

Macroeconomic Report

on Latin America and the Caribbean

June 2012



UNITED NATIONS

ECLAC

Content of the presentation

1. The international context
2. Internal performance
 - Economic Activity
 - Inflation
 - Employment
3. Foreign trade and capital flows
4. Macroeconomic policies
 - Fiscal policy
 - Monetary, exchange rate and macro-prudential policy
5. Perspectives for 2012 and 2013





1. The International Context

The international context: uncertainty and turbulence increase

Three key facts, with differing effects depending on the country and sub-region, have been important during the beginning of 2012:

1. The uncertainty in the Euro Zone since 2010-2011:
 - Initially it fell (1st quarter 2012) due to action by the BCE (end of 2011) and the initial agreement with Greece (most of the 1st quarter of 2012)
 - Afterwards (2nd quarter 2012) it grew due to:
 - Questions regarding the sustainability of the stabilization program adopted by Greece
 - Problems with the Spanish banking system and the risk of spillovers to Spain and Italy.
2. The precarious growth of the United States economy
3. A growth slowdown in China and India, although:
 - It is likely that the previous Chinese growth rate was not sustainable and that its current trajectory, with a greater proportion of consumption and less investment, and with a lower growth rate (between 7 and 8.2%), is more sustainable
 - The reduction in the Chinese inflation rate has opened room for the implementation of counter-cyclical policies in the event there is a sharp downturn.



International context: two possible scenarios

Scenario I

The more likely scenario: an orderly management of the problem with Greece and the containment of similar contagion for other EU members :

- A moderate recession in most of the European countries, but the fiscal adjustment becomes more flexible in the short term for problems related to political and economic stability
- A reduction in the imports from Latin America and the Caribbean that will affect those countries with a greater proportion of their exports destined to Europe
- A certain “flight to quality” of financial flows (investment in assets denominated in US\$), increased financial and exchange rate volatility, but without a drying up of resources in LAC
- Lower remittance and tourist flows from Europe to LAC
- Global uncertainty reduces, but does not stop, the flow of foreign investment
- The USA maintains its precarious growth
- China posts growth above 7.5%, with counter-cyclical policies if necessary

Scenario II

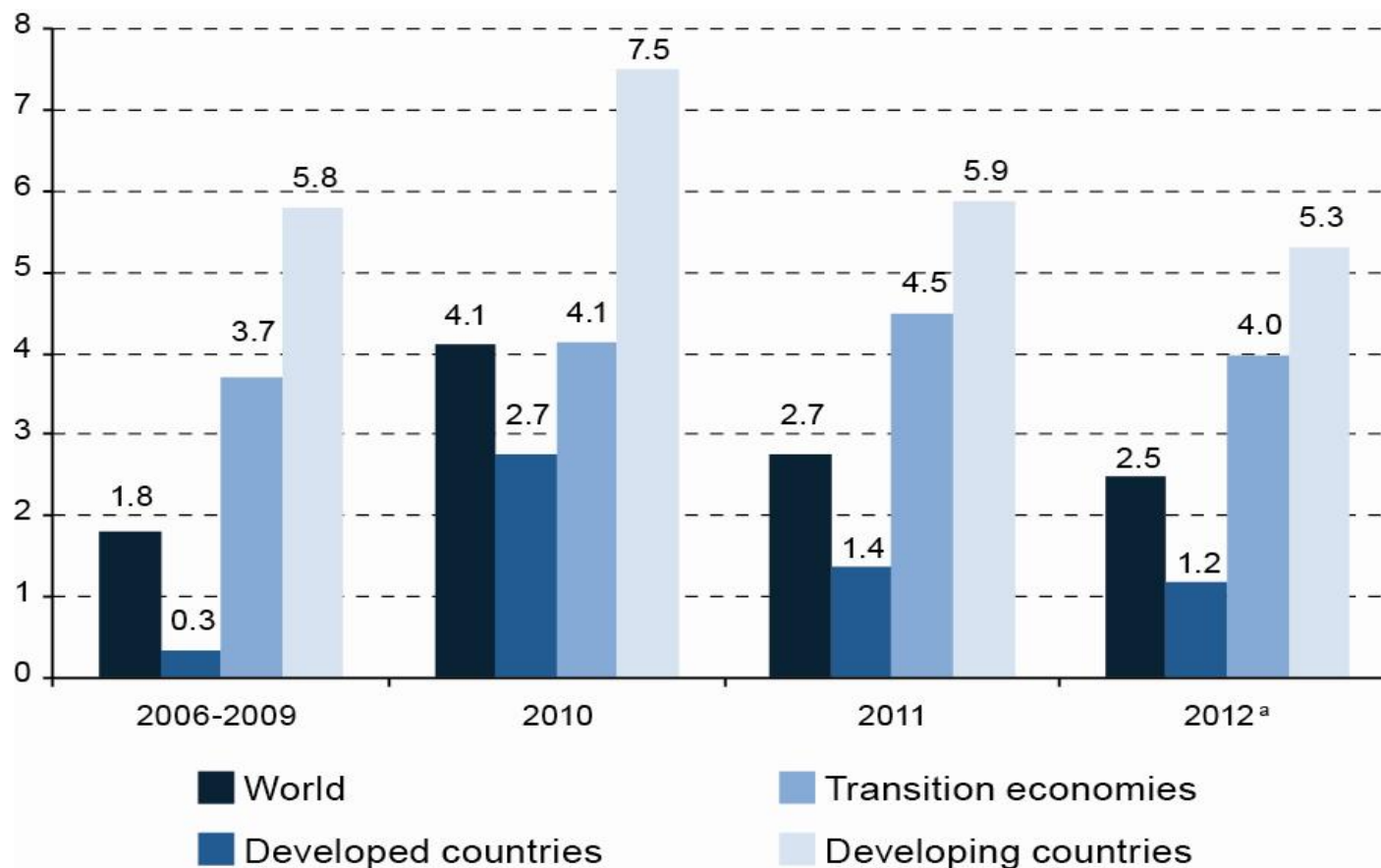
Less likely but not impossible: Greece leaves the Euro Zone, spillover and a Great Depression in EU countries, with negative repercussions for the USA, China and the rest of the world economy (analogous to the crisis of 2008-2009)

Probable scenario: The world economy maintains growth in 2012, although at lower rates...

GROSS DOMESTIC PRODUCT BY REGIONS

Real growth rates, 2006-2012^e

(Percentages)



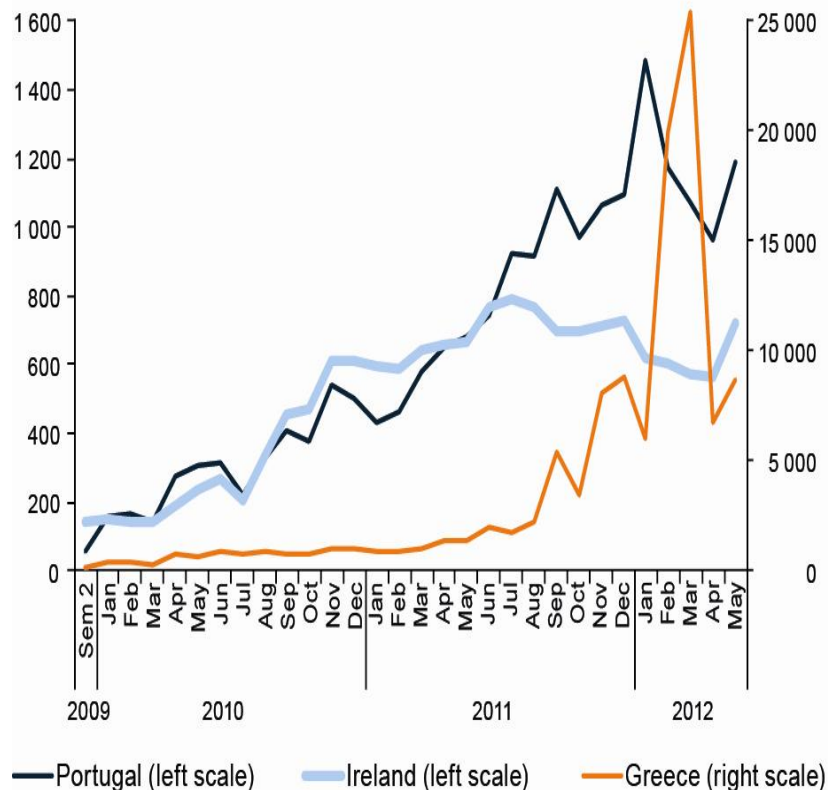
Source: UN/DESA, based on official figures.

^a Estimation.

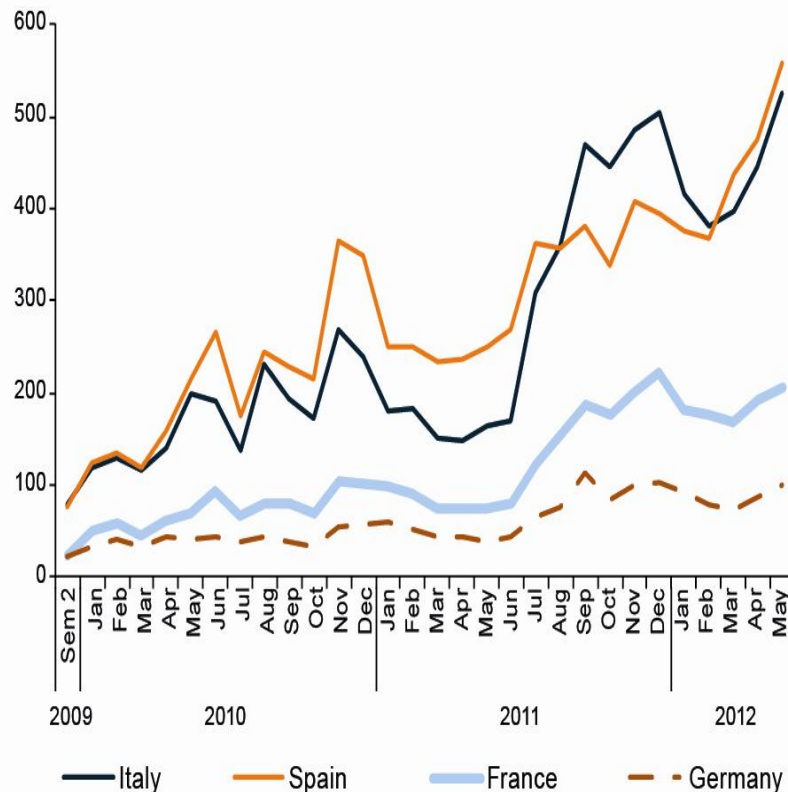
...but uncertainty and turbulence increase

SELECTED EUROPEAN COUNTRIES FIVE YEAR RISK PREMIUMS 2009-2012 (Credit Default Swaps, in basis points)

A. Panel (a)



B. Panel (b)



Source: Bloomberg.

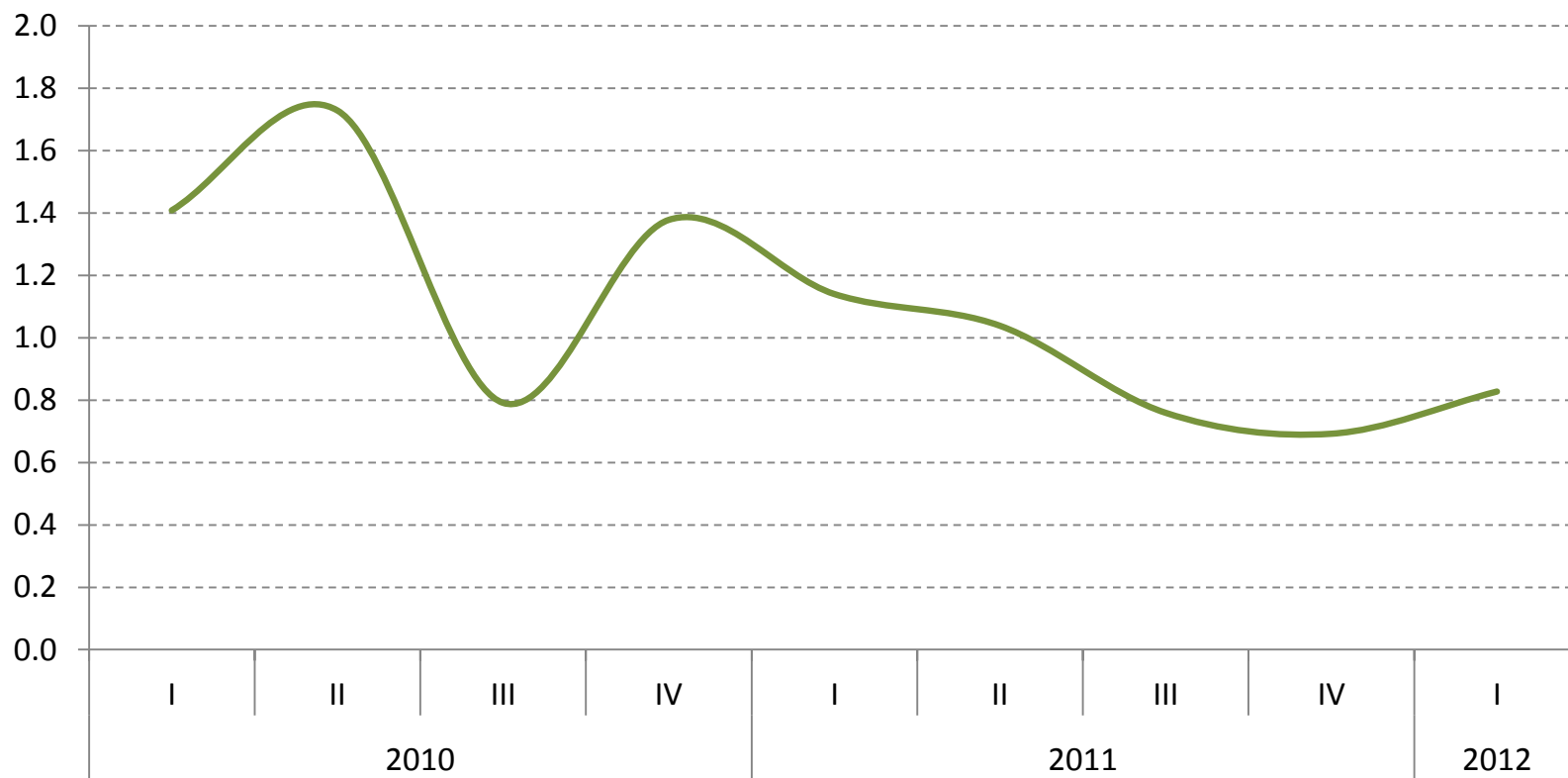


2. Internal Performance

The slowdown observed in 2011 moderated in the first quarter of 2012

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Rates of change with relation to the previous quarter, data with seasonal adjustments, percentages)

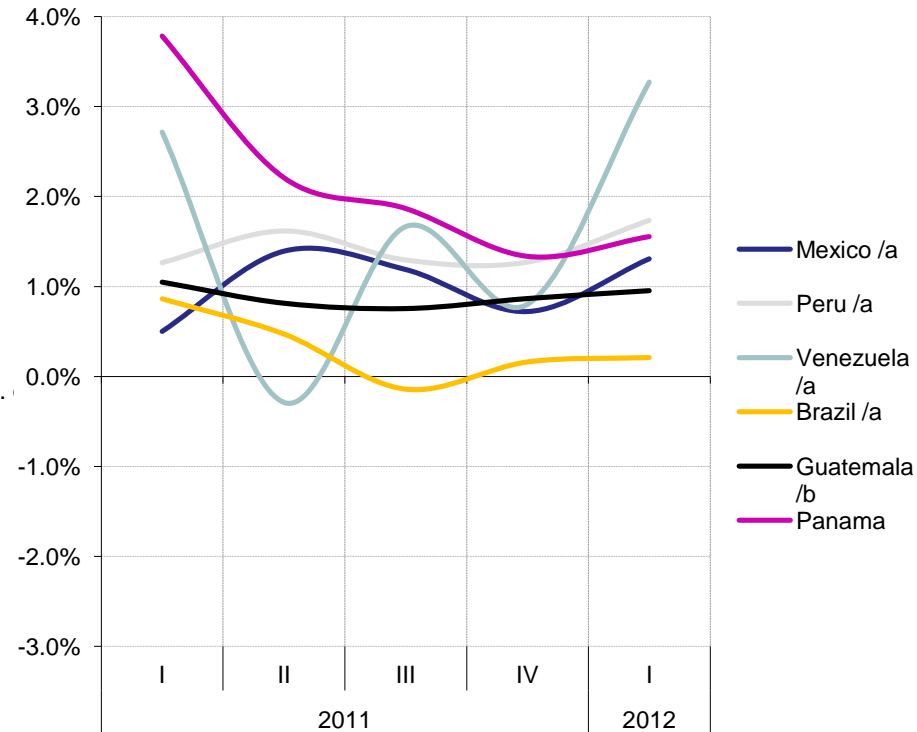
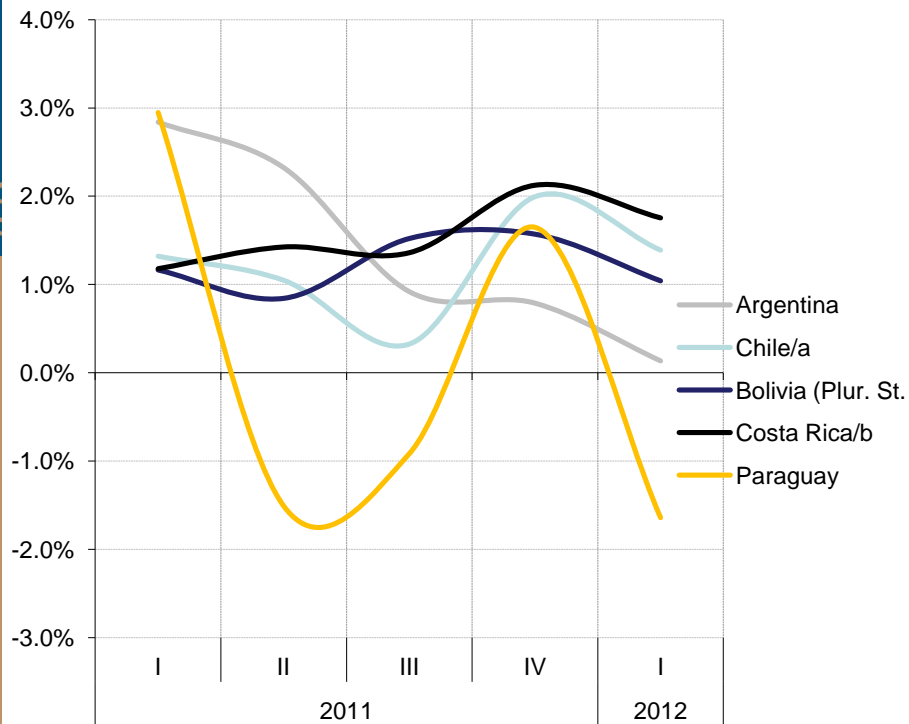


Source: ECLAC, based on official figures.

The tendencies at the country level are mixed...

LATIN AMERICA: ECONOMIC ACTIVITY INDICES

(Rates of change with relation to the previous quarter, data with seasonal adjustments)

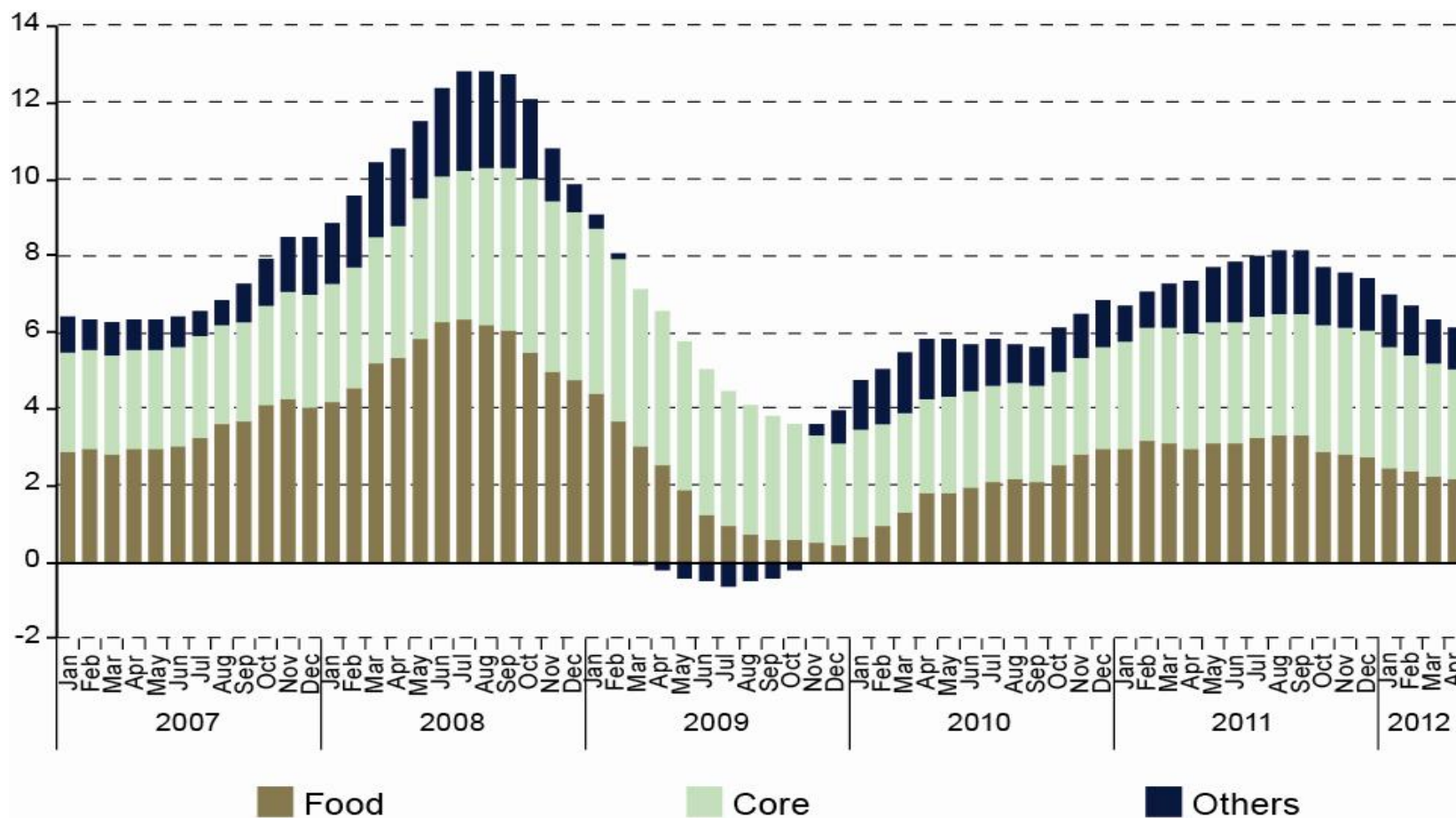


Source: ECLAC, based on official figures

^a Refers to the quarterly GDP rate. ^b Refers to the behaviour of the trend-cycle index.

Inflation continued its downward trend: Lower increase in food prices

LATIN AMERICA: CPI AND CONTRIBUTIONS TO INFLATION
(Twelve month rates of change, simple average)

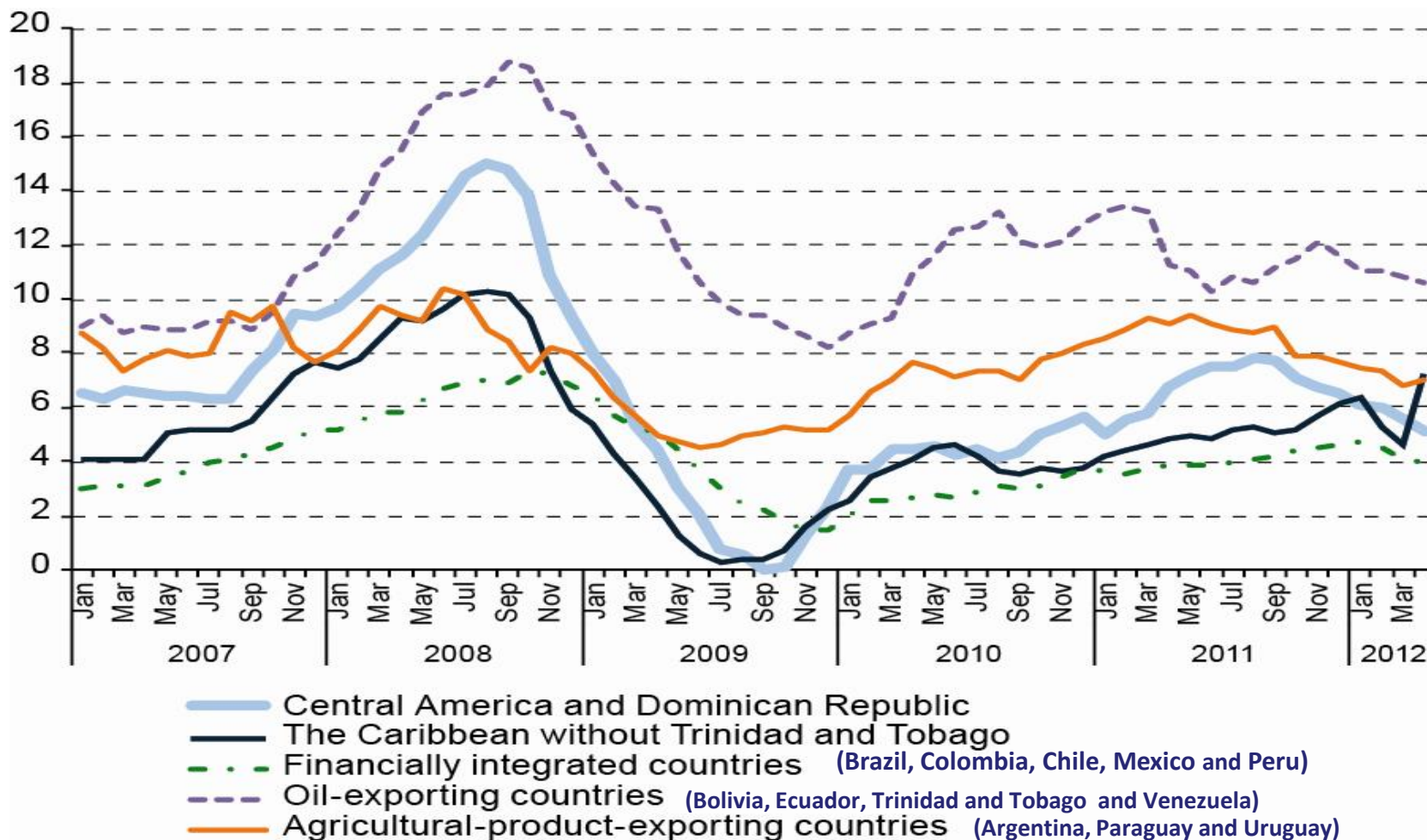


Source: ECLAC, based on official figures

Even with this trend, in some cases the inflation rates still remain in double digits

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX

(Twelve month rates of change, simple average)

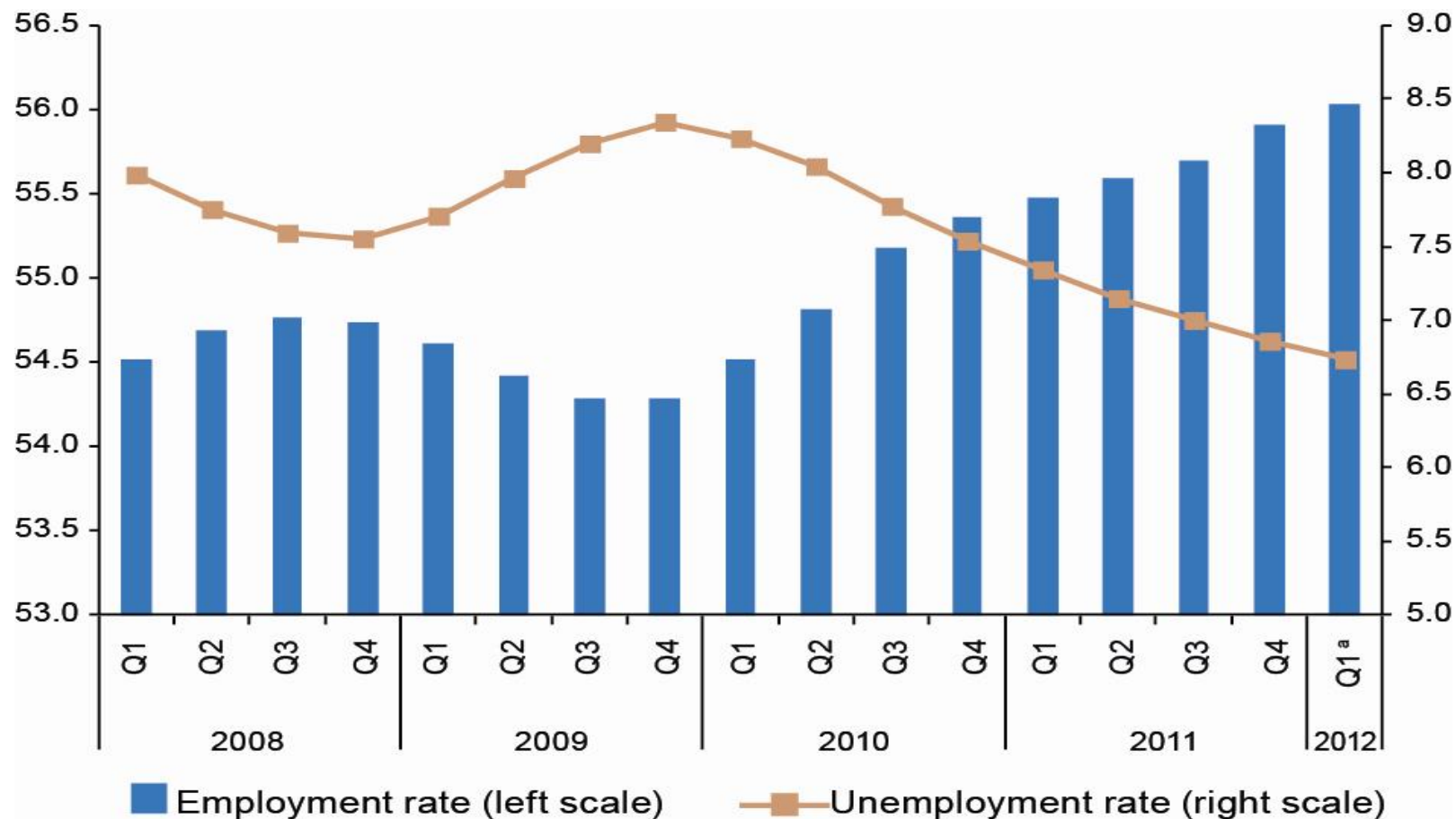


Fuente: ECLAC, based on official figures.

The tendency of a reduction in unemployment continues in most countries

LATIN AMERICA (10 COUNTRIES): EMPLOYMENT AND UNEMPLOYMENT RATES

First quarter of 2008 to the first quarter of 2012, 4-quarter moving average



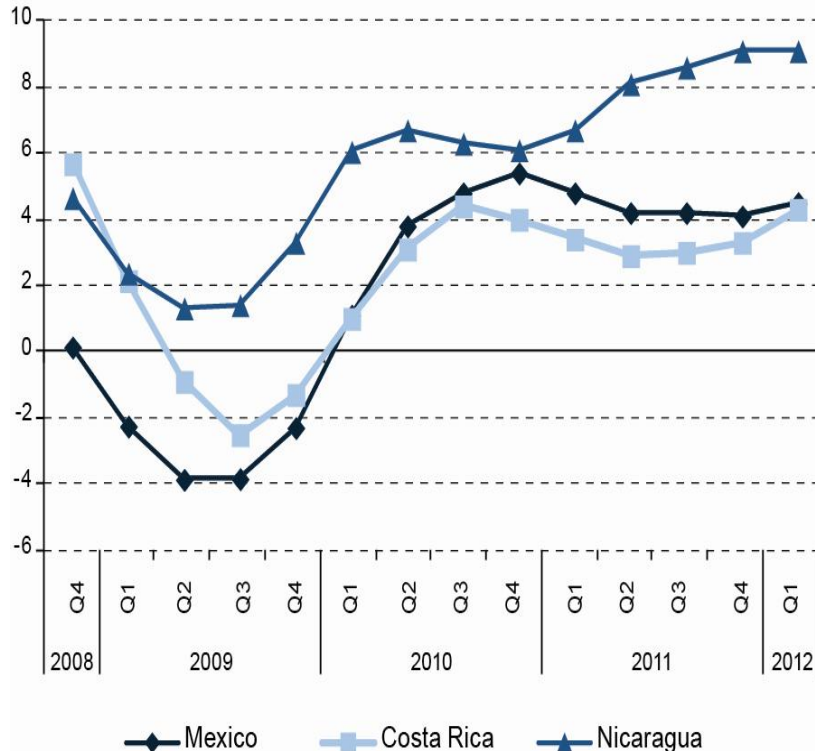
Source: ECLAC, based on official figures

...but employment growth shows differing tendencies at the country level

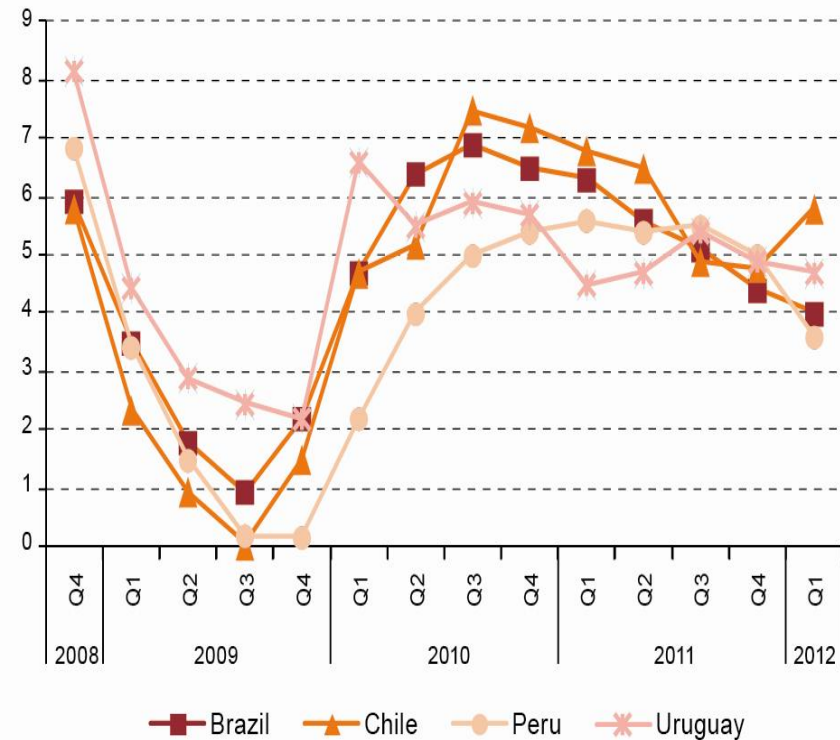
LATIN AMERICA (SEVEN COUNTRIES): INTER-ANNUAL GROWTH IN EMPLOYMENT COVERED BY SOCIAL SECURITY

(Growth rates, fourth quarter of 2008 – first quarter of 2012)

A. Mexico and Central America



B. South America

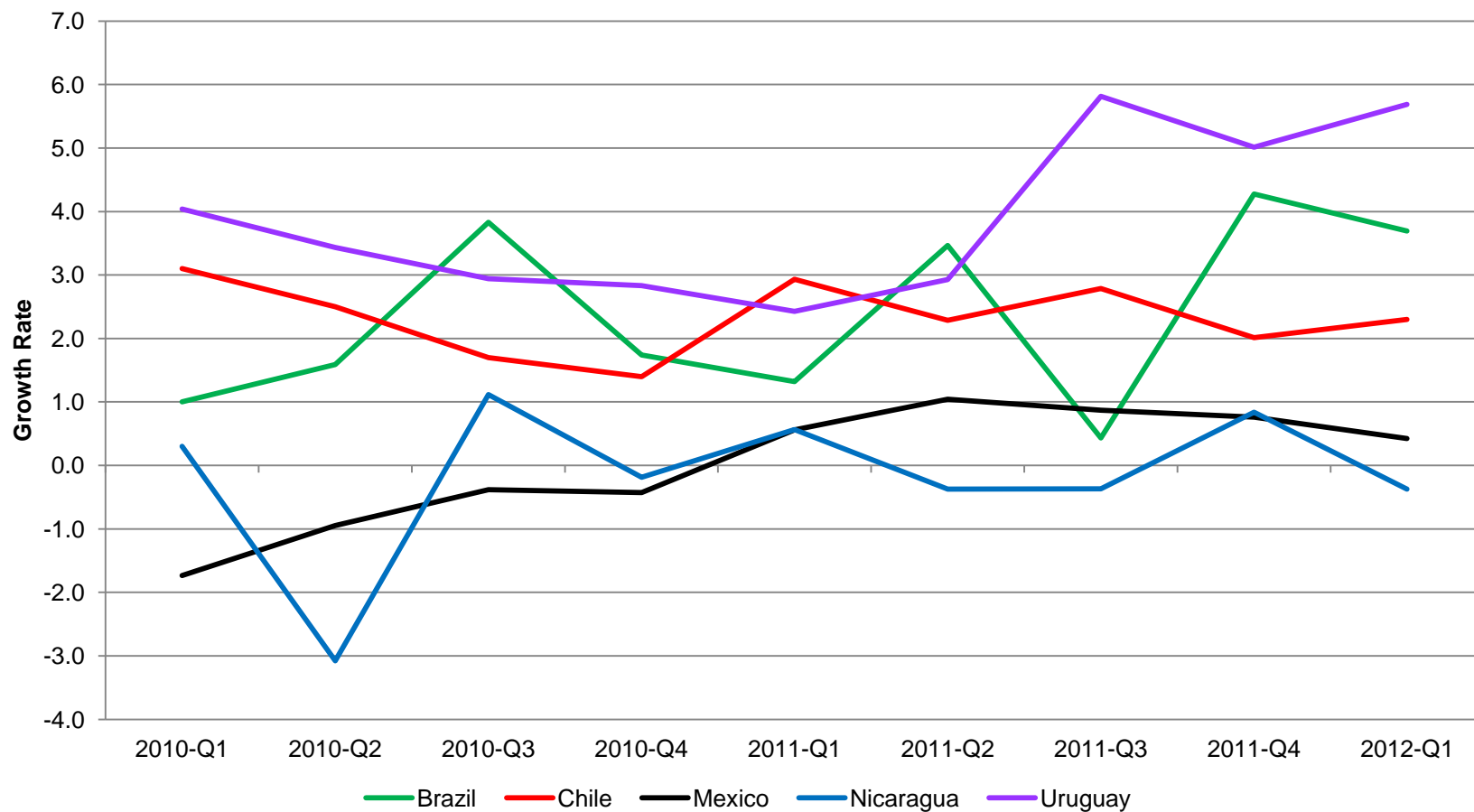


Fuente: ECLAC, based on official figures.

Moderate increases in real salaries predominate in the region

GROWTH IN FORMAL SECTOR AVERAGE REAL SALARIES

(Inter-annual growth rates, percentages)



Source: ECLAC, based on official figures.

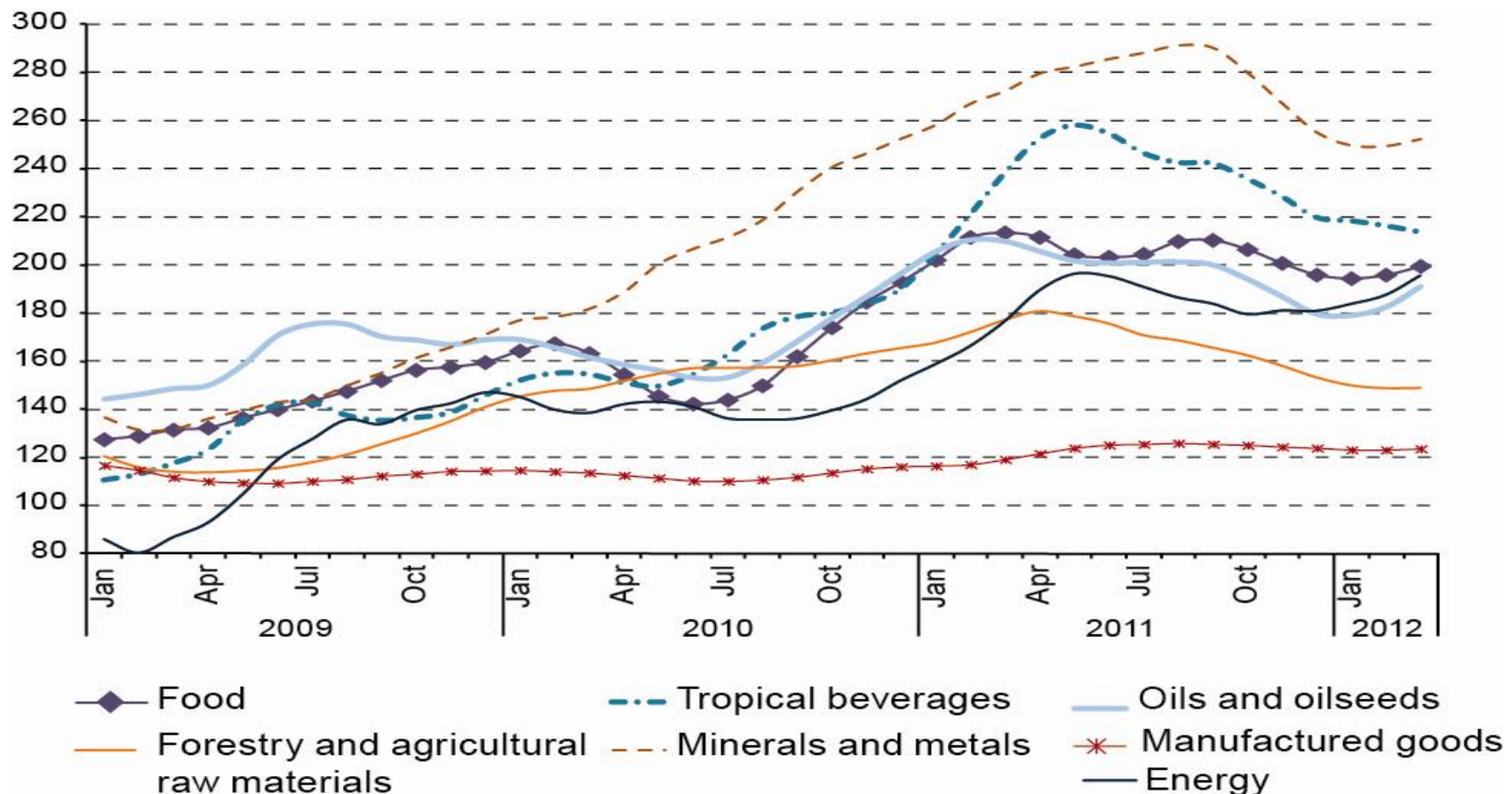


3. External trade and capital flows

The deterioration in the prices of primary products moderated or even reversed

LATIN AMERICA: INDICES OF THE PRICES OF PRIMARY PRODUCTS AND MANUFACTURED GOODS FOR EXPORT, 2009-2012

(2005=100, moving average of three months)

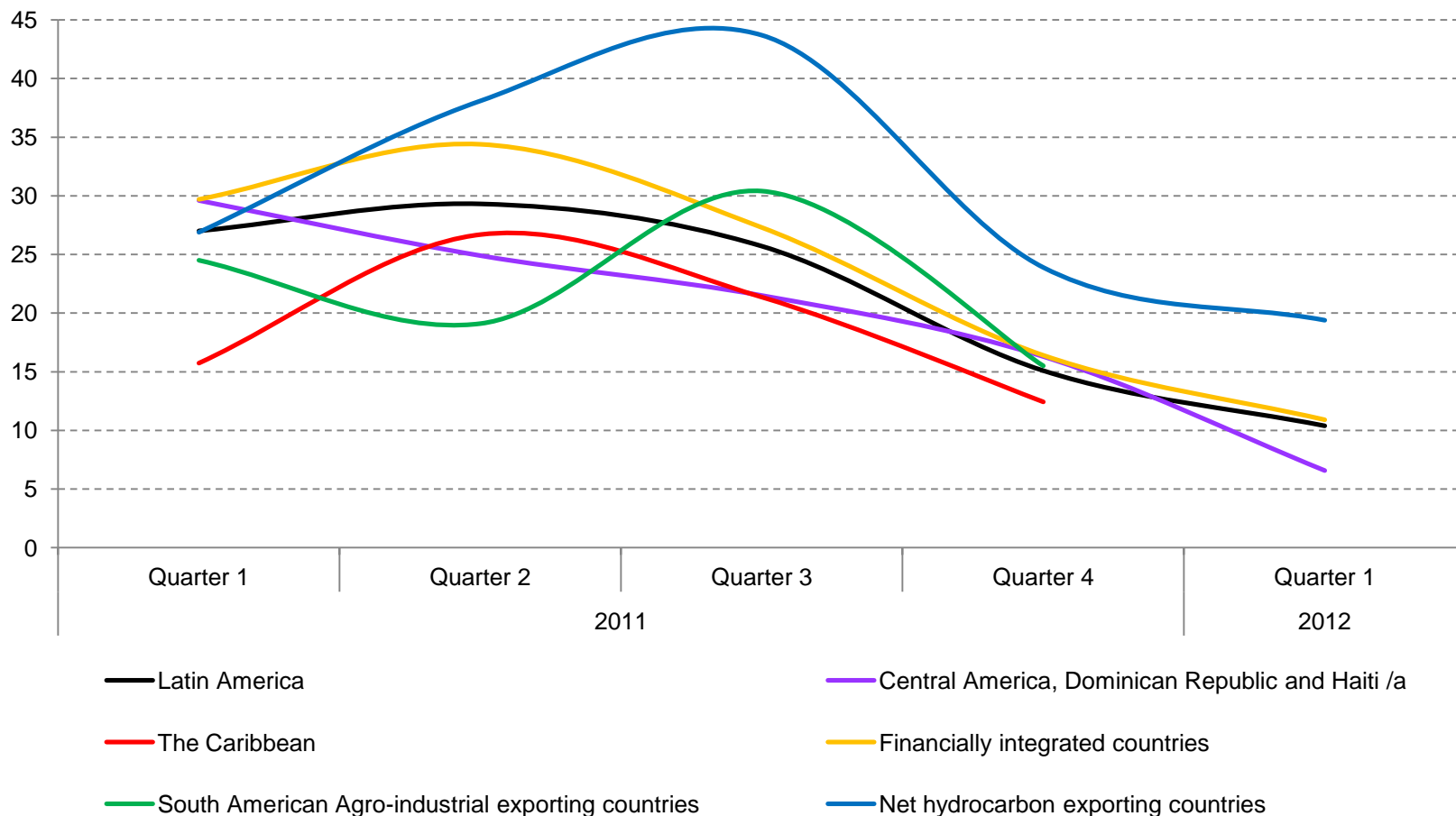


Source: ECLAC, based on official figures.



Export growth of countries within the region slowed

LATIN AMERICA: INTER-ANNUAL RATE OF CHANGE IN THE VALUE OF EXPORTS 2011-2012
(Percentages, simple averages for the groupings)



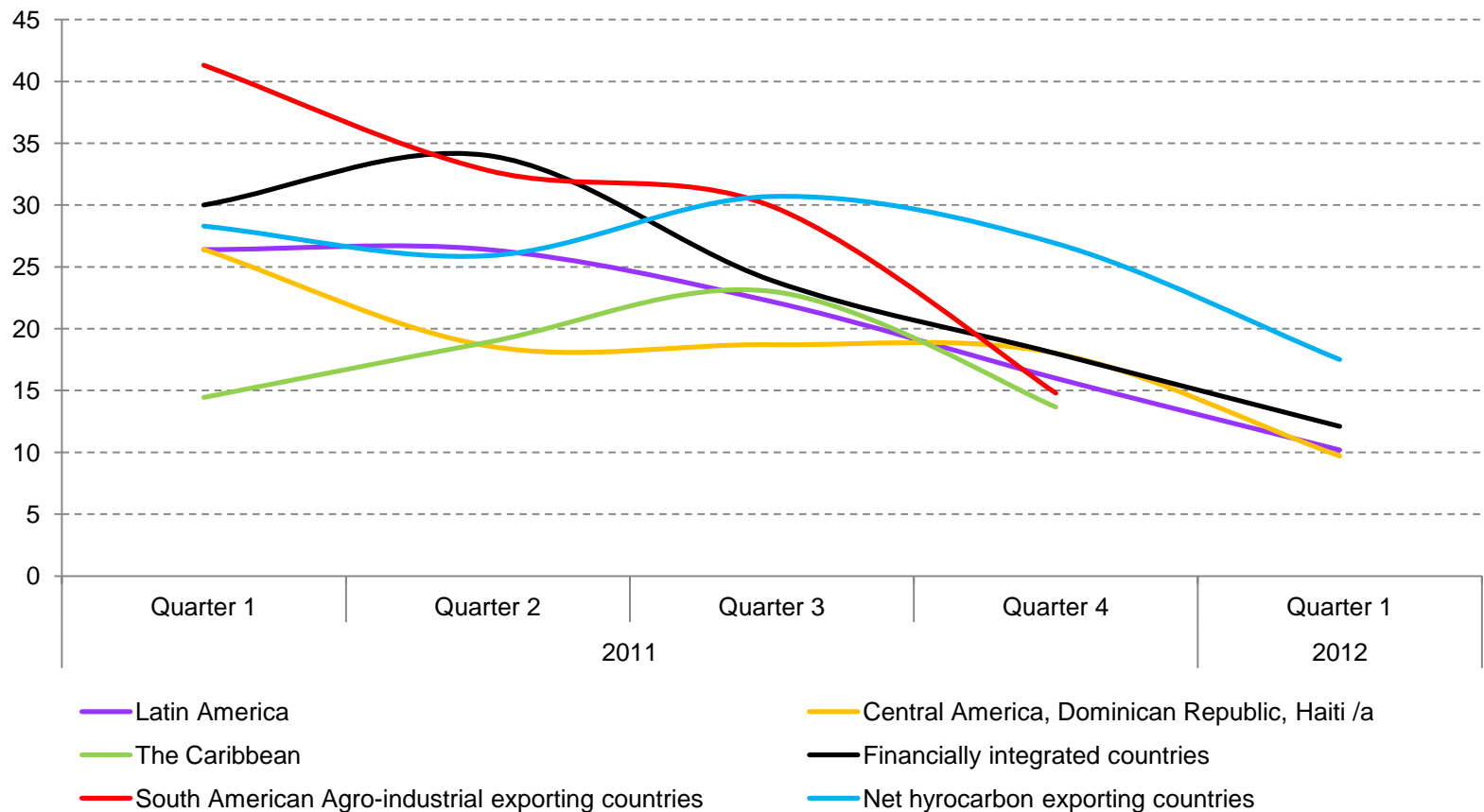
Source: ECLAC, based on official figures

a/ The data for Central America for the first semester does not include Haiti, Panama or the Dominican Republic.

Import growth also slowed, although less so than export growth

LATIN AMERICA: INTER-ANNUAL RATE OF CHANGE OF THE VALUE OF IMPORTS 2011-2012

(Percentages, simple average for the groupings)



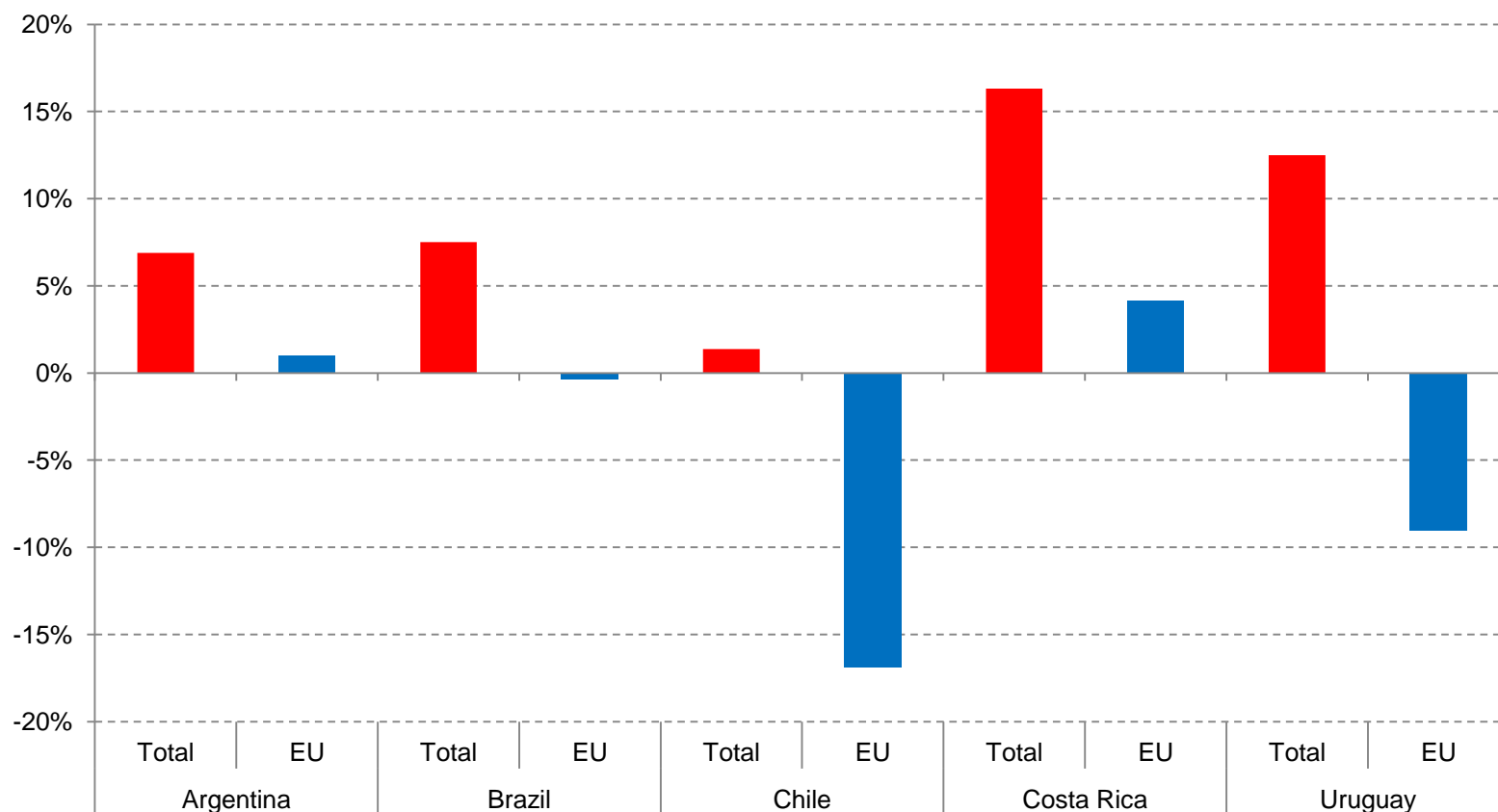
Source, ECLAC, based on official figures

a/ The data for Central America for the first quarter of 2012 does not include Haiti, Panama, or the Dominican Republic



Exports to Europe have tended to fall

**COUNTRIES WITH THE GREATEST PROPORTION OF EXPORTS TO EUROPE:
INTER-ANNUAL RATES OF CHANGE IN THE VALUE OF EXPORTS TO THE EUROPEAN
UNION, FIRST QUARTER 2012**
(Percentages)

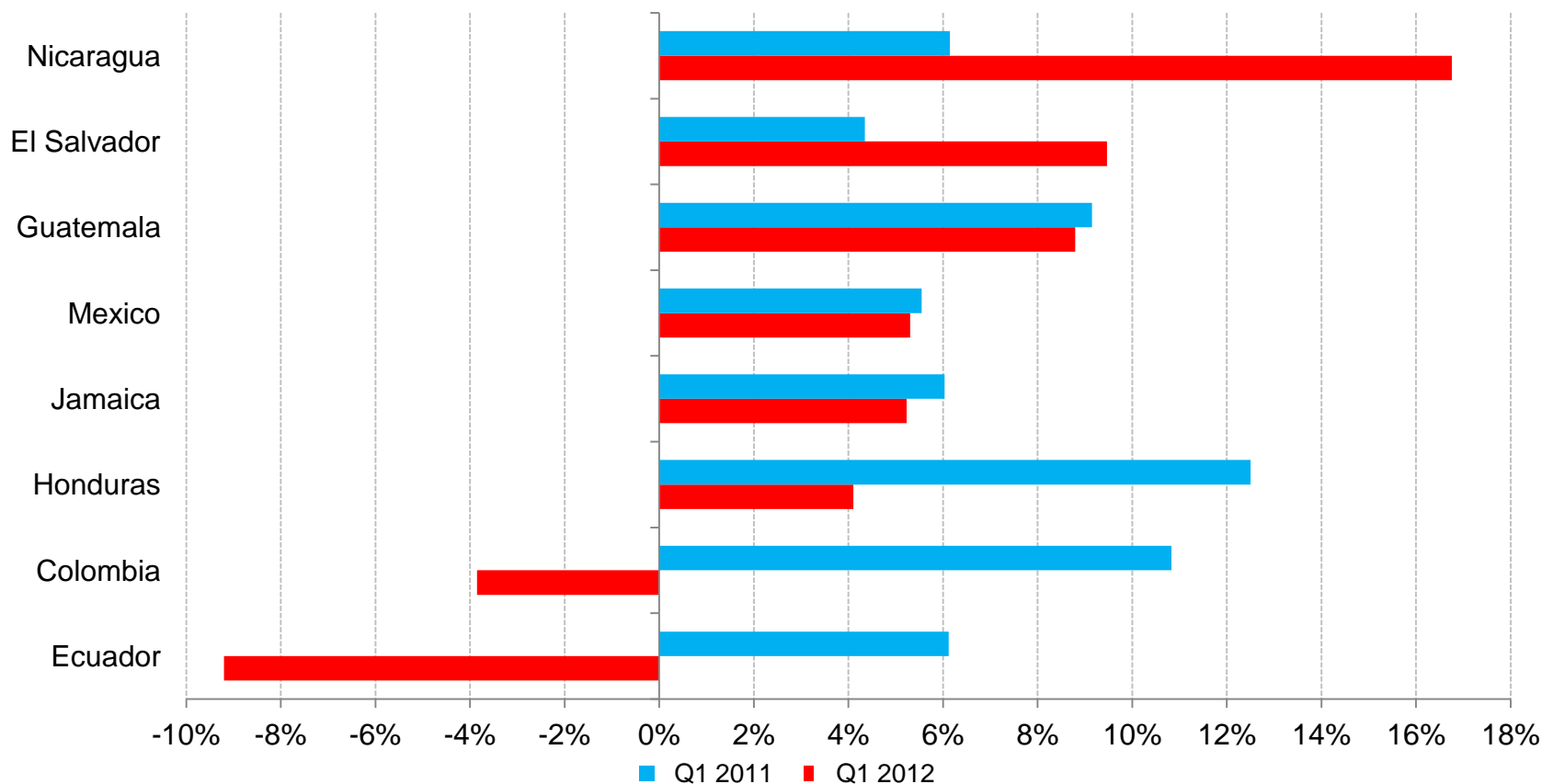


Source: ECLAC, based on official figures

There was a moderate increase in the flow of workers' remittances

LATIN AMERICA AND THE CARIBBEAN (7 COUNTRIES): RATE OF CHANGE OF INCOME FROM WORKERS' REMITTANCES, 2011-2012

(Rates of change with relation to the same quarter of the previous year, percentages)

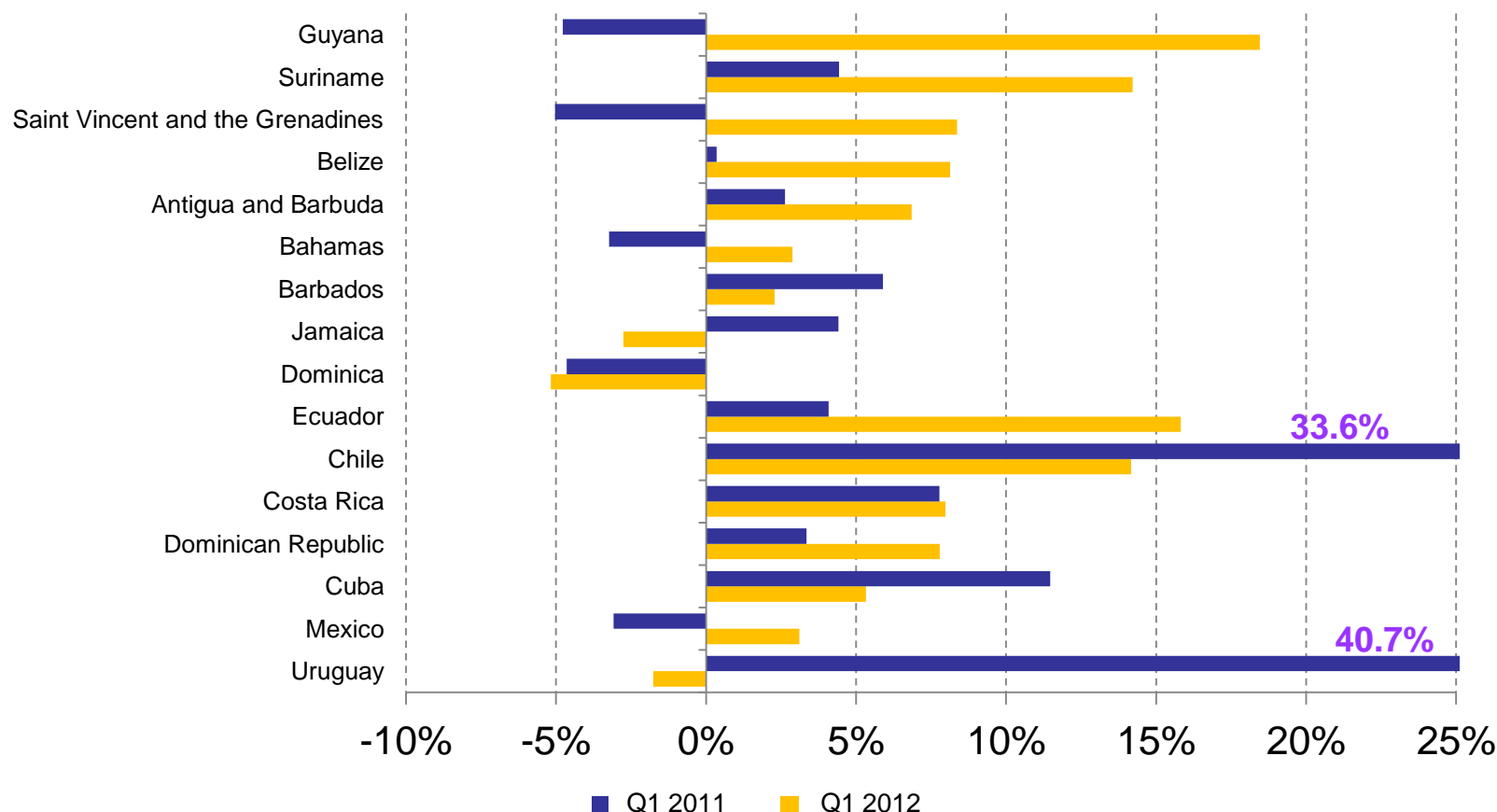


Source: ECLAC, based on official figures

Tourism grew moderately in the region, with some recovery in the Caribbean

LATIN AMERICA AND THE CARIBBEAN: CHANGE IN INTERNATIONAL TOURIST ARRIVALS: 2010-2012

(Rates of change with relation to the same quarter of the previous year, percentages)

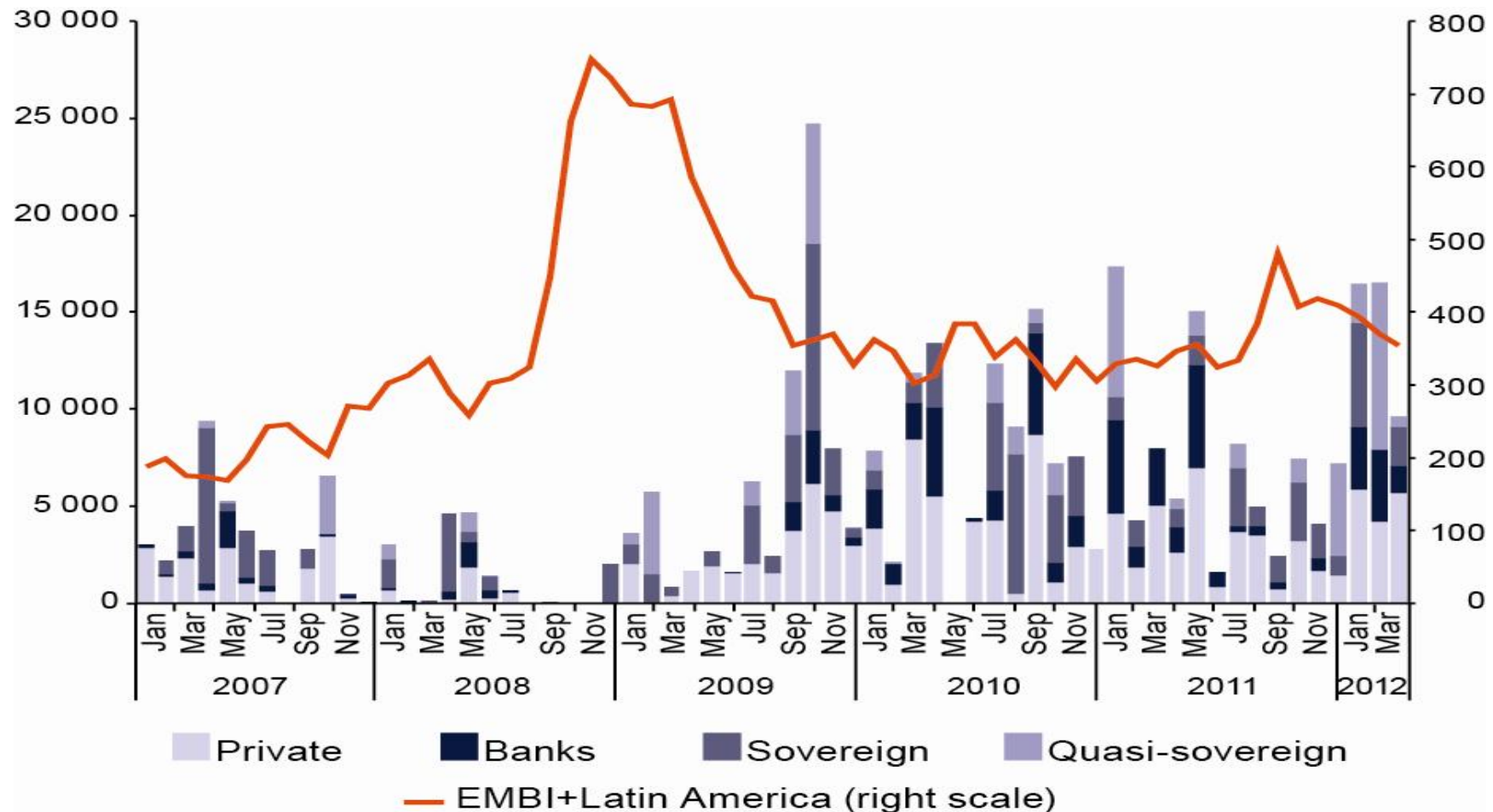


Source: ECLAC, based on official figures.

During the first quarter of 2012 the region maintained easy access to international capital markets

LATIN AMERICA: EXTERNAL BOND EMISSIONS AND COUNTRY RISK

(In millions of dollars and basis points)



Source: ECLAC, based on official figures



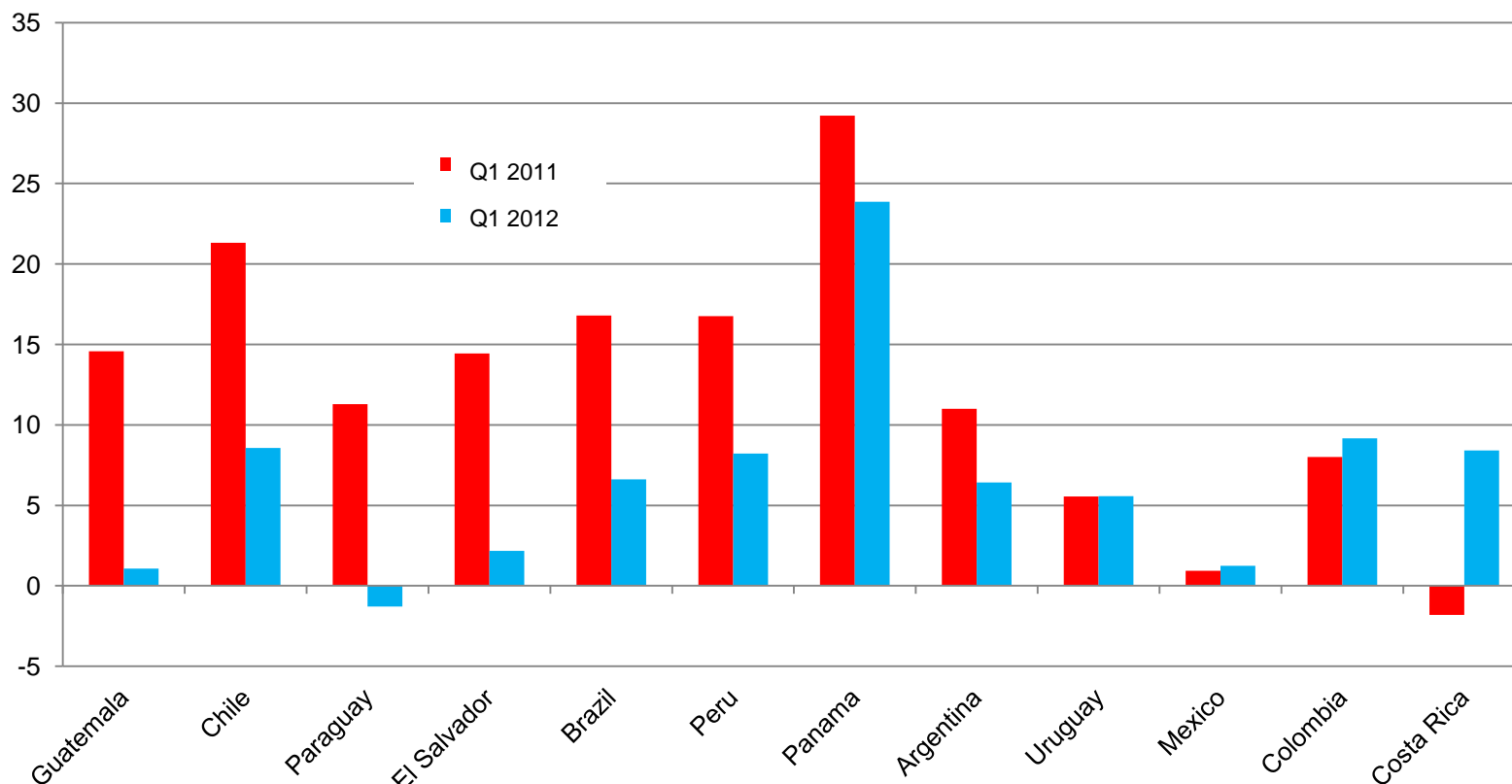


4. Macroeconomic policy

During the first quarter of 2012 the growth of tax income slowed in various countries

LATIN AMERICA (12 COUNTRIES^a): TOTAL TAX COLLECTION

(Real rate of change with respect to the same quarter of the previous year, simple average)



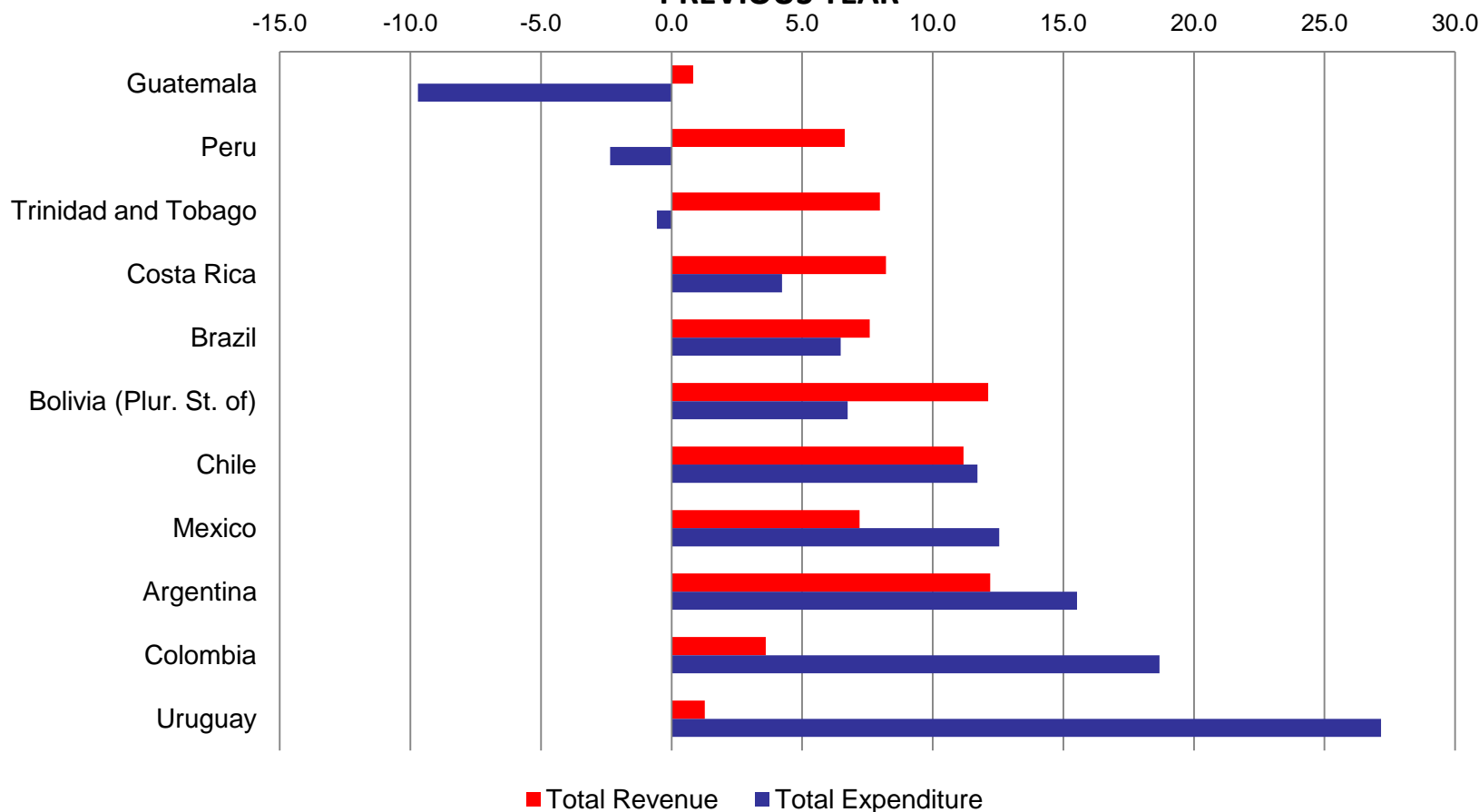
Source: ECLAC, based on official figures

Note: a/ Contributions to social security are not included, and in Mexico only non-oil related tax revenues are included.

Spending varied widely in the region, with spending outpacing revenues in some countries

LATIN AMERICA AND THE CARIBBEAN (11 COUNTRIES): PERCENTAGE VARIATION OF REAL FISCAL EXPENDITURES AND REVENUES: FIRST QUARTER OF 2012 COMPARED TO THE SAME PERIOD OF THE

PREVIOUS YEAR



Source: ECLAC, based on official figures


Various countries pushed forward with complicated processes of tax reform

(IV quarter of 2011 and I quarter of 2012)

Country	Reform Characteristics
Ecuador	<ul style="list-style-type: none">- Environmental tax on vehicle contamination and bottles and plastic bags.- Higher rates on cigarettes, alcohol and foreign exchange outflows.
El Salvador	<ul style="list-style-type: none">- Income tax reform, including:<ul style="list-style-type: none">- An increase in the income tax on legal persons from 25% to 30%,- Establishment of a minimum tax of 1% on gross income.
Guatemala	<ul style="list-style-type: none">- Income tax reform, including:<ul style="list-style-type: none">- Control of costs and deductible spending,- Application of a 5% tax rate on dividends.- Creation of a tax on registering vehicles and an increase in the vehicle circulation tax.

Source: ECLAC, based on official figures.

Various tax reforms have been proposed and are in the process of being debated in the legislature

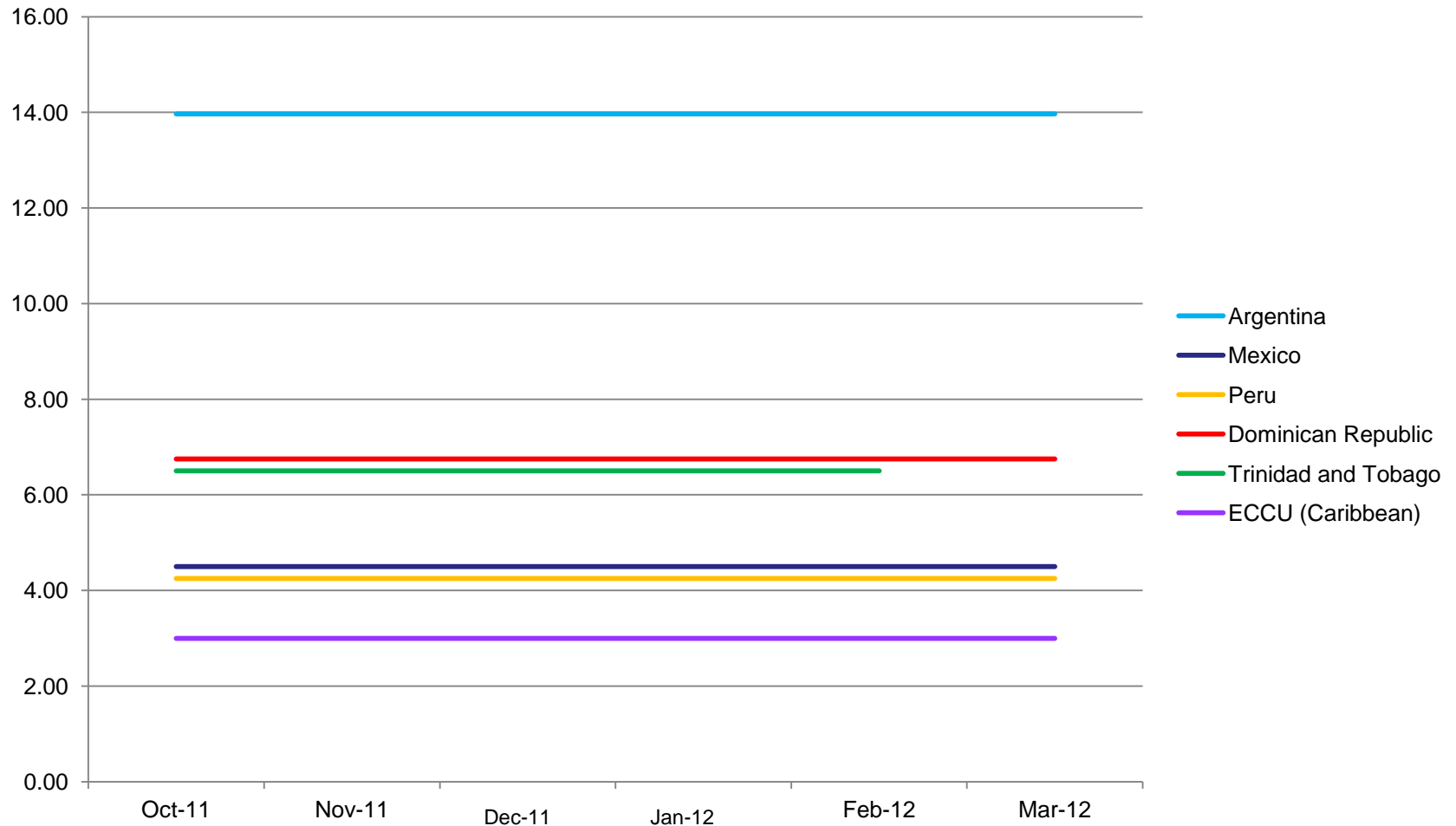


Country	Reforms in Progress
Costa Rica	<p>The Tax Solidarity Law project:</p> <ul style="list-style-type: none">- Modification of the income tax, unifying the existing tax rates at 15%.- Transforming sales taxes to a VAT.
Paraguay	<p>Personal income tax: Approved in the lower house of congress and pending approval in the senate</p>
Chile	<p>Tax Reform Law project</p> <ul style="list-style-type: none">- Increase in the taxes on businesses.- Reduction in the education burden on families.- Fighting evasion, elimination of unjustified extensions and other incentives.
Colombia	<p>Tax Reform project ELISSA:</p> <ul style="list-style-type: none">- Even out the currently existing inequities in tax and fiscal matters.- Reduce tax evasion.

Source: ECLAC, based on official figures

Monetary policy: there were few changes in interest rates

LATIN AMERICA: MONETARY POLICY RATES
(Percentages)

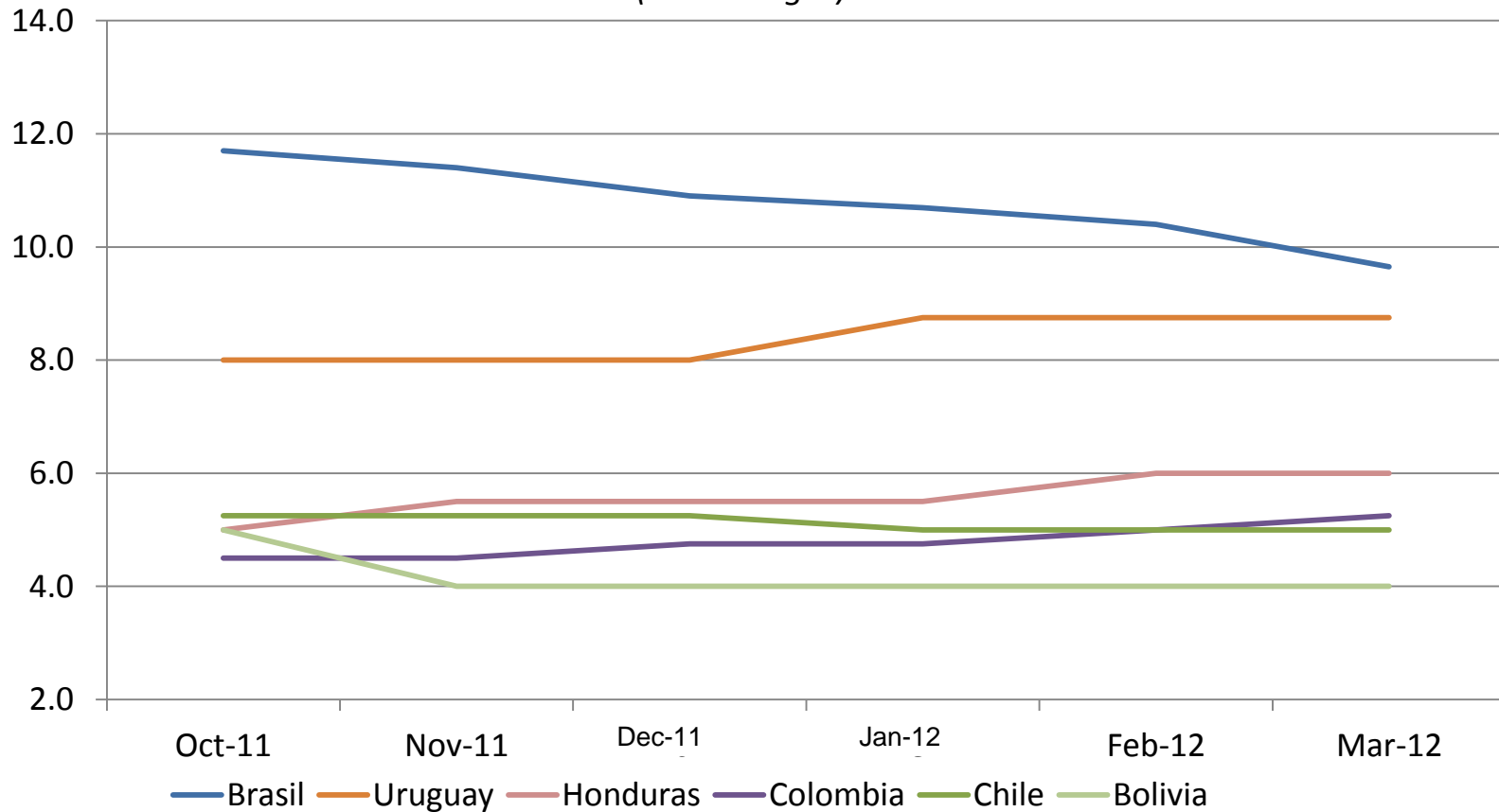


Source: ECLAC, based on official figures.



Monetary policy: there were few changes in interest rates

LATIN AMERICA: MONETARY POLICY RATES
(Percentages)



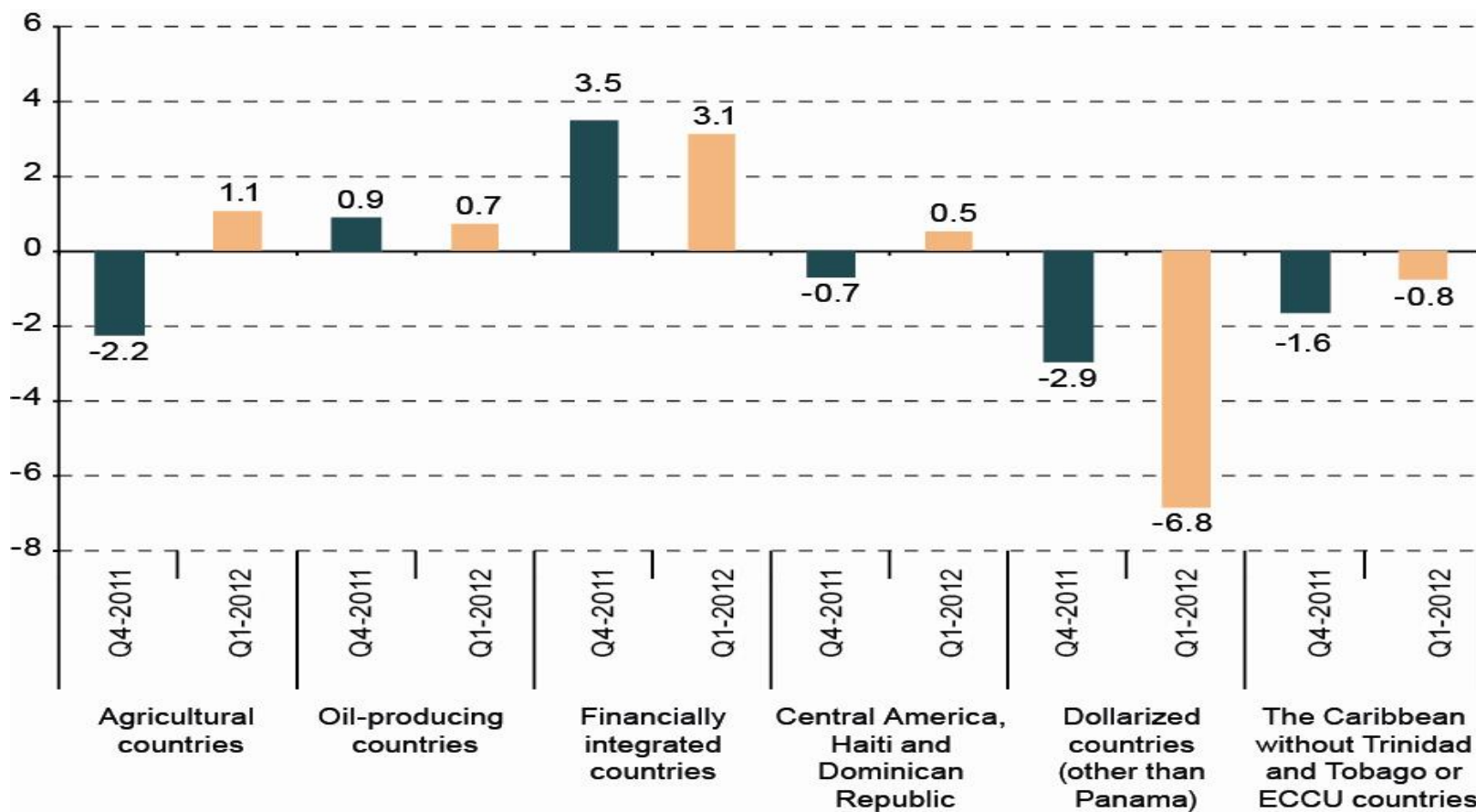
Source: ECLAC, based on official figures.



International reserves adjusted to avoid exchange rate volatility

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES

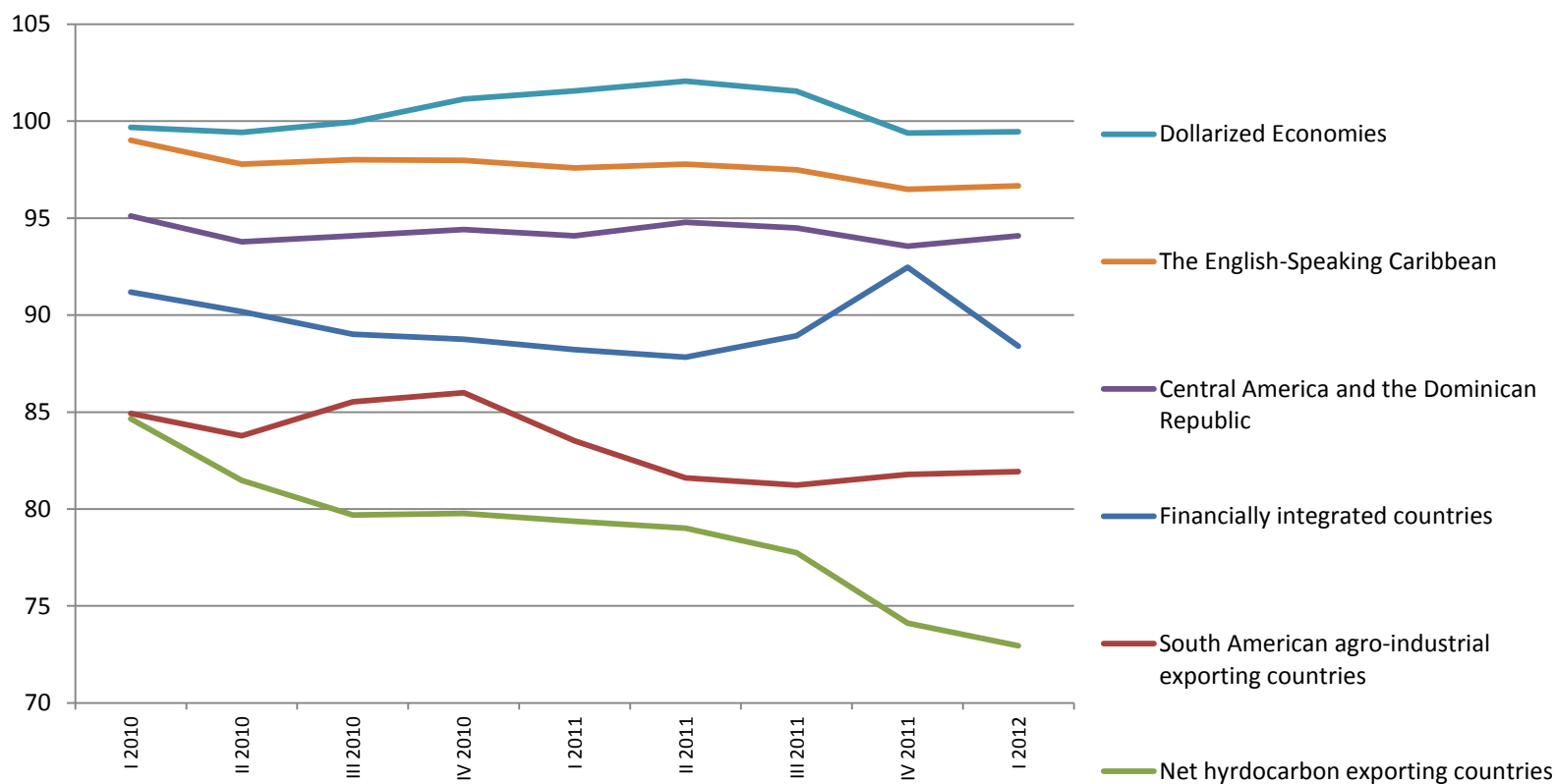
(Changes in the quarterly averages)



Source: ECLAC , based on official figures.

During the first quarter of 2012 a tendency of moderate appreciation in the exchange rates dominated

EXTRA-REGIONAL REAL EFFECTIVE EXCHANGE RATE (Base 2005=100)

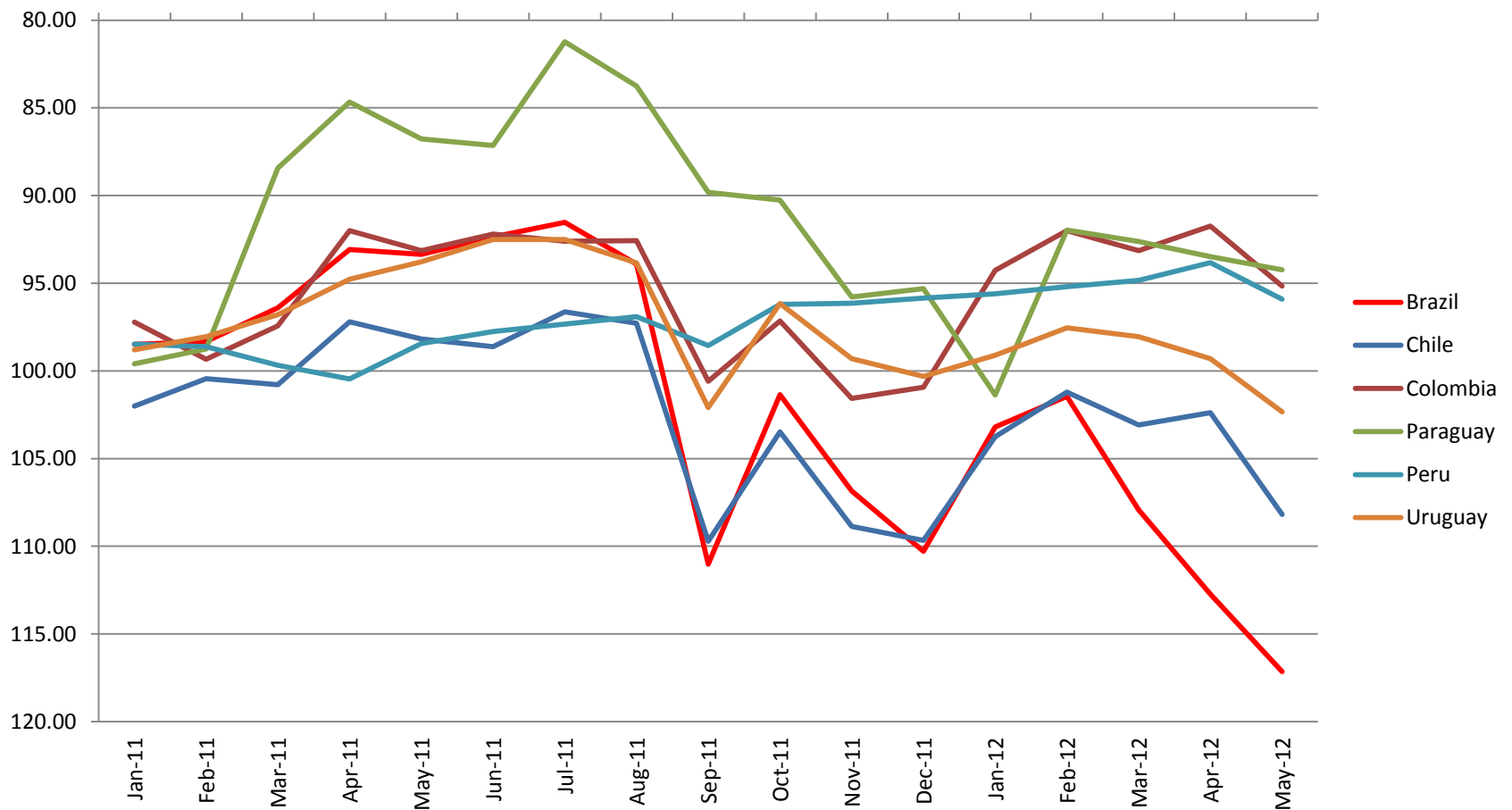


Source: ECLAC, based on official figures

Even though depreciations in national currencies have been observed in recent months

BILATERAL DOLLAR EXCHANGE RATES

(December 2010 = 100)



Source: ECLAC, based on official figures.



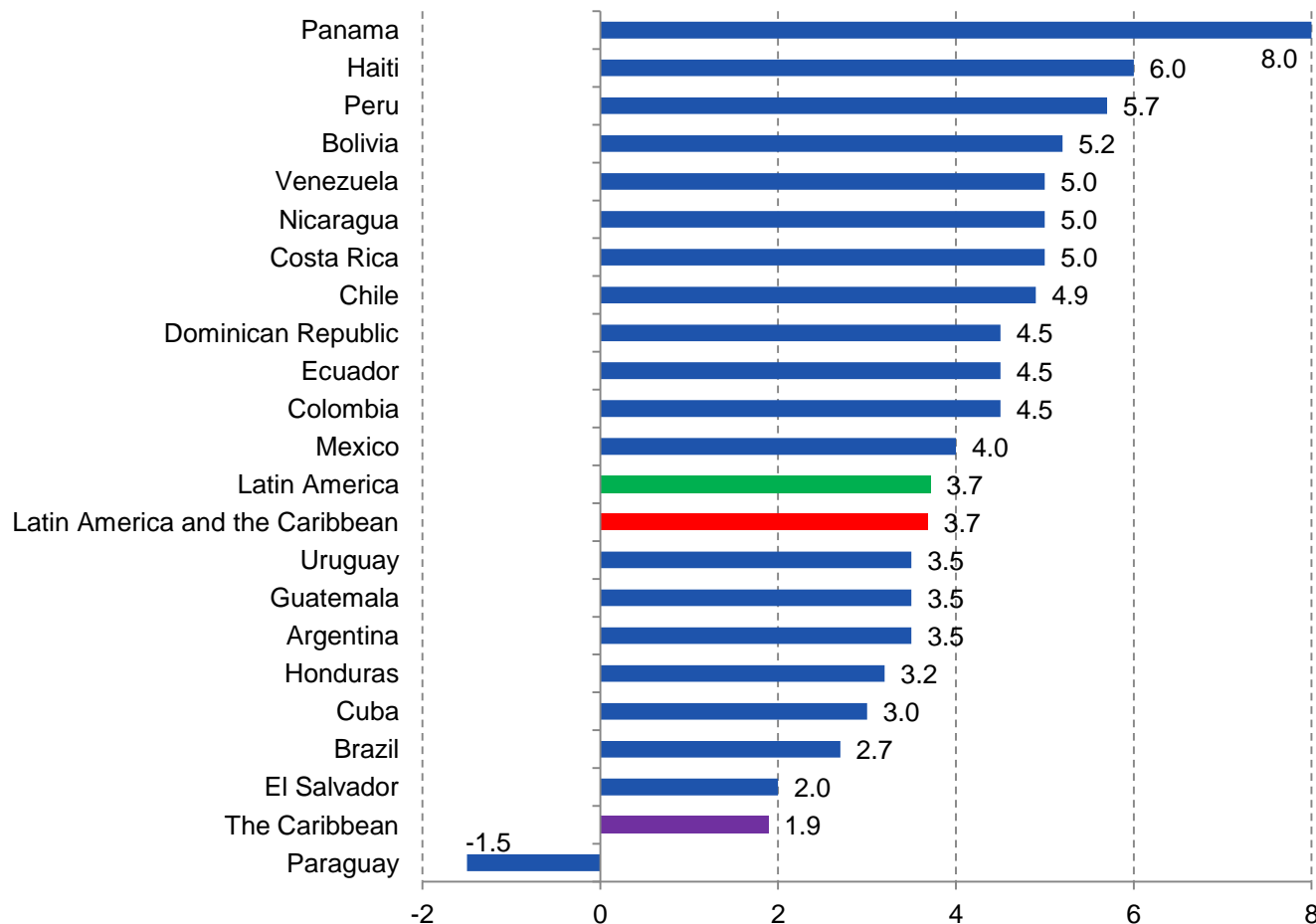
5. Perspectives for 2012 and 2013

Two scenarios:

1. Base scenario
2. Scenario of crisis and contagion in Europe

Base scenario: Economic activity continues to expand (by 3.7%), but does not reach the same rate as in 2011

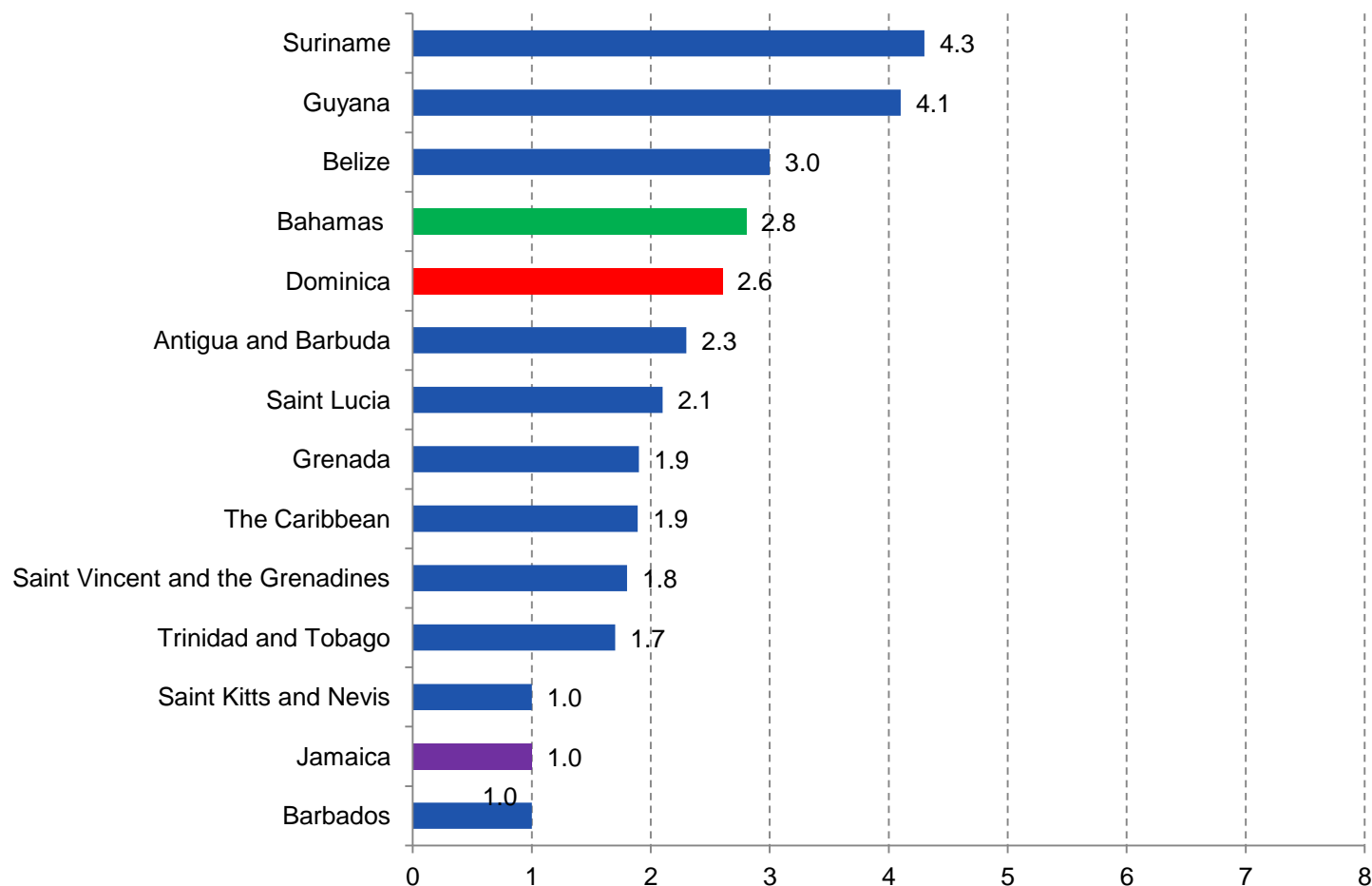
LATIN AMERICA AND THE CARIBBEAN GDP GROWTH RATES, 2012 (%)



Source: ECLAC

Base scenario: The Caribbean

THE CARIBBEAN: GDP GROWTH RATES, 2012 (%)



Source: ECLAC.

The (less likely) crisis scenario:

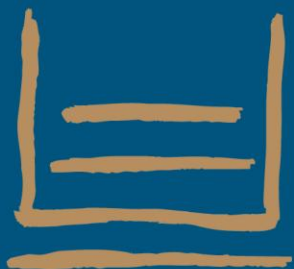
- There are spillovers to the other large economies of the EU
- “Flight to quality or safety” of the financial flows → exchange rate volatility and less access for the region’s countries to external financing.
- An increase in the liquidity needs in LAC, particularly in foreign exchange.
- A fall in the prices of primary products → a greater deterioration in the terms of trade.
- Less external demand for the products exported from the region, due to lower European demand for imports as well as lower demand in other regions → negative impact on economic activity.
- Lower remittances and less tourism.
- A deterioration in the fiscal accounts due to a reduction in fiscal revenue, especially for those countries that export primary products.



Final reflections

- The region ended the economic slowdown that began in the second half of 2011, but with mixed results
- The region continues to grow, based on the expansion of domestic demand (consumption and investment)
- In the face of the uncertain international situation
 - A prudent and cautious macroeconomic policy stance is justified
 - A strengthening of counter-cyclical policies is justified (different from country to country) in order to avoid a period of slower growth (deterioration of the first scenario that could lead to scenario II)
- The region has the capacity to respond to a deteriorating situation:
 - Inflation is low
 - International reserves are high
 - Public debt, both external and internal, is low (with the exception of the Caribbean)
 - Countries have rebuilt fiscal space (although not to the levels that existed before the crisis of 2008-2009), and
 - A growing experience with effective macro-prudential policies exists.





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