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Jermaine Burrell
Senior Economist & Sovereign Research Manager—JMMBIR
Jermaine_Burrell@jmmb.com

Barbados Update-"Moody's Credit Opinion & Gov't Update on Restructuring Plans"

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SYNOPSIS

On July 24 Moody's Investor service provided its latest credit opinion on Barbados. The rating agency noted that Barbados' inability to arrest its significant debt burden (estimated to be in excess of 174% of GDP) effectively led to its default in June. The doubling of the debt over a decade meant that the shock to the economy was too much to bear.

On the positive side, the new government has moved quickly to consolidate its public finances, seek external multilateral dialogue (IMF) and begin to renegotiate its debt burden. The problems however will not be easy to solve as a high interest burden (26% of govt' revenues), negative usable reserves and the complexities of an exchange rate peg leave very little room to maneuver.

In assessing Barbados' ability to quickly recover from the current default, economic growth is a key barometer. Barbados' growth is dependent on tourism, which contributes approximately 40% of GDP, as well as offshore financial services. The source market for Bajan tourists is Europe, and in particular the UK. However Brexit, and prior to that Greece and general economic uncertainty in the Eurozone has meant somewhat muted travel plans which has stagnated Bajan visitor arrivals. On the flip side, US visitor arrivals have provided somewhat of a buffer against the negative headwinds.

On the financial services side, consecutive downgrades by international rating agencies, have led to relocation of some financial entities (Sagicor), a general reduction in external debt exposure and a reduction in Barbados' appeal as a destination for international financial services. As a result, economic growth has averaged less than 2% prior to 2009 and has averaged 0.5% between 2010 and 2017. Combining the aforementioned factors with a somewhat benign outlook suggests that the growth prospects going forward look anemic at best. Low growth prospects reduce the timeliness of any potential recovery from default.

Another key challenge for Barbados is limited transparency on the domestic debt profile which represents the lion share of the outstanding debt. Off balance sheet expenditure, emoluments, debt owed to non-governmental bodies and a reconciliation of the debt of all public sector bodies is a key exercise for the government. Based on information in the immediate aftermath of the default, the government does not have a firm handle on all the debt that is owed.

Having a firm grip on the actual size of the debt is the first step which will help to identify the debt burden and what needs to be done to cauterize the wound. This will further help to identify the extent of any potential haircut, reduction in Net Present Value (NPV), extension of maturity or combination of two or all three.

SOME POSITIVE NEWS FOR CREDITORS

On July 18th the government of Barbados provided creditors with an update on its restructuring plans. Officials in Bridgetown noted that the government would, wherever possible, ***seek to accommodate creditors who had indicated a preference for principal preservation by incorporating both discount and par solutions into a future exchange offer to be launched once a broad consensus on restructuring terms is reached***."

The government also noted that the majority of creditors had identified themselves and "expressed a willingness to work with Barbados in good faith in addressing the unsustainable debt burden that the current administration has inherited." "The government wishes to commence a dialogue with its creditors over the types of terms that will be required to eliminate the financing gaps that are likely to remain even after the planned fiscal correction and the associated support from international financial institutions is factored in".

The government also met with a team from the IMF between July 2 and 12 and "through this consultative process, the Government expects to finalize a detailed package of revenue- and expenditure-side measures that will have broad-based social support, and form the basis of a Staff-Level Agreement with the IMF, ahead of the Executive Board review.."

The above statement suggests that the government is slowly doing what needs to be done to arrive at a plausible restructuring plan to be announced to creditors.

Source: Moody's, Capitaliq.com, Bloomberg, IMF, Barbados MOF,

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

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