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Research Update:

Republic of Suriname Outlook Revised To Positive; 'BB-/B' Ratings Affirmed

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Overview

- Large investments in Suriname's mining and oil sectors could lead to higher growth prospects as well as higher levels of exports and government revenues. Additionally, tax reform and the creation of a sovereign wealth fund could lead to improved fiscal flexibility.
- Suriname has improving macroeconomic fundamentals, robust medium-term growth prospects, a low debt position, and solid external indicators, which are offset by its narrow economic base and institutional capacity constraints.
- We are revising the outlook on Suriname to positive from stable.
- We are affirming our 'BB-/B' foreign and local currency sovereign credit ratings on Suriname.

Rating Action

On April 25, 2013, Standard & Poor's Ratings Services revised its outlook on the Republic of Suriname to positive from stable. At the same time, we affirmed our 'BB-/B' foreign and local currency sovereign credit ratings on Suriname.

Rationale

The outlook revision to positive reflects our expectation that large investments in the mining and oil sectors could lead to higher growth prospects as well as higher levels of exports and government revenues. Additionally, tax reform and the creation of a sovereign wealth fund could lead to improved fiscal flexibility.

The ratings on Suriname reflect its improving macroeconomic fundamentals, robust medium-term growth prospects, low debt position (with net general government debt at less than 20% of GDP at the end of 2012), and solid external indicators based on current account surpluses, higher foreign direct investment, and rising international reserves. Moreover, political consensus on the need to maintain macroeconomic stability in the country is growing.

Offsetting these factors is Suriname's narrow economic base that's strongly tied to commodities. Alumina, gold, and oil constituted more than 80% of current account receipts at the end of 2012. In addition, ongoing institutional capacity constraints hinder debt management, public investment, and a more forceful advancement of structural reforms.

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Suriname's domestic capital markets are shallow and illiquid, limiting the government's financing options. As a result, the government relies heavily on costly central bank advances and privately placed short-term instruments to cover financing needs. Although traditionally economic policy has relied heavily on the credibility of individual public officials, strengthening the institutional capacity of the monetary and fiscal authorities is key to enhancing macroeconomic performance and reducing the risk of policy reversals. Despite continued improvements in recent years, the quality of official economic statistics compares unfavorably with those of similarly rated sovereigns.

The country's growth prospects benefit from significant investments in the oil and mining sectors. Average GDP growth for the past 10 years has been 5%. The country's growth potential is likely 4%-5% during the next three years.

The government of Suriname intends to issue its first ever sovereign bond for approximately US$600 million to raise funds for the financing of its equity share in planned joint ventures with two North American mining companies as well as for providing funding to state-owned oil company Staatsolie.

Outlook

The positive outlook reflects our expectation of continued GDP growth and current account surpluses, along with steps to strengthen fiscal policy. Implementation of planned large investments in the mining and oil sectors could lead to higher growth prospects, as well as higher exports and government revenues, which could lead to an upgrade. Similarly, successful implementation of a proposed sovereign wealth fund, tax reform (including a value-added tax), and the introduction of new monetary policy tools such as open market operations could strengthen macroeconomic policy, leading to a higher rating.

A slowdown or reversal in the government's reform agenda could lead us to revise the outlook to stable. Furthermore, a sustained sharp fall in commodity prices that would significantly lower exports and government revenues could pressure public finances and the balance of payments. Failure to respond in a timely and forceful manner to such a scenario could result in fiscal slippage and other significant economic imbalances, resulting in negative rating actions.

Related Criteria And Research

- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Principles Of Credit Ratings, Feb. 16, 2011

- Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Suriname (The Republic of)		
Sovereign Credit Rating	BB-/Positive/B	BB-/Stable/B

Ratings Affirmed

Suriname (The Republic of)	
Transfer & Convertibility Assessment	BB

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

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