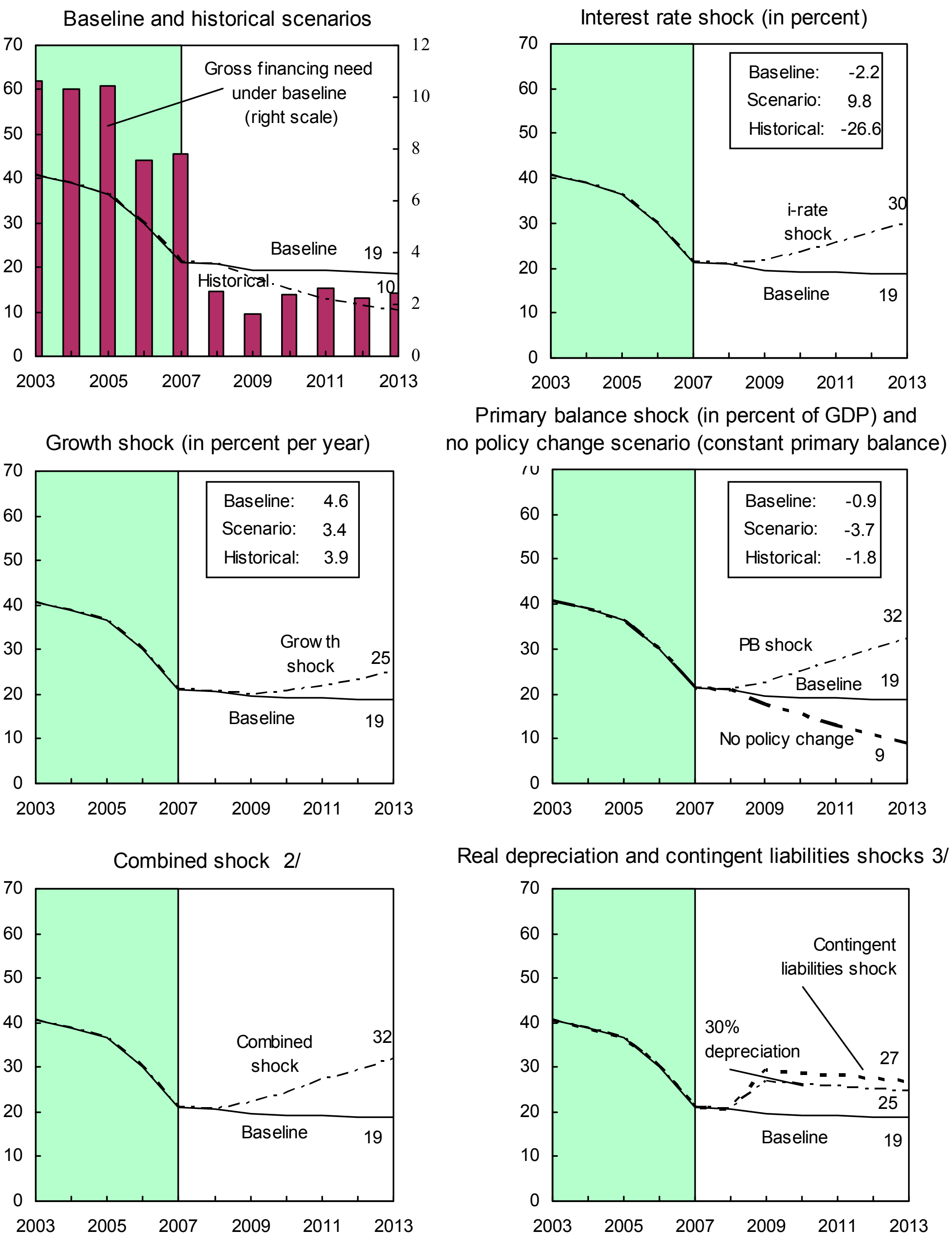
Sources: Surinamese authorities; and Fund staff estimates and projections.

Table A1. Suriname: Public Sector Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

	Actual							Staff Projections						
	2003	2004	2005	2006	2007			2008	2009	2010	2011	2012	2013	
								I. Baseline Projections						Debt-stabilizing primary balance 10/
1 **Public sector debt 1/**	40.7	38.9	36.5	30.0	21.1			**20.8**	**19.5**	**19.2**	**19.2**	**18.9**	**18.8**	**-0.8**
o/w foreign-currency denominated	30.0	25.5	21.3	18.2	12.3			13.8	13.8	14.5	15.1	15.3	15.5	
2 Change in public sector debt	-9.1	-1.7	-2.4	-6.5	-8.9			-0.3	-1.3	-0.2	0.0	-0.3	-0.1	
3 Identified debt-creating flows (4+7+12)	-10.1	-4.2	-4.3	-4.9	-6.4			-3.3	-1.1	0.0	0.3	0.0	0.2	
4 Primary deficit	-1.9	0.6	-0.2	-0.8	-4.4			-1.3	0.2	1.0	1.2	0.9	1.0	
5 Revenue and grants	27.5	26.3	27.5	27.3	30.2			29.3	28.1	27.6	27.4	27.7	27.5	
6 Primary (noninterest) expenditure	25.7	26.9	27.3	26.5	25.8			28.1	28.3	28.5	28.6	28.6	28.5	
7 Automatic debt dynamics 2/	-8.3	-4.8	-4.1	-4.1	-2.0			-2.1	-1.3	-1.0	-1.0	-0.9	-0.8	
8 Contribution from interest rate/growth differential 3/	-9.5	-5.7	-4.3	-4.1	-2.0			-2.1	-1.6	-1.2	-1.2	-1.2	-1.1	
9 Of which contribution from real interest rate	-7.1	-3.0	-2.9	-2.6	-0.5			-0.8	-0.6	-0.4	-0.5	-0.5	-0.4	
10 Of which contribution from real GDP growth	-2.4	-2.6	-1.5	-1.5	-1.5			-1.2	-1.0	-0.8	-0.7	-0.7	-0.7	
11 Contribution from exchange rate depreciation 4/	1.3	0.9	0.2	0.0	0.0			0.0	0.2	0.3	0.3	0.3	0.3	
12 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	
13 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	
14 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	
15 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	
16 Residual, including asset changes (2-3)	1.0	2.5	1.9	-1.6	-2.5			3.0	-0.2	-0.2	-0.3	-0.3	-0.3	
Public sector debt-to-revenue ratio 1/	147.7	147.9	132.7	110.1	70.0			70.9	69.3	69.7	70.2	68.4	68.2	
Gross financing need 5/	10.6	10.3	10.4	7.6	7.8			2.5	1.7	2.4	2.6	2.2	2.5	
in billions of U.S. dollars	136.1	153.8	188.0	162.2	188.7			71.7	53.6	84.9	103.0	95.6	114.5	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	6.3	7.9	4.5	4.8	5.5	3.9	2.5	7.0	5.7	4.7	4.3	4.3	4.2	4.6
Average nominal interest rate on public debt (in percent) 6/	5.1	5.0	7.4	5.9	5.4	5.1	1.3	7.1	5.4	5.0	4.8	4.5	4.3	4.8
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-17.2	-8.0	-8.2	-7.9	-1.6	-24.9	22.7	-3.9	-2.6	-2.0	-2.7	-2.5	-1.9	-2.3
Nominal appreciation (increase in US dollar value of local currency, in percent)	-4.2	-3.3	-0.9	-0.2	0.0	-13.6	23.3	0.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
Inflation rate (GDP deflator, in percent)	22.3	13.0	15.6	13.9	7.0	30.0	22.1	11.0	8.0	7.0	7.5	7.0	6.3	7.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.6	13.2	5.9	1.6	3.0	2.1	14.2	16.3	6.8	5.3	4.5	4.2	3.9	4.9
Primary deficit	-1.9	0.6	-0.2	-0.8	-4.4	2.0	5.9	-1.3	0.2	1.0	1.2	0.9	1.0	0.9
								II. Stress Tests for Public Debt Ratio						Debt-stabilizing primary balance 10/
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2008-2013 7/								**20.8**	**17.4**	**14.8**	**12.9**	**11.4**	**10.2**	**-2.6**
A2. No policy change (constant primary balance) in 2008-2013								**20.8**	**17.8**	**15.4**	**13.1**	**10.9**	**8.9**	**-0.4**
B. Bound Tests														
B1. Real interest rate is at baseline plus one standard deviations								**20.8**	**21.6**	**23.4**	**25.6**	**27.7**	**30.0**	**1.8**
B2. Real GDP growth is at baseline minus one-half standard deviation								**20.8**	**20.0**	**20.7**	**21.9**	**23.1**	**24.9**	**-0.8**
B3. Primary balance is at baseline minus one-half standard deviation								**20.8**	**22.4**	**24.9**	**27.6**	**29.8**	**32.1**	**-1.4**
B4. Combination of B1-B3 using one-quarter standard deviation shocks								**20.8**	**22.1**	**24.5**	**27.1**	**29.4**	**32.0**	**0.5**
B5. One time 30 percent real depreciation in 2009 9/								**20.8**	**26.8**	**26.2**	**25.8**	**25.2**	**24.8**	**-1.1**
B6. 10 percent of GDP increase in other debt-creating flows in 2009								**20.8**	**29.5**	**28.7**	**28.2**	**27.5**	**27.0**	**-1.2**

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure A1. Suriname: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table A2. Suriname: External Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

	Actual							Staff Projections							
	2003	2004	2005	2006	2007			2008	2009	2010	2011	2012	2013		
								I. Baseline Projections							**Debt-stabilizing non-interest current account 6/**
1 **External debt**	30.0	25.5	21.3	18.2	12.3			**13.8**	**13.9**	**14.6**	**15.2**	**15.4**	**15.7**		**-5.7**
2 Change in external debt	-6.2	-4.5	-4.2	-3.1	-5.9			1.5	0.2	0.7	0.6	0.2	0.3	0.0	
3 Identified external debt-creating flows (4+8+9)	-2.3	-5.0	-1.4	-9.7	-8.9			-12.3	-10.2	-9.1	-8.8	-8.9	-9.0	0.0	
4 Current account deficit, excluding interest payments	9.9	1.4	3.7	-2.3	-3.5			-4.1	-3.1	-2.6	-2.6	-2.9	-3.3	5.7	
5 Deficit in balance of goods and services	12.8	-2.7	7.4	-0.4	-1.1			-2.4	-1.2	-0.6	-0.7	-1.0	-1.4		
6 Exports	54.9	67.7	70.4	74.8	74.2			74.8	68.3	63.6	60.8	58.0	55.6		
7 Imports	67.7	64.9	77.8	74.5	73.1			72.4	67.1	63.0	60.1	57.0	54.3		
8 Net non-debt creating capital inflows (negative)	-6.0	-2.5	-1.6	-4.4	-3.9			-6.5	-6.1	-5.7	-5.4	-5.1	-5.0	-5.0	
9 Automatic debt dynamics 1/	-6.3	-3.9	-3.5	-2.9	-1.5			-1.6	-1.1	-0.8	-0.9	-0.8	-0.7	-0.8	
10 Contribution from nominal interest rate	0.9	0.6	0.7	0.5	0.6			0.3	0.4	0.4	0.5	0.5	0.5	0.5	
11 Contribution from real GDP growth	-1.8	-2.0	-1.0	-0.9	-0.9			-0.7	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	
12 Contribution from price and exchange rate changes 2/	-5.3	-2.5	-3.2	-2.6	-1.2			-1.2	-0.8	-0.7	-0.7	-0.7	-0.6	-0.6	
13 Residual, incl. change in gross foreign assets (2-3)	-3.9	0.5	-2.8	6.6	3.0			13.8	10.4	9.7	9.5	9.1	9.3	0.0	
External debt-to-exports ratio (in percent)	54.6	37.6	30.3	24.3	16.5			18.4	20.4	22.9	25.0	26.6	28.2		
Gross external financing need (in billions of US dollars) 3/	0.2	0.1	0.1	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.1		
in percent of GDP	13.5	3.7	6.1	0.0	2.6			0.9	1.1	1.0	1.0	1.0	1.2		
Key Macroeconomic Assumptions						10-Year Historical Average	10-Year Standard Deviation							For debt stabilization	Projected Average
Real GDP growth (in percent)	6.3	7.9	4.5	4.8	5.5	3.9	2.5	7.0	5.7	4.7	4.3	4.3	4.2	4.2	4.6
Exchange rate appreciation (US dollar value of local currency, change in percent)	-4.2	-3.3	-0.9	-0.2	0.0	-13.6	23.3	0.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
GDP deflator in US dollars (change in percent)	17.2	9.2	14.5	13.7	7.0	8.1	21.2	11.0	5.9	4.9	5.4	4.9	4.2	4.2	5.0
Nominal external interest rate (in percent)	3.0	2.6	3.2	2.8	3.4	3.3	0.8	3.3	3.3	3.3	3.4	3.4	3.4	3.4	3.4
Growth of exports (US dollar terms, in percent)	22.9	45.4	24.5	26.7	11.9	12.0	18.9	19.8	2.2	2.3	5.1	4.2	4.1		3.6
Growth of imports (US dollar terms, in percent)	33.9	13.2	43.4	14.1	10.9	10.4	17.5	17.7	3.6	3.1	4.9	3.6	3.4		3.7
Current account balance, excluding interest payments	-9.9	-1.4	-3.7	2.3	3.5	-6.5	7.6	4.1	3.1	2.6	2.6	2.9	3.3		2.9
Net non-debt creating capital inflows	6.0	2.5	1.6	4.4	3.9	3.5	2.0	6.5	6.1	5.7	5.4	5.1	5.0		5.4
								II. Stress Tests for External Debt Ratio							**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios															
A1. Key variables are at their historical averages in 2008-2013 4/								**13.8**	**16.0**	**18.0**	**19.9**	**21.5**	**23.1**		**-5.4**
B. Bound Tests															
B1. Nominal interest rate is at baseline plus one-half standard deviation								**13.8**	**14.0**	**14.7**	**15.4**	**15.6**	**16.0**		**-5.7**
B2. Real GDP growth is at baseline minus one-half standard deviations								**13.8**	**14.1**	**15.1**	**16.0**	**16.5**	**17.2**		**-5.9**
B3. Non-interest current account is at baseline minus one-half standard deviations								**13.8**	**17.7**	**22.0**	**26.0**	**29.4**	**32.8**		**-6.5**
B4. Combination of B1-B3 using 1/4 standard deviation shocks								**13.8**	**16.0**	**18.6**	**21.1**	**23.2**	**25.3**		**-6.1**
B5. One time 30 percent real depreciation in 2009								**13.8**	**23.8**	**26.3**	**28.6**	**30.4**	**32.4**		**-9.4**

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

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

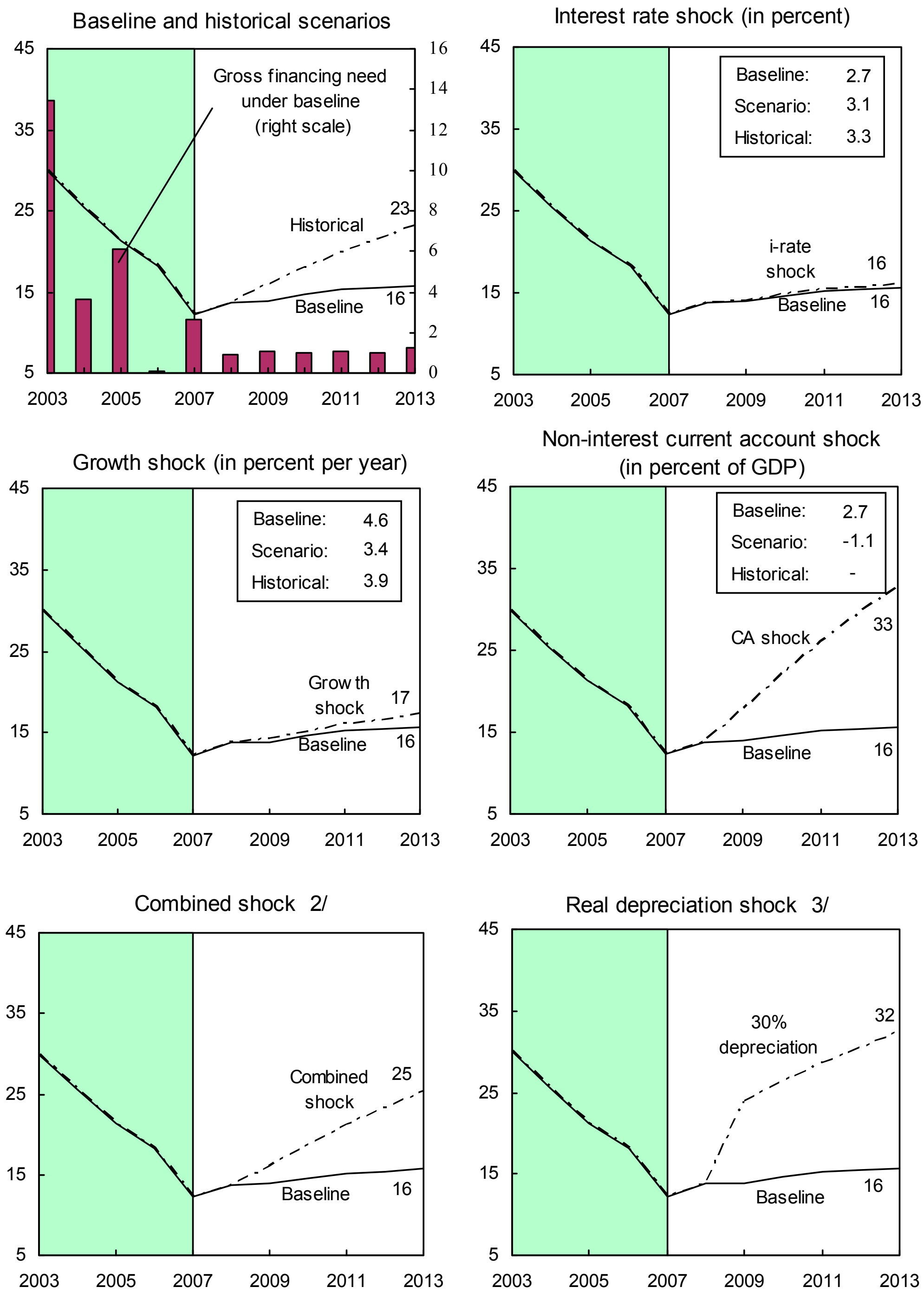
3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

4/ 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.

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

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

Figure A2. Suriname: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



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

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

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2009.

APPENDIX I. SUMMARY OF INFORMATIONAL ANNEXES

Discussions: The 2008 Art. IV consultation discussions were held in Paramaribo during March 27–April 4. The mission met with the Minister of Finance, Mr. Humphrey Hildenberg; the Governor of the Central Bank of Suriname, André E. Telting; the Minister of Natural Resources, Mr. Gregory Rusland; the Minister of Planning, Mr. Ricardo van Ravenswaay; the Minister of Trade and Industry, Mr. Clifford Marica; senior staff of several government ministries and agencies; representatives of the private sector; a major labor union; and a political analyst. The staff team comprised L. Abrego (Head), P. Dyczewski and E. Flores (all WHD). Ms. Florestal (OED) joined most meetings.

Fund Relations and Exchange Arrangements

The last Article IV consultation with Suriname was on March 21, 2007 (IMF Country Report No. 07/87). The country has accepted the obligations of Article VIII, Sections 2, 3, and 4. Suriname has a dual exchange rate regime, comprising an official and a commercial market. The official rate (SRD 2.75 per U.S. dollar) is used for government debt service and tax payments by mineral companies. The commercial rate is used for all other transactions, comprising over 80 percent of the market. Suriname has two multiple currency practices—one arising from the potential for the spread between the official and the commercial rate to exceed 2 percent, and one from the existence of a special rate for imports of baby milk.

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

The IDB is the major multilateral lender operating in Suriname at this time. As of February 2008, Suriname's outstanding debt to the IDB stood at US$56 million. Bank strategy in Suriname is outlined in the Suriname Country Strategy. The current version was approved in 2007. The main thrust of the IDB strategy 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.

Recent World Bank involvement in Suriname has been limited. The last activity consisted of setting up an Investment Promotion Agency in October 2004.

Statistical Issues

Except for monetary data, the statistical information provided by Suriname has been generally inadequate for surveillance purposes. Although the quality and timeliness of economic statistics has been improving in recent years, there is still no breakdown of the national accounts from the expenditure side, while data on external services and private capital inflows are subject to significant shortcomings.

INTERNATIONAL MONETARY FUND

SURINAME

Staff Report for the 2008 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

May 2, 2008

Contents Page

ANNEX I. SURINAME: FUND RELATIONS

(As of March 31, 2008)

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

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	92.10	100.00
Fund holdings of currency	85.98	93.35
Reserve Position	6.12	6.65
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	7.75	100.00
Holdings	0.51	6.56

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

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

	Forthcoming				
	2008	2009	2010	2011	2012
Principal					
Charges/Interest	0.15	0.20	0.20	0.20	0.20
Total	0.15	0.20	0.20	0.20	0.20

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

B. Nonfinancial Relations with the Authorities

Exchange rate arrangements

The national currency is the Suriname dollar (SRD), which replaced the Suriname guilder in January 2004 at a conversion rate of 1,000 guilders per SRD. Suriname has a dual exchange rate regime, comprising an official and a commercial rate. The official rate of SRD 2.75 per U.S. dollar is used by the central bank for government external debt service and financing and for tax and royalty payments (in the case of the state oil company also dividend payments) by mineral sector companies. Over 80 percent of transactions take place at the commercial 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 rate has traded between SRD 2.85 and 2.71 per U.S. dollar. Over the last year, the differential between official and commercial rate has been well under 2 percent. There is also a special rate of SRD 1.4 per U.S. dollar, used for imports of baby milk powder.

Last Article IV consultation

The last Article IV consultation was concluded by the Executive Board on March 21, 2007 (IMF Country Report No. 07/87). Suriname is on the standard 12-month consultation cycle.

Participation in the GDDS

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

Technical assistance since 2005

CARTAC

- Mission in January 2008 on revenue forecasting issues.

FAD

- A joint IDB-IMF needs assessment mission in May 2007 provided assistance in public financial management.

LEG

- Missions in November 2006 and January and June 2007 provided advice on tax legislation.

STA:

- A follow-up mission from the Money and Banking Division of the Statistical Department visited Suriname in February 2005 to address issues on reporting of commercial banks' data.

- GDDS mission visited Suriname in March of 2004 to assist authorities in preparing their meta-data.

Consents and acceptances: Quota increase approved.

Resident Representative: None.

ANNEX II: SURINAME: RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK AND THE WORLD BANK GROUP

A. Inter-American Development Bank

Suriname joined the Inter-American Development Bank (IDB) in 1980. Since then, the IDB has approved 16 loans to Suriname amounting to US$108.6 million and 100 technical cooperation operations totaling US$29.7 million.

The IDB is the 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 February 2008, Suriname's outstanding debt to the IDB stood at US$53.2 million, mostly on Intermediate Fund Financing (IFF) terms.

Bank strategy in Suriname is outlined in the Suriname Country Strategy 2006-2010. The current version was approved in 2007 and is founded on three equally important pillars—development of the public sector, development of the private sector, and integration of the interior. The first two pillars consolidate the thrust of the former Country Strategy (2000 to 2005) by continuing to target weaknesses in the policy and institutional framework that constrain Suriname's development, and thereby promote private-sector-led-growth. The third pillar focuses on integrating the indigenous and maroon communities living in the interior of Suriname more fully into national development and raising their living standards.

Structural reform projects

Public sector. In June 2004, the IDB approved a US$5 million loan to Suriname to support the strengthening of public sector management, which is considered a critical element of institutional reform in the country, given the large size and importance of the public sector. 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.

Banking system. The authorities have utilized IDB financing 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 supported a financial evaluation of the state banks and identification of reform options. The options open to the government have been presented to the Council of Ministers for consideration. It is not clear exactly when a decision will be taken. If authorities decide to pursue a reform strategy consistent with sound financial and public policy criteria, the Bank has indicated its willingness to finance the development of a detailed implementation plan.

Financial relations (as of end February 2008)

At present, 8 loan projects are in execution amounting to US$55.6 million in IDB contribution and 34 technical cooperation projects in execution with total IDB contributions of US$11.9 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	8	55.6	54.8
TCs in Execution	34	11.9	29.2
Projects in Pipeline (2008)	3	60.0	Not applicable
TCs in Pipeline (2008)	5	1.9	Not applicable

Net cash flow

The total financing inflow has been positive during 2002-2007. Loan repayments from Suriname are projected to increase through 2009.

Net Flow of IDB Convertible Currencies
(In millions of US$)

	2003	2004	2005	2006	2007	Proj. 2008
a. Loan disbursements	15.7	3.3	4.9	7.7	16.8	14.2
b. Repayments (Principal)	1.8	2.8	2.9	3.0	3.5	4.4
c. Net loan flow (a - b)	**13.9**	**0.6**	**2.0**	**4.7**	**13.3**	**9.8**
d. Interest and charges	1.2	2.3	1.8	1.9	2.5	3.8
e. Net cash flow (c - d)	**11.9**	**-1.8**	**0.2**	**2.8**	**10.8**	**6.0**

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ANNEX III. SURINAME: STATISTICAL ISSUES

Overview

Data provided to the Fund can generally be considered inadequate for surveillance purposes. While the quality and timeliness of economic statistics have improved somewhat over the past two years, there are still significant shortcomings in the areas of the expenditure breakdown of national accounts, informal sector activity, and data on external services and private capital inflows. These inadequacies hinder staff's analysis and hamper the development of a reliable quantitative medium-term policy framework. In particular,

- **Real sector.** Deficiencies in data collection and presentation methodologies and long delays in the provision of source data for main economic activities affect GDP estimates from the production side. As an expenditure breakdown of national accounts is unavailable, the estimate of saving and investment balances relies largely on fiscal accounts and balance of payments data, rendering problematic the estimation of private savings and investment. The authorities, in consultation with the CARTAC are currently devising a plan to update the national accounts' base year (dating from 1990).

- **Fiscal sector.** A substantial amount of additional information on government finance statistics is needed to derive an accurate and timely picture of the fiscal position from above the line. The coverage of debt statistics needs to be broadened to include non-government guaranteed public debt.

- **External sector.** While trade data are relatively reliable, data on services and private capital inflows suffer from poor compilation systems. Estimates of the components of the financial account (especially, private external debt) also need to be strengthened.

In general, institutional arrangements need to be strengthened to facilitate improved reporting as well as collaboration between the Central Bank (CBvS), the Bureau of Statistics (BoS), the Ministry of Finance (MoF), the Ministry of Planning (MoP) and the Debt Management Office, and to avoid duplication of data production efforts and some inconsistencies across institutions. Suriname participates in the GDDS since June 2004. However, information on statistical practices and plans for improvement (metadata) need to be updated.

To address some of the weaknesses in the production of sectoral GDP data, the BoS has initiated a census of economic activities, including in its coverage tourism, financial businesses, and transport and communications. Also, the MoP (in charge of GDP projections) has aligned its methodologies to the one used by BoS.

Real sector

Some efforts have been made to improve the GDP data from the production side. The constant price series were rebased to 1990 and sectoral estimates are now based on indicators which still suffer from poor response rates to questionnaires and exclude informal sector activities. Also, a lack of timely, reliable source data on price indices for tourism services, transportation and communication adversely affects production-based GDP estimates in nominal terms. There are no national accounts by expenditure, while consistency of labor statistics could be improved. There is also no reconciliation between the national accounts and the balance of payments data. The development of a supply and use table would lead to better estimates for all sectors of the economy.

The methodology used to compile the consumer price index (CPI) is sound. The production and dissemination of the consumer price index (CPI) was disrupted by the temporary cessation of work by the BoS in June 2003–March 2004 due to a fire. As a result, there are no CPI data for that period.

Fiscal sector

The only public finance statistics available are those for the central government. With respect to revenue, data are collected on a cash basis by the Inland Revenue Department and the Non-tax Revenue Division. There is a Central Paymaster Department that also provides revenue and expenditure data on a cash basis, which are used by the 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 MoF. Some capital expenditure items are recorded by the Central Paymaster, but the majority 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 been 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, as well as between the MoF and the CBvS. Available public debt statistics cover only debt contracted or guaranteed by the central government. Since 1986, no data on central government operations have been published in the IFS, and no data are reported for publication in the Government Finance Statistics Yearbook (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 unknown, and is estimated to amount to 120 companies, but some are dormant, others are social associations and many of them are small enterprises. Most of these enterprises do not produce accounts on a timely basis and their impact on fiscal operations, domestic credit and employment is not known with any certainty.

Financial sector

STA missions visited Suriname in September 2001 and February 2005 to help in the design of new report forms to allow a proper sectorization of the accounts. The quality and periodicity of the reported data has improved significantly as a result of these missions and the time-lag was reduced to two months. Suriname migrated to the new standardized report forms (SRFs) early in 2006, and its data are being published in the quarterly *IFS Supplement* since its first issue in September 2006.

External sector

In October 2002, a STA technical assistance mission assessed progress in improving compilation consistent with the *Balance of Payments Manual Fifth Edition (BMP5)*, and designing new survey and reporting formats for detailed *BPM5* classifications. A GDDS mission in March 2004 found that little progress had been made in implementing the recommendations, although a proposed revision to the CBvS Act on compulsory reporting of statistical information to the CBvS was approved by Parliament on May 20, 2005.

The balance of payments data are prepared on a cash basis. While trade data are relatively reliable, data on services and capital inflows suffer from poor compilation systems and poor procedures of reconciliation, which result in a substantial errors and omissions item. For example, STA missions have assessed the method for recording FDI as incorrect. The scope, classification, and basis for recording FDI could be made more transparent and better aligned with current international methodologies.

Lags in the compilation of merchandise trade data from the BoS limit the timeliness of quarterly estimates of the external current account balance produced by the CBvS. As a result, the CBvS uses data from the banking system on firms' foreign exchange contracts, which differ from the Customs Union data used by BoS. There is thus a risk of data inconsistencies. Also, there are some discrepancies between the data reported by the CBvS and those reported by the DMO for gross external disbursements and amortization of the central government. The CBvS should expand its current debt reporting system to include comprehensive coverage of external loans, including for the private sector.

Suriname: Table of Common Indicators Required for Surveillance

April 16, 2008

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	3/08	4/08	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]					
Reserve/Base Money	2/08	3/08	D	Monthly Less than 1 month lag	Q
Broad Money	2/08	4/08	M	Monthly 2 month lag	Q
Central Bank Balance Sheet	2/08	3/08	D	Monthly Less than 1 month lag	W
Consolidated Balance Sheet of the Banking System	2/08	4/08			
Interest Rates[2]	2/08	4/08	M	Monthly 2 month lag	Q
Consumer Price Index	10/07	12/07	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	Q4/06	10/07	Q	Q	A
Exports and Imports of Goods and Services	Q4/06	10/07			
GDP/GNP	2004	04/06	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. 08/110
FOR IMMEDIATE RELEASE
August 26, 2008

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

IMF Executive Board Concludes 2008 Article IV Consultation with Suriname

On June 2, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.[1]

Background

Aided by strong commodity prices and improvements in policies, macroeconomic performance has strengthened markedly in recent years. The terms of trade have improved by about 30 percent in 2005-07, implying an increase in real income of over 10 percent. Supported by this favorable environment, improved policies—strengthening of the non-mineral balance, bolstering central bank independence, and reduction of foreign exchange market fragmentation—have contributed to higher growth, lower inflation, large accumulation of international reserve, and a sharp decline in public debt as a ratio to GDP.

Macroeconomic performance was strong in 2007, but inflation has risen to double digits. GDP grew by an estimated 5½ percent, with strong performance in both the mineral and non-mineral sectors. The external account surplus was about 3 percent of GDP, and international reserves rose by over 60 percent. Twelve-month inflation more than trebled to 13.8 percent in March 2008, driven mainly by large increases in food and fuels prices. However, non-tradables goods inflation has also picked up significantly since November. Tradable goods inflation excluding food and fuel has also been rising rapidly, as the nominal effective exchange rate has depreciated.

[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.

Fiscal performance strengthened in 2007, reflecting mainly a lower non-mineral deficit, with the central government posting an overall surplus of 3 percent of GDP. Driven mainly by higher excise taxes and improvements in income tax administration, revenue increased sharply, while expenditure growth was kept under control. Public debt declined to 21 percent of GDP, aided also by a large pre-payment to the Netherlands. The authorities also made progress on the clearance of external arrears.

In the financial sector, bank credit grew by 35 percent over the last year. This large liquidity increase resulted from incomplete sterilization of international reserve accumulation and a reduction in reserve requirements adopted in early 2007. Nominal lending rates declined by 2½ percentage points in the last year. Financial soundness indicators have generally strengthened, although nonperforming loans remain high, especially at state-owned banks. Financial dollarization is also high, with over half of deposits in foreign currency.

GDP growth is projected to accelerate to about 7 percent in 2008, led by rapid expansion of domestic demand. This is expected to contribute to higher inflation, which is projected to close the year at 10 percent. Stronger commodity prices would result in an increase in the current account surplus to about 3¾ percent of GDP. The central government balance is projected to weaken compared to 2007, mainly reflecting large increases in capital spending. Public debt would continue to decline, but only marginally.

Executive Board Assessment

Executive Directors welcomed the improvement in economic policies in recent years which, supported by a favorable external environment, has contributed to higher economic growth and lower inflation, a sizeable buildup of international reserves, a decline in public debt, and improved bank supervision.

Directors stressed, however, that inflation has become a growing challenge. While substantial increases in world food and fuel prices have clearly contributed to inflation, domestic demand growth has also played a role, spurred by the substantial improvement in Suriname's terms of trade and an expansionary macroeconomic policy stance. In particular, given the *de facto* exchange rate peg, external inflows are fuelling rapid money and credit growth, and the envisaged fiscal loosening in 2008 will add further stimulus.

Against this background, Directors called on the authorities to tighten macroeconomic policies. They recommended the issuance of treasury or central bank bills, or raising reserve requirements, to bring credit growth to more sustainable levels. A significantly tighter fiscal stance is needed in 2008 to help rein in domestic demand growth.

Many Directors saw exchange rate stability as advantageous for Suriname at this stage, and favored keeping the *de facto* peg, both to anchor expectations and to safeguard the competitiveness of the non-mineral sector. A few Directors noted that the exchange rate is somewhat undervalued. Looking ahead, Directors broadly agreed that, as policies strengthen and institutions develop over time, greater exchange rate flexibility would be appropriate, and would enable the economy to better weather adverse shocks. Directors called on the authorities to unify the current dual exchange rate system, which gives rise to a multiple currency practice.

Directors emphasized that a sound medium-term fiscal framework will be central to Suriname's economic prospects. Setting a more prudent debt ceiling and an appropriate target for the non-mineral fiscal balance would help ensure that fiscal policy avoids procyclicality and remains sustainable over the long run. Directors recommended strengthening the monitoring of public enterprise operations to lower fiscal risks, and broadening the coverage of public debt statistics to include debt that is not contracted or guaranteed by the central government. They welcomed the continued progress being made in reducing external arrears, and encouraged the authorities to follow through with efforts to fully normalize relations with all creditors.

Directors welcomed ongoing reform efforts in customs administration and income tax and investment legislation. They emphasized the need for income tax reform to be revenue-neutral.

Directors encouraged the authorities to further strengthen the financial system. Very rapid credit growth risks increasing the nonperforming loan rate. Directors recommended continuing efforts to reduce financial dollarization, and encouraged the authorities to lower the associated risks by adopting prudential regulations to limit banks' foreign exchange net open positions and deal with potential currency mismatches.

Public Information Notices (PINs) form 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 after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2008 Article IV Consultation with Suriname is also available.

Suriname: Selected Economic Indicators

	2004	2005	2006	Est. 2007	Proj. 2008
(Annual percentage change, unless otherwise indicated)					
Real Sector					
GDP at 1990 prices 1/	7.9	4.5	4.8	5.5	7.0
GDP current market prices 1/	21.9	20.8	19.4	12.9	18.8
Consumer prices (end of period)	9.1	15.8	4.7	8.4	10.0
Consumer prices (period average)	9.1	9.9	11.3	6.4	11.2
Exchange rate (end of period)	2.7	2.7	2.7	2.7	...
Money and credit					
Banking system net foreign assets	32.7	6.8	36.6	48.1	30.7
Broad money	28.5	11.7	21.1	30.5	27.6
Private sector credit	32.9	25.1	27.6	33.8	27.4
Public sector credit (percent of GDP)	6.0	5.0	1.8	-2.4	-3.9
(In percent of GDP, unless otherwise indicated)					
Savings and Investment					
Private sector balance (savings-investment)	0.1	-2.2	2.6	09	3.6
Public sector balance	-2.2	-2.1	-0.8	3.0	0.2
Foreign savings	2.1	4.3	-1.8	-2.9	-3.8
Central government					
Revenue and grants	26.3	27.5	27.3	30.2	29.3
Total expenditure	28.6	29.7	28.3	27.2	29.3
Statistical discrepancy	0.8	1.4	1.9	0.0	0.0
Overall balance	-1.4	-0.7	0.9	3.0	0.0
Net domestic financing	2.3	0.1	-0.4	-2.8	-3.4
Net external financing	-0.8	0.6	-0.4	-0.2	3.4
Total public debt	38.9	36.5	30.0	21.1	20.8
Domestic	13.5	15.2	11.8	8.9	7.0
External	25.5	21.3	18.2	12.3	13.8
External sector					
Terms of trace (percent change)	7.8	7.4	23.8	3.4	3.4
Current account	-2.1	-4.3	1.8	2.9	3.8
Change in reserves (-=increase)	-2.1	-1.6	-4.8	-7.0	-5.9
Gross international reserves (in months of imports)	1.7	1.4	2.0	2.9	3.5

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

1/ GDP numbers include estimates of the informal sector.

Statement by Paulo Nogueira Batista, Executive Director for Suriname and Ketleen Florestal, Advisor to Executive Director
June 2, 2008

1. In 2007, prudent macroeconomic management and high commodity prices led to strong GDP growth, a strengthened external position and an important decrease in Suriname's debt to GDP ratio. Performance was strong in both the mineral and non-mineral sector as evidenced by a significantly lower non-mineral fiscal deficit and the important contribution of agriculture and tourism to growth. At the level of the external sector, the current account surplus rose to 2.9 percent of GDP and official reserves strengthened from two to about three months of imports. The important rise in oil and food prices largely accounted for the rise in inflation from under 5 percent in 2006 to over 8 percent in 2007.

2. This global price shock and associated cost-push factors may exacerbate the impact on inflation of demand pressures in a booming economy in 2008. Nevertheless, our Surinamese authorities do not see the need to tighten credit conditions as yet. They acknowledge that the recent rise in private sector credit must have contributed to rising inflationary pressures and that several investment projects (in mining and infrastructure) are on the verge of being implemented. Moreover, our authorities anticipate possible pressures in the labor market given the potential rise in demand for specialized and skilled labor in certain growing sectors both in Suriname and in neighboring countries. Even so, they believe that the dominant factors behind the inflationary pressures are the global increases in the prices of basic food stuffs and petroleum products. It should be noted also that the aforementioned investment projects rely primarily on imported inputs and thus may have little impact on domestic demand. The timely implementation of these projects remains crucial for achieving growth objectives.

3. Our Surinamese authorities are committed to maintaining macroeconomic stability and most particularly safeguarding the positive fiscal performance, notwithstanding mounting pressures to loosen fiscal policy as a response to the population's diminishing purchasing power with the rise in basic commodity prices. The upcoming Parliamentary elections (2010) may be an additional source of pressure, which will have to be withstood. One of the key challenges the authorities face is indeed that of addressing the pressing and growing social demands without forsaking fiscal sustainability. These demands include an increase in the old age allowance, a considerable increase in public wages and a decrease in the taxation of fuel. Also, in order to lessen the impact of the global price increases of basic goods on the domestic market and, in conformity with Caricom's recent ruling on the partial and temporary suspension of the Common External Tariff (CET), tariffs on forty eight goods have been reduced. The inclusion of goods in the suspension list was based on two concerns: the potential impact on the CPI and the potential impact on fiscal revenues.

4. The authorities welcome staff's suggestion to set a formal medium run target for the non-mineral balance when elaborating the national budget in order to preserve fiscal sustainability. They wish to stress that no concessions will be made that jeopardize fiscal

sustainability. They are also appreciative of the information Fund staff has shared on best practices relative to the management of a Natural Resource Funds (NRF). We take this opportunity, on behalf of our Surinamese authorities, to thank Fund management and staff for the conference that was delivered on the topic during the mission. One may want to recall that Fund's technical support in this field was formally requested on the occasion of last year's Article IV Board Discussion. The idea of creating a NRF is welcomed by most social and political forces in Suriname. Nevertheless, given that ex ante several key decisions need to be taken, a Natural Resource Fund can only be realistically projected to be put in place in the medium run. These key decisions include defining the objectives of the NRF, i.e., whether the main goal of setting up such a fund would be saving for future generations or stabilizing fiscal revenues or both. Also, the choice on how and where the resources of the fund will be invested is as crucial.

5. Another key element of the medium-term fiscal framework is debt sustainability. Substantial efforts have been made in recent years to decrease the stock of public debt which has successfully been held in recent years well below the established ceiling of 60 percent of GDP. In 2007, the debt to GDP ratio has been held below 25 percent and the authorities agree with staff on the necessity of setting a much lower target than the existing 60 percent ceiling. However, given the investment needs of the country and potential economic downturns in the future, the authorities would want to leave themselves some room for maneuvering and do not wish to consider setting a target ceiling below 30 percent. Concurrently, our Surinamese authorities are committed to decreasing the existing stock of arrears even further by continuing to pursue efforts to reach a suitable agreement on the remaining arrears with Brazil and the United States. Suriname has presented an outline to Brazil on how it proposes to address the issue of restructuring its debt and is now awaiting negotiations with the Brazilian government. As regards the debt with the United States, a deadlock has emerged on the issue of accumulated penalties. Suriname has proposed a bullet payment for principal and interest. But the parties remain divided on how to treat penalties on delayed payments.

6. In the financial sector, reforms of the state-owned banks have borne fruit and helped strengthen the health of the banking sector. Most indicators of financial soundness have improved. The reduction of the level of non-performing loans and particularly in state-owned banks (SOBs) should be underscored. Nevertheless, the authorities recognize that the SOBs remain undercapitalized. In 2007, dollarization was also kept under control close to its 2006 level. The reduction in reserve requirements on domestic currency deposits in early 2007 contributed to achieving this result. Additionally, the authorities view the present level of the exchange rate as adequate. The exchange rate's relative stability has served as a valuable anchor for expectations.

7. Staff's has recommended to phase out the partial allocation of reserve requirements to mortgage credit and convert it into direct budget expenditures. In 2008, to address the shortage in availability of low cost housing, the Government is considering to put in place a direct housing subsidy program, which will be financed until 2010 with Central Bank profits. These profits are normally transferred to the Ministry of Finance.

8. Finally, on behalf of the Surinamese authorities, we wish to thank staff for the quality of the dialogue with the authorities and for the candid report. We also wish to thank the Fund for the sustained provision of technical support to Suriname both directly from headquarters and through CARTAC. As a result, a lot of progress is being achieved particularly in the field of public financial management, revenue administration and statistics. Nevertheless, much remains to be done to strengthen institutional capacity. Additional TA to broaden the scope of information that is being collected on state-owned enterprises particularly on debt contracted would be welcome.