Social and Economic Panorama of Latin America and the Caribbean, 2006
Our view of the economic situation of Latin America could be summarized in two words: ‘Cautious Optimism’

- **Optimism** because the region is growing faster and better 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
  - Disappointment with the lack of improvement in income distribution
GDP growth reached around 5.6% in 2006

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2006
(annual growth rates)

(*) Central America includes Haiti and Dominican Republic
And we expect a rate of growth of near 5% this year.
A longer-term view: Per capita GDP increases after a period of stagnation

Growth 2003-2007: 16%

p/ Projections.
In that overall context, some fared better than others.

ANNUALIZED GDP GROWTH RATE, 1991-2006

- Dominican Republic
- Chile
- Costa Rica
- Panama
- Peru
- El Salvador
- Argentina
- Guatemala
- Bolivia
- Honduras
- Nicaragua
- Ecuador
- Mexico and Central America*
- Colombia
- LATIN AMERICA & THE CARIBBEAN
- CARIBBEAN
- South America
- Mexico
- Brazil
- Venezuela (B.R.)
- Uruguay
- Paraguay
- Cuba
- Haiti

(*) Includes Haiti and the Dominican Republic.
Main features of the current macroeconomic cycle

- More saving, investment and exports than in the previous upswing
- Current account surplus (with differences among countries)
- More reserves and less external debt.
- Better fiscal performance
- Reduction of public debt and improvement of its structure in terms of maturity and currency
Unemployment is falling but is still higher than in the first half of the 1990s.

The EAP is growing by 2.5% per year, while the total population is growing by 1.5% per year.

e/ Estimates.
The percentage of poor and indigent persons has fallen since 2002 and this trend is expected to continue. But it took 25 years to reduce poverty below the 1980 level.
Since 2005 poverty rates in the region have gone down to early 1980s, but with a 17% higher average per capita GDP

LATIN AMERICA: Poverty Rates and Per Capita GDP, 1980 - 2006
(Percentages and dollars at 2000 prices)

Source: ECLAC, on the basis of special tabulations of household surveys in the relevant countries.

a/ Estimates for 19 countries of the region, including Haiti.
b/ Projection.
Between 2002 and 2005, the poor and indigent population declined by 12 and 16 million persons. This might show a change in trend, but now there are still more poor people than in 1980.

LATIN AMERICA: POVERTY AND INDIGENCE, 1990 - 2006

(Millions of people)
Most of the countries of the region saw reductions in their poverty and indigence rates.


Source: ECLAC, on the basis of special tabulations of data from national household surveys.

a/ Guatemala and Nicaragua are not included because poverty estimates after 2002 are not available.
b/ Urban areas.
c/ World Bank estimates, on the basis of 1 and 2 PPP dollars a day.
Reasons for the decline in the poverty rate: higher growth, increasing employment and rising social expenditure

(Percentages)

Trinidad and Tobago: 5.5% (1990-1991), 5.7% (1996-1997), 6.5% (2002-2003)

Projections of the extreme poverty rate up to 2006 indicate that the region is back on track towards the first target of the Millennium Development Goals (progress is greater than the time elapsed)

**LATIN AMERICA (17 COUNTRIES): LEVELS AND PERCENTAGES OF PROGRESS IN REDUCING EXTREME POVERTY BETWEEN 1990 AND 2006 a/**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of Progress: 1990 and 2006</th>
<th>Expected progress, 2006 (64%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>Argentina b/</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Bolivia</td>
<td></td>
<td>69</td>
</tr>
<tr>
<td>Brazil</td>
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<td>66</td>
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<tr>
<td>Chile</td>
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<td>69</td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
<td>79</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>32</td>
<td>69</td>
</tr>
<tr>
<td>Ecuador b/</td>
<td>32</td>
<td>69</td>
</tr>
<tr>
<td>El Salvador</td>
<td>32</td>
<td>79</td>
</tr>
<tr>
<td>Guatemala</td>
<td>32</td>
<td>68</td>
</tr>
<tr>
<td>Honduras</td>
<td>52</td>
<td>68</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td>68</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>42</td>
<td>68</td>
</tr>
<tr>
<td>Panama</td>
<td>19</td>
<td>79</td>
</tr>
<tr>
<td>Paraguay</td>
<td></td>
<td>73</td>
</tr>
<tr>
<td>Peru</td>
<td></td>
<td>73</td>
</tr>
<tr>
<td>Uruguay b/</td>
<td>-1</td>
<td>85</td>
</tr>
<tr>
<td>Venezuela</td>
<td>3</td>
<td>85</td>
</tr>
</tbody>
</table>

Source: ECLAC, on the basis of special tabulations of data from national household surveys and projections on the basis of official information from the countries.

a/ The percentage of progress is calculated by dividing the reduction (or increase) in the rate of extreme poverty in percentage points observed during the period by half of the 1990 extreme poverty rate. The red line represents the percentage of progress expected in 2006 (64%).

b/ Urban areas.
External conditions have boosted regional growth

- World growth
- Liquidity of financial markets
- Improvements in Terms of trade
Better terms of trade….. but with differences among sub-regions

**VARIATION IN TERMS OF TRADE BETWEEN THE 1990S AND 2006**

- **Latin America and the Caribbean**: 31.2%
- **South America (excluding Chile and Venezuela)**: 47.3%
- **South America (incl. Haiti and Dom.Rep)**: 17.1%
- **Central America**: -13.4%
- **Mexico**: 25.5%
External conditions have boosted regional growth

- World growth
- Liquidity of financial markets
- 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: 5.8

e/ Estimates.
Summing up the reasons for optimism…

- The region is growing faster and better than in the past
- Unemployment is falling
- Poverty has been reduced in recent years
- The region is less vulnerable than before to external shocks
- All this is in the context of favorable external conditions
And the reasons for caution?
Some Caveats

- **External conditions**
  - Uncertainties about the prospects for global growth
  - Volatility of financial markets
Some Caveats

- **External conditions**

- **Economic policy challenges for LAC**
  - Despite the reduction in vulnerability, some countries in the region are still highly indebted and some financial systems are highly dollarized.
  - The rate of investment is still insufficient.
The rate of investment is still insufficient (and differs substantially across countries)

LATIN AMERICA: GROSS CAPITAL FORMATION AS A PERCENTAGE OF GDP
(in dollars at constant 2000 prices)
Some Caveats

- **External conditions**

- **Economic policy challenges for LAC**
  - Despite the reduction in vulnerability, 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 should be carefully monitored
Some Caveats

- External conditions

- Economic policy challenges for LAC
  - Despite the reduction in vulnerability, 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 should be carefully monitored
  - Countries must place more emphasis on countercyclical policies and strengthen fiscal institutions
  - Appreciation of the real exchange rate
There has been real exchange appreciation in some countries.

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE
(February 2007 compared to February 2004 and for the 1990s)

- Compare to average 1990-99
- Compared to February 2004
But the causes of appreciation are beyond the control of monetary policy.
Some Caveats

- External conditions
- Economic policy challenges for LAC
- From a long-run perspective:
  - Latin America and the Caribbean exhibit less than stellar growth rates
  - The recent upturn in LAC growth is smaller than in other developing countries
LAC nations grow less than other developing countries

PER CAPITA GDP GROWTH RATE BY SUB REGION

- DEVELOPED ECONOMIES
- LATIN AMERICA AND THE CARIBBEAN
- DEVELOPING ECONOMIES
- DEVELOPING ECONOMIES (EXCLUDING CHINA)

- 2004
- 2005
- 2006
East Asia could close its growth gap with LAC around 2010

PER CAPITA GDP GAP, 1950-2015
(As percentage of USA levels=100)
Some Caveats

- External conditions
- Economic policy challenges for LAC
- From a long-run perspective:
  - Latin America and the Caribbean exhibit less than stellar growth rates
  - The recent upturn in LAC growth is smaller than in other developing countries
  - The region has been unable to improve income distribution
Latin America and the Caribbean are the most unequal regions in the world

WORLD REGIONS: GINI COEFFICIENT, AROUND 2002
(Per capita income concentration, by deciles)

Source: World Bank, World Development Indicators and ECLAC.
In recent years four countries have achieved sizeable reductions in the Gini coefficient and several others have shown trends towards better distribution.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household surveys conducted in the respective countries.

a/ Calculated on the basis of per capita income distribution. The figure for Latin America refers to a simple average of the Gini coefficients of 13 countries with comparable information for the period 1990 - 2005. Data on urban areas for Argentina, Ecuador, Panama and Uruguay.
From a long-term perspective, inequality in income distribution remains without change...

CHANGES IN GINI COEFFICIENT, a/ 1990-2003/2005 b/

LA(s): Simple average, excluding Jamaica.
LA(w): Weighted average, excluding Jamaica.

Other figures:

<table>
<thead>
<tr>
<th>Country a/</th>
<th>Year</th>
<th>Gini index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guyana</td>
<td>1999</td>
<td>0.432</td>
</tr>
<tr>
<td>Haiti</td>
<td>2001</td>
<td>0.592</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>1995</td>
<td>0.426</td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>1992</td>
<td>0.389</td>
</tr>
</tbody>
</table>

a/ Source: World Development Indicators (WDI), World Bank.

b/ Data on urban areas for Argentina, Ecuador, Panama and Uruguay.
Latin America and the Caribbean (23 countries a/): Income distribution indicators, 2003/2005

Income distribution, by deciles

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Trinidad and Tobago 1992
St. Lucia 1995
Guyana 1999
Jamaica 2004
Haiti 2001

Income share

Income ratio (time)

Uruguay 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Costa Rica 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
El Salvador 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Venezuela 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Argentina 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Peru 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Paraguay 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Mexico 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Panama 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Ecuador 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Guatemala 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Dominican Republic 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Nicaragua 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Honduras 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Colombia 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Brazil 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%
Bolivia 100% 90% 80% 70% 60% 50% 40% 30% 20% 10% 0%

Poorest 40%
20% below the richest 10%
Next 30%
Richest 10%

D10/(1 - 4)

10% richest
30% below the richest 10%
Next 20%
40% poorest

A/ Caribbean countries (shown in the right-end chart) have different income categories (20% above the poorest 40% and 30% below the richest 10%). For these countries, it is not possible to calculate the average income ratio. Source: World Development Indicators, World Bank.
Inequality is also manifested in the inequitable structure of social protection contributions...

LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTING EMPLOYED PERSONS (c. 2002)

Average coverage: 38.7%

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
<th>Formal Urban</th>
<th>Informal Urban</th>
<th>Q5 (rich)</th>
<th>Q1 (poor)</th>
<th>Men (% of working age)</th>
<th>Women (% of working age)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Men</td>
<td>45.4%</td>
<td>21.9%</td>
<td>68.2%</td>
<td>21.7%</td>
<td>54.9%</td>
<td>20.4%</td>
<td>32.3%</td>
<td>18.9%</td>
</tr>
<tr>
<td>Women</td>
<td></td>
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</tbody>
</table>
.. And only 4 out of every 10 persons over 70 years of age receive some sort of pension.
Some Caveats

- External conditions
- Economic policy challenges for LAC
- From a long-run perspective:
  - Latin America and the Caribbean exhibit less than stellar growth rates
  - The recent upturn in LAC growth is smaller than in other developing countries
  - The region has been unable to improve income distribution
Despite the positive short-run results, we cannot lose sight of the fact that:

- Inequality is a regional characteristic, and that the current global trend is towards greater inequality in income distribution
- The poverty rate is still very high
- Growth is based on natural resources exports, and this could work against the necessary diversification of the production structure
- In this context, more active public policies are required, but we also need a suitable institutional structure to prevent rent-seeking behavior

The challenge is how to ensure a sustainable growth rate while at the same time achieving greater social cohesion
Components and dimensions of the system of social cohesion indicators

Gap indicators
- Income
- Employment
- Education
- Health
- Housing
- Pensions
- Digital Gap

Institutional indicators
- Democracy
- Public policy
- The market

Inclusiveness indicators
- Multiculturalism
- Confidence
- Participation
- Expectations
- Social solidarity

Indicators:
Objective and subjective
Quantitative and qualitative
Two major issues

➢ The financing dilemma:
  • The tax issue
The tax burden is too small and differs sharply across countries

**TAX REVENUES**
(% GDP, 2005)

Total: 21.9%
Tax rev. + SS: 17.9%

- Tax revenues
- Social security contributions
- Other revenues
- Capital income
And there is room to increase it
Two major issues

- The financing dilemma:
  - The tax issue
  - Solidarity in social security contributions
  - Public expenditure
Two major issues

- The financing dilemma:
  - The tax issue
  - Solidarity in social security contributions
  - Public expenditure

- The political foundations for a new social covenant
Social and Economic Panorama of Latin America and the Caribbean, 2006

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Ottawa, May 11, 2007