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

Foreign-Currency Long-Term Rating	Negative
Local-Currency Long-Term Rating	Negative

Financial Data

Suriname

(USDbn)	2016
GDP	3.1
GDP per head (USD 000)	5.4
Population (m)	0.6
International reserves	0.4
Net external debt (% GDP)	41.5
Central government total debt (% GDP)	65.2
CG foreign-currency debt	1.6
CG domestically issued debt (SRDbn)	4.1

Related Research

Global Economic Outlook (March 2017)

Fitch Downgrades Suriname to 'B-'; Outlook Negative (February 2017)

Terms of Trade Weigh on EM Sovereign Ratings (October 2016)

Fitch: IMF Loan Ups Suriname Liquidity, Fiscal Challenges Remain (May 2016)

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Key Rating Drivers

Ratings Downgraded: The downgrade of Suriname's IDRs two notches to 'B-' from 'B+' reflects the deterioration of its public and external balance sheets and continued macro instability in the wake of commodity shocks. Slow progress on fiscal adjustment has sustained a large fiscal deficit, contributed to rapidly rising government debt and taken the IMF Stand-By Arrangement (SBA) off track. Exchange rate (XR) adjustment has reduced external imbalances but produced high inflation. External liquidity is weak relative to large external vulnerabilities.

Outlook Negative: Fiscal policy uncertainty, reduced policy reform momentum and adverse debt dynamics tilt risks to the downside.

Macro Conditions Deteriorate: The economy contracted by 10.4% and inflation leapt to 55.5% yoy in 2016 following steep deprecation of the Suriname dollar during 1H16.

Weak Public Finances: The general government (GG) deficit remained large at 8% of GDP in 2016, reflecting weak commodity revenues, underperformance of revenue reforms, clearance of payment arrears, rising interest burden and rigid current expenditures. The primary fiscal balance is projected to remain in deficit under the current policy scenario.

Debt Dynamics Sharply Deteriorate: GG debt rose to 65.2% of GDP in 2016, greater than the 'B' median and greater embedded currency risk. The GG debt burden is highly sensitive to XR shocks and interest burden sustainability is dependent upon access to concessional external financing and currently negative real domestic interest rates on treasury instruments.

Limited Financing Flexibility: The encumbrance of half the international financial institutions' (IFI) budget support envelope envisioned under the SBA and limited domestic appetite constrain GG financing options.

Fragile Financial System: The government agreed to inject capital into Suriname's largest financial institution, De Surinaamsche Bank (DSB), in 1Q17. Prolonged government arrears to suppliers, recession and increased financial dollarisation have increased risks of loan portfolio deterioration and capital erosion, elevating contingent liability risks to the sovereign.

External Adjustment: The current account deficit narrowed sharply to 5.1% of GDP in 2016 (2015: 19.4%), reflecting XR depreciation, weak domestic demand and export growth.

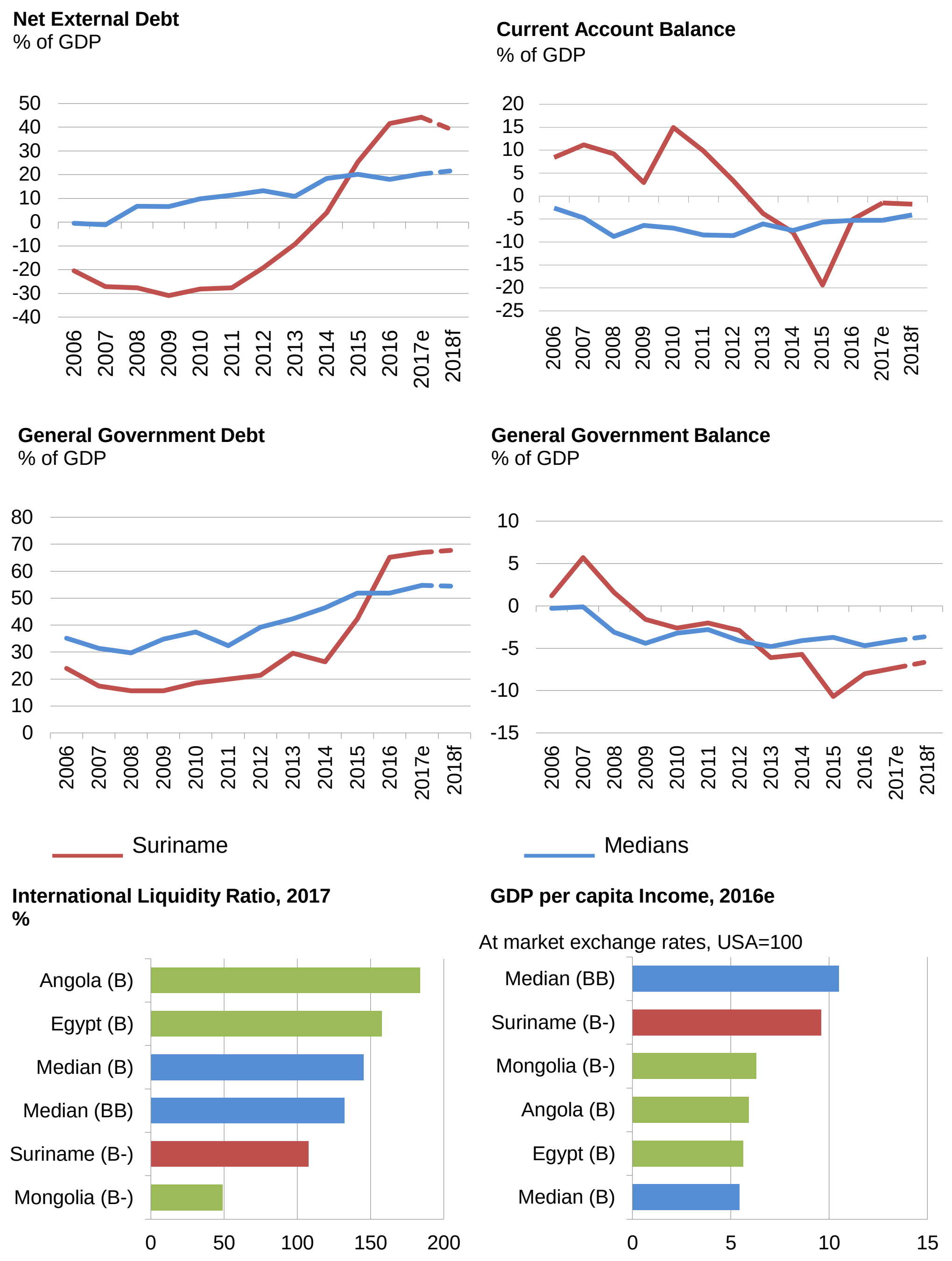
Large External Vulnerabilities: Public external borrowing and depletion of the international reserve (IR) buffer weakened Suriname's sovereign net foreign assets to -44.8% of GDP in 2016. IR stabilised but remain weak relative to peers and to Suriname's larger external debt.

Rating Sensitivities

Weakened External Liquidity: Deterioration of external liquidity and/or sovereign external debt service capacity; failure to achieve consolidation of public finances that increase prospects for stabilisation of the general government debt burden; or failure to take policy decisions that facilitate a return to macro stability and sustainable growth could lead to a downgrade.

Consolidation of Public Finances: Consolidation of public finances consistent with stabilisation of the general government debt-to-GDP ratio; strengthened external liquidity and/or easing of external financing constraints that reduce the risk of a funding crisis could return the Outlook to Stable.

Peer Comparison



Related Criteria

[Sovereign Rating Criteria (July 2016)](#)
[Country Ceilings (August 2016)](#)

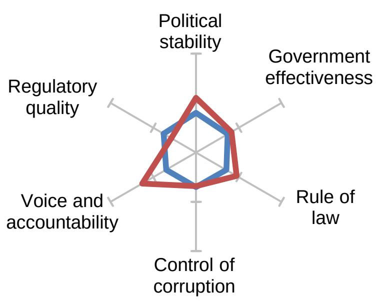
Peer Group

Rating	Country
B	Angola
	Argentina
	Cabo Verde
	Cameroon
	Ecuador
	Egypt
	El Salvador
	Ethiopia
	Ghana
	Jamaica
	Pakistan
	Zambia
B-	**Suriname**
	Belarus
	Iraq
	Lebanon
	Mongolia
	Ukraine

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, 2015



Source: World Bank

Rating Factors

Summary: Strengths and Weaknesses

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

Note: Relative to 'B' category
Source: Fitch

Strengths

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

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

Weaknesses

Macro instability has deteriorated Suriname's five-year average real GDP and inflation performance relative to the 'B' median.

Suriname's public finances are weaker than the 'B' median, reflected in its higher general government (GG) deficit and debt burden with greater embedded foreign-currency (FC) risk. Suriname lacks a fiscal savings buffer in contrast to some 'B' range oil-exporting peers.

Suriname has a lower debt tolerance than the 'B' median reflected in its narrow tax base, high revenue volatility and low expenditure flexibility. The budgetary framework is also weak.

External vulnerabilities are large. Suriname's high commodity (oil and gold) dependence, at 77.6% of current external receipts (CXR), exceeds the 'B' median of 29.1% of CXR.

Suriname's sovereign-net-foreign-assets deteriorated to -44.8% of GDP in 2016, from a net creditor position during 2006-2012, and worse than the 'B' median (2016: -15.7% of GDP).

The country's net external debt rose to 70.2% of CXR in 2016, well above the 'B' median of 67.9% of CXR. A global bond will lift its still favourable external interest-to-CXR ratio to 5.2% in 2017 (above the 'B' median) from the 2.0% average 2012-2016.

Suriname's external liquidity is weaker than the 'B' median, following the depletion of its IR buffer in 2015. Its IR coverage of current external payments and its international liquidity ratio, at 2.3 months and 107.5%, respectively, are weaker than those of the 'B' median, at 3.9 months and 164.1%.

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 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, reflecting the sovereign's weaker credit characteristics within the 'B' range in line with Fitch's sovereign rating criteria.

Country Ceiling

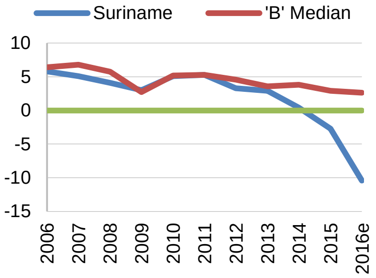
The Country Ceiling is the same as the Long-Term Foreign-Currency IDR at 'B-'. Suriname's limited integration into the global financial system and recent history of capital controls means that Fitch does not believe preference would necessarily be given to the private sector to meet external payments if there were a sovereign crisis.

Strengths and Weaknesses: Comparative Analysis

2016	Suriname B-	B Median[a]	BB Median[a]	Angola B	Egypt B	Mongolia B-
Macroeconomic performance and policies						
Real GDP (5yr average % change)	-1.3	3.9	3.5	3.6	2.9	7.0
Volatility of GDP (10yr rolling SD)	4.9	2.4	2.4	6.9	2.0	5.9
Consumer prices (5yr average)	14.5	4.5	3.4	13.7	10.1	8.7
Volatility of CPI (10yr rolling SD)	16.3	3.4	2.8	6.9	3.0	6.4
Unemployment rate (%)	15.0	12.3	9.4	38.0	12.6	7.9
Type of exchange rate regime	Managed float	n.a.	n.a.	Managed float	Managed float	Managed float
Dollarisation ratio (% of bank deposits)	70.2	32.8	21.5	0.0	0.0	-
REER volatility (10yr rolling SD)	24.4	5.2	5.0	6.9	7.9	15.7
Structural features						
GDP per capita (USD, mkt exchange rates)	5,450	3,316	5,007	3,388	3,245	3,606
GNI per capita (PPP, USD, latest)	16,400	7,720	12,450	7,150	11,020	11,230
GDP (USDbn)	3.1	n.a.	n.a.	87.6	302.8	10.8
Human development index (percentile, latest)	46.2	34.4	58.8	20.8	42.7	51.3
Governance Indicator (percentile, latest)[b]	45.0	31.1	50.1	15.0	24.0	47.6
Broad money (% GDP)	84.7	43.3	66.3	43.7	74.2	47.6
Default record (year cured)[c]	-	n.a.	n.a.	2006	-	1997
Ease of doing business (percentile, latest)	17.6	38.9	55.4	4.3	35.7	66.5
Trade openness (avg. of CXR + CXP % GDP)	61.7	45.4	53.5	36.4	19.1	55.5
Gross domestic savings (% GDP)	n.d.	11.7	17.9	-	10.7	29.2
Gross domestic investment (% GDP)	n.d.	25.2	21.1	-	13.0	26.3
Private credit (% GDP)	39.2	30.5	56.8	27.5	24.4	57.4
Bank systemic risk indicators[d]	-/1	n.a.	n.a.	-/1	b/1	-/2
Bank system capital ratio (2016, % assets)	n.d.	16.0	16.0	n.d.	n.d.	n.d.
Foreign bank ownership (2015, % assets)	15.3	43.5	25.0	n.d.	n.d.	n.d.
Public bank ownership (2015, % assets)	24.8	14.4	26.7	n.d.	n.d.	n.d.
External finances						
Current account balance + net FDI (% GDP)	2.1	-1.9	0.5	-5.9	-3.3	-41.7
Current account balance (% GDP)	-5.1	-5.6	-3.1	-4.5	-5.7	-3.9
Net external debt (% GDP)	41.5	20.6	20.2	-24.7	11.7	173.7
Gross external debt (% CXR)	156.0	157.0	131.1	183.1	158.2	403.7
Gross sovereign external debt (% GXD)	63.6	58.3	38.6	47.9	61.5	26.8
Sovereign net foreign assets (% GDP)	-44.8	-15.7	-0.9	0.7	-8.1	-46.8
Ext. interest service ratio (% CXR)	3.3	3.2	3.3	9.8	1.8	15.2
Ext. debt service ratio (% CXR)	31.7	11.5	13.2	25.0	15.1	22.8
Foreign exchange reserves (months of CXP)	2.3	3.9	4.2	7.5	4.2	2.2
Liquidity ratio (latest)[e]	107.5	164.1	150.4	183.9	157.6	48.8
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	77.6	29.1	19.0	95.9	20.3	73.5
Sovereign net foreign currency debt (% GDP)	38.2	15.6	-0.9	4.0	8.1	47.0
Public finances[f]						
Budget balance (% GDP)	-8.0	-4.1	-3.3	-4.3	-12.2	-19.7
Primary balance (% GDP)	-6.6	-1.4	-0.8	-1.1	-3.6	-15.3
Gross debt (% revenue)	448.2	226.9	190.8	245.6	443.2	379.4
Gross debt (% GDP)	65.2	54.9	51.1	51.9	91.9	84.3
Net debt (% GDP)	59.7	49.6	42.0	36.9	82.9	75.4
Foreign currency debt (% total debt)	77.8	69.0	51.2	54.2	17.2	68.2
Interest payments (% revenue)	9.1	9.6	8.5	15.0	41.2	19.6
Revenues and grants (% GDP)	14.5	24.7	29.1	21.2	20.7	22.2
Volatility of revenues/GDP ratio	17.6	7.7	5.4	9.6	11.9	14.1
Central govt. debt maturities (% GDP)	13.0	5.9	5.5	9.0	28.9	7.4

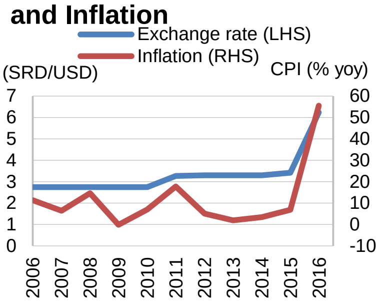
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Official 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
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

Real GDP Growth
(% change)



Source: CBvS, Fitch

Exchange Rate Adjustment and Inflation



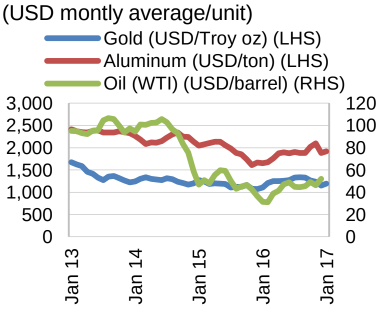
Source: CBvS, Fitch

Fitch's Commodity Price Assumptions

Commodity	Price
Brent crude oil price, annual avg.	2017: USD45 pb 2018: USD55 pb
Staatsolie full production capacity	17,000 bpd Saramacca crude production, 15,000 bpd refining capacity
Gold price, annual avg.	2017: USD1,100 troy oz. 2018: USD1,100 troy oz.
Merian mine[a] total annual gold production, first full five years	400,000-500,000 troy oz.
Merian mine[a] all-in-sustaining-cost of production	USD650-USD750 per oz.

[a] 100% basis: Newmont Suriname, LLC holds 75% equity in the mine and the Republic of Suriname (consolidated) holds 25%
Source: Fitch semi-annual commodity price assumptions, Staatsolie Maatschappij Suriname N.V., Newmont Suriname, LLC

Commodity Prices
(USD montly average/unit)



Source: CEIC, Fitch.

Key Credit Developments

IMF Programme Slips Off-Track

Suriname's first IMF programme went off-track after the first USD81.5 million disbursement. The IMF approved the 24-month stand-by arrangement (SBA) in May 2016 to provide up to XDR342 million (USD458 million equivalent) IR support. Multilateral international financial institutions (IFIs) also agreed up to USD470m budget support for 2016-2018. Severe recession and high inflation reduced the political commitment in 2H16 to implement fiscal reforms at the pace agreed with the IMF. Key SBA benchmarks on fiscal reforms to raise electricity tariffs and fuel taxes have not been met; whereas XR floatation (prior action) and falling domestic demand have sharply reduced the current account deficit.

Macro Adjustment Prompts Severe Economic Recession And High Inflation

Suriname began macro adjustment in 2016. The central bank let the Suriname dollar float in March 2016. The currency lost 46% of its value against the US dollar by December 2016. High import-price pass-through from depreciation and electricity tariff increases caused inflation to leap 55.5% average yoy in 2016 (2015: 6.9%).

The economy continued a severe recession[1] in 2016, contracting by 10.4% based on preliminary government figures (2015: -2.7%). Weak international gold and oil prices along with declining gold production from the Rosebel mine, low initial output of the new oil refinery, and the closure of Alcoa's alumina refinery in 4Q15 buffeted the natural-resource sector. The government spending cuts and the loss of real household purchasing power further depressed investment and consumption. Real private credit plummeted by 19.8% yoy (nominal SRD credit growth was -1% yoy) at December 2016.

The economy could contract at a slower rate of -2% in 2017[2], as natural resource performance improvements are tempered by private-sector weakness and fiscal uncertainties. Fitch expects rising international oil prices and Staatsolie oil refinery's increasing output toward full production to lift oil exports. Two new offshore oil exploration wells will draw USD100 million FDI inflows. Supportive gold prices and the ramping up of the Newmont-operated Merian gold mine towards full production will lift gold exports.

However, macro uncertainty has cooled domestic investment and elevated inflation risks. Investment is slowing and unemployment is rising, reflecting government spending cuts, weak business confidence, and completion of the mine. Inflationary pressure in 2017 stems from rising public-sector wage demands[3] and uncertainty of the fiscal adjustment roadmap. Failure to secure sufficient external financing could prompt expectations of the fiscal deficit being monetised, generating pressure on the XR and inflation[4].

Banking System Fragilities Rise on Arrears, Weak Economy

Banking system fragilities pose a contingent liability. The government agreed in January to inject an undisclosed amount of capital[5] to DSB, Suriname's largest financial institution. It is unclear how this will be financed. DSB's credit portfolio deteriorated in 2016 due to the slow

[1] The magnitude of the 2016 real GDP contraction exceeded both national authorities and the IMF's expectations, in part reflecting limitations of the NIA survey. Economic forecasts were progressively revised downward from -2% (IMF WEO April 2016) to -10.4% (preliminary official estimate January 2017).

[2] Given the difficulty measuring of tertiary services activity, financial system weakness and low business confidence, we incorporate more downside risk our 2017 real GDP forecast for 2017 than the IMF (-0.9%, January 2017) and official (+0.2%, January) projections.

[3] A teachers' union strike in January elevated pressure for public wage increases in the 2017 budget.

[4] Further electricity tariff increases and VAT rollout could foment inflationary pressure (possibly attenuated by smaller fiscal deficits) during 2017-2018, but are not the base case.

[5] Fitch roughly estimates 3% of GDP fiscal cost of the recapitalisation based on the recapitalisation costs following banking crises in Dominican Republic, Nicaragua and Ecuador and the assumption that the full exposures of the distressed assets are risk-weighted.

Use of Proceeds from the Global 2026 Bond

	(USDm)
Net proceeds	541
Staatsolie oil company loan (at par terms, to refinance existing debt)	300
Petrocaribe debt retirement (pending negotiation)	54
Equity investment in Surgold mine (to complete government's 25% stake)	27
Refinance private placement of USD notes due Sep 17	88
General budgetary purposes, including financial support to EBS electricity company[a]	72

[a] EBS has USD62m debt and foreign-currency liabilities. Some of it is high-cost, which the government could refinance to improve the company's financial position
Source: Ministry of Finance (offering memorandum), Fitch

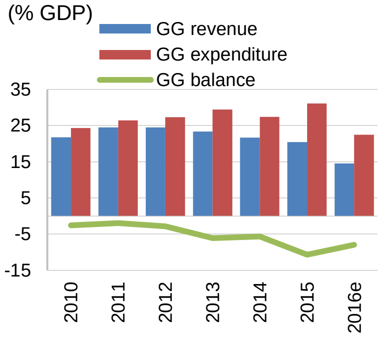
2016 GG Financing

(USDm)	Net financing needs
Net new borrowing requirement, excluding amortisations (est)	**794**
…O/w: Budget deficit	244
	Net change in debt
External	**561**
…IFIs[a]	138
…Bilateral creditors[a]	-35
…Commercial creditors[a]	458
…O/w: 2026 bond at 9.25%	550
Domestic	**23**
…Central bank[a]	-9
…Commercial banks[a]	38
…Other private sector[a]	-6
...Memo: Treasury bills[a]	14
Memo: MLT amortisations	271

[a] Net borrowing based on change in CG debt December 2016/December 2015. External data at current period exchange rates
Source: SDMO, CBvS, MoF, Fitch

General Government Finances

(% GDP)



Source: Ministry of finance, CBvS, Fitch

repayment of general government (GG) arrears to contractors and service (including cleaning and security) providers, as well as the recession. At least two other major banks have suffered similar levels of arrears. Anecdotal evidence from local interviews suggests non-performing loans have risen. Currency depreciation and deposit-switching have increased financial dollarisation risks[6]: deposit and credit dollarisation rates rose, respectively, to 70% and 53% at December 2016 (December 2015: 58% and 39%).

2016 Fiscal Deficit Wider Than Expected

Fitch estimates (based on preliminary government data) that the GG deficit remained large, at 8.0% of GDP on a cash basis in 2016 (2015: 10.7% deficit), worse than the 4.4% deficit we expected at the last review. This includes the clearance of arrears, 2.4% of GDP.

Commodity price and supply shocks collapsed GG revenues to 14.5% of GDP in 2016 (2012: 24.5%). In 2016, the low tax revenues and dividend[7] from Staatsolie and the recession are estimated to have cut revenues by -6pp of GDP (2016/2015). Compensatory revenue policies (electricity tariff increases that were to recover 90% of costs by September 2016 and fuel tax hikes)[8] were partially reversed and/or full implementation delayed. Tax administration (sales, wage and customs taxes) efforts and the start of the new gold mine in October 2016 contributed a slight 4% nominal revenue pick-up at 2H16 yoy. Suriname's tax base is narrow and it lacks fiscal buffers to offset its high revenue volatility in contrast to some African oil-exporting 'B' range peers.

After 2015 overruns[9], the government cut goods-and-services spending, maintained a near-freeze of public-sector wages and kept capex lean in 2016. It reduced the backlog of payment arrears accumulated in 2013-2015, but incurred new arrears of 0.3% of GDP during 2016, reporting a 0.3% of GDP residual at December 2016[10]. However, rigid subsidies, transfers and the large wage bill (7.1% of GDP) and rising borrowing costs (9.1% of revenue), kept pressure on total GG spending, estimated at 22.5% of GDP in 2016 (2015: 31.1%).

Fiscal risks are to the downside. Limited progress on the IMF SBA benchmarks increases uncertainty that the fiscal reforms[11] targeted to return Suriname's public finances to a small primary fiscal surplus in 2018 under the IMF's active policy scenario – electricity tariff and fuel tax increases pending full implementation and public-financial-management reforms targeted for 2017-2018 – would be implemented. Legislation for a key new value-added tax (VAT)[12] has not yet been passed by the National Assembly. The 2017 budget has not been passed, limiting visibility on the fiscal adjustment roadmap. Fitch expects (based on analytical estimates and a status-quo policy scenario) the primary balance to narrow, remaining in deficit in 2017-2018, at 1%-2% of GDP. Implementation of a revenue-positive VAT would narrow the 2018 deficit beyond our forecast.

[6] The loss of a foreign correspondent banking relationship and disincentives to alternative fixed-asset investments have discouraged capital and deposit flight, respectively.

[7] Staatsolie, earned positive USD25m net income in 2015, of which it pays the government a 50% dividend during 2016. No dividend is expected from its 2016 earnings; it is to recover in 2017.

[8] The IMF estimated the electricity tariff and fuel tax increases could have reduced the fiscal deficit by 1.5% and 0.9% of GDP in 2016, respectively, if fully implemented (SBA agreement June 2016).

[9] Since the last review, Suriname revised the 2015 fiscal deficit to 10.7% of GDP (from 8.8%), reflecting lagged reporting of extra-budgetary spending and downward revision of the GDP contraction to -2.7% (from -1.4%).

[10] This is less than another 0.9% of GDP estimate of outstanding contractor arrears (December 2016). The government established a claim validation process in 2H15 but a permanent procurement department has yet to be established. Payment arrears are not reported in debt.

[11] The SBA included measures to shore up revenues – electricity tariff pricing increases to fully recover the electricity generation, distribution, and opex costs (partially implemented); fuel tax (pending); and VAT (pending) – and measures to reduce the structural vulnerability of public finances – budgeting rules (pending), a procurement law (pending), and creation of a sovereign wealth fund (pending).

[12] The VAT could raise additional revenue of 2.5pp of GDP (IMF SBA June 2016).

2017 GG Financing Needs (Est.)

	(USDm)
Total net borrowing requirement, excluding amortisations (est)	**449**
…Deficit	249
…NFPE support (Telesur)	98
…Bank recapitalization(DSB, 3% GDP est)	102
Memo: MLT amortisations ,	171
O/w pre-financed notes maturity	88

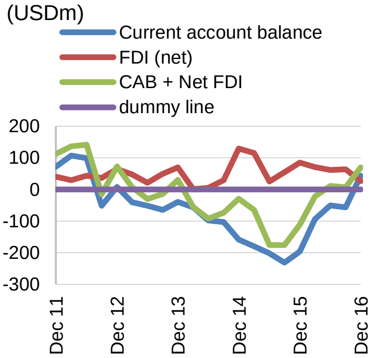
Difficult 2017 Funding Scenario

Financing challenge	**(USDm)**
SBA budget support envisioned from IFIs 2016-2018	470
Policy loans encumbered by SBA off track (WB, IaDB)	230
Financing gap	230-240

Possible financing resources for 2017	**(USDm)**
Possible envelope for 2017 (est.)	399
IaDB country strategy investment loans[a] possibly available for 2017	58
CDB country strategy 2014-2018 (est. per year)	108
IsDB: no current country lending strategy	-
China exim bank (Telesur)§	98
China exim bank (Dalian IV Infrastructure (est. per year)§	118
Net domestic financing 2017: 0.5% GDP t-bill increase	17

WB--World Bank. IaDB—Inter-American Development Bank. CDB—Caribbean Development Bank. IsDB—Islamic Development Bank
[a] IaDB's board has the discretion to approve investment loan disbursements on a case-by-case basis. IaDB country lending strategy (November 2016) notes USD58.1m could be disbursed in 2017 under a 'no-macroeconomic-stability' scenario
CDB had USD217m undisbursed programme funds at September 2016, available for 2017-2018
§The National Assembly authorized both loans in December 2016 notionally enabling a portion or full disbursement during 2017, subject to China Exim Bank's policies. The USD235m Dalian IV loan is estimated with even disbursements in 2017 and 20168
Source: Fitch, IMF SBA agreement (June 2016), IFI country lending strategies and financial statements, national press

Quarterly CAB, FDI Flows
(USDm)



Source: CBvS, Fitch

Fitch estimates the 2017 overall GG deficit at 7.3% of GDP. Despite strengthening gold and oil-related fiscal revenues, Staatsolie's net fiscal contributions[13] (for oil and gold) to the government are conservatively expected at 0.2% of GDP in 2017-2018, lower than historical levels. Royalties from the gold mine will not accrue until later years. The baseline further assumes a rise in public-servant salaries[14] in 2017, continued fiscal restraint of goods-and-services expense and minimal capex. Financing pressures are expected to increase the interest burden (see below).

IMF Programme Slippage, Wide Fiscal Deficits Encumber Financing

The government met its 2016 financing needs primarily through external IFI disbursements and capital market issuance. The shallow domestic market[15] remains saturated by the large fiscal deficits. The deeply negative real interest rates on treasury bills (near -40% June-October 2016) further suppress demand. No bids were tendered in some of the (newly introduced) t- bill auctions in 2H16, and the market illiquidity has constrained the central bank's use of open market operations to manage financial system liquidity as envisioned in the SBA.

The government's financing strategy to meet the USD449 million estimated GG net borrowing requirement is unclear and faces challenges. The non-performance under the SBA impedes Suriname's access to USD230 million policy loans from WB and IaDB (half the SBA budget support from IFIs). The government could possibly close its financing gap with other (concessional) IFI and (higher-cost) quasi-bilateral (state-owned development bank or exim-bank) credits. However, creditor policy constraints or project implementation delays could impede loan approvals and disbursements and increase GG liquidity pressures.

Interest costs are expected to rise. Concessional IFI lines, the central bank's 3.5% LT 30-year loan in 2015 and nominal t-bill yields of 23%-25% have financed GG borrowing at negative real interest rates after inflation in 2015-2016. Under the baseline scenario, if the government re-opens the t-bill market in 2017-2018 at a 25% nominal interest rate then gradually normalises it to a neutral real rate of interest by 2021 while maintaining close to 10% of GG debt in SRD, and finances new external debt in USD at an average 4% gradually rising with US interest rates, the GG interest burden rises close to 30% of revenue in 2017-2018.

Deteriorating Government Debt Dynamics

Suriname's GG debt has risen sharply to 65.2% of GDP in 2016 (2014: 26.4%), and it surpasses the 'B' median at 54.9% of GDP. The jump was caused by large fiscal deficits and extra-budgetary arrears, the migration of non-financial public enterprise (NFPE) debt to the GG balance sheet, the severe recession and currency depreciation in 2015-2016.

The risks to GG debt sustainability have risen. The debt profile has deteriorated: currency risk affects 77.8% of the debt while the 2026 bond (17.9% of GDP) represents more than a quarter, increasing LT refinancing risks. Financial system and NFPE contingent liabilities have materialised. Interest burden sustainability depends on access to concessional IFI lines. The expected quasi-fiscal losses of the central bank could impose LT recapitalisation costs.

Current Account Deficit Narrows Following Currency Depreciation

The current account deficit (CAD) narrowed sharply during 1H16 as XR depreciation and falling domestic demand compressed imports. The new oil refinery and increased gold exports in 4Q16 also boosted exports. As a result, the CAD narrowed to 5.1% of GDP in 2016 (2015: 19.4%). It was fully financed by net FDI[16].

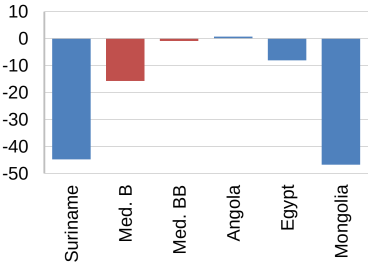
[13] Electricity subsidy costs are expected to consume 47% of average gross fiscal contributions from Staatsolie in 2017-2018. Staatsolie sells power to EBS. Electricity settlements owed by EBS are netted off against Staatsolie's transfers to the government.

[14] A preliminary government proposal would raise teacher salaries by 60% over a period of years.

[15] T-bills represent 2.6% of GDP, commercial banks (3.7% of GDP) and the central bank (10.8% of GDP) out of GG domestic debt of 15.9% of GDP (November 2016).

[16] Newmont's FDI to the gold mine offset outflows by the closure of Alcoa's alumina refinery.

Sov. Net Foreign Assets
(% GDP, 2016)



Source: Fitch

Statistical Challenges

Indicator	Frequency
GDP	Annual, large downward (forecast) revisions of 2015 and 2016 real GDP growth
Labour market	Last 2014
Financial system	Monthly deposit, total credit stocks, dollarization figures
Financial system	Credit quality, capitalization ratios last published 2015
Inflation	Monthly CPI, some publication delays during 2016
Inflation	Core inflation data not available
Central government operations	Monthly, released quarterly with longer publication time during 2016
Budget	2017 budget not yet passed at mid-February 2017
Budget	Weak expenditure controls resulted in arrears 2013-2015, which contributed to several revisions of 2015 central government operations data
Central government debt	Debt-to-GDP ratios published according to national law definition
Total non-financial public-sector debt	Not available
Balance of payments	Quarterly, timely publication
International investment position	Quarterly, timely publication, available since 2011
International reserves	Monthly, timely
Presentation format	Tables in PDF, CBvS data available in Dutch and English, SDMO reports available in Dutch

Memo: The government has indicated plans to fully subscribe to the IMF e-GDDS standard as early as 2017
Source: CBvS, SDMO, Fitch

In 2017, the CAD is expected to narrow, boosted by gold and oil exports. However, Fitch expects the wide fiscal deficits to maintain pressure on imports and to prevent the current account (-1% to -2% of GDP 2017-2018) from returning to surplus. FDI inflows[17] are limited. If pressure on the XR emerges, it could shift the current account to balance faster.

Weak External Liquidity, Greater External Vulnerability

IR stabilised during 4Q16. The bond issue eased short-term external liquidity pressures related to a GG notes maturity and USD200 million loan amortisation by Staatsolie in 2017, but total NFPS external debt service will still amount to USD309 million. Gross IR, USD398.6 million in January 2017, include FC swaps (close to USD106 million at December 2016) from local banks. Most of the USD566 million required reserves on commercial banks' FC deposits (December 2016) are in the custody of the commercial banks and invested in liquid foreign assets; the FC required reserves represent half reported official reserves plus commercial bank foreign assets.

However, Suriname's external liquidity remains weak relative to 'B' peers, with downside risks. The central bank is unlikely to be able to re-build IR absent further XR depreciation given continued pressure on the current account from wide fiscal deficits and semi-annual USD25 million bond interest payments starting in April, loss of the IMF liquidity back-stop and reduced access to IFI credits. Political pressure for XR stability could also result from the 2016 depreciation.

Suriname's external vulnerabilities have grown. Its sovereign net foreign assets deteriorated to -44.8% of GDP (2016) from a net creditor position in 2006-2012, weaker than the 'B' median.

Challenging Political Environment for Reforms

In 2016, President Bouterse and ministers announced that a review of EBS would be conducted (due to have concluded by January-February 2017) and a more gradual schedule of electricity tariff increases would be adopted. Popular discontent with the economic recession and high inflation slowed the pace of the mainly revenue-focussed[18] fiscal reforms central to the IMF agreement, but it has not materialised in a change of government[19] or political instability.

The results of salary negotiations with two major teachers unions and parliamentary debate of the 2017 budget and electricity-sector policy decisions following the EBS strategic and financial review (expected February-March) will provide signals as to policy direction.

A military court ruled in January 2017 that a trial could proceed against 24 people, including President Bouterse, for the extra-judicial killings of 15 intellectuals and civilians in 1982. It was postponed indefinitely in February on an appeal by the public prosecutor to reject an earlier legal challenge by the government to the trial. The lack of a constitutional court and a 2012 amnesty law have stalled a parallel criminal case.

Statistical challenges affected the quality and transparency of national statistics during 2016. The availability and timeliness of some economic, financial-system and public-finance data lags 'B' category peers, despite recent improvements in the external accounts.

[17] IAMGOLD announced in February an expanded 2017 exploration programme in its Saramacca concession 25km from its existing Rosebel gold mine. FDI estimates are not yet available. If mine development proceeds, the Suriname government has the option for a 30% equity participation.

[18] Significant expenditure-reduction reforms, especially of the large public wage bill (8.1% GDP average 2012-2016), are viewed as politically challenging amid the economic recession.

[19] The president's NDP party, which secured a 26-seat parliamentary majority augmented by a coalition of minority parties for the 51-seat National Assembly's 2015-2020 term, has tempered its macro agenda, reshuffled the cabinet (January) and withstood opposition minority party leaders' calls for fresh elections.

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.

Public Debt Dynamics

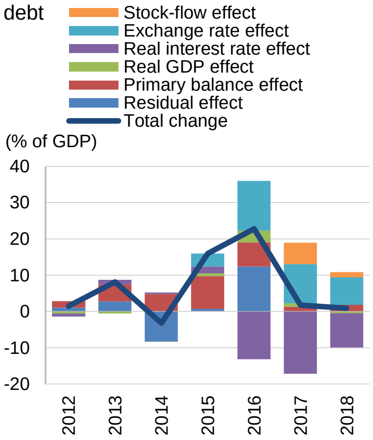
Continued primary deficits under the baseline status quo policy scenario and the rising interest burden are expected to keep GG debt on an upward trajectory, with risks to debt sustainability. The GG debt burden is highly sensitive to currency, real interest rate and GDP growth risks, as well as the primary balance and contingent liabilities (bank recapitalisation costs, NFPEs and, over a LT horizon, the central bank).

Debt Dynamics: Fitch's Baseline Assumptions

	2016	2017	2018	2019	2020	2021	2026
Gross general government debt (% GDP)	65.2	66.9	67.8	67.8	66.0	67.9	82.0
Primary balance (% of GDP)	-6.6	-1.3	-1.8	-2.1	-2.5	-2.5	-2.5
Real GDP growth (%)	-10.4	-2.0	0.9	2.0	3.0	3.0	3.0
Avg. nominal effective interest rate (%)	4.2	4.7	5.7	6.2	6.2	6.4	6.2
Avg. real interest rate (%)	-31.3	-26.4	-14.1	-7.7	-7.6	-2.4	-0.7
SRD/USD (annual avg.)	6.2	8.3	9.9	11.0	11.8	12.3	15.7
GDP deflator (%)	51.8	42.2	23.0	15.0	15.0	9.0	7.0

Effects On Debt Dynamics Under Baseline Scenario

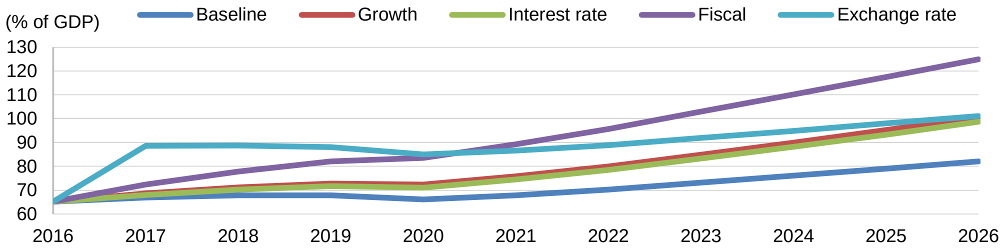
Change in gross general government debt



Source: Fitch debt dynamics model

Sensitivity Analysis

Gross general government debt



Source: Fitch debt dynamics model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	No policy change: 2016 primary balance (-6.6% of GDP) sustained to 2026
Exchange rate	Further one-time 50% devaluation at end-2017

Forecast Summary

	2012	2013	2014	2015	2016	2017e	2018f
Macroeconomic indicators and policy							
Real GDP growth (%)	3.3	2.9	0.4	-2.7	-10.4	-2.0	0.9
Unemployment (%)	8.1	6.6	6.9	8.3	15.0	16.5	14.9
Consumer prices (annual average % change)	5.0	1.9	3.4	6.9	55.5	41.4	23.3
Short-term interest rate (bank policy annual avg.) (%)	6.8	7.1	7.4	7.5	23.3	21.8	19.4
General government balance (% of GDP)	-2.9	-6.1	-5.7	-10.7	-8.0	-7.3	-6.6
General government debt (% of GDP)	21.4	29.6	26.4	42.3	65.2	66.9	67.8
SRD per USD (annual average)	3.30	3.30	3.30	3.42	6.23	8.31	9.92
Real effective exchange rate (2000 = 100)	52.1	51.4	50.4	15.6	7.7	6.0	5.4
Real private sector credit growth (%)	10.8	16.6	5.3	7.5	-18.3	-16.3	-8.3
External finance							
Current account balance (% of GDP)	3.3	-3.8	-7.9	-19.4	-5.1	-1.5	-1.8
Current account balance plus net FDI (% of GDP)	6.7	-0.2	-4.8	-12.7	2.1	-4.8	-6.9
Net external debt (% of GDP)	-19.2	-9.3	3.9	25.4	41.5	44.2	38.8
Net external debt (% of CXR)	-31.3	-17.2	8.1	52.9	70.2	69.4	65.2
Official international reserves including gold (USDbn)	1.0	0.8	0.6	0.3	0.4	0.4	0.5
Official international reserves (months of CXP cover)	4.2	3.2	2.5	1.4	2.3	2.3	2.6
External interest service (% of CXR)	0.8	1.0	2.1	3.1	3.3	5.2	6.1
Gross external financing requirement (% int. reserves)	7.4	41.1	88.7	181.0	203.0	117.0	89.3
Real GDP growth (%)							
US	2.2	1.7	2.4	2.6	1.5	2.1	2.3
China	7.8	7.7	7.3	6.9	6.7	6.4	5.7
Eurozone	-0.9	-0.3	1.1	2.1	1.6	1.4	1.4
World	2.5	2.4	2.5	2.6	2.5	2.9	2.9
Oil (USD/barrel)	112.0	108.8	98.9	52.6	45.1	52.5	55.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2013	2014	2015	2016	2017e	2018f
General government [a]						
Revenue	**23.3**	**21.7**	**20.4**	**14.5**	**18.0**	**18.0**
Expenditure	**29.4**	**27.4**	**31.1**	**22.5**	**25.3**	**24.6**
O/w interest payments	1.3	0.9	1.6	1.3	6.0	4.8
Primary balance	-4.7	-4.8	-9.1	-6.6	-1.3	-1.8
Overall balance	**-6.1**	**-5.7**	**-10.7**	**-8.0**	**-7.3**	**-6.6**
General government debt [a]	**29.6**	**26.4**	**42.3**	**65.2**	**66.9**	**67.8**
% of general government revenue	126.8	121.6	207.7	448.2	371.9	376.9
Central government deposits	5.6	2.0	3.1	5.5	1.0	1.0
Net general government debt	23.9	24.4	39.2	59.7	65.9	66.8
Central government						
Revenue	**23.3**	**21.7**	**20.4**	**14.5**	**18.0**	**18.0**
O/w grants	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure and net lending	**29.4**	**27.4**	**31.1**	**22.5**	**25.3**	**24.6**
O/w current expenditure and transfers	23.4	21.2	27.5	20.5	22.0	21.1
- Interest	1.3	0.9	1.6	1.3	6.0	4.8
O/w capital expenditure	4.5	5.2	2.6	2.0	3.5	3.5
Current balance	-0.1	0.4	-7.1	-5.9	-4.1	-3.1
Primary balance	-4.7	-4.8	-9.1	-6.6	-1.3	-1.8
Overall balance	**-6.1**	**-5.7**	**-10.7**	**-8.0**	**-7.3**	**-6.6**
Central government debt	29.6	26.4	42.3	65.2	66.9	67.8
% of central government revenues	126.8	121.6	207.7	448.2	371.9	376.9
Central government debt (SRDbn)	**5.0**	**4.6**	**7.1**	**14.8**	**21.1**	**26.6**
By residency of holder						
Domestic	2.6	1.9	3.6	4.1	4.7	5.3
Foreign	2.4	2.7	3.5	10.6	16.5	21.3
By currency denomination						
Local currency	2.4	1.7	3.3	3.3	3.6	4.1
Foreign currency	2.7	2.9	3.8	11.5	17.6	22.5
In USD equivalent (eop exchange rate)	0.8	0.9	1.0	1.6	1.9	2.1
Average maturity (years)	1.2	2.6	2.2	2.5	5.7	9.7
Memo						
Nominal GDP (SRDbn)	17.0	17.3	16.7	22.7	31.6	39.2

[a] Suriname's general government finances are equivalent to the central government
Source: Ministry of Finance (2013-2016) and Fitch estimates and forecasts (2017-2018)

External Debt and Assets

(USDbn)	2011	2012	2013	2014	2015	2016
Gross external debt	**1.3**	**1.5**	**1.8**	**2.1**	**2.5**	**2.8**
% of GDP	30.0	30.3	35.8	39.9	59.9	92.2
% of CXR	43.5	49.6	66.5	82.7	124.9	156.0
By maturity						
Medium- and long-term	1.2	1.4	1.7	1.9	2.1	2.3
Short -term	0.1	0.1	0.1	0.2	0.4	0.5
% of total debt	6.8	6.9	8.0	9.2	17.4	17.4
By debtor						
Sovereign	**0.6**	**0.7**	**0.9**	**0.9**	**1.2**	**1.8**
Monetary authorities	0.1	0.1	0.1	0.1	0.3	0.4
General government	0.5	0.6	0.7	0.8	0.9	1.4
o/w central government	0.5	0.6	0.7	0.8	0.9	1.4
Banks	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Other sectors	**0.7**	**0.7**	**0.9**	**1.0**	**1.2**	**0.9**
Gross external assets (non-equity)	**2.5**	**2.5**	**2.3**	**1.9**	**1.4**	**1.6**
International reserves, incl. gold[a]	0.8	1.0	0.8	0.6	0.3	0.4
Other sovereign assets nes	0.1	0.0	0.0	0.0	0.0	0.0
Deposit money banks' foreign assets	0.6	0.7	0.8	0.8	0.8	0.8
Other sector foreign assets	1.0	0.7	0.7	0.5	0.3	0.3
Net external debt	**-1.2**	**-1.0**	**-0.5**	**0.2**	**1.1**	**1.3**
% of GDP	-27.7	-19.2	-9.3	3.9	25.4	41.5
Net sovereign external debt	-0.3	-0.3	0.1	0.3	0.8	1.4
Net bank external debt	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7
Net other external debt	-0.3	0.0	0.2	0.6	0.9	0.6
Net international investment position	**0.3**	**-0.1**	**-0.7**	**-1.5**	**-2.6**	**-3.0**
% of GDP	6.7	-2.6	-13.8	-29.4	-61.2	-96.7
Sovereign net foreign assets	**0.3**	**0.3**	**-0.1**	**-0.3**	**-0.8**	**-1.4**
% of GDP	7.7	7.0	-1.1	-5.6	-19.2	-44.8
Debt service (principal & interest)	**0.0**	**0.2**	**0.2**	**0.3**	**0.4**	**0.6**
Debt service (% of CXR)	1.5	8.1	8.9	13.0	19.2	31.7
Interest (% of CXR)	0.4	0.8	1.0	2.1	3.1	3.3
Liquidity ratio (%)	**2,604.3**	**419.4**	**486.8**	**329.8**	**240.9**	**107.5**
Net sovereign FX debt (% of GDP)	-6.2	-7.0	0.6	4.8	14.9	38.2
Memo						
Nominal GDP	4.4	5.0	5.1	5.2	4.2	3.1
Inter-company loans	0.3	0.4	0.5	0.3	0.4	0.4

[a] Fitch assumes a gold-price based on IFS figures to value gold reserves; this may cause small valuation differences in estimated or forecast-year figures relative to central bank data

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

External Debt Service Schedule on Public MLT Debt (Estimated) as of June-December 2016

(USDm)	2015	2016	2017	2018	2019	2020	2021
General government: Total debt service	**52.4**	**147.7**	**229.6**	**162.0**	**177.0**	**186.8**	**211.8**
Amortisation (MLT GG debt)	34.9	97.9	139.5	78.2	88.7	95.5	118.9
Official bilateral	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Multilateral	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
O/w IaDB	8.4	10.9	15.7	21.5	25.8	26.9	n.a.
Other	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
Bonds placed in foreign markets[a]	-	-	88.0	-	-	-	-
Interest	17.5	49.8	90.1	83.8	88.3	91.3	92.9
O/w 2026 bond	-	-	50.9	50.9	50.9	50.9	50.9
Non-sovereign public sector	**39.0**	**354.9**	**109.1**	**139.8**	**249.8**	n.a.	n.a.
Amortisation§	-	314.2	60.0	95.0	210.8	n.a.	n.a.
Interest	39.0	35.0	49.1	44.8	39.0	n.a.	n.a.
Central bank: Total debt service	**-**	**-**	**1.3**	**155.3**	**20.9**	**40.2**	**20.0**
O/w IMF	-	-	1.3	1.3	20.9	40.2	20.0
O/w People's Bank of China currency swap	-	-	-	154.0	-	-	-

Based on Suriname 2026 bond offering memorandum (October 2016) adjusted to its final terms
[a] The government pre-financed USD88m notes maturing September 2017 with the 2026 bond proceeds in 2016. §2016 includes Staatsolie's payment of USD300m to a consortium of international banks (December 2016). n.d.—No updated official forecasts available. n.a.—Forecast not available
Source: Staatsolie, IMF SBA agreement (June 2016) and website, IaDB country lending strategy (November 2016), Suriname 2026 bond offering memorandum (October 2016), historical data from CBvS and SDMO, Fitch

Balance of Payments

(USDbn)	2013	2014	2015	2016	2017e	2018f
Current account balance	**-0.2**	**-0.4**	**-0.8**	**-0.2**	**-0.1**	**-0.1**
% of GDP	-3.8	-7.9	-19.4	-5.1	-1.5	-1.8
% of CXR	-7.1	-16.5	-40.5	-8.6	-2.4	-3.0
Trade balance	**0.3**	**0.2**	**-0.3**	**0.2**	**0.1**	**0.1**
Exports, fob	2.4	2.1	1.7	1.4	1.8	1.8
Imports, fob	2.1	2.0	2.0	1.2	1.6	1.6
Services, net	**-0.4**	**-0.6**	**-0.5**	**-0.4**	**-0.2**	**-0.2**
Services, credit	0.2	0.2	0.2	0.2	0.2	0.2
Services, debit	0.6	0.8	0.7	0.5	0.4	0.4
Income, net	**-0.1**	**-0.1**	**0.0**	**-0.1**	**-0.1**	**-0.2**
Income, credit	0.0	0.0	0.0	0.0	0.0	0.0
Income, debit	0.2	0.1	0.0	0.1	0.2	0.2
O/w: Interest payments	0.0	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	0.2	0.2	0.2	-0.1	-0.2
O/w equity FDI	0.1	0.2	0.2	0.2	-0.1	-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	-0.2	-0.2	-0.3	0.1	0.1	0.0
Gross external financing requirement	**0.4**	**0.7**	**1.1**	**0.7**	**0.4**	**0.4**
Stock of international reserves, incl. gold	**0.8**	**0.6**	**0.3**	**0.4**	**0.4**	**0.5**

Source: IMF IFS (2013-2015), Central Bank (2016), and Fitch estimates and forecasts (2017-2018)

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.