BULLETIN #17 OCT 2024

The 17th SEOB bulletin discusses the progress of the IMF program, the role of the Centrale Bank van Suriname (CBvS), and the main 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

- Suriname has received an improved rating from the international credit rating agency Moody's. The primary reason for this improvement is the Final Investment Decision made by Total Energies. This slight credit rating upgrade could lead to better access to international financial markets and lower interest costs on future loans.
- Foreign exchange rates rose significantly in September 2024.
- In September 2024, year-on-year inflation (hereafter: inflation) fell to 10.5% compared to August. However, monthly inflation increased to 0.9% due to the rise in exchange rates.
- Average inflation, measured as the price increase over the past 12 months compared to the previous 12 months, decreased to 22.7%.
- The economy grew by 0.5% in May 2024 (the most recent available figure), driven by air transport, hospitality-related sectors, and gold production.
- The SRD component of the base money supply (M0) was higher than the target in August 2024, mainly due to a reduction in the net balance of open market operations.
- Average savings interest rates show a downward trend; solvency in the banking sector remains relatively stable.
- The gross international reserve – including commercial banks' reserves – was USD 1.42 billion in August 2024, with an import cover of 6.7 months.
- The debt ratio, or public debt as a percentage of gross domestic product (GDP), rose to 78.2% in August 2024.
- As of mid-October 2024, 62.6% of the measures under the IMF program had been completed, according to our calculations (Table 1).

Table 1. Status of IMF Program Measures

Policy Area	Completed	In Progress	Other
Monetary and Exchange Rate Policy	62.8%	34.9%	2.3%
Fiscal Policy	64.0%	16.0%	20.0%
Debt	66.7%	33.3%	0.0%
Financial Sector	62.5%	37.5%	0.0%
Governance	55.9%	38.2%	5.9%
Other	75.0%	25.0%	0.0%
Total	62.6%	28.2%	9.2%

Note: "Other" means the measure has been postponed or not yet started, or the status of the measure is unknown. Measures that require immediate attention are reviewed at each IMF review and are also part of policy areas A to F. Source: SEOB calculations with IMF monitoring matrix data.

THE ROLE OF THE CENTRALE BANK VAN SURINAME IN THE IMF PROGRAM

The CBvS has the primary objective of preserving the value of the Surinamese dollar. Additionally, she supervises the financial sector, serves as a bank for both commercial banks and the government, and advises the government on financial matters.

The CBvS is one of the key institutions responsible for implementing the IMF program. She carries responsibility for measures on monetary and exchange rate policy, the financial sector, and governance. These measures aim to stabilize the economy, strengthen the financial system, and enhance the institutional framework of the CBvS. This analysis provides further insight into the CBvS' role within the IMF program.

Monetary Policy

Since the second half of 2021, the CBvS' monetary policy has primarily focused on controlling the base money supply (M0) to bring inflation down to a manageable level. Aligned with this revised policy, the CBvS transitioned from a fixed to a floating exchange rate, meaning the exchange rate is now determined by market demand and supply.

The base money supply (M0) includes both cash in circulation and the reserves commercial banks hold with the CBvS. It's important to note that the M0 can be influenced by three factors:

1) The monetary policy of the CBvS.
2) (Net) government expenditures.
3) Reserves of commercial banks held at the CBvS.

The base money supply has a direct impact on the exchange rate, which is the primary factor driving inflation in Suriname. Therefore, it is crucial to keep the M0 supply within established limits to ensure that all stakeholders contribute to balanced policies. The CBvS manages M0 through a combination of open market operations (OMOs) and mandatory SRD cash reserves. Commercial banks are required to hold reserves in local currency at the CBvS, which helps regulate the money supply and control inflation.

OMOs are a tool the CBvS uses to manage liquidity in the economy. Through OMO auctions, the amount of money in circulation can be directly influenced. OMOs also allow the CBvS to impact interest rates and commercial bank lending, which are essential for achieving monetary objectives. As the money supply increases, OMO auction volumes also rise, leading to higher bid rates from banks. This underscores the importance of balanced policies across all three contributing factors. The CBvS has indicated that it plans to continue its OMO policy beyond the IMF program, with potential adjustments based on the economic situation.

In addition to OMOs, the CBvS employs SRD cash reserve requirements as a monetary instrument. The current reserve ratio stands at 44%, meaning that 44% of SRD bank deposits cannot be used for loans or other investments. This reserve tool allows the CBvS to influence the money supply by limiting banks' lending capacity, which, in turn, can affect interest rates. Within the IMF program, the CBvS also has the option to conduct foreign exchange interventions, provided specific conditions are met.

Performance Criteria and Measures

Under the IMF program, quantitative performance criteria have been set for the CBvS. These criteria include controlling net domestic assets and net international reserves, with the base money supply serving as an indicative target. The CBvS uses its previously mentioned monetary instruments to achieve these targets. Achieving these targets also depends on other developments, particularly the extent of net government expenditures.

In addition to meeting quantitative performance criteria, the CBvS is required to implement several key pre-agreed measures. As of September 2024, these measures included:

Measure	Status
Establish an electronic trading platform for interbank/cambio FX trading, with an expanded scope to cover bank/cambio transactions with gold exporters.	In uitvoering. Afronding verwacht in 2024.
Publish the audited IFRS financial statements for fiscal year 2022 on the external website of the CBvS.	In Progress. Expected completion in December 2024.
Develop a time-bound plan for the recapitalization of the CBvS, as agreed between the CBvS and the government.	Plan Established; Recapitalization in Progress.

Source: IMF Monitoring matrix

Findings of SEOB

The SEOB has concluded that the CBvS has achieved the best performance among all the institutions involved, based on the milestones accomplished. However, it is noted that monetary stability remains fragile due to substantial net government expenditures and the absence of robust fiscal rules. SEOB continues to emphasize the need for better coordination between the government's fiscal policy and the CBvS' monetary policy to effectively manage liquidity and keep inflation under control. Government deficits remained dominant in 2024, which negatively impacted monetary stability. Additionally, improved coordination is needed regarding foreign exchange supply to reduce volatility in the currency market. Stability can only be achieved if all actors are well-coordinated. SEOB further stresses that communication from the CBvS should be more structured, transparent, and accessible. The public must be better engaged with monetary policy, and it should understand why certain measures are taken and what their consequences are.

SEOB highlights the importance of good governance at the CBvS, particularly regarding the publication of financial statements. Without the publication of recent financial statements, there will be no international trust in the financial system, which also sends a negative signal to the banks under the CBvS' supervision. Published financial statements are crucial for the full recapitalization of the CBvS. Notably, significant progress has been made, with seven years of financial statements (2015-2021) published within four years. The 2022 financial statement is set to be published in December 2024, and the 2023 and 2024 statements are scheduled for publication in March and June 2025, respectively, after which the CBvS will be back on track.

SEOB emphasizes the following pillars for macro-economic stability:

- Stable Currency: As discussed in previous sections, maintaining a stable currency remains a priority.
- Sound Financial Institutions: A solid financial system, including banks, insurers, pension funds, and credit cooperatives, requires a level playing field regarding legislation, regulation, and supervision.

- Stable Payment System: The payment system in Suriname is a concern. The Suriname Electronics Payment Network (SNEPS) is a service provided by the CBvS that has greatly contributed to the digitization of payments. However, the Banking Network Suriname is not currently under the supervision of the CBvS, despite being a system organization with a significant impact on the economy. The lack of legislation regarding payment transactions in Suriname results in AML/CFT risks, financial system risks, and a lack of innovation.

MOODY INCREASE SURINAME'S CREDIT RATING

In October, credit rating agency Moody's upgraded Suriname's government credit rating from Caa3 to Caa1, with a positive outlook (see Table 2). This upgrade was attributed to the Final Investment Decision in the offshore oil sector (GranMorgu project) and the expected economic activities resulting from it. Additionally, the reduction in government debt contributed to the improved credit rating. This rating improvement could provide Suriname with better access to international financial markets, potentially leading to lower interest rates on future loans.

Moody's identified several factors that could influence Suriname's creditworthiness. First, the implementation of legislation for the transparent and effective management of future oil revenues will play a crucial role. Strengthening policy through economic and structural reforms will further enhance the country's resilience to external shocks. On the other hand, a lack of budget discipline could lead to a deterioration in government finances. Additionally, any delay in oil production, which is scheduled to begin in 2028, could place further pressure on the government budget, potentially negatively affecting the credit rating.

Table 2: Comparison of Credit Ratings

Fitch Ratings	Moody's	Standard & Poor's	Description
AAA	Aaa	AAA	Best quality
AA+	Aa1	AA+	High quality
AA	Aa2	AA	
AA-	Aa3	AA-	
A+	A1	A+	Above average
A	A2	A	
A-	A3	A-	
BBB+	Baa1	BBB+	Investment grade
BBB	Baa2	BBB	
BBB-	Baa3	BBB-	
BB	Ba	BB	Speculative
B	B	B	
CCC	Caa	CCC	
CC	Ca	CC	
C	C	C	
-	-	D (default)	

Source: Investopedia.

RECENT ECONOMIC DEVELOPMENTS

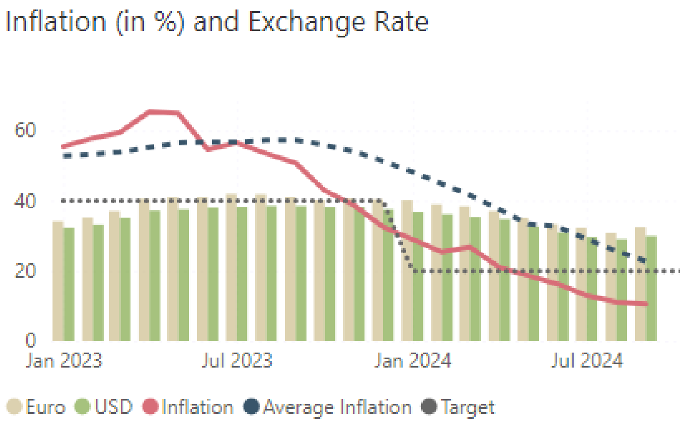
Monthly inflation accelerates in September 2024

In September 2024, the monthly inflation rate rose to 0.9%, driven by the increase in exchange rates. On an annual basis, inflation decreased to 10.5%, showing some progress in controlling inflation compared to earlier in the year. Additionally, core inflation (which excludes food and energy prices) continued to slow down. The average 12-month inflation dropped from 29.1% to 25.8%.

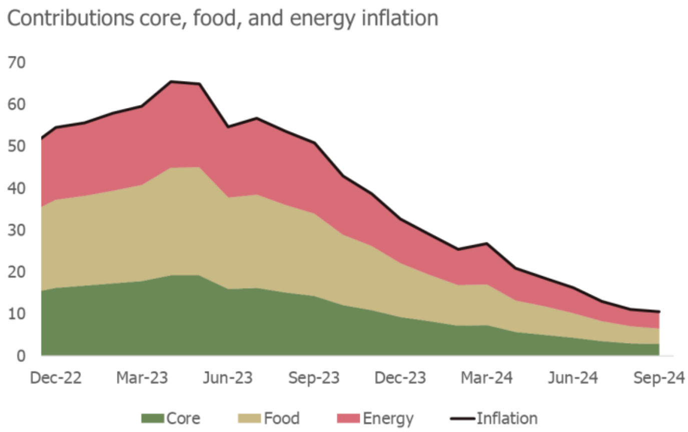
The increase in exchange rates significantly contributed to the rise in monthly inflation. The exchange rate for the USD rose by more than 3.4%, while the exchange rate for the Euro increased by approximately 5.6% relative to the SRD. These increases in exchange rates were driven by the heightened demand for foreign currency.

In August 2024, the local component of the money supply (SRD-M0) grew by 3%, reaching SRD 18.1 billion, which was higher than the target of SRD 17.5 billion. The increase in SRD-M0 was due to a decrease in the net stock of open market operations, meaning that the reserves held by commercial banks grew at a faster rate than the value of the OMOs.

On an annual basis, the strong growth in SRD-M0 in 2024 was primarily driven by net government transactions, which played a major role in expanding the money supply.



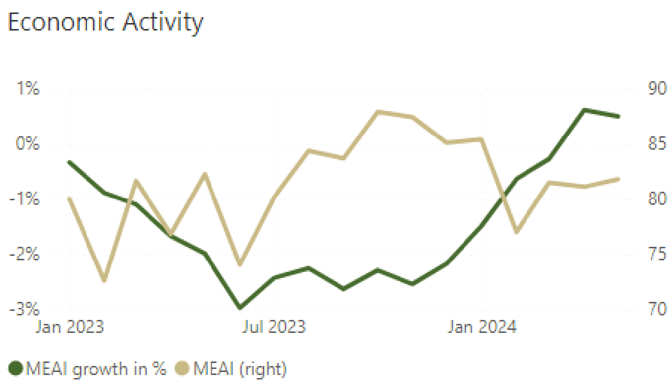
Sources: ABS, CBvS.



Note: Energy inflation includes the contribution to inflation from the main categories of housing & utilities and transport. Food inflation includes the contribution from the main category of food and non-alcoholic beverages. Core inflation includes the contribution from the remaining main categories.

Economy grows for the second consecutive month

In May 2024, Suriname's economy grew for the second consecutive month, with the Monthly Economic Activity Index (MEAI) of the CBvS registering a 0.5% growth. This economic expansion was mainly driven by the air transport sector, the restaurant sector, and an increase in gold production. However, the overall growth was moderated by a slowdown in the industry and manufacturing sectors, along with a decline in roundwood production.

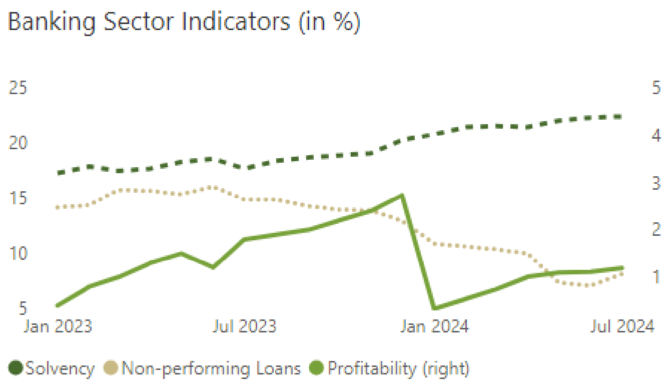


Source: CBvS.

Interest rates decline; non-performing loans deteriorate

In July 2024, the average lending rates remained stable at 14.7%, while the average savings and investment rates decreased from 10.0% to 9.1%. The decline in average saving rates was driven by a reduction in short-term interest rates. This decrease is in line with the declining inflation and improved economic outlook.

Non-performing loans (NPLs) increased in July 2024 compared to the previous month. However, when compared to 2023, this represents a significant improvement. The NPL ratio was 16.1% in June 2023 but dropped to 8.2% in July 2024. This reduction is attributed to the implementation of the asset quality review by banks and the improved repayment capacity of borrowers. Furthermore, the capital adequacy ratio increased to 22.5% in July 2024, while the liquidity ratio declined to 53.5%. Profitability in the banking sector in 2024 is significantly lower than in the previous year.

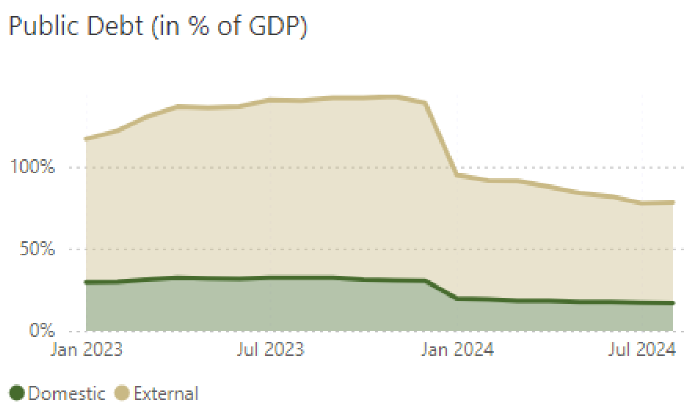


Source: CBvS.

Developments in public debt

The debt-ratio – the ratio of government debt to GDP – increased to 78.2% in August 2024, according to the legal definition. In August, foreign debt, expressed in local currency, rose to SRD 78.0 billion. This increase was driven by debt owed to bilateral creditors, as well as a slight increase in exchange rates during the month. On the other hand, domestic debt further dwindled to SRD 21.3 billion due to repayments.

Domestic debt due to the CBvS and commercial banks has been restructured and is being repaid. However, the recapitalization of the CBvS will have a negative impact on the domestic public debt. The sharp downward adjustment in debt ratios for 2024 is mainly the result of a revised GDP figure.



Source: SDMO.

OUTLOOK AND RECOMMENDATIONS

- The SEOB welcomes Moody's upgrade but emphasizes the importance of fiscal discipline. Additionally, it is essential to operationalize a Sovereign Wealth Fund with clear rules for its use within the budget. This will ensure that both current and future generations benefit from oil and gas revenues. Adherence to fiscal rules and the government's ability to maintain responsible fiscal policy will be crucial for Suriname's future.
- The SEOB strongly advises against drawing an advance on oil revenues. It is important that the government does not prematurely increase its expenditures, as actual oil revenues are not expected until 2028. The SEOB also stresses the importance of strengthening the tax administration to increase government revenues.
- The social program has yet to take off despite numerous recommendations and proposals from various institutions to the government. The SEOB emphasizes that the focus should not be on an expenditure target but on the effectiveness of the social program. Unfortunately, the effectiveness of the program remains behind expectations, which remains a concern.
- The SEOB is concerned about the sharp increase in exchange rates. Imbalanced public finances could exacerbate this development. Phasing out subsidies on utility tariffs remains necessary for a more rational government expenditure structure. However, this process must be transparent, with full insight into electricity costs for all stakeholders to gain support. Additionally, it is crucial to pay attention to the social safety net to effectively combat poverty.
- The M0 target was not achieved in August 2024. Fiscal discipline and better coordination between the Ministry of Finance and the CBvS are crucial in this regard.
- The SEOB notes the reduction in domestic debt and the recapitalization of the CBvS as positive developments. However, recapitalization will again increase domestic public debt and exert some pressure on the government's budget.
- Lending interest rates remain high despite the decline in inflation. High interest rates can pose challenges for business investments. However, the private sector also has a role in continuing to innovate to increase productivity.
- The SEOB expects the 12-month inflation rate in 2024 to range between 16% and 18%. Year-end inflation is estimated to be between 9% and 11%, with government deficits affecting liquidity and utility tariff increases potentially having an adverse impact on this estimate.
- The SEOB expects further economic growth in 2024. The medium-term growth prospects, driven by the mining sectors, are also positive. Nevertheless, the SEOB advocates for introducing incentives to promote the development of local sectors, with special attention to employment, production, sustainability, and addressing climate change. It is essential to identify specific sectors that will take priority in the coming period. There is also a need to align the education sector with the oil sector as well as to identify potential growth sectors. The IMF emphasized during discussions that, with future oil and gas revenues in mind, governance must be strengthened, and a clear spending plan must be established.
- The legal framework for anti-corruption must be revised. Within this framework, requirements should be included to ensure that politicians disclose their income and assets, making them accessible to the public.
- With the progress of the second NRA, there is also a call for stringent measures against fraud, corruption, and money laundering (AML/CFT). Laws strengthening AML/CFT are under development, and the IMF highlights the importance of these issues. The SEOB advises the involvement of the private sector and advocates for the continuation of the IMF program to strengthen institutions and financial management.

- According to our calculations, 62.6% of the program was completed by mid-October. It is expected that not all policy objectives within the current IMF program will be achieved. This underlines the need for a follow-up program with the IMF to further strengthen government policy and the economy.
- The SEOB continues to advocate for a follow-up IMF program so that economic recovery is not undone. This program should emphasize strengthening institutions, good governance, and reinforcing monetary policy and the financial sector.

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