

ISSUER IN-DEPTH

8 June 2016

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RATINGS

Sint Maarten

	Foreign Currency	Local Currency
Gov. Bond Rating	Baa2	Baa2
Country Ceiling	A3	A2
Bank Deposit Ceiling	Baa2	A2

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Government of Sint Maarten – Baa2 Stable

Annual Credit Analysis

Overview and Outlook

Sint Maarten's ([Baa2 stable](#)) government bond rating is supported by comparatively high economic development and moderate debt levels. The rating is constrained by the relatively new and untested governance institutions although we expect nation-building support and fiscal oversight from the Netherlands to continue for a few more years. Sint Maarten is part of the Caribbean island of Saint Martin, the other half being French territory. Prior to 2010 Sint Maarten was part of the Netherlands Antilles. On 10 October 2010, it became a constituent country of the Kingdom of the Netherlands (Aaa stable).

Sint Maarten's economic strength balances comparatively high economic development against a very small and undiversified economy. Sint Maarten's gross domestic product (GDP) per capita of \$28,221 in 2015 is substantially higher than the Baa median of \$9,522. While growth is picking up largely due to an uptick in tourism-related activities, the average 0.7% real GDP growth forecast for 2011-2017 is among the lowest for similarly rated peers. The island's \$1 billion economy is the second smallest among all rated sovereigns, heavily dependent on tourism and susceptible to weather-related shocks. Unlike other high income Caribbean islands such as the Bahamas and the Cayman Islands, Sint Maarten lacks an offshore financial sector. Efforts to diversify the economy will likely build on existing tourism-related infrastructure such as increasing capacity for cruise ships and expanding tourist facilities.

The government's financial strength balances a comparatively low debt burden against rising fiscal pressures over the medium-term as the government takes on greater responsibilities.

This Credit Analysis elaborates on Sint Maarten'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.

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

SPECIAL TOPIC

On April 4, 2016 Moody's Investors Service downgraded Sint Maarten's issuer rating to Baa2 from Baa1. The outlook on the rating is stable.

The key drivers for the downgrade are:

1. Slower than expected progress in development of institutional strengths including fiscal and monitoring capabilities in the aftermath of becoming a constituent country within the Kingdom of the Netherlands in 2010.
2. Sint Maarten's slow economic growth which limits the country's ability to manage adverse external conditions.

The stable outlook reflects our expectation that fiscal support from the Netherlands (Aaa stable) will limit significant increases to Sint Maarten's debt burden.

Sint Maarten is part of the Caribbean island of Saint Martin, the other half being French territory. Prior to 2010 Sint Maarten was part of the Netherlands Antilles. On 10 October 2010 it became a constituent country of the Kingdom of the Netherlands.

Concurrently, Moody's lowered the local-currency bond and deposit ceilings to A2 from A1, and the foreign-currency bond ceiling to A3 from A2. The foreign-currency deposit ceiling was also lowered to Baa2 from Baa1.

RATIONALE FOR DOWNGRADING THE RATING TO Baa2 FROM Baa1

FIRST DRIVER: SINT MAARTEN'S LIMITED PROGRESS DEVELOPING ITS OWN FISCAL INSTITUTIONS

Since becoming a constituent country within the Kingdom of the Netherlands in 2010 Sint Maarten has, and continues to, benefit from support from the Netherlands in the form of low interest long term financing and fiscal oversight. This support was designed to be reduced or eliminated once Sint Maarten developed its own fiscal institutions. But Sint Maarten has shown limited progress in meeting all the necessary requirements which has delayed the development of its own fiscal framework and oversight mechanism.

Fiscal performance in Sint Maarten is reviewed and controlled by the College Financieel Toezicht (CFT), established as part of the breakup of the former Netherlands Antilles. The CFT oversees Sint Maarten's compliance with existing fiscal rules, including limiting interest payments to 5% of public sector revenues, a balanced current fiscal account and timely approval of the budget. Debt issuance by Sint Maarten also requires CFT approval.

CFT oversight is instrumental in limiting debt build up and Sint Maarten's debt burden, at 26% of GDP in 2015, is lower than the 42% Baa median. But establishing a credible successor to the CFT is a crucial credit challenge for Sint Maarten. Since 2011 the budget has been rejected several times by the CFT, and that led to a decision to extend the CFT's mandate to 2018, from the original 2015. While the extension ensures continued fiscal surveillance it also highlights the difficulties Sint Maarten has faced in creating and maintaining its own fiscal institutions.

SECOND DRIVER: SINT MAARTEN'S SLOW ECONOMIC GROWTH

Sint Maarten's 2015 \$28,221 per capita GDP is higher than that of most peers, but the country's average real growth rate of 0.6% over the last five years is one of the lowest among Baa-rated sovereigns. In addition, Sint Maarten's US\$1 billion economy is the second smallest among all rated sovereigns, heavily dependent on tourism, and susceptible to weather-related shocks. Unlike other high income Caribbean islands such as the Bahamas and the Cayman Islands, Sint Maarten lacks an offshore financial sector and efforts to diversify the economy build on the existing tourism-related infrastructure and Sint Maarten's role as a regional hub for cruise tourism.

Tourism represents about 80% of Sint Maarten's GDP, including domestic demand and construction. The cruise industry alone represents 35% of GDP. As a mature industry, tourism is unlikely to lead to sustained high growth although the small size of the economy means that a single major project can have a large and measurable impact on domestic output. In the years after the global financial crisis, tourist arrivals had declined by an average of 0.5% annually. Growth in stay-over tourism increased at a slower pace in 2015 compared to 2014, and cruise tourism contracted. The slowdown in cruise tourism resulted from a decrease in the number of cruise ships that visited Sint Maarten in 2015.

Sint Maarten is prone to weather shocks and a future major storm could place strong pressure on the fiscal and debt numbers, a risk heightened by the expected reduction in direct support from the Netherlands. However, the country's high per capita GDP supports its ability to quickly rebuild and adapt in the aftermath of a major natural disaster.

WHAT COULD MOVE THE RATING UP/DOWN

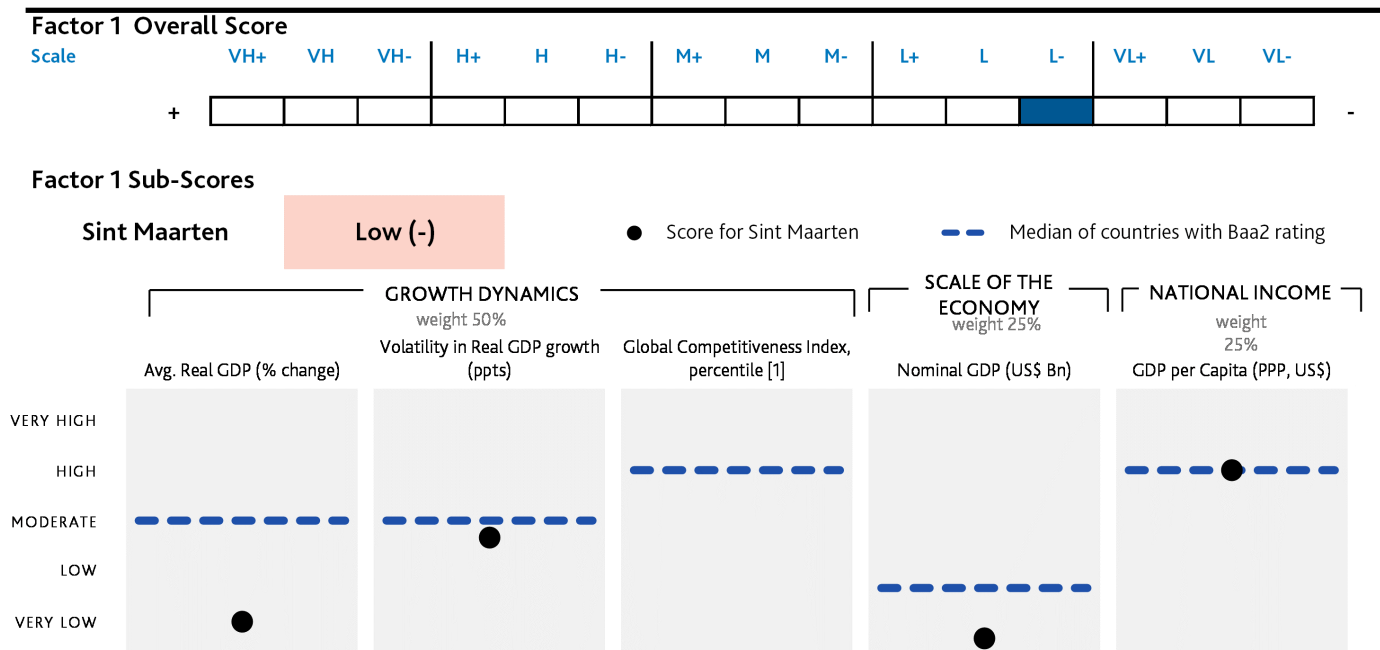
A sustained and permanent reduction of debt metrics, together with clear evidence of policy continuity and institutional strengths even in the absence of external oversight could lead to upwards ratings pressure.

A persistent increase in debt metrics could lead to downwards ratings pressure; reduced external support without an equivalent increase in domestic institutional strength could also lead to a downgrade.

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.

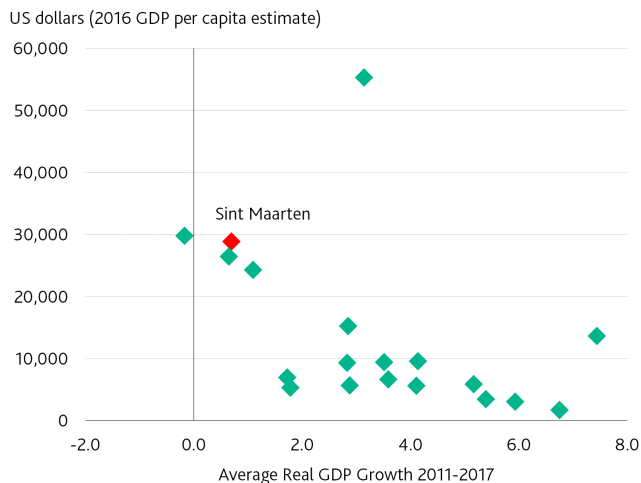
Economic Strength: Low (-)



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.

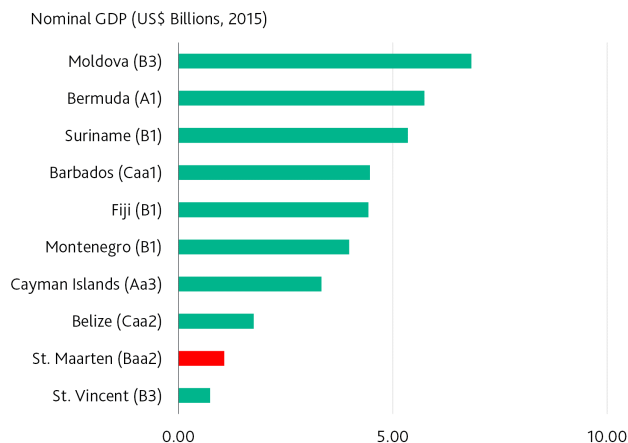
Sint Maarten's Low (-) economic strength balances comparatively high economic development against stagnant growth and a very small and undiversified economy. Sint Maarten's GDP per capita of \$28,221 in 2015 is almost three times the \$9,522 Baa median and higher than the \$20,601 Baa median measured in purchasing power parity (PPP) terms. Even though growth prospects are improving, our forecast of a 0.7% average real growth rate from 2011 to 2017 is one of the lowest among all Baa-rated sovereigns (see Exhibit 1). The \$1 billion economy is the second smallest among all rated sovereigns (see Exhibit 2).

Exhibit 1
High Income and Slow Growth
Plot of All 22 Baa-rated Sovereigns



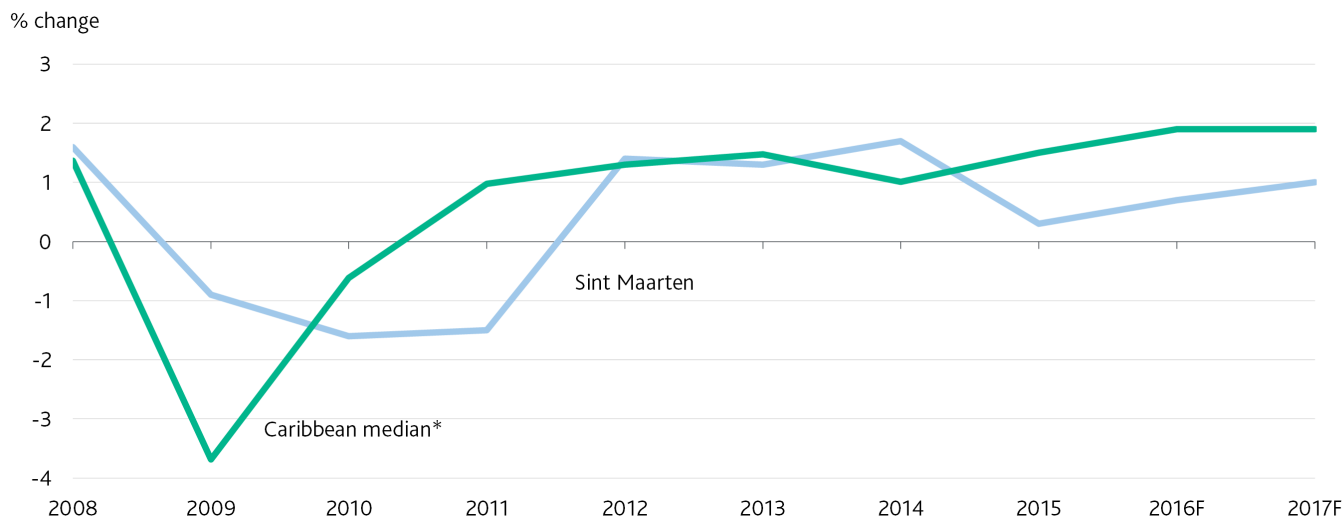
Source: National Authorities and Moody's Estimates

Exhibit 2
Sint Maarten Is the Second Smallest Rated Sovereign
Ten Smallest Rated Economies



Sint Maarten, which became a constituent country in 2010, is in the process of developing its own economic and financial statistics. Therefore, future data revisions are expected. Still, slowing economic growth since 2008, followed by a modest recovery, mirrors similar economic trends in the Caribbean region and reflects the country's exposure to changes in tourism-related demand (See Exhibit 3). Unlike other Caribbean islands such as Barbados (Caa1 stable), the Bahamas (Baa2 stable), and Cayman Islands (Aa3 stable), Sint Maarten lacks an offshore financial sector and continues to diversify its economy mainly through tourism-related channels.

Exhibit 3
Weaker Growth Prospects in Sint Maarten Relative to Caribbean Median
Real GDP growth



* Includes Cayman Islands, Bermuda, Sint Maarten, Trinidad & Tobago, Bahamas, Dominican Republic, Barbados, St. Vincent and the Grenadines, Belize, Cuba, Jamaica and Aruba.
 Source: National Authorities and Moody's Estimates

Tourism represents about 80% of Sint Maarten's GDP, including domestic demand and construction. The cruise industry alone represents 35% of GDP. As a mature industry, tourism is unlikely to lead to sustained high growth although the small size of the economy means that a single major project can have a large and measurable impact on domestic output. In the years after the global

financial crisis, tourist arrivals growth was sluggish, but started to pick up in 2012. In 2015, preliminary figures show growth in stay-over tourism slowing down to 1.1% after three years of above average growth (see Exhibit 4). Cruise tourism contracted by 5% year-over-year owing to a decrease in the number of cruise ships that visited Sint Maarten in 2015.

Exhibit 4

Sharp Drop in Tourism Arrivals in 2015
Stay-over arrival growth (% year-over-year)

	2015	2014	2013	2012	2011	2010	2010-15 average
Cuba (Caa2)	17.4	5.3	0.5	4.5	7.3	4.2	6.5
Barbados (Caa1)	13.9	2.2	-5.2	-5.5	6.7	2.6	2.4
Dom Rep (B1)	8.9	9.6	2.8	5.9	4.4	3.3	5.8
St. Vincent & the Grenadines (B3)	6.6	-1.4	-3.5	0.7	1.9	-3.9	0.1
Belize (Caa2)	6.2	9.2	6.1	10.7	3.5	4.2	6.6
Bahamas (Baa2)	2.7	4.2	-4.1	5.6	-1.7	3.3	1.7
Jamaica (Caa2)	2.1	3.6	1.1	1.8	1.6	4.9	2.5
Sint Maarten (Baa2)	1.1	7.3	2.3	7.6	-4.2	0.7	2.5
Cayman (Aa3)	0.7	10.8	7.4	4.1	7.2	6.0	6.0
Average	6.6	5.6	0.8	3.9	3.0	2.8	3.8

Source: Caribbean Tourism Organization

The government, the state-owned airport and the harbour company have increased their efforts to broaden the tourism industry through various new projects. These include increasing the island's capacity to berth luxury yachts as well as plans to expand the cruise terminal to handle eight mega cruise vessels a day from the current limit of six per day.

Sint Maarten appeals more to the mid and high-end tourism segments, partly because it lacks the large all-inclusive resorts common on other Caribbean islands. Also, due to Sint Maarten's duty free system, day-tourists spend more on average than day-tourists visiting neighboring islands. Therefore, the focal point of the development plans has been to turn these day-tourists into stay-over tourists by upgrading facilities and expanding services available to tourists. However, an increasing portion of the lodging in Sint Maarten, more than 50%, is timeshare rentals and condos, which typically attracts tourists that spend less. Hence, the government is increasing its efforts to specifically target the higher-end tourism segment by revamping the hotel infrastructure. Aside from the tourism sector, the government has plans to transform Sint Maarten into a "sub hub" for transshipment to smaller islands in the region.

For small islands in the Caribbean, an assessment of economic strength also captures their ability to deal with natural disasters. Sint Maarten's 2015 GDP per capita of \$28,221 is similar to that of the Bahamas (Baa2 stable, with a Low + economic strength) but much lower than the \$55,164 of Cayman Islands (Aa3 stable, with a High - economic strength). In 2004 Hurricane Ivan swept across Grenada as a category 3 storm and then went on to the Cayman Islands as a category 5 storm. Grenada defaulted the following year while Cayman, despite losses estimated at about 200% of GDP, saw little impact on its fiscal accounts. It is such demonstrated ability to deal with shocks that supports our assessment of Cayman's economic strength. Sint Maarten also suffered a series of hurricanes in the 1990s but the economy bounced back and adjusted. The waterfront was rebuilt and currently 95% of electric cables are underground as a preventive measure against future storms.

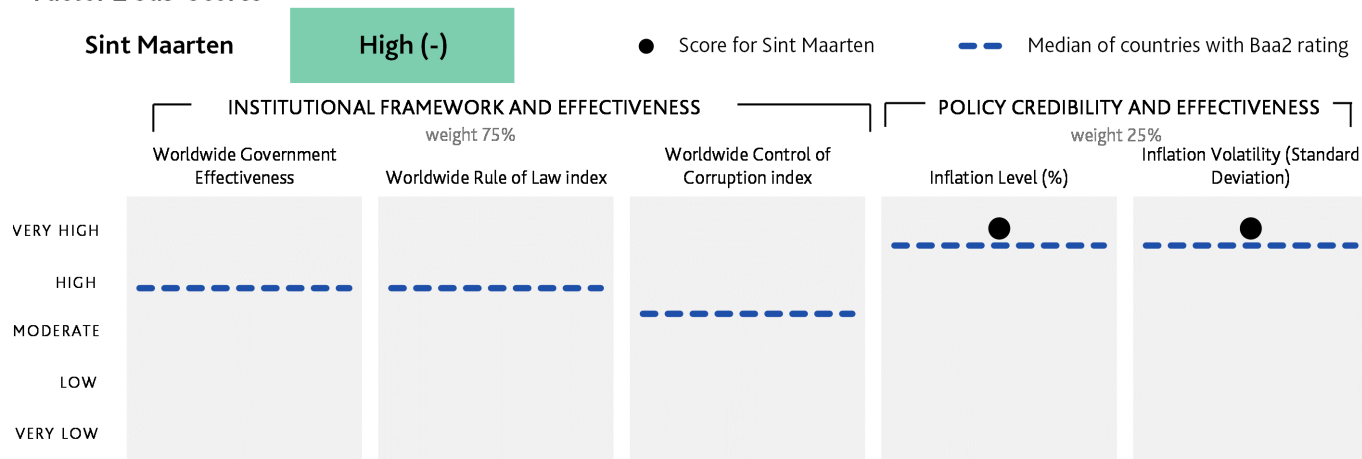
Sint Maarten's relatively high income per capita is counterbalanced by a highly concentrated economic structure. Its key tourism market is the US with over 50% of arrivals, followed by Europe and Canada. While diversifying the overall economy will take time, diversifying the customer base is more feasible. Many Caribbean islands are exploring South America because the market is growing stronger in purchasing power, especially among the middle class. The South American high season coincides with the Caribbean low season (summer in the US), which is another advantage.

Institutional Strength: High (-)

Factor 2 Overall Score



Factor 2 Sub-Scores



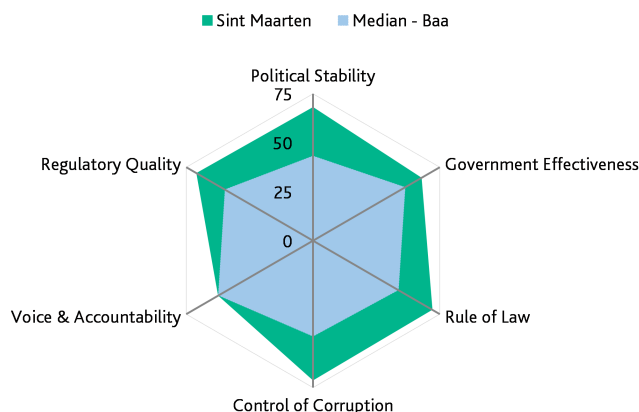
Institutional strength evaluates whether the country's institutional features are conducive to supporting a country's ability and willingness to repay its debt. A related aspect of institutional strength is the capacity of the government to conduct sound economic policies that foster economic growth 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 institutional strength relies on a country's rankings in different institutional indicators, as well as our qualitative assessment of the institutional arrangements supporting debt servicing. While no single indicator captures this concept fully, we rely partly on the World Bank's Worldwide Governance Indicators (WGI). However, there are no World Bank governance indicators just for Sint Maarten. The closest ones available are for the former Netherland Antilles, which includes Sint Maarten and Curaçao.

Following the breakup of the Netherland Antilles in 2010, Curaçao inherited critical government infrastructure and human capital while Sint Maarten was faced with the challenge of having to build capacity from scratch, both in terms of administrative capabilities and government buildings. Sint Maarten continues to grapple with the challenges of fully developing mature and effective governing institutions, and the frequent change of government significantly slows down the process. Attempts have been made to increase transparency and the rule of law by creating an "integrity chamber"--an entity that will monitor adherence to rules and regulations at all government levels. Even though the reform process will take time, we believe that the new initiatives coupled with the continued judicial, legal and financial support from the Netherlands represent an opportunity for Sint Maarten to build a well-equipped governance structure. The former Netherland Antilles outperforms the median of Baa-rated peers in every category (see Exhibit 5).

Exhibit 5

World Bank Governance Indicators Relative to Baa-Rated Peers



Sint Maarten represented by the combined score for the former Netherlands Antilles (2013, latest available data)
 Source: *The World Bank and Moody's*

Given Sint Maarten's short history as a constituent country of the Netherlands, predicting how its institutions will react in an adverse scenario is difficult. Even though support from the Netherlands partially mitigates these concerns, it is not a permanent feature. This support includes:

- » **Legal support:** Sint Maarten benefits from the Netherlands' legal system and ultimate judicial review. This arrangement is somewhat similar to other Caribbean nations that utilize the UK-based Privy Council as their court of final appeals. This institutional feature has no final deadline.
- » **Fiscal oversight:** The College Financieel Toezicht (CFT) is overseeing Sint Maarten's fiscal accounts. As part of the 2010 constitutional reform, the Netherlands absorbed all of Sint Maarten's outstanding debt in exchange for a smaller amount of low-cost/long-term debt issued by the newly constituent country. Sint Maarten has some fiscal constraints, including a "golden rule" that allows the government to only borrow for investment and an "interest burden rule" that caps interest payments to 5% of revenues, averaged over three years. The CFT oversees compliance with the fiscal framework and Sint Maarten's ability to issue bonds is contingent upon CFT approval. Between 2011 and 2013, the government was not allowed to issue bonds due to non-compliance with the fiscal requirements. In 2014, the CFT recognized the government's improved financial management and approved the budget, which paved the way for increased borrowing.

The original purpose of the CFT was to fill a void during the transition phase for Sint Maarten, but due to delays in the reform process and non-compliance with certain regulations, the relationship has continued. There is a formal agreement that the CFT will stay in place until 2018. If Sint Maarten, starting this year, is able to 1) record three consecutive years of surpluses in the fiscal current account, and 2) show proof of orderly financial management, the relationship with the CFT could be discontinued in 2018. However, even if Sint Maarten complies with the fiscal surplus rule through 2018, we foresee a continuation of the relationship owing mainly to concerns about the soundness of Sint Maarten's financial management. There is currently no supervisory entity in place that could assume the responsibilities and enforcement capabilities of the CFT.

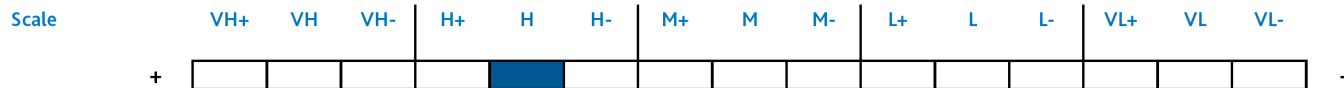
- » **Standing subscription rule:** Fiscal support goes beyond CFT oversight. All of Sint Maarten's debt is owed to the Netherlands, which lends at highly beneficial terms characterized by very low rates and very long maturities. According to the "standing subscription rule," the Netherlands is obligated to bid for any debt issued by Sint Maarten, effectively allowing Sint Maarten to borrow long term at rates similar to the Netherlands. When support and supervision from the Netherlands ends, Sint Maarten will have to turn to the market, which would translate into higher borrowing costs.

Sint Maarten's government is elected to four-year terms, but the nascent political system has given rise to a volatile political climate with frequent changes of government. In the last five years, Sint Maarten has had five different governments and three prime ministers. The political system is based on personal relations to a large extent and parties lack strong policy platforms, causing members to "jump

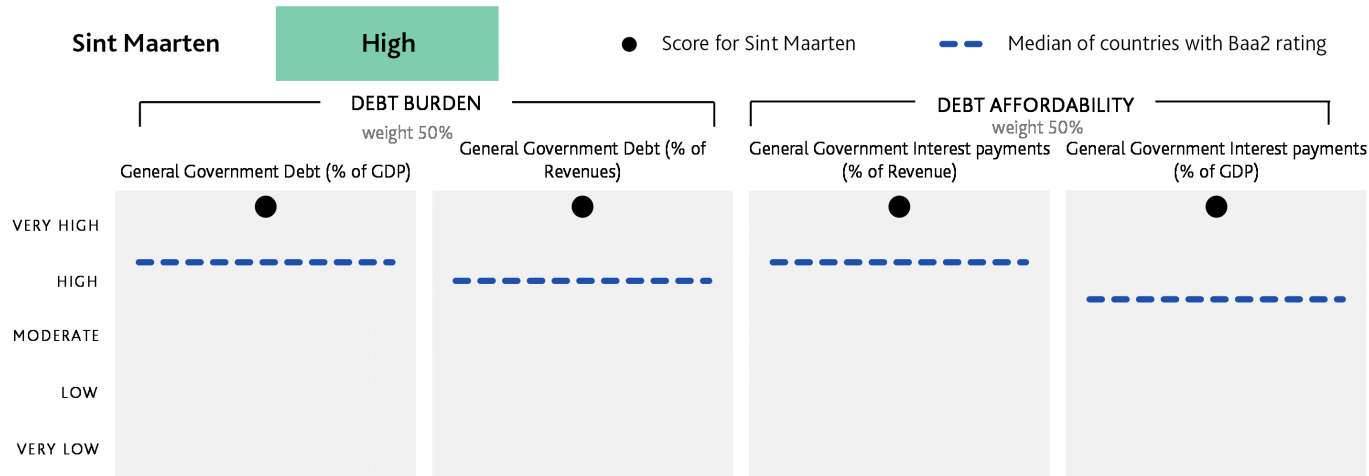
ship" from one party to another. In September 2015, the Sint Maarten government received an instruction from the Kingdom Council of Ministers to balance its budget and improve financial management. Partially as a result of the instruction, parliament passed a motion of no-confidence against the government, which led to the downfall of the Gumbs administration. Subsequently in November, Prime Minister William V. Marlin was sworn in with a new cabinet of ministers. The Marlin administration places high priority on maintaining sound government finances and aims to have the instruction lifted as soon as possible. Still, despite the frequent changes in governments, major policy changes are unlikely. Party lines overlap to a large degree and ample policy consensus exists across the political spectrum, as is common in other Caribbean nations with strong institutional frameworks.

Fiscal Strength: High

Factor 3 Overall Score



Factor 3 Sub-Scores



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.

Sint Maarten's High government financial strength balances a comparatively low debt burden against the possibility of rising debt metrics over the medium-term as the government takes on greater responsibilities. Even though the government of Sint Maarten has been running moderate fiscal deficits, averaging 1.6% of GDP from 2011-2015, revenues have not been rising and Sint Maarten has failed to resolve a long-standing payment arrears despite several warnings from the CFT. Finally in September last year, the Kingdom Council of Ministers officially instructed the Sint Maarten government to amend its budget and comply with the rules stipulated in article 15 of the Kingdom Act. The rules includes requirements to balance the fiscal account, outline a budget with a multiannual scope, and comply with the interest burden rule. The main aim of the fiscal rules is to prevent an uncontrolled accumulation of new government debt by Sint Maarten.

Instructions are politically sensitive and used as a measure of last resort by the Kingdom of the Netherlands to enforce compliance with budget norms. Sint Maarten's instruction is the second one issued by the Kingdom Council of Ministers; the first one was issued to Curaçao in 2012. In both instances, the instruction led to the fall of the governments.

Box 1: Sint Maarten's Budgetary Issues Led to Instruction by the Kingdom Council of Ministers

On 8 September, 2015 the Kingdom Council of Ministers instructed the government of Sint Maarten to comply with the budgetary norms stipulated in article 15 of the Kingdom Act. The instruction, which was issued following recommendation from the CFT, includes the following four components:

1. **Liquidity:** Payment arrears, amounting to NAF 200 million (\$111.7 million), with the social and health insurance administration (SZV) and the government pension fund (APS) need to be settled within 3 years.
2. **Budgetary:** The deficits of previous years, amounting to 64 million NAF (\$35.8 million), need to be compensated within 3 years.
3. **Technical:** The budget needs to reflect all expenditures.
4. **Structural:** The pension system and the national health system need to be reformed before the end of 2016.

The Sint Maarten government responded to the instruction by presenting a budget that fully complies with the requirements. The budget was described by the CFT as a "game changer" and was approved in early March. The multi-annual budget (2016-18) projects a 20 million NAF surplus each year in the fiscal current account (excluding capital expenditures) to compensate for the accumulated NAF 60 million in deficits from prior years. The surplus will be used to finance a portion of the payment arrears with SZV and APS. Another portion of the arrears will be financed by the proceeds from the sale government buildings and properties (estimated at NAF 60 million). The last portion of the arrears will be provided by the division of funds from the former Netherlands Antilles (NAF 60-80 million).

Concurrent with Sint Maarten becoming a constituent country 2010, the Netherlands agreed to take all of Sint Maarten's financial debt obligations. This was in exchange for low-cost and long-term debt issued on behalf of Sint Maarten via the Central Bank of Curaçao and Sint Maarten. At the same time, Sint Maarten became responsible for a portion of the non-financial debt of the Netherlands Antilles, amounting to a total of 10% of GDP (all non-interest-bearing and owed to public sector entities). The social and health insurance administration (SZV) and the government pension fund (APS) account for 80% of this debt. Even though the government has not issued guarantees for any debt, these public sector entities represent a contingent liability should they face serious financial difficulty or bankruptcy. Including the public sector debt portion would increase Sint Maarten's total debt burden to 36% of GDP in 2015 from 26%. However, this higher debt level would still place Sint Maarten below the median for Baa-rated peers of 41% debt-to-GDP.

Due to non-compliance with the budget requirements set up by the CFT, Sint Maarten was prohibited from borrowing between 2011 and 2013. The government ran down its bank deposits to fund its institution building efforts during this period. In 2014, the CFT recognized Sint Maarten's improved financial management and compliance with the fiscal framework, including the timely approval of the 2014 budget by Parliament. This paved the way for increased borrowing. In June and November of 2014, Sint Maarten issued four bonds for a total of NAF 177 million (\$98.9 million), all of which was subscribed by the Dutch Treasury at quasi-concessional interest rates and very long maturities. The government currently has NAF 505 million (\$282 million) in outstanding debt with the Dutch Treasury (see Exhibit 6).

Exhibit 6

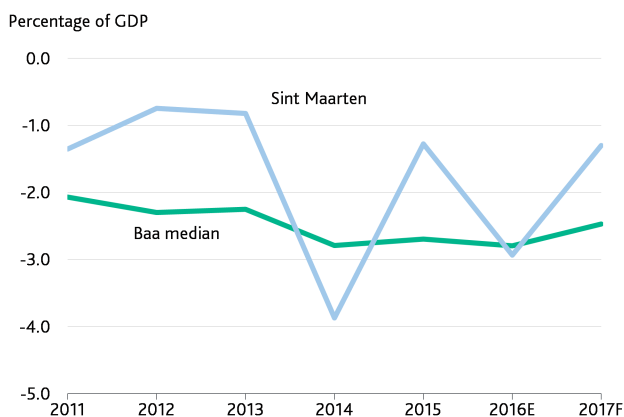
Sint Maarten's Outstanding Bonds with the Dutch Treasury

Description	Year maturity	Principal (NAf)	Interest Rate	Interest per year
Bonds 2016	2016	26,000,000	1.50%	390,000
Bonds 2020	2020	50,000,000	2.50%	1,250,000
Bonds 2020	2020	50,000,000	3.00%	1,500,000
Bonds 2025	2025	73,500,000	2.63%	1,929,375
Bonds 2029	2029	60,000,000	2.03%	1,217,400
Bonds 2030	2030	78,571,000	2.75%	2,160,703
Bonds 2034	2034	45,500,000	2.38%	1,080,625
Bonds 2035	2035	50,000,000	2.88%	1,437,500
Bonds 2035	2035	31,500,000	1.80%	567,000
Bonds 2044	2044	40,000,000	2.45%	980,000
Totals		505,071,000		12,512,603

Source: Sint Maarten Ministry of Finance

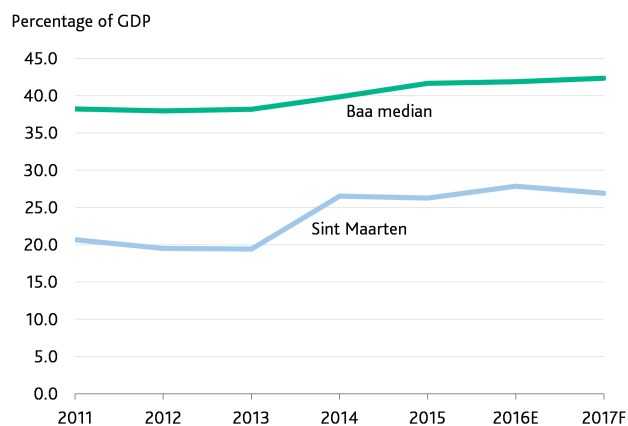
Due to the increased borrowing in 2014, debt rose to 26.5% of GDP, compared to an average of 21.4% between 2010 and 2013. The fiscal deficit widened to 3.9% of GDP due to an increase in capital expenditures and a 13% year-on-year decrease in government revenues. Even though the 2014 fiscal deficit exceeded the deficit of rating peers, we expect the consolidation efforts in the coming years to improve Sint Maarten's fiscal standing. Each year until 2018, the Sint Maarten government is aiming to produce surpluses in the fiscal current account by keeping current expenditures in check and increasing efforts to boost tax collection. The government will not implement a tax reform within the next three years, but aims to increase revenue collection by enforcing stricter tax compliance. We expect the fiscal deficit in the coming years to be solely a result of increased capital expenditures. This year, we expect a fiscal deficit of 2.9% of GDP. Sint Maarten's debt-to-GDP ratio of 26% is substantially lower than the Baa median of 41% and we anticipate debt to remain stable around the current level through 2017 (see Exhibits 7 and 8).

Exhibit 7

Sint Maarten's Fiscal Position Is Improving...
Government Fiscal Balance

Source: National Sources and Moody's Estimates

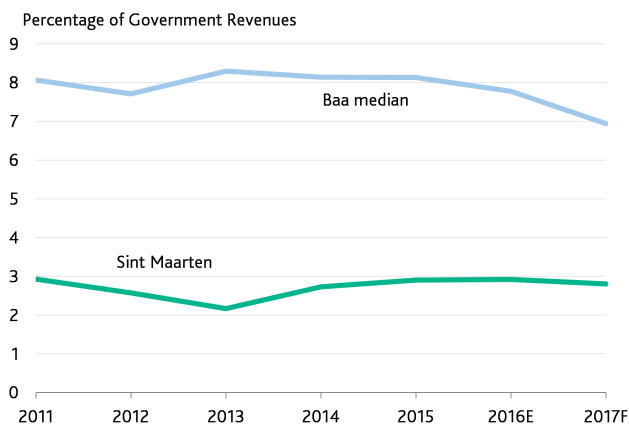
Exhibit 8

...And the Debt Burden Remains Lower than Peers
Government Debt

Given the combination of long term maturities and very favorable borrowing rates, Sint Maarten benefits from comparatively high debt affordability (see Exhibit 9). We estimate that interest payments in 2016 will represent only 2.9% of revenues, compared to Baa-rated median of 8.1%. This is a strong credit support for Sint Maarten. Out of the 131 sovereigns we rate, only 29 have a lower interest burden. Revenues have increased since becoming a constituent country (see Exhibit 10) as authorities now keep taxes that used to be transferred to the Netherlands. Going forward, however, the government has acknowledged the need to step up efforts to increase revenue collection.

Exhibit 9

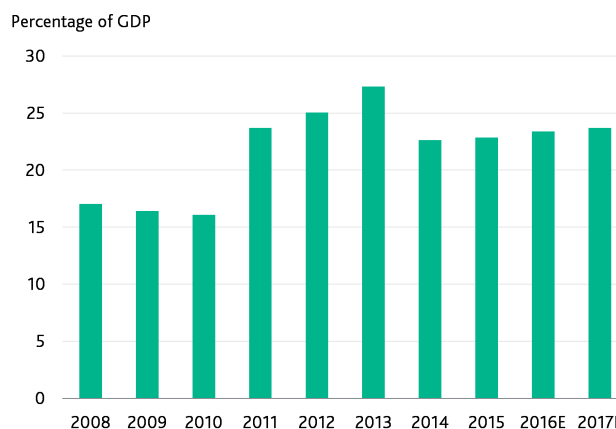
Debt Affordability Is Higher than Peers... Government Interest Payments



Source: National Sources and Moody's Estimates

Exhibit 10

...And Available Resources Increase After 2010 Total Government Revenues

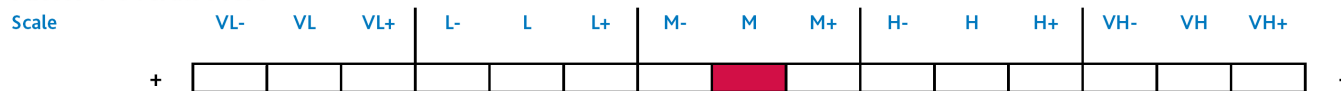


The CFT has helped steer Sint Maarten's fiscal position in the right direction, but its presence and financial supervision could be discontinued after 2018. That may expose the country to refinancing risk and increased borrowing costs in the medium- to long-term. More specifically, when the relationship with the CFT ends, Sint Maarten will also no longer have access to the low-cost/long-term financing provided by the Dutch Treasury, which would translate into higher borrowing costs for Sint Maarten as the country turns to the market for funds. Due to Sint Maarten's preferential interest rates of 1.5-3%, the 5% interest burden rule is not enough of a deterrent. Therefore, the CFT is currently reviewing the possibility of complementing the interest burden rule with a debt cap of 40% debt to GDP (IMF norm). Depending on the economic cycle, the rule would allow for a +/- 5% fluctuation.

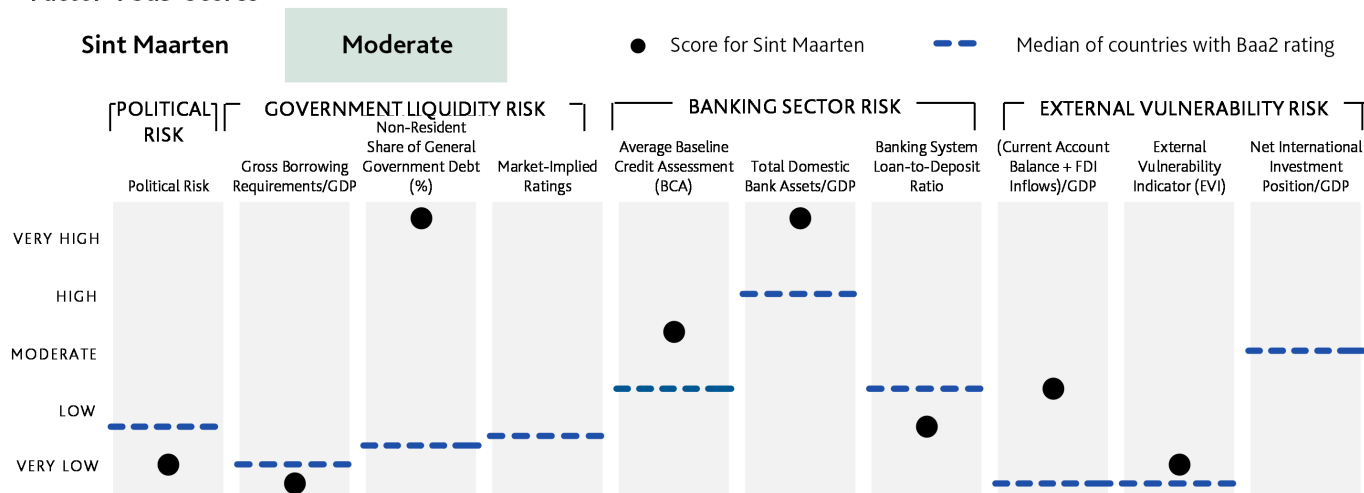
To sustain a balanced budget and a low debt burden, Sint Maarten will have to build capacity on its own and improve the functions of existing institutions. To this end, the government is attempting to enhance the scope and responsibilities of the General Audit Chamber and the High Council of State. Sint Maarten continues to benefit from the long-term structure of the bonds held by the Dutch Treasury. With the exception of one bullet payment due in 2016, the government will be shielded from refinancing risk until 2020.

Susceptibility to Event Risk: Moderate

Factor 4 Overall Score



Factor 4 Sub-Scores



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.

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We assess Sint Maarten's Susceptibility to Event Risk as Moderate relative to our rating universe. The biggest concern derives from natural disasters. Hurricanes in the past led to losses of over 200% of GDP in other small Caribbean nations such as the Cayman Islands. A major storm in the future could place strong pressure on the fiscal and debt numbers of Sint Maarten, a risk heightened by a reduction in direct support from the Netherlands. But, as we explain in the Economic Strength section above, Sint Maarten has a history of dealing with major hurricanes and its high level of economic development acts as a buffer against these types of shocks.

Political risk is negligible given policy consensus, but institutional transition risk, key in a nation that is still developing its own institutions, is a bigger concern. Support from the Netherlands remains a key credit strength, and any sudden reversal of this support would put downward pressure on the rating or outlook. We expect, however, that the support from the Netherlands will continue for another three years. As such, direct financial risk for the government remains low given the quasi-concessional nature of its current funding.

External Accounts Manageable and Comparable to Peers

Both the current account balance and Moody's external vulnerability indicator show that Sint Maarten's external position is manageable and comparable to most rating peers. But there is no reliable assessment of private sector debt, so reported external debt metrics likely underestimate the true external position.

Exhibit 11

External Position Comparable to Peers Current Account Balance

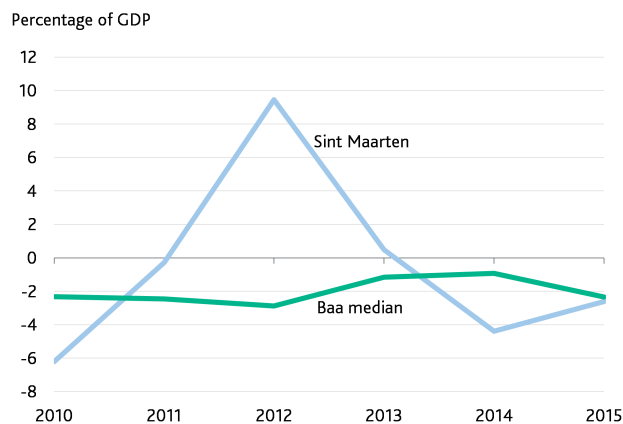
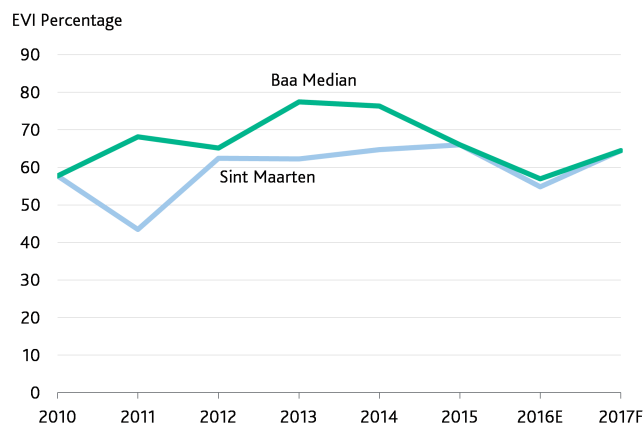


Exhibit 12

External Vulnerability Indicator (EVI)* Number below 100 Indicates External Flexibility



*EVI is the sum of short-term external debt, currently maturing long-term external debt, and total nonresident deposits over one year divided by official foreign exchange reserves
Source: National Sources and Moody's Estimates

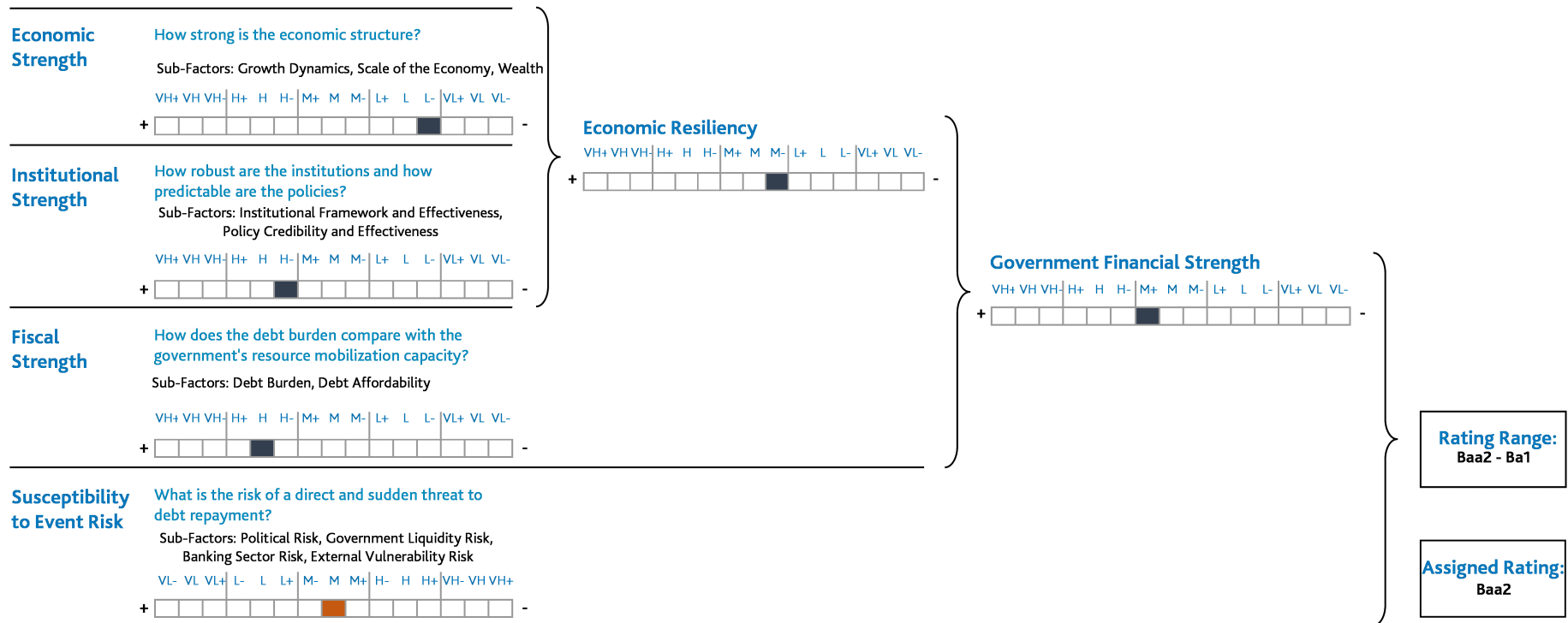
Sint Maarten belongs to a currency union together with the island of Curaçao, with its currency pegged to the dollar since 1970. Unlike Sint Marten, Curaçao is running large current account deficits, averaging over 20% of GDP. However, reported numbers may exaggerate Curaçao's true position since some of the imports are for Sint Maarten. The high current account deficits could lead to pressures on the currency union. If this materializes, we expect Sint Maarten to fully dollarize, an option it has considered in the past. The US dollar circulates freely in Sint Maarten and other members of the former Netherlands Antilles chose to dollarize their economies in 2010.

In 2012, Sint Maarten and Curaçao discussed a possible breakup of their currency union, with full dollarization as a strong possibility for Sint Maarten at the time. But both governments have since chosen to defer any decision on the currency union as Sint Maarten further develops needed technical institutions. Efforts have been made to increase the representation of Sint Maarten in the shared central bank that is currently located in Curaçao.

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.

Exhibit 13
Sovereign Rating Metrics: Sint Maarten



Comparatives

This section compares credit relevant information regarding Sint Maarten 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.

Exhibit 14

Sint Maarten's Key Peers

	Year	Sint Maarten	Bahamas	Bulgaria	Peru	Lithuania	Kazakhstan	Baa2 Median	Latin America & Caribbean Median
Rating/Outlook		Baa2/STA	Baa2/STA	Baa2/STA	A3/STA	A3/STA	Baa3/NEG	Baa2	Ba2
Rating Range		Baa2 - Ba1	Baa2 - Ba1	Baa2 - Ba1	A2 - Baa1	A1 - A3	Baa1 - Baa3	Baa1 - Baa3	Ba1 - Ba3
Factor 1		L-	L+	M-	M+	M+	M+	M+	M-
Nominal GDP (US\$ Bn)	2014	1.1	8.5	56.7	202.9	48.4	220.5	57.2	41.1
GDP per Capita (PPP, US\$)	2014	--	25,075	18,271	11,874	27,370	24,108	20,917	14,014
Avg. Real GDP (% change)	2010-2019	0.6	1.4	1.7	4.9	3.3	3.6	2.1	3.0
Volatility in Real GDP growth (ppts)	2005-2014	2.5	2.3	3.9	2.6	7.0	3.0	2.4	2.5
Global Competitiveness Index, percentile [1]	2015	--	--	51.3	38.9	67.2	61.9	55.7	29.2
Factor 2		H-	VH-	M	M-	VH-	L+	H-	L+
Government Effectiveness, percentile [1]	2014	--	64.3	44.1	27.9	68.9	40.3	56.2	35.6
Rule of Law, percentile [1]	2014	--	65.8	46.5	20.9	72.0	21.7	55.8	28.6
Control of Corruption, percentile [1]	2014	--	82.9	40.3	23.2	63.5	17.0	48.8	34.1
Avg. Inflation (% change)	2010-2019	2.8	1.6	1.2	2.8	1.7	7.0	2.8	3.6
Volatility in Inflation (ppts)	2005-2014	1.2	1.1	3.9	1.3	3.1	3.4	1.6	2.2
Factor 3		H	VL+	H-	VH	H	VH-	M	M+
Gen. Gov. Debt/GDP	2014	26.5	65.5	27.0	20.0	40.7	14.6	40.3	37.5
Gen. Gov. Debt/Revenues	2014	117.3	350.9	73.7	89.9	119.2	61.1	187.1	170.3
Gen. Gov. Interest Payments/Revenue	2014	2.7	14.4	2.4	4.7	4.7	-2.0	9.0	8.2
Gen. Gov. Interest Payments/GDP	2014	0.6	2.5	0.9	1.1	1.6	-0.5	2.5	1.7
Gen. Gov. Financial Balance/GDP	2014	-3.9	-5.8	-5.4	-0.3	-0.7	1.8	-3.2	-2.6
Factor 4		M	L+	M	L+	L+	M+	M-	M-
Current Account Balance/GDP	2014	-4.4	-22.3	0.9	-4.0	3.5	2.9	-4.4	-4.5
Gen. Gov. External Debt/Gen. Gov. Debt	2014	100.0	28.1	52.2	61.8	73.0	23.2	36.0	56.4
External Vulnerability Indicator	2016F	54.9	7.4	75.1	21.3	--	91.0	48.0	53.7
Net International Investment Position/GDP	2014	--	--	-66.3	-29.6	-46.4	-18.4	-28.4	-35.6

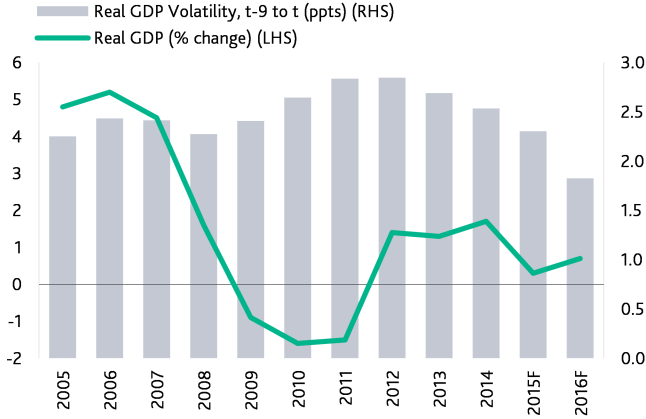
Notes: [1] Moody's calculations. Percentiles based on our rated universe.

Source: Moody's

Chart Pack

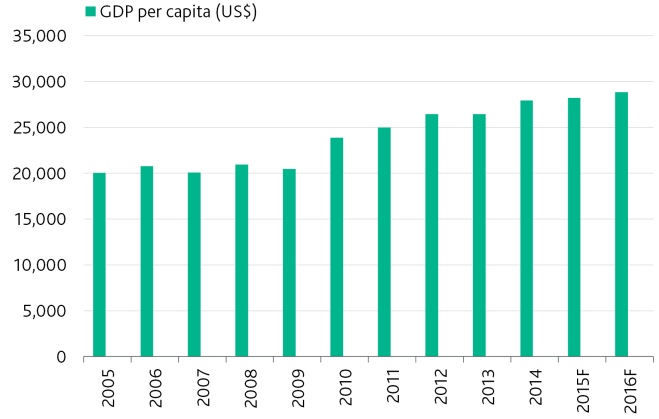
Sint Maarten

Exhibit 15
Economic Growth



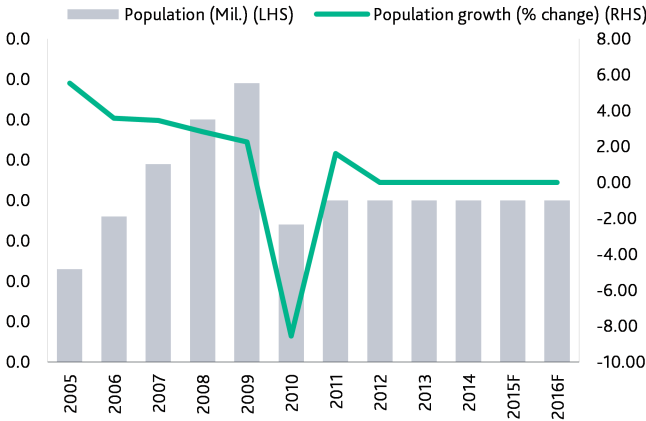
Source: Central Bank of Curaçao and Sint Maarten, Moody's

Exhibit 16
National Income



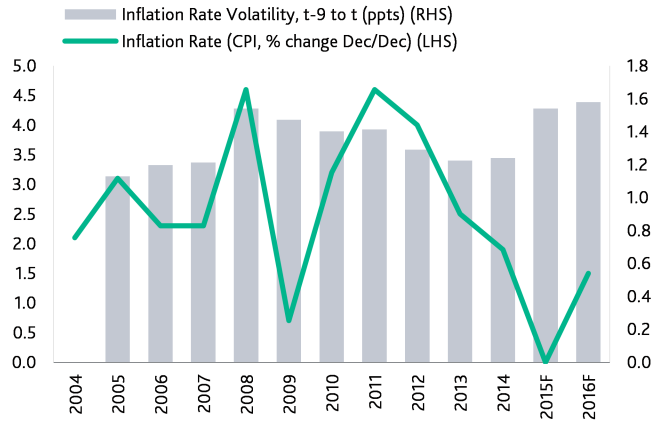
Source:

Exhibit 17
Population



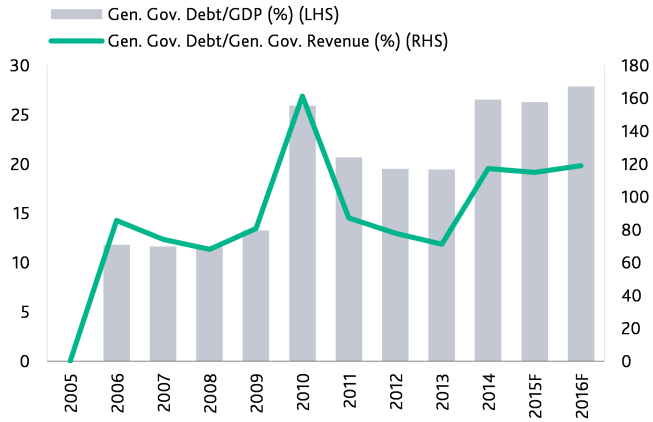
Source: National Authorities, Moody's

Exhibit 18
Inflation and Inflation Volatility



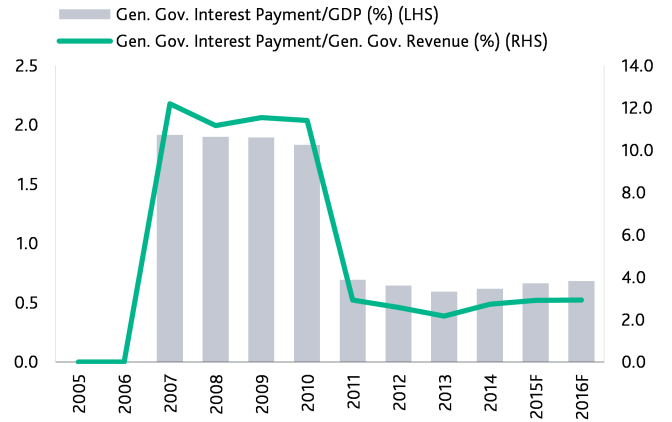
Source: Central Bank of Curaçao and Sint Maarten, Moody's

Exhibit 19
Debt Burden



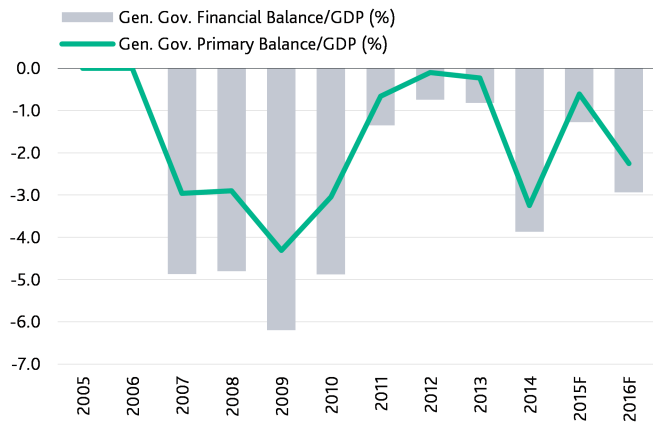
Source: National Authorities, Moody's

Exhibit 20
Debt Affordability



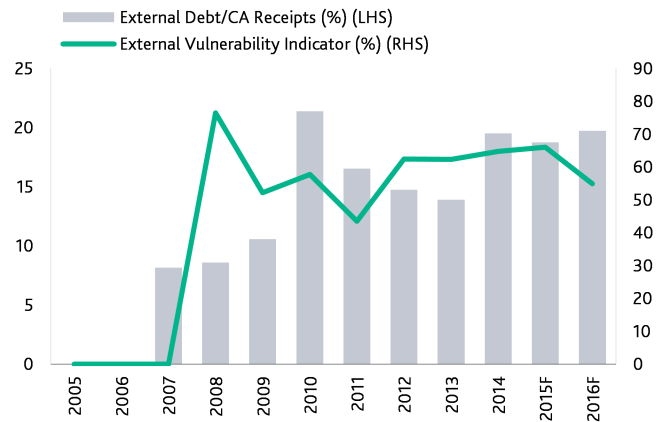
Source: National Authorities, Moody's

Exhibit 21
Financial Balance



Source: National Authorities, Moody's

Exhibit 22
External Vulnerability Risk



Source: Moody's Estimate

Rating History

Exhibit 23

St Maarten

	Government Bonds			Foreign Currency Ceilings				Date
	Foreign Currency	Local Currency	Outlook	Bonds & Notes		Bank Deposit		
				Long-Term	Short-Term	Short-Term	Long-Term	
Rating Raised	Baa2	Baa2	Stable	A3		Baa2		April-16
Rating Assigned	Baa1	Baa1	Stable	A2		Baa1		November-12

Source: Moody's

Annual Statistics

Exhibit 24

Sint Maarten

	2008	2009	2010	2011	2012	2013	2014	2015E	2016E	2017F
Economic Structure and Performance										
Nominal GDP (US\$ Bil.)	0.8	0.8	0.9	0.9	1.0	1.0	1.1	1.1	1.1	1.1
Population (Mil.)[1]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP per capita (US\$)	20,945	20,481	23,881	24,993	26,463	26,463	27,933	28,221	28,845	29,862
GDP per capita (PPP basis, US\$)	--	--	--	--	--	--	--	--	--	--
Nominal GDP (% change, local currency)	7.1	0.0	6.7	6.3	5.9	0.0	5.6	1.0	2.2	3.5
Real GDP (% change)	1.6	-0.9	-1.6	-1.5	1.4	1.3	1.7	0.3	0.7	1.0
Inflation (CPI, % change Dec/Dec)	4.6	0.7	3.2	4.6	4.0	2.5	1.9	0.0	1.5	2.5
Gross Investment/GDP	--	--	--	--	--	--	--	--	--	--
Gross Domestic Saving/GDP	--	--	--	--	--	--	--	--	--	--
Nominal Exports of G & S (% change, US\$ basis)	-0.4	-6.7	4.4	10.4	13.7	5.0	2.5	2.0	5.0	7.0
Nominal Imports of G & S (% change, US\$ basis)	6.9	-10.0	-2.8	4.2	5.9	15.6	5.1	4.0	6.0	8.0
Openness of the Economy[2]	241.3	220.9	208.5	210.5	218.5	240.3	236.2	240.8	248.6	258.1
Government Effectiveness[3]	0.7	0.7	0.7	0.7	0.7	0.7	0.0	--	--	--
Government Finance										
Gen. Gov. Revenue/GDP[4]	17.0	16.4	16.1	23.7	25.1	27.3	22.6	22.9	23.4	23.7
Gen. Gov. Expenditures/GDP[4]	21.8	22.6	20.9	25.0	25.8	28.1	26.5	24.1	26.3	25.0
Gen. Gov. Financial Balance/GDP[4]	-4.8	-6.2	-4.9	-1.4	-0.7	-0.8	-3.9	-1.3	-2.9	-1.3
Gen. Gov. Primary Balance/GDP[4]	-2.9	-4.3	-3.0	-0.7	-0.1	-0.2	-3.3	-0.6	-2.3	-0.6
Gen. Gov. Debt (US\$ Bil.)[4]	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Gen. Gov. Debt/GDP[4]	11.6	13.3	25.9	20.7	19.5	19.4	26.5	26.3	27.9	26.9
Gen. Gov. Debt/Gen. Gov. Revenue[4]	68.1	80.9	161.4	87.3	78.0	71.2	117.3	114.9	119.1	113.5
Gen. Gov. Int. Pymt/Gen. Gov. Revenue[4]	11.2	11.5	11.4	2.9	2.6	2.2	2.7	2.9	2.9	2.8
Gen. Gov. FC & FC-indexed Debt/GG Debt[4]	--	--	--	--	--	--	--	--	--	--
External Payments and Debt										
Nominal Exchange Rate (local currency per US\$, Dec)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Real Eff. Exchange Rate (% change)	-0.3	1.7	1.6	0.5	2.6	-2.1	--	--	--	--
Current Account Balance (US\$ Bil.)	-0.2	-0.1	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Current Account Balance/GDP	-20.9	-15.4	-6.2	-0.3	9.5	0.5	-4.4	-2.6	-3.1	-3.0
External Debt (US\$ Bil.)	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Public 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	--	--	--	--	--	--	--	--	--	--
External Debt/GDP	11.6	13.3	25.9	20.7	19.5	19.4	26.5	26.3	27.9	26.9
External Debt/CA Receipts[5]	8.6	10.6	21.4	16.5	14.7	13.9	19.5	18.8	19.7	19.3
Interest Paid on External Debt (US\$ Bil.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization Paid on External Debt (US\$ Bil.)	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Foreign Direct Investment/GDP	8.4	4.6	3.3	-5.2	1.6	4.4	4.4	3.5	3.2	2.8
Net International Investment Position/GDP	--	--	--	--	--	--	--	--	--	--
Official Forex Reserves (US\$ Bil.)	0.3	0.3	0.4	0.2	0.2	0.2	0.3	0.3	0.3	0.3
Net Foreign Assets of Domestic Banks (US\$ Bil.)	0.3	0.6	0.9	0.7	0.6	0.5	0.6	0.7	--	--

Monetary, External Vulnerability and Liquidity Indicators										
M2 (% change Dec/Dec)	--	--	--	--	--	--	--	--	--	--
Monetary Policy Rate (% per annum, Dec 31)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	--	--
Domestic Credit (% change Dec/Dec)	7.9	11.1	0.9	-2.4	-3.3	1.5	2.0	0.1	--	--
Domestic Credit/GDP	94.0	104.5	98.9	90.8	83.0	84.2	81.4	80.6	--	--
M2/Official Forex Reserves (X)	--	--	--	--	--	--	--	--	--	--
Total External Debt/Official Forex Reserves	36.0	37.9	59.5	78.9	78.7	81.6	101.6	84.5	98.5	97.9
Debt Service Ratio[6][7]	15.9	14.9	17.1	15.5	12.7	12.1	11.9	13.5	13.3	14.3
External Vulnerability Indicator[8]	76.5	52.2	57.7	43.5	62.4	62.3	64.7	66.0	54.9	64.5
Liquidity Ratio[9]	--	--	--	72.6	23.7	37.7	25.8	26.3	--	--
Total Liabilities due BIS Banks/Total Assets Held in BIS Banks[10]	--	--	--	77.2	21.7	194.3	73.3	75.5	--	--
"Dollarization" Ratio[11][7]	19.9	18.5	20.3	19.1	17.3	15.9	16.9	15.8	--	--
"Dollarization" Vulnerability Indicator[12][7]	39.1	33.5	28.1	34.5	35.1	29.9	31.6	28.7	--	--

[1] Population below 50,000 appears as 0.0 due to rounding

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

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

[4] St. Maarten became an autonomous country following the dissolution of the Netherlands Antilles in October 2010; Data from 2011 onward reflect figures for St. Maarten only

[5] Current Account Receipts

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

[7] St. Maarten and Curacao

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

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

[10] Series break in 2011

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

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

Moody's Related Research

- » **Outlook:** [Sovereigns - Latin America and the Caribbean: Mixed Rating Outlook Reflects Lower Trend Growth and Moderate Fiscal Space](#), 05 April 2016
- » **Credit Opinion:** [Government of Sint Maarten, Baa2 Stable: Update Following Downgrade to Baa2 from Baa1](#), 05 April 2016
- » **Rating Action:** [Moody's Downgrades Sint Maarten's issuer rating to Baa2 with a stable outlook](#), 04 April 2016

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 and Information Sources

- » [Central Bank of Curaçao and Sint Maarten](#)
- » [The World Bank](#)
- » [The International Monetary Fund](#)

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