

# International Monetary Fund

September 19, 2013



## The Global and Regional Context for the Caribbean: Outlook and Challenges

*Alejandro Werner*  
*Western Hemisphere Department*

*Views expressed are those of the speaker alone and  
should not be reported as representing the official  
position of the International Monetary Fund.*

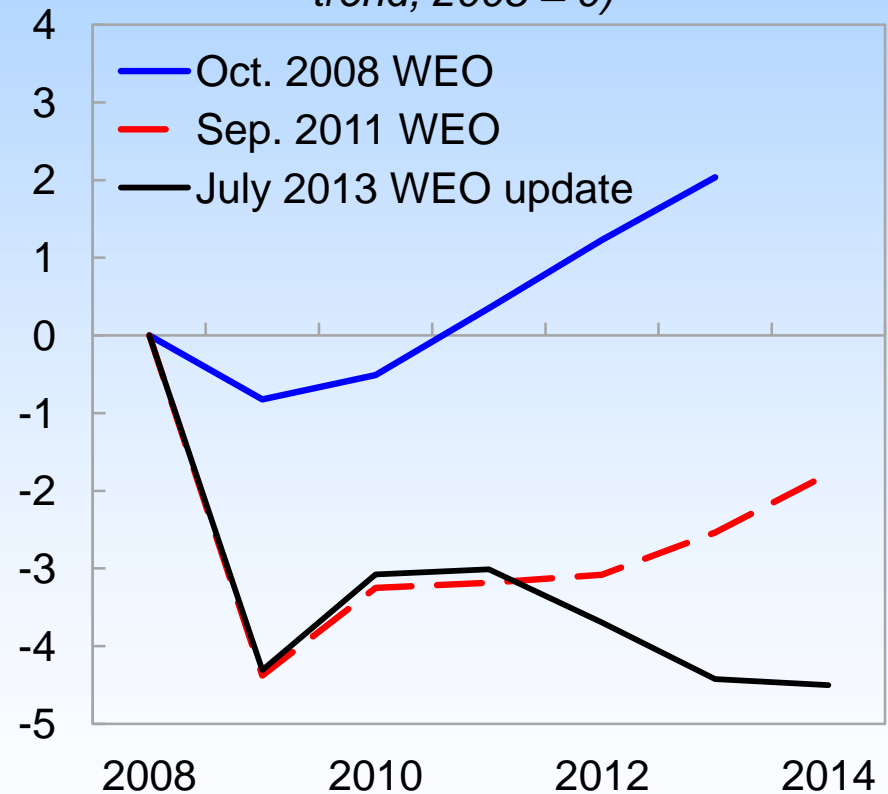


# The global recovery remains tepid...

World Real GDP Growth<sup>1</sup>  
(Percent, year-on-year, July WEO update)

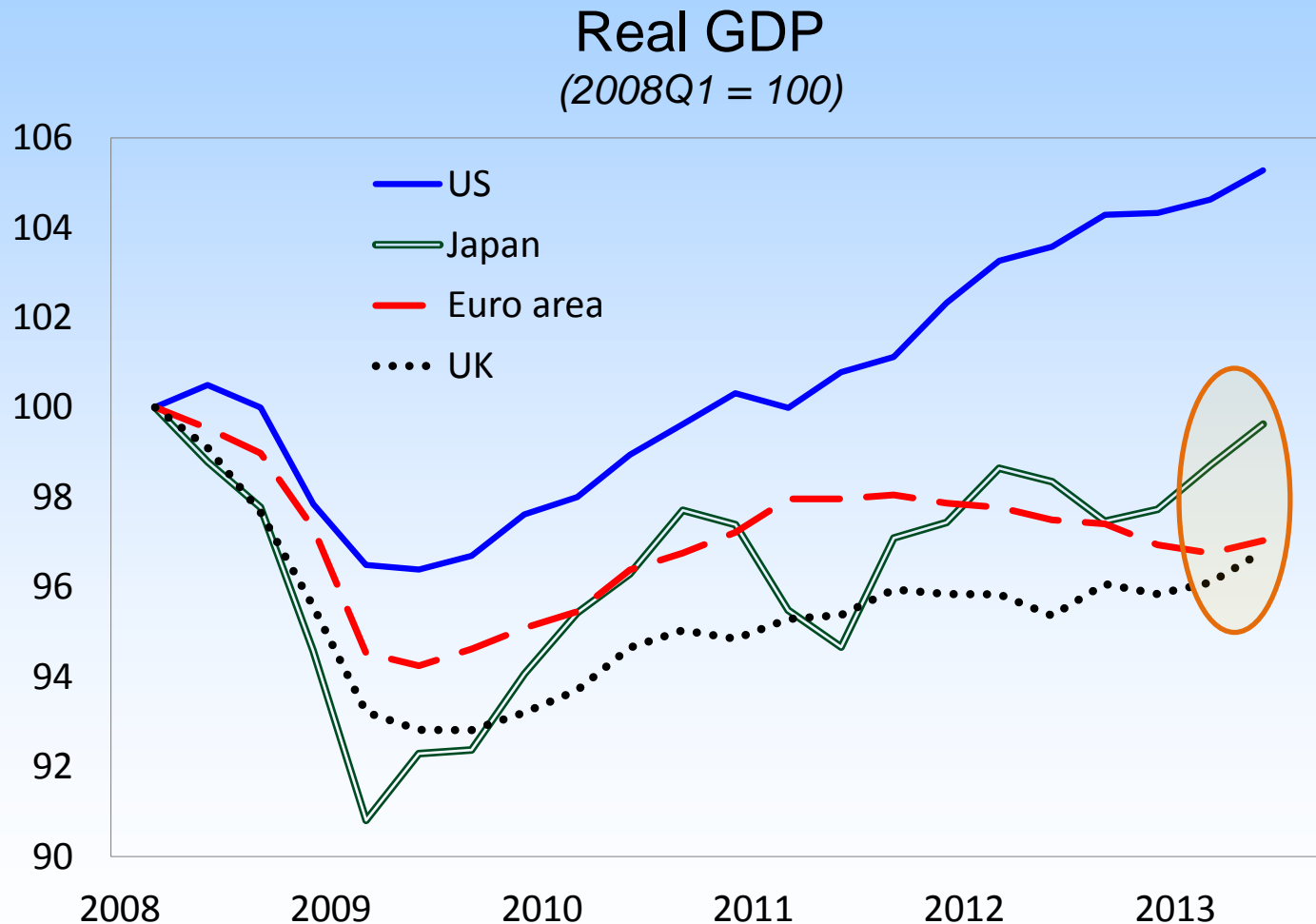


World Real GDP<sup>1</sup>  
(Percent deviation from pre-crisis trend, 2008 = 0)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.  
Note:<sup>1</sup> GDP(PPP) weighted average

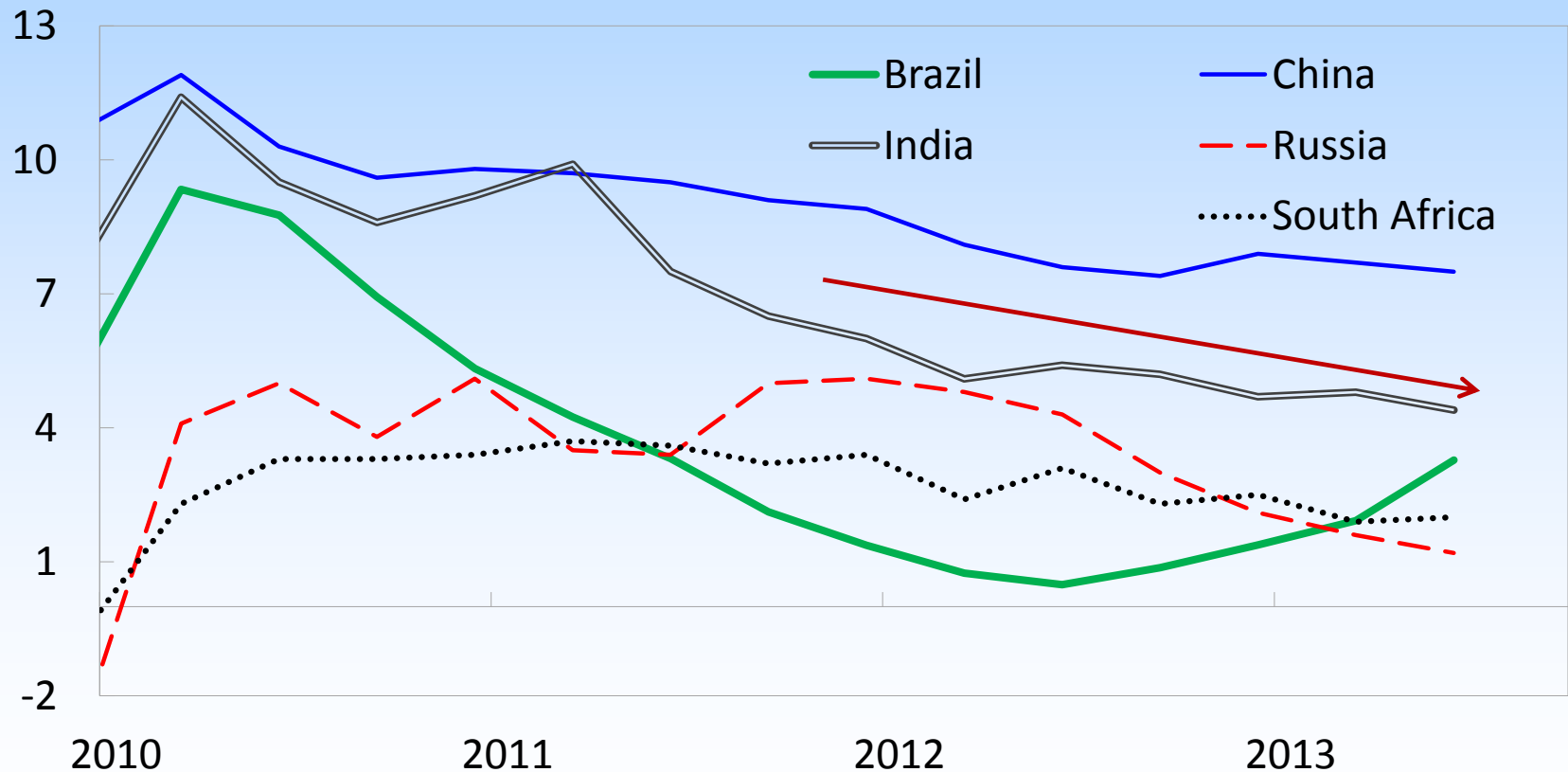
... as a pick-up in activity in some advanced economies ...



Sources: Bloomberg LP; and IMF staff calculations.

... is partly offset by a slowdown in emerging markets.

Real GDP Growth  
(Percent, year-on-year)



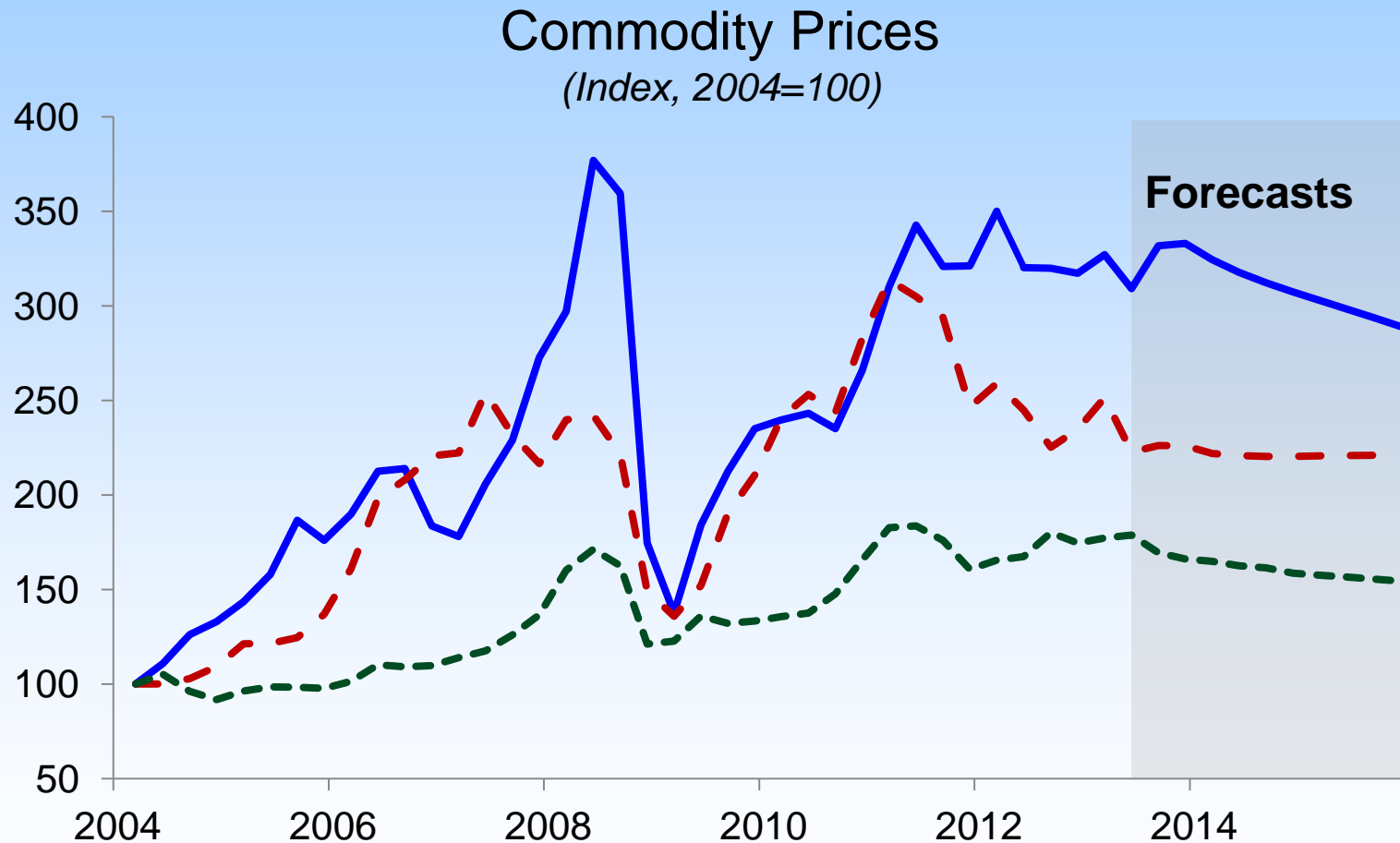
Sources: Bloomberg LP; and IMF staff calculations.

# Global activity is expected to strengthen only moderately in 2014.

- The U.S. economy should see higher growth, as fiscal headwinds ease
- The euro area is crawling out of recession, with activity remaining very subdued
- China's growth is expected to stabilize at a lower rate, reflecting both cyclical and structural factors
- Overall, downside risks to global growth are somewhat more prominent

The LAC region is confronting a trio  
of macroeconomic challenges

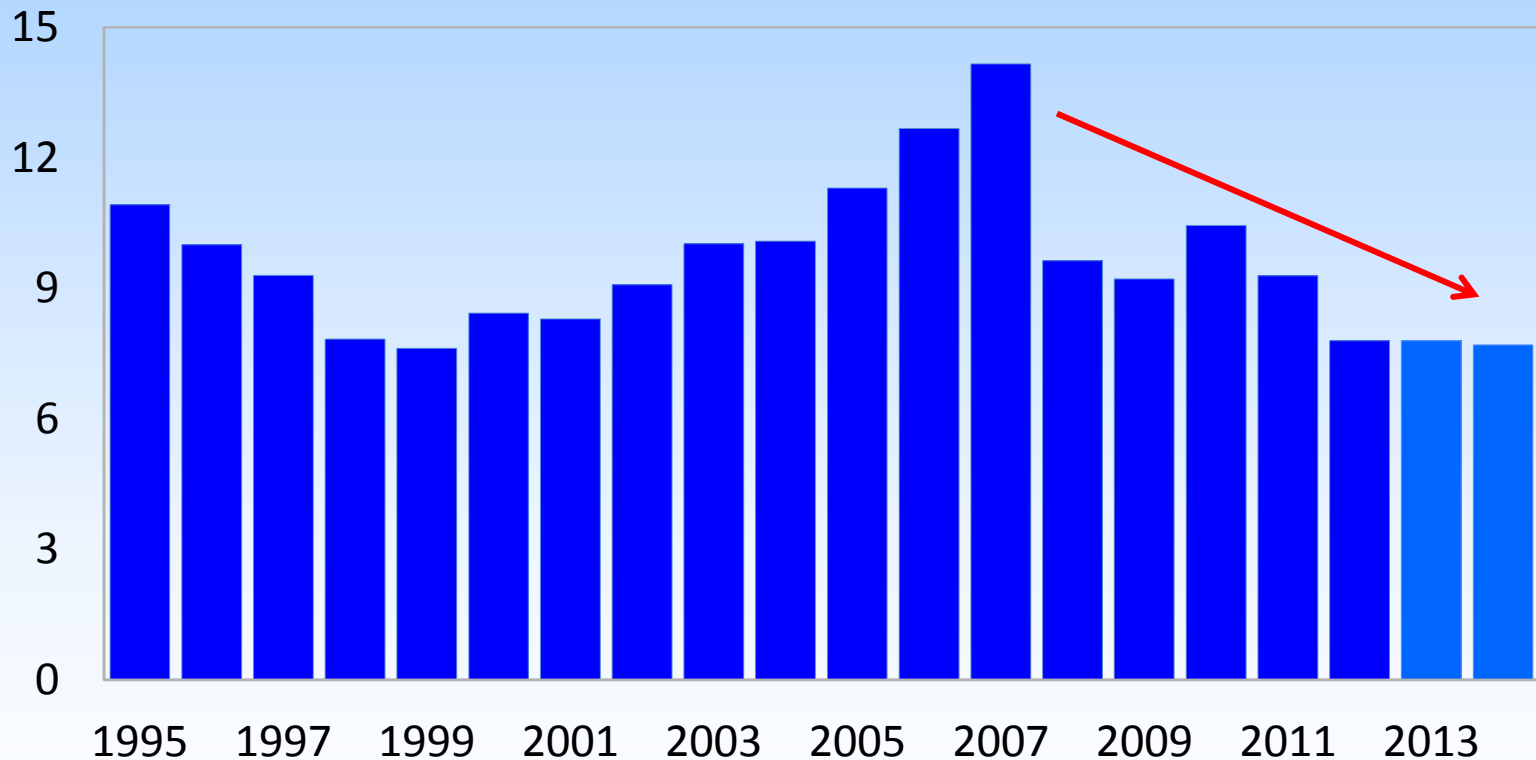
# 1. The golden decade of ever-improving terms of trade is likely over ...



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

... as China's structural slowdown has started weighing on commodity prices.

China: Real GDP growth  
(Percent, year-on-year)

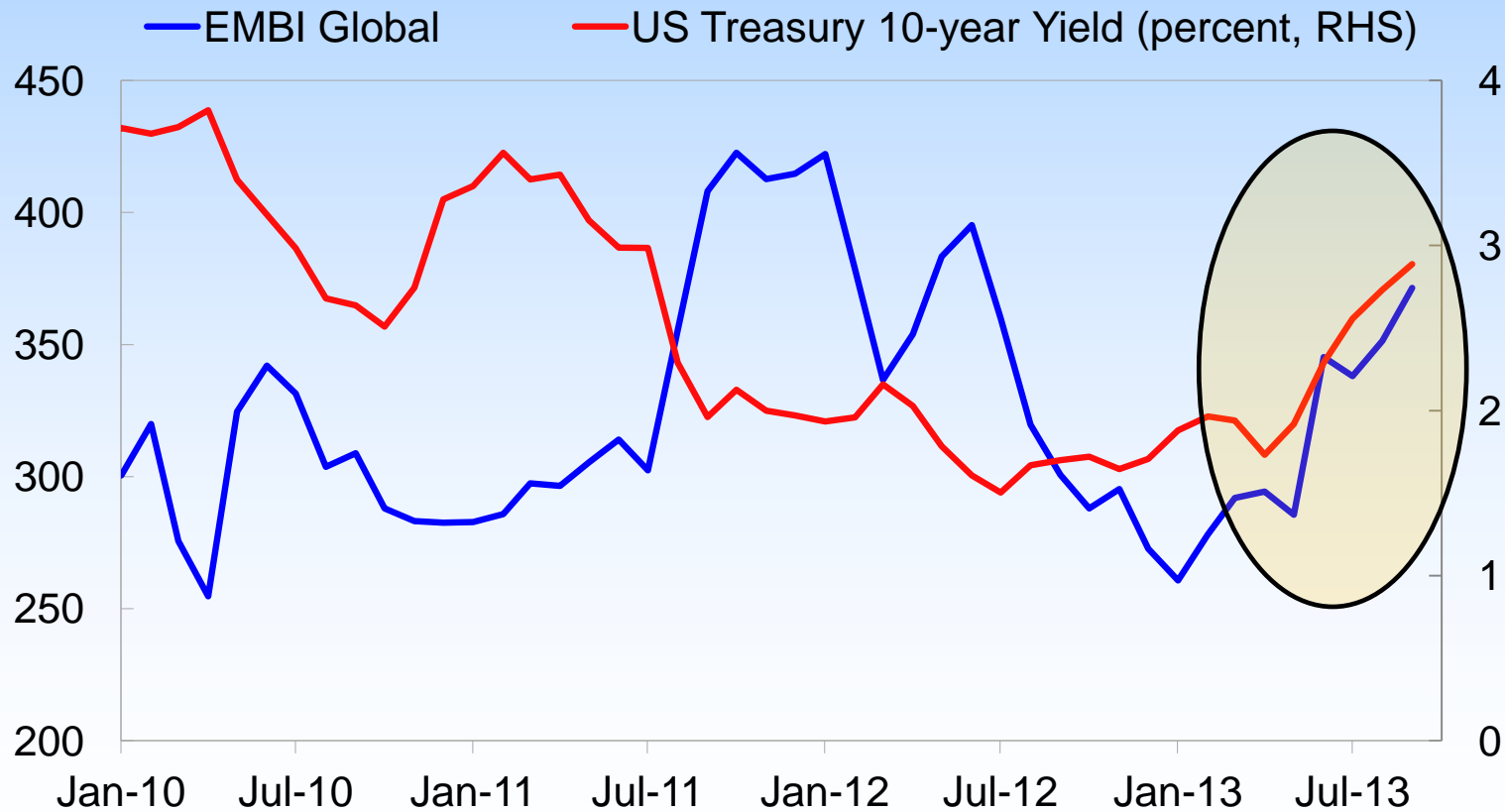


Sources: CEIC; and IMF, *World Economic Outlook* (July 2013 Update).



# 2. External financial conditions have turned less benign ...

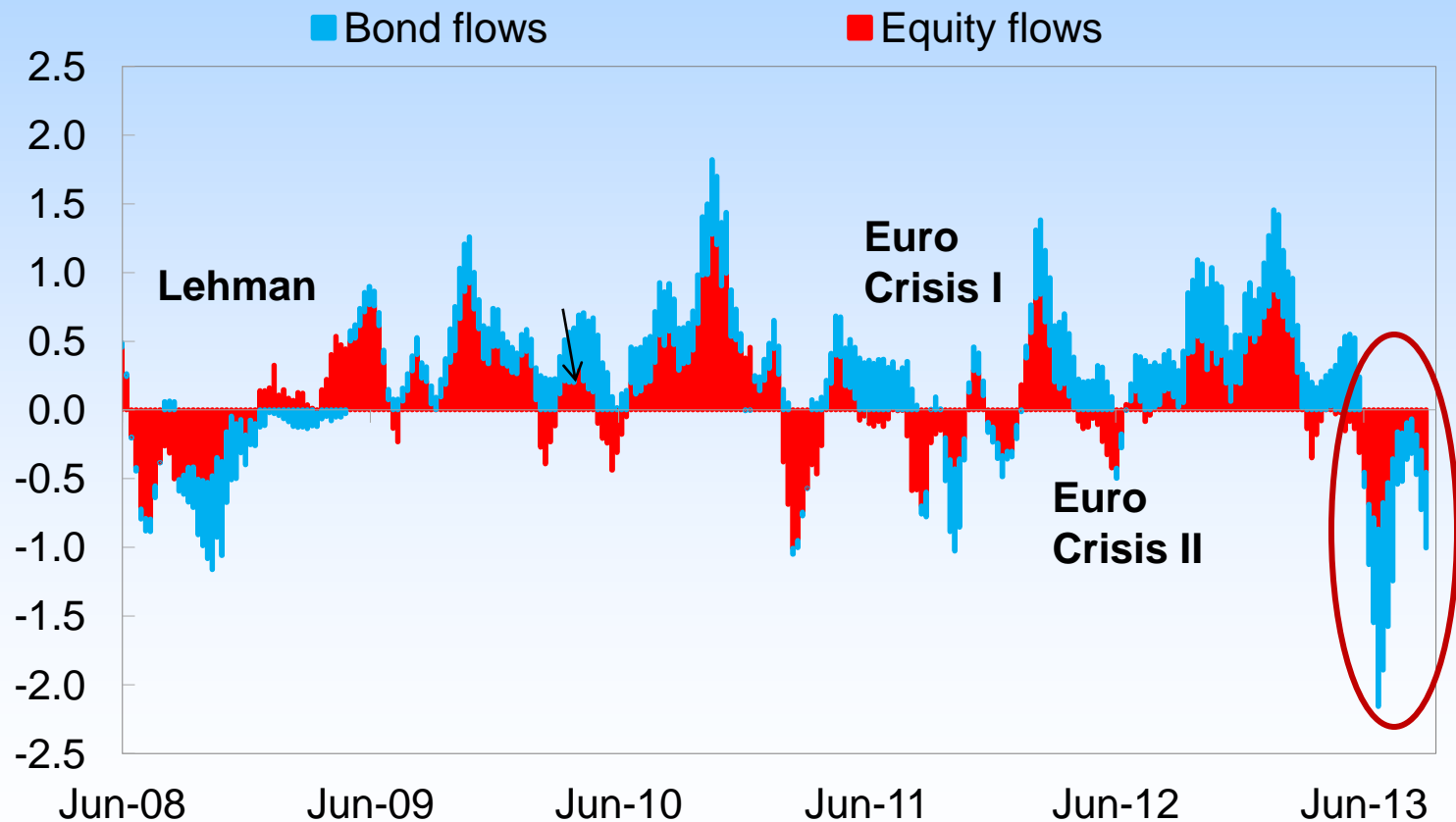
## EMBI and 10-year US Treasury Yield (Basis points)



Source: Bloomberg LP.

... as the Fed's 'taper talk' has prompted portfolio outflows from EMs.

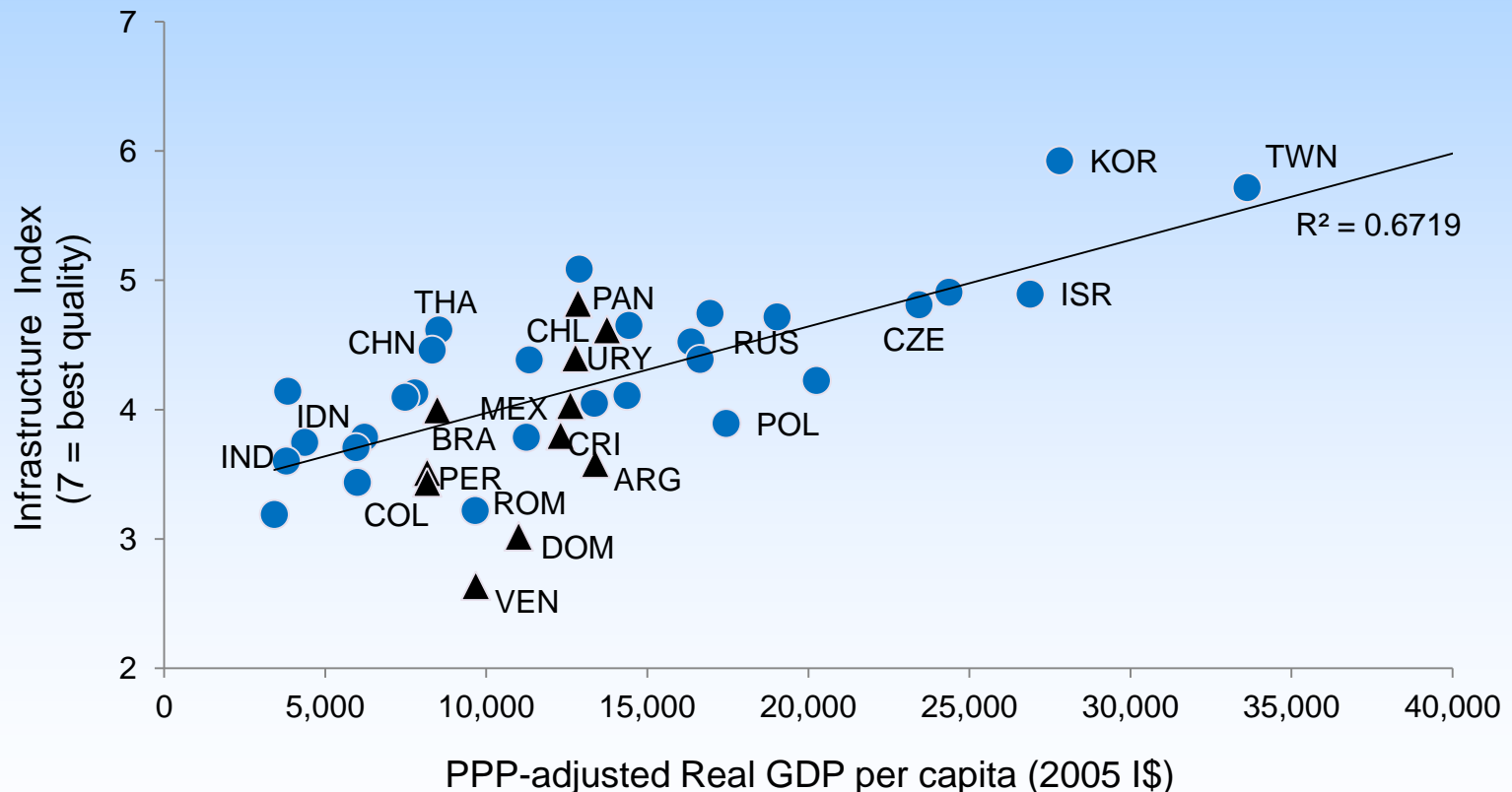
LatAm-5: Mutual Fund Bond and Equity Flows, 2008-13  
(US\$ billions)



Sources: EPFR; and IMF staff calculations.

# 3. Several economies in the region are facing supply bottlenecks ...

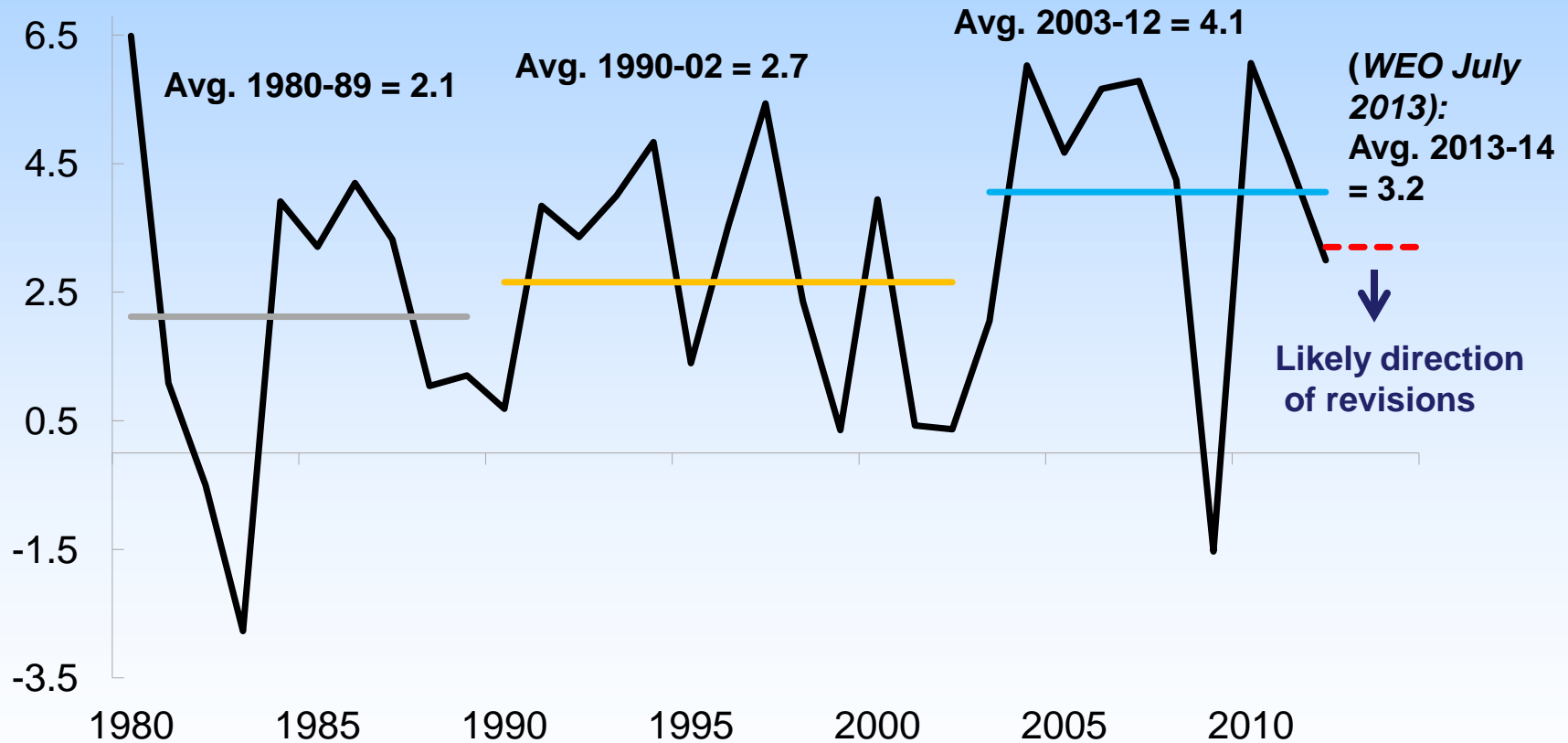
## Infrastructure Index vs. Income Level



Sources: Penn Table 7.1, IMF, *World Economic Outlook*; World Bank, *World Development Indicators*; and IMF staff calculations.

... which foreshadow lower potential growth in the absence of major new reforms ...

Latin America and the Caribbean: Real GDP Growth  
(Percent, year-on-year)

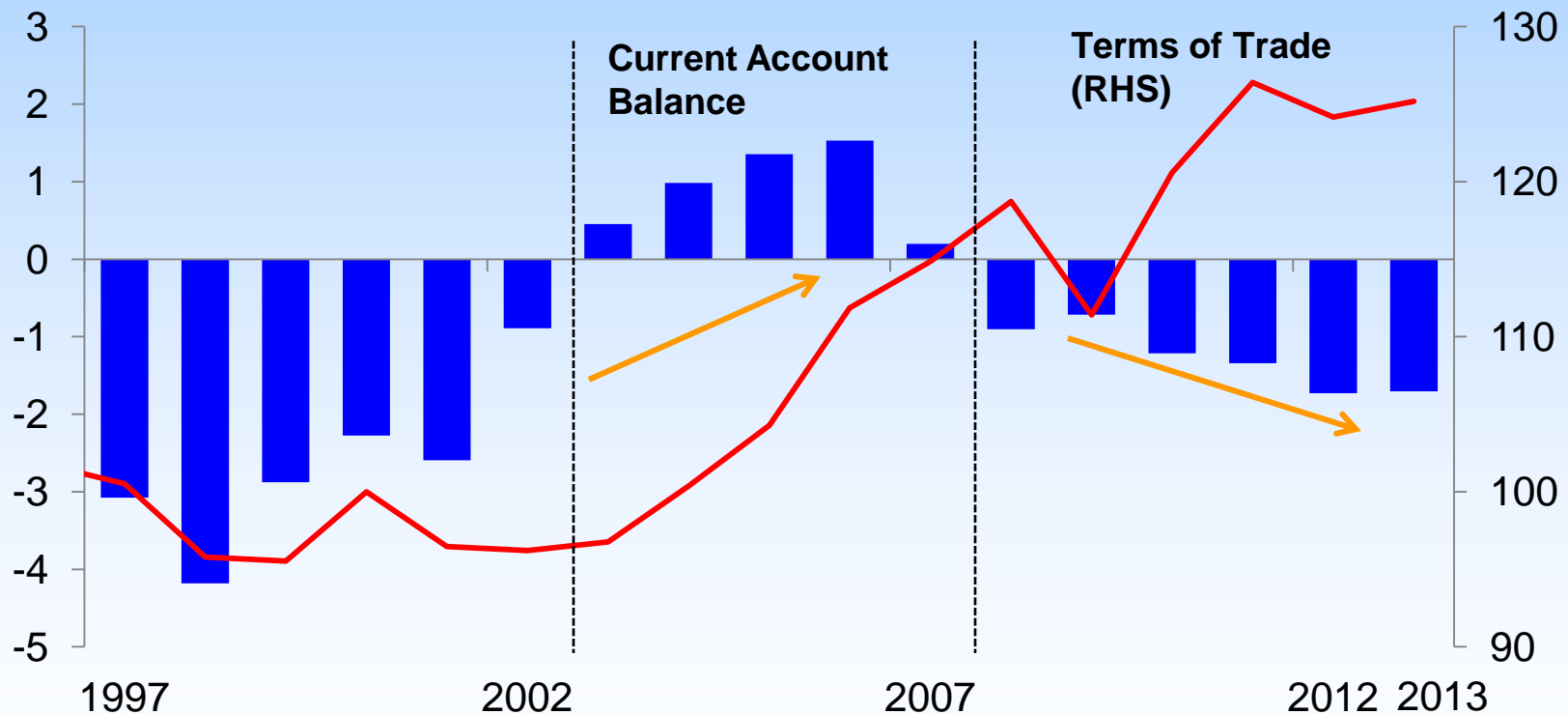


Source: IMF, *World Economic Outlook* (July 2013 Update).

Note: Averages are based on GDP (PPP) weights.

# ... while external deficits have continued to rise ...

## Latin America and the Caribbean: Current Account Balance (Percent of GDP)

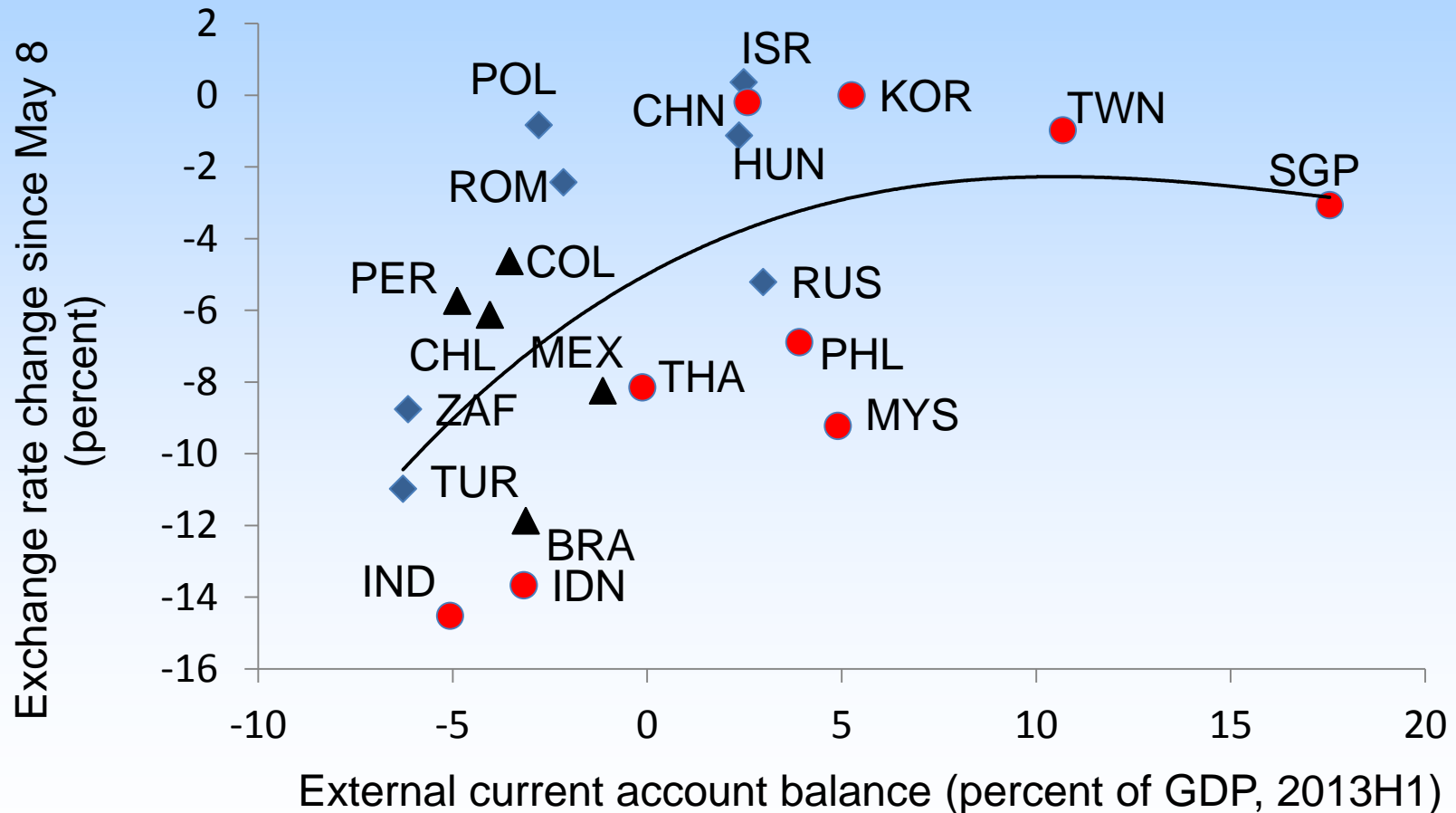


Sources: IMF, *World Economic Outlook* (April 2013); and IMF staff calculations.

Note: Average for current account balance is based on GDP (market rates) weights; terms of trade are GDP (PPP) weighted.

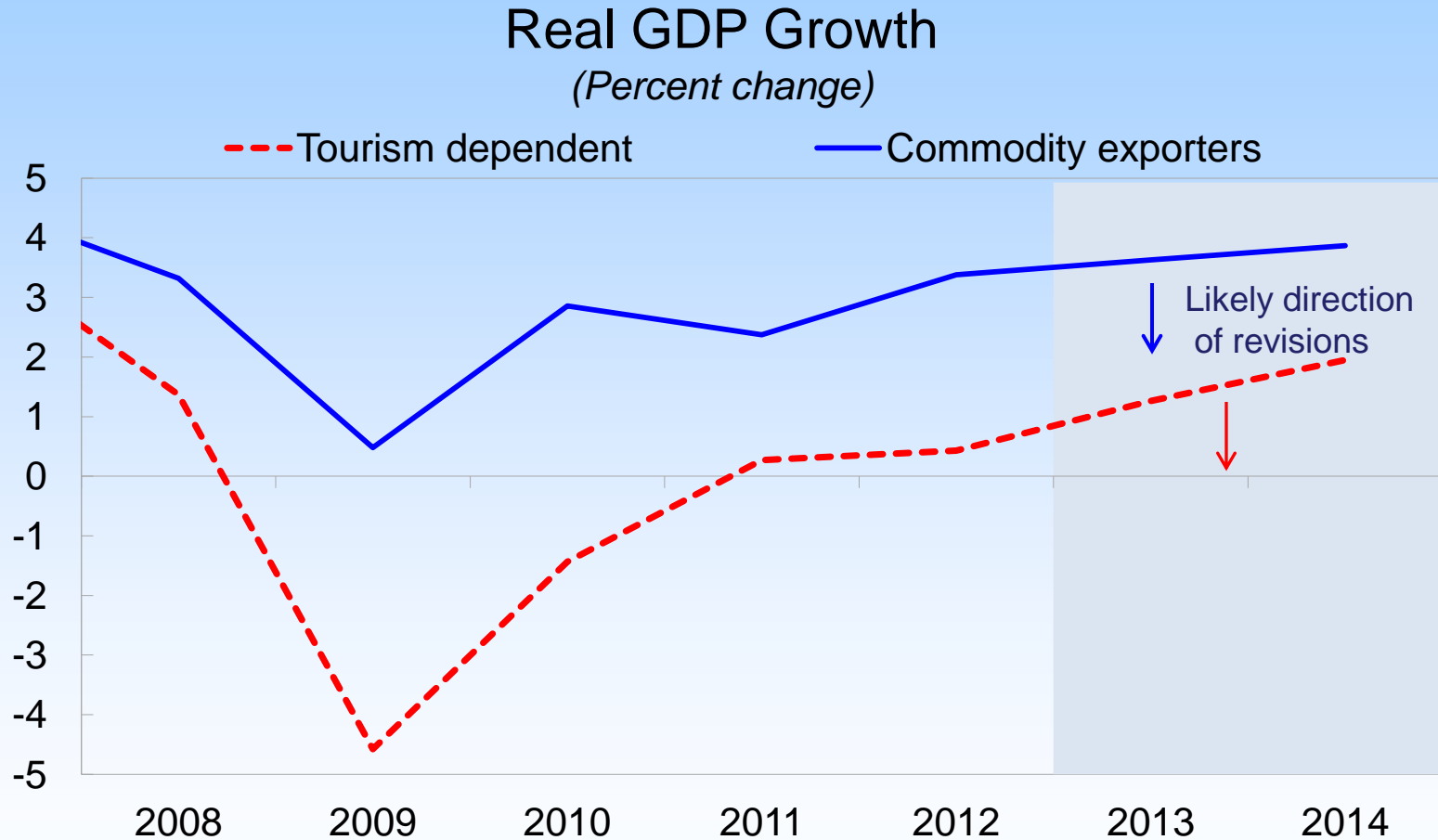
# ... creating vulnerabilities as markets turn less tolerant of large funding needs ...

## Recent Exchange Rate Movements vs. Current Account Balance



Sources: Bloomberg LP; and IMF staff calculations.

# These challenges are particularly acute in the Caribbean, where growth remains subdued ...

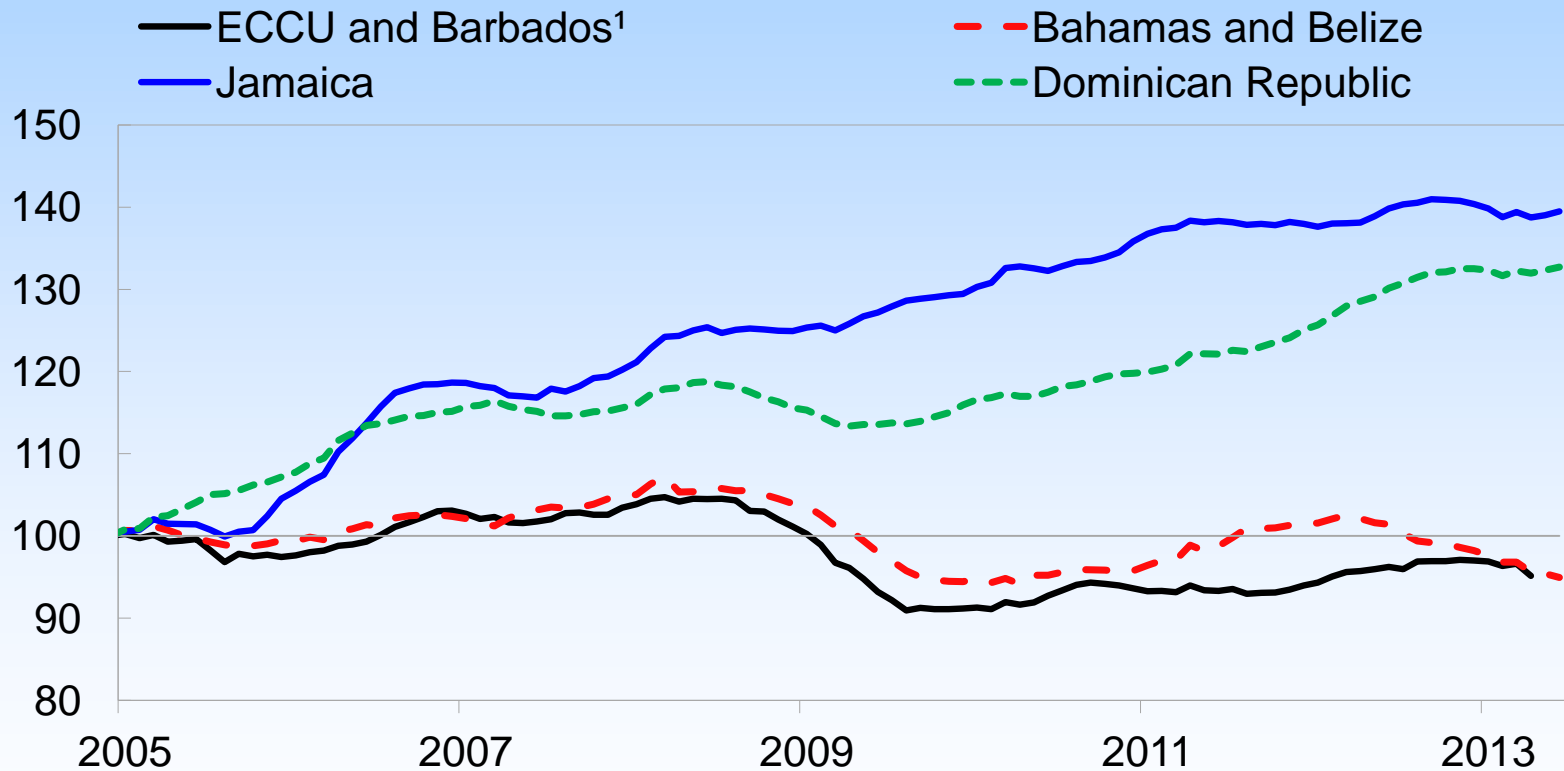


Source: IMF, *World Economic Outlook* (April 2013).

Note: Commodity exporters include Belize, Guyana, Suriname, and Trinidad and Tobago. Tourism-dependent economies include Antigua and Barbuda, the Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Statistics shown are simple averages.

... notably in some tourism-dependent countries who have been facing soft US and European demand ...

### Tourist Arrivals (Index, 2004 = 100)



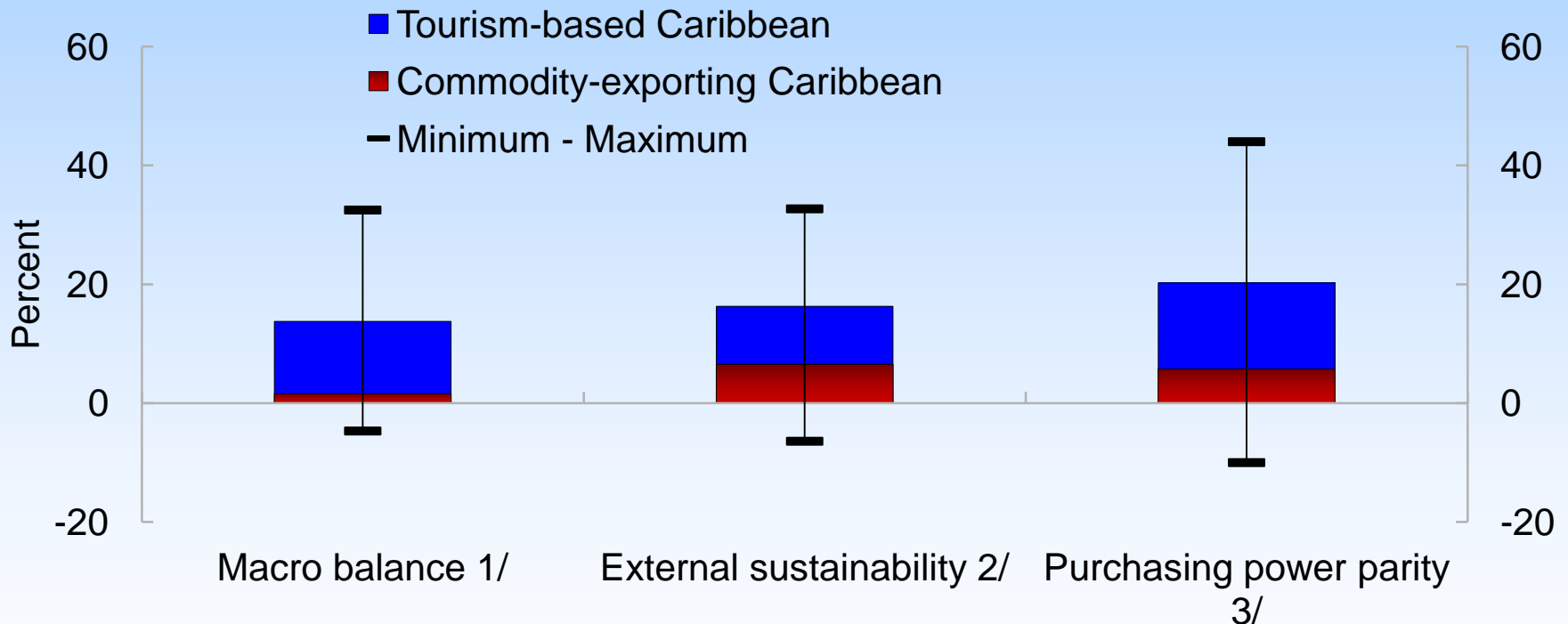
Sources: Caribbean Tourism Organization; national authorities; and IMF staff calculations.

<sup>1</sup>ECCU includes Antigua, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines.



... and long-standing competitiveness issues, as apparent from estimated REER overvaluation ...

## Real Effective Exchange Rate (REER) Relative to Norm



Note: Above zero indicates overvaluation; below zero suggests undervaluation.

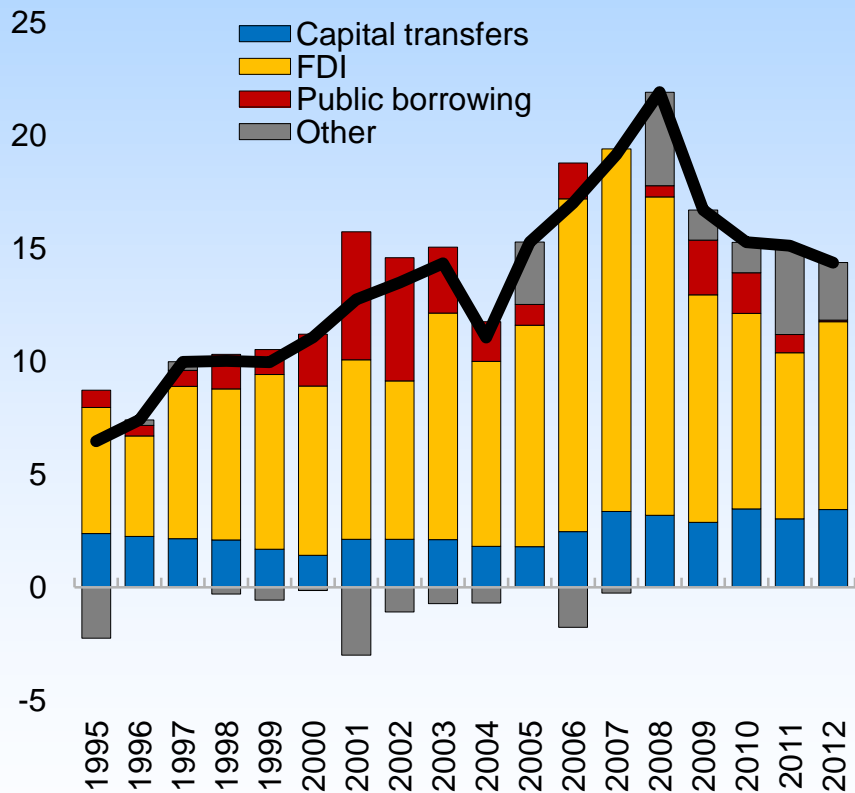
1/ REER adjustment required to bring current account balance in line with fundamentals.

2/ REER adjustment required to bring current account balance to sustainable level.

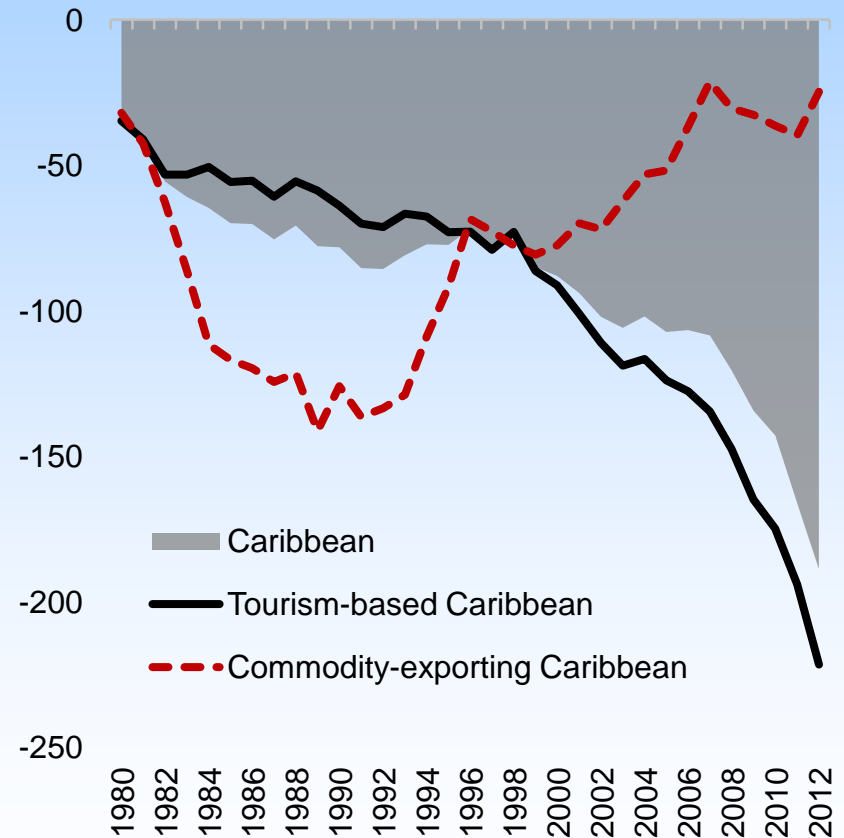
3/ Relative to Balassa-Samuelson prediction; average of 2007-09.

# ... which has given rise to persistent external imbalances ...

Current Account Financing  
(Average for tourism dependent countries,  
percent of GDP)



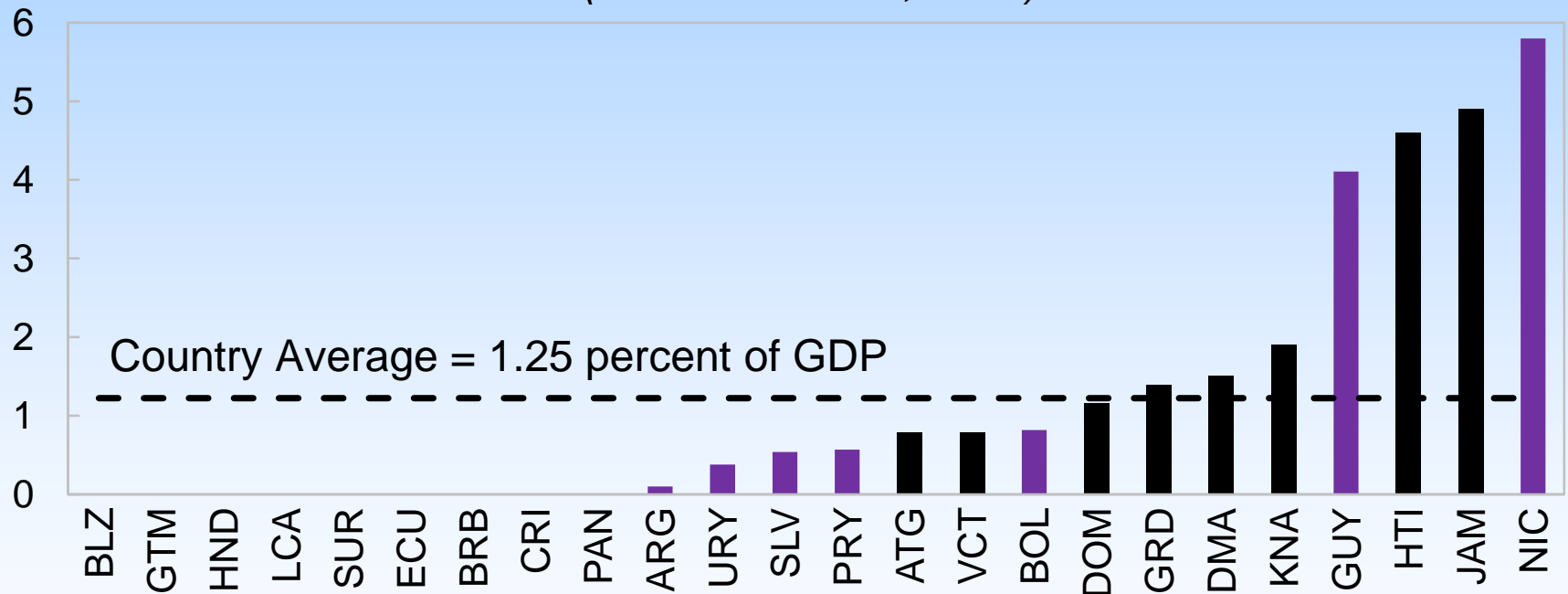
Caribbean: Net Foreign Assets  
(Percent of GDP)



Sources: IMF, World Economic Outlook; and IMF staff calculations.

... that often can only be financed with support from non-commercial sources.

External Financing Provided by Venezuela to Beneficiary Countries  
(Percent of GDP, 2011)

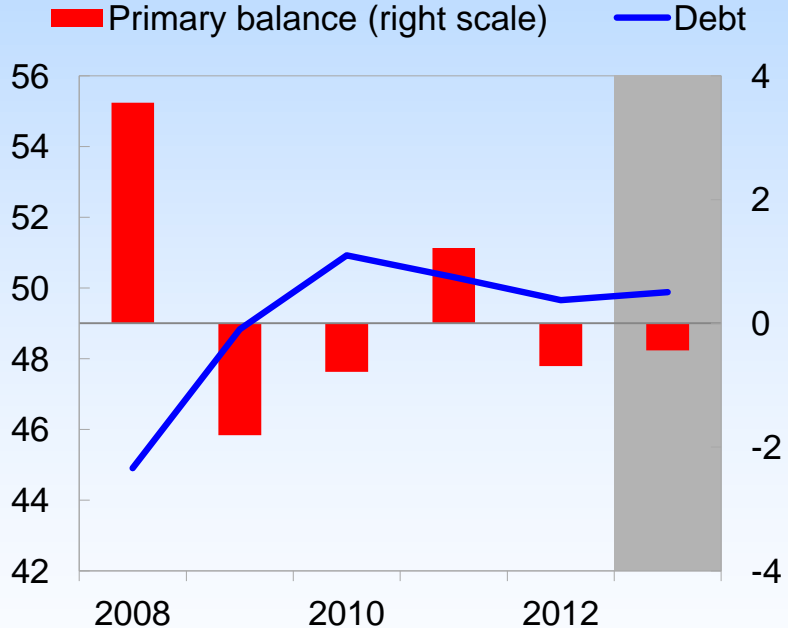


Source: Country authorities; PDVSA; and IMF staff estimates.

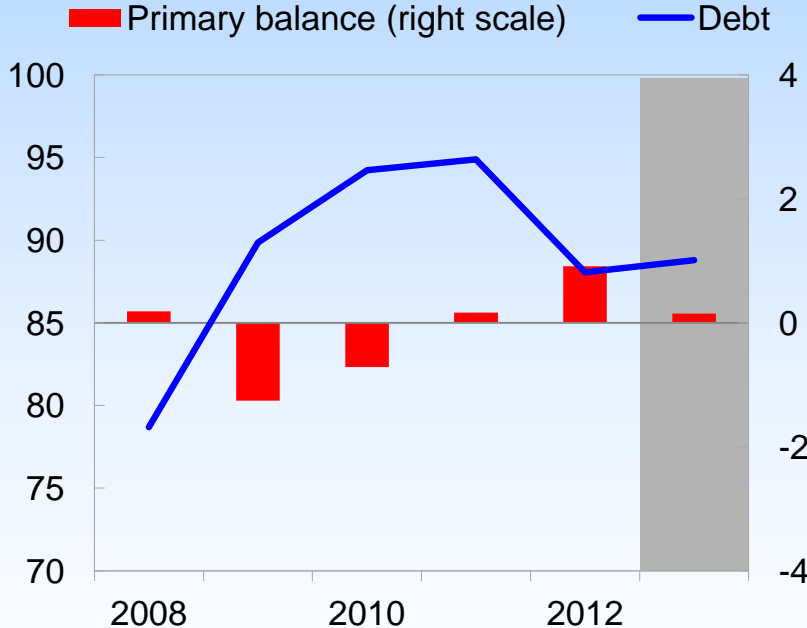
# High debt and weak growth have kept fiscal positions in tourism-dependent economies under strain ...

## General Government Primary Balance and Gross Debt (Percent of GDP)

### Commodity Exporters



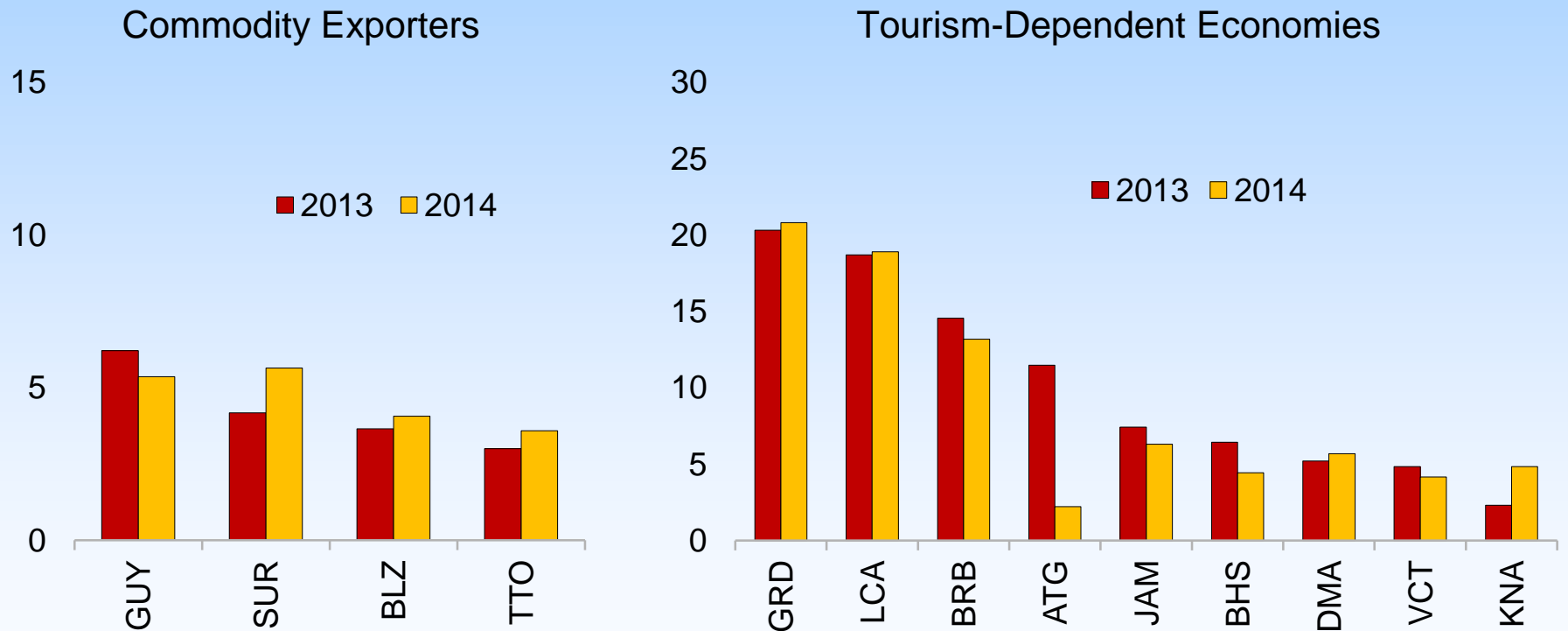
### Tourism-Dependent Economies



Source: IMF, *World Economic Outlook* (April 2013).  
 Note: Statistics shown are simple averages for the respective country groups.

# ... and, in some cases, led to significant financing pressures ...

## Central Government Financing Needs (Percent of GDP)



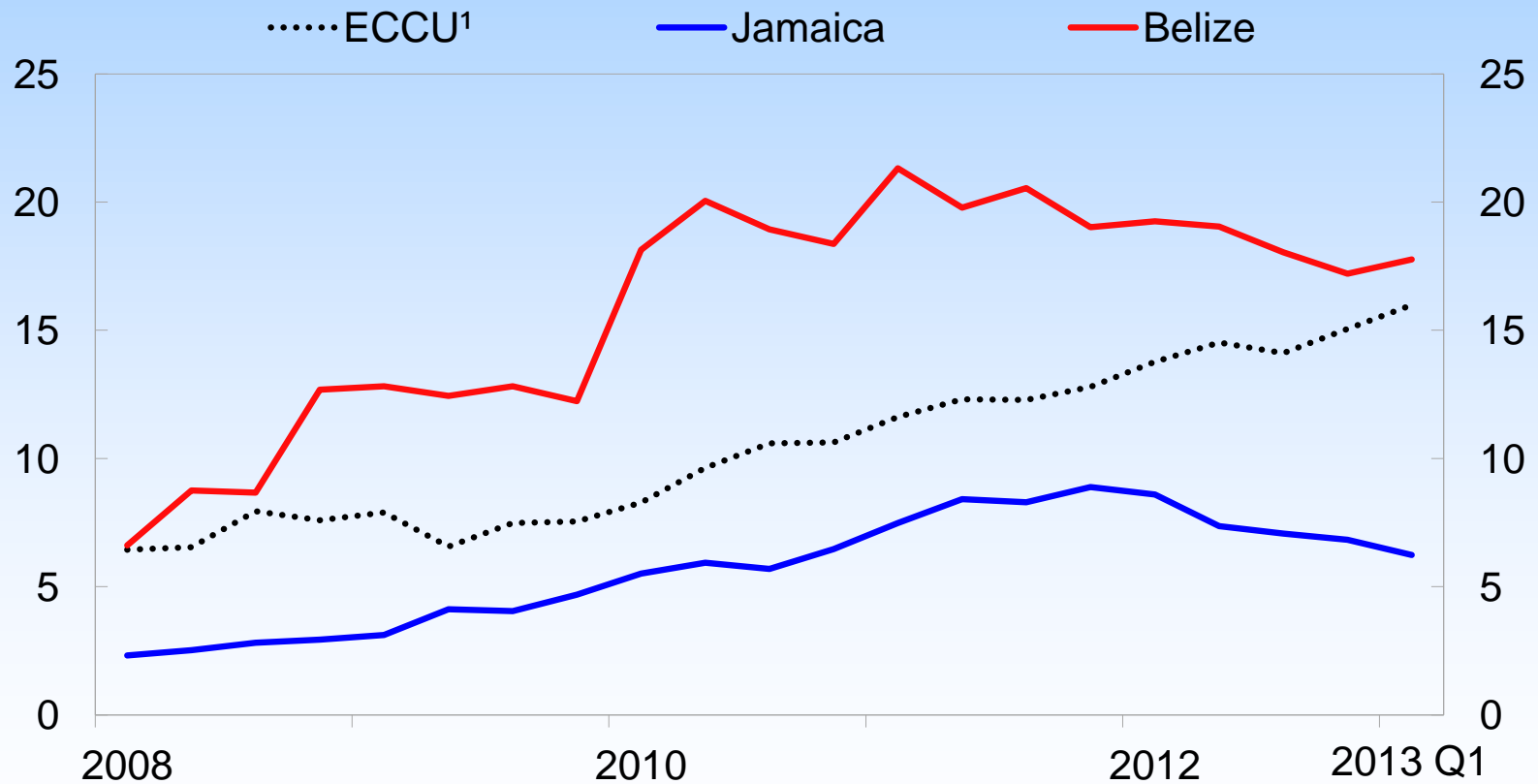
Source: IMF staff estimates.

Note: Data are presented on the government's fiscal year-basis and may not be strictly comparable across countries.

Data for St. Kitts and Nevis refer to the general government. Data for Guyana refer to the nonfinancial public sector.

... that increase the burden on financial systems already struggling with high NPL ratios.

### Nonperforming Loans (Percent of total loans)



Sources: National authorities; and IMF staff calculations.

<sup>1</sup>ECCU includes Antigua, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines.

# A strong growth agenda is critical for the Caribbean

- Growth is essential to address fiscal, external, and financial weaknesses
- Measures to restore competitiveness would help boost growth:
  - Rein in cost pressures by reducing labor market rigidities, addressing infrastructure bottlenecks, and restraining public expenditure
  - Improve the business environment to facilitate trade and investment
  - Strengthen laws and institutions to improve governance, including in financial regulation and supervision