

2012



Economic Survey

of Latin America and the Caribbean

Policies for an adverse
international economy



UNITED NATIONS

ECLAC

Contents of the Economic Survey 2012

- I. Macroeconomic trends in Latin America and the Caribbean in 2012
- II. Reactions of the countries of the region to the adversities of the global economy
- III. Savings and investment: stylized facts
- IV. The role of the regional financial architecture in confronting the adversities of the global economy
- V. Conclusions and recommendations



International economic context and regional impact

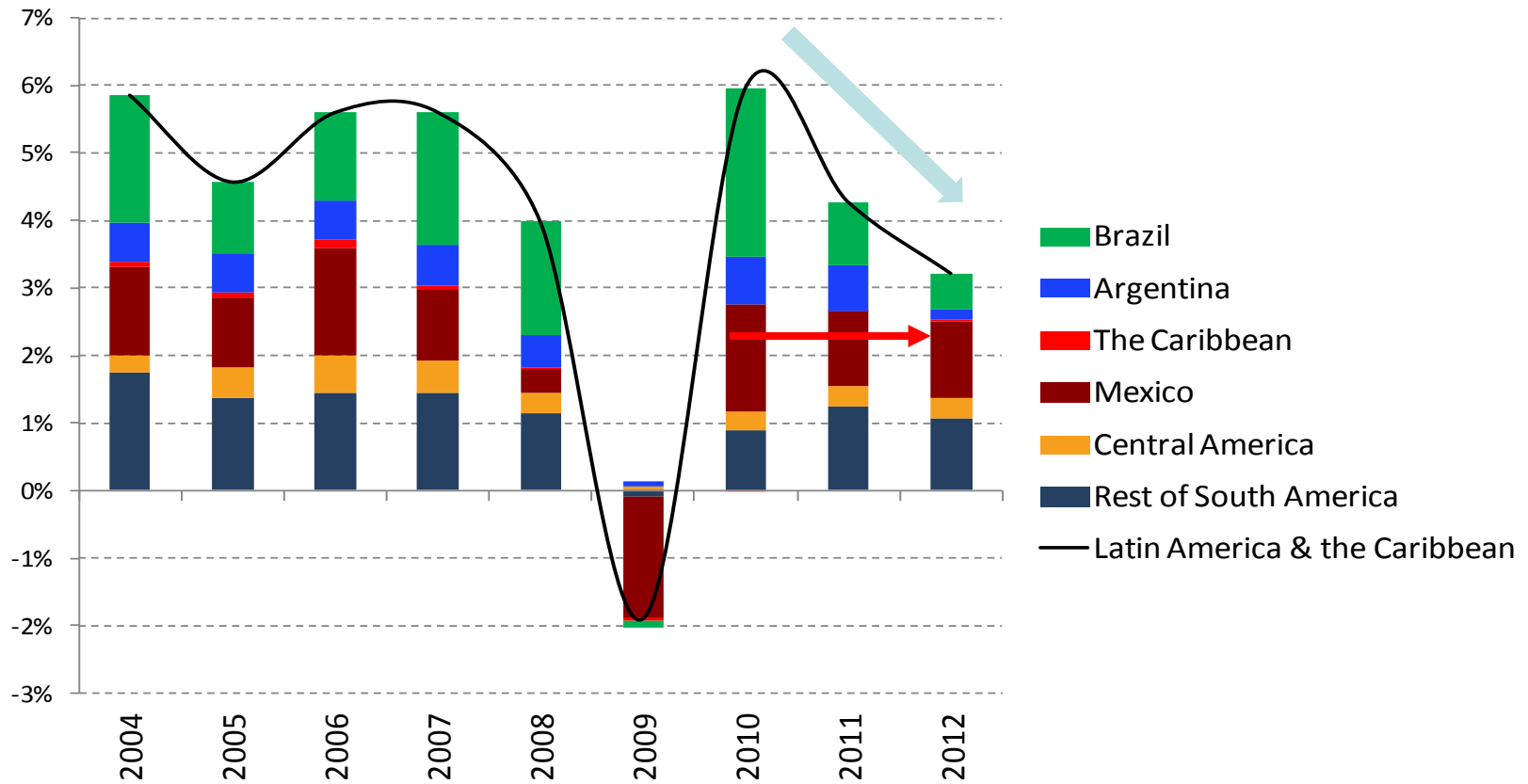
- ❑ The deceleration of China most strongly affects exporters of natural resources (South America), who have a greater capacity to react (fiscal space)
- ❑ The dynamism of the U.S. economy is benefitting to a greater degree Mexico, Central America and the Caribbean, but these have less capacity to react (fiscal space) when faced with a possible “fiscal cliff”
- ❑ The recession in Europe has had a varying impact:
 - In South America, lower exports were registered (Brazil, Chile and Uruguay) as well as a drop in remittances (Ecuador, Colombia), although these countries do have a greater capacity to react to these adverse developments
 - In Mexico and some Central American countries there was an increase in exports, despite the contraction of the European economy

Most affected countries (South America) have a greater capacity to react, but there are risks to Central America and the Caribbean



The reduction in the forecast for regional production for 2012 is largely due to a lower level of activity in Brazil and Argentina

LATIN AMERICA: CONTRIBUTION TO REGIONAL GDP GROWTH BY COUNTRY



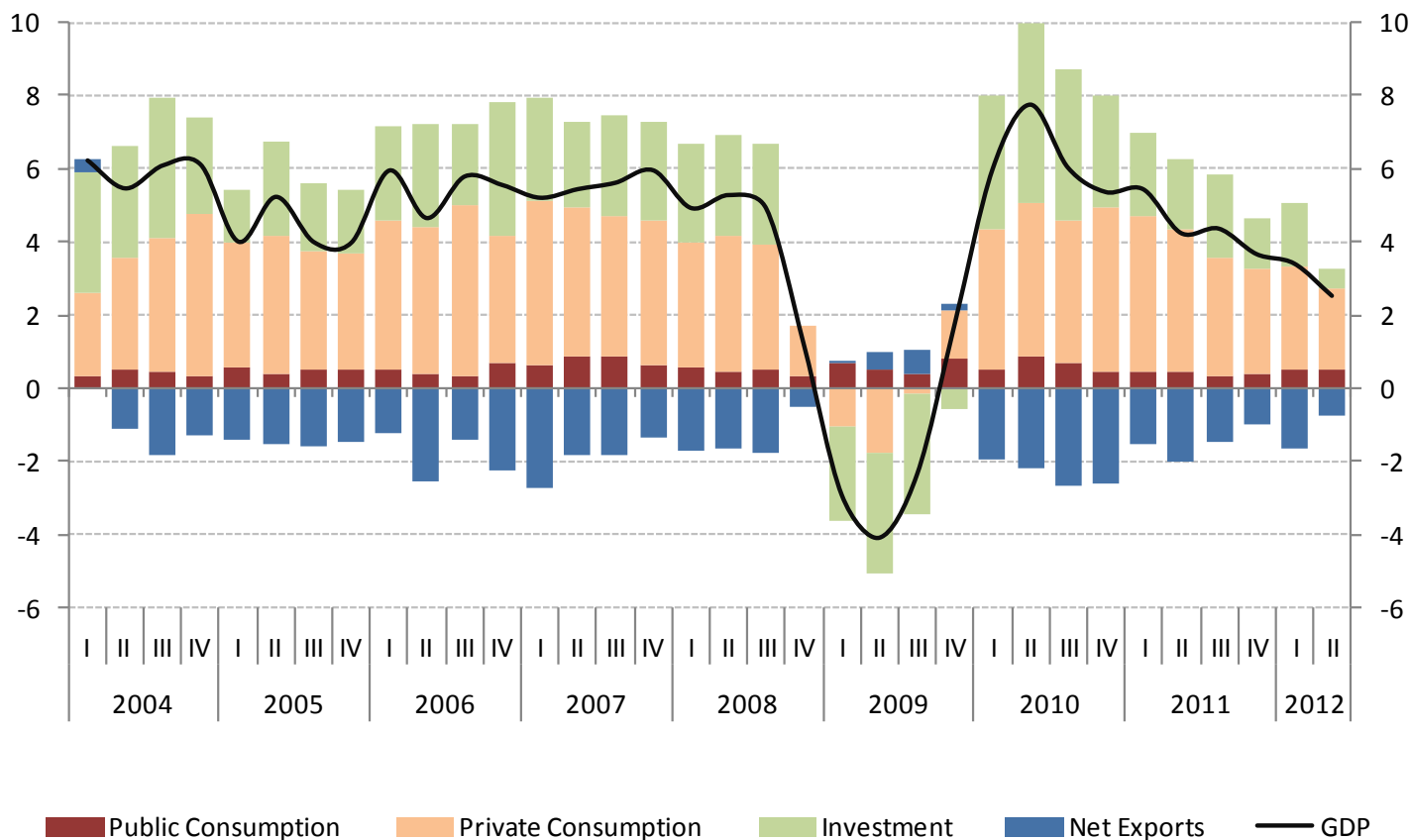
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.



Consumption continues to be the main driver of GDP growth

LATIN AMERICA: RATE OF GDP VARIATION AND THE CONTRIBUTION TO GROWTH OF THE COMPONENTS OF AGGREGATE DEMAND

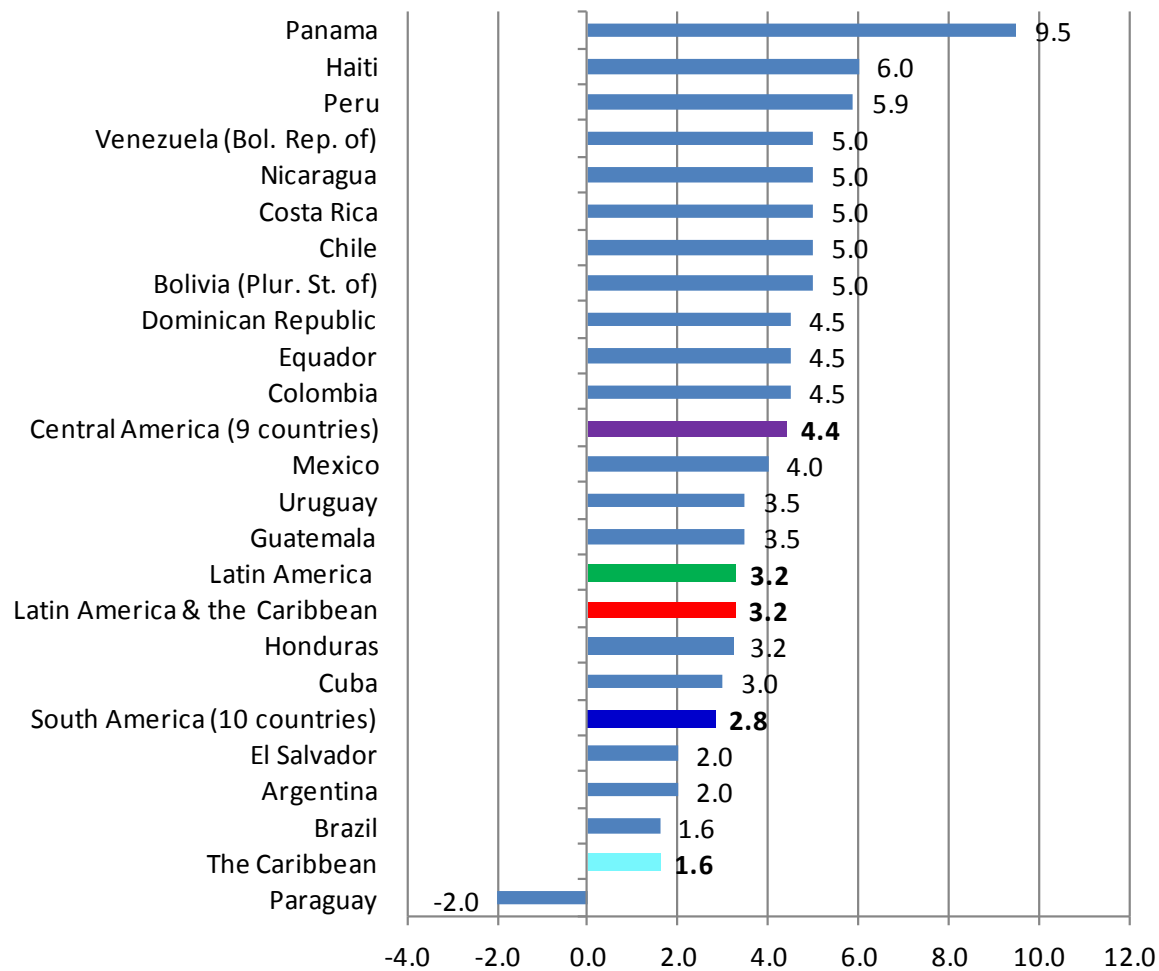
(2005 constant dollars, in percentages, weighted averages)



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

Economic activity continues to expand (3.2%), but at a lower rate than that of 2011

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATE, 2012
(In percentages)



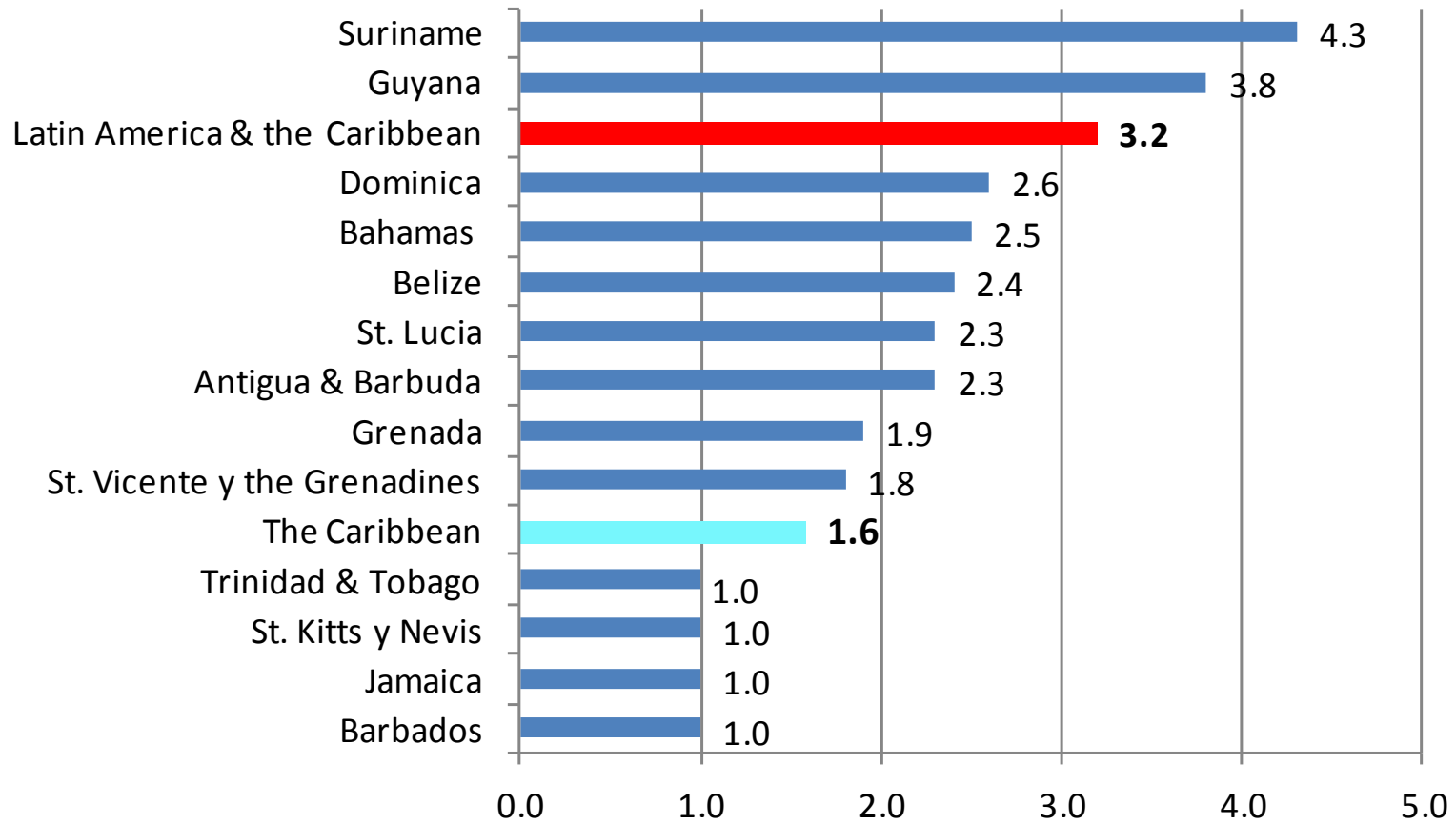
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.



Growth in the Caribbean increases from 0.4% in 2011 to 1.6% in 2012

THE CARIBBEAN: RATE OF GDP GROWTH, 2012

(In percentages)

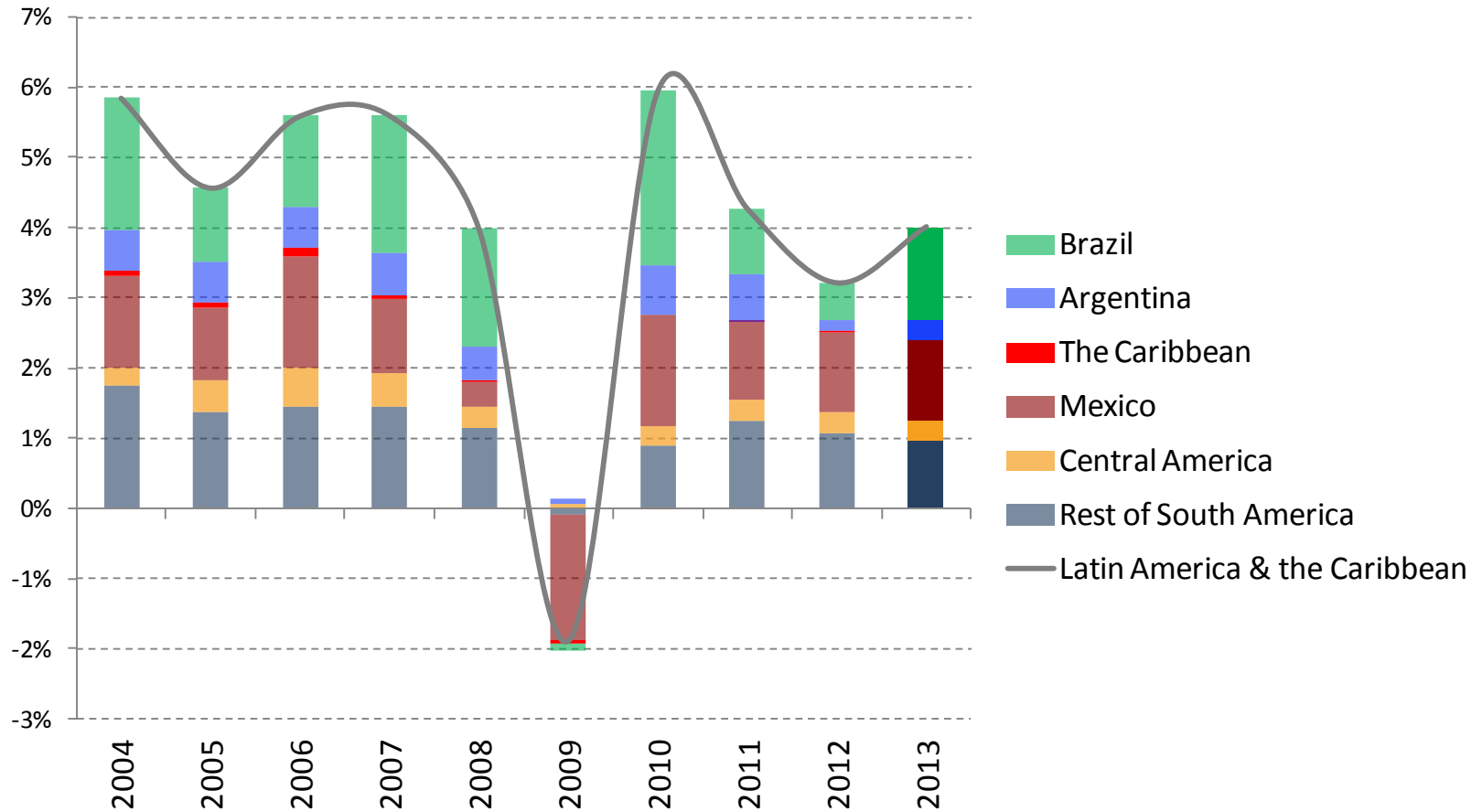


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.



For 2013 a moderate recovery of growth in the region is foreseen, mainly due to an upturn in Brazil

LATIN AMERICA: CONTRIBUTION TO REGIONAL GDP GROWTH BY COUNTRY

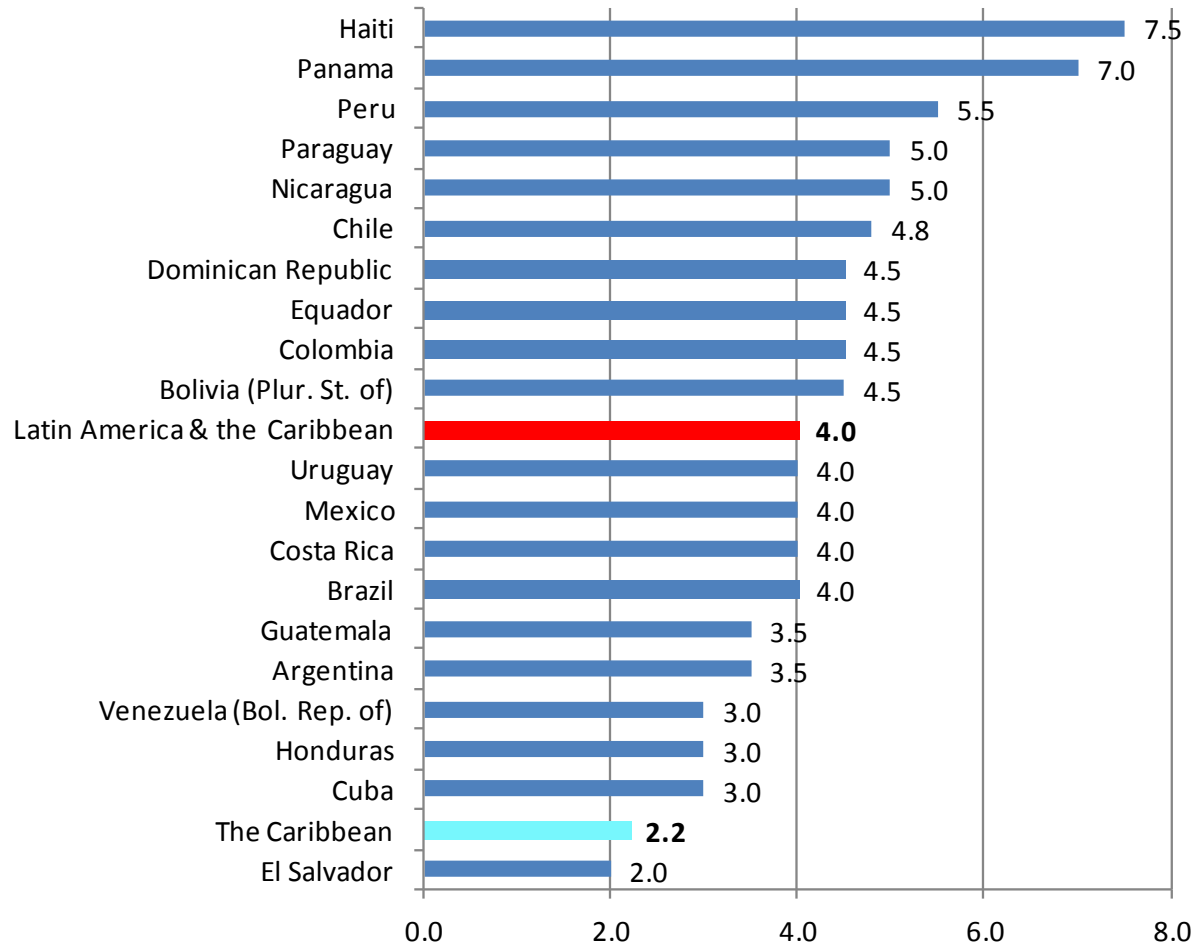


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.



Moderate recovery in some countries and a slight deceleration in others in 2013

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATE, 2013
(In percentages)

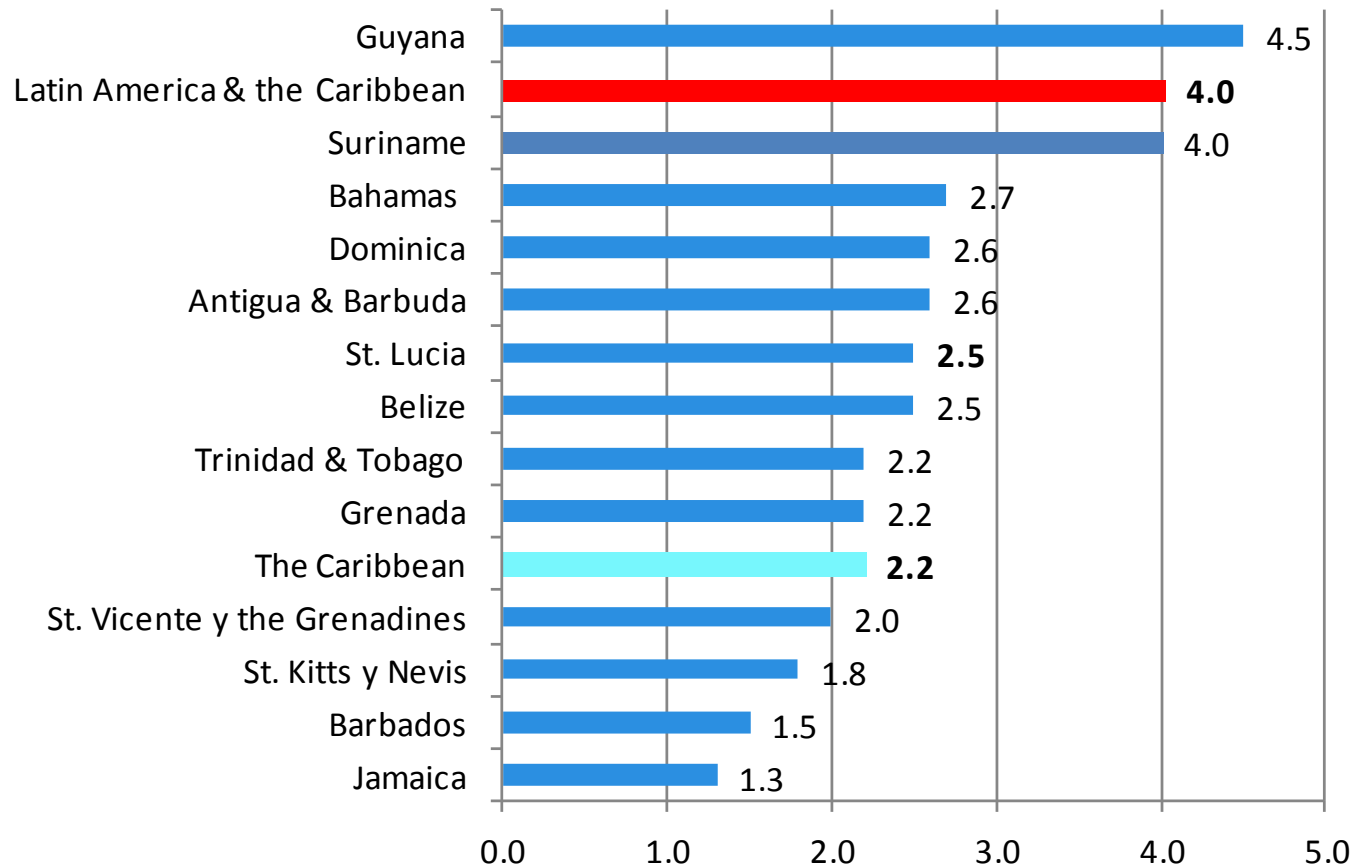


Source: Economic Commission for Latin America and the Caribbean (ECLAC)



Modest and vulnerable increase in growth in the Caribbean: from 1.6% in 2012 to 2.2% in 2013

THE CARIBBEAN: GDP GROWTH RATE, 2013
(In percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC)





Regional performance in 2012:

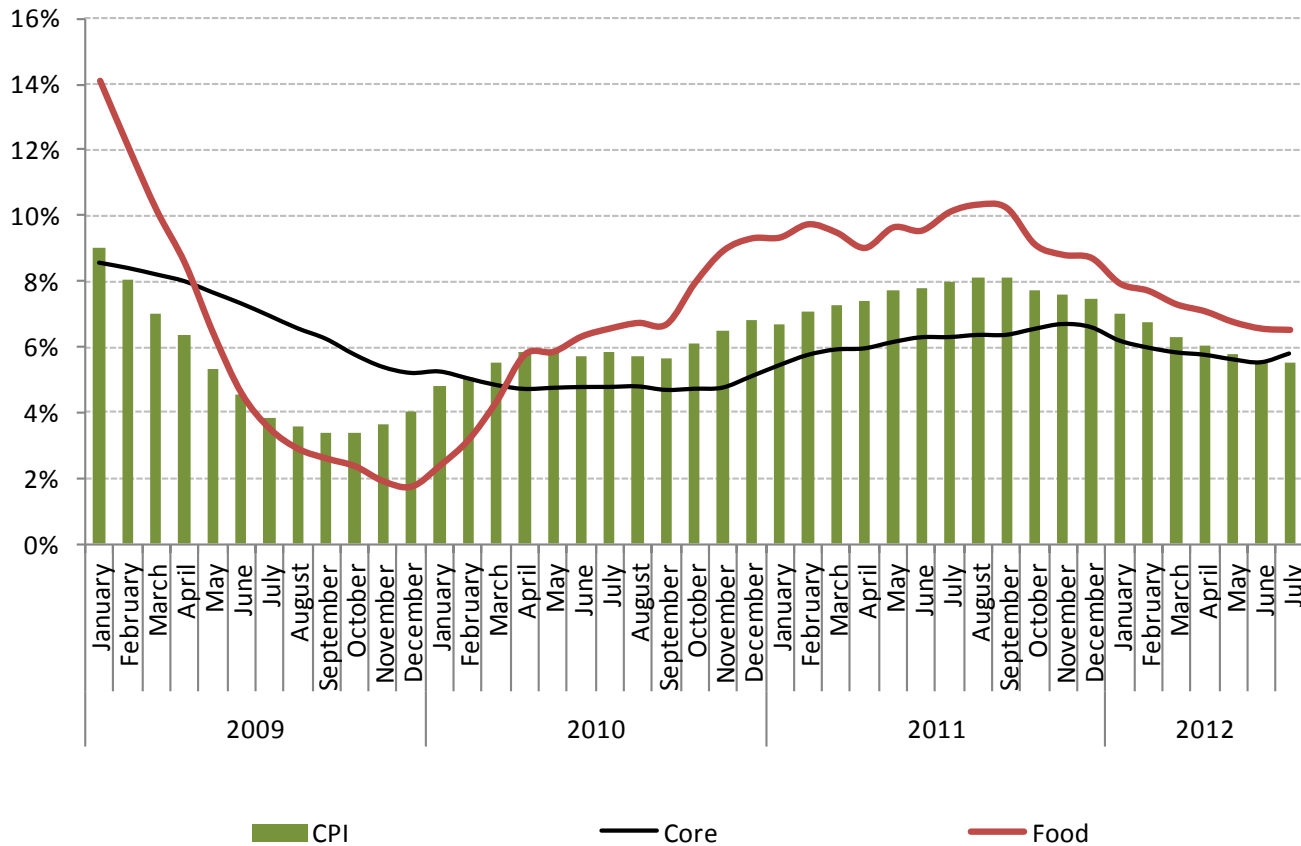
Inflation, employment and wages

External sector

Policies: Fiscal and Monetary

Inflation maintained its downward trend of the first quarter of the year

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX, FOOD PRICE INDEX AND CORE INFLATION, 2009-2012
(12-month change, simple average)

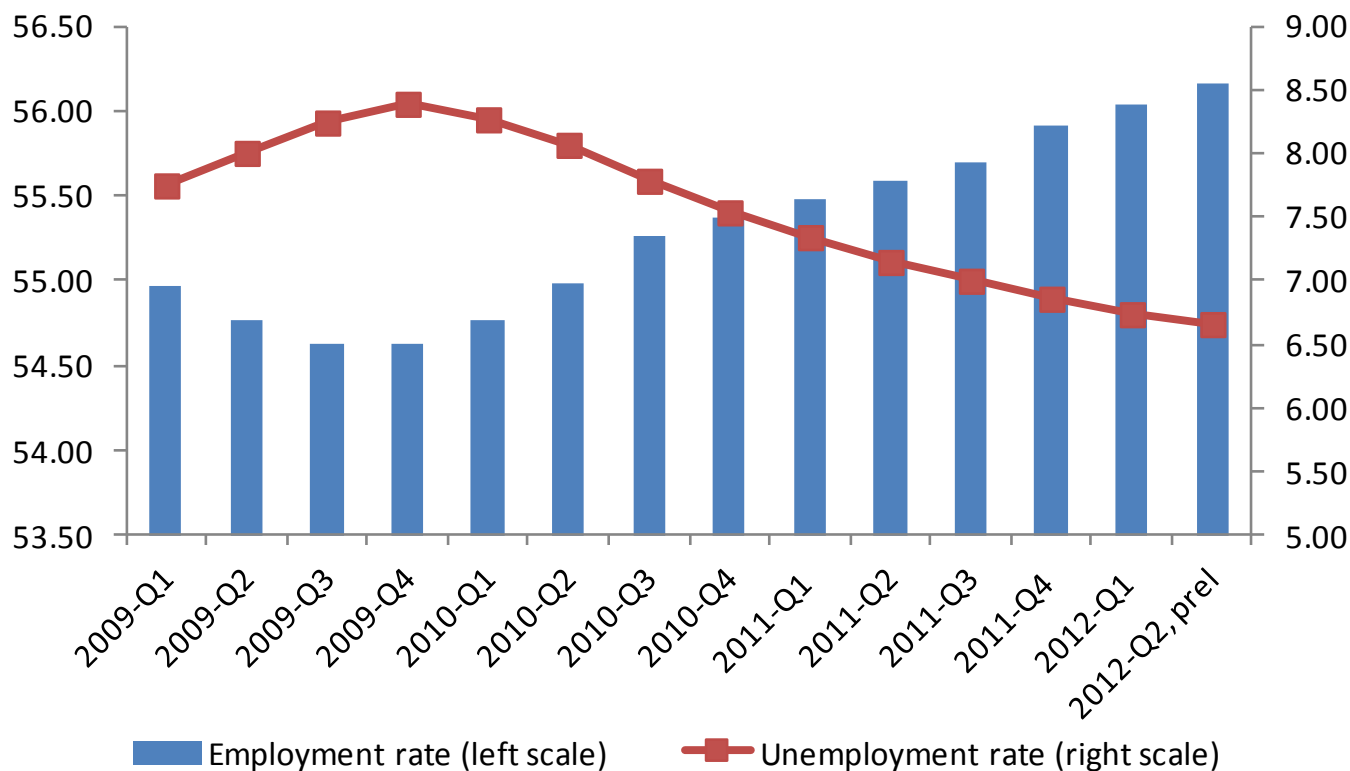


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Until mid-2012, at the regional level, there was a continuous increase of employment which positively affected consumption

LATIN AMERICA AND THE CARIBBEAN (10 COUNTRIES): EMPLOYMENT RATE AND URBAN UNEMPLOYMENT RATE, FOUR QUARTER MOVING AVERAGE, 2009 TO SECOND QUARTER 2012

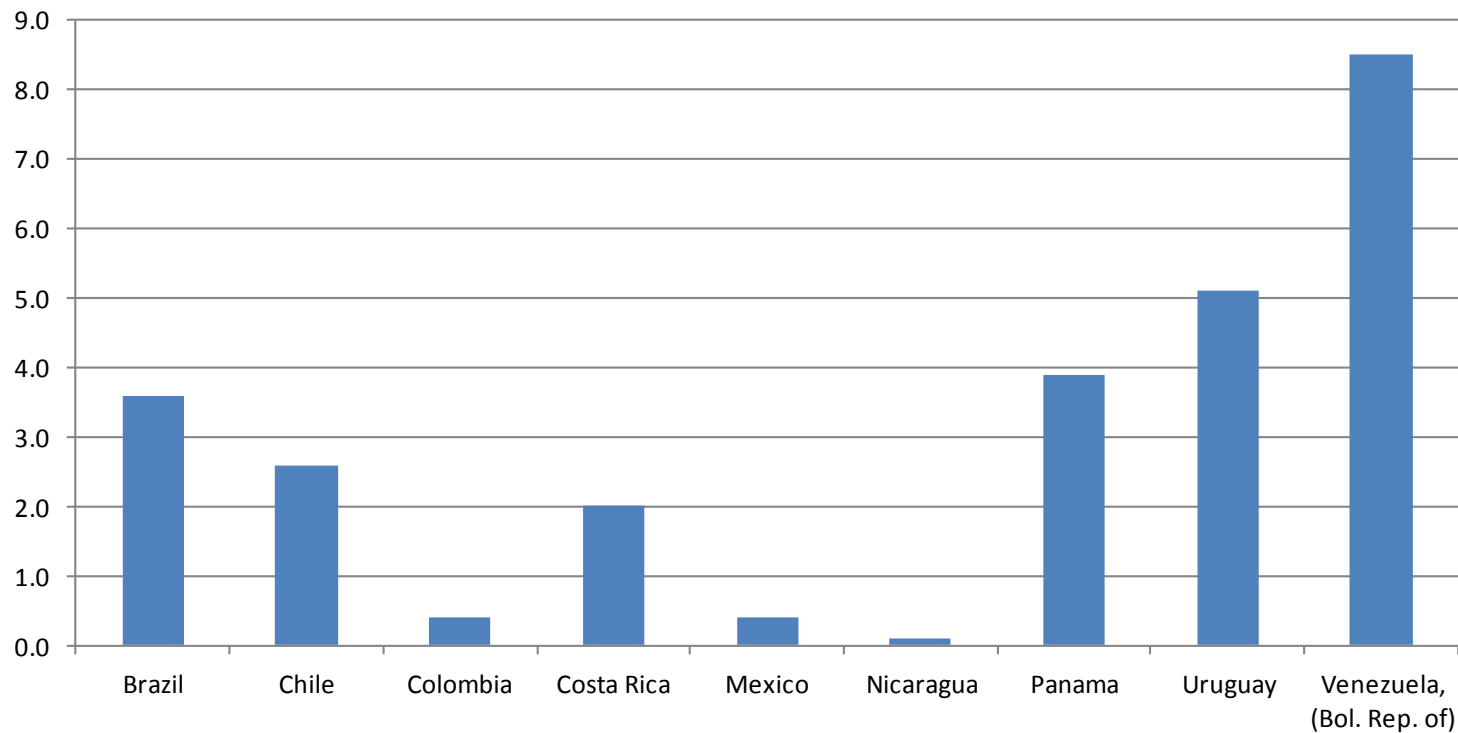
(In percentages)



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

Wage increases help strengthen households' purchasing power

LATIN AMERICA (SELECTED COUNTRIES): CHANGE IN REAL WAGES IN THE FORMAL SECTOR BETWEEN THE FIRST HALF OF 2011 and THE FIRST HALF OF 2012
(In percentages)

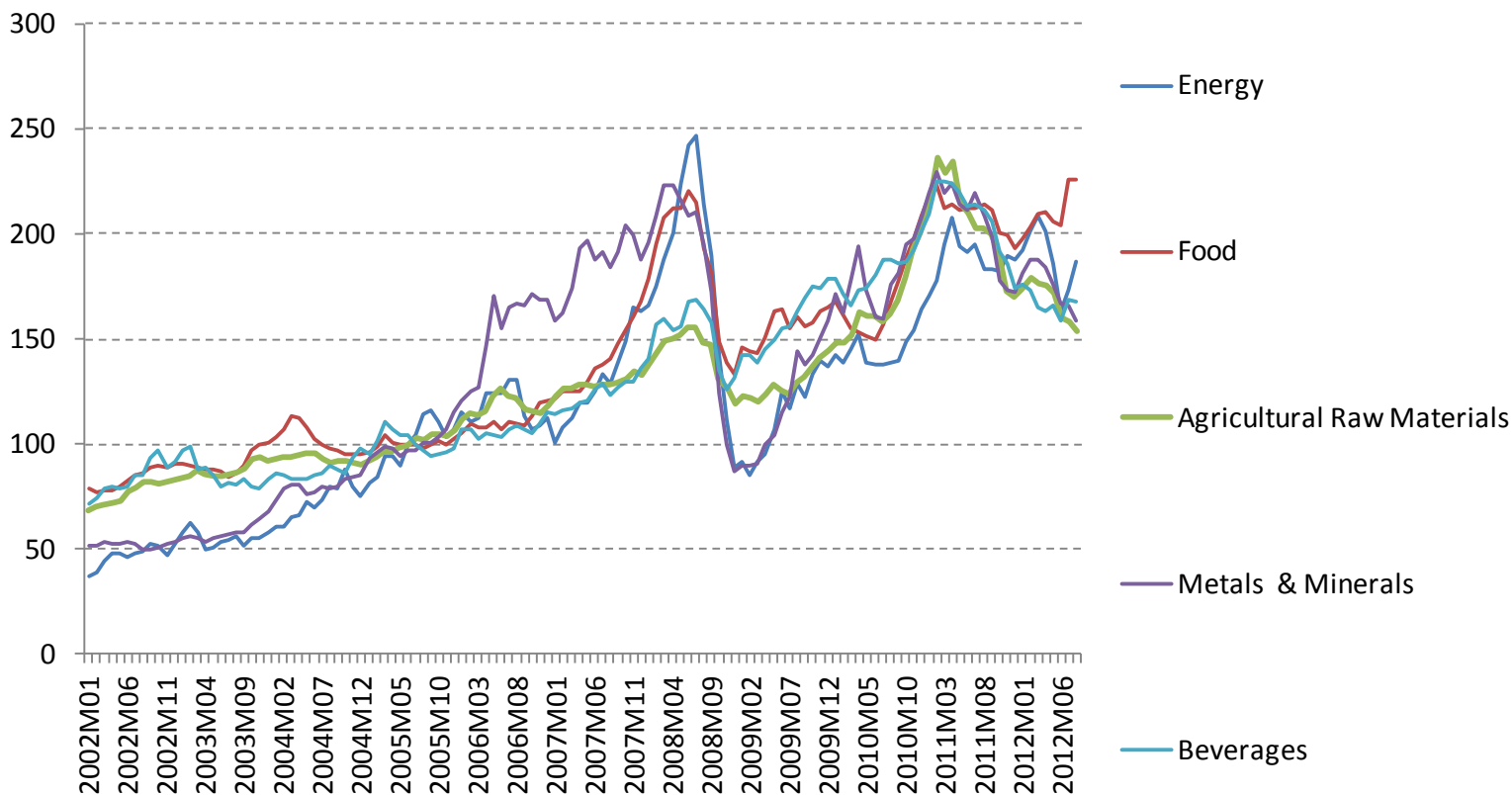


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



With the exception of food, commodity prices are decreasing

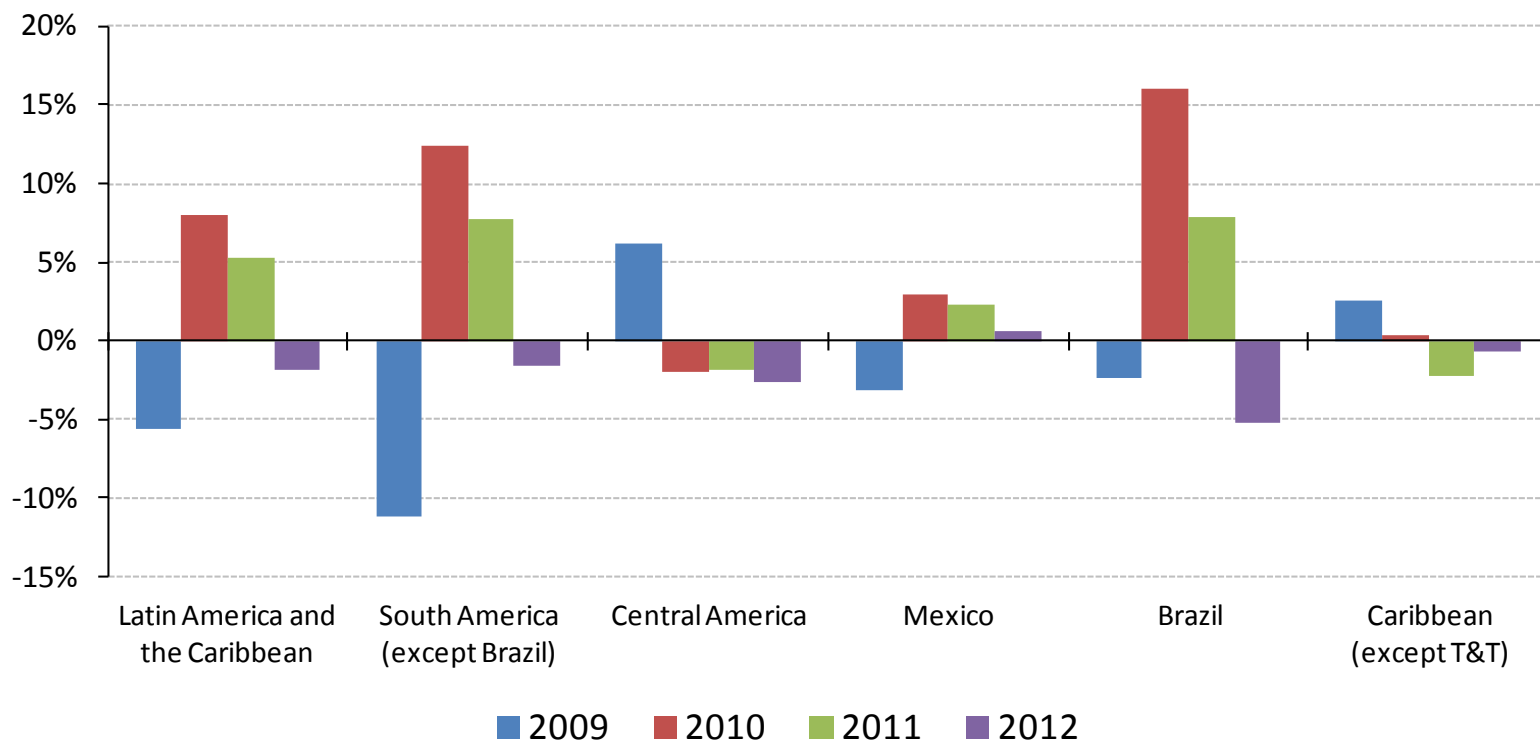
COMMODITY PRICES, 2002-2012
(Index: 2005=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the World Bank, "Pink Sheet", August 2012.

The terms of trade are deteriorating in most countries of the region

LATIN AMERICA: ESTIMATED CHANGE IN THE TERMS OF TRADE, 2009-2012 ^a

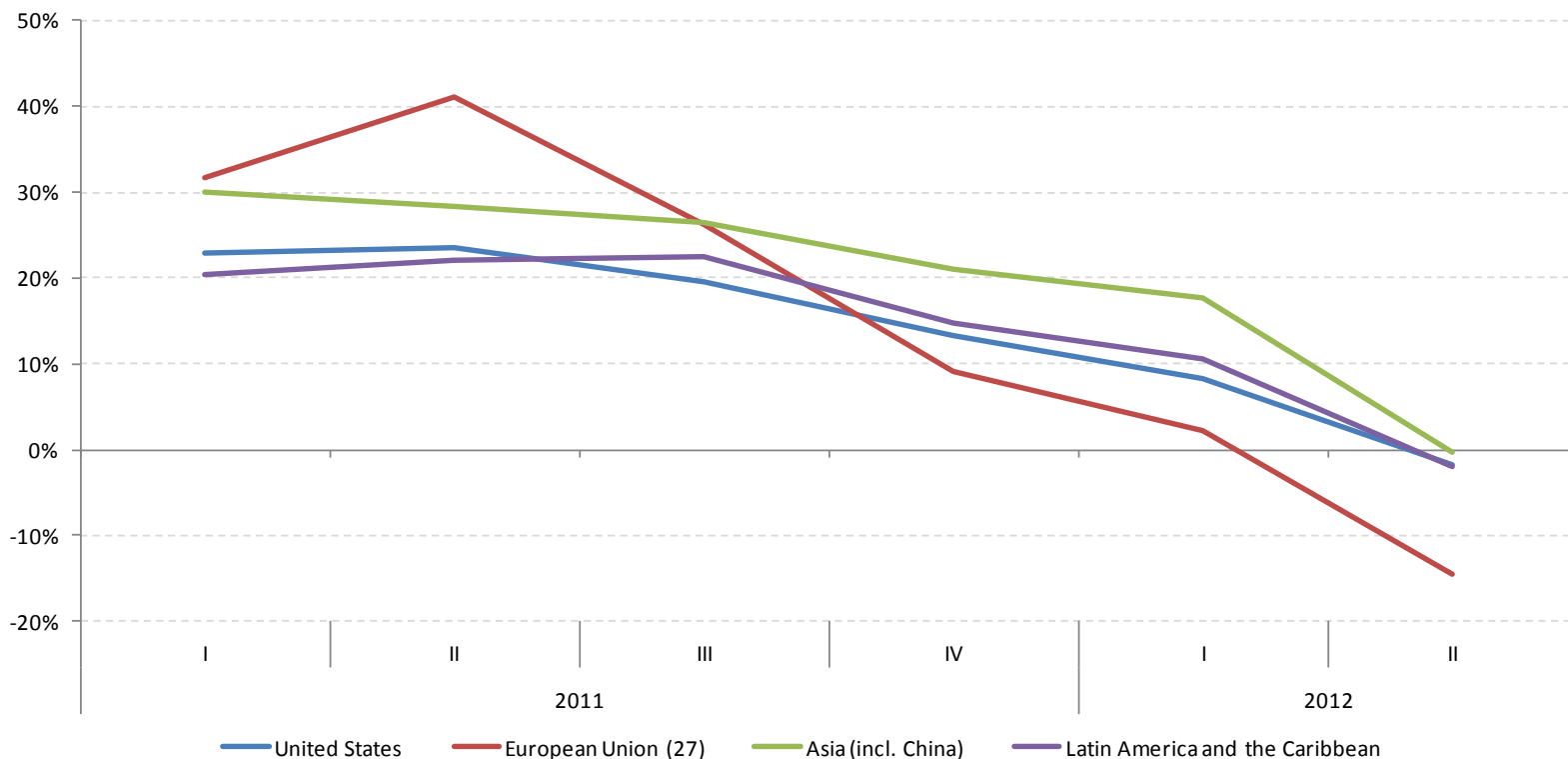


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Figures for 2012 correspond to projections.

The exports of the region that will grow less than in 2011 are those destined for Europe

LATIN AMERICA: ANNUAL CHANGE IN THE VALUE OF EXPORTS BY DESTINATION, 2011-2012^a

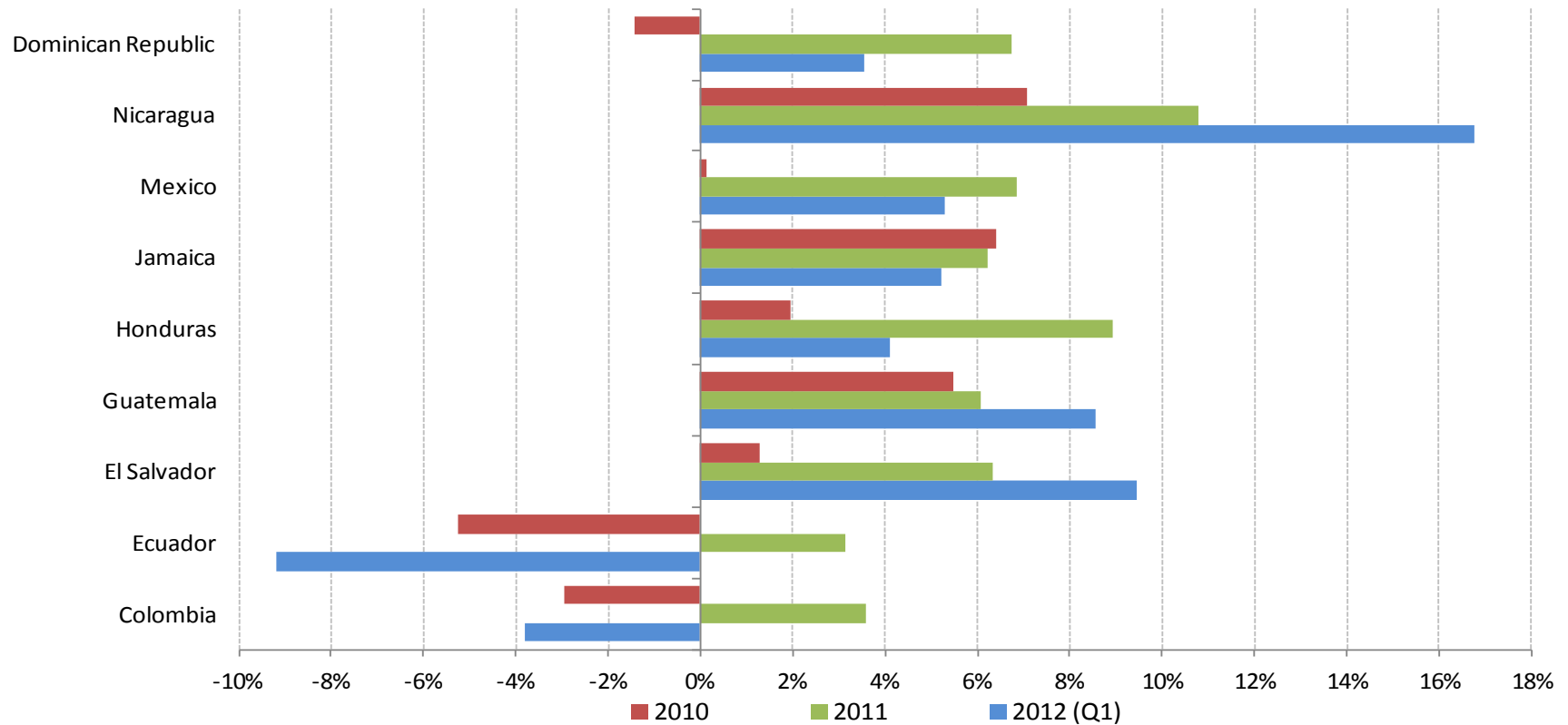


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Projection.

Remittances recover, except for those originating from Europe, which are decreasing in 2012

LATIN AMERICA AND THE CARIBBEAN (9 COUNTRIES): CHANGES IN INCOME FROM WORKERS' REMITTANCES, 2010-2012

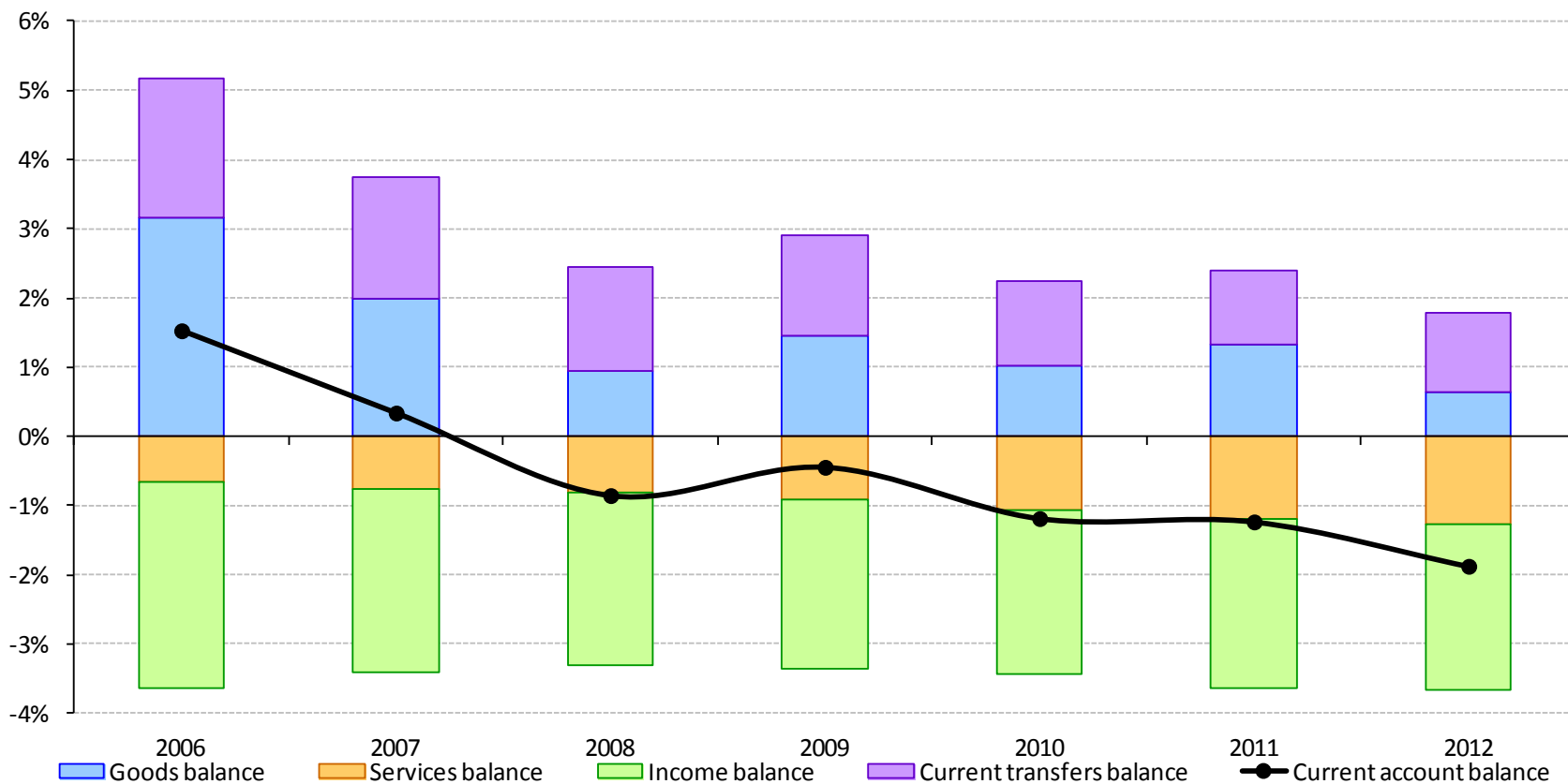


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



A moderate deterioration in the current account is expected, due to the worsening of the goods balance

LATIN AMERICA (19 COUNTRIES): STRUCTURE OF THE CURRENT ACCOUNT, 2006-2012^a
(As a percentage of GDP)

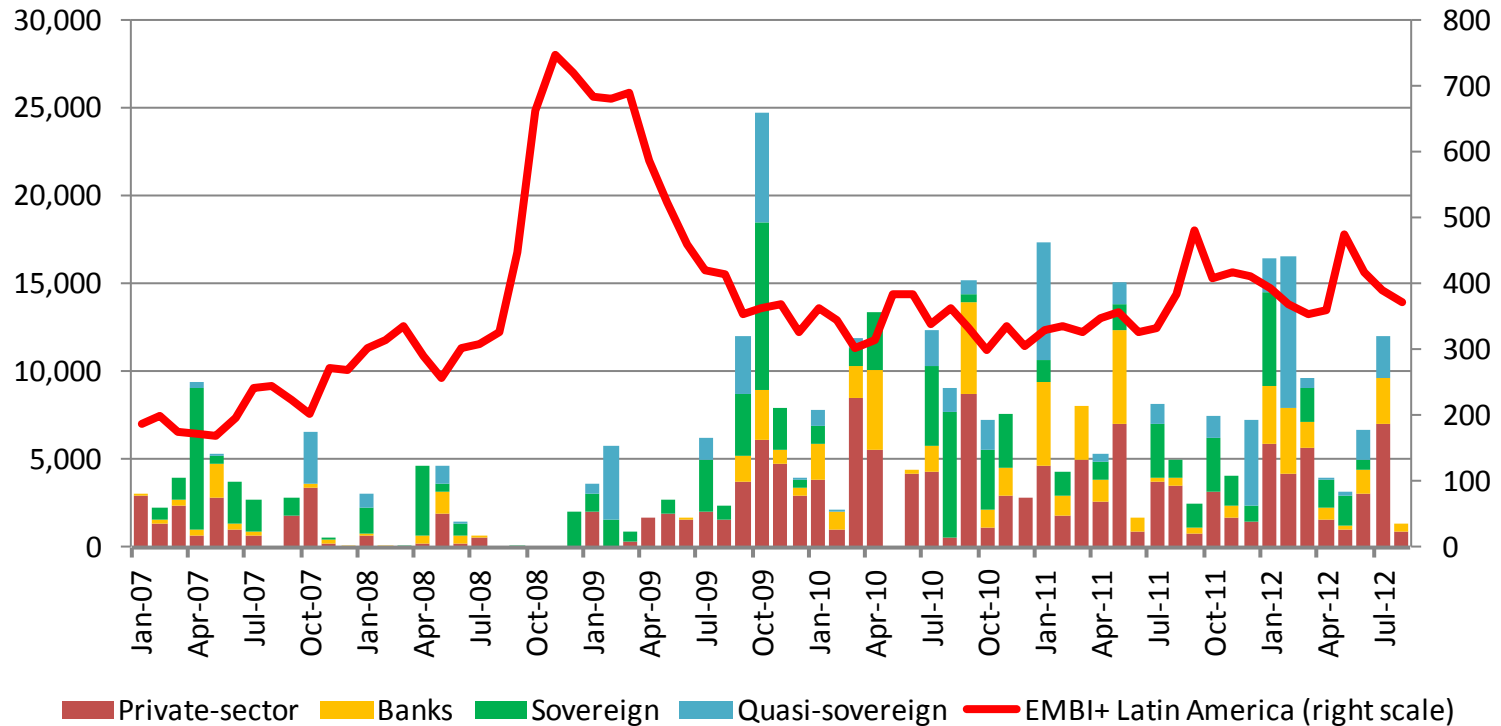


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Figures for 2012 correspond to projections.

Despite the turmoil in the international financial environment, the region has generally maintained its access to international financial markets

INTERNATIONAL BOND ISSUES^a
(In millions of dollars, basis points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Latin Finance, Bonds Database, JP Morgan and Merrill Lynch.

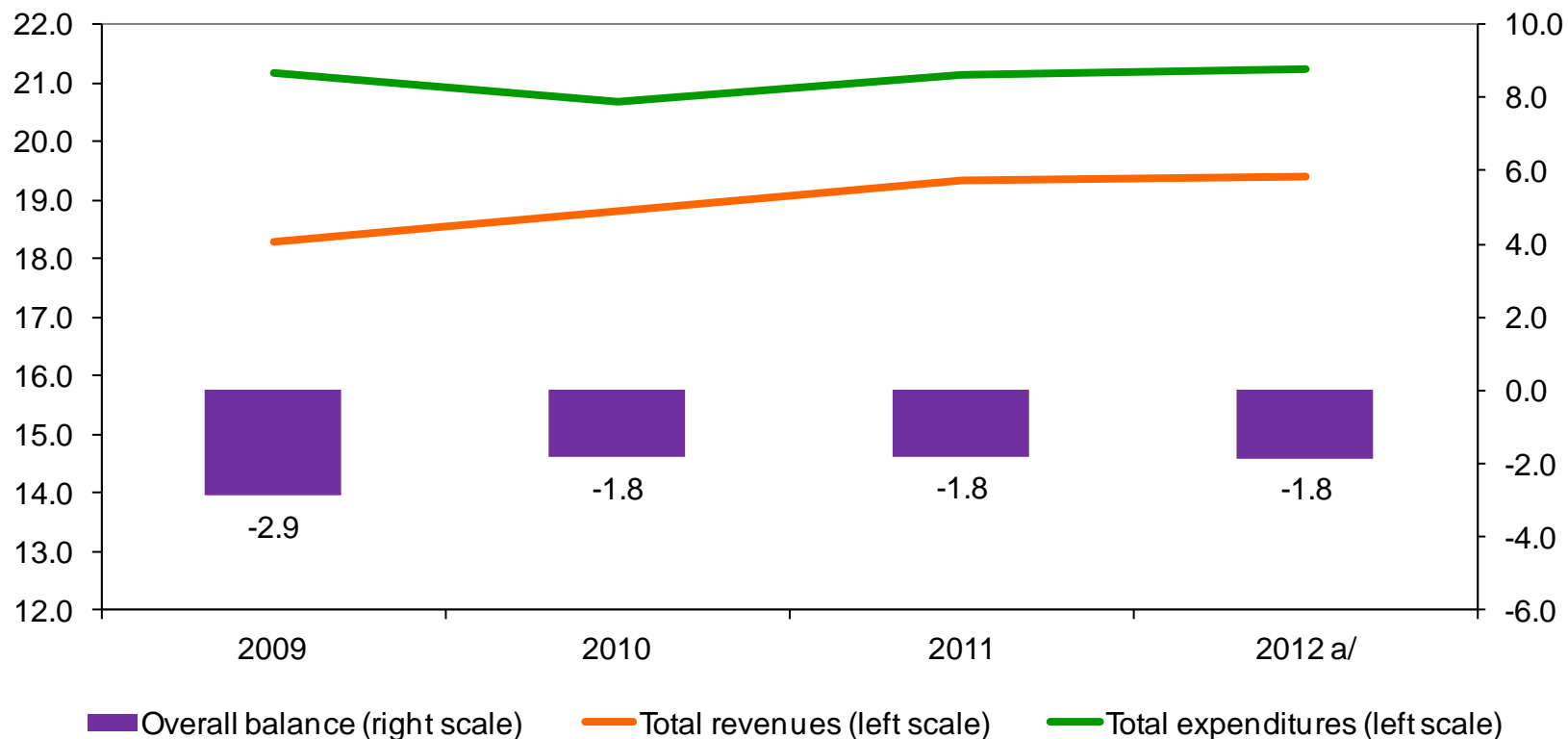
^a Emerging Markets Bonds Index



No major changes in the overall fiscal balance are expected for 2012

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2000-2012^a

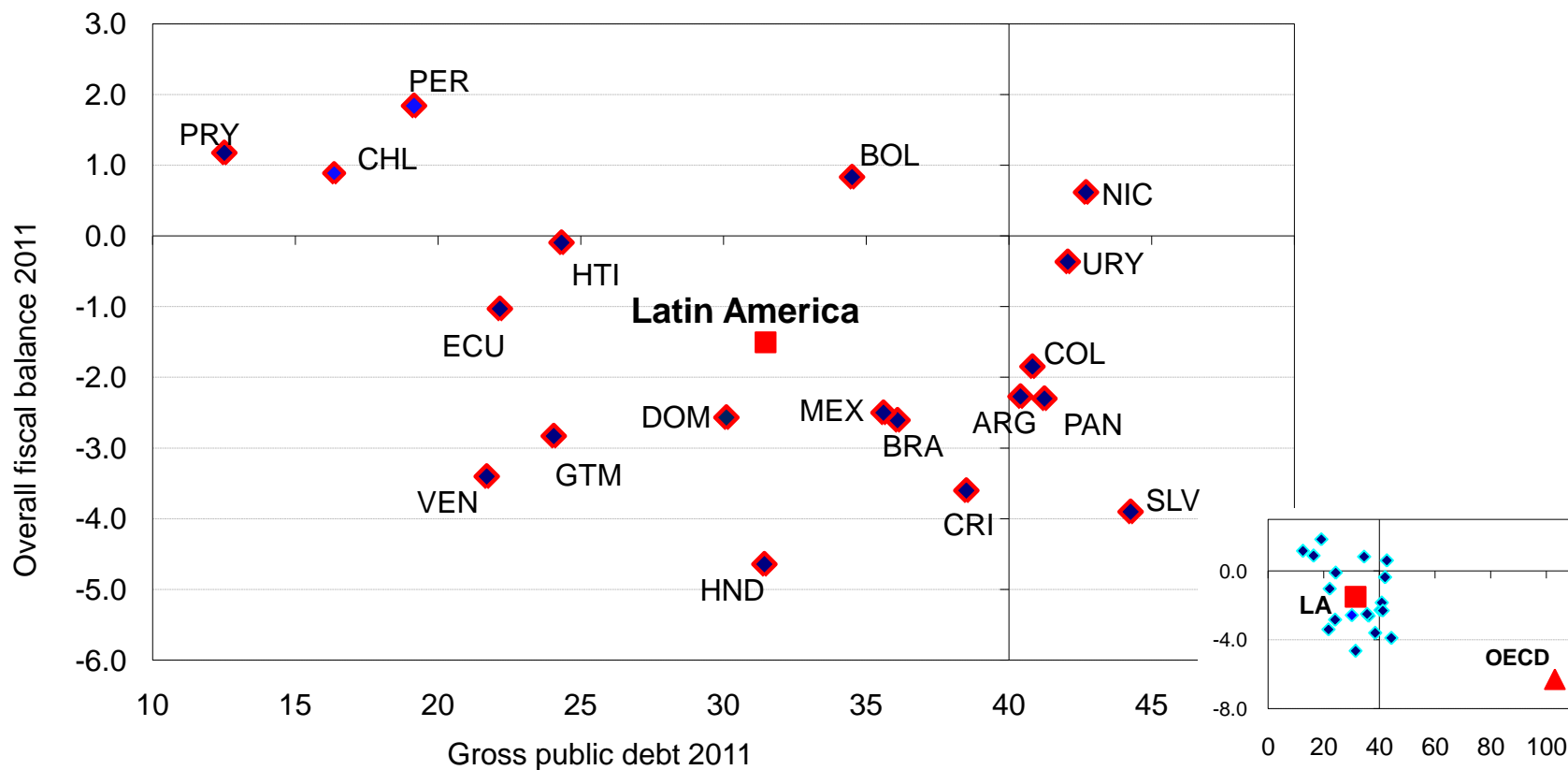
(Simple averages, as a percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
 a/ Figures for 2012 correspond to projections.

Latin America: Varying fiscal spaces, but greater than those of OECD countries

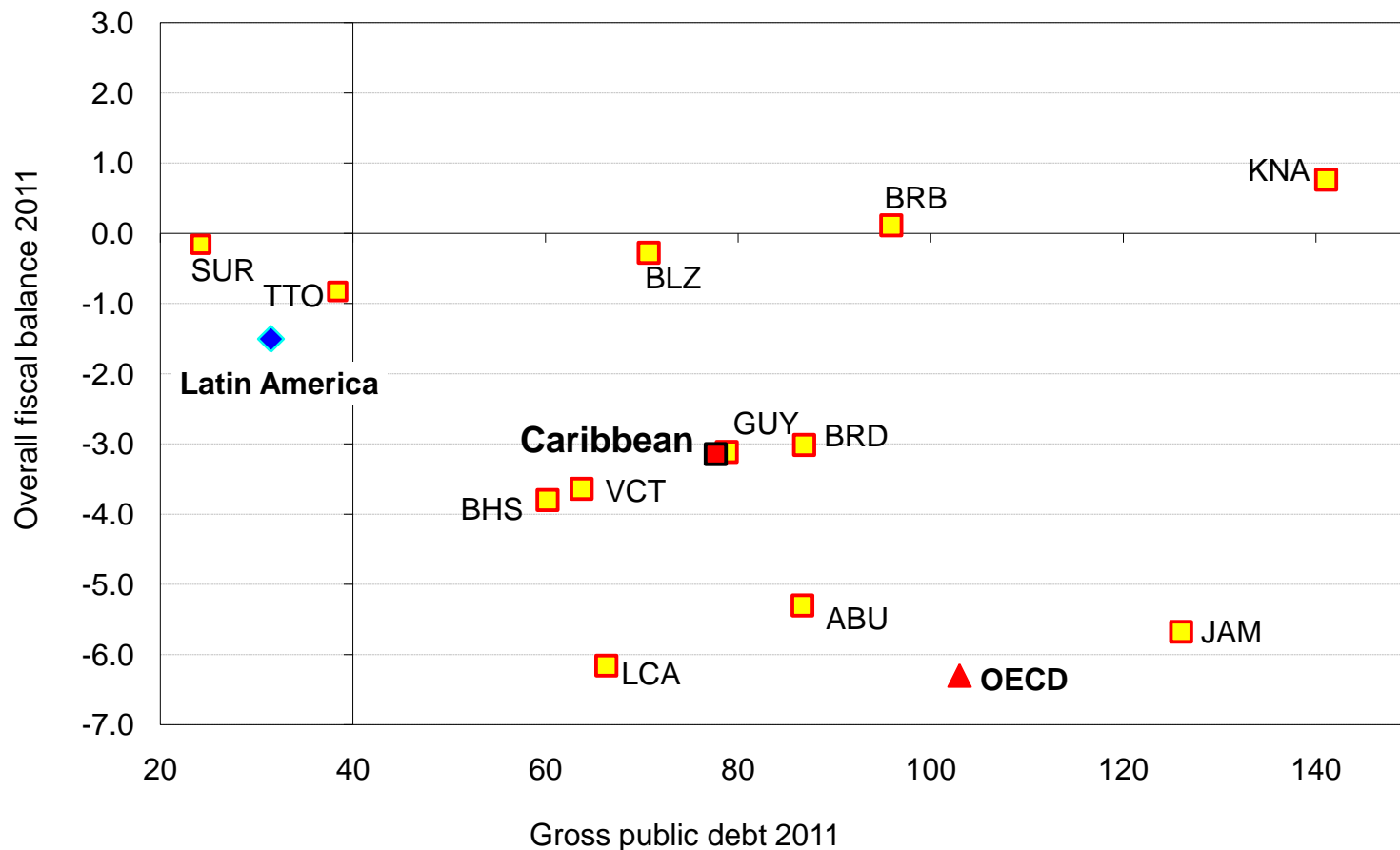
LATIN AMERICA AND OECD: OVERALL FISCAL BALANCE AND PUBLIC DEBT, 2011
(As a percentage of GDP)



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

The Caribbean: Very limited or nonexistent fiscal spaces

THE CARIBBEAN AND OECD: OVERALL FISCAL BALANCE AND PUBLIC DEBT, 2011
(As a percentage of GDP)



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



In 2012, monetary policy rates were generally stable, though some countries enacted rate reductions

Countries that did not modify their monetary policy rate	Countries that modified their monetary policy rate	
	Increased	Decreased
Bahamas	Argentina	Brazil
Belize	Honduras	Colombia
Bolivia (Plurinational State of)	Uruguay	Paraguay
Chile		Dominican Republic
Costa Rica		Venezuela (Bol. Rep. of)
Guatemala		
Guyana		
Haiti		
Jamaica		
Mexico		
Peru		
Trinidad and Tobago		

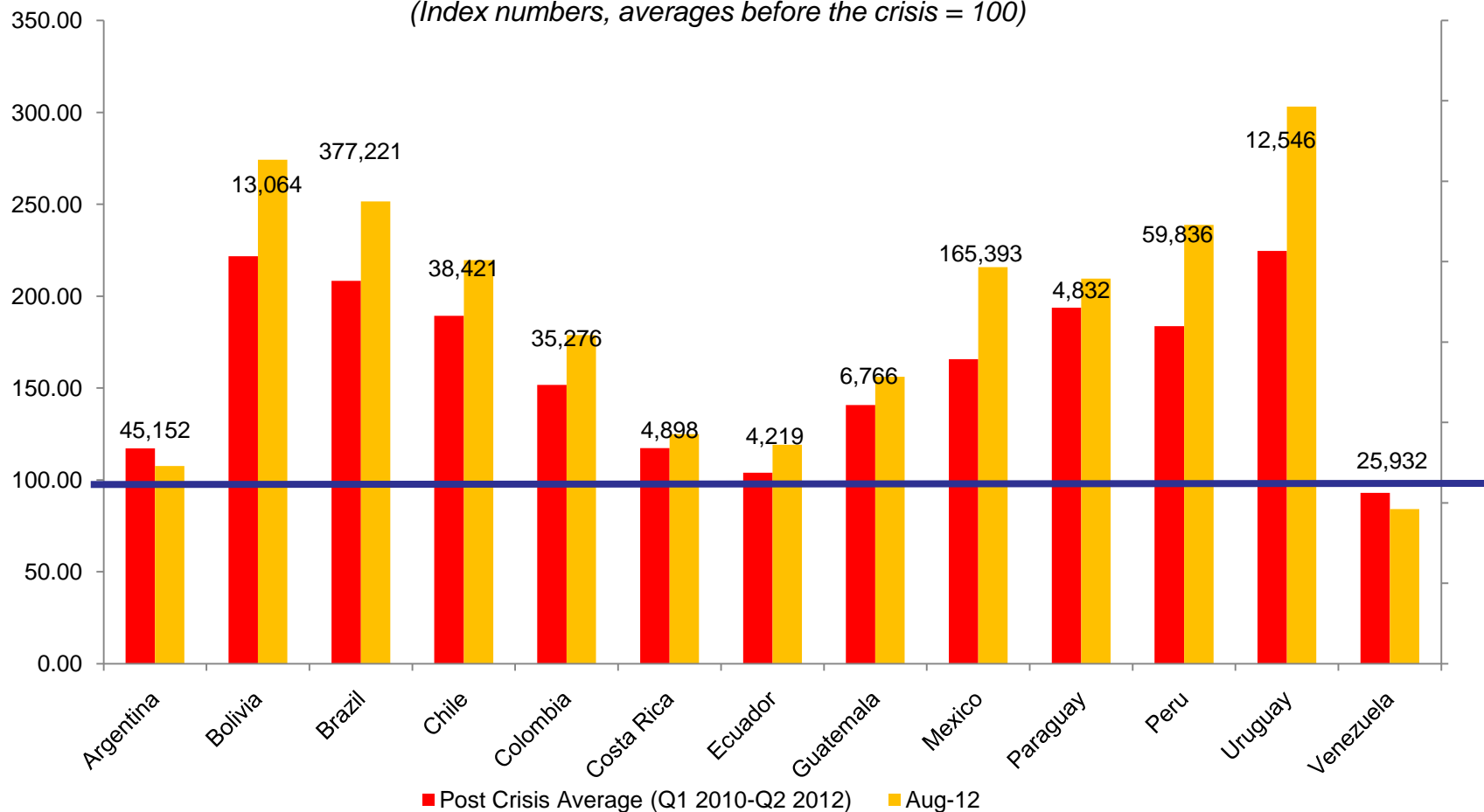
Source: Central banks, updated on 24-08-12.



In the first half of 2012, international reserves have increased in most countries

LATIN AMERICA: INTERNATIONAL RESERVES

(Index numbers, averages before the crisis = 100)

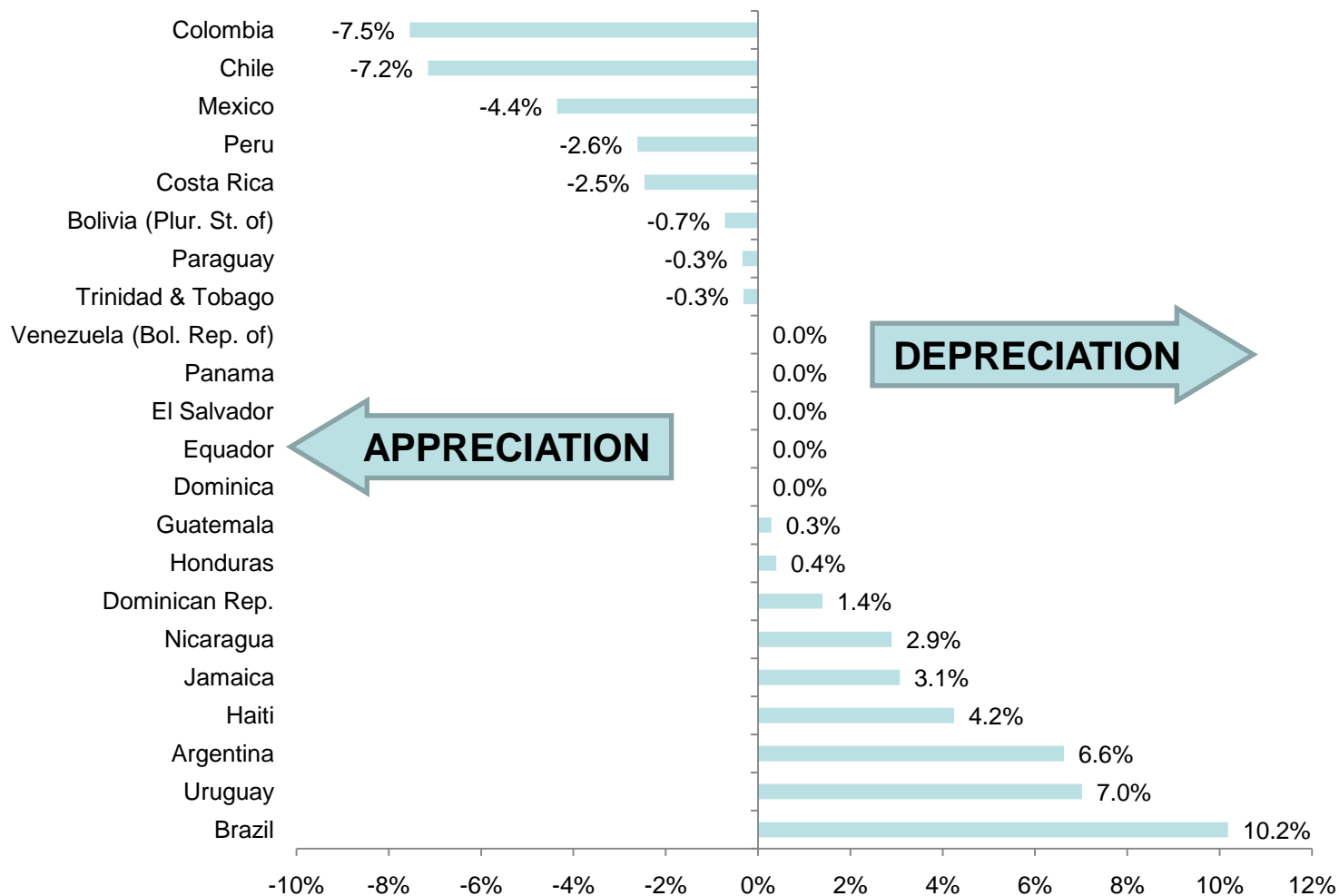


Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures

* The values represent international reserves in millions of USD for August 2012

The variability of nominal exchange rates has increased

LATIN AMERICA AND THE CARIBBEAN: RATE OF CHANGE OF THE NOMINAL EXCHANGE RATE, DECEMBER 2011 TO AUGUST 2012



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

A wide array of policies and measures (with differences between countries) has been applied between 2003/2008 and 2012

1. Fiscal policy focused on saving and debt reduction between 2003/2008, increased spending in 2009, and fiscal consolidation in 2010-2012
2. Contractionary monetary policy in 2008, exchange rate depreciation in many cases with increased liquidity provision in 2009, and beginning in 2010 increased macroprudential actions.
3. Social and labour policies: income protection in 2008 and employment protection in 2009 (transfers, subsidies, standards)
4. Sectoral and trade policies: reduction in tariffs and promotion of agriculture in 2008, promotion of small and medium enterprises and housing in 2009, and incentives and protection for industrial production in 2010-2012.





Conclusions and recommendations

A slight deceleration in 2012 and a modest recovery in 2013

- ❑ World economic growth continues to slow in the second semester of 2012 and the first semester of 2013
- ❑ The main transmission mechanism of the international situation to Latin America and the Caribbean is the trade channel
- ❑ The region will maintain economic growth in 2012, albeit lower than that recorded in 2011, of about 3.2%, with Argentina, Brazil and Paraguay having the lowest growth rates
- ❑ Growth is expected to recover somewhat in 2013, especially due to stronger growth in Brazil



The (varied) country outlook will depend on the external situation and on the capacity to respond

- ❑ The South American countries that could potentially be the most affected by a deceleration in China and a contraction in the European Union also count with a greater capacity to respond (fiscal space and the use of macroprudential measures)
- ❑ Mexico, Central America and the Caribbean are benefitting more from the precarious recovery of the United States, but:
 - Central America, and especially the Caribbean (due to less fiscal space) would be more vulnerable to an extreme fiscal adjustment in the United States
- ❑ While an expansive monetary policy in the United States could moderate the impact of fiscal adjustment, it would also contribute to an exchange rate appreciation in emerging market economies

Towards a structural change for equality

- ❑ The experience of Latin America and the Caribbean during 2008-2012 highlights the importance of integrated macroeconomic policies (fiscal, monetary, exchange rate, macroprudential) that are closely coordinated with industrial policies as well as social and labour policies, and trade policies with an emphasis in increased open regionalism, in order to:
 - Guarantee a relatively stable growth trajectory of output, quality employment, and investment, and
 - Contribute to a structural change for equality: closing productive gaps based in technological innovation and environmental sustainability



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