SEOB
SURINAME ECONOMIC OVERSIGHT BOARD

BULLETIN #05 OCTOBER 2023

The fifth 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

- As of July 2023, government revenues relative to the size of the economy lagged the previous year by about 4%, mainly because of a backlog in the collection of value-added taxes (VAT).
- On the government's expenditure side, interest payments are rising rapidly. Because of the relatively high national debt and limited repayments, interest payments are expected to continue to put pressure on government spending in the coming years.
- Since spending has also declined, the primary balance target is expected to be met by 2023.
- Year-on-year inflation (hereafter inflation) is decelerating. In September, it fell to 50.8%. Inflation in recent months was driven by the increase in utility rates due to the phasing out of subsidies. However, inflation remains high by international standards. Possible international oil price increases may put further pressure on inflation in the coming months. The SEOB expects inflation to range between 39% and 43% in 2023, based on the latest trends. This is an update to our previous forecast (Bulletin 4) due to lower-than-expected monthly inflation in September 2023 and a decline in local fuel prices in October.
- The exchange rate seems stable, falling slightly in recent weeks.
- Base money growth is in check. Tight monetary policy is leading to a slight increase in interest rates at commercial banks.
- Gross international reserves (including commercial banks' reserves) rose to USD1.11 billion in September. Import coverage improved to 6.3 months. The updated "performance criteria" for September was set at USD1.13 billion, while in December reserves should reach a minimum of USD1.23 billion.

  Of the measures within the IMF program, about 59% were completed as of mid-October 2023. Most of the measures with status "other" fall under sub-areas of the IMF program "Fiscal Policy" and "Governance." Key milestones for the IMF's fourth review will include:

  - The registration and publication of the assets of senior public officials. This is in line with the Anti-Corruption Law. This measure is necessary to prevent and deter corruption of public officials.
  - Establishing an electronic foreign exchange trading platform.
  - Fully completing the debt restructuring.

Table 1. Status of IMF measures

Policy area	Completed	In progress	Other
Requires immediate attention	8.3%	91.7%	0.0%
A: Monetary and exchange rate policy	61.9%	33.3%	4.8%
B: Fiscal policy	63.3%	8.3%	28.3%
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	58.7%	26.6%	14.7%

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.

A REVIEW OF PUBLIC FINANCES

Making public finances sustainable is one of the pillars of the IMF program. This is measured in part by the primary balance, which should reach a minimum of 1.7% of the gross domestic product (GDP) by 2023. Although the latest July 2023 government statistics showed that the government is on track to meet the primary balance target, the SEOB is still concerned about relatively low tax revenues. One of the goals of the VAT implementation is to broaden the tax collection base. This means that everyone will have to pay VAT as opposed to the former sales tax. The sales tax earned the government about 2.9% of GDP annually.

Government revenues as of July 2023 lag the size of the economy, mainly because of insufficient collection of value-added taxes. In part, this decline is due to a decline in economic activity (see SEOB Bulletin #4). On an annual basis, the SEOB estimates that tax revenues will decline by about 4.6% of GDP in 2023 compared to 2022, based on July 2023 figures. This amounts to more than SRD 6 billion. Compared to the budget, SEOB estimates that tax revenues will be about SRD 800 million (or 4%) lower. However, it should be noted that the 2022 budget is based on 2022 economic conditions, including a lower exchange rate. The government will have to catch up to maintain its tax revenues. A drop in the exchange rate could have a negative impact on government revenues.

Government expenses lag 2022 figures when we put it against the estimated size of the economy in 2023. Personnel expenses and subsidies & transfers decrease as a percentage of GDP. Subsidies & transfers in the current year are about 24% lower than 2022, excluding the inflation effect. This decline is due to the phasing out of utility subsidies as agreed within the IMF program. On the expenditure side of government, interest payments are growing the fastest. Because of the relatively high public debt and relatively low repayments, interest payments are expected to continue to put pressure on government spending in the coming years.

With the government's expenditure side improving more than the revenue side relative to GDP, the SEOB estimates a primary balance surplus in 2023. On an annual basis, the SEOB estimates the current account surplus at 2.8% of GDP, while the total account surplus is estimated at 0.4% of GDP based on January-July 2023 figures.

Table 2. Government finances on a cash basis (as a % of GDP)

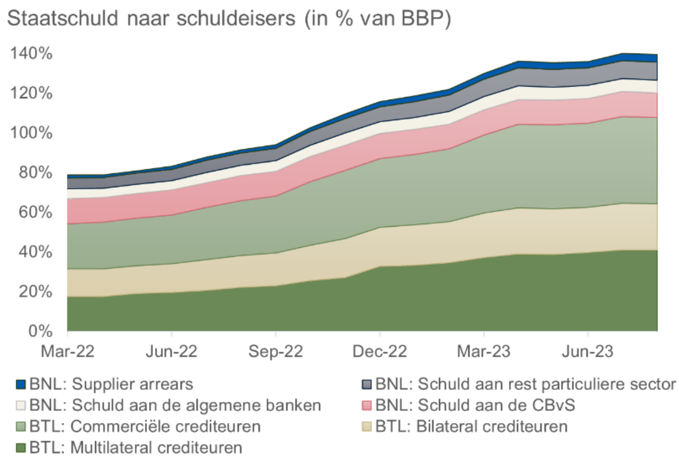
	2022	2023	Difference	IMF Target
Total revenues	28.1%	24.0%	-4.1%	
Tax revenues	19.6%	14.9%	-4.6%	
Direct taxes	13.2%	8.6%	-4.6%	
Indirect taxes	6.4%	6.4%	0.0%	
Non-tax revenues	8.4%	9.0%	0.6%	
Grants	0.0%	0.0%	0.0%	
Total expenses	29.0%	23.6%	-5.4%	
Personnel expenses	8.4%	6.7%	-1.7%	2023: <7%
Purchase of goods and services	3.5%	3.5%	0.0%	
Subsides and transfers	13.0%	8.6%	-4.4%	
Interest	1.8%	2.4%	0.6%	
Capital expenditure	2.4%	2.4%	0.1%	
Primary balance	0.9%	2.8%	1.9%	2023: >1.7%
Total balance	-0.9%	0.4%	1.3%	
GDP	SRD 86.7 bln.	SRD 135.5 bln		

Notes: Figures for 2023 are annual estimates based on government figures as of July 2023. Seasonal effects are not included. Green and red shading respectively indicate a net positive and negative effect on the government balance compared to the previous period. Source: SEOB calculations with data from the Ministry of Finance and Planning.

In the recovery phase of the economy, the government needs to bring public investment up to par. This should include investments in technology, education, healthcare and infrastructure. Experience from other countries shows that public investment in these sectors contributes to long-term growth. Collaborations with businesses (public-private partnerships) can also be considered.

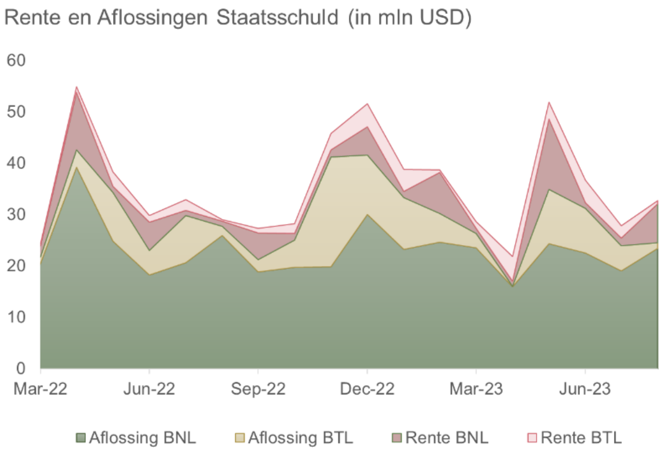
GOVERNMENT INTEREST PAYMENTS INCREASE

The debt-to-GDP ratio, or public debt as a percentage of GDP, stood at 139.5% in August. Compared to December 2022, public debt increased by 23.2 billion. This increase was mainly caused by external public debt, which in August 2023 was more than USD60 million higher than December of the previous year. In nominal terms, government debt in August remained nearly the same as the previous month's level. Foreign public debt amounted to SRD 96.5 billion while the domestic component had SRD 28.4 billion outstanding.



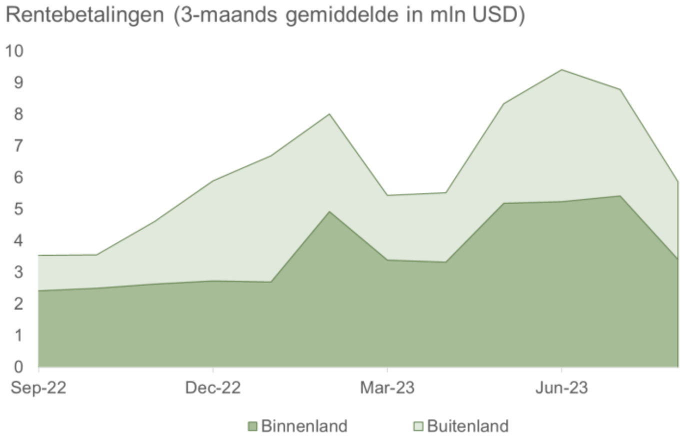
Source: SDMO.

Foreign public debt is mainly driven by debts to commercial creditors and multilateral creditors. Suriname has been able to restructure its debts with the largest creditors, such as the so-called Oppenheimer Group and India. However, this process needs to be completed. Talks are underway to reschedule debt with China as well. Domestic public debt is dominated by debt to the CBvS followed by debt to the private sector.



Source: SDMO.

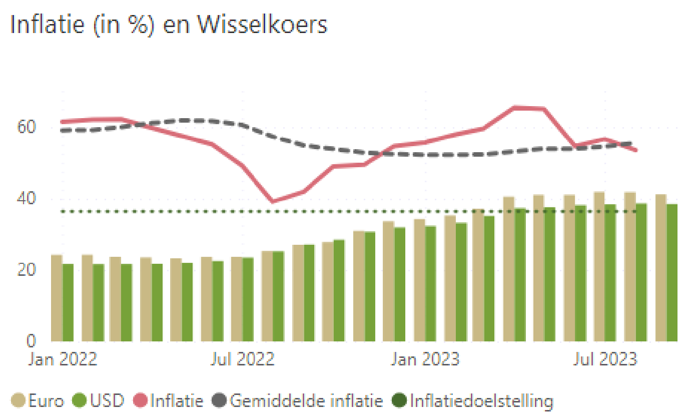
Interest payments on the public debt show an upward trend. For the year 2023, the SEOB estimates interest payments at about 2.4% of GDP, or USD 85 million. Up to August 2023, interest payments were about USD 57 million. In the previous year, government interest payments amounted to about 1.8% of GDP. Most of the interest payments in 2023 were on domestic debt.



Source: calculations SEOB with SDMO-data.

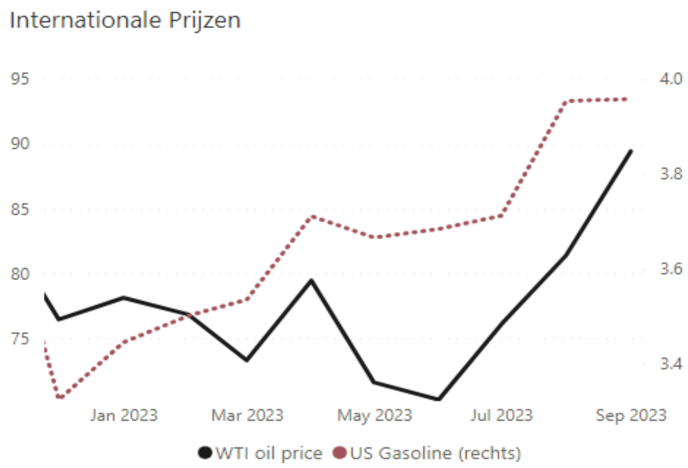
UTILITY RATES INCREASE DUE TO PHASING OUT OF SUBSIDIES

Prices rose 50.8% in September, compared to September of the previous year. Relative to the previous year, price increases were driven by increases in food prices, transportation, and utility rates. Monthly inflation continued to decline. Whereas it stood at 2% in August, it fell further to 1.5% in September. Price increases in utility rates of 3.9% drove monthly inflation in September. Prices for food away from home increased by 3% from the previous month. Tightening monetary policy tamed the exchange rate market in recent months. Also, according to the CBvS, the supply of foreign currency improved in recent months. This helped ensure that the exchange rate effect on inflation declined.



Sources: ABS, CBvS.

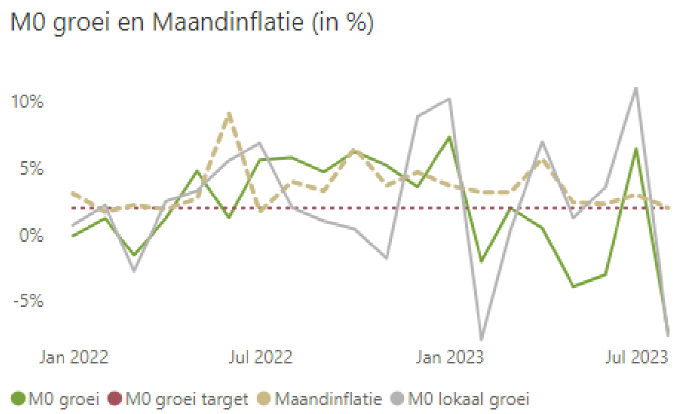
International price increases, especially of oil, the introduction of the new VAT rates, further phasing out of utility tariff subsidies, as well as government expenditures, depending on their size, may put further pressure on local inflation. International food prices fell remarkably in September 2023. However, there are uncertainties due to developing geopolitical conflicts. Local fuel prices are expected to move upward in the coming months due to international oil price increases.



Sources: EIA, World Bank.

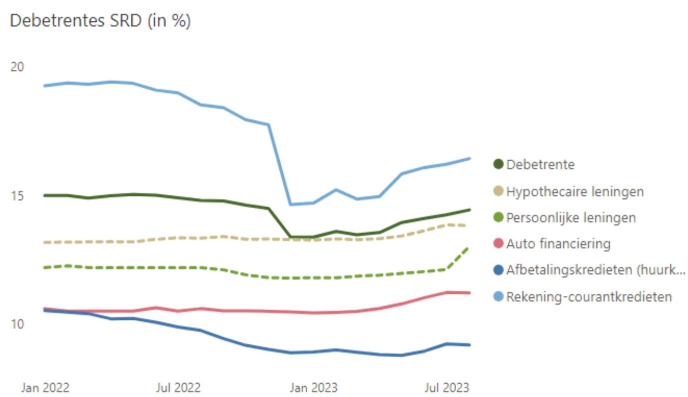
MONEY SUPPLY IN CHECK; SLIGHT RISE IN INTEREST RATES

The base money supply (M0) is in check and well below the set target for August. The local component of M0 decreased by 7.6% from the previous month and amounted to about SRD14.2 billion. The CBvS attributes this decrease to an increase in open-market operations. The set target for M0 for August is SRD15.0 billion. As a result of tightening monetary policy and the relatively favorable supply of foreign currency, several months of calm have been experienced in the foreign exchange market. This is partly resulting in a decline in the inflation rate.



Sources: ABS, CBvS.

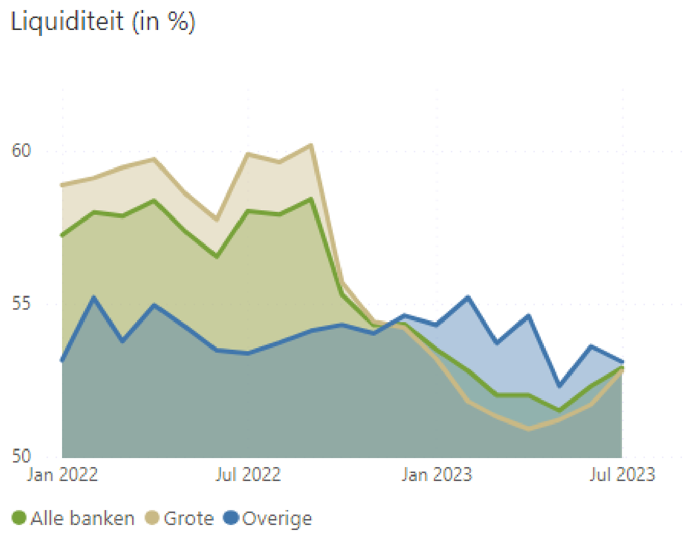
The broad money supply (M2) decreased by about 1.4% to SRD 81.1 billion in August. This decrease was due to a slight decline in exchange rates. Lending rates at commercial banks are on an upward path due to tightening monetary policy. Average lending rates rose to 14.4% in August. Interest rates on personal loans rose more than one percentage point in August. Savings rates remained unchanged. The SEOB expects the rise in lending rates to continue in the coming months.



Source: CBvS.

As a result of tightening monetary policy, liquidity at commercial banks is declining. Liquid assets to total assets fell from 58% to 53% in July compared with the same period in 2022. The share of non-performing loans (NPL) in banks' loan portfolio remains worrisome. This NPL ratio improved to 14.9% in July. This was accompanied by a decline in solvency. Profitability rose further to 1.8%.

The CBvS has instructed banks to implement the results of asset assessment (AQR). Furthermore, the CBvS and the Ministry of Finance will develop a new governance framework for the management of state-owned banks. This framework will help ensure that these banks operate on a fully commercial basis.



Source: CBvS.

OUTLOOK AND RECOMMENDATIONS

- SEOB emphasizes that rescheduling debt and beginning repayments is necessary to improve Suriname's default (SD) rating. The latest developments in the oil and gas industry will result in the fact that if a Final Investment Decision is actually taken by Total Energies to exploit the oil wells in Suriname, Staatsolie will have the opportunity to participate for 20%. If Suriname maintains a country rating of SD, the cost of capital for this investment for Staatsolie will be enormous. The international base rate (SOFR) is now 5.3%. A country rating of SD will result in a minimum borrowing cost of 10% (SOFR plus risk plus profit).

- SEOB calls for a more transparent and effective implementation of the social program, especially as purchasing power continues to decline. As inflation continues to persist, it is worth noting that the estimated number of households eligible for purchasing power enhancement continues to increase. The latest information indicated that over 75,000 applications have been registered to date. The SEOB stresses that the effectiveness and efficiency, and the principles of the social program, should be evaluated in the short term. The social program should be implemented carefully so that it does not put further pressure on inflation that is already high. Also, the backlog of disbursements should be reduced. The SEOB also recommends that a new household budget survey be conducted, which would help determine the poverty line more accurately.

- SEOB suggests subsidies and incentives through the fiscal and banking system to promote more effective operation of the fiscal system and for transparency.

- As subsidies on gas, water and electricity continue to be phased out, inflation will remain high in the coming months despite a stable exchange rate. The rise in international oil prices may put further pressure on local prices. In case monthly inflation for the remaining months of the year continues the current trend, the SEOB estimates year-end inflation between 39% and 43%. The downward revision to the inflation estimate is due to lower-than-expected September inflation due to a relatively limited pass-through of the September 2023 gas price adjustment (over 200%) to the CPI. A decrease in pump prices in October has also been considered.

- The monetary measures implemented by the CBvS are partly resulting in M0 tightening. Interest rates are expected to rise further due to the tightening of the SRD money market. Because of the monetary measures, SRD lending is constrained, adversely affecting SMEs, and having a negative impact on GDP. The SEOB calls attention to activating and promoting production and guarantee funds to grow local production and SMEs. Furthermore, discussions will have to be initiated by the government, business, and banks, how the private sector (especially production) will be better supported in the future and Suriname will rise on the Doing Business list.

- Downward economic activity is a concern. The CBvS estimates an economic contraction of 0.9% in April 2023. The SEOB is concerned that the GDP growth forecast of 2.1% will not be achieved if this trend continues. The SEOB recommends continuing the trajectory whereby the business community produces sector development plans. These can be implemented from the growth phase of the recovery program. Public-private partnerships should be encouraged. Credit funds such as Surge and PKF can be used more effectively to support business activities and because of the credit restrictions imposed on banks. Suriname should start thinking now about the growth phase of the recovery program. The VSB/ASFA government sector development committee will need to develop long-term sector development plans with flanking government policies in anticipation of the growth phase.

- SEOB advocates a more serious approach by government and the private sector to AML/CFT actions arising from the recommendations. SEOB also advocates including officials from the private and banking sectors on the National Anti-Money Laundering Commission and/or the AML PIU. This is because of the impact that non-compliance has on banks and the private sector.

- SEOB also emphasizes that the legislature (DNA) should work more closely with the IMF team and AML-PIU since it has been observed more often that laws delivered to the legislature are amended in a way that defeats the purpose (eliminating recommendations or meeting an IMF milestone), for example, the VAT law and the banking law.

- SEOB sees the passing of AML/CFT law and the launch of the second NRA as positive. It is necessary that policy makers remain geared to the National AML Strategic Plan. It is also necessary to strengthen AML/CFT supervision and enforcement. The SEOB also draws attention to the immediate action of capturing the assets of "politically exposed persons." This is an important action item in the IMF program. Also, the procurement law for government contracts (including state-owned organizations) should be enacted to improve transparency in procurement. This law also aims to reduce corruption.

- SEOB emphasizes that implementing the IMF's EFF program is challenging. Meanwhile, the actions requiring immediate attention ("immediate actions") have been expanded and must be achieved by December 2023. It requires enormous discipline and focus from the government and the CBvS to implement the program.

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