

Mexico was slower at 4.0 percent, although growth was higher than expected, while Brazil's growth decelerated to 2.7 percent.

Economic imperatives in the LAC region were different from most of the world. Amidst a general slowdown of world output and exports, overheating was the main regional concern through 2011. Many regional currencies appreciated significantly, none more so than the Brazilian real, which was 45 percent higher than its January 2009 value at one point during the year. Gloomy prospects in many other areas combined with very easy monetary policy in the developed world effectively made Brazil a comparatively attractive investment opportunity, and large capital inflows followed. However, this outcome adversely affected Brazil's exporters and manufacturers and forced Brazil's government to introduce certain controls to limit the inflow of capital into the country. The trend was halted at the end of 2011, removing some pressure from the currency, but it was feared the inflows may resume in 2012. Inflation thus remains a concern in South America.

The short-term outlook for the region is moderately positive, with growth of 3.7 percent expected in 2012, increasing to 4.1 percent in 2013. Mexico is forecast to slow down to 3.6 percent in 2012 and 3.7 percent in 2013, with its outlook closely tied to the performance of the United States. Brazil's growth, which was 2.7 percent in 2011, should pick up to 3.0 percent in 2012 and 4.2 percent in 2013 as overheating risks recede. Argentina is headed for a slowdown to 4.2 percent in 2012 and 4.0 percent in 2013. Central America's growth is forecast to be 4.0 percent through both years. The Caribbean countries continue to suffer from high public debts and

lower remittance and tourism flows; growth there should pick up slowly, to 3.5 percent in 2012 and 3.6 percent in 2013.

The LAC region remains rather insulated from the direct effects of the crises and concerns in the developed world. Commodity prices exert the strongest influence on the regional economy, and through trading channels these prices link the LAC's economic prospects to the pace of growth in Asia. Financial linkages with European banks are strong, and could potentially transmit European contagion to the LAC's financial markets. However, so far no reversal of capital flows has occurred in response to Europe's credit swings, perhaps because LAC's European subsidiaries are predominantly funded by local deposits, and it is expected that the region's relative immunity to the financial repercussions of the eurozone's sovereign debt crisis will likely continue in the near future.

### *Commonwealth of Independent States (CIS)*

Growth was strong in the CIS region throughout 2011, resulting in a 4.9 percent growth performance. Several factors combined for the strong showing: recovering oil and commodity prices, a rebound in agricultural output, and a strong domestic demand. Russia grew by 4.3 percent, Kazakhstan by 7.5 percent, Ukraine by 5.2 percent and Belarus by 5.3 percent.

However, the eurozone crisis had strong spillover effects on this region. As in emerging Europe, the region's financial sector is very dependent on Western European banks. Significant capital outflows took place in Russia in response to the latest escalation of the eurozone situation, the Russian ruble