1. The region’s growth in perspective
2. Traits of the business cycle
3. What to expect for 2006
4. The challenge of building competitiveness
1. The region’s growth in perspective
2005 will be the third straight year of economic growth
Growth underpins an upturn in per capita GDP

Rate of GDP growth
Rates of GDP growth in 2005 and 2006
Average growth rate 1980-2006
Per capita GDP (2000=100)
Yet the region is growing more slowly than the developing countries as a group.

WORLD GROWTH RATES
(Annual growth rates)

- World GDP
- Developed countries
- Latin America and the Caribbean
- Transition economies
- Developing countries
- Developing countries not including China

a/ Estimate.
b/ Projection.
This is due partly to slower growth in the region’s two largest economies.
The investment rate is rising, but remains insufficient

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION AS A PERCENTAGE OF GDP
(Dollars at constant 2000 prices)

a/ Estimate.
1. The region’s growth in perspective

2. Traits of the business cycle
The most striking feature is that growth has been accompanied by a current account surplus.
In part, this is due to more favourable terms of trade, although with sharp differences across the subregions.
The current account balance is improving in South America and Mexico, but deteriorating in Central America.


(Percentages of GDP in current dollars)

- Terms of trade
- Net export volumes
- Income
- Current transfers (remittances and others)
- Services b/
- Variation in current account balance

South America

Central America (including Dominican Republic and Haiti)

Mexico

a/ The data for 2005 are estimates.
b/ Includes residual combined effect of prices and volumes in the trade balance.
Exports continue to be a dynamic component of demand

LATIN AMERICA: GROWTH RATE IN VOLUME OF MERCHANDISE EXPORTS, 2005 a/

- Haiti: 24%
- Argentina: 16%
- Uruguay: 16%
- Peru: 15%
- Costa Rica: 12%
- Colombia: 12%
- Brazil: 11%
- Panama: 11%
- Bolivia: 10%
- Nicaragua: 8%
- LATIN AMERICA: 8%
- Guatemala: 8%
- Chile: 7%
- Venezuela (Bolivarian Rep. of): 5%
- Mexico: 5%
- Paraguay: 3%
- El Salvador: 2%
- Honduras: 2%
- Ecuador: 2%
- Dominican Republic: 2%

a/ Estimates.
As does investment, especially in South America

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION, 2005 a/
(Growth rates in dollars at constant 2000 prices)

Venezuela (Bolivarian Rep. of) 32
Chile 25
Argentina 20
Colombia 19
Uruguay 18
SOUTH AMERICA
LATIN AMERICA
Peru 10
Ecuador 9
Mexico 9
CENTRAL AMERICA AND MEXICO
El Salvador 6
Dominican Republic 6
Nicaragua 4
Brazil 4
Panama 3
Guatemala 3
Costa Rica 2
Paraguay 2
Bolivia -3
Honduras -3
Haiti -6

a/ Estimates.
Governments are taking advantage of this combination of favourable economic factors to improve public-sector accounts.

LATIN AMERICA: CENTRAL GOVERNMENT REVENUES, PRIMARY EXPENDITURE AND PRIMARY BALANCE
(Weighted averages, in percentages of GDP)

a/ Preliminary figures.
And are rapidly paying down their public debt

PUBLIC DEBT IN LATIN AMERICA, EMERGING ECONOMIES AND INDUSTRIALIZED COUNTRIES
(Percentages of GDP)

a/ Preliminary figures.
Latin America has reduced its public-sector debt more than other emerging economies have.
The region is becoming less vulnerable to external shocks

LATIN AMERICA: EXTERNAL DEBT NET OF INTERNATIONAL RESERVES, BY SUBREGION

(Percentages of GDP)

a/ Preliminary figures.
Some Caribbean countries have very high levels of indebtedness

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>128.1%</td>
</tr>
<tr>
<td>Dominica</td>
<td>88.9%</td>
</tr>
<tr>
<td>Grenada</td>
<td>88.3%</td>
</tr>
<tr>
<td>Saint Kitts and Nevis</td>
<td>81.5%</td>
</tr>
<tr>
<td>Belize</td>
<td>74.8%</td>
</tr>
<tr>
<td>Jamaica</td>
<td>58.0%</td>
</tr>
<tr>
<td>Saint Vincent and the Grenadines</td>
<td>51.8%</td>
</tr>
<tr>
<td>Suriname</td>
<td>48.9%</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>47.3%</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>41.3%</td>
</tr>
<tr>
<td>Barbados</td>
<td>28.4%</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>12.6%</td>
</tr>
</tbody>
</table>
Although external positions vary, the build-up of reserves is taking place across the board.
Growth is beginning to influence the labour market and unemployment is decreasing.
Impact of natural disasters
Effects of the 2004 hurricane season

<table>
<thead>
<tr>
<th>Damaged region</th>
<th>Economic impact</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ECLAC total assessment of damage and losses</strong></td>
<td><strong>6 059</strong></td>
<td>Ivan, Frances and Jeanne (a)</td>
</tr>
<tr>
<td>Bahamas</td>
<td>551</td>
<td>Hurricanes Frances and Jeanne</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>3 432</td>
<td>Hurricane Ivan</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>296</td>
<td>Tropical storm Jeanne</td>
</tr>
<tr>
<td>Grenada</td>
<td>889</td>
<td>Hurricane Ivan</td>
</tr>
<tr>
<td>Haiti</td>
<td>296</td>
<td>Hurricane Jeanne</td>
</tr>
<tr>
<td>Jamaica</td>
<td>595</td>
<td>Hurricane Ivan</td>
</tr>
<tr>
<td>Florida State (a)</td>
<td>30 000</td>
<td>Jeanne, Charley and Frances</td>
</tr>
<tr>
<td>Cuba (b)</td>
<td>1 500</td>
<td>Hurricane Frances</td>
</tr>
<tr>
<td><strong>Total (including Cuba and Florida)</strong></td>
<td><strong>37 559</strong></td>
<td></td>
</tr>
</tbody>
</table>

(a) Based on information from insurance and reinsurance companies (Munich Re).
(b) Official estimates issued by the Government of Cuba; may not include losses.
## Impact of natural disasters
### Effects of the hurricane season and other events, 2005

<table>
<thead>
<tr>
<th>Damaged region</th>
<th>Economic impact</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of US dollars</td>
<td></td>
</tr>
<tr>
<td><strong>ECLAC total assessment of damage and losses</strong></td>
<td>2 222</td>
<td></td>
</tr>
<tr>
<td>Guyana</td>
<td>465</td>
<td>Flooding in Georgetown and Albion</td>
</tr>
<tr>
<td>Guatemala</td>
<td>988</td>
<td>Torrential rain and tropical storm Stan</td>
</tr>
<tr>
<td>El Salvador</td>
<td>356</td>
<td>Torrential rain, tropical storm Stan and eruption of Ilamatepec volcano</td>
</tr>
<tr>
<td>Mexico</td>
<td>2 200</td>
<td>Hurricanes Emily, Stan, Wilma and others</td>
</tr>
<tr>
<td>Cuba</td>
<td>1 400</td>
<td>Hurricane Dennis</td>
</tr>
<tr>
<td>United States</td>
<td>200 000</td>
<td>Hurricanes Dennis, Katrina and Rita</td>
</tr>
<tr>
<td>Other phenomena</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td><strong>Total for Latin America and the Caribbean</strong></td>
<td><strong>5 559</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total (including the United States)</strong></td>
<td><strong>205 559</strong></td>
<td></td>
</tr>
</tbody>
</table>
1. The region’s growth in perspective
2. Traits of the business cycle
3. What to expect for 2006
Global economic growth is expected to continue at much the same pace.

**WORLD GROWTH RATE**
(Percentages)

- 1990: 2.7%
- 1991: 3.0%
- 1992: 2.5%
- 1993: 2.8%
- 1994: 3.1%
- 1995: 3.4%
- 1996: 3.7%
- 1997: 4.0%
- 1998: 3.9%
- 1999: 3.2%
- 2000: 4.2%
- 2001: 3.3%
- 2002: 2.6%
- 2003: 2.9%
- 2004: 4.3%
- 2005 a/: Estimate.
- 2006 b/: Projection.

*a/* Estimate.
*b/* Projection.
Given the flattening of the yield curve, no significant changes in financial conditions for the region are expected.
Country-risk ratings have descended to record lows

EMBI+ spreads and Latin American component before the Asian crisis

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from J.P. Morgan "Emerging Markets Bond Index Monitor".
Growth is expected to slow slightly, however.
1. The region’s growth in perspective
2. Traits of the business cycle
3. What to expect for 2006
4. The challenge of building competitiveness
In the last year, most of the region’s currencies have appreciated against those of the rest of the world.
From a longer-term perspective, however, differences again emerge among the subregions.
Productivity gains have not made up for currency appreciation

**AVERAGE LABOUR PRODUCTIVITY**
(Indices: 1990-1999=100)

- **South America**
- **Central America and Mexico**

a/ Estimate.
Consequently, unit labour costs, measured in dollars, reflect a real appreciation.
The terms of trade affect investment decisions and, hence, productivity.
The region needs to build up its competitiveness

- Keeping exchange rates competitive
- Diversifying and adding value to exports
- Increasing investment
  - Clear and reliable rules (political agreements)
  - Fiscal and sectoral reform and competitiveness-building
- Production policies
- Long-term financing
- Investment in infrastructure (public and private)
PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN - 2005

José Luis Machinea
Executive Secretary
Economic Commission for Latin America and the Caribbean

Santiago, Chile, 15 December 2005