

[Back to previous page](#)



document 1 of 1

LATIN AMERICA: Slow growth hits poverty reduction

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Abstract

The UN Economic Commission for Latin America and the Caribbean (ECLAC) released its Social Panorama of Latin America 2013 on December 5.

The report shows a further slowing of poverty reduction in the region after a similar result in 2012 and, in the case of extreme poverty, a small increase.

Full text

EVENT:The UN Economic Commission for Latin America and the Caribbean (ECLAC) released its Social Panorama of Latin America 2013 on December 5.

SIGNIFICANCE:The report shows a further slowing of poverty reduction in the region after a similar result in 2012 and, in the case of extreme poverty, a small increase.

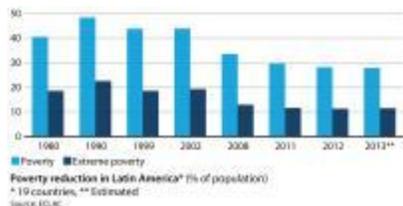
ANALYSIS: Impacts.

Almost two-thirds of the 16-percentage point drop in the region's poverty rate since 2002 had occurred by 2008.

One in six Latin American children and adolescents still has at least one severely unmet basic need.

The poorest fifth of the population's share of national income ranges from 3.5% in Honduras to 10.0% in Uruguay.

In its latest report, ECLAC estimates that Latin America's poverty rate is currently running at 27.9%, down from 28.2% in 2012 (see LATIN AMERICA: Poverty, inequality progress slowing - December 3, 2012), in both cases representing some 164 million people. This confirms a trend, apparent for several years, under which poverty reduction has slowed significantly, albeit with important variations between countries. In 2002-08, the reduction reached just over 10.0 percentage points but, over the past six years, it was just 5.6 points.



Similarly, extreme poverty, which dropped from 19.3% in 2002 to 12.9% in 2008, has since shown little improvement and, according to ECLAC, rose slightly this year to 11.5% (68 million people), up from 11.3% (66 million people) in 2012.

Experience in countries such as Chile, which achieved early progress in poverty reduction, shows that, as the rate drops, the policy challenges of further reductions increase. However, ECLAC also attributes the deceleration to other factors:

Slower economic growth. After the contraction of 2009 -- when, however, poverty showed a small drop attributed principally to fiscal relief measures -- GDP growth in the region rebounded to 5.6% in 2010 but dropped to 4.3% in 2011 and 3.0% last year and (pending revised estimates to be announced shortly by ECLAC) this year (see LATIN AMERICA: Slow growth raises political challenges - July 29, 2013; and see LATIN AMERICA: ECLAC cuts 2013 growth forecast - May 6, 2013).

Weaker job market. Although the regional unemployment rate dropped from 6.7% in 2011 to 6.4% in 2012 and, according to preliminary ECLAC estimates, 6.3% this year, there are also clear signs that job growth is slowing.

Social spending. Preliminary data suggests that efforts to consolidate fiscal finances following counter-cyclical spending during the 2008-09 international crisis have been reflected in slower growth of social spending, albeit not necessarily its reduction in absolute terms.

Food prices. ECLAC attributes this year's increase in extreme poverty principally to a rise in food prices ahead of general inflation.

Country performance.

To calculate countries' poverty rates, ECLAC uses data from surveys carried out by their governments (although not necessarily arriving at the same results) and, for the eleven countries with surveys in 2012, estimates of poverty rates ranged from 45.3% in El Salvador and 41.2% in the Dominican Republic to 5.9% in Uruguay and 4.3% in Argentina. Similarly, it estimates that extreme poverty ranged from 20.9% in the Dominican Republic and 14.2% in Mexico to just 1.1% in Uruguay.

Comparison of the latest available figures with those for the mid-2000s also shows wide variations in countries' progress:

Achievers. Countries with important advances include Brazil, with a drop from 36.4% in 2005 to 18.6% in 2012 (and, given the size of its population, a key impact on the regional average). In addition, Peru achieved a reduction from 52.5% in 2003 to 25.8% in 2012, Bolivia from 63.9% in 2004 to 42.4% in 2011 and Venezuela from 37.1% in 2005 to 23.9% in 2012.

Laggers. Mexico, on the other hand, has seen its poverty rate rise from 31.7% in 2006 to 36.3% in 2010 and 37.1% in 2012. Central American countries have also tended to show only limited progress as, for example, in

the cases of Honduras (71.5% in 2006 and 67.4% in 2010) and Nicaragua (61.9% in 2005 and 58.3% in 2009).

Multi-dimensional poverty.

In addition to income poverty, the report includes for the first time an estimate of so-called multi-dimensional poverty, measured in terms of unmet basic needs in areas that include access to drinking water, sanitation, electricity and non-hazardous cooking fuel, quality of housing and school attendance and achievement. This analysis suggests that, in countries with a higher rate of income poverty, the most prevalent deprivations relate to housing quality, electricity and cooking fuel whereas, in countries with lower income poverty rates, non-school attendance and low educational attainment predominate.

Differences between countries are also larger when poverty is measured in multi-dimensional, rather than income, terms. In the former case, rates for 2011 range from 71.4% in Nicaragua and 68.8% in Guatemala to 9.6% in Uruguay and just 2.2% in Chile.

Applied specifically to child poverty, this approach shows that:

As a regional average, child poverty rates measured in terms of household income and multi-dimensional deprivations are quite similar at 41.7% and 40.5%, respectively, but, at the country level, differ significantly. In Peru, for example, child poverty reaches 37.4% in income terms but, measured multi-dimensionally, rises to 62.6% while, in Colombia, it is lower in multi-dimensional terms (36.1%) than income terms (46.6%).

Access to sanitation and drinking water and housing quality are by far the most important deprivations suffered by poor and extremely poor Latin American children and adolescents.

Income distribution.

Except in three countries (Costa Rica, Panama and Paraguay), income distribution improved in 2008-12, maintaining a trend (albeit very gradual) seen since 2002.

According to ECLAC, the poorest fifth of Latin Americans now receive around 5% of national income and, in eight countries, their share has increased by at least one percentage point since 2002 (and in Bolivia, has doubled from 2.2% to 4.4%).

The richest fifth still account for 47% of national income but there are nine countries where their share has dropped by at least five percentage points since 2002 and this now exceeds 50% in only six countries (including Brazil and Chile) as compared to eleven in 2002.

Measured in terms of the ratio of the income of the richest fifth to that of the poorest fifth, the most unequal countries are Honduras, Guatemala and Brazil while the least unequal are Uruguay and Venezuela.

CONCLUSION: The likelihood that Latin America is entering a period of slower economic growth suggests that poverty reduction will also continue to slow and, measured solely in income terms, may indeed have bottomed out. In this context, policies to address qualitative aspects of poverty or, in other words, unmet basic needs such as access to water and electricity and adequate housing would be crucial for further progress.

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