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CONFIDENTIAL

March 4, 1987

To: Members of the Executive Board
From: The Secretary
Subject: Suriname - Real Effective Exchange Rate - Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Suriname guilder.

Mr. Trines (ext. 8614) is available to answer technical or factual questions relating to this paper.

Att: (1)

INTERNATIONAL MONETARY FUND

SURINAME

Real Effective Exchange Rate--Information Notice

Prepared by the Western Hemisphere Department and the
Exchange and Trade Relations Department

(In consultation with the Legal Department
and the Research Department)

Approved by E. Wiesner and W. A. Beveridge

March 3, 1987

The recent evolution of Suriname's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of December 1986 the Suriname guilder had appreciated by 15.7 percent in real effective terms since the last occasion on which the Executive Board had an opportunity to discuss development in Suriname's exchange rate--the 1986 Article IV consultation in May 1986. 1/ 2/

The Suriname guilder has been pegged to the U.S. dollar at the same rate since 1971. Reflecting the appreciation of the U.S. dollar, and despite relatively low recorded rates of domestic inflation, the Suriname guilder appreciated by more than 48 percent in real effective terms from 1980 to the beginning of 1985. Since then, the acceleration of inflation in Suriname has exerted an increasingly important influence on the real effective exchange rate for the guilder, limiting the real depreciation from early 1985 through mid-1986 to less than 10 percent despite the depreciation of the U.S. dollar, and resulting in an estimated real effective appreciation of 15 percent from May to December 1986.

1/ Chairman's summing up circulated as (SUR/86/45, 5/27/86).

2/ As described in the most recent quarterly report on "Indicators of Real Effective Exchange Rates" (EBS/86/278, 12/18/86), a new weighting scheme has been introduced for the calculation of nominal and real effective exchange rates involving, in particular, a more comprehensive representation of direct and third market competition for trade in manufactures and primary commodities. The new weights have not typically changed substantially the estimates of real effective exchange rates. In the case of the Suriname guilder, based on the weights used previously, the appreciation in real effective terms from May to December 1986 would have been 15.2 percent.

The external current account deficit (including official transfers) has declined substantially from the equivalent of 17 percent of GDP in 1983 to an estimated 4.3 percent of GDP in 1986. This reduction was achieved almost entirely through the imposition of stringent import restrictions; exports also declined during this period as a result of adverse conditions in the world market for bauxite and its derivatives (which account for about 75 percent of Suriname's export earnings) and loss of competitiveness on the part of Suriname in the international market. Gross official reserves had declined to a level corresponding to about 5 1/2 weeks of imports by end-1986. Since 1984 commercial payments arrears have risen rapidly, reaching approximately US\$80 million at the end of 1986.

Staff Appraisal

The recent real appreciation of the Suriname guilder and economic developments in Suriname underscore the views expressed by Executive Directors in concluding the 1986 Article IV consultation. At that time, Directors stressed the need for the authorities to adopt without delay a comprehensive adjustment program, including adjustment of the exchange rate in order to restore Suriname's international competitiveness and facilitate the achievement of a viable external position without recourse to restrictions on current payments or trade. Although the external current deficit was reduced somewhat in 1986 from the year before, this reflected further import restrictions which have caused major shortages and disruptions of the production process. The staff believes that developments during the last year, including the continued accumulation of arrears and high inflation, further heighten the need for the adoption of comprehensive corrective policies, including a substantial adjustment of the exchange rate aimed at reaching a sustainable external balance over the medium term and a resumption of economic growth.

Table 1. Suriname: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1982						
I	113.9	117.5	97.0	100.0	114.7	114.7
II	116.2	120.5	96.5	100.0	116.5	116.9
III	118.4	125.0	94.7	100.0	116.9	117.2
IV	120.1	127.3	94.3	100.0	118.2	117.6
1983						
I	119.1	127.2	93.6	100.0	119.0	118.9
II	124.1	131.2	94.6	100.0	122.6	123.1
III	125.0	136.0	91.9	100.0	122.0	122.4
IV	126.1	138.8	90.8	100.0	123.4	122.7
1984						
I	127.2	142.1	89.5	100.0	124.1	123.9
II	128.5	144.6	88.9	100.0	125.7	126.1
III	133.9	152.5	87.8	100.0	126.7	127.2
IV	138.1	158.4	87.1	100.0	128.4	127.8
1985						
I	148.4	167.1	88.8	100.0	133.5	133.0
II	146.7	164.3	89.3	100.0	137.1	137.5
III	144.6	159.0	90.9	100.0	142.0	142.8
IV	141.5	152.4	92.2	100.0	147.7	147.1
1986						
I	137.3	147.0	93.4	100.0	151.4	150.7
II	139.9	143.6	97.4	100.0	158.5	159.0
III	147.4	139.5	105.6	100.0	173.1	174.0
IV	156.6	138.8	112.8	100.0	186.5	
Monthly						
1986						
May <u>3/</u>	138.2	142.9	96.7	100.0	157.3	157.9
June	142.6	143.7	99.3	100.0	162.1	162.6
July	145.4	141.1	103.0	100.0	168.3	170.1
Aug.	147.0	138.9	105.8	100.0	173.4	174.1 <u>4/</u>
Sep.	149.6	138.6	108.0	100.0	177.6	177.9
Oct.	152.8	138.2	110.6	100.0	182.2	181.6
Nov.	157.0	139.6	112.5	100.0	186.0	185.8
Dec.	159.9	138.8	115.2	100.0	191.3	
Percentage change						
May-Dec. 1986	15.7	-2.9	19.2	0	21.6	

Source: Information Notice System.

1/ Increases mean appreciation.2/ Using seasonally adjusted price indices.3/ Date of latest consideration by Executive Board.4/ Price data since August 1986 are staff estimates.





