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SURINAME

SELECTED ISSUES

January 2025

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INTERNATIONAL MONETARY FUND

SURINAME

SELECTED ISSUES

December 5, 2024

Approved By
Western Hemisphere Department

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CONTENTS

BOOSTING POTENTIAL GROWTH BY ADDRESSING GENDER GAPS IN SURINAME

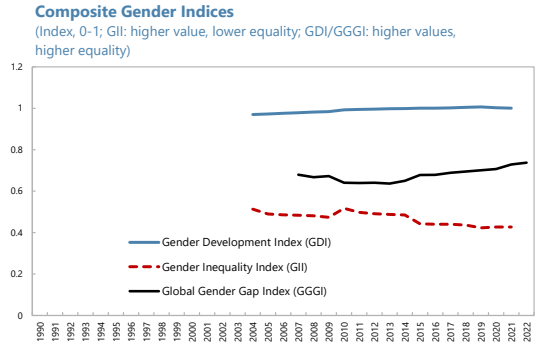
This SIP has three main objectives. First, it assesses the current gender inequality in opportunities and outcomes in Suriname. Second, it highlights the economic benefits of reducing gender inequality and removing barriers to women's economic empowerment. Third, it identifies potential policy areas where action is needed.

A. Overall Progress in Reducing Gender Inequality

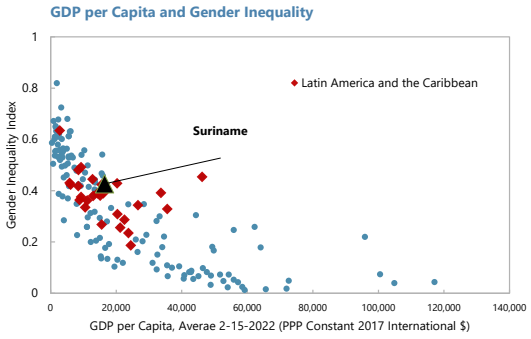
1. Suriname has seen gradual decline in gender inequality over the past few decades. Composite indicators of gender inequality—such as the Gender Inequality Index, the Gender Development Index, and the Global Gender Gap Index—measure different dimensions of gender equality, including opportunity, outcomes, and representation. These indicators suggest that overall gender equality has improved, albeit at a slow pace (left panel of Figure 1). Suriname's Gender Inequality Index is comparable to countries at similar level of development and falls within the moderate range compared to other countries in Latin America and the Caribbean (right panel of Figure 1).

Figure 1. Composite Indicators of Gender Inequality

There has been gradual progress in overall gender equality in Suriname over the past decade.



The level of inequality falls within the moderate range compared to regional peers.



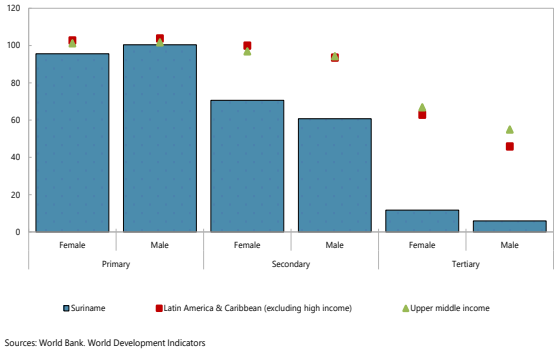
Sources: UNDP, World Bank, World Development Indicators, World Economic Forum, and IMF staff calculations.

B. Educational Attainment

2. Women perform well in education compared to men; however, overall educational outcomes are still low relative to peers. As shown in Figure 2, women and men have similar enrolment rates in primary level, but women outperform men in secondary and tertiary levels.

Nonetheless, education outcomes, especially in secondary and tertiary levels, fall short of those in Latin America and the Caribbean, as well as in upper middle-income countries (Figure 2).

Figure 2. Educational Outcomes by Gender



Sources: World Bank. World Development Indicators

C. Labor Market Indicators

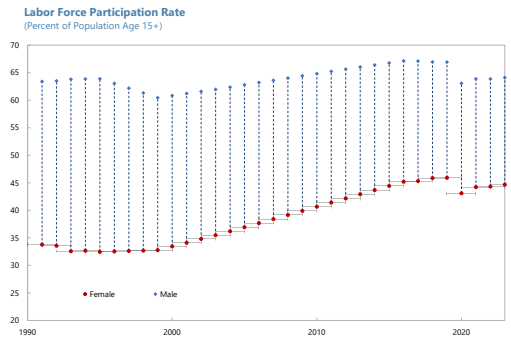
3. There are significant gains from closing gender gaps in labor market outcomes. The female labor force participation rate has increased compared to that of males, contributing to a smaller gap between the two (left panel of Figure 3). However, the gap remains sizable. Additional gaps in labor market outcomes exist as well. For instance, women who are employed are more likely to work part-time. The share of female youth not in education, employment or training is about 7.1 percentage points higher than that of male youth. In 2022, women held 29.4 percent of seats in national parliaments, which is below that of regional comparators (Figure 3). These gaps, alongside with better educational outcomes for women, suggest a misallocation of talents and abilities across occupations. Results from the IMF's Output Gains Toolkit suggest that closing the gender gap in labor force participation alone could boost GDP by about 18 percent.

D. Promoting Higher Female Labor Force Participation

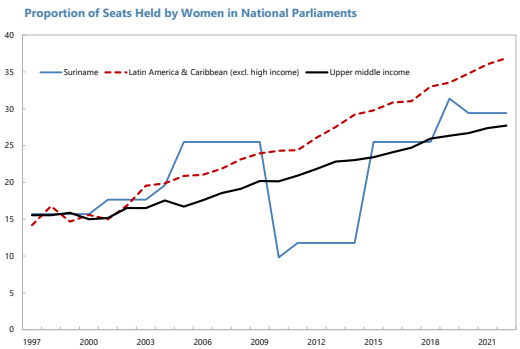
4. Child marriage and adolescent fertility rates remain high, and they are closely related to education and poverty. According to the most recent data in 2018, 36 percent of girls are married by the age of 18, and almost one in ten by the age of 15 (left panel of Figure 4). The prevalence of child marriage contributes to increased rates of adolescent pregnancies, often involving higher health risks. Although adolescent fertility has been falling in recent decades, it remains higher than in countries with similar income levels (right panel of Figure 4). Applying Melina framework to assess the consequence of adolescent pregnancy and early motherhood (AP&EM), UNFPA finds that the incidence of AP&EM is three times higher among females with no schooling or only primary schooling. Females with an incidence of AP&EM are more likely come from a household in the poorest quintiles and earn less than their peers who had given birth over the age of 20 years.

Figure 3. Gender Gaps in Labor Market Outcomes

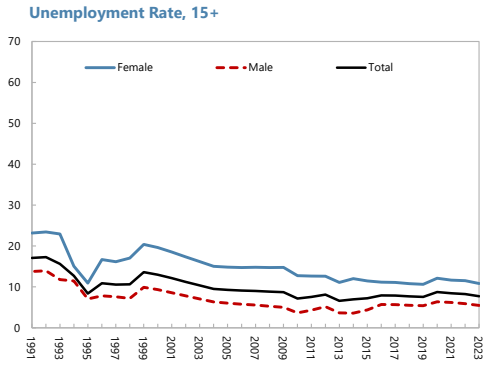
The gender gap in labor force participation has declined over the past decades but remains sizable.



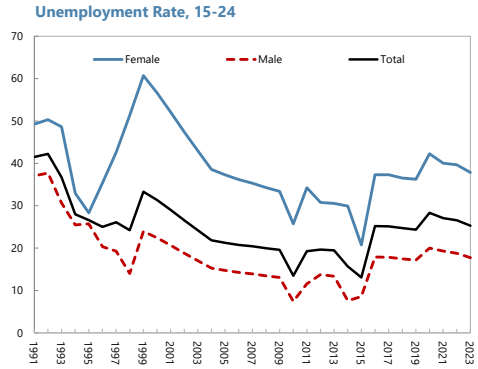
Female representation in national parliament is below regional comparators.



Women have higher unemployment rate.



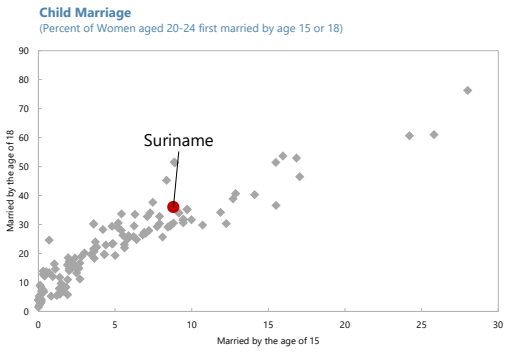
Youth employment rate is higher than overall employment rate.



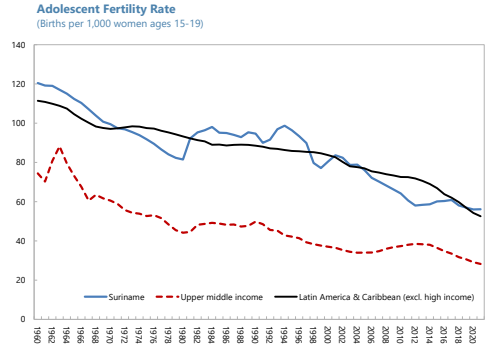
Sources: World Bank, Gender Data Portal, and World Bank, World Development Indicators.

Figure 4. Child Marriage and Adolescent Fertility

Child marriage rates are high.



Adolescent fertility has been declining in recent decades, but it is still above countries of a similar income level.



Sources: UNICEF, World Bank, World Development Indicators.

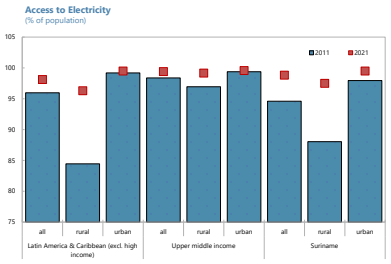
5. Child marriage and adolescent fertility lead to economic losses. Child marriage hampers educational attainment and labor market participation. UNFPA estimates that adolescent mothers are 28 percent more likely to withdraw from the labor market compared, have higher unemployment rate and earn less relative to women who delayed pregnancy till adulthood. The UNFPA estimates a cost of 1.6 percent of GDP due to lost income and lower economic activity. The IMF Child Marriage Toolkit also provides some estimates; however, instead of measuring gains or loss in terms of GDP share, it focuses on the impact on growth rate. The result suggests that eliminating child marriage in Suriname could potentially increase per capita growth by 1.44 percentage points.

6. Gender-based violence is still a relevant issue in Suriname. In 2018, 8 percent of women are subjected to violence in the last 12 months. 28 percent of women ages 15-49 have ever experienced intimate partner violence. According to IMF research, a one percentage point decrease in the share of women who experience intimate partner violence is associated with an 8-9 percent increase in economic activity, as measured by night-light data.

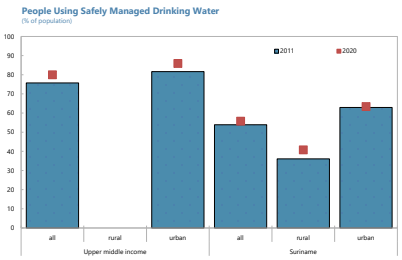
7. The lack of infrastructure and services presents additional challenges for women's time allocation. While access to electricity and safe drinking water has generally improved in Suriname, significant gaps remain in rural areas (left and middle panel of Figure 5). Furthermore, the share of people with access of safely-managed sanitation services has declined in recent years (right panel of Figure 5). These gaps and regressions disproportionately affect women, who typically undertake the unpaid tasks such as fetching water, cooking, laundry, cleaning, and other household chores. Improving such infrastructure could therefore have a disproportionate impact on women's time, potentially enhancing their participation in paid economic activities.

Figure 5. Infrastructure and Services

Access to electricity has generally improved but some gaps remain in rural areas.



Access to safe drinking water remains problematic, especially in rural areas.



Access to safely managed sanitation services has overall declined in recent years.

Sources: World Bank, World Development Indicators.

E. Legal Framework

8. Recent progress has been made in women's legal rights in legislation. The World Bank's Women Business, and the Law (WBL) data publishes legal framework scores based on rights codified

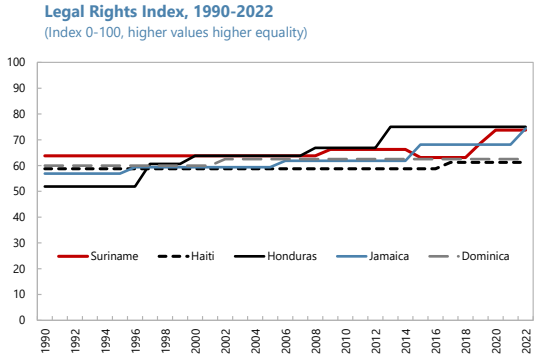
in law. The left panel of Figure 6, which uses WBL 1.0 legal framework scores, show some very recent advancements. The right panel presents the legal framework scores from the WBL 2.0 version, revealing that legal framework remains inadequate, particularly in areas such as entrepreneurship, safety, and childcare services. Overall, the WBL Report (2024) indicates that Suriname has an average legal framework score of 65 (out of 100), which is somewhat below the average for Latin America and the Caribbean.

9. The WBL report also highlight opportunities for policies to support the implementation of legal rights across various areas. The supportive frameworks scores, which measure the policy instruments designed to support the implementation of women's legal rights, indicate a lack of policies even in areas where the legal framework scores are relatively high. For instance, in the area of mobility, women have a different passport application process compared to men. In the area of the workplace, there is no government published guidelines addressing nondiscrimination based on gender in recruitment. Regarding equal pay, there are no pay transparency measures or enforcement mechanism to address the gender pay gap.

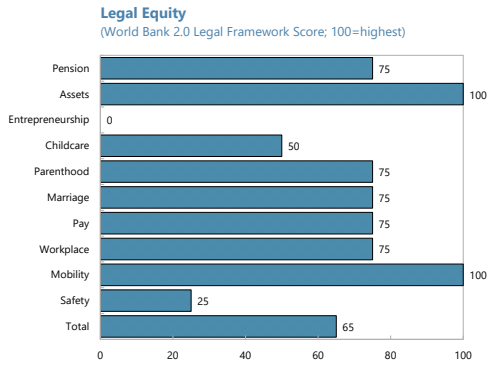
10. Further data collection is needed to identify the drivers of gender equalities and develop informed polices. Gender disaggregated data is lacking in several key areas, including women's share in STEM education, gender wage gaps, unpaid work, financial account ownership, access to credit, and digital payment. Understanding these factors is crucial for addressing the gaps in labor market outcomes and for developing evidence-based policies. Some information on time use will be collected in the next Census cycle.

Figure 6. Legal Rights

Legal equity has improved relatively recently…



…but several legal gaps remain, especially in the areas of entrepreneurship and safety.



Sources: World Bank, Women Business and the Law (2024)

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FISCAL RULE CALIBRATION

This SIP aims to calibrate the two proposed fiscal rules in Suriname's PFM legislature consistent with the country's developmental and fiscal sustainability goals while taking into account an intergenerational distribution of the country's natural resource wealth.

A. Introduction

1. With the discovery of offshore oil, Suriname's economic prospects have brightened considerably but have also brough increasing challenges. Achieving developmental and societal goals has come within reach. Sharply increased oil production will boost government revenues that can be channeled to productive investment and building adequate social infrastructure. Yet, higher reliance on mineral revenues brings challenges. Volatility in commodity prices can result in boom-and-bust economic cycles, aggravated by pro-cyclical fiscal policy overly dependent on mineral revenues. In addition, steep and premature ramp-up of government spending can destabilize the economy.

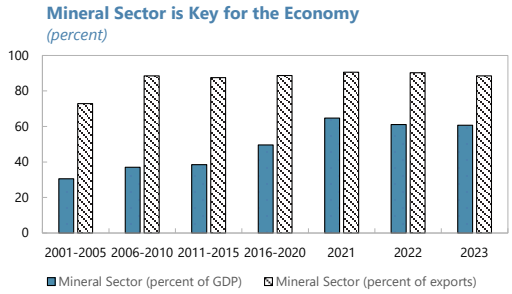
2. Recognizing these challenges, the Surinamese government has proposed legislation to strengthen the fiscal framework by introducing fiscal rules and revamping the Savings and Stabilization Fund Suriname (SSFS). The draft legislation introduces two fiscal rules, whereby the government, every five years, would set i) a target for public debt (net of assets in the SSFS) to be reached by the end of the five years, and ii) annual primary expenditure limits, consistent with achieving the debt target. At the same time, all mineral revenues are to be deposited directly in the SSFS and managed independently by the fund. In turn, annual budgets will limit the maximum withdrawal from the fund during the fiscal year to partly finance the budgetary spending. The proposed system of fiscal rules will also offer flexibility to respond to unanticipated economic shocks, notably through the inclusion of a well-specified escape clause. The current legislature provides a general description of these rules. This annex calibrates the proposed fiscal rules using the current macroframework.

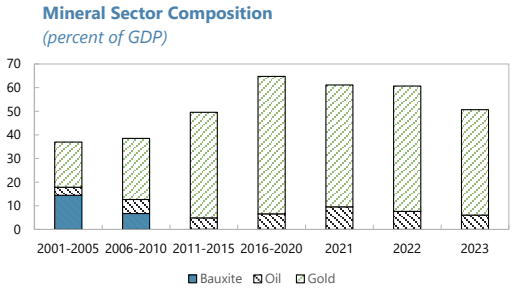
B. Context

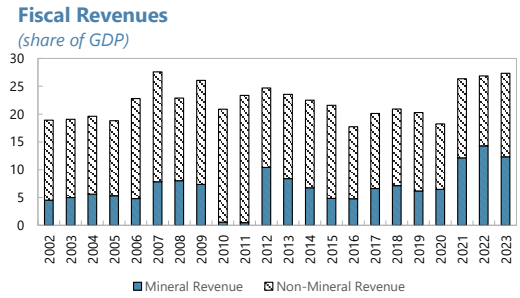
3. Suriname is already a resource-rich economy. The mineral sector – gold mining and oil – represents 60 percent of GDP and nearly 90 percent of exports. The mineral sector's importance as a share of total GDP and as a source of fiscal revenues has grown over time.

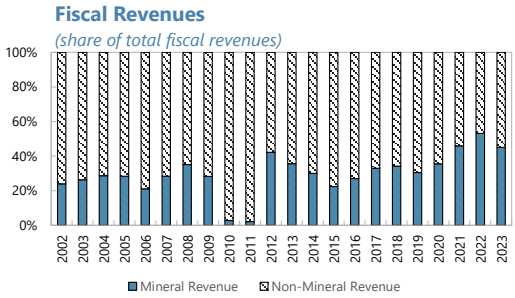
4. With the discovery of viable new offshore oil deposits in block 58, the value of Suriname's mineral resource wealth has multiplied. Under current plans, offshore oil production is expected to increase annual oil production more than 10-fold, from the current 6 million barrels to roughly 86 million at the peak in 2029. As a result, the total mineral fiscal revenues are expected to grow 7-fold, from USD 420 million in 2023 to peak at USD 3.1 billion in 2033. Furthermore, offshore deposits hold promise for more viable exploitation, on which geological research is ongoing.

Figure 1. The Mineral Sector



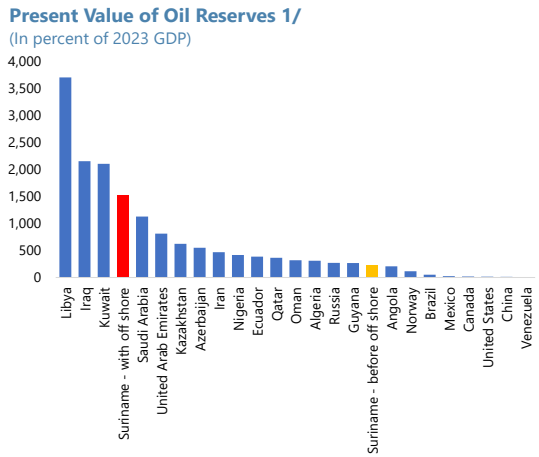


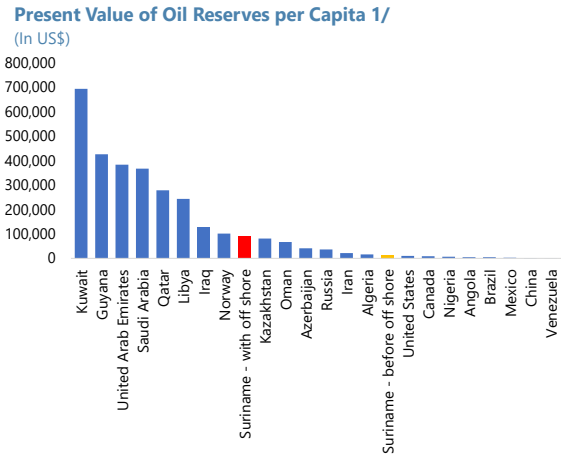




Sources: CBvS, Ministry of Finance, and IMF Staff calculations

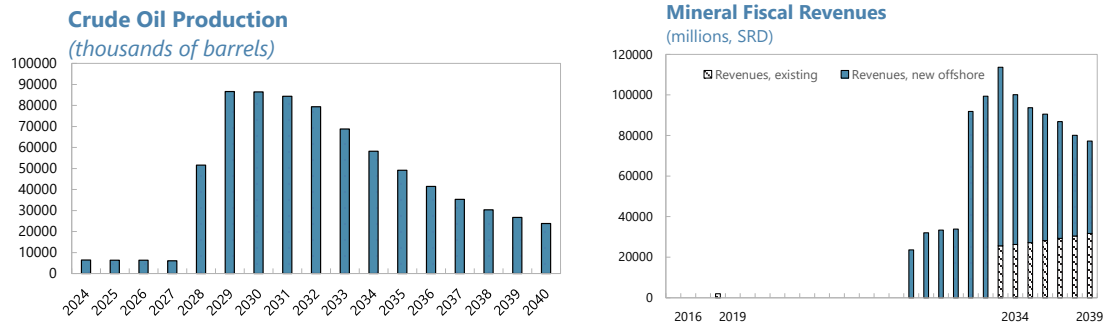
Figure 2. Suriname's Mineral Wealth





Sources: IMF, World Economic Outlook Database; U.S. Energy Information Administration; and OPEC.
1/ Estimated based on assumption of oil price increasing at 2.8 percent per year and the discount rate of 5 percent.
Sources: IMF, World Economic Outlook Database; U.S. Energy Information Administration; and OPEC. * Iraq, Kuwait, Iran oil production data as of 2021

Figure 3. New Oil Production



Sources: Staatsolie and Ministry of Finance

5. Suriname's nominal GDP growth volatility is the second highest in the region. Past episodes of volatility in commodity markets contributed to pro-cyclical fiscal policy and destabilized the economy. As a result, the fiscal situation worsened considerably. From early 2000 to 2010, the surge in commodity prices boosted fiscal revenues, which, in turn, led to ballooning expenditures. Yet, once the commodity cycle turned in the early 2010s and revenues fell, expenditures did not follow suit. COVID-19 crisis further magnified the precarious fiscal situation, eventually resulting in public debt default and restructuring and a fiscal adjustment under the EFF program.

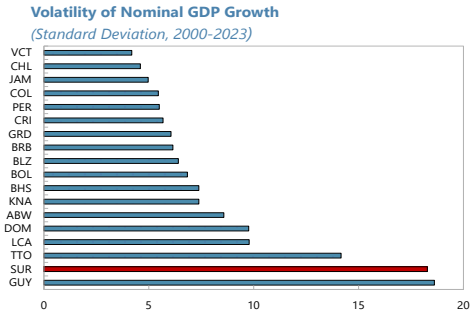
6. In 2017, Suriname established a sovereign wealth fund (SSFS) and set a limit on public debt, but this legislation was never fully implemented. The SFSS does not have any assets under management, and the 60 percent limit on public debt as a share of GDP was breached in 2018. Given an even bigger reliance on oil in the near future, the resulting volatility will be higher. It is, therefore, important to isolate the economy from commodity market cycles and ensure sustainable fiscal policy. Additionally, an effective fiscal rule can also help in the effectiveness of public expenditure to reduce poverty and stimulate long-term growth.

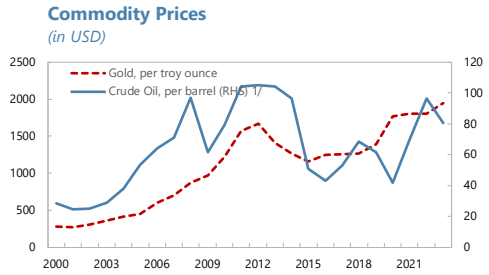
C. Calibrated Fiscal Rules

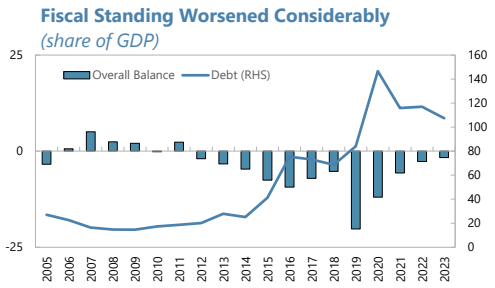
7. Fiscal policy in resource-rich countries (RRCs) usually has to balance several competing policy objectives. In particular, fiscal policy has a crucial role to play to (i) promote and maintain macroeconomic stability and prevent overheating, (ii) safeguard the sustainability of public finances, (iii) ensure an equitable intertemporal distribution of natural resources across generations, (iv) meet the economy's infrastructure and human capital needs while taking into account absorptive and institutional capacity constraints; and (v) build buffers against future adverse shocks.

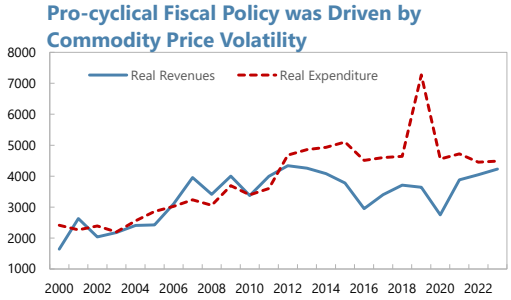
8. A net debt target anchor and a limit on current primary expenditure will help Suriname achieve a sustainable and equitable fiscal path. In Figures 5 and 6, we present simulation for three main approaches to managing oil wealth: "Bird-in-Hand" approach, PIH model (3 sub-scenarios), and staff's recommended scenario (which provides some temporary flexibility to deviate from the PIH-based anchor in the near term, while closing the gap in 10 years).

Figure 4. The Mineral Sector and Volatility









1/ Crude oil price is the simple average of three spot prices: Dated Brent, West Texas Intermediate, and the Dubair Fateh, US Dollar, per barrel
Sources: IMF, World Economic Outlook, Ministry of Finance, and IMF staff calculations

- **The "Bird-in-Hand" approach (BIH)** provides a very conservative fiscal policy anchor since, under this approach, all resource revenues are invested in financial assets. Consumption out of resource wealth is equivalent to the interest earned on accumulated financial wealth (i.e., not based on permanent income concept). This approach is prudent since it does not permit bringing forward consumption of (uncertain) future resource revenues. This approach makes no allowance for a high degree of uncertainty about future resource revenues, borrowing constraints (either due to high cost or debt sustainability issues), or absorption capacity issues that prevent an efficient scale-up of public spending. The key drawbacks of the BIH approach are that it benefits future generations more than the current (likely less well-off) generation and allows policymakers no flexibility on borrowing to finance productive investment opportunities. For completeness, we include this very prudent approach in our simulations.

- **Permanent income hypothesis (PIH)**-based calibration of the non-resource primary balance (NRPB) allow more frontloading of spending from natural resource wealth while making sure that future generations receive at least part of it. This wealth allows the government to spend more in the early years relative to a case without natural resources. Here, the crucial question is how we determine the level of this extra spending while keeping it sustainable for future generations. We simulate three fiscal paths based on different levels of the extra expenditure

funded by natural resources wealth: (i) a constant annuity in real terms, (ii) a constant annuity *in real* per capita terms, and (iii) a constant share of non-resource GDP.

- **Passive Scenario -** is the simulation of the consequences of the current fiscal policy of Suriname. This simulation follows the baseline projections in the short term and make two assumptions over the long term: (i) the government spends a large share of its natural resources revenues, as they have been doing for the last decade, and (ii) the government debt is capped at 60 percent of the GDP, after which the government must balance their budget. In our simulation, this threshold is reached by 2042.

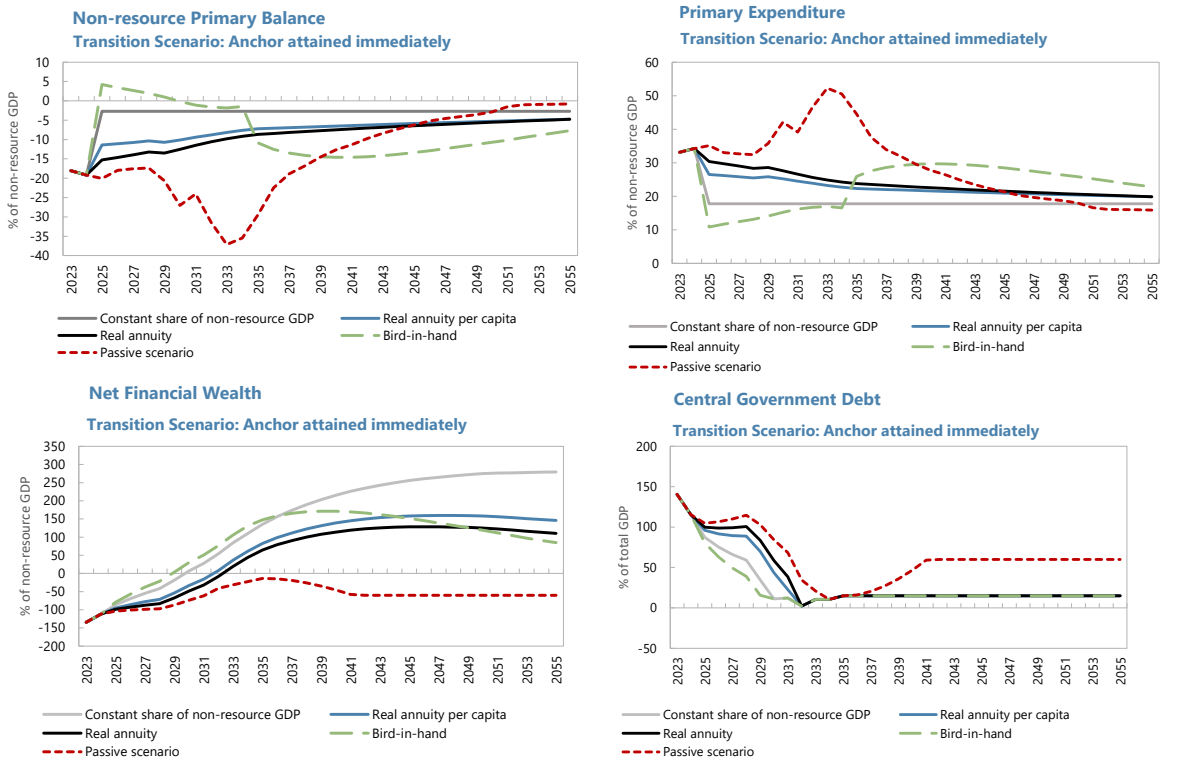
- **Recommended Scenario** – is the recommendation made by the staff after discussions with authorities during the November mission. This most realistic and politically feasible scenario is based on the modified version of the PIH discussed in Baunsgaard et al., 2012, which is designed to accommodate scaling-up of capital expenditure. Thus, this path achieves the sustainability of expenditures in the long-term while incorporating development needs and political feasibility concerns in the short-term. The simulation of this recommended path are displayed in Figure 6. Staff's recommendation is consistent with the current expenditure path of Suriname (they continue spending all resource revenues to avoid abrupt consolidation) but converge to the real perpetuity path during the next decade.

9. Staff recommends the following targets of net debt and caps on primary expenditure to meet the recommended path defined in Figure 6. The first anchor on net debt must be 59 percent of GDP by 2030 and a cap on primary expenditures on average at 30.5 percent of non-resource GDP over 2025-2030. Subsequently, the second anchor to be reached by 2035, implied by the recommended fiscal path, would be for a net debt of –48 percent of GDP (a positive net wealth) and primary expenditures of 23.5 percent of non-resource GDP over the corresponding five-year period. This fiscal path ensures convergence to a fiscally sustainable perpetual primary deficit of 5 percent of non-resource GDP. At the same time, it generates significant asset accumulation of 50 percent of non-resource GDP by 2035, savings that can provide buffers for unexpected macroeconomic shocks, and financing of fiscal spending for future generations.

10. This proposed path must be revised periodically, incorporating new economic developments of Suriname and commodity prices.

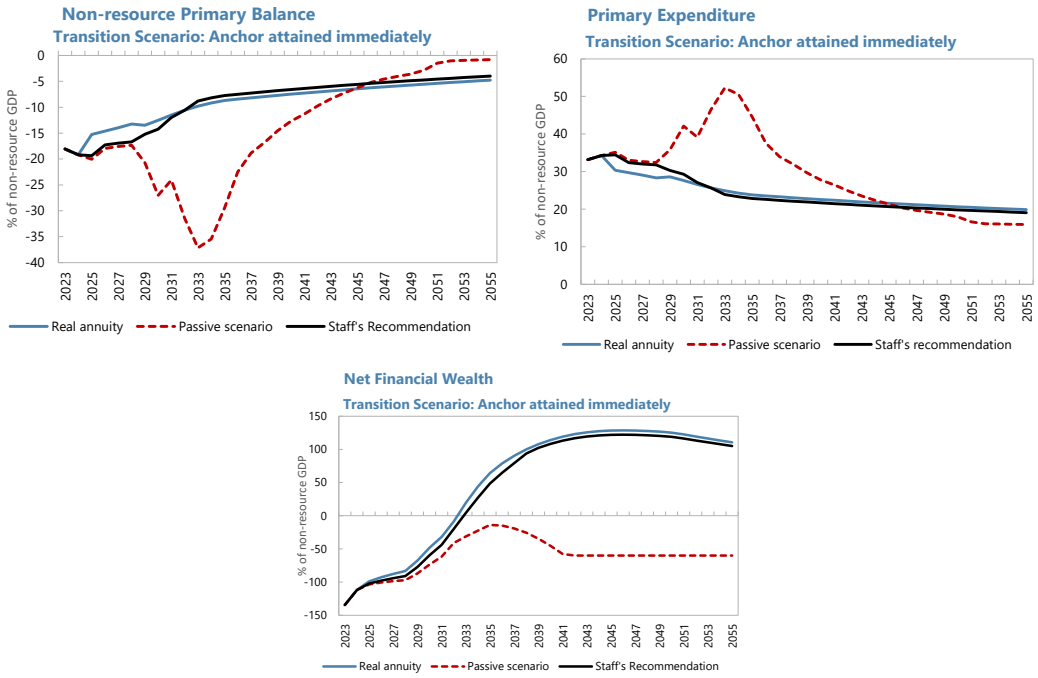
11. Even though it is outside this paper's scope, three crucial aspects of the design must be discussed and defined to have an effective fiscal rule. First, there has to be a correction mechanism in case the fiscal policy deviates from the fiscal rule. Second, the fiscal rule must have escape clauses. These clauses must be triggered by variables outside government control and defined ex-ante (Eyraud et al., 2018). Third, the transparency and accountability over the revenues generated by offshore oil, its administration by the SFSS, and its expenditure by the government through the budget allocation are crucial. These three aspects of the design, jointly with the calibration of the rule, will allow Suriname to make the best of this new wealth that they have discovered.

Figure 5. Suriname's Fiscal Simulation Results—Bird-in-Hand and PIH-based Scenarios



Sources: Staatsolie, Ministry of Finance, IMF, World Economic Outlook, and IMF staff calculations

Figure 6. Recommended Fiscal Rule



Sources: Staatsolie, Ministry of Finance, IMF, World Economic Outlook, and IMF staff calculations

D. Conclusion

12. Suriname's oil discoveries can bring immense wealth to the nation, mainly through government revenues. Given the inability of the country to manage natural resources wealth observed in the recent history, it is crucial that there is an adequate management of this new wealth. This annex proposes a responsible fiscal path that accounts for pressing development needs, absorption capacity, well-being of future generations, precautionary savings, and political feasibility.

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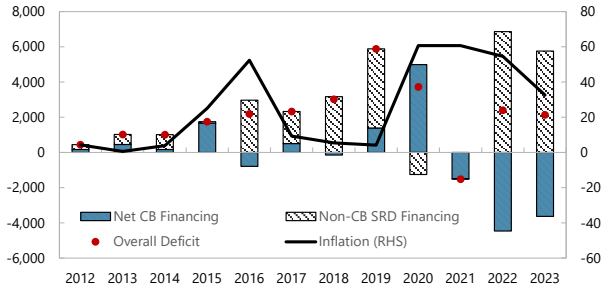
MONETARY POLICY FRAMEWORK: ASSESSMENT OF THE CURRENT REGIME AND NEXT STEPS

This SIP serves broadly two goals. First, it takes a stock of the current Reserve Money Targeting monetary policy regime and second, given the Final Investment Decision (FID), proposes a way forward for updating the monetary policy regime.

A. Monetary Policy Framework Before the EFF Arrangement

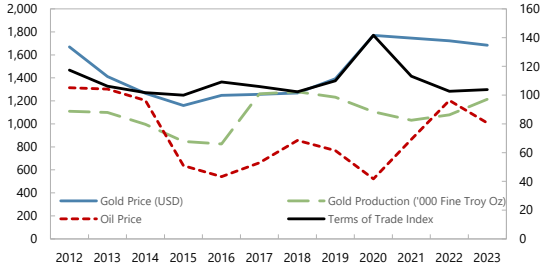
1. While the Central Bank of Suriname (CBvS) formally switched its nominal anchor from the exchange rate to reserve money in 2016, it took at least 5 years for the reserve money targeting framework to be fully implemented. As a small open economy, Suriname relies on imports for most of its consumption and investment needs. As such, domestic goods prices are highly dependent on forex rate. The prices are flexible with a quick pass through from exchange rate depreciation to inflation, which feeds back to exchange rate through a quick PPP adjustment. High reliance on commodity exports makes both the fiscal and external position of Suriname vulnerable to commodity price volatility and terms of trade shocks. Until December 2021 CBvS continued to intervene to stem depreciation pressures, so the monetary framework was *de facto* exchange rate based.

Financing of Fiscal Deficits
(SRD Million)



Sources: Ministry of Finance, CBvS and IMF Staff Calculations

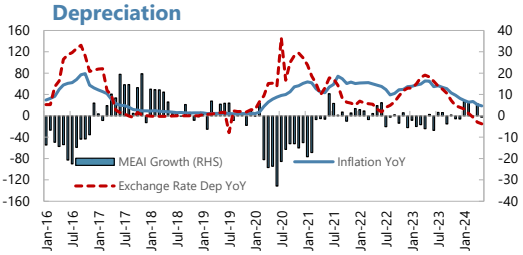
Terms of Trade and Commodity Production



Sources: CBvS and IMF Staff Calculations

2. COVID-19 shock exacerbated pre-existing vulnerabilities, ultimately resulting in monetary financing of growing fiscal deficits. Contraction in economic activity during COVID and a loss in non-commodity revenue widened fiscal deficits. Suriname was also unable to capitalize on favorable terms of trade in 2020, as gold production remained stagnant despite a sharp increase in commodity prices. Rising oil pr ices in 2021 increased the energy subsidy bill, which coupled with a sharp increase in pre-election capital expenditures in 2020 significantly increased the fiscal deficit. Monetary financing of the fiscal deficits put pressures on exchange rate after the FX inflows had dwindled. A similar trend can be observed in 2015-

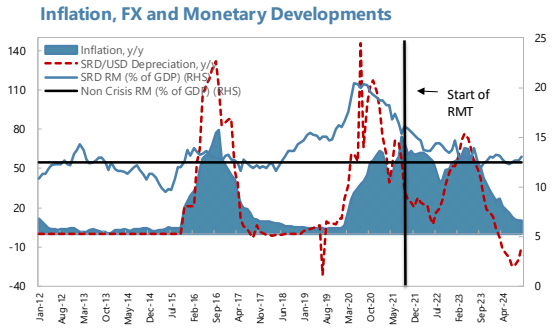
Growth, Inflation and Exchange Rate Depreciation



Sources: CBvS and IMF Staff Calculations

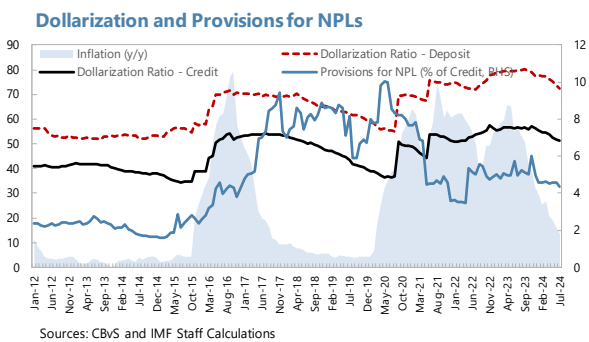
2016 when monetary financing of fiscal deficits resulted in a high inflation and contraction in the GDP.

3. A vicious cycle of exchange rate depreciation and high inflation deepened the level of dollarization in the economy. Loose fiscal policy coupled with inability of the central bank to mop up excess liquidity, resulted in exchange rate depreciation and un-anchoring of inflation expectations. High inflation also reduced the confidence in the banking sector and prompted rises in both credit and deposit dollarization. In turn, higher dollarization reduced the monetary policy transmission mechanism, making it even more expensive to mop up liquidity. To understand the relationship between inflation, exchange rate and excess liquidity, inflation(m/m)[1] was regressed on lagged inflation (one month and two months), lagged exchange rate (m/m, one month) and excess liquidity proxied by Reserve money as percentage of GDP (interpolated monthly using inflation). All the covariates were significant in explaining the m/m and y/y inflation in Suriname (text tables).

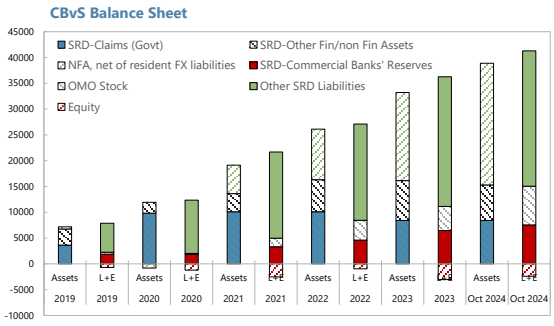


Sources: CBvS and IMF Staff calculations

4. Monetary financing further distorted the balance sheet of the central bank. The claims on the central bank did not earn any interest until they were restructured in 2021. In addition, fiscal financing structurally increased the SRD liquidity compelling the central bank to increase the reserve requirements on SRD deposits. Increase in the already high reserve requirements further increased the intermediation margins and further strained the monetary transmission mechanism.



Sources: CBvS and IMF Staff Calculations



Sources: CBvS and IMF Staff Calculations

[1] All month-on-month (m/m) increases are calculated using log differences. Likewise, all year-on-year (y/y) increases in all variables are calculated by differences in log values of current and its 12-month lag.

Table 1. OLS Regressions of Inflation on Lagged Explanatory Variables

Year on Year changes in dependent, explanatory variables

	Dependent Variable : CPI (m/m)				
	Model 1	Model 2	Model 2	Model 4	Model 5
CPI m/m (t-1)	0.357***	0.281***	0.286***	0.351***	0.227**
	-0.07	-0.08	-0.08	-0.07	-0.08
CPI m/m (t-2)		0.179*			0.151
		-0.08			-0.08
Exchange Rate Dep m/m (t-1)	0.061*	0.062*	0.080**	0.062*	0.079**
	-0.03	-0.02	-0.03	-0.03	-0.03
Exchange Rate Dep m/m (t-2)			0.057*		0.047
			-0.03		-0.03
SRDM0/GDP (t-1)	0.224**	0.181*	0.208**	-0.284	-0.388
	-0.07	-0.07	-0.07	-0.3	-0.29
SRDM0/GDP (t-2)				0.522	0.578*
				-0.3	-0.29
constant	-0.020*	-0.016	-0.018	-0.022*	-0.017
	-0.01	-0.01	-0.01	-0.01	-0.01
R-sqr	0.33	0.352	0.349	0.342	0.379
dfres	158	156	156	157	154
AIC	-807.7	-805.1	-804.5	-808.8	-808
BIC	-795.3	-789.7	-789.1	-793.4	-786.4

*p<0.05, **p<0.01, ***p<0.001

Month on month changes in dependent, explanatory variables

	Dependent Variable : CPI (y/y)				
	Model 1	Model 2	Model 2	Model 4	Model 5
CPI y/y (t-1)	0.906***	1.307***	0.939***	0.903***	1.270***
	-0.02	-0.08	-0.02	-0.02	-0.08
CPI y/y (t-2)		-0.377***			-0.327***
		-0.08			-0.08
Exchange Rate Dep y/y (t-1)	0.054**	0.032	0.126***	0.054**	0.080**
	-0.02	-0.02	-0.03	-0.02	-0.03
Exchange Rate Dep y/y (t-1)			-0.099***		-0.063*
			-0.03		-0.03
SRDM0/GDP (t-1)	0.315*	0.227	0.327**	-0.064	-0.255
	-0.12	-0.12	-0.12	-0.47	-0.43
SRDM0/GDP (t-2)				0.4	0.532
				-0.48	-0.44
constant	-0.033*	-0.022	-0.036*	-0.036*	-0.029
	-0.02	-0.02	-0.02	-0.02	-0.02
R-sqr	0.974	0.978	0.976	0.974	0.979
dfres	147	145	145	146	143
AIC	-624.1	-641	-630.4	-622.8	-644.1
BIC	-612	-625.9	-615.4	-607.7	-623

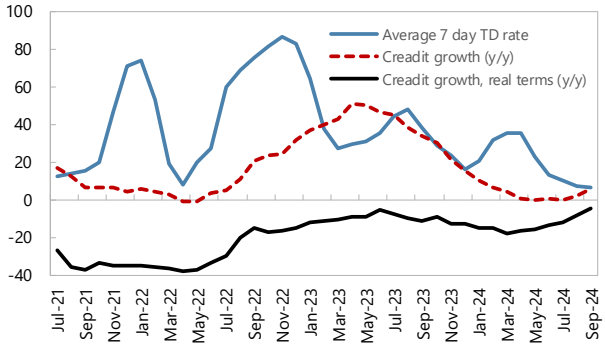
*p<0.05, **p<0.01, ***p<0.001

B. Reserve Money Targeting Framework Under the EFF-Supported Arrangement

5. The monetary policy adopted by the central bank since 2021 course corrected the unfavorable impact of past policies. The monetary policy was conducted by the SRD reserve money as an operational target, with the goal to align reserve money path with level consistent with disinflation process. The program included continuous PC on FX interventions, explicitly prohibited monetary financing, and introduced structural conditionality on the enactment of the new Central Bank Act to guarantee its operational independence. The new Central Bank Act of 2022 explicitly prohibits monetary financing of the fiscal deficits, sets the primary objective of the central bank as price stability while also mandating the central bank, without prejudice to its primary objective, to ensure the stability of the financial system. Since December 2021 CBvS has refrained from FX interventions and allowed the exchange rate to be fully market-determined.

6. The Central Bank further expanded its operational toolbox to implement the reserve money target. To conduct monetary policy, certificates of deposit (and gold-indexed certificates), 1- and 5-day emergency and standby lending facilities, interest-bearing term deposit facilities of different tenors and central bank certificates were introduced.

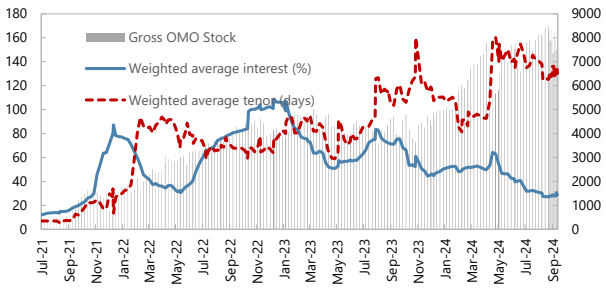
Credit Developments in SRD



Sources: CBvS and IMF Staff Calculations

7. However, the existing toolbox was not sufficient to effectively mop up structural liquidity. The interbank market was not functional as instruments for collateralized lending were not available after the default by the government at end-2022. The government has still not regained domestic market access, forcing CBvS to increase the tenor of its instruments. Interbank market transactions are a few and are limited to cross currency swaps. Credit growth in nominal terms was excessive in 2022, forcing the CBvS to look for a temporary solution – such as temporary 20 percent credit growth caps from March 2023-April 2024.

CBvS Open Marekt Operations

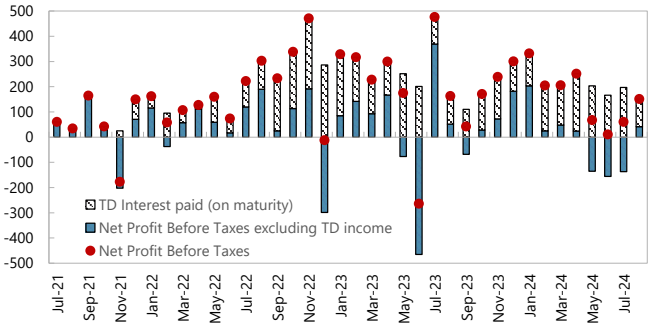


Sources: CBvS and IMF Staff Calculations

8. The targeting of RM was largely successful in bringing down inflation. Inflation currently is 10.5 percent y/y as of September 2024, down from a high of 75 percent in August 2021. Public confidence in the Central Bank is recovering. Monetary transmission through exchange rates has also improved. Interest rates on the monetary policy instruments has also declined (chart).

9. Implementing of RM targeting came at a cost, but the benefits of bringing down inflation far outweigh them. Interest rates on open market operations (OMOs) had to be sufficiently high to attract participation. The instruments used for monetary policy operations also provided an alternate source of income for the banks. Notwithstanding a non-core business income, the profit preserved the equity position of the banks that were still reeling from high NPLs post-crisis and government default on domestic debt and subsequent domestic debt restructuring. Despite the still existing vulnerabilities, the profit from OMOs helped the banks wither the high inflation/high depreciation storm, at the cost of elevated future recap needs for the central bank.

Banks' Interest Income
(million SRD)



Sources: CBvS and IMF Staff Calculations

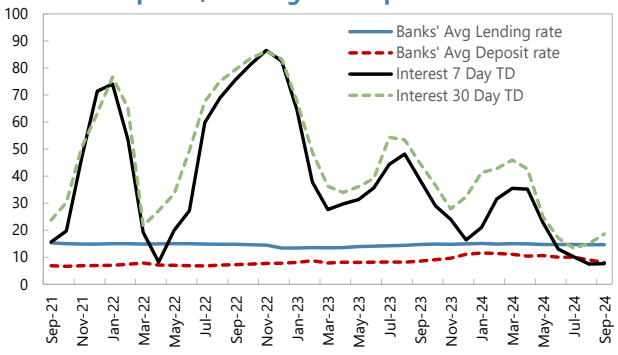
Aggressive sterilization through interest-bearing central bank instruments eroded the equity position of the CB, increasing the recap needs. Nevertheless, the structurally excess liquidity resulted in the first place from the monetization of central government deficits – an asset that hitherto has not paid any interest to the central bank.

C. Transitioning to the Interest-Based Monetary Framework

10. The reserve money targeting regime was a temporary regime to help stabilize the economy and bring down inflation. Reserve money targeting regime is normally suboptimal when inflation is close to long term average. Furthermore, with the oil inflows, the reserve money is expected to become volatile posing challenges for calibrating the desired reserve money targets.

11. Before the transition to an interest-based monetary framework can take place, various channels of monetary policy transmission need to be strengthened. At this point, credit and deposit rates in SRD do not sufficiently respond to the interest rates on central bank instruments and show volatility in real terms with high inflation. The credit channel is also muted as the term deposit rates have minimal effect on credit growth with a significant lag. Lack of capital markets and lack of assets priced in SRDs also makes the asset price channel muted.

Term Deposits, Lending and Deposit Rates



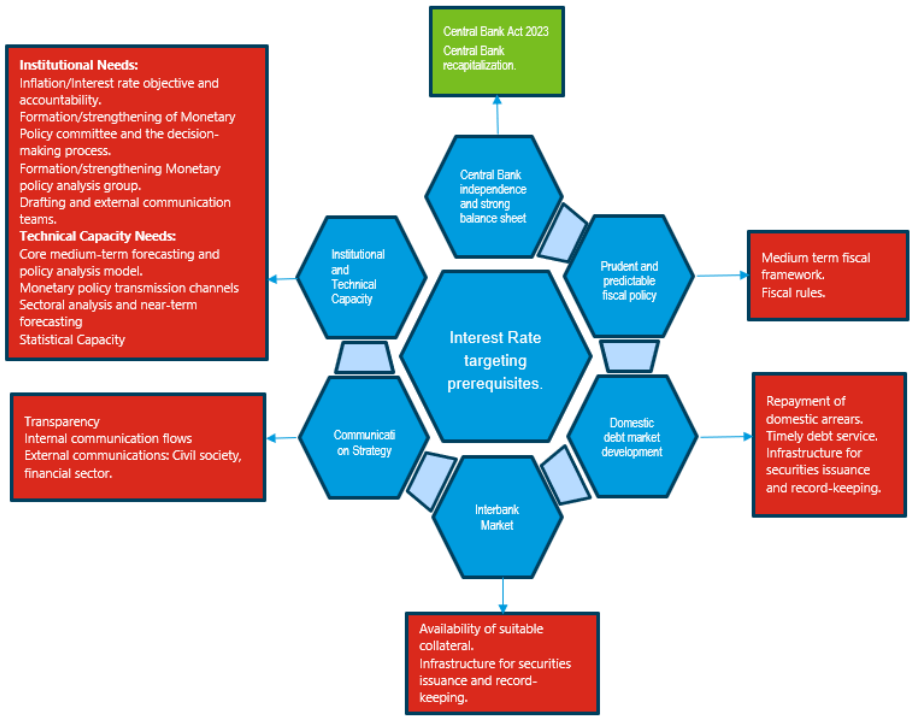
Sources: CBvS and IMF Staff Calculations

12. There is a need to develop capital markets for firms raising capital and for institutional investors relying on capital markets for their investment needs. The central bank needs to

facilitate stronger intermediation and guard against proliferation of shadow banking. The institutional investors are also subject to weaker central bank supervision and regulatory requirements, giving them an undue advantage over banks. Developing derivate markets would also help weaken the link between volatility in exchange rates and inflation, while enabling exporters and importers to hedge their FX exposures.

13. Transition to the new monetary policy framework would take a few years, requiring a multi-pronged approach (Figure 1). Each step requires significant capacity and institutional development, that for some steps needs to be supported by appropriate legal framework. Most of the steps are not dependent on each other and can be undertaken at the same time. See Annex I for a non-exhaustive list of potential TA needs.

Figure 1. Prerequisites for a Smooth Transition to a Price Based Monetary Framework



Source: IMF

Central Bank Independence and Financial Strength

14. Central bank operational and financial independence is the cornerstone of implementing the new regime. The legal framework is already in place with the enactment of the new Central Bank Act (CBA) of 2022. The CBA explicitly states the main objective of the bank to achieve and maintain price stability, while also maintaining the stability of the financial system. The

CBA also provides operational independence to the bank with creation of an independent supervisory board and explicitly binds both the management and the supervisory not to take instructions from the government in pursuing its mandate. Central bank governor (President of the Executive board) has a reasonably long term of office (7 years) and the CBA puts forward clear rules covering the circumstances for removal from office. Executive and supervisory boards have also been constituted and fully appointed to for running the operations and to provide an oversight to the operations of the bank.

15. The Central Bank needs strong balance sheet to effectively implement the new framework. In that regard, implementation of the recently finalized central bank recapitalization plan is a priority. To ensure financial independence of the central bank, the central government should service its scheduled payments to the central bank on time. The government should inject further equity to if required to satisfy the central bank act upon publishing annual reports. Until sufficient payments are made, the financial independence of the central bank will remain a major concern in transition to a new monetary policy regime.

Prudent and Predictable Fiscal Policy

16. Operationalizing the Sovereign Wealth Fund and putting in place fiscal rules would avoid excessive fiscal procyclicality with respect to oil. Even though the new CBA has made CB independent, the Fiscal policies in a small economy like Suriname play an important role in efficacy of the monetary policy. The fiscal stance should be consistent with the with the monetary policy stance and there should be resistance to deviating from the fiscal rule, unless it is a situation of national emergency. Second, there should be sufficient fiscal space to respond to shocks in support of monetary policy. Specifically, Suriname is susceptible to terms of trade shocks that propagate very fast. Monetary policy -at times would not be able to absorb all the shocks and would rely on fiscal policy for supporting the monetary policy goals.

Domestic Bond Market Development

17. It is a priority for the central government to promptly reestablish domestic market access. Promptly servicing domestic debt would help reestablish confidence in T-bills and T-bonds. It would also help strengthen the capacity to absorb structural liquidity from the system. MOFP and CBvS should meet regularly to discuss the upcoming auctions and payments on maturing obligations, so as to improve liquidity forecasting and management.

18. Unwinding the short position of the central bank for monetary policy operation purposes would require offsetting decline on the asset side, which would require the government timely servicing the consolidated debt. As the government mops up liquidity through fiscal restraint to service its debt to central bank, the OMO instrument positions can be unwound, with reductions in the reserve requirements can follow later as the central bank balance sheet becomes leaner on the asset side over time. Swift implementation of the treasury single account would also help faster unwinding of the OMO instruments as banks would need liquidity for

the deposit withdrawals by the government. In the process, the OMO liabilities would then convert to liabilities to the central government.

Interbank Market Development

19. The financial market also needs to be prepared for the transition. The financial market should be able to evaluate the monetary policy decisions and incorporate them into their lending decisions. Liquidity needs should be fulfilled within the banking system with minimum reliance on Central Bank. This would require development of an interbank market with securities that can be used for collateralized lending. There should be central repository of securities that can be used for collateralized lending for an accurate information on the securities. To strengthen the monetary policy further, steps must be taken to renumerate reserves. Reserves requirements should not be lowered without a careful assessment of the strength of the Central bank balance sheet.

Institutional and Technical Capacity of the Central Bank

20. The structure within the central bank would need to be updated. The information and decision flows within CBvS should be reconfigured and new teams formed to support the monetary policy targets and decisions. This would also require hiring of appropriate people and technical trainings.

Communication Strategy

21. Communication from the Central Bank should be strengthened. It should be noted inflation expectations will now play a bigger role in the conduct of monetary policy, and the monetary policy counter parties in the economy will be carefully observing the actions of the central bank to form expectations. Therefore, transparency and clarity in policy objectives and decision processes is of paramount importance.

Other

22. Improving the quality of national account statistics is of paramount priority. Annual GDP data comes with a 9-month lag, and there is no quarterly GDP, making it harder to assess potential output and where Suriname is in it economic cycle. Likewise, further disaggregation of CPI is needed to assess the behavior of core inflation.

Annex I. Monetary Policy Framework: Potential Capacity Development Needs

The following suggests a non-exhaustive list of actions the central government and other stakeholders need to take for transitioning to a new monetary policy regime. Technical Assistance, where needed can be undertaken in parallel for most of the TA needs.

Central Bank Independence and Strong Balance Sheet (Ministry of Finance and Central Bank)

Continue timely debt service on debt owed to the Central Bank, including on recap bonds.

Inject further equity (if needed) on publication of audited annual reports.

Optimize balance sheet, including through a deeper analysis on reserve requirements in both FX and SRD deposits.

Prudent and Predictable Fiscal Policy (Ministry of Finance)

Implement the medium-term Fiscal framework, including implementation of Fiscal rules.

Operationalize sovereign wealth fund.

Improve transparency in SOE operations and cash flows.

Improve government treasury cash flow forecasting and management.

Domestic Debt Market and Interbank Market Development (Ministry of Finance and Central Bank)

Continue timely debt service on debt owed to the banks.

Develop benchmark maturities to form a yield curve.

Develop deep money, debt and foreign exchange markets.

- Government should issue domestic currency debt at benchmark maturities in
- Sufficient quantities in consultation with Central Bank to form a yield curve.

Integrate the money and FX markets.

Develop derivative markets (e.g., forward foreign exchange) of relevant markets.

Develop capital markets for providing investment opportunities for pension funds and public at large.

Institutional and Technical Capacity of the Central Bank (Central Bank)

Develop organization and structuring of the forecasting, policy analysis, and decision-making processes within the Central bank.

Develop a policy rate that would act as an intermediate/operating target and identify the channels through which the policy rate would propagate monetary policy.

Develop instruments for targeting the operating targets. Choice of instruments should also incorporate Suriname's high financial dollarization.

Develop nowcasting and near-term forecast teams and hire sectoral experts and develop tools and procedures.

Develop a forecasting and policy analysis team (FPAT) with well-defined managerial and operational responsibilities supported by a sound reporting structure.

Develop a core medium-term forecasting and monetary policy analysis model that has an explicit role for monetary policy.

Develop tools and procedures for ex post evaluation of the forecasts and policy recommendations.

Develop structured policy forecasting and policy analysis (FPAT) process with well-defined deadlines and responsibilities and develop binding schedules for staff-level technical meetings, technical meetings between MPFPA and policymakers, and monetary policy decision-making meetings.

Develop binding rules for intervention in FX markets. The rules should be such the bar for FX interventions is set very high for an infrequent use.

Statistical Capacity (Ministry of Finance and Central Bank)

Timely and accurate collection of real sectors, prices, labor market and sectoral data that could br used for nowcasting, near term and medium-term forecasts.

Communication Strategy (Central Bank)

Develop processes and templates for:

- Structured monetary policy advice and presentations to the policymakers
- Internal and external monetary policy reports (MPRs)

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