

OCTOBER, 2018

BARBADOS UPDATE- IMF Agreement Reached; Restructuring Terms on Domestic Debt Offered

PLEASE SEE IMPORTANT DISCLOSURES & COPYRIGHT INFRINGEMENT IN THE APPENDIX

SUMMARY

The **International Monetary Fund (IMF)** announced on September 7 that it had reached a staff level agreement with the government of Barbados. The IMF team, led by Bert Van Selm, noted that a staff level agreement was reached on a 48-month Extended Fund Facility (EFF) to provide financial support of approximately US\$290 million. If approved by the IMF, an amount of approximately **US\$49 million would be made available immediately.**

The Bajan Government has put forward an **Economic Recovery and Transformation Plan (ERTP)**. The ERTP aims to restore macroeconomic stability and put the economy on a path of strong, sustainable and inclusive growth, while safeguarding the resilience of the financial sector. The cornerstone of the program is a **strong front-loaded fiscal adjustment** focused on curbing current expenditure, while maintaining space for bolstering social safety nets and infrastructure spending.

The IMF has also given its stamp of approval taking into account the government's plan to restructure its debt both internal and external. The details of the domestic restructuring have been provided below.

Barbados plans to use the debt restructuring to ease some fiscal pressure while simultaneously placing the debt on a downward trajectory. **Prime Minister Mottley noted that Barbados currently pays 68 cents, for every dollar earned (revenue), towards interest payments.** The authorities aim to put Barbados' central government debt on a clear downward path towards a target of **60 percent of GDP by 2033**, from an estimated 157 percent of GDP.

Another key element of the ERTP is **attracting new investment.** The Government is targeting renewable energy, the creative and artistic industries, agro-industries as well as the traditional areas of international business and tourism. In our view, Barbados needs to diversify its economy

as its heavy dependence on tourism and financial services places it at a disadvantage.

The IMF traditionally only provides Balance of Payments (BOP) support, however importantly, the fact that a country has an IMF agreement, combined with a sustainable fiscal plan, means it is able to access funding for **budgetary support** from other multilateral agencies (such as the IDB and World Bank).

RESTRUCTURING TERMS OFFERED ON DOMESTIC DEBT

The Barbados Government on September 7, 2018 also announced the terms of its offer to exchange Barbados dollar denominated debt issued by the central government and the debt issued by certain state owned enterprises (SOE's) as a part of its comprehensive debt restructuring program. The Government's plan is being supported by the previously discussed four year EFF with the IMF.

The debt restructuring terms have been divided according to pensioners and "all other individuals"; there is also a "natural disaster" clause. The terms apply to **Bajan dollar denominated** treasury bills, treasury notes, and debentures; savings bonds are excluded from the exchange offer. The Government has also noted that the **relevant acceptance forms** must be submitted by debt owners no later than **5:00 pm, on Friday, the 5th of October, 2018**. It is expected that the new debt instruments ("Exchange Instruments") will be issued to participating holders by the end of October 2018. Further details are given below:-

PENSIONERS

Definition: All individuals who are of a pensionable age, resident in Barbados AND are receiving pension benefits as of September 1, 2018.

Affected Debt: Holdings in ALL outstanding series of Treasury Bills, Treasury Notes, and Debentures issued by the Government of Barbados.

Exchange Instrument: Affected debt to be exchanged for 11 Series A amortizing strips issued by the Government of Barbados with maturities of 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, and 15 years; combined face value of strips will equal that of Affected Debt exchanged, plus accrued interest (see below)

Accrued Interest: Capitalized through to September 30, 2018 and added to principal

Interest Rate: 1.0% per annum for first 3 years, 2.5% per annum for year 4, 3.75% to maturity

Interest Payments: Quarterly, with first payment on December 31, 2018

Withholding Tax Treatment: Interest payments to individuals who are of a pensionable age, resident in Barbados AND are receiving pension benefits as of September 1, 2018 will not be subject to withholding tax in Barbados.

NATURAL DISASTER CLAUSE

The Exchange Instruments to be issued to individuals

as part of the Government of Barbados' exchange offer will include a clause that would offer both creditors and the Government some protection against future debt distress caused by a major natural disaster. **This 'natural disaster' clause would allow for the capitalization of interest and the deferral of scheduled amortizations falling due over a two-year period following the occurrence of a major natural disaster.**

The trigger for a natural disaster 'event' would be a payout to the Government above US\$5 million by the Caribbean Catastrophe Risk Insurance Facility (CCRIF), under the Government's catastrophe insurance policy. **Full details will be provided in the letters to holders of the Affected Debt.**

WHAT DOES THIS MEAN FOR GLOBAL BOND HOLDERS?

Holders of the Government of Barbados 2019, 2021, 2022 and 2035 Global bonds will not be directly impacted by this restructuring as it only impacts the local debt instruments issued in Barbadian Dollars. To date we have not received any information about any action on the global bonds but we will continue to monitor the situation and provide updates along the way.

APPENDIX

IMPORTANT DISCLOSURES

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

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT -

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

COPYRIGHT INFRINGEMENT

"Unless otherwise expressly stated, copyright or similar rights in all material in this research report (including graphical images) is owned, controlled or licensed by Jamaica Money Market Brokers Limited (JMMB) or its affiliates and is protected or covered by copyright, trade mark, intellectual property law and other proprietary rights. No part of this research report or the report in its entirety may be published, used, reproduced, distributed, displayed or copied for public or private use in any form including by any mechanical, photographic or electronic process (electronically, digitally on the Internet or World Wide Web, or over any network, or local area network or otherwise) without written permission from JMMB.

No part of this research report may be modified or changed or exploited or used in any way for derivative works, or offered for sale, or used to construct any kind of database or mirrored at any other location without the express written permission of JMMB.

Thank you for respecting our intellectual property rights.”

The investments referred to in this report may not be suitable for you. You should consult your licensed investment advisor. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable to your individual circumstances or otherwise constitutes a personal recommendation to you.

DISCLOSURE UNDER THE SECURITIES ACT

This disclosure is being provided pursuant to section 39 of the Securities Act. This research report is prepared by Jamaica Money Market Brokers Limited (JMMB) and the information and views expressed are those of JMMB. JMMB is a subsidiary of the JMMB Group Limited (JMMBGL). Associated persons of JMMB include JMMBGL and its subsidiaries and affiliated companies, including JMMB Fund Managers Limited, a licensed securities dealer and manager of collective investment schemes.

As at the date of this report, JMMB and its affiliates, directors, officers, employees and other associated persons may from time to time buy or sell, or act as principal or agent in, the securities mentioned in this research report. JMMB or its affiliates, directors, officers and employees have no interest in, or interest in the acquisition or disposal of the securities, other than expressed above. No part of their compensation is or will be related to the recommendations or opinions in this report.

CUSTOMIZED SOLUTIONS • BANKING • INVESTMENTS • CAMBIO • INSURANCE BROKERS • MONEY TRANSFER

Tel: 998-JMMB
5 6 6 2

www.jmmb.com

All information contained herein is obtained by JMMB® Investment Research from sources believed by it to be accurate and reliable. All opinions and estimates constitute the Analyst's judgment as of the date of the report. However, neither its accuracy and completeness NOR THE OPINIONS BASED THEREON ARE GUARANTEED. As such NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS OR COMPLETENESS OF THIS REPORT IS GIVEN OR MADE BY JMMB® IN ANY FORM WHATSOEVER.