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Latin America and the Caribbean: economic situation and outlook, 2011-2012

Summary

In 2011, economic growth in Latin America and the Caribbean slowed to 4.3 per cent after a brisk rebound of 5.9 per cent in 2010. However, as in other years, economic performance across subregions was uneven: gross domestic product (GDP) growth was 4.5 per cent in South America, 4.1 per cent in Central America and just 0.7 per cent in the Caribbean.

The shift in external conditions experienced during the year was reflected in aggregate domestic demand in the region, dampening growth expectations and generating fresh challenges for the authorities. Accordingly, after taking steps, including interest rate hikes, to rein in domestic demand growth and recoup the fiscal space in the first half of the year, in the second semester, many of the region's monetary and fiscal authorities turned their attention back to creating the conditions needed to stave off a heavy slowdown in economic growth.

The rebound in the labour markets in 2010 continued more moderately in 2011; the urban unemployment rate for the year overall is estimated to have fallen by 0.5 percentage points to 6.8 per cent . Inflation at the end of the year (6.9 per cent) edged only slightly above the rate for end-2010 (6.6 per cent).

Amid weaker global growth, greater uncertainty and increased volatility in international financial markets, the region's growth rate is projected to slacken again in 2012, to 3.7 per cent.

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I. Introduction

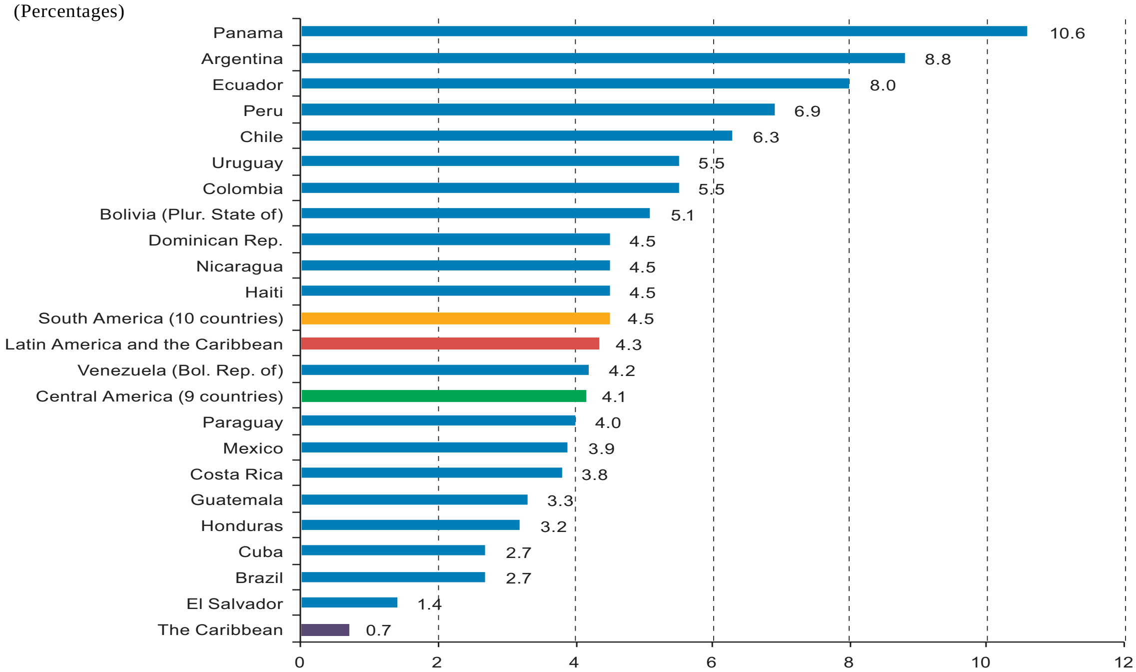
1. Economic growth slowed in Latin America and the Caribbean in 2011 (4.3 per cent) after a brisk upturn in 2010 (5.9 per cent) as the region recovered from the economic and financial crisis of 2008-2009. The growth rate for 2011 was equivalent to a 3.1 per cent rise in per capita output. However, as in the previous two years, economic performance was uneven from one subregion to another: gross domestic product (GDP) growth was 4.5 per cent in South America, 4.1 per cent in Central America and just 0.7 per cent in the Caribbean (see figure I below).

2. Uneven performance across subregions is, in turn, a reflection of the many factors behind the economic growth patterns in the region. The terms of trade, which improved in the countries of South America and, to a lesser degree, in Mexico, worsened for the countries of Central America and, most likely, for the Caribbean countries that are not large exporters of commodities. Much of the slower growth in the region is owing to the moderation of economic growth in Brazil, which was largely desired and deliberately instigated by policymakers to avoid overheating after the growth surge in 2010.

3. There were two clearly differentiated stages in the international arena during the year. Generally speaking, external conditions remained benign for the Latin American and Caribbean economies during the first part of the year. Strong demand for the region's exports pushed up export volumes, and rising international prices underpinned a fresh gain in the terms of trade. In addition, abundant global market liquidity, combined with the positive economic and financial expectations prevailing in many of the countries in the region, facilitated relatively advantageous access to external financing.

Figure I
Latin America and the Caribbean: estimated growth rates, 2011

(Percentages)



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

4. However, midyear, the markets began to show mounting uncertainty regarding the course of the world economy owing to the debt crisis in a number of euro area countries, the sluggish recovery of the United States economy and doubts concerning the ability of the Asian economies to drive aggregate global demand. This fed growing volatility in the international financial markets, worsened expectations for growth in the region and generated fresh challenges for the authorities.

5. The prospect of slackening external demand put downward pressure on international commodity prices, which dropped back from the year's high point in the second semester, especially in the case of metals and some agricultural commodities.

6. This shift in external conditions was reflected in aggregate domestic demand which, during the first half of the year (owing to positive labour market trends, readily available credit and the then positive outlook for the performance of the region's economies) maintained the buoyancy seen in 2010. However, in the second half of the year, the increasingly complex external environment began to threaten domestic demand, owing to its impact both on gross national disposable income and on business and household expectations in the region. This forced the countries in the region to change their policy stance. During the first half of the year, many of them rolled out measures such as monetary policy rate hikes in order to rein in the growth of aggregate domestic demand and try to recover fiscal space. However, during the second half of the year, the region's monetary and fiscal authorities turned their attention back to creating the conditions needed to stave off a marked slowdown in economic growth.

7. Throughout 2011, the labour markets maintained the momentum of their rebound in 2010, albeit at a more modest pace. The employment rate is estimated to have increased by 0.5 percentage points for the year as a whole after going up by 0.7 percentage points in 2010. This would bring the employment rate to 55.4 per cent. The urban unemployment rate fell by 0.5 percentage points, to 6.8 per cent. Job creation was positive in both quantity and quality: in several countries, wage employment saw the most growth.

8. As for prices, inflation in the first part of 2011 continued the upward trend posted in 2010, particularly in the Caribbean countries, which recorded considerably higher inflation than other subregions between mid-2010 and mid-2011. From the second quarter of the year onward, amid falling international prices for some food products and hydrocarbons, year-on-year consumer price inflation tailed off in all subregions; the rate fell slightly towards the end of the year. Consequently, based on the weighted average for the countries in the region, inflation at the end of 2011 was only moderately higher than at the end of 2010 (6.9 per cent versus 6.6 per cent).

9. The deficit on the balance-of-payments current account widened again slightly. One of the reasons was the surge in goods imports (23.2 per cent) fuelled by burgeoning domestic demand and currency appreciation in several countries.

10. Much of the increase in imports thus reflected greater volumes, while higher prices, especially for food and fuels, also helped to push up the overall value of imports. The region's exports benefited from higher commodity prices, especially for the export basket of the South American countries.

11. Although the uptrend in export commodity prices slowed and, in many cases, reversed from the second quarter onward, for the region overall, terms of trade are estimated to have improved by 6.1 per cent in the course of the year.

12. Remittances from migrant workers, a major component of the balance-of-payments current account in many of the region's countries, posted a modest upturn, mainly owning to recovering employment levels among Latin American immigrants in the United States of America.

13. The current account deficit was easily offset by capital and financial account inflows in 2011, making it possible to build up reserves by an even larger figure than in 2010. Almost all the subregions reduced their external debt as a proportion of GDP, although external debt levels in a number of Caribbean countries remain worrisome.

14. There is no question that future growth patterns in the region will be shaped by the magnitude and scope of a global economic downturn. With stagnating euro zone economies and slow growth in the United States, but only limited international financial market volatility, the real sector is expected to bear the brunt, especially in tradable goods and services and remittances. Some countries could be affected by declining foreign direct investment (FDI) flows.

II. Recent trends in the Latin American and Caribbean economies

15. There were two clearly differentiated stages in the international arena during the year. Generally speaking, external conditions remained benign for the Latin American and Caribbean economies during the first part of the year. However, starting midyear, changing expectations in the international arena concerning, above all, the performance of the developed economies, fed growing volatility in the international financial markets and mounting uncertainty over the course of the world economy.

16. Strong demand for the region's exports during the first half of the year pushed up export volumes; rising international commodity prices underpinned a fresh gain in the terms of trade. In addition, abundant global market liquidity, combined with the positive economic and financial expectations prevailing for many of the countries in the region, facilitated relatively advantageous access to external financing. Domestic demand remained buoyant owing to positive labour market trends, readily available credit and positive expectations regarding the future performance of the economies in the region.

17. Amid growing uncertainty in international financial markets regarding the outcome of the debt crisis in several euro zone countries, capital flows into the region dropped off as risk premiums rose, reflecting a flight to quality. These developments show that the economies in the region would not be immune to a rapid cooling of the global economy.

A. Domestic performance

18. As in 2010, economic activity in the region for the year as a whole was boosted primarily by soaring domestic demand on the strength of private

consumption, investment and, to a lesser extent, external demand. Domestic demand was driven by the surge in disposable national income generated by high commodity prices, which fed into profits and wages in the various sectors and indirectly fuelled credit growth.

19. For the year overall, household consumption was up by 5.2 per cent, only slightly less than the previous year, and contributed 3.5 percentage points to regional growth (see figure II below). This expansion was supported by labour market performance, since in real terms the wage mass increased by around 5 per cent, which also helped to further reduce poverty levels in the region.[1] In addition, as noted earlier, credit — especially consumer credit, which expanded faster than total credit in many countries — continued to surge.

20. Gross fixed capital formation slid to 8.1 per cent (from 13.4 per cent in 2010) but, as a percentage of GDP, rose to 22.8 per cent and was, in constant prices, the highest in 30 years, although still not high enough to meet the region's economic and social needs. The expansion in government consumption slowed to below the regional GDP growth rate, as many Governments endeavoured to broaden fiscal space.

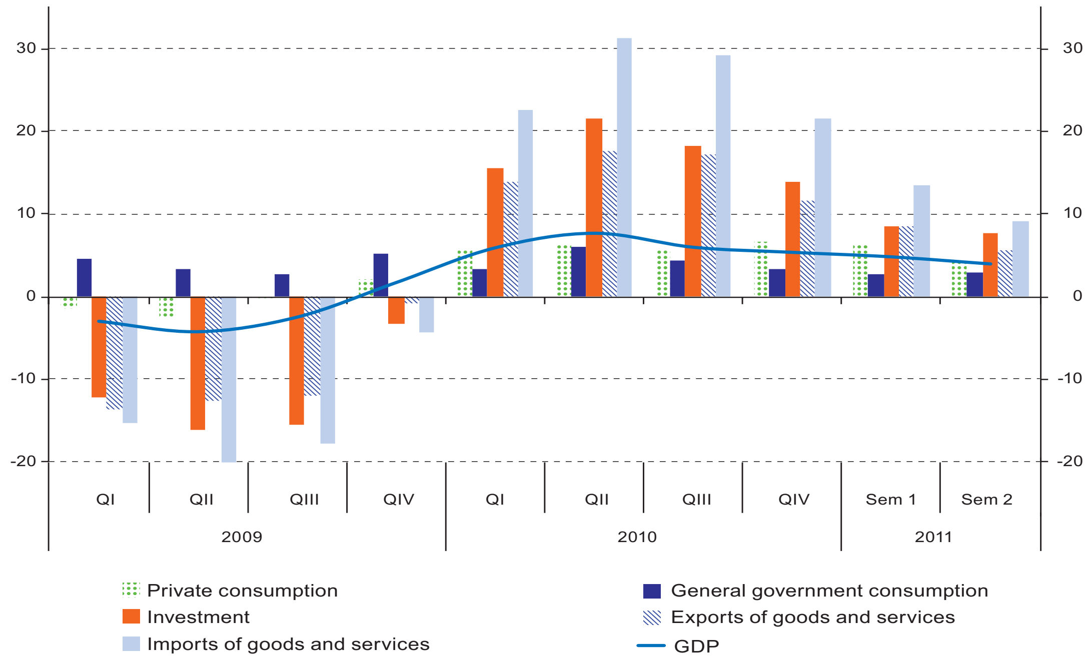
21. Buoyant domestic demand caused sharp growth in imports, which were also fuelled by currency appreciation during most of the year. Consequently, goods and services imports were up by 11.3 per cent in 2010. Goods and services exports in turn grew by 7.0 per cent and, like imports, slowed towards the end of the year.

22. The slowdown from 2010 to 2011 did not occur across the board. In fact, of the 20 Latin American countries, 11 posted higher growth than in 2010. This group includes some countries whose economic growth suffered the impact of major natural disasters in 2010 (Chile and Haiti) and others that benefited particularly from high hydrocarbon prices (especially the Bolivarian Republic of Venezuela and Ecuador). It also includes a number of Central American countries that reaped delayed benefits from the slight upturn in the United States economy, since both Central American exports and current transfers (mainly remittances) rose more in 2011 than in 2010.

23. In the English- and Dutch-speaking Caribbean, 8 out of 13 countries are estimated to have posted higher rates of economic growth, partly owing to higher remittances. Central America maintained a growth rate of around 4 per cent, while the Caribbean (0.7 per cent) saw slight improvement over the stagnation in 2010; this performance would have been better but for the economic contraction in Trinidad and Tobago. Despite widespread slowdowns in individual countries, the South American economies as a whole expanded by 4.6 per cent, more than the other subregions once again.

[1] See "Social Panorama of Latin America 2011: Briefing paper", Santiago, Chile, November 2011.

Figure II
Latin America: annual variation in gross domestic product and in components of domestic demand, 2010-2011
(Percentages, in dollars at constant 2005 prices)



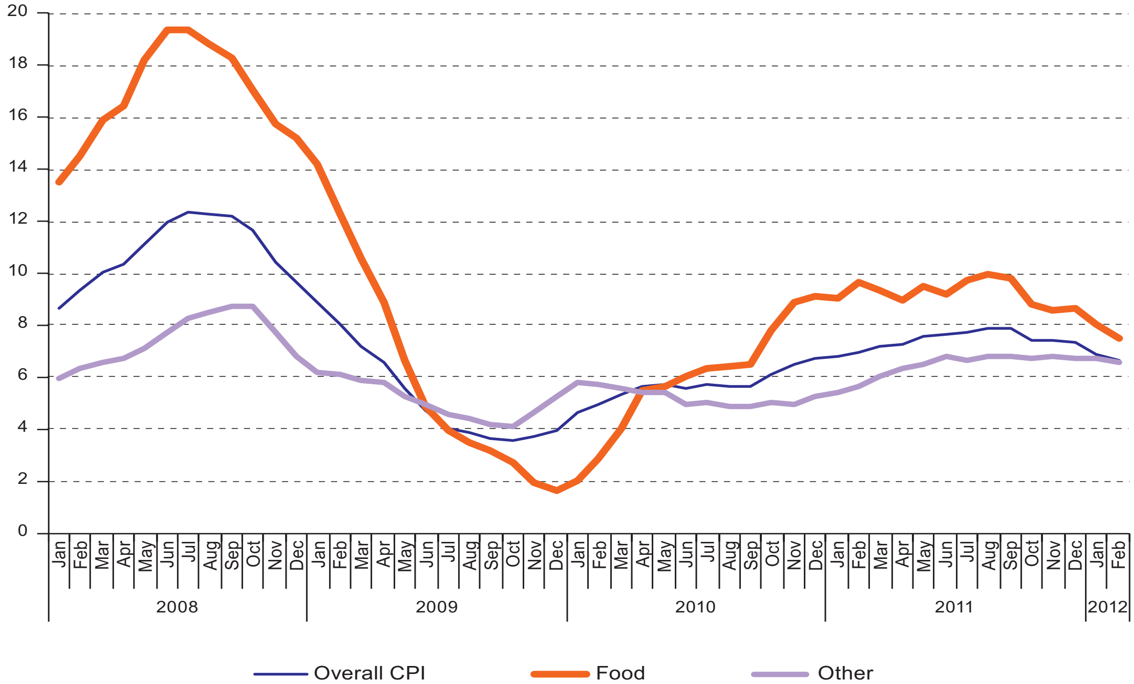
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: Figures for 2011 are estimates.

24. As in 2010, inflation continued to trend upwards in the first part of 2011. This was the case particularly in the Caribbean countries, which recorded considerably higher inflation than the other subregions between mid-2010 and mid-2011.

25. As with the inflation surge of 2008, rising international food and fuel prices were again the main factor behind the higher rates, although this time the impact was not as severe. During much of the year, currency appreciation softened the impact of international inflation on domestic prices. However, external factors had the strongest impact on price trends, as is reflected in the fact that food prices varied more widely than core inflation.

26. From the second quarter of the year onward, amid falling international prices for some food products and hydrocarbons, year-on-year consumer price inflation tailed off in all subregions; the rate fell slightly towards the end of the year. Consequently, based on the weighted average for the countries in the region, inflation at the end of the year is estimated to have been only moderately higher than at year-end 2010 (7 per cent versus 6.6 per cent).

Figure III
Latin America: year-on-year inflation by component, 2008-2012 (simple average)
(Percentages)

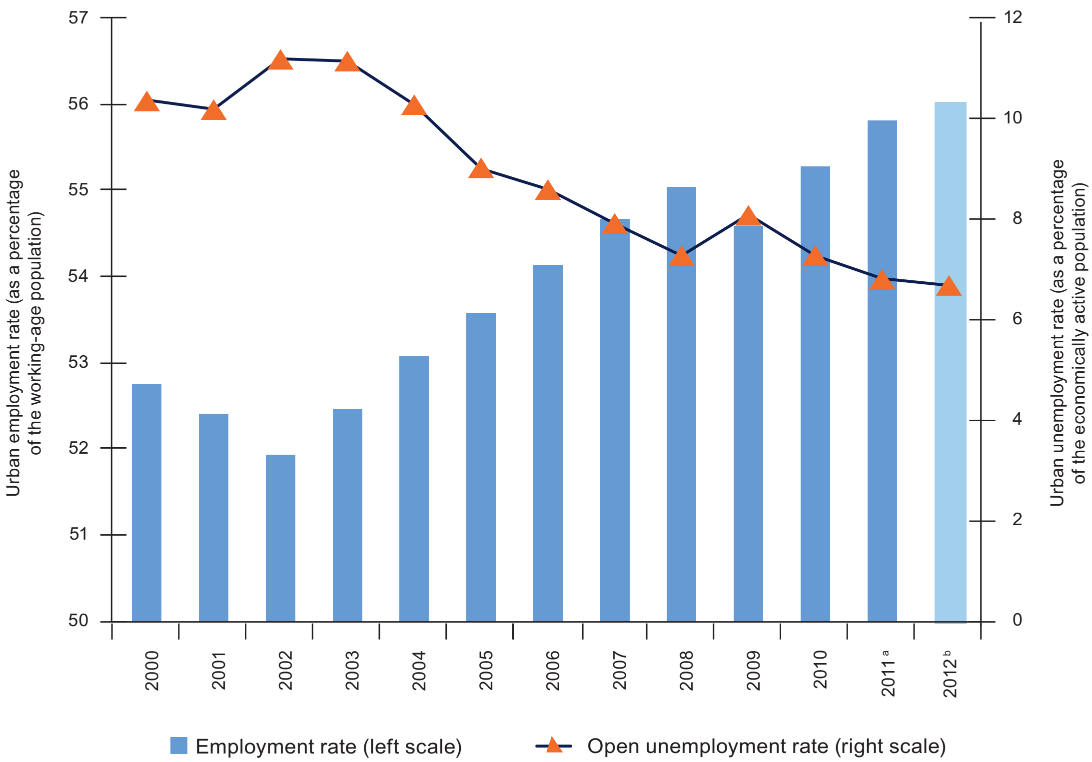


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

27. The rebound in the region's labour markets in 2010 continued into 2011, albeit at a slower pace. A further rise of 0.5 percentage points in the urban employment rate led to a fall of the same magnitude in the urban unemployment rate, which therefore stood at 6.8 per cent. This is fairly low for a region that was posting double-digit unemployment rates less than 10 years ago. However, unemployment trends were less positive in Central America and the Caribbean, where economies performed less strongly than in South America (see figure IV).

28. The quantitative rise in employment was accompanied by qualitative improvements, since the new jobs created were concentrated in wage employment and, in many countries, the number of jobs covered by the social security system rose considerably. In general, the hourly underemployment rate also declined.

Figure IV
Latin America and the Caribbean: rates of employment and open unemployment, 2000-2012
(Percentages)



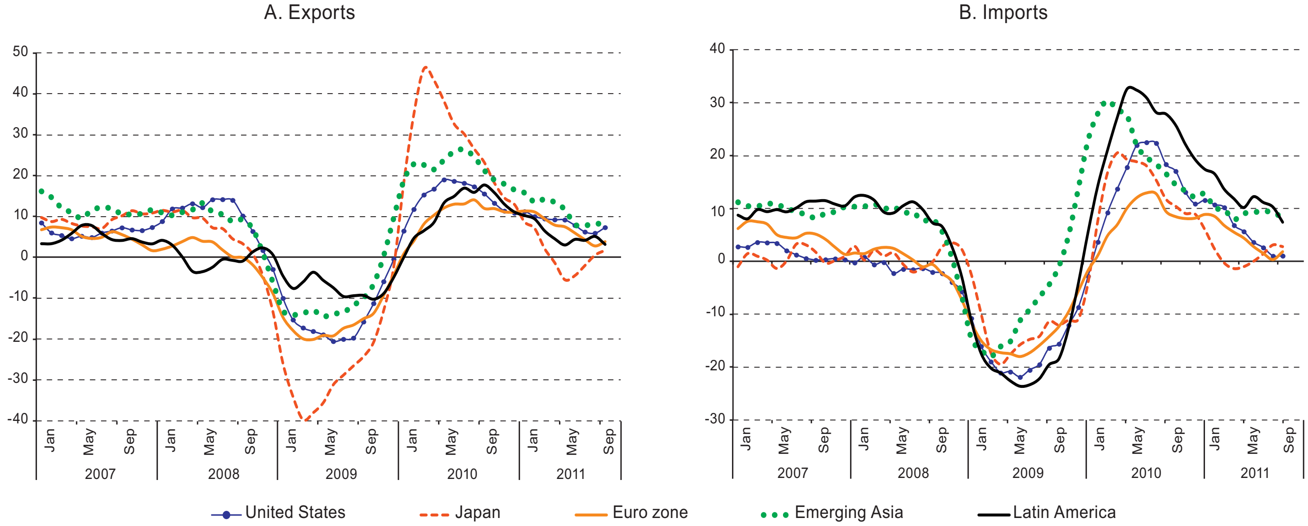
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimate.
[b] Projection.

B. External sector

29. The deficit on the balance-of-payments current account widened again slightly, partly owing to rising goods imports (23.2 per cent) fuelled by burgeoning domestic demand and currency appreciation in a number of countries. Much of the increase in imports thus reflected greater volumes, while higher prices, especially for food and fuels, also helped to push up the overall value of imports.

30. The region's exports benefited from higher commodity prices, especially for the export basket of the South American countries. In the course of the year, growth in export volumes slipped below 5 per cent as economies cooled in several main buyers of the region's export goods. In the second half of the year, international market turbulence dampened demand for these goods. The fact that exports grew at a similar rate to imports and that the surplus on the regional goods balance rose slightly, from 1.1 per cent of GDP in 2010 to 1.2 per cent in 2011, was therefore owing to high prices.

Figure V
World exports and imports by region (three-month moving average), 2007-2011
(Annual percentage rates of variation)



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

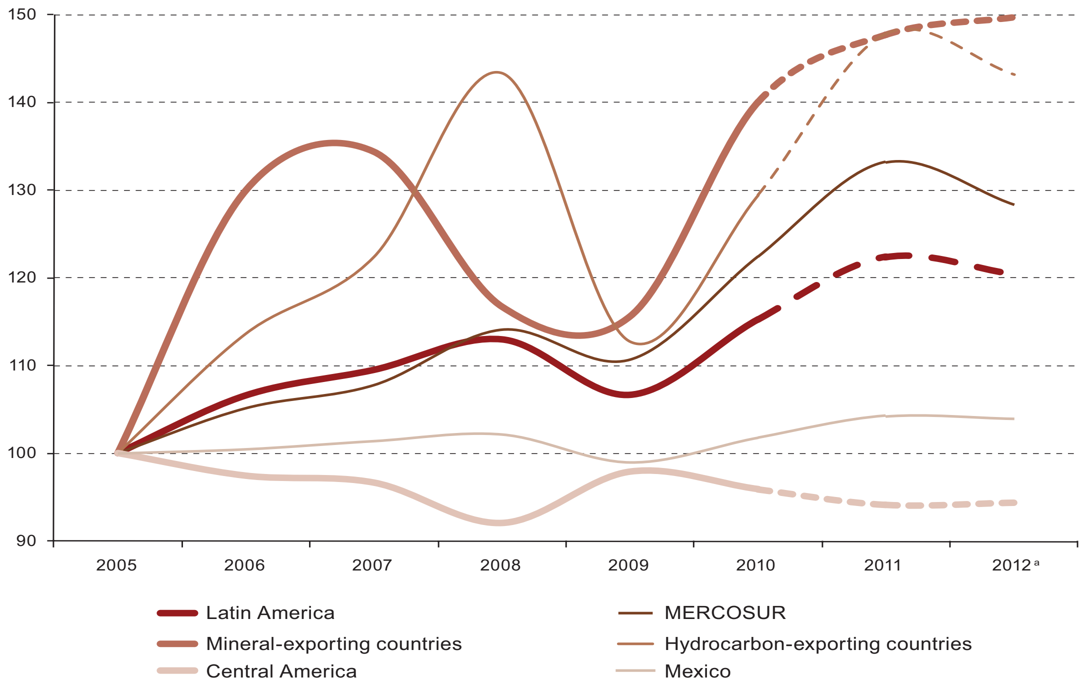
31. Although the uptrend in export commodity prices slowed and, in many cases, reversed from the second quarter onward, the terms of trade for the region overall are estimated to have improved by 6.1 per cent in the course of the year (see figure VI). However, there are major differences among the countries, depending on their export structure. Terms of trade improved by around 14 per cent for hydrocarbon-exporting countries, by between 5.5 per cent and 8 per cent for countries whose main exports are mining products and for MERCOSUR countries that export agribusiness products, and only slightly (by about 2 per cent) for Mexico, with its more diversified export structure. Meanwhile, the food- and hydrocarbon-importing countries of Central America suffered a small terms-of-trade loss of around 2 per cent.

32. Remittances from migrant workers, a major component of the balance-of-payments current account in many of the region's countries, posted a modest upturn, mainly owing to recovering unemployment levels among Latin American immigrants in the United States. By contrast, employment levels for Latin American migrants in Spain (another important destination in the past few years) not only continued to fall but did so more rapidly than the levels for the Spanish workforce overall (see figure VII). Be this as it may, the modest upturn in remittances in absolute terms was not sufficient to prevent this variable from contracting as a proportion of GDP.

33. The deficit on the services balance expanded, mainly as a result of the high costs associated with imports. Higher outflows were recorded on the income balance, partly owing to an increase in mining company profits caused by the high average prices prevailing during the year. As a result, the region's balance-of-payments current account deficit widened again, to 1.4 per cent of GDP, compared with 1.2 per cent in 2010.

34. For the region overall, the favourable capital and financial account balance financed the current account deficit and even made it possible to build up international reserves. Specifically, net FDI inflows swelled considerably, by around 75 per cent, with respect to 2010, with an increase of 25 per cent in gross FDI.[2] Portfolio investment flows also fed into surpluses in the capital and financial account in almost all the Latin American countries, in the first part of the year in particular. As well as financing the current account deficit, these inflows were large enough to build up reserves by an even larger figure than in 2010. Almost all the subregions reduced their external debt as a proportion of GDP, although external debt levels in a number of Caribbean countries remain worrisome.

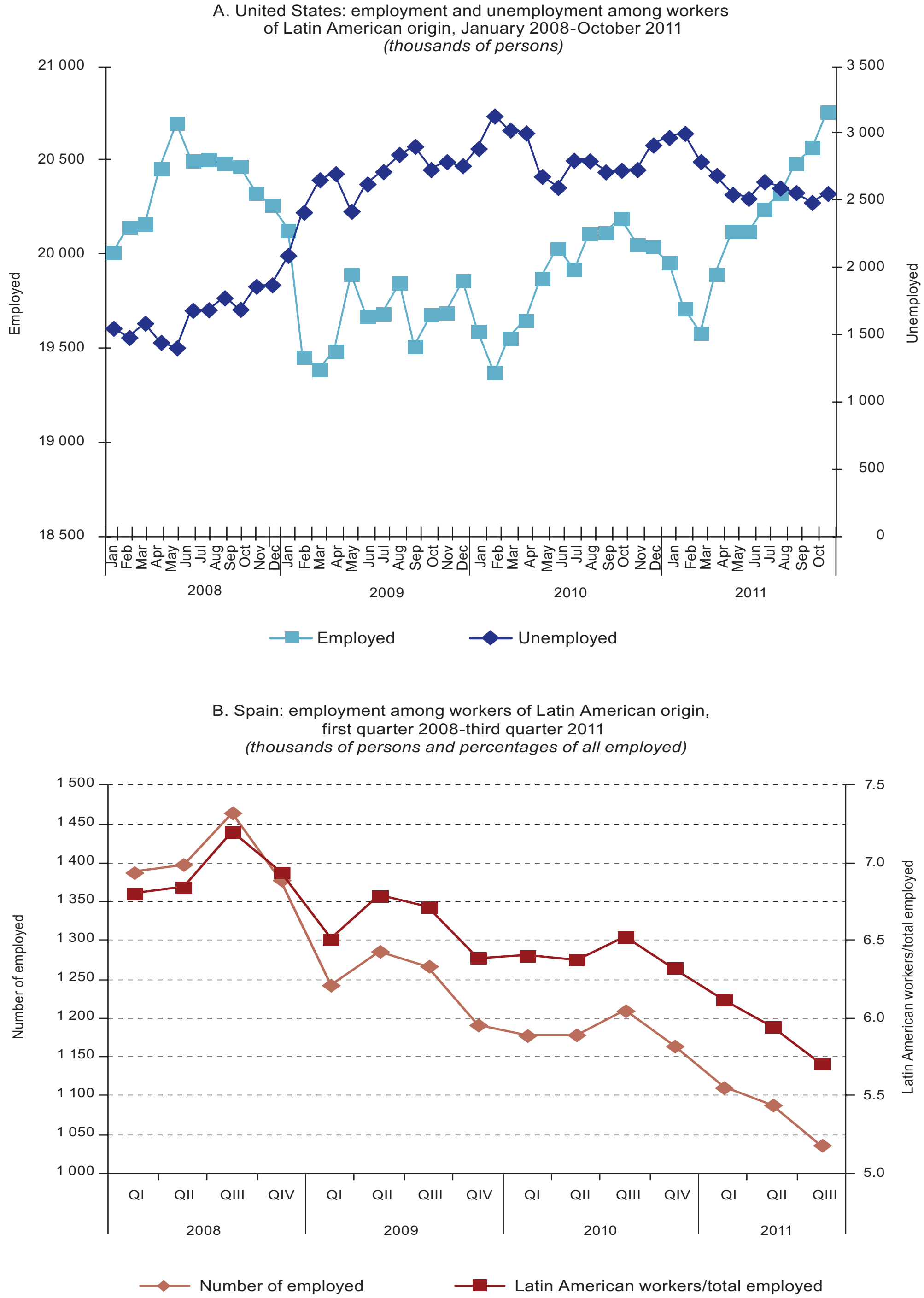
Figure VI
Latin America and the Caribbean: variation in terms of trade, 2005-2012
(Index: 2005=100)



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

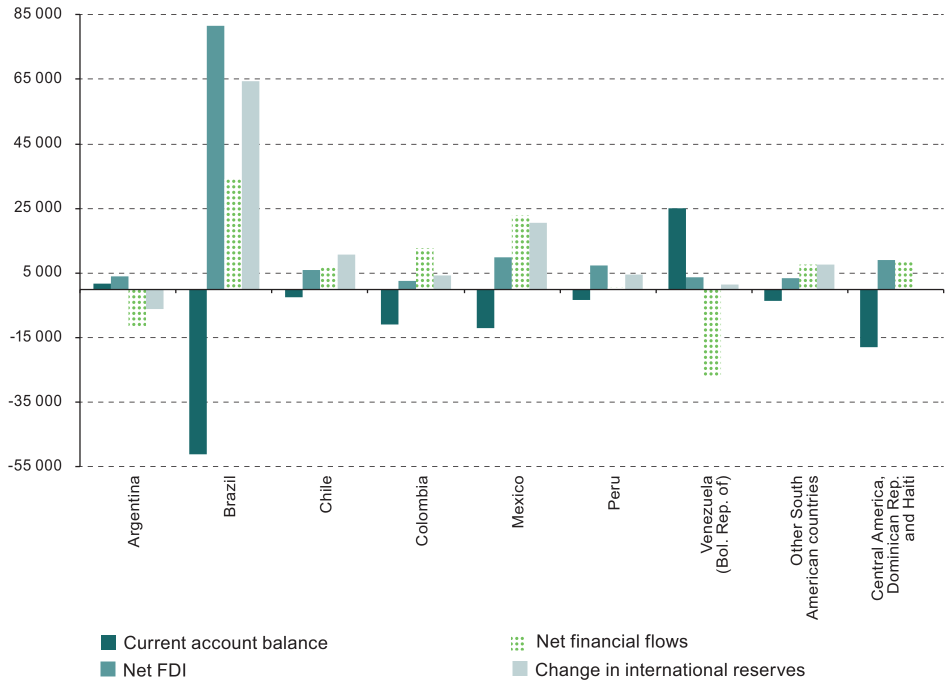
[2] The sizeable difference between net and gross figures is owing to the sharp drop in outbound investment by Latin American and Caribbean companies.

Figure VII
United States and Spain: employment and unemployment among workers of Latin American origin



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

Figure VIII
Latin America (selected countries): components of the balance of payments, 2011
(Millions of dollars)



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

III. Macroeconomic policy

35. The macroeconomic policies of the countries in the region faced a shifting set of challenges during the course of the year, influenced both by the external context and by domestic developments. Countries tackled these challenges and changes in a variety of ways, depending on their structural characteristics, the severity of the impact, the available instruments and policy priorities.

36. During the first half of the year, some countries, in particular those that had adopted formal inflation-targeting schemes, raised their benchmark interest rates, while others kept them steady or reduced them. The public banking system (which in several countries had expanded the supply of credit as part of the anti-crisis measures of 2008 and 2009) generally refrained from further credit increases. Some countries also took steps to curb fiscal spending as a way to rebuild fiscal space diminished in response to the crisis.

37. For the most part, central banks boosted their international monetary reserves in order to check currency appreciation, moderate exchange rate volatility and reduce vulnerability to potential turbulence on international financial markets.

38. As conditions changed during the second half of the year, countries whose policy in the first half had been to gradually withdraw monetary stimulus stopped

raising interest rates or began to cut them. Towards the end of the year, Brazil, the region's biggest economy, began to take additional steps to stimulate investment and consumption, while other countries announced the acceleration of public investment or other measures to confront the possibility of a deeper-than-expected cooling of the economy.

A. Fiscal policy

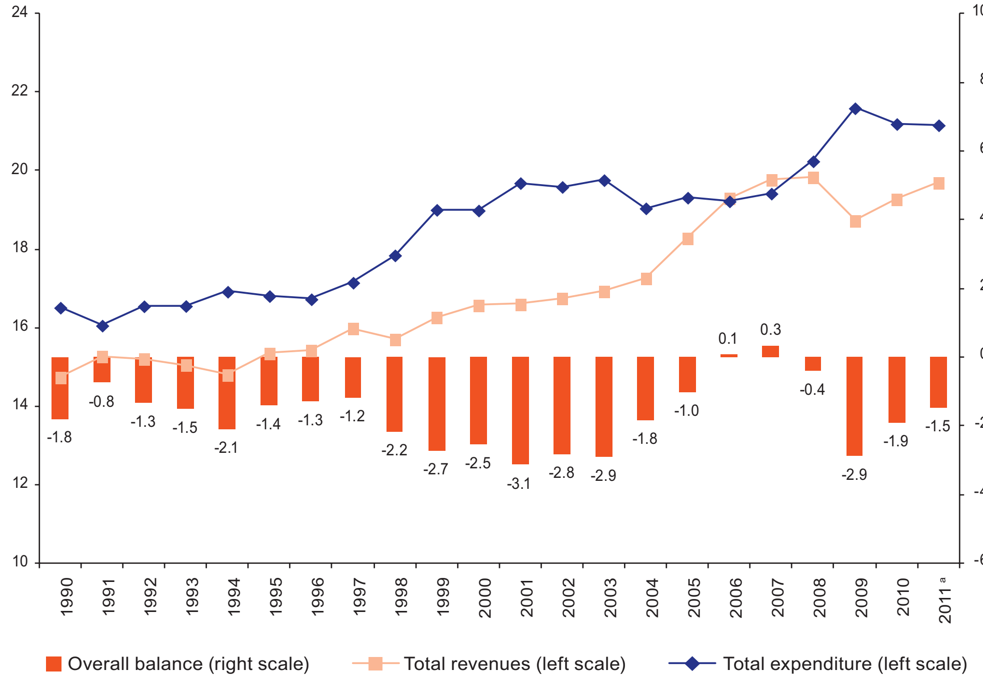
39. On average, the fiscal accounts of Latin America closed 2011 with a small primary surplus, after two years of deficits that reflected the impact of the global economic and financial crisis of 2008-2009 and the efforts on the part of the countries in the region to counter that crisis. In terms of primary balances, most countries reduced their deficits, transformed them into surpluses or expanded existing surpluses. On average, the primary balance improved by 0.6 percentage points, moving from a deficit of 0.3 per cent of GDP to a surplus of 0.3 per cent. In turn, the overall deficit declined on average from 1.9 per cent of GDP to 1.5 per cent. This slight improvement was the result of an increase in revenues equal to 0.4 per cent of GDP, while spending remained nearly constant as a proportion of GDP.

40. While most of the Latin American countries (13 out of 19) saw improvements in their overall balances, the overall deficit of central Governments rose in three of the six Caribbean countries for which information was available.

41. Region-wide, revenues increased primarily owing to a generalized rise in tax receipts in Latin American countries, in a context of relatively buoyant economic growth. The commodity-exporting countries also saw higher prices for their goods, which boosted fiscal revenues. With their increase in 2011, fiscal revenues as a proportion of GDP are almost back to their 2007-2008 levels. On the whole, expenditure remained at levels clearly above those recorded in 2008 and earlier years, after a sharp jump associated with the countercyclical policies of 2009. Individual country performance varied: 8 out of 19 countries increased their spending at rates above the growth in GDP.

42. Against this backdrop, the region as a whole resumed the process of bringing down its public debt in terms of GDP, thereby bolstering the longer-term process that had marked much of the previous decade, when countries were striving to reduce their vulnerabilities. This reduction in central government debt occurred almost across the board in 2011: only 4 out of the 19 countries experienced increases. On the other hand, Caribbean countries continue to carry high levels of public debt, severely restricting their fiscal policy options in a climate of sluggish economic performance. In addition, since 2010, the bulk of central government debt across most of the region has been domestic, in clear contrast to the situation in the past.

Figure IX
Latin America (19 countries): central government fiscal indicators, simple average, 1990-2011
(Percentages of GDP at current prices)



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

B. Monetary and exchange-rate policies

43. With rising inflation induced by high prices for imported products that figure heavily in the consumer basket, several countries responded to concerns about the impact on the prices of other goods and services by raising their monetary policy interest rates. Other countries kept them steady and some, primarily in the Caribbean, reduced them in an attempt to boost lacklustre economic growth. Because inflation continued on an upward trend through most of the year, bank lending rates declined in real terms in most countries.

44. In addition to the demand stimulus from falling real interest rates, efforts to extend banking services to a greater proportion of the population,[3] combined with optimistic expectations on the part of economic agents,[4] led to a rapid expansion of

[3] Peru, for example, saw a 10 per cent increase in the number of banking system borrowers between October 2010 and October 2011, while in Argentina, the number of loans to individuals rose by 9 per cent between September 2010 and September 2011.

[4] According to the economic climate indicator in the *Ifo World Economic Survey*, during the first three quarters of 2011, the economic experts surveyed about the situation and about prospects of selected Latin American economies were bullish, to a similar extent as in 2005 and 2006 and only slightly less than in 2007 and the first half of 2008. However, in the fourth quarter of 2011, they signalled a sharp deterioration (*CESifo World Economic Survey*, November 2011).

credit; this did much to boost domestic consumption and investment. In general, the main source of credit was the private banking system. While lending by public institutions did increase, it did so unevenly: the volume of lending was up sharply in some countries and expanded only moderately in others.

Figure X
Latin America (regional median): private, public and total bank credit portfolio growth, real year-on-year change
(Percentages)

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

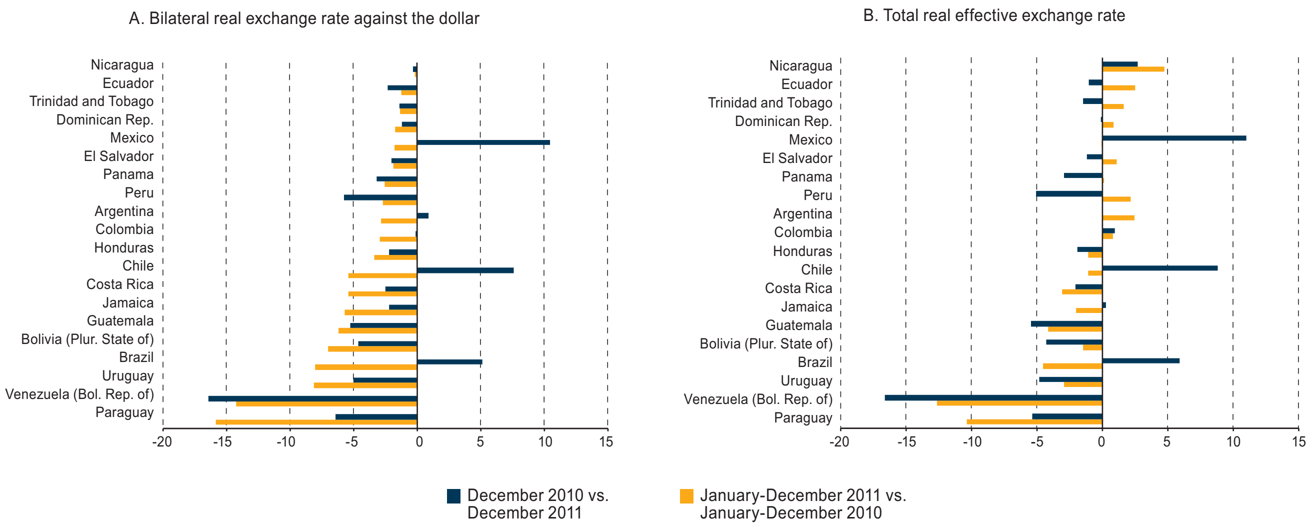
45. The massive capital flows into many of the economies in the region, particularly during the first part of the year, strengthened many currencies. As a result, especially the countries most closely integrated into international financial markets recorded, on average, real currency appreciation against the dollar compared with the average for the previous year. However, this trend reversed as international financial markets became more volatile in the last few months of the year; year-on-year comparisons in December showed that appreciation overall was slowing and that, in some cases, there was even real currency depreciation (see figure XI).

46. Given the diversity of the region's trading partners, the real effective exchange rate did not, in general, rise to the same extent as the bilateral real exchange rate against the dollar. This reflects the fact that in 2011, the real effective extraregional exchange rate appreciated only modestly on average, compared with 2010.

47. As noted earlier, owing to the efforts by Governments to contain currency appreciation pressure, limit exchange-rate volatility and reduce vulnerabilities, the great majority of countries built up their international monetary reserves, both in

absolute terms and (in most cases) as a proportion of GDP. The region's reserves as a whole therefore swelled by more than $120 billion. Brazil accounted for around 60 per cent of this increase.

Figure XI
Latin America and the Caribbean (20 countries): change in real exchange rates, comparison of averages in January-December 2011 with January-December 2010 and December 2011 with December 2010
(Percentages)



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

IV. Prospects for 2012 and macroeconomic challenges beyond the short term

48. As discussed in the previous sections, the global economy is expected to slacken, with Europe leading the trend; lower growth is also forecast for a number of emerging economies. China and other Asian countries are expected to see a slowdown in 2012, although growth will remain positive. The developing countries as a whole will once again outpace the rate of growth expected in the developed economies. In this more sluggish environment, cloudy prospects for the larger economies, mixed with high uncertainty and volatility in the international financial markets, are likely to affect the global economy through different channels.

49. Future growth in the region will be shaped by the magnitude and scope of a global economic downturn. With stagnating euro zone economies and slow growth in the United States, but only limited international financial market volatility, the real sector is expected to bear the brunt, especially in tradable goods and services and remittances.

50. As in 2011, economic growth in Mexico and Central America will be affected by slow but positive growth in the United States market, and their external sales will post a moderate increase. On the other hand, some of the countries in South America will be hit by falling demand in Europe, which is the destination for more than

20 per cent of the exports from such countries as Brazil and Chile (see table below). However, a substantial portion of exports from many South American countries goes to the Asian markets, which are expected to post above-average growth rates. Moreover, commodities (which make up a significant share of these countries' exports) are easier to redirect if demand sags in any given market.

Latin America: geographical distribution of exports, yearly average for 2007-2010

(Percentage of total exports)

	United States	*Europe (27 countries)*	*China and Japan*	*Latin America*
Argentina	6.9	17.8	9.4	40.9
Bolivia (Plurinational State of)	8.2	8.2	8.1	62.0
Brazil	12.5	23.2	14.0	22.1
Chile	11.6	21.0	29.4	18.7
Colombia	39.1	13.7	4.1	30.4
Costa Rica	37.2	17.4	7.7	24.9
Ecuador	39.1	13.1	2.4	37.5
El Salvador	48.5	5.8	0.5	42.0
Guatemala	40.4	5.6	1.9	41.9
Honduras	45.2	19.7	2.0	26.9
Mexico	80.8	5.3	1.6	6.4
Nicaragua	34.3	11.5	1.2	40.4
Panama	16.1	3.4	1.7	69.3
Paraguay	1.8	8.4	2.8	67.2
Peru	18.1	17.3	19.4	18.1
Dominican Republic	60.1	12.8	3.8	4.8
Uruguay	6.1	17.7	4.1	39.7
Latin America[a]	41.5	13.7	9.0	19.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures, and United Nations commodity trade statistics database.

[a] Does not include the Bolivarian Republic of Venezuela, owing to lack of data.

51. With respect to the components of domestic demand, lower trade volumes and declining revenue owing to the terms-of-trade effect (for the region as a whole) could chill investment. The extent of this dampening will depend on how the financial markets fare and thus on the availability of credit for financing the purchase of capital goods and consumer durables. Some countries could be hit hard by declining FDI flows.

52. The direct impact on consumption in some countries will depend on the trend in remittances from Latin American and Caribbean workers employed in developed countries. The trend would be expected to depend on the migrants' country of destination (chiefly, the United States and Spain). The moderate increase in

remittances from the United States economy seen in 2011 is therefore expected to continue. The economies of Mexico and many Central American and Caribbean countries would benefit the most, with a boost in household consumption, especially among lower-income households.

53. Overall, under the base case scenario, expectations are that the region will continue to grow, albeit more slowly than during the period 2010-2011. This is partly because many countries have some room for implementing policies aimed at shoring up demand; international reserve levels have been restored, so the expected current-account deficit could be financed without draining them. Public accounts improved during the period 2010-2011 and, except for some Caribbean countries, indebtedness is low and would enable several countries of the region to place debt in the domestic and external financial markets. Slower inflation provides more monetary policy space for stimulating economic activity.

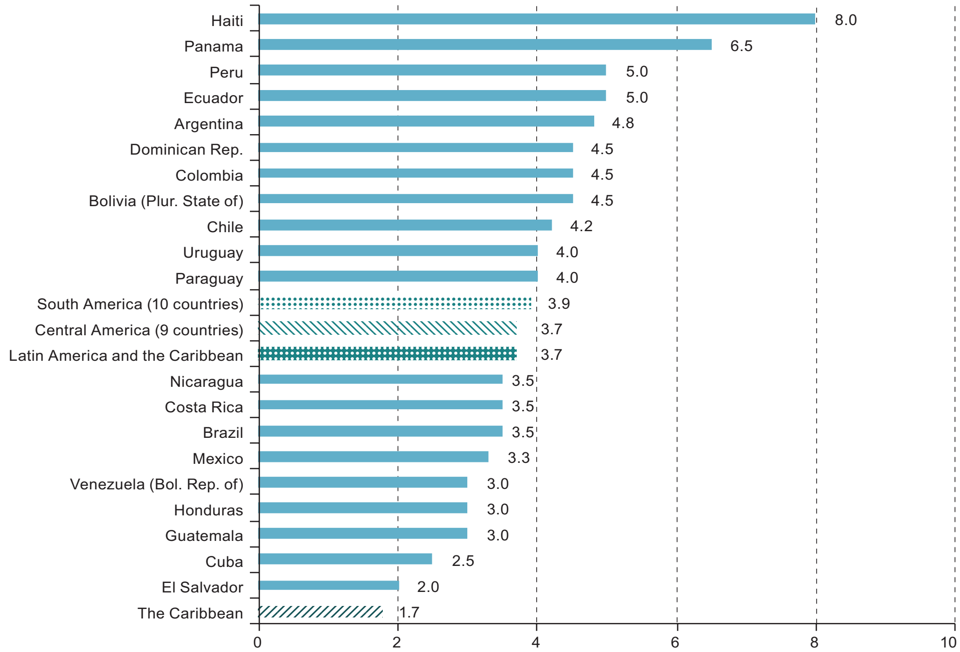
54. Against this backdrop, the region's economy is expected to grow by 3.7 per cent in 2012. This is the lowest figure since 2003, with the sole exception of 2009. However, in view of the more adverse external environment, this is not such a negative performance.

55. The deceleration compared with 2011 is expected to affect most of the countries. The chief exception is Brazil which, after the sharp slowdown in 2011, is expected to recover somewhat on the strength of its domestic market and with the aid of specific measures rolled out in late 2011 plus a higher average real exchange rate for the year. The Caribbean is also expected to record somewhat higher growth than in 2011, particularly as the economy of Trinidad and Tobago recovers from its contraction. Nevertheless, it will continue to see lacklustre performance owing to its close ties to the economies of Europe and the United States, where demand for goods and services from the Caribbean countries will remain low.

56. Economic growth throughout the region should nudge employment rates up again, although any increase will be smaller than in 2010 and 2011. This will be reflected in the open urban unemployment rate, which will either stagnate or decline slightly by up to 0.2 percentage points. Because real wages will benefit from lower inflation, labour market performance should once more spur domestic demand, although not as much as in previous years.

Figure XII
Latin America and the Caribbean: GDP growth, 2012[a]

(Percentages)



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

[a] Projections.

57. In the public finances arena, the 2012 budgets of the countries in the region point to a slight deterioration in the fiscal accounts, with a primary surplus equal to 0.2 per cent of GDP and an overall deficit equal to 1.7 per cent of GDP, essentially owing to declining fiscal revenue.

58. On the external front, worsening terms of trade and slower growth in export volume will lead to further, albeit slight, deterioration of the balance-of-payments current account, which will post a deficit equal to 1.8 per cent of the region's GDP.

V. Conclusions

59. Summing up, the global economy went through two clearly differentiated stages in 2011. The first was characterized by favourable expectations as to the performance of the international financial and goods markets, buoyed by optimism concerning prospects for renewed growth in the developed economies. However, the deepening debt crisis in many euro zone countries dispelled those positive expectations, giving way to a more sombre outlook for global economic performance.

60. The countries in the region acted on the basis of prevailing conditions; thus, the conduct of economic policy reflected shifting priorities as conditions changed. As a result, during the first part of the year, when external conditions were generally

favourable for the region, with positive terms of trade and abundant financial flows, the focus was on containing inflationary pressures and avoiding significant currency appreciation. However, in the second half of the year, the focus turned back to keeping the decline in external demand from triggering a sharp slowdown in economic activity.

61. The outcome was economic growth and receding poverty rates for the second year in a row after the crisis that halted progress on this front, but the forward pace was decidedly slower than in 2010.

62. The scenario for 2012 hinges on external conditions and on the capacity of the Governments to maintain the growth of aggregate domestic demand. In this scenario, the difficulties faced by several European economies will slow global economic growth, but emerging solutions and an easing of the uncertainties hovering over international financial markets could mean another year of growth for the region, although the pace would be slower than in 2010 and 2011.

63. However, there is another, more pessimistic scenario, in which failure to resolve the serious issues weighing on the economies of southern Europe would spark a euro crisis whose consequences would be even worse than those of the 2008 mortgage crisis. Such a situation would not only exacerbate the negative impacts on the factors that drive external demand for goods and services from the region: it might simultaneously weaken some of the macroeconomic fundamentals discussed above.

64. The countries in the region must prepare to cope with the worst-case scenario, readying measures and considering how to finance them if a changing external environment affects the economies in the region and calls for rapid response. A key component of such strategies should be protecting and encouraging the creation of jobs with rights.

65. The region must build up its capacity to face an adverse external environment by deepening trade and financial ties among the countries. Greater trade integration would expand the markets and thus offset declining external demand; greater financial integration would cushion problems arising from expected difficulties in obtaining financing. This could require changing the region’s financial architecture in keeping with the needs of the moment.