

The 15th SEOB bulletin discusses public finances, 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

- Public finances show significant weaknesses. While expenditures—excluding subsidies—are somewhat controlled, revenues need to be structurally improved.
- The government must prioritize the phasing out of electricity subsidies and public sector reform to make the public budget more sustainable.
- Exchange rates for foreign currencies further declined in July 2024, although a slight increase was observed in August 2024.
- Year-on-year inflation (hereafter: inflation) also decreased in June 2024, reaching 16.2%. Inflation was 2.4 percentage points lower than the previous month, primarily due to the decline in exchange rates.
- Average inflation—the price increases over the last 12 months compared to the previous 12 months—also slowed, reaching 32.6% in June 2024.
- The target for the SRD base money supply (M0) was achieved in May 2024.
- While savings rates increased, the average lending rates slightly declined in May 2024.
- Gross international reserves (including bank reserves) stood at USD 1.41 billion in June 2024. Import coverage was 6.6 months.
- Government debt as a percentage of gross domestic product (GDP)—the debt ratio—further declined to 120.6% in May 2024, mainly due to the drop-in exchange rates.
- In the banking sector, a decrease in non-performing loans was recorded in May 2024, dropping to 7.2%.
- Suriname reached a staff-level agreement with the IMF on the 7th review under the program. All targets were met except for the government's primary balance.
- According to our calculations, as of mid-August, 61.6% of the measures under the IMF program had been completed (Table 1). This remains unchanged from the previous month.

Table 1. Status of IMF Program Measures

Policy Area	Completed	In Progress	Other
Monetary and Exchange Rate Policy	64.3%	33.3%	2.4%
Fiscal Policy	60.6%	16.7%	22.7%
Debt	66.7%	33.3%	0.0%
Financial Sector	62.5%	37.5%	0.0%
Governance	55.9%	38.2%	5.9%
Other	75.0%	25.0%	0.0%
Total	61.6%	28.6%	9.7%

Note: "Other" means the measure has been postponed or not yet started, or the status of the measure is unknown. Measures that require immediate attention are reviewed at each IMF review and are also part of policy areas A to F. Source: SEOB calculations with IMF monitoring matrix data.

SEOB Emphasizes Balanced Public Finances

The SEOB emphasizes that the government must achieve a primary balance of 2.7% in 2024, in accordance with the IMF program. The SEOB also stresses that a deficit in the total balance should be avoided. This is essential to prevent pressure on the money supply, the exchange rate, and ultimately inflation. Data up to May 2024 shows that the government, except for February, recorded deficits on both the primary and total balances. Our concern is that if a reversal does not occur in time, this situation will worsen in 2025, the election year, with all the consequences that entails. **This concern was also highlighted by the IMF in a recent press conference.**

The SEOB is particularly concerned about government revenues, which lag expenditures. While VAT revenues are gradually picking up, the delay in income tax revenues and the increase in subsidies and contributions have offset this progress. The government needs to phase out electricity subsidies and prioritize public sector reform to ensure that public funds are directed towards the right groups and purposes. The current account of the balance of payments showed a deficit in the first quarter of 2024, indicating that Suriname imported more goods and services than it exported during this period. This is a tipping point that could lead to an increased demand for foreign currency. The deficit on the current account of the balance of payments and the failure to achieve the primary balance could again result in higher demand for foreign currency, fueling inflation. The SEOB stresses the urgency of maintaining healthy public finances to keep the state's financial household in good order.

Table 2. Public Finances 2023 and Estimates 2024 (on a cash basis, as % of GDP)

	Realization 2023	Estimation 2024*	Deviation
Total revenues	25.1	22.7	-2.4
Tax revenues	15.9	15.2	-0.7
Direct taxes	8.8	7.9	-0.9
Indirect taxes	7.1	7.3	0.2
Non-tax revenues	9.0	7.3	-1.7
Grants	0.3	0.1	-0.2
Total expenditures	26.9	25.5	-1.4
Personnel expenditures	6.7	6.1	-0.6
Acquisition of goods and services	4.1	4.2	0.1
Subsidies and contributions	10.1	10.4	0.3
Interest payments	3.0	2.8	-0.2
Capital expenditures	2.9	2.0	-0.9
Primary balance	1.3	0.0	-1.3
Overall balance	-1.7	-2.8	-1.1
GDP (billion SRD)	SRD 138.4	SRD 170.9	

Notes: The figures for 2024 are annual estimates based on government data from January to May 2024. Seasonal effects are not accounted for. The green and light red colors indicate a positive and negative contribution, respectively, to the government balance as a percentage of GDP compared to the previous period. Source: SEOB calculations based on data from the Ministry of Finance and Planning.

Forecast for 2024

We present a forecast of public finances relative to GDP—a measure of the economic output value in a given year. Public finances are projected to be in relatively worse condition in 2024 compared to the

previous year. While the overall balance deficit was 1.7% of GDP in 2023, we project a deficit of 2.8% of GDP for 2024 (see Table 2).

Expenditure Side: Prioritizing the Phasing Out of Electricity Subsidies

The government has limited its total expenditures, except for the critical item “subsidies and contributions,” and to a lesser extent, “goods and services.” Both SEOB and the IMF emphasize that utility subsidies should be phased out in a balanced manner to (1) make the public budget more sustainable and (2) transition to targeted subsidies for households with lower purchasing power. There should also be an evaluation of how subsidies to the SZF (State Health Fund) can be made more efficient, as these place a burden of over SRD 180 million per month on public expenditures—a trend that has increased compared to last year.

The IMF also made it clear that the phasing out of electricity subsidies is a strict requirement for the continuity and success of the program. According to the IMF, the EBS (Electricity Company of Suriname) must return the revenues from the electricity rate increases for May and June to the state budget. SEOB stresses that the expenditures within the social program lack effectiveness. These expenditures place a significant burden on the budget while failing to achieve their intended goals. SEOB has informed both the government and the IMF of its regret that the focus is on a budget target rather than an effectiveness target.

Personnel expenditures and interest payments are decreasing as a percentage of GDP, based on preliminary figures. Regarding personnel expenditures, SEOB expects these to exceed the forecast due to ongoing negotiations between the government and labor unions. SEOB acknowledges that civil servants have lost purchasing power in recent years, but both negotiating parties must be aware of the impact of substantial salary increases for civil servants, as these would place significant pressure on the budget and could directly lead to increases in exchange rates and inflation. SEOB would have preferred a more effective implementation of public sector reform, in which “ghost civil servants” could have been eliminated. The remaining “real civil servants” could then be adequately compensated. Unfortunately, this approach was not chosen.

The reduction in capital expenditure is not necessarily positive, as government investments are essential for long-term growth and development. This includes investments in education, healthcare, infrastructure, and green energy (e.g., wind and solar energy).

Increasing Revenues is Essential

Revenues are at risk of being significantly lower than in 2023 relative to GDP, if the trend from January to May of this year continues. This is evident from both lower tax and non-tax revenues. Although indirect taxes (including VAT) are higher than in the previous year, this increase has not yet fully compensated for the decline in direct taxes. Nevertheless, VAT is beginning to show its effectiveness, and according to discussions with the tax authorities, the collection of VAT is being prioritized. Income tax revenue is about 33% behind in 2024, possibly because companies are submitting income tax returns late under the new self-reporting system of the tax office. Additionally, declining gold production has negatively impacted government revenues. The downward trend in non-tax revenues is partly due to lower dividends and royalties and the lower exchange rate.

SEOB continues to stress that the government must increase its revenues by more effectively collecting taxes, particularly customs duties. The tax authority must be made autonomous and strengthened. The use of modern technologies and capacity building for personnel at both the tax office and customs are prerequisites for successful tax collection. Monitoring tax compliance should also be a top priority. Integrity and good governance are essential in this regard.

Recent Economic Developments

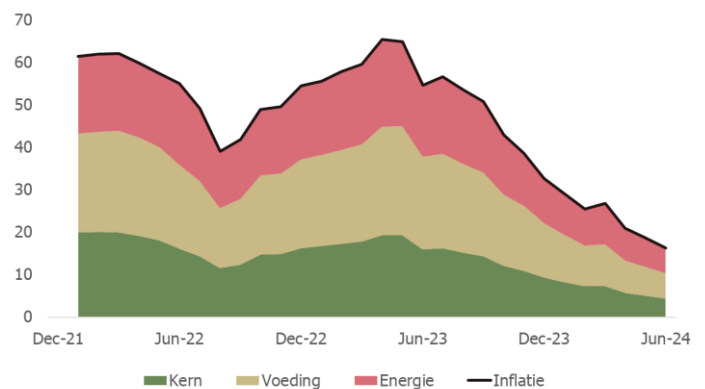
Exchange Rates and Inflation Continue to Decline

The decline in inflation can mainly be attributed to the decrease in foreign exchange rates. Inflation in June stood at 16.2%, while monthly inflation was 0.2%. Core inflation—excluding food and energy prices—also decreased further. The average 12-month inflation fell from 35.8% to 32.6%.

The SRD component of the M0 (base money supply) met the limit agreed with the IMF in May 2024. Although the target was achieved, SEOB continues to emphasize that a balanced government budget is necessary to avoid potential spending pressures.

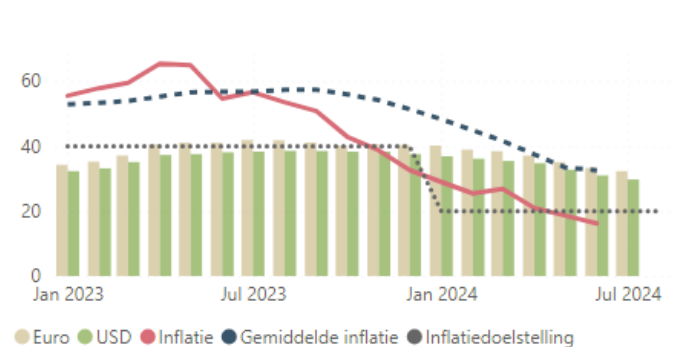
Exchange rates continued to decline in July 2024. The USD exchange rate fell by more than 3.9% in July, while the Euro exchange rate decreased by approximately 3.0% against the SRD. Ongoing exchange rate drops could lead to revenue losses for both exporters and the government. On the other hand, the government may benefit somewhat from this in terms of repaying foreign debt.

Bijdragen Kern, Voedsel en Energieinflatie



Note: Energy inflation includes the contribution to inflation from the main categories of utility rates and transportation. Food inflation includes the contribution from the main category of food and non-alcoholic beverages. Core inflation includes contributions from other main categories. Source: SEOB calculations based on data from the ABS (General Bureau of Statistics).

Inflatie (in %) en Wisselkoers



Sources: ABS, CBvS.

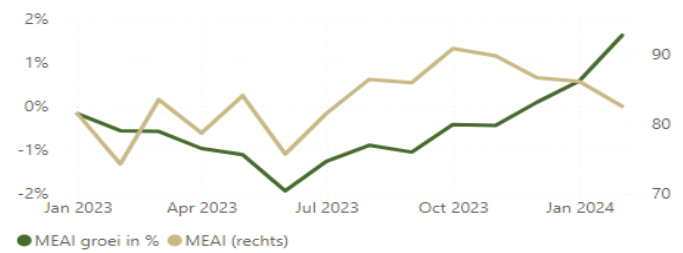
Current Account of the Balance of Payments Records a Deficit

The increase in the economic activity index (MEAI) aligns with the changes in the balance of payments, which reflect transactions between Suriname and foreign countries. Except for the gold sector, exports increased in the first quarter of 2024. SEOB expects the economy to strengthen further in the second half of 2024.

The current account of the balance of payments showed a deficit in the first quarter of 2024, in contrast to the two preceding quarters. This deficit amounted to USD 14.8 million, primarily caused by a decline in gold export values. The financial account also recorded an outflow of USD 17.1 million, a stark contrast to the inflow of USD 208 million in the previous quarter. However, after adjusting for statistical discrepancies, there was a net inflow of USD 33.1 million into Suriname.

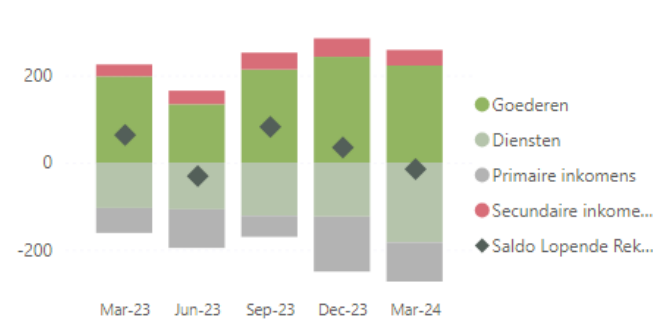
Although the gold sector contributes the most to goods exports, it decreased by approximately USD 42 million in the first quarter of 2024. On the other hand, oil exports increased by USD 14.3 million. Furthermore, a significant increase was noted in the export of wood and wood products in the non-mining sectors. The import value remained nearly the same as in the previous quarter (USD 403.1 million).

Economische Activiteit



Source: CBvS.

Betalingsbalans (mln USD)

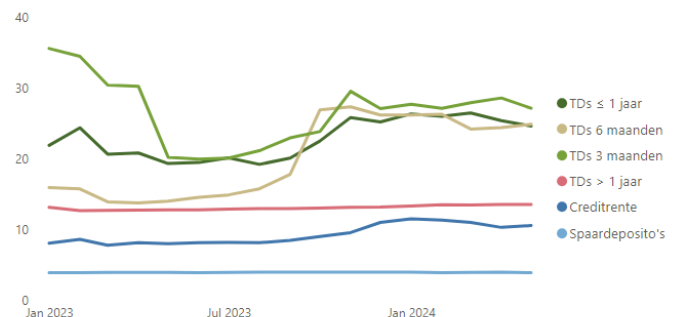


Source: CBvS.

Interest Rates Remain Stable; Non-Performing Loans and Solvency Improve

Average lending and savings rates moved in opposite directions in May 2024. While the average lending rate decreased from 14.9% to 14.7%, average savings rates slightly increased from 10.4% to 10.6%. SEOB expects that interest rates may have reached a turning point due to declining inflation and improved inflation expectations. Nonetheless, interest rates remain a challenge for small and medium-sized enterprises, and it is up to policymakers to create stimulus measures for strategic production sectors.

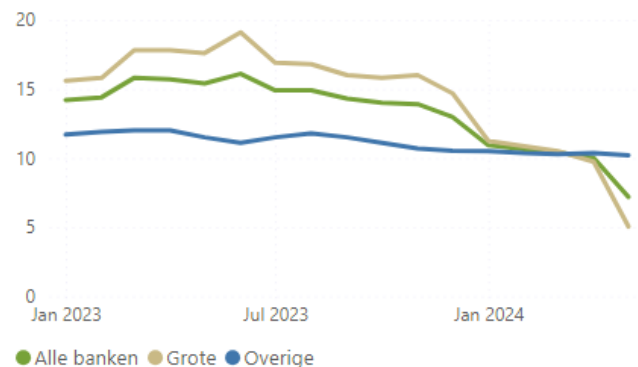
Creditrentes SRD (in %)



Source: CBvS.

Non-performing loans (NPLs) continued to decline. While the NPL ratio stood at 11.5% in May 2023, it dropped significantly to 7.2% in May 2024. This is partly due to the improved repayment capacity of borrowers and partly due to the restructuring of loan portfolios by some commercial banks. The solvency ratio increased to 21.8%. In May, the liquidity ratio in the banking sector remained stable at 53.3%.

Niet-renderende leningen (in %)

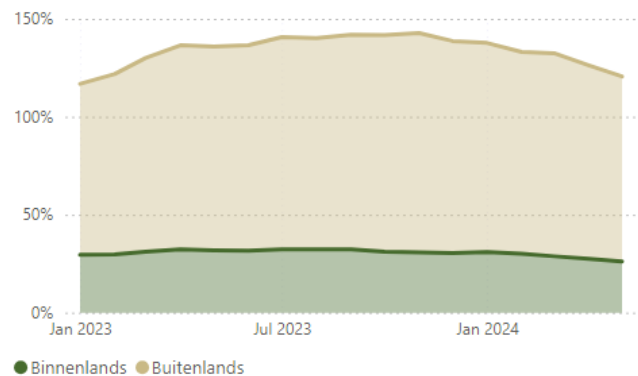


Source: CBvS.

Developments in the Public Debt

Government debt as a percentage of GDP, also known as the debt ratio, further declined in May 2024 to 120.6%, according to the legal definition. Foreign debt, expressed in local currency, decreased to SRD 84.4 billion. Domestic debt also decreased to SRD 23.4 billion due to repayments and an exchange rate effect. Domestic debts owed to the central bank and commercial banks have been restructured.

Staatsschuld (in % van BBP)



Source: SDMO.

Outlook and Recommendations

- The performance of public finances remains concerning, with little sign of improvement in the figures from January to May 2024. We advocate for further investments in the Tax Institute and Customs, particularly in staff training and the adoption of modern technologies. A key prerequisite here is good governance and integrity.
- The phasing out of utility subsidies remains necessary to rationalize government expenditures. However, this should not be done indiscriminately, and there must be transparency regarding the cost of electricity for stakeholders. This will increase support for the further reduction of subsidies.
- We advocate for an effective social safety net. The current social program, which is not functioning well, needs to be redesigned to effectively combat poverty and support the socially vulnerable. We

call for transparency in social benefits and recommend that these benefits be distributed through commercial banks.

- SEOB expects economic growth in 2024. The offshore oil sector will further boost the economy if TotalEnergies makes a positive investment decision. SEOB advocates for incentives to develop local sectors, with an emphasis on employment, production, sustainability, and climate change. Several sectors should be identified and prioritized in the coming period, and the education sector should be aligned with these priorities.
- SEOB is closely monitoring excess liquidity. In the first months of 2024, the M0 target was regularly missed due to net government expenditures. This target was met in May. Fiscal discipline and strong coordination between the Ministry of Finance and the CBvS are crucial for the success of the Monetary Targeting policy.
- SEOB estimates a 12-month average inflation rate between 15% and 18% in 2024. A key risk to this estimate is the government deficit. Utility rate adjustments will also lead to cost-push inflation.
- SEOB welcomes the progress made in addressing the backlog of domestic government debt. The recapitalization of the CBvS should also be initiated.
- SEOB is pleased with the progress of the second NRA and emphasizes the need for stricter measures against fraud, corruption, and money laundering (AML/CFT) to ensure a positive investment climate. Laws are being developed to strengthen AML/CFT, and the IMF places great importance on addressing these issues. SEOB advises involving the private and banking sectors in the National Anti-Money Laundering Commission and AML-PIU, and advocates for a follow-up IMF program to strengthen institutions and ensure sustainable financial management.
- SEOB stresses the need for a follow-up IMF program to safeguard recently implemented measures and promote the strengthening of institutions, with the goal of creating a sustainable economy and society.

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