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I have the pleasure of addressing this forum to report to the Council on the most salient aspects of the economic situation in Latin America and the Caribbean during the past year and on the main activities carried out by the Commission since last July. In both cases, I will limit my remarks to the most substantive aspects to be considered.

1. Recent economic trends

Regrettably, economic activity in Latin America and the Caribbean contracted by 0.6% in 2002. This means that a full half-decade has been lost to the region in terms of economic growth, with annual per capita GDP growth averaging -0.3% since 1998. The region-wide average was influenced by the South American economies, but per capita GDP stagnated in almost all the countries. The unemployment rate reached an all-time high of 8.9% despite a considerable increase in informal employment. As a result, social conditions deteriorated, and 7 million people across Latin America and the Caribbean joined the ranks of those living in poverty in 2002.

A considerable portion of the slump in GDP is attributable to the economic slowdown seen in 2001, with most of the countries in the region witnessing a break in this trend in the first half of 2002. Even the downward slide in Argentina's economy came to a halt in the second quarter of 2002. In fact, over half of the contraction in GDP for 2002 is accounted for by the downturn that preceded the end of the convertibility regime. These short-term swings in economic performance have been kept within a range of quite low rates, however.

The adverse external environment was a determining factor in the region's poor economic performance. Three factors were particularly influential, although their effects varied from country to country. The first was the deterioration in financing conditions, which had an especially strong impact on the Mercosur economies in terms of both the cost and the volume of external resources. The second was the loss of momentum in the United States economy in 2001-2002, which affected Mexico, Central America and parts of the Caribbean in particular. The third was the worsening terms of trade for non-oil-exporting countries, which lost ground in this respect for the fifth year running.

The most significant of these factors was the downturn in the international financial market. Net external resource transfers for Latin America as a whole amounted to -US\$ 39 billion in 2002, or 2.4% of GDP at current prices, with half of that figure corresponding to Argentina.

Overall, the most conspicuous aspect of economic policy in 2002 was the decrease in the degrees of freedom available to the authorities in managing economic events as they unfolded, even though the region's currencies tended to depreciate in real terms, thereby boosting competitiveness. This loss of manoeuvring room was attributable both to the presence of greater external constraints and to the imbalances that had built up during the years when the economic outlook was brighter.

In consequence, with very few exceptions, monetary policy in the region was contractionary, mainly in response to pressures on exchange markets. In the economies that were affected the most by these financial disturbances, the depreciation of their currencies generally overshot the mark, while the trend in sovereign spreads was reflected, in most cases, in rising domestic interest rates. Some countries, such as Chile, Colombia, Mexico and Peru, were able to pursue expansionary monetary policies. These policies were not always successful in galvanizing credit to the private sector, however, owing to the cautious stance adopted by banks and borrowers alike.

In addition, fiscal policy also had less manoeuvring room in most of the region's economies. This was partly because the available degrees of freedom had already been used to implement countercyclical policies in the three preceding years. Some of the countries carried on with their efforts to improve long-term public finances by employing structural means to boost fiscal revenues. Most of the region's economies also implemented fiscal policies designed to address the matter of the public debt's sustainability, thereby generating an additional contractionary force.

The chief lesson to be learned in this respect is that the capacity to pursue countercyclical fiscal policies is built up during economic booms. If, on the other hand, procyclical policies are implemented during boom years, then, during economic busts, fiscal authorities will have no choice but to use policy measures that will inevitably amplify recessionary factors.

Another disturbing development was that in 2002 gross fixed capital formation, measured as a percentage of GDP, fell for the fourth year running in Latin America. Lower investment could be a harbinger of a reduction in growth potential over the medium term, and, in the more critical cases, short-term growth may have to be buttressed by the use of previously under-utilized production resources (unemployment, underemployment and idle production capacity).

The lower level of investment was not associated with a drop in national saving, but was instead the natural counterpart of the adjustment in the deficit on the balance-of-payments current account. This adjustment amounted to the equivalent of 1% of GDP at current prices, as compared to the 2.7% average for the 1990s, and was primarily achieved through a reduction in imports. The combination of decreases in investment and external saving revealed the existence of the external constraints generated by an under-utilization of domestic factors of production and a situation in which the balance of payments has come to exert a decisive influence on the level of economic activity. For

the region as a whole, this was the first time that such a situation had arisen since the 1980s.

The rise in the unemployment rate to a regional record of 8.9% in 2002 attests to the cyclical nature of employment, but it also underscores the structural deterioration seen throughout the preceding decade. In fact, average real wages were 1.6% lower than in 2001, and inflation doubled to 12.2%. This situation was a direct consequence of nominal devaluations in a few of the region's countries, including Argentina, Uruguay and Venezuela and, to a lesser extent, Brazil.

The most promising development for the region during the first half of 2003 has been the return to more normal external financing conditions. After having peaked in the third quarter of 2002 during the run-up to elections in Brazil, the cost of sovereign bond issues has gradually declined from an average (not counting Argentina) of nearly 14% per annum to less than 10%. Most of this improvement is accounted for by the reduction in sovereign spreads associated with Brazil's successful transition and fiscal adjustments in other economies, such as Colombia's. The cost of voluntary external financing has increased sharply (nearly 500 basis points) in the Dominican Republic, however, owing to the failure of one of its largest banks.

Be this as it may, total capital inflows for 2003 –including IMF loans and exceptional financing– are estimated at US\$ 40 billion, which means that the region will see a net outward transfer of resources for the fifth year in a row. This negative transfer, which will amount to an estimated US\$ 16 billion (compared to US\$ 39 billion in 2002), is the net effect of a smaller inflow of foreign direct investment and deeply negative debt flows, although they are less so than they were in 2002. One of the structural changes that has been occurring in this area is the use of collective action clauses (CACs) in bond contracts issued by Brazil, Colombia, Mexico and Uruguay without any noticeable increase in financial costs. Another important event has been the failure of the initiative for creating a multilateral mechanism for handling debt overhangs within the IMF framework and the decision to use bond swaps for economies with unsustainable debts instead; new developments in resolving Argentina's external and domestic debt position are also expected in 2003.

The prospects for an economic recovery in 2003 are fair. The performance of the Latin American economies will range from a peak growth rate of 5% for Argentina to a low of –14% for Venezuela. Aside from these two economies, the region is expected to post a growth rate of around 1.5% for 2003, which will mean that per capita GDP will remain at the depressed level seen in 2002. The loss of momentum is primarily a result of slowdowns in Brazil and Mexico and the sharp contraction of the Venezuelan economy. For their part, the economies of the English-speaking Caribbean will grow by about 2.5% in 2003, thus raising the regional average by a tenth.

## 2. Principal ECLAC activities since July 2002

ECLAC has continued its collaboration with the countries of the region through the execution of a programme of work that combines activities associated with its role as a regional forum for dialogue and consensus-building on development issues with normative activities focusing on the comprehensive analysis of development processes and public policy making, along with operational activities such as the provision of technical assistance, specialized information and training.

As I noted in last year's report, ECLAC has taken the Millennium Development Goals (MDGs) as the primary point of reference for its programme of work, particularly in the areas of poverty reduction, gender mainstreaming and sustainable development.

ECLAC has continued to provide technical assistance to its member States as they seek to address two of the main challenges posed by the MDGs: the need to improve the design of public policies and the need to compile sound, reliable and comparable statistical data that will serve as a basis for the analysis of relevant information and the formulation of suitable policies for achieving these development goals.

In 2002 ECLAC worked with UNDP and the Institute of Applied Economic Research (IPEA) of Brazil in assessing the feasibility of attaining the poverty reduction target in 18 countries of the region and exploring the impact of different policy instruments in terms of poverty reduction. The results of this effort have been presented in a joint publication entitled *Meeting the Millennium Poverty Targets in Latin America and the Caribbean*, which was published in English, French, Spanish and Portuguese in December 2002.

In the area of gender mainstreaming, progress has been made towards establishing an integrated, flexible system of gender indicators and towards strengthening the capacity of countries in the region to use gender indicators in the formulation of public policies. Both of these objectives are directly linked to the third Millennium Development Goal. In the area of sustainable development, advances have been made in the identification of more precise indicators to gauge the loss of natural resources, thereby complementing the MDGs with the recent agreements reached at the World Summit on Sustainable Development. In addition, ECLAC, together with UNDP and other United Nations agencies, is assessing existing data for use in constructing the indicators defined in targets 10 and 11 at the global level so that countries can use them to monitor progress at the national level.

In June 2002 ECLAC signed a letter of intent with the UNDP Regional Bureau, the World Bank and the Inter-American Development Bank (IDB) to undertake joint activities to support countries in the region in three main lines of activity: (i) the development of methodologies for the assessment of specific goals and targets, with particular attention being devoted to the issue of comparability; (ii) the implementation of pilot projects; and (iii) advocacy aimed at strengthening national ownership of the MDGs

on the part of both governments and civil society. ECLAC will be participating in all three lines of action and will take the lead role in the methodological work.

In support of these and further activities in these areas, an interdivisional task force was established in May 2003 to articulate all of the Commission's policy research and technical cooperation activities relating to the MDGs. In addition, ECLAC is currently developing a regional MDG web site, which will disseminate not only the Commission's work on the MDGs, but also the activities of other United Nations and regional agencies in this regard. This web site will be linked to the ECLAC web site on regional follow-up to United Nations conferences and summits. Both sites will be launched in August.

As part of its efforts to facilitate regional consensus-building, ECLAC has continued to undertake preparatory activities and follow-up to United Nations conferences and summits. I would like to mention a few of its many activities in this field.

In follow-up to the Cairo Programme of Action, ECLAC and the International Organization for Migration (IOM), in collaboration with various institutional partners in the region and within the United Nations system, organized the Hemispheric Conference on International Migration: Human Rights and Trafficking in Persons in the Americas, which was held in Santiago, Chile, from 20 to 22 November 2002. The Conference reinforced intergovernmental cooperation in the field of international migration and contributed to the identification of mechanisms for protecting and promoting the human rights of migrants and for combating and preventing the traffic in human beings.

ECLAC also collaborated with the Government of the Dominican Republic and the International Telecommunication Union (ITU) to organize the Regional Preparatory Ministerial Conference of Latin America and the Caribbean for the World Summit on the Information Society, which was held in Bávaro, Punta Cana, from 29 to 31 January 2003. This meeting led to the formulation of the position to be adopted by the region, as set forth in the Bávaro Declaration, in the first phase of the World Summit, which is to take place in December 2003 in Geneva. For this event, the ECLAC secretariat prepared a technical discussion paper entitled *Roadmaps towards an Information Society in Latin America and the Caribbean*.

In addition, the Commission worked with the Government of Paraguay and the Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Development States to organize the Regional Preparatory Meeting of the International Ministerial Conference of Landlocked and Transit Developing countries, which was held in Asunción, Paraguay, on 12 and 13 March 2003.

ECLAC is currently finalizing the preparations for two other regional activities in follow-up to United Nations conferences. The Caribbean Subregional Preparatory Meeting for SIDS+10 is to be held from 18 to 22 August, in Port of Spain, Trinidad and

Tobago, and will be followed by a joint meeting of the small island developing States of the Caribbean with those located in other geographical regions. This meeting is being organized in conjunction with the Department of Economic and Social Affairs, UNEP and UNDP.

In collaboration with the Government of the Dominican Republic, in October ECLAC will convene the Third Latin American and Caribbean Regional Conference in Follow-up to the World Summit on Social Development. As a contribution to the debates to be held at this conference, whose central theme will be poverty, ECLAC has deployed an interdivisional effort to prepare a document on the policy implications of poverty at the beginning of the new millennium, with special reference to determining factors such as population growth, economic stagnation and the vulnerability of specific social groups. The policy recommendations to be presented in that document will be based on the four pillars of the effort to overcome poverty: (i) creation of opportunities; (ii) capacity-building; (iii) management of the risks faced by the poor; and (iv) compensatory programmes.

Among the wide array of areas in which the Commission conducts research and analysis, as attested to by its long list of publications, I would like to make special mention of the studies on productive development that we are conducting as work proceeds on the issue paper that will provide a framework for the deliberations to be held at the thirtieth session of the United Nations Economic Commission for Latin America and the Caribbean in 2004 in Puerto Rico.

This study will begin with an overview of the lights and shadows of the Latin American and Caribbean economies during the 1990s. The region has clearly made major advances, but it also continues to grapple with major difficulties. Greater control over internal macroeconomic disequilibria, higher rates of export growth and the region's success in positioning itself as a major target for foreign direct investment are some of the more noteworthy achievements. Growth remains low in relation to historical patterns, however, and the region's vulnerability to world economic shocks and, in particular, to the volatility of capital flows has increased. Overcoming the difficulties the region faces in seeking to reduce social disparities remains a major challenge. Production linkages with dynamic activities are weak, and the increasing use of imported intermediate and capital goods by integrated production systems has undermined production chains and national innovation systems.

The issue paper will highlight a number of stylized facts of economic development in general and of productive development in particular, as well as relevant exogenous factors. It will also offer a critical analysis of the productive development policies implemented during the economic liberalization process of recent decades. In addition, it will propose an agenda for achieving fuller integration into the global economy and returning to historical economic growth rates while at the same time ensuring greater social cohesion in the countries of the region.

With regard to inter-agency coordination, the Fourth Regional Inter-Agency Coordination Meeting, which was scheduled to take place on 3 March 2003 and was to be chaired by the Deputy Secretary-General, had to be postponed owing to the events that were absorbing the attention of the international community at the time. This meeting will now take place during the second semester of 2003. ECLAC has, nonetheless, continued to promote inter-agency coordination at the sectoral and subregional levels. In this connection it convened the Eleventh Meeting of Specialized Agencies and Other Bodies of the United Nations System on the Advancement of Women in Latin America and the Caribbean in Santiago, Chile, on 4 September 2002 and the Joint Meeting of the Small Island Developing States of the Caribbean and the Agencies Members of the Inter-Agency Collaborative Group (IACG) in San Juan, Puerto Rico, on 11 April 2003.

In the area of institutional development, I am pleased to report that the trend towards an increase in interdivisional and multidisciplinary work that became evident in 2001 has continued. A case in point is the annual preparation of the *Social Panorama of Latin America*, which is one of the Commission's five flagship reports and is based on the joint substantive contributions of the Statistics and Economic Projections Division and the Social Development Division. Another is the important role played by the ECLAC Washington office in coordinating the work of various units of the ECLAC system in support of the Free Trade of the Americas initiative.

The subregional headquarters in Mexico also continued to perform its coordinating role in the provision of technical assistance to countries of the region affected by the socio-economic and environmental consequences of natural disasters. Cooperation in this area takes the form of assessment missions to requesting countries carried out by interdivisional and multidisciplinary teams, as well as the formulation of recovery and reconstruction projects. It also includes training for national technical staff in the use of a methodology developed and regularly updated by ECLAC. The most recent activity of this sort was undertaken in response to the floods affecting the Province of Santa Fe in Argentina.

The publication programme of ECLAC has made substantial progress during this past year in improving the Commission's systems for disseminating our analyses and studies. The quality of the contents of the publications, the editorial process and their graphics have been upgraded substantially. The time lag between publication in an original language and the release of a translated version has been significantly shortened, thereby improving the timeliness, outreach and impact of the Commission's intellectual output. The length of flagship publications has been limited to a maximum of 180 pages, and measures have also been put in place to reduce the number of printed pages of the *Statistical Yearbook for Latin America and the Caribbean* by approximately 50%. This reduction has mainly been achieved through the use of CD-ROMs to replace non-text printed annexes of the publication as a low-cost technical alternative. This is expected to reduce the production and delivery costs of this publication accordingly; eventually the entire publication will be produced on CD-ROMs.

The electronic dissemination of ECLAC output via the Internet once again gained ground. The number of visitors to the ECLAC web site increased by approximately 45% to 2.8 million hits over the 12-month period from June 2002 to May 2003 (compared to 1.9 million during the previous 12 months). Downloads of electronic files have risen even faster.

These results are attributable to the ongoing efforts being made to develop the technological platform of the ECLAC web site, its application programs and its systems. New developments in this connection include the delivery of the *CEPAL News* electronic bulletin to 25,000 subscribers, the creation of 28 panels for electronic conferences that were available to more than 800 users, the design of search engines by subject matter and keywords, and the introduction of new graphic interfaces for uploading documents and statistical databases. The continued updating and introduction of advanced Internet technologies have improved the management and search facilities which offer user-friendly access to the economic, social and other relevant data provided on the ECLAC web site in an effort to meet the growing demand generated by ECLAC web users.

In concluding this presentation, which is the last one I will make as Executive Secretary of ECLAC, before I assume my new duties as Under-Secretary-General for Economic and Social Affairs, I would like to thank the Council for the support it has given ECLAC during the five and one half years that I have directed the Commission.