

BUSINESS

Postcard From Barbados -- a.k.a. 'Cyprus West'

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f **Barbados**, “the Jewel of the Caribbean,” the tiny easternmost island in the Lesser Antilles with 288,000 year-around inhabitants and lots of very rich foreign visitors and investors, is in the throes of a financial meltdown.



While its entire GDP is now only worth about \$4.2 billion, and its population is smaller than that of Duluth Minnesota, this crisis is worth examining closely. For here have a very precise example of the “**finance curse**,” where excessive dependence on *high debt*, an *aggressive offshore haven industry*, *very low tax rates for high worth investors, foreign companies, and banks*, and *high tax rates for everyone else*, have essentially brought this little country to its knees.

Economists revel in grim statistics, especially at Christmas time. In recent weeks Barbados’ current account deficit has soared to 12 percent of GDP, and the island is down 10 weeks of reserves, compared with 16.4 weeks last June – which was already the lowest level since 2008. Deficit spending is 6 percent of GDP and headed higher.

At 94 percent, Barbados’ ratio of public debt to GDP, already the Caribbean’s second highest, is fast approaching Cypriot levels.[\[i\]](#)

Not surprisingly, in October, a \$250 mm *Bajan* bond offering in the US market had to be yanked after it was greeted with howls of derision. In late November, downgraded the long-term rating on *Bajan* bonds for the third time in two years to BB-, below investment grade, the same rating as Gabon and Nigeria.

That is very bad news for 126,000 long-time contributors to Barbados’ National Insurance Fund, who depend on it for old age, disability, unemployment, and severance benefits. [\[ii\]](#) At least 60 percent of the Fund’s \$2 billion is invested in this dodgy *Bajan* junk – it now finances a third of Barbados’ entire public debt.[\[iii\]](#)

To fix this unbelievable mess, the *Bajan* government, led by PM Freundal Stuart of the Democratic Labor Party, has lately adopted the same orthodox **IMF** playbook that worked so many wonders everywhere else in the developing world. Appropriately enough, the high-level IMF team concluded a week-long emergency mission to Bridgetown on Friday December 13. [\[iv\]](#) Shortly before its departure, Finance Minister Chris Sinckler announced the island’s first IMF “structural adjustment” program since 1991.[\[v\]](#)

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“Structural adjustment” is an IMF euphemism for an economic phlebotomy. Under the terms of Sinckler’s IMF-approved program, 3000 out of Barbados’ 26,000 government workers will be fired by March 1. All new government hires are frozen for 5 years. Senior officials get an immediate 10 percent pay cut; other civil servant will remain subject to a wage freeze. The government has also



To Right, Minister of Finance and Economic Affairs, the Honourable Christopher Sinckler, Works to the left, Governor of the Central Bank of Barbados, and Governor of the Central Bank of Barbados, Dr. Oduh, during the conclusion of the IMF's Article IV Consultation in Barbados.

announced cuts in government travel budgets and college tuition subsidies, the suspension of an important medical clinic project, [vi] and increased VAT taxes. The Barbados Chamber of Commerce expects the private sector to fire an additional 1000 workers, in an economy where unemployment is already 11 percent. All these layoffs and other afflictions will soon be felt by least 20-30,000 Bajan families. And this is just the beginning.

Given the IMF’s key role here, there will undoubtedly be more spending cuts and tax increases to follow. Indeed, as discussed in Part II, there’s a chance that the IMF may actually be able to force through some badly-needed tax reforms. Given the IMF's track record elsewhere, however, as well as the overwhelming opposition of elite interests both at home and abroad, we’re not betting on it.

The other disturbing news from this tropical paradise is that Barbados also now intends to borrow up to \$225 million from **Credit Suisse AG Cayman** on an emergency basis, in order to shore up its reserves, maintain the sacrosanct 1:2 peg of the *Bajan* dollar to the \$US, and continue funding various pet projects. The terms are usurious: million in upfront fees for the bankers; IMF conditionality; a waiver of sovereign immunity; and variable interest rates up to 775 basis points over LIBOR,[vii] which Credit Suisse and other global banks have recently been accused of rigging.[viii]



But even these generous terms may not be easy to syndicate. The price of existing *Bajan* bonds has noise-dived, and investors are now effectively demanding more than 9 percent – a junk bond rate.^[ix] If the ultimate terms are even more costly, unless this loan is extraordinarily well spent, it may only aggravate Barbados' fiscal problems -- debt service already consumes a third of the government budget.

All told, all these measures remind us of the desperate 1991 IMF intervention, when 4000 government layoffs and sharp real wage cuts were also imposed. It took Barbados' real per capita income level and unemployment rate more than six years to recover from *that* phlebotomy.

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[i] http://www.gbm.scotiabank.com/English/bns_econ/barbados-execbriefing.pdf

[ii] See the latest NIF annual report, at
<http://www.nis.gov.bb/downloads/NIF%20Annual%20Report%202009.pdf>.

[iii]

[http://www.ey.com/Publication/vwLUAssets/Focus_on_Barbados_Budget_2013/\\$FILE/BB%20budget2013.pdf](http://www.ey.com/Publication/vwLUAssets/Focus_on_Barbados_Budget_2013/$FILE/BB%20budget2013.pdf)

[iv] <http://www.nationnews.com/articles/view/mottley-ultimate-betrayal-of-trust/#148511>: “The Statement in Parliament by Sinckler might have been done to impress t IMF team before they departed Barbados yesterday afternoon.”

[v] <http://www.caribbeanelections.com/blog/?p=3219#more-3219>.

[vi] <http://www.nationnews.com/articles/view/mottley-ultimate-betrayal-of-trust/#148511>

[vii] See the term sheet for the Credit Suisse bailout:
[http://barbadosparliament.com/htmlarea/uploaded/File/Resolutions/2013/Resolution%20Credit%20Suisse%20AG%20Cayman%20Islands%20\\$225%20000%20000](http://barbadosparliament.com/htmlarea/uploaded/File/Resolutions/2013/Resolution%20Credit%20Suisse%20AG%20Cayman%20Islands%20$225%20000%20000).

[viii] http://www.swissinfo.ch/eng/business/US_mortgage_giant_attacks_UBS_and_Credit_Suisse.html?cid=37241690

[ix] <http://www.bloomberg.com/news/2013-12-13/barbados-debt-higher-than-cyprus-prompts-firing-of-3-000.html>



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