



**COUNTRY  
ECONOMIC  
REVIEW 2019**

**SURINAME**

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## SURINAME ECONOMIC BRIEF 2019

### OVERVIEW

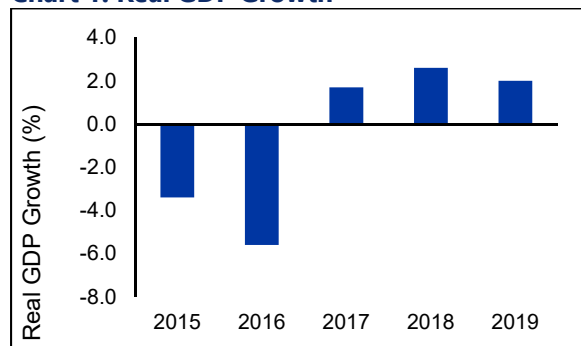
**Economic growth in 2019 was mainly based on stronger natural resource activity.** An increase in the manufacturing sector, largely driven by higher gold production, and wholesale and retail trade were the main economic drivers. Inflation declined further, but showed signs of levelling off.

**The fiscal situation remained challenging,** as spending pressures resulted in a very high Central Government deficit, and the debt ratio increased to elevated levels.

### KEY DEVELOPMENTS IN 2019

**Economic growth was weaker than in the previous year** (see Chart 1). Economic activity increased by 2.0%, after 2.6% growth in 2018. The manufacturing sector, which includes gold milling and processing activities, was the main growth driver with prices increasing by 9.8%. The Centrale Bank van Suriname's (CBvS) monthly economic activity index as of September also pointed to a 7.7% increase in gold production. Sales

**Chart 1: Real GDP Growth**



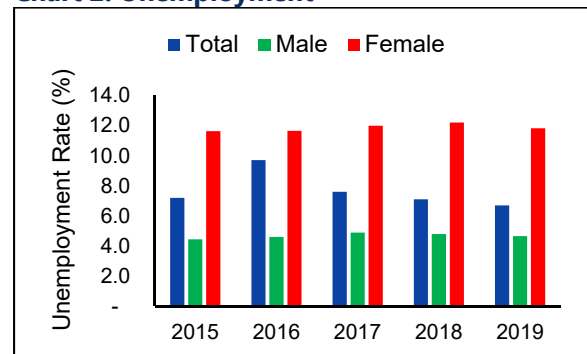
Source: General Bureau of Statistics (GBS), CBvS, CDB staff estimates.

of heavy equipment, household furnishings, and food and alcoholic beverages were strong, while the transportation sector remained flat, and agriculture and construction activity declined slightly compared with 2018.

**Inflation slowed to 4.4% from 6.8% in 2018.** Price increases for housing and utilities, and for food and non-alcoholic beverages were moderate. However, transport, clothes and footwear increases ranged from 9.5% to 13.6%.

**Unemployment continued its downward trend,** dropping to 7.1% in 2018 and to 6.7% in 2019 according to the International Monetary Fund (IMF). Separately, the World Bank (WB) estimates that the female unemployment rate exceeded the male unemployment rate (see Chart 2).

**Chart 2: Unemployment**

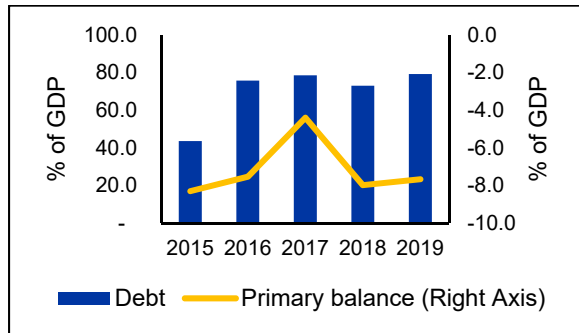


Source: CBvS, IMF, WB.

**The fiscal position weakened over the last two years.** Central Government's deficit reached an estimated 11.4% of GDP, compared with 11.6% in 2018. In December, Suriname tapped capital markets with a two-year US\$125 million (mn) bond to finance the takeover of the Afobaka dam from the

mining company Alcoa. The 2026 US\$-bond traded at distressed levels with its price temporarily dropping from US\$100 in April 2019 to a low of US\$70.78 in December<sup>1</sup>.

**Chart 3: Fiscal and Debt Performance**



Source: Ministry of Finance, CDB staff estimates.

**Fitch lowered Suriname's sovereign credit rating to CCC (from B-) in January 2020**, having previously revised the outlook of the B- rating to negative from stable in August 2019. Fitch cited large fiscal deficits, high financing needs and expectations of a rapid increase in the debt ratio. Persistently high budget deficits put public sector debt on an upwards trajectory and the debt ratio increase to an estimated 79.2% in 2019 from 73.0% in 2018<sup>2</sup>.

**Important innovations to fiscal governance were introduced.** The Savings and Stabilisation Fund was launched, but has not yet been operationalised. The new draft (Central) Bank Act proposes the complete elimination of monetary financing of the fiscal deficit. This financing resumed in March 2019, up to the legal limit of 10% of budgeted revenue, having been discontinued in 2016. Also, the Debt Act (2002) was

amended, raising the national debt ceiling from 60% of GDP to 95% of GDP.

**Financial sector conditions remained challenging as excess liquidity conditions were overshadowed by low capital levels.**

The IMF reported that some large banks fell short of the legal minimum capital requirement<sup>3</sup>. In July 2019, the average capital adequacy ratio stood at 10.5% and non-performing loans remained high at 12.5%. The difficult operating environment depressed private sector credit growth, which was weak at 1.4% in 2019.

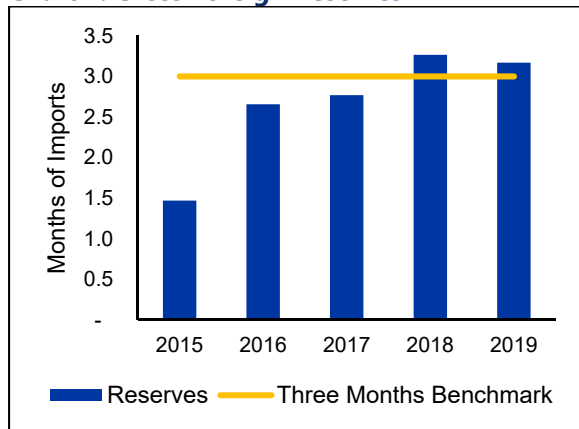
**Various initiatives for strengthening financial governance and financial oversight were underway.** These included training to conduct the national risk assessment of money laundering and terrorist financing risks, and drafting legislation in the areas of financial sector supervision, payment systems, and central bank governance.

**Gross international reserves declined from mid-2019** (see Chart 4). Reserves declined from US\$713 mn in July to US\$648 mn in December, and the import coverage ratio declined to 3.2 months. Higher gold prices and the CBvS requirement that miners surrender part of their foreign currency earnings failed to raise reserve levels. The official exchange rate remained at SR\$7.52, but there were frequent reports of Cambios selling US dollars up to 15% above this rate amid further dollarisation of the economy.

<sup>1</sup> <https://www.bourse.lu/security/USP68788AA97/243043>.

<sup>2</sup> CDB uses its 2019 GDP estimate to calculate the debt ratio for 2019. Suriname uses the latest available actual GDP data, provided by the General Bureau of Statistics, i.e. 2018.

<sup>3</sup> IMF Article IV Consultation with Suriname 2019.

**Chart 4: Gross Foreign Reserves**

Source: CBvS, CDB staff estimates.

**The visible trade surplus narrowed during the first nine months of 2019**, compared with the same period in 2018. The balance decreased to US\$280 mn from US\$350 mn amid increases in imports, although net gold exports increased 10.2% to US\$1,267 mn.

## OUTLOOK

**The outlook for Suriname has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies.** At the start of 2020 expansion in manufacturing had been projected. There was the possibility of investment activity at three new gold mines, and in the onshore and offshore oil and gas sectors. However there has been some volatility in gold prices, while oil prices have collapsed, with implications for production and investment. Government finances have come under increasing pressure. The weak fiscal performance will continue to exert pressure on the exchange rate.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

## DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision. Data for 2019 are estimates, and for unemployment 2018 and 2019 are estimates.

### Selected Indicators

|  | 2015 | 2016 | 2017 | 2018 | 2019 <sup>e</sup> |
|--|------|------|------|------|-------------------|
| Real GDP Growth (%)                        | -3.4 | -5.6 | 1.7  | 2.6  | 2.0               |
| Average Inflation (%)                      | 6.9  | 55.5 | 22.0 | 6.8  | 4.4               |
| Unemployment (%) <sup>4</sup>              | 7.2  | 9.7  | 7.6  | 7.1  | 6.7               |
| Primary Balance (% of GDP)                 | -8.3 | -7.5 | -4.4 | -8.0 | -7.7              |
| Public Sector Debt (% of GDP) <sup>5</sup> | 43.6 | 75.7 | 78.5 | 73.0 | 79.2              |

Sources: IMF, CBvS, GBS, CDB staff estimates.

Notes: e – estimate (as at January 31, 2020).

<sup>4</sup> 2015-2017 narrow unemployment definition from CBvS. After 2017 IMF estimates are used.

<sup>5</sup> 2019 public sector debt-to-GDP ratio calculated using 2019 GDP estimate, in contrast to Suriname national definition of debt ratio, which uses the latest GBS GDP estimate, which currently refers to 2018.



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