

The 9<sup>th</sup> 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](http://www.seob.sr) - regular statistics and measures, related to the IMF-program, are conveniently presented.

## MAIN TRENDS

- Foreign currency exchange rates fell further in February 2024.
- Year-on-year inflation (hereafter inflation) continued to decline, reaching 29% in January 2024.
- This decrease in inflation can be attributed to the exchange rate appreciation and the effect of monetary measures. Although decreasing, inflation is still high by international standards.
- Average inflation - price increases in the last 12 months, relative to the previous 12 months - remains high and came in at 49% in January 2024.
- The government recorded mostly deficits in the second half of 2023. Spending on subsidies and transfers rose sharply during this period because of the social program.
- Although the target for the total base money supply (M0) was met, the target for the SRD component was exceeded in December 2023. This was due to an increase in government spending.
- Average interest rates at banks rose further in the final months of 2023.
- Gross international reserves (including bank's reserves) came to USD 1.33 billion in January 2024. This brought import coverage down to 7.4 months.
- The debt ratio, government debt as a percentage of GDP, fell to 138.6% in December 2023. This, mainly because of the decline in exchange rates.

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	62.9%	9.7%	27.4%
C: Debt	57.1%	35.7%	7.1%
D: Financial sector	65.2%	26.1%	8.7%
E: Governance	62.1%	31.0%	6.9%
F: Other	75.0%	25.0%	0.0%
<b>Total</b>	<b>63.2%</b>	<b>23.6%</b>	<b>13.2%</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.*

As of the end of February 2024, according to our calculation, 63.2% of the measures within the IMF program had been completed (Table 1). An important measure that had been completed the previous month was the publication of Social Program reports on the external website of the Ministry of Social Affairs and Housing, where it is possible to zoom in on the number of households or individuals broken down by district.

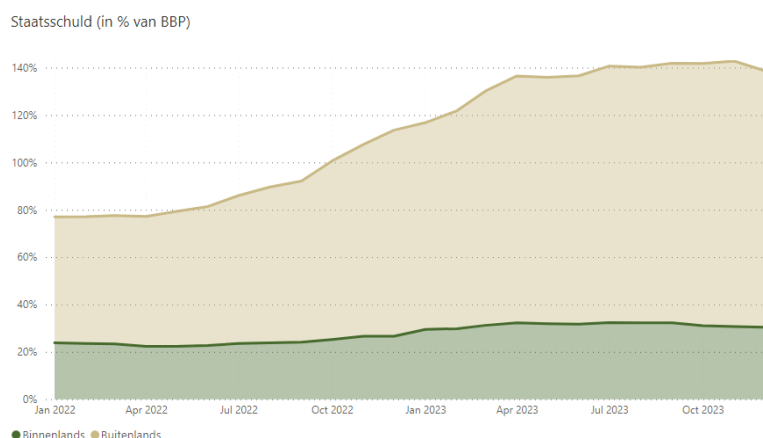
## DEVELOPMENTS IN PUBLIC DEBT

The debt ratio (public debt in % of GDP) fell to 138.6% by the statutory definition in December 2023, according to figures from the State Debt Management Office (SDMO). Foreign debt denominated in local currency fell to SRD 96.9 billion due to a decline in exchange rates. Domestic debt further decreased to SRD 27.2 billion.

In 2023, government debt as a percentage of GDP increased from the previous year. The debt increased because Suriname uses more of its borrowing space than it repays. During the debt restructuring process, no repayments were made while using the borrowing space within the IMF program for fiscal support, among other things. In USD terms, the debt did decrease because of the exchange rate effect. Also because of the debt relief (haircut) that we had on the Oppenheimer loans of about 29 percent.

According to the [State Debt Plan 2023](#) the priority is to repay foreign debt. The Oppenheimer loans have been restructured to a lower interest rate of 7.95%. Although this interest rate may qualify as high in the public perception, it is lower than (1) the former rate (near 12%) and (2) interest rates that peer economies receive on similar loans. There is also a clause for a Value Recovery Instrument (VRI) from future oil revenues built in. This VRI is unique in the world and is currently seen as an example of how countries with growth potential can restructure the loan portfolio. The VRI represents a maximum value of USD 688 million. If Suriname has additional funds, the VRI can be settled early. The restructurings with China are at an advanced stage. An agreement in principle has already been reached for this purpose. According to the SDMO, about 60% of foreign sovereign debt has been restructured. The restructuring is expected to be completed this year

Regarding domestic public debt, as agreed with the IMF, Suriname has until March 2024 to clear all arrears. There are technical arrears for infrastructure projects. Payments are handled through recu's by the Ministry of Finance. The goal is to gradually reduce the total national debt to 60% of GDP by the year 2035. The government's primary account plays a significant role in this.



### Advice

The SEOB's concern is that upon expiration of the IMF program, the government will still need fiscal support from both multilateral institutions and the local capital market. This, given the government's fiscal support from the IMF program which ends in March 2025. The government will also need to maintain its discipline to record primary account surpluses after the program ends. This highlights the great need for a follow-up IMF program that focuses on improving public finances and strengthening institutions such as the ministries, tax institute, customs, and the SDMO. A follow-up IMF program will also provide the local capital market with sufficient comfort to support the government.

The SDMO indicates in their strategic plan that capacity (human capital) and a medium-term strategy are needed for more effective management of sovereign debt. In the strategic plan, the SDMO indicates that database digitization, analytical capacity, and debt mapping of SOEs should be better monitored. Also, the local capital market should be developed. The SEOB states that regaining investors' confidence also plays a significant role in this regard. In the future, Suriname may also consider the possibility of issuing so-called "Green Bonds".

## RECENT ECONOMIC DEVELOPMENTS

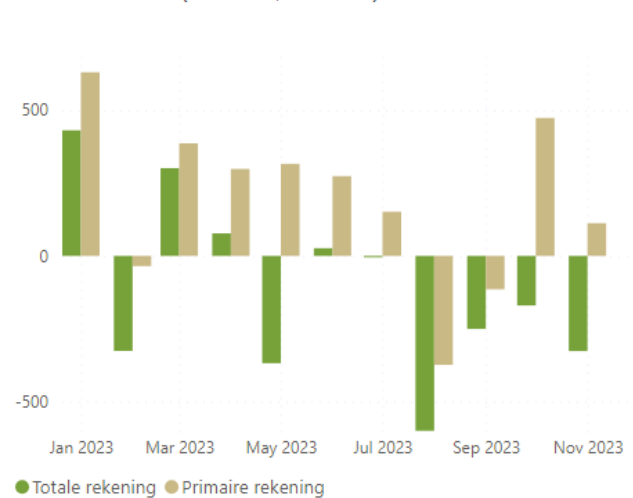
### PUBLIC FINANCES REMAIN FRAGILE

The government overall balance predominantly recorded deficits in the second half of 2023. Public finances deteriorated because of the increase in expenditure, while revenues did not move proportionately. Although personnel spending seemed in check, subsidies and interest payments on foreign loans put pressure on public finances in the last months of 2023. The total account came in at a deficit of 1% of GDP for the January-November 2023 period, while the primary account posted a surplus of 1.5% of GDP.

On the expenditure side, subsidies and transfers increased the most in the second half of 2023, by more than SRD 2 billion. This was obviously due to expenditures related to the social program. Government revenues increased moderately, mainly because of a decrease in non-tax revenues of about 6% year-on-year. Tax revenues from the large and medium-sized mining sector also stagnated, widening the gap between revenues and expenditures.

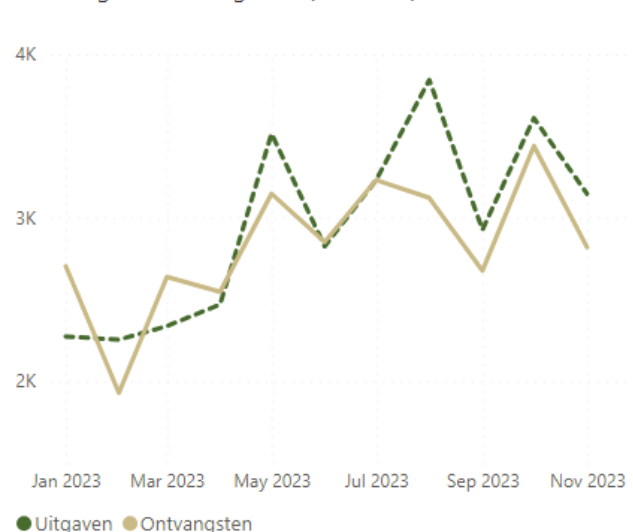
The SEOB emphasizes the need to increase government revenues, particularly through improved tax collection and import duties. The SEOB stresses the importance of fiscal discipline and will continue to closely monitor developments in public finances.

Overheidssaldo (mln SRD, kasbasis)



Source: Ministry of Finance and Planning.

Ontvangsten en Uitgaven (SRD mln)



Source: Ministry of Finance and Planning.

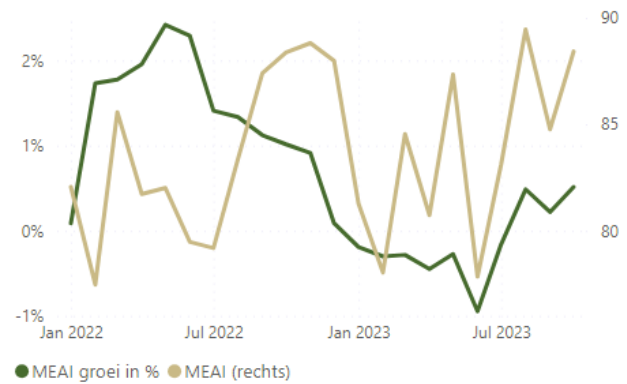
## ECONOMIC ACTIVITY IS SLOWLY PICKING UP

Economic activity has slowly picked up since August 2023. The CBvS monthly index of economic activity (MEAI) estimates a growth of 0.5% in October 2023. The IMF estimates growth of 2.1% in 2023 while it will accelerate to 3% in 2024. Growth was mainly driven by hospitality-related sectors. In addition, roundwood production and air transport also contributed to the economic expansion. In contrast, the MEAI shows that activities in the trade sector declined during this period. There was also a contraction in gold production in October 2023.

Mining exports rise sharply by more than USD90 million in the 3<sup>e</sup> quarter of 2023 compared to the previous quarter. While gold prices reached their highest level ever in 2023 - about USD2150 per oz in December 2023 - oil prices have been on a downward trajectory for several months. Because of the favorable gold prices, gold export value rose in the 3<sup>rd</sup> quarter despite the contraction in production volumes.

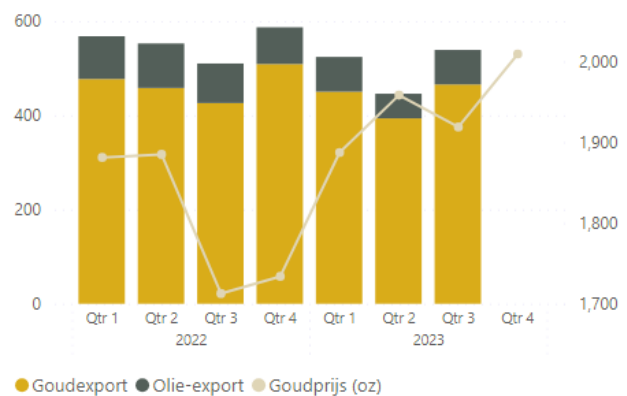
Although economic activity is picking up, it is still too slow. The SEOB expects the economy to grow further in 2024. Policymakers have a significant role to play in keeping the economic environment healthy, thereby increasing investor confidence.

Economische Activiteit



Source: CBvS.

Mijnbouwexporten (mln USD)



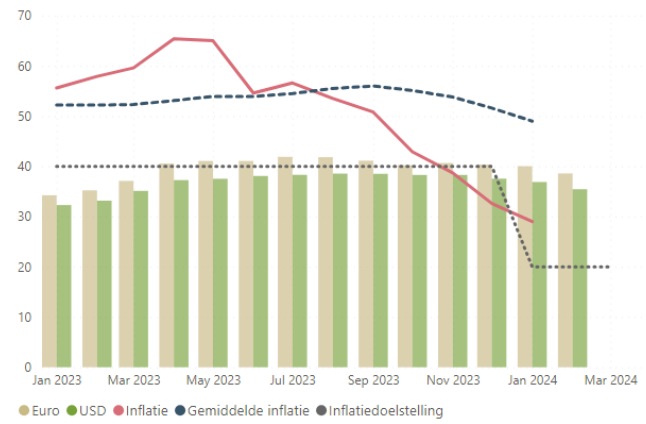
Source: CBvS.

## INFLATION DECLINES FURTHER

Inflation in January 2024 declined further to 29%. This slowdown in inflation can be attributed to falling foreign currency exchange rates. However, compared to the previous month, prices increased by 0.9%. This was due to an upward revision of pump prices, as well as an increase in utility rates. The 12-month average inflation rate also decreased, reaching 49% in January 2024.

Foreign currency exchange rates declined further in 2024. However, a discrepancy can be seen in the digital and cash exchange rates. The continued decline in exchange rates, due to the flexible exchange rate system, brings benefits and risks. For example, the government foregoes revenue (expressed in SRD) when the exchange rate falls. For the local export sector, a falling exchange rate can mean a worsening competitive position. Declining exchange rates, on the other hand, can benefit foreign debt repayments. A falling exchange rate also increases consumer purchasing power. Prices of rent expressed in SRD fall. It can also bring about some drop in prices for goods that are immediately linked to a foreign currency, such as luxury imported goods.

Inflatie (in %) en Wisselkoers



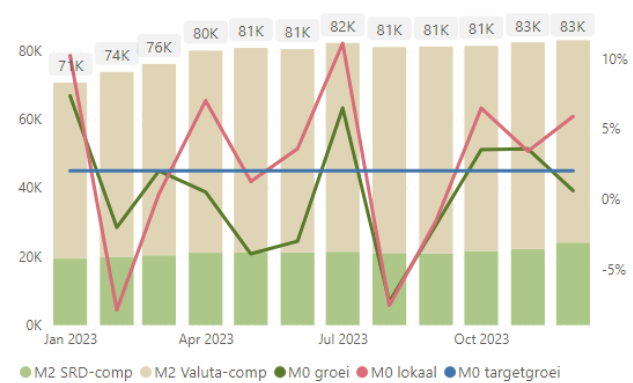
Sources: ABS, CBvS.

## LOCAL COMPONENT BASE MONEY SUPPLY EXCEEDS TARGET

Although total M0 was below the target agreed with the IMF of SRD31.3 billion, the local component of M0 exceeded the agreed amount of SRD16.2 billion in December 2023. The CBvS indicates that the increase in the local component of M0 is due to increased government spending.

The SEOB will continue to monitor growth in the local component of M0. High growth in the local component of M0 due to the government may trigger spending inflation. This may jeopardize the inflation target.

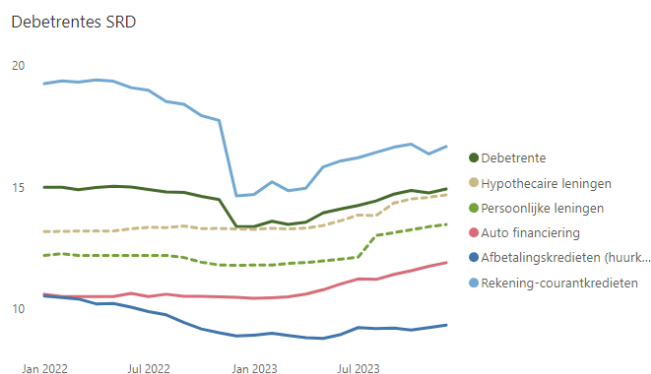
Liquideitenmassa en groei M0



Sources: ABS, CBvS.

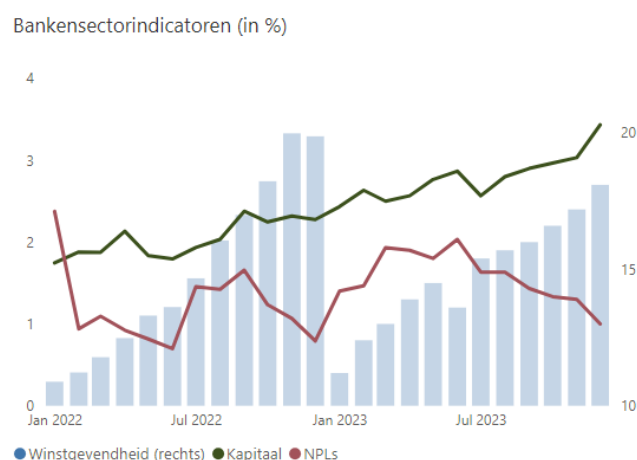
## INTEREST RATES RISE FURTHER; NONPERFORMING LOANS DROP

Average interest rates climbed further in December 2023. Average interest rates on deposits rose from 9.7% to 11.1%, while loan rates averaged 14.9%. The SEOB expects increases in average lending rates to continue in the coming months. However, high lending rates may pose challenges to economic activity. Especially for small and medium-sized enterprises (SMEs), high interest costs are discouraging.



Source: CBvS.

Developments within the banking sector appear favorable. The aggregate solvency ratio reached 20.3% in December 2023, up from 16.8% one year earlier. Non-performing loans (NPLs) are also improving. The NPL ratio stood at 13% at the end of 2023. Profitability measured by return on assets declined slightly to 2.7% in December 2023 compared to the previous year.



Source: CBvS.

## OUTLOOK AND RECOMMENDATIONS

- The SEOB emphasizes the need for sound public finances. In recent months, we have seen a deterioration on the government's current and total balances due to an increase in spending due to the social program. While spending on social programs is necessary, subsidies to utilities should be reduced proportionately.
- The reduction of subsidies on utility rates is essential. However, the government should make simultaneous and timely subsidies to individuals (subject subsidies) to compensate for the higher cost of living. SEOB continues to emphasize that declining purchasing power requires an effective social program. We also recommend using the banking system for efficient and timely disbursement of social benefits. The government should also consider the effects of increasing utility rates on local manufacturing firms.
- Despite government revenues having increased in nominal terms, it still misses significant revenues from VAT, other taxes, and import duties. Strengthening institutions such as tax and customs are of great need to address this issue structurally.
- The SEOB calls for reforms within the public sector. Addressing the so-called phenomenon of "ghost civil servants" will free up room for the financial position of the active civil servant. However, the government

should make sound calculations when providing pay increases so that they (1) do not put further pressure on public finances and (2) are not inflationary. The IMF suggests that the wage bill should be 6.7% of GDP by 2024.

- We expect inflation to continue to decline slowly through 2024. However, further rate adjustment of utilities will put pressure on local prices. The SEOB estimates a 12-month average inflation rate of between 16% and 23% in 2024, based on trend analysis. The IMF estimates a 12-month average inflation rate of 21.1% in 2024. The SEOB emphasizes that bringing inflation down requires fiscal discipline. This includes structural avoidance of deficits by the government.
- SEOB expects growth in the economy to start slowly in 2024, in case inflation declines further. We also expect growth to be propelled by the start-up of the offshore oil sector, in case of a positive investment decision by TotalEnergies and Apache.
- Monetary measures result in a tightening of the overall M0. This is positive for the local price level, but results in high interest rates. The SEOB therefore calls attention to facilitating lending to SMEs, especially those in the import-replacement or export sectors. The SEOB welcomes projects such as SURGE, the guarantee fund, and the production credit fund.
- Achieving the targets for the local part of M0 may be structurally compromised if the government sharply increases its spending on the social program, among others, as was evident in December 2023. This necessitates monetary and fiscal policy alignment.
- Although stringent monetary measures are still necessary, the SEOB stresses that VSB, SBV, CBvS, as well as the government are engaging in dialogue on how the production sectors will and can be stimulated to boost economic growth.
- SEOB favors an IMF-2 program to strengthen institutions so as not to undo the achievements of this IMF program and the simple fact that the government will not yet be able to manage its finances sustainably on its own after the current IMF program.
- Finally, the SEOB calls for a serious approach to AML/CFT actions arising from the CFATF recommendations. The SEOB also recommends 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 emphasizes that an AML/CFT (countering fraud, corruption, money laundering, etc.) is necessary to create the right investment climate, attract sound investors and ensure a one-level-paying field for all businesses in Suriname.

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