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January 5, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Suriname - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Suriname.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Buyse, ext. (5)8614.

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INTERNATIONAL MONETARY FUND

SURINAME

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the 1983
Article IV Consultation with Suriname

Approved by E. Wiesner and W.A. Beveridge

January 4, 1984

The 1983 Article IV consultation discussions with Suriname were held in Paramaribo during the period October 31-November 10, 1983.1/ An advance staff team began work in Paramaribo on October 21. The Surinamese representatives in the discussions included the Minister of Finance and Planning, the Acting President of the Central Bank, and other senior officials from the Central Bank, the ministries, and various government agencies and enterprises. Meetings were also held with representatives of the major unions, the bauxite companies, and the domestic private sector. The staff representatives were Messrs. Gerhard (Head-ETR), Gudac (RES), Irausquin (BUR), Buyse and Guzman (both WHD), and Ms. Telson (Secretary-ETR). A member of the World Bank joined the mission to gather information on the development plan.

The last Article IV consultation was concluded on August 6, 1982. Details on Fund relations with Suriname are presented in Appendix I.

I. Background

Suriname has been heavily dependent on the bauxite sector and on foreign aid. The bauxite sector accounts for some three fourths of exports and, until recently, contributed about one fifth to both GDP and government revenue. Under the terms of the Dutch-Surinamese Development Cooperation Treaty of 1975 signed on the occasion of independence, Suriname was to receive Dutch guilders 2.7 billion in the form of grants and Dutch guilders 0.5 billion of export guarantees. These grants and export guarantees were to be fully utilized by 1990.2/ Until end-1982 grants averaging some 9 percent of GDP had financed Suriname's development plan and--despite sizable current account deficits--allowed a substantial buildup in international reserves. However, following certain political incidents in Suriname, in mid-December 1982 the Dutch authorities suspended all aid disbursements indefinitely.

1/ Suriname has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

2/ Moreover, the Treaty provided for the possibility of additional grants of up to Dutch guilders 300 million to be utilized for projects financed on a matching basis by such grants and by Surinamese domestic savings.

After a period of very rapid growth during the first three years of independence, real GDP fell sharply in 1980, recovered somewhat in 1981-82, and is estimated to have fallen by some 3 percent in 1983 (Table 1). The most striking feature has been the decline of the bauxite sector with real value-added falling by more than 50 percent from 1979 to 1983. This decline was partly attributable to depressed world demand but production conditions have also played a role; in 1983 for instance, aluminum production was constrained by hydroelectric power shortages caused by inadequate rainfall.

Table 1. Suriname: Selected Macroeconomic Indicators 1/

(Annual percentage change)

	1979	1980	1981	1982	Est. 1983
Real GDP (at factor cost)	0.6	-5.7	2.1	0.7	-3.3
GDP (at current market prices)	6.8	6.2	14.3	4.6	-0.6
Gross domestic expenditure 2/	4.9	11.0	22.5	5.5	-1.5
Investment	(-8.7)	(-4.1)	(25.5)	(-1.8)	(-24.3)
Consumption	(9.0)	(14.8)	(21.8)	(7.1)	(3.0)
GDP implicit price deflator	8.1	12.7	12.1	6.6	5.0
Consumer price index (period average)	13.9	13.2	8.7	7.3	5.6

Sources: Bureau of Statistics; Central Bank of Suriname; and staff estimates.

1/ At the end of 1983 the Surinamese obtained technical assistance from the UNDP in order to compute the national income accounts from 1981 onward. Pending the completion of this task, the national income data for 1981 to 1983 are staff estimates based on fragmentary and often preliminary information.
2/ At current market prices.

After two years of surplus in 1979-80, the overall position of the government accounts switched to increasing deficits, estimated at 3 to 4 percent of GDP in 1981-82 and 15 percent of GDP in 1983 (Table 2). With development outlays virtually cut in half, ordinary government operations accounted for more than two thirds of the overall deficit

Table 2. Suriname: Central Government Operations

	1979	1980	1981	1982	Est. 1983
	(In millions of Suriname guilders)				
Revenues and grants	580.0	624.3	677.0	699.1	490.0
Ordinary revenues	435.9	492.8	508.1	526.2	486.0
Grants	144.1	131.5	168.9	172.9	4.0
Expenditures	560.0	600.2	732.0	792.9	812.0
Ordinary expenditures	427.2	481.9	557.2	603.5	710.0
Development expenditures	132.8	118.3	174.8	189.4	102.0
Surplus or deficit (-), ordinary account	8.7	10.9	-49.1	-77.3	-224.0
Overall surplus or deficit (-)	20.0	24.1	-55.0	-93.8	-322.0
Financing					
External financing (net)	-0.9	-4.1	0.2	0.5	1.0
Private nonbank sector (net)	2.4	1.7	0.9	-0.7	-1.0
Banking system (net)	-21.5	-21.7	53.9	94.0	322.0
	(As percent of GDP at market prices)				
Surplus or deficit (-), ordinary account	0.5	0.6	-2.4	-3.7	-10.7
Overall surplus or deficit (-)	1.2	1.4	-2.7	-4.4	-15.3

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

in 1983.1/ Ordinary revenue fell from 25 percent of GDP in 1982 to 23 percent in 1983; concurrently, ordinary expenditure rose from 29 percent to 34 percent of GDP, with subsidies and transfers increasing most rapidly. Revenue from individual income taxes increased as improved tax administration procedures introduced in 1982 were enforced, but revenues from most other taxes declined owing to reduced economic activity and lower imports. Nontax revenue also declined, as profit distributions from the Central Bank dropped.

Fiscal deficits in Suriname generally have been financed by domestic bank credit (Table 3). The net domestic assets of the banking system increased by nearly 30 percent (Sf 165 million) in 1982 and by 45 percent (Sf 325 million) in 1983; the inflation rate was 7 percent in 1982 and 6 percent in 1983.2/ Credit to the private sector increased by 14 percent in 1982 but remained flat in 1983. Since liabilities to the private sector grew by about 10-11 percent in each of these years, net international reserves of the banking system fell by Sf 65 million in 1982--the first decline since 1977--and are estimated to have fallen by Sf 224 million in 1983. At end-1983 net international reserves are estimated at Sf 170 million, equivalent to about two months' imports of goods and services.

Suriname's external current account deficit increased from 6 percent of GDP in 1980 to 13 percent of GDP in 1982 (Table 4). Despite greatly increased restrictiveness in imports of goods and services, the current account deficit rose further, to 14 percent of GDP in 1983. The value of total exports fell by 17 percent from 1980 to 1982, and by more than 20 percent in 1983, broadly in line with movements in exports of bauxite products. Imports increased quite strongly for several years through 1981, leading to the emergence of a trade deficit equivalent to some 8 percent of GDP in that year. Since then, the authorities have contained the trade deficit through increasingly tight restrictions; in value terms, imports fell by 9 percent in 1982 and 17 percent in 1983.

Suriname's terms of trade deteriorated by some 9 percent from 1979 to 1981, when increases in export unit values did not keep pace with the sharp rise in import prices, notably of oil. In 1982 and 1983 Suriname's terms of trade deteriorated further by 7 and 5 percent, respectively, as export prices declined more than import prices. The behavior of import prices helped dampen the rate of increase in Suriname's consumer price

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1/ The government budget is divided into two major accounts, the development account and the ordinary account. This administrative practice has grown out of arrangements related to the disbursement of foreign assistance. Thus, the development account covers all development outlays, including wage payments, while the ordinary account covers virtually all other types of revenue and expenditure, including certain capital outlays.

2/ The Suriname guilder has been pegged to the U.S. dollar at a rate of Sf 1.78 = US$1 since 1971.

Table 3. Suriname: Summary Accounts of the Banking System

(In millions of Suriname guilders)

	December 31				September 30		Est.
	1979	1980	1981	1982	1982	1983	1983
I. Monetary Authorities							
Net international reserves	294.3	338.8	370.4	315.0	336.0	191.8 1/	145.0 1/
Net domestic assets	-5.1	-43.0	-15.7	69.5	19.0	310.2	364.0
Net claims on public sector	30.6	8.2	57.2	149.8	79.2	371.7	446.0
Credit to commercial banks	0.3	0.2	0.2	0.2	0.3	0.2	--
Credit to private sector	0.5	0.4	0.3	0.2	0.3	0.2	--
Other assets (net)	-36.5	-51.8	-73.4	-80.7	-60.8	-61.9	-82.0
Counterpart unrequited foreign exchange	47.8	53.9	57.0	57.2	55.1	88.5	89.0
Liabilities to commercial banks	79.9	53.3	79.1	53.9	105.0	157.9	165.0
Liabilities to private sector	161.6	188.6	218.6	273.4	194.8	255.6	255.0
Currency in circulation 2/	156.3	177.8	197.0	268.1	189.8	251.0	250.0
Demand deposits	5.2	10.8	21.6	5.3	5.0	4.6	5.0
II. Commercial Banks							
Net international reserves	39.6	58.8	54.0	44.7	42.9	25.0	25.0
Claims on monetary authorities	79.9	53.3	79.1	53.9	105.0	157.9	165.0
Net domestic assets	445.6	485.9	583.4	663.8	666.6	673.3	695.0
Net claims on public sector	9.8	11.3	16.4	17.6	18.6	41.3	43.0
Net Central Government (budget)	(-5.3)	(-4.8)	(0.2)	(1.6)	(3.6)	(26.9)	(27.0)
Net other decentralized agencies	(15.1)	(16.1)	(16.2)	(16.0)	(15.0)	(14.4)	(16.0)
Credit to private sector	420.6	460.5	546.3	623.9	616.1	627.3	629.0
Other assets (net)	15.2	14.0	20.7	22.3	31.9	4.7	23.0
Medium- and long-term foreign liabilities	6.6	6.8	6.6	7.0	7.0	7.0	7.0
Liabilities to monetary authorities	0.3	0.2	0.2	0.2	0.3	0.2	--
Liabilities to private sector	558.2	591.0	709.7	755.2	807.4	849.0	878.0
Demand deposits	111.9	105.6	139.4	147.8	175.7	190.1	215.0
Other deposits	345.5	372.2	437.3	461.4	485.2	507.5 3/	510.0 3/
Other liabilities	34.5	38.2	48.9	49.7	51.9	49.5	50.0
Private capital and surplus	66.4	75.0	84.2	96.3	94.6	102.0	103.0
III. Banking System (I + II)							
Net international reserves	333.8	397.6	424.5	359.7	378.9	216.8 1/	170.0 1/
Net domestic assets	440.3	442.6	567.5	733.1	685.3	983.3	1,059.0
Net claims on public sector	40.3	19.6	73.6	167.4	97.8	413.0	489.0
Net Central Government (budget)	(25.2)	(3.5)	(57.4)	(151.4)	(82.8)	(398.6)	(473.0)
Net other decentralized agencies	(15.1)	(16.1)	(16.2)	(16.0)	(15.0)	(14.4)	(16.0)
Credit to private sector	421.1	460.9	546.6	624.1	616.4	627.5	629.0
Other assets (net)	-21.1	-37.9	-52.7	-58.4	-28.9	-57.2	-59.0
Counterpart unrequited foreign exchange	47.8	53.9	57.0	57.2	55.1	88.5	89.0
Medium- and long-term foreign liabilities	6.6	6.8	6.6	7.0	7.0	7.0	7.0
Liabilities to private sector	719.8	779.6	928.4	1,028.6	1,002.2	1,104.6	1,133.0
Currency in circulation 2/	156.3	177.8	197.0	268.1	189.8	251.0	250.0
Demand deposits	117.1	116.3	161.0	153.2	180.7	194.7	220.0
Quasi-money	345.5	372.2	437.3	461.4	485.2	507.5	510.0
Other liabilities	34.5	38.2	48.9	49.7	51.9	49.5	50.0
Private capital and surplus	66.4	75.0	84.2	96.3	94.6	102.0	103.0

Source: Central Bank of Suriname.

1/ Includes Sf 34 million of gold revaluation.
2/ Includes government issue of currency.
3/ Of which Sf 24.8 million is import deposits.

Table 4. Suriname: Summary Balance of Payments

(In millions of Suriname guilders)

	1979	1980	1981	1982	Jan.-Sept. 1982	Jan.-Sept. 1983	Est. 1983
Goods, services, and unrequited transfers	-66.1	-104.0	-218.7	-273.7	-200.1	-254.0	-294.7
Trade balance	59.2	17.9	-168.0	-156.1	-98.5	-140.2	-157.1
Merchandise exports (f.o.b.)	(792.7)	(918.2)	(845.7)	(765.1)	(597.2)	(452.3)	(605.4)
Merchandise imports (c.i.f.)	(-733.5)	(-900.3)	(-1,013.7)	(-921.2)	(-695.7)	(-592.5)	(-762.5)
Services	-71.5	-109.5	-85.0	-130.4	-105.9	-82.1	-107.1
Investment income	-66.3	-24.1	27.7	17.5	8.2	-21.3	-16.9
Unrequited private transfers	12.5	11.7	6.6	-4.7	-3.9	-10.4	-13.6
Medium- and long-term capital	143.1	134.2	244.9	211.3	169.3	14.9	14.3
Private capital (including direct investment)	1.9	5.5	80.3	40.6	36.6	11.1	11.1
Public grants	144.1	131.6	169.0	172.9	133.4	4.0	4.3
Public capital	-2.9	-2.9	-4.4	-2.2	-0.7	-0.2	-1.1
Short-term capital 1/	-30.4	26.3	-4.2	-4.3	-13.1	60.3	56.4
Errors and omissions	-0.7	1.4	-1.1	2.0	-1.7	1.9	--
SDR allocation	6.1	5.9	5.9	--	--	--	--
Overall balance	52.0	63.8	26.8	-64.7	-45.6	-176.9	-224.0
Valuation change in reserves	--	--	--	--	--	34.0 2/	34.0 2/
Change in net international reserves (increase -)	-52.0	-63.8	-26.8	64.7	45.6	142.9	190.0
Monetary authorities	-64.5	-44.5	-31.6	55.4	34.4	123.2	160.0
Commercial banks	12.5	-19.2	4.8	9.3	11.2	19.7	30.0

Source: Central Bank of Suriname.

1/ Including changes in working balances between the Surinamese bauxite companies and their parent companies.
2/ Gold has been revalued from US$42 to US$397 per troy ounce in August 1983.

index from around 13 percent a year in 1979-80 to 8 percent in 1981-82, and less than 6 percent in 1983, but in that year the index also has reflected increasingly tight and comprehensive price controls.

All existing financial obligations of the Government vis-a-vis the Netherlands were cancelled prior to the attainment of independence, and at the end of 1975 Suriname's public external debt stood at approximately 2 percent of GDP. Since then, no significant new public external debt has been contracted; by the end of 1983 the ratio of public external debt to GDP remained at approximately 2 percent. Total debt service in 1983 is estimated at less than 1 percent of exports of goods and nonfactor services.

II. Economic Policies

The Government that took office in February 1983 issued a policy statement in May, which contained a "Plan of Action" for 1983-86 envisaging the gradual restoration of fiscal balance but also providing for improved social services. The policy statement also contained a tentative investment plan up to 1990, aimed at promoting nationally controlled, resource-based activities and reducing dependence on the bauxite sector. The authorities' approach to the immediate needs of economic stabilization and adjustment has been influenced by their expectations that disbursements of Dutch aid would soon be resumed, and that the low level of Suriname's public external debt would enable the Government to obtain foreign credits as bridge financing for ongoing and new investment projects.

The outlook for 1984 is uncertain, especially as the question of foreign financial assistance remains open, and as government economic policies for the year ahead are still in a formative stage. Production and exports of the bauxite sector are expected to increase with a firming of world demand, but there are no discernible signs of a revival in general private sector activity.

1. Demand policies

The major part of the discussions was devoted to reviewing the sharp deterioration of the public finances and the remedial action which would have to be taken. The authorities concurred with the staff's view that the severe deterioration of the fiscal position in the first three quarters of 1983 would have to be addressed. They explained that part of the increase in expenditure that had occurred in early 1983 was related to the installation cost of the new Government and thus would not recur. Moreover, they said that the Ministry of Finance had substantially strengthened its controls over spending by the various ministries and state agencies and that the 1984 budget aimed at a sizable improvement. While a number of issues were yet to be resolved, the ordinary account was expected to benefit from a 25-30 percent increase in revenue (to Sf 630 million) and a reduction in expenditure up to 4 percent (to Sf 685 million), so that the total ordinary deficit would be around Sf 55 million (about 2-1/2 percent of GDP). If deemed necessary, taxation would be further increased in the course of 1985 in order to allow the Government to reach its objective of balancing the ordinary budget by 1986.

On the revenue side, income taxation of individuals and companies were to be raised in 1984, as were indirect taxes and contributions to the Government's pension fund and to social security. The individual income tax rates which had been announced in early 1982 but not implemented because of widespread public protests would be reinstated; this measure, together with increases in corporate income tax rates, was expected to yield an additional Sf 25-30 million. Increases in indirect taxes, notably on gasoline, tobacco, and alcohol, were expected to yield Sf 10-20 million, and increases in import duties Sf 70 million. Finally, although the bauxite sector had recently obtained additional export incentives in the form of increasing rebates on the net bauxite levy for the 1984-86 period, an expected cyclical upturn in the world aluminum market would increase revenue from the bauxite levy by at least Sf 10 million in 1984.

On the expenditure side, the intention was to contain the increase in the wage bill to no more than 4 percent. Public sector employment was to be frozen at the current level, but an across-the-board wage increase of some 3 percent was likely to be granted, perhaps supplemented by a more substantial wage increase in the case of the 2,000 most senior or skilled civil servants. The authorities noted that under the terms of the 1982 wage agreement the Government would meet with the government employee unions in early 1984, but it had already notified the unions that this meeting would not be regarded as the start of a new bargaining round. Finally, expenditure on supplies was to be reduced by some 30 percent, while social transfers and subsidies would be reduced by some 10 percent. To this end, wage concessions in those public enterprises or agencies receiving transfers from the Central Government were to be held to the same nominal increases as those applied to government workers, while hospital fees and similar rates would be raised.

The authorities said they were currently studying the possibility of replacing existing subsidies on certain basic consumer goods with increased personal transfers on the basis of individual need. This might reduce government expenditure under this heading, while still serving the social objective sought. However, other items of social expenditure, such as the old age allowance, which is disbursed to some 25,000 Surinamese, would be increased from Sf 75 to Sf 100 per month, and the Government would also go ahead with plans to build 550 houses to be rented at 15 percent of the tenant's wage or sold at subsidized prices.

With respect to development outlays, the authorities said that these were to be financed mainly by grants under the Dutch-Surinamese Treaty. They noted that such outlays would not add to the overall government deficit, except on a strictly temporary basis if foreign credits were raised as bridge financing for ongoing projects; they envisaged borrowing up to US$100 million a year on commercial terms in case Dutch aid remained suspended. The authorities did not share the staff's concern that external debt increases of this magnitude--approximately 8 percent of GDP--would soon strain Suriname's debt servicing capacity, they stated that Suriname's claims under the Dutch aid treaty are such that they should alleviate such concern.

Regarding monetary policy, the authorities stated that the role of the Central Bank was mainly to establish overall credit ceilings for the commercial banks and to assure the liquidity of the banking system. Toward the end of 1982 and in early 1983, the Central Bank had made stand-by facilities available to assist the commercial banks in weathering a wave of deposit withdrawals that had occurred. It also assisted the commercial banks and Surinamese importers by providing cover for letters of credit opened by foreign correspondent banks. In 1983 the Central Bank had tightened the formula on which commercial banks' credit ceilings were based. This had been done in anticipation of increased pressures on prices and international reserves but, in the event, these ceilings had turned out to be ample, because credit demand from the private sector remained unexpectedly slack.

The authorities said that interest rates are not utilized as a policy instrument in Suriname. Treasury paper is not placed with the public and the Central Bank does not utilize the discount rate to influence the liquidity of the economy, nor does the Central Bank interfere in other ways in the setting of interest rates. The authorities added that the small size of the financial system facilitates the setting of interest rates by agreement between commercial banks. Thus, the spreads on interest rates have been set in such a way as to assure what the commercial banks view as sufficient profitability on their operations; real deposit rates have tended to be negative. Currently, however, the Government was in the process of formulating a national savings plan in which interest rates might be given a more active role.

The authorities said that price stability was an important policy objective, particularly since no pretext should be created for excessive wage demands and essential goods should continue to be sold at reasonable prices. Fearing speculative price increases, the authorities had issued a decree in September 1983, generalizing price controls and requiring government approval for all price increases. For 1984, they had decided to keep the price increase of essential goods below 5 percent. The mission questioned the generalization of price controls since they were inimical to economic efficiency and would strain the administative apparatus. While price stability was rightfully considered a major policy target, the mission stressed that this could be achieved only through appropriate macroeconomic policies.

2. Exchange and trade policies

The authorities expected that the level of net international reserves of the banking system would fall by some Sf 224 million during 1983 to Sf 170 million by the end of the year. For 1984, the authorities were planning to contain the loss of international reserves to Sf 60 million.

Recalling that the recent effective appreciation of the Surinamese guilder in real terms had been the subject of notification to the Executive Board in September 1983, the staff raised the issue of the appropriateness of the present exchange rate. It was noted that by end-October the real effective exchange rate indicated a 29 percent appreciation of the Suriname guilder since 1980. The loss in competitiveness may well have been greater inasmuch as the statistics used in the computation of the real effective exchange rate make no allowance for the fact that Suriname has come to rely increasingly on price controls. In any case, there has been a considerable discrepancy between the official consumer price index and labor costs, with the latter rising significantly faster than the price index in recent years.

Although they did not challenge the relevance of these indications, the authorities said that there were reasons for ruling out any change in the official exchange rate. They believed that the needed adjustment could be accomplished without devaluation. Indeed, they believed that the adjustment task would be made more difficult if the policy measures included a devaluation, particularly since this probably would exacerbate pressure for wage increases; such pressure was most likely to start in the foreign-controlled bauxite sector (where a devaluation would result in windfall profits without enhancing production and exports) and then spread to other sectors. The authorities recognized that some long-term benefits would result from a devaluation to the extent that it made certain projects feasible that otherwise could not be contemplated, given existing cost-price relationships. However, they believed that such longer-term considerations had to give way to more immediate concerns. One important immediate concern was to control the commodity composition of imports, in line with the priorities set by the Government. For this purpose, the authorities consider the exchange rate as too blunt an instrument. They intend to rely instead on differentiated tariffs.

The staff reviewed with the authorities the various changes in Suriname's trade and payments system that had been introduced since the last Article IV consultation and discussed exchange measures that were currently enforced or contemplated by the authorities. The multiple currency practices arising from the advance import deposit scheme introduced in January 1983 were discussed in this context. The staff noted that the impact of the scheme on the volume of imports was likely to have been limited in the recent period of slack private sector credit demand and comparatively high liquidity, but that the scheme entailed potential disadvantages to other Fund members and was subject to approval under Fund Article VIII. Fund approval was also required for the restrictive administration of the existing comprehensive foreign exchange licensing requirement. The staff understood that the Government's reliance on such restrictions was affecting all types of foreign exchange transactions and noted that this was likely to perpetuate and aggravate distortions in the economy.

The authorities said that in view of the severe pressures on international reserves, they would not risk lifting exchange restrictions at the present time; indeed, they were considering additional measures to protect reserves. To the extent feasible, they would rely on measures operating through the price system, for instance, taxation of airline tickets for foreign travel; but they also planned further reductions in the permitted amount of various transfers abroad. In addition, bilateral trade and payments arrangements might be negotiated in an effort to economize on international reserves and at the same time boost Suriname's trade with countries in the region. The authorities saw significant scope for increased trade with these countries which presently account for only about 10 percent of Suriname's trade. The staff observed that experience with bilateral trade and payments arrangements in other countries indicated that such arrangements typically entailed serious disadvantages while, at best, providing only temporary relief from a threatened depletion of international reserves.

3. Development strategy

The Government's development strategy was explained as aimed at promoting nationally controlled, resource-based activities and establishing a network of social services to protect the economically weaker groups of the population. The authorities said that, while Suriname's traditional export sector would remain largely under foreign control, they planned to develop activities utilizing the country's abundant other natural resources. The West Suriname complex of projects, on which a very large share of the Dutch treaty grants originally was concentrated, had been discontinued in 1981, mainly because these projects would have unduly increased Suriname's dependence on the bauxite sector. The Government had sought to reallocate the funds originally committed to these projects in favor of agricultural projects. However, this had been difficult to implement; no new development projects had been approved by the joint Dutch-Surinamese Development Committee (CONS) since September 1981.

An important aspect of the Government's development strategy is its aim of providing employment opportunities. Unemployment has been at a high level for years, even while large numbers of foreign workers were employed in Suriname. The authorities noted that the Surinamese labor force was relatively skilled. If appropriate jobs could not be offered, skilled personnel would seek to leave the country and there would be little hope that Surinamese nationals living abroad could be induced to return. Labor policy was further complicated by distortions in Suriname's wage structure, inasmuch as the bauxite sector--and to a lesser extent the banking sector--paid extremely high wages and set the pattern for wage settlements in other sectors. It was partly in an attempt to head off worker demands for wage increases in those sectors that the Government recently had offered greater job security. To this end, they had prohibited the dismissal of personnel on economic grounds without prior government approval. The approval authority would be handled in line with a general policy of maintaining employment in the priority primary and secondary sectors while permitting some attrition in the tertiary sector.

III. Staff Appraisal

Suriname's public finances and the external current account deteriorated significantly in 1982, reflecting not only the weakening in the world bauxite market but also the pursuit of an expansionary fiscal policy. As a result, an overall balance of payments deficit was registered for the first time since 1977. The financial situation became more difficult when, at the end of 1982, Dutch aid was suspended indefinitely.

In view of the deterioration in the financial situation and the uncertainties concerning the resumption of Dutch aid, there was clearly a need to pursue corrective fiscal policies aimed at relieving pressures on the balance of payments and, over the medium term, at mobilizing domestic savings so as to be able to maintain outlays for the most promising and urgent development projects. The authorities have recognized the need to reduce fiscal imbalances, but corrective actions so far focused on reducing development expenditure which was cut by about one half, rather than on raising public sector savings. Ordinary government expenditures were allowed to rise by some 18 percent, with subsidies and transfers rising most while revenues declined. As a result, the deficit on ordinary account increased sharply, and the overall government deficit widened from SF 94 million in 1982 to an estimated Sf 322 million in 1983, from 4 percent to 15 percent of GDP.

The deficit is being financed entirely by credit from the domestic banking system. Even though there has been virtually no extension of net credit to the private sector in 1983, the loss in net international reserves is estimated at Sf 224 million (US$126 million), compared with Sf 65 million in 1982. At end-1983 net international reserves are estimated at Sf 170 million, equivalent to about two months of 1983 imports of goods and services.

In an attempt to forestall some of the consequences of the fiscal deterioration on prices, employment, and the balance of payments, the authorities have introduced certain measures which have greatly increased direct controls over decision-making in these areas. These measures have been the main factor behind the slowing-down of the rate of increase in the official consumer price index from 7 percent in 1982 to 6 percent in 1983 and the 16 percent reduction in imports of goods and services. In the view of the staff these controls and restrictions create distortions and hamper the adjustment of the economy. Accordingly, the staff urges the authorities to reverse the recent trend toward increasing reliance on such measures.

To relieve the pressure on the balance of payments, the authorities have stated that they would reduce the fiscal deficit in 1984 and balance the ordinary account by 1986. According to present plans, the deficit on the Government's ordinary account is to be reduced to some Sf 55 million in 1984, which would represent roughly one quarter of its estimated 1983 level. Expenditures on the Government's development account are to be determined in the light of foreign financing availability.

The staff welcomes the authorities' intention to reduce the deficit on the ordinary account and urges that needed measures be implemented without delay. However, fiscal adjustment must be based on the Government's overall operations including both ordinary and development accounts. Thus, major decisions remain to be taken. In view of the alarming loss of reserves over the last two years, there is little room for continued deficit financing, whether domestic or foreign. In any case, recourse to foreign credit on commercial terms may not be a realistic option without strong measures of adjustment. If such financing were to become available, it should be kept to a much smaller amount than presently contemplated by the authorities. Even with its presently low level of external indebtedness, foreign borrowing could quickly come to strain Suriname's external debt servicing capacity.

While fiscal policy clearly must be at the center of the adjustment effort, it must be backed by monetary policy actively aiming at the same objective in order to protect the country's reserves. Adjustment in the period immediately ahead and the Government's longer-term objective of economic diversification both call for policies designed to mobilize domestic savings. Considering Suriname's relatively high level of per capita GDP, there is clearly scope for raising private sector savings from their present low level. To realize that potential and to provide incentives for retaining domestic savings in the country, fiscal and monetary policies to reduce the rate of inflation and an interest rate policy consistent with positive real returns on domestic financial assets would be essential.

Indications are that at the official exchange rate the Surinamese guilder has become substantially overvalued. The cost structure at present clearly inhibits the desired diversification of production and exports; wage rates in particular are high in Suriname vis-a-vis actual and potential trading partners. The staff would urge the Surinamese authorities to consider the potential contribution to adjustment that appropriate exchange rate action could make.

Suriname's trade and payments system has become increasingly restrictive since 1981. Existing exchange control regulations require that a license be obtained before residents enter into agreements giving rise to foreign exchange obligations, and this regulation is administered in a restrictive manner. In addition, an advance import deposit scheme introduced at the beginning of 1983 has given rise to a multiple currency practice. Both the foreign exchange licensing and the multiple currency practice are subject to Fund approval under Article VIII, Sections 2(a) and 3. The staff does not consider the policies in place sufficient to give reasonable assurance that recourse to the above practices will be temporary. Accordingly, the staff does not recommend the approval of these practices and urges the authorities to adopt policies and measures that would permit the elimination of exchange restrictions and multiple currency practices.

It is recommended that the next Article IV consultation with Suriname be held on a 12-month cycle.

Fund Relations with Suriname

Status: Article VIII

Quota: SDR 37.5 million (Suriname has consented to its quota increase to SDR 49.3 million but has not yet completed the quota payment).

Fund holdings of Surinamese guilders:

As of November 30, 1983		Millions of SDRs	Percent of Quota
Total		37.50	100.00
Of which:	EFF	None	None
	SFF	None	None
	CFF	None	None

SDR Department:

As of November 30, 1983	Millions of SDRs	Percent of Allocation
Cumulative allocation	7.75	100.00
Holdings	4.69	60.52

Exchange rate: The Suriname guilder has been pegged to the U.S. dollar, the intervention currency, at Sf 1.78876 per U.S. dollar since 1971. The official buying and selling rates for the U.S. dollar at present are fixed at Sf 1.77 and Sf 1.80, respectively.

Last Article IV consultation: Discussions November 17-December 4, 1981. After the change in government, a staff mission revisited Paramaribo from June 1-8, 1982. The consultation was concluded by the Board on August 6, 1982 (EBM/82/102).

Suriname-Basic Data 1/

Area and population	
Area	163,820 sq. kilometers 2/
Population (end-1982)	376,200
Annual rate of population increase (1978-82)	0.6 percent
GNP per capita (1982)	SDR 2,868.8
Origin of GDP (1982)	(percent)
Agriculture and fisheries	8.7
Forestry and wood processing	1.5
Mining and bauxite processing	13.1
Industry, public utilities, and construction	12.6
Commerce and banking	26.3
Government	26.1
Other services	11.7
Ratios to GDP (1982)	
Exports of goods and services	46.1
Imports of goods and services	58.8
Central government revenues (including grants)	33.1
Central government expenditures	37.5
Public external debt (end of year)	2.1
Saving	5.7
Investment	18.6
Money and quasi-money (end of year)	44.1

Annual changes in selected economic indicators	1980	1981	1982	1983
Real GDP per capita (at factor cost)	-0.4	-0.7	-2.3	-6.2
Real GDP (at factor cost)	-5.7	2.1	0.7	-3.3
GDP at market prices	6.2	14.3	4.6	-0.6
Domestic expenditures (at current prices)	11.0	22.5	5.5	-1.5
Investment	(-4.1)	(25.5)	(-1.8)	(-24.3)
Consumption	(14.8)	(21.8)	(7.1)	(3.0)
GDP deflator	12.7	12.1	6.6	5.0
Cost of living (annual averages)	13.2	8.7	7.3	5.6
Central government revenues (including grants)	7.6	8.4	3.3	-29.9
Central government expenditures	7.2	22.0	8.3	2.4
Money and quasi-money	7.8	19.8	10.4	10.5
Money	(7.6)	(21.7)	(17.7)	(11.6)
Quasi-money	(8.0)	(18.5)	(5.1)	(9.6)
Net domestic bank assets 3/	0.4	17.7	19.6	35.0
Credit to public sector (net)	(-3.3)	(7.6)	(11.1)	(34.5)
Credit to private sector	(6.1)	(12.2)	(9.2)	(0.5)
Merchandise exports (f.o.b.)	15.8	-7.9	-9.5	-20.9
Merchandise imports (c.i.f.)	22.7	12.6	-9.1	-17.2

Central government finances	1980	1981	1982	Est. 1983
	(millions of Suriname guilders)			
Revenues (including grants)	624.3	677.0	699.1	490.0
Expenditures	600.2	732.0	792.9	812.0
Overall surplus or deficit (-)	24.1	-55.0	-93.8	-322.0
External financing (net)	-4.1	0.2	0.5	1.0
Internal financing (net)	-20.0	54.8	93.3	321.0
Balance of payments	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	514.4	473.8	428.6	339.2
Merchandise imports (c.i.f.)	504.4	567.9	516.1	427.2
Investment income (net)	-13.5	15.5	9.8	-9.5
Other services and private transfers (net)	-54.8	-43.9	-75.6	-67.6
Balance on current and transfer accounts	-58.3	-122.5	-153.3	-165.1
Official capital and public transfers (net)	72.1	92.2	95.6	1.8
Other capital (net)	21.2	45.9	20.4	37.8
Errors and omissions	0.7	-0.6	1.1	--
Overall balance	35.7	15.0	-36.2	-125.5

International reserve position	Dec. 31 1980	Dec. 31 1981	Dec. 31 1982	Sept. 30 1983
	(millions of U.S. dollars)			
Monetary system (net)	222.8	237.8	201.5	121.5 4/
Monetary system (gross)	242.0	260.0	225.8	140.1 4/

1/ From 1981 onward all national income data are rough staff estimates.

2/ Includes a disputed area of some 19,000 sq. kilometers.

3/ In relation to the stock of money and quasi-money at the beginning of the period.

4/ Includes US$19 million of gold revaluation.