S&P Global
Ratings

(/en_US/web/guest/home) Republic of Suriname Outlook Revised To Stable From Negative On End Of Economic Contraction

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OVERVIEW

With gold prices stabilizing and new production on line, Suriname is experiencing a return to economic growth, which is easing pressure on its external finances and exchange rate, generating improved fiscal outcomes, and lowering its net general government debt burden.
We are therefore revising our outlook on the Republic of Suriname to stable from negative.
We are affirming our 'B' long-term sovereign credit rating and our 'B' senior unsecured debt rating on the country's US$550 million bond due in 2026.
We are also affirming our 'B+' transfer and convertibility assessment on Suriname.
The stable outlook reflects our expectations that, in the next 12 to 24 months, real GDP growth will remain positive and rising, current account surpluses will result in growing usable reserves, general government deficits will continue falling, inflation will subside, and the burden of net general government debt will continue to decline.

RATING ACTION
On April 2, 2018, S&P Global Ratings revised its outlook on the Republic of Suriname to stable from negative. At the same time, S&P Global Ratings affirmed its 'B' long-term sovereign credit rating, 'B' short-term issuer credit rating, and 'B' senior unsecured debt rating on Suriname's US$550 million bond due in 2026. S&P Global Ratings also affirmed its 'B+' transfer and convertibility assessment.

OUTLOOK
The stable outlook reflects our expectations that, in the next 12 to 24 months, real GDP growth will remain positive, leading to sustained current account balances and slow growth in usable reserves. We also assume the government will follow through on its plan to implement a value-added tax (VAT) or, if not, enact some combination of fiscal measures to keep its deficits on an improving trend, leading to a gradual reduction of its net debt toward 50% of GDP by 2021. We also expect that the exchange rate will remain stable and inflation will continue to fall and pressure on the domestic banking system eases.

Upside scenario
The announcement of additional steps to boost investor confidence and GDP growth, in conjunction with the continued steady production among Suriname's gold mines could further accelerate the government's movement toward fiscal sustainability. A clear track record of strengthening economic and fiscal results and further improvement in Suriname's external position, with narrow net external debt falling below 50% of current account receipts and higher useable reserves on a sustainable basis could lead to an upgrade.

Downside scenario
Delays in strengthening the government's revenue base or failure to contain spending could result in a return to persistently high fiscal deficits and further increases in net general government debt and interest expense. Alternatively, a weaker external liquidity position could put greater strain on the exchange rate, boost inflation expectations, undermine domestic confidence, and stress the domestic financial system. We could downgrade Suriname as a result.

RATIONALE
The outlook revision reflects two key events. First, full-year production at Newmont Mining Corp.'s Merian gold mine, which together with the output from IAMGOLD Corp.'s Rosebel gold mine, has made gold the most important component of Suriname's exports and helped to end a two-year economic contraction. Second, the government intends to implement a VAT later this year, the latest initiative in a succession of revenue and expenditure measures aimed at returning the government's finances to balance. The VAT (or other equivalent fiscal measures should the implementation be delayed) should significantly raise revenues. While increased gold mining and production have increased the country's economic and fiscal exposure to gold prices, current account balances have returned to surplus, general government deficits are shrinking and should head toward balance, and annual increases in general government debt and interest burdens are turning into decreases.

Other factors have played roles in this moderately improving story. The decision to loosen the exchange rate and the subsequent depreciation of the Surinamese dollar have compressed imports and aided the return to current account surpluses. Thanks to the government's resolve, a suite of new expenditure control and revenue enhancement measures has helped to turn the fiscal trend to improving from worsening. Staatsolie, the country's wholly owned state oil company, will resume its exploration programs and contribute higher levels of taxes and dividends to the government treasury.

While we still view Suriname's institutional and government effectiveness as weak, the government is making some progress. It continues to implement improved policies and practices, especially those in the purview of the Ministry of Finance.

The exchange rate has been stable for more than a year and inflation has fallen significantly from its peak of 52% in 2016 and we expect it to continue to fall.

Flexibility and performance profile: External assessment strengthens on return to current account surpluses.

We believe Suriname will record current account surpluses in 2018 and the next three years on full production at the Merian mine and continuing import compression.
The general government deficit should decline in 2018 and in subsequent years as it did in 2017, with annual increases in net general government debt falling in lockstep.
Net general government debt should decline again in 2018 though general government interest expense will rise in 2019 and then begin to decline.

Thanks to full-year production at the Merian mine and increasing current account receipts (CARs), Suriname will record a current account surplus in 2018 for the second consecutive year. The 2018 surplus should represent about 7% of 2018 GDP, down from 8% a year earlier. The return to surplus is also due to continuing import compression brought on by the Surinamese dollar's depreciation in 2016. Much of what is consumed in Suriname is imported. Imports have fallen by more than a third from pre-depreciation levels. We expect that imports will recover in the next few years, but more slowly than exports increase. Accordingly, we believe that the country will record surpluses for the next three years. Higher levels of CARs are translating into improving external liquidity and balance metrics. Gross external financing needs should be 87% of CARs and usable reserves for the 2018-2021 period; narrow net external debt should represent 61% of CARs in 2018 declining to 51% of CARs by 2021.

Given the gap between Suriname's net external liabilities and net external debt falling below 100% of CARs and external funding risks diminishing, we believe that the risk of a marked deterioration in the cost of or access to external financing has fallen and no longer moderates our view of the country's ability to raise funds abroad.

We expect that official reserves will improve in modestly in 2018 to about US$330 million and continue to strengthen in subsequent years. For 2018, official reserves will represent about three months of import cover.

The government's fiscal picture is improving. Revenues will increase in 2018 on the introduction of new fiscal measures (such as a VAT) along with revenue measures already implemented and additional revenue from the gold sector. Continuing fiscal restraint will keep expenditure growth rates below those of revenues and shrink general government deficits. Fiscal restraint is happening through a suite of measures, such as eliminating duplication, wage restraint, and workforce attrition. We expect the country to record a deficit of 4% of GDP in 2018 (7% in 2017). Deficits should continue to shrink beyond 2018, falling to 2% of GDP in 2019 and reaching as low as 1% by 2021.

We understand that the government and opposition parties generally support tax reform, including most notably the VAT. Proposed tax reform includes lowering income tax rates while broadening the base of contributors to simplify the code and improve collections. The VAT, which is scheduled for implementation later this year, could raise government revenues by as much as 2% of GDP. We expect that, if implementation is delayed, the government will put equivalent fiscal measures in place to maintain its improving fiscal balances.

With general government deficits falling, the change in net general government debt will decline. We expect the change in net debt will be 5% of GDP in 2018 (15% in 2017), 3% of GDP in 2019, and about 1% by 2021.

However, Suriname's public finances are now more vulnerable to fluctuations in commodity prices, most especially gold. We expect that revenues from gold and oil production and associated manufacturing will represent 27% of total revenues for the 2017-2019 period, tempering our view of the country's fiscal assessment. Future revenues from the government's equity stake in the Merian gold mine may further amplify revenue volatility.

Debt and interest expense have continued to increase. Net general government debt should stand at 61% of GDP in 2018 (63% in 2017). Falling deficits and rising GDP, however, should help debt decrease. We expect that net general government debt will fall to 59% of GDP in 2019 and reach as low as 53% of GDP by 2021. Suriname's US$550 million bond issue in 2016 and currency depreciation has pushed up interest expense in Suriname dollar (SR$) terms. General government interest expense should reach close to 19% of general government revenues in 2018 (17% in 2017). We expect interest expense to decline thereafter, falling to 16% of revenues in 2019 and reaching as low as 11% by 2021.

Owing to the US$550 million issue, the majority (67%) of the country's debt in 2018 will be external, denominated predominantly in U.S. dollars, which moderates our view of Suriname's debt. In a similar vein, nonresidents hold about 75% of the country's commercial debt. As well, the banking sector's exposure to the government (including the Central Bank and nonfinancial public corporations) was about 24% of the banking sector's net assets at the end of 2017, which also tempers our view of the country's debt.

We believe that the financial system will remain a limited contingent liability to the government. Suriname's financial system is not large, and we do not expect it to become so. The gross assets of other depository corporations totaled about SR$17 billion and represented 66% of GDP in 2017. The central bank monitors their financial health, and has intervened before to strengthen banks under financial stress. The nondepository segment is also small, which we expect to continue. We estimate that the segment's total assets are below SR$5 billion, or less than 20% of GDP. Staatsolie, the largest nonfinancial public enterprise with debt, is profitable even at current oil prices and pays regular dividends to the government. The majority of Staatsolie's debt is to the government, which on-lent US$261 million to the company in 2016; that debt is already included in general government debt. Debt in Staatsolie's name represents only about 7% of 2017 GDP. We consider nonfinancial public sector enterprises a limited contingent liability risk to the government.

We believe that Suriname will continue to lack monetary policy flexibility. Small capital markets and high dollarization of both bank assets and liabilities should continue to constrain the effectiveness of monetary policy. The central bank has limited monetary policy tools. Its primary tool is reserve requirements on local and foreign currency deposits, which it uses to manage credit growth in the local banking system. It has taken steps to set up an interbank market and holds regular Treasury bill calls for bid with the goal of eventually conducting open market operations. This could give the bank a more powerful tool to transmit monetary policy and result in an improved assessment of monetary policy credibility and effectiveness. We believe that the country's move from its former long-standing fixed rate regime could gradually increase monetary flexibility. A credible track record in using a flexible exchange rate could help the country to better manage external shocks.

Financial dollarization was significant in 2017 and we expect this to continue, constraining the potential effectiveness of monetary policy. About 60% of deposits and close to 50% of claims by resident commercial banks and credit unions (excluding the government and the central bank) were in foreign currency in 2017.

The government is the lender of last resort in Suriname. It provided a bridge loan in 2016 to a small privately held domestic bank that required assistance. As well that year, the government merged one small, under-capitalized state-owned bank with a larger, better-capitalized one.

Institutional and economic profile: Economic assessment weakens on greater economic dependence on gold mining.

The opening of the Merian mine has increased the economy's reliance on natural resources, especially gold mining and production.
Nevertheless, the output gains will boost GDP per capita to about US$6,400 in 2018 and real GDP should rise about 1% or more.
Suriname has a stable democratic government but poor public policy choices have threatened the sustainability of its finances.

We expect that real GDP will grow more robustly in 2018 with development and construction work at both mines and a resumption of Staatsolie's exploration program. Real GDP growth should be 1% or more in 2018, rising to 2% annually by 2021. Real GDP growth turned positive in 2017 with the start of full-year production at the Merian mine, ending a two-year contraction. However, weak domestic demand will likely temper growth rates because of continued fiscal adjustments and recent declines in real wages. We expect that domestic demand will remain under pressure from continued fiscal policy measures, rising prices, and lagging wage growth.

GDP per capita should be about US$6,400 in 2018, up about 9% from 2017. We expect that GDP per capita will continue to increase in 2019 and beyond, reaching more than US$7,600 by 2021. The growth should be propelled in part by improving domestic demand, new investment at Merian to process harder ore, exploration and development at Rosebel's adjacent Saramacca property, the resumption of near-shore exploration by Staatsolie, and the potential redevelopment of the airport (including a new highway). With the Merian mine's opening, the Suriname economy relies more on gold mining and production, which tempers our view of the country's economic strength because it has become more vulnerable to changes in gold prices. We believe that the gold industry will come to represent more than 20% of GDP, if it has not already reached that threshold. Also tempering our view of the economy's strength are material data inconsistencies, statistical discrepancies, and below-average economic growth rates because per capita growth rates remain below the range we expect for a country like Suriname. The country has good long-term prospects in oil and in agriculture--it was once a significant regional producer of some agricultural commodities.

Suriname has a stable democratic government but poor public policy choices have threatened the sustainability of its finances. Mr. Desi Bouterse's Nationale Democratische Partij leads the government with a slim majority (26 of 51 seats) in the National Assembly. The government over-relied on natural resource revenues from gold and oil in the first half of the decade and failed to develop more stable and sustainable revenue sources, leaving the country vulnerable to the downturn in the prices of those commodities. With resource revenues buoyant, general government spending almost doubled from 2010-2014; large fiscal deficits ensued when commodity prices fell. Foreign exchange reserves were high for much of the first half of the decade but, by the end of 2015, those were in danger of being exhausted. We believe that the checks and balances that are the hallmark of stronger institutional frameworks are weak in Suriname. Future policy choices are difficult to predict because of highly centralized decision-making. "Key person" risk is high in the country--the president and the finance minister have outsize roles and the success of planned reforms depends much on these two individuals.

Suriname's society, however, remains civil. Parties largely represent different ethnic groups and relations between groups have been harmonious. Power sharing has been broad-based but has come at the cost of constraining the government's ability to formulate policies and implement timely reforms. Nevertheless, the government is making progress in some areas. The central bank has published its inaugural financial stability report and strengthened a number of acts governing the financial sector. The Ministry of Finance has strengthened the government's debt management practices. As well, the ministry has implemented measures, tightening controls on financial transactions government-wide and increasing the government's ability to implement fiscal measures.

Suriname has a history of encouraging foreign investment. The country's first mine was a bauxite mine opened by the U.S. aluminum company Alcoa in 1916. A Canadian firm, IAMGOLD, owns the Rosebel gold mine. U.S.-based Newmont owns the Merian mine. The government decided to take a 25% equity stake in the Newmont project. Historically, it has taken a hands-off policy toward foreign investment.

KEY STATISTICS

Table 1

Republic of Suriname -- Selected Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
ECONOMIC INDICATORS (%)											
Nominal GDP (bil. LC)	14.45	16.43	16.98	17.29	16.49	20.42	25.59	28.66	31.67	34.52	37.28
Nominal GDP (bil. $)	4.42	4.98	5.15	5.24	4.83	3.28	3.39	3.79	4.13	4.44	4.75
GDP per capita (000s $)	8.2	9.2	9.4	9.4	8.5	5.7	5.8	6.4	6.9	7.3	7.7
Real GDP growth	5.9	2.7	2.9	0.3	(2.6)	(5.1)	0.2	1.0	1.5	1.5	2.0
Real GDP per capita growth	4.1	2.4	1.3	(1.3)	(4.1)	(6.5)	(1.1)	(0.3)	0.2	0.2	0.7
Exports/GDP	64.4	57.7	50.4	45.0	38.5	49.6	61.6	58.8	56.5	54.7	54.3
Unemployment rate	7.4	7.4	7.8	8.0	9.0	9.0	N/A	N/A	N/A	N/A	0.0
EXTERNAL INDICATORS (%)											
Current account balance/GDP	9.8	3.3	(3.8)	(7.9)	(16.6)	(3.1)	8.4	7.3	6.7	6.4	7.2
Current account balance/CARs	14.3	5.3	(7.1)	(16.4)	(39.8)	(5.6)	12.5	11.4	11.1	10.9	12.3
CARs/GDP	68.4	61.2	53.9	48.3	41.7	55.1	66.8	63.4	60.8	58.9	58.3
Trade balance/GDP	21.9	14.2	4.7	2.5	(7.8)	5.9	18.5	15.8	14.5	13.5	13.7
Net FDI/GDP	1.6	3.5	3.6	3.1	5.8	6.8	(3.0)	2.1	1.9	1.8	1.7
Net portfolio equity inflow/GDP	0.1	(0.1)	(0.0)	0.0	(0.2)	15.5	(1.5)	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	74.8	79.8	83.6	99.3	122.2	114.3	88.0	89.7	89.0	85.7	82.9
Narrow net external debt/CARs	(18.0)	(23.0)	(11.8)	13.4	52.9	71.9	60.1	61.1	57.1	56.2	50.8
Narrow net external debt/CAPs	(21.0)	(24.3)	(11.0)	11.5	37.8	68.1	68.7	69.0	64.2	63.1	57.9
Net external liabilities/CARs	(9.8)	(1.7)	16.9	45.6	129.4	161.2	127.2	128.1	128.6	130.1	127.3
Net external liabilities/CAPs	(11.4)	(1.8)	15.8	39.1	92.6	152.6	145.4	144.7	144.6	146.1	145.1
Short-term external debt by remaining maturity/CARs	5.6	6.1	6.3	11.9	18.9	27.7	13.8	13.0	11.8	11.1	10.5
Usable reserves/CAPs (months)	3.1	3.3	4.0	3.0	2.6	1.9	2.1	1.8	1.8	2.3	2.5
Usable reserves (mil. $)	798	989	741	601	300	343	317	330	443	513	637
FISCAL INDICATORS (%, General government)											
Balance/GDP	(2.0)	(2.7)	(6.0)	(5.9)	(10.6)	(10.8)	(7.2)	(4.4)	(2.4)	(1.4)	(0.6)
Change in net debt/GDP	1.0	5.7	7.1	1.3	14.1	29.7	14.5	4.8	3.1	1.7	1.0
Primary balance/GDP	(1.0)	(1.7)	(4.7)	(5.0)	(9.0)	(9.1)	(5.4)	(0.6)	1.1	1.1	1.8
Revenue/GDP	24.5	24.5	23.3	21.7	20.6	16.7	18.0	19.9	21.6	21.3	21.0
Expenditures/GDP	26.4	27.2	29.4	27.6	31.2	27.4	25.2	24.3	23.9	22.8	21.6
Interest/revenues	4.1	3.9	5.7	4.1	7.7	9.7	10.0	18.9	16.1	12.0	11.5
Debt/GDP	20.0	21.4	29.6	26.3	43.0	70.7	66.2	63.9	61.0	57.6	54.4
Debt/Revenue	81.6	87.6	126.8	121.5	208.5	424.0	367.4	321.4	282.4	270.5	258.6
Net debt/GDP	12.3	16.4	23.0	23.9	39.2	61.3	63.4	61.5	58.8	55.6	52.5
Liquid assets/GDP	7.7	5.0	6.5	2.4	3.8	9.4	2.7	2.4	2.2	2.0	1.9
MONETARY INDICATORS (%)											
CPI growth	17.7	5.0	1.9	3.4	6.9	55.5	25.1	11.0	9.0	7.5	6.0
GDP deflator growth	13.8	10.7	0.4	1.6	(2.1)	30.5	25.0	10.9	8.9	7.4	5.9

Exchange rate, year-end (LC/$)	3.30	3.30	3.30	3.30	4.00	7.42	7.52	7.60	7.75	7.80	7.90
Banks' claims on resident non-gov't sector growth	20.0	15.7	18.0	8.5	16.3	29.3	0.8	12.0	10.5	9.0	8.0
Banks' claims on resident non-gov't sector/GDP	25.3	25.7	29.4	31.3	38.2	39.9	32.1	32.1	32.1	32.1	32.1
Foreign currency share of claims by banks on residents	41.1	40.6	39.4	33.6	37.2	51.4	46.3	46.3	46.3	46.3	46.3
Foreign currency share of residents' bank deposits	55.8	52.3	52.8	52.9	57.7	70.0	59.7	59.7	59.7	59.7	59.7

Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid assets held by nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. N/A--Not applicable. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

RATINGS SCORE SNAPSHOT

Table 2

Republic of Suriname -- Ratings Score Snapshot

Key rating factors	
Institutional assessment	5
Economic assessment	6
External assessment	3
Fiscal assessment: flexibility and performance	4
Fiscal assessment: debt burden	5
Monetary assessment	5

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

RELATED CRITERIA

Criteria - Governments - Sovereigns: Sovereign Rating Methodology (/en_US/web/guest/article/-/view/sourceId/10221157), Dec. 18, 2017

General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourceId/10011703), April 7, 2017

General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourceId/5612636), Sept. 14, 2009

General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments (/en_US/web/guest/article/-/view/sourceId/5402435), May 18, 2009

RELATED RESEARCH

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

RATINGS LIST

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Suriname		
Sovereign Credit Rating	B/Stable/B	B/Negative/B

Ratings Affirmed

Suriname	
Senior Unsecured	B

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Certain terms used in this report, particularly certain adjectives used to
express our view on rating relevant factors, have specific meanings ascribed
to them in our criteria, and should therefore be read in conjunction with such
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