August 2011
IMF Country Report No. 11/256

Suriname: 2011 Article IV Consultation—Staff Report, Informational Annex, Public Information Notice on the Executive Board Discussion and Statement by the Executive Director for Suriname

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2011 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- The staff report for the 2011 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on February 20, 2011, 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 April 15, 2011. 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.
- The Informational Annex.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its May 2, 2011 discussion of the staff report that concluded the Article IV consultation.
- A statement by the Executive Director for Suriname.

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Washington, D.C.

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SURINAME

Staff Report for the 2011 Article IV Consultation

Prepared by the Staff Representatives for the 2011 Consultation with Suriname

Approved by Gilbert Terrier and Dhaneshwar Ghura

April 15, 2011

EXECUTIVE SUMMARY

- ***Background.*** In the context of strong commodity prices, real GDP rose by 4½ percent in 2010, up from 3 percent in 2009. The overall fiscal balance shifted from a surplus of 2.2 percent of GDP on average during 2007–08 to a deficit of 3.3 percent during 2009–10, pushing public debt up to 21½ percent of GDP at end-2010. In January 2011, the authorities devalued the currency in the official market by 20 percent against the U.S. dollar, bringing the rate broadly in line with that in the parallel market. Inflation has risen sharply in recent months, following the devaluation and increases in fuel prices. The external current account balance is estimated to have registered a surplus of about 1 percent of GDP in 2010, and international reserves stood at 4½ months of imports at end-2010.

- ***Focus of consultation.*** Discussions focused on the appropriate policy mix both in the aftermath of the devaluation, with emphasis on containing inflation expectations, and in the medium term. Staff broadly supported the fiscal stance of the authorities, advising them to aim at a reduction in the overall fiscal deficit of 2 percent of GDP in 2011. Staff also advised the authorities to improve the oversight and management of key public utility companies, while implementing targeted social support programs to cushion the adverse effects of higher inflation on the most vulnerable groups.

- ***Exchange system.*** In conjunction with the devaluation, the authorities did away with an existing multiple currency practice (MCP), in the form of a special exchange rate for imports of infant formula. They also established a band (SRD 3.25–3.35 per US$1), within which foreign exchange market transactions are allowed to take place. Suriname maintains MCPs subject to Fund approval under Article VIII, Section 3.

- ***Past surveillance.*** During the 2009 Article IV consultation, Directors encouraged the authorities to avoid unsustainable increases in spending and recommended a gradual implementation of the second phase of the wage reform (FISO-2). In the event, current and capital expenditures rose significantly, particularly ahead of the May 2010 elections.

- ***Mission.*** The team that visited Paramaribo during February 6–20, 2011 comprised Gamal El-Masry (head), Charles Amo-Yartey, Lennart Erickson, and Yi Wu (all WHD). Eduardo Saboia (OED) participated in the policy discussions. The team met with Vice President Ameerali; Minister of Finance Boedhoe; Central Bank Governor Hoefdraad; Speaker of the National Assembly Simons; Minister of Natural Resources Hok; other senior government officials; and representatives of the private sector, labor, the diplomatic community, and the opposition.

Contents Page

I. Recent Developments 3

II. Outlook and Risks 5

III. Policy Discussions 6
A. Fiscal Policy 6
B. Monetary, Exchange Rate, and Financial Sector Policies 10
C. Structural Issues 12

IV. Staff Appraisal 14

Boxes

1. Civil Service Wage Reform—An Update 4
2. Bringing Order to the Informal Gold Sector 8
3. Staatsolie 9
4. Resolution of CLICO-Suriname 13

Figures

1. Macroeconomic Developments 16
2. Fiscal Indicators 17
3. External Indicators 18

Tables

1. Selected Economic Indicators 19
2. Central Government Operations 20
3. Balance of Payments 21
4. Summary Accounts of the Banking System 22
5. Financial System Structure and Financial Soundness Indicators 23

Appendices

I. The Inflation Impact of the Recent and Forthcoming Measures 24
II. Illustrative Medium-Term Projections and Debt Sustainability Analyses (DSAs) 27
III. Assessment of the Equilibrium Real Exchange Rate and Current Account 34

I. Recent Developments

1. **Mr. Desiré Bouterse was elected President in mid-August 2010, after his party emerged from the May elections with the largest faction in the National Assembly.** He heads a three-party coalition government with two junior partners which were part of the previous administration. Mr. Bouterse had previously led Suriname during the 1980s and early 1990s.

2. **Economic growth is estimated to have risen from 3 percent in 2009 to 4½ percent in 2010 (Figure 1).** This improvement reflected primarily a rebound in the output of Suriname's main commodity exports (gold, petroleum, and alumina). Inflation rose from 1.3 percent at end-2009 to 10.3 percent at end-2010, following large wage increases in the civil service, as well as higher food and fuel prices. The outgoing government implemented the first phase of the civil service wage reform in 2009 and started implementing the second phase of this reform in July 2010, when it awarded half of the negotiated increase; the second half was implemented in January 2011 by the new government. Largely as a result of the reform, the central government wage bill rose from the equivalent of 9 percent of GDP in 2008 to 10½ percent in 2010 (Box 1).

3. **The overall fiscal deficit is estimated to have shifted from a surplus of 2.2 percent of GDP during 2007–08 to a deficit of 3.3 percent of GDP during 2009–10.** A decline in tax revenue, on account of a sharp drop in corporate tax collections from the bauxite/alumina sector associated with lower output and weaker consumption tax collections, was offset in part by higher nontax revenue from the state-owned oil company Staatsolie. Grant disbursements were also higher, in part associated with the 2009 debt arrears repayment arrangement with Brazil. Both current and capital expenditures rose significantly, reflecting elevated spending prior to the elections. In 2009 and the first half of 2010, the deficit was partly financed by a build-up of domestic payments arrears (estimated at about 1 percent of GDP at end-2010). While public debt rose from 18 percent of GDP in 2008 to 21½ percent in 2010, it remained low by international comparison. In early 2011, the authorities raised the legal limit for domestic debt from 15 percent of GDP to 25 percent, while lowering the foreign debt ceiling from 45 percent of GDP to 35 percent. They argued that the new rebalanced debt limits were more prudent, as they would reduce the country's potential exposure to external debt. In recent years, all external debt arrears were cleared, except for those with the U.S. government (estimated at US$32 million, or 0.9 percent of 2010 GDP), on which bilateral discussions have been initiated.

Suriname: Central Government Operations
(In percent of GDP)

	Average	
	2007-08	2009-10
Revenue and grants	29.0	28.1
Tax revenue	22.3	18.4
Nontax revenue	4.6	6.5
Grants	2.2	3.1
Expenditures	26.8	31.3
Current expenditure 1/	21.8	25.0
Capital expenditure	5.0	6.3
Overall balance	2.2	-3.3

1/ Includes statistical discrepancy.

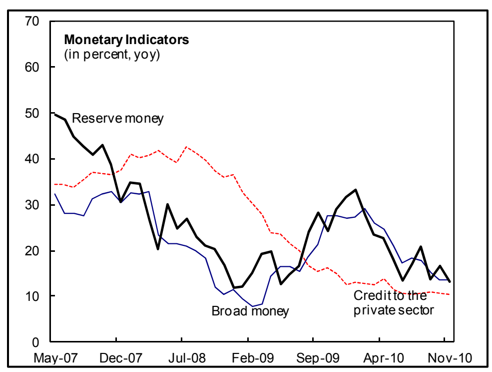
Box 1: Civil Service Wage Reform—An Update

The first phase of the civil service wage reform (FISO-1) was completed in mid-2010. Following extensive discussions with civil service unions, in March 2009, the authorities implemented the first of two wage reform. It aimed at re-grading the civil service along a uniform pay-scale across all ministries and government agencies, with retroactive effect from January 1, 2008. The exercise entailed substantive wage increases for most civil servants, who were paid double increments for a period of 14 months.

In May 2010, the former administration began implementing the second phase of the wage reform (FISO-2). FISO-2 was intended to decompress the wage bill by granting wage increases of up to 45 percent to employees in the upper echelons of the civil service. Days before the May 2010 election, the outgoing government announced that FISO-2 would be implemented in two stages, with no retroactive effect. Half of the agreed increment would be granted to qualifying employees effective on July 1, 2010, and the second half on January 1, 2011. The fiscal impact of this phased implementation on the 2010 budget was one-eighth of the reform originally negotiated with the unions, which was to have been implemented in January 2010 with retroactive effect to January 2009.

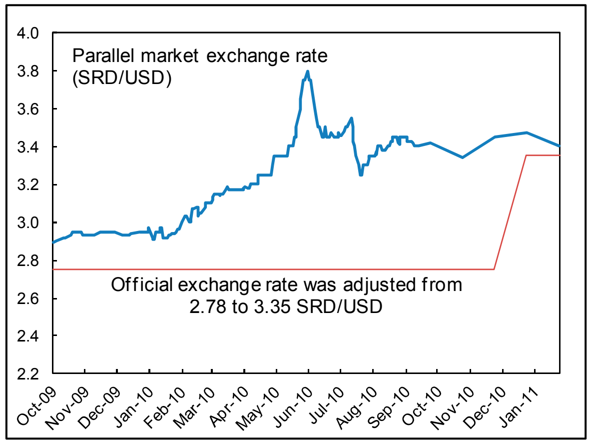
Accordingly, in January 2011, the new administration granted civil servants the remaining half of the FISO-2 wage increment. In 2011, the wage bill is expected to increase by 17 percent. The cumulative impact of the reforms on the budget has been substantial, with the wage bill rising in nominal terms by almost 42 percent between 2008 and 2010. Meanwhile, progress has yet to be made on the much wider objective of streamlining the civil service and increasing its efficiency.

4. **Monetary and credit expansion moderated in 2010.** Reserve and broad money growth, which surged in late-2009/early-2010, have subsequently declined, following a tightening in government spending. Twelve-month private sector credit growth has slowed since mid-2008, to around 10 percent (y/y) at end-2010. The level of excess reserves held by commercial banks also declined in the second half of the year, as banks used some of these reserves to lend to the government.



5. **The external current account balance is estimated to have improved from a deficit of 1 percent of GDP in 2009 to a surplus of about 1 percent of GDP in 2010.** Mineral exports have increased substantially, boosted by higher prices for all three main exports (alumina, gold, and oil). Against the backdrop of depleted bauxite production from current mines, the improved outlook in the aluminum sector prompted the Suriname Aluminum Company (SURALCO) to import bauxite from neighboring Brazil, to raise its alumina production and exports. Gross international reserves rose by US$22 million in 2010, to US$785 million at year-end (4½ months of imports).

6. **In January 2011, the authorities devalued the currency by 20 percent against the U.S. dollar in the official market, bringing it broadly in line with that in the parallel market.** The Surinamese dollar had depreciated significantly in the parallel market during 2010, reflecting the deterioration in the government's fiscal position and uncertainties associated with the May 2010 elections. After the devaluation, the authorities established a band (SRD 3.25–3.35 per US$1), within which official and commercial market transactions are to take place. In recent weeks, the value of the Suriname dollar in the informal market has stabilized, and it has been trading with a small discount (less than two percent) against the official rate. In January, the authorities eliminated the existing multiple currency practice in the form of the special exchange rate for imports of infant formula.



7. **In the aftermath of the devaluation, the authorities introduced a number of accompanying measures.** On January 20, they raised the fuel tax by about 70 percent which, together with the impact of the devaluation on the import price of fuel, pushed up prices at the pump by about 40 percent. At the same time, the government extended subsidies to transport operators. In mid-March, the government raised gasoline and diesel prices by 7½ percent and 10 percent, respectively, to reflect developments in the international market. Following these adjustments, 12-month inflation rose from 10.3 percent in December 2010 to 18.6 percent in February 2011.

II. Outlook and Risks

8. **The main challenge facing Suriname in the near term is to ensure that inflation expectations return to single digit levels.** As noted, the recent devaluation and fuel tax increases have led to a surge in inflation, while the large civil service wage increases granted over the past two years have put significant pressure on private sector wages. There is also a risk that new revenue measures under discussion, which focus on consumption tax increases, would add to inflationary pressures in the short run. In the context of rising international food and fuel prices, these factors risk triggering a process of spiraling inflation.

9. **The medium-term economic outlook remains favorable.** Staff expects growth to pick up further in 2011, to about 5 percent, supported by continued buoyant commodity prices and activity in the mineral and energy sectors. Large investments underway, or

expected to begin in the near future, will boost economic activity in the years ahead.[1] Over the medium term, these projects will help strengthen government revenue and improve the balance of payments.

Medium-Term Outlook
(In percent of GDP, unless otherwise indicated)

		Est.	Projected					
	2009	2010	2011	2012	2013	2014	2015	2016
Real GDP growth (annual percentage change)	3.1	4.4	5.0	5.0	5.5	7.7	5.6	5.4
GDP deflator (annual percentage change)	2.9	8.4	20.9	11.8	6.8	5.2	5.1	5.0
Overall fiscal balance	-3.0	-3.6	-1.7	-1.5	-1.2	-0.1	0.4	0.6
Non-mineral balance	-11.9	-10.8	-10.4	-9.3	-8.6	-8.0	-7.3	-6.8
Total public debt	18.5	21.6	20.0	18.6	18.6	17.1	15.5	13.8
External current account balance	-1.1	1.0	0.4	-0.2	-2.8	-5.5	0.0	0.1
Gross international reserves (months of imports)	5.0	4.4	4.6	5.0	5.7	6.3	7.5	7.5

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

III. Policy Discussions

10. **Policy discussions focused on the need to tighten fiscal and monetary policies to stabilize public finances, contain inflation expectations, and support the exchange rate.** There was general agreement that the current boom in commodity prices provided the authorities with an opportune window to correct the fiscal imbalances that had accumulated during 2009–10. In addition to discussing new revenue measures proposed by the authorities, staff highlighted the importance of reining in current expenditures—which had risen considerably during the election cycle—to provide room for priority capital spending. The discussions also covered the challenge of establishing a credible medium-term fiscal framework. There was agreement that this framework should seek to save excess mineral revenues for leaner years and future generations, while ensuring that adequate resources are invested in human capital and infrastructure to help the economy grow and diversify.

A. Fiscal Policy

11. **Staff and the authorities agreed that achieving an improvement in the overall deficit of about 2 percent of GDP in 2011 was a desirable objective.** The recent devaluation is expected to help improve the fiscal balance, as higher mineral revenues, custom duties, and sales tax on imports should more than offset a projected increase in government spending on imported goods. In addition, the authorities were in the process of implementing the following policy actions:

[1] Projects currently underway include a new refinery being built by Staatsolie at a cost equivalent to about 15 percent of 2010 GDP, while planned investments include the development of new bauxite and gold mines in Eastern Suriname at a cost estimated at 14–16 percent of GDP.

- **Revenue.** On the back of the large recent adjustments in fuel taxes, the authorities have introduced in the National Assembly a series of revenue measures, some of which are expected to be adopted by mid-year. These measures include: (a) higher excise taxes on alcohol and tobacco; (b) an increase in the presumptive tax on casinos; (c) a reactivation of the motor vehicle tax; and (d) a widening of the sales tax base and an increase in its rate.[2] The first two measures would be implemented immediately upon approval by the National Assembly and the third one early next year.[3] Approval of the increase of the sales tax rate and the widening of the base may take more time. In addition, the authorities have embarked on a comprehensive project to register informal gold sector operators and bring them into the tax fold through a presumptive tax system (Box 2). Staff welcomed the authorities' plans in these areas, including in the gold sector, and recommended phasing in the implementation of the motor vehicle taxes. It also encouraged the authorities to continue efforts to introduce a VAT system in late-2012/early-2013.

- **Expenditure.** The authorities concurred that it was critical to rein in current spending, particularly on goods and services. They explained that, since they had taken office in August 2010, they had tightened current spending considerably and started clearing the substantial backlog of domestic payment arrears accumulated in late 2009 and early 2010. Staff encouraged them to continue with their efforts and to introduce social support programs targeted at the most vulnerable groups, possibly with the assistance of the IADB. The authorities also explained that, in the wake of the devaluation, they had adopted temporary measures aimed at offsetting in part the increase in oil prices. These measures, which the authorities intended to review after six months, are in the form of: (a) fuel subsidies for bakeries and for bus and boat operators; and (b) the introduction of an income tax credit. Staff advised the authorities to target the planned income tax credit to ensure that it mainly benefits low-income groups.

- **Financing.** Given the authorities' plans to increase foreign borrowing from multilateral agencies to finance capital projects, the lower deficit level would practically eliminate the need for central bank financing of the budget. It would also allow the government to repay domestic arrears, while providing sufficient room for commercial banks to expand credit to the private sector.

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[2] See Appendix I for estimates of additional revenue from these measures and their impacts on inflation.

[3] In the event, the increase in the casino tax was approved by the National Assembly on March 31, 2011.

Box 2. Bringing Order to the Informal Gold Sector

In February 2011, the government of Suriname kicked off a comprehensive program to bring order to the informal gold sector. This program is overseen directly by the President's Office, pulling in the resources of the security forces and various line ministries, with a view to enforcing laws and regulations, educating local operators about the impact of gold mining on the environment, and asking informal operators to contribute a fair share of their income to the government. The campaign covers three interrelated areas:

- **Registration of informal gold operators.** Many gold diggers operate without proper authorization or documentation, as squatters on land licensed to local and foreign companies and individuals. For a limited period of time, these operators will be invited to come forward and acquire proper documentation allowing them to operate within the law.

- **Government extension services.** The methods used by informal operators to mine and extract gold are very destructive to the forest, the environment, and the health of local communities. In particular, mercury, a highly toxic metal, is widely used by artisanal miners. It is inhaled as vapor when operators torch gold-mercury amalgam, and is discharged in rivers and waterways where it accumulates in fish, a staple source of protein for the local population. The posting of representatives of the Ministries of Health, the Environment, and Justice and Police closer to local communities is expected to help better serve and educate registered gold miners in the areas of basic health and hygiene, and introduce more efficient and less toxic methods of mining. A higher presence of law-enforcement officers should also help address the communities' security and judicial concerns.

- **Taxation.** While the informal gold sector is estimated to have exported US$600–700 million in gold during 2010, it contributed about US$1 million (0.2 percent of gross sales) to the government, in the form of royalties. The new presumptive tax system introduced by the government would tax the operators of large and visible mining machines, based on the average yields of these devices. The objective would be to raise government collections to 4–5 percent of gross gold sales over the medium term.

12. **Staff called for improvements in the management of key public utility companies.** The state oil company Staatsolie, which is highly profitable and an important contributor to government revenue, has embarked on a large investment program (Box 3). However, the public water and electricity companies are operating at losses, and their tariffs have not been raised for many years, despite sharp increases in energy and wage costs. These enterprises also hold large payments arrears on their books, both to and from other government agencies, and staff encouraged the government to regularize this complex web of payments obligations. Staff also recommended that the operations of the public utility companies be conducted on a commercial basis, including by adjusting their tariff structures and making them more progressive. The authorities shared staff's views and explained that, to this end, they were seeking technical and financial assistance from multilateral institutions, including the IADB and the European Investment Bank.

Box 3. Staatsolie

Staatsolie, the state oil company established in December 1980, is the dominant player in the petroleum sector in Suriname. It is involved in all aspects of exploration, production, refining, and marketing of crude oil, and owns a 14-megawatt power plant (operating since 2006). The company is also working to develop renewable energy sources, such as bio-fuel and hydropower. It acts as the government's agent in the petroleum sector and is responsible for assessing and offering open blocks for exploration to foreign oil companies, negotiating contracts, and supervising their execution.

Staatsolie is a major contributor to fiscal revenue, exports, and GDP. Its total revenue contributions peaked at US$198 million in 2009 (including a delayed dividend payment), equivalent to one-third of government tax revenue. Staatsolie's crude oil output reached 5.9 million barrels in 2009, with proven reserves estimated at 78.9 million barrels as of end-2009. Its exports amounted to around US$260 million in 2010.[1] The oil sector has so far been dominated by onshore production, but there are active offshore test drillings by foreign companies under production-sharing contracts with Staatsolie.

Staatsolie: Contribution to Government Revenue and Exports

	2006	2007	2008	2009	2010e
Fiscal revenue (in millions of US$)	79	100	181	198	149
in % of revenue	17	17	29	33	22
in % of GDP	3.7	4.1	5.9	6.1	4.0
of which, dividends (in millions of US$)	23	38	55	128	58
Exports (in millions of US$)	105	160	249	124	263
in % of total exports	9	12	14	8	13

Sources: Ministry of Finance, Staatsolie and IMF staff estimates.

Staatsolie has been making substantial capital investments in recent years to expand its production capacity. Its investment and exploration program for 2008–2012 amounts to US$1 billion, of which US$330 million were spent during the first three years. About 70 percent of the investment is to be financed through its cash flow savings, and the remainder through borrowing (it has raised US$55 million through a domestic placement of U.S. dollar bonds and US$235 million through a private placement with international banks). About 60 percent of Staatsolie's investment will be geared toward the construction of a new refinery and the development of a domestic distribution network. Other areas of investments include ongoing exploration and drilling, construction of storage tanks, and power generation.

[1] About half of Staatsolie's crude oil production is sold domestically to SURALCO, which uses it to generate energy to run its alumina refining plant, and the remainder is exported.

13. **With respect to medium-term fiscal policies, staff and the authorities agreed on the aim of reducing the non-mineral deficit by 4–5 percentage points of GDP.** Staff recommended using the current upswing in the business cycle to strengthen the structure of public finances. Staff also noted that grant disbursements from the Netherlands Treaty Funds would run out by end-2012, presenting the authorities with the challenge of generating new

sustainable domestic revenues to replace this hitherto reliable source of revenue.[4] The staff elaborated a medium-term illustrative scenario that was predicated on generating additional revenues, particularly in the non-mineral sector, while maintaining prudent expenditure policies.[5] Saving mineral revenues during surplus years, while allowing for sufficient capital investments, would help ensure the sustainability of public finances. Given that the current and planned investments in the mineral sector are expected to raise output levels considerably over the medium term, it would also be important for the government to save the expected large increase in revenue for future generation. Staff encouraged the authorities to initiate a national dialogue with social partners with a view to forging a national consensus on the structures and institutions that would be established to manage these resources. The authorities agreed and explained that, to this end, they had started preliminary discussions and analyses on establishing appropriate reserve funds. In this context, staff welcomed the authorities' efforts to strengthen their capacity in managing public finance with the assistance of CARTAC and the IADB.

B. Monetary, Exchange Rate, and Financial Sector Policies

14. **Given the recent surge in inflation, staff encouraged the authorities to be ready to tighten monetary policy, if needed.** The authorities noted that the price increases in early 2011 reflected primarily the pass-through effect of higher fuel taxes and international oil prices to the domestic market. They noted that the increase in food prices had remained relatively small, and observed that the value of the currency in both the official and parallel markets had stabilized since end-January. The central bank indicated that, if needed, it would be ready to sell government paper to commercial banks, in an effort to mop up excess liquidity. Staff noted that, if this were to prove insufficient to anchor inflation expectations, the central bank should be prepared to temporarily raise reserve requirements on local currency deposits. The authorities also agreed with staff on the need to develop indirect instruments of monetary policy. They have requested technical assistance from the Fund in the areas of liquidity forecasting and the conduct of open market operations.

15. **The authorities were confident that 12-month inflation would gradually abate.** Staff expressed concern that the recent sharp rise in public sector wages could drive up wages in the private sector. While acknowledging this risk, the authorities were hopeful that private employers and unions would be mindful of the dangers of spiraling inflation and would conclude wage settlements that are moderate and forward looking. However, staff discussions with private sector employers suggested that this risk was also a concern for them.

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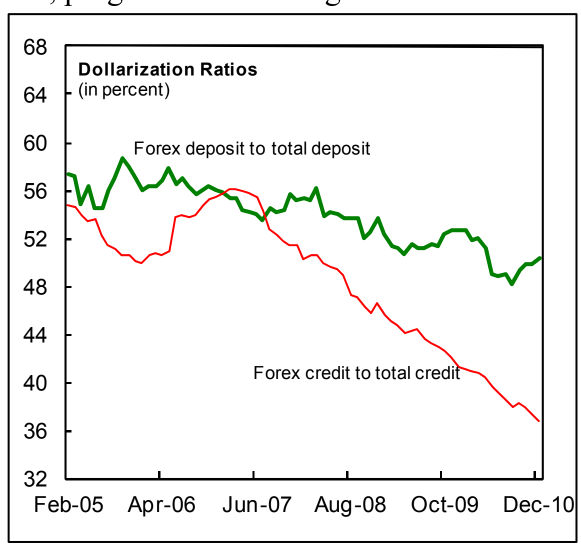
[4] Grant disbursements from the Netherlands Treaty Funds averaged 1¾ percent of GDP a year over the past ten years.

[5] See also the illustrative medium-term projections and debt sustainability analyses in Appendix II.

16. **Staff computations suggest that the new official exchange rate is broadly in line with fundamentals (Appendix III).** Available data indicate that the overvaluation of the currency estimated at end-2008 has been broadly corrected by the January 2011 devaluation. As noted, the spread between the official and parallel markets is less than two percent, and banks have observed a significant increase in the supply of foreign exchange that has been channeled through the banking system since the devaluation. Staff commended the authorities for ending the multiple currency practice in the form of the special exchange rate for imports of infant formula.

17. **Staff encouraged the authorities to move toward a more market-determined exchange rate regime over the medium term.** The authorities noted that the devaluation and the introduction of a trading band had brought welcome calm to the foreign exchange market, following a period of considerable volatility. They intended to monitor developments closely over the next year or so, and were open to considering further reforms, once existing fiscal imbalances would have been brought under control and indirect monetary policy instruments would be in place. While staff expressed its broad agreement with the proposed approach, it encouraged the authorities to remove the remaining MCPs.[6]

18. **Staff welcomed the authorities' commitment to promote a gradual de-dollarization of the banking system.** In recent years, progress has been registered in reducing the share of bank assets and liabilities in foreign currency, especially on the credit side. Commercial banks' net position in foreign currency, which has declined in recent years, remains positive, and the authorities are considering establishing prudential limits on banks' foreign currency exposures. In December 2010, the central bank raised the reserve requirement rate on foreign currency deposits from 33 percent to 40 percent. The central bank also plans to strengthen the enforcement of the legislation that requires commercial banks to make foreign currency loans only to borrowers who earn revenues in foreign currency. Regulations issued by the Ministry of Trade and Industry now require that all goods be priced in Surinamese dollars, and the Ministry of Finance has issued guidelines



[6] Suriname maintains MCPs, arising from the spread of more than 2 percent between the buying and the selling rates in the official market for government transactions and from the possible spread of more than 2 percent between these official rates for government transactions and those in the commercial market that can take place within the established band.

under which all domestic payments made by the government for the purchase of goods and services should be made in Surinamese dollars.

19. **Although banks are generally well capitalized and profitable, compliance with prudential norms remains uneven.** At end-2010, banks' risk-weighted assets-to-capital ratio averaged 12.2 percent, or above the regulatory minimum. The nonperforming loan ratio for the banking sector as a whole has stabilized at a relatively high level (around 8 percent), with noticeable variations across banks (NPL ratios in three small state-owned banks are substantially higher than the average). Staff encouraged the authorities to inject capital into two of the small state-owned banks which are undercapitalized. Staff and the authorities agreed on the need to strengthen the supervision of the financial sector. A new banking supervision bill is being finalized for presentation to National Assembly. The authorities also underscored their continued interest in a Financial Sector Assessment Program (FSAP) exercise, tentatively scheduled to take place by mid-2012, to help them better identify potential problems and recommend possible remedies.

20. **In the rest of the financial sector, CLICO-Suriname was acquired by a local firm, and efforts are underway to strengthen insurance supervision.** The acquisition of CLICO-Suriname by a local insurance company was facilitated by a government loan (0.4 percent of GDP). CLICO-Suriname's annuity liabilities were rescheduled at a lower interest rate, an approach supported by a large portion of policyholders (Box 4). The authorities concurred with staff on the importance of strengthening insurance supervision. To this end, work is continuing with CARTAC on a new draft bill—soon to be presented to Parliament—that would provide proper protection to insurance supervisors and strengthen regulations on licensing, data reporting, and capital requirements.

C. Structural Issues

21. **The authorities consider that substantial capital investments are needed in the coming years, including in the public sector, to raise the country's growth potential.** Staff recognized the importance of the government's investment program in infrastructure (including in public utilities) and low-income housing. It advised the authorities to pace these projects in line with fiscal sustainability and the country's implementation capacity, and recommended financing them through grants or concessional loans.

22. **The government is scheduled to restart negotiations with foreign partners on the development of large gold and bauxite mining fields in Eastern Suriname.** Staff noted the authorities' plans to enhance Suriname's share in the exploitation of its natural resources in future contracts. Suriname's comfortable foreign reserves and low debt ratio would allow the government to make sizeable investments in the mining sector. This would give Suriname an opportunity to increase its share in the exploitation of the country's natural resources and ensure a greater flow of government revenue for the benefit of the broad population. At the same time, staff advised that such investments be undertaken only after careful assessment of

their viability and within a long-term comprehensive growth strategy of diversification and economic and environmental sustainability.

Box 4. Resolution of CLICO-Suriname

CLICO-Suriname turned insolvent when the Trinidadian conglomerate CL Financial (CLF) collapsed. Large investments that its life insurance branch had made in other subsidiaries of CLF in The Bahamas and in Trinidad and Tobago became nonperforming. As a result, about 7,500 policyholders of CLICO-Suriname, including banks and pension funds, were at risk of losing their investments. In June 2009, a court approved a moratorium on all payments for a period of 18 months, following a run earlier in the year by depositors and policyholders of CLICO-Suriname. The court order provided the authorities with sufficient time to develop a financial plan and negotiate the sale of CLICO-Suriname with potential buyers.

In January 2010, the operations of CLICO-Suriname were taken over by a local insurance company. Self Reliance Insurance, a company in which the government has a 40 percent stake, took over the operations of CLICO-Suriname, backed by a loan from the government of US$16 million (0.4 percent of 2010 GDP). This loan is non-interest bearing and could be converted into equity, should Self Reliance's efforts to recover its investments in CLICO-Bahamas and CLICO-Trinidad-and-Tobago prove futile.

The annuities of CLICO-Suriname were restructured by lowering the interest rate and extending maturities. About 80 percent of policyholders, representing 90 percent of investments, have agreed to a renegotiation of their contracts—a pre-condition for the restructuring of annuities and the take-over by Self Reliance. CLICO-Suriname is currently still operating as a standalone entity and is expected to eventually be merged with Self Reliance.

23. **Staff agreed with the authorities on the need to further diversify the economy and improve the business environment.** The government's current diversification efforts focus on expanding agricultural production and exports (particularly rice, fruits, and vegetables). The authorities are also making important efforts to improve the business environment and, through streamlining of government procedures, the time needed to register limited liability companies has been reduced substantially.[7] Staff welcomed these efforts and encouraged the authorities to review the legislative framework with a view to ensuring that remaining unnecessary bureaucratic hurdles for the registration and issuance of licenses for *bona fide* businesses and activities are removed. Staff also commended the authorities for their efforts to improve the quality and dissemination of economic data (see Informational Annex).

[7] Suriname remains in the bottom range of the World Bank's *Doing Business Index.* In June 2010, Suriname ranked 161 out of 183 countries, down from a rank of 160 in the previous year.

IV. Staff Appraisal

24. **Suriname's economic outlook is favorable.** Growth is expected to be supported by buoyant commodity prices and large private and public investments in the mineral and energy sectors and in infrastructure. Over the medium term, these projects should help raise the country's growth potential, strengthen government revenue, and improve the balance of payments.

25. **An immediate priority is to ensure that the recent pickup in inflation is contained.** The authorities have welcomed the narrowing of spreads between the official and parallel market exchange rates. They are committed to tightening fiscal policy and, if needed, monetary policy. In this context, staff underscores the importance of ensuring that wage settlements in the private sector remain moderate and forward looking. It also encourages the authorities to implement social support programs targeted at low-income households, whose standard of living has been adversely affected by the rise in inflation. Staff also supports the central bank's intention to strengthen its capacity to conduct open market operations, with a view to making them its main monetary policy tool.

26. **Staff supports the authorities' plans to significantly reduce the overall fiscal deficit in 2011.** With foreign grant disbursements projected to essentially run out in the coming years, the sustainability of public finances will require boosting revenue while exerting control on the expenditure side. The authorities' decision to increase indirect taxes is welcome, as are their efforts to enhance tax collections from the informal gold sector. Staff welcomes the authorities' commitment to proceed with the introduction of a VAT system by end-2012 and strengthen their capacity in managing public finance.

27. **The financial situation of key public utility companies needs improvement.** State-owned companies in the electricity and water sectors have been operating at losses for some time, financed by transfers from the government and the accumulation of a web of domestic payments arrears. Staff urges the authorities to move ahead decisively to reform these companies and ensure that their operations are conducted on a commercial basis.

28. **Staff and the authorities agree on the need to strengthen the non-mineral fiscal balance over the medium term.** The authorities' plans for a greater public share in the exploitation of Suriname's natural resources will require careful implementation. Staff encourages the authorities to initiate a national dialogue to forge a consensus on the structures and institutions that will need to be established to manage the expected rise in mineral revenues over the medium-to-long term.

29. **Staff analyses suggest that the new official exchange rate is broadly in line with fundamentals.** Available data indicate that the overvaluation of the currency has been broadly corrected by the January 2011 devaluation. Staff welcomes the removal of the existing multiple currency practice and supports the authorities' approach to review the exchange rate arrangement over the coming year, once existing fiscal imbalances have been

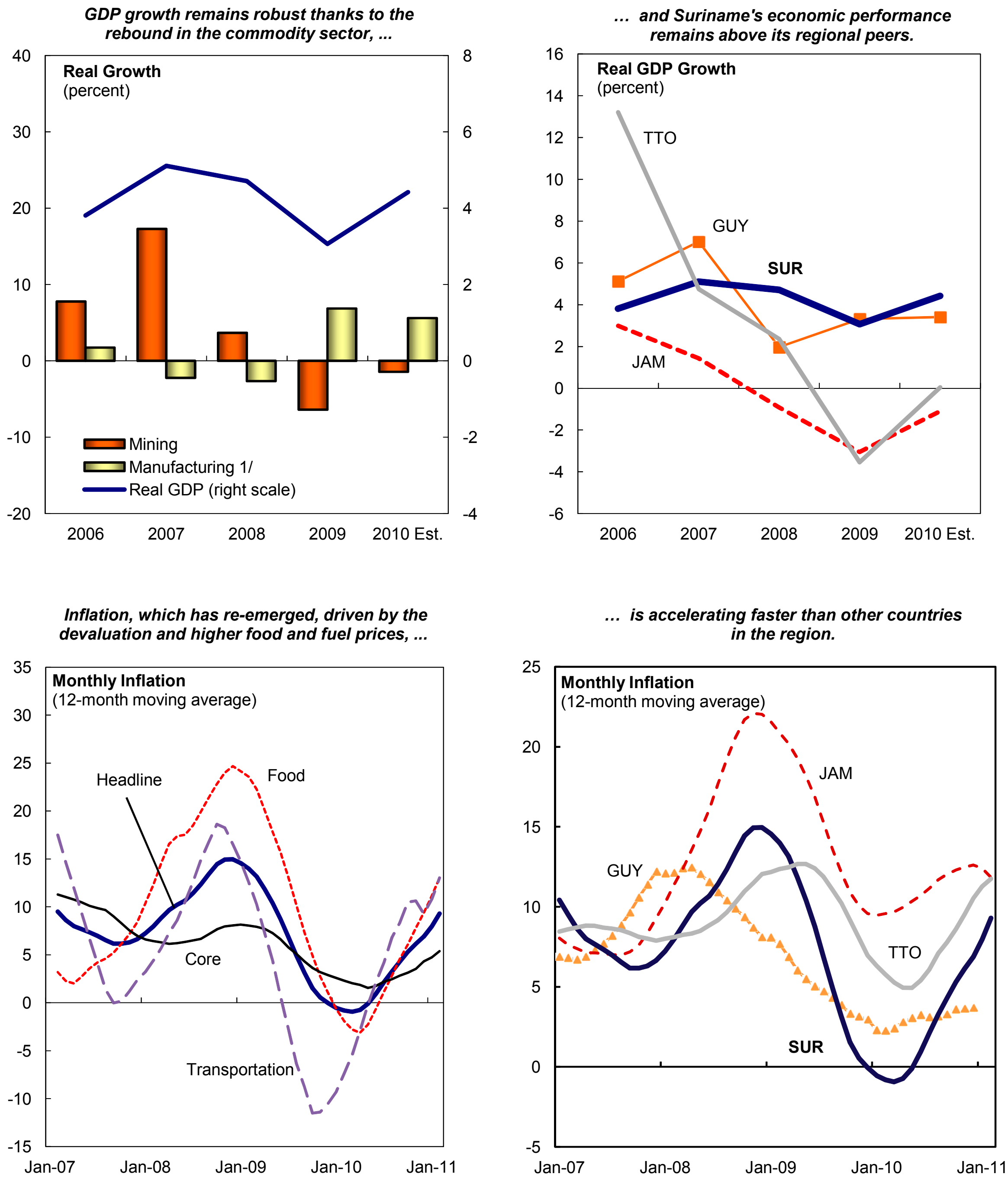
brought under control and indirect monetary policy instruments are in place. In the absence of a firm timetable, staff does not recommend Board approval of the remaining multiple currency practices.

30. **Staff supports the authorities' plans to strengthen banking supervision.** Although the banking system appears strong, nonperforming loan ratios are elevated. In this connection, staff agrees with the authorities that an early FSAP exercise would help better assess strengths and weaknesses in the banking sector. The resolution of CLICO-Suriname is a welcome development, and staff is encouraged by the authorities' efforts to strengthen the legal framework for the supervision of the banking and insurance sectors. Staff supports the authorities' commitment to gradually reduce dollarization in the economy.

31. **The authorities' efforts to improve the business environment are commendable.** Progress in this area, including by speeding up company registration and licensing processes, will facilitate the development of a dynamic private sector. Staff also commends the authorities for their efforts to improve the quality and dissemination of economic data.

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

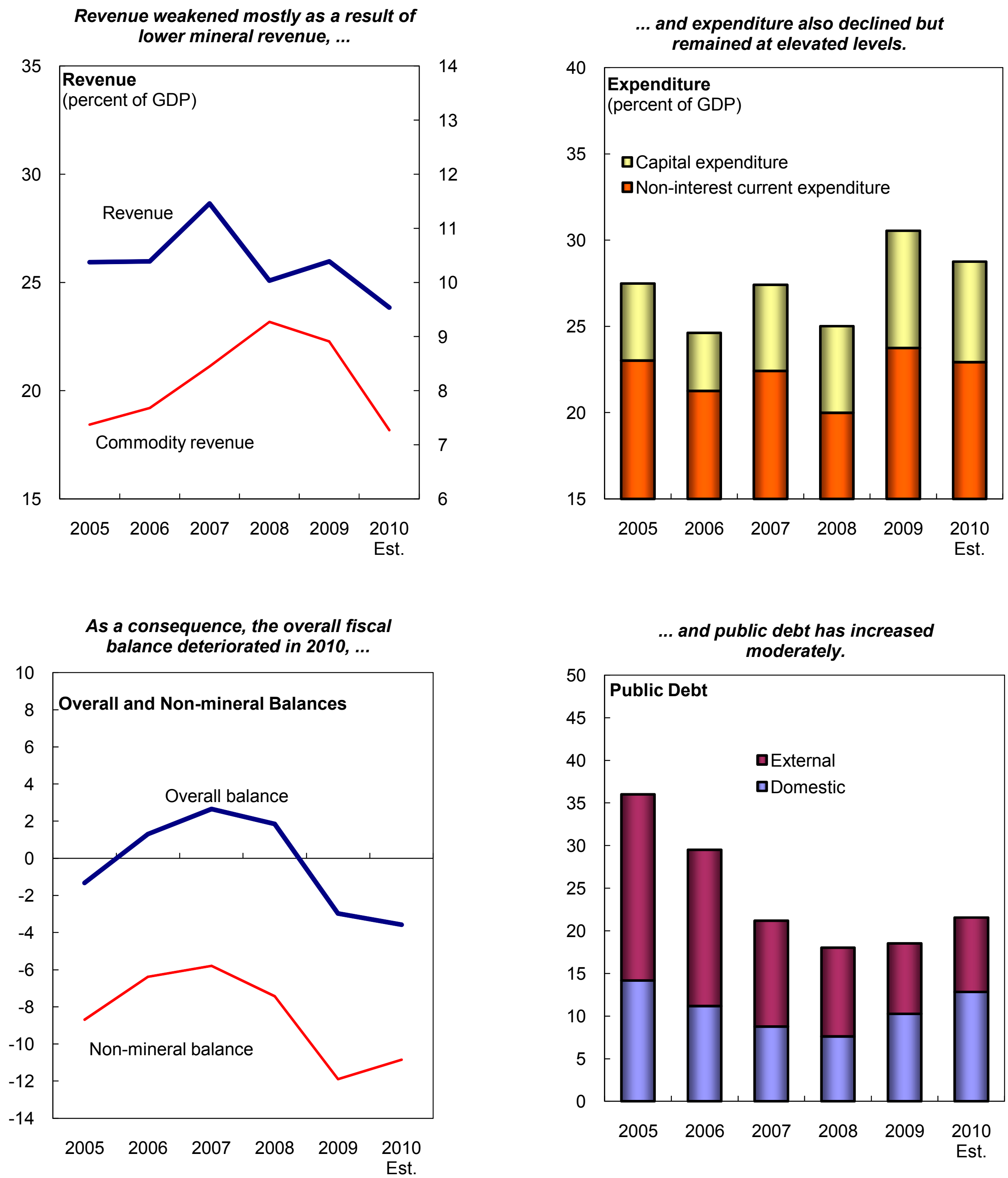
Figure 1. Suriname: Macroeconomic Developments



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

1/ Includes refining of bauxite and petroleum.

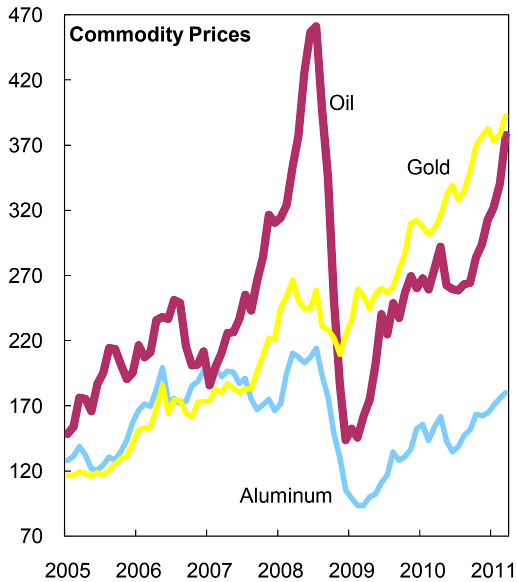
Figure 2. Suriname: Fiscal Indicators



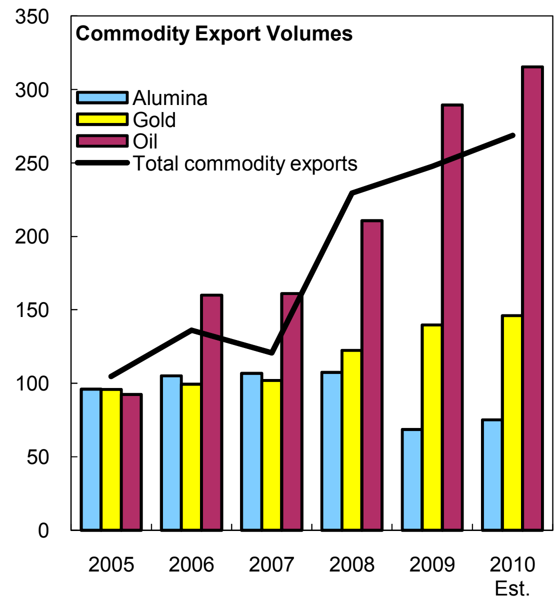
Sources: Ministry of Finance; and IMF staff estimates and projections.

Figure 3. Suriname: External Indicators

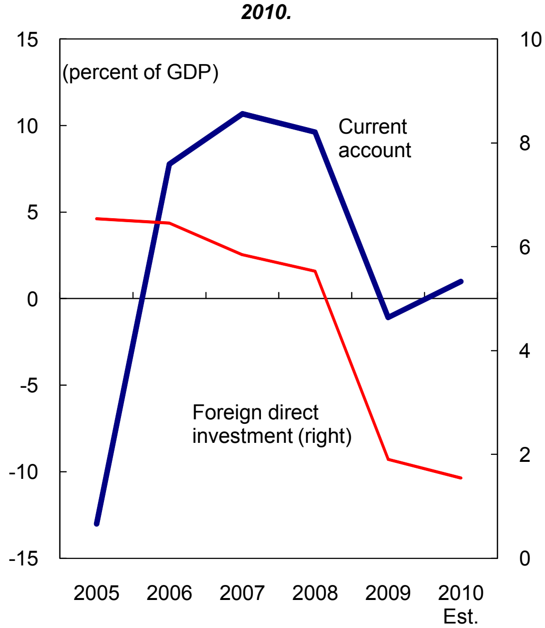
Rising commodity prices...



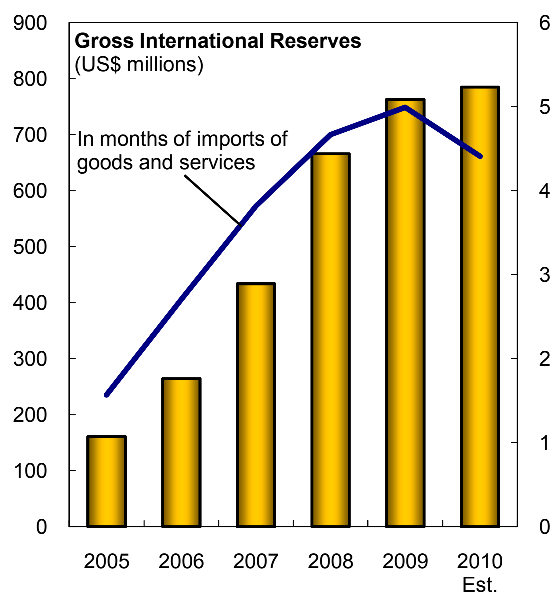
... coupled with an increase in energy and gold extraction...



... have stabilized the current account in 2010.



As a result, international reserves remain comfortable.



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

Table 1. Suriname: Selected Economic Indicators

				Est.	Projections	
	2007	2008	2009	2010	2011	2012
(Annual percentage change, unless otherwise indicated)						
Real sector						
GDP at current prices (US$ millions) 1/	2,419	3,065	3,252	3,682	...	...
GDP at current prices (SRD millions) 1/	6,641	8,414	8,926	10,108	12,832	15,064
Real GDP 1/	5.1	4.7	3.1	4.4	5.0	5.0
Nominal GDP 1/	13.5	26.7	6.1	13.2	26.9	17.4
GDP deflator	8.0	21.0	2.9	8.4	20.9	11.8
Consumer prices (end of period)	8.4	9.3	1.3	10.3	19.9	7.5
Consumer prices (period average)	6.4	14.6	-0.1	6.9	17.9	10.4
Exchange rate (end of period) 2/	2.75	2.75	2.75	2.75	3.30	...
Money and credit						
Banking system net foreign assets	49.4	25.5	11.2	3.2	35.5	10.6
Broad money	30.4	11.3	27.0	10.8	23.2	18.0
Private sector credit	37.4	36.3	12.5	10.6	17.0	17.4
Deposit dollarization ratio (percent)	55.2	53.6	52.7	50.4	...	...
Credit dollarization ratio (percent)	51.5	46.6	41.3	36.8	...	...
Public sector credit (increase in % of M2)	-10.5	-18.3	13.4	4.6	-3.0	1.8
(In percent of GDP, unless otherwise indicated)						
Savings and investment						
Private sector balance (savings-investment)	8.0	7.8	0.9	4.6	2.1	1.3
Public sector balance	2.6	1.8	-2.0	-3.6	-1.7	-1.5
Savings	7.6	6.9	4.8	2.2	3.6	3.8
Investment	5.0	5.0	6.8	5.8	5.3	5.2
Foreign savings	-10.7	-9.6	1.1	-1.0	-0.4	0.2
Central government						
Revenue and grants	30.6	27.5	29.9	26.2	25.8	24.4
Total expenditure	28.9	25.7	31.9	29.7	27.5	25.9
Of which: noninterest current expenditure	22.4	20.0	23.7	22.9	21.0	19.5
Statistical discrepancy	1.0	0.0	-1.0	0.0	0.0	0.0
Overall balance	2.6	1.8	-3.0	-3.6	-1.7	-1.5
Net domestic financing	-2.8	-2.2	2.6	2.1	-0.4	-0.1
Net external financing	0.1	0.4	0.3	1.4	2.1	1.6
Total public debt 3/	21.2	18.0	18.5	21.6	20.0	18.6
Domestic	8.8	7.6	10.3	12.8	9.7	8.2
External	12.4	10.4	8.3	8.7	10.3	10.3
Of which: arrears	5.8	4.9	1.3	1.1	1.1	0.9
External sector						
Terms of trade (percent change)	-0.6	2.3	-1.3	0.2	0.3	0.2
Current account balance	10.7	9.6	-1.1	1.0	0.4	-0.2
Change in reserves (- increase)	-7.0	-7.6	-3.0	-0.6	-4.6	-2.3
Gross international reserves (US$ millions)	433	666	763	785	966	1,069
In months of imports	3.8	4.7	5.0	4.4	4.6	5.0

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

1/ GDP numbers include estimates of the informal sector.

2/ 2011 data up to end-March.

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

Table 2. Suriname: Central Government Operations

(In percent of GDP)

				Est.	Projections	
	2007	2008	2009	2010	2011	2012
Revenue and grants	**30.6**	**27.5**	**29.9**	**26.2**	**25.8**	**24.4**
Revenue	28.6	25.1	26.0	23.8	24.1	24.0
Direct taxes	11.7	10.5	8.5	9.6	9.6	8.6
Indirect taxes	12.1	10.3	9.7	9.0	9.4	10.4
Nontax revenue	4.8	4.3	7.7	5.3	5.1	4.9
Grants	1.9	2.4	4.0	2.3	1.7	0.4
Expenditure and net lending	**28.9**	**25.7**	**31.9**	**29.7**	**27.5**	**25.9**
Current expenditure	23.9	20.6	25.1	23.9	22.2	20.6
Wages and salaries	10.4	9.0	10.8	10.6	9.8	8.9
Goods and services	6.1	5.8	7.3	7.3	6.0	5.5
Subsidies and transfers	5.9	5.2	5.6	5.0	5.2	5.1
Interest	1.5	0.7	1.4	1.0	1.2	1.2
Domestic	0.9	0.5	0.6	0.8	0.9	0.8
External	0.6	0.2	0.7	0.2	0.3	0.4
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.0	5.0	6.8	5.8	5.3	5.2
Statistical discrepancy	**1.0**	**0.0**	**-1.0**	**0.0**	**0.0**	**0.0**
Primary balance	**4.2**	**2.5**	**-1.6**	**-2.6**	**-0.5**	**-0.3**
Overall balance	**2.6**	**1.8**	**-3.0**	**-3.6**	**-1.7**	**-1.5**
Excluding exceptional interest and grants 1/	2.6	1.8	-3.9	-3.6	-1.7	-1.5
Financing	**-2.6**	**-1.8**	**3.0**	**3.6**	**1.7**	**1.5**
Net domestic financing	-2.8	-2.2	2.6	2.1	-0.4	-0.1
Commercial banks	-0.9	-0.9	-0.5	0.8	0.7	0.1
Central bank	-2.0	-1.5	2.6	-0.1	-0.4	0.0
Other domestic private sector 2/	0.2	0.2	0.5	1.5	-0.7	-0.2
Net external financing	**0.1**	**0.4**	**0.3**	**1.4**	**2.1**	1.6
Amortization 3/	-5.2	-0.5	-3.6	-0.5	-0.5	-0.6
Disbursements	1.2	0.9	2.6	1.9	2.6	2.2
Bilateral agencies	0.7	0.6	2.1	1.2	1.3	1.1
Multilateral agencies	0.5	0.3	0.5	0.7	1.3	1.1
Foreign commercial banks	0.0	0.0	0.0	0.0	0.0	0.0
Foreign nonbanks, including trade credit	0.1	0.0	0.0	0.0	0.0	0.0
Exceptional external financing 4/	**4.2**	**...**	**1.4**	**...**	**...**	**...**
Memorandum items:						
Primary expenditure	27.4	25.0	30.5	28.8	26.3	24.7
Non-mineral balance	-5.8	-7.4	-11.9	-10.8	-10.4	-9.3
Non-mineral primary balance	-4.3	-6.8	-10.5	-9.9	-9.2	-8.1
Mineral revenue	8.4	9.3	8.9	7.3	8.7	7.8
Public debt 5/	21.2	18.0	18.5	21.6	20.0	18.6

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

1/ In 2009, excludes payment of accumulated interest and receipt of Dutch grants in connection with the clea of the Brazilian debt.

2/ Assumes SRD100 million arrears accumulation in 2010.

3/ In 2009, includes repayment of debt, arrears and penalties on the Brazilian debt.

4/ Debt cancellation.

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

Table 3. Suriname: Balance of Payments

(In millions of U.S. dollars)

				Est.	Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current account	**259**	**295**	**-35**	**36**	**16**	**-10**	**-146**	**-321**	**0**	**7**
Trade balance	336	434	107	355	489	438	332	207	734	1,058
Exports, f.o.b.	1,381	1,738	1,521	2,034	2,474	2,462	2,551	2,778	3,125	3,627
Of which : alumina, gold, and petroleum	1,305	1,647	1,432	1,932	2,344	2,336	2,430	2,660	3,010	3,511
Imports, f.o.b.	-1,045	-1,304	-1,414	-1,679	-1,984	-2,024	-2,220	-2,571	-2,391	-2,569
Services, net	-65	-123	-132	-158	-202	-222	-252	-288	-314	-334
Exports	253	284	287	299	315	326	338	351	364	379
Imports	-318	-407	-419	-457	-517	-548	-590	-639	-679	-713
Income, net	-91	-106	-104	-250	-365	-322	-326	-345	-528	-830
Private sector	-75	-101	-81	-244	-355	-305	-305	-321	-502	-802
Public sector	-16	-5	-23	-6	-10	-18	-21	-24	-26	-28
Of which : NFPS interest	-16	-5	-23	-6	-10	-18	-21	-24	-26	-28
Current transfers, net	77	91	94	89	94	97	101	105	109	113
Capital and financial account	**55**	**81**	**67**	**25**	**164**	**113**	**414**	**667**	**229**	**119**
Capital account (public sector grants)	**170**	**73**	**175**	**86**	**65**	**19**	**7**	**7**	**7**	**7**
Of which: debt relief	101	...	46	...	...	...	...	...	...	...
Financial account	**-114**	**8**	**-108**	**-61**	**100**	**94**	**407**	**660**	**223**	**112**
Public sector	-98	12	92	53	80	71	66	64	46	46
Disbursements	29	27	84	70	100	100	100	100	80	80
Amortization	-127	-15	-117	-17	-20	-29	-34	-36	-34	-34
SDR allocations	0	0	125	0	0	0	0	0	0	0
Private sector	-16	-4	-199	-114	20	23	342	596	177	66
Foreign direct investment	141	169	62	57	183	253	527	715	187	67
Other	-158	-174	-261	-171	-163	-230	-185	-119	-10	-1
Errors and omissions	**-145**	**-143**	**66**	**-39**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**169**	**232**	**97**	**22**	**181**	**103**	**268**	**346**	**230**	**126**
Change in reserves (- = increase)	**-169**	**-232**	**-97**	**-22**	**-181**	**-103**	**-268**	**-346**	**-230**	**-126**
Memorandum items:										
Stock of gross international reserves 1/	433	666	763	785	966	1,069	1,337	1,683	1,913	2,038
In months of imports of goods and services	3.8	4.7	5.0	4.4	4.6	5.0	5.7	6.3	7.5	7.5
Current account balance (in percent of GDP)	10.7	9.6	-1.1	1.0	0.4	-0.2	-2.8	-5.5	0.0	0.1
GDP in current US dollars	2,419	3,065	3,252	3,682	3,889	4,565	5,144	5,824	6,461	7,151

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

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

Table 4. Suriname: Summary Accounts of the Banking System

					Projections	
	2007	2008	2009	2010	2011	2012
(In millions of Surinamese dollars)						
Net foreign assets	**2,134**	**2,679**	**2,979**	**3,074**	**4,166**	**4,607**
Net international reserves	1,190	1,827	2,093	2,155	3,187	3,528
Net other foreign assets	944	851	886	919	979	1,079
Net domestic assets	**1,408**	**1,296**	**2,036**	**2,513**	**2,738**	**3,534**
Net claims on the public sector	-158	-757	-266	-54	-207	-93
Central government (net)	154	-49	139	208	248	268
Rest of the public sector (net)	-312	-708	-405	-262	-455	-361
Credit to the private sector	1,701	2,319	2,608	2,884	3,375	3,962
Net unclassified assets	94	9	-30	-53	-167	-70
Official capital and surplus	-229	-274	-275	-264	-264	-264
Liabilities to the private sector	**3,542**	**3,975**	**5,015**	**5,588**	**6,903**	**8,141**
Broad money	3,279	3,650	4,635	5,137	6,331	7,470
Monetary liabilities	1,083	1,243	1,588	1,839	2,334	2,740
Currency in circulation	408	464	568	669	850	997
Demand deposits	675	779	1,019	1,169	1,485	1,743
Quasi-money (including gold certificates)	612	698	905	1,048	1,312	1,577
Foreign currency deposits	1,583	1,709	2,143	2,251	2,686	3,153
Other liabilities	263	325	380	451	572	671
(Percent changes, unless indicated otherwise)						
Liabilities to the private sector	29.7	12.2	26.2	11.4	23.5	17.9
Broad money	30.4	11.3	27.0	10.8	23.2	18.0
Money	27.0	14.8	27.7	15.8	26.9	17.4
Quasi-money	37.4	14.0	29.6	15.8	25.2	20.2
Foreign currency deposits	30.2	8.0	25.4	5.0	19.3	17.4
Credit to the private sector	37.4	36.3	12.5	10.6	17.0	17.4
In percent of GDP	25.6	27.6	29.2	28.5	26.3	26.3
In percent of beginning of period M2	67.7	70.7	71.4	62.2	65.7	62.6
Change in net credit to the public sector (% of beginning of period M2)	-10.5	-18.3	13.4	4.6	-3.0	1.8
Broad money (percent of GDP)	49.4	43.4	51.9	50.8	49.3	49.6
Memorandum items:						
Deposit dollarization ratio (percent) 1/	55.2	53.6	52.7	50.4	…	…
Credit dollarization ratio (percent) 2/	51.5	46.6	41.3	36.8	…	…
Domestic currency interest rate spread (percentage per annum)	6.6	6.4	6.4	6.0	…	…
Lending rate (nominal, end of period)	12.9	12.7	12.7	12.3	…	…
Deposit rate (nominal, end of period)	6.3	6.3	6.3	6.3	…	…
Lending rate (real)	4.2	3.1	16.3	12.3	…	…
Deposit rate (real)	-1.9	-2.8	9.7	6.3	…	…
Foreign currency (US$) interest rate spread (percentage per annum)	6.6	6.5	6.5	6.6	…	…
Lending rate	9.7	9.6	9.6	9.6	…	…
Deposit rate	3.1	3.1	3.1	3.0	…	…
Reserve requirement for domestic deposits (percent) 3/	25.0	25.0	25.0	25.0	25.0	…
Effective reserve requirement for domestic deposits (percent) 4/	14.7	14.4	16.5	16.5	…	…
Reserve requirement for foreign currency deposits (percent) 4/	33.3	33.3	33.3	33.3	40.0	…

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

1/ Foreign currency deposits in percent of total commercial bank deposits.
2/ Foreign currency credit in percent of total private sector credit by commercial banks.
3/ Excludes commercial bank use of required reserves for mortgage lending.
4/ 2011 data up to end-March.

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

	2006	2007	2008	2009	2010
Number 2/					
Banks	8	8	8	8	9
Large banks	3	3	3	3	3
Small banks	5	5	5	5	6
Reporting non-bank financial institutions					
Pension funds	18	18	18	26	…
Insurance companies	12	10	10	11	…
Credit unions and cooperatives	10	5	6	5	…
(In percent of total)					
Assets	100.0	100.0	100.0	100	100
Banks	71.1	72.7	73.5	74.9	…
Large banks	59.5	60.7	60.7	61.8	…
Small banks	11.6	12.0	12.8	13.1	…
Pension funds	18.1	16.6	14.4	15	…
Insurance companies	8.7	8.5	9.7	7.7	…
Credit unions and cooperatives	2.1	2.2	2.4	2.4	…
Deposits					
Banks	100.0	100.0	100.0	100.0	100.0
Large banks	78.2	77.3	76.5	76.6	70.6
Small banks	21.8	22.7	23.5	23.4	29.4
(In percent)					
Capital adequacy					
Regulatory capital to risk-weighted assets (*)	11.7	10.5	10.1	10.8	12.2
Regulatory Tier I capital to risk-weighted assets (*)	9.7	8.9	8.7	9.5	10.8
Capital (net worth) to assets	5.5	5.3	5.6	5.6	6.2
Asset composition					
Sectoral distribution of loans to total loans (*)					
Agriculture	4.8	3.7	4.2	4.3	4.3
Manufacturing	9.1	8.6	7.9	7.8	7.7
Commerce	30.9	29.1	26.9	26.2	23.9
Housing construction	15.0	16.5	17.5	18.2	17.9
Other	40.2	42.1	43.5	43.5	46.2
Asset quality					
Foreign currency loans to total loans	52.5	49.6	45.8	41.2	37.1
NPLs to gross loans (*)	11.9	8.7	7.9	7.9	7.9
NPLs net of provisions to capital (*)	65.1	47.2	49.8	50.1	44.6
Large exposures to capital (*)	80.7	110.0	104.5	105.1	98.1
Earnings and profitability					
ROA (*)	3.1	3.1	2.8	2.5	2.2
ROE (*)	44.2	56.1	52.7	45.3	36.9
Interest margin to gross income (*)	73.5	70.2	72.9	69.4	73.3
Noninterest expenses to gross income (*)	61.6	55.7	56.2	57.4	58.3
Personnel expenses to noninterest expenses	59.2	61.2	59.8	59.2	59.9
Trading and fee income to total income	32.2	30.8	28.1	31.9	28.8
Spread between reference loan and deposit rates	10.8	8.4	8.1	8.0	8.2
Liquidity					
Liquid assets to total assets (*)	32.1	33.9	32.6	29.8	29.2
Liquid assets to total short-term liabilities (*)	54.9	58.0	58.4	52.9	54.4
FX liabilities to total liabilities	50.7	51.4	49.6	50.3	47.0
Net position in foreign currency to capital 3/	46.0	58.7	39.0	28.7	19.2

Source: Central Bank of Suriname.

(*) Included in the "core set" of financial soundness indicators identified by the IMF's Executive Board.
1/ Indicators refer to banks, which comprise over 70 percent of financial system assets at end-2008.
2/ The three largest banks hold more than 57 percent of total financial system assets.
3/ Net position in foreign currency (total assets minus total liabilities) as a proportion of banks' shares and other equity.

APPENDIX I. THE INFLATION IMPACT OF THE RECENT AND FORTHCOMING MEASURES

On January 20, the Suriname authorities devalued the official exchange rate against the U.S. dollar by 20 percent and raised retail fuel prices by about 40 percent. The government has also introduced a number of additional measures in the National Assembly. This note estimates the potential impact of these measures on inflation. It should be noted that most computations do not include second-round effects.

Summary Table (In percent)	
Measures	Impact on Inflation
Increase in retail fuel prices of 40 percent	5.0
Motor vehicle tax (full implementation)	4.5
Increase in sales tax on goods of 2 percent	1.1
Exchange rate devaluation of 20 percent	1.4
Increase in sales tax on services of 2 percent	0.2
New sales tax on water, energy, and gas of 12 percent	0.9
Higher sales and excise taxes on alcohol and tobacco	0.7

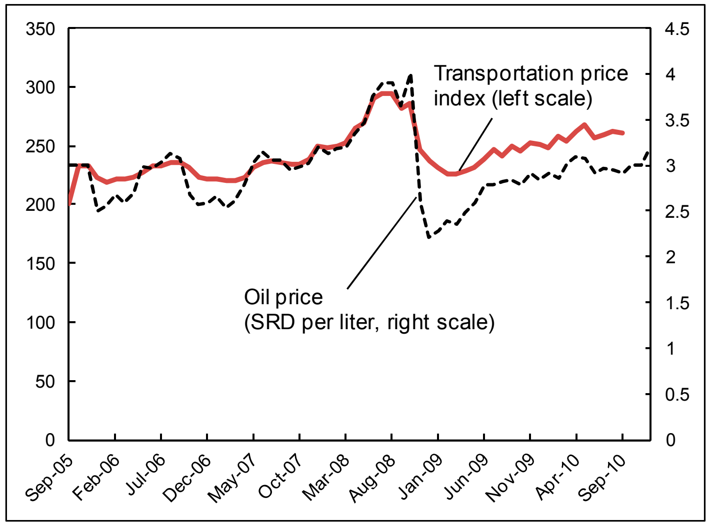
Impact of the devaluation

The devaluation leads to higher customs duty and sales tax collections on imports, and subsequently higher prices for imported goods. The most affected items in the CPI are (with weights in brackets): “Food and Non Alcoholic Beverages” (40 percent); “Alcoholic Beverages and Tobacco” (2.9 percent); “Clothing & Footwear” (3.6 percent); “Household Goods Furnishings” (4.8 percent); and “Miscellaneous Goods and Services” (10.7 percent). Assuming that half of the “Miscellaneous Goods and Services” category is composed of goods, the total weight of these sub-indices is 56.3 percent. The 20 percent devaluation in January 2011 is estimated to push up custom duties and sales taxes on imported consumer goods by 20 percent, the prices of imported consumer goods by 5 percent, and CPI index as a whole by 1.4 percent. [1]

[1] The computations assume that: (i) half of the goods are imported; (ii) the effective tariff on imports for domestic consumption averages 20 percent; and (3) the price pass-through is around 100 percent (previous staff estimates suggest a 90 percent pass-through within three months).

Increase in retail fuel prices

The January 2011 fuel price increase of about 40 percent incorporates the devaluation as well as the increase of about 70 percent in the government fuel tax. The transportation sub-index of the CPI basket would be directly affected.[2] The current weight of the transportation sub-index is about 12 percent. Previous episodes of increases in the retail of gasoline suggest that a 40 percent fuel price increase would translate into a 4.2 percentage increase in overall inflation. To capture the second-round effects, we conducted a vector auto-regression (VAR) analysis using the retail price for gasoline, the transportation sub-index, and the total CPI. The results suggest that a 40 percent increase in fuel prices would lead to an increase of about 5 percent in the overall CPI within three months.



Motor vehicle tax

When fully implemented, the reintroduction of the motor vehicle tax is projected to bring in SRD 240 million in revenue. There are about 115,000 vehicles currently registered in Suriname. Assuming that 100,000 of them are operational and will be subject to the motor vehicle tax, the average annual tax per vehicle is estimated at SRD 2,400. We simulate the inflation impact by comparing it to the effect of the fuel tax increase on the cost of transportation. Assuming average fuel consumption per car per year of 2,000 liters, the higher fuel prices will increase the annual costs to car owners by SRD 2,640, or slightly higher than the effect of the motor vehicle tax, when fully implemented. Thus, we estimate the impact on inflation of the motor vehicle tax at about 4.5 percent.

Two percentage points increase in sales tax on goods and services

As discussed above, 56.3 percent of the CPI basket will be affected directly by the increase in the sales tax on goods. The size of the price pass-through will mostly depend on the pricing power of businesses. If the economy is weak and the market structure is highly competitive, then businesses may have to absorb more of the tax increases themselves. Assuming a

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[2] Higher fuel prices will also push up the cost of electricity generation of the state electricity company, but the electricity tariff is controlled by the government.

complete price pass-through, a sales tax increase of 2 percentage points would lead to a 1.1 percent increase in overall inflation.

Services in the CPI basket that are likely be affected include "Recreation, Education, and Culture" (weight: 4.1 percent); "Restaurants" (1.4 percent); and "Miscellaneous Goods and Services" (10.7 percent, assuming half is services). Their total weight in the CPI is 11 percent. Assuming a full price pass-through, an increase in the sales tax rate on services from 8 percent to 10 percent would push up inflation by 0.2 percent.

New sales tax of 12 percent on water, energy, and gas

The sub-index of the CPI basket that would be affected is "Housing and Utilities," which accounts for 14.2 percent of the CPI basket. Assuming that water, energy, and gas account for half of "Housing and Utilities," a new 12 percent sales tax would boost inflation by 0.9 percent.

Higher sales and excise taxes on alcoholic beverages and tobacco

The weight of alcoholic beverages and tobacco in the CPI basket is 2.9 percent. We assume the weight is 2 percent excluding beer, for which there is no tax increase. Staff estimates that a combined increase of the sales and excise taxes, combined with the devaluation would push up the price of alcoholic beverages and tobacco by about 21 and 44 percent, respectively, and overall inflation by 0.7 percent.[3]

Revenue gains versus inflation impacts

The table below summarizes the revenue gains and inflation costs of each revenue measure. The inflation costs for some of the measures are smaller than reported above because they are stripped of the devaluation effects (e.g., on higher fuel prices).

Fiscal measures	Inflation impact (in percent)	Revenue gains/2011 GDP (in percent)	Revenue gains/ Inflation impact
Higher sales and excise tax on alcohol and tobacco	0.7	0.5	0.70
Reintroducing car tax (SRD240 million)	4.5	1.9	0.42
75 percent increase in fuel tax	2.7	1.1	0.42
2 percent increase on sales tax on goods and services	1.3	0.4	0.29
12 percent new sales tax on water, energy, and gas	0.9	0.1	0.13

[3] We assume that most tobacco and non-beer alcoholic beverages are imported, and that tobacco accounts for about two-thirds of the sub-index.

APPENDIX II. ILLUSTRATIVE MEDIUM-TERM PROJECTIONS AND DEBT SUSTAINABILITY ANALYSES (DSAS)

Staff conducted fiscal and external sector debt sustainability analyses, based on a plausible medium-term outlook that was discussed with the authorities.

A. Government Finances

Key assumptions

Revenue (as percentage of GDP) is projected to remain broadly stable over the next three years, and increase gradually thereafter, as new mining projects come on stream. Revenue from the state oil company will be higher after the completion of its new refinery. Revenue collections will be further boosted by the implementation of a VAT regime and the government's expected minority participation in new mining sector projects. Grants, however, will decline substantially, as the Netherlands Treaty Funds run out in 2012.

The fiscal balance is expected to steadily improve as a result of sustained fiscal consolidation efforts. Public sector wage bill is assumed to grow only moderately over the medium term, as the growth of the annual nominal wage is capped at about ten percent. Spending on subsidies and transfers and especially on goods and services will also be brought under control. The improvement in revenue collections and the contracting of concessional external financing will support capital expenditure at a sustainable level of 5¼ percent of GDP. The overall fiscal deficit is projected to gradually decline to 1.2 percent of GDP in 2013. Thereafter, and once higher mineral revenues kick in, the fiscal balance is expected to improve rapidly and turn positive in 2015. As a result of improvements in structure of public finances (e.g., higher consumption taxes, lower current spending, etc.) the non-mineral balance is projected to improve by 4 percentage point of GDP over the medium term.

The DSA assumes the continuation of prudent management of Suriname's public debt. In particular, external debt is assumed to be contracted at favorable terms and in line with the country's implementation capacity.

Assessment of the fiscal DSA

Suriname's public debt distress is low. Public debt is expected to improve moderately over the medium term, underpinned by robust growth, a stronger fiscal stance, and prudent debt management. While the debt burden is sensitive to standard shocks, even under various distress scenarios, the debt-to-GDP ratio is likely to remain relatively low, at just over 20 percent.

B. Balance of Payments

Key assumptions

The medium-term outlook is based on the assumption of a broad continuation of present policies, amid a sizable increase in output beginning in 2014, as major new projects in the non-renewable resources sector come on line. The main assumptions are the following:

- Medium-term potential output is estimated to be near 5 percent. The economy will be growing above this rate in the medium term as major capital investments are made in the mineral sector and infrastructure. Once these investments are completed, higher production in all three sectors—gold, alumina and petroleum—will spur growth rates above their present level, reflecting an increase in potential output growth.

- The authorities will be successful in their efforts to contain current inflationary pressures, and inflation will converge towards 5 percent over the medium term.

- The increase in imports of capital and intermediate inputs related to the large investment projects will keep the external current account in deficit through 2014 and remain close to balance for a few years thereafter. However, the country's reserves will continue to strengthen, as large FDI-related capital account surpluses more than offset the current account shortfalls. Accordingly, the reserve coverage will increase from about 4½ months of imports at end-2010 to 7½ months of imports by the end of the projection period.

Assessment of the External DSA

The path of the external debt remains relatively flat throughout the projection period, at 8.6 percent of GDP in 2011, peaking at 10.6 percent in 2014 and falling to 9.3 percent by 2016. While the level of external debt will remain very low, its share within total public debt will increase over time—reaching about 70 percent of total debt by 2016. The external debt ratio is particularly sensitive to a non-interest current account shock, given the increasing current account deficit and financing needs associated with the investments in the non-renewable resource sector. Should the external current account balance be weaker than assumed, the external debt would reach 42 percent at the end of the projection period. On the other hand, a real depreciation shock would only raise external debt to 14 percent of GDP by 2014.

Appendix II. Table 1. Suriname: Medium-Term Outlook

		Est.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016
(Annual percentage change, unless otherwise indicated)								
Real economy								
Real GDP 1/	3.1	4.4	5.0	5.0	5.5	7.7	5.6	5.4
Nominal GDP 1/	6.1	13.2	26.9	17.4	12.7	13.2	10.9	10.7
Consumer prices (period average)	-0.1	6.9	17.9	10.4	5.5	4.0	4.0	4.0
(In percent of GDP)								
Savings and investment balances								
Private sector balance (savings-investment)	0.9	4.6	2.1	1.3	-1.6	-5.4	-0.4	-0.5
Public sector balance	-2.0	-3.6	-1.7	-1.5	-1.2	-0.1	0.4	0.6
Savings	4.8	2.2	3.6	3.8	4.0	5.2	5.6	5.8
Investment	6.8	5.8	5.3	5.2	5.2	5.2	5.2	5.2
Foreign savings	1.1	-1.0	-0.4	0.2	2.8	5.5	0.0	-0.1
Central government								
Revenue and grants	29.9	26.2	25.8	24.4	23.9	24.8	25.2	25.2
Total expenditure 2/	32.9	29.7	27.5	25.9	25.1	24.9	24.8	24.7
Of which : noninterest current expenditure	23.7	22.9	21.0	19.5	18.8	18.6	18.6	18.6
Overall balance	-3.0	-3.6	-1.7	-1.5	-1.2	-0.1	0.4	0.6
Non-mineral balance	-11.9	-10.8	-10.4	-9.3	-8.6	-8.0	-7.3	-6.8
Net domestic financing	2.6	2.1	-0.4	-0.1	0.2	-1.0	-1.1	-1.2
Net external financing	0.3	1.4	2.1	1.6	1.3	1.1	0.7	0.6
Total public debt	18.5	21.6	20.0	18.6	18.6	17.1	15.5	13.8
(In percent of GDP, unless otherwise indicated)								
External sector								
Current account	-1.1	1.0	0.4	-0.2	-2.8	-5.5	0.0	0.1
Merchandise exports, f.o.b.	46.8	55.2	63.6	53.9	49.6	47.7	48.4	50.7
Merchandise imports, f.o.b.	-43.5	-45.6	-51.0	-44.3	-43.2	-44.1	-37.0	-35.9
Capital and financial account	-6.2	-3.3	-3.4	-4.3	0.6	-2.8	-0.8	-1.6
Of which : foreign direct investment	1.9	1.5	4.7	5.5	10.2	12.3	2.9	0.9
Gross international reserves (US$ millions)	763	785	966	1,069	1,337	1,683	1,913	2,038
in months of imports	5.0	4.4	4.6	5.0	5.7	6.3	7.5	7.5

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

1/ GDP numbers include estimates of the informal sector.

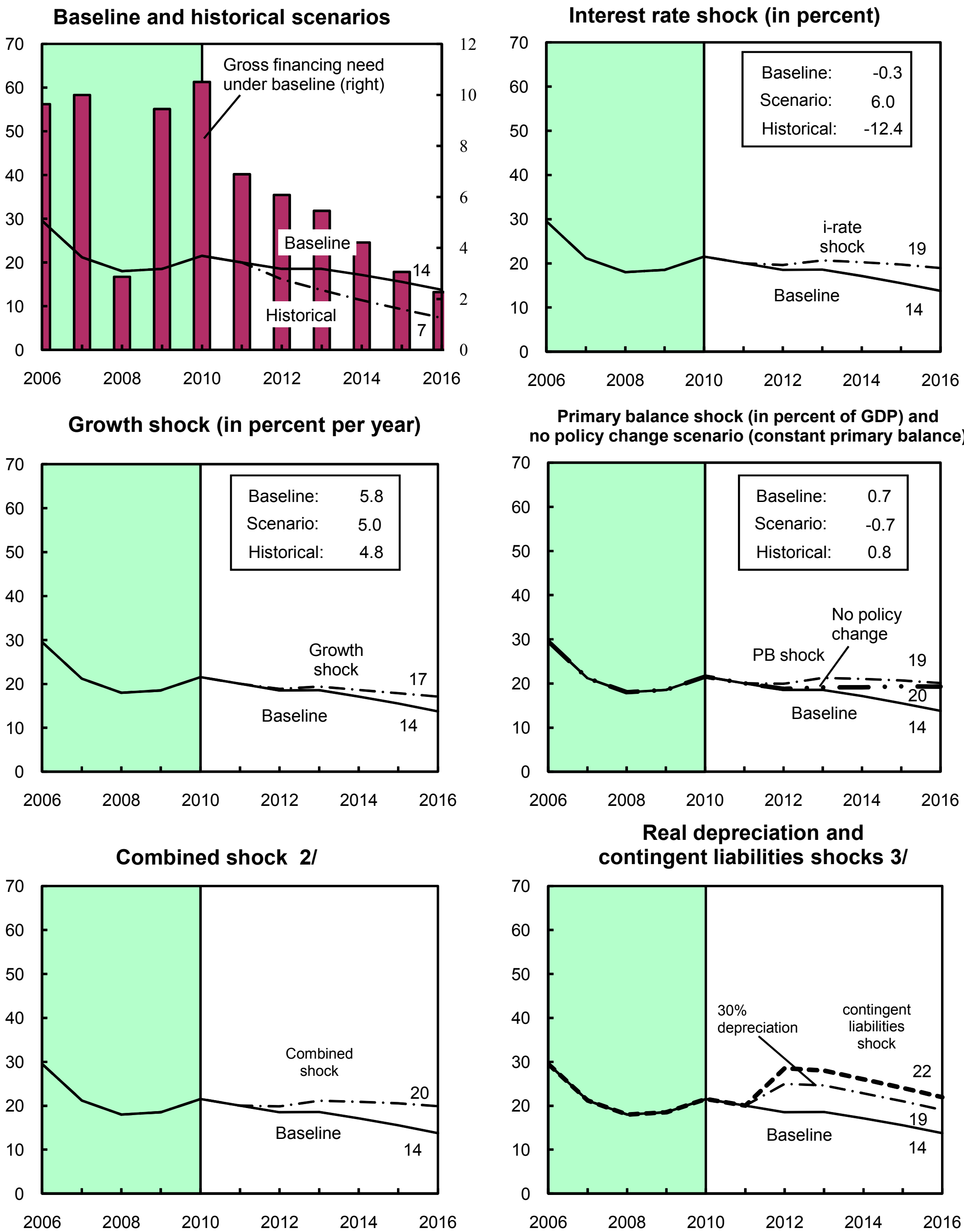
2/ Including statistical discrepancy.

Appendix II. Table 2. Suriname: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	29.5	21.2	18.0	18.5	21.6	**20.0**	**18.6**	**18.6**	**17.1**	**15.5**	**13.8**	**-0.6**
o/w foreign-currency denominated	18.3	12.4	10.4	8.3	8.7	10.3	10.3	10.5	10.3	10.0	9.7	
Change in public sector debt	-6.5	-8.3	-3.2	0.5	3.0	-1.5	-1.5	0.0	-1.4	-1.6	-1.8	
Identified debt-creating flows (4+7+12)	-6.5	-5.2	-6.3	0.9	1.4	-2.9	-1.5	-1.5	-2.6	-2.4	-2.1	
Primary deficit	-2.5	-3.2	-2.5	0.6	2.6	0.5	0.3	0.1	-1.0	-1.4	-1.4	
Revenue and grants	27.4	30.6	27.5	29.9	26.2	25.8	24.4	23.9	24.8	25.2	25.2	
Primary (noninterest) expenditure	24.8	27.4	25.0	30.5	28.8	26.3	24.7	24.0	23.8	23.8	23.8	
Automatic debt dynamics 2/	-4.0	-2.0	-3.8	0.3	-1.2	-3.4	-1.8	-1.0	-1.1	-0.7	-0.6	
Contribution from interest rate/growth differential 3/	-4.0	-2.0	-3.8	0.3	-1.2	-3.4	-1.8	-1.0	-1.1	-0.7	-0.6	
Of which contribution from real interest rate	-2.9	-0.7	-3.0	0.8	-0.4	-2.5	-1.0	-0.1	0.2	0.1	0.1	
Of which contribution from real GDP growth	-1.1	-1.3	-0.8	-0.5	-0.7	-0.9	-0.9	-0.9	-1.3	-0.9	-0.8	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.5	-0.3	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.6	-0.5	-0.3	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	0.0	-3.2	3.1	-0.4	1.6	1.4	0.0	1.5	1.2	0.9	0.3	
Public sector debt-to-revenue ratio 1/	107.9	69.3	65.6	61.9	82.4	77.7	76.1	77.7	69.0	61.6	54.6	
Gross financing need 6/	9.6	10.0	2.9	9.4	10.5	6.9	6.1	5.5	4.2	3.1	2.3	
in billions of U.S. dollars	205.6	242.0	88.0	307.0	387.0	267.9	277.3	280.9	245.1	197.9	162.2	
Scenario with key variables at their historical averages 7/						**20.0**	**16.2**	**13.7**	**11.4**	**9.3**	**7.3**	**-1.2**
Scenario with no policy change (constant primary balance) in 2011-2016						**20.0**	**18.8**	**19.1**	**19.1**	**19.3**	**19.3**	**-0.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	3.8	5.1	4.7	3.1	4.4	5.0	5.0	5.5	7.7	5.6	5.4	
Average nominal interest rate on public debt (in percent) 8/	6.0	5.8	3.9	8.0	6.1	7.0	6.7	6.5	6.5	6.3	6.1	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-9.0	-2.2	-17.1	5.1	-2.4	-13.9	-5.1	-0.3	1.3	1.2	1.1	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-0.2	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	15.0	8.0	21.0	2.9	8.4	20.9	11.8	6.8	5.2	5.1	5.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	-6.4	16.0	-4.5	25.8	-1.7	-4.1	-1.3	2.5	6.8	5.5	5.4	
Primary deficit	-2.5	-3.2	-2.5	0.6	2.6	0.5	0.3	0.1	-1.0	-1.4	-1.4	

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 $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = 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 $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Apendix II. Figure 1. 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 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Appendix II. Table 3. Suriname: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2006	2007	2008	2009	2010			2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	25.6	21.4	18.3	12.2	10.3			**8.6**	**10.0**	**10.3**	**10.6**	**10.0**	**9.3**	**-4.0**
Change in external debt	-4.6	-4.2	-3.1	-6.0	-1.9			-1.7	1.4	0.3	0.3	-0.6	-0.7	
Identified external debt-creating flows (4+8+9)	-0.6	2.3	-17.4	-15.6	-12.0			-3.1	-1.1	-3.6	-4.2	-10.7	-10.6	
Current account deficit, excluding interest payments	7.9	16.2	-9.9	-13.6	-4.7			0.5	4.9	3.5	2.3	-5.7	-7.0	
Deficit in balance of goods and services	3.4	9.5	-12.4	-8.0	-4.0			1.3	4.2	2.6	1.3	-7.3	-8.7	
Exports	61.8	59.2	67.6	67.4	66.2			59.4	60.2	58.2	56.0	58.4	57.9	
Imports	65.2	68.7	55.2	59.4	62.2			60.7	64.4	60.8	57.3	51.1	49.2	
Net non-debt creating capital inflows (negative)	-6.1	-6.6	-6.5	-5.8	-5.5			-4.8	-6.6	-7.6	-7.0	-5.3	-4.1	
Automatic debt dynamics 1/	-2.4	-7.4	-1.0	3.9	-1.7			1.2	0.6	0.5	0.4	0.3	0.5	
Contribution from nominal interest rate	2.3	-3.2	2.4	6.1	0.8			1.4	0.9	0.9	0.9	1.0	1.1	
Contribution from real GDP growth	-2.2	-0.9	-0.7	-0.8	-0.6			-0.3	-0.3	-0.4	-0.5	-0.7	-0.5	
Contribution from price and exchange rate changes 2/	-2.5	-3.3	-2.7	-1.4	-2.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-4.0	-6.5	14.3	9.6	10.1			1.3	2.5	3.9	4.5	10.0	9.9	
External debt-to-exports ratio (in percent)	41.4	36.1	27.0	18.1	15.6			14.4	16.6	17.7	18.9	17.1	16.1	
Gross external financing need (in billions of US dollars) 4/	0.2	0.3	-0.1	0.0	-0.1			0.2	0.2	0.2	0.1	-0.2	-0.3	
in percent of GDP	11.8	14.8	-5.6	-2.0	-3.4			5.9	6.5	5.0	3.8	-4.1	-5.2	
Scenario with key variables at their historical averages 5/						10-Year Historical Average	10-Year Standard Deviation	**8.6**	**11.1**	**15.3**	**19.8**	**29.4**	**38.8**	**-4.1**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	8.5	4.4	3.8	5.2	6.0	4.0	2.9	2.5	4.0	4.7	5.5	7.5	6.0	
GDP deflator in US dollars (change in percent)	9.1	14.6	14.7	8.2	19.0	8.5	20.9	-5.5	2.2	7.0	5.0	4.5	4.5	
Nominal external interest rate (in percent)	8.9	-14.8	13.2	37.9	8.2	13.8	17.1	13.5	11.5	10.6	9.8	10.6	12.0	
Growth of exports (US dollar terms, in percent)	52.5	14.6	36.0	13.6	23.8	16.8	19.6	-13.1	7.8	8.4	6.6	17.1	9.9	
Growth of imports (US dollar terms, in percent)	13.2	26.1	-4.4	22.6	32.0	10.9	17.3	-5.5	12.8	5.8	4.4	0.1	6.8	
Current account balance, excluding interest payments	-7.9	-16.2	9.9	13.6	4.7	-4.3	13.1	-0.5	-4.9	-3.5	-2.3	5.7	7.0	
Net non-debt creating capital inflows	6.1	6.6	6.5	5.8	5.5	4.4	1.9	4.8	6.6	7.6	7.0	5.3	4.1	

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

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

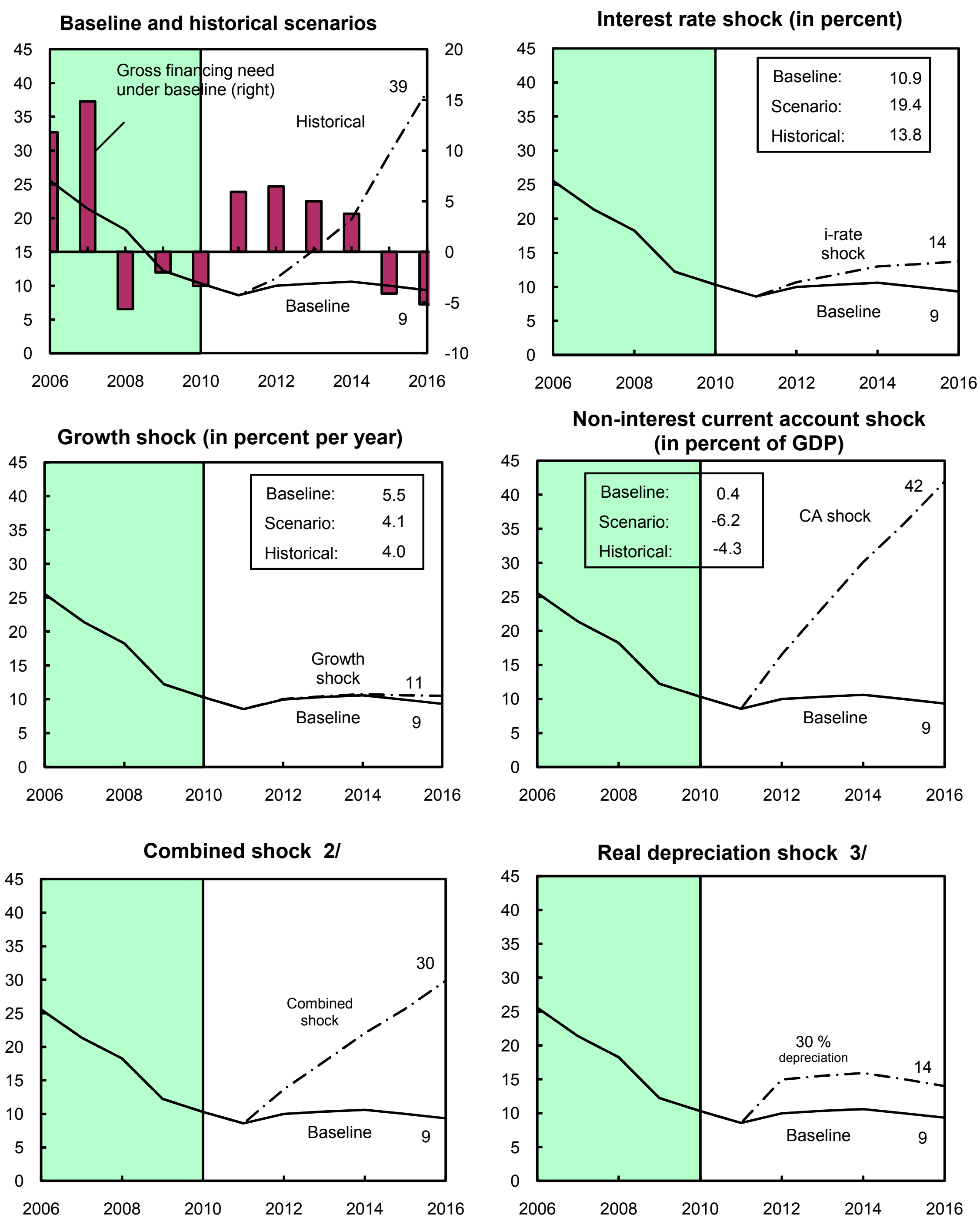
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

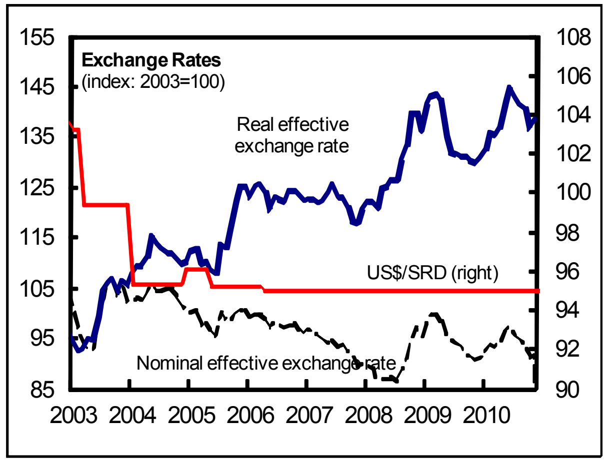
Appendix II. Figure 2. Suriname: External Debt Sustainability: Bound Tests 1/
(External debt, in percent of GDP)



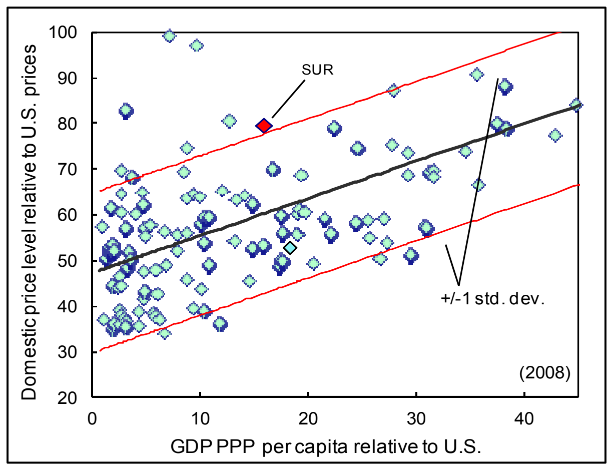
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. 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 2010.

APPENDIX III. ASSESSMENT OF THE EQUILIBRIUM REAL EXCHANGE RATE AND CURRENT ACCOUNT

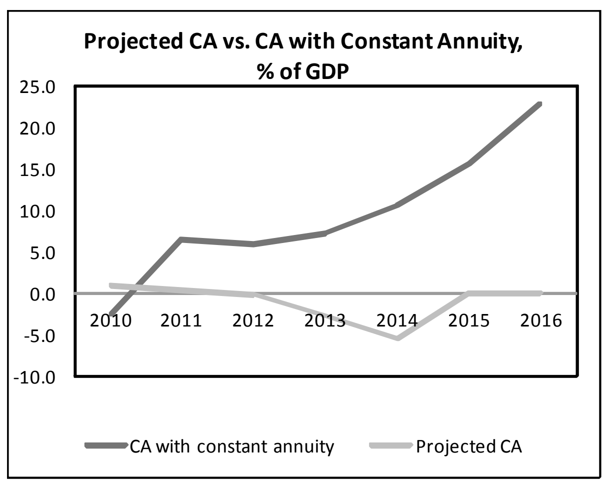
The January 2011 devaluation took place in the context of an overvaluation of the Surinamese dollar, also reflected in the parallel market. The real effective exchange rate (REER) appreciated markedly in 2008. While the lower inflation in 2009 reversed this appreciation somewhat, the REER rose again with the pick-up in domestic inflation in 2010.



Suriname's lack of sufficiently long data series precludes an analysis of the equilibrium exchange rate based on a single-country model of the real equilibrium exchange rate. Using CGER's estimates to implement the macro balance approach would be unsuitable, as these are primarily based on a sample of non-mineral producers. Therefore, two other methodologies are applied.



First, PPP estimates (based on 2008 data) point to a noticeable overvaluation of the currency. A comparison with 156 countries covering all regions and income levels suggests that the pre-devaluation exchange rate was 16 percent above its expected. This represents a worsening of the 10 percent overvaluation estimated in the last Article IV consultation that was based on 2007 data.



Second, balance of payment pressures from growing mineral exports will put pressures toward appreciation on the Surinamese in the medium and long term. In light of its dependence on mineral exports, Suriname may wish to increase and save its external current account (CA) surplus in the coming years. In order to use the present value of mineral exports to provide a constant real annuity in perpetuity, Suriname would need to increase its CA surplus beyond projected levels so as to build up a large enough stock of NFA. By accumulating the NFA, the authorities would counter the upward pressure on the currency that would otherwise arise in the foreign exchange market. This exercise is merely illustrative, and it assumes that the totality of Suriname's mineral wealth would be invested abroad. Nonetheless, this analysis suggests that the recent devaluation was a step in the right direction towards generating the necessary savings in the form of medium-term current account surpluses, in line with a sustainable equilibrium exchange rate.

INTERNATIONAL MONETARY FUND

SURINAME

Staff Report for the 2011 Article IV Consultation
Informational Annex

Prepared by the Western Hemisphere Department

April 15, 2011

Contents Page

I. Fund Relations 2

II. Relations with the Inter-American Development Bank..4

III. Relations with the World Bank Group..6

IV. Statistical Issues 7

APPENDIX I. SURINAME—FUND RELATIONS
(As of February 28, 2011)

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	88.09	100.00
Holdings	80.64	91.54

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				
	2011	2012	2013	2014	2015
Principal					
Charges/Interest	0.02	0.03	0.03	0.03	0.03
Total	0.02	0.03	0.03	0.03	0.03

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

Nonfinancial Relations with the Authorities

Exchange rate arrangements

The national currency is the Surinamese dollar (SRD), which replaced the Surinamese guilder in January 2004 at a conversion rate of 1,000 guilders per SRD. On January 20, 2011, the authorities devalued the currency by 20 percent vis-à-vis the U.S. dollar in the official market. With the devaluation, the authorities set a band of SRD 3.25–3.35 per US dollar, within which all official and commercial market transactions are allowed to take place. The de facto exchange rate arrangement is classified as "stabilized." In conjunction with the devaluation, the authorities also did away with an existing multiple currency practice (MCP), in the form of a special exchange rate for imports of infant formula. Suriname maintains MCPs arising from the spread of more than 2 percent between the buying and the selling rates in the official market for government transactions and also from the possible spread of more than 2 percent between these official rates for government transactions and those in the commercial markets that can take place within the established band.

Last Article IV consultation

The last Article IV consultation was concluded by the Executive Board on February 3, 2010 (IMF Country Report No. 10/44). 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 2006

CARTAC

- Mission in January 2008 on revenue forecasting issues.
- Mission in October 2009 to discuss tax reform and other TA needs.
- Mission in September 2010 and February 2011 on VAT implementation.
- Mission in October 2010 and January 2011 on national accounts.

FAD

- A joint IADB-IMF needs assessment mission in May 2007 provided assistance in public financial management.
- Mission in November 2010 on tax policy.
- Mission in February 2011 on revenue administration assessment.

LEG

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

MCM

- Missions in November 2010 on foreign exchange market.
- Mission in March 2011 on banking system assessment

STA:

- In August 2009, a STA mission visited Suriname to improve external sector data.

Consents and acceptances: The two recent quota increases have been approved by the Suriname authorities.

Resident Representative: None.

APPENDIX II. SURINAME—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK
(As of March 31, 2011)

In 1980, Suriname joined the Inter-American Development Bank (IADB), which at present is its largest multilateral lender. As of March 2011, Suriname's outstanding debt to the IADB stood at US$67 million, mostly on Intermediate Fund Financing (IFF) terms.

The IADB and Suriname are currently transitioning between two strategy periods and the new Country Strategy, covering 2011–2015, is expected to be approved during the third quarter of this year. The most recent IADB Country Strategy with Suriname 2006–2010 was approved in 2007 and highlighted three equally important pillars: development of the public sector; development of the private sector; and integration of the interior. The new strategy aims to support Suriname in reducing the risk to its macroeconomic outlook by accelerating economic diversification, expanding economic opportunities, enhancing the effectiveness of the public sector, augmenting the role of the private sector in the economy, increasing access to social services, and setting up an adequate framework for ensuring sustainable management of natural resources. In so doing, the IADB will support interventions in: (i) agriculture, (ii) education, (iii) energy, (iv) financial sector (v) natural resources management, (vi) protection and promotion of human capital, (vii) quality of spending and management of results, and (viii) transportation (and integration). Issues related to natural disaster risks, climate change, gender and diversity will be addressed in a cross-cutting manner. The total lending envelope for the period is still being discussed and will include policy-based lending in additional to the traditional investment instrument.

The active loan portfolio consists of 12 operations, totaling US$143 million, a year-on-year increase of 1.4 percent as one new operation (in water) was approved for a total amount of US$12 million. The average age of the loans in the entire portfolio is 3.6 years. However, when four operations (Basic Education Improvement Project, Health Sector Facility, Strengthening of Public Sector Management, and Trade Sector Support Program) exit the portfolio at the end of 2011, the average age will fall considerably. The undisbursed portion of the loan portfolio in execution (US$77.4 million) is entirely from the Ordinary Capital lending window (non-concessional) with IFF subsidy.

The TC portfolio for Suriname comprises of 23 operations (US$10.1 million), of which 46.6 percent has been disbursed. The size of the TC portfolio declined by 17.2 percent since March 31, 2010, on account of the closing of some old operations.

Pipeline and Portfolio Summary

Project Category	Number	Total (US$ millions)	Disbursed (in percent)
Loans in execution	12	143	45.8
TCs in execution	23	10.1	46.6
Loans in pipeline (2011)	5	87	Not applicable

Net cash flow

The total financing inflow has been positive during 2006–08.

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

	2007	2008	2009	2010	2011 (P)
a. Loan disbursements	16.8	7.7	13.5	27.7	63.9
b. Repayments (Principal)	3.5	4.1	5.7	8.2	5.6
c. Net loan flow (a - b)	**13.3**	**3.6**	**7.8**	**19.5**	**58.3**
d. Interest and charges	2.5	2.7	3	2.7	2.7
e. Net cash flow (c - d)	**10.8**	**0.9**	**4.8**	**16.8**	**55.6**

APPENDIX III. SURINAME—RELATIONS WITH THE WORLD BANK GROUP
(As of March 31, 2011)

The World Bank is now in the process of re-engaging with the Surinamese authorities after a 30 years hiatus. World Bank involvement in Suriname has been limited and the last significant activity was a proposal for a hydropower plant in 1980. Currently, at the request of the authorities an Auditing and Accounting Report on the Observance of Standards and Codes (ROSC) is being conducted. An Interim Strategy Note (ISN), which sets out the World Bank Group's support to the government's reform program, is expected to be completed and approved by the Board in September 2011. It has been agreed with the government that initial World Bank support would focus primarily on technical assistance for institutional strengthening and capacity building for the Government and the Central Bank. Targeted investment lending for key sectors such as energy, infrastructure and agriculture, would also be considered.

APPENDIX IV. SURINAME—STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General: Data provided to the Fund has some shortcomings, but they are broadly adequate for surveillance purposes. The authorities are making an effort to improve the quality and dissemination of economic data. In particular, starting in February 2011, key fiscal and monetary data are being published at the central bank's external website.
National accounts: Difficulties in data collection and long delays in the provision of source data affect production-based GDP estimates. The lack of timely, reliable source data on price indices for tourism services, transportation and communication also adversely affects production-based GDP estimates. Component weights of sub-indices within the CPI are not available. The expenditure breakdown of national accounts is still limited, and there is also no reconciliation between the national accounts and the balance of payments, which hampers an accurate evaluation of the savings and investment balance. CARTAC has conducted two national accounts missions in October 2010 and January 2011. The primary purpose of these missions was to provide technical assistance to revise the base year of the GDP from 1990 to 2006. This revision process is expected to improve the coverage and quality of GDP by production. As per the work program, GDP by production for the revised base year series will be released during the third quarter of 2011.
Government finance statistics: Public finance statistics are limited to those for the central government. Estimates for revenue and expenditure components often differ among the Ministry of Finance, the Central Bank of Suriname, and the Central Paymaster data, increasing the uncertainty about the true fiscal position. The existence of domestic payment arrears also adds to the uncertainty. The institutional coverage of fiscal statistics needs to be broadened to the nonfinancial public sector so as to better assess the fiscal risks associated with total public sector debt. The actual number of public enterprises remains difficult to determine, and most of these enterprises do not produce accounts on a timely basis. Available public debt statistics cover only debt contracted or guaranteed by the central government.
Monetary and financial statistics: More recently, the timeliness of monetary and financial statistics has been improved to two weeks for the central bank accounts and two months for the accounts of other depository corporations. The quality of monetary and financial statistics continues to improve, and the reporting to the IMF's Statistics department is regular. The central bank is working with an external consultant to further improve monetary and financial statistics and has started to publish regularly monetary and financial data on its

external website.
External sector: There still remain significant shortcomings in the area of balance of payments statistics, such as weak data collection, under-coverage, misclassification, and deviations from the balance of payments manuals. While trade data are relatively reliable, data on services and private capital inflows are incomplete and suffer from poor compilation systems. Estimates of the components of the financial account (especially private external debt) also need to be improved.

II. Data Standards and Quality	
Suriname participates in the GDDS.	No data ROSC is available.
III. Reporting to STA	
Suriname currently does not report fiscal statistics for inclusion in either *International Financial Statistics*, or the *Government Financial Statistics Yearbook*.	

SURINAME: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of March 31, 2011)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	2/11	3/11	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	1/11	3/11	M	M	Q
Reserve/Base Money	2/11	3/11	M	Monthly Less than 1 month lag	Q
Broad Money	1/11	2/11	M	Monthly 2 month lag	Q
Central Bank Balance Sheet	2/11	3/11	M	Monthly Less than 1 month lag	Q
Consolidated Balance Sheet of the Banking System	1/11	2/11	M	M	Q
Interest Rates[2]	1/11	3/11	M	Monthly 2 month lag	Q
Consumer Price Index	2/11	03/11	M	Monthly Less than 1 month lag	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/10	02/11	M	M	A
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	12/10	02/11	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/10	02/11	M	M	A
External Current Account Balance	Q3/11	02/11	Q	Q	A
Exports and Imports of Goods and Services	Q3/11	02/11	Q	Q	A
GDP/GNP	2009	09/10	A	A	A
Gross External Debt	12/10	02/11	M	M	A
International Investment Position[6]	…	…	NA	NA	NA

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] 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] Includes external gross financial asset and liability positions vis-à-vis nonresidents. The unavailability of international investment position data stems from the authorities' lack of capacity to provide the information.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 11/50
FOR IMMEDIATE RELEASE
May 4, 2011

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

IMF Executive Board Concludes 2011 Article IV Consultation with Suriname

On May 2, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.[1]

Background

In 2010, economic growth is estimated to have picked up to 4.4 percent, from 3 percent in 2009, owing to buoyant activity in the mineral sector. Inflation rose from 1.3 percent at end-2009 to 10.3 percent at end-2010, following large wage increases in the civil service and higher food and fuel prices. In January 2011, the authorities devalued the Surinamese dollar by 20 percent in the official market, bringing it broadly in line with the rate in the parallel market. At the same time, they raised fuel taxes by about 40 percent and introduced additional measures of fiscal consolidation. In the wake of these adjustments, 12-month inflation rose to 18.6 percent in February 2011. The external current account balance is estimated to have improved from a deficit of 1 percent of GDP in 2009 to a surplus of about 1 percent of GDP in 2010, in the context of strong mineral exports. Gross international reserves rose by US$22 million in 2010, to US$785 million at year-end (4.4 months of imports).

The overall fiscal deficit shifted from a surplus of 2.2 percent of GDP during 2007-08 to a deficit of 3.3 percent of GDP during 2009-10. Lower tax revenues were only offset in

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

part by higher nontax revenue from the state-owned oil company and grant disbursements. However, both current and capital expenditures rose significantly, reflecting elevated spending prior to the elections, including on goods and services and in connection with the civil service wage reforms. In 2009 and the first half of 2010, the deficit was financed in part by a build-up of domestic payment arrears (estimated at about 1 percent of GDP at end-2010). Public debt rose from 18 percent of GDP in 2008 to 21.6 percent in 2010.

Growth of broad money (M2), which had surged in late-2009 and early-2010, declined in the second half of 2010. Year-on-year private sector credit growth also eased, to around 10 percent, at end-2010, continuing a trend started in mid-2008. Dollarization ratios in the banking sector have continued to decline. The banking sector as a whole appears to be generally well capitalized, but compliance with regulatory norms varies across the sector. In 2010, CLICO-Suriname was acquired by a local insurance company.

Executive Board Assessment

Executive Directors noted Suriname's favorable economic outlook, supported by buoyant commodity prices and strong private and public investments in the mineral and energy sectors and infrastructure. These investments should help raise the growth potential, strengthen government revenue, and improve the external position. Directors considered that the main challenge in the near term is to contain rising inflationary pressures, while further efforts should be pursued to ensure fiscal sustainability over the medium term.

Directors welcomed the authorities' commitment to tighten fiscal policy and improve public finances. They stressed the need to rein in current expenditure and avoid the development of a wage-price inflation spiral, and strengthen social support programs to target the most vulnerable households affected by the rise in inflation.

Directors noted that, with the expected substantial decline in foreign grants in coming years, it is important to strengthen government revenue to ensure fiscal sustainability. In this regard, they welcomed the recent revenue-enhancing measures and encouraged the authorities to press forward with the introduction of a VAT system and other measures under consideration. Directors concurred that a credible medium-term fiscal framework and an improved capacity for managing public finances will be crucial to ensuring fiscal sustainability over the medium term. They also urged the authorities to take decisive actions to reform and strengthen the financial positions of public utility companies.

Directors encouraged the authorities to remain vigilant toward inflationary pressures and stand ready to tighten monetary policy as needed. They noted the staff's assessment that the new official exchange rate is broadly in line with fundamentals, and supported the authorities' plans to review the exchange rate arrangement and consider greater exchange rate flexibility over time. Directors also welcomed Fund technical assistance to develop indirect monetary instruments and strengthen the central bank's capacity to conduct open market operations.

Directors supported the authorities' efforts to strengthen supervision of the banking and insurance sectors. They considered that an early FSAP exercise would be useful to assess the strengths and weaknesses in the banking sector. They also welcomed the authorities' commitment to promote a gradual dedollarization of the banking system.

Directors encouraged further progress in improving the business environment to facilitate the development of a dynamic private sector and help diversify the economy. In this context, they noted the authorities' intention to increase the public share in the exploitation of natural resources and encouraged a national dialogue to help foster consensus on such investments and the management of the expected rise in mineral revenues.

Directors commended the authorities for their efforts to improve the quality and dissemination of economic data, including in the balance of payments.

Suriname: Selected Economic Indicators

	2007	2008	2009	Est. 2010	Proj. 2011	Proj. 2012
(Annual percentage change, unless otherwise indicated)						
Real sector						
GDP at 1990 prices 1/	5.1	4.7	3.1	4.4	5.0	5.0
GDP at current market prices 1/	13.5	26.7	6.1	13.2	26.9	17.4
Consumer prices (end of period)	8.4	9.3	1.3	10.3	19.9	7.5
Consumer prices (period average)	6.4	14.6	-0.1	6.9	17.9	10.4
Exchange rate (SRD per US$, end of period) 2/	2.75	2.75	2.75	2.75	3.30	...
Money and credit						
Banking system net foreign assets	49.4	25.5	11.2	3.2	35.5	10.6
Broad money	30.4	11.3	27.0	10.8	23.2	18.0
Private sector credit	37.4	36.3	12.5	10.6	17.0	17.4
Public sector credit (increase in % of M2)	-10.5	-18.3	13.4	4.6	-3.0	1.8
(In percent of GDP, unless otherwise indicated)						
Savings and investment						
Private sector balance (savings-investment)	8.0	7.8	0.9	4.6	2.1	1.3
Public sector balance	2.6	1.8	-2.0	-3.6	-1.7	-1.5
Foreign savings	-10.7	-9.6	1.1	-1.0	-0.4	0.2
Central government						
Revenue and grants	30.6	27.5	29.9	26.2	25.8	24.4
Total expenditure	28.9	25.7	31.9	29.7	27.5	25.9
Of which: noninterest current expenditure	22.4	20.0	23.7	22.9	21.0	19.5
Statistical discrepancy	1.0	0.0	-1.0	0.0	0.0	0.0
Overall balance	2.6	1.8	-3.0	-3.6	-1.7	-1.5
Net domestic financing	-2.8	-2.2	2.6	2.1	-0.4	-0.1
Net external financing	0.1	0.4	0.3	1.4	2.1	1.6
Total public debt	21.2	18.0	18.5	21.6	20.0	18.6
Domestic	8.8	7.6	10.3	12.8	9.7	8.2
External	12.4	10.4	8.3	8.7	10.3	10.3
External sector						
Terms of trade (percent change)	-0.6	2.3	-1.3	0.2	0.3	0.2
Current account balance	10.7	9.6	-1.1	1.0	0.4	-0.2
Change in reserves (- increase)	-7.0	-7.6	-3.0	-0.6	-4.6	-2.3
Gross international reserves (US$ millions)	433	666	763	785	966	1,069
In months of imports	3.8	4.7	5.0	4.4	4.6	5.0

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

1/ GDP data include estimates of the informal sector.
2/ 2011 data as of end-March.

Statement by Paulo Nogueira Batista, Jr., Executive Director for Suriname and Eduardo Saboia, Advisor to the Executive Director May 2, 2011

On behalf of the Surinamese authorities, we thank the mission chief and his team for very constructive meetings in preparation for this year's Article IV Consultation. The authorities appreciated the staff report and welcomed many of its recommendations. We also thank Management for the technical assistance that is being provided to Suriname in several areas and emphasize its critical role in fostering capacity building in the public sector.

Suriname, a former Dutch colony in South America, has a multiethnic population that is culturally linked to different parts of the world. The new administration, in office since August 2010, has expressed a strong interest in better integrating Suriname to its neighboring countries and in taking advantage of new opportunities arising in dynamic emerging market and developing countries. In a meeting in Paramaribo, in September 2010, President Bouterse stressed in conversation with us that he had entrusted economic policy to professionals (Governor Hoefdraad and Minister Boedhoe) who had been chosen on the basis of their technical expertise. The governor of the Central Bank is an experienced former IMF staff member.

Outlook

Suriname, with a population of just over half a million people, is blessed with varied natural resources and has experienced high growth rates over the last years. The country has benefited, more than its regional peers, from the ongoing commodity boom, particularly by the rebound in prices of gold, petroleum, and alumina, which are its top export products.

In the medium term, Suriname's growth potential could rise to a much higher level that the current one. Real GDP rose by 4.5 percent in 2010, up from 3 percent in 2009. The authorities project a 5 percent growth for 2011, and the outlook for the following years is even more favorable as large private and public investments in the mineral and energy sectors mature, pushing up the country's growth potential.

Suriname faces challenges that are typical of commodity-dependent countries. Increased revenues during periods of commodity price booms have been squandered by inadequate public financial management and the absence of the right checks and balances in the system. The Surinamese authorities are well aware of the need to avoid a repetition of this experience.

Fiscal policy

The new administration inherited a difficult fiscal situation. During 2007–2008, Suriname had benefited from an overall fiscal surplus of 2.2 percent of GDP on average, but this surplus eroded into deficit of 3.3 percent on average in the following two years. Current and capital expenditures increased in the run-up to the May 2010 elections. A shortfall in tax collections from the bauxite/alumina sector also played a part in the shift to a deficit, as mentioned in the staff report. Higher expenditure was partly financed by a build-up of domestic payments arrears (1 percent of GDP), a practice that the new administration wishes to avoid.

The new administration has had to honor the public sector wage increases approved under the previous government. Half of the agreed increment under the second phase of the civil wage reform (FISO-2) was implemented in July 2010, shortly before the new government took office. The other half was made effective January 2011, already under the new administration.

During the meetings with staff, the authorities described several of the measures adopted to compensate for the impact of these wage increases on the budget. On the revenue side, fuel taxes have already been adjusted, to be followed by higher taxes on alcohol and tobacco, an increase in the presumptive tax on casinos, a reactivation of the motor vehicle tax, a widening of the sales tax base and an increase in its rate. Also the authorities have launched a comprehensive project to register informal gold sector operators and bring them into the tax fold through a presumptive tax system.

The staff argues that current spending, especially in goods and services, needs to be contained. The authorities agree, but they also note that part of the current spending is related to a backlog of domestic payment arrears accumulated in late 2009 and early 2010 that they are starting to clear. Both sides agree that bringing the overall deficit to about 2 percent of GDP in 2011 would be a desirable objective.

Monetary, exchange rate, and financial sector policies

The authorities are alert to short-term inflationary pressures, as described in the staff report. They maintain the view that the high inflation in early 2011 reflected primarily the pass-through effect of higher fuel taxes and international oil prices to the domestic market. The fact that the value of the currency in both the official and parallel markets has stabilized since end-January and that the increase in food prices remained relatively small is seen by the authorities as an indication that inflationary pressures are so far under control. The authorities are confident that inflation will gradually decline in 2011. However, as stated in the report, the central bank indicated that, if needed, it would be ready to tighten monetary policy.

The Central Bank of Suriname is keen to develop indirect instruments of monetary policy. They have requested technical assistance from the Fund and from the central banks of Brazil and Colombia in several areas, including liquidity forecasting and the conduct of open market operations.

The decision to devalue the currency by 20 percent against the U.S. dollar brought the official exchange rate in line with the parallel market. The authorities intend to monitor developments closely over the next year or so, while considering further reforms in the exchange rate regime.

The report recognizes that banks are generally well capitalized and profitable. But compliance with prudential norms remains uneven and nonperforming loan ratios high. There is agreement between the authorities and staff on the need to strengthen supervision of the financial sector. There is also convergence on the need to gradually de-dollarize the Surinamese economy. As an input to assess the situation and find solutions, the authorities are very interested in holding a Financial Sector Assessment Program (FSAP) exercise as soon as possible. The FSAP was scheduled only for mid-2012, because of personnel restrictions on the part of the Fund. Our chair believes that greater priority should be given to countries, even small ones that demonstrate an interest in undergoing FSAPs.

Structural issues

The new administration is stepping up investment in infrastructure, to improve transport communication and housing for the Surinamese people. The authorities plan to dedicate more resources towards social welfare, in order to reduce inequalities and eliminate poverty. They are committed to strengthening the well-being and the physical and intellectual capacity of the population by heavily investing in health and education.

In the view of the authorities, a strong private sector, respecting the rules as set out by government, should be the backbone of the Surinamese economy. They are working towards improving the business environment, including through speeding up company registration and licensing processes[12].

The Surinamese government is fully aware of the fact that for too long the economy has been relying on the windfalls of high commodity prices for just a limited group of products. Decade after decade Suriname, like other developing countries, has been riding the roller coaster from boom to bust. To overcome this vicious cycle, the authorities attach

[12] In a footnote to page 13 of the report, staff mentions that Suriname remains in the lower range of the World Bank's *Doing Business Index*. We caution, however, against attaching importance to this classification of countries which is based on a highly questionable methodology.

strategic importance to diversifying the economy. The government's focus is on expanding agricultural production and exports (particularly rice, fruits, and vegetables) and learning from successful experiences of other developing countries.

The new administration believes that this is the time to improve national institutions and build capacity to guarantee the proper functioning of the economy, based on sound macroeconomic fundamentals. The staff's recommendations on the need to improve the management of key public utility companies are in line with the authorities' awareness of the need to enhance the efficiency of the public sector.

To assist it in its path towards these objectives, Suriname has the intention to increase foreign borrowing from multilateral agencies, notably the IADB and the World Bank. Engaging with these institutions, with which Suriname has had a very small portfolio, is seen by the authorities as a means of ensuring that the national development process is credible and carefully thought out. In the view of the authorities, incoming FDI and foreign borrowing should be guided towards those projects which will improve Suriname's real economy and create employment, while preserving the environment.