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CREDIT ANALYSIS

Rate this Research

Suriname, Government of

RATINGS

Suriname

	Foreign Currency	Local Currency
Gov. Bond Rating	Ba3/POS	Ba3/POS
Country Ceiling	Ba1	Ba1
Bank Deposit Ceiling	B1	Ba1

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This Credit Analysis provides an in-depth discussion of credit rating(s) for Suriname, Government of and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website.

Overview and Outlook

Suriname's rating balances a favorable outlook for growth, relatively low government debt ratios and high debt affordability against an elevated vulnerability to commodity price shocks, given that its economy is highly dependent on gold and oil exports, as well as low institutional capacity. The country's mineral wealth supports its positive economic prospects, with capital investment of around US$1.5 billion (about 30% of 2012 GDP) expected in two large mining projects over the next three to four years. Although plans to issue a US$500 million international bond in 2014 would increase total government debt by 50%, Suriname's debt burden and debt affordability compare favorably against those of rating peers even should these plans proceed.

The country's policy framework has stabilized significantly in the last decade, but weak institutional capacity remains a key credit constraint. Although the build-up of foreign exchange reserves in recent years has reduced the sovereign's vulnerability to adverse external shocks, the government's balance sheet and the economy as a whole continue to be highly exposed to volatility in commodity prices. Suriname's establishment of a sovereign wealth and stabilization fund, expected to be completed in 2014, should further alleviate these concerns.

Positive rating momentum could develop from: (1) the sovereign wealth fund, once established, successfully hedging the government's exposure to commodity price fluctuations and also reducing pro-cyclical discretionary spending from commodity revenue windfalls; (2) a reduction in the government's reliance on central bank financing and a deepening of the local currency bond market for government securities; and (3) a reduction in the dollarization of the banking system. Although the positive rating outlook makes a negative rating action unlikely, factors that could lead to one include: (1) a significant and prolonged decline in oil and/or gold prices, which would adversely impact export earnings and fiscal revenue; (2) a deterioration in the government's fiscal balance triggered by growth in non-capital spending, which would raise inflation expectations and put pressure on the currency peg; and (3) a rapid build-up of external commercial debt without adequate institutional safeguards to strengthen financing capacity.

This Credit Analysis elaborates on Suriname's credit profile in terms of Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk, which are the four main analytic factors in Moody's Sovereign Bond Rating Methodology.

Rating Rationale

> Our determination of a sovereign's government bond rating is based on the consideration of four rating factors: Economic Strength, Institutional Strength, Fiscal Strength and Susceptibility to Event Risk. When a direct and imminent threat becomes a constraint, that can only lower the preliminary rating range. For more information, please see our Sovereign Bond Rating Methodology.

Economic Strength: Moderate (-)

Strong growth performance, conditional on supportive external environment

Factor 1

Scale	VH+	VH	VH-	H+	H	H-	M+	M	M-	L+	L	L-	VL+	VL	VL-
+									■						-

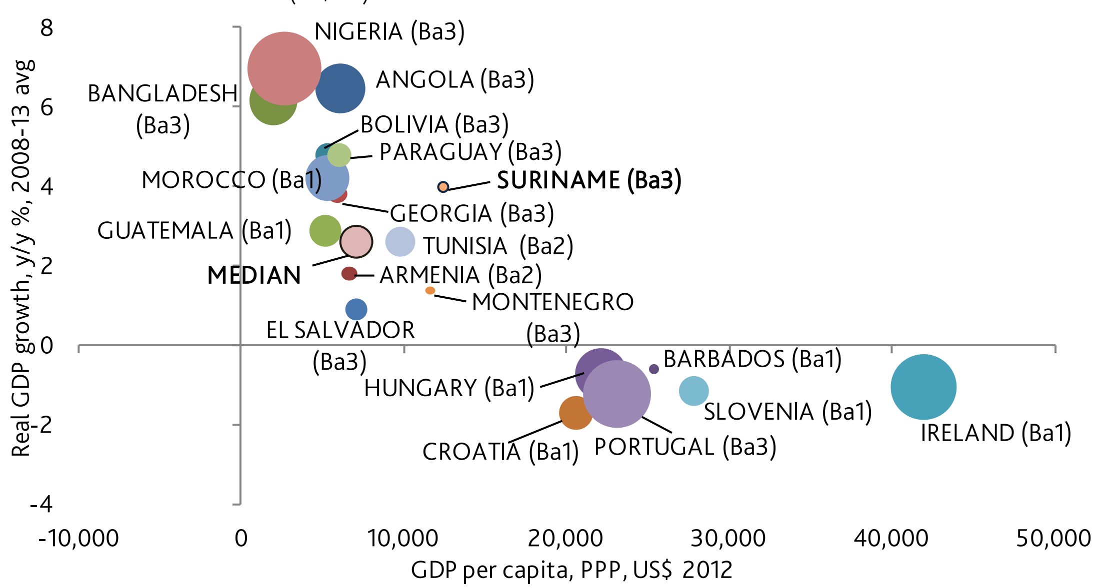
Economic strength evaluates the economic structure, primarily reflected in economic growth, the scale of the economy and wealth, as well as in structural factors that point to a country's long-term economic robustness and shock-absorption capacity. Economic strength is adjusted in case excessive credit growth is present and the risks of a boom-bust cycle are building. This 'Credit Boom' adjustment factor can only lower the overall score of economic strength.

Our 'moderate (-)' assessment of Suriname's Economic Strength reflects robust output growth in recent years, offset by the economy's small size and relatively low, albeit rising income level (see Exhibit 1). A key factor supporting its economic strength is Suriname's solid medium-term growth prospects, driven by abundant natural resources and an ability to attract large foreign investments in the extractive industries. Nevertheless, economic and export concentration, due to commodity dependence, remains significant and increases exposure to commodity price fluctuations.

EXHIBIT 1

Economic growth, wealth, and scale relative to Ba-rated peers

Size of Bubble = 2012 Nominal GDP (US$ Bil.)



Source: Moody's Investors Service

Three commodities dominate the Surinamese economy: gold, oil, and alumina. Commodity-related activities account for (i) more than 50% of GDP, (ii) over 90% of total exports, and (iii) 30%-35% of government revenues. Tourism, agriculture and construction are the fastest growing sectors of the economy, but they remain tiny compared to the commodities industry, and their relevance to credit quality is limited.

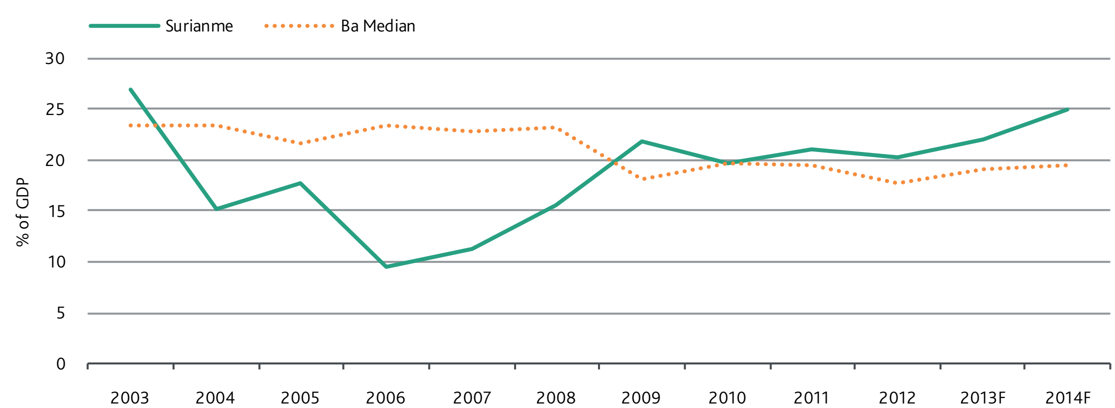
Suriname is still developing a track record of macroeconomic stability, given a recent history of double-digit inflation, volatile investment ratios, and a weak macroeconomic policy framework. Favorable commodity prices and increased mineral production underpinned the country's strong growth performance over the past decade, and we expect that external demand and public spending will support growth momentum going forward.

Positive growth prospects driven by mining investment and commodity exports

Real GDP growth averaged 5% over the last 10 years, with relatively low volatility compared to Ba-rated peers. Increased growth in commodity exports, which has had a strong multiplier effect on the broader economy, has been driving growth overall. Historically low investment rates have picked up substantially; over the last five years they have outperformed the Ba-median, which should raise the economy's growth potential over the long term (see Exhibit 2). An ambitious public investment programme in energy, housing, refining capacity and roads is also likely to support these trends. In all, we forecast growth of around 4% in 2013, supported by mining investment and exports, and 4.5% in 2014, when a new oil refinery is scheduled to come online in the second half of the year.

EXHIBIT 2

Gross Investment / GDP

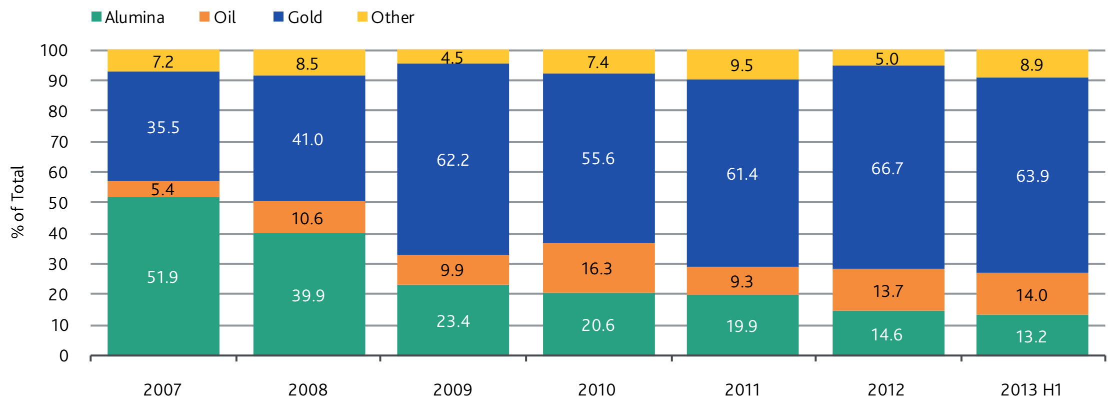


Source: Moody's Investors Service

High concentration of exports constrains economic strength

The three major commodities account for about 85% of total exports and over 95% of merchandise exports. Over the last five years, there has been a marked transition within Suriname's export basket towards gold (whose share grew from 35.5% to nearly 64% of total merchandise exports between 2007 and H1 2013) from the previously dominant alumina (see Exhibit 3).

EXHIBIT 3
Merchandise exports



Source: Central Bank of Suriname

Key Commodity Sector Developments

Gold

After a long upswing, the global gold industry is currently facing headwinds from an almost 25% drop in prices on international markets over the last year. Nevertheless, gold production in Suriname continues to expand (see Exhibit 4), and the outlook for the sector in the country remains strong supported by two new large investment projects. They are progressing towards implementation and expected to significantly boost gold output.

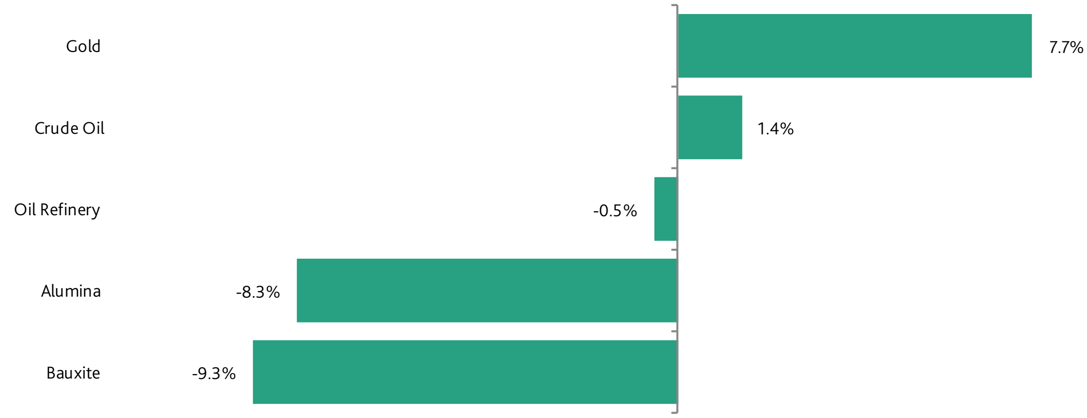
In June 2013, the National Assembly ratified agreements with Iamgold Corp, the country's largest gold producer, to expand the existing Rosebel mine,[1] and with Newmont Mining Corp to develop a new mining concession in east Suriname. We anticipate the two companies to make capital expenditure of around US$1.5 billion (about 30% of 2012 GDP) over the next three to four years, which will support economic growth, enhance fiscal revenues from the sector, trigger a significant uptake in foreign direct investment (FDI), and boost foreign exchange reserves.

The deals give the government an option to take an equity stake of up to 25% in the new Newmont mine and up to 30% in the Rosebel expansion. The authorities intend to finance their ownership stakes with proceeds from Suriname's first-ever international bond, although the US$500 million planned issuance has been postponed until the first half of 2014. We continue to expect that the government will exercise its buy-in options, but we think the likelihood of taking smaller ownership positions (in the region of 15%-20%) has increased. In the case that the bond encounters additional delays or there is further major deterioration in the outlook for the price of gold, and the government decides to walk away from its equity options, we believe both Iamgold and Newmont would still proceed with the projects and their respective investment programs.

[1] The Rosebel mine is the first large-scale gold operation in Suriname and largest gold concession in the country, accounting for over 90% of formal gold production.

EXHIBIT 4

Commodity sector output, 2007-13 compound annual growth rate



Source: Central Bank of Suriname

Part of the agreement signed between the government and Iamgold Corp. for the expansion of the Rosebel mine stipulates the provision of electricity to Rosebel at a fixed price of $0.09 per kilowatt-hour. At current production costs of $0.16-$0.17 per kilowatt-hour, this rate constitutes a potentially large subsidy that the IMF has flagged as a risk to the fiscal accounts. However, in 2014 Staatsolie (the government-owned energy company) will begin the installation of 100MW of new power-generation capacity. By the time the mining expansion becomes operational, we expect this added capacity to lower the cost of production and significantly decrease or eliminate the energy subsidy implicit in the Rosebel agreement. Currently, Iamgold's operation costs in Suriname are the lowest globally for the company: in the first nine months of 2013, total cash costs per ounce of gold were US$730 for the Rosebel mine compared to US$732 for the Essakane mine in Burkina Fasso and US$838 at the Doyon division in Quebec. Given the price pressures gold miners are facing, maintaining a low-cost environment is essential for preserving the competitiveness of Suriname's formal gold sector.

Small-scale alluvial gold mining is widespread in Suriname and estimated to produce up to 1 million troy ounces per year, almost the output of the formal sector. These informal gold operations contribute about 60% of gold exports (around US$1 billion or 20% of GDP in 2012). However, outside of the balance of payments accounts, their impact on the economy is limited.

Oil

Official estimates indicate that the Guyana/Suriname basin holds significant oil deposits, which could add to Staatsolies's reserves.[2] As of end-2012, proven onshore reserves were 73 million barrels, and production has been stagnant over the last three years at around 15,000 bpd. The relatively low growth of the crude oil sector in recent years reflects a lack of major new onshore discoveries and frequent equipment failure.

The oil sector is currently focused on Staatsolie's US$800 million refinery expansion project, which we anticipate will be completed by September 2014. The expanded plant will significantly boost refined output, transforming Suriname into a net exporter of fuel. The company is actively investing in offshore oil exploration and has signed production-sharing agreements with a number of foreign investors.

2 Oil companies believe that offshore oil and gas deposits in the region could mirror recent discoveries in West Africa. The US Geological Service estimates undiscovered oil reserves in the Guyana/Suriname basin to be around 13.6 billion barrels.

As part of its US$1.5 billion (30% of GDP) 2013-17 investment program, Staatsolie will invest US$300 million into a "sugarcane to ethanol" project, which the government sees as an important step towards economic diversification and employment creation, especially in western Suriname. Internal cash flows will finance the bulk of the investment program, and we do not expect the program to lead to any major additions to public debt. Planned new borrowings by Staatsolie amount to US$360 million (7% of GDP) in 2013 and 2014, but a large portion of the receipts will be used to roll over some of the company's existing, more expensive debt of around US$225 million (4.3% of GDP).

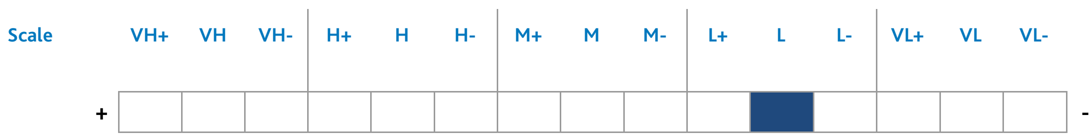
Alumina

The global alumina industry has been hit hard by weak international demand and decreasing prices, driven by Chinese producers oversupplying the market and a technological shift away from using aluminum in industrial production and construction. Consequently, the alumina sector is shrinking, and Suralco (Alcoa) facilities in Suriname are running below capacity. Suralco's revenue stream is now more dependent on electricity generation than alumina exports, although exploration for bauxite deposits continues. There are vast, untapped bauxite resources in western Suriname, but their exploitation requires large investment in infrastructure and energy-generation capacity, which is not economically feasible given the bleak outlook for the sector. Aluminum-related government revenues have been declining consistently, and we expect the sector's role in the economy to keep diminishing.

Institutional Strength: Low

Institutional weakness is a major rating constraint

Factor 2

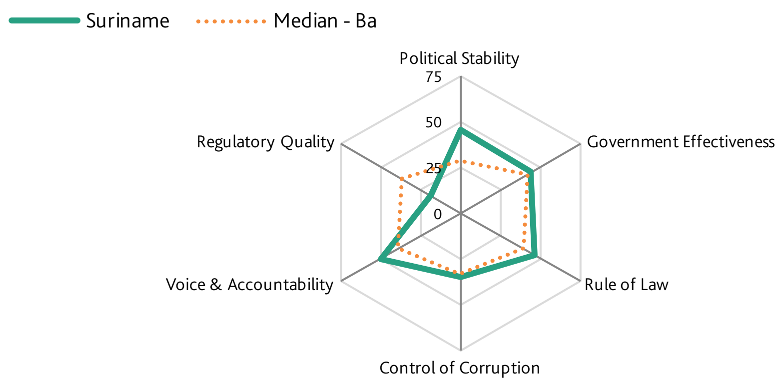


Institutional strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth and prosperity. Institutional strength is adjusted for the track record of default. This adjustment can only lower the overall score of institutional strength.

Our assessment of Suriname's 'low' Institutional Strength is based on the country's relatively unfavorable scores on the World Bank's governance indicators, which place Suriname's government effectiveness, rule of law, and other dimensions of institutional quality in the bottom half among our rated sovereigns (according to the latest figures based on 2012 surveys). These scores are generally in line with the Ba category medians, outperforming them on Political Stability, but ranking lower in terms of Regulatory Quality (see Exhibit 5). We believe that official data reporting standards and practices in Suriname are weak. These shortcomings also limit our assessment of institutional capacity.

EXHIBIT 5

Governance quality relative to Ba-rated peers



Source: World Bank, Moody's Investors Service

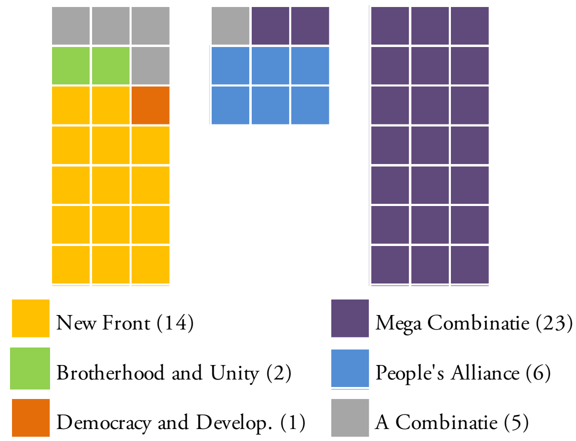
The administration of President Desi Bouterse has indicated that it remains committed to maintaining macroeconomic stability. The president appointed independent technocrats and private-sector representatives to the central bank, the Ministry of Finance and the vice presidency when he came to power in 2010, building on the previous administration's commitment to ending erratic and heterodox macroeconomic policies.

Political stability supports the economic environment, but government execution capacity is limited

President Bouterse's administration remains largely popular as macroeconomic performance has been favorable and the average living standard has improved during its time in office. Although the government has a large parliamentary majority, holding 34 out of 51 seats, political fragmentation and bureaucratic appetite within the governing coalition limit any reform momentum.

The 51-member legislative body is made up of 12 parties grouped in six separate factions or coalitions (see Exhibit 6). Three parliamentary groups support Bouterse's administration: the Mega Combinatie (MC), the A-Combinatie (AC) and the People's Alliance. The main opposition force, the New Front, holds 14 seats and is not in a particularly strong position to challenge the government's policy agenda. However, the ruling coalition's very broad framework is conducive to political in-fighting that has stalled a number of important reforms, including the establishment of a sovereign wealth fund (SWF) for the preservation of mineral wealth. The next general elections are due in 2015, and Mr. Bouterse looks set to win a second consecutive mandate. We expect fiscal easing in the build-up to the elections, leading to a budget deficit of around 4% of GDP in 2014, up from the 3.5% deficit we expect in 2013.

EXHIBIT 6
Composition of Parliament



Source: National Assembly of Suriname

Two entities within the government, the central bank (CBvS) and the president's office, formulate and execute economic policy almost exclusively. Although no legislation codifies central bank independence, the bank has an informal standing agreement with the ministry of finance and has moved to limit direct lending to the government as a precursor to formal independence. Capacity-building in public administration and the training and retention of a sufficient number of skilled public sector employees remain a challenge. Similarly, technical coordination among ministries on project implementation, procurement and staffing is limited, reflecting low institutional strength.

The protracted negotiations with Newmont over the new gold concession that have been underway since 2004 highlight institutional deficiencies, as does the resistance faced by the draft sovereign wealth fund law in the National Assembly.

Fiscal Strength: High

Low debt burden and high affordability mitigate elevated fiscal exposure to commodities sector

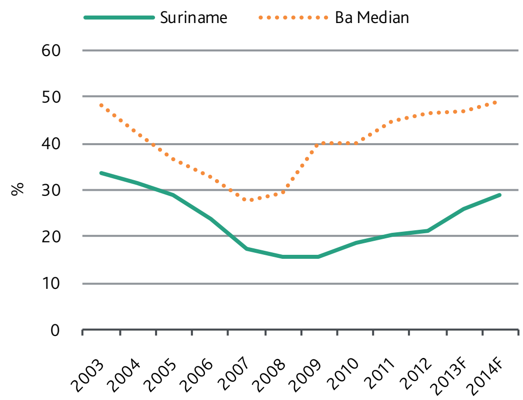
Factor 3

Scale	VH+	VH	VH-	H+	H	H-	M+	M	M-	L+	L	L-	VL+	VL	VL-	
+					■											-

Fiscal strength captures the overall health of government finances, incorporating the assessment of relative debt burdens and debt affordability as well as the structure of government debt. Some governments have a greater ability to carry a higher debt burden at affordable rates than others. Fiscal strength is adjusted for the debt trend, the share of foreign currency debt in government debt, other public sector debt and for cases in which public sector financial assets or sovereign wealth funds are present. Depending on the adjustment factor the overall score of fiscal strength can be lowered or increased.

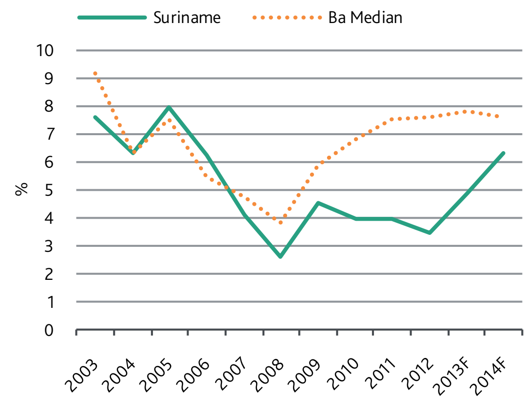
Suriname's 'high' Fiscal Strength assessment reflects the country's low and affordable debt burden that compares favorably with the 'Ba' category medians (see Exhibits 7 and 8). Low debt ratios combined with access to concessional financing are credit strengths, mitigating high fiscal dependence on the commodities sector. Overall, Suriname's fiscal health has been improving over the past decade, and government debt as a share of GDP declined from almost 52.0% in 2000 to around 21.3% in 2012, reflecting robust economic growth. Suriname shares the 'high' Fiscal Strength ranking with sovereigns such as Armenia (Ba2 stable), Bolivia (Ba3 stable), and Zambia (B1 stable).

EXHIBIT 7
Central government debt / GDP



Source: Moody's Investors Service

EXHIBIT 8
Central government interest payment / revenue



Source: Moody's Investors Service

Debt ratios to increase in 2014 with planned international bond issuance, but will remain relatively low

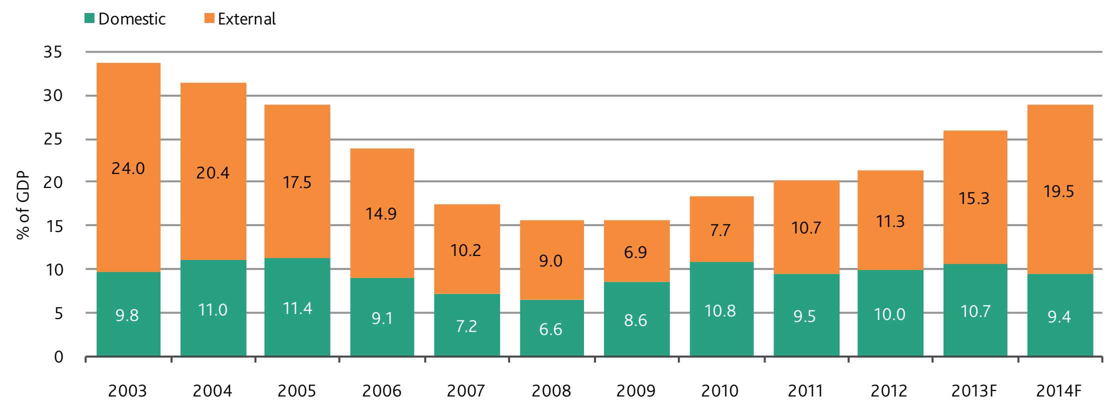
Since late 2012, the government has been gearing to tap the international capital markets for the first time, as it plans to issue a US$500 million (around 10% of GDP) 10-year bond to fund its ownership stakes in the Rosebel and Newmont mining projects and to re-finance part of Staatsolie's existing obligations. Due to technical delays and the recent tightening of global financing conditions, the bond issuance has been postponed until next year. If the sale goes ahead, it would increase the government's total debt stock by 50% and almost double external debt relative to 2012.

Our base case scenario assumes that the bond will be issued in 2014, pushing government debt to 28.8% of GDP in that year, which is still considerably lower than the 49.0% of GDP median for Ba-rated peers. While an issuance of such size will increase the country's debt burden, it will also give Suriname the opportunity to diversify its financing sources. The government's goal is to issue a bond with a repayment structure that closely matches the time frame of expected returns from its equity investments in the gold sector so that it can use proceeds from the mining projects to service the bond.

The planned international bond would increase the relative share of external debt in the government's debt profile (see Exhibit 9). However, both external and domestic debt will remain comfortably below the legal limits of 35% and 25% of GDP respectively.[3]

[3] In December 2010, the government increased the legal limit for domestic debt to 25% of GDP from 15%, while lowering the foreign debt ceiling to 35% from 45% of GDP. These thresholds were set to increase the government's capacity to borrow domestically and limit exposure to external debt.

EXHIBIT 9
Central government debt profile



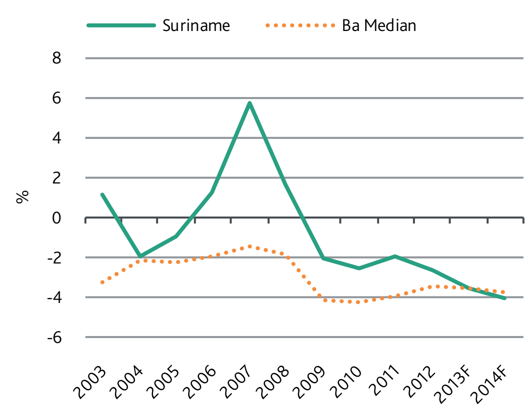
Source: Central Bank of Suriname, Moody's Investors Service

Elevated expenditures and lower revenues from commodities suggest fiscal deterioration in 2013

After three consecutive years of fiscal surpluses from 2006 to 2008, the government's budget balance turned negative with the onset of the global economic crisis in 2009. High infrastructure spending by the government has kept the balance in a modest deficit of 2%-3% of GDP since then. The lack of a credible, rule-based budget framework leads to substantial volatility in fiscal management, resulting in stop-and-go policies, pro-cyclicality and a bias towards expansionary fiscal dynamics.

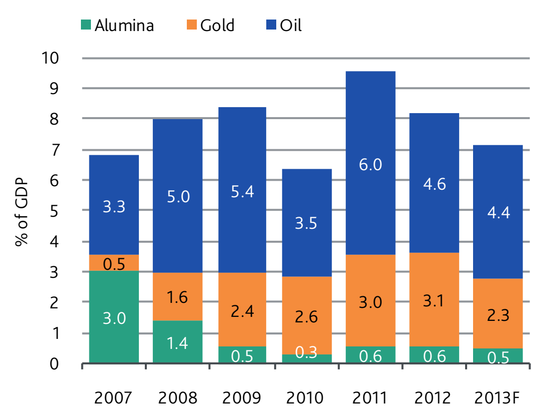
We expect a deterioration in the fiscal deficit to 3.5% of GDP in 2013 from 2.7% in 2012 (see Exhibit 10). An acceleration in capital spending on infrastructure and increased public sector wages (which were approved in 2012) will drive the widening fiscal deficit, against a backdrop of lower fiscal revenues from commodities (see Exhibit 11).

EXHIBIT 10
Central government financial balance / GDP



Source: Moody's Investors Service

EXHIBIT 11
Commodity sector contribution to government revenue



Source: Central Bank of Suriname

Fiscal revenues depend heavily on the gold and oil sectors, which provide about 30%-35% of total government income. Although Suriname's gold production increased 6.5% and gold exports grew 8.4% in 2012, due to the decline in gold prices that started in late 2012, the value of production and exports has decreased markedly from its 2011 peak. The authorities intend to introduce a value-added tax (VAT) on sales in 2015 in order to broaden the tax base and decrease dependence on commodities. The tax reform, however, may be revenue-neutral in the short term as it will likely be offset by a reduction in income tax rates. The VAT rate is likely to be in the 15%-17% range, in line with regional levels.

The government also intends to implement laws and on-site inspections to formalize the large informal gold sector and increase the fiscal intake from it. Informal mining operations contributed about 60% of gold exports with a value of around US$1 billion (20% of GDP), but yielded less than US$50 million in royalties and taxes. We believe that these efforts are unlikely to generate sizeable revenues over the short term.

Spending pressures are considerable, given increasing social demands and the approaching electoral cycle. Capital spending, mainly on road infrastructure and housing development, is likely to remain elevated through 2015, in line with the government's investment programme. Subsidies (including on electricity, water and public transportation) have grown at a rapid pace, increasing to 5.9% of GDP in 2012 from 5.5% in 2011.

The government is the economy's largest employer, absorbing over 40% of employed labor, making wages the largest expenditure item in the fiscal accounts. Salary adjustments and discretionary expenditure on goods and services are likely to increase in the run-up to the general election in 2015. As such, we forecast a further moderate deterioration of the government's deficit in 2014 to 4% of GDP.

The government's decision to take a paid-in equity stake in two gold mining projects could have significant financial implications. This is so because of the borrowings that will be required to fund the initial equity stake, in addition to future calls for capital which could materialize in the coming years.

Sovereign Wealth Fund

While the creation of a sovereign wealth fund could mitigate risks from fluctuations in fiscal revenues from the volatile commodity sector in the medium term, our view is that for such an institution to be effective, transparent governance and strong political commitment are required.

Legislation to approve the Suriname Stabilization and Savings Fund (SSFS), which will absorb excess mineral and oil sector revenues, is currently pending approval by the National Assembly. Due to resistance from some factions in parliament and pressures to divert mineral revenues towards more imminent financial needs, the draft law has encountered major delays. But, the IMF has recently cautioned against attempting to restrict the scope of the fund. We expect the fund to be operational by mid-2014. However, its fiscal impact will not be realized until 2015-16, at the earliest. In the medium term, the fund should offset revenue volatility stemming from fluctuations in commodity prices, diversify the government's revenue base away from mining, and potentially mitigate the exchange rate risks associated with exporting oil and gold.

We expect that, in the next five years, funding for the SSFS will materialize given anticipated growth in mining activities (Rosebel expansion and Newmont concession coming online), a new Staatsolie oil refinery on track to start operations in late 2014 to early 2015, and commercially viable offshore oil/gas discoveries. The ability of the SSFS to provide a fiscal hedge against commodity revenue volatility will depend critically on its management, governance structure, and the authorities' political commitment. As these dynamics are yet to play out, we do not anticipate the SSFS to be a significant ratings factor in the next two to three years.

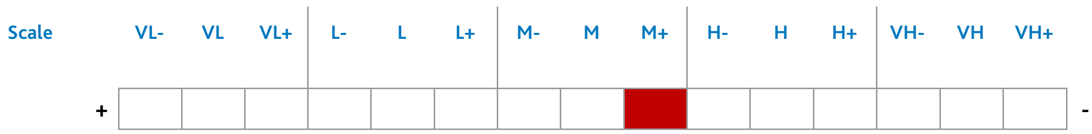
Arrears

Arrears with the US were removed in 2011 and the entire debt was repaid in full in 2012. The action marked a turning point in the government's relationship with external creditors, removed a ratings constraint, and underscored Suriname's improving management of public finances. Suriname carried substantial bilateral debt arrears for over a decade – outstanding arrears on external debt declined from close to 10% of GDP in 2001 to around 1% in 2011. Clearing bilateral debt arrears represents an improvement in the government's willingness to service outstanding debt, and we view it as a credit positive. It follows the settlement of arrears totaling US$118 million with Brazil in 2008-09.

Susceptibility to Event Risk: Moderate (+)

Vulnerability to commodities price fluctuations drive susceptibility to event risk

Factor 4



Susceptibility to Event Risk evaluates a country's vulnerability to the risk that sudden events may severely strain public finances, thus increasing the country's probability of default. Such risks include political, government liquidity, banking sector and external vulnerability risks. Susceptibility of Event Risk is a constraint which can only lower the preliminary rating range as given by combining the first three factors.

Overall, we assess Suriname's Susceptibility to Event Risk as 'moderate (+)'. The country shares the ranking with Angola (Ba3 positive), Bolivia (Ba3 stable), and Albania (B1 stable), among others. The assessment is based on our view of: (1) political risks, both domestic and geopolitical; (2) government liquidity risk; (3) banking sector risks that could result in the crystallization of contingent liabilities on the sovereign's balance sheet; and (4) external vulnerability, reflecting balance of payments risks and susceptibility to 'sudden stops'.

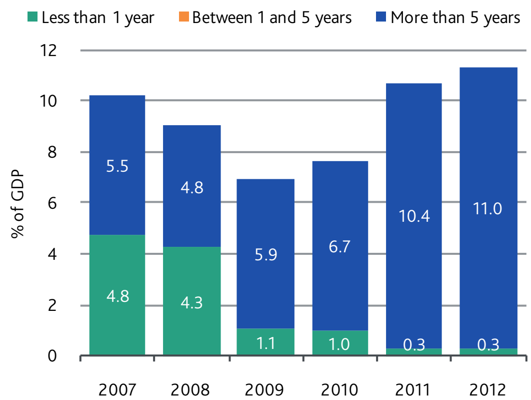
Political Risk

Historically, Suriname's volatile political environment was a critical rating constraint and a key determinant of long-term growth prospects. However, political stability has gradually gained traction over the last decade, and we deem political risk to be 'moderate (+)' at present. We expect that political stability will be maintained through the next election cycle in 2015, forming the foundation for a stronger institutional framework that supports macroeconomic performance. Anecdotal evidence points towards the continued popularity of the Bouterse administration, and we think the risk of political or labor unrest is low.

Government Liquidity Risk

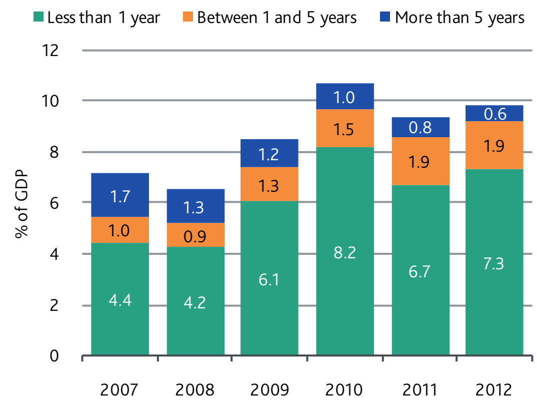
We deem government liquidity risk to be 'very low (-)'. Suriname's debt maturity profile suggests little rollover risk for external debt, which consists almost entirely of concessional loans with maturities of five years or more (see Exhibit 12). Domestic debt is primarily in the form of T-bills/bonds and direct short-term loans from the central bank (see Exhibit 13). The average interest rate on domestic debt is around 6.5%, compared to 1.0%-2.0% on external debt. We project debt service costs (principal and interest) for the current stock of loans to remain around 1% of GDP between 2012 and 2016, with no major external amortizations coming due before 2020.

EXHIBIT 12
External debt maturity profile



Source: Debt Management Office of Suriname

EXHIBIT 13
Domestic debt maturity profile



Source: Debt Management office of Suriname

Banking Sector Risk

The banking system's small size limits potential contingent fiscal liabilities from the sector. Total bank assets are less than 60% of GDP and private sector credit less than 30% of GDP (significantly lower than Suriname's peers at a similar level of development), and the system is largely deposit-funded. In this context, we consider banking sector risk to be 'very low (+)'.

There are nine banks in Suriname, but the three largest banks that account for 80% of assets dominate the sector. The government owns four banks and is currently looking for ways to merge three of them as well as to divest some of its equity.

The leading banks are well-capitalized and profitable, but compliance with regulatory requirements tends to be uneven and a fringe of smaller banks remains undercapitalized. As of September 2013, system-wide regulatory Tier I capital to risk-weighted assets was 11.4%, above the current 8% minimum. The central bank is in the process of introducing more stringent rules, including a new minimum capital requirement against risk-weighted assets of 10%, which most smaller banks will have difficulty meeting.

Profitability is still lower than pre-crisis levels, but ROA has increased to 2.8% in 2013 from 1.9% in 2012 while ROE has increased to 38.7% from 24.8% (see Exhibit 14). Non-performing loans (NPLs) have also decreased to 6.4% in 2013 from an average of 8.0% in 2007-11. However, the ratio is likely to rise again as a result of the reclassification of loans under the new regulatory guidelines of the central bank. We note that the loan portfolios of the larger banks are significantly healthier than the average number suggests. The share of bank assets and liabilities in foreign currency, especially on the credit side, has been reduced, and the authorities are considering establishing prudential limits on banks' foreign currency exposures.

The National Assembly has passed new banking supervision legislation, significantly expanding the powers of the central bank to monitor banks and to take corrective actions. However, capacity constraints at the central bank's supervision department could delay their implementation.

EXHIBIT 14

Financial Stability Indicators, %

	2007	2008	2009	2010	2011	2012	2013
Capital Adequacy							
Capital to risk-weighted assets	10.4	9.8	10.8	12.2	12.1	12.6	12.5
Tier I capital to risk-weighted assets	8.8	8.4	9.5	10.8	10.9	11.5	11.4
Asset Quality							
NPLs to total loans	8.6	7.8	7.9	7.9	8.0	6.2	6.4
NPLs net of provisions to capital	42.9	45.3	46.7	44.6	44.0	30.6	32.7
FX loans to total loans	--	--	--	37.1	40.7	42.2	42.1
Profitability							
ROA	3.1	2.8	2.5	2.2	1.9	1.9	2.8
ROE	43.3	40.5	35.3	36.9	27.2	24.8	38.7
Liquidity							
Liquid assets to total assets	33.9	32.6	29.8	29.2	26.4	28.4	26.7
Liquid assets to total ST liabilities	57.9	58.3	52.9	54.4	49.2	54.6	54.1

Source: Central Bank of Suriname

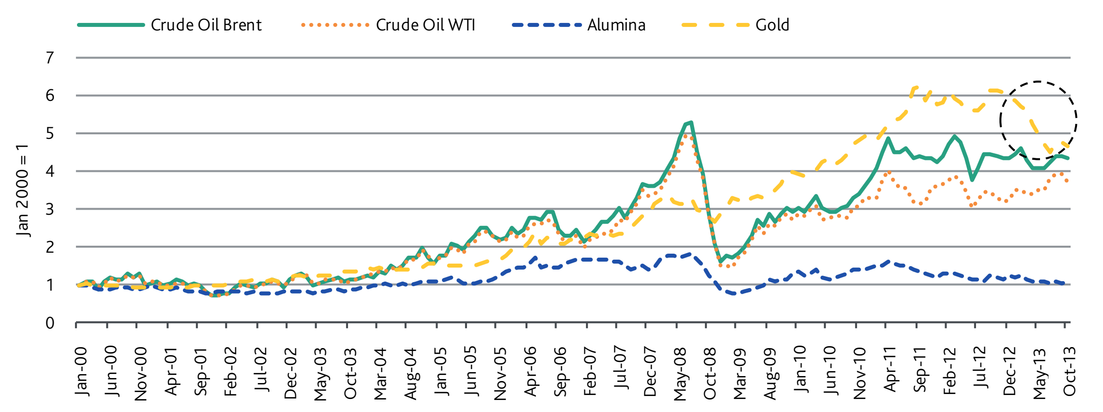
External Vulnerability

Given Suriname's economic and fiscal dependence on its gold and oil sectors and the volatile nature of commodity prices (see Exhibit 15), we assess Suriname's external vulnerability as 'moderate (-)'. The anticipated establishment of a sovereign wealth fund in 2014 should act as a policy hedge to dampen the fiscal impact of a decline in commodity prices, but its implementation remains uncertain.

Increased production in the gold and oil sectors, coupled with the recent commodity price boom, has allowed Suriname to post current account surpluses since 2006 and accumulate foreign exchange reserves of around 15% of GDP, which provide the economy with a cushion against external shocks.

EXHIBIT 15

Long-term trend in global gold, alumina, and oil prices

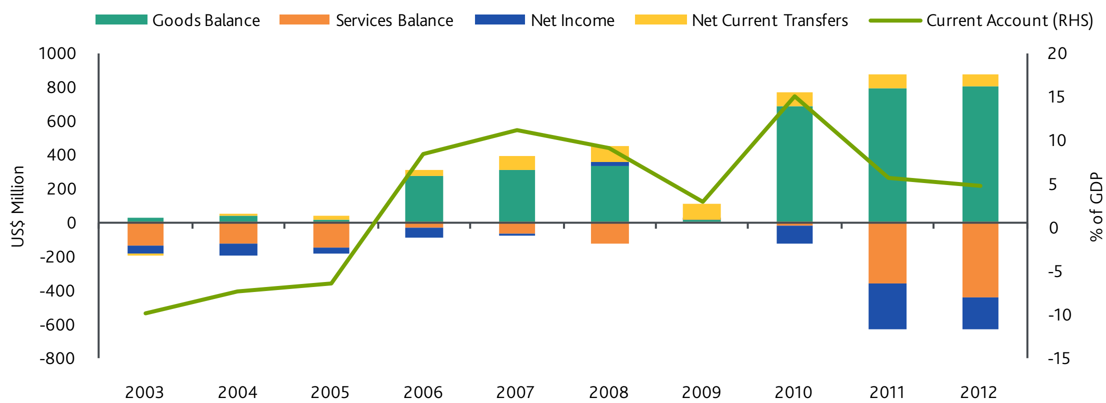


Source: Haver Analytics, World Bank

Between 2006 and 2012, the current account surplus averaged 8.1% of GDP, ranging from a low of 2.9% in 2009 to a peak of 14.9% the following year. The net services and income balance deficits have broadened significantly in the last two years. However, they have been more than offset by large trade surpluses (see Exhibit 16).

EXHIBIT 16

Structure of the current account

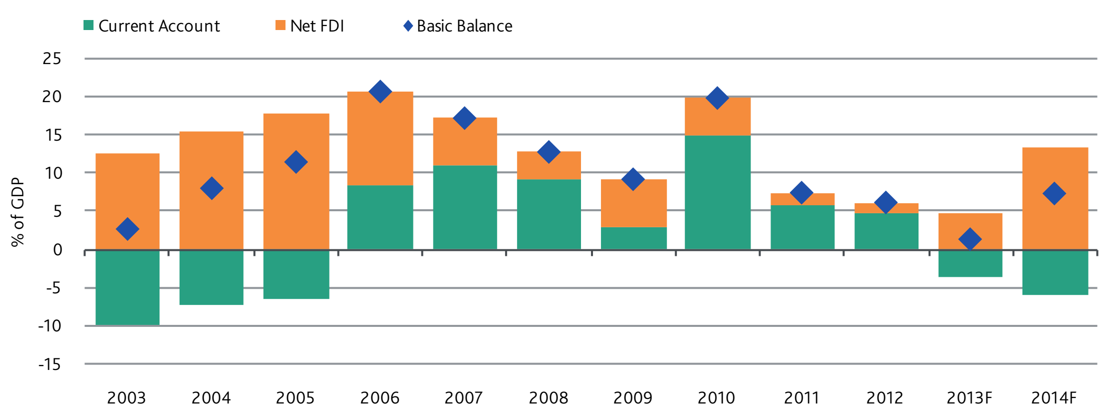


Source: IMF

Given lower commodity receipts in 2013 and the likely increases in capital goods imports (i.e., large mining and construction equipment) in conjunction with the large mining expansion/construction projects slated to begin in 2014, we expect the current account to shift into deficits of 3.5% of GDP in 2013 and 6.0% of GDP in 2014. From our perspective, a return to current account deficits because of significant capital investment is not a credit concern. As in the past, we expect FDI flows to exceed any potential current account deficits, leading to a positive basic balance (see Exhibit 17).

EXHIBIT 17

Basic balance

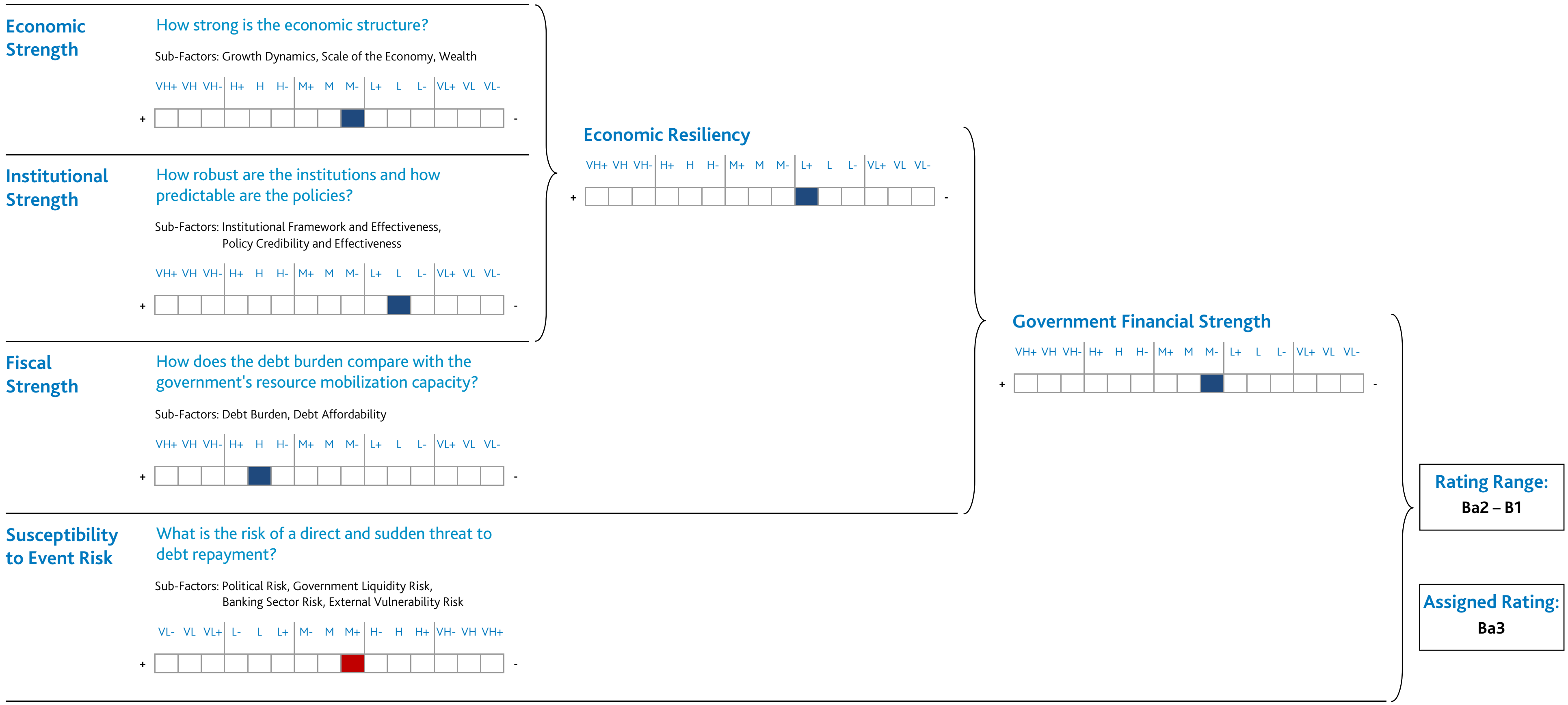


Source: IMF, Central Bank of Suriname

Rating range

Combining the scores for individual factors provides an indicative rating range. While the information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the rating range. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the indicative rating range. For more information, please see our Sovereign Bond Rating Methodology.

Sovereign rating metrics: Suriname



Comparatives

This section compares credit-relevant information regarding Suriname with other sovereigns rated by Moody's Investors Service. It focuses on a comparison with sovereigns within the same rating range and shows the relevant credit metrics and factor scores.

Despite relatively high income levels, Suriname's economic strength remains in line with peers due to its small economy and average growth performance. Low institutional capacity and moderate susceptibility to event risk are common among 'Ba' peers. Suriname's solid government balance sheet is a key credit strength that compares favorably with peer scores, underpinning its Ba3 rating and positive outlook.

EXHIBIT 18

Suriname key peers

		Suriname	Georgia	Armenia	Zambia	Dominican Republic	Ba3 Median	Latin America & Caribbean Median
Rating/Outlook		Ba3/POS	Ba3/STA	Ba2/STA	B1/STA	B1/STA	Ba3	Ba2
Rating Range		Ba2 - B1	Baa3 - Ba2	Ba3 - B2	Ba3 - B2	Ba3 - B2	Ba1 - Ba3	Baa3 - Ba2
Factor 1	**Year**	**M-**	**L+**	**L-**	**L-**	**M**	**M-**	**M-**
Nominal GDP (US$ Bn)	2012	5.0	15.8	10.0	21.6	58.9	26.5	31.6
GDP per Capita (PPP, US$)	2012	12,299	5,930	5,838	1,722	9,646	6,136	11,776
Avg. Real GDP (% change)	2008-2017	4.4	4.8	2.9	7.3	4.5	4.8	3.3
Volatility in Real GDP growth (ppts)	2003-2012	1.2	4.7	8.6	0.9	3.5	2.0	2.6
Global Competitiveness Index, percentile [1]	2012	11.0	36.6	31.1	21.1	11.9	13.8	24.8
Factor 2		**L**	**M**	**L+**	**L-**	**L-**	**L-**	**M**
Government Effectiveness, percentile [1]	*2012*	35.5	58.6	36.3	14.0	18.1	23.1	35.5
Rule of Law, percentile [1]	*2012*	43.8	41.3	33.0	28.9	15.7	16.5	28.0
Control of Corruption, percentile [1]	*2012*	33.8	47.9	24.7	27.2	14.0	28.9	36.3
Avg. Inflation (% change)	2008-2017	6.4	4.8	5.0	7.7	5.2	5.2	5.0
Volatility in Inflation (ppts)	2003-2012	6.8	3.6	2.7	5.0	15.4	3.5	2.7
Factor 3		**H**	**M+**	**H-**	**H**	**L-**	**H-**	**M+**
Gen. Gov. Debt/GDP	2012	21.3	32.6	44.1	26.9	32.9	32.9	33.3
Gen. Gov. Debt/Revenues	2012	87.6	113.0	180.8	126.2	237.5	104.0	161.9
Gen. Gov. Interest Payments/Revenue	2012	3.5	3.4	4.6	7.6	17.7	4.0	9.0
Gen. Gov. Interest Payments/GDP	2012	0.9	1.0	1.1	1.5	2.5	1.4	2.1
Gen. Gov. Financial Balance/GDP	2012	-2.7	-2.9	-1.5	-4.3	-6.6	-2.9	-2.5
Factor 4		**M+**	**M**	**M**	**M**	**M**	**M**	**M**
Current Account Balance/GDP	2012	4.8	-11.5	-11.1	-1.5	-7.2	-1.0	-3.4
Gen. Gov. External Debt/Gen. Gov. Debt	2012	53.1	82.7	--	--	66.9	52.5	43.3
External Vulnerability Indicator	2014F	7.1	112.6	91.6	62.8	104.1	31.9	55.5

Notes:

[1] Moody's calculations. Percentiles based on our rated universe.

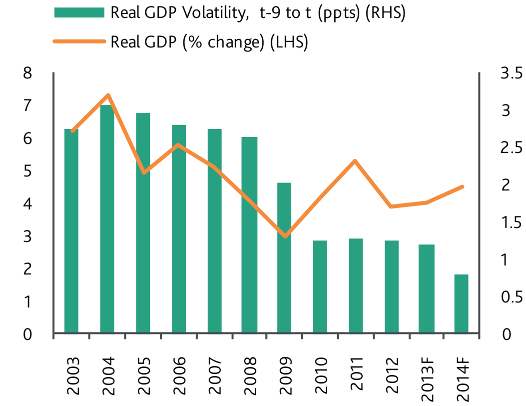
Source: Moody's Investors Service

Appendices

Chart Pack

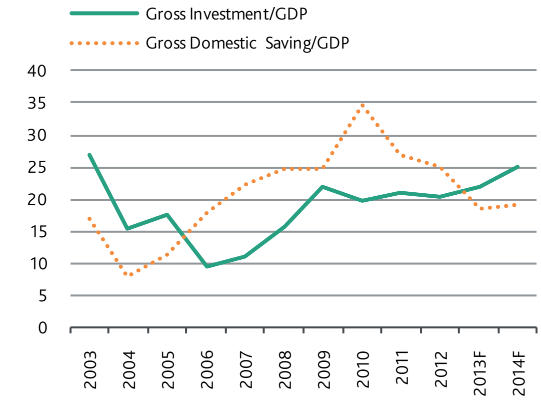
Suriname

EXHIBIT 19
Economic Growth



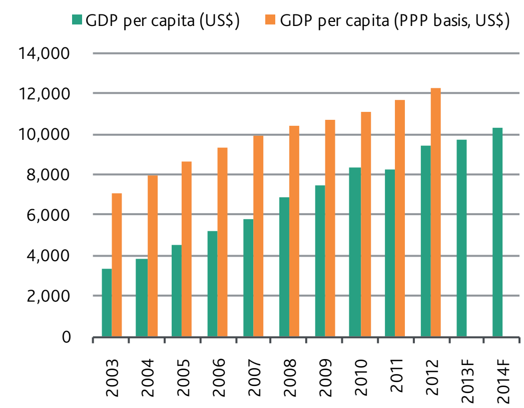
Source: Moody's

EXHIBIT 20
Investment and Saving



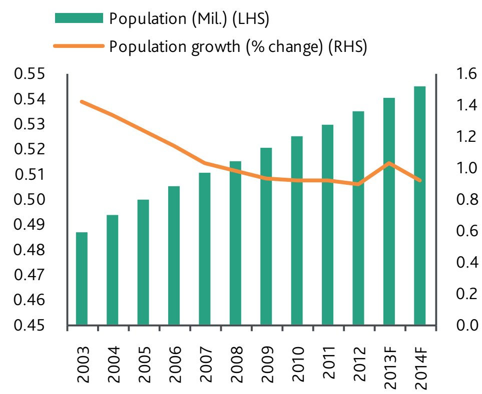
Source: Moody's

EXHIBIT 21
National Income



Source: Moody's

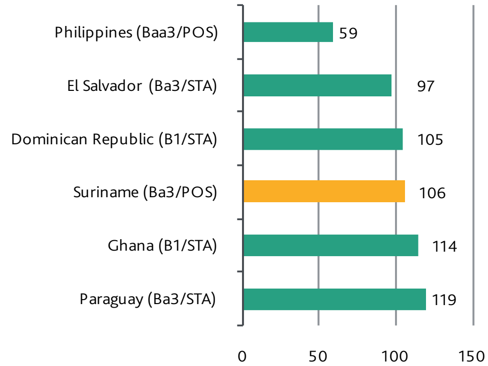
EXHIBIT 22
Population



Source: Moody's

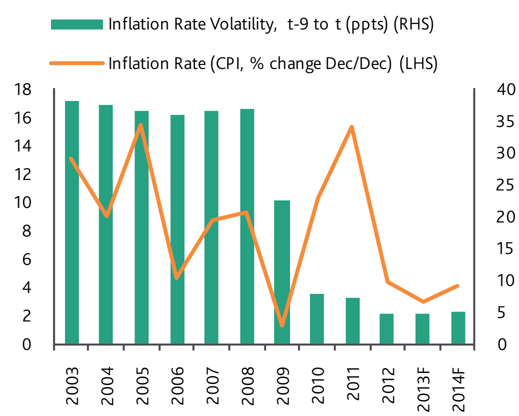
EXHIBIT 23
Global Competitiveness Index

Rank [106] out of [148] countries



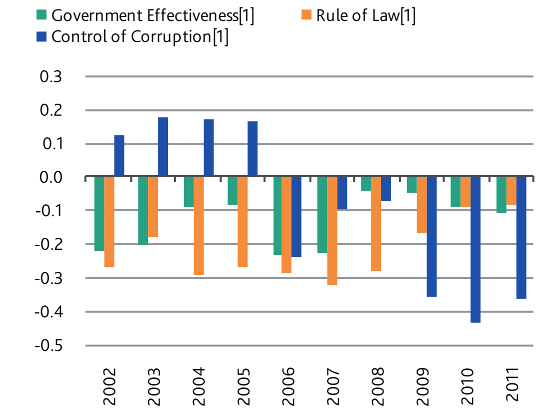
Source: World Economic Forum

EXHIBIT 24
Inflation and Inflation Volatility



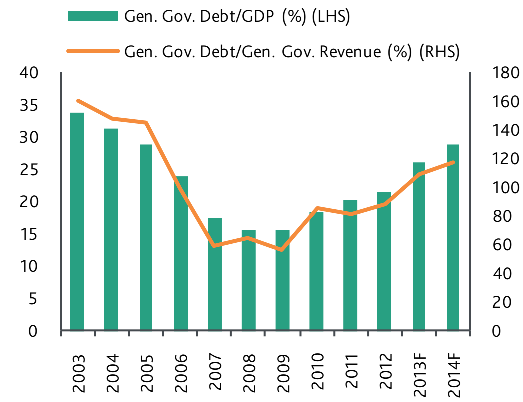
Source: Moody's

EXHIBIT 25
Institutional Framework and Effectiveness



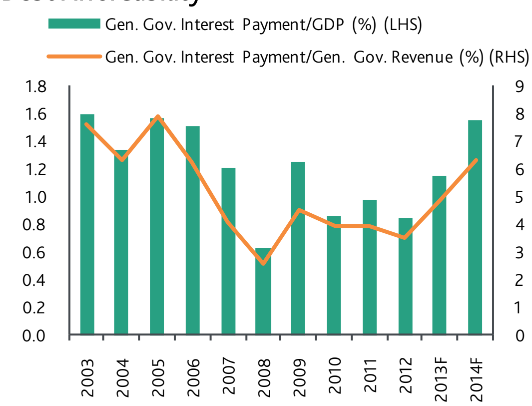
Notes: [1] Composite index with values from about -2.50 to 2.50: higher values correspond to better governance.
Source: World Bank Governance Indicators

EXHIBIT 26
Debt Burden



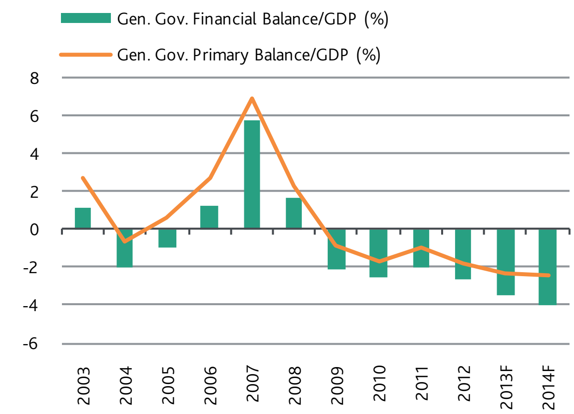
Source: Moody's

EXHIBIT 27
Debt Affordability



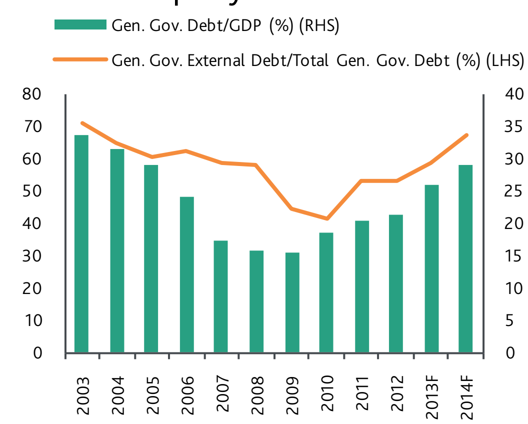
Source: Moody's

EXHIBIT 28
Financial Balance



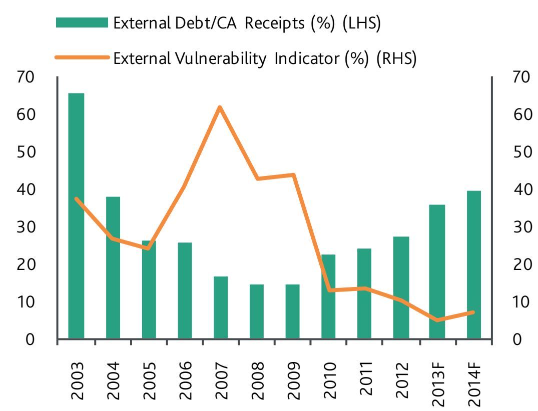
Source: Moody's

EXHIBIT 29
Government Liquidity Risk



Source: Moody's

EXHIBIT 30
External Vulnerability Risk



Source: Moody's

Rating History

Suriname

	Foreign Currency Ceilings				Government Bonds			
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency	Outlook	Date
Rating Raised	Ba1	--	B1	--	Ba3	Ba3	Positive	August-12
Rating Raised	Ba2	--	--	--	--	--	--	May-06
Rating Assigned	B1	NP	B2	NP	B1	Ba3	Stable	February-04

Annual Statistics

Suriname

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F
Economic Structure and Performance										
Nominal GDP (US$, Bil.)	2.2	2.6	2.9	3.5	3.9	4.4	4.4	5.0	5.2	5.7
Population (Mil.)	0.500	0.505	0.510	0.515	0.520	0.525	0.530	0.535	0.540	0.550
GDP per capita (US$)	4,477	5,206	5,743	6,843	7,437	8,307	8,231	9,376	9,711	10,280
GDP per capita (PPP basis, US$)	8,656	9,329	9,953	10,423	10,674	11,099	11,693	12,299	--	--
Nominal GDP (% change, local currency)	19.6	18.0	11.9	20.3	9.7	12.7	18.9	16.0	4.6	7.8
Real GDP (% change)	4.9	5.8	5.1	4.1	3.0	4.2	5.3	3.9	4.0	4.5
Inflation (CPI, % change Dec/Dec)	15.4	4.7	8.8	9.3	1.3	10.3	15.3	4.4	3.0	4.0
Gross Investment/GDP	17.7	9.4	11.2	15.6	21.8	19.8	21.1	20.3	22.0	25.0
Gross Domestic Saving/GDP [1]	11.3	17.8	22.2	24.8	24.6	34.7	26.8	25.1	18.5	19.0
Nominal Exports of G & S (% change, US$ basis) [2]	53.3	-0.5	13.9	24.3	-15.1	37.5	14.7	2.5	-1.0	8.0
Nominal Imports of G & S (% change, US$ basis) [2]	52.4	-16.8	17.2	16.3	-9.6	4.8	35.3	5.9	30.0	15.0
Openness of the Economy [2] [3]	132.2	102.3	106.0	106.1	84.6	91.3	112.6	101.9	110.5	114.5
Government Effectiveness [4]	-0.09	-0.24	-0.23	-0.05	-0.05	-0.09	-0.11	0.01	--	--
Government Finance										
Gen. Gov. Revenue/GDP [5]	19.8	24.1	29.4	24.3	27.7	21.7	24.8	24.3	23.8	24.5
Gen. Gov. Expenditure/GDP [5]	20.8	22.9	23.7	22.6	29.8	24.3	26.8	27.0	27.3	28.5
Gen. Gov. Financial Balance/GDP [5] [6]	-0.9	1.2	5.7	1.6	-2.1	-2.5	-2.0	-2.7	-3.5	-4.0
Gen. Gov. Primary Balance/GDP [5]	0.6	2.7	6.9	2.3	-0.8	-1.7	-1.0	-1.8	-2.3	-2.4
Gen. Gov. Debt (US$ Bil.) [5] [7]	0.64	0.63	0.51	0.55	0.60	0.81	0.87	1.07	1.36	1.63
Gen. Gov. Debt/GDP [5] [7]	28.9	23.9	17.4	15.6	15.6	18.5	20.2	21.3	25.9	28.8
Gen. Gov. Debt/Gen. Gov. Revenue [5] [7]	145.6	99.2	59.3	64.4	56.3	85.0	81.6	87.6	109.0	117.7
Gen. Gov. Int. Pymt/Gen. Gov. Revenue [5]	7.9	6.2	4.1	2.6	4.5	4.0	4.0	3.5	4.9	6.3
Gen. Gov. FC & FC-indexed Debt/Gen. Gov. Debt [5] [7]	60.6	62.1	58.6	57.8	44.6	41.4	52.9	53.1	58.8	67.5
Gross Borrowing Requirements/GDP	--	--	--	--	--	--	--	3.9	4.5	5.3
General Government External Debt/Total General Government Debt	60.6	62.1	58.6	57.8	44.6	41.4	52.9	53.1	58.8	67.5

Suriname

	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014F
External Payments and Debt										
Nominal Exchange Rate (local currency per US$, Dec)	2.74	2.74	2.74	2.74	2.74	2.74	3.30	3.30	3.30	3.30
Real Eff. Exchange Rate (% change)	--	--	--	--	--	--	--	--	--	--
Current Account Balance (US$ Bil.)	-0.14	0.22	0.32	0.32	0.11	0.65	0.25	0.24	-0.19	-0.34
Current Account Balance/GDP	-6.4	8.4	11.1	9.2	2.9	14.9	5.8	4.8	-3.5	-6.0
External Debt (US$ Bil.) [7]	0.39	0.39	0.30	0.32	0.27	0.56	0.69	0.79	1.03	1.23
Public Sector External Debt/Total External Debt	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Short-term External Debt/Total External Debt	--	--	46.5	47.2	15.5	7.8	2.0	1.9	1.6	1.5
External Debt/GDP [7]	17.5	14.8	10.2	9.1	7.0	12.8	15.8	15.8	19.7	21.7
External Debt/CA Receipts [7] [8]	26.2	25.9	16.7	14.4	14.4	22.4	24.2	27.2	35.9	39.5
Interest Paid on External Debt (US$ Bil.) [9]	0.013	0.011	0.016	0.005	0.009	0.007	0.009	0.013	0.024	0.045
Amortizations Paid on External Debt (US$ Bil.) [9]	0.029	0.047	0.127	0.015	0.090	0.017	0.021	0.045	0.022	0.033
Net Foreign Direct Investment/GDP	17.8	12.3	6.1	3.5	6.2	4.9	1.6	1.3	4.8	13.3
Net International Investment Position/GDP	--	--	--	--	--	--	--	--	--	--
Official Forex Reserves (US$ Bil.)	0.12	0.21	0.36	0.55	0.46	0.47	0.58	0.75	0.70	0.77
Net Foreign Assets of Domestic Banks (US$ Bil.)	0.09	0.12	0.17	0.16	0.21	0.21	0.20	0.23	--	--
Monetary, Vulnerability and Liquidity Indicators										
M2 (% change, Dec/Dec)	13.3	22.9	25.9	15.4	25.4	177.1	21.5	21.1	--	--
Short-term Nominal Interest Rate (% per annum, Dec 31)	7.3	6.6	6.4	6.3	6.4	6.2	6.4	6.8	--	--
Domestic Credit (% change Dec/Dec)	24.4	33.0	36.8	34.7	12.0	11.1	18.8	16.4	--	--
Domestic Credit/GDP	15.4	17.3	21.2	23.8	24.3	23.9	23.9	24.0	--	--
M2/Official Forex Reserves (X)	2.8	1.9	1.4	1.0	1.6	4.3	3.5	3.3	--	--
Total External Debt/Official Forex Reserves	337.9	190.5	83.4	57.9	58.4	119.5	119.6	105.4	147.7	159.4
Debt Service Ratio [9] [10]	2.8	3.8	7.9	0.9	5.3	1.0	1.0	2.0	1.6	2.5
External Vulnerability Indicator [11]	24.2	40.4	61.9	42.9	43.6	12.7	13.7	10.2	5.0	7.1
Liquidity Ratio [12]	2.5	1.7	2.8	2.1	0.9	1.3	0.7	0.6	--	--
Total Liab. due BIS Banks/Total Assets Held in BIS Banks	3.5	1.7	3.7	2.7	2.8	3.6	14.0	13.8	--	--
"Dollarization" Ratio [13]	55.4	55.0	54.5	56.6	52.1	49.2	54.8	52.0	--	--
"Dollarization" Vulnerability Indicator [14]	188.0	153.3	122.9	115.1	129.1	131.5	132.0	113.2	--	--

Notes:

[1] Gross National Savings

[2] Balance of Payments

[3] Sum of Exports and Imports of Goods and Services/GDP

[4] Composite index with values from -2.50 to 2.50: higher values suggest greater maturity and responsiveness of government institutions

[5] Central government

[6] Differences from balance suggested by revenue and expenditure lines attributed to large statistical discrepancies

[7] Government debt and total external debt include arrears

[8] Current Account Receipts

[9] Public sector only

[10] (Interest + Current-Year Repayment of Principal)/Current Account Receipts

[11] (Short-Term External Debt + Currently Maturing Long-Term External Debt + Nonresident Foreign Currency Deposits Over One Year)/Official Foreign Exchange Reserves

[12] Liabilities to BIS Banks Falling Due Within One Year/Total Assets Held in BIS Banks

[13] Total Foreign Currency Deposits in the Domestic Banking System/Total Deposits in the Domestic Banking System

[14] Total Foreign Currency Deposits in the Domestic Banking System/(Official Foreign Exchange Reserves + Foreign Assets of Domestic Banks)

Moody's Related Research

Rating Methodologies:

» Sovereign Bond Ratings, September 2013 (157547)

» Sovereign Default and Recovery Rates, 1983-2012, June 2013 (154805)

Moody's Website Links:

» Sovereign Risk Group Webpage

» Sovereign Ratings List

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Related Websites

For additional information, please see:

» The Central Bank of Suriname's website: http://www.cbvs.sr/

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Report Number: 160249

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