



2019

Preliminary Overview of the Economies of Latin America and the Caribbean



UNITED NATIONS



A particularly complex environment

- The region exhibits a generalized and synchronized economic slowdown at the level of countries and sectors
- The slowdown in domestic demand is accompanied by low external aggregate demand and more fragile international financial markets
- Added to this context are the growing social demands and the pressures to reduce inequality and increase social inclusion
- Given this scenario, the region requires policies to stimulate growth and reduce inequality

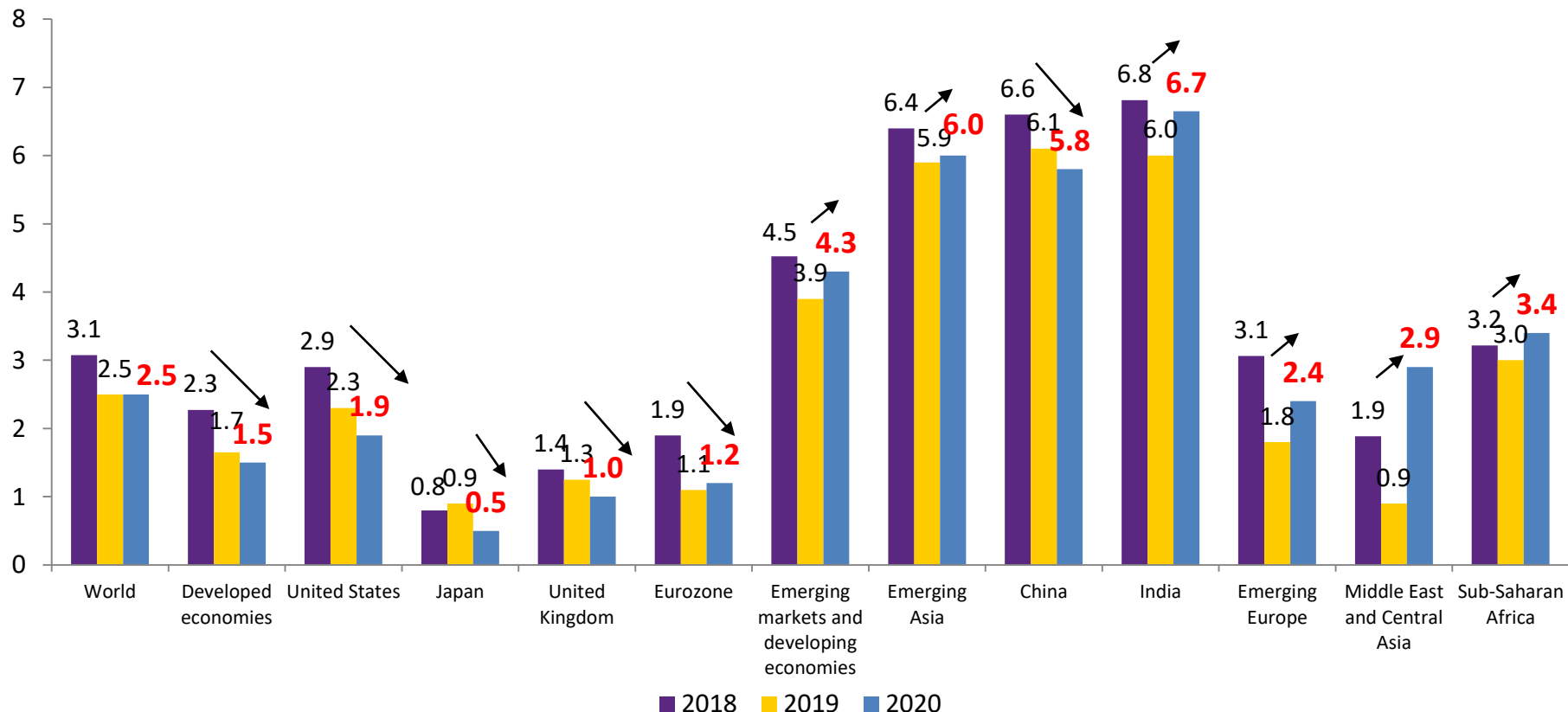
International context

Three signs of stagnation and uncertainty

- 1. Growth of the world economy in 2019 is at its lowest rate since the global financial crisis and no significant improvement is expected in 2020.**
- 2. World trade is progressively weakening amid rising trade tensions.**
- 3. Financial vulnerabilities are apparent.**

The lowest level of global growth in a decade

SELECTED REGIONS AND COUNTRIES: GROSS DOMESTIC PRODUCT GROWTH, 2018 TO 2020^a
(In percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on OECD data (Economic Outlook, September 2019), WEO (IMF, October 2019), European Commission (Autumn 2019 Forecasts of November 7, 2019), Capital Economics (October 2019), European Central Bank (Projections as of September 12, 2019), WESP, United Nations (preliminary report 2020).

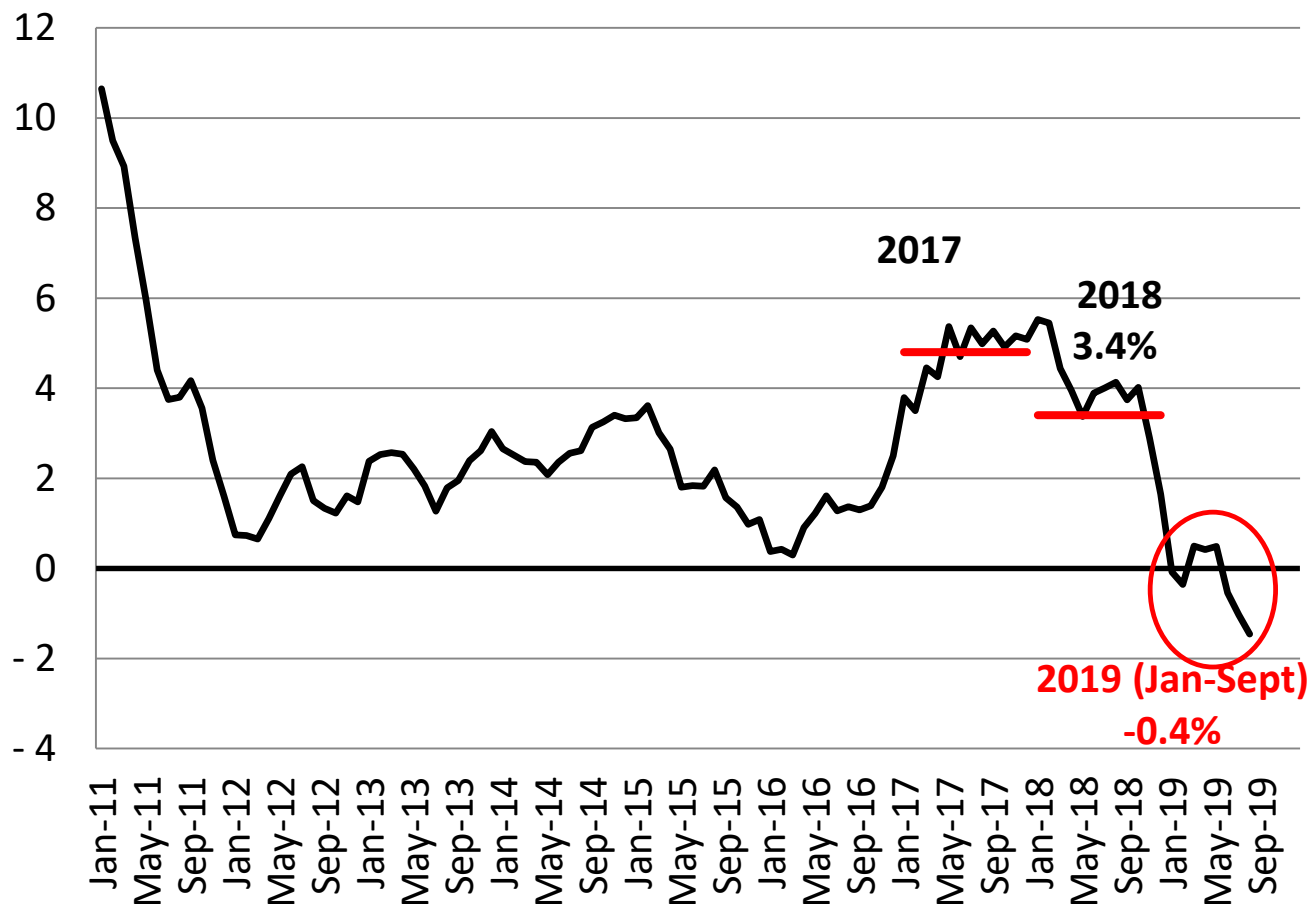
^a 2019 and 2020 correspond to projections

^b The figures for India correspond to the fiscal year, which begins in April and ends in March of the following year.

Global trade is increasingly weakening amid trade tensions

YEAR-ON-YEAR CHANGE IN THE VOLUME OF WORLD TRADE, THREE MONTH ROLLING AVERAGE, JANUARY 2011 TO SEPTEMBER 2019

(In percentages, based on a seasonally-adjusted index)



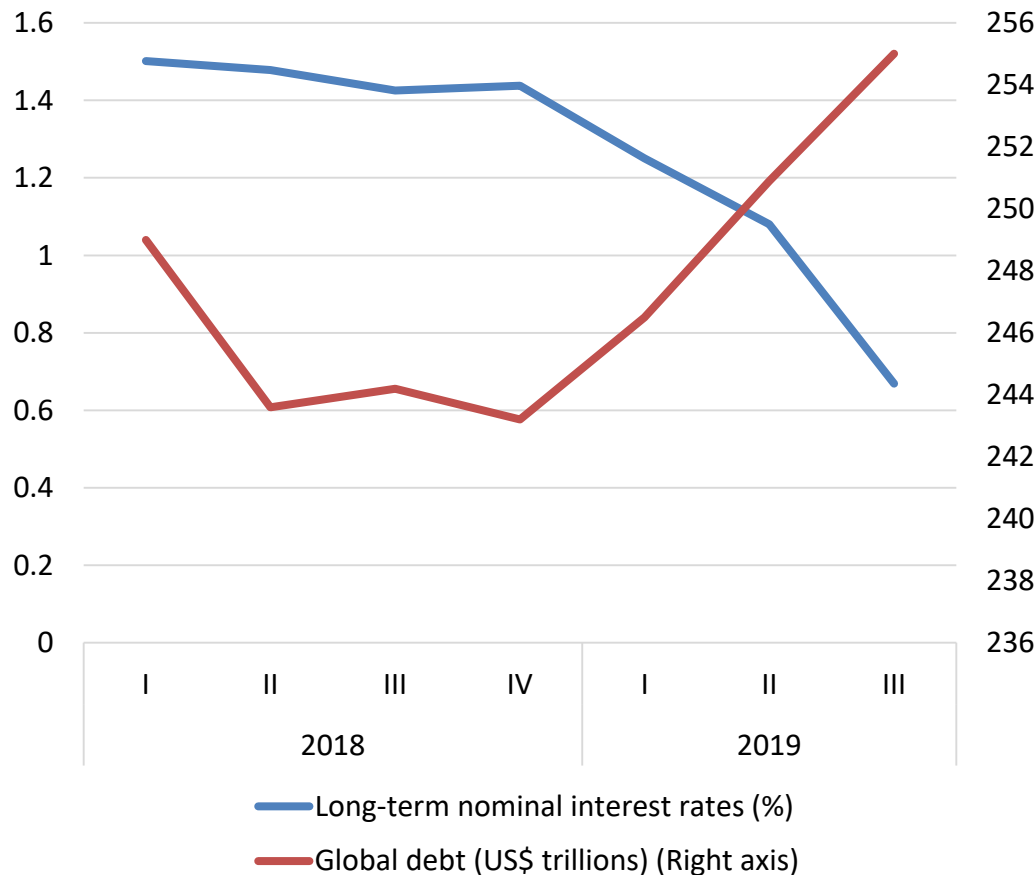
- World trade volumes are contracting for the first time since the global economic and financial crisis.
- Commodities prices are falling.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of the Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor.

The financial world continues to grow while the real economy does not

AVERAGE LONG-TERM INTEREST RATES AND GLOBAL DEBT, FIRST QUARTER OF 2018 TO THIRD QUARTER 2019

(Trillions of dollars and percentages)



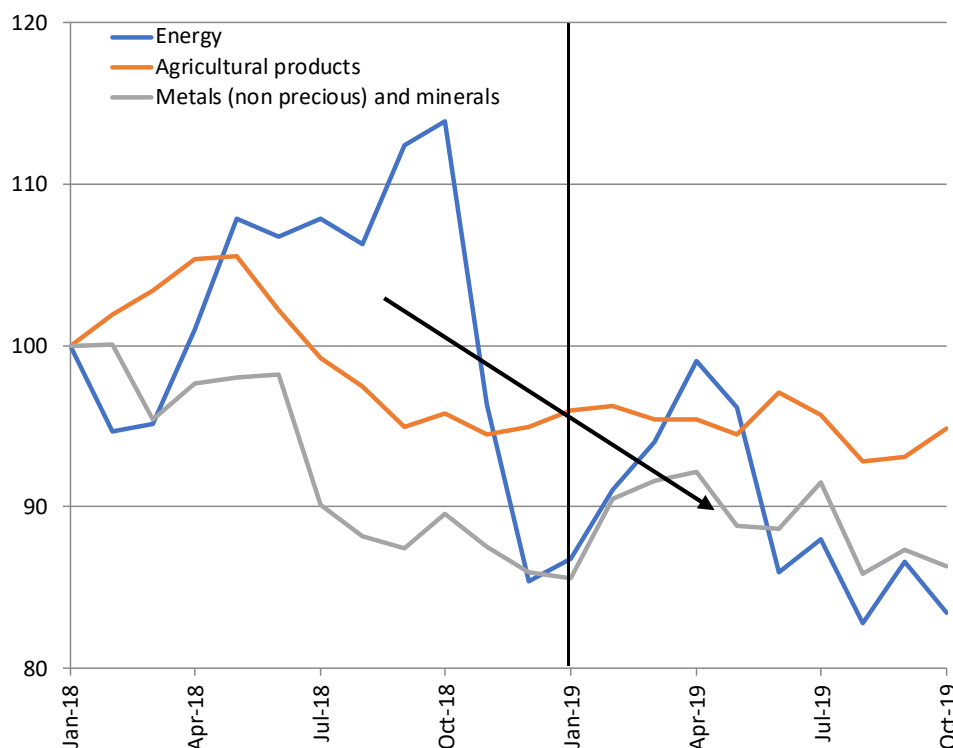
- Global debt levels reach record highs with elevated financial vulnerability.
- Low interest rates boost the search for higher risk returns.
- Debt increases at a rate greater than that of world GDP.
- Debt increases for all agents (households, governments and the financial and non-financial corporate sector).

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of IIF (2018-2019) and OECD (2019).

Note: The long-term interest rate curve was obtained as a median of long-term interest rates for government bonds with a maturity of 10 years for G-7 countries.

After a 5% fall this year, further lows in commodity prices are expected in 2020

EVOLUTION OF COMMODITY PRICE INDEX, JANUARY 2018 TO OCTOBER 2019



YEAR-ON-YEAR CHANGE IN COMMODITY PRICES, 2016 TO 2020^a
(In percentages, based on average annual prices)

| | 2016 | 2017 | 2018 | 2019 ^a | 2020 ^a |
|--|--------------|-------------|-------------|-------------------|-------------------|
| Agricultural products | 4.1 | 0.5 | 0.9 | -3.5 | -0.6 |
| Foods, tropical beverages and oilseeds | 5.7 | -0.6 | -2.3 | -4.4 | -0.9 |
| Foods | 9.3 | -0.1 | -3.4 | -1.0 | 0.3 |
| Tropical beverages | 0.6 | -1.7 | -10.1 | -7.7 | 2.5 |
| Oils and oil seeds | 2.4 | -1.0 | 1.5 | -8.3 | -3.4 |
| Forestry and agricultural raw materials | -2.3 | 4.9 | 13.4 | -0.3 | 0.5 |
| Minerals y metals | -0.7 | 23.3 | 4.2 | -1.3 | -1.7 |
| Energy^b | -16.3 | 23.5 | 25.6 | -10.5 | -3.3 |
| Crude oil | -15.7 | 23.3 | 29.4 | -11.5 | -4.5 |
| All commodities | -4.3 | 14.6 | 9.9 | -5.4 | -1.9 |
| All commodities (excl. energy) | 1.8 | 10.8 | 2.6 | -2.4 | -1.2 |

^a 2019 corresponds to estimates and 2020 to projections.

^b This category includes oil, natural gas and coal.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on data from the Pink Sheet of the World Bank; International Monetary Fund (IMF); Economist Intelligence Unit, Bloomberg; Energy Information Administration (EIA), Capital Economics and Central Bank of Chile, Monetary Policy Report, September 2019, Santiago for the price of copper.

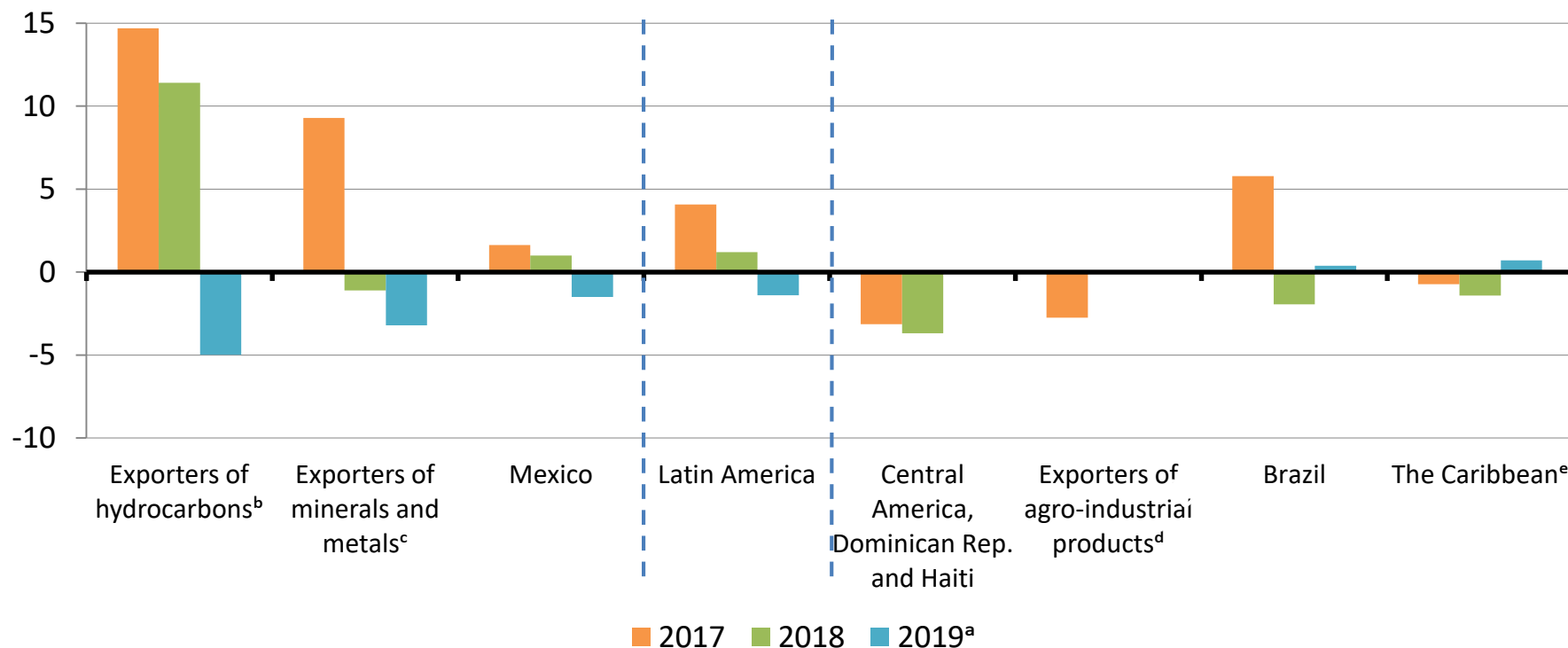
Five warning signs in the region

1. Sixth year of low growth for the region, a situation that will continue in 2020: GDP per capita has contracted 4.0% between 2014 and 2019.
2. The slowdown is widespread: more countries and more sectors.
3. Lower trade volumes and less favorable terms of trade.
4. Aggregate domestic demand weakens: consumption and investment slow or contract; low contribution of public spending to growth and internal credit declines.
5. Inequality is inefficient and threatens growth. It is at the heart of social unrest due to job deterioration, low levels of income, insufficient provision of public goods and underdeveloped social protection systems, all of which undermine growth.

External Sector

Lower commodity prices translate into a deterioration of the terms of trade for the region, especially for exporters of hydrocarbons and mining products

LATIN AMERICA AND CARIBBEAN (COUNTRIES AND GROUP OF SELECTED COUNTRIES): CHANGE IN TERMS OF TRADE, 2017 TO 2019
(In percentages)



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

^a The figures for 2019 correspond to projections.

^b Bolivia (Plurinational State of), Colombia, Ecuador, Trinidad and Tobago and Venezuela (Bolivarian Republic of).

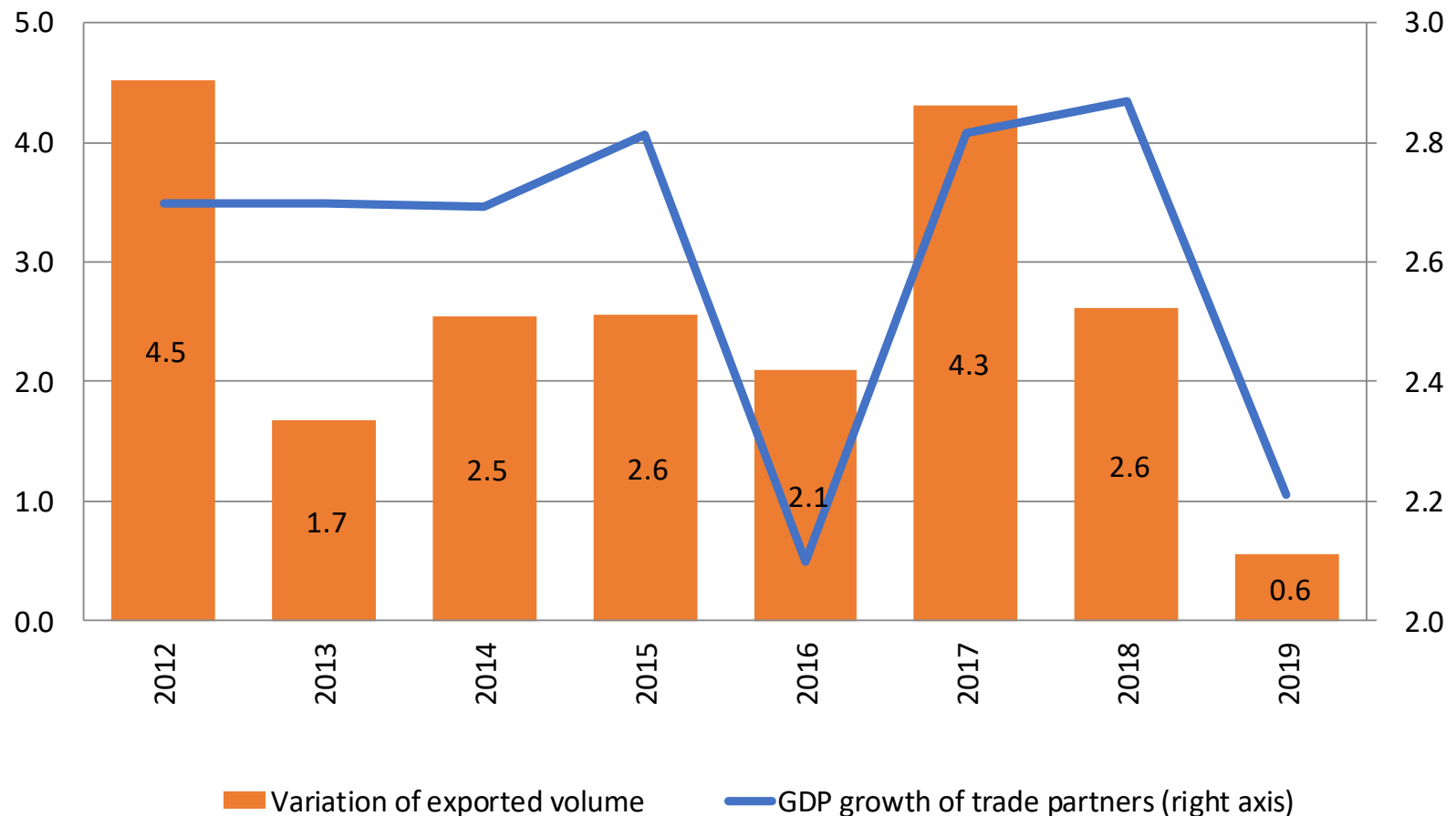
^c Chile and Peru.

^d Argentina, Paraguay and Uruguay.

^e Excludes Trinidad and Tobago.

The deceleration in external demand has resulted in slower growth in the region's export volume

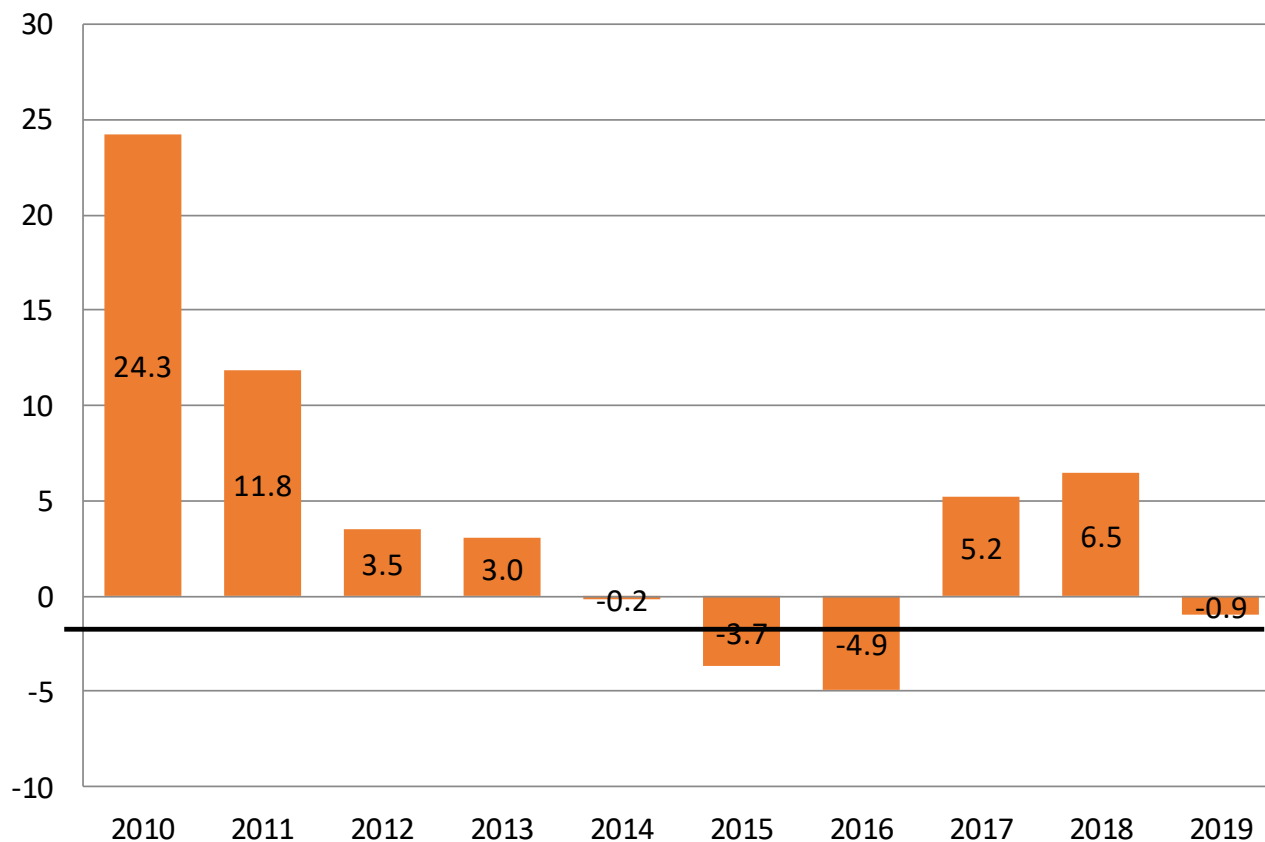
LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR VARIATION OF EXPORT VOLUMES AND GDP GROWTH RATE OF TRADE PARTNERS, 2012 TO 2019
(In percentages)



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

Imports are also decreasing as a result of the deceleration in investment and consumption

LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR VARIATION OF GOODS IMPORT VOLUMES, 2012 TO 2019
(In percentages)

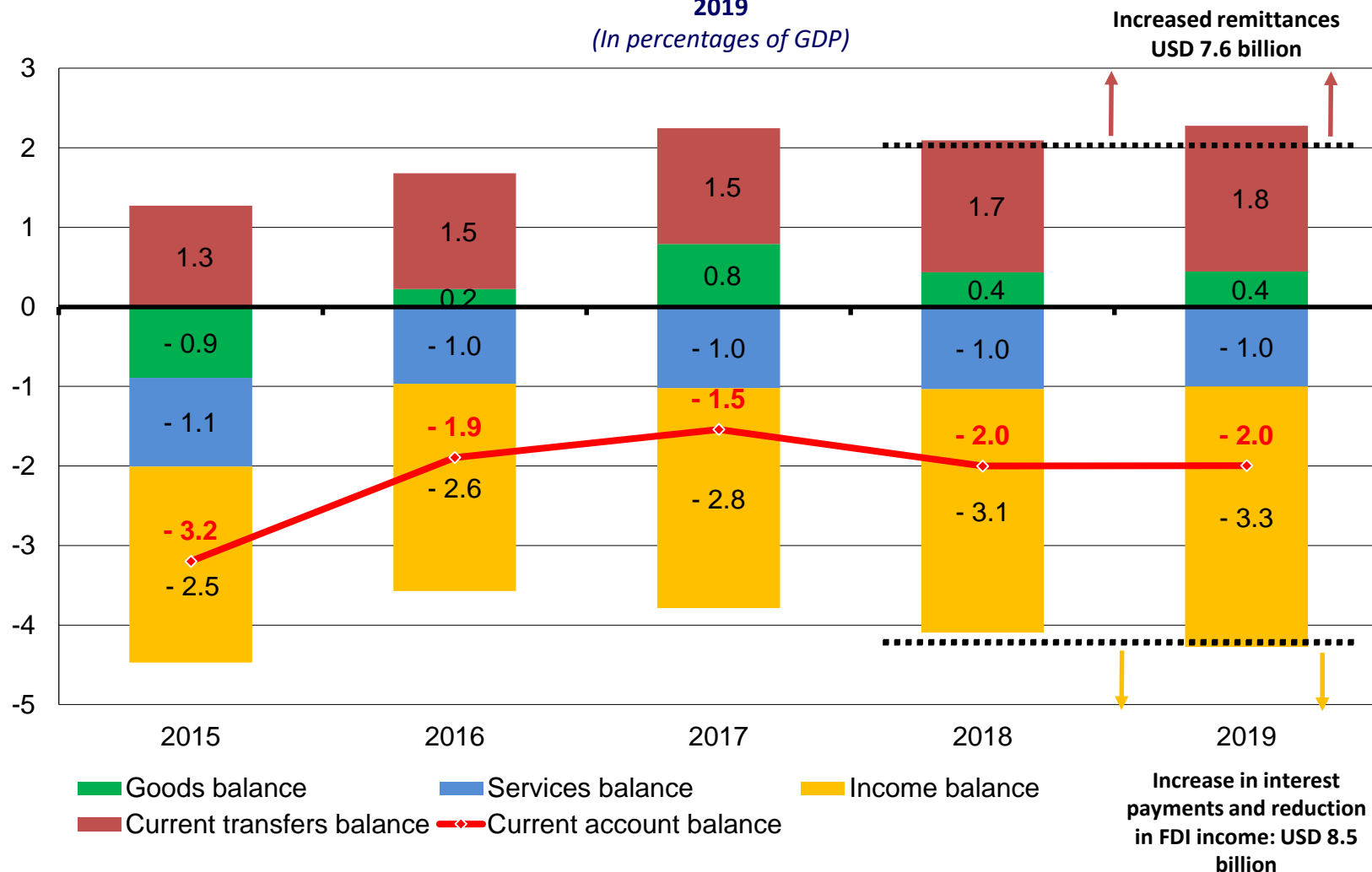


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Current account balance remains steady, but the income balance has deteriorated

LATIN AMERICA (19 COUNTRIES): CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS ACCORDING TO COMPONENTS, 2015 TO 2019

(In percentages of GDP)

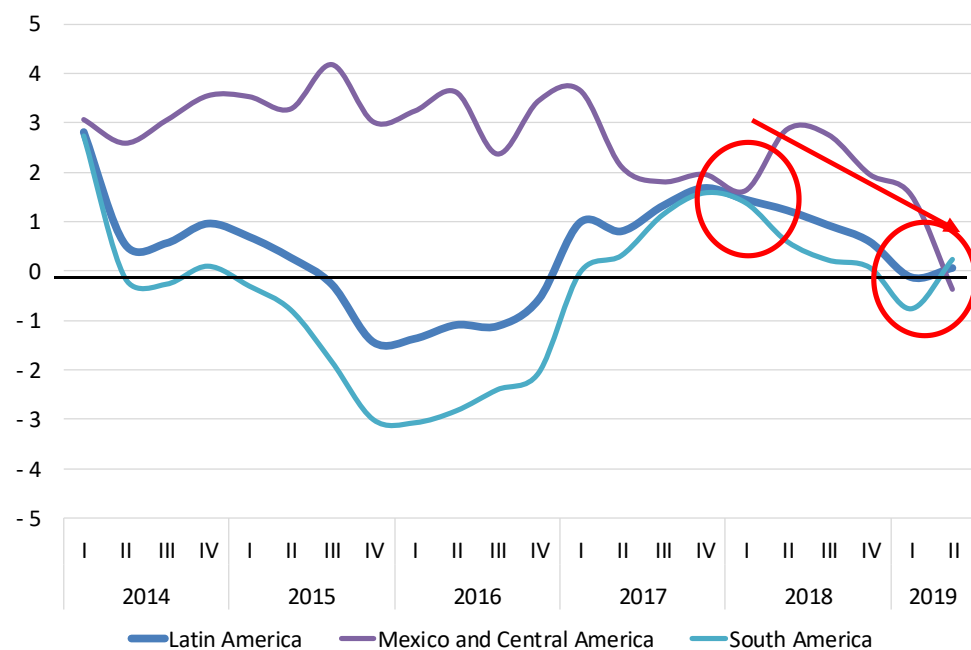


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Growth slowed in the first half of the year in the region, and it did so in a generalized way across countries

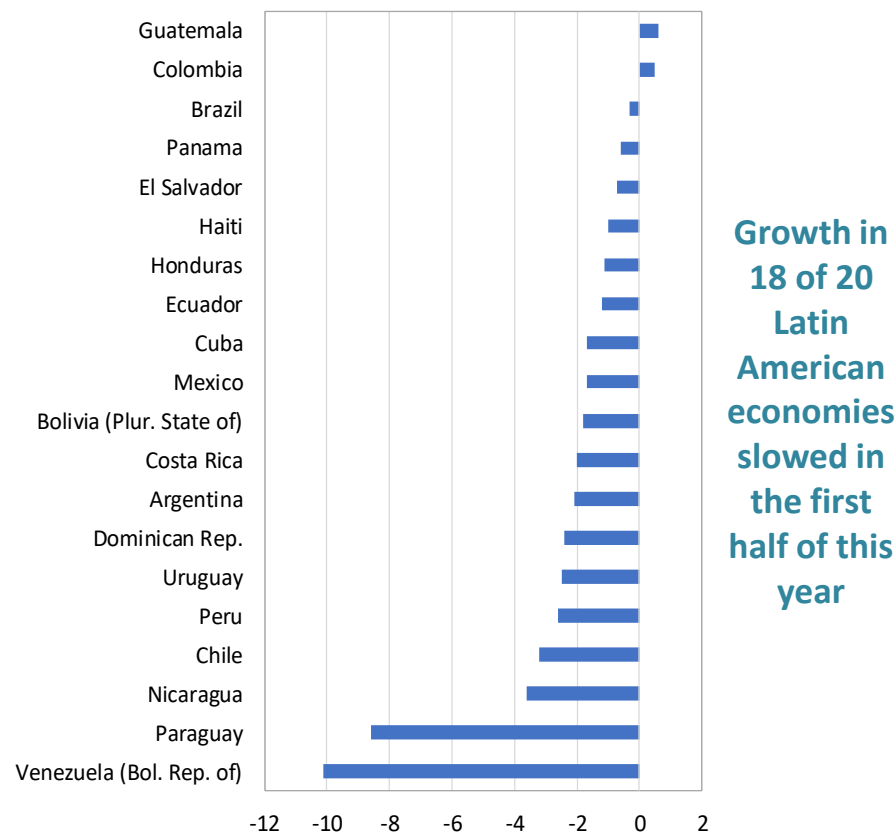
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATE, 2014 TO 2019

(In percentages, based on constant dollars of 2010)



LATIN AMERICA: CHANGE OF GDP GROWTH IN THE FIRST SEMESTER OF 2019 IN RELATION TO THE SAME PERIOD OF 2018

(In percentages, based on constant dollars of 2010)

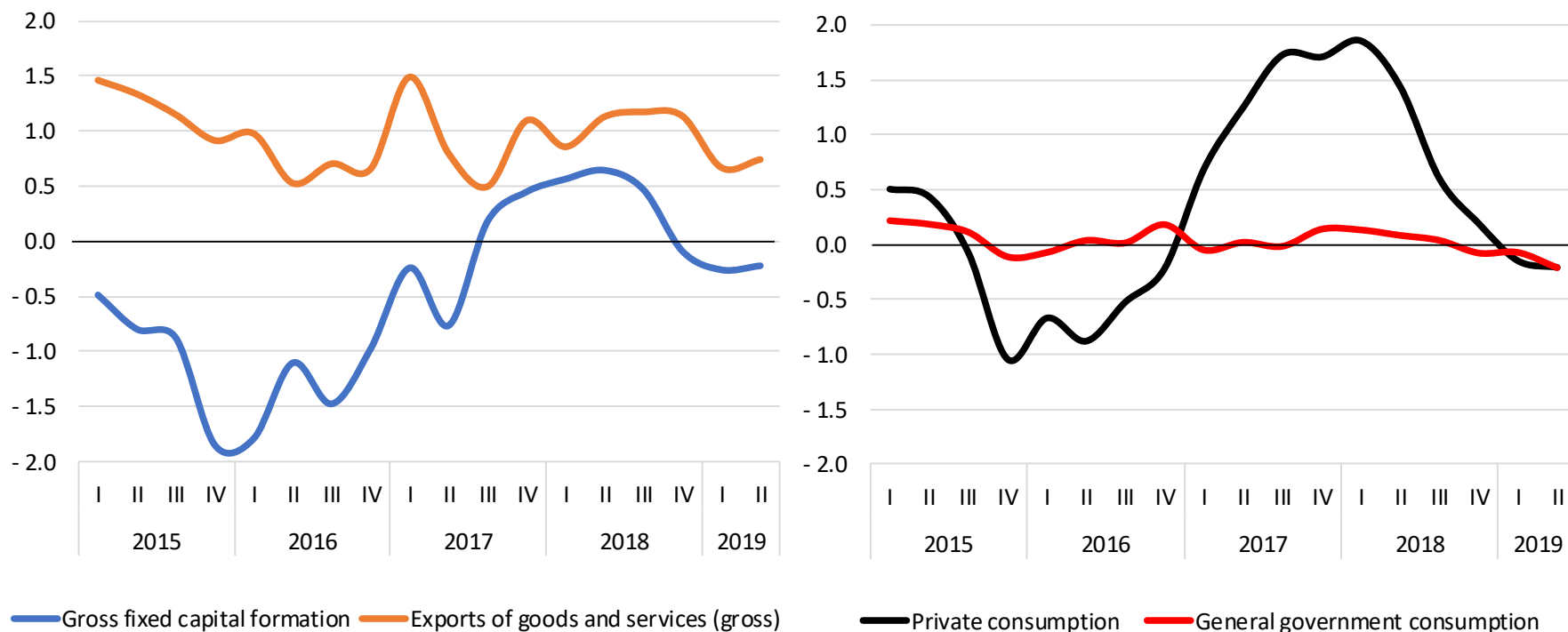


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

There has been a significant contraction in all components of domestic aggregate demand

- Gross exports are the only component of aggregate demand that has contributed to growth.

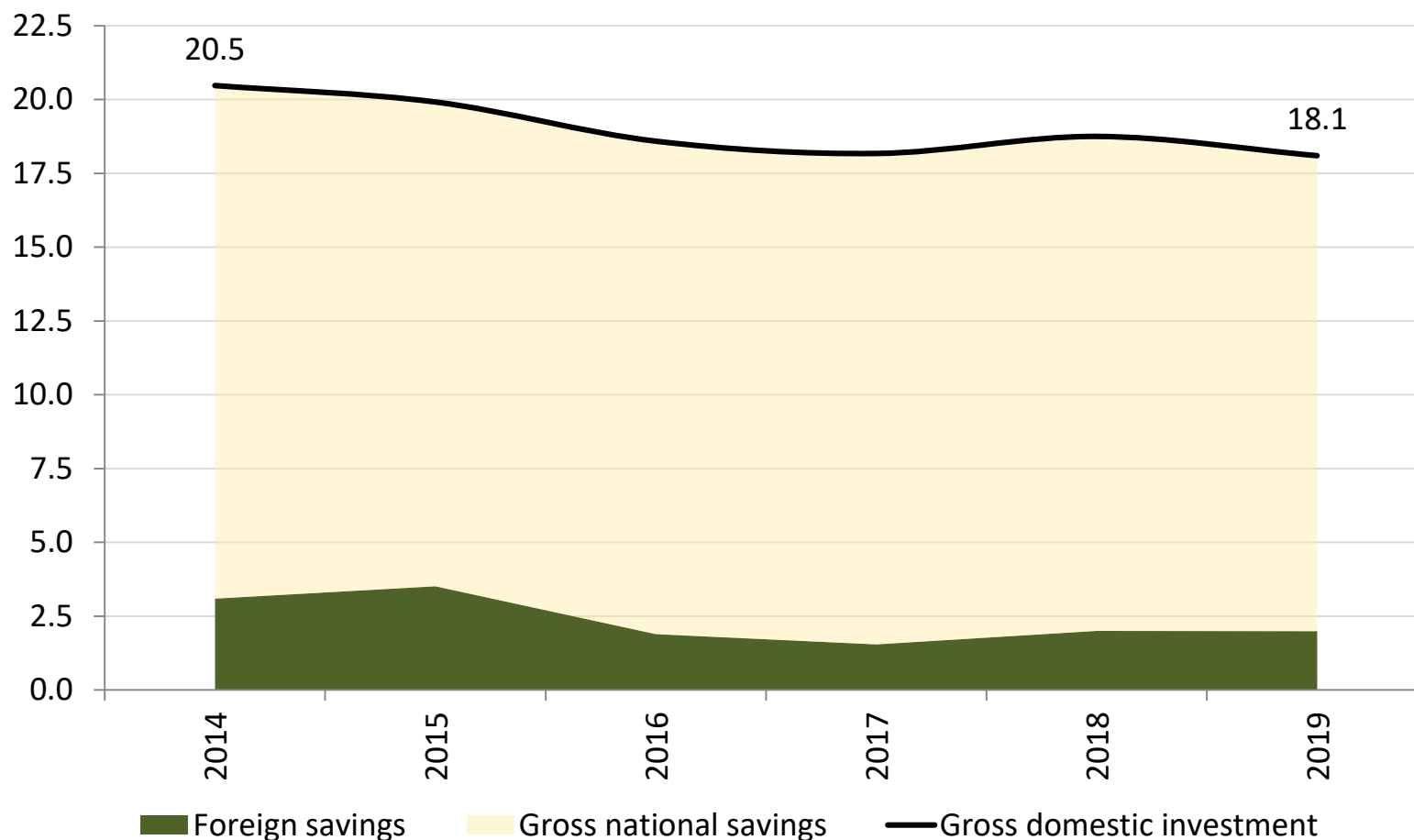
LATIN AMERICA: CONTRIBUTION OF PRIVATE AND PUBLIC CONSUMPTION, GROSS FIXED CAPITAL FORMATION AND GROSS EXPORTS TO GDP GROWTH, 2015 TO 2019
(In percentages)



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

Gross domestic investment in Latin America has decreased by 2.4 percentage points since 2014

LATIN AMERICA: FINANCING OF GROSS INTERNAL INVESTMENT, 2014-2019
(In percentages of GDP, based on current dollars)



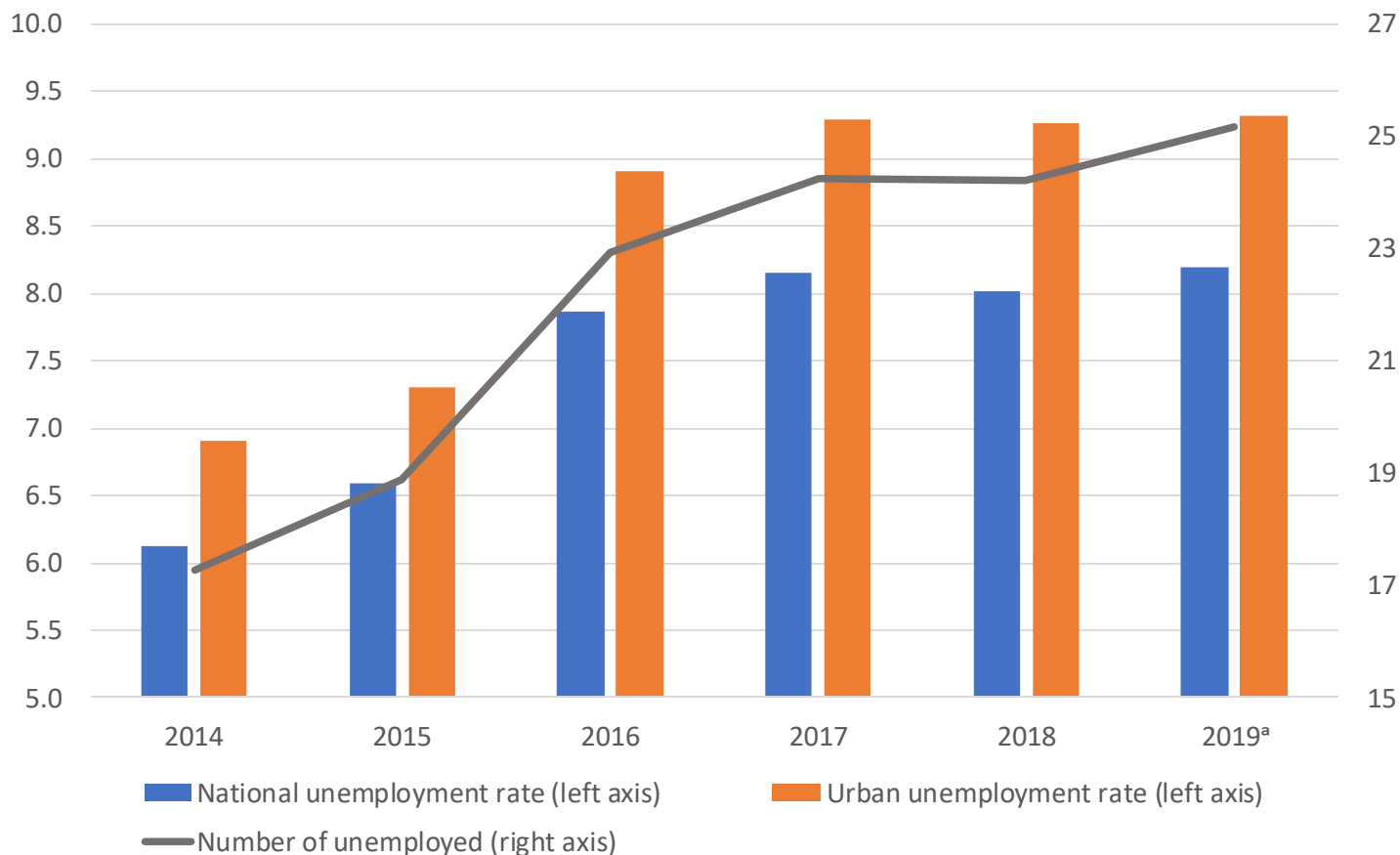
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

National unemployment increased from 8.0% to 8.2%

- The number of unemployed rose by one million people, and reached a new high, 25.2 million.

LATIN AMERICA AND THE CARIBBEAN: NATIONAL AND URBAN UNEMPLOYMENT RATES AND NUMBER OF UNEMPLOYED

(In percentages and millions of people)



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

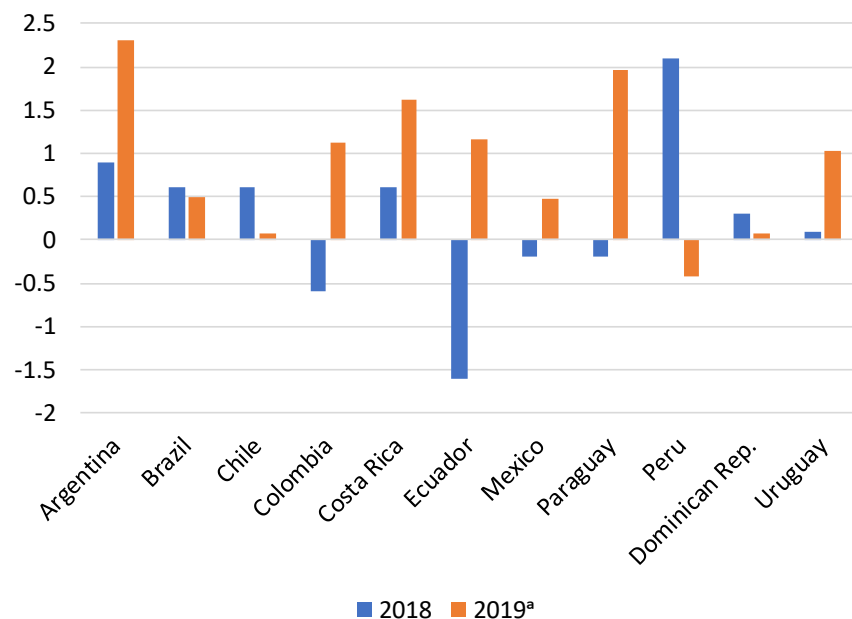
^a Estimates.

The average quality of employment deteriorated in most countries

- As in previous years, in 2019, self-employment expanded more than wage employment (3.0% versus 1.5%).
- In addition, hourly underemployment and labor informality increased more generally.

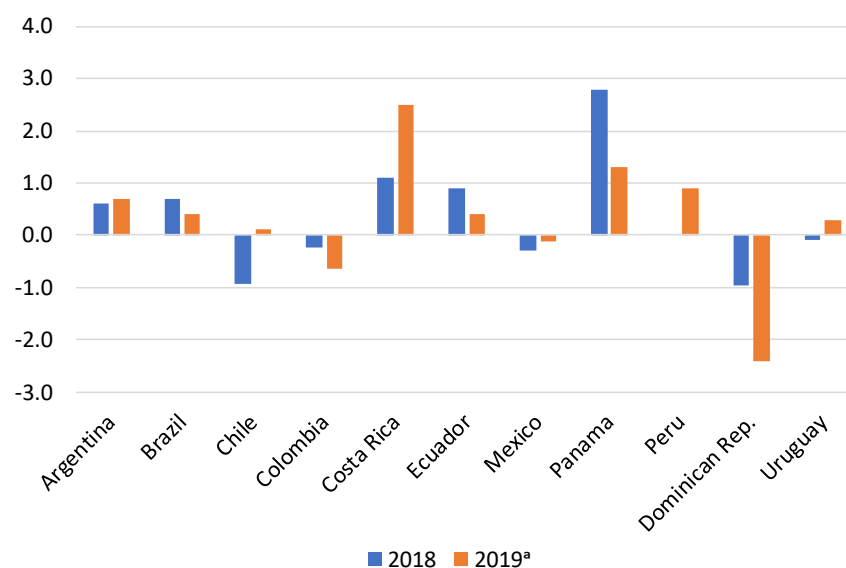
LATIN AMERICA (11 COUNTRIES): INTER-ANNUAL VARIATION OF THE RATE OF HOURLY UNDEREMPLOYMENT, 2018 AND 2019^a

(In percentage points)



LATIN AMERICA (10 COUNTRIES): INTER-ANNUAL VARIATION OF THE RATE OF INFORMAL EMPLOYMENT, 2018 AND 2019^a

(In percentage points)



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

^a The 2019 data refer to the interannual variation for the period January to September.

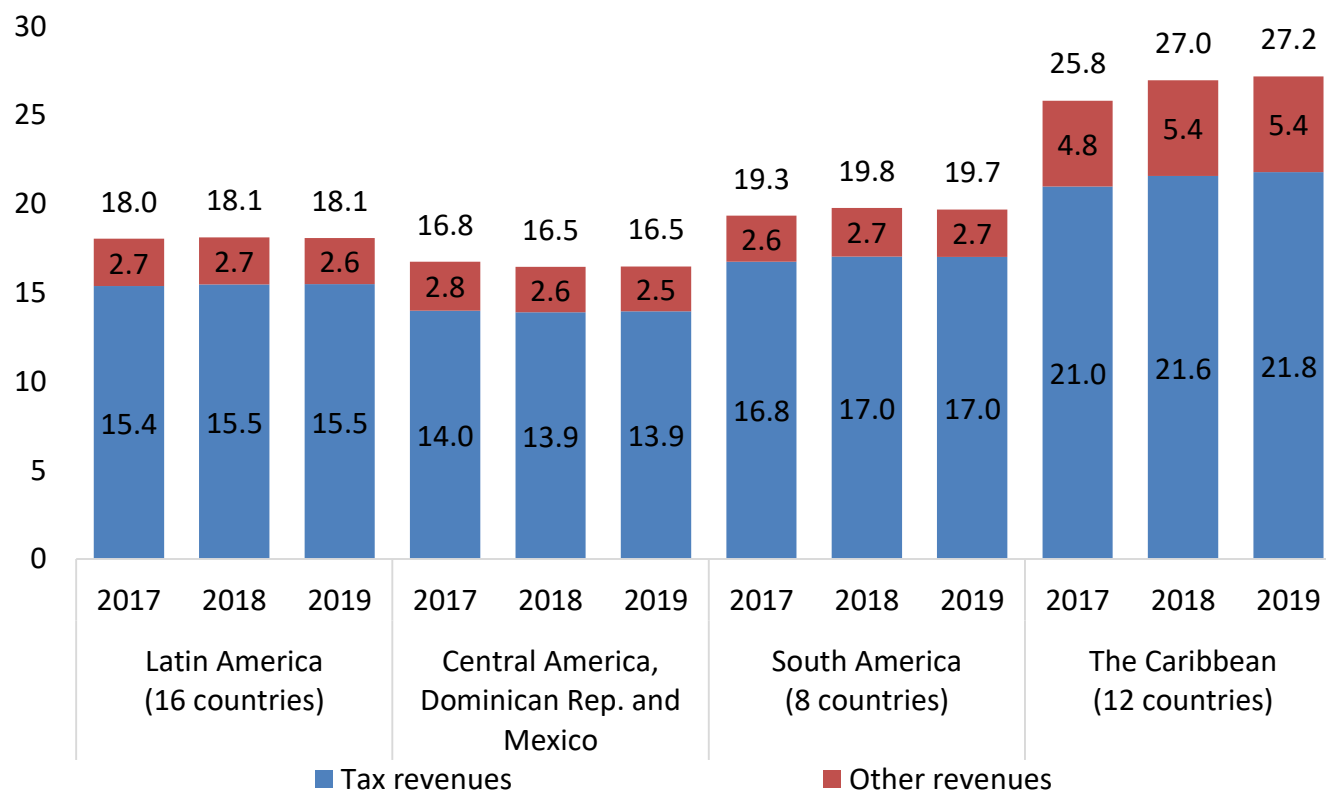
Fiscal, monetary and financial policies

Fiscal revenues stagnate: decelerating growth combined with a low tax take and tax evasion

- Public revenues remain stable despite slow growth due to tax activism in recent years.
- There is an urgent need to advance in progressive taxation: wealth taxes.

LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF CENTRAL GOVERNMENT REVENUES, 2017 TO 2019

(In percentages of GDP)



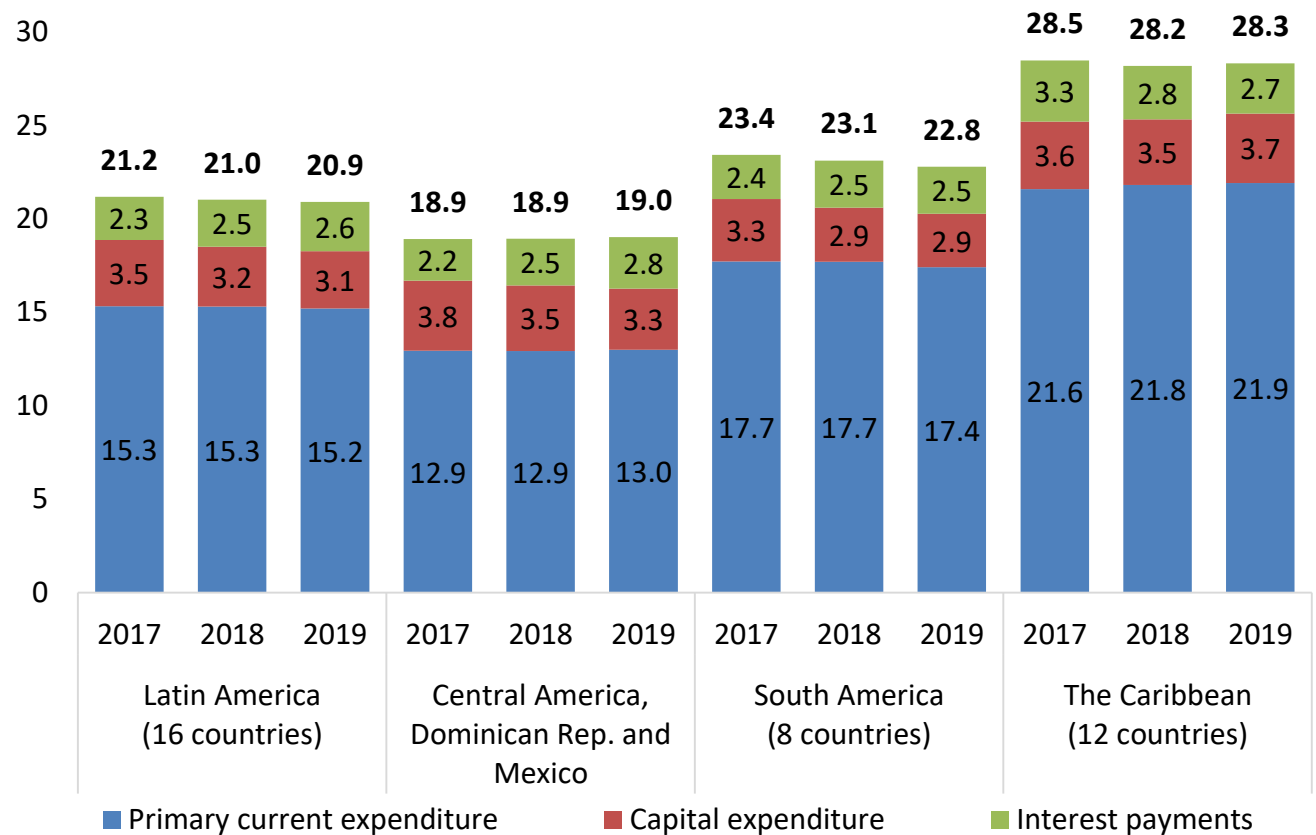
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Note: Simple averages. Dominica is excluded. The figures for 2019 correspond to: projections derived from budgets or official estimates for the end of 2019.

... and this in turn limits the capacity to expand public expenditure

- Important reduction of capital expenditure and primary current expenditure (South America), with an increase in interest payments.
- The reduction in current primary spending put pressure on social spending just when it is more necessary than ever.

LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF CENTRAL GOVERNMENT EXPENDITURES, 2017-2019
(In percentages of GDP)

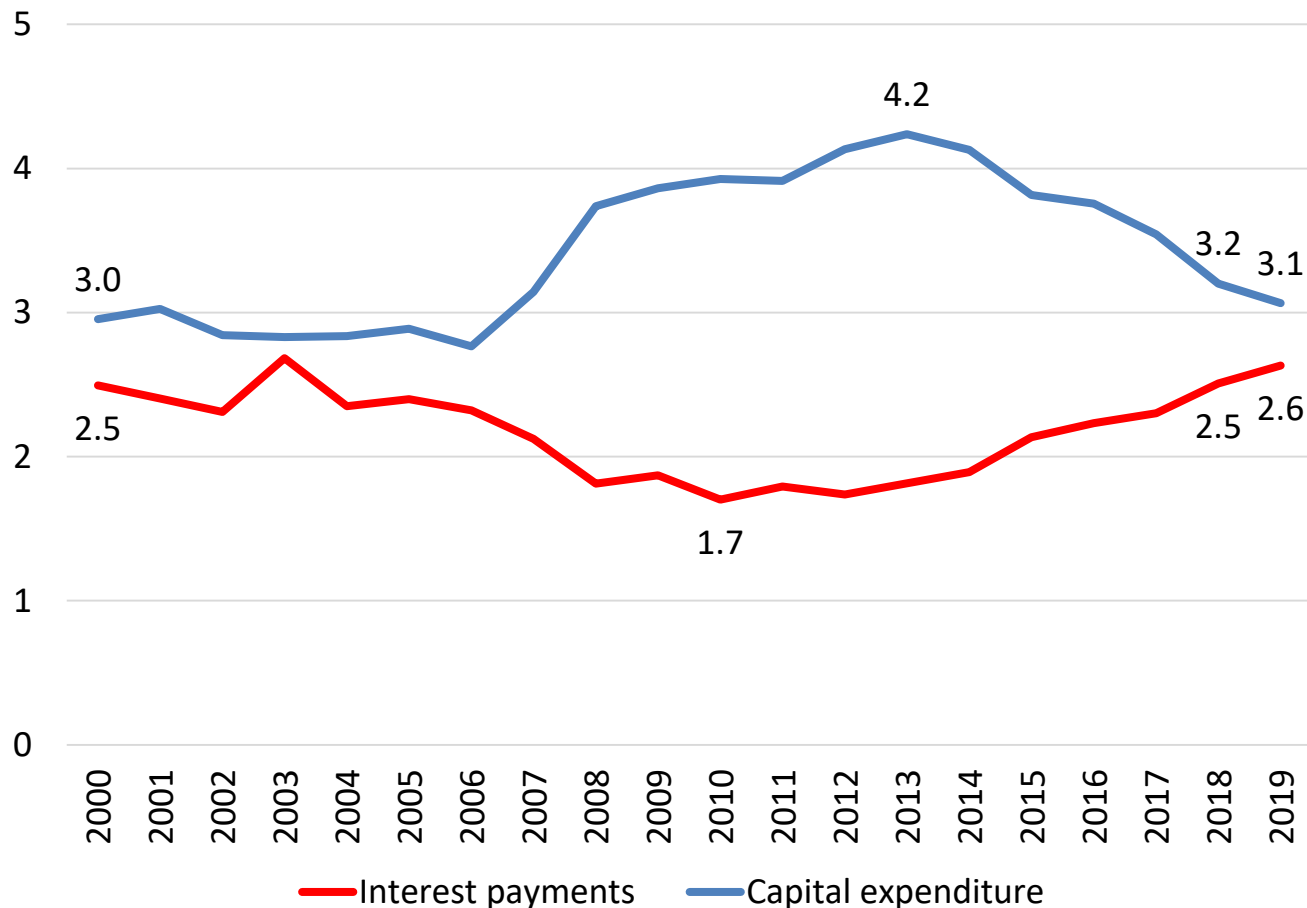


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Note: Simple averages. Dominica is excluded. The figures for 2019 correspond to: projections derived from budgets or official estimates for the end of 2019.

Greater public indebtedness has not translated into greater public investment

LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT INTEREST PAYMENTS AND CAPITAL EXPENDITURE, 2000 TO 2019
(In percentages of GDP)



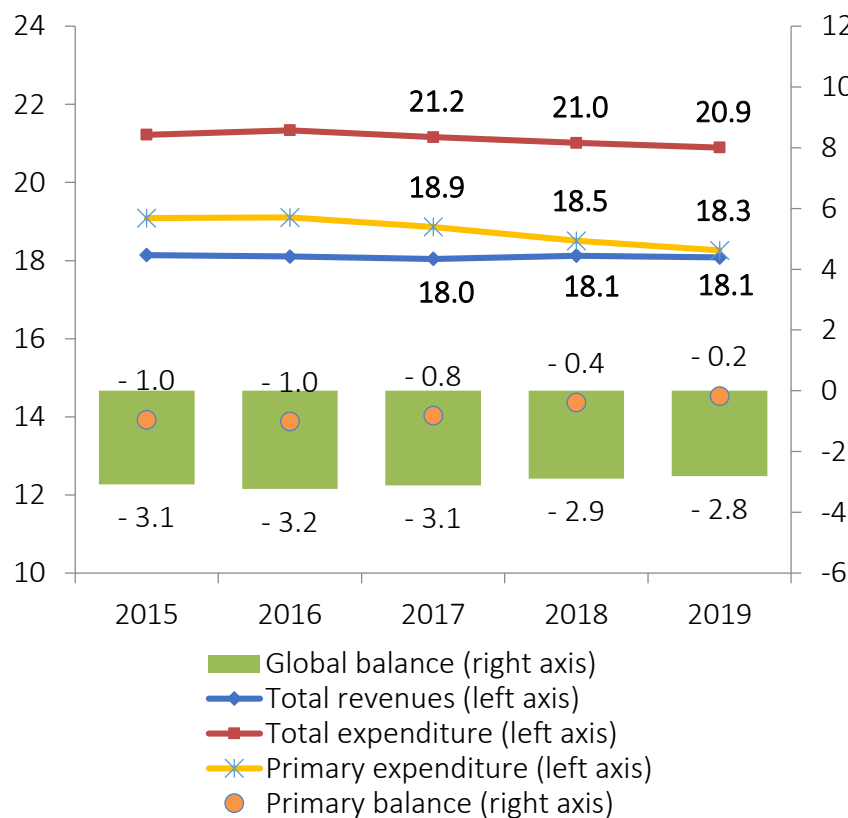
Since 2013, capital expenditure has been the variable of adjustment used to accommodate rising interest payment.

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

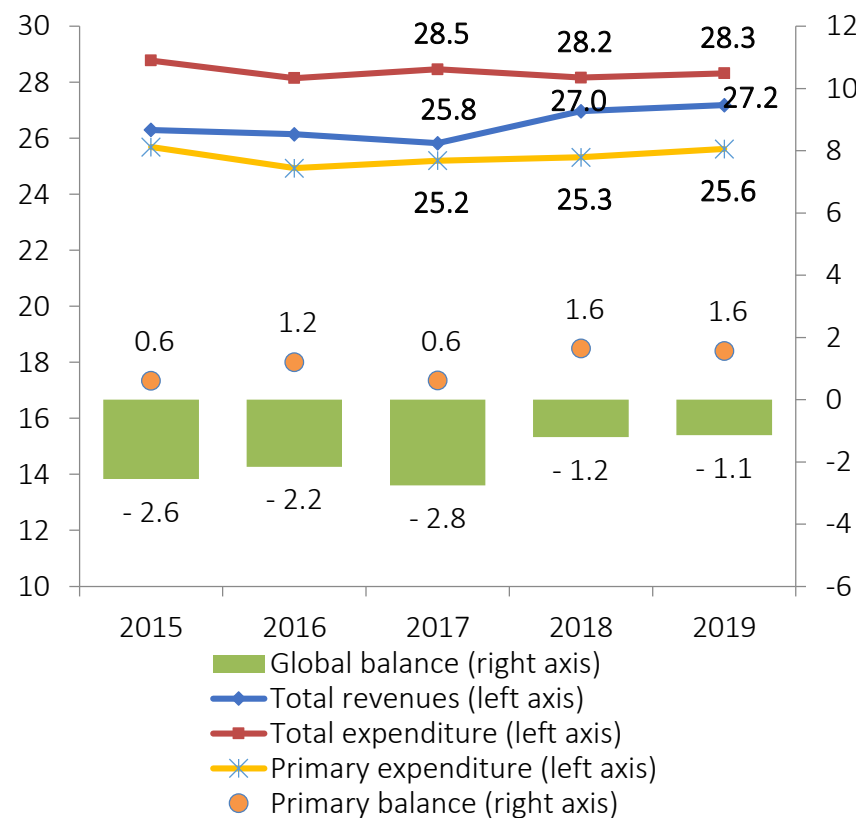
Note: Simple averages. The figures for 2019 correspond to: projections derived from budgets or official estimates for the end of 2019.

The region continues to follow a process of consolidation to reduce deficits

LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2015 TO 2019
(In percentages of GDP)



THE CARIBBEAN (12 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2015 TO 2019
(In percentages of GDP)



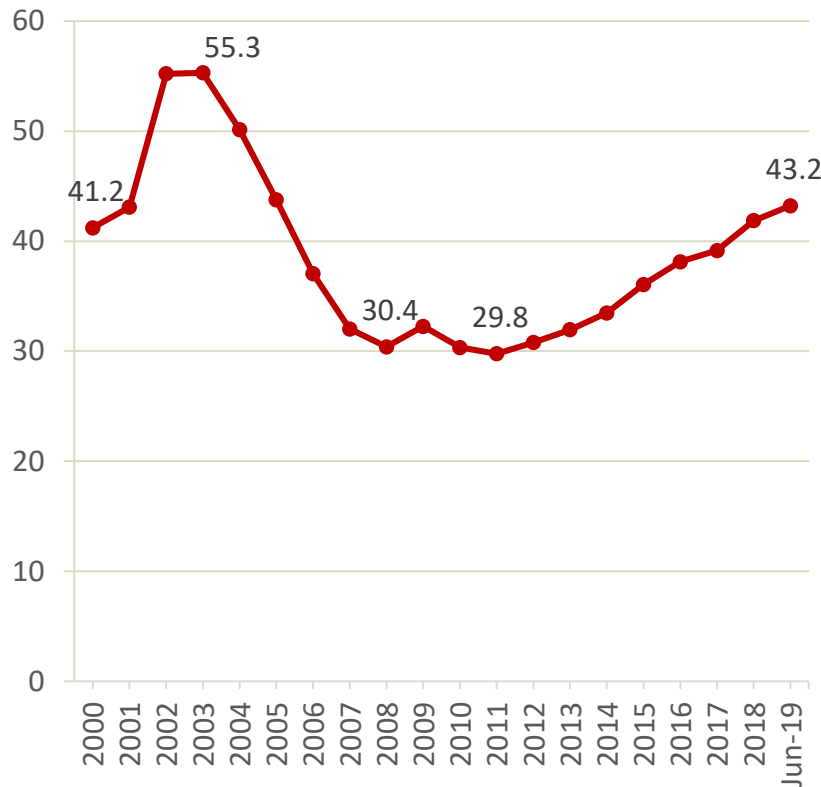
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Note: Simple averages. Dominica is excluded. The figures for 2019 correspond to: projections derived from budgets or official estimates for the end of 2019.

Despite fiscal consolidation, the level of public debt continues to rise while investment contracts

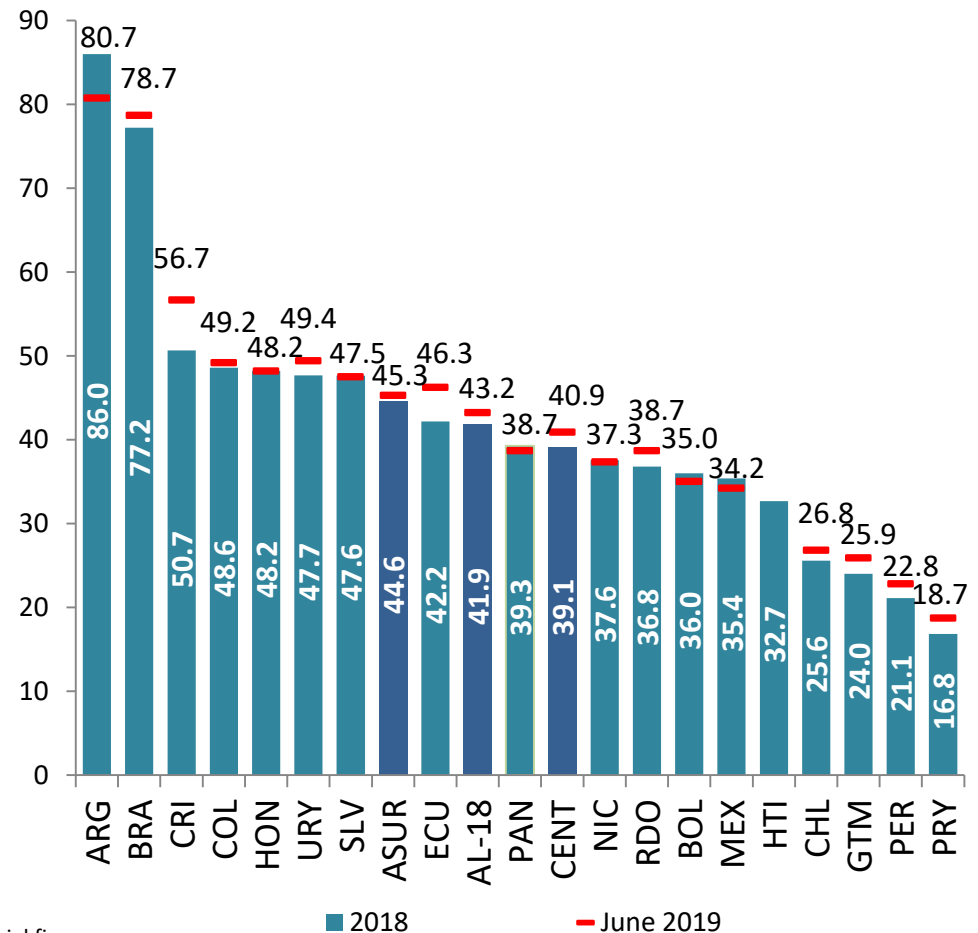
LATIN AMERICA (18 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2000 TO JUNE 2019

(In percentages of GDP)



LATIN AMERICA (18 COUNTRIES): CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2018 TO JUNE 2019

(In percentages of GDP)



■ 2018

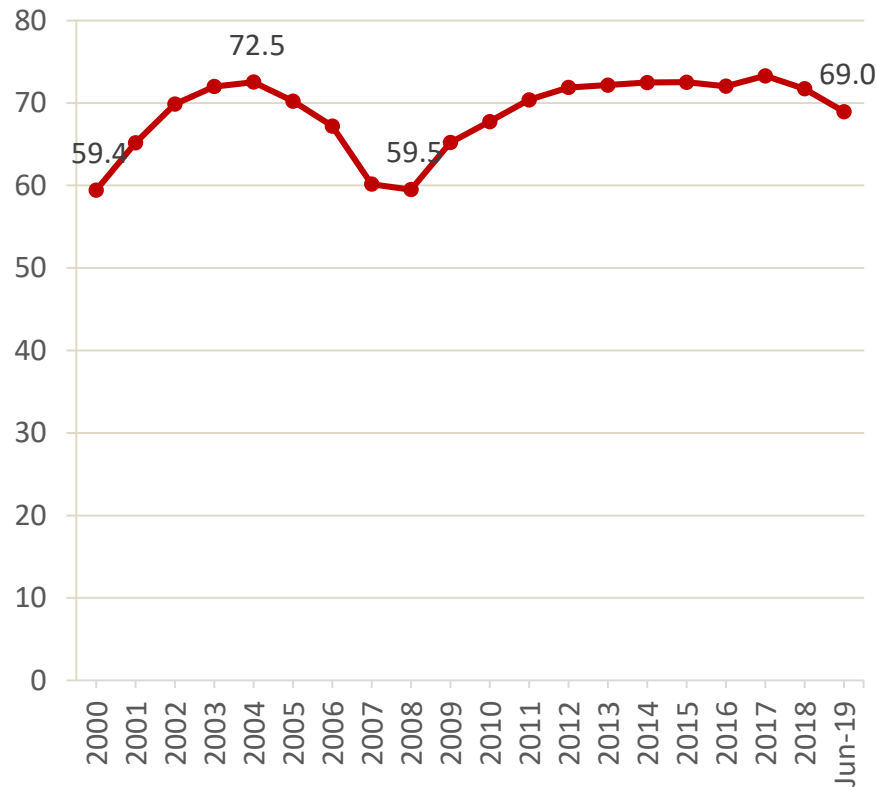
■ June 2019

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

While in the Caribbean, high primary surpluses have contributed to reducing the level of public debt

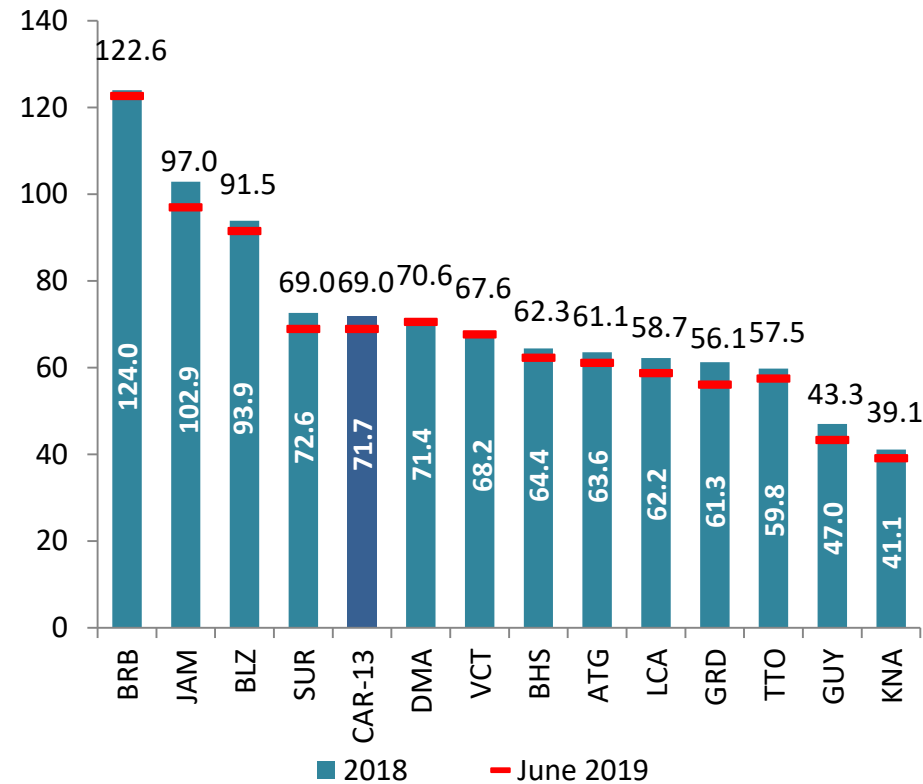
THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT
GROSS PUBLIC DEBT, 2000 TO JUNE 2019
(In percentages of GDP)

(In percentages of GDP)



THE CARIBBEAN (13 COUNTRIES): CENTRAL GOVERNMENT
GROSS PUBLIC DEBT, 2018 TO JUNE 2019
(In percentages of GDP)

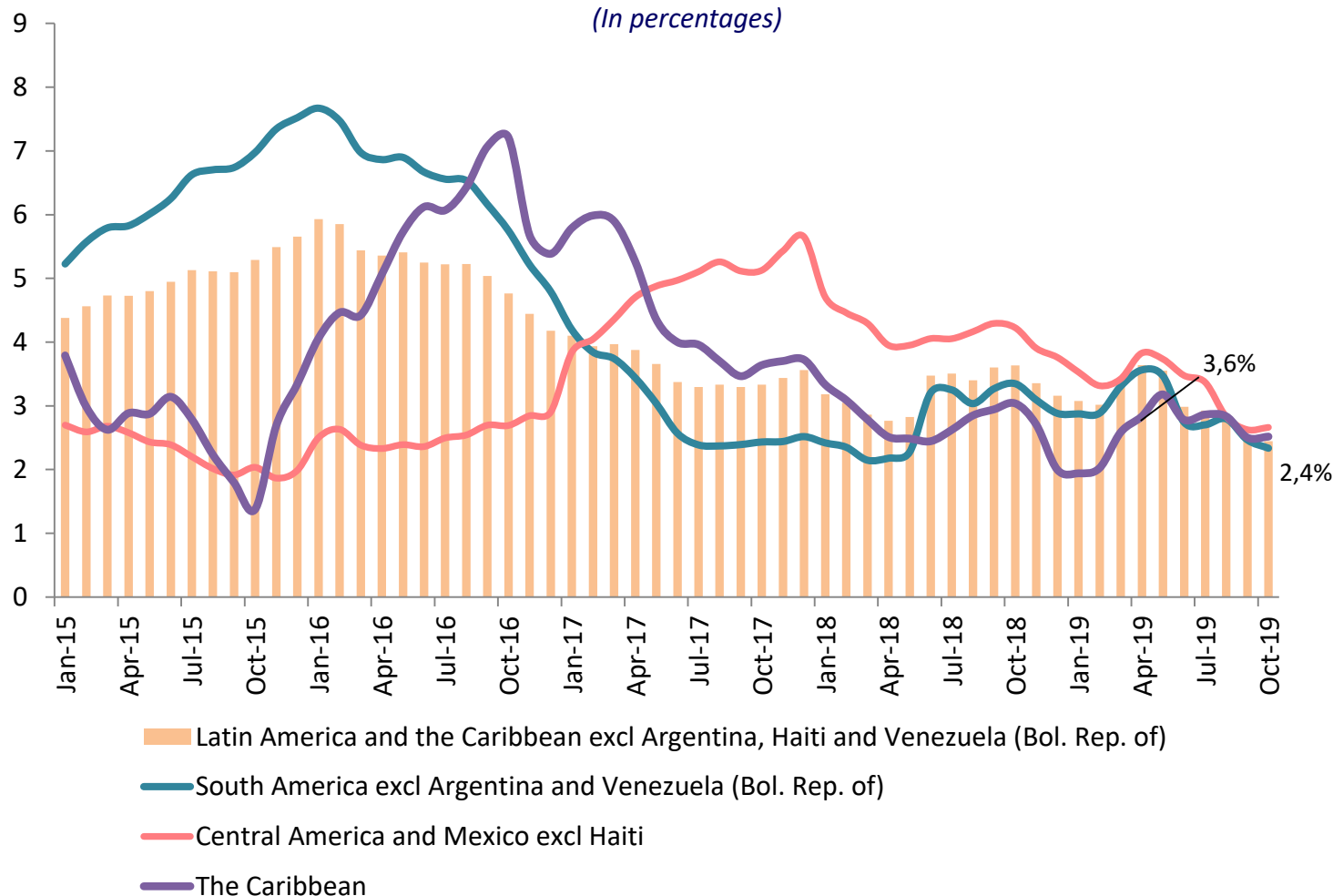
(In percentages of GDP)



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

Inflation is at historically low levels and is continuing to fall...

LATIN AMERICA AND THE CARIBBEAN: VARIATION RATE OF THE CONSUMER PRICE INDEX (CPI) IN 12 MONTHS, WEIGHTED AVERAGE, JANUARY 2015 TO OCTOBER 2019
(In percentages)

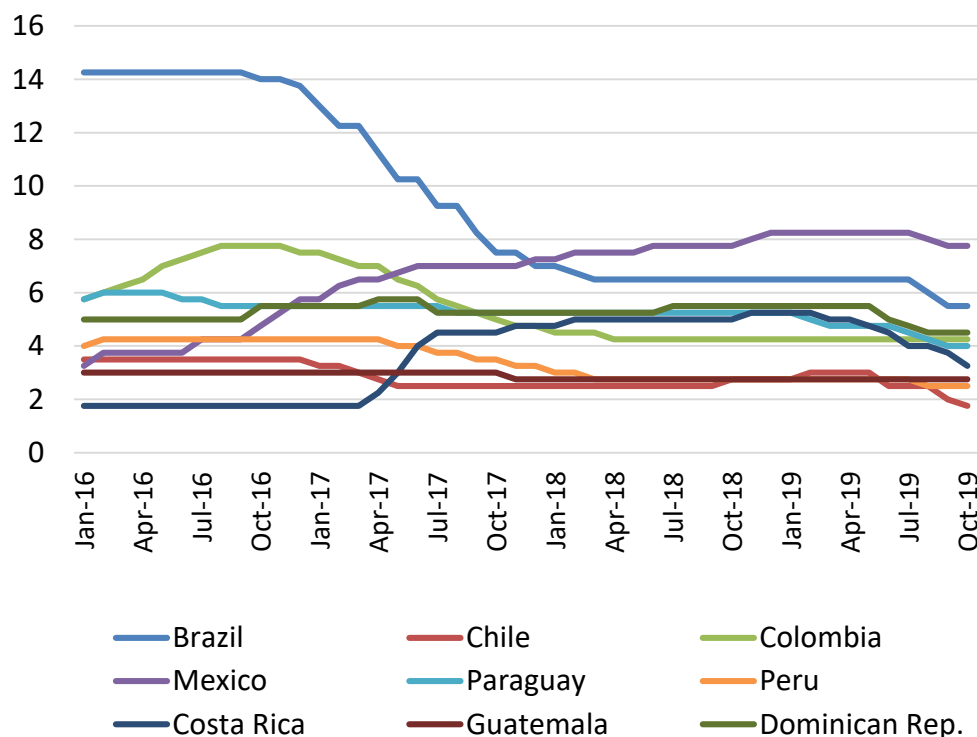


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

... which has allowed for expansive monetary policy in the majority of the economies of the region

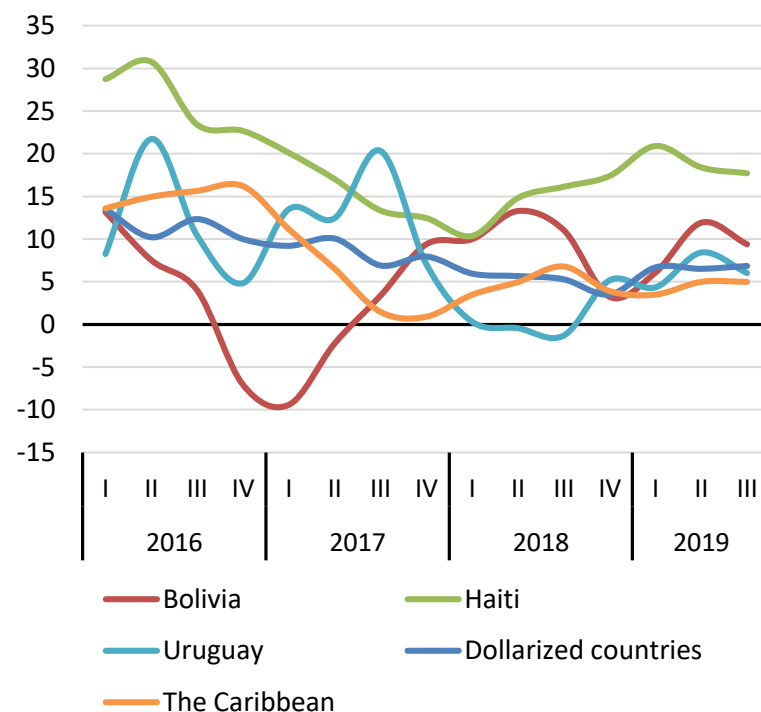
LATIN AMERICA (SELECTED COUNTRIES): MONETARY POLICY RATE IN COUNTRIES THAT USE IT AS THE MAIN POLICY INSTRUMENT, JANUARY 2016 TO OCTOBER 2019
(In percentages)

Policy rates at low levels



LATIN AMERICA (SELECTED COUNTRIES): INTERANNUAL GROWTH OF THE MONETARY BASE, I QUARTER OF 2016 TO III QUARTER 2019
(In percentages)

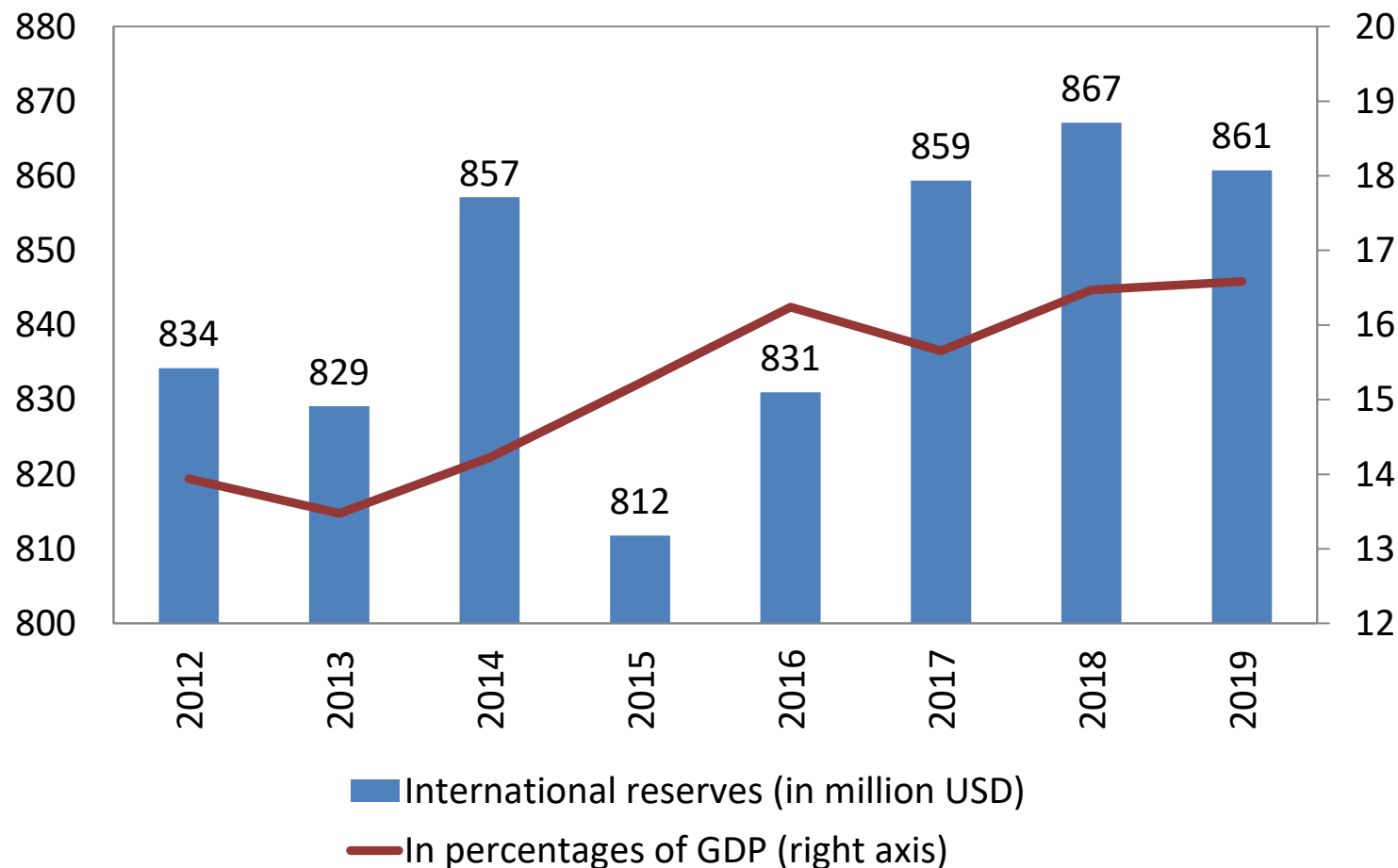
Accelerating growth of the monetary base



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

Expansive monetary policy has been complemented with greater use of international reserves, to mitigate exchange volatility

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF GROSS INTERNATIONAL RESERVATIONS, 2012 TO 2019
(In billions of dollars and percentages of GDP)



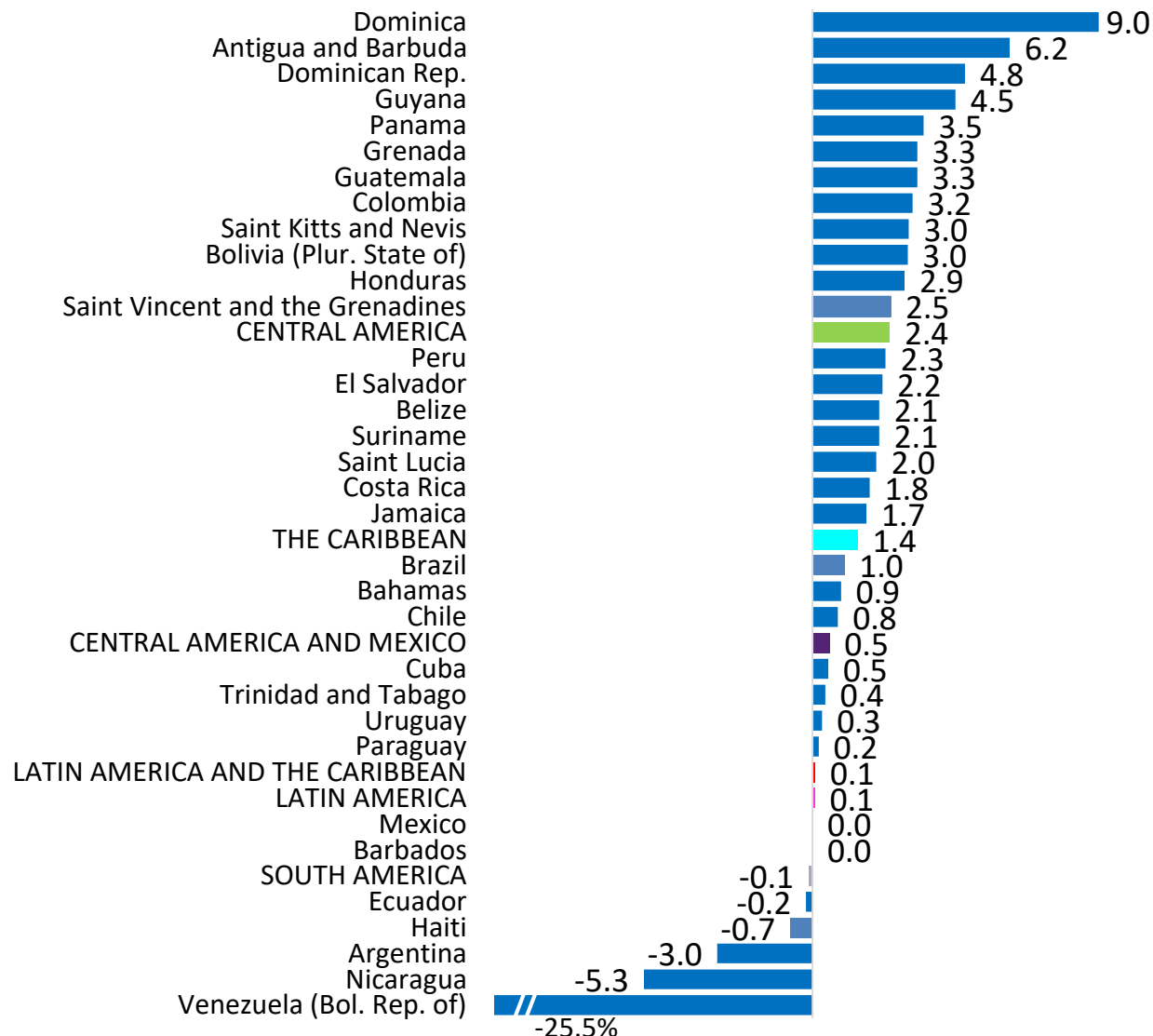
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Forecasts

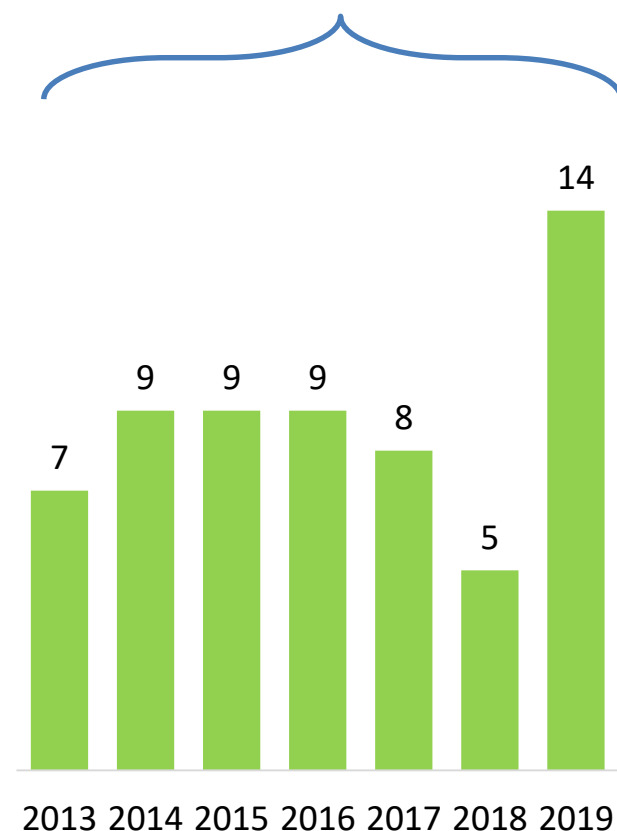
In 2019 growth in Latin America and the Caribbean will slow to 0.1%

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATE, 2019

(Percentages, based on constant dollars of 2010)



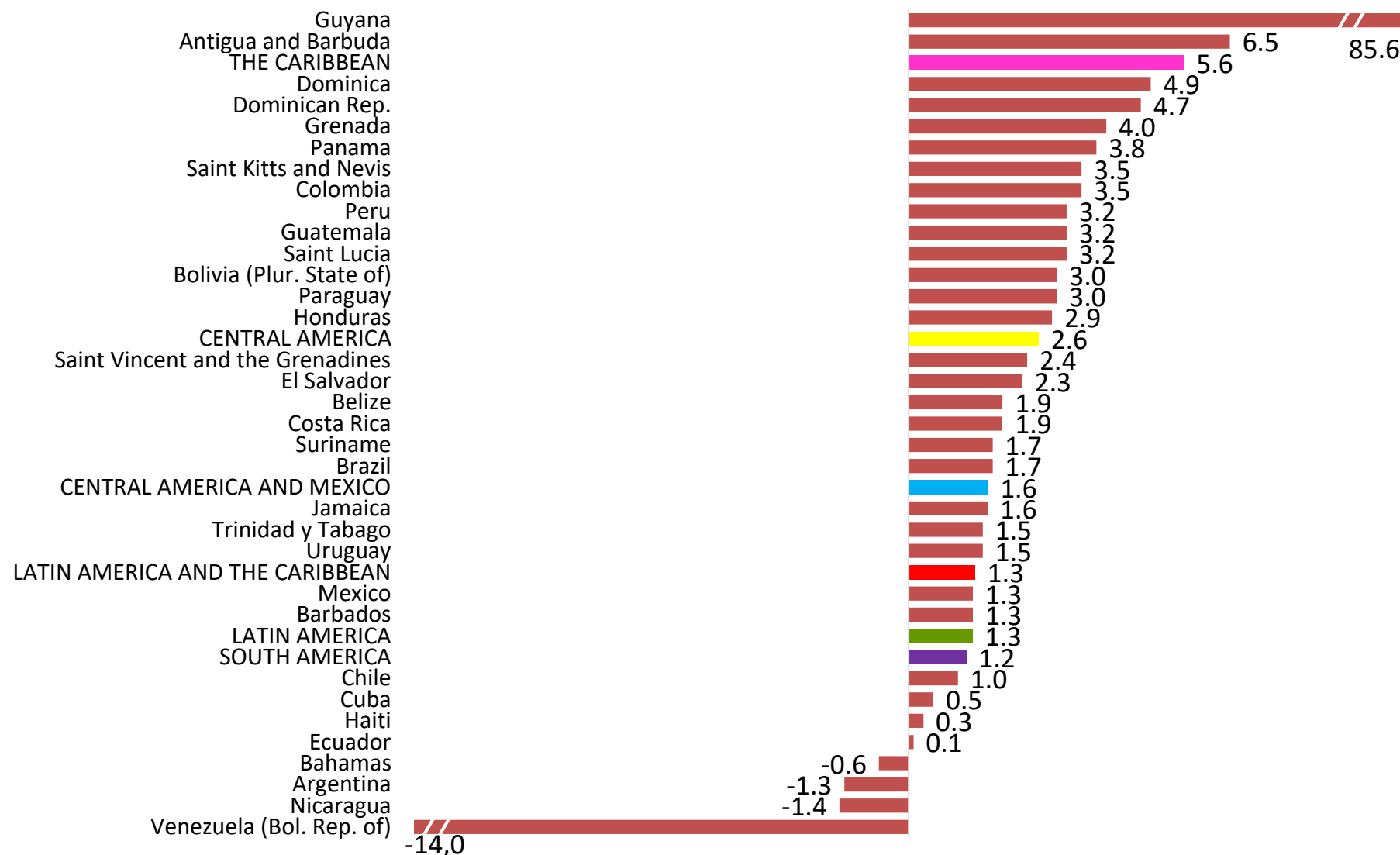
The number of countries with growth of 1% or less in 2019 is the highest in many years



Growth in 2020 is projected to continue at low levels for the region

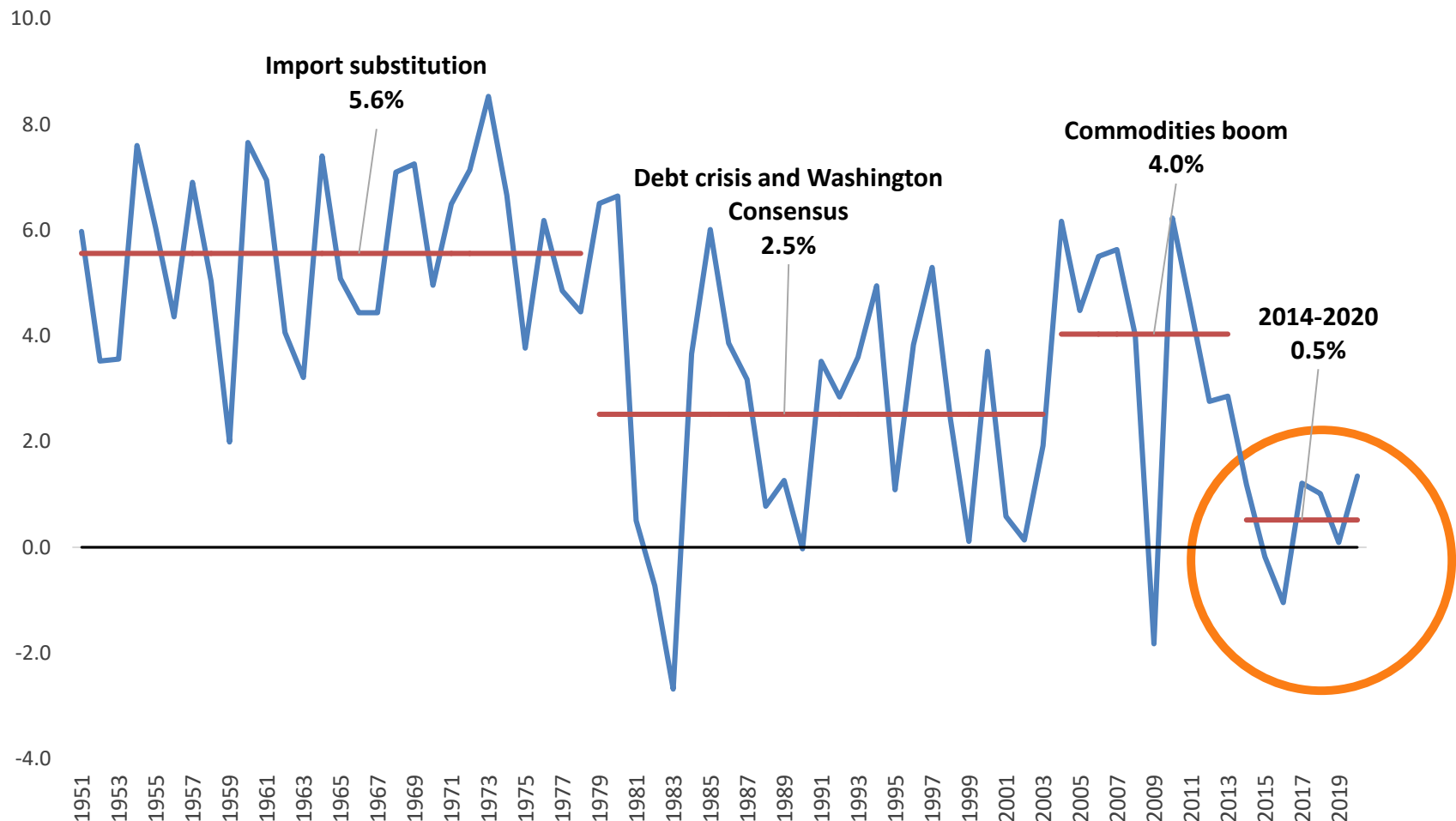
LATIN AMERICA AND THE CARIBBEAN: PROJECTION OF THE GDP GROWTH RATE, 2020

(Percentages, based on constant dollars of 2010)



The current low growth trend began in 2014

LATIN AMERICA AND THE CARIBBEAN: ANNUAL GDP GROWTH RATES AND SIMPLE AVERAGES, 1951-2020
(In percentages)



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

Policy recommendations

Policy recommendations

- The region's low growth trend is related to structural constraints and falling external demand.
- This weak performance also translates into a high degree of idle capacity.
- In the short term, significant fiscal stimuli are required that must be accompanied by fiscal sustainability measures focused on increases in the tax burden, greater progressivity in the tax structure and structural reforms in social protection systems.
- A different investment allocation is required to support a change in the productive structure to get out of the primarization of the economy in which it is trapped and change the commercial insertion of the region.
- To deal with financial vulnerability and exchange rate volatility, it is necessary to privilege the real economy by strengthening the instruments of macroprudential policy.

The relevance of active fiscal policy

- Reactivating economic activity requires greater public spending on investment and social policies:
 - Mexico: Actions to Support the Economy (US \$ 24,250 million) and the National Private Sector Infrastructure Investment Agreement (US \$ 42,951 million)
 - Chile: Employment Protection and Economic Recovery Plan (US \$ 5.5 billion) and Social Agenda (approx. US \$ 1.6 billion)
 - Colombia: proposed Growth Law (*Ley de Crecimiento*) with measures to protect lower-income / vulnerable populations
- Increasing the level of spending in the short term, entails pressures on public debt that must be faced according to the differing capacities of the countries.

A strategy is necessary to guarantee fiscal sustainability in the medium term

- Growth and productivity are necessary conditions to maintain a sustainable trajectory of the debt / GDP ratio.
- Inequality is inefficient and reducing it is imperative for achieving greater growth and productivity.
- Fiscal sustainability requires structural reforms in tax systems to dismantle the culture of privilege:
 - Improve tax progressivity (richest 1%), strengthening wealth taxes, those who have more pay more.
 - Reduce tax evasion, which represents 6.3% regional.
 - Reassess tax expenditures that represent 3.7% of regional GDP.
 - Implement new generation of taxes on the digital economy, environmental and related to public health.

Political Economy of Growth

- The role of the State is more important today than ever.
- Countries need to review their models of growth and their policy toolbox.
- Macroeconomic policy requires greater coordination between Central Banks, fiscal policy and financial authorities.
- A social pact requires a management of the macroeconomy that stabilizes the economy but prioritizes sustainable development policies.



2019

Preliminary Overview of the Economies of Latin America and the Caribbean

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