BULLETIN #01 JULY 2023

This is the first bulletin of the Suriname Economic Oversight Board (SEOB) since the signing of the Memorandum of Understanding (MoU) with the Government of Suriname on June 1, 2023. The SEOB will issue a monthly bulletin highlighting the progress of the IMF program and other key developments. Statistics and measures related to the IMF program will be presented on a regular basis on the SEOB website, www.seob.sr, in interactive dashboards.

With each issue of the bulletin, SEOB will adjust and sharpen the bulletin based on feedback from various stakeholders. With the Ministry of Finance and Planning and the Central Bank of Suriname, we will also explore ways to optimize the supply of information so that monitoring can be done monthly based on the data available. The IMF program has 6 themes:
a) Restoring fiscal discipline
b) Debt restructuring
c) Tackling inflation
d) Addressing Banking Sector risks
e) Strengthening the Central Bank of Suriname
f) AML/CFT and Governance

In particular, Bulletin #01 presents key recent economic developments (a, b, & c) in relation to the IMF program. In follow-up publications, SEOB will further highlight the implementation of the other themes and the social program.

Key developments

- Prices continue to rise in 2023. Year-on-year inflation (hereafter: inflation) was above 55% as of January 2023, while exchange rates continued to rise. The IMF program estimated the inflation rate at 36% for 2023.
- Government finances improved significantly in the first quarter of 2023. According to the IMF program, the primary account target is set at 1.7% of GDP for 2023.
- International reserves amounted to USD 1.14 billion as of the end of April. Usable reserves are estimated at USD 865 million.
- In June 2023, the International Monetary Fund (IMF) completed the second review of the Extended Fund Facility (EFF) for Suriname. During this facility approved in December 2021, the IMF monitors several targets agreed upon with the government. Of the IMF measures set, just over half were completed by June 2023 (Table 1).

Table 1. Status of IMF interventions

Policy Area	Completed	In progress	Ongoing	Other
Requires immediate attention	23.1%	23.1%	7.7%	46.2%
A: Monetary and exchange rate policies	61.9%	9.5%	23.8%	4.8%
B: Fiscal policy	55.0%	6.7%	0.0%	38.3%
C: Debt	57.1%	28.6%	0.0%	14.3%
D: Financial sector	56.5%	4.3%	30.4%	8.7%
E: Governance	51.7%	24.1%	0.0%	24.1%
F: Other	75.0%	0.0%	25.0%	0.0%
Total	**54.6%**	**12.4%**	**10.3%**	**22.7%**

Source: Calculations by SEOB based on IMF monitoring sheet May 2023.

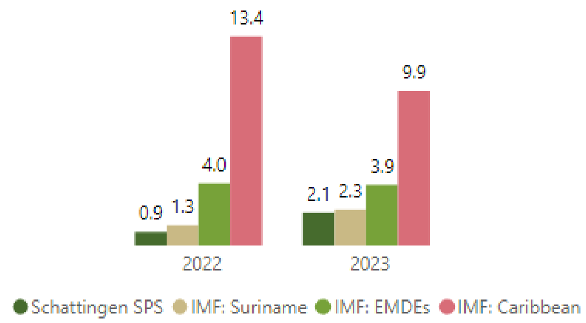
Growth forecasts uncertain, signs of contraction of the economy in 2023

The volume of output of the local economy is still well below pre-covid levels. The Central Bank of Suriname's (CBvS) monthly economic activity indicator estimates a contraction of the economy of 0.7% in February 2023. However, the Planning Bureau forecasts marginal growth of 2.1% for 2023, while the IMF projects growth in economic activity of 2.3% if the IMF program is implemented accurately.

According to IMF estimates, the pre-covid gross domestic product (GDP) level of US$4 billion will not be achieved before 2028. Also, the growth of the local economy lags the growth of emerging economies (EMDEs) and the Caribbean region. Developments in the offshore oil industry may favorably affect the growth of the local economy. However, a final investment decision (FID) from international oil companies remains outstanding for offshore Block 58. The FID is expected around mid-2024.

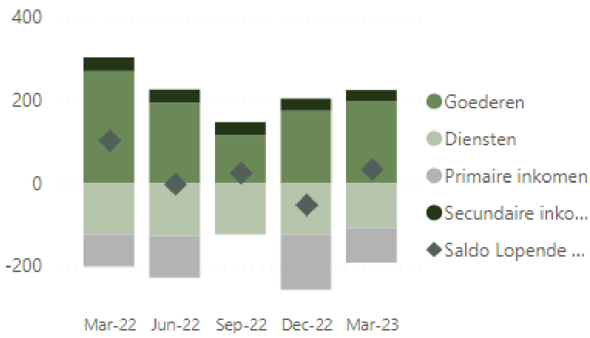
The balance of the goods account increased by 13.3% in the 1st quarter of 2023, due to a sharp decline of imports. In particular, less oil and merchandise were imported compared to the previous quarter. Exports also decreased in the 1st quarter by 9.2%, due to a decline in the value of gold exports. The current account of the balance of payments improved, due to the improvement in the primary income account and the goods account. The financial account of the balance of payments showed an outflow of USD 81.4 million in the 1st quarter of 2023 driven by investments and other non-banking financial operations. On the overall balance, there was a foreign exchange outflow of USD 3.2 million.

Real GDP growth (in %)



Sources: IMF, SPS.

Balance of Payments (mln USD)



Source: CBvS.

Exchange rate hikes and inflation continue

Inflation in May 2023 was 64.9%; an increase in consumer prices from May 2022. The IMF expects inflation to decelerate to 36% by the end of 2023, due to fiscal and monetary measures. Increases in food prices, utility prices and fuel contributed to inflation. Consumer prices in the month of May were 19.7% higher than December 2022, while the USD/SRD exchange rate depreciated 17.6% from year-end 2022. Although inflation remains high, monthly inflation in May relative to April reached its

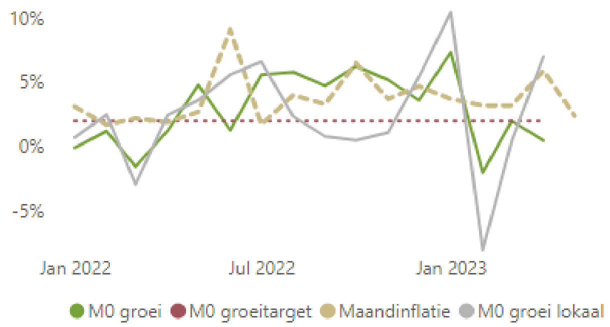
Inflation and Exchange Rate

Source: ABS, CBvS.

lowest level since July 2022 (2.4%). Based on continued exchange rate appreciation and announced utility rate increases, consumer prices are expected to further increase in the coming months of 2023.

In April 2023, the monetary base (M0) grew by 0.5% while the local component of M0 increased by 7.0% from March. A decline in the growth rate of M0 was observed from January 2023. Broad money also increased, with over SRD 3.9 billion in April 2023. The increase in broad money since July 2022 is driven by the increase in the foreign currency component. The CBvS increased the cash reserve rate on SRDs from 39% to 44% in April 2023. The CBvS also set a 20% growth limit on the SRD loan portfolio growth for the period April 2023 - April 2024. These measures should ensure that money growth is restrained. The Open Market Operations (OMOs) are also in full effect. In the 1st quarter of 2023, the CBvS started issuing Central Bank Certificates (CBCs).

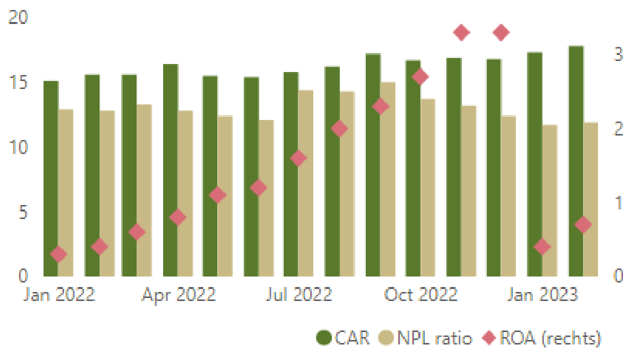
M0 growth and monthly inflation (in %)



Sources: ABS, CBvS.

Except for a slight movement in credit interest rates in recent months, there has been little movement in commercial banks' interest rates so far. The weighted average savings rate rose marginally to 8.2% in April driven by rates on short-term term deposits, while weighted average lending rates remained stable around 13.6%. Private sector lending increased by more than 17% in April 2023 compared to December 2022. For now, the effect of OMOs on the interest rates of the bank and inflation appears limited. It can be expected that the combination of OMOs, cash reserve increases and the restriction of SRD-lending growth will affect interest rate developments in the banking sector.

Banking sector indicators (in %)



Source: CBvS.

Banking sector soundness is a key pillar of the IMF program. Although the aggregate capital adequacy ratio (CAR) of banks reached 17.8% in February 2023, some banks are undercapitalized. Of the banks' loan portfolio, over 11.9% were non-performing loans (NPL) in February; well above the international standard of 5%. The liquidity ratio of the sector reached 51.8% in February, while profitability as measured by return on assets (ROA) was 0.7%.

Government finances improve in 2023, public debt reaches record levels

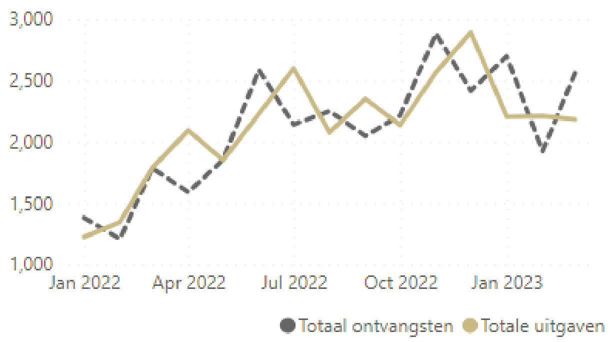
Government finances on a cash basis improved in the 1st quarter of 2023. Both total revenue and spending on a cash basis relative to estimated GDP decreased significantly compared to 2022.

The impact of VAT was not yet noticeable in government revenues of the 1st quarter of 2023. Total revenues and expenditures of the 1st quarter were at 85.2% and 75.6% of the 2023 budget, respectively, on an annual basis. Interest payments and capital expenditure fell short of the budget. Given that revenues exceeded expenditures, the government recorded a cash surplus. The SEOB nevertheless emphasizes the prior action from the IMF regarding revising the VAT law. The collection process should also be strengthened.

The primary account recorded an annualized surplus of 3.5% of estimated GDP in the 1st quarter of 2023. The IMF target for the primary account is set at 1.7% in 2023 (Table 2). Grants and contributions were at 8% of estimated GDP in the 1st quarter on an annualized basis. Personnel expenditures amounted to 6.1% of GDP in the 1st quarter on an annual basis, lower than the target of 7% of GDP to be reached in 2024.

Public debt under the Public Debt Act increased from about 122% in 2022 to 195% in Q1 2023, above the desirable debt ceiling of 120% in 2024 and 60% by 2035. Nevertheless, based on the IMF's estimated GDP of SRD 86.7 billion for 2022, the estimated public debt as of March 2023 stands at about 131%. External debt increased because of a new loan with the IADB of USD 50 million and because of the exchange rate effect. Also, in 2023, the Rekenkamer recorded a USD 15.8 million loan taken out in 2018 (SDMO, 2023).

Government income and expenses (mln SRD)



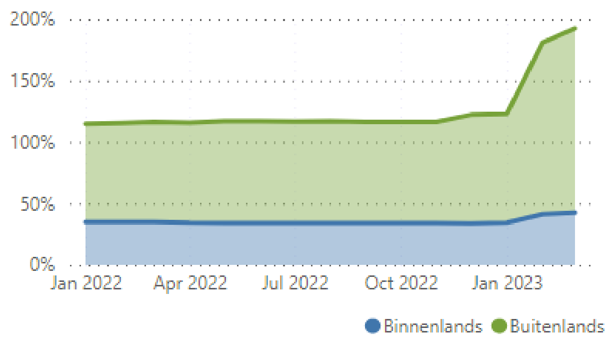
Source: Ministry of Finance and Planning .

Table 2. Government indicators as % of GDP

	Q1.2023 annualized	EFF Target
Primary account	3.5%	1.7% in 2023
Wages and salaries	6.1%	7.0% in 2024

Source: SEOB with figures of the Ministry of Finance and IMF GDP estimates.

Government debt (in % of GDP)



Source: SDMO.

Outlook/Recommendations of SEOB

- SEOB is content that the IMF-EFF program is once again advancing.
- SEOB emphasizes that the IMF-EFF program is challenging. It will demand tremendous fiscal and monetary discipline and focus from the government to implement the program.
- Public finances are improving on a cash basis but are still very fragile and not sufficiently sustainable.
- The positive government balance on a cash basis may reverse again if efforts are not made to structurally increase revenues, including more effective VAT collection, indirect taxes (import duties) and more structurally deploy the fiscal system as a "revenue generator" for the country.
- The VAT law needs to be revised as soon as possible by De Nationale Assemblee (DNA) to increase the collection rate to 60%. However, this is not beneficial to businesses in the context of investing in the oil and gas industry. Imposing VAT on energy and water costs will further reduce purchasing power. The advice is to explore ways to better implement VAT collection. In this context, the Suriname Business Association (VSB) has launched an initiative in cooperation with USAID to strengthen the implementation of VAT. Furthermore, gaming and casinos, cannot be exempted from paying VAT and this sector cannot be classified at the same level as basic necessities.
- A positive government balance on a cash basis can also turn into a negative if subsidies are not phased out and personnel costs are not controlled.
- It should be emphasized that although the IMF program explicitly states that no increases in salaries will be granted and/or new public employees hired, this appears to be happening in practice. These actions will result in (1) failure to meet the primary account target, (2) further price increases, (3) jeopardize the social program and do not demonstrate commitment to the proper implementation of the IMF program.
- Because of the monetary measures, SRD lending is constrained. The SEOB calls attention to activating and promoting production and guarantee funds to grow local production and SMEs.
- If monthly inflation for remaining months maintains the rate of May (2.4%), inflation for 2023 is estimated at over 42%. If price increases continue at the rate since January 2023 - 3.7% per month on average - inflation for 2023 is estimated at 54%.
- If subsidies on water and electricity are further phased out, there is a risk that price increases will persist in the short term driven by cost factors. As a result, the expected inflation rate of 36% mentioned in the IMF report does not look realistic for the time being.
- Suriname's debt position has not improved. On the positive side, there is already an agreement with the Paris Club and India regarding the rescheduling. The rescheduling of the Oppenheimer and China debt needs to be expedited. Finally, repayments must be begin to get Suriname out of default.
- The SEOB also recommends reviewing the measures concerning the CBvS, in particular (1) Aligning the Banking Act with the Foreign Exchange Commission regulations, (2) recapitalization of the CBvS and (3) publication of annual financial statements of the CBvS.
- SEOB also recommends more transparent and effective implementation of the social program. Preferably, incentives should be provided through the fiscal system to promote more effective operation of the fiscal system and for transparency.