

Caribbean islands, Belize, Mexico, Honduras, Nicaragua: Hurricane season expected to be fierce, potentially impacting business environment and short-term political risk ratings | Credendo

Event

In the end of June, Hurricane Beryl made history as the earliest category five hurricane (the most intense classification) ever recorded in the Atlantic Ocean. The monster storm made landfall in Grenada, where it damaged 95% of all residences on the island Carriacou. It also damaged infrastructure in Saint Vincent and the Grenadines and in Jamaica. While hurricanes are common for Caribbean countries during the hurricane season, which runs from 1 June to 30 November, the rapid intensification and unprecedented strength of Beryl so early in the year is extraordinary. Usually, sea water temperature is too low at that time of the year to form such fierce hurricanes. [Extreme El Niño conditions](#) in combination with [global warming](#) led to already very warm sea temperatures in the Caribbean sea in June, facilitating this kind of fierce hurricanes. Given high sea temperatures kept rising in the past months, a very active and potential highly destructive hurricane season is expected in the coming months.

Impact

This anticipated fiercer hurricane season poses significant risks for the islands located in the hurricane belt, in parts of the Southern United States and in eastern regions of Central America. These areas are at risk of infrastructure damages, power outages, crop destruction (while most islands rely heavily on food import) and loss of life. This is particularly concerning as hurricanes have grown stronger over time, with category three, four and five hurricanes becoming more frequent, and even the potential for a theoretical category six hurricane to soon become a reality. Meanwhile, infrastructure has not been sufficiently fortified to withstand the strength of these more powerful hurricanes. Moreover, the current extraordinary warm sea temperatures mean hurricanes can strengthen faster than seen in previous decades, leaving less time for preparation and evacuation. As a consequence, hurricanes can be more devastating.

Depending on the severity of the hurricane, its path, the economic diversification and the size of the affected country, a hurricane hit can trigger economic recession, higher (food and energy) inflation and consequential higher interest rates, impacting the business environment risks of these countries. It can also have negative fiscal implications, while many governments already have relatively elevated to high public debt levels in the region. Furthermore, a hurricane hit can impact the crucial tourism sector, which easily accounts for 70% of GDP and more than half of current account revenues in most Caribbean islands. Therefore, it could lead to a loss of current account revenues and lower foreign exchange reserves, which would impact short-term political risks. In this context, the business environment and short-term political risk ratings could be revised downwards for economies hit by severe hurricanes in the coming months.

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