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Press Release

Latin America and the Caribbean on a strong march to economic recovery in 2010, but at weakening pace in 2011 and 2012 – UN report

The strong rebound in output has boosted job creation in several South American countries, bringing down the average rate of unemployment for the region

Mexico City, 18 January – Economies in Latin America and the Caribbean saw a dramatic, stronger-than-expected economic recovery in 2010, according to a United Nations report launched here today. The gross domestic product (GDP) of the region expanded by 5.6 per cent in 2010, after contracting by 2.1 per cent in 2009. Economic growth is expected to slow down, however, to 4.1 per cent in 2011 and 4.3 per cent in 2012. Despite the slowdown, the economic outlook is robust by historical standards of the region, says the report, *World Economic Situation and Prospects 2011 (WESP)*.

The annual report released today says that the economic stimulus measures taken by Governments across the region in response to the global crisis have been an important factor in the economic rebound. The measures have helped restore confidence and strengthen domestic demand throughout 2010. Private consumption growth was generally strong, stimulated by lower interest rates, higher real wages and government subsidies and transfers. Exports also picked up as world trade recovered from its collapse in early 2009 and commodity prices rebounded. This helped the rebound in South America in particular. Yet, in most Latin American countries the recovery was led by domestic demand, pushing up import volumes at a faster pace than exports. Slowing global demand (*see global press release*) and dwindling fiscal space will moderate growth impulses in 2011 and 2012, the UN report states.

During the first half of 2010, Argentina (9.4 per cent), Brazil (8.9 per cent), Paraguay (11.7 per cent) and Uruguay (9.6 per cent) posted very strong GDP growth. This performance starkly contrasted with that in the Bolivarian Republic of Venezuela, whose economy shrank by 3.5 per cent in the first half of 2010, owing to strong declines in domestic demand and oil production. GDP growth in the South American sub-region averaged an estimated 6.3 per cent for the year 2010 as a whole, but it is expected to slow to 4.5 per cent in 2011 due to the phasing out of the stimulus measures and the expected weakening of global trade growth.

The UN report indicates that the economic recovery in Mexico, Central America and the Caribbean has been slower, because the economies in this part of the region continue to be highly dependent upon output growth in the United States. Mexico recovered steadily in the first half of 2010, supported mainly by external demand for locally-produced automobiles. The rebound is expected to weaken, however, along with the continued slow recovery and persistent high unemployment in the United States. Though the Mexican economy has expanded by 5.0 per cent in 2010, its GDP growth is projected to slow to 3.4 per cent in 2011. In the Caribbean, despite improvements in workers' remittances and incomes from tourism during 2010, the economic situation is also expected to be challenging throughout 2011 and 2012.

The strong rebound in production also helped the recovery of many jobs that were lost during the crisis. The average rate of unemployment in the region dropped to 7.8 per cent in 2010, down from 8.2 per cent in 2009, though it is still higher than that of 2008. Real wages have increased in several countries, especially in Chile, Costa Rica, El Salvador, Paraguay and Uruguay, as inflation rates dropped significantly from 2008 levels and employment growth put upward pressure on nominal wages.

Latin America and the Caribbean: Rates of growth of real GDP, 2007-2012[a]

Annual percentage change	2007	2008	2009	2010[b]	2011[c]	2012[c]
Latin America and the Caribbean	**5.6**	**4.0**	**-2.1**	**5.6**	**4.1**	**4.3**
South America	6.5	5.3	-0.3	6.3	4.5	4.8
Argentina	8.7	6.8	0.9	8.0	5.0	4.4
Bolivia (Plurinational State of)	4.6	6.1	3.4	4.1	3.9	4.0
Brazil	6.1	5.1	-0.2	7.6	4.5	5.2
Chile	4.6	3.7	-1.5	5.0	6.0	4.5
Colombia	6.3	2.7	0.8	4.5	4.7	4.5
Ecuador	2.0	7.2	0.4	2.4	2.0	2.5
Paraguay	6.8	5.8	-3.8	9.4	5.0	5.0
Peru	8.9	9.8	0.9	8.5	5.5	5.7
Uruguay	7.5	8.5	2.9	8.0	4.5	3.9
Venezuela (Bolivarian Republic of)	8.2	4.8	-3.3	-1.8	2.0	3.0
Mexico and Central America	3.7	1.8	-5.9	4.8	3.4	3.5
Costa Rica	7.9	2.8	-1.1	4.0	3.3	3.8
El Salvador	4.3	2.4	-3.5	1.5	1.5	3.0
Guatemala	6.3	3.3	0.5	2.5	2.5	3.0
Honduras	6.3	4.0	-1.9	2.5	2.5	3.0
Mexico	3.3	1.5	-6.5	5.0	3.4	3.5
Nicaragua	3.1	2.8	-1.5	2.4	2.0	3.8
Panama	12.1	10.7	2.4	6.0	5.0	4.5
Caribbean	6.5	3.5	1.3	2.9	3.1	3.4
Barbados	3.4	0.5	-3.6	-0.5	1.0	3.0
Cuba	7.3	4.1	1.4	2.0	3.0	3.5
Dominican Republic	8.5	5.3	3.5	6.5	4.0	4.0
Guyana	7.0	2.0	3.3	2.5	2.2	2.5
Haiti	3.3	0.8	2.9	-8.5	7.0	4.0
Jamaica	1.5	-0.9	-2.7	-0.5	1.0	2.0
Trinidad and Tobago	4.6	2.3	-0.9	2.1	1.9	2.5

Source: United Nations, *World Economic Situation and Prospects 2011*.

a Regional averages are calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 2005 prices and exchange rates.

b Partly estimated.

c Forecasts, based in part on Project LINK.

Though inflation rates increased during 2010, they remain below pre-crisis levels. Inflationary pressures are expected to stay weak in the near term in most countries. The situation is more challenging in Argentina and the Bolivarian Republic of Venezuela, where inflation is expected to remain in the double digits.

Current-account deficits are expected to widen somewhat in 2011 and 2012, as a result of weakening export prospects. During 2010, the rebound in global trade and rising commodity prices boosted export revenue, especially for primary commodity exporters, including the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia. For the region as a whole, the terms of trade are estimated to have improved by about 7 per cent in 2010. The current-account deficit is estimated at about 0.5 per cent of regional GDP in 2010 but is expected to widen in 2011 and 2012, reflecting a larger trade deficit.

Remittance inflows have recovered modestly, rising by an estimated 5 per cent in 2010, after a significant 12 per cent fall in 2009. As European and United States labour markets are not expected to improve rapidly, prospects for remittances remain weak for 2011 and 2012.

Private capital flows returned to Mexico and South America during 2010 after having dried up during the global crisis. Foreign direct investment inflows are estimated to have increased by 40 to 50 per cent in 2010. There was also a strong increase in short-term portfolio investments. The surge in capital inflows has put upward pressure on exchange rates. On average, the currencies of the region appreciated by about 4.5 per cent in 2010. This has raised concerns about export competitiveness and economies being hurt by the volatile nature of private capital flows. Monetary authorities in several countries have responded to these concerns by intervening in foreign exchange markets and by introducing stricter controls on short-term capital inflows. The central banks of Argentina, Colombia and, more recently, Brazil and Peru have introduced capital controls. Brazilian authorities, for instance, reintroduced a tax on foreign purchases of domestic equity and bonds, and tripled the rate from 2 per cent to 6 per cent.

Fiscal revenues in the region increased, on average, by about 1 per cent of GDP in 2010, reflecting primarily the robust economic recovery in most of South America. Fiscal conditions vary across the region. Most countries substantially increased public spending during 2010 to support the recovery, but not all saw government revenue increase at the same time. As a result, a number of countries, especially in Central America and the Caribbean, have limited fiscal space left and are facing high levels of public indebtedness. Some will require additional external financing to cover expenditure needs. By contrast, most of the South American countries have sufficient fiscal space left and should be able to continue stimulus as needed to keep the momentum of recovery, states the WESP report.

Risks on the horizon

Looking forward, WESP says that there are risks with both external and domestic factors. External risks are related to a worse-than-anticipated slowdown in developed economies (see *global press release*). Further appreciation of national currencies against the dollar could also undermine export growth. In the short run, manufacturing exports, sensitive to exchange-rate adjustments, are likely to be hurt most. The UN report says the consequences will be felt most in the economies of Mexico and Central America, which rely heavily on manufacturing exports to the United States and face strong competition from China.

At the domestic level, fears of domestic asset bubbles or lack of fiscal space could push countries to withdraw their monetary and fiscal stimuli faster than expected, which could harm GDP growth in the near term, especially as world trade is expected to slow in 2011 and 2012. More generally, macroeconomic policy-making will be challenging. The strong rebound in domestic demand and the surge in private capital inflows have created fears of overheating in a number of economies. In response, several central banks, including those of Brazil, Chile and Peru, have increased their policy interest rates and their reserve requirements for banks to limit domestic credit expansion and take some air out of emerging asset price bubbles. Higher interest rates, however, could attract more capital inflows, exacerbating the pressure on exchange rates. “Hence the move towards tighter restrictions on capital inflows seems sensible,” Rob Vos, the UN’s lead economist who supervised the report, said at the press launch, “but internationally concerted actions will be needed to address continued risks to global economic instability and help bring Latin America’s recovery into more stable waters as well.”

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http://www.un.org/esa/policy/wess/wesp.html

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