

2011



Preliminary Overview of the Economies of Latin America and the Caribbean



UNITED NATIONS

ECLAC

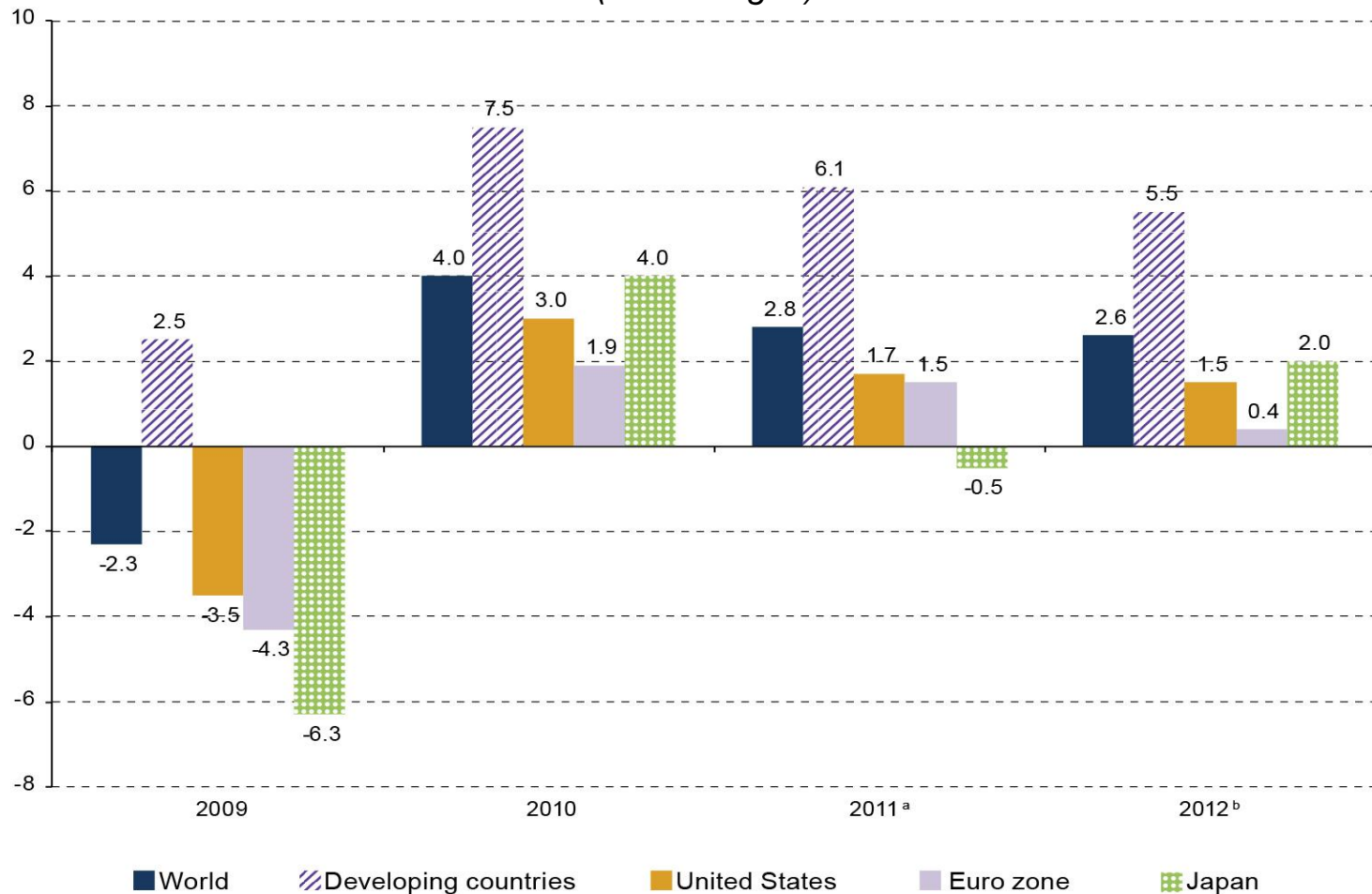
Contents

- External context
- External performance
- Economic policy challenges in 2011
- Growth and growth characteristics
- Outlook for 2012



Global growth slowed sharply in 2011 after the recovery from the crisis

WORLD GDP GROWTH RATES, 2009-2012
(Percentages)

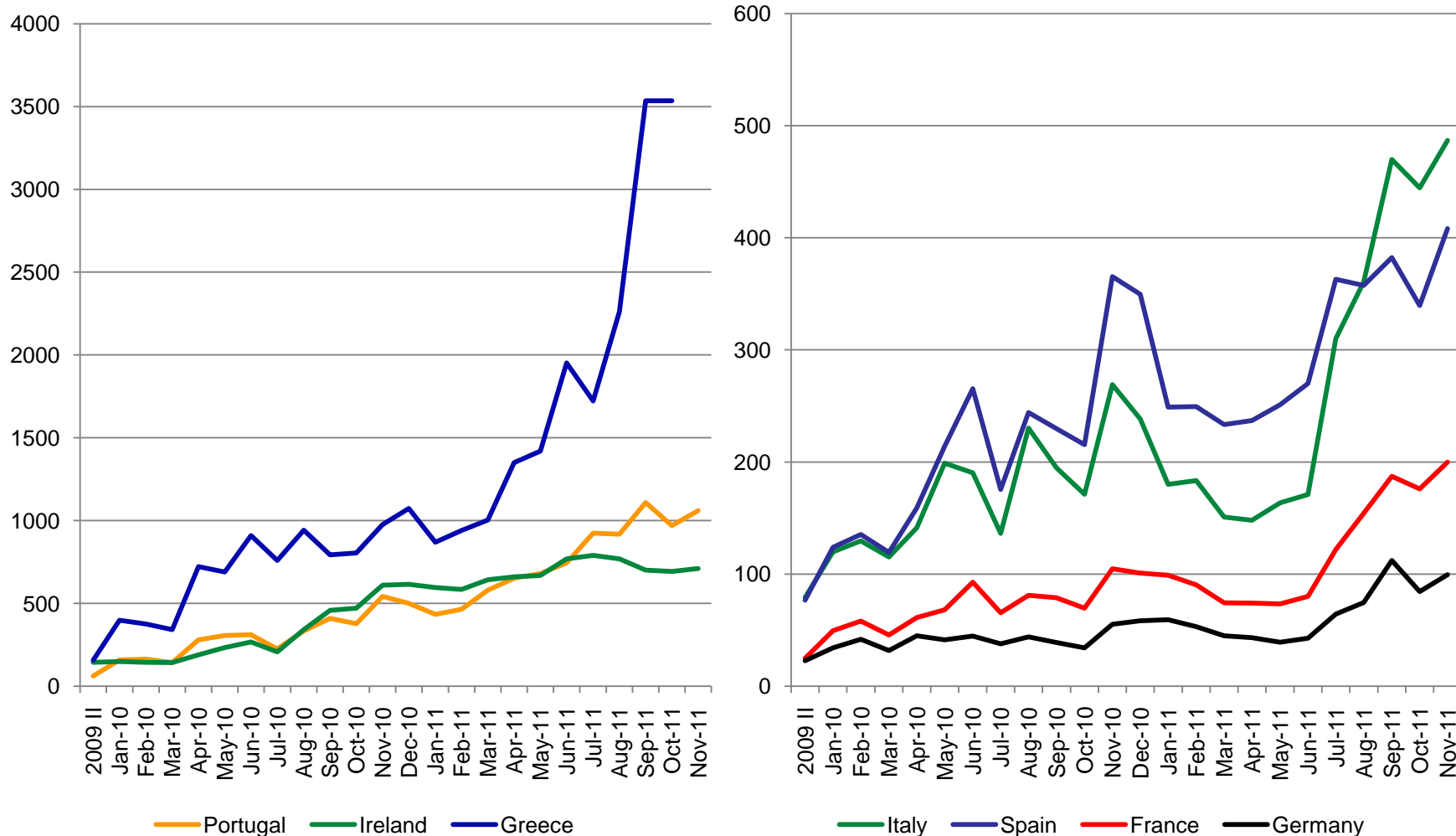


e/ Estimate. p/ Projection.

High levels of volatility and uncertainty clouded the global outlook in the second half of the year

EUROPE (SELECTED COUNTRIES): FIVE-YEAR CREDIT DEFAULT SWAP RISK PREMIUMS, 2009-2011

(Basis points)



International economic fragilities are worsening

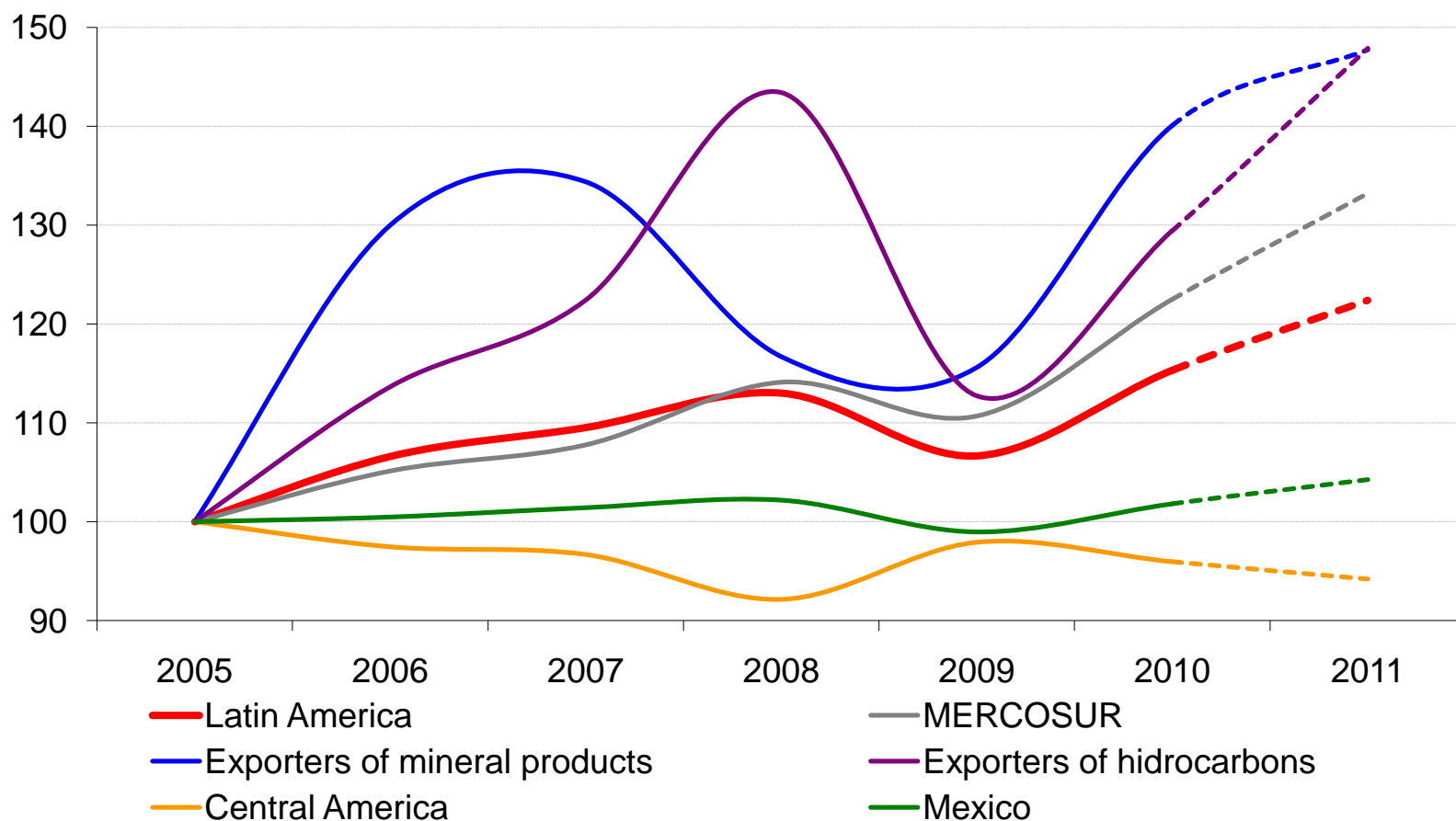
- Europe may be on the threshold of a **lost decade**.
- The response to the sovereign debt crisis in several European countries is revolving around **fiscal adjustment**, with no policies to boost growth.
- There are some positive growth signals in the United States, but **political gridlock** has prevented measures to stimulate short-term economic growth and ensure long-term sustainability.
- **Global coordination** (monetary and fiscal), which was crucial during the 2008-2009 crisis, is now weaker.



Nevertheless, for much of 2011 the external environment was benign for the region – albeit with differences among groups of countries

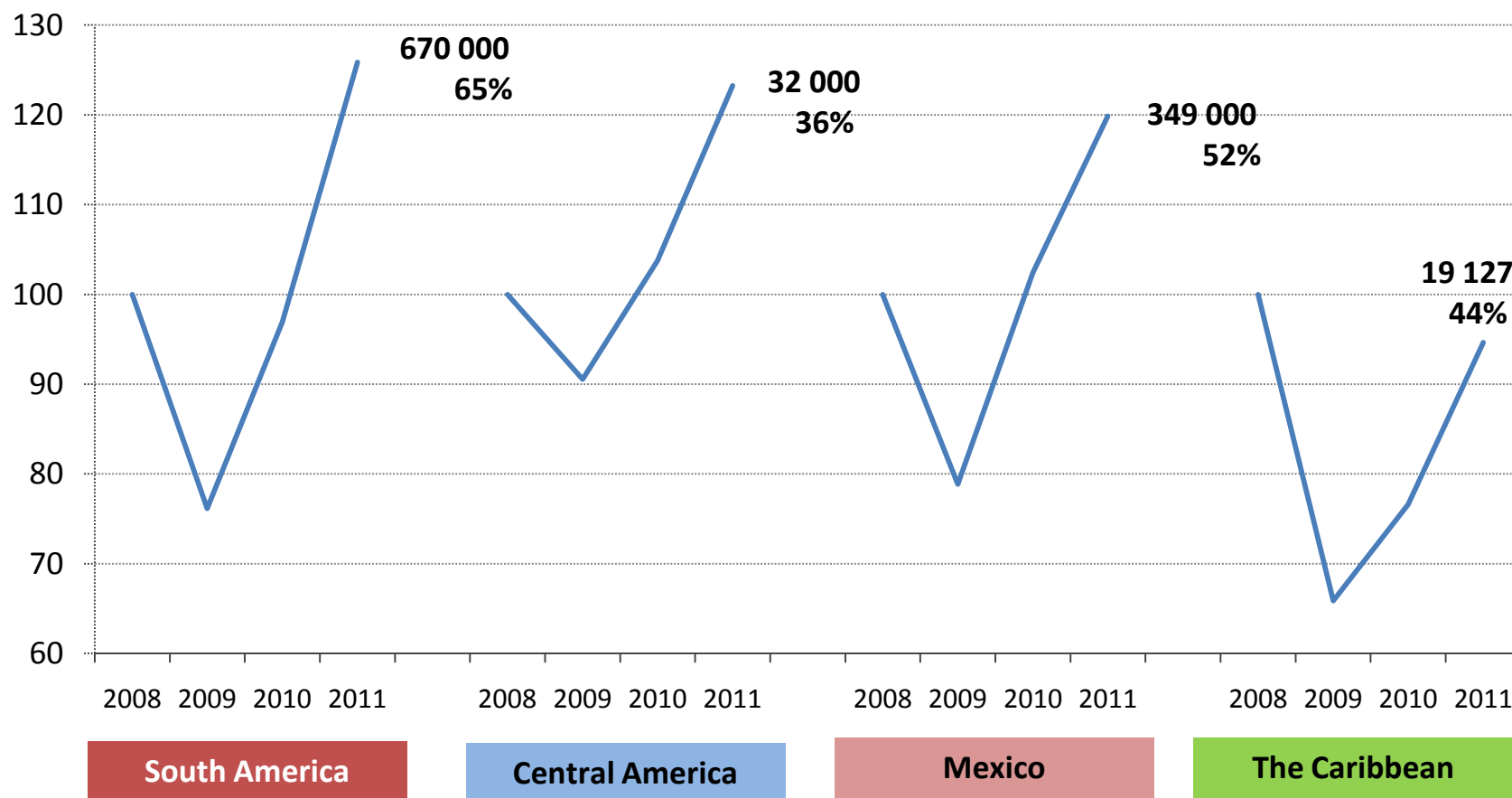
LATIN AMERICA: TERMS OF TRADE, 2005-2011

(Index: 2005=100)



Subregional performance has been closely tied to international trade over the past few years

EXPORTS BY SUBREGION, 2008 -2011^a
(Index: 2008 = 100)

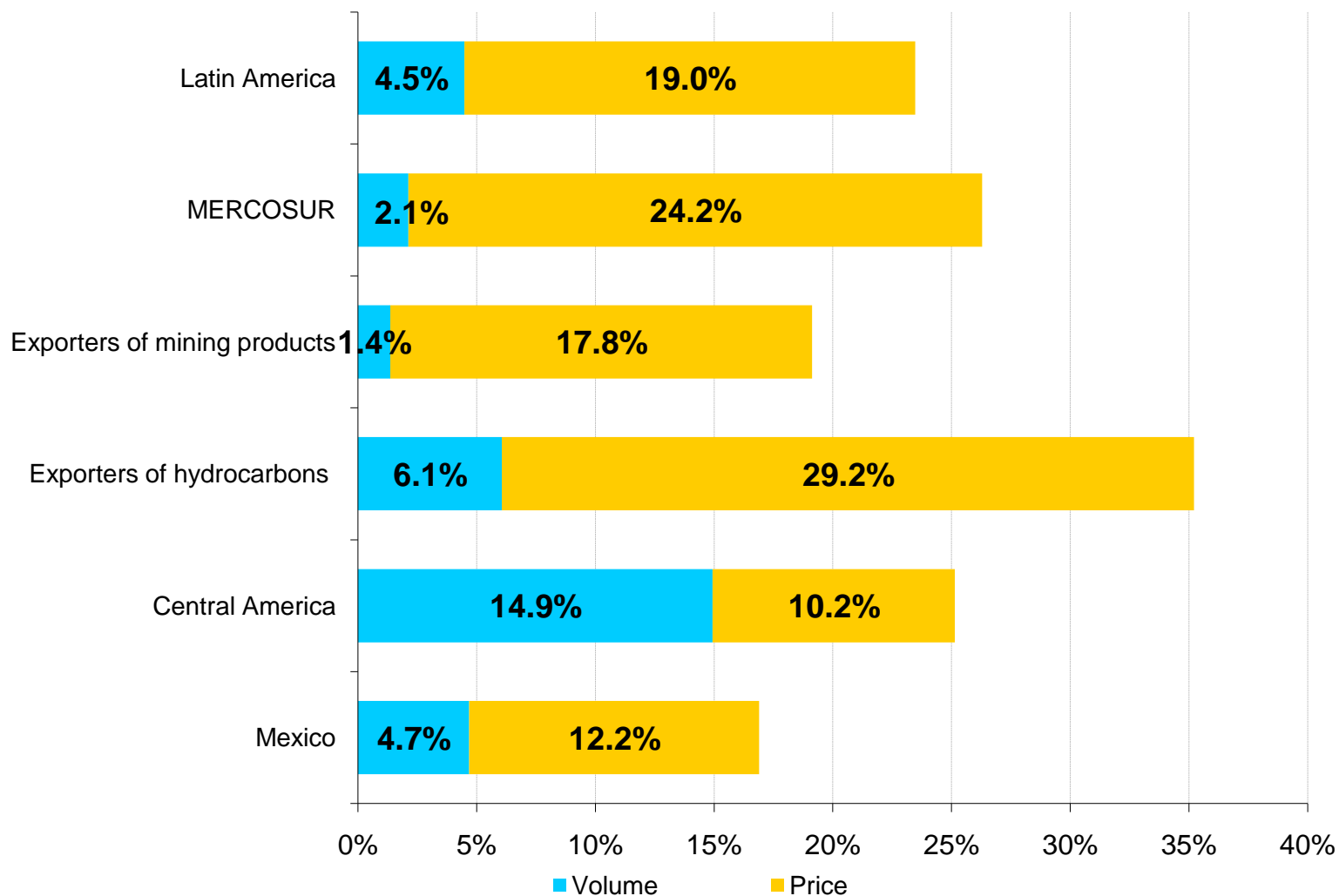


a/ Projections.

Note: Absolute figures refer to the values of exports, the percentages to the cumulative increase between 2009 and 2011.

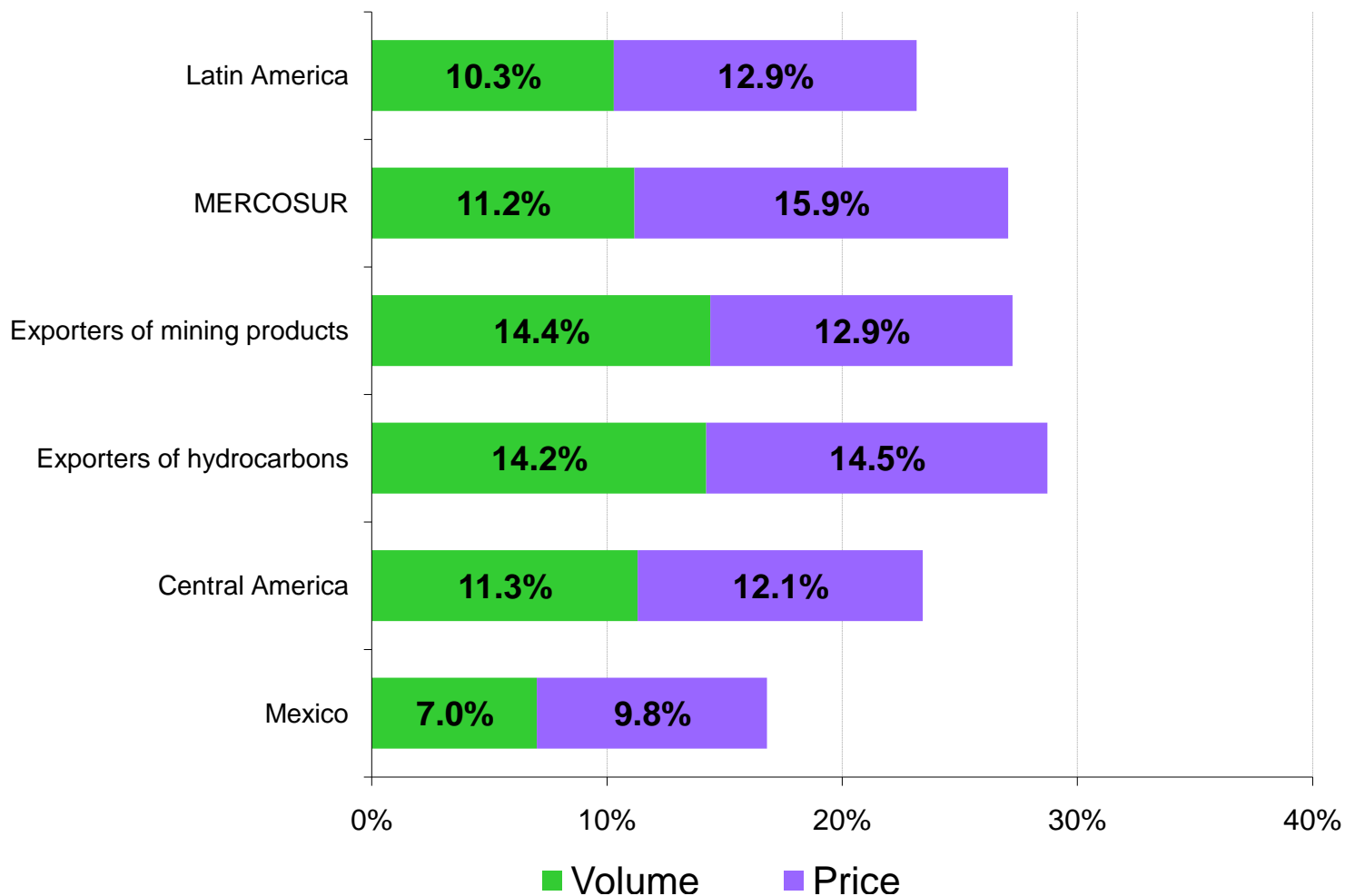
Exports benefited especially from high commodity prices, since volumes grew relatively little

LATIN AMERICA: ESTIMATED VARIATION IN EXPORT VALUES BY VOLUME AND PRICE, 2011
(Percentages)



Still-robust domestic demand was reflected in a surge in import volumes

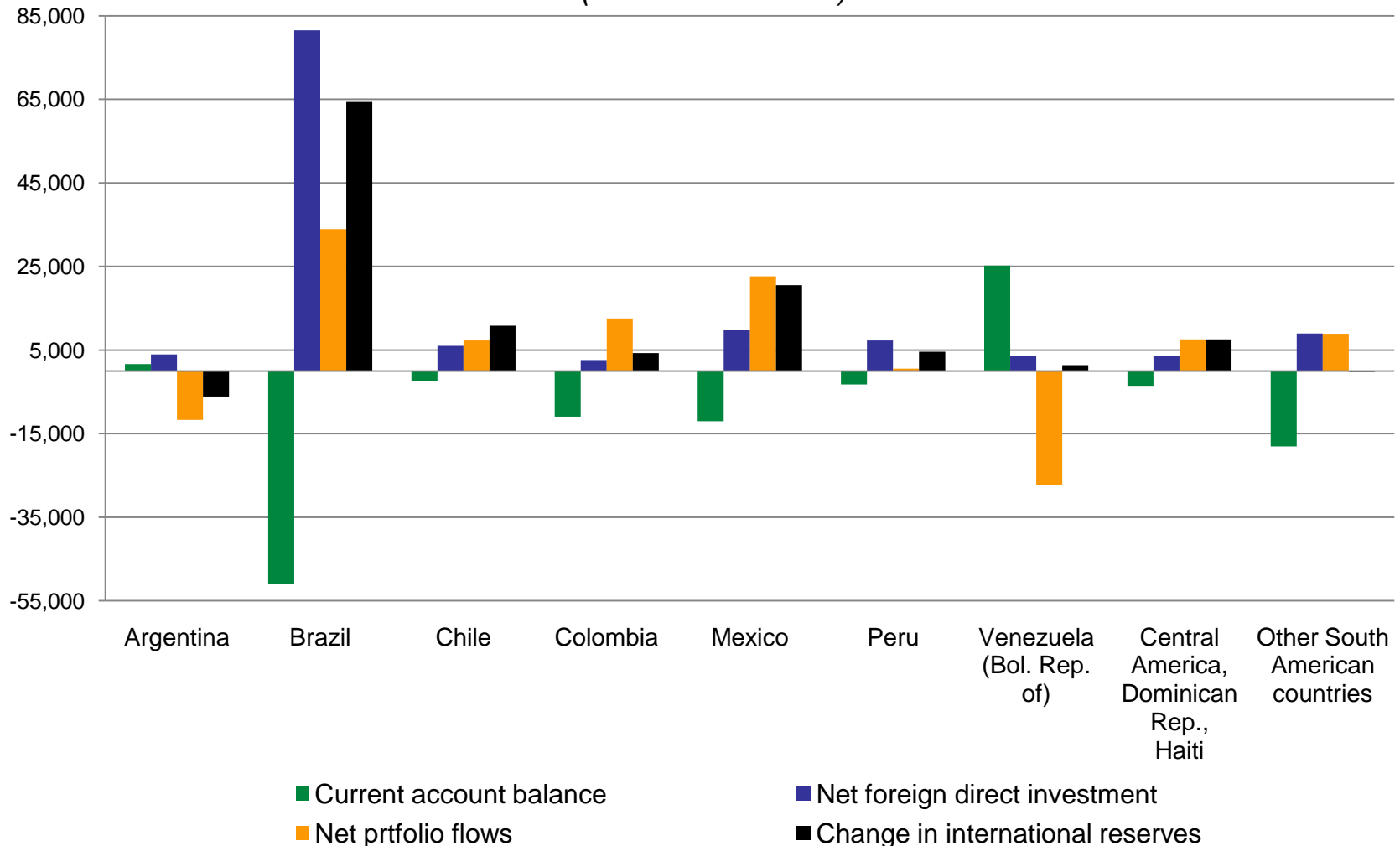
**LATIN AMERICA: ESTIMATED VARIATION IN THE VALUE OF IMPORTS
BY VOLUME AND PRICE, 2011**
(Percentages)



Net FDI swelled significantly as did the portfolio investment (during the first half-year)

LATIN AMERICA (SELECTED COUNTRIES): CURRENT ACCOUNT BALANCE AND COMPONENTS OF THE FINANCIAL ACCOUNT, 2011

(Millions of dollars)

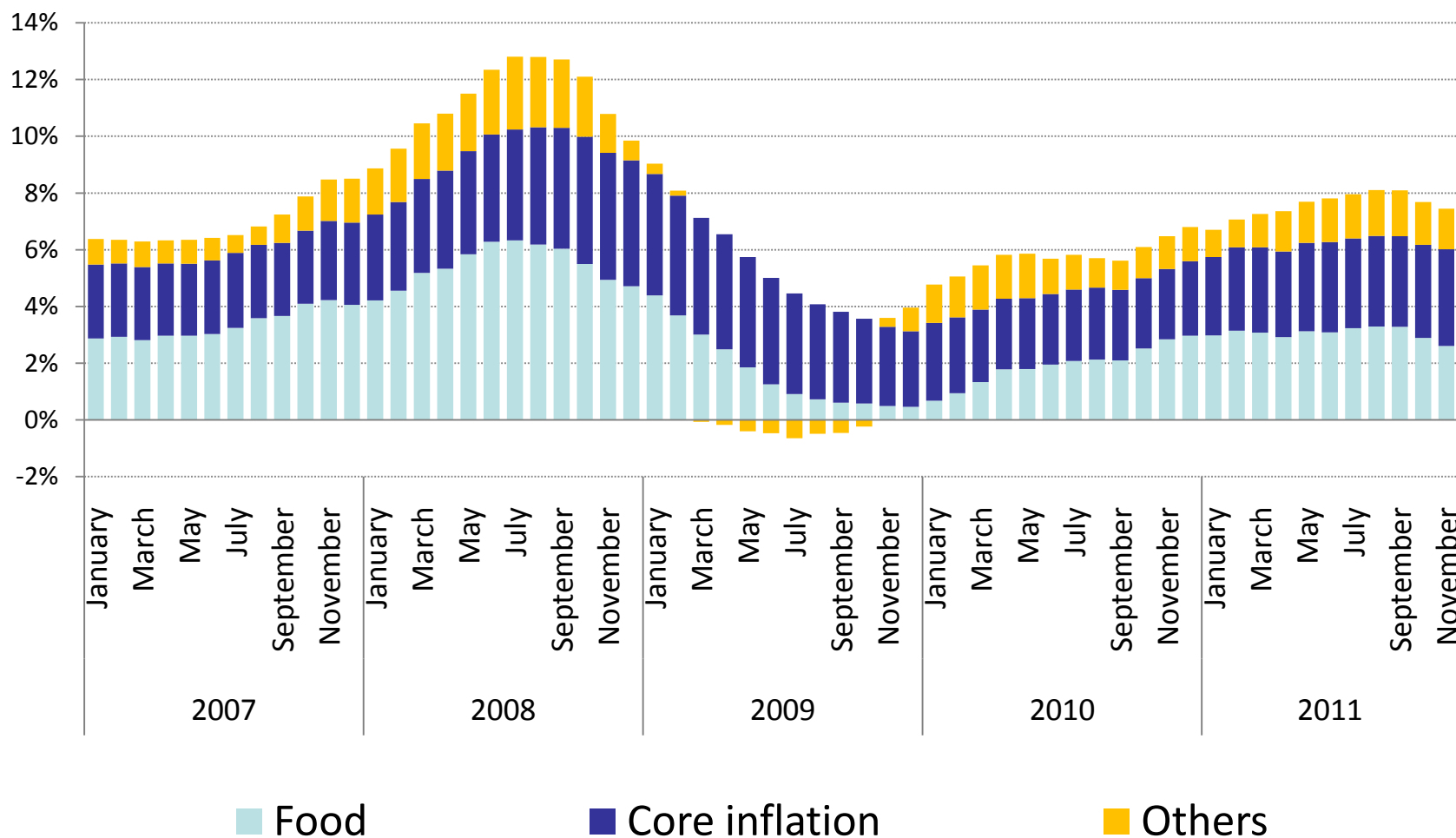


Macroeconomic policy challenges shifted over the year and the countries produced differentiated responses

- Rising inflation
- Sharp currency appreciation in the first part of the year
- Need to rebuild fiscal space
- Need to sustain growth
- Threat of a sharper slowdown as the external environment deteriorated in the second half of the year

Inflation edged up...

LATIN AMERICA: COMPONENTS OF INFLATION, JANUARY 2007 – NOVEMBER 2011
(12-month inflation rate, simple averages)

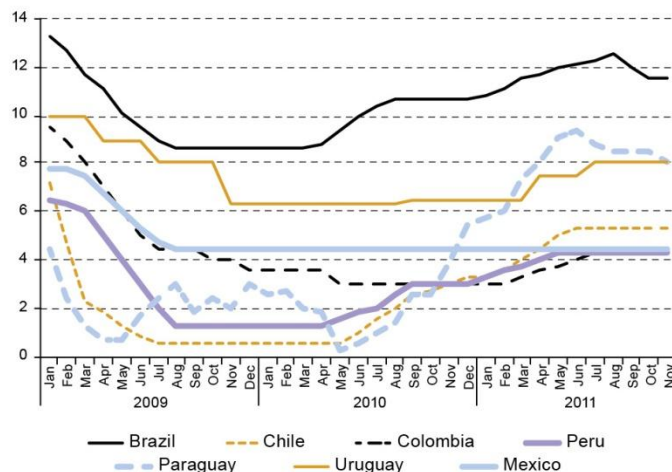


In this context, some countries raised monetary policy rates while others held them steady or cut them to stimulate domestic demand

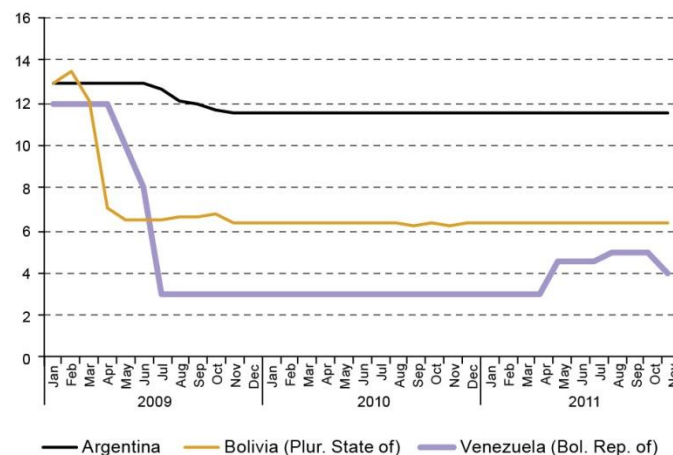
LATIN AMERICA AND THE CARIBBEAN: MONETARY POLICY RATES

(Percentages)

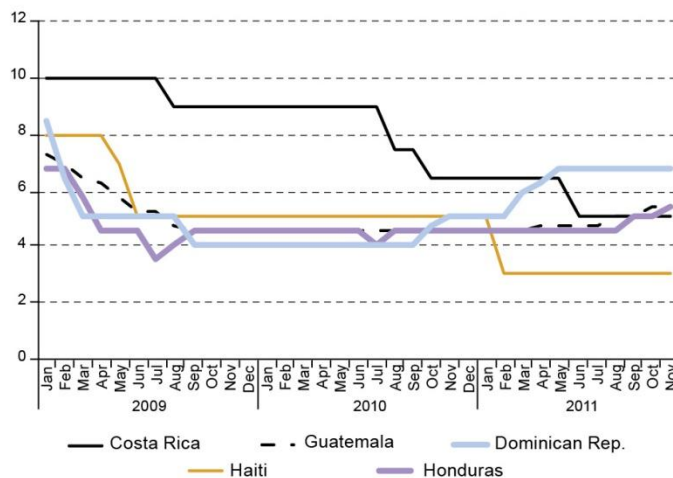
A. Brazil, Chile, Colombia, Mexico, Paraguay, Peru and Uruguay



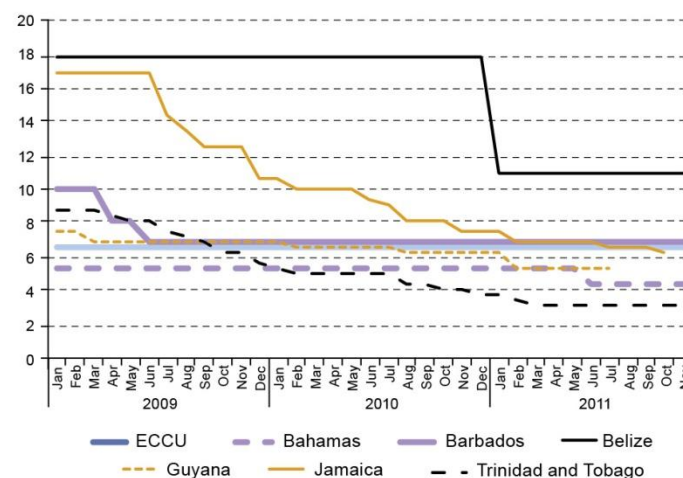
B. Argentina, Bolivia (Plur. State of) and Venezuela (Bol. Rep. of)



C. Costa Rica, Guatemala, Haiti, Honduras and Dominican Republic



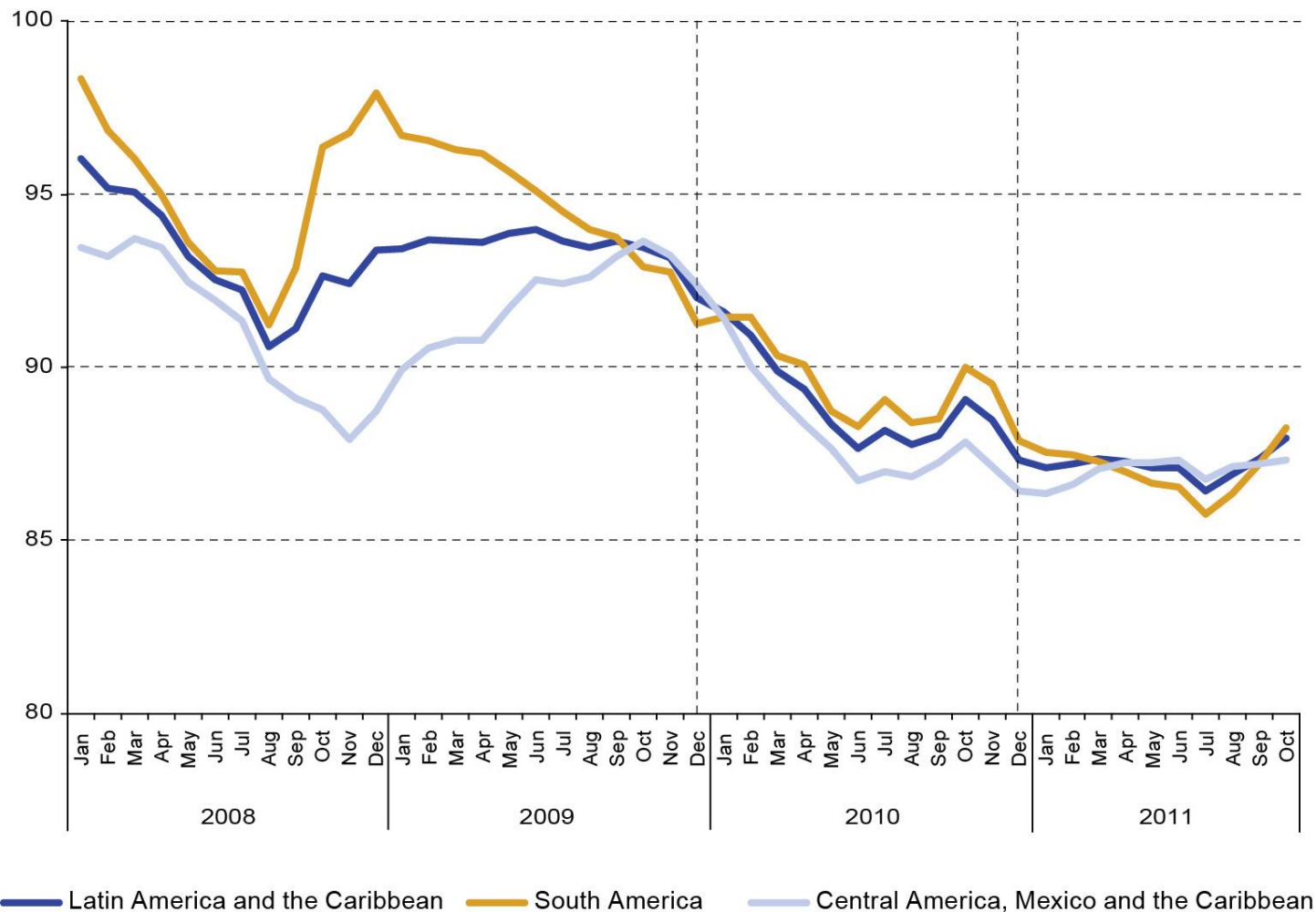
D. Bahamas, Barbados, Belize, Guyana, Jamaica, Trinidad and Tobago and Eastern Caribbean Currency Union (ECCU)



Currency appreciation continued...

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXTRAREGIONAL EXCHANGE RATES, 2008-2011

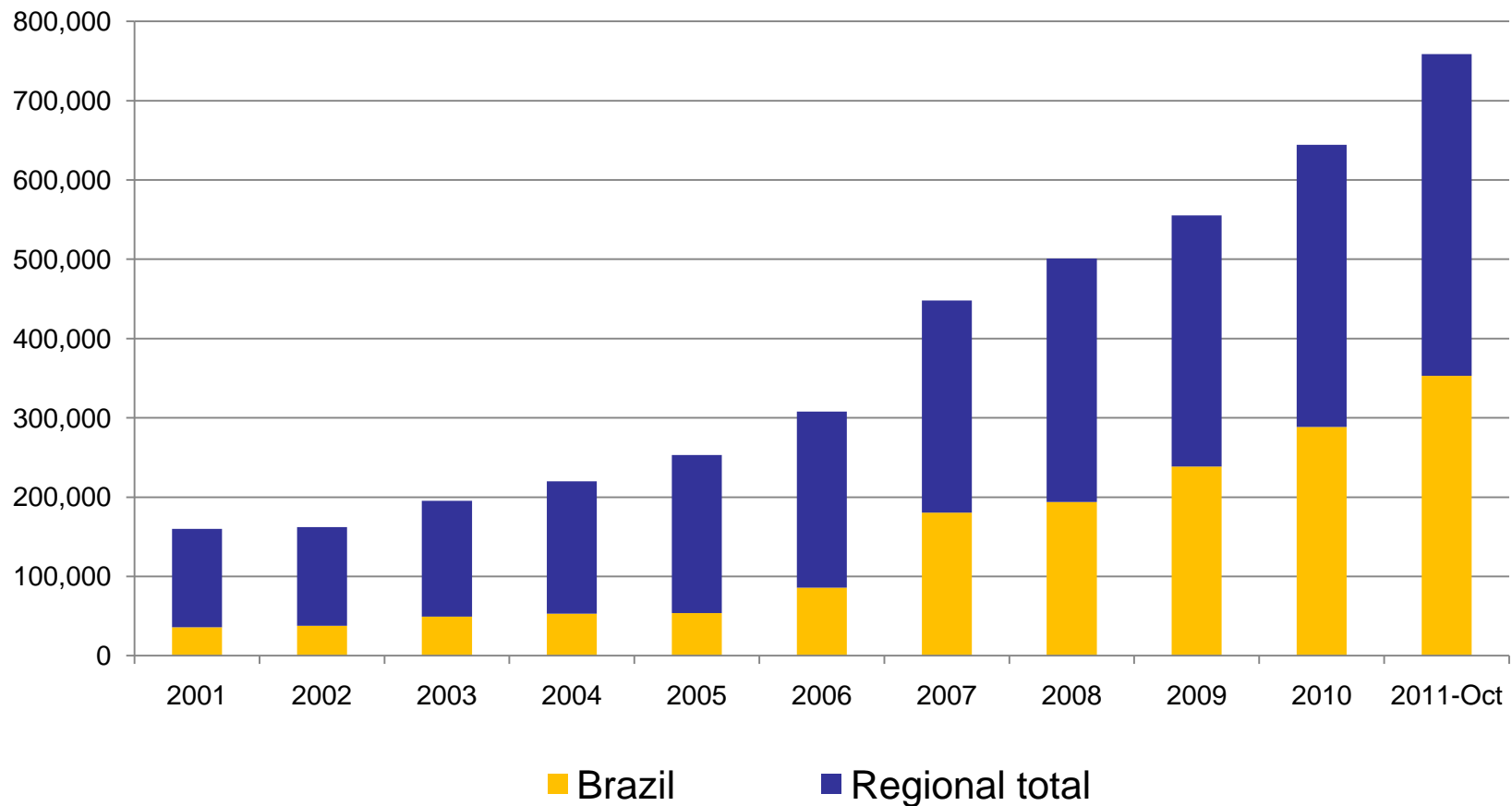
(Index: average for 1990-2009 = 100)



...to which the countries responded mainly by intervening in the foreign-exchange markets, which contributed to the build-up of international monetary reserves

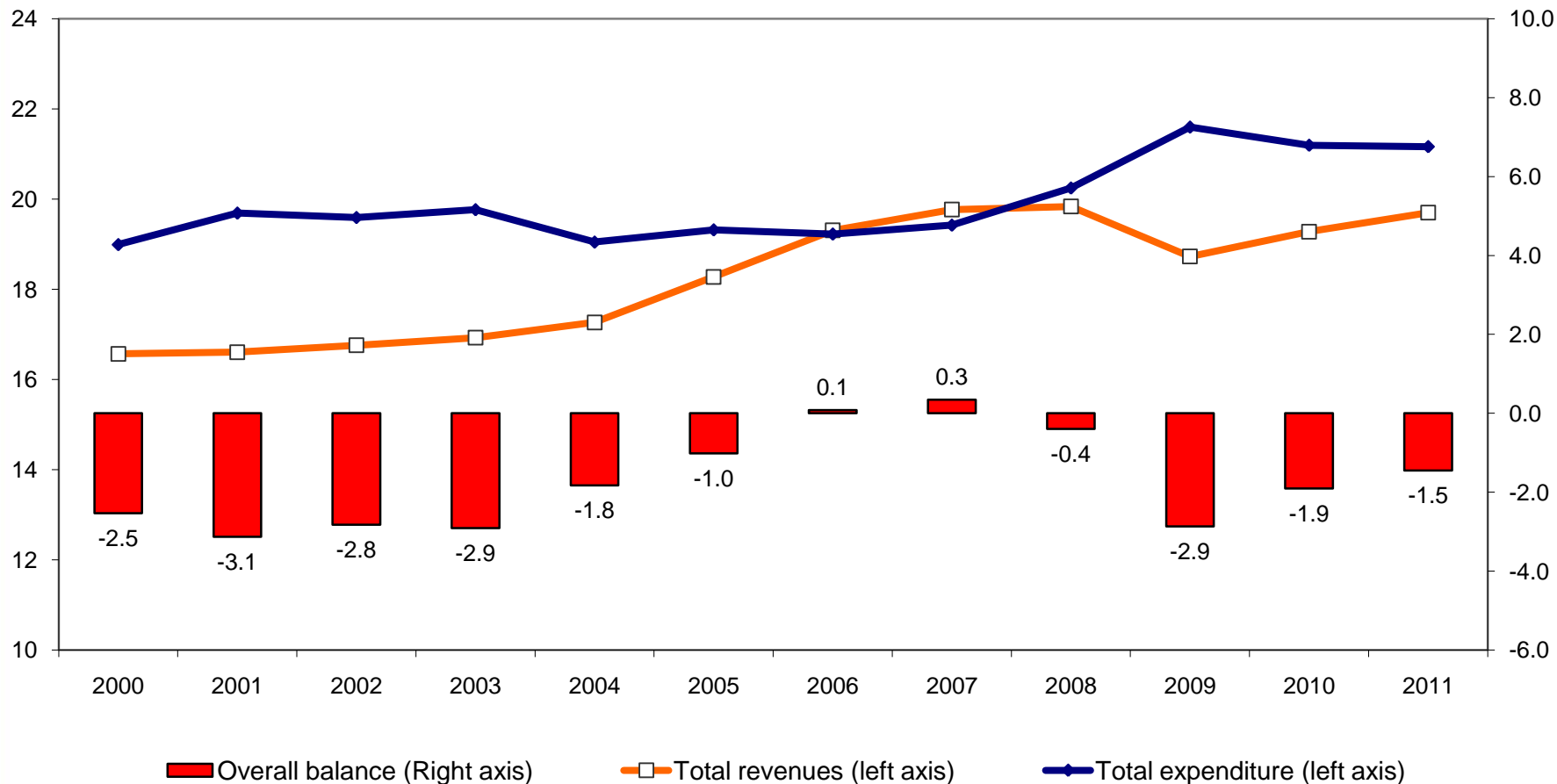
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES

(Millions of dollars)



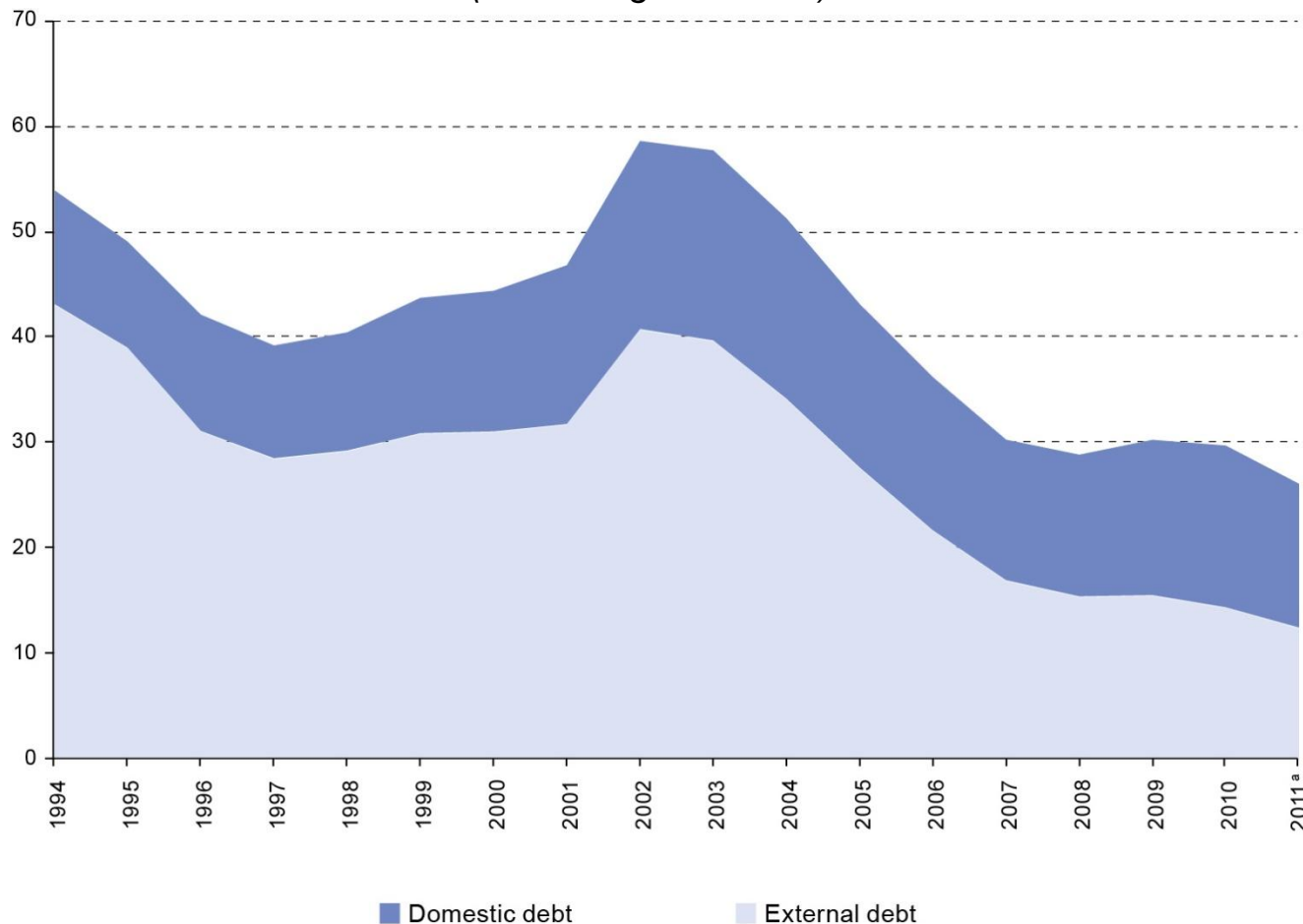
The region regained some of the fiscal space

LATIN AMERICA (19 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2000-2011
(Simple averages as percentages of GDP)



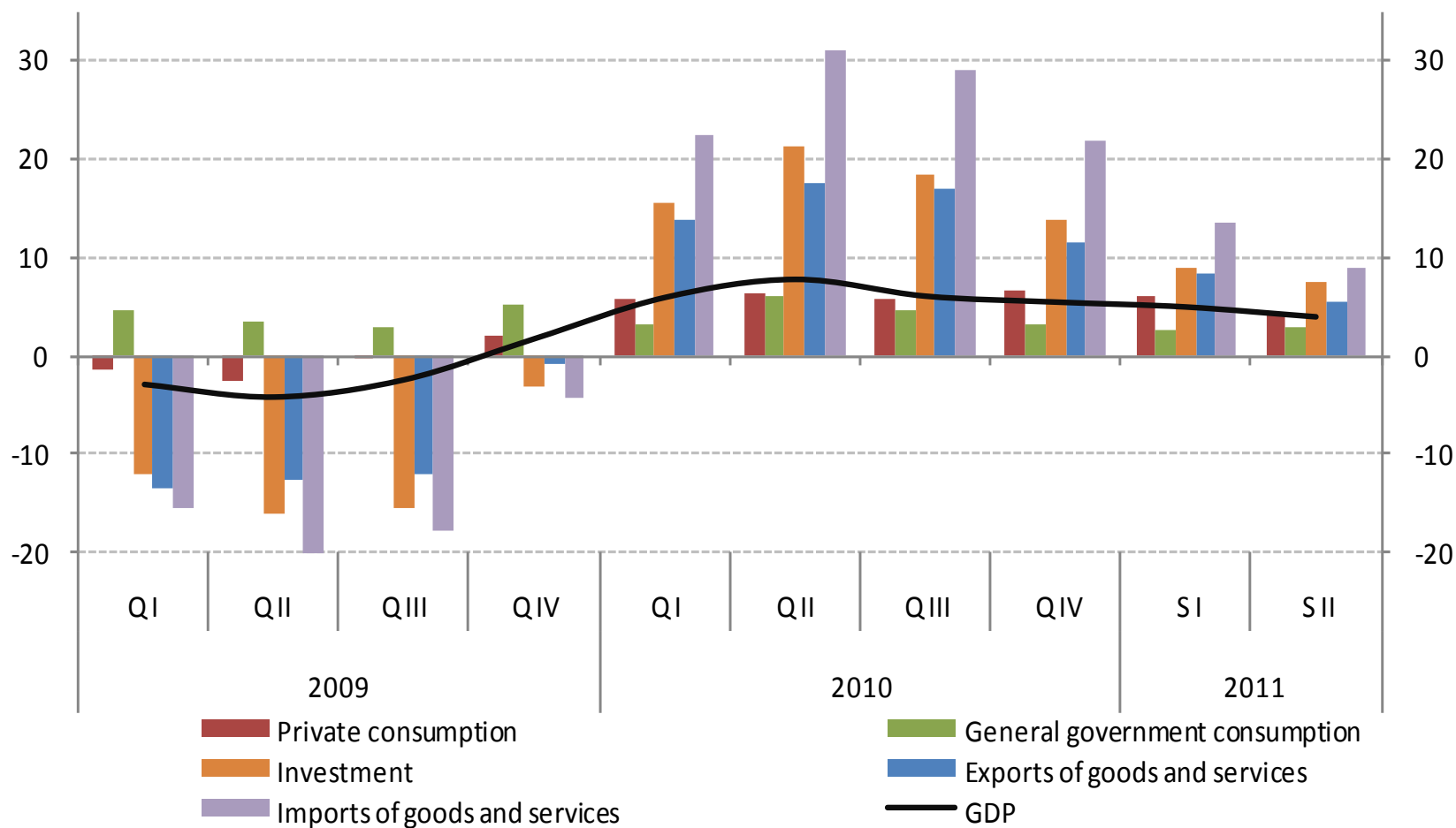
Public debt came down again and its composition continued to shift

LATIN AMERICA (19 COUNTRIES): CENTRAL GOVERNMENT PUBLIC DEBT BALANCE, DOMESTIC AND EXTERNAL
(Percentages of GDP)



At the regional level, almost all demand components slackened

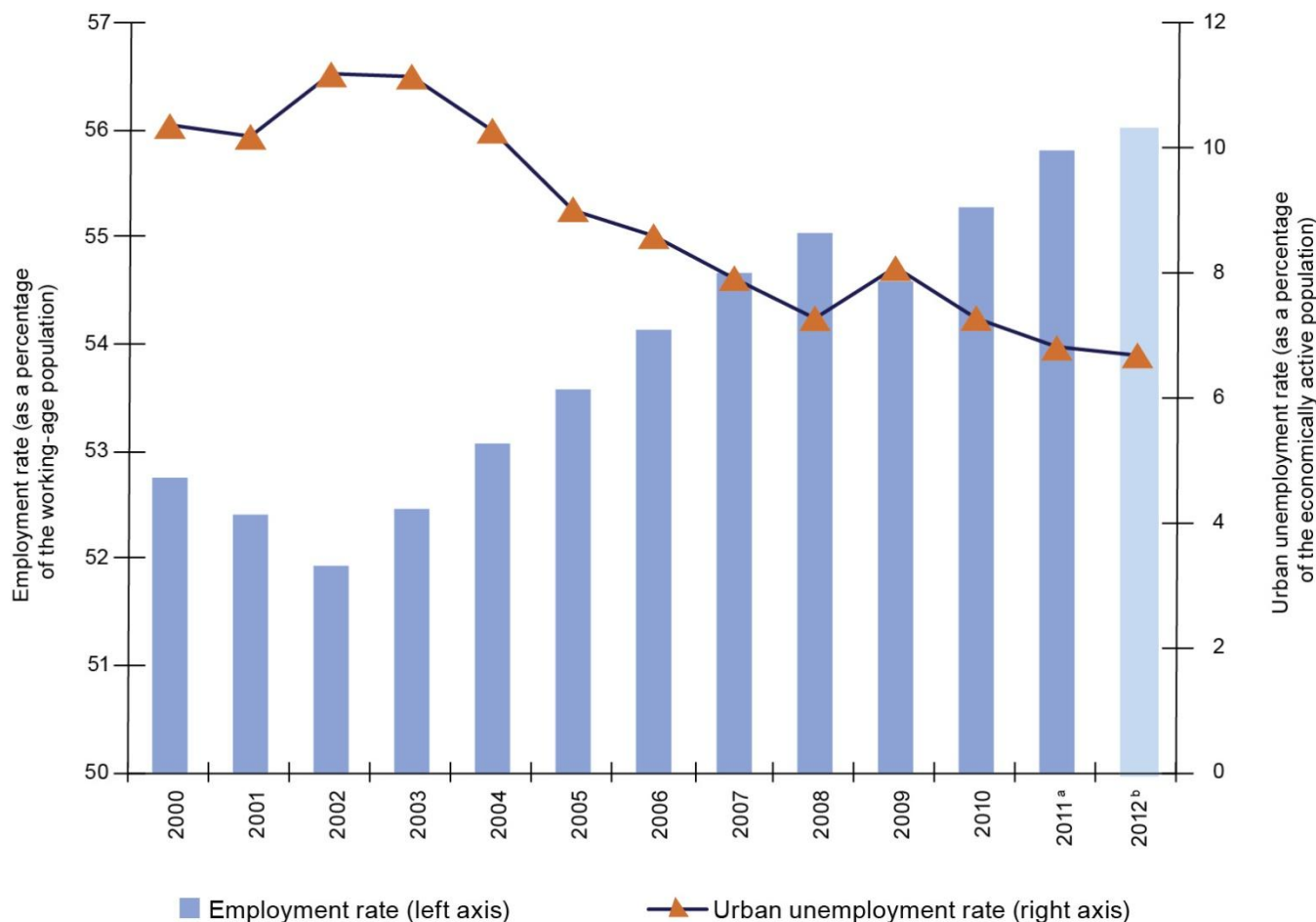
LATIN AMERICA: GDP AND DOMESTIC DEMAND COMPONENTS, 2010-2011^a
(Dollars at constant 2005 prices, change over year-earlier period)



a/ Estimate.

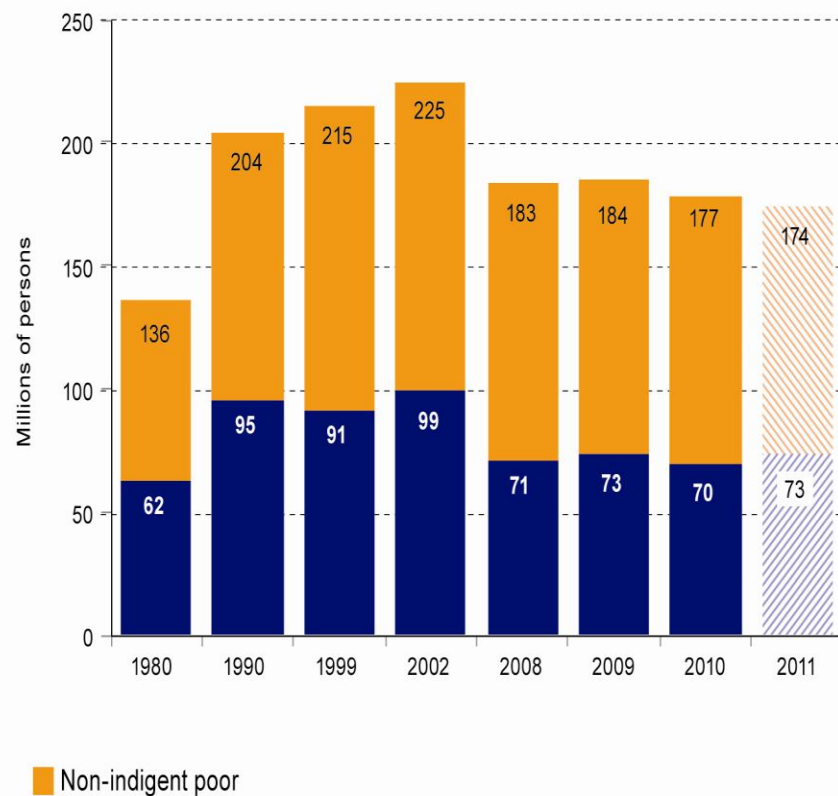
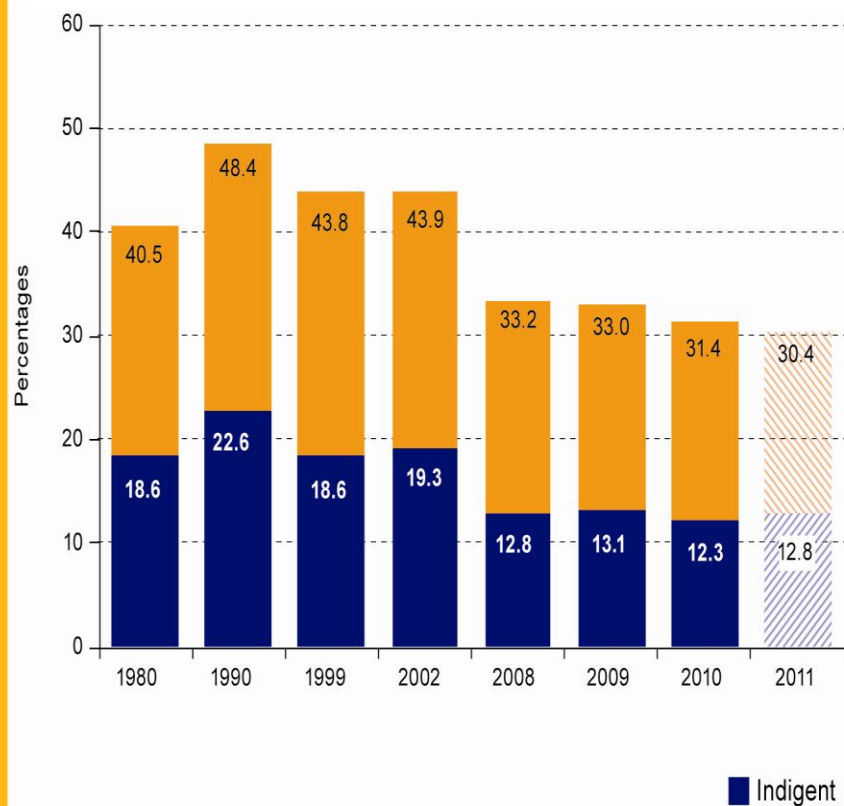
But household consumption remained buoyant partly thanks to a strong labour-market performance

LATIN AMERICA AND THE CARIBBEAN: CHANGE IN RATES OF EMPLOYMENT AND OPEN UNEMPLOYMENT



As a result, poverty rates should fall in 2011 but indigence rates probably will not, owing to food price inflation

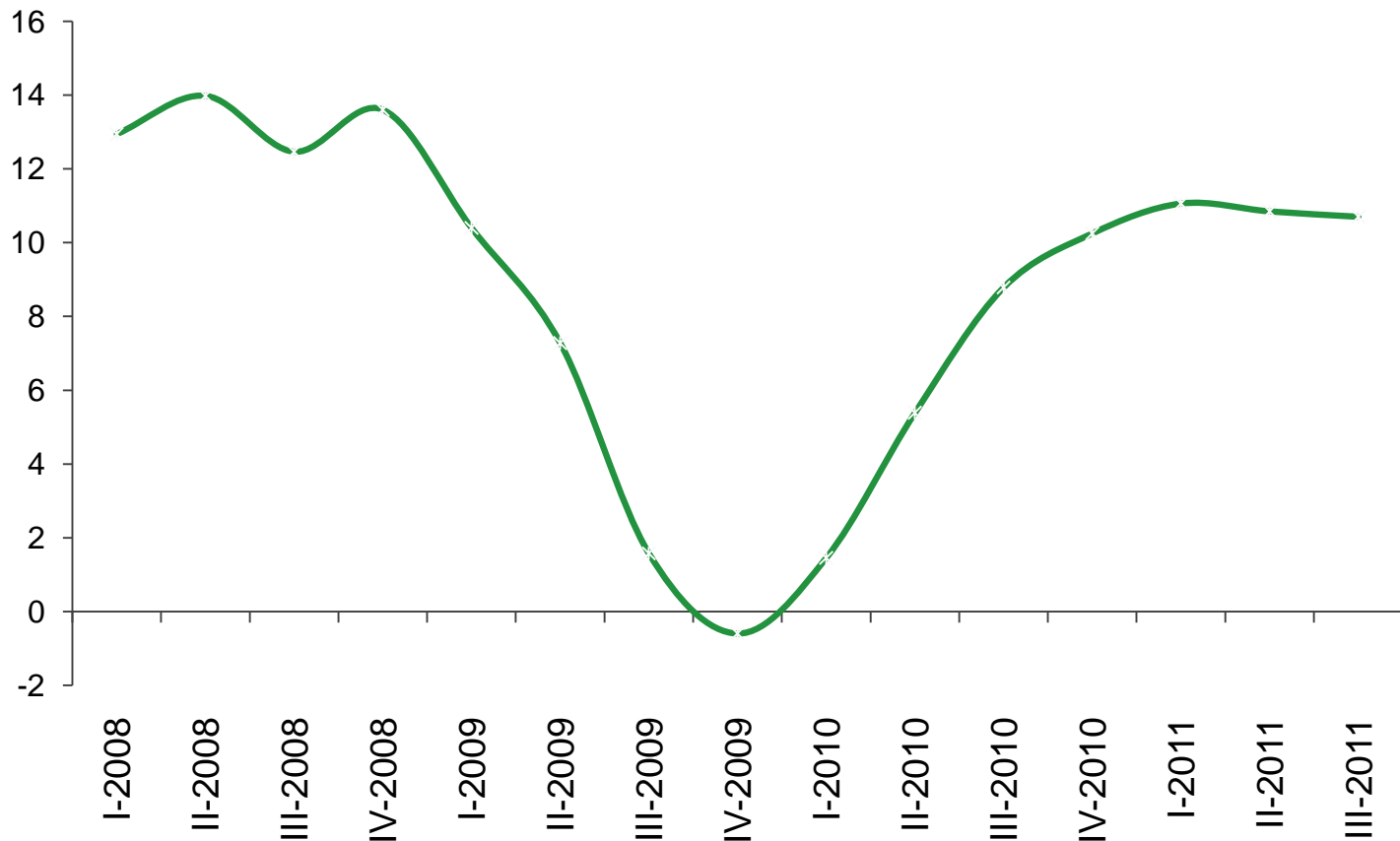
LATIN AMERICA: POVERTY AND INDIGENCE RATES, 1980-2011^a
(Percentages and millions of persons)



^a Estimate for 18 countries of the region plus Haiti. The figures in the upper part of the bars represent the percentage and total number of poor (indigent plus non-indigent poor). The figures for 2011 are projections.

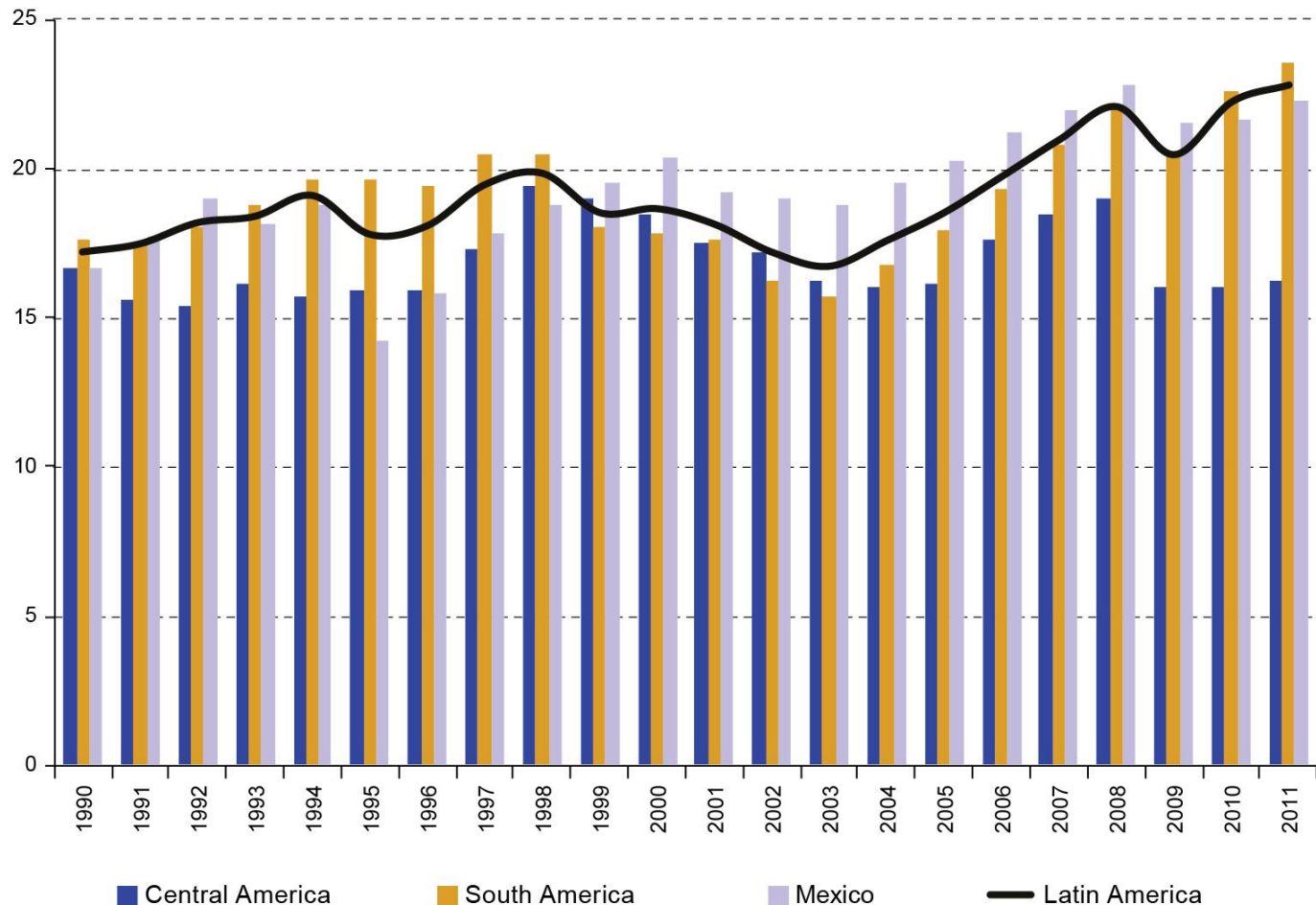
Household consumption was also boosted by strong credit growth

**LATIN AMERICA (12 COUNTRIES): CHANGE IN CREDIT PORTFOLIO,
FIRST QUARTER 2008 – THIRD QUARTER 2011**
(Median percentage variation in real terms)



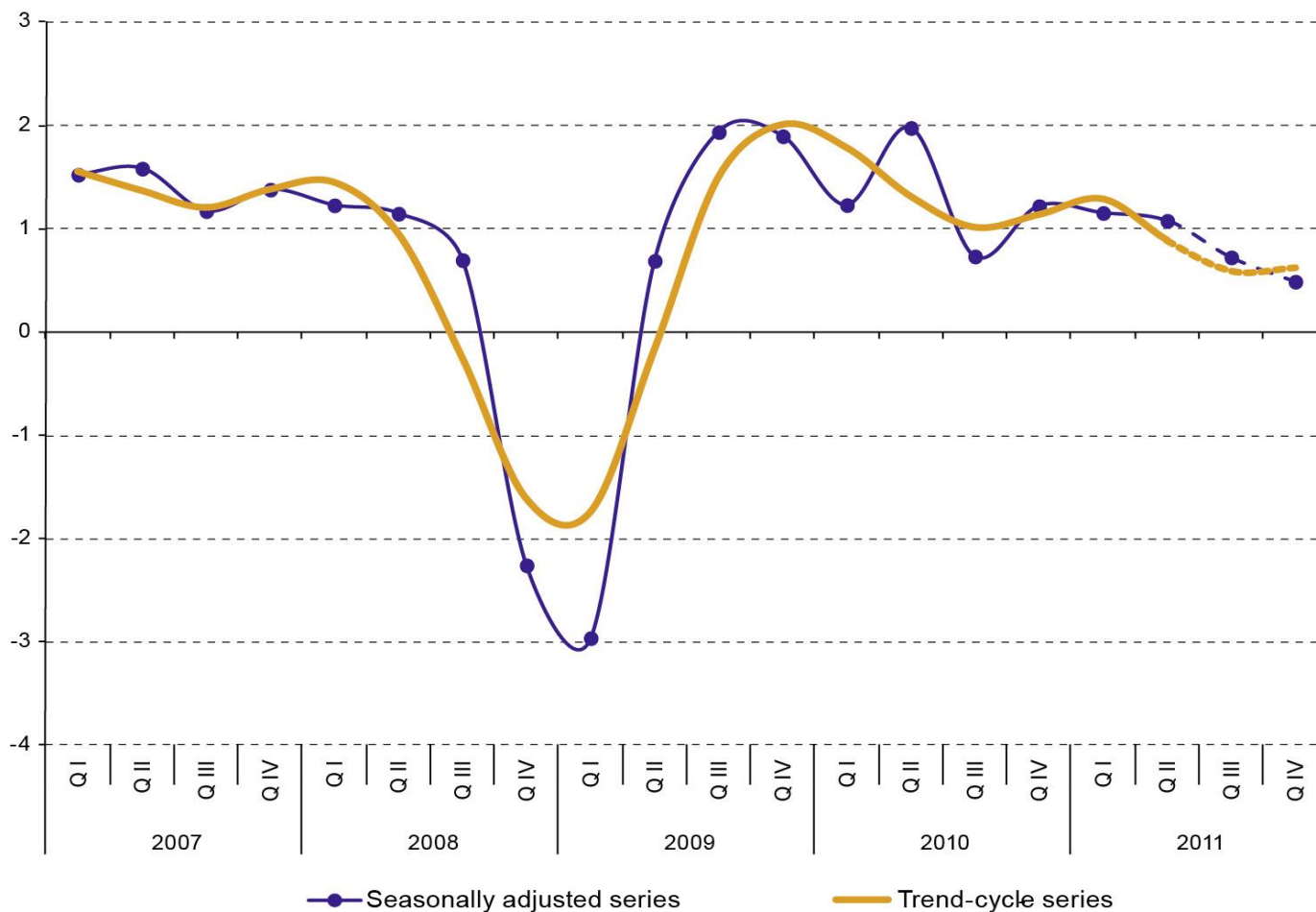
The investment ratio reached its highest figure since 1990. But this was still insufficient to sustain high rates of growth in the region.

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION
(Dollars at constant 2005 prices as a percentage of GDP)



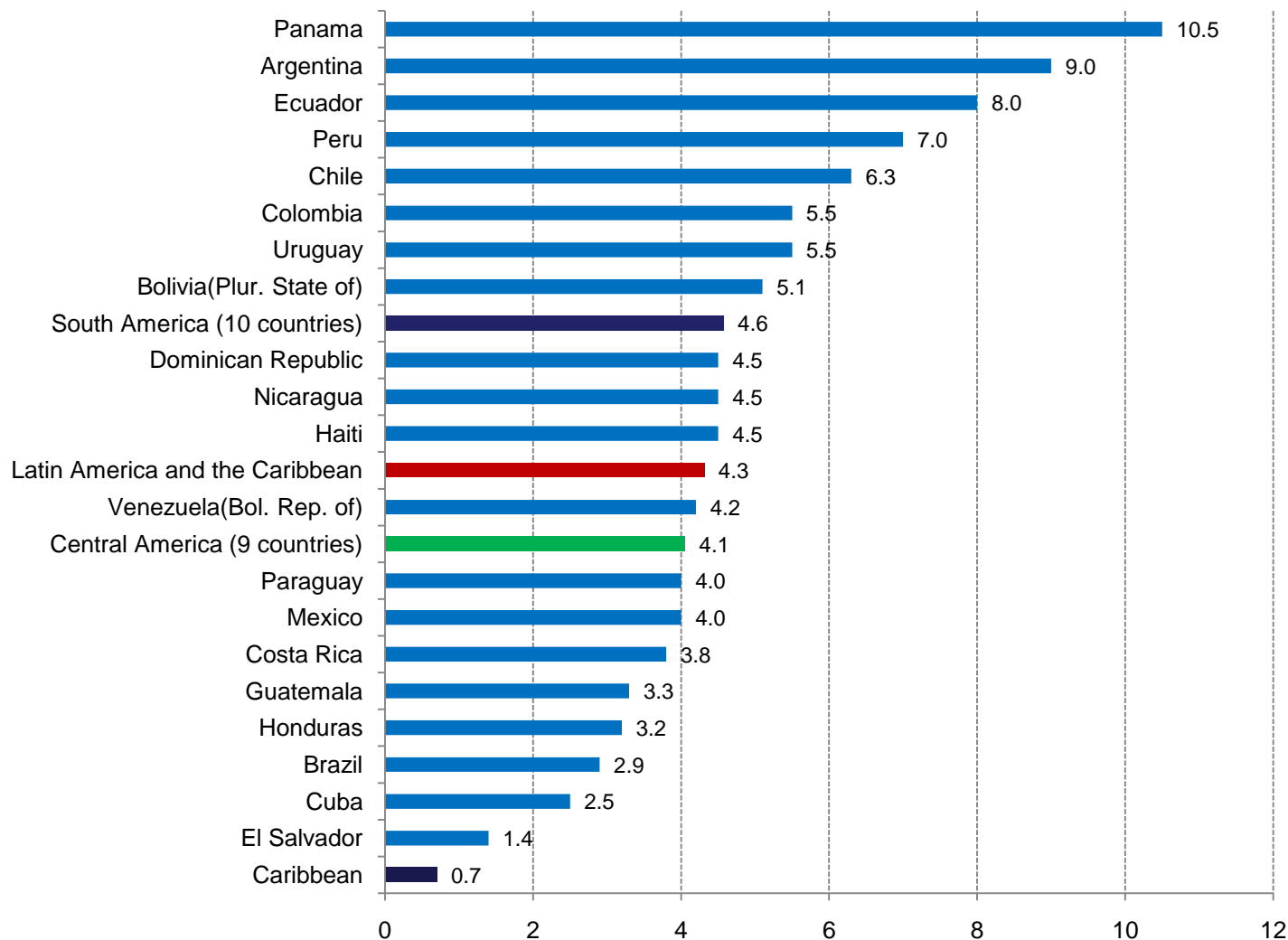
In the third quarter, the slowdown in growth began to steepen

LATIN AMERICA: QUARTER-ON-QUARTER GROWTH IN GDP,
SEASONALLY ADJUSTED SERIES
(Percentages)



Accordingly, growth in the Latin American and Caribbean region slowed from 5.9% in 2010 to 4.3% in 2011...

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES, 2011
(Percentages)



Scenario for 2012

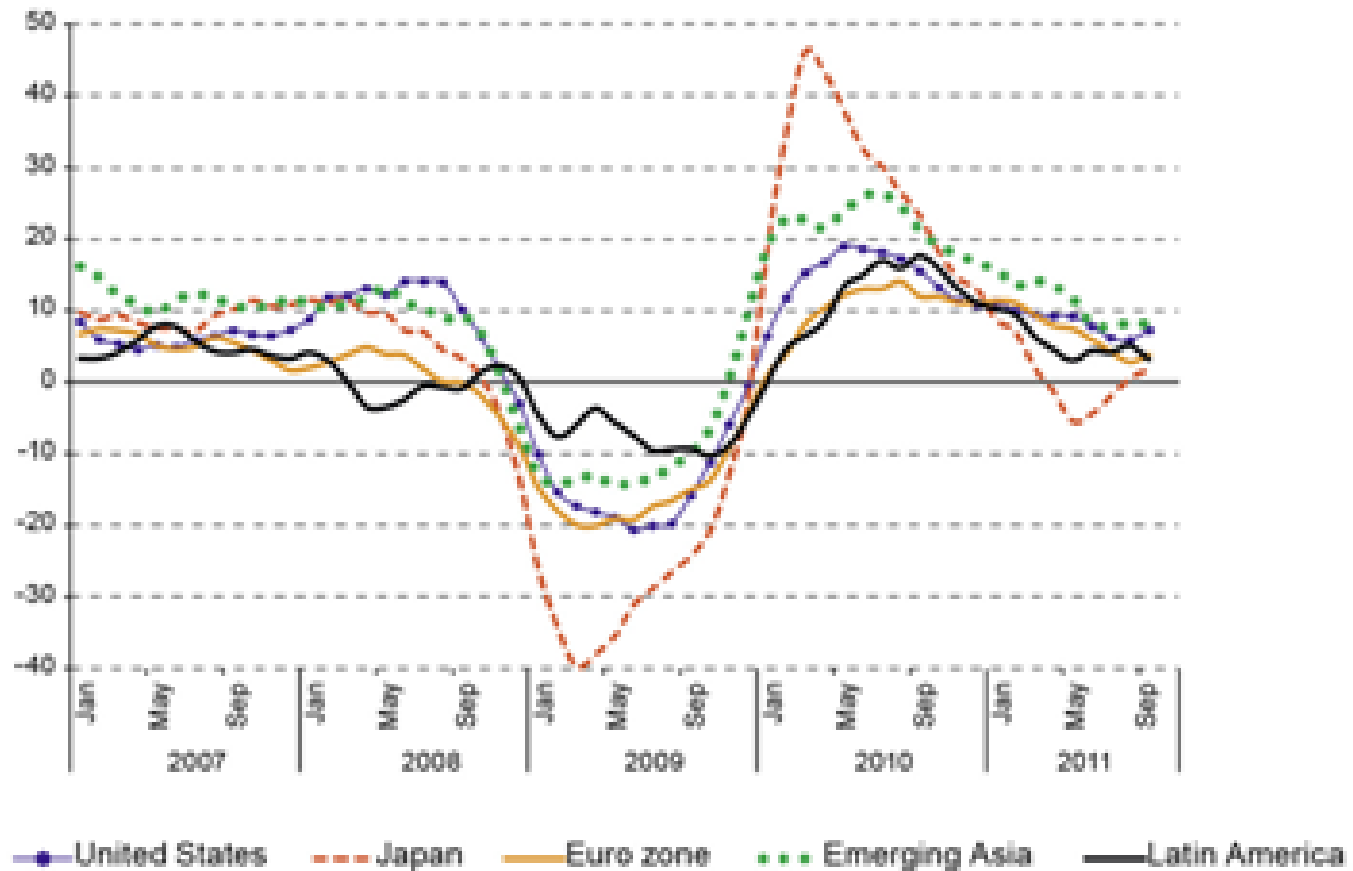
- Our baseline scenario assumes that global economic growth will continue to slacken, albeit more gradually (from 2.8% in 2010 to 2.6% in 2012).
- This would have a limited impact on the region transmitted mainly through the real economy.
- Some of the engines of growth are slowing, but they have not shut down.



Growth in export volumes is slowing

VOLUME OF WORLD EXPORTS BY REGION, 2007-2011

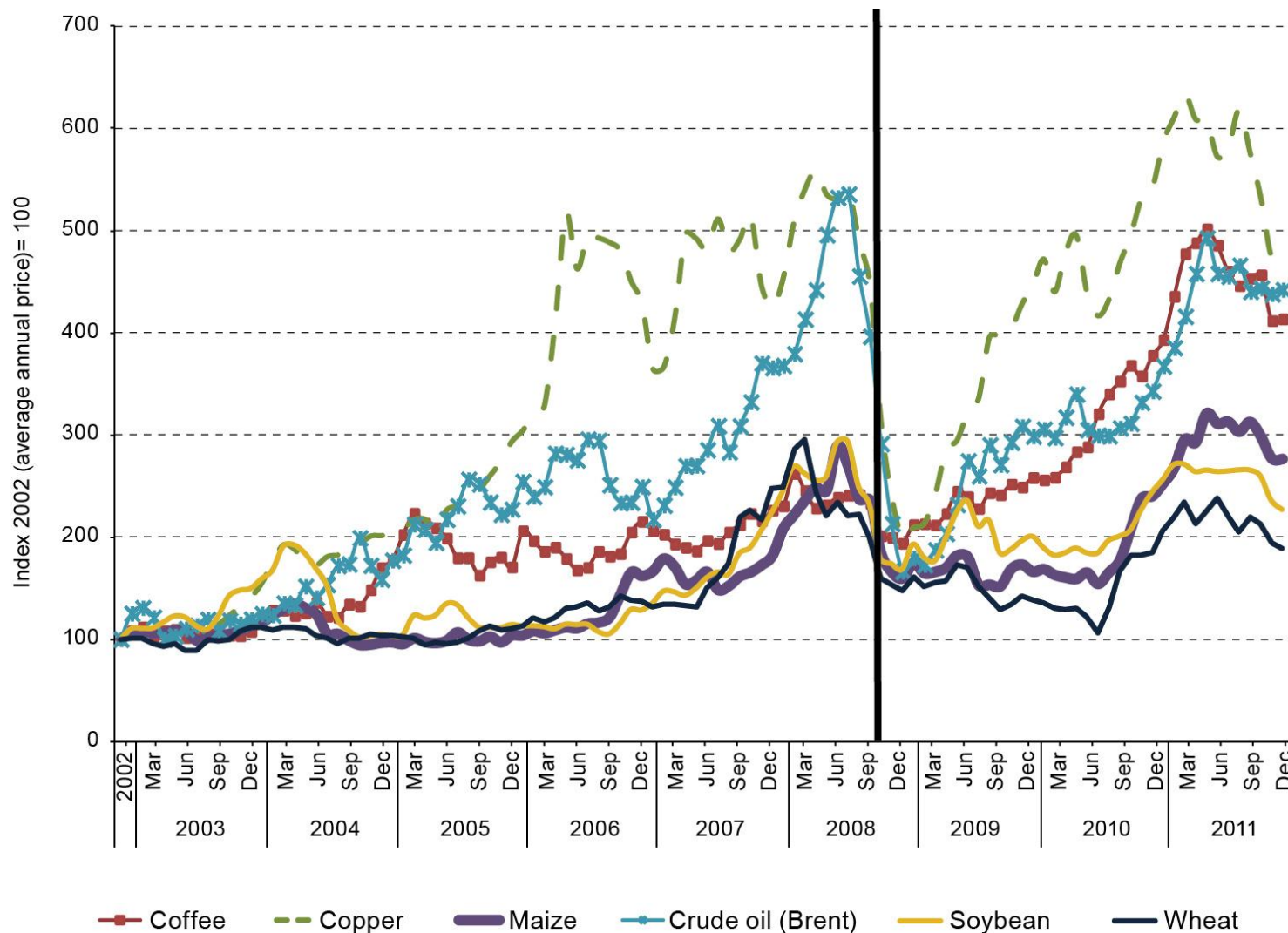
(Annual growth rates, three-month moving average)



International prices for the main exports are falling...

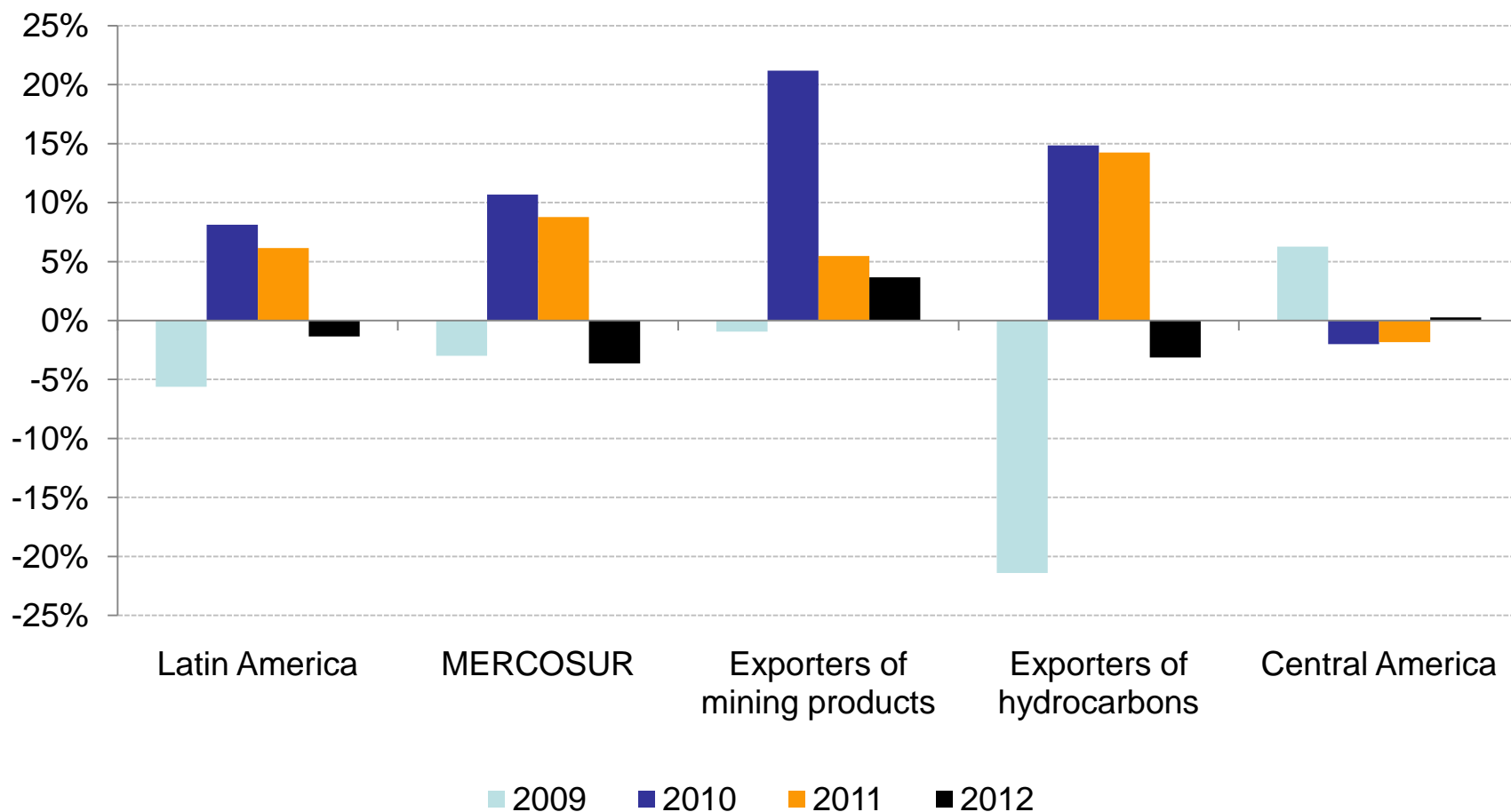
GLOBAL COMMODITY PRICE INDEXES, 2002-2011

(Index: annual average price for 2002=100)



...and the terms of trade are projected to deteriorate slightly in 2012, differentiated by groups of countries

LATIN AMERICA: TERMS-OF-TRADE VARIATION, 2009-2012^a
(Percentages)

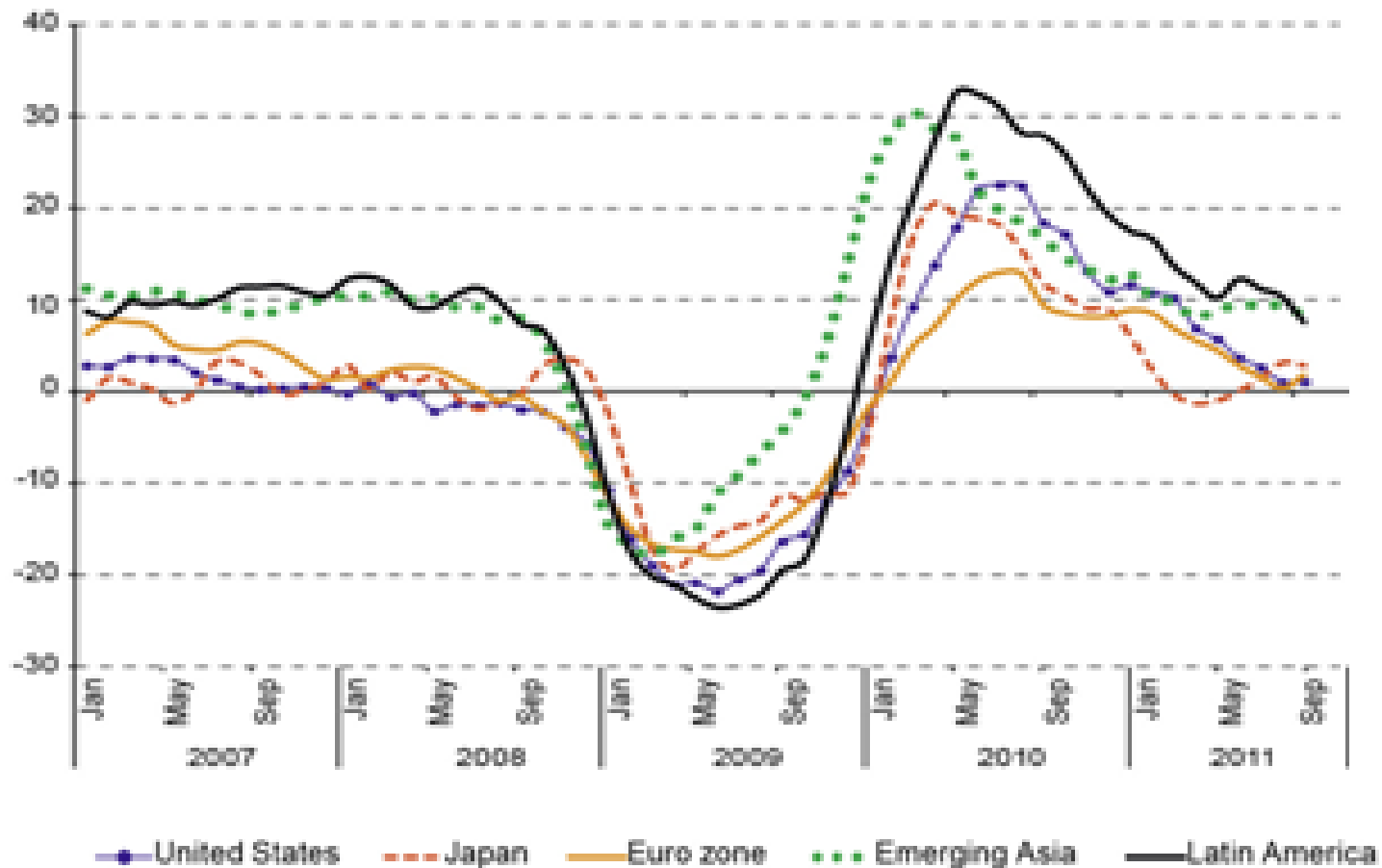


^a Estimate.

Domestic demand is losing momentum, as reflected in lower import growth...

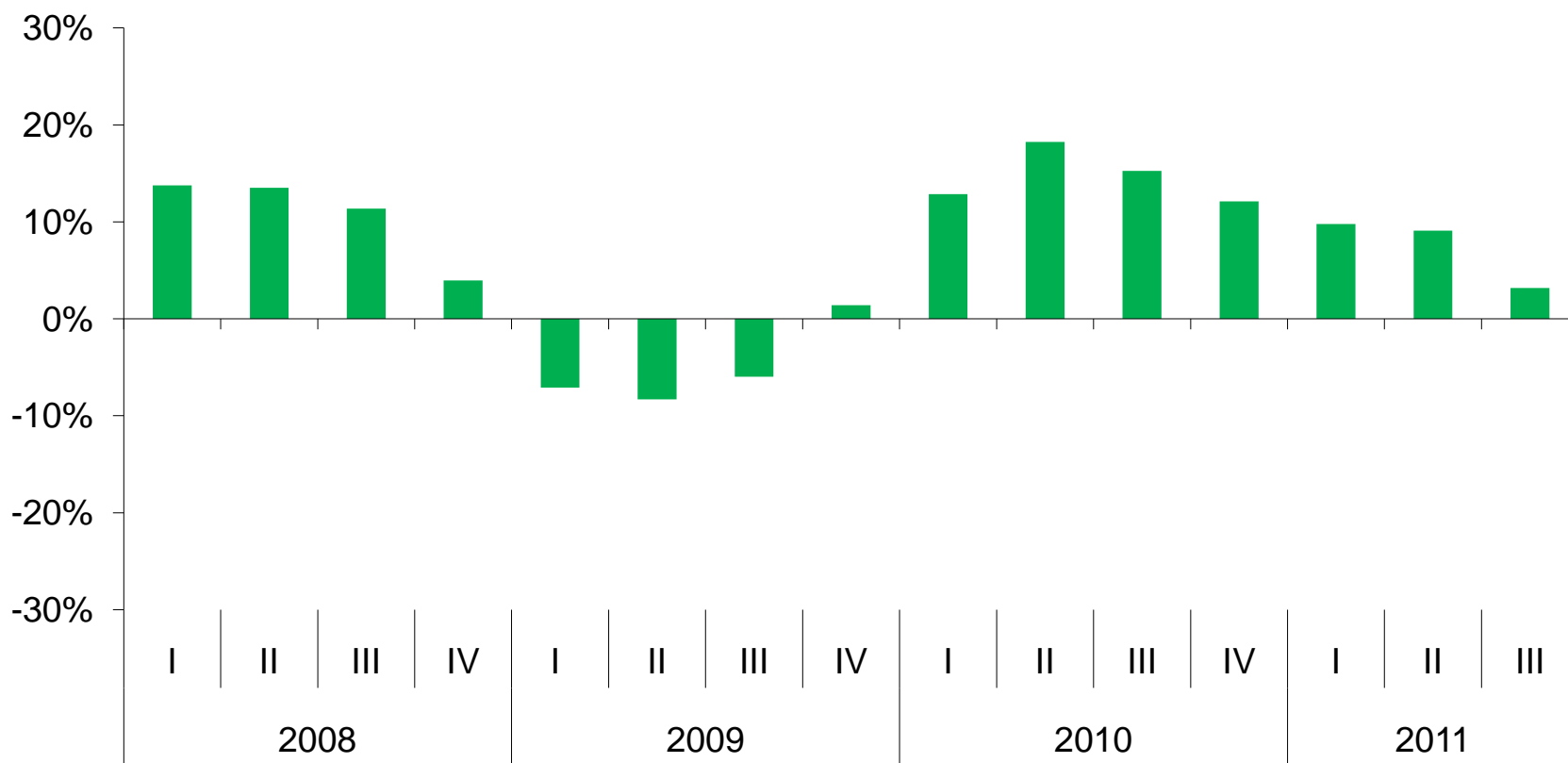
VOLUME OF WORLD IMPORTS BY REGION, 2007-2011

(Annual growth rates, three-month moving average)



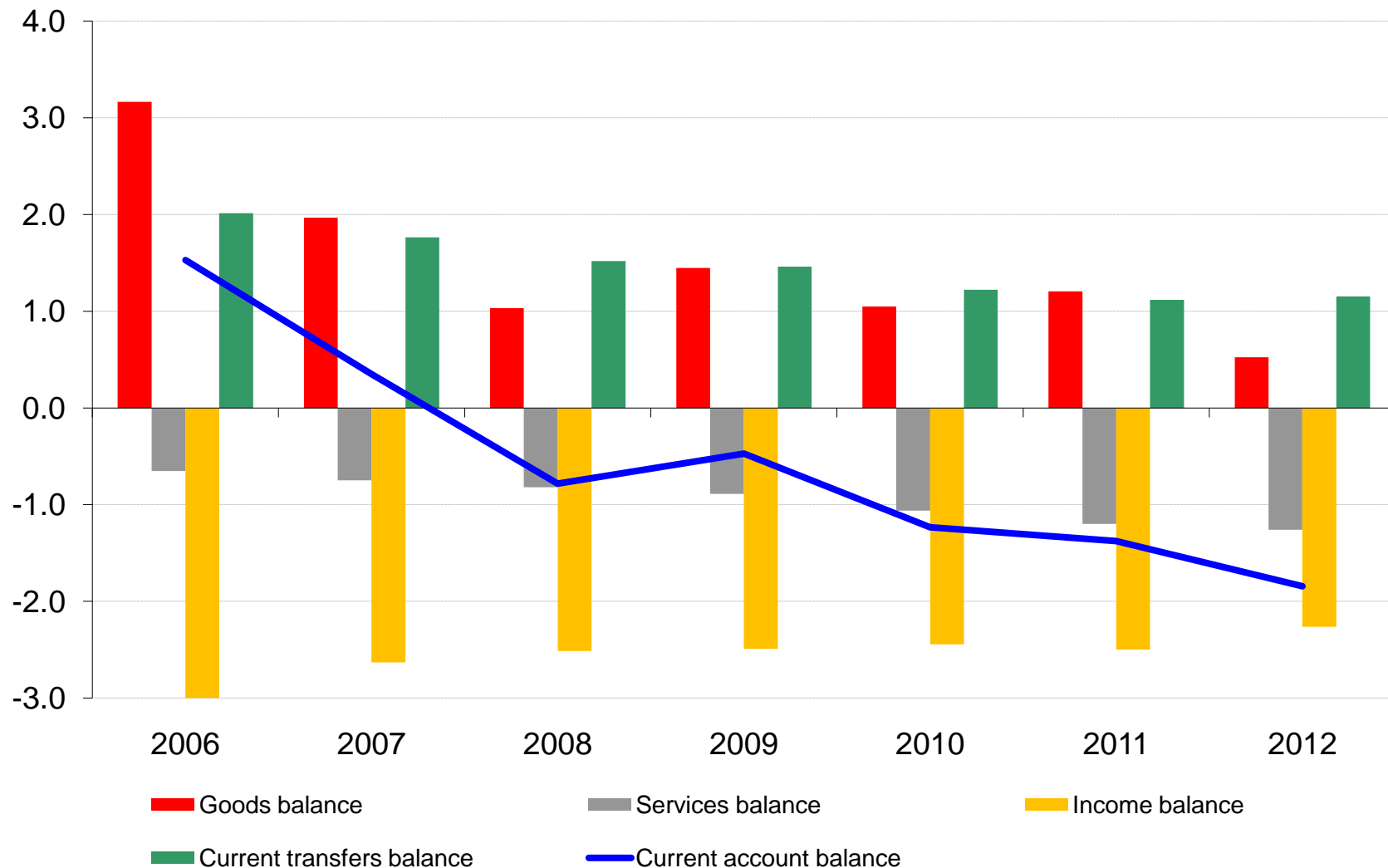
... and also in lower fiscal revenue

LATIN AMERICA (7 COUNTRIES): VAT COLLECTION
IN ARGENTINA, BRAZIL, CHILE, COLOMBIA, MEXICO, PERU AND URUGUAY
(Growth rates compared with the same quarter of the preceding year, simple average)



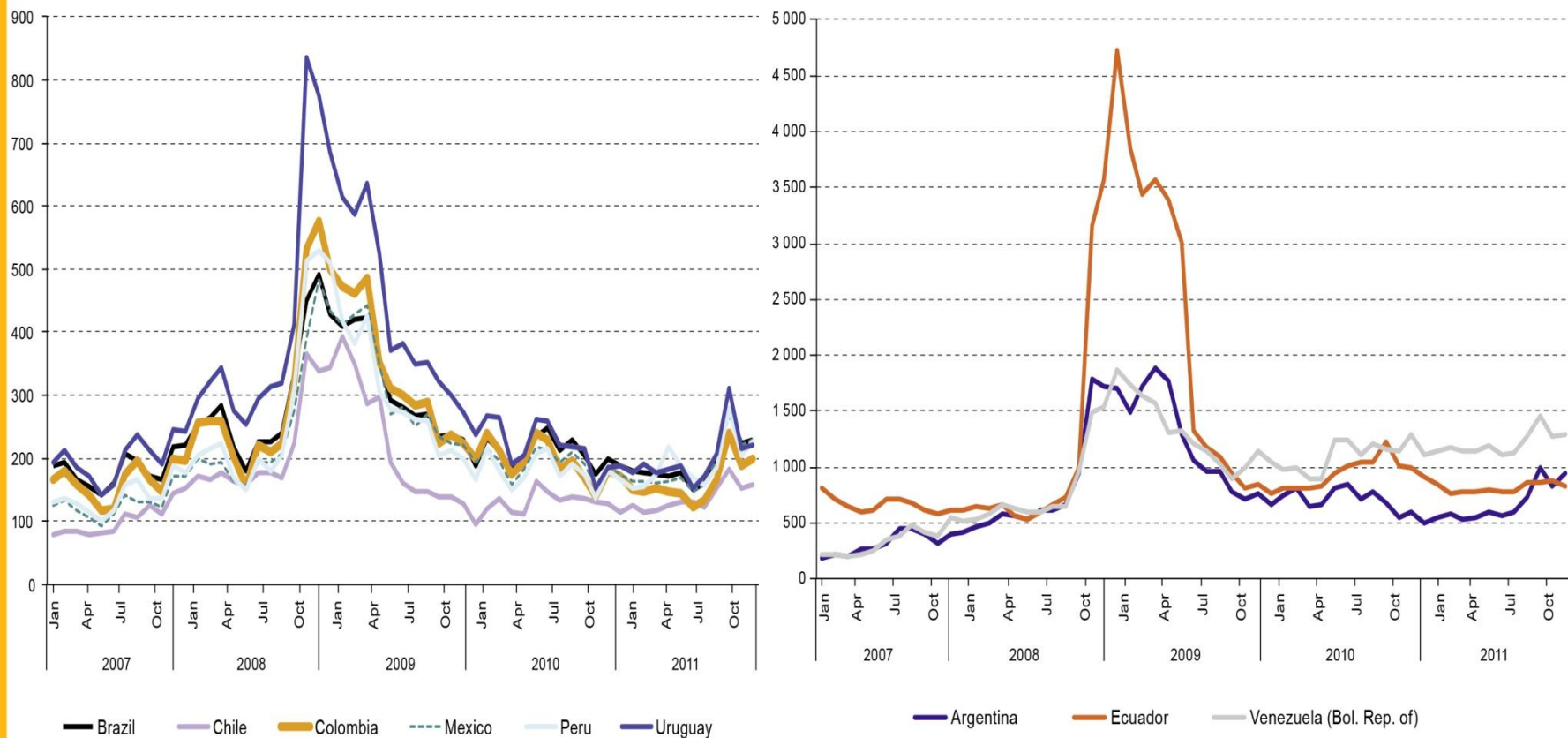
The current account deficit has widened, owing mainly to falling commodity prices

CURRENT ACCOUNT STRUCTURE
(Percentages of GDP)



From September on, the countries in the region experienced spikes in financial market volatility – although thus far more limited than in 2008-2009

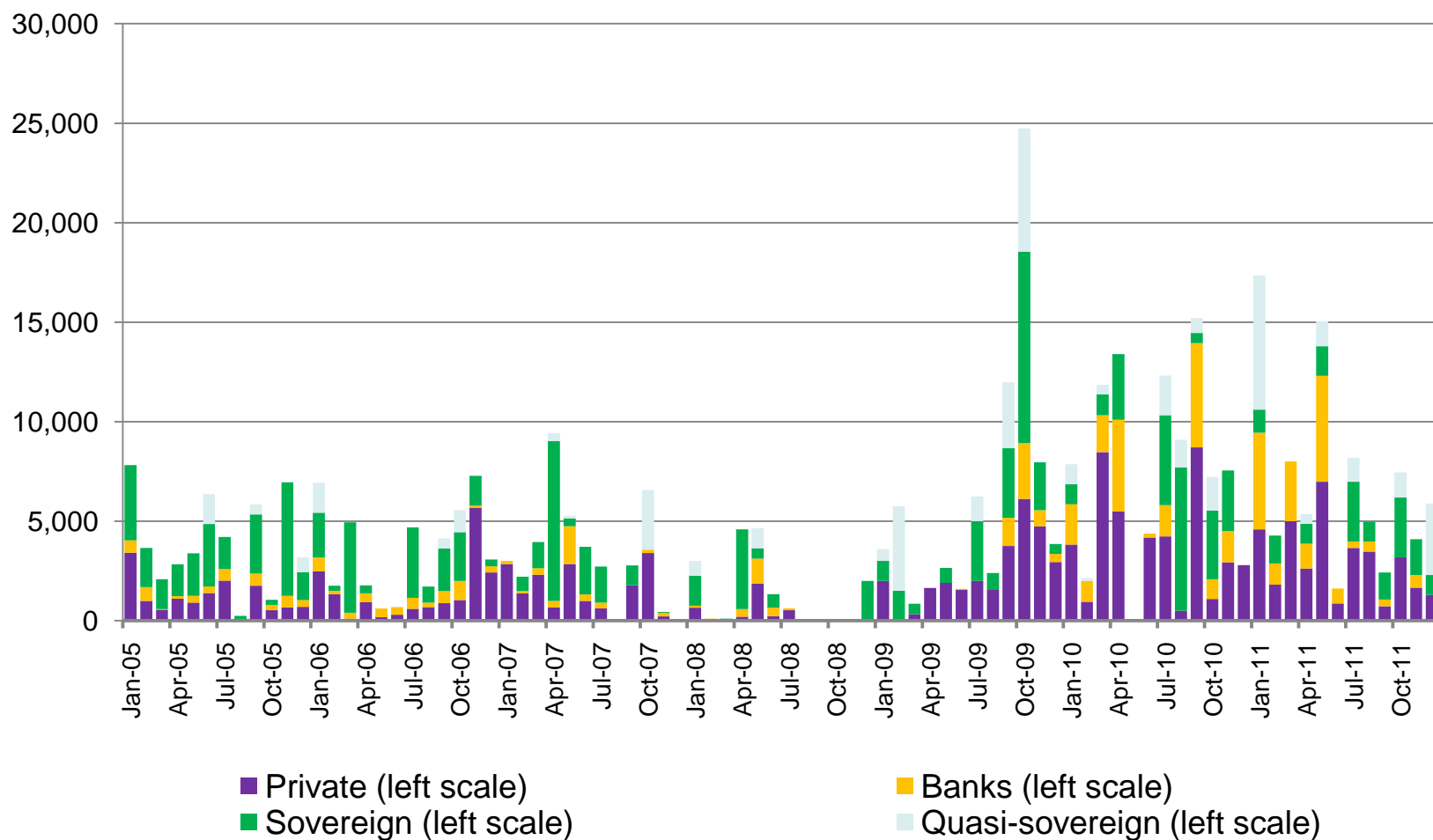
LATIN AMERICA AND THE CARIBBEAN: COUNTRY RISK
(Monthly EMBIG. Basis points)



And as 2011 was ending, international bond issues by the Latin American and Caribbean countries began to lose momentum

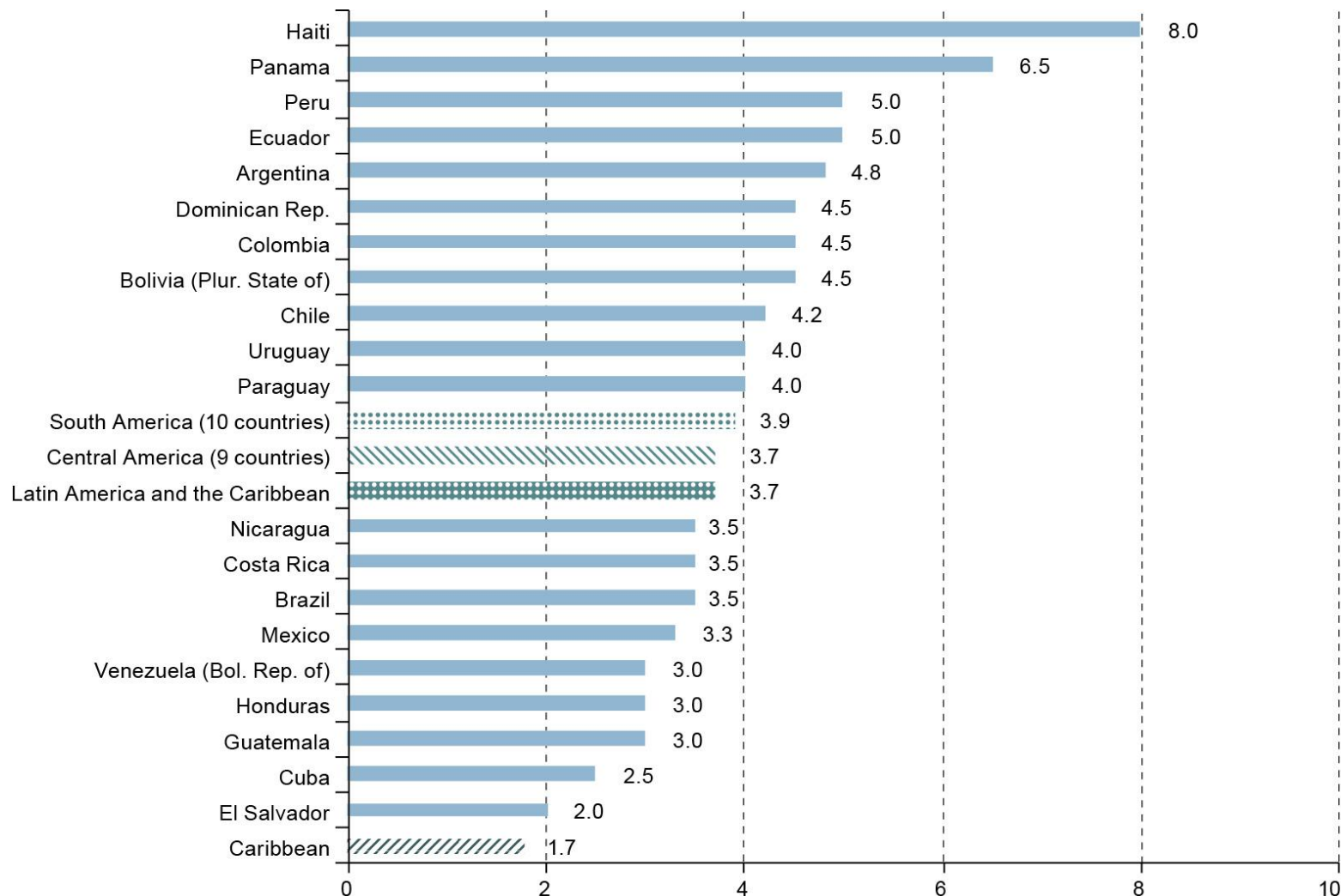
LATIN AMERICA AND THE CARIBBEAN : INTERNATIONAL BOND ISSUES, JANUARY 2005 – DECEMBER 2011

(Millions of dollars)



Thus, growth is projected to slow again in 2012, but moderately: to 3.7%

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



In short...

- The 2011 performance was **relatively** satisfactory given the increasingly complex external situation.
- Expectations are for **even more turbulent and uncertain external conditions**, with a prolonged period of low growth in the developed countries.
- The baseline scenario for 2012 indicates a **moderate slowdown** for the region, partly thanks to having addressed its past vulnerabilities...
- ... but it is very possible that external conditions will become much more difficult, which would impact the region through various channels (trade then finance).
- The external situation **urgently requires greater international coordination** to reduce global imbalances.





If the external situation worsens in 2012

- The impact on the countries would vary depending on their trade and financial linkages, their fiscal and external position and the extent of their reliance on remittances and tourism.
- If capital flight takes a toll on the financial account, the international reserve position is strong enough to finance a current account deficit and soften the impact on the exchange rate.
- Sounder public accounts and (except in the Caribbean) low levels of public debt afford space for countercyclical policy action.
- The prospect of a dip in inflation will allow governments to deploy expansionary monetary policy.
- Administrations must safeguard employment and social protection instruments.
- Investment and intraregional integration must be strengthened.

How does the region stand today?

- **Alert** to the possibility of global crisis.
- **Somewhat more resolved** to find ways to coordinate monetary and development financing issues in order to carry forward regional integration.
- **Aware** that structural social and production gaps must be narrowed in order to dismantle these two channels of inequality.
- **Looking towards strengthening intraregional and subregional cooperation** by linking regional capabilities and value chains.
- **Socially more progressive**, with equality at the heart of the agenda.



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