Diálogo a fondo
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Cheaper Oil in Petrocaribe Countries: Sweet And Sour

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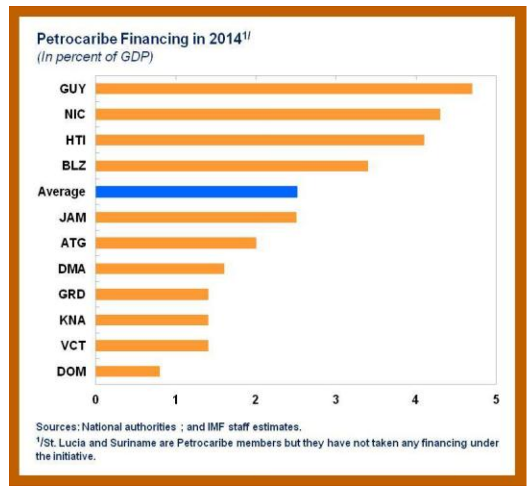
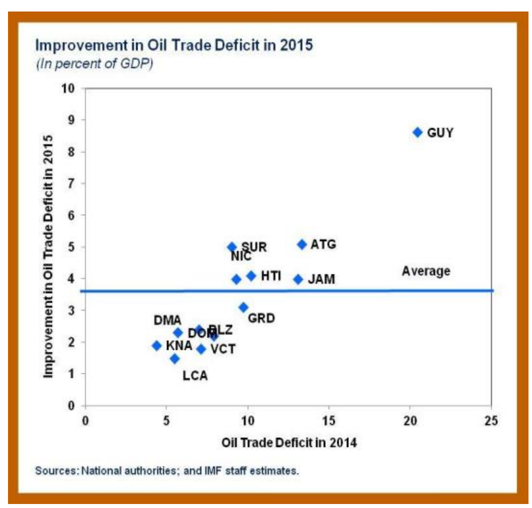
The dramatic drop in oil prices creates gains and losses for countries participating in Petrocaribe—a Venezuelan energy-cooperation arrangement for some Central American and Caribbean countries. Since 2005, this initiative has allowed a number of governments in Central America and the Caribbean to take loans at below-market rates when their countries purchased oil from Venezuela. When oil prices were high, oil bills were large and so was Petrocaribe financing, which averaged 2.5 percent of importing countries' GDP in 2014. The current low oil prices mean that Petrocaribe members should see their oil bills decline—by an average of 3¾ percent of GDP in 2015. But this significant gain will be somewhat offset by lower access to financing (of about 1 percent of GDP for the average recipient country), as the size of Petrocaribe loans declines with oil bills and loan terms become less generous as oil prices fall.



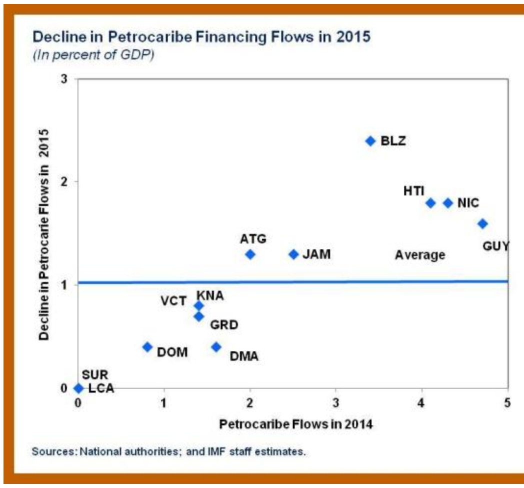
On balance, the oil price decline will leave all Petrocaribe members better off, as the gain from cheaper oil will exceed the expected decline in Petrocaribe support.

The impact of cheaper oil

A possible discontinuation of Petrocaribe flows would now be more manageable than in the past. The lost income from the oil price drop for Venezuela has caused analysts to question whether Petrocaribe support will continue. If it were to cease, the impact would differ across Petrocaribe members. Governments receiving large flows and without alternative financing sources (like in Nicaragua and Haiti) would be most affected—although less so than they would have been in a world of higher oil prices.



Governments that have built buffers (like Guyana), or that have alternative financing sources (like the Dominican Republic and Jamaica), should be affected less. Belize would be particularly affected as the lower oil prices negatively impact the value of its exports of crude oil. So far, Venezuela has assured Petrocaribe members that the aid will continue.



Lower oil prices and Petrocaribe financing could nonetheless create problems. The oil price drop will impact the public and private sectors differently. The private sector should see disposable income and profits increase: application of countries' current pricing mechanisms would lead to full or near full pass-through to consumer prices in about two thirds of the region by end-2015. However, the reduction (or stop) of Petrocaribe financing will leave some governments cash-strapped. If resources are not recycled from the private to the public sector (in the form of financing or reductions in energy subsidies), some governments could be forced to discontinue social or investment programs. Nearly all countries would face some additional [fiscal pressures]().

Contingent Fiscal Effort in 2015
(Selected countries, percent of GDP)

	Petrocaribe Flows	
	Continue	Stop
Antigua	0.1	0.5
Dominica	0.0	0.1
Grenada	0.2	1.0
Haiti	1.4	4.6
Jamaica	1.3	2.5
Nicaragua	1.7	4.0
Average	**0.8**	**2.1**

Source: IMF staff estimates.

Some public spending programs may be particularly affected. Even if Petrocaribe continues, the decline in financing will require new financing or adjustment of around 0.8 percent of GDP on average (for countries where information is available). Nicaragua and Haiti, lacking market access, ample reserves, or deep domestic financial markets, may need to adjust the most. Guyana and St. Kitts (and to a lesser extent Jamaica) have built buffers to offset the impact. In the case of a stop, deficits are projected to increase in Antigua, Dominica, Grenada, Haiti, Jamaica, and Nicaragua to the extent that governments take over unfunded social programs or infrastructure projects. A couple of countries with energy subsidies, notably Haiti, plan to offset the additional cost by recovering foregone revenue on the taxation of fuel products.

Contingent Fiscal Effort in 2015
(Percent of GDP)

Petrocaribe:	Continues			Stops
	Decrease in Oil Trade Deficit (A)	Decrease in Petrocaribe Financing (B)	Improvement in External Position (A - B)	
Antigua	5.1	1.3	3.8	3.1
Belize	2.4	2.4	0.0	-1.0
Dominica	2.2	0.4	1.8	0.6
Dominican Republic	2.3	0.4	1.9	1.5
Grenada	3.1	0.8	2.3	1.7
Guyana	8.6	1.6	7.0	3.9
Haiti	4.1	1.8	2.3	0.0
Jamaica	4.0	1.3	2.7	1.5
Nicaragua	4.0	1.8	2.2	-0.3
St. Kitts & Nevis	1.9	0.7	1.2	0.5
St. Lucia	1.5	0.0	1.5	1.5
St. Vincent & Grenadines	1.8	0.7	1.1	0.4
Suriname	5.0	0.0	5.0	5.0
Average	**3.5**	**1.0**	**2.5**	**1.4**

Source: IMF staff estimates.

In sum, the drop in oil prices is more complex for members of Petrocaribe than for other oil importers. Like others, their countries will gain. But their governments may nonetheless lose. Mainly sweet, but a little sour.

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