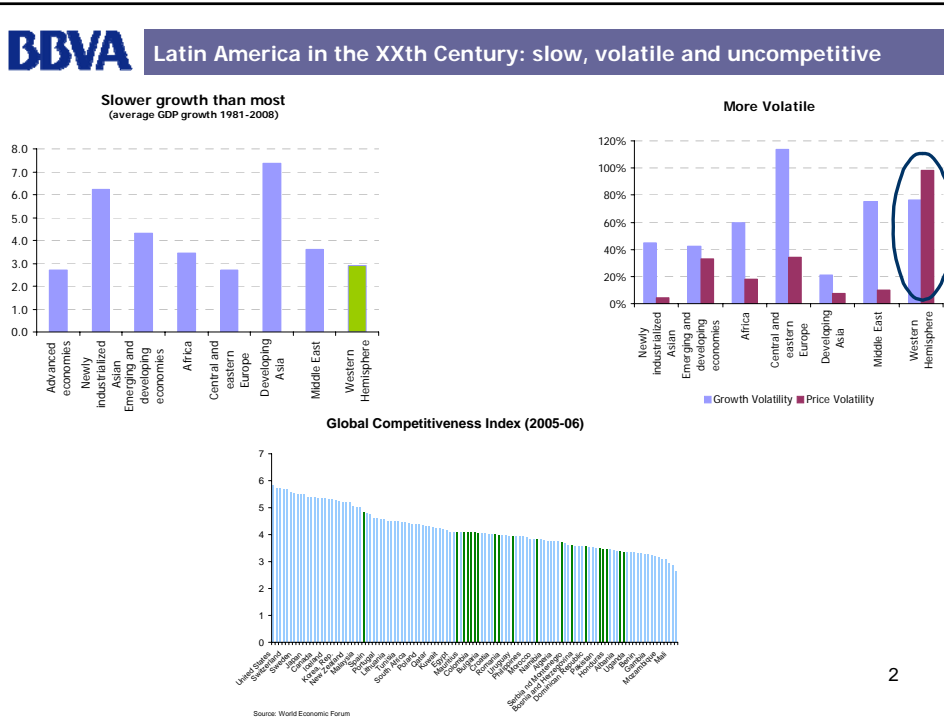


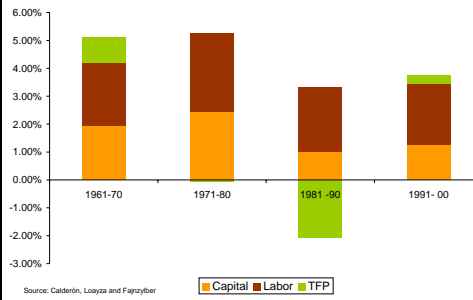
**Ageing and Competitiveness: Main Challenges for Latin America**

**Joaquín Vial**  
**Chief Economist for South America**  
**Economic Research Department**  
**BBVA**

**CSIS Conference, March 24, 2009**

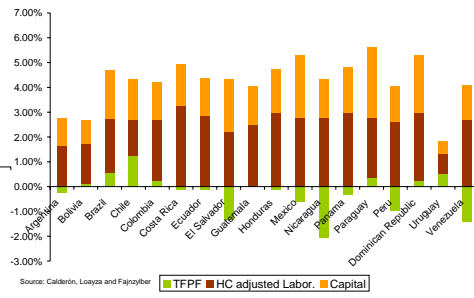


Sources of Growth for Latin America



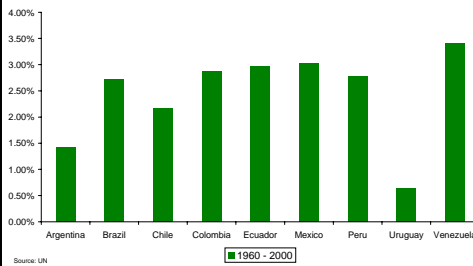
Source: Calderón, Loayza and Fajnzylber

Sources of GDP growth by countries in LATAM 60-00



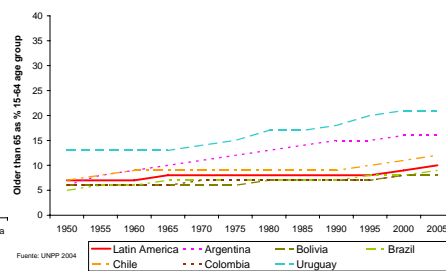
Source: Calderón, Loayza and Fajnzylber

Annual growth rates of working age population



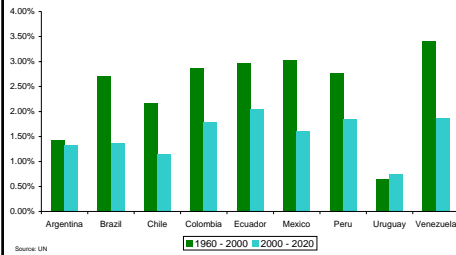
Source: UN

Old Age Dependency Ratios

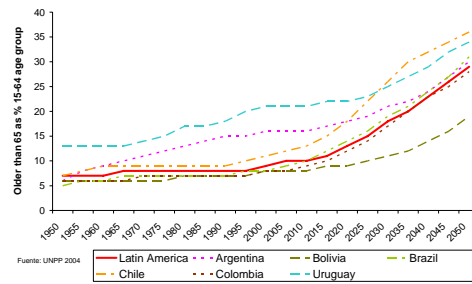


Fuente: UNPP 2004

Annual growth rates of working age population



Old Age Dependency Ratios



But not anymore: Labor force growth will slowdown and Old Age Dependency ratios will rise dramatically

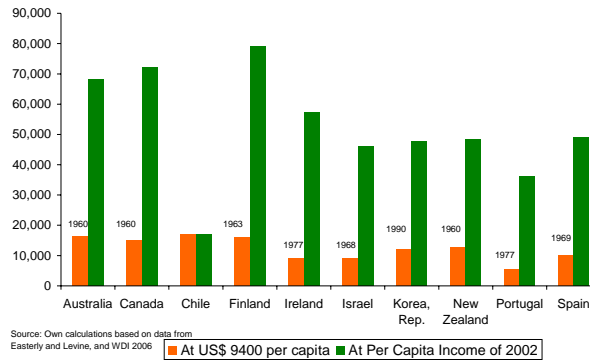
Replace raw labor force growth for other sources of economic growth

Provide for income security in Old Age

Crisis or opportunity?

Latin America must create better conditions to attract investment

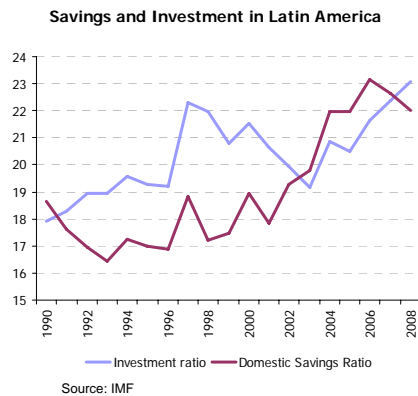
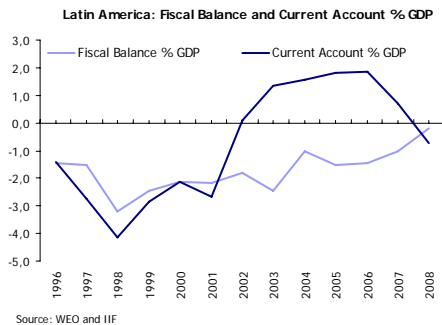
Capital per capita at different levels of development



Arithmetics will also help: the same investment ratio will produce faster growth of Capital per worker with slower growth of the labor force.

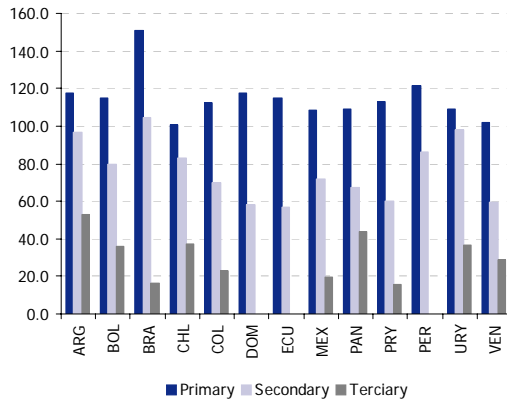
Latin America must create better conditions to attract investment

One piece of good news: it is already happening



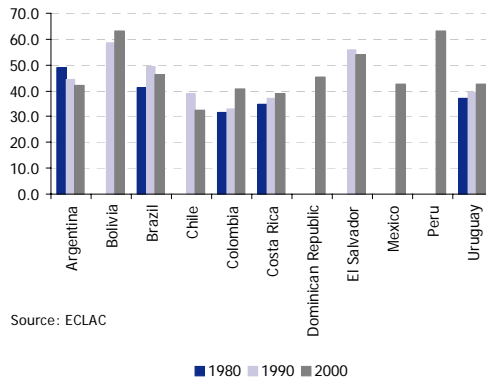
The region is still lagging behind

Gross Educational Coverage Ratios



Informality is a major obstacle to increase capital/worker

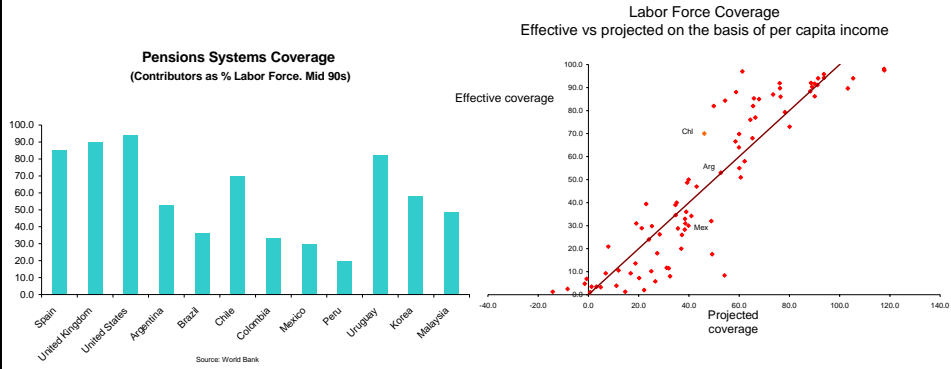
Urban Informality rates



Source: ECLAC

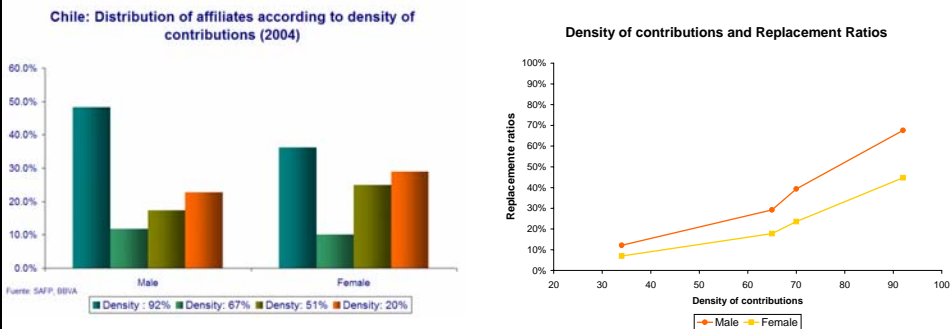
It has proved resilient, but economic growth and reduction in non-wage labor costs might have helped in the case of Chile

What matters is effective coverage, expressed in regular contributions



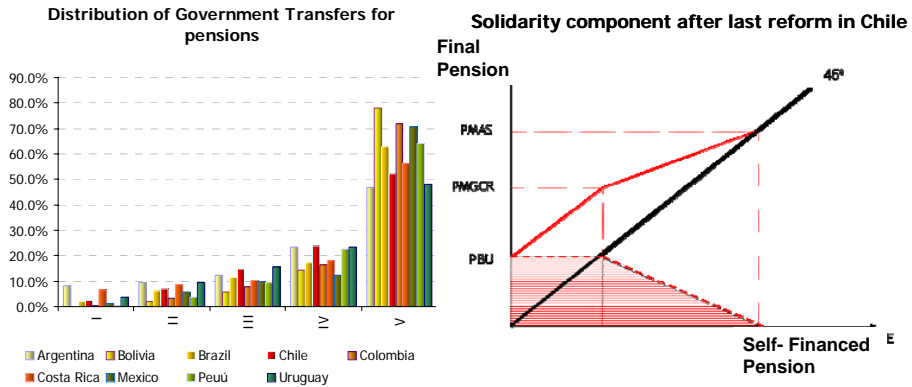
Is not only absolute coverage, but also relative to economic development

Labor market informality: productivity and social protection



Labor informality is a major obstacle for Old Age income protection

Fiscal resources must help protect the poor



Transfers in old PAYG Systems were captured by Middle and High Income Groups

Reforms are an opportunity to breakaway from special interest capture

Ageing is closing fast: An opportunity after all

- Domestic savings and investment rise
- Educational systems are reformed and coverage and quality of education improves for all
- Informality falls and effective coverage of pensions systems rise.
- If so, the region could get into a virtuous circle of higher growth, reduction in informality, reduction in income inequality, better protection in Old Age.

Ageing is closing fast: but there is no time to loose...

- If investment does not rise, growth and salaries will stagnate
- Informality will remain high and effective coverage of any pension system will remain low, perpetuating Old Age Income insecurity
- Continued failure in education will mean low labor productivity growth and inability to diversify out of natural resources
- A failure to build comprehensive-defined contribution pension systems will pose a major strain in fiscal resources and will perpetuate inequality.

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