MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Suriname's ratings to Caa1 and changes outlook to positive

22 Oct 2024

New York, October 22, 2024 -- Moody's Ratings (Moody's) has today upgraded the Government of Suriname's long-term local and foreign-currency issuer ratings to Caa1 from Caa3 and changed the outlook to positive from stable.

The upgrade to Caa1 reflects the anticipated impact on Suriname's credit profile of major economic and fiscal windfalls associated to a major offshore oil project. TotalEnergies' investment decision (FID) to develop the GranMorgu oil project will have a substantial positive impact on the country's economic and fiscal trajectories. We expect the start of the oil production to lead to a period of very high growth rates, and government revenue from the project to be very large relative to its debt stock and gross financing needs. Additionally, the upgrade reflects the significant reduction in government debt, driven by fiscal and economic reforms implemented over the past three years. These reforms have resulted in a primary surplus, which we expect will be maintained, resulting in a further marked decline in the debt burden.

While the offshore oil project presents a transformative opportunity for the country, the Caa1 rating incorporates risks associated with potential mismanagement of the windfall, including spending pressures before future oil revenues materialize, which would increase the exposure of the fiscal accounts to delays in the start of oil production and expose the sovereign liquidity and rollover risks.

The positive outlook reflects the potential for additional improvement in Suriname's economic and fiscal strength driven by continued economic reforms and favorable investment prospects. While future oil production will significantly bolster government revenue, the extent to which this will enhance Suriname's credit profile will hinge on the authorities' ability to maintain prudent fiscal and macroeconomic policies.

Concurrently, we raised Suriname's local-currency country ceilings to B2 from Caa1, maintaining a two-notch difference with the sovereign rating, which reflects large external imbalances, a heavy reliance on a single commodity (gold), and weak institutions and policy predictability. The foreign-currency country ceiling was raised to B3 from Caa2, representing a one-notch gap to the local currency ceiling, reflecting low policy effectiveness, high external indebtedness, and relatively closed capital account that generate a degree of transfer and convertibility risk, notwithstanding a track record of limited intervention.

RATINGS RATIONALE

RATIONALE FOR UPGRADE TO Caa1 FROM Caa3

ECONOMIC AND FISCAL WINDFALL FROM FUTURE OFFSHORE OIL PRODUCTION TO MATERIALLY REDUCE CREDIT RISKS

Suriname's economic and fiscal prospects improved significantly following the positive FID by TotalEnergies in October 2024 to develop the GranMorgu oil project in Suriname's offshore Block 58. Future government revenues tied to this project have the potential to transform Suriname's economy improving fiscal sustainability, increase per-capita income, and reduce the sovereign's reliance on external borrowing.

The GranMorgu development holds 750 million barrels of recoverable reserves and aims to produce 200,000 to 220,000 barrels of oil per day, with production targeted to begin in 2028. Suriname's economy will experience very rapid real GDP growth when production begin, driven by the oil-related activity, while there is also the potential for a positive spillover to the onshore economy. This rapid pace of economic growth will increase per capita incomes, significantly boosting the country's debt-carrying capacity.

Staatsolie, the state-owned oil company, estimates government revenue of more than $20 billion over the life of the project. The government will receive significant fiscal revenue from the start oil production. Initially, a significant amount of revenue will come from the 6.25% royalty on oil production. Overall, we estimate the government could receive between $500 and $700 million annually beginning in 2028, and for revenue to increase significantly once the project reaches cost recovery point in 2032. Revenue of this size is significant for a $4 billion economy with total government revenue currently equal to 25% of GDP.

Sizeable anticipated future oil-related revenue has the potential to transform Suriname's economy, but the precise amount and timing of those revenues is sensitive to delays in production and the future level of oil prices.

The Caa1 rating incorporates risks associated with potential mismanagement of the oil windfall. With spending pressures likely to rise years ahead of the start of oil production, increased government borrowings, if not accompanied by improved fiscal and debt management would heighten the financial exposure of the government accounts to delays in the project or lower-than-projected oil production levels.

SIGNIFICANT REDUCTION IN GOVERNMENT DEBT RATIOS WITH METRICS LIKELY TO REMAIN ON A DOWNWARD TREND

To date, Suriname has already made considerable progress in lowering its debt burden. We expect government debt will come to around 74% of GDP at the end of 2024, from a peak of 146% in 2020. This improvement is underpinned by significant fiscal consolidation efforts. These reforms, supported by an IMF program, have contributed to a shift to primary surpluses and a positive fiscal trajectory.

We expect the debt burden to continue to decline at a steady pace, supported by primary surpluses equal to around 2.5% of GDP, steady nominal GDP growth, and a stable exchange rate. In our central scenario, where the government maintains an average primary surplus of 2.5% of GDP between 2024 and 2027, government debt will decline to 62% of GDP at the end of 2027, before the government begins to receive sizeable oil-related revenue.

Since entering an IMF program in 2021, the government has implemented a set of fiscal reforms that have contributed to a 10 percentage point of GDP improvement in the primary balance between 2020 and 2023. These reforms include the elimination of fuel subsidies, the beginning of a phased elimination in electricity subsidies, and restraint over the wage bill with public-sector wages declining in real terms. On the revenue front, the government introduced a value-added tax (VAT), increased non-tax revenue, and has begun to increase efforts at improving tax compliance and collection. Combined, these measures have simultaneously supported fiscal consolidation and created budget space for increases in social spending and capital expenditures.

Despite progress made, policy effectiveness remains limited, a characteristic that may affect the government's ability to maintain primary surpluses. During the first six months of 2024, the primary balance underperformed the full-year budget target and declined relative to the same period in 2023. The primary balance was close to balanced, compared to a 3% of GDP primary surplus target in the 2024 supplementary budget. Non-tax revenue collection underperformed in the first half of the year, as the government failed to increase fees on certain items.

Suriname's fiscal trajectory is subject to exchange rate and commodity price shocks, key risks that introduce an element of uncertainty to the government's debt trajectory. A 10% depreciation of the local currency would lead to a 5 percentage point increase in the debt-to-GDP ratio, everything else equal. Fiscal slippage is also a risk ahead of elections in 2025, more so given with the sovereign's greater access to commercial financing after the positive FID.

RATIONALE FOR THE POSITIVE OUTLOOK

The positive outlook reflects the potential for further sustained improvements in Suriname's economic and fiscal strength backed by economic reforms and improved investment prospects. Also, if managed effectively, future oil revenue would significantly reduce sovereign risk of default.

The government intends to amend existing legislation to improve fiscal framework, particularly for managing future natural resource revenue. This includes amendments to the SSFS and the Public Financial Management (PFM) Act to enhance the medium-term fiscal framework. The proposed new fiscal framework will include a fiscal rule, which combined with the SSFS, is designed to prevent premature budget increases ahead of oil revenue gains and promote financial stability.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Suriname's CIS-5 credit impact score indicates the rating is lower than it would have been if ESG risk exposures did not exist. For Suriname, this reflects very weak governance, along with exposure to social and environmental risks.

Suriname's E-4 issuer profile score for environmental risks reflects Suriname's vulnerability to physical climate risk, carbon transition risk, and water risk. Suriname's exposure to physical climate risk is driven by risks associated with a rising sea level given the portion of the population and economic activity that occur near the sea level. Water risks capture the impact of droughts and heavy rain on Suriname's agriculture production.

Suriname as a S-4 issuer profile score for social risk and is related to exposure to labor and income risks, given macroeconomic instability that will weigh on job creation. A high debt burden will put pressure on spending on areas related to healthcare and education, which over time, will increase social risks.

Suriname has a G-5 issuer profile score for governance risk. This captures Suriname's history of default, concerns over fiscal and macroeconomic policy effectiveness, as well as weak rule of law and control of corruption. The lack of policy predictability constrains our assessment of governance.

GDP per capita (PPP basis, US$): 18,226 (2023) (also known as Per Capita Income)

Real GDP growth (% change): 2.1% (2023) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 32.6% (2023)

Gen. Gov. Financial Balance/GDP: -1.5% (2023) (also known as Fiscal Balance)

Current Account Balance/GDP: 3.9% (2023) (also known as External Balance)

External debt/GDP: 108.6% (2023)

Economic resiliency: b3

Default history: At least one default event (on bonds and/or loans) has been recorded since 1983.

On 17 October 2024, 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 materially increased. The issuer's institutions and governance strength, have materially increased. The issuer's fiscal or financial strength, including its debt profile, has materially increased. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

The implementation of legislation that provides a framework to effectively and transparently manage future oil-related revenue would increase confidence over the government's ability to future revenues, potentially leading to upward rating pressure. Additionally, improvements in policy effectiveness, as demonstrated through continued economic and structural reforms, would reduce the sovereign's exposure to external shocks, and would also be positive for the rating. A sustained decline in the government debt burden, aided by continued fiscal reforms that broaden non-mining revenue, could lead to an upgrade.

FACTORS THAT COULD LEAD TO A DOWNGRADE

Conversely, a failure to maintain fiscal discipline, which leads to a deterioration in the government's fiscal balance, could lead to a downgrade. An increase in gross financing needs not commensurate with projected oil-related revenue could lead to a downgrade of the rating. Furthermore, delays in the start of offshore oil production or lower-than-expected future revenue would place negative pressure on the rating.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819 . Alternatively, please see the Rating Methodologies page on https://ratings.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.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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