23 January 2020

The latest Fitch credit rating for Suriname

On January 16, 2020, the international credit rating agency Fitch Ratings after approximately 4 months came out with an adjustment of the credit rating for Suriname. The latest adjustment, represents a deterioration of the rating for the foreign currency debt as follow:

	9 September 2019	16 January 2020
Foreign currency long/short term rating	B- negative outlook /B	CCC/C
Local currency long/short term rating	B- negative outlook /B	B- negative outlook /B
Senior unsecured foreign currency bond	B-	CCC

The reasons given by the rating agency for the worsen creditworthiness of the country, are as follow:

• The sharp increase of government debt in 2019 with a foreign currency risk of around 75 percent on the debt portfolio, which is accompanied by an increase in the government debt ceiling from 60 percent of GDP to 95 percent.

• Reduced opportunities for the government to finance its deficits, which was reflected in the last issuance of the government bond on the international capital market, where the government was only able to borrow USD 125 million instead of the intended USD 150 million. The loan conditions of the last bond have also worsen with a higher relative interest rate and shorter repayment period.

• A decrease in government's capacity to pay off its huge foreign currency debt, due to the falling available international reserve.

• The large structural government deficits in combination with an increased current account deficit, prior to the May 2020 elections, are not consistent with the stabilized exchange rate of the Central Bank. These reasons represents a higher exposure to macroeconomic instability. The vulnerabilities within the banking sector (the low solvency ratios and high dollarization rate) also pose a threat to the macroeconomic stability.

According to the rating agency, the debt-to-GDP ratio has risen from around 72 percent in 2018 to about 80 percent in 2019 and is expected to increase further due to a possible increase in the government overall deficit because of the elections in May this year. There is no visibility that the consolidation of public finances will take place in the medium and long term. This is also difficult to assess, due to late publication of statistics and weak government budgets, in which the budget figures differ considerably from the actual figures. The increased debt payments, of which payments on the international capital bonds have been reserved from future income of the mineral sector (gold and oil), together with an exchange rate that is increasingly coming under pressure, indicate no sustainable path of the development of the government debt. Factors such as political stability, strength of institutions, control over corruption, human rights and political freedom are also taken into account in Fitch's rating for the country.

Factors that can positively influence the rating in the next the assessment are:

• A significant decrease of the government overall deficit in order to stabilize the debt-to-GDP ratio.

• An increase of foreign currency liquidity, for example by an improved result on the current account of the balance of payment.

However, if it appears that risks have increased for the government to be able to pay its foreign currency commercial debt on time or that the government has intentions to restructure its debt due to a worsen situation in the foreign currency availability, the rating will fall even further.

The downward adjustment of the rating tells (potential) investors and creditors, that the creditworthiness of the country has deteriorated and that there is an increased risk for the government to repay its debt (on time). This is reflected in a high risk premium, which means that commercial debt can only be attracted at a high interest rate. This will make borrowing for the government on the international capital market in the future more difficult and expensive.

Is you have any questions or remarks please contact Drs. Malty Dwarkasing, Policy Officer at the VSB Bureau at: malty.dwarkasing@vsbstia.org.