



ECONOMIC SURVEY OF LATIN AMERICA AND THE CARIBBEAN 2006-2007



NACIONES UNIDAS

CEPAL

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Executive Secretary

Economic Commission for Latin America and the Caribbean

Santiago, 26 July 2007



Contents of the presentation

- Five years of growth
- Highlights of the region's current growth phase
- Concerns and prospects

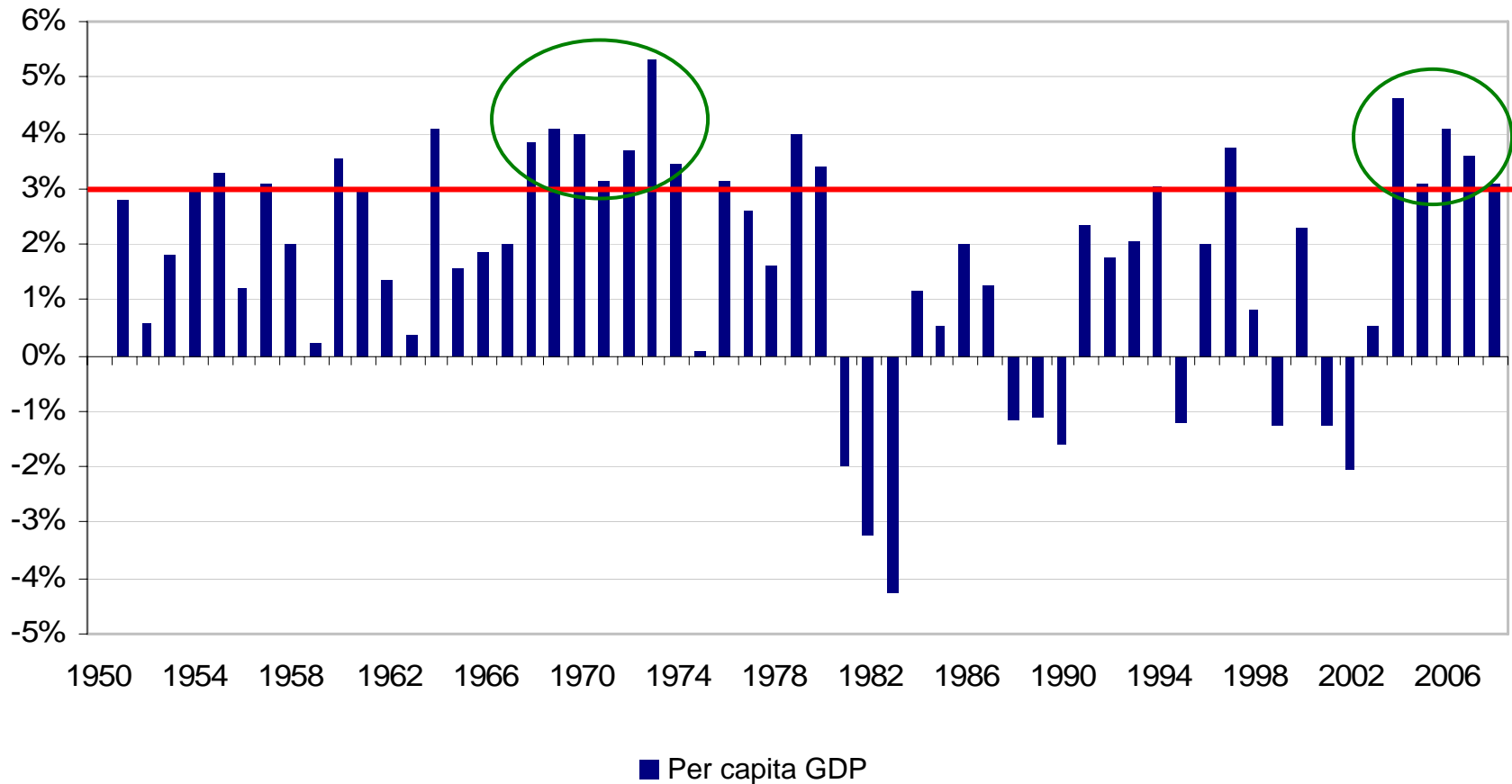


Contents of the presentation

- **Five years of growth**
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- Concerns and prospects

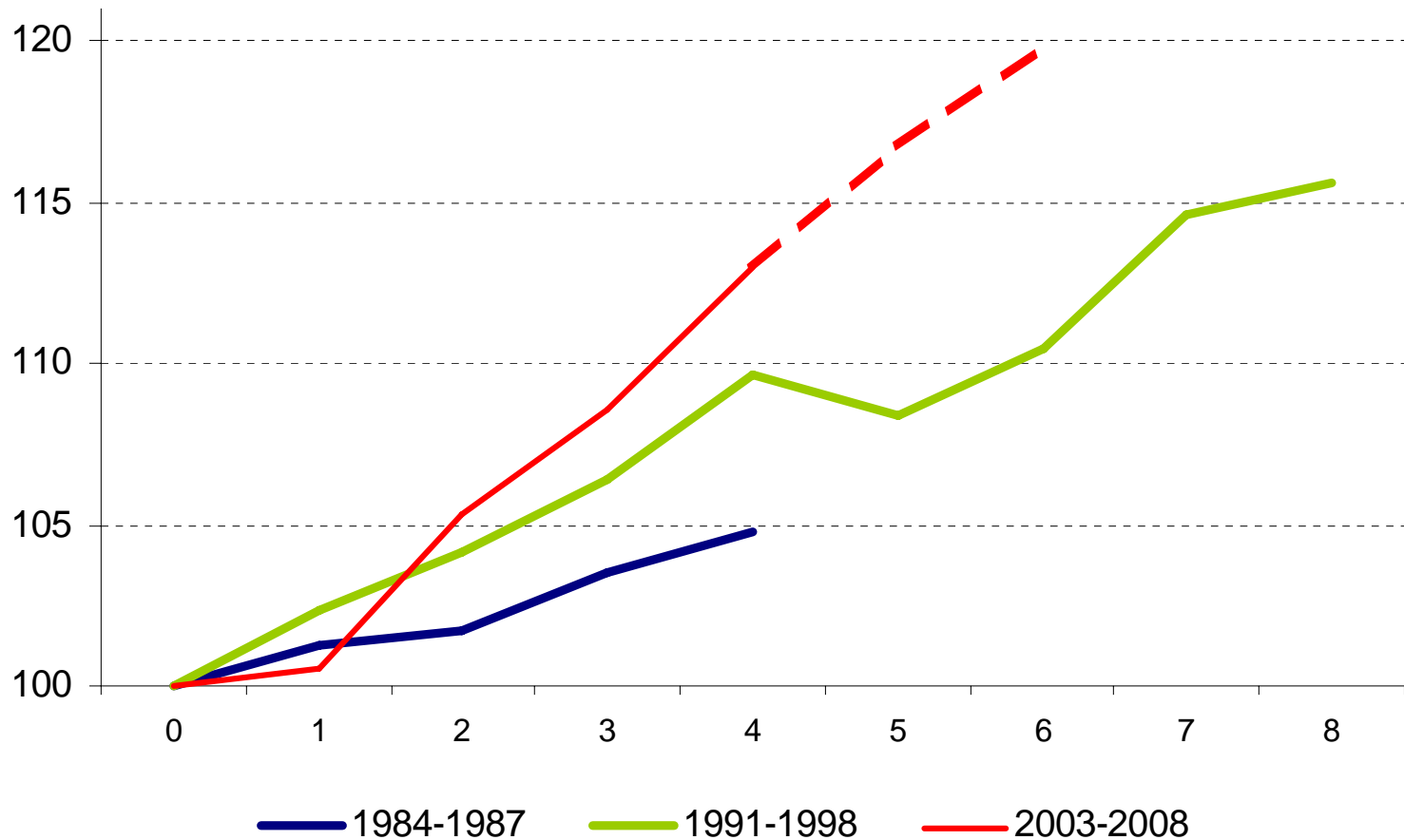
ECLAC estimates indicate that 2008 will be the region's fifth consecutive year of growth, with per capita GDP increasing at an annual rate of over 3%

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP GROWTH
(Percentages)



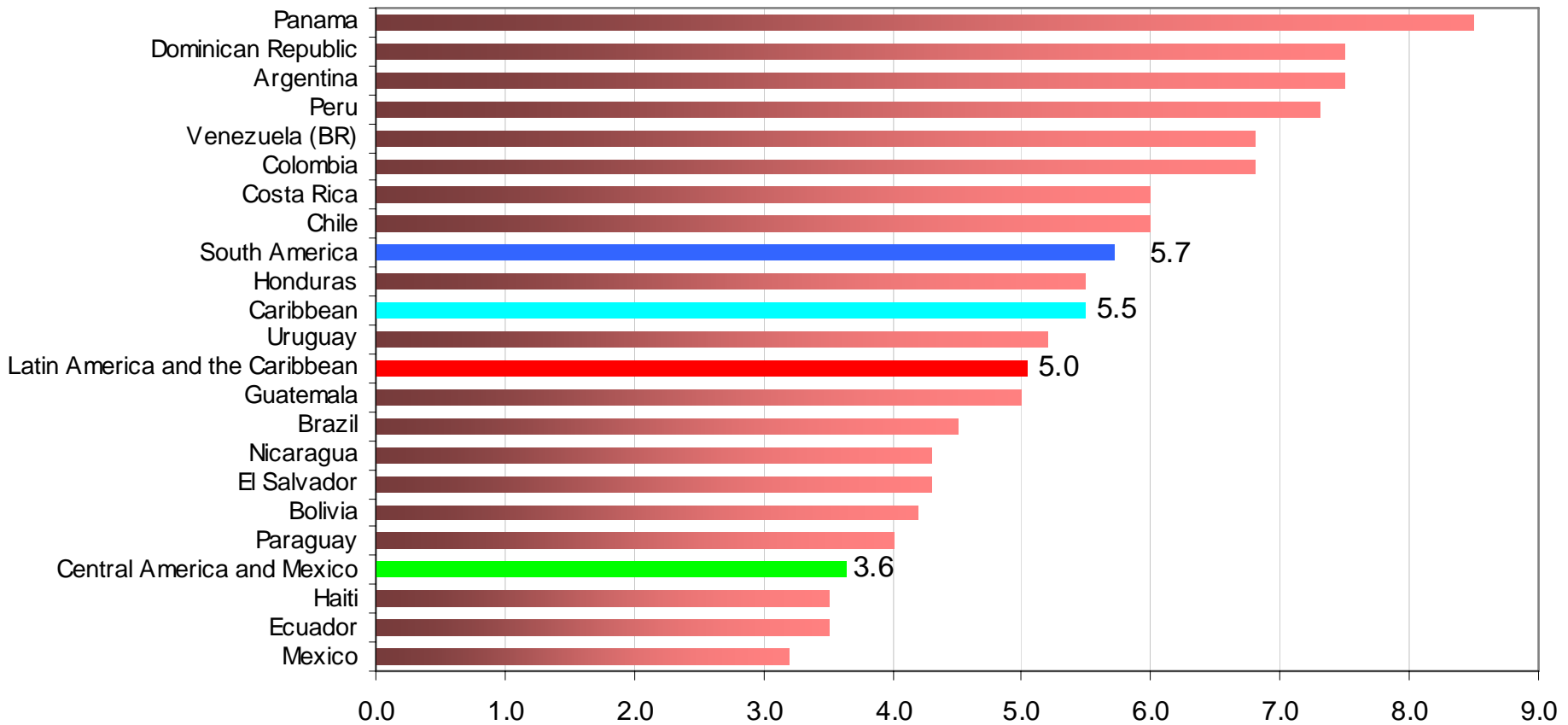
This is the strongest growth trend in per capita GDP since the 1980s

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP
{Year preceding first year of growth = 100}



In 2007 the region will grow 5%

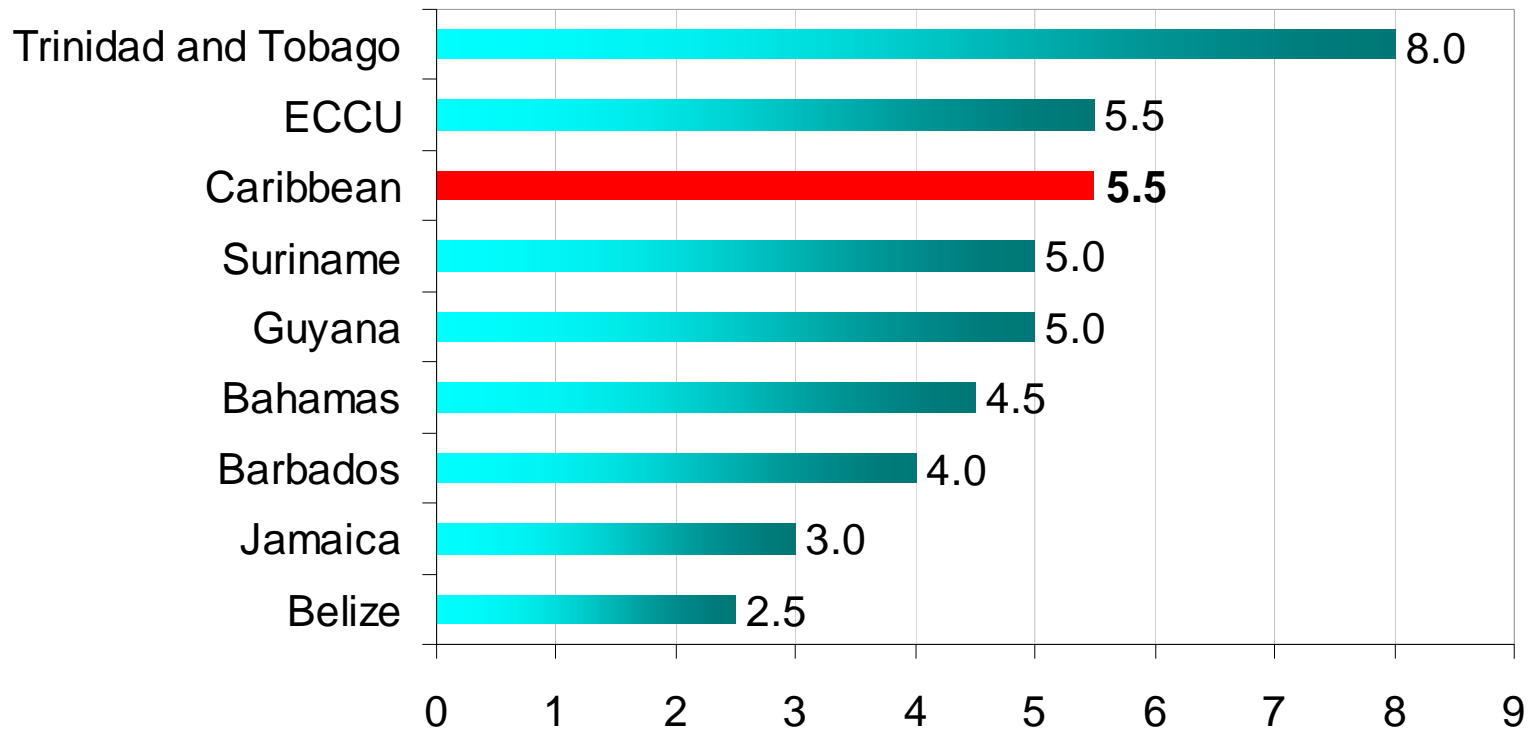
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH RATES, 2007
(Percentages)



Cuban authorities project a rate of 10%

The Caribbean subregion's growth rate is estimated at 5.5%

THE CARIBBEAN: GDP GROWTH RATES, 2007
(Percentages)





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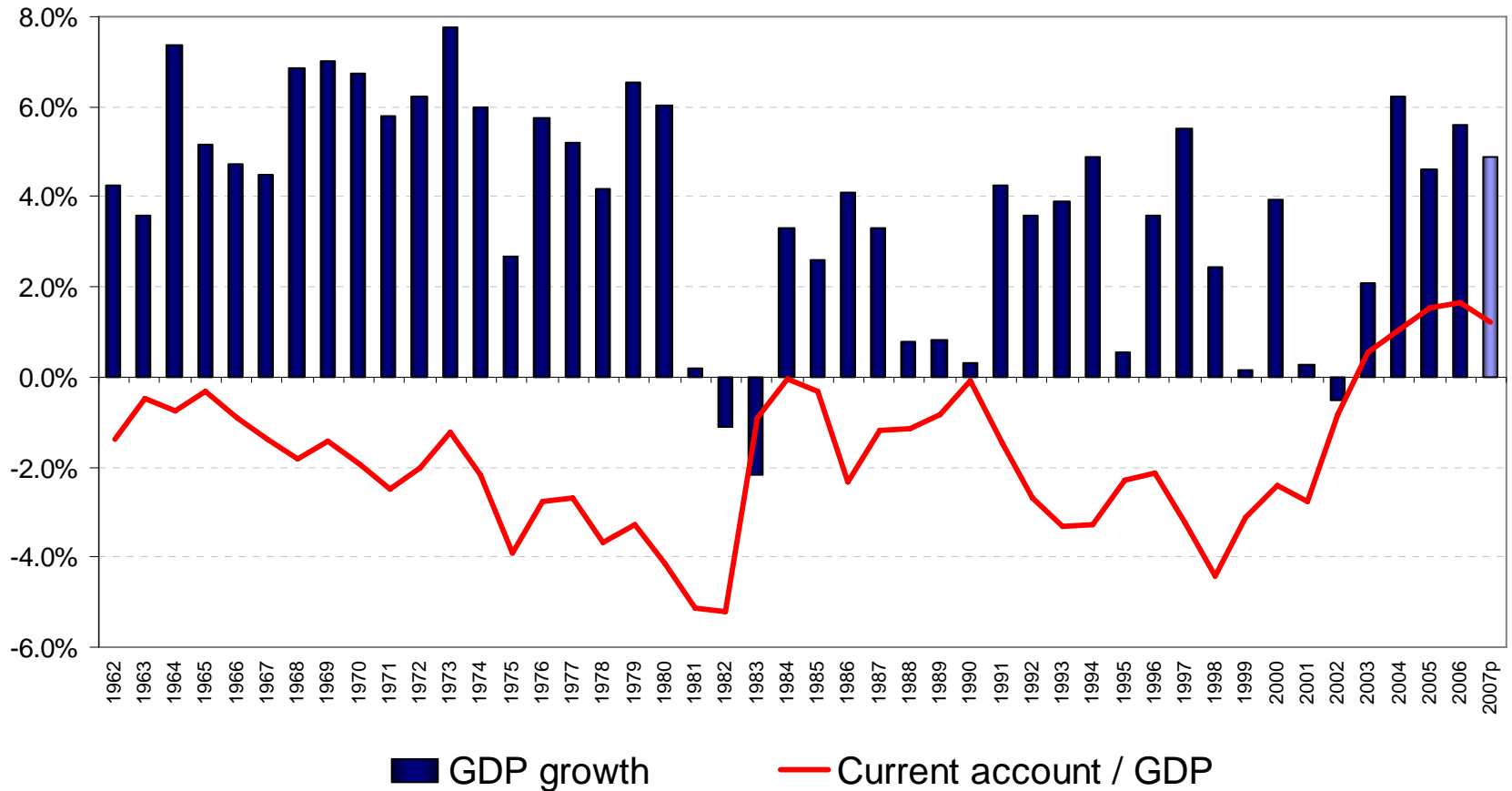
- Five years of growth
- **Highlights of the region's current growth phase**
- Concerns and prospects



Highlights of the region's current growth phase

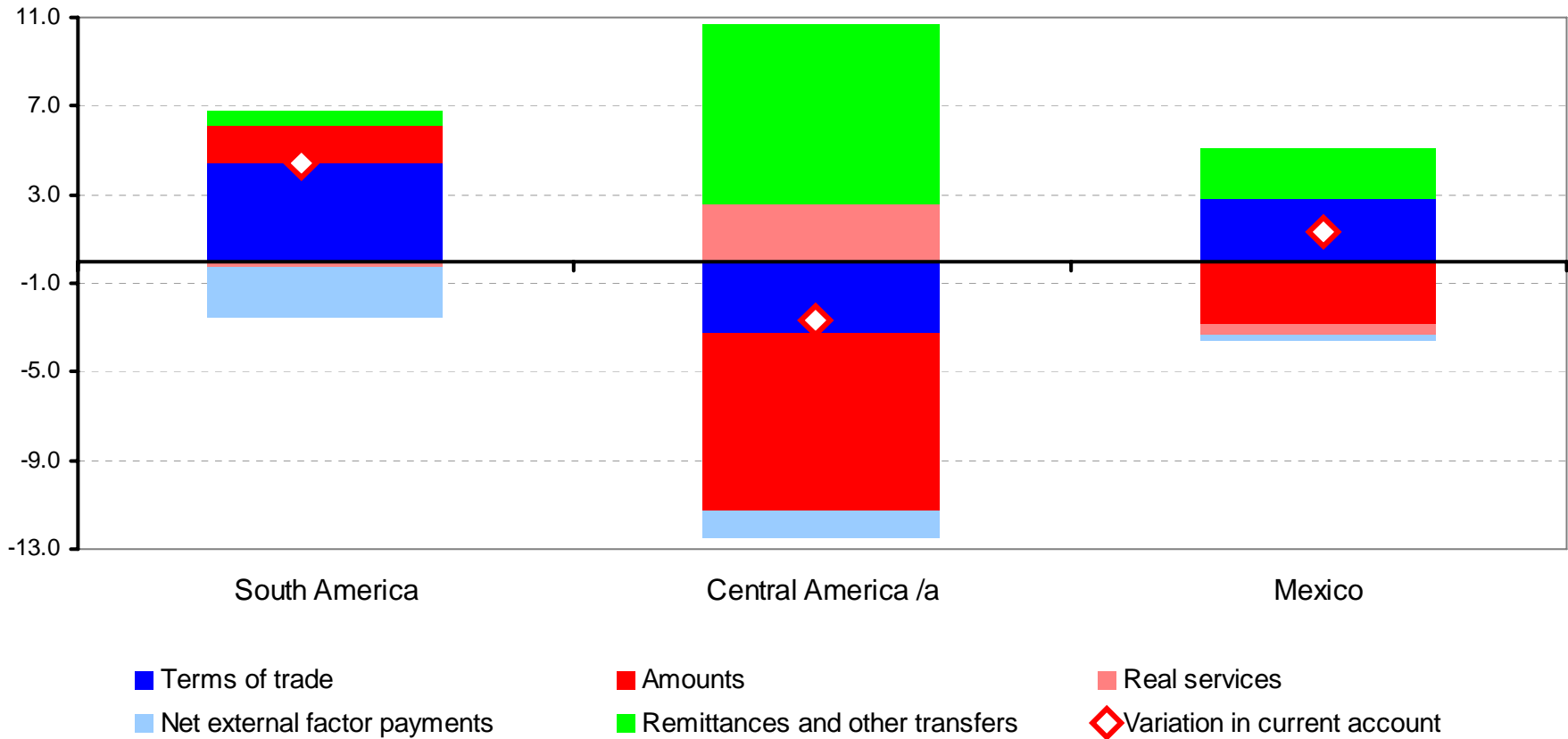
- Current account surplus

The combination of growth with a current account surplus is unprecedented



There are sharp differences across the countries of the region, however

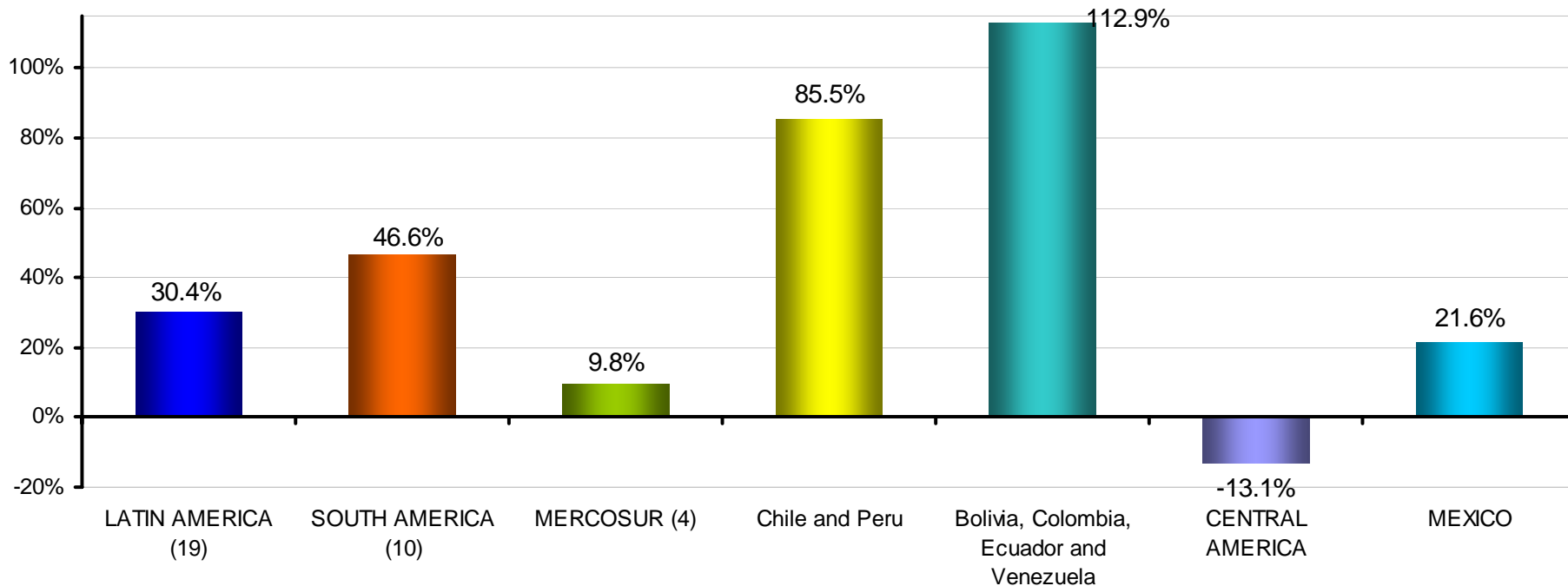
LATIN AMERICA AND THE CARIBBEAN: DECOMPOSITION OF THE CURRENT ACCOUNT
2006 vs. 1990-1999 AVERAGE
(Percentages of average GDP)



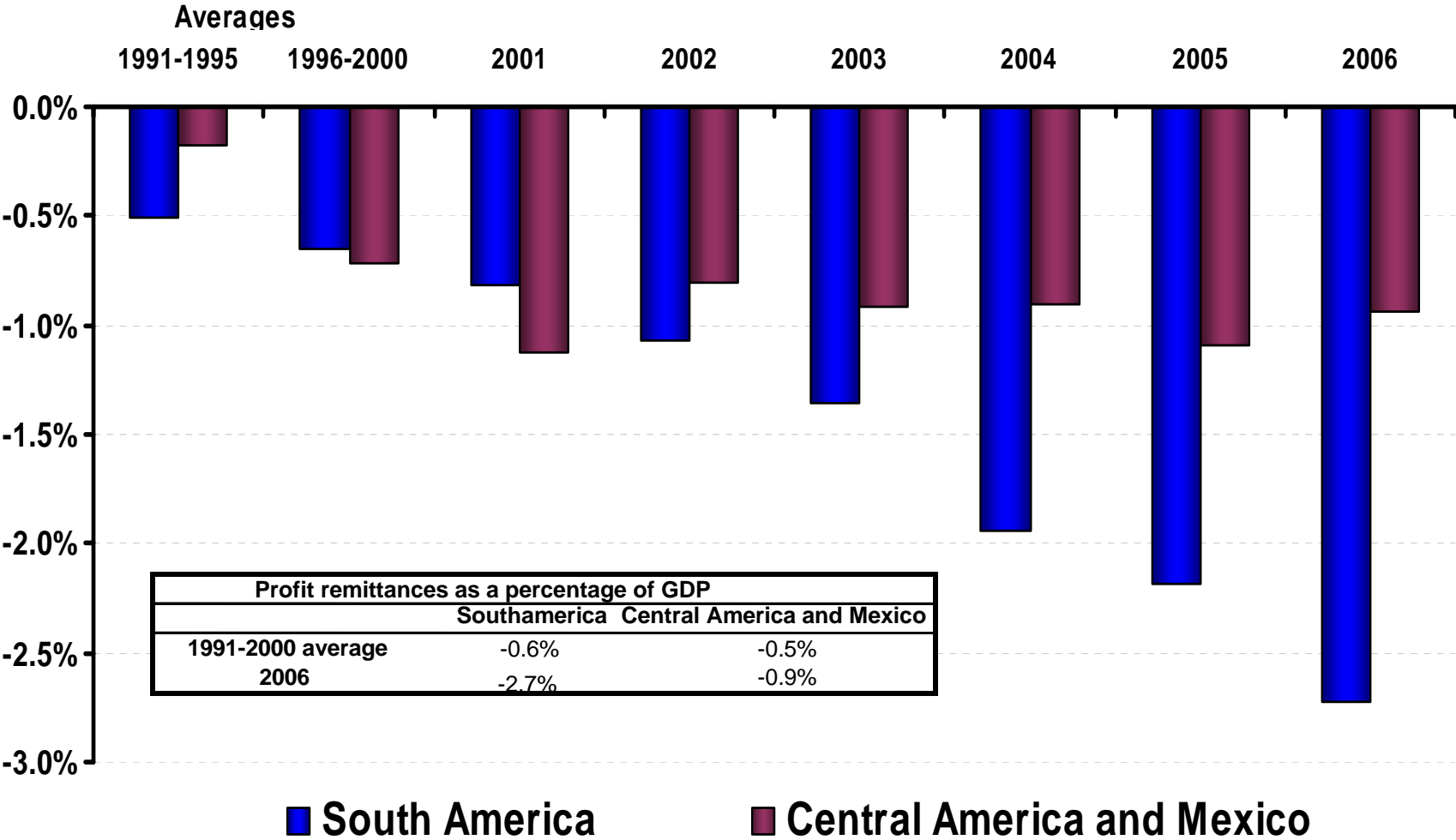
a/ Includes the Dominican Republic and Haiti.

The improvement in the terms of trade is concentrated in a few countries

VARIATION IN THE TERMS OF TRADE: 2006 vs. 1990s AVERAGE

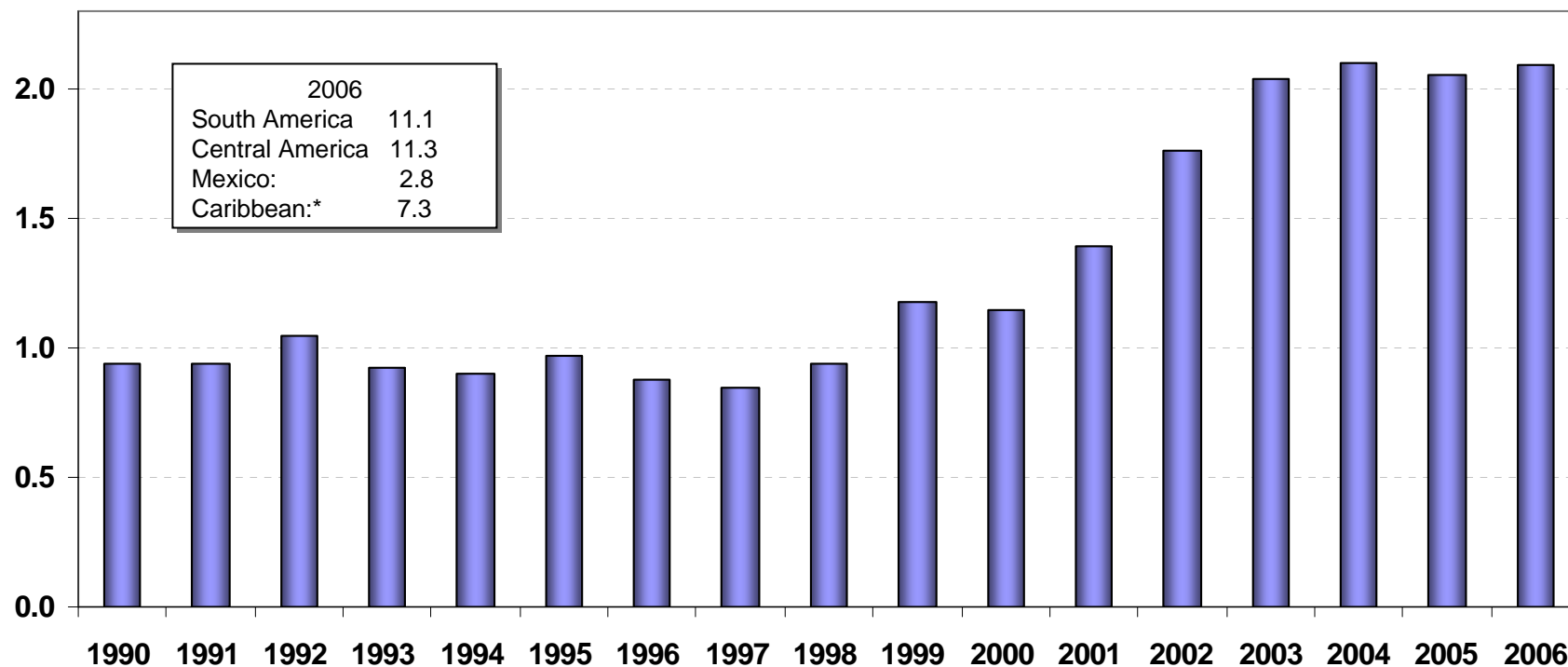


and is coupled, in many cases, with higher profit remittances by foreign firms



Some Central American and Caribbean countries are receiving remittances from emigrant workers

LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): REVENUES FROM TRANSFERS
BY EMIGRANT WORKERS
(Percentages of GDP at current prices)



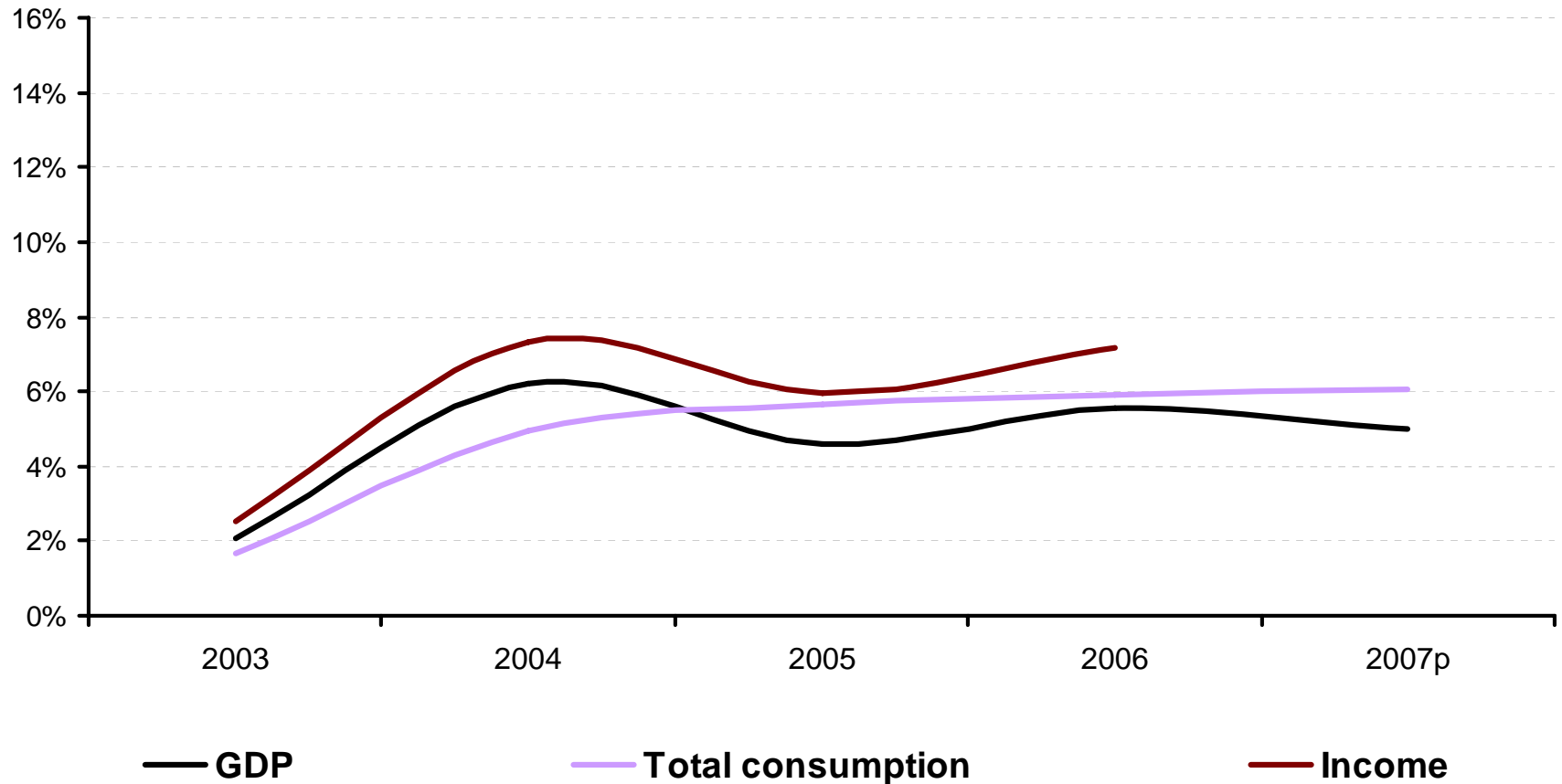
*/ 2005 estimate.



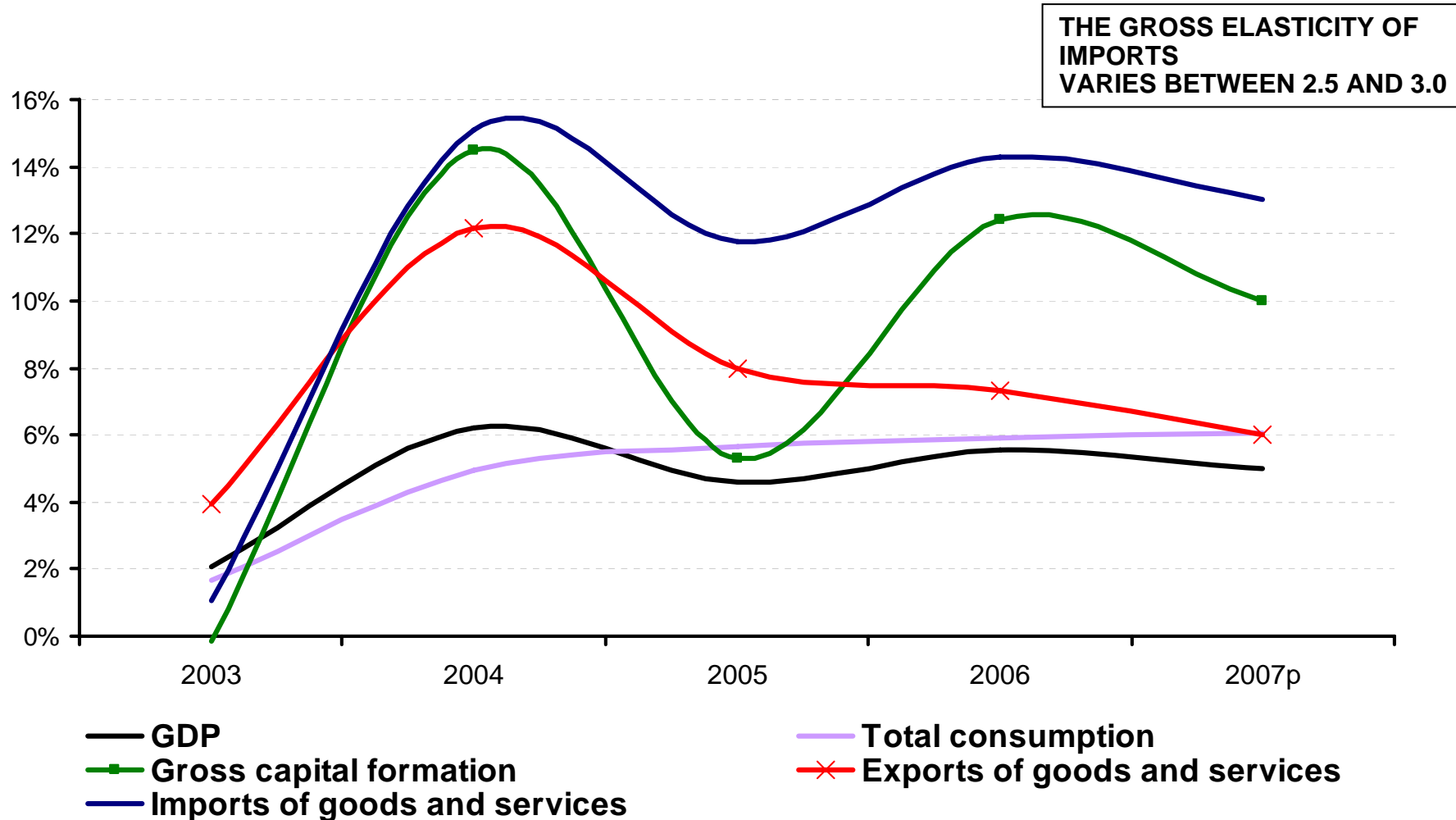
Highlights of the region's current growth phase

- Current account surplus
- Investment and, to a lesser extent, exports have been driving the growth of demand

Investment continues to fuel demand but export growth is slowing

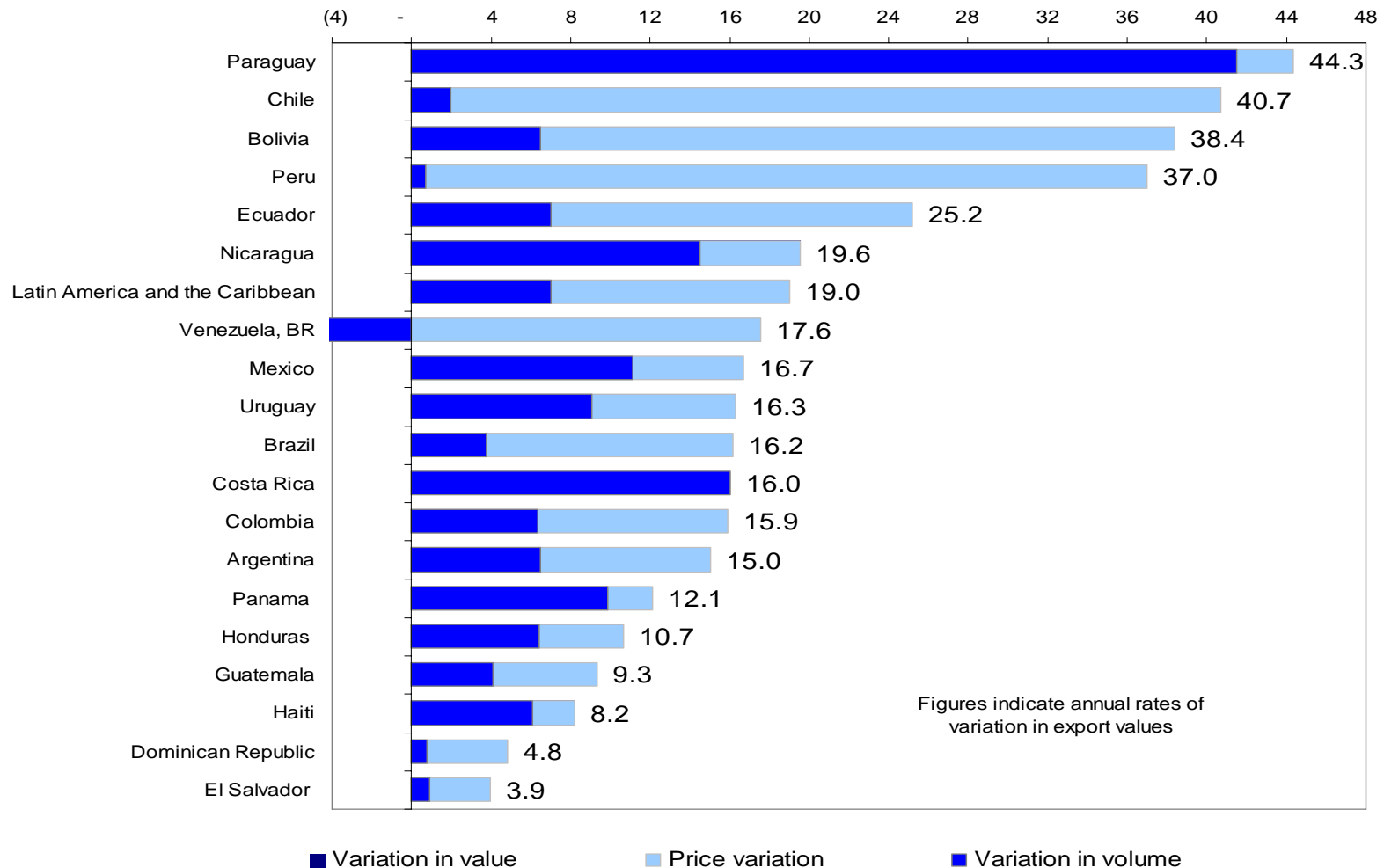


Investment continues to fuel demand but export growth is slowing



Higher prices account for much of the increase in the value of exports

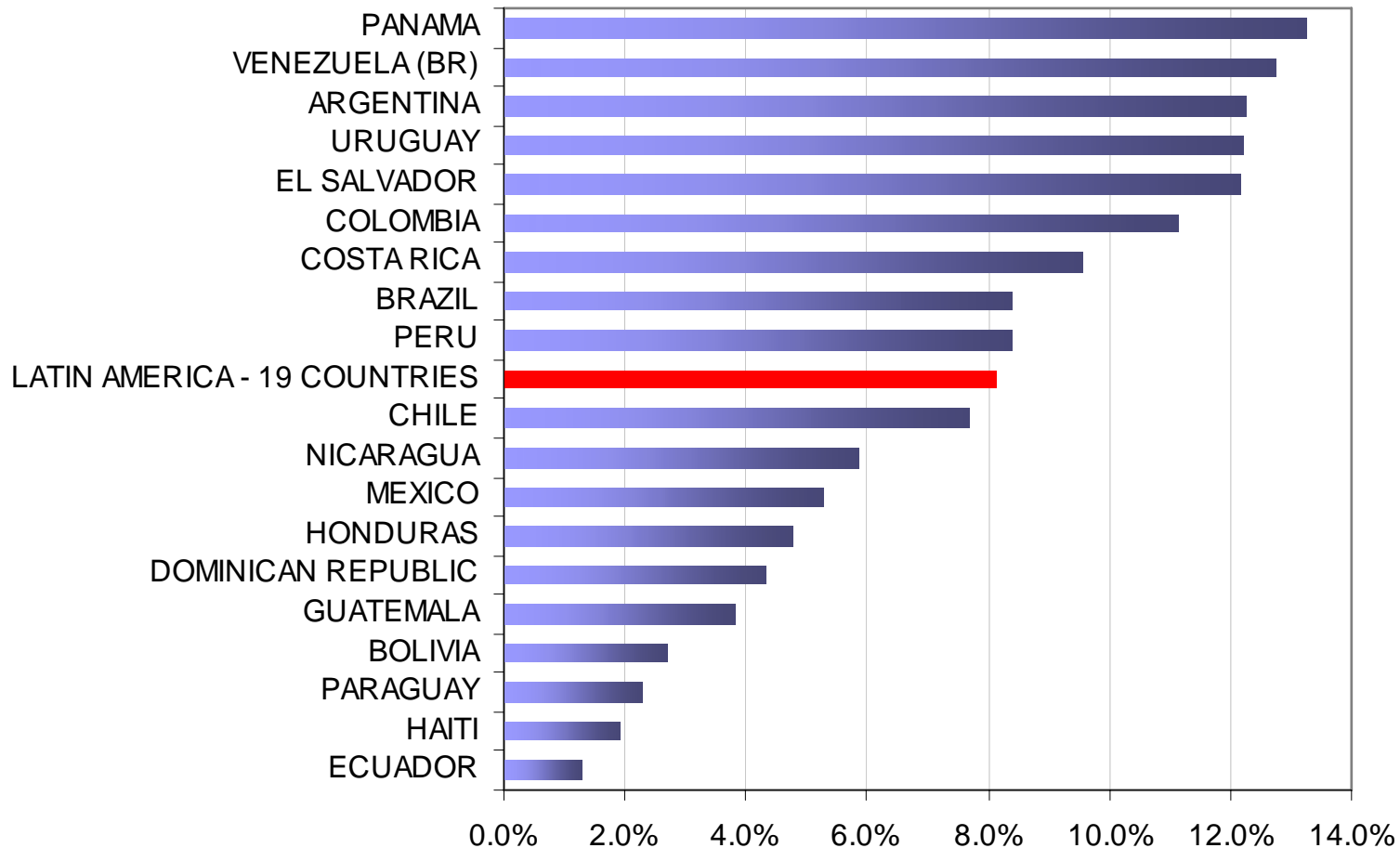
LATIN AMERICA AND THE CARIBBEAN: GROWTH OF EXPORTS OF GOODS, 2006
(Percentages)



A strong performance by exports of real services

LATIN AMERICA AND THE CARIBBEAN: AVERAGE GROWTH RATE FOR REAL EXPORTS OF SERVICES, 2004/2006

(In constant dollars of 2000)



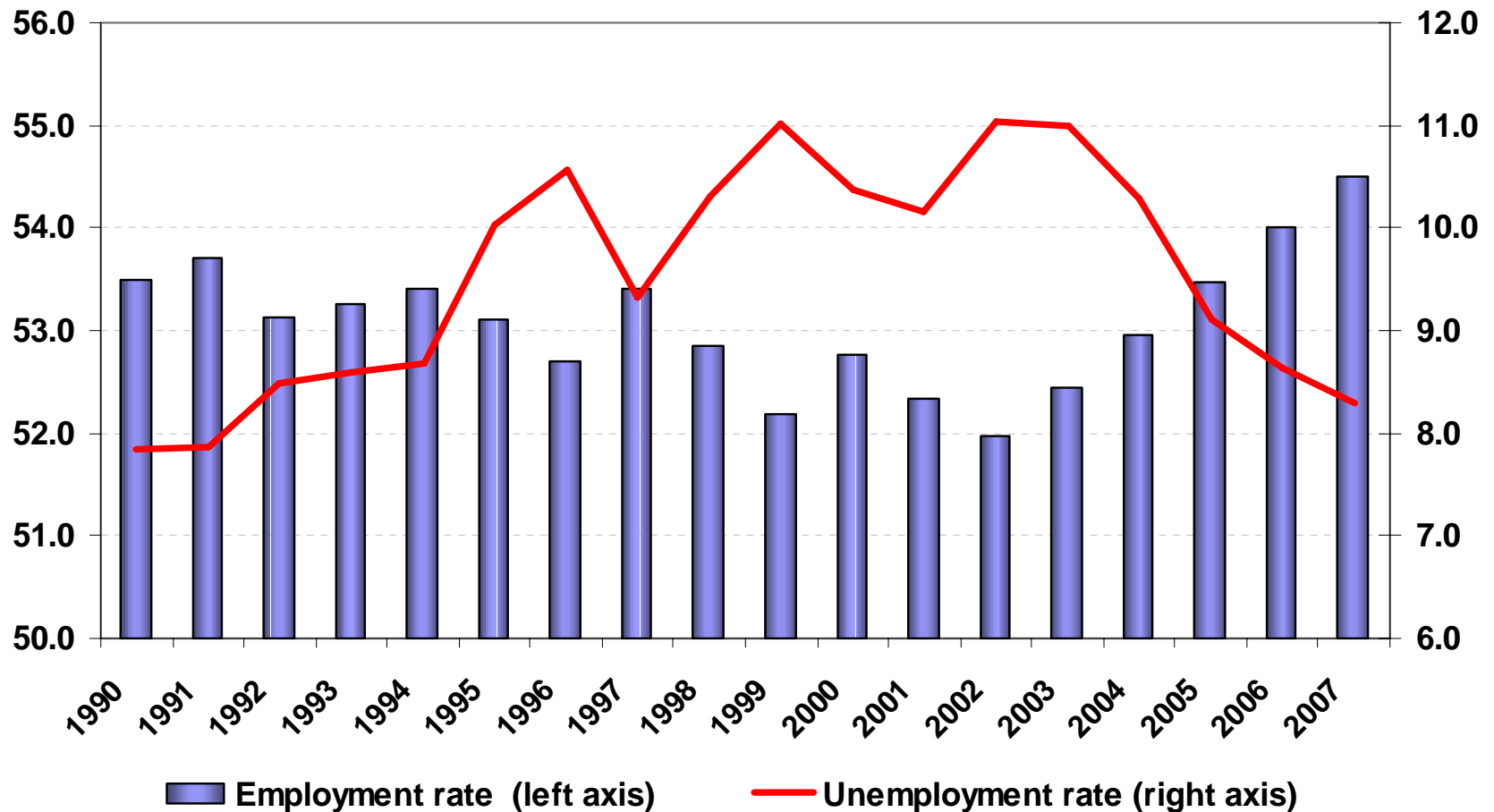


Highlights of the region's current growth phase

- Current account surplus
- Investment and, to a lesser extent, exports have been driving the growth of demand
- Labour-market indicators are improving and productivity is on the rise

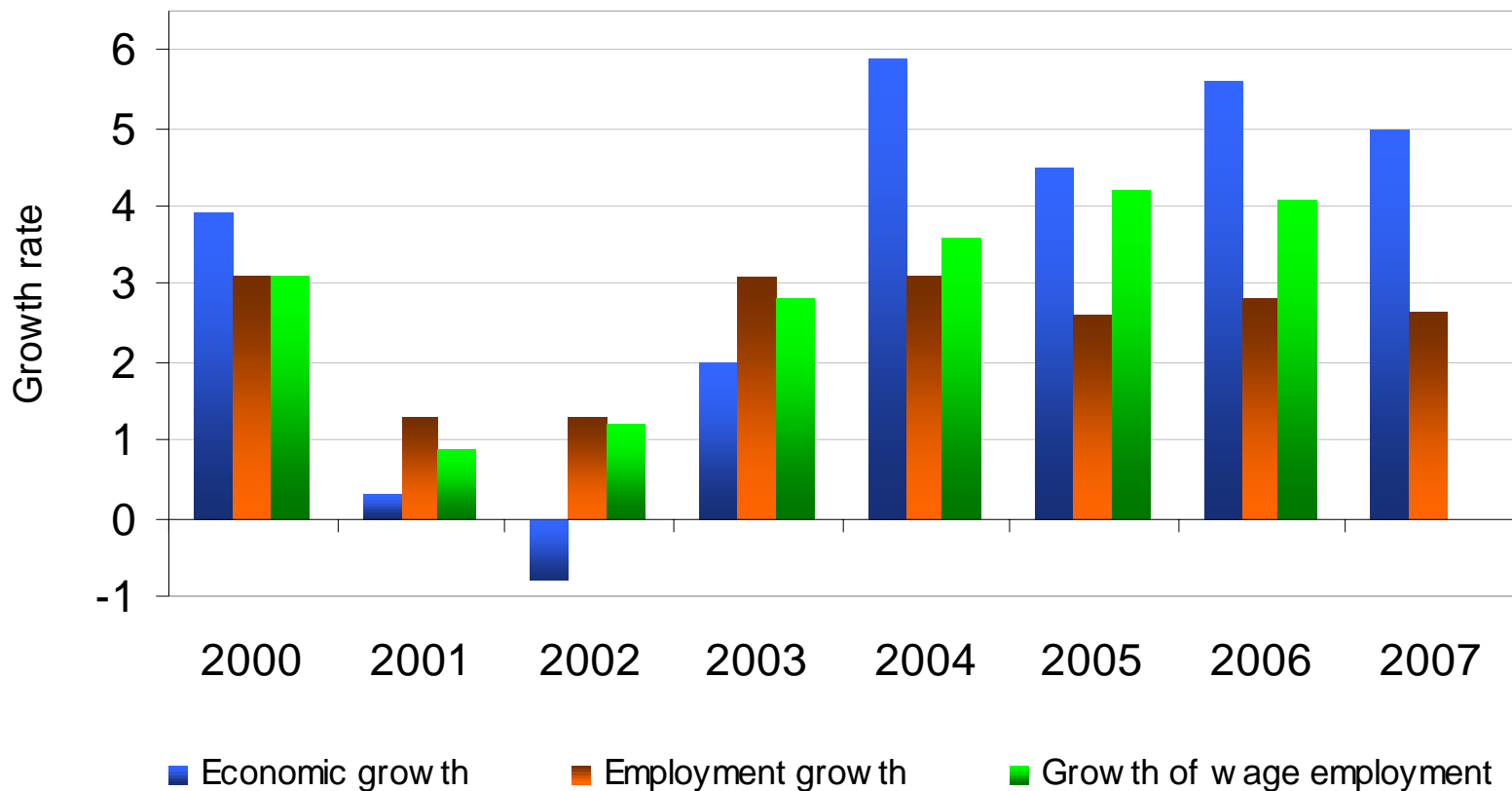
Unemployment levels are close to where they were in the first half of the 1990s

LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT AND UNEMPLOYMENT



Better-quality jobs are being created

LATIN AMERICA AND THE CARIBBEAN: GROWTH AND JOB CREATION, 2000-2006



In recent years, labour productivity has been rising

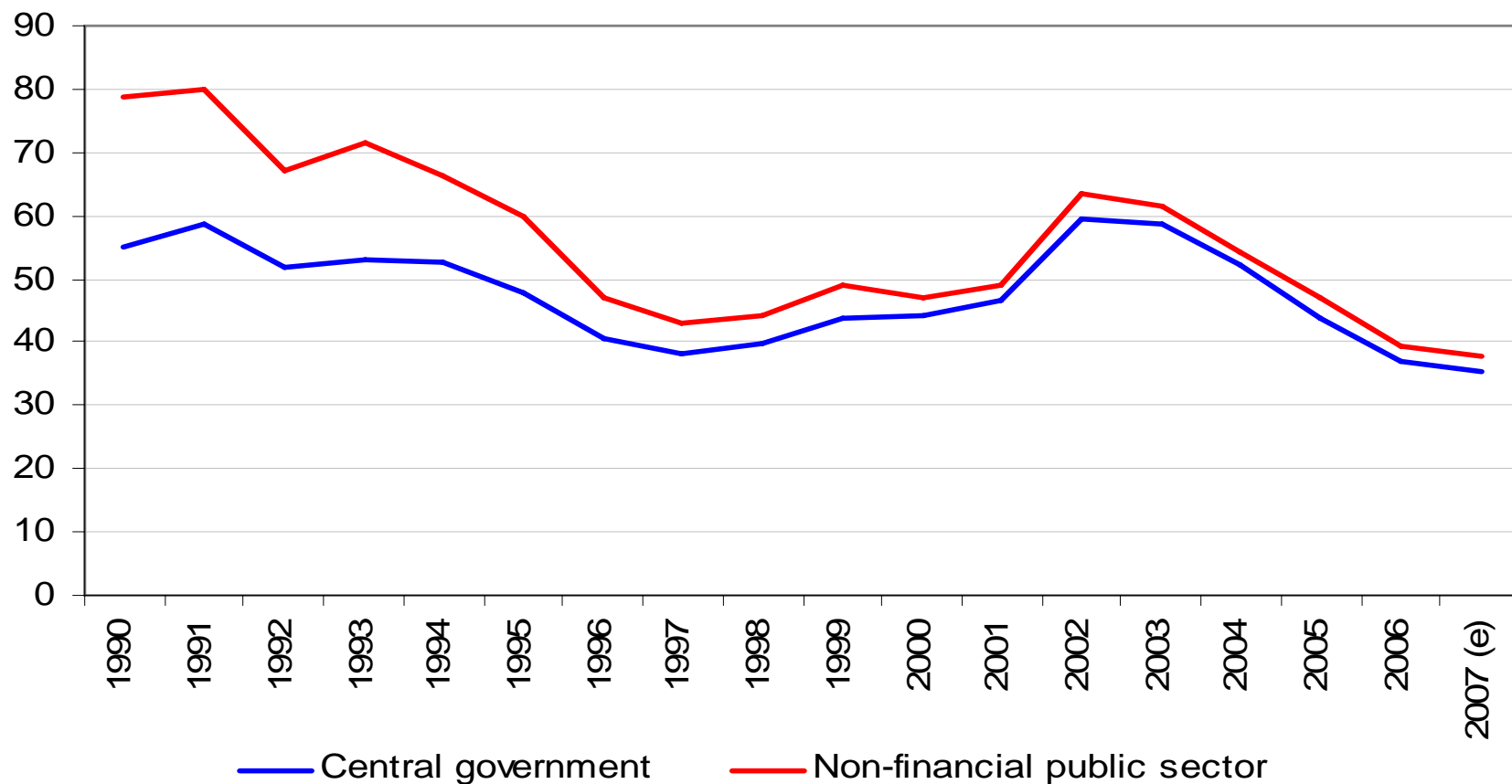


Highlights of the region's current growth phase

- Current account surplus
- Investment and, to a lesser extent, exports have been driving the growth of demand
- Labour-market indicators are improving and productivity is on the rise
- Macroeconomic vulnerability is decreasing

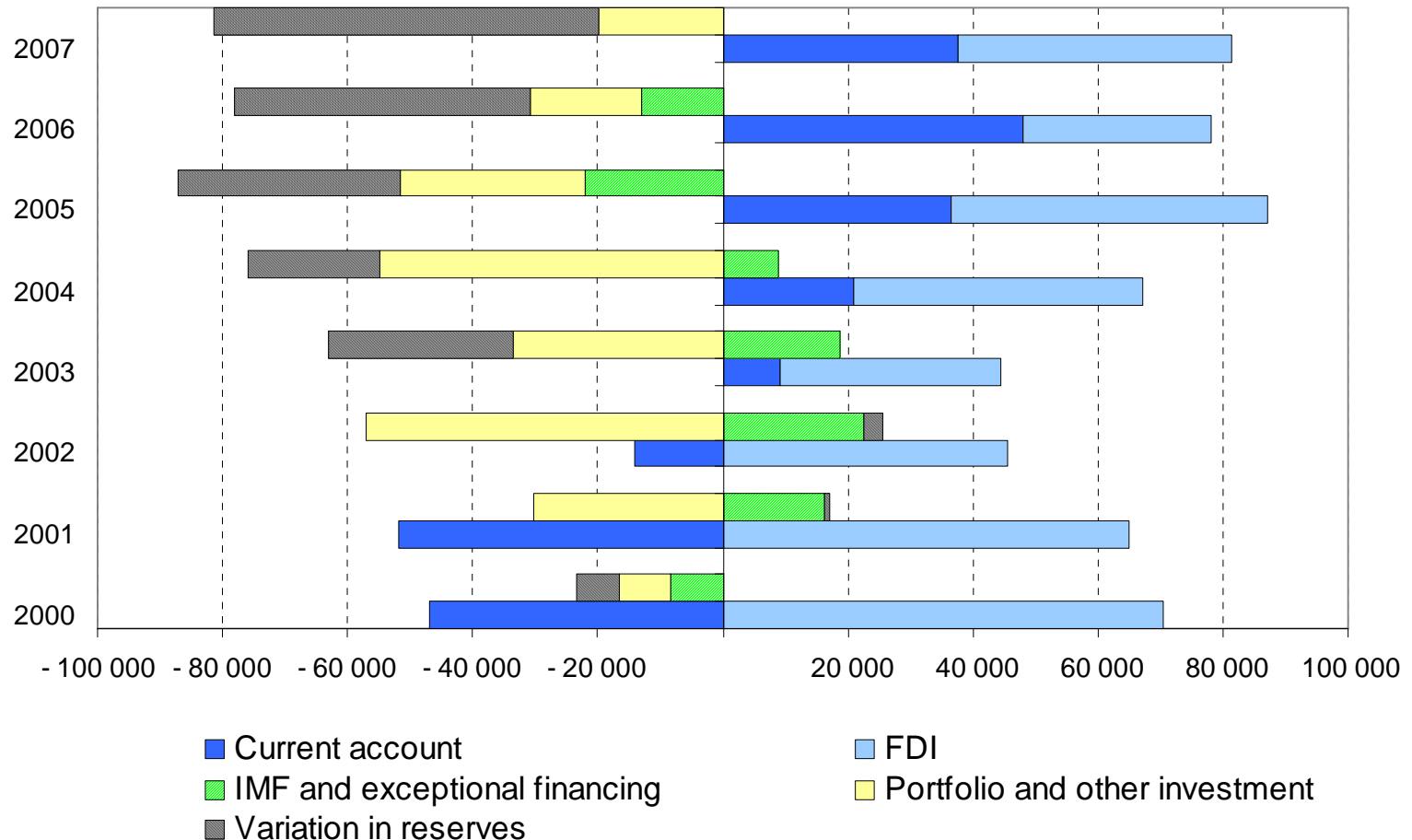
Improvements in fiscal accounts are helping to reduce public debt levels

LATIN AMERICA AND THE CARIBBEAN: PUBLIC DEBT TRENDS, BY INSTITUTIONAL COVERAGE, 1990-2006
(In percentages of GDP and simple averages)



The surplus on the basic account is being used to pay down the debt and boost reserves

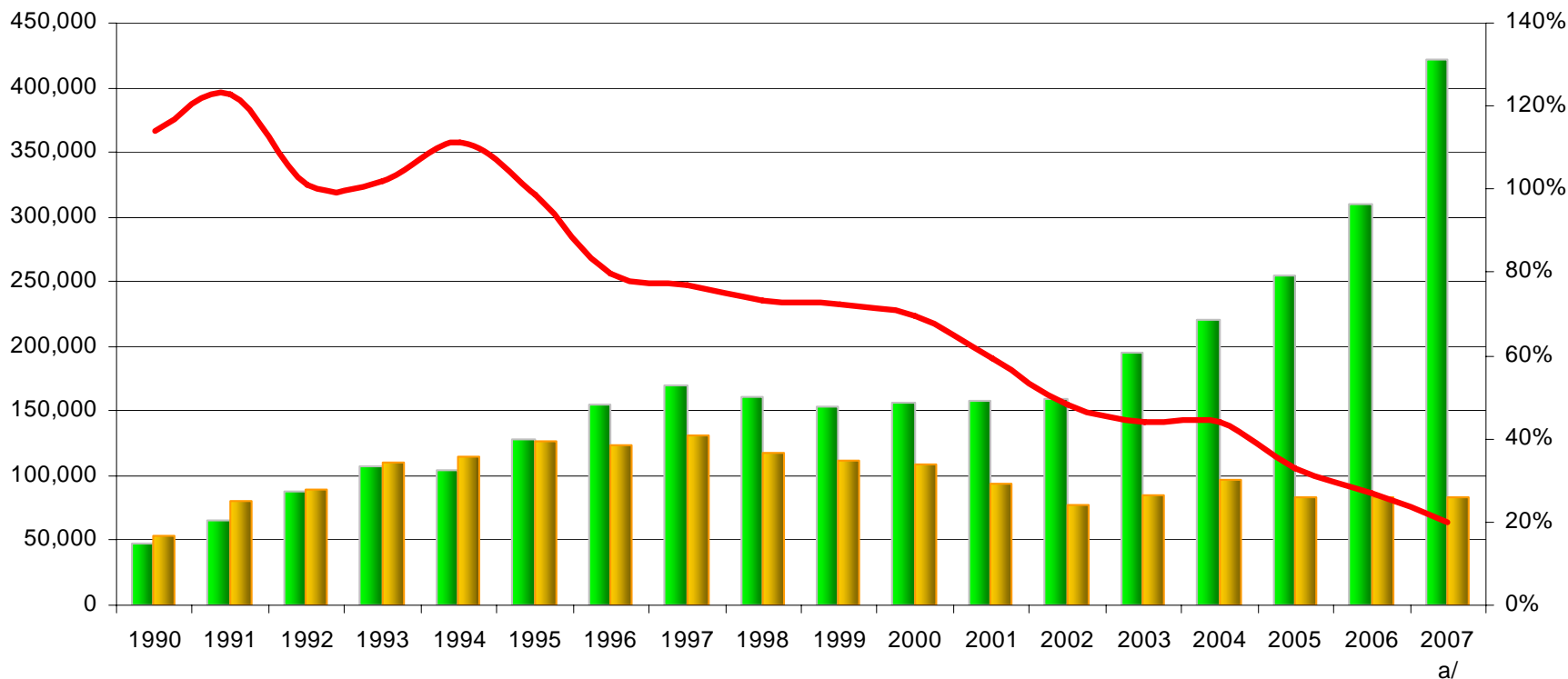
LATIN AMERICA AND THE CARIBBEAN: BASIC BALANCE
(Millions of dollars)



Note: The figure for 2007 is an estimate.

This has translated into an improvement in debt indicators

LATIN AMERICA AND THE CARIBBEAN: SHORT-TERM EXTERNAL DEBT AND INTERNATIONAL RESERVES
(Millions of dollars and percentages)

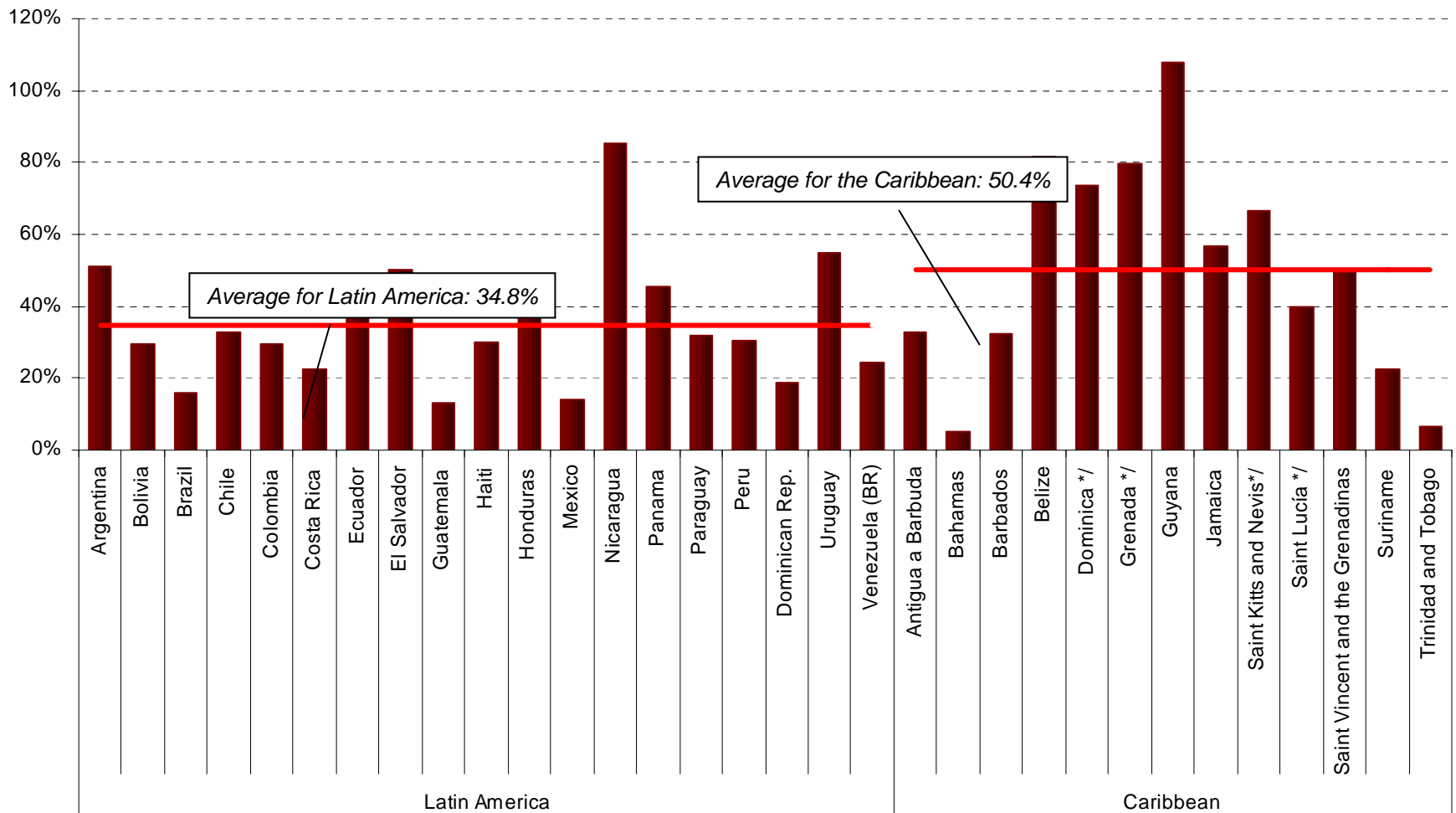


- International reserves
- Short-term external debt
- Short-term external debt / international reserves (right axis)

a/ Estimate

Some countries are still heavily indebted, however

LATIN AMERICA AND THE CARIBBEAN: TOTAL EXTERNAL DEBT AS A PERCENTAGE OF GDP, 2006



*/ 2005



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- **Concerns and prospects**

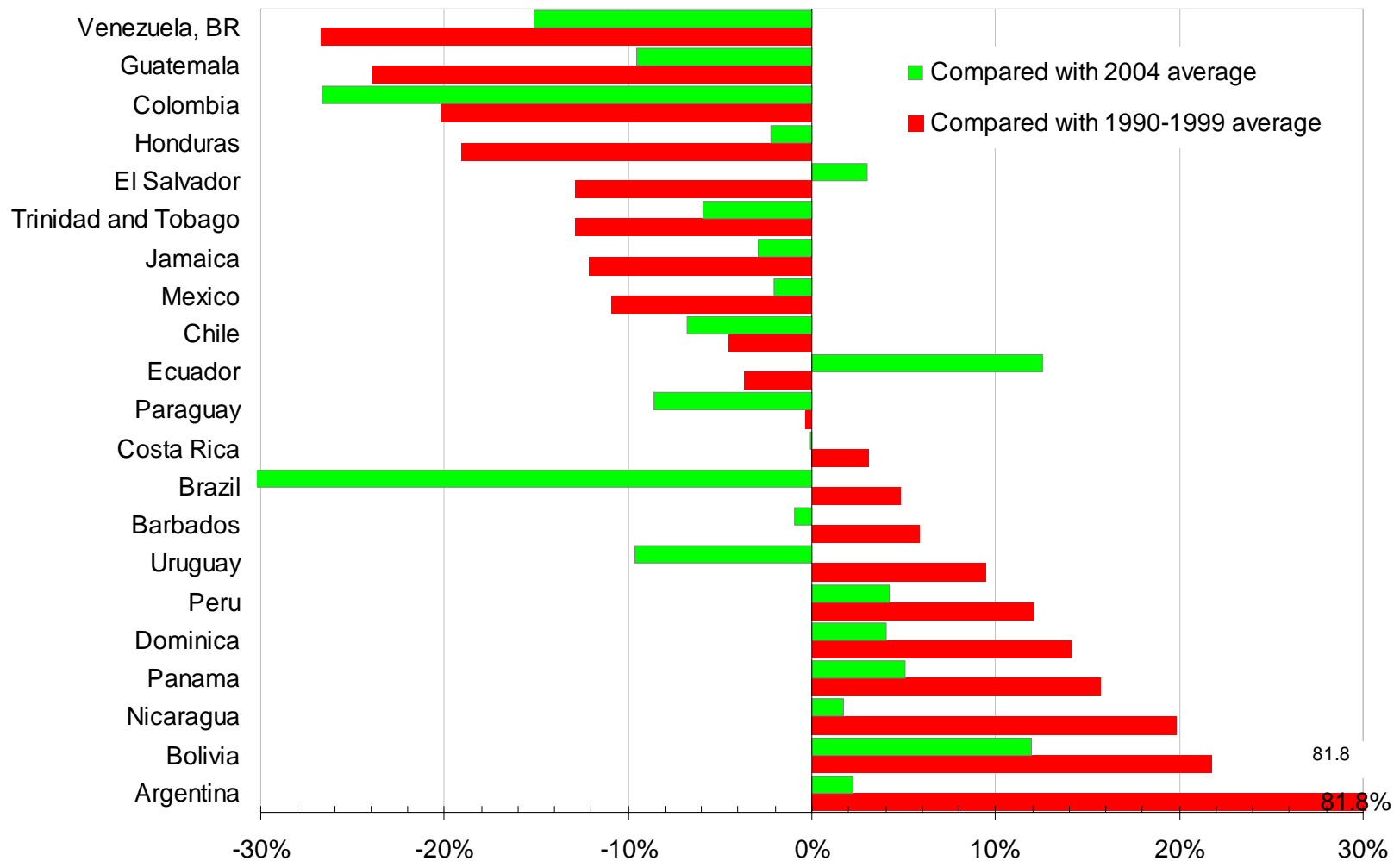


Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates

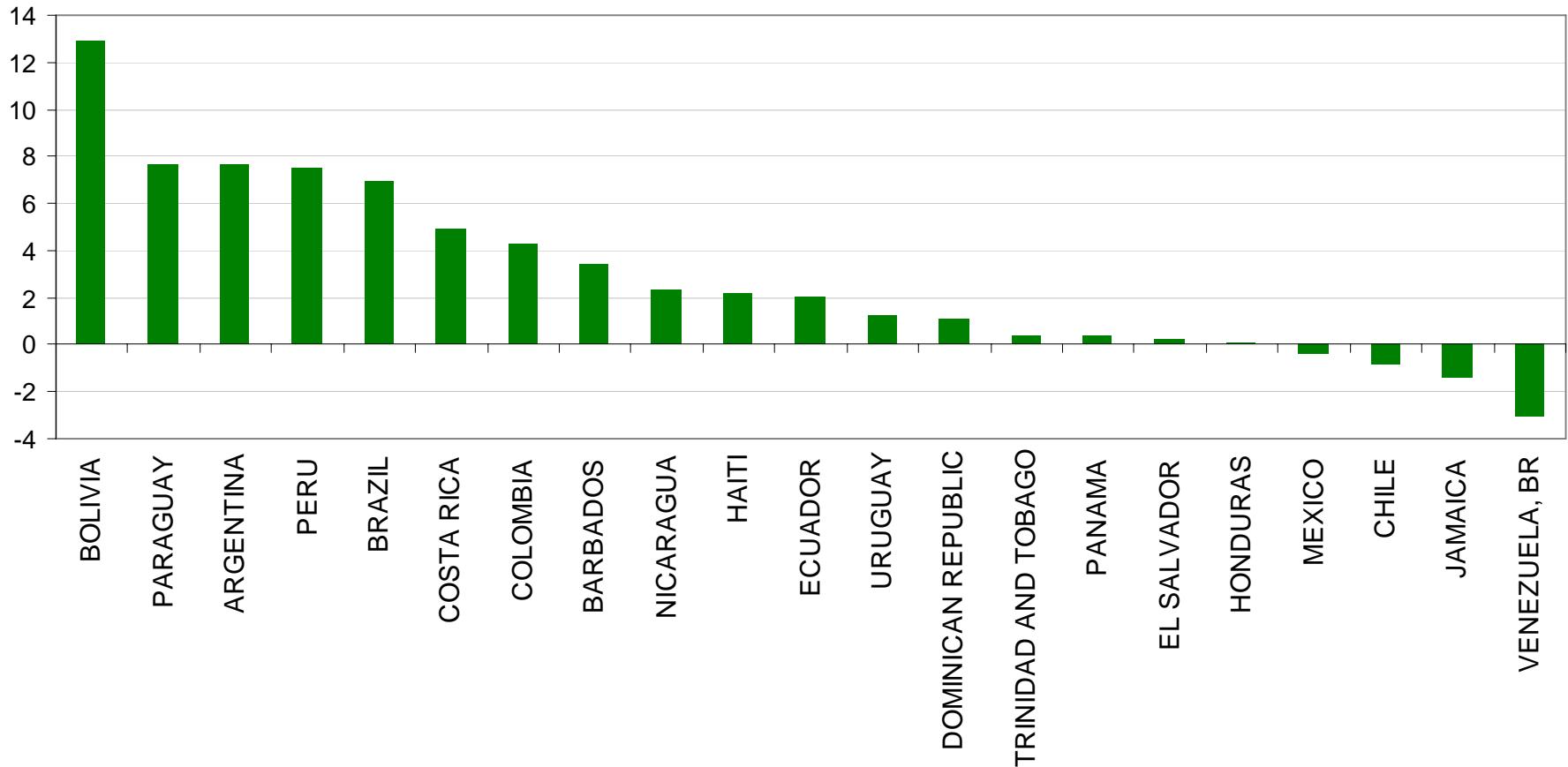
Most of the countries' currencies are appreciating

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN REAL EXCHANGE RATES, JUNE 2007



Even though some central banks are intervening in currency markets

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN NET INTERNATIONAL RESERVES, MAY 2006 – MAY 2007
(Percentages of GDP)



Generating pressure on central bank deficits

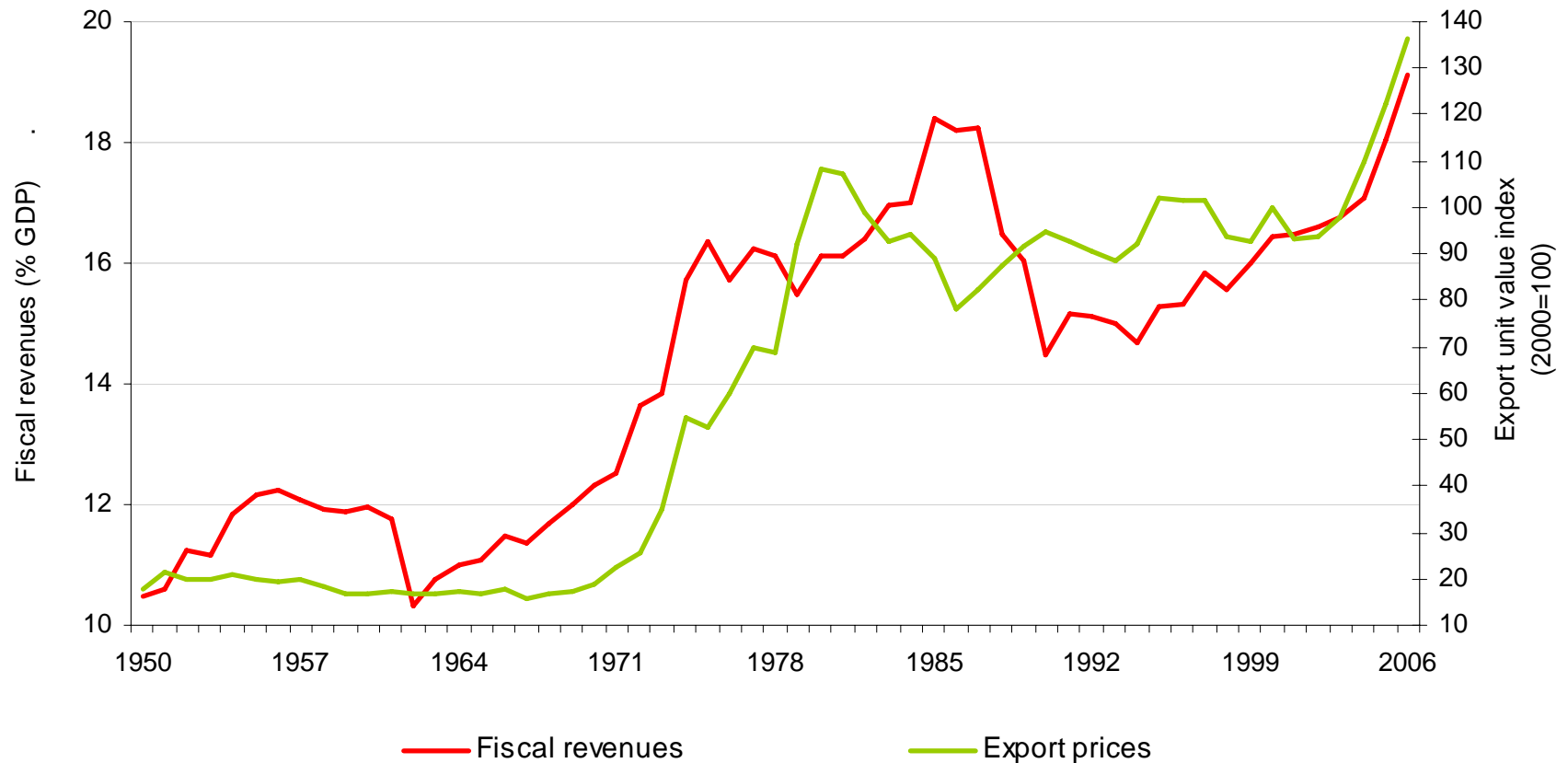


Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates
 - The sustainability of fiscal balances

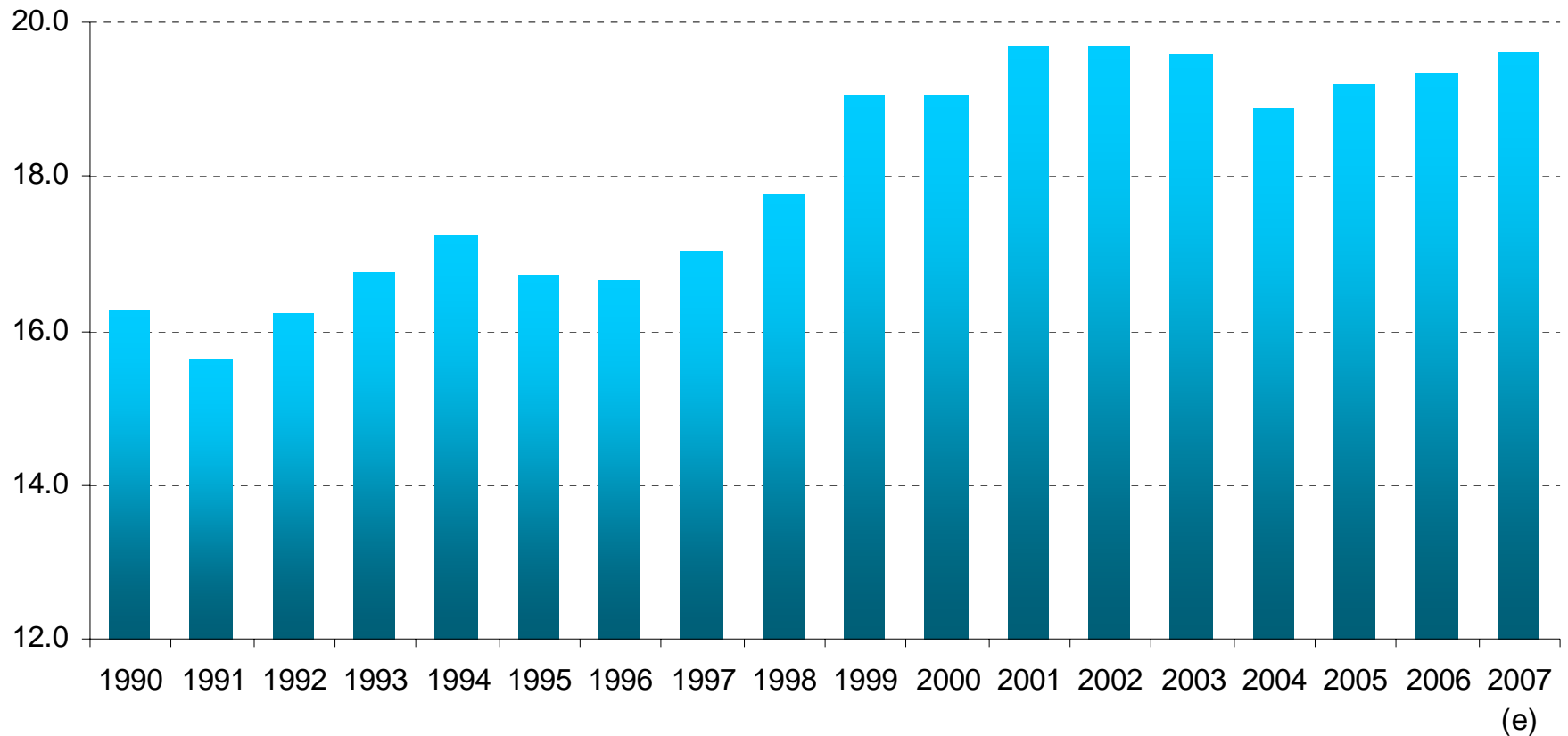
The increase in public revenues is closely associated with export price trends

LATIN AMERICA AND THE CARIBBEAN: FISCAL REVENUES AND EXPORT PRICES



In the past few years, public expenditure has begun to rise

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



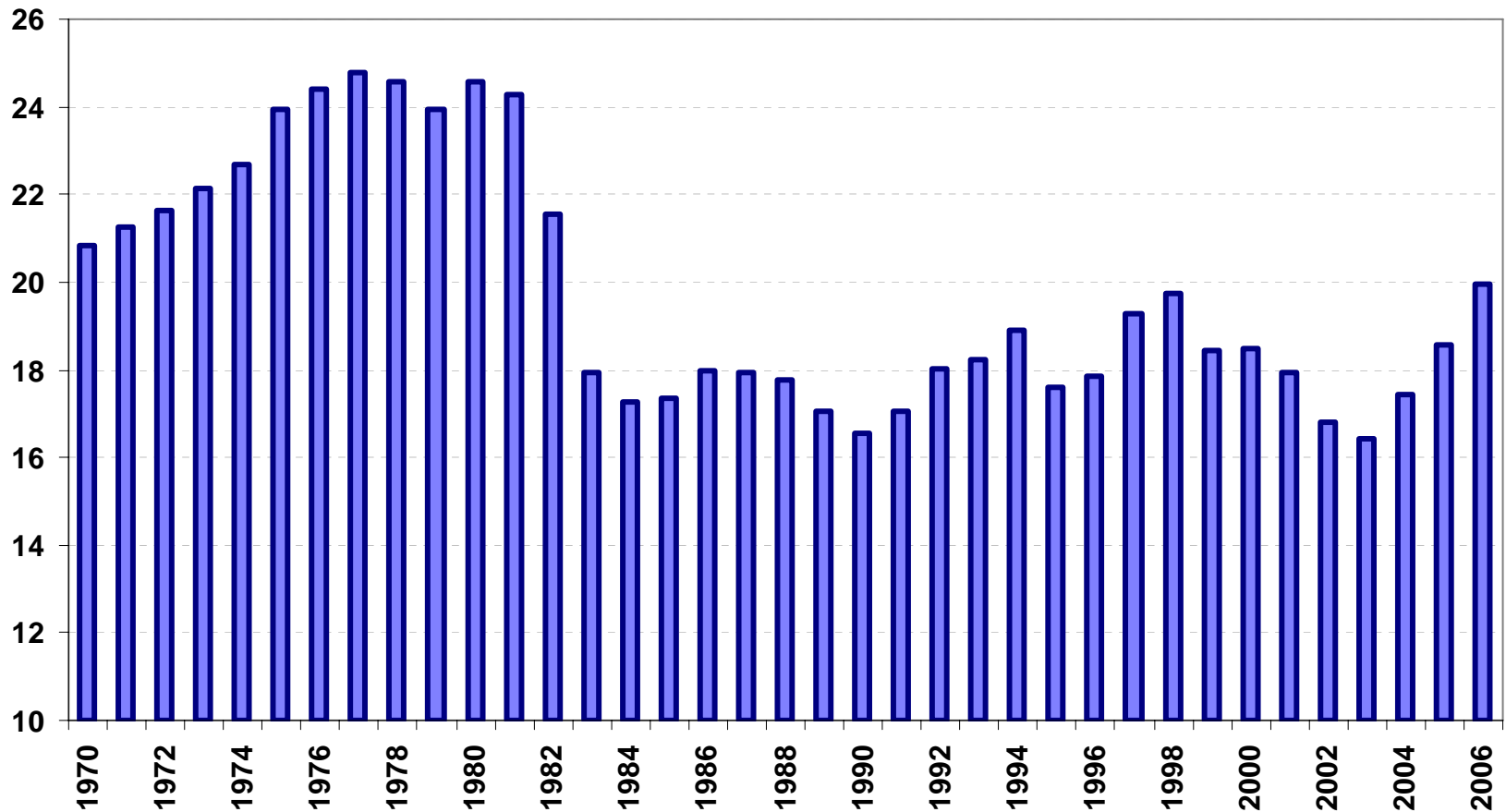


Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates
 - The sustainability of fiscal balances
 - Low investment rates

Despite the reactivation, investment is still below the levels seen in the 1970s

LATIN AMERICA AND THE CARIBBEAN: INVESTMENT RATES
(Constant 2000 dollars)





Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates
 - The sustainability of fiscal balances
 - Low investment rates
 - The acceleration of inflation in some countries

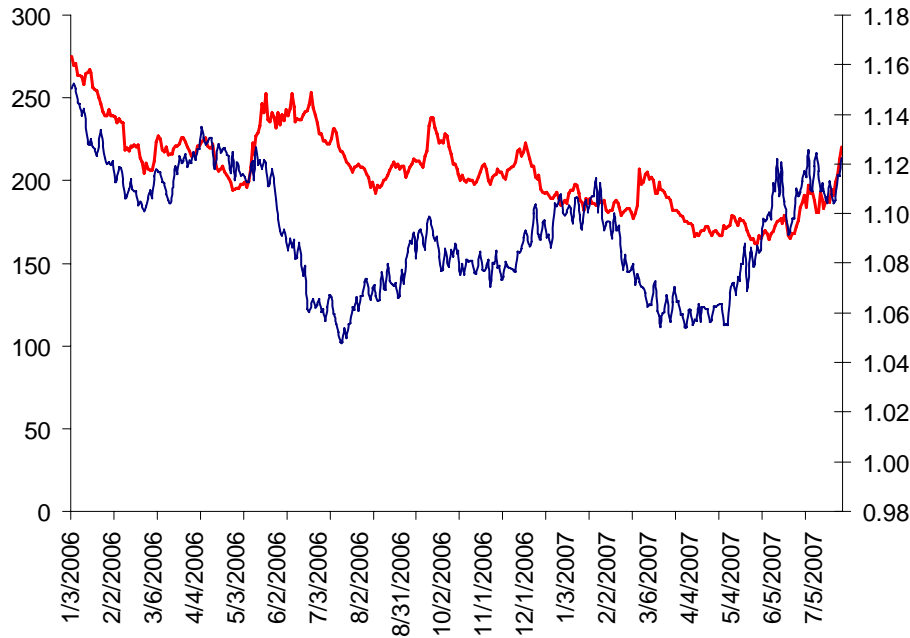


Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates
 - The sustainability of fiscal balances
 - Low investment rates
 - The acceleration of inflation in some countries
 - The heightened volatility of international financial markets

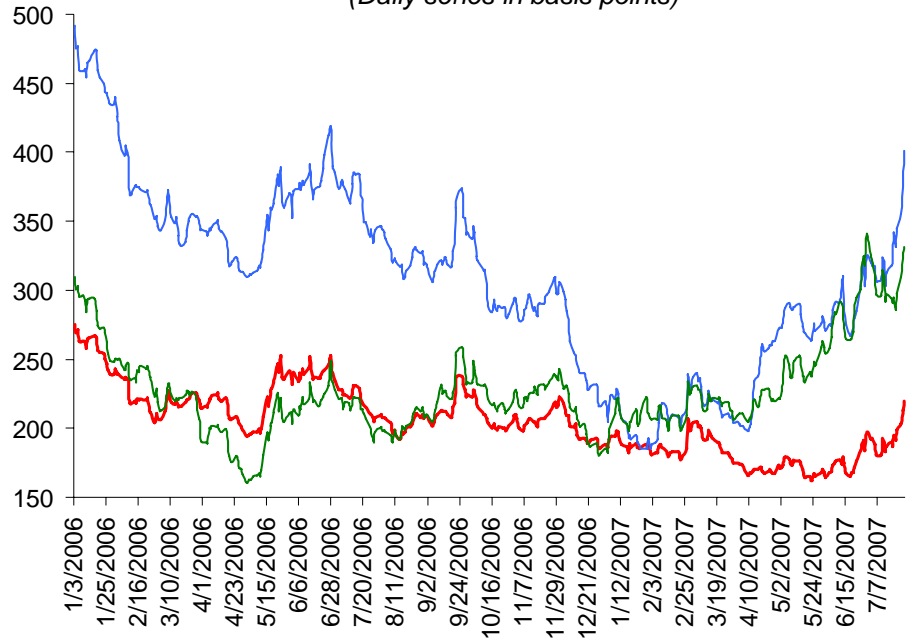
Emerging economies' risk indicators are climbing

EMBI+ FOR LATIN AMERICA / OVERALL EMBI+
(Daily series in basis points)



— EMBI+ for Latin America
— EMBI+ for Latin America / overall EMBI+ (right axis)

EMBI+ INDEX FOR LATIN AMERICA, ARGENTINA AND THE BOLIVARIAN REPUBLIC OF VENEZUELA
(Daily series in basis points)



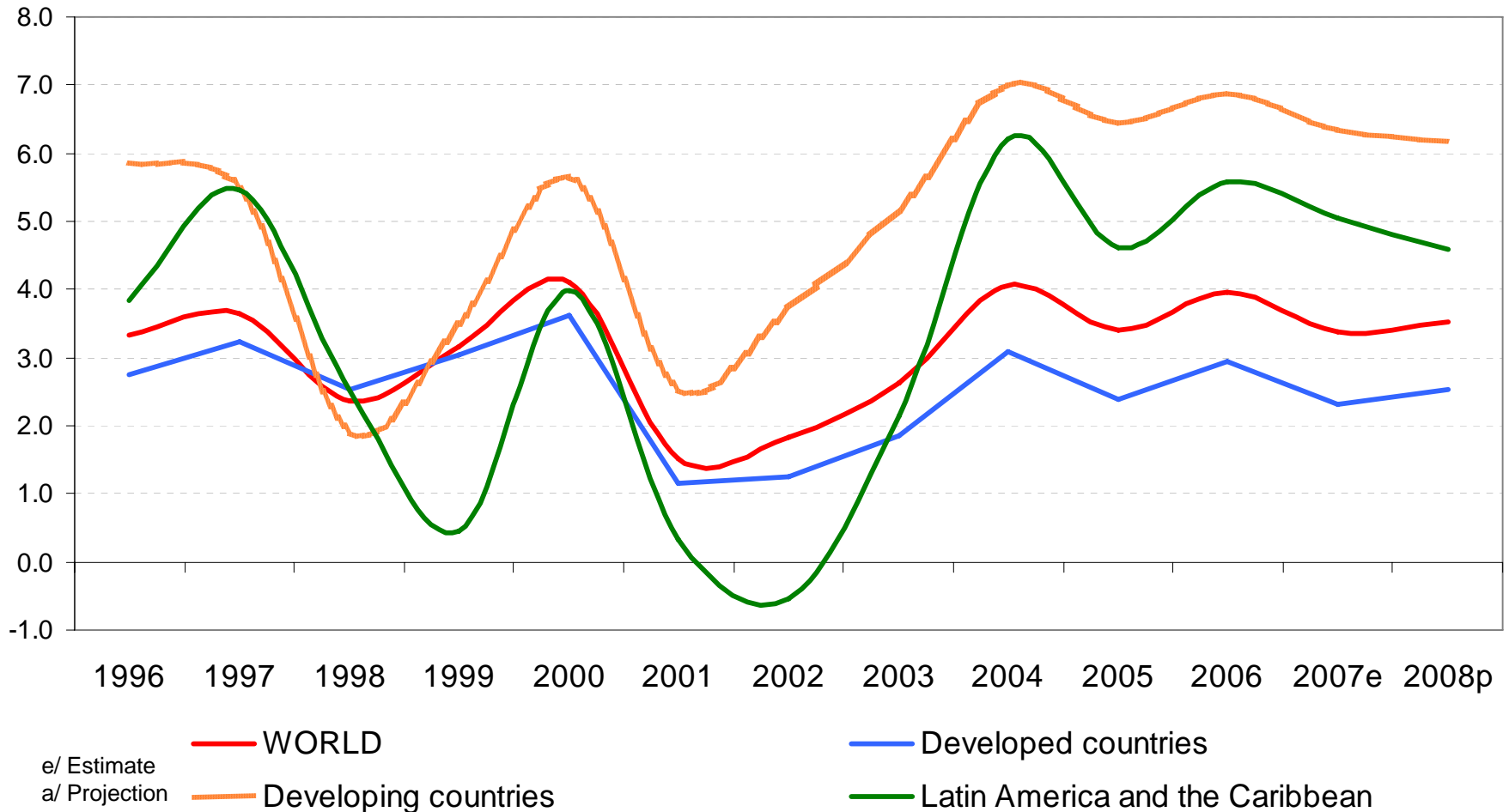
— EMBI+ for Latin America
— EMBI+ for Argentina
— EMBI+ for Venezuela



Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates
 - The sustainability of fiscal balances
 - Low investment rates
 - The acceleration of inflation in some countries
 - The heightened volatility of international financial markets
- **Growth in the world economy will remain strong**

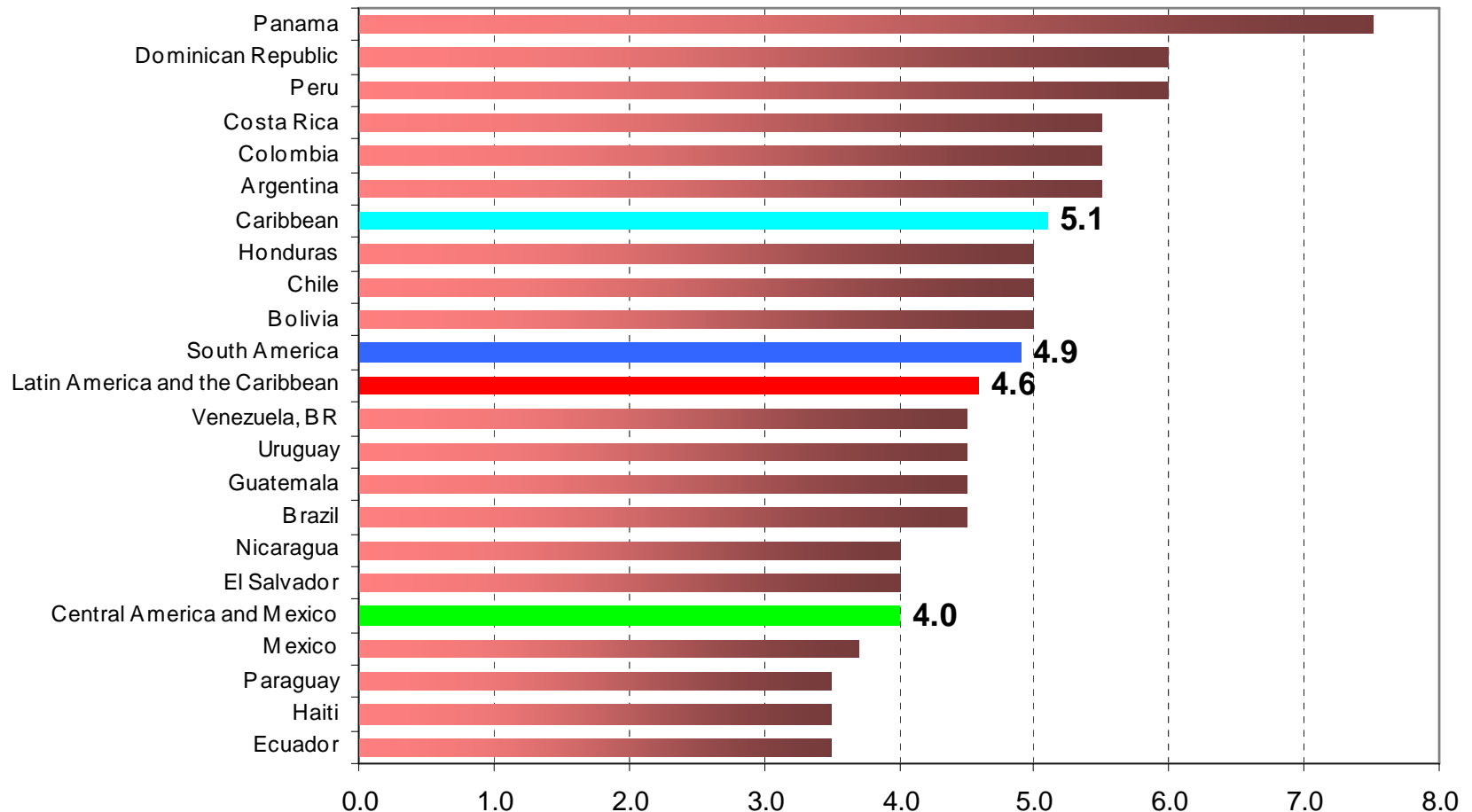
After slowing somewhat in 2007, the pace of world growth is expected to pick up in 2008



The Latin American and Caribbean region's growth will continue to be below the developing-country average

For 2008, growth of 4.6% is expected, with less dispersion across countries

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



Concerns and prospects

- **Concerns:**
 - The recent trend in real exchange rates
 - The sustainability of fiscal balances
 - Low investment rates
 - The acceleration of inflation in some countries
 - The heightened volatility of international financial markets
- **Growth in the world economy will remain strong**
- **A long-term growth strategy needs to be defined**



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