BRIEFING FOR THE
GROUP OF LATIN AMERICAN AND CARIBBEAN STATES
(GRULAC)

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Executive Secretary
Economic Commission for Latin America and the Caribbean

New York, February 2007
A briefing in three parts

1. The region’s current economic situation
2. The social panorama in Latin America and the Caribbean
3. The Commission’s achievements in 2006 and tasks for 2007-2008
Our view of the economic situation in Latin America may be summarized in two words: “Cautious Optimism”

- **Optimism** because the region is growing faster and with less vulnerability than in the past

- **But cautious** because of:
  - Increasing uncertainty regarding the international economic context
  - Concerns over the sustainability of the current rates of economic growth
GDP growth reached approximately 5.3% in 2006

Latin America and the Caribbean: GDP growth, 2006
(Annual growth rates)

(*) Central America includes Haiti and Dominican Republic
(**) Figures from Cuba have been provided by Oficina Nacional de Estadísticas de Cuba. ECLAC is evaluating these figures.
English and Dutch speaking Caribbean (13 countries): GDP growth 2006
Forecast for 2007

Latin America and the Caribbean: GDP growth, 2007
(Annual growth rates)
English and Dutch speaking Caribbean: GDP growth forecast 2007
A longer-term view: per capita GDP is rising after a period of relative stagnation.

Growth 2003-2007: 16%
...but at a lower rate than in many other developing countries

Rates of per capita GDP growth by subregion
Unemployment is falling

Latin America and the Caribbean: growth in economically active population and in employment and the unemployment rate

This is good news in the short run but faster productivity growth is needed in the long term.
External conditions have boosted regional growth

- World growth
- Liquidity
- Improvements in terms of trade
Better terms of trade….. but with differences among subregions

Variation in terms of trade between the 1990s and 2006

LATIN AMERICA AND THE CARIBBEAN: 31.2%
SOUTH AMERICA: 47.3%
SOUTH AMERICA (excluding Chile and Bol. Rep. of Venezuela): 17.1%
CENTRAL AMERICA (including Haiti and Dominican Rep.): -13.4%
MEXICO: 25.5%
3 Caribbean Commodity Exporters*: 15%
10 Caribbean Service Exporters**: -4%

External conditions have boosted regional growth

- World growth
- Liquidity
- Improvements in terms of trade
- High level of remittances
Remittances are by far the main source of external financing in Central America

Latin America and the Caribbean: resources from migrant workers’ transfers

(Percentages of current GDP)

- 2006
  - South America: 1.2
  - Central America: 11.1
  - Mexico: 2.8
  - Caribbean (2005): 5.8
Main features of the current macroeconomic cycle (1)

- More saving, investment and exports than in the previous upswing

### Latin America and the Caribbean: annual average growth rates

#### INCOME ELASTICITY OF IMPORTS:
- 1991 – 1994: 3.6
- 2003 - 2006p: 2.4

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Investment</th>
<th>Exports of goods and services</th>
<th>Imports of goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991-1994</td>
<td>4.3</td>
<td>4.3</td>
<td>7.0</td>
<td>15.3</td>
</tr>
<tr>
<td>2003-2006p</td>
<td>5.6</td>
<td>4.2</td>
<td>8.5</td>
<td>8.1</td>
</tr>
</tbody>
</table>

- GDP
- Investment
- National income growth
- Total Consumption
- Exports of goods and services
Main features of the current macroeconomic cycle (2)

➤ Surplus on the current account
Main features of the current macroeconomic cycle (3)

Higher reserves and lower external debt

Latin America and the Caribbean: short-term external debt and international reserves

- Short-term debt (left axis)
- International reserves (left axis)
- Short-term debt/international reserves (right axis)
But high debt ratios remain a concern in most of the English Caribbean

English Caribbean (6 economies):

Total gross external debt as a percentage of exports of goods and services

- Bahamas
- Barbados
- Belize
- Guyana
- Jamaica
- Trinidad and Tobago

Note: Graph shows the total gross external debt as a percentage of exports of goods and services for various Caribbean economies from 1998 to 2006.
Main features of the current macroeconomic cycle (4)

➢ The primary fiscal surplus is large (compared to other periods)


(GDP percentage points)
Main features of the current macroeconomic cycle (5)

- Reduction in public debt

Debt structure has improved, with longer maturities and a larger local-currency component.
Risks and challenges

- External conditions
  - Uncertainties over prospects for global growth
Risks and challenges

- **External conditions**

- **Economic policy challenges for LAC**
  - Although vulnerability has lessened, some countries in the region are still highly indebted and some financial systems are highly dollarized.
  - The rate of investment is still insufficient.
  - Increases in public expenditures in some countries must be carefully monitored.
  - Countries must place more emphasis on countercyclical policies and strengthen fiscal institutions.
  - There may be room to loosen monetary policy in countries where inflation seems to be under control.
  - This might help to sustain economic growth and reduce pressure on exchange rates.
There has been real exchange rates appreciation in some countries

Latin America and the Caribbean: real effective exchange rate
Currencies of the English Caribbean show diverging trends. Some appreciated strongly whereas others depreciated against trading partners’ currencies.
Risks and challenges

- External conditions
- Economic policy challenges for LAC
- In order to achieve a sustainable rate of growth, in the medium term it is necessary to:
  - Build up human and physical capital.
  - Strengthen innovation processes (adopt, adapt and create).
  - Diversify the productive structure of the economy (exports have limited linkages with the rest of the economy).
  - Address the challenge of financing the necessary upgrades in “capabilities” (human resources, innovation, and so forth), by using rents generated from natural resources.
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Global situation

- Poverty and inequality
The percentage of poor and indigent has fallen sharply since 2004 and this trend should continue. However, it took 25 years to reduce poverty below the 1980 level.

(Percentages of the population)

One of the reasons for this performance is the widespread reduction in unemployment.
Poverty and indigence trends in numbers of people

Millions of individuals

<table>
<thead>
<tr>
<th>Year</th>
<th>Indigent</th>
<th>Non-indigent poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>62</td>
<td>136</td>
</tr>
<tr>
<td>1990</td>
<td>93</td>
<td>200</td>
</tr>
<tr>
<td>1997</td>
<td>89</td>
<td>204</td>
</tr>
<tr>
<td>1999</td>
<td>89</td>
<td>211</td>
</tr>
<tr>
<td>2002</td>
<td>97</td>
<td>221</td>
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<tr>
<td>2004</td>
<td>88</td>
<td>217</td>
</tr>
<tr>
<td>2005</td>
<td>81</td>
<td>209</td>
</tr>
<tr>
<td>2006</td>
<td>79</td>
<td>205</td>
</tr>
</tbody>
</table>
Although great inequality in income distribution has persisted since 1990…

**Variation in Gini coefficient, 1990-2003/2005**

- **Countries in which inequality has increased**
- **Countries in which inequality has decreased**

**LA(s):** Simple average for Latin America  
**LA(w):** Weighted average for Latin America.
…inequality has decreased in the last six years. The improvement has been widespread, but four economies in particular have seen strong equality gains.
### Caribbean (7 economies): poverty and income distribution indicators (circa 2002)

<table>
<thead>
<tr>
<th>Country</th>
<th>Survey Year</th>
<th>Poverty rate</th>
<th>Gini Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>2002</td>
<td>23%</td>
<td>0.31</td>
</tr>
<tr>
<td>Dominica</td>
<td>2002</td>
<td>39%</td>
<td>0.35</td>
</tr>
<tr>
<td>Guyana</td>
<td>1999</td>
<td>35%</td>
<td>n.a</td>
</tr>
<tr>
<td>St Kitts</td>
<td>1999/2000</td>
<td>31%</td>
<td>0.40</td>
</tr>
<tr>
<td>Nevis</td>
<td>1999/2000</td>
<td>32%</td>
<td>0.37</td>
</tr>
<tr>
<td>Grenada</td>
<td>1998</td>
<td>32%</td>
<td>0.45</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>1992</td>
<td>21%</td>
<td>0.42</td>
</tr>
</tbody>
</table>

Income distribution appears to be less skewed in the Caribbean than in Latin America. Nevertheless, poverty rates are high.

Poverty Assessment Report for Antigua (December 2002) and Poverty Assessment Report for Dominica (December 2002)
Global situation

Poverty and inequality

To improve the social situation in the region it is necessary to:
- Increase the rate of economic growth and reduce real volatility
- Improve labor market’s performance in term of productivity and social protection
- Improve the efficiency of social programmes
The increase in waged employment in the last three-year period has not been enough to bring levels of social protection back up to those seen in the early 1990s.

Latin America (16 countries): social security coverage among urban wage-earners, around 1990, 2002 and 2005

Two of every three wage-earners in the region still have social benefits in the respective countries.
And only seven countries saw significant gains in real wages for urban wage-earners

Latin America (17 countries): trends in average urban wages between 2002 and 2005, and wages of contributors and non-contributors to social security systems in the countries, 2005 (dollars at 2000 prices)
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What the Commission achieved in 2006

- Stronger relations with governments
- Better coordination with the UN system in the region
- Full support for the reform process and collaboration from the regional perspective
- Notwithstanding intensive agendas on economic and sustainable development matters, 2006 was the year of the social agenda:
  - Emphasis on social cohesion and sense of belonging in Latin America and the Caribbean

Figures to highlight:
- 430 publications
- Over 80 meetings organized
- 9.5 million visits to www.eclac.cl and over 22 million files downloaded
- 683 technical cooperation missions conducted
Visits to [www.eclac.cl](http://www.eclac.cl) and files downloaded

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
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<tbody>
<tr>
<td>Visits</td>
<td>2.334.914</td>
<td>2.706.947</td>
<td>3.516.603</td>
<td>5.668.995</td>
<td>9.537.520</td>
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<tr>
<td>Growth (%)</td>
<td>15,93</td>
<td>29,91</td>
<td>61,21</td>
<td>68,24</td>
<td>4.940.788</td>
</tr>
<tr>
<td>Growth (%)</td>
<td>15,27</td>
<td>15,93</td>
<td>29,91</td>
<td>61,21</td>
<td>80,3</td>
</tr>
</tbody>
</table>
Main tasks for 2007 and 2008

- Preparation of the document to be presented at the thirty-second session of ECLAC

- Activities in preparation for the sixtieth anniversary of ECLAC
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