

The 10th 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 purpose is to monitor and advise the government on the implementation of the IMF-program and economic recovery plan. This is done by looking at clear performance indicators. On our website - www.seob.sr - regular statistics and measures, related to the IMF-program, are conveniently presented.

KEY DEVELOPMENTS

- Foreign exchange rates continued to decline in March 2024.
- Year-on-year inflation further decreased, reaching 25.4% in February 2024.
- The decline in inflation can be attributed to the drop in the foreign exchange rates, decreasing purchasing power of the public, and the impact of monetary measures. However, inflation remains high by international standards.
- The average inflation rate, measuring price increases over the last 12 months compared to the previous 12 months, remained high at 46% in February 2024.
- Economic activity is slowly picking up, particularly in the forestry and hospitality-related sectors.
- The target for the SRD base money supply (M0) was not met in January 2024 due to net government spending.
- As a result of failing to meet the aforementioned target, open market operation (OMO) rates increased.
- Due to OMOs (M0 management and increased OMO rates), weighted average interest rates at banks rose further in 2024.
- Gross international reserves (including bank reserves) stood at USD 1.33 billion in February 2024, resulting in an import coverage of 7.2 months.
- The debt-to-GDP ratio decreased further to 136.8% in February 2024, mainly due to exchange rate declines.
- The 5th review under the Extended Fund Facility (EFF) of the IMF was completed.

Table 1. Status of measures IMF program.

Policy area	Completed	In progress	Other
A: Monetary and exchange rate policy	64.3%	33.3%	2.4%
B: Fiscal policy	62.9%	9.7%	27.4%
C: Debt	57.1%	35.7%	7.1%
D: Financial sector	65.2%	26.1%	8.7%
E: Governance	62.1%	31.0%	6.9%
F: Other	75.0%	25.0%	0.0%
Total	63.2%	23.6%	13.2%

Note: "Other" means that the measure has been delayed or has not yet been initiated, or the status of the measure is unknown. Measures requiring immediate attention are reviewed at each IMF review and are also part of Policy Areas A through F. Source: SEOB calculations with data IMF monitoring matrix.

The IMF concluded the 5th review under the EFF arrangement for Suriname in March 2024. Upon approval, Suriname received approximately USD 62 million, of which USD 25 million is earmarked for budgetary support and the remainder for the Central Bank of Suriname. As of the end of March 2024, our calculations indicate that 63.2% of the measures within the IMF program had been completed (Table 1). Progress remains at the same level as of

February 2024. Following the 5th review, measures requiring immediate attention were expanded. Some notable additions include:

- Settling all outstanding domestic government debts by the end of March 2024.
- Granting all ministries the mandate to report the extent of payment arrears to the Ministry of Finance.
- Ensuring the publication of the Centrale Bank van Suriname (CBvS) annual reports for 2021 and 2022 by June 2024.
- Establishing a capital adequacy ratio target for banks with capital deficits and drafting a plan with corrective measures.
- Amending the legal framework for combating corruption to criminalize corruption by mid-2024.
- Mandating and publishing the incomes and assets of politically prominent individuals within the anti-corruption framework.

GOOD GOVERNANCE

One of the pillars of the IMF program is "Governance". Strong governmental institutions are crucial for sustainable development. In this edition of the SEOB bulletin, we address "Good Governance". In the context of good governance, several significant measures have been implemented in recent years with the aim of:

- 1) Reducing Suriname's Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) risk: This includes rectifying the United Nations Convention against Corruption and operationalizing the anti-corruption commission.
- 2) Establishing a robust monetary authority: This involves amending the Banking Act, recapitalization, and publishing annual financial statements.
- 3) Strengthening the Ministry of Finance and its arms: This entails transparency in government financial figures and transforming and strengthening the tax authority.

Regarding monetary and fiscal policy, there has been improvement in recent quarters, evidenced by decreasing inflation and a gradual economic recovery. To sustain these developments, it is necessary to ensure the sustainability of the institutions responsible for these positive changes, introduce further transparency and rule-based policies or laws to guarantee continuity at the Ministry of Finance, the tax authority, the state debt office, and the Central Bank of Suriname.

Ad.1: Lowering Suriname's AML/CFT risk: 'Rectifying the United Nations Convention against Corruption, operationalizing the anti-corruption commission'.

The operationalization or adaptation of the anti-corruption law is of paramount importance to enable the commission to carry out its work. Currently, the commission is staffed but has thus far been unable to effectively execute its duties due, in part, to limitations in the law. If corruption is curtailed and government funds are managed more efficiently, these resources can be allocated to initiatives such as infrastructure, education, healthcare, and security.

In this context, attention must also be given to the IMF requirement: the publication of incomes and assets of politically prominent figures. Thus far, this publication has not occurred. If we aim to combat corruption at all levels, tone-at-the-top leadership will be a crucial requirement.

Lastly, SEOB advocates for the establishment of a national AML/CFT authority to proactively address National Risk Assessment (NRA) issues (in collaboration with stakeholders) and to inform society and key institutions about international developments.

Ad 2: A strong monetary authority: amendment of the Banking Act, recapitalization, and publication of financial statements.

The amended Banking Act was published in 2023, which is a milestone. However, we note that there are gaps that could compromise the independence of the central bank. The institution would benefit from the establishment of a corporate governance code, in which succession planning at the top - especially the Board of Directors and management - and transparent decision-making are crucial components.

As included in the IMF program, we strongly recommend integrating the foreign exchange committee into the CBvS. Best practices indicate that the foreign exchange committee's tasks fall within the scope of central banks. A thorough and up-to-date annual financial reporting to the public and other stakeholders should not be a point of contention in the future. A strong independent central bank needs to have sufficient capital to execute monetary policy. The publication of the most recent financial statements is of paramount importance for determining recapitalization, as outlined in the IMF program.

SEOB also requests attention to the payment system, which is crucial for the development of an economy and the reduction of AML/CFT risks. What we observe is that there is insufficient regulation and oversight of the payment system in Suriname.

Ad 3: A strong Ministry of Finance and its subsidiaries: providing transparency in government financial figures and transforming and strengthening the tax authority.

Since the reduction of subsidies, particularly on fuel, which somewhat alleviated pressure on the government budget, it has been observed that both inflation and the exchange rate have shown a declining trend. This implies that alongside effective monetary policy, a manageable fiscal policy should also be pursued to maintain both exchange rate stability and price stability.

SEOB recommends sustaining the efforts made in the past period, having a well-defined succession and education plan in place within the Ministry of Finance, by ensuring key functions within the structures are sustained through legislation. This is to prevent the ministry from weakening again in the future, which could lead to policy being inadequately implemented. The same applies to the state debt bureau: strengthening the institution to better fulfill its duties.

SEOB also advises that legislation be enacted to ensure future budget management, like what is stipulated in the Maastricht Treaty of 1992 in the European Union. The treaty requires member states' budget policies to maintain a budget deficit no greater than 3% of Gross Domestic Product (GDP). Of great importance is the adoption and implementation of the new procurement law. This will, to some extent (if properly designed and implemented), reduce corruption, resulting in lower costs for the government.

Lastly, the institutions under the Ministry of Finance, including the tax authority, should also be strengthened, made autonomous, and transformed for optimal functioning. Enhancement in both qualitative and quantitative aspects and the transformation from a mere revenue collector to a revenue generator in line with the country's development direction are imperative.

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC ACTIVITY IS PICKING UP

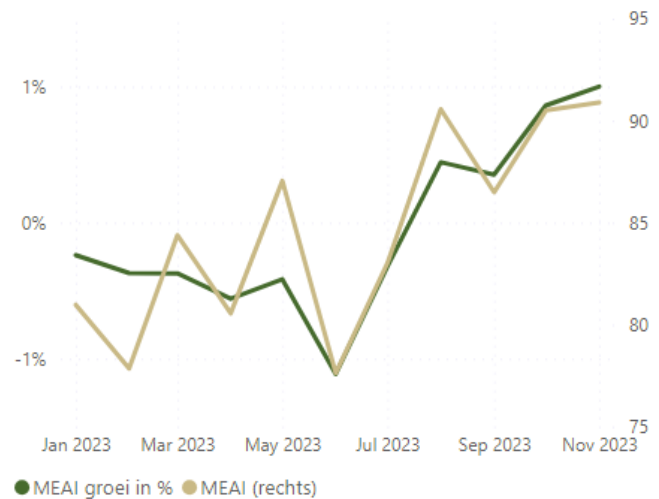
The Monthly Economic Activity Index (MEAI) shows that the economy gained further momentum towards the end of 2023. This index, provided by the CBvS, estimates growth in November 2023 at 1.0%. The expansion was mainly driven by the forestry sector and hospitality-related sectors, particularly restaurants. Additionally, air transportation contributed to this growth. However, economic expansion was tempered by the trade sector, which is still recovering from the decline in purchasing power. Furthermore, gold production continues to lag compared to previous periods.

The upturn in economic activity aligns with developments in the balance of payments – the transactions between Suriname and foreign countries. Like the previous quarter, the current account of the balance of payments recorded a surplus in the fourth quarter of 2023 (USD 40.3 million). This development was primarily attributable to the improved goods account. The financial account registered an inflow of USD 208 million. Netting out for statistical discrepancies, there was a foreign exchange inflow into Suriname of USD 219 million during this period.

In the fourth quarter of 2023, the goods account was driven by gold exports, due to record-high gold prices during this period. There was a slight improvement noted in the export of non-mining sectors such as timber, rice, and shrimp. However, oil exports experienced a significant decline in this period due to relatively low oil prices. The goods account amounted to USD 236 million, representing an increase of nearly 30 million compared to the previous quarter.

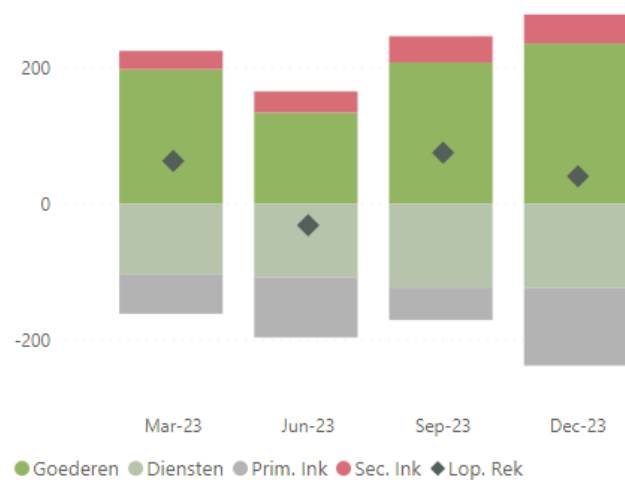
The SEOB anticipates further economic growth in 2024. A catch-up effort is necessary to restore the economy to pre-COVID levels.

Economische Activiteit



Source: CBvS.

Betalingsbalans (mIn USD)



Source: CBvS.

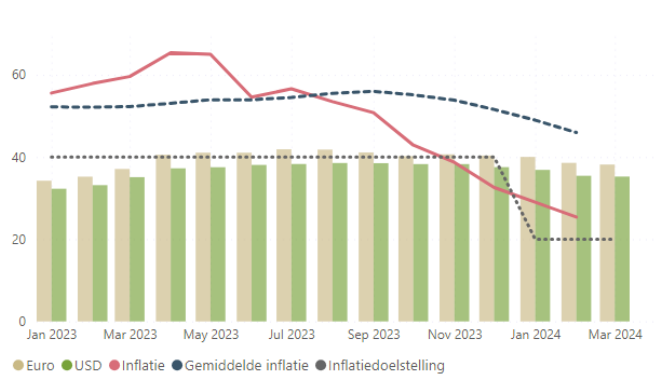
INFLATION CONTINUES TO DECLINE

In February 2024, inflation continued to decline, reaching 25.4%. This slowdown in inflation can be attributed to the decreasing exchange rates for foreign currencies, resulting in less steep price increases. Prices rose by 0.9% compared to the previous month, mainly due to an increase in utility rates. The 12-month average inflation also decreased to 46% in February 2024.

The persistent appreciation of the exchange rate, due to the flexible exchange rate system's operation, brings benefits and risks. For example, the government loses revenue when converted to SRD. Furthermore, a declining exchange rate makes Suriname more expensive for foreign countries, which can be detrimental to certain export sectors. However, a decrease in the exchange rate is advantageous for repaying government debts denominated in foreign currencies, such as foreign sovereign debt.

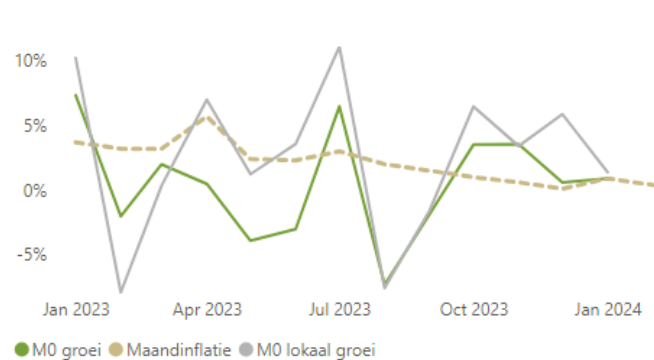
The SRD component of M0 exceeded the agreed levels with the IMF for the second consecutive month in January 2024. The CBvS indicates that this development is due to net government expenditures. Authorities need to moderate this growth in the SRD component of M0 to ensure that the inflation target is not compromised.

Inflatie (in %) en Wisselkoers



Source: ABS, CBvS.

M0 groei en Maandinflatie (in %)



Source: ABS, CBvS.

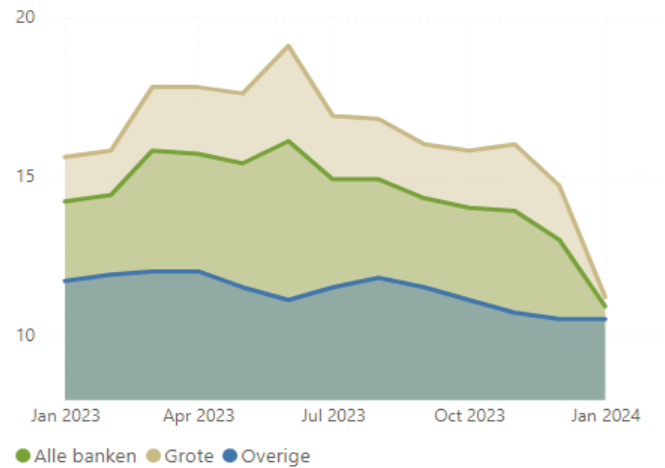
NON-PERFORMING LOANS DROP FURTHER

Favorable developments within the banking sector persist in 2024. Non-performing loans (NPLs) continue to decrease. The NPL ratio dropped significantly to 10.9% in January 2024. This could be the result of banks writing off NPLs and/or an improved repayment capacity of households and businesses. Liquidity in the banking sector shows an upward trend, reaching 54.1% in January 2024.

The sector ended the year 2023 with a profitability ratio, measured by return on assets, of 2.7%. The positive developments in the banking sector are reflected in the solvency ratio, which further increased to 20.8% in January. Implementing the instructions of the Asset Quality Review (AQR) contributes to strengthening the solidity of the banking sector.

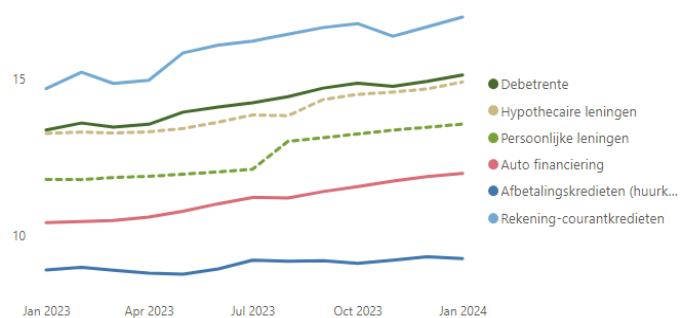
Average interest rates continued to rise in January 2024. Deposit rates increased to 11.6%, while lending rates averaged 15.1%. SEOB expects that the increase in average lending rates will continue in the coming months. However, high lending rates may pose challenges to economic activity. Particularly for small and medium-sized enterprises (SMEs), high interest costs are discouraging.

Kwaliteit van Activa (NPLs, in %)



Source: CBFS.

Debetrentes SRD

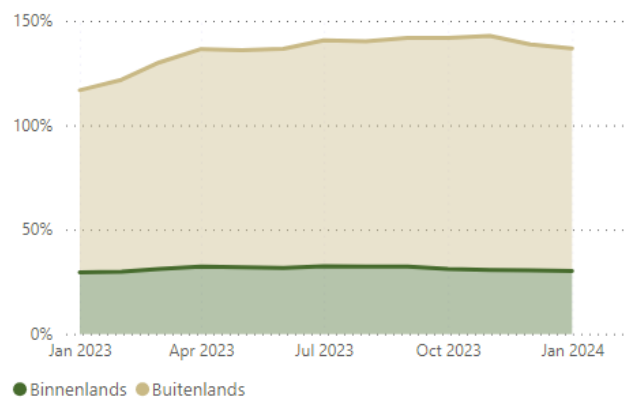


Source: CBvS.

DEVELOPMENTS IN THE PUBLIC DEBT

The debt-to-GDP ratio, representing the national debt as a percentage of GDP, further decreased to 136.8% in January 2024 according to the statutory definition. In January, the foreign debt expressed in local currency decreased to SRD 95.4 billion due to exchange rate effects, while the domestic debt continued to decline to SRD 27 billion due to repayments. The foreign debt restructuring with China Exim Bank has not yet been completed.

Staatsschuld (in % van BBP)



Source: SDMO.

OUTLOOK AND RECOMMENDATIONS

- The SEOB emphasizes the need for reforms within the public sector. In this bulletin, we make recommendations on Good Governance. Furthermore, we stress the importance of sound government finances and further phasing out subsidies on utility rates.
- Despite nominal increases in government revenues, significant revenue is still being lost from VAT, other taxes, and import duties. Strengthening institutions such as tax and customs authorities is crucial to addressing this issue structurally. The SEOB deems the establishment of the VAT evaluation committee as positive.
- While phasing out subsidies on utility rates is crucial, the government should simultaneously ensure that subsidies to individuals occur in a timely manner to offset higher costs of living for these individuals. We also call for extra attention to subsidies for vulnerable groups. We recommend channeling social benefits through the banking system for efficiency and timeliness. The government should also assess the effects of utility rate increases on local production companies.
- We expect inflation to continue to decrease slowly in 2024. However, further adjustments to utility tariffs will put pressure on local prices. The SEOB estimates that the 12-month average inflation will range between 14% and 21% in 2024, based on trend analysis. The IMF estimates a 12-month average inflation of 21.1% in 2024. Fiscal discipline remains a prerequisite here.
- The SEOB expects economic growth to pick up further in 2024. We also anticipate that growth will be driven by the start of the offshore oil sector, in the event of a positive investment decision by TotalEnergies and Apache.
- While inflation is decreasing, investors are facing rising interest rates due to monetary measures. The SEOB therefore calls for attention to facilitating lending to SMEs, especially for companies in the import-substitution or export sector. The SEOB welcomes projects such as SURGE, the guarantee fund, and the production credit fund.
- The SEOB supports an IMF-2 program to strengthen institutions to preserve the results of this IMF program and the simple fact that the government will not yet be able to independently manage its finances sustainably after the current IMF program.
- The SEOB advocates for a serious approach to AML/CFT actions resulting from the CFATF recommendations. Furthermore, we recommend including officials from the private and banking sectors in the National Anti-Money Laundering Committee and/or the AML-PIU because of non-compliance on banks and the private sector.
- The SEOB emphasizes that combating fraud, corruption, and money laundering (AML/CFT) is necessary to create the right investment climate, attract reputable investors, and ensure a level playing field for all businesses in Suriname.

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