

Impact of the US Subprime Crisis on the Global Economy and the Caribbean

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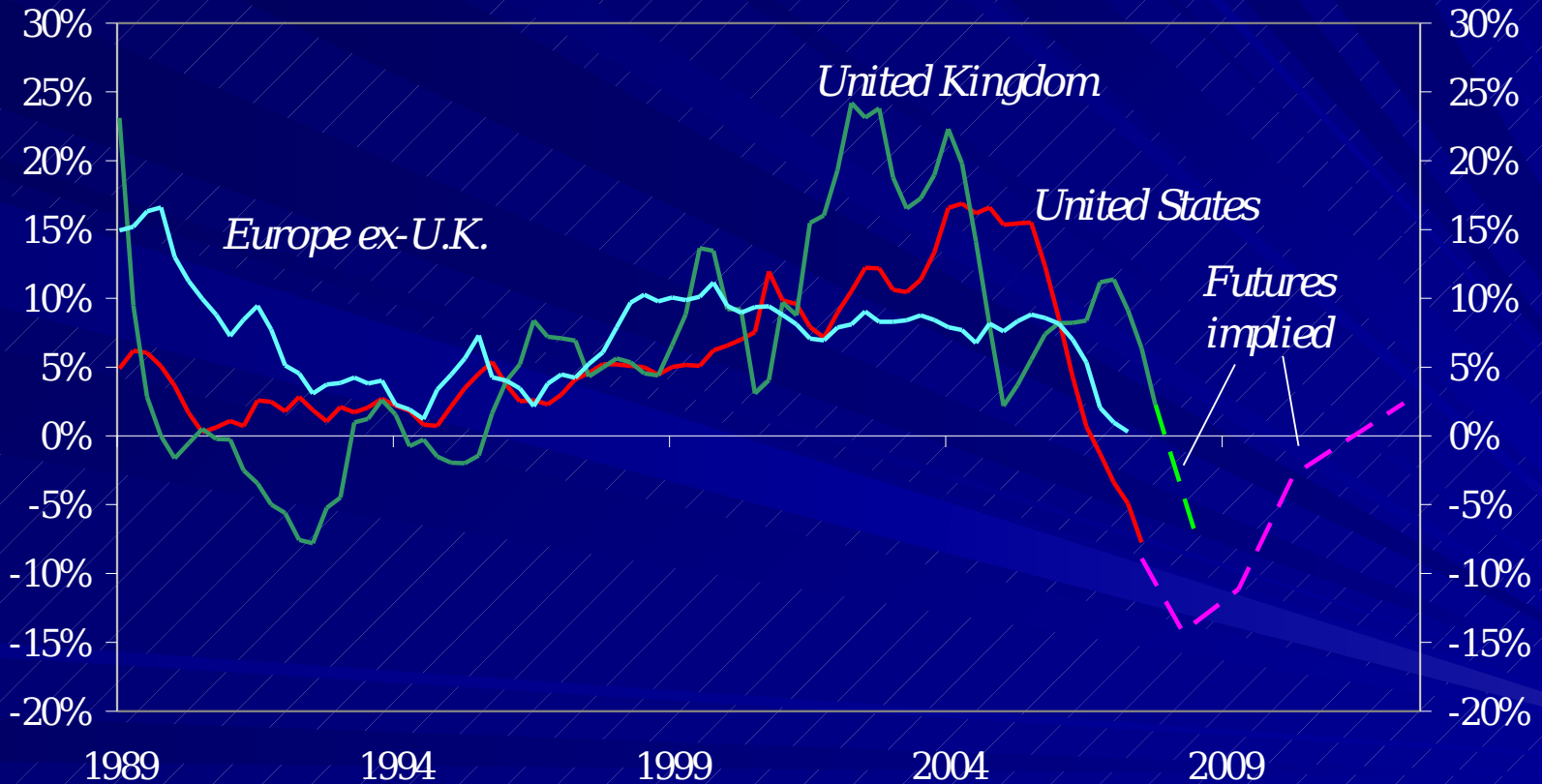
Outline

- Strains in financial markets →
- Weakening of global economic outlook →
- Impact on the Caribbean →
- Conclusions and policy recommendations →

The troubles started with a housing market correction—which is still underway...

U.S. and European House Price Inflation

(Percent year-on-year)

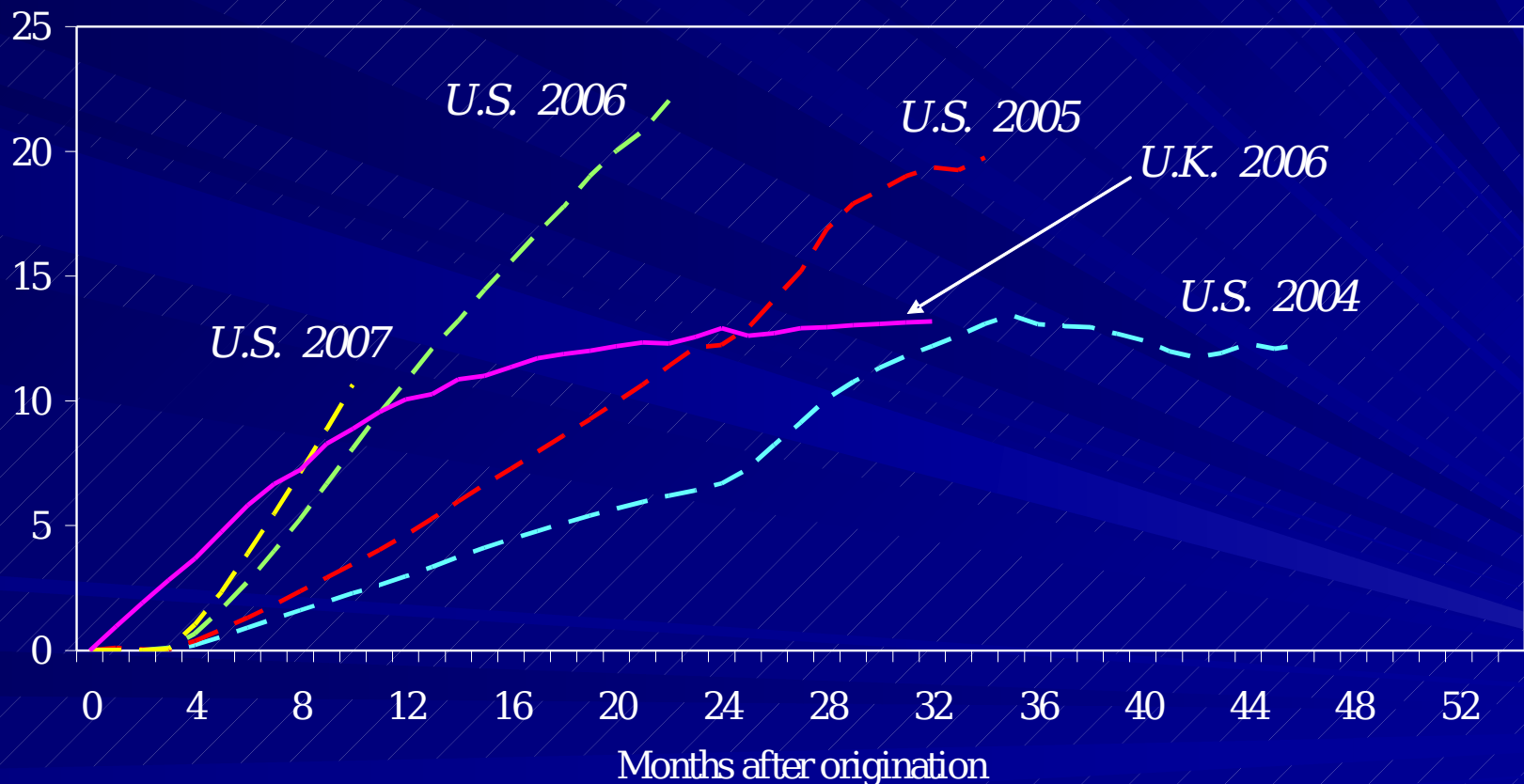


Source: Global Financial Stability Report, 2008

Note: Europe ex-U.K.: unweighted average of Spain, Germany, Italy, Netherlands, Greece (from 1995), Ireland (from 1997).

... as mortgage delinquencies continue to rise

U.S. and U.K. Nonconforming Delinquencies by Mortgage Vintage Year
(In percent of original balance)

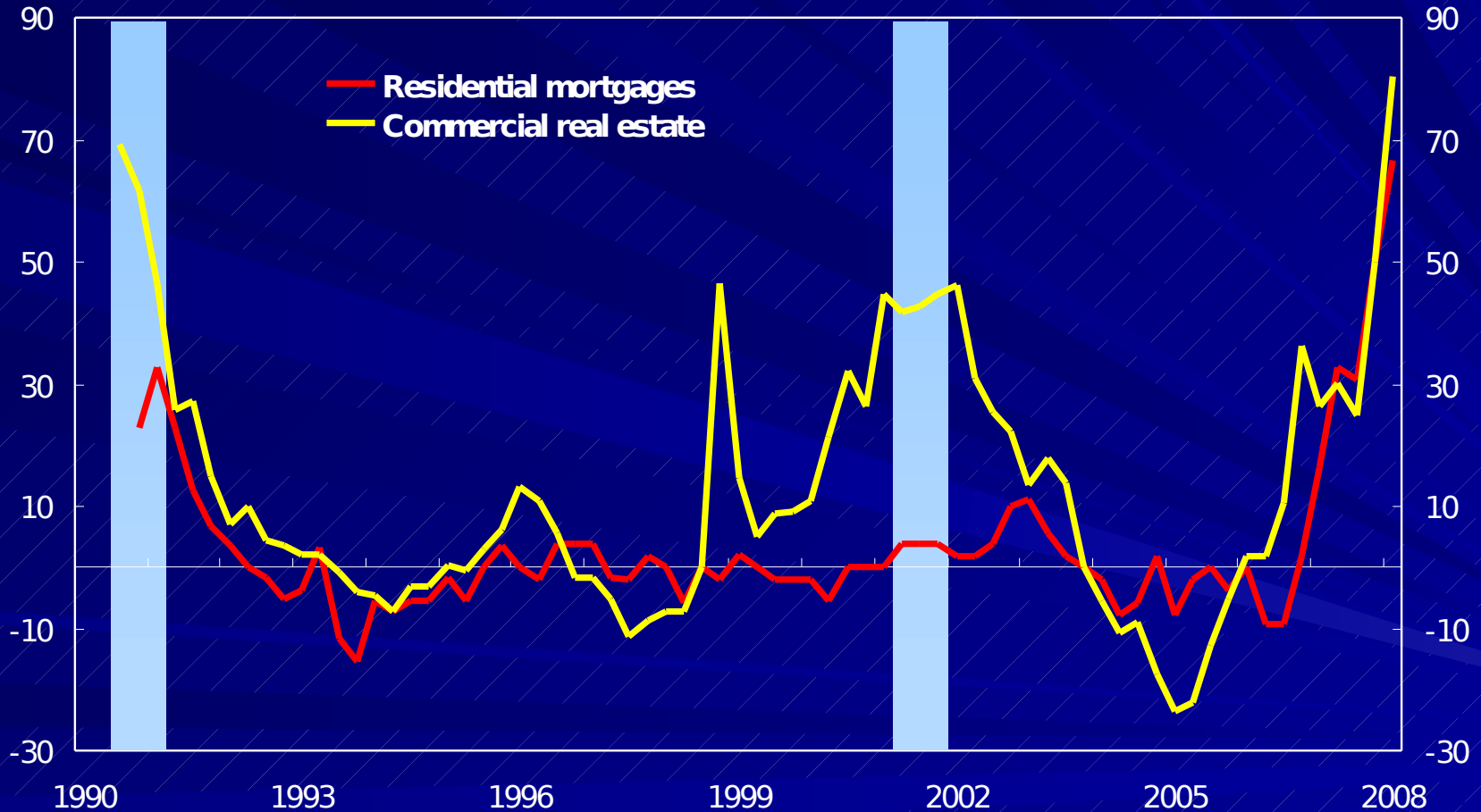


Sources: Global Financial Stability Report, IMF, 2008.

Note: U.K. delinquencies for 90+ days; U.S. delinquencies for 60+ days.

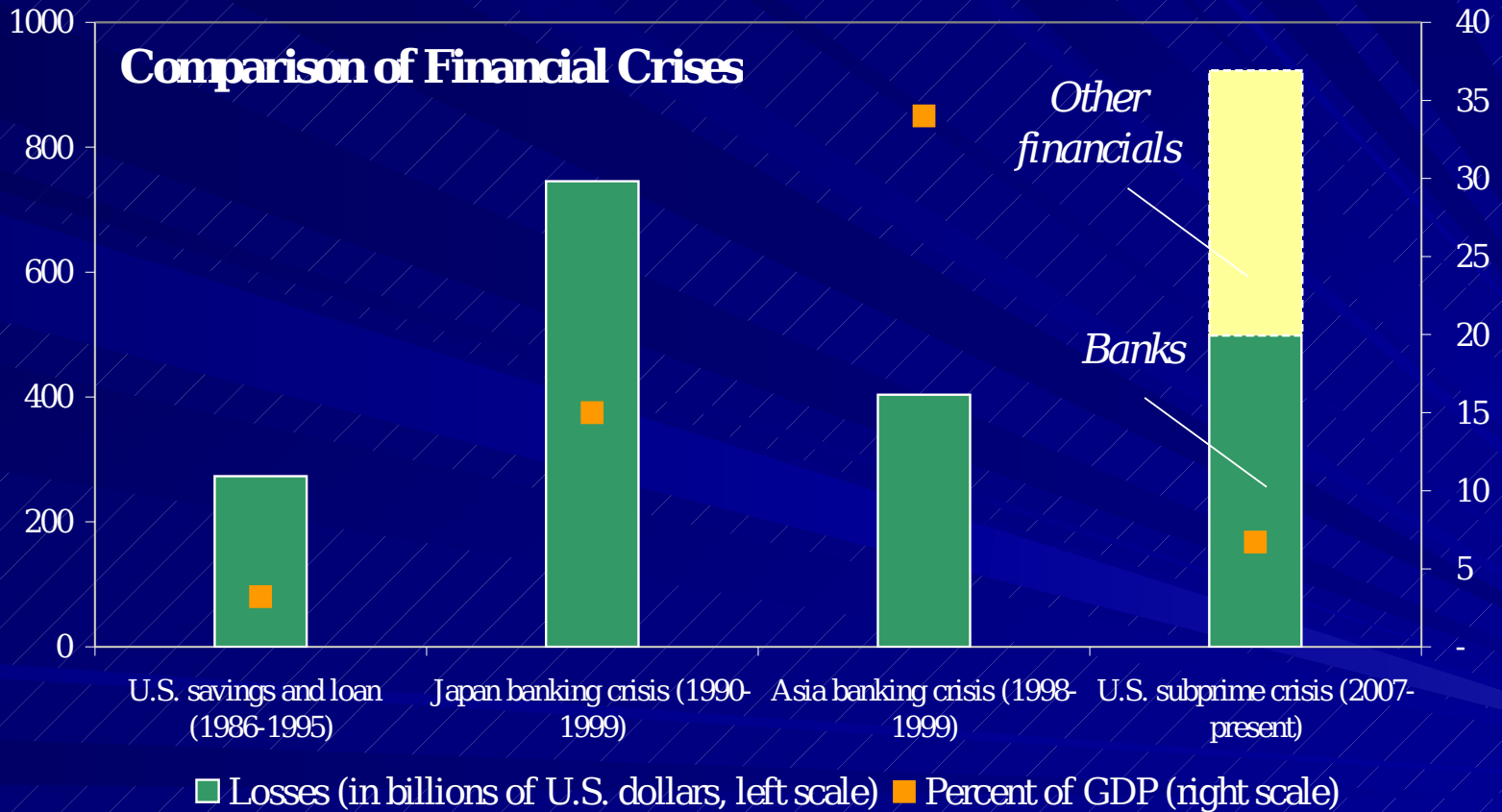
...and lending standards tighten.

Net Percentage of Banks Tightening Lending Standards



Source: Haver Analytics.

Aggregate potential losses from financial crisis estimated at US\$ 945 billion

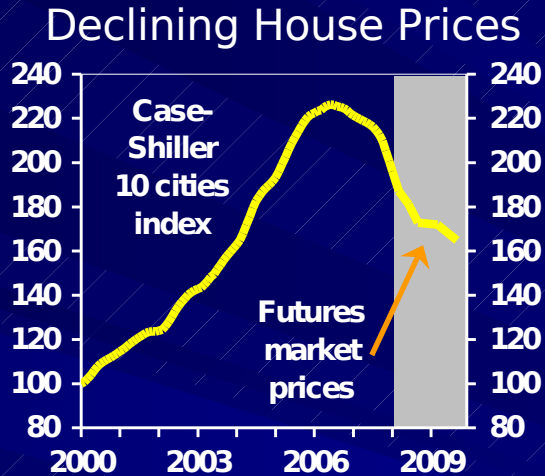


Sources: Global Financial Stability Report, IMF, 2008.

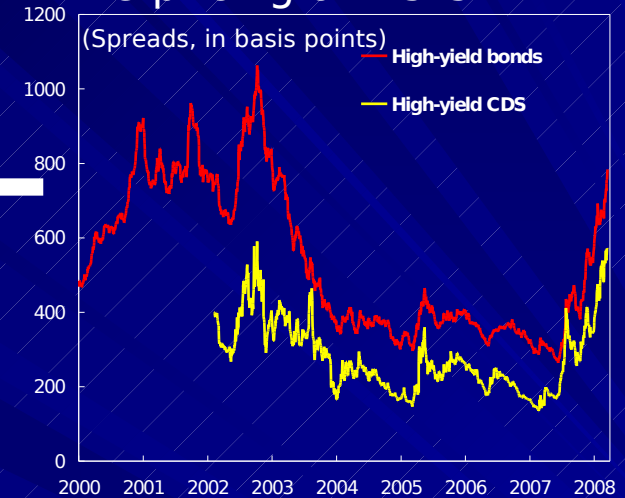
Note: U.S. subprime costs represent staff estimates of losses on banks and other financial institutions. All costs are in real 2007 dollars. Asia includes Indonesia, Malaysia, Korea, the Philippines, and Thailand.



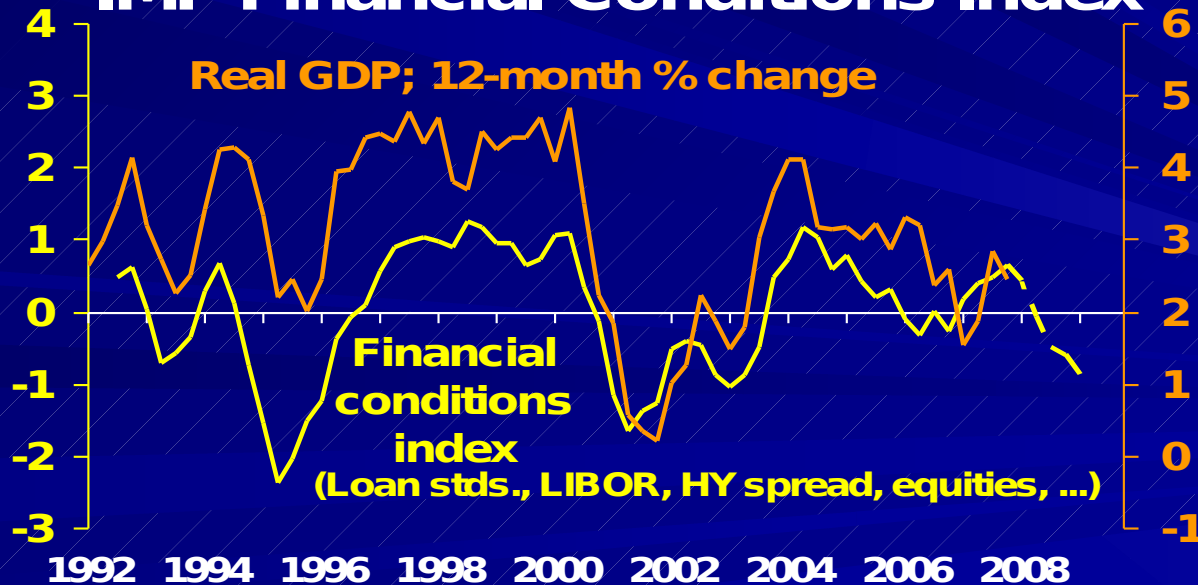
Housing and financial market pressures are interacting to slow growth.



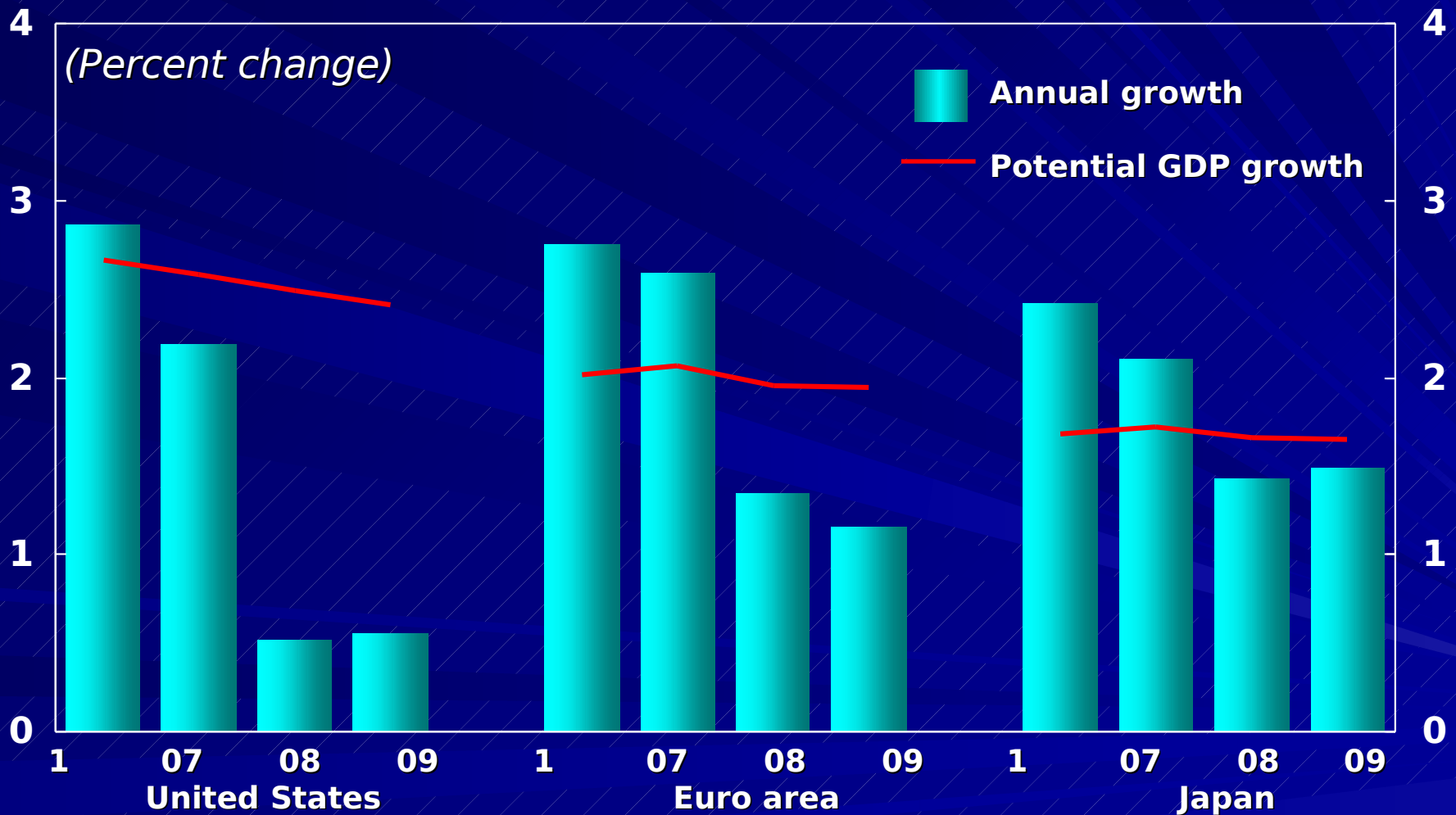
Re-pricing of Risks



IMF Financial Conditions Index



Advanced economies are most affected by financial turbulence...



Source: WEO

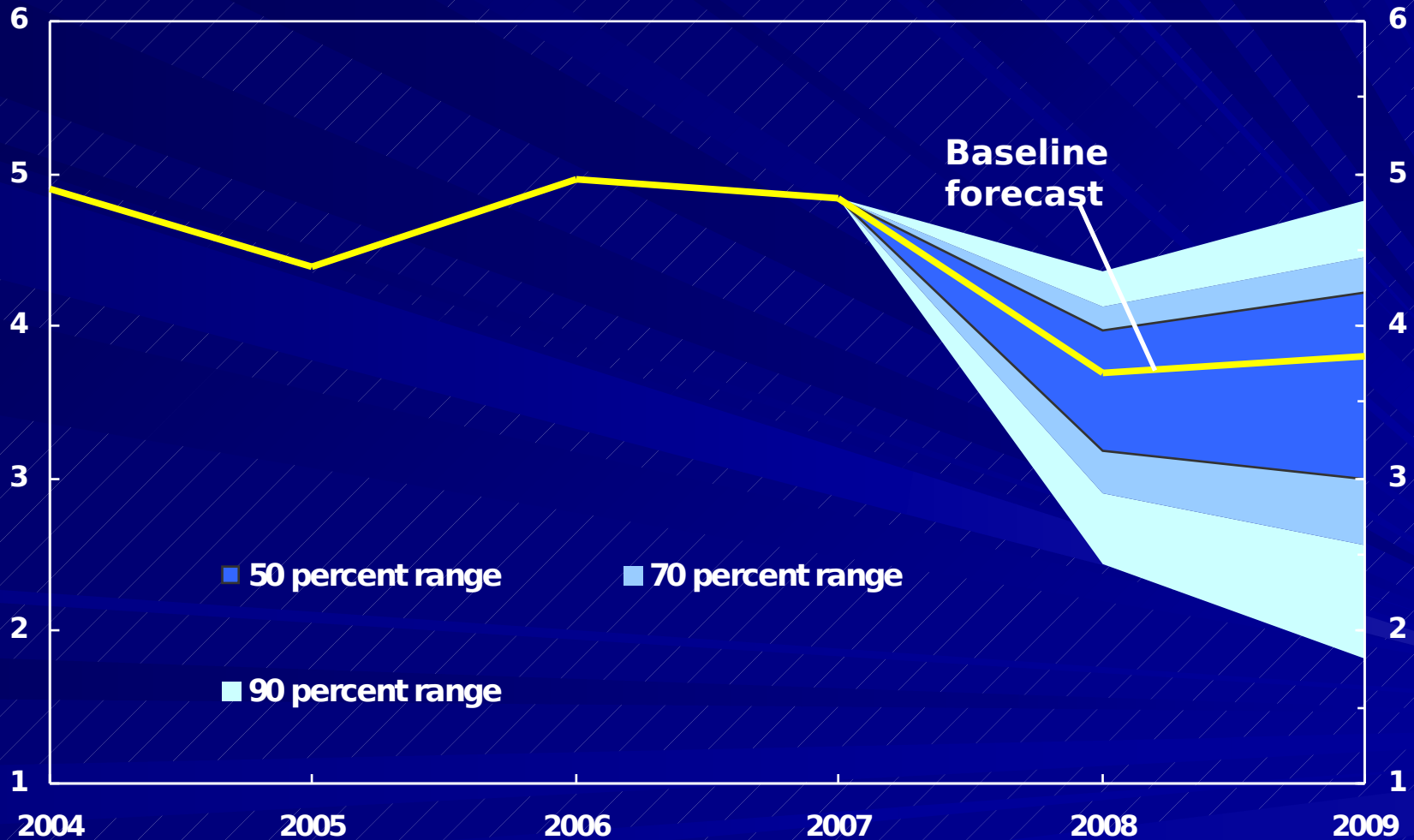
...but other countries will be affected,
too...

Recent Changes to Growth Outlook

	Difference from				
	Current projections			J an. 2008 projections	
	2007	2008	2009	2008	2009
World	4.9	3.7	3.8	-0.5	-0.6
Advanced economies	2.7	1.3	1.3	-0.6	-0.8
Emerging and developing economies	7.9	6.7	6.6	-0.2	-0.4

Source: World Economic Outlook, IMF

...and the balance of risk to global growth remains *tilted* to the downside.



Source: WEO.



Caribbean stock markets saw little impact from the financial turbulence...

Impact on the Caribbean

Stock Prices

(In percent change; local currency) 1/



...although sovereign spreads on internationally traded bonds have risen

Impact on the Caribbean

Emerging Market Sovereign and U.S. High Yield Spreads (Basis points)



Sources: Bloomberg; and Datastream.

The banking systems in the region are well capitalized and profitable...

Financial Soundness Indicators, end-2006

	Capital Adequacy	NPLs/Total Loans	Return on Assets
ECCU 1/	19.2	6.1	2.6
Bahamas	33.9	4.2	4.0
Barbados 2/	10.8	2.9	2.3
Jamaica	16.1	2.2	3.5
Trinidad and Tobago	18.0	1.1	2.2

1/ Based on end-2007 data.

2/ Preliminary data as of September 2007.

...and the recent credit expansions have been funded largely through domestic deposits.

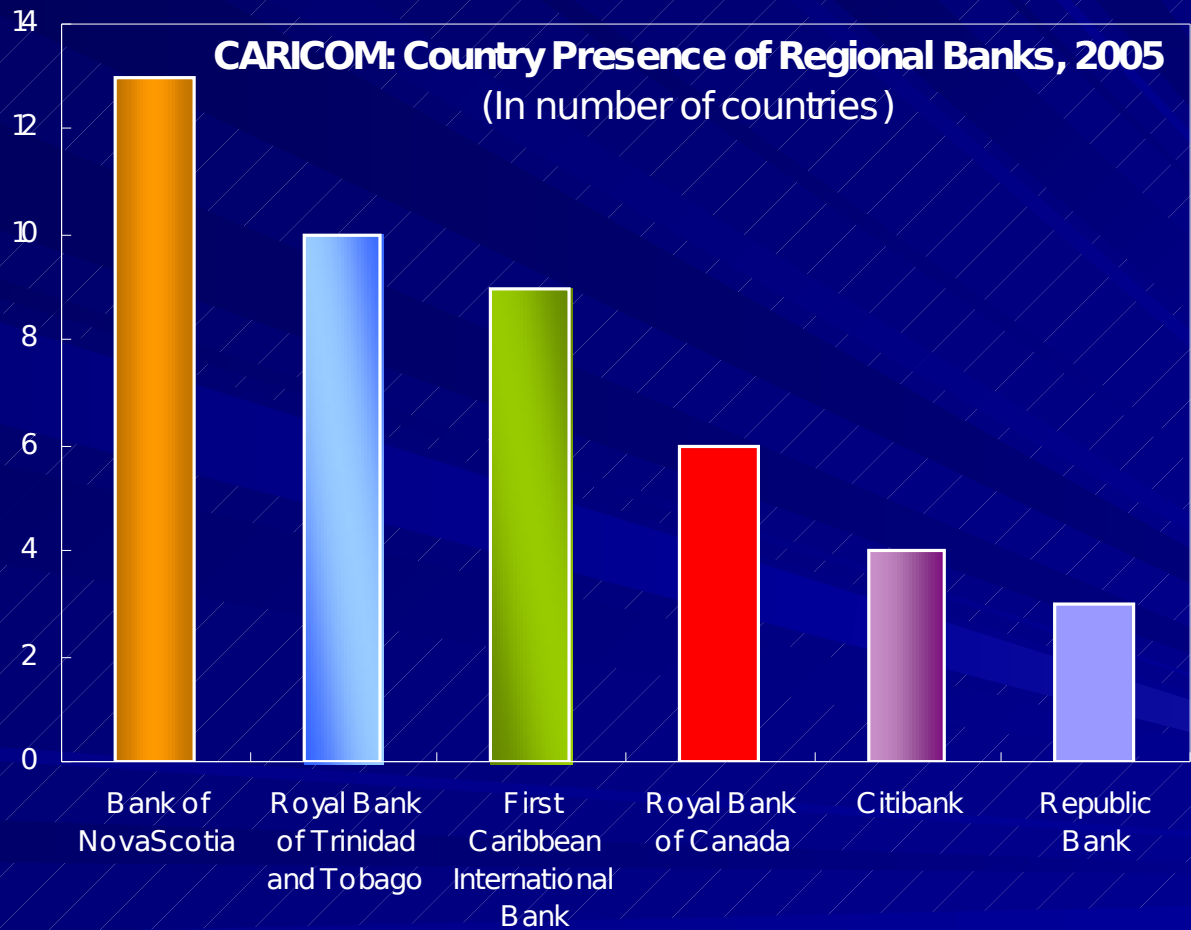
Contributions to Private Sector Credit Growth (in Percent), 2005-07 1/

	Private sector credit growth, total	<i>of which: contributions from</i>			
		Private deposits	Net foreign liabilities	Net liabilities to public sector	Other
ECCU	16.5	13.9	0.6	-2.6	4.6
Bahamas, The	13.8	9.0	0.2	-0.5	4.8
Barbados	13.2	20.0	1.4	-1.5	-6.7
Jamaica	24.2	21.3	-1.4	-5.9	10.2
Trinidad and Tobago	22.1	24.8	-5.3	-2.3	4.9

Source: International Financial Statistics.

1/ Computed as simple average over the period. Data for Jamaica and Barbados for 2007 are for end-November.

Canadian banks with representation across the region dominate the system...



*The Royal Bank of Trinidad and Tobago is in the process of being acquired by the Royal Bank of Canada.

...but have been relatively protected
from losses thus far.

Global Bank Losses, as of March 2008

(In billions of U.S. dollars)

Country/Region	Total Reported	Remaining Subprime-Related
	Losses	Losses Expected
Europe	80	43
Of which:		
United Kingdom	19	22
United States	95	49
Canada	7	0
Asia	11	3
Of which:		
Japan	10	0
GCC	1	0
Total	193	95

Sources: Goldman Sachs; UBS; and IMF staff estimates.

But financial risks remain...

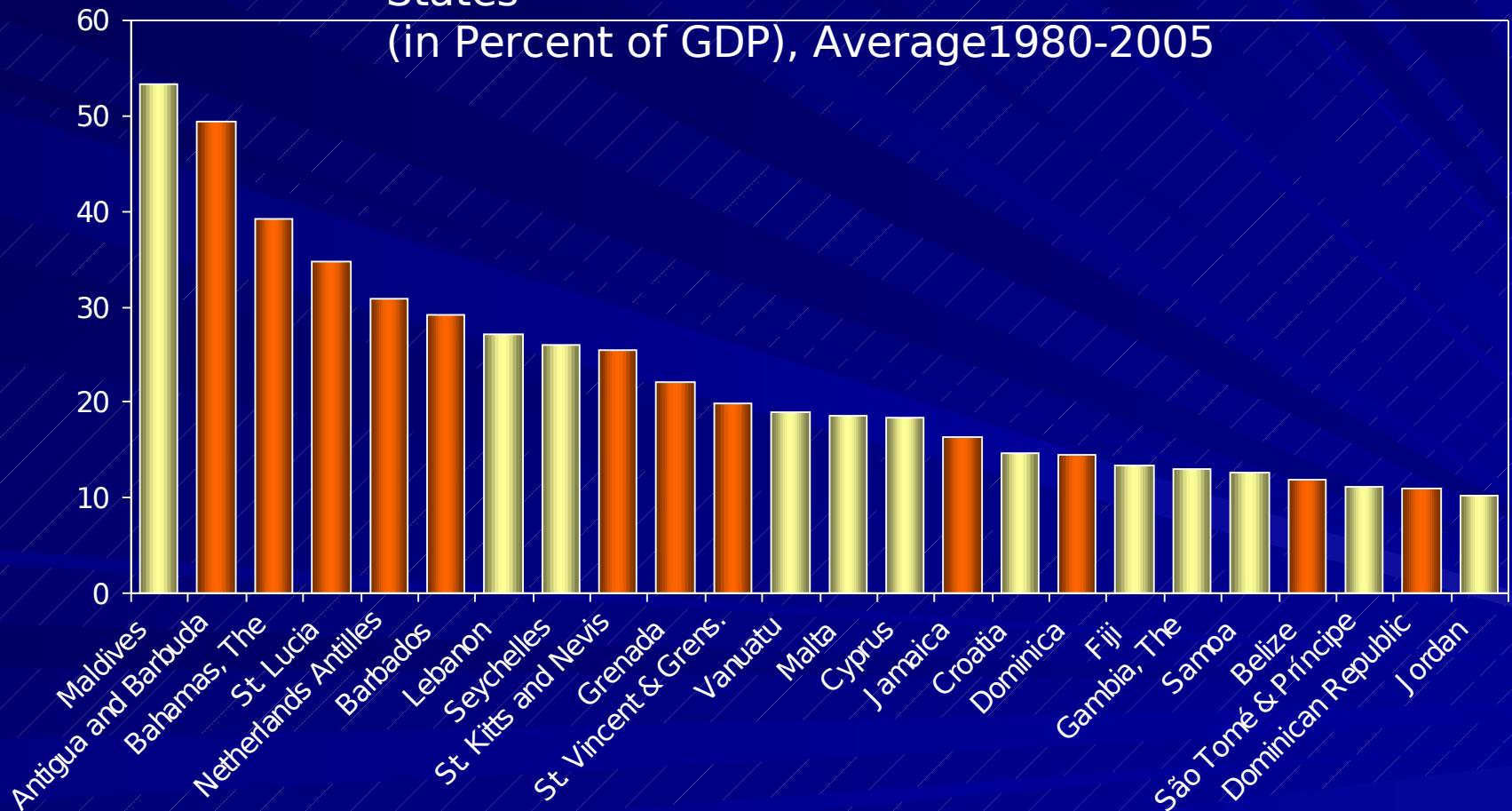
- Challenges of consolidated and cross-border supervision
- Regulatory weaknesses in non-bank financial sector
- Inadequate reporting and disclosure standards, including for off-balance sheet entities (as in many advanced economies)
- Exposure to sectors affected by the slowdown (real estate)

... and there are other channels for the financial crisis to affect the region.

- Tourism dependence →
- Reliance on FDI inflows →
- High levels of public debt in many countries →

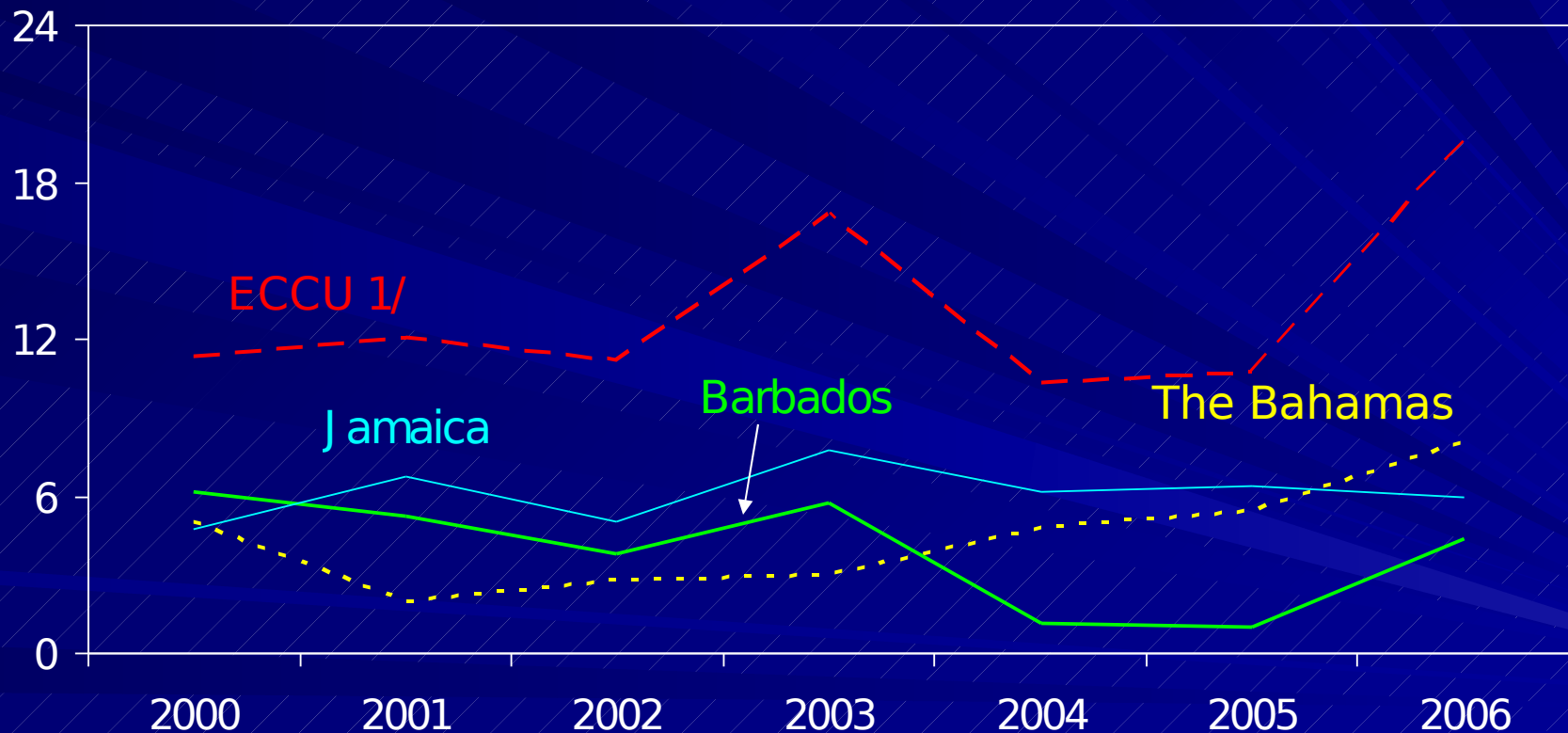
Tourism will be adversely affected by slowing growth in advanced economies

Travel Receipts for Tourism Dependent
States
(in Percent of GDP), Average 1980-2005



FDI inflows are sizable and could also be adversely affected

Foreign Direct Investment in Percent of GDP, 2000-06

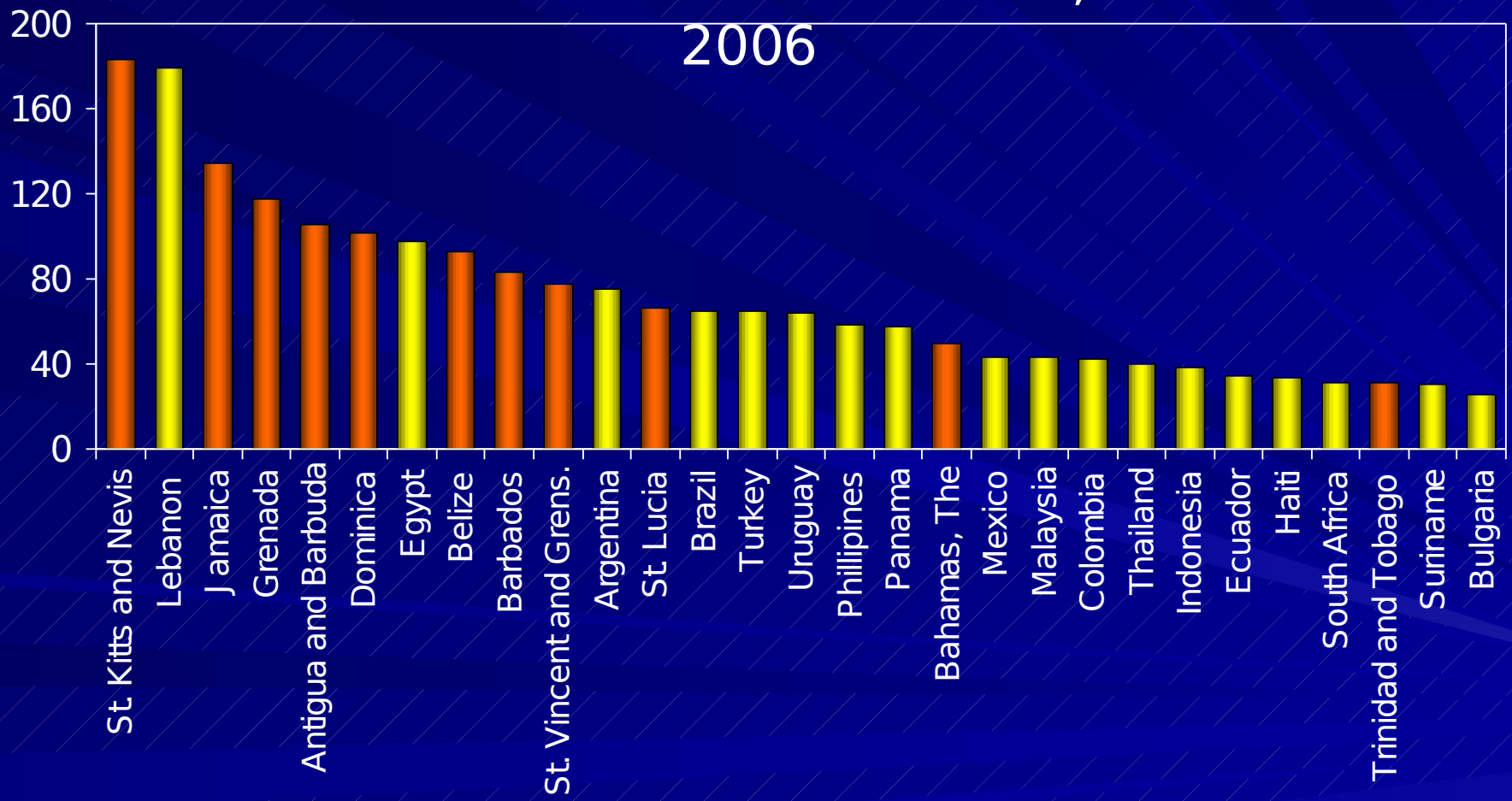


Source: World Economic Outlook, IMF.

1/ Computed as a simple average of six IMF member countries.

High public debt exposes countries to liquidity pressures and constrains fiscal space.

Public Debt in Percent of GDP, end-2006



Source: World Economic Outlook; and Fund staff calculations.

Policy Recommendations for Financial Supervisors Around the Globe

- Review financial institutions' public disclosure standards
- Improve access to information to assess health of individual institutions
- Provide clearer guidance on risk transfer and capital requirements for off-balance sheet entities
- Improve cross-border information sharing and coordination among regulators
- Establish contingency plans and conduct "fire drills" to prepare for liquidity crises

Conclusions and Policy Recommendations for the Caribbean

- Notwithstanding resilience thus far, challenges lie ahead
- Strong coordination between fiscal, monetary, and incomes policy will be crucial to:
 - preserve debt sustainability
 - support the most vulnerable groups
 - contain second-round effects on inflation

Issues for Discussion

- Do participants agree with the identified risks and channels of transmission?
- Are there additional channels?
- How should policy makers balance the risk to stability (financial and social), growth, and inflation?

Thank you!