

The fourth SEOB bulletin discusses the progress of the IMF program and key developments related to this program. The SEOB is an independent organization, 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. Regularly, statistics and measures related to the IMF program are conveniently presented on our website - www.seob.sr.

Key developments

- Suriname was positively evaluated by the IMF in the third review of the three-year reform program. As a result of this third review, the IMF made USD 52 million available. This amount is to strengthen the international reserves, though two-thirds will be allocated to the government budget.
- Important milestones before the fourth tranche will include registration and publication of senior public officials' assets. This is a result of the Anti-Corruption Act. This measure is necessary to prevent and counter corruption of public officials. Also, debt restructuring will have to be fully completed.
- Year-on-year inflation (hereafter inflation) remains high. In August, it stood at 53.5%. The SEOB expects inflation to decline but remain high in the coming months. This is mainly due to increases in utility rates and international price increases of oil and rice. The IMF has revised its inflation estimate upward from 36.4% to 40% for 2023. SEOB expects annual inflation to be around 46%.
- The exchange rate remained stable in recent months.
- International reserves fell slightly to USD 1.06 billion in August. Import coverage amounts to just over 6 months. Gross international reserves were below the set target of USD 1.156 billion for August 2023. The target for December 2023 is USD 1.361 billion.
- Government debt as a percentage of GDP, or debt-to-GDP ratio, came down to 138% in July 2023. The downward revision is due to new GDP estimates for 2022 and not because of an absolute debt reduction.

About 58% of the IMF program measures were completed as of September 2023. Most of the measures that have as status "other", fall under the IMF program sub-areas "Fiscal Policy" and "Governance."

Table 1. Status of IMF measures

Policy area	Completed	In progress	Other
Requires immediate attention	0.0%	100.0%	0.0%
A: Monetary and exchange rate policy	61.9%	33.3%	4.8%
B: Fiscal policy	63.3%	8.3%	28.3%
C: Debt	57.1%	28.6%	14.3%
D: Financial sector	65.2%	26.1%	8.7%
E: Governance	58.6%	24.1%	17.2%
F: Other	75.0%	25.0%	0.0%
Total	58.2%	26.6%	15.2%

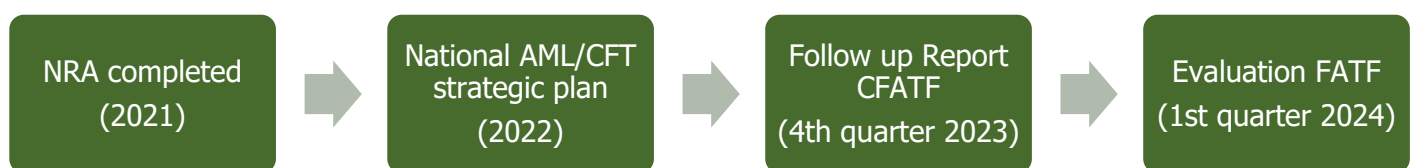
*Note: "Other" means that the status of the measures is unknown or that the measures have been postponed or have not yet started.
Source: SEOB calculations with data IMF monitoring matrix.*

Combating money laundering and terrorist financing

It is an international trend that preventing and combating money laundering and terrorist financing (AML/CFT) requires increasing attention from policymakers in the public and private sectors. AML/CFT actions are necessary to ensure the security of the financial system and the economy. If a country has a high level of compliance with AML/CFT regulations, the confidence of international investors and business partners grows. The country and businesses are better able to attract investors with integrity, reducing the country's cost of capital and strengthening the financial system. Both the government and the private sector must be aware of international AML/CFT guidelines, and both play a significant role in containing ML/FT risks. In Suriname, the AML Project Implementation Unit (AML-PIU) is responsible for implementing decisions of the AML Steering Council (ASC) to strengthen AML/CFT policies.

According to the AML-PIU, Suriname has made progress on AML/CFT in recent months, although from SEOB's point of view, proceeding laboriously and not satisfactory. Suriname completed the first National Risk Assessment (NRA) in the 1st quarter of 2021. Subsequently, the national AML strategic plan was approved by the government in December 2021 with an update in November 2022. This plan addresses weaknesses identified in the first NRA and the recommendations of the Mutual Evaluation of the Caribbean Financial Action Task Force (CFATF). It also prioritizes actions that contribute to a robust AML/CFT law and regulation. In a high-level action plan, the AML-PIU highlights how key priorities will be addressed between 2022 and the 2nd quarter of 2024.

Figure 1. AML/CFT evaluation Suriname



Suriname is committed to eliminating the shortcomings in the first NRA. The second NRA is necessary because of the serious shortcomings found during NRA 1 and the fact that not all sectors critical to the economy were included in NRA 1.

An important measuring moment for Suriname is November 2023 when the CFATF review of the first follow-up report (Follow Up Report/FUR) on the measures taken after the March 2022 Mutual Evaluation/MEVAL assessment will take place. Suriname's FUR report will be reviewed at that time. The country details the progress made between the first NRA and the MEVAL and today. Because of the limited and difficult approach to the actions resulting from the recommendations, the upcoming assessment may be challenging for Suriname. A reassessment was requested earlier this year for the following recommendations that Suriname was unable to adequately address during the first NRA:

- Customer Due Diligence (Customer Due Diligence, recommendation 10)
- Politically Exposed Persons (recommendation 12)
- Correspondent banking (recommendation 13)
- Tipping-off and confidentiality (recommendation 21)
- Designated non-financial businesses and professions: Customer due diligence (recommendation 22)

The CFATF decided to positively adjust the rating for the country after the reassessment. In November there will be another assessment after which in February 2024 Suriname will be rated by the FATF. Although it can be shown that Suriname is on the right track for the second NRA, progress still needs to be made in broader awareness. More legislation is needed on AML/CFT. Prioritizing the strengthening of AML/CFT supervision and enforcement is necessary.

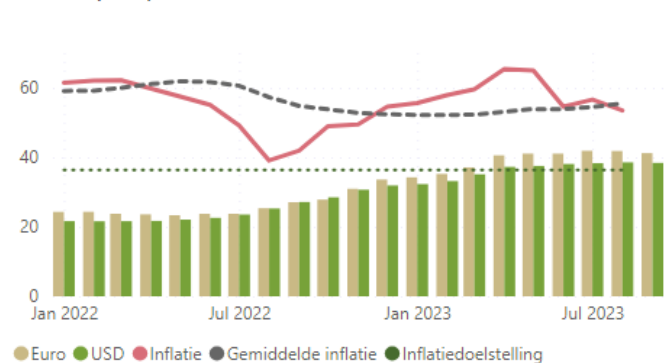
Social program

The social program included in the IMF program was supposed to compensate for the IMF measures taken to improve public finances leading to increased burdens for the less well-off, compensating them with SRD 1,800. This was accurately calculated in the program. Because the program has not been implemented as planned and inflation has been substantially higher than projected in the program, the assumptions are outdated. SEOB therefore calls for a thorough recalculation of the minimum wage, the poverty line, and the compensation of SRD 1,800. We also call attention to the disbursement of social benefits and support through the banking and tax system and to a more effective and transparent implementation of the social program. A society in which everyone can afford the necessities is a prerequisite for a healthy society.

INFLATION REMAINS PERSISTENT

Inflation in August was 53.5%. Relative to the previous year, price increases in August were caused by increases in food prices, transportation, and utility rates. Comparing August to July 2023, price increases in transportation mainly drove monthly inflation. Tightening monetary policy has brought calm to the exchange rate market in recent months. This caused the exchange rate effect on inflation to diminish in recent months.

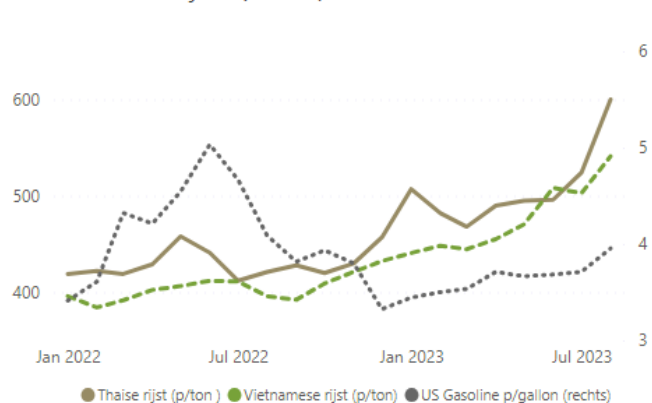
Inflatie (in %) en Wisselkoers



Sources: ABS, CBvS.

The IMF has revised its inflation estimate for 2023 upward from 36.4% to 40%. The SEOB estimates inflation for 2023 at around 46%. International price increases of oil and rice, among others (see figure), the introduction of the new VAT (Value Added Tax) rates, phasing out of subsidies as well as government spending on goods and services and the social program, among others, may put further pressure on local inflation.

Internationale Prijzen (in USD)

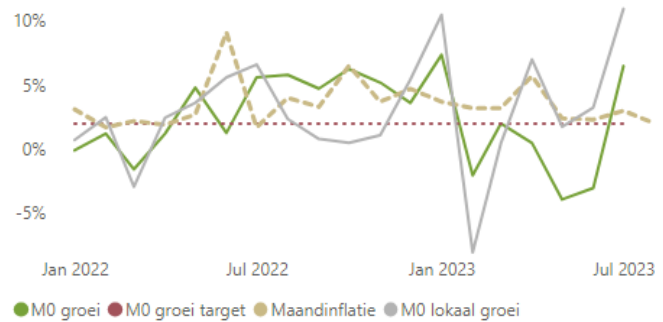


Source: World Bank.

MONEY GROWTH ACCELERATES, INTEREST RATES INCREASE

Unlike previous months, the base money supply (M0) grew in July. Limits on credit growth, the increase in the required reserve ratio on SRDs in April, as well as open market operations caused money growth to slow in recent months. M0 climbed over 11% in July, the biggest jump for this year. The CBvS indicates that this increase is mainly due to the unwinding of open market operations. Broad money supply (M2) rose as well, driven by an increase in net foreign assets. Due to new open market operations, money growth is expected to decrease in the coming months.

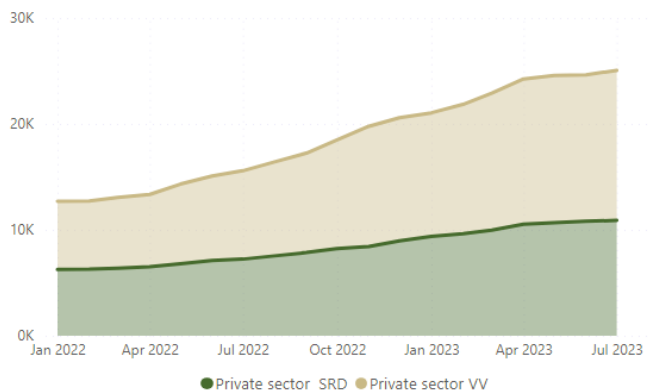
M0 groei en Maandinflatie (in %)



Sources: ABS, CBvS.

Lending increased slightly in July. Total lending grew by 1.8% from the previous month to SRD 25.1 billion. This increase was driven by an increase in foreign currency loans denominated in SRD. This was partly due to an appreciation of the Euro in the month of July. There was also a slight increase in personal loans and corporate loans denominated in SRD. The average loan rate continued to rise from 14.1% to 14.3% in July 2023. In contrast, there was almost no change in savings rates.

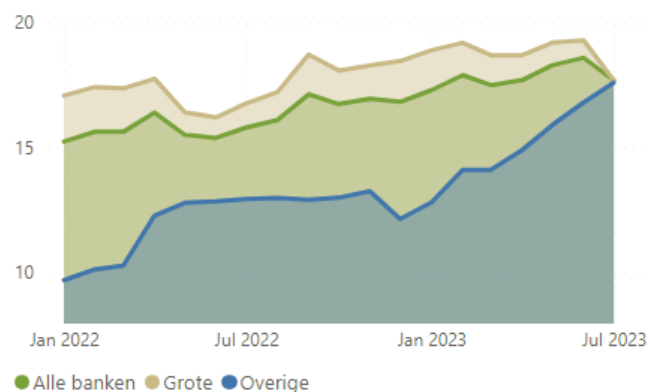
Kredieten (mln SRD)



Source: CBvS.

After a sustained increase, the banking sector's solvency declined to 17.7%. Although non-performing loans improved from 16.1% to 14.9%, they remain worrisome. This ratio decreased at large banks from 19.1% to 16.9%. The international benchmark is 5%. In June, the banking sector's profitability rose to 1.8%.

Solvabiliteitsratio (in %)



Source: CBvS.

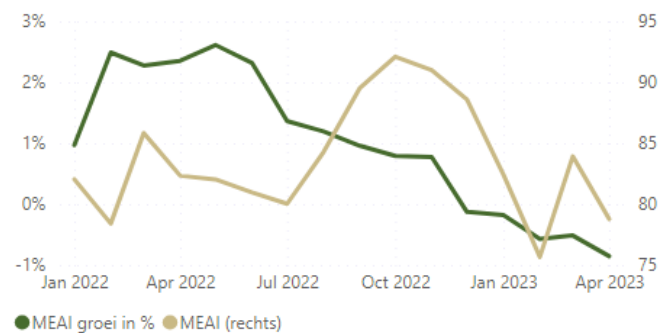
DOWNWARD ECONOMIC ACTIVITY WORRISOME

Economic activity has been on a downward trend since mid-2022. The monthly index of economic activity (MEAI) of the CBvS shows that the economy contracted by nearly 1% in April this year. There was a decline in activity mainly in the telecommunications, trade, timber production, and mining sectors. The mining sector saw a decline in gold production. This decline was also reflected in gold export figures. Despite a higher gold price of over 3% in the 2nd quarter compared to the 1st quarter of 2023, the gold export value decreased by USD 60 million.

International trade slowed in the 2nd quarter due to a decline in mining exports. Besides gold exports, oil exports also declined during this period. In contrast, there was a rebound in exports of rice, fish, shrimp, and banana. The increase in the export value of these sectors is partly due to favorable world market prices for agricultural products in the 2nd quarter of 2023. However, compared to June last year, the total export value of these sectors, except for bananas, diminished.

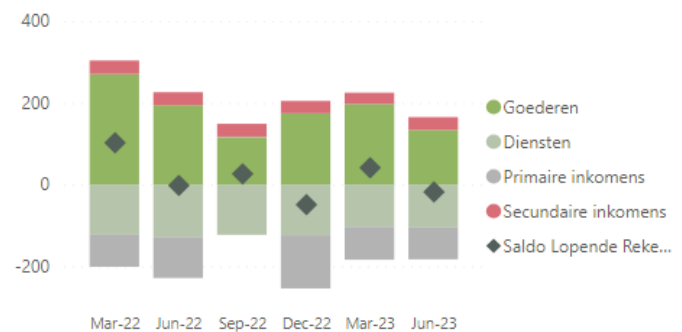
SEOB is concerned about the trends in economic activity. Declining activity affects not only the business sector but also the government and the labor market. The government is losing revenue as a result. There is also less foreign currency available in the market due to fewer exports. Recent developments in the oil sector offer prospects. However, SEOB emphasizes that only with inclusive policies can the benefits become apparent to the society.

Economische Activiteit



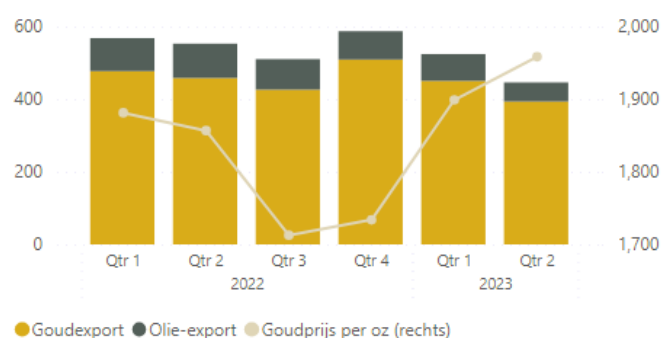
Source: CBvS.

Betalingsbalans (mIn USD)



Source: CBvS.

Mijnbouwexporten (mIn USD)



Source: CBvS.

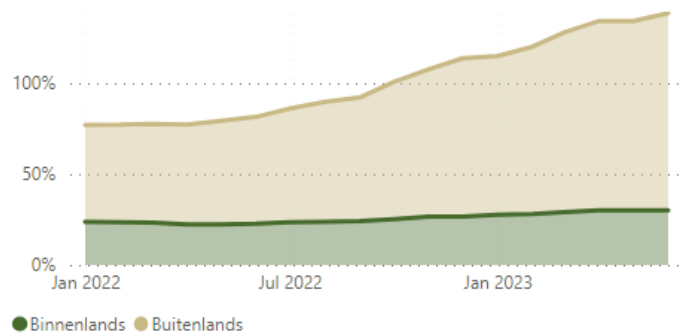
DEBT RATIO IMPROVED

The government debt ratio, or government debt as a percentage of GDP, improved in July compared to previous estimates. The total debt ratio totaled 138% of GDP. This is because government debt is expressed as a percentage of new GDP estimates from the General Bureau of Statistics. Whereas previously, a GDP of SRD 58.8 billion was used, the debt ratio is now determined using a GDP of SRD 89.5 billion. Based on the IMF GDP of SRD 131.9 billion, the debt ratio comes out to 93.9%. Government debt is not decreasing in absolute amounts.

Public debt is driven primarily by foreign debt. The total amount owed to foreign creditors was SRD 96.8 billion, while domestic debt stood at SRD 27.0 billion in July 2023. Suriname has been able to reschedule its debts with the largest creditors, such as the so-called Oppenheimer Group and India. However, this process needs to be completed. Talks are underway to restructure debt with China as well.

SEOB emphasizes that rescheduling debt and beginning repayments is necessary to improve Suriname's default (SD) rating. The latest developments in the oil and gas industry will result in the fact that if a Final Investment Decision is taken by Total Energies to exploit the oil wells in Suriname, Staatsolie will have the opportunity to participate for 20%. If Suriname maintains a country rating of SD, the cost of capital for this investment for Staatsolie will be enormous. The international base rate (SOFR) is now 5.3%. A country rating of SD will result in a minimum borrowing rate of 10% (SOFR plus risk plus profit).

Staatsschuld (in % van BBP)



Source: SDMO.

OUTLOOK AND RECOMMENDATIONS

- SEOB advocates a more serious approach by the government and the private sector to AML/CFT actions arising from the recommendations. SEOB also recommends including officials from the private and banking sectors in the National Anti-Money Laundering Commission and/or the AML PIU. This is because of the impact that non-compliance has on banks and the private sector.
- SEOB also emphasizes that the legislature (DNA) should work more closely with the IMF team and AML-PIU since it has been observed often that laws delivered to the legislature are amended in a way that defeats the purpose (eliminating recommendations or meeting an IMF milestone), for example, the VAT law and the banking law.
- SEOB sees the passing of AML/CFT law and the launch of the second NRA as positive. Policy makers must remain committed to the National AML Strategic Plan. It is also necessary to strengthen AML/CFT supervision and enforcement. The SEOB also calls attention to the immediate action of establishing assets declarations of "politically exposed persons." This is a key action item within the IMF program.
- SEOB calls for a more transparent and effective implementation of the social program, especially as purchasing power continues to decline. As inflation continues to persist, it is worth noting that the estimated number of households eligible for social benefits continues to increase. This was initially estimated at 60,000 households. The SEOB stresses that the effectiveness and efficiency, and the principles of the social program, should be evaluated in the short term. The social program does need to be implemented carefully so that it does not put further pressure on inflation which is already high. The SEOB also recommends that a new household budget survey be conducted, which would allow the poverty line to be determined more accurately.
- Preferably, incentives should be provided through the tax system to promote more effective operation of the tax system and for transparency. We suggest considering broadening the tax brackets.
- The SEOB advocates improving communication from the government to society about the social program as well as the adjustments in the VAT law.
- As subsidies on water and electricity continue to be reduced, inflation will remain high in the coming months, despite a stable exchange rate. In case monthly inflation for the remaining months of the year continues the current trend, the SEOB estimates end-2023 inflation at about 46%. The IMF estimates it at 40%.
- Downward economic activity is a concern. The SEOB recommends continuing the trajectory whereby the business community produces sector development plans. These can be implemented in the growth phase of the recovery program. Public-private partnerships should be encouraged. Credit funds such as Surge and PKF can be used more effectively to support business activities, and because of the credit restrictions imposed on banks. Suriname should start thinking now about the growth phase of the recovery program. The VSB/ASFA governmental committee will need to develop long-term sector development plans with flanking government policies in anticipation of the growth phase.
- The monetary measures implemented by the CBvS are partly resulting in M0 tightening. Interest rates are expected to rise further because of the tightening. Because of the tightening monetary measures, SRD lending is being curtailed, to the detriment of SMEs. The SEOB calls attention to activating and promoting production and guarantee funds to grow local production and SMEs. Furthermore, discussions will have to be initiated by the government, the business community, and the banks, on how the private sector (especially production) will be better supported in the future and Suriname will rise on the Doing Business list.

- SEOB emphasizes that implementing the IMF-EFF program is challenging. Meanwhile, the actions requiring immediate attention ("immediate actions") have been expanded and must be achieved by December 2023. It requires tremendous discipline and focus from the government and the CBvS to implement the program.
-

www.seob.sr

secretary@seob.sr

