

# West Caribbean Business Forecast Report Q1 2013

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## Abstracts

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### Core Views

We expect the West Caribbean's recovery from recession to continue, albeit slowly, although the Dominican Republic's relatively strong growth outlook makes it a clear exception to this trend.

Despite the economic recovery, the region's fiscal and debt problems will remain protracted, although Dominican Republic's ongoing fiscal reform means it will see faster improvement than others on these metrics.

Elevated global commodity prices will continue to pose a risk to inflation trajectory across the region, with a number of countries importing the majority of their food and fuel, although sluggish economic growth rates will for the most part keep price gains muted.

### Major Forecast Changes

We have revised down our 2012 real GDP growth forecast for the Dominican Republic, from 4.3% to 3.6%, on the back of weaker-than-anticipated private consumption as well as a mining sector that performed below our expectations.

### Key Risks To Outlook

Upside Risk: Tourism remains a key industry for the majority of West Caribbean economies, and a faster-than-expected recovery in developed markets could boost tourism receipts and overall growth rates.

Downside Risk: The major risk in our view is rapid inflation – particularly with regard to food prices – stemming from high commodity prices, which has the potential to spur social unrest.

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### **CHAPTER 1.1: POLITICAL OUTLOOK – DOMINICAN REPUBLIC**

#### Domestic Politics

##### Necessary Fiscal Adjustments To Hurt Approval Rating

We believe that the recently elected government of the Dominican Republic, which took office in May 2012, will see its popularity decline through 2013 as it implements reform aimed at reducing the country's fiscal deficit. While we do not anticipate this will lead to significant social instability, it may reduce the administration's support and political capital, making further reforms down the line potentially more difficult.

### **CHAPTER 1.2: ECONOMIC OUTLOOK – DOMINICAN REPUBLIC**

#### Economic Activity

##### Weak Q2 GDP Prompts Growth Downgrade

Weaker than anticipated household consumption, combined with an underperforming mining sector, have encouraged us to revise down our 2012 real GDP growth forecast from 4.3% to 3.6% for the Dominican Republic. However, we believe growth will accelerate in 2013 as credit growth and investment are likely to pick up. We are therefore only making a slight adjustment lower to our 2013 growth outlook, from 4.6% to 4.4%.

TABLE: DOMINICAN REPUBLIC – MACROECONOMIC DATA AND FORECASTS

### **CHAPTER 2.1: POLITICAL OUTLOOK – JAMAICA**

#### Domestic Politics

##### Rising Investor Concerns Threaten Stability

The failure of the Jamaican government to reach a new Stand-By Arrangement with the International Monetary Fund in October 2012 suggests that negotiations are likely to drag on. We believe this presents a substantial risk to the country's sovereign credentials.

### **CHAPTER 2.2: ECONOMIC OUTLOOK – JAMAICA**

## Economic Analysis

### Weak Tourism Sector Keeps Economic Outlook Poor

Despite an uptick in tourism in Jamaica over the past few months, we remain cautious toward on the sector's prospects. This underpins our pessimistic economic outlook for the country, such that we maintain our forecast for real GDP growth of 0.6% in 2012 and 1.0% in 2013.

TABLE: JAMAICA – MACROECONOMIC DATA AND FORECASTS

## CHAPTER 3.1: POLITICAL OUTLOOK – PUERTO RICO

### Domestic Politics

#### Statehood Unlikely In The Near Future

In line with our view, Alejandro Garcia Padilla won Puerto Rico's governorship during the November 6 election, defeating incumbent Luis Fortuno. Given the close nature of the electoral race, we believe the new government will struggle to implement meaningful reform. Moreover, while a referendum on the political status of the commonwealth held on election day favoured statehood, we believe there are too many political obstacles for this too occur any time soon.

## CHAPTER 3.2: ECONOMIC OUTLOOK – PUERTO RICO

### Economic Activity

#### High Unemployment Will Keep Recovery Sluggish

Recent credit data suggests that private consumption in Puerto Rico is improving, reaffirming our view that the commonwealth economy will return to positive growth in 2012. However, given Puerto Rico's high structural unemployment, we forecast real GDP growth to remain below 2.0% over the coming years.

TABLE: PUERTO RICO – MACROECONOMIC DATA AND FORECASTS

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### Aruba

#### Refining Overhaul: Short-Term Pain, Long-Term Gain

A major refinery shutdown and a weak global economic outlook mean that the Aruban economy will once again experience two consecutive years of negative real GDP growth in 2012 and 2013. Over the longer term, however, we believe that major upgrades to refining capacity and gradual diversification of tourist arrivals will ensure a more steady growth trajectory.

**TABLE: ARUBA – MACROECONOMIC DATA AND FORECASTS****Bahamas****Deteriorating Fiscal Position To See Bond Yield Rise**

We believe the fiscal position of the Bahamas will deteriorate in 2012 and 2013 due to an increase in government stimulus seen ahead of the parliamentary election held in May, as well as to the expansive fiscal policy the new administration is likely to adopt. This suggests that the government US\$ 2029 Global bond is currently overvalued, and once investors price in the country's wider fiscal deficits, the yield on the bond will trade higher.

**TABLE: BAHAMAS – MACROECONOMIC DATA AND FORECASTS****Bermuda****Green Shoots For 2013 Growth**

Growth in retail sales and new business applications support our view that the Bermudan economy will recover from a 1.3% real GDP contraction in 2012 to grow by 1.1% in 2013. While the country remains vulnerable to a downturn in tourism, we see stronger economic growth next year in the US and the UK buoying the sector in 2013 and beyond.

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