# Macroeconomic Stabilization in Suriname 2010-12[1]

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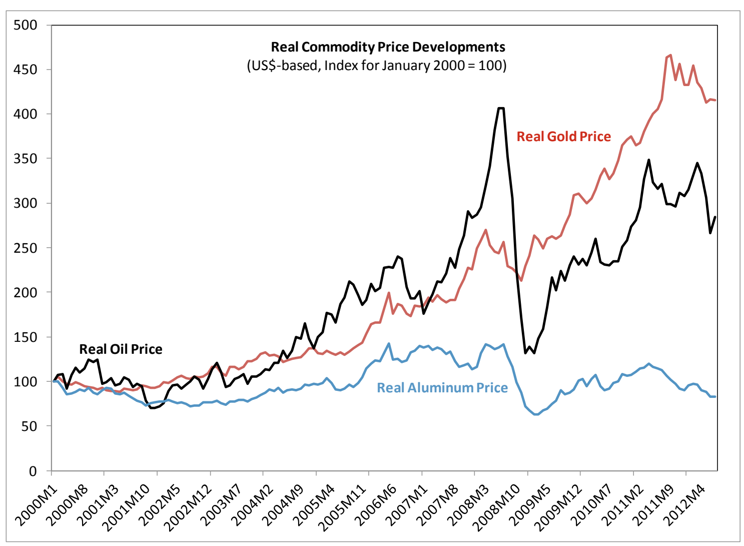
*This paper reviews Suriname's economic policies and reforms during the recent international financial crisis. It describes the difficult economic situation that the government had to face—as a result of the global economic slowdown and weaker domestic fiscal policies—and discusses the comprehensive measures taken by the authorities. It concludes by taking stock of initial results of these measures and looking ahead to challenges facing policymakers in the coming years.*

## 1. Impact of the global slowdown

**The start of the global financial crisis impacted Suriname primarily through the trade channel.** Suriname remains highly dependent on mineral extraction and exports. Its main export commodities are alumina, gold, and oil, and they account for about 95 percent of total exports of goods. Starting in 2007, the global slowdown impacted the alumina market severely and persistently, and affected prices of oil temporarily. By contrast, gold prices stabilized at relatively high levels. Reflecting these demand and price shifts on the international marketplace, Suriname saw a sharp decline in the alumina sector, which suffered from lower export prices and lower volumes (the latter also reflecting local idiosyncratic conditions). As a result, GDP growth slowed from 5 percent in 2007 to 4 percent in 2008, and 3 percent in 2009.




**As the economy slowed markedly, domestic demand eased, and inflation came down considerably**. Thus, annual average inflation dropped from 15 percent in 2008 to 0 percent in 2009. This decline was also aided, during that period, by lower international prices for food and fuel. In this connection, it is worth noting that Suriname has an automatic fuel pricing mechanism, by which international prices and exchange rates developments are automatically (and symmetrically) passed through to the consumer.

**The external current account shifted from a surplus of about 6½ percent of GDP in 2008 to near balance in 2009**. Lower exports of alumina (by about 40 percent in U.S dollar terms) were

[1] This paper draws exclusively on recent IMF Reports and Statements which are published in http://www.imf.org/external/country/SUR/index.htm. However, the views expressed here are those of the authors and do not necessarily reflect the views of the IMF, its Staff or the Executive Board.

only partly offset by an increase in gold exports, resulting in total mining exports declining by about 17¼ percent. At the same time, the authorities used grant disbursements from the Netherlands Trust Fund to clear longstanding arrears with Brazil of US$118 million. In so doing, they took advantage of a large debt write-off on the Brazilian debt of US$44 million. Thanks to the large SDR allocations from the IMF to its members states, including Suriname which received about US$125 million, the overall balance of payments ended in 2009 with a surplus of just under US$100 million, pushing up reserves to US$763 million, or more than 5 months of imports.

**While the economy was assimilating the impact of the global slowdown, Suriname's fiscal stance deteriorated markedly.** The latter resulted from higher current spending and lower revenues from the mining and oil sectors. During the pre-crisis period, the accounts of the central government had remained in surplus, thanks to rising revenues from robust economic growth, including from the buoyant mineral sectors. However, corporate taxes weakened as a result of the drop in oil and mineral prices since 2008Q3 and a substantial reduction in alumina output. This, combined with weaker consumption tax collection, depressed tax revenues. Grant disbursements were higher, in part associated with the 2009 debt arrears repayment arrangement with Brazil. At the same time, there was a surge in noninterest current spending that led to a deterioration in the overall fiscal balance, partly financed by credit from the central bank and by an accumulation of domestic arrears. The higher public spending path continued well into the election year of 2010.

**Against the backdrop of the global financial crisis, this expansionary fiscal stance played a countercyclical role.** It was also largely consistent with the available fiscal space. Most of these spending measures were not deemed to be destabilizing, because the public debt level was under 20 percent of the GDP, and they were temporary and targeted in nature. This was particularly the case for the first phase of the wage adjustment program (FISO-1, see Box 1) and the mortgage support program which were both time-bound. However, it was also important that the authorities resisted further boosting spending ahead of the mid-2010 elections. Of particular concern was also the potential impact of additional spending on price stability, especially because during the second half of 2009 renewed food and energy price increases were already pushing up headline inflation.

**Box 1. Civil Service Wage Reforms (FISO-1 and 2)**

**In 2009, Suriname embarked on a wage reform effort that was part of a wider civil service reform agenda.** The objective of these efforts was to improve the competitiveness of civil servants' pay, while at the same time making the civil service leaner and more efficient over time, including through natural attrition.

**The first stage of the wage reform (FISO-1) was launched in March 2009 and completed in mid-2010.** It involved the grading of some 40,000 civil servant positions based on five criteria (skills and training; work environment; contact with others; management duties; and responsibilities), with the view to placing them into eleven pay grades for all public entities. Since the authorities had provided the assurance that no position under FISO-1 would be graded below its previous pay-grade, the exercise resulted in a considerable upward adjustment for nearly all positions. Moreover, it was agreed with the civil service unions that FISO-1 would provide retroactive wage adjustments to January 1, 2008. As a result, the wage bill increased from SRD 760 million in 2008 to SRD 967 million in 2009.

**The new government implemented the second phase of the wage reform (FISO-2) in two installments during July 2010 and January 2011 .** The objective of FISO-2 was to decompress the wage bill across all pay-grades. The fiscal impact of FISO-1 and FISO-2 was a nominal increase of the wage bill by almost 60 percent between 2008 and 2011.

## 2. The run-up to the May 2010 elections

**As the international crisis became more protracted than initially anticipated, the Surinamese fiscal position deteriorated notably**. Comparing the averages of the two initial years of the financial crisis (2007-08) with those thereafter (2009-10), there was a marked deterioration of the fiscal position:

- Tax revenue fell significantly, while nontax revenue improved somewhat, mainly on account of windfall dividend payments from Staatsolie;

- Current spending, in particular on wages and on goods and services, rose considerably; and capital spending also increased. The former largely reflected both the higher wage bill from FISO-1, and spending in connection with

Underlying Fiscal Position

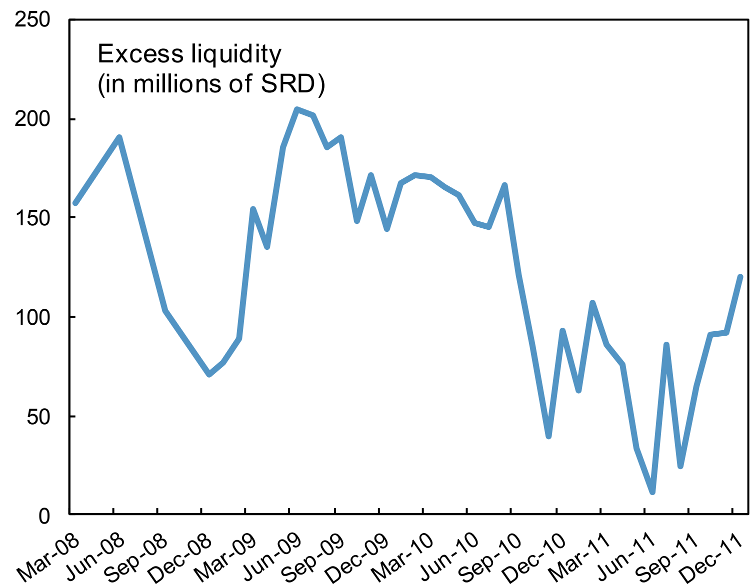
| | 2007-08 | 2009-10 | 2011 |
|---|---|---|---|
| Revenue and grants | 24.6 | 23.6 | 26.1 |
| Tax revenue | 18.8 | 15.5 | 18.9 |
| Nontax revenue | 4.0 | 5.9 | 6.4 |
| Grants 1/ | 1.8 | 2.2 | 0.8 |
| Expenditures | 22.7 | 26.8 | 25.2 |
| Current expenditures | 18.5 | 21.5 | 19.2 |
| Of which: wages | 8.2 | 9.1 | 8.0 |
| Goods and services | 4.3 | 5.0 | 4.3 |
| Capital expenditure | 4.2 | 5.3 | 6.0 |
| Overall balance | 1.9 | -3.2 | 0.9 |

1/ Excludes grants for Brazilian debt repayment in 2009.

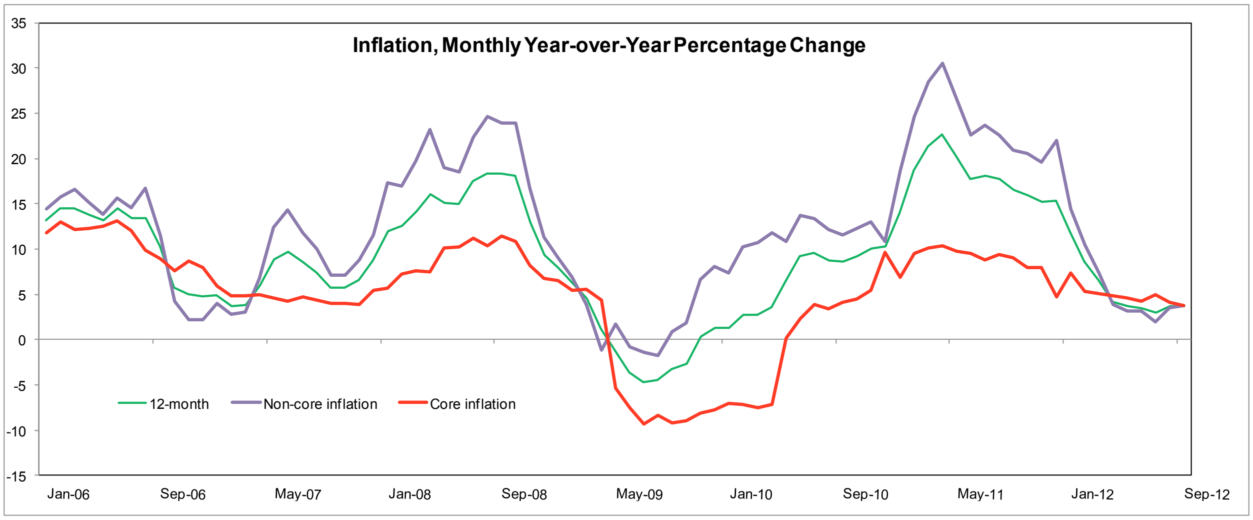
the election cycle; and

- Thus, the overall fiscal balance swung by 5 percent of GDP, from a comfortable surplus to a deficit of over 3 of GDP.

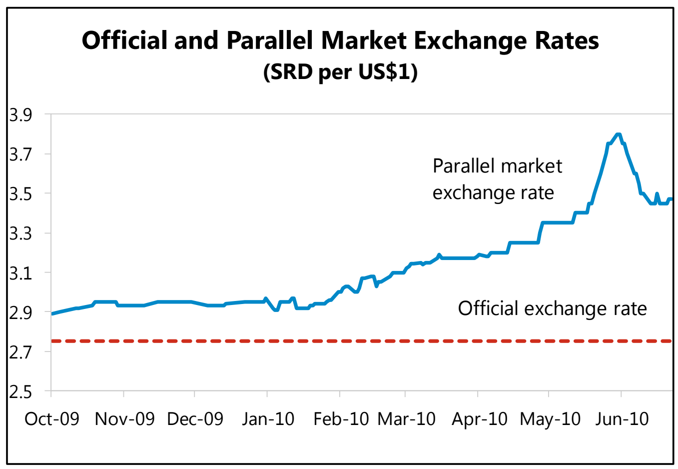
**At the same time monetary policy reinforced the looser fiscal stance.** Broad money growth, which had been decelerating from about 30 percent at end-2007 to about 11 percent at end-2008, recovered quickly in 2009. It remained at a relatively high level of 24 percent (y-o-y) during the first half of 2010 before gradually slowing down towards the end of 2010. Credit from the banking system followed a similar pattern as banks accumulated significant excess liquidity.




**Partly in response to the accommodative monetary policy and to renewed pressures from food and fuel prices, early in 2010, headline inflation reached again double-digit levels**. Moreover, reflecting the excess liquidity in the system and the heightened uncertainty associated with the elections, the gap between the fixed official exchange rate and the parallel market rate gradually widened to almost 40 percent in mid-2010. Since most non-government foreign exchange transactions took place at the rapidly weakening parallel market exchange rate, significant parts of the economy started to adjust to a more devalued currency. Thus, core inflation (headline inflation, excluding food and transportation) started to closely track the developments in the parallel foreign exchange market, rising from -5 percent (y-o-y) in February 2010 to about 10 percent by the end of 2010. The rapid response of core inflation to the parallel market depreciation of the Suriname dollar posed an important challenge to any stabilization effort, as the dollarization of the economy tended to reinforce a price-exchange rate spiral.




**The large gap between the parallel and official market rates was causing serious dislocation in the market for foreign currency**. Foreign exchange inflows were bypassing the commercial banking system as exporters (especially informal ones) preferred to sell their foreign exchange receipts at the higher parallel rates. In turn, banks could not satisfy the demand for foreign currency from importers, forcing the latter to revert to the parallel market to satisfy their needs. As a byproduct, profits from foreign exchange transactions were accruing in the informal (and untaxed) sector, rather than in the formal financial system. In addition, the government was also deprived of the full value of the revenues that would otherwise accrue to it in local currency from US$-denominated tax and nontax payments, as a result of the lower official exchange rate. Likewise, customs collections were lower, because the valuation of the import bill was done at the lower official exchange rate.




**In mid-2010, as the democratic transition of government was taking place, the economic situation of the country could be summed up as follows:**

On the positive side:

- The economy was still growing, albeit at a slower pace than before;
- International reserves were holding at about 4-5 months of imports; and
- The government maintained still very low levels of debt, particularly foreign debt.

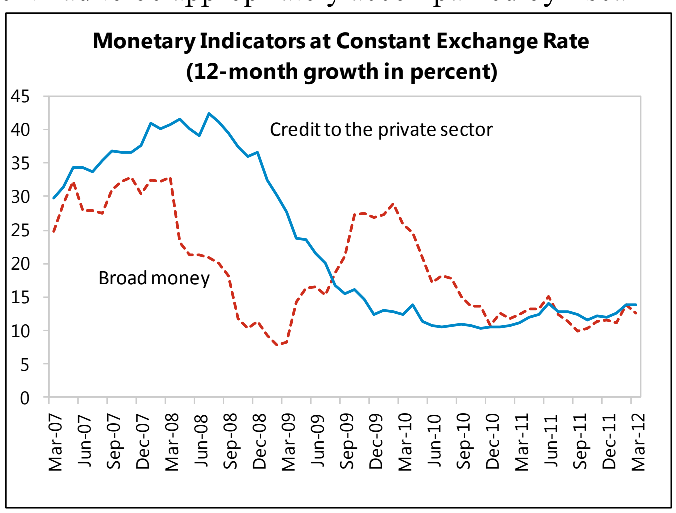
On the negative side:

- The government continued to run large fiscal deficits—the full size of which was unknown because of the accumulation of large domestic arrears—and the economy had started showing signs of overheating, as domestic demand was being fueled by high levels of government spending;
- After the new government had taken office, the exchange rate on the parallel market had come down somewhat and stabilized at a discount of about 30 percent above the official U.S. dollar rate, but the distortions in the market continued; and
- Inflation was increasing, reflecting the rising price of goods imported at the parallel market rate as well as the large spending by the government.

## 3. Stabilization policies by the incoming government.

**Soon after President Desiré Bouterse appointed his economic team, the new administration announced that in the interest of continuity and policy predictability, it would honor the decisions taken by the outgoing government, especially regarding FISO-2**. Thus, wage adjustments were implemented in two phases (July 1, 2010 and January 1, 2011). At the same time, pending a comprehensive stabilization policy package for the medium term, the authorities tried to ascertain the fiscal situation, particularly the level of domestic arrears that had accumulated over the previous months, and instructed line ministries to exert strong controls on ongoing spending programs in 2010.

**Correcting the exchange rate imbalance was at the center of the authorities' planned adjustment program.** However, such adjustment had to be appropriately accompanied by fiscal and monetary restraint. With inflation on the rise and foreign currency ever so scarce in the commercial market, the policy package aimed at restoring domestic equilibrium and price stability. Since the measures would include key price adjustments, the authorities also recognized the need for tighter policies than in preceding years. This was seen as critical in order to avoid creating an inflationary spiral that over time could erase the competitiveness gains of the initial measures. Along these lines policymakers implemented a very ambitious stabilization policy package (Box 2).



**Box 2. The Adjustment Package of 2011**

The adjustment package included a number of measures that were implemented in quick succession from end-2010 through the third quarter of 2011:

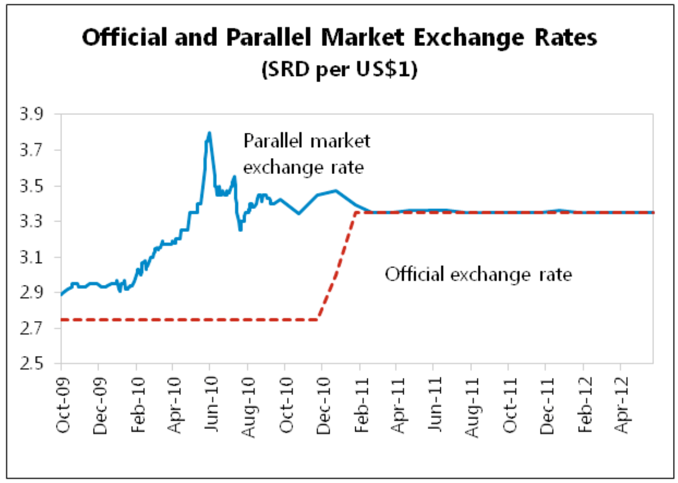
1. In January 2011, the authorities devalued the Suriname dollar by about 20 percent. They also established a band (SRD 3.25-3.35 per US$1) within which the national currency would be allowed to trade vis-à-vis the U.S. dollar;
2. In the fiscal area, the package included the following revenue measures:
   - The tax on domestic fuel was raised by 70 percent on the same day of the devaluation. Combined with the impact of the exchange rate adjustment, this increased the price of fuel at the pump by about 40 percent. In addition, in order to protect the fuel tax collection, domestic fuel prices continued to be automatically adjusted to reflect international price developments;
   - In March 2011, the presumptive income tax rate on gambling and casinos was increased;
   - In October 2011, the excise tax rates on alcohol and tobacco products were raised; and
   - A registry of artisanal gold miners was implemented with a view to collecting a higher share of revenue payments from the informal gold sector.

   On the expenditure side, the authorities:
   - Reined in current spending (especially on goods and services and wages) and started to clear the backlog of domestic arrears, while opening some space for higher capital spending; and
   - Provided temporary subsidies to reduce the impact of these measures on vulnerable groups, by providing fuel and gas subsidies to bakeries and operators of buses and boat taxis.

   In terms of public debt management, the authorities,
   - Provided space for a rebalancing of public financing towards domestic debt. Thus, while maintaining the legal ceiling for total debt at 60 percent of GDP, they raised the ceiling for domestic debt from 15 to 25 percent and lowered the ceiling for external debt from 45 to 35 percent of GDP; and
   - In the summer of 2011, finally cleared the remaining longstanding external arrears with the United States by paying about US$32 million that covered principal, accrued interests, and late-interest payments.
3. In the area of monetary policy and financial reforms, the authorities:
   - In December 2010, preempted the above measures by raising the reserve requirement for foreign currency deposits from 33 to 40 percent;
   - Decreed that henceforth all government contracts with residents would have to be settled in local currency, and all businesses had to price all goods and services in Surinamese dollars; and
   - In the summer of 2011, completed the work that had begun almost a decade ago and enacted a new Bank Supervision Law. This law improves the central bank’s ability to supervise and regulate the banking sector.

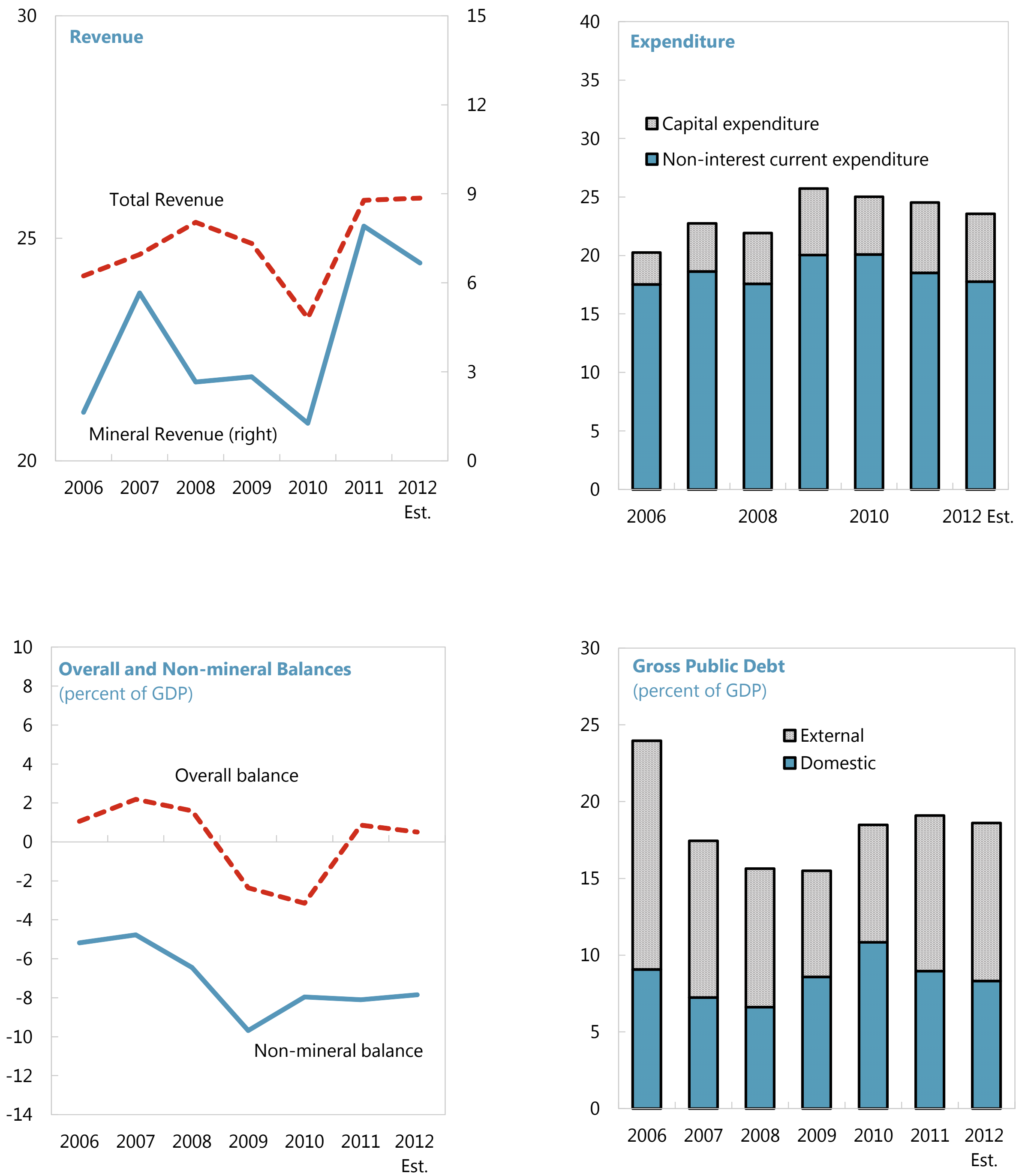
## 4. Results of the stabilization and reform efforts

With the benefit of one year of hindsight, there is evidence that the stabilization package has been successful and helped the country achieve several key macroeconomic goals:



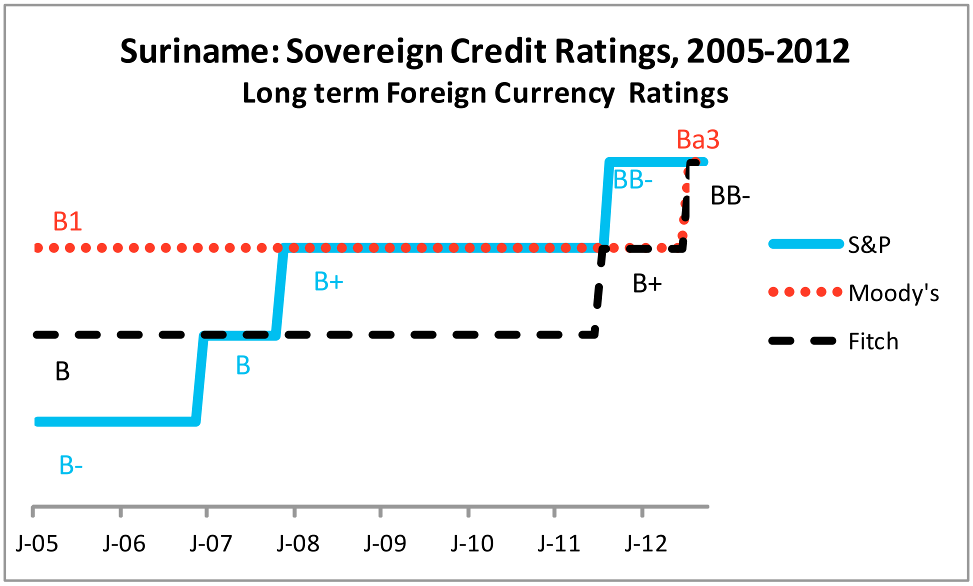

- The exchange rate stabilized in the commercial foreign exchange market at the new official level and was supported by robust accumulation of international reserves. The foreign exchange premium in the parallel market virtually vanished, the local market for foreign currency has returned to the formal institutions, and expectations for renewed instability have diminished notably. Moreover, the central bank continues to accumulate reserves at a healthy pace, reaching US$909 million at end-June 2012 (about 5 months of imports);
- The 12-month inflation rate, which initially peaked in April 2011 at 22½ percent, following the devaluation and spike in domestic fuel prices, gradually came down to lower single digits and has remained in the 3-4 percent range since May 2012;
- GDP growth has picked up from 3 in 2009 to 4.2 percent in 2011. It is expected to remain in the 4-4½ percent range during 2012-13;
- Credit to the private sector has also become more dynamic in real terms growing at about 13 percent (y-o-y), while the regulation and supervision is gradually being strengthened, and the market liquidity is monitored carefully in order to avoid inflationary pressures.
- The fiscal position improved markedly, with the overall balance recovering by 4 percent of the GDP to a surplus of near 1 percent in 2011. Total revenues increased in 2011 by 3.2 percent of GDP, thanks to enhanced tax collection from (i) higher excise taxes on fuel, tobacco and alcohol; (ii) the higher conversion rate for US-denominated taxes, and (iii) the higher valuation for customs on imports. Non-tax revenues also increased due to higher profits in the mining sector, and from the effects of the devaluation. These revenue gains more than compensated for the much lower grants, which fell from 2 percent in 2010 to 0.8 percent of GDP in 2011 (as the Netherlands Trust Fund was nearly depleted). On the expenditure side, net savings of almost 1 percent of GDP were achieved. The authorities realized savings in current spending of 2 percent of GDP, while allowing for capital spending, particularly on infrastructure projects, to increase by a little over 1 percent of GDP.

## Suriname: Key Fiscal Indicators




Sources: Ministry of Finance; and IMF staff estimates and projections.

**Suriname's stabilization process was accompanied by successive upgrades of its sovereign rating by the main credit rating agencies.** Citing the country's structurally stronger fiscal position, enhanced economic outlook, clearance of external arrears, and improving institutions, all three ratings agencies have recently upgraded Suriname's foreign currency rating. Such upgrades enable sovereign entities and private potential issuers to take advantage of more affordable financing.




**These macroeconomic accomplishments place the Surinamese economy in a position that should boost its growth potential and its resiliency to future shocks**. More importantly, they provide policymakers with adequate space to plan and execute a sustainable development strategy for the long term. While the positive commodity price cycle helped the economy significantly in the past few years, the prudent macroeconomic policies also allowed Suriname to reap its benefits without the risk of overheating. Renewed stability also brings a better environment for the private sector to develop the economy. However, the next phase is not free of challenges for policymakers.

## 5. Challenges Ahead

**Looking ahead, the fiscal authorities should give priority to structural reforms that will allow Suriname to capitalize on the fiscal gains of the past two years**. At the same time, they will need to recognize that the favorable external commodity price scenario may revert. International price developments of gold and oil yielded significant windfall revenues to the central government, which have supported the rebuilding of necessary buffers against future shocks. Meanwhile, given that the export capacity of both commodities is expected to expand, it will be important to create an institutional framework that helps manage these resources for future generations. Key in this area is the creation of a sovereign wealth fund. In addition, the relatively low level of Suriname's public debt could be a key strength when seeking financing, for instance for investments in infrastructure. To the extent that the prudent fiscal stance is sustained, the authorities will need to implement an asset-liability management system that optimizes the management of the country's international reserves; resources under the sovereign wealth fund; and the public debt level and composition.

**Another important objective for the medium term should be to strengthen the structure of the budget, by reducing the non-mineral deficit to at least pre-crisis levels**. This would provide additional buffers and help protect the fiscal accounts against future commodity price shocks. To this end, revenue diversification measures such as the implementation of a VAT will help broaden the base of taxation and make the fiscal revenues more resilient. On the expenditure side, public investment should remain focused on infrastructure to better integrate and diversify the economy, while keeping current spending in check. Strategic divestment may also help streamline efforts in the public sector towards the provision of key public goods, especially those that promote human capital formation. Finally, work to improve public financial management would also help to strengthen budget formulation and execution.

## Suriname: Selected Economic and Social Indicators

| | | | |
|---|---|---|---|
| Population (in thousands, 2010) | 531 | Unemployment rate (2010) | 7.6 |
| GDP per capita (current US$, 2010) | 8,192 | Adult illiteracy (percent of population | |
| Rank in UNDP Human Development Index (out of 187, 2011) | 104 | ages 15 and above, 2008) | 5.0 |
| Life expectancy at birth (years, 2010) | 70.3 | | |

| | | | | Est. | Projections | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| **Real sector** | | | | | | |
| GDP at current prices (SRD millions) | 9,698 | 10,683 | 11,944 | 15,022 | 16,812 | 18,780 |
| GDP at constant prices (SRD millions) | 8,395 | 8,648 | 9,003 | 9,377 | 9,751 | 10,188 |
| Real GDP Growth | 4.1 | 3.0 | 4.1 | 4.2 | 4.0 | 4.5 |
| GDP deflator | 15.5 | 6.9 | 7.4 | 20.8 | 7.6 | 6.9 |
| Consumer prices (end of period) | 9.3 | 1.3 | 10.3 | 15.3 | 5.7 | 5.0 |
| Consumer prices (period average) | 15.0 | 0.0 | 6.9 | 17.7 | 6.2 | 5.5 |
| **Money and credit 1/** | | | | | | |
| Banking system net foreign assets | 25.5 | 11.4 | 3.1 | 19.3 | 15.7 | 15.8 |
| Broad money | 11.3 | 26.6 | 11.2 | 11.7 | 14.9 | 12.8 |
| Private sector credit | 36.3 | 12.2 | 10.9 | 12.0 | 12.3 | 11.8 |
| Public sector credit (increase in % of M2) | -18.3 | 13.1 | 4.9 | -8.9 | -1.9 | -0.5 |
| | (In percent of GDP, unless otherwise indicated) | | | | | |
| **Savings and investment** | | | | | | |
| Private sector balance (savings-investment) | 5.0 | 1.9 | 9.6 | 4.7 | -0.6 | -2.0 |
| Public sector balance | 1.6 | -2.4 | -3.1 | 0.9 | 0.5 | 0.0 |
| Savings | 6.0 | 3.3 | 1.8 | 6.9 | 6.3 | 5.6 |
| Investment | 4.4 | 5.7 | 4.9 | 6.0 | 5.8 | 5.7 |
| Foreign savings | -6.6 | 0.5 | -6.4 | -5.5 | 0.1 | 2.1 |
| **Central government** | | | | | | |
| Revenue and grants | 23.8 | 25.2 | 22.8 | 26.0 | 25.0 | 24.1 |
| Total expenditure | 22.2 | 27.6 | 26.0 | 25.2 | 24.5 | 24.1 |
| *Of which* : noninterest current expenditure | 17.6 | 20.1 | 20.1 | 18.5 | 17.8 | 17.5 |
| Statistical discrepancy | 0.3 | -0.7 | -0.1 | 0.3 | 0.0 | 0.0 |
| Overall balance | 1.6 | -2.4 | -3.1 | 0.9 | 0.5 | 0.0 |
| Net domestic financing | -1.9 | 2.1 | 1.9 | -3.5 | -1.7 | -1.6 |
| Net external financing | 0.3 | 0.3 | 1.2 | 2.7 | 1.2 | 1.7 |
| **Central government debt 2/** | 15.6 | 15.5 | 18.5 | 19.1 | 18.6 | 18.1 |
| Domestic | 6.6 | 8.6 | 10.8 | 9.0 | 8.3 | 7.2 |
| External | 9.0 | 6.9 | 7.6 | 10.1 | 10.3 | 10.9 |
| **External sector** | | | | | | |
| Current account balance | 6.6 | -0.5 | 6.4 | 5.5 | -0.1 | -2.1 |
| Capital and financial account | 2.7 | 3.5 | -5.6 | 0.2 | 4.4 | 6.8 |
| Change in reserves (- increase in US$ millions) | -232 | -97 | -22 | -202 | -222 | -268 |
| **Memorandum Items** | | | | | | |
| Terms of trade (percent change) | 3.3 | -1.6 | -0.2 | 0.6 | 0.9 | -0.3 |
| Gross international reserves (US$ millions) | 666 | 763 | 785 | 987 | 1,209 | 1,477 |
| In months of imports | 4.4 | 5.2 | 4.9 | 5.3 | 5.6 | 6.6 |
| Exchange rate (SRD per US$, eop) | 2.75 | 2.75 | 2.75 | 3.30 | 3.30 | ... |

Sources: Suriname authorities; and IMF staff estimates and projections.

1/ Data for 2011 are at a constant exchange rate of SRD 2.75 per US$ 1.
2/ Includes central government and government-guaranteed public debt.