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Regional
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Economic Alert: Barbados Long-Term Local Currency Rating Lowered by Standard and Poor's (S&P) To 'CCC'; Foreign Currency Rating Affirmed at 'CCC+'; Outlook Negative.

Rating change:

- S&P Global Ratings lowered its long-term local currency sovereign credit rating on Barbados to 'CCC' from 'CCC +' and affirmed the long- term foreign currency sovereign rating at 'CCC+' with a long term outlook of Negative for both ratings.
- S&P also affirmed the short-term ratings at 'C'.

Overview:

- According to S&P Barbados 'policy challenges include high general government debt, deficits, and debt servicing requirements: limited appetite for private-sector financing; and a low level of international reserves, (as seen in the table below) raising the risk to sustainability of the peg to the U.S. dollar.
- The Negative outlook reflects the risk of a downgrade difficulty turning around fiscal policy, a possible domestic debt exchange that could be a default under criteria and prospects for a balance of payment crisis.
- The outlook reflects a potential for a downgrade over the next 12 months should the 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.
- Any potential local currency debt exchange with commercial creditors, though not currently under consideration by the government, would most likely be considered a distressed debt exchange and constitute a default criteria.
- However, if government succeeds in balancing its fiscal budget, improves its access to finance, stabilizes external vulnerabilities and bolsters international reserves the outlook can be revised to Negative.

Barbados performance profile:

- As of June 2017, Barbados' gross central government debt represented around 140% of GDP, one of the highest debt levels among Latin American and Caribbean countries.
- S&P expects Barbados' net general government debt (which does not include NIS and central bank holdings of government debt and incorporates liquid assets) to rise toward 98% of GDP over the next three years from 95% in 2016.
- Also, S&P assess Barbados' contingent liabilities as limited, considering the strength of the banking system, with assets around 170% of GDP and being fully foreign-owned.
- During fiscal year 2017/2018 (fiscal years go from April until March), the central bank aims to reduce financing to the central government to only 1% of GDP, from the 6% in 2015/2016 and 8% in 2016/2017.
- The Barbadian government has relied on the central bank and NIS; they met 85% of the financing requirements during 2015 and 2016. Commercial banks have had a limited appetite to finance the central government deficit.
- The NIS has already exceeded its own prudential limits on government paper, and the growth rate of financing provided by the NIS has already decreased.

Government policy response:

- The government announced in May 2017 fiscal adjustment measures that are among the most significant to date in an effort to balance its fiscal year 2017-2018 budget. They include raising the National Social Responsibility Levy (NSRL) on imports and domestic manufactured goods to 10% from 2% and a 2% fee on foreign currency transactions and the sale of Barbados National Terminal Corp. Ltd. (BNTCL).
- In an additional effort to reduce near-term pressure on the budget and financing requirements, the government also announced it's considering a debt liability management exercise on local currency debt held by the NIS, central bank, and other government-related entities (GREs).
- The government expects to finalize a voluntary debt exchange operation that extends maturities without net present value losses before the current calendar year ends.

Economic Indicators:

- Strong receipts from tourism, low private-sector demand, and low oil prices resulted in flat imports, which helped reduce Barbados' current account deficit (CAD) to 5% of GDP as of 2016, below the 10% average of the previous five years.
- S&P expects that tourism continues to perform adequately, and that low oil prices and the NSRL further discouraging consumption (and imports) would result in an average CAD of 4% during 2017-2019. Foreign direct investment won't be able to fully finance the CAD, which should keep pressure on the level of international reserves during 2017-2019.
- International reserves stood at US$317 million as of June 2017. Usable international reserves, which S&P considers for assessing external liquidity, are even lower.

Barbados--Selected Indicators										
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017f**	**2018f**	**2019f**	**2020f**
ECONOMIC INDICATORS (%)										
Nominal GDP (bil. LC)	8.72	8.66	8.74	8.71	8.84	9.18	9.45	9.69	9.98	10.18
Nominal GDP (bil. $)	4.36	4.33	4.37	4.35	4.42	4.59	4.73	4.84	4.99	5.09
GDP per capita (000s $)	15.7	15.6	15.7	15.6	15.8	16.3	16.8	17.1	17.6	17.9
Real GDP growth	0.5	0.3	0	0	0.9	2	0.5	0.5	1.5	2
Real GDP per capita growth	0.5	-0.1	0	-0.3	0.5	1.7	0.2	0.2	1.2	1.7
Real investment growth	7.4	-7.1	-5.5	-0.5	26.2	-8.9	-4.2	18	3	-4.7
Investment/GDP	15.1	14.1	13.2	13.2	16.4	14.4	13.4	15.4	15.4	14.4
Savings/GDP	2.3	4.8	4.2	3.3	9.8	9.9	9.2	12.2	12.2	10.9
Exports/GDP	39	39.3	36.4	36.8	36.5	37.6	37.6	37.6	37.6	37.6
Real exports growth	-15.3	1.1	-7.3	1.2	0	5.1	0.5	0.5	1.5	2
Unemployment rate	11.2	11.5	11.6	12.3	11.3	9.9	9.5	9	8.8	8.7
EXTERNAL INDICATORS (%)										
Current account balance/GDP	-12.8	-9.3	-9.1	-9.9	-6.5	-4.5	-4.2	-3.2	-3.2	-3.5
Current account balance/CARs	-23.6	-18.1	-17.4	-19.4	-12.5	-8.6	-7.9	-5.9	-6	-6.8
CARs/GDP	54.2	51.2	52.1	51.2	52	52.3	53.1	53.5	52.5	51.7
Trade balance/GDP	-28.8	-25.9	-27.7	-27.1	-23.8	-22.3	-22.2	-21.3	-20.8	-20.5
Net FDI/GDP	12.4	3.5	5.8	8.3	4.8	0.4	0	2	2	1.7
Net portfolio equity inflow/GDP	0	0	0	0	0	0	1.5	1.4	1.4	1.4
Gross external financing needs/CARs plus usable reserves	123.9	123.9	159.8	162.7	173	192.7	227.7	241.1	239.9	242
Narrow net external debt/CARs	7.3	19.6	33.6	37.4	34.5	30.6	34.4	32.7	31.9	32.7
Net external liabilities/CARs	75.1	157.2	146.2	143.3	146.4	141.4	143.2	144.4	146.2	149.7
Short-term external debt by remaining maturity/CARs	18.8	19	50.8	42.7	50.4	49.9	48	46.3	44.9	43.2
Usable reserves/CAPs (months)	1.4	1.1	0.5	0	-0.6	-2	-3.5	-4.2	-4.2	-4.3
Usable reserves (mil. $)	237	120	-8	-133	-426	-790	-956	-973	-1002	-1052
FISCAL INDICATORS (%, General government)										
Balance/GDP	-1.7	-6.1	-8.8	-6.3	-6.9	-5.1	-3.7	-3.5	-4.3	-4.5
Change in debt/GDP	6.2	5.2	8.9	5.7	6.3	6.4	3.7	3.5	4.3	4.5
Primary balance/GDP	2.9	-1.2	-3.7	-0.7	-1.2	0.8	2.2	2.5	1.8	1.7
Revenue/GDP	37.6	36.9	35.3	36.3	38	38.7	40	40.6	38.9	38.2
Expenditures/GDP	39.3	43	44.1	42.7	44.8	43.8	43.7	44	43.2	42.7
Interest /revenues	12	13.2	14.6	15.4	15	15.3	14.8	14.7	15.5	16.1

Debt/GDP	80.6	86.3	94.4	100.4	105.2	107.9	108.4	109.2	110.2	112.6
Debt/Revenue	214.1	233.8	267.6	276.4	277	279	270.7	269.1	283.5	294.6
Net debt/GDP	62.1	68.8	77.8	85.2	92.4	95.1	96	97.1	98.5	101.1
Liquid assets/GDP	18.5	17.5	16.6	15.3	12.9	12.8	12.4	12.1	11.8	11.5
MONETARY INDICATORS (%)										
CPI growth	9.4	4.5	1.8	1.9	-1.1	1.3	2.5	2	1.5	1.5
GDP deflator growth	-2.4	-0.9	0.9	-0.4	0.7	1.7	2.5	2	1.5	0
Exchange rate, year-end (LC/$)	2	2	2	2	2	2	2	2	2	2
Banks' claims on resident non-gov't sector growth	1.5	6.3	-2.6	-0.4	-0.8	-0.5	3	2.5	3	2
Banks' claims on resident non-gov't sector/GDP	66.3	71	68.5	68.5	66.9	64.2	64.2	64.2	64.2	64.2
Foreign currency share of residents' bank deposits	7.1	4.1	3.8	4.9	6.4	7	6.9	6.9	6.9	6.9

Source: Standard & Poor's

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