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## IN 2006, ECONOMIC GROWTH IN LATIN AMERICA AND THE CARIBBEAN EXCEEDED 5%

### REGIONAL OVERVIEW

For Latin America and the Caribbean, 2006 has been another good year for economic growth. The year's regional GDP is expected to show a 5.3% increase, equivalent to a 3.8% per capita increase, once final results for 2006 are available. This marks the fourth consecutive year of economic growth – and the third consecutive year of rates over 4% – after an average annual growth rate of just

2.2% between 1980 and 2002. However, growth continues to fall short of other developing regions.

Economic expansion is expected to slow slightly in 2007, with a projected regional GDP growth rate of 4.7%. This would put the per capita increase in the region's output at nearly 15% for the 2003-2007 period, or 2.8% per year. *(continued on page 3 ➡)*

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UNITED NATIONS

**ECLAC**

Economic Commission for  
Latin America and the Caribbean

### Total Gross Domestic Product Millions of Dollars (at Constant 2000 Prices)

Annual Rates of Variation

Country	2004	2005	2006 a/	2007 b/
<b>Latin America and the Caribbean</b>	<b>5.9</b>	<b>4.5</b>	<b>5.3</b>	<b>4.7</b>
<b>Latin America</b>	<b>6.0</b>	<b>4.5</b>	<b>5.3</b>	<b>4.7</b>
Argentina	9.0	9.2	8.5	7.5
Bolivia	3.9	4.1	4.5	4.0
Brazil	4.9	2.3	2.8	3.5
Chile	6.2	6.3	4.4	5.5
Colombia	4.9	5.2	6.0	5.0
Costa Rica	4.1	5.9	6.8	5.0
Ecuador	7.9	4.7	4.9	4.0
El Salvador	1.8	2.8	3.8	4.0
Guatemala	2.7	3.2	4.6	5.0
Haiti	-3.5	1.8	2.5	3.0
Honduras	5.0	4.1	5.6	5.0
Mexico	4.2	3.0	4.8	3.8
Nicaragua	5.1	4.0	3.7	4.0
Panama	7.5	6.9	7.5	7.0
Paraguay	4.1	2.9	4.0	3.5
Peru	5.2	6.4	7.2	6.0
Dominican Republic	2.7	9.2	10.0	7.0
Uruguay	11.8	6.6	7.3	6.0
Venezuela (Bolivarian Republic of)	17.9	9.3	10.0	7.0
<b>The Caribbean</b>	<b>3.8</b>	<b>4.9</b>	<b>6.8</b>	<b>5.4</b>
Cuba c/	5.4	11.8	12.5	-

Source: **ECLAC**

a/ Estimate. b/ Projection. c/ Figures provided by the National Statistics Office of Cuba, under evaluation by **ECLAC**.

## “CAUTIOUS OPTIMISM” SUMS UP GROWTH IN LATIN AMERICA AND THE CARIBBEAN TODAY

JOSÉ LUIS MACHINEA

**F**rom the viewpoint of ECLAC, the assessment of the current stage of growth in Latin America and the Caribbean can be summed up in two words: cautious optimism.

Optimism because the region's economies are experiencing both increased and improved growth compared to its recent economic history. Caution because the favourable international context behind these outcomes could change in the near future, and because countries in the region have important issues pending to assure their sustained growth.

This period of positive growth has allowed the region to recuperate levels of per capita GDP for a cumulative gain of some 16% between 2003 and 2007, following 20 years of virtual stagnation. The surge in economic activity is reflected in the labour market, with a lower unemployment rate and an increase in the quality of jobs. Both factors have a positive impact on the evolution of poverty, whose indicators have improved over recent years, although they remain extremely high.

Compared to similar periods of growth, current expansion is based more on investment than consumption. Despite important differences between trends in Mexico/Central America, on the one hand, and South America, on the other, consumption is growing less than income, resulting in a rise in regional saving. Greater saving, in turn, can finance increased investment, which this year exceeded its highest level since 1990.

The rise in public revenues, generally linked to higher export prices and greater caution in public spending, allows countries to keep public accounts in order and even generates surpluses that are used to reduce debt levels.

This reduced debt, restructured for greater participation of local-currency instruments at longer-term, fixed interest rates, contributes to lessening the region's external vulnerability and is one of the positive aspects of the current panorama.

Countries in the region have also significantly increased their foreign exchange reserves. In short, as the region continues to grow, it reduces its vulnerability to external shocks.

**“As the region grows, it reduces its vulnerability to external shocks.”**

As noted above, the need for caution is linked primarily to greater uncertainty concerning the evolution of the international economy, given the probable slowdown in the US economy, the major driver of world economic activity. To the degree that the transition toward lower growth is gradual – and there are reasons to believe that this will be the case – it is likely that the process of regional growth will not be significant affected, at least in the short term.

As a result, the region is better prepared to face a downturn in the external economic environment.

However, domestic policies in the region also give cause for caution. In some countries, the combination of high real interest rates and appreciated exchange rates could have a negative impact on the production of goods traded internationally and work against economic growth.

In the medium term, the challenges are of a different nature. To start with, although investment has increased, its current level (around 21% GDP in 2000 dollars) is still insufficient to sustain the growth that would allow for greater productivity and for the creation of enough jobs to reduce as rapidly as possible the region's persistently high unemployment rate. A similar situation exists regarding the need to improve the coverage and, in particular, the quality of education. Lastly, the region's great challenge is to discover how to take advantage of this opportunity to add greater value and a broader knowledge base to our exports and our overall productive structure.

This is necessary to deepen the region's competitiveness in the global context, an essential factor in reducing poverty in Latin America and the Caribbean and improving the social well-being of its population. ☺

The author is the Executive Secretary of ECLAC.

These are the latest figures presented by **ECLAC** in its *Preliminary Overview of the Economies of Latin America and the Caribbean 2006*, released recently by the UN regional commission.

According to the report, the favourable international environment has allowed the region to increase the volume of its commodities exports by 8.4%, for a more than 7% improvement in terms of trade over the previous year.

In 2006, growth in national income (GNP) for the region exceeded GDP growth by almost 2 percentage points, reaching 7.2%. This was broadly attributable to improved terms of trade and increased remittances from abroad. Growing investor and consumer confidence, relatively low real interest rates, more public spending, and an increase in total incomes (driven by rising employment and a modest upturn in real wages) are some of the factors behind the 7.0% increase in domestic demand, which became an engine of growth.

Public spending rose due to higher levels of investment in physical and social infrastructure. With fiscal revenues increasing even more steeply, the prevailing picture shows central governments with higher primary surpluses (up from 1.7% to 2.1% of GDP, on average) and narrower overall deficits (from 1.1% to 0.3% of GDP).



### Inflation and Unemployment Drop

In most countries, inflation decreased (in weighted terms) from 6.1% in 2005 to 4.8% in 2006. Many countries faced downward pressure on exchange rates from large inflows of foreign currency (due to stronger export prices or remittances) and took measures to contain the impact. Overall, however, most local currencies appreciated only slightly (3.5% on average).

In the area of employment, the **ECLAC Preliminary Overview 2006** indicates that economic growth fuelled job creation throughout the region. The rate of open unemployment continued the downward trend begun in 2004, albeit more slowly, dropping 0.4 percentage points, to 8.7%. Real wages also benefited from increased demand for labour, and rose by an average of 3%.



### Balance-of-Payments Surplus Grows, External Vulnerability Reduced

The value of the region's merchandise exports and imports rose by 21% and 20%, respectively. As a result, the balance-of-payments current account surplus increased from 1.5% of GDP in 2005 to 1.8% in 2006.

The capital and financial account surplus was smaller than the previous year, at US\$ 230 million. This is due to external debt-reduction policies, domestic financial market development and the accumulation of assets abroad. This limited the flow of financial capital and reflects the sharp fall in net foreign direct investment (due partly to the acquisition of the Canadian firm Inco by Brazil's Companhia Vale do Rio Doce). Meanwhile, capital in-flows to the region from foreign direct investment dropped slightly in comparison to 2005.

The report notes, however, that regional averages mask important differences between and within countries. Petroleum-exporting countries and the South American countries that export high-demand natural resources react to the international environment differently from the rest of Latin America and the Caribbean.

"Another distinctive feature of Latin America's current growth pattern is that the region has become significantly less vulnerable to possible external shocks," the **ECLAC** report states, as many countries have adopted more flexible exchange rates, lowered their foreign debt burdens and built up their international reserves.

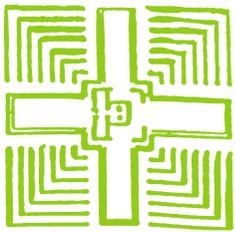


### 2007 Projections

For the coming year, **ECLAC** foresees a positive international environment for Latin America and the Caribbean, although less favourable than the 2006 level, given the projections of a slowdown in world growth to 3%. The probable slowdown of the US economy may also bring a loss of momentum in Japan and in the euro area, albeit on a smaller scale.

Continued regional GDP growth for 2007 rests on a sound domestic macroeconomic environment and the impact that sustained growth will have on domestic demand. This is a promising development, as the region has previously suffered from a high degree of macroeconomic volatility that discouraged investment and possibilities for sustained growth. Current account trends indicate that the region will maintain relatively high growth rates, with no strong external sector tensions on the horizon.

Nonetheless, there are areas that require attention, notes **ECLAC**. In particular, mechanisms are needed to boost the region's external competitiveness via increases in productivity. **ECLAC** also sees the need for stronger policy instruments at the national level to guarantee fiscal stability and minimize vulnerability to fluctuating economic cycles. 



## THE INTERNATIONAL ENVIRONMENT AND EXTERNAL SECTOR

The global economy continued to perform well in 2006, despite the incipient slowdown in a number of developed economies in the second half of the year. World output will expand by around 3.8% in 2006, compared to 3.5% in 2005. For the sixth year running, the growth rate of developing economies as a group (6.5%) will double that of developed countries (2.9%).

According to ECLAC's *Preliminary Overview of the Economies of Latin America and the Caribbean 2006*, this growth rate is greater than previously estimated, despite the marked volatility of commodity prices. This positive performance is due partly to the continued strength of the US economy, despite the slowdown of its construction sector, and partly to significant demands from the main Asian economies.

Many developed economies, including Japan, the euro area and the United States, will see their rates of growth slow in 2007. The slowing of global expansion could become more evident throughout 2007 and a growth rate of around 3.3% is estimated for the year overall. The global economy appears to be moving gradually and without turbulence into a lower-growth phase. If the rate of expansion continues to ease up as it is doing now, the economy should come in for a soft landing and global imbalances should lessen.

Analysis of the international panorama over 2006 indicates that national accounts have yet to show clear signs that the US economy is cooling, despite its expected slowdown. The US economy is expected to close 2006 with a 3.3% growth rate, for an annualized, seasonally-adjusted expansion rate of 2.0% in the fourth quarter. For 2007, the US economy is expected to lose some momentum and turn in a growth rate of around 2.6%. This estimate rests on the sustainability of current levels of consumption, given the drop in real estate prices and the possible impact on employment of the downturn in the construction sector.

In the euro area, economic growth was particularly strong in the first half of 2006. The economy posted a 0.9% expansion in the first and second quarters, in seasonally-adjusted terms. The aggregate output of the monetary union will expand by an estimated 2.5% in 2006, more than 1 percentage point above its 2005 rate. However, expansion is projected to slow in 2007 due to tighter fiscal policies in Germany and Italy. The estimated 2007 growth rate for the euro area is between 2.0% and 2.2%.

The Japanese economy slowed down in the third quarter of 2006, with GDP growth up 0.5% from the previous quarter. Japan's two largest export industries (transport equipment and electronic components) are highly dependent on the US economic cycle, which could produce a drop in exports. As a result, the forecast for the Japanese economy is for a slower growth rate – of around 2% – in 2007.

The main Asian economies continue to expand at sustained rates, led by China and India, which will post 2006 rates of 10.2% and 7.8%, powering growth throughout the region. Most Asian economies are frontline drivers of world trade, with exports from China and India growing at an annual rate of about 20%. Nevertheless, the Asian growth rate could diminish slightly in 2007 due to more restrictive Chinese policies and a lower rate of world growth.



### Commodity Prices

The upward trend in Latin American commodity export prices that began in 2002 continued in 2006, but the rate of increase was under that of 2005, with the September-to-September figure down from 28.5% to 10.4% and the cumulative variation for the year falling from 27.9% to 13%.

Crude oil prices played an important role in this slackening. The oil price index registered a 2.8% drop over the past 12 months and a 6.3% increase over January to mid-December 2006.

The strongest growth tracked by the export commodity price index was that of minerals and metal, whose prices rose by 36.6% over the 12 months, compared to 20.9% in 2005. The prices of zinc, nickel and copper rose by 143.5%, 111.7% and 97.1% respectively. Copper prices declined in the third quarter, owing to the slowdown in housing construction in the United States.

Prices for agricultural products also stopped rising, both over the past 12 months (from 8.2% in 2005 to 7.7% in 2006), and in cumulative terms (from 6.6% to 4.4%).

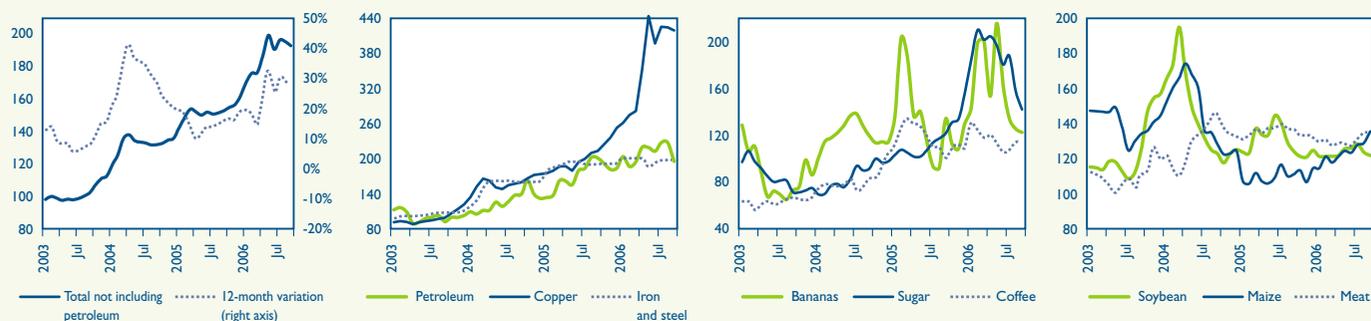


### Trade in Goods and Services

Total Latin American merchandise exports plus imports in 2006 is estimated to have amounted to US\$ 1.2 trillion, or the equivalent of 45% of regional GDP. At the same time, total trade increased by 20% over the year. Foreign sales were up by 21% and imports increased by 20%, figures similar to those reached in 2005.

## Latin America and the Caribbean: Prices of Selected Export Commodities, January 2003 - September 2006

(Index 2000=100) a/



Source: ECLAC, on the basis of official figures. a/ Index weighted according to the proportion of each product in the region's exports in 2000.

The Latin American merchandise trade surplus is expected to show an increase of US\$ 22.4 billion, which is 27% above its 2005 figure and more than 80% over 2004. The 2006 figure of US\$ 103 billion, or 3.7% of regional GDP, represents the fifth consecutive year of surplus on this account. However, just eight countries (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador Peru and Venezuela) posted a surplus on their merchandise balance, which is one country less (Uruguay) than in 2005. The largest merchandise surplus increases were recorded in Bolivia, Chile, Peru, Ecuador and Venezuela.

Of the 21% increase in the region's exports, 13 percentage points correspond to price variations. The rest is attributable to growing export volumes. Chile and Bolivia displayed the largest increase in exports (48% and 40%), followed by Peru (35%) and Venezuela (25%).

All countries in the region increased their imports, which grew by 20% in 2006. Bolivia, Brazil, Paraguay, Uruguay and Venezuela registered the greatest percentage growth of goods purchased abroad. This marks the fourth consecutive increase for Latin American imports, for a 78% increase over 2002-2006, compared to a 68% increase in GDP.

As with exports in 2006, the countries of South America saw more dynamic import growth (up 24%) than did those of Central America (up 14%).

### Terms of Trade

The ECLAC report notes that Latin America's terms of trade showed a cumulative gain of 21.1% between 2001 and 2006. Preliminary figures indicate a 7.8% increase for 2006. This

improvement is attributable to a 12.9% increase in the price of exports, while import prices rose by 4.4%

In 2006, Latin America is expected to record its fourth consecutive surplus on its balance-of-payments current account, an unprecedented achievement for the region. The 2006 surplus is estimated at US\$ 51 billion, equivalent to 1.8% of regional GDP.

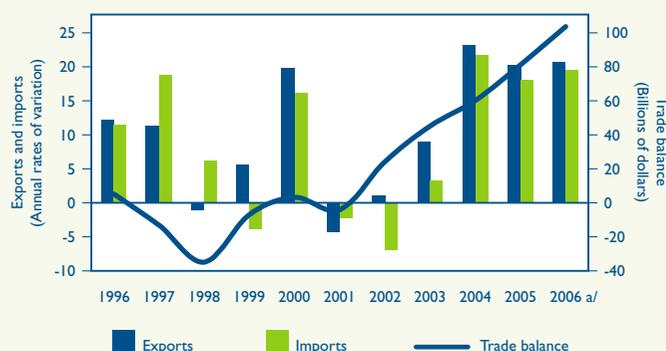
This represents a 43% increase over 2005, and a 147% increase over 2004.

### Capital Movement

In 2006, the balance of the region's capital and financial account was close to equilibrium, with net flows of financial capital showing a larger negative balance than the previous year (1.2% of GDP). Net foreign direct investment (FDI) was lower than in 2005, representing 1.2% of GDP.

### Latin America and the Caribbean: External Trade, 1996-2006

(Annual rates of variation for exports and imports; trade balance in billions of dollars)



Source: ECLAC, on the basis of official figures. a/ Preliminary figures.

### Latin America and the Caribbean: Percentage Variation in Merchandise Exports, F.O.B., by Unit Price and Volume, 2006 a/



Source: ECLAC, on the basis of official figures. a/ Preliminary figures.

International market liquidity continued to drive the positive take-up of financial securities issued by countries of the region in international markets, despite interest rate hikes in the United States in the first quarter. Foreign investors in Latin American and Caribbean markets benefited from the deeper development and increased openness of domestic markets and the prevalence of high real interest rates (in Brazil, for instance) and nominal appreciation of local currencies.

Latin America's sovereign risk dropped to a record low of 199 basis points (based on the US Treasury bonds reference rate) in April. Following a rise to 239 basis points in May, this indicator moved downwards in late June, then rose slightly in the final quarter to stand at 217 basis points in November. Contributing factors were election periods in some countries and uncertainty concerning US economic performance and its possible impacts on the world economy.

The ECLAC report highlights the capacity of some countries to create the domestic market conditions that enable them to obtain an increasing proportion of public financing from within the country rather than on international markets. This reflects a downward trend of external debt as a proportion of total public debt.



## MACROECONOMIC POLICY



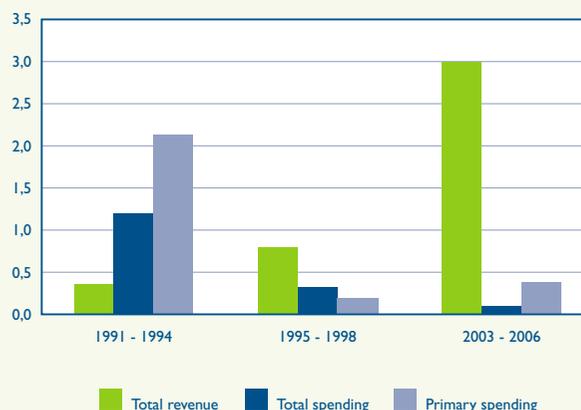
### Income Increases, Debts Decrease

The year 2006 brought positive signs in terms of macroeconomic policy. The region has been consolidating its achievements, according to ECLAC's *Preliminary Overview of the Economies of Latin America and the Caribbean 2006*, including strengthening fiscal accounts, reducing public debt and increasing fiscal revenues above public spending – trends that allow some countries to register a surplus.

Of 19 regional countries analyzed, 17 registered a primary surplus in 2006 (excluding debt interest payments.) This comes in significant contrast to 2002, when only eight countries had a primary surplus. (The 2003-2004 figure was 12). However, it must be stressed that only nine countries have achieved a positive result overall, and only three of these are countries whose fiscal revenues are not largely the product of revenue from non-renewable resources.

While an important part of this improvement reflects the favourable international context, in some instances countries have used fiscal administration to achieve more solvent

### Latin America and the Caribbean: Variations in the Main Fiscal Indicators, 1991-1994, 1995-1998, 2003-2006 (Percentage points of GDP)



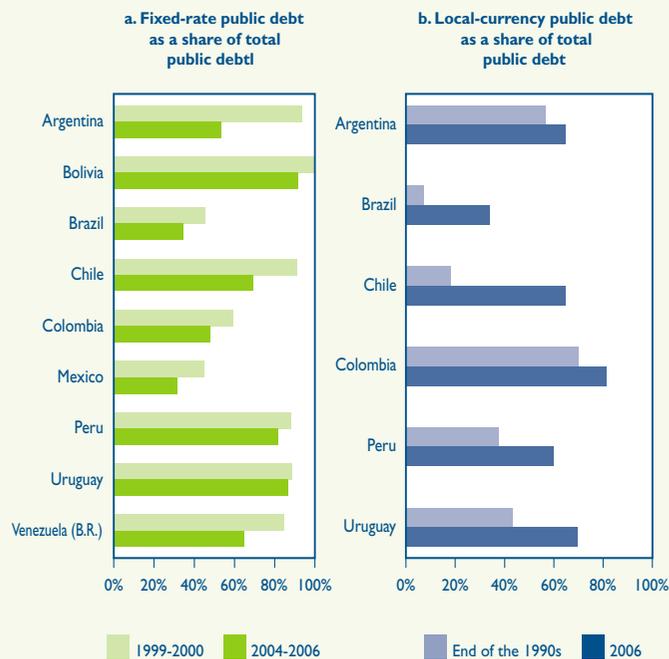
Source: ECLAC, on the basis of official figures.

macroeconomic policy, as demonstrated by the administration of fiscal surpluses and public debt.

The general rise in fiscal revenues across the region was boosted primarily by increases in countries specializing in

### Latin America: Composition of Public Debt, Late 1990s and 2005

(Percentages)



Source: ECLAC, on the basis of official figures.

reduce their debt/GDP ratio (which went from 62% in 2003 to 42.9% in 2006) but also to improve debt composition and apply debt management policies that reduce their financial vulnerability.

### Region Adopts More Flexible Exchange Rate Regimes

In the first 10 months of 2006, the extraregional real effective exchange rate of Latin America and the Caribbean (excluding trade within the region) appreciated by 3.5% on average, with effective appreciation occurring in 16 countries.

Countries subject to major variations in their terms of trade can benefit from a flexible exchange rate that mitigates the impact of negative shocks, as flexible exchange rates allow relative prices to adjust more quickly and at a lesser cost, in terms of unemployment.

Recent years have seen a trend in the region toward the adoption of more flexible exchange rate regimes. This trend recognizes the impossibility of having an independent monetary policy, a liberalized capital account and a fixed exchange rate (known as the “impossible trinity”). Confirming this trend in 2006, Costa Rica modified its exchange rate regime, switching from a crawling peg to a moving band system.

Nevertheless, the existence of diverse currency regimes within Latin America (and particularly in the Central America subregion) continues to produce disparate effects among countries when faced with common shocks, like higher petroleum prices.

non-renewable resources. The three countries with the strongest revenue growth in 2005-2006 (Bolivia, Chile and Venezuela) happen to be those whose terms of trade improved the most.

The increase in fiscal revenues is the result of both improved commodity prices and the incorporation of new tax instruments. In Bolivia, greater revenues are due primarily to the approval of a new direct tax on hydrocarbons and derivatives that yielded revenue worth 3.1 points of GDP in 2005 and to the extraordinary surtax on extractive industries decreed in 1994 but levied for the first time in 2005.

In Chile and Venezuela, improvement is due largely to new taxes on commodity exports. In 2005, Chile created a special tax on operating income from mining activities that increased fiscal revenues from high copper prices. Venezuela has made numerous reforms to its tax structure, including a reduction of the VAT rate and abolition of the corporate asset tax (2004), and an increase in the royalties and revenue tax levied on the oil sector (2005).

As concerns the public debt, the *ECLAC Preliminary Overview 2006* notes how countries in the region are taking advantage of favourable macroeconomic conditions not only to

### Extraregional Real Effective Exchange Rate

(Base January 1990 - December 1999 = 100)



Source: ECLAC, on the basis of official figures.



## Monetary Expansion Exceeds Forecasts

Money supply growth over the past 12 months exceeded that of 2005 in 11 countries. The largest increases were in Bolivia and Venezuela. In the latter country, currency controls within a context of considerable fiscal stimulus (financed by higher oil exports) resulted in a substantial increase in liquidity.

In the former country, this occurred through a reduction in the dollarization of the economy, attributable to favourable external conditions and establishment of distinct reserve requirements for dollar-denominated and *boliviano*-denominated deposits. Another factor was a narrowing of the spread between dollar sales and purchases, which reduced transaction costs when converting one currency into the other. This has had a major effect on Bolivia's international reserves, which increased by more than 80% and are the main factor driving the increase in the monetary base.

In recent years, prices in the region have increased moderately. Contributing factors include concerns in some Central Banks about inflation and currency appreciation. Due to lower inflation rates, monetary policy interest rates are at low levels when compared to historical standards.

In view of vigorous domestic demand and rising international interest rates, many of the region's central banks have decided to gradually withdraw their monetary stimulus by increasing interest rates, although these are still lower than in previous decades. However, higher oil prices in the international market caused prices to rise by more than some central banks had forecast.

Bank lending is more important in Latin America than in economies with deep capital markets and the lending recovery that began in 2003 continued in 2006. Meanwhile, and in contrast to 2005, mortgage lending increased strongly in Argentina (over 10%), Brazil and Mexico (both over 20%). 



## DOMESTIC PERFORMANCE



In 2006, the region achieved four consecutive years of growth, with a cumulative GDP increase of 18.8% over the 2003-2006 period as compared to 2002, which represents a 12% per capita GDP increase.

According to *ECLAC's Preliminary Overview of the Economies of Latin America and the Caribbean 2006*, all countries posted positive growth rates. In most cases, these equaled or exceeded 2005 rates. The highest rates were posted by Venezuela and the Dominican Republic (both 10%), Argentina (8.5%) and Panama (7.5%). Costa Rica, Peru and Uruguay grew at rates of around 7% and Colombia at close to 6%. The lowest figures were for Haiti (2.5%) and Brazil (2.8%). In the rest of the region, GDP growth rates were between 3.5% and 5%. The English- and Dutch-speaking Caribbean countries as a group posted growth of 6.8%.

The sustained external demand for the region's export commodities (especially metals, minerals and hydrocarbons) continued and in some cases increased, generating higher income, especially among South American countries. In regional terms, the volume of goods and services exports expanded in 2006 at a higher rate (8.4%) than GDP, as in 2004 and 2005.

**Latin America and the Caribbean:  
GDP Growth Rates at Constant Prices, 2005 and 2006**  
(Percentages)



Source: ECLAC, on the basis of official figures. a/ Estimate.

The real effective exchange rate trend continued to favour exporters in most countries, despite appreciation of some national currencies over the year. Currency appreciation in relation to the US dollar in 2005 (and 2006 in some countries) helped lower the price of imported goods and increase domestic demand.

### Expanding Credit and Investment Drive Domestic Demand

Domestic demand in 2006 continued its strong performance of 2004 and 2005, posting a 7.0% increase (compared to 6.2% in 2004 and 5.5% in 2005) driven by a steady rise in gross domestic investment (10.5%) and faster growth in consumption (6%). Factors contributing to the rapid growth of private consumption and investment include significant expansion of bank credit to the private sector from higher domestic market liquidity and the maintenance of low lending rates. While in some countries, interest rates rose in 2006, they were generally lower than in 2005 – a positive factor for both consumption and investment decisions. Other factors behind the expansion of private consumption (6.3%) include improved labour market indicators and higher real wages in most countries.

Rapid growth in the construction sector was largely responsible for the rise in gross fixed capital formation. Mining and hydrocarbon production grew more slowly than in 2005, except in Bolivia. Growth in the agricultural sector, although positive, was below the increase in overall GDP.

In the second semester, petroleum and fuel prices dropped on international markets, which allowed some countries to adjust to lowered transport sector prices in the final months of 2006. The transport sector was buoyed up by increases in travel, for both tourism and business, greater economic activity overall and more disposable income in a number of Latin American countries.

The region posted a 2006 inflation rate of 4.8%, in weighted terms, compared to 6.1% in 2005. This indicator dropped for the fourth consecutive year from its 2002 level of 12.2%.

### Income and Savings Increase

One distinctive trait of Latin America's current period of economic growth is the significant increase in gross disposable income, which expanded by 7.3% in 2006 (measured in constant 2000 dollars). Measured in percentage of GDP, the trading gain rose by nearly 20% in Venezuela and Chile, and by 15% in Bolivia.

Together with the considerable increase in gross national disposable income in Latin America, national saving showed significant growth, both in regional terms and in some countries, reaching 23.6% of GDP at current prices, the highest figure since 1990.

## LATIN AMERICA AND THE CARIBBEAN CONSOLIDATE GAINS IN FISCAL ACCOUNTS

The countries of Latin America and the Caribbean continued to consolidate their fiscal position in 2006. The positive trend in fiscal accounts and public debt management is allowing for the ongoing reduction of regional vulnerability, in a process that began in 2002. So states **ECLAC** in its *Preliminary Overview 2006*.

The region's fiscal performance will allow central governments to generate primary surpluses (minus public debt interest payments) of 2.1% of GDP for the end of 2006, a positive achievement compared to last year's figure of 1.7%. Taking overall deficits into account (including debt interest payments), the deficit narrowed from 1.1% to 0.3% of GDP.

The report notes how 2003-2006 fiscal performance exhibits noteworthy traits when compared to other periods of growth. Fiscal improvements in 2003 and 2004 were based on a combination of increased revenues and average increases in expenditure beneath regional GDP. In 2005 and 2006, however, primary surplus growth reflects a strong expansion of resources that more than compensated for increased public spending over the two-year period.

The overall increase in public resources in regional economies was primarily driven, for the second consecutive year, by increases in fiscal revenues in countries specialized in the export of non-renewable products.

The rise in fiscal revenues in these countries is due both to improvements in commodity prices and to the incorporation of new tax instruments. Bolivia, Chile and Venezuela created new taxes to extract higher revenues from non-renewable resources (gas, copper and petroleum). The combination of these reforms and positive price movements indicates that tax systems are increasingly dependent on resources derived from the exploitation of non-renewable commodities.

Many countries in the region increased spending in 2005-2006. This overall growth did not offset the increase in revenues, and a positive fiscal balance was maintained, despite increases in the rate of expenditure growth over last year.

Certainly, governments have made considerable improvements in fiscal and public debt indicators over 2003-2006, as fiscal revenues have increased significantly and expenditure management has tamed the expansionary tendency that characterized fiscal policy in other periods of revenue growth.

However, upward pressure on spending was a feature of the fiscal situation in the 2005-2006 period, given the substantial rise in revenues for the third consecutive year. Two priorities must now be reconciled: the region's pressing need to increase social and infrastructure spending and improve investment in physical and human capital, and the creation of greater fiscal maneuvering room to ensure that these policies are sustainable over time.



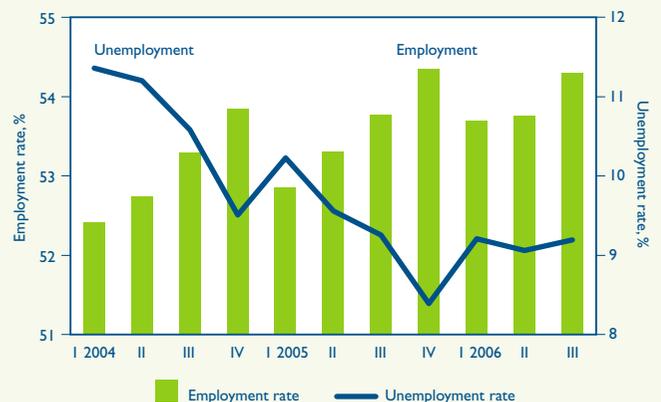
## Employment Rates and Wages Improve

Economic growth has improved the main labour market indicators. Thanks to strong demand for labour, the employment rate rose again (by a 0.5 percentage point) to reach 54% of the working age population – the highest rate in 15 years. At the regional level, there was a return to the long-term trend of increasing numbers of women entering the labour force.

According to the **ECLAC** report, open unemployment declined for the third consecutive year, although this 0.4 percentage point decline was under the 2005 figure, due to the rise in labour force participation. The regional unemployment rate for 2006 stood at 8.7% of the economically active population. The unemployment rate fell in 17 of the 19 countries with available data, and 11 countries saw improvements of 1 percentage point or more. Only Brazil saw a rise in unemployment.

In terms of the quality of employment, the new **ECLAC** report presents mixed results. On one hand, the strong expansion of formal employment that began with the recent economic

### Latin America (9 Countries): Quarterly Employment and Unemployment Rates



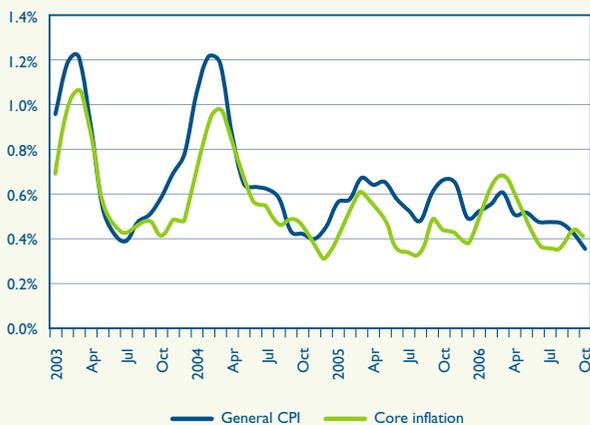
Source: **ECLAC**, on the basis of official figures.

recovery has continued. Some of the rapid growth in formal job creation was due to new jobs and the formalization of pre-existing informal contractual relations. The proportion of employed covered by some type of retirement scheme also increased.

On the other hand, while the visible underemployment rate dropped in nearly all countries with available information (Argentina, Colombia, Costa Rica, Ecuador, Honduras, Mexico, Peru and Uruguay), with the exception of Brazil and Chile, income indicators show that many new jobs are low-paying. In fact, in Brazil, Colombia, Costa Rica, Ecuador and Peru, the percentage of employed persons with income below a certain wage floor (invisible underemployment) rose.

In 2006, formal sector wages across the region showed their first real increase of over 2% since 1997. In general, economic recovery and increased employment across the region over recent years has not affected wages (except in countries, like Argentina and Uruguay, recovering from serious economic crises). In 2006, by contrast, real wage increases were registered in the 10 countries with available data, and in most of them, wages grew more than in 2005. 

### Latin America: Consumer Price Index and Core Inflation Index (Three-month moving average, unweighted)



Source: **ECLAC**, on the basis of official figures.

Produced by **ECLAC Information Services**

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The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the milestones in the region's history. The symbols are engraved on the outside of the conference rooms at **ECLAC** headquarters in Santiago, Chile.



# STATISTICAL APPENDIX

## Latin America and the Caribbean: Main Economic Indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 a/
<b>Annual rates of change</b>										
Gross Domestic Product b/	5.5	2.6	0.4	3.9	0.3	-0.8	2.0	5.9	4.5	5.3
Per Capita Gross Domestic Product b/	3.8	0.9	-1.2	2.3	-1.3	-2.3	0.5	4.4	3.0	3.8
Consumer prices c/	10.7	10.0	9.7	9.0	6.1	12.2	8.5	7.4	6.1	4.8
<b>Percentage</b>										
Open urban unemployment rate d/	9.3	10.3	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.7
Total gross external debt GDP e/	33.6	36.5	42.2	36.9	38.3	42.4	42.2	37.0	27.1	24.0
Total gross external debt /										
exports of goods and services	198	216	211	172	181	178	168	138	101	83
<b>Balance of payments</b>										
<b>US\$ billion</b>										
Current account balance	-64 331	-87 697	-54 757	-47 001	-52 229	-13 989	9 004	20 775	35 873	51 294
Merchandise trade balance	-13 134	-34 872	-6 790	3 159	-4 003	24 254	45 179	60 313	81 239	103 646
Exports of goods and services, f.o.b.	286 680	283 453	299 364	358 718	343 235	347 142	378 472	466 311	560 629	677 170
Imports of goods and services, f.o.b.	299 813	318 324	306 155	355 559	347 238	322 888	333 293	405 998	479 391	573 524
Services trade balance	-18 974	-19 548	-16 187	-17 112	-19 038	-14 205	-13 298	-13 922	-17 973	-21 308
Income balance	-47 595	-50 331	-51 181	-53 716	-54 351	-52 570	-57 770	-67 103	-76 623	-89 704
Net current transfers	15 371	17 053	19 401	20 669	25 163	28 532	34 892	41 487	49 231	58 660
Capital and financial balances f/	89 132	68 594	42 413	62 243	35 057	-11 571	1 877	-8 827	21 736	534
Net foreign direct investment	57 599	60 999	79 923	70 308	63 659	45 213	35 114	43 149	49 206	33 483
Financial capital g/	31 534	7 596	-37 510	-8 066	-28 602	-56 784	-33 237	-51 977	-27 470	32 949
Overall balance	24 801	-19 103	-12 344	15 242	-17 172	-25 560	10 881	11 947	57 609	51 828
Change in reserve assets h/	-15 800	10 045	6 248	-7 084	1 000	3 140	-29 445	-20 801	-35 509	-38 631
Other financing i/	-9 001	9 057	6 096	-8 158	16 173	22 420	18 564	8 854	-22 101	-13 198

Source: **ECLAC**, on the basis of official figures.

a/ Preliminary figures.

b/ Based on official figures converted into dollars at constant 2000 prices.

c/ December - December variation.

d/ The data for Argentina, Brazil and Mexico have been adjusted to allow for changes in methodology in 2003 and 2002, respectively.

e/ Estimates based on figures denominated in dollars.

f/ Includes errors and omissions.

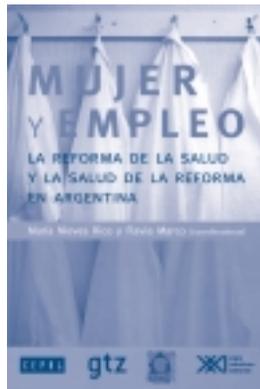
g/ Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

h/ A minus sign (-) indicates an increase in reserve assets.

i/ Includes the uses of IMF credit and loans and exceptional financing.

**1** **Estratificación social y clases sociales. Una revisión analítica de los sectores medios** (*Social Stratification and Social Classes: An Analytical Review of Middle Sectors*) by Camilo Sémbler R. December 2006 (LC/L.2637-P/E), *Serie Políticas Sociales N° 125*. This study examines the debates on social class and stratification in Latin America, with special emphasis on ways to identify the make-up, profile and preferences of middle sectors across the region. [www](#)

**2** **Mujer y empleo: La reforma de la salud y la salud de la reforma en Argentina** (*Women and Employment: Reform of the Health Sector and the Health of Sectoral Reform in Argentina*) by María Nieves



Rico and Flavia Marco. December 2006. Siglo XXI Editores. The authors present a new look at health reform in Argentina and the decentralization of health services begun in the 1990s, focusing on the virtuous circle between social research and government policies. The analysis includes an overview of local and national experiences and of women's

non-paid work in the health sector. The study makes recommendations for human resource management and public policies that contribute to the applicability of rights.

**3** **Cooperación financiera regional** (*Regional Financial Cooperation*), compiled by José Antonio Ocampo. September 2006. (LC/G.2319-P/E) This study looks at how regional cooperation – still characterized by operations of limited scope and not recognized as a key component of international financial architecture – can become an efficient tool to overcome existing insufficiencies. The publication aims to spark discussion of new initiatives in South-South cooperation. [www](#)

**4** **Efectos económicos de las nuevas medidas de protección marítima y portuaria** (*Economic Impacts of New Maritime and Port Protection Measures*) by Martín Sgut. September 2006 (LC/L.2615-P/E), *Serie Recursos Naturales e Infraestructura N° 117*. The aim of this publication is to increase understanding among all actors and at every stage of the logistic chain of new measures in cargo and container maritime transport. [www](#)

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MONTH	EVENT	PLACE
<b>DECEMBER</b>		
4	Launch of the <b>ECLAC</b> flagship publication "Social Panorama of Latin America 2006"	<b>ECLAC</b> , Santiago, Chile
5	Conference by Uruguay's Minister of Economy, Danilo Astor	<b>ECLAC</b>
11	Commemoration of International Human Rights Day 2006, "The Fight Against Poverty: Obligation, Not Charity"	<b>ECLAC</b>
13	International Seminar: Paradoxes of Latin American Integration	<b>ECLAC</b>
14	Launch of the <b>ECLAC</b> flagship publication "Preliminary Overview of the Economies of Latin America and the Caribbean 2006"	<b>ECLAC</b>
<b>JANUARY</b>		
11	International Seminar: Public Spending and Social Cohesion	<b>ECLAC</b>
12	Regional launch of the UN report "World Economic Situation and Prospects 2007"	Mexico City
29	XIX Regional Seminar on Fiscal Policy	<b>ECLAC</b>
<b>FEBRUARY</b>		
1 - 2	Workshop on Decentralization	<b>ECLAC</b>
7 - 8	International Forum on Public Policies for Mexican Development	Mexico City
21 - 23	Seminar: Indigenous Migration to Cities	<b>ECLAC</b>
<b>MARCH</b>		
2 - 3	XX Summit of Heads of State and Government of the Rio Group	Georgetown, Guyana

