SURINAME

1. General trends

The economy of Suriname continued to perform robustly in 2010, recording 4.4% growth, compared with 3% in 2009. This performance was driven by buoyant activity in the construction sector and increased government spending. Nevertheless, the fiscal deficit is estimated to have widened from 3% of GDP in 2009 to 3.5% in 2010. The inflation rate rose to 10% at the end of the year, owing to higher prices for food and fuels and wage increases awarded to civil servants. By February 2011, inflation had accelerated to 18.8 %, and remains a concern to policymakers. Meanwhile, in early 2011, the authorities devalued the Surinamese dollar by 20%, bringing the official rate in line with the rate in the parallel market. The balance-of-payments current account surplus is estimated to have improved significantly (by 230.7%) to stand at US$ 692.2 million or approximately 2% of GDP, owing to strong prices for mineral exports. Net international reserves increased by US$ 34.3 million to US$ 757.1 million at the end of the year, which represents approximately four months of imports.

Economic policy is aimed at containing inflation through monetary channels, facilitating economic growth through increased revenue from exports and investments and maintaining fiscal discipline. The main challenge facing the authorities is to ensure that inflation expectations do not become entrenched in the economy. Real GDP is expected to grow by 5% in 2011.

2. Economic policy

(a) Fiscal policy

The overall fiscal deficit widened from 3% of GDP at the end of 2009 to 3.5% at the end of 2010. Although mineral prices rose in 2010, and this boosted fiscal revenues for the government, it was not sufficient to offset the increase in the wage bill (which accounted for 32.5% of total expenditure) and the elevated levels of government spending not only on goods and services but also on capital expenditure. The latter increased from 9.7% of GDP in 2009 to 15.3% of GDP in 2010 and most of this expenditure went to infrastructure upgrade projects and social programmes. Total expenditure for 2010 is estimated at around 55.4% of GDP, compared with 43.3% a year earlier. The government also announced plans to create an earmarked fund for small entrepreneurs in the mining sector. It already boasts a number of new infrastructure projects, a housing project (18,000 new homes), medical centres and free-trade zones.

This high level of spending has therefore been a concern to analysts, who believe that if this pattern continues and is not matched by corresponding increases in revenue, it may affect the government's solvency. In order to compensate for the increased spending, and with greater calls for fiscal discipline, the government introduced a number of fiscal policy measures: it raised the duty on fuel from Sr$ 1/litre to Sr$ 1.5/litre and the revenue tax by 2 percentage points to 10% on the sale of goods and 12% on services; reintroduced the motor vehicle tax; increased excise duties on alcohol and tobacco products by 50%; and doubled the presumptive tax on casinos.

The government also plans to reduce expenditure by phasing out a wide range of subsidies, to introduce a value added tax (VAT) in 2013 and to reduce support to defunct State-owned enterprises. To compensate for the tough fiscal measures and the rapid increase in inflation, the government has provided some support to vulnerable groups in the society and tariff incentives to encourage growth. However, the impact of these measures was insignificant.

Public debt rose from 18% of GDP in 2008 to 21.6% in 2010. External debt accounts for 8.7% of the current total public debt and consists mainly of bilateral arrears with the United States of America. In January 2011, the government raised the legal limit for domestic debt from 15% of GDP to 25%, while lowering the foreign debt ceiling from 45% of GDP to 35% of GDP, since most of the data showed that a large component of government debt incurred in the past few years had been borrowed locally.

(b) Monetary and exchange-rate policy

The government and the central bank have agreed to be more transparent and consistent in their dealings and have agreed to phase out government borrowing from the central bank over a three-year period. The government is expected to finance its own spending through the use of the financial markets. The foreign currency law will also be amended by Parliament in 2011 to allow the central bank to become the only entity authorized to monitor and set exchange-rate policy.

Liquidity in the financial system fell by 5.5% and was equivalent to 39.4% of GDP, while net domestic credit diminished marginally from 32.4% of GDP in 2009 to 31.8% of GDP in 2010. Private sector credit declined to 38% of GDP in 2010 from 40.5% of GDP a year earlier, while credit to the public sector expanded marginally to 7.1% of GDP in 2010, compared with 6.1% of GDP in 2009. At the end of December 2010, M2 grew by 3.1% compared with the December 2009 figure. Lending rates increased marginally during the year. The average lending rate for commercial banks edged up slightly from 11.6% at the end of 2009 to 11.9% at the end of 2010. Deposit rates remained stable at 6.2%.

The central bank introduced a number of policy measures in order to ensure macroeconomic stability in the face of rapidly rising inflation. The official exchange rate (which had stood at Sr$ 2.8 = US$ 1) was realigned with the free market rate, which had been trading at Sr$ 3.4= US$ 1. The 20% devaluation of the official exchange rate to Sr$ 3.35 = US$ 1 was designed to help restrain domestic demand by reducing purchasing power and making imports more expensive. This devaluation of the exchange rate contributed to the removal of black market trading. The central bank also raised the reserve requirements for commercial banks on their foreign exchange holdings to 40%, up from 33%.

The banking sector as a whole appears to be well capitalized, but across the sector there have been variations in terms of compliance with regulatory norms. The collapse of the parent company of CLICO Suriname produced no lasting damage to the financial sector in Suriname and in 2010, the Surinamese affiliate was acquired by a local insurance company.

3. The main variables

(a) Economic activity

According to official estimates, real GDP in Suriname is estimated to have increased from 3% in 2009 to 4.4% in 2010, owing to higher levels of government spending on goods and services and capital expenditure and expansion in the construction and agricultural sectors. Despite the rebound in the prices of the country's principal exports of gold, petroleum and alumina, the stoppage of aluminum production contributed to a 2.3% decline in mining and quarrying. The growth rate of the manufacturing sector declined to 4.6% compared with a growth rate of 6.9% a year earlier, reflecting slower processing activity in aluminium. Output in construction expanded by 9.6% in 2010 and represented 7.0% of GDP. This increase was due to the government's ongoing construction programme, which included infrastructure improvements, hotel construction and some private-sector home-building projects. The agriculture sector grew by 7.9% compared with 11.9% a year earlier. Prospects for this sector remain mixed. The banana industry has been restructured and appears to be in better shape but changes to the European Union's import tax regime, which will benefit banana exporters in Ecuador and Colombia, will erode the industry's competitive advantage. However, Suriname will continue to enjoy quota and duty-free access for its bananas to the European Union. The rice industry remains saddled with heavy debt and operates at a high cost base; thus, it is expected to remain weak following price reductions in 2010 and 2011. However, the government has targeted this sector for special attention in 2011. Meanwhile, transport, storage and communications grew by 8.5% compared with a decline of 7.6% and wholesale and retail trade expanded by 7.1%, reflecting stronger demand for consumer durables. In 2011, GDP is forecast to accelerate to 5% as a result of dynamic growth in the external sector. In contrast, domestic consumption is expected to be limited by higher inflation, especially for food and fuel. Therefore, increases in gold production and higher prices for gold, oil and alumina, together with sustained construction activity, are expected to fuel the growth momentum.

(b) Prices, wages and employment

Inflation rose from 1.5% at the end of 2009 to 10.3% at the end of 2010. This trend has continued into 2011, and the year-on-year rate at the end of February 2011 recorded by the General Bureau of Statistics was 18.8%. Inflation has been pushed up by rising prices for food and fuel, which account for 55% of the total consumer basket. The implementation of the Functie Informatiesysteem Overheid (FIS)-2, a public-sector wage reform programme, added to domestic liquidity during the year and in turn put upward pressure on prices. Inflation is expected to reach 20% by the end of 2011 as a result of the next phase of the wage reform package and the impact of the depreciation on food imports.

The official unemployment rate at the end of 2010, as published by the General Bureau of Statistics, was 12%, but no actual studies have been undertaken since 2006. However, the economic crisis of 2008-2009 did result in job losses, especially in the bauxite industry, where the number of permanent jobs declined from 1,117 workers in 2009 to 922 workers in 2010. Meanwhile, tripartite deliberations on fiscal and other major economic issues have resumed between the main economic agents of the government, labour and industry. The process has caused some dissatisfaction, however, as the major partners had not been consulted before the fiscal measures were announced, and some commentators argue that the government is merely trying to legitimize the new measures.

(c) The external sector

In 2010, the balance-of-payments current account recorded a larger surplus of US$ 692.2 million. This represents a 230.7% increase, attributable to improvements in the trade balance, as Suriname's main commodity exports —alumina, gold and oil— generated higher earnings. The growth in the trade balance was due to a sharp rise in both output and prices. Spending on imports fell as the weaker free-market exchange rate made these goods more expensive to consumers. However, the services account deteriorated in 2010, recording a deficit of US$ 17 million compared with a surplus of US$ 1.4 million in 2009. This was largely due to a sharp drop in other private services credits, including communications and financial services. The income balance also recorded a deficit of US$ 3 million, largely due to higher interest payments. Current transfers continued to record a surplus amounting to US$ 86.5 million in 2010. The majority of these transfers were remittances from expatriates in the Netherlands and these funds are expected to remain an important source of income in the future. Net international reserves increased by US$ 34.3 million to stand at US$ 757.1 million, or approximately four months' worth of import cover.

All indications are that the current account will continue to remain in surplus in 2011. However, this depends on prices for commodity exports such as oil, gold and alumina, over which Suriname has little or no control in international markets. Therefore, any decline in global prices could result, once more, in a deficit on the current account. Suriname therefore needs to focus on diversifying its economy into non-traditional areas.