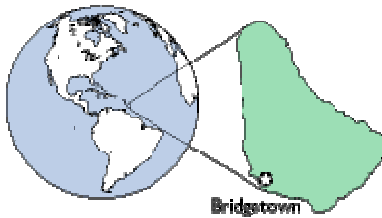


COUNTRY REVIEW

Barbados



22 July 2009

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EULER HERMES COUNTRY RISK GRADE: C

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

Strengths

- Stable political environment
- High income economy
- Credit expansion moderate prior to global financial crisis
- Low external debt ratios (solvency)
- Strong Structural Business Environment

Weaknesses

- Heavy dependence on tourism sector
- High public debt ratios and large fiscal deficit in 2009-10
- Wide current account deficit, relatively low FDI.
- Fixed exchange rate and relatively high M2/FX reserves ratio
- High debt payments in 2009 relative to FX reserves
- Data availability patchy

Key Risks

- **Recession**
- **Exchange rate under threat from large external deficit and potential damage to confidence from weak public finances with modest FX reserve levels.**

Country Risk Assessment

Ratings	Barbados		Median Grade C	Ghana	Peers Peru	Jamaica
	Latest	Previous				
Systemic Political Risk:	P2+	P2+	P3+	P2+	P3+	P2-
Systemic Economic Risk:	E5	E5	E5	E5	E4	E6
ME rating:	ME5	ME5	ME5	ME5	ME4	ME6
<i>Structure</i>	5.0	4.0	5.9	6.0	5.0	5.7
<i>Policy</i>	3.2	3.2	5.2	5.6	3.8	5.8
<i>Solvency</i>	2.8	2.8	2.8	3.0	2.8	5.8
<i>External Liquidity</i>	6.0	4.8	4.3	5.6	2.8	6.0
SBE rating:	SBE3	SBE3	SBE4	SBE4	SBE3	SBE4
COUNTRY GRADE:	C	B	C	C	B	D

Nomenclature:

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

ECONOMIC STRUCTURE

Country Profile

Capital city:	Bridgetown
Population:	0.27 mn (2007)
GDP:	USD 3487 mn (2007)
Currency:	Barbados dollar (BBD)
Form of state:	Parliamentary democracy
Head of government:	Prime Minister David Thompson
Next elections:	2013

Major Industries (% of GDP at market prices, 2007)		Global Assumptions	2008	2009
Agriculture & fishing	3.3%	Real GDP grth (% yr/yr) *	0.7	-3.0
Manufacturing & mining	7.6%	Inflation (% , av) *	3.4	1.0
Utilities & construction	10.4%	Dated Brent (USD/b)	98	50
Tourism	11.4%	* Major economies		
Other services	67.4%			

Main Exports (% of total, 2007) (Domestic exports only)		Main Imports (% of total, 2007)	
Chemicals	14.5%	Consumer goods	7.4%
Rum	13.2%	Intermediate goods	40.8%
Sugar	7.3%	Fuels	15.1%
Electrical components	5.6%	Capital goods	20.5%
		Other	0.4%
Lead Export Markets (% of total exports, 2007)		Lead Import Markets (% of total imports, 2007)	
Trinidad & Tobago	37.1%	US	30.5%
Jamaica	22.0%	Trinidad & Tobago	27.6%
UK	5.2%	UK	6.5%
US	4.0%	Canada	3.9%

Basic indicators

Selected economic indicators	2005	2006	2007	2008f	2009f
Nominal GDP (USD mn)	3,006	3,251	3,488	3,795	3,878
Population (mn)	0.27	0.27	0.27	0.27	0.27
GDP per capita (USD)	11,131	12,039	12,918	14,055	14,364
Real GDP growth (% yr/yr)	4.1	3.9	3.3	0.7	-2.3
Inflation (% , eop)	6.1	7.3	4.0	8.1	4.5
Fiscal balance (% of GDP)	-1.5	-2.1	-3.7	-5.1	-5.8
Current account balance (% of GDP)	-13.0	-8.8	-6.9	-10.8	-3.8
External debt/GDP (%)	44.4	45.3	40.6	41.6	41.8
External debt/Exports of goods & services (%)	66.8	69.7	61.3	68.9	75.6
Interest payments/Exports of goods & services (%)	5.0	6.9	6.8	8.3	7.8
Foreign exchange reserves (USD mn)	596	628	830	678	630
Import cover (months)	3.2	3.3	3.3	4.1	4.0
Exchange rate assumption, BBD:USD (av)	2.0	2.0	2.0	2.0	2.0
f: CRU central forecast					

Sources: National, IMF, World Bank, Euler Hermes Country Risk Unit

Political Stability

Parliamentary democracy has been maintained since independence from the UK in 1966. The Democratic Labour Party won the latest elections in January 2008, with David Thompson becoming PM, taking over from Owen Arthur of the Barbados Labour Party (BLP) in office since 1994. The DLP has a comfortable majority with 20 of the 30 seats in the lower house. The next elections are not due until 2013. The DLP was elected on a platform that included improvements in public services and job creation, but, as elsewhere, near-term policy is likely to be dictated by the impact of global recession. Internationally, Caricom (Caribbean Community) is the main focus, including the development of the single market. Barbados has consistently refused to join Venezuela's Petrocaribe initiative.

Economic Stability

The small, high-income, island economy is primarily tourism-based. The sector accounts for 11% of GDP directly and has displaced more traditional sectors, such as sugar. Offshore banking is also important, but less so than elsewhere in the Caribbean. Services—mainly receipts from tourism—dominate export earnings, accounting for almost 70% of the total, but this leaves the economy highly vulnerable to recession in major economies, particularly the US and UK. Annual average growth of real per capita GDP of 1.5% in the past ten years was moderate.

Real GDP increased by an annual average 4% in 2003-07, but slowed to 0.7% in 2008 and contracted by 2.8% yr/yr in Q1 2009. We expect GDP to contract by 2.3% in 2009, before increasing by 1% in 2010. The key problem is the impact of global recession on tourist arrivals. Value-added in the tourist sector was down 6.2% yr/yr in Q1 and arrivals from the US and UK, the two main markets, were down 19.6% and 7.9%. Higher food and energy prices also played a role in slowing growth in 2008, but in 2009 will be less of a constraint.

The fiscal deficit widened to 5.1% of GDP in 2008/09 (3.7% in 2007/08) and the public debt-GDP ratio increased to 98% in 2008. Spending increased while revenues declined as a proportion of GDP and with interest rates around 5% of GDP the primary surplus is estimated to have fallen to around zero. The 2009/10 deficit target is 5.4% but probable lower GDP growth points to some slippage. In any event the public debt-GDP ratio was projected to rise to 102% in 2009. The government plans to run a primary surplus of 5.9% of GDP from 2011 onwards to start reducing the public debt-GDP ratio, but this would be much higher primary surpluses than in recent years. One mitigating factor is the relatively low proportion of external debt in total public debt (around 30%). Monetary policy is based on a long-standing exchange rate peg to the USD. Inflation (RPI) was 8.1% yr/yr at end-2008, but appears to have peaked in March at 8.6% yr/yr. As pressure from food and energy costs has receded and credit growth has slowed we expect inflation to fall to 4.5% or less by year-end and remain relatively low in 2010. Monetary policy has been loosened, but net capital outflows mean that FX reserves have been falling through 2009 and look set to continue the downtrend.

The external current account deficit widened to 10.8% of GDP in 2008 from 6.8% in 2007. Data for the first few months indicate that imports will fall by more than the decline in goods exports and receipts from tourism in 2009 and consequently the deficit will narrow to just below 4% of GDP. However, a modest increase in domestic demand, along with higher average oil prices will push the deficit back to around 5% of GDP in 2010. FDI inflows are likely to fall sharply in 2009 and will cover only 30-35% of the current account deficit. FX reserves cover around 4 months of imports, but as this is largely the result of lower imports in 2009 the ratio could fall sharply in 2010. Moreover, FX reserves cover less than 50% of estimated external debt due in 2009 and less than 20% of broad money liabilities. External debt ratios are a relatively low 40% GDP and 70% of exports of goods and services. Interest payments on external debt are a moderate 8% of exports of goods and services.

Overall, the economy will contract in 2009 and recover only slowly in 2010. The widening of the fiscal deficit comes at a difficult time as the public debt-GDP ratio is already close to 100% and on a long upward trend. The primary surplus required to stabilise the debt will be hard to achieve. This trend, along with chronic large current account deficits could pose problems for the pegged exchange rate in the future, though FX reserves provide some near term cushion.

Structural Business Environment

The Structural Business Environment is generally sound, ranking above average our assessment, but falling short of the strongest ratings overall.

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Charts

