STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Research Update:

Republic of Suriname Downgraded To 'B+' From 'BB-' On Weaker External Liquidity And Fiscal Flexibility; Outlook Negative

Primary Credit Analyst:
Stephen Ogilvie, Toronto (1) 416-507-2524; stephen.ogilvie@standardandpoors.com

Secondary Contact:
Joydeep Mukherji, New York (1) 212-438-7351; joydeep.mukherji@standardandpoors.com

Table Of Contents

Research Update:

Republic of Suriname Downgraded To 'B+' From 'BB-' On Weaker External Liquidity And Fiscal Flexibility; Outlook Negative

Overview

- We are lowering our long-term sovereign credit rating on the Republic of Suriname to 'B+' from 'BB-'.
- The downgrade reflects the weakening of the country's external liquidity, fiscal flexibility, and debt burden, stemming from rising recent fiscal and current account deficits.
- We are also lowering our transfer and convertibility assessment on the republic to 'BB-' from 'BB'.
- We are affirming our 'B' short-term rating on Suriname.
- The negative outlook reflects the risk of further economic deterioration during the two-year outlook period.

Rating Action

On April 25, 2016, Standard & Poor's Ratings Services lowered its long-term sovereign credit rating on the Republic of Suriname to 'B+' from 'BB-'. At the same time, Standard & Poor's lowered its transfer and convertibility assessment on the republic to 'BB-' from 'BB'. Standard & Poor's also affirmed its 'B' short-term rating on Suriname. The outlook is negative

Rationale

The downgrade reflects the weakening of Suriname's external liquidity, fiscal flexibility, and debt burden, stemming from rising recent fiscal and current account deficits. Low commodity prices led to falling export earnings, resulting in large trade and current account deficits in 2015. Foreign exchange reserves also fell to SR$1.4 billion in December 2015 from SR$2.1 billion at the beginning of 2015, weakening the country's external position. Higher government spending and sharply lower fiscal revenues from the mining sector resulted in a fiscal deficit of 10% of GDP and boosted the net general government debt burden to 36% of GDP in 2015.

We believe that the prospects for recovery in key external, fiscal, and debt metrics from 2016-2019 are modest. The negative outlook reflects our belief that there is a one-in-three chance that those key metrics could deteriorate further, absent decisive and timely government policies. The government recently announced that it had reached a staff-level agreement with the IMF to enter a two-year, standby agreement for US$478 million. Successful implementation of the agreement, along with likely added funding from other multilateral development banks, could gradually enhance investor confidence, stabilize public finances, and sustain external liquidity.

The value of Suriname's exports fell for the third consecutive year in 2015, weakening the country's current account balance and external position. Low prices, especially for the country's key exports of gold and oil, have resulted in a decline in the value of exports of close to 32% from 2012 to 2015, which led to a trade deficit, the country's first in over a decade. That deficit, coupled with a relatively large deficit in services (related to the construction of the oil refinery), led to a current account deficit of about US$800 million or almost 16% of 2015 GDP, the largest in more than a decade. The central bank's foreign exchange reserves have fallen to less than three months' worth of current account payments. We expect that the current account deficit will narrow to about 8% of GDP in 2016 as exports grow and imports compress. We believe that improving commodity prices, rising gold production at the new Merian mine, and slow import growth could lead to the current account back to balance by 2017.

The average of Suriname's gross external financing requirements is likely to remain at about 100% current account receipts (CAR) and usable reserves in the next three years and its narrow net external debt should average about 42% of CAR. Suriname's external accounts have reflected material data inconsistencies historically.

We project that general government debt could increase by an average of 6.5% of GDP during 2016-2019. The fiscal deficit reached close to 10% of GDP for fiscal 2015, up from 5.7% in 2014. Total revenues fell in 2015 to 18% of GDP from 22% a year earlier due to low commodity prices and the closure of an aluminum mine. Total fiscal revenues (income tax, royalties, and dividend payments) from the mining sector (including oil and gold) fell to 2.0% of GDP in 2015 from 4.4% in 2014 and from a peak of 8.7% in 2012. Spending, on the other hand, increased about 6% in 2015 (due to higher outlays on goods and services and subsidies) and, because of all this, the fiscal deficit widened.

We expect the fiscal deficit to narrow in the next four years as the government implements revenue and expenditure measures. The deficit should fall to close to 5% of GDP by fiscal 2019 from close to 8% in fiscal 2016. If oil or gold prices rise substantially beyond our expectations, fiscal deficits could be smaller than expected.

Suriname's net general government debt rose to 36% of GDP in 2015 from 24% in the previous fiscal year. We expect the net general government debt to GDP ratio to average 38% for the 2016-2018 period. Also, we expect that general government interest burden will be below 10% of government revenues on average from 2016-2019. Both interest and debt burdens will rise in that time.

In fiscal 2015, the government borrowed from the central bank to reduce the debt it owed to the commercial banks. As a result, the banks' exposure to the government (including the central bank) was 18% of their total assets, down from above 20% in the previous year. However, we expect that their exposure will rise back over 20% in the next three years due to the government's high domestic financing needs. Furthermore, 49% of the government's debt was in U.S. dollars in fiscal 2015. The overwhelming majority of external debt is owed to official bilateral and multilateral creditors; only a small portion is owed to external commercial creditors.

Despite a 45% devaluation of the Surinamese currency in April 2015, the country's foreign exchange reserves continued to fall, contributing to a gap between the official and parallel exchange rates. The central bank has responded with periodic auctions of foreign exchange, gradually introducing more flexibility into the exchange rate (which has historically been fixed to the U.S. dollar). It has conducted five auctions to date. The most recent one set the exchange rate at 5.789 Surinamese dollars to one U.S. dollar. The auctions are weekly and relatively small in size, but are slowly bringing the official exchange rate closer to the parallel market rate.

The central bank has limited monetary policy tools; it primarily uses reserve requirements on local and foreign currency deposits to manage credit growth in the local banking system. Financial dollarization, however, remains high, limiting the potential effectiveness of monetary policy. About 58% of deposits and just more than 30% of claims by resident commercial banks and credit unions were foreign-currency denominated at the end of 2015. Accordingly, we have equalized the local and foreign currency ratings on the country.

We project that Suriname's GDP per capita will be US$9,600 in 2016. Despite slumping oil prices and low gold prices, real GDP grew modestly in 2015 (less than 1%) owing to continuing construction work at the Merian gold mine and steady domestic demand. We expect that per capita growth will be 0%-1% for the 2016-2019 period, depending on the path of commodity prices. For 2016, we expect real GDP growth of less than 1% as construction at the Merian mine ends and production begins in the last quarter of the year. Domestic demand in real terms, which loose fiscal policy before the election had sustained, should be flat as the government imposes spending restraint. Because of low commodity prices, Suriname's growth rates in the next four years will be somewhat below those of other countries at the same level of income, after having been higher in the recent past. As a result, we do not believe that the country's trend economic growth is either consistently above or below the average of its peers. The country's medium-term growth prospects should be sustained by the expansion of gold mining, which will partially compensate for the decline in oil prices.

Suriname's government is stable and democratic. The Nationale Democratische Partij (NDP), led by President Desi Bourtese, won a narrow majority (26 out of 51 seats) in the 2015 election. Although the government has and will likely continue to enact economic and financial reforms, some of them unpopular, we expect broad continuity in economic and social policies. Suriname's public sector institutions, however, remain weaker than those of most countries at a similar level of per capita income.

Outlook

We base the negative outlook on the at least one-in-three likelihood of a downgrade in the next two years due to continued erosion of the country's external or debt profile. The formal agreement with the IMF will provide greater clarity about the government's policy agenda and its medium-term economic targets, potentially boosting investor confidence and reducing pressures on the exchange rate. We expect that the government will take steps to boost revenues, curb spending, and move toward fiscal balance in the outlook horizon. We also expect that improving commodity prices will eventually lead to modest but positive GDP growth and stronger exports, reversing the recent deterioration in the current account.

Delays in strengthening the government's revenue base, including through the introduction of a proposed value added tax and curbing spending, could result in persistent high fiscal deficits, further increases in general government debt, and potentially weaken external liquidity. Loose fiscal policy, combined with persistent current account deficits, could further reduce the central bank's foreign exchange reserves, weaken external liquidity, and result in a downgrade.

Successful stabilization of the economy, including steps to boost confidence in the exchange rate, would contain the erosion of public finances. Enhanced access to external funding from official sources would alleviate immediate liquidity pressures in the domestic market and boost foreign exchange reserves. These steps, along with measures to improve business conditions to attract more investment in noncommodity sectors of the economy, would sustain long-term GDP growth and fiscal revenues. We could revise the outlook to stable as a result.

Key Statistics

Table 1

Republic of Suriname -- Select Indicators										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016f**	**2017f**	**2018f**
ECONOMIC INDICATORS (%)										
Nominal GDP (bil. LC)	10.64	11.99	14.45	16.43	16.93	17.19	18.10	24.93	27.55	29.20
Nominal GDP (bil. $)	3.88	4.37	4.42	4.98	5.13	5.21	5.21	5.25	5.01	5.31
GDP per capita (000s $)	7.4	8.2	8.2	9.2	9.3	9.3	9.6	9.6	9.1	9.5
Real GDP growth	3.0	5.2	5.3	3.1	2.8	1.8	0.3	0.2	0.5	1.0
Real GDP per capita growth	1.6	3.8	3.6	2.7	1.2	0.3	3.2	(0.7)	(0.4)	0.1
Exports/GDP	43.6	53.2	64.4	57.7	50.6	45.2	35.6	39.4	47.1	47.5
Unemployment rate	9.0	7.6	7.4	7.4	7.8	8.0	8.0	8.0	8.0	8.0
EXTERNAL INDICATORS (%)										
Current account balance/GDP	2.9	14.9	9.8	3.3	(3.8)	(8.0)	(15.5)	(7.8)	(0.9)	1.0
Current account balance/CARs	6.0	26.1	14.3	5.3	(7.1)	(16.4)	(40.2)	(18.5)	(1.7)	1.9

Table 1

Republic of Suriname -- Select Indicators (cont.)

	2009	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Trade balance/GDP	0.3	15.7	21.9	14.2	4.7	2.5	(7.2)	(1.5)	3.4	4.7
Net FDI/GDP	(2.4)	(5.7)	1.6	3.5	3.7	3.1	5.3	1.4	0.8	0.6
Net portfolio equity inflow/GDP	(0.3)	(0.3)	0.1	(0.1)	(0.0)	0.0	(0.2)	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	78.4	61.9	74.8	79.8	83.6	99.2	121.6	119.9	103.7	94.5
Narrow net external debt/CARs	(48.4)	(32.8)	(18.0)	(23.0)	(11.8)	13.4	47.1	51.4	40.6	33.7
Net external liabilities/CARs	0.7	(5.9)	(9.8)	(1.7)	16.9	45.6	123.4	126.0	115.4	109.0
Short-term external debt by remaining maturity/CARs	9.4	4.1	5.6	6.1	6.3	11.9	17.8	17.7	16.5	16.0
Reserves/CAPs (months)	4.1	4.2	3.1	3.3	4.0	3.0	2.6	1.4	1.7	2.5
FISCAL INDICATORS (%, general government)										
Balance/GDP	(2.1)	(2.5)	(2.0)	(2.7)	(6.1)	(5.7)	(9.8)	(8.4)	(7.1)	(5.8)
Change in debt/GDP	1.3	4.7	4.7	3.9	8.8	(2.7)	14.0	8.4	7.1	5.8
Primary balance/GDP	(1.3)	(1.7)	(1.0)	(1.7)	(4.7)	(4.8)	(8.4)	(6.9)	(5.3)	(3.9)
Revenue/GDP	27.7	21.7	24.5	24.5	23.4	21.8	18.0	18.0	18.0	18.0
Expenditures/GDP	29.8	24.3	26.4	27.2	29.5	27.5	27.9	26.5	25.1	23.9
Interest /revenues	2.7	3.9	4.1	3.9	5.7	4.1	8.0	8.7	9.8	10.8
Debt/GDP	15.6	18.5	20.0	21.4	29.6	26.5	39.2	36.9	40.5	44.0
Debt/Revenue	56.3	85.0	81.6	87.6	126.8	121.6	217.2	204.5	224.5	244.2
Net debt/GDP	8.8	13.5	12.3	16.4	23.1	24.2	35.7	34.2	38.1	41.8
Liquid assets/GDP	6.8	5.0	7.7	5.0	6.5	2.4	3.5	2.6	2.4	2.2
MONETARY INDICATORS (%)										
CPI growth	(0.1)	6.9	17.7	5.0	1.9	3.4	29.5	37.5	10.0	5.0
GDP deflator growth	6.5	7.2	14.5	10.3	0.2	(0.3)	5.0	37.4	10.0	5.0
Exchange rate, year-end (LC/$)	2.75	2.75	3.30	3.30	3.30	3.30	4.00	5.50	5.50	5.50
Banks' claims on resident non-gov't sector growth	12.5	12.8	20.0	15.7	18.0	8.5	16.3	39.6	12.4	7.9
Banks' claims on resident non-gov't sector/GDP	25.4	25.4	25.3	25.7	29.5	31.5	34.8	35.3	35.9	36.5
Foreign currency share of claims by banks on residents	44.1	39.3	41.1	40.6	39.4	33.6	37.2	36.8	36.2	35.6
Foreign currency share of residents' bank deposits	52.8	50.0	55.8	52.3	52.8	52.9	57.7	57.7	57.7	57.7

Note: 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. The data and ratios above result from Standard & Poor's own calculations, drawing on national as well as international sources, reflecting Standard & Poor's independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. LC--Local currency. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. f--Forecast.

Ratings Score Snapshot

Table 2

Republic of Suriname -- Ratings Score Snapshot	
Key rating factors	**Assessment**
Institutional assessment	Weakness
Economic assessment	Neutral
External assessment	Neutral
Fiscal assessment: flexibility and performance	Weakness
Fiscal assessment: debt burden	Neutral
Monetary assessment	Weakness

Note: Standard & Poor's 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). Section V.B of Standard & Poor's "Sovereign Rating Methodology," published on Dec. 23, 2014 , summarizes how the various factors are combined to derive the sovereign foreign currency rating, while section V.C details how the scores are derived. The ratings score snapshot summarizes whether we consider that the individual rating factors listed in our methodology constitute a strength or a weakness to the sovereign credit profile, or whether we consider them to be neutral. The concepts of "strength", "neutral", or "weakness" are absolute, rather than in relation to sovereigns in a given rating category. Therefore, highly rated sovereigns will typically display more strengths, and lower rated sovereigns more weaknesses. In accordance with Standard & Poor's sovereign ratings methodology, a change in assessment of the aforementioned factors 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 assessments.

Related Criteria And Research

Related Criteria

- Sovereign Rating Methodology, Dec. 23, 2014
- General Criteria: Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Criteria For Determining Transfer and Convertibility Assessments, May 18, 2009

Related Research

- The Republic of Suriname, May 12, 2015

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 agreed that "key rating factor" had improved/deteriorated and that the "key rating factor" had improved/deteriorated. All other key rating factors were unchanged.

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

Downgraded

	To	From
Suriname (The Republic of)		
Sovereign credit rating	B+/Negative/B	BB-/Stable/B
Transfer and convertibility assessment		
Local currency	BB-	BB

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 criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.