

Suriname

A robust performance in the gold and oil sectors is expected to fuel 3% growth in the Surinamese economy in 2010. Credit expansion slowed considerably despite virtually unchanged lending rates. Inflation increased considerably in 2010 (8.4% for October-October). The current account showed a surplus over the period January-June and is expected to end the year in surplus, thanks to buoyant exports. The fiscal balance will remain in deficit, however. Real GDP growth is expected to slow to 1.1% in 2011.

A second consecutive fiscal deficit is expected in 2010, with data for the first semester showing a deficit of 2.3% of GDP. The deficit is attributable mainly to increased expenditure on public-sector wage reform and to election spending early in 2010. Boosted by taxes on gold and oil, revenue should range between 29-30% of GDP. The performance of these two sectors compensated, in fiscal terms, for the revenue losses from the aluminium sector. Expenditure may reach around 32% of GDP. Wages and salaries were up by 1.6% of GDP in 2010 following a 3% increase in 2009. However, concerns about government liquidity and inflation are forcing the State to reconsider the next scheduled wage adjustment, due in January 2011.

The higher wage bill, coupled with election spending by the State, pushed up domestic debt. During 2010, public-sector debt grew by 2.2% of GDP, its first rise since 2005, to stand at 27.2% of GDP. Debt management authorities feel this level of debt is sustainable but fear that further expected increases in State spending could jeopardize Suriname's sound debt position. Negotiations for new loans are underway with multilateral agencies, and a US\$ 500 million credit line was opened with India for construction equipment, although the quality of accessible goods and services is being questioned by industry specialists. The long-standing debt with the United States has not yet been cleared and Suriname may seek debt forgiveness.

The central bank's policy instruments remained essentially unchanged in 2010. The reserve requirement was maintained at 25%, and lending rates dipped marginally from 11.6% in December 2009 to 11.5% in November 2010, while deposit rates edged up by 0.1% to 6.1%. By the end of 2010, net domestic credit will have expanded more slowly (by 6.7%, down from more than 20% in the two previous years) and will be equivalent to 27% of GDP. This is the result of a decline in private-sector credit corresponding to

2.6% of GDP. Public-sector credit grew to 6.1% of GDP after the State borrowed substantial amounts to finance wage reform and election spending. Private sector credit fell by 2.6% of GDP to reach 32.7% of GDP. M1 should increase by 3% to reach 22.1% of GDP by year end. Pressure on the exchange rate mounted in 2010 with demand for foreign exchange fuelled by uncertainty about the economy, election results and high domestic demand. On the parallel market, these factors resulted in trading at 3.40 Suriname dollars (SRD) to the United States dollar. The central bank, which in 2009 had widened the official trading band for the United States dollar to SRD 2.71-SRD 2.85 without substantial results, is reluctant to take additional action to decrease pressure on the exchange rate. The United States dollar traded officially at SRD 2.78 in 2010.

GDP is expected to grow by 3% in 2010, driven primarily by growth in refining, metal manufacturing and services. In response to rising commodity prices, the aluminum sector increased its capacity utilization from 60% to 67% (2008 capacity) in 2010. The medium-term outlook for the sector remains gloomy, however, as new investment in the sector is yet to materialize. Gold production remained steady throughout the first half of 2010 and is expected to continue at the same pace to the end of the year. Oil production was maintained at 16,000 barrels a day and exploration activity in coastal and shallow water blocks intensified. Rising prices for both commodities meant that manufacturing, which includes gold and refined oil products, expanded by 7%. Wholesale and retail trade grew by 7.9% as service sector activity gained momentum following the recent wage increases. The agriculture sector, especially rice and bananas, continued to attract efficiency-seeking investments, but this has yet to translate into stronger growth.

Higher domestic liquidity fuelled consumer spending and exerted additional downward pressure on the value of

the currency, both of which contributed to inflation. The year-on-year inflation rate in October was 8.4%, a marked increase from the rate of -2.7% a year earlier. Inflation is expected to end the year at 11%. Unemployment is unofficially estimated to be in the range of 10%-12%. The rate may be lower in reality, as a large informal economy exists around gold mining and underemployment continues to be high.

The mid-year current account surplus stood at 17.8% of GDP. The year-end figure should continue to be a surplus. Unprecedented price rises in 2010 for gold and buoyant oil prices generated higher export earnings. The merchandise trade surplus consequently improved and the service account surplus increased more than tenfold although it remained below 1% of GDP. New investment was attracted, mainly towards acquisitions in the gold sector, although more intense oil exploration may result in further inflows over 2011. The mid-year capital and financial balance (including errors and omissions) moved to 19% of GDP, after ending 2009 at less than 1% of GDP. However, the overall balance is expected to show a deficit for the first time since 2003, lowering international reserves to US\$ 640 million, which represents 23% of GDP and 6 months of import cover.

SURINAME: MAIN ECONOMIC INDICATORS

| | 2008 | 2009 | 2010 ^a |
|--|------|------|-------------------|
| Annual percentage growth rates | | | |
| Gross domestic product | 4.3 | 2.2 | 3.0 |
| Per capita gross domestic product | 3.3 | 1.2 | 2.2 |
| Consumer prices | 9.4 | 1.3 | 9.2 ^b |
| Money (M1) | 15.7 | 24.0 | 30.8 ^c |
| Annual average percentages | | | |
| Central government | | | |
| overall balance / GDP | 2.3 | 3.7 | ... |
| Nominal deposit rate ^d | 6.3 | 6.4 | 6.2 ^e |
| Nominal lending rate ^d | 12.2 | 11.7 | 11.5 ^e |
| Millions of dollars | | | |
| Exports of goods and services | 1993 | 1691 | 1887 |
| Imports of goods and services | 1757 | 1581 | 1570 |
| Current account | 344 | 210 | 425 |
| Capital and financial account ^f | -292 | 16 | -445 |
| Overall balance | 52 | 226 | -20 |

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 2010.

^c Twelve-month variation to August 2010.

^d Deposit and loan rates published by International Monetary Fund.

^e Average from January to September.

^f Includes errors and omissions.