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CariCRIS Reaffirms The High Creditworthiness of Barbados

Courtsey Caribbean 360 News

BRIDGETOWN, Barbados,– Despite concerns that Barbados government debt is hovering just above junk bond status on the world market, the Caribbean Information and Credit Rating Services Limited (CariCRIS) has reaffirmed the level of credit worthiness for the island as high.

Based on a notional debt issue of US$300 million, CariCRIS has given the Barbados government ratings of Barbados of CariAA- (Foreign Currency Rating) and CariAA (Local Currency Rating) on its regional scale. Meaning that the level of creditworthiness of this debt obligation, as judged against other sovereign debt obligations in the Caribbean, is high.

In a media release issued yesterday (December 4), CariCRIS stated that its reaffirmation of Barbados' ratings was based on the return to some measure of stability in the island's macroeconomic performance in 2011 as evidenced by positive growth in real gross domestic product (GDP) and a narrowing of the fiscal deficit.

Real GDP grew by 1% in the nine months to September 2011 relative to 0.2% in the corresponding period of 2010. The fiscal deficit narrowed to 5.3% of GDP from 9.6% for the same period in 2010. Unemployment levels also seem to have stabilized around 11% in the last 12 months. The external current account deficit increased marginally to 9% of GDP partially reflecting the upward trend in food and commodity prices. These higher import prices also impacted the inflation rate which up to July 2011 was estimated at 7% compared to 5.3% in September 2010. Moreover, the 2010 outturn was more or less in line with CariCRIS' forecasts on which the 1-notch downgrade was assigned last year.

Furthermore, CariCRIS found the macroeconomic outlook for 2012 to be moderately positive with growth in output projected to be around 1-2% contingent on the recovery of Barbados' main tourism markets as well as the improved performance of the other key sectors driving growth such as construction and financial services.

CariCRIS projects that once all the figures are in, the island will have recorded a marginal narrowing of the fiscal deficit over 2011 resulting from the uptick in economic activity while unemployment levels are expected to be around 9 -10%.

As the ratings agency also expected a resumption of stalled large-scale real estate projects such as the Four Seasons project, The Merricks Resort Show Village and H Barbados boutique hotel, to provide a much needed boost to economic activity as well as to foreign direct investment (FDI) inflows in 2012.

However, CariCRIS admitted that the near-term growth prospects remained challenging as economic recovery of any significance was not likely until late 2012/13.

“CariCRIS expects a parsimonious approach to fiscal management supported by the revenue generating initiatives announced in the last two budgets and tighter expenditure controls.

“Nevertheless, the fiscal situation is likely to remain tenuous in the near term in the face of a weak macroeconomic environment in Barbados and the lethargic recovery of its key markets. Even though the fiscal deficit is projected to narrow, general government gross debt is expected to rise to around 120-130% of GDP by the end of 2011.

“CariCRIS’expectations are that the external current account deficit will expand further to around 10-11% of GDP and unemployment levels to be around 11-12% in 2011,” stated the ratings agency.

CariCRIS also discouraged authorities from resting on their laurels, noting that Barbados’ high creditworthiness is highly dependent on their success at fiscal consolidation and stabilization of the public debt to a sustainable level.

Proving how tenuous the rating was, CariCRIS warned that the risks were tilted to the downside and a slower-than-expected fiscal consolidation could lead to a downward adjustment of the ratings.

While citing the usual positives for which Barbados is well known: long history of strong governance and political stability; the quality of its underlying institutions: political, legal and economic as well as its monetary and exchange rate stability underpinned by a longstanding, fixed exchange-rate regime; excellent human development indicators; high per capita income and high standards of education and health care; CariCRIS noted that these could do little to stave off a ratings downgrade if things took a turn for the worse.

“These strengths are tempered by persistent fiscal deficits, high and rising public sector debt levels and increasing debt-servicing costs. In addition, its weak external sector is characterized by persistent current account deficits and low reserves. Not dissimilar to many of its Caribbean neighbours, Barbados has a small open economy with limited resources and few growth prospects outside of tourism and financial services,” the ratings agency pointed out.