

## **Downside Risks to Global Growth and Prospects for Suriname**

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Distinguished brothers and sisters,

As-salamu-alaikum warah matullahi wabarakatuh

I feel privileged and grateful to address this forum today, and I would like to thank our host, The Central Bank of the Republic of Turkey, for inviting me to contribute as one of the lead speakers to the 1st session on “OIC Economic and Financial Outlook”.

I would like to address some major downside risks facing the global economy and the challenges for and policy responses of Suriname. In addition, allow me to share with you how the Central Bank of Suriname is planning to move forward in promoting monetary and financial stability as well as socio-economic development.

### ***Global risks***

The report of the Central Banks Forum Working Groups provides a good overview of the current state of the global economy and the position of various categories of countries in the world, including the members of the OIC. The report points to slowdown in global economic activity and weaker international trade and investment. The trade dispute between the USA and China largely underlies the current economic uncertainty and the associated downside risks. Moreover, geopolitical tensions, the recent economic malaise in Argentina, and political unrest in Hong Kong exacerbate these risks.

Thus far, nothing points to a rapid resolution of the trade dispute between the USA and China. On the contrary, we notice that further increases of import tariffs is intensifying the conflict. The persistent uncertainty surrounding the trade tension has induced heightened investor risk aversion

and financial market volatility. Furthermore, the conflict has led to a fall in global oil prices and higher capital outflows from emerging economies. As a result, investment and demand for consumer durables have been subdued across advanced and emerging market economies as firms and households continue to hold back on long-term spending. The trade dispute will also indirectly affect third countries through disruptions of the global value chains.

Highly integrated countries will experience a decrease in demand for intermediary inputs, since the trade protection not only hurts the assembling countries, but also suppliers along production chains. The impact on small member states might be limited, given the relatively low degree of participation in global production chains. However, weaker energy prices and slowing global demand, especially from China, could significantly affect energy exporters. Besides, slower growth in China and the USA would weigh in on global demand for commodities, which will mostly affect commodity exporters, countries with significant linkages with China and other global markets as well as those with large refinancing needs.

Some OIC members have built up mechanisms over the years to cope with large fluctuation in the global economy. However, small OIC members, such as Suriname, show less resilience to cope with large fluctuations in prices of mineral products. In this regard, it is important that policymakers in the OIC recognize the possible consequences and start responding to these at an early stage.

### *Challenges for Suriname*

Suriname is a small upper middle-income country with a population of around 550,000 and a per capita GDP of US\$ 6,700. The country is highly dependent on the exports of oil, gold and some agricultural products, and has been repeatedly buffeted by international commodity price shocks. In 2015 and 2016, the economy contracted sharply due primarily to falling international commodity prices, but growth returned in 2017. The medium term growth outlook is between 2-3% per annum, while inflation is projected around 4% in 2019 coming down from an average of 55% at the height of the crisis.

The global downside risks affect the Surinamese economy through the trade transmission channel. As Suriname is not highly integrated into the international financial markets, the effects of the global uncertainties are transmitted through the decline of international oil prices and/or gold prices, which affect export earnings and fiscal revenues.

Another challenge lies in the de-risking strategies adopted by global banks, which impairs an efficient settlement of international payments. The Central Bank is seeking new relationships with

other international banks and is developing and modernizing the legal and institutional framework to meet and exceed required standards. This will also allow correspondent banks to perform due-diligence checks.

In March 2019, the Surinamese government, in line with the guidelines of the Caribbean Financial Action Task Force, committed itself to the implementation of the National Risk Assessment (NRA) and the preparation of the corresponding national risk assessment report. The President of the Republic of Suriname launched the NRA, the process of mapping out possible activities of money laundering or terrorist financing and the measures taken by the country against these activities, on July 15, 2019.

Unfortunately, the unlawful seizure of a euro banknote shipment in April 2018 by the Dutch Public Prosecutor had and still has major adverse effects on our economy. Suriname is still a large base cash economy, and therefore money shipments are indispensable for meeting the demand for US dollars in the economy. In this regard, euro banknotes are exported in exchange for cash US dollars to meet the USD demand on the local FX market, but also to credit the nostro-accounts of local commercial banks. Due to the seizure in 2018, no euro money shipments can take place, which also applies to the import of USD banknotes. The Central Bank has made foreign exchange available to the commercial banks to guarantee international payments transactions. The Central Bank has since filed a complaint against this unlawful seizure. The Dutch Court will handle the lawsuit on 5 November 2019. In the meantime, the Central Bank has successfully negotiated with various parties to resume money shipments. As a matter of fact, the Central Bank has already been taken aboard by the Federal Reserve Bank for currency services. I am pleased to inform you that the first USD banknotes shipment took place on September 13, 2019.

### ***Policy responses***

The Central Bank of Suriname put forward institutional measures to enhance monetary and financial stability geared towards promoting inclusive growth. The measures include:

- Adoption of a monetary targeting regime. For this purpose, new instruments such as term deposits, Gold Certificates and Certificates of Deposit, were introduced to manage liquidity in the banking system.
- Build-up of International Reserves. The international reserves are projected to increase to over US\$ 800 million by the end of 2019 (6 months of import cover), driven by new Central Bank policies, including the transfer of required foreign currency reserves of commercial banks previously held abroad to the Central Bank as well as increased gold purchases.

- Establishment of a Monetary and Fiscal Policy Coordination Committee (MFPCC) with the Ministry of Finance on May 24, 2019. This MFPCC provides a forum for both authorities to ensure consistency between fiscal and monetary policies and serves as a platform to discuss issues of mutual interest.
- Establishment of a Strategic Investment Wealth Fund (collateralized national assets to finance production) and the operationalization of a sovereign wealth fund, aimed at stabilizing revenue from extractive industries.
- Introduction of new and amended financial and supervisory legislation.
- Capacity building by establishing a Central Bank Academy.
- Promoting financial inclusion to ensure that everyone in society has effective access to financial services, including having a debit card and bank account.
- Setting up a specialized department to facilitate Fintech developments.

### ***Concluding remarks***

Going forward, the CBvS will ensure that the economy of Suriname remains on a sustainable growth path, while maintaining monetary and financial stability. The abundance of natural resources will be utilized to improve the standard of living in Suriname. A major opportunity lies in the nearshore and offshore oil exploration. The State Oil Company is planning to tap the international financial markets in 2020 to raise capital to finance offshore exploration. We are very optimistic to strike big oil soon. With an estimated resource potential of 13.6 billion barrels, the Guyana-Suriname Basin has all the ingredients to become the next major oil province. Since small states are typically subject to structural constraints, the Central Bank will act as an incubator to spearhead initiatives to accelerate socio-economic development in Suriname to directly influence the current account and absorb eventual shocks in the future.

Dear brothers and sisters, I thank you for your attention.

Salam