BULLETIN #11 APRIL 2024

The 11th SEOB Bulletin discusses 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

- The exchange rates for foreign currencies continued their downward trend in April 2024.
- In March 2024, year-on-year inflation accelerated to 26.8%, representing a 1.4 percentage point increase compared to the previous month.
- This increase in the inflation rate can be attributed to the rise in utility rates.
- The average inflation—price increases over the last 12 months compared to the preceding 12 months—remains high, reaching 43.2% in March 2024.
- Economic activity is further improving, especially in the forestry and hospitality-related sectors.
- The SRD monetary base (M0) target was once again not met in February 2024 due to net government expenditures. This requires special attention from the authorities.
- Savings and lending rates remain high compared to the previous year but declined marginally in March 2024.
- The gross international reserves (including bank reserves) stood at USD 1.37 billion in March 2024, with an import coverage of 7.4 months.
- The debt-to-GDP ratio declined further to 131.8% in March 2024, primarily due to exchange rate appreciation.
- An evaluation of government finances for 2023 indicates some improvement in expenditures, although VAT receipts are still lagging.
- Non-performing loans and solvency in the banking sector continue to improve.

Table 1. Status of measures IMF program.

Policy area	Completed	In progress	Other
A: Monetary and exchange rate policy	64.3%	33.3%	2.4%
B: Fiscal policy	59.1%	10.6%	30.3%
C: Debt	66.7%	33.3%	0.0%
D: Financial sector	62.5%	29.2%	8.3%
E: Governance	52.9%	32.4%	14.7%
F: Other	75.0%	25.0%	0.0%
Total	60.5%	24.3%	15.1%

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.

As of the end of March 2024, according to our calculations, 60.5% of the measures within the IMF program had been completed (Table 1). The progress declined compared to the previous month due to the addition of several new measures. The IMF emphasizes anti-corruption and governance measures during this expansion. The current measures requiring immediate attention include:

- Establish an electronic trading platform for foreign currency transactions.
- Submit an Amendment to the 1947 Foreign Exchange Act to the National Assembly in line with the 2022 Central Bank Act.
- Develop a Recapitalization Plan for the Central Bank of Suriname (CBvS).
- Publish the 2020/2021/2022 Annual Reports of the CBvS.
- Implement a New Procurement Law to centralize and mandate the publication of all public procurements and awarded Contracts.
- Review Social Protection Expenditures and publish a time-bound Strategic Plan to improve the efficiency and effectiveness of social benefits.
- Publishing Quarterly Budget Execution Reports.
- Mandatory use of Fiscal Identification Numbers for tax declarations and transactions.
- Fully repay outstanding domestic debts.
- Issue a resolution clarifying that the Government will not be responsible for contracts agreed upon by Ministries without prior approval from the Ministry of Finance.
- Empower all Ministries to report the scope of payment arrears to the Ministry of Finance.
- Amend the legal framework for anti-corruption to criminalize corruption.
- Amend the legal framework for anti-corruption to require income and asset declarations from politically prominent individuals.

EVALUATION OF GOVERNMENT FINANCE 2023

The IMF program focuses, among other things, on sustaining government finances. Excessive government spending remains the primary cause of inflation. The implementation of Value Added Tax (VAT) last year aimed to improve government revenues. Additionally, the government needed to reduce subsidies to achieve a surplus in the primary account—this account excludes interest payments. This analysis examines government statistics relative to the size of the economy.

The government's primary account stood at 1.3% of GDP by the end of 2023 (Table 2). This represents an improvement compared to the year before. However, while the IMF's target was met, it fell below the budgeted amount. Until mid-2023, government figures showed a more favorable trend. Nevertheless, discrepancies between receipts and government expenditures emerged from the third quarter of 2023. When considering interest payments, we observe a deterioration in the overall account, which reached -1.7% of GDP in 2023. This account predominantly recorded deficits in the latter half of the previous year.

On the revenue side, tax collections significantly lag. This results from delayed VAT revenues, while non-tax receipts remained roughly at the same level as in 2022. Addressing this issue is crucial to enhance the capacity of the tax authority. Additionally, VAT appears susceptible to corruption during collection and corrective measures. Regarding expenditures in 2023, cost-cutting measures were implemented. Personnel expenses decreased to 6.7% of GDP, down from 8.4% in the previous year, achieving the target of being "below 7% of GDP." However. interest payments are starting to exert pressure on government spending. The SEOB anticipates that this trend will persist in the coming years. The increase in capital expenditure can be attributed to higher government investments.

Table 2: Government Finances on a Cash Basis (as a % of GDP)

	2022	2023	Difference
Total Revenues	28.1	24.9	-3.2
Tax Revenues	19.6	15.9	-3.7
Direct Taxes	13.2	8.8	-4.4
Indirect Taxes	6.4	7.1	0.7
Non-Tax Revenues	8.4	8.8	0.4
Donations	0.1	0.3	0.2
Total Expenditures	29.0	26.6	-2.4
Personnel Expenditures	8.4	6.7	-1.6
Acquisition of Goods and Services	3.5	4.1	0.7
Subsidies and Contributions	13.0	9.9	-3.1
Interest	1.8	3.0	1.2
Capital Expenditures	2.4	2.8	0.5
Primary Account	0.9	1.3	0.4
Total Account	-0.9	-1.7	-0.8
Gross Domestic Product (GDP) Used	SRD 86.7 billion	SRD 138.4 billion	

Source: Calculations by SEOB with data from the Ministry of Finance and Planning.

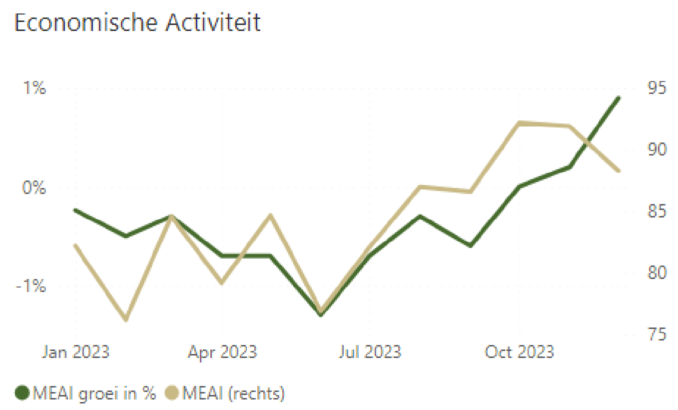
The SEOB emphasizes the need to increase government revenues through improved tax collection and customs duties. This can be achieved by autonomizing the tax authority, enhancing professionalism, and strengthening governance. Without a focus on creating a robust and integrity-driven tax administration, real income will not grow. In addition to a strong and honest tax authority, SEOB underscores the importance of fiscal discipline.

RECENT ECONOMIC DEVELOPMENTS

ECONOMY ON A GROWTH PATH; MARCH INFLATION DUE TO INCREASED UTILITY RATES

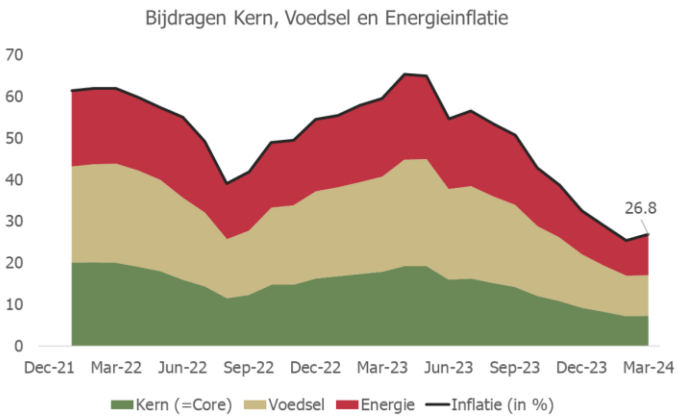
Economic activity has been trending upward for several months. The CBvS' Monthly Economic Activity Index (MEAI) estimates an economic growth of 0.9% in December 2023. Like the months before, this expansion was primarily driven by the forestry sector and hospitality-related industries, particularly restaurants. Additionally, air transport contributed to this growth.

However, this growth was partially offset by a contraction in the wholesale and retail trade sector, which is still recovering from decreased purchasing power. Furthermore, both large-scale and small-scale gold production lagged.



Source: CBvS.

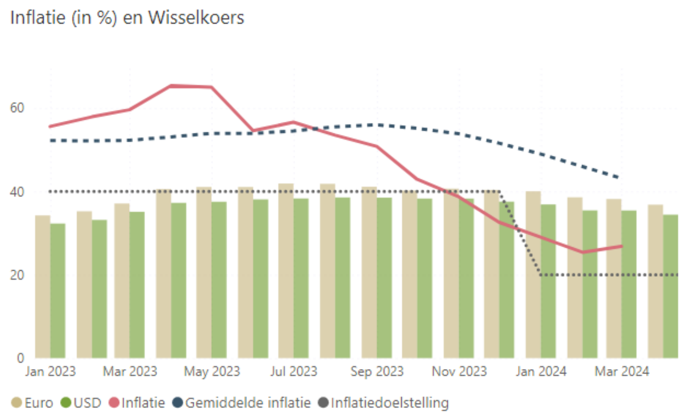
In March 2024, inflation accelerated due to the increase in utility rates. The overall inflation reached 26.8%, while the monthly inflation stood at 4.4%. Despite the overall increase in inflation, core inflation (which excludes food and energy prices) continued to decline. The appreciation of exchange rates remains a contributing factor to this decrease in core inflation. Additionally, prices in the food and non-alcoholic beverage category experienced a marginal decline (0.4%) in March 2023. The average 12-month inflation rate decreased to 43.1%.



Note: Energy inflation includes inflation in utility rates and transportation. Food inflation encompasses inflation in the food and non-alcoholic beverage category. Other items are classified as core inflation. Source: Calculations by SEOB using data from ABS.

Regarding the SRD component of M0, it exceeded the agreed levels with the IMF for the second consecutive month in January 2024. This development is attributed to net government expenditures. To maintain the inflation target, authorities need to moderate the growth in the SRD component of M0 by aligning government spending with revenues.

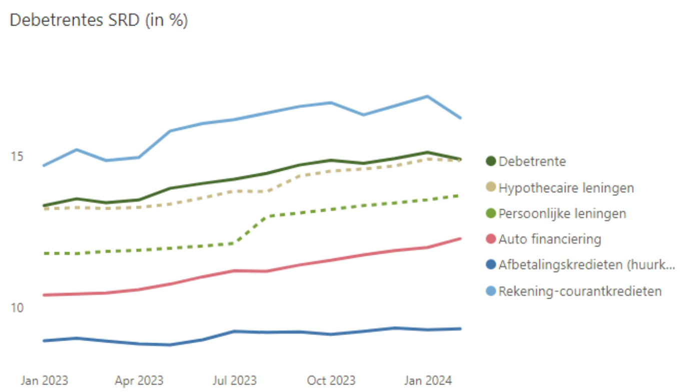
The ongoing appreciation of exchange rates persists. While the USD exchange rate declined by over 3% in April, the Euro exchange rate decreased by approximately 4% relative to the SRD. These sustained exchange rate declines may lead to income losses for exporters and the government, although debt repayment benefits may accrue to the government.



Sources: ABS, CBvS.

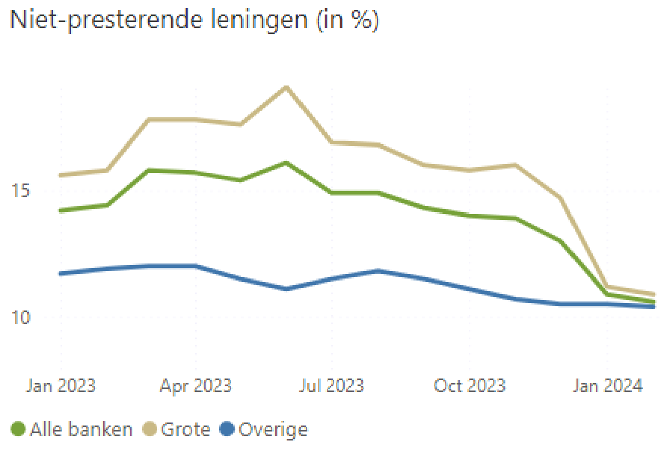
INTEREST RATES REMAIN STABLE; NON-PERFORMING LOANS CONTINUE TO IMPROVE

The interest rates remain high but leveled off in February 2024. The average lending rate decreased from 15.1% to 14.9%, while credit rates remained largely unchanged. The SEOB expects that a potential turning point in interest rates has occurred due to declining inflation. Nevertheless, interest rates remain challenging for small and medium-sized enterprises (SMEs), and policymakers should create incentives for strategic production sectors.



Source: CBvS.

Non-performing loans (NPLs) continued to decrease in February 2024. While this ratio stood at 14.4% in February 2023, it reached 10.6% in February 2024. This is a result of banks implementing asset quality reviews and improved repayment capacity among Surinamese borrowers. The solvency ratio in the banking sector further increased to 21.5% in February, while the liquidity ratio remained stable around 54%.

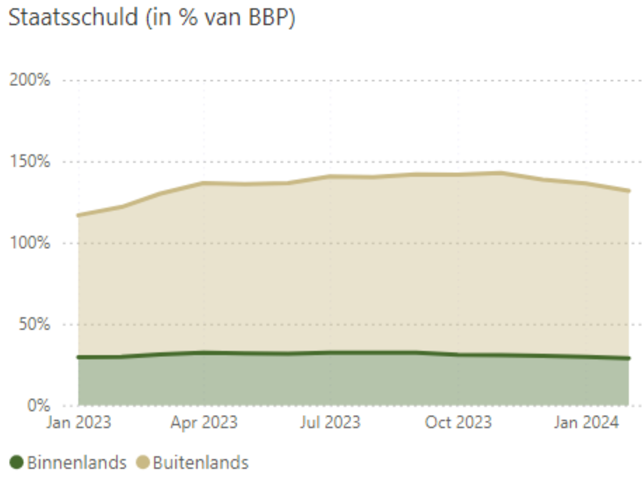


Source: CBvS.

DEVELOPMENTS GOVERNMENT DEBT

The debt-to-GDP ratio – government debt as a percentage of GDP – further declined to 131.8% in February 2024 according to the legal definition. The foreign debt expressed in local currency decreased to SRD 92.1 billion in February, while the domestic debt continued to decrease, reaching SRD 25.8 billion due to repayments.

Suriname has reached agreements with bilateral creditors in line with the restructuring program. Although the negotiations for restructuring have concluded, documentation is still being prepared with China in the upcoming period



Source: SDMO.

OUTLOOK AND RECOMMENDATIONS

- The list of measures requiring immediate attention has expanded, particularly focusing on governance and anti-corruption measures. The SEOB believes that these actions will benefit institutional strengthening in Suriname, especially as the end of the IMF program approaches.
- The government continues to miss out on significant revenues from VAT, other taxes, and import duties. To address this issue structurally, it is essential to strengthen institutions such as tax authorities and customs. The SEOB is satisfied with the establishment of a committee to assess VAT and the progress at the tax institute. Additionally, the SEOB recommends enhancing the operational capacity of the tax department.
- While phasing out subsidies on utility rates is crucial, the government should simultaneously increase subsidies to individuals promptly to offset the cost of living. The SEOB also advocates for providing additional support to vulnerable groups. Social benefits should be efficiently executed through the banking system. Furthermore, the impact of utility rate increases on local production companies should be considered.
- The sustained increase in excess liquidity (as of February 2023: SRD 1.7 billion) due to rising net government spending is a concern for the SEOB. Emphasizing fiscal discipline and effective coordination between the Ministry of Finance and the CBvS is crucial for successful monetary targeting policies.

- The SEOB anticipates a gradual further decline in inflation in 2024. However, adjustments to utility tariffs may lead to cost inflation. Based on trend analysis, the SEOB estimates that the 12-month average inflation in 2024 will range between 15% and 23%. The IMF projects a 12-month average inflation of 21.1% in 2024. Fiscal discipline remains essential.
- The SEOB expects continued economic growth in 2024. Additionally, if TotalEnergies makes a positive investment decision, the offshore oil sector's startup is likely to support economic growth. Incentives should be provided for local sectors to create employment and boost production, considering sustainability and climate change.
- Recent monetary measures have led to rising interest rates while reducing spending-related inflation. However, high capital costs pose challenges for small and medium-sized enterprises (SMEs), which play a crucial role in import substitution and exports. The SEOB supports initiatives like SURGE, the guarantee fund, and the production credit fund.
- The SEOB advocates for an IMF-2 program to strengthen institutions. This is necessary to preserve the gains from the current IMF program and address the fact that the government will not be fully capable of independently managing its finances sustainably after the current program.
- The SEOB emphasizes taking AML/CFT (Anti-Money Laundering/Combating the Financing of Terrorism) recommendations seriously. Including private and banking

http://www.seob.sr
secretary@seob.sr