Suriname

Suriname's economy continued to grow in 2008, bolstered especially in the first half of the year by a booming commodities market. Real GDP growth is estimated to stand at 5% for the year. Credit continued its expansionary route, with deposit rates remaining stable and lending rates falling even in the face of the global financial crisis and high inflation rates (17.8% October-October). The current account surplus is expected to decrease as a percentage of GDP, while continuing to benefit from mineral output. The fiscal position remains solid, thanks to increased revenue from minerals and indirect taxes. Uncertainty about commodity prices and inflation are the major challenges for economic policy in 2009.

The Government's fiscal position remained comfortable, at least during the first half of 2008, while the decline in commodity prices in the second six months of the year is affecting related fiscal revenue and expenditure. For the year as a whole, revenue is expected to stand at approximately 36% of GDP, while expenditure is expected to represent around 32% of GDP. Taxation revenues and royalty payments from the increased production of bauxite, gold, alumina and new oil production streams are expected to have increased significantly in 2008 (from an already high level of 26% of total fiscal revenue in 2007). While wage increases did occur in the public sector early in 2008, these were below prevailing rates of inflation and are not expected to compound the inflation problem. The primary balance at the end of the third quarter stood at 3.7% of GDP, while the overall balance posted a surplus of 1.7% of GDP. The overall balance is expected to remain positive, although at a lower level than in 2007. The fiscal accounts continue to be strengthened by multilateral and bilateral project funds. A recent infrastructure loan from China has increased the debt stock, but it remains clearly within the mandated limits of 45% of GDP for foreign debt and 15% of GDP for domestic debt.

Monetary policy remained loose, even in the light of high inflation. Year-on-year M1 increased by 18.3% in the third quarter of 2008, to reach 20.4% of GDP. Deposit rates dipped slightly to 6.3%, and the lending rate dropped from 14.9% in the first quarter of 2007 to 12.6% in the first quarter of 2008. The central bank's policy aims at making credit available, attracting foreign direct investment and accumulating reserves to sustain the currency. The exchange rate remained within a quasi-fixed regime at approximately SRD$ 2.745 to US$ 1.

Inflation will average approximately 15% for 2008, which is nearly 3% above the projected annual average and therefore a major cause for concern. In October, the rate of inflation stood at 17.8%. The main drivers of domestic inflation were prices of food and non-alcoholic beverages, which as of September 2008 displayed a 29% year-on-year increase. The internal causes of inflation, such as Suriname's expansionary monetary policy, also compounded the externally generated factors.

GDP is expected to grow by about 5% during 2008, fuelled by continued growth in the mining industry, the alumina processing industry and new investment in the petroleum industry. Agriculture, with the restructuring of the banana sector and international interest in palm oil and biofuel investments, also boosted the economy after its recovery in 2007. The rice industry is the exception, with increasing associated costs as well as heavy indebtedness. The combined effects of falling commodity prices, as well as the effects of the financial crisis on Suriname's major trading and investment partners (the United States and the European Union), are expected to slow down GDP growth and foreign direct investment (FDI) in the latter half of 2008 and into 2009. There is also uncertainty regarding the long-term sustainability of the mining industry, especially considering that BHP-Billiton pulled out of the Bakhuys development project in October and plans to leave Suriname altogether by 2010.

The current account position was boosted by strong aluminium, gold and oil prices in the first half of 2008, even though imports increased. Second-quarter estimates show a positive current account position: a surplus of approximately 14% of GDP. Mid-year export earnings represented approximately 65% of GDP, and import payments approximately 52% of GDP. However, the drop in commodity prices and the slowdown in the global economy are expected to have a significant impact on Suriname's export earnings and thus reduce its current account surplus.

Suriname has guardedly embraced the Economic Partnership Agreement (EPA) signed with the European Union. The country continues to have good relations with international donors thanks to prudent debt management, solid economic growth and a facilitative fiscal framework. Bilateral obligations concerning arrears with Brazil and the United States have yet to be resolved. The uncertainty about the volatility of the commodity prices on which Suriname's macroeconomic success depends, will be decisive for economic growth in 2009 (estimated to slow to 3%) and the country's ability to maintain this favourable debt position.

SURINAME: MAIN ECONOMIC INDICATORS

	2006	2007	2008 [a]
	Annual growth rates		
Gross domestic product	5.8	5.3	5.0
Per capita gross domestic product	5.1	4.7	4.4
Consumer prices	...	5.6	17.8 [b]
Money (M1)	21.8	25.1	18.3 [c]
	Annual average percentages		
Unemployment rate	12.1	12.0	...
Central government overall balance / GDP	1.6	3.1	1.7 [d]
Nominal deposit rate [e]	6.7	6.4	6.3 [f]
Nominal lending rate [e]	15.7	13.8	12.5 [f]
	Millions of dollars		
Exports of goods and services	1 408	1 604	...
Imports of goods and services	1 278	1 502	...
Current account	115	187	...
Capital and financial account	-21	-10	...
Overall balance	94	177	...

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

[a] Preliminary estimates.
[b] Twelve-month variation to October 2008.
[c] Twelve-month variation to September 2008.
[d] Cumulative to september.
[e] Deposit and loan rates published by International Monetary Fund.
[f] Average from January to May, annualized.