February 6, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Final Minutes of Executive Board Meeting 85/47

The following correction has beem made in the final minutes of EBM/85/47 (3/22/85):

Page 5, para. 3, lines 9 and 10: for "arrears ($81.2 million)"
read "arrears (Sf 81.2 million)"

A corrected page is attached.

Att: (1)

Other Distribution:
Department Heads

My authorities are convinced, as the staff is, of the benefits of an active interest rate policy. At present, the interest on savings accounts is 3 percent, and 5-9 percent on time deposits, while the CPI rose to 4.4 percent in 1983 and 4.7 percent in 1984. Quasi-money in the last two years has been growing at roughly the same rates of money and total liabilities of the banking system; for instance, 47.7 percent of the total liabilities of the private sector were in the form of quasi-money in 1980, and that ratio was 46.2 percent in 1984. The authorities recognize that interest is low by international standards and that this can have a detrimental effect on international reserves, an effect which must be weighed, in their opinion, against the disadvantageous effects of a high level of interest rates on the level of economic activity. It is therefore the intention of the authorities to move slowly in the area of higher and more flexible interest rates. It should be emphasized that currently there are no official restrictions for market forces to determine the level of interest rates and in fact most commercial banks have recently discontinued their practice to pay a 2 percent interest rate on checking accounts because of the existing ample liquidity.

We have referred to price indices earlier. The staff seems to have some doubt about the quality of the cost of living index at times when there is administrative price control, but still the behavior of the GDP deflator has shown no major divergence with the CPI, and there is no lack of consumer goods in the market at the official prices; the absence of an active black market--for goods and currencies--shows also the absence of significant inflationary pressure.

The situation on the external front is complex. On one hand, the external debt is almost inexistent and in fact it has been declining slowly since 1979 to only 1.1 percent of GDP in 1982; debt service is also very small and the deficit in the current account was narrowed between 1983 and 1984 from 12 percent to 8 percent of GDP, as imports of goods declined by 10.8 percent, which more than offset the decline in exports of 8.6 percent. On the other hand, for the first time after independence, the country in 1984 ran into arrears (Sf 81.2 million) as the authorities felt the depletion of net international reserves. At the end of 1984 gross reserves and net reserves were respectively $60.4 and minus $10.3 million.

The main area of concern of my authorities refers to the suggestions by the staff on foreign trade and payments. They have doubts about the positive effects, if any, of a devaluation. At the present exchange rate domestic costs are low enough to make traditional exports competitive in world markets; in addition they feel that the world markets are not favorable for that range of products that Suriname is able to export.

There is an almost inexistence of nontraditional exports in Suriname and any positive long-term benefit of a devaluation must be balanced against the possibilities of increasing labor pressure for wage increases in the short run. On the import side, the authorities believe that the problem can be best dealt with by selective tariffs tailored to provide appropriate incentives for import substitution, for which there is a wide scope, particularly during these times when there is a large pool of educated workers available. In the case where there are only fiscal objectives the authorities believe that excise taxes are more effective to raise additional government revenue than a devaluation.

The authorities reiterate their view that there is no intention of making restrictions on payments a permanent feature. They were adopted as a temporary device to allow some time for building up social consensus and adoption of stronger measures in the fiscal area. In fact, as the staff mentions, the advance import deposit scheme introduced in January 1983 was abolished in April 1984 as market conditions have changed and the administrative costs of the scheme became more expensive than was estimated initially.

Finally, the authorities reiterate the view that they will maintain their 1984 development strategy aimed to curtail excessive expenditures and only implement those projects which have short maturities and where already heavy capital expenditures have been made. They believe that lasting results can only be expected if a long-term global plan involving the bauxite private sector, other businesses, the labor unions, and themselves is drawn up and implemented to achieve the desirable gains in efficiency, wage levels, and fiscal equilibrium.

Mr. Polak indicated his agreement with the staff appraisal, which included many of the same recommendations as the appraisals for the two previous Article IV consultations with Suriname. Although the authorities intended to reduce the deficit by cutting expenditures and subsidies and by raising income taxes and import tariffs, the only measures taken thus far had, in fact, reduced revenues through tax relief. The fiscal deficit in 1985 was likely to be as large as that for 1984.

The authorities were still pursuing an accommodating monetary policy, Mr. Polak noted. Monetary financing of the government deficit and the tightening of external restrictions had led to an acceleration of monetary expansion. As credit demand from the private sector was weak, largely because investment was unattractive, the commercial banks remained very liquid. The profits of banks had been squeezed because their interest-bearing liabilities had increased more rapidly than their loan portfolios. They had begun to refuse long-term deposits and had suspended the payment of interest on checking accounts at the beginning of 1985. Interest