April 2006
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Suriname: 2005 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Suriname

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Suriname, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on November 21, 2005, with the officials of Suriname on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 8, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 24, 2006 discussion of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Suriname.

The document listed below has been or will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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SURINAME

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for
the 2005 Consultation with Suriname

Approved by Christopher Towe and Michael Hadjimichael

February 8, 2006

Discussions for the 2005 Article IV consultation took place in Paramaribo during November 10–21, 2005. The mission consisted of Messrs. B. Fritz-Krockow (Head), M. Nozaki, R. Portillo, and Ms. M. Torres (all WHD). The mission met with Minister of Finance Hildenberg, Central Bank President Telting, and other senior government officials, representatives of the business community, labor unions, and political parties. Ms. K. Florestal (OED) participated in the policy discussions.

Last Article IV consultation. At its conclusion on March 25, 2005, Directors commended the authorities for their efforts to maintain stability in the economy through a tight fiscal and monetary policy stance. They stressed that macroeconomic stabilization should remain a priority, particularly in view of the forthcoming elections. They also highlighted the need to reform the public sector.

Political and economic developments. President Venetiaan returned to power as the head of an expanded coalition after the May 2005 parliamentary elections. Economic activity strengthened during the past year, reflecting increased mining output and investment. Headline inflation has picked up, reflecting the recent doubling of domestic fuel prices.

Key policy issues. The principal short-term challenge for Suriname is to maintain disciplined fiscal and monetary policies, especially to contain the inflationary impact of the recent increase in domestic fuel prices. Over the medium term, the priority will be to entrench a consistent macroeconomic policy framework and advance critical public sector reforms in order to minimize the vulnerability to exogenous shocks and improve the competitiveness of the non-mining sectors.

Exchange arrangement. The authorities have made progress towards unifying the official and market exchange rates under a de facto managed float regime. Suriname has accepted the obligations of Article VIII, sections 2, 3, and 4, but maintains multiple currency practices subject to Fund approval.

Statistics. Except for monetary data, the quality and timeliness of economic statistics are inadequate for surveillance purposes, in particular national accounts and trade statistics.

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EXECUTIVE SUMMARY

Suriname is benefiting from the boom in global commodity markets. Growth remains strong, fueled by investment and exports in the gold, bauxite, and oil industries. The completion of major investments in the mining sector and the strength in global commodity prices supported buoyant growth in exports and an increase in foreign exchange reserves. However, inflation has increased with the near-doubling of domestic fuel prices in September 2005.

Macroeconomic policies remain broadly appropriate. Revenues from oil exports reduced the fiscal deficit to around 1 percent of GDP in 2005, while the recent increase in domestic fuel taxation will support the fiscal position. The central bank has absorbed liquidity created by a reduction in reserve requirements in the last two years by placing Treasury bills in the market. As a result, reserve money growth has slowed and private sector credit growth is projected to decline to 18 percent in 2005.

The outlook appears favorable, but significant vulnerabilities remain. Export growth and a continued cautious policy stance are projected to limit short-term risks. Over the medium term, the outlook remains positive. However, Suriname remains vulnerable to exogenous shocks and has a history of sudden and highly destabilizing policy shifts in the aftermath of shocks to global commodity prices.

The key challenges are to maintain and entrench stable macroeconomic policies and reduce the country's vulnerability to shocks. In the short-run, it is important to resist second-round effects from the recent fuel price increases, including pressures for further compensatory wage increases or subsidies. Over the medium term, the authorities should aim to reduce the vulnerability of the fiscal position to changes in global commodity prices, including by establishing a stabilization fund abroad with revenues from new extractive industries. Similarly, there is scope for establishing a firmer anchor for monetary policy, based on targets for a monetary aggregate, while moving to a unified and more flexible exchange rate regime. In addition, it will be important to reform the civil service and to deal with the large number of public enterprises.

I. BACKGROUND

1. **Although Suriname is presently benefiting from the global boom in commodity prices, the country is highly vulnerable to external shocks and has been prone to poor macroeconomic management.** Exports of alumina, gold, and oil are equivalent to roughly 60 percent of GDP while a large and inefficient public sector includes about 120 public enterprises and accounts for about 60 percent of formal employment. Inappropriate fiscal and monetary policy responses to terms-of-trade shocks have led to episodes of near-hyperinflation and depreciation, significant output volatility, and external payments arrears.

Demographic and Social Indicators

	Suriname	Latin America and Caribbean Median
Area (thousand square kilometers)	163.8	
Population (millions)	0.49	
Rank in UNDP Human Development Index, out of 177 countries (2004)	75.5	77.2
GDP per capita in PPP, US dollars (2003)	6,590	6,123
Life expectancy at birth (years) (2003)	74	77
Infant mortality (1,000 live births) (2003)	31	27
Access to safe water (2000)	82	86
Adult illiteracy (2002)	6	11
Secondary school net enrollment (2002/03)	73	75

Sources: Human Development Report 2005, and World Bank Development Data.

2. **Suriname's economic and social indicators are close to the median for Latin America and the Caribbean**. However, the economy offers limited employment opportunities outside the mining and public sectors, and there is widespread poverty in rural areas.[1]

3. **President Venetiaan's coalition was returned to power in the May 2005 parliamentary elections, albeit with a smaller majority.** His New Front coalition lost its majority and after protracted negotiations, a new coalition was formed in August consisting of eight parties controlling 30 of 51 seats in Parliament. The increased diversity of political views in the new coalition is expected to make it more challenging to maintain macroeconomic discipline and the momentum for reform.

[1] National accounts statistics are unreliable and there are indications that GDP is grossly underestimated on account of a large and burgeoning informal economy.

II. Recent Developments

4. **Economic activity remains buoyant reflecting the surge in global commodity prices and increased mining output, and inflation has rebounded after a hike in fuel prices.** Real GDP increased by 8 percent in 2004, boosted by a new gold mine in Rosebel that became operational in April 2004, an expansion of the Suralco alumina refinery, and investment in the bauxite sector. Gold and oil exports, as well as continued investment to replace aging bauxite mines in Lelydorp and Mungo, are estimated to have supported growth of around 5 percent in 2005. Inflation moderated to 9 percent in 2004 and the exchange rate stabilized. However, inflation is estimated to have risen to about 17 percent in 2005, largely as a result of a doubling of domestic fuel prices in September 2005.

5. **The fiscal position has strengthened, notwithstanding pre-election spending pressures.** The central government's overall deficit declined from around 3 percent of GDP in 2004 to an estimated 1 percent of GDP in 2005. This improvement resulted from a substantial increase in revenue from the oil sector, which more than offset higher capital expenditure during the pre-election period and a 2 percent of GDP revenue loss due to delays in adjusting domestic fuel prices.[2] As a result, the public sector debt-to-GDP ratio is estimated to have dropped to 41½ percent by end 2005.

6. **Central bank financing of the budget has been limited.** Fiscal financing by the Central Bank of Suriname (CBvS) is expected to decline from about 1 percent of GDP in 2004 to ½ percent in 2005. Although the CBvS has lowered the effective reserve requirement on domestic currency deposits since mid-2004, private sector credit growth has moderated as additional liquidity has been sterilized by a larger issuance of Treasury bills.[3]

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[2] The authorities maintained a system of variable residual taxation, in which the difference between world prices and fixed domestic prices accrued to the government as a tax. Besides this revenue source, the government is highly dependent on revenues from the natural resources sector—roughly one quarter of tax revenue was collected from the gold, bauxite, and oil industries in 2002–05. However, world price volatility has meant that revenue from these sources has fluctuated widely in the past between 7–11 percent of GDP.

[3] The effective reserve requirement ratio is lower than the stated ratio as commercial banks are allowed to invest up to 7 percentage points of required reserves in low-interest mortgages and state banks have a lower ratio. Reserve requirements on domestic deposits are unremunerated.

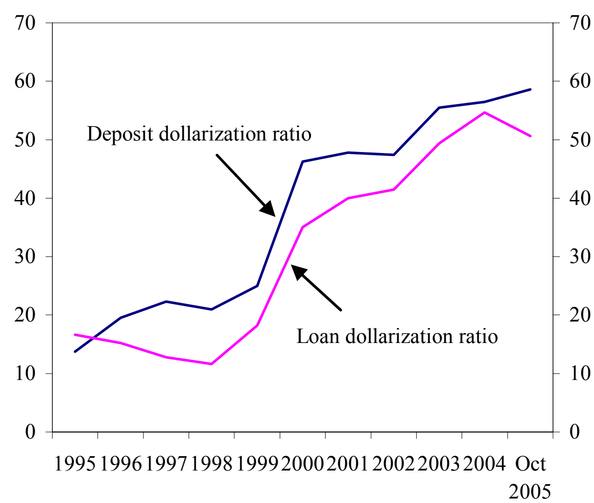
Box 1: Treasury Bills

The government has increasingly relied on Treasury bills for domestic financing. As of September 2005, the stock of Treasury bills stood at SRD 215 million (6 percent of GDP), up from SRD 162 million a year before. Nearly 90 percent of these were held by commercial banks, and the rest were held by pension funds, insurance companies, and corporations. Terms for the Treasury bills have been set by the CBvS (they presently yield 12.5 percent for a maturity of 6 months) and they are traded bilaterally between the CBvS and commercial banks. The Treasury bills can be sold by holders to the CBvS without delay or penalty at the discount value plus accrued interest.

Treasury bills yields have remained unchanged for several months and, in the absence of formal auctions or a secondary market, do not reflect market conditions and are not an effective as a monetary policy instrument. It appears that commercial banks have only limited interest in intermediating bills to their retail customers due to their high yield, limited availability, and high degree of liquidity.

7. **The economy has become increasingly dollarized in recent years.**[4] During 2002-October 2005, the share of foreign currency deposits rose from 47 percent to 59 percent of the total deposit base, and the share of private sector credit denominated in foreign currency rose from 42 percent to 51 percent. Dollarization has reflected the lingering effects on confidence of the earlier episodes of near-hyperinflation, the liberalization of foreign exchange controls and bank lending regulations, and reserve requirements that strongly favored foreign currency intermediation.[5] More recently, however, exchange rate stability and the sharp increase in reserve requirements on foreign currency deposits in the past two years appear to have halted the increase in financial dollarization.

Financial Dollarization, 1995-2005



8. **Financial sector soundness has improved, but weaknesses remain.** Assets in the system total about 80 percent of GDP, but nearly 50 percentage points are concentrated in three banks—one of these is a fully-owned subsidiary of an international bank and the two others have minority government ownership.[6] Although banking sector indicators point to a

[4] Foreign currency deposits and loans are denominated in Euros and U.S. dollars.

[5] The reserve requirements on foreign currency deposits were increased from zero in January 2003 to 33⅓ percent in February 2005, compared with 23 percent for domestic deposits. Required reserves for foreign currency deposits can be held in interest-bearing accounts abroad, while those for domestic currency deposits are held as unremunerated deposits at the CBvS. The spread between lending and deposit rates in 2004 was 11 percentage points for domestic currency and 7.8 percentage points for foreign currency instruments.

[6] The assets of smaller banks are around 6 percent of GDP, and the assets of the pension funds, the insurance companies, and credit unions total around 25 percent of GDP. A comprehensive review of the financial system

(continued…)

relatively robust financial system (for example, the capital adequacy ratio for the system rose to 9½ percent in September 2005), non-performing loans have increased, while dollarization has risen in recent years to around 50 percent of total loans, suggesting potential balance sheet vulnerabilities. In addition, there are substantial loan performance, management, and capitalization problems at three small state-owned banks. Implementation of new banking supervision regulations has suffered from a lack of staff resources and delays in reporting.

9. **The external current account deficit has remained large, financed largely through foreign direct investment.** Although the current account deficit narrowed to 5 percent of GDP in 2004, reflecting the effects of buoyant prices of gold and alumina exports and the opening of the Rosebel gold mine, a surge in capital goods imports for the mining sector are estimated to have increased the current account deficit to 16 percent of GDP in 2005.[7] These were largely matched by a continued large inflow of foreign direct investment, and foreign exchange reserves remained at around 1½ months of imports.

10. **The more stable macroeconomic environment has laid the foundation for a gradual unification of the exchange rate regime.** After the successful launch of the Suriname dollar in January 2004 and the elimination of the spreads between the official and the free bank/cambios exchange rates, the CBvS has periodically adjusted the official rate in response to market conditions, while using moral suasion to limit the day-to-day volatility in the bank/cambios rate.[8]

11. **The external competitiveness of the non-mining sector has been adversely affected by the appreciation of the real effective exchange rate.** Although the nominal effective exchange rate has been relatively stable during the past three years, the strength of mining exports has contributed to domestic price pressures causing the real effective rate to appreciate by a cumulative 33 percent between January 2002 and October 2005. The limited competitiveness of the non-mining sector is illustrated by the stagnant agricultural exports since 2002.

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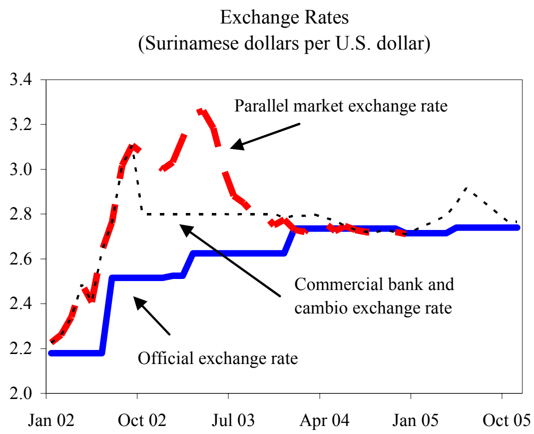
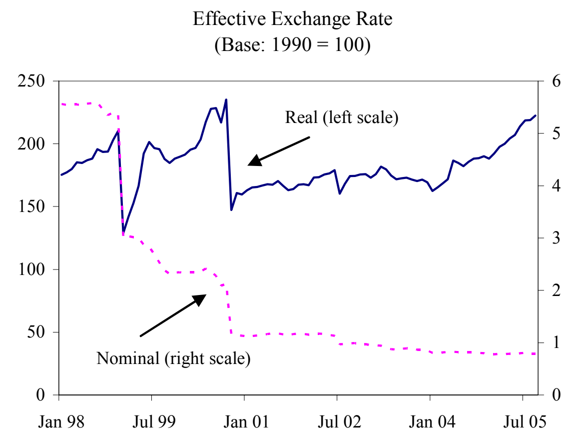
was undertaken in the context of the 2004 Article IV consultation and was published as *Suriname: Selected Issues*, IMF Country Report No. 05/142 (April 2005).

[7] Gross remittances, mainly from the 300,000 Surinamese living in The Netherlands, accounted for about 11 percent of GDP in 2004 and have remained about stable in recent years. However, data collected from the various money remittance institutions (mostly banks and cambios) are partial and unreliable, and a recent survey in The Netherlands indicates that remittances could be underestimated by about 3-4 percent of GDP.

[8] The official rate is determined by the CBvS. It is only used for government debt service and for tax payments by mining companies, which are paid in foreign currency and constitute the main source of CBvS international reserves. The free bank/cambios rate is determined by commercial banks and foreign exchange houses (*cambios*) and accounts for most transactions in the market place. The black market rate became unimportant after the CBvS eliminated the ceilings and floors for the bank/cambios rate in 2003. There is also a subsidized official exchange rate for infant formula imports.



Source: Central Bank of Suriname.



Source: Information Notice System.

12. **Suriname has maintained substantial arrears on bilateral external loans since the 1990s, despite the country's relatively comfortable reserve position.** At end-September 2005, these arrears were the equivalent to US$137 million or 10 percent of GDP, and were owed mainly to the United States and Brazil. Citing the country's stable macroeconomic performance in recent years, Standard & Poor's (S&P) revised its outlook to positive in November 2005, but maintained a B- rating on account of the country's arrears and weak debt payments record.

13. **Progress on structural reforms has been limited.** A key priority identified by the Inter-American Development Bank (IDB) has been a comprehensive civil service reform, which would involve reducing staff, overlapping responsibilities, and absenteeism, and improving recruitment and remuneration policies. The IDB is also supporting efforts to restructure the three ailing state-owned banks and the introduction of a new investment law. In addition, efforts are underway to privatize the banana, rice, and saw-mill companies.

III. Short-Term Outlook

14. **The staff's short-term projection for Suriname is broadly favorable.** The economy is projected to grow by almost 5 percent in 2006 reflecting continued growth in oil and mining exports. The second-round effects of the recent increase in domestic energy prices are anticipated to be limited, keeping inflation at about 8 percent in 2006.

15. **Macroeconomic policies are expected to remain disciplined.** The central government deficit is projected to decline to less than 1 percent of GDP in 2006, mainly reflecting a post-election decline in capital expenditure. Although revenues from oil and mining exports are expected to fall by about 1½ percent of GDP in the absence of the special 2005 dividends from the state-owned oil company, this would be offset by a rebound in taxes

on domestic fuel consumption.[1] The reduced fiscal financing needs of the central government are expected to contain the growth in the monetary and credit aggregates about in line with nominal GDP growth.

16. **The 2006 external current account deficit is projected to narrow and external financing is expected to be ample.** In particular, the current account deficit is projected to decline from around 16 percent of GDP in 2005 to 12 percent, reflecting the effects of continued growth in alumina production and buoyant gold prices on exports and the impact of the completion of the major investment projects in the mining industry on capital goods imports. With continued inflows of foreign direct investment, reserves would increase by about US$15 million, remaining at around 1½ months of imports by end-2006.

IV. Policy Issues and Discussions

17. **Discussions focused on the importance of maintaining policy discipline and of developing a consistent and forward-looking macroeconomic policy framework.** The authorities indicated that they were committed to maintaining a tight policy stance to avoid potentially destabilizing second-round effects of the recent fuel price increase, and that they would resist pressure to increase expenditure in response to the continued buoyancy in revenue from the mining and oil sectors. The authorities also agreed on the need to establish a framework to entrench stable policies, coupled with reforms to limit the impact of global commodity price fluctuations on fiscal revenue and expenditure, reduce the size of the public sector, and bolster the competitiveness of the non-mining sector. However, they cautioned that a measured pace of reform was needed to maintain social consensus.

A. Medium-Term Outlook and Risks

18. **The staff's medium-term baseline for Suriname is relatively favorable, reflecting the strength of its natural resources sector.** Real GDP growth would ease to 4½ percent, while the primary fiscal surplus would average around 2½ percent of GDP during 2007–10, taking into account the fiscal impact of existing mining and oil operations.[2] This fiscal target appears appropriate in light of the high commodity prices and the manageable levels of external debt. The current account deficit would narrow only modestly, reflecting the limited prospects for a pick up in nontraditional exports, but continued foreign direct investment is expected to finance a small balance of payments surplus. As a result of

[1] As in previous years, the 2006 budget envisages a substantial increase of capital expenditure, which is unlikely to be fully executed.

[2] The projection does not incorporate the possible impact of future large-scale new mining projects, but takes into account the peak in fiscal revenue from present gold mining operations in 2007 and their decline thereafter.

continued primary fiscal surpluses, public sector debt would fall from around 47 percent of GDP at end-2004 to around 27 percent at end-2010.

Macroeconomic Framework

	2004	2005	2006	2007	2008	2009	2010
Real GDP growth (in percent)	7.8	5.1	4.5	4.4	4.5	4.5	4.5
Inflation (end of period in percent)	9.1	16.7	8.1	6.2	5.3	5.2	4.8
Fiscal balance (in percent of GDP)	-2.9	-1.0	-0.8	0.8	0.5	0.4	0.4
Primary fiscal balance (in percent of GDP)	-0.8	1.9	1.8	3.0	2.5	2.1	2.0
External current account (in percent of GDP)	-5.1	-15.8	-11.9	-8.1	-8.2	-7.7	-7.3
Net foreign assets of the CBvS (million of US$)	132.4	148.8	163.2	191.4	226.2	259.0	284.5
Gross international reserves in months of imports	1.7	1.5	1.6	1.8	2.0	2.2	2.3
Public sector debt (in percent of GDP)	46.7	41.5	37.3	34.2	31.6	29.3	27.0
Of which : external debt	33.0	27.9	24.5	22.8	21.3	19.9	18.4

19. **Nonetheless, the team noted that Suriname remained vulnerable to shocks, especially given its dependence on mining and oil exports:**

- **External shocks:** Although alumina, oil, and gold prices are projected to remain buoyant over the medium term, exports of these products would represent about 50 percent of GDP, and the international prices of these commodities have tended to be volatile and highly correlated.

- **Policy slippages:** The current administration has maintained relatively disciplined policies and has been successful in stabilizing the economy. However, the challenge will be to ensure that this prudent approach is sustained, especially given Suriname's history of highly destabilizing economic policy responses to exogenous shocks.

- **Competitiveness:** The strength of the mining and oil sectors is likely to place further pressure on domestic costs and could complicate the ability of other sectors to remain competitive, especially in the absence of substantive reforms of the public sector and the investment and legal environment that have weighed on the economy's flexibility.

- **Upside opportunities:** There is the possibility of additional large-scale foreign direct investment projects in the mining sector, which would tend to boost growth and improve Suriname's longer term balance of payments, especially if the associated increases in fiscal revenue are managed carefully.

Box 2: Medium-Term Investment Projects

The bauxite sector. Two international mining companies are studying the feasibility of building and operating a large-scale bauxite and alumina complex in the west of Suriname and an aluminum refinery. The latter project involves the construction of an aluminum smelter with an annual capacity of about 300,000 metric tons and a 650 MW hydroelectric dam and requires investment in an amount well exceeding the current GDP of Suriname. Pending the outcome of the feasibility studies, construction could start in 2007

The oil sector. Suriname's state oil company signed exploitation and production sharing agreements with three international oil companies in 2004–05, and seismic surveys are underway.

The gold sector and other minerals. While the gold mine in Rosebel is expected to continue its production through 2014, Canadian and U.S. mining operators are exploring the possibility of new gold mining sites in the country, and the possibility of establishing nickel and kaolin mines.

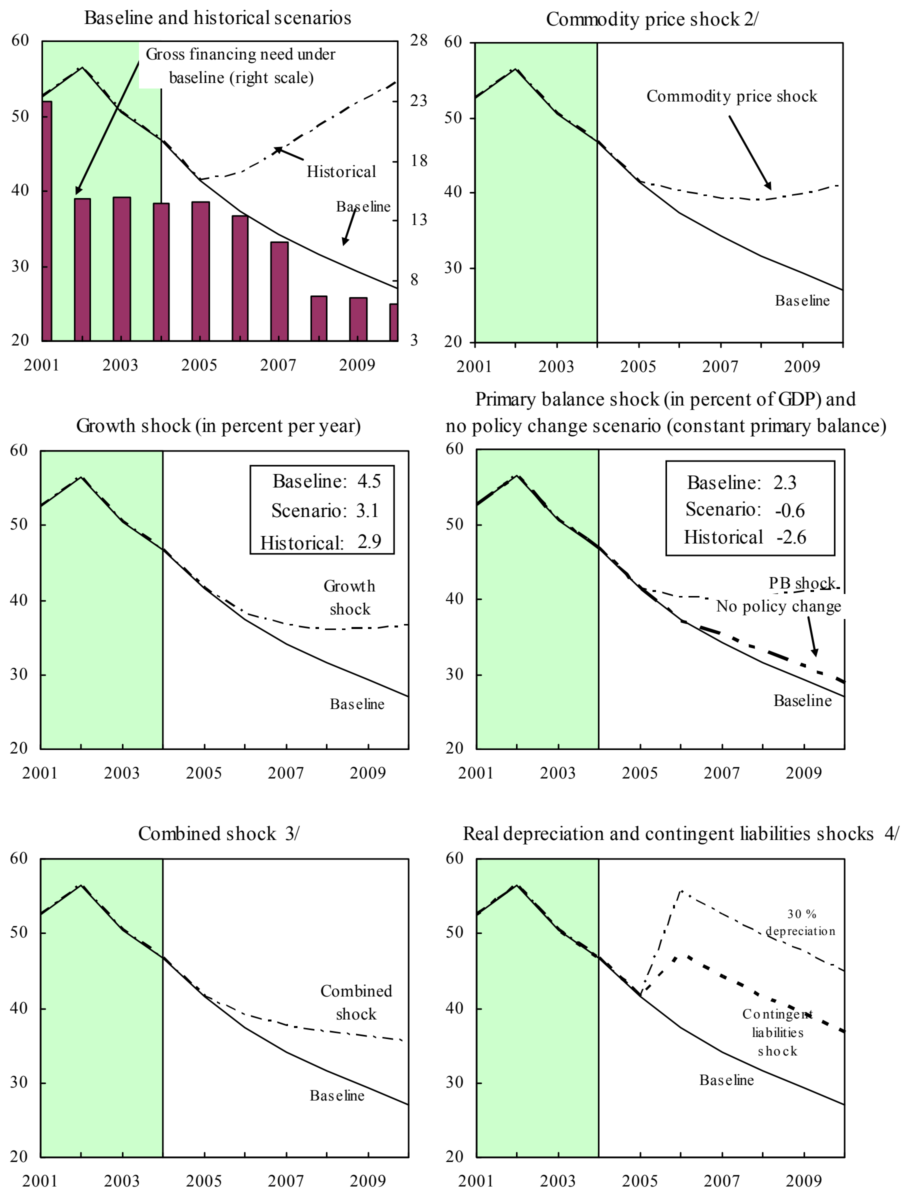
20. **Debt sustainability analysis illustrates the country's vulnerabilities, especially to fiscal shocks.** The primary fiscal balance is projected to remain in a surplus of about 2½ percent of GDP, on average, during 2005–10, but Suriname's fiscal position has tended to fluctuate widely during the past decade in response to changes in world commodity prices and highly destabilizing policy responses to exogenous shocks, as commodity price down-cycles were followed by episodes of sharp fiscal expansion. Stylized shocks include:

- **Historical performance:** Fiscal policies in the past have tended to be unsustainable, so setting the key fiscal indicators at their 10-year averages would cause the debt-to-GDP ratio to rise steadily to 55 percent by 2010.

- **Fiscal shock:** A deterioration of the primary fiscal balance of half of one standard deviation relative to the baseline during 2006–10 would limit the reduction of the debt-to-GDP ratio to 42 percent by end-2010, 15 percentage points above the baseline scenario.

- **Output and commodity price shock:** A shock to real GDP growth during 2006–10 of one-half standard deviation relative to the baseline would limit the decline in the debt-to-GDP ratio to 37 percent by 2010. Furthermore, a deterioration of alumina, oil, and gold prices by only one-quarter standard deviation relative to the WEO baseline in 2006–10 would—assuming no corrective policy response—reduce the primary fiscal balance by about 2 percentage points of GDP in each year during 2006–10 and place the debt-to-GDP ratio on a upward path beginning in 2008.

Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent 1/2 standard deviation shocks, unless otherwise indicated. Figures in the boxes represent average projections for the respective variables in the baseline and alternative scenarios. Ten-year historical average for the variables are also shown.
2/ Permanent 1/4 standard deviation shocks applied to the WEO baseline projections of alumina, oil, and gold prices.
3/ Permanent 1/4 standard deviation shocks applied to growth rate and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

B. Fiscal Policy

21. **The staff welcomed the maintenance of fiscal discipline in recent years and underscored the importance of resisting pressures to loosen fiscal policy.** As illustrated by the team's debt sustainability analysis, present policies appeared consistent with the fiscal position moving gradually into a modest surplus, which would provide a welcome offset to the stimulus being provided to the economy by the boom in the mining sector and ensure an improvement in the public debt ratio. The authorities agreed with the team's medium term fiscal path and reiterated their intention to maintain a tight control over both current and capital spending, in particular to resist offering public sector wage increases or offsets to the recent fuel price increases. The authorities also agreed with the team on the need to refrain from introducing new constituency-specific investment projects and to rely instead on bilaterally and multilaterally financed projects, especially in light of the authorities' limited implementation capacity.

22. **The authorities and the mission agreed on the need to establish an institutional basis for reducing revenue and expenditure volatility over the medium term.** The team noted that over a quarter of fiscal revenue was tied to the fortunes of the bauxite, gold, and oil export sectors leaving the fiscal position highly vulnerable to commodity price shocks.[3] An eventual decline in international commodity prices would require a swift adjustment in public finances. This suggests the possible merits of mechanisms to accumulate windfall fiscal gains and reduce the dependence of the public finances on revenue from the mining and oil sectors. Moreover, revenue and expenditure volatility was further amplified by the domestic fuel tax system and the ineffective budget process. Therefore, discussions centered on the following issues:

- **Domestic fuel taxes:** The team recommended modifying the fuel taxation system from a de-facto variable residual tax to a specific tax, in order to reduce the vulnerability of revenues to world prices and to de-politicize fuel prices. The authorities welcomed the proposal and implemented the staff's recommendation on December 1, 2005. It is projected that the new regime will stabilize fiscal revenue from domestic fuel taxes at around 3½ percent of GDP.
- **Fiscal framework:** The authorities agreed with the team that framing annual budget submissions against a medium-term fiscal plan could provide a more effective tool for spending control.[4] They noted that a number of recent steps had already been taken to strengthen the fiscal framework. These include initial steps to streamline the budget procedure, an April 2005 review of tax policy and administration, as well as ongoing efforts to review the tax and customs legislation and administration and establish a

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[3] Central government revenue from oil, bauxite, and gold mining has accounted for about one third of revenue volatility during 2000–05.

[4] In the past, Parliament has approved budgets with very large deficits that have reflected unrealistic spending proposals by line ministries, limiting the usefulness of budgets for guiding and controlling expenditure.

large taxpayers unit. Moreover, a fiscal responsibility law had been passed that established a ceiling on public sector debt of 60 percent of GDP and a sub-ceiling on domestic public sector debt of 15 percent of GDP. The team endorsed these steps but cautioned that the debt ceilings appeared high, especially given the country's vulnerability to exogenous shocks and revenue volatility.[5] Moreover, these ceilings would not represent binding constraint on policies given the staff's baseline fiscal projection.

- **Revenue stabilization fund:** The mission suggested establishing a revenue stabilization fund abroad using tax and royalty proceeds from future projects in the natural resources sector. These types of funds have helped other countries to mitigate fiscal spending and exchange rate pressures in the face of commodity price shocks and help ensure that revenues from non-renewable resources were shared in an inter-generationally equitable fashion. Mechanisms could be established to ensure a continued and stable flow from the fund to the budget, e.g., by limiting the flows to the investment returns earned. The team noted that it would be helpful to have such a system in place in time to absorb revenue from the possible large-scale mining and offshore oil projects that were being contemplated in 2007–11. The authorities acknowledged the possible merits of a revenue stabilization fund and expressed interest in technical assistance from the Fund on their design and implementation.

23. **The authorities agreed on the need to broaden the revenue base and improve tax legislation and administration to support non-mining private sector activity.** Following up on the CARTAC and the IDB reviews of the tax system in April 2005, the authorities agreed that the priorities were to establish a large taxpayers unit, review the tax and customs legislation and administration, and introduce a broad-based VAT, and they expressed interest in receiving further technical assistance in these areas. The team also stressed the importance of strengthening the draft investment law, pointed to the need to simplify the tax regime and to reduce, streamline, and clearly codify tax exemptions granted to the private sector. The team also noted that stronger protection of property rights and dispute settlement procedures would boost confidence in the authorities' commitment to a stable and rule-based investment climate.

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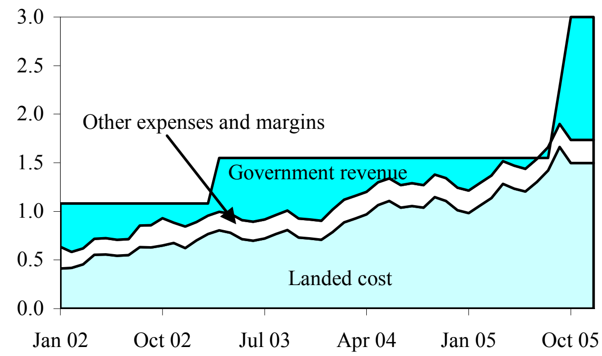
[5] The September 2003 World Economic Outlook illustrates that developing country debt ratios should fall into the 20–60 percent range, with the higher end reserved for countries with higher credit ratings and revenue-to-GDP ratios, and lower revenue volatility.

Box 3: Fuel Taxation and Pricing Mechanism

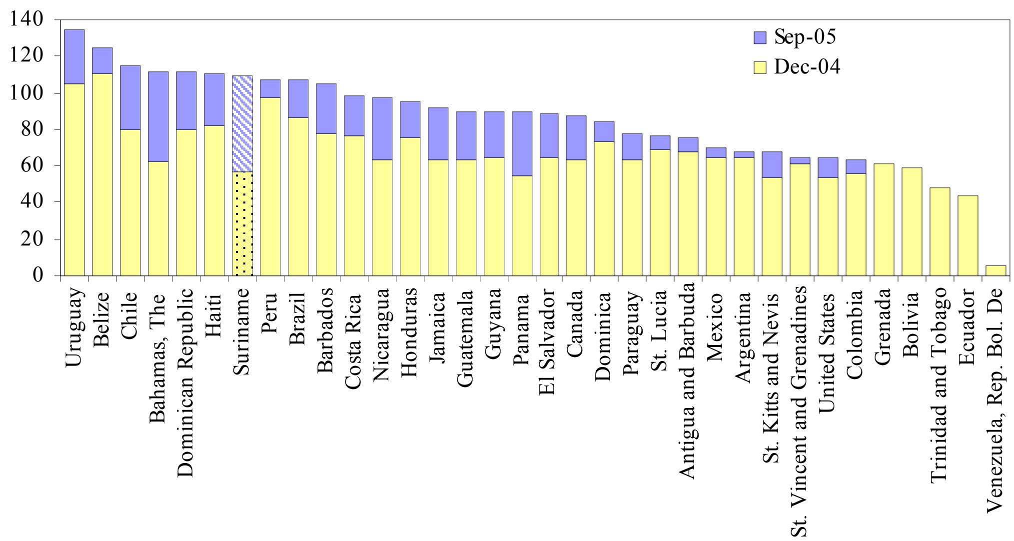
The government determined the retail prices of diesel and gasoline on an ad hoc basis until December 2005. The difference between landed costs (plus fixed distribution margins) and prices at the pump accrued to the government as tax revenue, which varied in response to international prices and the exchange rate. As domestic distribution margins were fixed in U.S. cents per liter and pump prices were set at a single price for all distributing companies, there was little incentive for companies to compete by adjusting prices or costs.

Gasoline Prices and Composition
(SRD/Liter)



The authorities delayed adjusting fuel prices during the past year, which eroded fiscal revenues and necessitated a sharp price adjustment in September 2005. Domestic fuel prices had been fixed since March 2003, causing fuel tax revenue to fall from around 4 percent of GDP in 2003 to around 2 percent of GDP in 2004, and leading to subsidies of around 1 percent of GDP during March-August 2005. In September, domestic retail gasoline prices were raised from US$0.57 to US$1.09 per liter.

WHD Countries: Domestic Retail Fuel Prices
(In U.S. cents per liter)



The government introduced a new fuel pricing and taxation mechanism effective December 1, 2005. Under the new regime, maximum pump prices are set for each of the three oil-import companies on the fifth working day of each month, based on the average c.i.f. price of the previous month of each company. All taxes are incorporated into one single specific tax and are denominated in U.S. dollars per liter.

24. **The authorities agreed on the need to reduce the size of the public sector.** Efforts toward a comprehensive civil service reform were under way, aimed at increasing efficiency by restoring a competitive wage scale, eliminating redundancies, and curtailing widespread abuse such as corruption, patronage, and absenteeism. However, the authorities underscored that a cautious approach was needed to maintain social cohesion and prevent the emergence of large-scale unemployment.

25. **The mission called for a comprehensive plan to deal with the large number of public enterprises and monopolies.**[14] The authorities responded that they were committed to strengthening these enterprises, and noted the impending sales of the banana, rice, and saw-mill companies which, in the former case, had been delayed by the lack of clarity in the EU banana import regime. The authorities were also attempting to gather information and improve management practices at other enterprises, including by withholding government transfers.

C. Monetary and Exchange Rate Policies

26. **The team underscored the importance of maintaining a firm monetary policy stance to contain inflation expectations.**[15] In the past, the authorities had often met price shocks with accommodative increases in money growth, triggering cycles of cost-push inflation, depreciation, and financial dollarization. Building on this experience, the mission underscored the importance of resisting second-round effects from the recent increase in fuel prices, and encouraged the CBvS to contain growth in monetary aggregates to below nominal GDP growth.[16] The monetary authorities broadly agreed and indicated that they stood ready to tighten policies if necessary, but suggested that reserve growth, the withdrawal of fiscal stimulus, and the moderate growth in credit to the private sector pointed to the adequacy of the demand policy stance.

27. **The team suggested strengthening the monetary policy framework.** Especially against the background of measures already taken to limit the government's call on central bank financing, the mission suggested that the CBvS's ability to meet its mandate for price stability could be improved by the following steps:

- **Monetary anchor:** In the mission's view, the limits that have been placed on CBvS financing of the central government and the introduction of greater exchange rate

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[14] See a list of public enterprises, which includes social foundations and associations, in the accompanying Statistical Appendix paper.

[15] Monetary policy instruments consist of reserve requirements on domestic and foreign currency deposits, CBvS credit to the government, and—to a limited extent—the management of Treasury bills by the CBvS.

[16] The two near-hyperinflation episodes in the 1990s were preceded by substantial increases in the broad money to GDP ratio. A staff estimate of a three-variable vector-autoregression (broad-money growth, inflation, and exchange rate depreciation) over the period 1988-2004 suggests that a 1 percent increase in broad money is associated with a 1.1 percentage point increase in inflation. The estimate is statistically significant.

flexibility provided scope for anchoring monetary policy more firmly on a pre-announced target for a monetary aggregate. The mission noted that this would require the CBvS to maintain firm control over its NDA, since the CBvS's reserve position was largely determined by tax payments in foreign currency by the mining and oil sectors. However, the authorities did not feel there was sufficient institutional capacity at present to put in place a more formal and announced monetary target.

- **Reserve requirements:** The mission cautioned against using reserve requirements as an instrument of social policy, and recommended a gradual elimination of mortgages from the list of approved reserve assets. The team suggested that any incentives for construction activity or for lending to low-income households should be delivered transparently through the budget. However, the authorities felt it politically inopportune to modify the subsidy mechanism at this time.

- **New monetary policy instruments:** The mission recommended the gradual introduction of indirect instruments, such as open market operations and rediscount and overdraft facilities, and reducing the CBvS's reliance on adjustments to reserve requirements to achieve its policy objectives. The authorities welcomed the team's analysis of the Treasury bill market and indicated their intention to gradually modify the bills' yields to render them more market-determined and thereby improve their use as an indirect policy instrument.

28. **The mission recommended moving to a unified and more flexible exchange rate regime.** [17] While welcoming the steps that led to the convergence of exchange rates and greater exchange rate flexibility, the team noted Suriname's poor track record in maintaining a free and market-determined exchange rate in parallel with measures to improve liquidity management. Therefore, the mission reiterated its recommendation to adopt the bank/cambios daily rate as the official rate. This would facilitate greater exchange rate flexibility, which was preferable given Suriname's position as a commodities' exporter, its vulnerability to terms of trade shocks, and the relative inflexibility of its domestic labor and product markets.[18] The elimination of a possible divergence by more than 2 percent between the two rates would also eliminate this multiple currency practice. Similarly, the mission suggested the elimination of the special exchange rate for infant formula imports in favor of direct budgetary subsidies.

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[17] Suriname accepted the obligations under Article VIII, sections 2, 3 and 4, but maintains multiple currency practices subject to Fund approval. These arise from (i) the absence of a mechanism to prevent a possible deviation of more than 2 percent between the official exchange rate used for government transactions and the market-determined bank/cambios rate and (ii) the preferential exchange rate for infant formula imports.

[18] The adoption of the bank/cambios rate as the official rate would not likely affect the exchange rate level or the pace of reserve accumulation by the central bank, given that the bank/cambios rate accounts for about 83 percent of all foreign exchange transactions and the official rate is used only for government debt service and tax payments by mining companies, or about 17 percent of all foreign exchange transactions.

29. **The authorities were reluctant to consider the mission's recommendation at this stage**. They argued that the official rate played an important role in anchoring expectations in the free market. They were also of the view that the CBvS would need to continue to exercise moral suasion to minimize fluctuations in the free bank/cambios rate, that could undermine the competitiveness of the non-mining sector, but they reiterated their commitment to adjust the official rate to any fundamental movement in the bank/cambios rate. However, they expressed interest in technical assistance to draft a new foreign exchange law to facilitate and liberalize foreign exchange transactions at commercial banks.

D. Financial Sector, Structural, and Other Issues

30. **A number of indicators in the financial sector point to possible vulnerabilities.** The staff suggested a number of particular areas of concern:

- **Non-performing loans:** The recent increase in non-performing loans is attributable to a few large corporate insolvencies and cases of fraud. The staff recommended increased efforts to strengthen banks' risk assessment capabilities and limit further exposure.
- **Weak supervision:** This reflects inadequate staff resources, delays in data collection to monitor compliance, and inadequate controls to prevent money laundering, particularly among the large number of casinos and the unregulated foreign exchange houses. The staff recommended strengthening money-laundering controls and prudential regulations, particularly for the non-bank system. The authorities expressed interest in receiving technical assistance in this area.
- **State-owned banks:** There are three small state-owned banks that provide credit to low-income households for agriculture and housing under mostly social criteria. Since these institutions were insolvent, the mission encouraged the authorities to follow the IDB's recommendations and liquidate these banks in order to maximize the salvage value of their assets.
- **Dollarization:** The staff cautioned that dollarization exposed the banking system to balance sheet risks. The authorities responded that the decline in the loan dollarization ratio was a sign of improved risk assessment by banks, but they agreed with the mission's recommendation to strengthen banking supervision in these areas.

31. **The mission urged the authorities to normalize relations with external creditors and eliminate payment arrears.** External debt is high but appears manageable and legislation to limit public borrowing and the establishment of the Suriname Debt Management Office (SDMO) have improved transparency, data management, and inter-governmental coordination and information sharing. However, Suriname's erratic payment record and long-standing arrears to bilateral creditors (US$137 million in September 2005) have weighed on Suriname's credit rating and access to export credit facilities. The authorities acknowledged these costs and noted that they were beginning to address the issue of bilateral payment arrears.

32. **Suriname has a relatively open trade system, but the team noted that the policy environment could weigh on private investment.** In particular, Suriname's simple average rate tariff is estimated at 11 percent and there are no significant non-tariff barriers. Suriname has also enacted the CARICOM Single Market and Economy Treaty and implemented the fourth phase of the common external tariff (a maximum of 20 percent for non-agricultural goods and 40 percent for agricultural goods). However, the mission observed that investment and tax legislation, pricing regulations, and public sector monopolies and state enterprises create barriers to foreign direct investment and hinder the development of the non-mining private sector.

33. **There are serious data reporting problems in Suriname.** Notwithstanding the accession to the GDDS and improvements in the coverage and timeliness of monetary data, there are severe shortcomings in the quality, coverage, and provision of economic statistics, in particular with respect to national accounts and trade data.

V. Staff Appraisal

34. **The authorities have successfully maintained a welcomed degree of macroeconomic stability over the past years.** Continued expenditure moderation and higher tax revenue supported by buoyant export growth have resulted in a substantial improvement in the public finances. Fiscal discipline, supported by a cautious monetary policy stance and a favorable external environment, has helped reduce inflation expectations and stabilize the exchange rate, while supporting a solid growth performance.

35. **Nonetheless, Suriname faces important challenges.** While the near-term outlook appears favorable, the monetary and fiscal authorities will need to resist second-round effects from the recent sharp increases in fuel prices, including pressures to grant compensatory salary increases or subsidies. Over the medium term, the strength of the mining sector will continue to affect the competitiveness of the non-mining sector and the fiscal position and the overall economy will remain vulnerable to global price shocks. Therefore, further improvements in fiscal and monetary policy institutions are needed to help insulate the economy from the effects of commodity price and other shocks, coupled with structural reforms to reduce the size of the public sector and bolster the competitiveness of non-mining industries.

36. **The authorities have already taken important steps to strengthen the fiscal framework, but there remains substantial scope for further improvements**. The modification of the domestic fuel tax and pricing system has helped reduce the vulnerability of revenue to fluctuations in world oil prices, but the fiscal position is still highly dependent on the bauxite, gold, and oil export sectors. Placing tax revenue from future large-scale mining investments in a stabilization fund abroad would help mitigate budget and exchange rate pressures that have proven highly destabilizing in the past and assist in ensuring inter-generational equity. On the expenditure side, civil service reform will be critical for reducing the size and improving the efficiency of the large public sector, and the authorities are urged

to advance the IDB-supported project in this area. Framing annual budget discussions in the context of a medium-term policy framework would also help ensure that annual budgets provide a more credible and effective tool for spending control.

37. **In addition, there is scope for strengthening the monetary policy framework**. In the past, monetary policy has been largely determined by the financing needs of the central government, with limited regard for inflation or macroeconomic stability. Coupled with the establishment of a medium-term fiscal framework and measures to reduce fiscal volatility, the central bank should anchor monetary policy more firmly on a well-defined and pre-announced target for a monetary aggregate to signal a strong commitment to price stability. This would be coupled with the introduction of more indirect policy instruments, such as open market operations and rediscount and overdraft facilities.

38. **The authorities should move quickly to a unified and more flexible exchange rate regime.** The authorities have taken steps that led to the convergence of exchange rates and greater exchange rate flexibility, while policy stability has diminished depreciation expectations. The authorities are urged to seize this opportunity to move to a unified and floating exchange rate regime by adopting the daily commercial rate as the official exchange rate, which would also eliminate one of the multiple currency practices. The staff does not recommend Fund approval of the multiple currency practices that Suriname maintains in view of the absence of a clear timetable for their elimination.

39. **The authorities are urged to normalize relations with external creditors and eliminate payment arrears**. Although debt levels are manageable, Suriname's erratic payment record and long-standing arrears to bilateral creditors have undermined the country's creditworthiness and impeded access to export credit coverage.

40. **The non-mining private sector needs opportunities to generate sustainable employment and income growth.** In this respect, the authorities are encouraged to revise the investment law to simplify licensing procedures, promote a more stable and rule-based climate for investment, and limit and clarify tax exemptions. It will also be important to establish a comprehensive plan to improve the efficiency of state-owned companies and encourage non-mining private sector activity, including privatizing the banana, rice, and saw-mill companies, and closing the small insolvent state-owned banks.

41. **There are serious data reporting problems in Suriname.** There are severe shortcomings in the quality, coverage, and provision of economic statistics, in particular with respect to national accounts and trade data, which have hampered the timeliness and accuracy of economic analysis and planning, and the authorities are urged to improve the provision and accuracy of statistics.

42. The staff proposes that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Suriname: Selected Economic Indicators

	2002	2003	2004	Projection 2005	Projection 2006
(Annual percentage change, unless otherwise indicated)					
Real economy					
GDP at 1990 prices 1/	3.0	5.3	7.8	5.1	4.5
GDP current market prices 1/	34.3	18.8	18.3	16.9	19.5
Consumer prices (end of period)	28.4	13.1	9.1	16.7	8.1
Consumer prices (period average)	15.5	23.0	9.1	9.9	14.8
Exchange rate (Suriname dollars per US$, end of period)	2.52	2.63	2.7	2.7	...
(In percent of GDP)					
National accounts					
Gross domestic investment	25.0	28.5	29.0	33.2	32.2
Private sector	21.9	24.7	24.4	26.2	25.9
Public sector	3.0	3.7	4.7	7.0	6.3
Gross national savings	18.7	14.6	23.9	17.4	20.3
Foreign savings	6.3	13.8	5.1	15.8	11.9
Central government					
Revenue and grants	29.3	34.7	34.2	37.2	37.1
Direct taxes	10.4	11.6	13.5	15.0	14.0
Indirect taxes	14.1	16.2	15.0	14.6	16.3
Nontax revenues	3.5	4.5	4.0	5.2	4.9
Grants	1.3	2.3	1.8	2.4	1.9
Total expenditure	35.9	34.8	37.1	38.3	37.9
Wages and salaries	15.2	15.3	13.8	14.5	14.4
Current transfers	6.5	5.2	4.6	4.0	4.6
Interest	2.6	2.5	2.1	3.0	2.6
Goods and services	8.3	7.7	11.8	9.8	9.9
Capital expenditure and net lending	3.2	4.1	4.7	7.1	6.3
Overall balance	-6.6	-0.1	-2.9	-1.0	-0.8
Statistical discrepancies	0.4	1.7	1.2	0.0	0.0
Net domestic financing	9.3	0.3	3.0	1.8	1.5
Net external financing	-3.1	-1.8	-1.2	-0.8	-0.7
(Annual change in percent of beginning-of-period broad money, unless otherwise indicated)					
Money and credit 2/					
Banking system net foreign assets	7.4	12.7	17.7	8.0	5.8
Banking system net domestic assets	25.1	3.8	15.2	10.2	9.1
Of which: Public sector credit	21.6	-4.6	2.1	2.7	1.5
Private sector credit	16.4	13.8	13.4	9.0	8.1
Broad money	32.3	15.9	28.8	17.3	14.7
Real credit to the private sector (annual percentage change)	24.1	24.4	21.6	3.8	9.6
Foreign currency deposits (share of broad money)	39.4	47.2	48.7	48.9	48.3
(In percent of GDP, unless otherwise indicated)					
External sector 3/					
Current account	-6.3	-13.8	-5.1	-15.8	-11.9
Merchandise exports, f.o.b.	55.6	62.6	75.8	71.4	66.1
Merchandise imports, f.o.b.	-50.1	-65.6	-61.2	-68.5	-61.3
Capital and financial account	7.1	13.0	11.0	17.2	12.8
Of which : central government net borrowing	-3.1	-1.8	-1.2	-0.8	-0.7
Change in reserves (-=increase)	-0.2	0.1	-2.8	-1.4	-1.0
Gross official reserves (in months of imports)	1.90	1.41	1.67	1.51	1.60
Total public debt	56.4	50.5	46.7	41.5	37.3
Domestic	14.9	12.8	13.7	13.6	12.9
External	41.6	37.7	33.0	27.9	24.5
Of which: external debt arrears	10.4	10.6	10.6	...	...

Sources: Central Bank of Suriname; Ministry of Finance; General Bureau of Statistics; and Fund staff estimates and projections.

1/ GDP numbers include estimates of the informal sector.
2/ Pre- and post-2002 data are not comparable. Percentage changes in 2002 are calculated on basis of estimates for end-2002 data according to the old data classification.
3/ Based on amounts expressed in U.S. dollars.

Table 2. Suriname: Central Government Operations

(In percent of GDP)

	2002	2003	2004	Proj. 2005	Proj. 2006
Revenue and grants	**29.3**	**34.7**	**34.2**	**37.2**	**37.1**
Revenue	27.9	32.3	32.4	34.9	35.2
Direct taxes	10.4	11.6	13.5	15.0	14.0
Indirect taxes	14.1	16.2	15.0	14.6	16.3
Nontax revenue	3.5	4.5	4.0	5.2	4.9
Grants	1.3	2.3	1.8	2.4	1.9
Expenditure and net lending	**35.9**	**34.8**	**37.1**	**38.3**	**37.9**
Current expenditure	32.6	30.7	32.4	31.2	31.6
Wages and salaries	15.2	15.3	13.8	14.5	14.4
Goods and services	8.3	7.7	11.8	9.8	9.9
Subsidies and transfers	6.5	5.2	4.6	4.0	4.6
Interest	2.6	2.5	2.1	3.0	2.6
Domestic	1.5	1.3	1.3	1.5	1.6
External	1.1	1.1	0.8	1.4	1.0
Net lending	0.2	0.4	0.1	0.1	0.1
Capital expenditure	3.0	3.7	4.7	7.0	6.3
Primary balance	**-4.0**	**2.3**	**-0.8**	**1.9**	**1.8**
Overall balance	**-6.6**	**-0.1**	**-2.9**	**-1.0**	**-0.8**
Statistical discrepancy	0.4	1.7	1.2	0.0	0.0
Financing	**6.2**	**-1.6**	**1.7**	**1.0**	**0.8**
Net domestic financing	9.3	0.3	3.0	1.8	1.5
Commercial banks	0.2	0.0	2.0	0.9	0.1
Central bank	8.8	-0.3	0.9	0.4	0.5
Other domestic private sector	0.3	0.6	0.0	0.5	0.9
Net external financing	-3.1	-1.8	-1.2	-0.8	-0.7
Amortization	-3.1	-3.4	-2.2	-2.9	-2.6
Disbursements	0.1	1.6	1.0	2.1	1.9
Bilateral agencies	0.0	0.0	1.0	0.6	0.4
Multilateral agencies	0.1	1.6	0.7	1.6	1.5
Foreign commercial banks	0.0	0.0	0.0	0.0	0.0
Foreign nonbanks, including trade credit	0.0	0.0	-0.6	0.0	0.0
Memorandum item					
Total revenue from oil, and bauxite and gold mining operations	7.0	8.5	9.8	11.0	9.6

Sources: Ministry of Finance; Central Bank of Suriname; and Fund staff estimates.

Table 3. Suriname: Summary Accounts of the Banking System 1/

	2002	2003	2004	Proj. 2005	Proj. 2006
(In millions of Surinamese dollars)					
Net foreign assets	**598.5**	**751.7**	**999.2**	**1,143.0**	**1,265.0**
Net international reserves	253.3	263.4	358.7	407.0	478.1
Net other foreign assets	345.3	488.3	640.5	736.1	786.9
Net domestic assets	**680.2**	**726.1**	**937.9**	**1,121.2**	**1,313.9**
Net claims on the public sector	269.6	213.9	243.8	291.7	323.3
Central government (net)	305.4	296.2	388.8	437.3	463.3
Rest of the public sector (net)	-35.8	-82.3	-145.0	-145.6	-140.0
Credit to the private sector	409.2	575.5	763.1	924.6	1,095.4
Claims on other financial institutions	0.8	0.7	0.7	0.7	0.7
Net unclassified assets	41.2	23.2	54.2	56.4	56.4
Official capital and surplus	-40.6	-87.1	-123.8	-152.1	-161.9
Liabilities to the private sector	**1,278.8**	**1,477.8**	**1,937.1**	**2,264.3**	**2,578.9**
Broad money	1,203.8	1,395.7	1,797.2	2,108.3	2,418.9
Monetary liabilities	505.8	498.2	621.5	725.8	842.9
Currency in circulation	203.8	209.0	246.8	276.1	315.4
Demand deposits	302.0	289.2	374.7	449.7	527.5
Quasi-money (including gold certificates)	224.0	238.7	299.9	351.2	408.3
Foreign currency deposits	474.0	658.7	875.8	1,031.3	1,167.7
Other liabilities	75.0	82.2	139.9	156.0	160.0
(Percent changes, unless indicated otherwise)					
Liabilities to the private sector	30.5	15.6	31.1	16.9	13.9
Broad money	32.3	15.9	28.8	17.3	14.7
Money	38.0	-1.5	24.7	16.8	16.1
Quasi-money	17.2	6.6	25.6	17.1	16.3
Foreign currency deposits	34.2	39.0	33.0	17.7	13.2
Net domestic assets of the banking sector	45.7	6.7	29.2	19.5	17.2
Credit to the public sector	186.6	-20.7	14.0	19.6	6.0
Credit to the private sector	59.3	40.7	32.6	21.2	18.5
Liabilities to the private sector (in percent of GDP)	58.0	55.7	61.7	61.7	58.8
(Changes in Surinamese dollars as a percent of liabilities of the previous period)					
Net foreign assets of the banking sector	6.9	12.0	16.7	7.4	5.4
Central bank international reserves	3.7	0.8	6.5	2.5	3.1
Other net foreign assets	3.2	11.2	10.3	4.9	2.2
Net domestic assets of the banking sector	23.6	3.6	14.3	9.5	8.5
Credit to the public sector	20.2	-4.4	2.0	2.5	1.4
Credit to the private sector	15.4	13.0	12.7	8.3	7.5
Liabilities to the private sector	30.5	15.6	31.1	16.9	13.9
Memorandom items					
Deposit dollarization ratio (in percent) 2/	47.4	55.5	56.5	56.3	55.5
Credit dollarization ratio (in percent) 3/	41.5	49.4	54.7	51.4	51.0
Domestic currency interest rate spread (percentage per annum)	12.9	12.5	11.0	8.9	...
Lending rate	21.3	21.0	19.1	16.8	...
Deposit rate	8.4	8.5	8.1	7.9	...
Foreign currency interest rate spread (percentage per annum)	8.4	6.9	7.7	7.7	
Lending rate	10.2	9.2	9.4	9.9	...
Deposit rate	1.8	2.3	1.7	2.2	...
Reserve requirement for domestic deposits (in percent)	35.0	35.0	30.0	30.0	...
Effective reserve requirement for domestic deposits (in percent) 4/	30.6	31.0	24.4	23.0	...
Reserve requirement for foreign currency deposits (in percent)	17.5	17.5	22.5	33.3	...

Sources: Central Bank of Suriname; and Fund staff estimates and projections.

1/ For commercial banks data, a new data compilation method in line with the *Monetary and Financial Statistics Manual* was adopted from May 2002 onward, resulting in an irreconcilable data break. Therefore, pre- and post-2002 data are not comparable. Figures involving percentage changes in 2002 over 2001 are calculated on basis of estimates for end-2002 data as according to the old methodology, to achieve compatibility with data prior to May 2002.

2/ Foreign currency deposits in percent of total commercial bank deposits.

3/ Foreign currency credit in percent of total private sector credit by commercial banks.

4/ Excludes commercial bank use of required reserves for mortgage lending

Table 4. Suriname: Financial System Structure and Banking System Soundness Indicators 1/

	2002	2003	2004	Sep. 2005
Number				
Banks	8	8	8	8
Large banks	3	3	3	3
Small banks	5	5	5	5
Reporting non-bank financial institutions				
Pension funds 2/	31	22	22	22
Insurance companies	10	10	10	11
Credit unions and cooperatives	16	8	9	9
Concentration: Banks 3/	2	2	2	2
(In percent of total)				
Assets	100.0	100.0	100.0	…
Banks	67.7	68.9	79.3	…
Large banks	57.3	58.3	66.8	…
Small banks	10.4	10.7	12.4	…
Pension funds	23.3	21.8	10.2	…
Insurance companies	7.7	7.7	8.3	…
Credit unions and cooperatives	1.4	1.6	2.2	…
Deposits				
Banks	100.0	100.0	100.0	100.0
Large banks	84.3	78.5	78.3	78.4
Small banks	15.7	21.5	21.7	21.6
(In percent)				
Capital Adequacy 4/				
Regulatory capital to risk-weighted assets (*)	14.8	9.2	8.9	9.6
Regulatory Tier I capital to risk-weighted assets (*)	8.6	7.2	6.6	7.4
Capital (net worth) to assets	6.0	4.2	4.3	4.7
Asset composition				
Sectoral distribution of loans to total loans (*)				
Agriculture	7.0	5.0	6.0	5.7
Manufacturing	8.0	10.7	10.9	9.3
Commerce	34.1	31.6	32.2	30.9
Housing construction	11.5	11.4	11.8	14.6
Other	39.4	41.3	39.1	39.5
Asset quality				
Foreign currency loans to total loans	41.5	49.4	54.7	51.1
NPLs to gross loans (*)	8.7	10.4	11.0	15.8
NPLs net of provisions to capital (*)	14.7	48.1	53.7	72.4
Large exposures to capital (*)	33.7	133.9	63.1	63.2
Earnings and Profitability				
ROA (*)	1.6	1.1	1.8	1.5
ROE (*)	27.0	22.9	35.5	26.2
Interest margin to gross income (*)	66.9	64.7	65.1	70.8
Noninterest expenses to gross income (*)	68.9	72.0	65.7	59.5
Personnel expenses to noninterest expenses	58.7	56.4	57.6	58.0
Trading and fee income to total income	33.1	35.3	34.9	29.2
Spread between reference loan and deposit rates	12.9	12.5	11.0	9.7
Liquidity				
Liquid assets to total assets (*)	29.5	38.1	34.3	31.9
Liquid assets to total short-term liabilities (*)	66.9	64.3	56.4	54.4
FX liabilities to total liabilities	42.7	49.3	50.6	49.6

Sources: Central Bank of Suriname, Supervision Department; and Fund staff estimates..
(*) Included in the "core set" of financial soundness indicators identified by the IMF's Executive Board.
1/ Indicators refer to large banks, which comprise about 84 percent of banking system assets at end-Sep. 2004.
2/ For 2003 staff estimate.
3/ Number of institutions with 75 percent of total assets.
4/ Decline in 2003 partly reflects the implementation of new prudential regulation standards.

Table 5. Suriname: Balance of Payments

(In millions of U.S. dollars)

	2002	2003	2004	Proj. 2005	2006
Current account	**-60.1**	**-140.9**	**-58.6**	**-212.6**	**-183.2**
Trade balance	52.5	-30.2	167.5	38.5	74.6
Exports, f.o.b.	529.3	638.5	870.5	959.7	1021.8
Of which : alumina and gold	395.9	510.8	732.5	798.9	848.6
Imports, f.o.b.	-476.8	-668.7	-703.1	-921.2	-947.2
Services, net	-127.6	-132.6	-129.7	-136.4	-142.6
Exports	38.5	59.5	141.3	148.6	155.3
Imports	-166.1	-192.1	-271.0	-284.9	-297.9
Income, net	-43.6	-49.1	-160.7	-179.4	-180.8
Private sector	-32.8	-33.7	-152.0	-160.1	-166.0
Public sector	-10.8	-15.4	-8.7	-19.3	-14.9
Current transfers, net	58.6	71.0	64.3	64.7	65.6
Capital and financial account	**68.0**	**132.2**	**126.2**	**231.7**	**198.3**
Capital account (public sector grants)	**15.8**	**24.3**	**35.5**	**32.7**	**30.1**
Financial account	**52.3**	**107.9**	**90.7**	**199.0**	**168.1**
Nonfinancial public sector	-29.2	-18.5	-14.2	-10.4	-10.9
Disbursements	0.8	16.1	11.6	28.7	29.5
Amortization	-30.0	-34.5	-25.8	-39.1	-40.4
Private sector	81.4	126.4	104.9	209.4	179.0
Errors and omissions	**-6.2**	**8.1**	**-35.8**	**0.0**	**0.0**
Overall balance	**1.7**	**-0.6**	**31.8**	**19.1**	**15.1**
Memorandum items					
Current account as percent of GDP	-6.3	-13.8	-5.1	-15.8	-11.9
Long-term private capital flows as percent of current account	135.5	89.7	179.0	98.5	97.7
GDP in current US dollars	952.1	1,020.0	1,148.0	1,344.7	1,545.5
Stock of gross international reserves	101.6	101.1	135.3	152.1	166.3
in months of imports of goods and services	1.9	1.4	1.7	1.5	1.6

Sources: Surinamese authorities; and Fund staff estimates and projections.

Table 6. Suriname: Indicators of the External Position and Financial Vulnerabilitly

(In percent of GDP, unless otherwise indicated)

	2002	2003	2004	Proj. 2005	Proj. 2006
Financial indicators					
12-month percent change in broad money	32.3	15.9	28.8	17.3	14.7
12-month percent change in credit to the private sector	59.3	40.7	32.6	21.2	18.5
12-month percent change in net credit to the central government	186.6	-3.0	31.3	12.5	6.0
Deposit rates 1/	8.4	8.5	8.1	7.9	...
Lending rates 1/	21.3	21.0	19.1	16.8	...
Dollarization to base money ratio (in percent)	100.5	152.2	167.7	179.9	177.9
Deposit dollarization ratio (in percent) 2/	47.4	55.5	56.5	56.3	55.5
Credit dollarization ratio (in percent) 3/	41.5	49.4	54.7	51.4	51.0
External indicators					
12-month percent change in exports	17.8	20.6	36.3	10.2	6.5
12-month percent change in imports	9.9	40.3	5.1	31.0	2.8
Current account balance	-6.3	-13.8	-5.1	-15.8	-11.9
Capital and financial account balance	7.1	13.0	11.0	17.2	12.8
Of which : private direct investment	1.5	11.5	10.7	13.8	9.6
External public sector debt	41.6	37.7	33.0	27.9	24.5
Stock of short term public sector debt (in percent of gross international reserves) 4/	34.0	25.5	28.9	26.5	24.8
Total public sector external debt (in percent of exports of goods and nonfactor services)	65.1	54.6	37.7	33.7	31.1
External interest payments (in percent of exports of goods and nonfactor services)	1.9	2.2	0.9	1.7	1.3
Net foreign assets (in million U.S. dollars, end-of-period)	101.2	100.6	132.4	148.8	163.2
Exchange rate (per US$, official market)	2.3	2.6	2.7	2.7	...
Exchange rate (per US$, parallel market)	3.0	2.8	2.7	...	...
12-month REER percent change (depreciation (-)) 5/	4.7	-3.7	11.2	18.3	...

Sources: Ministry of Finance; Central Bank of Suriname; and Fund staff estimates and projections.

1/ Weighted average rates for domestic currency instruments.
2/ Foreign currency deposits in percent of total commercial bank deposits.
3/ Foreign currency credit in percent of total private sector credit by commercial banks.
4/ Refers to principal debt service falling due during the next year.
5/ Data for 2005 refer to October.

Table 7. Suriname: Medium-Term Outlook

	2006	2007	2008	2009	2010
(Annual percentage change, unless otherwise indicated)					
Real economy					
GDP at 1990 prices 1/	4.5	4.4	4.5	4.5	4.5
GDP current market prices 1/	19.5	10.8	9.4	9.3	9.1
Consumer prices (period average)	14.8	7.0	5.7	5.3	5.0
(In percent of GDP)					
National accounts					
Gross domestic investment	32.2	29.2	29.1	29.1	30.9
Private sector	25.9	24.5	24.6	24.5	26.3
Public sector	6.3	4.7	4.6	4.6	4.6
Gross national savings	20.3	21.1	20.9	21.4	23.6
Foreign savings	11.9	8.1	8.2	7.7	7.3
Central government					
Revenue and grants	37.1	38.1	37.6	37.2	36.9
Total expenditure	37.9	37.3	37.1	36.9	36.5
Overall balance	-0.8	0.8	0.5	0.4	0.4
Net domestic financing	1.5	-0.2	-0.1	0.0	-0.1
Net external financing	-0.7	-0.6	-0.4	-0.4	-0.3
(In percent of GDP, unless otherwise indicated)					
External sector 2/					
Current account	-11.9	-8.1	-8.2	-7.7	-7.3
Merchandise exports, f.o.b.	66.1	66.4	65.8	65.8	65.7
Merchandise imports, f.o.b.	-61.3	-60.3	-60.4	-60.7	-60.1
Capital and financial account	12.8	9.8	10.3	9.5	8.6
Of which: central government net borrowing	-0.7	-0.6	-0.4	-0.4	-0.3
Change in reserves (-=increase)	-1.0	-1.7	-2.1	-1.8	-1.3
Gross official reserves (in months of imports)	1.6	1.8	2.0	2.2	2.3
Total public debt	37.3	34.2	31.6	29.3	27.0
Domestic	12.9	11.3	10.3	9.4	8.6
External 3/	24.5	22.8	21.3	19.9	18.4

Source: IMF staff projections.

1/ GDP numbers include estimates of the informal sector.
2/ Based on amounts expressed in U.S. dollars.
3/ Includes arrears.

Table 8. Suriname: Public Sector Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

		2000	2001	2002	2003	2004	Projections 2005	2006	2007	2008	2009	2010	Debt-stabilizing primary balance 9/
1	**Baseline: Public sector debt 1/**	83.6	52.6	56.4	50.5	46.7	**41.5**	**37.3**	**34.2**	**31.6**	**29.3**	**27.0**	
	o/w foreign-currency denominated	53.2	45.0	41.6	37.7	33.0	27.9	24.5	22.8	21.3	19.9	18.4	
2	Change in public sector debt	31.9	-31.0	3.9	-6.0	-3.7	-5.2	-4.2	-3.1	-2.6	-2.3	-2.3	
3	Identified debt-creating flows (4+7+12)	22.7	-28.2	-1.4	-7.2	-3.7	-5.7	-6.0	-4.5	-3.5	-3.0	-2.8	
4	Primary deficit	11.7	-6.1	4.0	-2.3	0.8	-1.9	-1.8	-3.0	-2.5	-2.1	-2.0	
5	Revenue and grants	27.4	38.7	29.3	34.7	34.2	37.2	37.1	38.1	37.6	37.2	36.9	
6	Primary (noninterest) expenditure	39.1	32.6	33.2	32.3	34.9	35.3	35.4	35.1	35.1	35.1	34.9	
7	Automatic debt dynamics 2/	11.0	-22.1	-5.4	-4.9	-4.5	-3.8	-4.2	-1.4	-0.9	-0.9	-0.8	
8	Contribution from interest rate/growth differential 3/	-17.3	-22.1	-10.8	-6.5	-5.6	-3.8	-4.2	-1.4	-0.9	-0.9	-0.8	
9	Of which contribution from real interest rate	-17.3	-19.4	-9.6	-3.9	-2.3	-1.7	-2.6	0.1	0.5	0.4	0.4	
10	Of which contribution from real GDP growth	0.0	-2.7	-1.2	-2.5	-3.3	-2.1	-1.6	-1.5	-1.4	-1.3	-1.2	
11	Contribution from exchange rate depreciation 4/	28.3	0.0	5.4	1.6	1.1	...	...	...	...	...	...	
12	Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
13	Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
14	Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
16	Residual, including asset changes (2-3) 5/	9.2	-2.8	5.3	1.2	0.0	0.5	1.8	1.3	0.8	0.8	0.5	
	Public sector debt-to-revenue ratio 1/	304.7	135.9	192.9	145.7	136.8	111.4	100.5	89.8	84.0	78.7	73.0	
	Gross financing need 6/	39.0	23.0	14.9	15.0	14.5	14.5	13.4	11.3	6.8	6.6	6.1	
	in billions of U.S. dollars	346.9	175.5	141.5	153.2	166.1	195.6	206.7	182.0	114.9	119.0	115.6	
	Scenario with key variables at their historical averages 7/						**41.5**	**42.3**	**45.5**	**48.6**	**51.7**	**54.5**	**0.3**
	Scenario with no policy change (constant primary balance) in 2005-2010						**41.5**	**37.2**	**35.2**	**33.2**	**31.1**	**28.8**	**-0.3**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent)	-0.1	4.5	3.0	5.3	7.8	5.1	4.5	4.4	4.5	4.5	4.5	
	Average nominal interest rate on public debt (in percent) 8/	2.9	4.0	6.7	5.2	5.0	7.4	7.5	6.6	6.4	6.1	6.0	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-51.8	-31.2	-23.6	-7.6	-4.7	-3.8	-6.9	0.5	1.7	1.5	1.6	
	Nominal appreciation (increase in US dollar value of local currency, in percent)	-54.7	0.0	-13.4	-4.2	-3.3	...	...	...	...	...	...	
	Inflation rate (GDP deflator, in percent)	54.7	35.3	30.3	12.7	9.7	11.2	14.3	6.1	4.7	4.6	4.4	
	Growth of real primary spending (deflated by GDP deflator, in percent)	9.6	-12.9	5.1	2.4	16.5	6.3	4.6	3.6	4.5	4.6	3.9	
	Primary deficit	11.7	-6.1	4.0	-2.3	0.8	-1.9	-1.8	-3.0	-2.5	-2.1	-2.0	

1/ Public sector debt covers the central government. Public external debt is on a gross basis. Public domestic debt held by the domestic banking system is on a net basis.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 9. Suriname: External Debt Sustainability Framework, 2000-2010 1/
(In percent of GDP, unless otherwise indicated)

		2000	2001	2002	2003	2004	Projections 2005	2006	2007	2008	2009	2010	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	53.2	45.0	41.6	37.7	33.0	**27.9**	**24.5**	**22.8**	**21.3**	**19.9**	**18.4**	**-4.2**
2	Change in external debt	18.3	-8.2	-3.4	-3.9	-4.7	-5.1	-3.5	-1.6	-1.6	-1.4	-1.5	
3	Identified external debt-creating flows (4+8+9)	18.6	-1.9	-1.1	-2.7	-10.3	0.6	1.2	-0.4	1.8	2.4	2.9	
4	Current account deficit, excluding interest payments	4.9	13.6	5.5	12.8	4.2	14.4	11.3	7.7	7.7	7.3	6.9	
5	Deficit in balance of goods and services	18.8	13.0	8.5	16.1	-3.3	7.3	4.5	3.3	3.9	4.0	3.3	
6	Exports	112.0	66.6	63.9	69.1	87.5	82.8	78.8	78.4	77.0	76.8	76.5	
7	Imports	130.8	79.6	72.4	85.2	84.3	90.1	83.3	81.6	80.9	80.8	79.8	
8	Net non-debt creating capital inflows (negative)	-2.6	-1.5	-1.6	-11.6	-10.6	-13.9	-9.9	-7.7	-5.6	-4.5	-3.6	
9	Automatic debt dynamics 1/	16.3	-14.0	-5.1	-3.9	-3.9	0.0	-0.1	-0.3	-0.3	-0.3	-0.3	
10	Contribution from nominal interest rate	1.4	1.6	1.2	1.1	0.8	1.4	1.0	0.7	0.6	0.5	0.5	
11	Contribution from real GDP growth	0.0	-1.7	-1.2	-2.0	-2.6	-1.5	-1.1	-1.0	-1.0	-0.9	-0.8	
12	Contribution from price and exchange rate changes 2/	14.9	-13.9	-5.1	-3.1	-2.2	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	-0.3	-6.4	-2.3	-1.2	5.5	-5.6	-4.7	-1.3	-3.3	-3.8	-4.4	
	External debt-to-exports ratio (in percent)	47.5	67.6	65.1	54.6	37.7	33.7	31.1	29.1	27.6	25.9	24.1	
	Gross external financing need (in billions of US dollars) 4/	208.5	187.2	94.0	175.4	82.7	251.7	223.5	172.6	178.1	181.9	182.3	
	in percent of GDP	38.6	24.5	10.6	17.4	7.2	18.8	15.0	11.0	10.7	10.3	9.7	
	Scenario with key variables at their historical averages 5/						**27.9**	**23.5**	**21.8**	**19.7**	**18.2**	**17.1**	**-7.1**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	-0.1	4.5	3.0	5.3	7.8	5.1	4.5	4.4	4.5	4.5	4.5	
	GDP deflator in US dollars (change in percent)	-29.9	35.3	12.9	8.0	6.1	10.2	6.8	0.8	1.5	1.4	1.7	
	Nominal external interest rate (in percent)	2.8	4.3	3.1	3.0	2.6	5.1	4.0	3.0	2.9	2.7	2.7	
	Growth of exports (US dollar terms, in percent)	7.7	-15.9	11.6	22.9	45.0	9.5	6.2	4.8	4.2	5.7	5.7	
	Growth of imports (US dollar terms, in percent)	2.9	-13.9	5.7	33.9	13.2	23.8	3.2	3.2	5.0	5.9	4.9	
	Current account balance, excluding interest payments	-4.9	-13.6	-5.5	-12.8	-4.2	-14.4	-11.3	-7.7	-7.7	-7.3	-6.9	
	Net non-debt creating capital inflows	2.6	1.5	1.6	11.6	10.6	13.9	9.9	7.7	5.6	4.5	3.6	

1/ Excludes private sector debt.

2/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency (ε > 0) and rising inflation (based on GDP deflat

4/ For projection, line includes the impact of price and exchange rate changes.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 10. Suriname: Millennium Development Goals

(In percent, unless otherwise specified)

	1990 Benchmark 1/	2015 Goal	Latest Estimate	Status
1. Poverty				
Halve poverty	…	…	65.95 (1999-2000)	…
Halve population below minimum dietary energy consumption	13.0	6.5	11.0 (2003)	Unlikely
2. Education				
Achieve full enrollment in primary education	78.0	100.0	97 (2003)	On track
3. Gender equality				
Raise girls/boys ratio in primary and secondary education to 100 percent	104.6	100.0	111 (2003)	…
4. Child mortality				
Reduce child mortality under 5 years of age by two-thirds	44.0	14.7	39.0 (2003)	On track
5. Maternal health				
Reduce maternal mortality rate (for each 100,000 live births) by three-fourths	…	…	110.0 (2001)	…
Raise births attended by skilled health staff	95.0 (1995)	100.0	84.5 (2001)	Off track
6. Environment				
Halve the proportion of individuals without access to improved water source	…	…	18.0 (2003)	…
Halt forest degradation (percent of total land)	90.5	90.5	90.5 (2001)	On track
7. Global partnership for development 2/				
Develop and implement strategies for youth employment (youth unemployment rate in percent of total labor force ages 15/24)	36.6	n/a	…	…
Make available the benefits of new information technologies (access to personal computers - per 1,000 people)	…	n/a	45.5 (2001)	…

Sources: IADB, World Bank, and UNDP.

1/ Data refers to 1990 unless otherwise noted.
2/ The objective has various qualitative targets.

I. SURINAME—FUND RELATIONS

(As of December 31, 2005)

Membership Status:
Joined: April 27, 1978
Status: Article VIII

A. Financial Relations

General resources account:	**SDR Million**	**Percent of Quota**
Quota	92.10	100.00
Fund holdings of currency	85.98	93.35
Reserve position in the Fund	6.12	6.65

SDR department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	7.75	100.00
Holdings	1.06	13.71

Outstanding purchases and loans: None

Financial arrangements: None

Projected payments to the Fund: (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	**2007**	**2008**	**2009**	**2010**
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.20	0.20	0.20	0.20	0.20
Total	**0.20**	**0.20**	**0.20**	**0.20**	**0.20**

B. Nonfinancial Relations with the Authorities

Exchange rate arrangements

The national currency is the Surinamese dollar (SRD), which replaced the Surinamese guilder in January 2004 at a conversion rate of 1,000 guilders per SRD. The central bank uses an official exchange rate of SRD 2.75 per U.S. dollar for government debt service and tax payments by mining companies and a special rate of SRD 1.4 per U.S. dollar for baby milk powder imports. Most transactions take place at a commercial bank/cambio rate. In June 2004, the central bank removed the ceiling and the floor on this rate, which had previously been set at SRD 2.8 and 2.6 per U.S. dollar respectively. Since then, the commercial bank/cambio rate has traded between SRD 2.8 and 2.71 per U.S. dollar and the central bank has not intervened.

Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on March 25, 2005 (IMF Country Report No. 05/143). Suriname is on the standard 12-month consultation cycle.

Participation in the GDDS

In July 2004, the IMF officially announced Suriname's formal participation in the General Data Dissemination System (GDDS).

Technical Assistance since 2004

STA:

- (MAB)—A follow-up mission from the Money and Banking Division of the Statistical Department visited Suriname in February 2005 to address issues on reporting of commercial banks' data.

- (GDDS)—A GDDS mission visited Suriname in March of 2004 to assist authorities in preparing their meta-data.

- (MAB)—A mission from the Money and Banking Division of the Statistical Department visited Suriname in January 8, 2001 to make recommendations for improving the compilation and reporting of Banking Statistics, particularly, those of the central bank, and to complete a diagnostic study of the Banking system. A follow-up mission visited Paramaribo in February 2005.

Consents and acceptances: Quota increase approved.

Resident Representative: None.

I. Suriname: Relations with the Inter-American Development Bank and the World Bank Group

A. Inter-American Development Bank

Suriname joined the Inter-American Development Bank (IDB) in 1980. Since then, the IDB has approved 16 loans to Suriname amounting to US$103.4 million and 100 technical cooperation operations totaling US$29.7 million.

The IDB is the major multilateral lender operating in Suriname at this time. The other main sources of financing for public sector investment are The Netherlands and the European Union. As of December 2005, Suriname's outstanding debt to the IDB stood at US$41.1 million, mostly on Intermediate Fund Financing (IFF) terms.

Bank strategy in Suriname is outlined in the Suriname Country Strategy. The current version was approved in 2000. Based on the premise that Suriname's development is constrained by a deficient policy and institutional framework, the main thrust of the IDB strategy since 2000 has been to support policy and institutional reforms as the basis for promoting private-sector-led-growth. In addition, this approach has been followed with the help of an active Technical Cooperation program. A new country strategy is being prepared for Board approval in for consideration in the first half of 2006.

Structural reform projects

Public sector. In June 2004, the IDB approved a US$5 million loan to Suriname to support the strengthening of public sector management, which is considered a critical element of institutional reform in the country, given the large size and importance of the public sector. The loan is complemented by TC (technical cooperation) to elaborate a road map, which will help to guide implementation of the public sector reform project. The road map should be ready in 2006, and will guide future IDB supported activities designed to modernize the state.

Banking system. The authorities are working with the IDB to develop a reform and rationalization of the state banks. To this end, the IDB approved in May 2003 a technical cooperation project (Financial Sector Strengthening and Rationalization—US$500,000) that will support a financial evaluation of the state banks and identify reform options. If authorities decide to pursue a reform strategy consistent with sound financial and public policy criteria, the project would also finance the development of a detailed implementation plan that could be executed with IDB financial support through a subsequent loan program.

Financial relations (as of December 2005)

At present, 8 loan projects are in execution amounting to US$55.7 million in IDB contribution and 17 technical cooperation projects in execution with total IDB contributions of US$7.7 million. The undisbursed portion of the loan portfolio in execution is entirely on OC terms with IFF subsidy.

Pipeline and Portfolio Summary

Project Category	Number	Total (In millions of US$)	Disbursed (In percent)
Loans in Execution	8	55.7	23.4
TCs in Execution	17	7.7	49.4
Projects in Pipeline	5	To be determined	Not applicable
TCs in Pipeline	4	1.4	Not applicable

Net cash flow

The total financing inflow has been positive during 1999-2004 due to disbursements of a policy-based loan in 1999 and 2003.

Net Flow of IDB Convertible Currencies
(In millions of US$)

	2001	2002	2003	2004	Proj. 2005
a. Loan disbursements	0.2	0.8	15.7	3.3	9.8
b. Repayments (Principal)	0.8	0.7	1.8	2.8	3.1
c. Net loan flow (a - b)	**-0.6**	**0.1**	**13.9**	**0.6**	**6.7**
d. Interest and charges	1.9	0.9	1.2	2.3	2.7
e. Net cash flow (c - d)	**-2.5**	**-0.8**	**11.9**	**-1.8**	**4.0**

Loan repayments from Suriname are projected to increase through 2009.

B. World Bank Group

The Foreign Investment Advisory Service (FIAS) of the IFC completed a report in April 2003 that outlined recommendations on how to structure and improve the country's new investment initiative, including the 2001 Investment Law and the investment promotion agency InvestSur. A workshop to present the findings was held in Paramaribo in July 2003. The Government requested a follow-up report on fiscal incentives, amendments to the Investment Law, and setting up of the Investment Promotion Agency, which was delivered to the Government in October 2004, and subsequently presented at a workshop.

SURINAME—STATISTICAL ISSUES

OVERVIEW

The quality and timeliness of economic statistics has somewhat improved over the past two years. The authorities have worked with STA to improve national accounts, monetary, and balance of payments statistics. Suriname started participating in the GDDS in June 2004, and its metadata are posted on the IMF's Dissemination Standards Bulletin Board. These provide information on Suriname's statistical production and dissemination practices, as well as plans for improvement. In addition, the newly created Suriname Debt Management Office started operations in 2004, improving the quality of public debt data. Notwithstanding these advances, continued effort is required to bring statistics up to a level that is adequate for policy analysis.

Real Sector

The latest national income accounts data are 2002. Preliminary estimates for 2003 became available in late-2004, but without the details on informal sector activity.

Some efforts were made to improve the GDP data by production approach. The constant price series were rebased to 1990 and the estimates in the different economic sectors are now based on indicator variables. However, indicators of sectoral activities still suffer from poor response rates to questionnaires.

There are no national accounts by expenditure approach and no labor statistics. There is also no reconciliation between the national accounts and the balance of payments data.

The production and dissemination of Suriname's consumer price index (CPI) was disrupted by the temporary cessation of work by the General Statistics Bureau (ABS) due to a fire (June 2003 - March 2004). In the absence of data collection and processing, it will not be possible to publish those monthly data or annual figures for 2003 and 2004.

Public Finances

The only public sector financial data available are those for the central government. In addition, a substantial amount of additional information is needed to derive an accurate picture of the fiscal accounts. With respect to revenue, data are collected on a cash basis by the Inland Revenue Department and the Nontax Revenue Division. There is a Central Paymaster Department that also provides revenue and expenditure data on a cash basis, which is used by the Central Bank of Suriname (CBvS) to furnish a statement of central government operations, (produced daily, weekly, and monthly) and these, in turn, are the basis for the liquidity report on revenue and expenditure prepared by the Ministry of Finance (MoF). Some capital expenditure items are recorded by the Central Paymaster, but the majority of them seem to be recorded only at the ministerial level. As there are also no centralized records for receipts of external grants, capital expenditure has to be inferred from partial donor information.

As the estimates for revenue and expenditure components can differ significantly among the MoF, the Treasury department, the CBvS, and the Central Paymaster data, the authorities have begun the process of streamlining the system of fiscal reporting, improving the reconciliation process and standardizing the reporting format. There is a pressing need for standardization of expenditure by economic classification and more coordination between the MoF and other ministries for GFS compilation and reporting, as well as between the MoF and the central bank. Since 1991, no data on central government operations have been published in the IFS and no data are reported for publication in the *GFSY*.

For the rest of the public sector, the collection of comprehensive and consistent financial data remains a challenge. The Netherlands has recently provided technical assistance in this area. The actual number of public enterprises remains unknown, and estimated at 120 companies, but some are dormant, others are social associations (for the blind, handicapped, etc.) and many of them are small enterprises.[19] Most of them do not produce accounts on a timely basis and their impact on fiscal operations, domestic credit and employment is not known with any certainty.

Statistics on public external debt and external payment arrears suffer from non-transparent reporting procedures across ministries. However, the startup of the Suriname Debt Management Office in 2004 has helped centralize the flow and quality of data.

Monetary Accounts

An STA mission visited Suriname in January 2001 to advise on the country's reporting format on monetary data, to help prepare a template for more transparent accounting of the assets and liabilities of the CBvS, and to advise on ways to prepare and promote a faster and more accurate dissemination of monetary data. In response to the mission's recommendations, data on central bank activities are reported with lags of less than a month since mid-2001. The quality of the accounts makes them suitable for publication in *IFS*.

To address remaining difficulties with the reporting of commercial banks' data, STA missions visited Suriname in September 2001 and February 2005. The missions helped design new report forms to allow a proper sectorization of the accounts. The quality and periodicity of the reported data has improved significantly as a result of these missions and the time-lag was reduced to two months.

[19] See a list of public enterprises in the accompanying Statistical Appendix paper.

Balance of Payments

The balance of payments data are still prepared on a cash basis in Suriname. While trade data are relatively reliable, data on services and capital inflows suffer from poor compilation systems and procedures, misclassification, and poor procedures of reconciliation. In addition, the ABS does not provide a sufficiently detailed breakdown of merchandise exports by products and destination. During October 2002, a STA technical assistance mission assessed progress in improving balance of payments compilation consistent with the *Balance of Payments Manual Fifth Edition* (*BMP5*), and to design new survey and reporting formats that would allow for detailed *BPM5* classifications. A GDDS mission that visited Suriname in March 2004 found that little progress had been made in implementing the recommendations, although a proposed revision to the CBvS Act on compulsory reporting of statistical information to the CBvS was approved by Parliament on May 20, 2005.

ADEQUACY OF DATA PROVISION TO THE FUND FOR SURVEILLANCE PURPOSES

Data provision can generally be considered inadequate for surveillance purposes. There are serious shortcomings in the areas of the expenditure breakdown of national accounts, exports, and informal sector activity, which significantly hinders staff's analysis and hampers the development of a reliable quantitative medium-term policy framework:

- **Real sector performance.** Poor collection and presentation methodologies and long delays in the provision of data compound the lack of data on the informal sector and seriously undermine the accuracy of GDP estimates.

- **Saving-investment balances.** As an expenditure breakdown of national accounts is unavailable, the estimate of saving and investment balances relies largely on balance of payments data, rendering problematic the estimation of private investment.

- **Public finances.** A substantial amount of additional information is needed to derive an accurate and timely picture of the fiscal position.

- **Exports.** The lack of detailed data on exports by goods and destination requires trading partner country inferences of exports and renders timely and accurate analysis difficult.

Suriname: Table of Common Indicators Required for Surveillance

As of December 31, 2005

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	11/05	12/05	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]					
Reserve/Base Money	11/05	12/05	D	Monthly Less than 1 month lag	Q
Broad Money	11/05	12/05	M	Monthly 2 month lag	Q
Central Bank Balance Sheet	11/05	12/05	D	Monthly Less than 1 month lag	W
Consolidated Balance Sheet of the Banking System	08/05	12/05			
Interest Rates[2]	08/05	12/05	M	Monthly 2 month lag	Q
Consumer Price Index	11/05	12/05	M	Monthly Less than 1 month lag	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]					
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government					
Stocks of Central Government and Central Government-Guaranteed Debt[5]					
External Current Account Balance	Q1/05	10/05	Q	Q	A
Exports and Imports of Goods and Services	Q1/05	10/05			
GDP/GNP	2003	09/04	A	A	A
Gross External Debt					

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by Eduardo Loyo, Executive Director for Suriname
and Ketleen Florestal, Advisor to Executive Director
February 24, 2006

1. On behalf of our Surinamese authorities, we would like to thank staff for a candid report. Staff has provided useful and timely policy advice to the Minister of Finance and to the Governor of the CBvS and its suggestions continue to serve as valuable inputs in the decision making process. We take this opportunity to also thank management for technical support given to Suriname, particularly in improving the reporting of data to the Central Bank.

2. **The coalition government, which was confirmed for a second term in the 2005 elections, has established a track record of good macroeconomic management.** Salient features include enhanced confidence, sustained growth, and a stable exchange rate. Recognizing the strengthened macroeconomic framework, last November Standard and Poor's revised to positive its outlook for Suriname (while keeping its rating at B-). The authorities' commitment to maintaining stability and promoting growth is steadfast and the reelection of the coalition government should renew opportunities to carry forward structural reforms. The coalition government has repeatedly shown its determination to undertake difficult measures and it strongly believes that successful outcomes are achieved only with adequate timing of reforms and the appropriate level of social and political consensus. It has resisted yielding to pressures calling for salary adjustments both during the period preceding the elections and following the adjustment in fuel prices.

3. In 2005, growth reached 5 percent, propelled by a buoyant mining sector. Favorable prices in the alumina and gold markets and continued FDI inflows allowed for the strengthening of NIRs and the reduction of external debt. As a result of prudent fiscal management and increased petroleum revenues following the authorities' decision to increase the retail prices of fuel, the fiscal deficit declined from 2.9 percent of GDP in 2004 to 1 percent of GDP in 2005. The current account deficit tripled mostly as a result of a spike in capital goods imports associated with large investment projects financed by FDI. The latter increased by 29 percent in 2005, reaching 13.8 percent of GDP. The increase in fuel prices had a significant impact on inflation, which increased from 9 percent in 2004 to 15.8 percent in 2005. With the tightening of fiscal policy reinforced by a prudent monetary policy stance, inflation pressures should remain contained in 2006. In fact, there are preliminary indications that second round effects of the petroleum price adjustments have been limited.

4. The financial sector is robust. Capital adequacy ratios in the banking sector have increased and financial dollarization has been checked following the gradual increase of reserve requirements on foreign currency liabilities and the consolidation of prudent monetary and fiscal policies. **Efforts to strengthen bank supervision and increase the efficiency in the conduct of monetary policy will need to be carefully phased in and prioritized in light of the limited availability of human resources and the incipient state of policy instruments at the disposal of the CBvS**. The monetary authorities are seeking

assistance from the IMF to strengthen supervision and further develop the Treasury bill market.

5. **Our authorities believe that the exchange rate system in place has served the country well and that the official central bank rate provides economic agents with a trustworthy and stable indicator of the evolution of the foreign exchange market.** Since the spread between the market and official rate has generally remained under 2 percent, they do not believe that the publication of the official exchange rate creates disturbances in the foreign exchange market. As a result, the CBvS has no immediate plans to adopt the free bank/cambios rates as the official exchange rate. Nevertheless, they would welcome technical assistance to draft a more liberal foreign exchange legislation.

6. **Suriname is committed to regularizing its obligations to bilateral creditors.** It has recently eliminated arrears with Japan and is pursuing discussions with Brazil and Italy. The establishment of the Suriname Debt Management Office (SDMO) has enhanced the capacity of the government to manage its debt.

7. **In spite of the political complexities it entails, in September 2005 the authorities decided - as they had announced last year - to adjust by a factor of around two the prices of petroleum products in order to strengthen the fiscal position and to allow for a more efficient allocation of resources**. Subsequently, an increase in electricity tariffs was adopted in order to allow the electric company (EBS) to cover the additional costs of fuel. In order to further reduce the vulnerability of the public finances to the variation in international oil prices, a flexible pricing and a new taxation mechanism were also adopted. Price ceilings are now fixed every month based on monthly averages of oil import costs plus taxation, which has been transformed into a unique specific tax denominated in US dollars.

8. **There is general consensus among all political forces on the need to undertake a civil service reform.** In order to achieve a successful and durable outcome, the Government is of the view that the process of civil service reform has to be inscribed in the larger framework of the Public Sector Reform (PSR), for which an implementation unit has been created within the Ministry of Finance. This unit is presently coordinating the creation of the roadmap for the PSR due to be presented to the Government within the next three months.

9. **The privatization of key SOEs is also an important priority.** The negotiation for the sale of the Bruynzeel Suriname Timber Company (BSH) is being led by a cluster of ministries and is at an advanced stage. The privatization process of the SML is also well advanced and the government expects to conclude negotiations within the next six months.

10. **Another key reform concerns the restructuring of the tax administration.** With assistance from the IADB and CARTAC and drawing on the Jamaican experience, the Ministry of Finance is working on the creation of a new Tax Authority. The model being envisaged is one in which the revenue authority could be lifted out of the civil service in order to attract well-trained and experienced experts with competitive salaries and benefits. The hiring of new staff will have to be accompanied by training, the creation of new

infrastructure, and the upgrading of information technology. The implementation process is estimated to take approximately two years.

11. **A comprehensive review of the tax regime was completed in April 2005 with the assistance of the IADB and CARTAC.** The implementation of recommended reforms will require substantial technical support, including for the review of tax and customs legislation and the introduction of a broad-based VAT. Also, technical assistance is being requested from the IADB and CARTAC to strengthen budgetary policy and public financial management. Additional assistance is needed to perform a needs assessment for improving financial management and communication among government institutions.

12. Suriname is vulnerable to external shocks on account of its high degree of openness (imports plus exports reached more than 150 percent of GDP in 2005) and high level of export concentration. **Reforms currently under study to strengthen the economy's resilience to external shocks are geared towards facilitating an efficient and sustainable use of natural resources and promoting diversification by enhancing private sector competitiveness.** The creation of a revenue stabilization fund as a means to ensure continued and stable increases in fiscal revenues and avoid exchange rate volatility is currently under discussion within the Government. A new investment law and revisions to the income tax law through the formulation of a new "umbrella law" to promote private investment have been drafted and are expected to be presented to the Council of Ministers within the next month. Also, a new law on withholding taxes on interest, royalties, and similar payments is to be presented to the Cabinet. The drafting of these pieces of legislation has been undertaken with active participation of the private sector.

13. **Under the leadership of the Ministry of Finance, a committee is working with the private sector to improve the investment climate**. A law on the Suriname Business Forum has been drafted with the involvement of the private sector and the Ministries of Trade and Industry, of Planning, and of Finance. The draft law is currently with the State Council and is expected to be sent to the National Assembly for approval very soon.

14. **Growth is projected to remain strong in 2006 and beyond, fueled by the expansion of mining activities as well as alumina and oil production**. Two recent undertakings are noteworthy. First, the exploration and production agreement signed with Occidental Petroleum in October of 2005. The company will invest about $350 million in exploration and possible production of crude oil and Suriname will earn 6.25 percent in royalties from gross production and 36 percent in income taxes. Negotiations have also been initiated with BHP Biliton and Suralco for the mining and processing of bauxite into alumina in the Bakhuys area.

15. **The official launching in January 2006 of the Caribbean Single Market Economy (CSME) and the phasing out of preferences for exports of rice and banana to the EU pose new challenges for the public and private sectors**. To face these challenges, the government believes that improving the business climate, including the legal environment, is crucial. In December 2005, it obtained from the IADB a $4 million loan to strengthen the country's technical and institutional capacity to formulate, negotiate, and

implement trade policy and related agreements. As part of the preparations for the loan, the IADB assisted the government in reviewing the draft law establishing the Bureau of Standards. The latter was approved by the National Assembly last week. The IADB is also assisting the Government in defining a trade strategy as a basis for future activities under the loan program. The CSME has the potential to create new markets for Surinamese products and attract advanced technology, know-how and capital.

16. **Our authorities are fully cognizant of the limitations of the statistical base, as this weakens their ability to monitor adequately the evolution of key macro economic indicators and to evaluate effectively the policies being implemented**. Several factors hinder the production of reliable statistics. The poor flow of information within and across governmental entities, lack of trained human resources, and the reluctance of certain sectors to participate in surveys are important limiting hurdles. The CBvS Act of May 2005, which includes provisions relative to the compulsory reporting of statistical information to the Central Bank, should enhance its ability to produce timely BOP accounts. The authorities are appreciative of the valuable assistance the Fund has been providing both through the Statistics Department and through training by the IMF Institute. Nevertheless, as staff underscores, several shortcomings remain, particularly in the production of data on real sector activity, exports of services and capital inflows. Additional help in this area is being sought from the Netherlands, the IADB, and CARTAC.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Article IV Consultation with Suriname

On February 24, 2006, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Suriname.[1]

Background

Suriname is benefiting from the global boom in commodity prices and from increased mining output. Real GDP increased by 8 percent in 2004 and by around 5 percent in 2005, boosted by the opening of a new gold mine and investment in the alumina and bauxite sector. Inflation moderated to 9 percent in 2004, partly reflecting the effects of exchange rate stability, but is estimated to have risen to about 17 percent in 2005, largely as a result of a doubling of domestic fuel prices in September 2005.

The strong growth has been supported by a cautious macroeconomic policy stance. The central government overall deficit declined from around 3 percent of GDP in 2004 to an estimated 1 percent of GDP in 2005. This improvement resulted from a substantial increase in revenue from the oil sector, which more than offset higher capital expenditure during the pre-election period, and revenue losses from delays in adjusting domestic fuel prices. Reflecting the lower financing needs of the government, fiscal financing by the central bank declined from about 1 percent of GDP in 2004 to ½ percent in 2005. Although reserve requirements have been lowered on domestic currency deposits since mid-2004, private sector credit growth has moderated as liquidity has been sterilized by a larger issuance of Treasury bills.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The external current account deficit has remained large. A surge in capital goods imports for the mining sector increased the current account deficit to 16 percent of GDP in 2005 from around 5 percent of GDP in 2004. These were largely matched by a continued large inflow of foreign direct investment, and foreign exchange reserves were maintained at around 1½ months of imports.

The near-term outlook remains favorable, owing to the strength of global commodity prices and the impact of recent and ongoing investment in the extractive industries. The economy is projected to grow by almost 5 percent, and inflation would ease to about 8 percent. The current account deficit is projected to decline from around 16 percent of GDP in 2005 to 12 percent, reflecting the effects of continued growth in alumina production and buoyant gold prices on exports, and the impact of the completion of the major investment projects in the mining industry on capital goods imports.

Executive Board Assessment

Executive Directors commended the Suriname authorities for their successful macroeconomic management over the past years. Fiscal discipline, supported by a cautious monetary policy and a favorable external environment, has helped reduce inflation expectations and stabilize the exchange rate, while underpinning buoyant economic growth.

Directors agreed that the near-term outlook for Suriname appears favorable, especially in view of the strength of global prices for the country's commodity exports. Nonetheless, maintaining macroeconomic stability in the past has proven difficult, especially in the face of external shocks. Directors underscored the importance of containing pressures on domestic prices and competitiveness by resisting second-round effects from the recent increases in fuel prices. They cautioned, in particular, against granting compensatory salary increases or subsidies that would exacerbate cost-push pressures. Over the medium term, Suriname would benefit from establishing firmer anchors for fiscal and monetary policies, reducing the size of the public sector, and bolstering the competitiveness of the non-mining sectors.

Directors commended the important steps that have already been taken to strengthen the fiscal framework, including the new Fiscal Responsibility Law. They welcomed the recent modification of the domestic fuel tax and pricing system, which will reduce the vulnerability of fiscal revenue to fluctuations in world oil prices. Directors noted that historically volatile prices for Suriname's bauxite, gold, and oil exports—on which the budget relies for a large part of its revenues—have complicated budgetary management. To cushion the impact of export price changes on the budget, Directors supported building up a stabilization fund, by investing the increased royalty and tax revenues expected from future large-scale investments in extractive activities in an internationally diversified portfolio. The stabilization fund would also help mitigate exchange rate pressures, and facilitate the equitable intergenerational sharing of revenues from finite resources. On the expenditure side, Directors underscored the importance of the envisaged civil service reform to reduce the size and improve the efficiency of the public sector. They urged the authorities to set the annual budget discussions in a medium-term policy framework.

Directors recommended a strengthening of the monetary and exchange rate policy framework. In particular, they suggested that, once sufficient institutional capacity is in place, establishing a defined and pre-announced target for a monetary aggregate would help anchor policies and send an important signal of the authorities' commitment to price stability. At the same time, they encouraged the authorities to reduce their reliance on reserve requirements as their principal policy instrument, and to instead strengthen the role of indirect instruments such as open market operations. Directors welcomed the convergence of the official and bank/cambio exchange rates and the willingness to permit greater exchange rate flexibility. They urged the authorities to take advantage of the present favorable environment to adopt the market-determined commercial rate as the official exchange rate, thereby unifying the regime.

Directors noted that the financial sector is generally sound, and welcomed the improvement in bank capital adequacy ratios. At the same time, they recommended that efforts be strengthened to bolster bank risk assessment capabilities with a view to reducing the level of nonperforming loans. There is room to improve bank supervision and prudential regulation, including the assessment of potential balance sheet risks related to the high degree of dollarization of the banking system. Directors called for the implementation of more effective anti-money laundering controls. They supported the authorities' request for technical assistance from the Fund to strengthen financial sector supervision and to develop the Treasury bill market, and encouraged them to consider participation in the Financial Sector Assessment Program.

Directors stressed the importance of normalizing relations with external creditors and eliminating payment arrears, noting that Suriname's long-standing arrears to bilateral creditors undermine the country's creditworthiness and impede its access to export credit coverage.

Directors considered that structural reforms will be key to enabling the non-mining private sector to provide sustainable employment and income growth. Efforts should be enhanced to simplify licensing procedures, promote a more stable and rule-based climate for investment, and limit and clarify tax exemptions. The efficiency of a large number of state-owned enterprises needs to be raised, and consideration given to their corporatization or privatization. Directors welcomed efforts to privatize the banana, rice, and sawmill companies, and to deal with the small insolvent state-owned banks.

Directors encouraged the authorities to improve the provision and accuracy of statistics, in particular with respect to national accounts and trade data.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Suriname: Selected Economic Indicators

	2002	2003	2004	Proj. 2005	Proj. 2006
(Annual percentage change, unless otherwise indicated)					
Real economy					
GDP at 1990 prices 1/	3.0	5.3	7.8	5.1	4.5
GDP current market prices	34.3	18.8	18.3	16.9	19.5
Consumer prices (End of period)	28.4	13.1	9.1	16.7	8.1
(In percent of GDP, including informal sector)					
National accounts					
Gross domestic investment	25.0	28.5	29.0	33.2	32.2
Gross national saving	18.7	14.6	23.9	17.4	20.3
Foreign saving	6.3	13.8	5.1	15.8	11.9
Central government					
Revenue and grants	29.3	34.7	34.2	37.2	37.1
Expenditure and net lending	35.9	34.8	37.1	38.3	37.9
Overall balance	-6.6	-0.1	-2.9	-1.0	-0.8
(Annual percentage change, unless otherwise indicated)					
Money and credit 2/					
Domestic assets (net)	45.7	6.7	29.2	19.5	17.2
Of which					
Public sector	186.6	-20.7	14.0	19.6	10.9
Private sector	59.3	40.7	32.6	21.2	18.5
Money and quasi-money (M2) 3/	32.3	15.9	28.8	17.3	14.7
(In percent of GDP, including informal sector)					
External Sector 4/					
Current account	-6.3	-13.8	-5.1	-15.8	-11.9
Merchandise exports, f.o.b.	55.6	62.6	75.8	71.4	66.1
Merchandise imports, f.o.b.	-50.1	-65.6	-61.2	-68.5	-61.3
Capital and financial account	7.1	13.0	11.0	17.2	12.8
O*f which*: External borrowing: Central Government	-3.1	-1.8	-1.2	-0.8	-0.7
Errors and omissions (Net)	-0.7	0.8	-3.1	0.0	0.0
Change in reserves (-)=increase	-0.2	0.1	-2.8	-1.4	-1.0
Gross official reserves (In months of imports)	1.9	1.4	1.7	1.5	1.6
Stock of external public debt 5/	41.6	37.7	33.0	27.9	24.5

Sources: Central Bank of Suriname; Ministry of Finance.

1/ Includes estimate of the informal sector.

2/ Pre- and post-2002 data are not comparable. Percentage changes in 2002 are calculated on basis of estimates for end-2002 data according to the old data classification.

3/ Includes foreign-currency deposits held by residents.

4/ Based on amounts expressed in U.S. dollars.

5/ Includes public external payments arrears.