

SURINAME

Table 1 **2020**

Population, million	0.6
GDP, current US\$ billion	3.4
GDP per capita, current US\$	5740.1
School enrollment, primary (% gross) ^a	109.2
Life expectancy at birth, years ^a	71.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent WDI value (2018).

Suriname is a small, natural resource-based economy. Over the past few years, the authorities have not adequately dealt with macroeconomic stability and commodity revenue volatility. A newly elected government has recently adopted a macroeconomic stabilization program and is in discussions with the IMF for support. The COVID-19 pandemic exacerbated existing domestic weaknesses, leading to a sharp GDP contraction and rising unemployment and poverty. The discovery of offshore oil, if adequately managed, may enable fiscal consolidation and higher growth in the medium term.

Key conditions and challenges

Suriname is a small, upper middle-income country. Natural resources play a dominant role in the economy, its exports, employment, and government revenue. The government redistributes revenue earned from extractive industries through significant public sector employment, whereas the private sector is mostly engaged in non-tradeable services. Gold currently represents more than 80 percent of total exports, while the overall mining sector accounts for over 30 percent of public sector revenue.

Suriname has struggled to establish the institutional fiscal and monetary framework that is important to support broader macroeconomic stability given the challenges posed by commodity revenue volatility. As a result, the country has not been able to recover from the recession following the sharp decline in the price of oil and gold and the closure of its bauxite mining operations in 2015. Suriname cancelled a two-year Stand-By Arrangement with the International Monetary Fund (IMF) in 2017.

The most recent poverty estimates for Suriname are from 2017 and poverty is expected to have increased since then. In 2017, over 26 percent of the population was estimated to live in consumption poverty and the Gini coefficient was 0.44. The geographical distribution of poverty was uneven: about half of the population in

the rural interior of the country lived in poverty, while poverty rates were markedly lower in the greater Paramaribo region. Suriname ranked 95th out of 144 countries on the World Economic Forum's Global Gender Gap Index.

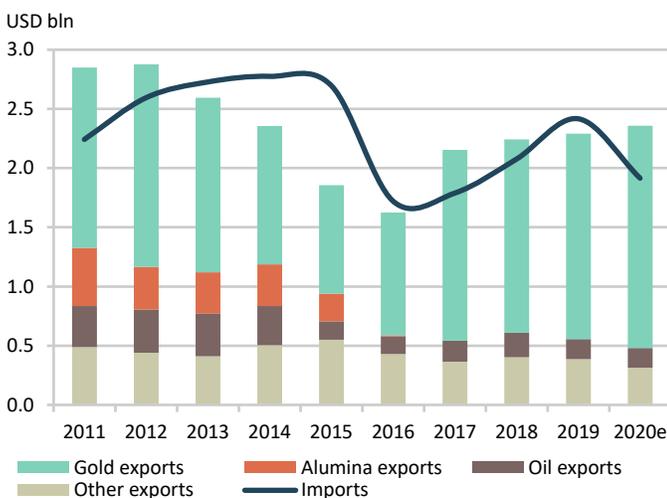
Large macroeconomic imbalances over the past few years, evidenced by high and increasing external and public finance deficits, have been financed by domestic and foreign borrowings as well as significant monetary financing in the run-up to the parliamentary elections on May 25, 2020.

Recent developments

The government, which assumed office mid-July 2020, has recently adopted an adjustment program to deal with the large public sector deficits and balance-of-payments crisis. The fiscal adjustment plan includes several revenue-enhancing and expenditure-containment measures, including a gradual reduction of energy subsidies, a temporary solidarity charge on the highest income tax brackets, and the introduction at a later date of a value added tax instead of the current turnover tax. To mitigate the impact on lower income households, the plan also includes a budget increase to cover an expansion of the social safety net.

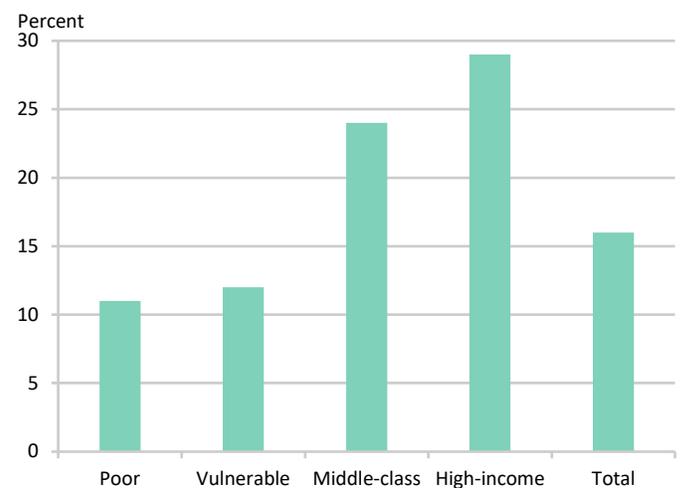
As of mid-September 2020, the Central Bank of Suriname depreciated the official exchange rate to SRD14.3/USD from SRD7.5/USD. Despite the intention to eliminate the premium in the parallel foreign exchange market, the currency still

FIGURE 1 Suriname / External trade, 2011-2020



Sources: Central Bank of Suriname (CBvS).

FIGURE 2 Suriname / Share of workers who can work from home by income group



Sources: World Bank calculations based on 2017 Suriname Survey of Living Conditions.

trades at a discount of approximately 25-40 percent. A depreciation of the official exchange rate was needed as the country had ran out of usable international reserves and has already led to a turnaround in the balance of payments' current account due to a sharp contraction in imports. The pass-through from currency depreciation to consumer price inflation has been significant as consumer prices experienced an accumulated 12-month inflation of 61 percent by the end of 2020 compared to 4.2 percent end-2019.

Although the confirmed incidence rate is low relative to the regional averages, the COVID-19 pandemic exacerbated an already challenging and volatile situation. The combined impact of the pandemic and macro-economic volatility led to a sharp contraction of output in 2020 by about 14.5 percent and an increase in registered unemployment by at least 7 percent. Though new poverty data are not yet available, increased unemployment, a contraction in output, and a sharp increase in inflation are all expected to have contributed to an increase in poverty and worsened inequality. It is likely that households with the lowest incomes were hit hardest, as their occupations are least amenable to working from home. Women are expected to be

particularly affected, as school closures increased their caregiving burden. Up-to-date household survey data are urgently needed to assess poverty and inequality and inform policy decisions.

With nearly three-quarters of public debt denominated in foreign currency, currency depreciation, continued deficit financing, and the contraction of GDP rapidly raised public debt as a share of GDP to about 148 percent by the end of 2020. The government and bondholders of two capital market bonds (to an amount of US\$675 million or about 22 percent of total outstanding public debt) agreed last December to reschedule debt service payments on these bonds until March 31, 2021. Further amendments to the debt service schedule are conditioned on agreement to a new program with the IMF.

Outlook

Agreement on a program with the IMF as well as a restructuring of external debt seems a necessary condition to the success of the country's macroeconomic stabilization. Public sector external financing needs continue to remain substantial over

the next couple of years because of a gradual reduction of the large public sector deficits and significant debt service payments. Reduced import demand and higher gold prices already caused a significant turnaround of the current account, which is much needed to rebuild the country's international reserves.

Elevated unemployment rates and negative GDP growth are expected to continue to stymie poverty reduction. During the coming phase of adjustment, efforts to maintain and expand the social safety net are considered key to limit exposure of the poorest and most vulnerable and to mitigate impacts on poverty. A significant, growth-driven reduction in poverty rates is not expected in the immediate future.

Prospects of oil production have improved following potentially large offshore oil discoveries. Apache Corporation and its partner Total have announced four important oil discoveries since January 2020, including one this year. Exxon Mobil and Petronas announced a discovery in December and Royal Dutch Shell completed its acquisition of Kosmos Energy's position in Surinamese waters. The discoveries are expected to support the economy even though it may take a number of years to bring the production on stream.

TABLE 2 Suriname / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.6	0.3	-14.5	-1.9	0.1	1.3
Real GDP growth, at constant factor prices	2.6	0.3	-14.7	-2.0	0.1	1.3
Agriculture	-1.8	-2.0	-17.4	-17.9	1.2	4.2
Industry	5.8	-2.4	-18.1	-0.2	0.0	0.7
Services	0.9	3.9	-10.3	1.3	-0.1	1.2
Inflation (Consumer Price Index)	6.9	4.5	34.9	26.8	6.0	4.0
Current Account Balance (% of GDP)	-3.4	-12.2	6.0	9.5	8.3	8.1
Net Foreign Direct Investment (% of GDP)	3.5	-0.5	-2.7	-1.9	1.8	3.6
Fiscal Balance (% of GDP)^a	-11.4	-21.4	-16.7	-12.7	-8.6	-5.3
Debt (% of GDP)^a	72.5	93.8	148.3	134.4	139.2	141.2
Primary Balance (% of GDP)^a	-7.9	-17.9	-12.6	-7.0	-3.5	-0.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Budget balances and public debt are for the central government.