



2013

Economic and social
overview of Latin
America and Caribbean

Meeting of the Regional Coordination
Mechanism for Latin America and the
Caribbean - Santiago, 24 January 2013



ECLAC

Antonio Prado, Deputy Executive Secretary

Contents

- The region in the context of the global crisis: recent trends in economic and social development
- Long-run challenges to achieve structural change for equality

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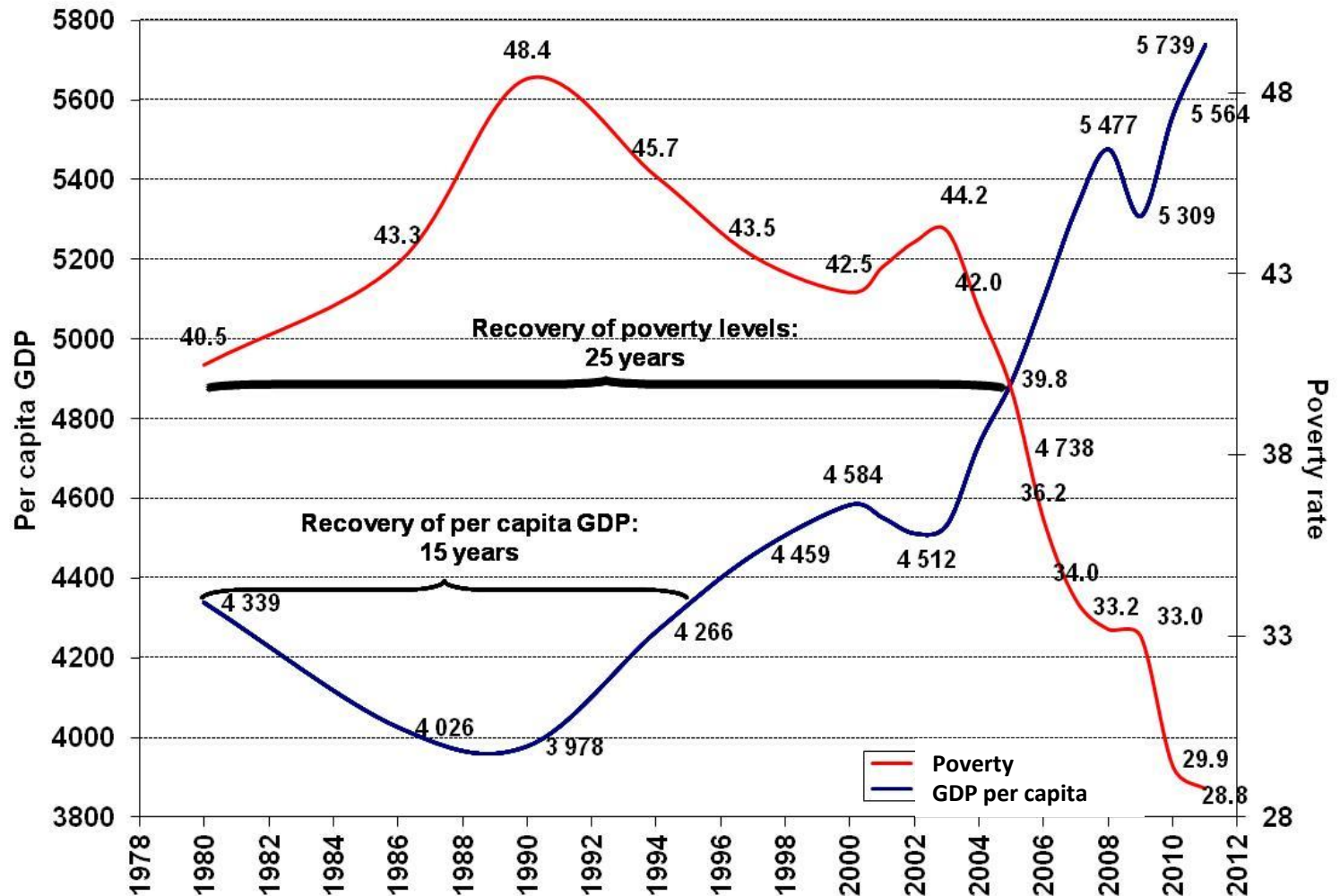
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Crises have traditionally cut deep into the social fabric in the region

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LATIN AMERICA AND THE CARIBBEAN: COMPARISON OF PER CAPITA GDP AND POVERTY RATES, 1980-2011



Source: ECLAC, on the basis of special tabulations of household surveys

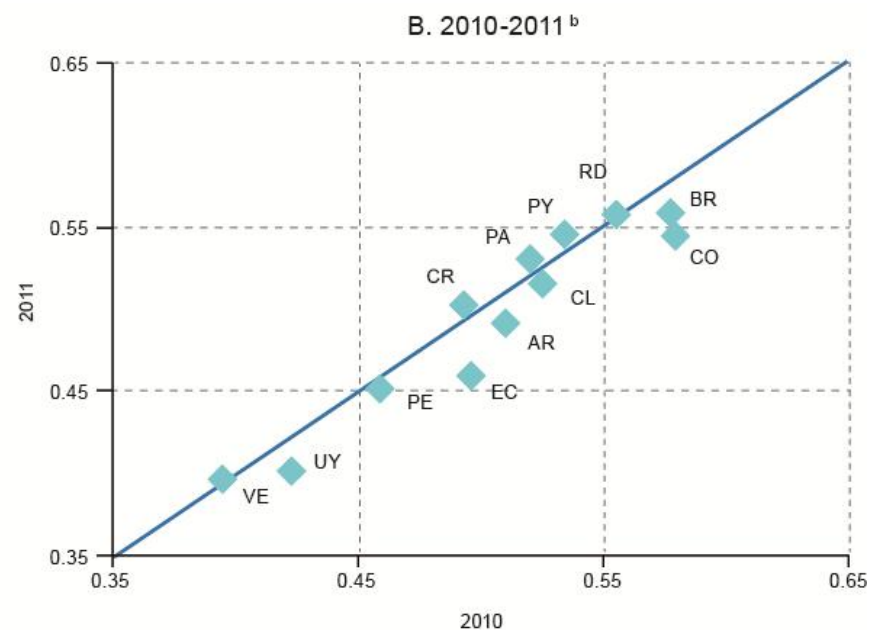
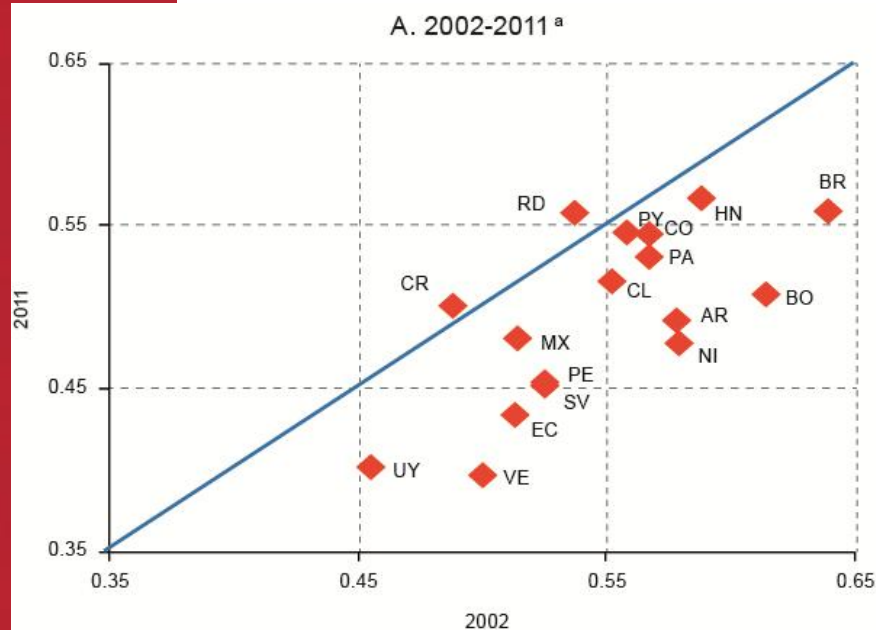


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There has been a clear reduction in inequality since 2002, and this continued in 2011

2013

LATIN AMERICA (18 COUNTRIES): GINI COEFFICIENT, 2002-2011 AND 2010-2011



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 Data for urban areas in Argentina, Ecuador and Uruguay. Data for 2002 are from 2002 except for Brazil, El Salvador, Nicaragua, Paraguay and Peru (2001), Argentina (2004) and Chile (2000). Data for 2011 are from 2011 except for Costa Rica, Nicaragua and the Plurinational State of Bolivia (2009), El Salvador, Honduras and Mexico (2010) and Guatemala (2006).

^b Data for urban areas in Argentina. Data for 2010 refer to figures for 2009 in Brazil and Chile.



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This crisis current is different: a recession caused by a financial crisis arising from private over indebtedness

- Recessions of this sort are longer and impact more heavily on output and employment.
- Recoveries are precarious and highly vulnerable to economic or financial volatility.
- Necessary private debt reduction takes place in periods of slack economic activity and asset value slippage.
- Deleveraging and recomposition of private savings make monetary stimulus measures less effective.
- Emerging economies and South-South trade have been key in global growth

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Since the beginning of this crisis, Latin America and the Caribbean showed a certain resilience

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Downside

- Trade contraction, especially towards Europe and China
- Adverse climate factors (soy)
- Insufficient investment limited the growth capacity (supply)
- Some exchange rate volatility (Brazil and Mexico)
- Lower financial inflows to the region

Upside

- GDP growth of 3.1% (above the global average of 2.2%) in 2012
- Fall in unemployment (to 6.4%) and an increase in average wages
- Accommodative monetary policy and continued reserve accumulation
- Increased investment and consumption
- Fiscal prudence



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External context 2012

- Financial, fiscal and competitiveness imbalances in the **Euro area** were associated with:
 - A recession in the majority of the countries of the EZ, with economic growth of -0.5%
 - A slow process of joint problem solving, although with the decision of the ECB to intervene under certain conditions
 - Financial instability, though with improvements in the risk premiums in the EZ during the second half
- Slowdown in **China**, from 9.2% in 2011 to 7.7% in 2012
- Modest growth in the **USA**, between 1.8% and 2.1%
- Absence of shocks in the oil market

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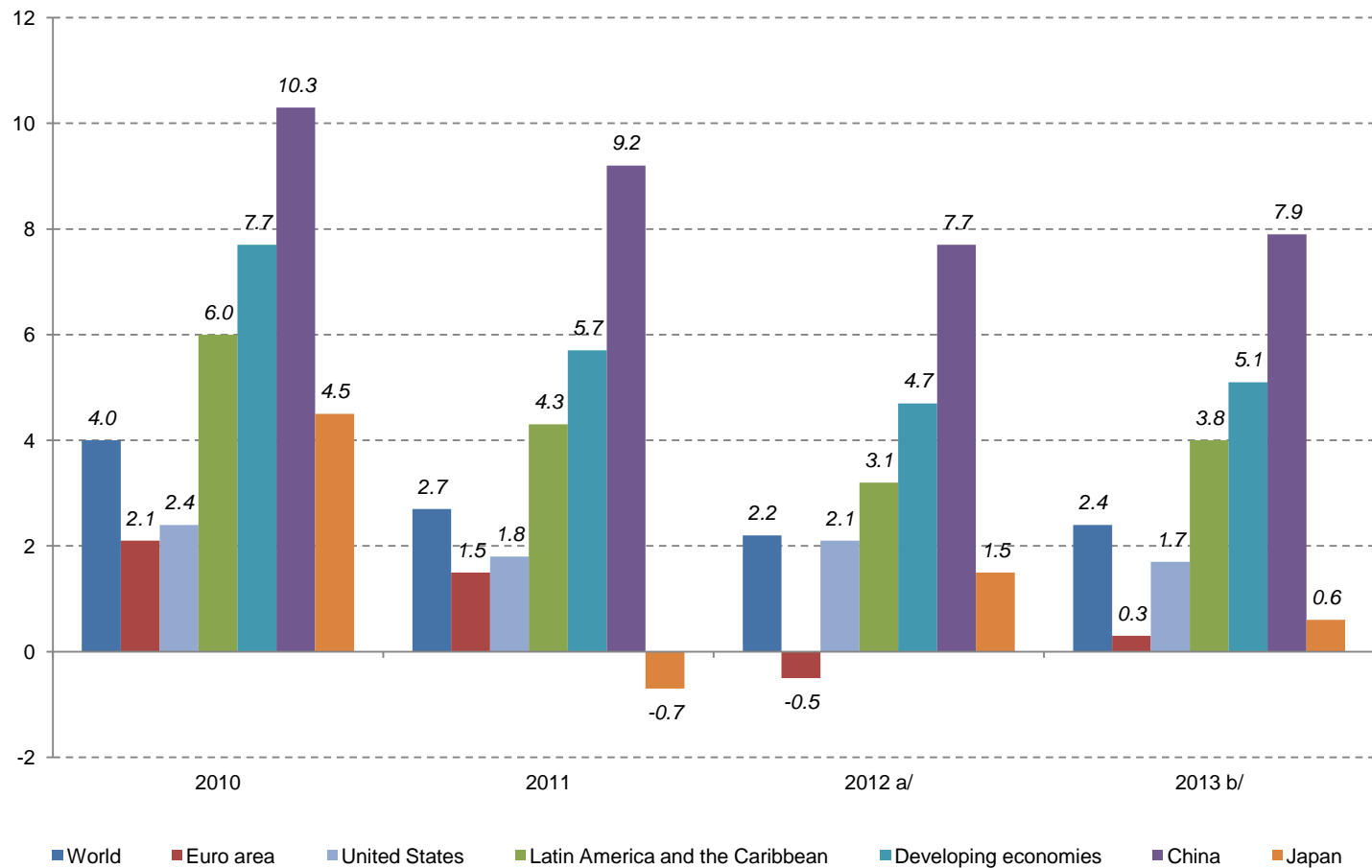
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Global economic growth decelerated

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GLOBAL GDP GROWTH BY REGION, 2010 – 2013
(in percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on UN/DESA.

a/ Estimate.

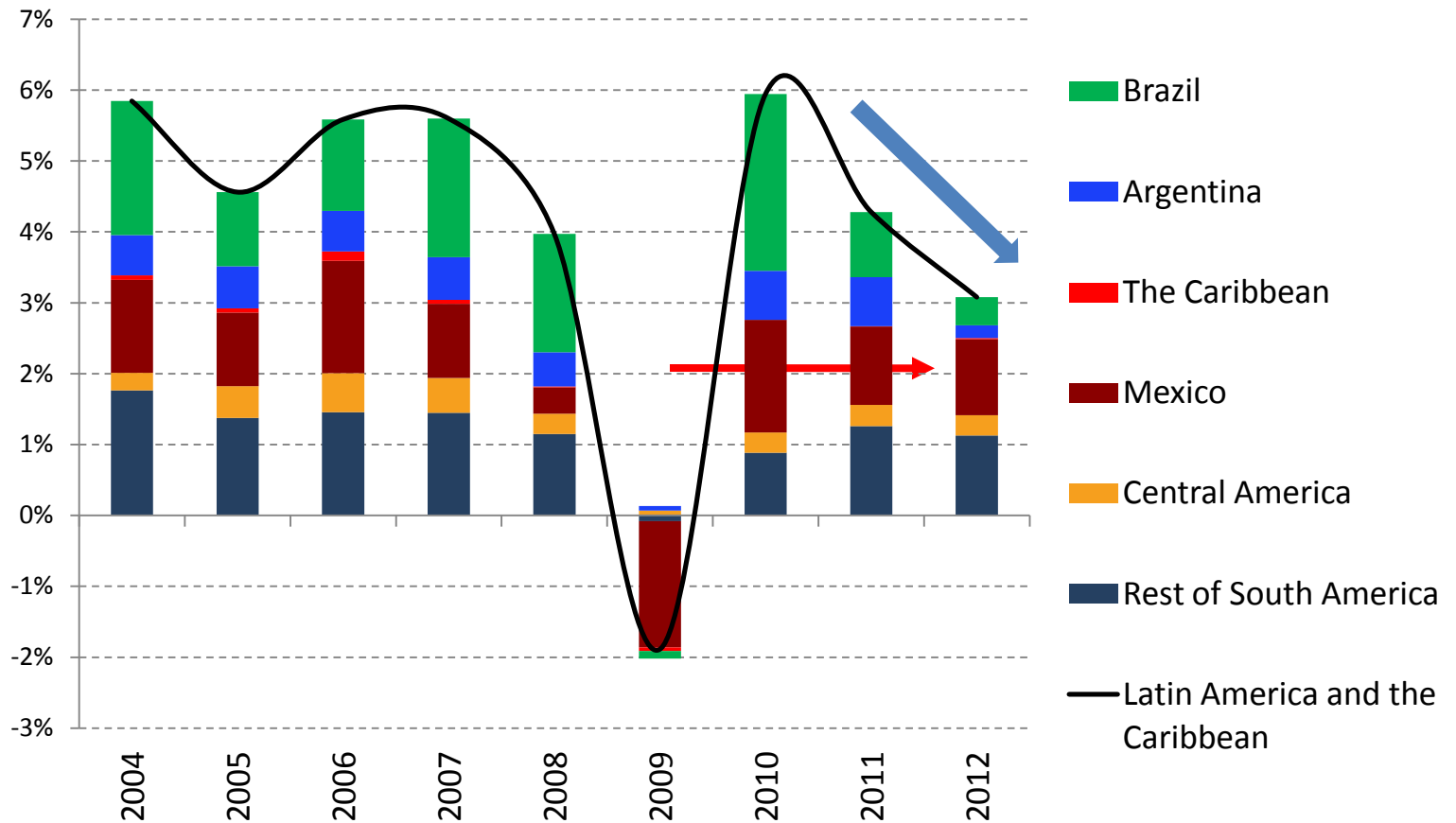
b/ Projection.



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Regional GDP grew by 3.1% in 2012, above the global average (2.2%)

LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTION TO REGIONAL GDP GROWTH BY COUNTRY, 2004 – 2012^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Figures for 2012 correspond to estimations.

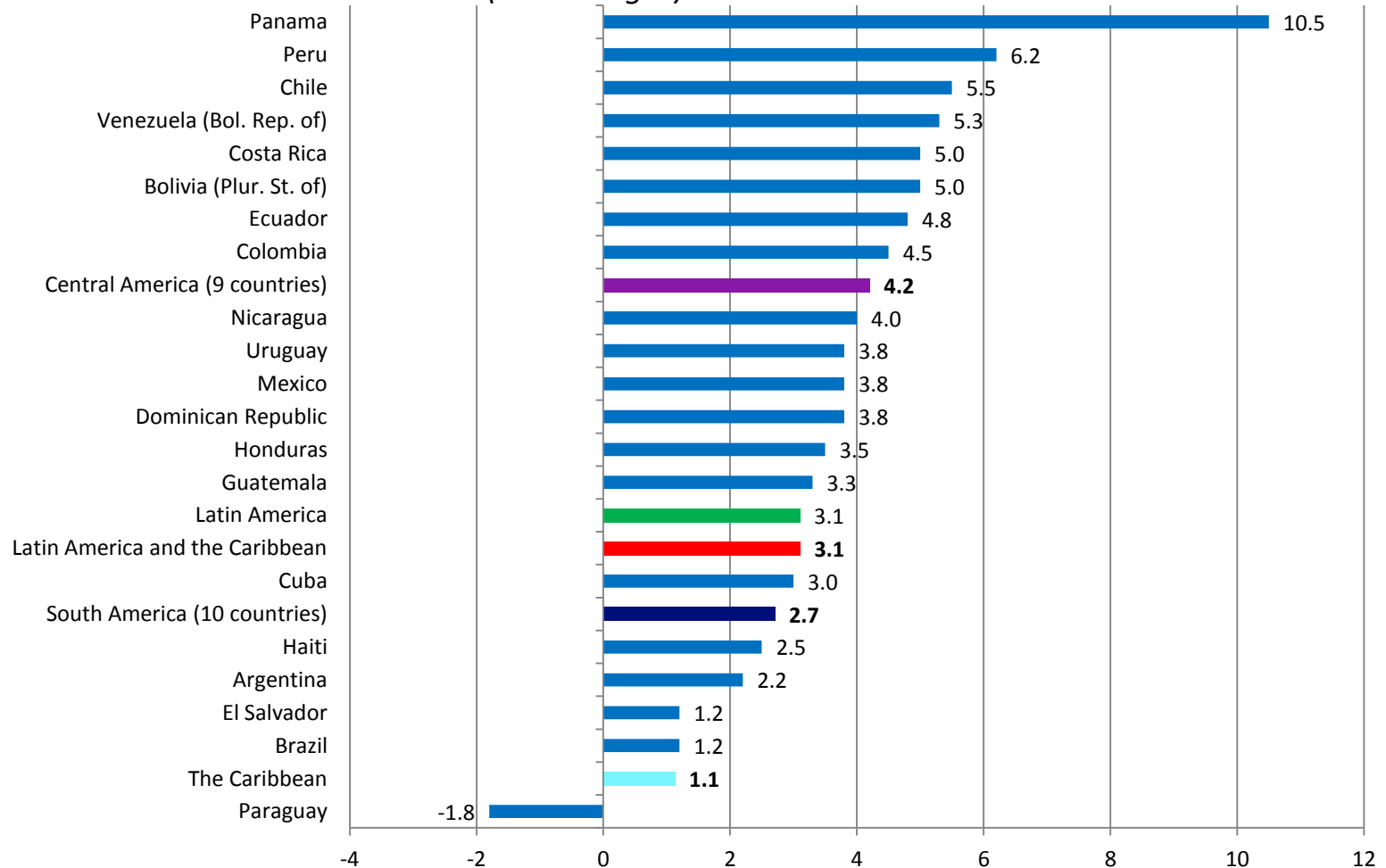


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The majority of Latin America countries posted growth above 3.1% in 2012

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES, 2012^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Estimate

2013

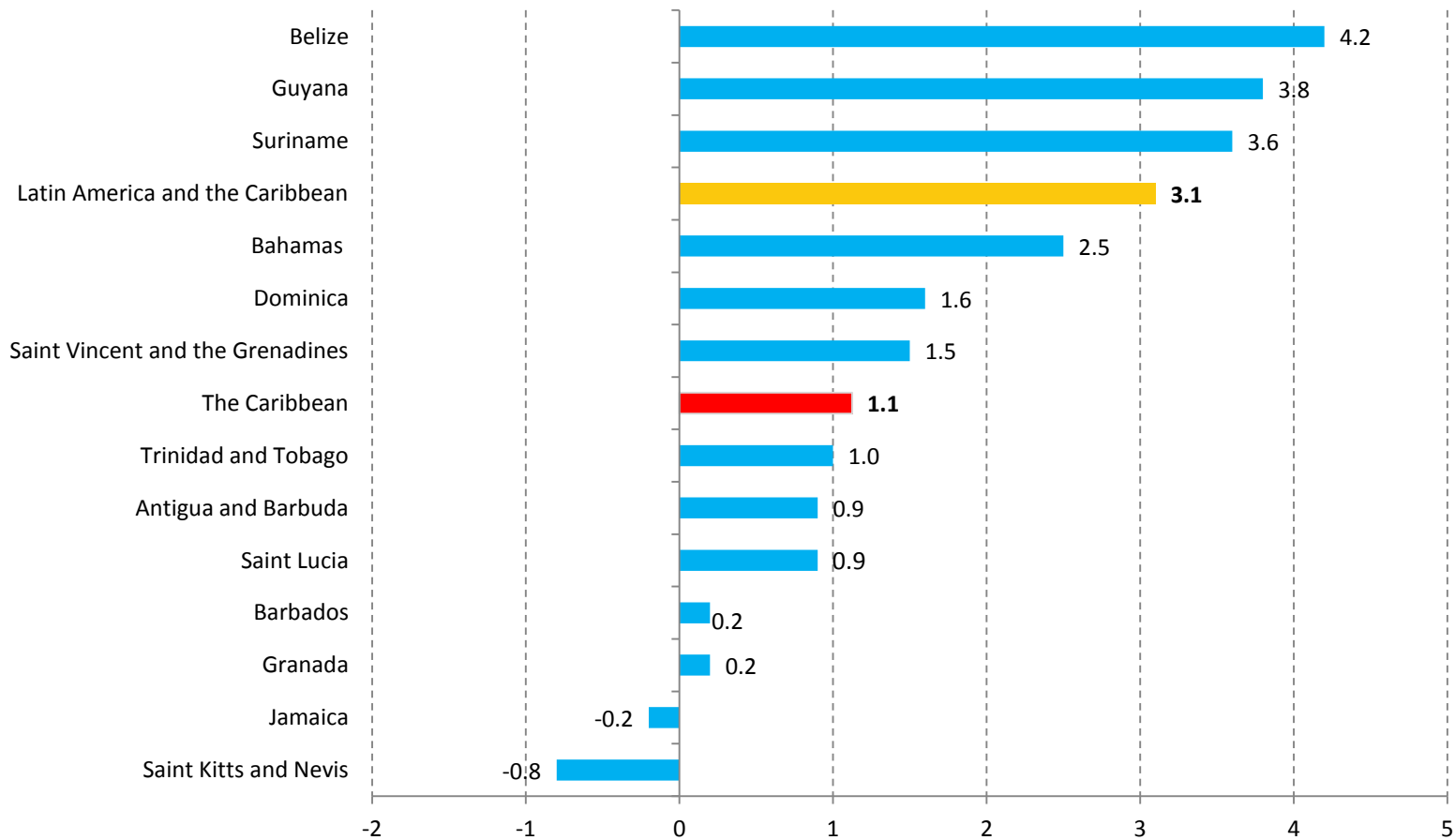


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Growth in the Caribbean increased from 0.4% in 2011 to 1.1% in 2012

THE CARIBBEAN: GDP GROWTH RATES, 2012^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Estimate

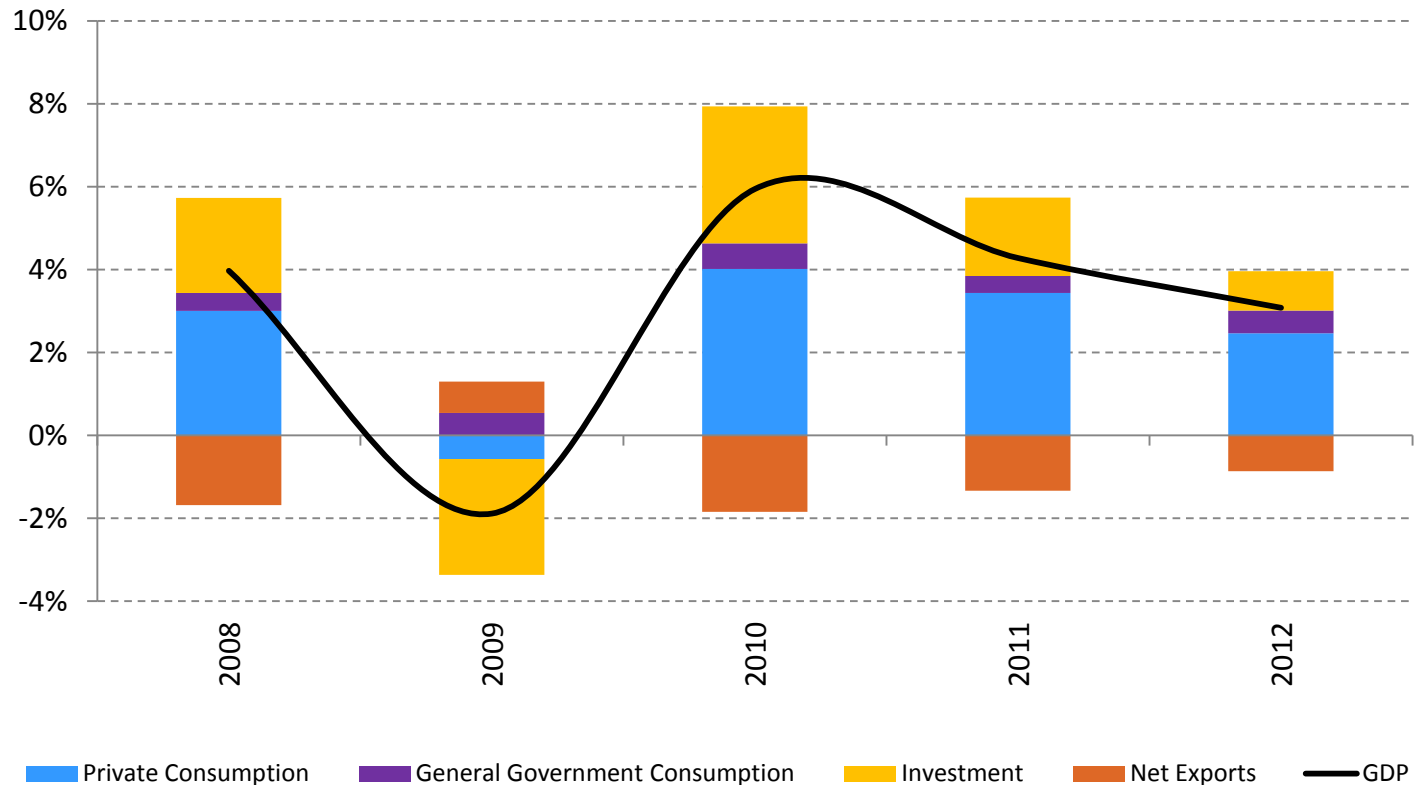
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Consumption continued to be the most important driver of growth

LATIN AMERICA: CONTRIBUTION TO GDP GROWTH, 2008 – 2012^a
(As a percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Figures for 2012 correspond to estimations.

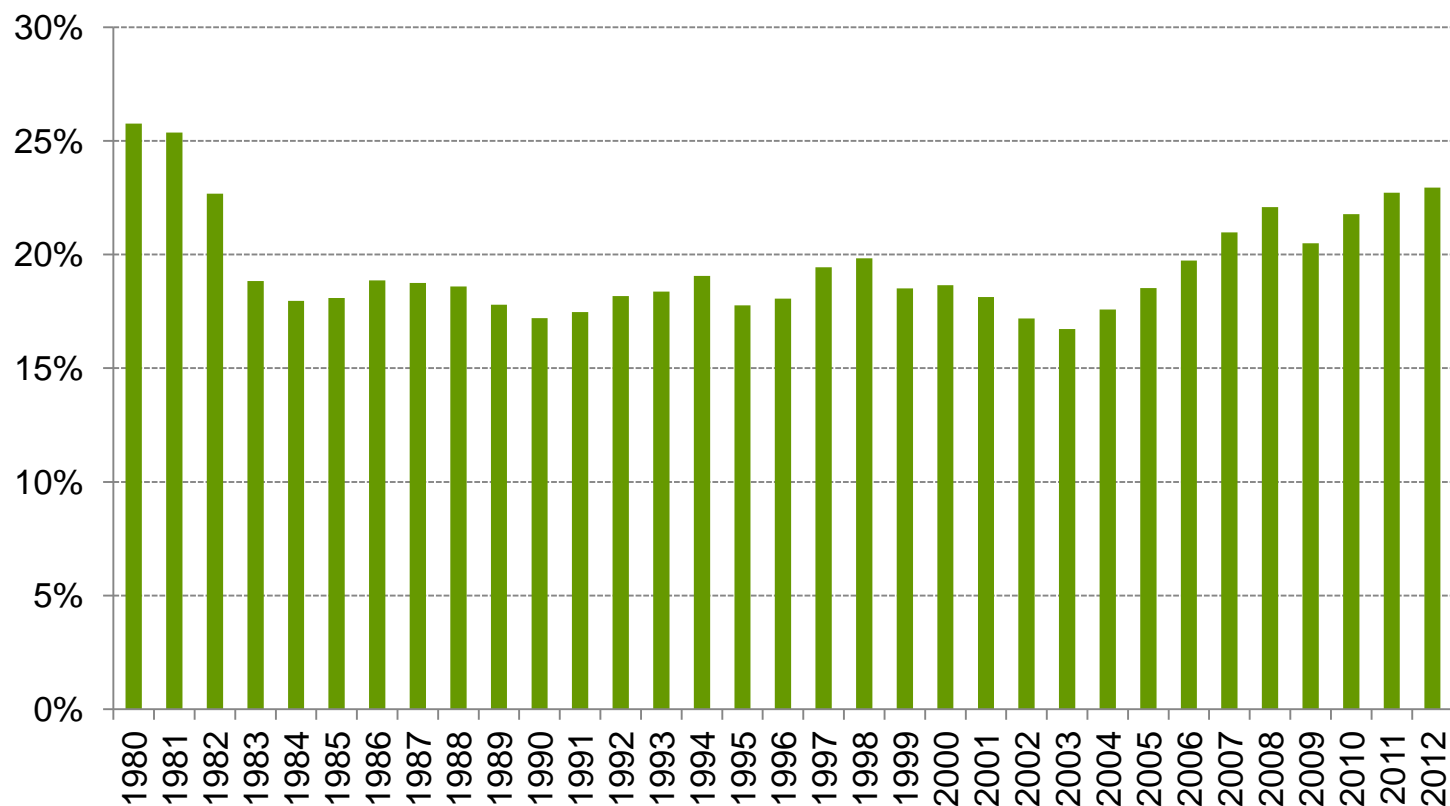
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The region's investment coefficient has continued to grow persistently

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION AS A PERCENTAGE OF GDP,
1980 – 2012^a
(2005 constant dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Figures for 2012 correspond to estimations.



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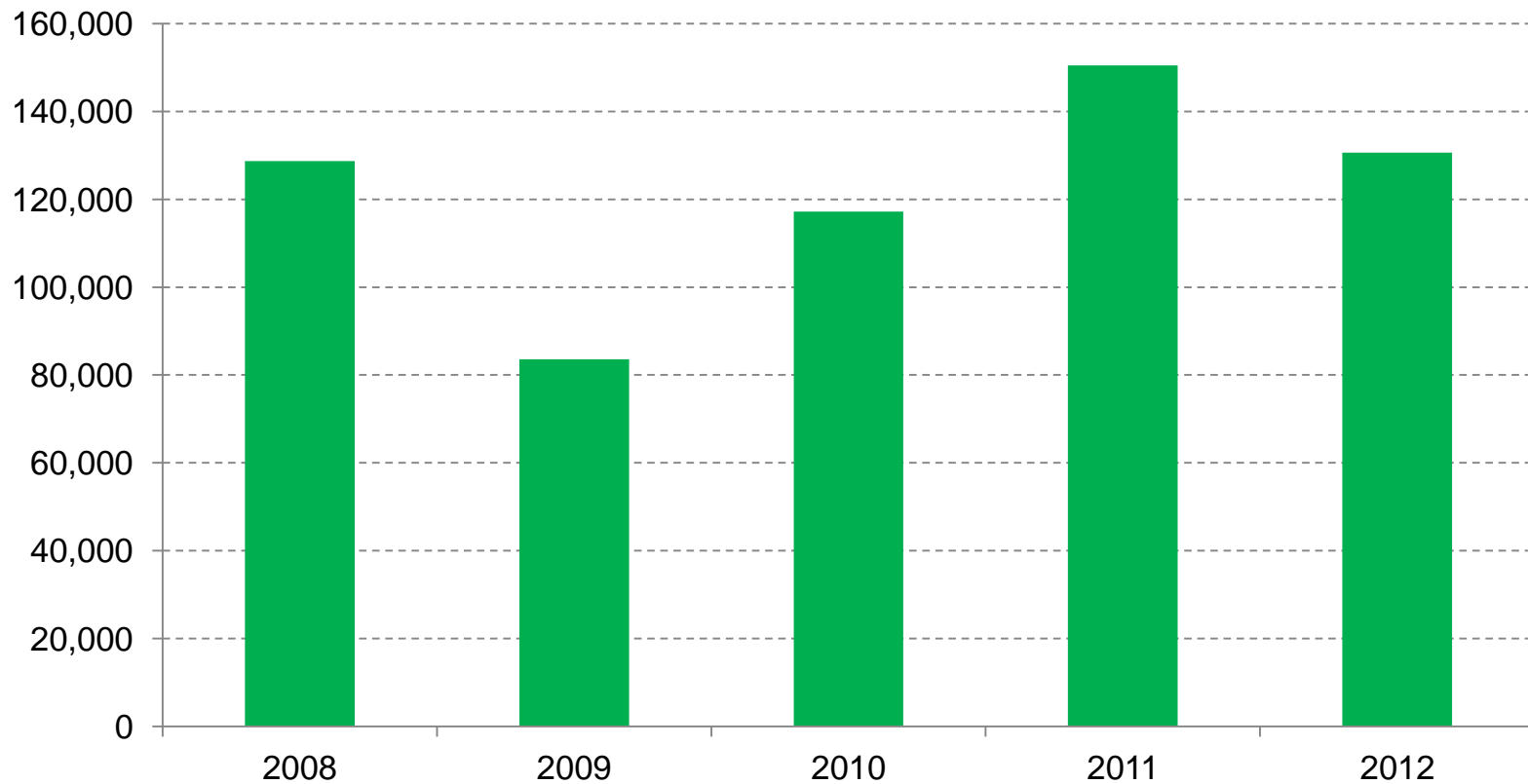


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FDI inflows remained above 120 billion dollars

LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT INFLOWS, 2008 – 2012^a
(In millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Figures for 2012 correspond to estimations.

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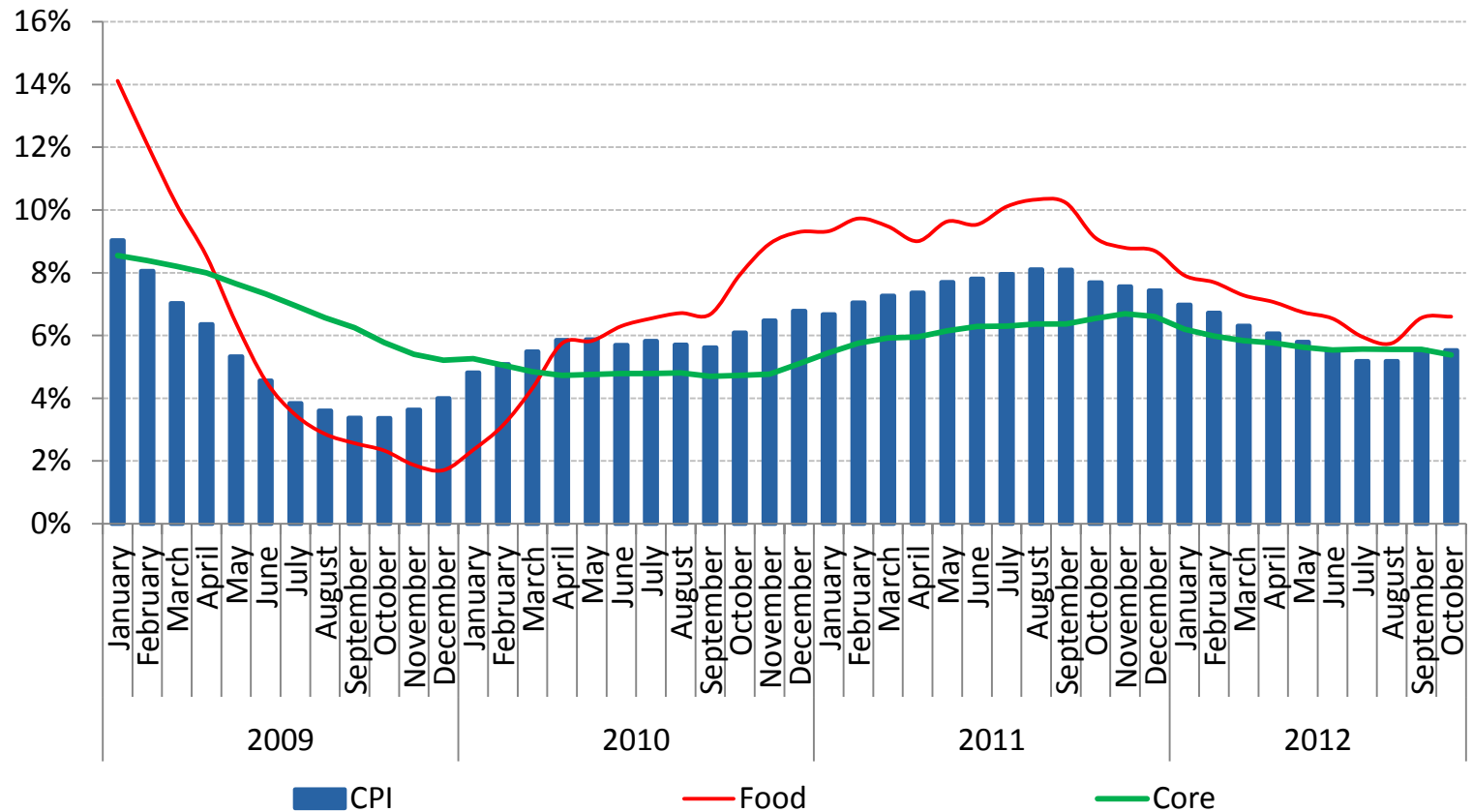


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Inflation slowed, with some exceptions

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX, Jan 2008 – Oct 2012
(Rate of change over twelve months)



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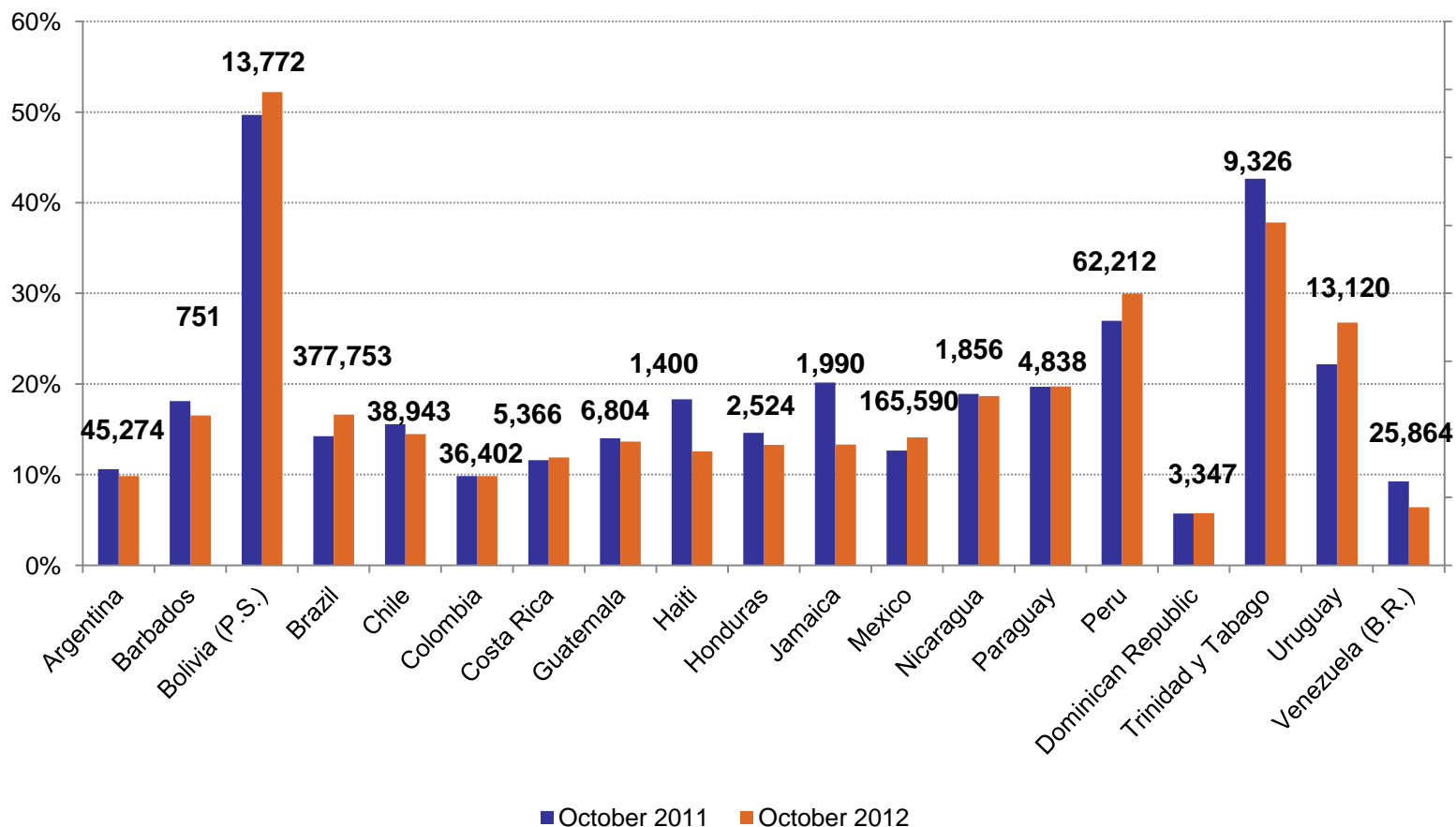
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International reserves accumulation continued throughout the region, though at a slower rate than in 2011

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GROSS INTERNATIONAL RESERVES, 2001 - 2012
(Millions of dollars and as a percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

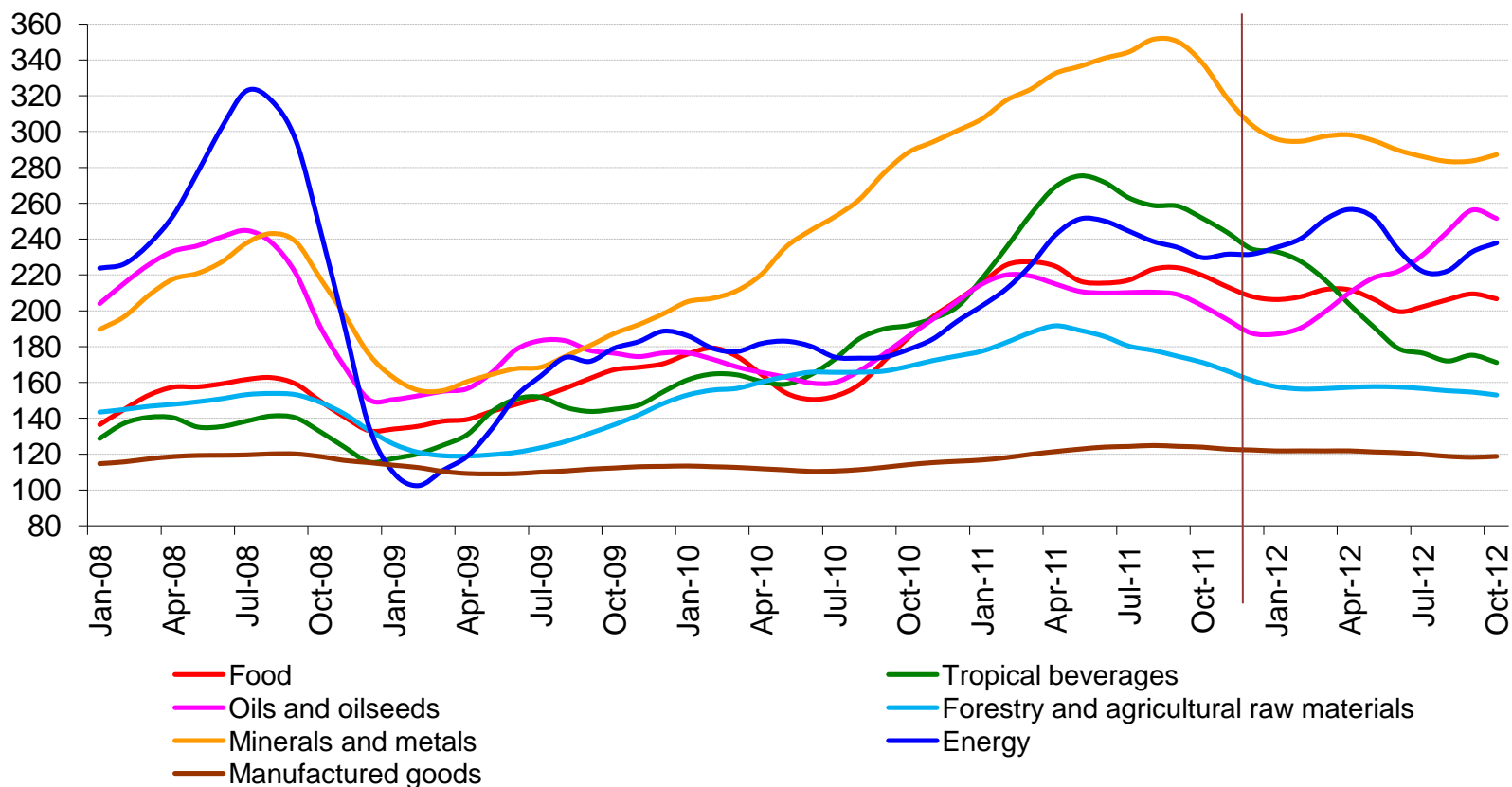


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Some decline in commodity prices, but with increased volatility

INTERNATIONAL PRICE INDICES OF COMMODITIES AND MANUFACTURES, 2008-2012
(2005=100, three month moving average)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on figures from the United Nations Conference on Trade and Development (UNCTAD) and the Netherlands Bureau for Economic Analysis (CPB).

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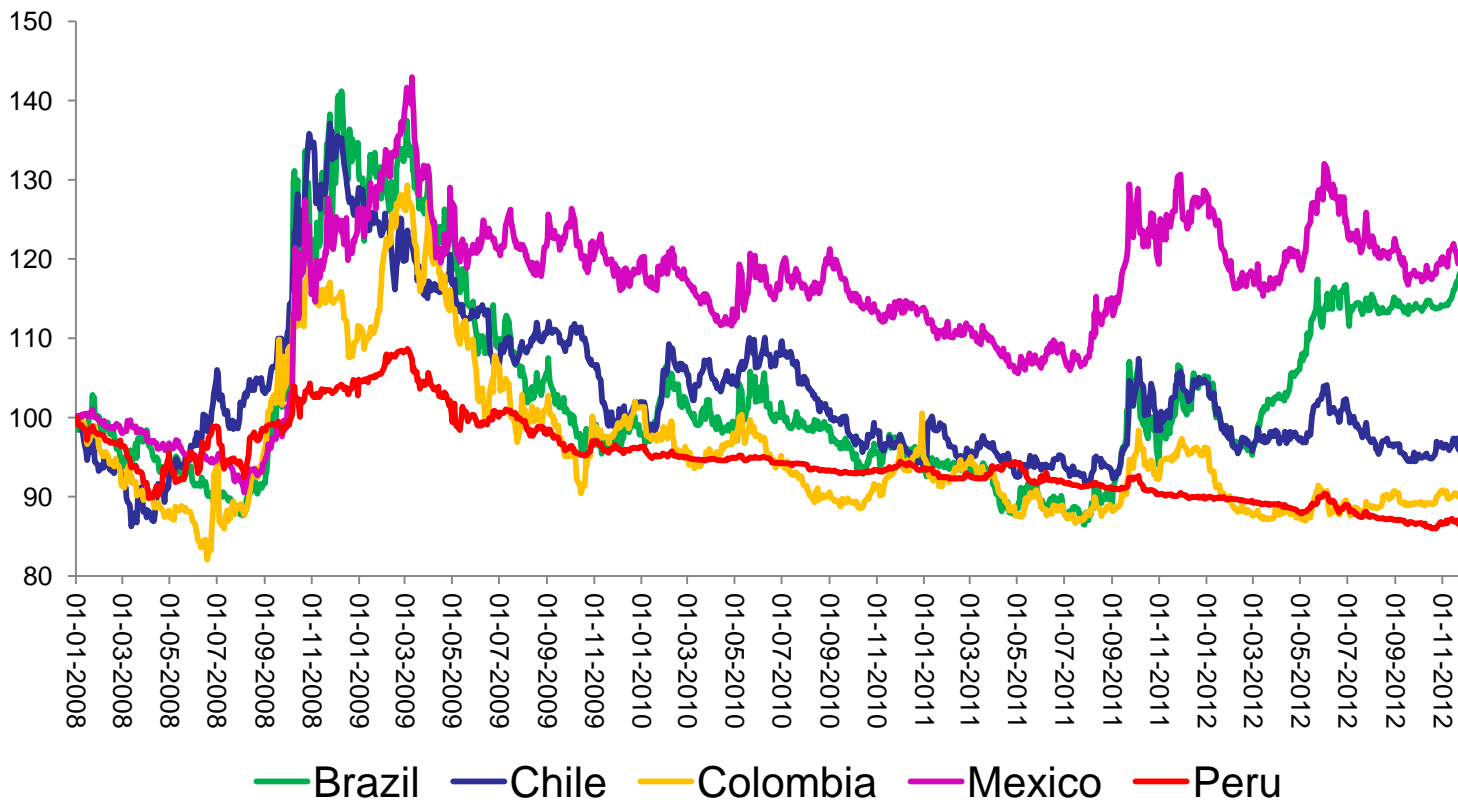
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Exchange rate volatility increased in Brazil and Mexico, with a greater diversity in exchange-rate trajectories

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NOMINAL EXCHANGE RATE, Jan 2008 – Nov 2012
(National currency per dollar, index 01/01/2008=100)



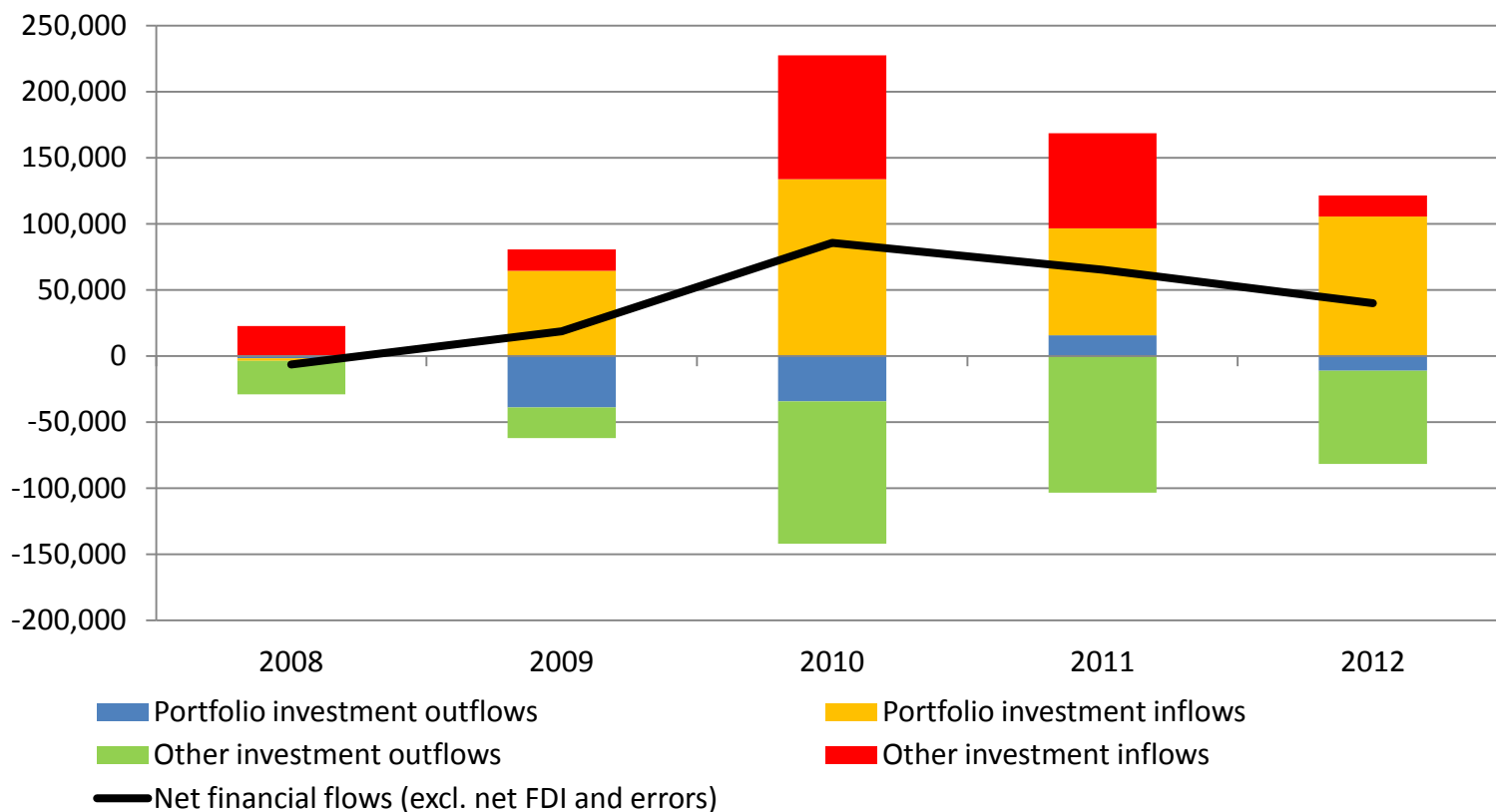
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Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

Although the trade channel was most affected, net financial flows to the region also declined

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LATIN AMERICA AND THE CARIBBEAN: GROSS CAPITAL FLOWS, 2008 – 2012^a
(In millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

^a Figures for 2012 correspond to estimations.

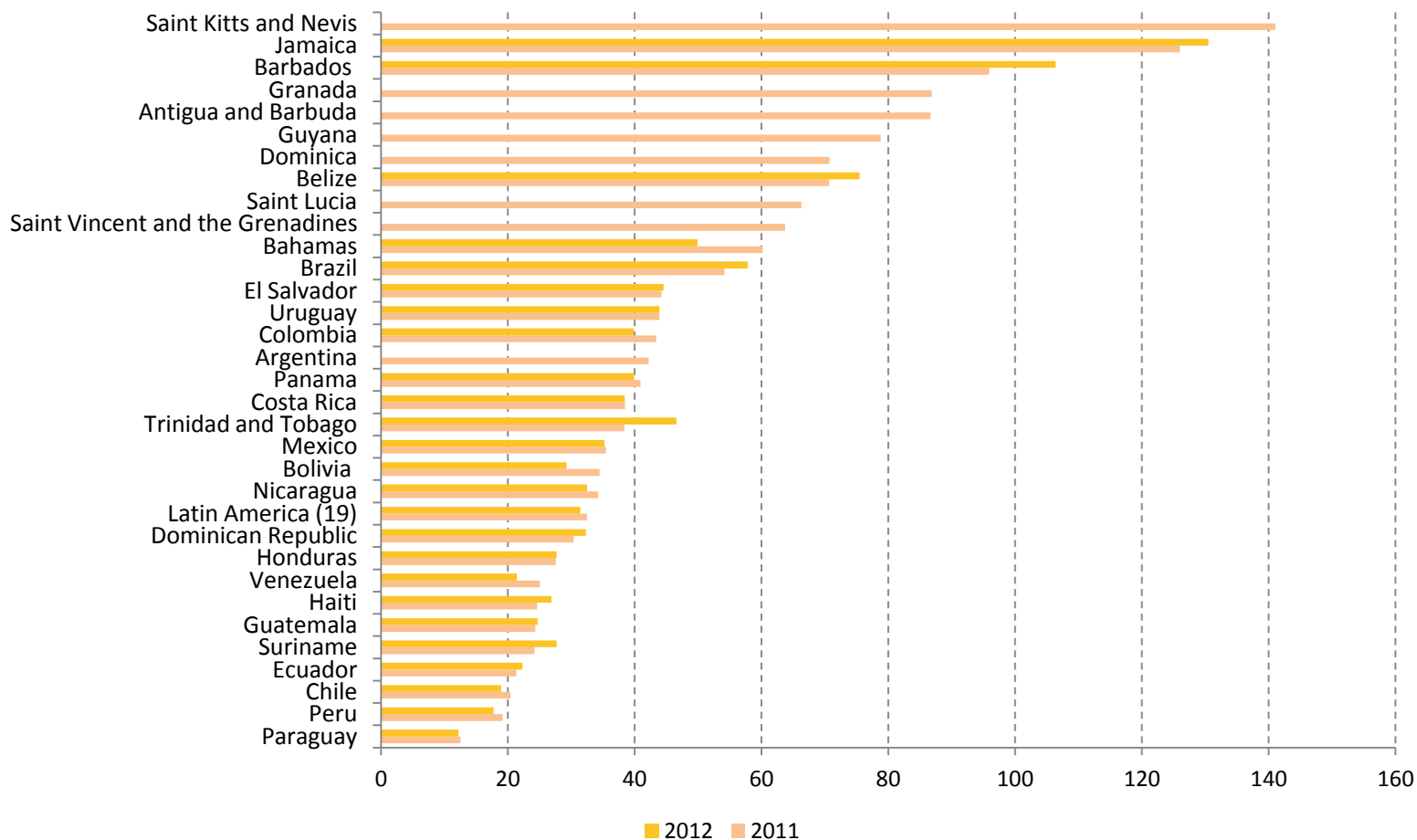


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In contrast with Latin America, the public debt situation in the Caribbean is a source of vulnerability

LATIN AMERICA AND THE CARIBBEAN: PUBLIC DEBT AS A PERCENTAGE OF GDP, 2011-2012^a



Source: Economic Commission for Latin America and the Caribbean, based on official figures.

^a Figures for 2012 correspond to: September for Latin America, Bahamas and Belize; August for Suriname; June for Jamaica and Trinidad and Tobago; and March for Barbados.

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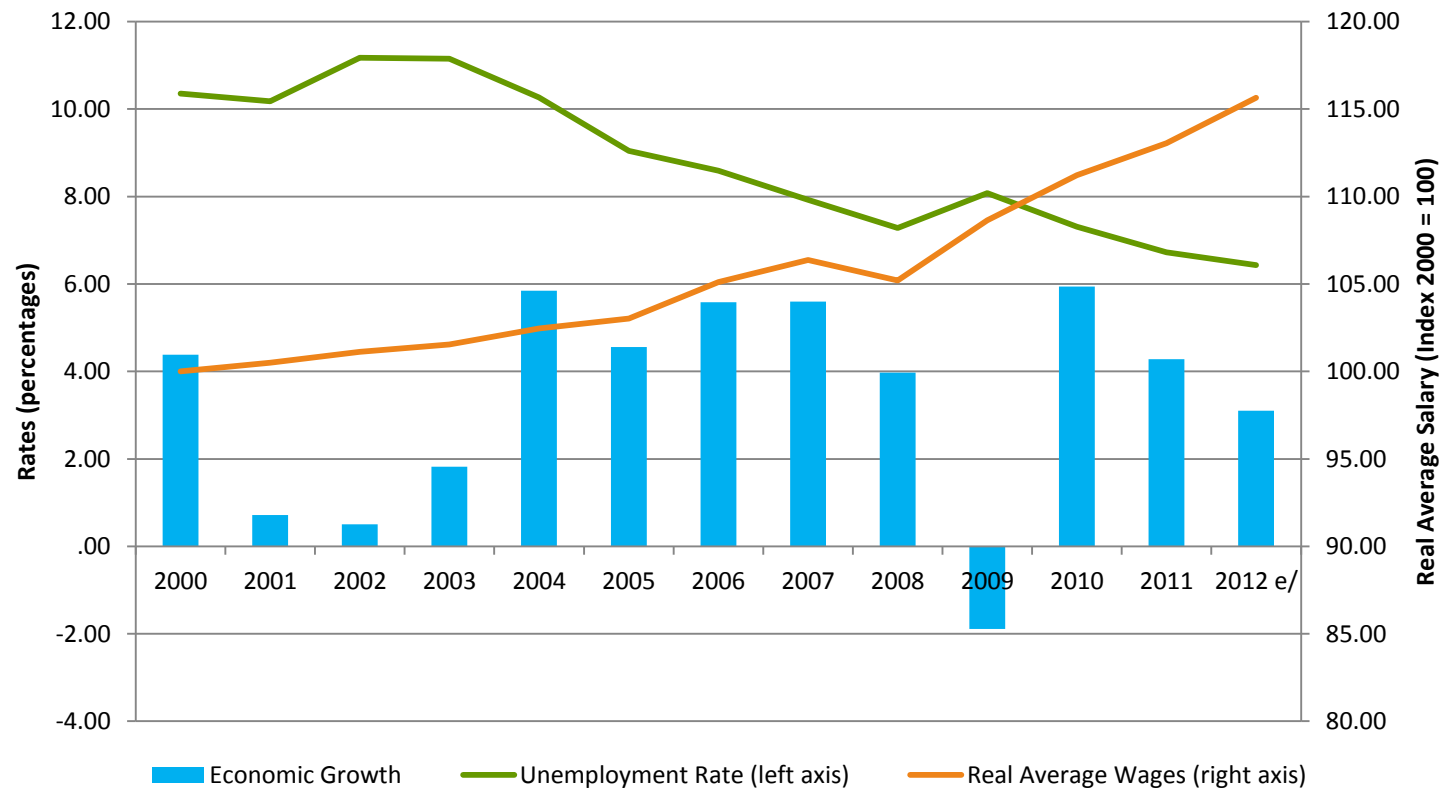
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The rise in consumption reflected improved labour market conditions: unemployment fell (to 6.4%) and wages increased

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LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH, INCREASE IN REAL AVERAGE WAGE AND VARIATION IN THE UNEMPLOYMENT RATE



Source: Economic Commission for Latin America and the Caribbean, (ECLAC), based on official figures.
e/ Estimate.

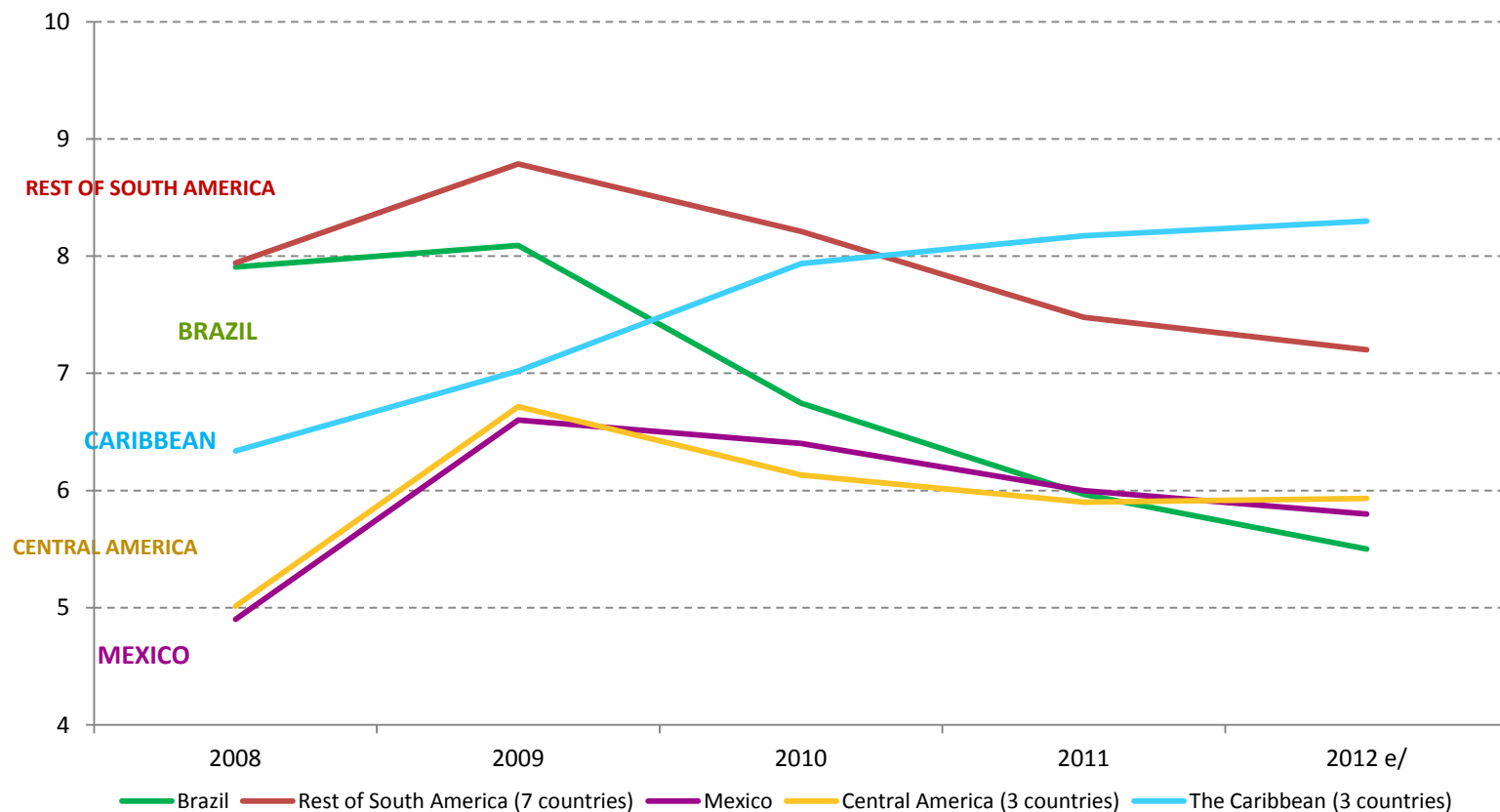


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Evolution of unemployment by sub-region

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URBAN UNEMPLOYMENT RATE, 2008 - 2012 (Percentage)



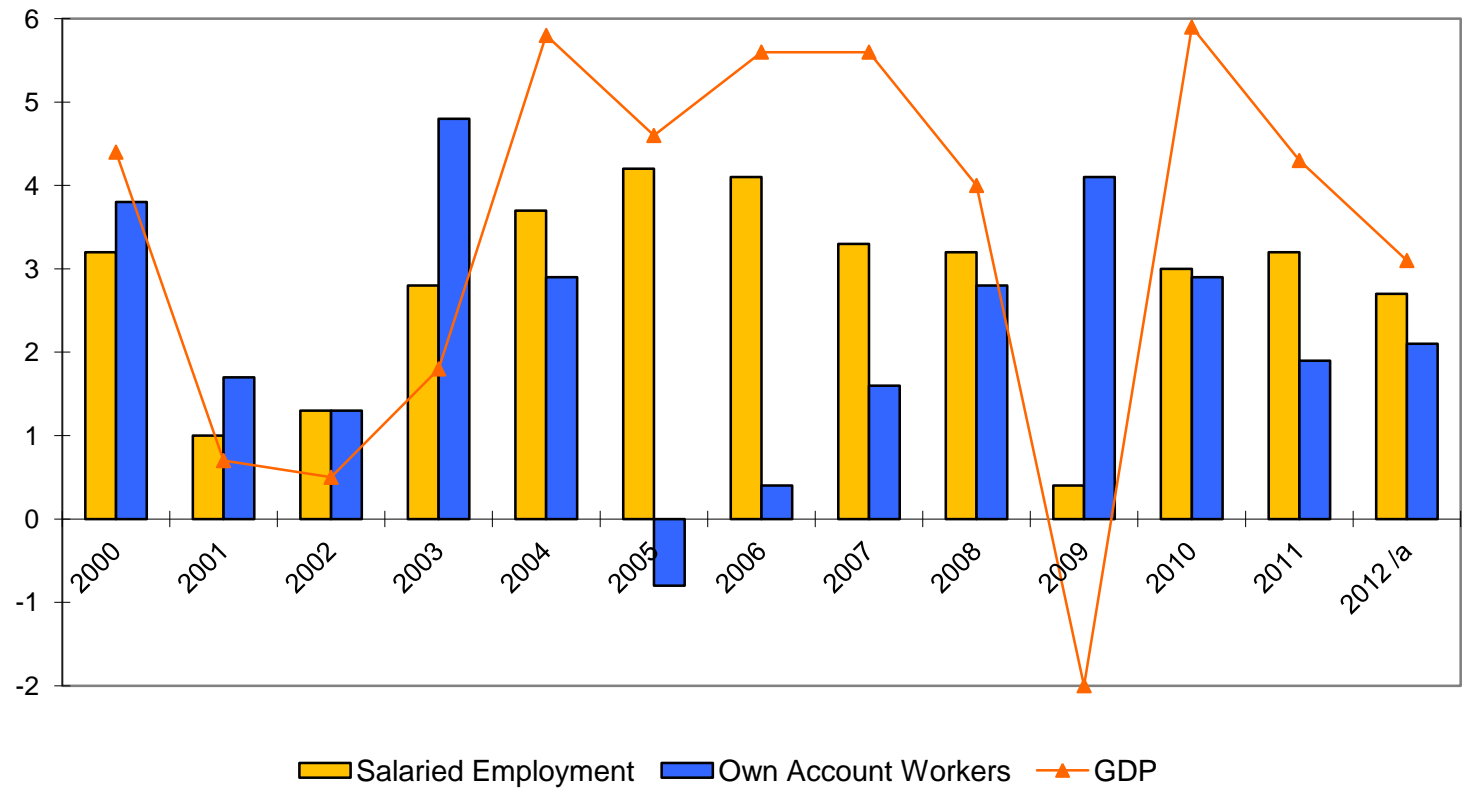
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Source: Economic Commission for Latin America and the Caribbean, (ECLAC), based on official figures.
e/ Estimate. For the Caribbean: First half of the year.

Salaried employment grew more than own-account work, although at a lower rate than in 2011

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LATIN AMERICA: ECONOMIC GROWTH AND EMPLOYMENT DYNAMICS, 2000 - 2012
(Percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.
a/ January-September

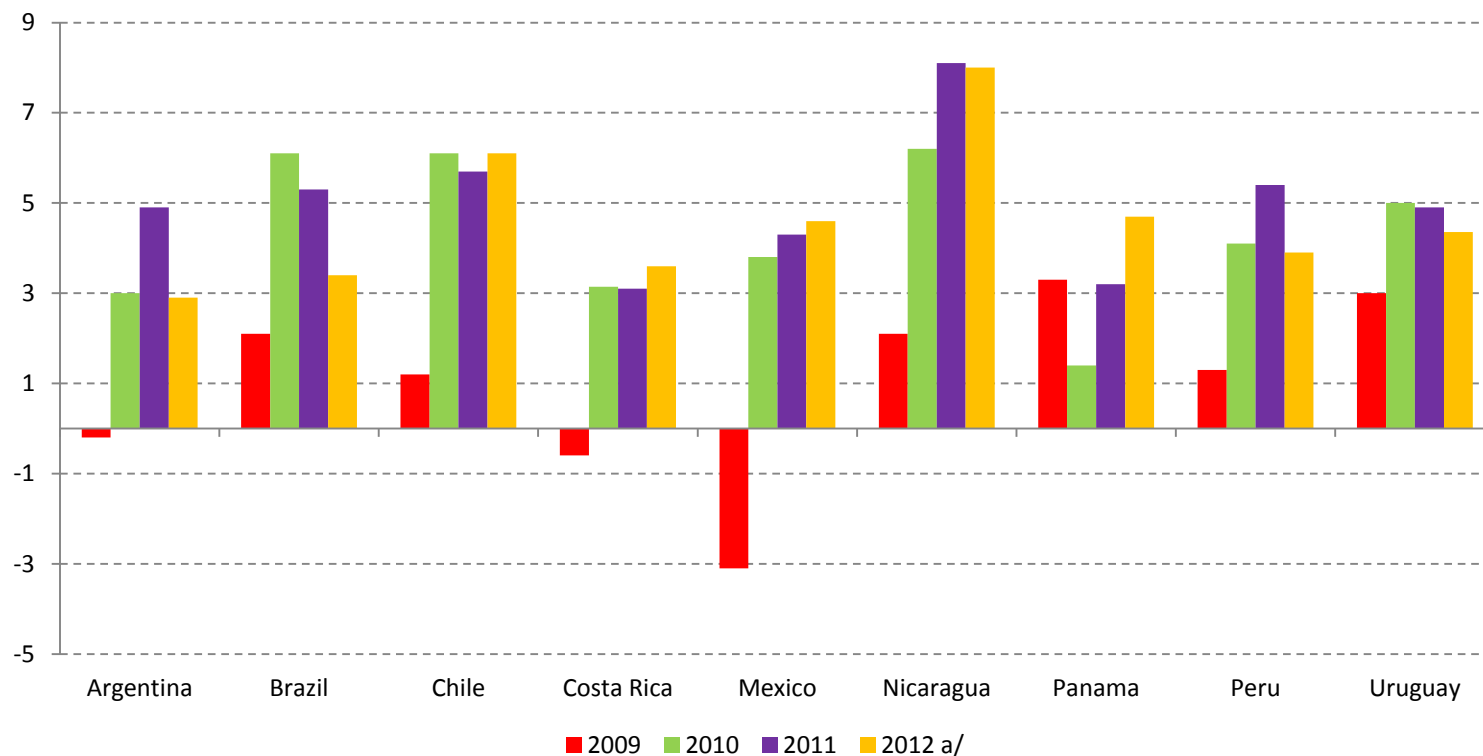


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Formal employment increased, but in various countries at a slower pace

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LATIN AMERICA: YEAR-ON-YEAR CHANGE OF FORMAL, SALARIED EMPLOYMENT
(Percentage)



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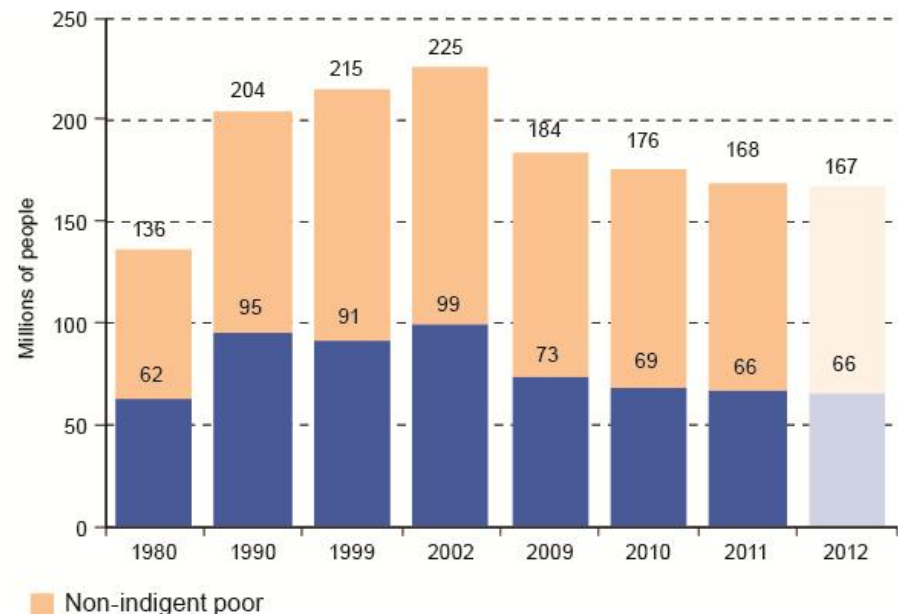
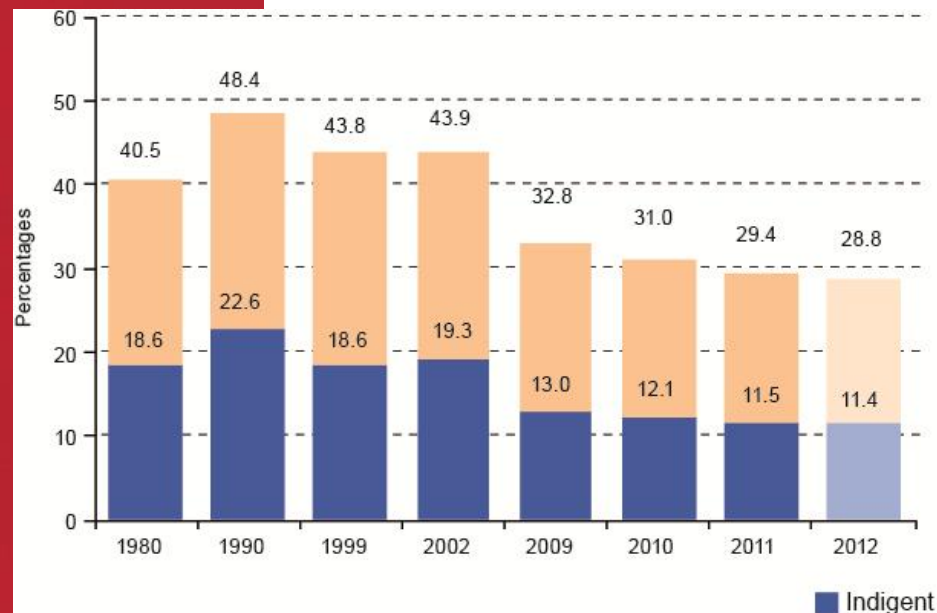
Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.

a/ January-September, except Argentina and Panama, whose data correspond to the period January-June; and Uruguay, January-August.

Both poverty and indigence posted a fresh decline in 2011

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LATIN AMERICA: POVERTY AND INDIGENCE, 1980-2012^a
(Percentages and millions of people)



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 Estimate for 18 countries of the region plus Haiti. The figures above the bars refer to the percentage of total poor (indigents and non-indigent poor). The figures for 2012 are projections.



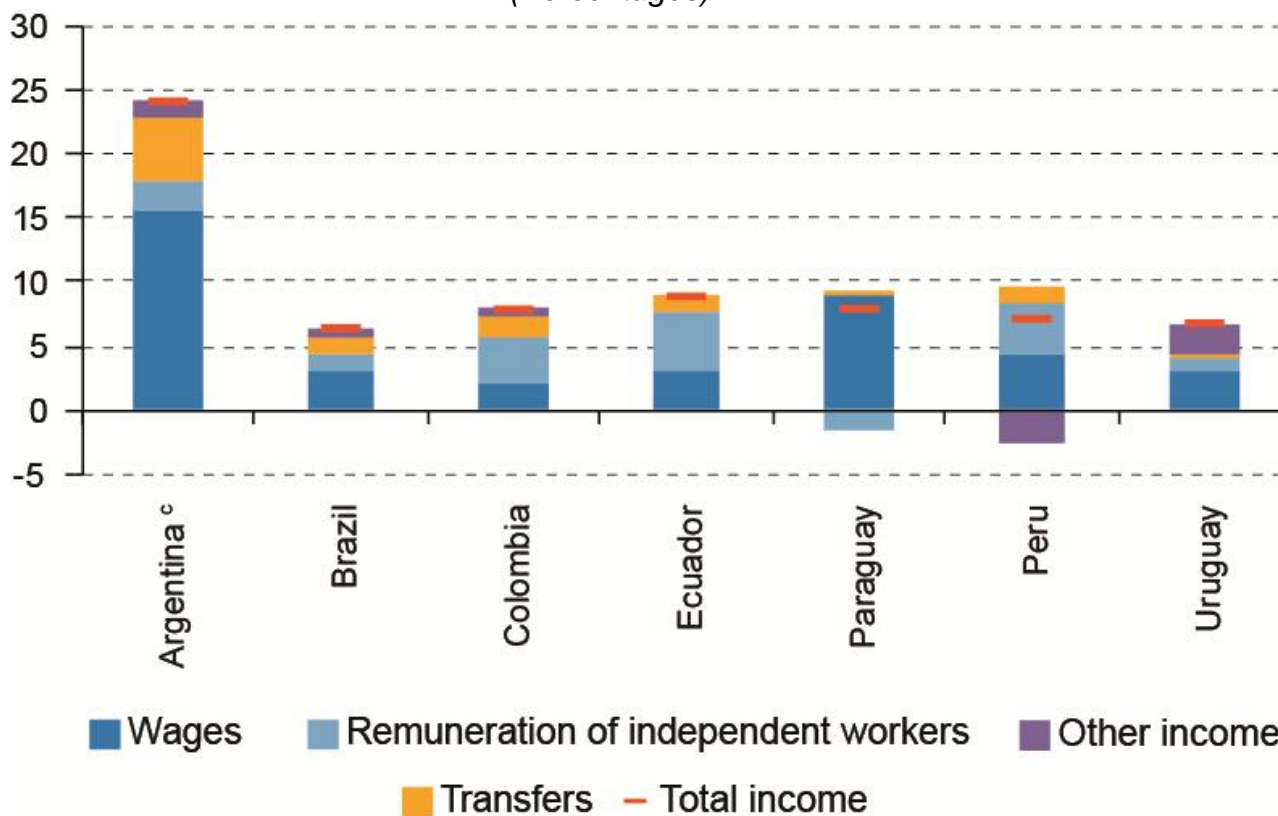
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Wages were the main driver of higher income in poor groups...

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LATIN AMERICA (7 COUNTRIES): ANNUAL VARIATION IN TOTAL INCOME PER CAPITA AND INCOME SOURCE IN POOR HOUSEHOLDS,^a 2010-2011^b
(Percentages)



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 The percentage of the population analysed is the same for both periods and corresponds to the poverty rate for 2008 or nearest previous year.

^b Corresponds to the period 2009-2011 in Brazil and Chile.

^c Urban areas.



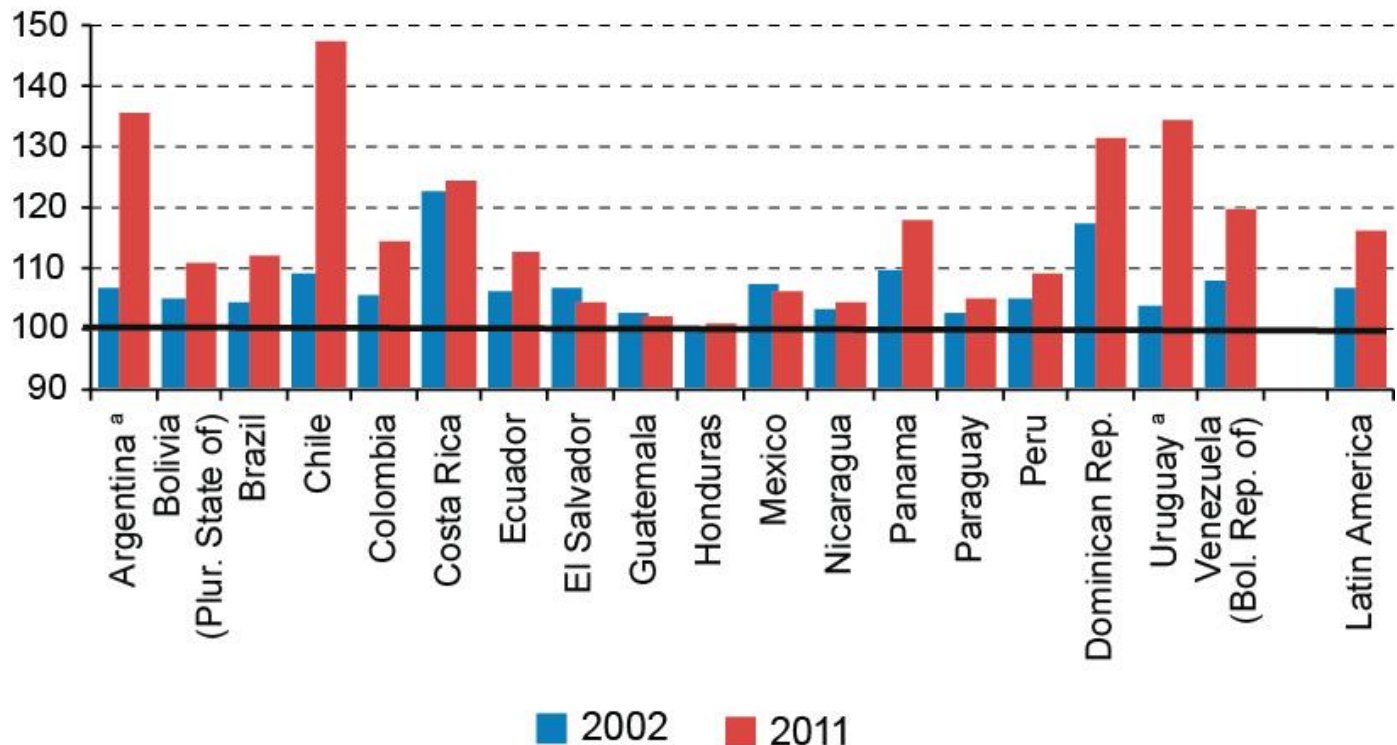
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... but gaps between women and men have been widening, leading to greater feminization of poverty

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LATIN AMERICA (18 COUNTRIES): FEMININITY INDEX OF POVERTY, 2011



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 Urban areas.

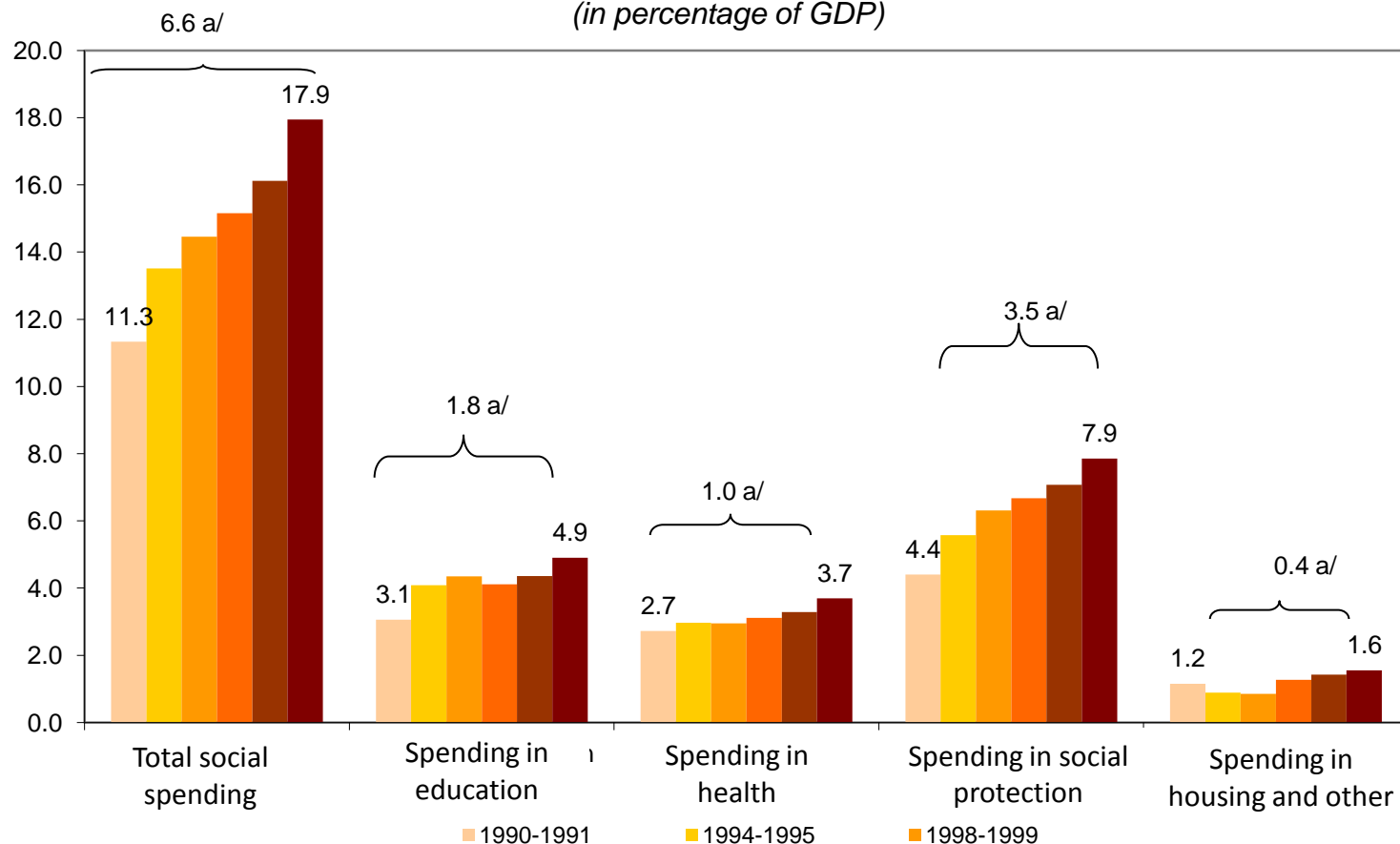


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Social public spending has kept rising as percentage of GDP

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AMÉRICA LATINA Y EL CARIBE (21 PAÍSES): EVOLUTION OF SOCIAL SPENDING IN DIFFERENT SECTORS, 1990-1991 A 2008-2009.
(in percentage of GDP)



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Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de cifras oficiales.



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Balance, perspectives and challenges



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In 2013, external demand will not be a source of dynamism

- **European Union**
 - Solvency problems persist both in terms of public debt and in the financial system, as well as insufficient external adjustment
 - Low growth and a possible recession in 2013
 - Institutional changes (fiscal union and a unified banking supervisor) will take time
- **United States:**
 - Liquidity will continue to expand
 - Labour, housing and banking solvency indicators suggest possibilities of increased growth in 2013
 - There remains a risk of the fiscal cliff
- **China**
 - Indicators suggest growth similar to or greater than that of 2012: 7.9% in 2013 compared to 7.7% in 2012

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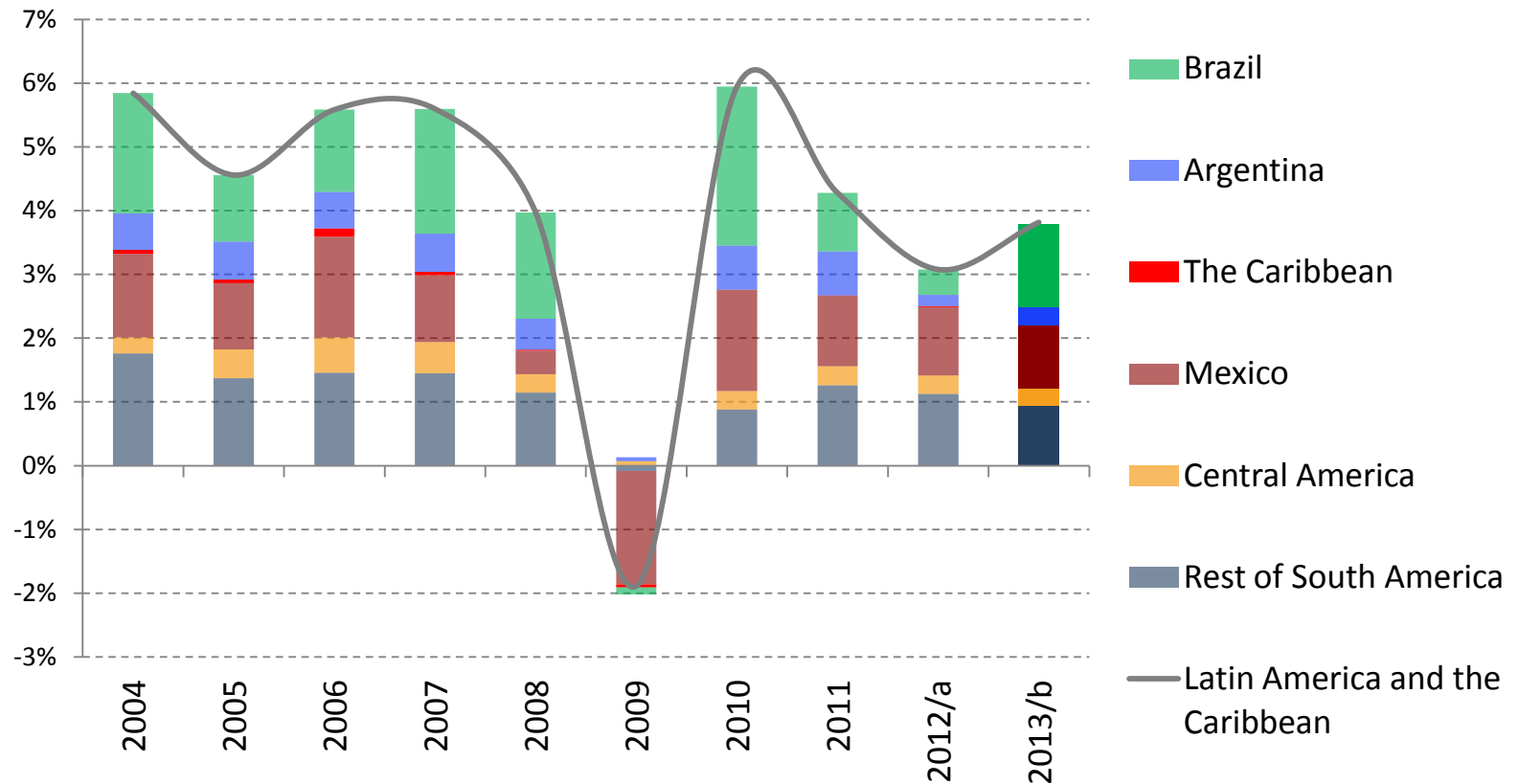


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But a slight uptick in growth is predicted for the region (3.8%) in 2013

LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTION TO REGIONAL GDP GROWTH BY COUNTRY, 2004 - 2013



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on official figures.
 a/ Estimate
 b/ Projection

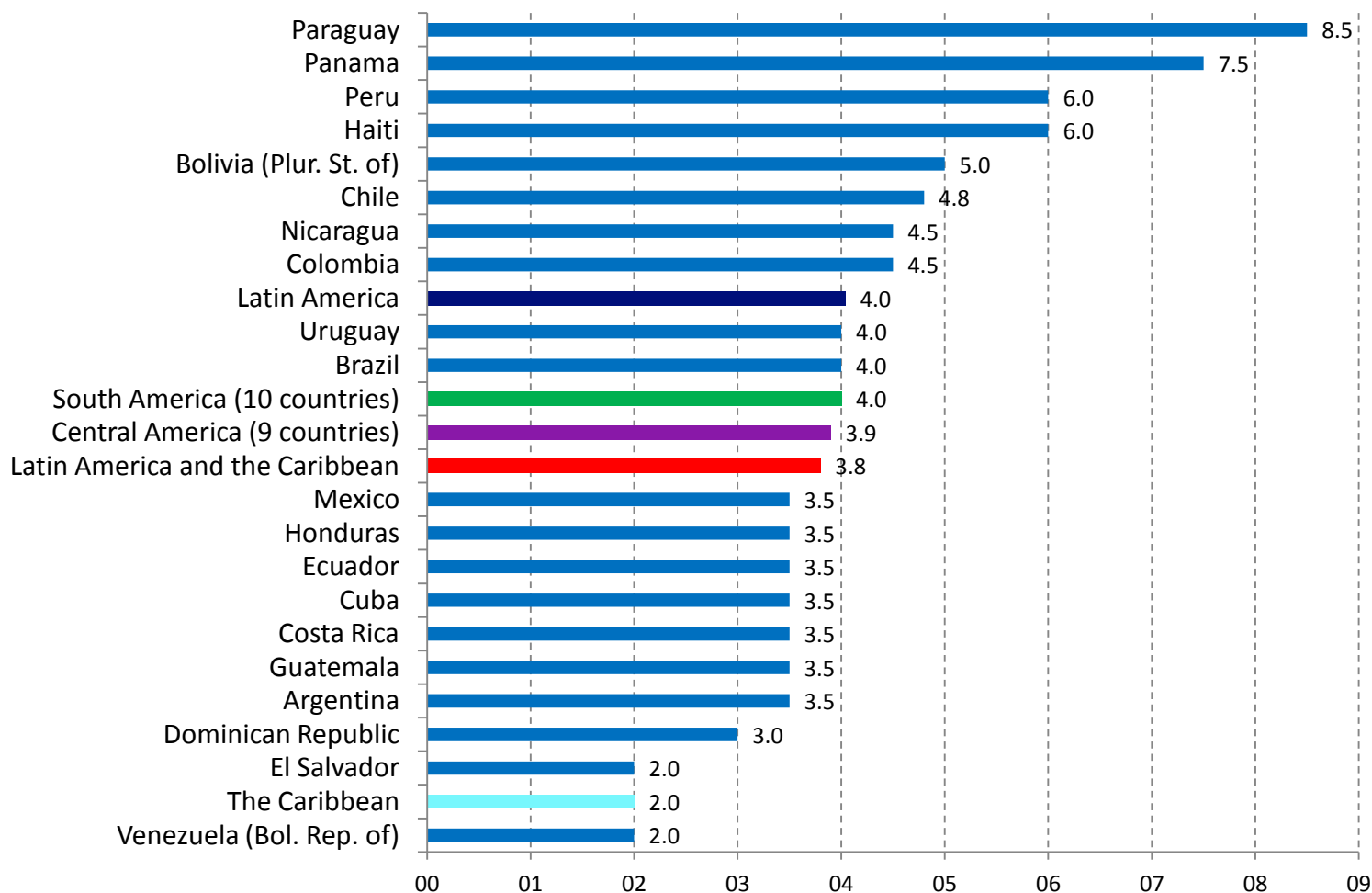


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With a recovery in some countries and a small slowdown in others

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES, 2013^a
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

^a Projection

2013

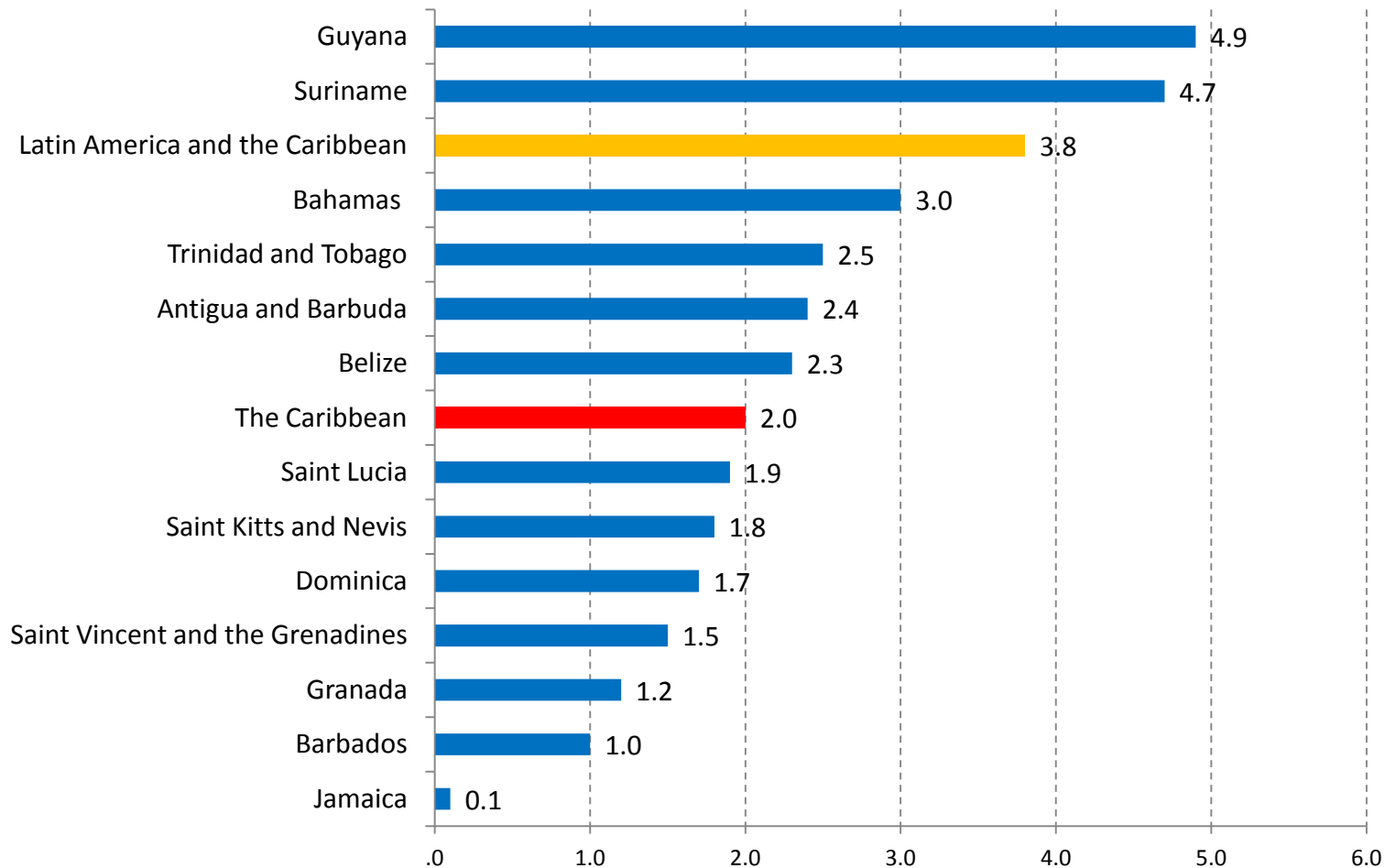


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The Caribbean will also grow, at 2.0%, but vulnerabilities remain

THE CARIBBEAN: GDP GROWTH RATES, 2013^a
(Percentage)



Source: Economic Commission for Latin America and the Caribbean (ECLAC)

^a Projection

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In the short term

The role of domestic demand (national and intra-regional) should be strengthened and expanded, in order to:

- Grow to achieve equality (through employment and wages)
- Enhance investment dynamics
- Avoid internal macroeconomic disequilibria (inflation or financial bubbles)
- And external disequilibria (increasing current account deficits)
- In the Caribbean: ensure fiscal consolidation, but with social protection
- Strengthen regional demand through intra-regional trade

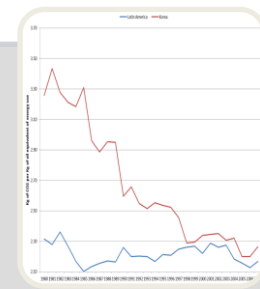
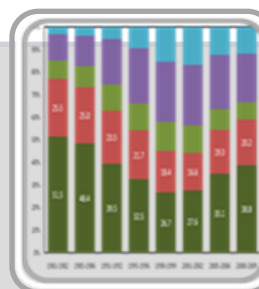
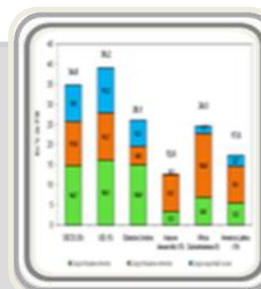
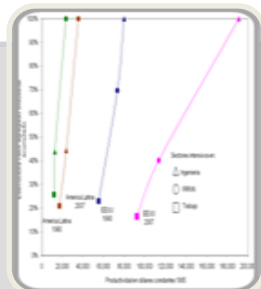
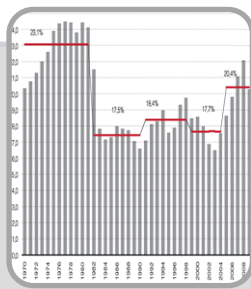
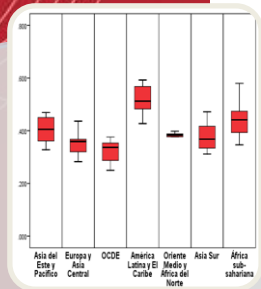
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Longer-term challenges: structural gaps to be closed



Inequality

For the first time in recent history there have been advances in combating inequality

Investment

Investment, at 23% of GDP, is insufficient for development

Productivity

Closing the external gap (with the technological frontier) and the internal gap (between sectors and actors)

Taxation

Regressive tax systems; weak non-contributory pillar

International linkages

Risk of "lock-in" of the export structure, with low value added and little investment in technology

Environmental sustainability

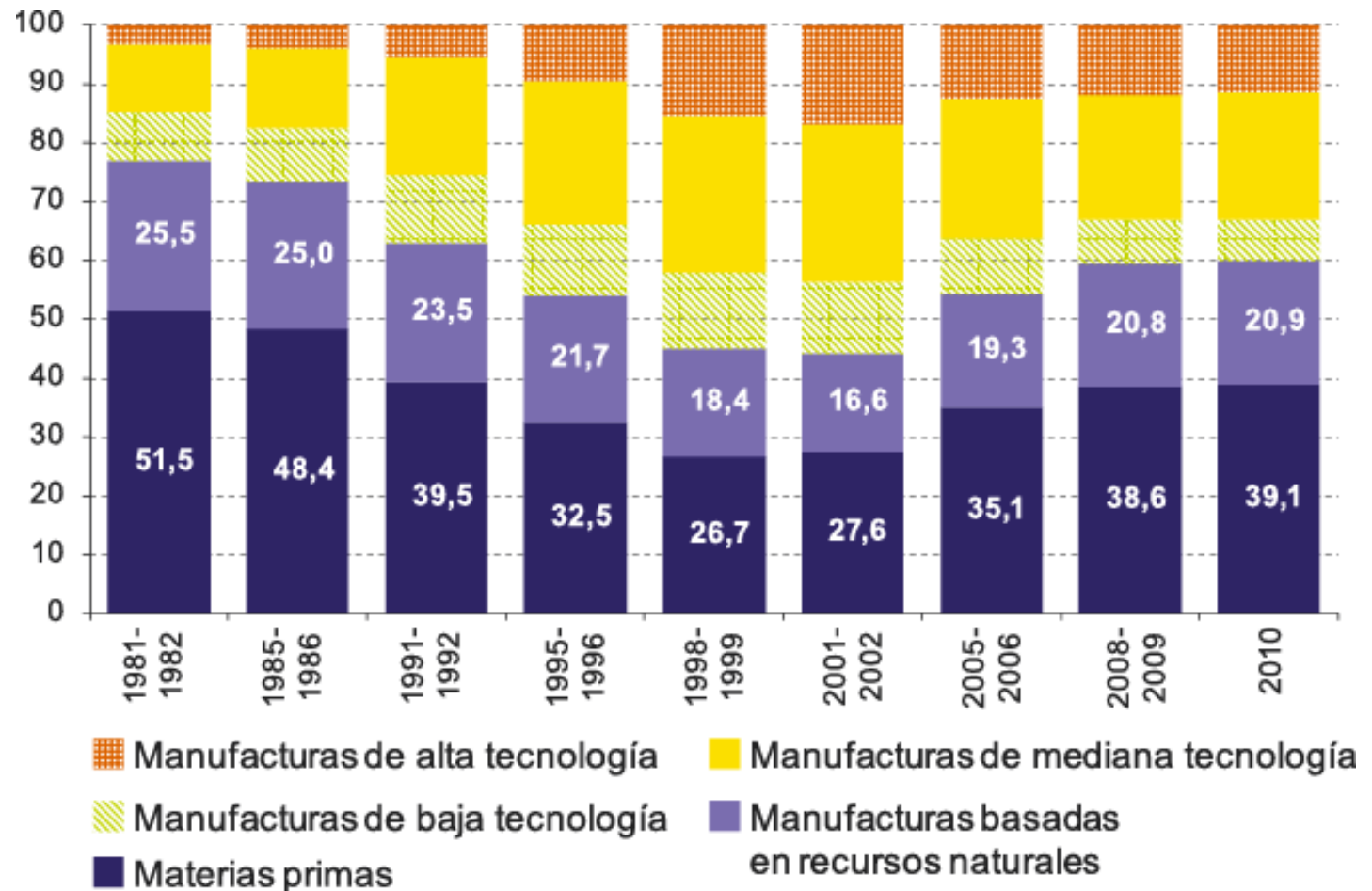
Move towards sustainable production and consumption patterns

- In order to move towards productive convergence, policymakers must look beyond the price boom: economic policies based on a **relevant, long-term, sustainable vision at the macroeconomic, productive and territorial levels**.
- To take advantage of the opportunities provided by the international context, exports must have a **higher value added and knowledge content**, with the focus on **diversification of production**, integration of **sustainable production processes**, re-evaluation of **global and regional partnerships** and strengthening **open regionalism**.
- Consensus on priorities and respective financing: a **fiscal covenant** with a redistributive impact – with access to **innovation, job security and internalization of externalities**.
- New equation: **State-market-society**.

Risk of lock-in based on static comparative advantages

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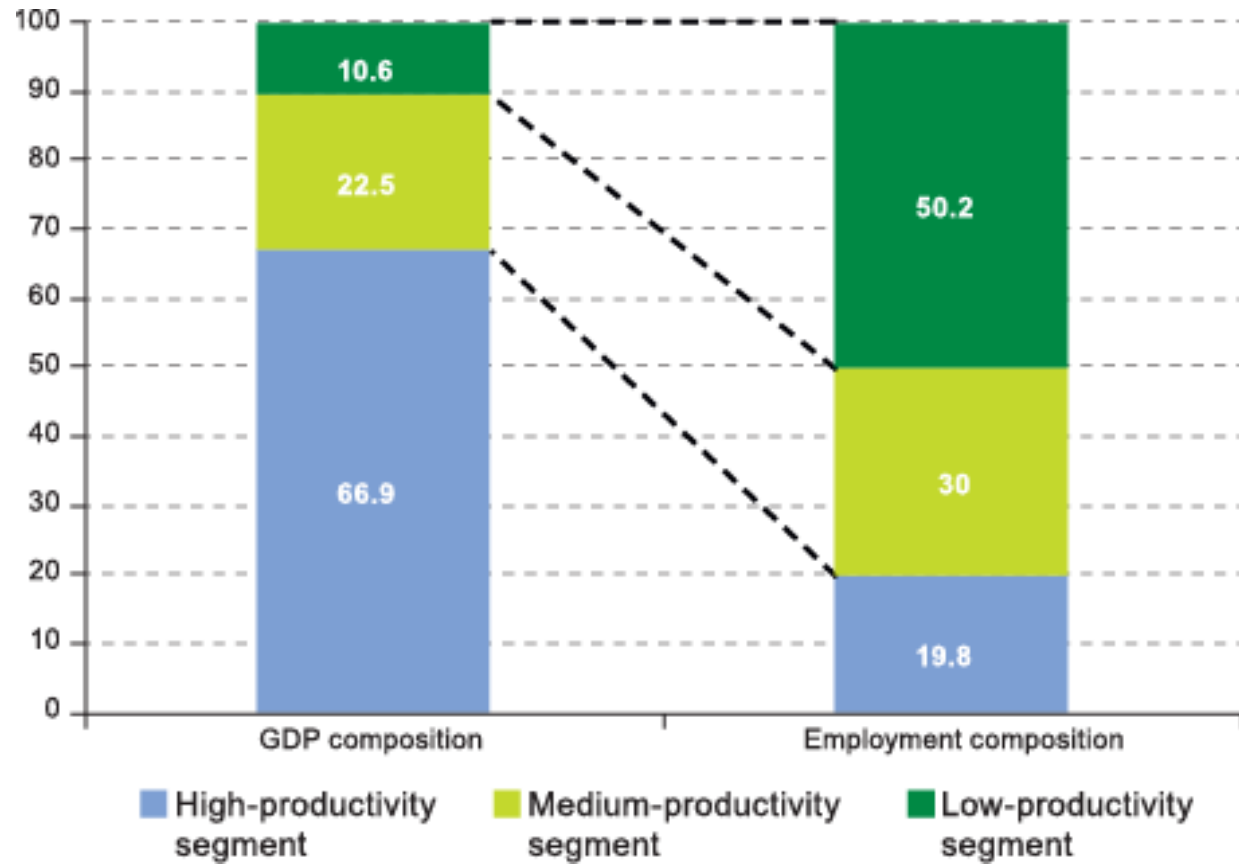
AMÉRICA LATINA Y EL CARIBE: ESTRUCTURA DE LAS EXPORTACIONES POR NIVEL DE INTENSIDAD TECNOLÓGICA, 1981-2010 ^a
(En porcentajes del total)



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Productive structure and employment: concentrated in low-productivity sectors

LATIN AMERICA (18 COUNTRIES): STRUCTURAL HETEROGENEITY INDICATORS, AROUND 2009
(Percentages)



Source: ECLAC, on the basis of R. Infante, "América Latina en el 'umbral del desarrollo'. Un ejercicio de convergencia productiva", *Working Paper*, No. 14, Santiago, Chile, June 2011, unpublished.

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Access to financing for development for middle-income countries

- The focus on **per capita income** does not reflect the broad and multi-faceted nature of the development process
- ECLAC proposes an alternative approach based on **structural gaps** must be adopted
- This implies:
 - Focusing cooperation and financing towards development, not only poverty reduction
 - Re-thinking the role and integration of middle income countries in the system of regional cooperation
 - New political dialogue at the global and regional levels

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Strengthening the regional integration agenda

- Intraregional trade, development of value chains, investment and infrastructure
- Harnessing strategic opportunities with Asia, especially China
- Enhancing the regional financial architecture
- Closer regional cooperation to tackle global challenges (global governance, financing for development, Rio+20, development agenda beyond 2015).

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ECLAC's proposal: structural change for equality

- Close economic and social gaps, both internal and external
 - Progress towards more knowledge-intensive activities
 - Reduction of production and territorial heterogeneity
- Spread throughout the economic and social structure:
 - Production and technology capabilities
 - Ample job opportunities and quality employment
 - Social protection with universal access
 - Environmental sustainability in the context of the technology revolution
- Strengthen the role of the State as a guarantor of rights and driver of policies for sustainable economic and social development

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