



Trouble in paradise.

There is an island in the Caribbean that provides its citizens with an enviable quality of life – ranked among the best in the world. It possesses one of the highest per capita incomes in the region as well as a low crime rate, a very well educated population and a stable political environment. Not to mention a healthy dose of sun, sea and sand. There is also an island in the Caribbean that suffers from a 10.6% unemployment rate, choking public debt and has had to dedicate over 20% of its imports bill just on importing fuel. They may sound like worlds apart but both are in fact references to Barbados.

Barbados has a rich history. It was colonised by the British in 1627 and gained its independence in 1966. The majority of the present population originated from slaves brought from the African continent to work the vast sugar estates. Sugar, rum and molasses remained the mainstay of the Barbadian economy until the 1990's when tourism, manufacturing and financial services gained prominence.

Tourism revenue in fact consistently contributes close to 50% of Barbados' foreign reserves and 15% of their GDP. It also provides 54% of the island's employment. Unfortunately the majority of tourists come from Europe (37%) and the United States (24%) and tourist arrivals and expenditure have declined within recent time as these regions cope with depressed economies. In addition to tourism, manufacturing and offshore financial services are big foreign exchange earners in the economy. Production of sugar, chemicals, electronic components, food and beverages contributes 10% to foreign exchange earnings and 8% of the country's GDP. Barbados has gained a reputation as the region's premiere offshore banking centre with well developed policies in place to support it. The Barbadian financial sector contributes 19% of the country's GDP. However, like the tourism sector, the manufacturing and offshore financial services sectors have faced declines recently. The manufacturing sector contracted by 8% in the second quarter of 2010. Financial services declined by 3% in the same period ⁽¹⁾.

The agricultural sector suffered in 2009 both from severe drought and a partial reduction in guaranteed sugar prices. Foreign exchange earnings from sugar production (which contributes 1.3% of Barbados' GDP) fell by 20% in the first half of 2009. Most of the island's exports (agricultural and otherwise) are shipped to CARICOM member states and Barbados' biggest export partners are Trinidad and Tobago (16%) and Jamaica (14%) – both islands that are facing their own economic slowdowns. As a result, total exports from the island have suffered and foreign exchange inflows have decreased by 17% between 2007 and 2009. Some imports have decreased as a result of the economic slowdown but, as mentioned before, a considerable percentage of Barbados' trade bill consists of fuel imports and oil and natural gas prices are once again increasing.

The bad news does not end there. With so many sectors of the economy facing decline it is not surprising that Barbados

has had to incur heavy debt. In 2007 Barbados was already faced with a government debt to GDP ratio of 68.3%. With the global slowdown in full swing, this ratio ballooned to 85% by the end of 2009 ⁽¹⁾. To address the situation the government has decided to reduce spending. In fact, Barbados' first-quarter 2010 results showed a 24% decrease in government spending, compared with the same period of 2009, with a 36% contraction in subsidies and transfers. The challenge here is to reduce spending in such a way as to reduce debt while still encouraging economic growth (besides tourism, manufacturing and other services, government spending provides the crucial financial injections needed to keep the economy from collapsing). The Barbadian economy contracted by 5.50% in 2009 ⁽¹⁾.

Barbados' creditors are understandably concerned. Standard & Poor's lowered their long-term credit rating on Barbados late in 2004 from A- to BBB+ and again in 2009 to BBB. This makes it more difficult and more expensive for Barbados to borrow additional funds in the future. The outlook on the ratings is negative.

As can be expected with such weak economic conditions, the unemployment rate rose to 10.6% for the first quarter of 2010. Indeed relatively high rates have been the norm even before the 2008 slowdown - Barbados suffered from an average unemployment rate of 8.7% for the last 5 years. High unemployment rates and a high cost of living would seem to be a recipe for social chaos but historically the reality has been different.

Studies done before 2009 suggest that Barbados is one of the safest countries in the world. Comparing its results to the International Crime Victim Survey of 34 industrialized and developing countries, the Barbados Crime Survey 2002 determined the countries with the lowest crime rates were Japan, Northern Ireland and Barbados and that Barbados has "well below average crime rates for personal theft, sex offences, consumer fraud and corruption." ⁽⁴⁾. This is perhaps attributable to Barbados' high standards of education – education is compulsory for all children between the ages of 5 and 16. The Barbados government provides free education up to the tertiary level. This has resulted in a literacy rate of 99.7%, making Barbados the 5th highest country in the world ranked by literacy rates ⁽²⁾.

The Human Development Index (HDI), published by the United Nations Development Programme, is an indicator of the quality of health, education and standard of living experienced by its participants. Barbados is classified as a region of "Very High Human Development" and was ranked 37th in 2009. Additional measures of Barbados success include an admirable GDP/capita ratio of USD 19,189 (compared to energy rich Trinidad and Tobago with USD 25,173) ⁽³⁾ and a life expectancy rate of 77 years (compared to 70 years in Trinidad and Tobago) ⁽⁵⁾.

And this is the challenge for Barbados: that a country can struggle with a 8.7% unemployment rate and mounting debt and yet still boast of a low crime rate and high standards of living is a great accomplishment in this modern age and a testament to their strength. However as the world economy slowly recovers, debt levels rise and the Government begins to tighten its belt, this jewel in the Caribbean will have to work hard to maintain its high standards. In the coming years will the people of Barbados ensure that their paradise is not lost?

⁽¹⁾ Economic Review June 2010: Central Bank of Barbados.

⁽²⁾ United Nations Development Programme Report 2009.

⁽³⁾ Bloomberg.

⁽⁴⁾ The Barbados Crime Survey 2002.

⁽⁵⁾ United Nations World Population Prospects 2006.

FINANCIAL & ECONOMIC INDICATORS

As at 5 August, 2010

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	85.82	86.79
Euro	1.32	1.31
Jamaica	86.23	86.10
Guyana	204.40	205.20

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	82.01	78.36
Natural Gas (US\$/mmbtu)	4.84	4.79
Gold (US\$/Troy Ounce)	1,194.95	1,168.25

Eurobond Indices (As at 29-July-10)

JP Morgan EMBI+ (Basis points)	269
JP Morgan Central America and Caribbean Index (CACI) (YTD return %)	N/A

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	0.25	0.25
Euro Zone	1.00	1.00
Japan	0.10	0.10
Brazil	10.66	10.66
Trinidad	5.00	5.00
Jamaica	8.50	9.00
Barbados	2.50	2.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	0.14	0.14
US 10-Yr Treasury	2.90	2.98
3-month UK Libor	0.74	0.74
Japan 90-day T-Bill	0.28	0.28
Brazil 90-day T-Bill	11.19	10.70
TT 90-day T-Bill	0.48	0.97
Jamaica 90-day T-Bill	8.32	8.32
Barbados 90-day T-Bill	3.26	3.26

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados,

DISCLAIMER

The information contained in this documentation is for your information only. All information contained in this documentation has been obtained from and is based on sources, including but not limited to, newspaper and magazine articles that CMMB believes to be accurate and reliable. However such information, facts, calculations, methodology, assumptions and estimates contained in this documentation have not been verified by us. All opinions and estimates constitute the Author's judgment as of the date of the documentation which are subject to change; 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 documentation is given or made by CMMB in any form whatsoever. Consequently, CMMB assumes no liability for the accompanying information, which is being provided to you solely for general information.