

**REMARKS BY JOSÉ LUIS MACHINEA, EXECUTIVE SECRETARY
OF THE ECONOMIC COMMISSION FOR LATIN AMERICA
AND THE CARIBBEAN (ECLAC), AT THE ANNUAL MEETING OF THE BOARD OF
GOVERNORS OF THE INTER-AMERICAN DEVELOPMENT BANK**

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I would like to thank President Luis Alberto Moreno for his kind invitation to speak to the Board of Governors. I would also like to express my heartfelt appreciation to the authorities of Brazil and Minas Gerais and, in particular, to the City of Belo Horizonte for the warm hospitality.

If our projections are borne out, Latin America and the Caribbean will grow by about 4.5 percent in 2006, thereby rounding out a fourth consecutive year of growth. This expansionary phase will translate into an upswing in per capita GDP of nearly 11 percent for 2003-2006, which is on a par with the increase achieved during the 12 years between 1990 and 2002 and represents a substantial improvement over the 3 percent increase in per capita GDP posted during the protracted stagnation between 1980 and 2002.

The distinctive feature of this latest period of economic growth is the mounting surplus on the balance-of-payments' current account. There are, however, significant differences across the sub-regions, with South America marking up a hefty surplus, while Central America and Mexico, as well as many Caribbean countries, having registered deficits of varying sizes. Trends in the current account are closely tied to shifts in the terms of trade and migrant remittances. The expansion of world trade and the increasing important role being played by China, India and other Asian economies have resulted in an improvement in the terms of trade of South American countries and, to a lesser extent, of Mexico. By contrast, the petroleum-importing countries of Central America, which compete with Chinese textiles in the United States' market, have witnessed a sharp deterioration in their terms of trade. However, these economies and Mexico have received large inflows of remittances representing, in many cases, as much as 10 percent of GDP.

Another hallmark of this growth cycle is that exports have continued to help drive demand. At 8 percent, the region's average export growth rate, measured by volume, is slightly above the world average, and some countries posted growth rates of over 10 percent for 2005. Investment has been another engine of growth, even though investment levels are still too low to sustain higher growth rates.

Yet another noteworthy development is the fact that the governments of the region are taking advantage of this favourable conjunction of events to improve their public accounts. Even though fiscal revenues are on the rise –thanks to the brisker pace of economic activity and the effect of high commodity prices– the more ample supply of resources has not led to significant upturns in expenditure. This represents a significant departure from the past. Instead, primary surpluses are being used to reduce public indebtedness, which, together with the increase in

international reserves and the decline in short-term borrowing, is helping the region to become less vulnerable to external shocks.

The growth experienced in recent years lends itself to differing interpretations. An optimistic view highlights that in addition to this reactivation, which follows upon the slump of the last two decades, the political changes associated with presidential elections in many countries are expected to have no negative impact on the economy.

Another interpretation, however, notes that the region's growth rate remains relatively low, not only in comparison to the rates of the rest of the developing world, but also in light of the region's persistently high unemployment and poverty levels which, notwithstanding improvements in the last two years, continue affecting our region.

The chronic lack of social cohesion in Latin America and the Caribbean is a key factor in this regard. This is reflected in the region's persistently high levels of inequality and the large percentage of its population living in poverty (41 percent of the population, amounting to 213 million people) or extreme poverty (17 percent or 88 million people), compounded by a lack of suitable social protection. Precisely, ECLAC's latest session, held just two weeks ago in Montevideo, was devoted to discussing our most recent publication, *Shaping the Future of Social Protection*, where we offer proposals for improving the access, financing and solidarity of the region's social protection systems.

As ECLAC has been saying for a long time now, reducing inequity and poverty is not only an ethical imperative; it is also a necessary condition for faster growth.

Raising the growth rate also demands stepping up investment and implementing a strategy aimed at heightening the quality and content of the value added of exports. This, in turn, poses a formidable challenge for the countries of the region: the challenge of sustaining high levels of competitiveness.

In the short run, monetary policy should enable central banks –particularly in countries that are below their potential growth rates– to maintain a competitive real exchange rate. In the medium term, productivity has to be boosted or the quality of export goods has to be improved in order to attain higher levels of competitiveness. And, in order to raise productivity, the region will also have to invest in equipment and infrastructure, make a major effort to upgrade human resources and to foster innovation in all its dimensions.

The region lags behind in terms of the quantity and the efficiency of expenditures to promote innovation. There is a great deal of room for improvement in this area, although we must remember that the type of innovation required by the countries of the region is not confined to spending on R&D. Efforts to support innovation must also encompass adoption and adaptation, which can be equally or even more important during the early phases of economic development.

All of this poses new challenges that the countries of the region are just beginning to address. To this end, we must redouble our efforts to engage universities, research centres and

the private sector in innovation activities and to design a system of incentives for greater efficiency.

In closing, I would like to note that to address reforms aimed at leveraging economic and social development, such as those related to competitiveness and social cohesion, it is crucial to move forward in building medium- and long-term social and political consensus. This, in turn, will permit us to move towards improved governance for our societies.

ECLAC will strive to play a key role in the discussion of these important issues within the framework of a strategy for helping the region to overcome its history of slow growth and increasing inequality.

Thank you very much.