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Paramaribo, September 30, 2022

Mrs. Reina Irene Mejía Chacón
President a.i.
Inter-American Development Bank
1300 New York Avenue, N. W.
Washington, D.C. 205771
United States of America

Subject: Policy Letter Fiscal Sustainability Program for Economic Development I

Dear President a.i. Reina Irene Mejía Chacón,

Suriname's current macroeconomic crisis stems from a prolonged period of considerable imbalances that build up over the last few years. This was exacerbated by the Covid-19 pandemic. The fiscal deficit increased substantially, leading to a rapid accumulation of public debt, which reached an unsustainable level (148% of GDP at end-2020). With limited sources of financing available, the fiscal gap was closed with advances from the Central Bank of Suriname, which contributed to significant exchange rate pressures, depreciations and spiraling inflation.

The extremely difficult economic situation inherited by the current administration was exacerbated by the negative impact of the COVID-19 pandemic. The economy contracted by 15.9% in 2020, with the recession still present, albeit lower, in 2021 (-3.5% growth rate). The fiscal deficit was 13.9% of GDP in 2020, which improved to a surplus 1.6% of the GDP in 2021. Additionally, rising international food and energy prices are expected to have a negative impact on the economy in the short-term.

In this context, the Government of Suriname requested multilateral financial support to implement this program. On 22 December 2021, the IMF Board approved a 36-month Extended arrangement under an Extended Fund Facility (EFF) for an amount equivalent to US$688 million. The EFF program focuses on measures to support fiscal sustainability (through fiscal consolidation), exchange rate and monetary stability, financial stability, and governance. The EFF includes an immediate disbursement of US$57.5 million, with further disbursements subject to the successful conclusion of consecutive quarterly reviews based on the achievement of several prior-actions, structural benchmarks and quantitative performance criteria of the program during the 2021-2024 period.

On the fiscal side, our government is committed to improve the fiscal outlook in the medium-term and achieve a primary balance surplus of 1.7% of GDP for 2022. This requires, strengthening of the Governments' medium-term fiscal planning, through the design of a medium-term fiscal framework and considering the possibility of implementing a fiscal rule, as well as reviewing the Savings and Stabilization Fund (SSF). Regarding government revenues, the government is taking actions towards replacing the sales tax with a Value-Added Tax (VAT), reducing ineffective tax exemptions, modernizing the tax administration, and strengthening the tax management of extractive industries.

The government has also been working on increasing the effectiveness of public spending. Efforts in this direction include the drafting of a new Procurement Bill, as well as carrying out diagnostics and action plans for public financial management and public investments. A national survey of living conditions is under preparation to improve the availability of data, which is key to design and implement well-targeted social programs. Furthermore, the government has submitted the Indigenous Peoples and Tribal Peoples Collective Rights Bill to the National Assembly, to promote development with identity among indigenous peoples. Finally, we have conducted a review of the State-Owned Enterprises (SOEs), in order to prepare a plan to increase their financial transparency and reduce fiscal risks associated to them.

To secure the financial resources needed to implement the abovementioned measures, the Government recognizes and appreciates the support of the IDB through the provision of budgetary support under the "Fiscal Sustainability Program for Economic Development I". The program's components, objectives, and policy measures are as follows:

- **Component 1: Macroeconomic stability.** The objective of this component is to maintain an economic framework consistent with the program's objectives.

- **Component 2: Strengthening the tax system.** The objective of this component is to strengthen the tax revenue system and its administration. The policy actions to be implemented by the Government

are:

(i) Prepare a draft of the Fiscal Incentives Regulations, which reduces tax expenditures by eliminating discretionary waivers and some preferential rates.

(ii) The VAT Act is approved by the National Assembly.

(iii) Submit a Bill to the National Assembly to modernize the Directorate of Taxes and Customs (DOTC) through the establishment of a Semi-Autonomous Revenue Agency (SARA) with emphasis in the necessary arrangements for the establishment of the VAT.

(iv) Prepare specific tax regulations to strengthen the tax management of extractive industries (oil, gas and mining).

- **Component 3: Rationalization of public expenditure.** The objective of this component is to increase control and efficiency of public expenditure. To accomplish this, the Government will ensure the implementation of the following policies:

(i) Prepare an action plan for reviewing and updating expenditure budget classifications in line with international best practices.

(ii) Prepare an action plan for the improvement of the public investment system and the resilience to climate change and sustainability of public infrastructure.

(iii) Prepare a plan to conduct a national survey of living conditions.

(iv) Submit the Indigenous Peoples and Tribal Peoples Collective Rights Bill to the National Assembly.

(v) Conduct a diagnostic report of the public procurement system across all line ministries.

(vi) Update the draft of the *Aanbestedingswet Bill* including new regulations to make their processes more transparent and establish an action plan for its implementation.

(vii)Conduct a Public Investment Management Assessment.

- **Component 4: Improving the macro-fiscal institutional framework.** The objective of this component is to improve macro-fiscal planning and management. The policy actions to be implemented are:

(i) Prepare a plan to strengthen the medium – term fiscal framework (MTFF) with revenue and expenditure forecasts for a 5-year period and an identification of the main fiscal risks arising from climate change.

(ii) Prepare an evaluation to determine an appropriate type of fiscal rule for Suriname.

(iii) Review the SSF design and operational framework.

- **Component 5: Strengthening the fiscal framework and transparency of SOEs.** The objective of this component is to reduce the fiscal risks and increase the transparency of SOEs. The Government will ensure the implementation of the following policy:

(i) Prepare an action plan to regulate the SOEs. The plan includes the mapping, categorization, and

rationalization of all SOEs.

The Government of Suriname hereby reiterates its commitment to implement these policies to restore fiscal sustainability and promote higher economic growth and welcomes the support of the IDB through its approval of the loan program under consideration.

Sincerely,

Albert R. Ramdin
Minister of Finance and Planning a.i.