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# East Caribbean Business Forecast Report Q2 2014

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## Abstracts

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### Core Views

We believe that the East Caribbean region will continue to see a modest economic recovery in the coming quarters, anticipating that the region's more diversified economies will benefit from slightly stronger global growth. Meanwhile, those countries most reliant on tourism and financial services will continue to struggle, as we expect these industries are unlikely to return to pre-crisis levels in the foreseeable future.

We expect that Caribbean economies will continue to face economic headwinds in the coming years in light of rising debt burdens, fixed exchange rate regimes, and modest growth prospects. These factors, combined with our view that neither the tourism nor financial services sectors will see a significant recovery in the next few years, mean that we do not rule out additional credit events or major balance of payments corrections in some of the small island economies. Should the Venezuelan government significantly alter the terms of its Petrocaribe programme, which provides subsidised oil imports to many Caribbean economies, it could send import bills much higher and potentially cause some countries to default on their outstanding oil loans.

### Major Forecast Changes

We have adjusted our 2013 current account estimate and 2014 forecast for Trinidad & Tobago (T&T) to factor in weaker energy-sector output in H213, owing to temporary maintenance projects at two key downstream plants, although we expect production of liquefied natural gas to return to full capacity by the second quarter of 2014. As such, we forecast a current account surplus of 9.8% of GDP in 2014 (from 10.9%, previously), up from an estimated 8.9% of GDP (from 10.8%, previously) in 2013. We have revised up our 2013 real GDP growth estimate for Guyana to 4.5%, from 4.3% previously, as the services and mining sectors continued to drive robust economic activity in H213. However, we maintain our 2014 real GDP growth forecast at 4.0%, owing to our relatively cautious outlook on the mining sector in light of weakening gold prices.

**Key Risk To Outlook**

Downside Risk: Besides tourism, economic growth in St. Lucia is also dependent on the success of the banana trade, which accounts for around 7.0% of GDP. While we believe that the country's banana sector, which suffered on the back of a leaf disease between 2009 through mid-2012, will continue to strengthen in the coming years, bolstered by an assistance package of XCD37.0mn from the European Union, we note that bad weather conditions or a poor crop yield could pose downside risks to our forecast for 4.0% nominal goods export growth in 2014, up from 2.0% in 2013. This in turn would weigh on the contribution of real exports to headline growth.

Downside Risk: The risks to our 2014 interest rate forecast for T&T lie primarily to the downside, given that commercial bank loans to incorporated businesses have continued to contract in recent months, which could give the central bank reason to keep interest rates at their current level through 2014. Indeed, while we believe that commercial lending will tick up in 2014 amidst an increase in business confidence as the economy strengthens, there are a number of factors – for instance, the occurrence of a disruptive weather event – that could hinder economic growth and see business lending continue to contract.

Downside Risk: Barbados is in the process of implementing a fairly drastic fiscal austerity programme. If the government should fail to see this programme through – potentially due to political opposition to government spending cuts and layoffs – we could see borrowing costs head even higher, putting even greater pressure on the country's fiscal accounts.

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again, due in large part to persistent distrust.
As a result, we expect political polarisation to remain the norm in 2014, likely preventing the passage of meaningful reform to address longstanding issues like corruption and weak infrastructure.

## CHAPTER 2.2: ECONOMIC OUTLOOK – GUYANA

Economic Analysis
Weaker Gold Prices Underpin More Moderate Growth Outlook
While we expect Guyanese real GDP growth to remain relatively robust in the coming quarters, we forecast growth to moderate from an estimated 4.5% in 2013 to 4.0% in 2014. This is underpinned in large part by our Commodities team's below-consensus gold price forecasts, and our cautious outlook on gold production growth in an environment of significantly weaker prices.
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## CHAPTER 3.1: POLITICAL OUTLOOK – TRINIDAD & TOBAGO

Domestic Politics
Improving Diplomatic Relationship Prompts Risk Rating Upgrade
We have upgraded Trinidad & Tobago's Short-Term Political Risk Rating, following the announcement of a preliminary trade and immigration agreement with Jamaica. While bilateral relations between the two countries had cooled in recent months, we believe the new pact signals the relationship is turning a corner.

## CHAPTER 3.2: ECONOMIC OUTLOOK – TRINIDAD & TOBAGO

Economic Activity
Moderate Acceleration In Growth During 2014
Real GDP growth in Trinidad & Tobago will rise to 2.6% in 2014, up from the central bank's estimate of 1.6% in 2013, as the country's energy sector recovers from maintenance delays that weighed on economic activity in Q313. Moreover, low interest rates will continue to bolster household consumption, while public investment in infrastructure will see stronger growth in the construction sector.
Table: TRINIDAD & TOBAGO – ECONOMIC ACTIVITY
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We believe that a moderate acceleration in real GDP growth in Trinidad & Tobago will see the central bank hike its benchmark policy rate by 50 basis points to 3.25% during

the second half of 2014 in order to address strengthening demand-side inflationary pressures.

Moreover, we believe that the central bank will raise interest rates in order to help shield T&T from an increase in foreign capital outflows as US treasury yields rise.

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