

2015



Economic Survey
of Latin America and the Caribbean



UNITED NATIONS

ECLAC



I. External context

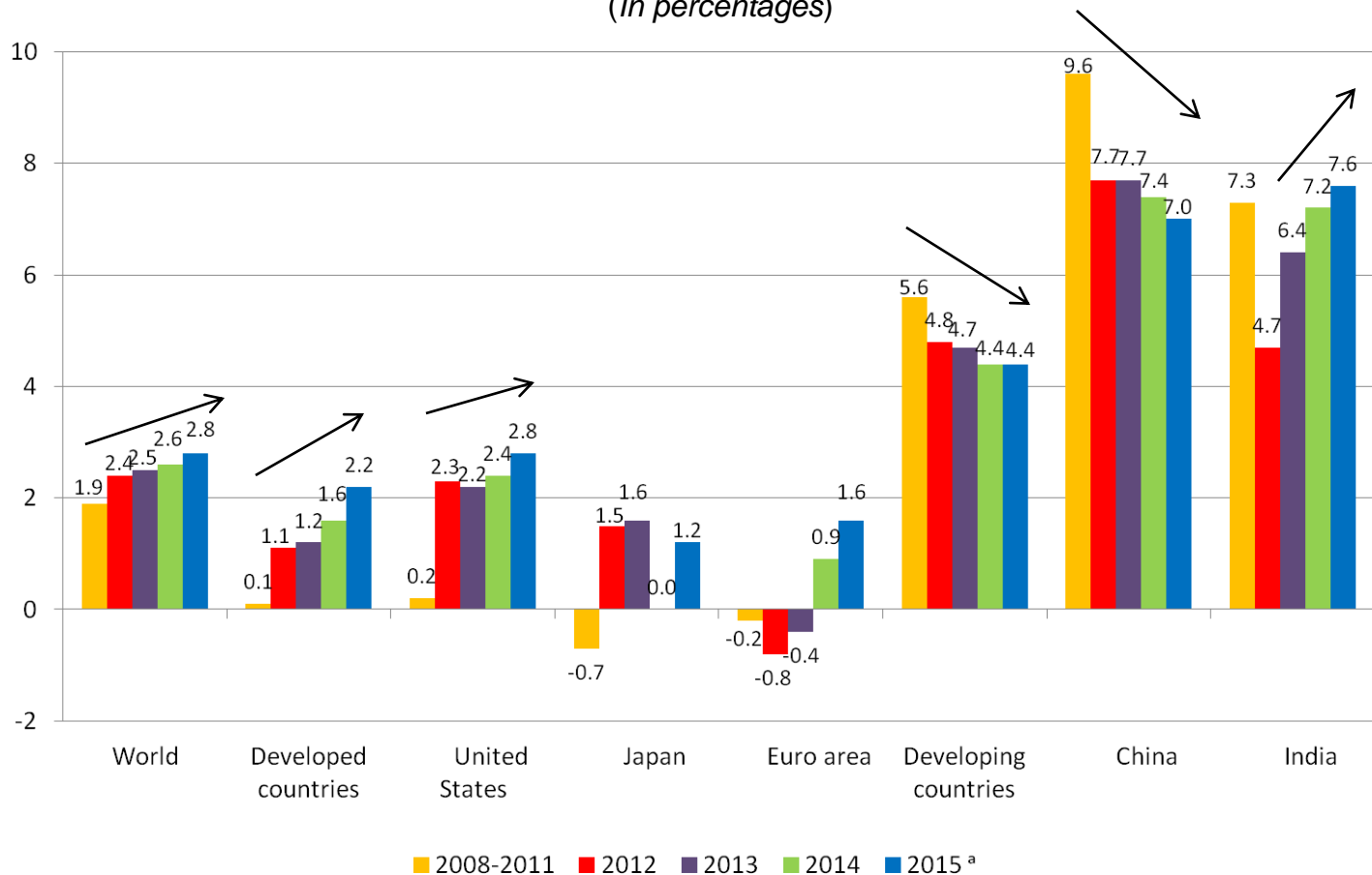
The region faces a more complex external environment regarding trade and finance

- Three channels transmit the effects of the external environment:
 - Trade partners' growth dynamics
 - Prices of raw materials and terms of trade
 - Financial markets and flows



Global growth will remain slow and demand sluggish...

GLOBAL GROWTH BY REGIONS AND SELECTED COUNTRIES, 2008-2015^a
(In percentages)



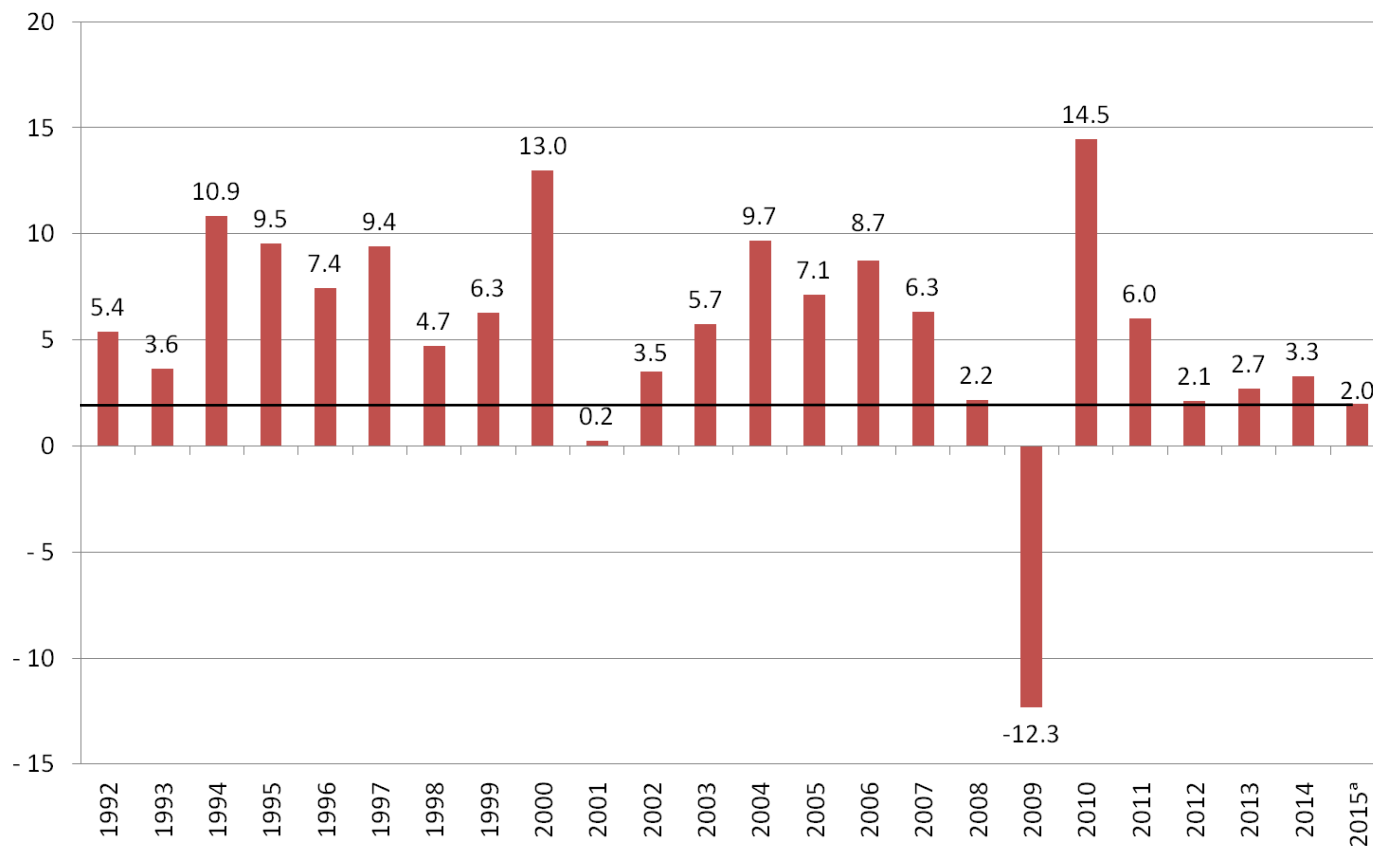
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Department of Social and Economic Affairs, World Economic Situation and Prospects 2014 and 2015.

^a Projections as of May 2015.



Growth in global trade volumes remains below pre-crisis levels

YEAR-ON-YEAR CHANGES IN GLOBAL TRADE VOLUMES, 1992-2015^a
(In percentages)



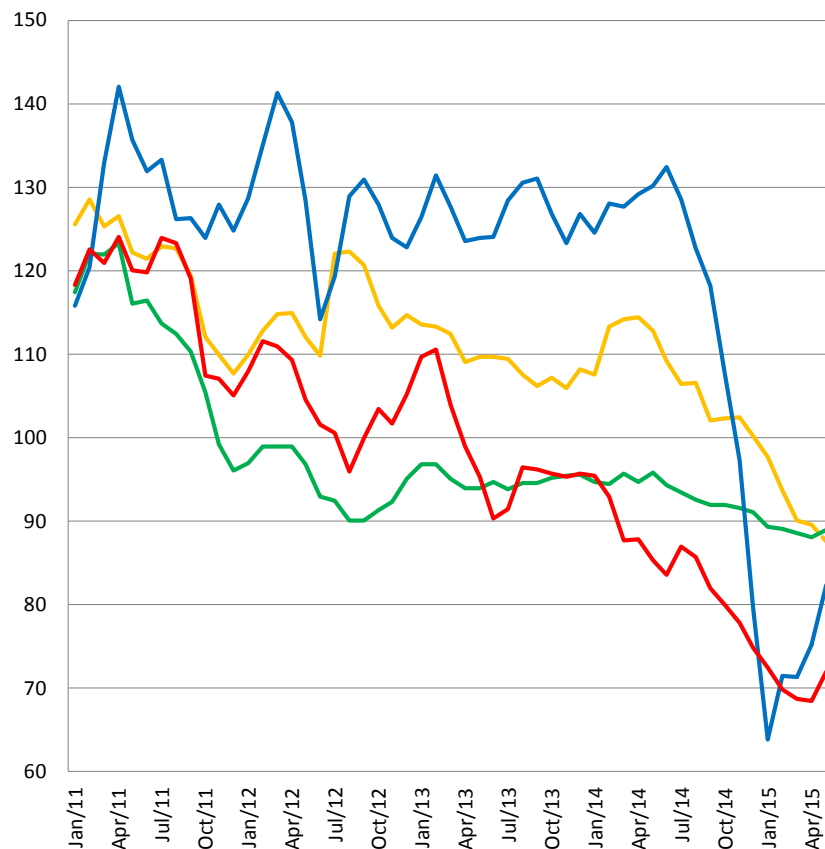
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Netherlands Bureau of Economic Policy Analysis (CPB).

^a Average January-April.

Commodity prices continue to decline but some recuperation is expected

LATIN AMERICA AND THE CARIBBEAN: COMMODITY EXPORT PRICES, JANUARY 2011- MAY 2015

(Index: 2010=100)



Percentage change between periods		
	January 2011- May 2015	June 2014- May 2015
Food, tropical beverages, vegetable oilseeds and oils	-30.2	-19.8
Forestry and agricultural raw materials	-24.2	-5.6
Energy	-28.9	-37.8
Metals and minerals	-39.2	-13.9

- Food, tropical beverages, vegetable oilseeds and oils
- Forestry and agricultural raw materials
- Energy
- Metals and minerals

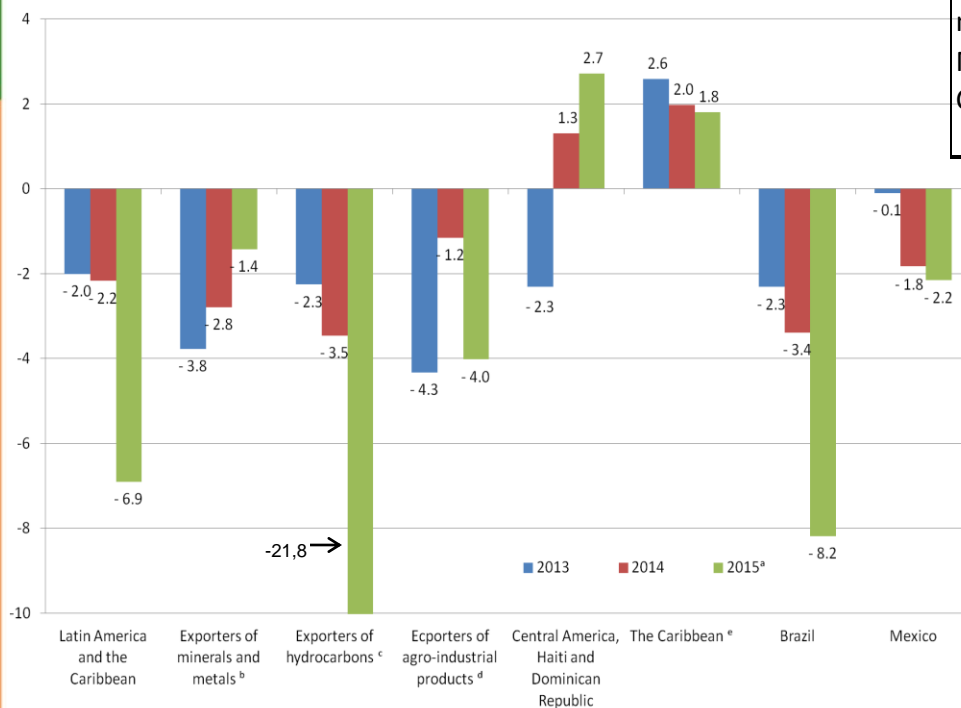
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

With a deterioration of the terms of trade of the region's commodity exporters

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRY GROUPINGS): LOSSES AND GAINS OWING TO TERMS OF TRADE VARIATIONS BETWEEN 2014 AND 2015
(In millions of dollars and in percentages of GDP)

Country groupings	million US dollars	percentage of GDP
Latin America	-67,561	-1.2
Exporters of hydrocarbons ^c	-39,486	-3.3
Exporters of minerals and metals ^b	-2,188	-0.5
Mercosur ^f	-23,104	-0.9
Central America, Haiti and Dominican Republic	4,534	1.6

LATIN AMERICA: CHANGE IN THE TERMS OF TRADE, 2013 – 2015^a
(Index: 2010=100)



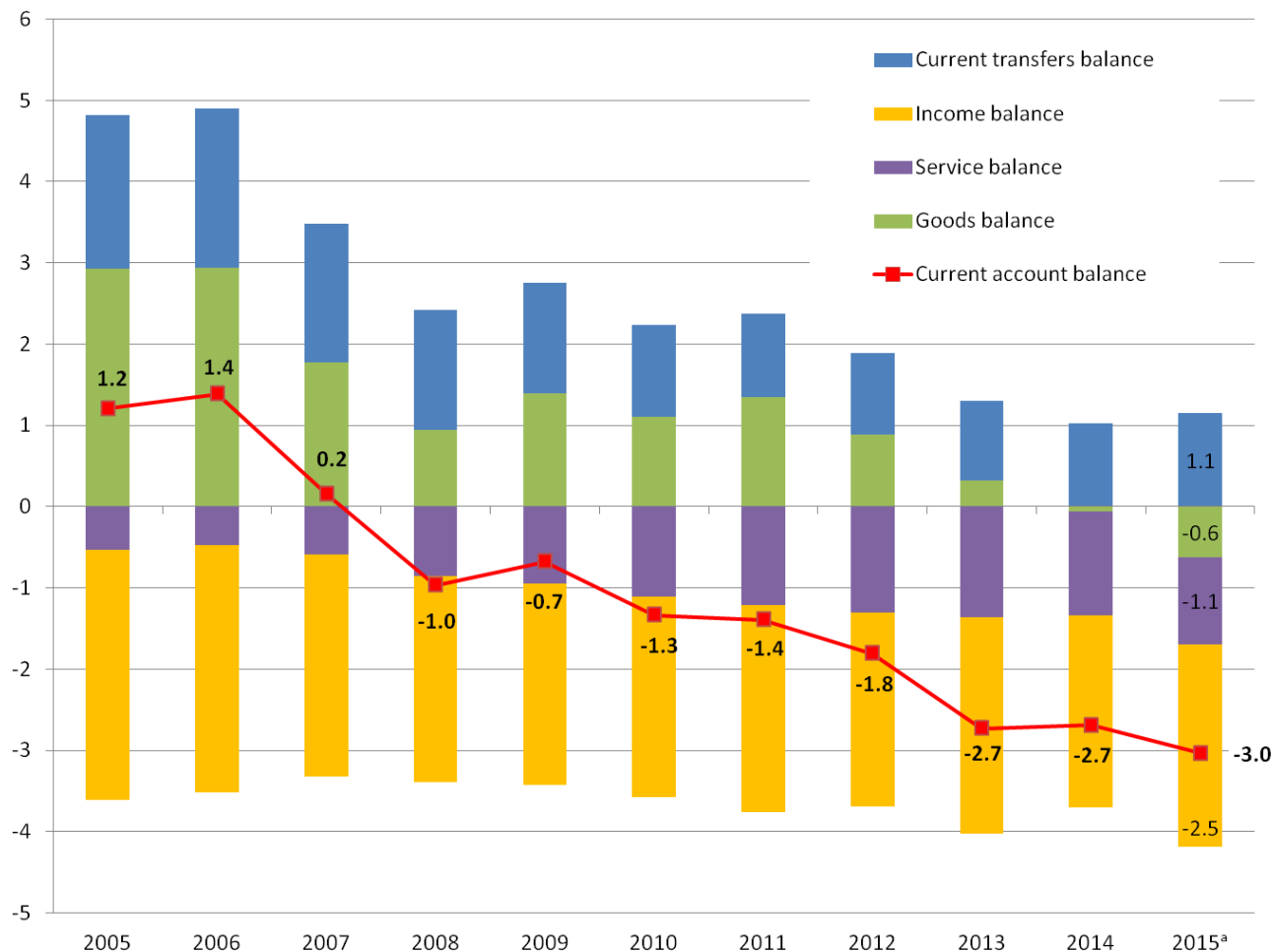
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Projections. ^b Chile and Peru. ^c Plur. State of Bolivia, Colombia, Ecuador, Bol. Rep. of Venezuela and Trinidad y Tobago. ^d Argentina, Paraguay and Uruguay.

^e Without Trinidad and Tobago.

The region's current account deficit is expected to widen in 2015

LATIN AMERICA: CURRENT ACCOUNT BALANCE BY COMPONENTS, 2005 – 2015^a
(In percentages of GDP)



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

^a Projections.

Uncertainties in international financial markets on the rise in 2015...

- **Related to factors like:**

- Dollar appreciation.
- Interest rate increase in the United States.
- Effectiveness of monetary expansion in Europe and Japan
- Worries about Euro stability, effects of the Greek crisis
- Financial volatility and losses in the Chinese stock market

- **Causing in the region:**

- Lower resource inflows (and possible outflows) owing to “flight to quality”.
- Increased cost of external financing.
- Weakening commodity prices owing to their role as financial assets.
- Increased exchange rate volatility, with a tendency towards depreciation.



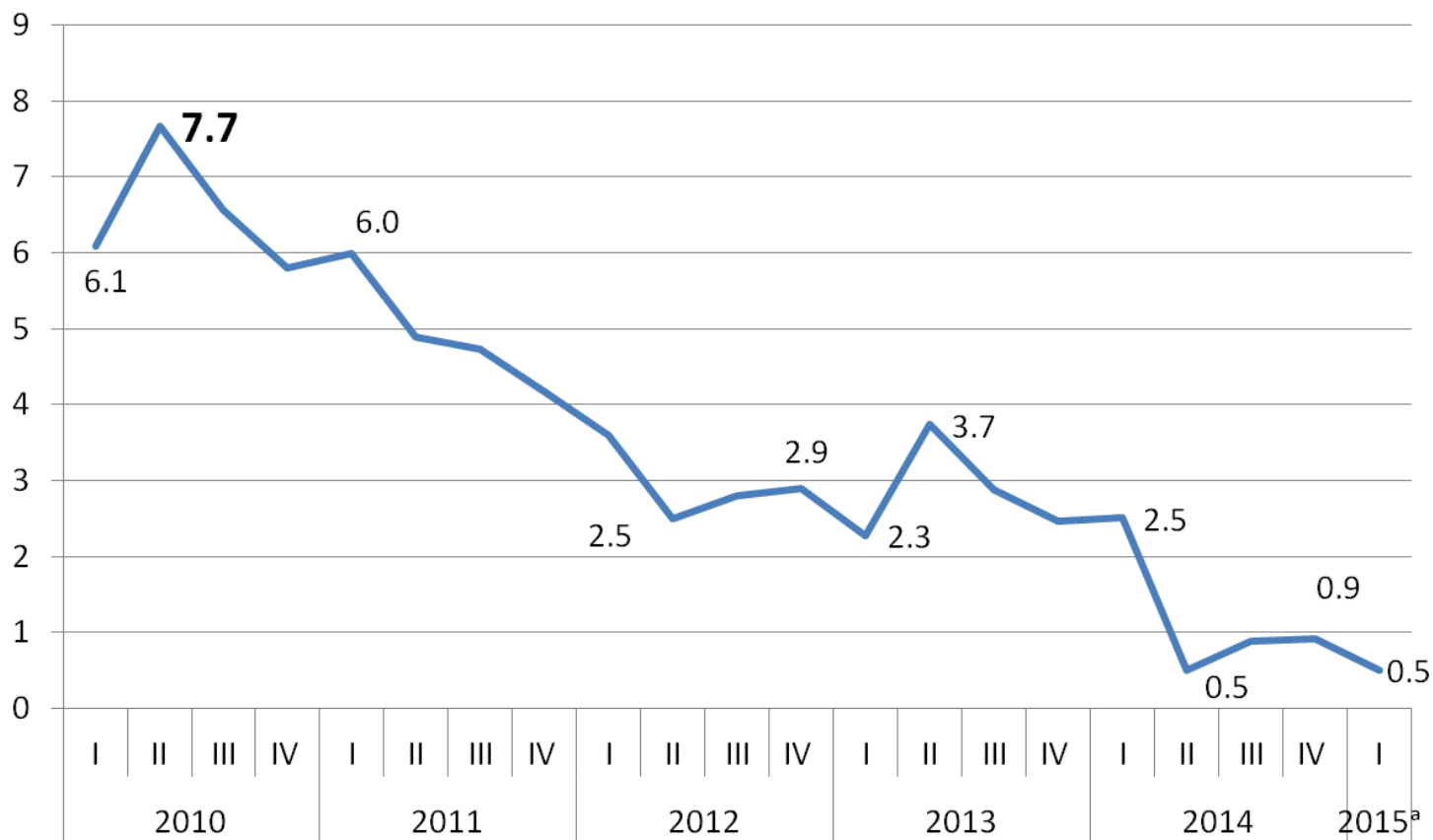


II. The external context has impacted the performance of the region's economies differently, with a stronger effect on South America...

Latin America and the Caribbean have experienced a growth slowdown since 2010

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES, 2010-2015^a

(In percentages, on the basis of dollars at constant 2010 prices)



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

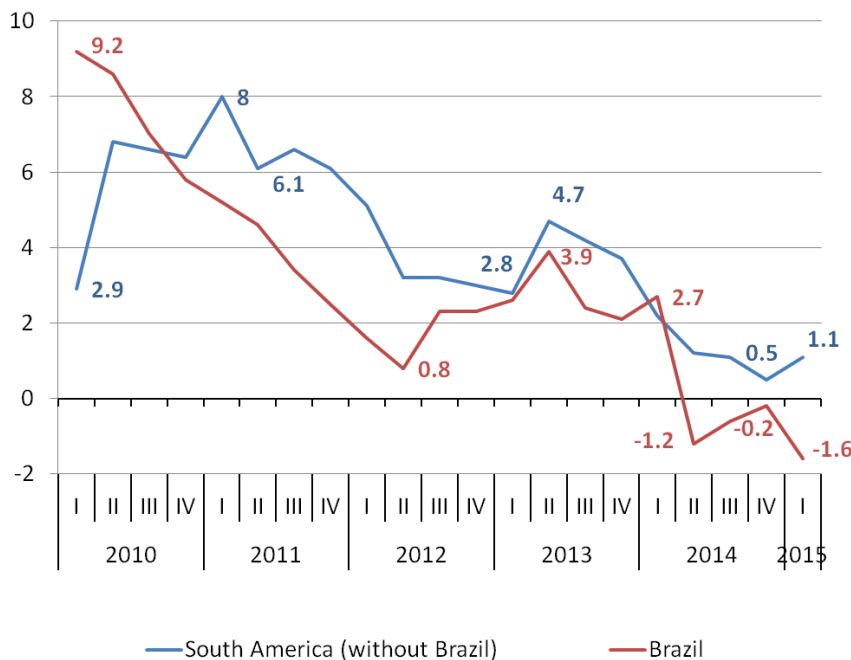
^a Projections.



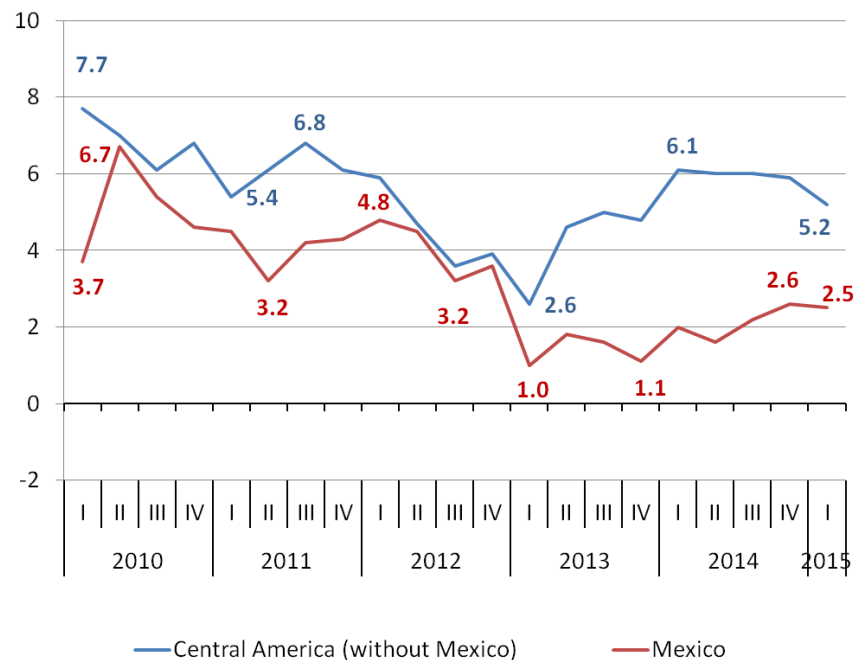
The intensity of the slowdown varies at the sub-regional level and between countries

LATIN AMERICA: GDP GROWTH, FIRST QUARTER OF 2010 TO FIRST QUARTER OF 2015
(In percentages, on the basis of dollars at constant 2010 prices)

SOUTH AMERICA AND BRAZIL



CENTRAL AMERICA AND MEXICO



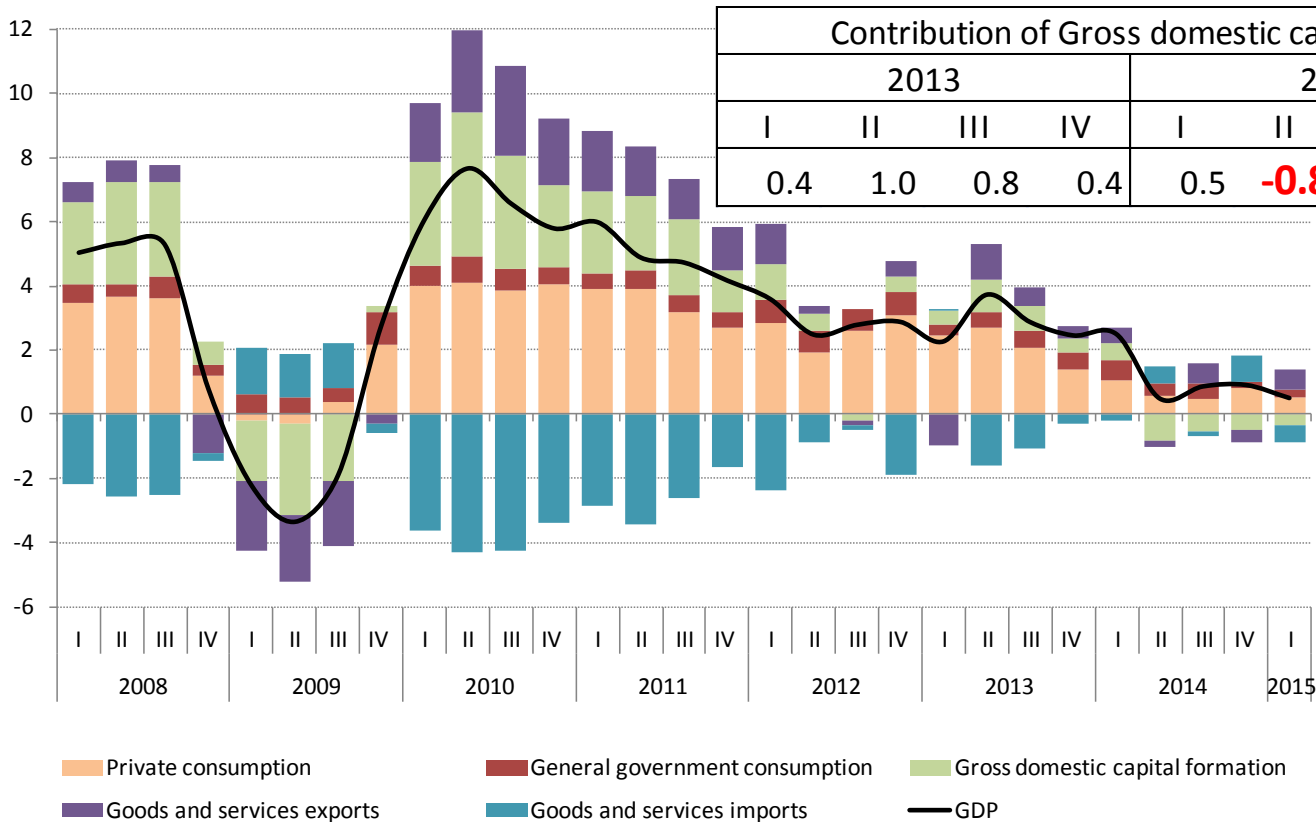
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



The slowdown reflects the decrease in domestic demand, led by the contraction in private consumption and investment...

LATIN AMERICA: YEAR-ON-YEAR CHANGE OF GDP AND THE COMPONENTS OF AGGREGATE DEMAND, 2008-2015

(In percentages, on the basis of dollars at constant 2010 prices)



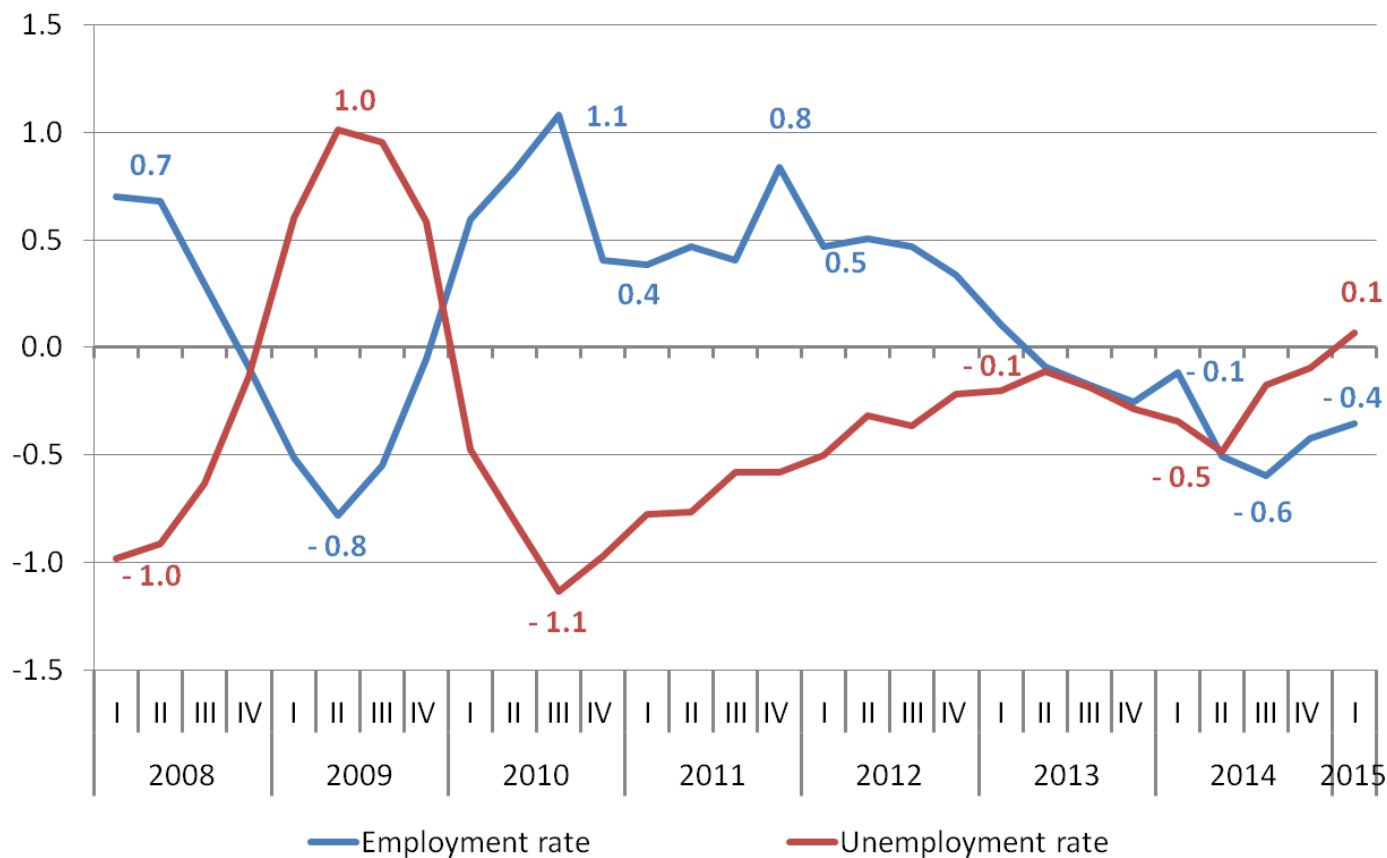
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



Lower growth will affect employment, and unemployment is expected to rise from 6.0% to around 6.5% in 2015

LATIN AMERICA AND THE CARIBBEAN (10 COUNTRIES): YEAR-ON-YEAR CHANGE IN EMPLOYMENT AND UNEMPLOYMENT RATES

(In percentage points)

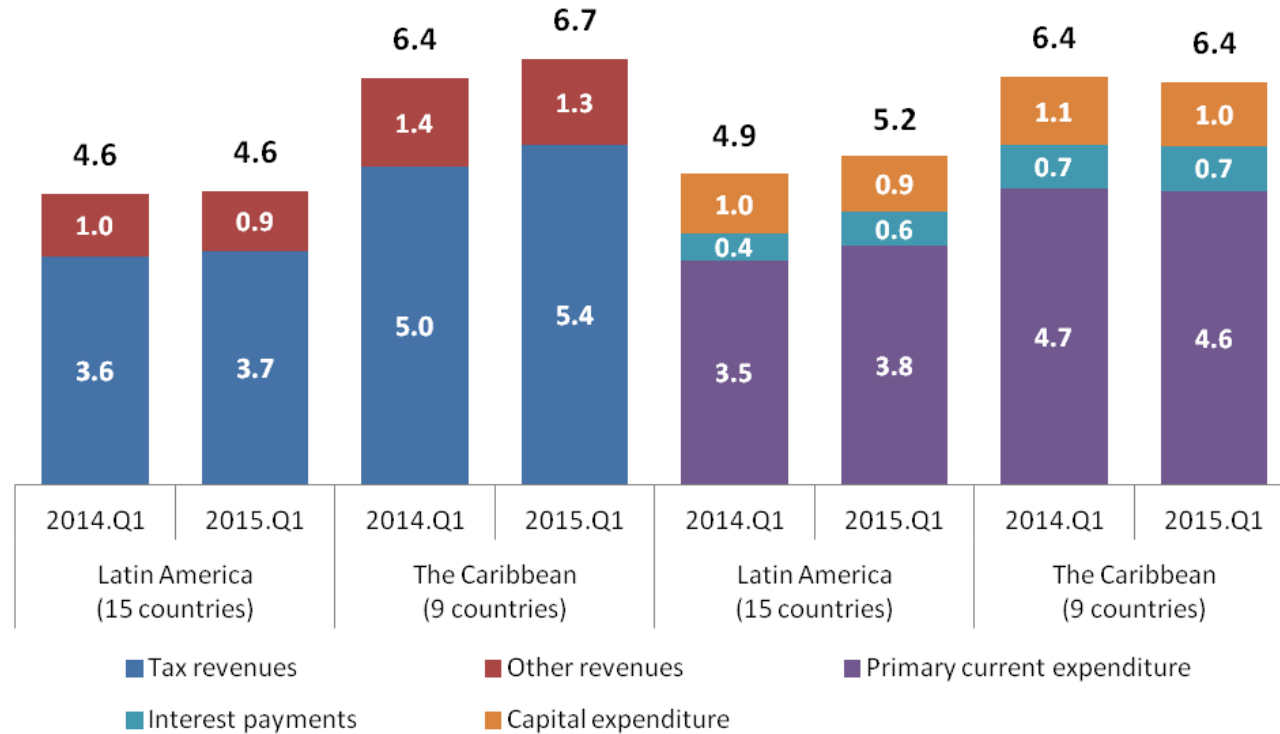


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

In spite of the economic slowdown, fiscal revenues and expenditures have remained relatively stable during the first quarter of 2015

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS, SIMPLE AVERAGES, FIRST QUARTER 2014-2015

(In percentages of annual GDP)



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

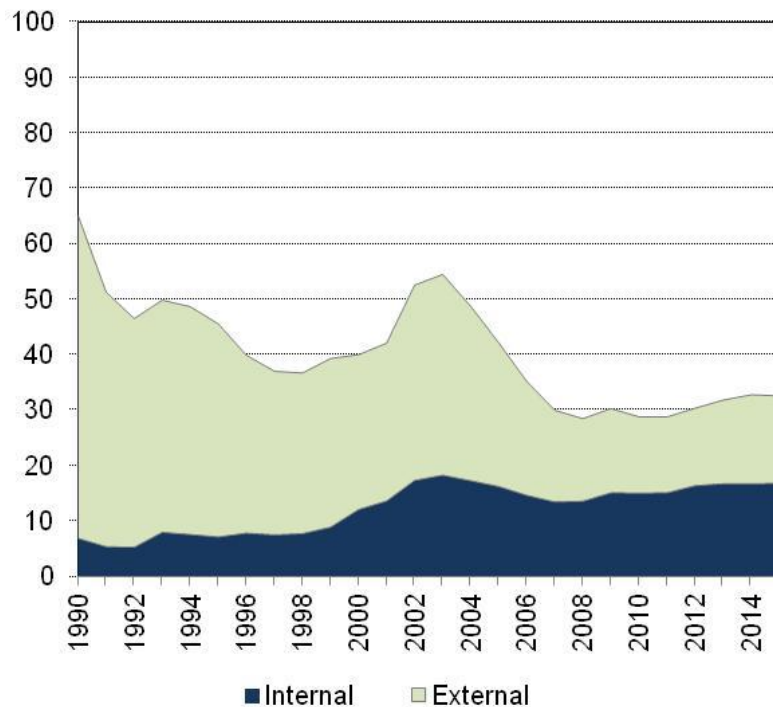


Public debt levels remain stable throughout the region

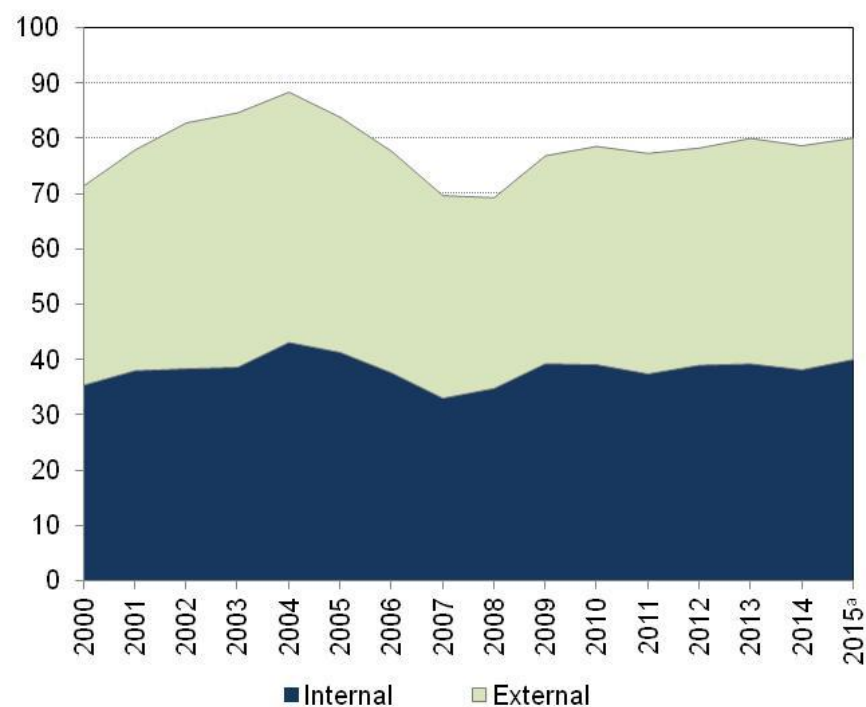
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT GROSS PUBLIC DEBT, SIMPLE AVERAGES, 1990-2015^a

(In percentages of GDP)

Latin America (19 countries)



The Caribbean (13 countries)

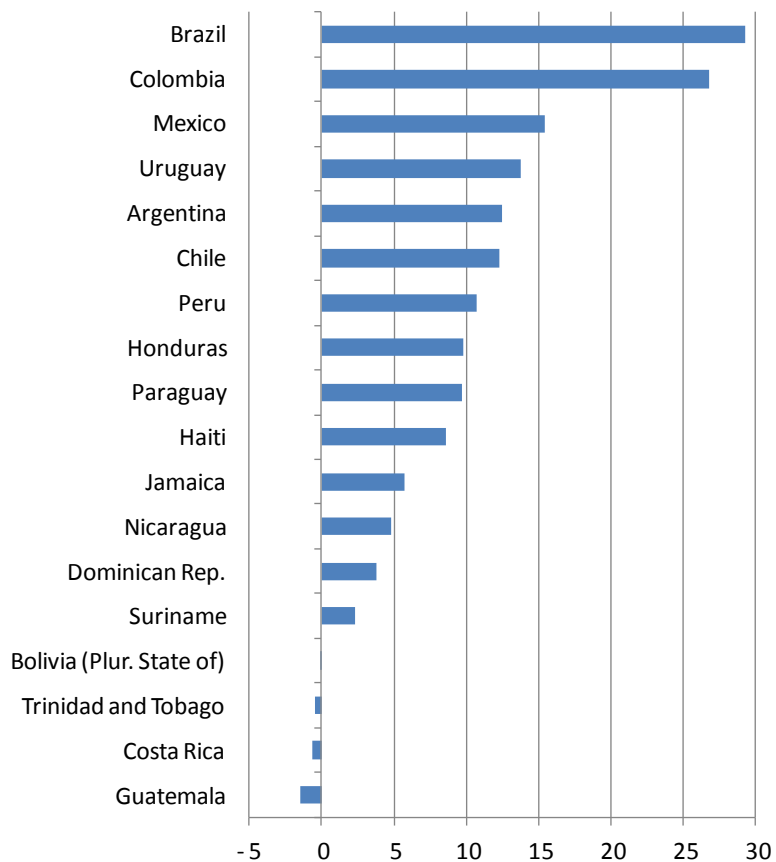


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

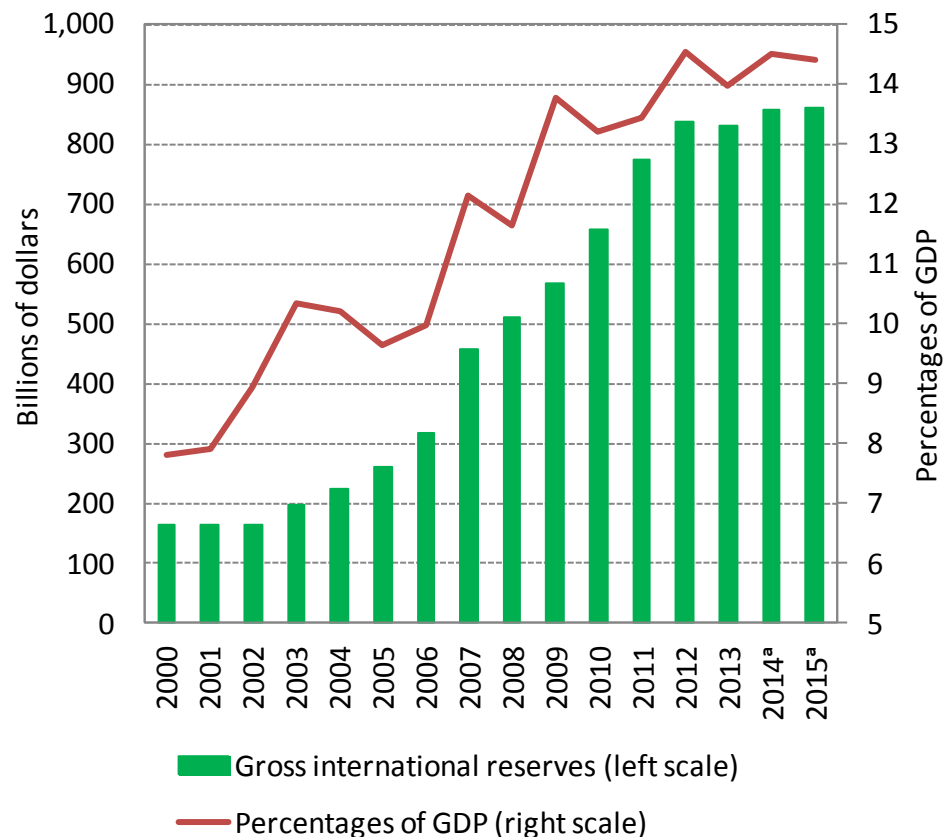
^a Preliminary figures for 2015.

The region's currencies are weakening with respect to the dollar in 2015, while international reserves remain stable

SELECTED COUNTRIES: NOMINAL EXCHANGE RATE WITH RESPECT TO THE DOLLAR, VARIATION BETWEEN THE FIRST HALF OF 2015 AND THE FIRST HALF OF 2014
(In percentages)



LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES, 2000-2015^a
(In billions of dollars and percentages of GDP)



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

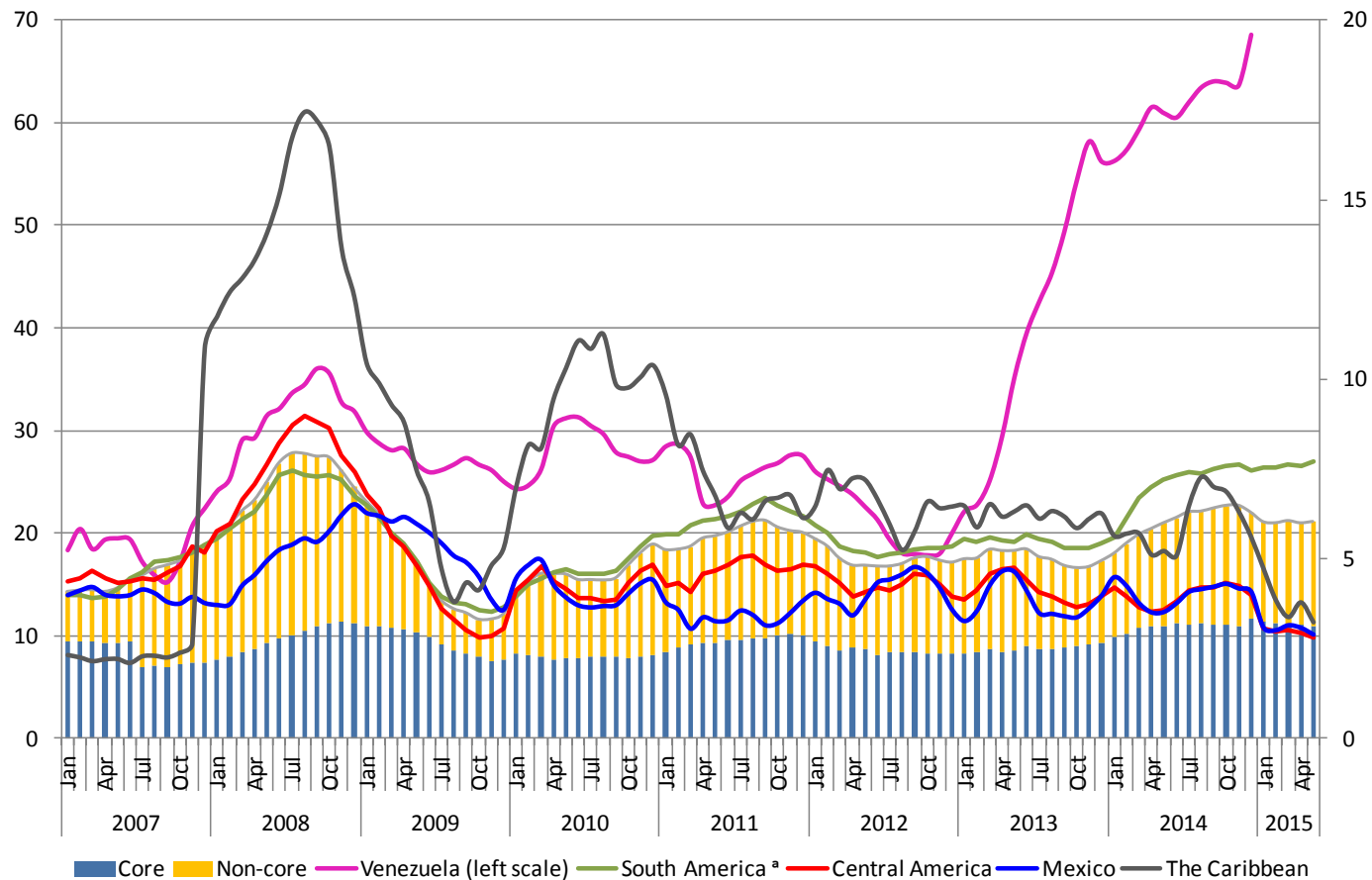
^a The figures for 2014 are estimations by ECLAC. The figures for 2015 correspond to April and contain preliminary data.



Although inflation remains at low levels, it has risen in the economies of South America

LATIN AMERICA AND THE CARIBBEAN: WEIGHTED AVERAGE OF 12-MONTH CUMULATIVE VARIATION OF INFLATION, 2007-2015

(In percentages)



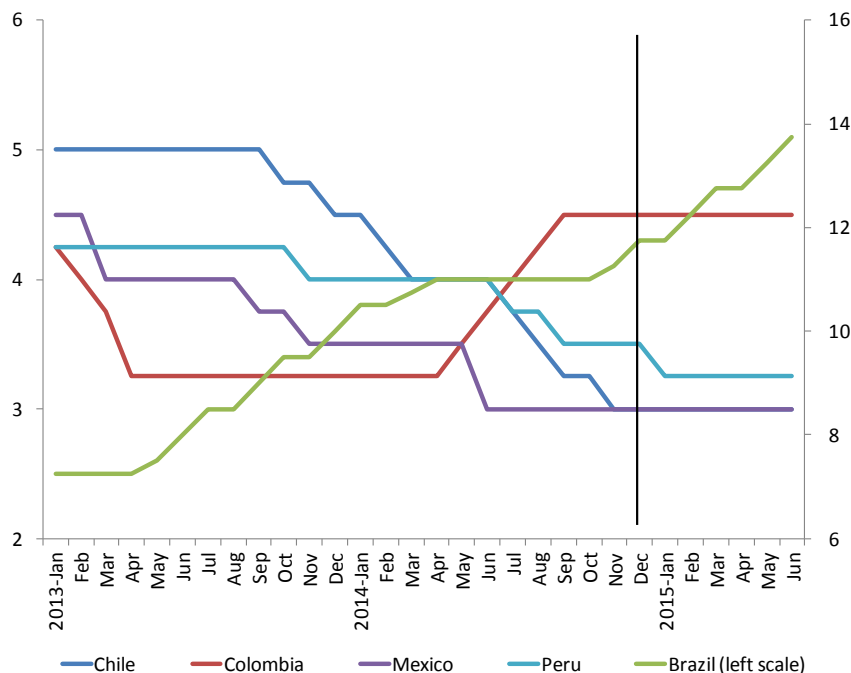
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Excludes the Bolivarian Republic of Venezuela.

Monetary policy has had a counter-cyclical orientation

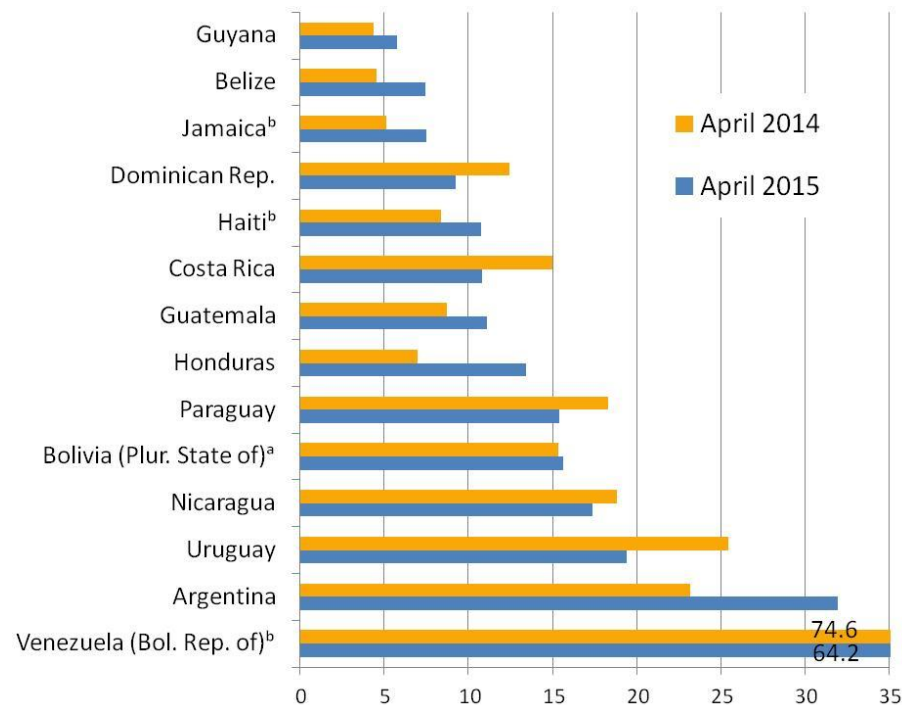
INFLATION-TARGETING ECONOMIES: MONETARY POLICY RATE, JANUARY 2013 TO JUNE 2015

(In percentages)



LATIN AMERICA (SELECTED COUNTRIES): YEAR-ON-YEAR VARIATION OF MONETARY AGREGATES (M3), APRIL 2014 AND APRIL 2015

(In percentages)



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

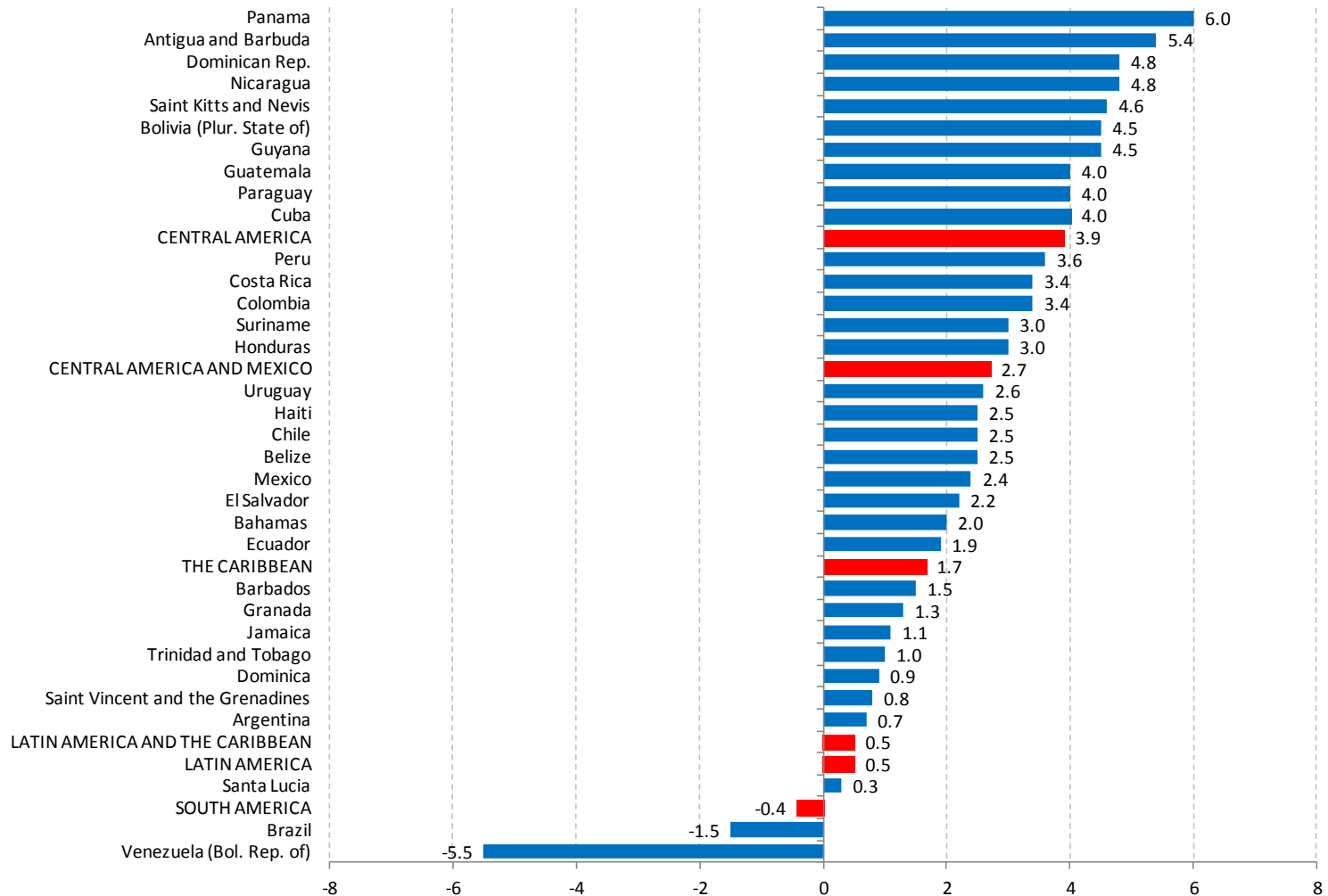
^a Data refers to February 2015

^b Data refers to March 2015.

GDP growth is expected to continue to slow in 2015

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2015

(In percentages, on the basis of dollars at constant 2010 prices)



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



To reinvigorate growth it is crucial to boost the investment process

- The deceleration is explained by the fall in commodity prices as well as the decline in investment.
- In the region, the investment cycle has not been favourable for promoting sustained and inclusive growth in the long-term. This topic is covered in the second part of this year's Economic Survey.
- Investment behavior not only affects the economic cycle but is also directly related to productivity dynamics.



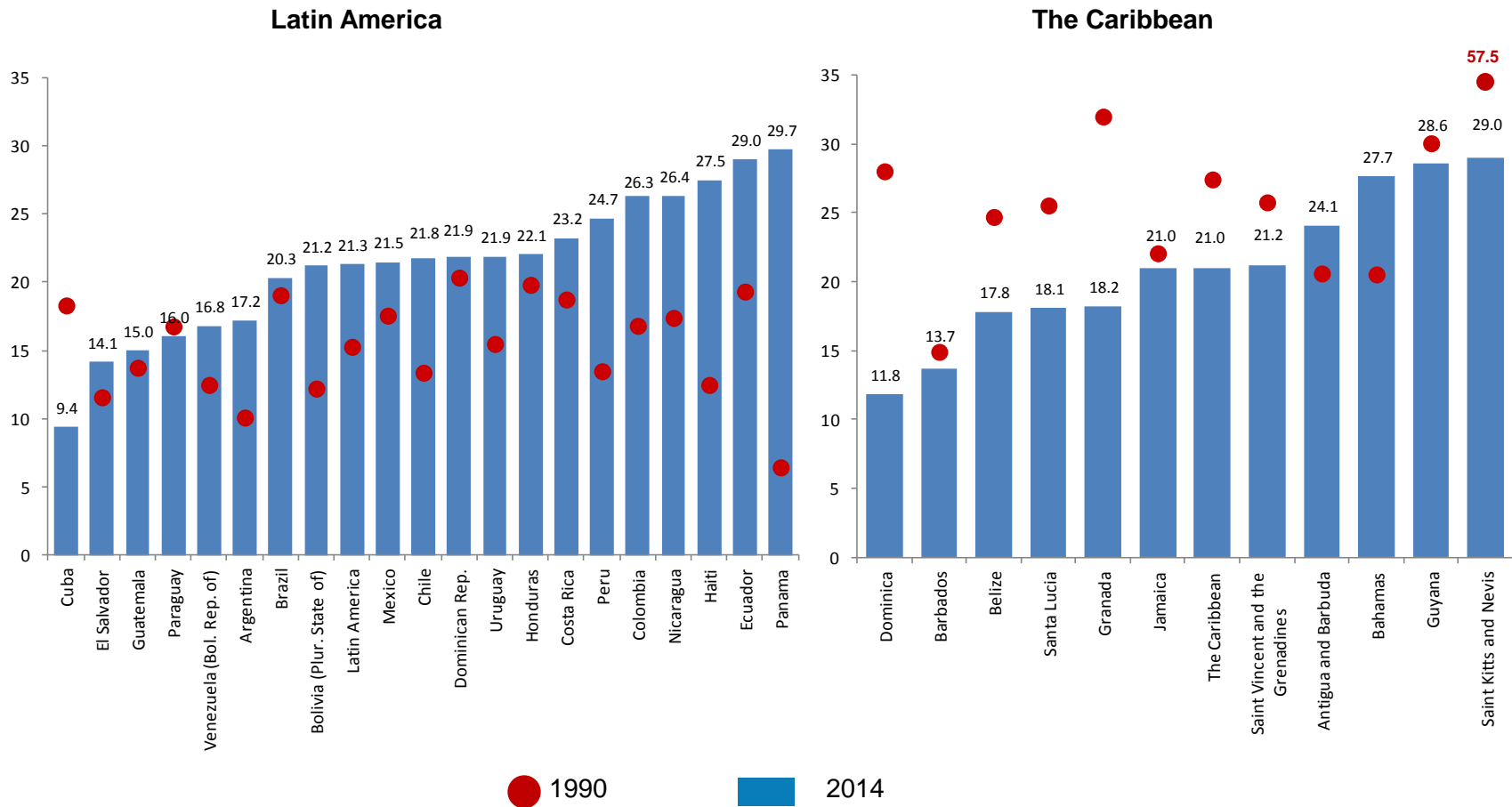


III. Second part of the Economic Survey:

Challenges in boosting the investment cycle to reinvigorate growth

In general, countries in Latin America have increased their investment ratio, though in the Caribbean results are mixed

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION, 1990-2014
(In percentages of GDP, on the basis of dollars at constant 2010 prices)

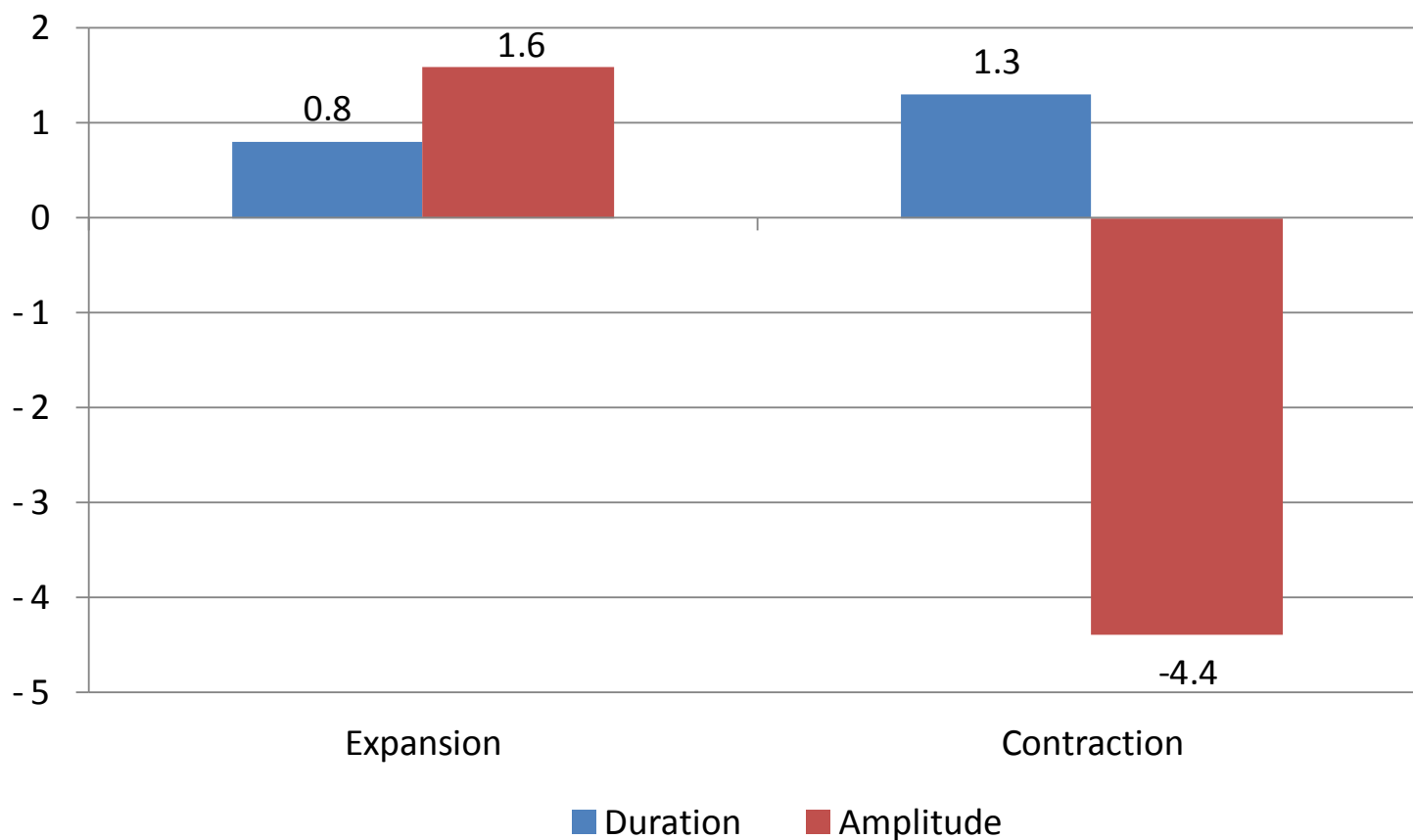


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Investment falls more than GDP in the contractive periods of the cycle

LATIN AMERICA AND THE CARIBBEAN: MEDIAN DURATION AND AMPLITUDE OF THE EXPANSION AND CONTRACTION PERIODS OF THE ECONOMIC CYCLE IN INVESTMENT WITH RELATION TO GDP, 1990-2014

(In quarters and percentages of GDP, quarterly data)

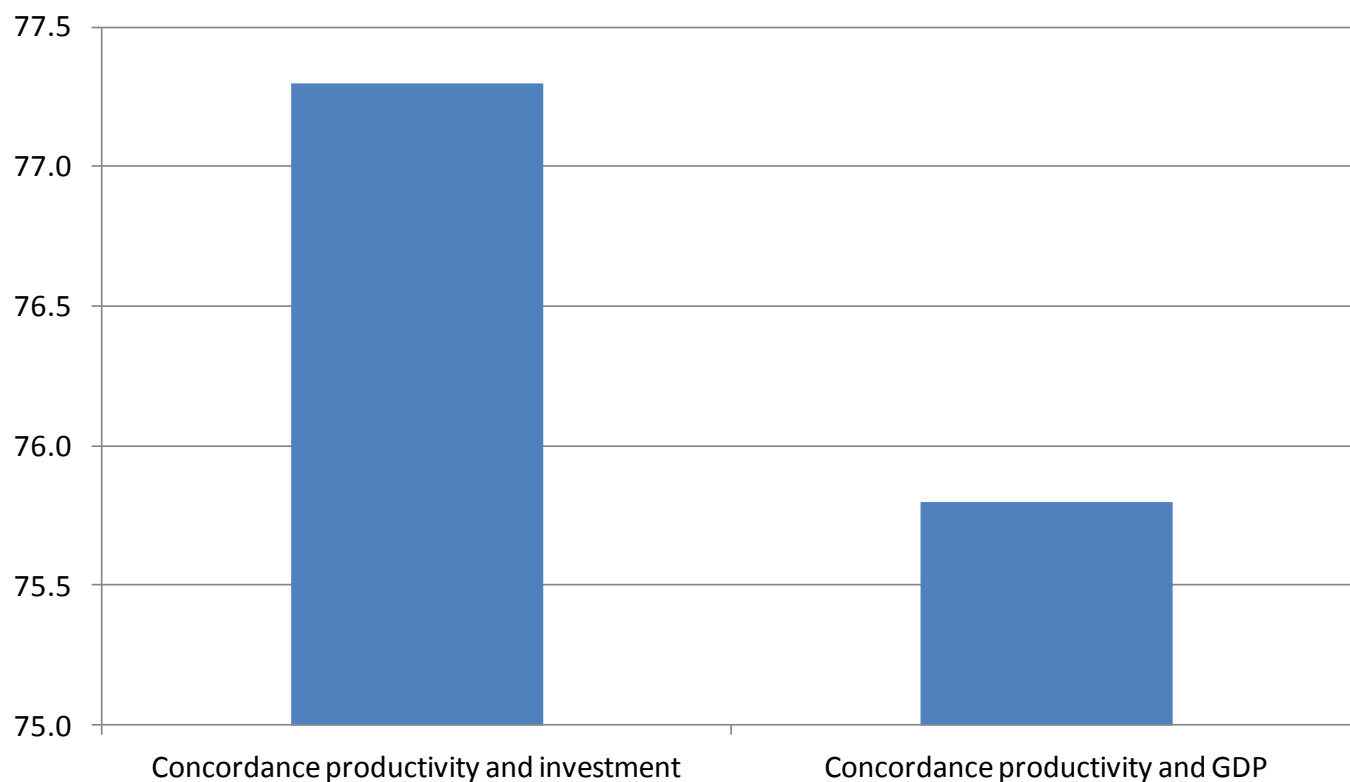


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Productivity is highly correlated with the dynamic of investment and GDP: increasing investment increases productivity

LATIN AMERICA AND THE CARIBBEAN : CONCORDANCE INDICATORS FOR PRODUCTIVITY, INVESTMENT AND GDP CYCLES, 1980-2012

(Average for selected countries)



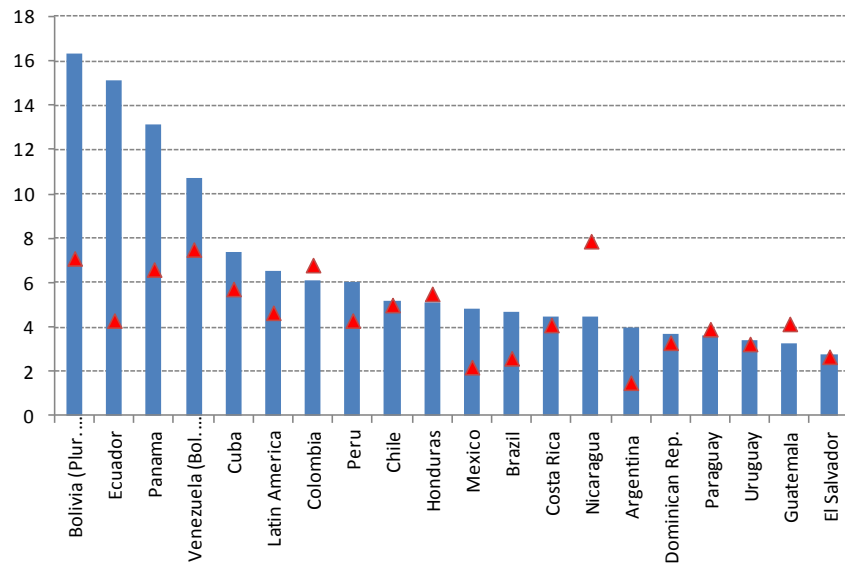
Note: Concordance refers to the percentage of times for which two series are in the same phase of the economic cycle.

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

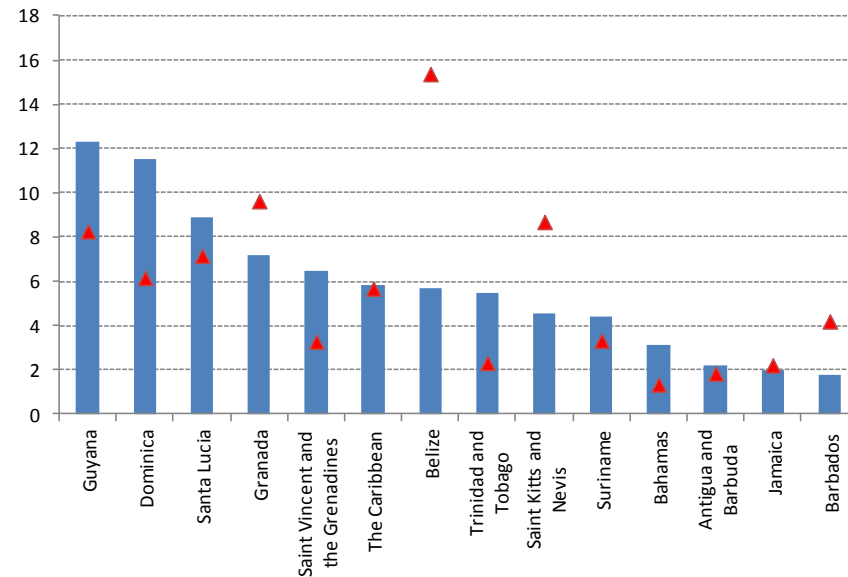
In general there has been an important effort to increase public investment

LATIN AMERICA AND THE CARIBBEAN: PUBLIC INVESTMENT RATIO, 2000 AND 2014
(In percentages of GDP)

Latin America



The Caribbean



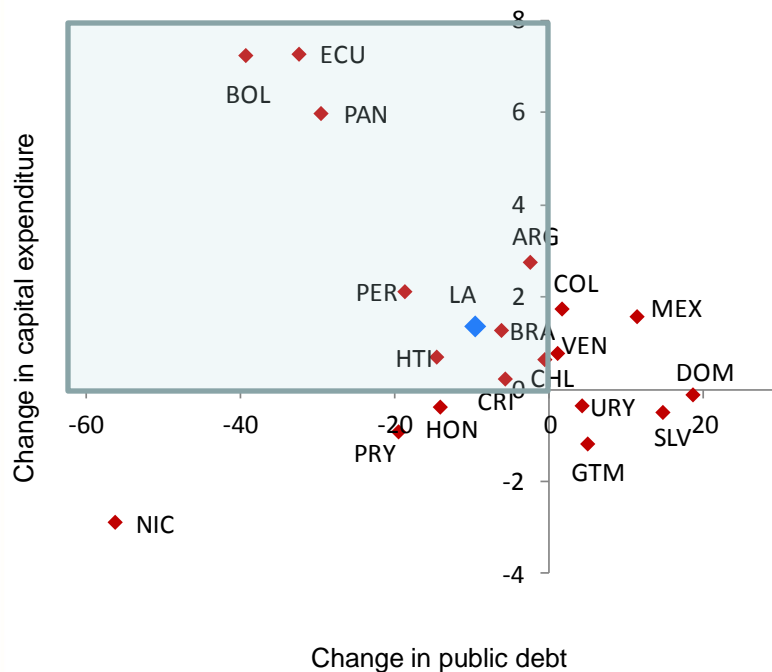
▲ 2000 ■ 2014

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

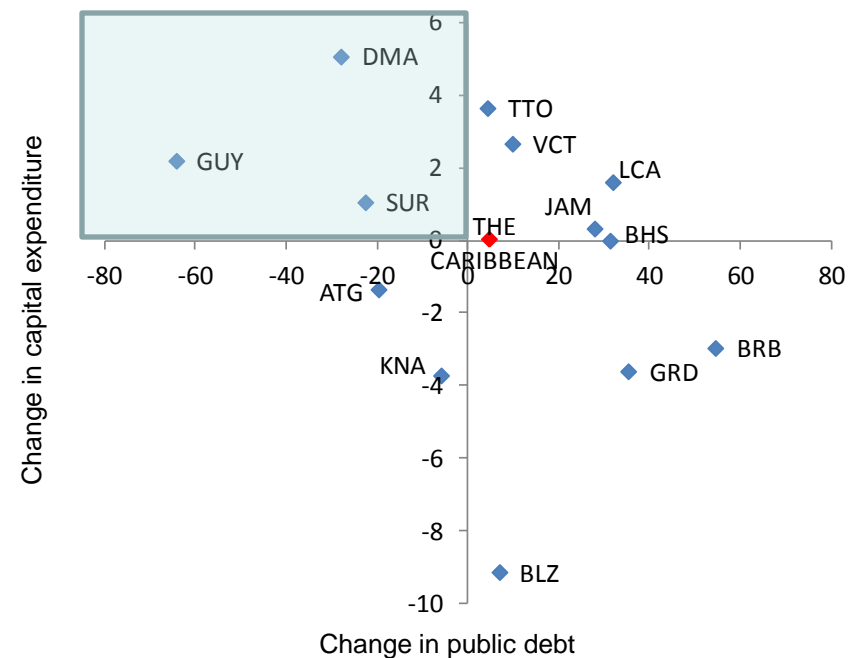
An increase in public investment does not necessarily imply an increase in the debt burden

LATIN AMERICA AND THE CARIBBEAN: CHANGE IN PUBLIC DEBT AND CAPITAL EXPENDITURE, VARIATION OF AVERAGE 2000-2001 VS AVERAGE 2013-2014
(In percentages of GDP)

Latin America



The Caribbean

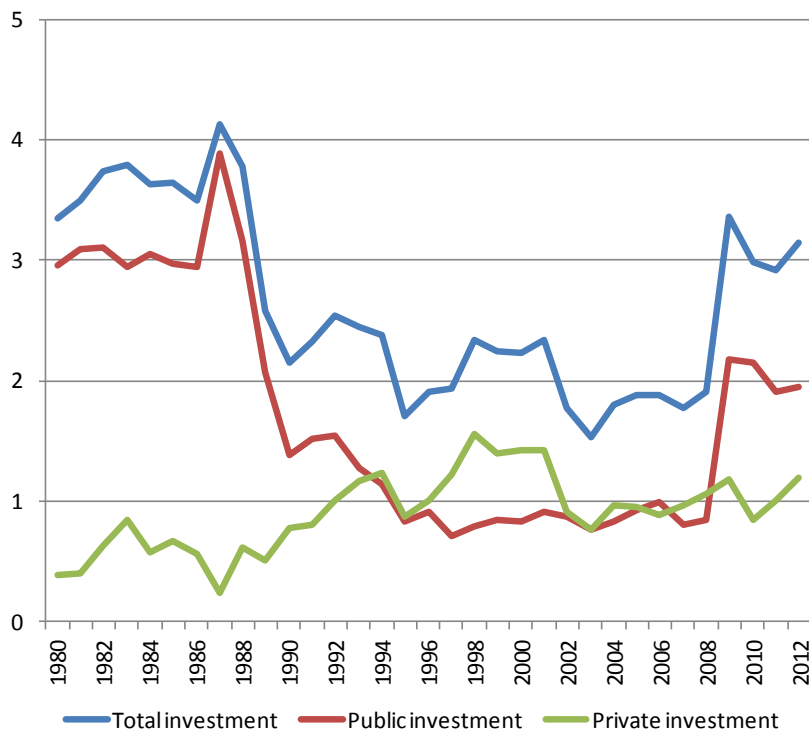


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

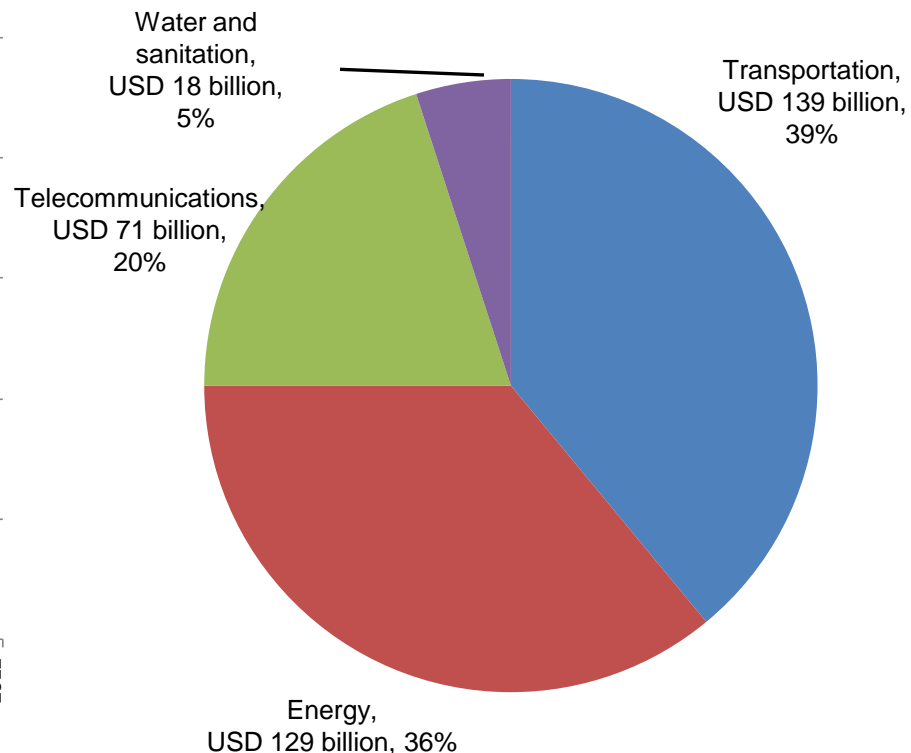


Investment in infrastructure has increased in the last years, but the gaps don't close

LATIN AMERICA: INVESTMENT IN INFRASTRUCTURE BY SECTOR^a, 1980-2012^{bc}
(In percentages of GDP)



LATIN AMERICA: INVESTMENT NEEDS IN INFRASTRUCTURE BY SECTOR, 2012
(In billions of dollars of 2012 and percent of total)



Investment needs: 6.2% of GDP, equivalent to 357 billion dollars of 2012 per year

Source: USI/ECLAC with data from Calderón and Servén (2010) and data from USI.

^a Includes investments in transportation, energy, telecommunications and water and sanitation.

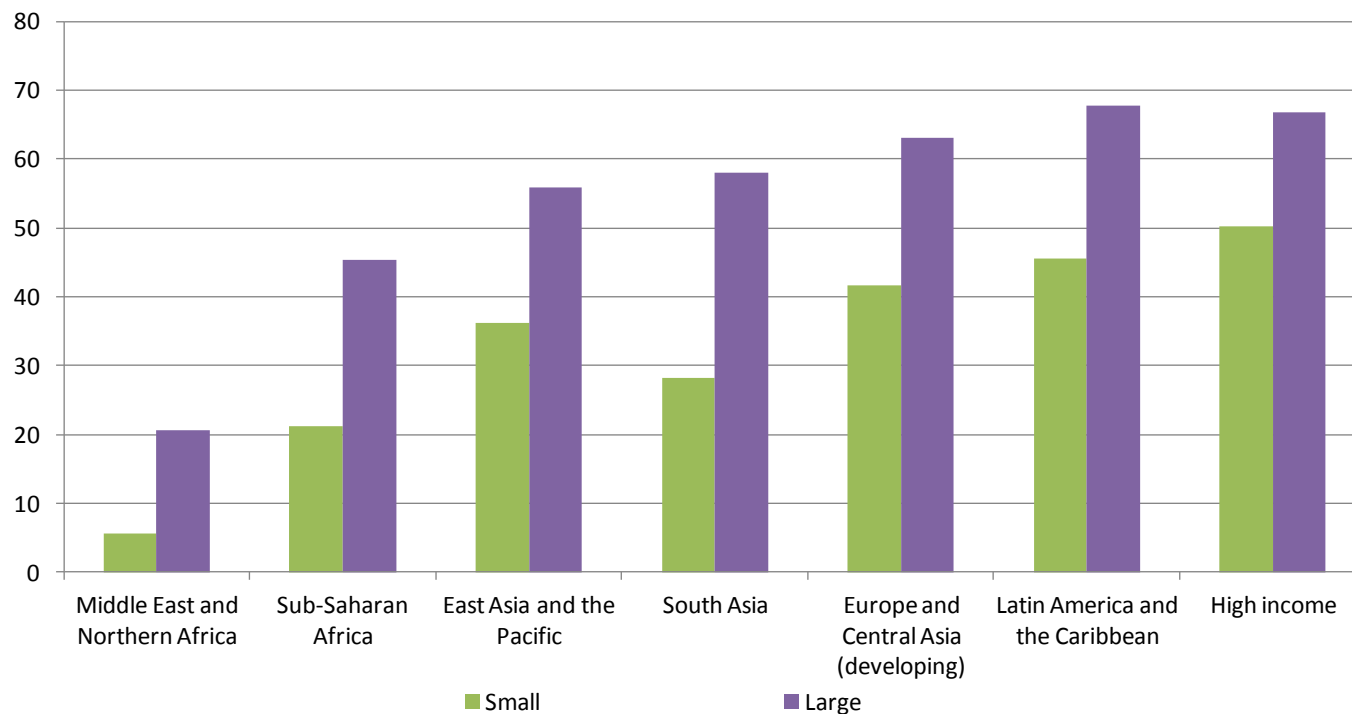
^b Data from USI are preliminary.

^c For illustrative purposes and to observe trends, the data from Calderón and Servén (1980 to 2006) and those from USI (2007 to 2012) have been presented as a series despite differences in the treatment of the figures.

Productive financing and financial inclusion constitute two of the principal challenges to boosting investment in the region

- Levels of financial inclusion in Latin America in the Caribbean are low and unequal
- In the productive sector, only 40% of small businesses have access to financing in the formal financial sector, compared to roughly 70% for large businesses.

BUSINESSES WITH BANK CREDIT OR LINE OF CREDIT, 2011
(In percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from World Bank (2015).



Financial inclusion gaps are explained by the three characteristics of the regional financial system

- Financial markets are not very deep and lack development
 - The ratio between domestic lending to the private sector and GDP in 2014 was roughly 30% below that of more developed regions and inferior to that registered in other developing regions such as East Asia and the Pacific
- Additionally, the financial system is focused on commercial banking and short-term instruments
 - Commercial banking represents on average more than 90% of the assets of the financial system. Capital markets are characterized by low levels of capitalization, limited number of traded shares and an elevated concentration of transactions involving a limited number of shares
- Finally they are segmented markets with high financial costs



Policy strategies

- Revitalizing growth in the short and long term requires boosting investment, which in turn will positively affect productivity.
- Sustaining public investment in complicated times:
 - Fiscal rules with investment targets.
 - Public-Private Partnerships (PPPs) to complement public investment.
 - New sources of financing: BRICS Development Bank, alternative financing mechanisms such as green bonds, triangular loans and carbon pricing mechanisms.



Policy strategies

- In the area of private investment:
 - Improve access to productive financing for SMEs.
 - Financial systems oriented towards the productive sector and the long term.
 - Increase involvement of development banks in the financing of investment and larger investment projects.
 - Support the productive and territorial architecture with investment instruments of industrial policy and technological innovation that go beyond tax incentive schemes.



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