May 21, 2020
Approval: 5/29/20

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/99-3

11:40 a.m., December 11, 2019

3. Suriname—2019 Article IV Consultation

Documents: SM/19/261 and Correction 1; and Supplement 1; and Supplement 2; SM/19/262; and Correction 1

Staff: Alichi, WHD; Fletcher, SPR

Length: 26 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	J. Essuvi (AE), Temporary
	F. Sylla (AF)
	E. Rojas Ulo (AG), Temporary
	J. Shin (AP), Temporary
A. Bevilaqua (BR)	
	Y. Zhao (CC), Temporary
L. Villar (CE)	
	C. Williams (CO), Temporary
	S. Benk (EC)
	P. Rozan (FF)
R. von Kleist (GR)	
	N.Thiruvenkadam (IN), Temporary
	L. Cerami (IT), Temporary
	H. Mori (JA), Temporary
	C. Sassanpour (MD), Temporary
	D. Fadhel (MI), Temporary
	R. Doornbosch (NE)
	J. Sigurgeirsson (NO)
	A. Biriukv (RU), Temporary
	R. Alkhareif (SA)
	S. Chea (ST), Temporary
P. Inderbinen (SZ)	
	T. Chrimes (UK), Temporary
	R. Farber (US), Temporary

C. McDonald, Acting Secretary
J. Morco, Summing Up Officer
B. Zhao, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Legal Department: J. Ams, H. Pham. Research Department: I. Shibata. Strategy, Policy, and Review Department: K. Fletcher. World Bank Group: O. Fadyeyeva. Western Hemisphere Department: A. Alichi, N. Chalk, T. Dowling, W. Ho, S. Hove. Alternate Executive Director: B. Saraiva (BR). Senior Advisors to Executive Directors: Y. Danenov (SZ), Z.Mohammed (BR), J. Rojas (CE). Advisors to Executive Directors: W. Al Hafedh (SA), M. Albert (FF),

M. Coronel (BR), S. Evjen (NO), I. Fragin (GR), S. Harutyunyan (NE), A. Maciá (BR), L. Nankunda (AF), S. Senich (US), Y. Pierre (BR), K. Eckhorst (BR).

3. SURINAME—2019 ARTICLE IV CONSULTATION

Mr. Bevilaqua and Mr. Eckhorst submitted the following statement:

On behalf of our Surinamese authorities, we thank staff for this year's Article IV consultation. While broadly agreeing on many of the key issues detailed in the report, we would like to highlight the progress recently made on the fiscal, monetary and financial frameworks.

Macroeconomic developments

After a deep recession in 2015-16, when inflation spiked and fiscal deficit ballooned, the economy has returned to a sounder track. The recovery is broad based and is premised on institutional enhancements and improved fundamentals. GDP growth reached 2.6 percent in 2018, up from 1.8 percent in 2017. Following a peak of over 50 percent in 2016, inflation dropped sharply to 6.8 percent in 2018 and is expected to remain contained within single-digit levels. This positive outcome has been supported by recently developed monetary policy instruments under the new reserve money targeting framework. The authorities remain committed to implementing both revenue and expenditure measures to achieve fiscal stabilization. That said, the primary fiscal deficit declined by about four percentage points of GDP between 2015 and 2018. Going forward, the authorities are committed to implementing additional measures to increase tax revenues and strengthen public sector efficiency.

Fiscal policy and public debt

The Surinamese authorities are committed to fiscal sustainability. The authorities are focused on further enhancing domestic revenue mobilization and on maintaining the strict expenditure policy at all levels of government. In addition, reform of the energy sector will reduce the budgetary transfer of cost subsidies and hence create space for capital investments. This will enable further development of non-mineral domestic sectors and contribute to the improvement of the non-resource fiscal balance. Combined with ongoing economic growth, these initiatives will strengthen fiscal sustainability and increase debt repayment capacity in the medium term.

The fiscal policy framework has been enhanced to magnify the benefits of improving commodity prices and increasing government mining revenues. Revenues improved steadily with recovering prices of Suriname's main export commodities – gold and oil. Going forward, this virtuous trend is expected to continue with the exploration of new gold mines in 2019 and 2020 and the completion of accelerated depreciation schemes. Increased revenue collection efficiency combined with positive economic growth have resulted in steadily higher revenues from the non-mining sectors since 2017. Furthermore, as a key mechanism to counter commodity cycles, the authorities launched the Savings and Stabilization Fund Suriname (SSFS) and installed its Board of Directors in August 2019. This new sovereign wealth fund will allow windfalls to be syphoned off to be used in the future to stabilize revenue and expenditure in times of high volatility and create a buffer for future generations. The authorities welcome the Fund's expertise and support to this initiative and are preparing to approach the World Bank Group (WBG) with a request for technical assistance.

The authorities plan to curb electricity tariff subsidies through institutional reforms and the reduction of energy production costs. The authorities are committed to curtail electricity tariff subsidies, which account for almost half of the estimated 2019 overall deficit. To that end, they have taken initial steps to reorganize the sector, revamping the legal framework and establishing cost-effective regulations. The energy cost is anticipated to be reduced with the transfer of the Afobakka hydro-energy dam to the Government, which is scheduled for the end of 2019. Furthermore, the authorities understand that phasing out electricity subsidies in a gradual way is important to avoid new inflationary pressures and social disruption, while at the same time creating fiscal space.

Recent debt law amendments will help to stabilize fiscal and public debt indicators. Authorities are decided to make a sensible use of their indebtedness capacity. They are committed to keep medium-term debt levels on a sustainable path and refrain from measures that might undermine this objective. The revised Debt Law allows for debt to exceed the 60 percent of GDP ceiling under certain circumstances, as long as the amount does not surpass the annually approved budget deficits and total debt does not exceed 95 percent of GDP. The new enhanced public financial management feature establishes that the government cannot contract new debt above the 60 percent threshold before approval by the parliament. In addition, the Debt Act now requires a debt sustainability analysis to be presented in conjunction with the submission of the budget to the National Assembly. While ensuring sustainability, the framework allows for concessional loans to help diversify the economy, which ultimately improves the overall fiscal balance. Moreover, reforming the tax system to enhance revenues is a high priority for the authorities. This will include the introduction of new tax laws – the already drafted VAT bill shall be sent to congress next year – and adjustments of existing legislation in order to comply with internationally acceptable standards and procedures. These efforts combined will increase debt repayment capacity.

Institutional capacity strengthening to support transparency, governance and financial accountability is a priority. The MoF's Fiscal Strengthening to Support Economic Growth (FISEG) program is a case in point. In 2019 the Parliament approved the new Accounting Act, emphasizing accountability and control in the use of public resources, as well as the principle of single audit to ensure an integrated audit program. It also considers international developments by the International Accounting Standard Committee (IASC). The adoption of new rules with regard to the composition, organization and working methods of the Supreme Audit Chamber of Suriname were part of the revised Law on the Supreme Audit Chamber. Furthermore, the MoF presented a new draft act on Procurement to Parliament, for approval.

Monetary and exchange rate policies

Keeping liquidity at a manageable level is a crucial policy priority. To that end, the monetary authorities are diligently monitoring and controlling excess reserves. The Centrale Bank van Suriname (CBvS) successfully switched its nominal anchor from the nominal exchange rate to reserve money. As a result, and underpinned by a more stable exchange rate, inflation has decelerated continuously since 2016 and is now projected to end 2019 at 4.5 percent. The Central Bank has introduced new liquidity management instruments and is committed to further improving the effectiveness of the available monetary instruments. Coordination of monetary and fiscal policies is ensured through the newly formed Monetary and Fiscal Policy Coordination Committee (MFPCC), which encompasses both the MoF and CBvS.

Accumulation of international reserves is geared to avoiding disruptive conditions affecting the domestic currency. In a small and less diversified economy, the central bank has limited possibilities to boost its international reserves, other than buying gold or foreign exchange from a small number of exporters. Accordingly, the increase in international reserves was bolstered by prudent purchases of foreign exchange and gold at the local market, as well as the obligation of commercial banks to place a share of foreign currency required reserves with the Central Bank. Also, outstanding foreign currency swap arrangements were terminated in October 2019 hence eliminating currency risk for the CBvS. Foreign exchange market reform has proceeded alongside other measures to safeguard financial stability and improve financial intermediation, including the newly drafted and enhanced financial legislation.

Improved legislation and close monitoring will increase resilience against FX market misalignments. Underdevelopment of the Surinamese FX markets creates space for disruptions by some dominant market participants. Nevertheless, the Central Bank encourages responsible FX-market behavior with increased monitoring and strengthening of supervision and regulation of cambios (foreign exchange houses).

Financial sector policies

Despite significant challenges, key indicators reveal the banking sector's resilience under the supervision of the CBvS. Overall, the timely tightening of the regulations and subsequent follow up by the CBvS' Supervision Directorate have placed banks in a better position to withstand shocks. Banks have proven to be sufficiently liquid with improving capital adequacy ratios. Non-performing loans ratio has declined in Q2 2019 when compared to the previous quarter. The implementation of IFRS 9 is not expected to have a significant impact because of the strict requirements of the current regulations. However, challenges remain with regard to overall profitability. The CBvS is in continuous consultation with banks with a view to improve risk management and efficiency, thereby enhancing profitability across the system.

The CBvS has taken decisive steps to enhance its supervision capacity. The CBvS is aware of the fact that the existing legislation regarding the financial sector needs to be modernized and adapted to international standards. In this regard, a proposal to amend the Bank Act in accordance to the core functions of the CBvS as the guardian of monetary and financial stability has been drafted. The proposed amendments would eliminate articles that make possible monetary financing, introduce new regulations with regard to Islamic banking and electronic payments, and enhance supervision of other financial institutions. In addition, the Act on Banking and Credit System Supervision was adjusted in accordance with international standards and the recommendations of the FATF.

The Bank Resolution Act contains a set of rules that will enable the CBvS to take effective action to curtail risks at the level of individual financial institutions and the financial sector as a whole. New legislation involves rules on electronic transactions (Electronic Payments System Act), the setup of a credit registry office and a deposit insurance scheme. The authorities agree with staff that enhancing the AML/CFT framework is instrumental in mitigating risks regarding the withdrawal of correspondent banking relationships and intend to amend the legislation accordingly. In preparing for the CFATF mutual evaluation in 2021, the authorities are giving the highest priority to the National Risk Assessment (NRA) to identify key areas for improvement, which would result in an action plan with a view to enhance the country's risk profile.

Medium-term development prospects

A set of policies are being implemented to strengthen the real economy and its foreign exchange earning capacity, with particular attention to economic diversification and infrastructure improvement. The authorities are implementing several measures to improve the business climate, especially for the non-resource sectors, such as the WBG "Suriname Competitiveness and Sector Diversification" program, to be launched in the first quarter of 2020. The highway construction from the airport to the capital city is well underway and will provide Suriname with much improved connectivity. Both projects have been financed with foreign loans and are overseen by technical support and domestically created new expertise. Furthermore, to facilitate investments in sectors like tourism, forestry and agriculture, an infrastructure project to restore important irrigation systems and improve a myriad of waterways was launched in September 2019. Other upcoming infrastructure projects aim to enhance Suriname's connectedness with the world, including the dredging of the Suriname River and the expansion of the main international airport. With significant infrastructure in-place, Suriname was able to attract investments from a multinational agribusiness corporation to setup large scale production and processing facilities that will boost exports, create jobs and amplify the economy's foreign exchange earning capacity.

Mining earnings will be used to catalyse development in other sectors. Offshore oil findings would dramatically change the growth outlook, when accounting for upstream and downstream effects. The upcoming oil exploration in neighboring Guyana is expected to provide many opportunities to the people of Suriname. Many Surinamese companies have already established branches in Guyana that support local content and absorptive capacity in both countries. Reforms in the small-scale gold sub-sector should be geared towards the development of cleaner and more costs-efficient methods of mining. Enhancing revenue administration and collection in this sub-sector will increase mining revenues. The newly established mining institute will be at the center of these reforms.

Mr. Obiora and Mr. Essuvi submitted the following statement:

Staff's analysis and appraisal of Suriname's economy broadly aligns with our perspectives. The economy continues to recover from the 2015-16 terms of trade shock, supported by performance of the non-oil economy. Although inflation is receding and unemployment remains low, the country faces numerous challenges, including persistent fiscal deficits, external and financial vulnerabilities as well as high dependence on the mineral economy, which remains vulnerable to commodity price shocks. In light of these, it is critical that the authorities urgently implement prudent macroeconomic policy reforms to reduce public debt and rebuild external buffers while entrenching structural reforms that will help improve resilience and enhance growth.

Bringing public debt onto a downward trajectory is both appropriate and urgent. Given that public debt-GDP ratio may rise from its current 72.1 percent to over 85 percent in 2024, it is imperative that the authorities begin immediate steps to ameliorate the country's fiscal position and ensure long-term fiscal and public debt sustainability. In this connection, we broadly share the staff's recommendations to implement improvements to tax and customs administration, public financial management, and the allocation and procurement of public investment. While we encourage them to further pursue their reform efforts aimed at strengthening their fiscal framework and bolstering fiscal discipline, we urge the authorities to adhere to staff recommendations on immediate actions such as streamlining recipients of electricity subsidies, implementing the VAT, managing the wage bill, and improving public financial management. In light of the unsustainability of public debt, could staff elaborate on the rationale behind the repeated postponement of VAT reform by the authorities?

We see merit in staff's call for more flexibility of the exchange rate but worry that Suriname's country-specific circumstances may nullify its benefits. To the extent that exchange rate flexibility for Suriname almost always translates into depreciation of the currency, we are concerned that while they automatically bear the cost of higher prices for imported goods, they may not reap the benefits of higher exports, given the nature of their major export. We welcome staff comments on whether this possibility was factored into their advice to the authorities, and how? We are also concerned with the revocation of the MOU that prohibited CBvS' direct financing of the deficit and urge the authorities to act with urgency in enacting the Draft Bank Act, which should permanently prohibit such financing. Could staff comment on the independence of the CBvS in the wake of the resumption in the Bank's financing of the government's budget deficit?

Addressing vulnerabilities in the banking sector and the AML/CFT framework is crucial to safeguard stability. Tightening financial supervision and improving prudential regulations remain important to further stabilize and strengthen the financial system. Although progress have been made in increasing the capital base of banks, and in improving the regulatory and supervisory framework following the 2014 FSAP, high NPLs and undercapitalized banks continue to pose risks to the system. In this vein, we urge the authorities to finalize the contingency planning framework as well as the new banking resolution framework in line with international standards. Could staff provide an update on the new resolution law being considered, following its submission to the National Assembly? Furthermore, we encourage the authorities to continue to reinforce the country AML/CFT regime into technical compliance with the current Financial Action Task Force (FATF) standards.

In order to promote economic diversification and achieve more inclusive growth, the authorities need to hasten many structural reforms. Given the dependency of Suriname's economy on the commodity sector, we agree with staff on the need for supply-side reforms towards diversification away from natural resources that would enhance the economy's resilience to commodity price shocks, boost potential growth and ensure higher productivity. To this end, we encourage the authorities to take further measures to improve the business climate, support private sector development, enhance access to finance, reduce regulatory burdens for the private sector and ameliorate labor market rigidities.

Mr. Chikada and Ms. Mori submitted the following statement:

We thank staff for the comprehensive papers and Mr. Bevilaqua and Mr. Eckhorst for their informative buff statement. We welcome that Suriname continues to grow steadily with low inflation and falling unemployment rate. However, given the growing downside risks to the outlook, more reform efforts are required to address large fiscal imbalance, high debt, vulnerable banking system and heavy reliance on natural resources. As we broadly concur with the thrust of the staff appraisals, we will limit our comments to the following points.

A significant front-loaded fiscal consolidation effort is needed to ensure fiscal sustainability and put public debt on a downward path overt the medium term. The authorities should improve revenue administration and public financial management, strengthen the public investment system, reduce electricity subsidies, and introduce VAT while taking targeted social safety net measures to mitigate the impact of reforms to the most vulnerable. We note a significant divergence in the projections for fiscal balance between staff and the authorities. While the authorities see staff's baseline policies as a passive non-implementation of their stated policies, could staff elaborate why such a significant divergence exits; which measures are already stated by the authorities among the measures in the adjustment scenario, the reason why staff does not include the measures in the baseline scenario, and where staff sees challenges or difficulties for the authorities to implement such policies?

The resumption of monetary financing of the budget is a concern as it undermines credibility in fiscal consolidation and monetary framework, which could also cause erosion of international reserves, and other vulnerabilities. Therefore, it should be discontinued by reinstating the MoU for the time being and subsequently revised Bank Act. However, in this regard, we wonder and welcome staff's views whether the government is willing to accept the new draft Bank Act, as it is the government which revoked the MOU with the central bank.

The planned shift of nominal anchor from the exchange rate to reserve money should be implemented to strengthen monetary policy framework. We welcome that the CBvS has started taking steps toward building a reserve money targeting regime framework since late 2019. We expect the newly installed instruments and committees would help strengthen monetary policy going forward. We also take note the authorities' commitment to a flexible exchange rate and encourage their efforts to eliminate the parallel market and support reserve accumulation.

Addressing the pressing vulnerabilities of banking system are need. With high non-performing loans and low profitability, revamping CBvS's supervisory efforts and legislative actions are crucial to strengthen stability of banking sector. We especially note the legal impediments of crisis management framework and encourage actions to finalize amendments to the Bank Resolution Act which gives the CBvS powers and tools to take swift actions. We acknowledge the authorities' efforts to improve the AML/CFT framework including the national risk assessment.

Continuous structural reforms are needed to achieve sustained growth. Improving business environment and strengthening governance will help attract private sector investment, boost potential growth and diversify the economy. It is encouraging that Suriname has improved its position in the World Bank's doing business indicators and further efforts in areas such as starting a business and getting credit are encouraged.

Mr. Farber, Ms. Pollard and Ms. Senich submitted the following statement:

We thank staff for their useful report and Mr. Bevilaqua and Mr. Eckhorst for their helpful buff statement. We welcome Suriname's recent economic growth and low, stable inflation, as well as the progress the authorities have made toward public financial reform. As we broadly agree with staff's appraisal, we will highlight a few areas for emphasis.

The authorities have taken important steps toward developing an expanded monetary policy toolkit and recapitalizing the central bank (CBvS), but disappointingly revoked the MOU between the government and the CBvS that prohibited monetary financing of the budget. We encourage Suriname to resume making progress in this space, especially by eliminating monetary financing to prevent the re-emergence of high inflation. We also agree with staff that moving toward a market-determined exchange rate regime is desirable to help absorb external shocks and eliminate the parallel FX market. We appreciated the Selected Issues Paper on exchange rate passthrough which provided further support for the shock absorbing function of greater flexibility.

We welcome the recent passage of the public financial management law but note implementation will be key. We also encourage the authorities to implement planned revenue-raising public finance reforms.

The staff report's Annex I on implementation of past Fund advice was helpful. We read with interest that the authorities had implemented the recommendation to establish a Sovereign Wealth Fund and develop a framework for sound management of future mining revenues. Noting that Suriname's Savings and Stabilization Fund is not yet a member of the International Forum on Sovereign Wealth Funds, we would encourage the authorities to administer the Fund in keeping with the Santiago Principles to promote good governance, accountability, transparency and prudent investment practices.

Suriname's high public debt burden, high financing needs, and high proportion of foreign currency-denominated debt pose significant sustainability risks. The Debt Sustainability Analysis highlights Suriname's poor fiscal position, and we stress the importance of putting debt on a sustainable downward trajectory. We are concerned by the recently-announced plan increase to Suriname's public debt limit, which raised the limit from 60 to 95 percent of GDP. Mr. Bevilaqua and Mr. Eckhorst's buff statement notes that debt can only surpass the 60 percent limit under certain circumstances. Can staff provide more information on the operation of the debt limit?

As last year, we note that not all public sector statistics are compiled, only central government debt. The Informational Annex notes, and we agree, that given the importance of state-owned enterprises in Suriname, fiscal statistics should cover the non financial public sector. The Annex also notes that weakness in statistics reflects resource and capacity constraints. Have the authorities requested technical assistance to improve data adequacy?

Though not discussed in the report, we note that Suriname ranks far behind the Caribbean average for “getting credit” in the 2019 World Bank Doing Business Report. Can staff comment on barriers to credit access in Suriname? We also support staff’s call for further structural reforms to boost private sector growth.

Application of a risk-based approach to AML/CFT will be important ahead of the 2020 mutual evaluation. We encourage the authorities to continue the process to align the AML/CFT regime with international standards.

We appreciate that Suriname published the 2018 Article IV report and urge the authorities to consent to publication of this year’s report.

Mr. Heo, Mr. Tan, Mr. Shin, Mr. Chea and Mr. Kikiolo submitted the following joint statement:

We thank staff for the comprehensive report and Mr. Bevilaqua and Mr. Eckhorst for the informative buff statement. We welcome Suriname’s stable economic growth, low inflation, and falling unemployment rate. Noting that fiscal and banking vulnerabilities continue to persist, we urge the authorities to remain vigilant and continue to implement their structural reform agenda. We broadly agree with the thrust of the staff recommendations and make the following statements for emphasis.

Containing the fiscal deficit through revenue enhancing efforts and expenditure control measures is important to put debt on a sustainable path. We welcome the planned increases in sales tax to 22 percent by next year and the two step increases in electricity tariffs over the medium term by 15 percent and 20 percent in 2020 and 2023, respectively. In view of the 8.5 percent fiscal consolidation that is required over the medium term, we urge the authorities to ensure the most vulnerable households are shielded from the tariff increases. We invite staff to elaborate on the authorities’ comments that "staff's baseline projections are passive non-implementation of their state policies." To foster greater policy traction and country ownership, we would encourage both staff and the authorities to continue to work closely together and engage in candid dialogue on the fiscal assumptions going forward. On the authorities' comments that some of the recommendations in the adjustment scenario are in fact policies designed by the authorities and are part of the policies scheduled to be implemented in the coming years, we would encourage staff to give credit where it is due and continue to offer value-added support where possible to ensure the desired outcomes are achieved.

We commend the authorities' ongoing efforts to strengthen the monetary policy framework and move towards a market clearing exchange rate. The introduction of new monetary policy tools such as certificates of deposits, 1- and 5-day lending facilities, and the interest-bearing deposits is a positive development. While we agree with staff that the authorities should expand the monetary toolbox, we are also mindful of the authorities' implementation capacity. In this regard, we support the authorities' request for the Fund to provide technical assistance to help set targets for M0 and to develop the interbank market. Understanding why the authorities returned to using an exchange rate anchor instead of the reserve money in 2016 is critical in avoiding a recurrence. Staff's comments are welcomed. The Ministry of Finance's intention to omit the clause on monetary financing in the revised draft Bank Act is a positive step considering the resumption of monetary financing in 2019.

The authorities must continue to strengthen supervisory actions to address banking vulnerabilities and safeguard financial stability. We note with concern the deterioration in non-performing loans in 2019 after a slight improvement in 2018, and persistent profitability issues. Could staff comment on whether the growing NPL is a temporary uptick, and what are the key sectors driving the recent NPL growth, along with staff's estimate of the potential impact on loan classification and provisioning if IFRS is successfully implemented? While we commend the authorities for implementing recommendations in the 2014 and 2018 Article IV that seek to strengthen bank capital and the regulatory and supervisory framework in line with the 2014 FSAP recommendations, we urge the authorities to advance the Bank Resolution Act and other financial sector related legislations as well as address outstanding AML/CFT issues.

We encourage the authorities to effectively implement structural reforms that would unlock private sector growth especially in non-resource sectors. We agree that the recently passed Family Act has the potential to enhance female labor participation. We look forward to the Suriname Competitiveness and Sector Diversification program and the successful restoration of a key infrastructure project such as the irrigation system that is vital for agriculture and forestry. We take note of the minimum wage increase to SDR 8.4 per hour and the plan to review it after every two years and wonder how this will affect the economy in general. Staff's comments are welcomed.

Mr. Sigurgeirsson and Mr. Evjen submitted the following statement:

We thank staff for the comprehensive report, and Mr. Bevilaqua and Mr. Eckhorst for their informative BUFF Statement. While we are encouraged to see that the economic situation has stabilized following the significant economic contraction in 2015-16, more efforts are still needed to address the long-standing challenges. We broadly share staff's appraisal and offer the following remarks for emphasis.

Safeguarding the sustainability of the country's fiscal position should remain a priority. Fiscal imbalances remain large. Public debt is forecast to move steadily upward even with the fiscal tightening measures suggested by staff. We note the substantial increase in public debt in 2016 and that the National Assembly recently approved a new law in which the public debt limit was raised from 60 to 95 percent of GDP. We would welcome staff's comments on how they view the rationale for the substantial increase to the debt limit.

The authorities' projections are significantly more optimistic than staff's. The significant divergence between staff's and the authorities' projected debt paths are striking and somewhat puzzling. Moreover, the authorities forecast lower inflation and higher GDP growth than staff. This could suggest that the slope of the Phillips curve is perceived differently between staff and the authorities. Staff's comments on the large discrepancies are welcome.

Although the central bank has taken important steps in the right direction, more needs to be done to strengthen the monetary policy framework, including publishing monetary targets, expanding the toolbox, and improving the coordination with the government. Moreover, the central bank should discontinue monetary financing of the fiscal deficit. In addition to undermining confidence in monetary policy, central bank independence, and fiscal management, monetary financing could lead to a loss of international reserves, depreciation and higher inflation. We therefore welcome that the new draft Bank Act would eliminate these types of direct monetary financing of the fiscal deficit. We agree that a more flexible exchange rate would act as a shock absorber.

Banking system vulnerabilities should be addressed. Some large banks do not meet the minimum capital requirements despite an ongoing supervisory response. We agree that the central bank should revamp its supervisory actions so that banks return to compliance with regulatory requirements. The authorities should also enhance the bank resolution process. We encourage the authorities to continue strengthening their AML/CFT framework and welcome a comprehensive national risk assessment.

The Surinamese economy remains heavily dependent on natural resource extraction, and more efforts are needed to diversify the country's sources of growth. A broad range of structural reforms will be essential to strengthen the country's competitiveness and stimulate private sector investment in the non-mineral sectors. We encourage the authorities to consider measures that would strengthen investors' legal protection, improve governance, increase labor market flexibility, and align education outcomes with labor market demands. Lastly, we commend the authorities for Suriname's participation in the EITI and the successful publication of the first report.

Mr. Doornbosch, Mr. Psalidopoulos, Ms. Cerami and Ms. Harutyunyan submitted the following joint statement:

We thank staff for the comprehensive report and Mr. Bevilaqua and Mr. Eckhorst for their informative buff statement. We take positive note that the economic recovery has gathered momentum since 2017, both in terms of output and employment, while inflation has fallen below 5 percent. However, the deterioration of the external position and the fiscal balance, persistent vulnerabilities in the banking sector, and a still fragile monetary policy framework pose significant challenges. Addressing these vulnerabilities will be key to safeguard macroeconomic stability and lay the ground for more sustainable growth. We agree with the thrust of staff's appraisal and policy recommendations and encourage the authorities to prioritize reforms in the fiscal area, where progress has been more limited. We would also like to add the following comments for emphasis:

Ensuring fiscal sustainability remains a key priority. Public debt has sharply increased on account of growing financing needs and lagging fiscal reforms. While the authorities have raised electricity tariffs substantially over the recent period, only a third of the costs is still covered. To this end, along with other measures embedded in the report, a further increase in tariffs accompanied by measures to protect lower-income households is needed to put public debt on a downward path. Partial progress has also been made in improving revenue administration, public financial administration, and the public investment system while the introduction of the value added tax (VAT) has been postponed. We are concerned that, based on staff's debt sustainability analysis, public debt is projected to increase to over 87 percent of GDP in the medium-term under the baseline scenario which includes the introduction of the VAT and lower energy subsidies. Hence, fiscal reforms should not be further delayed.

The central bank should further strengthen its monetary policy framework and allow for greater exchange rate flexibility. The ongoing enhancement of the reserve money targeting regime is a welcome step forward. That said, further efforts are needed to fully implement it, including publishing explicit monetary targets, expanding the monetary toolbox, and improving liquidity forecasting in coordination with the government. The insightful selected issue paper on the exchange rate passthrough builds a convincing case for allowing for greater exchange flexibility, as it would facilitate monetary policy implementation, in addition to reducing the high external debt vulnerability to a currency depreciation. We also appreciate staff's analysis of the costs and benefits of high dollarization in Suriname. To this end, we see merit in developing a coherent strategy to reduce it, drawing on the experience of other countries, like Peru. We look forward to the finalization of the Bank Act, which will implement staff's safeguards recommendations, including the prohibition of monetary financing and the recapitalization of the central bank.

Comprehensive structural reforms to strengthen the financial sector and develop a more diversified economy should move forward. We welcome the authorities' comprehensive legislative agenda for the financial sector aimed at broadening and strengthening the supervisory authority of the central bank, also beyond the banking sector, and establishing a deposit insurance scheme. In this context, the reinforcement of the AML/CFT framework is crucial to maintain correspondent banking relationships. We also welcome the authorities' commitment to strengthen governance in the extractive sector based on the recommendations of the recent Extractive Industries Transparency Initiative. Further efforts are needed to improve the business climate and education, and foster a more robust, inclusive, and diversified growth.

Mr. Benk and Mr. Bukovina submitted the following statement:

We would like to thank staff for their comprehensive set of papers, as well as Messrs. Bevilaqua and Eckhorst for their informative buff statement. We broadly concur with staff's appraisal and would like to add the following comments for emphasis.

Suriname has experienced healthy economic growth, stable inflation, and a falling unemployment rate. Nevertheless, the slowdown of the monthly economic activity indicator suggests that projected growth is expected to narrow. We are concerned about increasing downside risks to the outlook that, should they materialize, may create significant pressure on public finance sustainability and the external position. However, we note the presence of some upside risks stemming from potential new gold or oil discoveries.

Bold fiscal consolidation is needed to put public debt on a sustainable path. We encourage the authorities to follow staff's recommendations prescribed already in the 2018 Article IV Staff Report and focus on their implementation. Despite the commendable progress in the fiscal area, risks to the sustainability of Suriname's public finances are steadily growing, with the fiscal deficit rising to almost 9 percent of GDP and public debt to almost 90 percent of GDP over the medium term. Moreover, as suggested in staff's Debt Sustainability Analysis, a combination of macroeconomic shocks can push the debt stock significantly over 100 percent of GDP. In this vein, we reiterate our call on the authorities to improve the fiscal stance by reducing electricity subsidies and introducing the VAT, aligned with enhancing social safety nets, and a well-targeted system of cash transfers to protect the vulnerable members of society. Further, we welcome the recent debt law amendments geared to stabilize the fiscal position, as indicated in the buff statement.

The monetary policy framework should be strengthened further and build upon the recent progress in improving the facilities and instruments aligned with the draft legislation. We are concerned that monetary financing of the budget has resumed, although we note that the new Bank Act draft aims to eliminate such financing. Could staff comment on the sustainability of these efforts? We broadly share staff's recommendations to allow for a more flexible exchange rate that would create incentives for market participants to gather information and better manage exchange rate risks that should subsequently eliminate the parallel exchange rate market.

The authorities should continue with their efforts to further enhance financial sector stability. We join staff's call for a comprehensive crisis management system that enables the Central Bank of Suriname (CBvS) to intervene in banks' governance and operations, require contingency plans, improve the process of bank resolution, and introduce a deposit insurance system. We also concur with staff's recommendations to revamp the supervisory efforts in the CBvS, as the high level of non-performing loans and insufficient capital in large banks create pressing vulnerabilities in the banking system.

Suriname participates in the Extractive Industries Transparency Initiative and successfully published the first report that will help improve transparency and governance in the management of revenues from natural resources. We encourage the authorities to continue with the supply-side reforms aimed at reducing the economy's overreliance on the mineral sector. In this context, we welcome the Suriname Competitiveness and Sector Diversification Program, to be launched in the following quarter. This program and other structural projects are financed by foreign loans. Staff's comments on their impact on debt sustainability are welcome.

Ms. Levonian and Mr. Williams submitted the following statement:

We thank staff for their comprehensive set of papers. Suriname's economy continues to grow strongly since the 2014-16 recession. Better commodity prices alongside improvements in the country's institutional framework and macroeconomic fundamentals, as emphasized in Messrs. Bevilaqua and Eckhorst's helpful buff statement, underpin the economic buoyancy. Nevertheless, Suriname still faces significant vulnerabilities, not least of which are huge swings in commodity prices. In this context, a lot more is needed to strengthen the macrofinancial framework, diversify the economy, and amplify the growth momentum. As we broadly concur with staff's assessments and recommendations, we offer the following remarks for emphasis.

A stronger fiscal position will be integral to securing debt sustainability and enhancing external viability. In this regard, a complementary mix of expenditure restraint and revenue mobilization is paramount. Rationalizing electricity subsidies would provide scope to reduce the fiscal deficit and by extension the public debt. It would also create space to improve the quality of spending toward growth-friendly capital expenditure and targeted social support. We welcome the planned implementation of the VAT in 2022, which alongside other initiatives to strengthen tax and customs administration should durably buoy revenue collections. The expected improvement in fiscal outcomes will limit recourse to monetize the deficit, ease inflationary and exchange rate pressures, and support external stability. While the authorities are of the view that their policy intents closely mirror staff's adjustment scenario, we have difficulty reconciling the diverging fiscal paths as depicted in Figure 1 and invite staff's comment.

We commend the progress on the monetary policy front, however further effort is required to strengthen the framework. The recent steps taken to build a reserve money targeting regime should be reinforced. In this context, we commend the new liquidity management instruments and the authorities' commitment to a flexible exchange rate system. We also welcome the strengthened institutional arrangements through the establishment of key committees to better coordinate and implement policies. Going forward, the Central Bank of Suriname (CBvs) should work toward expanding the monetary policy toolkit with more sophisticated instruments, such as open market operations, as suggested by staff.

The financial sector would benefit from stronger actions to lessen vulnerabilities. While NPLs have declined recently, they remain high and profitability low. At the same time, the CBvS has limited authority to intervene in distressed banks. We thus welcome the suite of planned legislative reforms which, once passed, will considerably bolster the CBvS' ability to act swiftly and to address supervision and resolution deficiencies. Efforts toward improving the AML/CFT framework are integral to, inter alia, preserving correspondent banking relationships and should be sustained.

Strong implementation of structural reforms will be crucial to the authorities' objectives of raising and sustaining inclusive growth. In this context, the authorities are encouraged to build on initiatives already underway to improve the business environment, strengthen transparency and governance in the extractive industry, and enhance female labor force participation. We are heartened by efforts to diversify the economy, notably through promoting tourism and agriculture. Taken together, these steps will help to induce greater private investment, reduce reliance on commodity exports, and bolster the economy's resilience to shocks.

Mr. Inderbinen and Mr. Danenov submitted the following statement:

We thank staff for the informative set of papers and Messrs. Bevilaqua and Eckhorst for their insightful buff statement. Suriname's economy is growing at a steady pace with low inflation and decreasing unemployment.

Potential developments in the mining sector may bring upside risks to growth. But downside risks to the outlook are growing, with a weakened fiscal position and vulnerabilities in the external and banking sectors.

Substantial efforts are needed to put public debt on a downward path. We welcome the authorities' plans to curb electricity tariff subsidies and reduce energy production costs. We also take note of the recent amendments to the Debt Law, and we encourage the authorities to undertake more efforts on the revenue mobilization side. We share the staff's recommendations to improve tax administration and public financial management. The launch of the Savings and Stabilization Fund is commendable. We encourage the authorities to ensure robust management of the fund from the start of operations in order to ensure its efficiency on a long-term basis.

The independence of the CBvS should be strengthened. We are concerned by the revocation of the MoU prohibiting central bank's direct financing of the deficit, and we urge the authorities to ensure the required amendments to the legislation that prohibit CBvS monetary financing. We welcome the recent efforts to build a reserve money-targeting regime. We also take note of the authorities' commitment to a more flexible exchange rate, which would contribute to absorb shocks.

The banking sector's vulnerabilities should be addressed. We encourage the authorities to take the necessary steps to enhance the central bank's supervisory capacity. We agree with staff that the CBvS should be provided with powers and tools that are consistent with international best practice, including those related to early-intervention and resolution. The asset quality review of commercial banks could be a useful exercise. We also encourage the authorities to ensure further efforts to strengthen the AML/CFT regime, which is key in mitigating risks associated with the loss of CBRs. In this regard, we welcome the authorities' readiness to complete the National Risk Assessment.

Structural reforms are needed to ensure more inclusive growth. Notwithstanding the new oil and gold sites exploration, we encourage the authorities to focus on diversification and SME development. Improved governance would be critical for the private sector to develop and would contribute greatly to enhancing the countries' growth prospects. We commend the adoption of the Labor Protection for the Family Act that should contribute to enhance female labor force participation. We thank staff for the Annex on EITI-related governance issues.

Mr. Palei and Mr. Biriukov submitted the following statement:

We thank staff for the insightful Article IV report and Mr. Bevilaqua and Mr. Eckhorst for their comprehensive buff statement. The authorities deserve praise for successfully stabilizing the economy. Steady economic growth continues, driven by the non-oil sector. Inflation is slowing down, and unemployment rate remains on a downward path. At the same time, fiscal position remains weak, while more efforts are needed to strengthen credibility of the monetary framework, improve bank supervision, and implement structural reforms to achieve sustainable long-term growth.

Fiscal position should be strengthened to restore fiscal sustainability. Despite the government stabilization plan, there has been limited progress in narrowing the fiscal deficits. Large fiscal shortfalls together with exchange rate depreciation led to a rapid increase in public debt, which has more than doubled since 2014. Public debt now stands at more than 70 percent of GDP with about three quarters of the total being FX-denominated. This has driven up borrowing costs and the interest payments burden and increased the authorities' reliance on borrowing from the Central Bank van Suriname (CBvS). Staff estimate that putting public debt-to-GDP ratio on a downward path will require fiscal measures of around 9 percent of GDP over the medium term. On the revenue side, fiscal consolidation measures should include introduction of the VAT. On the expenditure side, the authorities could bring electricity tariffs closer to market level and improve tax and customs administration. We note that, according to the buff statement, the electricity tariff subsidies account for almost half of the estimated 2019 overall deficit. Could staff update the Board on the role of the Savings and Stabilization Fund Suriname (SSFS) and its recent performance?

We encourage the CBvS to continue conducting prudent monetary policy. Since the formal shift in 2016, the announced transition from the exchange rate to reserve money nominal anchor has been relatively slow. We commend several bold steps made by the monetary authorities in early 2019 toward building a reserve money targeting regime framework and managing systematic liquidity. However, additional efforts are called for. The monetary policy toolbox could be expanded by the strengthened role of a policy rate and increased reliance on it as the main gauge of the policy stance. We are concerned that some monetary financing of the budget has resumed. We agree with staff that it should be phased out, so as not to undermine monetary policy. In this respect, we share concerns expressed by Mr. Obiora and Mr. Essuvi regarding the independence of the CBvS. Could staff also elaborate on the role of the newly formed Monetary and Fiscal Policy

Coordination Committee (MFPCC)? Domestic FX market remains highly fractured. A more flexible exchange rate would alleviate the risks in this area and act as a shock absorber for the economy.

The banking system remains rather vulnerable. Financial supervision should be tightened to ensure sector stability amid high non-performing loans and low profitability. We support staff's recommendation to put in place a sound crisis management framework, as currently the authorities face legal impediments precluding more decisive actions.

Structural reforms should help the economy in achieving sustainable growth. Making the economy less reliant on oil exports will boost Suriname's resilience to external shocks. A better investment climate will reduce costs of doing business and risks for private investors. We welcome the authorities' progress in moving Suriname higher in the ranking according to the World Bank's Doing Business indicators. Additional efforts would be useful in the areas of starting a business, getting electricity, getting credit, and enforcing contracts.

Mr. de Villeroché, Mr. Rozan and Ms. Albert submitted the following statement:

We thank staff for their insightful set of papers, as well as Mr. Bevilaqua and Mr. Eckhorst for their informative buff statement. We welcome the recent efforts to stabilize the economy, which are bearing fruits. However, we note that in the face of rising downside risks, the authorities need to take decisive steps to address the fiscal imbalances, to strengthen the banking system and the functioning of the monetary policy. We globally agree with the staff's appraisal and would like to add the following comments:

The significance of external risk warrants a cautious policy stance. The external financing needs should increase to 10.5 percent of GDP next year, the external position is deteriorating and is weaker than the fundamentals. We therefore encourage the authorities to boost their existing fiscal and structural reform agenda to address these vulnerabilities. Moreover, we see the improvement of the flexibility of the exchange rate regime and the rebuilding of the low level of reserves, below the 100 percent of the ARA metric, as paramount. Finally, while the country remains sensitive to the evolution of the commodity prices, we note the potential upside risks attached to new oil or gold discoveries.

We encourage the authorities to make further efforts to bring debt on a sustainable path. Debt and fiscal vulnerabilities have further deteriorated since last year because of the fiscal expansion. We note that staff has further increased the level of the fiscal adjustment that is evaluated to be needed, from 6.25 percent of GDP in the previous article IV, to 8.5 percent of GDP, which appears quite challenging. This is an ambitious, yet necessary target, which will need to be appropriately phased in. In this context, we are struck by the differences of view between staff and the authorities regarding the fiscal scenarios.

Attention should be paid to the composition of the fiscal policy. We regret that the implementation of the VAT has again been postponed to 2022, whereas it was recommended by staff in several previous Article IV. We note that the authorities seem to integrate a reduction of wages and salaries expenditures, which is not mentioned by staff. Could staff explain these measures and explain why they are not incorporated in their baseline? As untargeted electricity's subsidies represent around half of the fiscal deficit, we encourage the authorities to progress in this area. We see the staff proposal regarding the gradual increasing of the electricity tariffs by 15 percent during 2020-2022 and by 20 percent per year during 2023-2024 with an exemption for the low-income households as a useful measure to help to enhance fiscal sustainability. This would need to be accompanied by strong public communication and targeted pro-poor spending, to ensure public buy-in. In this regard, we see the proposal to raise social safety nets spending as positive. How staff assess the level of social safety nets, in particular in the face of a very strong fiscal consolidation effort?

More generally, we regret the absence of information regarding poverty, inequality and informality in the report. We encourage staff to elaborate on these topics as part of the next article IV. This will be instrumental to ensure the sustainability of the fiscal adjustment.

We commend the authorities for the various legislatives initiatives to enhance financial stability and the credibility of the CBvS, and we encourage them to pursue their efforts. There is important room for a stronger and more independent Central Bank. In this regard, we regret the return to the direct monetary financing of the fiscal deficit and urge the authorities to implement the Banking Act in order to stop this financing. We see the modernization of the bank resolution framework, the reinforcing of banking sector capital levels, and the resolving of the NPLs issues as strong priorities. As many legislative proposals are expected to be submitted to the National Assembly by the end of the year, could staff detail the tentative calendar, and which reforms have the greatest chance to be adopted before the general elections in May 2020?

Regarding structural reforms, we agree with staff recommendations and see the diversification as a priority to develop a more stable and balanced growth model. The authorities’ buff statement is also useful to understand the infrastructure projects which should help to boost private investment. We also encourage the authorities to continue their efforts regarding the improvement of the business climate to boost potential growth and we are looking forward to seeing the results of the compliance assessment with EITI standards. We see the legislative evolution regarding the minimum wage, the maternity and paternity support as positive developments.

Mr. Sylla and Mrs. Boukpessi submitted the following statement:

We thank staff for the comprehensive reports and Messrs. Bevilaqua and Eckhorst for their insightful buff statement.

The Suriname’s economy has been steadily recovering from the 2015-2016 recession, with real GDP expected to reach 2.3 percent in 2019. Inflation has significantly declined to single digits thanks to a stable exchange rate and the fiscal and current account deficits have widened. While the outlook is broadly positive, the country still faces multiple challenges, including a large fiscal deficit, an increasing level of public debt, a vulnerable banking sector, and a heavy dependence on the mineral sector. We take positive note of the authorities’ continued commitment to pursue sound policies and reforms aiming at strengthening the fiscal policy, improving the current monetary framework, increasing the financial sector resilience and accelerating the implementation of structural reforms which are critical to underpin a higher and inclusive growth.

As we broadly concur with staff's assessment and policy recommendations, we will limit our comments to the following points:

A sizable fiscal adjustment through both expenditure and revenue measures are needed to strengthen the fiscal position and firmly put public debt on a sustainable downward path. As the fiscal position continues to show signs of deterioration, we echo staff’s recommendations on the need to fast-track the VAT roll-out planned in 2021, reduce subsidies and increase the level of electricity tariffs at the level of regional peers’ countries. The latter should be accompanied by adequate measures to lessen the impact on the most vulnerable groups. Steps to improve revenue administration, public financial management, and public investment system are also important to further reinforce the fiscal framework. We recall from the 2018 Article IV consultation, staff’s recommendation to consider introducing a fiscal anchor focusing on the non-resource primary balance, given Suriname heavy reliance on the minerals sector. While noting information in Annex I of the report on the status of its implementation, we would appreciate if staff could elaborate more on this.

Further enhancement of the Centrale Bank van Suriname (CBvS)' monetary policy framework is warranted. We welcome the authorities' commitment to continue improving the effectiveness of the CBvS' policy and expand its monetary tools, and would like to also commend them for the progress achieved thus far. We support their request for Fund TA to make further inroads in attaining their objectives of developing an interbank market, which is key to facilitate a market-based transmission mechanism. Work should continue to address the remaining gaps identified by the 2016 Safeguard Assessment. We look forward to the new Central Bank Act for greater autonomy of CBvS and the suspension of the monetary financing of the budget.

Efforts to further increase the financial sector stability should be pursued. While we welcome the improvement in financial sector stability indicators over the past years, the sector still faces challenges including high level of NPLs, and inadequate capital levels. We therefore agree with staff that the CBvS' supervisory oversight and regulatory frameworks should be reinforced in order to be proactive and make interventions as necessary to preserve financial stability. Effective implementation of the Bank resolution Act is also needed to contain financial risks and increase the resilience of the sector. The authorities should also continue with their efforts to strengthen the AML/CFT framework in line with the new FATF standards. We note that the Bank Resolution Act, and other various legislations including a Deposit Insurance Act are being drafted. Could staff indicate a tentative timeline for their enactment and operationalization.

We encourage the authorities to continue making strides in the implementation of supply-side reforms aimed at diversifying the economy away from the mineral sector and lift productivity growth. We, thus see merit in staff's recommendations to improve the business environment, invest in education, promote labor market flexibility and enhance governance. These are key policy directions to help foster sustainable investment and growth. We join staff in commending the authorities for their participation in the EITI and the publication of the country first report. We call on them to take into account the recommendations of the report in order to ensure compliance with international standards in terms of transparency and governance in the management of natural resource revenues.

With these comments, we wish the Surinamese authorities every success in their endeavors.

Mr. Sun and Ms. Zhao submitted the following statement:

We thank staff for the concise papers and Mr. Bevilaqua and Mr. Eckhorst for their helpful buff statement. Thanks to the authorities' stabilizing efforts, real GDP growth in Suriname has been healthy and inflation has fallen. However, several factors continue to cloud the economic outlook, including heavy reliance on public debt, a less developed monetary policy framework, and pockets of vulnerabilities in the financial sector. We broadly concur with staff's appraisal and encourage the authorities to steadfastly implement the much-needed reform measures to reduce vulnerabilities while maintaining the recovery momentum.

Determined fiscal consolidation is needed to reduce debt sustainability risks. Given the elevated public debt and external financing needs, we support staff's proposal for additional fiscal measures, including accelerating the introduction of VAT, increasing electricity tariffs, and improving tax and customs administration, to boost revenue. In the process of fiscal consolidation, it is essential to strengthen the social safety net and protect the most vulnerable. In this regard, could staff further elaborate on what policy measures should be taken to ensure social stability and enhance public buy-in of the fiscal reform? Monetary financing of the fiscal budget should also be discontinued so that fiscal discipline and central bank independence can be improved.

The current monetary framework needs to be strengthened to improve policy effectiveness. It is important to allow the exchange rate to float to better absorb external shocks. A deeper foreign exchange market with more flexibility is needed for market participants to manage exchange rate risks. We agree with staff's recommendation that the central bank should publish a reference for the parallel FX rate and take note of the authorities' concern about the quality of data they collect in the highly fractured parallel FX market. We therefore encourage staff to continue close dialogue with the authorities and provide more technical assistance.

Updated financial regulation and continued structural reforms can help improve macroeconomic stability. We agree that the central bank should revamp its supervisory efforts and welcome the authorities' commitment to strengthening the financial sector. We encourage continued efforts in strengthening bank supervision, improving the AML/CFT regime, and addressing the issue of corresponding bank relationships. We also associate ourselves with staff on the recommendations for structural reforms, particularly those in the areas of business environment, labor market, and education. We see room for improving the diversification of the economy through promoting tourism and agriculture.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Lopetegui and Mr. Rojas Ulo submitted the following statement:

We would like to thank staff for a clear and concise report and Mr. Bevilaqua and Mr. Eckhorst for their helpful buff statement.

Suriname’s economy continues to show a positive economic performance with stable inflation. Over the last year, the economy has grown steadily driven by wholesale and retail, construction, services, and manufacturing. Economic growth is projected to slowly rise from 2.3 percent in 2019 to 2.5 percent in 2020 achieving an average rate close at 2.5 percent over the medium term, complemented by low inflation, although it is subject to downside risks. We concur with the staff’s recommendation on the need to accelerate the implementation of structural reforms, to lay the foundations for stronger growth, such as improving the business climate, governance and transparency, and human capital.

We believe that further fiscal measures are crucial to improve the fiscal position and put the public debt on a sustainable path. The fiscal balance, following a minor reduction in 2018, is projected to remain over -7.0 percent over the medium term in a passive policy scenario. The Public Debt Analysis indicates that under the baseline scenario, debt is projected to increase and represent an elevated risk against external shocks. We concur with the staff’s advice that the authorities take actions to improving the fiscal balance by the implementation of reforms centered on boosting revenues, streamlining energy subsidies, improving the public financial management, strengthening the public investment system, and improving tax and customs administration.

The external position is assessed to be weaker than implied by fundamentals and desirable policies. As a result of the increase in the imports of goods and services and a small increase in gold exports, the current account has worsened in the last year. In addition, the External Sector Assessment shows that the exchange rate real overvaluation is increasing, and reserves coverage is inadequate. We support the implementation of the policy measures to address the external imbalances, such as fiscal consolidation, exchange rate flexibility, and structural measures to raise productivity and increase competitiveness.

The monetary policy framework needs to be strengthened and modernized. While the Central Bank of Suriname moved to monetary base targeting back in 2016, the exchange rate has de facto remained the main anchor. We welcome the ongoing efforts of the authorities toward strengthening the reserve money regime implementing new monetary tools, as well as the preparation of several draft legislations. To ensure a successful transition to greater exchange rate flexibility, institutional and operational reforms should be implemented. Central bank legislation should be strengthened to improve the institution's autonomy and discontinue monetary financing of the fiscal deficit.

The authorities have taken important steps to increase the resilience of the financial sector; nevertheless, regulation should be further improved. While some financial stability indicators, such as the capital adequacy ratio, have recently improved, we take note that nonperforming loans and profitability should be improved. We therefore welcome the authorities' willingness to implement several measures to improve banking supervision in concordance with IFRS standards. In this vein, we urge the authorities to implement a comprehensive crisis management system to improve the process of bank resolution. We encourage the authorities to continue to reinforce the country's AML/CFT framework.

We agree with the implementation of structural reforms aimed at diversifying the economy and increasing productivity and competitiveness. The economy has heavily depended on exports of minerals and commodities. Shortcomings on starting a business, enforcing contracts, and accessing electricity are constraining the business climate for potential investors in non-traditional sectors. We encourage the authorities to sustain their efforts in the implementation of structural reforms to improve the diversification of the economy to enhance resilience and boost potential growth, such as further investment in education, labor market reforms, and strengthening governance.

With these comments, we wish Suriname and its people success in their future endeavors.

Mr. Bhalla and Mr. Goyal submitted the following statement:

We thank the staff for the comprehensive report and Mr. Bevilaqua and Mr. Eckhorst for their informative buff statement.

We welcome that the economy of Suriname is growing steadily with low inflation and a falling unemployment rate. However, there are growing concerns about rapidly worsening fiscal conditions and widening external imbalances. On the positive side, we commend the authorities' efforts to strengthen the monetary framework and supervision of the banking sector.

It appears that growth is being sustained by boosting the domestic demand employing an expansionary fiscal policy stance. Fiscal deficit and public debt are elevated, exceeding 7 percent and 72 percent of GDP. As excess domestic demand is spilling over to the external sector inflation has stayed low. There is a significant increase in imports and widening of current account balance and external debt has exceeded 90 percent of GDP. Therefore, the achievement of real GDP growth stabilisation and fall in inflation does not appear to be sustainable and robust. Staff may like to elaborate.

The economy needs to address the twin deficit problem i.e., fiscal and current account balance, by taking definite policy steps. We agree with the staff that significant reduction in fiscal deficit and public debt can be brought about by implementing VAT and reduction in electricity subsidies. Further, the revocation of MOU with the central bank prohibiting monetary financing may have serious macro implications. We agree with the staff that MOU should be reinstated, and direct monetary financing of the fiscal deficit should be eliminated.

Worsening external sector conditions are a reflection of excess domestic demand; an overvalued exchange rate is also not helping to contain widening external imbalances. Notably, the rate in the parallel foreign exchange market is far lower than the official rate. We would encourage the authorities to impart flexibility to the exchange rate as it will help in correcting the external imbalances. It would also help in eliminating the parallel foreign exchange market.

We welcome authorities' efforts to strengthen monetary policy framework and supervision of the banking sector. Another welcome step is the launching of National Risk Assessment for identifying money laundering and terrorist financing. Central Bank is impressing upon the banks and other financial institutions to comply with AML/ CFT obligations.

The Acting Chair (Mr. Furusawa) made the following statement:

Suriname's economy is growing steadily with a falling unemployment rate and low inflation and stable exchange rate. At the same time, its fiscal position is weak, and public debt is rising. In addition, the monetary and financial supervision framework requires strengthening, and structural reforms are needed to remove impediments to economic growth and diversification. Directors' gray statements stress that the current stable environment presents an opportunity to address these challenges and calls for timely action in order to reduce macroeconomic vulnerabilities and downside risks.

Mr. Sassanpour made the following statement:

Let me mention at the outset that we agree with the thrust of the staff report and thank Mr. Alichi and his colleagues for a clear and candid report and an informative selected issues paper. We also thank Mr. Bevilaqua and Mr. Eckhorst for their helpful buff statement.

The Suriname economy has mounted a strong recovery following the 2015-2016 crisis thanks to the authorities' timely policy response and institutional strengthening, but important challenges remain, as you indicated yourself, Mr. Chairman.

While the prospect of new oil and gold discoveries potentially provide significant upside risks to the outlook, there are also signs of downside risks in the absence of firm action to address Suriname's fiscal and debt vulnerabilities. Added to that are the ever-present commodity price volatility risks.

Restoring fiscal sustainability is key. The non-mineral primary balance-to-GDP ratio, which we believe is a better measure reflecting the underlying fiscal imbalance, has remained in double digits in the past few years. The more than doubling of the public debt ratio since 2015 with the dominant foreign exchange component is an area of concern. The authorities clearly recognize the challenges, and we take positive note of their commitment to fiscal sustainability.

On the fiscal mix, electricity subsidies at about 5 percent of GDP are particularly burdensome and highly regressive. We welcome the authorities' plan to curb the electricity subsidy sector reform and reduction in production costs, but we also encourage them to consider staff's suggestion to steadily increase tariffs towards cost recovery while protecting the low-income households either through social tariffs, as suggested by the staff, or cash compensation, whichever is less prone to misuse.

We also encourage the authorities to expedite the introduction of the value-added tax (VAT), especially since the VAT bill is already drafted and, of course, with provisions for protecting the poor.

As was pointed out by some other Directors, we were also somewhat puzzled by the large divergences in medium-term projections between staff and the authorities, in particular having broadly similar growth and inflation outcomes over the medium-term but with very different adjustment paths, especially with regard to fiscal outcome. In the written answers to our question, staff attributes the differences in growth outlook to different assumptions about mineral prospects. Staff also elaborates on different fiscal assumptions underlying the projections. Surely mineral output would be expected to have potentially a major impact on growth and fiscal and external outcomes and would be a major driver of the economy. For this reason, we encourage the authorities to work closely with staff to draw up various scenarios based on alternative assumptions regarding mineral output and prices. That would help gauge the economy's exposure risks to the mineral sector. It would also better inform policy choices and allow for more constructive policy engagement with staff.

Like other chairs, we urge the authorities to eliminate the deficit financing of the budget to further strengthen the monetary framework by increasingly relying on indirect liquidity control measures and to allow greater exchange rate flexibility now that the reserve money is the nominal anchor of the economy. I wish the authorities continued success.

Mr. Villar made the following statement:

Suriname continues to grow. Inflation has dropped sharply from its peak of over 50 percent in 2016 to 6.8 percent in 2018, and this is expected to remain within one-digit levels. Also, the primary fiscal deficit has declined by 3 percentage points of GDP, from 6.5 percent to 3.5 of GDP between 2016 and 2018. However, as stressed by the staff, imbalances remain excessively large, and urgent adjustments are required in the fiscal, monetary, and financial fronts.

The fiscal position is unsustainable and is likely to weaken in the coming years. The central government's overall fiscal deficit stood at 7.1 percent of GDP in 2018, largely as a result of spending on untargeted electricity subsidies. The debt-to-GDP ratio is about 70 percent, and the National Assembly recently approved a law raising the public debt limit from 60 to 95 percent of GDP. We concur with staff on the urgent need of a frontloaded reduction in the fiscal deficit to ensure fiscal sustainability, which will require measures of about 8.5 percent of GDP over the medium term. In this context, we welcome the authorities' plan to curb electricity tariff subsidies and advance resource mobilization, as stated in the buff statement.

We noticed that some advances have been made in developing the central bank's monetary tool and facilities. However, monetary financing of the budget has resumed since the government revoked the Memorandum of Understanding with the central bank that prohibits such financing. In the same vein, while the central bank took a step in the right direction when its nominal anchor was switched from exchange rate to reserve money in 2016, the de facto framework has shifted back towards an exchange rate anchor. We agree with the staff that a more flexible exchange rate would act as a shock absorber and would be important to help eliminate the parallel foreign exchange (FX) market while supporting needed FX reserve accumulation.

Regarding the financial system, it remains highly vulnerable with elevated nonperforming loans (NPL) levels and weak capital adequacy indicators. We concur with the staff on establishing a new banking resolution and crisis management framework providing the central bank with the capacity for implementing international best practices and strengthening the AML/CFT regime. With these comments, we wish the authorities and the people of Suriname all the best.

Mr. Alkhareif made the following statement:

We welcome that the economy is growing; inflation is low, and unemployment is falling. We encourage the authorities to focus on preserving a strong fiscal position, including through enhancing debt sustainability and improving domestic revenue mobilization. We look forward to the implementation of the VAT, and we encourage the authorities to focus on enhancing the social safety net, especially for the poorest.

On the monetary and financial sector, we encourage efforts to preserve the central bank independence and discontinue monetary financing for the fiscal deficit. We encourage the authorities to continue their efforts to strengthen the AML/CFT framework, which is key to mitigate the associated risk with the correspondent banking relationships (CBRs). We welcome the authorities' readiness to complete the national risk assessment. We encourage the authorities to continue the implementation of the supply-side reforms to further diversify the economy and lift productivity. We encourage also the authorities to fight corruption and improve governance.

Enhancing the business environment is key, and we encourage the authorities to continue their reform efforts in enhancing the labor force productivity and flexibility, which will also help to attract foreign direct investment and further diversify the economy. With these remarks, we wish the authorities continued success.

Mr. Farber made the following statement:

We welcome the finding that the government has successfully stabilized the real economy with steady growth and low stable inflation, which has come down from much higher levels a few years ago. We generally support the conclusions in the report, and in keeping with my previously stated pledge, I will keep my points of emphasis brief. We have two main points.

Suriname has struggled with achieving debt sustainability for some time and in particular has had trouble keeping to their own public debt limit of 60 percent of GDP. We are concerned about the implications of the new law that increases the debt limit to 95 percent of GDP, especially in the context of large fiscal deficits and significant spending on untargeted electricity subsidies. We would encourage the authorities to undertake the fiscal adjustments as planned, particularly a reduction in subsidies and implementation of the VAT to help bring debt into a sustainable path.

We welcome the actions taken to strengthen the monetary policy framework, including the introduction of a number of new instruments. However, like other Directors, we were disappointed by the monetary financing of the budget and would urge the authorities to reinstate the Memorandum of Understanding (MoU) that prohibited monetary financing of the fiscal deficit.

With these comments, we wish the authorities much success in the coming year.

Mr. Benk made the following statement:

Public debt has sharply increased due to growing financing needs and lagging fiscal reforms. Debt and fiscal vulnerabilities have further deteriorated since last year because of the fiscal expansion, and the staff Debt Sustainability Analysis (DSA) suggests a combination of macro shocks could push the debt stock significantly over 20 percent. In this regard, while we acknowledge that the recent Debt Act attempts to stabilize the fiscal balance, like other Directors, we are concerned about the recently approved law to increase the public debt limits from 60 to 95 percent, and like staff, we are skeptical how this mechanism will be operating in practice.

Second, we are lacking information on poverty, inequality, and informality in the staff report, which are essential for the sustainability of the fiscal adjustment. Can staff elaborate on these topics as there has not been a comprehensive impact study of the social programs?

Mr. von Kleist made the following statement:

We welcome the good growth in the past two years, as well as the downward path of inflation, so that is good news. Another good news is that the current environment offers a window of opportunity to address key sources of risk and enhance the economy's resilience, and many speakers have pointed to these risks, and therefore we agree with the staff and other Directors on the need to include a strong commitment to reducing the large fiscal deficit through domestic resource mobilization and prioritized spending, which should include a reduction of not-well-targeted subsidies, strengthening the monetary policy framework, as well as solidifying financial sector oversight.

We see a particular need for fiscal adjustment, noting that the public debt ratio would barely fall from its high-level over the medium term even under the staff's adjustment scenario. We also support Mr. Alkhareif's comments on the necessity to address AML/CFT issues and Mr. Farber's call to ensure that monetary financing of the budget is again to be precluded.

Looking further ahead over the medium- and longer-term, the key challenge remains to diversify the productive base of the economy away from its reliance on natural resources. We had three or four cases in the past week, and Mr. Doornbosch will excuse, that we all call the Dutch disease; but when you have new resources, it is time to address this in a forward-looking manner to make sure that you do not end up in a hole where all you have is resource income, and if prices fall, everything collapses. So I think now is a good time for the authorities to think about diversifying the economy. With this, let me wish the authorities all the best for their future endeavors.

The staff representative from the Western Hemisphere Department (Mr. Alichi), in response to questions and comments from Executive Directors, made the following statement:[1]

> I believe there was only one question for us, and that was on inequality, and the question was if we can elaborate on issues regarding inequality and poverty. Unfortunately, we are a little bit restricted here because we do not have much data on these issues, but I can say that as we also mention in our answers, there are several social programs in Suriname, targeted programs, that are designed to lower inequality and lower poverty. Also, this year there was the Minimum Wage Act that was updated and passed. The main objective of that was to lower inequality and poverty. Beyond that, unfortunately because of lack of data, we cannot assess the situation as much.

Mr. Bevilaqua made the following concluding statement:

> Thank you, Mr. Chairman. We thank staff for the reports and all Executive Directors for their constructive statements and valuable interventions today. The comments and suggestions provided will be conveyed to my Surinamese authorities.
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> After the deep recession and strong macroeconomic imbalances of 2015-16, Suriname's recovery is proceeding on a broad base. The authorities are very aware of the substantial challenges that they face and are focused on strengthening macroeconomic management. They understand this is a prerequisite for the economy to grow sustainably and become more resilient to shocks.
>
> We heard Directors calling for a more forceful fiscal consolidation to mitigate the risk of debt distress. In this regard, the authorities have reaffirmed their resolve to bring debt to a downward path over the medium term. In a few weeks, a first important step to reduce electricity subsidies will be taken with the transfer of the Afobakka Dam to the public sector. The accelerated depreciation of mining investment will generate more than 1 percent of GDP in revenues.
>
> The authorities also recognize that tax reform is imperative. The VAT bill will be presented to the Congress next year to become effective in 2021.

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information these are included in an annex to these minutes.

Regrettably, the postponement of the previous plans was due to technical impediments given the intrinsic complexity of collecting of value added tax and the requirements to smooth the transition from sales tax to VAT.

With the impact of negative growth and currency depreciation, public debt dynamics have been challenging. The amendments of the current debt act will help move the total public debt level toward a path of gradual decline while enhancing Parliament's oversight of the debt process.

I want to underscore the fact that the recent uptake in current account deficit has not been caused by deterioration in the fiscal accounts but has resulted from an increase in mining-related imports for investment purposes. We can expect an improvement in the current account deficit as this effect wanes off.

On the monetary policy front, the central bank has already taken several measures and intends to introduce a number of ones to refine the overall framework, better anchor inflation, and increase the efficiency of monetary policy transmission. The central bank has been active in the agenda of keeping inflation under control and fostering financial stability. With respect to the detrimental effects of monetary financing of the public deficit, we will convey the forceful views of many Directors to the authorities.

The new Bank Act when approved by Congress will solve this problem by eliminating the possibility of the central bank financing the government deficit. All that said, we believe the Fund's policy advice continues to be extremely valuable. In addition, extensive technical assistance from the Fund has supported domestic efforts to improve capacity and institutions. In particular, technical assistance on government financing statistics have been highly useful and resulted in notable progress on this front. The authorities remain committed to pursue a sound macroeconomic management with fiscal and financial discipline while promoting the actions needed to support economic diversification and sustainable growth over the medium term.

Finally, on behalf of my Surinamese authorities, I would like to thank the Article IV mission team led by Mr. Ali Alichi for their dedication and insightful work and the candid policy dialogue. With that I thank you all again. Thank you, Mr. Chairman.

The Acting Chair (Mr. Furusawa) made the following statement:

Suriname is an Article VIII member, and no decision is proposed. The 2019 Article IV consultation with Suriname is hereby concluded.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They took positive note that the Surinamese economy is growing steadily, with a falling unemployment rate, low inflation, and a stable exchange rate. They stressed that this stabilization presents an opportunity to address the central challenges facing the economy, including a weak fiscal position and rising public debt, monetary and financial supervision frameworks that need to be enhanced, a low degree of economic diversification, and other structural impediments to growth. Timely action will be necessary to reduce macroeconomic vulnerabilities and downside risks.

Directors underscored the importance of putting public debt on a sustained downward path. They were encouraged by the authorities' fiscal plans and emphasized the need to phase out electricity sector subsidies, implement the VAT, and continue to improve revenue and expenditure administration. Implementing these measures, while also protecting vulnerable households, would be instrumental in creating space for public investment and supporting long-term growth. Directors welcomed, in this context, the passage of the public financial management law.

Directors expressed concern about the resumption of monetary financing of the budget this year but welcomed the authorities' plan to avoid any further such financing, including through a new Bank Act. They welcomed the recent introduction of new monetary tools and instruments and the preparation of several draft legislation to enhance the monetary framework. They underscored, nonetheless, that the central bank should also publish explicit monetary targets, further expand their operational tool box to implement effectively a reserve money target, and further strengthen coordination with the government on liquidity projections and operations. Directors generally agreed that a more flexible exchange rate is needed to act as a shock absorber.

Directors recognized that important vulnerabilities remain in the financial sector. They urged the central bank to revamp its supervisory actions and take a more assertive approach to ensuring banks' return to compliance with regulatory requirements over a pre-determined time horizon. A comprehensive crisis management system is needed to give the central bank the power to intervene in banks' governance and operations when necessary, as well as improve bank resolution. Directors looked forward to approval of draft legislation in these areas as soon as feasible. Directors were encouraged that the authorities have embarked on a national risk assessment this year to further enhance the AML/CFT framework.

Directors underscored the importance of diversifying the economy and implementing structural reforms to boost potential growth. Addressing the high costs of doing business, reforming the investment framework, and strengthening governance will be important to support investor confidence. Investment in education and labor market reforms, combined with a meaningful safety net for the unemployed, will also be important. Directors were encouraged by recent laws on the minimum wage and the enhancement of maternity and paternity support. They welcomed the authorities' commitment to strengthen governance in the extractive sector.

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

APPROVAL: May 29, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook/Risks

1. The authorities' projections are significantly more optimistic than staff's. The significant divergence between staff's and the authorities' projected debt paths are striking and somewhat puzzling. Moreover, the authorities forecast lower inflation and higher GDP growth than staff. This could suggest that the slope of the Phillips curve is perceived differently between staff and the authorities. Staff's comments on the large discrepancies are welcome.

- The authorities assume substantial discovery of new mineral resources, which staff regard as too uncertain at this stage to incorporate into the baseline forecast.

2. It appears that growth is being sustained by boosting the domestic demand employing an expansionary fiscal policy stance. Fiscal deficit and public debt are elevated, exceeding 7 percent and 72 percent of GDP. As excess domestic demand is spilling over to the external sector inflation has stayed low. There is a significant increase in imports and widening of current account balance and external debt has exceeded 90 percent of GDP. Therefore the achievement of real GDP growth stabilisation and fall in inflation does not appear to be sustainable and robust. Staff may like to elaborate.

- Staff's baseline suggests that if the government's current consolidation plans are implemented on a timely basis, growth would remain stable and inflation would remain low through the medium term. However, fiscal and external imbalances would grow during this period and create vulnerabilities (particularly in the event of an external shock). Additional fiscal consolidation would close these fiscal and external imbalances, restore fiscal sustainability, and lessen vulnerabilities. Furthermore, wide-ranging supply-side structural reforms would help support strong and sustained growth.

Fiscal Policy

3. In light of the unsustainability of public debt, could staff elaborate on the rationale behind the repeated postponement of VAT reform by the authorities?

- The authorities have communicated to staff and publicly that they remain committed to the implementation of the VAT. Staff believe that the VAT implementation delays are related to the upcoming election timetable.

4. A significant front-loaded fiscal consolidation effort is needed to ensure fiscal sustainability and put public debt on a downward path overt the medium term. The authorities should improve revenue administration and public financial management, strengthen the public investment system, reduce electricity subsidies, and introduce VAT while taking targeted social safety net measures to mitigate the impact of reforms to the most vulnerable. We note a significant divergence in the projections for fiscal balance between staff and the authorities. While the authorities see staff's baseline policies as a passive non implementation of their stated policies, could staff elaborate why such a significant divergence exits; which measures are already stated by the authorities among the measures in the adjustment scenario, the reason why staff does not include the measures in the baseline scenario, and where staff sees challenges or difficulties for the authorities to implement such policies?

5. We invite staff to elaborate on the authorities' comments that "staff's baseline projections are passive non-implementation of their state policies."

6. While the authorities are of the view that their policy intents closely mirror staff's adjustment scenario, we have difficulty reconciling the diverging fiscal paths as depicted in Figure 1 and invite staff's comment.

- Staff's baseline scenario incorporates all the publicly announced policies of the authorities where there is sufficient detail to quantify the measures and clear timelines for their implementation (in line with the usual WEO assumptions). Specifically, staff's baseline assumes:
  - implementation of the VAT in late-2021,
  - better revenue and customs administration,
  - lower electricity subsidies (after the Afobaka dam is transferred to the government in late-2019).
- The chart on page 15 of the SR (copied here for easier reference) outlines staff's estimated impact of these measures.

- Staff's baseline does not take into account:
  - the prospects for non-debt-creating financing (staff have been unable to assess this plan).
  - plans to reorganize the electricity sector (again staff has been unable to obtain sufficient details of this plan in order to assess its impact on the fiscal position).
- Staff's adjustment scenario incorporates two additional measures:

- raising the sales tax in 2020-2021 from 8-10 percent to 22 percent
- raising electricity tariffs from 2020 to 2024.

7. We would welcome staff's comments on how they view the rationale for the substantial increase to the debt limit.

- The public debt is unsustainable and the existence of a legal debt limit has not created an effective mechanism for fiscal discipline. What is needed instead, is a comprehensive medium-term fiscal framework that outlines a realistic path of adjustment and creates incentives for policies to align with that path.

8. Could staff update the Board on the role of the Savings and Stabilization Fund Suriname (SSFS) and its recent performance?

- The SSFS has been inaugurated this year and its directors appointed. Staff has advised against adding resources to the SSFS while the government maintains a large stock of high-cost debt.

9. We recall from the 2018 Article IV consultation, staff's recommendation to consider introducing a fiscal anchor focusing on the non-resource primary balance, given Suriname heavy reliance on the minerals sector. While noting information in Annex I of the report on the status of its implementation, we would appreciate if staff could elaborate more on this.

- The information provided in Annex I is the most updated. We have urged the authorities to start using the non-resource fiscal balance (NRFB) as their primary fiscal anchor based on staff's recommendation.

10. Attention should be paid to the composition of the fiscal policy. We regret that the implementation of the VAT has again been postponed to 2022, whereas it was recommended by staff in several previous Article IV. We note that the authorities seem to integrate a reduction of wages and salaries expenditures, which is not mentioned by staff. Could staff explain these measures and explain why they are not incorporated in their baseline?

- Staff's baseline scenario incorporates a decrease in wages and salary spending starting 2020, which reflects an end to the payment of backpay from the 2018 public sector salary increase.

11. How staff assess the level of social safety nets, in particular in the face of a very strong fiscal consolidation effort?

- Suriname has many social safety programs, which are available through various ministries. Most of these programs appear to be well targeted (although the system is complex and there has not been a comprehensive impact study of the social programs effects). Staff's adjustment scenario assumes an increase in social spending that offsets the effects of the fiscal consolidation on the most vulnerable households.

12. In this regard, could staff further elaborate on what policy measures should be taken to ensure social stability and enhance public buy-in of the fiscal reform?

- There is a need to gradually raise electricity tariffs to cost-recovery levels over the next 4 years alongside an expansion of social programs to protect the poor. Clear communication will be essential to garner broad social support for the reforms.

13. Mr. Bevilaqua and Mr. Eckhorst's buff statement notes that debt can only surpass the 60 percent limit under certain circumstances. Can staff provide more information on the operation of the debt limit?

- The debt law was amended to allow public debt to rise up to a 95 percent of GDP limit as long as the one-year increments do no surpass the annually approved budget deficit. If the 95 percent of GDP limit is exceeded, the government must present a plan to lower the debt. Significant uncertainties remain on how these mechanisms would be operationalized.

14. As last year, we note that not all public sector statistics are compiled, only central government debt. The Informational Annex notes, and we agree, that given the importance of state-owned enterprises in Suriname, fiscal statistics should cover the non financial public sector. The Annex also notes that weakness in statistics reflects resource and capacity constraints. Have the authorities requested technical assistance to improve data adequacy?

- The authorities have received TA from STA on Government Finance Statistics and the central bank has received TA from CARTAC on external statistics in 2018. The central bank has also recently requested TA from STA on monetary statistics (a mission is planned in 2020).

Monetary Policy and Exchange Rate

15. We see merit in staff's call for more flexibility of the exchange rate but worry that Suriname's country-specific circumstances may nullify its benefits. To the extent that exchange rate flexibility for Suriname almost always translates into depreciation of the currency, we are concerned that while they automatically bear the cost of higher prices for imported goods, they may not reap the benefits of

higher exports, given the nature of their major export. We welcome staff comments on whether this possibility was factored into their advice to the authorities, and how?

- Staff's main reason to advise exchange rate flexibility in Suriname is to safeguard international reserves and ensure the current monetary aggregate framework can provide the nominal anchor. Suriname has experienced various episodes in the past (including in 2015-2016) where defending a fixed exchange rate led to a near depletion of international reserves, a large eventual depreciation, and a very high inflation rate.

16. Could staff comment on the independence of the CBvS in the wake of the resumption in the Bank's financing of the government's budget deficit?

- The resumption of monetary financing of the budget deficit could be viewed as eroding the independence of the central bank. Staff continue to encourage the authorities to update the Bank Act with comprehensive and clear provisions that prohibit all forms of monetary financing. In addition, the new Bank Act should provide a plan to recapitalize the central bank to further assure its independence.

17. The resumption of monetary financing of the budget is a concern as it undermines credibility in fiscal consolidation and monetary framework, which could also cause erosion of international reserves, and other vulnerabilities. Therefore, it should be discontinued by reinstating the MoU for the time being and subsequently revised Bank Act. However, in this regard, we wonder and welcome staff's views whether the government is willing to accept the new draft Bank Act, as it is the government which revoked the MOU with the central bank.

- The government supports the new draft Bank Act but have not yet sent it to the National Assembly.

18. We commend the authorities' ongoing efforts to strengthen the monetary policy framework and move towards a market clearing exchange rate. The introduction of new monetary policy tools such as certificates of deposits, 1- and 5-day lending facilities, and the interest-bearing deposits is a positive development. While we agree with staff that the authorities should expand the monetary toolbox, we are also mindful of the authorities' implementation capacity. In this regard, we support the authorities' request for the Fund to provide technical assistance to help set targets for M0 and to develop the interbank market. Understanding why the authorities returned to using an exchange rate anchor instead of the reserve money in 2016 is critical in avoiding a recurrence. Staff's comments are welcomed.

- The central bank officially switched its nominal anchor from the exchange rate to reserve money in 2016. However, as indicated in the staff report, the de facto framework has drifted back toward an exchange rate anchor with frequent interventions to stabilize the foreign exchange market. The authorities however, have indicated their commitment to a reserve money targeting regime.

19. The monetary policy framework should be strengthened further and build upon the recent progress in improving the facilities and instruments aligned with the draft legislation. We are concerned that monetary financing of the budget has resumed, although we note that the new Bank Act draft aims to eliminate such financing. Could staff comment on the sustainability of these efforts?

- The central bank has provided monetary financing of about 10 percent of government revenues in 2019, as permitted by the law. Staff have advised not to exceed this limit.

20. In this respect, we share concerns expressed by Mr. Obiora and Mr. Essuvi regarding the independence of the CBvS. Could staff also elaborate on the role of the newly formed Monetary and Fiscal Policy Coordination Committee (MFPCC)?

- The Monetary and Fiscal Policy Coordination Committee (MFPCC) has an advisory role and to provide advice on the consistency of monetary and fiscal policies.

21. As many legislative proposals are expected to be submitted to the National Assembly by the end of the year, could staff detail the tentative calendar, and which reforms have the greatest chance to be adopted before the general elections in May 2020?

- The authorities have not indicated their expected timeline for the submission of various legislations to the National Assembly.

Financial Sector

22. Could staff provide an update on the new resolution law being considered, following its submission to the National Assembly?

23. We note that the Bank Resolution Act, and other various legislations including a Deposit Insurance Act are being drafted. Could staff indicate a tentative timeline for their enactment and operationalization.

- The draft law has not yet been submitted to the National Assembly. The current prospects for the law are unclear.

24. ***Could staff comment on whether the growing NPL is a temporary uptick, and what are the key sectors driving the recent NPL growth, along with staff's estimate of the potential impact on loan classification and provisioning if IFRS is successfully implemented?***

- The growth of NPLs is largely a legacy of the near-crisis in 2015-2016 and NPLs appear to be concentrated in the real estate sector. The impact study of IFRS implementation is currently underway.

Structural Policies

25. ***Though not discussed in the report, we note that Suriname ranks far behind the Caribbean average for "getting credit" in the 2019 World Bank Doing Business Report. Can staff comment on barriers to credit access in Suriname? We also support staff's call for further structural reforms to boost private sector growth.***

- Suriname ranks lower than counterparts in availability of credit. This seems to be related to it's a lack of creditor information. Establishing and operationalizing a credit bureau would help improve access to credit.

26. ***We encourage the authorities to effectively implement structural reforms that would unlock private sector growth especially in non-resource sectors. We agree that the recently passed Family Act has the potential to enhance female labor participation. We look forward to the Suriname Competitiveness and Sector Diversification program and the successful restoration of a key infrastructure project such as the irrigation system that is vital for agriculture and forestry. We take note of the minimum wage increase to SDR 8.4 per hour and the plan to review it after every two years and wonder how this will affect the economy in general. Staff's comments are welcomed.***

- The minimum wage is very low (even after the increase) and is unlikely to generate measurable macroeconomic effects.

27. ***We encourage the authorities to continue with the supply-side reforms aimed at reducing the economy's overreliance on the mineral sector. In this context, we welcome the Suriname Competitiveness and Sector Diversification Program, to be launched in the following quarter. This program and other structural projects are financed by foreign loans. Staff's comments on their impact on debt sustainability are welcome.***

- Given the high level of debt, staff have advised finding offsetting fiscal savings to finance the needed supply-side investments without creating a further increase in debt and deficits.