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Economic situation and outlook for Latin America and the Caribbean for the period 2016-2017

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith an overview report on the economic situation and outlook for Latin America and the Caribbean for the period 2016-2017.

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Economic situation and outlook for Latin America and the Caribbean for the period 2016-2017

[Original: English and Spanish]

Summary

The decelerating growth trend that Latin America and the Caribbean has seen since 2011 intensified in 2016, with a second year of economic decline. Regional gross domestic product (GDP) contracted by -1.1 per cent, which translates into a 2.2 per cent decline in per capita GDP. This fall in GDP was mainly caused by a large drop in investment, which has been declining since the end of 2013, and private consumption, which started to fall in mid-2015. Regionwide, domestic demand is estimated to have fallen by 2.0 per cent in 2016, with all its components contracting.

With regard to the external sector, the current account of the balance of payments narrowed from the equivalent 3.4 per cent of GDP in 2015 to 2.1 per cent of GDP in 2016, mainly owing to the fall in import values associated with weak economic growth.

During the first half of 2016 inflation gathered pace in the Latin American and Caribbean economies on average, with some countries posting rates above 40 per cent. However, in the second half of the year, regional average inflation rates fell.

While there were differences between countries and subregions, in Latin America and the Caribbean as a whole the quantity and quality of jobs in the labour market declined sharply during 2016. Specifically, the urban unemployment rate rose from 7.4 per cent to 9.0 per cent.

These developments in the economies of the region have posed complex challenges for macroeconomic policymakers. With regard to fiscal policy, in the countries of Latin America during 2016, the fiscal deficit held steady at around an average of 3.0 per cent of GDP for the second year running in the 17 countries analysed. This was a result of greater public revenues which offset an increase in interest payments. In addition, gross public debt across all countries of Latin America has continued its upward trend to average 37.6 per cent of GDP in 2016, a rise of 1.7 percentage points of GDP on 2015.

Monetary and exchange-rate policies in the region were guided by different factors, chief among them the high inflation seen during the first half of 2016 (which reduced the scope for expansionary monetary policy), uncertainty and thence volatility in international financial markets, and weak growth (or in some cases, contraction) in aggregate demand.

A slightly more favourable outlook than 2016 in terms of growth in the global economy and global trade suggests that the economies of the region will perform more positively in 2017, with regional growth expected to be 1.1 per cent. However, this growth will not be enough to increase per capita GDP and no significant improvements in the labour markets are expected. High levels of uncertainty will also persist with regard to world trade and international financial markets, posing downside risks.

Introduction

1. Last year saw the GDP of Latin America and the Caribbean contract for the second year running that, and per capita GDP decline for the third year in a row. While there were differences between countries and subregions, and only a few countries saw negative growth, the economic slowdown was a fairly widespread pattern among the economies of the region. Weak aggregate demand, the deteriorating labour market, high inflation — even though it slowed in many countries over the course of 2016 — and financial market uncertainty have presented macroeconomic policymakers with a number of challenges. A slight recovery of 1.1 per cent growth is expected in 2017; however this will not be enough to push up per capita GDP.

2. This report on the economic situation and outlook for Latin America and the Caribbean in 2016-2017 is divided into seven sections. The first six sections summarize the economic performance of the region in 2016 in the following areas: (i) the external sector; (ii) economic activity; (iii) domestic prices; (iv) employment and wages; (v) fiscal policy; and (vi) monetary and exchange-rate policies. Lastly, the seventh section analyses the trends and outlook for 2017.

A. The external sector

3. The region's current account deficit narrowed sharply in 2016, mainly owing to the fall in import values associated with weak economic growth. Although net financial inflows were smaller than in 2015, they were more than sufficient to cover that deficit; and the region built up international reserves during the year. Sovereign risk has declined everywhere in the region since February 2016, reflecting an easing of tensions on global financial markets and a simultaneous increase in international bond issues by individual countries.

4. In line with the global trend of commodity prices, the regional terms of trade fell by 0.3 per cent in 2016, much less than the 9 per cent drop recorded in the previous year. Hydrocarbon-exporting countries have again been hit hardest, with an 11 per cent fall, followed by mineral exporters, for which the terms of trade declined by 2 per cent. In contrast, the Central American countries, those that export agro-industrial products, and the Caribbean (excluding Trinidad and Tobago), have all benefited from lower energy prices; and their terms of trade have risen, albeit by less than in 2015 (see figure 1).

5. The deficit on the current account of the balance of payments was equivalent to 2.1 per cent of regional GDP (US$ 104.5 billion) in 2016, compared to 3.4 per cent of GDP (US$ 176.4 billion) a year earlier (see figure 2). While the largest reduction occurred in Brazil, nearly all countries saw their current account balances improve in 2016.

6. For the region as a whole, all components of the current account helped to reduce the deficit, although the goods account was the main contributor.

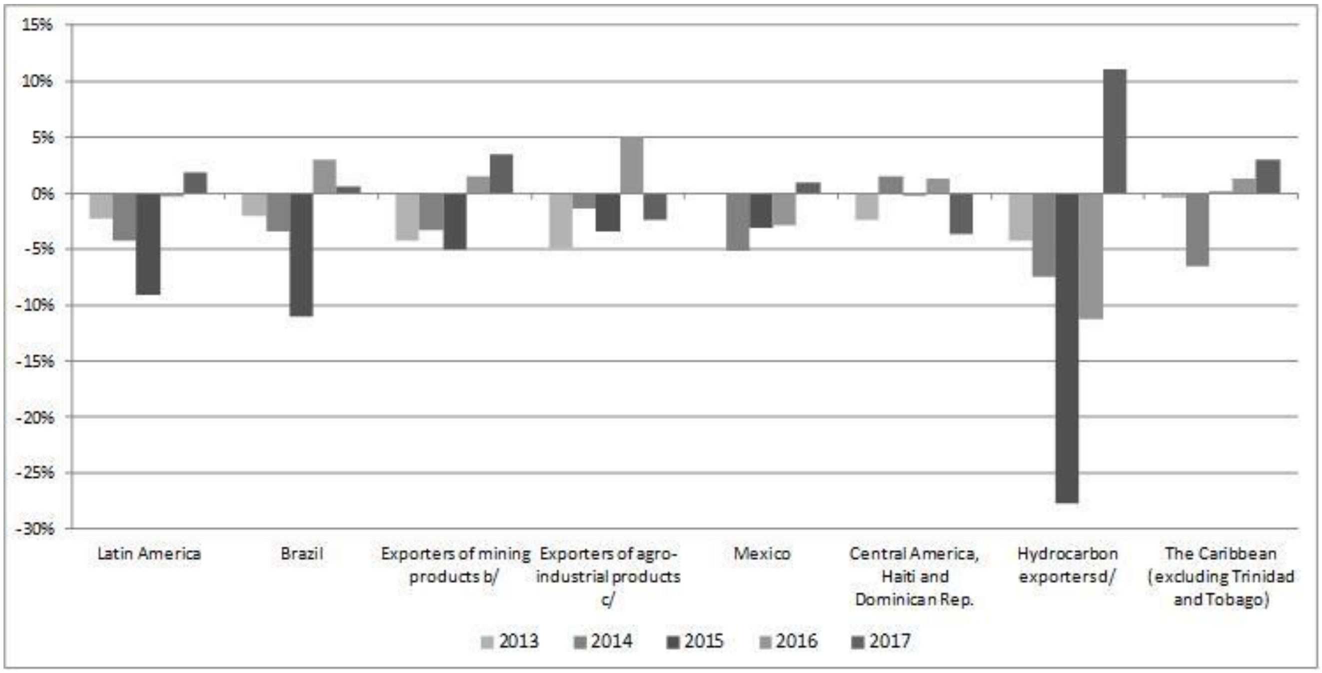
7. The goods account went from a deficit in 2015 to a small surplus in 2016, owing to a 9 per cent fall in the value of imports relative to the previous year's level, which more than offset the 4 per cent drop in the value of goods exports.

8. The region's lacklustre economic activity has drawn in smaller import volumes (-5 per cent), which, combined with lower prices (-4 per cent), has produced the reduction in import value noted above. Recessions in some of the region's main economies, such as Argentina, Brazil and Ecuador, have reduced imports substantially, by some 6.9 per cent, -19.1 per cent and -23.4 per cent, respectively (see figure 3).

Figure 1

Latin America and the Caribbean (selected countries and country groupings): rate of variation in the terms of trade, 2013-2017[a]

(Percentages)



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

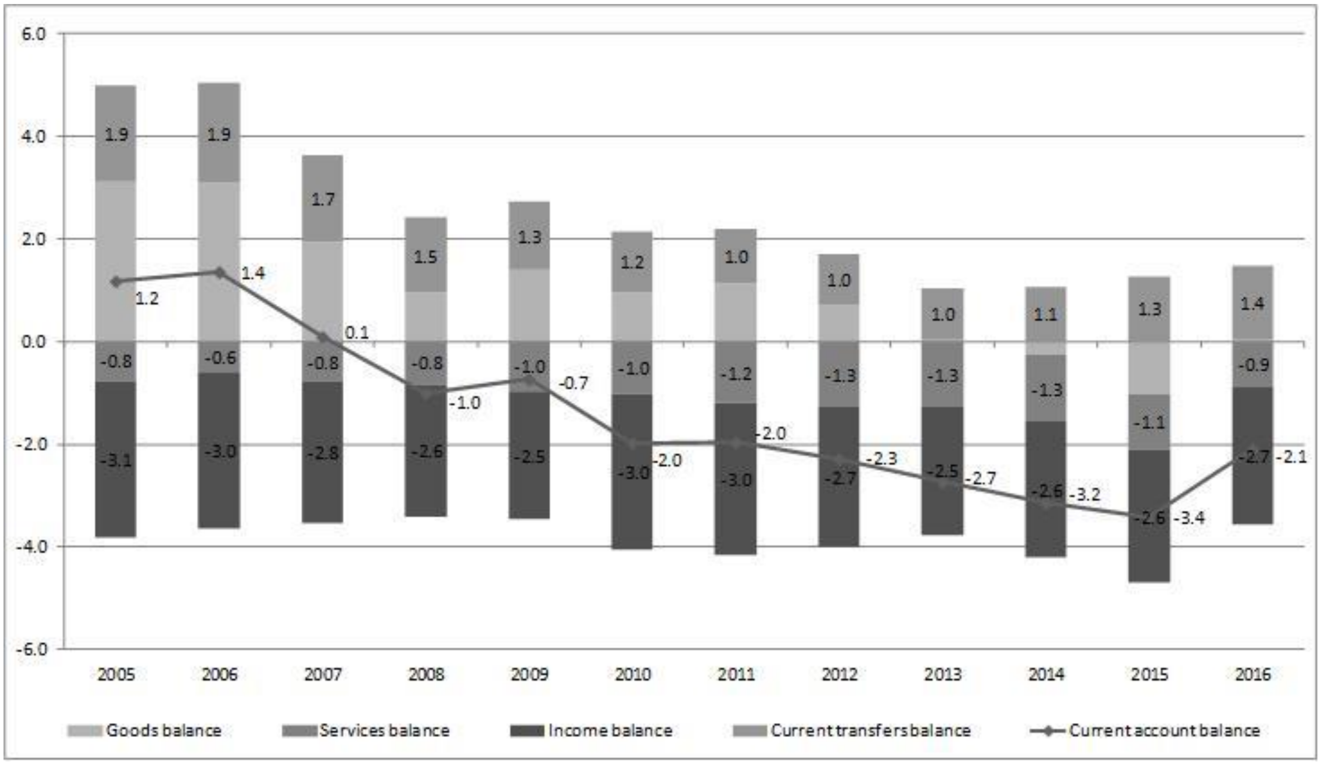
[a] The figures for 2016 and 2017 are estimations and projections, respectively.

[b] Chile and Peru.

[c] Argentina, Paraguay and Uruguay.

[d] Bolivarian Republic of Venezuela, Colombia, Ecuador, Trinidad and Tobago and Plurinational State of Bolivia.

Figure 2
Latin America: balance-of-payments current account by component, 2005-2016[a]
(Percentages of GDP)

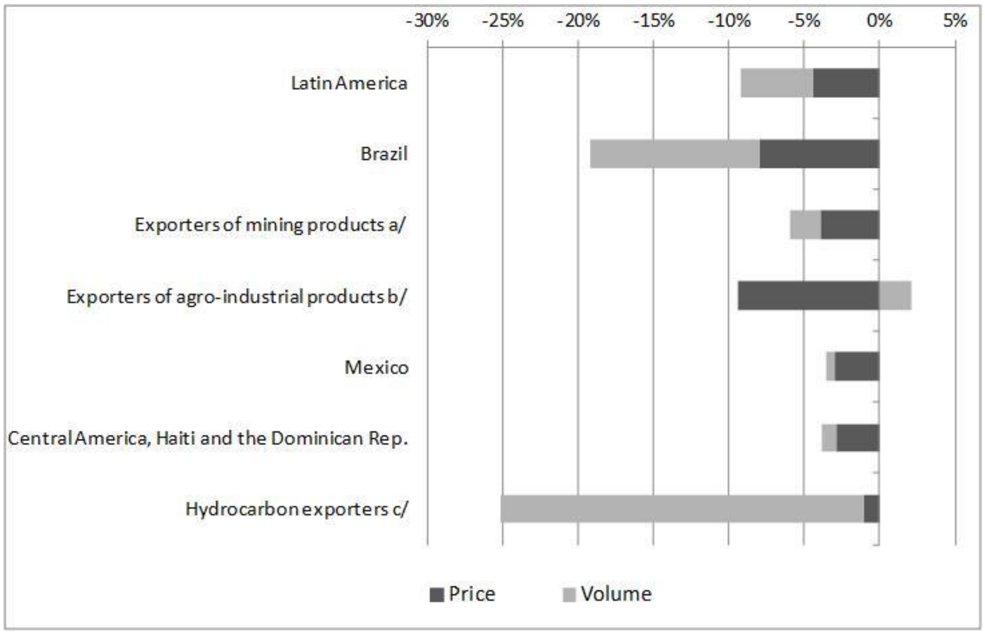


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] The figures for 2016 are projections.

Figure 3

Latin America and the Caribbean (selected countries and groupings): variation in goods imports by price and volume, 2016

(Percentages)



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

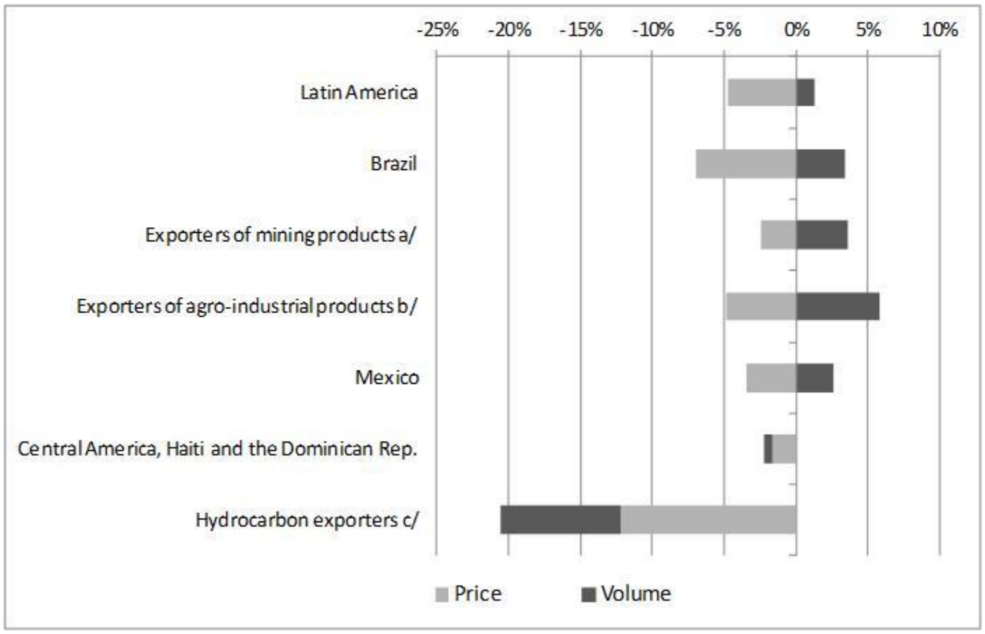
[a] Chile and Peru.

[b] Argentina, Paraguay and Uruguay.

[c] Bolivarian Republic of Venezuela, Colombia, Ecuador, Trinidad and Tobago and Plurinational State of Bolivia.

9. The region has seen declining exports for the fourth straight year, as a result of lower export prices (down by more than 5 per cent), despite volumes growing by just 1 per cent (see figure 4). In 2016, exports have declined in all country groupings.

Figure 4
Latin America and the Caribbean (selected countries and groupings): variation in goods exports, by price and volume, 2016
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Chile and Peru.
[b] Argentina, Paraguay and Uruguay.
[c] Bolivarian Republic of Venezuela, Colombia, Ecuador, Trinidad and Tobago and Plurinational State of Bolivia.

10. Similarly to 2015, in terms of export destinations, intraregional sales accounted for most of the fall in 2016.

11. The shortfall on the income account — where outgoing payments associated with foreign direct investment (FDI) and interest on the external debt generate a structural deficit — narrowed from US$ 133.227 billion in 2015 to US$ 132.890 billion, mainly as a result of smaller profit repatriations by transnational enterprises, which continued to face lower export prices.

12. The current transfers account posted a surplus again, with the 2016 figure (US$ 71.3 billion) higher than in the previous year (US$ 65.391 billion). The main component of this account is migrant remittances flowing into the countries of the region, which, according to the October 2016 figures, were up by an average of 7 per cent year-on-year.

13. With regard to financial flows, in 2016, the net flow of financial resources into the region (in other words the balance-of-payments capital and financial account), amounted to 2.5 per cent of GDP, which was more than sufficient to cover the current account deficit (-2.1 per cent of GDP).[1] As a result, the region as a whole accumulated international reserves in an amount equivalent to 0.4 per cent of GDP (an increase of more than 2.4 per cent in the reserves stock).

14. Although total flows into the region in 2016 were 16 per cent down on the previous year's level, this mainly reflects the reduction in Brazil, since flows to the rest of the economies increased by 8 per cent on average.

[1] The capital and financial account balance includes balance-of-payments errors and omissions.

15. Within the financial account, FDI, which is the main financial flow to the region as a whole, grew by 8 per cent.[2] Meanwhile, the other financial account items (portfolio capital and net other investment flows) declined substantially in 2016, mainly because Brazil recorded net outflows.

B. Economic activity

16. The GDP of Latin America and the Caribbean contracted by 1.1 per cent in 2016, which translates into a 2.2 per cent decline in per capita GDP. This negative rate of GDP growth continues the process of economic slowdown and contraction that the region has been mired in since 2011.

17. The loss of dynamism in the region's economic activity in 2016 was essentially due to lower growth in most of the South American economies and outright contractions in some, such as Argentina (-2.3 per cent), the Bolivarian Republic of Venezuela (-9.7 per cent), Brazil (-3.6 per cent) and Ecuador (-1.5 per cent). In South America as a subregion, a contraction of 1.7 per cent in 2015 was followed by one of 2.4 per cent in 2016.

18. In contrast, the Central American economies[3] continued to grow, albeit at a slower rate than in 2015 (growth dropped from 4.7 per cent in 2015 to 3.3 per cent in 2016), following the same trend as Mexico, where growth dropped from the 2.5 per cent recorded in 2015 to 2.3 per cent in 2016. The economies of the English- and Dutch-speaking Caribbean contracted for the second year running (-1.6 per cent).

19. The region's negative growth was caused mainly by a large drop in investment and consumption (see figure 5). Region-wide, domestic demand is estimated to have fallen by 2.0 per cent in 2016, with all its components contracting: private consumption (-0.8 per cent), public consumption (-1.0 per cent) and gross fixed capital formation (-7.1 per cent). The contraction of private consumption, which began in mid-2015, reflects, first, the higher jobless rate and the worsening composition of employment and, second, a loss of dynamism in financial system lending. The drop in public consumption resulted from a general intensification of the retrenchment in public spending. A slowdown in exports, which are estimated to have grown by less than 1 per cent in real terms in 2016, meant that their contribution, while still positive, was much smaller. Meanwhile, imports dropped by about 3 per cent because of weaker domestic demand, which contributed positively to output growth (see figure 5).

20. Investment continued to present negative growth rates since the fourth quarter of 2013, so that the end of 2016 marked the thirteenth consecutive quarter of decline. Prior to this, investment had only contributed negatively to GDP growth in years of economic crisis in the region: in 1995 because of the Mexican economic crisis, in 1999 because of the Brazilian crisis, in 2002 because of the "dotcom" crisis and the Argentine crisis, and in 2009 because of the international economic and financial crisis originating in the United States subprime mortgage market.

21. As with the divergence of economic activity trends between South America and Central America, the dynamics of domestic demand components also differed by subregion in 2016.

[2] Financial account information is available for 2016 for 15 countries of the region, excluding the Bolivarian Republic of Venezuela, the Dominican Republic and the Plurinational State of Bolivia.

[3] Includes Costa Rica, Cuba, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

Figure 5
Latin America: GDP growth rates and contribution of spending components to growth, first quarter of 2008 to fourth quarter of 2016
(Percentages)

A. Latin America

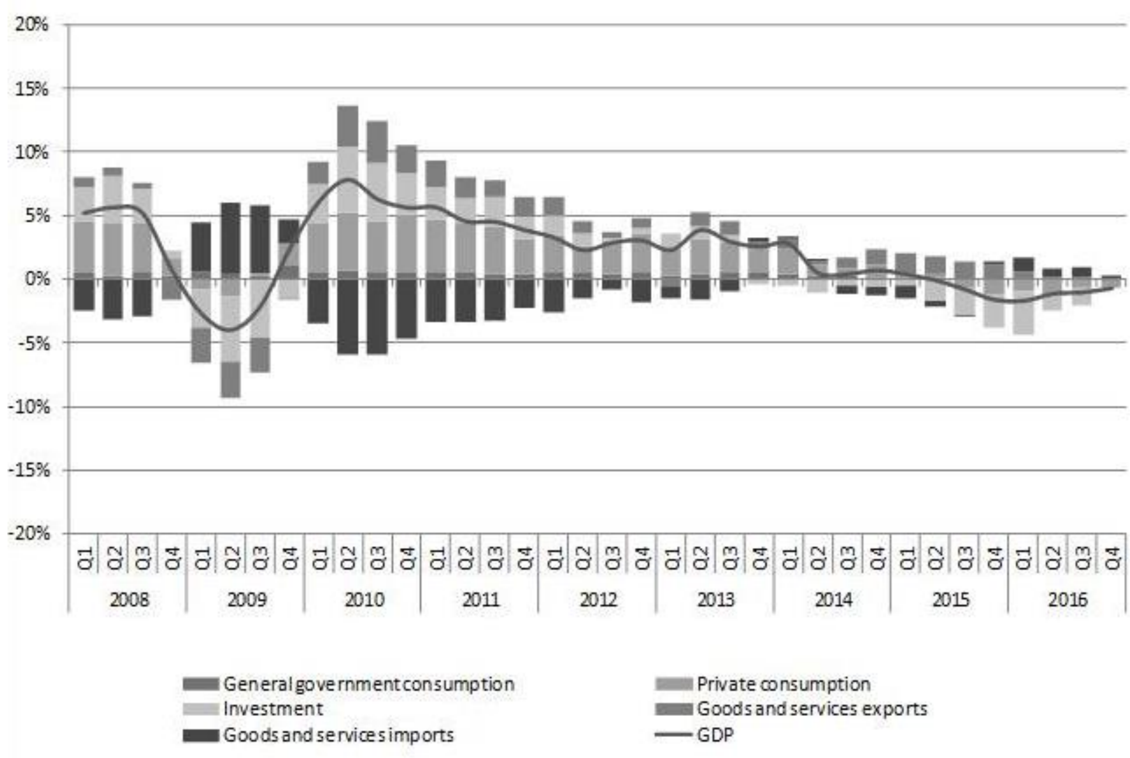
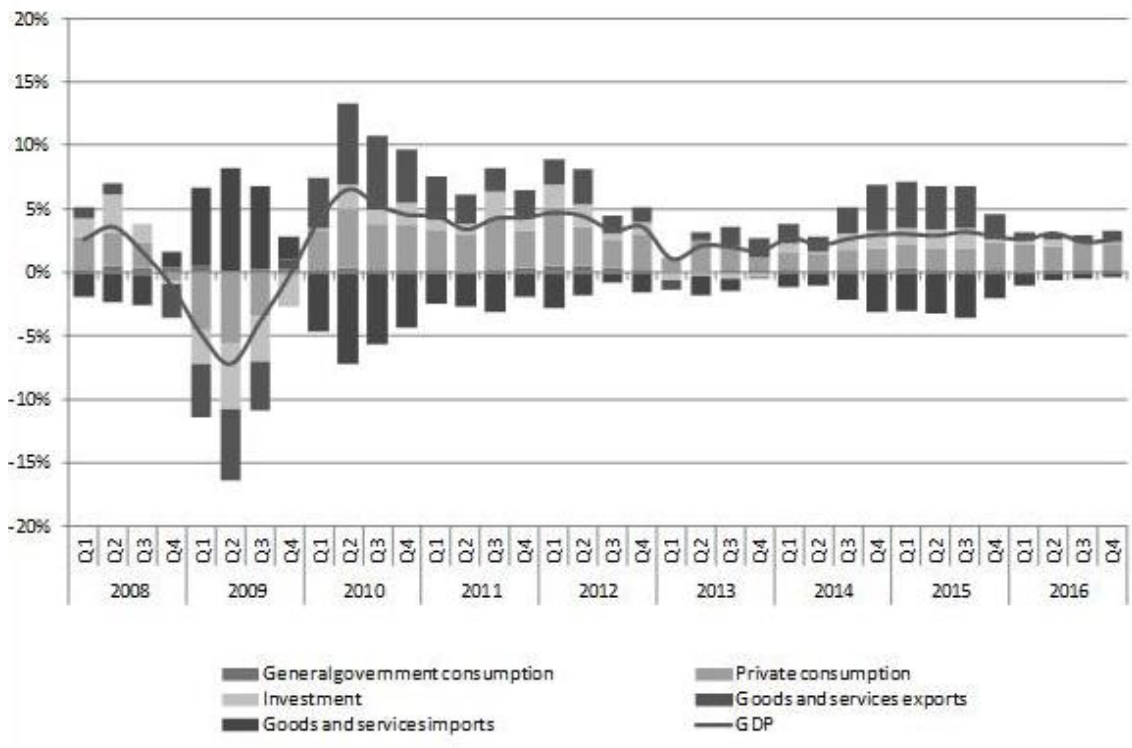
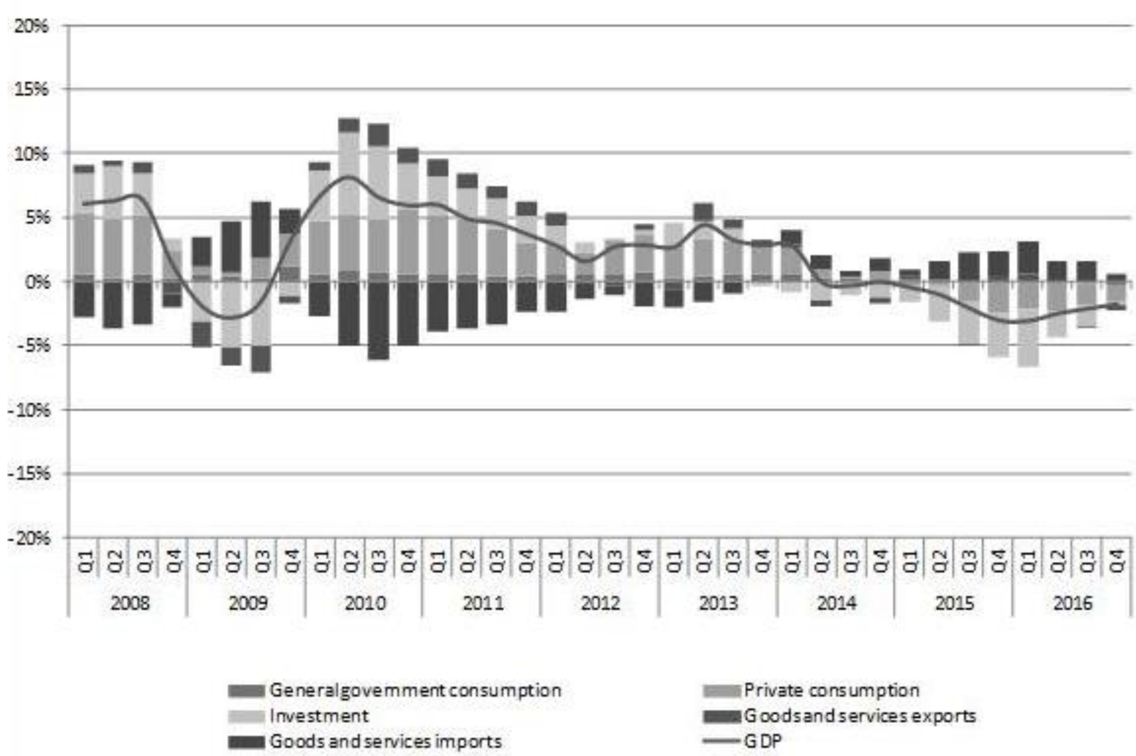


Figure 5 (concluded)

B. Central America and Mexico



C. South America



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

22. Thus, while private consumption and investment dropped by 2.3 per cent and 10.2 per cent, respectively, in South America, private consumption grew by 3.2 per cent in Central America, becoming the main source of growth, while investment also rose, albeit to a lesser extent (1.2 per cent).

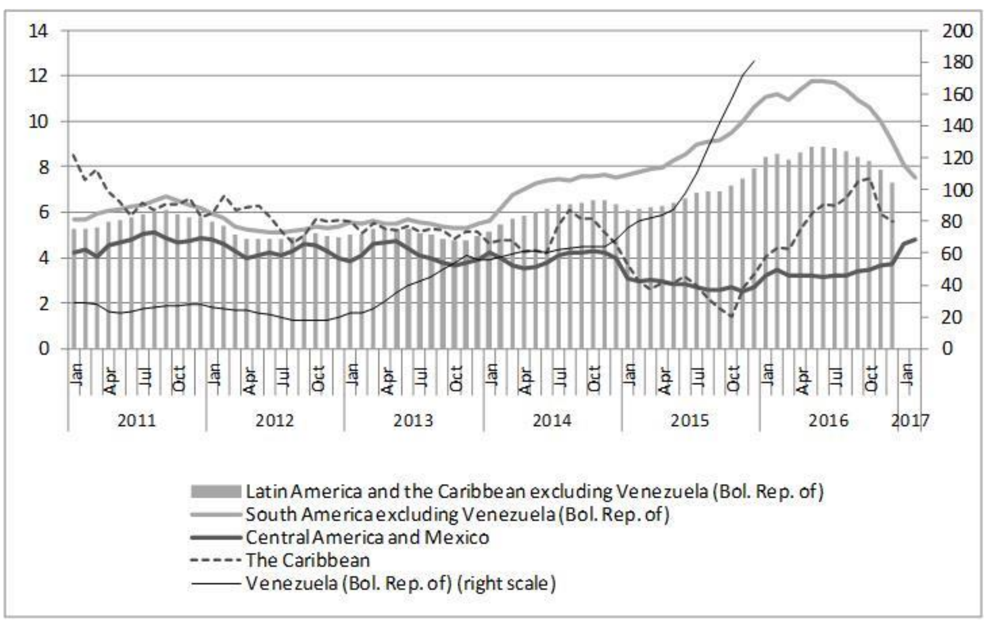
23. This contraction of economic activity took place in a context where the agriculture, mining and service sectors reinforced the negative contribution of industry to growth.

C. Domestic prices

24. In the first half of 2016, inflation gathered pace in the Latin American and Caribbean economies on average, with some countries posting rates above 40 per cent. However, interest rates were starting to fall by the middle of the year, and by the end of 2016, the 12-month cumulative weighted average inflation rate for the region was 7.3 per cent, slightly lower than that of 2015 (7.9 per cent) (see figure 6).[4]

25. Consumer prices started to climb at the beginning of 2016 in all the subregions of Latin America and the Caribbean, while inflation rates varied in the second half of the year. In South America, the 12-month cumulative rate rose from 10.6 per cent in December 2015 to 9.1 per cent a year later. In the Caribbean, lower inflation at the end of the year did not offset the previous acceleration; between year-end 2015 and year-end 2016, the 12-month cumulative rate increased from 3.3 per cent to 5.6 per cent. Lastly, in Central America and Mexico inflation was lower, although it edged up over the course of the year from 2.7 per cent in December 2015 to 3.7 per cent in December 2016.

Figure 6
Latin America and the Caribbean: consumer price index (CPI), weighted average 12-month rates of variation, January 2011 to February 2017
(Percentages)



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

[4] The regional and subregional averages shown in the figure exclude the Bolivarian Republic of Venezuela, since official information is not available on inflation trends in this country in 2016.

D. Employment and wages

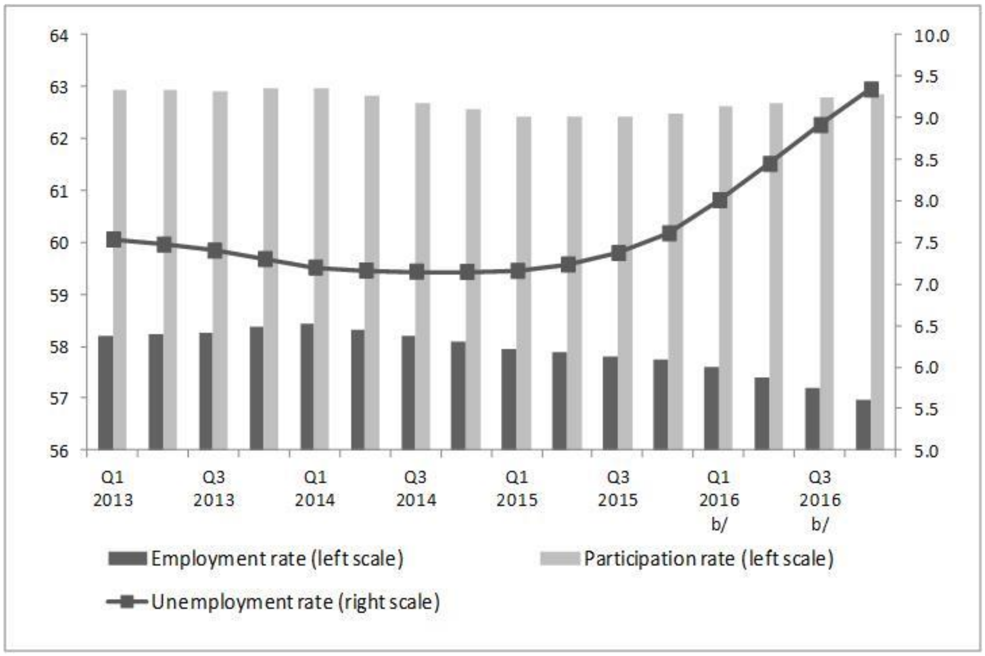
26. In Latin America and the Caribbean as a whole, the quantity and quality of jobs in the labour market declined sharply during 2016. The region's urban unemployment rate increased by more than it had during the international financial crisis of 2009, and the composition of employment worsened, with the share of insecure and unprotected jobs increasing. This deterioration did not take place everywhere, though, but was concentrated in the South American countries.

27. As regional GDP contracted, the average urban employment rate fell for the third year in a row. Having dropped by a cumulative 0.6 percentage points in 2014 and 2015, it fell even more quickly in 2016; as a result the year-on-year average rate declined from 57.8 per cent in 2015 to 57.1 per cent in 2016.

28. Another development in 2016 was a reversal of the downward trend in the urban participation rate that had been a feature of earlier years. In line with the predominantly procyclical behaviour of the labour supply in the region, the gradual long-run upward trend in this rate had been cut short in 2013 in response to weakening labour demand, and between 2014 and 2015 it had dropped by a cumulative 0.5 percentage points. This loosening of working-age people's ties to the labour market cushioned the impact of lower job creation on the open unemployment rate. Probably because of the negative consequences of the prolonged drop in the employment rate and its impact on household incomes, however, many households began sending new members into the labour market, and this contributed to an estimated 0.2 percentage point rise in the urban participation rate in 2016.

29. Consequently, whereas the effects on open unemployment of developments in the participation and employment rates had partially offset each other in earlier years, they instead reinforced each other in 2016, and unemployment rose sharply, from 7.4 per cent to 9.0 per cent (see figure 7). This shift represents a rise of 4.0 million in the number of urban unemployed, bringing the total number of urban residents in this situation to 21.2 million.

Figure 7
Latin America and the Caribbean (weighted average of 12 countries): urban participation, employment and unemployment rates, rolling years, first quarter of 2013 to fourth quarter of 2016[a]
(Percentages)



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

[a] The countries considered are Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Paraguay, Peru and Uruguay. Some estimates based on incomplete data are included.

[b] Preliminary data.

30. However, labour market performance varied greatly across the different subregions. Urban unemployment rates rose to a greater or lesser degree in all the South American countries with information available (Argentina, the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay). Thus, the urban open unemployment rate for the South American countries as a group rose from 8.2 per cent in 2015 to 10.6 per cent in 2016.

31. By contrast, open urban unemployment dropped from 4.9 per cent to 4.6 per cent in the group comprising Central America,[5] the Dominican Republic and Mexico and from 10.0 per cent to 9.5 per cent in the English-speaking Caribbean countries. According to preliminary data, this more favourable evolution was due to the rate falling in Barbados, Belize, the Dominican Republic, Jamaica and Mexico, while it held steady in Costa Rica and rose in the Bahamas, Guatemala, Honduras, Panama and Trinidad and Tobago.

32. Thus, urban unemployment rates rose in 13 of the 20 Latin American and Caribbean countries for which information is available. There was a particularly large increase in Brazil, where urban unemployment in the 20 main metropolitan regions rose on average from 9.3 per cent in 2015 to 13.0 per cent in 2016. If Brazil is excluded from the regional estimate, the urban unemployment rate only rose from 6.2 per cent to 6.5 per cent.

[5] In this case, the Central American countries for which information is available are Costa Rica, Guatemala, Honduras and Panama.

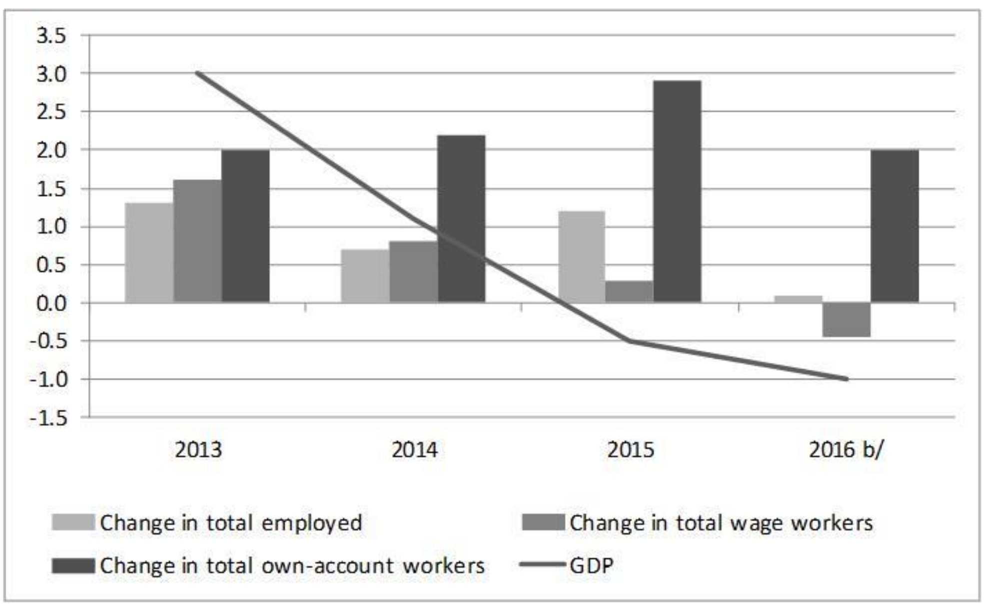
33. Taking the simple average for these countries, the rise in the unemployment rate, averaged over the first three quarters of 2016, was 0.4 percentage points. This increase was more marked for women than for men (0.6 versus 0.2 percentage points), so that the gender gap for this variable widened in absolute terms.

34. While the unemployment rate was rising, job quality was getting worse. On the basis of information from 12 countries showing the contraction of regional output and the concomitant weakness of employers' demand for labour, it is estimated that the number of wage workers must have fallen slightly (0.4 per cent). In contrast, own-account work continued to behave in a countercyclical way, rising by 2.0 per cent (see figure 8).

35. The weakness of labour demand and the divergent labour market performance of the different subregions were also manifested in the evolution of registered employment (employees paying into social security institutions), an indicator of good-quality employment. With the exception of Chile, where growth rates held steady, there was a sharp decrease in registered employment growth in the South American countries with information available (see figure 9).[6] In Brazil and Uruguay, registered employment fell year on year in absolute terms.

36. In contrast, registered employment growth has held steady or even increased in most of the countries in the north of the region (Costa Rica, El Salvador, Mexico and Nicaragua), with Panama being an exception, as employment there contracted at larger firms in the areas of manufacturing, commerce, hotels and restaurants and other services.

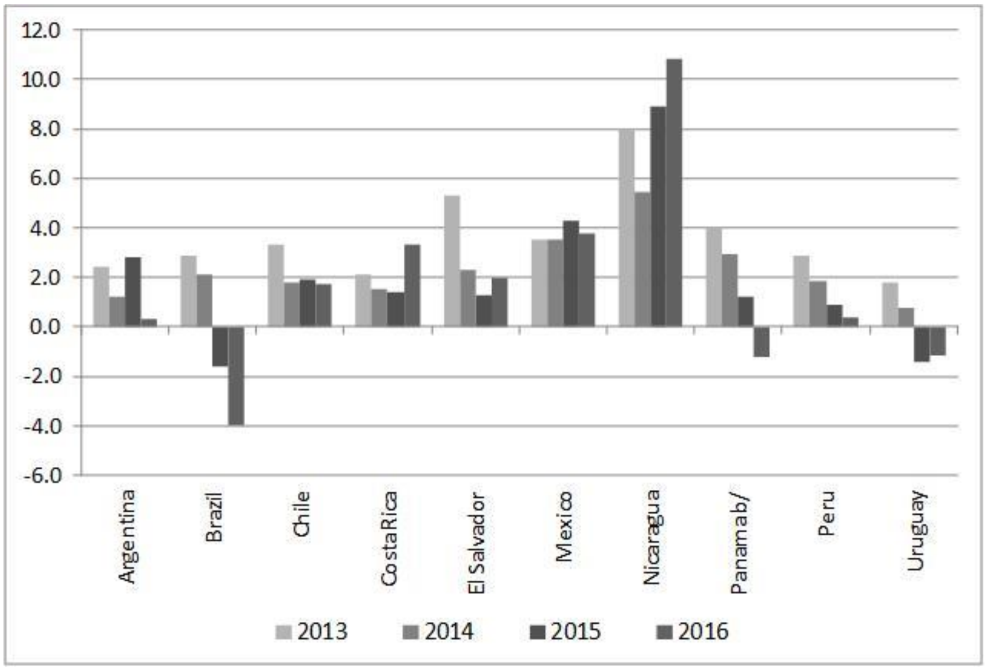
Figure 8
Latin America and the Caribbean (weighted averages for 11 countries): economic growth and job creation, 2013-2016[a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Labour data from the following countries are used: the Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Mexico, Panama, Paraguay and Peru.
[b] Preliminary data.

[6] The number of people in registered employment changes not only as such jobs are created and destroyed but as existing informal jobs become formal and formal ones become informal.

Figure 9
Latin America (10 countries): year-on-year growth in registered employment, 2013-2016[a]
(Percentages)



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

[a] The data are for wage workers paying into social security systems, with the exceptions of Brazil, where they are for private-sector wage workers reported by firms to the General Register of the Employed and Unemployed (CAGED); Panama, where they come from surveys of firms employing five people or more; and Peru, where they are for employment reported at small, medium-sized and large formal non-agricultural enterprises.

[b] The year-on-year changes given for 2016 are averages from January to September for Panama.

37. Real wages in registered employment rose by some 1 per cent on average in the countries for which information is available, or about a percentage point less than in 2015, chiefly because of higher inflation that was not offset by larger nominal increases in a context of weak demand for labour.

E. Fiscal policy

38. Latin American countries' fiscal deficit did not change in 2016, remaining at an average of 3.0 per cent of GDP for the second year running in the 17 countries analysed (see figure 10), as a result of higher interest payments which were offset by a rise in public revenues. The primary deficit (before interest payments) narrowed slightly to 0.8 per cent of GDP. However, differences in individual countries' macroeconomic performance and in the economic specializations of different country groupings were reflected in a great diversity of fiscal situations in the region's economies.

Figure 10
Latin America and the Caribbean: central government fiscal indicators, 2010-2016[a]
(Percentages of GDP)

A. Latin America (17 countries)[b]

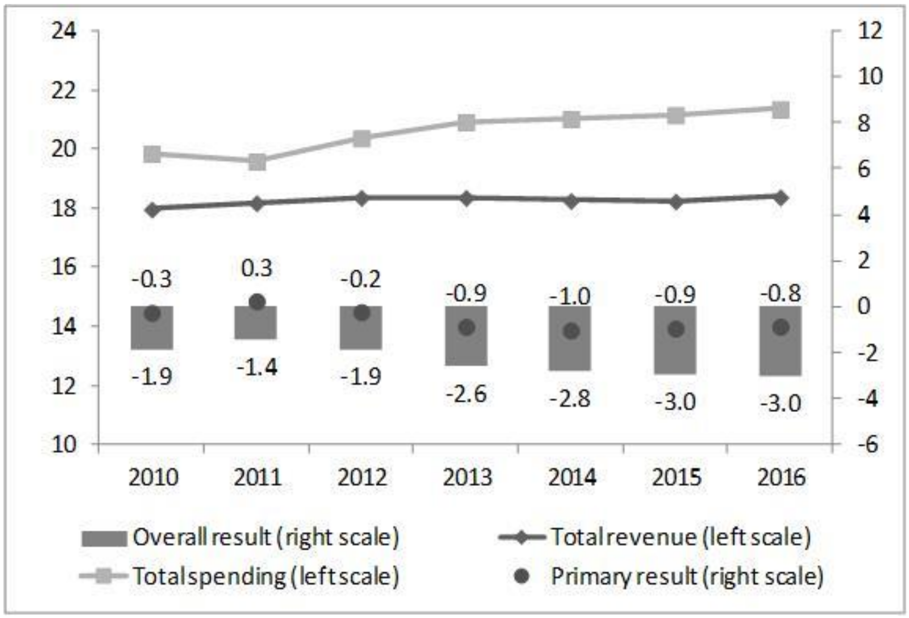
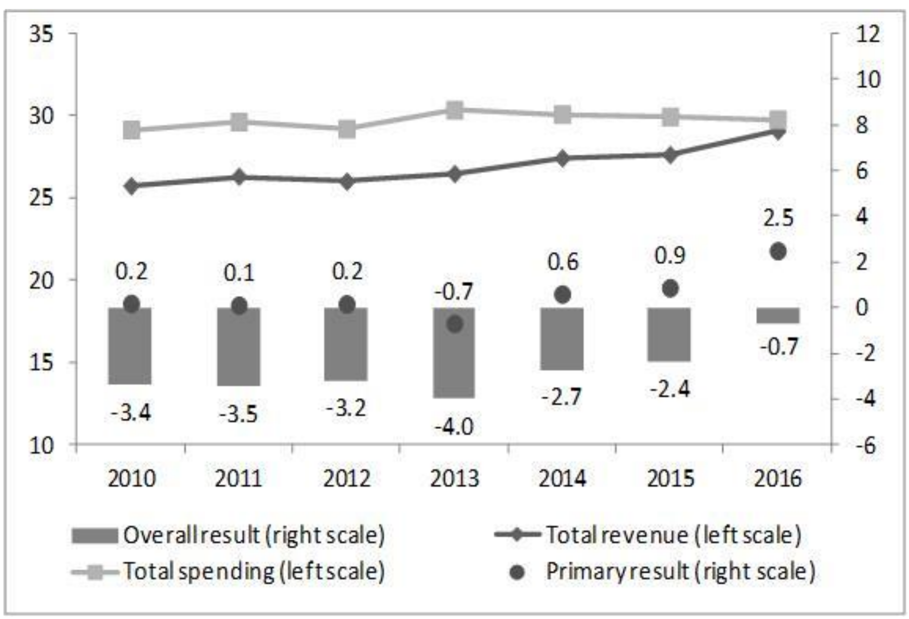


Figure 10 (concluded)

B. The Caribbean (13 countries)



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

[a] The 2016 figures are official estimates for the close of the fiscal year taken from 2017 budgets.

[b] Data from the Bolivarian Republic of Venezuela, Cuba and the Plurinational State of Bolivia are excluded.

39. Fiscal accounts have improved in the north of the region (Central America,[7] the Dominican Republic, Haiti and Mexico), reflecting favourable terms of trade and steady growth in the United States, these countries' main trading partner. The average deficit continued to narrow in 2016, declining to -2.2 per cent of GDP from -2.4 per cent of GDP in 2015 (see figure 11). This was mainly due to a rise in public revenues (up 0.7 percentage points of GDP to 16.7 per cent of GDP), outpacing public spending, which increased by 0.5 percentage points of GDP to reach 18.8 per cent of GDP.

Figure 11

Latin America (selected country groupings): central government fiscal indicators, 2010-2016[a]

(Percentages of GDP)

A. Central America (6 countries), Dominican Rep., Haiti and Mexico

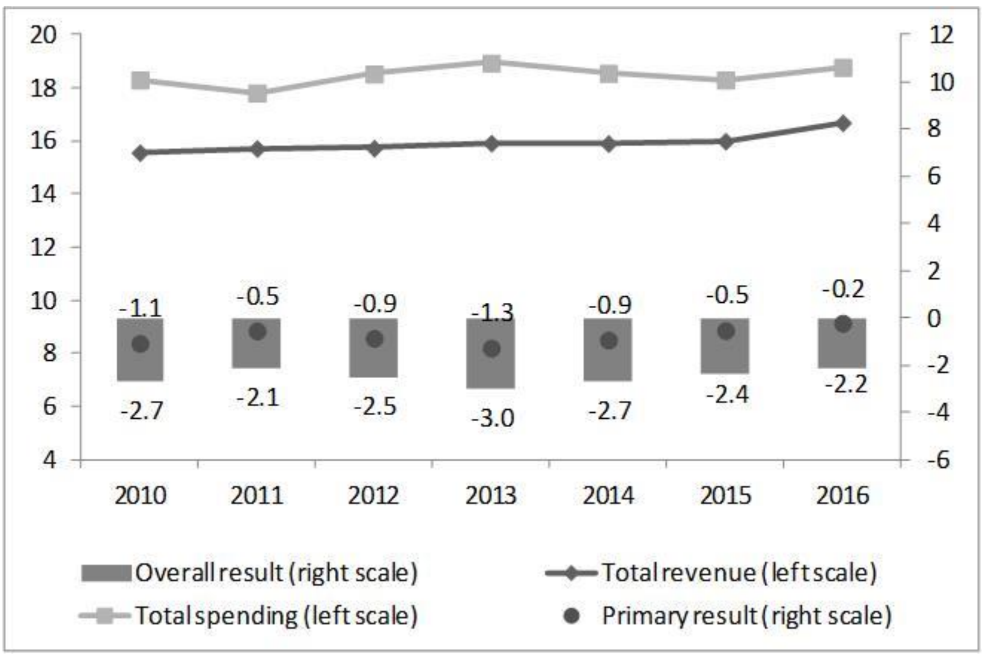
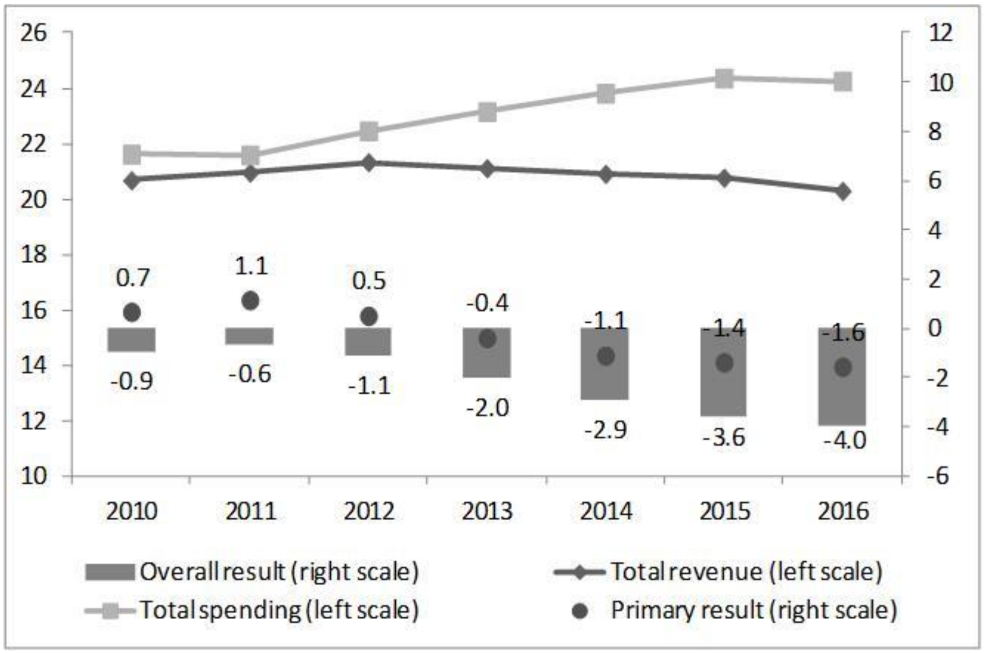


Figure 11 (concluded)

[7] Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.

B. South America (8 countries)[b]



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

[a] The 2016 figures are official estimates for the close of the fiscal year taken from 2017 budgets.

[b] The countries considered are Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru and Uruguay.

40. Conversely, the fiscal situation of the South American countries continued to worsen as international commodity prices fell and domestic demand slowed. The fiscal deficit expanded in 2016 for the fifth year running, to -4.0 per cent of GDP from -3.6 per cent of GDP in 2015. The first reduction in public spending as a share of GDP in five years (from 24.4 per cent to 24.3 per cent of GDP) was not enough to compensate for the slump in public revenues (particularly those from non-renewable natural resources), whose downward trend worsened in 2016 with a decline to 20.3 per cent of GDP from 20.8 per cent in 2015.

41. In the English- and Dutch-speaking Caribbean, the fiscal deficit narrowed significantly to 0.7 per cent of GDP in 2016 from 2.4 per cent of GDP in 2015. This was mainly due to the temporary effects of substantially higher public revenues (up from 27.6 per cent to 29.1 per cent of GDP over the same period) thanks to non-recurring income from citizenship for investment programmes (particularly in Dominica). In contrast, public expenditure remained stable (from 29.9 per cent to 29.8 per cent of GDP).

42. Gross public debt across all countries of Latin America continued its upward trend to average 37.6 per cent of GDP in 2016, a rise of 1.7 percentage points of GDP on 2015 (see figure 12). This trend was seen in 16 of the region’s 19 countries, with Brazil having the highest public debt at 70.5 per cent of GDP, followed by Argentina at 57.9 per cent of GDP, Honduras at 46.6 per cent and Uruguay at 46.3 per cent. At the other extreme, Paraguay’s public debt is the region’s lowest at 19.6 per cent of GDP, followed by Peru at 20.8 per cent and Chile at 21.1 per cent.

43. Although the level of public debt in the region increased on average in 2016, its growth slowed to 1.7 percentage points of GDP from the 2.9 percentage points of GDP recorded in 2015. This was because the countries opted on the whole to borrow relatively moderately and keep the public accounts sustainable by trimming public spending to offset the decline in public revenues.

Figure 12

Latin America and the Caribbean: gross central government debt, 2015-2016[a]

(Percentages of GDP)

A. Latin America (19 countries)

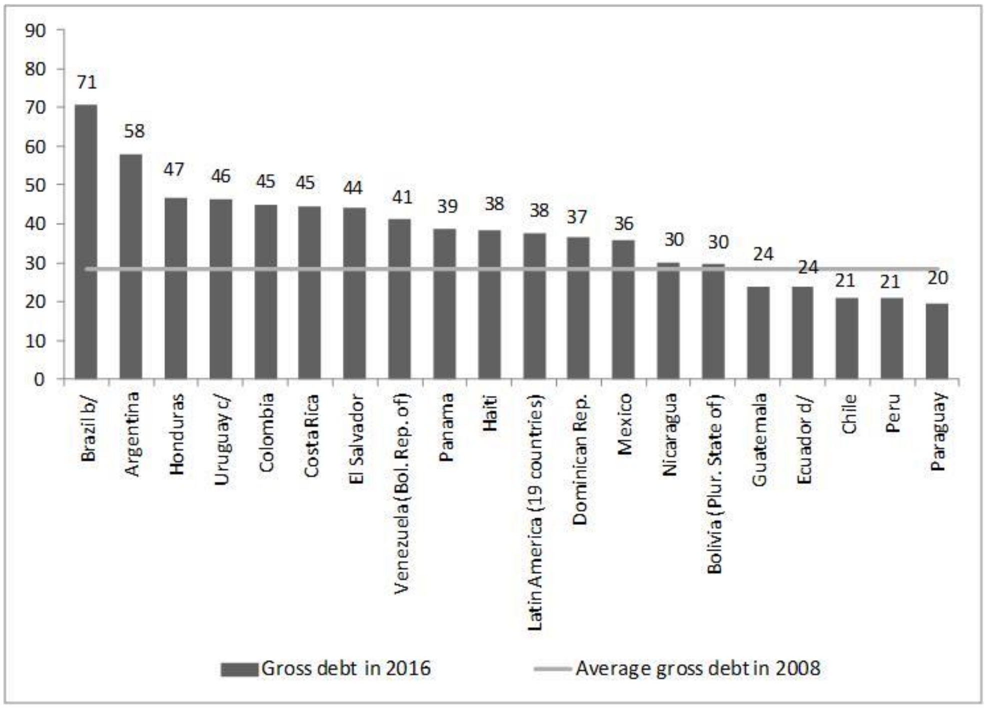
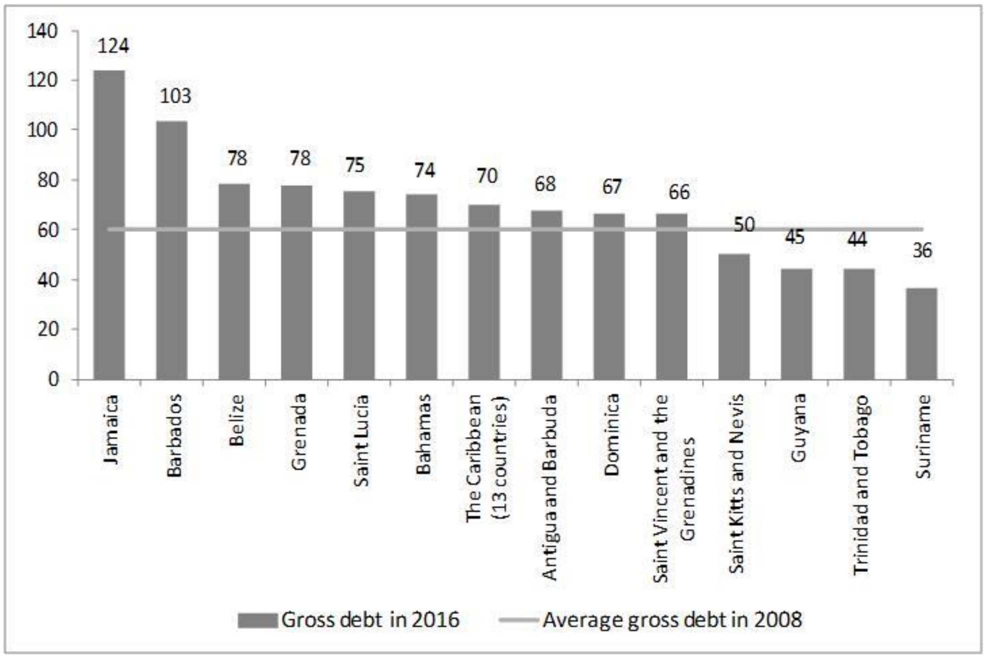


Figure 12 (concluded)

B. The Caribbean (13 countries)



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

[a] Net debt is defined as gross debt minus financial assets. For 2016, the latest figure available is given.

[b] General government coverage.

[c] Non-financial public-sector coverage for net debt.

[d] Net debt equals consolidated debt.

44. Central government debt in the English- and Dutch-speaking Caribbean averaged 69.9 per cent of GDP in 2016, a drop of 1.5 percentage points of GDP from 2015. Jamaica was the country with the highest level of public debt in 2016 (124 per cent of GDP), followed by Barbados (103 per cent of GDP) and Belize (78 per cent of GDP). Although debt levels are still quite high in many countries of the subregion, the overall trend is downward, since there were declines in 10 of the 13 countries.

F. Monetary and exchange-rate policies

45. During 2016, the actions of monetary and exchange-rate policymakers in the region were guided by different factors, chief among them the dynamics of inflation, uncertainty and thence volatility in international financial markets and weak growth (and even contraction in some cases) in aggregate demand.

46. Broadly speaking, the authorities of the region's countries paid a great deal of attention to the aggregate demand slowdown and the repercussions of variables such as consumption and investment. Accordingly, the aim of policy was to stimulate domestic aggregate demand as far as possible.

47. The region's average inflation rate increased during the first half of 2016, reducing the scope for monetary policymakers to take steps to stimulate aggregate demand. Similarly, the volatility of financial markets and the repercussions for exchange rates in the region likewise limited the potential for interest rates to be used to stimulate domestic spending, as it was feared that this would dampen

demand for local assets. Meanwhile, less buoyant economic activity and expectations of low future growth, especially in the economies of South America, also affected central banks' ability to stimulate aggregate domestic demand, partly by dampening growth in the demand for credit and partly by increasing the perceived riskiness of lending and thus constraining the supply of credit.

48. Structural differences between economies and the effects of the aforementioned factors led to divergent uses being made of the different monetary policy instruments available to policymakers in the region.

49. In economies that use interest rates as the main instrument of monetary policy, there were differences in the frequency and direction of changes to monetary policy benchmark rates during 2016. In some countries, persistently rising inflation led central banks to increase interest rates, while in others inflation fell and interest rates were used to stimulate flagging activity in the domestic economy (see figure 13). Against a backdrop of falling interest rates, in the last few months of 2016 and the first quarter of 2017, a greater number of countries have opted for an expansionary strategy, by cutting interest rates. Only the Dominican Republic and Mexico raised rates.

50. In the dollarized economies of Latin American, and those South American (excluding the Bolivarian Republic of Venezuela) and Central American economies that use monetary aggregates as their main monetary policy instrument, the rate at which central banks injected money into the economy slowed in 2016. Conversely, in the Caribbean economies and particularly in the Bolivarian Republic of Venezuela, the growth of aggregates such as the monetary base quickened relative to 2015 (see figure 14).

51. In the case of the Bolivarian Republic of Venezuela, the monetary aggregates grew at rates of over 80 per cent for the third year running. Indeed, annualized growth in the monetary base was over 100 per cent in 2016, reaching 200 per cent in the fourth quarter.

Figure 13
Latin America (selected countries): monetary policy rates in countries where they are used as the main policy instrument, January 2013 to March 2017
(Percentages)

A. South America

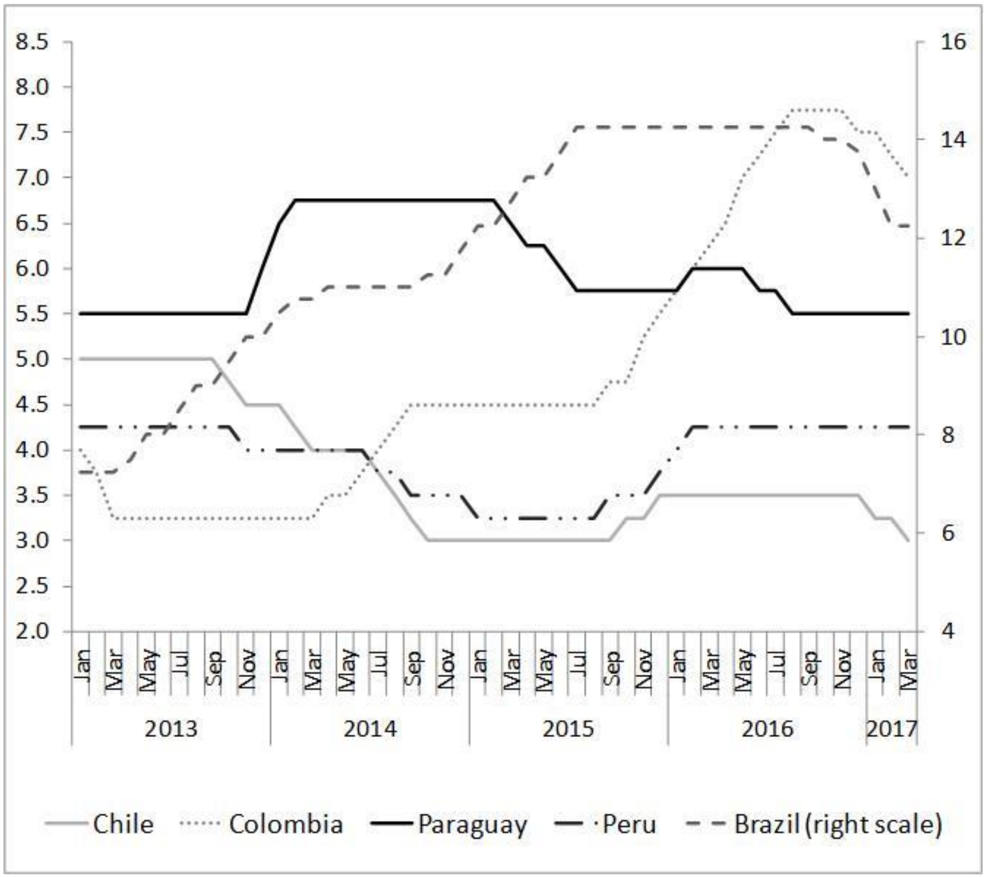
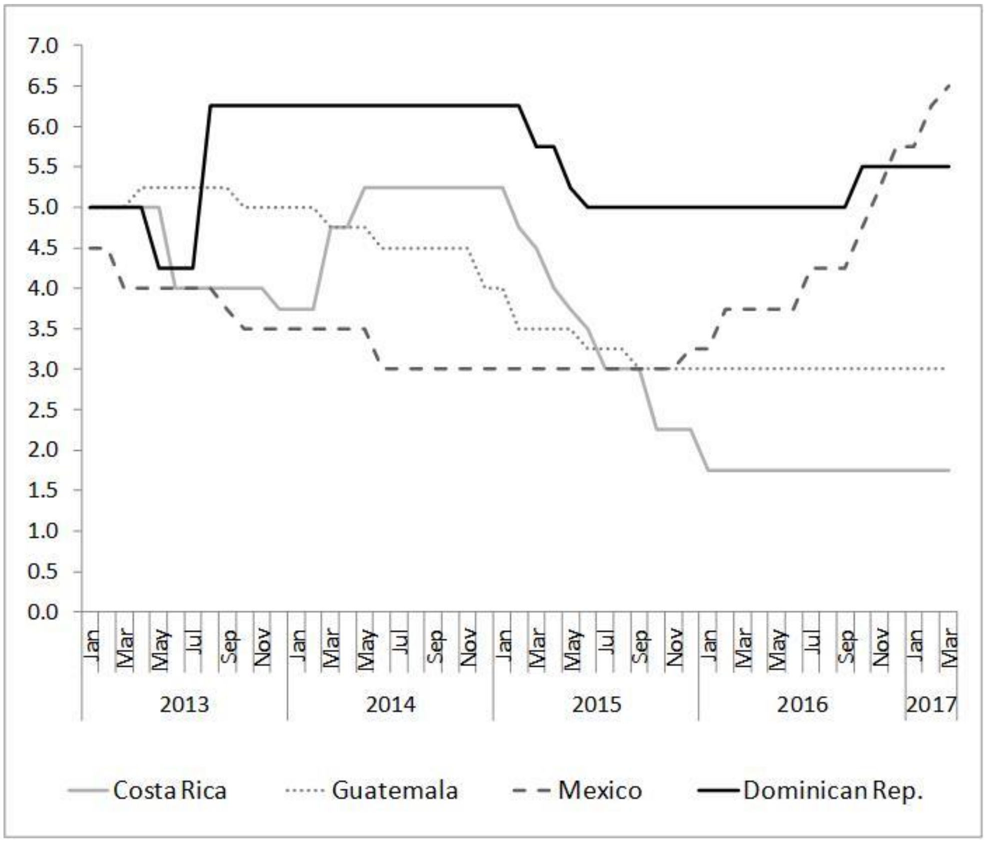


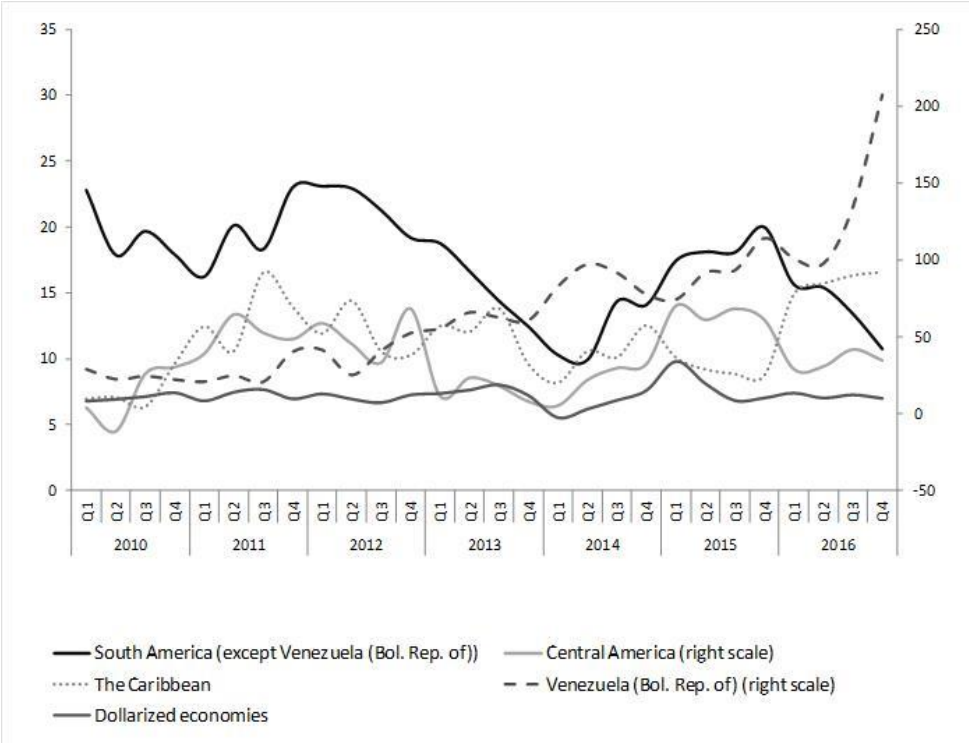
Figure 13 (concluded)

B. Central America, Dominican Rep. and Mexico



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

Figure 14
Latin America and the Caribbean (selected country groupings): annualized rates of change in the monetary base in countries using monetary aggregates as the main policy instrument, first quarter of 2010 to fourth quarter of 2016
(Percentages)



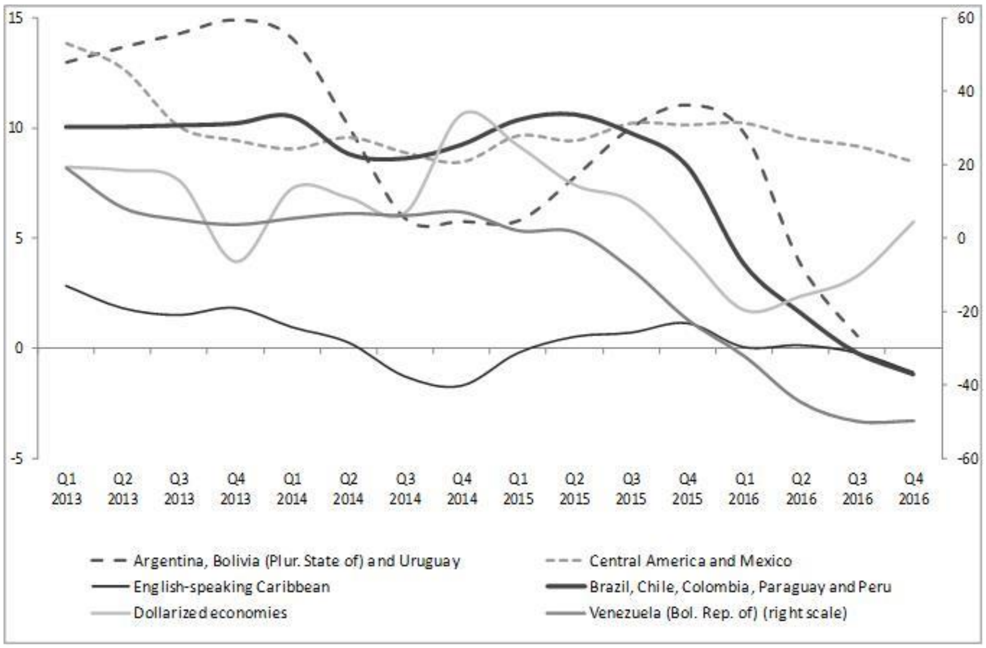
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

52. Where domestic lending to the private sector is concerned, nominal growth has tended to slacken. In South America, real-term lending growth has slowed both in economies that use benchmark rates as the main monetary policy instrument and in those using monetary aggregates. Real-term lending growth also slowed in the Caribbean and Central America and Mexico. By contrast, real-term lending has increased in real terms in the dollarized economies, between year-end 2015 and year-end 2016. Real-term credit to the private sector dropped sharply in the Bolivarian Republic of Venezuela during 2016, reflecting the harsh contraction experienced by this economy and three-digit inflation rates (see figure 15).

53. A number of factors affected the exchange rates of the region's currencies in 2016, and the trend was broadly towards nominal depreciation, albeit with great volatility over the year. Since 2015, factors such as falling prices for the commodities the region exports (particularly energy products and metals), the strengthening of the dollar against currencies elsewhere in the world at a time of rising expectations of an increase in the United States benchmark interest rate (which did finally go up in December 2015) and slowing growth in a number of South American countries, together with specific events in countries such as Argentina and Brazil, have driven down demand for assets denominated in the currencies of a number of the region's countries.

54. The international context remained uncertain over the course of 2016, and factors such as the outcome of the referendum in the United Kingdom on the country’s exit from the European Union (so-called “Brexit”), uncertainty about new monetary policy adjustments in the developed economies, reports of increasing fragility in global financial institutions and the presidential elections in the United States all affected the dynamics of Latin American and Caribbean exchange rates. Furthermore, expectations for the price levels of commodities such as oil, copper and other metals progressively stabilized in this period.

Figure 15
Latin America and the Caribbean (selected country groupings): average annualized rates of growth in domestic lending to the private sector, real terms, first quarter of 2013 to fourth quarter of 2016
(Percentages)

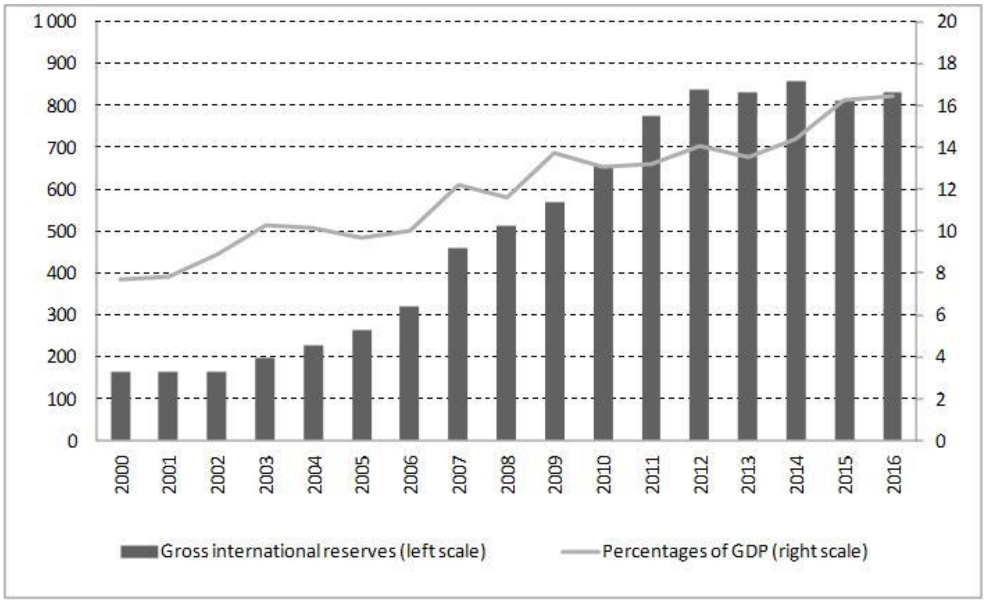


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

55. The conjunction of these external and domestic factors meant that, between December 2015 and December 2016, the currencies of 13 countries in the region depreciated against the dollar in nominal terms, 5 of them by more than 15 per cent (Argentina, the Bolivarian Republic of Venezuela, Haiti, Mexico and Suriname). Consequently, on average across the countries of the region, the real effective extraregional exchange rate for the year depreciated slightly.

56. International reserves increased by 2.4 per cent between the end of 2015 and the end of 2016. However, they remained below their 2014 level (see figure 16). Reserves increased in 21 of the region’s economies, with the largest rises being in Ecuador (70.6 per cent), Argentina (51.7 per cent), Dominica (34.1 per cent), Guatemala (18.2 per cent), and Saint Kitts and Nevis (17.3 per cent). Meanwhile, reserves contracted in 11 countries, most notably in the Bolivarian Republic of Venezuela (32.8 per cent), Barbados (27.4 per cent), the Plurinational State of Bolivia (22.8 per cent), Belize (14.7 per cent) and Uruguay (14.1 per cent).

Figure 16
Latin America and the Caribbean: international reserves, 2000-2016[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] The 2015 and 2016 figures are ECLAC estimates.

57. The conjunction of a larger build-up of nominal reserves and low economic growth has pushed up the ratio of international reserves to GDP in the region as a whole, so that this indicator rose for the third year running, to 16.5 per cent of GDP.

G. Trends and outlook for 2017

58. Global trends and uncertainties in 2107 will have diverse effects on the region's economic performance. Global economic growth has remained sluggish and has been accompanied by slowing productivity and declining rates of growth in global investment and trade. These factors, together with depressed aggregate demand, are holding down the growth potential of the world economy — across developed countries and emerging economies alike — for the next few years.

59. While GDP and world trade are projected to pick up somewhat in 2017, the effects of these improvements may be overshadowed by the mounting protectionism. One positive feature is that commodity prices are projected to rise in 2017, which will improve the regional terms of trade by about 2 per cent on average, although the effects on individual countries will depend on the weight of commodities in their export and import baskets. In this case, the hydrocarbon exporters are likely to benefit most, with their terms of trade set to improve by about 11 per cent, since oil is forecast to post the strongest percentage price recovery in 2017 (by around 20 per cent), having suffered the steepest falls in the previous two years.

60. In financial markets, the windows of opportunity opened by the low interest rates that have prevailed over the past few years may begin to close, owing to expected progressive rises in interest rates, which would push up borrowing costs and shift global portfolios. A normalization of interest rates, though desirable, could increase uncertainly and financial volatility, given the dynamics of financial asset prices. Although the likelihood remains that interest rate rises will be gradual, this

could still affect financial flows to emerging markets, including those of Latin America and the Caribbean. Concerns also persist over the financial stability of economies in which credit, especially in the form of international bond issues, has grown strongly, since these could be hurt by higher interest rates on dollar liabilities.

61. This is in addition to concerns over the position of a number of financial institutions in developed countries — chiefly in the eurozone — which have not been able to restore their balance sheets to health since the global financial crisis and have, moreover, seen their profits eroded by years of low growth and low interest rates. The results of stress tests carried out in mid-2016 by the European Banking Authority (EBA) have not fully dispelled doubts about the real situation of banks in some eurozone countries.

62. Recent protectionist trends, amid complex financial and economic growth dynamics, have raised new uncertainties and risks regarding the future of the global economy. These trends reflect the mounting tensions and difficulties in reconciling and coordinating national policy emphases and aims with the institutional arrangements governing international movements of goods and services, finance and capital, technology and migration in a globalized world.

63. In this context, global trade — following the questioning of free trade agreements such as the Trans-Pacific Partnership (TPP) and the North American Free Trade Agreement (NAFTA) — is not the only area of tension. The value chain dynamics of global manufacturing, as well as technology mobility, will also be affected. Multilateralism could well be weakened by a stronger tendency towards bilateral agreements on trade and investment.

64. As in preceding years, global economic conditions will have different effects on the various countries and subregions of Latin America and the Caribbean, and will sharpen subregional differences by the production and trade orientation of their economies. Although the protectionist tendencies emerging in the United States will have global and regional effects, the possible renegotiation of NAFTA and other trade agreements, as well as uncertainty over the dynamics of monetary transfers from migrants, will have significant effects in particular on Mexico and Central America, which export most of their manufactures and services to the United States (81 per cent in the case of Mexico, 54 per cent for Nicaragua, 47 per cent for El Salvador, 44 per cent for Honduras, 41 per cent for Costa Rica and 36 per cent for Guatemala). For the region, therefore, any trade restrictions introduced in the United States will at least partly offset the positive effects of growth in trade with that country.

65. For the region overall, extraregional demand should pick up in 2017, although this could be dampened to some extent by trade decisions by the United States. Intraregional trade should also regain some ground in 2017, thanks to a stronger performance by the economies of the South America, especially Argentina and Brazil. The performance of the economies in the south of the region should benefit from the projected upturn in their terms of trade, although uncertainty remains over the economic future of the eurozone and China.

66. The subpar performance of domestic demand across the region in 2016 was attributable mainly to a heavy drop in investment and consumption by both public and private sectors, although with sharp differences between subregions. While in South America private consumption and investment dropped by 2.3 per cent and 9.9 per cent, respectively, in Central America private consumption expanded by 3.0 per cent and investment by 1.9 per cent. Some of these trends should improve in 2017, with stronger private consumption and investment. The trend towards lower inflation rates helps to boost households’ real income and, thus, private consumption.

67. As noted earlier, growth in the region reflects uncertainty and shocks coming from the international economy, on the one hand, and a heavy fall in domestic consumption and investment, on the other. Regaining a growth path will require reversing these trends, with an emphasis on investment, which in turn will require strong mobilization of financial resources. The growing difficulties faced by the countries of the region in financing countercyclical fiscal policy, added to their status as middle-income countries — which hinders their access to external concessional financing and to international cooperation funding — mean that mobilizing domestic and external resources to finance investment must be a policy priority for the countries in the near term.

68. To regain fiscal space, it is essential to reduce tax evasion and avoidance and to gradually reform the public finances to safeguard the solvency of the public sector, protect investment, lock in social progress and broaden tax resources. ECLAC estimates that tax evasion and avoidance cost the region the equivalent of 2.4 percentage points of GDP in the case of VAT and 4.3 percentage points in the case of income tax. This represented a total of US$ 340 billion in 2015, or 6.7 per cent of regional GDP. ECLAC also estimates that tax losses associated with illicit financial flows from the region have amounted to around US$ 31 billion over the past few years, or between 10 per cent and 15 per cent of actual personal income tax collection.

69. Budget adjustments involving cuts in public investment could deepen the recessionary conditions, because this investment, like private investment, plays a key role in short- and long-run growth. Estimates show that fiscal multipliers are high and significant in the region, and that the public investment multiplier is higher than 2 after two years.

70. Unlike in 2016 when the region contracted by 1.1 per cent, and despite complex external conditions and a number of risks, in 2017 the region's economy is expected to switch direction and return to positive growth of 1.1 per cent (see table 1), thanks mainly to the expected upturn in the terms of trade and in international trade volumes. However, regional per capita GDP will still not rally. As in 2016, the weighted average growth figure masks different growth dynamics between countries and subregions. Central America, including the Spanish-speaking Caribbean and Haiti, is expected grow by around 3.6 per cent in 2017; including Mexico, with a projected growth rate of 1.9 per cent, brings the average down to 2.3 per cent. Positive growth is projected in 2017 for South America, at 0.6 per cent, and for the English-speaking Caribbean, at 1.4 per cent.

71. While regional economic growth will be positive, it will remain low, meaning that the recent increase in the urban unemployment rate cannot be reversed. In fact, that rate is expected to rise further in 2017, albeit by just 0.2 percentage points, to reach 9.2 per cent.

Table 1
Latin America and the Caribbean: annual growth in gross domestic product, 2011-2017
(Percentages, on the basis of dollars at constant 2010 prices)

Country	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*[a]	*2017*[b]
Argentina	6.0	-1.0	2.4	-2.5	2.5	-2.3	2.0
Bolivia (Plurinational State of)	5.2	5.1	6.8	5.5	4.8	4.3	4.0
Brazil	3.9	1.9	3.0	0.1	-3.9	-3.6	0.4
Chile	5.8	5.5	4.0	1.9	2.3	1.6	1.5
Colombia	6.6	4.0	4.9	4.4	3.1	2.0	2.4
Costa Rica	4.5	5.2	2.0	3.0	3.7	4.3	4.1
Cuba	2.8	3.0	2.7	1.0	4.3	-0.9	1.0
Dominican Republic	3.1	2.8	4.7	7.6	7.0	6.6	5.3
Ecuador	7.9	5.6	4.9	4.0	0.2	-1.5	0.6
El Salvador	2.2	1.9	1.8	1.4	2.5	2.4	2.5
Guatemala	4.2	3.0	3.7	4.2	4.1	3.1	3.4
Haiti	5.5	2.9	4.2	2.8	1.7	1.0	1.0
Honduras	3.8	4.1	2.8	3.1	3.6	3.6	3.7
Mexico	4.0	4.0	1.4	2.2	2.5	2.3	1.9
Nicaragua	6.2	5.6	4.5	4.6	4.9	4.6	4.6
Panama	11.8	9.2	6.6	6.1	5.8	4.9	5.2
Paraguay	4.3	-1.2	14.0	4.7	3.0	4.1	3.8
Peru	6.3	6.1	5.9	2.4	3.3	3.9	3.5
Uruguay	5.2	3.5	4.6	3.2	1.0	1.5	2.0
Venezuela (Bolivarian Republic of)	4.2	5.6	1.3	-3.9	-5.7	-9.7	-7.2
Subtotal of Latin America	**4.5**	**2.9**	**2.9**	**0.9**	**-0.5**	**-1.0**	**1.1**

Table 1 (concluded)

Country	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*[a]	*2017*[b]
Antigua and Barbuda	-1.8	3.8	-0.2	4.6	4.1	4.2	3.0
Bahamas	0.6	3.1	0.0	-0.5	-1.7	0.0	1.0
Barbados	0.8	0.3	-0.1	0.2	0.5	1.6	1.9
Belize	2.1	3.7	1.3	4.1	1.2	-0.8	3.7
Dominica	-0.2	-1.1	0.8	4.2	-1.8	1.0	3.2
Grenada	0.8	-1.2	2.4	7.3	6.2	4.2	2.4
Guyana	5.4	4.8	5.2	3.8	3.0	3.3	3.8
Jamaica	1.7	-0.6	0.5	0.7	1.0	1.4	1.6
Saint Kitts and Nevis	2.4	-0.6	6.2	6.0	3.8	4.0	3.4
Saint Lucia	0.2	-1.4	0.1	0.4	1.9	2.1	2.2
Saint Vincent and the Grenadines	-0.4	1.4	1.8	1.2	1.6	2.8	2.3
Surinam	5.3	3.1	2.9	1.8	-2.0	-10.4	0.8
Trinidad and Tobago	-0.3	1.3	2.3	-1.0	0.2	-4.5	0.5
Subtotal of the Caribbean	**1.0**	**1.3**	**1.5**	**0.4**	**0.4**	**-1.6**	**1.4**

Country	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*[a]	*2017*[b]
Latin America and the Caribbean	**4.5**	**2.8**	**2.9**	**0.9**	**-0.5**	**-1.1**	**1.1**
Central America (9 countries)[c]	**4.4**	**4.0**	**3.7**	**3.9**	**4.7**	**3.3**	**3.6**
South America (10 countries)[d]	**4.7**	**2.5**	**3.3**	**0.3**	**-1.8**	**-2.4**	**0.6**

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

[a] Preliminary data.

[b] Projections.

[c] Includes Costa Rica, Cuba, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

[d] Includes Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.