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	B−

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Suriname

(USDbn)	2018
GDP	3.6
GDP per head (USD 000)	6.3
Population (m)	0.6
International reserves	0.6
Net external debt (% GDP)	31.1
Central government total debt (% GDP)	62.9
CG foreign-currency debt	1.8
CG domestically issued debt (SRDbn)	4.3

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

Related Research

Global Economic Outlook (June 2018)

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Key Rating Drivers

Ratings Affirmed: The ratings reflect Suriname's weak public finances relative to 'B' peers, external vulnerabilities resulting from high commodity dependence amid limited external buffers, macro policy framework weaknesses, recent macro instability, and banking contingent liabilities. Mining sector activity is supporting growth, while commodity revenues contribute to a gradual narrowing in the fiscal imbalance and strengthening in the balance of payments.

Slower Fiscal Consolidation: Fitch Ratings expects Suriname's central government (CG) deficit to fall gradually from 7.9% of GDP in 2017 to 6.1% in 2018 toward 5.4% in 2020, driven by stronger oil and gold export performance. The Bouterse administration indefinitely postponed a value-added tax (VAT) in 1H18, which we had expected to raise annual net tax revenues by 2pp of GDP.

Financing Pressures: Net multilateral disbursements are restricted. The CG increased reliance on higher-cost and shorter-term domestic treasury issuance and external market financing in 2017. A one-time debt reduction operation will create more headroom particularly in the local market in 2018. However, financing remains a risk for CG debt sustainability relative to 'B' peers.

Weak Public Debt Dynamics: Loan prepayments will decrease CG debt/GDP to 62.9% at end-2018 from 71.1% in 2017. However, primary deficits and financing costs are expected to lift the CG debt burden toward 66% in 2020. Suriname's debt and interest burden, 16.5% of revenue in 2017, exceed the 'B' medians.

Commodity Cycle Improves External Flows: Fitch expects stronger gold and oil export performance and mining investment to sustain the current account balance (CAB) plus net foreign direct investment (FDI) in surplus at 3.5% of GDP in 2018. Net external debt/current external receipts (CXR) is projected to decrease to 47.3% in 2018, below the current 'B' median of 60%, in part due to liability management operations.

External Vulnerabilities Exceed 'B' Median: Suriname's sovereign net foreign asset (-liability)/GDP position and commodity export dependence/CXR ratios well exceed the 'B' medians. The country's external debt service relative to CXR is higher. International reserves are slowly rebuilding but provide a limited buffer against commodity shocks.

Recovering Macro, Growth Below 'B' Peers: Suriname's economy is recovering with 2.7% expansion forecast in 2018, reflecting mining investment, although its medium-term prospects are below 'B' peers. Fitch expects inflation to recede to 7% yoy at end-2018. Suriname's medium-term growth prospects and recent macro performance are weaker than 'B' medians.

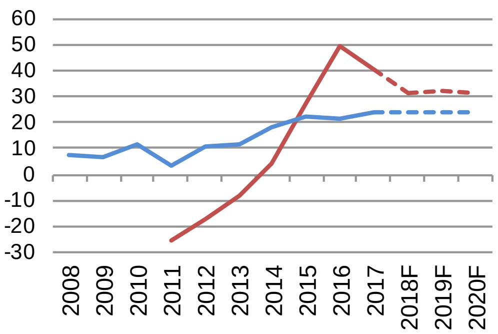
Rating Sensitivities

Fiscal Consolidation: The main factors that could lead to a positive rating action, individually or collectively, are: consolidation of public finances that places central government debt on a downward path; strengthening of the external balance sheet and liquidity buffers; and stronger investment and economic growth prospects.

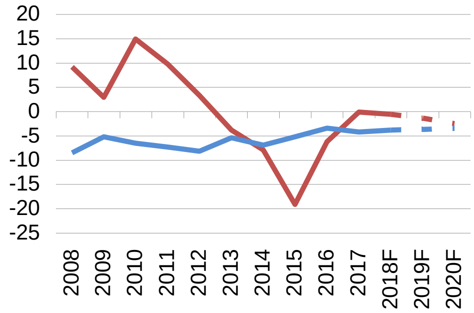
Financing Constraints: The main factors that could lead to a negative rating action, individually or collectively, are: worsening of financing constraints; and weakening of the sovereign's external debt service capacity.

Peer Comparison

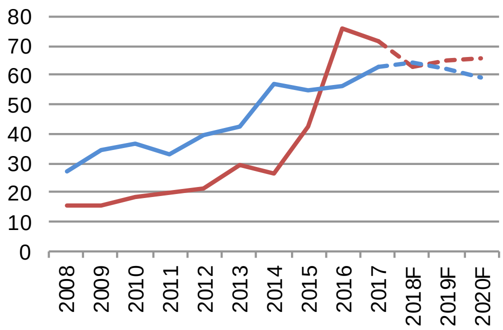
Net External Debt
% of GDP



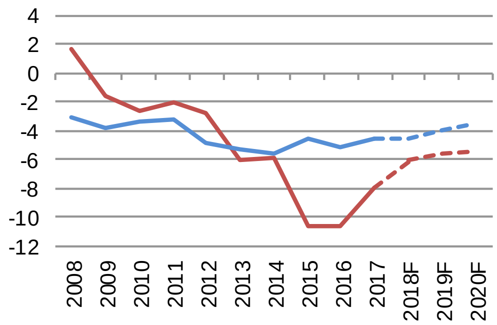
Current Account Balance
% of GDP



General Government Debt
% of GDP

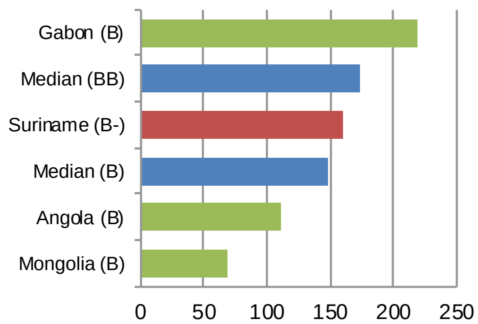


General Government Balance
% of GDP

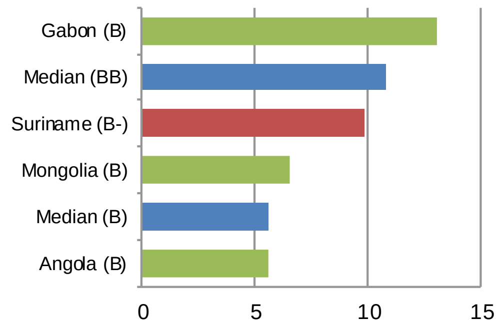


Suriname Median(B)

International Liquidity Ratio, 2018f
%



GDP per Capita Income, 2018f
At market exchange rates, USA = 100



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 (July 2018)
Country Ceilings Criteria (July 2018)

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' category
Source: Fitch

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. Natural resource exports (mainly gold and oil) backed 84.5% of CXR and 22.6% of government revenues in 2017.

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

The government's external balance sheet is weaker than the 'B' median. Suriname's sovereign net foreign asset (-liability)/GDP and external debt service/CXR ratios, at -41.5% and 17.6%, respectively, exceed the 'B' medians of -13.2% and 11.9% for 2018.

Financial system capitalisation is weaker than peers', posing a contingent liability.

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 limited development of the alternative 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, ie: 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.

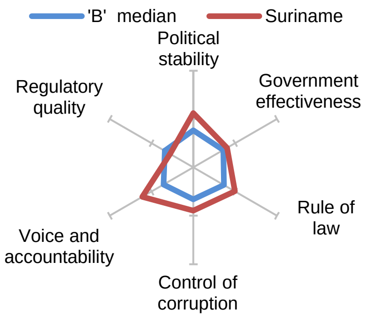
Peer Group

Rating	Country
B	Angola
	Argentina
	Belarus
	Cabo Verde
	Cameroon
	Egypt
	Ethiopia
	Gabon
	Ghana
	Jamaica
	Mongolia
	Nicaragua
	Pakistan
	Zambia
B−	Suriname
	Ecuador
	El Salvador
	Iraq
	Lebanon
	Ukraine
CC	Congo, Republic of
RD	Mozambique
	Venezuela

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



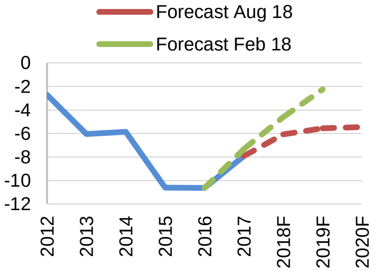
Source: World Bank 2016, Fitch

Strengths and Weaknesses: Comparative Analysis

2018	Suriname B−	B median[a]	BB median[a]	Angola B	Gabon B	Mongolia B
Macroeconomic performance and policies						
Real GDP (5yr average % change)	-0.6	4.7	4.2	2.3	2.6	4.4
Volatility of GDP (10yr rolling SD)	3.3	2.8	2.5	1.9	2.5	5.8
Consumer prices (5yr average)	19.0	8.5	5.7	21.9	2.4	6.0
Volatility of CPI (10yr rolling SD)	16.6	4.9	3.5	10.0	1.4	4.2
Unemployment rate (%)	12.7	8.7	9.2	7.7	19.0	8.0
Type of exchange rate regime	Managed float	n.a.	n.a.	Managed float	Currency union	Managed float
Dollarisation ratio (% of bank deposits)	69.0	32.0	39.4	0.0	-	-
Reer volatility (10yr rolling SD)	9.8	6.9	6.8	6.1	2.7	13.5
Structural features						
GDP per capita (USD, mkt exchange rates)	6,302	3,485	6,894	3,485	8,131	4,179
GNI per capita (PPP, USD, latest)	14,460	8,220	14,310	6,090	16,720	11,420
GDP (USDbn)	3.6	n.a.	n.a.	107.6	16.9	13.1
Human development index (percentile, latest)	48.1	40.6	52.0	20.3	42.2	50.8
Governance indicator (percentile, latest)[b]	46.6	37.8	43.7	15.8	27.4	53.1
Broad money (% GDP)	65.2	37.7	47.1	30.4	18.0	64.8
Default record/restructuring event (year cured)[c]	2002	n.a.	n.a.	2006	2004	1997
Ease of doing business (percentile, latest)	13.3	38.9	51.4	8.0	12.2	67.8
Trade openness (avg. of CXR + CXP % GDP)	66.1	40.0	47.2	36.0	44.3	67.5
Gross domestic savings (% GDP)	n.d.	15.3	17.5	-	39.1	38.5
Gross domestic investment (% GDP)	n.d.	22.5	21.9	-	31.0	36.2
Private credit (% GDP)	28.7	24.1	35.1	15.1	9.6	48.4
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	-/1	-/1	6/1
Bank system capital ratio[g] (% assets, 2017e)	7.2	15.2	15.5	18.0	n.d.	n.d.
Foreign bank ownership (% assets, 2017)	16.1	36.8	35.4	0.0	n.d.	n.d.
Public bank ownership (% assets, 2017)	23.3	18.3	16.3	23.7	n.d.	n.d.
External finances						
Current account balance + net FDI (% GDP)	3.5	-1.2	0.8	-1.7	7.5	-1.2
Current account balance (% GDP)	-0.6	-4.2	-2.6	2.0	-1.8	-11.9
Net external debt (% GDP)	31.1	15.0	9.6	-20.0	33.1	180.6
Gross external debt (% CXR)	129.8	131.5	113.4	175.0	100.5	362.9
Gross sovereign external debt (% GXD)	71.9	62.0	47.3	54.7	93.9	33.4
Sovereign net foreign assets (% GDP)	-41.5	-13.2	-2.8	2.8	-34.1	-46.9
Ext. interest service ratio (% CXR)	5.6	3.7	3.9	10.3	3.8	14.4
Ext. debt service ratio (% CXR)	17.6	11.9	13.4	21.7	7.8	24.6
Foreign exchange reserves (months of CXP)	3.2	3.9	4.4	7.4	1.8	4.5
Liquidity ratio (latest)[e]	158.6	174.0	154.2	110.2	219.6	69.1
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	84.5	33.6	21.7	91.7	82.2	76.8
Sovereign net foreign currency debt (% GDP)	32.6	13.9	2.3	15.3	34.1	33.1
Public finances[f]						
Budget balance (% GDP)	-6.1	-3.7	-2.7	-5.4	-0.4	-3.9
Primary balance (% GDP)	-3.0	-1.1	-0.3	-1.3	2.0	0.1
Gross debt (% revenue)	311.1	204.7	155.3	391.4	335.1	277.0
Gross debt (% GDP)	62.9	46.3	39.0	67.5	61.2	75.3
Net debt (% GDP)	61.9	39.9	32.8	55.4	54.7	65.2
Foreign currency debt (% total debt)	79.9	67.8	61.4	54.8	66.9	80.8
Interest payments (% revenue)	15.4	8.7	9.4	23.9	13.3	14.7
Revenues and grants (% GDP)	20.2	23.7	24.7	17.3	18.3	27.2
Volatility of revenues/GDP ratio	14.7	9.1	6.2	12.2	23.0	12.2
Central govt. MT-LT debt maturities (% GDP)[h]	8.2	5.5	5.1	16.2	3.1	8.9

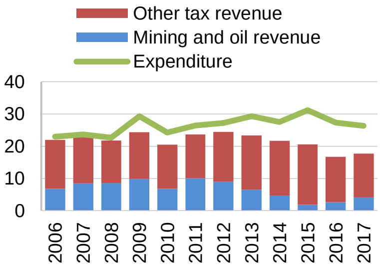
[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World 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 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: Central Government in the case of Suriname
[g] Analyst estimate: weighted average of top three banks by assets based on year-end 2017 data from published annual reports
[h] CG total maturities are 8.2% of GDP in 2018, including 4.0pp ST domestic maturities (mostly treasury instruments) and 4.2pp amortisation of MT-LT CG debt
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

Budget Gap
(CG overall balance, % GDP)



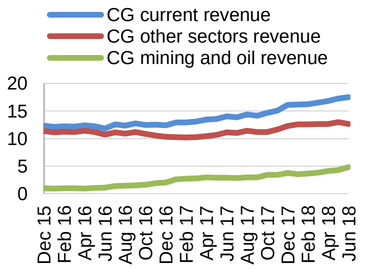
Source: Ministry of Finance, Fitch

Volatile Fiscal Revenue
(% GDP)



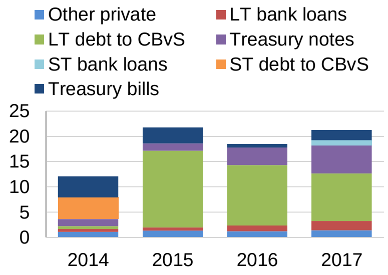
Source: Ministry of Finance, Fitch

Mining, Oil Revenue Gains
(12-month moving sum, % 2018 GDP)



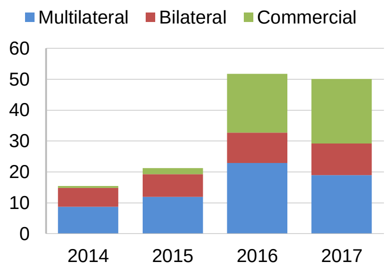
Source: Ministry of Finance, CBvS, Fitch

Domestic Debt
(% GDP)



Source: SDMO, Fitch

External Debt
(% GDP)



Source: SDMO, Fitch

Key Credit Developments[1]

Large Government Deficit

The final CG primary deficit for 2017, at 4.9% of GDP, was down from close to 9% of GDP in 2015-2016, although larger than preliminary estimates. The final overall CG deficit was 7.9% of GDP in 2017 (see fiscal data adjustments on page 10).

The CG raised current revenues to 17.7% of GDP in 2017 from 16.7% of GDP in 2016, through tax administration measures and stronger gold and oil performance. However, CG revenue remains below its pre-oil-shock five-year average of 23.1% of GDP during 2010-2014, contributing to the budget gap.

Expenditure narrowed to 22.1% of GDP in 2017 from 22.9% of GDP in 2016, reflecting lower cash payments to clear supplier arrears, wage bill restraint, and reductions in non-electricity subsidies and transfers. Financing costs nonetheless rose to 3.0% of GDP in 2017 from 1.6% of GDP in 2016.

VAT Postponement Slows Fiscal Consolidation

Fiscal consolidation is expected to proceed more slowly with greater reliance on gains from commodity revenue performance in lieu of structural reforms. The Bouterse administration postponed indefinitely in 1H18 parliamentary consideration of VAT – which was to yield +2pp net tax gains (at an estimated 15% rate) and to be implemented 1 July. Suriname's budget gap partly reflects Suriname's volatile commodity revenue base, but also its fiscal structure constraints: non-financial expenditure remained more than 120% of revenue during 2013-2017.

Fitch expects stronger oil and gold export performance to reduce Suriname's CG deficit to 6.1% of GDP in 2018. New mining production and higher fiscal contributions – higher income tax receipts from the Merian gold mine during 2019-2020 and fiscal contributions from the Saramacca gold mine forecast for 2020 – could lower the deficit toward 5.4% of GDP in 2020, on Fitch's estimates. We have removed the VAT gains from our 2019-2020 forecasts (a key difference from our last review). This will be partly offset by the electricity subsidy (sensitive to international fuel prices), an increasing wage bill pressure ahead of parliamentary elections due in May 2020, and an additional 0.5% of GDP per year (Fitch estimate) in election-related spending during 2019-2020.

The preliminary CG overall deficit for 1H18 is an estimated 4.3% of GDP, with a 2.7% of GDP primary deficit, according to preliminary CG data adjusted for interest.

Downside risks to fiscal consolidation include: financing cost pressure; commodity shocks; parliamentary elections that are competitive, producing fiscal slippage as occurred during the 2010 and 2015 election cycles; and political delays of structural reforms.

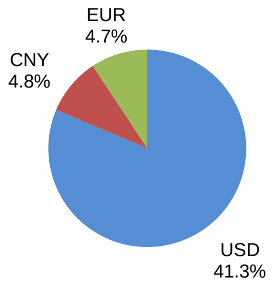
Financing Pressure

Financing costs are steep for the Suriname CG. The CG interest/revenue ratio jumped to 16.5% in 2017 from 9.9% in 2016. Pressure on the domestic market increased in 2017 as the government placed 5.4% of GDP, mainly through treasury bills and notes with banks (the stock of which reached 8% of GDP at December 2017). The government's ability to place standardised treasury instruments in the local market to this degree is a material advancement for domestic capital market development relative to past monetisation practices[2]. However, the average annual yields on SRD t-bills and notes are high: they were 14% and 18% with

[1] Economic forecasts were provided by CBvS and the Planning Office. Preliminary 2018 fiscal data and forecast estimates were provided by the Ministry of Finance; Fitch adjusted the latter. Other forecasts of the public finances, balance of payments, exchange rate and inflation are Fitch's expectations based on conversations with the Ministry of Finance, CBvS, business stakeholders and analysts.

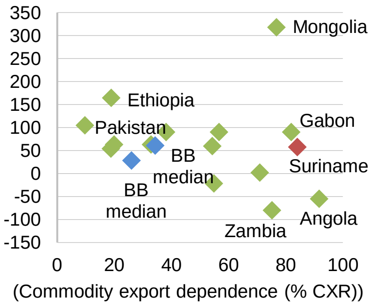
[2] CBvS held 9% of GDP of CG debt (most consolidated in a long-term loan) in 2017, down from 15% in 2015.

External Debt by Currency
(% of GDP, 2017)



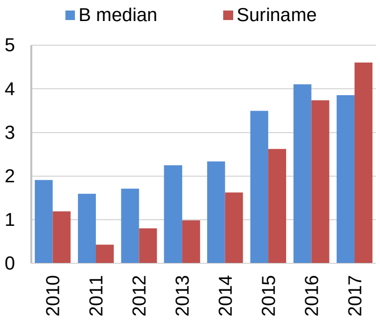
Source: SDMO, CEIC, Fitch

External Vulnerability
(Suriname vs. 'B' and 'B-' Peers, 2017)
(Net external debt (% of CXR))



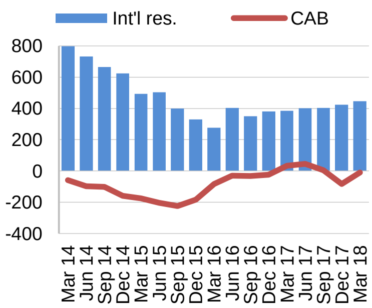
Source: National authorities, Fitch

Rising Ext. Interest/CXR
(%)



Source: IMF-IFS, CBvS, Fitch

Slow Int'l Reserve Building
(USDm)



Source: IMF-IFS, CBvS, Fitch

comparatively short-term average 10- and 24-month maturities, respectively, as of July 2018 and December 2017. Fitch assumes the treasury rates will reduce in 2H18 but remain above prudent levels until the budget gap is closed. The CG has also issued treasuries in US dollars and euros, which although small represent a weakness in the domestic debt profile.

Delays of multilateral disbursements (the IMF concluded the last Article IV consultation in January 2017) have also increased CG reliance on bilateral loans from China (9% of external debt at December 2017), higher-cost short-term external commercial credit (a USD46.5 million 18-month note at 9% closed the 2017 financing gap), and domestic commercial three- to nine-year loans with interest rates of 5%-9% (as of 1Q18). Net multilateral disbursements were negative for January-May 2018 and only USD7 million for January-December 2017.

The government earmarked at least USD114.1 million of the USD337.5 million proceeds from Staatsolie[3] in May to retire expensive debt or pre-finance external debt service. External debt of USD84.2 million is being prepaid (including a June 2019 commercial maturity) and USD13 million of t-bills (approved to date) is being retired with the CG aim to create more headroom in the local treasury market during 2H18. Use of the remaining proceeds is unspecified but could include asset acquisitions[4].

Public Debt Drives External Vulnerability Despite Commodity Cycle Upswing

Suriname's government external balance sheet remains weak. Sovereign net foreign assets (-liabilities) are expected at -42% of GDP relative to -13% for the 'B' median in 2018, while three-quarters of CG debt is FC-denominated with a substantial degree of the available new financing obtained at high interest rates with less concessional terms since 2016.

However, stronger performance of oil and gold exports is leading to a recovery in some country-level indicators. Suriname's net external debt/CXR is forecast to reduce to 47%, below the 'B' median of 60% in 2018, although the high (9%-9.25%) interest rates on the government's external commercial debt issued in 2016-2018 have increased the country-level external interest/CXR ratio to 5.6% in 2018 (from less than 3% over the decade preceding 2016), above the current 'B' median of 3.7%.

CXR grew 31% yoy in 2017 after contracting for the preceding four years. The new Merian gold mine produced 513K troy oz gold exports in 2017, while the older Rosebel mine's production stepped up to 318K troy oz gold exports thanks to technological upgrades and cost management. Higher international oil prices (Brent average of USD54.9/barrel) lifted Staatsolie's profitability on its 16.5K bpd sustained onshore crude production and supported refining margins on its 2.66 million barrels of refined products.

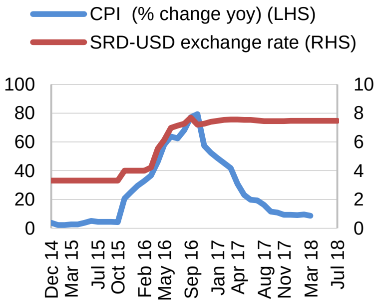
Current Account Returns to Deficit, Financed by FDI

International reserves accumulated slowly in 2017, up only USD40 million, despite the robust CXR growth (goods exports rose USD587 million) in 2017 relative to 2016. Suriname registered a small current account deficit (CAD) of 0.1% of GDP for full-year 2017 and a deficit in 1Q18, contrary to our prior expectation of surpluses. Large mining primary income payments and policies favouring SRD/USD exchange rate stability supporting (still tepid) import demand

[3] On 25 May 2018, Staatsolie refinanced more expensive commercial and on-lent CG debt with a USD625 million syndicated loan. With USD337.5 million of the proceeds, Staatsolie prepaid a USD261.5 million loan from the CG (which had terms pari-passu to the CG 2026 global bond) and the firm purchased for USD76 million from the CG 5% of the equity interest in the Merian gold mine (raising Staatsolie's share to 25%).

[4] The government is taking a 30% equity stake in the new Saramacca gold deposit concessioned to IAMGold. It is unclear whether the CG will contribute upfront cash development costs (potentially USD30 million for an approximate USD100 million consolidated investment) or compensate IAMGold with the equivalent share of the first gold mined. The former approach would increase the CG's financing needs in 2018-2019; the latter approach would delay material fiscal proceeds from the Saramacca mine well into 2020.

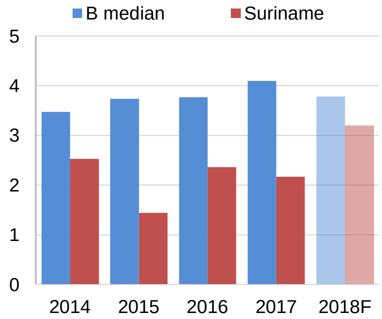
Exchange Rate Stability Subdues Inflation



Source: IMF-IFS, CBvS, Fitch

Int'l Reserves Coverage

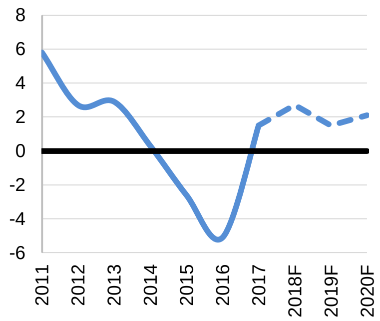
(Months of current ext. payments)



Source: IMF-IFS, CBvS, Fitch

GDP Growth

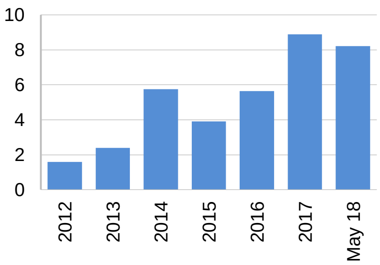
(% change)



Source: CBvS, Fitch

Rising Bank Asset Exposure to Government

(Bank claims on the central government, % GDP)



Source: CBvS, Fitch

contribute to CXP growth. Net foreign direct investment (FDI) financed the CAD in 2017. Net errors and omissions outflows remain large (greater than USD100 million annually).

Fitch expects the CAD to widen from 0.6% of GDP in 2018 toward 2.5% of GDP in 2020 as import demand strengthens. Rising wage demands amid policies favouring SRD/USD stability should facilitate the recovery of real household incomes. Fitch expects the greater household demand, higher average fuel costs during 2018-2020 relative to 2017, and potential election-related auxiliary fiscal spending to stimulate imports, keeping the CA in deficit under the current policy mix. IAMGold is developing a new Saramacca gold deposit (to yield 70K-90K troy oz per year) that will lift gold exports when it starts production in 4Q19, but which we expect to not fully offset import demand. Net FDI, forecast at USD100 million-USD150 million per year during 2018-2020, is expected to keep Suriname's CAB+net FDI/GDP ratio in surplus at 3.5% in 2018, stronger than the 'B' median.

Central Bank to Unwind FC Swaps From Local Banks

The central bank (CBvS) is using a portion of the Staatsolie-related foreign exchange proceeds to unwind approximately USD115 million swapped from resident banks in 2016, of which at least USD25 million is to be re-deposited as FC required reserves. Separately, CBvS renewed a RMB1 billion three-year swap facility from the People's Bank of China (4.8% of GDP of Suriname's external debt is RMB-denominated, and trade and investment ties are growing).

External Liquidity Indicators to Improve in 2H18

The CG also deposited at CBvS earmarked debt-cancellation and pre-financing funds (excluded from international reserves (IR)). This somewhat reduces near-term pressure on IR, USD564.6 million as of July, on which the CG otherwise relies to meet external interest payments (including USD25 million semi-annual interest payments each due in October and April for the 2026 bond). Staatsolie will no longer directly support service of the 2026 bond (ie, only indirectly through the firm's usual royalty, tax and dividend transfers to the CG paid in both US and Suriname dollars after part of the electricity subsidy is netted off).

Fitch estimates Suriname's external liquidity metrics are aligning with the 'B' median in 2018 as a result of the transactions this year. The narrow indicator, months of IR coverage of current external payments, is at 3.2 compared with 3.9 for the 'B' median in 2018. The broader country-level indicator (including commercial banks' foreign deposits[5] and Staatsolie's current assets[6] and liabilities), the international liquidity ratio, is projected to rise above 200% for 2019 from 158.6% in 2018, in part due to the improvement of Staatsolie's external debt service schedule resulting from its refinancing of CG and commercial debt (secured amid low oil prices) in May.

Macro Recovery, Tepid Private Non-Mineral Investment

Mining investment is expected to drive the economy's recovery with 2.7% growth in 2018, while private non-mineral investment and consumption are subdued. The economy returned to positive 1.5% growth in 2017 following a commodity-driven economic contraction in 2015-2016. Looking forward, Fitch expects recovered oil export prices, higher gold production, public wage increases, and 0.5pp GDP estimated for election-related public spending for 2019-2020 to support 1.8% average real growth in 2019-2020.

Inflation subsided to 8.6% yoy in March, after averaging 22% in 2017 and 55% in 2016. Fitch expects that inflation could ebb to 7% at end-2018 amid SRD/USD stability and absent large fuel-price shocks.

[5] Surinamese banks are permitted to hold a large share of their FC required reserves abroad. Suriname eliminated FC surrender requirements in 2011.

[6] Staatsolie's FC earnings are not consolidated in IR unless they are remitted as royalties, taxes and dividends to the CG and then sold to CBvS. The firm maintains foreign cash deposits to service debt.

Financial system stability is gradually improving, reducing the fiscal contingent liability. The largest bank's capital ratio is still below CBvS's 10% regulatory minimum[7], with others reporting above. Commercial bank asset exposure to the CG has risen since 2012 to 9% of GDP (12% of assets) in 2017, as a result of CG borrowing and treasury market development. Net bank financing is to decrease during 2H18, but Fitch expects the CG to resume treasury placements during 2019-2020 if multilateral credit remains restricted.

Correspondent banking relationships have been affected by anti-money-laundering-and-the-combatting-of-terrorism (AML/CFT) concerns. Two Dutch commercial banks have closed Suriname resident accounts over the past few years. Commercial payments in euros also declined in 1H18 after Dutch law enforcement authorities seized two payments from Suriname banks. CBvS has temporarily compensated the originating banks; however, export-import payments in euros have reduced, by private sector reports.

Military Court Case

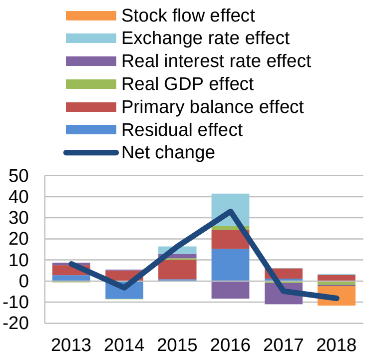
A military court case against President Bouterse, related to the execution of 15 opposition civilians in December 1982, could render a final judgement during late 2018. An amnesty law applies to President Bouterse as a currently serving president in the instance of a parallel longer-running judicial case for the civilian deaths. Any legal announcement is not expected to affect Suriname's macro policies or political stability.

[7] The capital ratios of the first- and second-largest banks by assets, DSB Bank and Hakrink Bank, improved to 4.38% and 10.7% respectively at end-2017 (from 2.7% and 9.5% respectively in 2016), according to their annual reports.

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.

CG Debt Dynamics Components

Change in CG debt (% GDP)



Source: Fitch debt dynamics model

Public Debt Dynamics

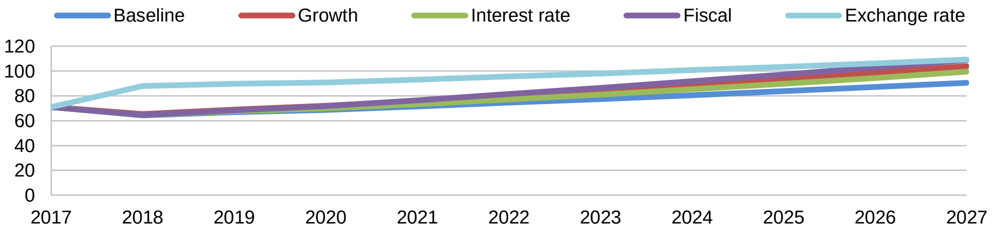
Fitch expects the debt retirement operation to reduce CG debt/GDP to 62.9% at end-2018 from 71.1% in 2017. The baseline scenario assumes that primary deficits and financing costs raise the debt burden above 70% again by 2022. The sustainability of Suriname's public debt dynamics is weaker than 'B' peers and is vulnerable to shocks of commodity revenues, election spending pressures, real interest rates, access to concessional multilateral financing, and exchange rates.

Debt Dynamics: Fitch's Baseline Assumptions

	2017	2018	2019	2020	2021	2022	2027
Gross general government debt (% of GDP)	71.1	62.9	64.7	66.0	68.5	71.1	85.7
Primary balance (% of GDP)	-4.9	-3.0	-3.0	-2.7	-2.7	-2.7	-2.7
Real GDP growth (%)	1.5	2.7	1.5	2.1	2.0	2.0	2.0
Avg. nominal effective interest rate on commercial debt (%)	8.0	10.1	9.9	9.9	10.0	10.0	10.0
SRD/USD (annual avg.)	7.5	7.5	7.6	7.6	7.7	7.8	8.2
GDP deflator	20.9	6.8	6.9	6.9	5.0	5.0	5.0

Sensitivity Analysis

Gross general government debt (% GDP)



Source: Fitch debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.7% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	Primary balance unchanged from 2017 level
Exchange rate	50% depreciation at end-2018 (omits secondary effects for CPI)

Forecast Summary

	2014	2015	2016	2017	2018f	2019f	2020f
Macroeconomic indicators and policy							
Real GDP growth (%)	0.3	-2.6	-5.1	1.5	2.7	1.5	2.1
Unemployment (%)	5.5	7.2	9.7	10.7	12.7	12.2	11.7
Consumer prices (annual average % change)	3.4	6.9	55.5	22.0	7.0	7.0	7.0
Short-term interest rate (bank policy annual avg.) (%)	5.8	8.1	10.9	17.4	16.6	16.6	16.6
General government balance (% of GDP)	-5.9	-10.6	-10.6	-7.9	-6.1	-5.6	-5.4
General government debt (% of GDP)	26.4	42.8	75.8	71.1	62.9	64.7	66.0
SRD per USD (annual average)	3.30	3.42	6.23	7.49	7.50	7.57	7.65
Real effective exchange rate (2000 = 100)	160.9	166.2	121.6	123.8	132.4	140.3	148.8
Real private sector credit growth (%)	5.0	8.8	-17.0	-17.4	-10.2	9.3	9.3
External finance							
Current account balance (% of GDP)	-7.9	-19.1	-6.2	-0.1	-0.6	-1.4	-2.5
Current account balance plus net FDI (% of GDP)	-4.8	-12.6	5.1	4.8	3.5	2.5	1.1
Net external debt (% of GDP)	4.6	27.5	49.6	40.3	31.1	32.6	31.0
Net external debt (% of CXR)	9.5	56.8	76.3	57.6	47.3	52.4	52.8
Official international reserves including gold (USDbn)	0.6	0.3	0.4	0.4	0.6	0.7	0.7
Official international reserves (months of CXP cover)	2.5	1.4	2.4	2.2	3.2	3.2	3.3
External interest service (% of CXR)	1.6	2.6	3.7	4.6	5.6	5.4	5.4
Gross external financing requirement (% int. reserves)	89.0	158.7	198.3	46.8	72.5	65.7	63.8
Real GDP growth (%)							
US	2.6	2.9	1.5	2.3	2.8	2.5	2.1
China	7.3	6.9	6.7	6.9	6.6	6.3	6.1
Eurozone	1.3	2.1	1.8	2.4	2.3	1.8	1.5
World	2.8	2.8	2.5	3.3	3.3	3.2	3.0
Oil (USD/barrel)	98.9	52.4	45.1	54.9	70.0	65.0	57.5

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2015	2016	2017	2018f	2019f	2020f
General government						
Revenue[a]	**20.6**	**16.7**	**18.4**	**20.2**	**21.4**	**21.8**
Expenditure[b, c]	**31.2**	**27.3**	**26.3**	**26.3**	**26.9**	**27.2**
O/w interest payments[a]	1.5	1.6	3.0	3.1	2.6	2.7
Primary balance	-9.1	-9.0	-4.9	-3.0	-3.0	-2.7
Overall balance	**-10.6**	**-10.6**	**-7.9**	**-6.1**	**-5.6**	**-5.4**
General government debt	**42.8**	**75.8**	**71.1**	**62.9**	**64.7**	**66.0**
% of general government revenue	207.7	454.9	386.5	311.1	302.5	303.3
Central government deposits	3.1	6.1	3.0	1.0	1.0	1.0
Net general government debt	39.7	69.8	68.1	61.9	63.7	65.0
Central government						
Revenue	**20.6**	**16.7**	**18.4**	**20.2**	**21.4**	**21.8**
O/w grants	0.0	0.0	0.7	0.3	0.0	0.0
Expenditure and net lending[b, c]	**31.2**	**27.3**	**26.3**	**26.3**	**26.9**	**27.2**
O/w current expenditure and transfers	27.7	22.9	22.1	22.9	23.0	23.3
- Interest[a]	1.5	1.6	3.0	3.1	2.6	2.7
O/w capital expenditure	2.6	2.7	3.4	3.4	3.4	3.4
Current balance	-7.1	-6.2	-4.5	-3.0	-1.7	-1.5
Primary balance	-9.1	-9.0	-4.9	-3.0	-3.0	-2.7
Overall balance	**-10.6**	**-10.6**	**-7.9**	**-6.1**	**-5.6**	**-5.4**
Central government debt[d]	42.8	75.8	71.1	62.9	64.7	66.0
% of central government revenues	207.7	454.9	386.5	311.1	302.5	303.3
Central government debt (SRDbn)[d]	**7.1**	**15.5**	**17.8**	**17.3**	**19.3**	**21.5**
By residency of holder						
Domestic	3.6	4.2	5.4	4.3	5.1	5.9
Foreign[d]	3.5	11.3	12.5	13.0	14.2	15.5
By currency denomination						
Local currency	3.3	3.3	4.5	3.5	4.2	5.1
Foreign currency[d]	3.8	12.2	13.3	13.8	15.1	16.4
In USD equivalent (eop exchange rate)	1.0	1.6	1.8	1.8	2.0	2.1
Average maturity (years)	2.2	2.9	8.5	13.2	5.4	6.5
Memo						
Nominal GDP (SRDbn)	16.5	20.4	25.1	27.5	29.8	32.5

[a] CG interest is the interest expense reported by the Suriname Debt Management Office (SDMO), which disaggregates domestic and external interest payments. CG interest in 2017 and 1H18 is adjusted to include gross interest payments on the 2026 bond. CG operations data from Finance net out the interest related to the Staatsolie pari-passu loan (retired in May 2018). Fitch treats the corresponding transfer receipt from Staatsolie as CG grant receipts in 2017 and 1H18, which we sum in CG total revenue and grants
[b] CG total expenditure includes current spending (with interest as reported by SDMO adjusted for gross external bond payments), capital spending, and the statistical discrepancy
[c] Expenditures (cash basis reported by the Ministry of Finance) for 2015-2017 include the clearance of supplier arrears in the amount of 4.9% of GDP in 2015, 3.2% of GDP in 2016, and 0.8% of GDP in 2017
[d] 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
Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2013	2014	2015	2016	2017	2018f
Gross external debt	**1.8**	**2.1**	**2.5**	**3.0**	**3.1**	**3.1**
% of GDP	35.8	40.0	61.8	107.5	92.7	85.4
% of CXR	66.6	83.1	127.6	165.5	132.5	129.8
By maturity						
Medium- and long-term	1.7	1.9	2.1	2.6	2.8	2.8
Short -term	0.1	0.2	0.4	0.3	0.3	0.3
% of total debt	8.0	9.1	17.0	11.4	10.9	10.9
By debtor						
Sovereign	**0.9**	**1.5**	**1.8**	**2.5**	**2.3**	**2.2**
Monetary authorities	0.1	0.1	0.3	0.3	0.4	0.2
General government	0.7	1.3	1.5	2.1	2.0	2.0
O/w central government	0.7	0.8	0.9	1.5	1.7	1.7
Banks	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Other sectors	**0.9**	**0.5**	**0.7**	**0.4**	**0.7**	**0.8**
Gross external assets (non-equity)	**2.3**	**1.9**	**1.4**	**1.7**	**1.8**	**2.0**
International reserves, incl. gold[a]	0.8	0.6	0.3	0.4	0.4	0.6
Other sovereign assets nes	0.0	0.0	0.0	0.1	0.0	0.0
Deposit money banks' foreign assets	0.8	0.8	0.8	0.7	0.8	0.9
Other sector foreign assets	0.7	0.5	0.3	0.4	0.4	0.4
Net external debt	**-0.4**	**0.2**	**1.1**	**1.4**	**1.4**	**1.1**
% of GDP	-8.3	4.6	27.5	49.6	40.3	31.1
Net sovereign external debt	0.0	0.8	1.4	2.0	1.8	1.5
Net bank external debt	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8
Net other external debt	0.2	0.6	1.0	0.6	0.5	0.6
Net international investment position	**-0.7**	**-1.4**	**-2.4**	**-2.8**	**-3.0**	**-2.8**
% of GDP	-13.8	-25.9	-58.2	-101.9	-89.8	-76.7
Sovereign net foreign assets	**0.0**	**-0.8**	**-1.4**	**-2.0**	**-1.8**	**-1.5**
% of GDP	-0.3	-14.8	-34.3	-74.0	-54.4	-41.5
Debt service (principal & interest)	**0.2**	**0.3**	**0.2**	**0.6**	**0.3**	**0.4**
Debt service (% of CXR)	8.9	12.6	12.4	31.3	12.2	17.6
Interest (% of CXR)	1.0	1.6	2.6	3.7	4.6	5.6
Liquidity ratio (%)	480.3	340.3	316.3	110.2	174.9	158.6
Net sovereign FX debt (% of GDP)	0.6	4.9	15.0	45.6	40.5	32.6
Memo						
Nominal GDP	5.1	5.2	4.1	2.8	3.4	3.6
Inter-company loans	0.5	0.3	0.4	0.4	0.4	0.4

[a] International reserve figures use Fitch's gold price assumptions to value non-monetary gold reserves; this can cause deviations in the aggregate international reserve values
Source: Central Bank, IMF, World Bank and Fitch estimates and forecasts

Public Debt Service Schedule on Medium- and Long-Term Debt at July 2018

	2017	2018	2019	2020	2021	2022	2023
Central government: Domestic debt service (SRDm)	**486**						
Amortisation (MT and LT maturities)	305						
Interest (excluding t-bills)	181						
Central government: External debt service (USDm)	**132**	**92**	**105**	**104**			
Amortisation	54	92	105	104			
Official bilateral							
Multilateral							
Bonds placed in foreign markets							
Private commercial							
Interest	78						
Non-sovereign public sector external debt service (USDm)	**109**	**83**	**51**	**153**	**145**	**137**	**128**
Amortisation	60	30	0	104	104	104	104
Interest	49	54	51	49	41	33	24

Source: Ministry of Finance, Staatsolie, and Fitch

Balance of Payments

(USDbn)	2015	2016	2017	2018f	2019f	2020f
Current account balance	**-0.8**	**-0.2**	**0.0**	**0.0**	**-0.1**	**-0.1**
% of GDP	-19.1	-6.2	-0.1	-0.6	-1.4	-2.5
% of CXR	-39.4	-9.5	-0.1	-0.9	-2.2	-4.2
Trade balance	**-0.3**	**0.2**	**0.7**	**0.7**	**0.5**	**0.5**
Exports, fob	1.7	1.4	2.0	2.1	2.1	2.2
Imports, fob	2.0	1.2	1.3	1.4	1.6	1.7
Services, net	**-0.5**	**-0.3**	**-0.4**	**-0.4**	**-0.4**	**-0.4**
Services, credit	0.2	0.2	0.1	0.1	0.1	0.1
Services, debit	0.7	0.5	0.5	0.5	0.5	0.5
Income, net	**0.0**	**-0.2**	**-0.5**	**-0.4**	**-0.3**	**-0.3**
Income, credit	0.0	0.0	0.0	0.0	0.0	0.0
Income, debit	0.0	0.2	0.5	0.4	0.3	0.3
O/w: Interest payments	0.1	0.1	0.1	0.1	0.1	0.1
Current transfers, net	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	0.1	0.3	0.1	0.2	0.2	0.2
O/w equity FDI	0.1	0.2	0.1	0.2	0.2	0.2
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	-0.3	0.6	0.1	0.2	0.0	0.0
Gross external financing requirement	1.0	0.7	0.2	0.3	0.4	0.4
Stock of international reserves, incl. gold[a]	0.3	0.4	0.4	0.6	0.7	0.7

[a] International reserve figures use Fitch's gold price assumptions to value non-monetary gold reserves; this can cause deviations in the aggregate international reserve values
Source: IMF and Fitch estimates and forecasts

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