



# THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN: SITUATION AND PROSPECTS

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New York, 9 February 2009

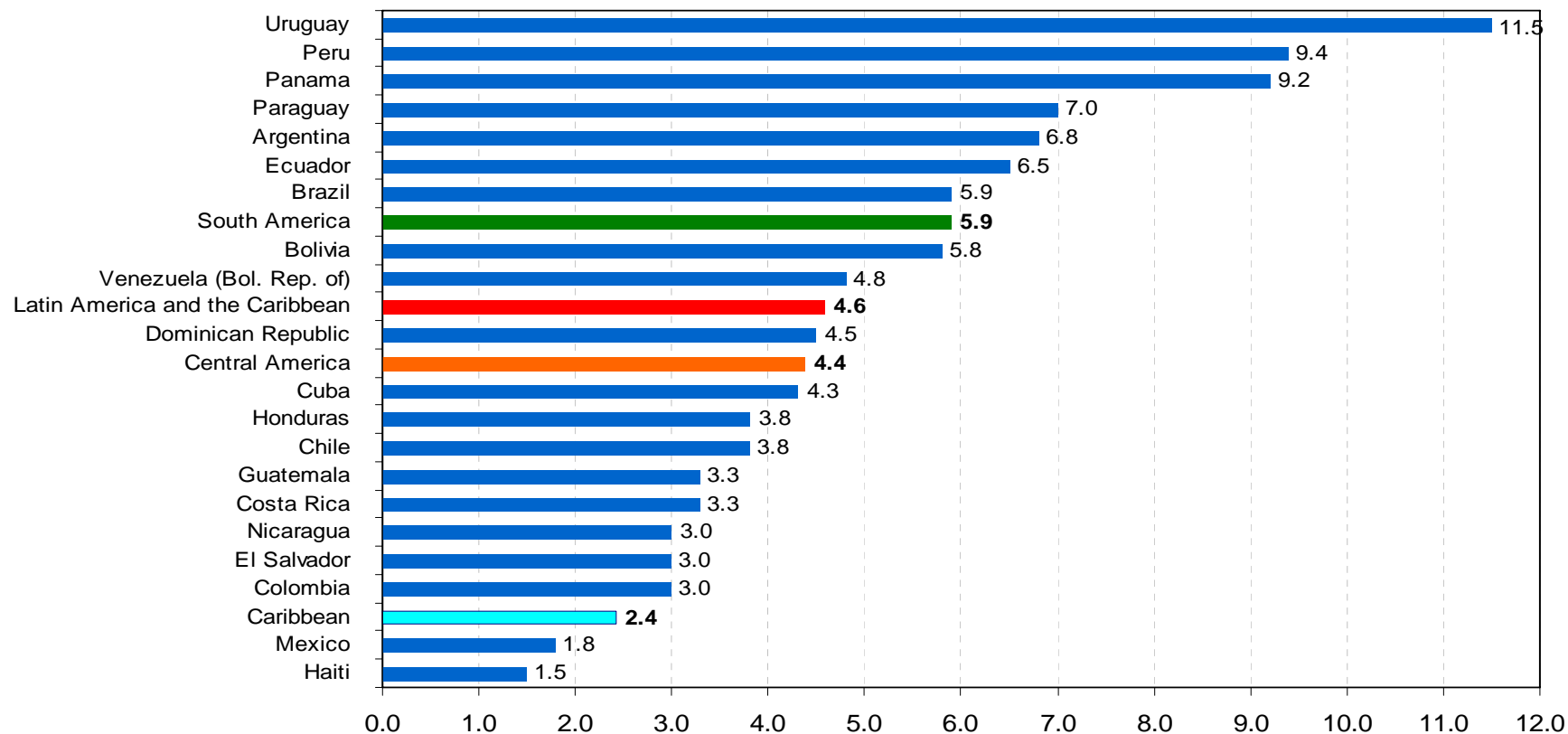


UNITED NATIONS

ECLAC

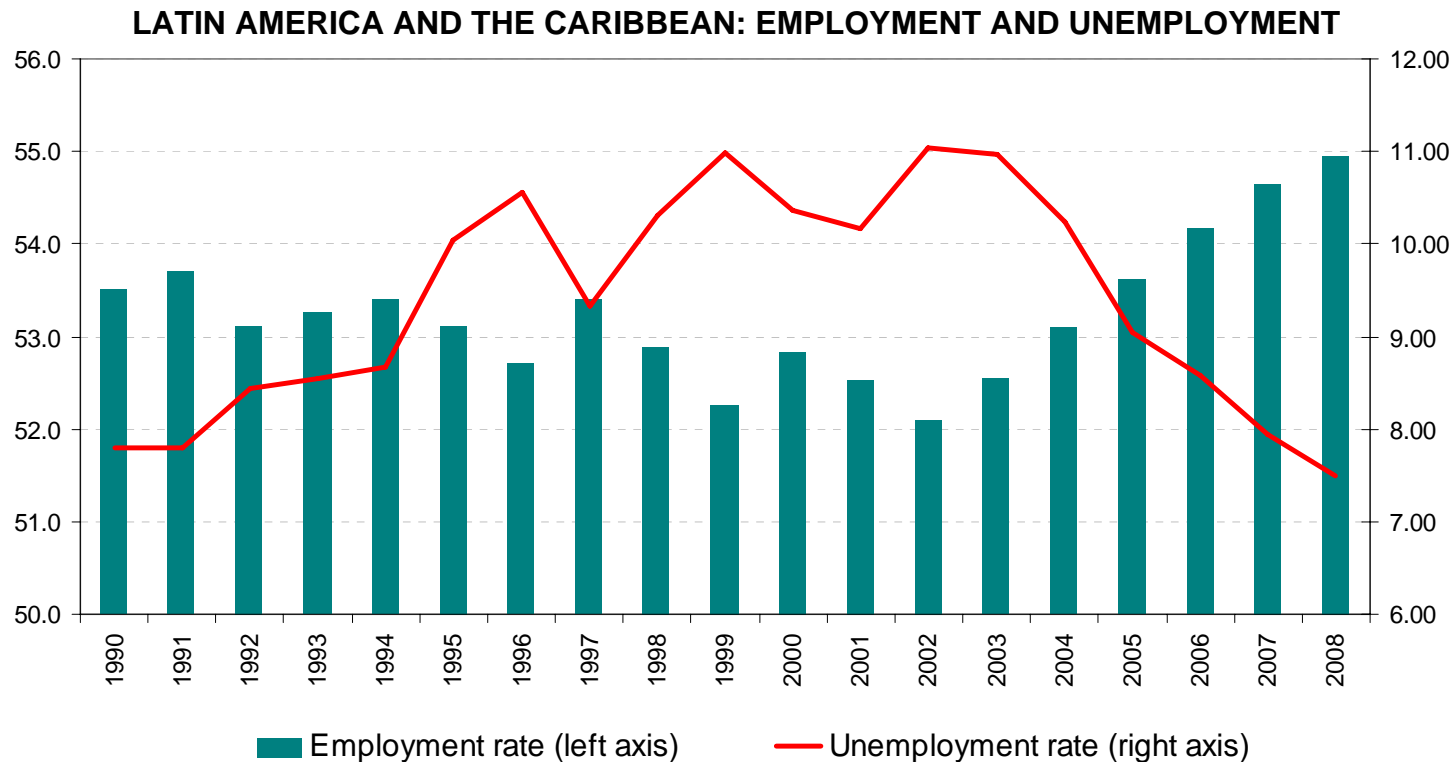
# Regional GDP was up by 4.6% in 2008, completing a sixth consecutive year of economic growth

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2008  
(Percentages)



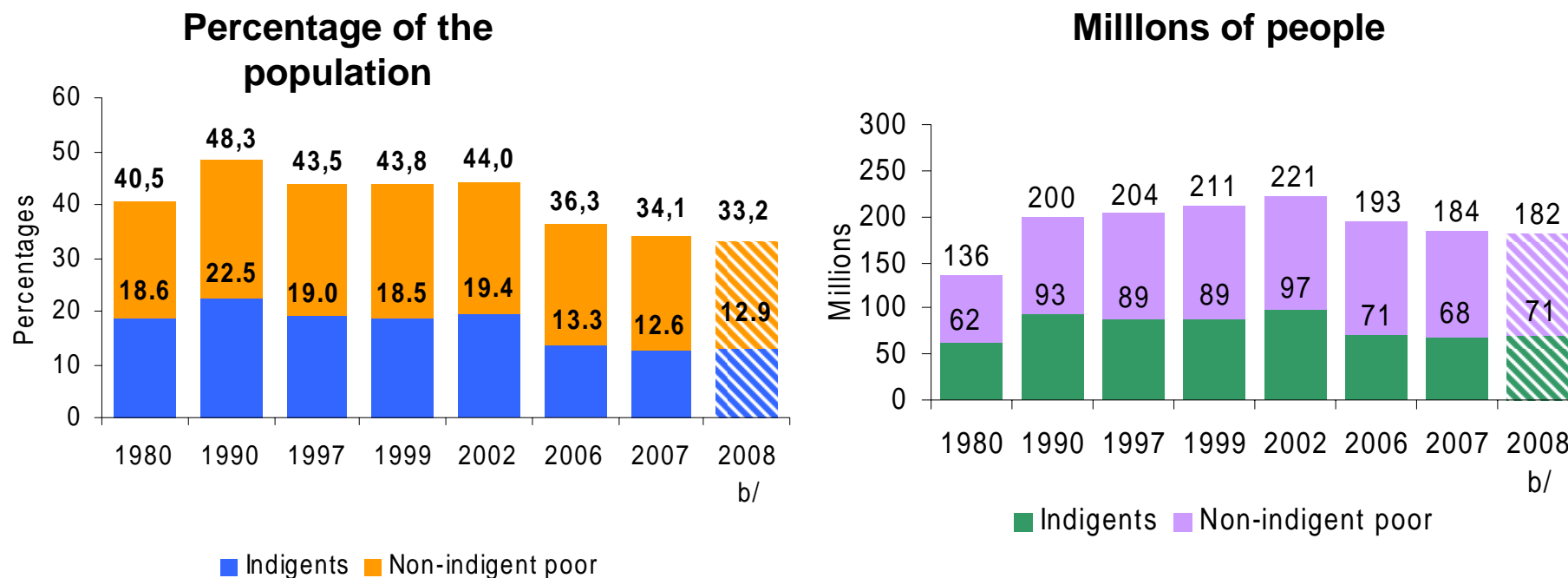
The Latin American and Caribbean region's per capita GDP grew by more than 3% for the fifth year in a row

# Growth has been coupled with improvements in labour-market indicators



Higher growth rates, lower unemployment and better-quality jobs have helped improve poverty indicators

# IN 2008, POVERTY LEVELS DECREASED SLIGHTLY, BUT NO REDUCTION WAS SEEN IN INDIGENCE...



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

a/ Estimate for 19 countries of the region, including Haiti. The figures appearing above the bars in each chart represent the percentage of the population and the total number of poor persons (indigents plus non-indigent poor).

b/ Projections.



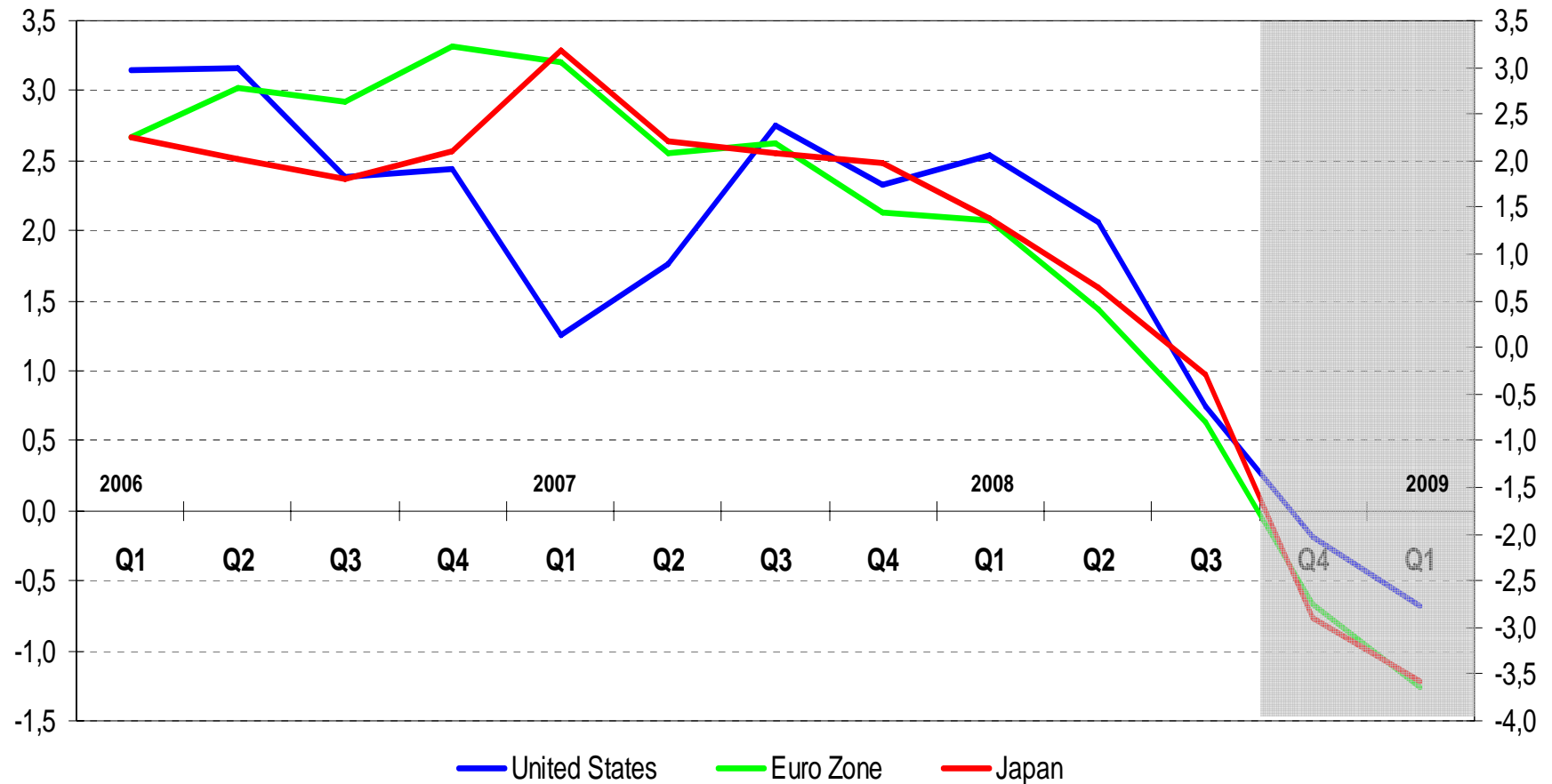
## The economies of the developed countries are showing clear signs of deterioration


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- Although indicators have yet to fully reflect the impact of the post-Lehman crisis, they already show a sharp drop in demand caused by the combination of:
  - Wealth effect (housing and equity values)
  - Job destruction and the rise in unemployment
  - Tighter credit
  - These factors generate negative expectations, which then cause the situation to deteriorate further (vicious cycle)

# The developed countries have entered a recession

DEVELOPED COUNTRIES: ANNUAL VARIATION IN GDP GROWTH  
(Percentages)





The international crisis is being transmitted to the region through various channels, though not to the same extent in all the countries

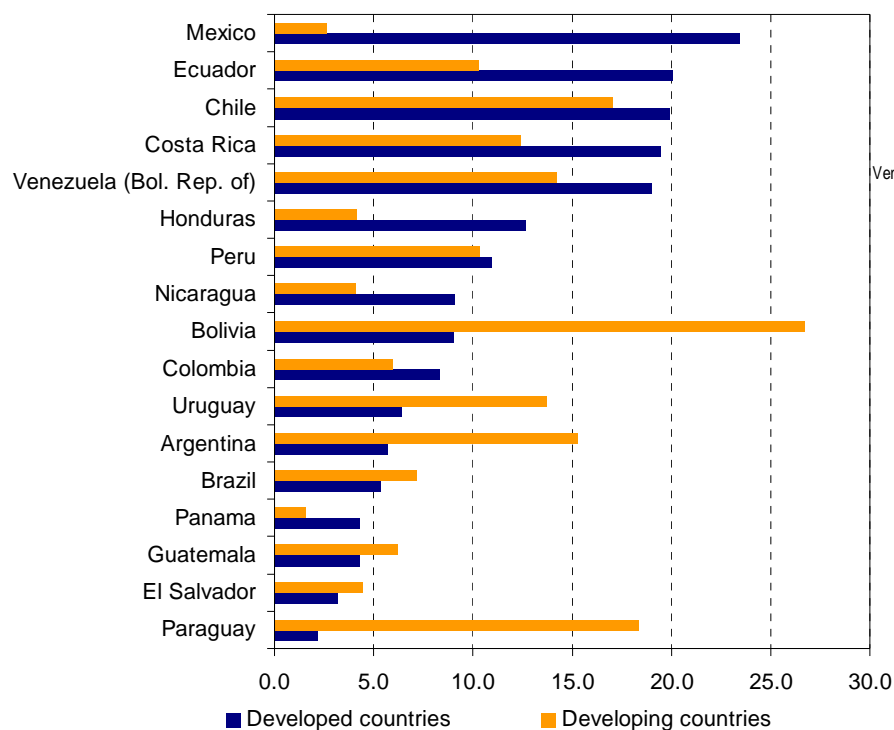
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One by one, the engines of growth are shutting down

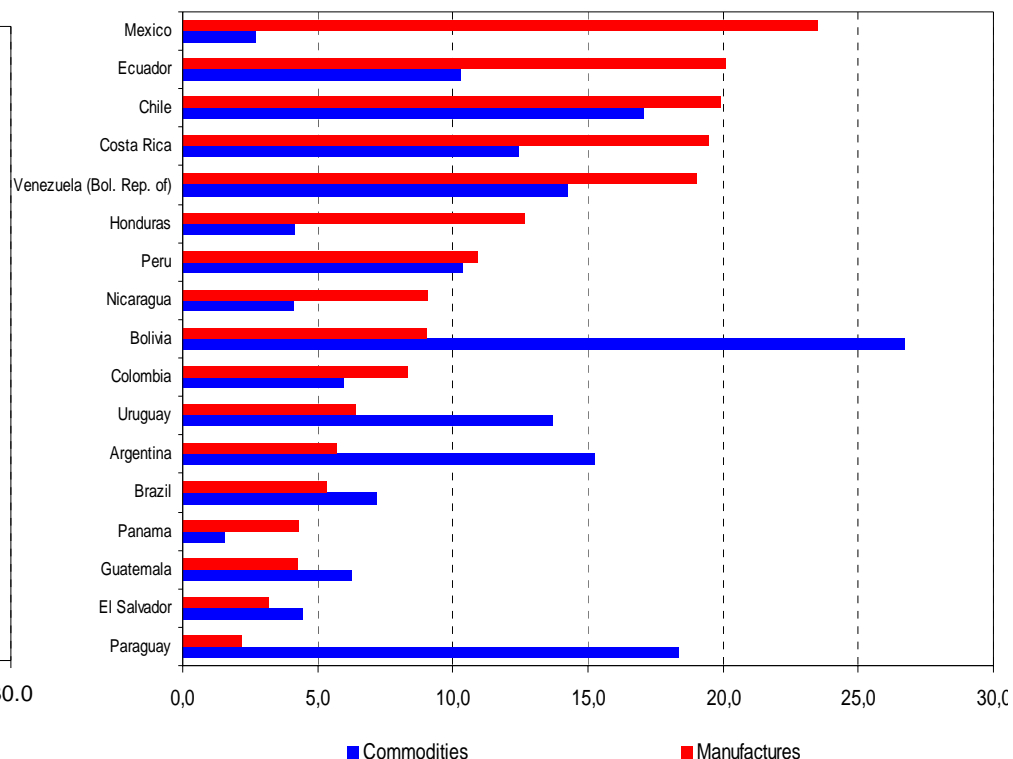
- The real-economy channel
  - **Slowdown in exports**

# The slowdown of the developed economies will have a negative impact on trade flows


**EXPORTS OF GOODS, BY DESTINATION, 2006**  
(Percentages of GDP)



**EXPORTS OF GOODS TO DEVELOPED COUNTRIES, 2006**  
(Percentages of GDP)







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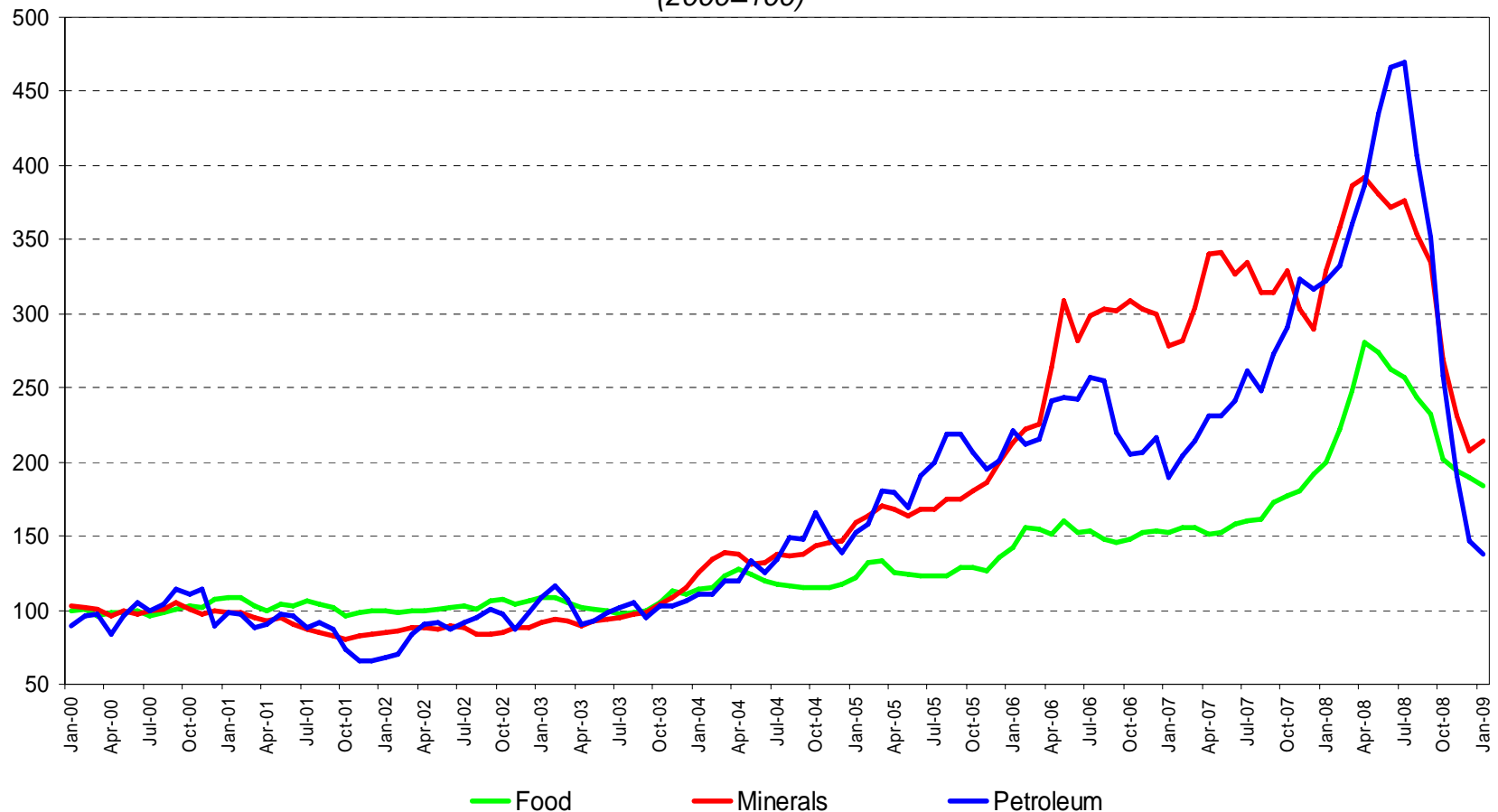
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One by one, the engines of growth are shutting down

- The real-economy channel
  - Slowdown in exports
  - **Falling commodity prices**

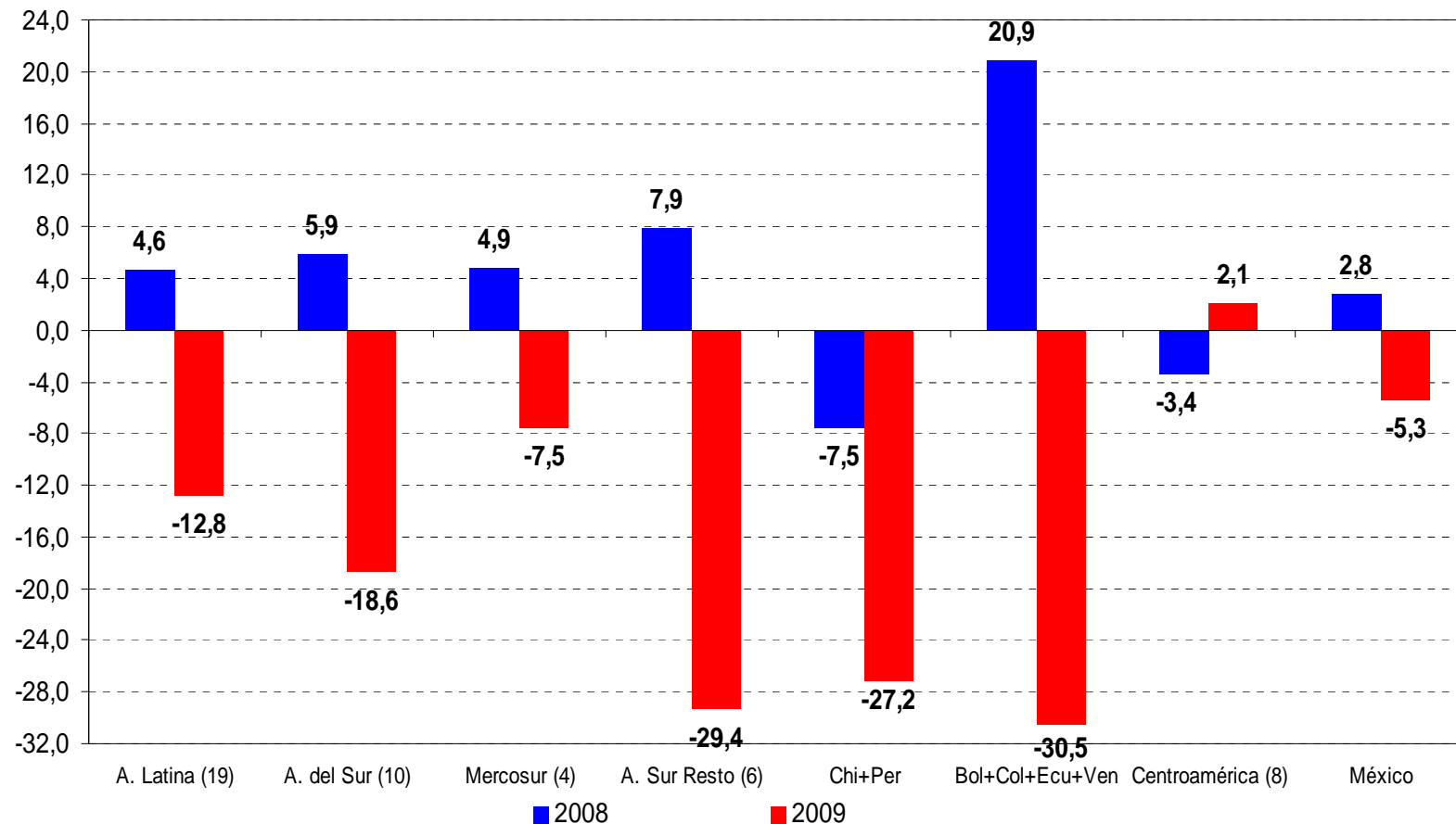
# Commodity prices are falling but they may remain relatively high


COMMODITY PRICE INDICES  
(2000=100)



# The region's terms of trade continued to improve in 2008 but are expected to worsen in 2009

LATIN AMERICA (19 COUNTRIES): TERMS OF TRADE, 2008-2009  
(Percentages)





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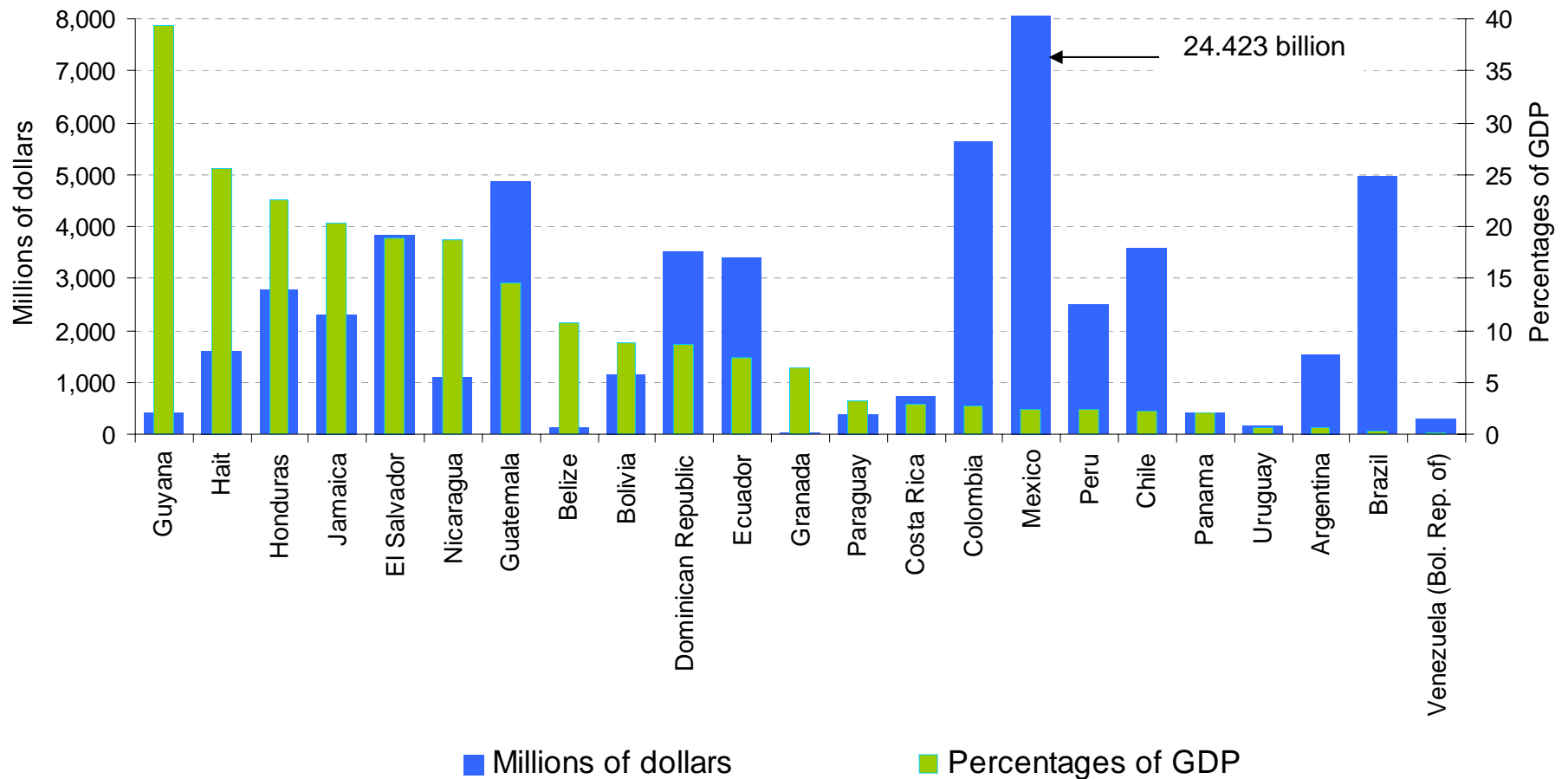
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One by one, the engines of growth are shutting down

- The real-economy channel
  - Slowdown in exports
  - Falling commodity prices
  - **Lower remittances**

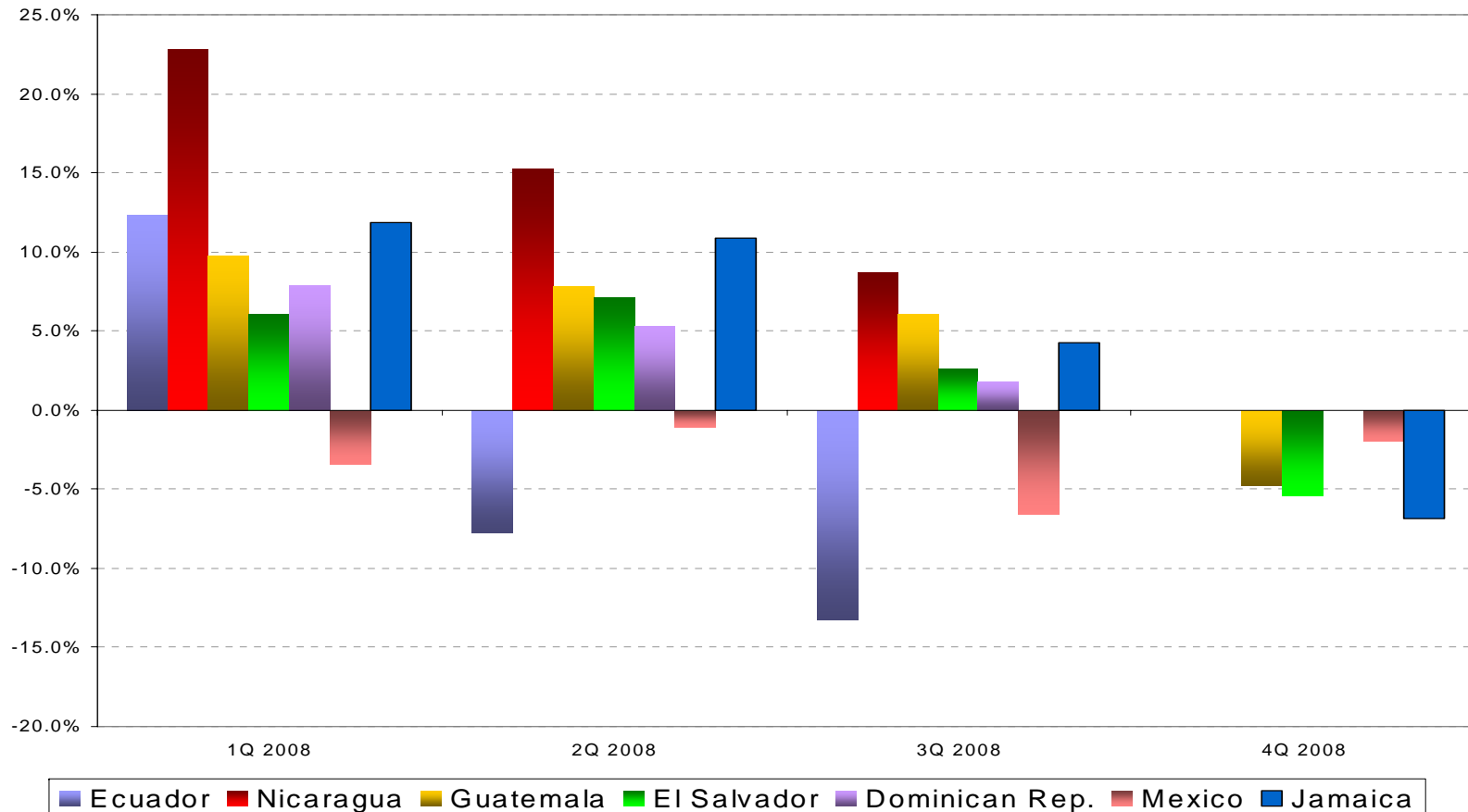
# Remittances are very important, especially in the Caribbean and Central America


**LATIN AMERICA AND THE CARIBBEAN: CURRENT TRANSFERS (CREDIT), 2007**  
*(Percentages of GDP and millions of dollars)*



... and in a number of countries they have already begun to decelerate or even decrease

**REMITTANCES**  
*Interannual growth rates (%)*





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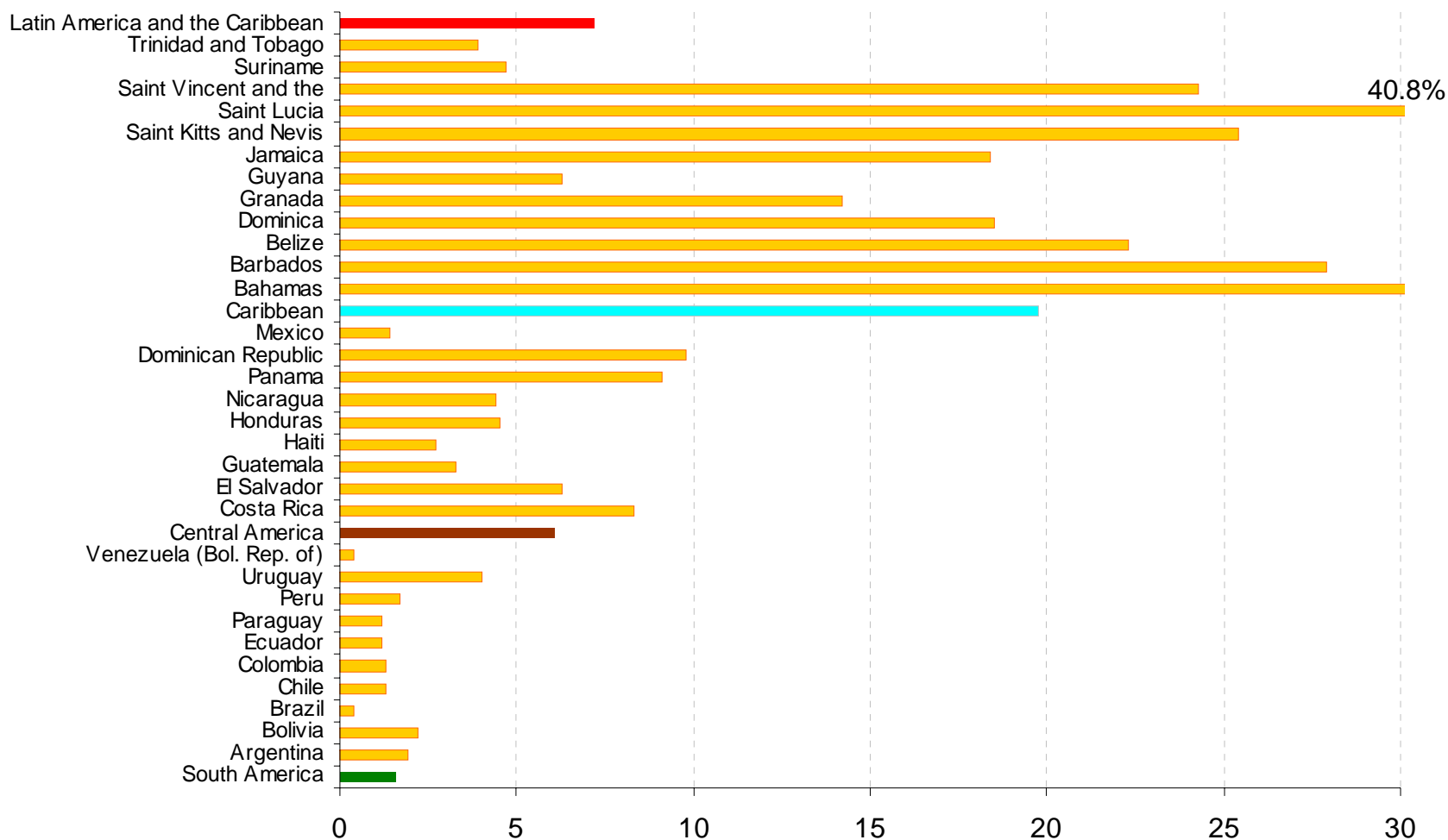
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One by one, the engines of growth are shutting down


- The real-economy channel
  - Slowdown in exports
  - Falling commodity prices
  - Lower remittances
  - **Reduced revenues from tourism**

# The Caribbean and Central America will suffer the most from the expected drop in tourism revenues

**LATIN AMERICA AND THE CARIBBEAN: TOURISM-RELATED SERVICE EXPORTS, 2007**  
(Percentages of GDP)







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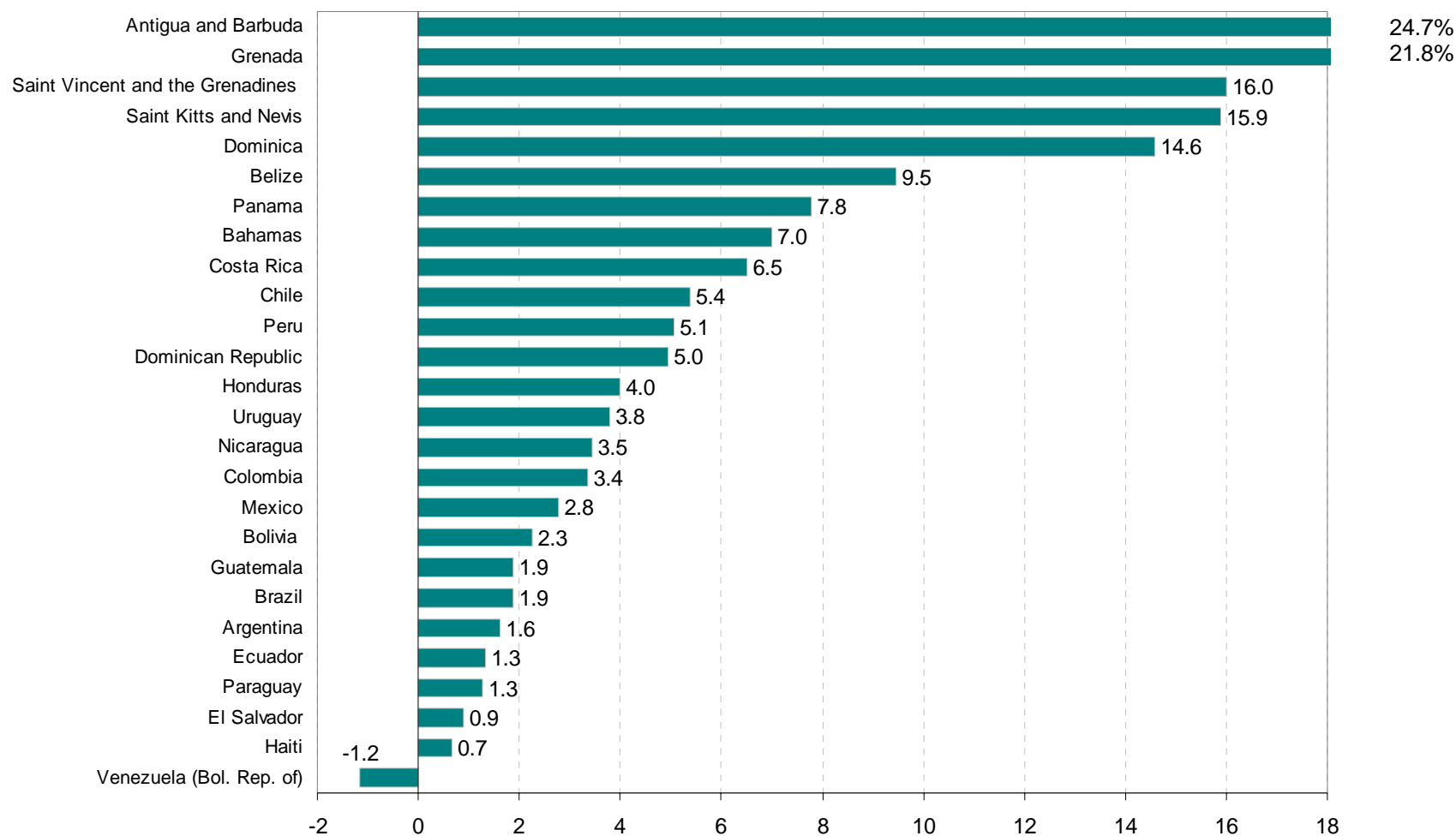
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One by one, the engines of growth are shutting down

- The real-economy channel
  - Slowdown in exports
  - Falling commodity prices
  - Lower remittances
  - Reduced revenues from tourism
  - **Smaller inflows of foreign direct investment (FDI)**

# The significance of FDI varies from country to country

**LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT, 2008**  
(Percentages of GDP)





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One by one, the engines of growth are shutting down

The real economy

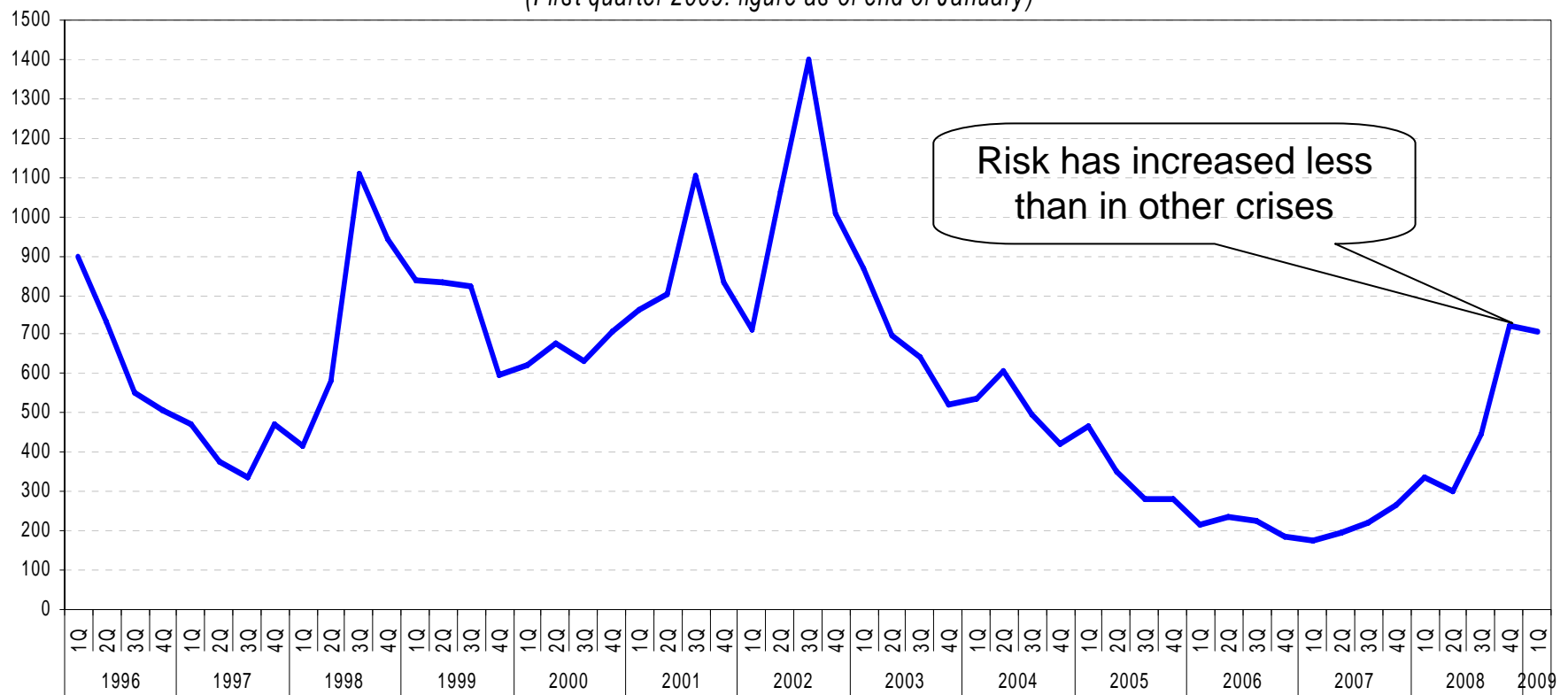
- Slowdown in exports
- Falling commodity prices
- Lower remittances
- Reduced revenues from tourism
- Smaller inflows of foreign direct investment (FDI)

The financial sector

- **Higher cost of external credit**

# Amidst increased volatility, the perceived risk associated with emerging economies is on the rise

Latin American: EMBI+ spread, 1996-2009  
(Basis points, figures for the end of each period)  
(First quarter 2009: figure as of end of January)





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One by one, the engines of growth are shutting down

The real economy

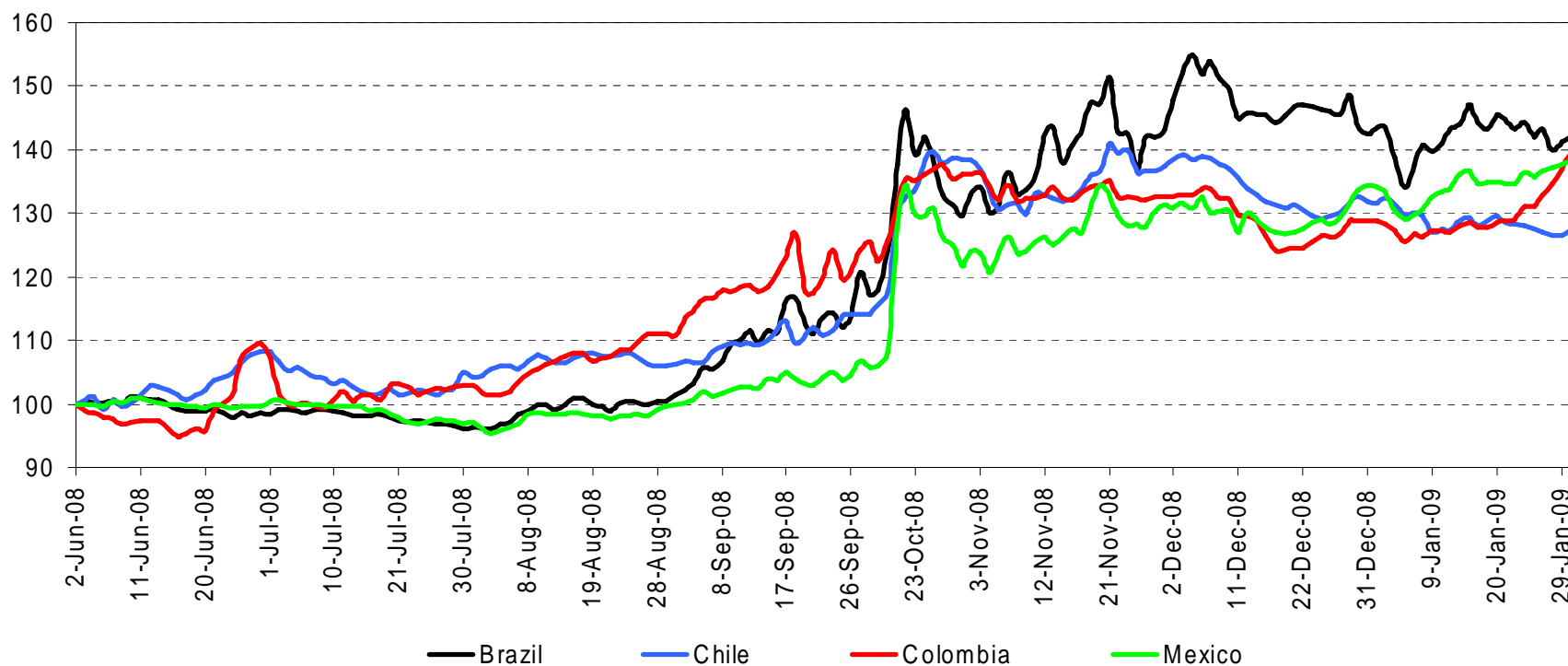
- Slowdown in exports
- Falling commodity prices
- Lower remittances
- Reduced revenues from tourism
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The financial sector

- Higher cost of external credit
- **Reduced availability of international financing**

# Reduced availability of foreign exchange resulted in dramatic devaluations in a short space of time

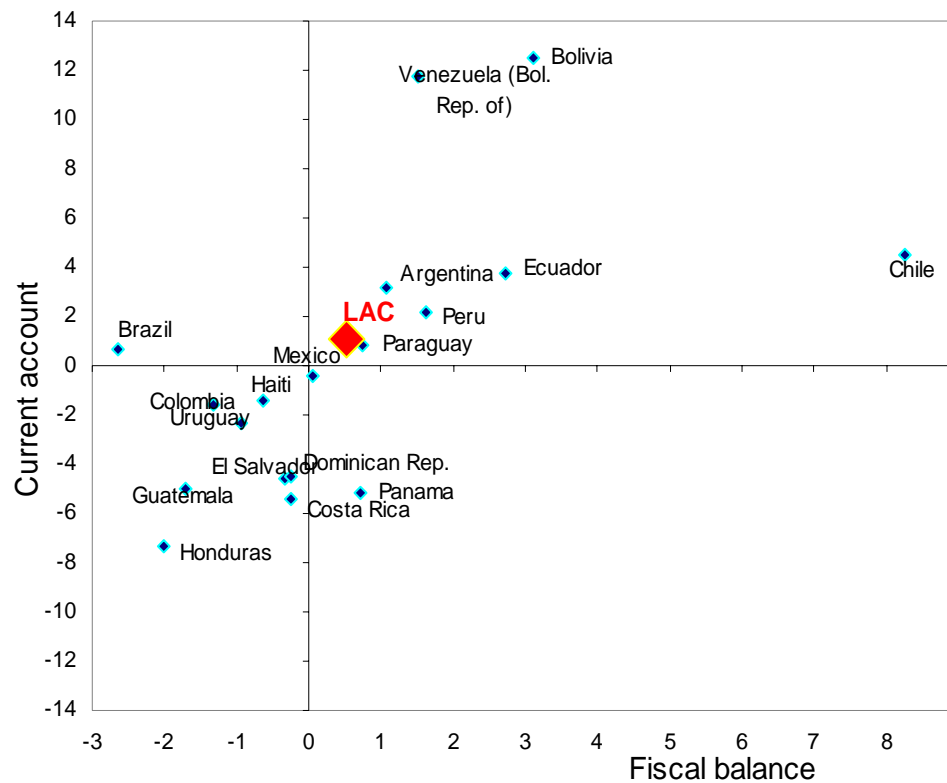
**LATIN AMERICA (4 COUNTRIES): EXCHANGE-RATE TRENDS**  
(Index: 2 June 2008=100)



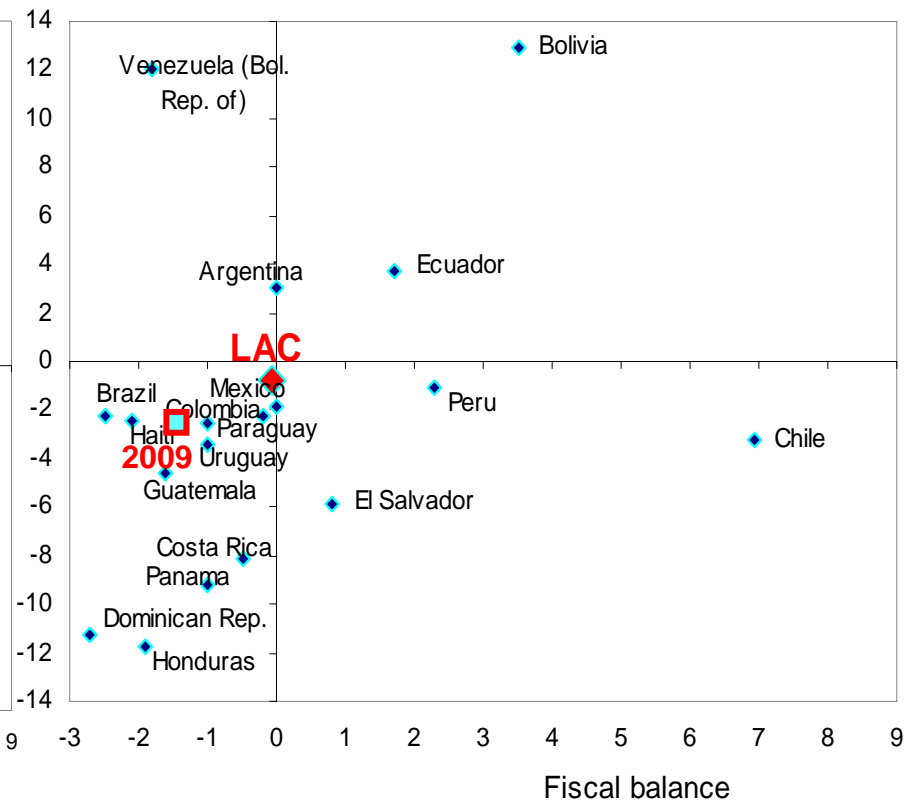
**With a varying impact on competitiveness, balance sheets and inflation**

# The region is better prepared than in previous crises, but some indicators are already worsening

**LATIN AMERICA (19): FISCAL BALANCE AND CURRENT ACCOUNT, 2006-2007**  
(Percentages of GDP)

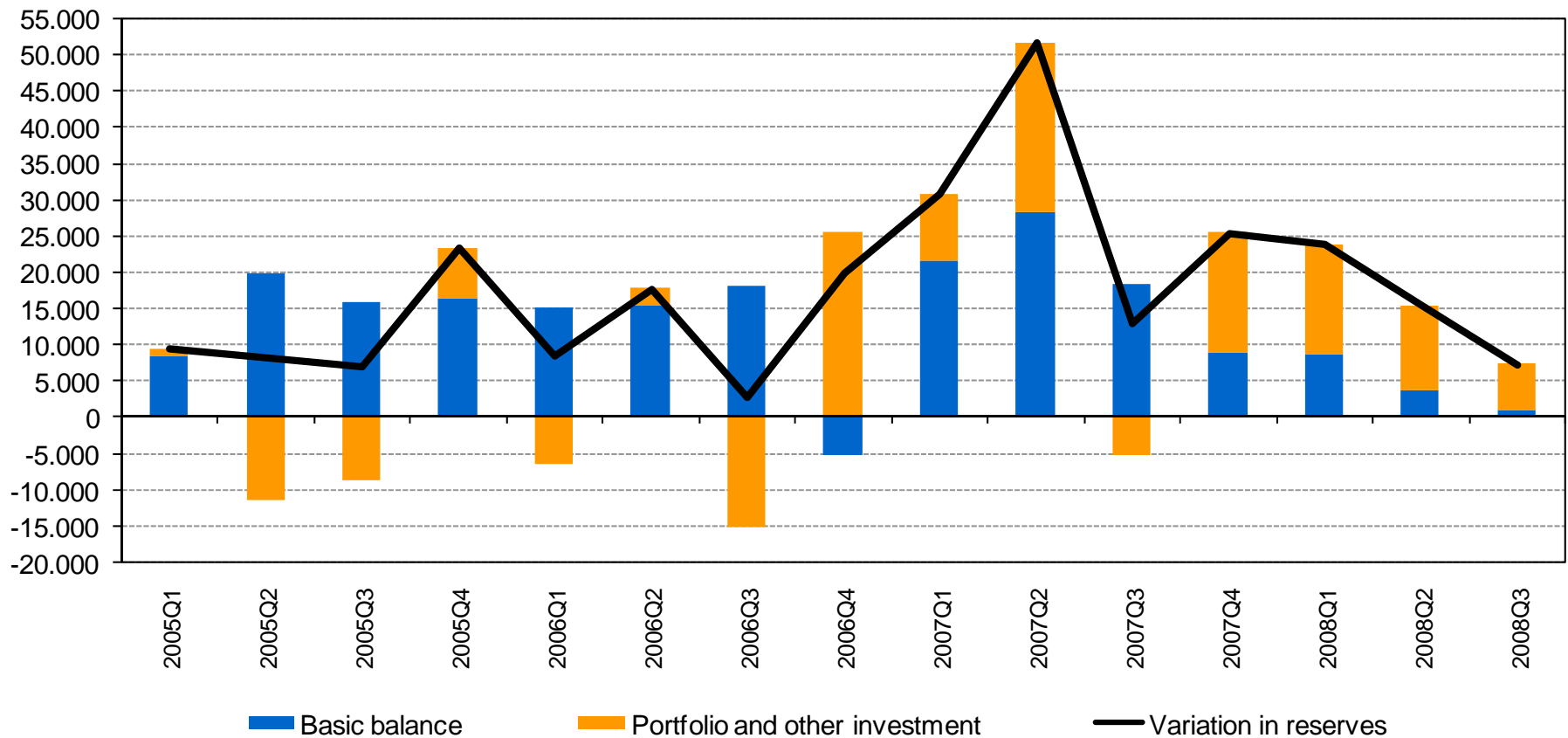


**LATIN AMERICA (19): FISCAL BALANCE AND CURRENT ACCOUNT, 2008**  
(Percentages of GDP)



# INTERNATIONAL RESERVES

**LATIN AMERICA (6 COUNTRIES): BREAKDOWN OF THE VARIATION IN RESERVES, 2005-2008**  
*(Millions of dollars)*

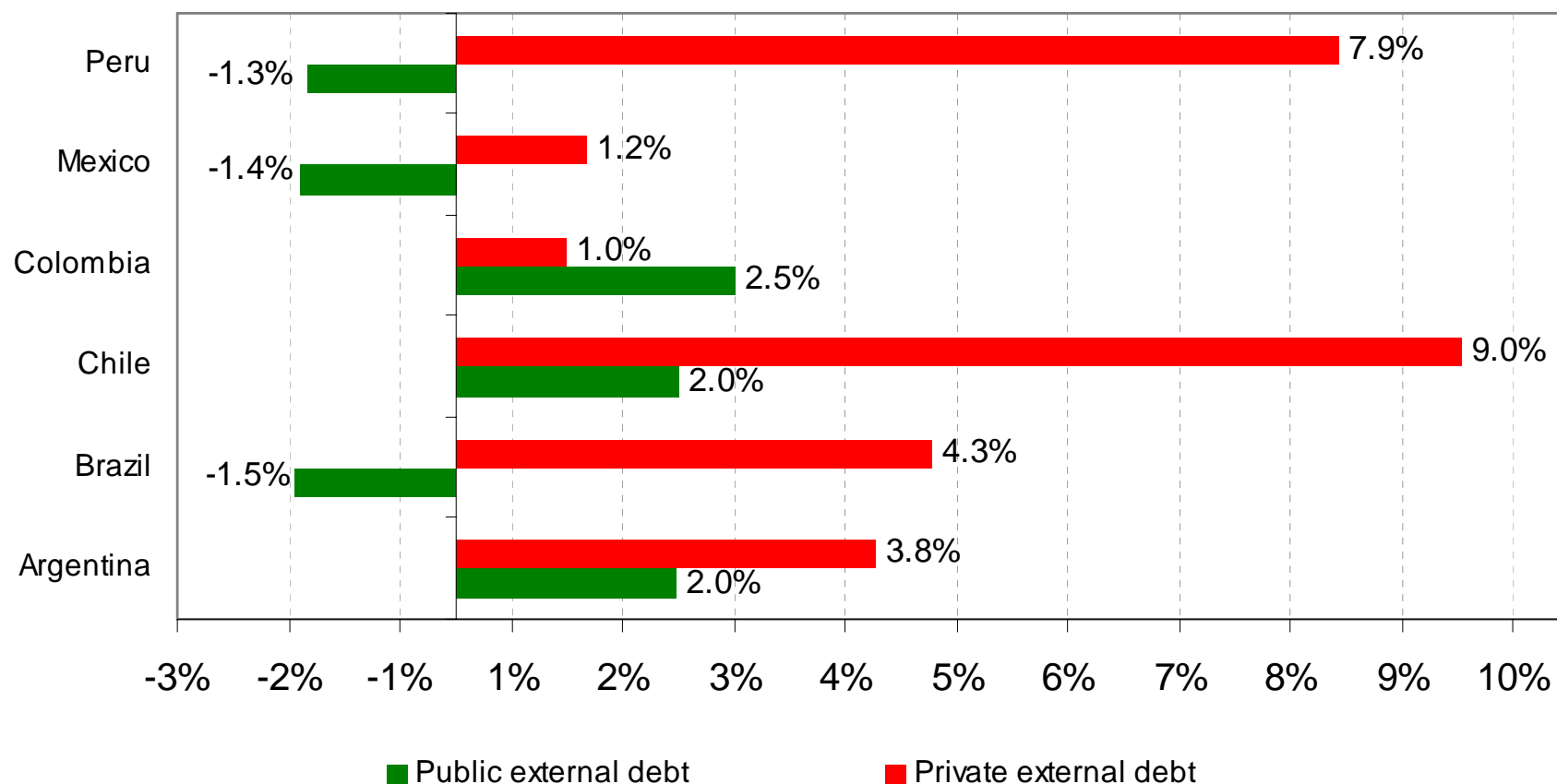


Includes Argentina, Brazil, Chile, Colombia, Mexico and Peru.



# This crisis, unlike others, has left the private sector with the greatest exposure

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): VARIATION IN EXTERNAL DEBT, 2006-JUNE 2008  
(Percentages of GDP)



# The response capacity to the crisis is also different

## Scope of measures to tackle the crisis

	AR	BO	BR	CH	CO	CR	EC	ES	GU	HA	HO	ME	NI	PN	PR	PE	RD	UR	VE	BH	BA	GU	JA	AB	DO	GR	SK	SL	SV	SU	TT			
<b>Monetary and financial policy</b>																																		
Reduction or relaxation of reserve requirements	X		X	X	X				X		X				X	X																		
Provision of liquidity in national currency	X		X	X	X	X	X		X		X	X			X	X	X	X			X													
<b>Fiscal policy</b>																																		
Tax cuts or increased subsidies			X	X			X				X	X	X	X				X							X	X	X	X	X	X	X			
Spending increase or brought forward (infrastructure)	X	X	X	X	X	X		X	X		X	X			X	X		X		X					X									
<b>Exchange-rate and trade policy</b>																																		
Provision of liquidity in foreign currency(*)	X	X	X	X	X				X							X		X																
Increased tariffs or import restrictions	X						X											X																
Tariff cuts	X						X				X	X				X									X	X	X	X	X					
Financing of exporters	X		X	X	X	X									X			X																
Obtaining credits from international financial bodies					X				X		X		X		X	X								X										
<b>Sectoral policies</b>																																		
Housing	X	X	X	X					X		X	X				X		X																
SMEs	X			X					X			X				X		X		X														
Agriculture			X	X	X		X				X	X			X				X													X		
Tourism																			X		X			X										
Manufacturing	X	X		X								X							X															
<b>Employment and social policies</b>																																		
Promoting job creation	X			X					X			X				X																		
Social programmes			X	X	X	X		X		X			X			X					X			X	X	X	X	X						

(\*) Does not include central bank interventions through sales of foreign exchange on currency markets



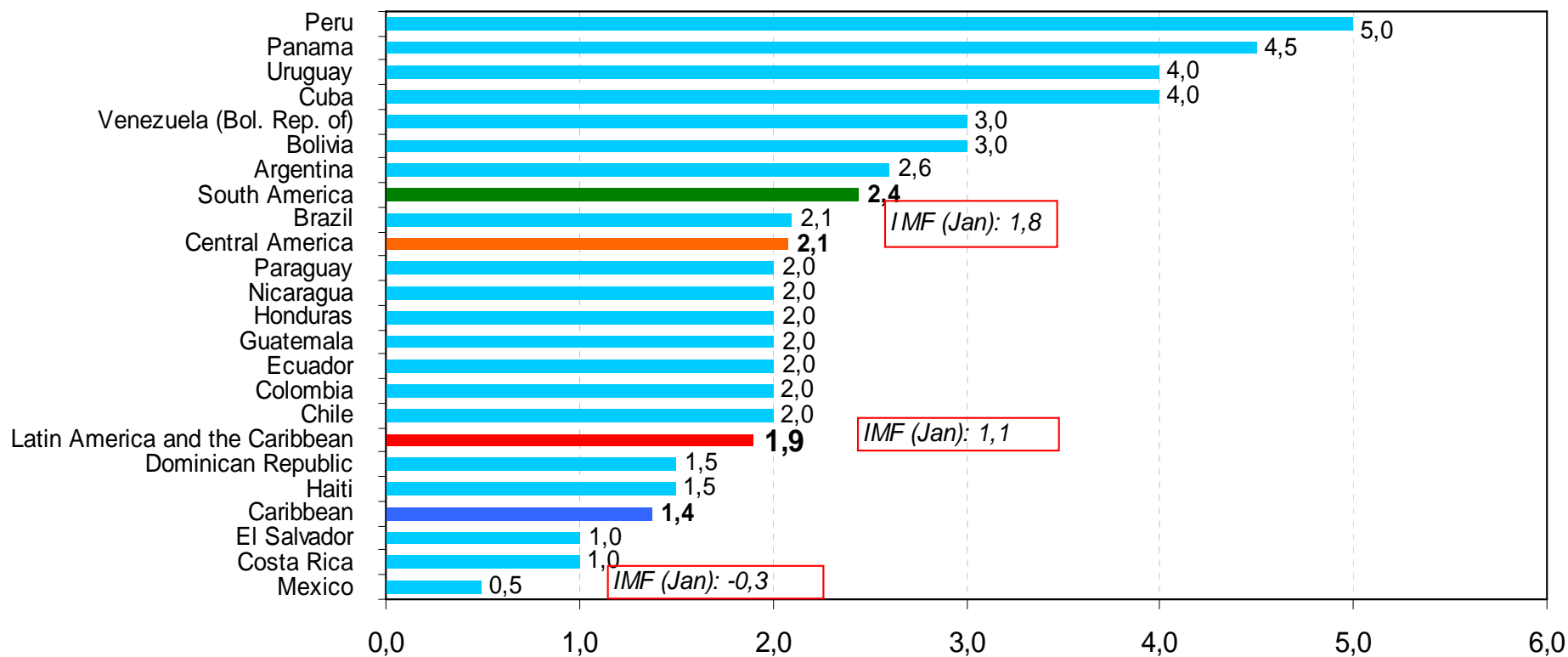
## The depth and duration of the crisis are still uncertain

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- They depend on the effectiveness of measures to boost demand, sectoral policies (in the automobile industry, for instance) and the normalization of the financial markets
- The measures adopted by the United States Federal Reserve and other central banks are expected to contain systemic risk...
- ... and the worst of the crisis is expected to be over by the end of the second half of 2009

# In 2009, the region's growth is expected to slow dramatically

LATIN AMERICA AND THE CARIBBEAN: VARIATION OF GDP, 2009  
(Percentages)



The region continues to “fly”, but in glider mode, as the engines of growth have shut down



## The deteriorating economic environment will have a negative impact on income distribution

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- The slowdown in growth could push up unemployment from 7.5% in 2008 to between 7.8% and 8.1% in 2009.
- Informal employment will rise.
- The rise in unemployment will have a more severe impact on low-income households.
- Rising informal employment will reduce the average income of informal workers.
- The fall in remittances will mainly have an impact on low- and lower-middle-income households.
- Poor households have been the hardest hit by the increase in inflation during 2008 (because of food prices).



## Lessons learned

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- Countercyclical policies are needed
- Steps should be taken to prevent the crisis from increasing inequity as a result of biased measures
- The countries' capacity to maintain social spending, especially spending aimed at building human capital, must be safeguarded
- Investment in infrastructure should not be neglected
- Protectionism should be avoided



# Global problems require a coordinated solution

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- In the recent period, developed countries consumed while emerging economies saved to shield themselves from the effects of a crisis.
- This is no longer feasible in the present climate, and some of the stimulus for demand must come from the developing world.
- However, the resources remain in the hands of developed countries.
- International financial institutions must provide resources to finance countercyclical policies.



## The regional dimension is vital...

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- Coordinated macroeconomic policies and commitment to integration can leverage strategies.
- Intraregional trade is knowledge-intensive and involves many SMEs, which means it has a greater impact on the production fabric and on employment and equity.
- However, intraregional trade is heavily procyclical and therefore needs to be backstopped by a special financial support strategy.
- Regional financial institutions have an important role to play.
- The regional institutional framework needs to be strengthened.





# Beyond the current phase of the cycle

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- This crisis opens the way for a reassessment of prevailing economic development paradigms.
- Now is the time to consider a new international financial architecture...
- And a new role for the State:
  - In protecting the most vulnerable sectors to ensure inclusive development
  - In fostering a production fabric that incorporates more knowledge and prioritizes innovation
  - In regulating economic activity so that profit-seeking in the private sector does not conspire against society's general well-being.

# IN SHORT:

- **Poverty and indigence rates declined by over 9 and 6 percentage points, respectively, between 2003 and 2007**
- **Indigence levels rose in 2008, and both poverty and indigence rates will climb in 2009**
- **The effects of the crisis will differ from one group to another:**
  - **Employment levels will fall and unemployment rates will be higher**
  - **Jobs in the informal sector will be hurt the most**
  - **Real wages and salaries will not rise**
  - **The incomes of independent workers will fall**
  - **Remittances sent home by migrant workers will decline**
- **The impact on groups of countries will differ according to their degree of export diversification (Central America vs South America)**

## **PROMOTING POLICIES TO PREVENT THE EFFECTS OF THE CRISIS FROM BEING SHOULDERED BY LOWER-INCOME SECTORS**

- ➔ **Mitigate the impact of slacker labour demand through public investment in infrastructure**
- ➔ **Expand unemployment insurance coverage**
- ➔ **Maintain current levels of social spending, with emphasis on expenditure to combat child undernutrition, on social assistance and in other areas that will help protect poor and indigent people from the effects of the crisis.**
- ➔ **In the long term, it is extremely important to:**
  - ➔ **Develop new socio-political contracts so that fiscal pacts involving a greater solidarity component can be achieved**
  - ➔ **Establish regional and international strategies for curtailing the deterioration of the real economy.**



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