Economic situation and outlook for Latin America and the Caribbean for the period 2017–2018

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 2017–2018.
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[Original: English and Spanish]

Summary

After two years of contraction of regional GDP, economic growth turned positive in 2017 (1.3 per cent), as a result of increases in both domestic demand and export volumes. Domestic demand was up by 2.1 per cent on average, reflecting an increase in all its components, but especially in private consumption and investment.

The slow but steady recovery of economic growth in Latin America and the Caribbean occurred in the midst of a context that was more favourable in real and financial terms, as both developed and emerging economies alike grew faster than in 2016, record-low international interest rates continued to benefit the region and commodity prices have more than rebounded from the collapse in 2016. However, concerns persist regarding the sluggish growth of global trade, which remains well below historic averages despite a higher rate of growth in 2017 than in 2016.

With regard to the external sector, the balance-of-payments current account deficit narrowed from 1.9 per cent in 2016 to 1.5 per cent in 2017 on the back of the significant jump in the value of exports, which largely reflected the increase in Brazilian exports in 2017.

During the first 10 months of 2017, average inflation in Latin America and the Caribbean continued the downward trend that started in mid-2016, falling from 7.3 per cent at December 2016 to 5.7 per cent at December 2017. Year-end inflation levels in the region were the lowest they have been since the end of 2013. In spite of that downward trend, however, a slight increase has been recorded since July 2017, ending 13 consecutive months of declining inflation in the region.

Despite the slow economic recovery in 2017, the urban unemployment rate in Latin America and the Caribbean continued to rise, albeit at a lower rate than the previous year, from 8.9 per cent in 2016 to 9.3 per cent in 2017. As a result, the cumulative increase in unemployment between 2014 and 2017 was 2.4 percentage points, or 7 million people (from 15.8 million to 22.8 million), in the region’s urban areas. In addition, average job quality fell again in the same period, owing to weak creation of wage employment.

This scenario, marked by a moderately optimistic global outlook, slow but steady growth, downturns in labour markets and divergent inflation trends in the north and south of the region, still presents challenges to macroeconomic policy. In terms of fiscal policy, despite the variation in debt and deficit levels between countries, fiscal consolidation continued to set the tenor of fiscal policy in the region in 2017. Accordingly, the primary deficit for the region on average narrowed from -1.0 per cent of GDP in 2016 to -0.7 per cent in 2017, mainly owing to a slowdown in primary public expenditure which, together with a slight increase in tax receipts, allowed debt servicing payments to be met.

With respect to monetary and exchange-rate policies, inflation continues to define the margins available to monetary authorities for stimulating aggregate domestic demand. In South America and the non-Spanish-speaking Caribbean, falling inflation rates are providing space for more expansionary monetary policies, whereas in Central America and Mexico, the management of monetary policy was geared
towards controlling increases in general prices. Exchange rates showed marked

The context for the region’s performance in 2018 will continue to be favourable
in both real and monetary areas, with a projected average regional GDP growth rate of
2.2 per cent, largely reflecting the projected growth for Brazil (2.2 per cent). The
global economy is expected to continue to grow at rates close to those recorded in
2017, and emerging economies are poised to outperform developed ones. On the
monetary front, liquidity will remain high and international interest rates will remain
low. This opens up a promising opportunity for Latin American and Caribbean
countries to expand their economic policy space in a way that will sustain the
expansionary phase of the business cycle. However, there are still risks associated with
the pace and extent of the normalization of monetary policy in developed countries
and the pace of recovery in global trade.

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Introduction

1. Regional GDP grew for the first time in three years in 2017, consolidating the trend reversal which had begun in the last quarter of 2016. Although differences exist between countries and subregions and growth rates remain low, the improved performance compared to 2016 is widespread throughout Latin America and the Caribbean, spurred by the recovery of private consumption and — after several years of contraction — investment as drivers of domestic demand. Nevertheless, the continued deterioration of the labour market, with rising rates of urban unemployment in the region and a decline in average job quality, remains a concern.

2. This report on the economic situation and outlook for Latin America and the Caribbean in 2017–2018 is divided into seven sections. The first six sections summarize the economic performance of the region in 2017 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 2018.

A. The external sector

3. The regional current account deficit narrowed for the second year running, dropping to 1.5 per cent of GDP in 2017, against the 1.9 per cent seen in 2016 (see figure 1), owing mainly to the decline in Brazil’s deficit, by almost one percentage point of GDP, thanks to strong export growth.

Figure 1
Latin America (19 countries): balance-of-payments current account by component, 2007–2017⁴
(Percentages of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
⁴ The figures for 2017 are preliminary.
4. Most countries posted an improvement in their trade balances and transfers, owing especially to migrants’ remittances, which were partly offset by larger interest payments abroad and the repatriation of profits by transnational firms.

5. The recovery in prices for the region’s main exports in 2017 boosted the terms of trade by 4 per cent compared with 2016 (see figure 2). Hydrocarbon-exporting countries benefited the most, with a 13 per cent increase in their terms of trade. Exporters of mining products also saw a 10 per cent increase in their terms of trade. With prices of agricultural products rising only slightly and higher prices for energy products and other intermediate goods, exporters saw a 4 per cent decline in terms of trade in 2017. The situation was similar in Central American and Caribbean countries, where the terms of trade declined by 2 per cent.

Figure 2
Latin America and the Caribbean (selected countries and groupings): variation in the terms of trade, 2015–2017
(Percentages)

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

6. Higher commodity prices, along with an improvement in global and intraregional trade, are reflected in an increase in Latin American exports, which rose by 11 per cent after four years of contractions. Brazil, in particular, recorded a jump of 18 per cent. Once again, mineral- and hydrocarbon-exporting countries profited the most from the higher prices, as their export value increased by 17 per cent and 12 per cent, respectively. Those countries whose exports comprise mainly agricultural products registered a 3 per cent rise in their foreign sales. The combination of higher crude oil prices and the improvement in Mexico’s manufacturing exports boosted that country’s exports by 10 per cent. The Central American countries recorded an increase of 6 per cent in exports owing mainly to greater volumes.
7. Imports of goods in 2017 were up 9 per cent compared to the previous year. With the exception of the Bolivarian Republic of Venezuela, all countries in the region recorded increases in imports, reflecting the upturn in economic activity and specific situations such as the lifting of import safeguards in Ecuador in mid-2017. Meanwhile, the rise in commodity prices, particularly of energy products, along with stronger volumes, explains the expected 6 per cent jump in imports into Central America.
Figure 4
Latin America and the Caribbean (selected countries): variation in goods imports, 2017
(Percentages)

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

8. While the improvement in the regional trade balance in 2016 was owed primarily to the drop in imports, in 2017 it was largely a result of increased exports. As a result, the region moved from a deficit representing 0.9 per cent of GDP in 2015 to surpluses equivalent to 0.2 per cent and 0.6 per cent of GDP in 2016 and in 2017, respectively. In contrast, the services account deficit remained the same as in 2016, at around 0.9 per cent of GDP.

9. With respect to the income account, the improvement in commodity prices implied a nominal expansion of the deficit, given the higher level of repatriated earnings from foreign investment in natural resources. However, in GDP terms, the deficit remained at 2.6 per cent. At the same time, the current transfer balance, which is a historically positive account, registered a surplus of 1.4 per cent of GDP. In 2017, migrant remittance flows, which are the main component of transfers, climbed by 9 per cent on average in the region, thanks to stronger economic growth in the originating countries.

10. In 2017, overall net financial flows to the region were 4 per cent lower than in 2016, but were still enough to cover the current account deficit and even to accumulate international reserves. Net foreign direct investment (FDI) flows rose by 4 per cent in 2017 (see figure 5).

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1 The income account has long been structurally negative in the region, as a result of outward remittances of profits on FDI and interest on external debt.
Figure 5
Latin America (selected countries): capital and financial account by component, rolling years, first quarter of 2008 to fourth quarter of 2017
(Millions of dollars)

A. Latin America (16 countries), excluding Brazil

B. Brazil

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
11. Non-FDI flows (basically, portfolio and other types of investment flows) fell in the region as a whole as a result of greater outflows from Brazil.

12. Bond issues in international markets by the countries of the region continued to grow, and rose by almost 12 per cent in 2017 owing to a stronger appetite for emerging market assets and more favourable economic conditions in the region. The banking and private corporate sectors posted the strongest increases in bond issues, while those of the other sectors fell year-on-year.²

Figure 6
Latin America (15 countries): bonds issued in international markets, rolling years, January 2014 to February 2018
(Millions of dollars)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the Latin Finance Bonds Database.

13. Sovereign risk levels in almost all the countries of the region have been declining since early 2016, reflected in the fall in the Emerging Markets Bond Index for the region (figure 7), in line with calmer global financial markets and greater financing volumes in the region’s bond markets.

² The quasi-sovereign sector includes public sector development banks and State-owned enterprises, among other entities. The supranational sector includes regional development banks, such as the Development Bank of Latin America (CAF) and the Central American Bank for Economic Integration (CABEI).
B. Economic activity

14. In 2017, regional GDP grew by 1.3 per cent, sustained by growth in Brazil, which is recovering after 12 quarters of contraction. The growth in the region’s GDP translated into an increase in the region’s per capita GDP for the first time since 2014, as the latter rose by 0.3 per cent.
Performance varied greatly across countries and subregions. The economies of South America grew by 0.8 per cent in 2017, after two years of economic downturn, while the economies of Central America, Cuba, the Dominican Republic and Haiti, had an average growth rate of 3.3 per cent, as in 2016. The English- and Dutch-speaking Caribbean registered average growth rates of 0.1 per cent in 2017, a figure that reflects the damage wrought by Hurricanes Irma and Maria.

This performance comes on the back of rising consumption and investment, as well as rising external demand. In this period, investment climbed 5.3 per cent, fuelled by an increase in inventories; private consumption grew by 1.8 per cent, mainly as a result of a rise in real wages; and public consumption was up by 0.2 per cent (see figure 9).
17. The more encouraging international context and the improved performance of domestic demand allowed imports and exports to expand. However, given the significant increase in imports, net exports over the first three quarters of 2017 made a negative contribution of -0.9 percentage points to GDP.

18. The clear contrast in trends that had existed between the South America and the group comprising Central America, the Dominican Republic and Mexico since 2013 began to evaporate in the third quarter of 2017. While South America began to recover towards the end of 2016, the Central America, Dominican Republic and Mexico group continue along the path they have followed over the past few years. In South America, the components that contributed most to GDP growth were the recovery of investment and, to a lesser extent, private consumption and exports. In the north of the region, however, growth was spurred by the contributions of private consumption and exports (see figure 10).

19. The region’s gross fixed capital formation rose by 0.7 per cent in the third quarter of 2017 and by 2.9 per cent in the fourth quarter, after falling for 13 consecutive quarters on account of the drop in gross fixed capital formation in South America, particularly in Brazil. However, in the third and fourth quarters of 2017, South America reported increases of 1.3 per cent and 5 per cent, respectively, in gross fixed capital formation. Conversely, gross fixed capital formation in Central America, the Dominican Republic and Mexico fell by 0.2 per cent and 0.4 per cent, respectively, in the same periods.
Figure 10
Latin America (selected groupings): GDP growth rates and contribution by expenditure components to growth, first quarter of 2013–fourth quarter of 2017
(Percentage points)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
20. The uptick in private consumption is also behind the increase observed in commerce. Likewise, the recovery of the external sector, coupled with greater dynamism in domestic demand, was reflected in the growth of the transport and communications sectors and manufacturing industry.

21. In contrast, mining and quarrying contributed negatively to GDP growth.

C. Domestic prices

22. In 2017, average inflation in Latin America and the Caribbean, excluding the Bolivarian Republic of Venezuela, continued the downward trend that started in mid-2016, falling by 1.6 percentage points year-on-year (from 7.3 per cent at December 2016 to 5.7 per cent at December 2017). In fact, 2017 closed with the lowest year-end inflation for the region since 2013. At the same time, a slight increase has been recorded since mid-2017, ending 13 consecutive months of declining inflation.

Figure 11
Latin America and the Caribbean: consumer price index (CPI), weighted average 12-month rates of variation, January 2014–December 2017
(Percentages)

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

23. Inflationary patterns are clearly differentiated between the subregions. Inflation dropped by 3.8 percentage points in South America, from 9.1 per cent in December 2016 to 5.3 per cent in December 2017, and by 1.9 percentage points in the Caribbean, falling from 5.6 per cent in November 2016 to 3.7 per cent in November 2017; while
in Central America and Mexico, inflation rose by 2.7 percentage points, from 3.7 per cent in December 2016 versus 6.4 per cent in the same month of 2017. Exchange-rate dynamics and monetary policies are behind these differences. While currency appreciation in the economies of the south of the continent has helped to drive down prices, the depreciation of currencies in the Central America and Mexico group has sparked an increase in inflation. Added to this is the application of policies aimed at disinflation in Argentina, Brazil, Colombia and Suriname.

D. Employment and wages

24. In 2017, the region registered an increase in unemployment and a deterioration in average job quality, although less markedly than in 2016. The urban unemployment rate in Latin America and the Caribbean rose from 8.9 per cent in 2016 to an average of 9.3 per cent in 2017. That resulted in a cumulative increase of 2.4 percentage points since 2014 and a rise of 7 million unemployed people (from 15.8 million to 22.8 million) in the region’s urban areas between 2014 and 2017. Over the year, however, the year-on-year decline eased gradually, and the first reduction in the urban unemployment rate since 2014 is expected in 2018.

25. Over the course of the year, in line with the gradual reactivation of the region’s economy, both the employment and unemployment rates improved. As shown in figure 12, the year-on-year drop in the urban employment rate declined gradually and, in the third and fourth quarters of 2017, improved very slightly compared to the same period the previous year. Taking into account the dynamics of economic growth up to the end of 2017 and the forecasts for 2018, these trends indicate that both indicators will post modest improvements over the current year.
Figure 12
Latin America and the Caribbean (11 countries): urban participation, employment and unemployment rates (rolling years) and year-on-year changes (weighted averages), first quarter of 2014 to fourth quarter of 2017\textsuperscript{a}
(Percentages and percentage points)

\textsuperscript{a} The countries covered are Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Paraguay, Peru and Uruguay.

26. As in 2016, the region’s 2017 results were strongly influenced by the performance of the Brazilian labour market where, while the deterioration eased over the year, the average annual unemployment rate rose from 11.5 per cent to 12.7 per cent nationally. However, deteriorating labour indicators were a relatively widespread
This was especially true in South America. The results for the same year were somewhat more favourable in the Caribbean and, most particularly, in Mexico and Central America.

In most countries, women’s participation in the labour market rose faster than their employment rate, leading to higher female unemployment rates. In contrast, the number of men leaving the labour market pushed down the open unemployment rate, even though male employment rates remained unchanged (figure 13). Thus, the gender gaps in participation and employment rates narrowed, but widened in the case of the unemployment rate.

**Figure 13**

*Latin America and the Caribbean (18 countries): year-on-year changes in participation, employment and unemployment rates by sex, median values, 2017*

(Percentage points)

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

*The countries covered are Argentina, the Bahamas, Barbados, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago and Uruguay.*

Since 2013, own-account work has grown faster than wage employment, with particularly sharp differentials reported between 2014 and 2016 (figure 14). This occurred again in 2017: despite moderate dynamism in wage employment creation in some countries, in general those new jobs were not created in sufficient numbers to meet the needs of labour market entrants and, again, own-account work increased more rapidly than wage employment. This divergence reflects, first, the weakness of the demand for labour and thus of wage employment creation in private companies.

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3 In 2013, own-account work grew slightly more than wage employment. However, other categories of non-wage work expanded only weakly. Thus, the share of wage jobs in total employment increased, thereby maintaining the prevailing trend that started in 2004.
and the public sector. Second, it was the result of pressure from the labour supply, given that many households were forced to seek earnings from sources other than waged employment and to self-generate paid work, generally with precarious and volatile incomes and without social protection; thus, this increase indicates a deterioration in average job quality, although not as pronounced as in previous years.

Figure 14
Latin America and the Caribbean (12 countries): economic growth and job creation dynamics, weighted averages, 2014–2017

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

* The countries covered are Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Mexico, Panama, Paraguay and Peru.

29. Registered employment, which is used as an indicator of formal, better quality jobs, evolved along lines similar to the patterns analysed above: (i) the creation of jobs of this kind was weak, (ii) the situation improved as the year progressed, and (iii) countries in the north of the region posted more favourable results than the countries of South America, where the growth rate of jobs of this kind did not exceed 1 per cent.

30. The evolution of the real wages for registered employment was shaped by the combined impact of the constrained demand for labour (and its implications for nominal wages) and the evolution of inflation. As shown in figure 15, in the group of countries from the northern subregion, the nominal wage growth rate increased, but steeper inflation caused a slightly slower growth in real wages than in 2016.

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4 In most cases, indicated by the numbers contributing to social security or its components.
31. In contrast to the prevailing trend in the north of the region, the sharp drop in inflation in the South American countries for which figures are available had a favourable impact on real wages that more than offset the slower growth in nominal wages.

32. As in previous years, the evolution of average wages in most of the countries was supported by wage policies that aimed at ensuring moderate increases in real-term minimum wages. Thus, the median real-term minimum wage for 18 Latin American and Caribbean countries rose by 2.7 per cent.

33. In 2018, the return to economic growth is expected to have a positive impact on overall demand and job creation and, as a result, the region’s urban employment rate will increase slightly, for the first time since 2013. The impact of this increased job creation will be limited, however, as the trend of a moderately rising participation rate is expected to continue. Consequently, the region’s urban unemployment rate is forecast to fall slightly, by 0.2 percentage points, and to stand at an average of 9.1 per cent in 2018. At the same time, because of the modest increase in the demand for labour and because inflation rates are generally being held in control, the trend of gradually rising real wages is expected to continue.

E. Fiscal policy

34. In 2017, the primary deficit for the 17 reporting countries of Latin America declined from its 2016 level of -1.0 per cent of GDP to -0.7 per cent of GDP, as a result of a slowdown in public expenditure and the countries’ efforts to boost fiscal revenues (see figure 16). However, an increase in public debt servicing costs prevented a decline of the same magnitude in the overall balance, which stood...
at -2.9 per cent of GDP. Given these factors, the adjustment of fiscal accounts had the effect of reducing the contribution of general government consumption to GDP growth to around zero, according to the corresponding national accounts. The overall balance, however, is uneven across countries and subregions.

Figure 16

Latin America and the Caribbean: overall and primary balances and interest payments, 2015–2017<sup>a,b</sup>
(Percentages of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Latin America (17 countries)</th>
<th>Central America, Dominican Republic, Haiti and Mexico</th>
<th>South America (12 countries)</th>
<th>The Caribbean (12 countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>-0.9</td>
<td>0.2</td>
<td>-0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>2016</td>
<td>-1.9</td>
<td>-0.2</td>
<td>-1.4</td>
<td>1.0</td>
</tr>
<tr>
<td>2017</td>
<td>-0.7</td>
<td>-1.9</td>
<td>-1.7</td>
<td>1.0</td>
</tr>
</tbody>
</table>

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

<sup>a</sup> Simple averages. The figures for 2017 are preliminary. The data do not include figures for the Bolivarian Republic of Venezuela or the Plurinational State of Bolivia.

<sup>b</sup> The averages shown for the Caribbean do not include figures for Dominica, which registered a fiscal surplus of 35.1 per cent of GDP in 2016 owing to the receipt of windfall gains.

35. The primary deficits narrowed both for the group comprising Central America, the Dominican Republic, Haiti and Mexico (from -0.2 per cent to -0.1 per cent of GDP) and, for the first time in five years, for South America (from -1.9 per cent to -1.5 per cent of GDP). However, interest payments rose in both subregions, which mitigated the reduction of the overall deficit. A similar phenomenon occurred in the Caribbean: although the primary surplus held at 1.0 per cent of GDP, rising interest payments (from 3.2 per cent to 3.4 per cent of GDP) drove up the total deficit. On average, interest payments in the region reached 2.3 per cent of GDP, representing a 0.2 percentage-point increase compared with 2016.

36. Despite the generally positive trend in primary deficits, with primary deficits that remained high in South America and some Central American countries and the upward trend in some Caribbean countries, a note of caution must be sounded regarding primary public savings in the region.

37. In December 2017, Latin America’s gross public debt amounted to 38.4 per cent of GDP, which was similar to the level recorded at the close of 2016. Although the
simple average of the public debt hardly changed at all, the number of countries that witnessed an increase in their level of debt rose; this was offset by a decline in debt levels in 7 of the 19 countries of the region, however. In many of the countries, the upswing in debt levels was primarily fuelled by increased sovereign debt issues undertaken in an effort to find new sources of financing.

38. At the subregional level, South America’s gross public debt expanded by 0.8 percentage points of GDP to 38.7 per cent of GDP, on average. In the group comprising Central America, Haiti, the Dominican Republic and Mexico, the level of indebtedness slipped by 0.2 percentage points of GDP to an average of 38.0 per cent of GDP. In the Caribbean, as of the third quarter of 2017, central government debt amounted to 70.9 per cent of GDP, for a drop of 1.5 percentage points from its 2016 level.
Figure 17
Latin America and the Caribbean: gross central government debt, 2016–2017
(Percentages of GDP)

A. Latin America

![Graph showing gross central government debt for Latin America, 2016-2017](image1)

B. The Caribbean

![Graph showing gross central government debt for The Caribbean, 2016-2017](image2)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
39. The relative stability of public debt in Latin America, despite the persistence of sizeable fiscal deficits, can be accounted for, in large part, by the strengthening real growth rate and the steep adjustment in the value of assets (the stock-flow effect).

Figure 18
Latin America and the Caribbean: interest payments on the central government’s gross public debt, 2017
(Percentage points of GDP)

A. Latin America

B. The Caribbean

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
40. With regard to tax receipts, different situations can be observed from one subregion to the next. The reactivation of economic activity in South America has spurred an upswing in tax receipts, as revenues from the value added tax stopped experiencing negative growth rates. In contrast, rates of increase in value added tax receipts in Central America, the Dominican Republic and Mexico slowed somewhat, mainly on account of the slowdown in GDP growth and in private consumption, in particular, together with the statistical effects of a high basis of comparison in some countries.

41. Importantly, the drag on public revenues from the sharp drop in fiscal income from raw materials eased substantially in 2017. Revenues from the production and sale of hydrocarbons in the region are expected to stabilize around 3.3 per cent of GDP on average, following substantial declines in 2015 and 2016.

42. Other income, composed primarily of non-tax revenues and grants and donations, changed little, to 2.7 per cent of GDP, on average. In line with these trends, total central government revenues in Latin America are expected to have remained fairly stable in 2017 at around 18.2 per cent of GDP.

Figure 19

**Latin America and the Caribbean: breakdown of total central government revenues, 2015–2017**

(Percentages of GDP)

![Graph showing breakdown of total central government revenues](image)

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

* Simple averages. The figures for 2017 are preliminary.

43. The persistence of public-sector deficits has put greater pressure on the region’s governments to adopt fiscal consolidation measures, bringing the issue of the sustainability of the public debt to the fore.

44. These measures are not without challenges at a time of relatively slow economic growth in a region that is still marked by striking structural gaps. While the growth rate in total primary expenditure, which excludes interest payments, was reined back sharply in 2016, in 2017, spending picked up somewhat in some countries, but nonetheless climbed at a slower rate than in earlier years.

45. Total central government expenditure dropped or held steady in all subregions and, as a regional average, total spending as a percentage of GDP dipped from 21.3 per cent to 21.1 per cent. Behind this stability in the level of spending is a change in its composition: the share of public debt service rose (from 2.1 per cent to 2.3 per cent) and primary current expenditure fell, with a similar contraction in capital expenditure.
F. Monetary and exchange-rate policies

46. In 2017, inflation continued to define the margins available to monetary authorities for stimulating aggregate domestic demand. In South America and the non-Spanish-speaking Caribbean, falling inflation rates provided space for a more expansionary monetary policy, whereas in Central America and Mexico, monetary policy was geared towards controlling increases in general prices.

47. Among the economies that use monetary policy rates as their main instrument, 2017 saw sharp decreases in those rates in Brazil (650 basis points) as well as in Chile, Colombia, Guatemala, Paraguay and Peru (see figure 21).

48. The cuts in benchmark monetary policy interest rates occurred after a series of increases — implemented at different times between 2013 and 2016 — as part of efforts to reduce inflationary pressures, particularly in Brazil and Colombia, where inflation rates and forecasts had exceeded the official targets. After controlling those pressures, the central banks have been able to reduce their benchmark rates and, by so doing, to attempt to stimulate aggregate demand.

49. Conversely, the Argentine Central Bank has increased the benchmark interest rate by 250 basis points since January 2016 because current inflation is not in line with the target, making Argentina the main exception in the group.

50. Among the economies of Central America and Mexico, the dynamics are more diverse. Between January 2016 and March 2018, the Costa Rican and Mexican monetary authorities decided to increase their benchmark interest rates by 325 and 175 basis points, respectively, in response to rising inflation and, in the case of Mexico, the exchange rate volatility of the peso.
Figure 21
Latin America (selected countries): monetary policy interest rates in countries where they are used as the main policy instrument, January 2013–March 2018
(Percentages)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
51. In the region’s economies that use monetary aggregates as their main policy instrument, the monetary bases reported a slowdown in their pace of growth. In the economies of Latin America, the growth rate of the monetary base averaged 8.5 per cent between the fourth quarter of 2016 and the same period of 2017, which represents a drop of 7 percentage points from the average recorded between the first quarter of 2015 and the third quarter of 2016. The situation is similar in the economies of the non-Spanish-speaking Caribbean, with the monetary base growing an average of 4.0 percentage points less in the first two quarters of 2017 than in 2016. In the Bolivarian Republic of Venezuela, the monetary base grew at quarterly rates of above 200 per cent in 2017 and, in the fourth quarter of the year, the monetary base expanded by 1381 per cent.

Figure 22
**Latin America and the Caribbean (groups of selected countries): evolution of the monetary base in countries where aggregates are the main monetary policy instrument, first quarter of 2010–fourth quarter of 2017**

(Percentages)

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

52. Nominal interest rates on loans have fallen in the different subregions identified for the analysis, with average drops of 20 basis points in the countries where interest rates are the main monetary policy instrument and in the economies of the non-Spanish-speaking Caribbean, and of 60 basis points in those economies that use aggregates as their primary monetary policy instrument. At the same time, even though there have been widespread drops in the lending rate, falling inflation across the region led to an increase in real interest rates.
During 2017, with the exception of the Bolivarian Republic of Venezuela, the economies of Latin America — both those that use policy interest rates as their main monetary policy instruments and those that use aggregates — posted slight increases in the private-sector credit growth rate. The contraction of domestic credit continued in the economies of the non-Spanish-speaking Caribbean, and data obtained for the second quarter of 2017 point to an annualized drop of 3.2 per cent.

Figure 23

**Latin America and the Caribbean (selected country groupings): evolution of domestic private-sector credit in real terms, first quarter of 2013–fourth quarter of 2017**

(Percentages)

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

Following significant fluctuations in a number of the region’s currencies in 2016, exchange rate variations were more moderate in 2017. In that year, the largest depreciation was posted by Argentina (10.2 per cent) and the greatest appreciation was that of the Mexican peso (-8.6 per cent).

Factors such as expectations of recovery in the region’s economies, rebounding commodity prices and reduced uncertainties related to the normalization of monetary policy in developed countries (especially those of Europe) allowed the currencies of the region to enjoy greater stability.

The real effective extraregional exchange rate also remained relatively stable in 2017 and closed the year with a 0.3 per cent appreciation in real terms for the economies of Latin America and the Caribbean as a whole, contrasting with the depreciation recorded in 2016. This was on account of the appreciation posted in the economies of South America (1.1 per cent); while this result was lower than the 8.1 per cent recorded in 2016, it offset the real-term depreciation posted by the economies of Central America, Mexico and the non-Spanish-speaking Caribbean.

In 2017, the international reserves of Latin America and the Caribbean grew by 3.4 per cent compared to the total posted at the end of 2016 (see figure 24). That
increase was equal to an accumulation of US$ 27.87 billion in reserves over the year, some US$ 8.22 billion more than the amount accumulated in 2016. Although reserves rose in 20 economies, the variation seen in the region as a whole during 2017 was essentially on account of the accumulation observed in Argentina (US$ 16.28 billion) and Brazil (US$ 8.96 billion).

Figure 24
Latin America and the Caribbean: international reserves, 2000–2017
(Billions of dollars and percentages of GDP)

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures. Figures for 2018 are projections.

58. In December 2015, the Central Bank of the Argentine Republic adopted a flexible exchange rate regime, consistent with its inflation targeting model and, at the same time, it introduced a policy of currency interventions, buying foreign exchange to strengthen the position of its reserves and to provide leeway for its management of exchange rate policy. In Brazil’s case, the performance of its reserve assets and the completion of the buy-backs (repos) made earlier to stabilize the exchange rate were the causes of the increased reserves.

59. As regards the ratio of international reserves to regional GDP, the data recorded at the end of 2017 show a decline from 2016 levels.

G. Outlook for 2018

60. Monetary factors and global growth dynamics will continue to provide a supportive environment for the region’s economies in 2018. The global economy is expected to continue to grow at rates close to those recorded in 2017, and emerging economies are poised to outperform developed ones. On the monetary front, liquidity will remain available and international interest rates will remain low. This opens up a promising opportunity for the Latin American and Caribbean countries to expand their economic policy space in a way that will buoy the expansionary phase of the business cycle.

61. While the international situation is not without business, financial and geopolitical risks that pose challenges for the consolidation of global growth over the medium term, in all probability, stronger external demand will spur economic activity in Latin America and the Caribbean. Furthermore, domestic demand will play an important role in accelerating growth, although the pace of growth will differ from
one component of the economy to the next. Thanks to the upswing in gross fixed capital formation, investment will make a greater contribution to the economy than before. Private consumption continues to drive domestic demand. The governments of the region are expected to continue to pursue their fiscal consolidation efforts during 2018, and it is therefore unlikely that fiscal policy will make any significant contribution to GDP growth.

62. Estimates put the GDP growth rate for Latin America and the Caribbean at 2.2 per cent for 2018, which is substantially higher than the rate for 2017 (1.3 per cent) (see table 1). More robust economic growth in Brazil (2.2 per cent) will be one of the factors behind this upturn. In addition, economic activity is expected to strengthen in a number of countries that have been growing at moderate rates up to now, including Chile (3.3 per cent), Colombia (2.6 per cent) and Peru (3.5 per cent). Panama will be the Latin American country with the highest growth rate (5.6 per cent), followed by the Dominican Republic and Nicaragua (5.0 per cent). With the exception of Cuba (1.6 per cent) and the Bolivarian Republic of Venezuela (-8.5 per cent), all the other Latin American economies will expand by between 2 per cent and 4 per cent.

63. At the subregional level, South America is expected to turn in a stronger showing in 2018 (2.0 per cent on average, up from 0.8 per cent in 2017). The economies of Central America, Cuba, the Dominican Republic and Haiti are projected to attain a growth rate of 3.6 per cent, thus outdoing their 2017 rate of 3.3 per cent. The average growth rate for the English- and Dutch-speaking Caribbean is projected at 1.4 per cent for 2018 — above the previous year’s 0.1 per cent —, fostered, among other things, by expenditure on reconstruction in the aftermath of Hurricane Irma and Hurricane Maria in some countries of the subregion.

Table 1
Latin America and the Caribbean: annual growth in gross domestic product (GDP), 2012–2018
(Percentages, on the basis of dollars at constant 2010 prices)

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<th>2012</th>
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*Source:* Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

* Projections.