International Monetary Fund

Suriname and the IMF

Suriname: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Press Release:
IMF Executive Board Approves US$478 Million Stand-By Arrangement for Suriname
May 27, 2016

May 11, 2015

The following item is a Letter of Intent of the government of Suriname, which describes the policies that Suriname intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Suriname, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

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Letter of Intent

Paramaribo, Suriname
May 11, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

Suriname's economy is in distress, following the sharp fall in the international prices of our main commodity exports. The sustained drop in the prices of alumina, gold, and oil, together with the closure of alumina production in late 2015, have caused substantial fiscal and external current account deficits, contributed to the decline in our foreign reserves, and pushed the economy into a recession.

To address these challenges, the government has embarked on a comprehensive economic program designed to stabilize Suriname's economy and set the stage for its recovery. Fiscal consolidation is a clear and critical ingredient of the program, to restore fiscal and external stability. It is being supported by reforms to our exchange rate and monetary policy framework, and structural reforms to boost business confidence. The strong and front-loaded macroeconomic adjustment the government is implementing will also ensure a steady rebuilding of foreign reserves. Crucially, our program includes measures of social support to protect the most vulnerable during this period of economic adjustment.

The Government of Suriname is deeply committed to the objectives underlying this program and has already implemented significant reforms regardless of any formal financing arrangement with the International Monetary Fund (Fund). In the current context, however, support from the Fund and other multilateral financial institutions would provide a liquidity cushion to smooth the economy's adjustment to the external shocks and boost investor confidence. To this end, the government hereby requests a Stand-By Arrangement (SBA) with the Fund for a period of 24 months, in the amount of SDR 342 million (equivalent to 265 percent of quota or about US$478 million). Beyond the SBA, the government will continue to work toward a medium-term agenda of structural reforms to enhance long-term growth and competitiveness.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the program of reforms that the Government of Suriname has adopted for the period of 2016-2018. The government believes that the policies described in the MEFP are adequate to achieve the program's objectives. However, if necessary, the government stands ready to take any additional measures that may be required. In such cases, the government will consult in advance with the Fund on the adoption of these measures or revisions to the policies contained in the MEFP to ensure that the objectives of the government's adjustment program are met and in accordance with the Fund's policies on such consultation.

The government will also provide the Fund staff with all the relevant information required to complete the scheduled program reviews and monitor performance on a timely basis. The government will observe the standard performance criteria against imposing or intensifying exchange restrictions, introducing or modifying multiple currency practices, concluding bilateral payment agreements that are inconsistent with Article VIII of the Fund's Articles of Agreement, and imposing or intensifying import restrictions for balance of payments reasons.

As part of our communication policy, we intend to publish this letter on the websites of the Ministry of Finance and the Central Bank of Suriname to keep our citizens and international partners informed about our policy actions and intentions. In that regard, we authorize the Fund to publish this letter, its attachments, and the related staff report, including placement of these documents on the IMF website.

Very truly yours,

Desiré Delano Bouterse
President of Suriname

Gillmore A. Hoefdraad
Minister of Finance
Paramaribo, Suriname

Glenn H. Gersie
Governor, Central Bank of Suriname
Paramaribo, Suriname

Attachments: – Memorandum of Economic and Financial Policies
– Technical Memorandum of Understanding
– Memorandum of Understanding

I. Memorandum of Economic and Financial Policies for 2016–2018

1. **This memorandum reports on recent economic developments and outlines the economic and financial program for which the Government of Suriname is requesting IMF support under a 24-month Stand-by Arrangement (SBA).**

A. Recent Economic Developments

2. **Suriname is facing challenging conditions in the near term, caused by the sharp decline in the international prices of our commodity exports and the closure of alumina production**. The sustained drop in the prices of alumina, gold, and oil has caused substantial external and fiscal deficits, and a significant loss of international reserves. These negative external developments, combined with the closure of Suralco's alumina refinery in late 2015, which ended 100 years of bauxite mining and alumina production in Suriname, have pushed the economy into a recession. Following little growth in 2015, real GDP is expected to contract by 2 percent in 2016.

3. **The medium-term growth outlook remains favorable, however, in view of the prospective expansion in the mineral sector.** The new oil refinery, which has started operations, will likely double oil refinery production in 2016, while the start of operations at a new gold mine is expected to increase gold production by 33 percent by end-2017. We therefore expect that real GDP growth will recover to 2.5 percent in 2017, and further to 3.0 percent over the medium term.

4. **As a result of the fall in commodity exports, our international reserves have dropped below prudent levels.** Official international reserves have reached US$302 million as of end-March, compared with more than US$1 billion at the end of 2012. Adjusted international reserves—which exclude foreign currency swaps and reserve requirement on bank's foreign currency deposits—declined to about US$1.7 million.

5. **To fundamentally address the undue effects that commodity price volatility has on a pegged exchange rate and to avoid a recurrence of sharp declines in foreign reserves, the government has allowed more flexibility to the exchange rate.** We devalued the exchange rate by 21 percent on November 19, 2015, and, in early March, decided to allow the official exchange rate to be fully determined by demand and supply. To facilitate the transition to a floating exchange rate, the CBvS introduced a system of foreign currency auctions on March 22, as described in ¶19.

6. **Consumer prices have increased, reflecting pass-through from the weaker currency and utility tariff increases.** CPI (12-month) inflation rose to 37 percent in March, up from an average of 4 percent during 2013-15. Much of the inflation spike reflects the rise in utility charges associated with the government's reform of electricity and water tariffs, as well as the fall in the value of the currency. Owing to the largely one-off nature of these price increases, we expect that inflation will peak at 24 percent (end of period) in 2016, but return to single digits over the following two years.

7. **Without further decisive policy actions, Suriname would face severe balance of payment pressures, which could lead to economic and social disruptions.** The Government of Suriname has therefore embarked on a strong program of wide-ranging reforms that will stabilize the economy, rebuild international reserves and confidence, and set the stage for the recovery. The program rests on four pillars:

- Returning the public finances to a sustainable path.
- Rebuilding international reserves.
- Strengthening the monetary and exchange rate policy framework to promote domestic price stability and strengthen Suriname's resilience to external shocks.
- Enhance the business environment and medium-term growth through structural reforms.

8. **To help soften any negative impact of the macroeconomic adjustment on the poor, the program includes important measures to strengthen the social safety net.** The government is well aware that the poor are the most affected by the weakness in economic activity and the increase in the prices of basic goods. The government is therefore increasing spending on targeted social support programs to protect the most vulnerable.

B. Fiscal Policy

9. **Since August 2015, the Government of Suriname has embarked on a path of fiscal consolidation.** The government achieved a significant reduction in expenditure approvals and strengthened administrative controls to prevent expenditure commitments without corresponding ministerial budget funding. As a result, the budget deficit dropped from an annualized 12.5 percent of GDP during January-July to 3.5 percent of GDP during August-December.

10. **In parallel with this spending restraint, the government has made a concerted effort to clear domestic arrears accumulated in 2013–15.** Payments to resolve these arrears amounted to SRD 666 million (3.8 percent of GDP) in 2015. The government plans to resolve the remaining SRD 255 million in 2016. We also plan to work closely with the line ministries. The Ministry of Finance will utilize the new Integrated Financial Management and Information System (IFMIS) system to provide a faster and more transparent execution of purchase and procurement of government goods and services, thereby prevent the incidence of arrears (unpaid bills exceeding 90 days). We have identified external arrears that will be resolved promptly. In particular, we have contacted the Chinese authorities to inform them of our intention to resolve a US$17 million external arrear to the government of China, which dates back to loans made in the period of 1984–1994.

11. **Our fiscal consolidation plan for 2016-18 will arrest the rise in government debt and reduce the fiscal deficit from 8.8 percent of GDP in 2015 to 1.4 percent of GDP by 2018**. The fiscal reforms will set government debt as a share of GDP on a declining trajectory, following a peak

of about 46 percent in 2016. The targeted reduction in the primary deficit-to-GDP ratio is 3.0 percent in 2016, 2.7 percent in 2017, and 2.0 percent in 2018, respectively, which will result in a primary surplus of 0.3 percent of GDP by 2018. At the same time, to help soften any negative impact of the adjustment on the poor, we are committed to increasing spending on the social cash transfer programs administered by the Ministry of Social Affairs. The measures that drive this adjustment include the following:

- *Elimination of electricity subsidies.* The phased elimination of electricity subsidies, initiated in October 2015, will reduce the fiscal deficit by an estimated 1.1 percent of GDP in 2016 and an additional 1.3 percent of GDP in 2017, and make space for better targeted social spending. To achieve these savings, we raised electricity tariffs to cover 60 percent of the cost of electricity production on May 1, 2016 (prior action); to 90 percent of the cost of electricity production by September 1, 2016 (structural benchmark); and to 100 percent of the cost by January 1, 2017 (structural benchmark), which will result in the elimination of the subsidy. Thereafter, the Technical Electricity Commission will develop a new formula, with input from the Fund staff, to regularly adjust electricity tariffs in line with the cost formula (structural benchmark, January 31, 2017). To protect lower-income households from the impact of the tariff adjustment, the government has structured the electricity tariff in a progressive manner—with lower tariffs for smaller-quantity consumers.

- *Higher fuel taxes.* The government raised taxes on gasoline and diesel sales (the Solidarity tax) in September 2015, and will introduce a tax on kerosene in the supplementary budget. These fuel tax measures will together generate additional fiscal revenue of 0.9 percent of GDP in 2016.

- *Higher income taxes on insurance companies*. Profits of Suriname's insurance companies will be redefined to include the "reserve," which was previously exempted from income taxation. We estimate that this measure will raise 0.1 percent of GDP in additional revenue in 2016, after it is implemented in the second half the year, and an additional 0.1 percent of GDP in 2017.

- *Higher sales taxes.* The government has decided to increase sales tax rates by 2 percentage points for all the taxable goods and service categories, and to broaden the base in the service and luxury goods categories. These adjustments are estimated to raise government revenue by 0.1 percent of GDP in 2016 and by an additional 0.2 percent of GDP in 2017.

- *Income tax break*. To support the purchasing power of taxpayers in 2016, we have decided to increase the income tax break from the current level of SRD 50 to SRD 125 per month for all taxpayers. The direct impact will lower income tax revenue by 0.2 percent of GDP in 2016.

- *Other primary current expenditure restraint*. We will also maintain the growth in non-social primary current expenditure below the rate of inflation in 2016, which will result in saving of around 1 percent of GDP.

- *Supporting social and capital spending*. We are committed to increasing spending on the social programs administered by the Ministry of Social Affairs. The social programs provide financial assistance to lower-income households, the disabled, the elderly, and also include child allowances. Spending on such programs is expected to increase by about 0.2 percent of GDP by 2017. We have requested technical assistance from the Caribbean Development Bank (CDB) in the area of strengthening the social sector protection framework. We are also committed to raising capital spending to above 4 percent of GDP by 2018 following its decline to 2.5 percent of GDP in 2015. In this regard, setting up a procurement department and a submitting a Procurement Law to the National Assembly (¶13) will enhance the efficiency of capital spending.

- *VAT introduction*. To provide an efficient new source of non-mineral revenue, and to fundamentally shift the taxation regime from volatile income-based taxation to a more stable consumption-based taxation system, the Government of Suriname will introduce a Value Added Tax (VAT) on January 1, 2018 (structural benchmark). The VAT will replace the existing sales tax, and our policy objective is for it to generate a net revenue increase of 2.5 percent of GDP. VAT implementation by January 1, 2018 (structural benchmark) requires intensive preparations, which we are undertaking, supported by technical assistance from Caribbean Technical Assistance Center (CARTAC) and the Inter-American Development Bank (IDB). We have installed a Steering Committee to oversee the work. Key steps include finalizing a detailed, comprehensive, time-bound implementation plan for the VAT with clear accountabilities, and setting up and assigning staff to the Project Coordination Unit (structural benchmark, end-June, 2016); preparing a White Paper on the VAT policy objectives, and a draft VAT Law, with input from the Fund staff, and submitting them to stakeholders for review (end-August 2016); preparing detailed functional specifications for the VAT IT systems, including specifications for registration, filing (and e-filing), payment (and e-payment), stop-filing control, taxpayer current account, support to arrears collection, audit, and appeals (structural benchmark, end-December 2016); submitting the VAT Law to the National Assembly, and finalizing regulations, by end-September 2017 (structural benchmark).

- *Vehicle tax introduction*. This tax will be levied on each vehicle in Suriname in the second half of 2016, and will vary depending on the category of the vehicle. We estimate that the measure will raise 0.1 percent of GDP in revenues in 2016, and an additional 0.1 percent of GDP in 2017, when it is implemented on a full-year basis.

- *Wage bill restraint*. The 2016 budget, approved by Parliament on February 11, 2016, limits the public sector wage bill to 7.8 percent of GDP, compared with 8.7 percent of GDP in 2015, which was unsustainable and well above the average of the previous five years.

- *Contingency measures*. To ensure the attainment of our fiscal consolidation objectives, we stand ready to take additional fiscal measures. Such measures could include streamlining overlapping transfer programs to generate savings while achieving better targeting to protect the poor; and increasing indirect taxation, including by increasing the vehicle tax.

12. **The measures driving fiscal adjustment in 2016 will be reflected in the supplementary budget now under preparation.** To send a strong signal of commitment to the fiscal strategy and support the process of budget preparation, the Council of Ministers issued on April 28 a Decision

that highlights the macroeconomic assumptions and measures underpinning the 2016 supplementary budget (prior action). The supplementary budget will be submitted to the National Assembly by end-June 2016 (structural benchmark), and we will seek its approval before the first review of the program.

13. **To support the fiscal adjustment, the government will introduce reforms to strengthen the fiscal policy framework.**

- *Sovereign Wealth Fund (SWF) law:* To help improve revenue management through a stabilization of mineral revenue flowing to the government and provide the institutional basis for saving future surpluses from mineral revenues, we are drafting a SWF law, with input from the Fund staff, which we will submit to the National Assembly by end-June 2017 (structural benchmark).

- *Public Financial Management (PFM) law:* A new PFM law that will reflect best international practice will be presented to the National Assembly by end-June 2017 (structural benchmark). The new law will promote a credible fiscal strategy and improve the budget preparation process. Medium-term fiscal planning will be introduced based on realistic projections for revenue and financing. Budget implementation will be strengthened by the improved administrative, managerial, and control instruments provided by IFMIS, currently being implemented, while strengthening top-down budgeting.

- *Procurement department:* A procurement department will be established at the Ministry of Finance to monitor the procurement procedures of the central government to ensure cost-effectiveness and control. The process of strengthening the procurement process will include centralizing the publishing of tenders and contract awards, establishing an appropriate IT system, audits, and controls based on the IFMIS system currently being implemented. To support these efforts, we will submit Procurement Law to the National Assembly by end-June 2017 (structural benchmark). The goods and services that will be part of the procurement system will be quantified and qualified in a way to prevent delays in budget execution.

- *T-bill issuance through auctions*. The Ministry of Finance has started the issuance of T-bills through a market-based auction system on May 3, broadening the non-monetary sources of financing of the fiscal deficit. The yield realized at the auction has been reflective of market conditions with respect to the expected rate of inflation.

- *Treasury department:* With the assistance of the IDB, the Ministry of Finance will build a modern Treasury department to combine the treasury functions currently being carried out by various departments of the Ministry of Finance, as well as establish the needed data information flows and coordination with the Suriname Debt Management Office (SDMO) and the CBvS, to improve liquidity forecasting and debt management capacity by end-September 2016. The Treasury department will also help advance the work currently being carried out with regard to improving the efficiency of cash planning and payments. We will, in particular, assign the responsibility for cash management activities to a trained and dedicated Cash Management Unit (structural benchmark, end-September 2016).

- *Revenue administration.* To improve tax administration, the government will strengthen customs compliance and efficiency through investment in equipment and personnel. The government will also implement a property tax by January 2018, which will partly replace the wealth tax, and the recently established Steering Committee will take steps to improve the effectiveness of revenue administration.

Additional steps include identifying and containing fiscal risks associated with state-owned enterprises (SOEs) by identifying all SOEs, and publishing their financial reports where available, for 2014 and 2015 (structural benchmark, end-December 2016), and, to improve fiscal management, by continuing to install additional modules of IFMIS.

14. **We also plan to strengthen capacity at the Ministry of Finance in the areas of medium-term budget planning and economic affairs.** Based on technical assistance provided by the IMF staff and the IDB staff, including through the retention of long-term consultants, we will develop the analytical capacity of the macroeconomic unit (Financial Programming and Policies group) to carry out macroeconomic forecast and economic analysis needed for preparing multi-year budgets.

C. International Reserves

15. **The CBvS aims to rebuild international reserves to prudent levels over the course of the program**. In conjunction with the sound policies that are at the heart of our reform program, an adequate reserves cushion will be important to restore confidence in the dollar (SRD) and to preserve economic and financial stability. Our objective is to raise adjusted international reserves to about 4 months of imports by the end of the SBA, including by conducting foreign exchange purchases as needed.

16. **Program financing, together with fiscal adjustment and an expected improvement in the external current account, will allow Suriname to build up international reserves to adequate levels**. We expect a substantial reduction in the current account deficit from 15.6 percent of GDP in 2015 to near balance in 2017-18, on the back of a flexible exchange rate, fiscal consolidation, the projected expansion in mineral exports, and more favorable international prices for oil and gold.

- We project a balance of payments gap of about 13 percent of GDP in 2016 and about 5 percent of GDP in 2017.

- The CBvS is facing large upcoming sales of foreign exchange in May-December 2016, including (i) to the government to honor external debt payments (about US$85 million); (ii) to the government to cover contributions to capital expenses on the new gold mine (US$30 million); (iii) to SOEs and other companies for imports of fuel and other essential products (about US$70 million); (iv) to local banks to reverse the maturing currency swaps (US$57 million); and (v) to government units (about US$15 million).

- We expect that the proposed Fund disbursement under the SBA would be around US$478 million and that budget support provided by the other IFIs would total US$470 million during 2016-18. This should provide ample financing to close balance of payments gaps. We have agreed with the IDB staff and the World Bank staff that, conditional on satisfactory program implementation, each institution would provide US$100 million in budget support in 2016. We have agreed with the Caribbean Development Bank (CDB) staff that, conditional on satisfactory program implementation, the CDB would provide budget support of US$50 million in 2016. We expect a similar amount of budget support from the IDB and CDB in 2017, conditional on successful implementation of the programs supported by the Fund and other IFIs. We have also contracted an 18-month loan from international capital markets totaling US$86 million, which also contributed to filling in the balance of payments gaps.

- Based on these considerations, adjusted international reserves would increase to about US$290 million in 2016, to about US$650 million in 2017, and to about US$860 million in 2018. Our goal is to raise the level of adjusted international reserves—including through purchases of foreign exchange—to 4 months of imports by end-2018 and to maintain it broadly at this level thereafter.

- We expect that our adjustment program will help restore external stability, which we will aim to maintain by continued prudent policies, in the medium term.

D. Exchange Rate, Monetary, and Financial Sector Policies

17. **The overall policies of the CBvS are aimed at price stability as mandated by the Bank Act.** In this connection, from a monetary policy perspective, we have designed a path towards reaching sustainable stability based on the introduction of indirect instruments such as open market operations. We consider liquidity management as crucial in this regard, while another key element is the development of financial markets. Given the current state of our financial system, it is fair to argue that we are at the very beginning. The CBvS is confident that with a determined, gradual, and well-balanced approach, significant progress will be made in a relatively short period. In this connection, the CBvS will introduce monetary targets to anchor inflation expectations, consistent with the program. In addition, given Suriname's substantial exposure to large commodity export price shocks, the government decided to move to a flexible exchange rate, which will facilitate Suriname's adjustment to the current and to future external shocks.

Exchange Rate Policy

18. **Currently, the CBvS's focus is on supporting the development of the foreign currency market so that, through the operation of the forces of demand and supply, the exchange rate reaches equilibrium.** We believe that greater involvement of commercial banks in this process is crucial, given their role in financing international trade and in settling local and international payments.

19. **To facilitate the transition to a market-determined exchange rate, the CBvS introduced foreign currency auctions on March 22 2016, following intensive preparations and consultations.** The main purpose of the foreign currency auctions is to find the market rate at which suppliers as well as buyers of foreign currency are willing to do business with each other, and to facilitate the development of foreign exchange market. After the first auction, on March 22, in which the CBvS sold US$10 million, the official exchange rate determined in the auction depreciated by 27 percent, with the spread between the official and parallel market rates narrowing to about 5 percent.

20. **To enhance the effectiveness of the auctions, the CBvS increased the frequency of the auctions and decreased the amounts sold per auction.** The CBvS also updated the auction regulations to allow banks to bid on their own behalf. To ensure a transparent unification of the exchange rate, the government has refrained from short-term measures to influence the parallel market rate. The CBvS sold US$0.5-1.0 million per auction, a number of times per week since the auctions held on April 12. The CBvS will ensure that NIR targets (Table 1) are met by additional purchases of foreign exchange if necessary. The CBvS has, after each auction, published the amount sold, the cut-off price, and the weighted average rate of successful bids.

21. **On May 10, to complete the move to a floating exchange rate, the CBvS authorized commercial banks and foreign exchange bureaus to freely determine exchange rates (prior action).** Bid and ask exchange rates are now determined by banks and foreign exchange bureaus (cambios) directly with their customers. We expect that this step will allow banks to compete more effectively in the foreign exchange market, leading to a rise in the volume of foreign currency transactions handled by them. The move has led to a significant narrowing in the spread between commercial exchange rates and the parallel market rate. In time, this will also allow state-owned enterprises to buy foreign currency directly from commercial banks. The official (indicative) exchange rate used for CBvS foreign currency transactions with government or official bodies is now set, on a daily basis, to equal the weighted average of commercial buy and sell spot rates (prior action).

22. **The CBvS is also planning steps to support the commercial banks' capacity to trade among themselves.** We are working with market participants to set up a pricing infrastructure (electronic trading platform) to boost transparency, which will also facilitate the CBvS's participation as both buyer and seller in the foreign exchange market. To further support the development and deepening of the foreign currency market, we will monitor and strengthen compliance of the 60-day repatriation requirement on exporters.

23. **Over the coming weeks, as the market settles, the role of the CBvS in the market will be limited to smoothing out large fluctuations.** To strengthen its international reserves, the CBvS will then also intervene in the market to acquire foreign exchange at market rates. In doing so, the CBvS will work with the market on the timing, modality, and volumes so that there are no surprises. At that stage, the exchange rate will be determined by demand and supply in the interbank foreign exchange market. We have explained this plan to the public in a press release published on April 4 (prior action).

Monetary Policy

24. **The CBvS is carrying out a number of institutional and operational reforms to ensure a successful transition to greater exchange rate flexibility.** We are developing a nominal anchor to replace the exchange rate, and monetary policy operations to support that anchor. Under the program, in 2016, we are targeting reserve money growth of about 3 percent, which will result in a significant decline in the reserve money-to-GDP ratio. This tightening is necessary to stabilize inflation expectations. To carry out the required policy tightening, we have set NDA as our operational target. The CBvS will meet these targets by conducting open market operations (OMOs), including using T-bill and deposit auctions. Lending facilities (14 days lending facility and overnight standing facility) will be used to fine tune liquidity conditions. Critical for controlling liquidity is stopping CBvS financing of the budget deficit. To this end, the Ministry of Finance and the CBvS have signed a Memorandum of Understanding (Attachment III), which terminates the extension of any further credit to the government (prior action). The government will also revise the Central Bank Act to strengthen its operational independence, including by prohibiting any monetary financing by end-December 2016 (structural benchmark). We have strengthened our liquidity monitoring and forecasting to allow a better management of banks' reserves, an essential step to carry out OMOs and meet monetary targets (structural benchmark, June 30, 2016). The CBvS will coordinate closely with the Ministry of Finance to forecast liquidity.

25. **The CBvS is ready to tighten the monetary policy stance to ensure price stability.** We will work toward a significant reduction of reserve money growth in 2016 to curb the excessive expansion in liquidity in recent years and contain spillover effects of reform and adjustment measures. Reflecting the tightening in monetary policy, inflation is expected to decline to single digits during the program, and to stabilize at 4 percent over the medium term. We will ensure that the cost of monetary policy operations is covered by the government, starting with the 2016 supplementary budget. The CBvS's capital position has substantially weakened. In this context, based on technical assistance from the Fund, we will prepare a strategic plan of the CBvS's financial position, for review and ongoing monitoring by the Supervisory Board, which will aim to strengthen the CBvS balance sheet to protect the financial autonomy of the CBvS (structural benchmark, end-December 2016).

26. **We have accelerated the calendar for developing our monetary policy toolkit, building on Fund technical assistance.** The policy instruments at our disposal for tightening the monetary policy stance include the following:

- *Conducting T-bill sales*. We rolled out T-bill auctions by the Ministry of Finance on May 3, and the CBvS is almost ready to start conducting open market operations. To further support the CBvS's portfolio of T-bills, the government will convert part of a 30-year loan from the CBvS (SRD2.5 billion with a fixed rate of 3.5 percent) into tradable Treasury bills to provide the CBvS a means to carry out OMOs by end-June 2016. T-bill sales will also be used by the government to finance its budget, including the planned payments of remaining domestic arrears in 2016.

- *Conducting deposit auctions*. We are planning to conduct deposit auctions to control liquidity in the short term until T-bills are fully available for OMOs (structural benchmark, end-June 2016).

- *Raising reserve requirements*. We have already raised required reserve ratios on local and foreign currency deposits to high levels—35 and 50 percent, respectively—but are ready to tighten liquidity in the system further if necessary after taking into account the liquidity draining effect of the foreign exchange auctions, and the implications for banking sector stability.

- *Streamlining liquidity management policies.* The CBvS will significantly tighten the existing framework and phase out the extended liquidity support to commercial banks in the current format. The CBvS will introduce a 14 days lending facility and an overnight standing facility, which will replace the existing longer-term liquidity facility, by end-June 2016 (structural benchmark).

Financial Sector

27. **The CBvS will continue to monitor the impact of exchange rate realignment on the economy and the financial sector**. Widespread dollarization (53 percent of bank deposits and 34 percent of credit) and the fixed exchange rate may have created currency mismatches and exposures to exchange rate fluctuations, raising the risk of balance sheet losses, with repercussions for the banking sector. To better monitor these risks, the CBvS has set up a Financial Stability Department. We also intend to bring the banking resolution and contingency planning framework up to international standards and for which we will request Fund technical assistance.

28. **We have taken a number of decisive steps to strengthen banking supervision and to address vulnerabilities in banks' balance sheets, and plan to continue this process.** Banks' net open foreign exchange positions have deteriorated in recent months, making them more vulnerable to depreciation. To strengthen central bank legislation, we have upgraded the regulatory and macro-prudential framework by introducing new regulations on capital adequacy, asset classification and provisioning, corporate governance, internal audit, foreign exchange risk, liquidity risk, interest rate risk, large exposures, and open foreign currency positions, in line with the recommendations of the 2014 FSAP. Going forward, we will strengthen the toolkit in bank resolution and supervision and closely monitor banks' liquidity and the evolution of non-performing loans, and will increase their provisioning levels as necessary. Finally, the CBvS will unwind foreign currency swaps with local banks worth about US$110 million as these swaps mature. Fully unwinding swaps with banks will help to address financial stability concerns and aid with monetary tightening.

29. **The government fully recognizes the importance of increasing the transparency and accountability of the central bank.** In that regard, we have published the 2014 audited financial statements and related audit opinion (prior action).

E. Structural Reforms

30. **The Government of Suriname is determined to improve the business environment and promote medium-term growth, based on the advice and technical assistance of both the Fund and other multilateral financial institutions.**

31. **The government plans to implement initiatives to promote the economy's diversification and to attract FDI**. Of particular importance is the agricultural sector, which accounts for 10 percent of total export earnings, second to mining, and 17 percent of the labor force. To improve the performance of Suriname's agricultural sector, its productivity and competitiveness need to be increased, and its access to new international markets expanded. To address these issues, we will improve the provision of the related public services, such as those related to plant health, animal health, and fishery sustainable management. To attract FDI, we plan to update the institutional and legal framework laying out investor protections and guarantees for investment and eliminating exchange restrictions regarding investment income transfers and controls related to FDI flows. In this context, the government is working with the World Bank to update the investment policy framework, which will pave the way for submitting to the National Assembly a new Investment Law by end-2017 (structural benchmark), and we will submit a Foreign Exchange Law to the National Assembly by end-June 2017 (structural benchmark). We are also engaged with the IDB in preparing structural reforms to transition to a new economic model, with a diversified product basket and a less vulnerable economic base to foster greater participation of Suriname's private sector in economic activity and the growth of Small and Medium Enterprises (SMEs). The Islamic Development Bank (IsDB), who has been our partner for years, amongst others with projects for the development of modern ports and in the health sector, is currently broadening its project support to the rice sector. The Caribbean Development Bank (CDB) will co-finance with IsDB the operations in the health sector and will provide support to technical vocational education and to small and medium-sized businesses.

32. **To support businesses and entrepreneurs, we are taking steps to accelerate the process of starting a company, to strengthen the enforcement of contracts, to protect investors, to facilitate the registration of property, to trade across borders, and to expand access to finance.** Our planned reforms include legislation we will submit to the National Assembly on competition policy, limited liability company formation, electronic gazettes to reduce company startup costs, intellectual property, consumer protection, electronic transactions (structural benchmark, June 2017), and establishing a secured transactions framework. We also plan procedural reforms to streamline cross-border trade.

33. **Moreover, the Government of Suriname is carefully reviewing the AML/CFT framework to address remaining deficiencies.** The Caribbean Financial Action Task Force (CFATF) noted favorably in its November 2015 Plenary the amended AML/CFT regulations issued by the CBvS to address recommendations regarding internal controls, regulation, and wire transfers. The CFATF found some remaining deficiencies in the AML/CFT legal framework and made a number of recommendations, in particular: (i) the Council of Ministers approving a State Decree giving effect to

the International Sanctions Act provisions on freezing of terrorist assets, in line with FATF R.6; (ii) submitting a Law ensuring the enforcement of foreign final court sentences to the National Assembly, in line with FATF R.36; and (iii) amending the Financial Intelligence Unit (MOT) Act to enable the CBvS to adequately share information with relevant competent authorities, in line with FATF R.9, and to enable the MOT to request further information in response to requests from foreign financial intelligence units, in line with FATF R.40. These amendments have been enacted by the National Assembly and entered into force on March 3, 2016. Once accepted by the CFATF Plenary meeting in May 2016, we believe that we will have made sufficient progress to apply for exiting the follow-up process in November 2016. The Ninth Follow-Up Report will be discussed at the next CFATF Plenary in May 2016.

F. Statistics

34. **The government is committed to improving the quality and dissemination of economic data, supported by Fund technical assistance.** We have made important improvements to the quality and timeliness of monetary, financial, and balance of payments statistics. The government recognizes that timeliness of data availability remains an issue, and the need for data quality improvements for GDP, CPI, and labor statistics, and is resolving these issues. We are committed to publishing social indicators to support social policy design for inclusive growth, including the most recent household survey. We have started the work on converting fiscal statistics into the 2001 GFSM format with the help of the new IT system. The government is improving the recording of domestic arrears accumulation. In addition, we will work towards broadening the institutional coverage of fiscal statistics to the nonfinancial public sector so as to better assess fiscal risks. Moreover, to ensure program data reliability, and for calibrating any needed policy adjustments, we will ensure that an internationally reputable external audit firm with experience in auditing central banks provides assurances on Fund-supported program reporting through an objective review of the compilation of monetary program data (NIR, NDA and gross credit to government) in compliance with International Standards on Auditing (ISA) and for compliance with the TMU (benchmark, no later than 60 days after each test date).

35. **Program implementation will be monitored through prior actions, reviews, quantitative and continuous performance criteria, indicative targets, and structural benchmarks**. These are detailed in Tables 1 and 2, with definitions provided in the attached Technical Memorandum of Understanding (TMU). Quantitative performance criteria and indicative targets have been set for end-June, end-September and end-December 2016, and end-March 2017. The first review is scheduled to take place in September 2016 with the following reviews scheduled to be completed on a quarterly basis.

Table 1. Suriname: Quantitative Performance Criteria and Indicative Targets under the SBA, 2016-2017 1/

(In millions of Suriname dollars, unless otherwise indicated)

	2016	2016			2017
	end Mar.	end Jun.	end Sep.	end Dec.	end Mar.
	actual stock	PC	PC	PC	PC
Quantitative Performance Criteria					
Fiscal targets					
1. Primary cash balance of central government (floor) 2/		-603	-940	-1,265	-100
2. Gross credit to the central government by the central bank (ceiling) 3/	2,511	0	0	0	0
3. Non-accumulation of external arrears (continuous QPC)		0	0	0	0
Monetary targets					
4. Net international reserves of the central bank (floor) 4/	0.0	-9.6	30	83	133
5. Net domestic assets of the central bank (ceiling) 3/	2,264	-55	-154	-213	-798
Indicative target					
6. Non-accumulation of domestic arrears (continuous IT)		0	0	0	0
7. Social Spending (floor) 2/		422	633	844	245
8. Non-mineral revenues (floor) 2/		1,758	3,027	4,194	794
9. Net increase in central government guaranteed debt (ceiling) 3/		0	0	0	0
Memorandum items					
Mineral revenues 2/		238	345	493	234
Reserve money 3/	2,633	-96	-66	-53	53
Gross international reserves (millions of U.S. dollar)	302	372	461	538	617
Adjusted international reserves (millions of U.S. dollar) 5/	1.7	73	175	291	341
Program exchange rate	5.064	5.064	5.064	5.064	5.064

1/ Targets as defined in the Technical Memorandum of Understanding.

2/ Cumulative flows from begining of the year.

3/ Cumulative flows from end-March 2016.

4/ Cumulative change from end-March 2016, in US$ millions.

5/ Official reserve assets excluding foreign currency swaps and reserve requirements on banks' foreign currency deposits.

Table 2. Suriname: Prior Actions and Structural Program Conditionality

Measures	Status/Timing		Macro-criticality
Prior Actions	**Timing**	**Implementation**	
1. The CBvS and Ministry of Finance sign a Memorandum of Understanding, with input from the Fund staff, which terminates the extension of any further credit to the government.		Met	Critical for strengthening central bank independence and reducing the risk of fiscal dominance.
2. The Council of Ministers issues Decision announcing that the 2016 supplementary budget will be based on the Fund-supported program's macroeconomic assumptions and measures.		Met	Demonstrates the government's ownership of the Fund-supported program's goals, and its commitment to implementation of its measures.
3. Electricity tariffs rise to cover 60 percent of the production cost.	Before the Board approval of the SBA arrangement	Met	A central part of the authorities' fiscal consolidation strategy, with a significant fiscal impact.
4. The CBvS publishes the 2014 audited financial statements and audit opinion.		Met	Publication of audited financial statements is a cornerstone of transparency and accountability.
5. The CBvS authorizes commercial banks to determine foreign exchange rates, and sets the daily official (indicative) exchange rate to equal the weighted average of commercial market rates.		Met	Underpins the transition to a floating exchange rate, which facilitates the economy's adjustment to the fall in commodity export prices.
Structural Benchmarks			
Fiscal sector			
1. Develop a detailed, comprehensive, time-bound implementation plan for the VAT with clear accountabilities; and establish and assign staff to the Project Coordination Unit.	June 30, 2016		Necessary to ensure on-time VAT introduction, which will provide a new source of non-mineral tax revenue.
2. Submit a supplementary 2016 budget based on the Fund-supported program's macroeconomic assumptions and measures to the National Assembly.	June 30, 2016		Strengthens the credibility of the Fund-supported program's deficit reduction strategy.
3. Prepare a VAT Policy and Administration White Paper and a draft VAT Law, with input from the Fund staff, and submit them to stakeholders for review.	August 31, 2016		Essential for fostering understanding and support for the VAT among key stakeholders.
4. Reorganize the Treasury Department to assign the responsibility for cash management activities to a trained and dedicated Cash Management Unit.	September 30, 2016		Essential for improving cash planning and avoiding arrears.
5. Electricity tariffs rise to cover 90 percent of the production cost.	September 1, 2016		A central part of the authorities' fiscal consolidation strategy, with a significant fiscal impact.
6. Prepare detailed functional specifications for the VAT IT systems (MEFP ¶11).	December 31, 2016		Critical to ensure the successful implementation and subsequent administration of the VAT.
7. Identify all SOEs, and publish their financial reports, where available, for 2014 and 2015.	December 31, 2016		Critical for identifying and contain fiscal risks from SOEs.
8. Electricity tariffs rise to cover 100 percent of the production cost, and the Technical Electricity Commission develops a new formula, with input from the Fund staff, to regularly adjust electricity	January 31, 2017		A central part of the authorities' fiscal consolidation strategy, with a significant fiscal impact.
9. Submit to the National Assembly a new procurement law, with input from the Fund staff.	June 30, 2017		Central for improving PFM and the quality of public spending.
10. Submit to the National Assembly a draft Sovereign Wealth Fund law, with input from the Fund staff.	June 30, 2017		Contributes to long-term fiscal sustainability and limits the volatility of government income from the mineral sector.
11. Present to the National Assembly a comprehensive Public Financial Management law, with input from the Fund staff.	June 30, 2017		Critical for improving the budget process and for addressing other PFM shortcomings.
12. Submit to the National Assembly the VAT law and finalize regulations for the introduction of the VAT, with input from the Fund staff.	September 30, 2017		Necessary to ensure on-time VAT introduction, which will provide a new source of non-mineral tax revenue.
13. Implement the VAT.	January 1, 2018		Will provide a new source of non-mineral tax revenue.

Table 2. Suriname: Structural Program Conditionality (Concluded)

Measures	Status/Timing		Macro-criticality
Structural benchmarks	**Timing**	**Implementation**	
Monetary and financial sector			
1. An internationally reputable external audit firm with experience in auditing central banks provides assurances on Fund-supported program reporting through a review of the compilation of monetary program data (NIR, NDA, and net credit to government) for compliance with the TMU.	No later than 60 days after each test date		Critical for ensuring Fund-supported program data reliability, and for calibrating any needed policy adjustments.
2. Review the AML/CFT legal framework to address deficiencies against the FATF standard. In particular: (i) The Council of Ministers approves a State Decree giving effect to the International Sanctions Act provisions on freezing of terrorist assets, in line with FATF R.6; (ii) a Law ensuring the enforcement of foreign final court sentences is submitted to the National Assembly, in line with FATF R.36; and (iii) the MOT Act [1] is amended to enable the CBvS to adequately share information with relevant competent authorities, in line with FATF R.9, and to enable the MOT to request further information in response to requests from foreign financial intelligence units, in line with FATF R.40.	May 31, 2016		Important to reduce the risk that AML/CFT issues destabilize the financial system, and, consequently, fiscal and macroeconomic performance.
3. Establish a liquidity monitoring and forecasting system based on CBvS and Ministry of Finance liquidity data.	June 30, 2016		Strengthening liquidity management is a key step to facilitate the operation of monetary policy.
4. Establish CBvS overnight standing facilities, and conduct deposit auctions and T-Bill auctions.	June 30, 2016		Critical for managing liquidity and for conducting open market operations.
5. Prepare a strategic plan of the CBvS's financial position, with input from the Fund staff, for review and ongoing monitoring by the Supervisory Board. The plan aims at strengthening the balance sheet to protect the financial autonomy of the CBvS.	December 31, 2016		Strengthening the CBvS's balance sheet would protect its independence and its ability to conduct monetary policy.
6. Submit to the National Assembly a revised Central Bank Act, with input from the Fund staff, that strengthens provisions on autonomy, governance, accountability and transparency, and regulates and limits the extension of credit to the government.	December 31, 2016		Critical for strengthening central bank independence and reducing the risk of fiscal dominance.
Real sector			
1. Present to the National Assembly draft law on competition policy, limited liability company formation, electronic gazettes, intellectual property, consumer protection, and electronic transactions.	June 30, 2017		Critical for attracting FDI, for diversifying the economy, and for increasing the economy's resilience to external shocks.
2. Submit to the National Assembly a new Investment Law.	June 30, 2017		
3. Submit to the National Assembly a revised Foreign Exchange Law.	June 30, 2017		

1 MOT stands for Meldpunt Ongebruikelijke Transacties (Financial Intelligence Unit).

II. Technical Memorandum of Understanding

This Technical Memorandum of Understanding (TMU) sets out the understandings between the Surinamese authorities and the IMF staff regarding the definition of quantitative performance criteria (QPC) and indicative targets (IT). It also sets out the QPC and IT adjusters, and data reporting requirements for the duration of the Stand-By-Arrangement (SBA), as described in the authorities' Letter of Intent (LOI) dated May 5, 2016, and the attached Memorandum of Economic and Financial Policies (MEFP). The TMU also describes the methods to be used in assessing the program performance and the information requirements to ensure adequate monitoring of the targets. As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in the LOI/MEFP, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

The QPC and IT are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP.

For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program accounting exchange rates" as defined below, with the exception of items affecting government fiscal balances, which will be measured at current exchange rates. Unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Central Bank of Suriname (CBvS) will be valued at the official exchange rate of the Surinamese dollar to the U.S. dollar of 5.064 set by the CBvS as of March 31, 2016. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the following cross-rates as of March 31, 2016: the Euro valued at 1.132306 U.S. dollars, Pound Sterling valued at 1.440956 U.S. dollars, the Chinese Yuan valued at 0.154423 U.S. dollars, the Special Drawing Right (SDR) valued at 1.408820 U.S. dollars. Official gold holdings were valued at 1,236.25 U.S. dollars per fine ounce.

QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Definitions: The central government (CG), for the purposes of the program, consists of the set of institutions and government units currently covered under the state budget.

The fiscal year is the calendar year, starting on January 1 and ending on December 31.

A. Cumulative Floor of the Central Government Primary Cash Balance

Definitions: The primary cash balance of the CG is calculated as CG interest payments minus total net borrowing requirements. Net borrowing requirements (NBR) are measured at official (current) exchange rates and are defined as the sum of:

i. Net CBvS credit to the CG, including changes in the government deposit position at the CBvS;

ii. Net credit from other depository corporations and other financial corporations, which includes changes in CG deposits and the net issuance of treasury bills, lending, and other CG securities to commercial banks;

iii. Net non-bank credit to the CG, which includes net issuance of Treasury bills and other CG securities to non-banks, and other CG claims and debts vis-à-vis nonbank institutions;

iv. New external loan disbursements net of external loan amortization (excluding the IMF);

v. Net payments of domestic and external arrears; and

vi. Privatization receipts received during the relevant period.

Definition: Mineral revenue is defined as the government's tax and non-tax proceeds from state-oil company Staatsolie Suriname and from gold companies. This includes corporate tax, wage tax (including old age fund contributions), dividend tax, indirect taxes, dividends, royalties and others. Royalties from small scale gold mining are also included in mineral revenue (Table 1).

The QPC for the fiscal balance is calculated based on the projected exchange rate. Reporting and adjustments, as defined below, will be made using current exchange rates.

Table 1. Suriname: Mineral Revenues

	(Millions of SRD)
Cumulative flows from the beginning of the fiscal year	
End June 2016	238.4
End September 2016	345.1
End December 2016	492.9
End March 2017	233.6

Reporting: Data will be provided to the Fund with a lag of no more than six weeks after the end of the month.

Adjusters: The floor on the cumulative primary cash balance of the CG will be adjusted downward (upward) to the full extent that project loans are more (less) than project loans given in Table 3. With the objective of shielding fiscal objectives from uncertainties regarding mineral prices and output, the floor of the primary balance will be adjusted upward (downward) to the full extent of any rise (fall) in mineral revenue above (below) the baseline projections in a given quarter.

B. Ceiling on Gross Credit to the Government by the Central Bank

Definitions: A ceiling applies on the change in gross credit to the CG by the CBvS measured from end-March.

Reporting: Data will be provided to the Fund with a lag of no more than two weeks after the end of the month. At each program test date, the quarterly data on gross credit to the government submitted by the CBvS to the IMF will be audited by the CBvS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports should be submitted to the CBvS, with a copy to the IMF, no later than 60 days after each test date.

C. Ceiling on Non-Accumulation of External Arrears

Definition: The non-accumulation of arrears by the CG to external creditors will be a continuous performance criterion throughout the program period. External payments arrears for program monitoring purposes are defined as payments (by the CG), which have not been made within 30 days after falling due. Arrears resulting from the nonpayment of debt service, for which a rescheduling agreement is sought, based on good faith negotiations, are excluded from this definition.

The stock of external arrears of the CG will be calculated based on the schedule of external payment obligations reported by the Ministry of Finance (MoF). Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

Reporting: The MoF will provide the final data on the stock of external arrears of the CG to the IMF, with a lag of not more than two weeks after the end of the month.

D. Floor on Cumulative Change in CBvS Net International Reserves

Definitions: For program monitoring purposes, net international reserves (NIR) of the CBvS are defined as the U.S. dollar value of the difference between foreign reserve assets of the CBvS and its foreign reserve liabilities, as defined in what follows.

- Reserve assets of the CBvS are readily available claims on nonresidents denominated in foreign convertible currencies. They include foreign exchange (foreign currency cash, deposits with foreign correspondents, holdings of foreign securities), monetary gold, IMF reserve position, SDR holdings, and IMF SBA disbursements. Excluded from foreign assets are any assets that are pledged, collateralized, or otherwise encumbered (e.g., pledged as collateral for foreign loans or through forward contracts), CBvS claims on resident banks and nonbanks, claims in foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options), precious metals other than gold, assets in nonconvertible currencies, illiquid swaps, and any reserve assets that are not readily available for intervention in the foreign exchange market.

- Reserve liabilities of the CBvS are defined as all short-term foreign liabilities of the CBvS vis-à-vis nonresidents denominated in convertible foreign currencies with an original maturity of one year or less; the stock of IMF SBA disbursements outstanding; the nominal value of all derivative positions (including swaps, options, forwards, and futures) of the CBvS and CG, implying the sale of foreign currency or other reserve assets; and all foreign exchange liabilities of the CBvS to resident entities (e.g., claims in foreign exchange of domestic banks, reserve requirements of domestic banks on their foreign currency deposits, and CBvS credits in foreign exchange from the domestic market) excluding foreign exchange liabilities to the CG.

- The stock of foreign assets and liabilities of the CBvS shall be valued at fair value and converted at program exchange rates. As of March 31, 2016, the stock of NIR amounted to US$0.0 million (at the program exchange rates).

Reporting: Data on foreign reserves and the foreign exchange cash flow of the CBvS will be provided by the CBvS to the Fund twice a week. Data on the statistics indicated in Table 2 will be provided to the Fund on a monthly basis, in both official and program exchange rates, with a lag of no more than two weeks after the end of the month. At each program test date, the quarterly data on net international reserves submitted by the CBvS to the IMF will be audited by the CBvS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports from the external auditors should be submitted to the CBvS, with a copy to the IMF, no later than 60 days after each test date.

Table 2. Suriname: International Reserves for Program Monitoring Purposes

(US$ million, unless otherwise specified)

	31-Mar-16
Reserve assets	**147.3**
IMF reserve position	13.0
IMF SDR	50.8
Monetary gold	53.2
Foreign currency cash and deposits with foreign banks	30.3
Reserve liabilities	**147.3**
Domestic banks' currency swaps	115.0
Reserve requirements on foreign currency deposits	30.6
Other liabilities	1.7
Net international reserves	**0.0**

Source: Central Bank of Suriname and Fund staff calculations.

Table 3. Suriname: External Program Disbursements (Baseline Projection)	
Cumulative flows from the beginning of the fiscal year	(In millions of US$)
External loans from multilaterals for budget support	
End-June 2016	70
End-September 2016	170
End-December 2016	250
End-March 2017	38
External loans from international capital markets	
End-June 2016	86
End-September 2016	0
End-December 2016	0
End-March 2017	0
External loans for project financing	
End-June 2016	24
End-September 2016	58
End-December 2016	95
End-March 2017	32
External loans from official bilateral creditors for budget support	
End-June 2016	0
End-September 2016	0
End-December 2016	0
End-March 2017	0

Adjusters: NIR targets will be adjusted upward (downward) by the full amount of the cumulative surplus (shortfall) in program loan disbursements from multilateral institutions (such as the CDB, IDB, and WB) relative to the baseline projections reported in Table 3. Program loan disbursements are defined as external loan disbursements from official creditors that are usable for the financing of the CG. NIR targets will be adjusted upward by the full amount of the cumulative surplus in loans from official bilateral and private creditors (including international capital markets) relative to the baseline projections reported in Table 3. NIR targets will be adjusted upward (downward) to the full extent (by 50 percent) of any rise (fall) in mineral revenue above (below) the baseline projections in a given quarter.

E. Ceiling on Net Domestic Assets of the Central Bank of Suriname

Definitions: The CBvS's net domestic assets (NDA) are defined as the difference between reserve money (as defined below) and net foreign assets (NFA, as defined below). Items in foreign currencies will be valued at program exchange rates. Thus defined, the stock of NDA amounted to SRD 2,263.6 million as of March 31, 2016 (Table 4).

- Reserve money at program exchange rates is defined as currency in circulation, commercial banks' deposits in correspondent accounts at the CBvS, and statutory cash reserve requirements against prescribed liabilities in SRDs and foreign currency held by commercial banks at the CBvS, other deposits in national and foreign currency, other demand deposits in national and foreign currency, and gold certificates (Table 4).

The value of NFA at program exchange rates of the CBvS is calculated as the difference between the CBvS's claims on nonresidents and its liabilities to nonresidents. Thus defined, NFA amounted to US$ 73.0 million as of March 31, 2016 (Table 4).

Reporting: Data will be provided to the IMF with a lag of no more than two weeks after the end of the month. At each program test date, the quarterly data on net domestic assets submitted by the CBvS to the IMF will be audited by the CBvS external auditors in accordance with International Standards on Auditing, to ensure conformity with the program definition and calculation methods. Reports should be submitted to the CBvS, with a copy to the IMF, no later than 60 days after each test date.

Adjusters: Consistent with the NIR target adjustment mechanism defined above, NDA targets will be adjusted downward (upward) by the full amount of the cumulative surplus (shortfall) in program loan disbursements from multilateral institutions (such as the CDB, IDB, and WB) relative to the baseline projections reported in Table 3. NDA targets will be adjusted downward by the full amount of the cumulative surplus in loans from official bilateral and private creditors (including international capital markets) relative to the baseline projections reported in Table 3. For the purposes of calculating adjusters, these flows will be valued at program exchange rates.

Table 4. Suriname: NFA, NDA, and Reserve Money
(SRD millions)

	March 31, 2016
Net foreign assets	369.5
Foreign assets	1529.3
Foreign liabilities	-1159.8
Net domestic assets	2263.6
Net claims on the government	2384.4
Claim on the government in local currency	2511.4
Liabilities of th government in local currency	205.0
Claim on the government in foreign currency	0.0
Liabilities of government in foreign currency	-332.0
Net claims on commercial banks	115.2
Claim on commercial banks in local currency	113.1
Liabilities of commercial banks in local currency	0.0
Claims on commercial banks in foreign currency	2.1
Liabilities of commercial banks in foreign currency	0.0
Other items net	-236.0
Reserve money	2633.1
Reserve money in local currency	2446.3
Reserve money in foreign currency	161.7
Gold certificate	25.1
Memorandum item	
Program exchange rate	5.064

OTHER CONTINUOUS PERFORMANCE CRITERIA

During the period of the Stand-By Arrangement, Suriname will not (i) impose or intensify restrictions on the making of payments and transfers for current international transactions; (ii) introduce or modify multiple currency practices; (iii) conclude bilateral payments agreements that are inconsistent with Article VIII; and (iv) impose or intensify import restrictions for balance of payments reasons.

QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

A. Ceiling on Net Increase in Central Government Guaranteed Debt

Definitions: The ceiling on net increase on CG guaranteed debt will apply to the amount of guarantees issued by the CG. The official exchange rate will apply to all non-SRD denominated debt.

The cumulative net increase in CG guaranteed debt will be monitored on a continuous basis.

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

B. Ceiling on Central Government Accumulation of Domestic Arrears

Definitions: Domestic arrears are defined as payments to residents determined by contractual obligations of the CG that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods. CG domestic arrears include arrears on domestic CG direct debt, including to suppliers, and all recurrent and capital expenditure commitments.

The ceiling on CG accumulation of domestic arrears will be monitored on a continuous basis.

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

C. Floor on Central Government Social Spending

Definition: Social spending includes all the spending of the Ministry of Social Affairs and Public Housing (Ministerie van Sociale Zaken en Volkshuisvesting) on social protection programs as articulated in the CG budget for a particular fiscal year. These programs are funded by government resources only, and include conditional cash transfers.

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

D. Cumulative Floor on Central Government Non-Mineral Revenue

Definition: The program will have a floor on CG non-mineral revenue. Non-mineral revenue refers to revenue from tax and non-tax collection and excludes all revenue from asset sales, grants, and mineral revenue. The revenue target is calculated as the cumulative flow from the beginning of the fiscal year (January 1).

Reporting: Data will be provided to the IMF with a lag of no more than six weeks after the end of the month.

VALIDATION OF PRIOR ACTIONS AND STRUCTURAL BENCHMARKS

Prior Action and Structural Benchmark on Elimination of Electricity Subsidies

By end-January 2017, the government will establish by administrative ordinance a Technical Electricity Commission (TEC). The commission will review calculations of the electricity company (EBS) cost recovery under the cost-recovery formula, will review and approve the (at least) quarterly adjustments in electricity tariffs, and review the EBS report on progress on its efficiency and investment program, including cost comparisons with peers. The TEC will post on the EBS website the calculations of the EBS cost-recovery formula, the revised average electricity tariff, the revised tariff structure, and the EBS report on its progress on its efficiency and investment program.

Electricity tariffs will be raised on May 1 2016 to cover 60 percent of the cost of electricity production (prior action). Electricity tariffs will be further raised to cover 90 percent of the cost of electricity production on September 1, 2016 (structural benchmark). The cost calculation will be based on the latest actual monthly EBS data, and only updated to take account of the most recent official exchange rate and the latest oil forecasted price from *World Economic Outlook*. Electricity tariffs will be further raised to cover 100 percent of the cost of electricity production on January 1, 2017 (structural benchmark). The cost calculation will be based on the latest actual monthly EBS data, and updated with the most recent official exchange rate and the latest oil forecasted price from *World Economic Outlook*. Beginning in April 2017, average tariffs will be updated on an (at least) quarterly basis according to the cost-recovery formula, reviewed jointly by EBS and the TEC.

Validation: For the adjustments in electricity tariffs on May 1, 2016, September 1, 2016, and January 1, 2017, the authorities will share with the Fund staff the calculations of the EBS cost formula, the revised average electricity tariff, and the revised tariff structure. The average electricity tariff will be calculated by dividing the total billing to all EBS electricity customers (excluding Rosebel) by the total electricity consumption (excluding Rosebel) for the month for which the tariff calculation is made.

Validation of the benchmark will be done by comparing the average electricity tariff with the benchmark.

Structural Benchmark on VAT Implementation

By January 1, 2018, the authorities will introduce a Value Added Tax (VAT).

Validation: Implementation of the VAT is defined as the VAT being effective as of January 1, 2018, and this will be monitored based on verifying that the following actions having been taken: (i) the VAT Law has been approved by the National Assembly; (ii) the supporting regulations to the VAT Law have been published; (iii) the projected number of registrants has been registered to charge the VAT; (iv) the refund, business, and export systems have been established; and (v) an institutional framework has been established to administer the VAT.

Information Requirements

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information:

Daily/Semi-weekly

- Official foreign reserve assets' composition and foreign exchange cash flow of the CBvS.
- Official and parallel nominal exchange rates.
- Volumes of foreign exchange transactions (purchases and sales) by banks and cambios.

Weekly

- Deposits and liquidity assistance to institutions, by institution.
- CBvS purchases and sales of foreign currency.
- Amounts offered, demanded and placed in CBvS open market operations, including rates on offer for each tenor.
- CBvS' balance sheet.

Monthly

- CG operations (revenues and expenditure) data in GFS format within six weeks of the end of the month.

- CG detailed revenues data from the tax office by revenue category, including (i) direct tax by item, (ii) indirect tax by item, and (iii) non-tax revenues by item within six weeks of the end of the month.

- Mineral tax and non-tax revenue of major mineral companies and small gold miners, by revenue item and type of mineral. Data is to be provided within four weeks of the end of the month.

- Number of public civil servants and total wage bill by Ministry within six weeks of the end of the month.

- CG authorized spending data by Ministry within four weeks of the end of the month.

- CG subsidies data by Ministry and programs within six weeks of the end of the month.

- CG balance from the financing side by sources and by currency, with a lag of no more than six weeks after the end of the month.

- CG domestic and external debt stock, including by (i) creditor, (ii) currency, (iii) instrument, (iv) direct, and (v) guaranteed. The reporting lag should not exceed six weeks after the end of the month.

- Amortization and debt payments of CG and government guaranteed debt by creditor, instrument, and currency. In the case of issuance of government guaranteed debt, the name of the guaranteed individual/institution should be provided. The reporting lag should not exceed six weeks after the end of the month.

- Interest payments on CG and government guaranteed debt by creditor, instrument, and currency. The reporting lag should not exceed six weeks after the end of the month.

- Stock of CG expenditure arrears, separately including payment of existing arrears and creation of new domestic arrears. The reporting lag should not exceed four weeks after the end of the month.

- Stock of CG domestic and external debt arrears, and CBvS external debt arrears. The reporting lag should not exceed four weeks after the end of the month.

- CG spending on social protection programs as defined for the indicative target on social spending. The reporting lag should not exceed six weeks after the end of the month.

- Holdings of domestic bonds (SRD-denominated and US$-denominated) by investor, maturity, and currency. The reporting lag should not exceed six weeks after the end of the month.

- Legal measures that affect the revenue of the CG, such as tax rates, import tariffs, and exemptions. The reporting lag should not exceed six weeks after the end of the month.
- Balance sheet of the CBvS within two weeks of end of the month.
- A summary of the monetary survey of the banking system (including central bank and deposit-taking institutions). This information should be received with a lag of no more than six weeks after the end of the month.
- Income statement of the CBvS on a cash and accrual basis, with a lag of no more than three weeks from the end of the month.
- Deposits in the banking system: demand deposits and term deposits within six weeks after month end; average monthly interest rates on loans and deposits within six weeks of the end of the month; and weighted average deposit and loan rates within six weeks after the end of the month.
- Monthly balance sheet data of deposit taking institutions, as reported to the CBvS within six weeks of the end of the month.
- Data on foreign reserve assets and foreign reserve liabilities for NIR target purposes (Table 2) evaluated at both official and program exchange rates, within two weeks of the end of the month.
- Data on NDA, NFA, and reserve money (Table 4) evaluated at both official and program exchange rates, within two weeks of the end of the months.
- Consumer price index, including by sub-components of the CPI index within four weeks after the end of the month.
- Cash flow of EBS showing government transfers to cover the gap between the average electricity tariff and EBS recovery cost within eight weeks after the end of the month.
- Electricity tariff, total electricity consumption volume, total billing and amount collected (in SRD) to be provided by consumption categories (household, commercial, and industrial) and by consumption volume. This information should be received with a lag of no more than eight weeks after the end of the month.
- Electricity costs including, (i) production costs: fuel costs, Staatsolie electricity costs, hydropower costs, separately; (ii) other operational costs: personnel costs and financing costs, and (iii) investment costs. This information should be received with a lag of no more than eight weeks after the end of the month.

- EBS committed and executed payment to Staatsolie for purchases of fuel and electricity, and to Suralco. This information should be received with a lag of no more than eight weeks after the end of the month.

Quarterly

- Detailed balance of payments data within 60 days after the end of the quarter.

- Detailed International Investment Position data within two months after the end of the quarter.

- A full set of quarterly Financial Soundness Indicators (FSI) calculated by the CBvS within 60 days after the end of the quarter.

Annual

- Financial statements of EBS within six months of year end.

- Nominal GDP and real GDP within eight months of year end.

- Labor market statistics (including the unemployment rate and labor participation ratio) within twelve months of the year end.

III. Memorandum of Understanding

The REPUBLIC OF SURINAME, for the purpose hereof duly represented by the Minister of Finance, Mr. Gillmore Hoefdraad, with his office at Tamarindelaan 3, Paramaribo, Suriname, party of the one part, hereafter referred to as “the STATE”;

and

The CENTRALE BANK VAN SURINAME, a legal entity established pursuant to article 2 of the Bank Act 1956 with its registered office at Waterkant 16-20, Paramaribo, Suriname, for the purpose hereof duly represented by its Governor, Mr. Glenn Gersie, following the approval of the Board of Supervisory Directors, party of the other part, hereafter referred to as “the BANK”;

IN CONSIDERATION OF:

1. The Bank Act 1956 (G.B. 1956 No. 97, prevailing text S.B. 2010 No. 173);

2. The State Debt Act (S.B. 2002 No. 27, as last amended by S.B. 2011 No. 5);

3. The forthcoming signing of Letter of Intent to the Managing Director of the IMF -;

4. The Loan agreement of September 18, 2015, between the Ministry of Finance and the BANK.

IT IS HEREBY AGREED:

Article 1 – Definitions

In this Memorandum, the following terms shall have the respective meanings specified in this paragraph: “Monetary financing” shall mean (i) any overdraft facility which may result in an overnight debit balance with regard to the net position of the Treasury Single account, or any other type of short or long term credit facility furnished by the BANK funding the obligations, whether denominated in foreign or local currency, of the STATE, regional, local authorities, or the other bodies of the public sector (collectively referred to as “public authorities”), including State-owned enterprises vis-à-vis third parties, (ii) the issuance of guarantees by the BANK on behalf of the STATE, any public authority or State-owned enterprise, and (iii) the purchase by the BANK of Treasury Bills or other debt instruments issued by any of the aforementioned public authorities or State-owned enterprises directly on the primary market.

Article 2 – Applicability

1. Parties agree that as from the date of signing of this Memorandum of Understanding there will be no further monetary financing at any time to the STATE, other public authorities, and State-owned enterprises;

2. This Memorandum of Understanding will be in effect until the Bank Act of 1956 has been fully amended to eliminate the possibility of monetary financing/credit to the STATE;

3. Any purchases of Treasury Bills or other debt instruments issued by the State on the secondary market must not be used to circumvent the limitation of purchases of such debt instruments by the BANK on the primary market;

4. Servicing of the existing stock of monetary financing, both principal and interest, would, if overdue be considered new monetary financing.

Article 3 – Exceptions

The provisions of Article 2, paragraph 1 will not apply to the following forms:

1. Conversion of the principle of the Loan agreement of September 18, 2015 into Treasury Bills;

2. Provision of liquidity by the Bank to credit institutions of which the State is the shareholder, provided that this liquidity arrangement sets the same requirements as applicable to private credit institutions, and is executed subject to the provisions within the Banking Act 1956 that aim at maintaining financial stability and carrying out monetary policy.

Article 4 – Changes

Modifications to this Memorandum of Understanding shall be made in writing by both parties following prior approval from the Supervisory Board of the BANK.

Done in Paramaribo, April 25, 2016.

For the Republic of Suriname,	For the Centrale Bank van Suriname,
/s/	/s/
Gillmore Hoefdraad	Glenn Gersie
Minister of Finance	Governor of the Centrale Bank van Suriname