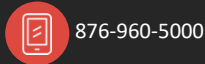


Bond Analysis: Government of Barbados 6.50% 2029

VMWM Research | March 22, 2024



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53 Knutsford Boulevard, Kingston 5



● Bond Recommendation:

Conservative Risk Appetite: **UNDERWEIGHT**

Moderate Risk Appetite: **UNDERWEIGHT**

Aggressive Risk Appetite: **MARKETWEIGHT**

ABOUT BARBADOS

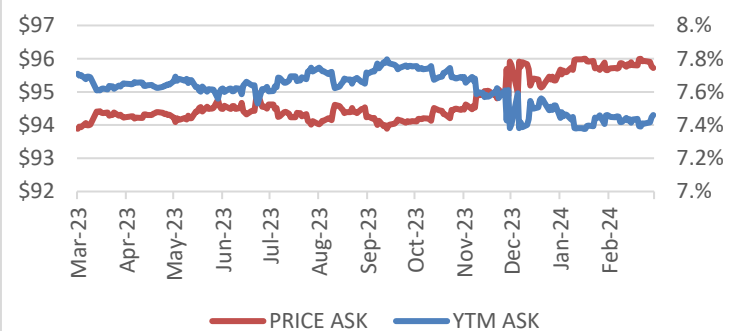
Despite facing various challenges in recent years, the Barbadian economy has successfully recovered and has continued growth in the 2023/24 FY. This positive trajectory has been driven by the ongoing resurgence of tourism and related activities. Additionally, the fiscal balance has shown improvement, and steps have been taken to reduce public debt, which stood at 115.5% of GDP by the end of December 2023. Moreover, the country's international reserves have reached BDS\$2.99 billion (US\$1.5 billion) as of the end of December 2023, providing coverage for more than seven (7) months of imports.

The government is actively pursuing structural reforms, having already achieved numerous key milestones. Efforts to address climate change and promote a greener economy are also making progress. The implementation of important reforms under the Resilience and Sustainability Facility (RSF) arrangement has taken place, and there is a gradual increase in the utilization of renewable energy sources in the overall energy mix.

Government of Barbados: Bond Term Summary

Issuer	Government of Barbados
Currency	USD
Credit Rating/Outlook (S&P)	B-/Positive
Day Count Basis	30/360
Maturity	10/01/2029
Price	95.717
Coupon Rate	6.5000
Issue Date	12/11/2019
Tenor	10 Years
Maturity Type	Sinkable
Amount Outstanding	530,595.10 (M)
Indicative Ask Yield (March 21, 2024)	7.461

Historical Price/YTM



Recommendation: When compared to peers of the same credit rating [S&P: B-] that have bond issues of a similar maturity [2029/2030] such as Nigeria, Ecuador and Angola, Barbados offers a lower coupon and yield than the peer averages. Notwithstanding, the sinkable feature of the Barbados bonds when compared to Nigeria and Angola (bullet payments) supports lower risk in terms of principal repayment. Additionally, Barbados has better political and social stability when compared to Ecuador. As such, we view the BARBAD 29's as fairly valued, presenting a suitable **MARKETWEIGHT** option for investors with an **AGGRESSIVE** risk appetite due to a low credit rating, a sizeable and ongoing debt burden and current account deficit, as well as lingering investor sentiment that remains cautious following the debt restructuring done in 2018-2019. (More on pg. 5).

Sovereign Bond Analysis: Government of Barbados

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ECONOMIC OVERVIEW & OUTLOOK: BARBADOS

Driven by the robust performance of the tourism sector, the Barbadian economy has remained resilient and performed positively despite facing adverse conditions.

The key indicators reveal a robust growth trajectory driven primarily by the robust performance of the tourism sector. The economy sustained its upward growth path, registering an estimated real GDP growth of 4.4 percent. This growth was supported by factors such as increased airlift capacity, intensified promotional initiatives in key source markets, high-profile events like cricket matches, and the vibrant revival of the Crop-Over festivities. The sustained growth in the tourism industry also functioned as a catalyst for expansion in non-traded sectors such as construction, wholesale & retail, and business & other services, underscoring the interconnectedness of the economy.

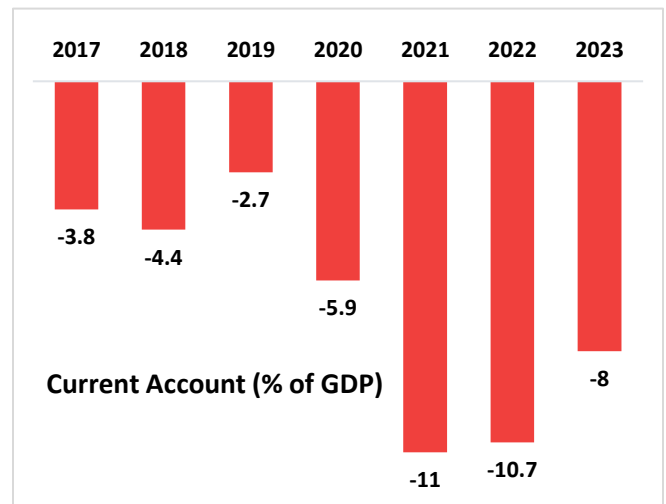
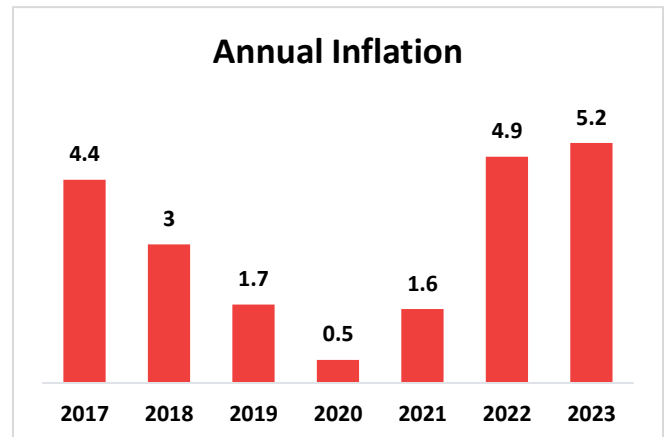
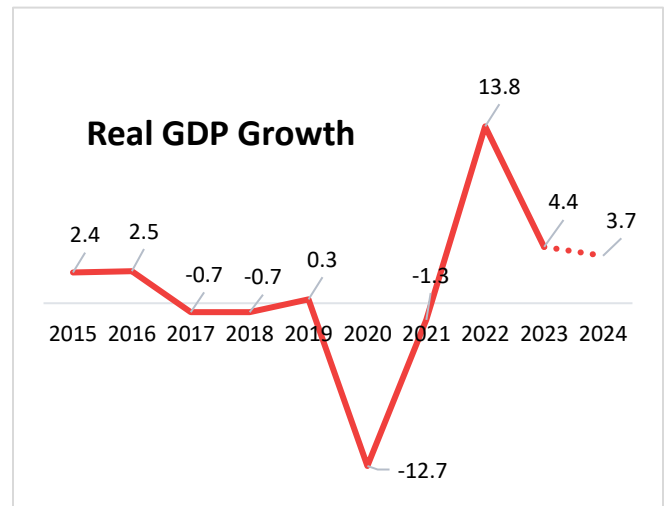
Despite this positive year for the Basian economy, it did still face several challenges in regard to high foreign interest and inflation rates, geopolitical tensions, and adverse weather conditions.

Point-to-Point Inflation Appears to be Moderating, but Risks Remain

According to the International Monetary Fund (IMF) December 2023 report, inflation in Barbados is moderating, with rates falling to 4.3 percent year-over-year as of July 2023 from a peak of 6.7 percent in May 2022. Factors contributing to this decline include lower international fuel prices and freight costs, although prolonged drought conditions and increased demand for dining and recreational activities due to tourism recovery have led to price increases in certain food items and domestic services. The IMF also highlights elevated risks to the economic outlook, including potential global economic and financial shocks, natural disasters, and geopolitical tensions. Looking ahead, the Central Bank projects medium-term inflation to moderate to between 3.5 and 4 percent by the end of 2024, supported by declining international commodity prices, although the forementioned risks remain.

Current Account Deficit Narrows as Economy Continues to Recover

According to the International Monetary Fund (IMF), Barbados is expected to sustain economic growth with tourism and commodity prices returning to pre-pandemic levels, leading to a narrowing current account deficit. The current account balance is the net difference between a country's total exports of goods, services, and transfers and its total imports of the same, indicating whether a country is a net lender or borrower to the rest of the world. A positive balance signifies a surplus, while a negative balance indicates a deficit. The deficit decreased to 8.5% of GDP in the first nine months of 2023 from 11.1% in the same period of 2022, supported by tourism rebound and lower import prices. The Central Bank of Barbados notes the economy's resilience amidst global and local challenges, with the current account deficit reducing to \$1,026.2 million, propelled by increased tourism receipts and reduced imports, bolstering foreign reserves to \$2,997.4 million by December 2023.

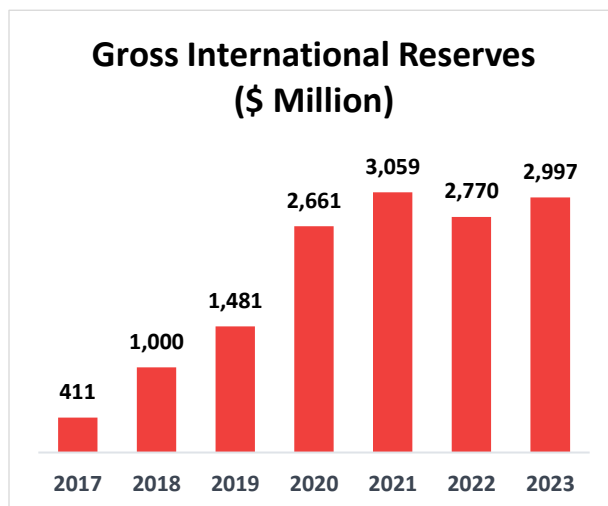


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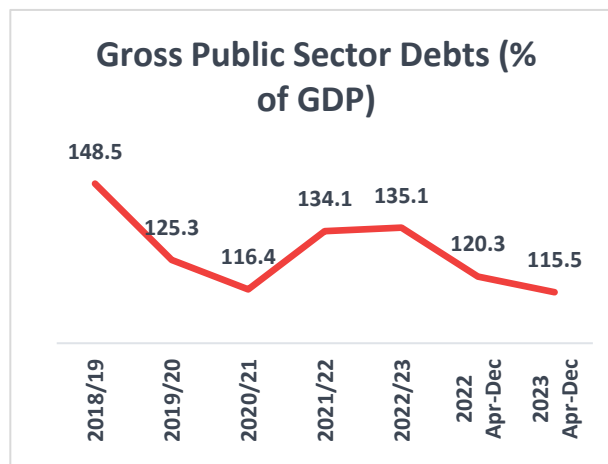
International Reserves have been maintained supporting the Exchange Rate Peg

According to the International Monetary Fund (IMF) December 2023 report, Barbados continues to maintain ample international reserves, supporting the exchange rate peg and macroeconomic stability. The reserves position has strengthened, with gross international reserves reaching US\$1.4 billion by end-September 2023, equivalent to 7.6 months of imports, driven by improved current account balance and financial support from international institutions. The Central Bank of Barbados also highlights the robust growth in tourism and strategic investments, projecting further bolstering of international reserves. Gross international reserves surged in 2023, reaching \$2,997.4 million by December, supported by increased tourism earnings and funding from international financial institutions. These developments mark Barbados' enduring economic resilience and position it well against global market fluctuations.



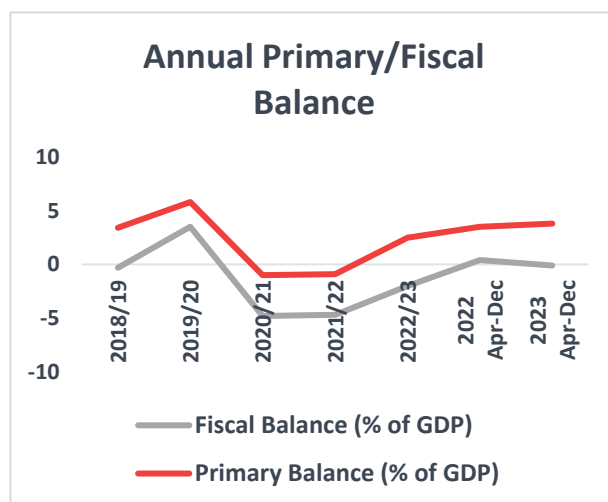
Barbados has made Significant Progress in Reducing its Public Debt

According to the International Monetary Fund (IMF), Barbados has made noteworthy progress in fiscal consolidation and reducing the public debt-to-GDP ratio while maintaining essential social and capital expenditure. The debt declined to 119.6 percent of GDP in FY2022/23 from 131.5 percent in FY2021/22, driven by economic recovery and fiscal consolidation efforts, and is expected to further decrease to pre-pandemic levels in FY2023/24. The BERT 2022 Plan aims to achieve a debt-to-GDP ratio of 60 percent by FY2035/36 through sustained primary surpluses and adequate capital expenditure. The Central Bank of Barbados highlights that despite higher foreign interest rates, the debt-to-GDP ratio remains sustainable and is on track to meet the FY2035/36 target. The ratio fell to 115.5 percent in tandem with the rise in economic activity, despite increased borrowing and the uptake of government securities. Additionally, Barbados has been trending toward a debt-to-GDP ratio similar to developed economies since 2019, despite facing significant external shocks in recent years.



Fiscal Balance Continues its Positive Trend

Despite fiscal challenges, Barbados has effectively balanced its budget, achieving a primary surplus and maintaining a minimal overall deficit. Fiscal balance is the difference between the government's revenues and expenditures. The primary balance is similar to the fiscal balance except, it does not include the governments interest expenses. According to the IMF, the authorities comfortably met their primary balance target for the first half of FY2023/24, exceeding expectations with a primary balance of B\$295 million, equivalent to 2.3 percent of GDP. Prudent expenditure management allowed them to navigate challenges such as lower-than-anticipated revenue outturns and increased interest outlays. The Central Bank of Barbados lauded the government's fiscal discipline and strategic reforms, emphasizing the achievement of the primary balance target of \$378 million by the end of December 2023, setting a positive trajectory for meeting the primary balance target of \$446 million by March.



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2024. Strategic reforms, including the restructuring of state-owned enterprises (SOEs) and reforms in the corporation tax structure, are expected to yield efficiency gains and support the government's capital investment programs while ensuring debt sustainability.

Despite revenue challenges, Barbados has demonstrated resilience and efficiency in achieving its fiscal targets, laying the groundwork for future financial stability and efficiency gains.

CREDIT RATING

Standard & Poor's (S&P): B-/Positive

On October 26, 2023, S&P Global Ratings revised Barbados' outlook from stable to positive, reflecting their confidence in the country's ongoing institutional reforms aimed at bolstering sustainable public finances and fostering balanced economic growth. Despite the anticipated time required for institutional strengthening, S&P expects pension reforms to materialize within the next year, potentially improving Barbados' fiscal assessment. This positive outlook also considers S&P's expectations of a slowdown in global economic growth and higher interest rates. The 'B-' rating reflects S&P's acknowledgment of Barbados' progress under the domestic BERT program and its achievement of IMF EFF targets, which should continue facilitating access to financing from multilateral institutions despite external challenges like the pandemic, hurricanes, volcanic ashfall, and geopolitical tensions. However, risks persist, including dependence on tourism, potential fiscal deficits, and global economic uncertainties. Overall, while Barbados has shown progress, persistent challenges influence the rating to remain at 'B-'.

COMPARABLES ANALYSIS

When contrasted with peers possessing a similar S&P credit rating, the coupon and yield of BARBAD 29 bonds were found to be lower than the average of those peers. However, BARBAD bonds have a sinkable feature, potentially mitigating risks associated with principal repayment, unlike NGERIA 29's and ANGOL 29's, which follow a bullet structure. Furthermore, Barbados exhibits a higher level of political and social stability compared to the growing social and political turmoil in Ecuador.

Issuer	Indicative Yld to Mty (Ask)	Price	Coupon	S&P Rating	Maturity	Currency	Maturity Type
Barbados	7.461	95.717	6.50	B-	10/01/2029	USD	Sinkable
Nigeria	9.009	97.493	8.375	B-	03/24/2029	USD	At Maturity
Angola	9.404	94.111	8.00	B-	11/26/2029	USD	At Maturity
Ecuador	14.663	68.317	6.00	B-	07/31/2030	USD	Sinkable

Source: Bloomberg (As of March 22, 2024)

INVESTMENT POSITIVES

1. Stable and mature political system, despite past challenges with sustainable public finances.
2. Strong economic recovery: The Barbadian economy has successfully recovered from the slump caused by the COVID pandemic, with consecutive quarters of expansion. This indicates a positive trend and potential for continued growth in the future. The tourism sector in Barbados has exhibited improved performance, with tourist arrivals reaching 89% of pre-COVID levels in 2019, and outperforming 2022 by 18%. This growth in tourism activity has positive spill-over effects on other sectors of the economy, leading to a decrease in the unemployment rate and overall economic improvement.
3. High international reserves: Barbados has achieved an increase in its international reserves by 8.2%, amounting to BDS\$2.99 billion. This indicates a strong external position and provides a buffer against external shocks, enhancing the country's ability to fulfil its financial obligations, including servicing its debts.
4. Favourable debt sustainability outlook: Despite a high debt-to-GDP ratio, the IMF sees no significant concern over external debt sustainability. The ongoing economic recovery, successful completion of IMF programs, and increase in central bank international reserves contribute to maintaining a low level of payment risk for Barbados in the near term.

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5. Sinkable feature on the bonds reduces risks associated with principal repayment.

INVESTMENT NEGATIVES

1. **Large current account deficit:** While the current account deficit in Barbados has decreased from 10.7% of GDP in 2022 to 8.0% in 2023, the deficit has still remained relatively large. Persistent and large deficits in the current account can represent a risk to debt servicing ability and may impact the country's creditworthiness.
2. **High debt-to-GDP ratio:** Barbados still faces a high debt-to-GDP ratio, standing at 115.5% as at December 2023. While efforts have been made to reduce the ratio, it remains a concern and can impact the country's overall financial stability and ability to access favourable borrowing terms.
3. **Limited fiscal and monetary policy flexibility:** Barbados has limited fiscal and monetary policy flexibility due to a high debt burden, fixed exchange rate, and weak monetary policy transmission mechanisms. These factors can restrict the government's ability to respond effectively to economic challenges and may impact investor confidence.



Conclusion

Despite past challenges with sustainable public finances, the aftermath of the pandemic and natural disasters, Barbados has made notable strides in rebuilding a macroeconomic environment that is conducive for effectively managing its debt burden. We like that the country has political and social stability and has posted reasonable economic growth, slowing inflation, increasing high international reserves, and improving fiscal numbers in recent months. On the other hand, we find the country's current levels of Debt-to-GDP and Current Account deficits to be sizeable and ongoing, which present risks to the outlook, as these hinder financial flexibility and the government's ability to respond effectively to exogenous shocks, natural disasters, and economic challenges. Notwithstanding, we view the risks as having become more balanced since the days of the restructuring (2018-2019) and the COVID-19 era (2020-2022).

When compared to peers of a similar S&P credit rating of 'B-' who have bonds with a similar maturity [2029/2030], the coupon and yield on BARBAD 29's are lower than the peer averages. However, Barbados bonds are sinkable which should reduce risk from the point of view of principal repayment, unlike the NGERIA 29's and ANGOL 29's which have a bullet structure. Additionally, Barbados appears to have greater political and social stability when compared to the brewing social and political unrest occurring in Ecuador. These factors likely justify the lower yield and coupon for Barbados. We therefore view Barbados bonds as fairly priced given the risks relative to comparable and should provide returns similar to the market in general. Due to the foregoing concerns, general market apprehension since the debt restructuring, and the relatively low credit rating we believe Barbados bonds to be more suitable for investors with an aggressive risk appetite.

Conservative Risk Appetite: UNDERWEIGHT

Moderate Risk Appetite: UNDERWEIGHT

Aggressive Risk Appetite: MARKETWEIGHT

Sovereign Bond Analysis: Government of Barbados

VMWM Research | March 22, 2024

SOURCES

Bloomberg, IMF, World Bank, Central Bank of Barbados (CBB), Standard & Poor's (S&P), Oppenheimer & Co.

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- **OVERWEIGHT** - Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **MARKETWEIGHT** – Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** – Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.