

Suriname

1. General trends

Despite the cooling of international commodity prices in the second half of 2008, the Suriname economy maintained 5.2% growth in 2008, down only slightly from the rate of 5.3% achieved in 2007. Growth was led by construction, mining, and wholesale and retail commerce, restaurants and hotels. An overall fiscal surplus of approximately 2.1% of GDP was recorded, compared with 5.7% in 2007. The Central Bank maintained its Suriname dollar (S\$) cash reserve requirement at 25%, and both deposit and lending rates remained stable, ending the year at 6.3% and 12.0% respectively. Domestic credit expanded by 20%, and the December-December inflation rate stood at 9.4% (8.3% in 2007), although by April 2009 this indicator had dwindled to 0.8%. Once again, the balance-of-payments current account exhibited a surplus (equivalent to 14.5% of GDP). The government continues to focus its fiscal policy on promoting growth, while its monetary policy targets inflation. In 2009, GDP is expected to grow by 2.5%.

2. Economic policy

The overarching economic policy aims continue to be inflation targeting, facilitating economic growth in general and export growth in particular, and maintaining sustainable debt levels.

(a) Fiscal policy

The fiscal accounts remained in surplus for 2008, with current revenue increasing for the fifth year running, owing to the continued favourable international prices for minerals in the first half of the year and also to higher-than-expected tax revenue from construction and infrastructural activity. While a severe downturn in aluminium prices resulted in a 47% drop in tax revenue from that source, revenues from gold remained steady as prices throughout

2008 remained historically high, with US\$ 90 million in revenue from IAM Gold alone. Staatsolie, the State oil company posted record profits of US\$ 248 million for 2008. Total tax revenue increased substantially to reach 25.2% of GDP, while total revenue increased marginally over the 2007 figure, and represented 34.8% of GDP.

Total expenditure increased by 13.5% to stand at 32.7% of GDP, with current expenditure increasing slightly to 25.6% of GDP. Capital expenditure increased by almost 60%, but accounted for only 22% of total spending. The beginning of a two-year, US\$ 116 million public-sector salary review, expected to be implemented by 2010, has sparked concerns that, despite the bleak international scenario, the government might be willing to undertake spending excesses as general elections are also due in

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Annual growth rates^b									
Gross domestic product	1.9	5.7	2.7	6.8	7.2	6.3	4.5	5.3	5.2
Per capita gross domestic product	1.0	4.8	1.9	6.1	6.5	5.6	3.8	4.7	4.6
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	5.9	11.5	-3.8	3.6	1.0	-4.8	5.0	5.8	-1.7
Mining and quarrying	-9.1	25.0	-8.3	0.3	30.2	14.9	3.5	10.4	12.6
Manufacturing	60.1	12.5	-3.7	5.5	10.8	10.3	1.7	-4.4	-4.9
Electricity, gas and water	-7.8	5.0	11.6	-1.3	10.1	3.1	8.8	6.2	6.4
Construction	-11.8	4.5	0.6	17.0	10.1	8.7	5.0	15.4	15.7
Wholesale and retail commerce, restaurants and hotels	-15.8	-14.6	8.5	32.0	6.0	8.0	15.4	14.8	11.8
Transport, storage and communications	24.9	28.8	12.3	3.0	7.7	7.8	-3.4	4.5	8.5
Financial institutions, insurance, real estate and business services	2.8	0.7	3.3	2.5	5.4	4.2	1.8	1.5	1.6
Community, social and personal services	4.0	1.1	0.2	0.7	4.7	4.0	0.7	0.3	0.0
Millions of dollars									
Balance of payments									
Current account balance	32	-84	-131	-159	-137	-144	115	326	360
Goods balance	153	140	47	30	42	22	161	314	378
Exports, f.o.b.	399	437	369	488	782	1 212	1 174	1 359	1 722
Imports, f.o.b.	246	297	322	458	740	1 189	1 013	1 045	1 344
Services trade balance	-125	-115	-128	-136	-130	-148	-31	-72	-126
Income balance	6	-108	-42	-49	-63	-40	-52	8	21
Net current transfers	-2	-1	-9	-5	14	22	36	76	87
Capital and financial balance ^c	-23	162	112	166	175	95	-21	-148	-308
Net foreign direct investment	-148	-27	-74	-76	-37	28	-163	-247	-234
Other capital movements	125	189	186	242	212	67	143	99	-75
Overall balance	10	78	-19	7	38	-49	94	177	52
Variation in reserve assets ^d	-10	-78	19	-7	-38	-24	-94	-177	-52
Other external-sector indicators									
Net resource transfer	-17	54	70	118	112	55	-72	-140	-287
Total gross external public debt	291	350	371	382	382	388	389	299	316
Average annual rates									
Employment									
Unemployment rate ^e	14.0	14.0	10.0	7.0	8.4	11.2	12.1	...	...
Annual percentages									
Prices									
Variation in consumer prices (December-December)	76.2	...	...	...	...	15.8	4.7	8.3	9.4
Variation in nominal exchange rate (annual average)	53.9	64.7	7.7	10.8	5.1	-0.0	0.2	0.0	0.0
Nominal deposit rate ^f	15.5	11.9	9.0	8.3	8.3	8.0	6.7	6.4	6.3
Nominal lending rate ^f	29.0	25.7	22.2	21.0	20.4	18.1	15.7	13.8	12.2
Percentages of GDP									
Central government									
Total income	...	42.6	30.7	31.6	32.4	30.5	31.8	36.8	34.8
Current income	...	39.2	29.4	30.0	30.7	28.7	28.9	30.9	31.0
Tax income ^g	...	34.1	24.2	25.2	25.2	22.8	22.8	24.7	25.2
Grants	...	3.4	1.3	1.6	1.7	1.9	2.9	5.9	3.8
Total expenditure ^h	...	42.2	35.7	30.7	33.3	31.2	30.4	31.1	32.7
Current expenditure	...	35.6	32.2	27.3	28.8	26.0	24.8	26.3	25.6
Interest	...	2.3	2.7	2.3	1.9	2.1	1.9	1.5	0.9
Capital expenditure	...	5.7	3.3	3.1	4.4	5.2	5.6	4.8	7.1
Primary balance	...	2.7	-2.4	3.1	1.0	1.4	3.3	7.2	3.0
Overall balance	...	0.4	-5.0	0.8	-0.9	-0.7	1.4	5.7	2.1
Public-sector debt									
Domestic	...	12.6	16.0	14.1	16.0	17.3	13.8	11.5	...
External	...	52.6	38.8	34.0	29.7	26.2	22.4	15.9	12.7

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 ^a
Money and creditⁱ									
Domestic credit	38.7	18.5	32.2	30.1	33.0	29.4	28.9	28.4	32.1
To the public sector	29.0	7.4	13.8	10.2	10.9	8.4	6.5	2.4	0.0
To the private sector	9.7	11.0	18.3	19.6	21.7	20.6	22.1	25.6	32.0
Others	0.1	0.1	0.1	0.3	0.4	0.3	0.3	0.4	0.6
Liquidity (M3)	68.2	65.0	55.8	51.0	56.0	47.5	49.3	54.9	57.1
Currency outside banks and local-currency deposits (M2)	43.4	39.6	34.1	27.1	28.5	24.9	25.7	28.6	30.6
Foreign-currency deposits	24.9	25.4	21.7	23.9	27.5	22.6	23.6	26.3	26.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on figures in local currency at constant 1990 prices.

^c Includes errors and omissions.

^d A minus sign (-) denotes an increase in reserves.

^e Percentage of the economically-active population, nationwide total.

^f Deposit and loan rates published by IMF.

^g Includes capital revenue

^h Includes net lending.

ⁱ The monetary figures are end-of-year stocks.

2010. The uncertainty of the international commodity markets, the imminent departure of a major aluminium producer and the expectation that tax contributions from Staatsolie will decline as the company invests in a new refinery make the sources of future revenues harder to identify. In addition, it is unlikely that in the run-up to a general election, a government would increase taxes in order to maintain revenue flows. In total, the current primary surplus improved by 27% over 2007 to 5.4% GDP but the overall surplus decreased by 60% to 2.1% of GDP.

Efforts to privatize the company in charge of the banana sector have not gone particularly well. The bureaucracy involved as well as the organisational weakness of the incumbent company have been stated as deterrents to a takeover, but the main obstacle is the inability of the Surinamese banana sector to remain competitive with the industry in its larger Latin American neighbours.

Debt sustainability continues to be a key priority. External debt increased by 6% over 2008, but remained low as a proportion of GDP (13%). Bilateral debt has increased by 6% over 2008, but remained at approximately 10% of GDP.

Accumulated reserves from mining windfalls over the last five years allowed the government to indulge in a debt-reduction strategy on. The conservative attitude of Suriname's banking system protected it from engaging in the type of questionable securitization-based credit schemes seen in many other countries. The ability to acquire debt domestically thus remains unchanged, and the retirement of the Dutch Investment Bank debt as well as a major loan from Brazil, increases the ability of the country to acquire new external debt without overstepping the mandated "healthy" limits. Successful debt management

has positively affected the country's international credit rating, and though markets are still tight, the government has expressed interest in using this as a basis for attracting new foreign direct investment to Suriname. Current loans, especially from China are being used productively and are responsible for significant amounts of construction sector activity.

The discussions relating to the creation of a stabilization and heritage fund for Suriname that would be financed by windfall tax revenue from increased mineral production have ceased.

Policymakers expect that Suriname will be able to weather the current downturn if the world economy stages a recovery by the end of 2010. No significant government intervention to prop up the real economy has occurred thus far, and none is planned, though much uncertainty has been expressed about the aluminium sector and its potential to negatively impact government revenue and employment.

(b) Monetary and exchange-rate policy

Liquidity (M2) expanded by more than 15% from 2007 to reach 30.7% of GDP. Net domestic credit expanded by 19.7% to reach 24% of GDP, fuelled by the continued expansion in private sector domestic credit, which swelled by 34.7% in 2008, representing 32.9% of GDP. This expansion of domestic credit to the private sector reflects the continued increase in demand for durable goods by the Surinamese, especially the buoyant demand for cars and housing. The Government Housing Project was launched in 2008 and applies to housing or land loans with interest rates of no more than 9%, of which it pledges to pay four percentage points over a period of two years.

The Central Bank's monetary policies remained largely unchanged over 2008 with the continuing focus being inflation-targeting on the understanding that much inflation is externally driven. Market interest rates were held stable in order to favour credit expansion. The lending rate fell slightly from 13.9% to 12.0% and deposit rates had basically stabilized at 6.3% in 2008 down from 6.4% in the previous year. The Suriname dollar reserve requirement remained unchanged at 25%.

Throughout 2008, the official exchange rate of the Suriname dollar to the United States dollar remained virtually unchanged at approximately S\$ 2.75 = US\$ 1. In April 2009, however, the exchange rate in the commercial market came under some pressure owing to a shortage of dollars in the market. Intervention in the market by the Central Bank, which sold foreign exchange for certain items deemed productive, restored some ease to the

market, but suspicions that commercial banks might be hoarding newly released foreign exchange brought an end to the Central Bank's intervention. The Central Bank is now considering increasing the commercial banks' reserve requirement on dollars from the current level of 33.3%.

The conservative nature of the Surinamese financial system is considered key in helping the country to avoid the types of credit schemes that brought ruin upon the financial sectors of so many other countries. The effects of the global recession on the real economy are certainly recognizable: there is no doubt that the sudden fall in the price of aluminium was one of the deciding factors in BHP Billiton's decision to leave Suriname; moreover, CLICO Suriname has been affected by the financial troubles experienced by CLICO Guyana. Nevertheless, the outlook for the financial sector in Suriname remains stable.

3. The main variables

(a) Economic activity

Total GDP grew by 5.2% over 2008, driven by rises in the construction sector (15.7%); in mining and quarrying (12.6%); and in wholesale and retail trade, restaurants and hotels (11.8%). The growth rate was marginally slower than the 2007 figure of 5.3%, but higher than expectations given the adverse external situation in the second half of the year.

The three main economic sectors all posted positive growth. The transport and communication sector expanded by 8.5% to reach 13% of GDP, while activity in commerce, restaurants and hotels sector surged ahead by 11.8%, accounting for 21% of GDP. Both sectors were bolstered by the increase in economic activity, which fuelled demand for these services. The other major sector, financial services (17% of GDP), posted growth of 1.6%.

Mining and quarrying and manufacturing were the sectors expected to take the biggest hits from the impact of the global recession and the subsequent slump in commodity prices. However, strong gold prices in 2008 and steady oil production boosted mining and quarrying activity by 12.6% over 2008 (8% of GDP), even though the expected additions to oil reserves did not materialize as expected. Manufacturing output,

which accounts for 10% of GDP, decreased by 5% following a 50% fall in aluminium prices during the second half of 2008, which caused a contraction in activity throughout the aluminium chain. Production in the manufacturing sector is expected to steady or increase slightly over 2009 as Suralco and the government take over the mining and manufacturing operations of the aluminium sector.

Production problems encountered in the rice subsector and reduced exports contributed to the 1.7% contraction in the agricultural sector. Despite government efforts to diversify the economy, especially the agricultural sector, there is no evidence of the non-mineral sectors' contributing more significantly to export revenue.

In 2008, the construction sector recorded double-digit growth for the fifth consecutive year, strengthening by 15.7% and accounting for 4.7% of GDP. This growth was driven by government construction programmes, debt financed infrastructure development programmes and the previously mentioned national housing project. Currently there are three major road projects being financed by donor agencies.

Sustained construction activity and an increase in gold production are expected to boost real GDP growth by 2.5% in 2009. While there are signs of a recovery in the global economy, problems in the local mining sector

and uncertain external price conditions continue to cast a shadow on growth projections.

(b) Prices, wages and employment

At the end of the year, inflation stood at 9.4% (December-December) higher than in 2007 (8.3%). It had been a great concern in the first half of 2008, when food and oil prices soared, then peaked in August and September, at an annualized rate of 18.1%. Transport accounted for the greatest impact on the consumer price index (CPI); in August, it posted an annualized rate of 26.4%. Most group indices, with the exception of those that exhibit significant price controls, started to decrease with the cooling of commodity prices in the second half of 2008. The annualized CPI for April 2009 has been recorded as 0.8%.

The unemployment rate continues to be reported at 12%, although no new studies into the variable have been conducted since 2006. Nevertheless, with the boom in the construction and other sectors, opportunities for employment appear to be growing. However, Suralco, the former partner of BHP Billiton in the abandoned West Suriname aluminium project, has now acquired the controlling stake and has indicated that it wishes to cut production by up to 40%, which could have a serious impact on employment.

(c) External sector

Mineral and metal exports were the main drivers of the favourable current account surplus, especially over the first half of 2008 when prices of some commodities were at record highs. The current account surplus grew by 10.7% in 2008, reaching 14.3% of GDP, compared with 14% of GDP in 2007. Exports increased by 26.7% to reach 68% of GDP. Imports increased more than exports (28.6%), but in absolute values remain below exports (53% of GDP). The service deficit deteriorated further to 5% of GDP. Despite the construction boom, many business and engineering services companies are foreign and are mandated to operate in Suriname on the basis of loan agreements. As a result, opportunities to improve the services account through activity centred around these projects are lost. Remittances remained stable (around 5.2% of GDP) despite the economic crisis. The capital account surplus fell to 1.3% of GDP, while the financial account deficit shrank to 2.5% of GDP. Foreign direct investment fell slightly (9.3% of GDP) and the overall balance decreased but remained positive at 2.1% of GDP.

In 2009 the current account is expected to remain in surplus, but not to the extent seen in previous years, following a return of commodity prices to historically average levels.