

The 6<sup>th</sup> 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](http://www.seob.sr).

## Key Developments

- The exchange rate has been falling for several months.
- Year-on-year inflation (hereinafter: inflation) is decreasing due to the decline in the exchange rate and the functioning of fiscal and monetary measures. In October this indicator fell to 42.9%. Inflation in recent months was mainly driven by the increase in utility rates due to the phasing out of subsidies. Although inflation is declining, it remains high by international standards. International oil price increases could put pressure on inflation in the coming months.
- In case the monthly inflation for the remaining months of the year continues the current trend, the SEOB estimates the year-end inflation between 34% and 39%.
- Average inflation – price increases in the last 12 months, compared to the previous 12 months – remains high and stood at 55.1% in October 2023.
- The growth of the base money supply is in check. The tightening monetary policy is leading to a slight increase in interest rates at commercial banks.
- The gross international reserve (including bank reserves) increased to USD1.14 billion in October. Import coverage (including banks' reserves) improved to 6.5 months. In December, the reserves must amount to at least USD1.23 billion according to the IMF's "performance criteria".
- Public finances showed a deficit in August 2023. This is partly the result of a decrease in non-tax revenues from the mining sector, as well as an increase in expenditure on subsidies and contributions.
- The IMF will complete the 4th review of the program in December 2023. In November it held discussions with stakeholders, including the government and the CBvS. The IMF also invited the SEOB to share its views from a monitoring perspective. The IMF requested special attention to (1) implementation of the social program, (2) government wages in relation to public sector reform requirements, (3) implementation of VAT and broadening the VAT base. These points of attention will be important ingredients for successfully completing the IMF program in 2024.

Table 1. Status IMF measures

Policy area	Completed	In progress	Other
Requires immediate attention	16.7%	83.3%	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%	35.7%	7.1%
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%
<b>Total</b>	<b>59.2%</b>	<b>26.1%</b>	<b>14.7%</b>

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.

Of the measures within the IMF program, approximately 59% had been completed by November 2023. Most measures with a status of "other" fall under the sub-areas of the IMF program "Fiscal Policy" and "Governance". Key metrics for the IMF's fourth review will include:

- Register and publish the assets of high-ranking public officials. This is a consequence of the Anti-Corruption Law. This measure is necessary to prevent and discourage corruption among public officials.
- Setting up an electronic trading platform for foreign currencies.
- Completely completing the debt restructurings.

## PUBLIC PROCUREMENTS UNDER THE PROCUREMENT ACT 2023

The SEOB held several discussions with experts about public procurement and the Public Procurement Act 2023. This law, which is now in draft, aims to modernize public procurement in order to combat corruption. The law includes the establishment of a Procurement Authority. With the establishment of this Procurement Authority and a large number of procurement rules, the purchase of goods and services by the government must be made more efficient and cost-effective. From conversations with experts, there are some comments on the planned introduction of the law and the establishment of the procurement authority:

### **1. Governance**

The composition of the Supervisory Board (SB) is a matter for the Public Sector. Taking into account the fact that this authority will be the main parastatal institution in allocating community resources, as well as serving sectors through procurement for all ministries, it is necessary that civil society or the private sector also participate fully in the governance of the Procurement Authority.

### **2. Tasks**

According to experts, the authority has a number of improper tasks outside the context and naming of the law. Enforcing improper duties can increase the risk for the State in terms of claims and legal excesses. Furthermore, this may have legal implications in the event of conflicts, which may have an impact on the implementation. It is therefore recommended that the tasks be evaluated and that all non-core tasks and activities be deleted from the Act.

### **3. Check and balances in the (new) tender forms.**

The introduction of eight tender types, as taken from the Dutch Public Procurement Act 2012, in addition to the Public Procurement, are given a legal tender framework. These forms were already used in practice in Suriname. However, it is noted that some of these new forms do not yet include the checks and balances that are common internationally. This could have an impact on the sensitivity to corruption. The SEOB therefore emphasizes the introduction of checks and balances for a more solid procurement framework.

### **4. Complex conversion of tendering.**

The transition from the AWS'96 tenders to the AW23 will take place via the creation of a specific department at the Ministry of Finance. Several experts consider temporarily transferring this operation to a department for 2 years as questionable. It seems inevitable that the Act will only come into effect once the conversion with all its implementing decrees is a fact. A solution could be to use the AWS framework under shared governance with a public-private predecessor of the Supervisory Board. This can result in minimizing or preventing the excesses (such as the recent allocation of the DNA building).

## INFLATION FALLS DUE TO STABILIZING EXCHANGE RATE

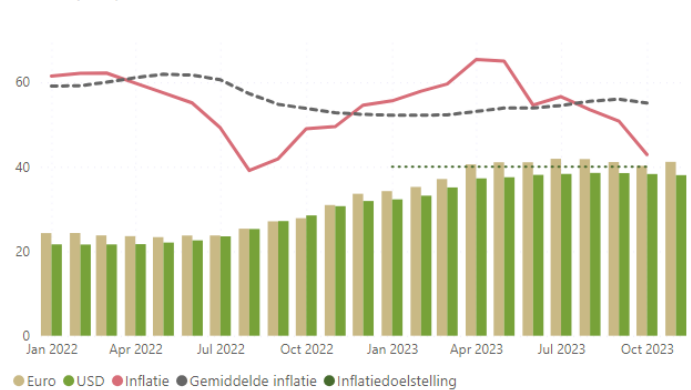
In October, the inflation rate decreased to 42.9% due to the stabilization of the exchange rate, while utility rates increased minimally (around 2%). VAT on utility rates was postponed until 2024 following negotiations with the union. Local pump prices showed a decline. Monthly inflation is on a downward trend and fell to 1.0% in October, down from 1.5% in the previous month. Compared to the previous year, the price increases were driven by increases in food prices, utility rates and transportation. The average 12-month inflation, the inflation of the last 12 months compared to the 12 months before, remains high and stood at 55.1% in October.

The tightening of monetary aggregates has tamed the exchange rate market in recent months. This helped to reduce the exchange-rate effect on inflation. This tightening is the result of monetary policy on the one hand and the absence of fiscal excesses during the first half of 2023 on the other. International price increases, especially oil, further phasing out of utility rate subsidies, as well as government spending, depending on their size, could have a put further pressure on local inflation in the short term. International uncertainties mainly arise from developing geopolitical conflicts.

The growth of the base money supply (M0) was well below the target set for the month of September. The local component of M0 decreased by approximately 1.6% in September compared to the previous month. The broad money supply (M2) increased marginally by SRD144 million in September as a result of an increase in net foreign assets.

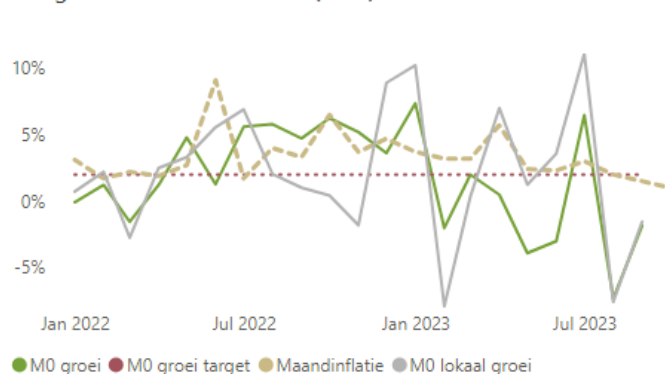
Finally, SEOB would like to point out that a falling exchange rate is a sign that the foreign exchange market is recovering. However, a rate falling too quickly can have a disruptive effect on, among other things, government finances (income in foreign currency will be lower) and exports will become expensive.

Inflatie (in %) en Wisselkoers



Sources: ABS, CBvS.

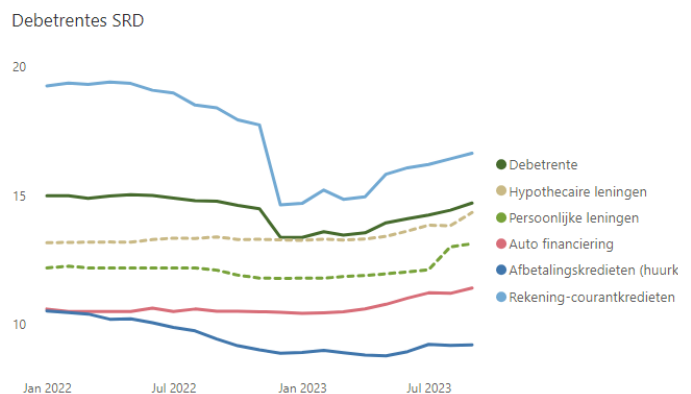
M0 groei en Maandinflatie (in %)



Sources: ABS, CBvS.

## INTEREST RATES CONTINUE TO RISE

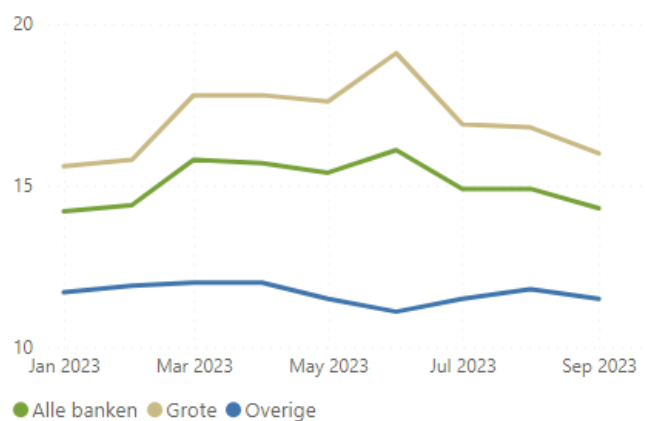
Lending rates at commercial banks rose further in September as a result of the tightening monetary policy. The average lending interest on outstanding loans increased from 14.4% in August to 14.7% in September. The interest rates on outstanding mortgage loans rose the most, from 13.8% to 14.4%. Savings interest rates remained more or less the same. The SEOB expects the rise in lending rates to continue in the coming months. However, this may entail risks for commercial banks.



Source: CBvS.

The development in lending rates may have an impact on non-performing loans (NPLs). Although NPLs have been improving for several months, the share of NPLs in banks' loan portfolios remains a concern. The NPL ratio improved 14.3% in September. This ratio is 4.5 percentage points higher at large than small banks. After a sharp decline in July, the solvency of the banking sector rose to 18.7% in September this year. The commercial banks' liquidity ratio improved from 52.8% in July to 53.7% in September. Implementing the asset review instructions (AQR), as well as a new governance framework for state-owned banks, should help improve soundness in the banking sector.

## Niet-presterende leningen (NPLs, in %)



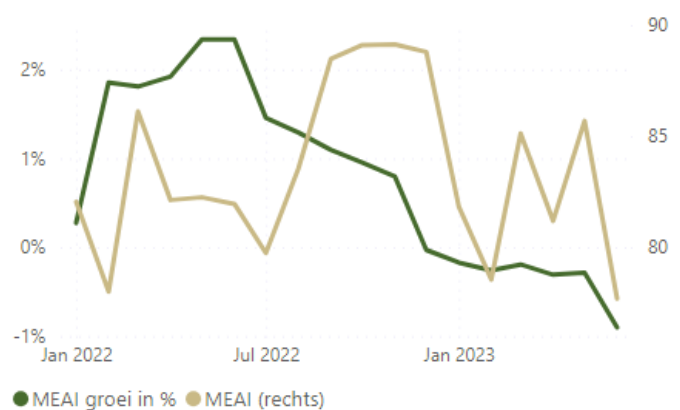
Source: CBvS.

## ECONOMY SHRINKS FURTHER

The CBvS' monthly economic activity indicator (MEAI) suggests that the economy shrank further from around 0.2% in the 1<sup>st</sup> quarter to 0.9% in the 2<sup>nd</sup> quarter. According to the CBvS, the comparison is always made on a 12-month basis. The decline in economic activity in 2023 was mainly seen in the telecom sector, followed by the trading sector and the mining sector. In contrast, the catering-related sectors recorded growth. The fishing sector also grew strongly according to the CBvS.

In the recovery phase of the IMF program, careful considerations will have to be made between economic growth and limiting lending. Policymakers can think of stimulating strategic sectors in which the business community is involved, for example in the form of public-private partnerships.

## Economische Activiteit



Source: CBvS.

## GOVERNMENT PRIMARY BALANCE RECORDED DEFICIT IN AUGUST

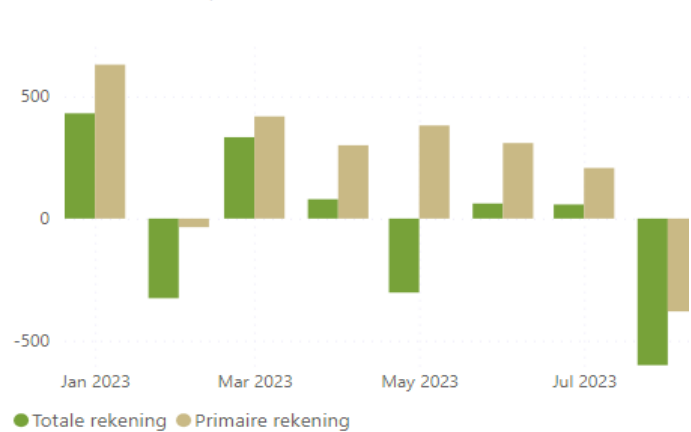
The primary balance of the government recorded a deficit of SRD 380 million in August, while the total account recorded a deficit of 672 million. The government deficit in August was mainly financed by own deposits and by drawings on foreign loans. Domestic loans were repaid on balance.

According to government statistics, public finances deteriorated in August.

- Receipts decreased by more than SRD 417 million. Non-tax revenues in particular declined. What is notable is the halving of non-tax receipts from the mining sector in August 2023. This decline is mainly reflected in non-tax receipts, especially royalties and dividends from large and medium-sized mining companies.
- Expenses increased by SRD 314 million, mainly due to the purchase of goods and services, followed by expenditure on interest payments.

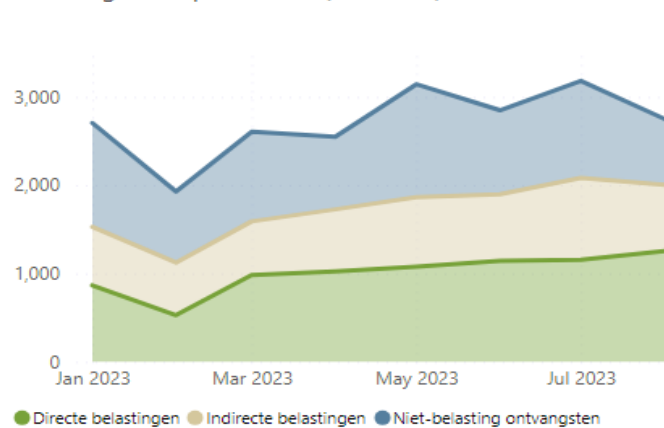
The SEOB emphasizes increasing government revenue through improved tax collection. The SEOB also emphasizes the importance of fiscal discipline and will continue to closely monitor developments in public finances.

Overheidssaldo op kasbasis (SRD mln)



Source: Ministry of Finance and Planning.

Ontvangsten op kasbasis (SRD mln)



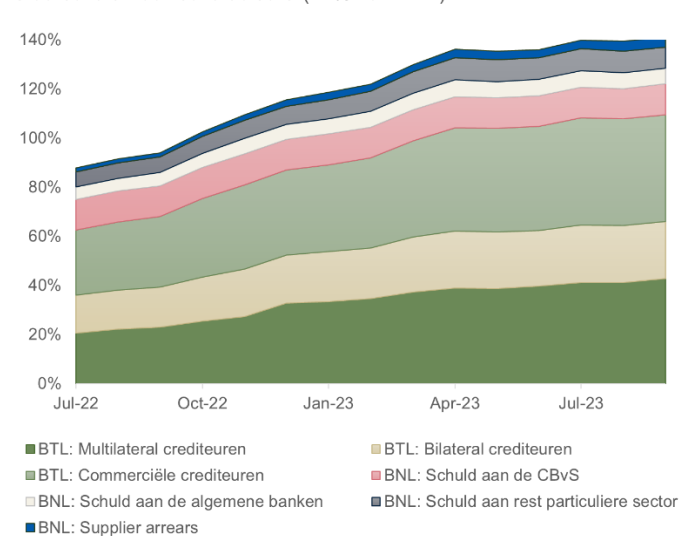
Source: Ministry of Finance and Planning.

## DEVELOPMENTS IN THE PUBLIC DEBT

The debt ratio, or the total public debt as a percentage of GDP, rose further in September to 141.1% according to the local Public Debt Law. This increase was mainly caused by an increase in foreign government debt of approximately USD 40 million. As of September, the foreign debt amounted to SRD 98.1 billion, while the domestic debt fell slightly to SRD 28.2 billion.

The external government debt (109.5% of GDP) is mainly driven by debts to commercial and multilateral creditors. Suriname has been able to reschedule its debts with the largest creditors, such as the so-called Oppenheimer group and India. The government is in the process of concluding an

Staatschuld naar schuldeisers (in % van BBP)



Source: SDMO.

agreement with China. Domestic government debt (31.6% of GDP) is dominated by debt to the CBvS, followed by debt to the private sector.

SEOB is pleased that a new rating from S&P for Suriname will soon be released.

## OUTLOOK RECOMMENDATIONS

- The SEOB emphasizes the need to increase government revenues. Although the government has already achieved 80% of its VAT target, it still misses out on significant revenue from VAT, other taxes, and import duties. Strengthening the tax institute is essential to solve this problem structurally. Increasing government revenues can be done through more effective tax collection and increasing business activity in the country.
- The SEOB draws attention to the new procurement law and the Procurement Authority. There is a call for private sector participation in the Supervisory Board of this authority. It is recommended that a re-evaluation of the tasks of the Procurement Authority be carried out. The SEOB further emphasizes the introduction of checks and balances for a more solid procurement framework. Furthermore, the SEOB also recommends an orderly transition from the current system to the new system to minimize corruption.
- After consultation with IMF officials, the call for a more transparent and effective social program implementation is further strengthened, especially as purchasing power continues to decline. The SEOB emphasizes that the effectiveness, efficiency, and principles of the social program must be evaluated in the short term. The social program must be carefully implemented to not put further pressure on inflation, which is already high. The backlog in payments also needs to be cleared. The SEOB also recommends that a new household budget survey be carried out to determine the poverty line more accurately. The focus on handing out packages and cheap food must be changed to a thorough and structural approach to poverty. SEOB is convinced that if the phenomenon of ghost civil servants is tackled, more financial resources can be made available for better remuneration for civil servants and the social program.
- The SEOB proposes to provide subsidies and incentives through the tax and banking system to promote more effective operation of the tax system and transparency.
- As gas, water, and electricity subsidies are further reduced, inflation will remain high in the coming months despite a stable exchange rate. If monthly inflation for the remaining months of the year continues the current trend, the SEOB estimates year-end inflation to be between 34% and 39%. The downward revision of the inflation estimate results from the maintenance of VAT on utility rates and the decrease in local fuel prices.
- The monetary measures implemented by the CBvS result in a tightening of M0. This is very positive, but interest rates are expected to remain high due to the tightening of the SRD money market.
- Due to the monetary measures, SRD lending is limited, which is detrimental to SMEs and harms GDP. The SEOB, therefore, calls for attention to the activation and promotion of production and guarantee funds that should allow

local production and SMEs to grow. Furthermore, discussions will need 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. Policy must also be pursued to allow Suriname to rise on the Ease of Doing Business list.

- The downward trend in economic activity is a concern. The CBvS estimates an economic contraction of 0.9% in June 2023. The SEOB is concerned that the GDP growth forecast of 2.1% will not be achieved if this trend continues. The SEOB recommends continuing the process in which the business community designs sector development plans. These can be implemented from 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 due to the credit restrictions imposed on banks. Suriname should already think about the growth phase of the recovery program. The VSB/ASFA government committee for sector development will have to develop long-term sector development plans with accompanying government policy in anticipation of the growth phase.

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