

The 7th SEOB Bulletin presents a brief review of 2023 and recommendations for the medium term. 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. Statistics and measures related to the IMF program are conveniently presented on our website [www.seob.sr](http://www.seob.sr) on a regular basis.

## Key developments

- Foreign currency rates declined further in December, compared to the previous months.
- Year-on-year inflation (hereafter inflation) fell to 38.7% in November. This decline is due to the fall in the exchange rate and the effect of fiscal and monetary measures. Although declining, inflation is still high by international standards. The SEOB estimates 2023 year-end inflation at around 33%. The downward revision of the inflation estimate is due to the further decline in the exchange rate and fuel prices. Average inflation - price increases in the last 12 months, relative to the previous 12 months - remains high and came in at 53.8% in November 2023.
- Base money supply growth is in check. Tightening monetary policy is leading to a slight increase in interest rates at commercial banks.
- Gross international reserves (including bank reserves) remained stable at USD1.14 billion in November. Import coverage (including banks' reserves) stood at 6.4 months.
- Suriname's credit rating was upgraded from "Selective Default" (SD) to CCC+/C by international credit rating agency S&P in December 2023. This is because of the restructuring of a large part of the debts, especially the so-called Oppenheimer debts.

Table 1. Status IMF measures.

Policy area	Completed	In progress	Other
A: Monetary and exchange rate policy	61.9%	33.3%	4.8%
B: Fiscal policy	61.3%	8.1%	30.6%
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%
<b>Total</b>	<b>61.5%</b>	<b>21.8%</b>	<b>16.7%</b>

*Note: "Other" means that the measure has been delayed or has not yet been initiated, or the status of the measure is unknown. Measures requiring immediate attention are reviewed at each IMF review and are also part of Policy Areas A through F.*

*Source: SEOB calculations with data IMF monitoring matrix.*

Of the measures within the IMF program, about 61.5% was completed as of December 2023 (Table 1). Most outstanding measures are in the "Fiscal Policy" and "Governance" sub-areas. Following the 4<sup>th</sup> assessment, the IMF reviewed the measures requiring immediate attention. Some of these are:

- Issue an implementation law to amend the anti-corruption legal framework to ensure criminalization of all acts of corruption.
- Review government spending on social security and publish a time-bound plan to improve the efficiency and effectiveness of social benefits.
- Publish monthly reports on the social program on the external website of the Ministry of Social Affairs and Housing.

- Establishing an electronic foreign-exchange trading platform.
- Submit a legislative amendment to the Foreign Exchange Act 1947 to The National Assembly, in consultation with the IMF, to align with the amended Banking Act 2022.
- Publish audited financial reports for fiscal year 2017-2021 of the 10 largest state-owned enterprises.
- Introduce the new procurement law to centralize and mandate the publication of all public tenders and awarded contracts.
- Producing a governance framework for state-owned banks.

## REVIEW 2023, OUTLOOK AND RECOMMENDATIONS

### IMF 2023 program progress

The SEOB was established in June of the previous year. Through measuring the status of IMF actions, we track the progress of the IMF program monthly. In doing so, SEOB seeks to clearly inform society on the requirements and policy areas that should be addressed by the government. Between June and December 2023, progress has been mainly recorded on measures within the financial sector (8.7 percentage points), governance (6.9 percentage points) and the fiscal policy (6.3 percentage points); see Table 2.

Table 2. Completed measures within IMF program by policy area

Policy area	Jun-23	Dec-23
A: Monetary and exchange rate policy	61.9%	61.9%
B: Fiscal policy	55.0%	61.3%
C: Guilt	57.1%	57.1%
D: Financial sector	56.5%	65.2%
E: Governance	51.7%	58.6%
F: Other	75.0%	75.0%
<b>Total</b>	<b>57.0%</b>	<b>61.5%</b>

Source: SEOB calculations with data IMF monitoring matrix.

Despite the progress in the IMF program, there are some critical measures that were long overdue for completion and/or require urgent attention (see page 1). Some key measures that did get completed by 2023 were:

- Officially announce proposed electricity tariff reforms. The external website of the Energy Authority Suriname (EAS) publishes quarterly updates on electricity tariff adjustments, as well as the reasons for each tariff adjustment, the estimated cost of providing electricity and the remaining size of the subsidy.
- Lay out a plan for restructuring the financial sector, reforming bank governance, and fully assessing the asset quality of banks.
- Publish a quarterly budget execution report, starting with the government's end-June 2023 budget results.
- Publication of Central Bank of Suriname (CBvS) annual report 2020.
- Revising the value-added tax (VAT) law introduced as of 2023.

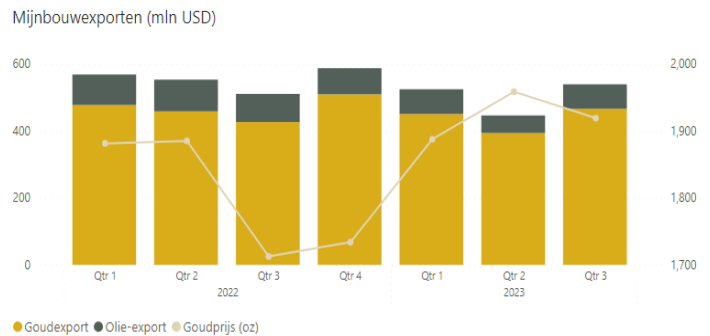
The rescheduling of public debt, although not yet fully completed, is one of the measures also worth mentioning.

### Economic Developments 2023

The previous year can be characterized by declining but high inflation, sluggish local economic activity, phasing out of subsidies on utility rates and fuel prices, and the implementation of VAT. Inflation declined from above 50% and is expected to reach around 33% by December 2023. The decline in inflation is mainly due to the stabilization of the exchange rate since the 2<sup>nd</sup> quarter because of tightening monetary measures and the absence of excesses

in the fiscal sphere<sup>1</sup>. In contrast, the removal of subsidies on pump prices and utility tariffs had a price-increasing effect. Although developments in monetary indicators (especially inflation and the exchange rate) have been favorable, the economy is still very fragile. Among other things, monetary policy is leading to an increase in interest rates and a decrease in lending, which is affecting economic activity, especially from local companies.

Economic activity deteriorated in the first half of last year. In contrast, the monthly economic activity index (MEAI) of the CBvS<sup>2</sup> shows signs of growth as of the 2nd half of 2023. Due to record high gold prices and favorable oil prices, the current account of the balance of payments also recorded a surplus during this period. However, there appears to be little to notice an upturn.



Sources: CBvS and World

Bank.

In the government sector, predominantly current account surpluses were recorded. The government is expected to meet its current account "Performance Criteria" of 1.6% of gross domestic product (GDP) in 2023. In contrast, the IMF program required the government to allocate a minimum of SRD 3.96 billion in social spending by 2023 to strengthen the social safety net. Based on available government statistics, it looks like this target has not been met. Public debt increased substantially from about 116% of GDP at the end of 2022 to 141% of GDP at the end of 2023<sup>3</sup>. This increase was mainly driven by an exchange-rate effect, given that most of the sovereign debt consists of foreign-currency loans. An increase in loans to multilateral creditors (such as IMF/World Bank/IDB) and commercial creditors also contributed to the increase in the debt-to-GDP ratio.

Within the banking sector, solvency improved in 2023, especially among banks not classified as "large banks." However, asset quality is worryingly high, up from 2022. Non-performing loans were above 14% as of September. Profitability within this sector as of September was more or less at the same level as the corresponding month of the previous year. In contrast, liquidity declined sharply due to tightening monetary measures. As of April 2023, an upward movement could be observed in lending rates among commercial banks. Average lending rates rose about 2 percentage points during 2023.

<sup>1</sup> Based on figures through August 2023.

<sup>2</sup> CBvS MEAI bulletin, august 2023

<sup>3</sup> Last realization: November 2023

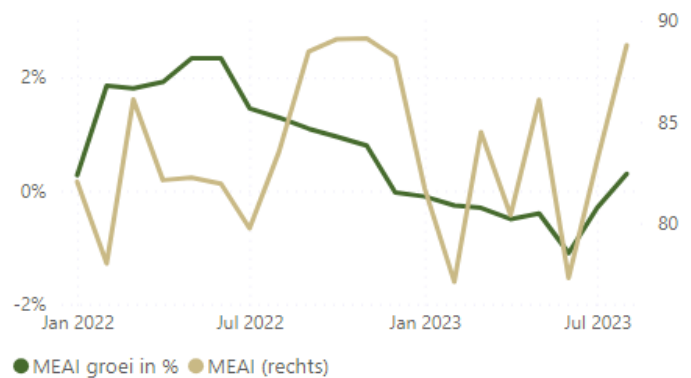
## RECENT ECONOMIC DEVELOPMENTS

### IMPROVED ECONOMIC ACTIVITY AND EXPORTS

The MEAI shows upward movement from July 2023. Growth in August 2023 reached 0.3%, according to the index. This upward movement in economic activity is mainly due to increased activity in the hospitality-related sectors and in the primary sector, namely "Agriculture, hunting, forestry and fishing." In contrast, trade sectors contracted. The CBvS calculates the MEAI with data it receives monthly from a sample of 200 firms, as well as from other databases.

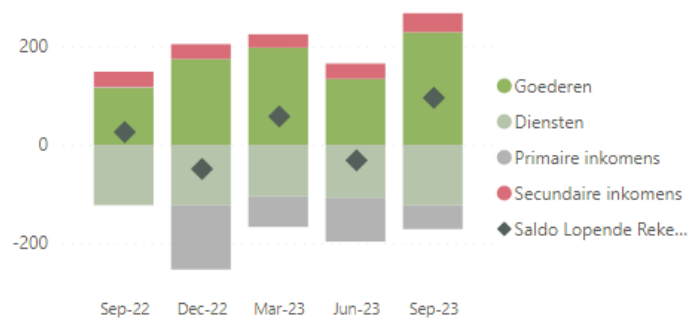
The current account of the balance of payments showed a surplus of USD95.8 million in the 3<sup>rd</sup> quarter of 2023. This was mainly driven by the goods account which recorded a balance of nearly USD230 million during this period. While imports remained mostly unchanged, the goods' export value increased mainly because of gold and oil exports. The increase in the oil export value was mainly related to the rise in global oil prices. The financial account of the balance of payments showed an outflow of USD 21.8 million in the 3<sup>rd</sup> quarter of 2023. On balance, after taking into account statistical differences, there was an inflow of foreign exchange equal to USD 21.1 million.

Economische Activiteit



Source: CBvS.

Betalingsbalans (mln USD)

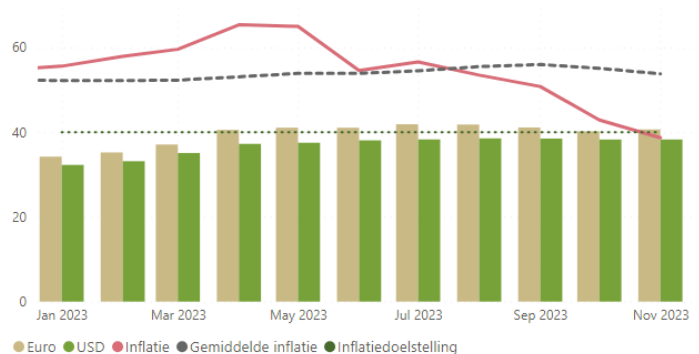


Source: CBvS.

### INFLATION DECLINES DUE TO STABILIZING EXCHANGE RATE

In November, inflation declined further to 38.7%, due to the stabilization of the exchange rate and further decline in fuel prices. As a result, monthly inflation is on a downward trend and fell to 0.6% in November. Prices in the utility rate category rose about 2% on average. Relative to 2022, price increases were driven by increases in food prices, utility rates and transportation. Average 12-month inflation stood at 53.8% in November.

Inflatie (in %) en Wisselkoers



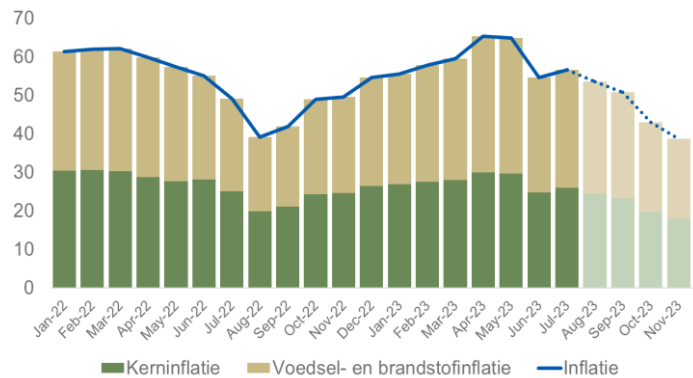
Sources: ABS, CBvS.

The tightening in money aggregates has tamed the exchange rate market. This helped reduce the

exchange rate effect on inflation. The tightening in the money supply is due to monetary policy on the one hand and the absence of excesses in the fiscal sphere during the first half of 2023 on the other. International price increases, further unwinding of utility tariff subsidies, as well as government spending, depending on its size, may put further pressure on local inflation in the near term. International uncertainties stem mainly from developing geopolitical conflicts.

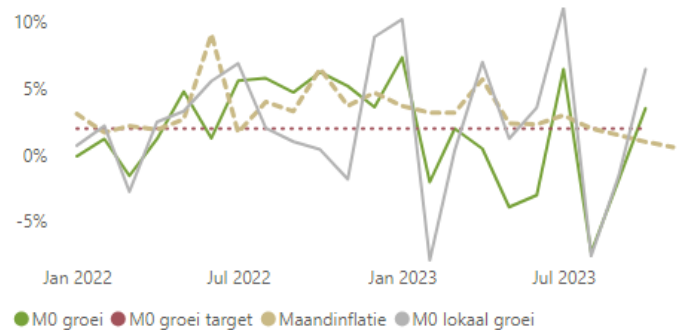
Finally, SEOB would like to point out that a falling exchange rate is a sign that the foreign currency market is recovering. However, a too rapidly falling exchange rate can have a disruptive effect on public finances (foreign currency revenues are reduced) and exports become more expensive, among other things.

Bijdrage kerninflatie vs voedsel- en brandstofinflatie



Sources: ABS, CBvS, SEOB calculations.

M0 groei en Maandinflatie (in %)

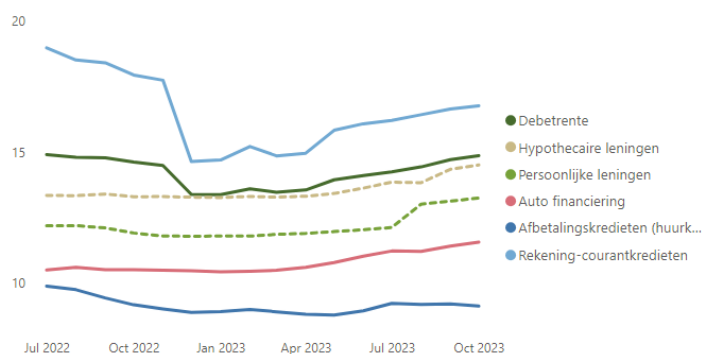


Sources: ABS, CBvS.

## BANKING SECTOR SOLVENCY IMPROVES; ASSET QUALITY REMAINS A CONCERN

Average lending rates at commercial banks rose further in October. The average lending rate on outstanding loans rose from 14.7% in September to 14.9% in October last year. Interest rate increases were seen across almost all loan types. The SEOB expects increases in lending rates to continue in the coming months. This may pose risks for commercial banks, especially for non-performing loans (NPLs). Savings rates rose slightly in October 2023, driven mainly by interest rates on 6-month term deposits.

Debetrentes SRD (in %)

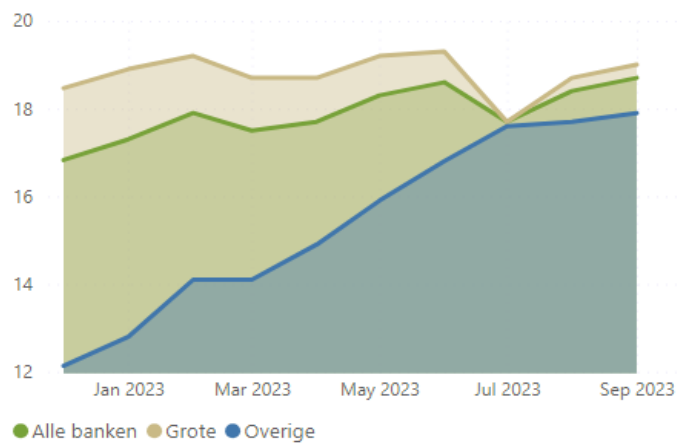


Source: CBvS.

Although NPLs have been improving for several months, the share of NPLs in banks' loan portfolios

remains worrisome. The NPL ratio fell further in September to 14.3%. Among large banks, this indicator stands at 16%. Solvency in the banking sector improved further and stood at 18.7% in September. The liquidity ratio remained the same, at around 54%. The implementation of asset rating instructions (AQR) and a new governance framework for state-owned banks will have to contribute to strengthening soundness within the banking sector.

Solvabiliteitsratio (in %)



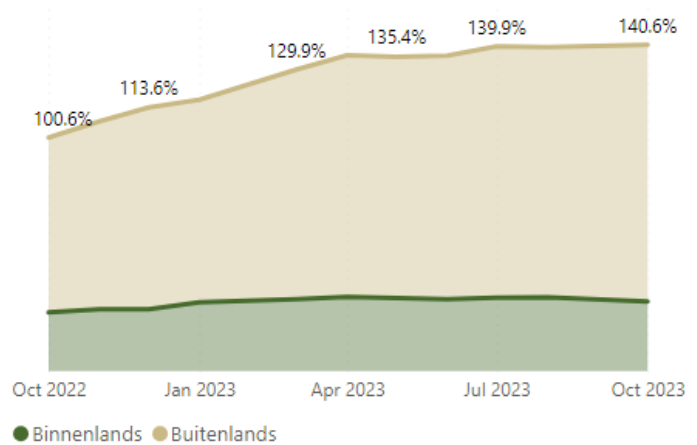
Source: CBvS.

### DEVELOPMENT IN THE NATIONAL DEBT

The debt-to-GDP ratio (public debt as a percentage of GDP) continued to rise in November to 140.6% according to the Public Debt Act. As of September, foreign debt stood at SRD 99.0 billion, while domestic debt declined further, to SRD 26.7 billion. Foreign public debt (110.7% of GDP) is composed mainly of debts to commercial and multilateral creditors. Domestic public debt (29.9% of GDP) is dominated by debt to the CBvS, followed by debts to the private sector.

Suriname's credit rating was upgraded from "Selective Default" (SD) to CCC+/C by international credit rating agency S&P in December 2023. This is as a result of restructuring agreements for existing debt. SEOB welcomes this development.

Staatsschuld (in % van BBP)



Source: SDMO.

## Outlook 2024

The SEOB expects the economy to recover slowly in 2024 if investor confidence increases, especially if the exchange rate remains stable, and inflation continues to decline. An important moment for Suriname may be the start-up of the offshore oil sector. Staatsolie expects a Final Investment Decision in the 4th quarter of this year from the foreign company TotalEnergies and Apache regarding Block 58. This project could total more than USD 9 billion in the long term. In case a positive decision is made by the foreign investors, this brings good prospects for the offshore oil sector, government, and local suppliers. In addition to the deepwater oil sector, oil resources in the shallow coastal zone will also be considered. However, a strategy should be developed from the government, business, and banks to encourage "local content," particularly local investment in the non-mining sectors. This should also consider the effects of climate change (e.g., extreme drought or extreme rainfall) on the agricultural and tourism sectors.

Although inflation is receding, it remains sensitive to the announced rate adjustments for utilities. Given subsidies on utilities and fuel continue to be phased out in 2024, inflation will remain high. VAT on utility rates was postponed to 2024 when negotiated with the union. The introduction of these taxes will also affect inflation. The IMF expects inflation to reach around 15% in 2024. Fiscal discipline will be necessary to maintain exchange rate stability and avoid government spending inflation. Because of relatively high inflation, the SEOB expects interest rates to remain at least as high in 2024 as in the previous year.

## Recommendations

It is necessary to observe the following recommendations to make the socio-economic environment more sustainable.

### **1. Strengthening institutions**

Strong institutions are essential for sustaining socioeconomic progress. SEOB therefore advocates that the government consider an IMF-2 program "Policy Coordination Instrument" to strengthen institutions such as ministries, tax administration, planning office, court of auditors, and education after the current IMF program ends. Success examples for follow-on IMF programs are in Barbados and Jamaica where the economy and welfare of the population have grown significantly because of stronger institutions. A follow-on IMF program will also increase the confidence of financial markets (read: banks and other investors) in the Surinamese economy and government, which will contribute to economic activity.

### **2. Making public finances sustainable**

The SEOB emphasizes the need for making public finances more sustainable. The main focus should be on fiscal discipline and increasing government revenues. The government is still losing significant revenue from taxes and import duties. Increasing government revenue can be done through more effective tax collection and increasing business activity in the country. For more effective government revenue collection, strengthening the tax institution as well as customs is necessary. In addition to improving government revenue, the government should keep its spending in check to avoid deficits. In this context, the SEOB advocates the establishment of formal fiscal rules to prohibit structural government deficits. Furthermore, the savings and stabilization fund that already exists by law should be activated. SEOB also underscores the need for implementing a Public Sector Reform plan. SEOB is convinced that if the phenomenon of ghost civil servants is addressed, more financial resources can be released for better remuneration towards the civil servants and the social program.

### **3. Guaranteeing social security**

The SEOB stresses the importance of ensuring social security amid cost-increasing economic measures. The SEOB calls for an effective social program. We also insist that the social program's principles 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 cleared. The SEOB also recommends that a new household budget survey be conducted, which would help determine the poverty line more accurately. The focus on handing out packages and cheap food should be changed to a thorough and structural approach to poverty.

#### **4. Attention to small and medium-sized enterprises**

The SEOB emphasizes that small and medium-sized enterprises (SMEs) in Suriname contribute not only to economic activity but also to employment. However, access to credit, necessary to finance investments, appears to be one of the biggest obstacles for SMEs. The SEOB therefore calls attention to activating and promoting production and guarantee funds that will grow local production and SMEs. Furthermore, discussions will need to be initiated by the government, business, and banks, how the private sector - specially manufacturing - will be better supported. The Ease of Doing Business also needs to be improved in Suriname to accommodate SMEs. Suriname especially needs progress in the areas of "Enforcing Agreements," "Starting a Business," and "Access to Credit."

The SEOB further recommends that the corporate sector jointly designs sector plans with the government. We suggest developing plans for increasing the (international) competitive position of strategic sectors. The SEOB considers for example of the agro-processing sector, the outsourcing sector (e.g., call centers and other commercial services), and the ecotourism sector. These sector plans should be designed well in advance so they can be implemented during the recovery program's growth phase, starting later in 2024. Credit funds such as Surge and the Production Credit Fund (PKF) can be used more effectively to support business activities and because of the credit restrictions imposed on banks.

#### **5. Fighting corruption and addressing AML/CFT**

SEOB advocates a structural approach to corruption and increasing transparency from the government. We also recommend making the assets of leading government officials public, in line with the IMF recommendation. The SEOB also draws attention to the new procurement law and the Procurement Authority. The SEOB emphasizes introducing checks and balances for a more robust procurement framework.

SEOB is content that Suriname's blacklisting risk is being averted. Nevertheless, it advocates a more serious approach by the government and the private sector to the AML/CFT actions arising from the CFATF recommendations. The SEOB advocates to include officials from the private and banking sectors in the National Anti-Money Laundering Commission and/or the AML-PIU. This is because of the impact non-compliance has on banks and the private sector.

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