

SURINAME

1. General trends

The Suriname economy continues to post robust growth (4.7% in 2011 and 4.4% in 2012), and it is anticipated that in 2013 growth will remain elevated at 4.5%. Economic growth is premised on primary commodity prices which have been strong so far and are expected to be high for some time. In 2012, all sectors showed positive growth with the exception of mining and quarrying, which was the result of the decline in bauxite production due to the exhaustion of mining deposits in existing mining areas. Growth was particularly significant in the following sectors: hotels and restaurants (11.7%), construction (14.0%) and financial intermediation (5.7%). According to official projections, in 2013 strong growth is expected in all sectors except for mining and quarrying, which may show weak, albeit positive, growth.

The inflation rate, after increasing to 15.3% in 2011 due to realignment of the exchange rate with the unofficial rate, settled down to 4.4% in 2012 and is anticipated to be no more than 5% in 2013. It is possible that inflation may increase thereafter, owing to rising import prices and pent-up domestic demand, but will nevertheless remain in single digits. Energy import costs influence production costs, and Suriname has been investing in energy expansion, including renewable energy, which should help the economy to reduce such costs.

The fiscal situation in Suriname is much improved given the increase in revenues due to positive growth and cautious expansion of expenditure. The primary balance, which was 4% in 2011, fell to 1.1% in 2012 while the overall balance was in deficit at 3.6% in 2012. At the moment the public finances are fairly robust and not expected to deteriorate. Suriname also has a low debt-to-GDP ratio of 25%, with the external debt at 13.4% and the domestic debt at 11.7% of GDP in 2012. The external sector has been boosted by inflows of FDI, and the balance of payments improved in 2011 and 2012. International reserves reached nearly US\$ 1 billion in 2012, which represents approximately five months of imports of goods and services. The devaluation of the exchange rate in 2011 followed by the introduction of a narrow trading band and a growing cushion of foreign reserves will help to support currency stability in 2013.

2. Economic policy

(a) Fiscal policy

The fiscal policy stance has been conservative, with expenditure growing in line with revenue. As a result, the overall fiscal deficit has been fairly low at 3.6% of GDP in 2012. Total government revenue, which was 25.2% of GDP in 2011, declined to 24.6% in 2012. All categories of revenue remained virtually the same as a share of GDP relative to 2011. On the other hand, expenditure increased slightly from 25.2% of GDP to 28.2% of GDP. The government is contemplating the introduction of a value added tax to replace the existing sales tax, and this should improve revenue efficiency. In terms of current expenditure, wages increased by 8.1%; this represented some recovery in wages by workers from the inflationary period in 2011. A portion of the wage increase was paid in early 2013.

The debt ratios for Suriname are within the sustainable range, with external and internal debt together representing some 25% of GDP. Given that the external debt is some 13% of GDP, there is very little foreign exchange risk due to currency devaluation. In light of the favourable financial situation, the government of Suriname intends to issue a first time ever sovereign bond for

approximately US\$ 500 million later this year to fund its equity share in planned joint ventures with two North American mining companies.

While the government has been maintaining fiscal discipline, there are plans to increase infrastructure spending as outlined in the 2012 budget, which provides for the construction of housing for low-income groups and for the repair and building of roads, bridges and State-owned schools. In addition, the government, backed by the International Monetary Fund, is likely to implement legal and administrative reforms for five State-owned companies. The idea is to seek help from the Inter-American Development Bank (IDB) and the World Bank in improving the governance of public enterprises—some of which are to be privatized—and to reform the tariff rates for utilities in order to reduce losses.

The Investment & Development Corporation Suriname (IDCS) has been charged with privatizing some public enterprises in the agricultural sector. The planned tariff reforms in public enterprises should impact favourably on the public accounts. Given the favourable outlook for commodity prices in the medium term, government finances should continue to be robust.

(b) Monetary policy

The fiscal stance of the central bank was moderately expansionary, but the instruments available to the bank are limited. Thus there were no open market operations and monetary management was based on reserve requirements for financial institutions. The reserve requirement is 25% for local dollar accounts and 45% for foreign currency accounts. The monetary authority is aware of the limitations of the current system and is contemplating moving towards using indirect monetary instruments, although this will depend on developing the local money and capital markets. In addition, government borrowing takes the form of arrangements with the banking sector and not through a process of market rate determination. Additionally, there are moves to create a sound monetary policy framework by increasing transparency and consistency in the mutual dealings between the government and the central bank. The foreign-exchange law is being amended to make the central bank the only entity authorised to monitor and set exchange rate policy, which is intended to remove political pressure from the rate-setting process.

In line with economic growth, the money supply (M1) grew by 18% in 2011 and 21.4% in 2012, while M2 also grew by 21% in 2012. Credit to the domestic economy in 2012 expanded by 14.8%, and the distribution of credit to the primary sectors (including agriculture, construction and utilities) was 14.4%; credit to the other sectors (trade, transport, services and housing construction) was 85.6%. The increase in credit to the primary sectors was 25%, while the increase to the other sectors was 14%. In terms of interest rates, the weighted nominal deposit rate rose from 6.6% in 2011 to 7% in 2012 but lending rates moved up as well, from 11.7% to 11.8%, reducing the interest rate spread.

(c) Exchange rate policy

The foreign exchange market stabilised after the Surinamese dollar was devalued in 2011 to integrate the official and unofficial exchange rates. The central bank has established a band of Sr\$ 3.25 to Sr\$ 3.35 = US\$ 1 within which all official transactions are expected to take place. There are no immediate concerns about currency fluctuation, and by May 2013 the rate was at Sr\$ 3.3 to the United States dollar. It is expected that this rate will continue to hold for the duration of 2013.

(d) Other policies

A number of major projects are anticipated that will considerably increase foreign direct investment in Suriname. Among these projects are a US\$ 700 million expansion of the Rosebel gold mine and a joint venture between Newmont Mining Corporation and Suriname Aluminium Company to develop the US\$ 800 million gold mine that will start operations in 2013. This will increase the dependence of the economy on gold production. In addition, the State-owned oil company, Staatsolie, is expanding its oil refining capacity. This US\$ 700 million refinery will make Suriname a net exporter of refined fuels and will add to revenue. Heavy dependence on minerals, which accounted for 92% of export earnings in 2011, makes Suriname vulnerable to commodity price shocks. In recognition of this, the government is setting up the Savings and Stabilization Fund Suriname (SSFS), the Suriname version of a sovereign wealth fund. With the establishment of the SSFS, income streams from mining will be allocated to the budget according to strict rules and the remaining sums will be transferred to the fund for financial investments. The SSFS will thus serve to stabilize government income and expenditure and to generate surplus savings from non-renewable resources for future generations.

A measure of the optimistic outlook for Suriname in the financial markets was Moody's upgrade of Suriname's bond rating to Ba3, which improves Suriname's access to international capital markets. The reasons given reflect the country's economic stability in the past few years. Among these were prudence in debt management, positive short- and medium-term growth prospects, access to international creditors and growing resilience to negative external shocks.

3. The main variables**(a) The external sector**

The current account surplus, which was US\$ 241 million in 2012, declined with respect to the surplus posted in 2011. The 2012 surplus represented 8% of GDP, falling from 9% in 2011. Looking at the sub-accounts, the goods trade balance declined due to imports growing more rapidly than exports. The economy is highly dependent on the export of oil and, especially, gold for foreign exchange earnings, and gold prices improved considerably in the past few years. Gold exports increased by 30% between 2010 and 2011 and 9.6% between 2011 and 2012; earnings from gold accounted for 57% of total goods exports in 2012.

The services balance was negative and larger than last year, while the current transfers balance was US\$ 87 million in 2011 and US\$ 73 million in 2012. In the light of robust growth and increasing exports, the expectation is that the current account balance will improve further and this will add to reserves.

(b) Economic activity

Economic growth in Suriname has been fairly robust as the economy posted growth of 4.7% in 2011 and 4.4% in 2012; growth in 2013 expected to be 4.5%. All sectors with the exception of mining (which slid by 3.2%) posted positive growth in 2012. This was due to the fallout from the bauxite industry (the largest contributor to mining in recent years), as existing mines in the south of the country were exhausted. The State-owned bauxite company is exploring opportunities for bauxite production elsewhere in the country. The mining sector and other commodity sectors, including the State-owned energy sector, are the major contributors to growth in Suriname. Positive growth has been driven by

investment in these sectors and especially by elevated gold prices. There has been a policy move to regulate persons working in the industry and to reduce the informal aspects of production.

In 2012 the construction sector posted growth of 14.0%, while the sector share of GDP was 6%. Hotels and restaurants grew by 11.7% and accounted for 3% of GDP. In terms of value added, the largest contributing sectors have been manufacturing (23.3%) and wholesale and retail trade (20%); these sectors grew by 0.4% and 7.4%, respectively, in 2012. Agriculture, which contributed 8.9% of GDP, grew at the rate of 5.3%. This sector is a major employer but its fortunes have been mixed. There are good prospects for investment in palm oil, while in the case of the banana industry the changes in the European Union regime have reduced its competitive advantage.

(c) Prices, wages and employment

The rate of inflation moderated considerably since 2011, when it rose to 15.3%. Since then it has fallen to 4.4% and is likely to remain at that level in 2013. Despite increases in fuel and food prices during in 2012 and a nominal wage increase of 10%, prices have remained fairly stable. Wages increased in 2012 but the hike was paid out in tranches in late 2012 and early 2013. The unemployment rate has declined from 9.2% in 2010 to 8.2% in 2011. There are no available unemployment data for 2012, but it is likely that unemployment rates will come down further in light of the fact that several new investment activities are in progress.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
Annual growth rates b/									
Gross domestic product	0,5	7,2	11,4	4,0	3,1	7,7	7,3	...	...
Per capita gross domestic product	-0,8	5,9	10,1	2,9	2,1	6,7	6,3	...	...
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1,0	-5,0	5,2	5,6	-6,1	12,1	15,8	...	...
Mining and quarrying	30,0	15,3	9,5	17,3	3,7	-3,8	-5,2	...	...
Manufacturing	10,8	10,2	1,8	-3,6	-1,8	4,2	1,6	...	...
Electricity, gas and water	9,9	3,5	8,4	6,3	7,9	-1,7	7,9	...	...
Construction	10,1	8,6	5,3	15,4	4,3	4,5	6,0	...	...
Wholesale and retail commerce, restaurants and hotels	8,9	11,7	13,5	8,2	8,7	1,6	5,9	...	...
Transport, storage and communications	7,7	7,9	-1,5	-0,3	2,9	-3,5	2,4	...	...
Financial institutions, insurance, real estate and business services	5,3	4,4	1,7	1,1	3,0	0,9	14,6	...	...
Community, social and personal services	0,1	4,7	3,9	0,2	1,2	2,1	3,3	...	...
Balance of payments									
Millions of dollars									
Current account balance	-137	-100	221	335	344	210	653	251	241
Goods balance	42	70	272	314	358	109	686	788	781
Exports, f.o.b.	782	997	1 175	1 359	1 708	1 404	2 084	2 467	2 563
Imports, f.o.b.	740	928	903	1 045	1 350	1 296	1 398	1 679	1 782
Services trade balance	-130	-151	-33	-65	-123	1	-18	-362	-419
Income balance	-63	-41	-54	8	21	5	-102	-262	-194
Net current transfers	14	22	36	77	87	94	87	87	73
Capital and financial balance c/	175	123	-125	-160	-292	-16	-619	-127	-61
Net foreign direct investment	-37	28	-163	-247	-234	-93	-248	73	69
Other capital movements	212	95	39	86	-58	77	-371	-200	-130
Overall balance	38	24	96	175	52	193	34	124	180
Variation in reserve assets d/	-38	-24	-96	-175	-52	-193	-34	-124	-180
Other external-sector indicators									
Millions of dollars									
Net resource transfer (millions of dollars)	112	83	-179	-152	-271	-11	-721	-389	-255
Gross external public debt (millions of dollars)	384	390	391	298	319	269	334	463	564
Prices									
Annual percentages									
Variation in consumer prices (December-December)	...	15,8	4,7	8,3	9,4	1,3	10,3	15,3	4,4
Variation in nominal exchange rate (annual average)	5,1	-0,1	0,4	0,0	0,0	0,0	0,0	19,0	1,0
Nominal deposit rate e/	8,3	8,0	6,6	6,4	6,3	6,4	6,2	6,4	6,8
Nominal lending rate f/	20,4	18,1	15,6	13,8	12,0	11,7	11,7	11,8	11,7
Central government									
Percentajes of GDP									
Total revenue	28,0	28,6	24,1	29,4	24,3	27,6	21,7	25,1	26,9
Tax revenue	21,8	21,4	17,3	19,3	17,7	17,5	15,7	19,0	20,2
Total expenditure	28,9	29,2	24,5	24,3	22,8	25,5	24,6	25,2	29,5
Current expenditure	25,0	24,4	20,3	20,6	18,0	19,8	20,0	20,3	24,6
Interest	1,7	1,9	1,4	1,2	0,6	0,8	0,9	1,0	0,9
Capital expenditure	3,8	4,9	4,2	3,7	4,8	5,7	4,6	5,0	4,9
Primary balance	0,9	1,3	1,1	6,3	2,1	2,9	-2,0	0,9	-1,6
Overall balance	-0,8	-0,6	-0,4	5,0	1,5	2,1	-2,9	-0,1	-2,6
Public debt	...	44,0	29,2	23,0	27,9	27,6	27,5	27,6	30,0

Table 1 (concluded)

	2004	2005	2006	2007	2008	2009	2010	2011	2012 a/
	Percentages of GDP, end-of-year stocks								
Money and credit									
Domestic credit	23,1	23,9	24,1	26,6	27,1	25,6	29,4
To the public sector	5,0	1,9	-0,5	1,5	2,4	0,4	1,8
To the private sector	17,9	21,7	24,2	24,6	24,2	24,5	26,8
Others	0,2	0,3	0,4	0,5	0,5	0,7	0,9
Monetary base	10,6	12,4	14,7	13,9	14,1	13,2	16,9
Money (M1)	38,3	44,1	44,2	46,4	45,4	46,9	53,6
M2	19,8	22,7	21,7	24,8	25,6	23,5	28,5
Foreign-currency deposits	18,5	21,4	22,5	21,6	19,9	23,4	25,0

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 (-) indicates an increase in reserve assets.

e/ Average deposits rate published by the central bank. Up to 2005, deposit rates published by the International Monetary Fund.

f/ Average lending rate published by the central bank. Up to 2005, lending rates published by the International Monetary Fund.

Table 2
SURINAME: MAIN QUARTERLY INDICATORS

	2011				2012				2013	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Goods exports, f.o.b. (millions of dollars)	566	619	591	692	619	614	616	715	616	...
Goods imports, c.i.f. (millions of dollars)	349	471	396	464	429	424	438	491	618	...
Gross international reserves (millions of dollars)	683	779	779	941	855	905	930	1 008	861	842 b/
Consumer prices (12-month percentage variation)	21,2	17,7	16,5	15,3	6,5	3,5	3,7	4,4	1,4	1,5 c/
Average nominal exchange rate (Suriname dollars per dollar)	3,17	3,30	3,30	3,30	3,30	3,30	3,30	3,30	3,30	3,30
Nominal interest rates (annualized percentages)										
Deposit rate d/	6,2	6,3	6,5	6,5	6,7	6,7	6,8	6,9	7,0	7,0 c/
Lending rate e/	11,9	11,9	11,7	11,7	11,6	11,8	11,7	11,8	12,0	12,0 c/
Interbank rate	6,6	8,0	7,9	8,0	7,3	7,3	...	10,0	10,0 f/	...
Domestic credit (variation from same quarter of preceding year)	21,4	22,0	22,0	18,1	9,1	9,2	10,2	5,1	18,4	20,6 c/

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

a/ Preliminary figures.

b/ Figures as of May.

c/ Figures as of April.

d/ Average deposits rate published by the central bank.

e/ Average lending rate published by the central bank.

f/ Figures as of February.