Suriname

1. General trends

In 2003 Suriname's GDP growth (5.6%) was almost double the rate posted the preceding year, thanks to the recovery of the mining sector, in which the most buoyant activities were alumina, gold and oil production. Sharp cutbacks in public spending, the implementation of a series of tax measures and better economic performance enabled the central government to balance its fiscal accounts (-7% of GDP in 2002 and 0.2% in 2003).

Monetary policy was contractionary, in accordance with fiscal policy. The authorities continued to impose high minimum legal reserve requirements for sight deposits, and introduced strict controls on advances to the public sector. This made it possible to slow down the growth of narrow monetary aggregates (0.4% in the case of M1) and to raise interest rates in real terms.

Nonetheless, the financial system's total liquidity (in the broad sense) shot up. This resulted from an increase in foreign-currency deposits, which implies that the economy is experiencing some degree of dollarization. This process, in turn, was due in part to the expectations of economic agents in view of recent inflation trends. Yet the authorities kept the exchange rate stable and lowered inflation from 37% to 26% between 2002 and 2003. At the beginning of 2004 the government introduced a new currency, the Surinamese dollar, whose unit value is equal to 1,000 units of the old currency (guilders). The overall balance-of-payments position was slightly negative because of the growing imbalance on the services account (-11% of GDP in 2002 and -15% in 2003) and the capital account deficit.

For 2004 the authorities predict that GDP will grow by more than 5%, on the strength of expanded capacity in the mining sector and restructuring in the banana subsector. This will have a positive effect on export performance and tax revenues; in fact, the government is projecting a fiscal surplus of 1% of GDP. Lastly, it is expected that monetary conditions will help to keep inflation moderate.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	1995	1996	1997	1998	1999	2000	2001	2002	2003 [a]
				Annual growth rates [b]					
Gross domestic product	-0.8	0.3	6.0	2.6	-0.9	-1.1	5.0	3.0	5.6
Per capita gross domestic product	-1.3	-0.4	5.3	2.9	3.5	-3.0	-0.5	...	...
				Millions of dollars					
Balance of payments									
Current account balance	73.4	-63.5	-67.7	-154.9	-29.1	32.3	-83.6	-131.0	-159.0
Merchandise trade balance	123.0	-1.6	36.1	-27.2	44.1	153.0	139.8	47.4	29.8
Exports, f.o.b.	415.6	397.2	401.6	349.7	342.0	399.1	437.0	369.3	487.8
Imports, f.o.b.	292.6	398.8	365.5	376.9	297.9	246.1	297.2	321.9	458.0
Services trade balance	-57.3	-65.7	-102.2	-124.9	-72.0	-124.6	-114.9	-127.6	-135.5
Income balance	-2.6	2.7	-2.6	-0.5	0.3	6.0	-107.6	-42.3	-48.5
Net current transfers	10.3	1.1	1.0	-2.3	-1.5	-2.1	-0.9	-8.5	-4.8
Capital and financial balance [c]	49.2	61.8	86.8	163.0	24.7	-22.5	161.7	111.9	158.0
Net foreign direct investment	-20.6	19.1	-9.2	9.1	-61.5	-148.0	-26.8	-73.6	...
Financial capital [d]	69.8	42.7	96.0	153.9	86.2	125.5	188.5	185.5	...
Overall balance	122.6	-1.7	19.1	8.1	-4.4	9.8	78.1	-19.1	-1.0
Variation in reserve assets [e]	-122.6	1.7	-19.1	-8.1	4.4	-9.8	-78.1	19.1	1.0
				Average annual rates					
Employment									
Unemployment rate	8.4	10.9	10.5	10.6	11.0	13.0	17.0	18.0	...
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	36.9	1.2	17.4	22.9	112.7	76.2	4.9	37.0	26.0
Variation in the free nominal exchange rate (December-December)	-6.4	-0.3	0.0	0.0	145.1	121.1	0.0	15.9	3.9
Nominal deposit rate	...	16.5	16.6	15.7	15.9	15.4	11.1	8.4	8.5
Nominal lending rate	...	34.9	28.8	25.7	28.5	29.0	23.5	21.3	21.0
				Millions of Suriname guilders					
Central government									
Current income	...	...	...	126.3	160.3	297.6	616.3	623.8	858.4
Current expenditure	...	...	...	146.8	201.5	435.4	539.4	771.8	809.9
Overall balance	...	...	...	-43.2	-73.0	-142.8	52.9	-157.4	6.7
Public debt	...	...	...	143 431	236 761	815 033	803 920	1 033 575	1 083 309
Domestic	...	...	...	57 400	14 600	434 700	106 300	294 500	289 300
External	...	...	...	86 031	222 161	380 333	697 620	739 075	794 009
				Percentages of GDP					
Money and credit									
Net domestic credit	5.1	12.1	18.9	19.1	15.4	11.9	11.9	17.6	14.1
To the public sector	-0.3	-0.1	0.5	3.1	3.2	2.9	5.0	4.6	3.5
To the private sector	5.5	12.1	18.4	16.0	12.2	9.0	14.7	15.4	18.4
Narrow money supply	...	21.0	23.0	20.6	17.9	22.8	22.9	24.4	18.6
Broad money supply	...	29.2	30.5	26.2	21.1	26.1	25.5	26.7	20.9

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] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. [e] A minus sign (-) denotes an increase in reserves.

2. Economic policy

(a) Fiscal policy

In 2003 the central government balanced its fiscal accounts, which posted a surplus of 0.2% of GDP after having shown a deficit of 7% of GDP in 2002. The fiscal outcome was partly the result of a package of tax measures adopted at the end of 2002 to increase tax revenues, but was mainly due to a policy of holding down public spending. These policies were adopted in the interests of fiscal prudence and to ensure acceptance of the new Surinamese dollar.[1]

The tax measures included a three-percentage-point increase in the sales tax and the introduction of a gambling tax and a one-year temporary tax on the income of corporations and of individuals in the top income brackets. The authorities also raised the price of gasoline, thereby increasing the tax burden from 27.9% of GDP in 2002 to 29.2% in 2003. In addition, personal and corporate income tax receipts climbed from 10.1% of GDP to 11.5%, and sales tax revenues expanded from 3.7% of GDP to 6%.

Public spending was sharply curtailed (from 35% of GDP in 2002 to 27% in 2003), with cutbacks under all items of expenditure in relation to the preceding year's levels. The only exception was spending on wages and salaries, which had risen significantly in 2002 and stayed at a similar proportion of GDP in 2003 (12%, 15% and 14.7% of GDP in 2001, 2002 and 2003, respectively). The biggest decrease was in spending on goods and services, which fell from 10% of GDP to 6% between 2002 and 2003.

In keeping with the fiscal balance, the debt stock fell from 48% of GDP in 2002 to 37% in 2003. Between those two years, domestic debt dropped from 13% of GDP to 10% and external debt, from 34% to 27%.

(b) Monetary and exchange-rate policy

In 2003 the authorities adopted a tight monetary policy that was implemented through changes in legal reserve requirements and controls on advances to the central government. This contrasted with the practice in previous years, when the main monetary policy instrument had been the imposition of credit ceilings. The central bank maintained a 35% legal reserve requirement for sight deposits and imposed a new reserve requirement for foreign-currency deposits, with a view to dicouraging currency substitution.

As a result of this monetary policy stance, the expansion of monetary aggregates slowed down and real interest rates went up. Accordingly, the supply of narrow money (M1) and broad money (M2) grew by just 0.4% and 2.9%, respectively. These increases were minimal in comparison to the ones recorded in 2002, of 43% and 41%, respectively. Real interest rates, meanwhile, climbed from -0.1% to 6%.

Despite these measures, dollar deposits expanded considerably (from 14% in 2002 to 38% in 2003), leading to an increase in the commercial banking system's liabilities and total liquidity. By the end of 2003 the foreign-currency deposits of Suriname residents had risen to twice the amount of local-currency sight deposits (valued according to the official exchange rate). In terms of assets, there was a significant upswing in demand for loans to the private sector (40% in 2002 and 57% in 2003), despite the hike in real interest rates.

These changes reflect the increasing dollarization of Suriname's economy. The exchange rate reached 2,550 guilders to the United States dollar at the end of 2002 and 2,650 guilders in 2003. This may be due to the country's recent bout of high inflation, still fresh in the minds of economic agents, who will probably continue to prefer dollar transactions until they are sure the economy has entered a phase of lasting stability.

(c) Other policies

In September 2003 the authorities adopted a new trade law to replace the 1954 decree on imports and exports. The aim of the new law is to create a more business- and investor-friendly environment and to protect producers and consumers against anti-competitive practices such as dumping by foreign traders. The law includes provisions on the free movement of goods, sanitary and phytosanitary measures, safeguards and criteria for including products on the negative list.

1 The Surinamese dollar went into circulation in January 2004, at an exchange rate of 2.7 per United States dollar.

3. The main variables

(a) Economic activity

Economic activity picked up, posting its highest growth rate in five years (5.6%) as a result of an upturn in the primary sector, particularly in the production of bauxite, gold, oil and some agricultural products.

The performance of the agricultural sector was somewhat uneven. Rice production was affected by technical and financial problems and adverse weather conditions, whereas banana production made an impressive recovery thanks to restructuring operations and the introduction of more efficient production processes.

The mining sector was boosted by higher international prices for bauxite and alumina. The faster growth in the alumina sector resulted in part from an increase in production capacity, while gold production expanded following the opening of a new mine.

The oil and natural gas sector was buoyed by the rise in international prices and an expansion in refinery capacity and electric power generation facilities. The telecommunications sector will soon enter a new phase in which it will be taken over by private interests.

(b) Prices, wages and employment

Inflation dropped from 37% in 2002 to 26% in 2003, owing to more modest wage increases, exchange-rate stability and the tight monetary policy. The change in the exchange-rate regime, which for the moment seems to consist of asset substitution as a result of the large supply of United States dollars in the economy, has had no effect on the prices of goods and services.

In 2004 the authorities agreed to a 10% increase in the minimum wage and in civil-service wages. The civil-service wage hike is to take place in two stages: a 5% increase in March followed by another 5% increase in September. In the private sector, some manufacturing and alumina companies implemented wage increases (of 9% and 4%, respectively).

(c) The external sector

The overall balance-of-payments position was negative but close to equilibrium, as an increase in the financial account surplus offset a larger deficit on the current account. Gross international reserves fell from US$ 180.8 million in 2002 to US$ 160 million in 2003. The rate of import coverage therefore slipped from 4.4 months to 3.6 months.

The current account deficit expanded from 13.8% of GDP to 14.2% between 2002 and 2003, mainly because the merchandise trade surplus shrank –from 5% of GDP to 3.6%– and also, albeit to a lesser extent, because the deficit on the services account increased.

The merchandise trade balance was affected by strong import growth (42%), which neutralized a 32% upturn in exports. The increase in imports was due to the demand for capital and intermediate goods for the production of gold and bauxite. Export performance was boosted considerably by the higher prices and volumes of the main export metals (gold, bauxite and alumina).

The capital and financial account posted a surplus of 11.8% in 2002 and 14% in 2003, despite an increase in outflows of long-term private capital, given that these outflows were more than offset by inflows of short-term capital.