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Suriname Debt Management Office

Government Debt and Sustainable Development in Suriname

An assessment of the effect of the debt and macroeconomic stability in 2008-2012 on human development indicators

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1. Introduction

Suriname is a country in South America and a former Dutch colony that became independent in 1975. The president is the head of state and is elected indirectly via a parliamentary election that is held every 5 years. Suriname is also part of the Caribbean Community (Caricom).

In the past several years the macro-economic indicators have been stable and the country has one of the lowest debt to GDP ratio in Caribbean region. The medium term economic outlook is very favourable. While the human development and environmental sustainability is very hard to assess due of the lack of data and information, it is the purpose of this paper to asses if the remarkable debt and macroeconomic stability of recent years has supported or hindered an improvement in the human development indicators of Suriname. To quantify human development, the Human Development Index will be used, which measures the average achievements of the country on longevity, knowledge and a decent standard of living.

Looking at the term sustainability or sustainable development, a definition was provided by the World Commission on Environment and Development (Brundtland Commission 1987) which states the following: “sustainability is progress that meets the needs of the present without compromising the ability of future generations to meet their own needs”¹.

I fully support this definition and the idea that, in achieving a better life for the current generation, we should not compromise the chances for future generations. Therefore sustainable development can be better assessed when the focus is on three pillars namely: economic, social (human) and environmental development. These three pillars go together to attain some form of stable development in a country.

The idea of human development is very well described in the UNDP Human Development Report 1997 as the process of widening people’s choices and the level of well-being they achieve. The choices people make should lead to a long and healthy life, to acquire knowledge and to have access to the resources needed for a decent standard of living. The income of people is an important mean, which can lead to human development.

¹Report of the World Commission on Environment and Development, General Assembly Resolution 42/187, 11 December United Nations, 1987.

Within the framework of a sustainable economic development of a country, the country's ability to manage its debt plays an important role. If the country becomes unable to service or manage its debt it will usually lead to an orderly or disorderly adjustment that will involve severe changes in the purchasing power of residents and in the real levels of social expenditure. This can severely affect the ability of the country to maintain or increase its human development indicators. Similarly, a manageable but very high debt service level can undermine a country's ability to maintain or expand social development programs. Therefore, it is clear that fiscal and debt sustainability should be an important goal for both developed and developing countries as they strive to improve human development.

After the introduction, the paper will provide an overview of the development of Surinam's central government debt within the macro-economic and social environment during 2008-2012. In section three, the medium term 2013-2017 outlook for some economic indicators will be presented in light of the debt sustainability and economic development of the country. In section four, some concluding remark will be provided.

2. The development of Surinam's debt within the macro-economic and social environment 2008-2012

Suriname is a small scale open economy with a population of about five hundred thousand people. The economy is highly dependent on the exports of gold, oil, and alumina². Suriname is an upper-middle income country with a per capita income of US\$ 9,144 at the end of 2012.

Macro-economic development

The economy in Suriname developed in a remarkably stable form during 2008-2012. The average annual economic growth was 4.1% with the highest growth rate in 2011 of 5.3%. Growth was driven by the activity in the mineral sectors gold and oil, and due to public investment, especially in infrastructure. Because of the economic development, the per capita GDP increased by 36 % in the reference period.

Table 2.1 Selected macro-economic indicators 2008-2012

Indicators	2008	2009	2010	2011	2012
(in percent of GDP, unless otherwise indicated)					
Real GDP (percentage change)	4.1	3.0	4.2	5.3	3.9
GDP per capita in US\$	6,746.9	7,301.0	8,120.9	7,883.7	9,144.4
External current account balance	9.3	2.9	15.1	5.9	4.8
Gross international reserve (months of imports)	4.0	4.7	5.0	4.4	5.1
Government overall balance	1.6	-2.1	-2.5	-2.0	-2.7
Government primary balance	2.3	-0.8	-1.7	-1.0	-1.8
Total Central Government debt	15.8	15.7	18.6	20.4	21.5
Exchange rate SRD/US\$	2.8	2.8	2.8	3.4	3.4
Inflation (End of the Period)	9,4	1,3	10,3	15,3	4,4

Source: Suriname Debt Management Office, General Bureau of Statistics, Ministry of Finance, Central Bank of Suriname.

² The export earnings of gold, oil and alumina comprise of 83% of the total amount of the export earnings of goods and services. The major contributors to GDP are mineral industry (22%), trade (19%) and government (10%).

The external account of the balance of payments was positive through the whole period due to a positive trade balance that resulted from high world market prices and increasing export volumes of the major export commodities. This resulted in growing international reserve and a higher coverage ratio in terms of months of imports.

In January 2011, the official SRD exchanges rate vis-à-vis the USD was devalued by 20%, after it came under pressure in 2008-2010³. Due to the exchange rate devaluation and a 70% domestic fuel tax increase in early-2011, inflation accelerated temporarily to 15.3% in 2011. With only limited second-round effects due to a moderate fiscal and monetary policy stance, inflation pressures fell rapidly. In the absence of significant exogenous price shocks and continued policy moderation, annualized inflation rates have remained at levels around 3-5% since May 2011.

In 2008, the overall balance of the government recorded a surplus of 1.6% of GDP as a result of a significant windfall profit from gold mining operations. In the following year, expenditures—in particular capital expenditures—increased while revenue eroded, leading to a deficit of 2.7% of GDP in 2012.

Because of increasing public investment in infrastructure and the overall deficits of the government in the previous years, the central government debt grew from 15.8% of GDP in 2008 to 21.5% at the end of 2012.

Major developments of the central government⁴ debt portfolio

The external debt portfolio consists of only official concessional and semi-concessional debt to multilaterals and bilateral creditors. Most of the external debt are project and program loans and about half of these loans were used for infrastructural works. The biggest creditors of the country are the Inter-American Development Bank (IADB) and the Republic of China with a share of 39% and 43% respectively at end-2012. The share of external debt with a variable interest rate was 37 %.

³ 2010 was an election year for a new parliament and government.

⁴ Suriname has a national definition of debt in the National Debt Act that is different from the international definition. Besides the disbursed outstanding debt, undisbursed commitments on loan contracts and all guarantees are also part of the total government debt. SDMO presents debt statistic based on both the national and international definition. Debt data in this paper are based on the international definition.

A very important development within the external debt portfolio of the government is the settlement of major debt in arrears in the past 5 years; with Brazil (USD 117 million) in 2009 and the USA (USD 26.6 million) in 2012. Combined with the stable macro-economic environment and outlook this has led to various credit upgrades in the last years by the three major international rating agencies. As an example, Standard & Poor's upgraded the foreign currency rating from B+/Stable/B in 2008 to BB-/Stable/B in 2012.

Table 2.2 Central government debt (cash basis) 2008-2012

	2008	2009	2010	2011	2012
	(in millions USD)				
Domestic debt	230.3	330.3	466.6	405.9	493.5
External debt	319.3	269.0	334.4	462.9	567.2
Total debt	549.6	599.3	801.0	868.8	1,060.7
	(in percent of GDP)				
Domestic debt	6.6	8.6	10.8	9.5	10.0
External debt	9.2	7.0	7.8	10.9	11.5
Total debt	15.8	15.7	18.6	20.4	21.5
Exchange rate SRD/USD	2.8	2.8	2.8	3.4	3.4

Source: Suriname Debt Management Office

Domestic debt was mostly used in the past to finance overall government operations and it has been dominated by overdrafts and advances from the Central Bank and the issuance of treasury bills (T-bills). Consequently, the Central Bank is the largest local creditor of the government with a share of 62% at end-2012.

About 74% domestic debt is short term debt (mainly advances and overdrafts from the Central Bank and T-bills). This points to a high refinancing risk in the domestic debt portfolio. The domestic debt portfolio is entirely comprised of fixed interest rates.

There are a number of specific legal limits up to which the government can indebt itself. The National Debt Act of 2002 defines an external debt ceiling⁵ of 35% of GDP and a 25% of

⁵ Debt ceilings are based on the national definition of debt. The ceilings were adjusted in 2011 to the current level. Before 2011, the debt ceilings in terms of debt to GDP were 45% for external debt and 15% for domestic debt.

GDP ceiling for domestic debt. In addition, the Central Bank Act limits central bank credit to the government to 10% of central government revenue.

Human development⁶

In the previous paragraph, we have seen that the GDP per capita income has increased significantly in the past five years. The question that needs to be answered is: has this led to improved social conditions for the population?

The population of Suriname is around half a million people and increased with about 1.4% annually in the reference period. Looking at the unemployment rate, it seems that the favourable macro-economic development has affected the creation of jobs positively.

Table 2.3 Selected social indicators 2008-2012

Indicators	2008	2009	2010	2011	2012
Population (mid-year average)*	517,052	524,143	531,170	539,912	546,000
Unemployment rate in percent of total labor force	9.3	9.0	7.6	8.0	n.a.
Government subsidies in percent of GDP	4.5	4.7	4.2	5.5	6,2
Government spending on social sectors** in percent of GDP	8.2	8.9	10.0	8.3	n.a.
Real GDP (percentage change)	4.1	3.0	4.1	4.7	3.1

Source: General Bureau of Statistics, National Planning Office, IMF, Ministry of Finance

n.a. = not available

* 2012 figure is from the IMF

** The social sectors here are: health, education and social security and welfare. Spending is in term of operational cost and on policy measures of the respective ministries.

The economic growth has also affected government subsidies and -spending to the social sectors positively. Government subsidies to the public have mostly increased during the reference period. The subsidies presented in the government accounts are significantly understated, as all electricity and water subsidies are hidden (they are public enterprise cross-subsidies) and large segments of the health care subsidies are recorded as current or capital expenditure. The health care subsidies are captured in the indicator government spending on

⁶ Human development will only partially be assessed with the Human Development Index. An assessment of other areas like poverty, crime and other relevant social development will not be analyzed here.

social sectors. Government spending to the social sectors is showing a growing trend until 2010 and falls back in 2011.

According to the UNDP and based on the Human Development Index (table 2.4), Suriname is a medium Human Development country. The higher the index, the better the conditions in terms of social human development in a country.

The available HDI information for 2008-2011 indicates a gradual improvement of the indicator. We can carefully draw the conclusion that the positive economic growth has indeed improved the human development conditions in the country, especially in the area of life expectancy which resulted in a higher health index and income.

Table 2.4 Progress in HDI and components in Suriname 2008-2011

Indicators	2008	2009	2010	2011
Life expectancy at birth (years)	69.7	70.0	70.3	70.6
Mean years of schooling	7.2	7.2	7.2	7.2
Expected years of schooling ⁷	12.6	12.6	12.6	12.6
GNP per capita (constant 2005 PPP \$)	6.924	7.034	7.261	7.538
Education index ⁸	0.636	0.636	0.636	0.636
Health index	0.785	0.789	0.794	0.798
Income index	0.607	0.609	0.614	0.619
Human Development Index (HDI)	0.672	0.674	0.677	0.680

Source: UNDP, Caribbean Human Development Report 2012

However, in 2011 Suriname is ranked at 104 in the world, a drop of 3 positions in comparison to 2010, due to an index adjustment for inequality. When the health, education, and income components of the HDI are adjusted for inequality, the HDI dropped to 0,518 in 2011; a 23.5% decrease compared to 2010.

⁷The expected years of schooling are calculated for children of school entering age. The estimates of this indicator are based on enrolment by age at all levels of education and population of official school age for each level of education. The component expected years of schooling is capped at 18 years.

⁸ The education index is the geometric mean of the mean years of schooling and the expected years of schooling.

3. Suriname Medium Term Outlook 2013-2017⁹

Macro-economic medium term outlook and sustainability

The medium term macro-economic outlook 2013-2017 for Suriname is very positive. However this positive outlook is mostly based on external factors, such as world market prices of the major export commodities of the economy: gold, oil and alumina.

The average annual real growth rate of the economy is projected at 4.4% in the period. As in the past, growth will be driven by the mineral industries around oil, gold, and bauxite refining. The world market prices of these commodities are assumed to hold up and stay buoyant in the coming five years. Two large international gold mining projects are expected to start operations over 2015-2017. There are also plans for infrastructure investments that are supporting the presented economic growth projections.

Table 3.1 Selected macro-economic projections 2013-2017

Indicators	2013	2014	2015	2016	2017
(in percent of GDP, unless otherwise indicated)					
Real GDP (percentage change)	4.7	4.0	4.3	4.5	4.6
GDP per capita in US\$	9,631.6	10,347.4	11,245.7	12,257.0	13,397.8
External current account balance	-3.5	-6.1	-7.6	-0.2	1.4
Gross international reserves (in months imports)	4.3	4.5	4.3	5.4	5.6
Government overall balance	-2.9	-4.0	-3.5	-3.2	-2.9
Government primary balance	-1.6	-2.4	-1.8	-1.4	-1.1
Exchange rate SRD/USD	3.4	3.4	3.4	3.4	3.4
Inflation (End of the Period)	2.8	4.7	4.0	4.0	4.0

Source: IMF, 2013 Article IV Consultation, December 2013 and calculations by SDMO

If the world market commodity prices fall significantly in the period or remain at a low level, this would impact the economy negatively and would present a whole new outlook. In order to mitigate the risks associated with the country's vulnerability to exogenous price shocks,

⁹ This chapter of the paper has been re-written in February 2014; replacing the projections of the local institutions with the projections of the IMF from the 2013 Article IV Consultation Report, which was published in December 2013.

the government of Suriname is in the process of setting up a Sovereign Wealth Fund that will receive windfalls profits from these sectors and create a buffer or reserve for difficult times.

Because of the expected higher gold output and new oil refinery that will be opened in 2014 will improved the current account balance in the medium term. The deficit in 2013 is due to falling gold prices in the second half of 2013.

The exchange rate of the Surinamese Dollar (SRD) against the US Dollar (USD) is assumed to be stable in the reference period. Domestic inflation is projected to stay at around 3.9% annually.

Government finance in the medium term is also expected to improve with an increase in revenue from the mineral sectors, but also from the non-mineral sectors due to the overall economic growth of the country. Government expenditure is projected to increase at a slower pace, thus leading to diminishing government deficits from about 4.0% of GDP in 2014 to about 2.9% of GDP in 2017.

The central government debt is expected to increase significantly in 2013 due to an intended bond issuance on the international capital market of about US\$ 600 million. The funds of the bond are intended to finance the government's share in two new joint venture companies between the government of Suriname and two multinationals in the gold sector. The total central government debt to GDP will gradually decrease after 2013 due to higher real growth rates of the economy in comparison to the government overall deficits in percent of GDP.

Debt sustainability in the medium term

The Suriname Debt Management Office (SDMO) uses a simple IMF model to assess debt sustainability in the medium term¹⁰. If the debt to GDP ratio grows explosively in the period, it can be concluded that debt is not sustainable.

¹⁰ The Debt sustainability Analysis (DSA) model is based on inter-temporal government budget constraint, where the change in the debt-to-GDP ratio is determined by the primary deficit, the changes in the real interest rate of the debt and the real economic growth of the economy. When the real interest rate of the debt portfolio is greater than the growth rate, the debt-ratio will tend to rise because interest payment increases the public debt level more than then the growth rate increases the level of GDP. So when real interest rates exceed growth rates,

Table 3.2 Debt Sustainability model¹¹: Debt-GDP ratio's for 2013-2017

<i>Baseline: Debt -GDP ratio</i>	Base year					
	2012	2013	2014	2015	2016	2017
Total Debt-GDP ratio	21.5	33.9	35.0	35.4	35.5	35.2
β	0.970	0.968	0.960	0.962	0.961	0.963
1+ average real interest rate	1.008	1.014	0.998	1.003	1.004	1.007
1+ average nominal interest rate	1.052	1.042	1.045	1.044	1.044	1.047
average nominal interest rate domestic debt: id	8.0	7.9	6.6	6.3	6.4	6.6
average nominal interest rate external debt: ie	2.8	2.6	3.7	3.5	3.4	3.7
real growth economy (GDP)	3.9	4.7	4.0	4.3	4.5	4.6
primary balance in % of GDP (pb)	-1.8	-1.6	-2.4	-1.8	-1.4	-1.1
Domestic inflation	4.4	2.8	4.7	4.0	4.0	4.0
percentage exchange rate depreciation (e)	0.0	0.0	0.0	0.0	0.0	0.0

Source: IMF, 2013 Article IV Consultation, December 2013

Table 3.2 presents the outcome of the model based on the macro-economic outlook. The maximum debt to GDP ratio for 2013 is increasing by 12.4 percentage points to 33.9%, due to the large capital market bond issuance and other debt attracted in the present year. After 2013 the debt to GDP ratio doesn't change significantly, which leads us to conclude that debt will be sustainable in the medium term. The Suriname government will be able to service its debt in the short and medium term, because of the positive economic outlook.

debt tends to become unsustainable and a permanent primary deficit emerges. If the real interest rate is below the growth rate, the country is able to sustain a permanent primary deficit.

¹¹ The variables and equation used in this model are:

$$d_t = \beta_t * d_{t-1} - ps_t$$

$$\text{parameter } \beta_t = (1 + r_t) / (1 + g_t)$$

id= interest rate on domestic debt

ie = interest rate on external debt

d_t = total debt-to-GDP ratio in year t

ps = primary surplus to GDP ratio in year t

r_t = average real interest rate on public debt in year t

g_t = real GDP growth rate in year t

e_t = rate of depreciation in year t

Average nominal interest rate = share domestic debt*(1+id)+ share external debt*(1+ie)*(1+e)

Average real interest rate = average nom. interest rate/domestic inflation

Human Development

As has been the case in the past, an improved HDI for the medium term can be expected as a result of positive economic outlook. Both the stability of the macroeconomic framework and the positive growth rates will support a continuous improvement in the HDI indicators.

4. Conclusions

The economic development of Suriname in the past five years has been stable with a low debt to GDP levels; one of the lowest in the Caribbean region. Economic growth led to an increase in per capita income.

Looking at the Human Development Index (HDI) of the UNDP for Suriname in the same period, one can carefully draw the conclusion that economic development indeed resulted in an improvement in human development.

The economic outlook over the medium term is quite favourable, with major economic indicators pointing towards a continuing and stable improvement in economic output and other macroeconomic indicators. This underpins the conclusion that government debt levels will be sustainable. Based on the experience of previous years, this lets us conclude that the outlook human development indicators will be equally positive, although a strict causality cannot be scientifically postulated.

Due to the fact that Suriname is a small open economy and very vulnerable to external shocks stemming from fluctuations in international commodity prices of its major export products, the positive economic outlook for the medium term is fraught with risks.

Literature

- Human Development Report 1997, UNDP, New York, 1997
- Caribbean Human Development report 2012, UNDP, New York, 2012
- IMF Article four mission reports on Suriname for 2013,2012, 2011
- Several reports of the Suriname Debt Management Office