

This is the second bulletin of the Suriname Economic Oversight Board (SEOB) since the signing of the Memorandum of Understanding with the Suriname government on June 1, 2023. This SEOB bulletin discusses the progress of the IMF program and key developments related to this program.

The SEOB is an independent body, and its main objective is to monitor and advise the government on the implementation of the IMF program and economic recovery plan based on key performance indicators. Regular statistics and measures related to the IMF program are conveniently presented on our website - [www.seob.sr](http://www.seob.sr).

## MAIN DEVELOPMENTS

- Of the IMF measures within the program, about 60% were completed by July 2023.
- Year-on-year inflation (furthermore: inflation) slowed from 65% in May to 54.7% in June 2023.
- Possible international food price hikes, especially grain prices, international oil price hikes and the indirect effects of utility tariff increases put at risk the achievement of the year 2023 inflation target of 36.4%.
- The exchange rate showed signs of stability in the past two months.
- International reserves decreased from last year to USD 1.08 billion, while usable reserves are estimated at USD 820 million or 76% of total reserves in May 2023, above the set target of USD 803 million.
- Imports were covered for about 6 months as of May 2023. The estimated import coverage based on usable reserves was about 4.6 months.
- The economy showed a contraction of 0.6% in March 2023.
- The SEOB will hold sessions for interested organizations from the private sector, public sector and civil society in August. During these sessions, there will be a presentation on the SEOB and monitoring results from the IMF program will also be presented. The SEOB will take feedback and input from civil society in carrying out its tasks.

Table 1. Status measures IMF program by policy area

Policy	Completed	In Progress	Other
<b>Requires immediate attention</b>	12.5%	87.5%	0.0%
<b>A: Monetary and exchange rate policies</b>	61.9%	33.3%	4.8%
<b>B: Fiscal policy</b>	60.0%	6.7%	33.3%
<b>C: Debt</b>	57.1%	28.6%	14.3%
<b>D: Financial sector</b>	65.2%	26.1%	8.7%
<b>E: Governance</b>	55.2%	27.6%	17.2%
<b>F: Other</b>	75.0%	25.0%	0.0%
<b>Total</b>	58.3%	24.4%	17.2%

Source: SEOB calculations based on IMF monitoring sheet of July 17, 2023.

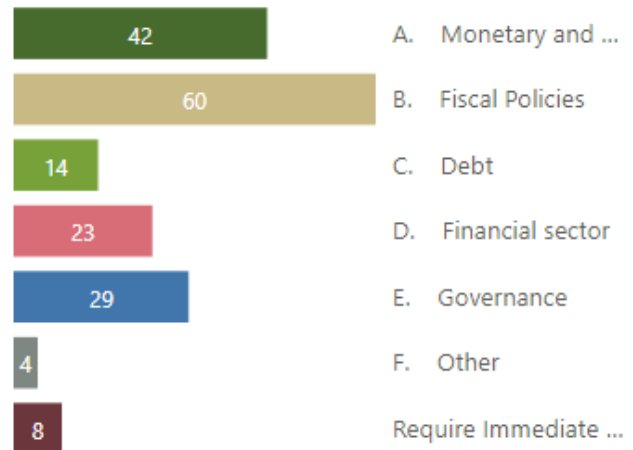
## PROGRESS SURINAME IMF PROGRAM

The IMF program is divided into six policy areas (Table 1). The SEOB converts the reporting sheet into measurable statistics. According to IMF reporting, the bulk of the measures lie with the CBvS, followed by the Ministry of Finance and Planning (MoF). The CBvS is mainly responsible for "Monetary and Exchange Rate Measures," "Financial Sector" and "Governance," while the MoF is mainly responsible for measures in policy area "Fiscal." As of July 2023, policy areas "Fiscal Policy" and "Governance" had the most open measures. According to SEOB calculations, 58.3% of all measures were completed by July 2023. Implementing the IMF program requires focus and discipline from concerned entities.

There are also eight measures that require immediate attention, one of which has already been achieved and the remaining are to be achieved between July and September 2023. These measures are:

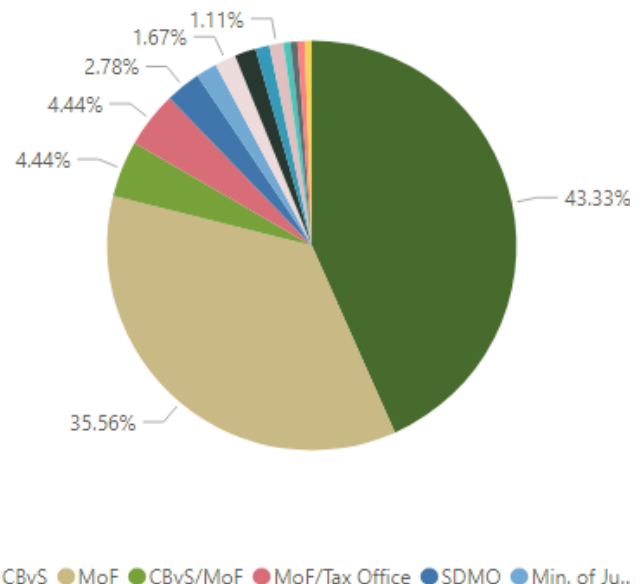
1. Publish an institutions table [Completed].
2. Review government spending on social protection and publish a strategic plan to improve the efficiency and effectiveness of social benefits.
3. Implement an amended VAT law.
4. Establish an electronic foreign exchange trading platform for banks and foreign exchange bureaus (cambios).
5. Publish a quarterly report on the implementation and realization of the government budget.
6. Issue an implementing law to adjust the legal framework for anti-corruption.
7. Issue a new procurement law to centralize publication of all tenders and awarded contracts.
8. Order the publication of all public contracts on a government website.

### Policy Area



Source: SEOB calculations based on IMF Suriname office report.

### Responsible Entity



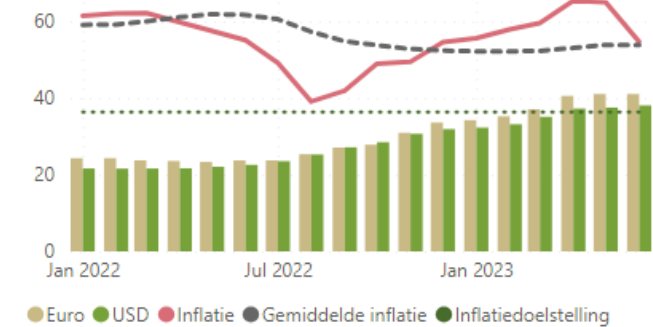
Source: SEOB calculations based on IMF Suriname office report.

## EXCHANGE RATE SHOWS SIGNS OF STABILITY, INFLATION OUTLOOK UNCERTAIN

The US dollar exchange rate showed signs of stability, while inflation slowed from 65% in May to in to 54.7%

Inflation (in %) and Exchange rate

in June 2023. The euro exchange rate rose due to the international EUR-USD relationship. Increases in food prices, utility and fuel prices, and the introduction of VAT contributed to inflation in 2023. Because of the increase in utility tariffs, as well as possible international food and oil price increases, the SEOB expects continued pressure on local consumer prices in the coming months of 2023. The aforementioned developments entail higher costs for both households and businesses. Given that the price increases occur on the cost side, they are difficult to mitigate and require appropriate attention from the CBvS and the MoF.



Sources: ABS, CBvS.

## IMPORT COVERAGE SOLID, MONEY GROWTH DECLINES

In May, international reserves managed by the CBvS stood at USD 1.08 billion while usable international reserves were USD 820 million. The intermediate target for May was set at USD 803 million. Reserves were down from previous months. International reserves provide a buffer to provide liquidity where necessary to cover essential imports. This import coverage stood at 6 months in May 2023 while import coverage based on usable reserves is estimated at about 4.6 months. This is above the international standard of 3 months. There is a latent risk here as after further debt rescheduling, international reserves will decline to pay the arrears.

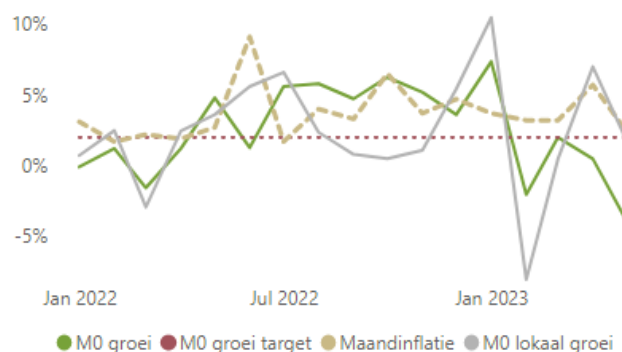
International Reserves



Source: CBvS.

The target for money growth is set at 2% per month. In May 2023, the base money supply (M0) contracted by 3.9% while the local component of M0 contracted by 1.75% from March. Whereas broad-based liquidity increased by SRD 3.9 billion, it increased by SRD 781 million in May. The increase in May was mainly due to an increase in net receivables from the government of SRD 544 million. Due to tightening monetary policy measures (see SEOB Bulletin #01), an increase in lending rates can be seen from April 2023. Despite interest rates on short-term term deposits falling sharply, credit rates have been on an upward path since mid-2022. This is curious since it is expected that a tightening in M0 should cause a rise in deposit and lending rates. Because of the tightening in M0, it is noticeable that pressure on the exchange rate is easing and thus (local) inflation should also come under

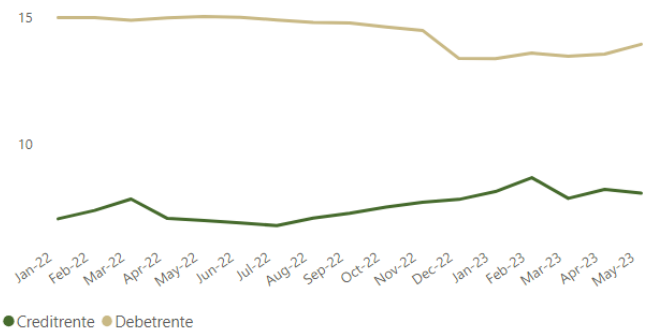
M0 growth and Monthly Inflation (in %)



Sources: ABS, CBvS.

Interest rates SRD (in %)

control. This should be accompanied by sound fiscal policy.

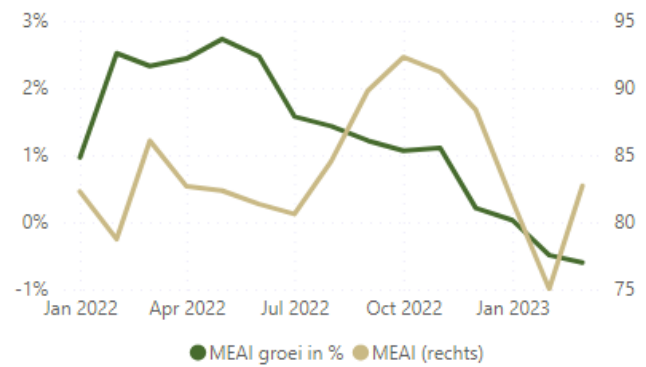


Source: CBvS.

## ECONOMY CONTRACTED IN FIRST QUARTER

The economy is showing signs of contraction, according to the CBvS monthly indicator of economic activity (MEAI). The MEAI contracted by 0.6% in March 2023 - the latest data available, despite exports improving in the first quarter compared to the previous two quarters. The decline in the MEAI is mainly due to production declines in the ICT and gold sectors. The trade and construction sectors also showed signs of contraction in the first months of this year. Although gold production fell, high gold prices caused a less harsh decline in gold export value in the first quarter. The Planning Bureau forecasts marginal economic growth of 2.1% for 2023, while the IMF projects growth of 2.3% if the IMF program is strictly implemented.

Economic Activity



Source: CBvS.

## DEVELOPMENTS IN BANKING SECTOR

An important part of the IMF program is the soundness of the banking sector. This sector has a key role for both consumers and producers. Banks' solvency ratio rose further to 18.2% in May while profitability climbed to 1.4%. Developments in non-performing loans (NPL) are worrisome. Whereas by December 2022, NPLs to total loans stood at 12.4%, they rose to 15.4% in May this year. The liquidity ratio fell to 51.5%. Although the solvency is relatively high - the international standard is at least 8% - it does not reflect reality because of the different reporting standards banks use towards CBvS. Also, the effects of the asset quality review (AQR, assessment of their assets) have not yet been implemented. It is expected that implementing the AQR recommendations will negatively impact the banks' solvency.

Banking sector indicators (in %)

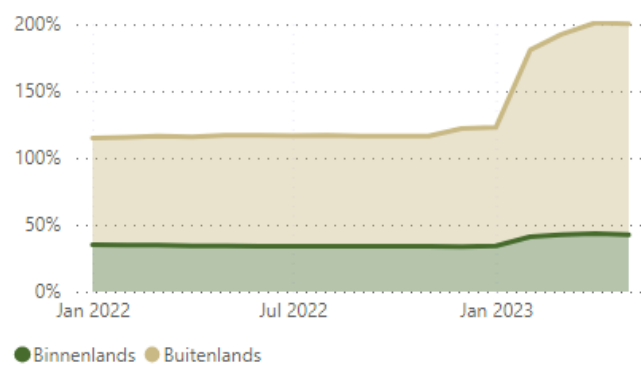


Source: CBvS.

## DEVELOPMENTS IN PUBLIC DEBT

Government debt under the Public Debt Act increased from about 122% in 2022 to 200% as of May 2023. Assuming the IMF's estimated GDP of SRD 131.9 billion, the estimated national debt as of May 2023 reached 89%. The national debt target is to reach 120% of GDP by 2024 and 60% of GDP by 2035. Foreign debt remained at SRD 92.8 billion while domestic debt decreased by about SRD 600 million to SRD 25 billion in May 2023.

Public debt (in % of GDP)



Source: SDMO.

## OUTLOOK AND RECOMMENDATIONS

- SEOB emphasizes that the IMF's EFF program is very challenging. It requires enormous fiscal and monetary discipline and focus from the government and the CBvS to implement the program.
- One of the measures that requires immediate attention is the establishment of an electronic trading platform. Setting up an electronic trading platform for currency trading will have to be carefully thought out.
- The Surinamese Business Association (VSB), in cooperation with USAID, will organize (follow-up) sessions for companies. These sessions are designed to improve knowledge and implementation of VAT so that companies can achieve more efficient VAT implementation. Companies can also discuss their questions and concerns about VAT and implementation. According to the Ministry of Finance and Planning, over 90% of VAT collection has been achieved.
- Despite the VAT collection currently, according to the Minister of Finance and Planning, is 90% against the target, the VAT law will have to be revised by The National Assembly as soon as possible to increase the collection base to 60%. However, this is not for the benefit of business in the context of investment in the oil and gas industry. Imposing VAT on energy and water costs will further reduce purchasing power. The recommendation is to explore ways to better implement VAT collection. Furthermore, gaming and casinos cannot be exempted from paying VAT and cannot be scaled to the same level as basic necessities.
- The monetary measures implemented by the CBvS also result in M0 tightening. This should have an impact on limiting inflation and the exchange rate. Curiously, M0 is tightening, and banks' debit rates are falling while short-term credit rates are rising. It is expected that both credit and debit interest rates will rise with tightening.
- The CBvS and the government will have to consider how import inflation due to new international food price hikes - especially grain prices - and fuel price hikes will be contained in the coming months. Given that subsidies on water and electricity are also being further phased out, the inflation target of 36.4% looks unrealistic for now. If monthly inflation for the remaining months of the year maintains the pace of June (2.3%), inflation for 2023 is estimated to be around 40%.

- Because of the monetary measures, SRD lending will be constrained, to the detriment of SMEs. The SEOB calls attention to activating and promoting production and guarantee funds to grow local production and SMEs.
- The SEOB calls for a more transparent and effective implementation of the social program. Preferably, incentives should be provided through the fiscal system to promote more effective operation of the fiscal system and for transparency.

**The SEOB calls attention to measures on "Financial Sector" and "Governance" policy areas:**

- Banks should implement the recommendations of the latest AQR. Urgent action is required here to have a transparent plan to safeguard and improve confidence in the banking system. Every bank should have a plan to improve both solvency and asset quality and bring them to internationally acceptable levels.
- The publication of recent annual reports CBvS is set for December 2023. SEOB stresses that meeting this target is necessary for the restoration and winning of confidence in CBvS. It also calls attention to measures for strengthening the solvency of the CBvS, governance in accordance with the new Banking Act as well as alignment foreign exchange law and CBvS.
- Implement measures on anti-corruption, anti-money laundering and anti-terrorist financing (AML/CFT) and launch a second NRA.
- Implement Extractive Industry Transparency Initiative recommendations to improve mining sector governance and transparency.

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[www.seob.sr](http://www.seob.sr)

[secretary@seob.sr](mailto:secretary@seob.sr)

