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# World Economic Situation and Prospects 2010

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Press Release

## Economies in Latin America and the Caribbean expected to bounce back in 2010 - UN

*The recovery in many countries depend on a better performance of the US economy*

(Mexico, 21 January, 2010) The economies in Latin America and the Caribbean are expected to grow on average by 3.4 per cent in 2010, recovering from a 2.1 per cent contraction in 2009, according to UN economists. Mexico, whose economy contracted by 9.2 per cent in the first half of 2009, and Central American economies were among those in the region hit hardest by the crisis.

The United Nations *World Economic Situation and Prospects 2010 (WESP)* primarily attributes the region's economic decline to decreased external demand, a decline in world commodity prices and the contraction of private consumption and investment. The decline in consumption demand was exacerbated by the sharp reduction in migrants' remittances to Mexico, Central America and Caribbean countries.

*WESP 2010* applauds steps taken by some governments in the region to activate counter-cyclical policies, including increased government spending, thereby preventing a deeper recession. By the third quarter of 2009, along with improvements in the global economy, the economic decline was put to a halt in most countries, consumer confidence improved, and signs of recovery surfaced.

During 2010, economic recovery is anticipated to continue, owing mainly to the rebound of commodity prices, stronger external demand (especially from Asia) and the fiscal stimulus measures supporting domestic demand. These factors will be especially strong in South America, which – led by Brazil – is expected to show faster recovery than other parts of the region. According to the UN baseline forecast, the Brazilian economy is expected to grow by 4.5 per cent in 2010. In contrast, the recovery in Mexico, Central America and Caribbean countries depend on a better performance of the United States economy while it stands to gain less from higher commodity prices. Mexico's economy is forecast to grow by 3.0 per cent in 2010, reversing the 2009 decline of 7 per cent.

### Employment outlook

Massive job losses in the first half of 2009 elevated both unemployment rates and informal sector employment. In the region at large, about 2.5 million more urban workers lost jobs, pushing total urban unemployment up to 18.4 million. Fiscal stimulus measures prevented greater job losses, however, and the increase in unemployment started to decelerate from the second quarter of 2009.

The unemployment rate for the region increased to 8.5 per cent in 2009, up from 7.5 per cent jump in 2008.

Despite projected economic recovery in Latin America and the Caribbean, unemployment rates are expected to remain elevated in 2010. Formal sector employment is expected to recover more slowly and still more people may end up in low-productivity jobs in the informal sector, such that the true impact of the crisis on poverty may become visible in this year.

Reduced employment and income opportunities already slowed down poverty reduction in 2009, trapping approximately 4 million more people in Latin America and the Caribbean in extreme poverty than would have been the case without the crisis.

### **Financial resources and fiscal stimulus**

Several Latin American governments (such as Brazil, Chile, Panama and Peru) that had been able to sustain fiscal surpluses in previous years and that had accumulated ample foreign-exchange reserves. In some cases, such as in Brazil, enhanced social programmes made up an important part of the fiscal stimulus packages and played an important role in mitigating the impact of the financial crisis on private consumption and poverty. Domestic demand in Brazil was stimulated further through tax breaks and this helped move the economy out of its recession already in the second quarter of 2009. Countries with less fiscal resources, especially the oil-exporting countries that saw steep declines in government revenue in 2009, have less scope for additional fiscal stimulus in 2010.

Public revenues fell by an estimated 1.8 per cent of GDP on average for the region as a whole and this was a main cause of rising fiscal deficits. Mexico's government had to cut spending in 2009 even before the economy reached bottom, as oil revenues had dropped significantly in the first half of the year. The rebound in oil prices will do less to strengthen government revenue in 2010 as the country's oil production has fallen drastically. Governments in the Caribbean also face limited room for counter-cyclical policies because of falling government revenues and already high levels of public indebtedness. Therefore, several countries, in particular in the Caribbean and Central America, will need greater access to external financing to facilitate greater fiscal stimulus and prevent unemployment and poverty from rising further.

### **Inflation**

Despite higher oil prices, 2010 inflation is expected to remain subdued as domestic demand growth will be limited and exchange rates strengthened, as the United States dollar weakens.

Given stable inflation rates, low interest rates are forecasted for 2010 until a more solid recovery is perceived. According to the WESP, if growth turns out to be weaker than expected and inflationary pressures stay low, several central banks may consider a further easing of monetary policies.

*WESP* warns that the mild recovery as projected in the baseline outlook is subject to high risks and uncertainties, mainly on the downside. The first being the risk of a premature "exit" from the stimulus measures in the major economies which could abort the still nascent recovery. The second relates to the risk of a re-emergence of the global macroeconomic imbalances which were part of the problem in the first place and could erode confidence in the United States dollar and become a source of renewed financial instability. These risks could cause a double-dip global recession which would affect the countries in Latin America given their dependence on world trade and finance. The UN report calls for much more pro-active and intensive international

macroeconomic policy coordination then is currently being undertaken in the context of the G20 as well as for deep systemic reforms in financial regulation and the global reserve system to avoid these risks and ensure a more balanced and sustainable path of global economic growth.

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