
World Economic Situation and Prospects 2013

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Modest acceleration in economic growth is expected in Latin America and the Caribbean in 2013

Stagnation in the developed world, economic slowdown in China and the euro area recession triggered a decline in exports from the region resulting sluggish growth in 2012

Mexico, 18 January: Latin America and the Caribbean are expected to see a modest acceleration in growth to 3.9 per cent in 2013, up from 3.1 per cent in 2012. This growth trajectory is closely tied to the performance of the Brazilian economy, which is expected to expand by 4.0 per cent in 2013, according to the UN annual economic report, World Economic Situation and Prospects 2013 (WESP) that was released today.

Mexico and Central America, the WESP report said, are forecast to average a growth rate of 3.9 per cent in 2013, similar to that of 2012. In line with the regional picture, the Caribbean countries will register an acceleration in growth to 3.7 per cent in 2013, 0.8 percentage points higher than in 2012.

During 2012, economic conditions in Latin America and the Caribbean deteriorated as the stagnation in the developed world and the slowdown in China affected exports from the region. As a result, GDP growth decelerated to 3.1 per cent in 2012, from 4.3 per cent in 2011 and 6.0 per cent in 2010.

Economic growth in South American countries slowed to 2.7 per cent in 2012, with Brazil and Argentina contributing greatly to the overall picture. Resilient domestic demand continues to drive growth in most of Latin America. Net export demand expanded in Mexico and Central America, benefitting from the fragile recovery in the United States, while South American economies were mainly affected by the economic slowdown in China and the euro area recession. Indeed, the trade sector constitutes the main impact channel of the global downturn in the region. The dire economic situation in Europe is further transmitted to the region through lower workers' remittances, affecting Colombia and Ecuador in particular.

The WESP report found that despite the 2012 slowdown, labour market indicators continued to show a good performance, as visible from continued increases in employment rates, higher real wages, increased female participation rates and lower unemployment. For the region as a whole, urban unemployment reached a historic low of 6.4 per cent in 2012. Improved employment conditions strengthened private consumption, a key driver of GDP growth in recent years. Nonetheless, employment conditions are likely to remain steady without much further improvements during 2013.

The inflation outlook for the region is fairly stable. The average annual inflation rate for the region was 6.0 per cent in 2012, down by 0.9 percentage points from 2011, and is expected to average 6.0 per cent in 2013. Increasing inflationary pressures might emerge if the shifts towards more expansionary monetary policies are pushed much further, or if there is a new surge in international food prices, especially for grains. Such a scenario would affect inflation in Central America and the Caribbean in particular. However, there is no clear sign that core inflation is trending upward.

Most countries in the region still have monetary policy space to promote economic activity should global or domestic economic conditions deteriorate in 2013. However, given already robust private consumer demand, monetary expansion would need to be cautious. About half of the economies in the region began providing more monetary stimulus when the global downturn began to affect exports and economic growth. The most

notable case is Brazil, where the central bank has since reduced the reference rate by 525 basis points to a historic low of 7.25 per cent. Colombia, the Dominican Republic, Guatemala and Paraguay also reduced policy rates.

Exchange rates remain at higher levels compared to those before the global downturn, but there were diverging trends during 2012. Colombia, Chile and Peru have experienced an appreciation of their domestic currencies; while Brazil and Argentina saw theirs depreciate. The volatile behaviour of capital markets and exchange rates led many central banks, for example those of Argentina, Bahamas, Brazil, Colombia, Peru and Uruguay, to actively intervene in foreign-exchange markets. Some countries continued to implement other macroprudential policies, like financial regulation reforms, changes to the reserve requirements and liquidity injections.

The WESP report said fiscal conditions vary widely across countries. South American countries like Chile, Peru and Bolivia have relatively more fiscal space. Chile, Ecuador and Peru recently introduced tax reforms aimed at increasing the tax base. By contrast, chronic deficits in Central America have become a concern, but recent tax and other fiscal reforms in El Salvador, Guatemala, Honduras, Nicaragua and Panama are expected to improve fiscal balances in the coming years. Caribbean public deficits also widened during the crisis due to increased spending. In most Caribbean countries, public debt as a percentage of GDP remains very high.

For the region as a whole, trade surpluses declined in value terms in 2012, as export growth slowed to 2.0 per cent while import growth accelerated to 7.5 per cent. The export growth slowdown is attributable mainly to the fall in exports from South America to the EU and China, with Argentina, Brazil and Chile being especially affected by the decline in exports in China. By contrast, exports from Central America and Mexico to the EU still increased. Only the hydrocarbon-exporting countries and exporters of food products, like Argentina, Paraguay and Uruguay, posted an increase in their terms of trade.

The WESP report warned that a more pronounced slowdown or renewed financial turmoil in the euro area would have a relatively modest effect in the region as a whole, but it would affect South America more strongly. A worsening scenario in the United States would most strongly affect the Caribbean, Central America and Mexico through export, tourism and workers' remittances channels. Additionally, a hard landing in China would strongly affect the countries in South America that are heavily reliant on primary commodity exports. There is also an increasing concern in relation to the QE measures implemented in developed countries, particularly regarding the potential effects of capital flow and exchange rate volatility.

World Economic Situation and Prospects is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the United Nations Conference for Trade and Development (UNCTAD) and the five United Nations regional commissions.

On the web: <http://www.un.org/en/development/desa/policy/wesp/index.shtml>

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Table:

Latin America and the Caribbean: rates of growth of real GDP, 2009-2014

	2009	2010	2011	2012 ^a	2013 ^b	2014 ^b
Latin America and the Caribbean	-1.9	6.0	4.3	3.1	3.9	4.4
South America	-0.2	6.5	4.5	2.7	4.0	4.4
Argentina	0.9	9.2	8.9	2.5	3.2	4.2
Bolivia (Plurinational State of)	3.4	4.1	5.2	4.7	4.7	4.5
Brazil	-0.3	7.5	2.7	1.3	4.0	4.4
Chile	-1.0	6.1	6.0	5.1	4.6	4.9
Colombia	1.7	4.0	5.9	4.4	4.5	4.8
Ecuador	0.4	3.6	7.8	4.3	4.4	4.5
Paraguay	-3.8	15.0	3.8	-1.6	6.9	5.0
Peru	0.9	8.8	6.9	6.0	5.8	5.6
Uruguay	2.4	8.9	5.7	3.5	4.2	4.0
Venezuela (Bolivarian Republic of)	-3.2	-1.5	4.0	5.1	2.5	2.9
Mexico and Central America	-5.3	5.4	4.0	4.0	3.9	4.6
Costa Rica	-1.0	4.7	4.2	4.5	4.4	4.7
El Salvador	-3.1	1.4	1.5	1.6	2.2	3.1
Guatemala	0.5	2.9	3.9	3.3	3.7	3.3
Honduras	-2.1	2.8	3.6	3.8	3.5	4.0
Mexico	-6.0	5.5	3.9	3.9	3.8	4.6
Nicaragua	-1.5	4.5	4.7	3.9	4.2	3.9
Panama	3.9	7.6	10.6	9.0	7.5	7.2
Caribbean	0.9	3.5	2.7	2.9	3.7	3.8
Barbados	-4.1	0.2	0.6	0.9	1.7	2.0
Cuba	1.4	2.4	2.7	3.0	3.5	3.3
Dominican Republic	3.5	7.8	4.5	4.1	4.7	5.1
Guyana	3.3	3.6	4.6	3.9	5.1	5.1
Haiti	2.9	-5.4	5.6	4.8	7.0	6.5
Jamaica	-3.1	-1.4	1.5	0.8	1.0	1.3
Trinidad and Tobago	-3.5	2.5	-1.4	0.7	2.3	3.0

Source: UN/DESA, based on data if the United Nations Statistics Division and individual national sources.

Note:

a Partly estimated.

b Baseline scenario forecast, based in part on Project LINK and the UN/DESA World Economic Forecasting Model.