DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

SM/85/59

CONTAINS CONFIDENTIAL
INFORMATION

February 20, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Suriname - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Suriname, which 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. 8614).

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

SURINAME

Staff Report for the 1984 Article IV Consultation

Prepared by the Staff Representatives for the 1984
Article IV Consultation with Suriname

Approved by E. Wiesner and W. A. Beveridge

February 19, 1985

The 1984 Article IV consultation discussions with Suriname were held in Paramaribo during the period December 11-20, 1984.1/ An advance team began work in Paramaribo on December 6. The Surinamese representatives in the discussions included the Minister of Finance and Planning, the Minister of Trade, Transport and Industry, the Minister of Social Affairs, 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 private sector, including management and union leadership. The staff representatives were Messrs. Gerhard (Head-ETR), Gudac, Buyse, and Yokokawa (all WHD) and Ms. Chuidian (Secretary-ETR).

The last Article IV consultation was concluded on January 27, 1984 (EBM/84/17). Details on Fund relations with Suriname are presented in Appendix I.

I. Background

Suriname's financial and economic position has been heavily dependent on the bauxite sector and on Dutch development aid. The role of the bauxite sector has been declining over the last decade as its competitive position suffered with the introduction of a bauxite levy and rapidly rising wage costs while new low-cost competitors entered the market. Nevertheless, it still accounts for some three fourths of total export value and contributes about one eighth to GDP and current government revenues. Dutch development aid disbursements were suspended after certain political incidents in Suriname at the end of 1982. Such aid had averaged some 9 percent of Suriname's GDP during 1976-82, financing external current account deficits and at the same time allowing a substantial buildup of international reserves.

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

The Government which seized power in February 1980 stepped up public sector expenditures. These increased much faster than revenues and grants so that the overall budget turned from a surplus of about 1 percent of GDP in 1979-80 into a deficit equivalent to 3 to 4 percent of GDP in 1981-82 (Table 1). In 1983, overall government expenditures again increased while total government receipts from revenues and grants declined sharply. The cessation of Dutch aid disbursements was the main factor behind this decline but with weak market conditions for bauxite, lower imports, and reduced Central Bank profits, tax and nontax revenues also declined. Thus, despite a curtailment of development outlays by close to one half, the overall government deficit exceeded 13 percent of GDP in 1983. The authorities sought to rectify this severe fiscal imbalance, but tax measures announced at the end of 1983 for that purpose were withdrawn in the face of widespread labor opposition. Nevertheless, some progress was made in reducing the deficit in 1984; according to preliminary estimates it was narrowed by the equivalent of 1.5 percentage points of GDP, mainly as a result of further reductions in development outlays and increased collection of corporate income taxes outside the bauxite sector.

As monetary policy was directed to the accommodation of massive government deficits, the expansion of net domestic assets relative to the stock of broad money at the beginning of the period accelerated from less than 20 percent per annum in 1981-82 to more than 30 percent in 1983-84 (Table 2). The growth of broad money was 10 percent per annum in 1982-83 but rose to 15 percent during 1984, mainly as a consequence of further tightening of trade and payments restrictions.

Despite this buildup of liquidity, indications are that price increases generally have been moderate. Indeed, the official consumer price index suggests that the rate of inflation decreased from 13 percent in 1980 to 8 percent in 1981-82 and less than 5 percent in 1983-84 (Table 3). Given the general imposition of official price controls in 1983 and the increasing frequency of shortages, this index is likely to underestimate effective price increases in the economy, but price behavior in Suriname clearly has been affected by declining rates of inflation abroad and by the effective appreciation of the Surinamese guilder which is pegged to the U.S. dollar.1/ Indirect signs of excess liquidity may, however, be seen in the apparent slowdown in the velocity of circulation of broad money from 2.7 in 1981 to 2.2 in 1984, in the reluctance of commercial banks to accept long-term deposits at the prevailing interest rates, and in the rapid buildup of noninterest-bearing commercial bank reserves at the Central Bank.

As a result of declining exports and the pressures generated by an increasingly expansionary fiscal policy stance, the deficit on Suriname's external current account shifted from less than 6 percent

---

1/ The Surinamese guilder appreciated in real effective terms by 28 percent from end-1980 to end-1983 and by 7 percent in the period January-November 1984.

Table 1. Suriname: Central Government Operations

	1980	1981	1982	1983	Est. 1984
	(In millions of Suriname guilders)				
Revenues and grants	624.3	677.0	699.1	498.9	466.2
Revenues	492.8	508.0	526.2	494.4	463.1
Grants	131.5	169.0	172.9	4.5	3.1
Expenditures	600.2	732.0	792.9	809.7	751.2
Current expenditures	472.0	552.6	599.8	703.4	672.2
Development expenditures	128.2	179.4	193.1	106.3	79.0
Surplus or deficit (-) current account	20.8	-44.6	-73.6	-209.0	-209.1
Overall surplus or deficit (-)	24.1	-55.0	-93.8	-310.8	-285.0
Financing					
External financing (net)	-4.1	0.2	0.5	-0.5	-2.9
Private nonbank sector (net)	1.7	0.9	-0.7	-1.0	-0.5
Banking system (net)	-21.7	53.9	94.0	312.3	288.4
	(As percent of GDP at market prices)				
Surplus or deficit (-) ordinary account	1.2	-2.2	-3.3	-9.1	-8.7
Overall surplus or deficit (-)	1.4	-2.7	-4.2	-13.5	-11.9

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

Table 2. Suriname: Summary Accounts of the Banking System

(In millions of Suriname guilders)

	December 31 1980	December 31 1981	December 31 1982	December 31 1983	September 30 1983	September 30 1984	Dec. Est. 1984
I. Monetary Authorities							
Net international reserves 1/	338.8	370.4	315.0	139.4	191.8	29.9 2/	-4.8 2/
Net domestic assets	-43.0	-15.7	69.5	368.5	310.2	613.0	689.0
Net claims on public sector	8.2	57.2	149.8	435.7	371.7	665.6	711.6
Credit to commercial banks	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Credit to private sector	0.4	0.3	0.2	0.2	0.2	38.9	80.1
Other assets (net)	-51.8	-73.4	-80.7	-67.6	-61.9	-91.7	-102.9
Counterpart unrequited foreign exchange	53.9	57.0	57.2	85.1	88.5	79.0	77.9
Liabilities to commercial banks	53.3	79.1	53.9	152.6	157.9	279.5	314.0
Liabilities to private sector	188.6	218.6	273.4	270.1	255.6	284.4	292.3
Currency in circulation 3/	177.8	197.0	268.1	265.0	251.0	278.6	287.0
Demand deposits	10.8	21.6	5.3	5.2	4.6	5.8	5.3
II. Commercial Banks							
Net international reserves	58.8	54.0	44.7	23.3	25.0	-14.4	-13.5
Claims on monetary authorities	53.3	79.1	53.9	152.6	157.9	279.5	314.0
Net domestic assets	485.9	583.4	663.8	694.0	673.3	709.9	706.3
Net claims on public sector	11.3	16.4	17.6	41.5	41.3	47.6	51.2
Net Central Government (budget)	(-4.8)	(0.2)	(1.6)	(28.0)	(26.9)	(35.1)	(37.1)
Net other decentralized agencies	(16.1)	(16.2)	(16.0)	(13.6)	(14.4)	(12.5)	(14.1)
Credit to private sector	460.5	546.3	623.9	643.6	626.3	661.4	664.9
Other assets (net)	14.0	20.7	22.3	8.9	5.7	1.0	-9.8
Medium- and long-term foreign liabilities	6.8	6.6	7.0	7.0	7.0	7.0	7.0
Liabilities to monetary authorities	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Liabilities to private sector	591.0	709.7	755.2	862.8	849.0	967.9	999.6
Demand deposits	105.6	139.4	147.8	184.9	190.1	228.8	239.7
Other deposits	372.2	437.3	461.4	523.2	507.5 4/	578.4	596.5
Other liabilities	38.2	48.9	49.7	51.5	49.5	53.0	54.0
Private capital and surplus	75.0	84.2	96.3	103.2	102.0	107.8	109.4
III. Banking System (I + II)							
Net international reserves 1/	397.6	424.5	359.7	162.7	216.8	15.5 2/	-18.3 2/
Net domestic assets	442.6	567.5	733.1	1,062.3	983.3	1,322.8	1,395.1
Net claims on public sector	19.6	73.6	167.4	477.3	413.0	713.2	762.8
Net Central Government (budget)	(3.5)	(57.4)	(151.4)	(463.7)	(398.6)	(700.7)	(748.7)
Net other decentralized agencies	(16.1)	(16.2)	(16.0)	(13.6)	(14.4)	(12.5)	(14.1)
Credit to private sector	460.9	546.6	624.1	643.7	626.5	700.3	745.0
Other assets (net)	-37.9	-52.7	-58.4	-58.7	-56.2	-90.7	-112.7
Counterpart unrequited foreign exchange	53.9	57.0	57.2	85.1	88.5	79.0	77.9
Medium- and long-term foreign liabilities	6.8	6.6	7.0	7.0	7.0	7.0	7.0
Liabilities to private sector	779.6	928.4	1,028.6	1,132.9	1,104.6	1,252.3	1,291.9
Currency in circulation 3/	177.8	197.0	268.1	265.0	251.0	278.6	287.0
Demand deposits	116.3	161.0	153.2	190.0	194.7	234.6	245.0
Quasi-money	372.2	437.3	461.4	523.2	507.5	578.4	596.5
Other liabilities	38.2	48.9	49.7	51.5	49.5	53.0	54.0
Private capital and surplus	75.0	84.2	96.3	103.2	102.0	107.8	109.4

Source: Central Bank of Suriname.

1/ Gold was revalued from US$42 per troy ounce to US$397 per troy ounce in August 1983 and since then its value has been adjusted in line with market prices.
2/ Adjusted for external arrears.
3/ Includes government issue of currency.
4/ Of which Sf 24.8 million is import deposits.

of GDP in 1980 to more than 12 percent of GDP in 1982 and 1983; the terms of trade deteriorated by some 6 percent during this period. In 1984 the current account deficit was narrowed to 8 percent of GDP by means of a further tightening of restrictions on external trade and payments. The volume of Suriname's major exports 1/ fell by about one fourth from 1980 to 1983 but recuperated somewhat in 1984 on the strength of new short-term contracts for bauxite exports to be processed in other countries of the region (Table 4). Meanwhile, export receipts declined by 9 percent in 1984 as exporters failed to fully repatriate export proceeds. Both exports and imports are now approximately one third below their previous peak levels reached in 1980 for exports and in 1981 for imports. The reduction of imports applied to a nearly equal degree both to the bauxite and the nonbauxite sectors.

Table 3. Suriname: Selected Macroeconomic Indicators

(Annual percentage change)

	1980	1981	1982	1983	Est. 1984
Real GDP (at factor cost)	-3.3	4.7	1.7	2.2	-1.0
GDP (at current market prices)	7.0	15.2	8.1	3.6	4.1
Gross domestic expenditure	11.8	23.3	8.7	2.2	0.4
Investment	(7.2)	(18.1)	(0.2)	(-18.3)	(-14.9)
Consumption	(12.8)	(24.4)	(10.4)	(6.0)	(2.5)
GDP implicit price deflator	10.6	11.0	9.5	3.0	6.0
Consumer price index (period average)	13.2	8.7	7.3	4.4	4.7

Sources: General Bureau of Statistics (Suriname); World Bank estimates; and staff estimates.

1/ Bauxite and its derivates, rice, bananas, shrimp, and wood account on average for some 90 percent of Suriname's total exports.

Table 4. Suriname: Summary Balance of Payments 1/

(In millions of Suriname guilders)

	1980	1981	1982	1983	Jan.-Sept. 1983	Jan.-Sept. 1984	Est. 1984
Goods, services, and unrequited transfers	-104.0	-218.7	-273.7	-291.7	-223.0	-150.7	-198.5
Trade balance	17.9	-168.0	-156.1	-149.0	-108.1	-95.6	-118.8
Merchandise exports (f.o.b.)	(918.2)	(845.7)	(765.1)	(654.7)	(474.9)	(427.0)	(598.0)
Merchandise imports (c.i.f.)	(-900.3)	(-1,013.7)	(-921.2)	(-803.7)	(-583.0)	(-522.6)	(-716.8)
Transportation and travel (net)	-81.2	-64.1	-75.4	-83.5	-67.3	-15.1	-14.5
Other services	-28.3	-20.9	-55.0	-26.2	-16.3	-20.6	-39.2
Investment income	-24.1	27.7	17.5	-18.7	-22.2	-9.0	-14.0
Unrequited private transfers	11.7	6.6	-4.7	-14.3	-9.1	-10.4	-12.0
Capital and public transfers	134.2	244.9	211.3	19.9	19.0	57.1	59.0
Private long-term capital (including direct investment)	5.5	80.3	40.6	18.1	15.1	54.6	56.0
Public grants	131.6	169.0	172.9	4.5	4.1	2.6	3.1
Public capital	-2.9	-4.4	-2.2	-2.7	-0.2	-0.1	-0.1
Short-term capital 2/	26.3	-4.2	-4.3	46.0	28.9	-47.8	-35.6
Errors and omissions	1.4	-1.0	1.9	-2.2	-1.8	-0.9	--
SDR allocation	5.9	5.9	--	--	--	--	--
Overall balance	63.8	26.9	-64.8	-228.0	-176.9	-142.3	-175.1
Valuation change in reserves 3/	--	--	--	31.0	34.0	-4.9	-5.9
Change in net international reserves (increase -)	-63.8	-26.9	64.8	197.0	142.9	147.2	181.0
Monetary authorities	-44.5	-31.6	55.5	175.6	123.2	109.5	144.2
Of which: arrears	(--)	(--)	(--)	(--)	(--)	(38.8)	(81.2)
Commercial banks	-19.2	4.7	9.3	21.4	19.7	37.7	36.8

Source: Central Bank of Suriname.

1/ Data are on a cash basis.
2/ Including changes in working balances between the Surinamese bauxite companies and their parent companies.
3/ Gold was revalued from US$42 per troy ounce to US$397 per troy ounce in August 1983, and since then its value has been adjusted in line with market prices.

Suriname's gross international reserves fell from US$260 million at the end of 1981 (nearly one fourth of GDP) to about US$60 million at the end of 1984 (equivalent to 4 percent of GDP or six weeks of current imports of goods and services). As external debt to the Netherlands was canceled at independence, Suriname's external debt is low and consists mainly of a f 50 million railway loan guaranteed by the Dutch Government. Neither principal nor interest were paid on this loan in 1984, but Suriname stayed current on its only other external loan which was obtained from the U.S. AID in 1965.

II. Report on the Discussions

In February 1984, the military authorities in whom the power of government has rested since 1980 appointed an interim cabinet. This cabinet was to serve a term of up to 12 months and was charged with two main tasks: (1) to propose solutions to the country's economic and financial problems, and (2) to propose new political structures for Suriname. After broad agreement on the establishment of a new constitutional assembly, a new transitional cabinet was appointed on January 1, 1985. Members of this cabinet are representatives of the military, the unions, and of one of Suriname's private business organizations.

At the time of the staff visit key decisions in the area of economic and financial policies remained to be taken. Various proposals before the Government related to policy options available for addressing the economic and financial difficulties. The staff's discussions with the Surinamese authorities focused on these policy options.

1. Demand and pricing policies

The Surinamese authorities said that they were well aware that government budget deficits of the size incurred during the last few years are unsustainable. They recognize that the pressures on available resources generated by deficits equivalent to one eighth of GDP cannot be contained indefinitely by administrative controls without severe economic distortions that would impede economic growth and exacerbate social and political tensions. Corrective action attempted at an earlier stage had proved unenforceable. It had become clear, in particular, that measures aimed primarily at raising revenues through tax increases would not find the broadly based support necessary for their effective implementation. The authorities realized, therefore, that fiscal adjustment has to be sought through a more comprehensive package of measures placing more weight on improving the operating efficiency of public sector enterprises and on retrenchment of government expenditures.

After reviewing various alternatives during recent months the authorities had concluded that, in the absence of substantial additional external assistance, the adjustment measures needed would entail drastic sacrifices in living standards. Such measures could not be attempted without intensive efforts at building firm political support based on consensus between the social partners. The authorities viewed recent agreements on cooperation between the military, unions, and representatives of one of the business organizations as indicative that this consensus was taking concrete shape. They intended to rely on this consensus in tackling the task of fiscal adjustment, which they expected to address vigorously with the budget for 1985. For the time being, pending decisions on the new budget, they intended to continue with last year's efforts that had yielded certain positive results due to improved tax collection and tighter control over public sector expenditures. The reduction in the deficit recorded for 1984 may, however, partly reflect delays rather than outright reductions in certain social transfer payments.

The authorities' deliberations during recent months had focused on the specific means of reducing the budget deficit. They envisaged both expenditure-reducing and revenue-raising measures, but had concluded that elimination of a government deficit that recently had been close to Sf 300 million could not be contemplated in one stage; it would have to be accomplished gradually over several years. Thus, under plans submitted for consideration at the highest political level individual income taxes and import tariffs would be raised on average by 5 and 20 percentage points, respectively, and the pricing policies of certain public enterprises would be adjusted so as to reflect effective production costs and eliminate some Sf 17 million of consumer subsidies on electricity, milk, and sugar. For the first phase of adjustment the authorities envisaged Sf 47 million of additional revenues and Sf 40 million of expenditure cuts.

The staff expressed concern over certain measures announced in December 1984 that involved tax relief and thus pointed in the opposite direction from the adjustments needed. The most significant of these measures was to exempt from income tax one half of specified wage supplements up to a maximum of Sf 1,000 a year and to make this decision retroactive to January 1, 1984. Simultaneously, the full tax exemption of wage supplements for work under hazardous conditions was extended for 1985. Estimates of the impact on government revenues of these and a number of other tax measures announced on the same occasion are not available at this time. The Surinamese authorities added that they were in the process of making an overall reassessment of the tax system. A special commission had been appointed for this task.

As regards monetary policy the authorities noted that private sector demand for credit had again been weak in 1984 so that for the second consecutive year credit expansion to the private sector remained below the ceiling set by the Central Bank. Moreover, because of the high degree of liquidity in the economy commercial banks had started refusing long-term deposits and to abolish the already low interest payments on certain types of checking accounts from 1985 onward. The staff was concerned that unattractive or even substantially negative real interest rates were distinct disincentives to potential savers at a time when raising domestic savings must be considered as most important. The authorities recalled that the introduction of treasury paper to be offered to the public at an attractive interest rate had been discussed from time to time. They were not convinced, however, that in Suriname's circumstances interest rate policy was a very significant factor in domestic saving behavior but said they did not rule out the use of this instrument and were keeping developments in this area under study.

The authorities explained that the imposition of comprehensive price controls had been dictated by the need to protect the economically weaker groups of the population and to avoid inflationary wage-price spirals. Similarly, the 1983 decree prohibiting dismissals of personnel on economic grounds without prior government authorization had been issued to preserve social peace and protect labor against the hardships of unemployment not justified in the light of medium-term prospects. The authorities did not share the staff's concern that too restrictive an interpretation of job security requirements would endanger the financial soundness of private firms. They recognized that under these circumstances private employers might well become reluctant to expand employment when otherwise they might have done so, but they expected to provide greater scope for employment in the public sector where much of future development projects would be concentrated. They expected the private sector to follow government leadership in this area once the present crisis situation had been overcome. Moreover, in the cases of sectors particularly affected by the present difficulties, the authorities said they had met with some success in reorienting such enterprises from trading to domestic production.

2. Exchange and trade policies

In recent years, Suriname has increasingly restricted payments for goods and services and for income remittances through foreign exchange licensing. From September 1984 onward, the restrictiveness of the exchange licensing requirement has given rise to arrears on such payments.

Following a reserve loss of US$128 million in 1983, restrictions were tightened during the course of 1984 with a view to limiting the overall balance of payments deficit at US$34 million thus keeping gross international reserves from falling below US$75 million. With capital inflows projected at US$50 million, this balance of payments target meant limiting the 1984 current account deficit to US$84 million. Projected export performance and imports required by the bauxite sector had allowed an allocation of US$240 million for imports by the non-bauxite sector. The authorities had relied on licensing to limit imports to this level, and had abolished the advance import deposit scheme introduced in January 1983 as this scheme had remained largely ineffective because of the high degree of liquidity prevailing in the economy. However, because insufficient allowance had been made for the backlog of licenses outstanding at the end of 1983 and still valid for 1984, and because of a shortfall in nonbauxite export receipts, the policy targets could not be attained; gross international reserves had already fallen to US$53 million by end-August 1984.

Determined not to allow any further decline in international reserves, the authorities began to issue licenses on the basis of a much stricter budgeting of foreign exchange. The loss of gross international reserves was, in fact, reversed in the last four months of 1984--albeit by means giving rise to arrears: some US$13 million worth of goods, imported on the basis of sight drafts, had piled up in the harbor of Paramaribo by end-November 1984 and could not be released from warehouses except with delays of four to eight weeks depending on when foreign exchange would be made available for payment by banks. Moreover, US$12 million was due for other imported commodities (including petroleum products), while some US$18 million of payments requests for services and income remittances abroad remained blocked by official action.

The authorities said that while they viewed restrictions as temporary emergency measures, they did not expect to be able to relax them within the foreseeable future. For the next few years restrictions would have to prevent a current account deficit until net capital inflows had brought international reserves back to a more acceptable level. The authorities considered that there remains scope for improving the effectiveness of controls over the repatriation of export proceeds, and for additional foreign exchange savings. They saw potential savings resulting from an increased role of government agencies in centralizing imports, but were also considering further cutting back on payments for services; for instance, nonbusiness travel abroad would have to be considered a luxury and foreign exchange allowances for such travel most likely would have to be reduced further.

The authorities said that they had considered exchange rate action with a view to attaining sustainable external balance without reliance on stringent restrictions. However, in Suriname's present situation they felt a devaluation would unduly increase pressures on the domestic price level and spur offsetting wage demands that would be difficult to deny. Moreover, an advisory group appointed by the Government to study this and other policy issues had concluded that in the short run only limited export gains could be expected to result from exchange rate action. The bauxite sector was working at high levels of capacity utilization and new investments in agricultural projects were required before that sector's exportable surplus could be raised. In any case, to the extent that there was scope for export increases in the short run, the authorities felt that they could achieve such increases without the detrimental effects of exchange rate action by implementing an official export promotion campaign aimed at finding new markets. Suriname had recently intensified its contacts with CARICOM, and trade with countries of the region might be boosted by means of bilateral agreements or barter deals as there seemed to be some scope for exchanging Suriname's rice and wood products against sugar and other essential imports.

In reviewing the performance of Suriname's major export sectors, the staff noted that the trend of the last four years pointed to continued decline of export receipts. In 1984 the two bauxite companies were making losses (one of them since 1981), the major rice exporter was facing its second consecutive year of financial difficulties and one of the multinational shrimp fishing companies had discontinued its activities in Suriname because of a lack of profitability. In discussing the potential benefits to be derived from exchange rate adjustment, the staff observed that unit labor costs have increased at considerably higher rates than the official consumer price index, suggesting that the real effective appreciation of the Surinamese guilder as calculated on the basis of the CPI tended to understate the loss of competitiveness. Moreover, besides improving Suriname's competitiveness, an exchange rate adjustment could well affect the composition of the bauxite sector's net outlays in Suriname. At present the bauxite companies in Suriname spent twice as much on wages than on taxes, a ratio which was relatively low compared with other countries and which had steadily deteriorated as the Government had made tax concessions while nominal wages continued to expand rapidly.

3. Development policy and medium-term balance of payments outlook

Since independence, economic activity had been supported mainly by increased government outlays which more than offset the declining role of the bauxite sector. However, the economic growth achieved in recent years--about 2 percent per annum in 1982 and 1983--involved a large drawdown of international reserves. By 1984, these reserves had reached a level that left little room for further reduction so that constraints on further growth became more stringent. Reliable estimates for real GDP in 1984 are not available, but in view of the curtailment in government development outlays, the unfavorable investment climate, and the impact of labor stoppages at the beginning of the year as well as other interruptions of production caused by shortages of imported raw materials and other inputs, it seems likely that real GDP declined in 1984.

The discussion of development policies and strategy benefited from the findings of the IBRD economic mission that had visited Suriname earlier in 1984.1/ These findings underscored the difficulties faced

---

1/ At the end of the 1970s the IBRD played a major role in assessing the viability of a major hydroelectric project in Western Suriname (Kabalebo). However, in view of the regular disbursement of Dutch aid flows at the time, the Surinamese authorities did not seek IBRD assistance for the financing of any development projects. At present the IBRD is assessing Suriname's creditworthiness in terms of the structure of the balance of payments, the strength of public finances, and the prospects for sustained economic growth. Pending the outcome of this assessment no financial involvement of the IBRD in Suriname can presently be projected.

by the Government in making the adjustments in economic and financial policies that have become necessary as a result of Suriname's severe resource scarcity. The World Bank's staff team had, in particular, stressed the need for the Government to bring the fiscal situation quickly under control, to define its investment priorities on the basis of stringent economic and financial criteria, and to improve the institutional framework and the policy environment for development both within the public and the private sector. The World Bank staff had projected relatively stagnating bauxite sector activity and noted that growth in the medium term would mainly have to depend on the agricultural sector, especially on rice production. Thus, even if efforts to obtain external financing for about half of a scaled-down development budget should prove successful, the medium-term prospects are for relatively low rates of economic growth and a significant reduction in real per capita consumption for some years to come.

IBRD staff projections had pointed to considerable structural improvements in the balance of payments that could be expected as a result of developments under way in the energy sector. One of the critical factors would be the extent to which prospects for onshore petroleum output growth can be realized. This could progressively reduce Suriname's fuel import bill and potentially eliminate the need for fuel oil imports by 1990. Further savings in fuel imports would be realized through two small-scale hydropower projects. On favorable assumptions with regard to the realization of these potential import savings, the balance of payments outlook would be for annual current account deficits up to 4 percent of GDP for the period 1985-90. Part of the financing for such deficits could be expected from private capital inflows in connection with ongoing upgrading investments in the bauxite sector.

Against this background, the authorities noted that the severe financial constraints facing the Government after the suspension of Dutch aid had led the Government to curtail its development expenditures during the last two years. For 1984 these expenditures were estimated at about 60 percent below 1982. Since they considered that prospects of export growth over the medium term were best for agriculture they had given highest priority to the continuation of projects in this sector.

Because it was now apparent that a resolution of the external resource constraint through the resumption of foreign assistance was not imminent, the Government would reassess its overall development planning. Agriculture was likely to continue receiving priority in the near future but increased attention was to be given to the domestic manufacturing of import substitutes. Overall, however, it was clear that development outlays at the level attained in 1981-82 could not be contemplated in the near future. Nevertheless, the Surinamese representatives expressed their confidence at overcoming the present structural imbalance and excessive import dependency and establishing the basis for a viable, diversified economy. They noted the considerable potential for hydroelectric power generation that could be realized with relatively small-scale projects, one of which might come into production by 1987.

The Surinamese representatives were particularly encouraged by the progress made in domestic oil production. While the scale of these operations was quite small, the State Oil Company which had started drilling operations late in 1982, was producing about 1,000 barrels of crude a day by end-1984. This represented 10 percent of domestic consumption, and projections are for production of 2,500 barrels a day by 1987. Offshore oil search efforts undertaken by a foreign company, on the other hand, had been discontinued. The authorities said, however, that new efforts in this direction were likely to be made and negotiations with an interested foreign company were anticipated. They noted that this approach underlined the Government's continued interest in attracting foreign direct investment in sectors requiring a scale of operations and a type of technology best assured by joint ventures or other forms of international cooperation.

III. Staff Appraisal

Continuing weakness in the markets for bauxite and its derivates which constitute the country's main exports, and the virtual cessation of foreign aid have underscored both the structural imbalance of Suriname's economy and the unsustainability of the Government's economic and financial policies.

The severity of the deterioration in Suriname's financial and economic position over the last two years reflects in part the authorities' attempt to maintain standards of living and growth through reliance on highly expansionary fiscal policies. Thus, large deficits were incurred even while development spending was sharply reduced. Because of the expectation of an early resumption of Dutch aid and recovery in world bauxite markets, the authorities had financed these deficits by recourse to the domestic banking system, drawing down the substantial international reserves accumulated in earlier years. The resulting imbalances in the economy have prompted the introduction of progressively more comprehensive and more restrictive measures to control prices, employment, international trade and payments by direct administrative means.

The staff is concerned that prolonged reliance on controls will create conditions rendering the urgently needed economic and financial adjustments more difficult to attain. This concern is the greater because the ad hoc manner in which controls are introduced and modified is creating a degree of uncertainty that is damaging. The foreign exchange constraint has already resulted in an interruption of development efforts and growth, and the distortions created by prolonged reliance on emergency-style government measures can hardly fail to aggravate the difficulties of overcoming the severe problems that confront Suriname's economy.

The staff recognizes that without broadly based public support it is not feasible to implement a comprehensive adjustment program of the kind necessary to yield sustainable balance of payments improvement. For that reason the staff welcomes the Government's recent efforts to bring the extent of the needed adjustment before the public and to seek consensus for the measures that must be taken. While accepting that full adjustment may not be feasible in one step, the staff is concerned about the delay in formulating adequate adjustment policies. The staff urges the authorities to take the actions necessary to reduce overall government expenditures and raise revenues in a manner that would reduce the government deficit significantly in 1985 and to follow such actions with measures that could be expected to lead to approximate fiscal balance within the next two years. While no area of government operations can be regarded as beyond the need to make stringent adjustments, in the light of present and prospective sustainable financing possibilities, government employment and the nonfinancial public enterprises appear to offer particular scope for improvements to be effected.

Even a much curtailed program of development projects of high social and economic priority is unlikely to attract enough foreign financing in the foreseeable future to serve as a basis for satisfactory levels of employment and economic growth. It will be the more important, therefore, to make every effort toward domestic resource mobilization. This effort will above all require strong fiscal measures to realize public sector savings and appropriate incentives for the private sector.

In the staff's view, appropriate interest and exchange rate policies are essential for re-establishing conditions for growth and development. While emphasizing that the use of these instruments will have the desired effects only if they are supported by appropriate demand management, the staff urges the authorities to consider the benefits to be derived from an active interest rate policy leading to an interest rate structure with positive real returns, and of an exchange rate policy that would avoid continued real effective appreciation of the Suriname guilder and help restore the competitiveness of the export sector.

The staff welcomes the abolition in April 1984 of the advance import deposit requirement that had given rise to a multiple currency practice. The continued reliance by Suriname on restrictive foreign exchange licensing is subject to Fund approval under Article VIII, Section 2(a). The restrictiveness of the foreign exchange licensing requirement is evidenced by arrears on payments for imports of goods and services and on income remittances. The staff does not consider the policies in place sufficient to give reasonable assurance that recourse to this restriction will be temporary. Accordingly, the staff does not recommend the approval of this restriction and urges the authorities to adopt policies and measures that would permit the early elimination of exchange and balance of payments related trade restrictions.

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

Suriname - Fund Relations
(As of December 31, 1984)

I. Membership Status

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

A. Financial Relations

II. General Department (General Resources Account)

	Millions of SDRs	Percent of Quota
(a) Quota:	49.30	100.00
(b) Fund holdings of Suriname guilders	49.30	100.00
(c) Fund credit:	--	--
(d) Reserve tranche position	--	--
(e) Current operational budget	--	--
(f) Lending to the Fund	--	--

III. Extended Arrangements and Special Facilities: None

IV. SDR Department

(a) Net cumulative allocation: SDR 7.75 million
(b) Holdings: SDR 1.28 million
(c) Current designation plan: Not in designation plan

V. Administered Accounts: None

VI. Overdue Obligations to the Fund: None

VII. Country has not used Fund resources to date.

B. Nonfinancial Relations

VIII. 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.

IX. Past Decisions

The last Article IV consultation was concluded by the Executive Board on January 27, 1984 (SUR/84/11, 2/1/84). Executive Directors did not approve Suriname's restrictive foreign exchange licensing and the multiple currency practice resulting from an advance import deposit scheme. The latter scheme was abolished in April 1984.

X. Technical Assistance

(a) CBD: Mr. Vicente Galbis visited Paramaribo from August 8 to August 17, 1981 to examine the structure of the financial system with a view to providing recommendations for an interest rate reform. In Paramaribo, Mr. Galbis wrote "Interest rates in small developing countries: on expository note prepared for the Central Bank of Suriname" which was followed later in the year by his report on "Interest rate reform in Suriname".

(b) Fiscal: Mr. K. van der Heeden of the Dutch Ministry of Finance visited Paramaribo from January 18 to February 4, 1982 to discuss further the contents of his technical assistance report: "Tax Survey of Suriname" (March 26, 1981).

(c) Other: None

XI. Resident Representative/Advisor: None.

XII. Financial Relations of the World Bank with Suriname: None.

Suriname - Statistical Issues

1. Outstanding statistical issues

a. National accounts

The Bureau of Statistics has recently received national accounts data for the period 1972-1983; however, data from 1981 through 1983 are only partial. It should be noted that GDP at market prices for 1980 includes a discrepancy, since component data do not add up to the total. This discrepancy is also reflected in the figures for gross national product and national income at both market prices and at factor cost. Furthermore, GDP at 1973 prices and the implicit GDP deflator (1973 = 100) seem to be inconsistent.

b. Prices

The consumer price index (base April 1, 1968 - March 31, 1969) is outdated and needs to be revised.

c. Government finance

While aggregate data are published in IFS through 1983, more detailed data in the GFS Yearbook are not available beyond 1976.

d. Merchandise trade

Since 1979, trade data have been reported only on a payments, rather than a transactions, basis; moreover, data for total exports and imports are uncurrent.

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

The table below shows the currentness and coverage of data published in the country page for Suriname in the January, 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank, which during the past year have been provided on a timely basis.

Status of IFS Data

		Latest Data in January 1985 IFS
Real sector	- National accounts	1983 (partial)
	- Prices	August 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	1983
	- Financing	1983
	- Debt	n.a.
Monetary accounts	- Monetary authorities	September 1984
	- Deposit money banks	September 1984
	- Other financial institutions	n.a.
External sector	- Merchandise trade: Values (exports)	Q3 1983
	- Merchandise trade: Values (imports)	December 1983
	- Merchandise trade: Prices	September 1984
	- Balance of payments	Q1 1984
	- International reserves	November 1984
	- Exchange rates	November 1984

Suriname-Basic Data

Area and population	
Area	163,820 sq. kilometers 1/
Population (end-1983)	378,800
Annual rate of population increase (1979-83)	1.2 percent
GNP per capita (1983)	SDR 3,203.6
Origin of GDP (1983)	(percent)
Agriculture and fisheries	8.4
Forestry and wood processing	1.5
Mining and bauxite processing	11.7
Industry, public utilities, and construction	14.9
Commerce and banking	26.0
Government	24.8
Other services	12.7
Ratios to GDP (Est. 1984)	
Exports of goods and services	30.9
Imports of goods and services	38.7
Central government revenues (including grants)	19.4
Central government expenditures	31.3
Public external debt (end of year)	1.1
Saving	4.0
Investment	11.2
Money and quasi-money (end of year)	49.3

Annual changes in selected economic indicators	1980	1981	1982	1983	Est. 1984
Real GDP (at factor cost)	-3.3	4.7	1.7	2.2	-1.0
Real GDP per capita (at factor cost)	-0.9	4.9	-0.7	-0.5	-2.9
GDP at market prices	7.0	15.2	8.1	3.6	4.1
Domestic expenditures (at current prices)	11.8	23.3	8.7	2.2	0.4
Investment	(7.2)	(18.1)	(0.2)	(-18.3)	(-14.9)
Consumption	(12.8)	(24.4)	(10.4)	(6.0)	(2.5)
GDP deflator	10.6	11.0	9.5	3.0	6.0
Cost of living (annual averages)	13.2	8.7	7.3	4.4	4.7
Central government revenues (including grants)	7.6	8.4	3.3	-28.6	-6.6
Central government expenditures	7.1	22.0	8.3	2.1	-7.2
Money and quasi-money	7.8	19.8	10.4	10.4	14.8
Money	(7.6)	(21.7)	(17.7)	(8.0)	(16.9)
Quasi-money	(8.0)	(18.5)	(5.1)	(12.4)	(13.2)
Net domestic bank assets 2/3/	-0.6	17.3	19.5	32.3	33.0
Credit to public sector (net)3/	(-3.3)	(7.6)	(11.1)	(33.5)	(27.7)
Credit to private sector 3/	(6.1)	(12.2)	(9.2)	(2.1)	(10.0)
Merchandise exports (f.o.b.)	15.8	-7.9	-9.5	-14.4	-8.7
Merchandise imports (c.i.f.)	22.7	12.6	-9.1	-12.8	-10.8

Central government finances	1980	1981	1982	1983	Est. 1984
	(millions of Suriname guilders)				
Revenues (including grants)	624.3	677.0	699.1	498.9	466.2
Expenditures	600.2	732.0	792.9	809.7	751.2
Overall surplus or deficit (-)	24.1	-55.0	-93.8	-310.8	-285.0
External financing (net)	-4.1	0.2	0.5	-0.5	-2.9
Internal financing (net)	-20.0	54.8	93.3	311.3	287.9
Balance of payments	(millions of U.S. dollars)				
Merchandise exports (f.o.b.)	514.4	473.8	428.6	366.8	335.0
Merchandise imports (c.i.f.)	504.4	567.9	516.1	450.3	401.6
Investment income (net)	-13.5	15.5	9.8	-10.5	-7.8
Other services and private transfers (net)	-54.8	-43.9	-75.6	-69.4	-36.8
Balance on current and transfer accounts	-58.3	-122.5	-153.3	-163.4	-111.2
Official capital and public transfers (net)	72.1	92.2	95.6	1.0	1.8
Other capital (net)	21.2	45.9	20.4	35.9	11.3
Errors and omissions	0.7	-0.6	1.1	-1.2	--
Overall balance	35.7	15.0	-36.2	-127.7	-98.1

International reserve position	December 31 1980	1981	1982	1983	1984
	(millions of U.S. dollars)				
Monetary system (net)	222.8	237.8	201.5	91.1 4/	-10.3 5/6/
Monetary system (gross)	242.0	260.0	225.8	109.3 4/	60.4 6/

1/ Includes a disputed area of some 19,000 sq. kilometers.
2/ Defined as liabilities to the private sector minus net international reserves.
3/ In relation to the stock of money and quasi-money at the beginning of the period.
4/ Includes US$17.4 million of gold revaluation.
5/ Adjusted for external arrears.
6/ Relative to end-1983 the accounting value of gold is estimated to have been reduced by US$3.3 million.