PRESS RELEASE

Fitch maintains Suriname’s credit rating

Fitch reports that the Surinamese economy has climbed out of the deep crisis of 2015 and 2016 and is growing by more than 3% on an annual basis, according to the Economic Activity Survey of the Central Bank of Suriname (CBvS). The improved macroeconomic conditions are also apparent from the sharp fall in inflation, which has fallen below 5% since February 2019; and the steady build-up of the country's international reserves, which climbed to USD 713 million at the end of July 2019, or 4 months of import coverage. If mining imports are excluded, which are fully financed by the mining companies themselves, the coverage extends to 5.8 months.

Fitch kept Suriname's sovereign rating at B-, notwithstanding the continued improvements in state finances and the economic recovery, but noting risks emanating from expenditure and financing pressures. The tight spending policy since 2015 and the increased income after 2016 have resulted in a decreasing deficit on a commitment basis, which is the international standard to assess fiscal policy. The deficit fell from 10.6% of GDP in 2016 to 8.8% in 2017, and 7.6% in 2018. In addition, the government enforced a strict discipline to avoid unnecessary and inefficient spending, while strengthening its social and protection policy. At the same time, capital expenditure has increased in importance, and now accounts for 13-14% of total government spending, compared to 8% in 2015. The private sector is closely involved in these processes, which improves the spin-off towards employment and income for national companies.

As the Fitch report noted, the government's cash expenditure was higher in 2018 than in previous years, due to the payment of arrears in the area of pension coverage and support payments to the health sector. These are one-off, high-cash expenses that will not be repeated in the future. Similarly, the retroactive wage payments are currently being paid out will cease in 2020.

Fitch expressed a worry that the high level of government spending since 2018 would lead to higher inflation and declining international reserves. However, inflation has continuously fallen during 2018 and 2019, while international reserves have increased significantly.

Monetary and fiscal authorities work closely together to coordinate macroeconomic management. In this context, they set up the Monetary and Fiscal Policy Coordination Committee to maintain and heighten coordination between the fiscal policy of the government and the monetary policy of the CBvS. Over the past 5 months, the CBvS has also reinforced its organizational to more effectively implement its mandate of monetary and financial stability, and improved conditions for balanced socio-economic development. This includes new or reorganized departments in the field of open market operations, strategic investments, fintech, internal audit, risk management and compliance, as well as the modernization and updating of financial legislation and regulations.

The new organization and analytical and policy instruments will allow the CBvS to better target a necessary but not excessive level of liquidity in the market place and more accurately forecast liquidity needs by the private sector and the government. Since March 2019, the CBvS has focused on reducing excess liquidity in the economy that had built up, but ensuring availability of sufficient liquidity to finance the growing economic activity.

The CBvS has succeeded in ensuring the smooth and efficient execution of foreign payments and securing the import of goods, despite the negative repercussions of the unlawful seizure of a cash shipment from the CBvS by the Dutch Public Prosecution Service in April 2018. Following the unlawful seizure, the CBvS filed a complaint with the Noord-Holland District Court, which will be handled by the Court on 5 November 2019. In addition, the CBvS is in close consultation and negotiation with various parties to resume cash transfers soon. The CBvS expects that this will help eliminate speculative actions on the foreign exchange market.

Looking ahead, the operationalization of the Savings and Stabilization Fund Suriname (SSFS) will support a more stable and diversified income stream for the government and future generations. The government has committed itself to transferring mining income above a certain threshold to Suriname's new sovereign wealth fund. This will stabilize government revenue from mining and help Suriname escape the international boom and bust cycles of the raw materials industries.

Fitch noted that Suriname announced a large new oil discovery of about 800 million barrels of recoverable oil. They noted that while the immediate effect might not be noticeable, this could facilitate government financing, while extraction of the oil could begin in 3-5 years.