



Summary

Benefitting from rising gold prices and foreign investment into its mining sector, Suriname's economic growth strengthened from 4.1% in 2010 to 4.3% last year. Barring a major decline in global commodity prices, Suriname's economy is expected to expand by 4-5% this year. While sparking sharp protests from Western countries, the passage of an amendment to the Amnesty Law, which could protect incumbent president Bouterse against murder charges, did not have a major negative impact on the government's strong domestic popularity. Given broad public support, buoyant tax revenues and a large parliamentary majority, the Bouterse government has embarked on a public investment programme and plans to introduce a value-added tax system. In order to shield government finances from global commodity price fluctuations, the creation of a sovereign wealth fund is considered. Thanks to sizeable current account surpluses and ongoing foreign exchange reserve accumulation, Suriname's already acceptable external position continued to improve.

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Suriname				
National facts		Social and governance indicators		
Type of government	Republic	Human Development Index (rank)	104 / 187	
Capital	Paramaribo	Ease of doing business (rank)	158 / 183	
Surface area (thousand sq km)	164	Economic freedom index (rank)	133 / 179	
Population (millions)	0.6	Corruption perceptions index (rank)	100 / 183	
Main languages	Dutch (official) English	Press freedom index (rank)	22 / 178	
Main religions	Hindu (27.4%) Protestant (25.2%) Roman Catholic (22.8%)	Gini index (income distribution)	52.9%	
Head of State (president)	Desiré Bouterse	Population below \$1 per day (PPP)	n.a.	
Head of Government (president)	Desiré Bouterse	Foreign trade		
Monetary unit	Surinamese dollars (SRD)	2010		
Economy		2010		
Economic size		Main export partners (%)		
	<i>bn USD</i>	<i>% world total</i>	Main import partners (%)	
Nominal GDP	4	0.01	Canada 38	
Nominal GDP at PPP	5	0.01	US 28	
Export value of goods and services	2	0.00	Belgium 12	
IMF quatum (in mln SDR)	92	0.04	US 12	
Economic structure		Main export products (%)		
	2010	5-year av.		
Real GDP growth	4.4	4.4	Gold 62	
Primary sector (% of GDP, 2009)	19	n.a.	Alumina 23	
Secondary sector (% of GDP, 2009)	31	n.a.	Crude oil 9	
Tertiary sector (% of GDP, 2009)	36	n.a.	Main import products (%)	
Government (% of GDP, 2009)	14	n.a.	Machinery and transport equipment 30	
Standards of living		Openness of the economy		
	<i>USD</i>	<i>% world av.</i>		
Nominal GDP per head	7245	67	Export value of G&S (% of GDP) 63	
Nominal GDP per head at PPP	8926	75	Import value of G&S (% of GDP) 58	
			Net FDI (% of GDP) n.a.	

Source: Central Bank of Suriname, EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Due to limited availability of reliable data, the tables presented in this evaluation should be interpreted with caution.

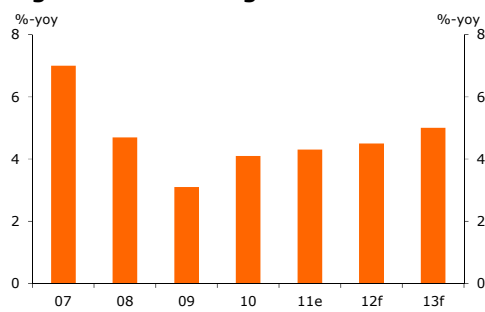
Economic structure and growth

Suriname is a small, natural resource-based economy with a nominal GDP of USD 4bn (2011) on the Caribbean coast of South America. Given a population of 560,000 inhabitants, nominal GDP per capita amounted to USD 7,245, or USD 8,926 in PPP terms, last year. Reflecting its wealth in natural resources, particularly bauxite, crude oil and gold, Suriname's economy is dominated by the mining sector. Since the early 20th century, bauxite mining has been the dominant source of income for the Surinamese economy, but it lost in relative importance as rising bullion prices promoted the development of the gold mining sector. Both sectors continue to attract considerable foreign investment, as currently mined gold deposits are expected to last for at least 20 years and the anticipated opening of new mines in Western Suriname should ensure bauxite production for the next 45 years. While a little over half of Suriname's mining sector is controlled by North American multinationals, there also exists an informal and weakly regulated gold sector, which roughly accounts for the other half of production. The exploitation of Suriname's crude oil reserves lies solely in the hands of state-owned oil company Staatsolie, which is currently limited to on-shore activities. Proven on-shore crude oil deposits amount to a very small 80m barrels, but

offshore deposits might be far greater. According to US estimates, the Guyana-Suriname Basin could hold as much as 15.2bn barrels of oil (about 1% of proven global crude oil deposits). The agricultural sector mainly focuses on the production of bananas, lumber, rice, fish and shrimps. While it remains an important employer, its economic importance relative to the mining sector has declined. In recent years, government efforts have been directed at the broadening of Suriname’s narrow economic base by branching out into sectors like eco-tourism, but the results have been mixed so far.

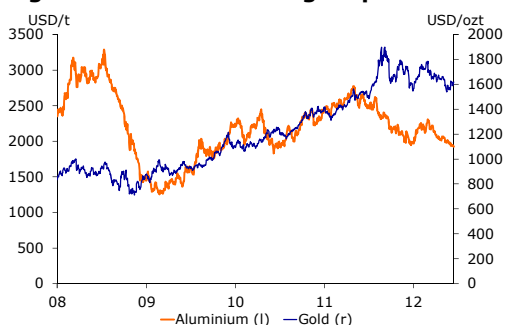
Suriname’s most important exports and imports reflect the economic dominance of the natural resources-related industries. In 2010, gold exports accounted for about 60% of total exports, up from 32% in 2009. Bauxite exports still contribute about a quarter of Suriname’s export earnings, followed by crude oil exports that remain relatively constant at about 10% of total exports in recent years. Given the absence of an industrial base, imports are dominated by machinery and transport equipment, manufactured goods and refined fuel, though the latter could become obsolete in the near future as Staatsolie currently invests into domestic refining capacity.

Figure 1: Real GDP growth



Source: S&P

Figure 2: Aluminum and gold prices



Source: Reuters Ecowin

Benefitting from the relative stability of gold prices, Suriname withstood the collapse of commodity prices during the onset of the global economic crisis. Even though the collapse of bauxite prices hurt exports, economic growth still came in at 3.1% in 2009. Driven by rising export volumes and prices for mineral exports, as well as investment into its mining sector, the Surinamese economy likely expanded by 4.1% and 4.3% in 2010 and 2011, respectively. Going forward, Suriname’s economic outlook looks relatively favourable. This year, economic growth of 4-5% is expected, followed by about 5% economic growth in 2013. Strong activity in the mining sector and public investments are expected to be the main drivers of economic growth. About USD 3bn (about 75% of 2011 GDP) of investment into the bauxite and gold sector are anticipated in the coming years and foreign investors appear to be interested in the exploitation of off-shore oil deposits. In the short- to medium-term these investments will boost output, but they will also increase Suriname’s dependence on global commodity price developments. Yet, provided that the additional tax revenues generated from the mining sector are used to address major structural weaknesses, like the weak business climate, a vast and inefficient bureaucracy and a poor infrastructure, higher and more robust economic growth is possible in the future.

Political and social situation

Following the defeat of former president Ronald Venetiaan and his National Party of Suriname (NPS) in the May 2010 legislative elections, Suriname is currently governed by former military dictator Desiré Bouterse of the National Democratic Party (NDP). Mr. Bouterse leads a broad-based

coalition government, commonly referred to as the MEGA Combinatie (MC) that comprises his own NDP party, the A-Combinatie (a combination of several smaller parties) and the Volksalliantie. The fact that the latter two parties mainly represent the interests of the Javanese and Maroon (descendants of runaway slaves) population, should enhance policy acceptance across Suriname's various ethnic groups. President Bouterse fought against the Maroons and their then-leader Ronny Brunswijk in Suriname's 1986-1990 Civil War, so their representation and the participation of Mr. Brunswijk in the government bodes well for government stability. The MEGA Combinatie controls a two-third majority in the Nationale Assemblée (the national parliament), where Mr Bouterse's own NDP alone has 23 seats (out of 51 seats). So far, the MEGA Combinatie operated smoothly and managed to implement painful economic policies (see economic policy section) without neither losing cohesion among the large number of coalition partners nor public support. The fact that the coalition also survived the resignation for personal reasons of former finance minister Wonnie Boedhoe and a major cabinet reshuffle in May 2012 bodes well for government stability.

In recent months, Suriname's political climate has been dominated by the adoption of a controversial amendment to the 1989 Amnesty Act, which was created in the aftermath of the 1980's military rule and civil war. The amendment extends the amnesty period from 1985 back to 1980 and widened the scope of crimes exempted from prosecution. It could thereby also apply to the so-called Decembermoorden, the killing of 15 political opponents during Mr. Bouterse's military dictatorship. Since he has been on trial for these murders since 2007, Bouterse is considered to be a major beneficiary of the amended Amnesty Law. The approval of the amendment, which seems to contradict international law, met widespread criticism domestically and internationally. Within Suriname, about 5,000 protesters (out of a total population of 560,000), mainly supporters of opposition parties and members of trade unions, took to the streets. The legislation also sparked increased tensions between the coalition partners. Notwithstanding, the overall impact of the extended amnesty on social stability in Suriname seems to be limited. While Mr. Bouterse's alleged involvement in the Decembermoorden is well-known in Suriname, voters still elected him president. Furthermore, the population's concerns about the past seem to be fading, as a considerable share of the population is too young to have witnessed the 1980's civil war and Mr. Bouterse's military dictatorship. Still, the policy of turning a blind eye to the past could lead to re-emerging future tensions, if Suriname's economic situation were to worsen.

In contrast to the limited domestic political repercussions, external relations suffered markedly. Namely Western powers and multilateral organizations condemned the amendment to the Amnesty Law. The Netherlands, Suriname's former colonial master, responded by freezing the remaining 1% of payments associated with a USD 2.6bn aid package Suriname had been receiving in the aftermath of its independence in 1975. Additionally, a travel ban has been issued by the Netherlands for all 25 accused in the Decembermoorden trial. The Amnesty Law will likely increase the already existing lack of foreign support for Mr. Bouterse's administration, which had become apparent by the absence of most foreign dignitaries (even from allied Venezuela) at his inauguration in 2010. Still, given that Suriname currently enjoys sizeable current account surpluses and consequently does not depend on external financing, we do not expect serious economic consequences, as the leverage of Western powers on the Bouterse administration is limited.

Economic policy

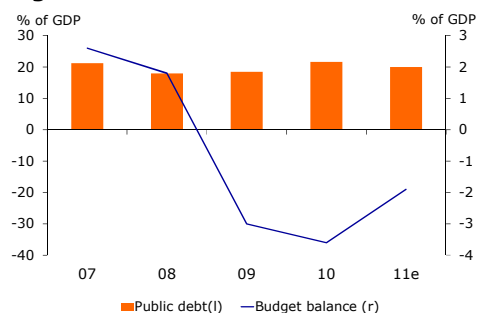
Even though concerns were high that the assumption of the presidency by Mr Bouterse in August 2010 would endanger Suriname's relative macro-economic stability, the macro-economic policies during the first 18 months in office were generally sound. It seems as if Mr Bouterse aims to

redeem his legacy, which has so far been tainted by his alleged involvement in the Decembermoorden, a conviction for drug trafficking in the Netherlands, a civil war with the Maroon people, and general macro-economic mismanagement under his military dictatorship in the 1980s. To this end, he has appointed private sector representatives and independent technocrats to the Central Bank of Suriname and the Ministry of Finance.

Suriname’s current economic policies strive to enhance the country’s attractiveness for foreign direct investment (FDI) into its mining sector, while improving its infrastructure by means of a public investment programme. Additionally, state-owned oil company Staatsolie invests about USD 1bn over a five-year period into oil production, refining capacity and renewable energy. Given anticipated mining and offshore oil sector investments of USD 3bn (about 75% of 2011 GDP) in the coming years, the current government has embarked on a reform of the tax system and the creation of a sovereign wealth fund to prepare the country for the anticipated massive influx of investment. Before the end of this year, the government will present a bill for the creation of a sovereign wealth fund to parliament, that has been drafted by the central bank following deliberations with all political parties and various civil society groups. Once operational, the sovereign wealth fund could help smooth government spending and shield public finances against falling global commodity prices. The new legislation will stipulate that a specific percentage of mining-related tax revenues will enter the government budget, while the rest accrues in the sovereign wealth fund. Since all political parties have been involved in the formulation of the bill and their leaders are insisting on a strict framework that renders abusive use of the accumulated funds difficult, the creation of the fund bodes well for the future stability of Suriname’s government finances and the availability of domestic funds for development purposes.

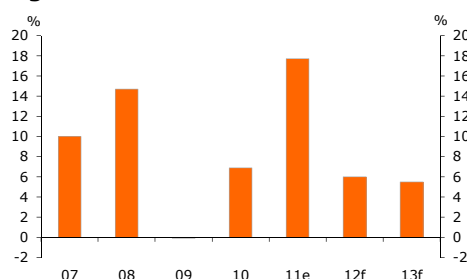
Another important project of the current administration is the overhaul of the current tax system. As tax revenues heavily rely on payments of foreign mining companies and competition-distorting sales taxes on imports, the introduction of a value-added tax system (VAT) is currently underway. While progress has been hampered by Suriname’s cumbersome bureaucracy and technical problems, the government remains committed to the project. The VAT-revenues should broaden the narrow tax base and enable the government to reduce corporate, income and sales taxes, which could have a positive impact on economic development and competition. In a further step, the government also tries to tax the informal gold sector.

Figure 3: Public finances



Source: IMF

Figure 4: Inflation



Source: IMF

So far, the current administration’s policies have contributed to the restoration of macro-economic stability in the aftermath of considerable fiscal slippage ahead of the 2010 legislative elections. In order to restore macro-economic stability and increase tax revenues, the current administration implemented a 70%-increase in fuel taxes and devalued the official exchange rate by 20% to

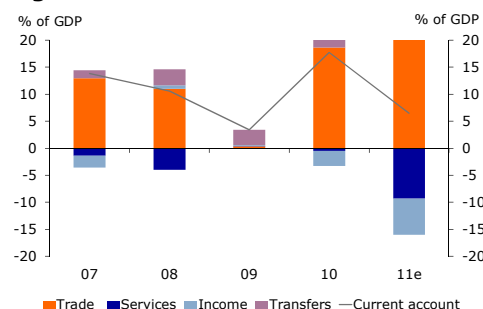
realign it with the black market rate and increase the value of foreign currency tax revenues in local currency terms. Due to the implementation of these measures, as well as strong tax revenues from the mining sector and Staatsolie’s record profits, Suriname’s fiscal balance improved from a deficit of 3.6% of GDP in 2010 to an estimated deficit of 1.9% of GDP in 2011. Suriname’s already small public debt position improved from about 21.6% of GDP in 2010 to 20.0% of GDP in 2011. Provided that global commodity prices do not fall and inflation dynamics do not trigger large indexation-based increases in public sector wages, the fiscal balance should continue to improve and reach positive territory in the coming years. In this respect, the early introduction of the sovereign wealth fund is certainly welcome, since it would introduce a more rules-based approach to public financial management.

The combination of tax increases and a devaluation of the exchange rate contributed to a major increase in the inflation rate last year, which increased from 6.9% in 2010 to 17.7% in 2011. Yet, reflecting the temporary impact of these measures, inflation decreased gradually throughout 2011 and is expected to come in at about 6% this year. Still, it should be noted that the Central Bank of Suriname’s scope to fight inflation is quite limited. While monetary policy autonomy is restricted by the peg of the Surinamese dollar to the US dollar, the central bank’s monetary policy instruments are limited to the use of reserve requirements. Furthermore, owing to its financing of the government’s budget deficits until early 2011, its holdings of government debt increased from 5% of GDP in 2008 to about 10% of GDP last year. Given repeated reliance on central bank financing of budget deficits, the anticipated tax reform could provide an important tool to reduce the need for the monetization of public expenditures and thereby increase the central bank’s credibility. Notwithstanding, the central bank will have to broaden its monetary policy tools and establish a conservative track record in order to anchor inflation expectations.

Balance of Payments

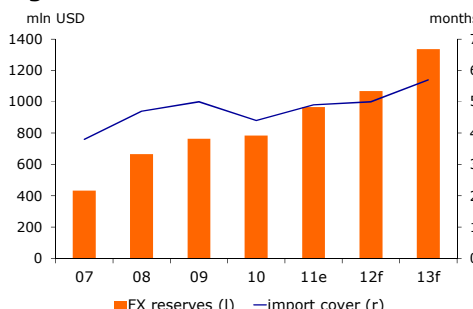
Reflecting its strong dependence on global commodity prices, particularly for bauxite, crude oil and gold, Suriname’s current account generally tracks the global economic development. Consequently, the current account remained in surplus in 2011. The trade balance surplus continued to increase to 20.8% of GDP on the back of higher volumes and prices for Suriname’s export commodities, particularly gold. However, the services and income balance deteriorated markedly. The latter can be explained by rising profit remittances and dividend payment of foreign mining companies. Absent a major decline in global bauxite and gold prices, we expect continuous current account surpluses in the coming years, though imports related to the implementation of the infrastructure investment program could lead to somewhat lower trade balance surpluses.

Figure 5: Current account



Source: Centrale Bank van Suriname

Figure 6: FX reserves



Source: IMF

As the foreign mining companies are expected to expand their operations in the country, FDI inflows will likely be positive in the coming years. While Suriname's balance of payments remained stable in recent years, we note that the limited diversification of current account receipts and FDI inflows, which are mainly related to the export of three commodities, exposes Suriname to the tail risk of a major decline in commodity prices.

External position

Suriname's external position looks relatively favourable. External debt amounted to a very limited 29% of current account receipts in 2011, while external government debt declined thanks to substantial repayments on the back of last year's beneficial tax revenue development. The government also cleared remaining arrears with the US worth USD 32mIn (0.8% of GDP) in 2011. As foreign exchange (FX) reserves simultaneously increased due to the current account surplus and higher loan disbursements from the Inter-American Development Bank and China, the country's external position improved further. Suriname's foreign exchange reserves increased from USD 766mIn in 2010 to almost USD 1bn last year, which corresponds to an acceptable import cover of about 4.5 months. Provided commodity prices for gold, bauxite and crude oil do not fall considerably in the coming years, FDI inflows and current account surpluses should bring about continuous FX reserve accumulation.

Suriname							
Selection of economic indicators	2007	2008	2009	2010	2011e	2012f	2013f
<i>Key country risk indicators</i>							
GDP (% real change pa) ¹	7.0	4.7	3.1	4.1	4.3	4.5	5.0
Consumer prices (% change pa) ¹	10.0	14.7	-0.1	6.9	17.7	6.0	5.5
Current account balance (% of GDP) ²	13.6	10.5	3.4	18.1	6.6	n.a.	n.a.
Gross foreign exchange reserves (mln USD) ³	433	666	763	785	966	1069	1337
<i>Economic policy</i>							
Budget balance (% of GDP) ^{3,4}	2.6	1.8	-3.0	-3.6	-1.9	n.a.	n.a.
Public debt (% of GDP) ³	21.2	18.0	18.5	21.6	20.0	n.a.	n.a.
Consumer prices (% change pa) ¹	10.0	14.7	-0.1	6.9	17.7	6.0	5.5
Exchange rate LCU to USD (end of period)	2.8	2.8	2.8	2.8	3.3	3.3	3.3
<i>Balance of payments (mln USD)²</i>							
Current account balance	335	325	112	653	251	n.a.	n.a.
Trade balance	314	337	11	686	788	n.a.	n.a.
Export value of goods	1359	1744	1402	2084	2467	n.a.	n.a.
Export value of alumina, gold, and petroleum	1260	1616	1338	1770	n.a.	n.a.	n.a.
Import value of goods	902	1407	1391	1398	1679	n.a.	n.a.
Services balance	-33	-123	1	-18	-362	n.a.	n.a.
Income balance	-54	21	5	-102	-262	n.a.	n.a.
Transfer balance	36	91	94	87	87	n.a.	n.a.
Net direct investment flows ⁵	-163	-231	-93	-248	73	n.a.	n.a.
Net grants	8	32	87	54	35	n.a.	n.a.
Net other flows	-126	42	-4	-348	-185	n.a.	n.a.
<i>External position</i>							
External debt (% of CAR) ¹	21	18	18	26	29	26	27
Gross foreign exchange reserves (mln USD) ³	433	666	763	785	966	1069	1337
<i>Key ratios for balance of payments, external solvency and external liquidity</i>							
Trade balance (% of GDP) ²	12.7	10.9	0.3	19.0	20.8	n.a.	n.a.
Current account balance (% of GDP) ²	13.6	10.5	3.4	18.1	6.6	n.a.	n.a.
Net FDI (% of GDP) ²	3.1	2.4	1.8	2.1	2.0	n.a.	n.a.
External debt (% of CAR) ¹	21	18	18	26	29	n.a.	n.a.
FX-reserves import cover (months) ³	3.8	4.7	5.0	4.4	4.6	n.a.	n.a.

Source: S&P (1), Central Bank of Suriname (2), IMF (3), ECLAC (4)

⁵ The FDI figures from the Central Bank of Suriname solely refer to the bauxite sector.

Please note that due to a change in methodology for the compilation of Balance-of-Payments data, figures for 2011 and 2010 cannot be compared

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