Coping with Financial Dollarization in Suriname

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ABSTRACT

Suriname has experienced substantial financial dollarization since the mid 1990s as a result of macroeconomic instability which originated in the 1980s. Even though macroeconomic conditions improved after 2000, dollarization levels have remained high. Because of the growing international consensus that the costs and risks of high dollarization outweigh its benefits, a certain extent of dedollarization is considered a valid policy. This paper examines how the Surinamese authorities have thus far passively and actively coped with high deposit and credit dollarization. Passive coping policies deal with the management of risks resulting from high dollarization whereas active coping policies pertain to the actual reduction of dollarization levels. In Suriname, both policy types have been pursued. However, due to institutional circumstances, the focus is still largely on passive policies.

C O N T E N T S

1. Introduction

Dollarization is a common feature of developing economies with a history of high inflation (Baliño et al, 1999) and can be defined as a portfolio shift away from domestic currency to foreign currency, typically triggered by unstable macroeconomic conditions (Bogetic, 1999). However, dollarization is known to persist long after macroeconomic stability has been restored. This problem that highly dollarized countries are often faced with is known as "hysteresis" or irreversibility, which means that dollarization ratios do not fall once inflation has been reduced (Berg & Borensztein, 2000).

Dollarization in Suriname emerged as a result of macroeconomic instability in the early 1980s due to the monetization of fiscal deficits. In the 1990s, this process continued, following the introduction of foreign currency deposits (1992) and foreign currency loans (1995). Then in 2002, a relaxation of the foreign exchange regime added to the then already high dollarization. Even though macroeconomic conditions improved markedly after 2000, at the end of 2011, the share of foreign currency deposits in broad money was almost 50 percent (Centrale Bank van Suriname, 2012).

Dollarization can complicate domestic monetary policy due to the introduction of a foreign currency component into the money supply (Baliño et al, 1999). Also, it can increase a country's financial vulnerability to adverse shocks, such as sudden stops in capital inflows. Due to the inevitable currency mismatching, dollarized financial systems are particularly subject to solvency and liquidity risks (Galindo & Liederman, 2005). This fact alone makes some degree of dedollarization a valid policy objective (Fernández-Arias, 2005).

High dollarization thus hampers the central bank in the areas of monetary policy implementation and prudential supervision. For instance, the design of reserve requirements in a dollarized economy is a complex issue (Baliño et al, 1999). Also, the central bank's function as lender of last resort - to bail out financially troubled banks - is restricted as it cannot issue foreign currency. Moreover, widespread currency mismatches limit the use of exchange rate policy to offset negative external shocks, underscoring the social cost of excessive dollarization.

Highly dollarized countries rarely seem to be pursuing policies that actively deal with the reduction of dollarization. Instead, dedollarization is mostly viewed as a side effect of sound monetary and fiscal policy measures (Galindo & Leiderman, 2005). In some cases, however, authorities decide to take policy to the next level and actually take measures to actually reduce the level of dollarization. These policy measures generally address the factors that lead to dollarization and the development of alternative local currency instruments (Fernández-Arias, 2005).

The objective of this chapter is twofold. First, to evaluate the policies that monetary authorities have pursued since the emergence of financial dollarization in Suriname. Second, to identify the conditions that prevent full-fledged dedollarization. Policies coping with dollarization can be divided into active and passive ones. Passive coping policies deal with the management of risks resulting from high dollarization while active coping policies pertain to the reduction of dollarization levels. As such, the active policy mode can be viewed as a first step toward planned dedollarization.

The evaluation of dedollarization policies in Suriname is of special interest as these policies are based on the implicit assumption that dedollarization is indeed feasible.

However, this is not a given since countries may experience constraints that prevent successful dedollarization. The presence of such constraints may explain why authorities have not opted for full-fledged dollarization, even though Suriname is categorized as a highly dollarized country. However, judging from the pursued policies, the authorities have been keenly aware of the risks associated with high dollarization.

In coping with financial dollarization, the authorities first implemented policy measures of the passive policy mode. These policies included prudential measures as well as measures geared toward higher-than-minimum standards for international reserves. Subsequently, measures of an active policy mode were implemented. These measures involved the promotion of a more stable - and thus more attractive - domestic currency in conjunction with measures designed to make foreign currency credit more expensive - and thus less attractive.

The paper is organized as follows. First, a brief overview of the financial system and relevant macroeconomic developments in Suriname is provided. This will make clear how unstable macroeconomic conditions have led to the emergence of dollarization. The degrees of deposit and credit dollarization are then examined to determine to what extent the financial system is dollarized. Second, in coping with financial dollarization, policy measures of the passive policy mode will be discussed. Third, measures of the active policy mode will be reviewed. Fourth, institutional and political conditions that need to be satisfied to successfully dedollarize, will be briefly discussed.

2. Financial dollarization in Suriname

The Surinamese economy has experienced substantial dollarization since the mid 1990s and has even exceeded the regional trend toward dollarization with the acceleration in dollarization since 2001 (Fritz-Krockow et al, 2009). Since the economy itself is part of the problem, this section provides the macroeconomic context in which dollarization has emerged. But first, the financial system, the institutional framework wherein financial dollarization has developed, will be reviewed.

2.1 Financial system

The financial system of Suriname is comprised of the Central Bank, 9 commercial banks, 14 insurance companies, 34 pension funds, 5 provision funds, 1 thrift fund, 28 credit unions and 12 other institutions. Moreover, there are 25 licensed exchange offices. The commercial banks are the most important financial institutions, holding roughly 70 percent of the total assets of the financial system. The banking system is highly concentrated as the three largest banks account for more than 80 percent of total bank assets. One of these large banks is a subsidiary of a foreign bank. Another of the large banks is partially state-owned. Furthermore, there are three fully state-owned small commercial banks (Fritz-Krockow et al, 2009). In addition, the government runs a fully-owned development bank. So far, there is no system of deposit insurance.

The financial instruments in Suriname mainly consist of demand deposits, time deposits, savings deposits, foreign currency deposits, treasury bills and Central Bank gold certificates. The latter are denominated in grams of gold at a 5 percent annual interest rate. The interest received in Surinamese currency varies with changes in the international price of gold and the official exchange rate (Adhin & Konigferander, 1995). The sale of new gold certificates was discontinued following the 9/11 attacks, which pushed up gold prices and prompted speculation. Other traded securities include the stocks of eleven companies listed on the local Stock Exchange. In addition, the State Oil Company issued a five-year bond in 2010 to help finance its investment program (Adhin, 2011).

Traditionally, the instrument of monetary policy has been quantitative credit control through credit ceilings. Restrictive credit policies are the result of a long history of fixed exchange rate arrangements and external current account deficits, whereas the need for direct credit instruments arose from the lack of a domestic capital market (Adhin, 1999). In 2001, the credit ceilings were replaced by reserve requirements. Over the years, the reserve ratios applicable to foreign currency deposits have been systematically increased to discourage foreign currency borrowing. Foreign currency deposits were introduced in 1992 while foreign currency credit was formally permitted in 1995.

2.2 Macroeconomic developments

Following more than a decade of severe macroeconomic imbalances as a result of expansionary fiscal and monetary policies in the 1980s and the beginning of the 1990s, the Surinamese government implemented a Structural Adjustment Program between 1992 and 1996. Through a devaluation of the grossly overvalued currency and tight monetary and fiscal policies, price and exchange rate stability was achieved in 1996. Inflation began to

accelerate in 1997, as a result of a change in public policy that entailed expansionary fiscal policies. Monetary and exchange rate policies aimed at addressing the rapidly growing macroeconomic imbalances were only partially effective (Fritz-Krockow et al, 2009).

In 2000 a new government took office and, as a result, public policy turned around. Since then, gross domestic product (GDP) has more than quadrupled as a result of high commodity prices and prudent financial policies (see Table 1). Since 2003, the average annual economic growth has been around 5 percent. Even in 2009, at the depth of the international recession, the domestic economy grew by more than 3 percent, one of the highest growth rates in the region. In addition, inflation rates fell as a result of stability-oriented policies and the downturn in the world economy. The Central Bank Act was extensively revised in May 2005, which strengthened the independence of the CBvS (Fritz-Krockow et al, 2009).

Table 1. Selected Macroeconomic Indicators

Indicator	1996	2000	2005	2010	2011
GDP in million US$ (1)	861.0	946.0	1,794.0	4,351.0	4,552.0
GDP per capita in US$ (1)	1,947.0	2,027.0	3,598.0	8,191.5	8,456.7
Economic growth in % (2)	1.0	1.9	4.4	4.1	4.7
End-of-year inflation in % (2)	1.2	76.2	15.8	10.3	15.3
International reserves in million US$ (3)	177.2	14.7	162.1	690.8	816.9
Import coverage in months (3)	3.7	0.5	1.6	5.0	4.4
Coverage of money (M1) in % (3)	90.3	2.4	29.6	62.3	74.9
Fiscal balance in % GDP (4)	2.8	-9.7	-0.6	-2.9	-0.1
Credit rating (S&P) (5)	n.a.	B-	B-	B+	BB-

Sources: (1) International Monetary Fund, (2) General Bureau of Statistics, (3) Central Bank of Suriname, (4) Ministry of Finance, (5) Standard and Poor's

The international reserves rose from critical levels in 2000 to comfortable levels in 2010. As a result, the import coverage improved significantly. But a highly dollarized economy requires extra large reserves in case of a run on a dollarized bank. The coverage of narrow money (M1) increased massively since 2000, reflecting prudent monetary policy. In the same period, the overall fiscal deficit was fairly quickly brought within the internationally accepted 3-percent-of-GDP range. In addition, the government cleared most of its external debt arrears in 2010.

The largely sound macroeconomic policies pursued in the previous decade resulted in successive upgrades of Suriname's credit rating by Standard and Poor's from B minus in 1999 to double B minus in 2011. The last upgrade was granted as a result of the repayment of an old commercial debt to the U.S., the tightening of fiscal and monetary policies, and improved debt management in general.

In the 1990s sharp declines in the mining sector led to significant budget deficits, increased foreign debt, monetary financing and near-hyperinflation episodes. As a result, the credibility of macroeconomic policy was undermined. This has contributed to the increase of financial dollarization (IMF, 2007).

Suriname has known two episodes of triple-digit inflation during the 1990s, namely around 1994 (587%), at the height of structural adjustment, and around 1999 (113%), as a result of increased monetization of fiscal deficits. These episodes were also characterized by sharp depreciations of the currency. The average annual inflation rate of 14 percent during the 1980s rose to 83 percent during 1991-2003, whereas the official exchange rate depreciation increased from 25 percent during the 1980s to 43 percent during 1991-2003. These developments were in contrast to the trend toward greater monetary and exchange rate stability in Latin America (IMF, 2005).

Since 2004, however, the inflation performance of Suriname improved markedly, resulting on average in single digit inflation rates during 2004-2010. This increased stability, under the guidance of the newly introduced Surinamese dollar (SRD), also resulted in lower dollarization ratios.

The loosening of fiscal policy due to wage increases of civil servants and increased expenditure due to the elections of May 2010, however, revealed the fragilities of the Surinamese economy. Uncertainties surrounding the elections led to a growing parallel market for foreign currency. When the new government decided to honor arrangements of an increase of civil servant wages, the Surinamese dollar was also devalued by 20 percent in January 2011 (Adhin, 2011). The devaluation coincided with an increase in fuel taxes, both which accelerated inflation. Since then, the economy has stabilized again.

2.3 Degree of dollarization

Suriname has experienced rapid financial dollarization since the 1990s. Financial dollarization refers to deposit dollarization (foreign currency deposits as % of total bank deposits) and/or credit dollarization (foreign currency loans as % of total bank loans). Deposit and credit dollarization are considered high when individually exceeding 40 percent (Galindo & Liederman, 2005). Although dollarized deposits were allowed since 1992, and dollarized credit since 1995, reliable data regarding these financial variables only date back to1996.

The country formally has a managed float exchange rate regime, although the rate quoted by the CBvS rather behaves like an adjustable peg. As such, the rapid increases in dollarization ratios between 1998 and 2001 can almost entirely be attributed to successive devaluations. Of course, this is merely a price effect. The increase in dollarization in this period is therefore a by-product of valuation effects from currency depreciation (Fritz-Krockow et al, 2009).

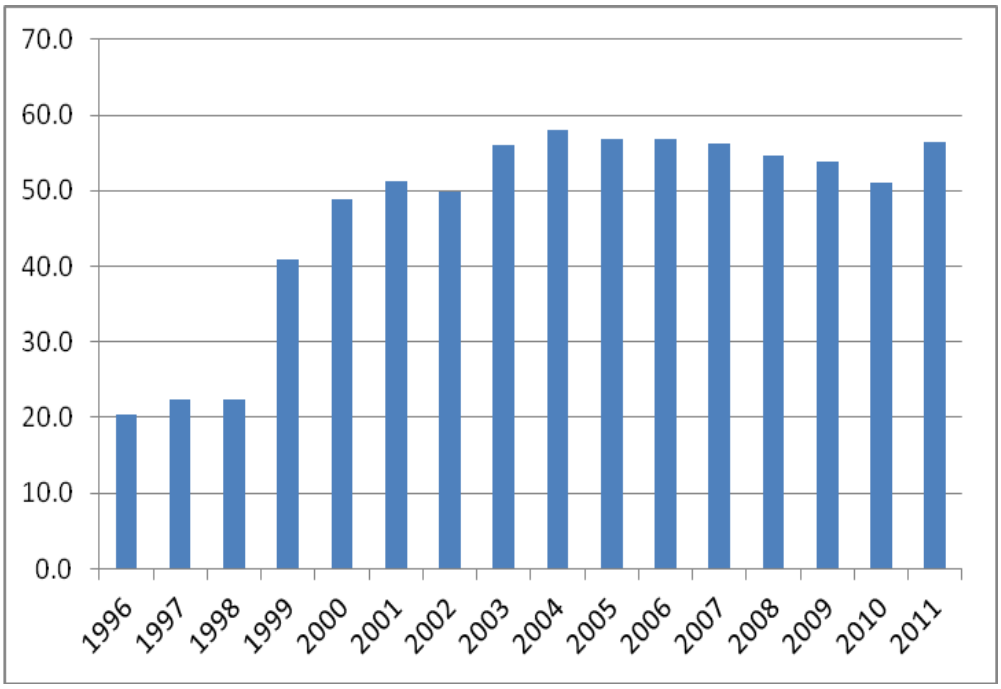
Since May 2002, however, volume effects kicked in due to economic liberalization. Specifically, the long-existing foreign exchange surrender requirement was removed. This requirement, which implied the mandatory sale of foreign exchange to the CBvS, was replaced with a requirement to transfer export earnings directly to domestic private foreign currency accounts (Adhin, 2011).

In addition, in September 2002, the compulsory gold sales of the private sector to the CBvS were abolished. Since then the private sector could freely engage in gold trade and was thus no longer obliged to sell gold to the authorities. Moreover, the gold could be freely exported (Caram, 2007). The liberalization of the local gold market resulted in highly increased volumes of gold production and export. The rising export proceeds of gold, subsequently, contributed to deposit dollarization.

The dollarization ratio of bank deposits rose from 20 percent in 1996 to its maximum of 58 percent in 2004 (see Graph 1). Since then the ratio has fallen to an average of 55 percent. However, the degree of deposit dollarization rose from 51 to 57 percent in 2011, due to the devaluation and the fuel tax increase in that year. Suriname's deposit dollarization ratio in 2001 slightly exceeded the average for countries in Latin America, but with its acceleration since then, the country may have become one of the more highly dollarized economies in the region (Fritz-Krockow et al, 2009).

Graph 1. Deposit Dollarization

(in percent)



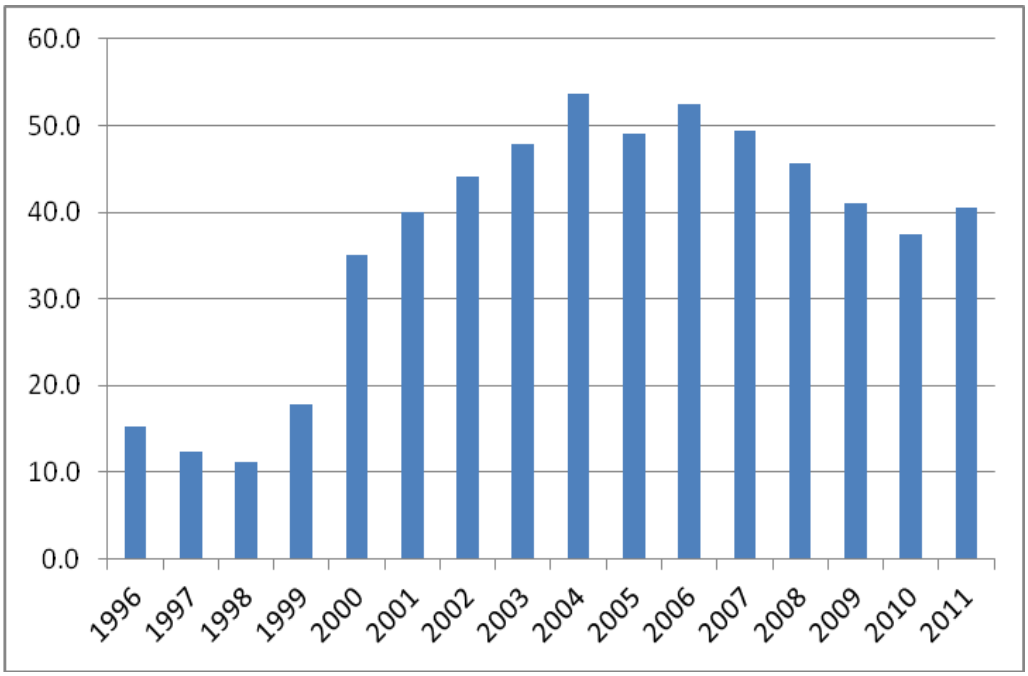
Source: Central Bank of Suriname

Note: Foreign currency deposits consist of USD and EUR holdings of the public.

The dollarization ratio of bank credit rose from 15 percent in 1996 to its maximum of 54 percent in 2004 (see Graph 2). Since then the ratio has fallen to an average of 45 percent. The degree of credit dollarization rose from 37 to 41 percent in 2011, due to the aforementioned exchange rate and fiscal measures.

Graph 2. Credit Dollarization

(in percent)



Source: Central Bank of Suriname

Note: Foreign currency credit consists of USD and EUR loans extended to the public.

Despite the fact that both dollarization ratios have leveled off since the mid 2000s, Suriname is still subject to a high degree of financial dollarization. Incidentally, dollarization ratios showed a falling trend after the introduction of the Surinamese dollar in January 2004, possibly as a result of lowered inflationary expectations. However, even when dollarization ratios had fallen, dollarization continued to grow in currency terms (Adhin, 2011). As a result of the exchange rate and tax measures in January 2011, both dollarization ratios have risen, but as a result of valuation effects.

3. Coping with high dollarization

3.1 Key strategic policy options

According to Ize and Levy Yeyati (2005), countries have three key strategic policy options in response to high dollarization, namely to:

1. dedollarize, thereby viewing dedollarization: a) as a by-product of sound macroeconomic policies or b) as a goal in itself;
2. accept dollarization, restrict its downsides and improve policy within its limits;
3. fully dollarize.

Option 1: Based on empirical grounds, monetary reform (option 1b) would be the obvious choice since in Suriname, so far, sound macroeconomic policies alone (option 1a) have not proven to be sufficient to dedollarize the economy. In fact, deposit and credit dollarization ratios are still high despite the stability-oriented policies that have boosted confidence in the economy (Fritz-Krockow et al, 2009). It is important to note that full dedollarization is not the objective under option 1, but rather a low degree of dollarization, to help avoid unnecessary exposure of the tradable sector to exchange risk in a small open economy. Galindo and Liederman (2005) define dedollarization as i) having initial high dollarization (over 40 percent of deposits or loans), ii) reducing dollarization to 20 percent or less, iii) maintaining these levels for at least five consecutive years. This operational definition is in line with the common view that full dedollarization is not the objective. Governments should merely get rid of excessive financial dollarization.

Option 2: In addition to option 1b, it would be prudent to adopt option 2 during the transition process when the degree of dollarization is still high. Once dollarization levels have become manageable, policies under option 2, e.g. relatively high reserve requirements on foreign currency deposits and higher than normal international reserves held by the central bank, may be discontinued.

Option 3: This option is not desirable for several reasons. First, there is the loss of the *exchange rate* as a policy tool. If wages are rigid downwards and devaluation is not possible, negative economic shocks will result in loss of output and unemployment. Second, there is the loss of independent *monetary policy*. An officially dollarized country has no choice but to adopt the foreign monetary policy, which means that it cannot lower interest rates in response to a negative shock and therefore may risk a recession. Third, the central bank may be unable to act as *lender of last resort* to the domestic banks in case of financial crises, as this role is normally performed in the national currency. Fourth, the central bank forgoes all *seigniorage* revenue by force, as profit made from printing money is completely eliminated under official dollarization (Adhin, 2000). The latter is a valid macroeconomic concern, given the fact that the net profit of the central bank is a major source of non-tax revenue in many countries.

Due to certain institutional constraints, mentioned in Section 5, the Surinamese authorities have, so far, mainly focused on managing the risks resulting from high dollarization (option 2) as sound macroeconomic policies (option 1a) alone did not prove to be sufficient to dedollarize the financial system.

3.2 Passive coping policy: Managing dollarization risks

3.2.1 Prudential policy

Reserve requirements on foreign currency deposits were introduced in February 2003 to cope with availability risk in Suriname's highly dollarized banking system. These funds, which may be invested in short-term financial instruments, are meant to serve as a first line of defense in case of a bank run on foreign currency deposits. As the risks associated with financial dollarization became clear, i.e. the inability of the central bank to act as lender of last resort in foreign currency, the CBvS raised the reserve ratio applicable to foreign currency deposits, in February 2005, from the initial reserve ratio of 17½ to 33⅓ percent and again, in January 2011, from 33⅓ further up to 40 percent.

However, with the introduction of reserve requirements in foreign currency, the CBvS relaxed an earlier guideline whereby banks were only allowed to lend foreign currency to clients with foreign exchange earnings. The obvious purpose of this guideline was to avoid widespread currency mismatches, the main concern in a situation of high financial dollarization. Due to this concern and the fact that the measures serve two separate purposes, namely coping with availability risk and avoiding currency mismatches, the CBvS reconfirmed this prudential guideline in 2011. It is hereby also important to remember that, thus far, Suriname has no system of deposit insurance.

3.2.2 International reserves policy

The international reserves, consisting of gross official gold and foreign exchange reserves of a country, traditionally fulfill three functions, namely i) cover of the domestic currency, ii) defense of the exchange rate and iii) cover of imports.

Due to the ongoing globalization of financial markets and increased cross-border borrowing, the international reserves assumed an additional function, iv) support of the sovereign creditworthiness. Adequate reserves, then, are a supporting factor in the process of obtaining a favorable sovereign credit rating. This, in turn, will give the country access to cheaper credit on the international money and capital market.

Still another function is assigned to the international reserves in the context of high financial dollarization, namely iv) support of dollarized banks. This function refers to the lender-of-last-resort function that the central bank normally performs in domestic currency. However, in a dollarized financial system the central bank needs to maintain relatively high reserves to be able to fulfill this task in foreign currency terms. The international standard of reserves that equal at least three months of import is therefore inadequate in a dollarized system. An additional buffer is desirable and even necessary in a partially dollarized banking system.

Due to the various cover and buffer functions that the international reserves fulfill, it is imperative that they are always available and, in the case of high financial dollarization, also on a relatively high level. The latter will also lead to a higher cover of the domestic currency, which may provide a welcome boost of confidence in the domestic currency. In the past few years, the CBvS has pursued a policy of maintaining its reserves at relatively high levels. These reserves are thus available as a second line of defense in case of a bank run on foreign currency deposits.

3.3 Active coping policy: Reducing dollarization levels

3.3.1 Stability-oriented policy

Fritz-Krockow et al (2009) make a clear distinction between money creation and government financing. The reason is the pervasive use of monetization as a means of government funding, especially in the 1990s. As a result, there was a large expansion of reserve money and other monetary aggregates. This fiscal dominance over monetary policy can be explained by the unsustainable fiscal policies that did not allow the government to establish its own securities markets as a source of funding.

Kokenyne et al (2009) contend that macroeconomic stabilization is the first step towards dedollarization due to the strengthened confidence in the domestic currency. Since 2000, stability-oriented policies have been pursued even though these were not always successful. One notable example was a massive wage increase of civil servants in 2003 that temporarily disrupted the disinflation process initialized in 2000.

In January 2004, the government introduced the Surinamese dollar, which replaced the Surinamese guilder after more than two decades of depreciation. The name 'dollar' was not only chosen to harmonize with the currencies of most Caricom countries, but also to promote confidence in the new domestic currency.

To further increase confidence, the Bank Act 1956 was revised in May 2005, which established the CBvS as an autonomous monetary authority. Even before this, in 2002, the State Debt Act was passed, imposing an overall ceiling of 60 percent of GDP on government borrowing. At the outset in 2002, the domestic and external sub-ceilings were fixed at 15 percent and 45 percent of GDP, respectively. In 2011, an amendment changed the domestic sub-ceiling to 25 percent and the external ceiling to 35 percent of GDP. As a result, the overall credit ceiling of the government remained unchanged.

An interesting aspect of the State Debt Act (2002) and the revised Bank Act (2005) is the fact that violation of specific articles pertaining to borrowing (by Minister of Finance) and lending (by Governor of the CBvS) can result in severe penalties for the monetary authorities. Both legislative products thus signal a firm commitment of the monetary authorities to refrain from future monetization of fiscal deficits, which in itself influences inflationary expectations downwards.

3.3.2 Market-based policy

When the reserve ratio for foreign currency was raised to 40 percent in 2011, it was not only to cope with availability risk but also to discourage foreign currency borrowing. After all, by increasing the costs of bank intermediation, lending rates follow suit and therefore discourage borrowing. However, the required foreign currency reserves may be invested in money markets abroad, while the required local currency reserves need to be held at the CBvS in a non-interest bearing account. The playing field with regard to reserve requirements policy is therefore not level. But even if this were so, local currency credit would still be more expensive than its foreign currency counterpart due to the generally higher inflation rate in Suriname. Burnside, Eichembaum and Rebelo (2000), however, point out that, in the case of government warranties on the financial system, exchange risk is not priced in the interest rate, which is why foreign currency credit is perceived as 'cheap'. This may inadvertently stimulate the risk taking behavior of the private sector, resulting in excessive foreign exchange positions.

4. Conditions for sustainable dedollarization

4.1 Institutional conditions

In addition to a sound dedollarization strategy, institutional conditions, such as i) a developed domestic financial market, ii) an independent central bank with a clear mandate for price stability and iii) a government policy stance of fiscal sustainability, should be satisfied. These conditions, after all, enhance confidence in the domestic currency and can thus reduce the degree of dollarization (Savastano, 1996; Baliño et al, 1999; Licandro & Licandro, 2003).

Suriname, however, still has underdeveloped financial markets, which partially explains the slow response of interest rates to changes in monetary conditions (Fritz-Krockow et al, 2009). If the domestic financial market is well-developed it can offer attractive financial instruments denominated in domestic currency, which will reduce the flight into foreign currency. The dedollarization process can also be enhanced by tightened controls on capital inflows. However, the effect of regulation on the degree of dollarization ultimately depends on expectations with regard to macroeconomic and exchange rate stability (Savastano, 1996).

The Central Bank of Suriname is already legally independent since 2005, but so far, the condition of fiscal sustainability has not been satisfied. The potential danger of macroeconomic instability and renewed dollarization therefore remains. It is thus imperative that fiscal reform be pursued before embarking on full-fledged dedollarization. If not, dedollarization cannot be sustained over time. In the meantime, authorities have no other option than to 'learn to live' with dollarization while managing the risks involved. This is essentially the case in Suriname.

4.2 Political support

More often than not, dedollarization policies have been implemented under adverse economic conditions and through forced conversions. Forced dedollarization, however, is bound to evoke adverse public reactions, varying from financial disintermediation to capital flight. Sustainable dedollarization, therefore, demands a long-term commitment from governments, which may be non-existent when financial dollarization can be managed and political pressure to dedollarize is not really an issue (Fernández-Arias, 2005). However, once political governments are successful in limiting the downsides of dollarization, they also automatically reduce the political support they have to dedollarize (Ize & Levy Yeyati, 2005). This dilemma is the immanent risk that passive but successful dedollarization efforts face.

5. Conclusions and policy implications

Suriname is a highly dollarized economy as is reflected in relatively high degrees of deposit and credit dollarization. The initial cause of dollarization was the monetization of large fiscal deficits, resulting in macroeconomic instability. However, even though macroeconomic stability has broadly been restored since the early 2000s, dollarization levels have not gone down significantly.

Since the introduction of financial dollarization in Suriname, monetary authorities have been aware of the risks involved and have therefore pursued policies to cope with this monetary phenomenon. Having started in the passive coping mode, authorities have made attempts to manage the risks resulting from high dollarization. Subsequently, an active coping mode was assumed, namely one where attempts were made to actually reduce the levels of dollarization in the financial system.

In the passive coping mode, authorities introduced a ban on foreign currency borrowing by non-tradable agents, high reserve requirements on foreign currency deposits to manage availability risk and maintenance of relatively high international reserves by the Central Bank of Suriname to increase its ability to act as lender of last resort in foreign currency.

In the active coping mode, macroeconomic stabilization, comprised of fiscal consolidation and tight monetary policy, was pursued by the authorities. These policies have been in place since 2000 with a fair amount of success. So far, market-based policies - the second type of active coping policy - have only been pursued as a side-effect of high reserve requirements on foreign currency deposits, which in turn have lead to higher lending rates in the area of foreign currency borrowing.

Since the Central Bank of Suriname has already attained operational independence, the two major institutional constraints to actively cope with high financial dollarization are the lack of developed financial markets and fiscal sustainability. Moreover, there is an immanent risk that governments that are successful in coping with high dollarization, undermine their own support to dedollarize at a later stage. Ultimately, the authorities have to decide whether they want to carry on down the path of benign neglect or to go down the road of sustainable dedollarization.

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