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June 24, 1987

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Suriname - Staff Report on the 1987 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Suriname, which will be brought to the agenda for discussion on a date to be announced.

Mr. Gons (ext. 8614) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

SURINAME

Staff Report for the 1987 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations,  
Fiscal, Legal, and Treasurer's Departments)

Approved by S. T. Beza and S. Kanasa-Thanan

June 22, 1987

The 1987 Article IV consultation discussions with Suriname were held in Paramaribo during the period May 6-18, 1987. Representatives of Suriname in the discussions included the Minister of Finance, the Minister of Labor, the Minister of Transportation, Trade and Industry, the President of the Central Bank, and senior officials from the ministries, the Central Bank, and various government agencies. The staff representatives were Messrs. Ferrán, Gudac, and Gons (all WHD), Mr. Op de Beke (EP-CBD), Ms. Coorey (EP-STA), and Mrs. Nueño (Secretary-TRE). The previous consultation discussions with Suriname were held in February 1986, and the staff documents, SM/86/76 (4/11/86) and SM/86/91 (4/30/86), were considered by the Executive Board on May 16, 1986 (EBM/86/82). Suriname has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement.

I. Background

Suriname's economic situation deteriorated markedly as a result of the weakening of international market conditions for bauxite and its derivatives starting in the early 1980s, the suspension of development grants from the Netherlands at the end of 1982, and the failure of government policy to adjust to the changing external environment. Since the second half of 1986, economic activity has been further disrupted by growing security problems in some parts of the country. (Movements in key macroeconomic variables in the past several years are presented in Table 1).

The U.S. dollar value of exports of bauxite and its derivatives fell by 43 percent from 1980 to 1986 as the world market for these products weakened and Suriname's share of total world production of bauxite declined from 5 1/4 percent to 4 percent. The competitive position of Suriname's bauxite industry was impaired, inter alia, by large wage increases in the early 1980s; in the past two years, however, the industry received substantial relief in the form of tax reductions and authorization to lay off personnel. The suspension of Dutch aid deprived Suriname of the bulk of the resources that had supported the Government's development budget, which was cut from Sf 189 million in 1982 to Sf 58 million in 1986.

Table 1. Suriname: Selected Macroeconomic Indicators

	1981	1982	1983	1984	1985	Prel. 1986
<u>(Annual percentage change)</u>						
GDP at 1980 market prices	1.9	-5.8	-4.7	-2.4	-4.2	-4.9
Per capita real GNP	5.9	-8.4	-9.0	-3.8	-7.6	-5.1
Consumer price index						
Annual average	8.8	7.2	4.3	3.7	10.9	18.7
End of year	7.3	6.5	3.9	4.5	15.8	30.0
Private sector wages	...	12.8	12.7	12.2	5.0	4.2
Employment						
Government	0.7	10.3	3.8	-0.9	6.0	—
Private sector <u>1/</u>	-0.2	-0.1	-2.1	-3.2	-4.0	-6.7
Broad money (end of period)	19.4	10.9	10.9	11.7	31.5	28.3
Exports (U.S. dollar value)	-4.2	-8.6	-15.2	-2.5	-9.8	2.3
<u>(In percent of GDP)</u>						
<u>Aggregate expenditure and savings</u>						
Consumption	82.9	87.8	100.3	96.9	96.5	96.9
Gross investment	30.9	27.4	15.4	11.7	7.9	6.2
Private sector <u>2/</u>	20.9	17.2	9.1	7.4	4.8	4.3
Central Government	10.0	10.2	6.3	4.3	3.0	1.9
Gross domestic savings	17.1	12.2	-0.3	3.1	3.6	3.1
Resource gap	13.8	15.2	15.7	8.6	4.3	3.1
<u>Central government finances</u>						
Revenue	26.4	30.5	26.9	28.7	27.5	28.5
External grants	9.4	9.4	0.2	0.3	0.3	0.3
Current expenditures	29.5	35.1	39.4	42.2	45.6	53.6
Development expenditure <u>3/</u>	10.3	10.2	6.3	5.1	3.7	3.3
Current account deficit (-)	-3.1	-4.6	-12.5	-13.5	-18.1	-25.1
Overall deficit (-)	-3.9	-5.4	-18.6	-18.3	-21.5	-28.1
<u>External transactions</u>						
Merchandise imports	58.1	52.0	47.8	39.4	34.4	32.6
Balance on goods, services and private transactions	-12.1	-14.8	-17.6	-9.6	-5.4	-3.4
Current account balance	-2.8	-5.5	-17.2	-9.1	-5.0	-3.1

Sources: General Bureau of Statistics; Ministry of Finance; and Fund staff estimates.

1/ Includes public enterprises.

2/ Includes public sector other than Central Government.

3/ For 1984, 1985, and 1986, this item differs from central government gross investment because it excludes some capital transfers to the rest of the public sector.

The above developments, together with sharp increases in current expenditure, resulted in a pronounced deterioration of the public finances (Table 2). Although the effect of the suspension of development aid was largely matched by a reduction in investment expenditure, the ratio of the Government's overall cash deficit to GDP jumped from 5 percent in 1982 to 28 percent in 1986, as current expenditure rose from 35 percent to 54 percent of GDP. The large fiscal deficits of the period 1983-86 were financed almost in their entirety by domestic bank credit, mainly from the Central Bank. As a result, the public sector's net indebtedness to the banking system rose from 9 percent of GDP at the end of 1982 to more than 90 percent of GDP four years later.

The rapid bank credit expansion led initially to the depletion of the country's gross international reserves and starting in 1984 to a buildup of external payments arrears. In the period 1983-86, the banking system's foreign position worsened by US\$280 million, including an accumulation of external arrears of US\$78 million. Owing in part to a tightening of import and exchange restrictions that followed the exhaustion of international reserves and, more generally, to a scarcity of business opportunities, demand for bank credit by the private sector in the past few years was sluggish. In such a situation, the rapid expansion of bank liabilities associated with the financing of the public sector gave rise to a large accumulation of commercial banks' noninterest-bearing deposits with the Central Bank (Table 3). As a result, the banks became increasingly reluctant to accept time and savings deposits, and lowered deposit interest rates.

The pursuit of expansionary demand policies, together with increasing restrictions on external transactions and price controls, resulted in repressed inflation and a growing parallel economy. The official consumer price index, which had risen at an annual rate of 4 percent during 1983-84, rose by 16 percent during 1985 and by 36 percent in the 12-month period ended March 1987. 1/ This acceleration reflected the growing scarcity of goods (both imported and domestically produced) and the increasing share of imports that in effect are paid through the parallel exchange market, in which the exchange rate reportedly has risen to six-seven times the official rate of Sf 1.78 per U.S. dollar. 2/

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1/ As explained in Appendix II, since early 1985 the official consumer price index increasingly has sought to reflect actual prices paid and not only official prices.

2/ During most of 1986, the parallel exchange rate reportedly had been in the range of Sf 6-8 per U.S. dollar, but it moved to around Sf 12 per U.S. dollar toward the end of the year, because of the general deterioration of the economy and perhaps because of a weakening of confidence resulting from the growing security problems and the compulsory elements of the exchange of bank notes carried out in November 1986 (see below).

Table 2. Suriname: Adjusted Cash Operations  
of the Central Government <sup>1/</sup>

(In millions of Suriname guilders)

	1981	1982	1983	1984	1985	1986
<u>Revenue and grants</u>	<u>467</u>	<u>739</u>	<u>484</u>	<u>505</u>	<u>485</u>	<u>504</u>
Revenue	477	564	480	500	480	499
Of which:						
Bauxite taxes <sup>2/</sup>	137	83	75	59	52	20
External grants	170	175	4	6	5	5
<u>Expenditure</u>	<u>717</u>	<u>838</u>	<u>817</u>	<u>825</u>	<u>859</u>	<u>996</u>
Current expenditure	532	648	704	735	794	938
Wages and salaries	266	319	355	379	410	433
Goods and services	168	223	231	198	203	333
Subsidies, transfers, and net lending	92	99	103	134	139	112
Interest	5	7	15	24	42	60
Development expenditure	185	189	114	90	65	58
<u>Current account deficit (-)</u>	<u>-55</u>	<u>-84</u>	<u>-224</u>	<u>-236</u>	<u>-315</u>	<u>-439</u>
<u>Overall deficit (-)</u>	<u>-70</u>	<u>-99</u>	<u>-333</u>	<u>-320</u>	<u>-374</u>	<u>-492</u>

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

<sup>1/</sup> Adjusted by the staff to include certain transactions that are excluded from the official data, mostly excise oil tax receipts deposited in a special account at the Central Bank and development expenditure financed by the use of foreign credits, and to put transfers and lending to public enterprises on a net basis.

<sup>2/</sup> Sum of the bauxite levy and income taxes paid by the bauxite companies.

Table 3. Suriname: Summary Accounts of the Banking System

(In millions of Suriname guilders)

	December 31					Prel. 1986
	1981	1982	1983	1984	1985	
<u>I. Monetary Authorities</u>						
<u>Net international reserves</u> <u>1/2/</u>	<u>370</u>	<u>315</u>	<u>139</u>	<u>-14</u>	<u>-45</u>	<u>-70</u>
<u>Net domestic assets</u>	<u>41</u>	<u>127</u>	<u>453</u>	<u>797</u>	<u>1,168</u>	<u>1,621</u>
Net claims on the public sector	57	150	436	701	1,040	1,480
Other assets (net) <u>2/</u>	-16	-24	18	96	128	141
<u>Net liabilities to commercial banks</u>	<u>79</u>	<u>54</u>	<u>152</u>	<u>316</u>	<u>543</u>	<u>827</u>
<u>Liabilities to the private sector</u>	<u>219</u>	<u>273</u>	<u>270</u>	<u>311</u>	<u>413</u>	<u>540</u>
<u>II. Banking System</u>						
<u>Net foreign asset position</u> <u>1/2/</u>	<u>418</u>	<u>353</u>	<u>156</u>	<u>-34</u>	<u>-81</u>	<u>-148</u>
<u>Net domestic assets</u>	<u>625</u>	<u>790</u>	<u>1,148</u>	<u>1,528</u>	<u>1,971</u>	<u>2,490</u>
Net claims on the public sector	74	167	477	804	1,151	1,608
Credit to the private sector	547	624	644	627	690	728
Other assets (net) <u>2/</u>						
<u>Liabilities to the private sector</u>	<u>928</u>	<u>1,029</u>	<u>1,133</u>	<u>1,338</u>	<u>1,723</u>	<u>2,157</u>

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

1/ Gold was revalued from US\$42 to US\$397 per troy ounce in August 1983 and since then its value has been adjusted in line with world market prices.

2/ Adjusted for external arrears (estimated at Sf 83.7 million, Sf 114.6 million, and Sf 138.8 million at the end of 1984, 1985, and 1986, respectively).

The overvaluation of the currency in the official market, 1/ severe restrictions on imports and payments, and the attendant shortages of raw materials and parts aggravated the adverse effects on the economy of the weakening of the world bauxite market and the suspension of Dutch aid, to produce a contraction in real GDP of the order of 20 percent from 1981 to 1986 (see Table 1). National accounts estimates suggest that over that period gross investment fell from 31 percent of GDP to 6 percent of GDP; the latter clearly was insufficient to avoid a reduction in the country's capital stock. Indications are that the shortages of imported inputs have become increasingly acute in recent months, which, added to the growing security problems, has resulted in an even sharper contraction of economic activity since the latter part of 1986.

The external current account deficit rose sharply (to 17 percent of GDP) in 1983, as grants from the Netherlands were suspended and exports declined more than imports (Table 4). Exports continued to fall in the following years though at a slower pace, and with the exhaustion of international reserves, imports adjusted sharply downward. Accordingly, the current account deficit was reduced to 3 percent of GDP by 1986.

External indebtedness has grown substantially--albeit from a low base--in recent years, mostly through the use of trade credit lines and various bilateral and countertrade agreements. By end-1986, Suriname's external debt was estimated at about US\$150 million (15 percent of GDP), more than one half of which represented external payments arrears (mostly on account of imports of goods and services). Debt service payments in 1986 were equivalent to 3.3 percent of exports of goods and nonfactor services.

## II. Report on the Discussions

In concluding the 1986 Article IV consultation with Suriname, Executive Directors expressed concern about the continuing deterioration of the country's economic and financial situation, and urged the authorities to adopt without delay a comprehensive strategy to restore internal and external balance and to deal with the economy's structural problems. They said that key elements of the adjustment program should be a reduction of the fiscal deficit and an overhaul of the public enterprises. Directors also expressed concern about the Government's increasing reliance on administrative controls, and were of the view that an adjustment in the exchange rate would be needed to restore Suriname's

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1/ The index of the real exchange rate calculated in the context of the information notice system points to a real effective appreciation of the Suriname guilder of 60 percent from 1980 to end-1986. However, this index does not reflect the full extent of the deterioration in Suriname's competitive position because the official price index was affected by price controls and rose much less than unit labor costs, notwithstanding a deceleration of wages in 1985-86.

international competitiveness and facilitate a more viable external position without recourse to restrictions on trade and current payments.

Table 4. Suriname: Summary Balance of Payments

(In millions of U.S. dollars)

	1981	1982	1983	1984	1985	1986
<u>Current account</u>	<u>-28</u>	<u>-57</u>	<u>-172</u>	<u>-89</u>	<u>-49</u>	<u>-30</u>
Merchandise trade balance	-94	-88	-97	-12	1	24
Exports, fob	493	451	382	373	336	344
Imports, mostly fob	-587	-538	-479	-385	-335	-320
Services and private transfers	-29	-66	-79	-82	-54	-58
Official transfers	95	97	4	5	4	4
<u>Capital account</u>	<u>42</u>	<u>25</u>	<u>57</u>	<u>8</u>	<u>30</u>	<u>14</u>
Medium- and long-term						
Official	-3	-1	10	2	12	20
Private	45	23	10	28	-8	-8
Short-term <u>1/</u>	--	4	36	-22	26	2
SDR allocation and valuation changes	3	--	17	-5	1	3
<u>Net official international reserves (increase -)</u>	<u>-18</u>	<u>31</u>	<u>98</u>	<u>86</u>	<u>18</u>	<u>14</u>
Of which: change in arrears	--	--	--	47	17	14

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

1/ Including changes in working balances of the bauxite companies and in the commercial banks' net external position, and errors and omissions.

The discussions with the authorities in the context of the present consultation made it clear that the issues raised by Executive Directors in concluding the previous consultation remain, and that there has been a further deterioration in the economic situation. In this respect, the authorities noted the disruptions caused by internal security problems, including the closure of the Moengo bauxite mine since November 1986, the damage to transmission lines from the Afobakka hydro-plant which impaired electricity supply to Paramaribo and forced the shutdown of the aluminum smelter, and the isolation of some major agricultural estates.

The authorities said they were convinced of the need to introduce an adjustment program with the twin objectives of restoring financial stability and increasing the level of investment, and were not discarding action on any front. In the interest of social stability, they were working to build the necessary political support for such a program, and drew attention to the process that had been initiated with the drafting of a new constitution which would be submitted to a referendum in September 1987, to be followed by the election of a new Assembly in November. They expected that the elected Government would have the necessary support at home and abroad to deal with the country's deep-seated economic problems.

1. Domestic policy issues

In a discussion of the main factors behind the sharp deterioration of the fiscal position over the past several years, the authorities emphasized the revenue effect of the weakening of the market for bauxite and its derivatives and the suspension of aid from the Netherlands. It was observed, however, that substantial tax relief granted to the bauxite companies would have been obviated by an adequate exchange rate, and that tax enforcement had been lax as evidenced by the accumulation of some Sf 150 million of income tax arrears since 1982. Moreover, large wage adjustments (particularly through 1984) and substantial employment increases had raised the government wage bill by some 10 percentage points of GDP from 1981 to 1986. Also, in 1986 there was a jump in purchases of goods and services equivalent to 8 percentage points of GDP, most of which represented expenditure overruns and thus appeared to denote deficiencies in budgetary control.

Looking ahead, the Minister of Finance said that a plan was being developed to reduce gradually the fiscal deficit to some 5-6 percent of GDP by 1990. A first step in that direction was expected in 1987, when according to recent estimates the deficit would decline to about 20 percent of GDP (Table 5). The Minister noted that those estimates allowed for a rise in the wage bill of 4 percent for merit increases, but there was to be no general wage increase and no new hiring. Also, all transfers and subsidies to public enterprises would be discontinued, and the allocations for purchases of goods did not make allowance for price increases. To improve expenditure control, henceforth spending agencies only could make disbursements (except for salaries) after item-by-item authorization from the Ministry of Finance.

The Minister was encouraged by preliminary data on the Government's cash operations for the first quarter of 1987--which point to a decline in the deficit of nearly 15 percent relative to the first quarter of 1986--and was confident that the deficit reduction projected for 1987 as a whole would be achieved. To be sure, some nonbudgeted expenditures might be required to deal with the internal security problem and to repair the damage caused in the course of military operations. However, a package of fiscal measures to be introduced around mid-1987--including increases in taxes, fees, and public sector prices, and across-the-board

cuts in all categories of discretionary spending--would be more than sufficient to cover those additional costs.

Table 5. Suriname: Cash Operations of  
the Central Government <sup>1/</sup>

(In millions of Suriname guilders)

	First Quarter		Prel.	Est.
	1986	1987	1986	1987 <sup>2/</sup>
<u>Revenue</u>	<u>108.3</u>	<u>109.7</u>	<u>515.3</u>	<u>525.6</u>
<u>Expenditure</u>	<u>206.0</u>	<u>194.4</u>	<u>965.9</u>	<u>906.5</u>
Wages and salaries	100.7	93.9	433.1	464.6
Goods and services	44.0	47.2	315.3	188.8
Subsidies, transfers, and net lending	42.0	29.7	123.9	118.8
Interest	11.6	17.1	60.3	76.8
Development expenditure	7.7	6.5	33.3	57.5
<u>Overall deficit (-)</u>	<u>97.7</u>	<u>84.7</u>	<u>450.6</u>	<u>380.9</u>
(In percent of estimated GDP)	(...)	(...)	(25.7)	(21.0)

Source: Ministry of Finance.

<sup>1/</sup> Official presentation which differs from adjusted data in Table 2, as explained in footnote 1 to that table.

<sup>2/</sup> Does not allow for the subsidy on bauxite imports established in early 1987, and may entail an increase in the deficit of the public enterprises after central government transfers.

The staff was concerned that the fiscal deficit planned for 1987, even though smaller than that of 1986, was still much above the available noninflationary financing, and would thus result in continuing price and balance of payments pressures. In addition, it was questionable whether the projected reduction in the deficit would materialize. For one, the projection for purchases of goods and services was 40 percent lower in nominal terms than the actual for 1986, implying a reduction in real terms perhaps on the order of 60 percent, which could be achieved only if all government departments were to make strenuous efforts. Also, cutting government transfers and subsidies to the public enterprises would not lower the overall public sector deficit unless it was accompanied by measures aimed at strengthening the financial

position of the enterprises. Moreover, the fiscal measures being considered for mid-1987 might not have significant effects this year--even if the legislation was adopted promptly--because of implementation lags. Finally, the reduction in the cash deficit in the first quarter of 1987 appeared to have been facilitated by a buildup of unpaid obligations, raising doubts about the sustainability of the improvement.

The authorities were concerned about the monetary expansion induced by central bank financing of the fiscal deficit, particularly because in 1985 and 1986 the expansion had been preponderantly in the form of narrow money as a result of the increasing unwillingness of commercial banks to accept interest-bearing deposits. In an attempt to reduce narrow money, the authorities carried out an exchange of bank notes in mid-November 1986, which sought to destroy currency held abroad and provided for the compulsory placement of currency holdings in excess of a specified amount in time deposits on a temporary basis. Moreover, in March 1987 the commercial banks had been requested to offer savings certificates on account of the Government, with maturities in the range of one to three years and interest rates between 3.5 percent and 5 percent. Some Sf 160 million of these certificates had been subscribed, particularly by institutional investors.

The authorities intend to continue absorbing liquidity by issuing government securities with gradually longer maturities and using the proceeds to redeem government debt held by the Central Bank. They also are considering the establishment of reserve requirements to restrain the potential for credit expansion based on the large unused margins under the credit ceilings established for individual commercial banks, which until now have been the principal mechanism for credit control. The staff endorsed the Central Bank's intention to absorb excess liquidity, on the understanding that the proceeds from the placement of government securities or savings certificates would not be used to expand public spending. It also might be appropriate to apply reserve requirements; as a first step, the staff suggested a 100 percent requirement on some Sf 140 million of deposits which are the counterpart of external payments arrears. A drastic reduction in the fiscal deficit, together with the absorption of the commercial banks' existing excess reserves, would create an environment in which interest rates could play their proper allocative role.

In other policy areas, the authorities said that price controls were needed to protect low-income groups. A new rationing system had been introduced in April 1987 to ensure that all families would be able to obtain certain amounts of basic consumer goods at official prices. The authorities also drew attention to the moderation of wage demands in the past two years, and said that in view of the difficult situation faced by many firms wages were not likely to increase much, if at all, in 1987, as the unions' main objective had become the preservation of jobs. Existing legislation prevented firms from laying off personnel without authorization from the Minister of Labor, who normally sought solutions that avoided dismissals but made exceptions for firms facing

extreme financial difficulties. In addition, many small- and medium-size firms had laid off personnel without authorization.

Employment in the government sector expanded fairly rapidly over the past several years at the same time that private sector employment shrank (see Table 1). The authorities were concerned by these trends, which in their view could be reversed only through a recovery of investment in productive sectors. In this respect, they referred to their medium-term plans for new investments in resource-based industries, and said that major projects had been identified in areas such as processed wood, petroleum, kaolin, and gold mining. However, implementation of these projects was impeded for the time being by the lack of resources.

## 2. External policies and outlook

The authorities indicated that the deterioration of the balance of payments in recent years, which in their view had its origin in external factors, had forced them to resort to restrictions in the form of import and foreign exchange licensing arrangements. They recognized that the buildup of arrears had affected Suriname's creditworthiness adversely and were particularly concerned about the decline in the capacity to import, which had impaired the supply of consumer goods and the availability of raw materials and spare parts. Therefore, they were operating the licensing schemes with a view to ensuring the supply of basic consumer goods and industrial inputs, and they hoped to be able to start reducing external arrears in 1988.

A Foreign Exchange Council at the ministerial level has been in existence for some time to establish priorities for the allocation of foreign exchange, but as the scarcity of foreign exchange has intensified decisions on all substantive payments in practice are made on an ad-hoc basis. To provide a degree of flexibility, no-funds import licenses (i.e., for imports not entitled to foreign exchange at the official rate) have been granted more liberally than in the past; such licenses were negligible before 1984 but rose to Sf 39 million in 1985 and to Sf 77 million (about 13 percent of recorded imports) in 1986. Price controls on goods imported under no-funds licenses have been eased to allow domestic prices to reflect the parallel market exchange rate, which gives rise to a multiple currency practice.

In discussing ways to redress the balance of payments position, the authorities remained unconvinced that, in present circumstances, the benefits of exchange rate action would outweigh its costs. They were concerned that such a measure would give rise to a price-wage spiral and aggravate an already tense social situation. Moreover, they had serious doubts about the effects of a devaluation in the short run, particularly since it would reduce the amount of foreign exchange sold by the bauxite companies to the Central Bank to meet their payroll. Therefore, while they did not exclude exchange rate action in the future in the context of a comprehensive adjustment program, for the time being the Government sought to improve the country's competitive position through domestic

cost restraint. In this connection, they attached importance to the cooperative attitude of the trade unions, which in the past two years had restrained wage demands despite the acceleration of price inflation.

The authorities explained that to ensure the viability of the bauxite industry, they had eliminated the bauxite levy and permitted one of the companies to dismiss 500 employees. As a result, the financial position of the companies had improved substantially in 1986. More recently the Government had agreed to cover one half of the additional costs related to the importation of bauxite from Brazil for the alumina plant, now that the Moengo mine was closed. These measures were an indication of their commitment to protect export activities.

In the same vein, they said that--together with an effort to enforce the repatriation of foreign exchange by exporters--the Government was in the process of implementing a foreign exchange retention scheme, under which exporters were allowed to keep a proportion of export proceeds to meet their import needs. Foreign exchange retentions, tailored to the circumstances of individual companies, already were in effect for the bulk of nonbauxite exports.

The staff stressed that correcting the overvaluation of the currency was essential to restore balance of payments viability and to provide adequate incentives for investment, and thus to improve the economy's growth prospects. A devaluation not only would provide for an expansion of export and import-competing output over the medium term, but also would have beneficial effects in the short run. In particular, it would bring back into official channels transactions which are now handled in the parallel market and would facilitate an improvement in the public finances by raising import tax receipts and by permitting the elimination of agricultural subsidies and the restoration of taxation on the bauxite sector. Thus, it would help generate the public sector savings necessary to finance an increase in capital formation. An exchange rate adjustment certainly could have an impact on the price level, although the outcome in this regard was difficult to predict because prices already reflected to an extent transactions through the parallel exchange market. In any case, an increase in prices and the attendant decline in real disposable income would be a mechanism for the transfer of resources from consumption to investment.

The staff noted that if an adjustment in the official exchange rate was not feasible at present, balance of payments pressures could be alleviated by increasing the amount of no-funds import licenses granted and raising exporters' retention quotas. However, it was important to do so in a general and predictable manner, so as to limit distortions and avoid undesirable effects on private sector confidence.

The authorities acknowledged that the country's savings effort needed strengthening but they counted also on an increase in the use of foreign savings. They noted that, aside from the possibility of a resumption of foreign aid, there were many opportunities for productive

investment in agriculture, forestry, and nonbauxite mining (including petroleum) that justified substantial foreign borrowing, particularly since the external debt was small. Even in the difficult situation of recent years, Suriname had been able to secure loans from some foreign governments and multilateral institutions, including the Inter-American Development Bank. The staff stressed that the capacity to service an increasing level of debt would depend critically on the quality of investment, and that the prevalence of serious price distortions in Suriname did not augur well in this respect.

Given the high degree of uncertainty arising from the internal security problems and the doubts about the direction of economic management, it is not feasible to make a medium-term projection of the balance of payments with any degree of confidence. It is quite clear, however, that if the present policy environment persists, economic imbalances will deepen, the net capital stock and productive capacity will be reduced further, and living standards will continue to decline. This process could be reversed by measures that restore appropriate price relationships, reduce internal and external imbalances, and provide adequate incentives for capital formation.

### III. Staff Appraisal

In the past year and a half, Suriname's already serious economic situation worsened at an accelerating pace, owing to the emergence of internal security problems as well as to the authorities' continuing hesitation to make needed policy adjustments, out of concern for protecting past levels of real disposable income and consumption. Output and investment continued to decline, as the distortions caused by inadequate price relationships and administrative controls became more acute while the fiscal imbalance widened and external arrears continued to accumulate. There were growing shortages in official markets, and parallel markets became more widespread. As a result, average prices paid by consumers rose sharply, and the objective of preserving consumption levels proved elusive.

To redress the economic situation and set the basis for sustained growth of output, employment and incomes, the Government will need to carry out a major reorientation of policies, including a substantial exchange rate adjustment, a major fiscal effort, a restrained credit policy, and the elimination of administrative controls on domestic and external transactions. While acknowledging the need for corrective action, the authorities thus far have been paralyzed by the inability to muster sufficient support for the measures that must be taken. Broad-based public support for the adjustment program is obviously important, but the staff is concerned that further delays in implementing the necessary reforms will make the eventual adjustment more difficult, as

the imbalances become larger and the country's capital stock deteriorate further.

The re-establishment of a competitive exchange rate is indispensable for a resumption of economic growth in the context of a viable balance of payments. It would help achieve the recovery of investment that is needed to preserve Suriname's existing productive capacity and the desired diversification of production and exports. It also would help eliminate the distortions arising from the existence of an official and a parallel economy with very different sets of prices. For maximum effect, exchange rate action ought to be accompanied by a liberalization of the trade and exchange system. To ensure that the exchange rate would remain competitive, the initial adjustment should be followed by a flexible exchange rate policy and wage restraint.

By raising import tax receipts and facilitating the reintroduction of reasonable taxation on the bauxite sector and the elimination of agricultural subsidies, exchange rate action also would make a major contribution toward the strengthening of the public finances. A key objective in the fiscal area should be a reduction in the overall deficit, as soon as possible, to a level consistent with available noninflationary financing, so as to re-establish the conditions for the low inflation climate that for many years was characteristic of Suriname. Another objective of fiscal policy should be an improvement in public sector savings, with a view to reversing the decline in development expenditure of the past several years. Given the magnitude of the task at hand, action will have to encompass most areas of the public finances, but particular attention should be given to the Government's wage bill, the tax administration and expenditure control procedures, and the operation of the public enterprises.

A drastic reduction of the fiscal deficit would permit implementation of a monetary policy consistent with the objectives of replenishing the country's international reserves and restoring price stability. Together with measures aimed at absorbing the commercial banks' existing excess reserves, this would create conditions under which interest rates could play their proper allocative role.

The widespread resort to direct controls on prices, employment and foreign transactions has had adverse effects on private sector activity--in part because of the ad-hoc way in which they have been applied--and has contributed to the low level of investment. A major reduction in the scope of controls is important as a means to improving economic efficiency and enhancing the economy's growth prospects. In the meantime, controls should be applied in a flexible, transparent and predictable manner, so as to limit their distortionary effects and avoid undermining private sector confidence.

Continued reliance by Suriname on restrictive foreign exchange licensing and the restriction evidenced by external arrears, as well as the multiple currency practice arising from the use of the parallel

exchange rate for the pricing of imports under no-funds licenses, are subject to Fund approval under Article VIII, Sections 2(a) and 3. The policies in place do not provide a reasonable assurance that recourse to these restrictions and multiple currency practice will be temporary. Accordingly, the staff does not recommend their approval, and urges the authorities to adopt policies that would permit their prompt elimination.

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

Suriname - Fund Relations  
(As of May 31, 1987)

I. Membership Status

- (a) Date of membership: April 27, 1978  
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)

	<u>Millions of SDRs</u>	<u>Percent of Quota</u>
(a) Quota	49.30	100.00
(b) Fund holdings of Suriname guilders	49.30	100.00
(c) Fund credit	--	
(d) Reserve tranche position	--	

III. SDR Department

- (a) Net cumulative allocation: SDR 7.75 million  
(b) Holdings: SDR 54,132, or 0.7 percent of net cumulative allocations

- IV. Use of Fund Resources: Country has not used Fund resources to date

B. Nonfinancial Relations

V. Exchange Rate Arrangement:

The Suriname guilder has been pegged to the U.S. dollar, the intervention currency, at Sf 1.78876 per U.S. dollar since 1971.

VI. Past Decisions

The last Article IV consultation was concluded by the Executive Board on May 16, 1986 (EBM/86/82). Executive Directors expressed concern about Suriname's increasing internal and external imbalances and the growing reliance on direct administrative controls and in the areas of pricing, employment, external trade and current payments, and urged the authorities to adopt without delay a comprehensive economic adjustment program. Suriname's restrictive practices were not approved.

VII. Technical Assistance

- (a) STA: A staff member visited Paramaribo from May 5 to May 19, 1985 to assist in improving the fiscal data for the use of both the national authorities and Fund departments and for publication in the Government Finance Statistics Yearbook. A staff member visited Paramaribo from March 11 to March 25, 1986 to assist in improving the consumer price index and the currentness of the customs data on foreign trade.
- (b) WHD: A staff team visited Paramaribo from December 9 to December 16, 1986 to assist the authorities in designing financial policies for 1987.
- (c) FAD: A technical expert has been on a one year's assignment in Paramaribo since January 1987, to assist in developing an improved system of control of public expenditures, to develop procedures for preparing accurate annual and multi-annual estimates of expenditure, revenue and financing, and to assist the authorities in designing an appropriate system for the control of the finances of nonfinancial public enterprises.

VIII. Financial Relations Between the World Bank and Suriname: None.

Suriname--Statistical Issues

1. Outstanding statistical issues

Revised national accounts data covering the 1975-86 period were produced following the recommendations of a UNDP expert and are expected to be reported in IFS shortly. However, some problems regarding the quality of the GDP estimates remain. There are reasons to believe that the official estimates overstate the actual decrease in real GDP and understate the increase in the deflator in recent years, since they do not capture developments in the parallel economy which by all accounts has been growing in importance. Therefore, nominal GDP would seem to be increasingly underestimated. Also, as private consumption is estimated as a residual, available indicators of real private consumption probably exaggerate the rate of decline that has occurred in recent years.

The official consumer price index (CPI), based on a 1969 consumption basket, probably understated actual price increases in 1982-84, because the survey covered only retail outlets which charge officially approved prices. Since the beginning of 1985, returns from the household survey have been included in the calculation of the CPI, which has helped to capture at least to some extent the incidence of parallel market prices.

The quality of official wage data has deteriorated in recent years as the coverage of firms has been reduced. Data on employment have a broad coverage, but are likely to understate the number of jobs in agriculture; moreover, the data for the public sector may reflect positions rather than the actual number of persons employed. There are no unemployment data.

As regards public finance statistics, coverage of data on government expenditures and external financing (including government-guaranteed credits used by various agencies and public enterprises) has become increasingly incomplete since 1984. The discrepancy between expenditures on a cash and a commitment basis reportedly has increased considerably in 1986 and early 1987, but no data are available on floating debt or unpaid bills. There are no data on the operations of the public enterprises; however, there is some evidence that their financial position has deteriorated in the past 18 months, and that transfers and loans from the Government have fallen short of their overall deficits.

Data on money and banking, which traditionally had been consistently available on a timely basis, are presently delayed due to administrative problems in relation with the November 1986 bank note exchange operation. By May 1987 no central bank balance sheet data were available beyond end-1986, and the data for December 1986 were preliminary.

The balance of payments accounts compiled by the Central Bank are on a cash basis and need to be adjusted to a transactions basis by using partial information covering no-funds-license and parcel imports, export retention schemes, external payments arrears, suppliers' credits, and counter-trade deals. At present, neither the Central Bank nor the General Bureau of Statistics systematically collects these data. Reported data in particular, may understate the size of payments arrears, as they imply payments for certain categories of services that do not appear to be matched by foreign exchange sales at the official rate.

2. Coverage, currentness, and reporting of data in IFS

The currentness and coverage of data published in the country page for Suriname in the June 1987 issue of IFS are shown below. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Suriname, which during the past year have been late and infrequent.

		<u>Latest Data in June 1986 IFS</u>
Real Sector	- National Accounts	1980
	- Prices: CPI	QIII 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1985
	- Financing	1985
	- Debt	1985
Monetary Accounts	- Central Bank	October 1986
	- Deposit Money Banks	October 1986
	- Other Financial Institutions	n.a.
Interest rates	- Discount rate	n.a.
	- Bank lending/deposit rates	n.a.
	- Bond yield	n.a.
External Sector	- Merchandise Trade:	
	Imports: value	QIII 1986
	Exports:	
	Aggregate value	QIV 1984
	Main commodities	
	Value	December 1986
	Unit value	December 1986
	- Balance of Payments	QIII 1986
	- International Reserves	April 1987
- Exchange Rates	April 1987	

APPENDIX III

Suriname-Basic Data

<u>Area and population</u>	
Area	163,820 sq. kilometers <sup>1/</sup>
Population (end-1986)	400,000
Annual rate of population increase (1981-86)	2.2 percent
GNP per capita (1986)	SDR 2,002
<u>Population Characteristics (1982)</u>	
Urban population (percent of total)	45.8
Population density per square mile of agricultural land	472.8
Population age structure (percent)	
0-14 years	43.1
15-64 years	52.5
65 and above	4.4
Crude birth rate (per thousand)	32.9
Crude death rate (per thousand)	7.7
Total fertility rate	3.9
Life expectancy at birth (years)	65.7
Infant mortality rate (per thousand)	33.6
Child death rate (per thousand)	1.3
<u>Food, health and nutrition</u>	
Index of food production per capita (1974-76 = 100) (1982)	137.9
Per capita supply of:	
Calories (percent of requirements, 1982)	109.2
Proteins (grams per day, 1982)	57.1
Population per physician (thousand, 1978)	1.7
Population per nurse (thousand, 1978)	0.3
Population per hospital bed (thousand, 1980)	0.1
Access to safe water (percent of population, 1980)	
Total	88.8
Urban	100.0
Rural	80.0
<u>Education</u>	
Students reaching grade 6 (percent, 1982)	68.8
<u>Consumption</u>	
Energy consumption per capita (kg. of oil equivalent, 1982)	1,635.4
Passenger cars (per thousand population, 1982)	104.0
Newspaper circulation (per thousand population, 1982)	78.3
<u>Origin of GDP (1986)</u>	
	(percent)
Agriculture, fisheries, animal husbandry, and forestry	10.3
Mining and quarrying	4.9
Industry, public utilities, and construction	23.3
Commerce and banking	20.6
Government	25.0
Other services	16.0
<u>Ratios to GDP (at 1986 market prices)</u>	
Exports of goods and nonfactor services	37.6
Imports of goods and nonfactor services	40.7
Central government revenues (including grants)	28.8
Central government expenditures	56.9
Public external debt (end of year)	7.1
Savings	3.1
Investment	6.2
Money and quasi-money (end of year)	105.1

APPENDIX III

<u>Annual changes in selected economic indicators</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Prel. 1986</u>
Real GDP (at factor cost)	-3.8	-4.1	-1.9	-2.3	-2.0
Real GNP per capita	-8.6	-9.0	-4.2	-7.1	-4.6
GDP at market prices	2.8	-3.3	-2.4	-0.2	0.6
Domestic expenditures (at current prices)	4.1	-2.9	-8.4	-4.1	-0.6
Investment	-8.6	-45.7	-26.0	-32.9	-20.1
Consumption	8.8	10.4	-5.7	-0.7	1.0
GDP deflator	9.1	1.5	--	4.2	5.7
Cost of living (annual averages)	7.2	4.3	3.7	10.9	18.7
Central government revenues (including grants)	14.2	-34.4	4.4	-4.0	3.9
Central government expenditures	16.9	-2.4	0.9	4.1	16.0
Money and quasi-money	11.0	10.8	11.6	31.5	28.2
Money	17.7	8.0	8.5	55.1	51.4
Quasi-money	5.5	13.4	14.3	12.1	1.5
Merchandise exports (f.o.b.)	-8.6	-15.2	-2.5	-9.8	2.3
Merchandise imports (mostly f.o.b.)	-8.3	-12.0	-19.7	-12.7	-4.7

Central government finances

	<u>(millions of Suriname guilders)</u>				
Revenues (including grants)	738.5	484.1	505.3	484.9	503.8
Expenditures	837.8	817.4	824.8	858.7	996.1
Overall surplus or deficit (-)	-99.3	-333.3	-319.5	-373.8	-492.3
External financing (net)	0.2	19.3	1.2	21.7	34.5
Internal financing (net)	99.1	314.0	318.3	352.1	457.8

<u>Balance of payments</u>	<u>(millions of U.S. dollars)</u>				
Merchandise exports (f.o.b.)	450.6	382.3	372.6	336.1	343.9
Merchandise imports (f.o.b.)	-538.1	-478.8	-384.7	-335.6	-320.1
Factor income (net)	7.2	-11.1	-2.1	-6.6	-1.3
Services and private transfers (net)	-73.0	-68.7	-79.4	-46.9	-56.3
Goods, services, and private transfers	-153.3	-176.3	-93.6	-53.0	-33.8
Official capital and public transfers (net)	95.7	14.0	7.0	16.3	23.4
Other capital (net)	25.5	47.9	4.8	12.9	-26.9
Errors and omissions	1.1	-1.4	1.0	5.2	20.9
Overall balance	-31.0	-115.8	-81.0	-18.7	-16.5

<u>International reserves</u>	<u>December 31</u>				
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
	<u>(millions of U.S. dollars)</u>				
Monetary authorities (net)	176.5	78.1	-7.7	2/-25.4	2/-38.9
Monetary authorities (gross)	176.7	78.3	39.6	39.2	39.4

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

2/ Including external arrears as reserve liabilities.

