

Development Challenges in Suriname

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Abstract

This policy brief presents a summary of the development challenges facing the country.

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JEL Codes: H30, F15, F31, F32, F34, Q32



Development Challenges in Suriname

Medium-Term Economic and Social Trends

Suriname recorded a period of sustained economic growth averaging 4.4 percent from 2001-2014, mainly due to favorable commodity prices. However, data from the Central Bank of Suriname and the International Monetary Fund (IMF) shows the country was plunged into a deep recession as real GDP contracted by 2.6 percent in 2015 and 5.1 percent in 2016. Suriname is expected to record another year of economic contraction in 2017 (1.2 percent), albeit smaller than previous years. The period of sustained economic contraction was largely caused by a sharp decline in the international prices of the country's main export commodities (gold and crude oil) and the cessation of bauxite production. The economic decline was associated with relatively large fiscal and external imbalances, rising debt levels, and a drawdown of international reserves. In response to the commodity shock, the authorities launched an adjustment program that included cuts to government expenditure, adjustments to the exchange rate, and a curtailment of monetary financing, among other measures. Suriname initially received support from the IMF in the form of a 24-month Stand-By Arrangement (SBA) in May 2016, but the authorities opted to cancel the SBA program in May 2017.

Inflationary pressures have decelerated, and the exchange rate has stabilized. According to data from Suriname's General Bureau of Statistics, monthly inflation (year-on-year) declined from 48.7 percent in January 2017 to 9.2 percent in November 2017, after spiking at 79.2 percent in October 2016. The spike in inflation was largely attributed to higher costs for utilities and the exchange rate depreciation. After a currency depreciation of 102 percent from 2015 to 2017, the exchange rate has since stabilized at roughly US\$1/SRD7.51, depreciating by only 0.81 percent from January to the end of 2017.

Data from Suriname's Ministry of Finance shows that the country has been recording fiscal deficits since 2009, with the largest being 9.7 percent of GDP in 2015. Fiscal deficits worsened after 2014 due to a significant decline in mining-related revenues. Suriname's primary fiscal deficit for January-August 2017 was estimated at SRD1,001 million (equivalent to 3.8 percent of 2016 GDP) and slightly higher than the primary deficit (SRD658 million or 2.5 percent of 2016 GDP) for the same period in 2016. The overall fiscal deficit for 2016 was estimated at 3.2 percent of GDP. Revenues from the mining sector declined from an average of 7.1 percent of GDP for the period 2012-2014 to 2.2 percent of GDP for the period 2015-2016. On the expenditure side, the authorities reduced expenditure by 5 percent of GDP in 2016. A combination of factors related to borrowing to finance persistent fiscal deficits and to renegotiate and restructure debt at state entities, accompanied by an exchange rate depreciation, and weak economic growth contributed to a sharp increase in the debt-to-GDP ratio from 29 percent in 2014 to an estimated 64 percent at the end of 2017. Suriname's Debt Management Office estimates external debt at 45 percent of GDP (70 percent of total debt) and domestic debt at 19 percent of GDP.

External sector performance has improved. Suriname has recorded current account deficits since 2013, with the largest deficit of 16.4 percent of GDP in 2015. Recent estimates from the Central Bank of Suriname show that a current account surplus of US\$258 million (equivalent to 7.3 percent of 2016 GDP) was realized



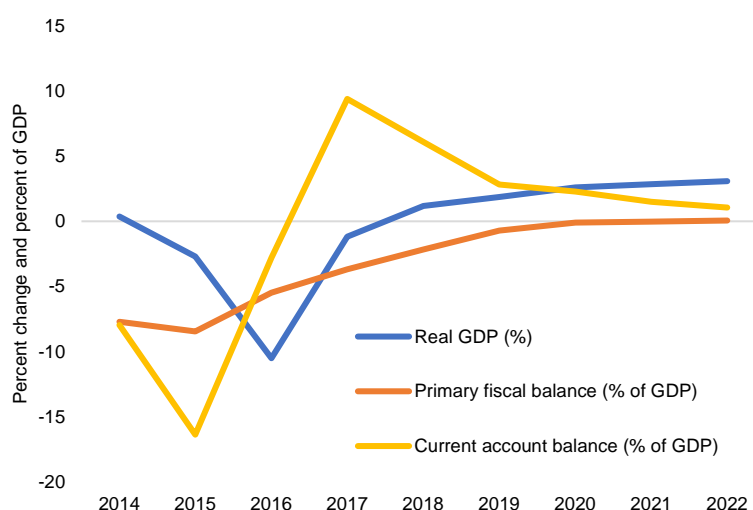
in the third quarter of 2017. The current account surplus was due mainly to a positive goods trade balance, as exports increased by 48 percent. International reserves increased to US\$424.4 million in December 2017 (equivalent to roughly 3 months of import cover) from US\$398.6 million in January 2017.

Suriname is in the high human development category of the Human Development Index (HDI). Suriname’s HDI value for 2015 was 0.73, which put the country in the high human development category— positioning it at 97 out of 188 countries. Suriname recorded increases in life expectancy at birth, mean years of schooling, expected years of schooling and GNI per capita during the period 1990 to 2015. The *multidimensional* poverty index (MPI) also shows that about 12.2 percent of the population lived in *multidimensional* poverty at the end of 2015. Health contributes the most to the MPI (37.2 percent) followed by living standards (31.8 percent) and education (31 percent). There is no official national measure of poverty.

Medium-Term Economic and Social Outlook

Suriname’s medium-term economic outlook remains challenging, but with some positive prospects. The IMF projects that real economic growth of 1.2 percent will return in 2018, with growth then averaging about 2.6 percent over the period from 2019 to 2022. This outlook is largely predicated on a recovery of the mining sector, which would support growth through the medium term. Also driven by better prospects in the mining sector, the current account balance is expected to remain in positive territory over the medium term (Figure 1). Fiscal imbalances and high debt levels are likely to remain challenges over the medium term as the government projects overall fiscal deficits of roughly 4 percent of GDP annually for the period 2019-2021. Nonetheless, the authorities have implemented limits on fiscal deficits and debt obligations, passed legislation to establish a Savings and Stability Fund and proposed Value-Added Tax (VAT) implementation in 2018, which could help to lessen the fiscal strain.

Figure 1. Selected Macroeconomic Indicators (2014-2022)



Source: IMF (2017).



Risk Factors

Although there are signs of improvements in some areas, there are potential risks to the medium-term outlook. Perhaps the most important include the continued risks of unexpected shocks to commodity prices and weak institutions, particularly economic institutions. Suriname particularly needs to strengthen fiscal buffers over the medium term given its relatively high public debt and expected fiscal imbalances over the medium term. There is also significant room for improvement in the quality of the country's economic institutions, which is important for the timely implementation of reforms over the medium term and to ensure macroeconomic stability in the long term.

Development Challenges

This section provides a brief overview of some of the key development challenges facing Suriname. The findings summarized here draw on a development gap analysis and a growth diagnostic on Suriname.¹

In the short term, Suriname must confront challenges related to sustained economic stabilization and modernization of the public sector. Issues related to macroeconomic stability include revenue sensitivity to commodity prices, limited fiscal buffers, and expenditure rigidly focused on non-discretionary spending. Suriname has recently embarked on initiatives to tackle these weaknesses, including i) approval of new legislation to establish a Savings and Stability Fund, ii) quantitative limits on overall fiscal deficits, and iii) VAT implementation expected in 2018.

Human capital constraints are another development challenge for Suriname. Deficiencies in the country's human capital stock reflect differences in the quality and accessibility of basic healthcare and education services that can potentially hinder productivity growth. The problems in the education system largely stem from both limited access and low education quality. As a result, most of the labor force falls within the lower-skilled bracket, resulting in shortages of skilled labor. Moreover, according to data from the World Bank, Suriname's education expenditure is also lower than in other countries: 5.8 percent of GDP compared to an average of 13.13 percent of GDP for Latin American countries. Similarly, the quality and accessibility of health care are limited. The health sector faces some key challenges related to shortages of healthcare professionals and infrastructural gaps. Moreover, a limited health information management system also restricts assessment and tracking of the productivity and performance of healthcare providers.

Supporting private sector development can help with economic diversification. An analysis of firm-level data indicates that firms must contend with a number of challenges that affect their performance. These include: i) limited public sector capacity, ii) limited institutional capacity to manage the transition of specific economic functions from the public to private sector and to resolve coordination failures, iii) an outdated and discouraging business regulatory environment; iv) the lack of a critical mass of local private entrepreneurship, v) limited access to credit for small local firms and poor term financing for all domestic businesses, vi) weak protection of property rights, and vii) unreliable energy supply. These factors

¹ The data and information used were obtained from country authorities, and databases produced by the IMF, the World Bank, and other expert opinion surveys such as the Productivity, Technology and Innovation (PROTEqIN) survey.



collectively reflect a poor investment climate that can affect the capacity of local firms to be competitive in international markets.

Conclusion

Suriname, like many other small economies, faces several challenges that affect its medium-term outlook. The adjustment plan launched by the authorities in late 2015, which included cuts to government expenditure and flotation of the exchange rate, has produced some results. The authorities have also passed legislation to establish a Savings and Stability Fund, and they have committed to continuing VAT and tax reform over the medium term, which will help to strengthen the execution of fiscal policy, broaden the revenue base and build up buffers to ease the impact of future shocks. In the longer term, the government must follow through on its commitment to undertake broad-based structural reforms to improve productivity growth, and measures to support economic activity in the non-mineral sector. Amid these challenges, Suriname's low crime rate, abundance of natural resources attractive to foreign investors, and political commitment to undertake reforms and strengthen the macroeconomic framework are some of the major strengths that can contribute to improving growth prospects in the long term.



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