SURINAME

COUNTRY ECONOMIC REVIEW 2020

Suriname dollar (SR$); United States dollar (US$).

OVERVIEW

The economy contracted by more than 12% in 2020. Declines in the mining, manufacturing, transport, and distributive trades sectors underpinned the sharp economic contraction. 2020 was characterised by increasing fiscal woes and declining foreign exchange reserves as the Government failed to service some of its commercial debt, triggering downgrades of its credit rating to selected default by the major rating agencies. Weak macroeconomic conditions were aggravated by the impacts of the global health pandemic, that took hold in 2020, and which also affected growth. Economic recovery, though uncertain, hinges on needed policy and structural reforms to, *inter alia*, narrow imbalances, restore stability and strengthen the country's economic competitiveness to support stronger private sector-led, inclusive and sustainable growth. Steps to better control and end the ongoing health crisis are also paramount.

KEY DEVELOPMENTS IN 2020

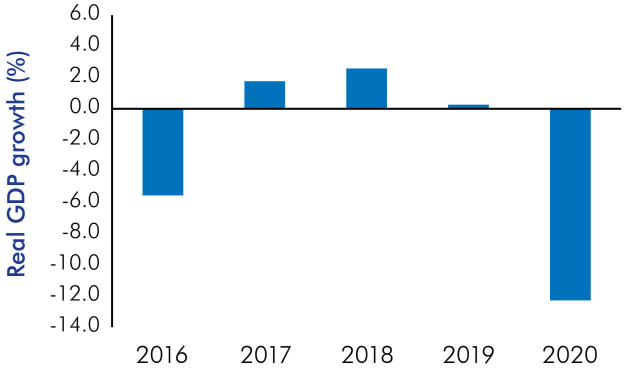
The economy contracted, following meagre growth in 2019. The Caribbean Development Bank (CDB) estimates that the contraction amounted to 12.3% in 2020, after 0.3% growth in 2019 (see Chart 1).

Suriname was among the Caribbean countries heavily impacted by the global COVID-19 pandemic. Suriname confirmed its first imported COVID-19 case in March. At year end, there were a total of over 6,200 confirmed cases (1.1% of the population), with 122 related deaths. The first wave lasted three months and peaked in August putting the health care system under pressure and leading to a more protracted lockdown than in many other Caribbean countries. The authorities implemented social distancing measures and restrictions, including curfews, shutdowns, and limited opening of non-essential business operations, to curb the spread of the outbreak. A second and shorter wave erupted in December. The impact of the lockdown on the economy was compounded by businesses' lack of access to foreign exchange and by institutional uncertainties amid the transition to a new administration following the holding of general elections in May.

The largest single contributor to economic activity and to foreign exchange earnings – the gold industry – is expected to have declined by approximately 10% in 2020, notwithstanding record-high international gold prices[1]. Mining and gold production were negatively impacted by halts in activity due to health, social and security-related issues, while production costs increased by approximately 15%. The lockdown also led to estimated declines of 27.7% in distributive trades, 23.8% in construction, and 15% in transport activities. Measures to contain and mitigate the pandemic caused a 10% expansion in health and social work and a 15% rise in the activity of the public administration.

1 The average 2020 gold prices stood at US$1,772 per troy ounce, 27.2% higher than in 2019 and the highest ever on record.

Chart 1: Real gross domestic product growth

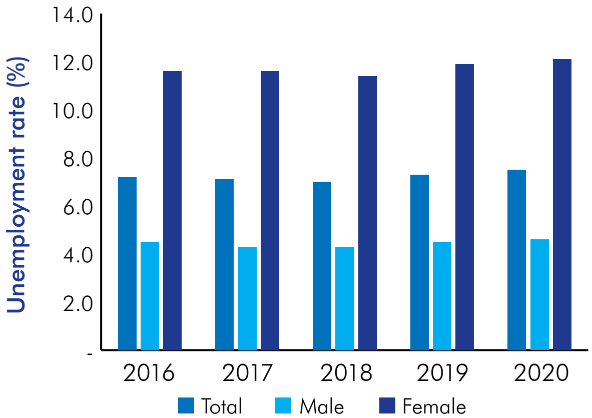


Sources: *General Bureau of Statistics (GBS), CDB staff estimates.*

Average consumer prices rose by 34.9%, following a 4.4% increase in 2019. The strong rise in prices was mainly due to depreciation of the Suriname dollar versus the United States dollar in the parallel market, largely confirmed by a devaluation of the official exchange rate from SR$7.52 to SR$14.29 versus US$1 in September[2]. The depreciation was fuelled by the acute shortage of foreign exchange in the domestic economy. Given the very high import content of the local economy (imports of goods and services averaged 80.5% of gross domestic product (GDP) between 2015 and 2019), the exchange rate adjustment and disruptions to the flow of goods led to a spike in inflation.

Unemployment rose in 2020. The International Labour Organisation (ILO) estimates a rise in the unemployment rate to 7.5% from 7.3% in 2019 (see Chart 2). The female unemployment rate was estimated at 12.1%, much higher than the male rate at 4.6%. The International Monetary Fund (IMF) estimates a much higher unemployment rate of 11.2%, up from 9.0% in 2019. Social support measures to mitigate the impact of the COVID-19 crisis were implemented only towards the end of the second quarter and included mainly income top-up for pandemic-related job losses and food parcels for vulnerable groups. Other social safety nets included higher nominal pay-out levels for general child benefit, general old age support, financial assistance for persons with disabilities, and general social welfare although the purchasing power of these increases were mostly erased by the effects of a weaker currency.

Chart 2: Unemployment



Source: *ILO.*

The public fiscal position worsened dramatically after years of persistent and high deficits. CDB estimates a public overall fiscal deficit of 26.4% of GDP (see Chart 3). Total revenue is estimated to have decreased by 18.7% as tax revenue fell by 24.9%. Taxes on income and profits dropped by 31.8%, taxes on international trade by 21.1%, and taxes on domestic goods and services by 13.1%. Non-tax revenue declined slightly by 1.4%, supported by almost stable royalties from resource activities. Mining revenue was 0.1% higher, while non-mining revenue dropped by 26.9%. Current expenditure rose by 31.6%, driven mainly by higher personnel cost and by increases in transfers and subsidies amid COVID-19. The rise in total expenditure contrasted with a 72.4% drop in capital investment.

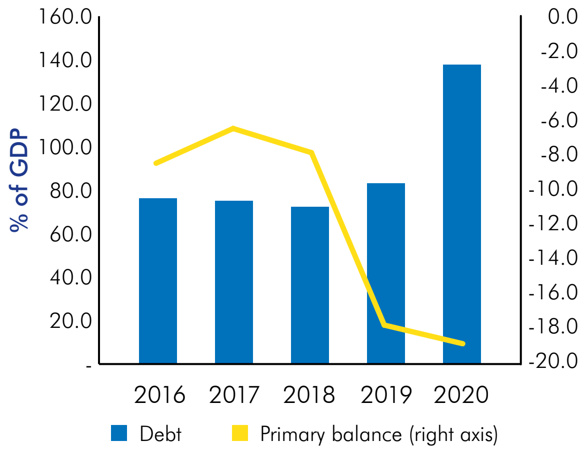
The Government's debt-to-GDP ratio jumped to 137.7% in 2020 from 83.1% in 2019. The devaluation of the exchange rate contributed 44.8 percentage points (pp) to the increase and the primary deficit added 19.0 pp while nominal GDP growth subtracted 14.2 pp from the debt ratio[3]. Failure to service debt obligations led to downgrades of the sovereign credit rating, undermining investor confidence. Investors agreed to restructure two major

2 As of March 2021, a multiple exchange rate arrangement was introduced.

3 Nominal GDP expanded by 20.6% as inflation increased by 34.9% on average.

foreign currency bond issues, and negotiations began for a financial aid package with the IMF and other international financial institutions (IFIs)[4].

Chart 3: Fiscal and debt performance

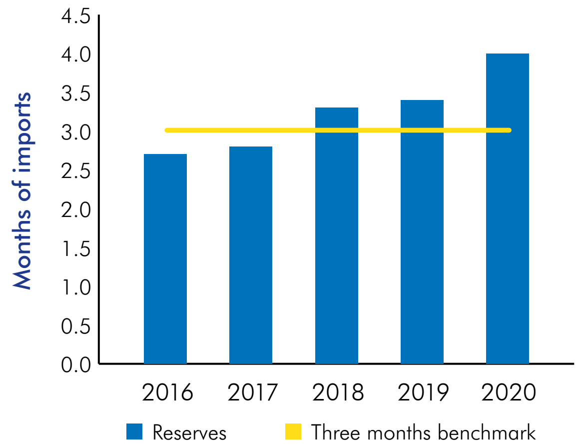


Sources: *Ministry of Finance (MOF), CDB staff estimates.*

The financial sector is characterised by low but steadily rising capital levels. As per June, capital adequacy increased to 11.7% of risk-weighted assets (from 11.0% in June 2019 and 9.1% in June 2018) and the liquid assets ratio improved to 49.1% from 43.5% a year before. Non-performing loans (NPLs) as a share of total loans were up to 13.5% from 11.3%, and NPLs net of provisions as a share of banks' capital climbed to 46.2% from 36.8%. The Central Bank of Suriname (CBS) and the Suriname Bankers Association agreed on a six-month debt moratorium for customers facing financial difficulties.

Gross international reserves declined in 2020 but import coverage increased. Import coverage increased even as reserves fell due to a 31.8% drop in imports (see Chart 4). Official reserve assets stood at US$584.7 million (mn) in December (down from US$647.5 mn in 2019), but unencumbered reserves (which exclude banks' required reserves) were estimated at only US$100 mn, or one month of imports, implying a strong drain of foreign currency.

Chart 4: Gross foreign reserves



Sources: *CBS, CDB staff estimates.*

OUTLOOK

CDB projects a weak economic recovery of 1.0% in 2021. High gold prices[5] are expected to facilitate a recovery in the mining and manufacturing sectors. The broader economy will be held back by scarcity of foreign exchange, crowding out of private investment amid a large fiscal deficit, and a weak business and institutional environment. Developments regarding COVID-19 add a further layer of uncertainty to the complex environment and constitute a downside risk to the growth forecast.

The economic recovery in 2021 could be stronger if the Government can negotiate a policy and financing agreement with the IFIs to support a broad-based adjustment programme. IFI financing and oversight of the Government's adjustment programme will be key towards restoring fiscal and macroeconomic stability, expanding fiscal space and facilitating a transition to higher economic growth and social development in the country.

4 Successful consent solicitation to international investors, December 10, 2020, finance.gov.sr.

5 As per February 3, 2021, the price of US$1,835 per troy ounce lies 32.2% above the five-year average price between 2016-2020 of US$1,388.

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. Some are subject to revision. 2020 data are estimates.

Selected indicators

	2016	2017	2018	2019	2020[e]
Real GDP growth (%)	-5.6	1.8	2.6	0.3	-12.3
Average inflation (%)	55.5	22.0	6.9	4.4	34.9
Unemployment (%)	9.7	7.6	9.0	9.0	11.2
Primary balance (% of GDP)	-8.6	-6.5	-7.9	-17.9	-19.0
Public sector debt (% of GDP)	76.3	75.1	72.4	83.1	137.7

Sources: *MOF, GBS, IMF, CDB staff estimates.*

Note: e – estimate (as at March 31, 2021) Unemployment data: GBS until 2017, IMF estimates from 2018.

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