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Inflation in Suriname: A historical analysis and implications for policy

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Abstract. This article sheds light on the composition of the consumer price index (CPI) and the evolution of headline inflation in Suriname from 1960 to 2023. According to prior studies, high inflation has been a reoccurring phenomenon in Suriname, originating from various sources. The article provides a narrative on the development of inflation based on the available literature. The article also briefly explains the central bank's role in maintaining price stability. The article concludes with thoughts on structurally solving the problem of reoccurring high inflation episodes in Suriname.
Keywords. Inflation, Suriname, Monetary Policy, Fiscal Policy.
JEL. E31; O11; E52; E62.

1. Introduction

Suriname has been plagued by multiple spells of high inflation. This paper attempts to provide a narrative on the various episodes of inflation in Suriname, elaborating on the sources of inflation according to empirical literature. The article also attempts to present some thoughts on how inflation in Suriname can be cured structurally.

2. Composition of the Consumer Price Index

The CPI is a measure of the development of prices of a basket of goods and services purchased by households over a certain period, for instance, in a certain month compared to the previous month (month-on-month inflation) or compared to the same month in the previous year (year-on-year inflation). The basket of goods can be fixed or changed after a household budget survey (HBS), for instance as outlined in the CPI Manual produced by the International Labour Organization, International Monetary Fund (IMF), Organisation for Economic Co-operation and Development, European Union, United Nations, and The World Bank (2020). The CPI Manual recommends measuring the CPI in a particular period (i.e., month) using a Laspeyres index as follows:

$$CPI_t = \frac{\sum(p_{t+1} * q_t)}{\sum(p_t * q_t)} \quad (1)$$

where p_t and q_t are respectively the price and the quantity of a good or service in a base period,while p_{t+1} is the price for the same good or service at another point in time. Inflation, the change of the CPI in a particular period, is an essential gauge of a country's economic performance. The

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inflation rate is also used as an input for wage negotiations and monetary policy decisions.

In Suriname, the General Bureau of Statistics (ABS) compiles the CPI using the aforementioned method. To gain better insights into households' spending, the ABS regularly (i.e., every five years) conducts an HBS in accordance with International Labor Organization Guidelines. The CPI is a measure of the average change in the price of a basket of goods and services for consumption purposes in terms of price and quality. Suriname's CPI basket contains 316 items, anno 2024. Prices for these items are recorded in the districts of Paramaribo, Wanica, Nickerie, Commewijne, Saramacca, Coronie, and Para at approximately 630 measurement points (ABS, 2022).

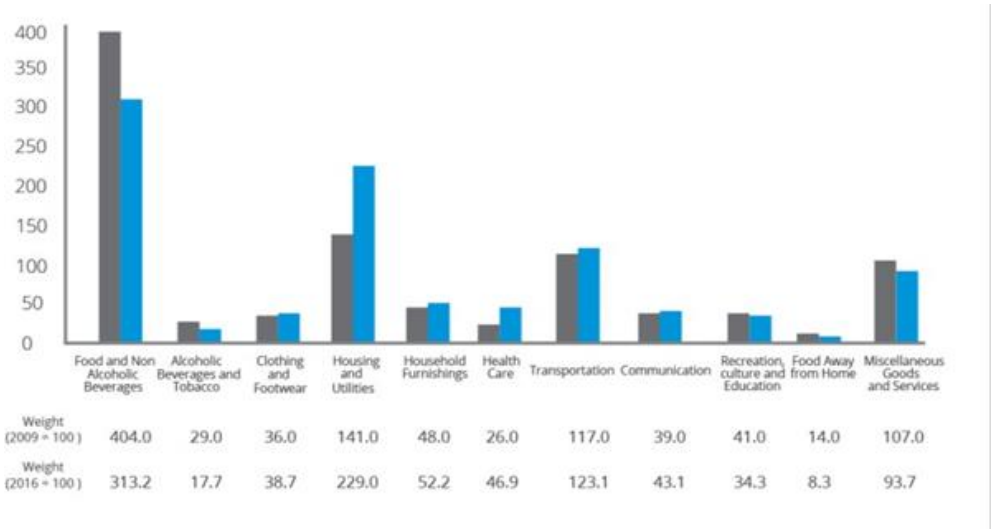

Figure 1. *CPI weights*
Source: ABS.

Suriname's CPI consists of 12 major groups (Figure 1) and 32 subgroups using the Classification of Individual Consumption according to Purpose guidelines[1]. Following an HBS conducted from 2013- 2014, the latest reference period of Suriname's CPI was set in April-June 2016 (ABS, 2022). Currently, Food and Non-Alcoholic Beverages have the largest share in the CPI basket (31.3%), followed by Housing and Utilities (22.9%). Headline inflation in Suriname is measured by the year-on-year change in the CPI. Whereas figures on annual inflation are available as of 1960, official data on monthly CPI for Suriname is available as of 2007. As far as can be ascertained, Suriname has no formal measure of core inflation.

3. A Historical Analysis

This section presents a general introduction to the Surinamese economy, followed by a thorough analysis of the development of headline inflation in Suriname between 1960 and 2023. Inflation is defined as the year-on-year change in the CPI. The section also presents developments in key economic indicators[2].

[1] These guidelines were developed by the United Nations Statistics Division
[2] Graphs throughout this paper have different sample periods due to a lack of availability of data. For instance, monthly inflation rates are only available as of 2007.

3.1. General Overview of Suriname's Economy

Suriname is characterized as a small open economy, with a population of just over 600,000. The country is highly dependent on the mining sector, with mining contributing to the gross domestic product (GDP) for around 25 percent and around 80 percent of total exports in recent years (Fraser, Narain & Ooft, 2020).

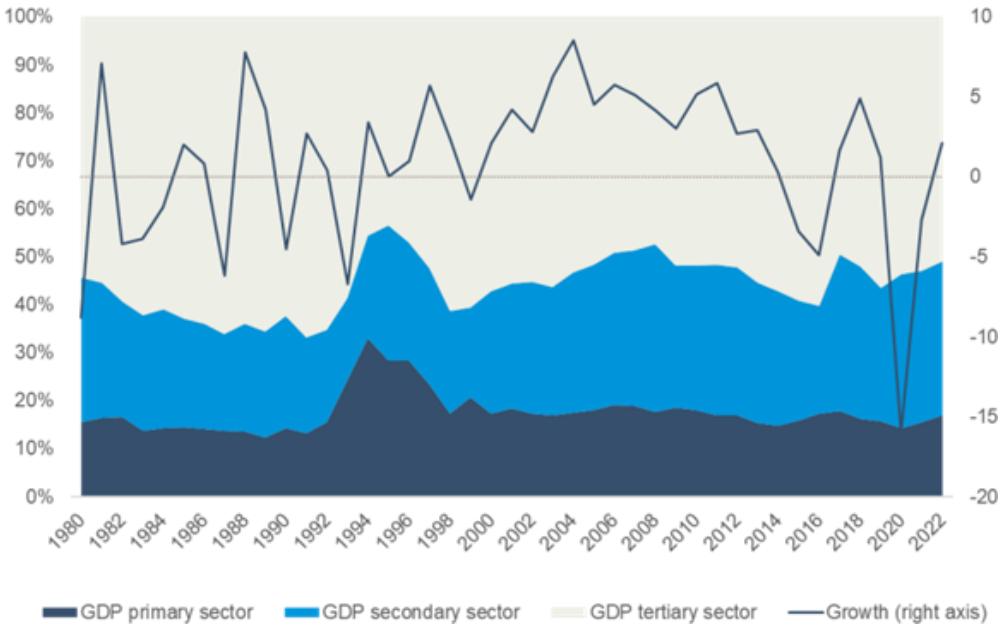

Figure 2. *GDP growth and composition of GDP*
Source: author using data from the ABS.

Whereas, for years, the bauxite sector was deemed "the cork on which the economy floated," the local crude oil and gold sector boomed in the past two decades. Bauxite operations ceased in 2015 (Stichting Planbureau Suriname, 2017). Khemraj & Pasha (2023) argue that Suriname suffers from a resource curse, remaining highly dependent on the mining sector and underindustrialized. This dependency is reflected in the declining share of the manufacturing sector in GDP (Figure 2), while the services sector – including civil services – expanded rapidly. The services sector expanded from around 40 percent of GDP in the 70s to over 51 percent of GDP in recent years, according to Khemraj & Pasha (2023). Recent oil discoveries may pose opportunities for the country. Suriname's dependence on the mining sector makes it extremely vulnerable to external shocks. The aforementioned, in combination with unsustainable fiscal spending throughout history – reflected in fiscal deficits and increasing public debt – contributed to numerous exchange rate depreciations (see Braumann & Shah, 1999; Caram, 2007; Ooft, Fraser & Harangi-Narain, 2022).

As households and firms in Suriname depend mainly on imported consumption goods – reflecting the dependence on foreign-exchange availability – exchange-rate shocks rapidly translate into cost- push inflation. Ooft, Fraser, & Harangi-Narain (2022) estimate an exchange-rate passthrough of 0.9 in the long run, while the short-run passthrough is estimated at 0.6, similar to the findings of the IMF (2019). The latter study comes across a cumulative exchange-rate passthrough between 0.4 in the very short run (i.e. six months) and 0.6 within one year, utilizing a sample of monthly data from

1980-2019. The study shows that the exchange-rate passthrough has intensified over time, surpassing 0.7 in the 21st century. On a disaggregated level, the exchange-rate passthrough is higher in CPI groups that are associated with relatively larger foreign exchange transactions, such as housing and utilities.

Table 1. *Inflation, end-of-period (in %)*

	0	1	2	3	4	5	6	7	8	9
196x	2.2	2.1	2.1	2.8	3.2	1.9	4.5	3.6	n.a.	2.0
197x	0.6	-0.6	3.8	28.9	3.3	8.4	13.7	3.3	10.0	14.8
198x	7.7	6.3	4.2	4.4	15.6	30.2	52.2	-7.6	2.1	31.5
199x	31.5	30.0	57.5	224.8	586.5	36.9	1.2	17.4	22.9	112.8
200x	76.2	4.9	28.4	14.1	9.1	15.8	4.7	8.3	9.4	1.3
201x	10.3	15.3	4.3	0.6	3.9	25.1	52.4	9.3	5.4	4.2
202x	60.8	60.7	54.6							

Source: ABS

The country experienced multiple episodes of persistent and high inflation[3] since its independence in 1975 (Table 1). This indicator registered a standard deviation of nearly 80 between 1960 and 2022, peaking at 586.50 percent in 1994 on the back of a multiple exchange rate crisis. The price level (i.e. CPI) was over 25.000 times higher in 2022 compared to 1960, resulting from economic, political, and external shocks. Comparing Suriname's inflation rates to other countries, it by far surpassed rates within Latin America and the Caribbean. The most critical episode of high inflation in the history of the Surinamese economy, so far, occurred during 1993-1994. Caram (2007) ascribes inflation in this period to a rapid expansion of the money supply, inducing an exchange-rate depreciation.

3.2. Pre-independence and Early Years of Independence (1960-1979)

The annual inflation rate in Suriname averaged 5.8 percent between 1960 and 1979. The 60s and early 70s predominantly noted low inflation. However, inflation accelerated in some years mainly due to cost-push factors as there was a sharp increase in commodity prices, including energy prices, partly due to the buoyant cyclical recovery of the industrial countries. Due to the oil crises in 1973, the price of oil had risen from USD3 per barrel to nearly USD12. At that time, Suriname was an oil importer. Consequently, domestic factors such as the increase in import duties on consumer goods exacerbated the effects on local inflation. Braumann & Shah (1999) explain the importance of Development Aid received from the Netherlands since independence, amounting to over 9 percent of Suriname's GDP per annum. This developing aid was often used to stabilize the exchange rate. Moreover, gaps in public finance were financed with central bank advances, causing an increase in liquidity (Caram, 2007).

[3] There is no consensus in the literature on the thresholds for high inflation and hyperinflation. In this study, inflation is considered high when it surpasses 10 percent on a year-on-year basis. Cagan (1956) defines hyperinflation as inflation exceeding 50 percent per month for consecutive months. More recently, the IFRS foundation (2023) considers inflation that cumulates over 100 percent over a period of three years to be hyperinflation

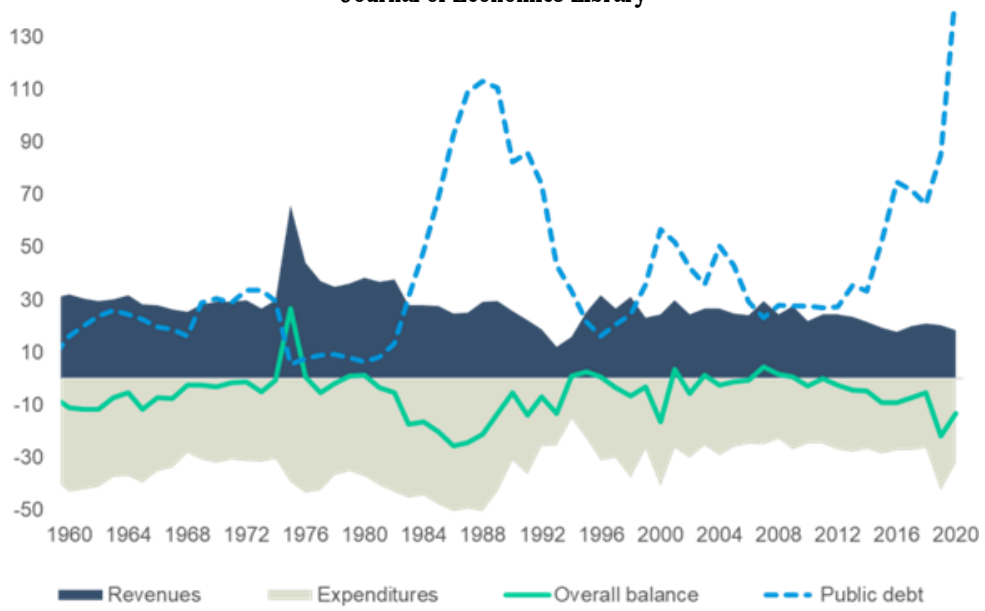

Figure 3. *Fiscal Indicators (in % of GDP)*
Sources: CBvS, IMF

3.3. Military Regime (1980-1987)

Following the 1980 Surinamese coup d'état, the country came under a military regime between 1980 and 1987. In contrast to many countries in Latin America, which were plagued by low growth, high inflation, and piling foreign debt, Suriname's inflation rate performed relatively well. During this period, inflation averaged 14.1 percent per year, mainly caused by domestic factors. Public revenues fell sharply, partly because of the discontinuation of the development assistance from the Netherlands between 1982 and 1987 and partly due to the tremendous fall in tax payments from the bauxite sector to the government between 1980 and 1986. Moreover, wage increases, and relatively high spending on military expenditures exacerbated public deficits (Figure 3). Due to a lack of other financing options, these deficits were financed by the central bank, leading to excessive money creation (Braumann & Shah, 1999). Prices started accelerating between 1984 and 1987. Braumann and Shah argue that the effects of the exponentially growing money supply on inflation became evident with a substantial lag, namely in the early 90s, possibly due to price controls during the 80s. Monetary aggregates grew by over nine times during the 80s. During this period, the parallel exchange rate market emerged.

3.4. Post-military Regime (1988-1991)

In 1988, the new government tried to stop inflationary deficit financing by implementing a remediation program. On the other hand, government revenues increased as the world prices for aluminum improved, and the Dutch development assistance was partially reactivated. Foreign currency at the official exchange rate was made available for the financing of imports. This, in combination with price controls and controls on trade margins, caused the inflation rate to drop significantly in 1988. As these controls were eased in 1989, inflation accelerated. Caram (2007) points out that this acceleration was accompanied by the increasing exchange rate of the U.S. dollar on the parallel market. As a result, domestic production and economic growth slowed down

while the export sector was disrupted. Accordingly, the official gold and U.S. dollar reserves declined to almost zero by the beginning of the 1990s. Moreover, in 1991, the parallel market exchange rate was over ten times higher than the official exchange rate, which was set at 1.785 in 1971 (Braumann & Shah, 1999).

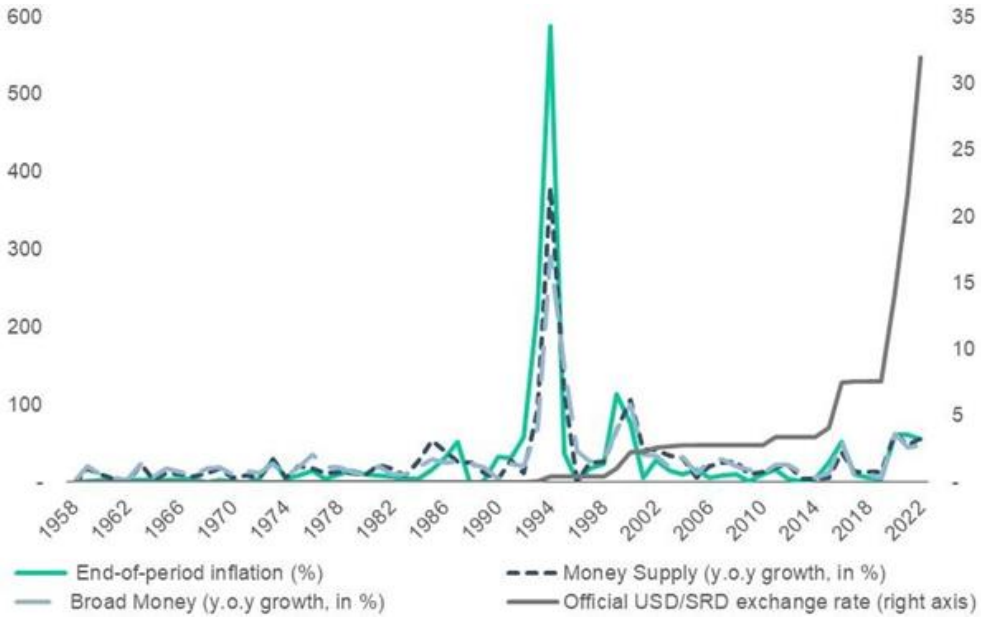

Figure 4. *Exchange Rate, Inflation and Money Growth*
Sources: ABS, CBvS

3.5. High Inflation and Structural Reforms (1992-2000)[4]

The early 90s were characterized by exceptionally high and entrenched inflation in the aftermath of excessive money creation of the previous decade, while an exchange-rate crisis emerged (Figure 4). Inflation averaged 126.2 percent per year between 1992 and 2000. In Suriname, however, despite government revenues plummeted, expenditure increased significantly. The fiscal deficit, which stood at 17 percent of GDP, was almost completely financed by the central bank, inducing monetary overhang. In addition, the implementation of a structural adjustment program, which included the introduction of a multiple exchange rate system in October 1992, had a detrimental impact on the economy and the inflation rate.

At a certain point between 1992 and 1993, the multiple exchange rate system encompassed seven exchange rates for different commodities. As foreign reserves were depleted while the multiple- exchange rate system soon proved to be speculative and ineffective, the country was left with no choice but to adjust the official exchange rate in July 1994. The country's inflation surge was in stark contrast to Latin American economies, which started to recover from the economic crisis of the 80s due to institutional improvements (Figure 5).

[4] Sources: Braumann & Shah (1999), Stuseco (1996), Fritz-Krockow et al. (2009), Ooft et al., (2023).

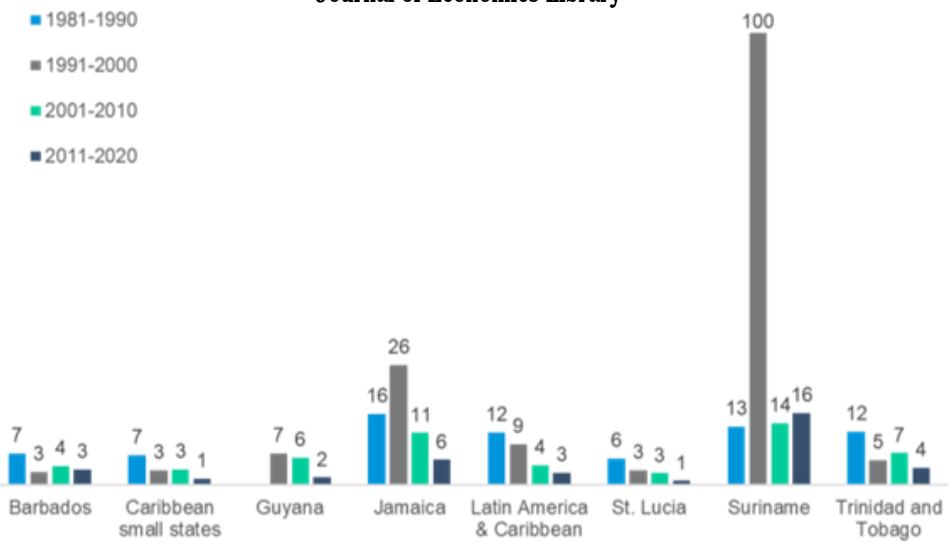

Figure 5. *Comparison of Average Annual Inflation Rates (in %)*
Note: Latin America & Caribbean excludes Venezuela. Source: World Bank

After several devaluations, policymakers implemented a market exchange rate in July 1994, which induced cost-push pressure and caused the annual inflation rate to exceed 586 percent. On the other side, increased international trade earnings (i.e. taxes and duties) in local currency contributed to improved government finances. Moreover, by issuing Powisie Gold Certificates in 1995, the central bank attempted to remove the excess liquidity in the economy. This, in combination with a fiscal discipline and current account surpluses – partially aided by increasing international bauxite prices – improved the macroeconomic environment, and inflation receded in 1995-1996. Real interest rates even turned positive. However, discontinuation of the structural adjustment program and expansionary fiscal policy elevated macroeconomic imbalances. Public sector wages were adjusted by over 80 percent in 1998, rekindling fiscal deficits. As a result, money supply, exchange rate, and inflation pressures re-emerged between 1997 and 2000, with inflation even reaching triple-digit figures in 1999.

3.6. Stability and Growth (2001-2013)[5]

The period between 2001 and 2010 is characterized by disinflation. On average, the annual inflation rate was below 10 percent. The economy boomed, registering an average annual economic growth of over 4 percent. The adjustment of public sector wages and a drop in government revenues in 2002 resulted in a budget deficit of 6 percent of GDP (Figure 3). Therefore, confidence decreased, the exchange rate on the parallel market depreciated, and deficit financing and price pressures emerged in 2002. While monetary policy was focused on keeping money creation from domestic sources within acceptable proportions, the preconditions were created to reduce pressures on the exchange rate and the general price level in 2003. This policy was continued in 2004 together with the introduction of the Surinamese dollar. Cost increases determined the price level in 2005, caused by a doubling of fuel prices with second-round effects in other sectors of the economy.

[5] Ooft, G., Fraser, & Harangi-Narain (2022) and sources therein

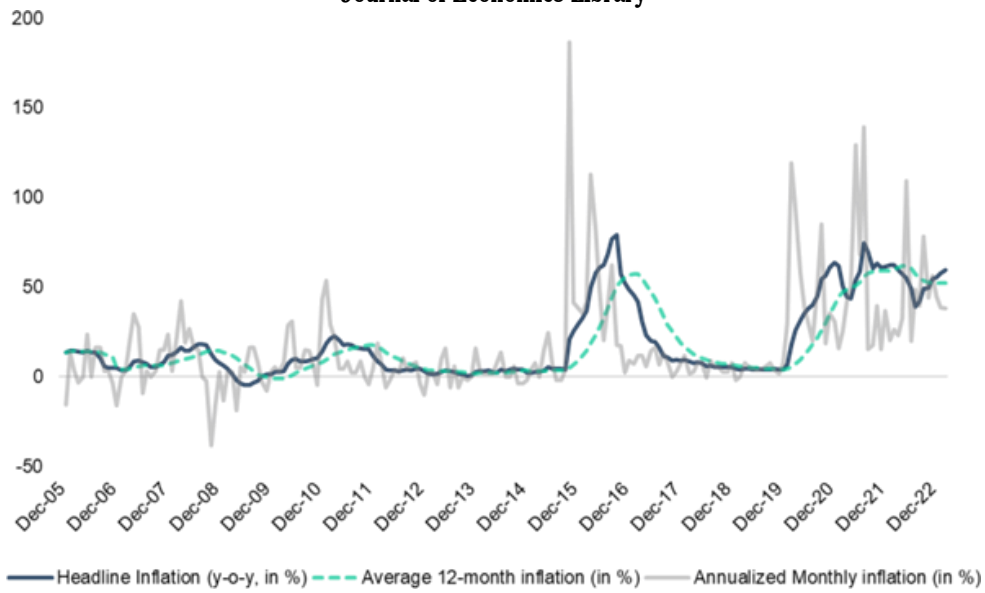

Figure 6. *Inflation in recent decades*
Source: author's calculations with data from the ABS

Contractionary monetary policy contributed to the relatively low inflation rate in 2006. The changes in the domestic price level in 2007 were largely determined by the rise in world market prices for food and fuel, as well as the depreciation of the euro. Controlling the liquidity creation in the economy as well as the exchange rate in the period 2006 to 2008 contributed to price developments in this period. Inflation in 2009 dropped significantly due to imported deflation of especially international food prices. Speculative demand for foreign currency and the effects of the higher exchange rate contributed to an increase in the inflation rate in 2010 (Figure 6). In addition, the increase in world prices of food and petroleum products, expansion of the money supply through private sector lending, and government spending contributed to a rapid increase of domestic liquidity and, subsequently, the level of inflation this year. Hence, the official exchange rate was adjusted in 2011 from SRD2.78 per USD1 to SRD3.35 per USD1. The accelerated growth of the liquidity in the economy in 2011 was essentially a reflection of the effect of the official exchange rate adjustment on the foreign currency component of the money supply. The continuation of consistent monetary and exchange rate policies resulted in a low level of inflation in 2012. These policies include raising the reserve requirement ratio for domestic and foreign currency and interventions in the local foreign exchange market.

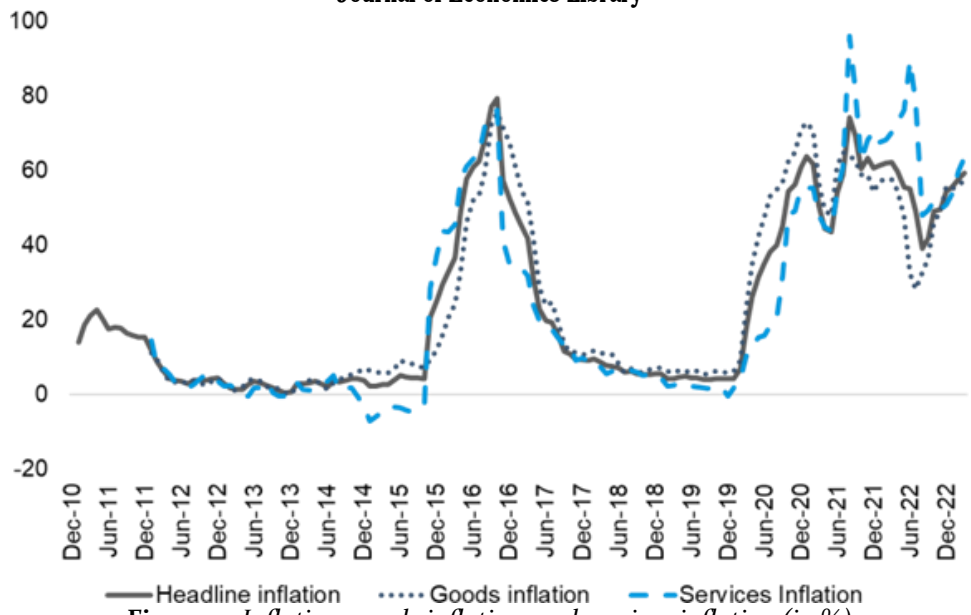

Figure 7. *Inflation, goods inflation, and services inflation (in %)*
Source: author's calculations using data from the ABS[6]

3.7. Accumulating Challenges (2014-2019)

Public spending soared, starting in 2013, in the run-up to the 2015 elections. The economy was once again plagued with excessive money creation, exchange-rate pressures, and inflation in its starting blocks. In 2015, inflation started accelerating due to the depreciation of the local currency induced by macroeconomic imbalances. These imbalances were mainly driven by fiscal deficits and slumping commodity prices, which would continue into the next year. These fiscal deficits were financed by central bank loans of nearly 12 percent of GDP (Agur et al, 2022; International Monetary Fund, 2019). The economy contracted by over 10 percent in 2016 due to the stop of bauxite operations in 2015, exacerbating the already sluggish growth (Alleyne et al, 2017; Khadan, 2018; Stichting Planbureau Suriname, 2017). To reduce the government deficit, the partial elimination of subsidies caused a doubling of tariffs for electricity and water between 2015 and 2016, adding to transitory price pressures (Alleyne et al, 2017; International Monetary Fund, 2019).

[6] Goods and services inflation are approximated by the author and not by an official institution. To calculate goods inflation, the author constructed a weighted average index of CPI subgroups: bread and grains, meat and meat products, fish, fish products and shrimps, milk, dairy products and eggs, butter, oils and fats, fruits and vegetable, sugar and sugar products, soft drinks, juices and mineral water, other food and non-alcoholic beverages, alcoholic beverages and tobacco, adult clothing, child clothing, adult footwear, child footwear, furniture and household textiles, household appliances and goods, pharmaceutical products, means of transport, pets, meals outdoors, sandwiches, donuts and snacks, and beverages outdoors. To calculate services inflation, the author constructed a weighted average index of CPI subgroups: housing, maintenance, home repair and utilities, medical and paramedical services, operation, maintenance and repair of transport equipment, transport services, gardening, and culture and education. The subgroups other goods and services for home furnishing, communication equipment and communication services, recreation equipment, goods and services, and other goods and services were equally distributed (i.e. 50/50) across the goods and services index respectively. Weights are based on the ABS household budget survey 2013/2014. Inflation rates were calculated as the year-on-year change in constructed indices.

Particularly after the COVID-19 pandemic, inflation has been driven mainly by services inflation (Figure 7).

In April 2016, the central bank and the government signed a Memorandum of Understanding to halt monetary financing by the central bank – at least temporarily. In 2018, the exchange rate remained stable, the economy expanded slightly, and inflation receded to single digits. However, wage increases exceeding 25 percent as of late 2018 widened the fiscal deficits, while current-account deficits intensified in 2018 and 2019. Due to the scarcity of foreign exchange and partially due to uncertainty, the discrepancy between the official and the parallel market exchange rate widened in 2019. With the 2020 elections approaching, fiscal expenses continued growing while financing options were limited, leaving the government little choice but to borrow from the central bank (Agur et al, 2022; Alleyne et al, 2020). Monetary financing in 2019 and 2020 induced upward pressures on the exchange rate, resulting in an exchange-rate depreciation exceeding 130 percent, and accelerating inflation (IMF, 2021). Mid 2020, the parallel-market exchange rate, used for the bulk of financial transactions, was almost twice the official rate of SRD 7.52.

3.8. Inflation, the COVID-19 Pandemic, and an Emerging Public Debt Crisis (2020-2023)

The COVID-19 pandemic added to the country's woes, as economic activity, exports, and foreign- exchange earnings dwindled further. Moreover, from a healthcare point of view and relative to its population, Suriname was the most affected country in the Caribbean. In 2020, the economy contracted by nearly 16 percent, leaving the debt-to-GDP ratio at a record high of 115 percent (Figure 3). To curb inflation further, the central bank scaled up open market operations in 2021 as an additional monetary policy instrument. Following negotiations, creditors granted postponements of debt repayments until 2021, which benefited the country's fiscal position (Alleyne et al, 2023).

The country entered a 3-year extended fund facility of USD 688 million with the IMF, approved in April 2021, with the purpose of restoring macroeconomic stability and bringing back inflation to single digits. Moreover, this program aimed to restore external and fiscal imbalances, while external debt would be brought back to 60 percent of the country's GDP. Prerequisites of this program included a shift towards a floating exchange rate and a more active CBvS monetary policy regime, i.e. reserve money targeting (IMF, 2021) by means of open-market operations. Despite the IMF program, the exchange rate continued following an upward path, inducing high inflation in 2021, 2022, and 2023. As energy subsidies were being eliminated as agreed upon with the IMF, cost-push pressures also emerged in this period. To further reduce fiscal imbalances, the government implemented a value-added tax in January 2023, adding to inflation woes. Between 2020 and March 2023, the SRD depreciated by over 400 percent[7], while cumulated inflation surpassed 340 percent.

4. Brief overview of monetary policy

The CBvS is mandated to promote stability in the value of the Surinamese currency, thus ensuring price stability (De Nationale Assemblée, 2010). In the

[7] From USD1 = SRD7.52 in June 2020 to USD1 = SRD37.66 in May 2023

2023 Central Bank Act, ensuring financial stability was added to the legal mandate of the CBvS (De Nationale Assemblée, 2023)[8]. To achieve price stability, the CBvS has used instruments aimed to stabilize either the exchange rate or the money supply since its founding in 1957. Throughout history, the CBvS used instruments such as credit ceilings, required reserves, foreign exchange interventions, and open-market operations. In 2001, the CBvS implemented required reserves for commercial banks. This facility, which reduced commercial banks' need to retain additional liquidity in their working account with the CBvS, was aimed at enabling the CBvS to implement more effective liquidity management policies (CBvS, 2021). Before 2016, the CBvS mainly maintained a pegged or managed floating exchange rate.

In 2016, the CBvS transitioned to a reserve-money targeting regime. Under this regime, the CBvS initiated open-market operations. The operational and intermediate targets for the monetary aggregates are determined within this monetary framework in order to attain price stability. The primary goal of this regime is to attain the lowest annual inflation rate feasible. Meanwhile, the required reserves instrument was being maintained. Since the reserve-money targeting regime cannot concurrently target base money and the exchange rate, the country switched from a de-facto pegged exchange rate system to a floating exchange rate system. Under the floating exchange rate system, the exchange rate is determined by supply and demand for foreign exchange (CBvS, 2023).

5. Conclusions

Inflation has been an ongoing phenomenon in Suriname, originating from various sources, according to prior studies. Some studies attribute the various inflation episodes to poor fiscal or monetary policy choices. Braumann & Shah (1999) argue that mainly fiscal factors, i.e. large budget deficits, were the primary source of inflation between 1980 and 1999. These budget deficits have often been financed by the central bank, inducing money growth. In the 21st century, inflation accelerated in 2015-2016 and again between 2020 and 2023 on the back of fiscal spending, money growth, and exchange-rate pressures. Deteriorating external balances, often induced by commodity price shocks, added to domestic local price pressures throughout history. Khadan (2018) puts forward that tackling fiscal deficits should be among the top priorities to reach sustained economic development. The country should also focus on stimulating productivity, investing in human capital, and boosting non-mining economic activities – hence increasing resilience to external shocks – to foster long-term growth.

6. Policy recommendations

Empirical studies on inflation in Suriname have shown that this phenomenon can be mainly ascribed to (1) expansionary fiscal policy accompanied by monetary financing by the central bank (2) exchange-rate depreciations due to a high exchange-rate passthrough. Based on these findings, the following can be recommended:

i. The government should aim at maintaining a non-negative fiscal balance. Legislators are encouraged to institutionalize this prerequisite

[8] Bankwet article 9 (G.B. 1956 no. 97; SB 2023 no 65).

for low inflation in the form of enforcing fiscal rules. Fiscal rules for budget deficits or spending caps could be considered (see for instance Davoodi et al., 2022). It is best practice that budget deficits do not exceed three or five percent of the GDP.

ii. As the exchange rate is the key influencer of inflation in Suriname, policy should be geared toward improving the net foreign exchange earning capacity of the economy. Measures to boost exports, such as stimulating innovation, improving competitiveness, and making doing business easier, may improve the availability of foreign exchange could be considered in this regard.

iii. However, under a de facto flexible exchange rate, the exchange rate is allowed to move freely. To limit the impact of the exchange rate on inflation, policies should be considered to lower the passthrough of the exchange rate on local prices. Lowering the exchange-rate passthrough can be achieved by improving trade openness and increasing central bank credibility (Choudhri & Hakura, 2006; Ha, Stocker & Yilmazkuday, 2020).

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