

SURINAME

1. General trends

The economy of Suriname posted strong growth of 4.5% in 2013 on the back of a robust performance in a number of sectors, led by construction, which grew by 14.1%, wholesale and retail trade (8.9%), and hotels and restaurants (8.1%). The government also contributed to growth through investment and recurrent spending, and government spending thus expanded by 2.8%. Given that general elections are due in May 2015, capital spending is likely to increase. Negative growth, meanwhile, was recorded by agriculture, hunting and fishing (-1.9%) and mining and quarrying (-0.4%), which represented 8.19% and 5.13% of GDP, respectively.

Growth of around 4.4% is forecast for 2014, assuming no significant changes in global economic conditions or decline in export prices. New investments are expected in the gold and oil industries and this will partly compensate for the uncertain outlook in the bauxite industry.

Inflation continued to be moderate, influenced by soft commodity prices, and the annual rate stood at 0.6% at year-end 2013. It is likely to rise somewhat in 2014, owing to new sales taxes and other taxes which are still under discussion, but will remain in single digits. On the positive side, energy costs are likely to be lower thanks to increased refining of petrochemical products, which will help cut production costs.

The exchange rate remained within the band established by the central bank of 3.25-3.35 Surinamese dollars (Sr\$) = US\$ 1.00, within which all official and commercial transactions are to take place. The foreign exchange market is currently expected to remain stable.

In terms of the balance of payments, the trade surplus narrowed to 4.4% of GDP in 2013 from 14% of GDP in 2012. This pushed the current account balance into a deficit corresponding to around 3.9% of GDP.

2. Economic policy

(a) Fiscal policy

Fiscal policy was expansionary, with expenditure growing in excess of revenue, which produced an overall deficit of some 8% of GDP. During the first quarter of 2013, expenditure outstripped revenue by 40% but, following some adjustment in the second quarter, revenue exceeded expenditure by 3.9%. In the third quarter revenue was again above expenditure by 24.6%. Despite concerns about the deficit, government spending is likely to expand over the next two years in view of the general elections to be held in 2015. The government had contemplated introducing a value added tax to replace the existing sales tax as a means of enhancing revenue efficiency, but this has since been shelved as the revenue authorities were not sufficiently prepared.

While within the sustainable range, the debt-to-GDP ratio expanded from 16.4% in 2012 to 36.5% in 2013.¹ This jump is a reflection of the rapid expansion in government expenditure. By March 2014, however, the ratio had fallen to 28.9% of GDP, reflecting lower levels of central government borrowing. External debt now represents 19.7% and domestic debt 9.2% of GDP.

Although there are plans to increase infrastructure spending, as outlined in the 2012 budget, which provides for the construction of low-income housing and for the repair and building of roads, bridges and State-owned schools, the rising deficit may put such plans on hold in 2014. In addition, as part of fiscal control, the government, backed by the International Monetary Fund, is likely to implement legal and administrative reforms for five State-owned companies. Help will be sought from the Inter-American Development Bank (IDB) and the World Bank to improve the management of public enterprises and to overhaul tariff rates for utilities in order to reduce losses.

The government owns a number of loss-making enterprises and, with the assistance of IDB and the World Bank, is seeking to improve the management of public enterprises and, in some cases, privatize them. The Investment & Development Corporation Suriname (IDCS) has been charged with privatizing some of these companies in the agricultural sector. There are also plans to reform the tariff structure of public enterprises that are posting losses, and this should impact positively 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 central bank's monetary stance was primarily contractionary, in response to credit expansion that was perceived to be too rapid and a potential driver of inflation. With no open market instruments and a thin financial market, the reserve requirements for Surinamese dollar deposits and foreign-currency deposits were each raised by five percentage points. The Surinamese dollar cash reserve ratio therefore increased from 25% to 30% and the cash reserve ratio for foreign currency from 45% to 50%. The monetary authority is aware of the limitations of the current system and is considering moving over to indirect monetary instruments, although this will depend on developing the local money and capital markets. Moreover, government borrowing takes the form of arrangements with the banking sector and institutional investors rather than following a market-determined process. As a result, there are moves to create a sound monetary policy framework by increasing transparency and consistency in the dealings between the government and the central bank. The foreign exchange law is being amended to make the central bank the only entity authorized to monitor and set exchange-rate policy, a step intended to remove political pressure from the rate-setting process. The central bank met with the board of the association of exchange offices in September to discuss the scope for increasing the participation of foreign-exchange bureaux in foreign-exchange transactions and it was agreed that they would no longer be required to resell 15% of their purchases to the government. They will continue to carry out foreign-exchange transactions in cash with the public.

In line with economic growth, the money supply (M1) grew by 21.4% in 2012 and 3.7% in 2013, while M2 grew by 21% in 2012 and 11% in 2013. Domestic lending expanded by 14.8% in 2012 and 24.8% in 2013, and the distribution of credit to major sectors such as agriculture, mining, manufacturing, construction and utilities was 31.7% while credit to the other sectors (trade, transport, services and housing construction) was 23.2%. The higher reserve requirement was designed to curb further credit expansion in late 2013 and in 2014.

¹ This definition of the debt includes contingent liabilities and reflects the real obligations of the government.

In terms of interest rates, the weighted nominal deposit rate held steady at 7.2% in 2012 and 2013 while lending rates edged up from 11.8% in 2012 to 12.0% in 2013. In 2014 the rates were 7.3% and 12.2%, respectively.

(c) Exchange-rate policy

The foreign exchange market stabilized after the Surinamese dollar was devalued in 2011 to unify the official and unofficial exchange rates. The central bank has established a band of Sr\$ 3.25 - Sr\$ 3.35: US\$ 1.00, within which all official transactions are to take place. There are no immediate concerns about currency fluctuation and in May 2013 the rate was Sr\$ 3.30: US\$ 1.00. Despite current reserves, the exchange rate is expected to remain stable, in light of the solid growth prospects.

(d) Other policies

A number of major projects are in the pipeline that will increase foreign direct investment in Suriname considerably. These include a US\$ 700 million expansion of the Rosebel gold mine and a joint venture between Newmont Mining Corporation and Suriname Aluminium Company to develop an US\$ 800 million gold mine that will start operations in 2014. This will increase the economy's dependence on gold production. In addition, the State-owned oil company, Staatsolie, is expanding its oil refining capacity. The US\$ 700 million refinery will make Suriname a net exporter of refined fuels and will add to revenues. Heavy dependence on minerals however, which account for some 90% of export earnings, makes Suriname vulnerable to commodity price shocks. In recognition of this, the government is setting up the Savings and Stability Fund Suriname (SSFS), a sovereign wealth fund. With the establishment of 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 investment. SSFS will thus serve to stabilize government income and expenditure and to generate surplus savings from non-renewable resources for future generations.

Suriname has continued to receive positive ratings from agencies such as Moody's and Fitch Ratings, which has helped to improve the country's access to international capital markets. The reasons given reflect the country's economic stability over the past few years, and include prudent debt management, positive short- and medium-term growth prospects, access to international creditors and growing resilience to negative external shocks.

According to the central bank, in order to regain fiscal control, the government has called a halt to unnecessary spending on goods and services, while project implementation is being prioritized and made more efficient. A number of measures are now being taken to restore government revenue levels. These include discontinuing outdated and very inefficient taxes and stamp duties, raising environmental taxes, terminating a myriad of customs duty exemptions that fomented corruption and inefficiencies, and reducing unapproved direct, indirect, and disguised subsidies to State-owned companies.

3. The main variables

(a) The external sector

In 2013 the current account posted its first deficit since 2006, at US\$ 197.9 million (or 3.9% of GDP), in contrast to a surplus of US\$ 163.9 million (3.2% of GDP) in 2012. Looking at the sub-accounts, the goods trade balance declined as imports grew faster than exports, which were down 11% on 2012.

The economy is heavily dependent on exports of oil and, especially, gold for foreign-exchange earnings, with gold prices soaring in the last few years. Gold exports expanded by 30% between 2010 and 2011 and by 9.6% between 2011 and 2012; earnings from gold amounted to 57% of total goods exports in 2012.

The services balance was negative and larger than last year, while the current transfers balance amounted to US\$ 66 million in 2013, compared with US\$ 72.7 million in 2012. In 2012 gross international reserves stood at US\$ 1.008 billion but fell to US\$ 775.4 million in 2013, representing 4.7 and 3.4 months of import cover, respectively. This was largely due to the decline in the trade surplus over this period. In light of the strong growth projected for 2014 and rising exports, the current account balance is expected to improve, thus boosting reserves.

(b) Economic activity

Economic growth in Suriname has been fairly robust, standing at 4.5% in 2013, and a rate of 4.4% is forecast for 2014. With the exception of agriculture, hunting and fishing (-1.9%) and mining and quarrying (-0.4%), all sectors posted positive growth rates in 2013. The negative growth rate in the mining and quarrying sector was the result of fallout from the bauxite industry, the largest contributor to mining in recent years, following depletion of the existing mines in the south of the country. The State-owned bauxite company is exploring opportunities for bauxite production elsewhere in the country. Mining and other commodity sectors, including the State-owned energy sector, are the main contributors to growth in Suriname. Growth has been driven by investment in these sectors and until recently by the elevated price of gold. A policy is in place to regulate those working in the industry and to reduce informal production.

In 2013, construction posted growth of 14.1%, while the sector's share of GDP was 6%. Hotels and restaurants grew by 8.1% and accounted for 3% of GDP. Other sectors, including government, grew at lower rates but also contributed positively to growth. In 2014 all sectors are expected to show positive growth and construction will again be the main driver of growth, followed by hotels and restaurants. Agriculture, hunting and fishing, and mining and quarrying are expected to return to positive growth rates, after posting negative growth in 2013.

(c) Prices, wages and employment

Consumer price pressure eased in the second half of 2013, aided by weaker demand, and inflation fell to 0.6% in 2013 as a result. Inflation is likely to remain in single-digit figures in 2014, barring any major price spikes caused by import inflation. Nevertheless, wage pressure owing to the impending general elections could push up prices. Another factor is the imposition of sales tax, which could cause a one-off pass-through with respect to prices. There is little expectation of price increases from the exchange-rate pass-through, given the current stability. The unemployment rate declined from 9.2% in 2010 to 8.2% in 2011 and is not likely to have climbed any higher in 2012. No unemployment data are available for 2013, but unemployment rates may well descend further in 2014 given that several new investment activities are under way.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 a/ |
|--|-------------------------------|-------|-------|-------|-------|-------|-------|-------|---------|
| | Annual growth rates b/ | | | | | | | | |
| Gross domestic product | 7.2 | 11.4 | 5.1 | 4.1 | 3.0 | 4.2 | 5.3 | 3.9 | 4.4 |
| Per capita gross domestic product | 5.8 | 10.1 | 4.0 | 3.1 | 2.1 | 3.3 | 4.3 | 2.9 | 3.5 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -5.0 | 5.2 | 5.4 | -8.9 | 30.5 | 2.8 | 4.3 | 9.1 | -0.3 |
| Mining and quarrying | 15.3 | 9.5 | 11.7 | 4.1 | -13.3 | 5.3 | 2.9 | 11.8 | -0.3 |
| Manufacturing | 10.2 | 1.8 | 1.9 | 9.2 | -11.5 | 4.8 | 11.7 | -7.4 | 1.7 |
| Electricity, gas and water | 3.5 | 8.4 | 4.5 | 10.9 | -1.3 | 8.6 | 7.3 | 2.8 | 7.7 |
| Construction | 8.6 | 5.3 | 3.2 | 8.3 | 6.7 | 4.5 | 4.5 | 13.7 | 13.7 |
| Wholesale and retail commerce, restaurants and hotels | 11.7 | 13.5 | 5.9 | 2.5 | 17.7 | 5.5 | 3.8 | 6.0 | 8.7 |
| Transport, storage and communications | 7.9 | -1.5 | 3.3 | 18.8 | 0.2 | 3.6 | 4.3 | 11.0 | 6.5 |
| Financial institutions, insurance, real estate and business services | 4.4 | 1.7 | 10.2 | -3.0 | 2.7 | 2.7 | 4.2 | 4.5 | 4.6 |
| Community, social and personal services | 4.7 | 3.9 | 3.5 | 3.7 | -0.1 | 2.0 | -1.0 | 3.7 | 2.8 |
| Balance of payments | Millions of dollars | | | | | | | | |
| Current account balance | -242 | 221 | 325 | 325 | 111 | 651 | 251 | 164 | -198 |
| Goods balance | -73 | 272 | 314 | 337 | 11 | 686 | 788 | 701 | 221 |
| Exports, f.o.b. | 801 | 1,175 | 1,359 | 1,744 | 1,402 | 2,084 | 2,467 | 2,695 | 2,394 |
| Imports, f.o.b. | 874 | 903 | 1,045 | 1,407 | 1,391 | 1,398 | 1,679 | 1,994 | 2,174 |
| Services trade balance | -151 | -33 | -65 | -123 | 1 | -18 | -362 | -419 | -363 |
| Income balance | -41 | -55 | -3 | 20 | 5 | -104 | -262 | -191 | -122 |
| Net current transfers | 22 | 36 | 77 | 91 | 94 | 87 | 87 | 73 | 67 |
| Capital and financial balance c/ | 266 | -157 | -178 | -116 | -73 | -616 | -127 | 16 | 46 |
| Net foreign direct investment | 28 | -163 | -247 | -231 | -93 | -248 | 73 | 61 | 113 |
| Other capital movements | 238 | 7 | 68 | 115 | 21 | -368 | -200 | -45 | -67 |
| Overall balance | 24 | 64 | 146 | 208 | 39 | 35 | 124 | 180 | -152 |
| Variation in reserve assets d/ | -24 | -64 | -146 | -208 | -39 | -35 | -124 | -180 | 152 |
| Other external-sector indicators | Millions of dollars | | | | | | | | |
| Net resource transfer (millions of dollars) | 225 | -211 | -181 | -96 | -68 | -720 | -389 | -175 | -76 |
| Gross external public debt (millions of dollars) | 390 | 391 | 298 | 319 | 269 | 334 | 463 | 567 | 737 |
| 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 | 0.6 |
| Variation in nominal exchange rate (annual average) | -0.1 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 19.0 | 1.0 | 0.0 |
| Nominal deposit rate e/ | 8.0 | 6.6 | 6.4 | 6.3 | 6.4 | 6.2 | 6.4 | 6.8 | 7.1 |
| Nominal lending rate f/ | 18.1 | 15.6 | 13.8 | 12.0 | 11.7 | 11.7 | 11.8 | 11.7 | 12.0 |
| Central government | Percentajes of GDP | | | | | | | | |
| Total revenue | 28.6 | 24.1 | 29.4 | 24.3 | 27.6 | 21.7 | 24.8 | 24.3 | 29.7 |
| Tax revenue | 21.4 | 17.3 | 19.3 | 17.7 | 17.5 | 15.7 | 18.7 | 18.3 | 20.0 |
| Total expenditure | 29.2 | 24.5 | 22.9 | 22.6 | 28.4 | 24.3 | 26.8 | 27.0 | 33.6 |
| Current expenditure | 24.4 | 20.3 | 20.6 | 18.0 | 19.8 | 20.0 | 20.0 | 22.3 | 28.0 |
| Interest | 1.9 | 1.4 | 1.2 | 0.6 | 0.8 | 0.9 | 1.0 | 0.9 | 0.8 |
| Capital expenditure | 4.9 | 4.2 | 3.7 | 4.8 | 5.7 | 4.6 | 4.9 | 4.4 | 5.5 |
| Primary balance | 1.3 | 1.1 | 7.6 | 2.3 | 0.0 | -1.7 | -1.0 | -1.8 | -3.0 |
| Overall balance | -0.6 | -0.4 | 6.4 | 1.6 | -0.8 | -2.5 | -2.0 | -2.7 | -3.8 |
| Public debt | 44.0 | 29.2 | 23.0 | 27.9 | 27.6 | 27.5 | 27.6 | 27.1 | 36.5 |

Table 1 (concluded)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 a/ |
|---------------------------|---|------|------|------|------|------|------|------|---------|
| Money and credit | Percentages of GDP, end-of-year stocks | | | | | | | | |
| Domestic credit | ... | 23.1 | 23.9 | 24.1 | 26.6 | 27.1 | 25.6 | 26.1 | 32.2 |
| To the public sector | ... | 5.0 | 1.9 | -0.5 | 1.5 | 2.4 | 0.4 | 0.6 | 3.8 |
| To the private sector | ... | 17.9 | 21.7 | 24.2 | 24.6 | 24.2 | 24.5 | 24.7 | 27.6 |
| Others | ... | 0.2 | 0.3 | 0.4 | 0.5 | 0.5 | 0.7 | 0.8 | 0.8 |
| Monetary base | ... | 10.6 | 12.4 | 14.7 | 13.9 | 14.1 | 13.2 | 15.6 | 14.0 |
| Money (M1) | ... | 13.0 | 14.5 | 13.9 | 15.8 | 16.4 | 14.8 | 16.2 | 16.0 |
| M2 | ... | 19.8 | 22.7 | 21.7 | 24.8 | 25.6 | 23.5 | 26.3 | 27.4 |
| Foreign-currency deposits | ... | 18.5 | 21.4 | 22.5 | 21.6 | 19.9 | 23.4 | 23.1 | 24.9 |

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

| | 2012 | | | | 2013 | | | | 2014 | |
|--|------|------|------|------|------|------|------|------|------|---------|
| | Q.1 | Q.2 | Q.3 | Q.4 | Q.1 | Q.2 | Q.3 | Q.4 | Q.1 | Q.2 a/ |
| Gross international reserves (millions of dollars) | 877 | 903 | 943 | 980 | 920 | 845 | 864 | 757 | 765 | 754 b/ |
| Consumer prices (12-month percentage variation) | 8.9 | 3.8 | 3.4 | 4.1 | 2.1 | 2.5 | 2.4 | 0.7 | 2.7 | ... |
| Average nominal exchange rate (Suriname dollars per dollar) | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 | 3.30 | 3.35 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate d/ | 6.7 | 6.7 | 6.8 | 6.9 | 7.0 | 7.0 | 7.2 | 7.2 | 7.2 | ... |
| Lending rate e/ | 11.6 | 11.8 | 11.7 | 11.8 | 12.0 | 12.0 | 12.0 | 12.0 | 12.2 | 12.2 c/ |
| Interbank rate | 7.3 | 7.3 | ... | 10.0 | 10.0 | 6.9 | 6.8 | 6.5 | 6.1 | ... |
| Domestic credit (variation from same quarter of preceding year) | 9.1 | 9.2 | 10.2 | 12.4 | 18.4 | 22.0 | 23.5 | 29.7 | 24.4 | 19.7 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.