Suriname

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Last Updated: January 2016

First Citizens
Research & Analytics

COUNTRY

Real GDP growth (%) 2016	-2.00%
Next General Election	May-20
Exchange Rate	4.04
	managed

CREDIT RATING

S&P Foreign Currency	B+/Negative
Fitch Foreign Currency	B+/Negative
Moody's Foreign Currency	Ba3/Stable

Major Trade Partners	US; T&T;EU;China;Brazil;UAE;Canada;Switzerland
Major Exports	Gold; Alumina; Oil; Other
GDP Composition	Agriculture; Industry; Services

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK — **Negative**

The IMF estimated growth of 0.1% in 2015. The economy is projected to enter a second year of recession, contracting by 2%-3% in 2016, and real per capita income is projected to decline for the first time since 2000, while unemployment rises. Growth is forecasted at -2.00% in 2016.

INFLATION/ FX POLICY — **Negative**

Inflation has trended upwards in 2015, averaging 3.7% for the first nine months of the year before spiking to 20.4% in November. This was due to a 21% devaluation of the currency in November in an effort to reduce pressure on public finances stemming from low commodity revenues and high pre-election spending. The new peg was increased from 3.30 to 4.0 Surinamese dollars per U.S. dollar. Reserves shrank from USD800 million in 2011 to USD370 million in 2015 as the Central bank tried to maintain the original peg. Inflation averaged 6.9% in 2015 (25% - end of period).

EXTERNAL ACCOUNT — **NEGATIVE**

Since 2009, there has been shift in the export basket towards gold, the share of which grew from 35% in 2007 to 50% - 60% in 2014, surpassing the previously dominant alumina sector. Lower mining export prices, an accommodative fiscal stance, and electoral uncertainty have intensified currency depreciation expectations and weakened external buffers. Official reserves fell to 2.6 months of current external payments in 2014 from 4.2 months in 2012 according to Fitch. Monetary authorities have supported the peg to the U.S. dollar through increased reserve requirements, tighter currency allocations for imports and foreign exchange sales to banks and cambios. Suriname is highly exposed to gold which accounts for two-thirds of exports and 13% of fiscal revenues. Fiscal exposure to oil is also high, as it accounts for 29% of revenues. Bloomberg forecasts indicate that gold prices are expected to average USD1200 in the coming years, just 5% higher than current prices. Oil prices are expected to average USD40 in the medium term. The major risk to Suriname's economic stability will be sustained low prices of oil and gold. The current account deficit widened to -11.7% of GDP in 2015 after net mining FDI inflows, and the defense of the currency peg drained international reserves in 2015, and a parallel exchange rate emerged. External liquidity has deteriorated as international reserves fell to 1.7 months of current external payments (USD308.7 million) in January 2016.

FISCAL ACCOUNT — **Negative**

The government deficit rose sharply in 2015 to 9% of GDP, driven by falling commodity revenues, election-related fiscal slippage, and recognition of larger-than-expected arrears to private suppliers. Government debt increased by +12.8pp to 39.3% of GDP. The high 60% foreign-currency composition of government debt exposes government debt dynamics to further currency depreciation. 75% of Suriname's gross external financing needs were financed by USD295 million international reserves and USD233 million net external borrowing by the government and monetary authority in 2015. The government has targeted a 2.4% of GDP deficit in 2016, however rating agency Fitch expects the result could be wider, up to 4.4% of GDP, if economic weakness causes new fuel and customs tax revenues to underperform and capital spending is used as economic stimulus.

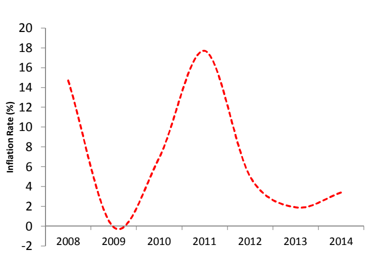
CREDIT RATINGS

Fitch Ratings downgraded its ratings on Suriname from "BB-" to "B+" on 27 Feb, 2016 with a negative credit outlook. The agency's rationale was the deterioration of the country's external finances due to the shock of commodity export prices.
Standard & Poor's also downgraded its ratings on Suriname from 'BB-' to 'B+' with a negative outlook on 25 Apr, 2016. The downgrade reflected weakening external liquidity, fiscal flexibility and debt burden due to the rising fiscal and current account deficits.

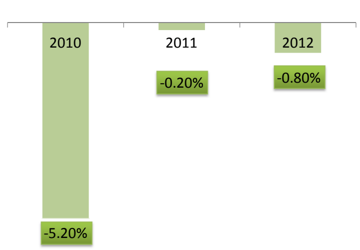
Outlook

In November 2015 Central bank repeated its 2011 strategy when it devalued the Surinamese dollar in an effort to restore economic stability. Depreciation should curb imports, narrowing the current account deficit and increase export competitiveness. The public sector's external debt service ratios remain adequate, but international reserves have fallen by more than 50% since 2011. Reserve liquidity will remain tight until the Merian gold mine commences production (slated for late 2016) and starts to generate export revenue. The structure of public finances remains weak – reflecting the government's narrow revenue base, vulnerability to commodity price volatility, and rigidity of the large public-sector wage bill (9.2% of GDP in 2015). Positively, the government began reducing expenditure and clearing arrears in 2H15, cut capital investment, and started a three-phase increase of the electricity tariff to remove the subsidy, worth 7.1% of GDP (2015). The authorities expect fiscal adjustment in 2016-2017 to be supported by institutional reforms to liberalize the energy sector, increase profitability of loss-making state-owned companies, and improve public-financial management with a new medium-term budgetary framework. However, there are implementation and downside political risks to the pipeline of pledged reforms. The opposition parties abstained from the 2016 budget vote, and cabinet statements in January cast doubt on continuation of the electricity reform. The austerity plan cuts capital investment to 2% of GDP for 2016-2017 during an economic recession. In Jan 2016, the government approached several multinational lenders such as the International Monetary Fund, World Bank, Caribbean Development Bank and Inter-American Development Bank for economic support to respond to shock of the depressed commodity prices. In April 2016, the IMF agreed with Suriname on a USD478 million stand-by facility. The IMF has forecasted growth at -2.0% in 2016.
First Citizens Research & Analytics holds a negative view on Suriname noting significant headwinds due to sustained low commodity prices.

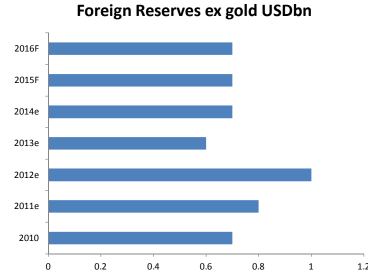
Avg. Inflation Rate 2008-2014 (YoY, %)



Central Government Balance/ GDP



Foreign Reserves ex gold USDbn



Sources: International Monetary Fund, Business Monitor International, Bloomberg