An economic and social panorama of Latin America and the Caribbean

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A long-term view: Per capita GDP increases after a period of stagnation

Growth 2003-2007: 16%

p/ Projections.
Within that overall context, some countries 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 AND THE CARIBBEAN

CARIBBEAN

- South America
- Mexico
- Brazil
- Venezuela (B.R.)
- Uruguay
- Paraguay
- Cuba

- Haiti

(*) Includes Haiti and the Dominican Republic.
External conditions have boosted regional growth

- World growth
- Liquidity of financial markets
- Improvements in terms of trade
Low interest rates explain, at least partially, the high liquidity in emerging markets.
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 (excluding Chile and Venezuela): 47.3%
SOUTH AMERICA (excluding Chile and Venezuela): 17.1%
CENTRAL AMERICA (incl. Haiti and Dom.Rep.): -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.
Outlook for 2007 and 2008

- The risks associated with the global economy have increased (disequilibria and the possibility of recession in the United States)
- But external conditions are expected to remain favourable, although financial markets will be more volatile
- The region is less vulnerable to external shocks than it was in the past (although there are differences among countries)
  - Current account surplus
  - Increased international reserves and a lower level of external debt
  - Sounder public finances (larger primary surpluses than in other periods)
  - Smaller public debt and improvements in its structure
  - More flexible exchange rates
- The region should therefore continue to grow at relatively high rates
A growth rate of almost 5% is expected for 2007 and rates of 4%-5% for 2008.

Latin America and the Caribbean: GDP Growth, 2007
(Annual growth rates)

<table>
<thead>
<tr>
<th>Country</th>
<th>2007 Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>5.4%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>5.3%</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>5.2%</td>
</tr>
<tr>
<td>Peru</td>
<td>5.1%</td>
</tr>
<tr>
<td>Panama</td>
<td>5.0%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>4.9%</td>
</tr>
<tr>
<td>Chile</td>
<td>4.9%</td>
</tr>
<tr>
<td>Caribbean</td>
<td>4.9%</td>
</tr>
<tr>
<td>South America</td>
<td>4.8%</td>
</tr>
<tr>
<td>Honduras</td>
<td>4.7%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>4.6%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>4.6%</td>
</tr>
<tr>
<td>Colombia</td>
<td>4.6%</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>4.9%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>4.9%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>4.8%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>4.8%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>4.8%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.8%</td>
</tr>
<tr>
<td>Central America and Mexico</td>
<td>4.8%</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.9%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>3.9%</td>
</tr>
<tr>
<td>Haiti</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Note: *Central America and Mexico growth rates are not explicitly stated in the image.
CARIBBEAN: GDP GROWTH RATES, 2007
(Percentages)

- OECS: 7.0%
- Trinidad and Tobago: 7.0%
- Caribbean: 5.4%
- Latin America: 5.0%
- Bahamas: 5.0%
- Suriname: 5.0%
- Guyana: 4.5%
- Barbados: 4.0%
- Belize: 3.5%
- Jamaica: 3.0%
Unemployment is falling but is still higher than it was 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.
And the quality of employment is improving (but informality is still around 45%)
The percentage of poor and indigent has fallen since 2002 and this trend is expected to continue. But it took 25 years to reduce poverty below the 1980 level.

(Percentage of individuals)
Since 2005, the region’s poverty rates have come down to the level of the early 1980s, but with average per capita GDP 17% higher.

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 populations declined by 12 and 16 million, respectively. This represents a change in the trend, but the number of poor is still higher than it was in 1980.
Most of the countries of the region saw reductions in their poverty and indigence rates


- Argentina b/
- Dominican Rep.
- Bolivia
- Costa Rica
- Paraguay
- Panama
- Brazil
- El Salvador
- Chile
- Jamaica c/
- Honduras
- Peru
- Ecuador b/
- Mexico
- Colombia
- Venezuela (B.R.)
- Argentina b/


- Uruguay b/
- Bolivia
- Peru
- Argentina b/
- Costa Rica
- Dominican Rep.
- Paraguay
- Brazil
- Panama a/
- El Salvador
- Chile
- Honduras
- Jamaica c/
- Mexico
- Colombia
- Venezuela (B.R.)
- Ecuador b/

Percentage points

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


Social expenditure as a percentage of GDP

Trinidad and Tobago  Ecuador  Guatemala  El Salvador  Dominican Republic  Peru  Nicaragua  Paraguay  Jamaica  Mexico  Honduras  Colombia  Bolivia  Chile  Simple average  Weighted average  Panama  Costa Rica  Brazil  Argentina  Uruguay  Cuba
The impact of social spending on poverty and income distribution

LATIN AMERICA (SIMPLE AVERAGE OF 9 COUNTRIES): IMPACT OF SOCIAL SPENDING ON PRIMARY INCOME BY PER CAPITA HOUSEHOLD INCOME QUINTILES

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Primary income</th>
<th>Social spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quintile I</td>
<td>53.8</td>
<td>46.2</td>
</tr>
<tr>
<td>Quintile II</td>
<td>72.2</td>
<td>27.8</td>
</tr>
<tr>
<td>Quintile III</td>
<td>79.5</td>
<td>20.5</td>
</tr>
<tr>
<td>Quintile IV</td>
<td>84.3</td>
<td>15.7</td>
</tr>
<tr>
<td>Quintile V</td>
<td>92.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Total primary income = 100
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>1990</th>
<th>2006</th>
<th>Progress (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>14.7</td>
<td>3.4</td>
<td>73%</td>
</tr>
<tr>
<td>Argentina b/</td>
<td>33.1</td>
<td>10.3</td>
<td>64%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>17.1</td>
<td>6.6</td>
<td>64%</td>
</tr>
<tr>
<td>Brazil</td>
<td>15.9</td>
<td>3.6</td>
<td>64%</td>
</tr>
<tr>
<td>Chile</td>
<td>18.3</td>
<td>5.0</td>
<td>64%</td>
</tr>
<tr>
<td>Colombia</td>
<td>15.9</td>
<td>3.6</td>
<td>64%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>10.8</td>
<td>2.4</td>
<td>64%</td>
</tr>
<tr>
<td>Ecuador b/</td>
<td>10.3</td>
<td>0.0</td>
<td>0%</td>
</tr>
<tr>
<td>El Salvador</td>
<td>9.1</td>
<td>1.2</td>
<td>64%</td>
</tr>
<tr>
<td>Guatemala</td>
<td>6.6</td>
<td>3.6</td>
<td>64%</td>
</tr>
<tr>
<td>Honduras</td>
<td>8.4</td>
<td>2.4</td>
<td>64%</td>
</tr>
<tr>
<td>Mexico</td>
<td>14.5</td>
<td>2.4</td>
<td>64%</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>15.8</td>
<td>3.6</td>
<td>64%</td>
</tr>
<tr>
<td>Panama</td>
<td>7.0</td>
<td>1.2</td>
<td>64%</td>
</tr>
<tr>
<td>Paraguay</td>
<td>4.9</td>
<td>1.2</td>
<td>64%</td>
</tr>
<tr>
<td>Peru</td>
<td>14.4</td>
<td>3.4</td>
<td>64%</td>
</tr>
<tr>
<td>Uruguay b/</td>
<td>30.9</td>
<td>10.3</td>
<td>64%</td>
</tr>
<tr>
<td>Venezuela (BR)</td>
<td>50.9</td>
<td>14.7</td>
<td>64%</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.
Summing up

- 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 to external shocks than it was before
- All this is in the context of favorable external conditions
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 too low.
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 too low
  - 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 too low.
  - 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.
Some caveats

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

- External conditions
- Economic policy challenges for LAC
- From a long-term perspective:
  - Latin America and the Caribbean exhibits less-than-stellar growth rates
  - The recent upturn in LAC growth is smaller than in other developing countries
  - Growth is partially based on natural resources and this could work against badly needed diversification of the production structure
  - The region has been unable to improve its income distribution
In the last few years a number of the region’s countries have been able to reduce inequity in income 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.
...but from a longer-term perspective this inequity has not changed

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

Countries where inequality increased

Countries where inequality decreased

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

<table>
<thead>
<tr>
<th>Country</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>Saint 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>

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

b/ Data on urban areas for Argentina, Ecuador, Panama and Uruguay.
Despite the positive short-run results, we must not lose sight of a number of facts:

- Inequality is typical of the region and the current global trend is towards greater inequality in income distribution
- The poverty rate is still very high
- Growth is based on natural resource exports and this could work against badly needed diversification of the production structure
- In this context, there is a need for more active public policies, but also for a suitable institutional structure to prevent rent-seeking behaviour

The challenge is how to ensure a sustainable growth rate while 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
(Percentages of GDP, 2005)

Caribbean not incl. social security (5 countries): 25.5%
Total: 21.9%

Tax revenues + SS: 17.9%

Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Dominican Rep., Uruguay c/, Venezuela (B.R.)

Legend:
- Tax revenue
- Social security contributions
- Other revenues
- Capital income
In the Caribbean the tax burden is higher

THE CARIBBEAN: TAX REVENUE WITHOUT SOCIAL SECURITY CONTRIBUTIONS
(Percentages of GDP)

N.B.: Central government except Barbados, which includes the non-financial public sector.
There is room to increase the tax burden

PER CAPITA GDP AND TAX REVENUES
(Percentages of 2003 GDP and constant dollars at 2000 prices)
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
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