

SURINAME

1. General trends

Suriname faced another economic crisis in 2020 and 2021, four years after the previous crisis in 2015–2016, but this time in the context of a global pandemic and a local health crisis resulting from the coronavirus disease (COVID-19). Suriname experienced three waves between March 2020 and June 2021, in which daily new COVID-19 cases exceeded 50 per million people. By 30 June 2021 there were over 21,700 confirmed cases and 522 deaths. The government introduced several restrictions on travel and economic activity to combat the spread of COVID-19. An outbreak in one of the country's gold mines caused a suspension of activity in mid-2020. As a result of the restrictions and other impacts of the pandemic, economic growth in 2020 is estimated at -14.5%.

The overall fiscal deficit was estimated at more than 12% of GDP in 2020 because of the pandemic and election-related spending. Public debt increased steadily over the first nine months of the year. In September, as a result of dwindling official reserves and limited availability of foreign currency, the Suriname dollar was devalued by almost 90%. This led to a surge in inflation and a sharp jump in the public debt-to-GDP ratio, which came to 145.1% of GDP at the end of 2020. The government is in the process of securing an agreement with the International Monetary Fund (IMF) that should help it to stabilize the macroeconomic situation and contribute to the country's recovery in 2022 and beyond.

In 2021, the economy is expected to contract by 1%. While over 27% of the population had received a COVID-19 vaccine by mid-year, the pace of vaccination has slowed. In addition, high inflation, which was exacerbated by the devaluation, is expected to inhibit consumption.

2. Economic policy

(a) Fiscal policy

A new government was elected in May 2020, and aimed to contain the ballooning fiscal deficit by phasing out fuel subsidies and reducing expenditure. To increase revenue, it introduced temporary taxes on the highest tax brackets and increased gold-mining royalties and sales tax on imports. Total expenditure averaged Sur\$ 1.144 billion per month between January and May 2020 and fell to Sur\$ 806 million from June to December. Overall, the deficit contracted by 36% in absolute terms, driven by a 9.8% increase in total revenues and a 7.6% decline in total expenditure. The increase in revenue derived from a 15% jump in direct tax revenue and a 13% rise in non-tax revenue. The adjustment in expenditure resulted from a 31% decrease in spending on goods and services, a 9.6% decline in subsidies and a 60% contraction in capital expenditure. Conversely, wages and salaries climbed by 24% and interest payments jumped by 55%. Spending increased in the run-up to the May election and also rose owing to pandemic relief. Pandemic spending in mid-2020 included the creation of three funds: Sur\$ 400 million for health-care expenditure; Sur\$ 400 million for unemployment support, pensions and assistance to children; and Sur\$ 300 million to fund domestic production.

The public debt-to-GDP ratio increased significantly at the end of 2020; a sharp devaluation almost doubled the foreign debt ratio. In November, Suriname became one of six countries to default on foreign debt in 2020. Following the default, the country entered debt restructuring agreements with creditors and

began negotiations with IMF. In December, negotiations resulted in a deferral of debt service payments and interest payments for bonds due in October and December 2020 to March 2021. Bondholders agreed to two more deferrals in the following months.

In April 2021, the country reached a staff-level agreement with IMF on a 36-month Extended Fund Facility of US\$ 690 million.

(b) Monetary policy

One of the early measures taken to support the economy during the pandemic was the central bank's reduction of the reserve requirement ratio from 35% to 27.5 to increase liquidity. At the end of December 2020, this ratio was increased to 39% in response to exchange-rate and inflation pressures. To assist affected persons and businesses, the central bank allowed commercial banks to defer payments for three to six months and provide loans at an interest rate of 7.5%, which is below market lending rates. In 2021, the central bank announced its intention to shift its focus from the reserve requirement as a monetary instrument to interest rates.

After stagnating between 2017 and 2019, credit to the private sector grew by 30.2% in 2020, driven by increased loans to support affected businesses. From March 2020 to March 2021, credit to the private sector expanded by 26.8%.

The average interest rate spread climbed from 6.4 percentage points in 2019 to 8 percentage points in 2020. While average lending rates edged down from 15.2% to 15.1%, the average deposit rate decreased by almost two percentage points, from 8.8% to 7.1%. The deposit rate continued to fall in early 2021, dropping to 6.6% in April—the lowest level since 2011.

(c) Exchange-rate policy

In 2020, the Suriname dollar was devalued sharply following years of pressure on the currency. The exchange rate had been maintained at Sur\$ 7.52 to US\$ 1 since 2018. However, since then, the availability of United States dollars in cash has been limited because of measures taken by the Dutch authorities, resulting in a much higher parallel exchange rate. The government took several measures to address availability and reduce the steady decline in international reserves. In January 2020, it used over US\$ 200 million of commercial bank deposits with the central bank for basic goods imports and foreign exchange intervention, and in March, it implemented currency controls which prompted local industry strikes and were subsequently reversed. At the end of September, the authorities devalued the Suriname dollar by almost 90%; the rate subsequently jumped to Sur\$ 14.29 per US\$ 1.

On 1 March 2021, the central bank introduced an exchange-rate band, with an upper limit of Sur\$ 16.30 to US\$ 1 and a lower limit of Sur\$ 14.29 to US\$ 1, along with new foreign-exchange regulations for exporters and importers to increase the supply of United States dollars. On 7 June 2021, the central bank eliminated the exchange-rate band and adopted a floating exchange rate regime as one of the conditions to secure approval of the IMF Extended Fund Facility. Following the move, the selling rate increased to Sur\$ 21.126 per US\$ 1.

(d) Other policies

Like most other countries dealing with the pandemic, Suriname introduced a raft of policies to control the spread of the coronavirus disease. After limiting visitors from China, Suriname closed the

international airport and suspended the ferry service between Suriname and Guyana (this service was resumed in February 2021). In September 2020, the country reopened to passenger traffic from the Netherlands and in November opened its borders partially to more countries. After limiting travel again in December, the government reopened borders for returnees and essential travel in April 2021.

The authorities introduced several measures to limit the number of people gathering over the course of the year, such as suspending sporting events, reducing the number of persons legally allowed to gather, ordering night-time and weekend curfews and limiting non-essential services. The intensity of these measures fluctuated over the course of 2020 and 2021, increasing and decreasing in line with the rate of infection. Curfew hours ranged from 6 p.m. to 6 a.m. and from 9 p.m. to 5 a.m., and on some weekends during periods of high infection the government instituted a total lockdown during which people were only allowed to leave their homes to undertake essential activities. From March 2020 to June 2021, Suriname experienced three different waves of COVID-19 infection, in which average daily cases exceeded 50 per million people. The first wave lasted from June to October 2020, the second from mid-December to mid-February 2021, and the third began in June 2021. During the third wave, the seven-day moving average of infections peaked at 465 per million people.

Suriname received donations of vaccines from Barbados and India in February 2021 and vaccination commenced on 23 February. The country also purchased vaccines through the COVAX facility. As at 30 June 2021, 27% of the population had received at least one dose of a COVID-19 vaccine.

3. The main variables

(a) The external sector

The current account balance recorded a surplus of 8.0% of GDP in 2020, up from a deficit of 12.2% in 2019. The main reason for the improvement was a 139.3% expansion in the goods balance. Merchandise exports grew by 10%, while goods imports fell by 22%.

Conversely, the financial account balance shifted from a surplus of 14.5% of GDP in 2019 to a deficit of 7.0% in 2020, owing to large negative flows relating to other investment assets and liabilities. Foreign direct investment increased to 0% of GDP in 2020 from -0.2% the previous year, while the repatriation of earnings was offset by investment inflows.

Official reserve assets decreased in 2020, down to US\$ 585 million from US\$ 648 million in 2019. Nonetheless, import cover increased to 3.8 months from 3.2 months, because of the decline in imports in 2020. Official reserves continued to increase in the first half of 2021, to US\$ 649 million or 4.2 months of import cover in June.

(b) Economic activity

Suriname's economy is estimated to have contracted by 14.5% in 2020, which is even more than the 10.1% decline previously estimated by ECLAC. Domestic economic activity was hampered by lockdown measures in response to the pandemic. According to the central bank's monthly economic activity index, wholesale and retail trade shrank by 15% as activity was hampered by the many restrictions. In addition, consumers' purchasing power was reduced by high inflation over the course of the year. An outbreak of COVID-19 among gold mine workers resulted in a decline in the sale of heavy equipment and a temporary suspension of operations in June and July, which in turn resulted in a contraction in

manufacturing output. Construction and agriculture contracted by 32%, and hunting and forestry declined by 23%. Banana production fell significantly, owing partly to losses caused by the Moko bacterial disease.

The largest contraction was seen in the hotels and restaurants sector, which shrank by 41%. Travel bans and restrictions on indoor dining were in place for much of the year, which severely limited activity in the sector. Transport, storage and communications fell by 23%, in line with the decline in international passenger transport.

In 2021, the economy is expected to contract by 1%. Sustained high inflation is projected to continue to weigh on consumer activity and extended COVID-19 lockdowns are expected to further hamper business activity. In the medium term, the outlook for the country is set to improve: in 2020, several major offshore oil finds were announced, though these are not likely to be commercially viable for several years.

(c) Prices, wages and employment

While the devaluation in September 2020 contributed to a rapid increase in prices, inflation had begun rising early in the year. While year-on-year inflation was low at the start of 2020, at 4.2% and 6.9% in January and February, respectively, prices began rising steeply along with the parallel exchange rate in March, when inflation climbed to 17.6%. It then rose steadily and peaked at 63.8% in January 2021, before falling in the two following months, to 50.4% in March 2021. All consumer subcategories experienced major changes in 2020, except housing and utilities, which recorded a maximum monthly increase of 13.8% year-on-year.

While there are no available data on wages, it can be assumed that real wages will fall given the sharp increase in prices.