STATEMENT BY
H. E. GILLMORE HOEFDRAAD
IDB GOVERNOR FOR THE REPUBLIC OF SURINAME

(Original : English)

Distinguished Chairman of the Islamic Development Bank Board of Governors,
Distinguished Governors and Executive Directors of the Islamic Development Bank,
Your Excellency, Dr. Ahmad Mohammed Ali, President of the Islamic Development Bank,
Ladies and Gentlemen,

It is an honor and privilege for me to address the 41st annual meeting of the Board of Governors of the Islamic Development Bank.

First and foremost, I would like to thank the Indonesian government and the Indonesian people for their warm welcome and cordial hospitality. Our country of Suriname has a close relationship with Indonesia, as a very large percentage of our population can trace its roots to the island of Java. Indeed, Javanese food and culture are the backbones of our country's culinary and cultural identities. I invite you to taste a Surinamese saoto soup in any of our many warungs.

It is also my great pleasure to welcome my colleague from our neighboring country Guyana, the Minister of Finance HE Winston Jordan. Guyana is now the 57th global member of the Islamic Development Bank and the second member in the Western Hemisphere.

I would like to present to you some of our recent economic developments, challenges, and successes that are supported by our development partners, including the Islamic Development Bank.

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

- In terms of government finances, oil and mining-related income fell from around 8½ % of GDP in 2012 to just 1½ % of GDP in 2015—the government lost almost a third of its income in 3 years.

- In terms of the balance of payments, Suriname began recording external current account deficits in 2013 after nearly a decade of surpluses. These deficits were primarily related to the begin of the large-scale investments, which together account for about 35% of GDP during 2013-16; while the sharp fall in gold and then oil prices exacerbated the pressure on the balance of payments.

Despite the sharp downturn in commodity prices in recent years, the outlook for growth, exports, and government commodity-related income remains positive due to major investments that are currently being brought online or nearing completion. Specifically, the state-owned oil company completed a new US$1 billion refinery that will largely eliminate crude oil exports and imports of oil derivatives, and the refinery is now gradually being brought to full capacity production.

This will help insulate the country from the international oil market price fluctuations. The company is also expanding into mining and energy generation and managing the promising offshore exploration activities that are being carried out by large international oil companies. In the mining sector, the American mining company Newmont will begin operating a new US$1.1 billion gold mine before October 2016, in which state-owned oil company is participating with a 25% share. At current prices, the new gold mine will be exporting about 8% of GDP annually for at least 10 years.

These investments will be fully online in late-2016, increasing exports, allowing the country to return to an external current account surplus, and boosting government finances. However, 2015 and 2016 are difficult years, as we need to cope with the external account and government finance consequences of the commodity price shock.

Our macroeconomic response to the external and fiscal pressures started in earnest in August 2015 with a sharp contraction in government expenditure and increases in taxation. These included expenditure cuts to line ministries and increased expenditure controls by the Ministry of Finance, an increase in fuel taxation and the closing of fuel taxation loopholes, a phased elimination of utility subsidies, and passage of a tight budget that restricts the deficit to just 2.4% of GDP in 2016. According to the IMF, monthly fiscal data for 2015 show that the fiscal deficit declined from around 11% of GDP on an annualized basis in the first half of 2015 to below 3 % of GDP during August-December 2015. While the quantitative fiscal adjustment has largely been accomplished, we need to secure these gains and put in place fundamental structural reforms to preclude future commodity price shocks from damaging the economy and the fiscal solvency, and to accelerate the speed with which the government responds to shocks.

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

- Reforming the public finance management framework by putting in place a formalized macroeconomic forecasting system for budget preparation and medium-term fiscal planning.

- Creating a modern Treasury Department that will centralize financial asset and liability management, provide liquidity and financing forecasts, and manage the Treasury-bill auction system.

- Presenting to the Parliament a new Public Finance Management law that would put in place a fiscal rule, and reform the budget preparation and approval process.

- Presenting to the Parliament a law for a Sovereign Wealth Fund to stabilize commodity-based revenue over the commodity price cycles and begin saving commodity-based revenue for future generations.

- Introducing a real-time expenditure management system that would allow fast budget adjustments and a full shift to an international fiscal accounting standard.

- Centralizing government physical asset management.

- Implementing a VAT in 2018 to broaden the consumption tax base, boost revenue, thus generating additional revenue of 2.5% of GDP.

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

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

After designing the adjustment package and beginning its implementation in August 2015, the government presented the package to the IMF in early-2016 requesting its support through a Stand-By Arrangement. This was necessary to obtain financing to overcome the difficult 2016 environment and bridge to the more benign 2017 macroeconomic environment; to obtain a confidence-building international stamp of approval of our adjustment package; and to access the necessary technical assistance support for our ambitious reform efforts. The staff-level agreement with the IMF on a US$487 million Stand-By Arrangement has been announced and we expect the IMF Board meeting imminently.

Until recently, our cooperation was guided by the Interim Member Country Partnership Strategy for 2014-15. In that document, the Islamic Development Bank identified healthcare services and technical and vocational training as areas for their support. The government and private enterprises in Suriname also held discussions with ICD and the ITFC.

Looking ahead, we welcome the April 2016 agreement with the Islamic Development Bank Group that outlines the path for future support of our adjustment efforts through increased concessional financial and technical support. The IDB Group and the government formulated a work program for 2017-19, which will cover projects and grants for about US$1.78 billion and will focus on a number of areas such as infrastructure, agriculture and rural development, human development, Islamic banking and finance, and trade and competitiveness. Examples of identified projects include a transport sector master plan, a health system strengthening project, a social housing project, capacity building for the Ministry of Finance, a regulatory overhaul to facilitate Islamic banking, forex optimization and import rationalization, projects in energy efficiency and power generation, transmission and distribution; and roadway, port, water, and sanitation projects.

It was also agreed that a full-fledged IDB Group Member Country Partnership Strategy for Suriname would be initiated in 2017, which will be aligned with Suriname’s National Development Plan for 2017-2021, expected to be released by November 2016.

In October 2015 Finatrust the Trustbank announced its intent to transform into a full fledge Islamic bank. The Government of Suriname welcomes this initiative for it provides new possibilities for deepening of our financial sector. As Islamic finance has the potential to foster greater financial inclusion amongst others, it could provide support to small and medium-size enterprises because of the emphasis on asset-backed financing and its risk-sharing features. In addition, this risk-sharing feature and prohibition of speculation suggests that Islamic finance, in principle, may pose less systemic risk than “conventional” finance. For this potential to be realized and to allow this industry to develop in a safe and sound manner, a number of challenges will need to be addressed in the regulatory and legal framework. Nevertheless, we have embarked on this journey and Finatrust is working in close cooperation with the Centrale Bank van Suriname to ensure a smooth transition from “conventional” banking to Islamic finance. In this regard the authorities will appreciate technical assistance of the IsDB to the Central Bank in those areas that the Central Bank will identify. I will be more than happy to communicate the procedures that the Central Bank need to follow with the Governor of the Bank and trust that by doing so a long standing relationship will be developed.

The support of the Islamic Development Bank and its affiliated institutions is critical to overcome the macroeconomic challenges we are facing and advance institutional reforms to minimize the impact of future commodity price shocks. I am aware that many member countries have been facing similar external shocks as oil exporters, and are undertaking similar courageous adjustment efforts to face the economic consequences of these shocks. I call on the Islamic Development Bank to support the member countries’ efforts, in particular in cases like Suriname where a country has begun implementing a comprehensive and fundamental adjustment package to deal with the consequences of the commodity price shock, and fundamental reforms to minimize the country’s vulnerability to exogenous shocks. These efforts require substantive financial support and technical advice, and we welcome the willingness and ability of the staff of the Islamic Development Bank Group in support of our efforts.

In closing, I would like to take this opportunity to commend the Islamic Development Bank and its dedicated staff for their excellent work and would encourage you to continue on this path.