

West Caribbean Business Forecast Report Q2 2014

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Abstracts

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Core Views

We believe that rising gold production, an improving tourism sector, and strong private consumption levels will continue to drive robust real GDP growth rates in the Dominican Republic in the coming years. We see a high likelihood of a technical debt default by Puerto Rico amid a double-dip recession and a delicate fiscal position. In the actual event of a default, the lack of legal precedent generates significant uncertainty of how it would unfold, though we see high risk of substantial losses for investors.

Major Forecast Changes

We downgraded our real GNP forecast for Puerto Rico from 0.3% to -0.8% for FY 2014. Indeed, high unemployment, fiscal austerity, and weak unemployment will keep the economy in a recession for another year. We revised up our 2014 real GDP growth forecast for the Dominican Republic to 4.5%, from 4.1% previously. Indeed, stronger-than-expected gold exports and robust private consumption prompted us to upgrade our growth outlook for the country.

Key Risk 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 many West Caribbean economies.

Downside Risks: There are significant downside risks to our growth and fiscal outlooks for Puerto Rico. We have become increasingly cautious towards the Caribbean commonwealth in recent months due to the rising likelihood of a default, and under such a scenario, the resulting economic recession would likely be deeper and longer than we

currently forecast.

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CHAPTER 1.1: POLITICAL OUTLOOK- DOMINICAN REPUBLIC

Political Outlook

Medina To Shift To More Expansionary Fiscal Policies

We believe that after implementing a series of austerity measures since taking office in August 2012, the Dominican Republic's

President Danilo Medina will begin to adopt modestly more expansionary fiscal policies in the coming years, which will bolster his popularity. Indeed, a sharp narrowing of the budget deficit in 2013 and growing tax revenue from gold will provide greater flexibility for higher levels of government spending.

CHAPTER 1.2: ECONOMIC OUTLOOK- DOMINICAN REPUBLIC

Economic Activity

Mining And Tourism To Drive Stronger Growth

We expect the Dominican Republic economy to continue to strengthen in 2014, driven by rising gold exports and an improving tourism sector. In addition, a narrowing budget deficit will allow the government to relax some of the austerity measures it implemented in 2013, which will support greater private consumption in the coming months.

Table: GDP BY EXPENDITURE, REAL GROWTH %

CHAPTER 2.1: POLITICAL OUTLOOK – PUERTO RICO

Political outlook

Tensions To Heighten As More Austerity Measures Are Implemented

We see rising scope for social and political tensions to increase in Puerto Rico in the near term. Indeed, the rising prospect of a technical default by the commonwealth will

pressure Governor Alejandro García Padilla to continue implementing unpopular austerity measures. The economy remains in a recession and a decline in fiscal support will generate significant discontent among the population and could lead to higher crime rates.

CHAPTER 2.2: ECONOMIC OUTLOOK – PUERTO RICO

Economic Analysis

Negative Economic Outlook As Risk Of Debt Restructuring Remains High

We maintain a negative economic outlook towards Puerto Rico as we expect the commonwealth to remain in its multi-year recession in Fiscal Year 2014 as well. Moreover, we see a high risk of a debt restructuring within the next 12 months, as weak tax revenue, combined with a recent credit rating downgrade to 'junk' status by major ratings agencies, could drive Puerto Rican officials to renegotiate its payment terms with bondholders.

Table: GDP BY EXPENDITURE, REAL GROWTH %

CHAPTER 3.1: POLITICAL OUTLOOK – JAMAICA

Political Outlook

Reform Momentum Continues To Build, But Progress Still Incremental

Jamaica continues to make significant structural reforms in order to put its economy back on track, and the IMF recently released a report indicating that all of its performance benchmark criteria has been met through Q313. Furthermore, while significant headway has been made in the areas of tax and spending reform, the country continues to struggle with a tarnished reputation among investors and authorities are now focusing to a greater extent on direct improvements to the business environment. We believe that the changes could significantly bolster the country's long-term economic outlook, although given the scope of the endeavour, progress will remain slow.

CHAPTER 3.2: ECONOMIC OUTLOOK – JAMAICA

Economic Activity

Growth To Accelerate, But Headwinds Remain Although major economic structural adjustments and other headwinds will keep the rate of real GDP expansion low in 2014, we are forecasting a growth rate of 1.8%, which is a slight improvement on the estimated 0.8% rate seen in 2013. The outlook for tourism and other sources of export revenue is improving, while inflation has likely already peaked, and is set to head lower

this year, boding well for household consumption.

Table: GDP BY EXPENDITURE

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