

## SURINAME

### 1. General trends

2016 was a year of difficult adjustments for Suriname as the authorities came to terms with the economic crisis brought on by years of declining commodity prices, which eventually culminated in the cessation of alumina production in late 2015. The Suriname economy contracted by 10.4% in 2016, the largest decline in Latin America and the Caribbean that year, compounding a smaller 2.7% contraction in 2015. This followed average growth of 3.8% over the previous 10 years. The authorities struggled to contain twin fiscal and current account deficits in 2016, and turned to the International Monetary Fund (IMF) for support. Despite mixed progress on economic reforms, the government managed to reduce the fiscal deficit to 7.9% of GDP from 10.2% of GDP in 2015.

To deal with a decline in the country's international reserves, the authorities continued the devaluation process begun in 2015. Suriname moved to a freely floating exchange rate in 2016, and the currency had weakened to 7.45 Surinamese dollars (Sr\$) per United States dollar (US\$) by year end, more than halving in value from the Sr\$ 3.35 per US\$ 1 peg it had maintained from 2011 to November 2015. The devaluation reduced imports and, along with the IMF capital injection, stabilized the fall in international reserves in 2016. The current account deficit also contracted, from 19.6% of GDP to 5.4% of GDP. However, combined with utility rate increases, the devaluation also had the effect of lifting inflation to upwards of 70%: it peaked at 79% in October 2016 and declined slowly thereafter as the devaluation shock began to wear off. Government debt continued increasing, albeit not as steeply as in 2015.

In 2017, Suriname faces the challenge of remaining committed to the IMF programme while dealing with citizen protests. Under the programme, the government plans to introduce a value added tax and vehicle tax and to increase fuel duties, among other things. If the agreement is abandoned, financing from other multilateral sources could disappear. Because of the continued economic instability, growth in 2017 is projected at -0.2%.

### 2. Economic policy

#### (a) Fiscal policy

The Government of Suriname instituted a number of cost-cutting measures in 2016 in response to the economic crisis, including the phasing out of utility subsidies and a reduction in expenditure. In May 2016, it signed a US\$ 481 million 24-month standby arrangement with the IMF for balance-of-payments support and to aid in the adjustment process. The IMF agreement included several fiscal consolidation measures and adjustments to the monetary and exchange-rate regimes. While the government implemented a number of these, it partially reversed the electricity price rise and stopped increasing fuel prices following a public outcry.

As a consequence of its fiscal consolidation efforts, the government was able to decrease the fiscal deficit to 7.9% of GDP in 2016 from 10.2% in 2015. This was despite a steep fall in revenue, from 20.4% of GDP in 2015 to 15.0% in 2016, due mainly to a decline in tax receipts from 16.3% to 11.1% of GDP. Government austerity measures resulted in a 7.0 percentage point drop in total expenditure, from 30.0% of GDP in 2015 to 23.0% in 2016. Wages and salaries fell to 7.1% of GDP, 2.1 percentage points

down on 2015 and the lowest in five years. The largest percentage point decline among the current expenditure categories was for other goods and services, spending on which decreased from 8.4% of GDP to 4.8% of GDP. Although current expenditure fell as a percentage of GDP, it actually increased in nominal terms, with other goods and services being the only subcategory for which it was down in nominal terms. The declines relative to GDP were due to the large increase in nominal GDP resulting from high inflation over 2016.

The deficit was partially financed through Suriname's first global bond issue, worth US\$ 550 million, with a maturity of 10 years and a yield of 9.25%. The proceeds of the bond were to be used for debt repayments to Petr leos de Venezuela under the PetroCaribe scheme, among other lenders; payment for an equity investment in Suriname Gold Project; lending to the State-owned oil company; and general budgetary purposes.

Total central government debt (defined in accordance with the National Debt Act) increased to 56.8% of GDP from 52.3% in 2015. This was a much smaller increase than the 19.0 percentage point jump from 33.3% in 2014. Some of the new debts incurred in 2016 included US\$ 235 million from China for infrastructure development, loans from Israel and Europe for construction at the Anton de Kom University of Suriname and infrastructure works, and loans from the Islamic Development Bank (ISDB), Caribbean Development Bank (CDB) and Inter-American Development Bank (IDB) for a total of US\$ 156.7 million, some of which is for development of the energy sector.

#### **(b) Monetary policy**

In 2016, the Central Bank of Suriname introduced Treasury bill auctions as a form of open market operation to complement monetary policy and provide another source of domestic financing. The auctions produced a rate of 25% on three-month Treasury bills. The average lending rate rose from 12.9% in January 2016 to 14.1% in December and continued climbing into 2017, reaching 14.6% in March. The average deposit rate also rose, moving up from 7.7% in January 2016 to 8.5% by the end of the year and 9.1% in March 2017. Notwithstanding these increases, high inflation has kept real interest rates securely in negative territory. Credit to the private sector increased by 27.4% in nominal terms in 2016.

Required reserve ratios were left unchanged in 2016 and 2017 at 35% for Surinamese dollars and 45% for United States dollars. The reserve ratio for euros was cut slightly, from 30% in January 2016 to 28.6% in December 2016 and 27% in April 2017.

In the second quarter of 2016, the Ministry of Finance and the Central Bank of Suriname signed an agreement stating that the central bank would no longer provide the government with advances and that the existing advances must be repaid by the end of June 2016, which in the event they were.

#### **(c) Exchange-rate policy**

In response to the fall in international reserves that had been ongoing since 2012, Suriname began to modify its exchange-rate policy in late 2015, devaluing the currency from a peg of Sr\$ 3.35 per US\$ 1 to Sr\$ 4.04 per US\$ 1. An auction-based foreign-exchange allocation system was introduced in March 2016, and by May 2016 the currency had been allowed to float freely. Following these reforms, the exchange rate quickly weakened to a monthly average of Sr\$ 7.747 per US\$ 1 in September. It then strengthened to 7.261 in October following the issue of the global bond, but has since been weakening steadily, albeit at a slower pace, averaging 7.45 in December 2016 and 7.611 in April 2017.

### 3. The main variables

#### (a) The external sector

In 2016, Suriname's current account deficit narrowed by 80% in nominal terms relative to the previous year. This was due mainly to a 39% reduction in imports, which offset a 12% decline in exports. The devaluation of the currency over the course of the year resulted in a decline in purchasing power that contributed to the contraction in imports. Every category of import declined, with some of the largest falls being in machinery and transport equipment (-48%), manufactured goods (42%) and chemicals and related products (-38%). While most categories of export declined, there were increases in beverages and tobacco, chemicals and related products, and miscellaneous manufactured articles. However, these categories only accounted for 2.1% of total exports. Exports in the category of commodities and transactions n.e.s. plus classification errors, which includes gold, decreased by 14% in 2016, but their share of total exports increased to 73% from 58% in 2015.

As a share of GDP, the current account balance improved to -5.4% from -19.6% the previous year. The goods balance moved from a deficit of 9.1% of GDP to a surplus of 7.0% of GDP, while the services balance worsened slightly from -11.4% of GDP to -12.1% of GDP. The income balance deficit expanded from -0.7% of GDP in 2015 to -3.8% of GDP in 2016, while the current transfers surplus grew from 1.6% of GDP to 3.5% of GDP.

The financial account balance fell from 17.9% of GDP in 2015 to 11% in 2016. Foreign direct investment into the country fell by 20% in nominal terms. International reserves contracted over the first five months of 2016, from US\$ 308.7 million in January to US\$ 212.5 million in May. International reserves almost doubled to US\$ 404.3 million with the disbursement of IMF funds in June 2016 before beginning to slide again, falling to US\$ 350.1 million in September 2016. Since then they have increased somewhat and been more stable, standing at US\$ 381.1 million in December 2016 and a slightly improved US\$ 384.1 million in March 2017.

#### (b) Economic activity

The Planning Office of Suriname estimated economic growth in 2016 to be -10.4%. There were contractions in 9 of the 14 private sector categories, with only the agriculture, hunting and forestry sector, the real estate, renting and business activities sector, the education sector, the health and social work sector and the other community, social and personal services sector experiencing expansions. However, these activities collectively contributed a mere 0.3 percentage points to growth. The largest private sector contributor to the decline was wholesale and retail trade, which fell by 20% in terms of value added and contributed -3.5 percentage points to growth. High inflation rates throughout 2016, stemming from a combination of the currency devaluation shock and increases in utility prices, reduced consumers' purchasing power and thence consumption. Value added shrank by 8% in the construction sector, which contributed -0.5 percentage points to growth.

The government sector as a whole contributed -4.7 percentage points to growth as efforts were made to rein in expenditure. All government sectors contracted in 2016, and the aggregate shrank by 43%.

The Planning Office projects growth in 2017 to be -0.2%. Rebounds in mining and quarrying and in manufacturing (which includes gold production) are expected to be offset by continued contractions in

construction and in wholesale and retail trade. The Newmont Suriname gold mine, which was opened in late 2016, is expected to contribute to economic growth in 2017 and beyond.

**(c) Prices, wages and employment**

Following the initial devaluation of the currency in November 2015, year-on-year inflation in Suriname jumped to 20.7% from 4.1% in October. Inflation remained above 25% throughout 2016, rising continuously until it peaked at 79% in October and then falling back to 57.3% in November, one year after the initial devaluation, and then to 49.2% in December and 42% in March 2017. Month-on-month inflation averaged 3.1% from May to October 2016 and 0.8% from November 2016 to March 2017, evincing a decrease in volatility. While inflation is expected to continue to decline, it is not anticipated that it will return to single digits until 2018, and it may persist at elevated levels for even longer if the government is not able to restrict wage growth.

Table 1  
**SURINAME: MAIN ECONOMIC INDICATORS**

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
<b>Annual growth rates b/</b>									
Gross domestic product	4.1	3.0	5.2	5.3	3.1	2.9	1.8	-2.7	-10.4
Per capita gross domestic product	3.0	1.8	4.0	4.2	2.1	1.9	0.9	-2.9	-11.2
<b>Gross domestic product, by sector</b>									
Agriculture, livestock, hunting, forestry and fishing	-8.9	30.5	2.9	4.2	10.1	-13.0	7.1	2.5	-7.6
Mining and quarrying	4.1	-13.3	5.3	13.7	3.0	-2.3	-4.4	-3.1	-0.4
Manufacturing	9.2	-11.5	12.0	1.8	-18.1	8.7	-11.3	-4.9	-6.9
Electricity, gas and water	10.9	-1.3	2.6	13.6	3.4	8.2	-1.0	-4.3	-0.5
Construction	8.3	6.7	-9.6	11.1	11.6	9.0	23.4	8.1	-19.5
Wholesale and retail commerce, restaurants and hotels	2.5	17.7	6.3	3.0	4.9	4.9	6.7	-4.0	0.0
Transport, storage and communications	18.8	0.2	3.6	4.3	4.3	6.2	6.4	0.4	-4.5
Financial institutions, insurance, real estate and business services	-3.0	2.7	2.7	7.0	8.2	4.6	-0.3	-1.2	-6.5
Community, social and personal services	3.7	-0.1	1.9	-1.2	19.6	2.3	1.6	-8.6	0.4
<b>Balance of payments</b>									
<b>Millions of dollars</b>									
Current account balance	325	111	651	431	162	-196	-415	-808	...
Goods balance	337	11	686	968	707	243	133	-375	...
Exports, f.o.b.	1744	1402	2084	2647	2700	2416	2145	1652	...
Imports, f.o.b.	1407	1391	1398	1679	1993	2174	2012	2028	...
Services trade balance	-123	1	-18	-362	-425	-374	-550	-470	...
Income balance	20	5	-104	-262	-192	-131	-69	-27	...
Net current transfers	91	94	87	87	73	67	71	65	...
Capital and financial balance c/	-116	-73	-616	-307	18	47	265	542	...
Net foreign direct investment	-231	-93	-248	73	173	188	163	276	...
Other capital movements	115	21	-368	-380	-155	-140	102	265	...
Overall balance	208	39	35	124	180	-149	-150	-266	...
Variation in reserve assets d/	-208	-39	-35	-124	-180	149	150	266	...
<b>Other external-sector indicators</b>									
Net resource transfer (millions of dollars)	-96	-68	-720	-569	-175	-84	196	514	...
Gross external public debt (millions of dollars)	319	269	334	463	567	739	810	876	1436
<b>Prices</b>									
<b>Annual percentages</b>									
Variation in consumer prices (December-December)	9.4	1.3	10.3	15.3	4.4	0.6	3.9	25.2	49.2
Variation in nominal exchange rate (annual average)	0.0	0.0	0.0	19.0	1.0	0.0	1.8	2.5	82.1
Nominal deposit rate e/	6.3	6.4	6.2	6.4	6.8	7.1	7.4	7.6	8.1
Nominal lending rate f/	12.0	11.7	11.7	11.8	11.7	12.0	12.3	12.6	13.5
<b>Central government</b>									
<b>Percentajes of GDP</b>									
Total revenue	24.3	27.7	21.7	24.5	24.5	23.3	21.7	20.4	15.0
Tax revenue	17.4	17.2	15.7	18.5	18.4	18.5	16.5	16.3	11.1
Total expenditure	22.8	26.9	24.6	24.6	26.8	27.8	26.4	30.0	23.0
Current expenditure	18.0	21.2	20.0	19.7	22.4	23.4	21.2	27.4	20.6
Interest	0.6	1.3	0.9	1.0	1.0	1.3	0.9	1.5	1.3
Capital expenditure	4.8	5.7	4.6	4.8	4.4	4.5	5.2	2.6	2.4
Primary balance	2.1	2.1	-2.0	0.9	-1.4	-3.2	-3.8	-8.1	-6.7
Overall balance	1.6	-2.1	-2.5	-2.0	-2.7	-6.0	-5.6	-10.2	-7.9
Non-financial public sector debt	15.7	15.7	18.6	20.1	21.6	29.9	26.8	42.8	47.2

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Money and credit	<b>Percentages of GDP, end-of-year stocks</b>								
Domestic credit	24.1	26.6	27.1	25.0	25.8	32.6	39.1	50.8	43.7
To the public sector	-0.5	1.5	2.4	0.4	0.6	3.8	8.1	15.9	11.1
To the private sector	24.2	24.6	24.2	23.8	24.3	28.0	30.0	33.8	31.6
Others	0.4	0.5	0.5	0.7	0.8	0.8	0.9	1.1	1.0
Monetary base	14.7	13.9	14.1	12.9	15.4	14.2	12.8	14.8	12.5
Money (M1)	13.9	15.8	16.4	14.4	15.9	16.2	16.3	16.6	13.6
M2	21.7	24.8	25.6	22.9	26.0	27.8	28.8	28.5	23.5
Foreign-currency deposits	22.5	21.6	19.8	22.8	22.8	25.2	26.4	31.6	43.5

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 2007 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Average deposits rate published by the central bank.

f/ Average lending rate published by the central bank..

Table 2  
**SURINAME: MAIN QUARTERLY INDICATORS**

	2015				2016				2017	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	568	538	429	353	295	283	363	382	391	389 b/
Consumer prices (12-month percentage variation)	2.7	5.2	4.4	25.2	36.6	57.5	73.4	49.2	38.9	30.9 c/
Average nominal exchange rate (Suriname dollars per dollar)	3.4	3.4	3.4	3.6	4.0	6.2	7.3	7.6	7.5	7.5
Nominal interest rates (average annualized percentages)										
Deposit rate d/	7.5	7.5	7.5	7.7	7.7	7.8	8.3	8.5	9.0	...
Lending rate e/	12.3	12.5	12.6	13.1	12.9	13.2	13.8	14.1	14.7	...
Interbank rate	8.4	7.2	8.2	8.0	8.7	10.1	14.6	13.6	11.7	...
Domestic credit (variation from same quarter of preceding year)	19.9	21.1	23.0	29.4	36.2	48.8	43.8	10.6	14.9	4.7 c/

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of May.

c/ Figures as of April.

d/ Average deposits rate published by the central bank.

e/ Average lending rate published by the central bank.

f/ Figures as of February.