Macroeconomic Report
on Latin America and the Caribbean
June 2012
1. The international context

2. Internal performance
   - Economic Activity
   - Inflation
   - Employment

3. Foreign trade and capital flows

4. Macroeconomic policies
   - Fiscal policy
   - Monetary, exchange rate and macro-prudential policy

5. Perspectives for 2012 and 2013
1. The International Context
The international context: uncertainty and turbulence increase

Three key facts, with differing effects depending on the country and sub-region, have been important during the beginning of 2012:

1. The uncertainty in the Euro Zone since 2010-2011:
   - Initially it fell (1st quarter 2012) due to action by the BCE (end of 2011) and the initial agreement with Greece (most of the 1st quarter fo 2012)
   - Afterwards (2nd quarter 2012) it grew due to:
     - Questions regarding the sustainability of the stabilization program adopted by Greece
     - Problems with the Spanish banking system and the risk of spillovers to Spain and Italy.

2. The precarious growth of the United States economy

3. A growth slowdown in China and India, although:
   - It is likely that the previous Chinese growth rate was not sustainable and that its current trajectory, with a greater proportion of consumption and less investment, and with a lower growth rate (between 7 and 8.2%), is more sustainable
   - The reduction in the Chinese inflation rate has opened room for the implementation of counter-cyclical policies in the event there is a sharp downturn.
International context: two possible scenarios

**Scenario I**

The more likely scenario: an orderly management of the problem with Greece and the containment of similar contagion for other EU members:

- A moderate recession in most of the European countries, but the fiscal adjustment becomes more flexible in the short term for problems related to political and economic stability
- A reduction in the imports from Latin America and the Caribbean that will affect those countries with a greater proportion of their exports destined to Europe
- A certain “flight to quality” of financial flows (investment in assets denominated in US$), increased financial and exchange rate volatility, but without a drying up of resources in LAC
- Lower remittance and tourist flows from Europe to LAC
- Global uncertainty reduces, but does not stop, the flow of foreign investment
- The USA maintains its precarious growth
- China posts growth above 7.5%, with counter-cyclical policies if necessary

**Scenario II**

Less likely but not impossible: Greece leaves the Euro Zone, spillover and a Great Depression in EU countries, with negative repercussions for the USA, China and the rest of the world economy (analogous to the crisis of 2008-2009)
Probable scenario: The world economy maintains growth in 2012, although at lower rates...

GROSS DOMESTIC PRODUCT BY REGIONS
Real growth rates, 2006-2012\textsuperscript{e}
(Percentages)

Source: UN/DESA, based on official figures.

\textsuperscript{a} Estimation.
…but uncertainty and turbulence increase

SELECTED EUROPEAN COUNTRIES
FIVE YEAR RISK PREMIUMS 2009-2012
(Credit Default Swaps, in basis points)

Source: Bloomberg.
2. Internal Performance
The slowdown observed in 2011 moderated in the first quarter of 2012

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Rates of change with relation to the previous quarter, data with seasonal adjustments, percentages)

Source: ECLAC, based on official figures.
The tendencies at the country level are mixed…

LATIN AMERICA: ECONOMIC ACTIVITY INDICES
(Rates of change with relation to the previous quarter, data with seasonal adjustments)

Source: ECLAC, based on official figures

\(^{a}\) Refers to the quarterly GDP rate. \(^{b}\) Refers to the behaviour of the trend-cycle index.
Inflation continued its downward trend: Lower increase in food prices

**LATIN AMERICA: CPI AND CONTRIBUTIONS TO INFLATION**
*(Twelve month rates of change, simple average)*

Source: ECLAC, based on official figures
Even with this trend, in some cases the inflation rates still remain in double digits

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX
(Twelve month rates of change, simple average)

Central America and Dominican Republic
The Caribbean without Trinidad and Tobago
Financially integrated countries (Brazil, Colombia, Chile, Mexico and Peru)
Oil-exporting countries (Bolivia, Ecuador, Trinidad and Tobago and Venezuela)
Agricultural-product-exporting countries (Argentina, Paraguay and Uruguay)

Fuente: ECLAC, based on official figures.
The tendency of a reduction in unemployment continues in most countries

LATIN AMERICA (10 COUNTRIES): EMPLOYMENT AND UNEMPLOYMENT RATES
First quarter of 2008 to the first quarter of 2012, 4-quarter moving average

Source: ECLAC, based on official figures
...but employment growth shows differing tendencies at the country level

LATIN AMERICA (SEVEN COUNTRIES): INTER-ANNUAL GROWTH IN EMPLOYMENT COVERED BY SOCIAL SECURITY

(Growth rates, fourth quarter of 2008 – first quarter of 2012)

Fuente: ECLAC, based on official figures.
Moderate increases in real salaries predominate in the region

GROWTH IN FORMAL SECTOR AVERAGE REAL SALARIES
(Inter-annual growth rates, percentages)

Source: ECLAC, based on official figures.
3. External trade and capital flows
The deterioration in the prices of primary products moderated or even reversed.
Export growth of countries within the region slowed

LATIN AMERICA: INTER-ANNUAL RATE OF CHANGE IN THE VALUE OF EXPORTS 2011-2012
(Percentages, simple averages for the groupings)

Source: ECLAC, based on official figures

*a/ The data for Central America for the first semester does not include Haiti, Panama or the Dominican Republic.
Import growth also slowed, although less so than export growth

(Percentages, simple average for the groupings)

Source, ECLAC, based on official figures
a/ The data for Central America for the first quarter of 2012 does not include Haiti, Panama, or the Dominican Republic
Exports to Europe have tended to fall

COUNTRIES WITH THE GREATEST PROPORTION OF EXPORTS TO EUROPE: INTER-ANNUAL RATES OF CHANGE IN THE VALUE OF EXPORTS TO THE EUROPEAN UNION, FIRST QUARTER 2012
(Percentages)

| Country       | Total EU | Argentina EU | Brazil EU | Chile EU | Total EU | Costa Rica EU | Uruguay EU |
|---------------|----------|--------------|-----------|----------|----------|               |           |
| Source: ECLAC, based on official figures
There was a moderate increase in the flow of workers’ remittances

LATIN AMERICA AND THE CARIBBEAN (7 COUNTRIES): RATE OF CHANGE OF INCOME FROM WORKERS’ REMITTANCES, 2011-2012
(Rates of change with relation to the same quarter of the previous year, percentages)

Ecuador
Colombia
Honduras
Jamaica
Mexico
Guatemala
Nicaragua

Source: ECLAC, based on official figures
Tourism grew moderately in the region, with some recovery in the Caribbean.

**LATIN AMERICA AND THE CARIBBEAN: CHANGE IN INTERNATIONAL TOURIST ARRIVALS: 2010-2012**

(Rates of change with relation to the same quarter of the previous year, percentages)

- **Uruguay**: 40.7%
- **Mexico**: 33.6%
- **Cuba**: -10%
- **Dominican Republic**: -5%
- **Costa Rica**: 0%
- **Chile**: 5%
- **Ecuador**: 10%
- **Antigua and Barbuda**: 15%
- **Dominica**: 20%
- **Guyana**: 25%
- **Suriname**: 30%
- **Saint Vincent and the Grenadines**: 35%
- **Belize**: 40%
- **Bahamas**: 45%
- **Barbados**: 50%
- **Jamaica**: 55%
- **Chile**: 60%
- **Antigua and Barbuda**: 65%
- **Dominican Republic**: 70%
- **Cuba**: 75%
- **Mexico**: 80%
- **Uruguay**: 85%

Source: ECLAC, based on official figures.
During the first quarter of 2012 the region maintained easy access to international capital markets

LATIN AMERICA: EXTERNAL BOND EMISSIONS AND COUNTRY RISK
(In millions of dollars and basis points)

Source: ECLAC, based on official figures
4. Macroeconomic policy
During the first quarter of 2012 the growth of tax income slowed in various countries.

**LATIN AMERICA (12 COUNTRIES): TOTAL TAX COLLECTION**

*(Real rate of change with respect to the same quarter of the previous year, simple average)*

Source: ECLAC, based on official figures

Note: a/ Contributions to social security are not included, and in Mexico only non-oil related tax revenues are included.
Spending varied widely in the region, with spending outpacing revenues in some countries.


Source: ECLAC, based on official figures
Various countries pushed forward with complicated processes of tax reform
(*IV quarter of 2011 and I quarter of 2012*)

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<thead>
<tr>
<th>Country</th>
<th>Reform Characteristics</th>
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<td>Ecuador</td>
<td>- Environmental tax on vehicle contamination and bottles and plastic bags.</td>
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<td>- Higher rates on cigarettes, alcohol and foreign exchange outflows.</td>
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<td>El Salvador</td>
<td>- Income tax reform, including:</td>
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<td>- An increase in the income tax on legal persons from 25% to 30%,</td>
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<td>- Establishment of a minimum tax of 1% on gross income.</td>
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<td>Guatemala</td>
<td>- Income tax reform, including:</td>
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<td>- Control of costs and deductible spending,</td>
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<td>- Application of a 5% tax rate on dividends.</td>
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<td></td>
<td>- Creation of a tax on registering vehicles and an increase in the vehicle circulation tax.</td>
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</tbody>
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Source: ECLAC, based on official figures.
Various tax reforms have been proposed and are in the process of being debated in the legislature.

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<th>Country</th>
<th>Reforms in Progress</th>
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| Costa Rica | The Tax Solidarity Law project:  
- Modification of the income tax, unifying the existing tax rates at 15%.  
- Transforming sales taxes to a VAT. |
| Paraguay | Personal income tax: Approved in the lower house of congress and pending approval in the senate |
| Chile | Tax Reform Law project  
- Increase in the taxes on businesses.  
- Reduction in the education burden on families.  
- Fighting evasion, elimination of unjustified extensions and other incentives. |
| Colombia | Tax Reform project ELISSA:  
- Even out the currently existing inequities in tax and fiscal matters.  
- Reduce tax evasion. |

Source: ECLAC, based on official figures
Monetary policy: there were few changes in interest rates

LATIN AMERICA: MONETARY POLICY RATES
(Percentages)

Source: ECLAC, based on official figures.
Monetary policy: there were few changes in interest rates

LATIN AMERICA: MONETARY POLICY RATES
(Percentages)

Source: ECLAC, based on official figures.
International reserves adjusted to avoid exchange rate volatility

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES
(Changes in the quarterly averages)

Source: ECLAC, based on official figures.
During the first quarter of 2012 a tendency of moderate appreciation in the exchange rates dominated.

**EXTRA-REGIONAL REAL EFFECTIVE EXCHANGE RATE**
*(Base 2005=100)*

Source: ECLAC, based on official figures
Even though depreciations in national currencies have been observed in recent months

**BILATERAL DOLLAR EXCHANGE RATES**

*(December 2010 = 100)*

Source: ECLAC, based on official figures.
5. Perspectives for 2012 and 2013

Two scenarios:

1. Base scenario
2. Scenario of crisis and contagion in Europe
Base scenario: Economic activity continues to expand (by 3.7%), but does not reach the same rate as in 2011

LATIN AMERICA AND THE CARIBBEAN GDP GROWTH RATES, 2012 (%)
THE CARIBBEAN: GDP GROWTH RATES, 2012 (%)

Barbados
Jamaica
Saint Kitts and Nevis
Trinidad and Tobago
Saint Vincent and the Grenadines
The Caribbean
Grenada
Saint Lucia
Antigua and Barbuda
Dominica
Bahamas
Belize
Guyana
Suriname

Source: ECLAC.
The (less likely) crisis scenario:

- There are spillovers to the other large economies of the EU
- “Flight to quality or safety” of the financial flows → exchange rate volatility and less access for the region’s countries to external financing.
- An increase in the liquidity needs in LAC, particularly in foreign exchange.
- A fall in the prices of primary products → a greater deterioration in the terms of trade.
- Less external demand for the products exported from the region, due to lower European demand for imports as well as lower demand in other regions → negative impact on economic activity.
- Lower remittances and less tourism.
- A deterioration in the fiscal accounts due to a reduction in fiscal revenue, especially for those countries that export primary products.
Final reflections

- The region ended the economic slowdown that began in the second half of 2011, but with mixed results
- The region continues to grow, based on the expansion of domestic demand (consumption and investment)
- In the face of the uncertain international situation
  - A prudent and cautious macroeconomic policy stance is justified
  - A strengthening of counter-cyclical policies is justified (different from country to country) in order to avoid a period of slower growth (deterioration of the first scenario that could lead to scenario II)
- The region has the capacity to respond to a deteriorating situation:
  - Inflation is low
  - International reserves are high
  - Public debt, both external and internal, is low (with the exception of the Caribbean)
  - Countries have rebuilt fiscal space (although not to the levels that existed before the crisis of 2008-2009), and
  - A growing experience with effective macro-prudential policies exists.
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