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# Remarks by José Luis Machinea, Executive Secretary of the Economic Commission for Latin America and the Caribbean at the Annual Meeting of the Board of Governors second plenary session

**April 7, 2008 - Miami, Florida**

I would like to begin by thanking President Luis Alberto Moreno for inviting me to address the Board of Governors of the Inter-American Development Bank. I would also like to extend my special thanks to the authorities of the United States, the State of Florida and particularly the city of Miami for such a warm welcome.

Although the uncertainty generated by the subprime mortgage crisis in the United States caused considerable volatility in financial markets in the second half of 2007, Latin America and the Caribbean nonetheless posted growth of 5.7% for the year as a whole, making 2007 the fifth consecutive year of economic expansion. Most economies in the region continued to expand rapidly, with growth being driven mainly by domestic demand, especially private consumption and gross capital formation. Last year, the investment-to-GDP ratio reached its highest level in 27 years, although it is still relatively low for sustaining growth rates of above 5%.

The steady upturn in growth over the past five years has enabled most of the region's countries to reduce unemployment and poverty. Indeed, the percentage of persons in poverty and indigence fell by 20% and 34%, respectively. The relatively larger decrease in indigence is attributable to increases in non-wage income, especially in the form of transfers from poverty-reduction programmes, remittances and pensions. The region as a whole is therefore well on its way to fulfilling its commitment to halve the level of extreme poverty recorded in 1990 by 2015 and thus reach the target for the first Millennium Development Goal.

The rate of progress has, however, been quite uneven across the region's countries, and the reduction in poverty achieved in recent years should not make us forget that there are still 190 million people living in poverty and that 70 million of those people are indigent.

The decline in poverty has been accelerated by the fact that the region is at an intermediate stage in the demographic transition, since this has helped to reduce the number of dependents per worker. It is of vital importance that we increase the number of quality jobs over the next few years, however, in order to bring about a structural reduction in poverty, since the effects of the "demographic dividend" will be reversed as population ageing brings about a further shift in the dependency ratio.

Many of the positive aspects of the current growth phase which we have documented on numerous occasions continued to be seen in 2007. There was, however, a relative deterioration in some macroeconomic indicators, notably an upswing in inflation and less robust fiscal results than the year before.

Major short-term challenges include the generalized surge in inflation, the fact that public spending is outpacing revenues, and falling real exchange rates in some South American economies. We at ECLAC are convinced that, in most cases, the build-up in inflation is not the result of excess domestic demand, but rather an effect of higher food and oil prices. As demonstrated by events in recent months, if we attempt to combat the rise in inflation by raising interest rates, we run the risk of triggering a further appreciation of exchange rates. If domestic demand does need to be reined in (a decision that must be considered in the light of more sluggish world economic growth), fiscal policy would appear to be the instrument of choice. And if monetary policy does have to be used, we believe it should be accompanied by complementary measures such as intervention in the foreign-exchange market and restrictions on capital inflows.

In addition to these monetary policy challenges, turbulence in financial markets and the risk of contagion from the financial crisis have both intensified. Although the region is well prepared to deal with a rise in external volatility, we cannot rule out the possibility of further increases in sovereign risk that could hurt those countries (fortunately few in number) that have relatively high borrowing requirements for 2008.

In a context of slower world trade, the region's exports could also be negatively affected. The United States market is particularly important, especially for exports of manufactures from Mexico and Central America. This situation could be compounded by a decline in the remittances received by these countries.

Despite considerable global uncertainty, we believe that the Federal Reserve's wise decision to reduce the interest rate and boost the supply of financing for the financial system will avert a worldwide crisis. This must surely be our overarching goal given the current economic environment. It is already clear that, once again, there are lessons to be learned from this crisis, with the main one having to do with the importance of improving the regulation of the financial system.

Against the backdrop of a mild recession in the United States and a slowdown in other parts of the world, our revised estimate puts the region's growth rate for 2008 at 4.5%. If this projection proves to be accurate, 2008 will mark the sixth consecutive year of growth, with a cumulative increase of 24% in per capita GDP that averages out to a rise of 3.5% per year.

I would like to conclude by emphasizing that, beyond the "bumpy ride" that may be in store for us over the next few months, on the whole the international environment will continue to be favourable for the region. This is an opportunity for us to lay the foundations for sustained growth over the medium term. In order to do so, however, we need to take a number of steps that a majority of the countries are either not taking or at least not taking quickly enough. We believe that more needs to be done to improve systemic competitiveness, in particular by raising the level of investment in infrastructure (energy and transport), encouraging innovation in a broad sense, and building up the skills of our human resources, especially by promoting tertiary education.

This is why ECLAC has been stressing the need to form a public-private partnership with a view to shaping a medium- and long-term strategy for innovation and export development as a means of strengthening the region's position within the world economy and boosting economic growth.

I should like to close by reminding you all that, as ever, ECLAC stands ready to support the Governments of Latin America and the Caribbean in discussions of these important issues within the framework of a strategy for aiding the region in its efforts to achieve sustainable growth and economic and social development.