

PLEASE SEE **IMPORTANT** DISCLOSURES IN THE **APPENDIX**

Executive Summary

Synopsis of the Sovereign

Strength

- Large quantity of mineral deposits drives the extraction industry, which is a major source of employment and government revenues.
- Strong ties with the multilaterals that provide financial and technical assistance to help engender the process of structural adjustments required to diversify the economy and drive higher levels of economic growth and macroeconomic and fiscal sustainability.

Weakness

- Narrow commoditize economic base where real economic growth pushed by the value-added from mineral production is subjected to price shocks in the international market.
- Volatile public finances exacerbates a narrow tax base that is heavily dependent on mineral revenues and subjected to sharp swings occasioned by commodity price volatility.
- Lack of fiscal rules or political consensus to clearly guide public finance; poorly developed domestic capital market; and no laws/restrictions to prevent the government from using the central bank to finance the fiscal deficit.

Opportunities

- Gradual economic recovery will lead to increase government revenues, giving the government ample space to spend on infrastructure.
- Expect rise in the price of gold and increase in output well help to boost economic growth and exports earnings over multiple periods.

Risks

- Suriname is a small open economy that is heavily dependent on commodity exports, more so gold in recent times. Sharp downward shift in commodity prices negatively affect GDP growth and government spending, as a high proportion of government revenue is derived from royalties.
- The country like Guyana increasingly being used by narco-trafficker to tranship drugs into Europe, which heightened the possibility of increase in crime, including homicides, in relation to drug running.
- The conviction of President Dessi Bouterse on murder has opened up a political vacuum in the country

Ratings: S&P:B/stable; Fitch: CCC/n/a; and Moody's:B2/Stable

Default: N/A



MARKETCALL

JMMB INVESTMENT RESEARCH

Introduction

Suriname is on a steady growth path however the economy faces macroeconomic and political challenges over the medium term. The opening of the Merian mine in 2016 and the prospect of new commercially exploitable off-shore oil fields bode well for Suriname's economic expansion over multiple periods. However there are headwinds in relation to the sovereign remaining dependent on commodities over the long-run, as despite recent finds, proven reserves for some exploitable resources are limited. Current gold and oil reserves are expected to last until 2034 and 2030, respectively.

Revenues from commodities are very important to the budget and is highly volatile owing to external demand-supply factors. Flows from commodities to the government, which includes taxes and royalties, averaged 7.1% of GDP during the period 2005 – 2016. Oil revenue accounts for well over 60% of total revenues. This in part highlights the risk factor to the government's fiscal accounts, as large swings in oil prices have a great impact on revenue volatility. The volatility is highlighted in the period 2011 and 2016 where commodity revenues accounted for 11.25% and 3.25% of GDP, respectively.

Suriname experienced sharp increases in its fiscal deficit over the last 6 years, 2014-2019, averaging over 8% of GDP per annum. This compares less favourably to the prior 6 years where the deficit averaged under 0.5% of GDP. Deterioration in the fiscal accounts reflects a combination of higher spending and lower than planned revenues. The missed revenue targets in part highlights the impact of commodity price shocks and poor fiscal planning.

On the political front, elections are scheduled to be held in May and the ruling coalition is likely to retain power. The sitting president, Dessi Bouterse, was convicted for murder by a military court. However the government is likely to use its political muscle to draw out the appeals process, making it almost impossible for him to serve a day in prison. There is growing unease on the path of the US regarding the political administration's ties with Venezuela.

Macro-fiscal Profile

Suriname's economy is expected to expand just over 1% per annum over the next three years. Growth is heavily predicated on expansion in value added from gold as fiscal consolidation and slower output in other sectors are likely to negatively impact consumption. As we have noted prior, Suriname is heavily dependent on primary products in particular gold, bauxite and to a lesser extent timber. The Merian which is owned by Newmont Mind and commenced operation in 2016, will be a big part of the growth thrust over our multi-year forecast. Our outlook is supported by an increase in proven gold reserves, new discoveries, and relatively high global prices. We expect that investment in exploration projects will help drive near term activities in the mining sector with potential new discoveries enhancing the long-term outlook. In the short to medium-term the current account deficit could fall and we could see improvements in government liquidity.

Higher gold exports could help to boost domestic consumption and investments, as well as reduce pressure on the external account and the domestic currency. To the extent that the domestic economy is heavily dependent on commodities, reductions in global prices have a negative impact on the current account. Fallout in prices also affect the value of the local currency, which is managed by the central bank, and inflation. In 2015 the sovereign experienced a sharp decline in the current account deficit (16.5% of GDP) which caused the local currency to move from Sur \$4.0/US\$1 to Sur \$7.5/US\$1, a decline of 86%. The inflation rate jumped from 3.9% in 2014 to 25% in 2015 and 52.3% in 2016, owing to the pass through effect of the currency devaluation on local prices. Based on our baseline forecast of improvement in the external balance, we expect that the CAD will fall and the domestic currency will remain stable over the forecast horizon. As a consequence we expect inflation to remain subdued over this period.



MARKETCALL

JMMB INVESTMENT RESEARCH

Like the external accounts, the fiscal accounts are heavily influenced by commodities as royalties account for a large share of government revenues. Thus volatility in commodity prices filters through to the fiscal accounts often times leading to larger than expected fiscal deficits whenever there are adverse price shocks. Given our outlook on the mining sector, more so gold, and price expectations over the forecast horizon, we are expecting modest improvements in the fiscal accounts. It is noted that higher mining revenues in 2017 caused the government to increase public sector wages as well as increase the minimum wage. Higher liquidity levels reduced the demand for loanable funds from the public sector which put downward pressure on domestic interest rates.

Economy highly exposed to external shock

Suriname's economy is highly exposed to the international economy as the sovereign is heavily dependent on commodities. As a result of this, negative price movements adversely affect the terms of trade resulting in sharp devaluation of the currency and a rise in domestic prices. We do not anticipate any shift in the structure of the economy over the medium term and as such we are of the view that the macroeconomic fundamentals in Suriname are likely to be volatile over the forecast horizon. The sovereign's situation is further compounded by the high fiscal deficit and growing debt levels. The government has made an effort to consolidate the fiscal accounts however this was minimal and lacked the desired effect. Despite the government's best efforts Suriname has minimal fiscal buffers and a shock to revenue requires downward expenditure adjustments to prevent a widening of the fiscal deficit. Given however limited room for expenditure cuts the risk is high that the sovereign will generate a greater than expected fiscal deficit in the event of a fall out in revenues.

Current Account and the Currency

Improvement is expected in the sovereign's external vulnerability occasioned by reductions in the current account deficit (CAD) and positive adjustment in international reserves. As is the case in government revenues, Suriname's current account is heavily influenced by shifts in commodity prices. The CAD rose sharply in 2015 to 16.4% of GDP but was almost balanced by 2017 on the heels of higher gold prices and exports. We are expecting the CAD to average in excess of 4% over the forecast horizon. This outlook is predicated on increased gold production and output at the Saramacca mine, which should drive exports.

We are forecasting a modest upward adjustment in net international reserves as strong foreign direct investment flows are expected to cancel the CAD. Arising from this we expect net international reserves to remain relatively stable and import cover at just under 4 months. We expect the currency to depreciate at a relatively low rate over the forecast horizon.

Political Developments

Suriname is at a political crossroads which will take care to navigate. On the one hand the president was convicted of murder and on the other the sovereign is being dragged into the regional geo-political spotlight because of the relationship with China and Venezuela. On November 29, 2019 a military court sentenced President Dessi Bouterse to 20 years in prison over the execution of 15 political opponents in 1982. At the time of the sentencing Mr. Bouterse was visiting China.



MARKETCALL

JMMB INVESTMENT RESEARCH

He returned home two days later to a large number of supporters who came to greet him at the airport. It is highly likely that he will not serve a day in prison as his influence over the judiciary is likely to see the appeal process drag on for at least a decade. Legislative elections are due in May 2020 and Mr. Bouterse has announced his candidacy and is expected to win. The Surinamese president is elected indirectly by a two-third majority of the legislature. In the event that this process fails, the president is elected by a simple majority of the united people assembly, comprising all elected national and local representatives.

The growing influence of China in Latin America and the Caribbean, and the US aversion for this development, has raised the spectre of what could be deemed as the second Cold War. There is tension between the US and China and the Caribbean countries, including Suriname are drawn into the quagmire. China is gaining influence in Suriname with Chinese firms investing in infrastructure and logging. China's influence has come at the expense of waning western influence. Following the re-election of Mr. Bouterse the Dutch government withdrew aid, as he was convicted in absentia in the Netherlands on drug-related charges. The US government is growing uneasy with the sovereign's relationship with Venezuela, as there are allegations that money from the administration Nicolas Maduro is being used to bank role Mr. Bouterse and his National Democratic Party during elections.

Table 1: Selected Macroeconomic Indicators for Suriname

Indicator	2015	2016	2017	2018	2019 (e)	2020 (f)	2021 (f)	2022 (f)	2023 (f)	2024 (f)
Population, million	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
GDP per capita, USD	8,439.2	5,498.9	5,260.0	5,798.2	6,311.0	6,875.9	7,113.6	7,592.0	7,861.0	8,166.3
Unemployment rate	7.2	9.7	8.0	7.7	7.3	6.8	6.4	6.1	5.7	5.2
Real GDP growth, % y-o-y	-3.4	-5.6	1.7	2.0	2.2	2.5	2.4	2.0	2.4	2.6
Lending rate, %, ave	13.4	14.1	14.3	14.4	14.3	14.3	14.3	14.3	14.3	14.3
LCU/USD, eop	4.00	7.45	7.52	7.51	7.46	7.76	8.07	8.39	8.73	9.08
Total revenue, % of GDP	23.2	18.7	23.0	24.1	25.8	25.4	25.4	26.7	26.6	26.4
Total expenditure, % of GDP	31.2	27.7	32.3	31.2	35.6	35.0	34.0	33.5	34.7	34.3
Fiscal balance, % of GDP	-8.0	-9.0	-9.2	-7.2	-9.8	-9.6	-8.6	-6.8	-8.1	-8.0
Inflation, eop, %	25.0	52.3	9.3	5.4	4.8	5.5	5.5	5.5	5.5	5.5
Goods exports, pct of GDP	34.5	44.3	53.9	47.8	47.1	48.1	48.4	48.6	48.7	49.6
Current account balance, % of GDP	-16.4	-5.4	-0.1	-5.5	-5.7	-5.8	-4.3	-3.2	-2.9	-2.6
General government gross debt	43.4	75.2	78.0	72.8	75.6	78.1	83.4	83.3	88.0	92.0
Foreign reserves ex gold, USD	285.0	352.0	385.0	524.0	573.0	615.0	654.0	660.0	634.0	645.0
Import cover months	1.3	2.5	2.5	3.0	3.2	3.5	3.7	3.7	3.6	3.6

Source: BMI and IMF

Ratings Action

Figure 1: Ratings History

Agency	Rating	Outlook	Date
Fitch	B-	negative	21-Aug-19
Moody's	B2	stable	28-Feb-19
S&P	B	stable	2-Apr-18
Fitch	B-	stable	2-Feb-18
Moody's	B2	negative	20-Feb-18
S&P	B	negative	26-Apr-17
Fitch	B-	negative	22-Feb-17

Source: Bloomberg/JMMBIR

noted that the high deficit will be driven by election spending and will offset the reduction in the payment of arrears.

In August 2019 Fitch Ratings revised the outlook on Suriname to negative but maintained the sovereign's B-credit ratings. Fitch cited increasing debt-to-GDP occasioned by large fiscal deficits as the rationale for the change in the outlook. The ratings agency noted that election scheduled to be held in May 2020 may force the government to increase spending which is likely to push the debt higher and add to the sovereign's downside risks.

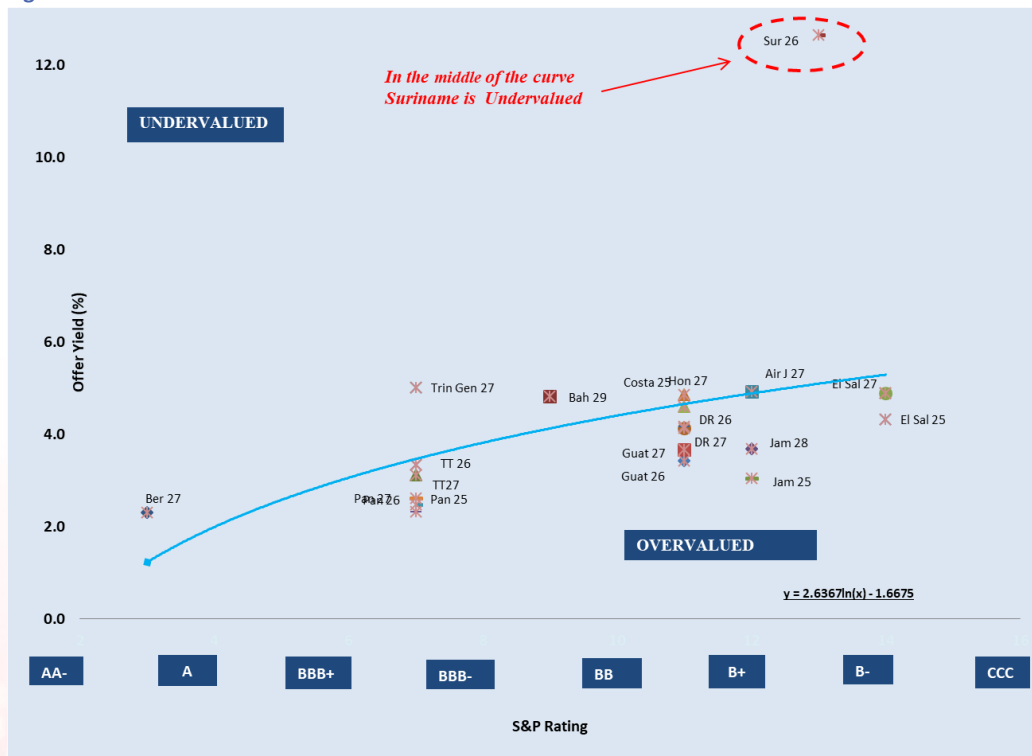
The ratings agency noted that the fiscal deficit increased to 12.3% of GDP in 2018, which was more than expected, and will remain elevated through to 2020, averaging 10% of GDP. It was further

Debt to GDP is expected to rise to 79% in 2019, up from 72% in 2018. As more than 70% of the sovereign's debt is denominated in foreign currency, there is a high risk of currency shocks, noted Fitch. This however is mitigated by a low amortisation schedule. The sovereign has one global bond issued in 2016 with principal payment to be made in 2026. The ratings agency noted that real GDP is expected to expand at an annualized rate of 1.8% over the period 2019 – 2020. This outlook is driven by government investment in infrastructure and household consumption, and will balance declining mining investment.

In February 2019 Moody's Investor Service (Moody's) changed the outlook for Suriname to 'stable' from 'negative' and affirmed the B2 issuer and senior unsecured ratings. The ratings agency decision to change the outlook reflects what it conceived to be lower liquidity pressure on the government in 2019 to 2020. Moody's advised that the B2 ratings is supported by the sovereign's large mining and hydrocarbon resources, favourable investment driven by mining activities, and improved external accounts. Moody's further advised that the constraints that limit a ratings upgrade include high debt burden and weak debt affordability, structural and economic vulnerabilities due to the small size and commodity dependence, and weakness in governance.

Relative Value of Suriname Bonds with Latin American and Caribbean Bonds

Figure 2: Relative Value Curve: Latin America and Caribbean Bonds



Suriname has only one bond on the international capital market, the Suriname 2026 (Sur 2026) which was issued in 2016. It has a face value of US\$550 million and pays coupon of 9.250%.

The bond currently trades below par with an offer yield of 12.7%.

On a relative value basis the bond is trading 893 basis points (bps) above the average yield on Latin American and Caribbean sovereign bonds within the same maturity bucket.

Source: Oppenheimer/JMMBIR

The offer yield on Suriname’s 2026 is more than 750 bps higher than single B-rated peers in the region. The price deviates significantly from the expected price range. This may be due in part to the market’s perception of the sovereign risk occasioned in part by volatile revenue flows and precarious external balance.

Conclusion and Recommendation

Suriname’s fiscal profile is highly exposed to downside risks as a high proportion of government revenue is derived from royalties from a cyclical sector, commodities – gold, hydrocarbon and timber. In the past such revenue volatility has resulted in sharp deviations in the fiscal deficit, devaluation of the domestic currency, and a rise in inflation and debt levels. The conviction of President Dessi Bouterse on murder charges has opened up a political vacuum that is likely to resonate through to the medium-term. This does not resound well with the investor public in light of the slightly elevated economic risk. Given the foregoing and how we expect the domestic economy to evolve we are of the opinion that this bond is suited only for persons with very strong risk tolerance who can stomach price volatility and possible refinancing risk. **We therefore maintain underperform/underweight recommendation for the Suriname 2026 sovereign bond.**

MARKETCALL

JMMB INVESTMENT RESEARCH

Sources:

Bloomberg

International Monetary Fund

Fitch Connect

<https://www.csis.org/analysis/suriname-crossroads>

<https://www.bbc.com/news/world-latin-america-50611555>

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

OUTPERFORM/OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE UP TO 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

MARKETPERFORM/HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

UNDERPERFORM/UNDERWEIGHT— ADJUST EXPOSURE IN YOUR PORTFOLIO HELD AT JMMB TO BETWEEN 2.5% AND 4.9% FOR THIS PARTICULAR ASSET

STRONGLY UNDERPERFORM/UNDERWEIGHT—REDUCE EXPOSURE TO THIS ASSET TO BELOW 2.5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO (0%).

COPYRIGHT INFRINGEMENT

“Unless otherwise expressly stated, copyright or similar rights in all material in this research report (including graphical images) is owned, controlled or licensed by Jamaica Money Market Brokers Limited or its affiliates (JMMB) and is protected or covered by copyright, trade mark, intellectual property law and other proprietary rights. No part of this research report or the report in its entirety may be published, used, reproduced, distributed, displayed or copied for public or private use in any form including by any mechanical, photographic or electronic process (electronically, digitally on the Internet or World Wide Web, or over any network, or local area network or otherwise) without written permission from JMMB.

MARKETCALL

JMMB INVESTMENT RESEARCH

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB.

Thank you for respecting our intellectual property rights.”

The investments referred to in this report may not be suitable for you should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

Disclosure Under The Securities Act

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in or interest in the acquisition or disposal of the securities other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.