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

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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**

*Percent, year-on-year, July WEO update*

**World Real GDP**

*Percent deviation from pre-crisis trend, 2008 = 0*

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

Note:¹ GDP(PPP) weighted average
... as a pick-up in activity in some advanced economies ...

Real GDP
(2008Q1 = 100)

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 …

Commodity Prices
(Index, 2004=100)

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

PPP-adjusted Real GDP per capita (2005 I$)

Infrastructure Index (7 = best quality)

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

Exchange rate change since May 8 (percent)

Sources: Bloomberg LP; and IMF staff calculations.
These challenges are particularly acute in the Caribbean, where growth remains subdued …

Real GDP Growth

(Percent change)

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.

¹ECCU 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**

- **Tourism-based Caribbean**
- **Commodity-exporting Caribbean**
- **Minimum - Maximum**

**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)

Country Average = 1.25 percent of GDP

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)

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)

Commodity Exporters

Tourism-Dependent Economies

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.
¹ECCU 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