

A map of the Caribbean region with a blue background. The landmasses are shown in grey. Several islands are highlighted in red, including the Dominican Republic, Haiti, Cuba, Puerto Rico, and the northern part of South America (Venezuela, Colombia, and Ecuador).

The Caribbean at a Crossroads: Improved Prospects, Higher Risks

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Western Hemisphere Department
September 3, 2015





Agenda

- **The world outlook**
 - **Global overview**
 - **Key tourism source markets**
 - **Major emerging economies**
- **The Caribbean**
 - **Outlook**
 - **Risks**
 - **The Fund and the Caribbean**

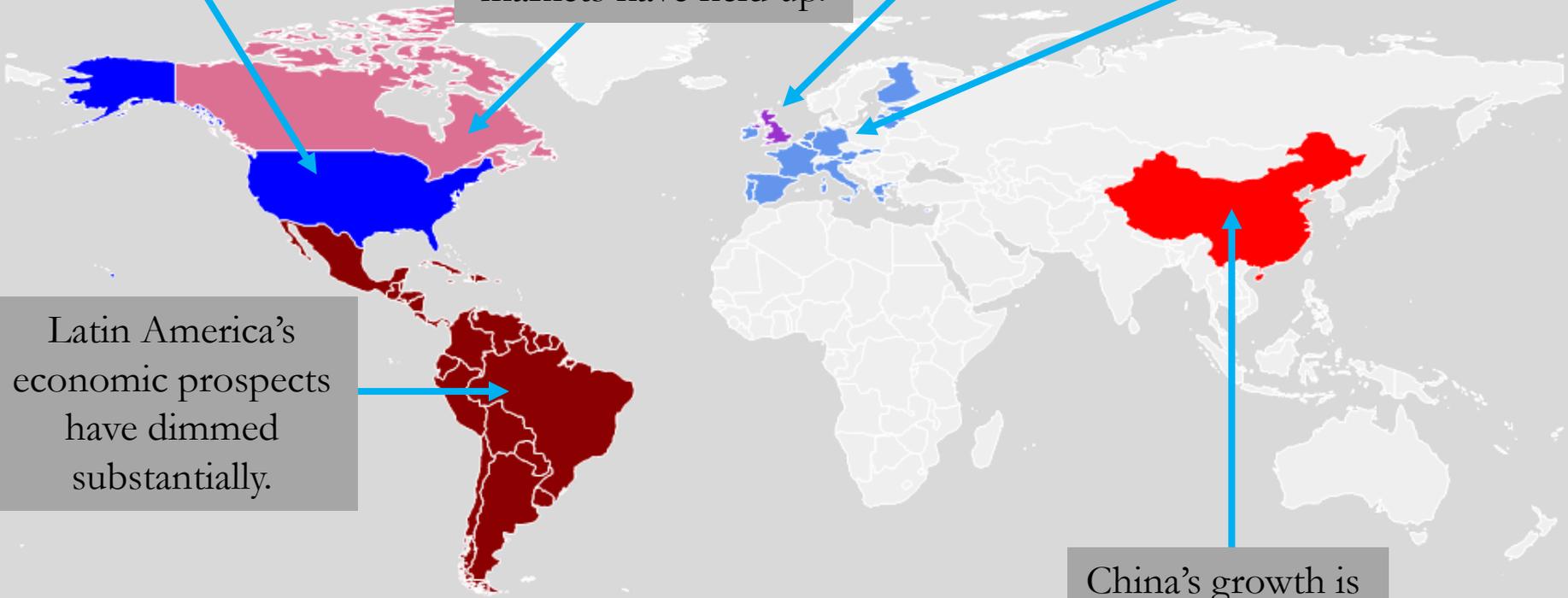
Globally, considerable diversity exists between advanced and emerging economy prospects.

United States: renewed momentum with lower unemployment.

Canada: growth has stalled from the lower oil prices, but labor markets have held up.

The U.K. outlook is relatively good.

The Euro Area is recovering.



Latin America's economic prospects have dimmed substantially.

China's growth is Slowing down

Modest and uneven global prospects will affect the Caribbean through various channels.

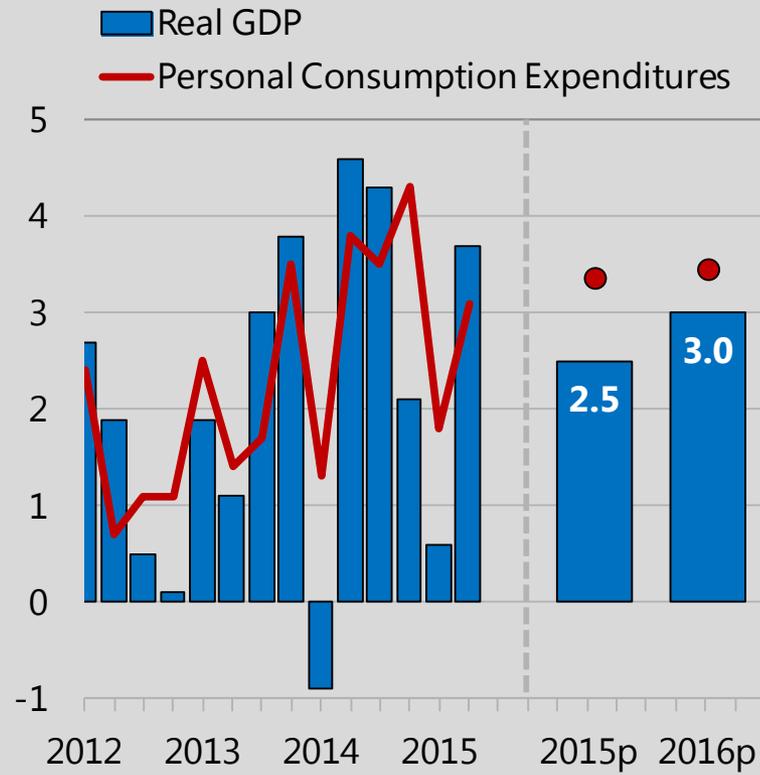
Selected Projections for Real GDP Growth (in percent)				
			Proj.	
	2013	2014	2015	2016
World	3.4	3.4	3.3	3.8
Advanced Economies	1.4	1.8	2.1	2.4
United States	2.2	2.4	2.5	3.0
Canada	2.0	2.4	1.5	2.1
United Kingdom	1.7	2.9	2.4	2.2
Euro Area	-0.4	0.8	1.5	1.7
Emerging & Developing Economies	5.0	4.6	4.2	4.7
China	7.7	7.4	6.8	6.3
Latin America and the Caribbean	2.9	1.3	0.5	1.7
Memorandum items:				
Crude oil prices (U.S. dollars/barrel)	104	96	58	66

Source: IMF, *World Economic Outlook*, July 2015 (growth) and April 2015 (oil).

Key markets: in United States, higher consumption is driving growth.

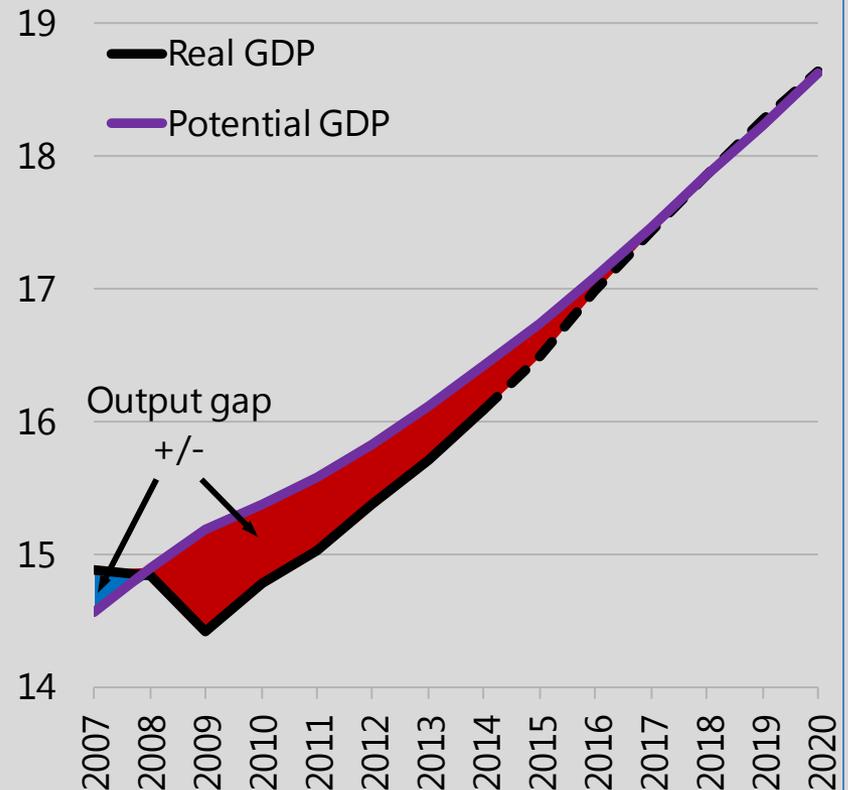
United States: Key Indicators

(percent change from prev. qtr., s.a.a.r.)



Sources: Bureau of Economic Analysis Haver Analytics; and July 2015 WEO.

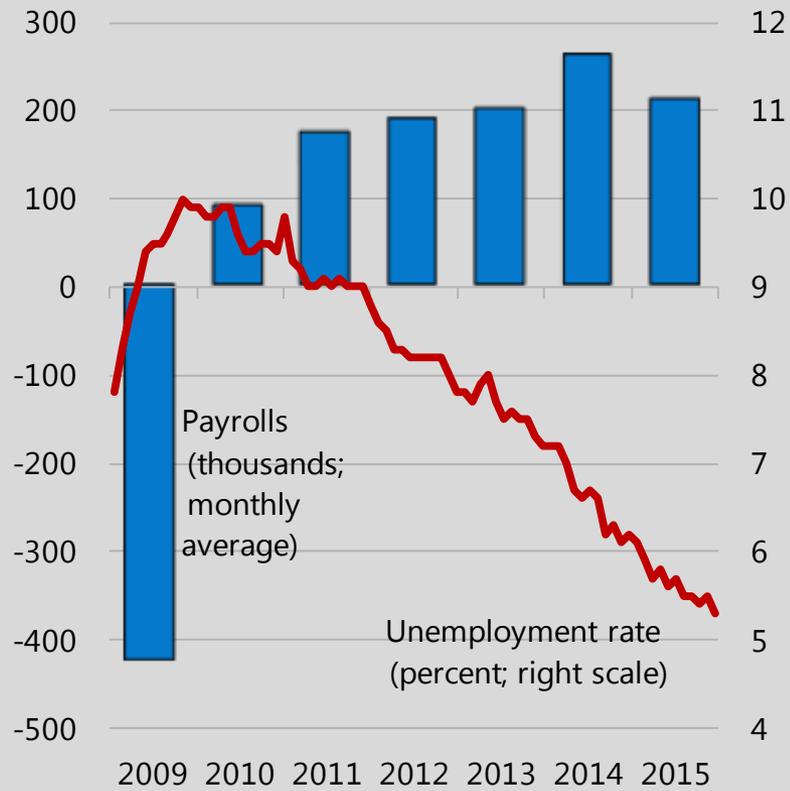
United States: Actual and Potential GDP (trillions of chained 2009 dollars)



Sources: World Economic Outlook.

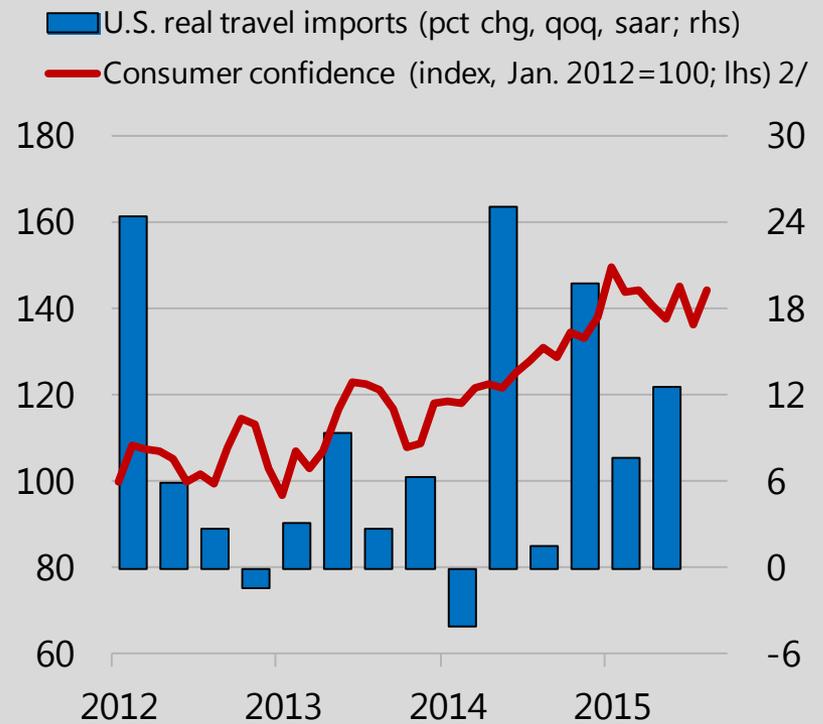
Labor markets and household wealth have continued to improve, with confidence strong.

Change in Nonfarm Payrolls and Unemployment Rate



Sources: U.S. Bureau of Labor Statistics, Haver Analytics, and Fund staff calculations.

U.S. Consumer Confidence and International Travel Expenditures

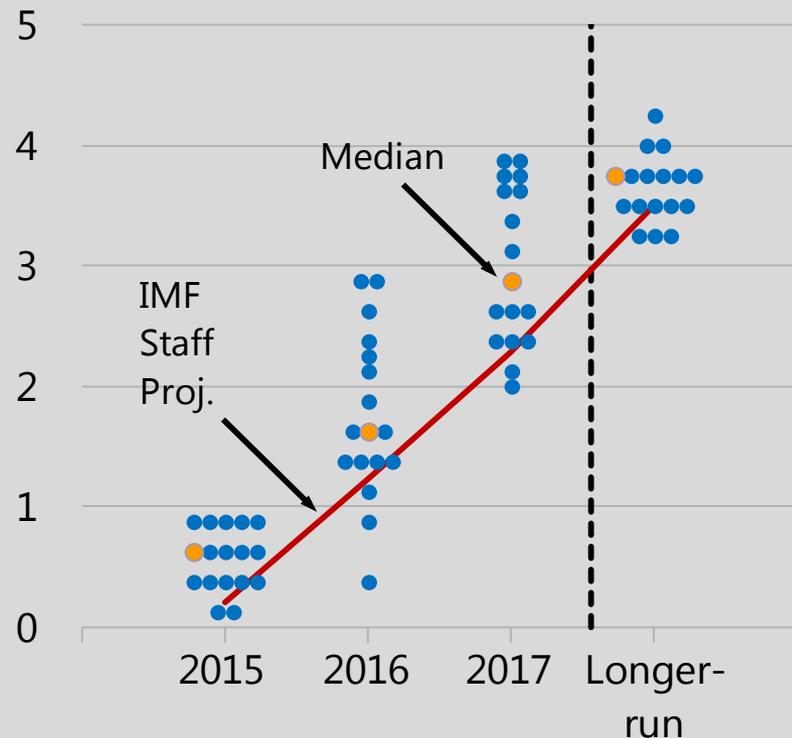


Sources: The Conference Board; Univ. of Mich.; Haver Analytics; CTO; Fund staff est. 1/ Quarterly totals seasonally adjusted by Fund staff. 2/ Avg of Conference Board and Univ. of Mich. surveys.

In this context, the Fed is likely to tighten policy, further bolstering a strong U.S. dollar.

Fed Policymakers' Assessment of Appropriate Monetary Policy

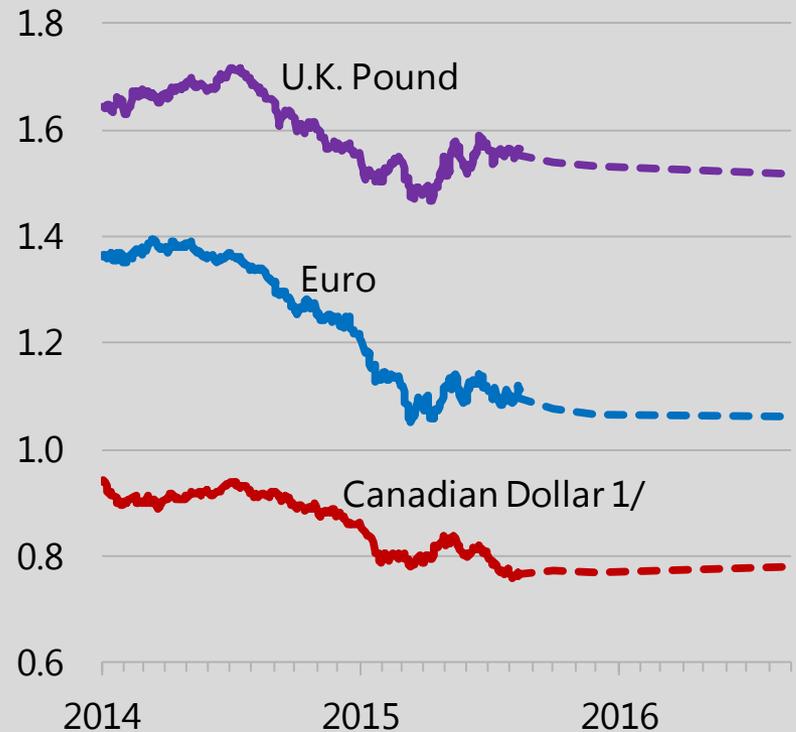
(midpoint of federal funds target range or target, in percent; end of period)



Source: Federal Reserve and Fund staff estimates.

Exchange Rate Forecasts

(U.S. dollars per unit of currency)

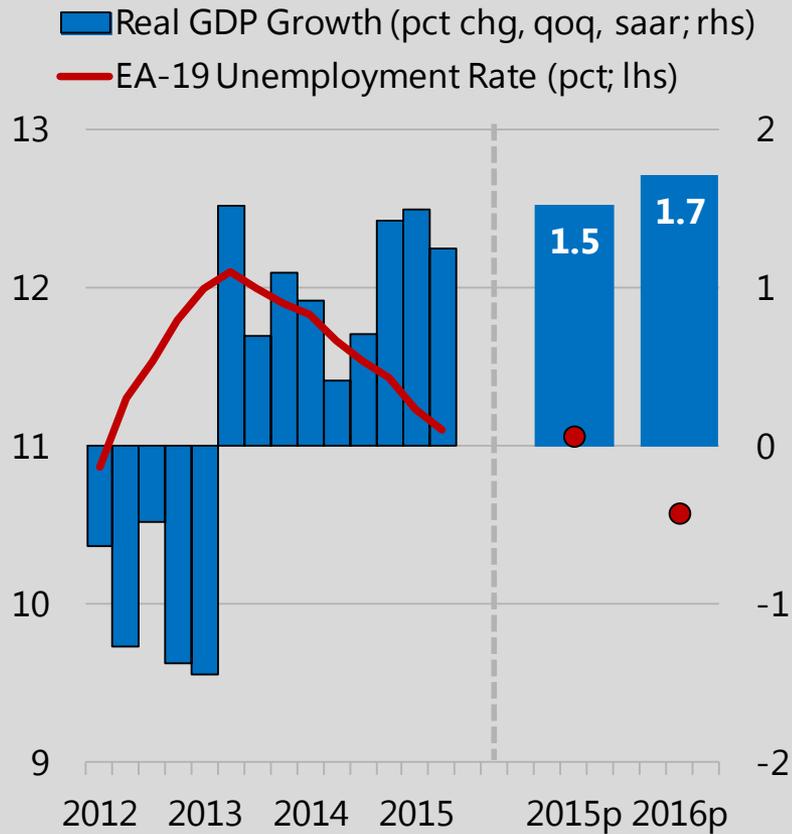


Sources: Federal Reserve; Haver Analytics; Consensus Economics; and Fund staff calculations.

1/ Inverted for comparison purposes.

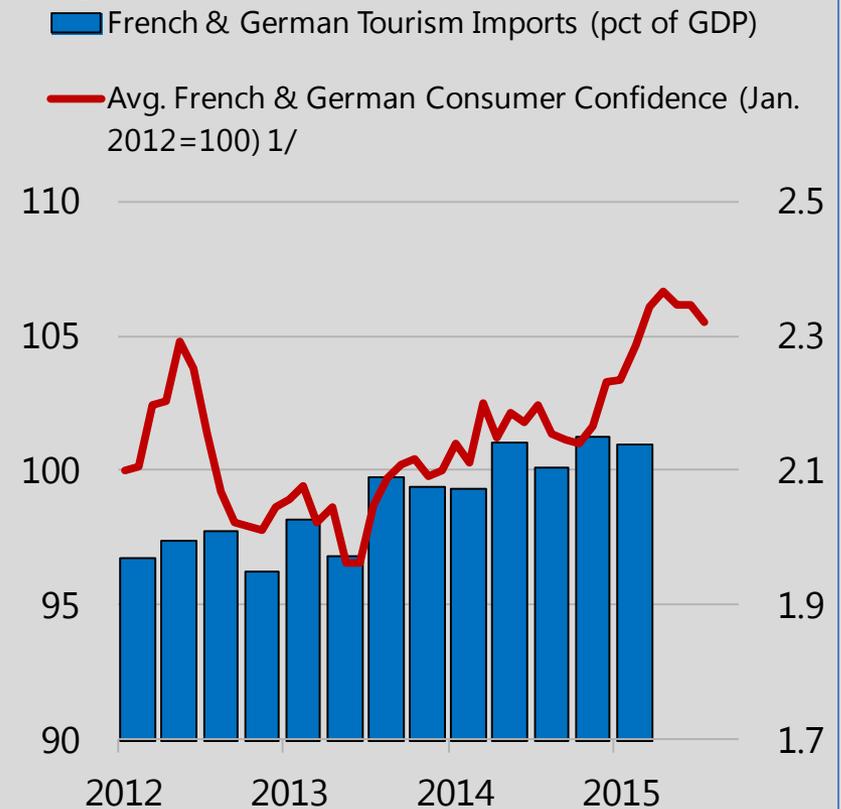
Key markets: in the Euro area, a recovery is taking hold.

Euro Area: Growth & Unemployment



Sources: Eurostat; Haver Analytics; July 2015 WEO and Fund staff estimates.

Consumer Confidence and Tourism Imports



Sources: Haver Analytics.
 1/ Seasonally Adjusted by Fund staff.

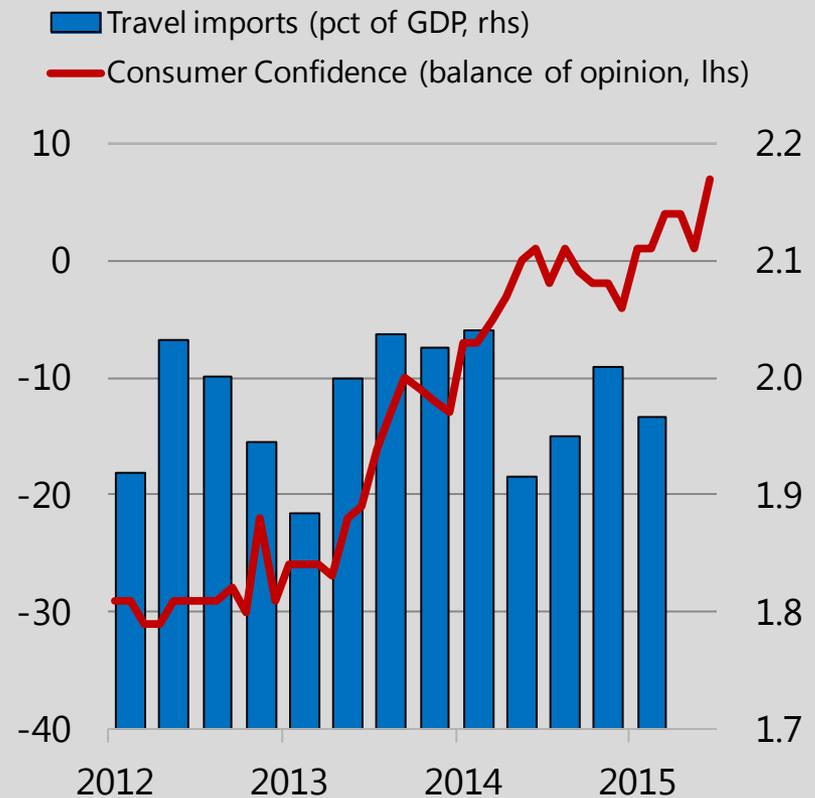
Key markets: in the United Kingdom; growth is holding up and confidence is rising.

U.K.: Real GDP and Unemployment



Sources: Office for National Statistics; Haver Analytics; July 2015 WEO; and Fund staff estimates.

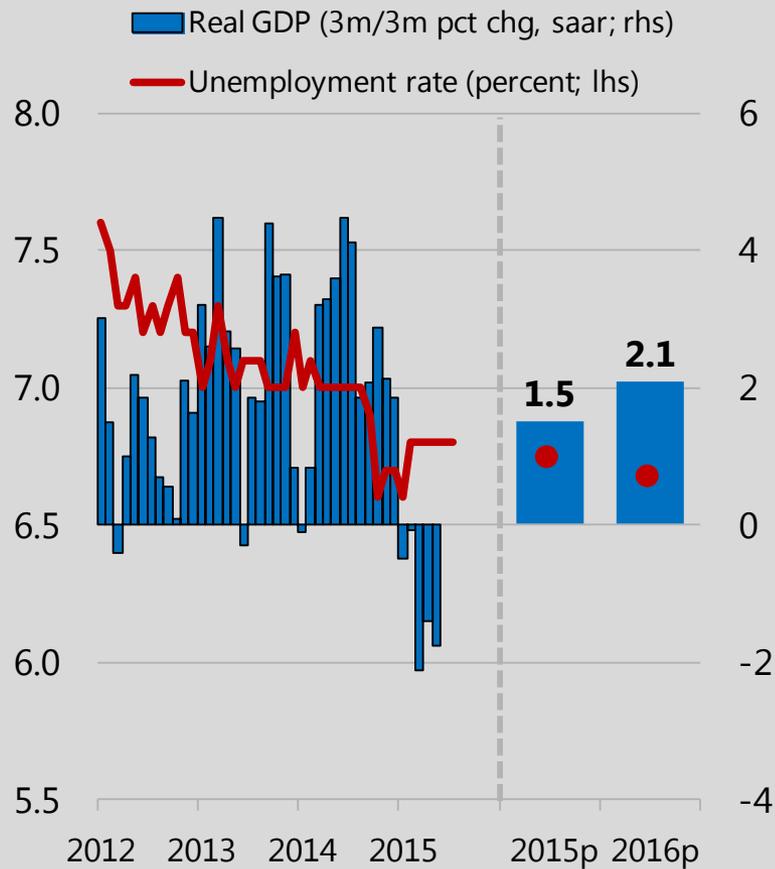
Consumer Confidence and Travel Service Imports



Sources: GfK; Office for National Statistics; Haver Analytics; and Fund staff estimates.

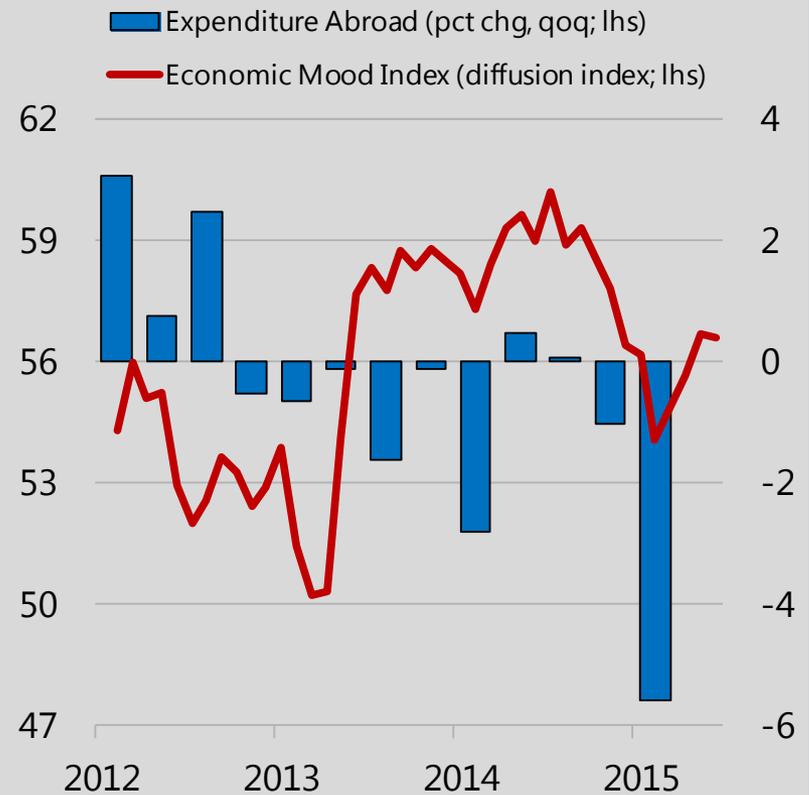
Key markets: in Canada, concerns for growth and household finances are emerging.

Canada: Real GDP & Unemployment



Sources: World Economic Outlook.

Consumer Confidence and Tourist Expenditures Abroad

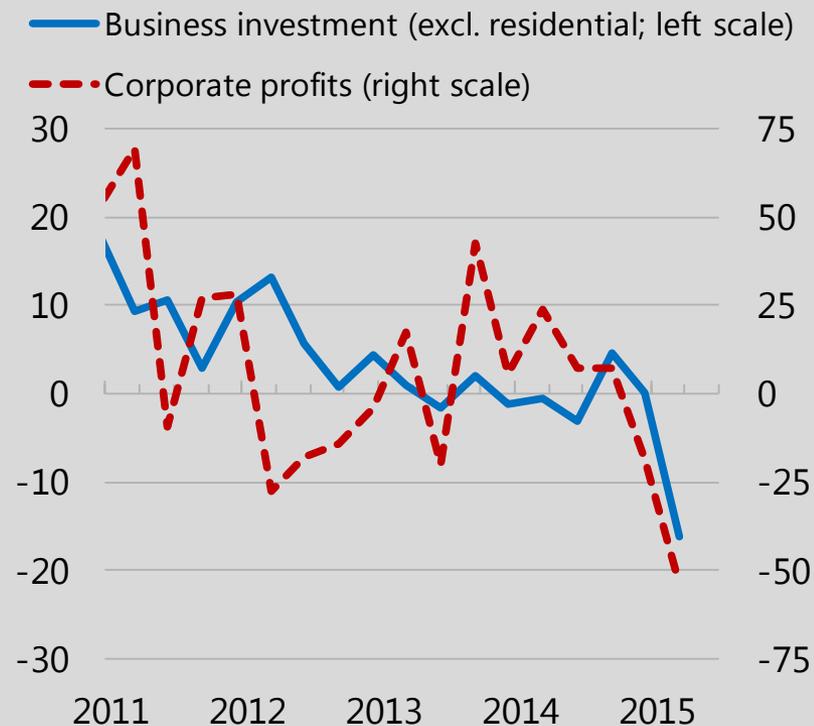


Sources: Nanos Research Corp.; Bloomberg, LP; CTO; and Fund staff estimates. 1/ Quarterly totals seasonally adjusted by Fund staff.

Business fixed investment is also decreasing, with low oil prices a drag on profitability.

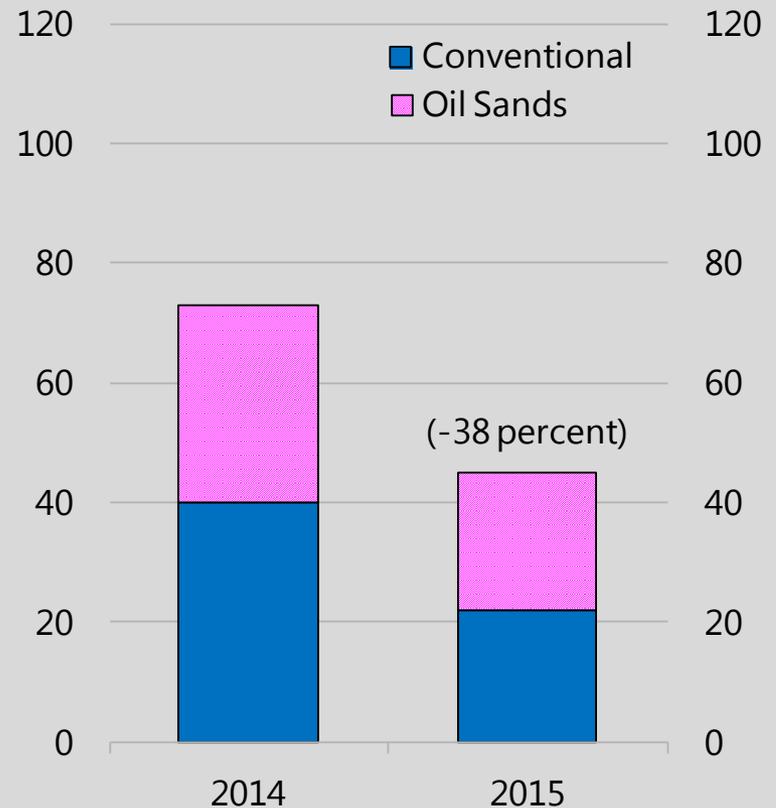
Canada: Business Investment and Corporate Profits

(percent change from prev. qtr, saar)



Sources: Statistics Canada; Bank of Canada; and Haver Analytics.

Canada: Oil and Gas Industry Capital Investment Plans (C\$ billions)



Sources: Canadian Association of Petroleum Products; and Canadian Energy Research Institute.

Major EMs: a substantial slowdown has been taking place.

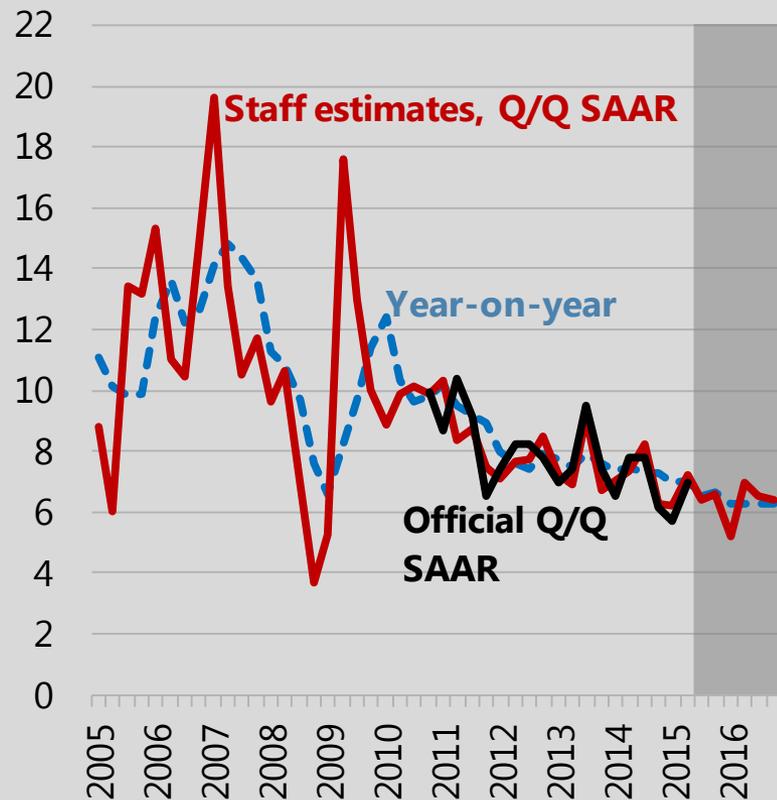
Emerging Market and Developing Economies: Real GDP Growth (in percent)						
	2011	2012	2013	2014	Proj.	
					2015	2016
Emerging & developing economies	6.3	5.2	5.0	4.6	4.2	4.7
Of which:						
Brazil	3.9	1.8	2.7	0.1	-1.5	0.7
Russia	4.3	3.4	1.3	0.6	-3.4	0.2
India	6.6	5.1	6.9	7.3	7.5	7.5
China	9.5	7.7	7.7	7.4	6.8	6.3
South Africa	3.2	2.2	2.2	1.5	2.0	2.1

Source: IMF, *World Economic Outlook*, July 2015.

Major EMs: in China, slowing growth is expected to keep commodity prices low.

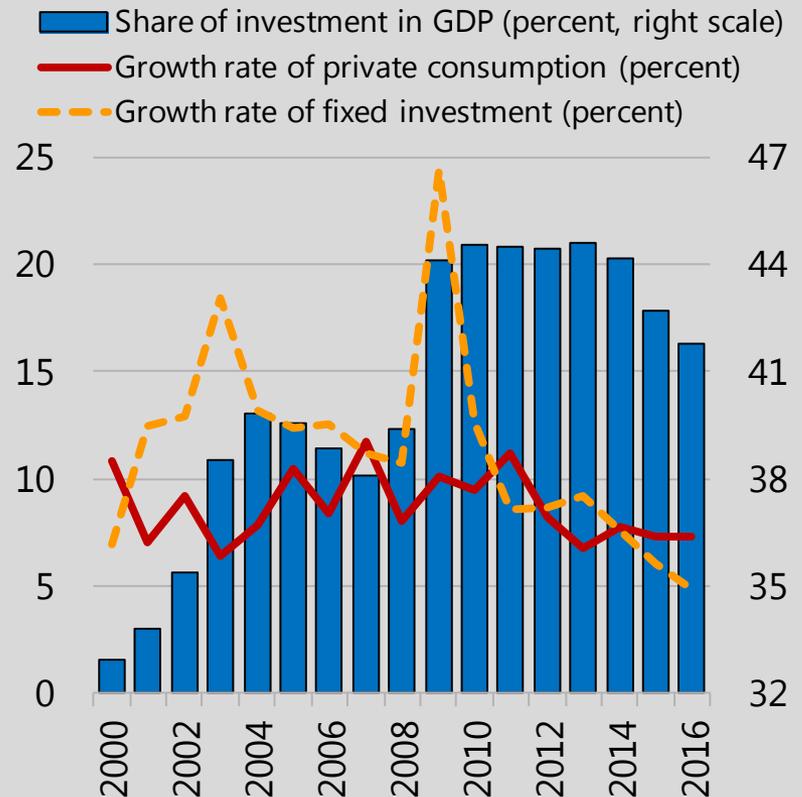
China: Real GDP Growth

(percent)



Sources: CEIC; and Fund staff calculations.

China: Real Private Consumption and Fixed Investment

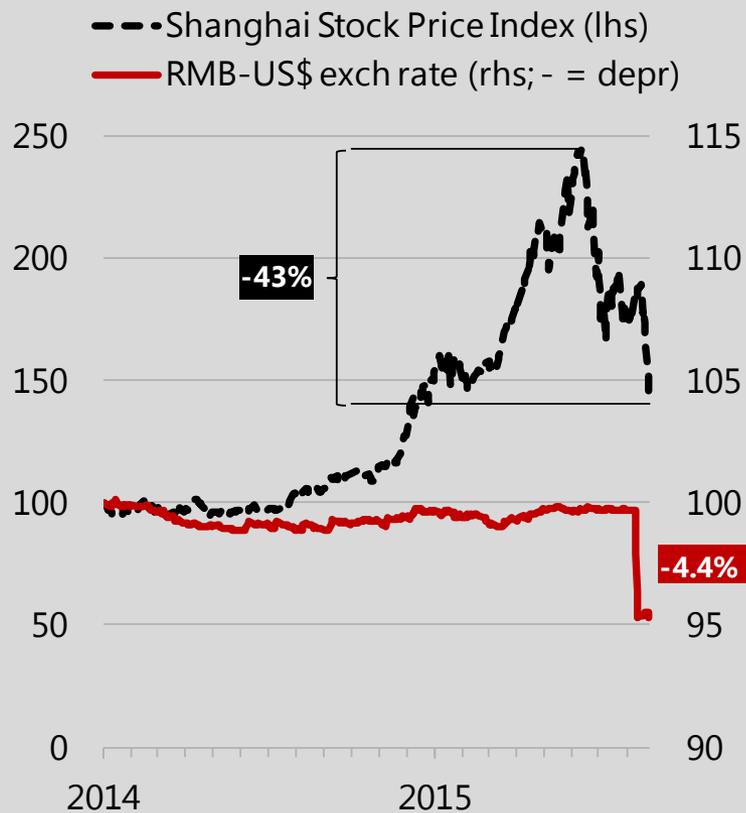


Sources: IMF, *World Economic Outlook*.

China's devaluation and lower equity prices reflect economic & financial stability concerns.

China: Stock Prices & Exchange Rates

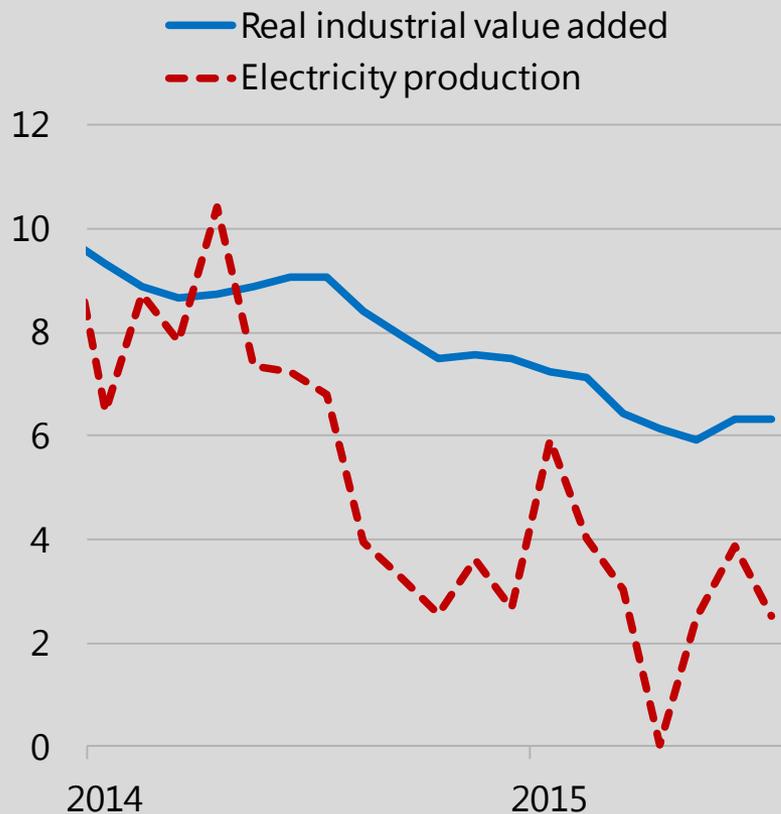
(Jan. 2, 2014=100)



Sources: Haver Analytics; and Fund staff calculations.

China: Economic Activity Indicators

(yr/yr pct change, 3-mo moving avg)



Sources: CEIC; Haver Analytics; and Fund staff calculations.

Major EMs: LAC growth is set nearly to stall; prospects differ across sub-regions.

Latin America & the Caribbean: Real GDP Growth (percent)

	2014	Projections	
		2015	2016
Latin America and the Caribbean¹	1.3	0.5	1.7
Financially integrated economies ²	2.4	2.1	2.9
South America and Mexico			
Argentina	0.5	0.1	0.0
Brazil	0.1	-1.5	0.7
Chile	1.8	2.6	3.3
Colombia	4.6	3.0	3.3
Mexico	2.1	2.4	3.0
Peru	2.4	3.2	4.6
Venezuela	-4.0	-7.0	-4.0
CAPDR³	4.4	4.1	4.1
Caribbean			
Tourism-dependent ^{4,6}	2.5	2.2	2.4
Commodity exporters ^{5,6}	2.7	2.6	3.5

Sources: *World Economic Outlook, July 2015*; and Fund staff projections and calculations.

¹ PPP-weighted average.

² Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

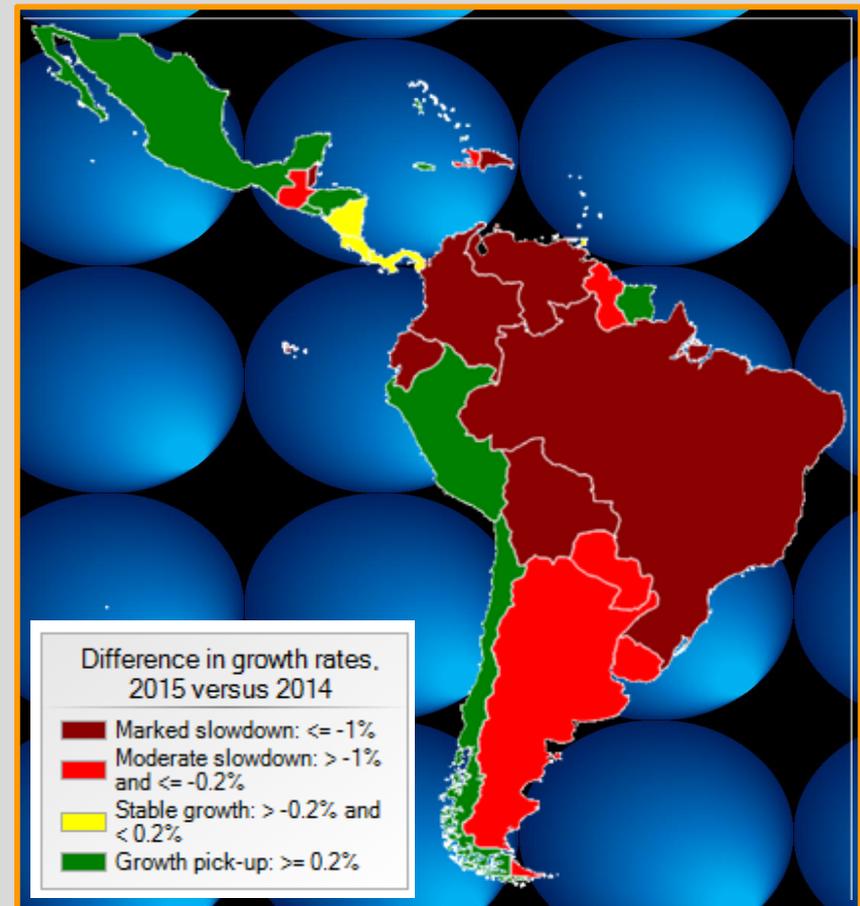
³ Simple average of Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

⁴ Simple average of the Bahamas, Barbados, Belize, Jamaica, and ECCU countries.

⁵ Simple average of Guyana, Suriname, and Trinidad and Tobago.

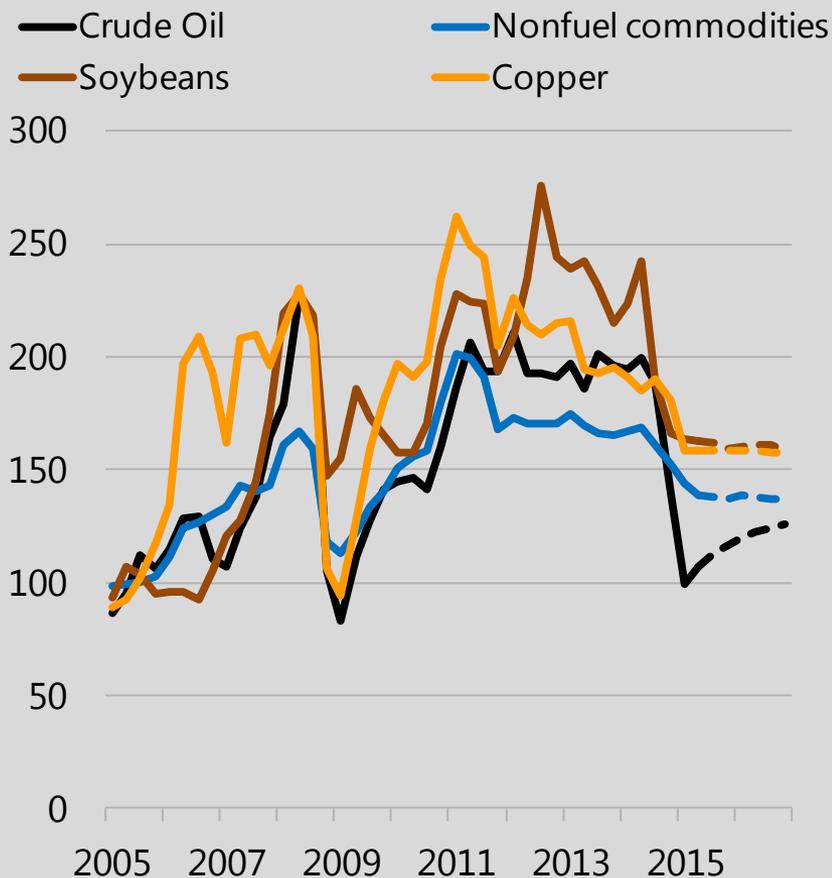
⁶ Latest available projection.

LAC: Growth Momentum, 2014-15



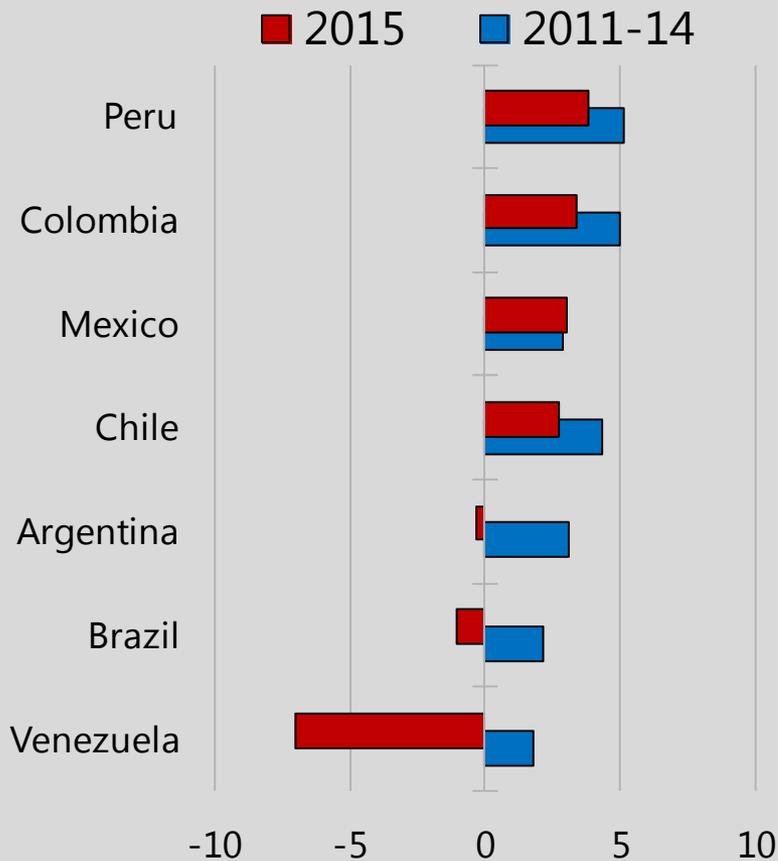
Differences in the evolution of commodity prices have influenced growth projections.

Commodity Prices (2005=100)



Sources: WEO, April 2015.

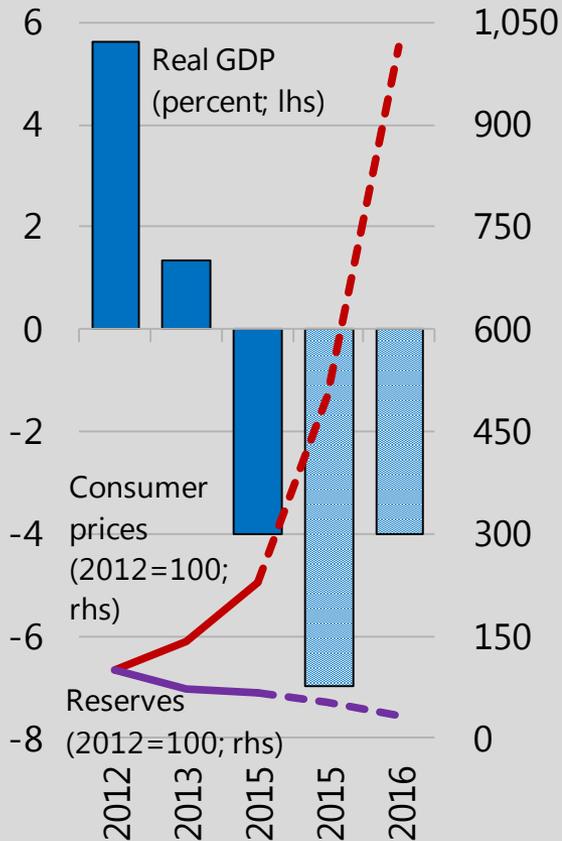
Real GDP Growth (percent)



Sources: WEO, July 2015.

The crisis in Venezuela is deepening sharply.

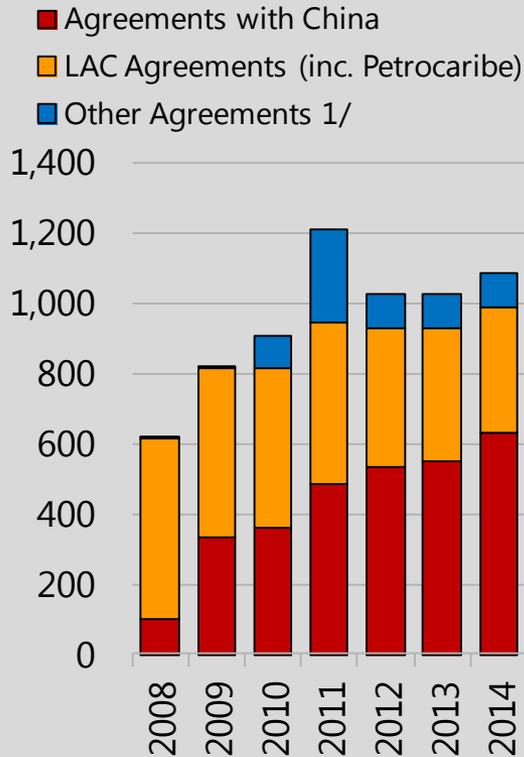
Key Indicators



Sources: World Economic Outlook.

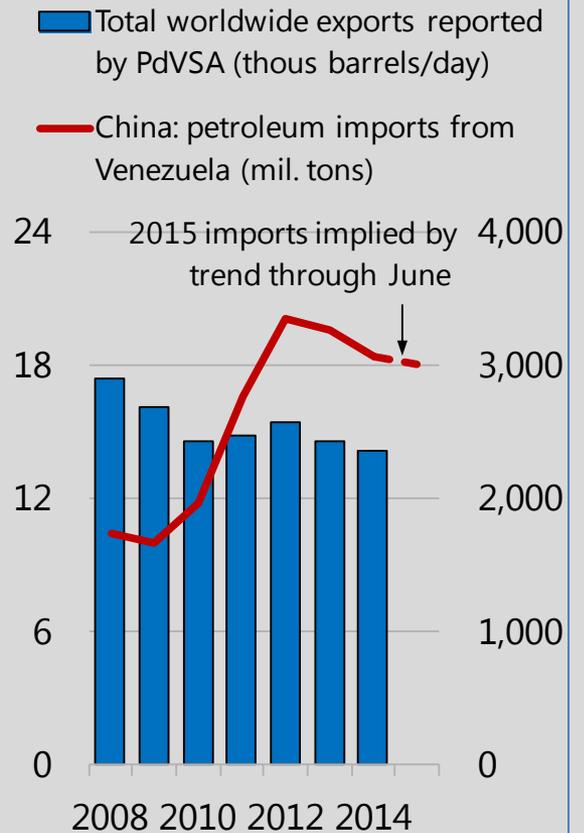
Supply Agreements

(thous. barrels/day)



Sources: PdVSA. 1/ Agreements with Portugal, Iran, and Belarus.

Petroleum Exports

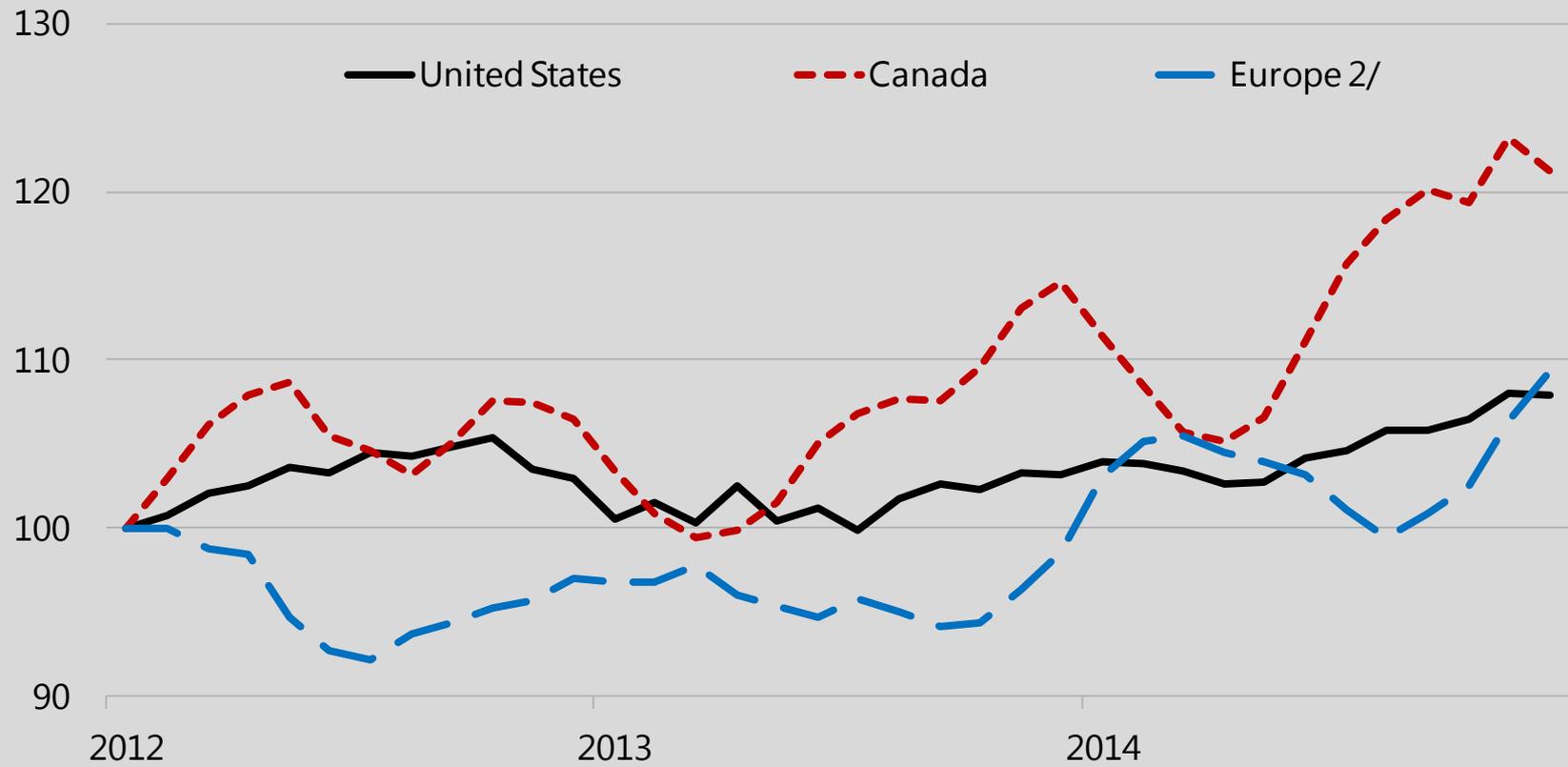


Sources: CEIC; PdVSA; and Fund staff est.

Generally strong advanced economy activity appears to be aiding Caribbean tourist arrivals.

Tourist Arrivals in the Tourism-Based Caribbean^{1/}

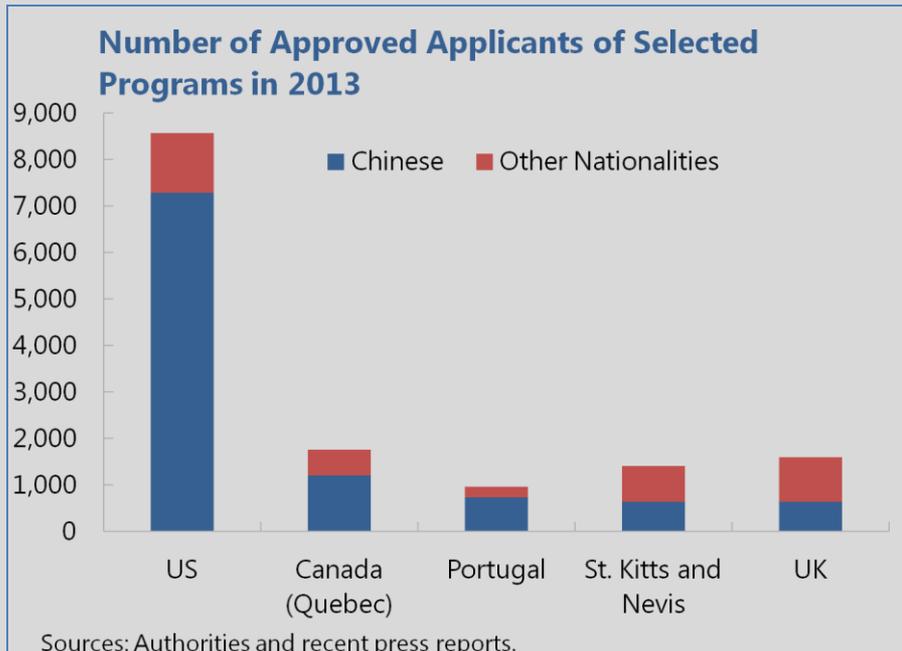
(Jan. 2012=100, 3-month moving avg)



Sources: CTO; ECCB; and Fund staff estimates. 1/ Seasonally adjusted by Fund staff. 2/ U.K. arrivals for St. Kitts and Nevis.

Increased demand for citizenship programs is a new global phenomenon

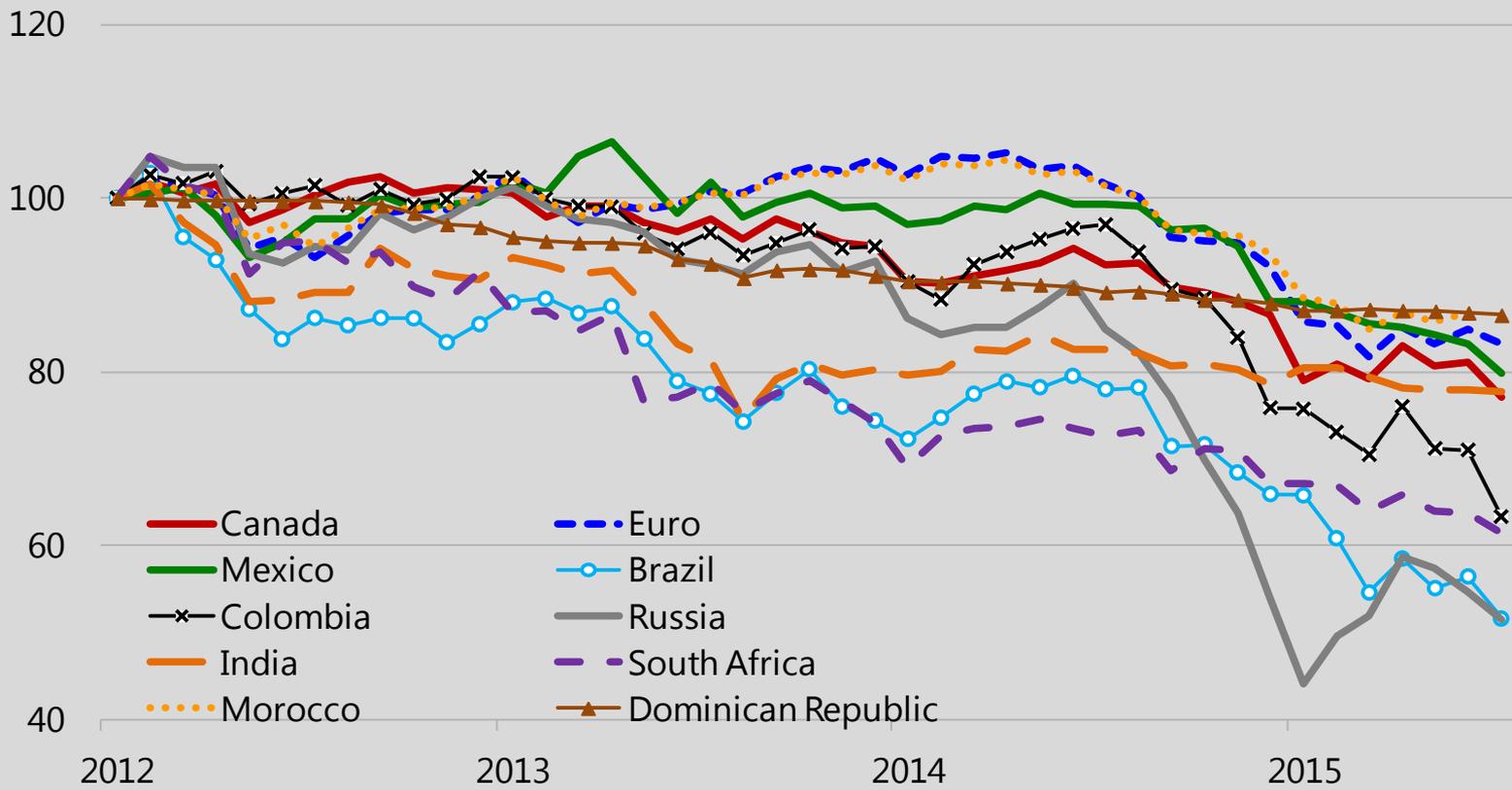
- A growing number of high net-worth individuals in some emerging economies seek:
 - Fewer travel restrictions and;
 - Safe havens from political uncertainty
- Caribbean economies operating Citizenship programs have benefited significantly from inflows.



But, sharp exchange rate depreciation elsewhere boosts competitiveness gaps.

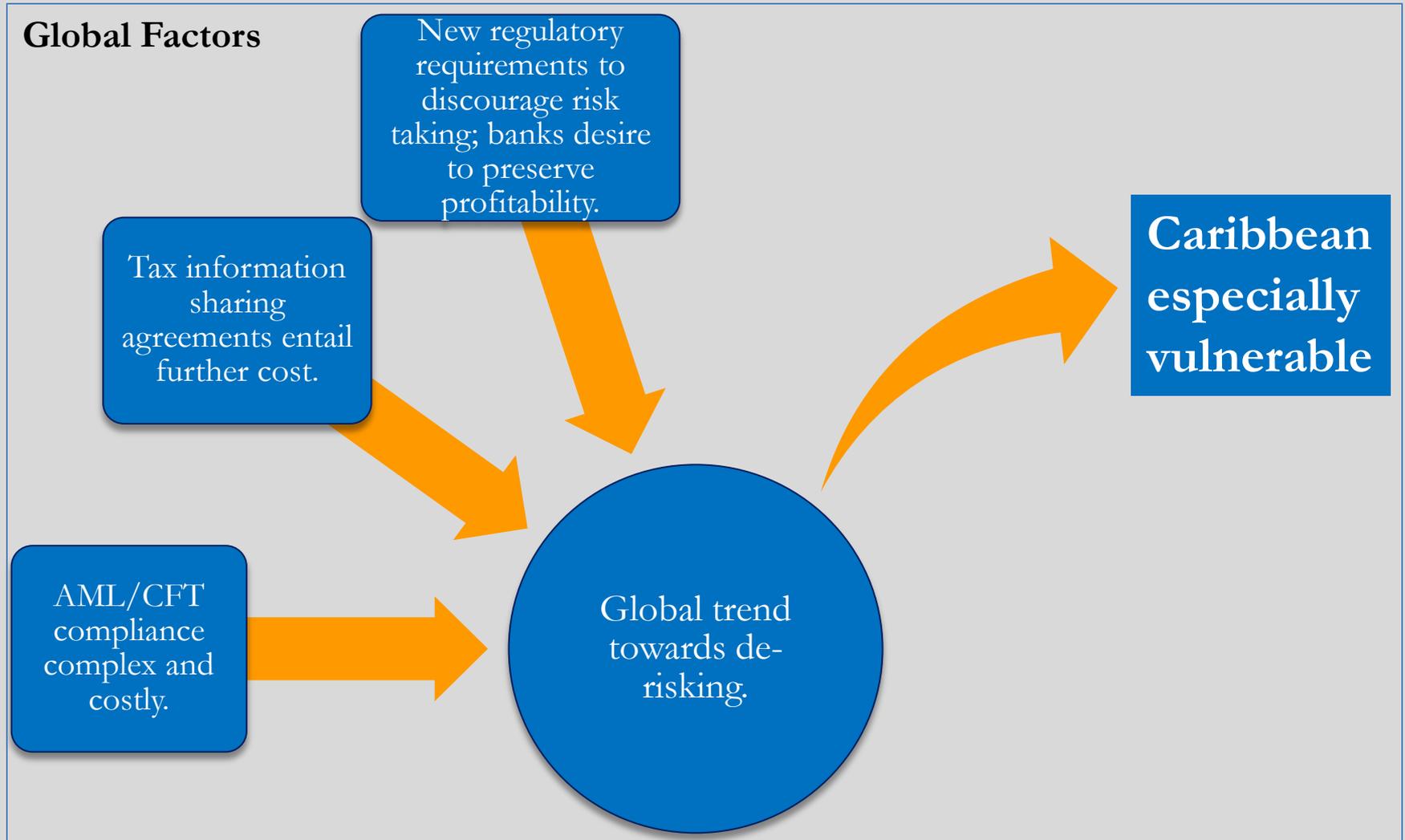
Bilateral U.S. Dollar Exchange Rates

(indexes, Jan 2012=100; - = depreciation)



Sources: IFS and Fund staff calculations.

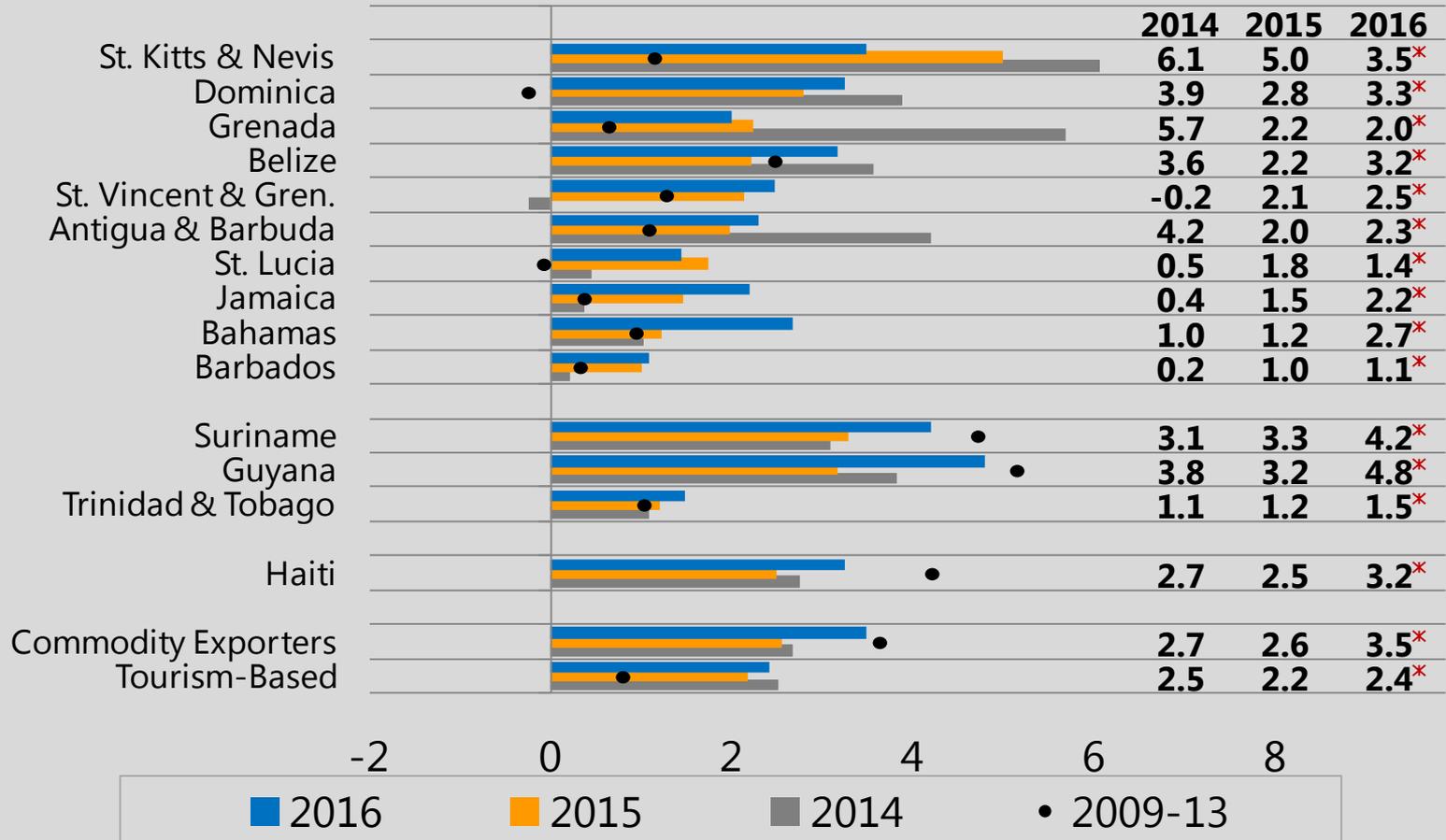
... and global banks' de-risking activities may impact correspondent banking relations.



Growth: better than the past in most tourism-based economies, and surprisingly resilient in commodity exporters.

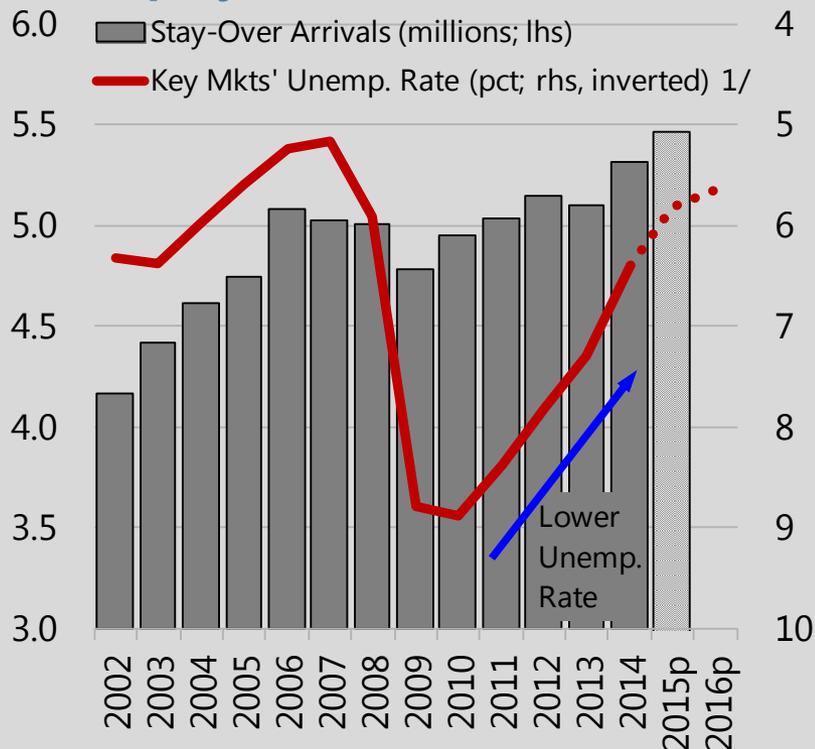
Real GDP Growth

(in percent)



Tourism has performed well; low commodity prices benefit importers, but hurt exporters ...

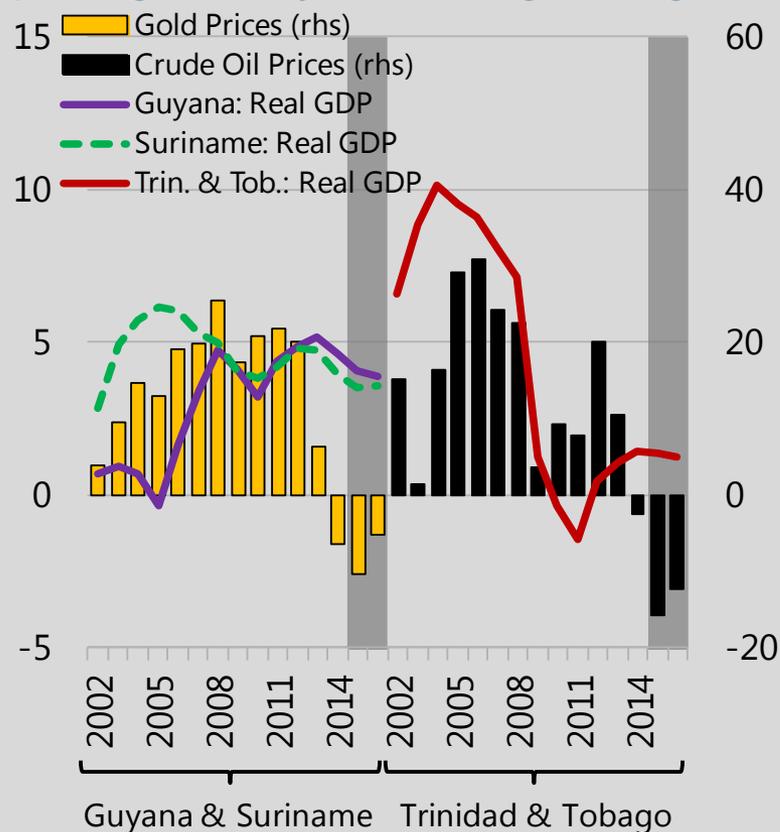
Tourism Arrivals & Key Markets' Unemployment



Sources: WEO; CTO; Central Banks and tourism orgs.
 1/ Average of U.S., Canada, and U.K., weighted by shares in ECCU, Jamaican, and Barbadian arrivals over 2001-2013.

Real GDP and Key Commodity Prices

(pct chg, three-year moving averages)

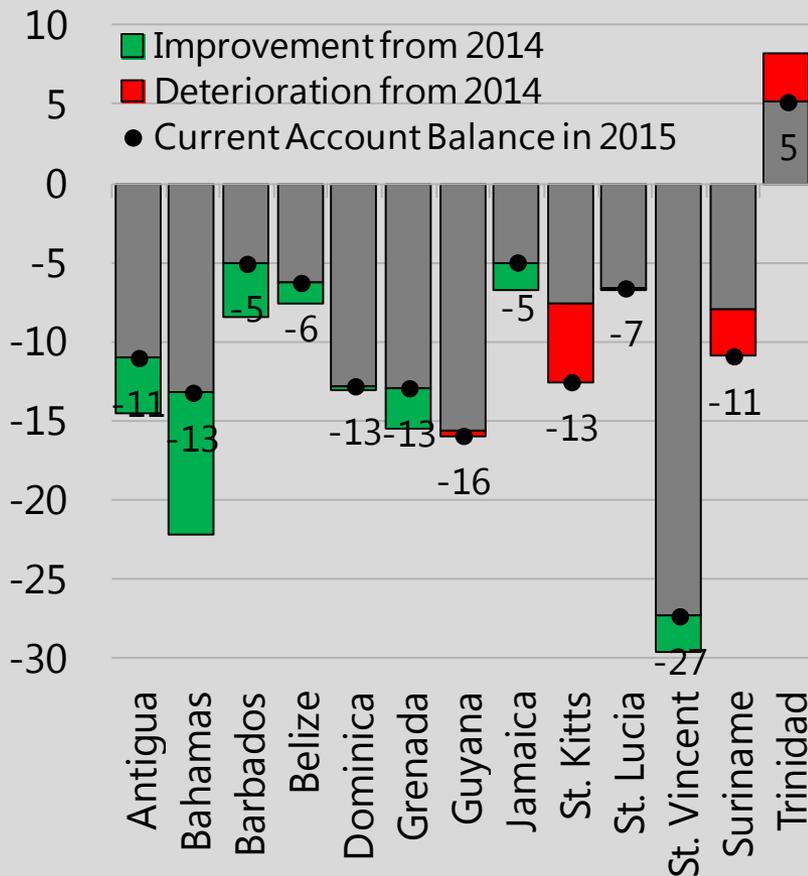


Sources: WEO and Fund staff estimates.

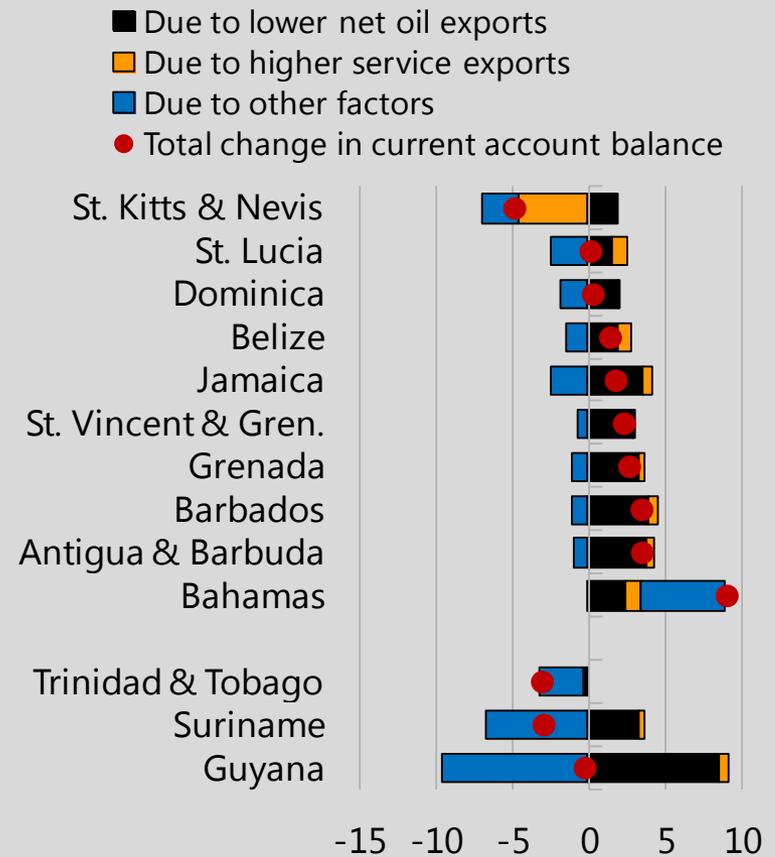
... with both tourism and commodities affecting external positions.

Current Account Balance, 2014-15

(percent of GDP)



Change in Current Account (2014-2015; percentage points of GDP)

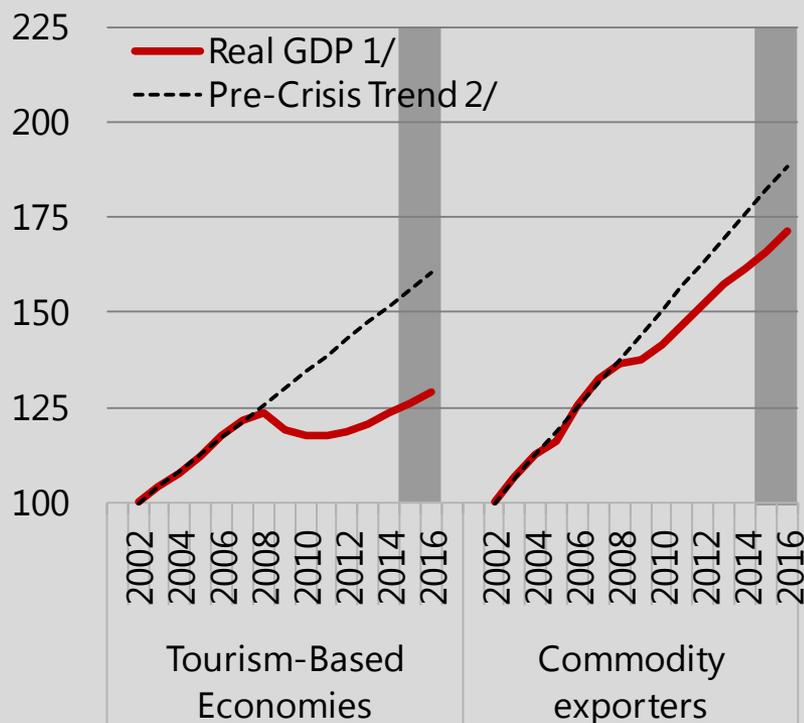


Sources: WEO and Fund staff calculations.

Still, medium-run legacies of the crisis will take some time to address.

Real GDP in the Caribbean

(indexes, 2002=100, shaded region denotes projections)



Source: WEO and Fund staff calculations.

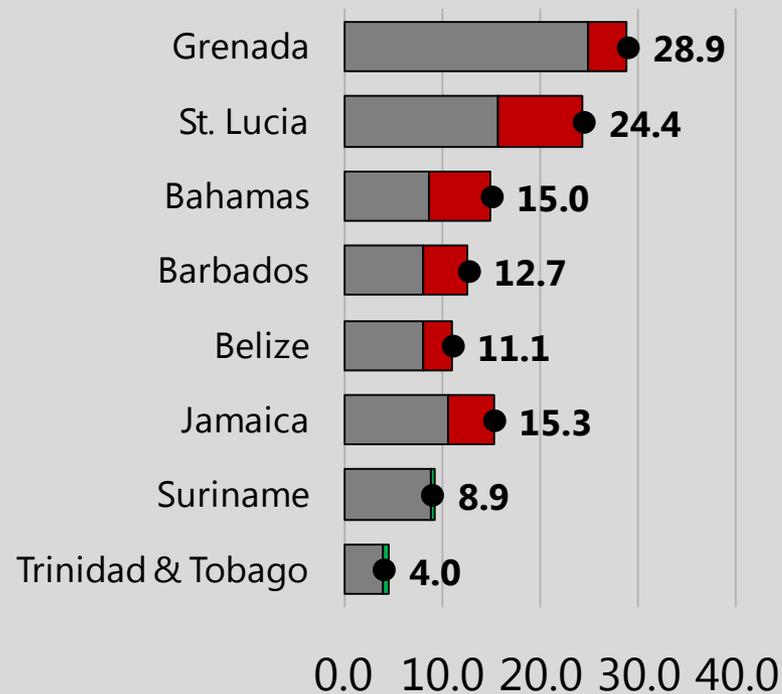
1/ Based on simple average growth. 2/ Period is 2002-07.

Unemployment Rates, 2008-14

(percent)

■ Rise in unemployment ■ Fall in unemployment

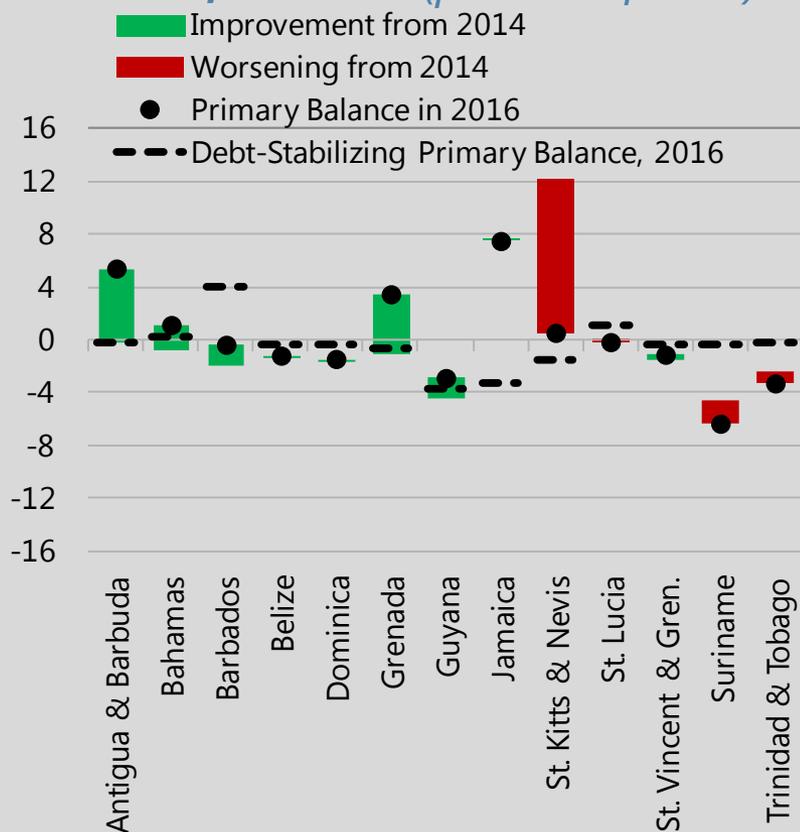
● Unemployment rate, 2014



Sources: WEO; National Authorities; and Fund staff calculations.

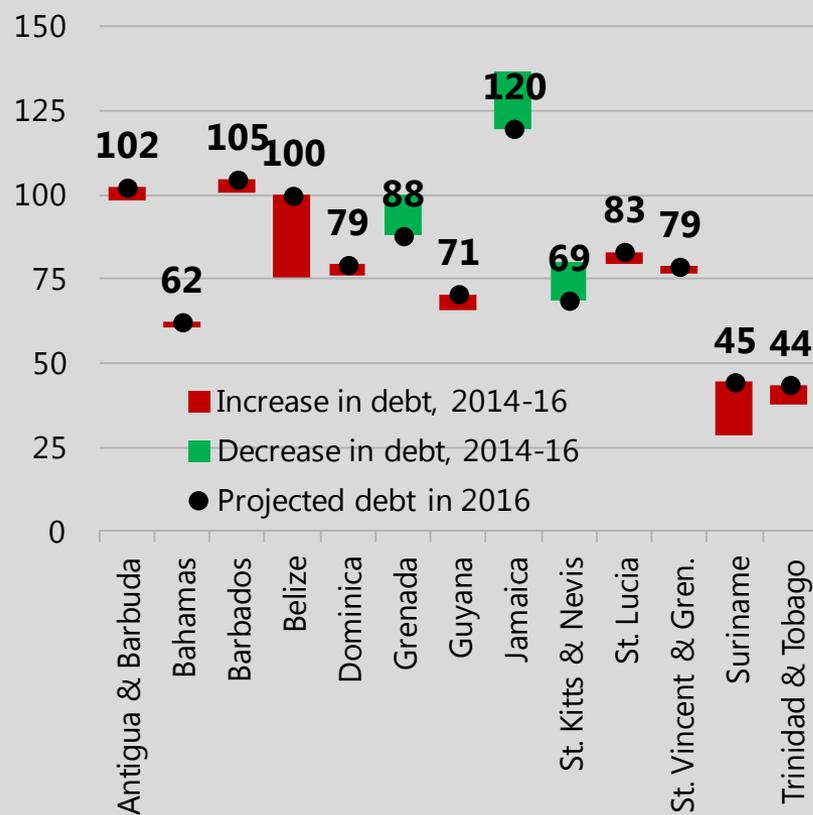
Despite adjustment efforts in some countries, debt is set to rise in most of the Caribbean.

Change in Projected Primary Balances, 2014-16 (percent of GDP)



Sources: WEO and Fund staff calculations.

Change in General Government Debt, 2014-16 (percent of GDP)

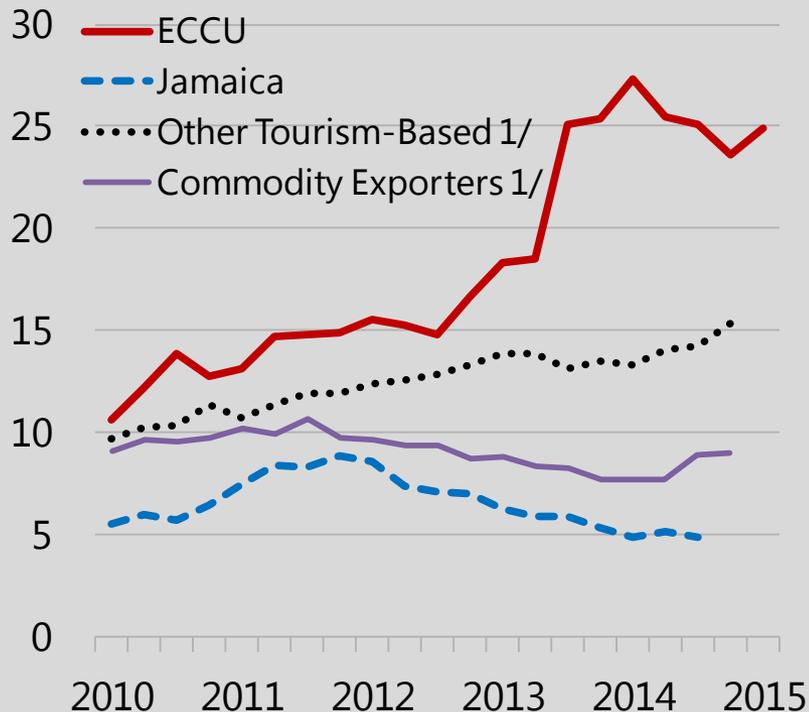


Sources: WEO and Fund staff calculations.

Determined efforts to strengthen the financial sector will need to continue.

Nonperforming Loans

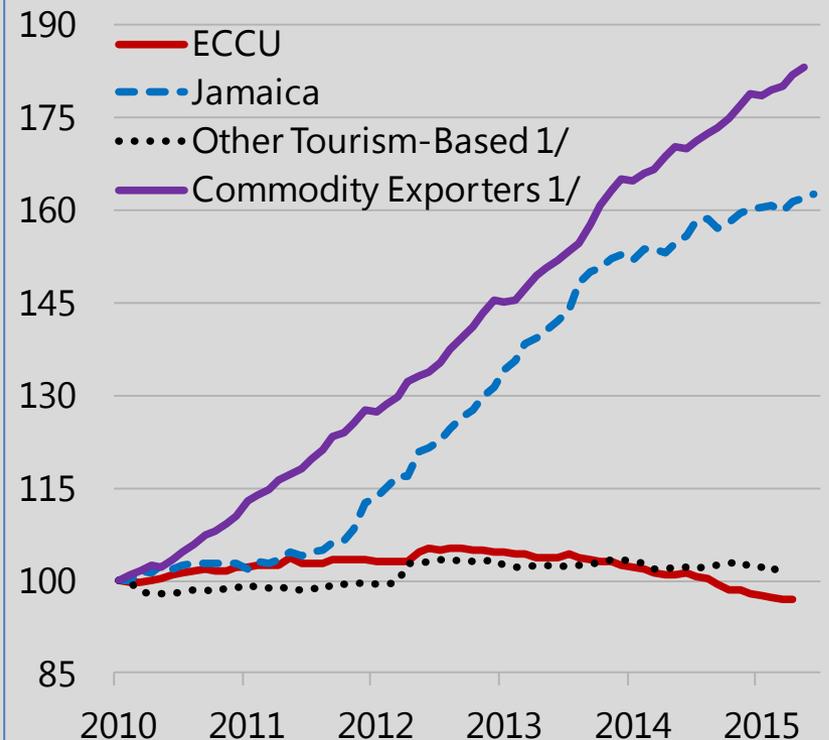
(percent of total loans)



1/ Simple average of countries in group, as available. Observations are shown only if more than half of countries in group reported NPL data. Sources: Country Authorities and Fund staff calculations.

Private Sector Credit

(2010=100)



1/ Simple average of countries in group, as available. Observations are shown only if more than half of countries in group reported data.

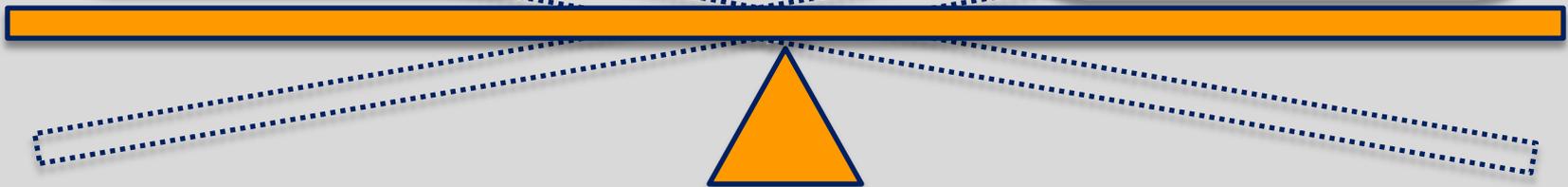
Both upside and downside risks to the outlook exist, and some reflect recent events.

Upside

- Low fuel prices, *for tourism-based economies*
- Stronger advanced economy growth
- Sustained demand for citizenship programs
- Easier U.S. access to Cuba diverts non-U.S. tourists to other Caribbean Islands.

Downside

- Low fuel prices, *for commodity exporters*
- U.S. monetary policy
- Disruptions to Citizenship programs
- Correspondent banking
- Cuba opening results in lower tourism
- Natural disasters
- Petrocaribe disruptions
- Concerns about China?

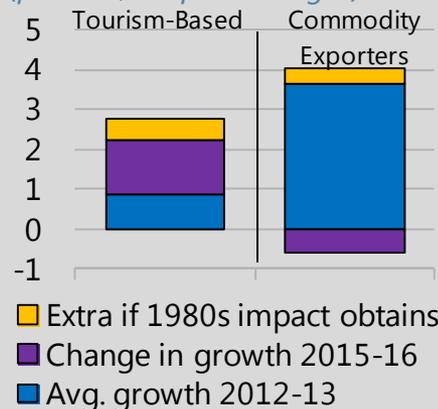


Low fuel prices: boosting tourist-based economies, restraining commodity exporters.

Past episode: upside risk to projections?

Expectations are less positive for tourism-based and more negative for commodity exporters than in the 1986 episode.

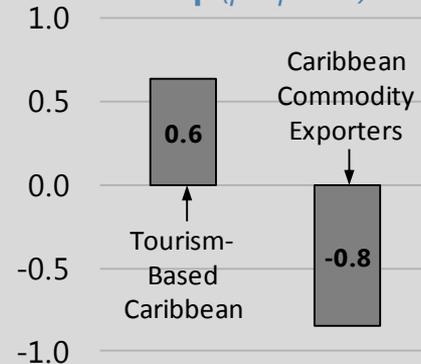
Average real GDP growth (percent, simple averages)



Econometrics^{1/}: Moderate effects

Estimated average 2015-16 growth effects:
Tourism-based, +0.6 ppt
Commodity exp., -0.8 ppt

Growth Impact of 2014-15 Oil Price Drop (pct points)

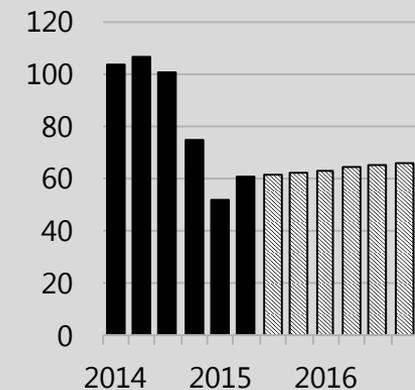


Source: Fund staff estimates.

Oil price outlook: slight rise expected

The effects of the plunge are may partly reverse: oil prices are off their trough and are expected to rise further.

Oil Prices (US\$/barrel)

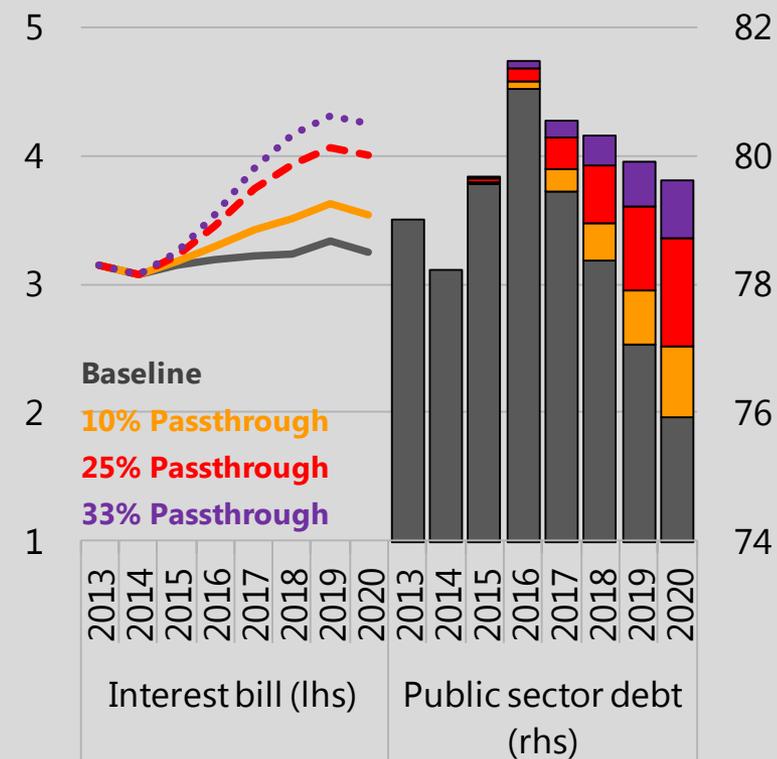


Sources: WEO, April, 2015.

1/ Fixed-effects panel regression, with sample of 139 countries over 1980-2013, with cases of armed conflicts excluded. Dependent variable, percent change in real GDP; explanatory variables: percent changes of trading partners' GDP, REER, lagged oil prices interacted with country group dummy vars., and dummy vars. for various crises.

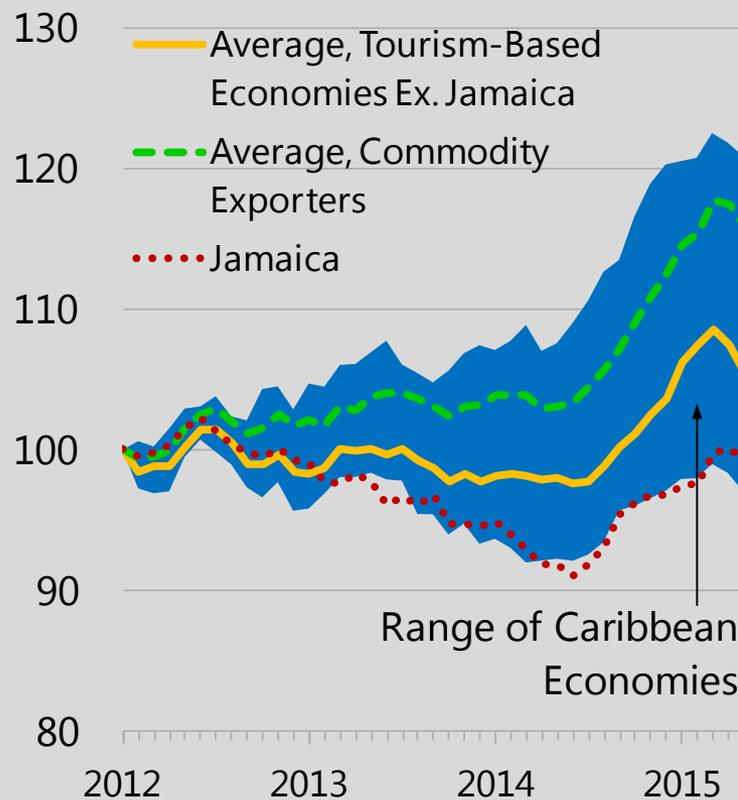
Fed tightening may pass through to borrowing costs and real exchange rates.

Higher Interest Rate Scenarios: Caribbean Interest Expenditures and Public Debt (percent of GDP; simple avg.)



Sources: WEO and Fund staff calculations.

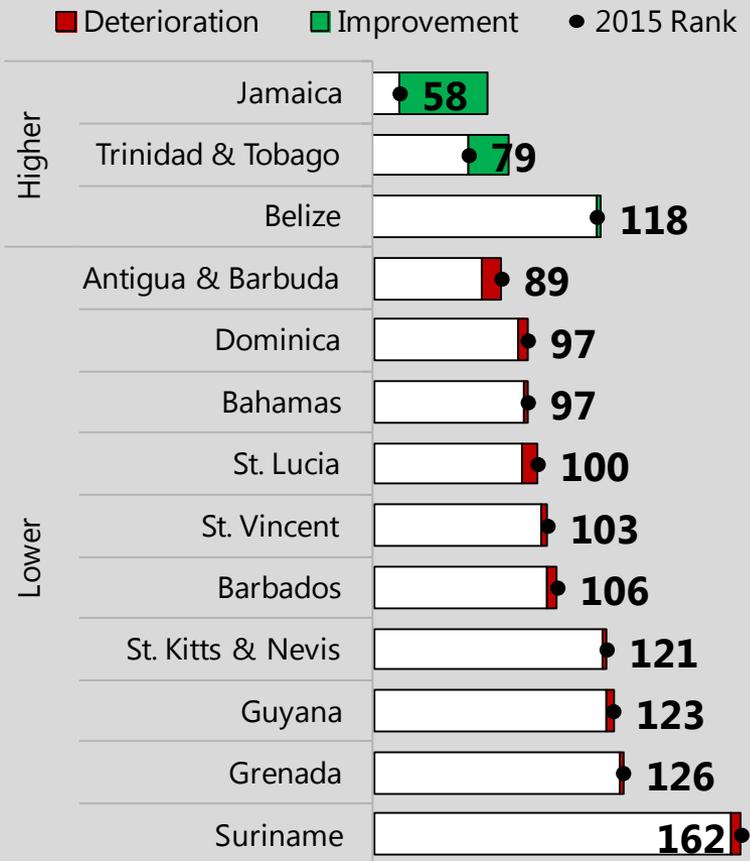
Real Effective Exchange Rates (indexes, January 2012 = 100)



Sources: INS and Fund staff calculations.

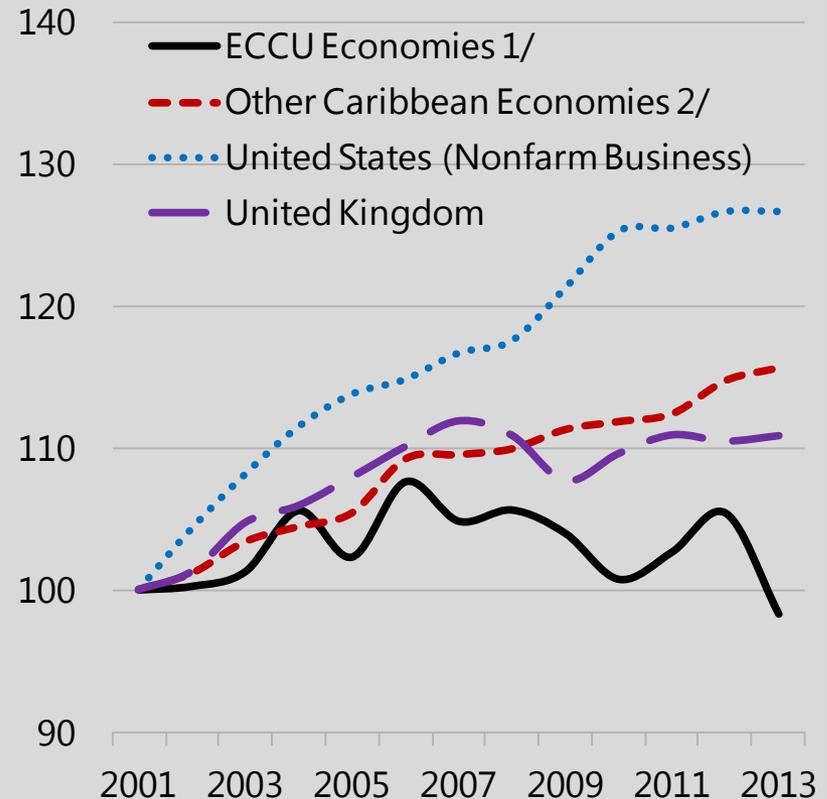
With ER pegs, restoring competitiveness will imply action on high costs & low productivity.

Doing Business Rank, 2015 vs. 2014



Sources: World Bank, *Doing Business*.

Productivity (indexes, 2001=100)

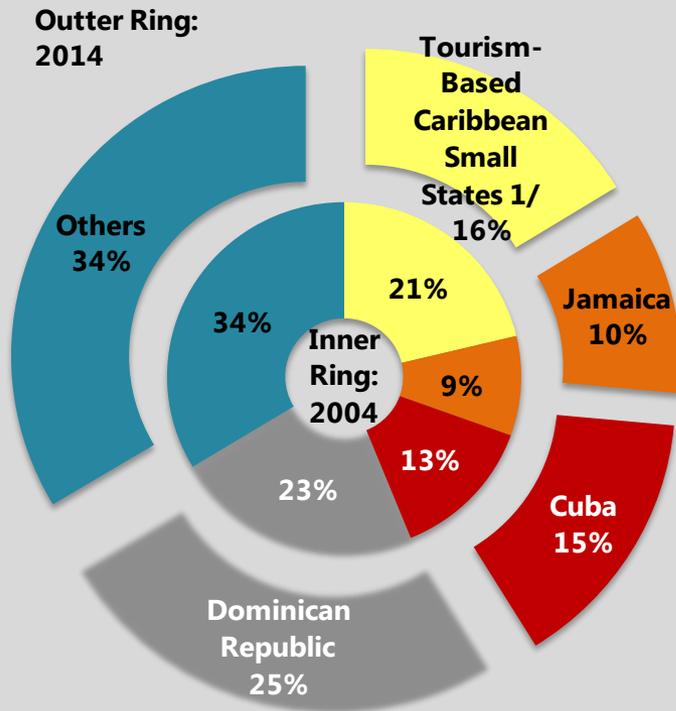


Sources: Haver Analytics; National Insurance Scheme, National Authorities; WEO; and IMF staff calculations.

1/ Average constructed using average implied productivity growth rates using data for Antigua and Barbuda, Grenada, and St. Lucia during 2002-13, Dominica 2009-13, and St. Kitts and Nevis 2003-12. Ratio of real GDP to employment. 2/ Average constructed using average implied productivity growth rates for Bahamas, Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago. Ratio of real GDP to employment.

Cuban tourism has expanded rapidly without U.S. visitors, who mainly go to other islands.

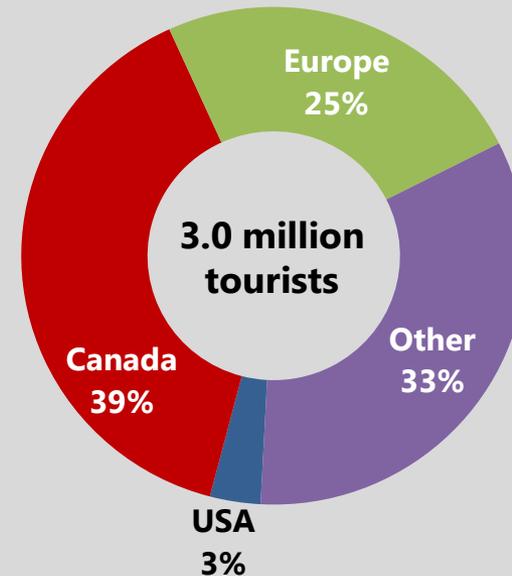
Caribbean Tourism Arrivals



Sources: Caribbean Tourism Org. and staff calculations.
1/ Includes the ECCU; Bahamas; Barbados; and Belize.

Cuban tourist arrivals by source

2014

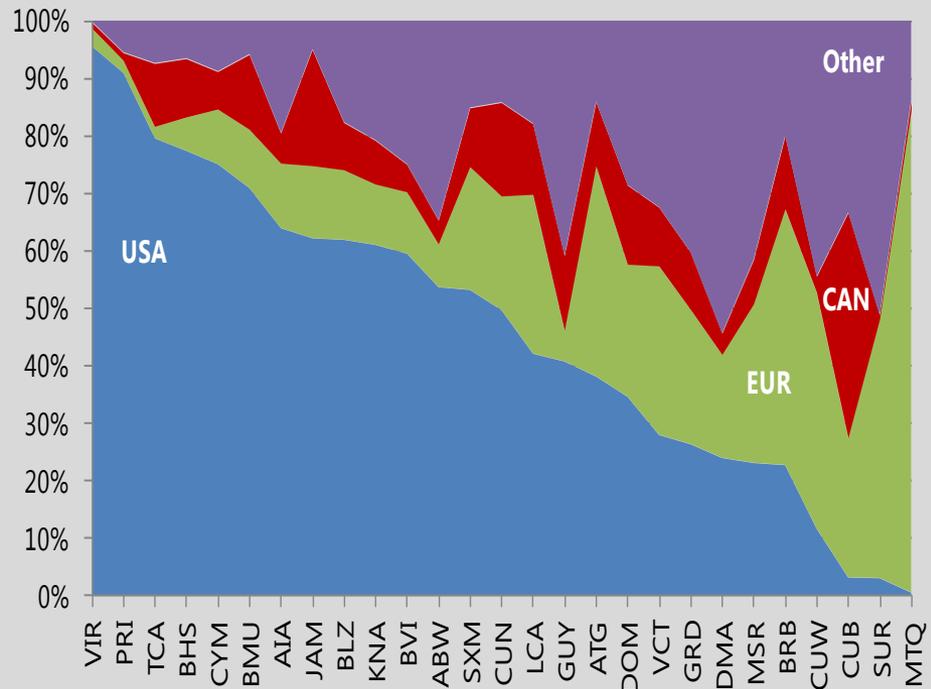


Sources: CTO; WTO; and IMF calculations.

Destinations more dependent on the US could face greater challenges of open US-Cuba travel

- **Preliminary work suggests:**
 - Cuba’s tourism would expand by attracting new US tourists
 - However, there will be some “trade diversion”
 - And rest of Caribbean may gain from displaced tourists originally going to Cuba
- **US-Cuba tourism will grow, but immediate jump in arrivals unlikely**
 - Cuba has structural problems that could limit ability to expand its tourist capacity rapidly.
 - Removal of embargo will take some time

Caribbean tourist arrivals in 2014 by source



Sources: CTO; WTO; and IMF calculations.

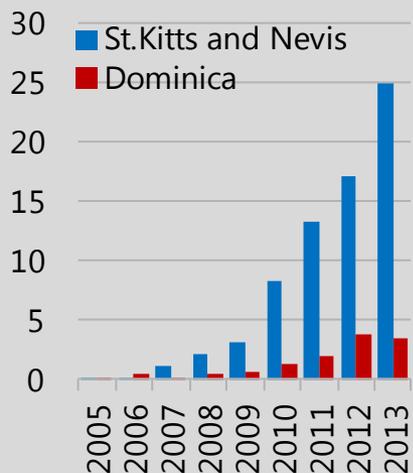
Citizenship programs: high demand and more programs. A tailwind, for now.

Still-high demand for Citizenship by Investment (CBI) programs.

Longstanding programs:

CBI Inflows^{1/}

(In Percent of GDP)



More programs are resuming or coming on-stream.

Timeline of Current and Prospective Caribbean Citizenship Programs:

1984: St. Kitts & Nevis

1993: Dominica

2013: Antigua & Barbuda

2014: Grenada (restarted);
governance reforms in St. Kitts & Nevis and Antigua & Barbuda.

2015: St. Lucia (legislation passed)

Upside and downside risks exist.

Upside risks:

- Boost growth through investment, but risks overheating.
- Improved fiscal and external balances, if saved.

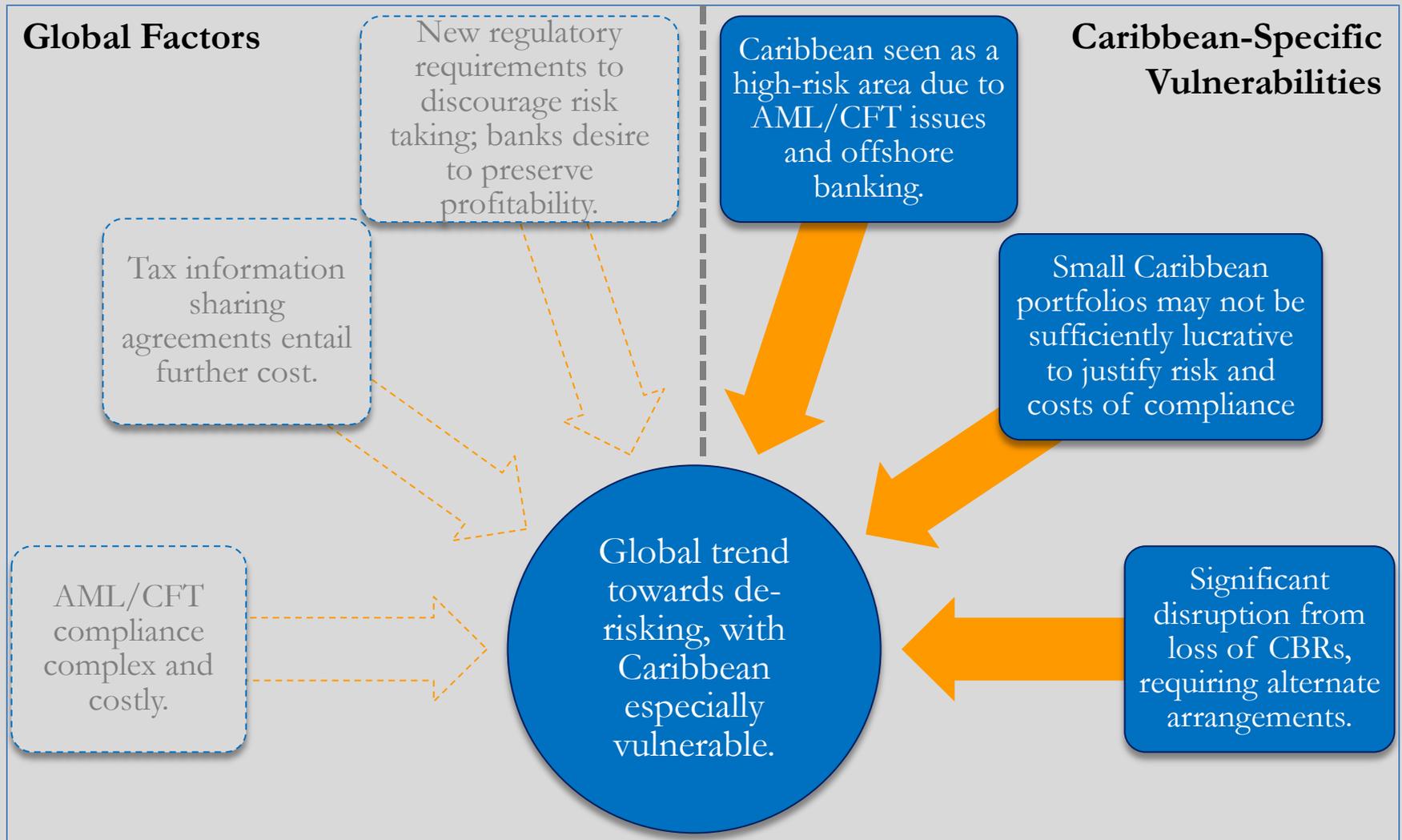
Downside risks:

- If not managed prudently, higher fiscal vulnerability.
- Competition.
- Reputation and visa requirements.

1/ Not reflecting ECP inflows to real estate investments in St. Kitts and Nevis.

Sources: Country authorities and Fund staff calculations.

... and the Caribbean has specific vulnerabilities to derisking.



Natural disasters remain a major vulnerability.

One reason for lack of progress toward fiscal sustainability is the recurrence of natural disasters—more frequent and more costly to small islands (SIDS).

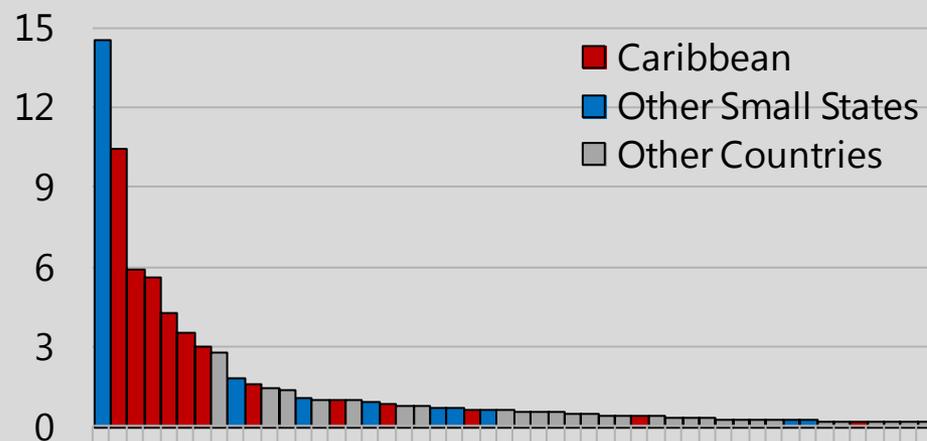
They are ten times as vulnerable as the rest of the world, losing 2 percent of GDP on average every year (compared with 0.3% GDP in r.o.w.)

SIDS compared with the rest of the world

	Real growth (%; 10-yr avg)	Disasters since 1960 per 1,000 sq km	External current acct (% GDP, 10-yr avg)
World ex. SIDS	4.1	1.7	-2.1
o/w LICs	5.1	0.6	-7.9
SIDS 1/	2.6	19.5	-10.8

1/ The coverage of SIDS in this illustrative table is UNCTAD's.

Average Annual Losses from Natural Disasters (pct of GDP, top-50 Fund members)



Sources: EM-DAT; World Development Indicators; Fund staff est.

Despite stronger performance, key policy recommendations remain relevant.

Fiscal Policy:

Now is an opportune time to set the course for sustainability.

- **Tourism-based Caribbean:** More adjustment needed to put debt on a downward trajectory.
- **Commodity exporters:** Address lower revenues to assure medium-run sustainability.

Competitiveness:

Structural reforms will promote growth led by the private sector.

- **Price:** Addressing factors supporting high costs (energy, finance, wages, etc.) esp. with real exch. rate appreciation.
- **Structural:** easing restrictions to businesses by a vigorous reform agenda.

Financial Stability:

Determined efforts are needed to address vulnerabilities.

- **ECCU:** prompt implementation of remaining elements of regional strategy.
- **Caribbean-wide:** remove frictions preventing timely resolution of NPLs; upgrading frameworks for supervision & regulation.

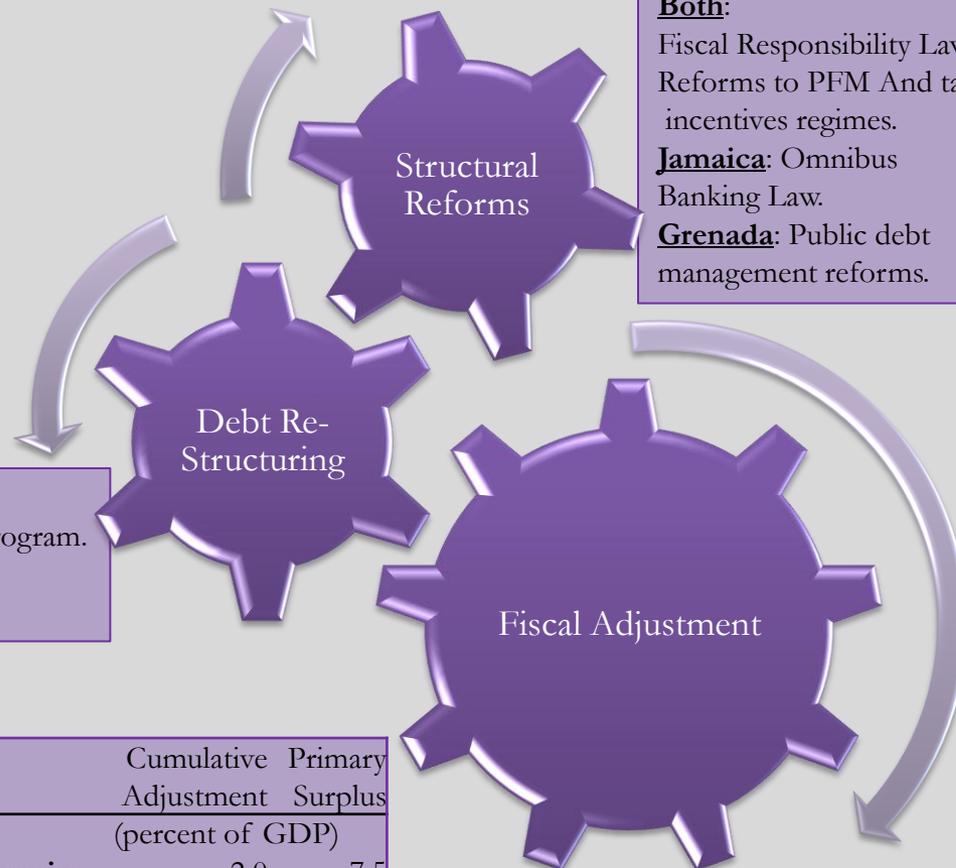


The Fund will continue to assist its Caribbean members.

- **Financial support**
 - Disaster assistance
 - Lending for adjustment and reform
- **TA (HQ and CARTAC)**
- **Surveillance (Article IVs, etc.)**
- **Outreach**
- **Research work agenda**

The Fund will remain engaged in countries through programs and disaster relief.

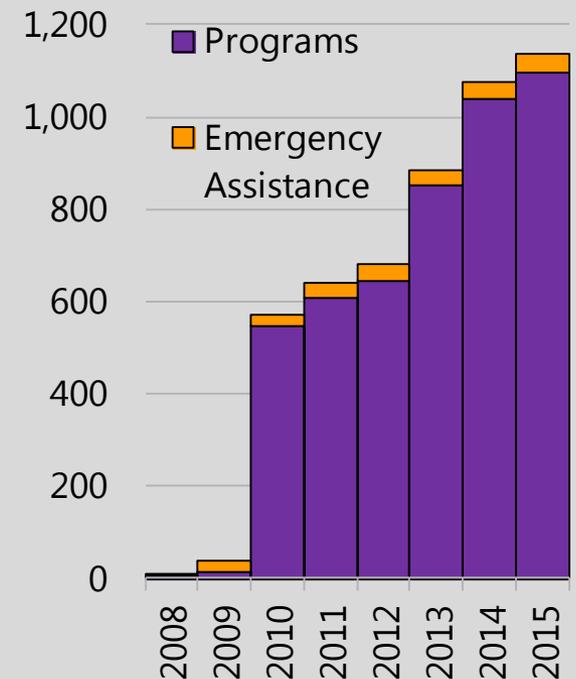
Good Progress in Addressing Vulnerabilities in Home-Grown Adjustment Programs



	Cumulative Adjustment (percent of GDP)	Primary Surplus
Jamaica	2.0	7.5
Grenada	8.0	3.5

Since 2008, Fund lending to the Caribbean exceeds \$1 bn.

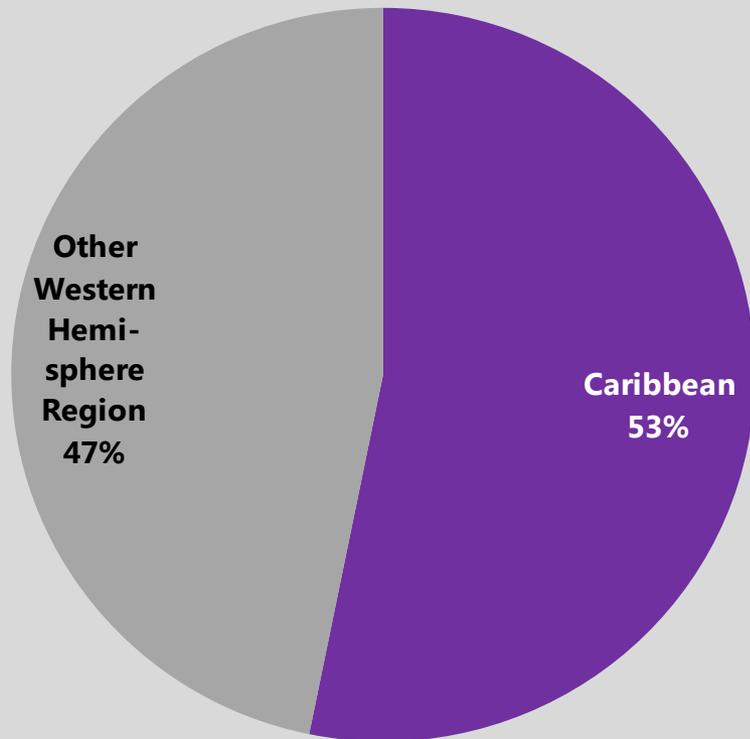
Gross IMF Lending to the Caribbean (cumulative; US\$ mil)



Sources: IMF, Finance Dept; staff calcs.

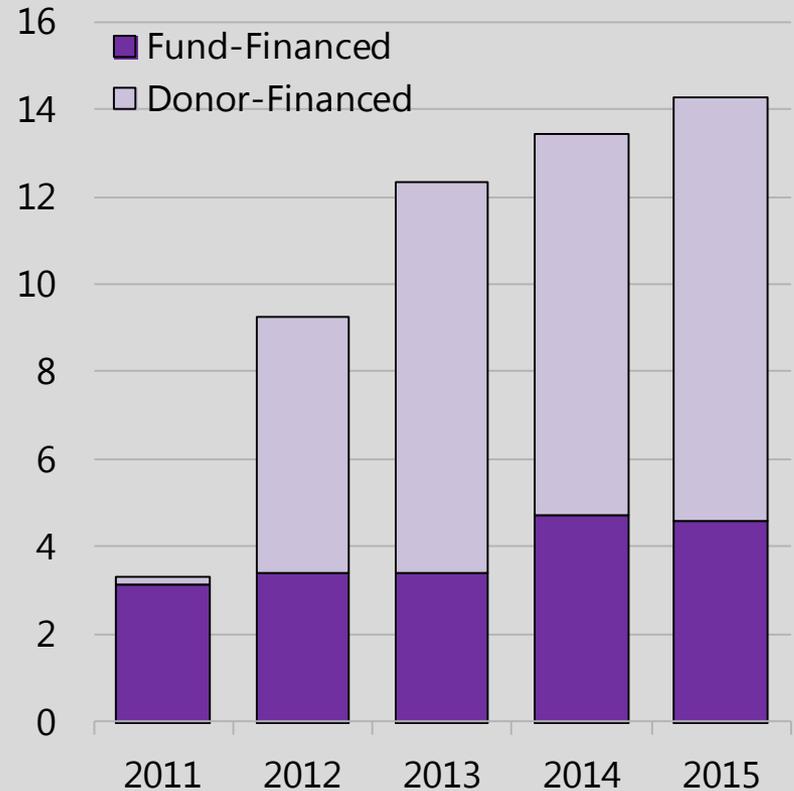
The Fund has provided extensive TA, with donor support.

Western Hemisphere: TA Field Delivery by the IMF



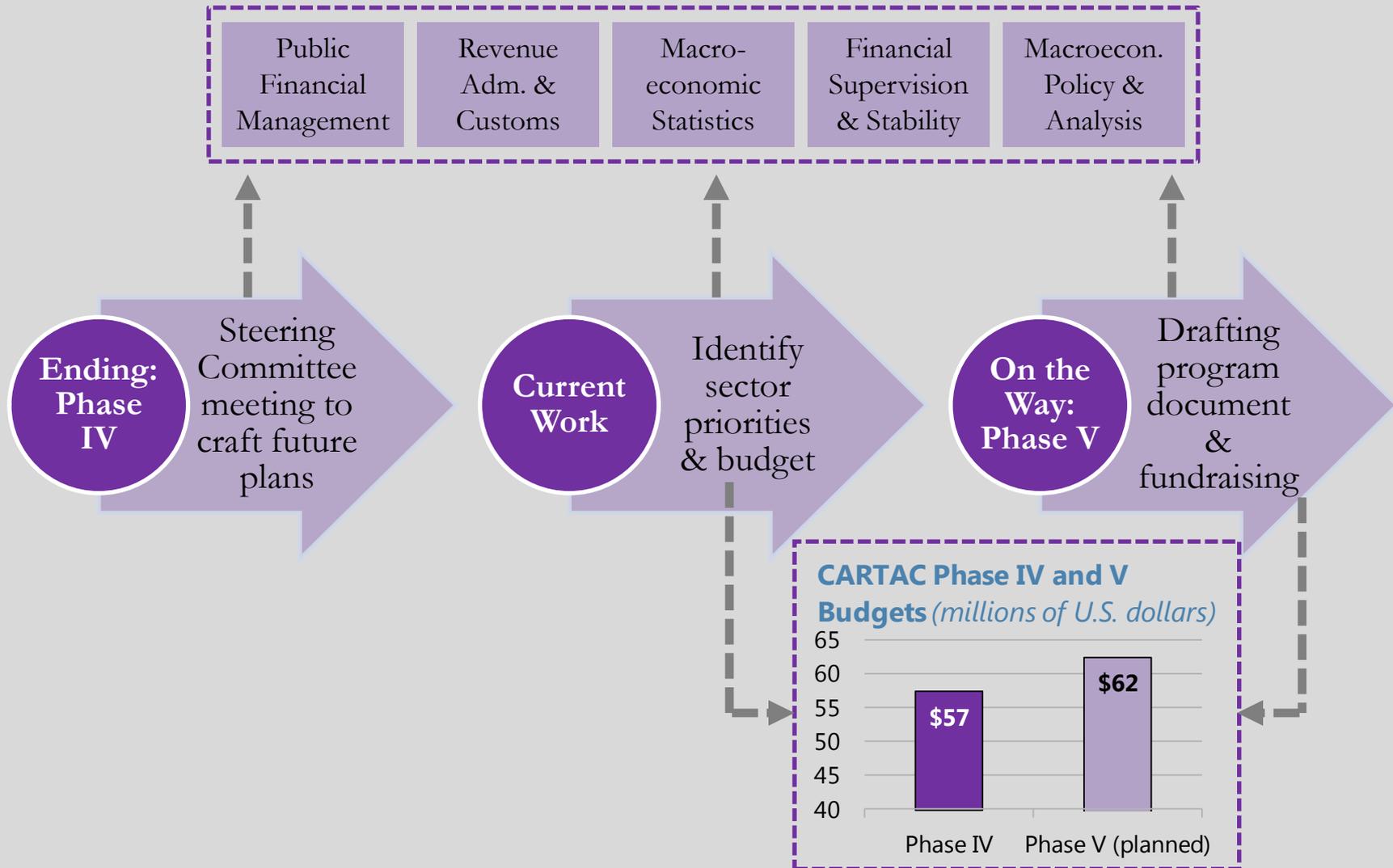
Source: IMF.

Caribbean: TA Field Delivery by the IMF (millions of US dollars)



Source: IMF.

CARTAC is getting ready to enter its next phase.



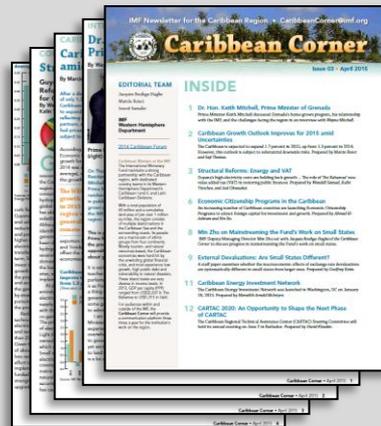
Focused macro analysis of appropriate and relevant topics will continue, as will outreach.

Recent work

- Macroeconomic developments and selected issues in small states
- Paper on optimal CBI management
- Energy sector analysis
- Quantifying costs of tax incentives regimes
- Financial sector interconnectedness

Outreach

Workshops,
Conferences, Caribbean
Corner:



Ongoing/Future Work

Continuing:

—Energy, tax incentives,
and financial sector

Additional topics:

- Labor markets
- Competitiveness
- Cuba opening
- Natural disasters

The Post-2015 Development Agenda will have an important influence on Fund activities.

A UN Summit (Sept.2015) will launch the post-2015 Development Agenda, including SDGs (17 objectives including inclusive growth, poverty reduction, environmental sustainability, and resilience to climate change, among others).

The Fund is developing a strategy to incorporate the SDGs into key operations including surveillance, programs, and capacity-building.

Already: access to concessional financing for PRGT-eligible countries has been raised by 50%; access to disaster-relief financing (RCF, RCI) has been raised by 50%; now 0-interest on RCF loans.

Going forward: policy development – focusing on revenue mobilization, infrastructure, financial deepening, and a better response to natural disasters.