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Statement by the Governor for Suriname

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1. I would like to take this opportunity to thank the government of The Bahamas for hosting this annual event. I am grateful that you are making the delegates' stay so pleasant and fruitful thus far.
2. In my brief remarks, I would like to present to you some of our recent economic developments, challenges, and successes that are supported by our development partners, most notably the IDB.
3. Despite the sharp downturn in commodity prices in recent years, which resulted in an income shock for Suriname, the outlook for growth, exports, and government commodity-related income remains positive due to major investments that are currently being brought online or nearing completion. Specifically, the state-owned oil company completed a new US\$1 billion refinery that will largely eliminate crude oil exports and imports of oil derivatives, and the refinery is gradually being brought to full capacity production as we speak. This will help insulate the country from the vicissitudes of the international oil market price fluctuations. The company is also expanding into mining and energy generation activities and managing the offshore exploration activities that are being carried out by large international oil companies. In the mining sector, the American mining company Newmont will begin operating a new US\$1.1 billion gold mine in October 2016, in which the state-owned oil company is participating with a 25% share. To our knowledge, this is the only new large-scale gold mine being developed in the world these days, reflecting the unique competitiveness of Suriname in this mining sector. At current prices, the new gold mine will be exporting about 8% of GDP annually for at least 10 years.
4. These investments will be fully online in late-2016, increasing exports, allowing the country to return in 2017 to a BOP current account surplus, and boosting government finances. However, 2015 and 2016 are difficult years, as we need to cope with the external account and government finance consequences of the commodity price shock.

By any international standards, Suriname faced a severe shock that was compounded on the balance of payments side by the sharp increase in imports related to the major investment projects in oil and gold mining.

- In terms of government finances, oil and mining-related income fell from around 8.5% of GDP in 2012 to just 1.5% of GDP in 2015—the government lost almost a third of its income in 3 years.
- In terms of the balance of payments, Suriname began recording external current account deficits in 2013 after nearly a decade of surpluses. These deficits were primarily related to the beginning of the large-scale investments, which together account for about 35% of GDP during 2013-16, while the sharp fall in gold and then oil prices exacerbated the pressure on the balance of payments.

5. Our macroeconomic response to the external and fiscal pressures started in earnest in August 2015 with a sharp contraction in government expenditure and increases in taxation. These included expenditure cuts to line ministries and increased expenditure controls by the Ministry of Finance, an increase in fuel taxation and the closing of fuel taxation loopholes, a phased elimination of utility subsidies, and passage of a tight budget that restricts the deficit to just 2.4% of GDP in 2016. According to the IMF, monthly fiscal data for 2015 show that the fiscal deficit declined from around 9% of GDP on an annualized basis in the first half of 2015 to below 2% of GDP in the last quarter of 2015. While the quantitative fiscal adjustment has largely been accomplished, we need to solidify these gains and put in place fundamental structural reforms to preclude future commodity price shocks from damaging the economy and the fiscal solvency, and to accelerate the speed with which the government responds to shocks.

6. The Ministry of Finance embarked on a wide-ranging reform effort to eliminate the government's dependence on oil and mining revenue, smooth revenue volatility, streamline procurement, and improve fiscal management. The reforms include:

- Reforming the public finance management framework by putting in place a formalized macroeconomic forecasting system for budget preparation and medium-term fiscal planning.
- Creating a Treasury Department that will centralize asset and liability management, provide liquidity and financing forecasts, and manage a Treasury-bill auction system.
- Presenting to the Parliament a new Public Finance Management law that would put in place a fiscal rule, and reform the budget preparation and approval process.
- Presenting to the Parliament a law for a Sovereign Wealth Fund to stabilize commodity-based revenue over the commodity price cycles and begin saving commodity-based revenue for future generations.
- Introducing a real-time expenditure management system that would allow fast budget adjustments and a full shift to an international fiscal accounting standard.
- Centralizing government asset management.
- Implementing a VAT in 2018 to broaden the consumption tax base and boost revenue, thus generating additional revenue of 2.5% of GDP.

- Completing a shift from an income-based taxation regime to a less volatile and more growth-enhancing consumption-based taxation regime by reducing and simplifying income taxation in 2018-19.

7. On the monetary and exchange rate policy side, a devaluation of the Suriname dollar in November 2015 helped align the relative price changes in the aftermath of the commodity price shock. More importantly, the government undertook a fundamental change in the exchange rate regime when it announced in February a shift to a flexible exchange rate regime. In our view, the monetary policy framework and domestic financial and foreign currency markets are now developed enough to maintain and benefit from a flexible exchange rate regime. The government also considers a flexible exchange rate regime to be better suited for Suriname than a peg, due to the continued reliance on commodity exports and the deeper and better-integrated financial and foreign currency markets in Suriname. The Central Bank of Suriname is putting in place all necessary indirect monetary policy instruments to facilitate the management of a quantitative policy anchor instead of the old exchange rate anchor.

8. After designing the adjustment package and beginning its implementation in August 2015, the government presented the package to the IMF in early-2016, requesting its support through a Stand-By Arrangement. This was necessary to obtain financing to overcome the difficult 2016 environment and bridge to the more benign 2017 macroeconomic environment; to obtain a confidence-building international stamp of approval of our adjustment package; and to access the necessary technical assistance support for our ambitious reform efforts. In this context, we are heartened by the IDB's support of our adjustment efforts and the Bank's enthusiastic willingness to widen their financial and technical support. We expect the imminent announcement of a final agreement on the scope of the financial and technical support in the coming days.

9. In my first speech as Governor of the IDB in 2011, I mentioned that Suriname had one of the smallest IDB portfolios. It also had a portfolio of projects that were not progressing well. This changed dramatically. The IDB's 2011-15 Country Strategy envisaged an almost tripling of lending operations, which was more than achieved. Areas of support and cooperation included the agriculture, education, and energy sectors, as well as financial sector development, public investment management, social protection, and transportation. More importantly, the Suriname IDB portfolio is one of the best performing country portfolios at the IDB. This reflects the hands-on and engaged attitude of the authorities and the close, open, and cordial relationship between the authorities and staff and management of the IDB. We will continue to do our best to make this cooperation a success, and we are thankful for the continued and proactive support of the IDB during the challenging reform implementation efforts in the coming years.

10. In closing, I would like to avail myself of this opportunity to commend President Moreno and his staff for the excellent work currently being done and would encourage you to continue on this path.