SURINAME

ECONOMIC BRIEF

Suriname Dollar (SR$); United States Dollar (US$)
Official exchange rate: US$1 = SR$38.5 as of September 30, 2023

Overview

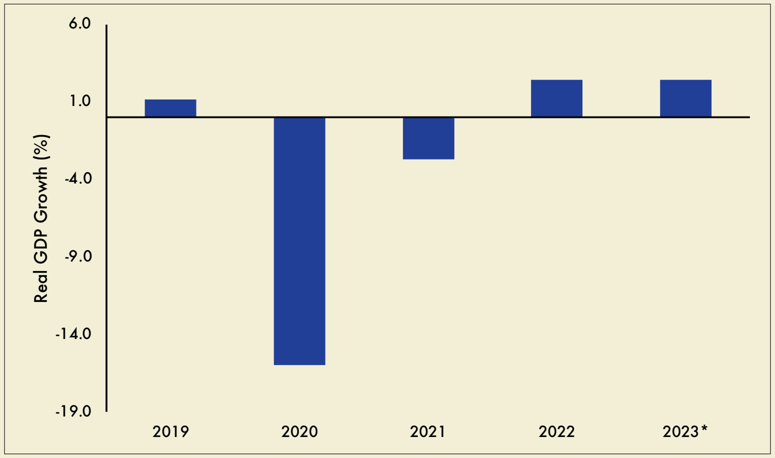
The economy returned to modest growth in 2022. However, the ongoing economic crisis continued to weigh on social conditions and on economic growth although the effects of the COVID-19 pandemic abated. Government's policy was geared towards continuing the implementation of its home-grown Recovery Plan (2020-2022) [RP], with financing support from an International Monetary Fund (IMF) 36-month Extended Fund Facility (EFF) that was approved in December 2021. The Government continued to actively negotiate with creditors to secure a restructuring of its external debt, a key component of its reform agenda to address its debt crisis. Supply chain disruptions, foreign exchange shortage, and the declining currency contributed to high inflation resulting in a cost-of-living crisis that undermined social cohesion.

The economic recovery is expected to broaden in 2023. Accelerated EFF programme implementation including further fiscal consolidation should provide an anchor for macroeconomic stability as high inflation and the fragile macroeconomic environment remain major challenges for Suriname's short-term development.

KEY DEVELOPMENTS IN 2022[1]

The economy expanded by 2.4% following two years of economic decline (see Chart 1). However, the challenging economic backdrop resulted in 2022 gross domestic product (GDP) at constant prices remaining 16.0% below 2019 levels. A generally weak business environment and uncertainty emanating from delayed RP and EFF implementation undermined a stronger recovery. Strong import price increases due to elevated global inflation and a weakening Suriname dollar (SR$) precipitated a weak recovery of 2.2% in the wholesale and retail trade sector. The reduction in electricity subsidies also affected purchasing power and retail sales. While the recovery was held back by a 1.6% decline in the agriculture sector, activity in all other industries with the exception of "other service activities" increased. Manufacturing, which includes gold milling and oil refinery activities, grew by 1.8%.

Chart 1: Real GDP Growth



Sources: *General Bureau of Statistics (GBS). *Caribbean Development Bank (CDB) estimate.*

Implementation of the EFF stalled during 2022, postponing the programme review by the IMF[2], and placing a pause on programme financing. This was due to the delayed introduction of the Value-added Tax (VAT)[3], missed fiscal targets, and delays in other key reforms. Persistently high inflation and the general reduction in subsidies led to social discontent and political instability as the Government grappled with implementing some of the reform programme's key social and governance measures.

Average consumer prices surged by 52.4%, following a 59.1% increase in 2021. High global energy prices and supply side disruptions contributed to persistently high inflation as the SR$ lost almost 50% in value versus the United States dollar (US$). Although inflation was on a

[1] All comparisons are with respect to 2021, unless otherwise stated.

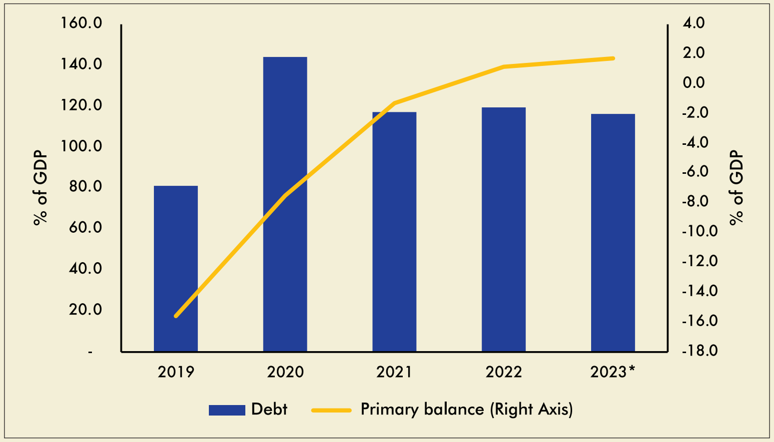
[2] Second review. The first review was completed in March 2022.
[3] From July 2022 to January 2023.

decelerating trend in 2022, food price inflation remained at 51.6% (from 61.3% in 2021) and housing and utilities (which includes energy prices) accelerated to 104.1% (from 55.8%) mainly due to strong electricity price increases amid a reduction in government subsidies.

Unemployment declined in 2022. The International Labour Organisation estimated a decline in unemployment to 8.6% in 2022 from a cyclical high of 9.5% in 2020. Estimates for sex-disaggregated unemployment pointed to female unemployment at 12.0% in 2022, almost double the rate for males at 6.2%.

Despite improvement, the Government's fiscal position remained very precarious. The Government of Suriname (GOS) achieved a primary surplus of 1.1% of GDP, following a deficit of 1.3% in 2021 (see Chart 2). Revenue growth in the resources sector remained very strong at 75.5%, influenced in part by the strong US$ appreciation versus the SR$, since almost 30% of revenues are US$ denominated. Income and profit taxes grew by 40.8%, while taxes on domestic goods and services and on international trade expanded by 50.0% and 48.8%, respectively. Total expenditure rose by 66.3% with significant increases in personnel cost (56.0%), goods and services (81.1%), and transfers and subsidies (71.2%). Electricity subsidies grew by 40.5% and remained at an unsustainably high 3.6% of GDP, only marginally below 4.0% in 2021. In its quest to increase safety nets and address the social crisis, GOS continued to redirect transfers and subsidies from state-owned enterprises to social programmes. Capital expenditure increased by 108.2% to 2.2% of GDP following several years of depressed capital investments.

Chart 2: Fiscal and Debt Performance



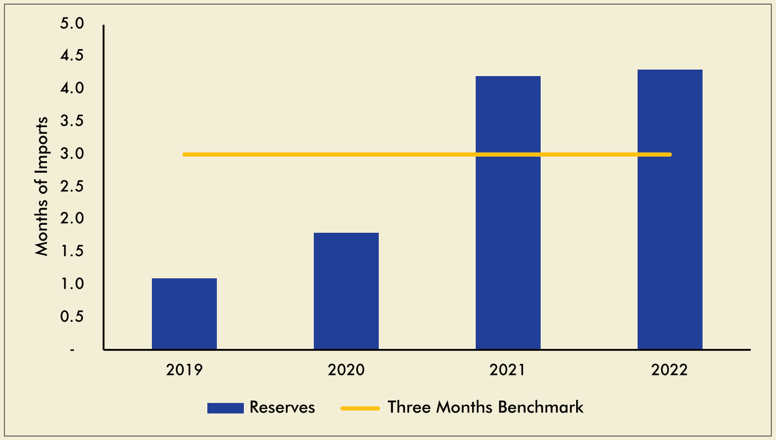
Sources: *Ministry of Finance and Planning (MOFP). *CDB forecast.*

Central government (CG) debt to GDP increased modestly to 119.2% in 2022 from 116.9% in 2021 (see Chart 3). More than two thirds of CG debt was classified as external; as such, the SR$ depreciation's contribution to debt dynamics was not fully offset by the strong nominal growth of the economy and the primary balance surplus. GOS reached a debt restructuring agreement with the Paris Club, but agreements with creditors were still outstanding.

Financial sector resilience increased although a negative feedback loop from a very weak economy continues to constitute risks. Bank loans to the domestic private sector in real terms returned to growth increasing by 5.2% from a 26.6% decline one year earlier, with foreign currency loans growing by 14.9%. Capital adequacy ratios of banks further increased during the year, as total regulatory capital reached 16.8% of risk-weighted assets, up from 14.5%. Also, non-performing loans declined from 12.8% of total loans to 12.4%. While banks' liquidity ratios declined slightly, liquid assets remained above 50% of total assets and above 100% of short-term liabilities.

Suriname's external operations led to a deterioration of the current account balance. The current account surplus decreased from US$176.0 million (mn) in 2021 to US$71.3 mn, as increased goods and services exports, especially of oil and gold, were outpaced by strong imports. The suspension of external debt service and high gold prices supported reserve accumulation, but the expiry of the currency swap agreement with the People's Bank of China and delays to EFF disbursements, for a total of US$168 mn, detracted from reserve accumulation. Gross international reserves reached almost US$1.2 billion in December. The import coverage ratio of available reserves marginally increased to 4.3 months (see Chart 3).

Chart 3: Gross Foreign Reserves



Source: *Central Bank of Suriname (CBS).*

2023 OUTLOOK

Suriname is expected to make further progress in 2023. Real GDP growth is expected to be broad-based at 2.4% and accelerate to 3.0% in 2024. Preserving social peace and stability will be key to furthering reforms and boosting growth. The social safety net is being further enhanced as per the 2023 Budget, and a further reduction of fiscally costly general subsidies and redirection of subsidies to vulnerable groups can also be expected to stimulate private consumption.

Strengthening the reform programme will provide a key anchor for macroeconomic stability. The EFF's third review was approved in September; while an agreement in principle with external commercial creditors was reached in May 2023. Agreement with the biggest bilateral creditor China, remains outstanding. The removal of fuel subsidies and the introduction of VAT has increased fiscal space, and further broadening of the VAT base alongside reform to transform the Tax Department into an independent authority is expected to help to further improve the primary balance. Further development of the oil and gas sector could help to improve the fiscal picture.

Further successes in debt restructuring activities will positively impact CG debt sustainability. The restructuring of around US$900 mn of external commercial debt, once executed would lead to significant immediate fiscal relief of more than US$200 mn from a reduction of principal, from lower coupon payments and from the deferral of principal payments until 2027. This would provide crucial fiscal headroom to help reach EFF targets and make further steps towards restoring debt sustainability.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from several sources and are the latest available at time of publication. 2023 data are estimates and subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	1.1	-15.9	-2.7	2.4	2.4
Average Inflation (%)	4.4	34.9	59.1	52.5	47.3
Unemployment (%)	8.0	9.5	9.1	8.6	na
Primary Balance (% of GDP)	-15.7	-7.5	-1.3	1.1	1.7
CG Debt (% of GDP)	80.8	143.8	116.8	119.2	116.0

Sources: *MOFP, GBS, CBS, IMF, CDB estimates.*

Note: e-estimate.