Suriname

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Local Currency	
Long-Term IDR	B-
Short-Term IDR	B
Country Ceiling	
Country Ceiling	B-
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Long-Term Local-Currency IDR	Negative

Financial Data

Suriname

(USDbn)	2019f
GDP	3.6
GDP per head (USD 000)	6.2
Population (m)	0.6
International reserves	0.5
Net external debt (% GDP)	46.6
Central government total debt (% GDP)	78.8
CG foreign-currency debt	2.1
CG domestically issued debt (SRDbn)	7.8

Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)	B
Qualitative Overlay (QO)	-1
Macroeconomic	0
Structural features	0
Public finances	-1
External finances	0
Long-Term Foreign-Currency IDR (SRM + QO)	B-

Source: Fitch Ratings

Related Research

Global Economic Outlook (June 2019)

Analysts

Kelli Bissett-Tom
+1 212 908 0564
kelli.bissett-tom@fitchratings.com

Christopher Dychala
+1 646 582 3558
christopher.dychala@fitchratings.com

Key Rating Drivers

Negative Outlook: The Negative Outlook reflects Fitch Ratings' expectation that large government deficits and financing needs, in part reflecting spending pressures related to elections in May 2020, will continue to lead to a rapid increase in government debt/GDP. Uncertain financing options, highlighted by monetary financing from the central bank, add to downside risks. Financial system vulnerability remains a contingent liability.

Large Government Deficit: The government deficit/GDP on a cash basis remains large, at or above 9%, since 2015. It rose to 12.3% (7.5% on a commitment basis) partly due to the settlement of arrears in 2018. Preliminary 1H19 data show an annualised 12% of GDP government deficit (cash basis), which the authorities expect to lessen in 2H19. A parallel exchange rate emerged in 1H19.

Structural Reforms Deferred: Key reforms, reduction of electricity and water subsidies in 2016 and a planned value-added tax in 2018 were deferred, lowering Fitch's expectation that the budget gap will be reduced until 2021.

Financing Constraints: The government's external financing strategy has shifted to higher-cost lines from China and commercial creditors as net multilateral disbursements slowed during 2017-May 2019. In the domestic market, the government has drawn on a central bank facility, tapped other non-traditional sources, and shifted to foreign-currency private lines.

Weak Government Debt Dynamics: Fitch expects Suriname's government debt/GDP to rise to 79% in 2019, above the current 'B' median of 50%. The government's large financing needs and rising financing costs have steepened the upward government debt trajectory, increasing debt sustainability challenges. However, market amortisation pressure is lessened by the only global bond maturity being in 2026.

Financial System Vulnerabilities: Recovering bank capital buffers (10.2% in March 2019) coupled with lingering non-performing loans (NPLs, 12% in 2Q18) and balance-sheet vulnerability to exchange-rate adjustments from high deposit and credit dollarization expose the financial system to macro and external shocks.

Competitive Elections: Early polls indicate that parliamentary elections in May 2020 will be competitive, increasing the odds of a coalition government and election spending pressure.

Higher Domestic Demand: Construction activity spurred the economy to expand by an estimated 3.3% and exchange rate stability fostered 6.8% average inflation in 2018.

Wider Current Account Deficit (CAD): The CAD widened to 5.5% in 2018 but was fully financed by mining FDI. Fitch expects higher import demand to widen the deficit in 2019-2020.

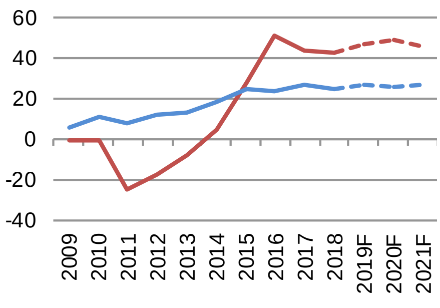
Rating Sensitivities

Debt and Reserves Stresses: Key factors that could lead to a downgrade include: failure to reduce the government deficit and risks to debt sustainability, reduced debt-servicing capacity, and external stress resulting in lower international reserves or pressure on the exchange rate.

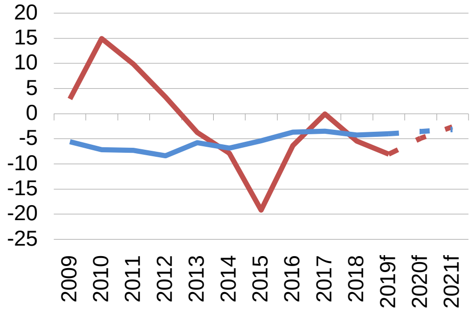
Improved Government Debt Position: The main factors that could lead to a revision of the Outlook to Stable include reduction of the government deficit and easing of government financing constraints.

Peer Comparison

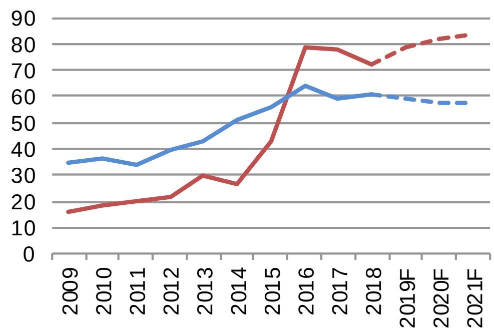
Net External Debt
% of GDP



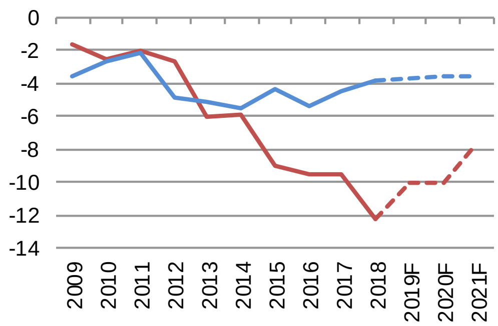
Current Account Balance
% of GDP



General Government Debt
% of GDP

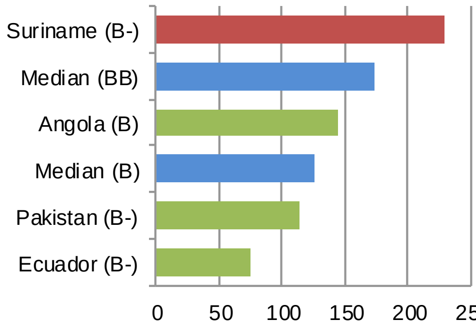


General Government Balance
% of GDP

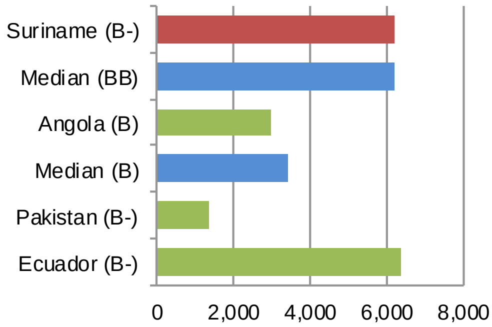


Suriname   Median(B/C/D)

International Liquidity Ratio, 2019F
%



GDP per Capita Income, 2019F
USD per capita at market exchange rates



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period

Related Criteria

Sovereign Rating Criteria (May 2019)
Country Ceilings Criteria (July 2019)

Peer Group

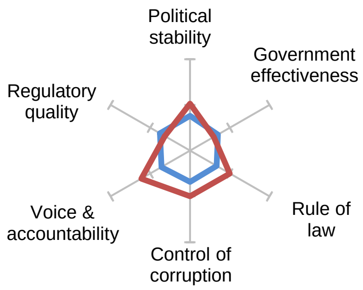
Rating	Country
B	Angola
	Belarus
	Benin
	Cabo Verde
	Cameroon
	Ethiopia
	Gabon
	Ghana
	Lesotho
	Mongolia
	Sri Lanka
	Ukraine
B-	**Suriname**
	Ecuador
	El Salvador
	Iraq
	Nicaragua
	Pakistan
CCC	Republic of Congo
	Lebanon
	Zambia
CC	Argentina
RD	Mozambique

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
22 Feb 17	B−	B−
26 Feb 16	B+	B+
10 Jul 12	BB−	BB−
29 Jul 11	B+	B+
18 Jun 04	B	B+

Governance Indicators

Percentile rank



Source: Fitch Ratings, World Bank (2017 ref. year)

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Weakness	Weakness	Weakness	Neutral
Trend	Stable	Negative	Stable	Stable

Note: Relative to 'B'/'C'/'D' category
Source: Fitch Ratings

Strengths

Suriname's governance, social indicators and per capita GDP exceed the 'B' medians.

An absence of natural-resource nationalism and maintenance of international contracts have supported Suriname's ability to attract FDI to its mainstay gold and oil industries.

Weaknesses

Macro instability during 2015-2016 led to a deterioration in Suriname's five-year average real GDP and inflation performance relative to the 'B' median.

Suriname's commodity dependence is high (84% of current external receipts; CXR). Oil and gold accounted for 74% of CXR and 35% of government revenues in 2018.

Suriname's public finances are weaker than the 'B' median, reflected in its high revenue volatility absent fiscal buffers, large central government deficit, weak budgetary framework, and high debt burden with high embedded foreign-currency (FC) risk.

Financial system capitalisation is weak and there is high credit and deposit dollarization, posing a contingent liability to the government.

Suriname's external balance sheet is weaker than the 'B' median, reflecting Suriname's weaker net external debt, sovereign net foreign asset/liability position, and external debt service ratios.

Suriname has a weak business environment (scoring below the 'B' median on the World Bank's ease-of-doing-business indicators) and faces supply-side competitiveness constraints due to the limited development of agricultural, tourism and manufacturing industries.

Local-Currency Rating

Suriname's credit profile does not support a notching up of the Long-Term Local-Currency IDR at 'B-' above the Long-Term Foreign-Currency IDR. This reflects Fitch's view that neither of the two key factors cited in the criteria that support upward notching are present for Suriname: strong public-finance fundamentals relative to external fundamentals; and previous preferential treatment of local-currency creditors relative to foreign-currency creditors.

Country Ceiling

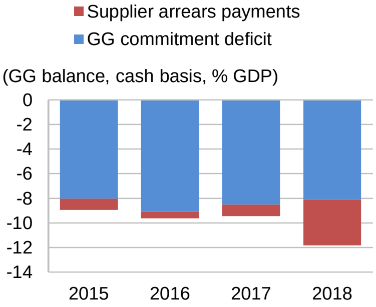
The Country Ceiling is the same as the Long-Term Foreign-Currency IDR at 'B-', in line with Fitch's Country Ceiling model. This reflects the constraints of Suriname's limited integration into the global financial system, recent inflation history, and limited membership in international trade bodies, balanced by the relative strengths of its trade openness, governance indicators, and the flexible exchange regime. The sovereign did not block private external debt service during the 2015-2016 balance-of-payments crisis, but it did impose administrative controls for imports payments.

Strengths and Weaknesses: Comparative Analysis

2019	Suriname B-	B median [a]	BB median [a]	Angola B	Ecuador B-	Zambia CCC
Macroeconomic performance and policies						
Real GDP (5yr average % change)	-0.1	4.6	4.2	-0.6	0.5	3.2
Volatility of GDP (10yr rolling SD)	3.6	2.7	2.5	3.5	2.9	2.5
Consumer prices (5yr average)	19.2	7.7	5.6	22.3	1.3	10.1
Volatility of CPI (10yr rolling SD)	16.2	4.4	3.3	9.0	1.9	3.4
Unemployment rate (%)	7.0	9.1	9.0	8.2	5.3	7.7
Type of exchange rate regime	Stabilised arrangement	n.a.	n.a.	Stabilised arrangement	Dollarised	Floating
Dollarisation ratio (% of bank deposits)	62.9	32.7	39.8	35.4	100.0	25.0
REER volatility (10yr rolling SD)	9.8	6.5	6.2	15.2	4.6	6.1
Structural features						
GDP per capita (USD, mkt exchange rates)	6,212	3,391	6,189	2,987	6,350	1,419
GNI per capita (PPP, USD, latest)	14,290	8,690	14,875	6,060	11,350	3,920
GDP (USDbn)	3.6	n.a.	n.a.	95.3	108.8	24.3
Human development index (percentile, latest)	47.3	37.2	51.3	22.3	54.2	23.4
Governance indicator (percentile, latest)[b]	45.7	38.6	44.2	16.2	32.1	37.6
Broad money (% GDP)	71.8	37.5	47.8	28.9	37.8	26.9
Default record (year cured)[c]	2002	n.a.	n.a.	2007	2009	2006
Ease of doing business (percentile, latest)	13.3	38.7	52.2	9.0	35.5	54.5
Trade openness (avg. of CXR + CXP % GDP)	72.2	40.0	46.5	38.2	26.5	46.5
Gross domestic savings (% GDP)	-	15.5	17.9	37.3	25.2	42.3
Gross domestic investment (% GDP)	-	22.9	21.8	-	25.7	43.7
Private credit (% GDP)	30.3	25.1	37.3	14.2	36.5	12.4
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	-/1	b/1	-/1
Bank system capital ratio (% assets, Su 3M19)	10.2	15.7	15.7	18.0	13.7	25.0
Foreign bank ownership (% assets, 2017)	16.1	36.4	35.2	36.4	11.0	85.0
Public bank ownership (% assets, 2017)	23.3	18.9	16.5	23.7	17.2	5.0
External finances						
Current account balance + net FDI (% GDP)	-4.9	-1.4	0.8	1.4	0.1	-0.4
Current account balance (% GDP)	-8.1	-4.5	-2.7	0.8	-0.8	-2.8
Net external debt (% GDP)	46.6	16.4	9.7	25.5	-1.1	-13.1
Gross external debt (% CXR)	149.5	135.7	114.0	190.2	186.3	189.5
Gross sovereign external debt (% GXD)	67.5	63.1	47.2	72.0	71.1	54.1
Sovereign net foreign assets (% GDP)	-53.6	-14.5	-2.4	-34.9	-27.8	-40.5
Ext. interest service ratio (% CXR)	5.0	3.8	3.9	9.5	10.7	9.8
Ext. debt service ratio (% CXR)	13.8	11.8	13.8	33.5	41.0	17.7
Foreign exchange reserves (months of CXP)	2.2	3.8	4.3	5.4	1.2	1.4
Liquidity ratio (latest)[e]	228.7	174.8	150.4	143.5	74.2	66.0
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	83.8	32.6	21.5	91.4	72.5	77.1
Sovereign net foreign currency debt (% GDP)	46.2	15.0	2.2	34.0	49.2	40.5
Public finances[f]						
Budget balance (% GDP)	-10.0	-3.8	-2.8	-1.7	-0.9	-7.2
Primary balance (% GDP)	-5.9	-1.1	-0.6	3.5	2.0	-1.8
Gross debt (% revenue)	330.8	213.6	155.9	398.0	146.4	426.5
Gross debt (% GDP)	78.8	49.7	39.4	83.8	51.9	81.3
Net debt (% GDP)	75.8	42.6	33.1	69.9	49.1	79.5
Foreign currency debt (% total debt)	76.1	68.0	60.7	61.0	100.0	56.8
Interest payments (% revenue)	17.4	8.6	9.2	24.4	8.2	28.2
Revenues and grants (% GDP)	23.8	23.4	25.0	21.1	35.5	19.1
Volatility of revenues/GDP ratio	8.8	8.8	6.2	11.0	3.3	1.1
Central govt. debt maturities (% GDP)	11.0	5.6	5.2	7.3	7.6	8.9

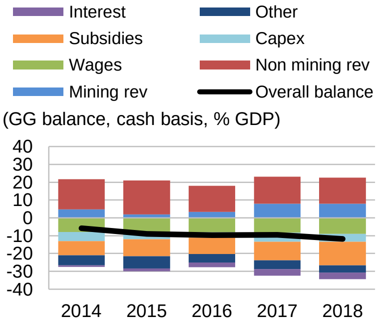
[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model: Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Official debt reschedulings in 1996, 1997, and 2002. Repayment of outstanding bilateral arrears to Brazil in 2009 and the US in 2011
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch Ratings

Government Operations Showing Arrears Payments



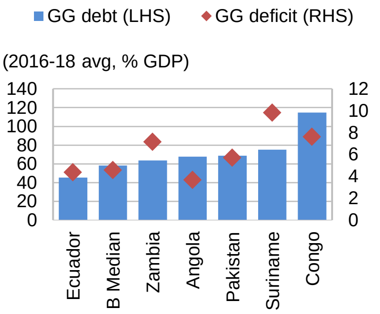
Source: Fitch Ratings, Ministry of Finance

Government Operations Drivers



Source: Fitch Ratings, Ministry of Finance

High Government Deficits and Debt



Source: Fitch Ratings, Ministries of Finance

Key Credit Developments

Wider Government Deficit in 2018 Raises Sustainability Risks

The government deficit/GDP (cash basis, including supplier arrears payments) remains large, at or above 9%, since 2015[1]. It rose to 12.3% in 2018 (2017: 9.5%) and well above our forecast (6.1%) at our last review (August 2018), reflecting payment of supplier and other arrears[2] (reflected in higher subsidies and transfers) and retroactive wage increases and increased interest costs.

Oil and gold-sourced government revenue (2018: 8% of GDP, 35% of government revenue) has moderately recovered since price shocks in 2015-2016 (2015: 2% of GDP, 9% of revenue), but current spending has continued to rise. Policies have focused on tax administration and wage growth containment after structural reforms were withdrawn (2016: electricity subsidy reduction; 2018: value-added tax).

Fitch expects the government deficit/GDP (cash basis) to remain wide at about 10% a year during 2019-2020 on the expectation that higher infrastructure spending ahead of parliamentary and local elections in May 2020 will keep pressure on spending, although the particular arrears settlements that led to a higher deficit in 2018 will not recur. Fitch does not expect a policy window for structural revenue (value-added tax introduction) or expenditure (electricity and water subsidy reduction) fiscal reforms until 2021. Fitch estimates the government's financing needs[3,4] for 2019 at 14.3% of GDP (including medium- and long-term maturities totalling 4.3% of GDP).

The amount of new arrears incurred during 2018 declined relative to 2017. Balancing this, arrears payments have exceeded expectations in the past two years and the country is entering the new 2019-2020 election cycle, for which the evidence of the past two cycles suggests an increase in spending.

Alternative views on the government operations expectations are diverse. Spending amounts in included in the budget (the annual financial note) typically exceed actual spending and are therefore not a reliable guide. Large settlements of supplier and other arrears are the key difference between the cash and commitment basis balances. The pace of fiscal reforms and degree of expenditure restraint expected through the election period, commodity prices at the time of projection, and interest costs also affect fiscal forecasts. Comparisons of government balance/GDP forecasts for 2019 (using Fitch's nominal GDP assumption) include:

- Suriname Ministry of Finance (-7% of GDP, commitment basis, update at August 2019);
- Suriname Planning Office (-16% of GDP, cash basis, medium-term macro outlook, published May 2019);

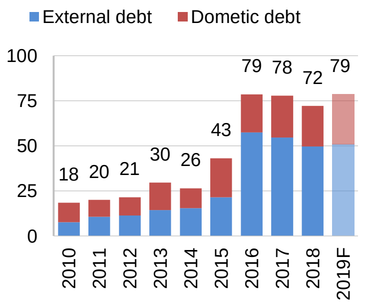
[1] We analyse government operations on a cash basis because this treatment better explains the scale of the government's financing needs and change in government debt/GDP since 2015 than the government's commitment balance.

[2] In 2018, the government made a large cash payment of health system and pension arrears, which resulted from adjustments agreed on the hospital and funds' accounts of 2016 and 2017. The government does not expect these to reoccur.

[3] Acquisition of the Afobaka hydroelectric facility during 2019 (USD400 million by early estimates and pending agreement of environmental liabilities with Alcoa and approval by the parliament) could increase the government's financing needs. This is not in our baseline. Parliament approved (by 29 votes to 13 against) a transfer agreement at the end of August, the financing requirement for which is unclear. The largest opposition party voted against and pledged to re-open negotiations if it wins the 2020 elections.

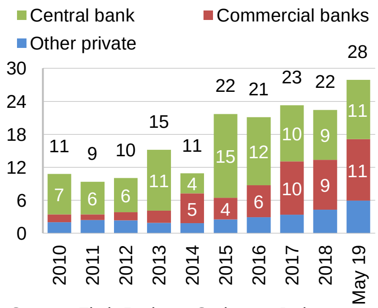
[4] The government of Suriname has the option on a 30% equity stake in the Saramacca gold deposit, which IAMGold has scheduled for production in 2H19 and has solely funded to date (USD40 million plus interest and management fee). Staatsolie is to consider during 2H19 the government's request to transfer the option to the state oil company (akin to its participation in the Merian gold mine).

Government Debt
(At market ex. rates, % of GDP)



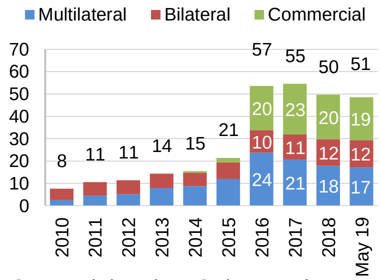
Source: Fitch Ratings, Suriname Debt Management Office

Government Domestic Debt
(At market ex. rates, % of GDP)



Source: Fitch Ratings, Suriname Debt Management Office

Government External Debt
(At market ex. rates, % of GDP)



Source: Fitch Ratings, Suriname Debt Management Office

- Annualised performance of government operations (1Q19 operations and financing data: -12% cash basis, -11% commitment basis; 1H19 preliminary operations but lacking financing data: -12% cash basis, -11% commitment basis published by the Ministry of Finance);
- IMF World Economic Outlook (-9% of GDP, commitment basis at April 2019).

Financing the Large Government Deficit Has Become Challenging

In the domestic market, recent years' financing needs have saturated the demand for local-currency treasuries by capital-constrained banks and small pension and insurance funds.

- Fitch assumes USD257 million net domestic borrowing in 2019.
- Banks and contractors have provided some FC credit (9.1% of GDP outstanding as of June 2019).
- The government stock of short-term treasury bills rose by 2.7pp of GDP to 4.9% of GDP in May 2019 from December 2017 and the stock of longer-dated treasury notes dropped by 1.5pp of GDP to 4.6% of GDP during the period.
- Commercial bank holdings of government debt did rise by 1.5pp of GDP to 11% of GDP at May 2019 from December 2017. Non-traditional sources also rose. Other private sector entities[5] (historically a small source of domestic credit) provided net financing of 2.5pp of GDP during the period, raising the exposure to 5.9% of GDP at May 2019.
- The central bank advanced SRD670 million (2% of GDP, a short-term facility at 9%) during 1H19. (The government pays 3.5% on its long-term loan from the central bank, currently 8% of GDP, extended in 2015.)
- The central government has drawn the maximum facility amount (10% of budget revenues) authorised by the Central Bank Act (article 21). The statute would require an act of the unicameral parliament to increase the facility size, although this is not the central bank's expectation. The government drew on central bank financing in 2015.
- The effective interest rate on domestic government debt was 6.2% in 2018.

External financing conditions are challenging for the government, despite benign international capital market conditions and commodity prices for Suriname's main (gold and oil) exports.

- Fitch assumes USD100 million net external government borrowing during 2019 (2018: USD44 million; 2017: USD96 million), depending on China's disbursements.
- China has become the most important external financier (as a proxy, bilateral loans totalled USD436 million, 12% of GDP, at May 2019). China (People's Bank of China, government, China Exim Bank, and Industrial and Commercial Bank of China) provides infrastructure loans (for highways, hospitals, and a planned airport upgrade). The credit lines have an average interest rate of 6% and some have grace periods.
- Multilateral net disbursements are negligible (the stock of multilateral debt was USD612 million at May 2019 compared with USD630 million at end-2016, when the IMF stand-by agreement ended). A small Inter-American Development Bank project loan facility is priced at 4.5%.
- Commercial external debt has been relatively stable during 2018-1H19 and totalled USD687 million at May 2019. The market yield (10.5% on 12 August 2019) on the USD550 million global bond due 2026 was above its high coupon rate (9.25%).
- The effective interest rate on external government debt was 5.4% in 2018.

[5] Covenants governing Staatsolie's internationally syndicated loan prohibit the operating firm from extending credit to the government.

Government Debt Sustainability

Fitch expects government debt/GDP to continue rising from 72% at end-2018[6]. The size of the primary deficit (2018: 8.4% of GDP, cash basis) and the financing mix significantly influence the debt trajectory. During 2005-2011, Dutch financial assistance and negative real interest rates on Suriname's multilateral debt helped stabilise government debt/GDP. The government's shift toward higher-cost new capital market and bilateral debt more than doubled its debt service to 16.7% of revenues in 2018 from 7.2% in 2015 (figures based on gross interest payments data from the Suriname Debt Management Office and government revenues from the Ministry of Finance). Fitch expects the financing strategy to further increase interest costs, reducing budget space.

The government debt profile is weak. Suriname's government debt and interest/revenue (2019f: 331% and 17.4%, respectively) have risen well above their historical levels and above the current 'B' medians (214% and 8.6%, respectively), stressing debt tolerance expectations. Three-quarters of government debt, including a significant share of domestic debt held by private creditors, is foreign-currency denominated, and greater short-term domestic financing has increased rollover risk (total maturities) to 10.9% of GDP (2019f).

Supporting factors for the government's debt sustainability include concessionality in the external debt profile and the absence of external amortisation pressures. Multilateral debt was a quarter of government debt or 18% of GDP at end-2018, although this is a declining share. External government maturities totalled USD139 million in 2018 (6% of CXR), and the sole global bond matures in 2026.

Polls Signal Competitive Election

Fitch expects the May 2020 elections to be competitive, increasing prospects for a coalition government and spending pressure. Nikos Institute polls signal neck-and-neck support for the governing NDP party and the largest opposition VHP party in Paramaribo (election in April) and an advantage for AVP in Wanica (May). If the NDP, which governs the 2015-2020 parliament with 26 of 51 seats, wins sufficient support, President Bouterse (leader of the military junta 1980-1987, president 2010-2015, 2015-2020) could stand for a third consecutive term. The VHP party has not yet laid out its economic policy programme.

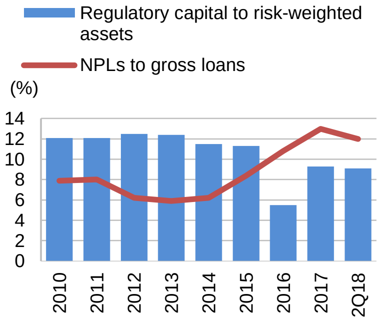
Parliament selects the president by a two-thirds majority (by up to three voting rounds). If this is not achieved, a united people's congress of the parliament plus local government officials selects the president by simple majority. A coalition government or second round would require the NDP or VHP to broker alliances with small minority parties (which often reflect Suriname's diverse ethnic and geographic groupings), increasing the risk of additional spending, in Fitch's view.

A military court considering a case against President Bouterse related to the execution of 15 opposition civilians in December 1982 is expected to render a final judgement soon, although it is unlikely to upend politics. The sitting president is covered by an amnesty law, any appeal could take years, and a long-running parallel case did not resonate with the youthful electorate in 2010 or 2015.

Central Bank Institutional Developments

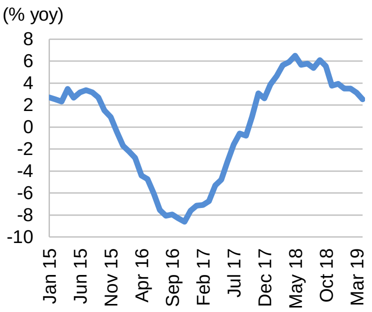
During January-February 2019, the former governor of the central bank resigned, and the government terminated its memorandum of understanding (MOU) against monetary financing. The MOU was agreed in April 2016 as the exchange rate started a large adjustment during March-July 2016 and after the central bank provided a large long-term loan to the government

Bank Capital & NPLs



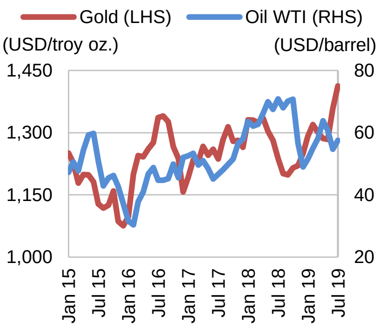
Source: Fitch Ratings, IMF Article IV Staff Report (Dec 18)

Monthly Economic Activity Indicator



Source: Fitch Ratings, Central Bank

Supportive Export Commodity Prices

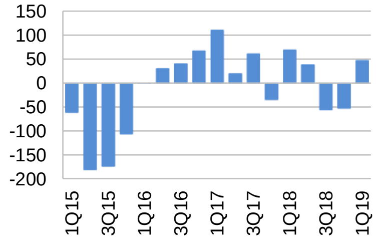


Source: Fitch Ratings, Haver

[6] Government debt decreased during 2018 as a result of a liability management operation following a one-off USD337.5 million transfer from the state oil and gold company; see Fitch's Full Rating Report on Suriname published in August 2018.

Mining FDI Covered Most of the Current Account Deficit in 2016-2018

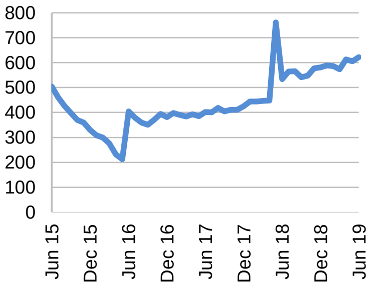
(Current account balance plus net foreign direct investment, USDm)



Source: Fitch Ratings, CBvS

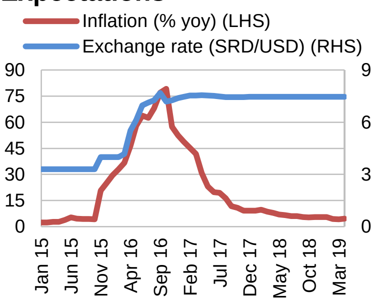
Rebuilding International Reserves

(USDm)



Source: Fitch Ratings, Central Bank

Exchange Rate Stability Anchors Inflation Expectations



Source: Fitch Ratings, Central Bank

in 2015. The current central bank lending facility to the government and its size is governed by the Central Bank Act (a legal statute).

The central bank introduced alternative investment instruments during 2019 (short-term deposits, certificates of deposit, and gold certificates) designed to mop up banks' excess liquidity (this includes liquidity from the unwinding of about USD100 million foreign-currency swaps that resident commercial banks extended to the central bank in 2015-2016) and to give institutional investors 'safe haven' assets for currency risk management. The gold certificates function like long-term certificates of deposit with a return linked to the LME gold price.

Weak Asset Quality and Capital at Large Bank Weigh on Financial System

Vulnerabilities in the financial system also pose a contingent liability to the sovereign. Suriname's banks are slowly deleveraging and shoring up their capital positions. Regulatory capital to risk-weighted assets rose to 10.2% at March 2019 from 5.5% at December 2016. The system's profitability (ROE) partly recovered to 8.3% at end-2Q18 from -11.9% in 2016, although it is still below pre-shock 20%-30% levels during 2010-2014 amid high lending rates and subdued household demand (see IMF Article IV staff report December 2018). Banks have written off or restructured troubled assets, but aggregate NPLs were still high at 12% in 2Q18 (partly influenced by one large bank).

Business and household credit quality deteriorated after the large currency depreciation in 2016, and banks suffered losses on large government arrears to contractors stemming from the 2015 elections and the fall of oil-related government revenues in 2015-2016.

Large write-offs during 2018 at DSB Bank (a large systematically important bank under intensive central bank supervision) weakened its capital ratio at end-2018 below the regulatory minimum for the second time since end-2016. Hakrin Bank (another large, financially stronger bank majority-owned by the government) has injected capital into DSB. Banking consolidation has raised the public sector's shareholdings in the financial system.

High financial dollarisation increases the Suriname banks' vulnerability to exchange rate adjustments, particularly in the context of low capital buffers. Foreign-currency instruments represented 45% of credit and 63% of deposits at May 2019.

Anti-money laundering and countering financing of terrorism (AML-CFT) issues continue to limit correspondent banking relationships. A shortage of US dollar cash notes has affected commerce in the cash-based economy following the Netherlands authorities' seizure of euro funds in spring 2018 and US authorities' seizures in 2019. The central bank is preparing for the next Caribbean Financial Action Task Force peer review in 1H20, which will focus on the status of implementation of recent AML-CFT legislation. The central bank is undertaking a national risk assessment.

Domestic Demand Picks Up

Fitch estimates the economy expanded 3.3% in 2018 (preliminary estimate by national authorities at August 2019), up from 1.7% in 2017 and supported by mining investment. Fitch expects economic growth of 3.5% in 2019 and 3.0% in 2020, supported by domestic demand. Government infrastructure investment and moderated mining investments are spurring construction activity. Higher wages are beginning to lift consumption (wholesale and retail trade was up 5% yoy on a three-month moving average and restaurant and hotel activity up 7% yoy at end-April 2019). However, macro uncertainty and high lending rates (14.7% average in June 2019) weigh on business investment.

Current Account Deficit Widens

The CAD/GDP grew to 5.5% in 2018 (2017: 0.1%) due to weaker gold export performance amid stable import demand relative to GDP.

Fitch expects the CAD/GDP to widen to 8.3% in 2019 as construction and household income gains increase import demand amid policies favouring Suriname dollar-US dollar exchange rate stability. Foreign income payments on FDI also averaged 10% of GDP during 2017-2018. Gold and oil prices support exports, although a conflict with artisanal miners led one mine to cut its production guidance for 2019 (mining operations resumed at the end of August). We expect onshore oil production to remain stable at 16,000 barrels per day.

Net FDI fully covered the CAD during 2016-2018. Fitch expects FDI to decrease (as the Saramacca gold mine enters production) during 2019-2020.

Exchange Rate Anchors Inflation Expectations

Inflation continued to decelerate to 6% in 2018 (in line with the current 'B' median of 4.8%) and was 4.6% yoy in April 2019 after peaking at an average of 55% in 2016. Recent stability in the official exchange rate near SRD7.5-USD1 since late 2017 anchors public inflation expectations.

In March, the central bank made forex available to importers at the bank rate in response to tightness in the forex market. A shortage of US dollar notes has affected domestic (largely cash-based) retail payments since a shipment of euro notes was seized by Dutch authorities in early 2018.

During 1H19, a parallel exchange rate re-emerged (the last instance was during 2015-2016 before the external adjustment). The parallel rate was SRD8-8.4-USD1 at several cambios, businesses, and casinos during the first week of August according to one monitor; another public site, CME, reports the average daily forex sale rate at SRD8-USD1 during the first two weeks of August.

Central Bank Moves to Increase International Reserves

Suriname's external liquidity is adequate for normal economic conditions, but its international reserves (IR; USD713 million at July 2019, up from USD581 million at December 2018) provide a limited buffer to external stress and/or confidence shocks. Fitch's baseline forecasts assume that net forex sales will reduce the stock during 2019-2020 as the CAD widens. Factors outside our baseline (external issuance, higher bilateral disbursements, or increased oil-related FDI inflows registered through the balance of payments[7]) could stabilize or lift the year-end IR stocks projected for 2019 and 2020.

The central bank has taken steps to bolster gross IR. In April, the central bank required commercial banks to deposit half of their US-dollar-denominated and the full amount of their euro-denominated required reserves on foreign-currency deposits (50% foreign-currency required reserve rate) at the central bank (the other half of the dollar amount can be invested in foreign liquid assets). This enabled the central bank to sustain gross IR levels as it unwound the foreign-currency swaps from commercial banks. In addition, the central bank has a USD150 million swap line with the People's Bank of China (repaid since 2016), which it could draw again. Fitch does not calculate and the central bank does not publish a net IR figure at the date of this report.

IR dipped during February-March 2019, but otherwise the central bank has gradually accumulated them during 2017-2019. Forex sales depleted the IR buffer during 2015-2016.

By Fitch's narrow measure for coverage of economic payments, IR are expected to cover 2.2 months of current external payments (CXP, which includes foreign interest payments) in 2019, less than the 3.8 months buffer for the current 'B' median (which includes many commodity-intensive exporters). Fitch's international liquidity ratio (which includes: government restricted foreign deposits in the accounts of the central banks[8]; commercial banks' liquid foreign assets[9];

[7] For example, IOC oil exploration is not registered in the balance of payments.
[8] USD 161 million at June 2019 and USD40 million at December 2018.
[9] USD965 million at December 2018.

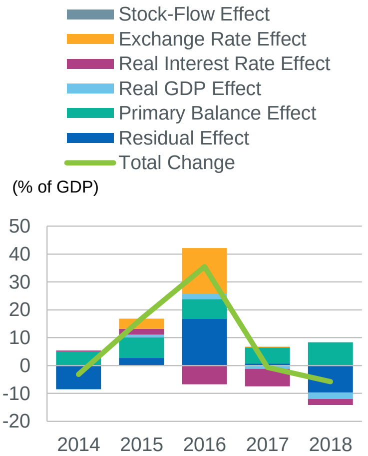
and Staatsolie's liquid foreign assets[10]) is forecast at more than 200% for 2019 and above the current 'B' median slightly above 170%.

Suriname's external debt service/CXR ratios for 2019 are consistent with the 'B' category (see above). However, the steep external government financing costs could weaken the external debt-service ratios if the government's financing needs remain large. Suriname's external balance sheet (see net external debt/GDP above) and high commodity dependence are also weaknesses relative to the 'B' category.

[10] USD47 million at December 2017.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Effects on Debt Dynamics under Baseline Scenario
Change in Gross General Government Debt



Source: Fitch Debt Dynamics Model

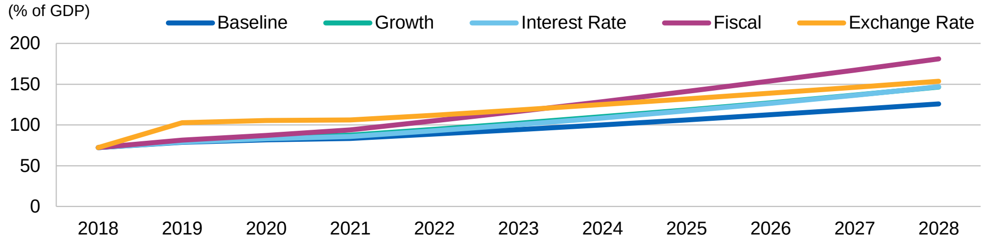
Public Debt Dynamics

Fitch's baseline projections indicate a steepening government debt trajectory reaching 100% of GDP by 2023, driven by the large government deficit and increasing financing costs. In addition to the primary balance, the government debt burden is highly sensitive to exchange rate movements (78% of government debt is foreign-currency denominated) and servicing costs.

Debt Dynamics: Fitch's Baseline Assumptions

	2018	2019	2020	2021	2022	2023	2028
Gross general government debt (% GDP)	72.1	78.8	81.9	83.4	88.7	94.4	125.7
Primary balance (% of GDP)	-8.4	-5.9	-5.6	-2.9	-2.9	-2.9	-2.9
Real GDP growth (%)	3.3	3.5	3.0	1.6	2.0	2.0	2.0
Avg. nominal effective interest rate (%)	5.6	5.8	5.9	6.1	6.3	6.4	6.5
SRD/USD (annual avg.)	7.5	7.6	8.0	8.3	8.6	8.9	10.3
GDP deflator (%)	8.6	4.8	9.7	9.8	3.0	3.0	3.0

Sensitivity Analysis
Gross General Government Debt
(% of GDP)



Source: Fitch Debt Dynamics Model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.8% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	No change in primary balance from 2018 level
Exchange rate	50% devaluation at end-2019

Forecast Summary

	2015	2016	2017	2018	2019f	2020f	2021f
Macroeconomic indicators and policy							
Real GDP growth (%)	-3.4	-5.6	1.7	3.3	3.5	3.0	1.6
Unemployment (%)	7.2	9.7	7.6	7.5	7.0	6.5	6.0
Consumer prices (annual average % change)	6.9	55.5	22.0	6.8	5.0	10.0	10.0
Short-term interest rate (bank policy annual avg.) (%)	8.1	10.9	17.4	10.1	10.1	10.1	10.1
General government balance (% of GDP)	-9.0	-9.6	-9.5	-12.3	-10.0	-10.0	-7.7
General government debt (% of GDP)	43.2	78.6	77.9	72.1	78.8	81.9	83.4
SRD per USD (annual average)	3.42	6.23	7.49	7.46	7.64	8.03	8.43
Real effective exchange rate (2000 = 100)	166.2	121.6	123.8	132.7	136.1	142.9	150.0
Real private sector credit growth (%)	8.8	-17.0	-17.4	-7.0	-2.7	9.1	9.1
External finance							
Current account balance (% of GDP)	-19.2	-6.4	-0.1	-5.5	-8.1	-5.0	-2.7
Current account balance plus net FDI (% of GDP)	-12.7	5.2	5.2	0.0	-4.9	-2.0	0.1
Net external debt (% of GDP)	27.7	51.3	44.3	42.8	46.6	48.8	45.6
Net external debt (% of CXR)	56.8	76.3	58.1	59.8	68.4	70.8	70.1
Official international reserves including gold (USDbn)	0.3	0.4	0.4	0.6	0.5	0.3	0.3
Official international reserves (months of CXP cover)	1.4	2.4	2.2	2.6	2.2	1.4	1.4
External interest service (% of CXR)	2.6	3.7	4.6	5.1	5.0	4.8	6.2
Gross external financing requirement (% int. reserves)	158.7	198.3	46.8	157.4	87.0	84.1	105.1
Real GDP growth (%)							
US	2.9	1.6	2.2	2.9	2.3	1.8	1.7
China	6.9	6.7	6.9	6.6	6.2	6.0	5.8
Eurozone	2.1	2.0	2.4	1.9	1.2	1.3	1.2
World	2.8	2.6	3.3	3.2	2.8	2.7	2.7
Oil (USD/barrel)	52.4	45.1	54.9	71.6	65.0	62.5	60.0

Note: Real GDP growth for 2018 is a preliminary estimate published by the Central Bank (May 2019), whose new monthly economic activity index tracks the annual GDP survey results closely for the past five years
Source: Fitch Ratings, Central Bank, SDMO, Ministry of Finance, Haver, IFS

Fiscal Accounts Summary

(% of GDP)	2016	2017	2018	2019f	2020f	2021f
General government						
Revenue	**18.0**	**23.0**	**23.5**	**23.8**	**23.6**	**23.6**
Expenditure	**27.6**	**32.5**	**35.8**	**33.8**	**33.6**	**31.3**
O/w interest payments	2.6	3.7	3.9	4.1	4.4	4.8
Primary balance	-7.0	-5.8	-8.4	-5.9	-5.6	-2.9
Overall balance	**-9.6**	**-9.5**	**-12.3**	**-10.0**	**-10.0**	**-7.7**
General government debt	**78.6**	**77.9**	**72.1**	**78.8**	**81.9**	**83.4**
% of general government revenue	436.6	338.4	307.1	330.8	347.3	353.3
Central government deposits	6.3	3.2	4.7	3.0	2.7	2.4
Net general government debt	72.3	74.7	67.5	75.8	79.3	81.0
Central government						
Revenue	**18.0**	**23.0**	**23.5**	**23.8**	**23.6**	**23.6**
O/w grants	0.0	0.8	0.5	0.0	0.0	0.0
Expenditure and net lending	**27.6**	**32.5**	**35.8**	**33.8**	**33.6**	**31.3**
O/w current expenditure and transfers	25.4	27.4	30.6	30.6	29.0	28.3
- Interest	2.6	3.7	3.9	4.1	4.4	4.8
O/w capital expenditure	3.0	5.0	4.6	3.2	4.6	3.0
Current balance	-7.4	-5.1	-7.7	-6.8	-5.4	-4.8
Primary balance	-7.0	-5.8	-8.4	-5.9	-5.6	-2.9
Overall balance	**-9.6**	**-9.5**	**-12.3**	**-10.0**	**-10.0**	**-7.7**
Central government debt	78.6	77.9	72.1	78.8	81.9	83.4
% of central government revenues	436.6	338.4	307.1	330.8	347.3	353.3
Central government debt (SRDbn)	**15.5**	**17.9**	**18.6**	**22.0**	**25.9**	**29.4**
By residency of holder						
Domestic	4.2	5.4	5.8	7.8	10.3	12.6
Foreign	11.3	12.5	12.8	14.2	15.6	16.8
By currency denomination						
Local currency	3.3	4.1	4.1	5.3	7.6	9.8
Foreign currency	12.2	13.8	14.5	16.8	18.3	19.6
In USD equivalent (eop exchange rate)	1.6	1.9	1.9	2.1	2.2	2.3
Average maturity (years)	2.9	8.3	5.3	4.2	4.3	5.6
Memo						
Nominal GDP (SRDbn)	19.7	23.0	25.8	28.0	31.6	35.3

Data notes:
CG total expenditure includes current spending (with interest as reported by SDMO adjusted for gross external bond payments), capital spending, and the statistical discrepancy
Expenditures (cash basis reported by the Ministry of Finance) for 2015-2018 include the clearance of supplier arrears
Fitch analyses government operations government operations on a cash basis (which includes payments of supplier arrears) using published Ministry of Finance statistics because this treatment better explains the scale of the government's financing needs and change in government debt/GDP during 2015-2019, in our view, than the government commitment balance also published by the Ministry of Finance
Fitch values debt at reference period-end market exchange rates. This causes discrepancies of the CG debt/GDP ratios relative to the CG debt/GDP ratios published according to the national debt law by SDMO
The flows of government arrears to suppliers and payments thereof are regularly published by the Ministry of Finance. The stock of government arrears are not publicly disclosed
Fitch views financial system fragilities as a contingency liability for government debt. Financial soundness indicators of the banking system are released periodically for the IMF AIV reports but not published on a regular basis
Source: Fitch Ratings estimates and forecasts and Ministry of Finance

External Debt and Assets

(USDbn)	2014	2015	2016	2017	2018	2019f
Gross external debt	**2.1**	**2.5**	**3.0**	**3.1**	**3.5**	**3.6**
% of GDP	40.0	62.3	111.4	101.5	102.4	101.8
% of CXR	83.1	127.6	165.6	133.0	143.2	149.5
By maturity						
Medium- and long-term	1.9	2.1	2.6	2.8	3.2	3.3
Short-term	0.2	0.4	0.3	0.3	0.3	0.3
% of total debt	9.1	17.0	11.4	10.9	9.6	9.6
By debtor						
Sovereign	**1.5**	**1.8**	**2.5**	**2.5**	**2.4**	**2.5**
Monetary authorities	0.1	0.3	0.3	0.4	0.3	0.4
General government	1.3	1.5	2.1	2.2	2.0	2.1
O/w central government	0.8	0.9	1.5	1.7	1.7	1.8
Banks	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Other sectors	**0.5**	**0.7**	**0.4**	**0.5**	**1.1**	**1.1**
Gross external assets (non-equity)	**1.9**	**1.4**	**1.7**	**1.8**	**2.1**	**2.0**
International reserves, incl. gold	0.6	0.3	0.4	0.4	0.6	0.5
Other sovereign assets nes	0.0	0.0	0.1	0.0	0.0	0.0
Deposit money banks' foreign assets	0.8	0.8	0.7	0.8	1.0	1.0
Other sector foreign assets	0.5	0.3	0.4	0.4	0.5	0.5
Net external debt	**0.2**	**1.1**	**1.4**	**1.4**	**1.5**	**1.7**
% of GDP	4.6	27.7	51.3	44.3	42.8	46.6
Net sovereign external debt	0.8	1.4	2.1	2.1	1.7	1.9
Net bank external debt	-0.7	-0.7	-0.7	-0.8	-0.9	-0.9
Net other external debt	0.6	1.0	0.6	0.5	0.9	0.8
Net international investment position	**-1.4**	**-2.4**	**-2.8**	**-3.0**	**-3.2**	**-3.5**
% of GDP	-25.9	-58.7	-105.5	-98.2	-93.3	-96.9
Sovereign net foreign assets	**-0.8**	**-1.4**	**-2.1**	**-2.1**	**-1.7**	**-1.9**
% of GDP	-14.8	-34.6	-77.5	-67.3	-50.0	-53.6
Debt service (principal & interest)	**0.3**	**0.2**	**0.6**	**0.3**	**0.6**	**0.3**
Debt service (% of CXR)	12.6	12.4	31.3	12.2	24.3	13.8
Interest (% of CXR)	1.6	2.6	3.7	4.6	5.1	5.0
Liquidity ratio (%)	340.3	316.3	110.2	174.9	127.9	228.7
Net sovereign FX debt (% of GDP)	4.9	15.1	47.3	46.4	39.5	46.2
Memo						
Nominal GDP	5.2	4.1	2.7	3.1	3.5	3.6
Inter-company loans	0.3	0.4	0.4	0.4	0.5	0.5

Source: Fitch Ratings estimates and forecasts and Central Bank, IMF, World Bank

Government Debt Service (DOD) Schedule at December 2018

(Disbursed and outstanding debt)	2018	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Sovereign: Total debt service (USDm)	**340**	**305**	**402**	**319**	**301**	**296**	**292**	**283**	**>=550**
Sovereign external debt service (USDm)	**231**	**189**	**203**	**216**	**217**	**224**	**223**	**216**	**>=550**
Amortisation, MLT debt (USDm)	**139**	**97**	**104**	**117**	**121**	**130**	**130**	**128**	**>=550**
Official bilateral (USDm)	24	28	28	35	42	49	48	47	n.d.
Multilateral (USDm)	50	47	54	58	62	67	69	70	n.d.
Commercial loans[b] (USDm)	66	21	23	23	16	14	13	12	n.d.
Bonds placed in foreign markets (USDm)	0	0	0	0	0	0	0	0	550
Amortisation, ST debt (USDm)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**n.d.**
Interest (USDm)	**91**	**92**	**99**	**100**	**97**	**95**	**93**	**88**	**n.d.**
Sovereign domestic debt service (SRDm)	**815**	**873**	**1,496**	**776**	**630**	**537**	**522**	**507**	**n.d.**
Amortisation, ST and MLT debt (ex. Treasuries, SRDm)	**485**	**466**	**1,047**	**392**	**258**	**174**	**166**	**158**	**n.d.**
O/w denominated in foreign currency (SRDm)		431	276	291	169	84	76	74	n.d.
Credit from commercial banks (SRDm)		223	96	81	56	12	12	5	n.d.
O/w denominated in foreign currency (SRDm)		199	82	65	51	7	7	5	n.d.
Supplier credit (SRDm)		243	196	226	117	77	69	69	n.d.
O/w denominated in foreign currency (SRDm)		232	195	226	117	77	69	69	n.d.
Central bank loans and advances (SRDm)	7	0	755	85	85	85	85	85	n.d.
Other domestic[a] (SRDm)		0	0	0	0	0	0	0	n.d.
Memo: Excludes Treasuries (ST, SRDm)		2,568	2,568	2,568	2,568	2,568	2,568	2,568	n.d.
O/w denominated in foreign currency **(SRDm)**		913	913	913	913	913	913	913	n.d.
Interest (SRDm)	**330**	**407**	**449**	**385**	**372**	**363**	**356**	**348**	**n.d.**
Memo: SRD-USD at year-end (SDMO, CBvS projection)	7.46	7.52	7.52	7.52	7.52	7.52	7.52	7.52	n.d.
Memo: SRD-EUR at year-end (SDMO, CBvS projection)		8.94	8.94	8.94	8.94	8.94	8.94	8.94	n.d.

[a] The government addresses supplier arrears as expenditures in the cash-basis government operational balance
[b] Includes ICBC
Source: Fitch Ratings, Suriname Debt Management Office, Central Bank

Balance of Payments

(USDbn)	2016	2017	2018	2019f	2020f	2021f
Current account balance	**-0.2**	**0.0**	**-0.2**	**-0.3**	**-0.2**	**-0.1**
% of GDP	-6.4	-0.1	-5.5	-8.1	-5.0	-2.7
% of CXR	-9.5	-0.1	-7.6	-12.0	-7.2	-4.2
Trade balance	**0.2**	**0.7**	**0.6**	**0.3**	**0.4**	**0.5**
Exports, fob	1.4	2.0	2.1	2.1	2.3	2.3
Imports, fob	1.2	1.3	1.5	1.8	2.0	1.8
Services, net	**-0.3**	**-0.4**	**-0.5**	**-0.3**	**-0.3**	**-0.3**
Services, credit	0.2	0.1	0.2	0.2	0.2	0.2
Services, debit	0.5	0.5	0.6	0.5	0.5	0.5
Income, net	**-0.2**	**-0.5**	**-0.5**	**-0.3**	**-0.3**	**-0.3**
Income, credit	0.0	0.0	0.0	0.0	0.0	0.0
Income, debit	0.2	0.5	0.5	0.3	0.3	0.4
O/w: Interest payments	0.1	0.1	0.1	0.1	0.1	0.2
Current transfers, net	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	0.3	0.1	0.1	0.1	0.1	0.1
O/w equity FDI	0.2	0.1	0.1	0.1	0.1	0.1
O/w portfolio equity	0.0	0.0	0.0	0.0	0.0	0.0
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	0.6	0.1	0.1	-0.1	-0.2	0.0
Gross external financing requirement	0.7	0.2	0.7	0.5	0.4	0.3
Stock of international reserves, incl. gold	0.4	0.4	0.6	0.5	0.3	0.3

Source: Fitch Ratings estimates and forecasts and IMF

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.