Western Hemisphere Fall 2011 Regional Economic Outlook:

Shifting Winds, New Policy Challenges

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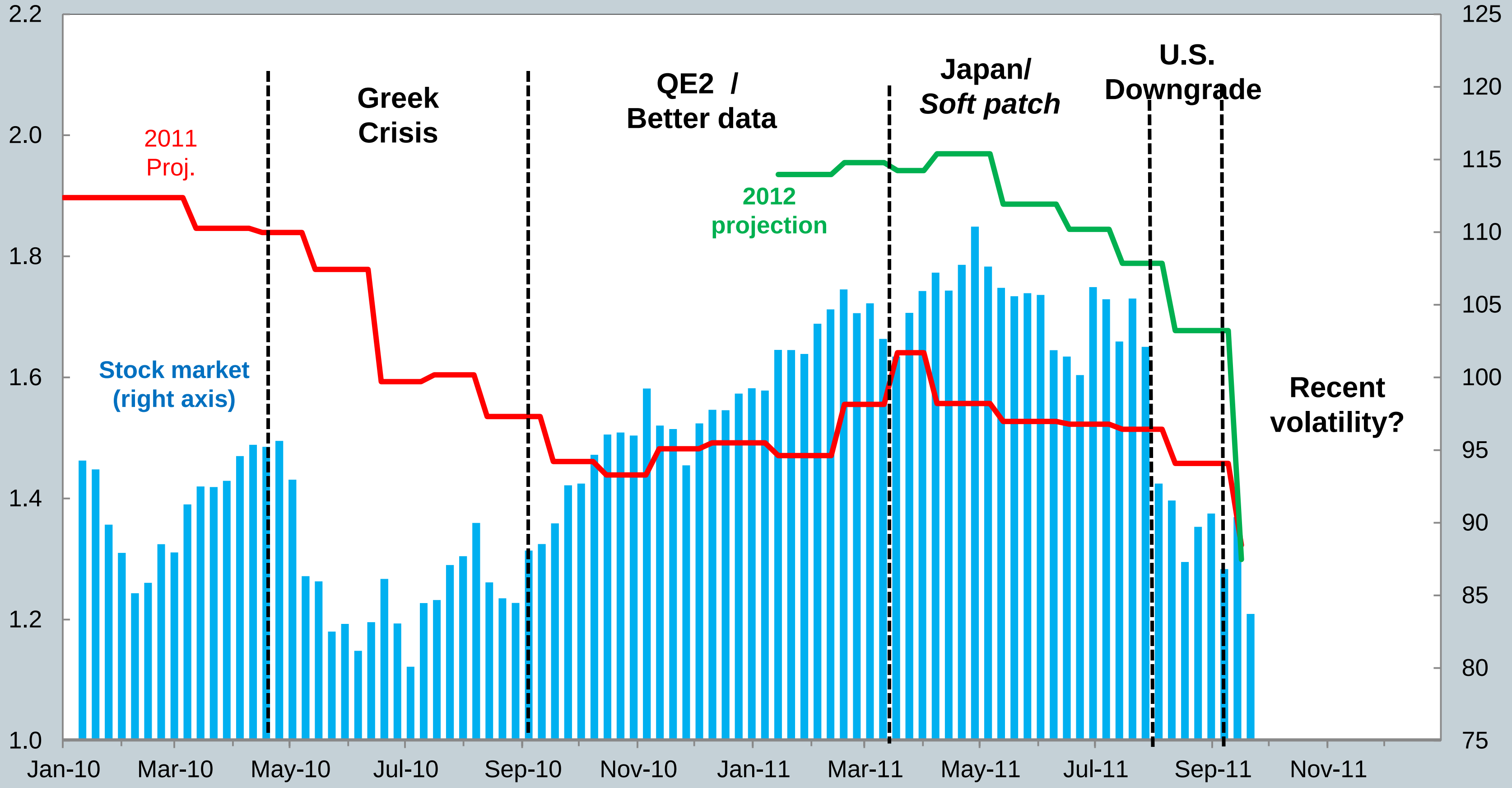
Barbados, October 13, 2011

Global economy: *Unprecedented uncertainty and risks*

Advanced Economies: Growth Forecast and Stock Market Index



Global baseline:
Necessary polices are adopted;

Baseline assumptions:

- ✓ Europe contains crisis
- ✓ U.S. finds adequate balance on fiscal policy
- ✓ Emerging Asia growth remains strong

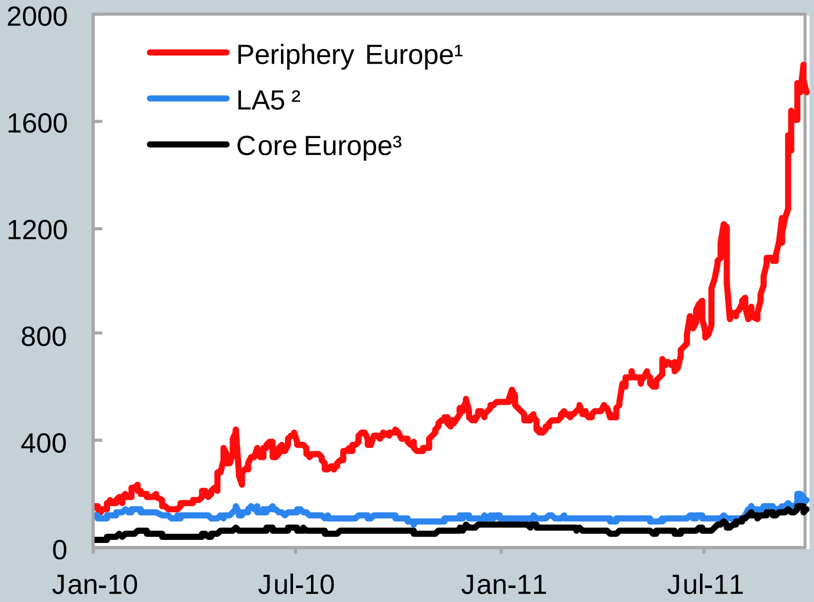
⬇

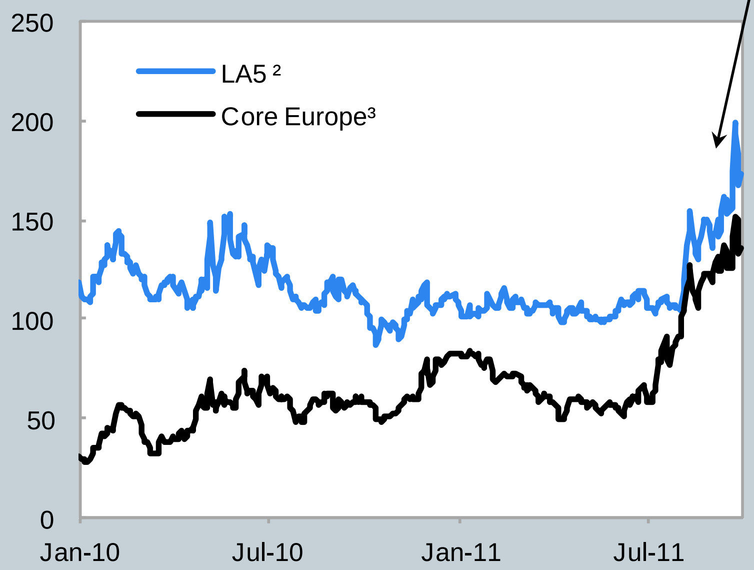
- ✓ Cheap financing, with bouts of risk aversion.
- ✓ Lower commodities prices, but still high
- ✓ Weak import demand from AEs

Baseline: *Problems in periphery Europe remain contained*

Pressures more recent

Credit Default Swaps: Latin America, Periphery and Core Europe
(basis points, on 5-year sovereign bonds)

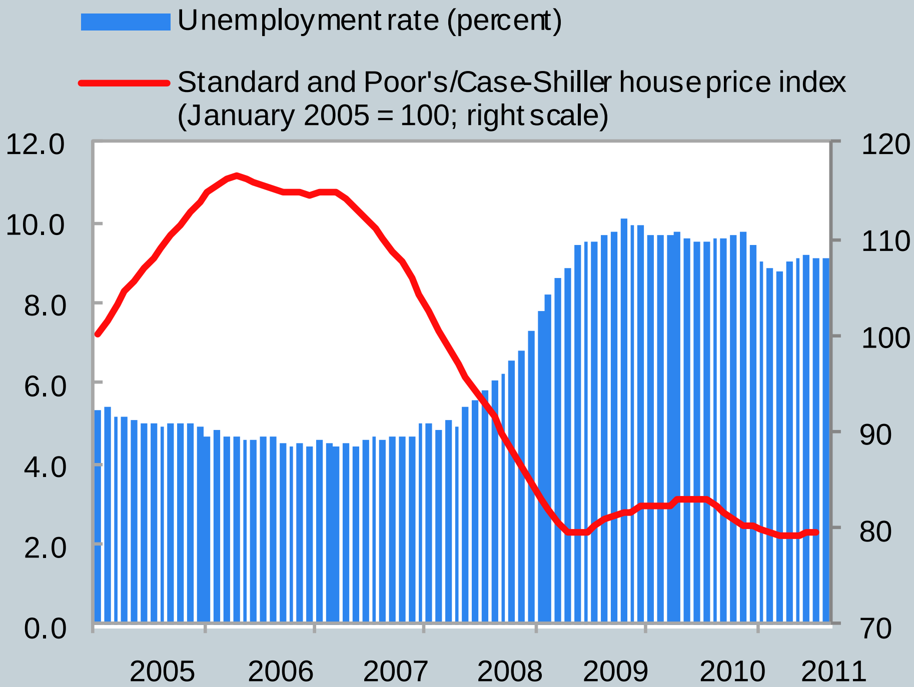




Sources: Datastream; and IMF Staff calculations.

Baseline: *Weak household balance sheets continue to hold back growth*

United States: Unemployment and Housing Indicators

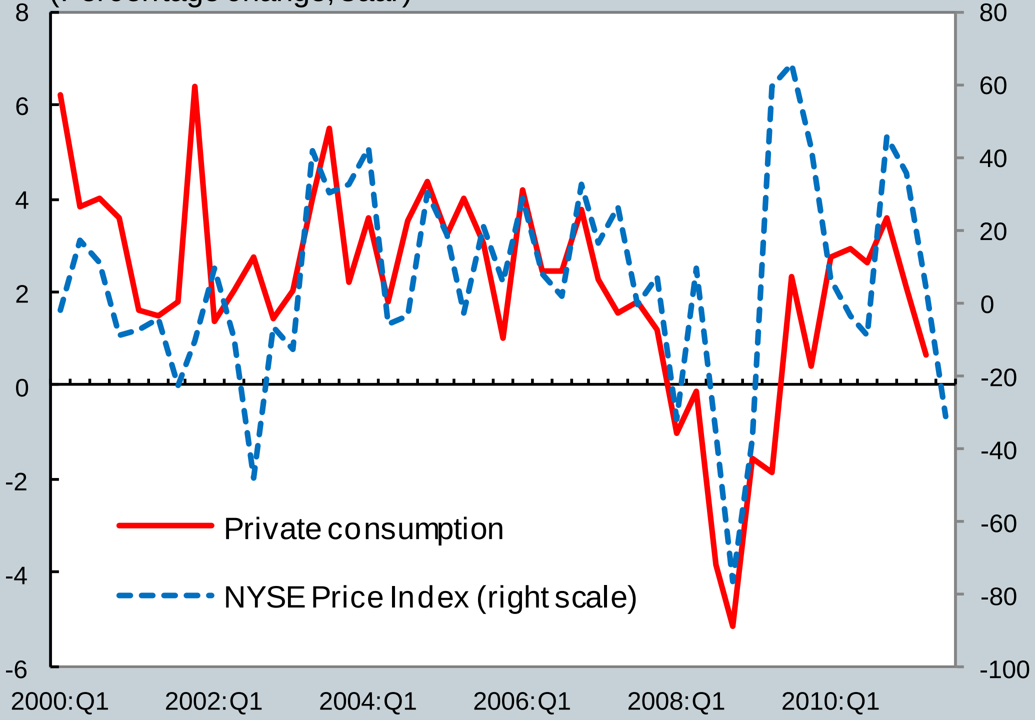


Sources: Haver Analytics; and IMF staff calculations.

Baseline:*Stock market volatility will likely weigh in on confidence and consumption*

United States: Private Consumption and Equity Prices

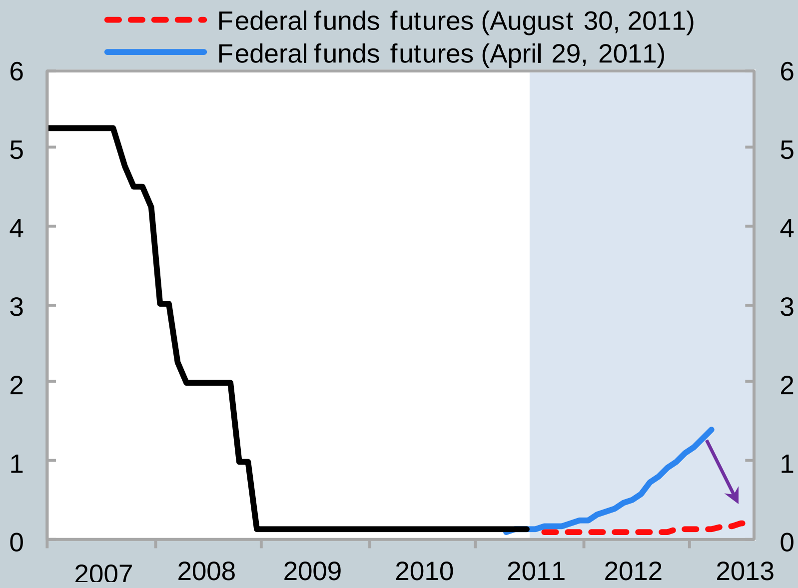
(Percentage change, saar)



Sources: Haver Analytics and Fund staff calculations.

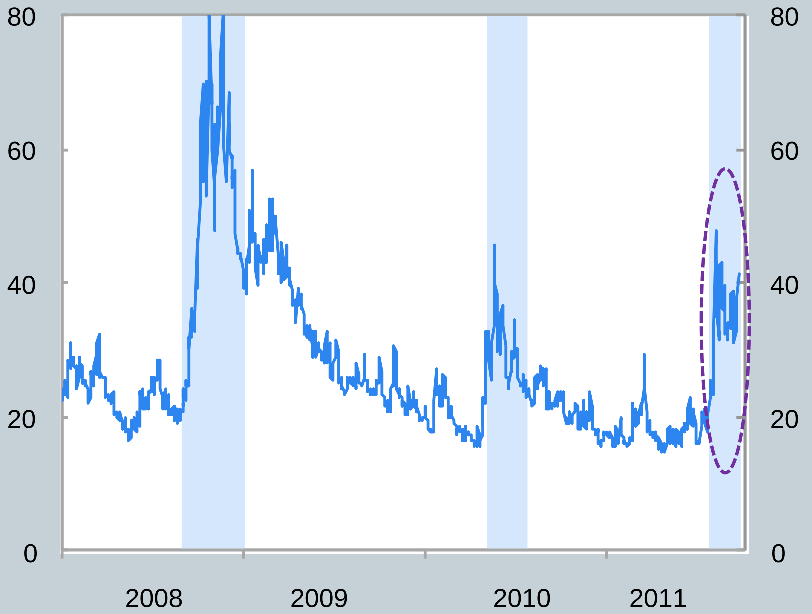
Baseline: *Monetary policy remains accomodative, but financing conditions more volatile*

United States: Federal Funds Rate Expectations Implied by Futures Contracts
(Percent)



Source: Bloomberg, L.P.

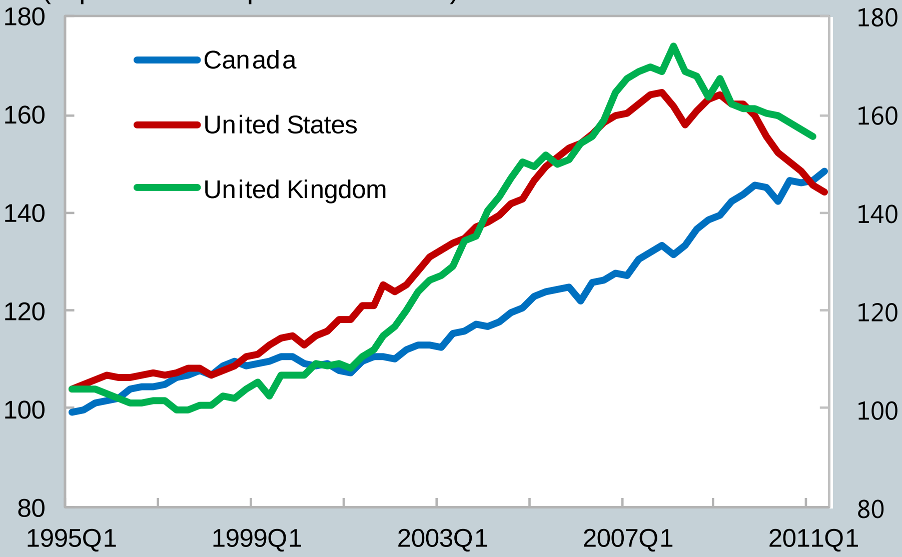
Global Risk Aversion (VIX)[1]



Sources: Bloomberg, L.P.; and IMF staff calculations.
[1] Shaded areas correspond to periods of VIX stress.
[2] Default Swap; VIX = Chicago Board Options Exchange Market Volatility Index.

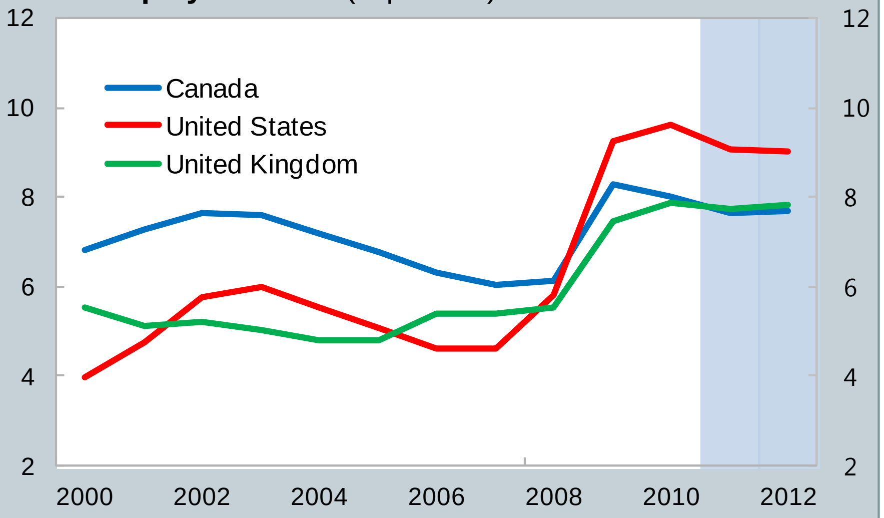
Baseline: *Debt overhang and high unemployment in advanced economies dampen import (tourism) demand*

Household Debt
(in percent of disposable income)



Sources: Haver Analytics and Fund staff calculations.

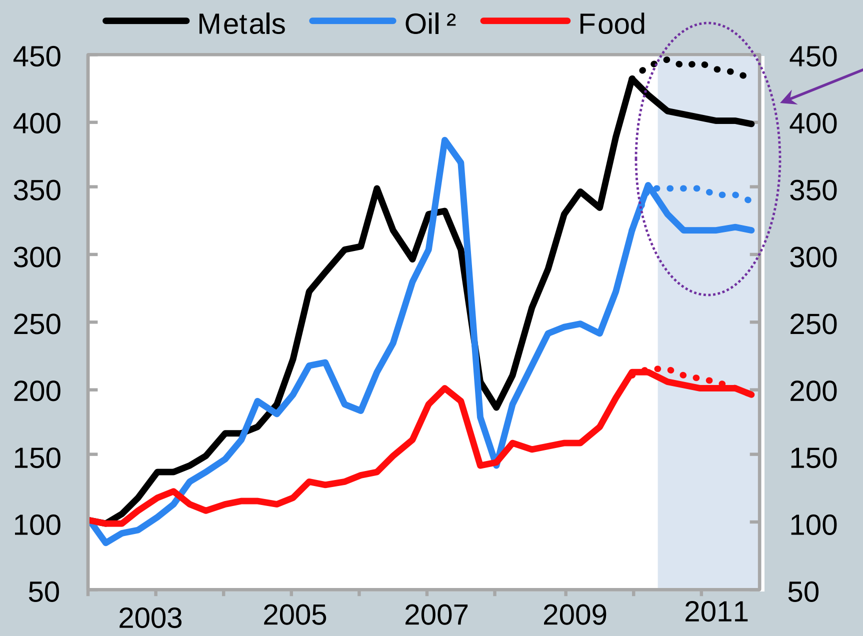
Unemployment rate (in percent)



Sources: IMF, *World Economic Outlook*.

Baseline: *Strong growth in Asia keeps commodities prices relatively high*

Commodity Prices : Current versus April Projections[1]
(U.S. dollar index, 2003 Q1 = 100)



Only small downward revisions

Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
[1] Dotted lines represent the projections reported in the April 2011

Global Downside Risks

Near-term risks:

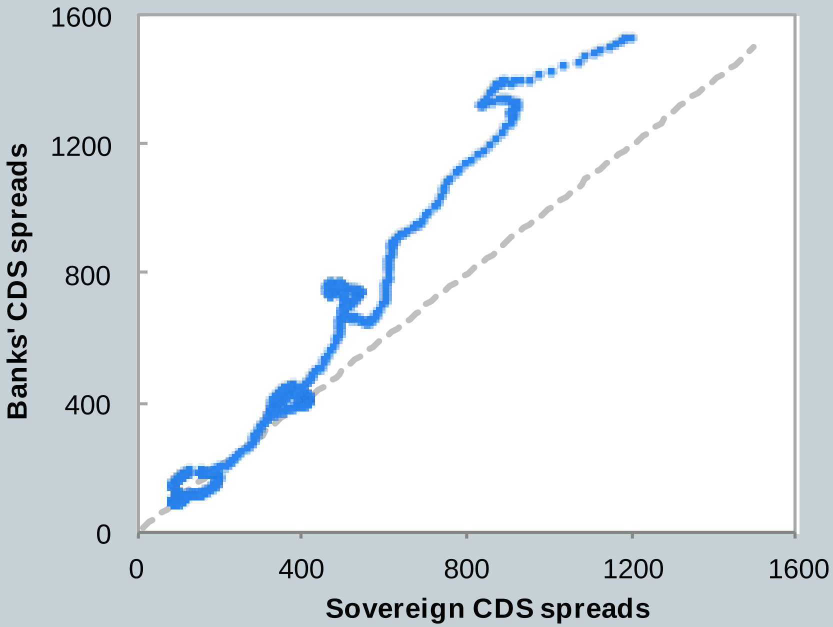
✓ Europe: unable to contain crisis

- No agreement/recapitalization
- Adjustment fatigue in periphery

✓ U.S: front-loaded fiscal adjustment

Downside: *Europe is unable to break vicious sovereign/bank circle*

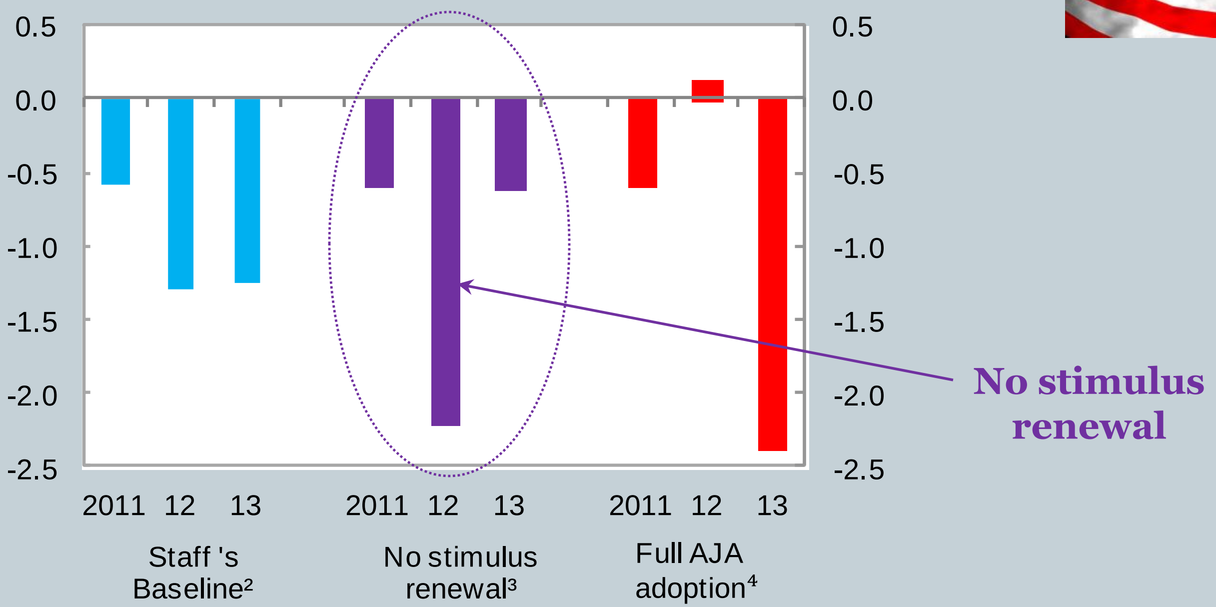
Periphery Europe: CDS Banks vs. CDS Sovereigns[1]
(Basis points, on 5-year U.S. dollar bonds)



Sources: Bloomberg; and IMF Staff calculations.
[1] Data spans March 1, 2009 — September 27, 2011.
[2] Simple average of Greece, Ireland, Italy, Portugal, and Spain.

Downside: *U.S. fiscal adjustment becomes too frontloaded*

United States: Change in Cyclically-Adjusted General Government Balance[1]
(Percent of GDP)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
[1] Estimates for 2011 incorporate revised budget outturns.
[3] Non renewal of unemployment insurance and payroll tax relief.

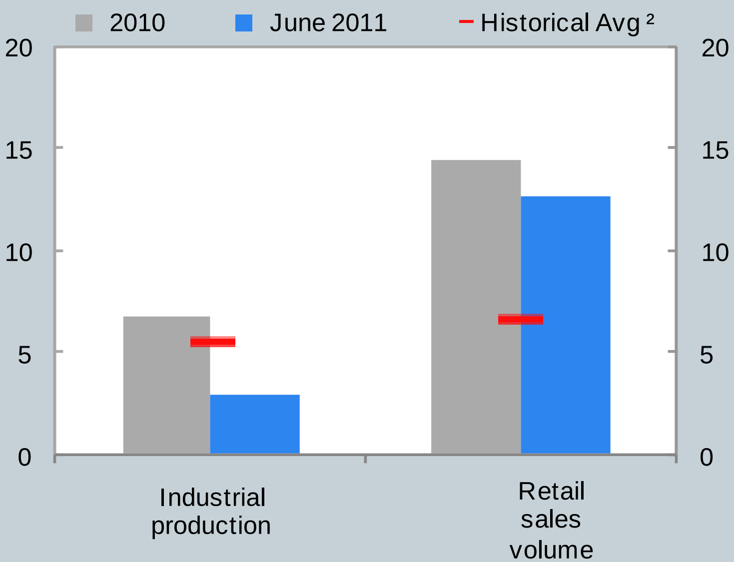
Global Downside Risks

Medium-term risks:

- ✓ Europe: growth remains elusive
- ✓ U.S.: medium-term fiscal unattended
- ✓ China: overinvestment/credit quality

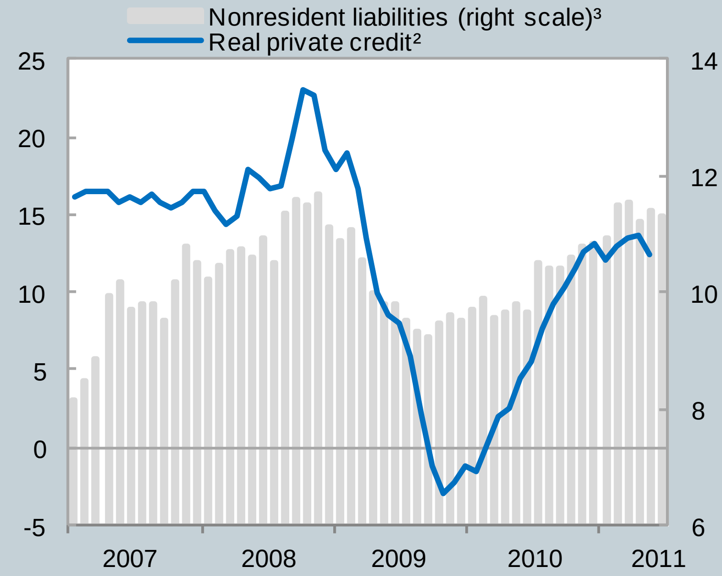
Latin America: Overheating risks were building …

Selected Latin America: Economic Activity and Demand Indicators [1]
(12-month percent change)



Sources: Haver Analytics; and IMF Staff calculations.
[1] Average of Brazil, Chile, Colombia, Peru, and Uruguay. Indices for industrial produtction, employment, retail sales and auto sales; nominal U.S. dollars for consumer imports. All underlying indicators are seasonally adjusted.
[2] Average over January 2003 - June 2011.

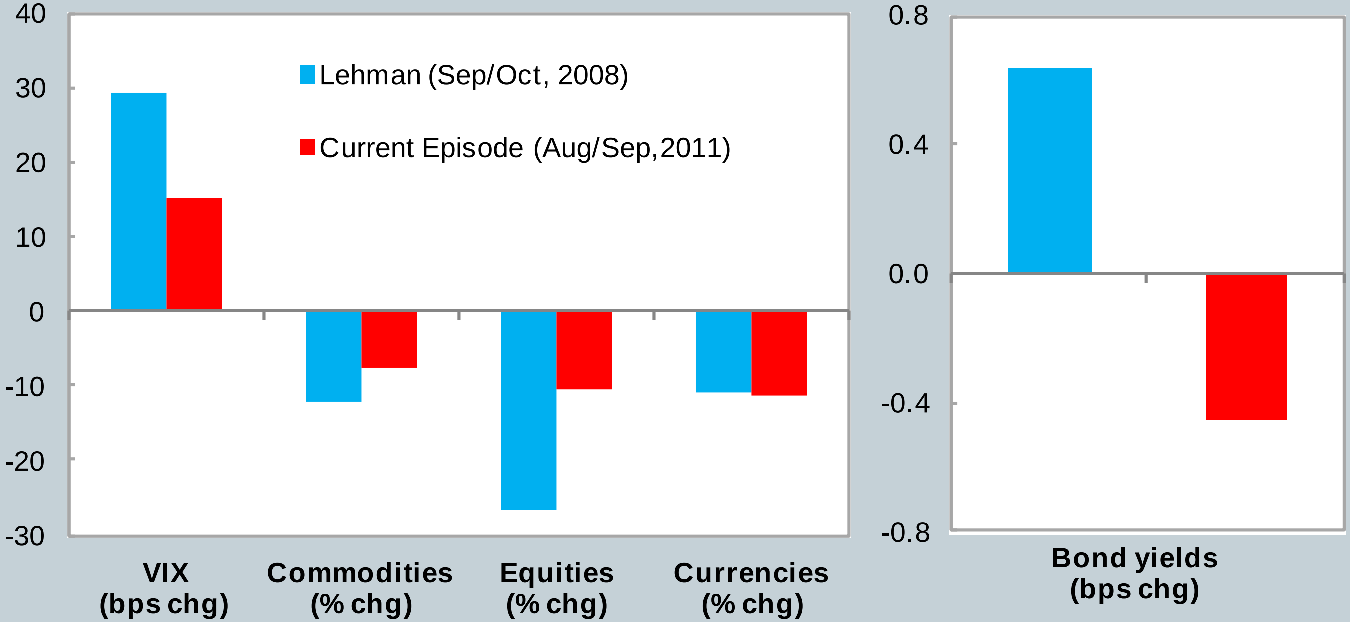
Selected Latin America: Real Bank Credit and Leverage [1]
(Percent)



Sources: EMED; Haver Analytics; and IMF staff calculations.
[1] Average of Brazil, Chile, Colombia, Peru, and Uruguay.
[2] Real bank credit to private sector; 12-month percentage change.
[3] Defined as liabilities to nonresidents as a percentage of total liabilities. Excludes Chile.

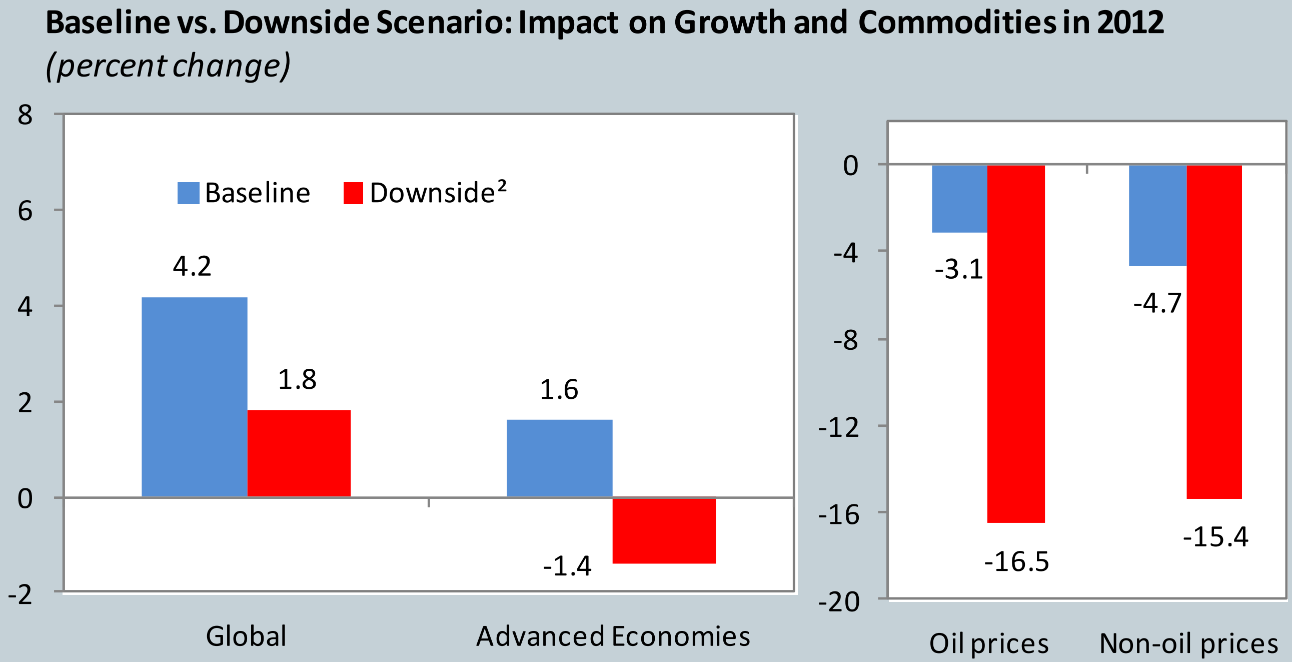
… but global turmoil is weighting on the region

LA5: Market Response to Global Turmoil[1 2 3]



Sources: Bloomberg; Haver Analytics; and IMF Staff calculations.
[1]Simple average for Brazil, Chile, Colombia, Mexico, and Peru.
[2] VIX (basis points change); Commodities (CRB commodity price index, percent change); Equities (percent change); Exchange rates (percent change, neg= depreciation); Local Bond Yields (percentage point change).
[3] Lehman episode: 9/12/2008-10/13/2008; Current episode: 8/1/2011-9/26/2011.

<u>**Latin America and Caribbean:**</u>*Juggling two Scenarios*



Impact of global slowdown could be partially offset by lower commodities

Source: IMF, World Economic Outlook.
²Estimated shock from a European debt crisis, slowing of U.S. potential GDP, and rising loan defaults in emerging Asia.

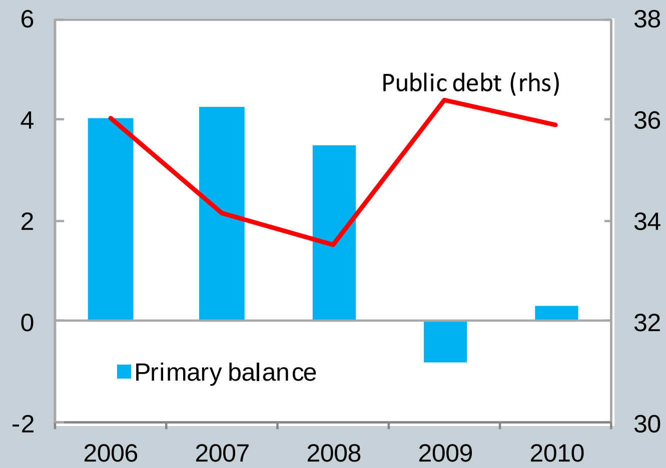
Latin America: Policy Challenges

Rebuilding buffers in the face of large uncertainties

1. **Monetary policy as first line of defense** (in countries with credible frameworks)
2. **Continue rebuilding fiscal buffers**
   - Avoid acting too early. Change course only if extreme risk materializes
3. **Maintain exchange rate flexibility**
4. **Macroprudential policies**

- Loosen: if liquidity/funding pressures emerge
- Tighten: if vulnerabilities increase

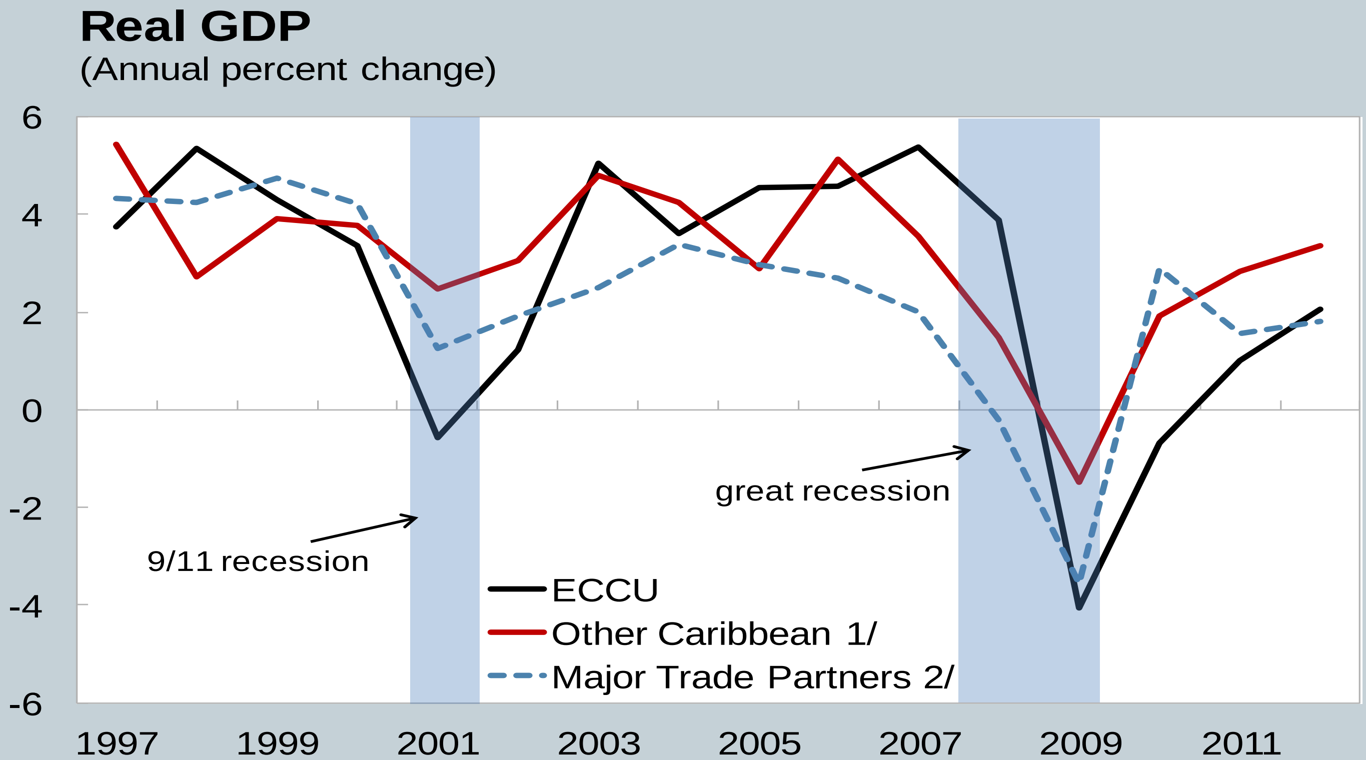
Latin America: Primary Balance and Public Debt [1]
(Percent of GDP)



Source: IMF World Economic Outlook; and IMF staff calculations.
[1] Simple average for Brazil, Chile, Colombia, Mexico, and Peru.

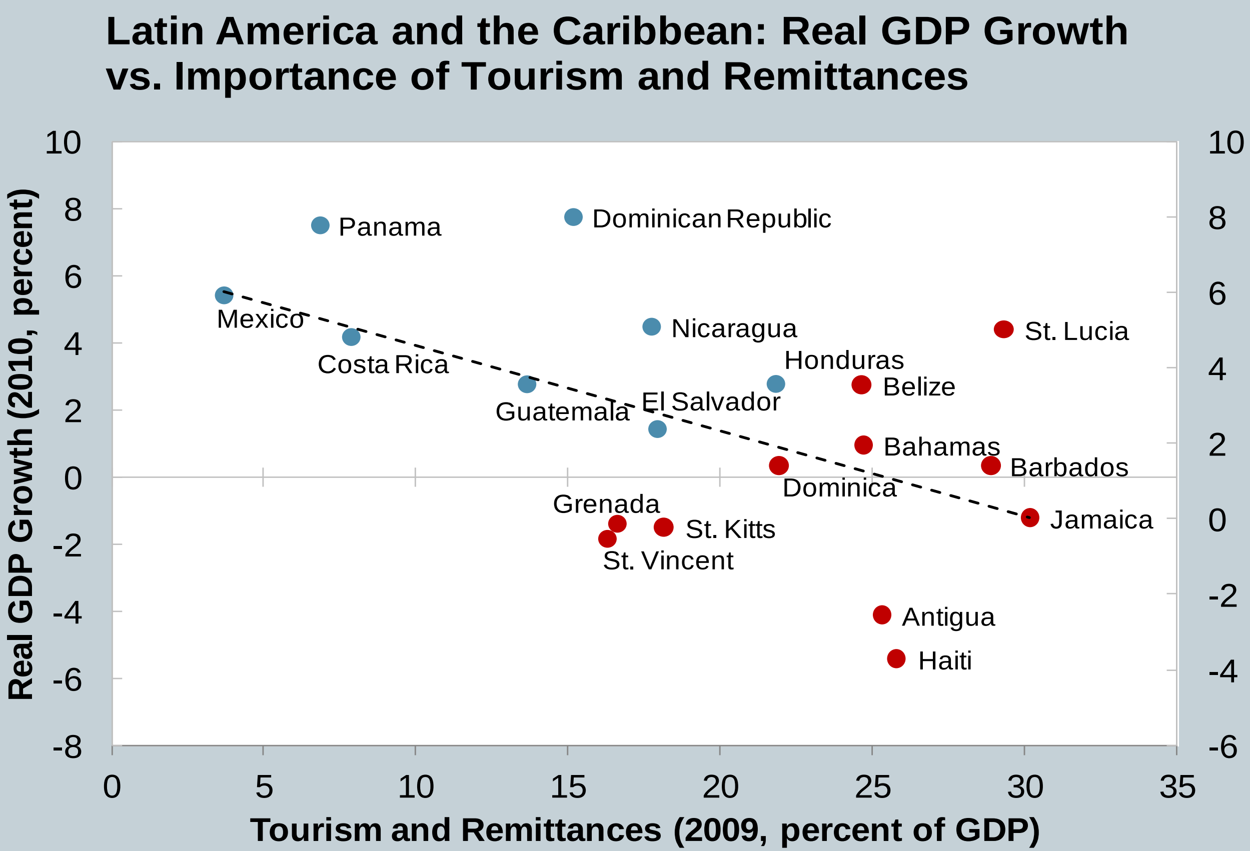
The Caribbean: heavy dependence on major trading partners has impacted performance during the crisis …

…indicated by the high correlation between Caribbean output and that of its major trading partners…



Sources: IMF World Economic Outlook and staff estimates.
1/ Other Caribbean is an un-weighted average of Guyana, Jamaica, Suriname and Trinidad & Tobago.
2/ Trading partners is a weighted average of United States, United Kingdom, Canada and the Euro Area

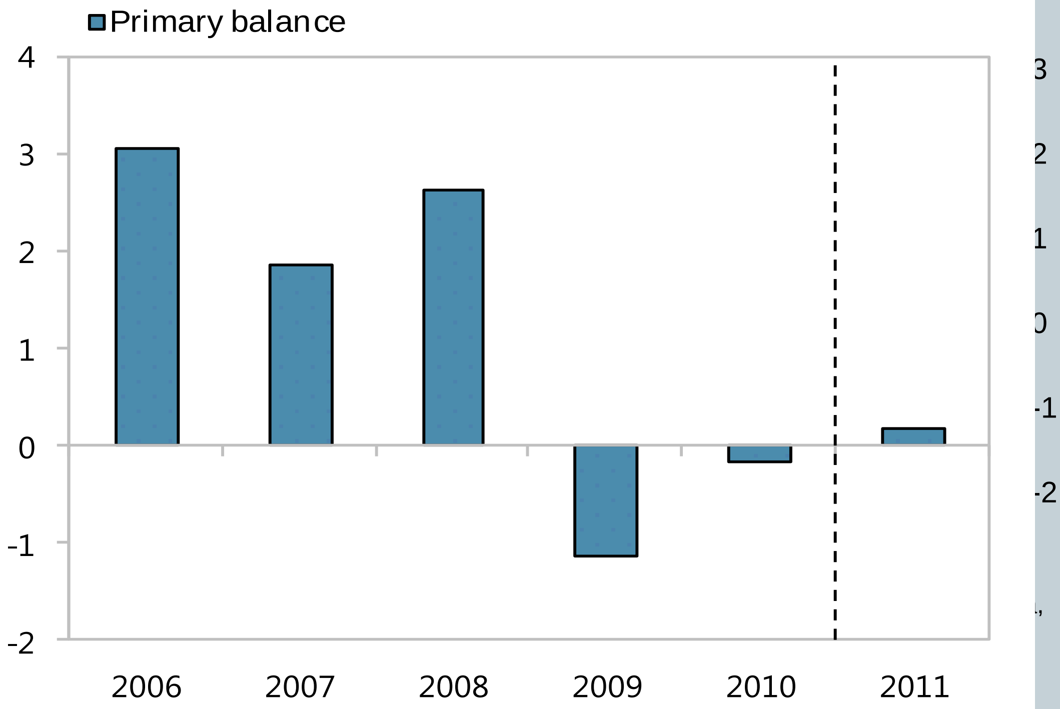
… and prospects remain constrained by linkages with Advanced Economies



Sources: IMF World Economic Outlook and IMF staff estimates.

The Caribbean: *The fiscal position has deteriorated…*

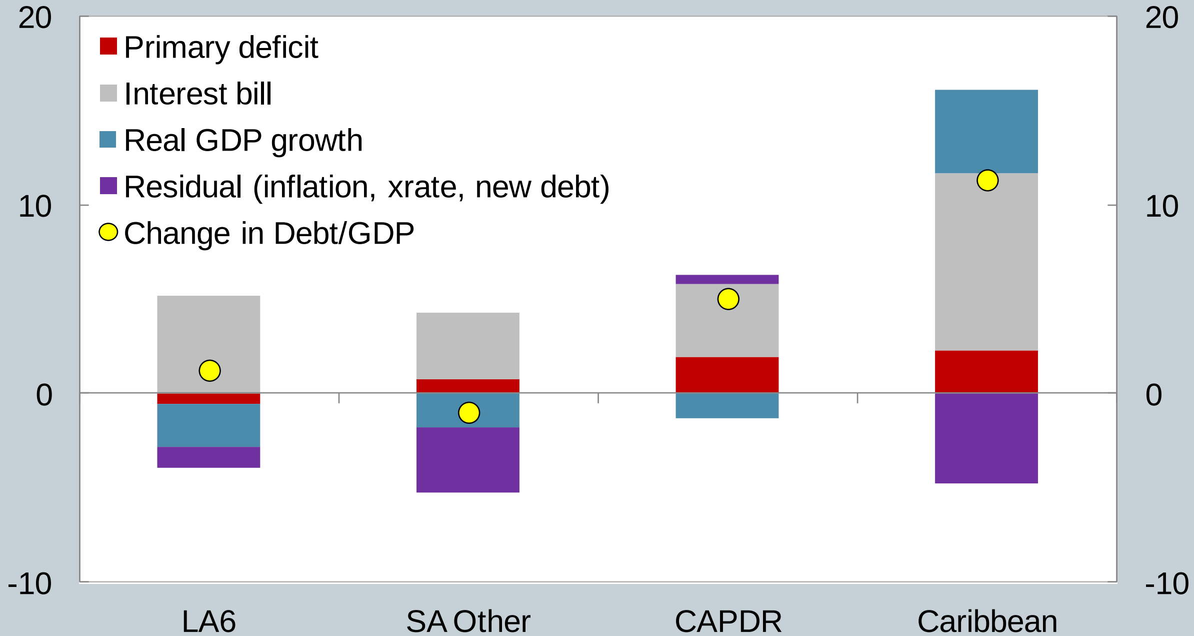
Caribbean: Primary Balance
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.

… and public debt is on the rise

LAC: Increase in Public Debt, 2008-10 1/
(Percent of GDP)



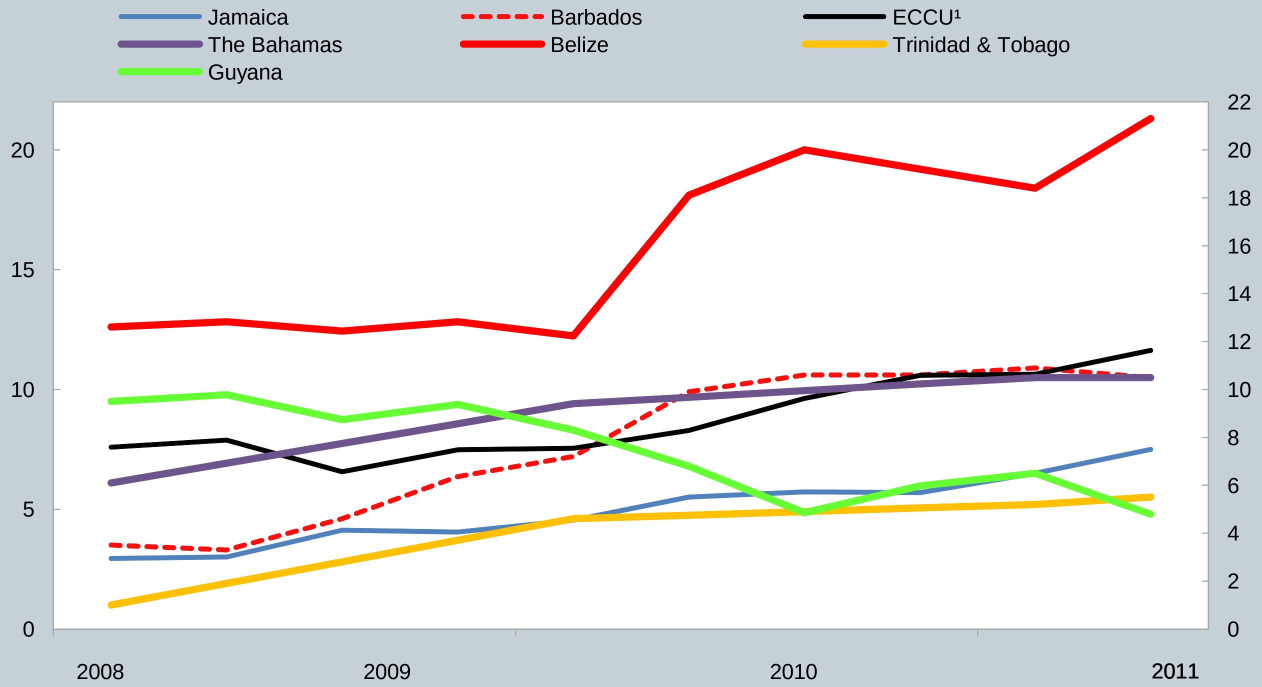
Sources: IMF World Economic Outlook; and IMF staff calculations.
1/ Dots display change in public debt as a percent of GDP.

Financial sector vulnerabilities:

- The global financial crisis revealed the extent of financial interconnection within the Caribbean, but also regulatory and supervisory gaps;
- Credit risks remain elevated
- Financial sector exposure to fiscal policies

The Caribbean: NPLs have risen sharply…

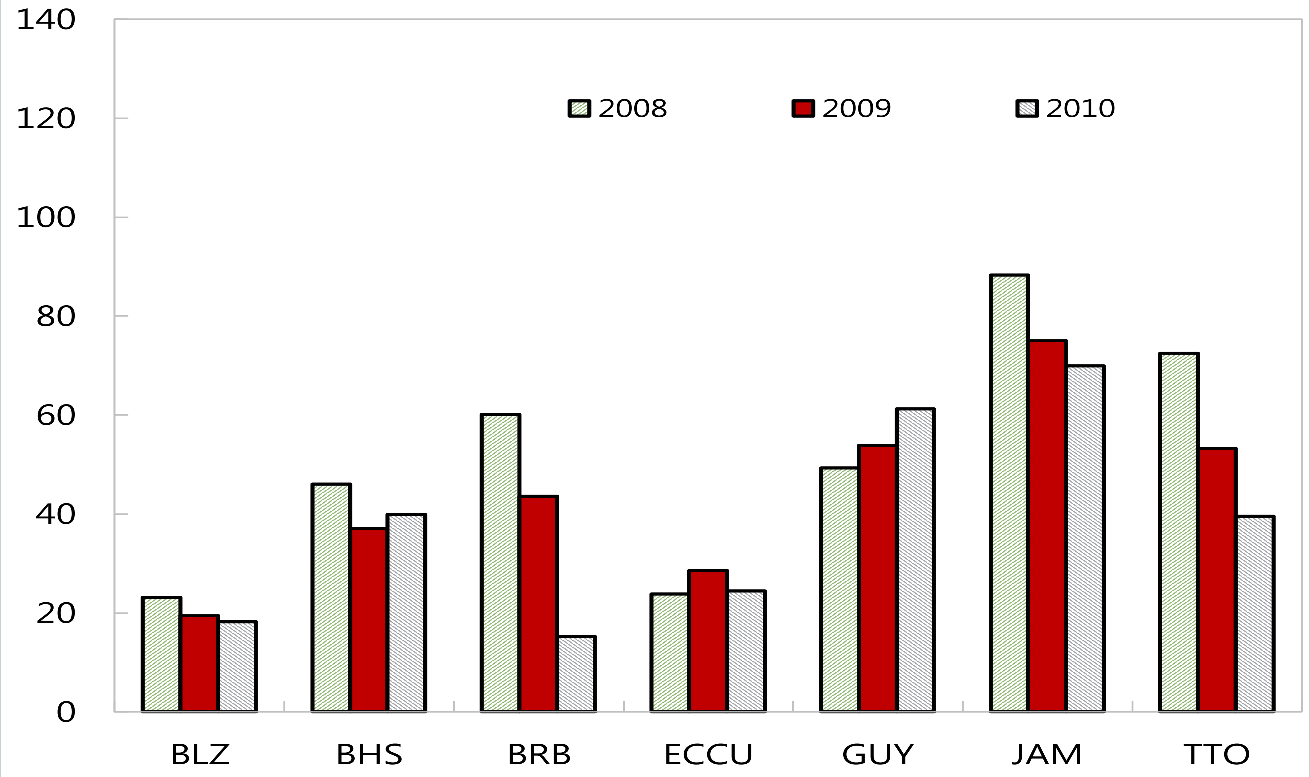
Caribbean: Nonperforming Loans
(Percent of total loans)



Sources: National authorities; and IMF staff calculations.
[1] ECCU stands for the Eastern Caribbean Currency Union.

The Caribbean: ...and provisioning remains low

Provisions to NPLs (percent)



Source: National authorities, and IMF staff calculations

The Caribbean: *A modest recovery is underway in most of countries …*

LAC Baseline: Real GDP Growth (in percent)

	2004-09	2010	2011	2012
Latin America and the Caribbean	**4.1**	**6.1**	**4.5**	**4.0**
South America[1]	5.3	6.5	5.5	4.4
CAPDR[1]	4.6	4.4	4.0	4.2
The Caribbean[1 2]	**2.8**	**0.5**	**1.9**	**2.6**
of which:				
Bahamas	0.3	1.0	2.0	2.5
Barbados	1.9	0.3	1.8	2.2
Jamaica	0.5	-1.2	1.5	1.7
ECCU	2.9	-0.7	1.0	1.9

Source: IMF, World Economic Outlook.

[1] Simple average for each subregion.

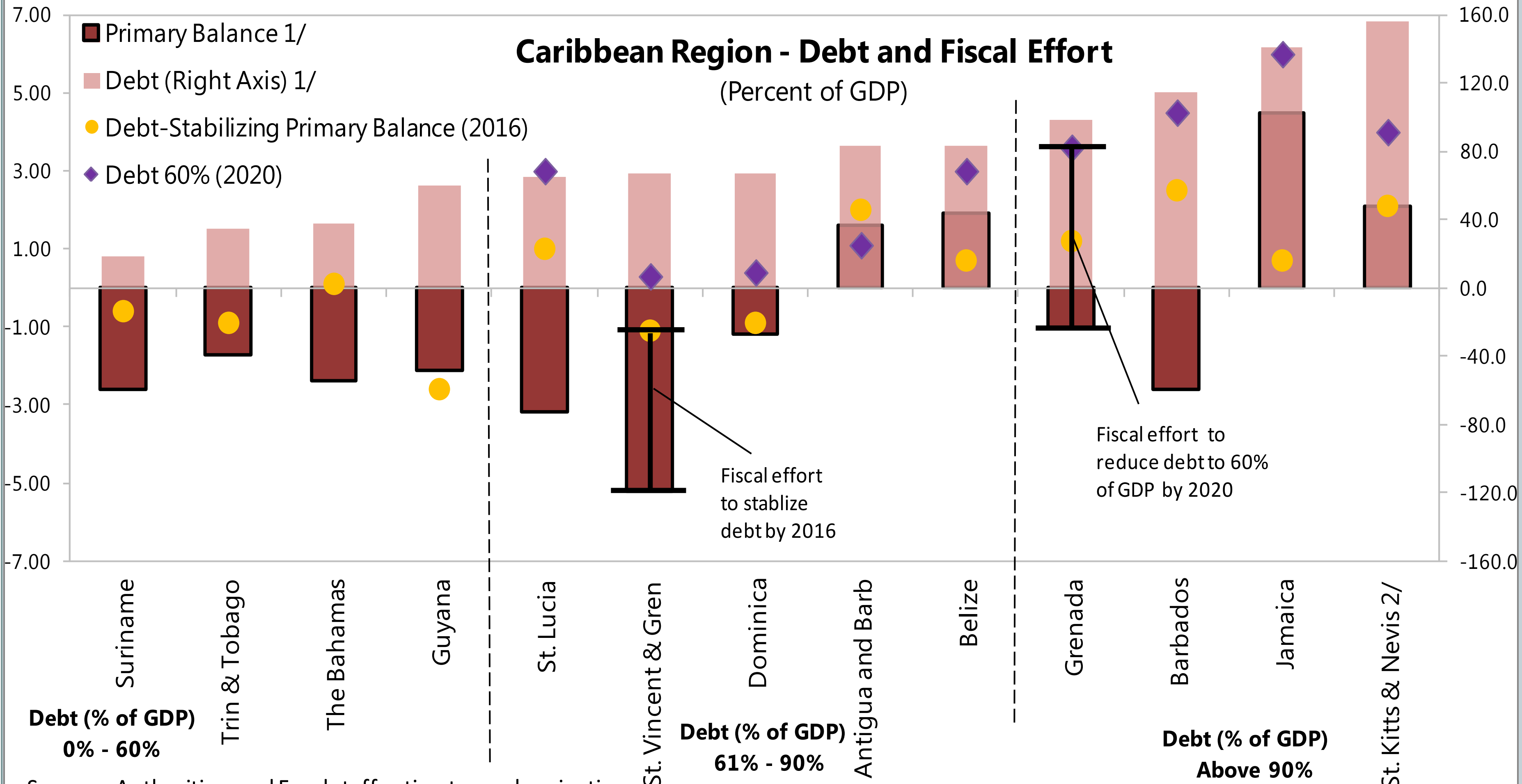
[2] Caribbean excludes Dominican Republic and Haiti.

The Caribbean: *Main challenges going forward*

Higher volatility and significant downside risk, underscore the urgency on focusing on the key priorities:

- **Reducing debt**
- **Addressing financial sector vulnerabilities**
- **Reinvigorating growth**

The Caribbean: *Stabilizing and reducing debt will require a bigger fiscal effort*

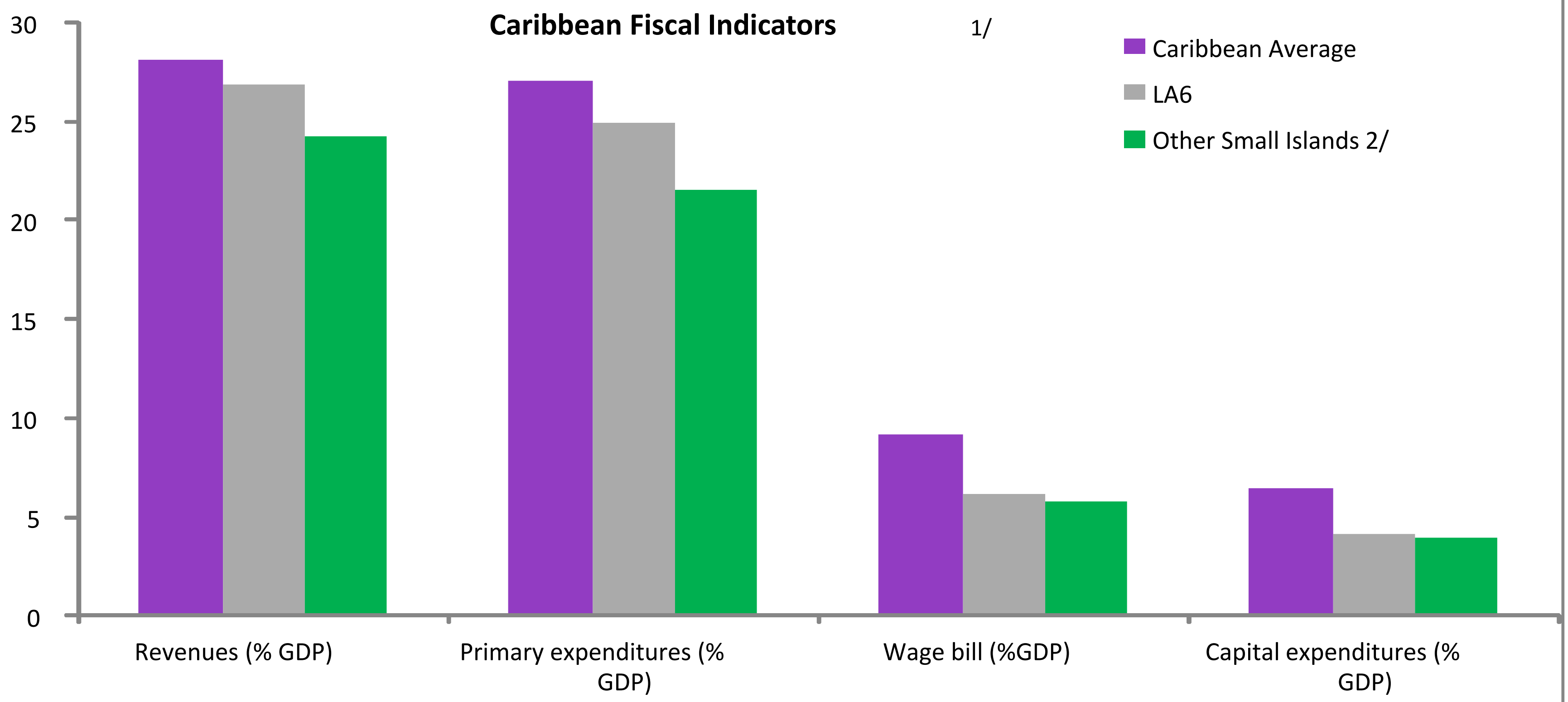


Sources: Authorities; and Fund staff estimates and projections

1/ Data is from 2010

2/ Includes the yields from debt restructuring under the illustrative scenario.

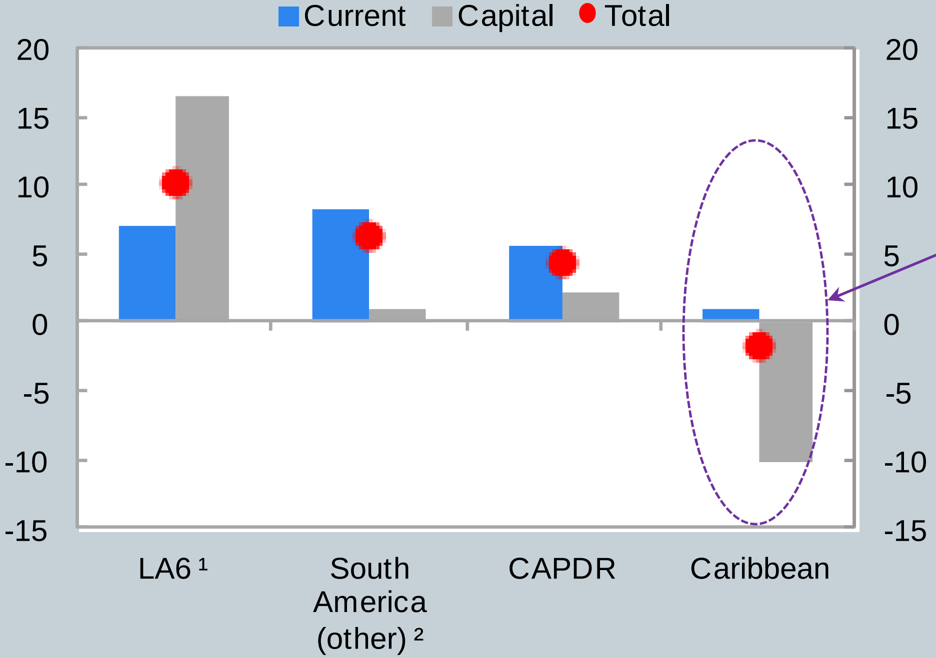
The Caribbean: *Fiscal consolidation will need to focus on expenditures*



Sources: Authorities; and Fund staff estimates and projections
1/ 2007 to 2010 Averages
2/ Includes Dominican Republic, Mauritius, and Seychelles

… while avoiding to compromise (growth-friendly) capital spending

Latin America and the Caribbean: Primary Expenditure Growth Composition, 2008/10
(Real annual percent change)



Sources: National authorities; and IMF staff calculations.
[1] Brazil, Chile, Colombia, Mexioo, Peru, and Uruguay.
[2] Argentina, Bolivia, Ecuador, Paraguay, and Venezuela.

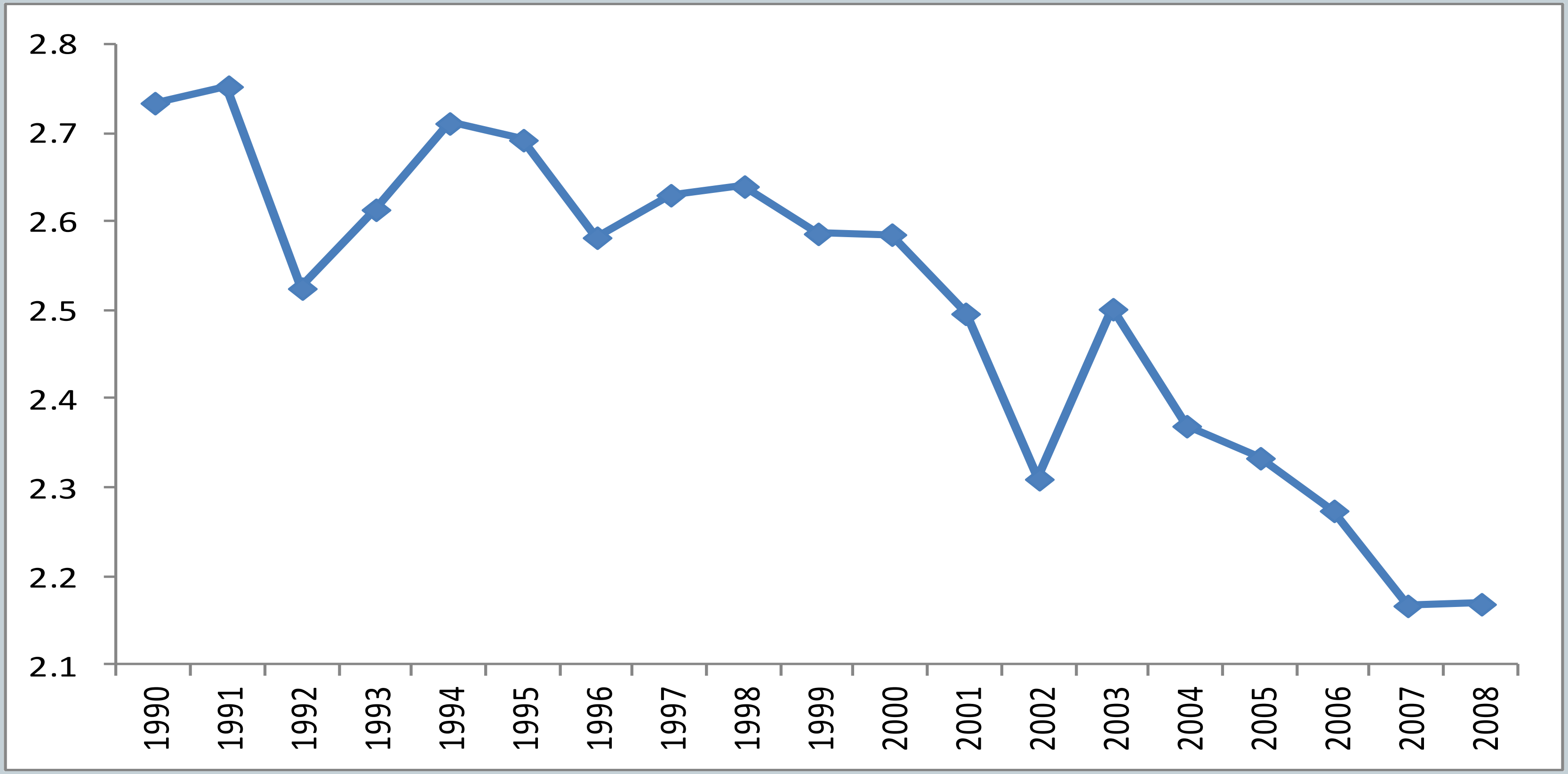
Caribbean:
Large real declines in capital spending since crisis

The Caribbean: *Financial sector vulnerabilities*

- Urgently address lingering financial sector issues in the bank and non-bank sector without compromising fiscal sustainability.
- Key banking sector policies:
  - Macro prudential measures
  - Consolidated supervisions across the region
  - Robust and frequent onsite inspections
- Non-banks focus:
  - Strengthening supervision
  - Bringing regulation up to international best practices
  - Enhancing collaboration between regulators

Reinvigorating growth: *drop in market share points to the need to improve competitiveness…*

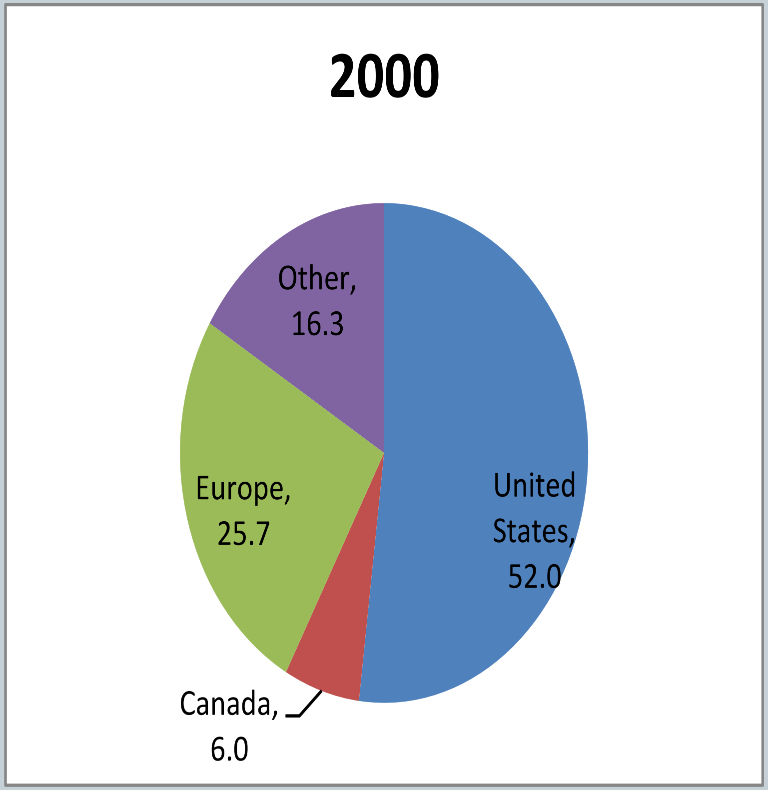
Caribbean Arrivals: Tourism Market Shares
(In percent to the world)

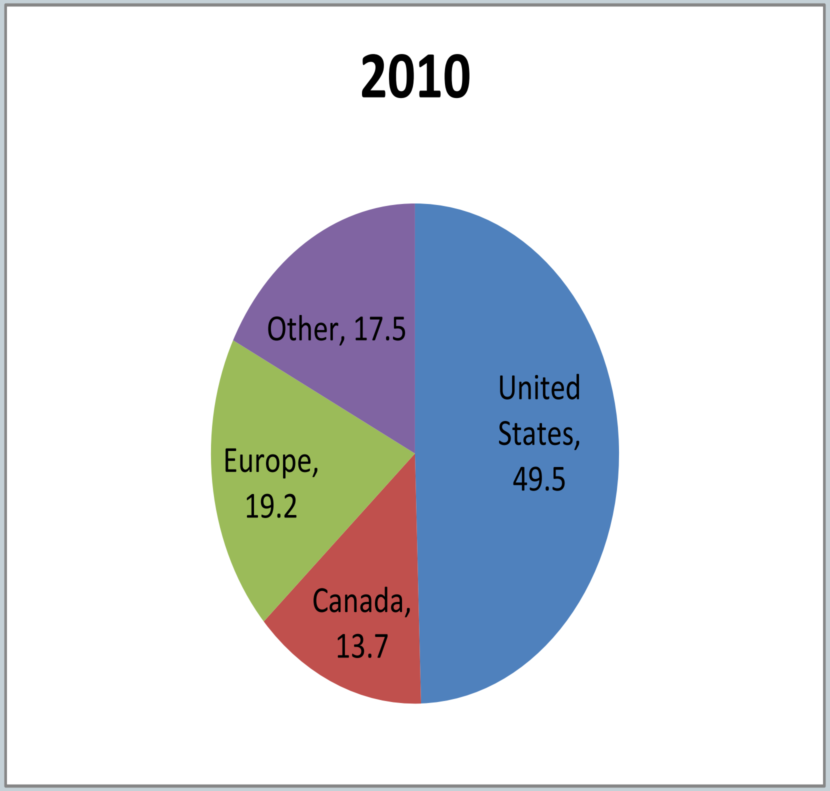


Source: World Travel and Tourism Council (online data base)

...and diversify markets

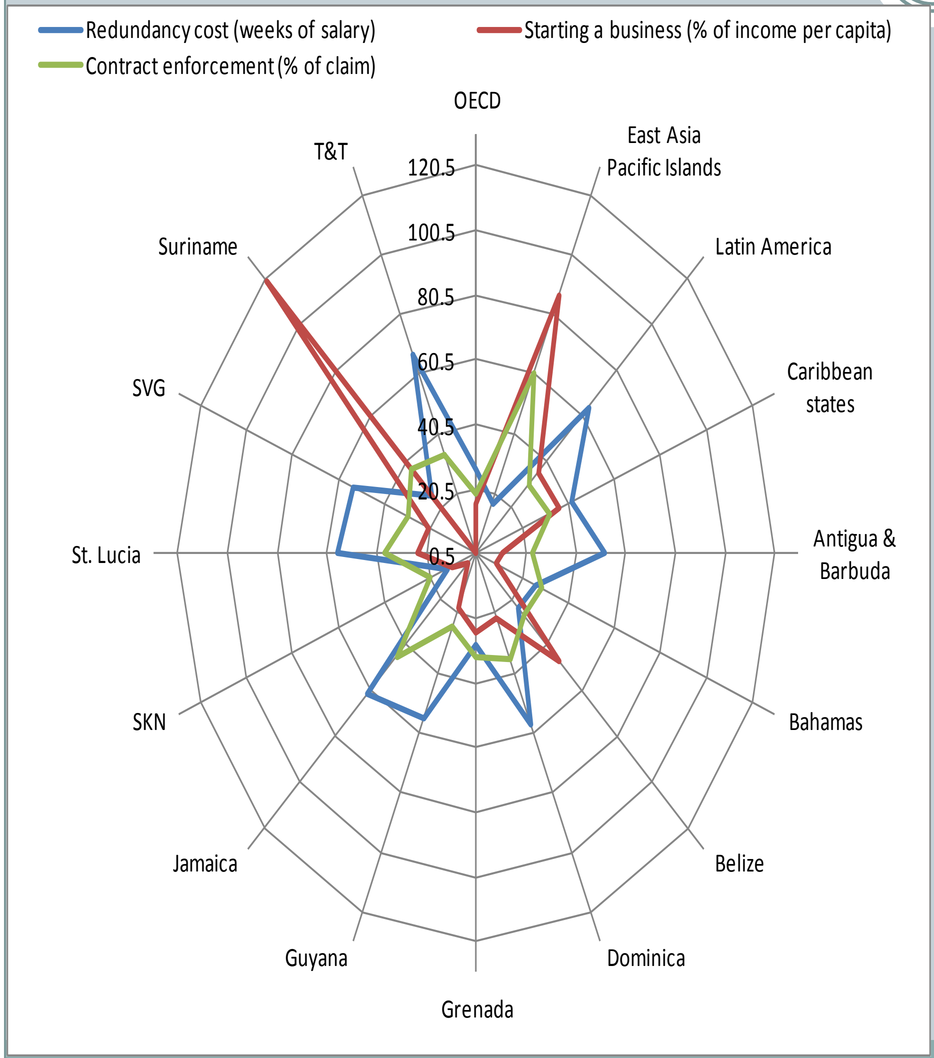
Caribbean: Stay over tourist by main market
(In percent to total stayover arrivals)

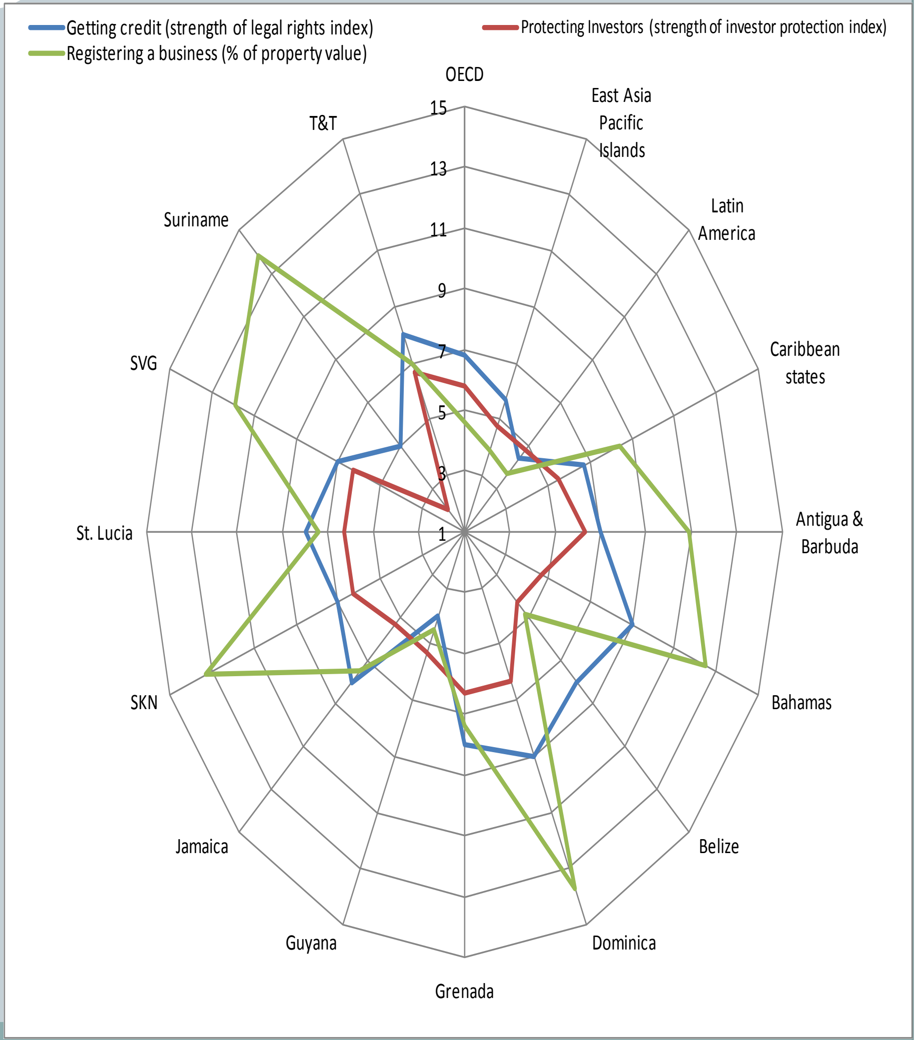




Sources: Caribbean Tourism Organisation

Reinvigorating growth: *room for further improvements in the business climate*





The IMF: remains closely engaged in the region

- Since the beginning of the global crisis the Fund has disbursed a total of US$ 1 billion to Jamaica, Belize and all ECCU Fund members out of an approved US$ 1.6 billion .
- The region is also a heavy user of Fund's technical assistance, especially through the regional technical assistance center CARTAC (debt management, revenue administration, financial system, central banking, statistics…)
- The Fund continues to provide support with on-going policy dialogue and surveillance, more in-depth analysis of the financial sector (including additional FSAP), and an enhanced research program.

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Thankyou

http://www.imf.org/external/pubs/ft/reo/2011/whd/eng/wreo1011.htm