Announcement: Moody's Disclosures on Credit Ratings of Barbados, Government of

Global Credit Research - 26 Mar 2012

New York, March 26, 2012 -- The following release represents Moody's Investors Service's summary credit opinion on Barbados and includes certain regulatory disclosures regarding its ratings. This release does not constitute any change in Moody's ratings or rating rationale for Barbados, Government of.

Moody's current ratings for Barbados, Government of are:

Long Term Issuer (domestic and foreign) rating of Baa3

Senior Unsecured (domestic and foreign) ratings of Baa3

Senior Unsecured MTN Program (foreign) ratings of (P)Baa3

RATINGS RATIONALE

The government's Baa3 local and foreign-currency bond ratings reflect the country's medium economic strength, high institutional strength, low government financial strength, and medium susceptibility to event risk.

The economic strength assessment balances a relatively high GDP per capita (US$ 19,200 in PPP terms) with low growth rates and the small size of the economy (US$ 4.3 Bn.) which relies on a narrow economic base that depends heavily on tourism and international business services. Even during a period of very favorable global conditions from 2004 to 2007, Barbados' real GDP growth averaged just 3-4%. Furthermore, both of the island's main industries are expected to continue showing low growth in coming years as they face significant structural challenges. As a result, growth is expected to be only 1% in 2011 and just above 1% in 2012.

Barbados' high institutional strength reflects the country's political stability and relatively high degree of consensus around economic policies, as well as strong governance indicators. However, Moody's notes that the social partnership which supports this consensus may also be contributing to a climate of political inertia, which is inhibiting the implementation of the structural reforms necessary to improve competitiveness and address the government's fiscal challenges.

The assessment of low for government financial strength reflects Barbados' persistently large fiscal deficits, which are driven by a high level of entitlements and transfers to loss-making state-owned enterprises, as well as government debt indicators that compare unfavorably to peers in the Baa rating cohort. These concerns have historically been mitigated by the fact that debt is mostly local currency-denominated and primarily held by local banks and the National Insurance Scheme (NIS), conditions that reduce roll-over risk. Moody's has increasing concerns about the capacity of the domestic financial market to continue to absorb elevated levels of government debt, particularly in light of the growing external deficit and lower domestic savings, which will leave the government increasingly dependent upon foreign financing. Furthermore, given the economy's limited diversification, deteriorating competitiveness, and historically modest growth, Barbados is not likely to grow out of its heightened debt levels anytime soon.

Barbados' moderate susceptibility to event risk considers that the country's low political risk is offset by its vulnerability to a global economic slowdown, as occurred after September 11 and more recently as a result of the global financial crisis, given the economy's dependence on the highly discretionary tourism industry. Persistent external imbalances, which the government has had at times to finance with debt issuance or foreign exchange reserves, and a high level of the domestic money supply to foreign exchange reserves expose the currency peg to potential pressures. Moreover, as a result of its elevated debt levels, the country will have considerably less flexibility to respond to economic shocks given a fixed exchange rate regime that eliminates the possibility of pursuing an independent monetary policy.

Rating Outlook

Barbados' ratings have a negative outlook. The negative outlook reflects Moody's view that while the worst appears to be behind in terms of economic deterioration, and deficits should continue decreasing slowly due to the government's strategy of gradual fiscal consolidation, they will remain relatively large for the next few years unless the government takes more drastic action than currently expected. As a result, government debt ratios are likely to deteriorate further over the next 12 to 18 months to levels that may no longer be consistent with an investment grade rating.

The negative outlook also reflects the possibility that pressures on Barbados' fixed exchange rate could result due to an anticipated rise in the current account deficit in a context of large and increasing government deficits.

What Could Change the Rating - Up

Given the negative outlook, Barbados' ratings are unlikely to face upward pressure in the near-to-medium term. However, the outlook could return to stable if Moody's determines that (i) the government is likely to exceed current expectations regarding the pace of fiscal consolidation, (ii) economic growth is likely to pick up on a sustained basis, and (iii) the government demonstrates a credible plan to successfully reverse the recent increase in debt ratios.

What Could Change the Rating - Down

The ratings will be downgraded if Moody's determines that the recent increase in debt levels is not likely to be reversed in the near-to-medium term, or if pressures on the currency peg materialize.

The principal methodology used in this rating was Sovereign Bond Ratings published in September 2008. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 31 January 2012. ESMA may extend the use of credit ratings for regulatory purposes in the European Community for three additional months, until 30 April 2012, if ESMA decides that exceptional circumstances arise that may imply potential market disruption or financial instability. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following : parties involved in the ratings, parties not involved in the ratings, public information and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

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Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history. The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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