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Economic Alert: Barbados Labour Party takes landslide election victory

Clean Sweep

- The Barbados Labour Party (BLP) has swept all 30 seats and won the country's 2018 General Elections unseating the Democratic Labour Party (DLP), which has governed the country since 2008.
- The crushing victory for the BLP means that its political leader Mia Amor Mottley will be sworn in as Barbados' first female Prime Minister since the country gained independence from Britain in 1966.
- Outgoing Prime Minister Stuart accepts full responsibility for the DLP's failure.
- Motley said it was time to unite the country to take it forward, and she reiterated her commitment to keeping the BLP's campaign promises.

BLP 2018 Manifesto: Building the Best Barbados

The BLP has identified critical issues that requires immediate policy action:

- Rebuilding foreign reserves
- Dealing with debt
- Bringing tax relief
- Threats to the financial services sector
- Arrears and Refunds
- Citizens' Safety and Well-Being
- Stamping out corruption
- Preparing for natural disasters

Rejuvenating Foreign Reserves

The BLP aims to restore foreign reserves to at least 15 weeks of import coverage through policies that:

- Allow Barbadians to hold foreign currency they have earned in foreign currency accounts in Barbados, thereby boosting the amount of foreign currency.
- Pass legislation to prohibit the Central Bank of Barbados from the printing of money that is threatening the Barbados dollar and restricting foreign reserves.
- Stimulate investor confidence.

Decreasing Debt

- Foreign financed project inflows were insufficient to offset foreign loan payments of \$293million in the next 12 months. These include \$73.7 million due to Credit Suisse, \$23.7 million due to Deutsche Bank and Bear Sterns as well a collective \$29 million due to the InterAmerican Development Bank and the Caribbean Development Bank.
- Foreign exchange availability benefitted from the gains in net export of services, as tourism earnings increased by an estimated 2.1%. Over the first three months of 2018, the international reserves held by the Central Bank increased by \$14 million to end the quarter at \$423 million.
- As a result, the fiscal deficit was mainly financed by commercial banks which provided funding equal to more than 3% of GDP due to the change in monetary policy via the securities reserve requirement.
- Central Bank financing fell to 1% of GDP when compared to the previous fiscal year 2016-2017, when it reached 9%. The private non-bank entities also reduced their exposure to Government of Barbados.
- The BLP manifesto states that the party will re-profile in Barbados' debt and renegotiate existing obligations to free up cash flows for implementation of new spending on infrastructure.
- At the same time, Motley is not ruling out the possibility that it may have to enter into a borrowing arrangement with the IMF.
- The BLP leader pointed out that Barbados had gone to the IMF before, noting that each time it had done so, the economy rebounded.
- As at March 2018, the gross central government debt, including borrowings from the Central Bank and the NIS, rose to 151% of GDP. Part of the increase (2.3 percentage points) was attributable to the issuance of securities to cover the resolution costs associated with protecting the policy holders of CLICO International Life Insurance Ltd.

Barbados Key Economic Indicators

	2012	2013	2014	2015	2016	2017 ^(p)	Mar 2015	Mar 2016	Mar 2017 ^(p)	Mar 2018 ^(e)
Nominal GDP (\$ Million) ¹	9,312.7	9,225.0	9,216.7	9,168.3	9,058.1	9,438.4	2,277.1	2,255.9	2,410.8	2,467.4
Real Growth (%) ⁶	0.3	0.0	0.0	0.7	1.8	0.6	(0.4)	2.1	3.2	(0.7)
Inflation (%) ²	4.5	1.8	1.8	(1.1)	1.5	4.0	1.4	(1.3)	2.9	4.5
Avg. Unemployment (%) ³	11.5	11.6	12.3	11.3	9.7	10.0	12.4	10.7	9.7	n.a.
Foreign Exchange Reserves (\$ Million)	1,457.7	1,144.1	1,054.9	929.4	683.6	409.7	1,137.5	942.5	709.4	423.3
Foreign Exchange Reserves Cover, Weeks	20.2	15.6	14.8	13.7	10.5	6.7	16.3	14.2	10.8	6.9
BoP Current Account (% of GDP)	(8.4)	(8.5)	(9.4)	(6.3)	(4.5)	(4.0)	0.5	2.6	0.6	0.1
Total Imports of Goods (% of GDP)	36.2	36.4	35.9	33.5	34.0	32.2	31.1	32.8	31.2	30.8
Travel Credits (% of GDP)	19.9	21.0	19.2	20.7	23.0	22.9	26.2	31.6	30.8	30.7
Net Capital Inflows (\$ Millions)	312.7	513.5	734.0	441.2	84.9	84.4	80.0	(25.0)	74.7	(1.8)
Gross Public Sector Debt ⁴ (% of GDP)	88.1	96.9	99.2	100.2	101.7	96.8	100.1	104.3	98.9	102.8
External Debt Service to Curr. Acct. Cred.	6.4	6.4	6.7	9.5	8.0	8.3	6.0	5.6	5.9	10.2
Treasury-Bill Rate	3.6	3.2	2.6	1.8	3.1	3.2	3.3	3.2	3.1	3.1
Average Deposit Rate ⁵	2.5	2.5	2.5	0.4	0.3	0.2	2.5	0.4	0.3	0.2
Average Loan Rate ⁵	6.8	7.4	7.1	6.8	6.6	6.6	7.0	6.8	6.6	6.7
Excess Liquidity Ratio	4.7	3.9	6.7	10.6	14.5	14.1	7.1	10.6	16.5	14.7
Private Sector Credit Growth (%)	10.5	(2.2)	(4.6)	0.5	1.1	3.0	1.0	(0.6)	(0.3)	0.2
Private Sector Credit (% of GDP)	61.7	60.9	58.2	58.8	60.2	59.5	62.1	60.0	59.3	61.8
Domestic Deposits (% of GDP)	85.4	88.6	87.6	91.9	97.0	93.2	95.0	97.4	94.8	96.3

Source: Barbados Statistical Service and Central Bank of Barbados

Credit Rating

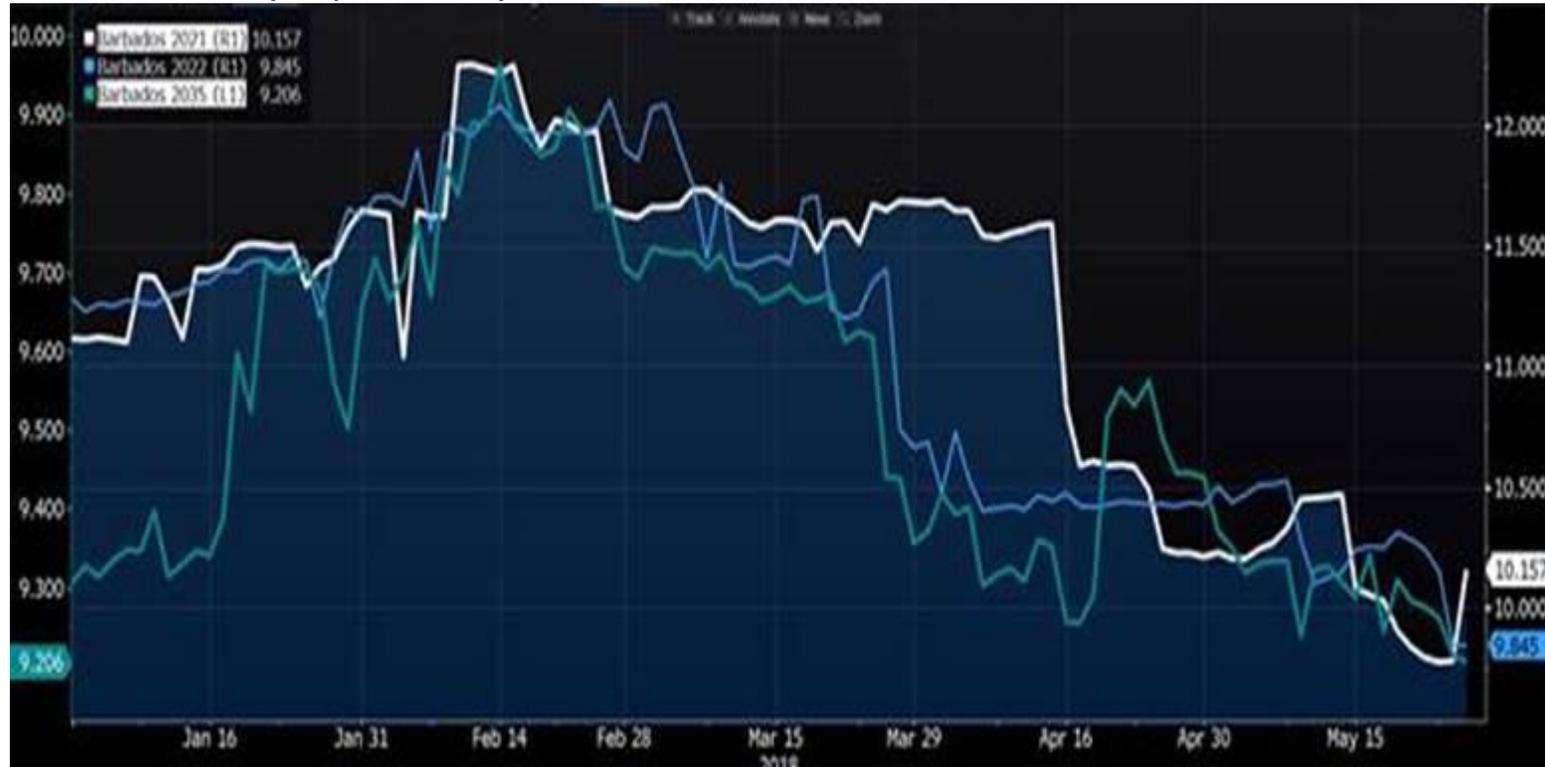
- On September 2017, S&P Global Ratings, lowered its long term local currency sovereign credit rating on Barbados to 'CCC' from 'CCC+' with a negative outlook.
- The negative outlook reflects the potential for downgrade within the next four months should government fail to advance measures to significantly lower its high fiscal deficit, strengthen its external liquidity, and reverse its low level of international reserves.
- These scenarios would likely lead to further pressure on availability of deficit financing, be it from official or private creditors and pose challenges for the fixed exchange rate regime.

Barbados Credit Rating Snapshot

Barbados	
Moody's	
1) Outlook	STABLE
2) CC LT Foreign Bank Depst	Ca
3) CC LT Foreign Curr Debt	Caa2
4) CC ST Foreign Bank Depst	NP
5) CC ST Foreign Curr Debt	NP
6) Long Term Rating	Caa3
7) LC Curr Issuer Rating	Caa3
8) FC Curr Issuer Rating	Caa3
9) Foreign Currency LT Debt	Caa3
10) Local Currency LT Debt	Caa3
Standard & Poor's	
11) Outlook	NEG
13) Foreign Currency LT Debt	CCC+
14) Local Currency LT Debt	CCC
15) Foreign Currency ST Debt	C
16) Local Currency ST Debt	C

Source: Bloomberg

Barbados Eurobonds yield performance year-to-date



Source: Bloomberg



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