Sovereign Credit Rating Report for the Republic of Suriname

Ratings:

Local Currency：BB+

Outlook: Stable

Foreign Currency: BB+

Outlook: Stable

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Rating rationale

Dagong Global Credit Rating Co., Ltd. (hereinafter referred to as “Dagong”) assigns BB+ to the local and foreign currency sovereign credit ratings of the Republic of Suriname (hereinafter referred as “Suriname”) and each with a stable outlook. The political condition is broadly stable and the government’s macroeconomic management has improved. The rich oil and mineral resources will ensure high potential of its long-term economic development. However, central government creditworthiness is constrained by the economy, government finance and financial system’s limited capacity to withstand shocks.

Due to the government’s multi-year fiscal consolidation efforts, the central government debt ratio has dropped to 21.5% by the end of 2012. In the short term, government deficit will rise due to increased investment in the oil and mining projects as well as infrastructure construction. However, higher production after the projects’ completion will boost government revenue. The financing need is expected to be around 4.6% of GDP for the next 1-2 years and decline afterwards.

Dagong’s main rationales for assigning the BB+ ratings are as follows:

- The government plans to utilize revenues from natural resources to promote other sectors. The economic diversification strategy is conducive to promoting the long-term sustainable development of the economy. But the realization of the strategy will be severely constrained by various factors.

- Rich mineral resources lead to rapid economic growth and huge future potentials. But the economy is marked by a high degree of volatility stemming from structural weaknesses. The economy's prospect of sustainable long-term growth will hopefully brighten gradually with the improvement of the stability and the economic management capability of the government.
- The financial system's support to the private sector is insufficient. The high degree of dollarization and the central bank's limited policy instruments constrain the effectiveness of monetary policy.
- In recent years, the government maintained a relatively small deficit. Over the medium term, the increased capacity of mining production will greatly raise government revenue and keep central government debt ratio at a relatively low level. But the unfavorable fiscal structure is unlikely to be improved and will restrain the government's fiscal robustness.
- The current account is expected to regain surplus in the medium term. Although Suriname's gross external debt burden remains modest, its overreliance on the exports of primary products leads to its relatively weak ability to withstand external shocks.

Outlook

The decline of international gold price and the slower growth of oil price will put pressure on Suriname's economy and government finance. The large-scale oil and mining projects will bring up machinery import and government investment, which will lead to a temporary deterioration of the current account and government fiscal balances. However, the expansion of production capacity after the completion of the projects will enhance government solvency. The foreign exchange reserves accumulated in recent years will also help strengthen the country's ability to withstand external shocks. Therefore, Dagong assigns the stable outlook for the local and foreign currency sovereign credit ratings of Suriname for the next 1-2 years.

1. Government borrowing needs

The central government debt ratio is relatively low. The government's borrowing need will increase with the commencement of large scale mining projects and rising infrastructure investment before falling down when the projects complete.

The central government debt ratio is relatively low. The government's borrowing need will rise temporarily before converging to a modest level. Since 2002, thanks to the government's strict fiscal control, the central government debt ratio has decreased from 40.1% to 21.5% by the end of 2012, relatively low among its regional peers. Meanwhile, government debt has shifted from costly short-term central bank advances to international multilateral and bilateral loans with longer maturity and lower interest. The burden of debt service is relatively low. The total government domestic and external debt service to GDP ratios were 0.9% and 1.2% respectively and the financing need was 3.7% of GDP in 2012. Although large scale mining projects will increase capital need in the short to medium term which will drive government deficit up to around 3.6%, considering the limited debt roll-over requirement, the central government debt financing need is projected to be around 4.6% of GDP and will decline in the medium term after the completion of the projects.

2. Solvency risks

Fluctuations of the mineral prices constitute the main short-term risk threatening central government solvency. In recent years, the maturity of the political system has improved, whereas government stability is still insufficient. The heavy reliance of public finance and the economy on mineral revenues makes government solvency highly vulnerable to fluctuations of mineral prices. However, the government debt burden is still modest and the pressure of debt service is relatively low given the

long maturity and low interest of government debts. In addition, the government is currently implementing its economic diversification strategy, tax reforms and preparing to create a sovereign wealth fund. The long-term government solvency risks will hopefully decline gradually as the reforms are carried out.

2.1 National Management Capability

The government plans to utilize revenues from natural resources to promote other sectors. The economic diversification strategy is conducive to promoting the long-term sustainable development of the economy. But the realization of the strategy will be severely constrained by various factors.

Political stability has improved but potential uncertainties remain over government stability. After the year 2000, with the consolidation of domestic political forces, the political condition gradually stabilized. The Mega Combination, a coalition led by Dési Bouterse, won the parliamentary election of 2010 with campaign promises to create more jobs, provide more affordable housing as well as implement political and judicial reforms. Bouterse was later elected president. However, given the inadequate ruling foundation of the governing coalition and controversies over President Bouterse, government stability remains uncertain. Since either party can dominate the parliament, they need to govern through coalitions. The parties joined the coalition out of political gains rather than shared political views or ideology. As a result, there are various parties and fractions within the coalition. Due of conflicts of interests and disagreements over the amnesty law, two smaller parties left the coalition in 2012, which reduced the majority held by the coalition.[1] President Bouterse is also a controversial figure, which adds to concerns over government stability. If new conflicts of interests arise, the coalition may be further weakened harming the government's decision-making capacity.

The government's economic diversification strategy of utilizing revenues from

[1] The parliament has 51 members. The governing coalition holds 30 seats, down from 36 before the reshuffle.

natural resources to develop other sectors and the privatization strategy are appropriate for Suriname's national condition. Suriname has a historic legacy of a large number of weak state-owned enterprises[2]. Based on the principle that the private sector should be allowed to operate as much as possible in sectors other than those deemed of strategic importance to the country, the government maintains its control over oil, electricity and other strategic sectors as well as increases its participation interests in new mining deals signed with foreign companies[3]. On the other hand, the government plans to sell or liquidate the state-owned agricultural and forestry companies in addition to three small banks and reduce its involvement in the service and product sectors to promote the private sector and enhance market competition. Dagong believes that this strategy can not only ensure revenues from natural resources to be preserved in the country and protect economic security, but also improve efficiency of the public sector and enhance private sector vitality. The country's rich oil and mineral resources have great potentials. However, the economy's overreliance on primary mineral products leads to vulnerability in its economic, fiscal and external strength. After taking office in 2010, the new government issued the 2012-2016 Five Year Plan which outlined the economic diversification strategy of drawing on revenues from oil and mining to promote the development of other sectors through private investment. As for the choice of non-mining sectors to promote, the government plans to take full use of the country's geographical location and language advantage to develop the deep-sea harbor, call centers and data centers, which suits the country's condition. The government has identified foreign direct investment as the key driver for privatization and economic diversification. It amended the Investment Act, established a separate investment promotion agency and bolstered infrastructure development, which can help mitigate the effect of the lack of expertise and capital on economic development. In addition, Suriname also actively promotes regional integration with the Caribbean Community

[2] State-owned enterprises are active in oil, electricity, banana production, banking, airline, transportation and other strategic sectors.

[3] In the old agreement between the government and Iamgold, the government has 5% of participation interest in the gold mine. The government will have 25% participation interest in the new agreement signed with Newmont and 30% in the gold mine expansion project with Iamgold.

(CARICOM), Union of South American Nations (UNASUR) and neighboring economies such as Guyana, French Guiana and Brazil. This allows Suriname to leverage regional economies to achieve economies of scale and compensate for its small size. Overall, the diversification strategy is conducive to utilizing Suriname's resources to reduce its vulnerability of overreliance on oil and mining. The strategy is appropriate for Suriname's national condition.

However, due to various constraints, the fulfillment of the privatization and diversification strategies requires considerable time. Firstly, there are numerous ethnicities within the country and most political parties are formed along ethnic lines. Diverse political aspirations and complicated structure of interest lead to scattered domestic political forces. The implementation of the government's strategy faces great challenges of competing interests and political divide. Secondly, huge oil and mining revenues boosted the domestic wage level and the government cannot effectively restrain the rise of labor costs, which will impede the development of other sectors. Thirdly, the shortage of expertise and experience in the country and government agencies means that the realization of the reforms will require a lengthy process of absorbing and training of professionals and accumulation of related knowledge. Lastly, good business environment is the prerequisite for attracting foreign as well as domestic private investment. But the improvement of the business environment rests on the comprehensive enhancement of the institutional environment, government efficiency and domestic infrastructure. Currently, the government is administratively inefficiency and understaffed, which leads to slow administrative approvals, pile-up of cases in the court system etc. The level of governance is relatively low. Insufficient management of the internal jungle areas breeds problems of drug trafficking and illegal gold mining[4], which threatens the security of the society and the economy. Thus, the realization of government strategies will undergo a long and arduous process.

Suriname's foreign policy is well diversified and focuses on fostering relationships

4 The production of the illegal gold industry is even higher than that of the formal gold sector.

with major countries worldwide as well as neighboring countries. The overall external environment is broadly favorable. Suriname used to have close ties with the Netherlands, its former colonial ruler, which turned sour after the election of president Bouterse in 2010. The territorial dispute with Guyana may also cause small-scale frictions in the future. Nevertheless, the government has actively promoted other multilateral and bilateral relationships. Currently, China and India are Suriname's biggest aid-providing countries and the IADB has provided large concessional loans and grants. Suriname also maintained positive relations with neighboring French Guiana and Brazil. Therefore, Suriname's external environment is broadly favorable.

2.2 Economic Strength

Rich mineral resources lead to rapid economic growth and huge future potentials. But the economy is marked with high volatility stemming from structural weaknesses. The economy's prospect of sustainable long-term growth will hopefully brighten gradually with the improvement of the stability and the economic management capability of the government.

The economy entered a phase of stable development since 2000, but also exhibited notable vulnerabilities. Political turmoil as well as the government's fiscal and economic mismanagement led to several episodes of recessions and hyperinflation. Since 2000, the new government managed to stabilize the domestic economy through a series of measures including reducing borrowing from the central bank, eliminating fuel subsidies, devaluing the official exchange rate to the market rate etc. The inflation rate fell gradually from the high level of 98.7% in 1999. Average economic growth rates also rose considerably from -0.6% between 1980 and 2000 to 4.8% between 2001 and 2012. Due to its rich oil and mineral resources, mining became the pillar industry contributing to about 30% of GDP. Gold, bauxite and crude oil constitute 65%, 16% and 15% of total export respectively. In addition, basic goods need to be imported due to insufficient domestic productive capacity. Suriname's foreign trade dependence reaches 100.4%, which results in high volatility of inflation and economic growth.

The economy rebounded strongly after the setback in 2009, and Dagong anticipates the rapid growth to be maintained. During 2008 and 2009, the dramatic drop of oil and mineral prices led to sharp a decline of export revenues and investment. The economic growth rate fell from 5.1% in 2007 to 3.0% in 2009. The government introduced a series of measures in early 2011 including devaluing the official exchange rate, raising the tax rates and reigning in fiscal expenditure, which quickly restored market confidence and stabilized the economy. In 2012, net export increased due to the rise of the international gold price. Investment activity expanded thanks to the continued recovery of market confidence. The falling inflation expectation stimulated consumption and annual economic growth reached 3.9%. In the short term, the international gold price is projected to continue on the downward path since the end of 2012 and weak global demand will constrain the rise of oil and bauxite prices. Mineral production is unlikely to increase significantly, while the large-scale oil and mining projects will raise imports of machinery and equipment. The contribution of net exports to GDP growth will fall sharply. Nonetheless, the rise of oil and mining investment[5] as well as the government's infrastructure investment will strengthen the contribution of investment to GDP growth. Residents' income will also be higher due to employment in the mining projects, which will boost domestic consumption. As a result, the economic growth rate in 2013 and 2014 is projected to be around 4.2%.

Suriname's rich mineral resources lead to high long-term economic potential whereas its economic structure and history of development determine that the economy will continue to be dominated by the government for a considerable time and its prospect of long-term sustainable growth will only brighten slowly with the improvement of the stability and economic management capability of the government. Suriname boasts rich mineral, forestry as well as fishery resources. The bauxite deposits are of high quality and are easy to extract. The gold reserve is abundant and

[5] Iamgold will invest US$650 million to expand its gold mine; Murphy Oil will invest US$150 million to undergo exploration offshore of Suriname; Saipem will invest US$550 million to help Staatsolie build an oil refinery; Surgold will invest US$1.2 billion to explore a new gold mine.

production has significant room to expand further. The proven reserve of onshore oil stands at 76.7 million barrels[6]. Offshore, many blocks are currently undergoing active exploration and the discovery of huge reserves (840 million barrels) in neighboring French Guiana in 2011 has greatly increased the possibility of oil discovery in the territorial waters of Suriname. However, Suriname’s oil and mineral resources are controlled either by the government or foreign mining companies.[7] Mining revenues that are retained within the country turn into government revenue mainly through concession fees, royalties and taxes. After years of privatization, major sectors of the economy are still dominated by state-owned enterprises. The government plans to increase the involvement of the private sector and boost economic vitality through partial privatization and Public-Private Partnerships, which will be a lengthy process. Looking ahead, the exploration of the new gold mines will increase production considerably. The completion of the new gold refinery and the oil refinery expansion project will enhance domestic processing capacity and lead to the upgrade of the economy towards downstream processing. Dagong projects that the long-term economic growth rate will reach 4.5% led by the oil and mining industry. If significant reserves of offshore oil are discovered, the growth rate may reach higher levels. However, the substantive improvement of the economy’s long-term capacity for sustainable development requires considerable time.

2.3 Financial Strength

The financial system’s support to the private sector is insufficient. The high degree of dollarization and the central bank’s limited policy instruments constrain the effectiveness of monetary policy.

The level of development of Suriname's financial system is relatively low. Although financial system’s support to the private sector is increasing, it is still insufficient. In 2012, total financial system assets account for 80% of GDP, of which more than 70% is dominated by commercial banks. Suriname's direct financing

6 As of the end of 2012.

7 The state oil company has the sole right to develop domestic onshore oil. The bauxite and gold mines are owned by foreign companies with some state participation interest.

market is underdeveloped, which limits the financing channels of domestic enterprises. The three large banks out of a total of nine domestic banks in the country control nearly 80% of the deposits and loans. The government plans to merge and sell the three small ailing state-owned banks and partially privatize Hakrinbank which has a market share of 25%. These measures will improve the management of the banking sector. Private sector credit grows rapidly since 2012 thanks to sound economic development in recent years. In July 2013, the domestic and foreign currency credit growth rates reach 17.1% and 21.5% respectively, significantly higher than the economic growth rates. Domestic credits mainly flow to the services and construction sectors[8]. In order to curb credit growth, the central bank has raised the reserve requirements for both domestic and foreign currency deposits twice in January and September of 2013. However, as of June 2013, the ratio of private sector credit to GDP was only 26%, and the financial system's support to the private sector has yet to be strengthened further.

The overall banking system is stable, though asset quality remains to be improved. The capital adequacy of the banking system is relatively sufficient. As of June 2013, the capital adequacy ratio and regulatory Tier 1 capital adequacy ratio stood at 12.5% and 11.4% respectively. The banking system's profitability is strong with ROE at 38.7% and ROA at 2.8%. The liquidity condition is adequate given a loan to deposit ratio of less than 50%. However, the high percentage of state ownership of banks led to longstanding problems in asset quality. As of June 2013, the ratio of nonperforming loans to gross loans was 6.5% and asset quality will continue to be the main risk threatening the soundness of the banking system.

The banking system's risk absorption capacity is low and the monetary authority's ability to manage the financial system is constrained by its limited policy tools and a high degree of dollarization. The lack of an interbank market in Suriname restricts banks' ability to maintain stable liquidity conditions. The monetary authority relies mainly on the reserve ratios and moral suasion to manage the financial system.

[8] 86% of domestic currency credits flow to the services sector dominated by construction, trade and others. Of the foreign currency credits, the services sector accounts for about 73.5% while manufacturing and mining accounts for about 15%.

The lack of market-based instruments limits the flexibility and effectiveness of monetary policy transmission. The new Supervision Act of 2011 raised requirements on capital adequacy, liquidity, bank management, bankruptcy and strengthened the central bank's regulatory powers. However, the level of supervision can only be improved when the number and capability of skilled professionals are increased. At present, the government is in the process of reforming the financial system. It plans to deepen the money and capital markets, improve the efficiency of financial institutions and markets, as well as expand financing channels for companies and individuals. The central bank also plans to introduce market-based policy instruments. The ratios of deposit and loan dollarization are at 52% and 42%, respectively. The relatively high degree of dollarization weakens the central bank's ability to manage the domestic economy. To reduce the level of dollarization, the central bank has raised the foreign currency reserve ratio, and stipulated that all prices must be denoted in local currency and all contracts between the government and local residents must be settled in local currency. These measures and the stabilization of the economy are conducive to reducing the degree of dollarization. But it will be a long-term process requiring sustained prudence in the management of domestic economy and government finance.

2.4 Fiscal Strength

In recent years, the government maintained a relatively small deficit. Over the medium term, the increased capacity of mining production will greatly raise government revenue and keep central government debt ratio at a relatively low level. But the unfavorable fiscal structure is unlikely to be improved and will restrain the government's fiscal robustness.

Central government finance is highly reliant on primary products, and fiscal expenditure fluctuates significantly with the election cycle. Nonetheless, overall fiscal management is becoming more prudent. Central government revenue depends heavily on primary products. About 30-40% of central government fiscal revenue comes from the oil and mining sector. On the expenditure side, government expenditure is highly rigid. Of the total expenditure, more than half consists of wages and subsidies. Rising infrastructure investment leads to the substantial increase of government capital expenditure in recent years and the ratio of capital expenditure to GDP rose from 1.8% in 2000 to 4.3% in 2012. Meanwhile, fiscal expenditure is affected greatly by the election cycle. Election spending caused the ratio of fiscal expenditure over GDP to increase by around 4 percentage points before the elections of both 2000 and 2010. However, since 2002 government fiscal management has become increasingly prudent which led to substantial reduction of the fiscal deficits. The average deficit rate between 2003 and 2012 is 0.1%, significantly lower than the 4% averaged between 1990 and 2002. The fiscal deficit rose to 2.6% of GDP in 2012 due to the jump in current expenditure.

In the short term, the central government fiscal deficit will go up due to both external and internal factors. In 2013, the reduction of dividend payment to the government by the state oil company due to its large-scale investment projects as well as the falling international gold price contribute to a notable decrease of fiscal revenue. The rise and retroactive payment of the civil servants' salaries[9] and the increase of expenditures on capital spending as well as goods and services led to a substantial increase of fiscal expenditure in the first quarter. As a result, fiscal deficit was expanded. To reign in the budget deficit, the government began to reduce expenditures on capital spending as well as goods and services in the second quarter, which caused the growth of fiscal expenditure to slow down. The central government budget deficit of 2013 is projected to be 3.8%. In the near term, the government plans to have no further increases in the salaries of civil servants and strictly control its expenditure on goods and services as well as capital spending. The one-time effect of the back pay for civil servants will no longer affect government expenditures in 2014 whereas the approaching general election in 2015 may make it difficult for the government to effectively control spending. Therefore, the central government deficit rate is expected to be 3.5% in 2014.

[9] Salaries of civil servants were raised by 10% in December 2012 retroactive to January 2012.

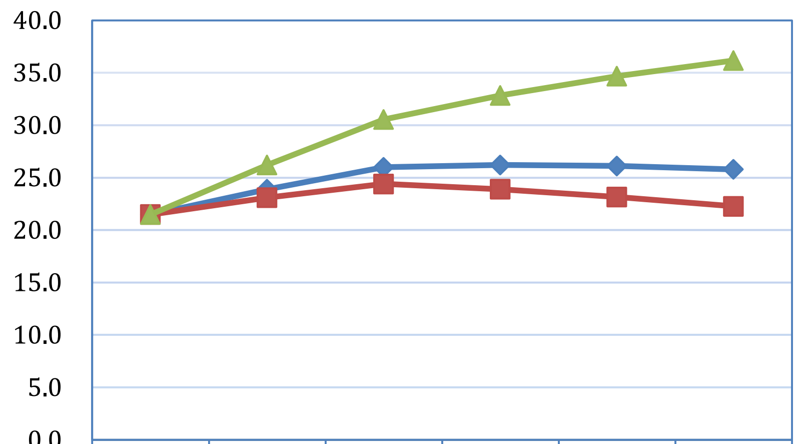
Over the medium to long term, the significant production expansion of the oil and mining sectors will improve the fiscal balance whereas the unfavorable revenue structure impairs fiscal robustness. On the expenditure side, the proposed large-scale infrastructure projects, including the bridges to Guyana and French Guiana, the highway connecting Brazil and the deep-sea harbor, will raise government capital expenditure. On the revenue side, the production expansion after the completion of several oil and mining projects over 2015-2018 will contribute to a dramatic increase of fiscal revenue. The government will also take measures to legalize the informal gold industry and reform the tax system. It plans to replace the sales tax with value-added tax and reduce the complexity of the income tax system to raise compliance. These measures can increase government revenue and the consumption-based tax system can act as a better automatic stabilizer to the economy. The government fiscal balance is expected to improve in the medium term. However, the level of institutionalization and transparency of the budget process is inadequate and fiscal discipline remains to be improved. In addition, the heavy reliance on mining income and high rigidity of government expenditure increases the vulnerabilities of government finance. To mitigate the vulnerabilities, the government plans to create a sovereign wealth fund based on mining revenues. According to the draft proposal sent to the parliament, the government will save all mining revenues apart from a fixed proportion which is to be allocated to the fiscal revenue each year. However, it will take many years for the fund to reach a proper size.

Stable economic growth and the fiscal prudence may help government debt ratio remain at a relatively low level in the medium term. Since 2002, the government has introduced harsh penalties for excessive debt issuance through legislation.[10] Stable economic growth, strict fiscal management and the clearance of arrears with foreign governments contributed to a sharp decrease of government debt ratio from 40% in 2002 to 21.5% in 2002. Considering the government's continued prudent fiscal and

[10] The Public Debt Act of 2002 stipulates that if the domestic debt exceeds 25% of GDP of that year, or the external debt exceeds 35% of GDP, the finance minster may face up to 10 years imprisonment, fines of SRD 2 million and deprivation of political rights. The Bank Act, which was revised in 2011, states that if central bank advances to the government exceed 10% of budgeted revenue, the governor of the central bank may be penalized by imprisonment, fines and deprivation of political rights.

economic management over the medium term, the debt burden is expected to remain at a relatively low level. Based on the comprehensive analysis of the economic growth, inflation and fiscal deficit, Dagong provides a forecast for the trend of government debt ratio under three scenarios. In the baseline scenario, central government debt ratio will be 23.9% and 26.0% in 2013 and 2014 respectively. Chart 1 shows the detailed forecast for government debt ratio[11] in the medium term.

Chart 1 Forecast for the central government debt ratio of Suriname Unit: %



	2012	2013	2014	2015	2016	2017
Baseline scenario	21.5	23.9	26.0	26.2	26.1	25.8
Optimistic scenario	21.5	23.1	24.4	23.9	23.2	22.3
Pessimistic scenario	21.5	26.2	30.5	32.8	34.7	36.2

Data source: Central Bank of Suriname, the Ministry of Finance, Dagong.

The government lacks market financing capability, however given the debt structure and funding sources, solvency risk is limited. During the last decade, the government's financing cost has declined markedly and the maturity of government debt has lengthened due to the shift of financing from the domestic market to official channels such as the Inter-American Development Bank (IADB) and the government of China. The pressure of debt repayment declined as a result. By the end of 2012, the government's domestic debt to GDP ratio is 10.0%, dominated by short-term central bank advances. The external debt to GDP ratio is 11.5%, all of which are long-term official concessional loans. The government lacks market financing capability. The government has cleared all outstanding arrears with foreign

[11] Potential privatization income and financing need from equity purchase of the gold mining projects jointly developed with foreign companies are not included.

governments by repaying US$118 million[12] to the government of Brazil in 2009 and US$32 million to the US government in 2012. The strong willingness to service outstanding debt has improved the government's creditworthiness.

2.5 Foreign Exchange Strength

The current account is expected to regain surplus in the medium term. Although Suriname's gross external debt burden remains modest, its overreliance on the exports of primary products leads to its relatively weak ability to withstand external shocks.

The surge in import demand for machinery and equipment will lead to a short-term worsening of the current account balance which is expected to regain a surplus in the medium term after the completion of the mining projects. During 1996-2005, the average current account deficit reaches 8.4% of GDP. Thanks to the significant increase of gold and bauxite production as well as the rise of international gold price, the current account reversed to an average surplus of 8.0% of GDP after 2006. In 2012, the current account surplus was 4.7% of which, the surplus on goods and services was 7.1%, the account on net current transfers registered a surplus of 1.4% because of large remittances from overseas residents and the net income account had a deficit of 3.8% due to the outflow of earnings from the foreign mining companies. In the first half of 2013, the oil refinery expansion brought huge increases in import demand for machinery and equipment, which drove the current account deficit up to around 6.6% of GDP. In the next few years, the large-scale oil and mining projects will continue to substantially raise import demands, which will lead to a temporary deterioration of the current account balance. The current account deficit is expected to reach 3.0% and 4.0% of GDP in 2013 and 2014 respectively. Over the medium to long term, assuming that international oil and mineral prices do not fall significantly, the increase in mineral production and decrease in import demand of oil derivatives and equipment resulting from the completion of the gold smelter and

[12] Includes 30% of debt relief.

expansion of the oil refinery[13] will help the current account regain surplus.

The capital and financial account surplus will be able to cover the deficit in the current account. In recent years, with stable economic and political development, the government has been working on improving the domestic business environment and encouraging investments by simplifying and accelerating the administrative approval process, which helped foreign direct investment (FDI) reach 1.4% of GDP in 2012. Although the capital and financial account achieved a surplus of 6.3%, the net errors and omissions term, which reached 7.5% of GDP, implies a potential underestimation of capital outflows in the capital and financial account. In the short term, expansion of the mining sector will boost FDI and other investments, which will ease the pressure from the current account deficit.

Suriname's external debt burden is modest, but the rise of currency devaluation pressure in the short term raised its external debt solvency risks. The gross external debt in 2012 was 27.1% of GDP, which consists mainly of public sector external debt. Non-government external debt is dominated by the state oil company which receives most of its revenues in U.S. dollars. The future increases in crude oil production, its high profitability and the completion of the refinery will ensure its debt repayment. The foreign exchange risk of the banking system is modest given that it has domestic deposits as the main sources of funding and its net foreign assets reach 17.5% of GDP. In the short term, the current account deficit brought depreciation pressure and the foreign exchange interventions the central bank conducted to relieve the pressures have resulted in a decrease of international reserves. As of June 2013, Suriname's international reserves were only 13.5% of GDP and could cover 3.4 months of imports, or up to 4.9 months if the mining companies are excluded[14]. The foreign currency solvency risks will increase in the short term before falling down to normal levels when the current account balance improves and depreciation pressure alleviates after the completion of the projects. Meanwhile, the proposed sovereign wealth fund will provide buffer to the country’s foreign exchange liquidity and help

[13] The US$760 million oil refinery built by the state oil company will double its refining capacity and will hopefully eliminate Suriname’s need to import oil derivatives after construction completes in 2014.
[14] The foreign mining companies’ foreign exchange needs can be met internally.

enhance the stability of its foreign exchange strength in the future. However, the foreign currency debt solvency of Suriname has significant vulnerabilities. Firstly, Suriname's means of foreign exchange generation is too limited. Due to its dependence on the oil and mining sector, the capacity to generate foreign exchange is severely affected by fluctuations in international mineral prices. Secondly, numerous episodes of poor macroeconomic management have caused the value of the domestic currency to be highly sensitive to domestic as well as international political and economic situations.[15] The elevated mineral prices in recent years contributed to the low level of currency devaluation pressures. However, the domestic currency's future stability rests on the steady development of domestic political and economic conditions as well as the government's fiscal discipline and its ability to maintain professional macroeconomic management.

3. The influence of government solvency on economic development

The high volatility of government revenue and excessive current expenditure hampers the government's stable investment in domestic infrastructure. But the future rise of government revenue will contribute to the realization of economic diversification. The overreliance on the export of primary products leads to the high volatility of government revenue. The government plans to create a sovereign wealth fund to save and invest extra revenues when mineral prices are high and draw from the fund when revenues are insufficient. This will help iron out fluctuations in government revenue and facilitate long-term planning of government investment. The proposal is still under discussion in parliament and it remains to be seen whether the fund will achieve sufficient size. High current expenditure crowds out funds for capital expenditure, which leads to long-standing insufficiency in infrastructure investment and impedes private investment. In the medium term, government revenue will rise

[15] The 2000 and 2010 elections both led to elevated devaluation pressures and forced the government to eventually slash the official exchange rate.

sharply as the mining production expands. This will provide considerable fund for infrastructure as well as other investment which is conducive to economic diversification.

4. Key indicators

Key Indicators of the Republic of Suriname *unit：US$, %*

	2008	2009	2010	2011	2012	2013f	2014f
GDP (US$ billions)	3.5	3.9	4.4	4.6	5.1	5.7	6.2
Real GDP growth rate	4.1	3.0	4.1	4.2	3.9	4.2	4.2
GDP per capita (US$)	6833.0	7425.4	8191.5	8456.7	9339.0	10294.2	11034.0
CPI	15.0	0.0	6.9	17.7	5.0	2.6	2.0
Unemployment Rate	9.0	8.5	7.5	7.0	5.5	5.5	5.2
Credit to Private sector/GDP	23.9	24.3	24.1	24.0	26.0	26.5	26.5
Growth rate of credit to Private sector	34.4	12.0	11.1	15.0	22.0	25.0	26.0
Central Government Revenue/GDP	24.3	27.6	21.8	23.5	23.9	24.3	24.6
Central Government Expenditure/GDP	22.8	26.8	24.7	23.6	26.2	28.1	28.1
Central Government Primary Balance/GDP	2.3	-0.8	-1.7	-1.0	-1.8	-2.9	-2.7
Central Government Fiscal Balance/GDP	1.6	-2.1	-2.6	-1.9	-2.6	-3.8	-3.5
Central Government Interest Payment/GDP	0.6	1.1	0.8	0.9	0.9	0.9	0.8
Central Government Gross Debt/GDP	15.7	15.7	18.6	20.7	21.5	23.9	26.0
Central Government External Debt/ GDP	9.0	6.9	7.7	10.2	10.5	11.5	12.0
Current Account Balance/GDP	9.2	2.9	15.0	5.5	4.7	-3.0	-4.0
External Debt/GDP	26.0	26.3	26.4	28.0	27.1	29.0	30.2
Short Term External Debt/GDP	n/a	n/a	n/a	2.0	1.8	1.7	1.8
International Reserves/GDP	17.1	16.9	15.9	17.9	19.8	14.5	15.0
International Reserves/Monthly Import	3.9	4.6	4.6	3.9	5.2	4.0	4.2
Net International Investment Position/GDP	n/a	n/a	n/a	7.3	3.0	3.2	3.5
LCU to USD Exchange rate (Annual average)	2.7450	2.7450	2.7454	3.2680	3.3500	3.3500	3.3500

Data Source: Central Bank of Suriname, General Statistical Office, Ministry of Finance, IMF, the World Bank, Dagong
f represents forecasts.

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