

JANUARY 2008 **No.56**

LATIN AMERICAN AND CARIBBEAN ECONOMIES GROW 5.6% IN 2007; SLIGHT DOWNTURN FORECAST FOR 2008

REGIONAL PANORAMA

- | Regional Panorama
- 2 **OPINION**
Taking Advantage of the Favourable Scenario to Consolidate Economic Growth
- 4 Macroeconomic Policy
- 6 Domestic Performance
- 8 External Sector
- 9 Macroeconomic Management Should Make the Most of Growth

11 **STATISTICAL APPENDIX**

12 **RECENT TITLES**

12 **CALENDAR**

This publication is also available in Spanish and on the Internet: www.eclac.cl or www.eclac.org.



UNITED NATIONS



Economic Commission for Latin America and the Caribbean

Over 2007, Latin America and the Caribbean maintained a favourable economic situation that allowed for growth in nearly all the countries of the region. Despite the deteriorating external financial context of the second half of the year, the regional Gross Domestic Product (GDP) is estimated to have grown by 5.6%, according to the Economic Commission for Latin America and the Caribbean (ECLAC).

According to the *Preliminary Overview of the Economies of Latin America and the Caribbean 2007*, growth for 2008 could reach 4.9%. Should this occur, it would constitute the sixth consecutive year of growth for the region, with a cumulative per capita GDP increase of 24%, or 3.5% per annum.

Many factors characterizing the region's current stage of economic growth stayed on

(continued on page 3 ➡)

Total Gross Domestic Product				
(Millions of dollars expressed in constant 2000 dollars) Rates of variation 2005-2008				
Country	2005	2006	2007	2008
Argentina	9.2	8.5	8.6	6.5
Bolivia	4.0	4.6	3.8	4.0
Brazil	2.9	3.7	5.3	5.0
Chile	5.7	4.0	5.3	5.0
Colombia	4.7	6.8	7.0	5.5
Costa Rica	5.9	8.2	7.0	6.0
Cuba a/	11.8	12.5	7.0	—
Dominican Republic	9.3	10.7	7.5	5.5
Ecuador	6.0	3.9	2.7	3.0
El Salvador	3.1	4.2	4.5	4.5
Guatemala	3.5	4.9	5.5	5.0
Haiti	1.8	2.3	3.3	4.0
Honduras	4.1	6.0	6.0	5.5
Mexico	2.8	4.8	3.3	3.3
Nicaragua	4.3	3.7	3.0	3.5
Panama	7.2	8.7	9.5	8.5
Paraguay	2.9	4.2	5.5	5.0
Peru	6.7	7.6	8.2	6.5
Uruguay	6.6	7.0	7.5	6.5
Venezuela	10.3	10.3	8.5	6.0
Sub-total Latin America	4.6	5.5	5.6	4.9
Caribbean	4.7	6.9	3.9	4.9
Latin America and the Caribbean	4.6	5.6	5.6	4.9

Source: ECLAC, on the basis of official figures.

a/ Figures from Cuba are not strictly comparable with those of other countries due to methodological reasons introduced as of 2004, and are not included in the total figures.

TAKING ADVANTAGE OF THE FAVOURABLE SCENARIO TO CONSOLIDATE ECONOMIC GROWTH IN THE REGION

JOSÉ LUIS MACHINEA

If projections are confirmed, the year 2008 will be the fifth consecutive year of per capita GDP growth exceeding 3% in Latin America and the Caribbean. This demonstrates the exceptional nature of the current stage of the region's economic performance. To find a similar period of sustained growth over 3%, we have to go back some 40 years, to the seven-year streak at similar growth rates during the period of regional expansion between the 1960s and the first oil price shocks of the early 1970s.

This exceptional economic moment in Latin America and the Caribbean is linked to industrialization processes underway in countries comparatively less-developed than China, India and other Asian nations and which has prompted a structural change in world demand that favours primary and other goods produced in our region. It is highly likely that over the next 10 or 15 years, these structural changes in world supply and demand will continue to benefit Latin America and the Caribbean, and especially South America.


To take advantage of this window of opportunity, a strategic push is required in the production of primary goods that makes the best of existing assets. At the same time, two compelling reasons exist to foster the development of other activities related to these products.

First, it is necessary to prepare for the moment when these products will inevitably experience a drop in their relative value. Second, development based solely on natural resources without added value (and especially without incorporation of added knowledge) cannot improve income distribution nor generate the externalities needed to maximize the development process.

“The region must develop a strategy to add knowledge to activities based on natural resources and to develop new sectors linked to these resources.”

For this reason, the region must develop a strategy to add knowledge to activities based on natural resources and develop new sectors linked to these resources. Three elements are needed: infrastructure, a network for innovation, and improvements in the quality of education. In none of these areas is the region doing enough. Infrastructure in transport, both domestic and foreign, and in the energy sector – which is crucial to improved competitiveness – continues to exhibit serious deficits

and low investment. General subsidies that include high-resource sectors divert resources from public investment and fail to generate the incentives necessary for private investment. To advance, the mechanisms for innovation require resources and a technological infrastructure on a scale not found in this region. A strategy to prioritize these activities is needed that will work in conjunction with private sector development, while giving the State the leading role in its design. Lastly, the need to add knowledge to our exports and the productive structure overall will become increasingly difficult to the degree that the region fails to improve the deficient quality of its educational systems and, by extension, the quality of its human resources.

Placing resources and capabilities at the service of these activities requires the adoption of a strategic decision to make the most of the additional resources currently available. While various countries have made some progress in this respect, these steps are insufficient and throw into doubt the region's ability to create a foundation for sustainable growth. 

The author is the Executive Secretary of ECLAC.

course during 2007, including its current account surplus (albeit at a lower level); renewed improvements in terms of trade (also at a lower rate); sustained positive primary results for fiscal accounts; decreased unemployment; increased international reserves; and reduced external debt as a percentage of GDP. At the same time, dynamism in investment continued and private consumption grew considerably.

Current accounts registered a surplus of 0.7%, with terms of trade increasing by 2.6%, despite notable differences among countries. Gross disposable national income grew by 6.5%, exceeding the GDP growth rate, and domestic demand increased by 7.7%.

Latin American and Caribbean external liabilities continued to drop over 2007. Most countries reported an inflow of private capital. This upped the pressure on exchange rates and produced a significant accumulation of international reserves, estimated to exceed 3.5% of regional GDP. At the same time, the foreign debt burden deepened considerably.

Taken as a whole, these factors place the region in a stronger position to face increased external volatility.

Drop in Unemployment

One highlight of the current period of Latin American and Caribbean economic growth is in the area of employment. The *Preliminary Overview 2007* notes that progress continued over 2007, with the regional employment rate among the economically active population increasing from 54.1% to 54.6%. This is also reflected in a new decline in the unemployment rate, from 8.6% to 8.0%. Over the past five years, the regional unemployment rate has dropped by three percentage points, approaching its level at the start of the 1990s. Projections for 2008 suggest continuing decreases in unemployment, to 7.6%.

This sustained, elevated economic growth is unprecedented in the region, and is reflected in the dynamic demand for labour. In 2007, wage employment was once again the segment with the highest rate of growth (4.0%), notably exceeding growth in total employment (2.8%).

Another 2007 trend was the sharp increase in formal employment. Argentina, Brazil, Chile, Costa Rica, Mexico, Nicaragua, Panama and Peru all reported increases of 5% or more during the first semester (or first three quarters) of the year. When estimates for 2007 are included, the past five years have seen formal employment rise 17.5% in Mexico, 25.3% in Brazil, 26.9% in Peru, 29.3% in Costa Rica, 31.2% in Chile, 47.6% in Nicaragua, and 49.5% in Argentina. Also in 2007, growth in

formal employment exceeded that of informal employment in Colombia, Ecuador, Venezuela and Uruguay.

Labour market trends have special relevance for economic and social development. The high growth of household consumption (6.8%) was fueled primarily by the increase of total wages, due mainly to the surge in new jobs and expansion of consumer credit. This reflects a virtuous circle between job creation and economic growth.

Increases in employment levels and reduced unemployment – estimated at 800,000 people in 2007 for the region's urban areas – contributed to the renewed, albeit moderate, decrease in poverty, as calculated recently by ECLAC's *Social Panorama of Latin America 2007*.

However, the ECLAC report also warns of serious and persistent problems in the labour market. Estimates place urban open unemployment at some 17 million people, with a high percentage of employed workers unable to earn enough to escape poverty.




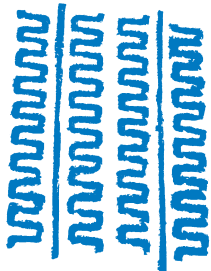
Forecasts and Challenges

The US housing loan crisis has generated the perception of increased risk of economic slowdown. While the magnitude of the US crisis is not yet clear, the performance of other national economies is a matter for concern. The most likely scenario is for a US economic downturn of 2.2% in 2007 and 2.0% in 2008. Growth in the European Union could drop from 2.9% in 2007 to 2.5% in 2008, and Japan could follow suit, with a projected decrease of 2.0% in 2007 to 1.7% in 2008.

In summary, the lower pace of developed country growth makes moderate world economic slowdown possible, with limited but diverse impacts on emerging economies. For Latin America and the Caribbean, the *Preliminary Overview 2007* forecasts that the relative strength of the region's economies warrants cautious optimism.

But the current situation is not free of risks. In addition to the possible US economic slowdown, Latin America presents warning signs of its own, including persistent decreases in the real exchange rate, growing inflation in several countries, and an overall increase in public expenditure.

In addition to these short-term risks, ECLAC warns that the region is not doing enough to improve competitiveness at the systemic level, and specifically cites the need to increase investment (especially infrastructure for energy and transport), encourage innovation, and foster greater human resource capabilities through improvements in the quality of education. 



MACROECONOMIC POLICY

The year 2007 was the fifth consecutive year of uninterrupted growth for Latin America and the Caribbean, and this trend is expected

to continue in 2008. Many aspects of the current stage of growth continued, including the surplus in the region's current account; improvements in terms of trade (both at lower levels); positive primary results for fiscal accounts; decreased unemployment; greater international reserves; and reduced external debt.

However, concerns about the world economic scenario – triggered by US financial market crisis – and recent macroeconomic trends indicate a need to develop guidelines for economic policies to avoid a repetition of problems experienced by the region in the past.

Income, Spending and Debt

The countries of the region once again registered a significant primary surplus in 2007 (albeit less than that of 2006), based on an income/GDP ratio that appears to have stabilized, and an increase in expenditure exceeding that of economic growth.

At the central government level, the fiscal performance of the countries in the region registered a primary surplus of 2.2% of GDP at the end of 2007, as compared to 2.4% for 2006. However, if the overall balance is taken into account, including interest payments on the public debt, this figure drops from 0.1% to -0.1% of GDP.

The increase in fiscal revenue over recent years has allowed public resources to rise to unprecedented levels. While the region's average fiscal tax collection equalled 15.6% of GDP over 1990-1995, this rose to 20% of GDP over the past two years at the central government level. Fiscal revenue in 2007 increased at a lesser rate (0.4% of GDP) than in previous years (over 1% in 2005 and 2006).

In contrast to the 2002-2006 period, increases in average public expenditure in the region compensated for the slight rise in fiscal revenue, which grew from 19.6% in 2006 to 20.4% of GDP in 2007, indicating a decline in the primary and global balance.

Primary expenditure over 2007 increased by 10.6% in real terms, compared to 9.5% in 2006.

Analysis by country indicated that this increase in expenditure is generalized. Only three countries showed reduced expenditure (El Salvador, Mexico and Paraguay), whereas six countries registered an increase exceeding 1 percentage point of GDP, and four of these (Ecuador, Haiti, Honduras and Nicaragua) an increase of over 2 points.

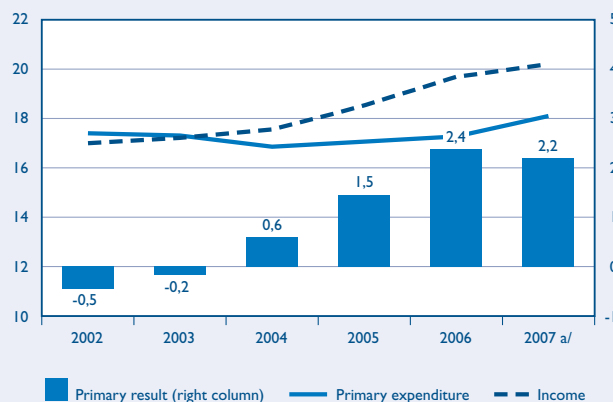
The debt structure in the region shows considerable improvements over recent years. Debt in foreign currency dropped, while maturity dates for debt in national currency increased.

The public debt/GDP ratio dropped again in 2007, to 31.8% of GDP, comparable to the simple average of 37.6% in 2006 at the central government level.

Factors contributing to these advances include the creation of primary surpluses, debt restructuring, initiatives for highly indebted poor countries, and national currency appreciation. Several countries in the region issued long-term bonds in national currency during 2007.

Projections for 2008 include a warning: more than half the countries for which budget information is available will likely increase expenditures in excess of economic growth. If the current slowdown continues, it will reduce the margin of maneuverability in fiscal spheres at a time when uncertainty in the international context requires prudence.

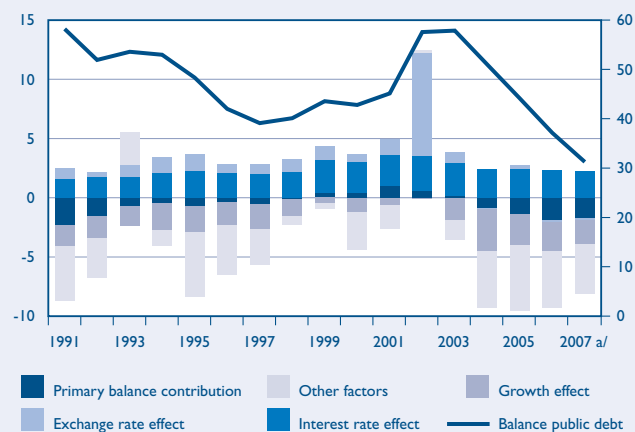
**Latin America and the Caribbean:
Central Government Income,
Expenditure and Primary Balance**



Source: ECLAC, from official figures. a/ Preliminary figures.

(continued on page 5 ➡)

Latin America and the Caribbean: Variation in the Public Debt of the Non-Financial Public Sector (Percentage of GDP)



Source: ECLAC, from official figures. a/ Preliminary figures.

This foreign currency inflow increased international reserves, with several countries taking advantage of the international context in 2007 to accumulate reserves. Brazil, Argentina, Colombia and Peru led this trend in terms of volume, whereas Bolivia, Costa Rica and Paraguay led in terms of GDP.

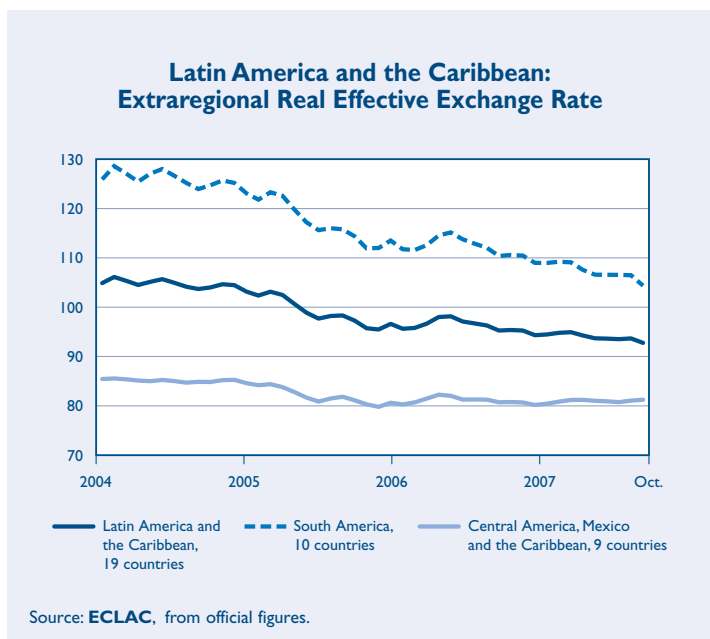
Fuels, Foodstuffs and Inflation

While 2007 saw low inflation, in historic terms, this indicator is on the upswing in several countries, under pressure from supply (higher food and energy prices) and demand (sustained economic growth and certain policy decisions).

Countries with inflation targeting schemes (Brazil, Chile, Colombia, Mexico, Paraguay and Peru) or a target range for inflation (Costa Rica, Guatemala and Honduras) saw price increases exceed the inflation targets set by their central banks.

In 2007, inflation exceeded target levels in Chile, Colombia and Peru. In Mexico, inflation reached 4%, which was 1 percentage point higher than desired levels. Brazil is the only case where inflation stayed within stipulated limits.

The recovery of bank credit first noted in 2003 continued over 2007 – unsurprising given the marked pro-cyclical nature of this variable in the region. Consumer credit grew the most. As in 2006, Venezuela showed the greatest rebound (79.9%) of this indicator, with consumer and housing credit exhibiting the most dynamism. Argentina ranked second at 57.2%, led by housing.



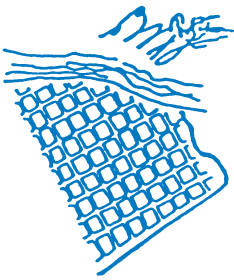
Source: ECLAC, from official figures.

Exchange Rates

Another highlight of 2007 is the drop in real exchange rates in many countries. The extraregional real effective exchange rate in Latin America and the Caribbean appreciated by 7% over the previous year, due almost exclusively to the real appreciation of 4.8% in South America. This occurred in a context of high prices for commodity exports and capital inflows. In Central America, Mexico and the Caribbean, appreciation of the extraregional effective exchange rate was just 0.4% over this period.

The year 2007 saw continued improvements of terms of trade in South America, reflecting increased international prices for agricultural goods, hydrocarbons and minerals exported from this subregion. This improvement brought about an increase in the current account balance and greater confidence among investors regarding future economic evolution. Both factors contributed to the effective appreciation seen in most South American economies.

Remittances from abroad remained an important source of foreign exchange for the region, especially Central America and Mexico. The continued growth of these transfers has become a key factor in foreign currency inflows for several Central American countries. Given the magnitude of these remittances, the possibility of a slowdown – from declining migration in response to improved regional labour markets, or a US economic downturn that reduces demand for migrant labour there – must be considered.



DOMESTIC PERFORMANCE

According to the *Preliminary Overview of the Economies of Latin America and the Caribbean 2007*, the year saw the continuation

of recent trends, with economic growth extending to all countries at rates exceeding, in several instances, those of 2006.

This is the case of Brazil and Chile, both with 2007 growth rates of 5.3% (compared to 2006 figures of 3.7% and 4%, respectively). Panama (9.5%) and Argentina (8.6%) exhibited the greatest increases in economic activity, followed by Venezuela (8.5%), Peru (8.2%) and the Dominican Republic (7.5%). The region's performance reflects the lesser dynamism of Brazil and Mexico, which account for two-thirds of the regional GDP. As in 2006, South America registered the highest growth rates (7.7% in 2007), while Central America grew 7% over the past two years (6.7% and 7.4%). The countries with the lowest growth rates were Mexico (3.3%), Haiti (3.3%) and Ecuador (2.7%). The Caribbean grew by 3.9% (compared to 6.9% in 2006).

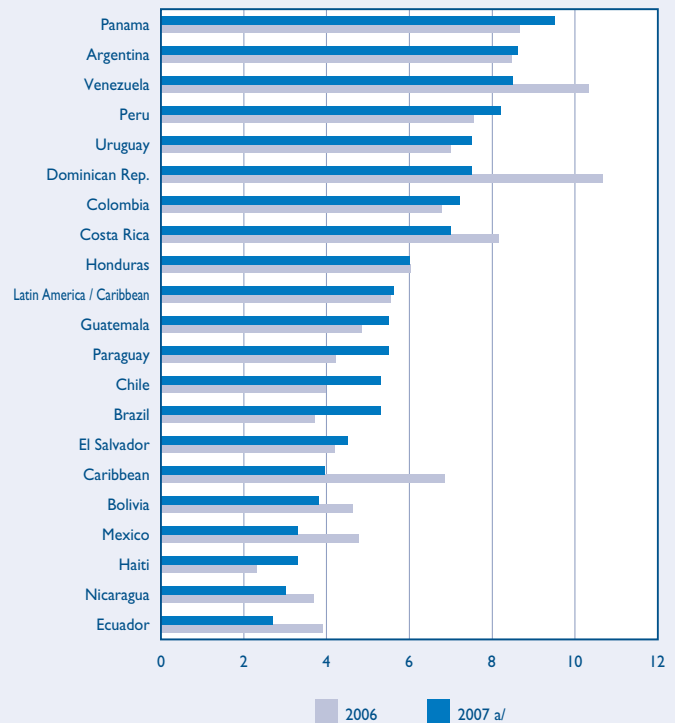
From a historic perspective, regional growth today is comparable to the late 1960s and early '70s. But when per capita GDP is examined, the 2004-2007 period exhibits higher average annual growth rates (4%), due to greater GDP growth and demographic changes.

Despite the increased turbulence in international markets and uncertainty regarding the US economy, Latin American and Caribbean economies have performed well. Their expansion is taking place in a context of overall growth, high liquidity, and the easy access of emerging economies to international capital markets.

The high external demand for commodity exports from the region, and high international prices, have led to a significant increase in export income, and a subsequent increase, in most cases, of fiscal revenue. This is occurring within the context of reactivated domestic demand, fed by greater disposable income at the national level.

The volume of exported goods and services continued to increase in 2007 (by 5.3%), despite a slowdown over previous years (7.3% in 2006 and 8.1% in 2005). Meanwhile, domestic demand continued to grow at high rates (7.7%). This reflects the increase in private consumption (6.8%), sparked by improvements in labour market indicators, a slight increase in real wages, continuing low interest rates in countries where policies

**Latin America and the Caribbean:
Gross National Product Growth, 2006 and 2007**
(Annual rates of variation by country)



Source: ECLAC, from official figures. a/ Estimates.

encourage consumer credit, and exchange rate appreciation that has lowered prices of imported consumer goods.

In several countries, authorities raised interest rates in response to domestic price hikes linked to higher international prices for commodities, fuels and foodstuffs. From a historic perspective, however, these remain low.

The increased growth of domestic demand around the region is also reflected in the increased volume of imported goods and services (13.4%). Given that since 2004 this indicator has grown at a higher rate than that of exports, net external sales continue to contribute negatively to regional GDP growth.

At the regional level, the most dynamic sectors were transport and communications, construction, trade, and financial services to business. The mining sector exhibited minimum growth, although new exploitations signaled a recovery in Chile. Industrial sector performance was similar to that of 2006, based

(continued on page 7 ➡)

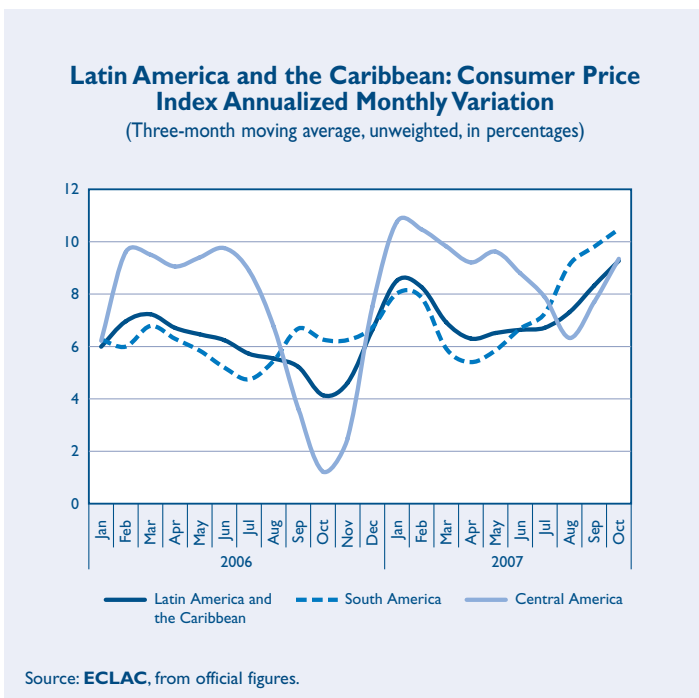
on increased domestic and external demand. Most countries registered a marked appreciation of national currency against the US dollar.

The impact of terms of trade in 2007 continued to be positive. Despite increases in many imported products (especially foodstuffs and fuel products), the price of manufactures increased only slightly, and the purchasing power of regional exports continued to grow. This situation, along with the slight decrease of net payments of factors to the rest of the world (which nonetheless continue to be high) and the sustained increase of net current transfers from abroad, led to the regional expansion of gross national disposable income for the fifth consecutive year at rates exceeding GDP growth (6.5%).

Latin America and the Caribbean posted an inflation rate of some 6% in 2007 (compared to 5% in 2006). This figure reverses the gradual decrease exhibited by this indicator at the regional level since 2002, and reflects significant increases in the price of certain goods and services, especially foodstuffs, fuels and utilities.

Improved Labour Markets

Gradual improvements in the labour market continued over 2007 with creation of new employment and an estimated 0.5% increase in the regional employment rate. Given the estimate for a slightly higher participation rate (0.1%), the rise in employment brought a new decline in unemployment, from 8.6% to 8.0%.



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



Source: ECLAC, from official figures. a/ Preliminary figures.

However, most countries saw minimal increases in real wages (1.5%, weighted for the region overall). This underscores a general characteristic of the current stage of economic reactivation: new jobs are being created, but without corresponding increases in wages.

As in previous years, in countries where labour market participation grew, women's share increased and men's declined. With the exception of Honduras, Mexico, and Trinidad and Tobago, the employment rate in all countries increased.

In Argentina, Chile, Colombia, Costa Rica, Honduras, Panama, Venezuela and Uruguay, urban unemployment decreased by at least 1%. Only Mexico, which in 2007 registered one of the region's lowest economic growth rates, saw a slight rise in unemployment.

The significant increase in jobs was concentrated in waged work. It is estimated that employment overall grew by 2.8%, and waged work by 4.0%. The trend of increasing formal employment also continued throughout 2007.

This does not, however, signify an overall improvement in the quality of employment. Despite the decrease in visible underemployment in several countries, when other indicators are taken into account, performance in this area is mixed.

One reason for concern is the growing instability of formal contracts, as reflected in the growth of fixed-term contracts in Mexico and Colombia (in both manufacturing and retail sectors).

The ECLAC report concludes that, despite this year's considerable economic growth, the evolution of real wages has not kept pace with labour productivity.



EXTERNAL SECTOR



Over the past four years, the world economy has registered an exceptionally dynamic growth rate of 3% per annum. The economic evolution of Latin America and the Caribbean is occurring not in isolation but within a broad scenario of expansion. Nonetheless, while regional growth rates are high in historic terms, they lag behind those observed in other regions of the developing world.

As stated in the *ECLAC Preliminary Overview of the Economies of Latin America and the Caribbean 2007*, the international financial crisis triggered by the US subprime mortgage market eclipsed the global risks associated with its balance-of-payments current account deficit. But these risks remain latent, and global demand for dollar assets still needs to be shored up in order to cover the imbalance.

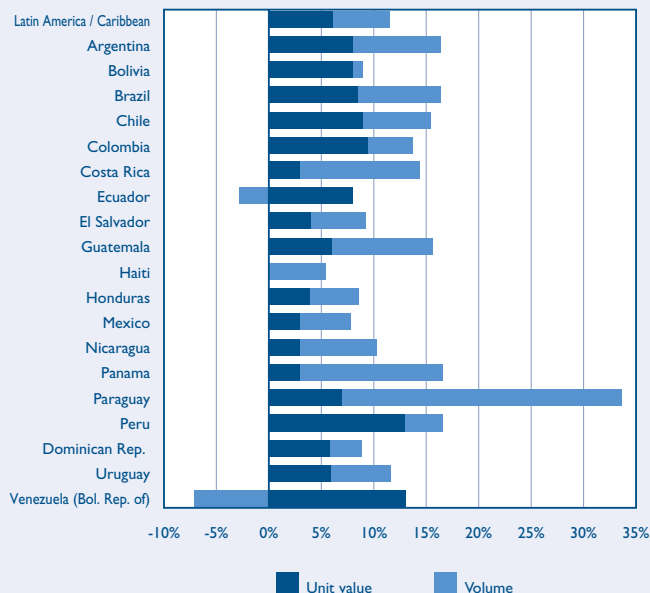
Economic forecasts for 2008 present more doubts than certainties, and call into question the likelihood that the external bonanza currently benefitting Latin America and the Caribbean can be prolonged.

While a US economic slowdown of lesser household consumption, increased savings and devaluation of the dollar is not necessarily negative for the world economy, its impact will depend on the type and pace of the adjustments it brings. If this is slow and gradual, it could contribute to more stable global growth; a hard landing could have a profoundly destabilizing effect.

The rapid response by the US Federal Reserve, which increased liquidity and reduced monetary policy reference rates, restored calm to financial markets following the volatility of the housing market crisis. The US government announced an emergency programme to support the renegotiation of mortgage loans as a means of alleviating the situation of borrowers and mitigating the danger of financial system insolvency. This is likely to produce a gradual slowdown between the end of 2007 and the start of 2008, with a subsequent recovery in the second half of the year.

In the European Union, projections point to a slowdown based on increased interest rates, more stringent credit conditions and appreciation of the euro. The growth rate is estimated at

Export Growth, in Volume and Unit Value, 2007 a/



Source: ECLAC, from official figures. a/ Preliminary figures.

2.9% for 2007 and 2.5% in 2008. A similar scenario is forecast for Japan, where the growth rate is expected to drop from 2% in 2007 to 1.7% in 2008.

The moderate downturn of the world economy forecast for 2008 and attributable to the slower growth rate of developed countries could affect emerging economies in limited but diverse ways.



Trade in Goods and Services

In 2007, Latin America's total exports grew by 12.3% to an estimated US\$751 billion. The increase in imports was slightly greater, at 18%, for an estimated total of US\$677 billion. The trade balance thus decreased from US\$98 billion to US\$74 billion, equivalent to 3.3% and 2.2% of GDP.

The increase in exported goods is due to high prices (6.3%) and greater volume (5.3%). The price of many prime materials (especially fuels and minerals) remains high, and increases have been observed in certain foodstuffs (especially grains and oils).

(continued on page 9 →)

As for imports, the increase is due primarily to greater quantities (up 13.5% for the region as a whole), as prices rose by 4.1%. Should this trend continue, the surplus in the balance of trade in goods could be reversed in coming years.

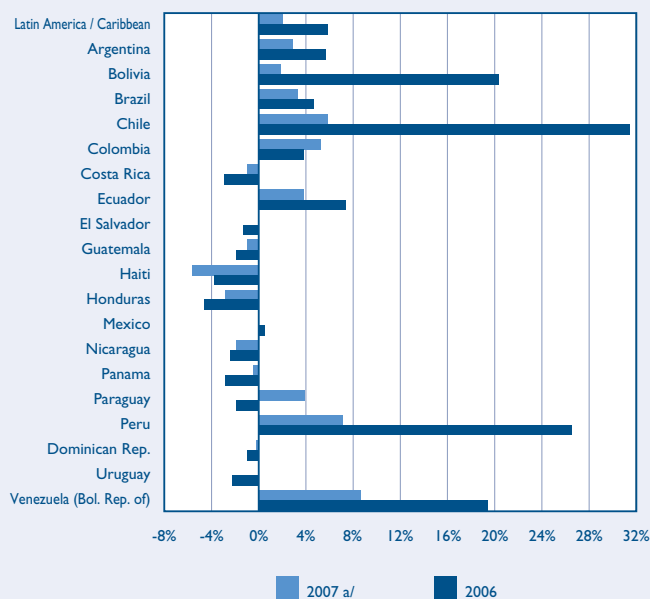
Commodity Prices

For the sixth consecutive year, the commodity price index for Latin America and Caribbean exports increased. The cumulative variation for the year (15.5%) and the 12-month cumulative variation (17.8%) surpassed in September 2007 the figures for 2006 (13% and 10.4%).

Energy products increased the most, with a cumulative increase of 28.8% over the year and 35.2% from September 2006 to 2007. The price index for agricultural products grew by 27.1% and 17.2%, respectively, surpassing that of minerals and metals (5.8% and 2.8%).

Sustained demand for petroleum by China and India, low US oil reserves, conflicts in Iraq, Pakistan and between Turkey and Kurds, controversy over Iran's nuclear programme, violence in Nigerian oil fields, and the devaluation of the US dollar have sparked a wave of speculation that drove the price of crude oil to more than US\$90/barrel at the close of 2007.

Latin America and the Caribbean: Variation in Terms of Trade in Goods f.o.b. / f.o.b., 2006-2007



Source: ECLAC, from official figures. a/ Preliminary figures.

PRUDENT MACROECONOMIC MANAGEMENT SHOULD MAKE THE MOST OF CURRENT GROWTH

The region's economies continued to grow in 2007, despite the worsening context of high volatility of international financial markets and the US housing market crisis. This was accompanied by the relative deterioration of certain macroeconomic trends, including increased inflation, and fiscal results less solid than those of the previous year, according to ECLAC.

The *Preliminary Overview of the Economies of Latin America and the Caribbean 2007* notes that many challenges faced by the region require that domestic macroeconomic policies be managed to take advantage of the current growth period in order to allocate the additional resources available to countries for sustainable development.

Despite positive elements of the current phase, changes are underway that will pose challenges to ongoing economic policies even if they do not directly affect 2008 growth, ECLAC notes. These include increased public spending, lesser dynamism in the export of goods, and the reversal of declining inflation rates. This is taking place within a context of greater international financial volatility, as evidenced by the rise in the region's levels of country risk.

One challenge is the drop in real exchange rates in some South American economies. In addition, the inflation rate is increasing overall. Public expenditure is expanding, not only above nominal GDP growth but also above increases in revenue. The pro-cyclical behaviour of public expenditure does not generate fiscal problems over the short term, due to increased resources. But it does generate concern to the degree that it could imply reduced space for fiscal operations in the future.

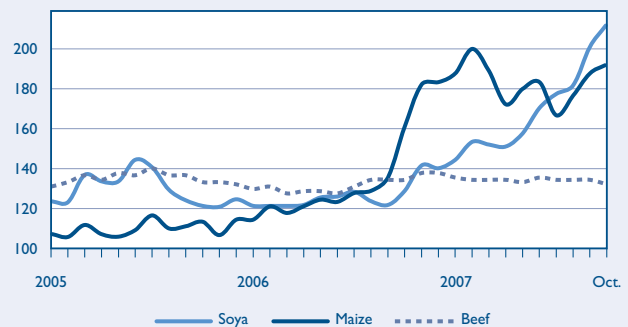
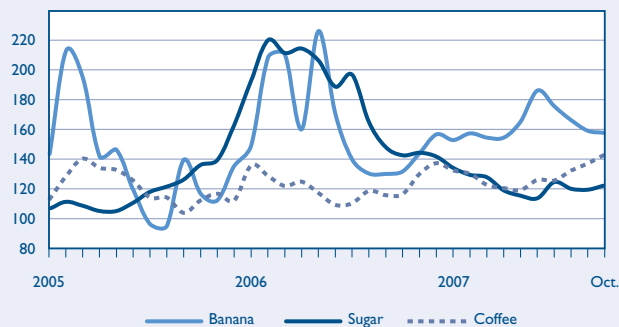
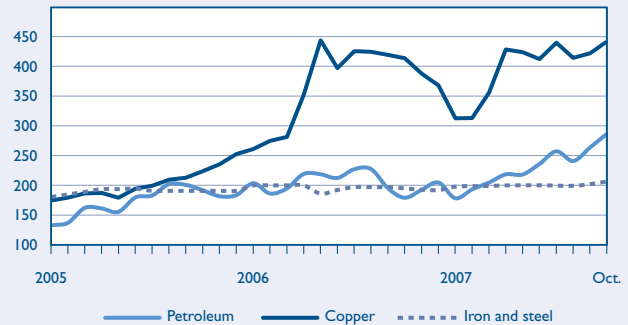
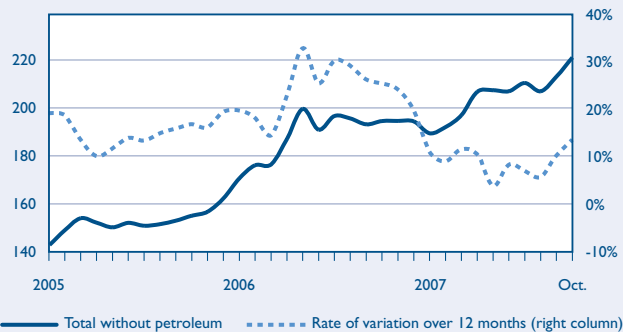
ECLAC highlights the importance of two main priorities, with often conflicting aims: increase social expenditure and infrastructure to improve physical and human capital, on the one hand; and greater fiscal policy maneuverability to achieve long-term sustainability, on the other.

For now, the alternative of a more austere fiscal policy to compensate for factors related to this expansive phase of the economic cycle appears to be the best strategy, as it can alleviate inflationary pressure, decompress the credit market and reduce interest rates.

(continued on page 10 ➡)

Latin America and the Caribbean: Prices of Selected Commodity Exports, Jan. 2005-Sep. 2007

(Index 2000=100) a/




Source: ECLAC, from official figures. a/ Indexes weighted by proportion of each product in regional exports in 2000.

Capital Flows

Latin America and the Caribbean registered an extraordinary surplus of 2.8% of GDP in its capital and financial balances (including errors and omissions) for 2007. This was the result of the significant increase in net foreign direct investment (FDI) (2.3% of GDP) and net financial capital inflow (0.5% of GDP).

Direct investment in the region increased by 34%, equivalent to US\$95 billion, the highest amount of FDI received by Latin America and the Caribbean to date.

The region's volume of international reserves reached US\$420 billion in October, a nearly 30% change over the previous year. The preponderance of dollar assets within reserves poses a potential problem, given the depreciation of this currency.

The marked depreciation of the dollar over the short and medium term could have a negative impact on the monetary balances of the region's central banks. This is a concern at the international level, and particularly among the emerging economies that account for a significant part of the US external imbalance in their volumes of international reserves. 

Produced by ECLAC Information Services
 ■ EDITOR: Pilar Bascañán, assisted by
 Félix Ibáñez, Karina Jiménez and Lezak Shallat
 ■ DESIGN: Alvaro Muñoz

■ ADDRESS: Av. Dag Hammarskjöld 3477, Vitacura, Santiago, Chile.
 ■ TELEPHONE: (562) 210-2380 or (562) 210-2000.
 ■ FAX: (562) 228-1947. ■ WEBSITE: www.eclac.cl or www.eclac.org
 ■ E-MAIL: dpisantiago@eclac.org

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.



Hedsman and Llamas



Mining and Trade



Irrigation Systems



Santiago del Nuevo Extremo



The European Immigration

STATISTICAL APPENDIX

Latin America and the Caribbean: Main Economic Indicators

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007a/
Annual growth rates										
Gross domestic product b/	2.5	0.2	3.9	0.3	-0.5	2.1	6.2	4.6	5.6	5.6
Per capita gross domestic product b/	0.8	-1.3	2.4	-1.1	-1.8	0.8	4.8	3.3	4.2	4.2
Consumer prices c/	10.0	9.7	9.0	6.1	12.2	8.5	7.4	6.1	5.0	6.1
Percentages										
Urban open unemployment d/	10.3	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.6	8.0
Total gross external debt / GDP e/	36.0	41.7	36.7	38.2	42.2	42.2	36.8	26.0	22.0	20.2
Total gross external debt /										
exports of goods and services	216	211	172	182	178	169	139	101	83	77
Balance of payments f/										
Millions of dollars										
Current account balance	-87 712	-54 703	-47 019	-51 922	-14 044	9 200	21 132	36 947	48 010	24 410
Merchandise trade balance	-34 896	-6 791	3 148	-3 666	24 233	45 235	60 718	82 421	97 795	75 099
Exports of goods f.o.b.	283 453	299 364	358 717	343 572	347 140	378 479	466 647	563 688	670 731	752 264
Imports of goods f.o.b.	318 349	306 155	355 569	347 238	322 906	333 244	405 928	481 267	572 936	677 164
Services trade balance	-19 548	-16 112	-17 150	-19 122	-14 217	-13 290	-13 951	-18 456	-20 485	-24 818
Income balance	-50 331	-51 202	-53 689	-54 303	-52 581	-57 639	-67 274	-76 800	-88 980	-88 337
Net current transfers	17 063	19 401	20 673	25 170	28 520	34 894	41 639	49 783	59 590	62 466
Capital and financial balance g/	68 609	42 385	62 113	34 705	-11 582	1 572	-8 844	19 823	11 125	93 325
Net foreign direct investment	60 999	80 004	70 510	64 904	45 531	35 198	46 220	49 503	26 692	77 051
Financial capital h/	7 610	-37 619	-8 397	-30 199	-57 114	-33 626	-55 064	-29 679	-15 567	16 274
Overall balance	-19 103	-12 318	15 094	-17 217	-25 626	10 772	12 288	56 770	59 136	117 736
Variation in reserve assets i/	10 045	6 242	-6 882	996	3 156	-29 443	-21 139	-35 334	-47 089	-118 182
Other financing j/	9 057	6 076	-8 212	16 221	22 470	18 671	8 851	-21 434	-12 033	183
Net transfer of resources	27 336	-2 740	211	-3 377	-41 693	-37 396	-67 268	-78 411	-89 888	5 435
International reserve assets k/	173 897	166 559	170 118	163 307	165 409	201 224	227 708	263 483	320 827	440 270
Fiscal sector l/										
Percentages of GDP										
Overall balance	-2.3	-3.0	-2.7	-3.3	-3.2	-2.9	-1.9	-1.1	0.1	-0.1
Primary balance	0.0	-0.3	-0.1	-0.7	-0.5	-0.2	0.6	1.5	2.4	2.2
Total revenue	16.0	16.5	16.9	16.9	17.0	17.2	17.5	18.5	19.7	20.2
Central government public debt	40.4	44.9	45.3	47.6	60.7	59.5	53.0	44.5	37.6	31.8
Public debt of the non-financial public-sector (NFPS)	46.0	51.1	48.4	50.6	65.6	62.7	55.8	48.1	40.4	-

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

a/ Preliminary figures.

b/ Based on official figures expressed in 2000 dollars.

c/ December - December variation.

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

e/ Estimates based on figures denominated in dollars at current prices.

f/ Includes Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

g/ Includes errors and omissions.

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

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

j/ Includes the use of IMF credit and loans and exceptional financing.

k/ Including gold.

l/ Central government. Simple averages.

1 *Objetivos de desarrollo del Milenio. Informe 2006: Una mirada a la igualdad entre los sexos y la autonomía de la mujer en América Latina y el Caribe (Millennium Development Goals 2006 Regional Report:*

A Look at Gender Equity and Women's Autonomy)

December 2007. LC/G.2352.

This publication reviews progress in meeting Goal 3 (promote gender equality and empower women), with target 1 of Goal 1 (halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day). The evolution of available indicators demonstrates profound inequalities and gender discrimination at multiple levels. [www](#)



2 *Estratificación y movilidad social en América Latina.*

Transformaciones estructurales de un cuarto de siglo (Stratification and Social Mobility in Latin America: Twenty-five Years of Structural Transformations), by Rolando Franco, Arturo León and Raúl Atria. *LOM Ediciones, 2007, Colección Ciencias Humanas.* This study discusses regional

trends in the classification of wealth, social status, as well as policies to improve income distribution. These are vital to the development, design and implementation of public policies to reduce the transmission of inequality from one generation to another.

3 *Notas de Población No. 84* CELADE.

October 2007. (LC/G.2344-P). The five articles in this issue cover: links between health, reproductive behaviour and poverty; poverty and the socio-demographic effects of internal migration at the start of the century (case studies from Argentina, Bolivia, Brazil and Chile); links between poverty, migration and mobility in contextual and territorial areas; differences by sex, family composition and inequality in family income in Brazil;

and population and poverty at the household level (case studies for Venezuela and Brazil). [www](#)

4 *Revista de la CEPAL No. 93* December 2007 (LC/G. 2347-P). This issue includes articles on: deepening Latin American trade relations with China and India; public spending trends in the region; ways for Latin American countries to take advantage of the economic bonanza; free trade and disparities in economic growth. [www](#)

To order:
Distribution Unit, ECLAC
Casilla 179-D,
Santiago, Chile
Fax: (56-2) 210 - 2069
e-mail: publications@eclac.cl
[www](#): available on websites
www.eclac.cl or www.eclac.org.

MONTH	EVENT	PLACE
DECEMBER 2007		
4 - 6	Second Intergovernmental Regional Conference on Ageing	Brasilia, Brazil
4 - 6	Third Fair and Awards Ceremony "Experiences in Social Innovation" competition, 2006-2007	Porto Alegre, Brazil
6 - 7	ECLAC/GTZ Regional Forum: Science, Technology, and Innovation and Development Policies in Latin America: Ideas, History, Challenges	ECLAC
10 - 12	Regional Seminar on the Enforceability of Economic, Social and Cultural Rights	ECLAC
11	Presentation of the Millennium Development Goals 2006 Regional Report: A Look at Gender Equity and Women's Autonomy	ECLAC
13 - 14	Expert Meeting on the Use of Vital Statistics: Possibilities and Limitations	ECLAC
13	Launch "Preliminary Overview of the Economies of Latin America and the Caribbean 2007"	ECLAC
21	Expert Meeting "Stratification and Social Mobility in Latin America: Looking Ahead"	
JANUARY		
28 - 29	XX Regional Seminar on Fiscal Policy	ECLAC
FEBRUARY		
6 - 8	Second Ministerial Conference on the eLAC2007 Information Society	San Salvador, El Salvador
APRIL		
28	High-Level Commemorative Seminar, 60th Anniversary of ECLAC	ECLAC
JUNE	XXXII ECLAC Session	Dominican Republic

