

SURINAME

1. General trends

Suriname's economy contracted by an estimated 2% in 2015, as falling oil and gold prices took their toll on the real, fiscal and monetary sectors of the economy. This represented a major turnaround from the growth of 2.8% in 2013 and 1.8% in 2014. In addition to lower prices for Suriname's commodities, the Suralco alumina refinery was shut down in late 2015, when parent company Alcoa decided to streamline its business. As a result, exports and foreign-exchange earnings fell steeply last year. International reserves decreased by almost half in 2015. The central bank, finding it increasingly difficult to maintain the United States currency peg, devalued the Surinamese dollar (Sr\$) by 20.5% in November 2015. This was followed by foreign-currency auctions in March 2016 and the introduction of a freely floating exchange-rate regime in May 2016. As a result, the exchange rate rose from 3.35 Surinamese dollars (Sr\$) per United States dollar (US\$) in early November 2015 to over Sr\$ 6 per US\$ 1 in May 2016. In April 2016 Suriname reached a staff-level agreement with the IMF for balance-of-payments support in the amount of US\$ 478 million over two years. The agreement comes with a raft of structural reforms aimed at increasing government revenues and improving fiscal and monetary policy frameworks.

The fiscal deficit expanded in 2015, as the government faced lower commodity-related revenues and higher spending in the lead-up to the May 2015 general election. Despite fiscal consolidation measures by the government in the second half of the year, the fiscal deficit expanded to 10.0% of GDP at year-end 2015. Non-financial public sector debt as a percentage of GDP increased to 37.1% by the end of 2015.

Despite the government's initiatives, the economy is expected to post negative growth of 4% in 2016, owing to the fall in the output of the mining sector and reduced consumption, as the currency devaluation pushed up prices, leading to a drop in purchasing power

2. Economic policy

(a) Fiscal policy

Fiscal policy was expansionary over the first half of the year, as the government prepared for the general election. Following the election, as the deficit spiralled and economic growth stalled, the fiscal authorities began implementing more stringent controls on their spending to keep the deficit under control. Nevertheless, recurrent spending increased to 26.1% of GDP, from 20.7% in 2014. All subcategories of current spending increased as a share of GDP: wages and salaries by 0.7 percentage points, other goods and services by 1.9 percentage points, subsidies by 1.4 percentage points, and interest by 0.6 percentage points. Conversely, capital expenditure fell from 5.0% of GDP to 2.5% of GDP.

On the other hand, total revenue fell from 21.1% of GDP to 19.4% as commodity-related revenues fell. From early August, attempts at consolidation were made to control the expanding deficit, including the phasing out of electricity subsidies and increasing fuel and sales taxes. Despite these initiatives, current spending rose in the last two quarters as the government cleared payment arrears that had accumulated.

As a result of the lower income and higher spending, the fiscal deficit widened from 5.5% of GDP in 2014 to 10.0% in 2015. Over 84% of deficit financing came from domestic sources, primarily from the central bank. The deficit is expected to narrow in 2016, however, in response to renewed consolidation efforts. The government has a number of initiatives planned to drive the fiscal adjustment, including the introduction of a value added tax in 2018 to replace the existing sales tax. It also plans to introduce a vehicle tax and a wage bill restraint to keep the public sector wage bill at or below 7.8% of GDP. In addition, the Ministry of Finance and the Central Bank of Suriname have signed a memorandum of understanding that terminates the extension of any further credit to the government.

As a result of the wider deficit, non-financial public sector debt increased to 37.1% of GDP by the end of 2015, up from 24.6% in 2014. The IMF has approved a stand-by arrangement for Suriname in the amount of US\$ 478 million for balance-of-payments support, which will not be counted as central government debt. However, once Suriname meets the conditions for the arrangement, borrowing from other international financial institutions, including the Inter-American Development Bank and the Caribbean Development Bank, is also likely to increase, thereby pushing the debt ratio up further.

(b) Monetary policy

Faced with an inflation shock from the floating of the currency and the removal of energy subsidies, the central bank has maintained its contractionary stance. The required reserve ratio for domestic currency was raised to 35% in 2015, from 30% the year before. The reserve requirements for United States dollars and euros remained at 45% and 30%, respectively.

M1 grew by 5.9% from December 2014 to December 2015, while M2 grew by 11.8% over the same period. Over the first quarter of 2016, M1 was up by 11.8% and M2 by 15.9%.

Interest rates rose slightly in 2015. The average lending rate grew from 12.5% in 2014 to 13.4% in 2015, and the average deposit rate rose from 7.4% in 2014 to 7.7% in 2015. In the first quarter of 2016, the average lending rate edged down to 12.8%, while the average deposit rate inched up to 7.8%. Despite the higher interest rates, domestic credit to the private sector grew by 16% in 2015.

(c) Exchange-rate policy

In November 2015, after months of dwindling international reserves, the Central Bank of Suriname devalued the Surinamese dollar by 20.5%, and the exchange rate against the United States dollar rose from Sr\$ 3.35 to Sr\$ 4.03. However, the parallel rate was still higher than the official rate, and in March 2016 the bank moved to an auction-based foreign-exchange allocation system, and the exchange rate jumped to over Sr\$ 5 per US\$ 1. In May 2016, the bank switched to a freely floating exchange rate, which hovered at around Sr\$ 6.5 per US\$ 1. Since the switch, the bank has been using the monetary base as the main instrument of monetary policy, but plans to eventually use interest rates.

International reserves tumbled over the course of 2015, from US\$ 631.5 million in January to US\$ 330.2 million, or two months of import cover, in December 2015, and continued to fall over the first three months of 2016. In March 2016 they stood at US\$ 276.4 million, or just over 1.6 months of import cover.

3. The main variables

(a) The external sector

Suriname's external sector has continued to struggle with low commodity prices. The price of gold has been sliding since 2012 and oil has dropped dramatically since late 2014. The fall in alumina prices led to the eventual sale of Suralco by Alcoa and its subsequent shutdown. Following declines of 10% in 2013 and 11% in 2014, goods exports fell by 23% in value terms in 2015. Imports grew slightly, by just under 1%, after decreasing by 7.4% in 2014. The deteriorating goods balance combined with a large negative services balance to give a current account deficit of 15.6% of GDP. The overall deficit widened from 2.9% of GDP in 2014 to 5.1% of GDP in 2015.

The financial account balance held at 13.4% of GDP for the second year in a row. Foreign direct investment (FDI) remained strong, and grew by 69% (in nominal terms) to 5.3% of GDP. This was mainly on account of investment in the Newmont gold mine, which is set to open in the fourth quarter of 2016. FDI is expected to fall in 2016.

(b) Economic activity

Economic growth in Suriname during 2015 was restrained by the fall in commodity production. Real GDP contracted by 2%. Contractions were seen in most sectors, with the largest in manufacturing (4.9%). Output from government subsectors decreased by 11.3%. The largest expansions were seen in construction (8%), owing to continued activity at the Newmont gold mine, agriculture (4.8%) and other community, social and personal services (4.3%).

A larger contraction is expected in 2016, with projected negative growth of 4%. The increase in prices caused by the devaluation and then floating of the Surinamese dollar has dragged down real incomes, which will in turn reduce consumption. In addition to ceasing output, the closure of Suralco has had other knock-on effects on the rest of the economy. Although the Newmont gold mine is set to open in the fourth quarter of 2016, its impact will not be felt before 2017.

Agriculture and forestry is expected to be the only sector to post significant growth in 2016, however, this will be attributable to strong growth in the forestry subsector, as other agricultural producers will face challenges due to the increasing costs of inputs. The bauxite industry is expected to provide some hope for future economic activity: the Monaco Resources Group has signed a letter of intent to reopen the Suralco mines in conjunction with the Government of Suriname.

(c) Prices, wages and employment

Inflation fluctuated over the course of 2015, growing from 2.3% year-on-year in January 2015 to 5.2% in June, before falling to 4.2% in October. However, following the 20.5% devaluation of the currency in November, inflation jumped to 20.7% in November and then 25.2% in December. The largest increase in prices was seen in housing and utilities, as the government began to phase out energy subsidies. Year-on-year inflation for this segment shot up from 3.8% in October 2015 to 110.9% in November 2015, and 129% by April 2016. Price increases have continued into 2016 as inflation rose to 29.5% in January and 46% in April 2016. The largest increases in April 2016 were in clothing and footwear (60.7%) and communications (63.2%).

Since many employers, including the government, have not raised salaries, real wages have fallen steadily since November 2015.

The last official unemployment rate for the administrative areas of Paramaribo and Wanica was estimated at 6.9% in 2014. However, given the recent economic downturn, unemployment is estimated to have risen in 2015 and 2016, perhaps by as much as 2 percentage points or more.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Annual growth rates b/									
Gross domestic product	5.1	4.1	3.0	5.2	5.3	3.1	2.9	1.8	-2.0
Per capita gross domestic product	4.1	3.0	1.8	4.0	4.2	2.1	1.9	0.9	-2.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.4	-8.9	30.5	2.9	4.2	10.1	-13.0	7.1	2.5
Mining and quarrying	11.7	4.1	-13.3	5.3	13.7	3.0	-2.3	-4.4	-3.1
Manufacturing	1.9	9.2	-11.5	12.0	1.8	-18.1	8.7	-11.3	-4.9
Electricity, gas and water	4.5	10.9	-1.3	2.6	13.6	3.4	8.2	-1.0	-4.3
Construction	3.2	8.3	6.7	-9.6	11.1	11.6	9.0	23.4	8.1
Wholesale and retail commerce, restaurants and hotels	5.9	2.5	17.7	6.3	3.0	4.9	4.9	6.7	-4.0
Transport, storage and communications	3.3	18.8	0.2	3.6	4.3	4.3	6.2	6.4	0.4
Financial institutions, insurance, real estate and business services	10.2	-3.0	2.7	2.7	7.0	8.2	4.6	-0.3	-1.2
Community, social and personal services	3.5	3.7	-0.1	1.9	-1.2	19.6	2.3	1.6	-8.6
Millions of dollars									
Balance of payments									
Current account balance	325	325	111	651	431	162	-196	-415	-808
Goods balance	314	337	11	686	968	707	243	133	-375
Exports, f.o.b.	1,359	1,744	1,402	2,084	2,647	2,700	2,416	2,145	1,652
Imports, f.o.b.	1,045	1,407	1,391	1,398	1,679	1,993	2,174	2,012	2,028
Services trade balance	-65	-123	1	-18	-362	-425	-374	-550	-470
Income balance	-3	20	5	-104	-262	-192	-131	-69	-27
Net current transfers	77	91	94	87	87	73	67	71	65
Capital and financial balance c/	-178	-116	-73	-616	-307	18	47	265	542
Net foreign direct investment	-247	-231	-93	-248	73	173	188	163	276
Other capital movements	68	115	21	-368	-380	-155	-140	102	265
Overall balance	146	208	39	35	124	180	-149	-150	-266
Variation in reserve assets d/	-146	-208	-39	-35	-124	-180	149	150	266
Other external-sector indicators									
Net resource transfer (millions of dollars)	-181	-96	-68	-720	-569	-175	-84	196	514
Gross external public debt (millions of dollars)	298	319	269	334	463	567	739	810	876
Annual percentages									
Prices									
Variation in consumer prices (December-December)	8.3	9.4	1.3	10.3	15.3	4.4	0.6	3.9	25.2
Variation in nominal exchange rate (annual average)	0.0	0.0	0.0	0.0	19.0	1.0	0.0	1.8	2.5
Nominal deposit rate e/	6.4	6.3	6.4	6.2	6.4	6.8	7.1	7.4	7.6
Nominal lending rate f/	13.8	12.0	11.7	11.7	11.8	11.7	12.0	12.3	12.6
Percentajes of GDP									
Central government									
Total revenue	29.4	24.3	27.7	21.7	24.5	24.3	22.6	21.1	19.4
Tax revenue	18.9	17.4	17.2	15.7	18.5	18.3	17.9	16.1	15.5
Total expenditure	25.0	22.8	26.9	24.6	24.6	26.7	27.0	25.7	28.6
Current expenditure	20.6	18.0	21.2	20.0	19.7	22.3	22.7	20.7	26.1
Interest	1.2	0.6	1.3	0.9	1.0	0.8	1.3	0.9	1.5
Capital expenditure	4.4	4.8	5.7	4.6	4.8	4.4	4.3	5.0	2.5
Primary balance	5.6	2.1	2.1	-2.0	0.9	-1.5	-3.1	-3.7	-7.7
Overall balance	5.7	1.6	-2.1	-2.5	-2.0	-2.7	-5.9	-5.5	-10.0
Non-financial public sector debt	17.6	15.7	15.7	18.6	20.1	21.5	28.9	24.6	37.1

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	23.9	24.1	26.6	27.1	25.0	25.8	32.6	39.1	50.8
To the public sector	1.9	-0.5	1.5	2.4	0.4	0.6	3.8	8.1	15.9
To the private sector	21.7	24.2	24.6	24.2	23.8	24.3	28.0	30.0	33.8
Others	0.3	0.4	0.5	0.5	0.7	0.8	0.8	0.9	1.1
Monetary base	12.4	14.7	13.9	14.1	12.9	15.4	14.2	12.8	14.8
Money (M1)	14.5	13.9	15.8	16.4	14.4	15.9	16.2	16.3	16.6
M2	22.7	21.7	24.8	25.6	22.9	26.0	27.8	28.8	28.5
Foreign-currency deposits	21.4	22.5	21.6	19.8	22.8	22.8	25.2	26.4	31.6

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

	2014				2015				2016	
	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)	769	749	735	619	568	538	429	353	295	222 b/
Consumer prices (12-month percentage variation)	3.0	2.1	3.9	3.9	2.7	5.2	4.4	25.2	36.6	55.0 b/
Average nominal exchange rate (Suriname dollars per dollar)	3.3	3.4	3.4	3.4	3.4	3.4	3.4	3.6	4.0	6.2
Nominal interest rates (average annualized percentages)										
Deposit rate c/	7.2	7.4	7.4	7.4	7.5	7.5	7.5	7.7	7.7	7.9 b/
Lending rate d/	12.2	12.2	12.3	12.4	12.3	12.5	12.6	13.1	12.9	13.1 b/
Interbank rate	6.1	6.0	6.0	5.9	8.4	7.2	8.2	8.0	8.7	9.4 b/
Domestic credit (variation from same quarter of preceding year)	24.4	20.5	21.9	19.6	19.9	21.1	23.0	29.4	36.2	50.2 b/

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/ Average deposits rate published by the central bank.

d/ Average lending rate published by the central bank.