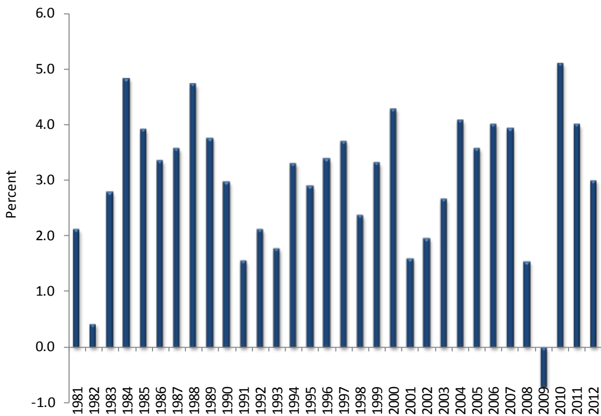
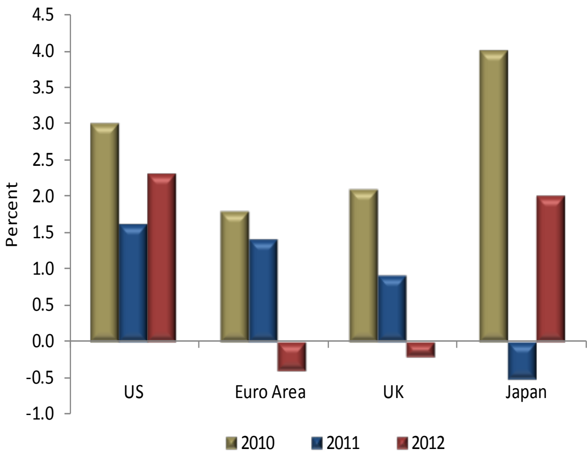
International and Regional Overview

Chart 2.1: Global Growth



Source: IMF

Chart 2.2: Selected Advanced Economies: GDP Growth Rate



Source: IMF

Financial turbulence continued to hinder efforts to engender a stable growth path for economies across the world. Large debt overhangs, fiscal strains, financial sector fragility and rising unemployment provided the backdrop for a slowdown in global growth to 3.0%, as the high growth levels achieved by the developing countries were insufficient to pick up the slack created by the broad based sluggishness of the mature economies. GDP grew by 2.3% in the United States (US), an improvement over the previous year's performance that nonetheless fell short of what is desired from the world's largest economy, which is the principal engine of global expansion. Most of the US growth was in the second half of the year, a time of increased election spending, housing market improvements and a new round of Federal Reserve quantitative easing. The level of unemployment improved marginally, and inflation remained subdued.

Canada grew by 2.0%, led by buoyancy in mining, oil and gas extraction, and increases in business spending and private consumption. Although its proximity and financial ties to the US were important influences, the former was held to be on sounder footing in view of its comparatively stronger fiscal performance and lower level of debt. In contrast, the Euro zone suffered further setbacks. Most of the periphery countries sank into recession as

their fiscal sustainability continued to be threatened by large debt overhangs. Financial institutions were subjected to considerable stress, particularly in Italy, Spain and Greece. Meanwhile, relatively strong domestic demand provided only a partial shield from the spillover effects of difficulties in the rest of the area, and growth rates in Germany and France slowed to 0.8% and 0.2%, respectively. With fiscal and banking reforms proposed at the *Euro Area June Summit* doing little to reduce uncertainty and restore business confidence, the entire Euro area registered a 0.4% contraction in 2012.

Even with the boost provided by the London Olympic Games, national output in the United Kingdom (UK) shrank by 0.2%, reflective of weak domestic demand, excessive leverage, euro area turmoil and continued fiscal tightening. While massive reconstruction activities and a slight rebound in manufacturing during the first half of the year underpinned annual growth of 2.0% in Japan, its economy slid into recession during the second half of the year following trade disruptions with China and the end of the government car subsidy program, which had previously spurred demand.

Consistent with the central theme of spillovers, the emerging and developing economies did not escape unscathed from the travails of the advanced economies. Activity slowed due to weaker demand for exports and a dip in direct investment flows. Structural factors and policy tightening also dampened activity as governments began efforts to consolidate their fiscal positions and rebuild buffers, following their earlier counter-cyclical responses to the global financial crisis.

China's growth rate dipped below 8.0% for the first time since 1999, notwithstanding efforts to stimulate domestic consumption. Exports fell, and inventories were built up because of weakened demand in Europe and the US, while residential investments declined due to an overheating of the country’s property market. The situation in India was similar, and there was an even more pronounced deceleration, reflecting decreases in foreign direct investment and exports as a political stalemate over structural reforms aimed at promoting foreign investment contributed to project delays and the cooling off of the economy. Closer to home, Mexico achieved growth of 3.8% that was almost on par with 2011, as the steady performances of the services and industrial sectors were boosted by election spending.

In the Caribbean, Trinidad and Tobago, the Bahamas, and St. Vincent and the Grenadines experienced slight upturns,

Chart 2.3: Selected Emerging Economies:
GDP Growth Rate

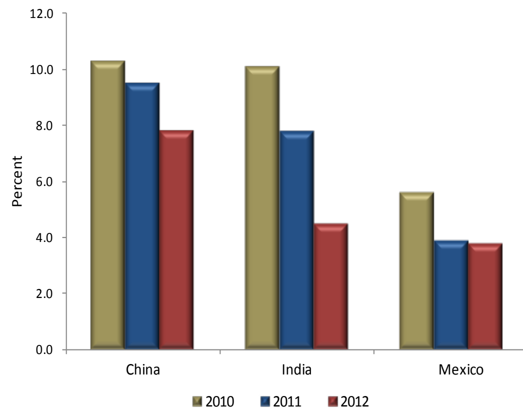
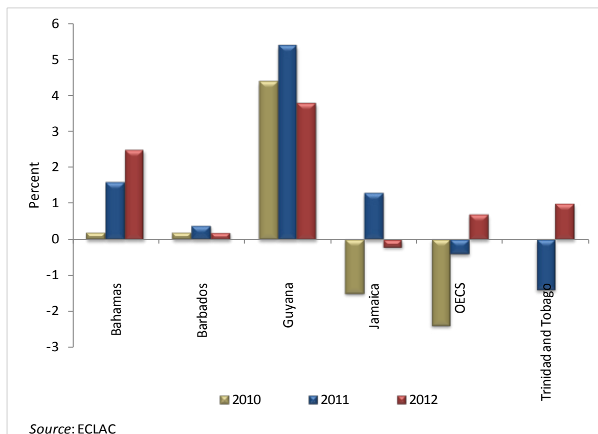


Chart 2.4: Caribbean Economies:
GDP Growth Rate

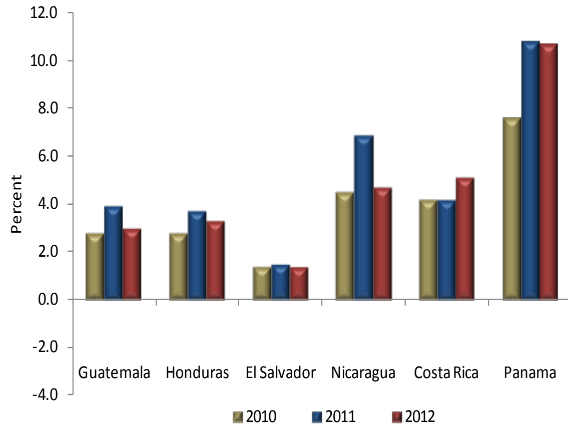


Source: ECLAC

while most of the region had to weather another challenging year due to lingering domestic imbalances, a weaker global environment, higher food prices, natural disasters and crop diseases. Already weak BOP and fiscal positions, which left little room for countercyclical policies, handcuffed the economies of St. Kitts and Nevis, Barbados and Jamaica. St. Kitts and Nevis contracted by 0.9%, and growth in Barbados decelerated to 0.2%, as internal and external imbalances were exacerbated by a dip in visitors, particularly from Europe. Continuing to labour under its heavy debt burden, Jamaica experienced a 0.2% contraction, whilst levels of inflation and unemployment increased. Pressures on the foreign exchange rate intensified due to heightened uncertainty stemming from the prolonged negotiations with the International Monetary Fund (IMF) in the quest to obtain assistance under its Extended Fund Facility. The contentious issues centred on a package of reform measures, including fiscal adjustments that would enable the IMF to give its blessing to a debt exchange.

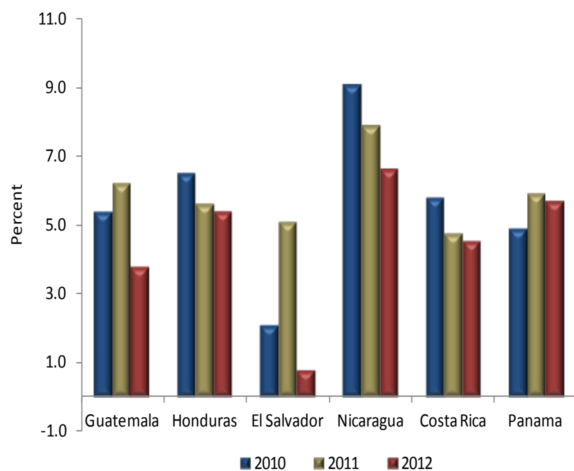
While growth also slowed in Guyana from 5.4% to 3.8%, the downward pressures were cushioned by increased foreign direct investment, an upturn in tourist arrivals and remittance flows from the US, and high prices for gold and its other commodity exports. The Bahamas

Chart 2.5: GDP Growth



Sources: ECLAC and IMF

Chart 2.6: Central America Inflation



Sources: ECLAC and IMF

benefited from improved construction activities as well as a slight upswing in tourism, and growth in St. Vincent and the Grenadines was underpinned by higher tourist arrivals and an uptick in manufacturing activities.

The Central American region continued to grow, notwithstanding the challenging external environment. Tourist arrivals increased by 6.0%, and domestic demand was also boosted by generally low interest rates and higher foreign direct investment inflows. Panama once again led the region with a GDP expansion of 10.7% that was underpinned by an aggressive public sector infrastructure investment programme that included the construction of a metro train system, various housing and highway projects and the continued expansion of the Panama Canal.

Activity in the other countries was more dependent on exogenous factors, such as a gradual recovery in exports, and an upswing in tourism and remittances from the US. Trailing Panama with respective growth rates of 5.1% and 4.7%, Costa Rica experienced gains in transport and communications, while Nicaragua benefitted from increased industrial and financial activities as well as an expansion in the fishing industry. Honduras, Guatemala and El Salvador recorded GDP increases of 3.3%, 3.0%

and 1.4%, respectively. Guatemala's growth was underpinned by an uptick in construction and increases in financial and commercial services. Merchandise exports and inward remittances rose in Honduras, while El Salvador's growth was mainly driven by agriculture and distributive trade.

The regional inflation rate fell from 5.8% to 4.4%, as price easing was registered across all six Central American countries. The softening in the inflation rate reflected lower food and energy prices, and in some instances, the lowering of prices for imported goods and services due to domestic currency appreciation. Fiscal outturns were rather uneven with Nicaragua and El Salvador recording primary surpluses and the other countries posting primary deficits ranging from 0.4% to 2.2% of GDP. Nicaragua and El Salvador were also able to achieve overall surpluses of 0.2% and 0.1% of GDP, respectively, while Costa Rica recorded the largest overall deficit in the region of 4.6% of GDP.

External current account deficits grew as trade gaps widened due to increased spending on imports that reflected volume and price increases, while lower prices on average for sugar, coffee and metals negatively impacted export earnings. Increased inflows of remittances from migrant workers were insufficient to offset the deterioration in the trade balance. Notwithstanding this however, foreign direct investment dipped slightly, but remained, nonetheless, at substantial levels that allowed the gradual build-up in international reserves.