DINERO

The sheriff has restored order to Suriname's economy

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Two months before the May 2020 elections, monthly inflation was running at 10%. If that pace were maintained, annual inflation would have reached 214%. In November 2019, the monetary base was growing at an annualized rate of 92%. The government had exhibited a fiscal deficit equivalent to 20.2% of GDP in 2019, which it financed with monetary issues by the Central Bank. To defend the exchange rate of 7.52 Surinamese dollars (SRD) to the dollar, the Central Bank had opted to lose 30% of its international reserves. The balance of payments' current account deficit, 11.9% of GDP in 2019, was totally unsustainable. Economic activity, measured through the variation in the Monthly Index of Economic Activity (MIEA), had collapsed by 24% between May 2019 and May 2020. 9% of all employees in the private sector and 7% of those in the public sector had lost their jobs. The real minimum wage showed an annualized drop of 26%. The loss of jobs and the fall in real incomes caused by the economic contraction and rampant inflation had led to a considerable increase in poverty.

It was in this scenario, hijacked by the Covid-19 pandemic, that on May 25, 2020 Suriname held elections to elect the Parliament which, in turn, with the vote of 2/3 of its members, would appoint the president who would assume the responsibility of dealing with this economic mega disaster. The Progressive Reform Party (PRP) chaired by Chan Santokhi, received 39.45% of the vote in the May 2020 elections, winning 20 of the 51 seats in Parliament. Santokhi, a police officer who had trained at the Netherlands Police Academy between 1978 and 1982, and served as Minister of Justice and Police under the PRP's ministerial quota during 2005-2010, was advancing along the inside lane in the race for the presidency. His policy of prevention and dogged pursuit of crime, especially drug trafficking, led the then president, Desi Bouterse, to assign him the nickname sheriff. Santokhi, running as the candidate of an alliance of parties totaling 33 of the 51 seats, was declared president by acclamation when no other candidate ran. Someone had to revive the Surinamese economy, which was lying on the floor, the result of the mortal wound inflicted by Bouterse's macroeconomic populism. The responsibility fell on the sheriff.

The inheritance received by Santokhi called for responsible action. While in the rest of the region governments loosened their fiscal policy and considerably expanded their deficits in the year of the pandemic, the Santokhi administration could not do so. It had received fiscal accounts with a deficit of 20.2% of GDP in 2019 and trending upward in the first half of 2020. The president and his team knew that, in the absence of adjustment and a reduction of financing with monetary issues from the Central Bank, Suriname would move without return towards hyperinflation. Aware that the fall in economic activity in 2020 would negatively impact revenues, the only option they had to cut the deficit was through a drastic reduction in public spending. Despite real GDP falling by 16% in 2020 and government revenues falling from 20.3% of GDP in 2019 to 18.2%, Santokhi managed to reduce the fiscal deficit from 20.2% of GDP in the pre-pandemic year (2019) to 12.0% in the Covid-19 year (2020). How did he achieve this? By reducing government spending from 40.5% of GDP in 2019 to 30.2% in 2020.

Chandrikapersad "Chan" Santokhi
Presidente de Surinam

The president and his team were aware that the effort made was not enough. The dramatic fall of 27.6% of nominal GDP in dollar terms during 2020 and the need to finance a still considerable fiscal deficit, placed public debt at 146.4% of GDP at the end of 2020. They had to deepen the fiscal adjustment to reduce the need for inflationary financing and get inflation to begin to subside. The beginning of the economic recovery in 2021 and the rise in mineral prices (gold and oil) that had been dragging on since 2020, allowed the government to increase fiscal revenues by 8.2% of GDP in 2021, of which 5.4 percentage points were contributed by direct taxes and other revenues (dividends) derived from mining. Despite this strong increase in revenues, Santokhi, acting responsibly, kept spending under control, allowing the latter to increase by just 1.9% of GDP. This prudent management of public finances resulted in a reduction of the fiscal deficit from 12.2% of GDP in 2020 to 5.7% in 2021, and a fall in public debt from 146.4% of GDP to 115.8%.

This policy was maintained through 2022, as a way of sending a strong message to the IMF of the new administration's commitment to the sustainability of public finances. While tax revenues rose by 0.4% of GDP, public spending was reduced by 2.6% of GDP, allowing the fiscal deficit to fall to 2.7% of GDP. On December 22, 2022, Suriname signed with the IMF an Extended Arrangement under the 3-year Extended Fund Facility that would provide the small economy with IMF disbursements of SDR 472.8 million. Under this agreement, Suriname implemented a tax reform, which, among other things, replaced the sales tax with a 10% VAT, established a protocol for electricity tariff increases, eliminated fuel subsidies, and reduced payroll spending by 3.7% of GDP between 2020 and 2023.

Under this agreement with the IMF, President Santokhi's government managed to reduce the fiscal deficit to 1.5% of GDP in 2023, a truly impressive result considering that it had inherited an imbalance of 20.2% of GDP in 2019. Public debt fell to 91.8% of GDP in 2023. The current account of the balance of payments, which has exhibited a surplus during all years from 2020-2023, ended 2023 with a surplus of 2.4% of GDP. The Central Bank's foreign exchange reserves, which had fallen to US$519.6 million in May 2020, rose to US$1,346 million by the end of 2023. The exchange rate, determined in a fully flexible market, has appreciated by 23% in the last 12 months, falling from SRD 38.30 per dollar in July 2023 to SRD 29.40 in July 2024. Monthly inflation, which President Santokhi received at 10% two months prior to his election, fell to 0.2% in June 2024, projecting that annualized inflation (Dec-Dec) could end up between 10% and 12% this year. The spread over its global bonds, which amounted to 3,800 basis points when Santokhi took office, has now dropped to less than 500.

The IMF could hardly exhibit, since the institution was founded exactly 80 years ago, a more successful example of adjustment and stabilization than the one executed by President Santokhi in Suriname during the 2020-2024 period. Unfortunately, at times, IMF missions are affected by a kind of myopia that prevents them from seeing that the imposition of excessive conditionalities that does not take into account the political times that governments face, can lead to the return of the populist policies that triggered the economic chaos that President Santokhi and his team inherited in mid-2020.

It is no secret to anyone that the magnitude of the fiscal adjustment executed in Suriname over the last 4 years must have negatively impacted the favorability of President Santokhi and his party. If the IMF were really interested in seeing the good economic policies that have been courageously and sacrificially executed by the Santokhi administration being sustained after the May 2025 elections, it should recognize that the reduction of the fiscal deficit from 20.2% of GDP in 2020 to 1.5% in 2023 is, for the time being, more than sufficient. Can the IMF show any other case of fiscal adjustment of such magnitude? Insisting on a further reduction to 0.9% of GDP this year and 0.0% in 2025 would only serve to allow the political opposition that has criticized Santokhi's economic policy to take majority control of Parliament in the May 2025 elections and reverse all that has been achieved to date.

After the Government eliminated all fuel subsidies and mandated an increase in electricity tariffs of 36% in 2023 and 38% in April 2024, demand four new increases in the electricity tariff of 7% each in May, July, September and November 2024 and the inclusion of electricity, cooking gas and water in the VAT tax base at a reduced rate of 5% starting in June 2024, it is a clear reflection that IMF missions sometimes fail to understand that excessive conditionalities can result in the time inconsistency of IMF programs: they take out of government those who tidy up the economy and put in the enablers of macroeconomic disorder. I am sure that if Gita Gopinath, IMF First Deputy Managing Director, and Pierre-Olivier Gourinchas, IMF Chief Economist, were to spend ten minutes analyzing what the IMF is demanding from Suriname in its Sixth Review of the Extended Arrangement, they would quickly identify the time inconsistency of this adjustment and stabilization program, a problem that arises when missions are staffed by theoretical economists with no experience in the world of political economy.

Articles by Andrés Dauhajre Jr. in *elCaribe* can be read at www.lafundacion.do.