

The 12th 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

- Exchange rates for foreign currencies continued to decline in May 2024.
- Year-on-year inflation (hereafter: inflation) showed a downward trend in April 2024, reaching 20.9%. This is a decrease of 5.9 percentage points compared to the previous month.
- The decrease in the inflation rate is attributed to the drop in the exchange rates.
- Average inflation – price increases over the past 12 months compared to the previous 12 months – also showed a decline, reaching 39.5% in April 2024.
- In March 2024, the target for the SRD base money supply (M0) was again not met due to net government expenditures. This requires particular attention from the authorities.
- Savings and lending rates remain high compared to the previous year, but the decline remained marginal in March 2024. Open market operation (OMO) rates decreased in April compared to March 2024.
- The gross international reserve (including bank reserves) amounted to USD 1.33 billion in March 2024. The import coverage stood at 7.2 months.
- The debt-to-GDP ratio of public debt further declined to 132.4% in March 2024, mainly due to the repayments of domestic debt.
- Non-performing loans (NPLs) and solvency in the banking sector continue to improve.

Table 1. Status of IMF Program Measures

Policy area	Completed	In progress	Other
A: Monetary and exchange rate policy	64.3%	33.3%	2.4%
B: Fiscal policy	59.1%	12.1%	28.8%
C: Debt	66.7%	33.3%	0.0%
D: Financial sector	62.5%	29.2%	8.3%
E: Governance	52.9%	35.3%	11.8%
F: Other	75.0%	25.0%	0.0%
Total	60.5%	25.4%	14.1%

Note: "Other" indicates that the measure has been postponed or not yet initiated, or that the status of the measure is unknown. Measures requiring immediate attention are reviewed at each IMF review and form part of policy areas A through F. Source: SEOB calculations based on IMF monitoring matrix data.

By the end of May 2024, according to our calculations, 60.5% of the measures within the IMF program had been completed (Table 1). Progress remained unchanged compared to April. For measures requiring immediate attention (see Bulletin 11), the IMF emphasizes anti-corruption and governance measures.

Tax and the Tax Authority

One of the key points within the IMF program was the implementation of value-added tax (VAT). Effective collection of these taxes remains an important pillar within the IMF program and especially for the Surinamese government. Both direct and indirect taxes are the largest source of government revenue. The tax authority plays a crucial role in tax collection.

SEOB believes that the implementation of VAT has been beneficial since its introduction in 2023. VAT as a tax is a good method to ensure balanced tax distribution in both the formal and informal sectors. However, the method of implementation, enforcement, and collection needs significant improvement. VAT is not only a new type of tax but also a means of redistribution. The tax authority indicates that it has not yet reached its target for VAT registrations. Although SRD 4.4 billion was budgeted in 2023, the realization was lower (approximately SRD 4.3 billion). To make tax collection more effective, capacity building within the tax authority is being worked on with technical assistance, for example, from the regional IMF office (CARTAC).

Tax evasion remains a hot issue as evidenced by the results of the previous National Risk Assessment (NRA). The tax authority is working on tools to identify tax evasion. New draft laws that provide more rights to the institute are also being considered. Additionally, agreements have been made with the Gaming Board and the Public Prosecution Service.

The tax authority continuously works on improvements. This includes implementing new tax systems and modules that make it easier for entrepreneurs to file their taxes online. Online payment options for entrepreneurs are also being considered.

One of the points of attention according to SEOB is increasing tax revenues, particularly from VAT. SEOB is concerned about the progress of capacity building within the tax institute, especially after the conclusion of the IMF program. It is necessary to further privatize the tax institute so that it can contribute more substantially to government revenues, which will help reduce fiscal deficits in the long term.

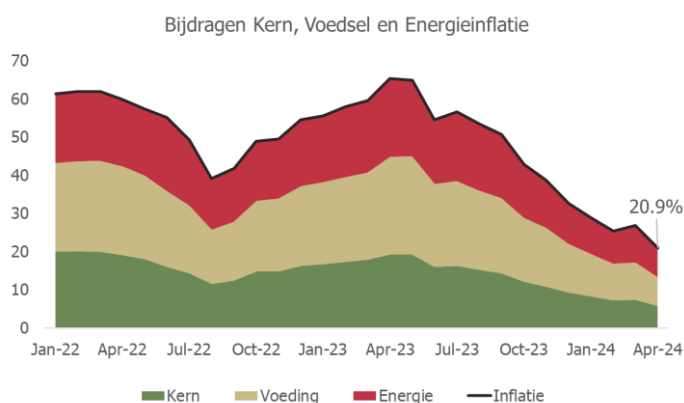
Challenges in the implementation of VAT. Based on the evaluation, the primary challenges in the implementation of VAT are the readiness of the tax authority, the changes in the VAT law shortly before and after implementation, the use of IT systems and functionalities, and the VAT processing procedures (such as identification numbers and the refund process).

RECENT ECONOMIC DEVELOPMENTS

INFLATION CONTINUES TO DECLINE

Inflation in April 2024 showed a decline mainly due to decreasing exchange rates for foreign currencies. Inflation reached 20.9%, while monthly inflation stood at 0.7%. Core inflation – inflation excluding food and energy prices – also decreased further. The drop in the exchange rates remains the primary driver of the deceleration in core inflation. The 12-month average inflation dwindled to 39.5%.

The SRD component of M0 was again higher than agreed with the IMF in March 2024 due to net government expenditures. The government must

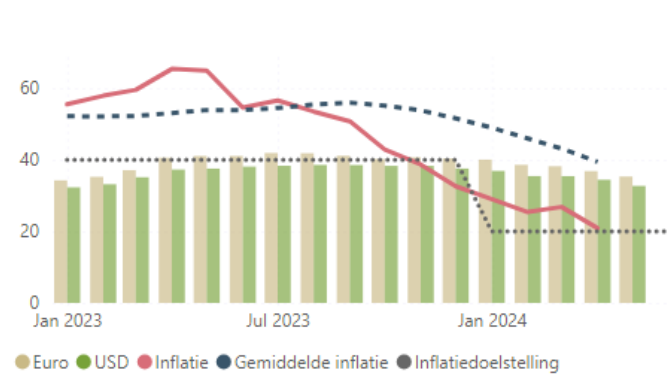


align its expenditures with its revenues to prevent potential spending pressure on inflation.

The exchange rate appreciation continues. While the USD exchange rate fell by over 5% in May, the Euro exchange rate fell by approximately 4% against the SRD. The continued decline in exchange rates could lead to revenue losses for exporters and the government, while the government could benefit from repaying foreign debts.

Note: Energy inflation includes inflation in the main groups of utility rates and transport. Food inflation includes inflation in the main group of food and non-alcoholic beverages. The rest is considered core inflation. Source: SEOB calculations based on ABS data.

Inflatie (in %) en Wisselkoers



Sources: ABS, CBvS.

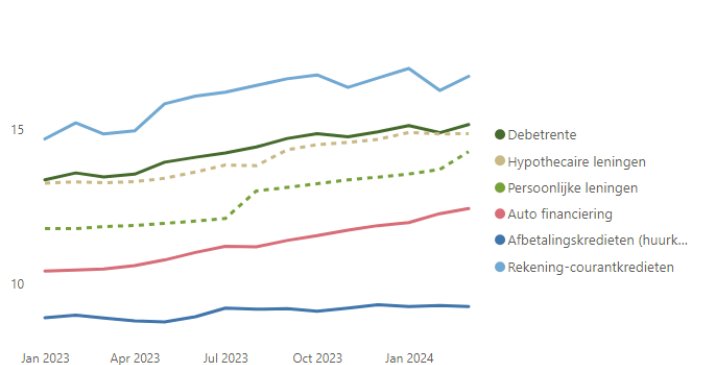
INTEREST RATES CONTINUE TO RISE; BANKING SECTOR SOLVENCY IMPROVES

After a brief decline in February 2024, lending rates rose further in March 2024. The average lending rate climbed from 14.9% to 15.2%. The sharpest increase was seen in personal loans, where the interest rate on outstanding loans rose by 0.6 percentage points. High lending rates remain challenging for small and medium-sized enterprises (SMEs). Therefore, we advocate for incentives for strategic production sectors.

On the other hand, credit rates remained unchanged. SEOB expects a possible turning point in credit rates due to declining inflation and improved inflation expectations.

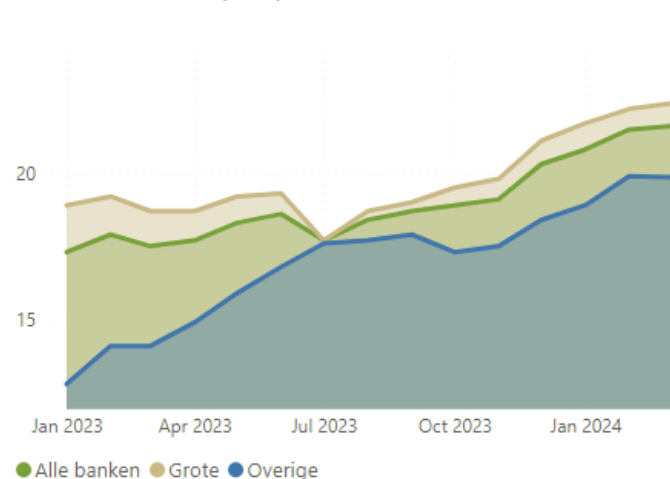
The solvency ratio in the banking sector improved to 21.6% in March, while the liquidity ratio remained stable around 53%. Non-performing loans (NPLs) continued to decrease in March 2024. While this ratio was 15.8% in March 2023, it is 10.4% in March 2024. This is due to the implementation of the asset quality review by banks and the improved repayment capacity of Surinamese borrowers.

Debetrentes SRD (in %)



Source: CBvS.

Solvabiliteitsratio (in %)



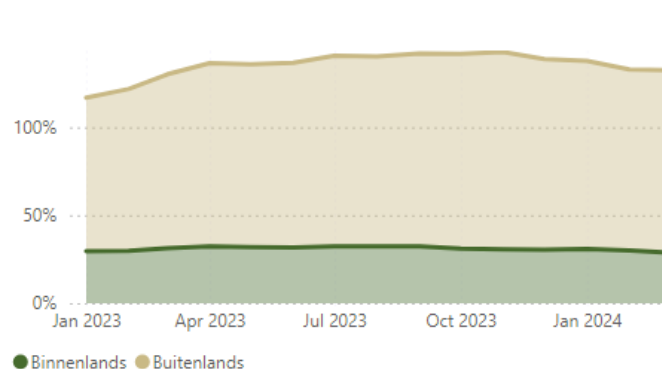
Source: CBvS.

DEVELOPMENT IN PUBLIC DEBT

The debt-to-GDP ratio – public debt as a percentage of GDP – further declined, to 132.4% in March 2024 according to the national debt act. Despite an appreciation in exchange rates, foreign debt expressed in local currency increased to SRD 92.7 billion in March. Domestic debt further decreased to SRD 25.7 billion due to repayments.

Suriname has reached agreements with bilateral creditors in line with the restructuring program. Negotiations with China are in the final phase, while a principal agreement was signed in the first quarter of 2024.

Staatsschuld (in % van BBP)



Source: SDMO.

OUTLOOK AND DEVELOPMENTS

- While the VAT has proven its usefulness, there is still room for improvement in tax collection. Capacity building and the use of modern technologies could contribute to this. Therefore, SEOB advocates for further privatizing the tax authority and integrating it into the IMF program. Anti-corruption and anti-bribery measures should be included to enhance the integrity of this institution. Collaborations with local banks can also be considered, as they have an interest in reducing NRA risks.
- SEOB continues to emphasize the need to improve the VAT collection process to significantly increase government revenues. It is crucial to invest in personnel and systems, which will ultimately lead to faster identification of tax evasion and fraud. In line with IMF recommendations, SEOB emphasizes the importance of clear fiscal identification numbers to improve compliance. Additionally, it is important to continuously motivate and educate the business community about VAT legislation.
- The government misses significant revenues from VAT, other taxes, and import duties. Structural solutions are therefore needed to strengthen the tax authority and customs. SEOB welcomes the recent evaluation by CARTAC and the VAT Evaluation Commission and the progress at the tax authority and encourages the government and the tax authority to implement these recommendations as soon as possible.
- Reducing subsidies on utility rates is essential. However, the government should timely consider the impact on both consumers and producers. The government should increase subsidies to individuals in a timely manner to compensate for rising living costs. Additional subsidies for vulnerable groups are also necessary. SEOB advises executing social benefits timely and effectively through the banking system.
- The SEOB is concerned about the structural increase in excess liquidity since the beginning of 2024 due to rising net government expenditure. Fiscal discipline and good coordination between the Ministry of Finance and the CBvS are crucial for a successful Monetary Targeting policy.
- Monetary measures have recently caused interest rates to rise. On the other hand, exchange rate pressures and spending inflation have decreased in recent months. However, the high interest rates pose a challenge for SMEs, which are essential for developing export sectors and/or import substitution. Therefore, SEOB welcomes projects such as SURGE, the guarantee fund, and the production credit fund.

- Inflation is expected to further decelerate in 2024. However, utility rate adjustments will cause cost-push inflation. SEOB estimates a 12-month average inflation rate between 17% and 23% in 2024, while the IMF expects an average inflation rate of 21.1%. Fiscal discipline remains essential.
- SEOB expects economic growth in 2024. However, we do not anticipate that production will yet reach pre-Covid levels in 2024. If TotalEnergies makes a positive investment decision, the startup of the offshore oil sector will support economic growth. SEOB advocates for incentives to develop local sectors, focusing on employment and production, with an eye on sustainability and climate change.
- SEOB emphasizes the importance of combating fraud, corruption, and money laundering (AML/CFT) to create a favorable investment climate, attract investors, and ensure a level playing field for businesses in Suriname. The World Bank estimates that 5% of global GDP is lost annually due to corruption.
- In line with the above, SEOB stresses the importance of implementing the CFATF recommendations and advises including members of the private and banking sectors in the National Anti-Money Laundering Committee and AML-PIU. This is due to the necessity of compliance in the private sector, particularly in the banking industry.
- Within the IMF program, recent emphasis has been placed on measures under the areas of "Good Governance" and "Anti-Corruption." SEOB believes that implementing these measures will promote the institutional strengthening of Suriname, especially with the end of the IMF program in sight. SEOB advocates for an IMF-2 program to strengthen institutions, so the results of the current IMF program are maintained, and the government can sustainably manage its finances post-program.

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