

Outlook for the World Economy: Implications for the Caribbean



Saul Lizondo
Associate Director
Western Hemisphere Department
International Monetary Fund

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Presentation Outline

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1. Global baseline scenario

- Key assumptions (requires active policies)

2. Global downside risks

3. Implications for the Caribbean

- Headwinds (external and domestic) to persist



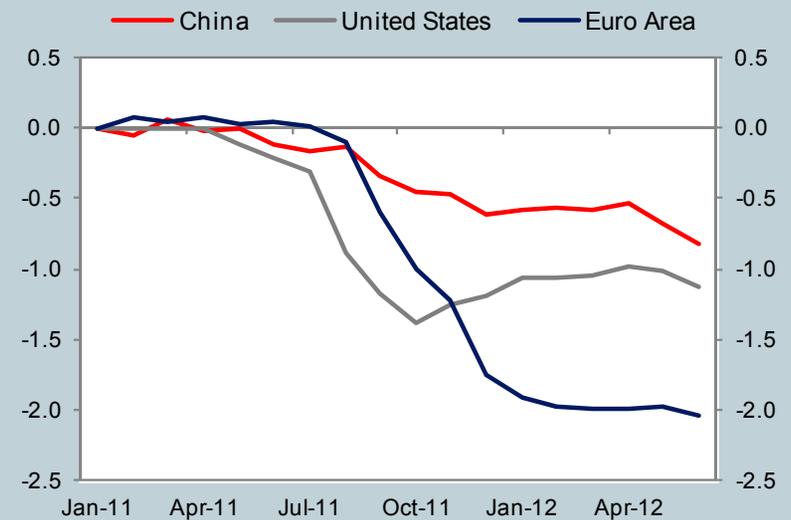
Baseline scenario: Moderation in global growth in 2012
(downward revisions to forecast more recently in China)

Scenario of very active policies

Real GDP Growth by Region			
	2011	2012	2013
World	3.9	3.5	3.9
Advanced Economies	1.6	1.4	1.9
United States	1.7	2.0	2.3
Euro area	1.5	-0.3	0.7
Emerging Economies	6.2	5.6	5.9
Emerging Asia	7.8	7.1	7.5
China	9.2	8.0	8.5

Source: World Economic Outlook, July 2012.

Change in Consensus Forecast Growth for 2012
 (since Jan 2011, Percentage points)



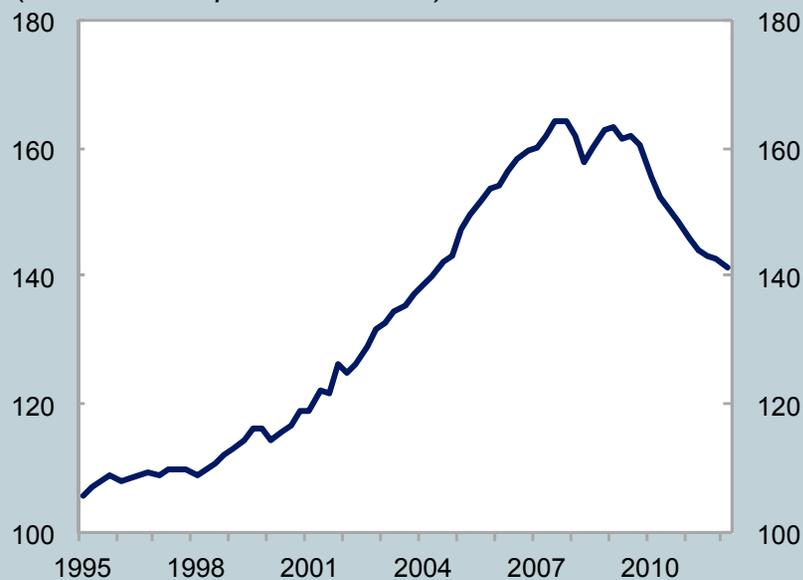
Sources: Haver Analytics; and IMF staff calculations.
 Figures in chart refer to the most recent consensus forecast



U.S. baseline scenario: Trepid recovery of labor and housing markets, as households deleverage

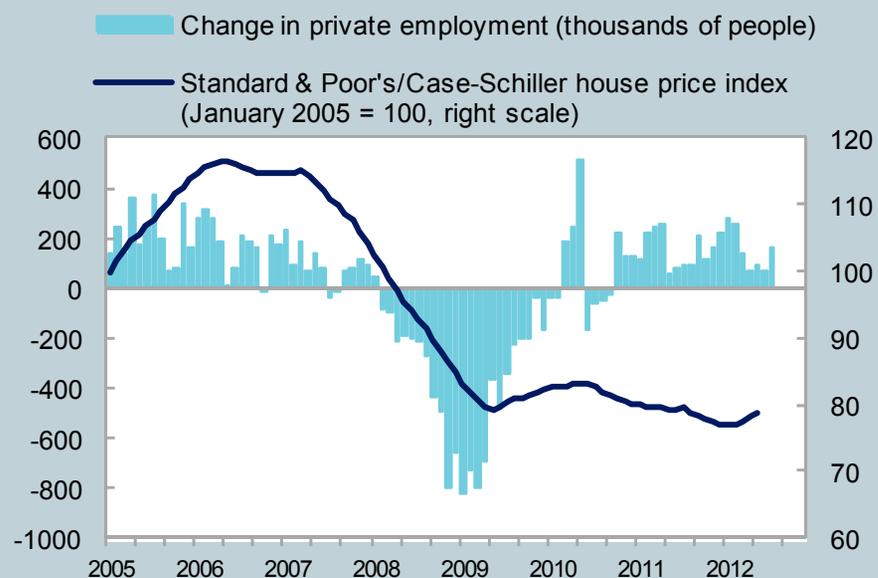


United States: Household Leverage (Percent of disposable income)



Sources: Haver Analytics; and IMF staff calculations.

United States: Employment and Housing Indicators



Sources: Haver Analytics; and IMF staff calculations.

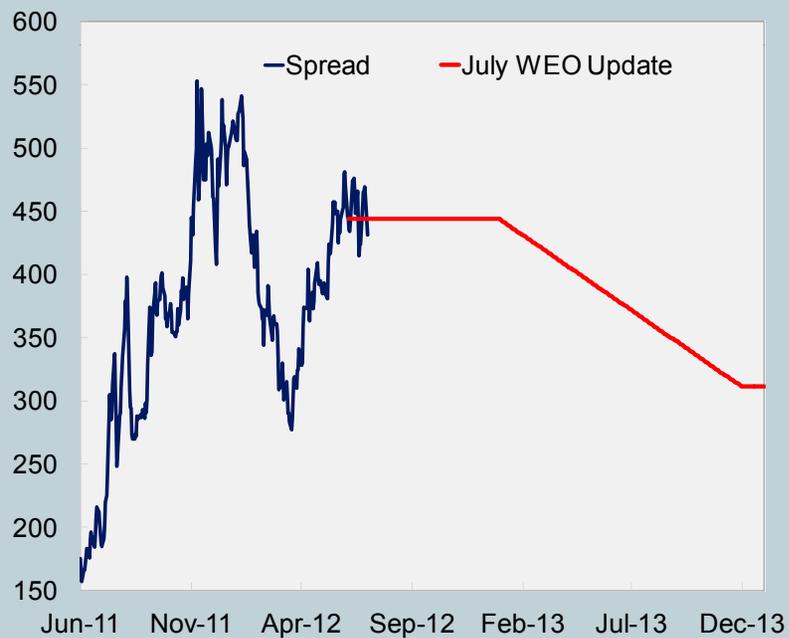


Europe baseline scenario: Policy actions help to lower borrowing costs in the periphery and contain crisis

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Italy: 10-Year Bond Spread
(over bunds; basis points)



Source: IMF staff calculations.

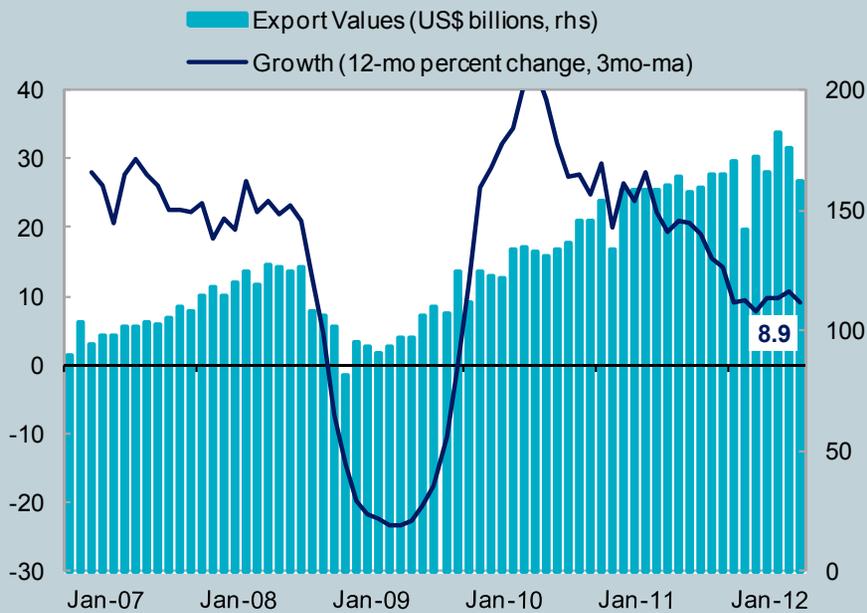
Spain: 10-Year Bond Spread
(over bunds; basis points)



EM Asia baseline scenario: Growth in China moderates, but remains robust, yet less dependent on exports

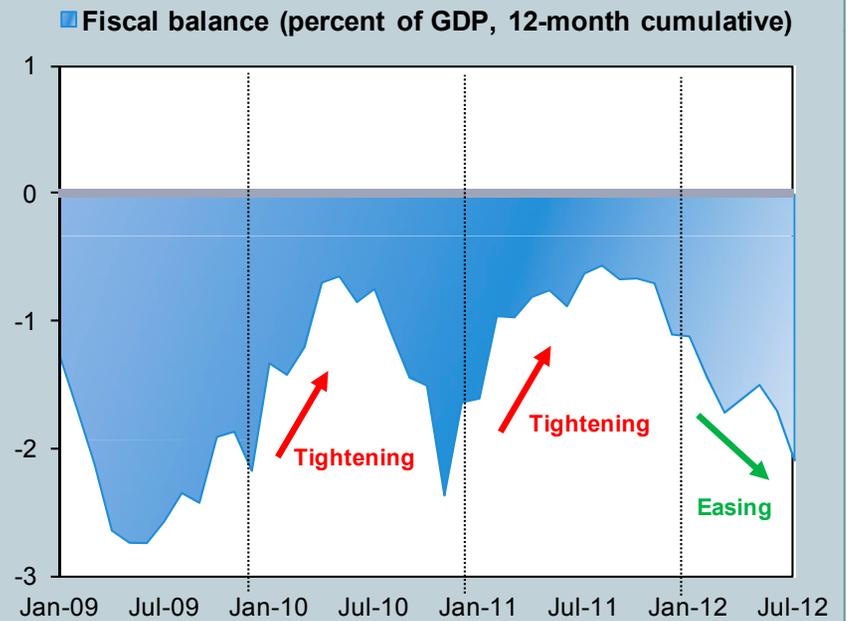


China: Merchandise Exports, 2007-12



Sources: Haver Analytics; and IMF staff calculations.

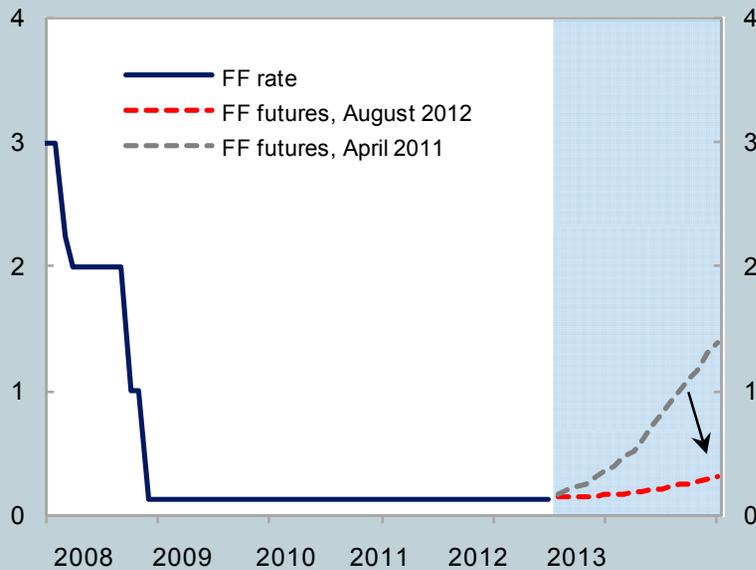
China: Fiscal Policy



Baseline scenario: Cheap financing for an extended period and relatively high commodity prices

Accommodative monetary policy for an extended period

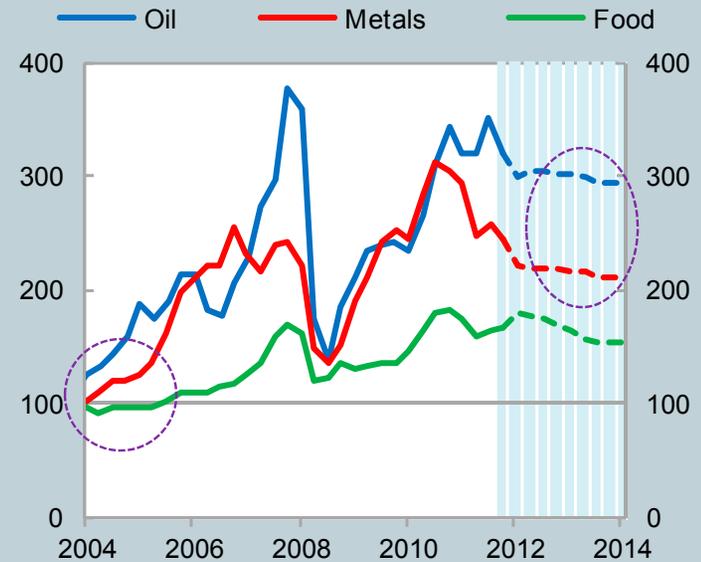
United States: Federal Funds Rate Expectations (Percent)



Sources: Bloomberg, LP; and IMF staff calculations.

Still high commodity prices

Commodity Prices (Index, 2004=100)



Sources: World Economic Outlook; and IMF staff calculations.



LAC baseline: Growth in Latin America is moderating (but still in line with potential); Tourism dependent Caribbean lags.

Real GDP Growth by Region			
	2011	2012	2013
Latin America and Caribbean	4.5	3.4	4.2
South America	5.7	3.5	4.8
Mexico	3.9	3.9	3.6
Central America 1/ Caribbean	3.7	3.4	3.7
Tourism dependent 2/	0.4	1.5	1.9
Commodity dependent 3/	2.5	3.3	4.1

Some downward revisions expected

Source: World Economic Outlook, July 2012.

1/ Central America includes the Dominican Republic, yet excludes Panama.

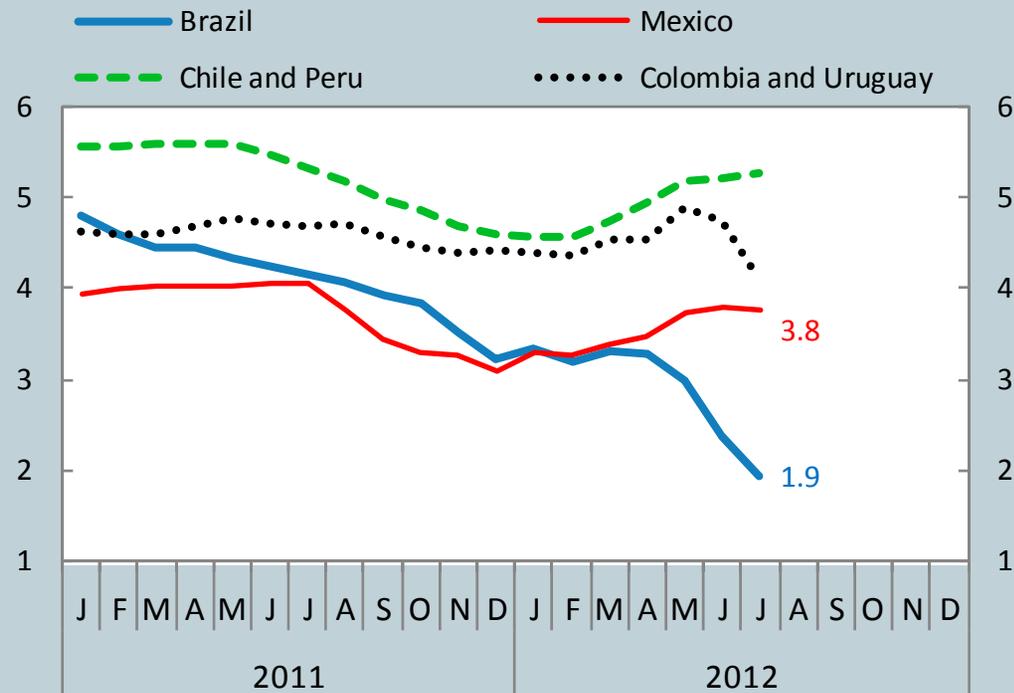
2/ Tourism dependent economies include: Bahamas, Barbados, Jamaica, and ECCU economies.

3/ Commodity dependent Caribbean includes: Belize, Guyana, Suriname, and Trinidad and Tobago.



LAC baseline: Revisions have been sharpest in Brazil, where domestic policies/factors are also playing a role

Consensust Forecast: Growth in 2012
(Percent)



Sources: Haver Analytics and IMF staff calculations



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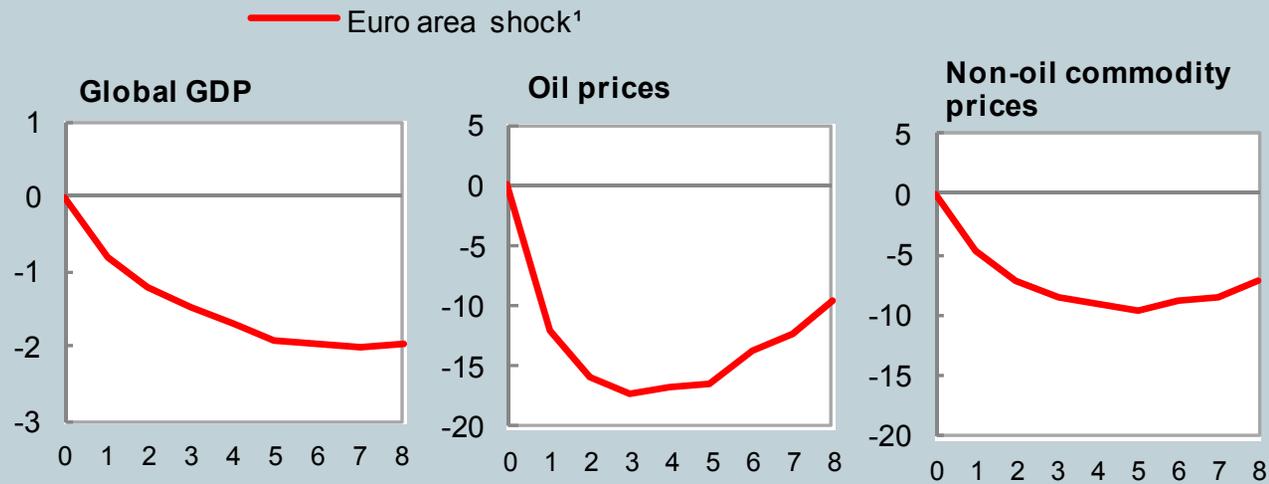


Downside scenario #1: In Europe, insufficient policy actions could result in a strong global slowdown and credit crunch

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Simulation: Impact of Euro Area Shock (Deviations from baseline, percent; quarters on x-axis)



Source: IMF, *World Economic Outlook*. April 2012.

¹ Assumes European banks reduce credit by €720 billion in 2012–13 (compared with €220 under baseline).

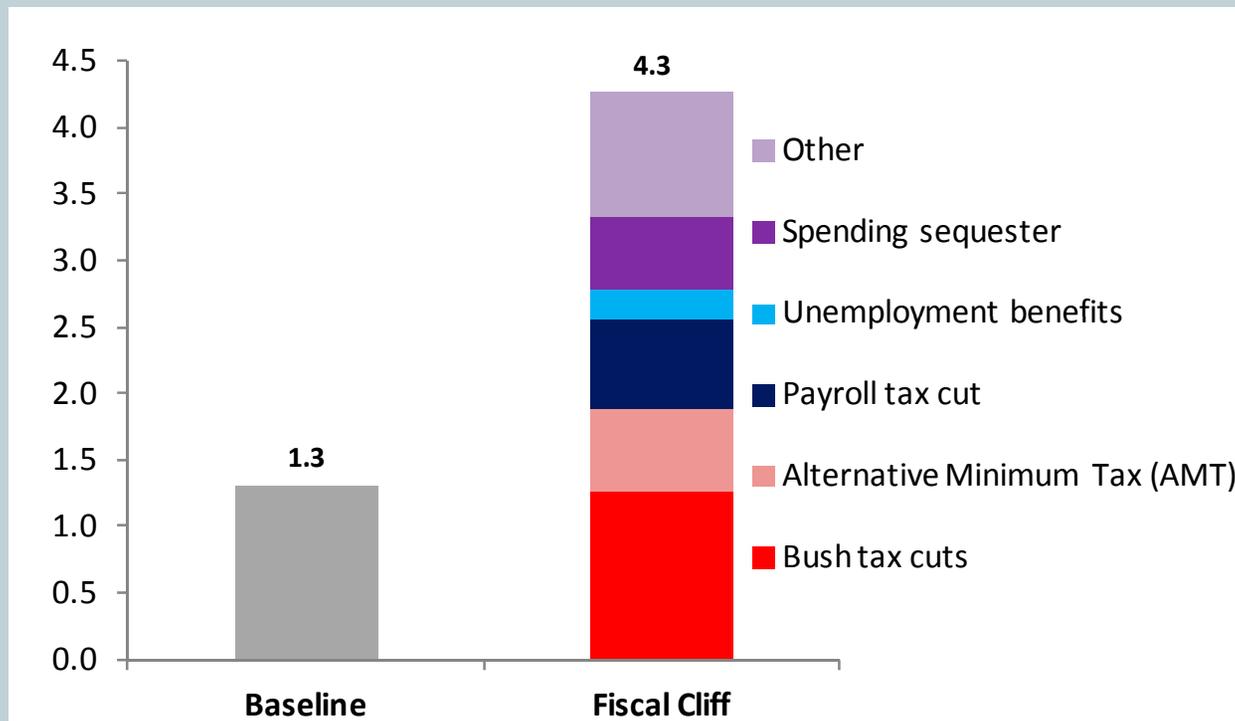


Downside scenario #2: In the United States, delays in near-term fiscal agreement could lead to an overly front loaded consolidation

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United States: Change in Structural Fiscal Balance 2013-- Baseline vs. Fiscal Cliff
(in percent of GDP)



Sources: CBO and Fund staff estimates.



Presentation Outline

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1. Global baseline scenario

- Key assumptions (requires active policies)

2. Global downside risks

- Short-term vs. medium term

3. Implications for the Caribbean

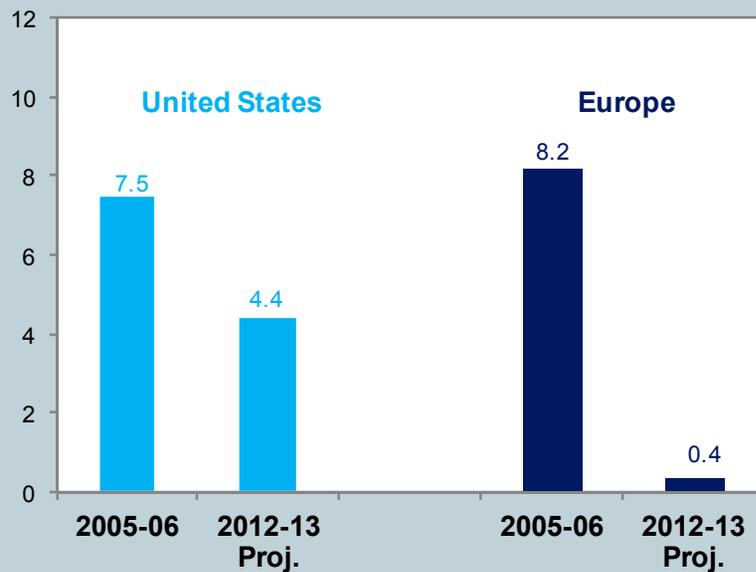
- Headwinds (external and domestic) to persist



Caribbean Outlook: *External headwinds to persist for some time ...*

Weak external demand

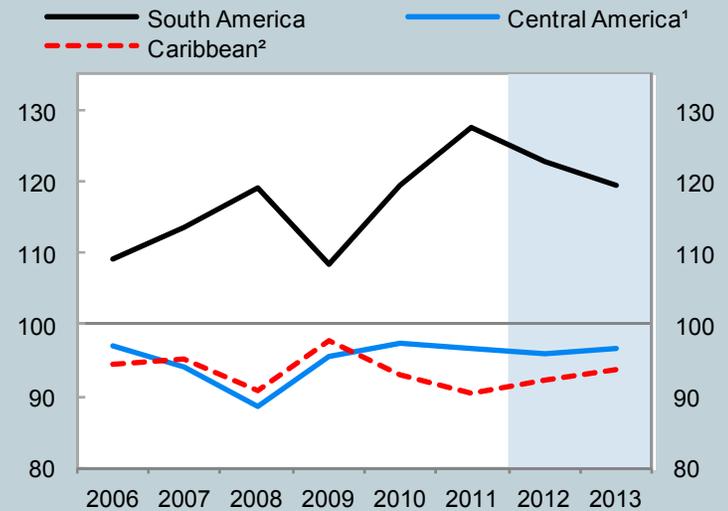
United States and Europe: Non-Oil Import Volume Growth
(average annual percent change)



Source: World Economic Outlook and Fund staff calculations.

Weak terms of trade

Latin America and the Caribbean: Terms of Trade
(2005 = 100, simple average by region)



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

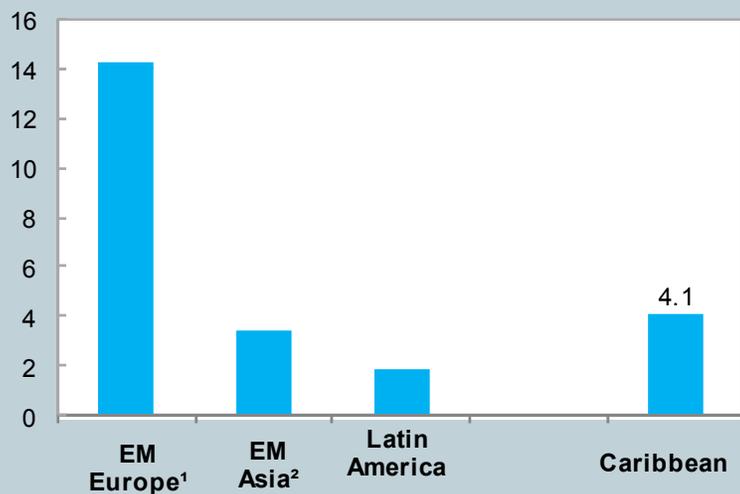
¹ Central America includes the Dominican Republic and Panama.

² Includes The Bahamas, Barbados, Jamaica, and ECCU member states.

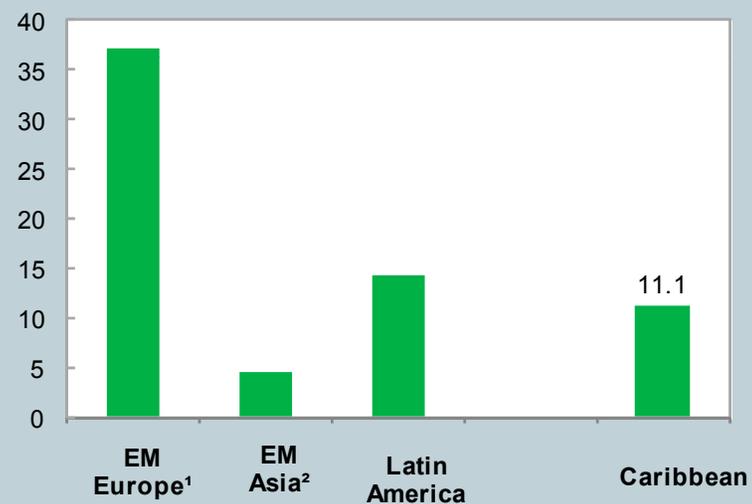


... while impact of downside risks from Europe are non-trivial

Exports to Europe by Region
(Percent of GDP, average 2009–10)



European Claims by Region
(Percent of GDP, average 2009–10)



Sources: Bank for International Settlements; and IMF, *Direction of Trade Statistics, World Economic Outlook*.

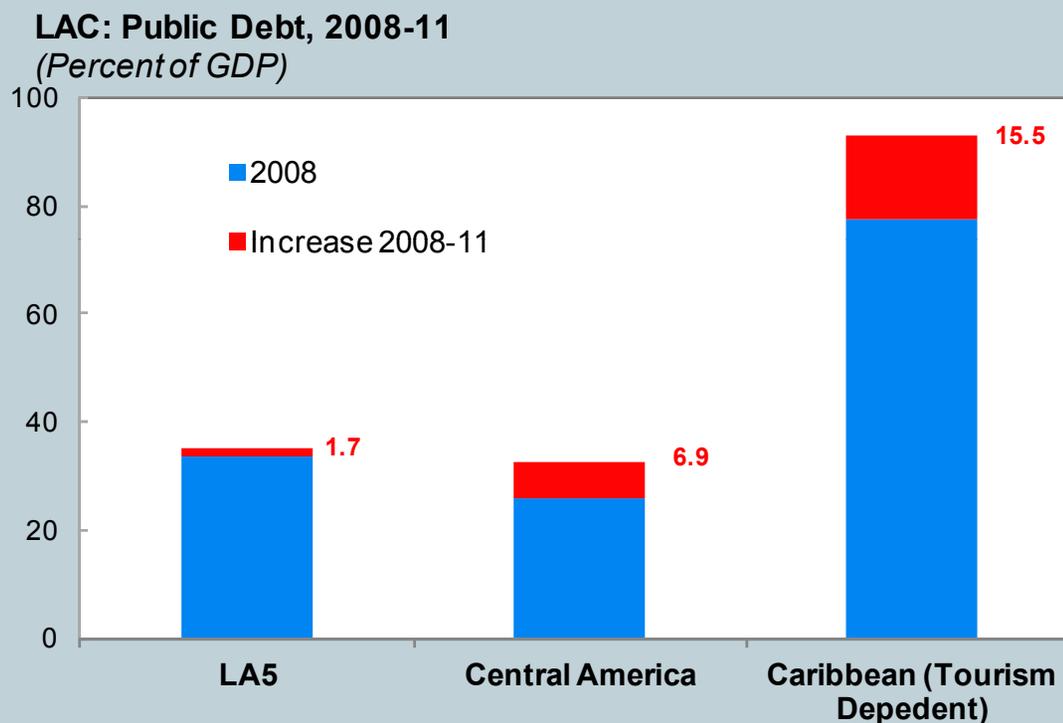
¹ Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Poland, Romania, Russia, and Slovenia

² China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.



High debt levels now limit the fiscal policy space ...

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Sources: National authorities; and IMF staff calculations.

¹ Simple average of Brazil, Chile, Colombia, Mexico, and Peru.

² Simple average of Costa Rica, Dominican Republic, El Salvador, Guatemala, and Honduras.

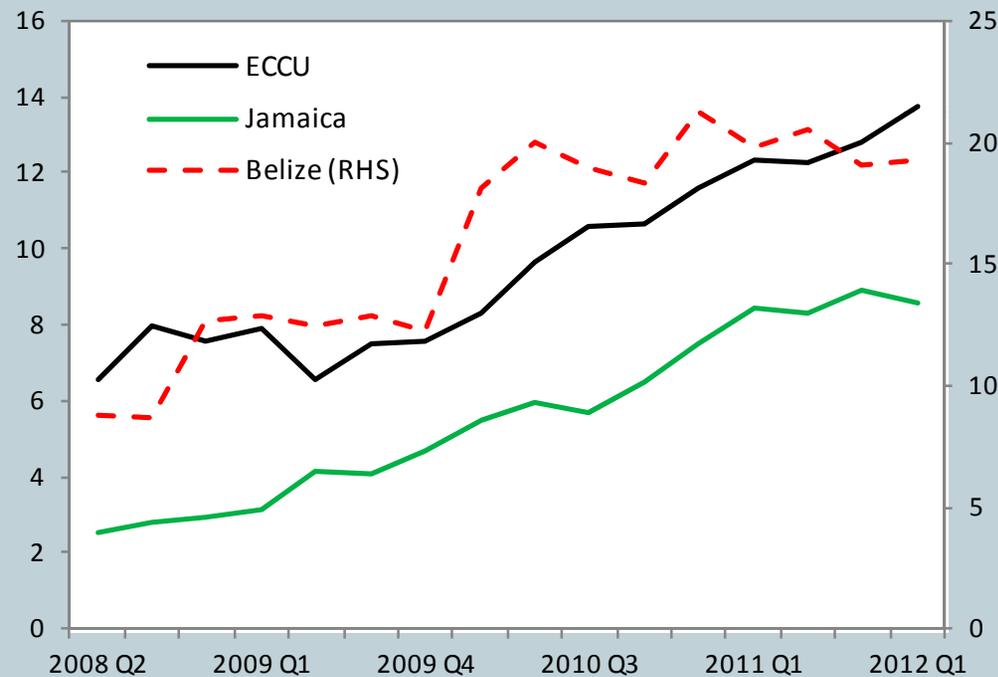
³ Simple average of Antigua and Barbuda, Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines



... and risk persist from financial sector fragilities

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Caribbean: Non-Performing Loans¹ (Percentage of total loans)



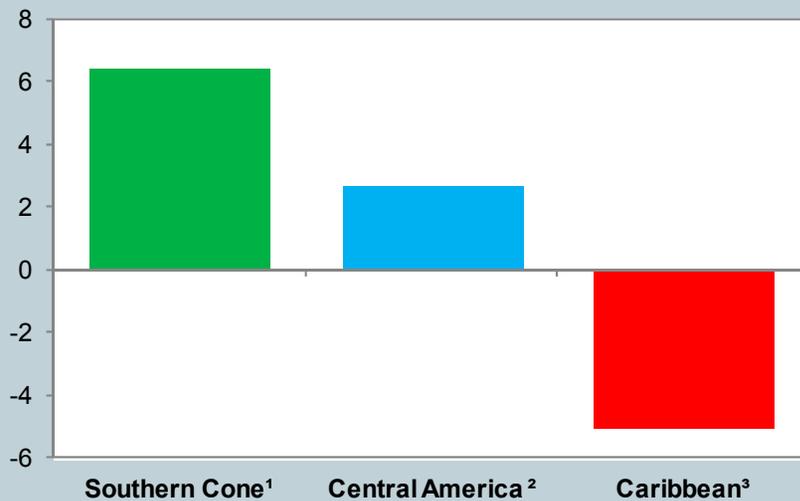
Sources: National Authorities and IMF Staff Calculations.

¹ Data on NPLs through Q1 2012.



Most recent food price shock may have an adverse impact

Latin America and the Caribbean: Net Food Exports
(Percent of GDP)



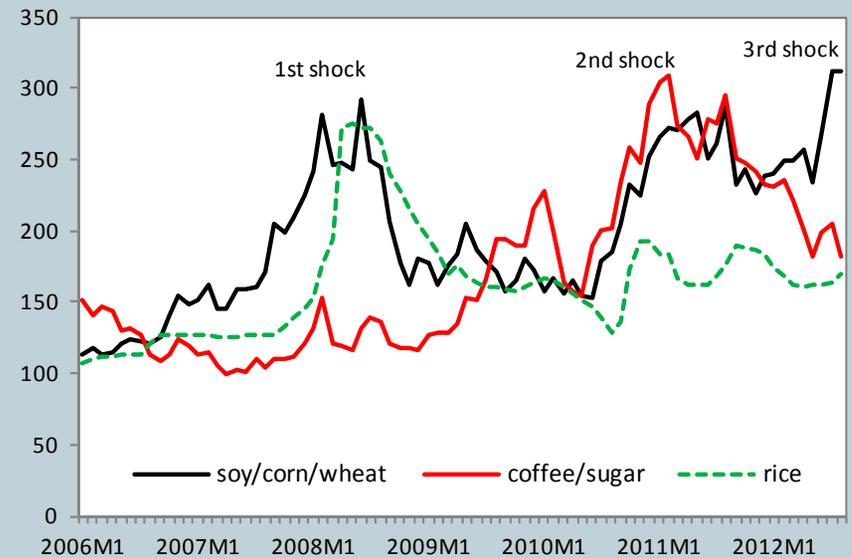
Sources: COMTRADE and IMF staff calculations.

¹ Simple average for Argentina, Brazil, Bolivia, Paraguay and Uruguay.

² Simple average for Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama

³ Simple average for Antigua and Barbuda, Bahamas, Belize, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the

International Food Prices
(US\$ per unit, index Jan 2005=100)



Source: IFS and IMF staff calculations.



Caribbean: Summary of Policy Challenges

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1. Improve competitiveness to boost growth

- What type of structural reforms?

2. Strengthen fiscal consolidation efforts

- How to do so in a growth-friendly fashion?

3. Tackle financial sector vulnerabilities



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Thanks

