

Suriname

Suriname's recession deepened in 2016, with economic growth estimated at -10.4%, down from -2.7% in 2015. As a result of falling commodity prices over the past few years, Suriname's economy struggled to maintain growth, and international reserves fell to critically low levels. In response, the government implemented adjustment measures and entered into a US\$ 481 million stand-by arrangement with the International Monetary Fund (IMF) in early 2016.

Certain conditions in the agreement, combined with domestic measures, impacted several sectors of the economy. The transition to a floating exchange rate and the reduction of a number of subsidies resulted in inflation soaring to over 70% and the money supply increasing.

Declining revenue from commodity exports placed a strain on the government's budget in 2016. Over the first half of the year, total revenue was 14% lower than in the first half of 2015 and 28% lower than in the first half of 2014. Total expenditure over the first six months of 2016, meanwhile, was 5.9% less than in the first half of 2015 and 0.1% higher than in the same period of 2014. The annualized 2016 fiscal deficit is estimated at 5.9% of GDP, though the budget contains a larger estimate of -7.7% of GDP.¹

After the worsening performance of the economy resulted in a double-digit fiscal deficit in 2015, the government embarked on an austerity programme to rein in spending, reducing electricity and water subsidies. Customs duties and the fuel tax were increased in 2016, and the government also plans to implement a value added tax in the near future. In addition to the IMF stand-by agreement, a US\$ 1.8 billion loan from the Islamic Development Bank will be used to finance infrastructure and energy projects between 2016 and 2018.

The reserve requirement ratios for Surinamese dollars (Sr\$), United States dollars and euros remained fairly constant at 35%, 45% and 30%, respectively, over the course of 2016. The Central Bank of Suriname introduced Treasury bill auctions as a form of open market operation to implement monetary policy and provide another source of domestic financing. Average lending and deposit rates rose slightly over the year.

In late 2015, the pressures on the Surinamese dollar caused the central bank to abandon the fixed exchange rate that it had maintained at Sr\$ 3.35 per US\$ 1 since 2011. The currency was first devalued by 20.5% in November 2015. In March 2016, an auction-based foreign-exchange allocation system was introduced, and in May the switch to a completely free-floating exchange-rate system was made. The exchange rate has weakened steadily since then, with the selling price of the Surinamese dollar at the time of writing being SR\$ 7.345 to US\$ 1.

Suriname's current account deficit over the first six months of 2016 contracted by 63% from the same period in 2015. The goods balance moved from deficit to a slight surplus, as a 39.7% decrease in imports outweighed a 29.3% fall in exports. The services deficit also contracted, mainly on account of a large decrease in transportation debits. An improvement in the transfers balance likewise contributed to the decline in the current account deficit. The annualized current account deficit in 2016 is estimated to have been 8.5% of GDP, compared to 19.6% in 2015.

International reserves fell to US\$ 212.5 million or 0.9 months' import cover in May 2016 from US\$ 330.2 million or 1.5 months' import cover in December 2015. The disbursement of funds by the IMF

¹ Nominal GDP was 45% higher in 2016 than in 2015 because of the steep price increases.

pushed reserves up to US\$ 404.3 million, or 1.8 months' import cover, in June, but they had fallen to US\$ 350.1 million or 1.6 months' import cover by September.

Suriname's economy moved even deeper into recession, with GDP growth estimated at -10.4% in 2016. The main contributor to this contraction was the public administration subsector, which shrank by 38% and contributed -4.5% to growth. The performance of the wholesale and retail trade sector was another major factor, with a 20% decline contributing -3.5 percentage points to the contraction. The skyrocketing inflation following the devaluation of the Surinamese dollar led to shrinking real incomes for consumers, and consequently reduced consumption. Manufacturing and construction were also among the larger negative contributors to the growth rate.

In October 2016, the Newmont Suriname gold mine opened. Output from this mine, which is partly owned by the State oil company, is expected to contribute to economic recovery in 2017 and beyond. Growth is estimated at 0.8% for 2017.

Inflation has been climbing steadily in Suriname since the currency was floated. It first jumped to 20.7% (year on year) in November 2015, following the first devaluation, and has been increasing ever since. From 29.5% in January 2016, it had risen to 77.1% by September. The largest increase among the consumer subindices was for housing and utilities, owing to the removal of government subsidies. The inflation rate should start to fall in 2017 once the effect of the devaluation shock wears off.

The latest official unemployment rate (for the administrative areas of Paramaribo and Wanica) was an estimated 6.9% in 2014. Given the economic downturn, this number is expected to have risen.

Suriname: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	1.8	-2.0	-10.4
Per capita gross domestic product	0.9	-2.9	-11.2
Consumer prices	3.9	25.2	77.1 ^b
Money (M1)	5.4	-5.1	16.1 ^c
	Annual average percentage		
Central government			
Overall balance / GDP	-5.7	-10.0	-7.7
Nominal deposit rate ^d	7.4	7.6	7.9 ^b
Nominal lending rate ^e	12.3	12.6	13.3 ^b
	Millions of dollars		
Exports of goods and services	2,356	1,856	...
Imports of goods and services	2,773	2,702	...
Current account balance	-415	-808	...
Capital and financial balance ^f	265	542	...
Overall balance	-150	-266	...

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of August.

d/ Average deposit rates.

e/ Average bank lending rate in local currency.

f/ Includes errors and omissions.