



2018

Economic Survey of Latin America and the Caribbean

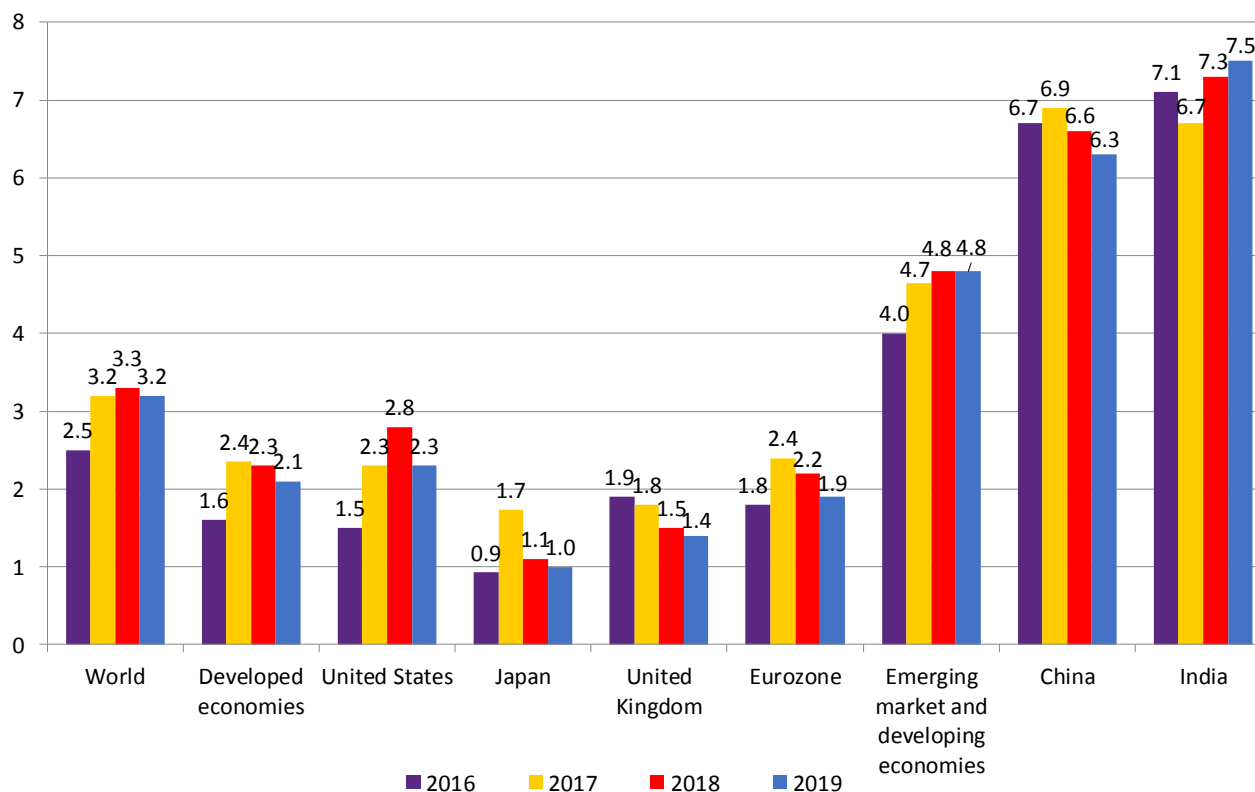


Global context for 2018

- Momentum of global growth remains around 3.3% but with significant heterogeneity between countries
- Trade tensions increase uncertainties
- After historically low levels, financial volatility began to rise at the beginning of this year, with implications for sovereign risk

Global economic growth for 2018 is forecast around 3.3% but with greater uncertainty without the synchronicity of growth in 2017

GDP GROWTH RATES, 2016 TO 2019^{ab}
(In percentages)

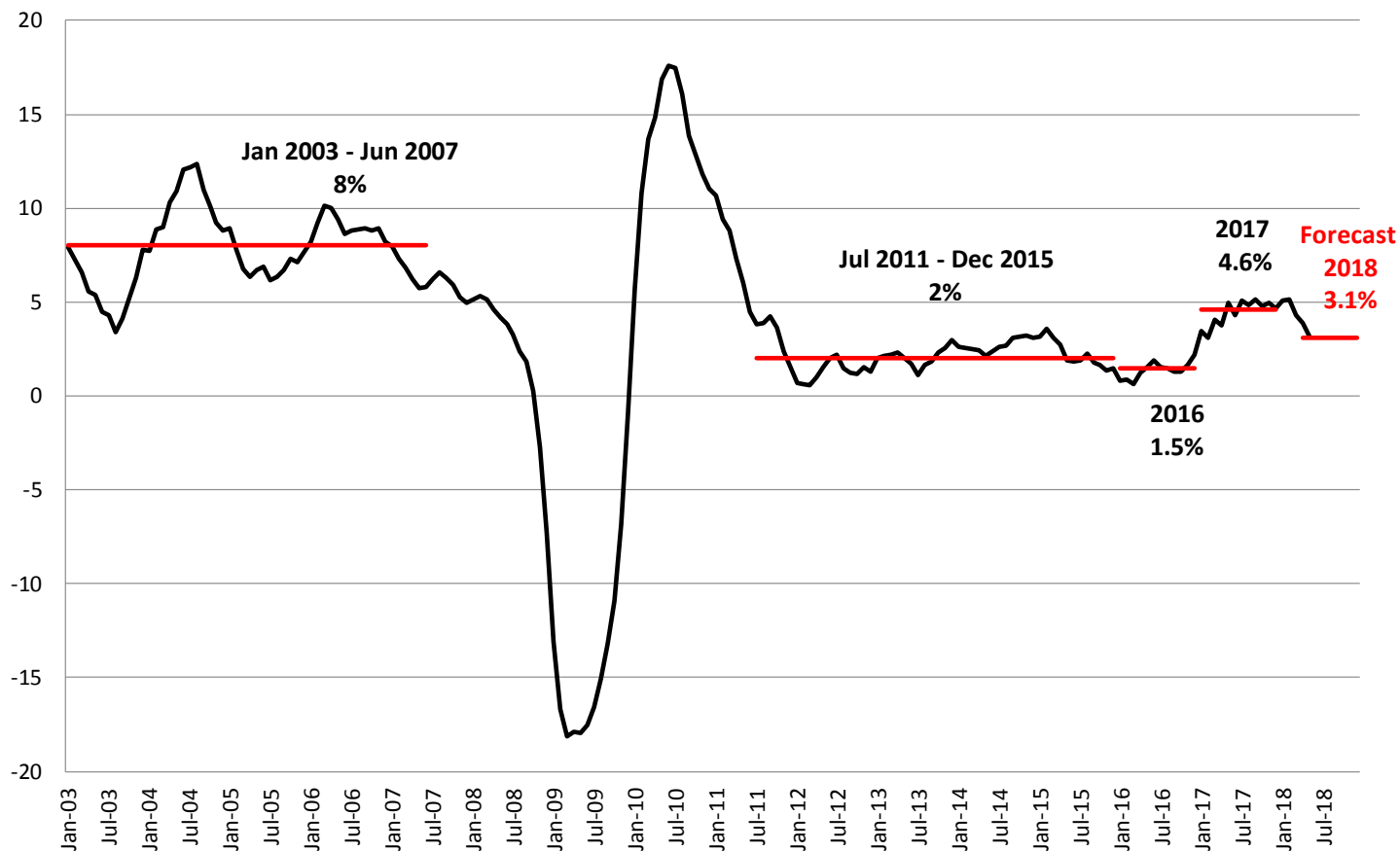


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of United Nations, World Economic Situation and Prospects, Update as of mid-2018, New York, June 2018; International Monetary Fund (IMF), July 2018, Capital Economics, June 2018; European Commission, May 2018 y European Central Bank, June 2018.

^a Values for 2018 and 2019 correspond to forecasts. ^b Values for India correspond to the fiscal year that begins in April and ends in March of the following year.

Structural slowdown of world trade post subprime crisis; in 2018 this is further impacted by trade tensions

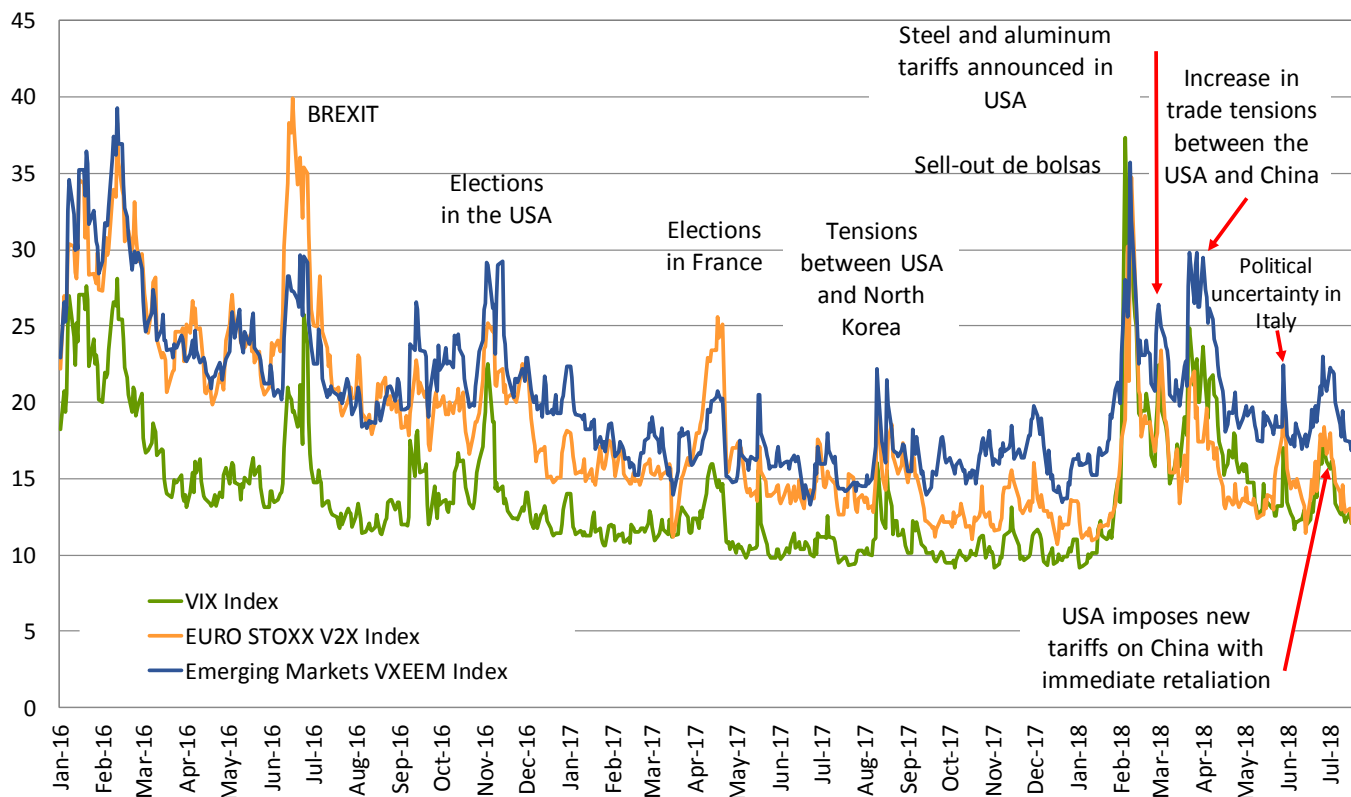
**YEAR-ON-YEAR VARIATION IN GLOBAL TRADE VOLUMES, JANUARY OF 2003 TO
MAY OF 2018**
(In percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Netherlands Bureau of Economic Policy Analysis (CPB), World Trade Monitor, 2018 and World Trade Organization (WTO), for forecasts of 2018.

After closing 2017 at historically low levels, financial volatility has risen sharply this year

FINANCIAL MARKET VOLATILITY INDICIES, JANUARY 2016 TO JULY 2018



- Geopolitical risks and growing trade tensions
- Increases in the the interest rate of the FED
- Generalized depreciations with respect to the dollar
- Rising uncertainty is accompanied by greater sensitivity and reaction

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

Note: VIX is prepared by the Chicago Board Options Exchange (CBOE) from S&P 500 call and put option prices, and measures expected volatility over the next 30 days. Following the same logic, the CBOE also produces the VXEEM index, which measures volatility in emerging markets, while Deutsche Börse and Goldman Sachs produce the V2X index, which measures eurozone volatility.

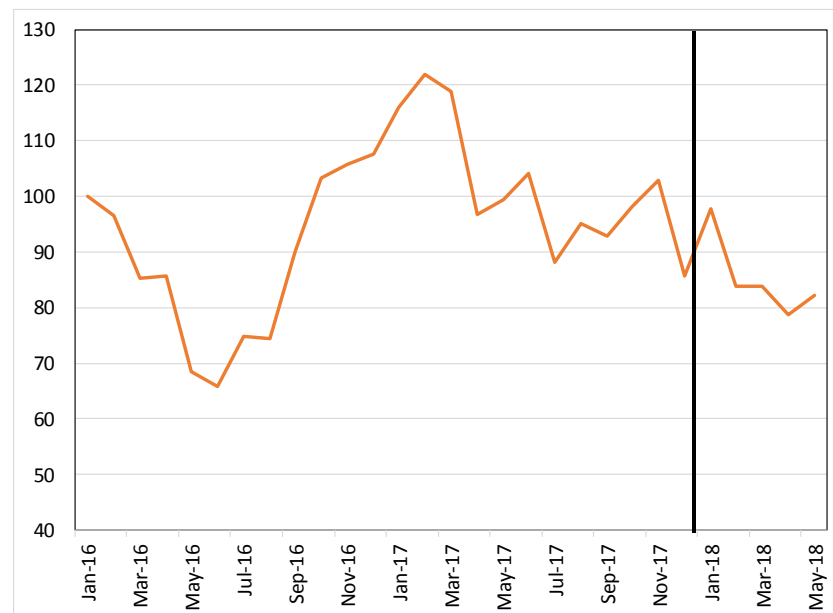
Capital flows toward emerging markets registered a sustained increase in 2017, but have declined in 2018 and Latin America is no exception

CAPITAL FLOWS TO EMERGING MARKETS, 12-MONTH CUMULATIVE FLOWS, JANUARY 2015 TO APRIL 2018^a
(In billions of US dollars)



LATIN AMERICA (13 COUNTRIES): PROXY INDICATOR OF CAPITAL FLOWS TO THE REGION, JANUARY 2016 TO MAY 2018

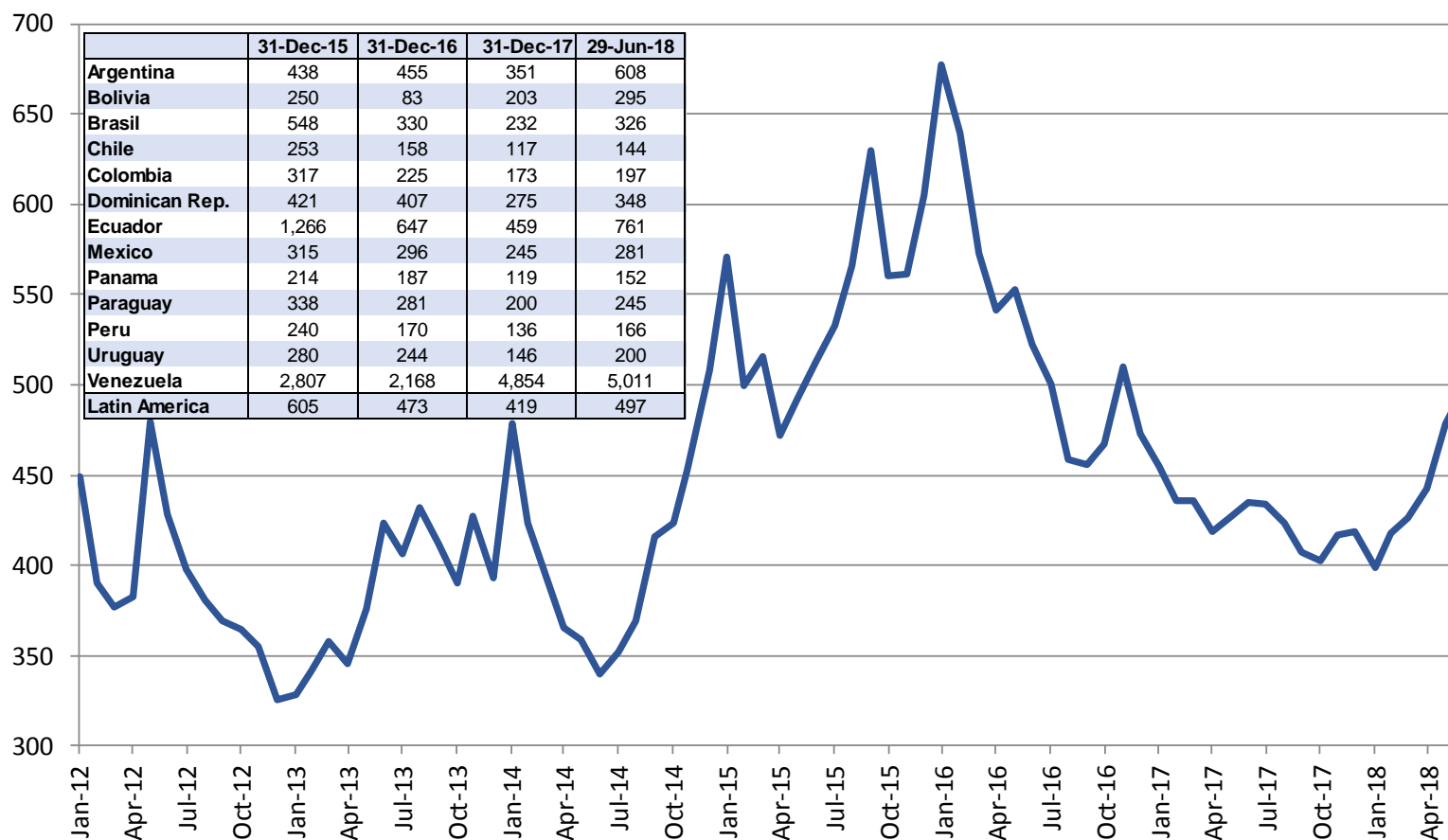
(Index base January 2016=100, 12 month moving average)



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

Sovereign risk began to rise in February in line with the increased tension in global financial markets

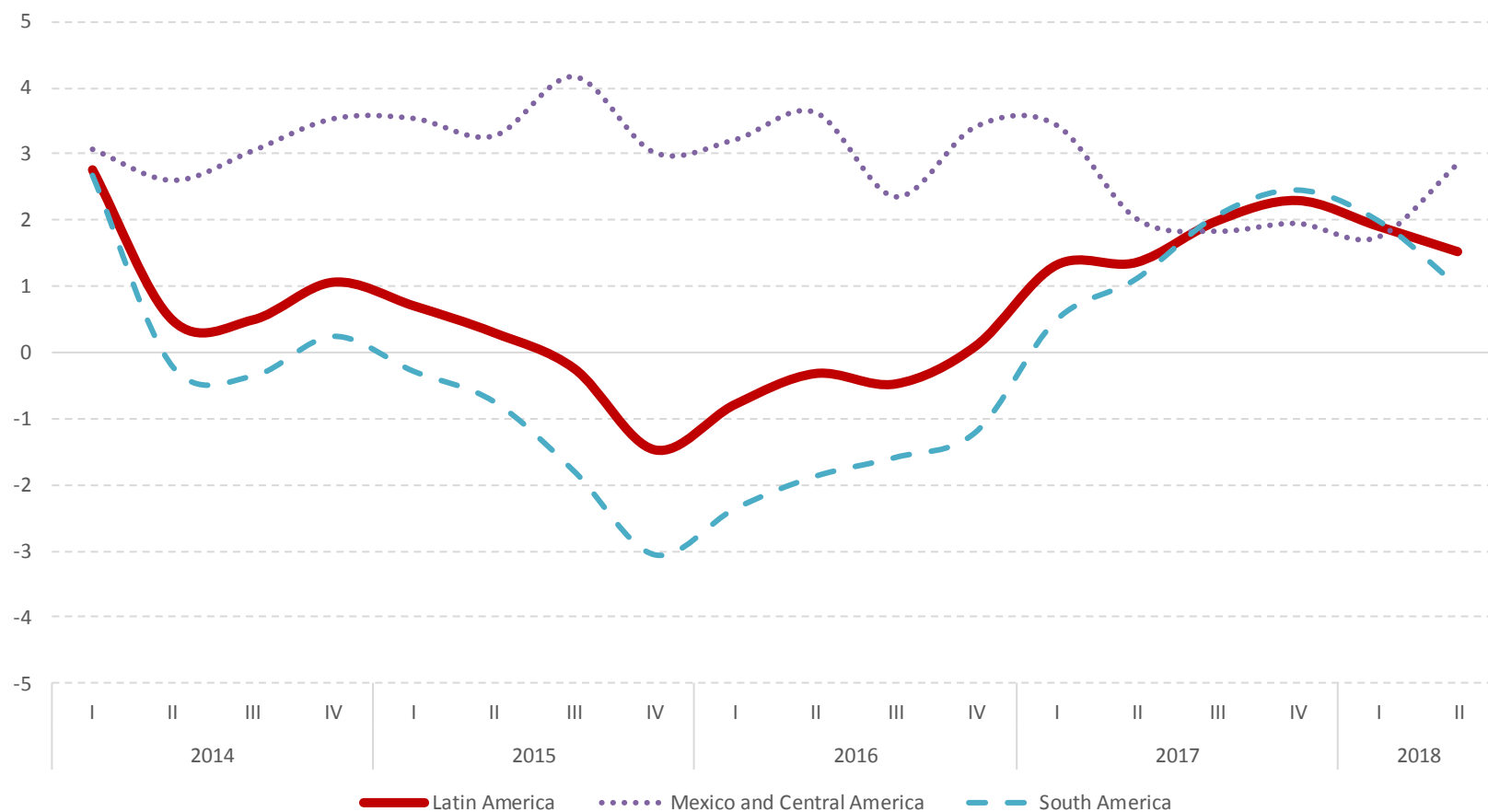
LATIN AMERICA (13 COUNTRIES): SOVEREIGN RISK ACCORDING TO THE EMERGING MARKET BOND INDEX GLOBAL (EMBIG), JANUARY 2012 TO JUNE 2018
(Basis points)



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

Latin America exhibits on average a slow rate of economic growth in 2018 with significant subregional differences

LATIN AMERICA: YEAR-ON-YEAR CHANGE IN QUARTERLY GDP, 2014 TO 2018
(Percentages, on the basis of 2010 constant dollars)

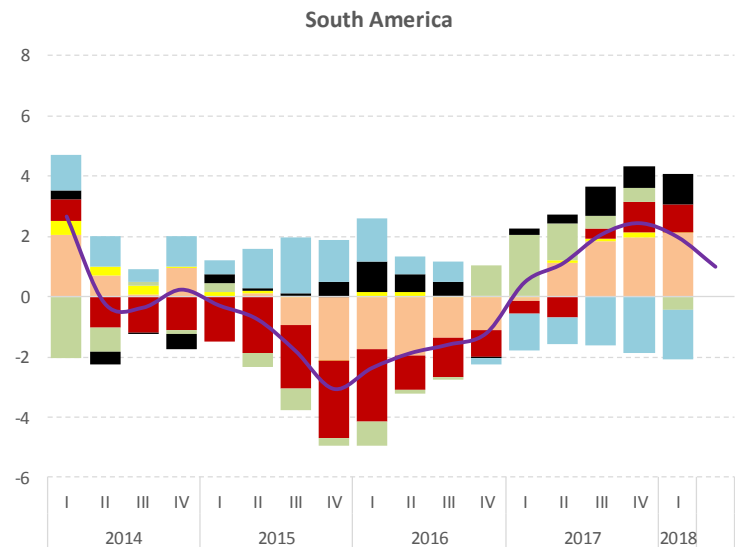
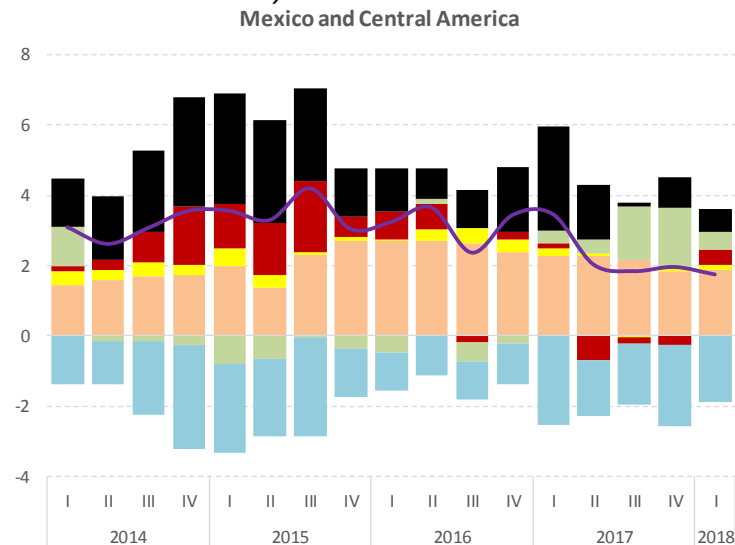
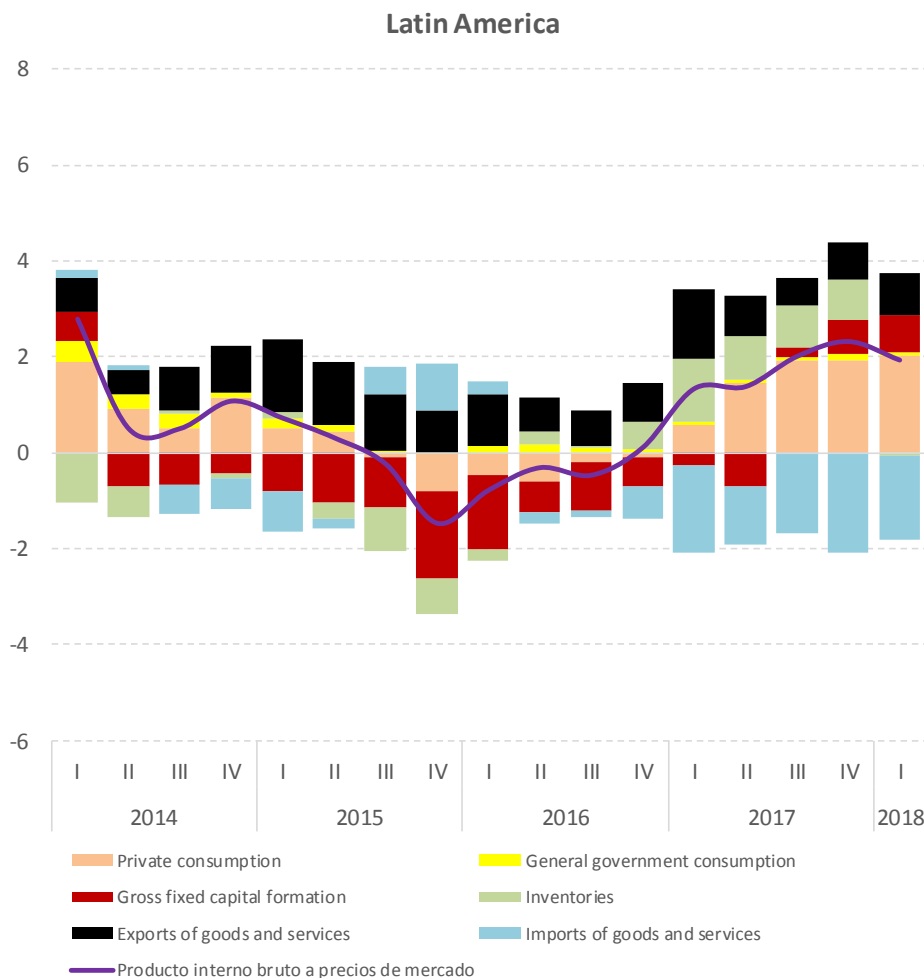


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Domestic demand is the principal driver of GDP growth

LATIN AMERICA: GDP GROWTH RATES AND CONTRIBUTION OF EXPENDITURE COMPONENTS TO GROWTH, 2014 TO 2018

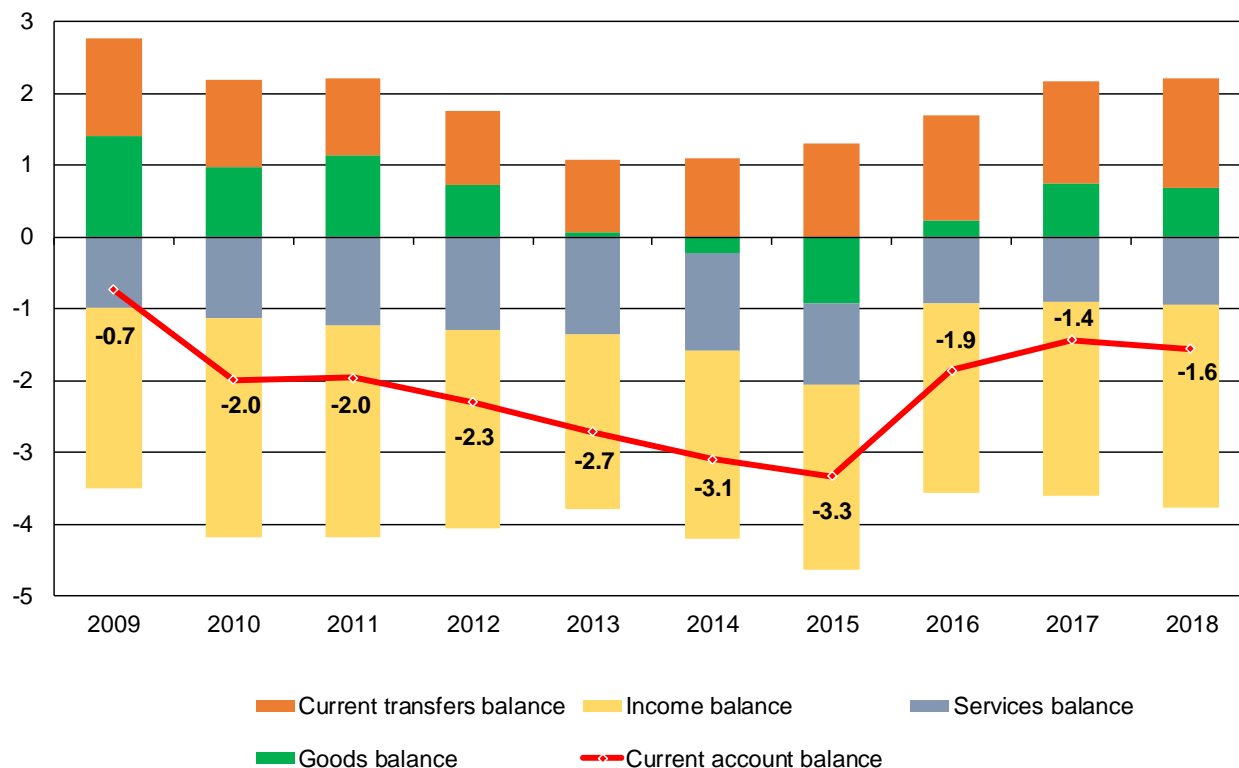
(Percentages, on the basis of 2010 constant dollars)



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

The current account deficit widened slightly in 2018

LATIN AMERICA (19 COUNTRIES): BALANCE-OF-PAYMENTS CURRENT ACCOUNT BY COMPONENT, 2009 TO 2018^a
(Percentages of GDP)



Components of the current account by subregion (Balances as percentage of GDP)			
	2016	2017	2018
CENTRAL AMERICA AND MEXICO			
Current account	-2.1	-1.7	-1.9
Goods	-3.7	-3.4	-3.7
Services	0.8	0.8	0.8
Income	-3.0	-2.8	-2.9
Current transfers	3.8	3.8	3.9
SOUTH AMERICA			
Current account	-1.8	-1.3	-1.4
Goods	1.8	2.3	2.5
Services	-1.6	-1.5	-1.7
Income	-2.5	-2.7	-2.8
Current transfers	0.6	0.5	0.6
THE CARIBBEAN			
Current account	-5.9	1.0	
Goods	-12.3	-5.4	
Services	4.0	1.9	
Income	-2.9	-1.9	
Current transfers	5.3	6.4	

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

^a Values for 2018 correspond to forecasts.

Commodity prices rose this year, but less than in 2017 and the increase is concentrated in crude oil

VARIATION IN INTERNATIONAL COMMODITY PRICES, 2016 TO 2018^a
(Percentages)

	2016	2017	2018 ^a
Agricultural products	4	1	4
Foods, tropical beverages and oilseeds	6	-1	3
Foods	9	-1	-1
Tropical beverages	1	-2	-6
Oils and oilseeds	3	0	10
Forestry and agricultural raw materials	-2	5	9
Minerals and metals	-1	23	6
Energy products^b	-16	23	25
Crude oil	-16	23	30
All commodities	-4	15	11
All commodities excluding energy products	2	11	5

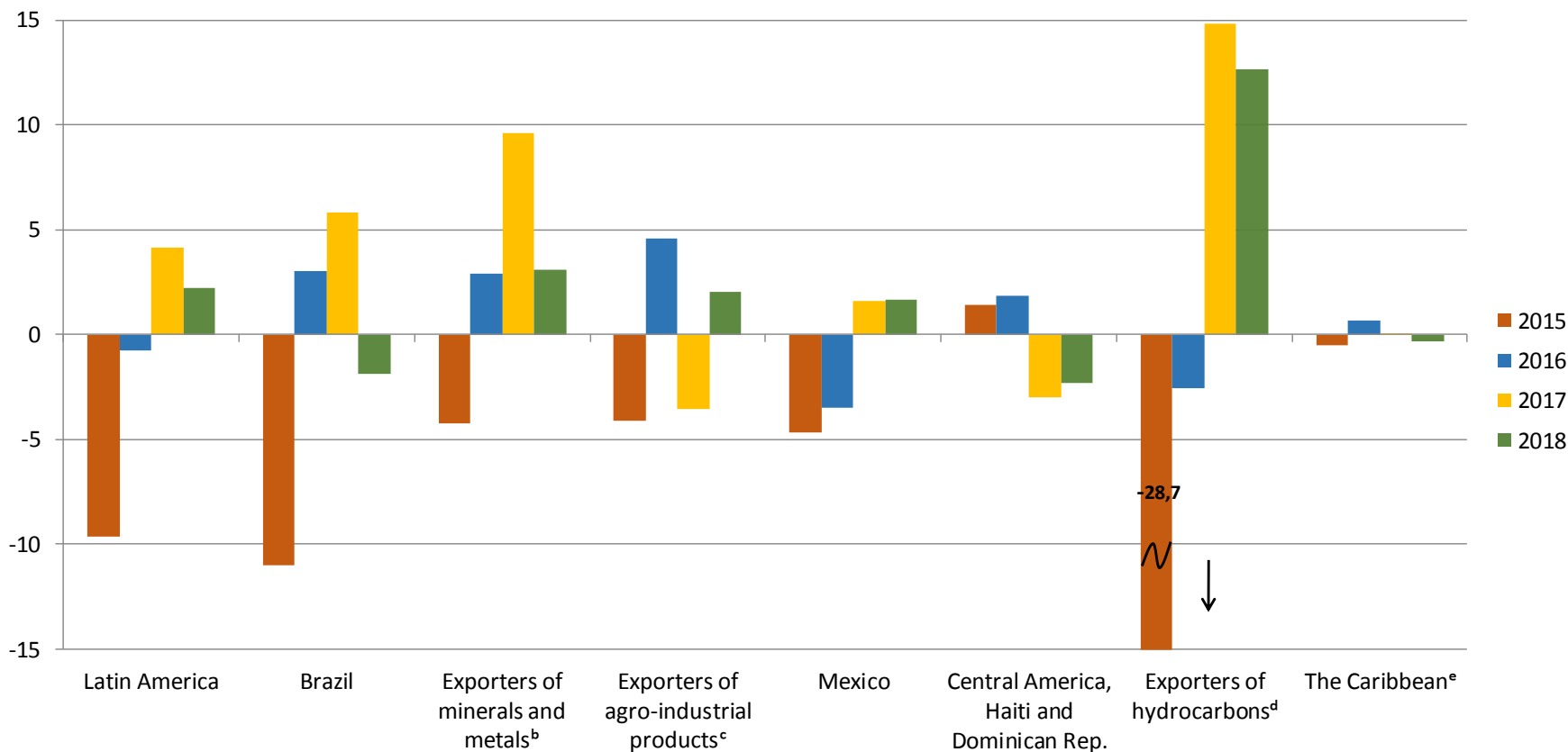
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from World Bank, International Monetary Fund (IMF), Economist Intelligence Unit and Bloomberg.

^a Forecasts

^b Energy products include crude oil, natural gas and coal.

Terms of trade improved in 2018 for the second consecutive year, although Central America and some Caribbean countries suffered a reverse due to higher energy prices

LATIN AMERICA AND THE CARIBBEAN (COUNTRIES AND SELECTED COUNTRY GROUPS): VARIATION IN THE TERMS OF TRADE, 2015 TO 2018^a
(Percentages)

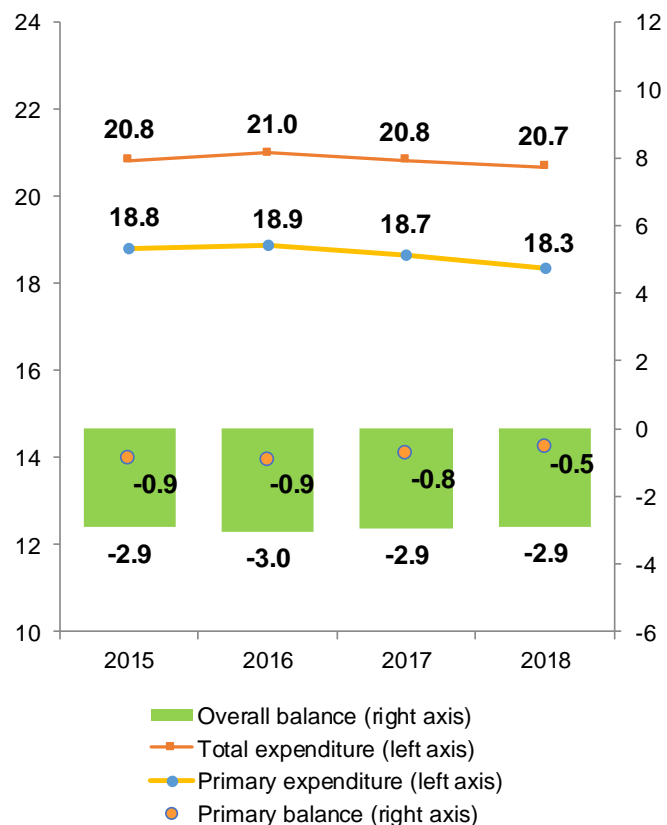


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

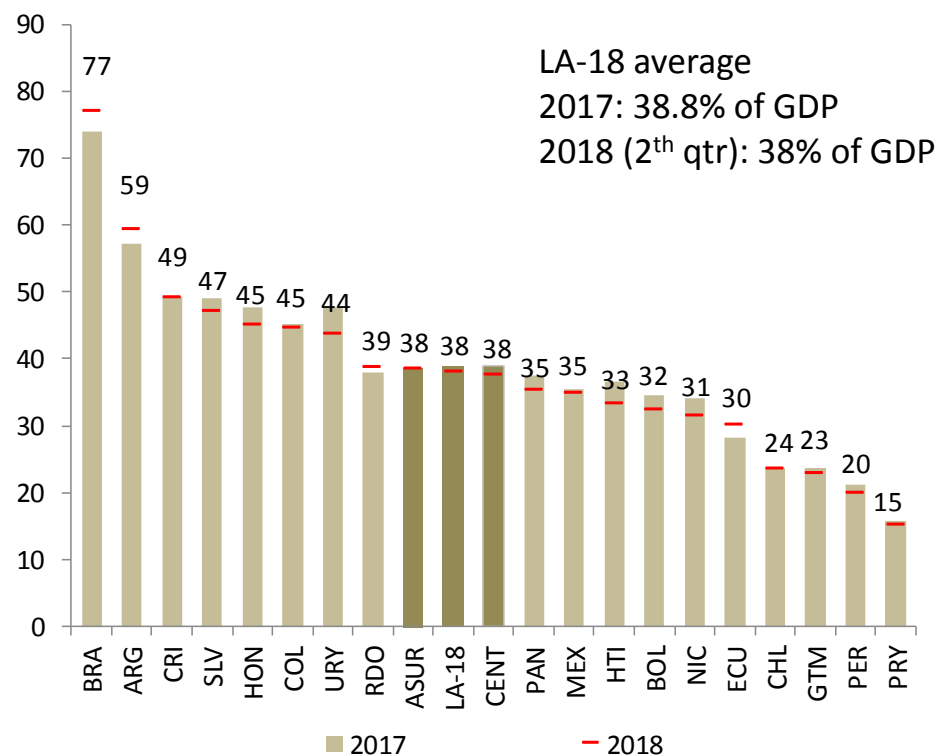
^a Forecasts. ^b Chile y Peru. ^c Argentina, Paraguay, Uruguay. ^d Bolivia (Plur. State of), Colombia, Ecuador, Trinidad and Tobago and Venezuela (Bol. Rep. of). ^e Does not include Trinidad and Tobago.

Fiscal adjustment has concentrated on public spending to reduce the primary deficit and stabilize the trajectory of public debt

LATIN AMERICA (17 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2015 TO 2018^a
(Percentages of GDP)



LATIN AMERICA: CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2017 AND SECOND QUARTER OF 2018
(Percentages of GDP)

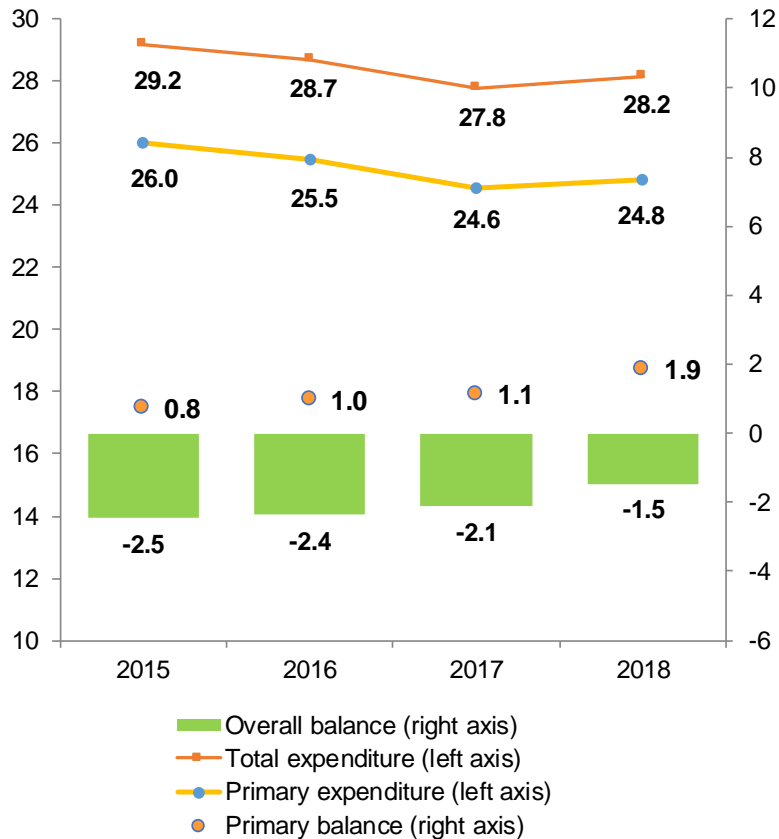


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

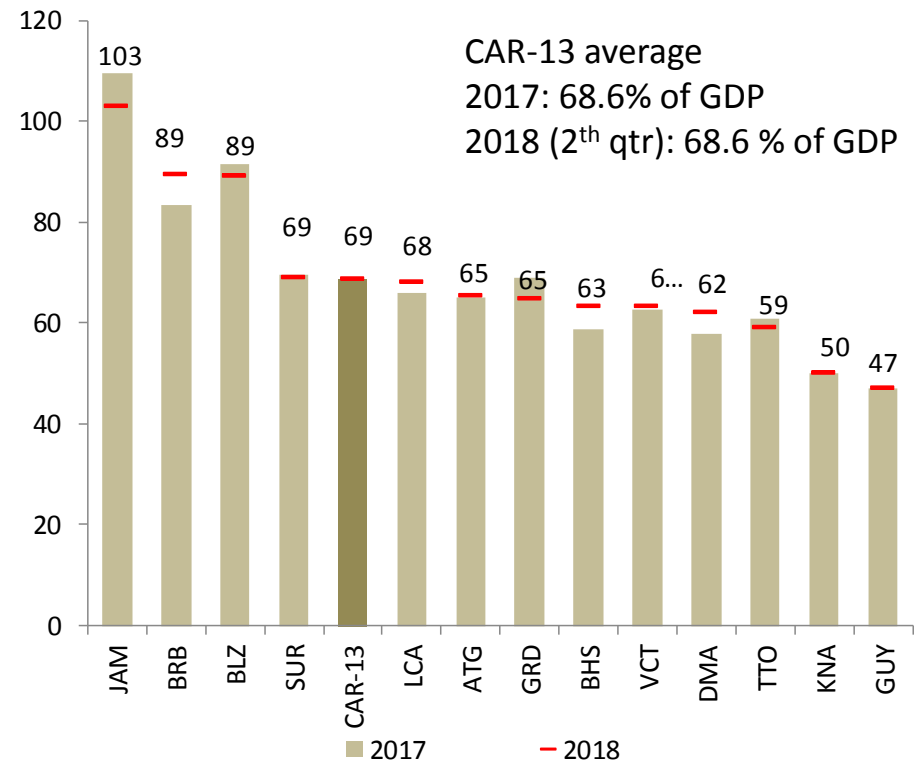
^a Simple averages. Figures for 2018 correspond to forecasts from official sources. In the cases of Mexico and Peru the figures refer to the federal public sector and the general government, respectively.

The Caribbean has made efforts to maintain the trend towards primary surpluses, but public debt remains elevated due to its high vulnerability

THE CARIBBEAN (12 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2015 TO 2018^a
(Percentages of GDP)



THE CARIBBEAN: CENTRAL GOVERNMENT GROSS PUBLIC DEBT, 2017 AND SECOND QUARTER OF 2018
(Percentages of GDP)

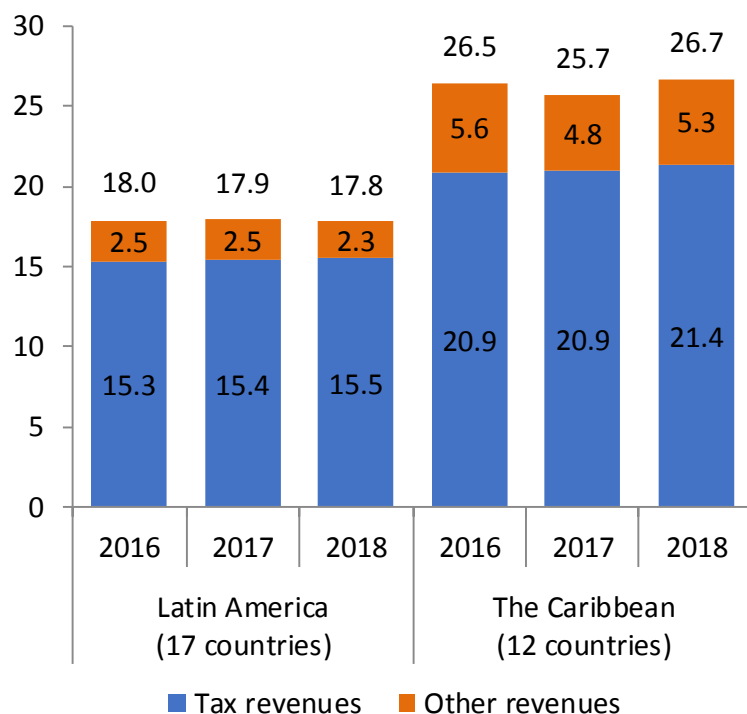


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

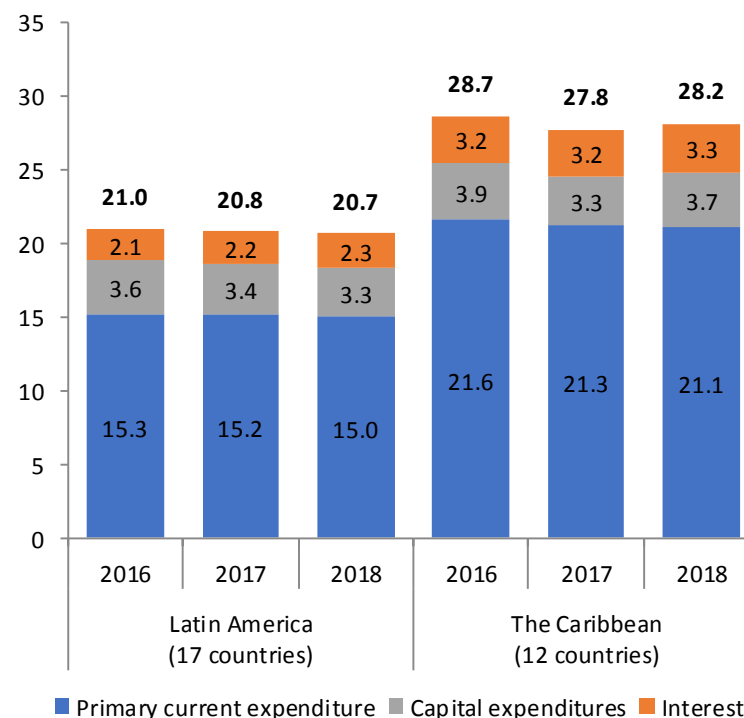
^a Simple averages. Figures for 2018 correspond to forecasts from official sources.

Tax revenues remain stable... while the composition of public spending changes: lower investment and higher interest payments

**LATIN AMERICA AND THE CARIBBEAN:
DISAGGREGATION OF TOTAL REVENUES OF THE
CENTRAL GOVERNMENT, 2016 TO 2018^a**
(Percentages of GDP)



**LATIN AMERICA AND THE CARIBBEAN:
DISAGGREGATION OF TOTAL EXPENDITURES OF THE
CENTRAL GOVERNMENT, 2016 TO 2018^a**
(Percentages of GDP)

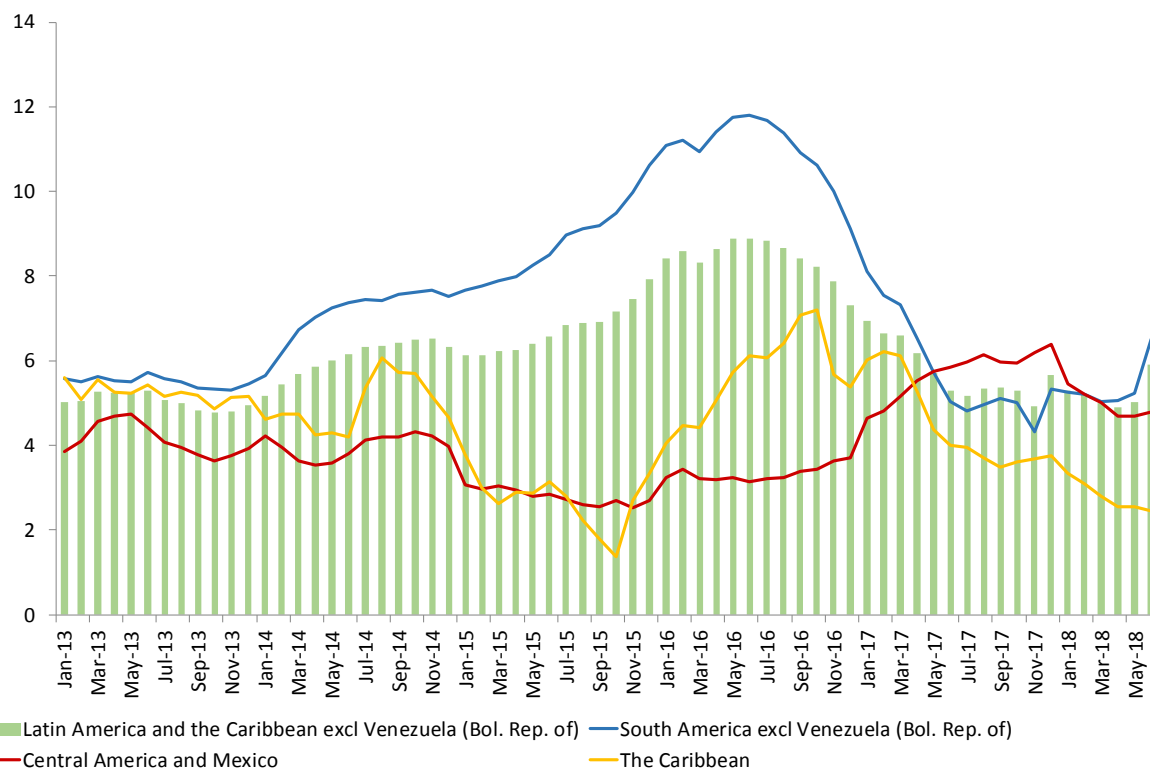


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Simple averages. Figures for 2018 correspond to forecasts from official sources. In the cases of Mexico and Peru the figures refer to the federal public sector and the general government, respectively.

Towards the end of the first half of the year inflation has remained within the expected ranges

LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR VARIATION IN CONSUMER PRICE INDEX, WEIGHTED AVERAGE, JANUARY OF 2013 TO JUNE OF 2018
(Percentages)



Annual inflation rate
(End of period)

	2016	2017	2018 ^a
Latin America and the Caribbean excl (Bol. Rep. of)	7,3	5,7	5,9
South America excl Venezuela (Bol. Rep. of)	9,1	5,3	6,5
Central America and Mexico	3,7	6,4	4,8
The Caribbean	5,4	3,7	2,5

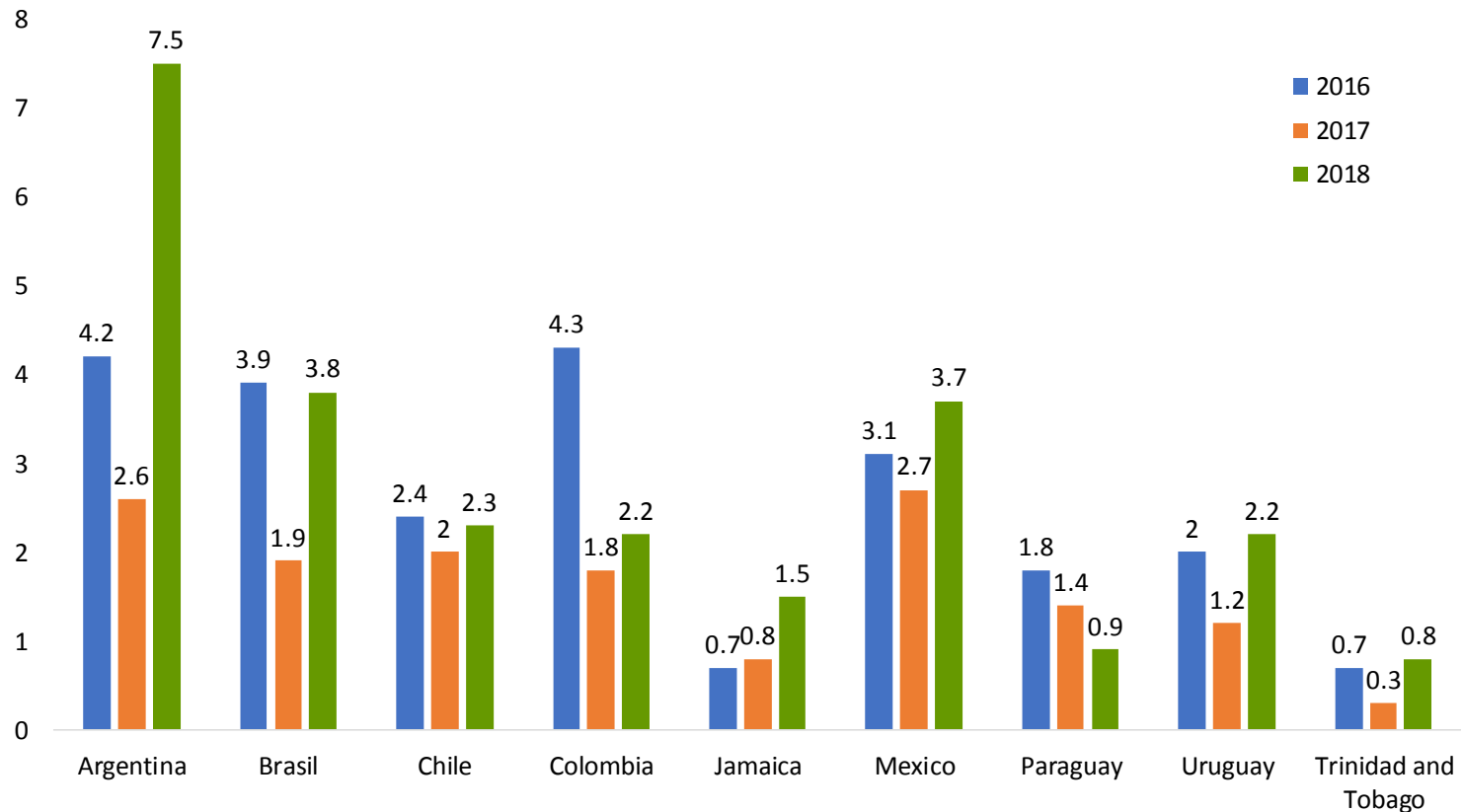
^a Figures to June.

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

After falling in 2017, exchange rate volatility rose in the first seven months of 2018, conditioning monetary action...

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): NOMINAL EXCHANGE RATE VOLATILITY, 2016 TO 2018^a

(Average of the absolute value of the month-on-month variation, percentages)



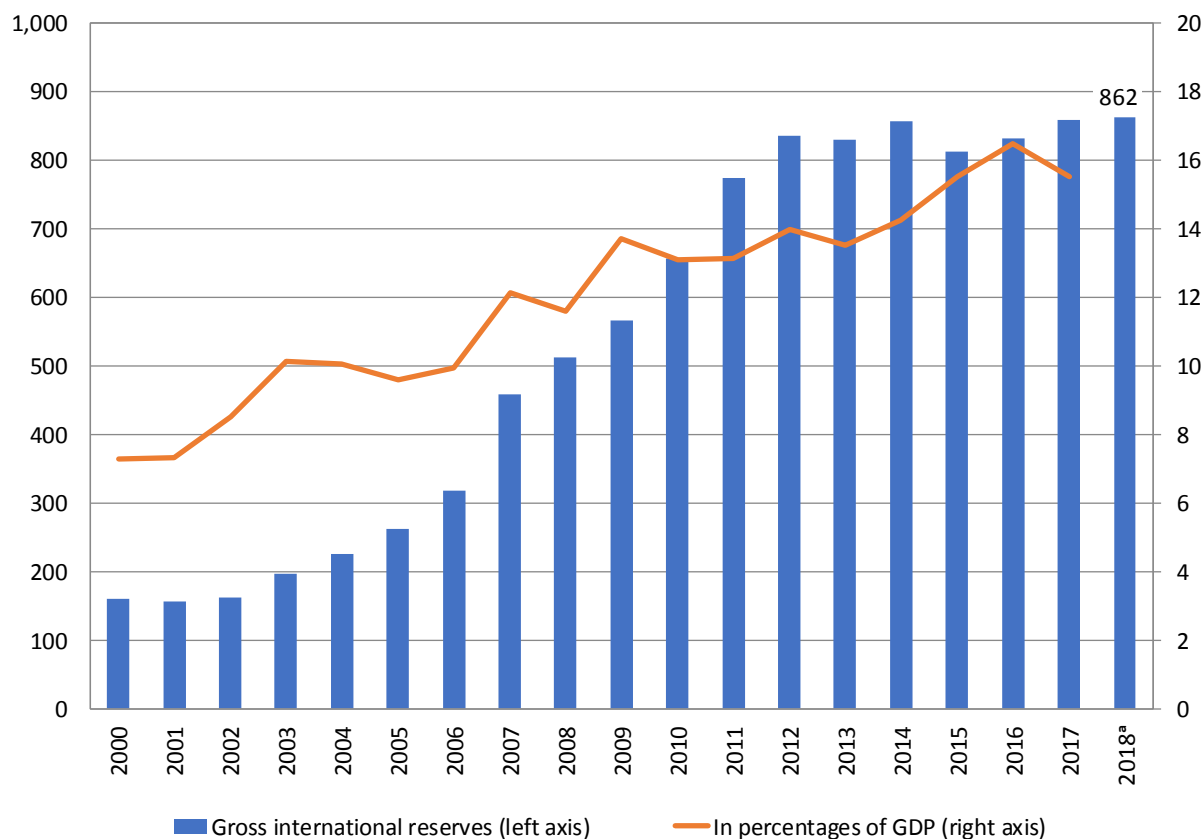
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Figures to July.

Reserves have increased in the first six months of 2018, but at a slower pace

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF INTERNATIONAL RESERVES, 2000 TO 2018^a

(Billions of dollars and percentages of GDP)

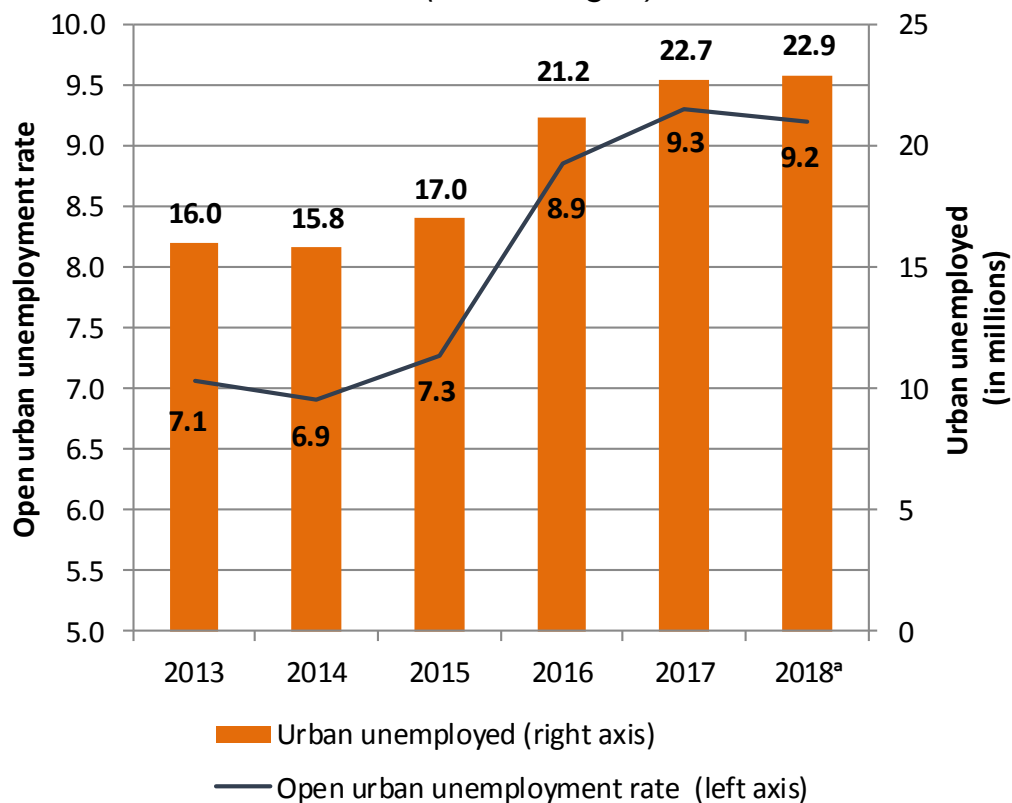


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Figures to June.

The labour market exhibits a moderate improvement: the urban unemployment rate decelerates and unemployment declines

**LATIN AMERICA AND THE CARIBBEAN: RATE AND NUMBER OF URBAN
UNEMPLOYED**
(Percentages)



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

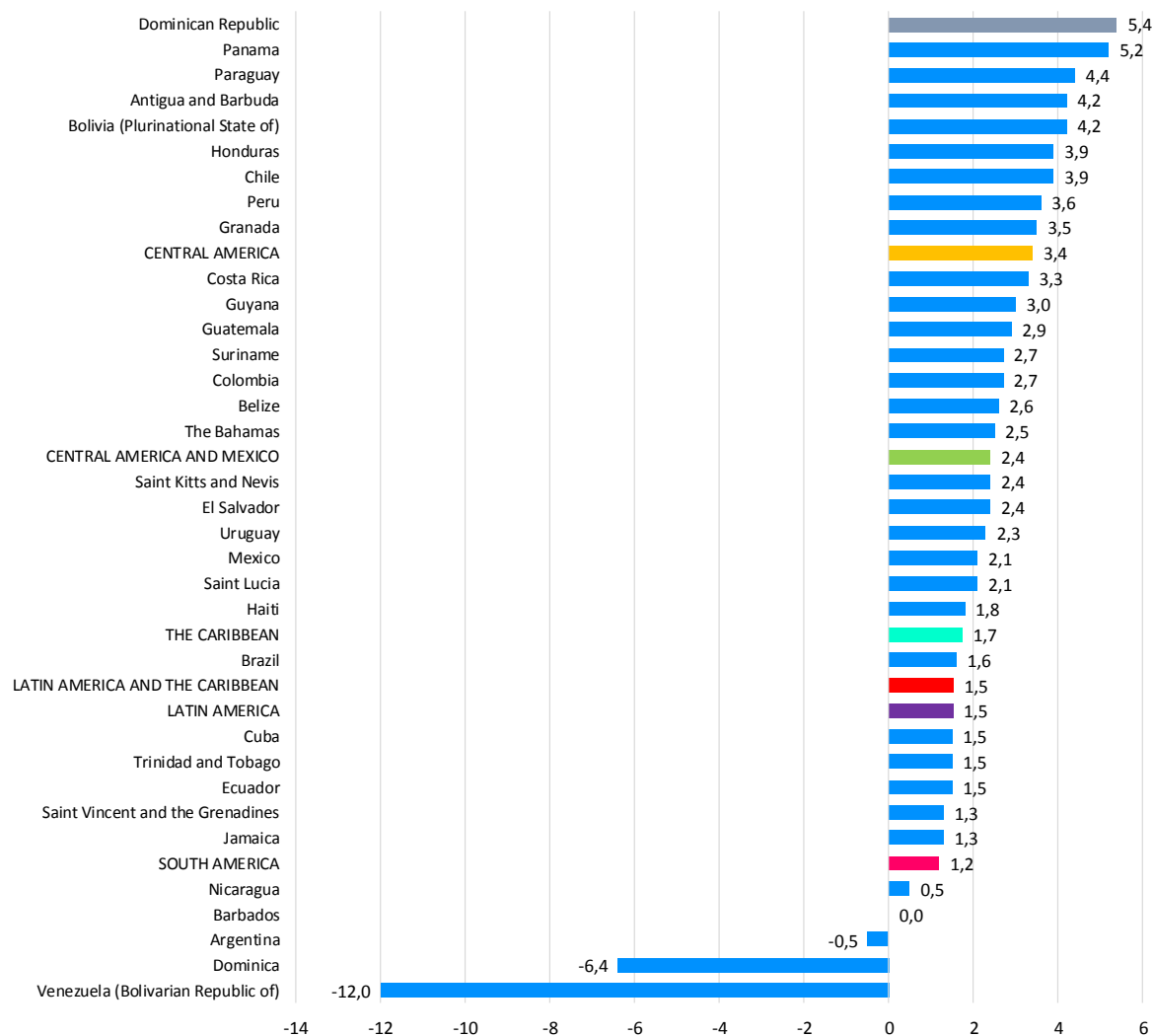
^a Estimates.

In sum, the forecasts for 2018 consider an international environment where:

- 1. Global growth continues in 2018 but with heterogeneity among countries.**
- 2. Global trade loses dynamism with respect to 2017, aggravated by trade conflicts.**
- 3. Commodity prices improve but less than in 2017 and the improvement is very concentrated in crude oil.**
- 4. Capital flows to emerging markets decline in 2018, sovereign risk levels increase and the propensity to take risks decreases.**
- 5. Appreciation of the dollar and increased currency volatility.**
- 6. Financial volatility, which had reached historically low levels in 2017, rises this year and is driven more by greater uncertainty.**

Latin America and the Caribbean: Forecasts of GDP growth rates for 2018

(Percentages, on the basis of constant 2010 dollars)



This environment results in a downward revision in the projected growth of the region for this year although it is expected to be greater than that of 2017. The average expected rate for LAC is 1.5% (1.2% in 2017) with important differences between subregions.

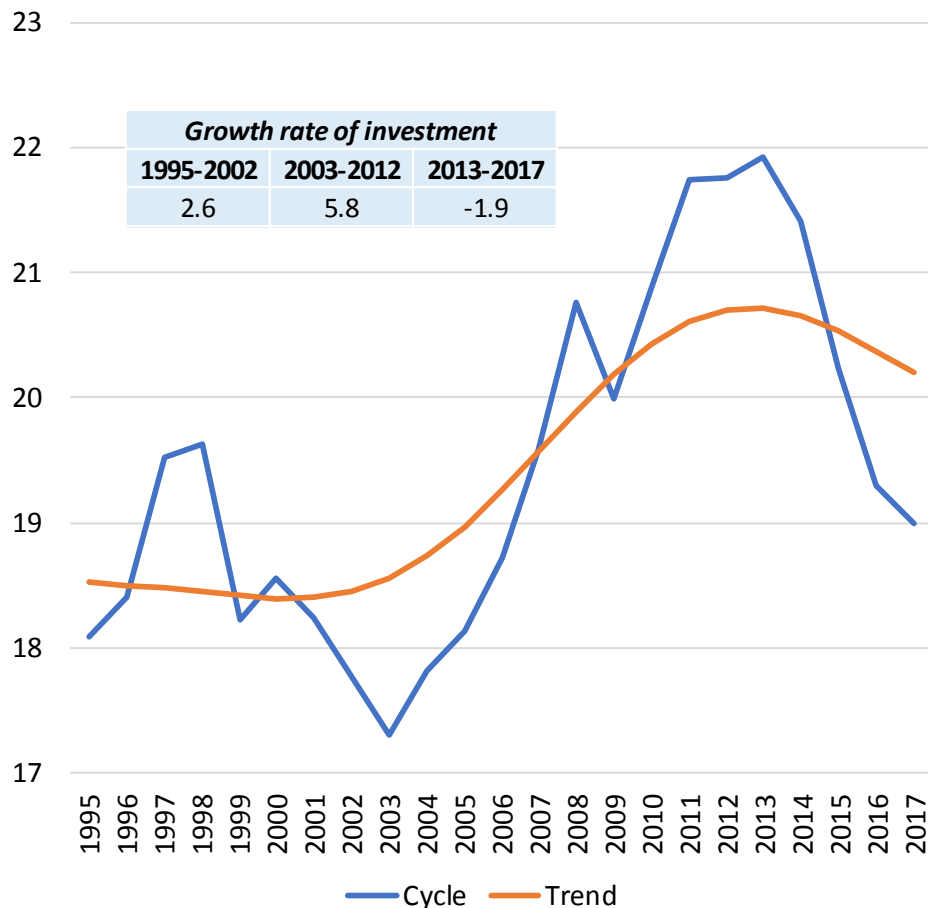
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The second part of the Economic Survey focuses on a structural analysis of investment in Latin America and the Caribbean for the period 1995-2017

- **The dynamics of investment are a key factor in understanding not only the behavior of the economic cycle but also growth in the medium and long-term.**
- **The document presents:**
 - **Stylized facts of the evolution of investment between 1995 and 2017: at the aggregate, sectoral and company level.**
 - **An empirical analysis of the determinants of investment in Argentina, Colombia and Mexico.**
 - **An overview of the characteristics of the cycle of investment**
 - **The main macroeconomic and microeconomic determinants of selected countries in Latin America and the Caribbean**

In the last two decades investment has displayed trend growth (1995-2012) and a later deceleration (2013-2017)

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF THE TREND AND CYCLE OF GROSS FIXED CAPITAL FORMATION, 1995 TO 2017
(Percentages of GDP)

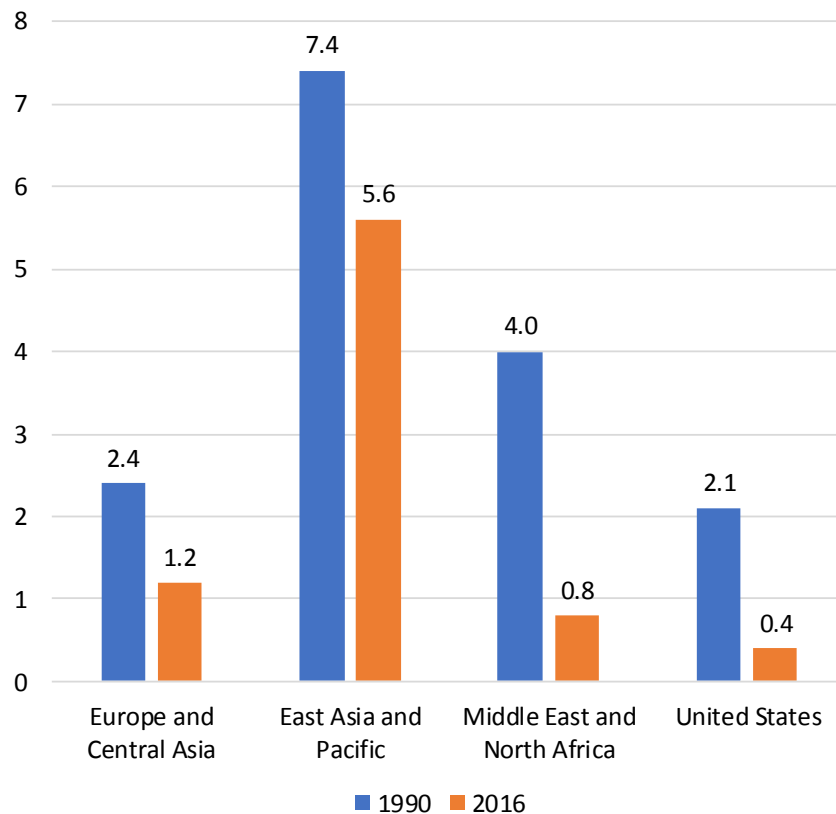


Between 1995 and 2013 investment increased from 18.5% to 20.7% as a share of GDP and then decreased between 2013 and 2017.

Source: Economic Commission for Latin America and the Caribbean, on the basis of official data and World Development Indicators (2018).

LAC has closed investment gaps with respect to other regions between 1995-2016

GROSS FIXED CAPITAL FORMATION GAP OF LATIN AMERICA AND THE CARIBBEAN WITH RESPECT TO OTHER REGIONS OF THE WORLD, 1995 AND 2016
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official data and World Development Indicators (2018).

Investment in machinery and equipment has been dynamic but its share of total investment remains low

COMPONENTS OF GROSS FIXED CAPITAL FORMATION, 1995-2016
(Percentages)

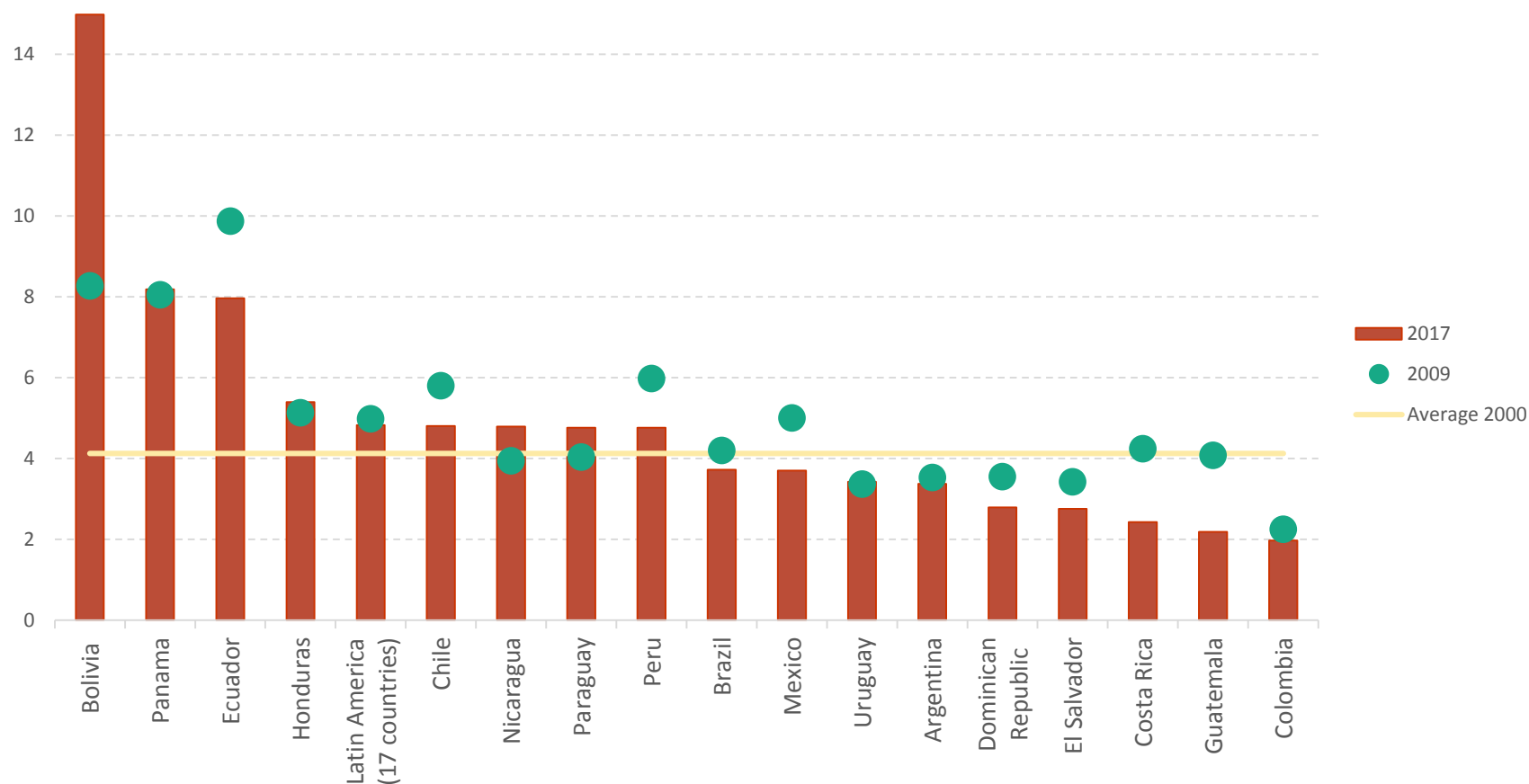
	Latin America	Europe	United States
	Share of total investment (%)		
Total construction	67.5	55.7	41.7
Machinery and equipment	32.5	44.3	58.3
	Growth rates (%)		
Total construction	1.8	-0.8	4.3
Machinery and equipment	6.7	2.4	2.0

- The high concentration of investment in a few companies presents the important challenge of increasing the participation of SMEs in investment and the productive structure
- A sample of 2,228 companies from Argentina, Brazil, Chile, Colombia, Mexico and Peru indicates that 10% of these companies comprise more than 70% of private investment

Source: Economic Commission for Latin America and the Caribbean, on the basis of official data and EUKLEMS.

A strategic view of public investment is required and its decline reversed in order to bolster the provision of public goods and attract private investment

Latin America (17 Countries): Public Investment by country, 2000, 2009 and 2017*
(Percentages of GDP)

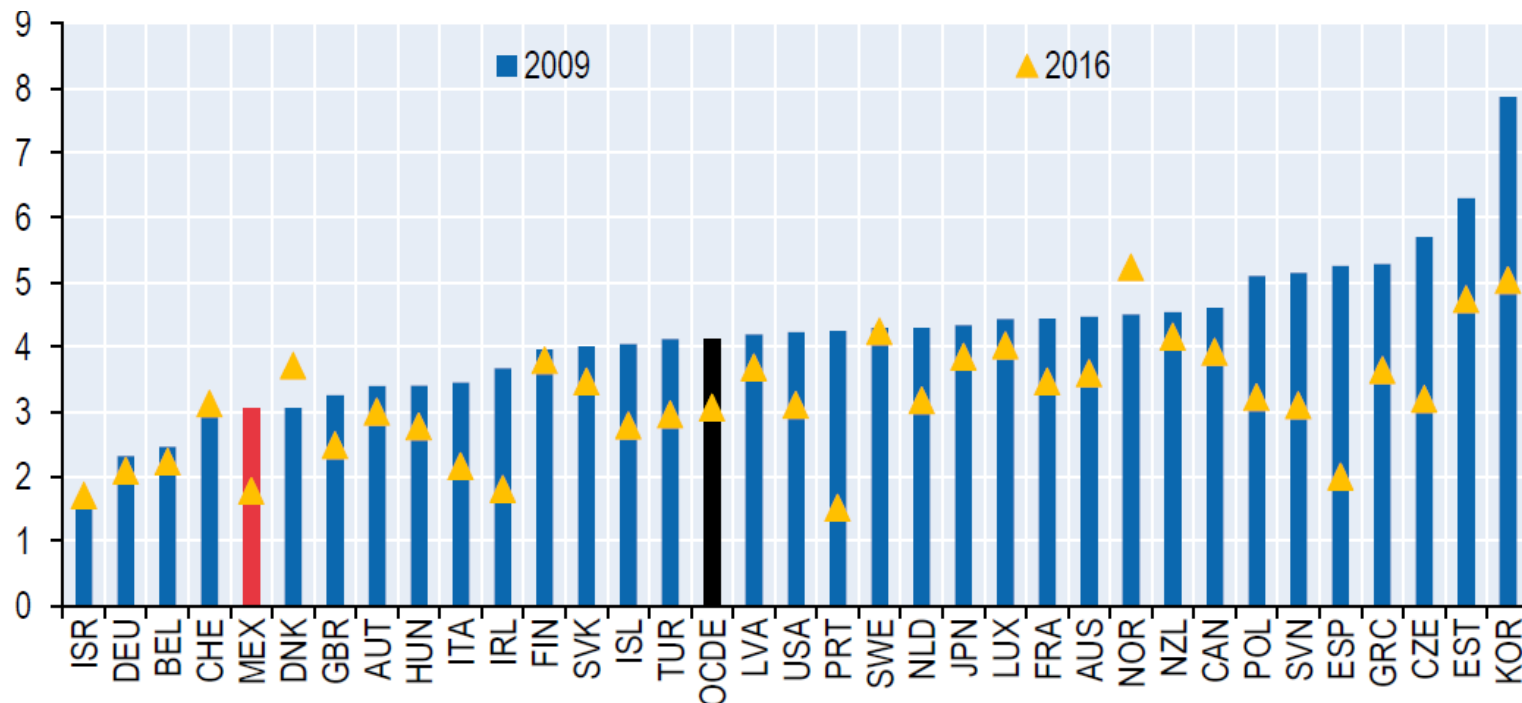


Source: Economic Commission for Latin America and the Caribbean, on the basis of official data.

* Public investment is defined as capital expenditure by the public sector (net of intergovernmental transfers)

Public investment in Mexico fell 5% annually in real terms between 2012 and 2017

GOVERNMENT INVESTMENT, 2009 AND 2016
(Percentages of GDP)



Source: OECD National Accounts Statistics database.

Similar to the rest of the region, in Mexico the contribution of investment to growth has fallen

- The contribution of investment to the economic growth of Mexico has diminished since the seventies. In the period 2010-2015 the contribution of investment to growth was only 0.5%, much below that of exports (1.8%) and total consumption (2.1%).

MEXICO: CONTRIBUTIONS TO REAL GDP GROWTH BY COMPONENTES OF DEMAND AND SUPPLY, 1960-2015
(Percentage points)

Period	GDP growth	Investment	Exports	Imports	Total consumption
1961-69	5.8%	1.1%	0.3%	-0.3%	4.7%
1970-81	6.3%	1.5%	0.6%	-0.7%	4.8%
1982-87	0.0%	-1.6%	0.7%	0.9%	-0.1%
1988-94	3.1%	1.0%	0.6%	-0.9%	2.4%
1995-2000	2.7%	0.7%	1.6%	-1.5%	1.7%
2001-2008	2.0%	0.7%	0.7%	-1.1%	1.9%
2009	-4.7%	-2.1%	-3.3%	5.3%	-4.1%
2010-2015	2.6%	0.5%	1.8%	-1.7%	2.1%

Note: the figures of the second to fourth columns represent the weighted contributions of each component the average growth rate of real GDP, in percentage points.

Source: Economic Commission for Latin America and the Caribbean, on the basis of official data.

Investment determinants for designing public policies

PERCENTAGE THAT EXPLAINS THE DEVIATION OF GROWTH OF INVESTMENT EACH VARIABLE WITH RESPECT TO ITS AVERAGE, 2004-2016

	Economic activity	Commodities prices	Foreign interest rate	EMBI	Monetary policy rate	Real exchange rate
Large countries	60.8	7.4	5.2	10.8	5.6	10.8
Medium sized countries	29.5	44.4	8.3	5.4	3.9	8.7

Size and productive structure are important:

- In large economies, GDP, the productive structure and the domestic market are the most important variables along side the interest rate and the exchange rate;
- In medium-sized economies whose structure depends on natural resources, the prices of commodities is the key variable;
- In small countries, integrated investments that articulate economies of scale are crucial;
- Regional integration is essential to stimulate investment

Source: Economic Commission for Latin America and the Caribbean, on the basis of official data.

In conclusion...

- The region must revive spending on gross fixed capital formation
- The region demonstrated a rising trend in the period 1995-2013, which closed investment gaps with other regions
- However, since 2013 investment has decreased
- In addition to raising the volume of investment, the region has the challenge of shifting its composition towards machinery and equipment, which contributes more to technological innovation
- A strategic view of public investment is required for the provision of public goods and to attract private investment
- Public policies are necessary to drive investment in SMEs in order to reverse the elevated concentration in a few companies



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