BULLETIN #03 AUGUST 2023

The third 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.

Key developments

- Public finances remain concerning, despite a positive primary account balance on a cash basis. Government revenues lag behind expenditures.
- Effectively implementing the social program is challenging. This is evident in the low realization of Subsidies and Transfers relative to the budget.
- Year-on-year inflation (hereafter inflation) rose from 54.6% in June to 56.6% in July 2023. Increases in utility rates, as well as international grain, rice and oil price jumps put pressure on achieving the inflation target of 36.4% for 2023.
- The exchange rate showed signs of stability in recent months.
- International reserves rose further in July to over 1.095 billion, while usable reserves are estimated at USD 840 million or 77% of total reserves. Gross international reserves were below the set target of USD 1.155 billion in July 2023.

Of the IMF program measures, about 57% were completed as of August 2023. The percentage decreased compared to the previous month due to new measures requiring immediate attention. Most of the measures that have as status "other", fall under the IMF program sub-areas "Fiscal Policy" and "Governance." The new measures requiring immediate attention imposed by the IMF are:

- Publish quarterly updates on electricity tariff adjustments on the website of the Energy Authority of Suriname.
- Implementation of the amended Personnel Law stopping payments to non-registered government employees.
- Banks should implement the results of the asset quality review (AQR).
- Publish audited IFRS financial statements for 2020-2021 by the CBvS.
- Develop a plan for the recapitalization of the CBvS.
- Submit legislative amendment for Foreign Exchange Scheme 1947 to The National Assembly (DNA).
- Establish governance framework for state banks.
- Publication of the 2017-2021 financial reports of the 10 largest SOEs.
- Issue a government decree to give the finance minister the authority to access all bank accounts held by government entities with commercial banks.

Table 1. Status of IMF measures

Policy area	Completed	In progress	Other
Requires immediate attention	6.7%	93.3%	0.0%
A: Monetary and exchange rate policy	61.9%	33.3%	4.8%
B: Fiscal policy	60.0%	10.0%	30.0%
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%
Total	**56.7%**	**28.3%**	**15.0%**

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.

PUBLIC FINANCES REMAIN WORRISOME

Realized government receipts lag the budgeted amount when expressed as a percentage of the size of the economy (GDP). In particular, indirect taxes, which include VAT, lag the budgeted amount by more than 3.5 percentage points of GDP on an annual basis. This again shows that the VAT law needs to be revised by DNA as soon as possible to yield more government revenue. Government spending in January-May 2023 also fell below budget as a percentage of GDP. The largest shortfall was seen in grants and contributions. This is what the next section of the bulletin discusses in more detail.

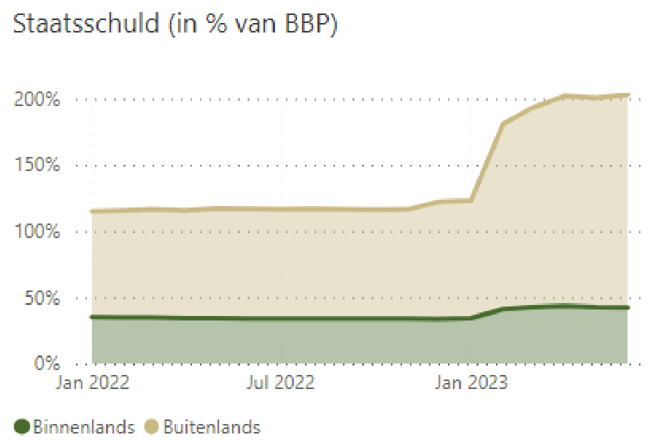
Government expenditures were higher than revenues in May 2023. This was mainly due to interest expenses that amounted to SRD 681 million. These, according to the Ministry of Finance and Planning, were for the CBvS (SRD259 million) and the IDB (SRD120 million). There was also a jump of approximately SRD140 million in personnel expenses in May. This was related to the awarding of SRD 2500 to public servants and SRD 1800 for retirees for six months. The goods and services items also increased by SRD200 million compared to April. The primary account posted an annualized surplus of 3.1% of estimated GDP. The IMF target for the primary account is set at 1.7%.

Public debt, according to the Public Debt Law, increased to 203% in June 2023. Foreign public debt rose on the back of loans with the IDB and the World Bank under the IMF program. Foreign public debt jumped by about SRD 1.5 billion to SRD 94.5 billion or 160.7% of GDP. Domestic debt declined to SRD 24.9 billion or 42.3% of GDP. Using the IMF's estimated GDP of SRD 131.9 billion, the estimated national debt as of June 2023 is 90.5%. The national debt target is to reach 120% of GDP by 2024 and 60% of GDP by 2035.

Table 2: Government finances (as a % of GDP)

	Jan-May 2023 annualized	Budget 2023	Deviation (pp)
Total receipts	23,2%	28,2%	-4,97
Tax receipts	13,9%	17,6%	-3,68
• Direct taxes	8,7%	8,9%	-0,22
• Indirect taxes	5,2%	8,6%	-3,46
Non-tax revenue	9,3%	10,2%	-0,87
Donations	0,0%	0,4%	-0,42
Total expenses	22,8%	29,2%	-6,43
Personnel expenses	6,3%	7,0%	-0,69
Goods and services	3,1%	3,4%	-0,26
Grants and contributions	8,3%	11,9%	-3,61
Interest	2,7%	3,6%	-0,90
Capital expenditure	2,3%	3,3%	-0,97
Primary account	3,1%	2,6%	0,57
Total bill	0,4%	-1,0%	1,46
GDP (mln SRD)	131.936	119.881	

Note: The annualized figure is 12/5 times the January-May 2023 total. Source: SEOB calculations with data from the Ministry of Finance and Planning.



Source: SDMO.

SOCIAL PROGRAM NEEDS EFFECTIVE IMPLEMENTATION

The "social safety net" is part of both the IMF program, and the Government Recovery Plan. Evaluating the social program is in line with one of the measures requiring immediate attention in the IMF program, namely, *"Assess government spending on the social program and publish a time-bound strategic plan to improve the efficiency and effectiveness of social benefits."*

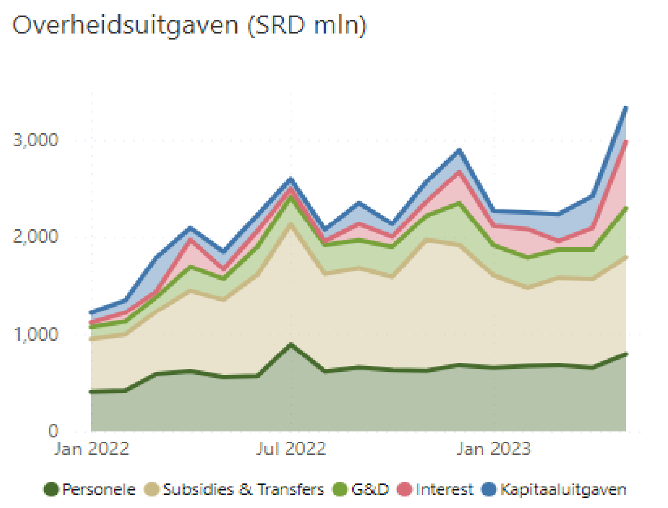
However, the SEOB notes that the social program is lagging. That effective implementation of the social program is proving challenging is partly reflected in the low realization of grants and transfers relative to the government budget (see Table 2).
It is necessary to evaluate the social program and implement it more effectively. Because of the reduction of subsidies on electricity and water, as well as rising world market prices of fuel and certain food products, purchasing power is decreasing.

The social program includes five components.

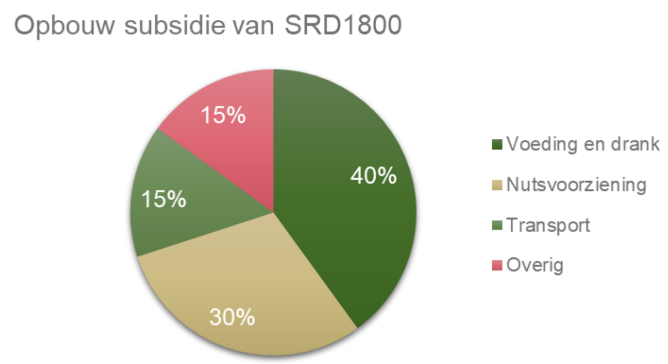
- General child support
- General Old Age Provision
- Financial assistance for people with disabilities
- Financial assistance for financially weak households
- Additional aid of SRD 1,800 for 60,000 households earning less than SRD 6,000 per month. A budget of about SRD 1.2 billion was made available for this purpose.

The additional aid of SRD 1,800 per month is to offset rising costs for food, utilities, and transportation, among other things (see chart). However, this amount has since become obsolete due to ongoing inflation.

The limit of SRD 6,000 per month was determined based on research conducted by a multidisciplinary working group on poverty line determination. It is estimated that the financial aid has already been allocated to over 40,000 households and more than 60,000 households are now registered. The SEOB is concerned that this number will surge as purchasing power continues to decline.



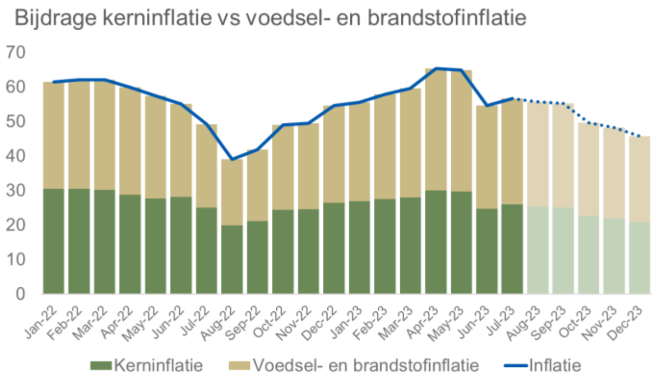
Source: Ministry of Finance and Planning.



Source: SEOB based on interviews with experts.

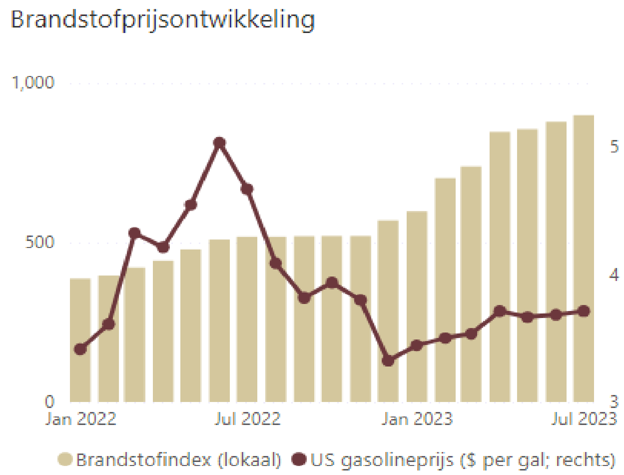
INFLATION REMAINS HIGH DESPITE CALM FOREIGN CURRENCY MARKET

Prices at the end of July were 56.6% higher than July of the previous year, despite the exchange rate having been stable for several months. Inflation in June stood at 54.6%. Compared to the previous year, July's price increases were mainly caused by food and fuel price pressures. Also, the phasing out of the subsidy on utility rates caused price increases in electricity and water. Comparing July 2023 with June, utilities had the biggest effect on inflation.



Note: Projections for the months of August through December 2023.
Source: calculations SEOB with data from the ABS.

Inflation can be divided into core inflation and food and fuel inflation (see chart). Core inflation excludes the volatile components in inflation. In recent months, core inflation diminished, and food and fuel prices contributed to local inflation. Food and fuel prices were driven by (1) the exchange rate, (2) the removal of subsidies on fuel and in recent months (3) international prices. Food and fuel inflation is expected to continue to put pressure on local prices for the remaining months of 2023. Core inflation is declining but remains high due to the hikes in utility rates.

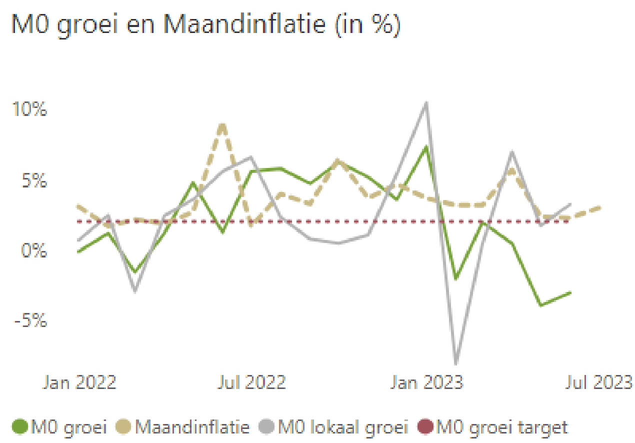


Source: World Bank.

Food and fuel price increases jeopardize achieving the inflation target of 36.4% by end 2023. Also, depending on their size, government spending on goods and services and the social program, among others, could put further pressure on inflation if the money in circulation expands.

EXCHANGE RATE APPEARS TO STABILIZE; CREDIT GROWTH FLATTENS

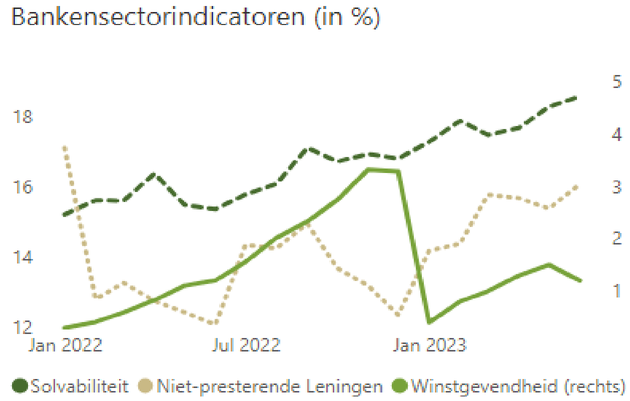
Base money (M0) dropped further in June. The aggressive tightening policy of the CBvS has tamed the exchange rate market in recent months. Here, the absence of excessive government spending was an important condition. From January 2023, a decline in the growth rate of M0 can be observed.



Sources: ABS, CBvS.

Credit extension remained nearly constant in June due to the credit limits set by the CBvS. Also, the CBvS increased the reserve requirement on SRDs from 39% to 44% by April 2023. These measures along with the CBvS open market operations should ensure that money growth is curbed. Outstanding loans amounted to SRD 24.6 billion in June 2023. A slight increase in lending rates has been observed since the measures taken by the CBvS. Whereas the average lending rate was 13.5% in March, it stood at 14.1% in June 2023. In contrast, not much change can be observed in savings rates.

The soundness of the banking sector is an essential part of the IMF program. Solvency within this sector rose further to 18.6% in June. The trend in non-performing loans, especially at large banks, remains concerning. At large banks, these rose to 19.1% of total loans. This is well above international benchmarks. The sector's profitability stood at 1.2% in June, as it did in June 2022.



Source: CBvS.

OUTLOOK AND RECOMMENDATIONS

- Public finances remain fragile. In particular, government revenues lag in 2023 when compared to the size of the economy. The SEOB continues to stress the importance of amending the VAT law to broaden the tax base.
- The SEOB calls for a more transparent and effective implementation of the social program, especially as purchasing power continues to decline. The SEOB is concerned that if inflation persists, the estimated number of 60,000 targeted households may increase. The SEOB stresses that the effectiveness and efficiency, and the principles of the social program, should be evaluated in the short term.
- Preferably, incentives should be provided through the fiscal system to promote more effective operation of the fiscal system and for transparency. However, the social program should be implemented carefully so that it does not put further pressure on inflation that is already high.
- SEOB considers the passing of the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Act and the launch of the second National Risk Assessment (NRA) as steps in the right direction. Also see bulletin #02 which paid additional attention to governance measures.
- The CBvS and the government will have to consider how to control import inflation due to international food and fuel price increases in the coming months. Given that subsidies on water and electricity are also being further phased out, the inflation target of 36.4% seems unrealistic.
- In case monthly inflation for the remaining months of the year maintains the current trend, the SEOB estimates end-of-year inflation in 2023 at about 46%.
- The SEOB requests the CBvS' attention for the sharp increase in non-performing loans at banks. The materialization of credit risks can have profound consequences for the solvency of these institutions. Also, the effects of the asset quality review have not yet been implemented. It is expected that implementing the AQR recommendations will negatively affect banks' solvency.
- The monetary measures implemented by the CBvS are partly resulting in a contraction in M0. Interest rates are expected to rise further because of the contractionary measures.
- Because of the contractionary monetary policy, SRD lending is being restricted to the detriment of SMEs. The SEOB calls attention to activate and promote production and guarantee funds to stimulate local production and SMEs.
- SEOB emphasizes that implementing the IMF's EFF (Extended Fund Facility) program is incredibly challenging. Meanwhile, the actions requiring immediate attention ("immediate actions") have also been expanded and must be achieved by December 2023. It takes enormous discipline and focus from the government and the CBvS to implement the program.