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East Caribbean Business Forecast Report Q1 2013

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Abstracts

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Core Views

Broadly in line with consensus, we expect the East Caribbean region to continue its economic recovery in 2013, although growth in the least diversified economies will remain weak, and all economies will be threatened by a still-poor external climate.

The fiscal outlook is mixed. While the majority of the East Caribbean economies are on the course for consolidation over the medium term, others are on a more profligate path. For example, in Barbados we project the budget deficit to narrow in the medium term, although the debt burden will remain a problem, while in Trinidad & Tobago we believe the fiscal accounts will continue to deteriorate over a long-term time horizon.

After high global commodity prices drove up inflation in 2012, we expect price pressure to ease modestly in 2013. That said, we believe the central banks will want to remain as accommodative as possible to support domestic demand.

Major Forecast Changes

Despite a pickup in domestic demand in Trinidad & Tobago, we have downgraded our 2012 real GDP growth forecast to 1.0%, as we believe poor industrial sector performance is likely to continue weighing on economic activity over the coming quarters. We maintain our view for only a modest pickup in real GDP growth in 2013 to 2.5%.

We have revised Guyana's nominal fiscal deficit forecasts for 2012 and 2013 to reflect wider shortfalls, as we believe that more modest tax revenue will be unable to offset the country's robust expenditures. While we expect Guyana's fiscal position to remain broadly stable in the coming years, we note that a failure to address high expenditure levels could see debt sustainability concerns arise in the next five to 10 years.

Key Risks To Outlook

Upside Risks: A stronger-than-expected economic recovery in the US could lead to larger export receipts, stronger remittances and a boost in tourism for all these economies.

Downside Risks: If the eurozone sovereign debt crisis escalates, it could lead to a protracted slowdown in global trade flows, which could seriously harm the export and tourism receipts for many of the East Caribbean economies.

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Indo-Guyanese controlled government, erupted again in October 2012, highlighting the unstable social dynamic between the two ethnic groups.

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TABLE: ANGUILLA – MACROECONOMIC DATA AND FORECASTS

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Although Grenada was able to make a coupon payment on its US$ 2025 bond within the 30-day grace period, narrowly avoiding default, we believe the country is likely to face continued liquidity pressure owing to a weak growth outlook and substantial fiscal and current account shortfalls. As such, we believe that talks of a debt restructuring are likely to arise in the coming quarters.

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We forecast real GDP growth in Montserrat to slow from 3.4% in 2011 to 0.5% and 1.0% in 2012 and 2013 respectively as weak global conditions take a toll on tourism in the island. Moreover, the government's weak fiscal position, which is heavily reliant on donor funds, limits the capacity to support growth through fiscal stimulus, suggesting economic growth will remain subdued until global conditions improve.

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TABLE: SAINT LUCIA – MACROECONOMIC DATA & FORECASTS

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The Saint Vincent & Grenadines economy begun a gradual recovery in 2012, and we believe that improvement in wholesale and retail trade will help to keep real GDP growth in firmly positive territory. That said, we believe a challenging global economic

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environment will preclude a more meaningful uptick in growth, as tourist arrivals and access to financing remain subdued.

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