Office Memorandum

To: Members of the Executive Board July 1, 2014

From: The Secretary

Subject: **Suriname—Assessment Letter for the Inter-American Development Bank**

Attached for the **information** of Executive Directors is the Fund's assessment letter on the macroeconomic conditions in Suriname, which was requested by the Inter-American Development Bank (IDB).

If the authorities of Suriname consent to the publication of this assessment, it may be published by the IDB.

Questions may be referred to Mr. Kanda, WHD (ext. 35414).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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SURINAME—ASSESSMENT LETTER FOR THE INTER-AMERICAN DEVELOPMENT BANK
JUNE 30, 2014

1. **The last Article IV consultation was concluded on September 30, 2013**. At the Board meeting, Executive Directors noted that Suriname's heavy reliance on commodity exports has exposed fiscal and external vulnerabilities, and they stressed the need to build up buffers, promote fiscal sustainability, strengthen the financial sector, and enhance competitiveness. The next Article IV Consultation is expected to be completed by early-September, 2014.

2. **Output expanded rapidly in 2013, but the external and fiscal positions weakened markedly**. Staff estimates GDP growth for 2013 at 4 percent, led by domestic demand on the back of a sizable fiscal impulse and strong credit growth. However, declining commodity prices and lackluster export volumes, together with buoyant domestic demand, caused the external current account balance to deteriorate by 7¼ percentage points of GDP to a deficit of almost 4 percent of GDP in 2013. International reserves fell to 3½ months of imports. Inflation remained low, averaging 2 percent. The fiscal balance fell by 2¾ percentage points of GDP to an estimated deficit of 6¾ percent of GDP in 2013, with mineral revenue shortfalls and expenditure overruns (accompanied by a buildup of arrears) contributing to the decline.

3. **An important start toward fiscal consolidation is underway in 2014, though there are risks ahead of next year's elections**. The fiscal deficit (cash basis) for January–May was held down to 1¾ percent of annual GDP, about one percent of GDP lower than for the same period of 2013, while the stock of arrears was also substantially reduced. In H2 2014, the authorities plan significant revenue measures. While the recently announced 10 percent increase in government pensions, and a pending increase in hydro electricity costs will increase government spending moderately, overall, the fiscal deficit is expected to decline to 3¾ percent of GDP in 2014. But there are significant implementation risks ahead of elections next year. Achieving fiscal sustainability and entrenching macro stability will require more measures over the medium term. It would be desirable to target a fiscal surplus of around 1½ percent of GDP by 2019, and such a sizable adjustment would require further revenue and expenditure measures.

4. **And following monetary tightening, bank credit growth is edging downward**. The central bank increased reserve requirements in September 2013, and subsequently, credit growth declined from its peak of 20 percent (y/y) in October 2013 to 15 percent in April 2014. The authorities are preparing plans to implement the recommendations of the FSAP to strengthen the monetary and prudential framework, increase capital buffers, and improve monitoring of risks.

5. **Pressures in the foreign exchange market appear to have diminished in 2014**. Foreign exchange interventions by the central bank have been substantially reduced, and international reserves have been broadly stable at 3½ months of imports. However, a small gap between the informal and official rates persists, and given the sizable current account deficit and uncertainties about capital inflows, risks remain. Thus, further policy tightening should be undertaken if pressures on international reserves re-emerge.

6. **Growth is expected to decline to 3 percent in 2014, but the medium term outlook remains favorable in view of expanding investments in the gold and oil sectors.** Declining or flat commodity prices and policy tightening will weigh on growth in the near term. However, subsequently growth is expected to increase given large gold and oil investments, peaking at about 5 percent around 2018. Alongside, the current account balance is expected to improve significantly as the new oil refinery and new mines commence operations, assuming relatively stable gold prices. Inflation is likely to be contained assuming policy settings consistent with continued external stability. Risks to the outlook appear tilted downwards. Declines in gold or oil prices would pressure the fiscal and external positions and potentially delay or cancel planned investments in the mineral sector, dampening the growth outlook. Also, a deterioration of the macro-environment could elevate risks to financial stability, further undermining the growth outlook. Upside risks, would arise from upward moves in gold and/or oil prices or the discovery of additional oil or mining reserves from ongoing exploration.

Table 1. Suriname: Selected Economic and Social Indicators

				Est.	Proj.	
	2010	2011	2012	2013	2014	2015
	(Annual percentage change, unless otherwise indicated)					
Real sector						
GDP at current prices (SRD billions)	12.0	14.3	15.9	16.6	17.4	18.5
Real GDP Growth	4.2	5.3	4.8	4.1	3.1	3.7
GDP deflator	8.2	12.9	6.1	0.8	1.0	3.0
Consumer prices (end of period)	10.3	15.3	4.4	0.6	3.7	3.1
Consumer prices (period average)	6.9	17.7	5.0	1.9	2.6	3.4
Money and credit 1/						
Banking system net foreign assets	3.1	19.3	17.5	-11.3	-1.1	-2.6
Broad money	11.2	11.7	19.6	14.1	11.1	7.4
Private sector credit	10.9	12.0	16.7	18.3	15.0	15.0
Public sector credit (increase in % of M2)	4.9	-9.0	0.5	9.6	3.0	1.6
	(In percent of GDP, unless otherwise indicated)					
Savings and investment						
Private sector balance (savings-investment)	14.5	5.2	7.4	2.9	-0.7	-0.7
Public sector balance	-3.1	0.5	-4.0	-6.8	-3.8	-3.4
Savings	1.9	5.4	0.6	-2.3	0.1	0.5
Investment	4.9	4.9	4.6	4.5	3.9	3.9
Foreign savings	-11.4	-5.8	-3.4	3.9	4.5	4.2
Central government						
Revenue and grants	22.7	28.4	24.1	23.8	24.4	24.8
Total expenditure 2/	25.8	27.6	30.0	30.6	28.3	28.2
Of which : noninterest current expenditure	20.0	19.9	23.0	25.7	23.4	23.3
Overall balance	-3.1	0.5	-4.0	-6.8	-3.8	-3.4
Net domestic financing	1.8	-3.4	1.8	3.6	1.2	0.6
Net external financing	1.2	2.8	2.2	3.2	2.6	2.8
Central government debt 3/	18.5	20.4	22.3	29.8	33.9	37.1
Domestic	10.8	9.5	10.4	15.5	16.1	15.7
External	7.7	10.8	11.9	14.2	17.8	21.4
External sector						
Current account balance	11.4	5.8	3.4	-3.9	-4.5	-4.2
Capital and financial account	-10.2	-1.1	8.8	7.7	3.4	2.5
Change in reserves (- increase in US$ millions)	72	-126	-192	233	58	94
Memorandum Items						
Terms of trade (percent change)	7.9	5.6	1.7	-10.5	-7.9	2.5
Gross international reserves (US$ millions)	785	936	1,008	775	718	624
In months of imports	4.7	4.4	4.7	3.4	3.4	3.1
Exchange rate (SRD per US$, eop)	2.75	3.27	3.30	3.30	…	…

Sources: Suriname authorities; and IMF staff estimates and projections.

1/ Data for 2011 are at a constant exchange rate of SRD 2.75 per US$ 1.

2/ Includes statistical discrepancy.

3/ Includes central government and government-guaranteed public debt.