Global Macroeconomic Situation and Implication on Barbados

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A sequence of crises have led to a complex and uncertain global context

- Persistent of the Covid-19 crisis, including the large inequalities in the access to vaccines
- Mix of inflation and interest rates, and a slowdown in global growth and trade.
- The food crises in many parts of the developing world, largely generated by the effects of the war in Ukraine, but also to natural disasters associated to climate change `
- Heightened financial volatility and risk aversion.
- Less capital inflows for emerging economies, and LAC. Rise in interest rates and rising risk margins generated an outflow of capital from emerging economies in 2022.

Reduction in forecasts of global economic growth

SELECTED REGIONS AND COUNTRIES: GDP GROWTH RATES, 2021 AND PROJECTIONS FOR 2022 AND 2023

(Percentages)

	2021	2022	2023
World	5,8	3,0	1,9
Developed economies	5,2	2,6	0,4
United States	5,7	1,8	0,4
Japan	1,7	1,6	1,5
European Union	5,3	3,3	0,2
Economies in transition	4,9	-3,0	-0,8
Russian Federation	4,7	-3,5	-2,9
Developing economies	6,7	3,9	3,9
Africa	4,1	4,1	3,8
East and South Asia	7,1	3,6	4,4
China	8,1	3,0	4,8
India	8,9	6,4	5,8
Western Asia	6,2	6,4	3,5
Latin America and the Caribbean	6,7	3,7	1,3
Least developed countries	2,4	4,3	4,4

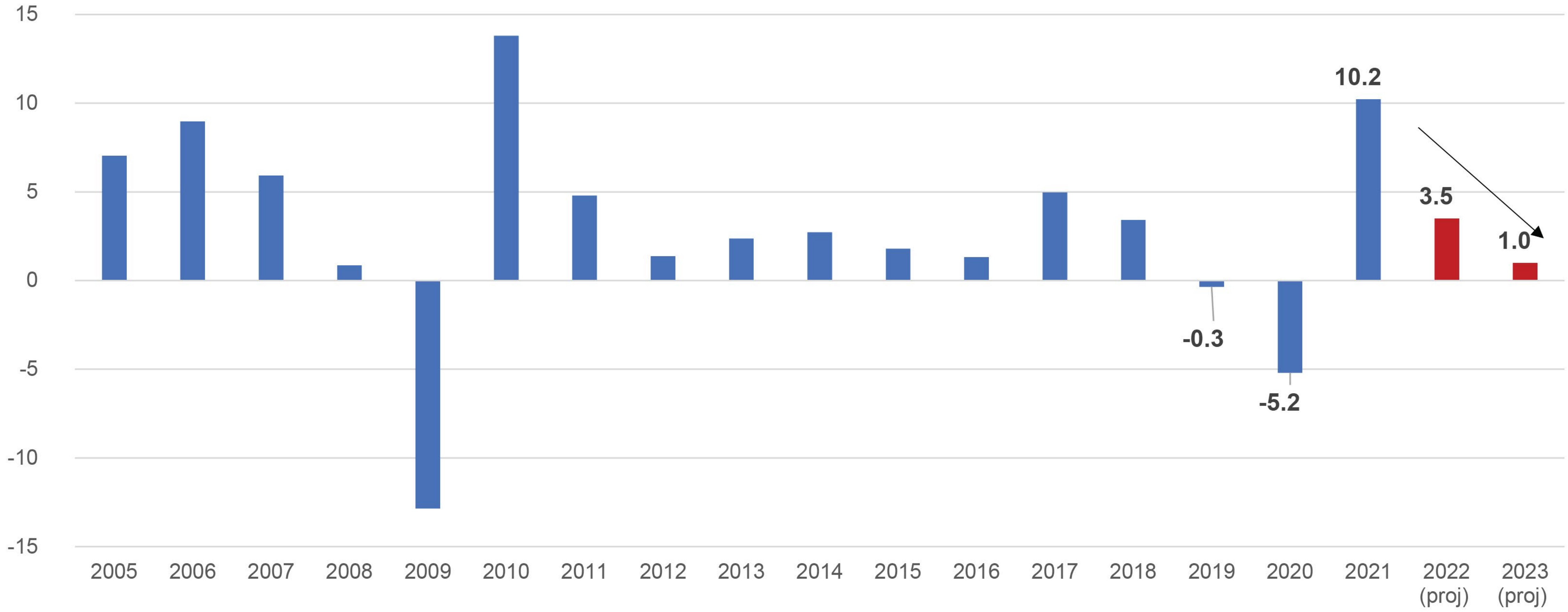
Slow growth in the region’s key trading partners (China, the European Union and the United States)

Source: Econo … “European Economic Forecast. Autu …
https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q4-2022.

Note: In the case of India, the fiscal year starts in April and ends in March the following year.

World trade is also slowing

VOLUME OF WORLD TRADE: YEAR-ON-YEAR VARIATION AND PROJECTIONS FOR 2022 AND 2023
(Percentages, on the basis of a seasonally adjusted index)



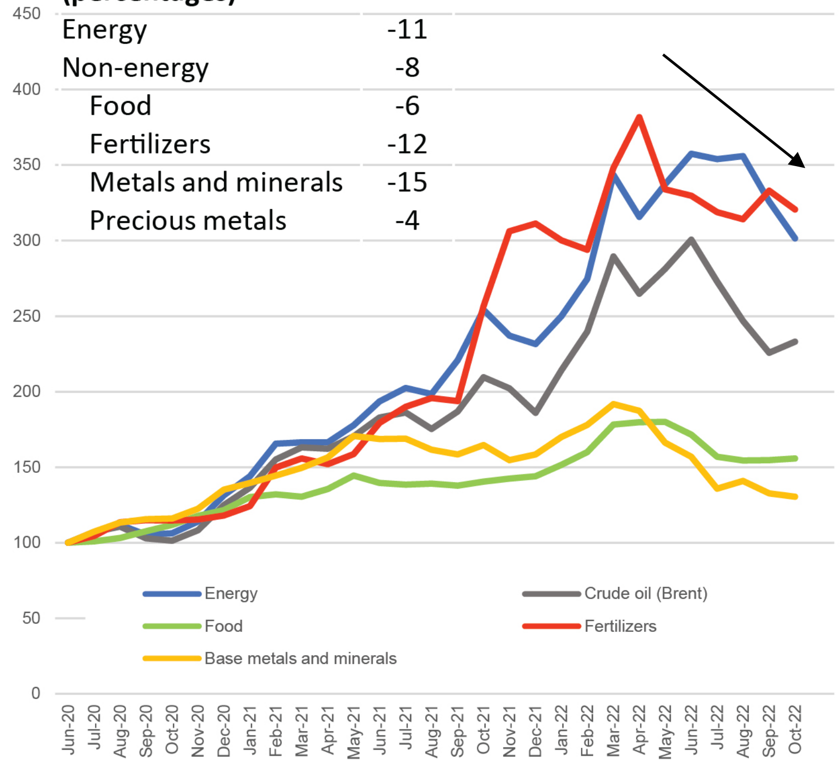
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor, and World Trade Organization (WTO), "Trade growth to slow sharply in 2023 as global economy faces strong headwinds", International Trade Statistics, Press/909, 5 October 2022, for 2022 and 2023.

Inflation is expected to slow in 2023, in both advanced and emerging economies, but will remain high

INTERNATIONAL COMMODITY PRICE INDICES

(Index: June 2020=100)

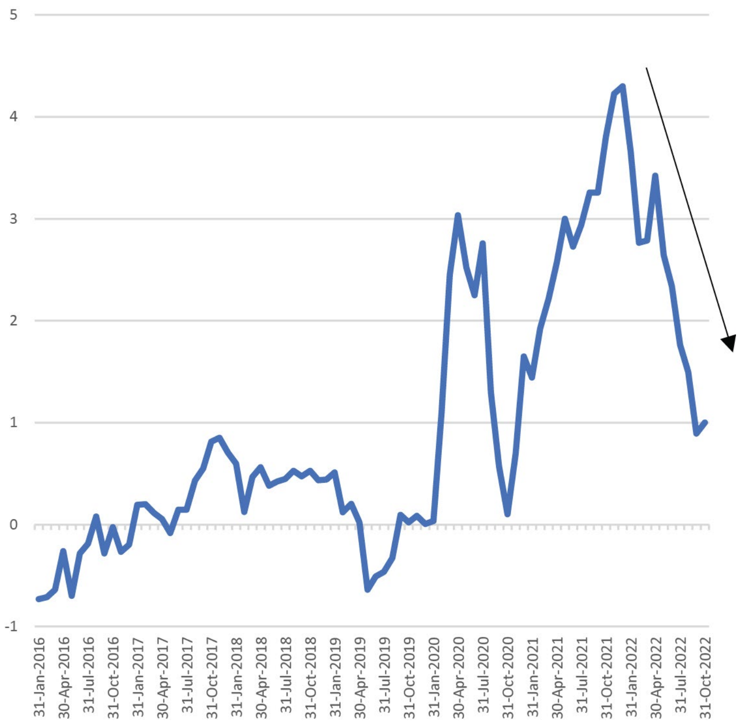
Projected variation (percentages)	2023
Energy	-11
Non-energy	-8
Food	-6
Fertilizers	-12
Metals and minerals	-15
Precious metals	-4



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor [online database] https://www.cpb.nl/en/worldtrademonitor, and World Bank, "World Bank Commodities Price Data (The Pink Sheet)" [online] https://www.worldbank.org/en/research/commodity-markets.

GLOBAL SUPPLY CHAIN PRESSURE INDEX (GSCPI)

(Standard deviations with respect to a historical average since 1997)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Federal Reserve Bank of New York, "Global Supply Chain Pressure Index", 2022 [online] https://www.newyorkfed.org/research/gscpi.html.

SELECTED REGIONS AND COUNTRIES: AVERAGE YEAR-ON-YEAR CONSUMER PRICE INFLATION

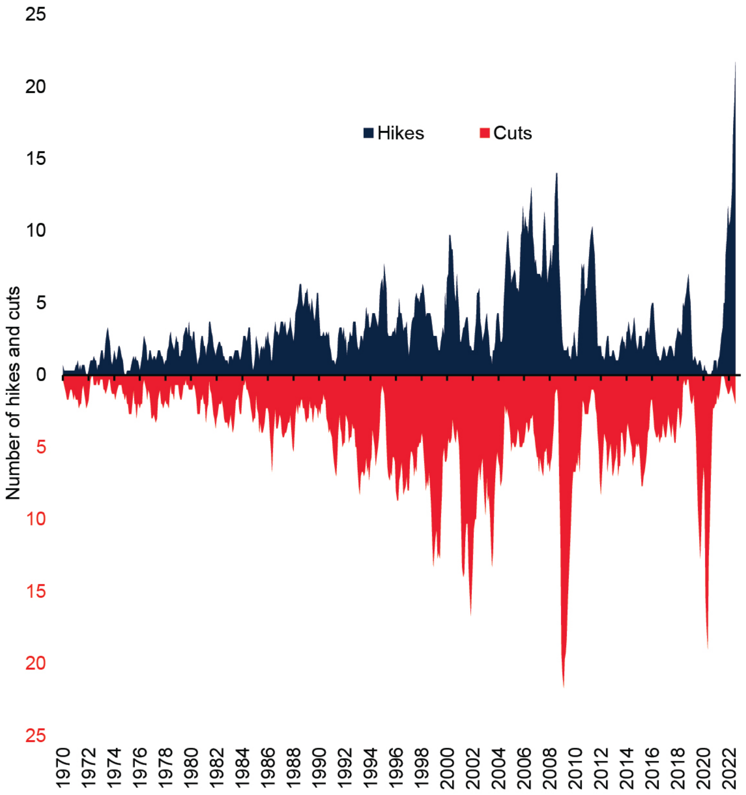
(Percentages)

	Average 2010-2019	2022	Projection for 2023
World	3.7	8.8	6.5
Advanced economies	2.0	7.2	4.4
Emerging economies	5.1	9.9	8.1
United States	2.3	8.1	4.2
Eurozone	1.4	8.3	5.7
United Kingdom	2.2	8.9	6.2
Latin America and the Caribbean	3.9	7.3	4.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), World Economic Outlook, October 2022, and data from Bloomberg and Latin American Consensus Forecast.

Monetary policy rate hikes have behaved in a synchronous manner at the global level, despite not being actively coordinated

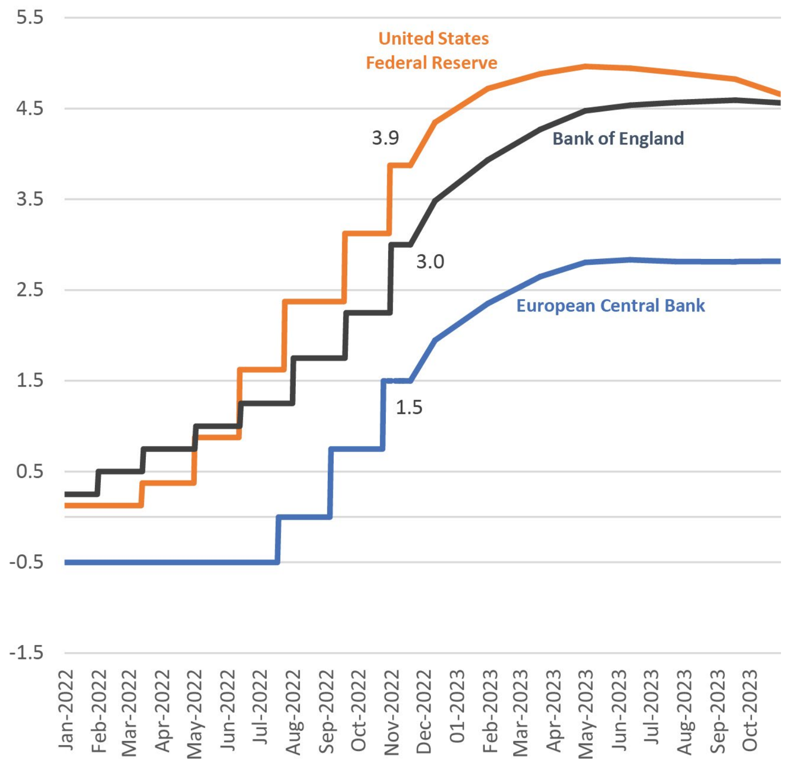
NUMBER OF MONETARY POLICY RATE HIKES AND CUTS GLOBALLY
(*Numbers*)



Source: J. D. Guénette, M. Kose and N. Sugawara, “Is a global recession imminent?”, *EFI Policy Note*, No. 4, Washington, D.C., World Bank, 2022.

Note: Three-month average of the number of hikes and cuts in official interest rates in the month, for 38 countries, including the eurozone. The last observed figure is for July 2022.

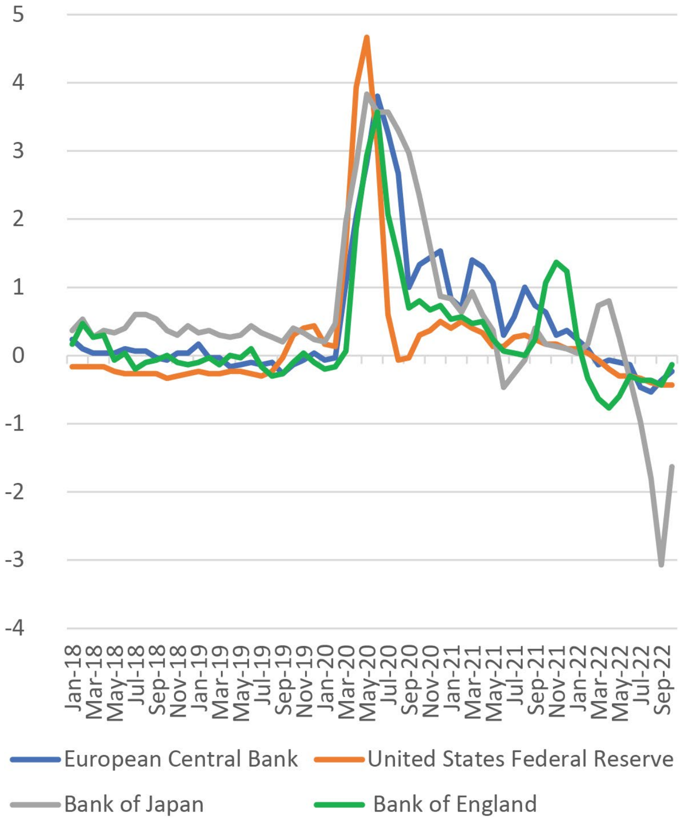
MONETARY POLICY RATES FOR MAJOR CENTRAL BANKS, JANUARY–NOVEMBER 2022 AND MARKET-EXPECTED RATES
(*Percentages*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

Note: The dotted lines represent the market expectations for monetary policy rates, based on the implied rates in overnight indexed swaps (OIS), at 9 December 2022.

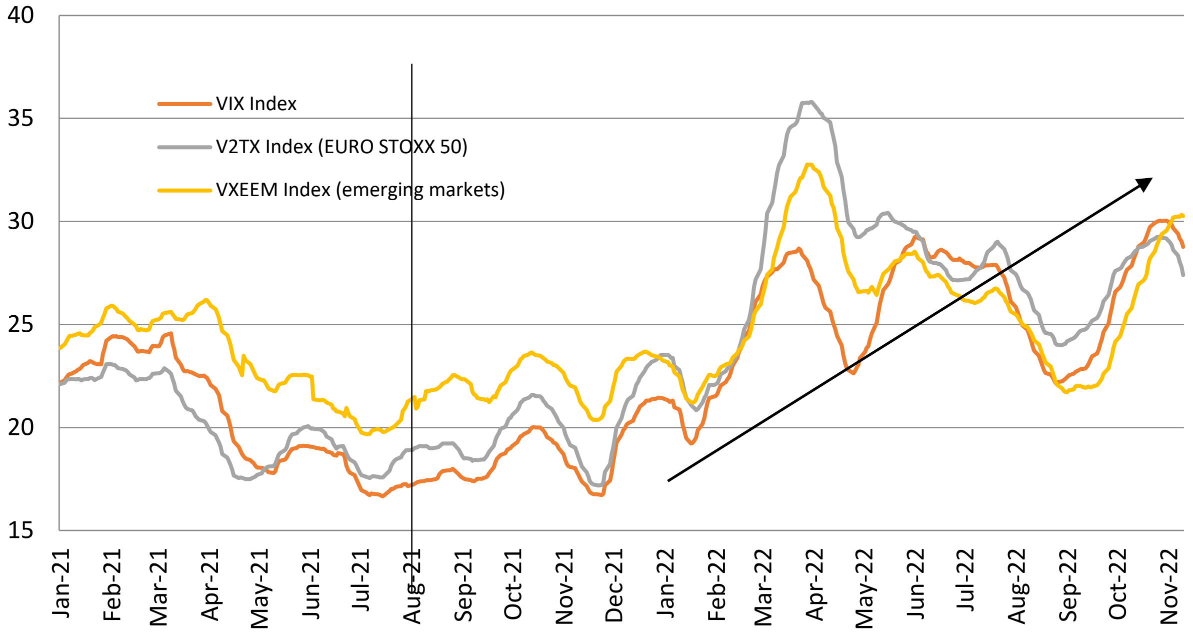
GROWTH IN BALANCE SHEETS OF MAJOR CENTRAL BANKS
(Monthly variation, quarterly moving averages, as percentages of GDP)



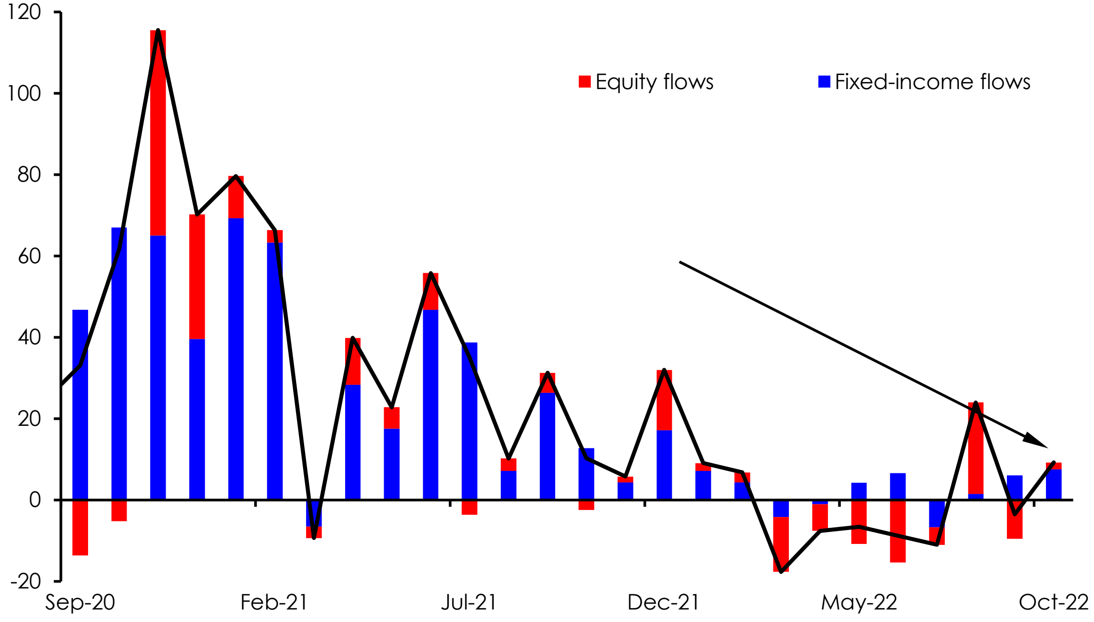
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg.

Global financial conditions are expected to continue tightening

FINANCIAL MARKET VOLATILITY INDICES
(VIX, V2TX and VXEEM indices, 30-day moving averages)



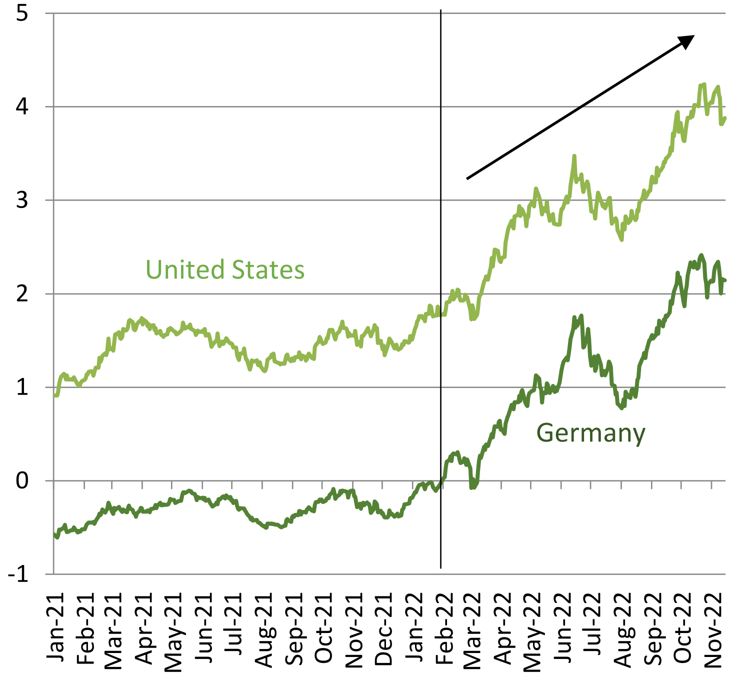
PORTFOLIO CAPITAL FLOWS TO EMERGING MARKETS, SEPTEMBER 2020–OCTOBER 2022
(Billions of dollars)



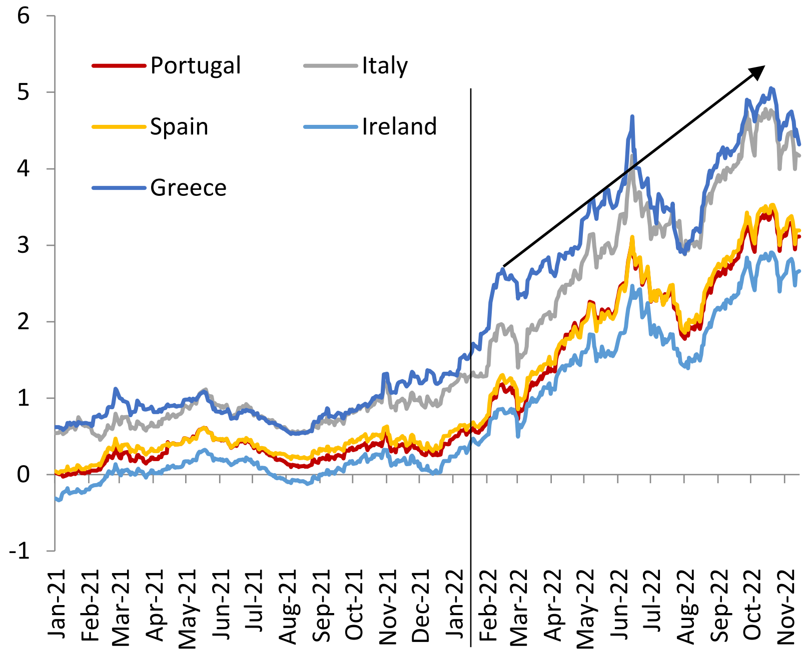
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Bloomberg and Institute of International Finance (IIF).
Note: The VIX index is prepared by the Chicago Board of Exchange (CBOE) from S&P 500 index call and put option prices, and measures expected volatility over the next 30 days. Along similar lines, CBOE also produces the VXEEM index, which measures volatility in emerging markets, while Deutsche Börse and Goldman Sachs produce the V2TX index, which measures eurozone volatility. Option prices rise when volatility is higher because investors are willing to pay more for protection. A VIX value above 30 reflects fear among investors.

Financing costs are on the rise

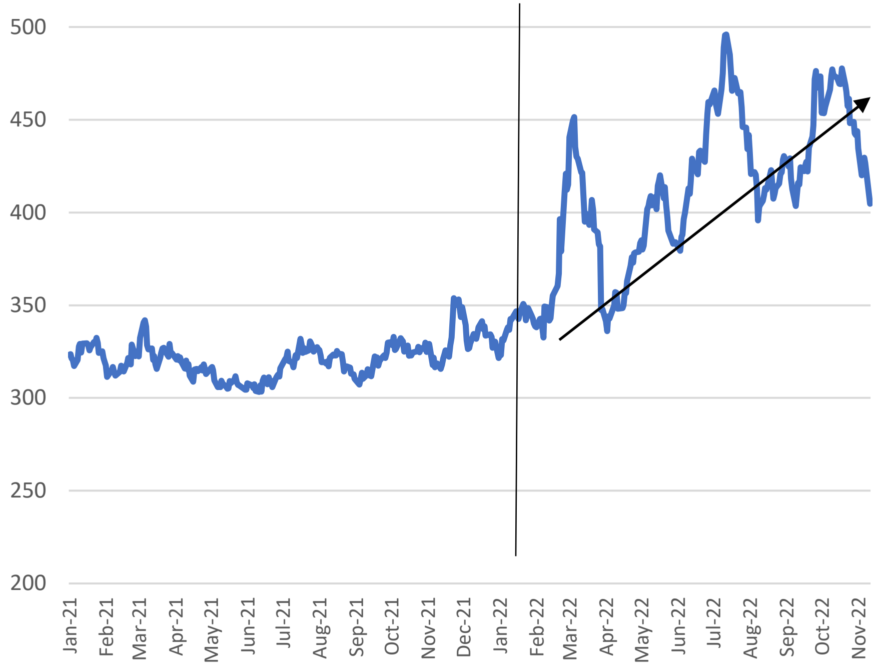
UNITED STATES AND GERMANY: 10-YEAR SOVEREIGN BOND YIELDS, 1 JANUARY 2021–14 NOVEMBER 2022
(Percentages)



IRELAND, ITALY, GREECE, PORTUGAL AND SPAIN: 10-YEAR SOVEREIGN BOND YIELDS, 1 JANUARY 2021–14 NOVEMBER 2022
(Percentages)



J. P. MORGAN EMBI GLOBAL DIVERSIFIED INDEX OF EMERGING MARKET SOVEREIGN RISK, 1 JANUARY 2021–14 NOVEMBER 2022
(Basis points)



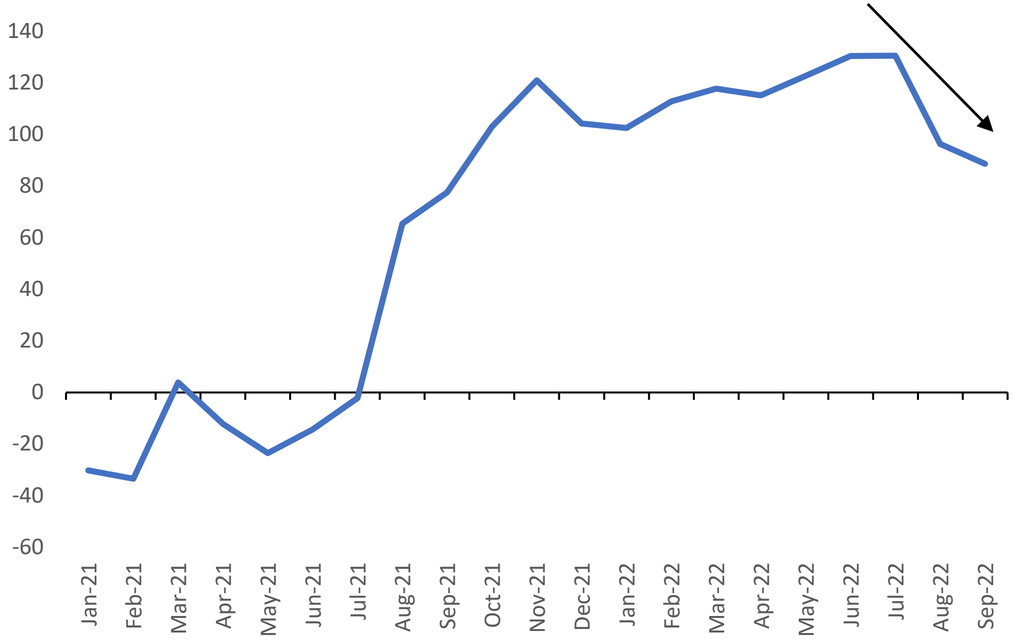
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis **of** Bloomberg and JP Morgan.

In 2023, slower growth is expected to continue in LAC in a complex macroeconomic context

- Lower inflation will tend to moderate any increases in the monetary policy rate. Rates will probably remain high.
- International financial volatility will increase the risk of currency depreciation, which could affect inflation trends.
- Fiscal space should be expanded to make higher demand for social spending and public investment sustainable and to avoid premature fiscal adjustments.
- The short-term challenges imposed by macroeconomic constraints must be offset by spurring sustainable growth, creating quality jobs, reducing poverty and inequality, boosting investment and addressing climate change.

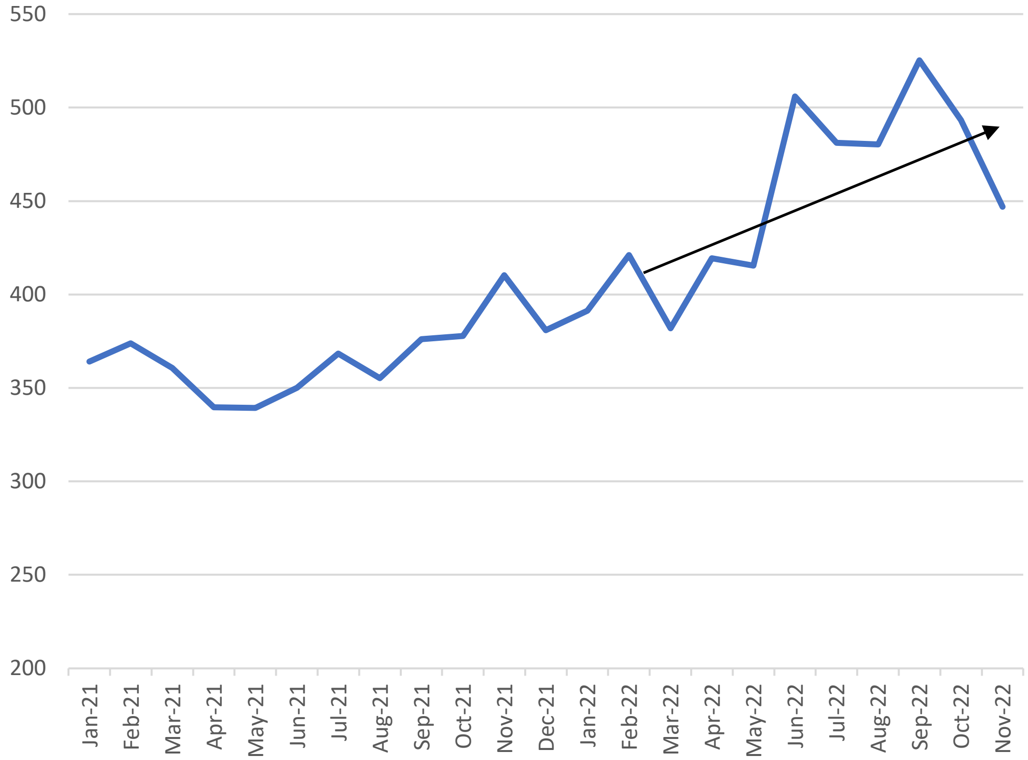
Financial flows to LAC have slowed over the past few quarters and sovereign risk is trending upward

LATIN AMERICA (14 COUNTRIES): INDIRECT INDICATOR FOR NET FINANCIAL FLOWS
(*Index: January 2016=100*)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: The countries included are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Paraguay, Peru and Uruguay. (See Carvallo and others, 2018, for the methodology used.)

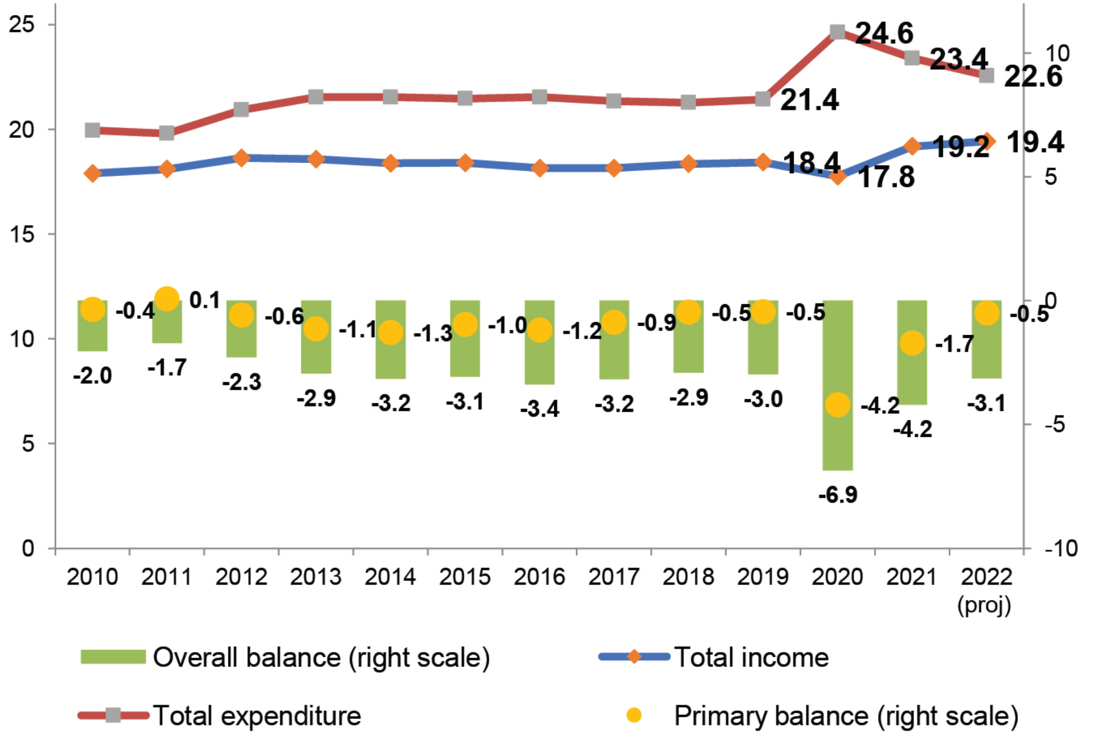
LATIN AMERICA: SOVEREIGN RISK INDEX, AS MEASURED BY THE GLOBAL DIVERSIFIED EMERGING MARKET BOND INDEX (EMBI Global Diversified), JANUARY 2021–NOVEMBER 2022
(Basis points to end of period)



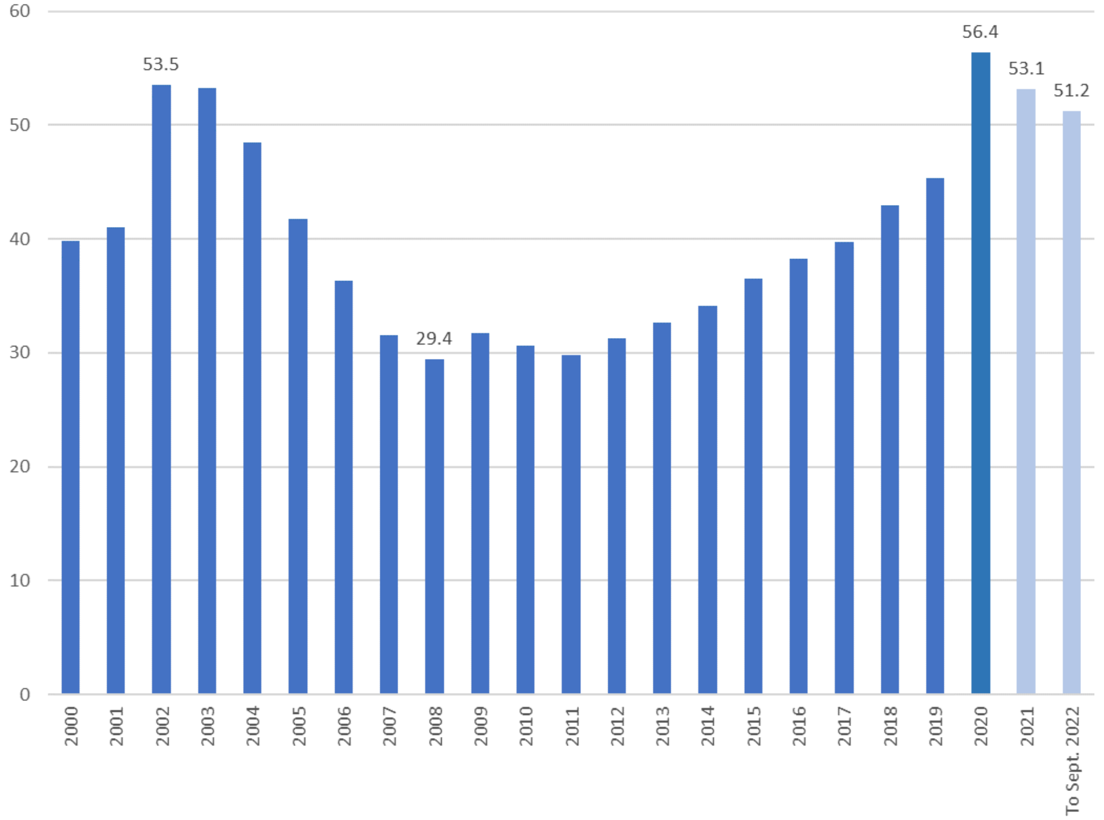
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from JP Morgan and Invenómica [online] www.invenomica.com.ar.

In Latin America, fiscal deficits are approaching pre-pandemic levels, but public debt remains high despite having fallen in 2022

LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2010–2021, AND 2022 PROJECTIONS
(Percentages of GDP)



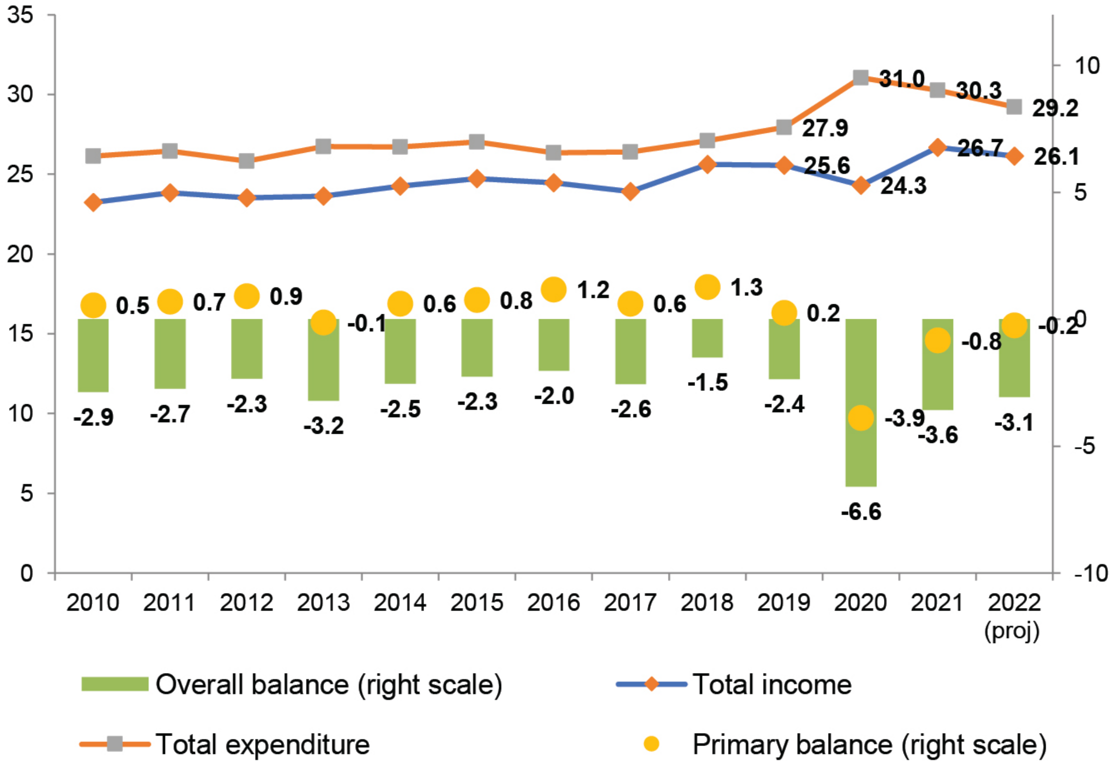
LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2000–SEPTEMBER 2022
(Percentages of GDP)



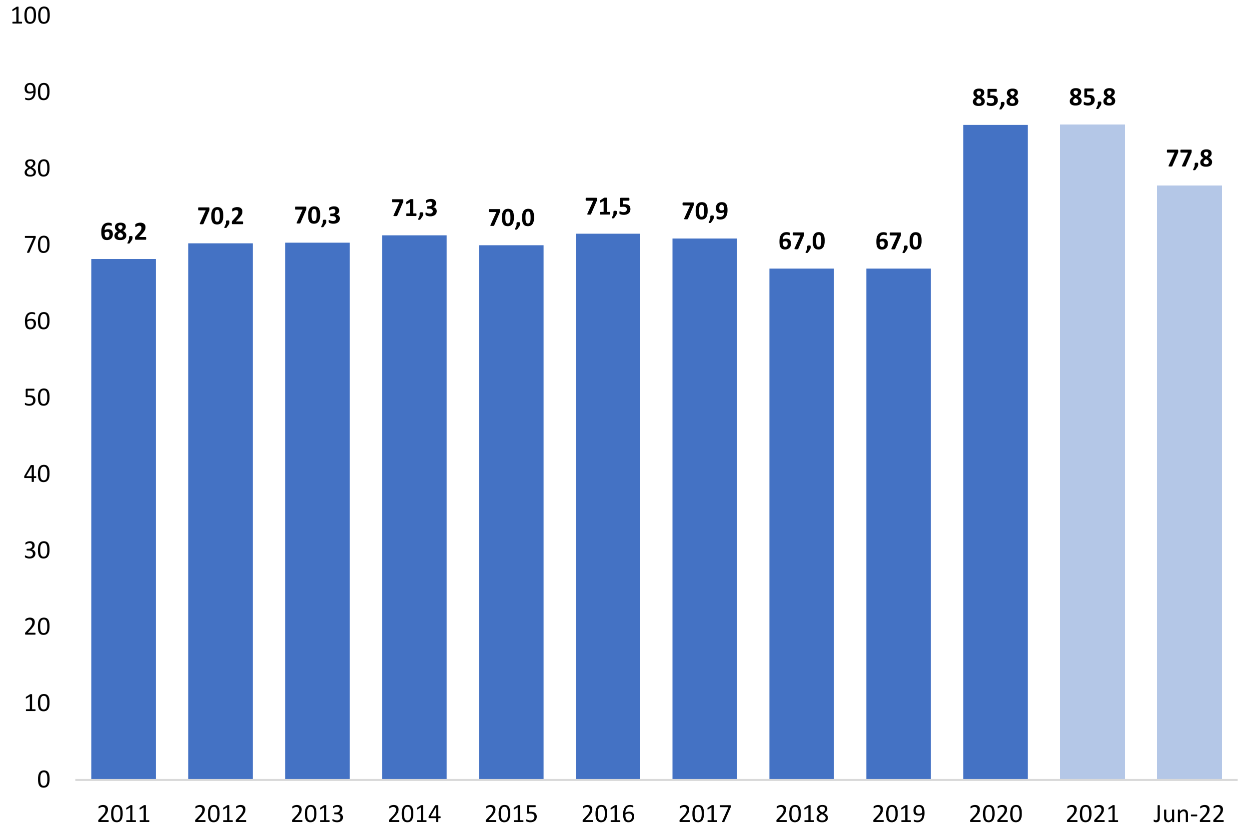
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In the Caribbean, fiscal deficits are also narrowing and public debt remains high

THE CARIBBEAN (12 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2010–2021, AND 2022 PROJECTIONS
(Percentages of GDP)



THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2011–JUNE 2022
(Percentages of GDP)

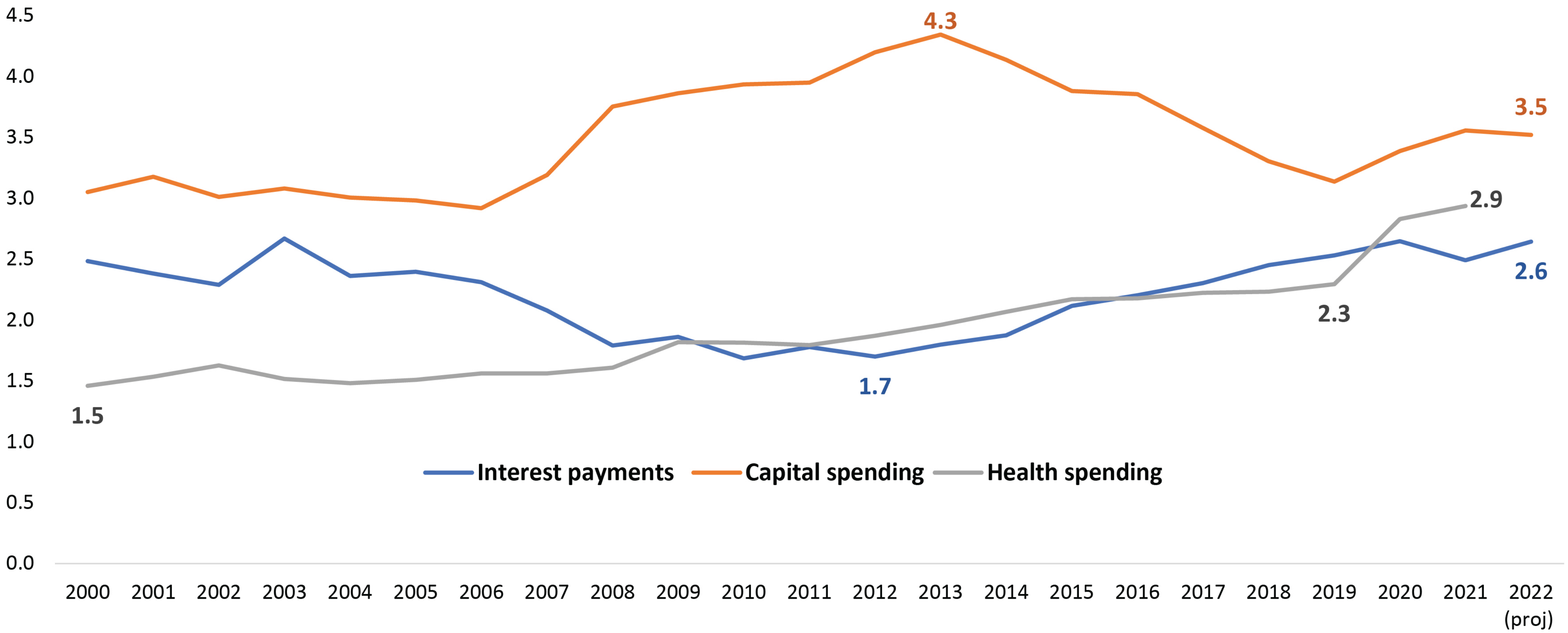


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Higher interest payments are diverting resources away from other public spending priorities

LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT INTEREST PAYMENTS, CAPITAL SPENDING AND HEALTH SPENDING, 2000–2021, AND PROJECTIONS FOR 2022

(Percentages of GDP)

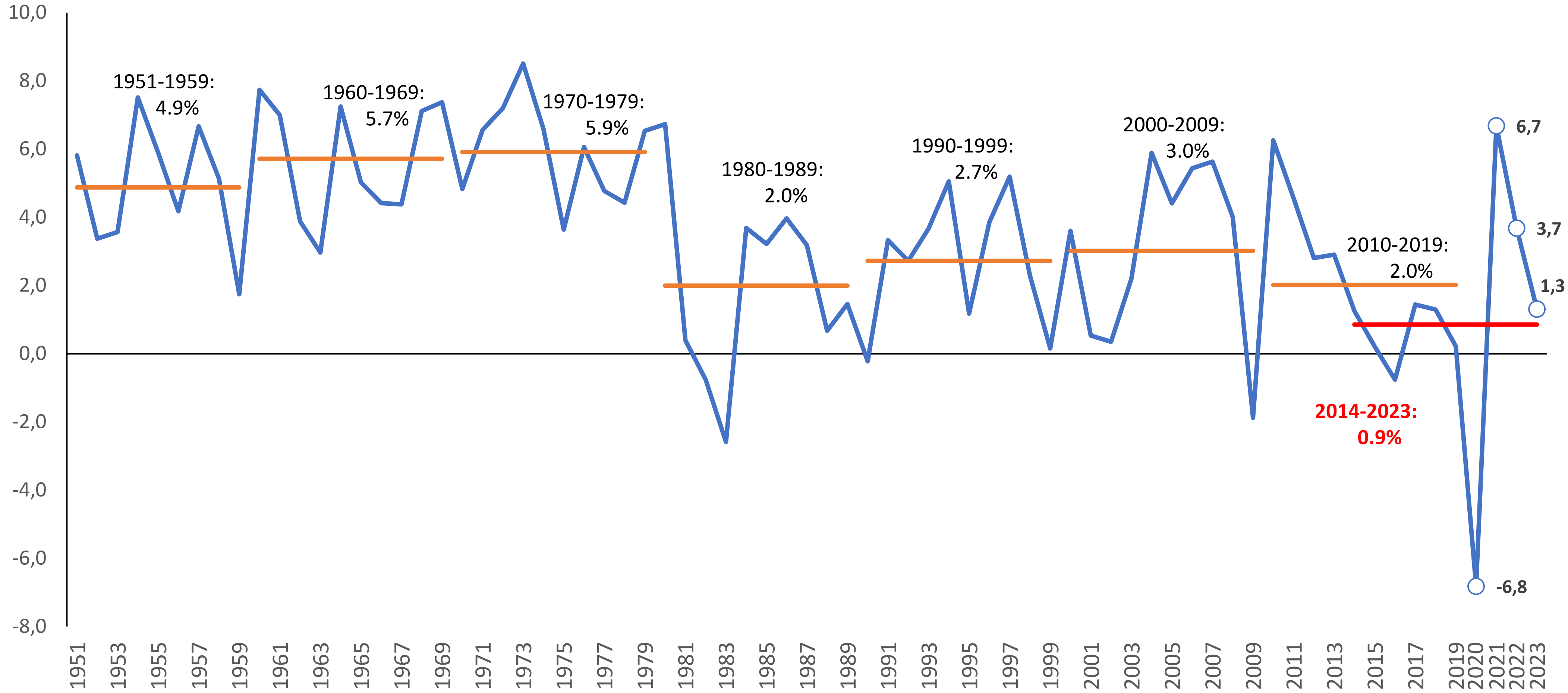


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: The figures for health spending refer to a sample of 17 countries including the Plurinational State of Bolivia.

In the decade 2014–2023, the region is expected to record even weaker growth than in the lost decade during the debt crisis

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 1951–2023

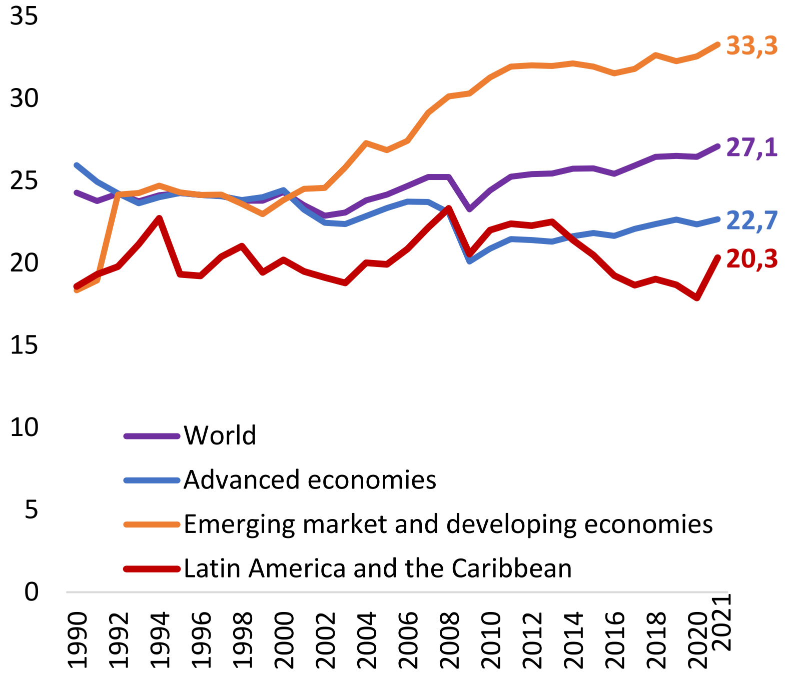
(Percentages)



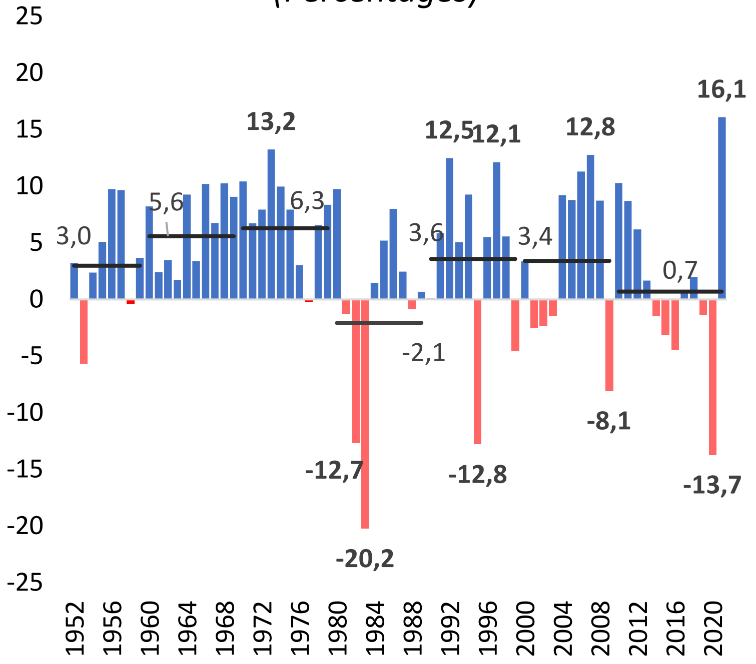
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Region’s weak overall investment levels and heightened volatility

WORLD AND SELECTED REGIONS: INVESTMENT TO GDP RATIO, 1990–2021
(Ratios on the basis of current dollars, in percentages)

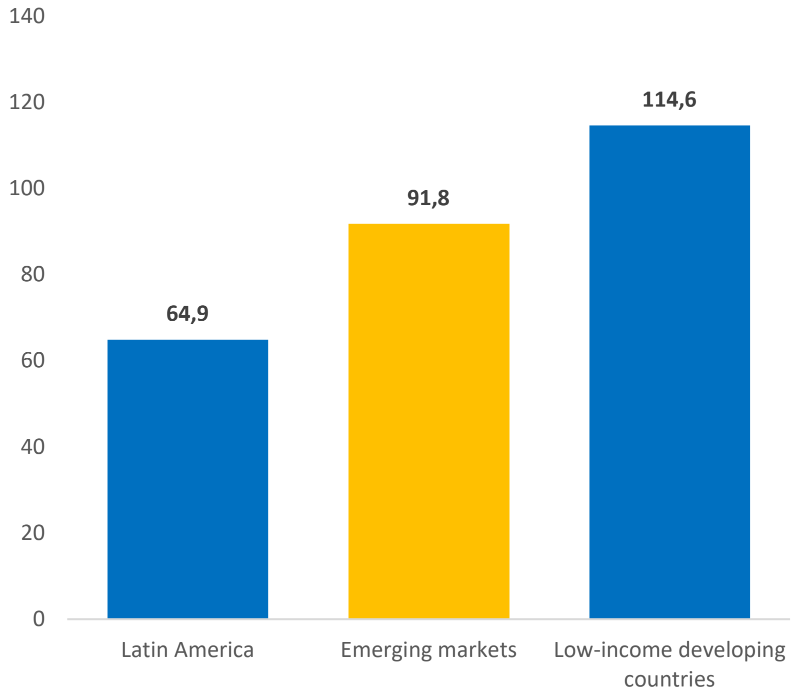


LATIN AMERICA AND THE CARIBBEAN: REAL RATE OF GROWTH OF GROSS FIXED CAPITAL FORMATION, 1951–2021
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of IMF World Economic Outlook, October 2022, and official figures.

SELECTED COUNTRY GROUPS: GENERAL GOVERNMENT CAPITAL STOCK, 2015
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), “Investment and Capital Stock Dataset”.
[a] Weighted averages are calculated on the basis of purchasing power parity GDP in international dollars at current prices.

Climate change puts a lot pressure on debt sustainability, given the large public investment requirements…

- Investment needs to build resilience to climate change are very large.
- Estimates point towards investment – typically fixed capital – requirements of upwards of 2% of GDP per year for adaptation and 10% of GDP per year for mitigation.
- DSAs need to consider these factors to truly capture debt sustainability that is also viable in economic, social and climate terms.

	Source	Elements included in the estimation	Annual investment needs
Emerging markets and developing countries	IEA (2021)	Investments in renewable energy to achieve net zero greenhouse gas emissions	**2.4% of 2021 GDP (1 trillion dollars)**
Emerging markets, excluding China	Bhattacharya et al. (2022)	Human capital; sustainable infrastructure; land use, agriculture, environment; adaptation and resilience	**6.8% of GDP**
Low- and middle-income countries	Rozenberg, et al., (2019)	Electricity, transportation, water sanitation, flood protection, irrigation	**7.2% of GDP 4.5% of GDP (capital investment) and 2.7% of GDP (maintenance)**
Latin America and the Caribbean	Castellani, et al., (2019)	Infrastructure and reduction of extreme poverty	**10.6% of GDP**
Latin America and the Caribbean	Rozenberg, et al., (2019)	Electricity, transportation, water sanitation, flood protection, irrigation	**2.6% - 8.8% of GDP (depending on scenario)**

Summing up

- The current juncture poses challenges for macroeconomic management:
  - A key element for fiscal sustainability will be the need to public revenues through reforms to the tax structures to improve tax collection and progressivity.; fiscal space should be expanded through the reduction of tax evasion and avoidance, the review of tax expenditure, and reforms that increase tax collection and progressivity.
  - Progress in the efficiency and effectiveness of spending is also central to fiscal policy strengthening.
  - Interest payments have been increasing, creating trade-offs with other needed expenditures.
  - Addressing climate change will put a lot of pressure on debt sustainability: investment efforts required to address climate change will put a lot of pressure on public expenditures and debt.
  - The international financial architecture must undergo reform that fosters mechanisms to facilitate renegotiation of sovereign debt, mobilize global liquidity and strengthen the role of multilateral and regional financial institutions.
- To speed up growth, combat inequality and tackle climate change, investment and productivity must be boosted through innovative public policies on production, trade, social issues and the care economy to avoid another lost decade