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Research Update:

Republic Of Suriname 'BB-/B' Ratings Affirmed, Outlook Stable

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Overview

- We affirmed our 'BB-/B' ratings on Suriname to reflect its improving macroeconomic fundamentals, robust medium-term growth prospects, a low debt position, and solid external indicators, offset by its narrow economic base and institutional capacity constraints.
- The outlook on the long-term ratings is stable. The ratings could improve if the government's fiscal position becomes stronger through economic reforms and/or large investments in the mining sector that boost GDP growth prospects and government revenues.

Rating Action

On April 30, 2012, Standard & Poor's Ratings Services affirmed its 'BB-' long- and 'B' short-term foreign and local currency sovereign credit ratings on the Republic of Suriname. At the same time, we affirmed our 'BB' transfer and convertibility assessment of Suriname. Today's rating action is part of our regular review.

Rationale

The ratings on Suriname reflect its improving macroeconomic fundamentals, robust medium-term growth prospects, a low debt position (with net general government debt at less than 20% of GDP at the end of 2011), and solid external indicators based on current account surpluses, higher levels of foreign direct investment, and rising international reserves. More importantly, there is a growing political consensus on preserving macroeconomic stability, as witnessed by the government's willingness to pursue an unpopular devaluation and tax hikes in 2011 to reduce foreign exchange pressures that built up in the prior year. Offsetting these supporting 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 2011. In addition, there are ongoing institutional capacity constraints that hinder debt management, public investment, and a more forceful advancement of structural reforms.

The government's aggressive debt-reduction and arrears clearance during the past three years is another important indicator of the sovereign's strategy to structurally improve its credit profile amid the positive economic momentum. Reflecting high nominal GDP growth, and debt forgiveness and repayment, Suriname's net general government debt has declined to about 14% of GDP in 2011 from 36% in 2004.

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

Outlook

The outlook is stable. If the government successfully creates a sovereign wealth fund, implements tax reform consisting of a VAT and lower individual and corporate taxes, and broadens its monetary policy tools with the introduction of open-market operations, the ratings could improve. Furthermore, large additional investments in the mining and oil sectors could lead to higher growth prospects with higher levels of exports and government revenues, resulting in a higher rating.

A sustained sharp fall in commodity prices, which 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 a lower rating.

Related Criteria And Research

Sovereign Government Rating Methodology and Assumptions, June 30, 2011

Ratings List

Ratings Affirmed

Suriname (The Republic of)	
Sovereign Credit Rating	BB-/Stable/B
Transfer & Convertibility Assessment	BB

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.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.