Press Release in Response to Standard and Poor's Rating Report – July 17, 2012

Today Standard and Poor's (S&P) announced that it had lowered Barbados' foreign-currency credit rating from 'BBB-/A-3' to 'BB+/B'. The downgrade says to the investment community that Barbados' foreign debt has become more risky, which is manifestly not the case.

Forty years of economic policy experience have taught Barbadians the importance of maintaining the US dollar value of the local currency. At the onset of the international economic crisis in 2008, our first priority was therefore to sustain the foreign exchange reserves of the Central Bank, so that they remained sufficient to protect the value of our dollar. So far, this objective has been fully achieved, and the current foreign reserve level of BDS$1.4 billion provides adequate support to the exchange rate anchor. This was not acknowledged in the S&P report.

A second priority for Government has been to reduce the fiscal deficit and to bring down the ratio of Government debt to GDP. A Medium Term Fiscal adjustment strategy (MTFS) was devised to accomplish this, because the shock from the international economic crisis was too severe to be corrected all at once. The Government has embarked on reforms to improve the efficiency of existing revenue collecting agencies and establish a Central Revenue Authority. Expenditure on wages and salaries has been contained. Government reduced its deficit from 9.1 percent of GDP in fiscal year 2010/11 to 4.6 percent in the last fiscal year, and the MTFS remains on schedule.

Government debt owed to the private sector expressed as a ratio to GDP is 77 percent (or 57 percent if we take account of assets which government holds), and the rate of growth in debt has already slowed considerably. Measured on a comparable basis, the ratio for the US is 100 percent, for Portugal 106 percent, for Canada 84 percent and for Germany 83 percent, based on data published by the IMF. The MTFS schedule is expected to reduce Barbados' debt to GDP ratio to 65 percent by fiscal year 2016/17.

Accelerating growth is a third priority. Barbados' growth strategy is led by the private sector, and focusses on those economic activities which earn or save foreign exchange, and in which the country has some advantage over its competitors. In tourism, Barbados continues to further diversify its sources of visitors; already our markets are more diversified than those of our competitors, with four main sources, the UK, Canada, the US and CARICOM. New investment is going forward in up-market accommodation and amenities and in the enrichment of tourism services.

In the international business and financial services (IBFS) sector, the private sector is engaged with Government in devising strategies to exploit Barbados' lead in the negotiation of double-taxation treaties, and to cement an international reputation for sound regulation and supporting infrastructure. Furthermore, the non-price competitiveness of the sector is expected to improve, given the adjusted corporate tax rates for IBFS companies in the Government's June 2012 budget.

Alternative sources of energy offer the greatest prospect for saving foreign exchange. Government is providing leadership through its own investment in solar generation and the provision of fiscal incentives for the private sector.

The performance and prospects of the Barbadian economy may be summed up as follows:

- The economy is stable, and we are living within our means: inflows are sufficient to fund outflows, foreign exchange reserves are adequate, and the exchange rate anchor remains secure;

- Barbados does not have a debt problem: our debt/GDP ratio, measured by comparable definitions, is lower than that of some major economies, and Government's MTFS is on course to bring it down further;

- Growth is expected, based on investments which the private sector has initiated in the foreign exchange earning and saving sectors, with Government's support.

Continuing commitment to protect the foreign exchange reserves, implement the MTFS, and invest to increase our potential to earn and save foreign exchange is our assurance of future growth and additional employment.

In its research update, S&P cites the following reasons for the downgrade:

1. '*Competitive challenges in tourism and international business*' - these challenges are being addressed through private initiatives and with the support of various Government incentives;

2. '*The difficult external environment'* – Barbados' targeted niche marketing strategies in tourism and policies to address the competitiveness of the IBFS sector have been designed to address this problem;

3. '*Further debt accumulation'* - Barbados' debt to GDP ratio has declined for the year-to-date.

Unlike countries like Greece, Barbados has taken painful measures to rein in spending and to live within its means. Even S&P acknowledges that Government has made focused efforts to bring down its deficit, during these challenging times. S&P's own analysis therefore fails to justify its action in downgrading Barbados' investments.

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