BULLETIN #19 JAN 2025

The 19th SEOB Bulletin provides an update on the progress of the IMF program and the key developments related to it. The SEOB is an independent body dedicated to monitoring and advising the government on the implementation of the IMF program and the economic recovery plan. This is achieved by tracking clear performance indicators. Regular updates on statistics and measures related to the IMF program are available on our website: www.seob.sr.

This edition of the SEOB Bulletin highlights the revised Public Financial Management law and the Savings and Stabilization Fund Act of Suriname.

KEY DEVELOPMENTS

- Exchange rates for foreign currencies declined slightly in December 2024.
- Year-on-year inflation (hereafter: inflation) for 2024 stood at 10.1%. However, monthly inflation accelerated in December compared to November.
- Average inflation, measured as the price increase over the past 12 months compared to the previous 12 months, decreased to 16.2% in December 2024.
- Economic growth showed signs of improvement, reaching 0.9% in August 2024, driven by the transport and hospitality-related sectors.
- The SRD component of M0 exceeded the upper limit agreed upon with the IMF in October 2024, primarily due to net government expenditures.
- Solvency in the banking sector declined slightly to 22.0% in October, while interest rates remained largely stable.
- Gross international reserves, including bank reserves, amounted to USD 1.46 billion in November 2024, with an import coverage of 6.8 months.
- The debt-to-GDP ratio increased to 92.0% in November 2024, mainly due to exchange rate effects.

Table 1. Status of IMF Program Measures

Policy Area	Completed	In Progress	Other
Monetary and Exchange Rate Policy	62.8%	34.9%	2.3%
Fiscal Policy	64.0%	16.0%	20.0%
Debt	66.7%	33.3%	0.0%
Financial Sector	62.5%	37.5%	0.0%
Governance	55.9%	38.2%	5.9%
Other	75.0%	25.0%	0.0%
Total	62.6%	28.2%	9.2%

Note: "Other" indicates that the measure has been postponed, has not yet commenced, or that its status is unknown. Measures requiring immediate attention are reviewed during each IMF assessment and are also part of policy areas A through F. Source: SEOB calculations based on IMF monitoring matrix data.

Progress of the IMF program

In December 2024, the IMF completed the eighth review of Suriname's program, enabling a disbursement of approximately USD 61 million, of which USD 44 million was allocated for budgetary support. According to the IMF, economic indicators show improvement, with economic growth, declining inflation, and increasing investor confidence. The Final Investment Decision (FID) for oil from Block 58 contributes to a more optimistic outlook. The IMF continues to emphasize the importance of fiscal discipline, transparency, and institutional reforms, which will be essential for effectively managing the expected oil revenues.

As of January 2025, 62.6% of the current IMF program had been completed, while 28.2% was still in progress. Significant measures have been implemented; however, not all targets will be met before the program's scheduled conclusion in March 2025. This underscores the need for a follow-up program, which will focus on institutional strengthening, good governance, and sustainable fiscal policies. The new program should not include direct measures affecting households.

Revised Legislation Aims to Strengthen Financial Management, Fiscal Discipline, and Transparency in Suriname

To establish a solid legal and institutional framework for managing public finances—particularly considering increased revenues from offshore oil and gas production, the strengthening of the 2019 Public Financial Management law and the 2017 Savings and Stabilization Fund Act (SSFS) was necessary. With the passing of both laws in December 2024, Suriname has taken a significant step toward enhancing oversight and management of public finances.

Public Financial Management law 2024

The new Public Financial Management law 2024 replaces the previous version and introduces stricter fiscal rules aimed at enhancing government efficiency and promoting long-term economic stability. The law aligns with international standards, such as the Medium-Term Fiscal Framework (MTFF), and integrates the Savings and Stabilization Fund of Suriname (SSFS). Key reforms under this legislation include:

1. Stricter Fiscal Rules and Debt Management

To ensure sustainable public spending, the law establishes a five-year net government debt ceiling and an annual ceiling on primary expenditures. This planning will be formalized in a Financial Five-Year Plan, outlining revenue and expenditure strategies. For the 2025-2028 period, these targets will be expressed as a percentage of GDP.

According to the Ministry of Finance and Planning (2024): *"The national debt is expected to reach 71% of GDP by 2028, based on policies that maintain primary expenditures at 21.6% of GDP per year from 2025 onward."*

From 2028 onwards, the primary balance will be measured relative to non-mining GDP to prevent government spending from fluctuating with volatile mining revenues. Since non-mining GDP is more stable, this approach will help avoid procyclical fiscal policies.

2. Integration of the SSFS

The law formally anchors the Savings and Stabilization Fund of Suriname (SSFS) as a buffer against economic shocks. The fund will be replenished with surplus revenues, such as those from natural resource exports. Withdrawals are permitted only under strict conditions and require approval from parliament (DNA).

3. Enhanced Transparency and Oversight

To improve public and investor confidence in government financial management, the law mandates the public disclosure of all budgets and annual reports. The Central Government Audit Office (CLAD) and the Court of Audit will receive expanded oversight powers to ensure proper use of public funds. Strict penalties will be imposed on public officials found guilty of financial misconduct.

4. Strengthening the Role of Parliament

New government expenditures will require parliamentary approval. The Minister of Finance must submit periodic financial reports to enhance legislative oversight. Additionally, the Court of Audit will be empowered to audit state expenditures and investigate financial irregularities.

Savings and Stabilization Fund of Suriname (SSFS)

Suriname's economy is heavily reliant on oil and gold, making it vulnerable to fluctuations in global market prices. To better protect the economy and ensure long-term financial stability, the Savings and Stabilization Fund of Suriname (SSFS) was established. The fund serves two key functions:

- Stabilization function – Shielding the economy from unexpected shocks.
- Savings function – Accumulating reserves for future generations.

All government mining revenues are directly deposited into the fund. The government must submit a budget to the parliament, ensuring that primary expenditures remain within the fiscal limits set by the budgetary rules. The parliament is prohibited from approving a budget that exceeds these limits. The budget must also specify how much of the mining revenue is required to co-finance expenditure. In case of an emergency, withdrawals from the fund are allowed only through an approved supplementary budget. This mechanism prevents sudden fiscal shocks and supports a stable financial policy.

In December 2024, the law was revised to enhance the functioning, management, oversight, governance, and transparency of the fund. These reforms were essential to align the SSFS with international standards for Sovereign Wealth Funds, such as the Santiago Principles, and to bring it more in line with successful international models. In its initial phase, the fund will focus on low-risk, stable financial instruments, including government bonds and international funds with limited risk exposure. This strategy ensures secure reserve growth while protecting the fund from major market fluctuations.

Key amendments in the revised SSFS Act:

1. **Stricter Management and Independent Oversight**
   To limit political influence, the fund will be managed by an independent body. External auditors will conduct regular audits, and a supervisory committee will oversee fund management.
2. **Clearer Rules for Inflows and Withdrawals**
   Deposit regulations have been relaxed, while withdrawal conditions have been tightened. Withdrawals are 0permitted within the framework of budgetary rules and are subject to an annual withdrawal ceiling. In the event of a severe economic crisis caused by a significant decline in government revenues, additional funds

may only be withdrawn through an approved supplementary budget. This ensures the long-term sustainability of the fund.

3. **Balanced Allocation Between Savings and Stabilization**
   To ensure a balanced use of the fund's assets for both present and future generations, key considerations include current poverty reduction needs, fiscal stabilization, sustainability, and the overall debt burden of the State. Additionally, strategic future investments will focus on developing human capital and other sustainable forms of capital, aiming for substantial long-term growth.
4. **Increased Transparency and Oversight**
   The fund is required to publish quarterly and annual public reports, providing full transparency on fund management for citizens and investors. This measure enhances public trust and strengthens confidence in the fund's governance.

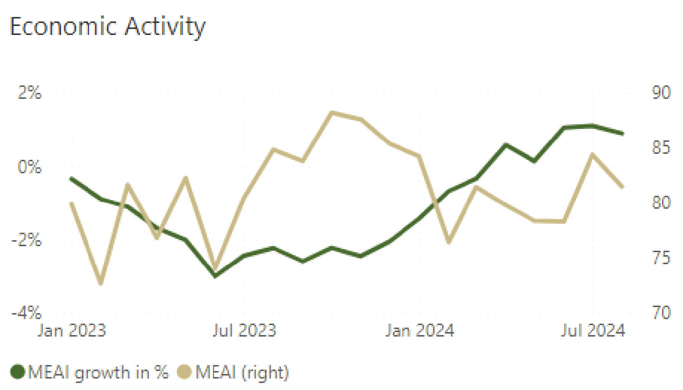
What do these laws mean for society?

The revised laws ensure structural government investments in essential sectors. With expanded fiscal space, the government can continue investing in infrastructure, healthcare, and education, even during periods of low global market prices. This contributes to sustainable economic growth and long-term stability.

RECENT ECONOMIC DEVELOPMENTS

Economic Growth Not Yet Convincingly Balanced

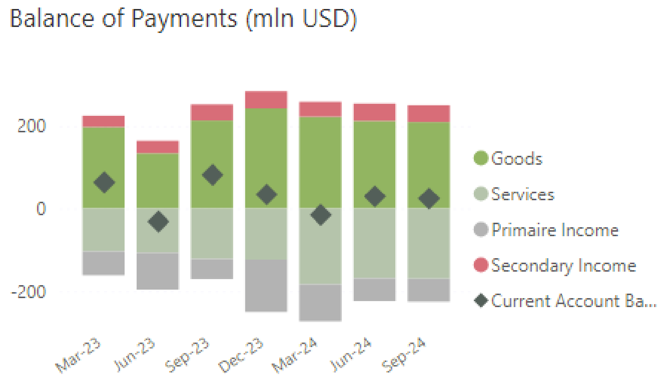
The economy is showing signs of growth. The Monthly Economic Activity Index (MEAI) of the Central Bank of Suriname (CBvS) recorded a 0.9% growth rate in August 2024. Growth was primarily driven by hospitality-related sectors, particularly restaurants, as well as the air transport sector. However, this growth was partially offset by a decline in the "Agriculture, Hunting, Forestry, and Fishing" sector, mainly due to a decrease in roundwood production.



Source: CBvS.

The current account of the balance of payments remained in surplus during the third quarter of 2024, amounting to USD 24.1 million, primarily driven by goods exports. The total export value of goods increased by approximately USD 10 million compared to the previous quarter, mainly due to gold exports. However, the export value of wood and wood products declined by approximately USD 11 million. Goods imports continued to rise for the third consecutive quarter.

The financial account recorded an outflow of USD 26.5 million. After adjusting for statistical discrepancies, this resulted in a net inflow of USD 111.4 million into Suriname.

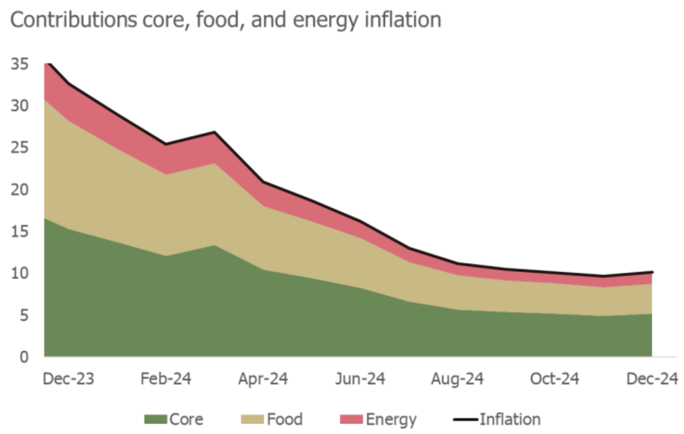


Source: CBvS.

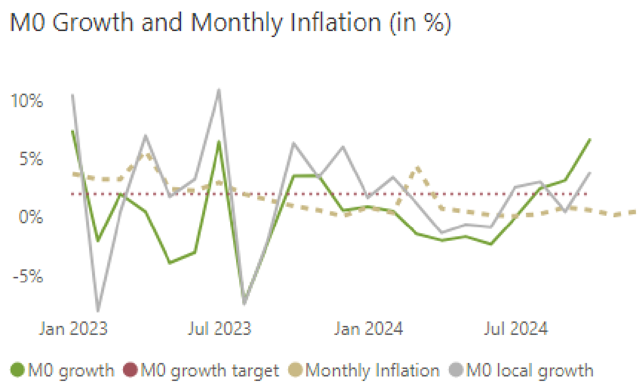
Inflation Continues to Decline in November 2024

The annual inflation rate for 2024 stood at 10.2%. After a decline in monthly inflation to 0.2% in November, it rose to 0.5% in December. This increase was driven by higher utility tariffs and the pass-through effect of exchange rate fluctuations in recent months, which impacted consumer prices. Core inflation, which excludes food and energy prices, increased slightly in December 2024, while the average 12-month inflation rate slowed to 16.2%.

The USD exchange rate declined by an average of 0.4%, while the Euro exchange rate fell by approximately 2.0% against the SRD. The SRD component of M0 amounted to SRD 18.9 billion in October 2024, exceeding the IMF-agreed threshold due to net government expenditures.



Note: Energy inflation includes the contribution to inflation from the main categories of utility tariffs and transportation. Food inflation reflects the contribution from the main category of food and non-alcoholic beverages. Core inflation encompasses the contribution from all other main categories. Source: SEOB calculations based on ABS data.



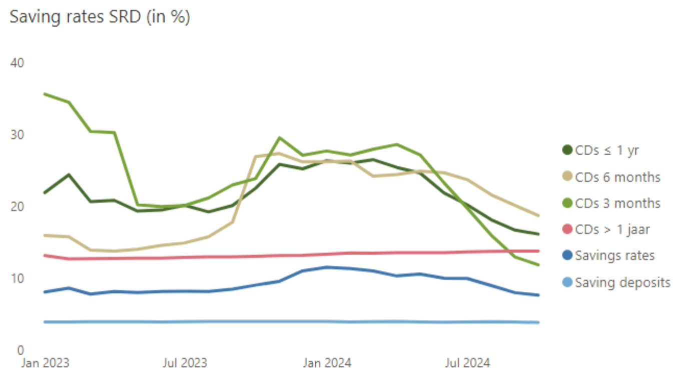
Source: ABS, CBvS.

Interest rates remain stable

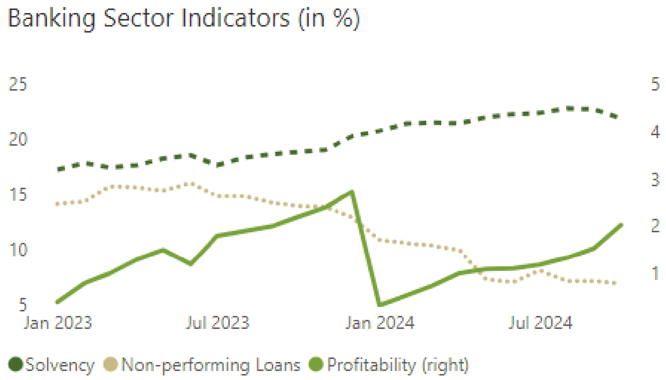
The average lending rate remained stable at 14.7%, while average deposit rates declined from 8.1% to 7.7%. The decrease in average investment rates was primarily driven by a drop in short-term interest rates. This decline coincides with falling inflation and improving economic outlooks, which could stimulate investments, as lower interest rates make borrowing more attractive for businesses and consumers.

The SEOB anticipates a potential turning point in interest rates due to declining inflation and improved outlooks. However, recent inflation trends remain a concern.

Non-performing loans (NPLs) continued to decline, with the NPL ratio dropping from 14.0% in October 2023 to 6.9% in October 2024. This improvement resulted from the implementation of asset quality reviews by banks and the increased repayment capacity of borrowers. Meanwhile, the solvency ratio declined to 22.0% in October 2024, while the liquidity ratio also fell to 52.0%. The decrease in the liquidity ratio may indicate higher credit issuance and a reduction in banks' liquidity buffers.



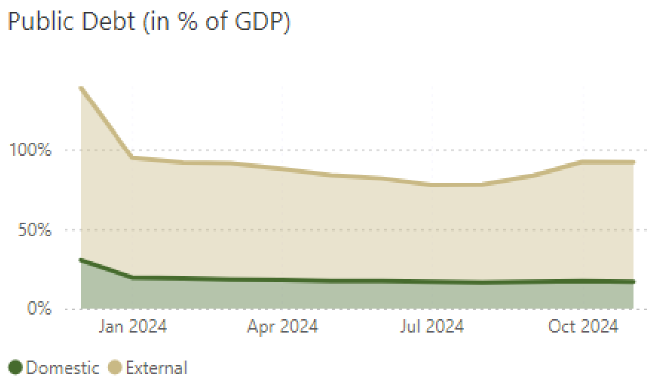
Source: CBvS.



Source: CBvS.

Developments in Public Debt

The debt-to-GDP ratio—public debt as a percentage of GDP—rose to 92.0% in November 2024, according to the legal definition. This increase was primarily driven by a rise in external debt when converted to SRD, despite a slight decline of 1.5% in the actual volume of external debt compared to October. At the same time, domestic debt continued to decrease, reaching SRD 21.5 billion, due to ongoing repayments. Domestic debts owed to the Central Bank of Suriname (CBvS) and commercial banks have been restructured and are being repaid.



Source: SDMO.

OUTLOOK AND RECOMMENDATIONS

- The SEOB welcomes the revised Public Financial Management law and the Savings and Stabilization Fund of Suriname. Implementing these laws represents progress toward more transparent and responsible financial management, especially in light of anticipated oil revenues.
- However, the SEOB highlights the risk that these laws could be amended with a simple parliamentary majority, as was previously the case with the Public Debt Act, which was meant to cap domestic and

foreign public debt (the so-called debt ceiling). Therefore, it is crucial to safeguard the core principles of oversight and transparency.

- Operationalizing the SSFS with clear regulations is essential for managing oil revenues, ensuring that both current and future generations benefit.
- The IMF program has contributed to economic recovery and the initial institutional reforms, but a follow-up program is needed to preserve and expand these gains. Fiscal discipline, institutional strengthening, and responsible use of oil revenues remain key to stability and growth.
- The SEOB is concerned about the exchange rate's vulnerability, which could be exacerbated by imbalanced public finances. Utility subsidies should be further phased out, but with transparency and adequate social safety nets.
- The M0 target was again not met in October 2024. Better coordination between the Ministry of Finance and the Central Bank is necessary to limit excess liquidity and maintain monetary stability.
- Lending rates have declined in recent months but remain high, which could restrict investment. The SEOB urges the private sector to innovate and enhance productivity.
- The reduction of domestic debt, the debt restructuring agreement with China, and the recapitalization of the Central Bank of Suriname (CBvS) are positive developments contributing to stability.
- The social program remains ineffective, despite recommendations from various institutions. The SEOB calls for an impact-based evaluation rather than an expenditure-based approach, as the program has not yet contributed to poverty reduction.
- The economy grew in 2024, and the outlook for the mining sector remain positive. The SEOB advocates for incentives to develop sustainable local sectors, create jobs, promote sustainability, and support climate action. The education system must better align with labor market needs, particularly in the oil and gas industry and other key sectors.
- Access to financing remains limited. The SEOB calls for business climate reforms and entrepreneurial education, focusing on technical skills and corporate governance.
- The SEOB welcomes the procurement law but stresses the need to strengthen the legal framework against corruption. Politicians should disclose their income and assets, and measures against fraud, corruption, and money laundering (AML/CFT) must be efficiently implemented.
- The current IMF program will conclude in the first half of 2025. As of January, the SEOB estimates that 62.6% of measures and sub-measures within the program have been completed, while 28.2% remain in progress. While key milestones have been achieved, some targets are unlikely to be met, underscoring the need for a follow-up program focused on institutions, governance, and fiscal policy.