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INVESTOR UPDATE

JUNE, 2018

BARBADOS UPDATE-
Prime Minister Announces Plans to Restructure Debt

SUMMARY

The new Prime Minister of Barbados, Mia Mottley, announced on Friday, June 1, that her government would be suspending payments on debt owed to foreign creditors. On the domestic side, the government noted that it would endeavor to make scheduled interest payments, however domestic creditors would be asked to roll over principal maturities until a full restructuring agreement is reached.

The government is seeking the cooperation of both internal and external creditors as they work through the restructuring process. The International Monetary Fund (IMF) has been asked to aid in the process with Christine Lagarde, IMF Managing Director, announcing that the IMF would be sending a team to Bridgetown to start discussions with the government on how the IMF can support the authorities' economic plan. The PM noted that the IMF team would arrive by Tuesday given the urgency of the country's challenges.

In her speech, PM Mottley pointed out that debt levels had climbed from about BD$6 billion to BD$15 billion under the previous administration taking into account government arrears. The debt/GDP ratio has climbed to in excess of 171%, according to the PM, with the interest burden coming in at BD$800 million. The PM also announced that a further BD$1 billion would be needed this year to meet "promises to pay back what was borrowed."

Further challenges were outlined including the fact that interest payments (debt servicing) were BD$15 million higher than the total annual wages and salary bill. Interest payments according to PM Mottley were higher than the budgeted allocations to education, public health and public transport.

The details of Barbados' economic program were broadly outlined by the PM. The Prime Minister who is also Minister of Finance, Economic Affairs and Investment, noted that the new program would: (I) stabilize public finances; (II) create room for a return to sustainable economic growth and (III) lead to a balanced budget by 2019. The PM also announced that she will (A) raise both contributory and non-contributory pensions; (B) increase invalidity and survivors' benefits; (C) eliminate fees at the University of the West Indies (UWI); (D) repair buses and garbage trucks; (E) provide trust loans; (F) improve the emergency health care system and (G) protect the most vulnerable of the society.

NEXT STEPS

The announcement was made at the end of trading of Friday, June 1 2018. The market price of all the bonds issued by the government has fallen significantly since then, reflecting the new outlook for the credit. The Government of Barbados has not put forward a restructuring plan as yet. We will update investors as new information is available.

ANALYST'S OPINION

Barbados faces significant challenges. Primary among them are the implications of a default on the BOP (Balance of Payments) and the fixed exchange rate/currency peg (BD$2: US$1). Given that Barbados imports a large percentage of its consumer durables there are concerns regarding the drying up of lines of credit to domestic importers, the possible need for hard currency upfront by commodity traders and the ability to meet these needs given the already negative usable international reserves.

It is expected that the IMF will provide BOP support, however it is likely that the fixed exchange rate peg will have to go. If the government transitions to a flexible/floating exchange rate regime the question of where the exchange rate will settle arises. Exchange rates settle where demand and supply equate. In the short to possible medium term, excess demand should drive up the price/equilibrium point. Aggressive devaluation over short time intervals has negative implications for inflation, property valuation, salaries and consumer purchasing power. Of particular concern is the impact that default will have on the NIS (National Insurance Scheme, despite it having a surplus) and the solvency of pension funds (i.e. unfunded pension liabilities).

A quick IMF agreement is essential to stem the tide of possible negative economic implications. An IMF agreement opens up access to other multilateral funding that can be used for budgetary support. A further challenge for Barbados is that off-balance sheet expenditures will need to be carried on book so that a clearer picture of the debt dynamics can be had. Deeper fiscal cuts are also likely, given that revenue inflows from tourism and offshore financial services will likely not be enough to close the deficit.

While we are cognizant of the fact that the most vulnerable of society will have to be protected in any viable economic program, we are somewhat concerned about the impact that certain electoral promises may have on the fiscal. On the flip side, we are also confident that for an IMF agreement to be reached the viability of any such promises will be assessed against debt, fiscal and wage sustainability targets.

Source: *Bloomberg, IMF, Barbados MOF*

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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REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL -
REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT -
EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY -
EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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