Outlook for the World Economy: Implications for the Caribbean

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Western Hemisphere Department
International Monetary Fund

Trinidad and Tobago, September, 2012
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**

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

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:** Tepid recovery of labor and housing markets, as households deleverage

**United States: Household Leverage**
*(Percent of disposable income)*

**United States: Employment and Housing Indicators**

- Change in private employment (thousands of people)
- Standard & Poor’s/Case-Schiller house price index (January 2005 = 100, right scale)

Sources: Haver Analytics; and IMF staff calculations.

Sources: Haver Analytics; and IMF staff calculations.
Europe baseline scenario: Policy actions help to lower borrowing costs in the periphery and contain crisis.
**EM Asia baseline scenario:** Growth in China moderates, but remains robust, yet less dependent on exports

China: Merchandise Exports, 2007-12

- Export Values (US$ billions, rhs)
- Growth (12-mo percent change, 3mo-ma)

China: Fiscal Policy

- Fiscal balance (percent of GDP, 12-month cumulative)

Sources: Haver Analytics; and IMF staff calculations.
**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)**

- **FF rate**
- **FF futures, August 2012**
- **FF futures, April 2011**

Sources: Bloomberg, LP; and IMF staff calculations.

Still high commodity prices

**Commodity Prices (Index, 2004=100)**

- **Oil**
- **Metals**
- **Food**

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.

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

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

#### Consensus Forecast: Growth in 2012 (Percent)

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>Mexico</th>
<th>Chile and Peru</th>
<th>Colombia and Uruguay</th>
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</tbody>
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Sources: Haver Analytics and IMF staff calculations
1. Global baseline scenario
   • Key assumptions (requires active policies)

2. Global downside risks

3. Implications for the Caribbean
   • Headwinds (external and domestic) to persist
**Downside scenario #1:** In Europe, insufficient policy actions could result in a strong global slowdown and credit crunch

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

- **Global GDP**: Decrease over time.
- **Oil prices**: Decrease significantly in the first quarter, then recover slightly.
- **Non-oil commodity prices**: Decrease gradually over time.


¹ Assumes European banks reduce credit by €720 billion in 2012–13 (compared with €220 billion under baseline).
**Downside scenario #2:** In the United States, delays in near-term fiscal agreement could lead to an overly front loaded consolidation.

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

- **Baseline:** 1.3%
- **Fiscal Cliff:** 4.3%

- **Other**
- **Spending sequester**
- **Unemployment benefits**
- **Payroll tax cut**
- **Alternative Minimum Tax (AMT)**
- **Bush tax cuts**

Sources: CBO and Fund staff estimates.
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)

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>Europe</th>
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<tbody>
<tr>
<td>2005-06</td>
<td>7.5</td>
<td>8.2</td>
</tr>
<tr>
<td>2012-13</td>
<td>4.4</td>
<td>0.4</td>
</tr>
</tbody>
</table>

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.

¹Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Poland, Romania, Russia, and Slovenia
²China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam.
High debt levels now limit the fiscal policy space ...

LAC: Public Debt, 2008-11
(Percent of GDP)

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

Caribbean: Non-Performing Loans
(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)*

- **Southern Cone**
- **Central America**
- **Caribbean**

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 Grenade.

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

- **1st shock**
- **2nd shock**
- **3rd shock**

Source: IFS and IMF staff calculations.
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