Moody's
INVESTORS SERVICE

Rating Action: Moody's downgrades Suriname's rating to B1 from Ba3; stable outlook

Global Credit Research - 20 May 2016

New York, May 20, 2016 -- Moody's Investors Service has today downgraded Suriname's foreign currency and local currency issuer ratings to B1 from Ba3. The outlook is stable.

The key driver of today's rating action is the substantial deterioration in Suriname's credit profile over the past year both in absolute terms and relative to peers that is now apparent. In particular:

1) The significant worsening in macroeconomic conditions and the external liquidity pressures that have resulted; and

2) The deterioration in the strength of the government's balance sheet which will push public debt above 45% of GDP in 2016, despite consolidation measures that are being implemented.

The stable outlook reflects the measures that the government now appears to be taking to consolidate its position, which are expected to be underpinned by the impending International Monetary Fund (IMF) program that will provide an important anchor for macroeconomic and fiscal stabilization. The expected benefits to fiscal and external accounts from the completion of large energy and mining projects will support a strong improvement in external finances and a stabilization of debt metrics in 2016-18.

Suriname's long-term local currency country risk ceilings have been changed to Ba2 from Ba1. The foreign currency bond ceiling was changed to Ba2 from Ba1 and the foreign currency bank deposit ceilings to B2 from B1, respectively. The short-term foreign currency bond and deposit ceilings remain at NP (Not-Prime). These ceilings reflect a range of undiversifiable risks to which issuers in Suriname are exposed, including economic, legal and political risks. These ceilings act as a cap on ratings that can be assigned to the foreign and local-currency obligations of entities domiciled in Suriname.

RATINGS RATIONALE

RATIONALE FOR THE DOWNGRADE

-- FIRST DRIVER: LARGE TRADE AND CURRENT ACCOUNT DEFICITS IN 2015 PROMPTED A WEAKENING OF SURINAME'S EXTERNAL LIQUIDITY --

The principal driver of Moody's decision to downgrade Suriname's rating is the substantial weakening of Suriname's external liquidity stemming from the significant recent increase in current account deficits. Low commodity prices led to falling export earnings, resulting a near doubling in Moody's estimate of the current account deficit to 14.9% of 2015 GDP from a peak surplus of 15% in 2010. The large current account deficit is owed to a shift in the goods balance, which fell into a deficit for the first time in more than a decade. Foreign exchange reserves have halved, falling from $447 million at the end of 2014 to $222 million in 2015 (approximately 3 months of imports). The drop in reserves undermined the central bank's ability to meet demand for foreign exchange and defend the exchange rate peg to the dollar. As a result, the central bank devalued the currency by 20% in November 2015, and then moved to abandon the peg and introduce an auction based foreign-exchange system in March 2016. The exchange rate regime is gradually shifting toward a more flexible system without a pre-determined target that Moody's expects will aid the current adjustment and increase the country's absorption capacity against possible future external shocks.

Moody's expects that the export decline will bottom out in 2016, and that the current account will begin to see a moderate adjustment this year, followed by a decrease in the external imbalance in 2017. State-owned oil company Staatsolie's refinery project was finished in late 2015, and the authorities expect a gradual ramp-up in production of refined oil products. This will have an import substitution effect given that Suriname previously exported crude oil but imported refined products. A gold mine project, which is set to be completed in September 2016, will likely double gold production and exports, and will contribute to the current account adjustment. Importantly, capital and service imports related to the construction of both projects will also taper off in 2016, which will underpin further import compression.

Nevertheless, the erosion of the country's external position has been materially larger than that of 'Ba'-rated peers, leaving an important aspect of the sovereign's credit profile more in line with that of commodity-reliant economies rated in the 'B' category.

-- SECOND DRIVER: FISCAL DETERIORATION WILL PUSH PUBLIC DEBT ABOVE 45% OF GDP --

The second driver of the rating action is the marked deterioration in the government's balance sheet that has become apparent following recent data releases, and which resulted from a widening of the fiscal deficit to 8.7% of GDP. Consolidation targets were abandoned during the first half of 2015 as spending tied to legislative elections in late May and a further large drop in commodity-related revenues drove the enlarged deficit. The IMF estimates that the fiscal imbalance reached an annualized 12.5% of GDP during January-July 2015. Moreover, fiscal deficits reported in previous years did not reflect the accumulation of payment arrears.

In order to stabilize the fiscal accounts and re-build fiscal credibility, the former president of the Central Bank was named finance minister in early August, and consolidation measures were put in place. Since the new authorities took over at the Ministry of Finance in August 2015 no new arrears have been created and in August-December arrears from previous years have been cleared. Consolidation measures included the rationalization of electricity subsidies. Two out of three planned electricity tariff increases have been implemented which will contribute strongly to reducing expenditures in 2016, and the ultimate elimination of the subsidy in December 2016 will also help underpin consolidation in 2017.

In line with the wider fiscal deficits, public debt increased to 38.3% of GDP in 2015 from 26.5% in 2014. Central bank financing, a further indication of fiscal pressures, underpinned the strong increase in debt. Moody's expects that public debt will peak in 2016 at 45.7% of GDP. While it may begin to decline in 2017 as a consequence of consolidation measures undertaken and in train, Moody's confidence in the authorities' ability to stabilize debt dynamics is tempered by the fact the adjustment comes after significant economic and fiscal deterioration.

RATIONALE FOR THE STABLE OUTLOOK

On 15 April the IMF announced that it had reached a staff-level agreement with Suriname on the key elements of an economic program which would involve a two-year $478 million Stand-By Arrangement (SBA). The program targets the adoption of broad-based measures. Elements of the program include economic diversification, enhancing sources of non-mineral revenues for the government, and a suite of other structural reforms to facilitate fiscal consolidation and improve fiscal and monetary policy frameworks. The SBA will help to cushion government finances and the economy during the period of fiscal and economic adjustment as well as allowing for a steady rebuilding of foreign reserves.

Moody's expects that the announced and already-adopted fiscal measures will reduce the fiscal deficit to 6.6% of GDP in 2016 from 8.7% in 2015. This is in line with the target the authorities have set under the IMF program (6.5% of GDP). Cuts to goods and services purchases and the reduction in the electricity subsidy should result in significant expenditure reduction. Although oil prices are now closer to the 2015 average, gold prices have recovered from 2015 levels which should underpin stable-to-higher revenues.

The new exchange rate regime will aid the current adjustment and increase the country's absorption capacity against possible future external shocks. Moreover, the completion of the large energy and mining projects will also underpin mending external and fiscal finances.

WHAT COULD MOVE THE RATING UP/DOWN

Moody's would consider upgrading the rating if a sustainable narrowing of the fiscal deficit were to indicate that a strong decrease in government debt metrics was likely, particularly if accompanied by an accumulation of substantial fiscal savings in the planned sovereign wealth fund. A strengthening of the budgetary and fiscal framework through institutional enhancements that decreases fiscal volatility would also lead to upward pressure on the government's rating.

Conversely, Suriname's sovereign rating could be downgraded in the event of a further deterioration in fiscal performance that led to a continued increased of government debt ratios or a material weakening of economic growth prospects, given the lower than expected economic and fiscal strength that environment would imply. Failure to implement planned reforms or to comply with those aspects of the IMF program would likely be a forward indicator of such a deterioration.

GDP per capita (PPP basis, US$): 16,261 (2014 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 0.9% (2015 Actual) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 25% (2015 Actual)

Gen. Gov. Financial Balance/GDP: -8.7% (2015 Actual) (also known as Fiscal Balance)

Current Account Balance/GDP: -14.9% (2015 Actual) (also known as External Balance)

External debt/GDP: [not available]

Level of economic development: Low level of economic resilience

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 18 May 2016, a rating committee was called to discuss the rating of the Suriname, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutional strength/ framework, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has materially decreased. The issuer has become more susceptible to event risks.

The principal methodology used in these ratings was Sovereign Bond Ratings published in December 2015. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

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