

Rating Action: Moody's downgrades Suriname's issuer rating to B2 negative; concluding rating review

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New York, February 20, 2018 -- Moody's Investors Service ("Moody's") has today downgraded the long-term issuer and senior unsecured rating of the Government of Suriname to B2 from B1. The outlook was changed to negative from rating under review. This concludes the review for downgrade that commenced on 22 November 2017.

The drivers of the downgrade relate to the erosion of fiscal metrics, as reflected in an increase in debt ratios and deterioration in debt affordability metrics, despite fiscal reforms adopted by the authorities. The negative outlook reflects Moody's view that without additional measures to strengthen the fiscal position, the pace of fiscal consolidation may not be sufficient to prevent increased liquidity pressures.

Suriname's B2 rating balances the deterioration in fiscal metrics against an improvement in the external accounts and favorable investment prospects driven by the mining sector. Despite the authorities' commitment to carrying out additional structural fiscal reforms, Suriname faces challenges in the form of institutional constraints, which may limit the government's ability to carry out a comprehensive reform agenda.

Concurrently, Moody's lowered Suriname's long-term foreign-currency bond and deposit ceilings to Ba3 from Ba2 and to B3 from B2, respectively. Moody's has maintained the long-term local-currency bond and deposit ceilings at Ba2. All short-term foreign currency ceilings remain at Not Prime.

RATINGS RATIONALE

RATIONALE FOR DOWNGRADE TO B2

WEAKER FISCAL STRENGTH REFLECTED IN HIGHER DEBT RATIOS AND DECLINING DEBT AFFORDABILITY

Suriname's government debt burden peaked at 70.9% of GDP in 2016, up from 26% of GDP in 2014. Although Moody's anticipates it to likely stabilize around 60% of GDP, in the absence of continued fiscal reforms, the rating agency expects the pace of consolidation to be only gradual, with budget deficits averaging about 6% of GDP between 2017 and 2019.

The interest burden, i.e., interest payments to government revenues, will remain higher than the B-rated median with interest payments increasing to 18% of government revenue in 2017 and 2018 from 4.1% in 2014, far exceeding the median for B-rated sovereigns of 10%.

The deterioration in debt affordability is due to a shift in the composition of debt toward more expensive sources of borrowing. The share of non-concessional external market borrowing increased to 43% of total external debt in 2017 from 4% in 2014. The increase in non-concessional external borrowing reflects the \$550 million global bond issuance in October 2016. Although more than half of the proceeds were lent to the state-owned oil company Staatsolie, they ultimately constitute an obligation of the government of Suriname and are included in Moody's government debt figures, factoring into the rating agency's calculation of debt affordability. Meanwhile, short-term domestic debt, primarily Treasury bills, increased to 5.0% of GDP in June 2017, from 4.2% of GDP at the end of 2016. As a result, Moody's expects interest expenditures to exceed 3.0% of GDP in 2018 and 2019.

Moody's envisions a continued -- but gradual -- pace of fiscal consolidation supported by the introduction of a value-added tax (VAT) and prospects of increased mining-related revenue. VAT legislation has not been approved yet, but the authorities expect a vote by April. The VAT could increase government revenue by 2.5% of GDP in 2019, strengthening fiscal consolidation, helping to further diversify government revenue, and build resiliency to commodity shocks.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects Moody's view that in the absence of additional fiscal measures credit risks are tilted to the downside. Even though various measures have already been taken by the government, several reforms that Moody's views as important to improving fiscal flexibility have yet to be implemented. Without them, the pace of fiscal consolidation may not be sufficient to prevent increased liquidity pressures given Suriname's limited ability to rely more heavily on external and domestic sources of funding.

The authorities have shown strong commitment to structural reforms in the fiscal arena even after the IMF program came to an end. Evidence of this has been a push for a wide range of measures intended to improve public financial management, tighten controls on spending, and improve revenue collection.

However, Suriname's medium-term fiscal prospects will hinge on the government's ability to implement those reforms. In this respect, and despite the government's strong commitment to reform, the country faces significant institutional constraints due to human capital limitations that limit its capacity to carry out those reforms.

The government has already passed legislation to establish a sovereign wealth fund, which will have both a savings and stabilization function. However, Moody's does not anticipate it to materially affect Suriname's credit profile until after it begins accumulating assets in 2019, and will depend on the production level and price of gold in 2019 and beyond. Additionally, no deductions from the sovereign wealth fund can be made until 2023. Alternatively, the authorities expect a long-awaited VAT proposal to finally be voted on in the National Assembly in April. If approved, a VAT would support a shift to a more stable consumption-based tax system.

The outlook could also turn more favorable if an increase in mining output materializes, leading to higher mining-related tax revenue -- the start of production at the Saramacca mine is expected by the second half of 2019.

FACTORS THAT COULD LEAD TO FURTHER DOWNGRADES

Moody's would consider downgrading Suriname's rating if, in the absence of additional structural fiscal reforms, fiscal slippage contributed to an increase in liquidity risks given limited domestic and external funding options.

FACTORS THAT COULD LEAD TO AN UPGRADE

Given the negative outlook, an upgrade is unlikely in the foreseeable future. Moody's could change the outlook to stable from negative if the government were able to deliver on its commitment to additional fiscal measures to broaden and diversify the revenue base, through measures such as a VAT, which increase non-mining revenue. Additionally, efforts to improve oversight of spending, could result in Moody's changing the outlook to stable from negative.

Additional fiscal reforms can lead to an improvement in the medium-term fiscal outlook, beyond those envisioned in Moody's central scenario. The implementation of public financial management and public investment management reforms has the potential to improve budget control, resulting in gains in efficiency and effectiveness of government expenditures. Revenue measures to modernize tax administration can increase the revenue base and reduce revenue sensitivity to commodities.

GDP per capita (PPP basis, US\$): 13,985 (2016 Actual) (also known as Per Capita Income)

Real GDP growth (% change): 0.0% (2017 Estimate) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 9.1% (2017 Estimate)

Gen. Gov. Financial Balance/GDP: -7.0% (2017 Estimate) (also known as Fiscal Balance)

Current Account Balance/GDP: 9.4% (2017 Estimate) (also known as External Balance)

External debt/GDP: 47.1% (2017 Estimate)

Level of economic development: Low level of economic resilience

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

On 15 February 2018, 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 fiscal or financial strength, including its debt

profile, has materially decreased. The issuer has become increasingly susceptible to event risks.

The principal methodology used in these ratings was Sovereign Bond Ratings published in December 2016. Please see the Rating 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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