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Statement of the IDB Governor for the Republic of Suriname

The 42nd Annual Meeting of the IDB Board of Governors
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(English)

**Distinguished Chairman of the Board of Governors of the Islamic Development Bank,
Distinguished Governors and Executive Directors of the Islamic Development Bank,
Your Excellency, Dr. Bandar M. H. Hajjar, President of the Islamic Development Bank,**

Ladies and Gentlemen,

It is a privilege and an honor to address the 42nd annual meeting of the Board of Governors of the Islamic Development Bank.

First and foremost, I would like to thank the government of the Kingdom of Saudi Arabia and the Saudi people for their warm hospitality. I have visited Jeddah and the Kingdom repeatedly and I am always captivated by the kindness with which I am received.

As Governor for Suriname, 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.

As you might be aware, Suriname faced a severe revenue shock that was compounded on the balance of payments side by the sharp increase in imports related to major investment projects in the oil and gold mining industries.

- Oil and mining-related fiscal income fell from around 9-10% of GDP in 2012 to around 1 % of GDP in 2015—the government lost almost the entirety of its oil and mining related income in just 4 years.
- In terms of the balance of payments, Suriname began recording external current account deficits in 2013 after nearly a decade of surpluses. Our traditional current account surplus turned into a 16.6% of GDP deficit in 2016. These deficits were related to the beginning of the large-scale investments, which together accounted 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.

Our macroeconomic response to this massive external and fiscal shock 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, increases in fuel taxation and the closing of fuel taxation loopholes, and a phased elimination of utility subsidies. Despite the continuing massive losses in revenue in 2016, the government managed to reduce the deficit from around 10.1% of GDP to around 5.6% of GDP. While the quantitative fiscal adjustment has largely been accomplished on account of a massive expenditure contraction, we are progressing on our goal to secure these gains by putting in place fundamental structural reforms to preclude future commodity price shock 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, limit revenue volatility, streamline procurement, and improve fiscal management. The reforms are widespread and fundamental:

- Parliament passed a law establishing a Sovereign Wealth Fund to stabilize commodity-based fiscal revenue and begin saving commodity-based revenue for future generations.
- We have introduced a real-time expenditure management system that will allow fast budget adjustments and a full shift to an international fiscal accounting standard.
- We are reforming the public finance management framework by putting in place a formalized macroeconomic forecasting system for budget preparation and medium-term fiscal planning.
- We are 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.
- We are finalizing a new Public Finance Management law that will put in place a fiscal rule, and reform the budget preparation and approval process.
- We are centralizing government physical asset management.
- We are on track to put in place a value-added tax in 2018 to broaden the consumption tax base, add in the long-term stabilization of government revenue, and increase revenue of 2.5% of GDP.

On the monetary and exchange rate policy side, the government announced in February 2016 a shift to a flexible exchange rate regime. After the expected volatile transition period, the exchange rate has stabilized in the free market and the parallel market has disappeared. The Central Bank of Suriname had put in place a foreign currency auction system to support the price-finding process and is currently putting in place more indirect monetary policy instruments to facilitate the management of a quantitative policy anchor instead of the old exchange rate anchor.

The results of our efforts are becoming evident and the outlook for growth, exports, and government commodity-related income is now positive. Two major investment projects are now supporting increased government revenue and have turned the current account of the balance of payments back into a surplus position. Specifically, the state-owned oil company is now operating the new US\$1 billion refinery that is largely eliminating crude oil exports and imports of oil derivatives. This is helping to 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 began operating a US\$1.1 billion gold mine in October 2016. At current prices, the new gold mine will be exporting about 8% of GDP annually for at least 13 years.

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 the ICD, IRTI, and the ITFC.

Looking ahead, we welcome the 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 IsDB Group and the government formulated a work program for the coming years, which cover projects financing 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, foreign exchange 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.

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—in particular oil exporting countries—have been facing similar external shocks 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 to see the positive results of its comprehensive and fundamental adjustment package aimed at dealing with the consequences of the commodity price shock, and fundamental reforms to minimize the country's vulnerability to future 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, the President and its dedicated staff for their excellent work and would encourage you to continue on this path.