Suriname

1. General trends

Strong performances in the oil and gold sectors and continued infrastructure development contributed to real GDP growth of 2.2% in 2009. While this growth was slower than the 2008 rate of 4.3%, it still meant that Suriname was one of the few Caribbean countries to post positive growth during the year.

The overall fiscal surplus increased to 3.7% of GDP in 2009. The central bank maintained its domestic currency cash reserve requirement, and both deposit and lending rates remained stable. Domestic credit to the private sector also continued to expand. The year-end inflation rate stood at 1.3% (9.4% in 2008). Following a decline in export revenues, the external sector current account surplus shrank by 39%, the first decrease in five years, to stand at 9.2% of GDP.

Desi Bouterse's coalition party took the most seats in general elections held on 25 May 2010. His election to office may strain relations with the Netherlands, an important source of donor funds, given that he led a military regime in his last tenure as president.

The overall economic policy mix is aimed at containing inflation through monetary channels, facilitating economic growth and export growth, particularly through fiscal channels, and maintaining sustainable debt levels. In 2010, GDP is expected to grow by 2.4%.

2. Economic policy

(a) Fiscal policy

Fiscal accounts remained in surplus for 2009 as total revenue increased by 25% to 49.1% of GDP. A 138% rise in the dividend from Staatsolie, the state oil company, and a 44% increase in royalty payments from gold producer IAMGOLD raised these companies' contributions to tax revenue from 11.5% of total revenue in 2008 to 22.4% in 2009. The recession prompted the largest aluminium producer, BHP Billiton, to leave Suriname in 2009. Revenue was bolstered by greater efficiency in the collection of sales taxes and import duties. Total tax revenue rose by 8.5% to reach 31.1% of GDP, and grants increased by 45% to reach 5.9% of GDP.

Total expenditure expanded by 23% to 45.4% of GDP, with current expenditure growing by 21% to stand at 35.2% of GDP and capital expenditure increasing by 30% to 10.1% of GDP. The most costly item of expenditure was infrastructure (including the Paranam-Albina road project), while the highest profile issue was the first phase of the new automated civil service function system (Functie Informatie-Systeem Overheid, FISO), a public sector wage reform programme. The first phase of FISO raised the wage and salary bill from 12% to 15.5% of GDP in 2009, and the second phase, scheduled for late 2010, is expected to increase expenditure on wages and salaries to 19.6% of GDP. Even with this expanded expenditure, the primary surplus improved by 31% to 8.1% GDP and the overall surplus increased by 52% to 3.7% of GDP. However, with further expenditure on FISO and expectations of a weaker oil dividend, a fiscal deficit equivalent to 15% of GDP is predicted for 2010.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	5.7	2.7	6.8	0.5	7.2	3.9	5.1	4.3	2.2
Per capita gross domestic product	4.2	1.2	5.5	-0.9	5.9	2.8	4.1	3.3	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.5	-3.8	3.6	1.0	-5.0	5.2	5.6	-5.0	5.3
Mining and quarrying	25.0	-8.3	0.3	30.0	15.3	7.6	18.2	4.7	-12.3
Manufacturing	12.5	-3.7	5.5	10.8	10.2	1.8	-2.2	-2.6	-0.7
Electricity, gas and water	5.0	11.6	-1.3	9.9	3.5	8.4	6.3	7.2	6.4
Construction	4.5	0.6	17.0	10.1	8.6	5.3	15.4	4.3	7.3
Wholesale and retail commerce, restaurants and hotels	-14.6	8.5	32.0	8.9	11.7	7.2	9.3	15.7	7.9
Transport, storage and communications	28.8	12.3	3.0	7.7	7.9	-1.8	2.7	2.6	0.0
Financial institutions, insurance, real estate and business services	0.7	3.3	2.5	5.3	4.4	1.7	1.6	3.1	2.1
Community, social and personal services	1.1	0.2	0.7	0.1	4.7	4.0	0.1	1.2	1.2
					Millions of dollars				
Balance of payments									
Current account balance	-84	-131	-159	-137	-100	221	335	344	210
Goods balance	140	47	30	42	70	272	314	358	109
Exports, f.o.b.	437	369	488	782	997	1 175	1 359	1 708	1 404
Imports, f.o.b.	297	322	458	740	928	903	1 045	1 350	1 296
Services trade balance	-115	-128	-136	-130	-151	-33	-65	-123	1
Income balance	-108	-42	-49	-63	-41	-54	8	21	5
Net current transfers	-1	-9	-5	14	22	36	77	87	94
Capital and financial balance [c]	162	112	166	175	123	-125	-160	-292	16
Net foreign direct investment	-27	-74	-76	-37	28	-163	-247	-234	0
Other capital movements	189	186	242	212	95	39	86	-58	16
Overall balance	78	-19	7	38	24	96	175	52	226
Variation in reserve assets [d]	-78	19	-7	-38	-24	-96	-175	-52	-226
Other external-sector indicators									
Net resource transfer	54	70	118	112	83	-179	-152	-271	22
Total gross external public debt	350	371	382	384	390	391	299	316	238
					Average annual rates				
Employment									
Unemployment rate [e]	14.0	10.0	7.0	8.4	11.2	12.1	...	...	...
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	...	...	...	...	15.8	4.7	8.3	9.4	1.3
Variation in nominal exchange rate (annual average)	64.7	7.7	10.8	5.1	-0.1	0.4	0.0	0.0	0.0
Nominal deposit rate [f]	11.9	9.0	8.3	8.3	8.0	6.7	6.4	6.3	6.4
Nominal lending rate [f]	25.7	22.2	21.0	20.4	18.1	15.7	13.8	12.2	11.7
					Percentages of GDP				
Central government									
Total revenue	41.1	30.7	31.6	37.4	37.3	39.4	46.6	37.2	49.1
Current revenue	39.2	29.4	30.0	35.5	35.0	35.8	38.3	33.4	43.3
Tax revenue	34.1	24.2	25.2	29.1	27.8	28.2	30.6	27.1	31.1
Grants	1.9	1.3	1.6	1.9	2.3	3.6	8.3	3.9	5.9
Total expenditure	40.7	35.7	30.7	38.5	38.1	40.0	38.6	34.9	45.4
Current expenditure	35.6	32.2	27.3	33.3	31.8	33.0	32.6	27.6	35.2
Interest	2.3	2.7	2.3	2.2	2.5	2.3	1.9	1.0	1.5
Capital expenditure	4.2	3.3	3.1	5.1	6.4	6.9	5.9	7.4	10.1
Overall balance	0.4	-5.0	0.8	-1.1	-0.8	-0.6	8.0	2.3	3.7

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Money and credit [g]									
Domestic credit	24.6	30.4	24.9	32.1	30.0	28.7	26.9	25.9	33.9
To the public sector	7.7	12.0	7.3	13.6	11.8	9.1	5.2	0.0	6.4
To the private sector	16.9	18.3	19.7	25.2	25.5	27.7	32.7	35.3	42.4
Others	0.0	0.0	-2.2	-6.7	-7.3	-8.1	-11.0	-9.4	-15.0
Liquidity (M3)	65.0	55.8	51.0	64.6	58.0	61.0	68.2	61.3	80.3
Currency outside banks and local-currency deposits (M2)	39.6	34.1	27.1	32.9	30.4	31.9	35.5	32.9	43.5
Foreign-currency deposits	25.4	21.7	23.9	31.7	27.6	29.2	32.6	28.4	36.8

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

Debt sustainability remained a key priority, especially with the accumulation of higher public sector domestic debt to finance FISO. The sizeable debt owed to Brazil was officially cleared in 2009 with US$ 118 million repaid and US$ 47 million forgiven. Suriname hopes to clear US$ 37 million in debt to the United States by year's end, before the Staatsolie refinery upgrade programme[1] begins. Most of the domestic debt contracted was used to finance the FISO project and represented approximately 14.6% of GDP, up from 12.5% in 2008. As debt is mostly long term, there are no foreseeable problems in the short to medium term. However, uncertainty about the long term sources of funds and the prospect of trade deficits in the near future are cause for concern.

(b) Monetary and exchange-rate policy

Liquidity (M2) expanded by more than 25% to reach 43.5% of GDP, while net domestic credit expanded by 24% to reach 33.9% of GDP. Private-sector domestic credit expanded more slowly (by 13%) in 2009 to stand at 42.4% of GDP, compared with 35.3% in 2008. While home construction is still increasing, the slower growth resulted from the collapse (due to a lack of demand) of the low-income home loan assistance programme that the government had launched in 2008. Credit to the central government expanded significantly from 0.0% of GDP in 2008 to 6.4% in 2009 owing to the financing of infrastructure projects and FISO.

The central bank seeks to balance inflation and growth in an effort to maintain the official exchange rate at $2.75 Suriname dollars (SRD) to the United States dollar. The main policy tool, the Suriname dollar reserve requirement, was unchanged at 25%, as were the reserve requirements for the euro and the United States dollar at 33.33.%. Market interest rates[2] continued to decline in order to keep credit accessible. The lending rate fell from 12.0% to 11.6% and deposit rates remained stable at 6.2% in 2009, down slightly from 6.3% in 2008.

The official United States dollar exchange rate remained unchanged at approximately SRD 2.75 to the US$ 1 throughout 2009, but was traded in parallel markets at rates as high as SRD 3.15 to US$1. Many domestic transactions for imported durable goods are denominated in United States dollars, which fuels additional demand for the currency. In addition, Chinese retailers buy United States dollars at a premium from Surinamese nationals to finance their own imports and loan repayments. The central bank intervened early in 2009 by increasing the official band of the exchange rate from SRD 2.71-2.80 per United States dollar to SRD 2.71-2.85 per United States dollar, but felt that any further intervention to rebalance the market would not be the best use of foreign exchange resources because Surinamese nationals hold US$ 800 million in foreign banks, 23% more than the country's official international reserves. Interestingly, after the central bank intervened in April 2009 to defend the exchange rate, deposits to these foreign accounts increased by an amount similar to the level of intervention.

The conservatism of the Surinamese financial system was considered vital in the country for avoiding contagion from the financial crisis. CLICO Suriname was taken over by local entities after the collapse of its parent company, and there was no lasting damage to the financial sector. Nevertheless, expectations of fiscal and balance-of-payment deficits in the near future raise red flags concerning a potential requirement for adjustments to current monetary policy, especially as inflationary pressure may require upward adjustments to the reserve requirement to defend the exchange rate.

1 Some US$ 400 million will be borrowed to finance this project.

2 End-of-year rates.

3. The main variables

(a) Economic activity

GDP grew by 2.2% in 2009, with growth in the construction, agriculture and service sectors leading the way.

With the virtual halt in aluminium production, the mining and quarrying sector shrank by 12.3% to 7.2% of GDP. Strong gold and oil production failed to offset the fall in aluminium. Manufacturing declined by 0.7% to 10.6% of GDP as activity relating to the processing of aluminium slowed. The expected increase in manufacturing coming from the government's creation of a state aluminium company, Alumsur, did not materialize, and negotiations with Suriname Aluminium Company (Suralco) are ongoing.

Output in the construction sector was up by 7.3% in 2009 and reached 6% of GDP. This increase was fuelled by government construction programmes, infrastructure development programmes, hotel construction, and a growing number of individual homebuilding projects. Donor-driven infrastructure projects provided a significant buffer for Suriname against the effects of the global recession.

The services sector grew by 4.2% to 69% of GDP, led by growth of 9.3% in the wholesale and retail trade sector to reach 18.2% of GDP. Wholesale and retail trade continued increasing in tandem with demand for housing and consumer durables.

Sustained construction activity related to housing and infrastructure and expected increases in gold production are forecast to fuel a growth rate of 2.4% in 2010, compared with 2.2% in 2009.

(b) Prices, wages and employment

With food and fuel prices down sharply as a result of the global recession, inflation dropped markedly in 2009, ending the year at an annual rate of 1.3%, much lower than the 2008 rate of 9.4. This indicator had peaked at an annual rate of 7.8% in January 2009, but the period May-October 2009 saw an average year-on-year rate of -3.5%. The year-on-year rise in the consumer price index (CPI) for April 2010 was 2.7%.

The new wage programme, FISO, was originally intended for central government employees but union action forced the government to extend it to all civil servants. Even with the change in government, it appears that the subsequent phases of the programme will be implemented as expected. However, serious concerns remain regarding the sustainability of current levels of public expenditure, especially in light of projections of a fiscal deficit in 2010.

The unemployment rate continues to be estimated at 12% although no new studies on this variable have been undertaken since 2006. The massive negative shock sustained by the aluminium industry with the exit of BHP Billiton and the fall in Suralco's output is expected to push up unemployment, especially as it is doubtful that ongoing infrastructural projects are adding enough jobs, given the influx of Chinese workers for these projects.

(c) The external sector

The current account surplus decreased for the first time since 2004, reflecting lower export prices and diminished output. Although imports decreased by 4% to 59.5% of GDP, the value of exports fell by 18% to 64.4% of GDP, the first decline in exports since 2001. The current account surplus decreased by 39% in 2009 to stand at 9.6% of GDP. Services registered a surplus for the first time since 1990, moving from a deficit of US$ 123 million to a slight surplus of US$ 1 million. This change is the result of the downturn in international service-sector activity in Suriname following the recession, and the subsequent departure of multinational engineering services companies. Tighter international capital markets saw the International Monetary Fund (IMF) increase its allocations of special drawing rights (SDR) and Suriname benefited with an allocation worth US$ 123 million or 5.6% of GDP. As a result, the capital and financial accounts (including errors and omissions) moved from a deficit of 12.1% of GDP in 2008 to a small surplus of 0.7% of GDP in 2009. Net international reserves increased by 37% to reach 29% of GDP, which increased total import cover (including services) from 3 months in 2008 to 5 months in 2009.

As the world economy is expected to recover slightly in 2010, a current account deficit is still considered improbable. Nevertheless, the idea that world economic growth may once again slow down, adversely affecting commodity prices, has not been lost on the Surinamese authorities, and there are concerns that chronic balance-of-payment deficits may await Suriname beyond 2011.