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Santiago, 13 December 2007
In 2007, the region will grow by 5.6%

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES, 2007

(Percentages)

* The figures for Cuba are not fully comparable with the figures for the other countries due to methodological changes made in 2004.
In 2007, the Caribbean will have grown by 3.9%
Positive features remain in evidence, although some are weakening

- Current account surplus
In 2007, the current account surplus decreased for the first time since 2001, despite improved terms of trade.

Assuming constant terms of trade, a current account deficit is projected for 2008.
The current account balance worsened in 14 of the 19 countries analysed.
Positive features remain in evidence, although some are weakening

- Current account surplus
- Investment remains the most buoyant component of demand, although consumption is growing at a faster rate on the back of higher employment and increased credit
Saving is on the rise, but is growing more slowly than in 2006.
Investment continues to drive demand while exports are slowing.

LATIN AMERICA AND THE CARIBBEAN: SUPPLY AND DEMAND
(Annual rates of variation)

GROSS IMPORTS-GDP ELASTICITY ESTIMATED AT AROUND 2.5
Export growth reflects higher prices more than increases in volume, although the situation varies across countries.
Positive features remain in evidence, although some are weakening

- Current account surplus
- Investment remains the most buoyant component of demand, although consumption is growing at a faster rate on the back of higher employment and increased credit
- Improved labour-market indicators
The unemployment rate is similar to levels recorded in the first half of the 1990s.
Higher quality jobs created

LATIN AMERICA AND THE CARIBBEAN: JOB CREATION AND GROWTH, 2000-2008
(Annual rates of variation)
Positive features remain in evidence, although some are weakening

- **Current account surplus**
- **Investment remains the most buoyant component of demand, although consumption is growing at a faster rate on the back of higher employment and increased credit**
- **Improved labour-market indicators**
- **Reduced external vulnerability**
The surplus on the basic balance is being used to build up reserves.

**LATIN AMERICA AND THE CARIBBEAN: BALANCE-OF-PAYMENTS SOURCES AND USES**

(Millions of US$)

<table>
<thead>
<tr>
<th>Year</th>
<th>Current account</th>
<th>Net FDI</th>
<th>Portfolio &amp; other investment - public sector</th>
<th>Portfolio &amp; other investment - private sector</th>
<th>IMF and exceptional financing</th>
<th>Variation in reserves</th>
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<td>80 000</td>
<td>120 000</td>
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</tbody>
</table>

*a/* Preliminary figures.

b/* A negative variation represents a build-up of reserves.

**Strong reduction in the short-term-debt-to-reserves ratio**
NET FLOWS OF FINANCIAL CAPITAL, 2007
(Percentages of GDP)

- Venezuela (Bol. Rep. of)
- Peru
- Mexico
- Colombia
- Chile
- Brazil
- Argentina

-6% -5% -4% -3% -2% -1% 0% 1% 2% 3%

Public sector
Private sector
Causes of concern and outlook (I): a short-term view

- The region is faced with increased volatility on international financial markets and greater uncertainty. This situation calls for prudent macroeconomic management.
Higher risk indicators for emerging economies

RELATIONSHIP BETWEEN EMBI+ INDEX FOR LATIN AMERICA AND THE OVERALL EMBI+
(Daily series in basis points)
Causes of concern and outlook (I): a short-term view

- Increased volatility on international financial markets
- A slowdown is expected in the world economy. This may have a greater impact on the more open economies, especially those that are more dependent on the United States market.
World growth is expected to slow in 2008

Latin America and the Caribbean will continue to grow less than developing countries in general.
The economies of Mexico and Central America are the most dependent on growth in the United States.
Causes of concern and outlook (I): a short-term view

- Increased volatility on international financial markets
- A slowdown is expected in the world economy
- However, other causes of concern originate within the region and are posing economic policy challenges
  - Real exchange-rate appreciation
Some countries’ currencies are tending to appreciate

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE TOTAL REAL EFFECTIVE EXCHANGE RATE
(Level of October 2007 in relation to the average for 2005)

-25,0% -20,0% -15,0% -10,0% -5,0% 0,0% 5,0% 10,0% 15,0%

Dominican Rep. a/

a/ The methodology used for the Dominican Republic differs from the one used for the other countries.
Despite the intervention of some central banks in exchange markets

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN NET INTERNATIONAL RESERVES, 2007 a/
(Percentages of GDP)

Capital inflows are both a cause and consequence of the purchase of reserves by central banks

Note: Preliminary figures.
Causes of concern and outlook (I): a short-term view

• Increased volatility on international financial markets
• A slowdown is expected in the world economy
• However, other causes of concern originate within the region and are posing economic policy challenges
  - Real exchange-rate appreciation
  - Rising inflation
Inflation is on the rise

LATIN AMERICA AND THE CARIBBEAN: INFLATION RATE
(Annualized moving 3-month average)
In countries with explicit inflation targets, the rate of inflation is above the roof of the band (except in Brazil)
Causes of concern and outlook (I): a short-term view

- Increased volatility on international financial markets
- A slowdown is expected in the world economy
- However, other causes of concern originate within the region and are posing economic policy challenges
  - Real exchange-rate appreciation
  - Rising inflation
  - An “excessively” procyclical pattern of public spending in a number of countries, especially when the increase in income is due to higher commodity prices
The increase in public spending accelerated in 2007.

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT
(Percentages of GDP)

- Primary balance
- Income
- Primary expenditure

e/ Estimate
In some countries the increase in spending is particularly worrisome.

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN NOMINAL PUBLIC EXPENDITURE, 2007

(Annual rates of variation)

Source: 2008 budgets. The figure for Argentina is the cumulative increase up to October 2007. The figure for Bolivia is the cumulative increase up to September 2007.
Personal credit is up sharply as well.

(Annual rates of variation)
Causes of concern and outlook (I):  
a short-term view

- Increased volatility on international financial markets and greater uncertainty
- A slowdown is expected in the world economy
- However, other causes of concern originate within the region and are posing economic policy challenges
- Nonetheless, we expect the region to continue to grow in 2008.
A growth rate of 4.9% is expected for 2008, and rates are expected to be less dispersed across countries.
The last time that a similar period of economic growth occurred in the region was 40 years ago.
Causes of concern and outlook (II): a medium- and long-term view

- The region has a window of opportunity to improve its systemic competitiveness which it is not taking advantage of.
- In order to do so, a medium- and long-term strategy based on a partnership between the public and private sectors must be designed.
- Three core elements of this strategy:
  - Boost investment, especially in infrastructure (transport and energy).
  - Increase incentives for innovation in a broad sense.
  - Improve the quality of education.

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