1999-2000

Economic survey

OF LATIN AMERICA
AND THE CARIBBEAN

UNITED NATIONS

LC/G.2102-P
December 2000

Copyright © United Nations 2000
All rights reserved
Printed in Chile

Applications for the right to reproduce this work are welcomed and should be sent to the Secretary of the Publication Board, United Nations Headquarters, New York, N.Y. 10017, U.S.A. Member States and their governmental institutions may reproduce this work without prior authorization, but are requested to mention the source and inform the United Nations of such reproduction.

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

UNITED NATIONS PUBLICATION
Sales No.: E.00.II.G.2
ISSN 0257-2184
ISBN 92-1-121278-2

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN 1999-2000

The *Economic Survey of Latin America and the Caribbean* is prepared annually by the ECLAC Economic Development Division with the assistance of the Statistics and Economic Projections Division and the subregional headquarters and national offices of the Commission under the overall supervision of Barbara Stallings, Chief of the Economic Development Division. Hubert Escaith was responsible for the technical coordination of the present edition of the *Survey*.

The chapters on regional issues were prepared by Hubert Escaith (macroeconomic policy), Keiji Inoue (the fiscal sector), Igor Paunovic (structural reforms), André Hofman (production, investment and saving), José Pereira (inflation), Jürgen Weller (employment and wages), José Miguel Benavente (foreign trade) and Guillermo Mundt (capital flows).

The country reports are based on studies conducted by the following experts: Daniel Heymann (Argentina), André Hofman (Bolivia), Carlos Mussi (Brazil), Graciela Moguillansky (Chile), Igor Paunovic (Colombia), Olga Ester Torres (Costa Rica), Jesús García (Cuba), Esteban Pérez (Dominican Republic), Jürgen Weller (Ecuador), René Hernández (El Salvador), Julio García Motta (Guatemala), Randolph Gilbert (Haiti), Edmundo Valladares (Honduras), Jorge Mattar (Mexico), Adrian Bratescu (Nicaragua), José O. Martínez (Panama), Keiji Inoue (Paraguay), Hubert Escaith (Peru), Edgardo Noya (Uruguay) and José Miguel Benavente (Venezuela). Lancelot Busby prepared the section on the English-speaking Caribbean countries.

Gloria Bensan, Guillermo Mundt and Luis Alberto Santa Cruz compiled the statistical information and prepared the relevant indicators, and Jazmín Chiu assisted with the organization and presentation of this information. The national accounts databases were the responsibility of the Statistics and Economic Projections Division.

The *Survey* was edited, translated and published by the Documents and Publications Division.

Notes

The following symbols have been used in the tables shown in the *Survey*.

Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A full stop (.) is used to indicate decimals.
The word "dollars" refers to United States dollars unless otherwise specified.

CONTENTS

Page

Foreword . . . 9

FIRST PART: THE REGION . . . 11
I. SUMMARY . . . 13
1. Introduction . . . 13
2. The external sector . . . 16
3. Macroeconomic policy and reform . . . 22
4. Domestic economic performance . . . 28
II. MACROECONOMIC POLICY . . . 35
1. General trends . . . 35
2. Fiscal policy and public finance . . . 36
3. Foreign exchange policy . . . 40
4. Monetary and credit policy . . . 44
III. STRUCTURAL REFORMS . . . 49
1. General trends . . . 49
2. Public-sector reforms . . . 50
3. Financial and capital-market reforms . . . 55
4. Labour reforms . . . 56
5. Progress in implementing trade reforms and in the regional integration process . . . 56
IV. LEVEL OF ACTIVITY AND INFLATION . . . 61
1. Level of activity . . . 61
2. Supply and demand . . . 66
3. Production sectors . . . 68
4. Inflation . . . 71
V. INVESTMENT AND SAVING . . . 77
1. General trends . . . 77
2. Investment . . . 78
3. Saving . . . 80
VI. EMPLOYMENT AND WAGES . . . 83
1. Main trends . . . 83
2. Unemployment . . . 84
3. Labour supply . . . 86
4. Employment trends . . . 87
5. Wages . . . 92
6. The labour market and economic growth . . . 93
7. Employment trends in early 2000 . . . 94
VII. THE EXTERNAL SECTOR . . . 97
1. External trade . . . 98
2. The balance-of-payments current account and its financing . . . 106
3. Capital flows and international reserves . . . 109
4. Net resource transfers and external debt . . . 114
VIII. GROWTH, EMPLOYMENT AND EQUITY: THE IMPACT OF THE ECONOMIC REFORMS IN LATIN AMERICA AND THE CARIBBEAN . . . 117
1. Introduction . . . 117
2. International context . . . 119
3. Structural reforms and public policies . . . 120
4. Reforms, investment, productivity and growth . . . 123
5. Reforms and employment . . . 127
6. Heterogeneity in the reponses of sectors and firms . . . 129
7. Patterns of income distribution . . . 132
8. Conclusions . . . 133

SECOND PART: THE COUNTRIES . . . 135
Argentina . . . 137
Bolivia . . . 147
Brazil . . . 155
Chile . . . 165
Colombia . . . 173
Costa Rica . . . 181
Cuba . . . 189
Ecuador . . . 195
El Salvador . . . 205
Guatemala . . . 213
Haiti . . . 221

		Page
Honduras		229
Mexico		237
Nicaragua		249
Panama		257
Paraguay		265
Peru		273
Dominican Republic		283
Uruguay		291
Venezuela		299
PART THREE: CARIBBEAN COUNTRIES		307
Member countries of the Organization of Eastern Caribbean States (OECS)		309
1.	Overview	309
2.	Economic policy	310
3.	Economic performance	313
Bahamas		319
Barbados		321
Guyana		323
Jamaica		325
Trinidad and Tobago		328

BOXES

FIRST PART: THE REGION

Box II-1	Fiscal discipline laws	40
Box II-2	Dollarization in Ecuador	45
Box VI-1	Pro- and counter-cyclical patterns in informal employment	88
Box VIII-1		118

SECOND PART: THE COUNTRIES

Box 1	Mexico: macroeconomic framework 1994 and 2000	239

TABLES

FIRST PART: THE REGION

Table II.1	Latin America and the Caribbean: non-financial public-sector accounts, 1998-1999	38
Table II.2	Latin America and the Caribbean: exchange-rate remiges, 1999	41
Table II.3	Latin America and the Caribbean: quarterly trends in the monetary base, 1999	47
Table III.1	Latin America and the Caribbean: value of privatizations, 1990-1999	52
Table IV.1	Latin America and the Caribbean: gross domestic product	64
Table IV.2	Latin America and the Caribbean: per capita gross domestic product	65
Table IV.3	Latin America and the Caribbean: principal components of national income and expenditure	66
Table IV.4	Latin America and the Caribbean: gross domestic product, by branch of economic activity	67
Table IV.5	Latin America and the Caribbean: consumer prices	69
Table V.1	Latin America and the Caribbean: real gross capital formation	79
Table V.2	Latin America and the Caribbean: gross fixed capital formation	80
Table V.3	Latin America and the Caribbean: financing of gross domestic investment	81
Table VI.1	Latin America and the Caribbean (22 countries): urban unemployment	85
Table VI.2	Latin America and the Caribbean (14 countries): job creation by branch of activity and subregion	87
Table VI.3	Latin America and the Caribbean: contributions to net job creation, 1999	89
Table VI.4	Latin America and the Caribbean: real average wages	92
Table VI.5	Latin America and the Caribbean: real urban minimum wage	93
Table VI.6	Latin America and the Caribbean: quarterly labour indicators	95
Table VII.1	Latin America and the Caribbean: exports and imports of goods	98
Table VII.2	Latin America and the Caribbean: intraregional and total exports	102
Table VII.3	Trends in trade performance, 1999	102
Table VII.4	Latin America and the Caribbean: balance of payments	107
Table VII.5	Latin America: capital and financial account indicators	108
Table VII.6	Latin America and the Caribbean: ratio of profit remittances to exports of goods and services	108
Table VII.7	Latin America and the Caribbean: net foreign direct investment	110
Table VII.8	Latin America: international bond issues	112
Table VII.9	Latin America: indexes of share prices in dollars	113
Table VII.10	Latin America and the Caribbean: ratio of gross disbursed external debt to exports of goods and services	116
Table VIII.1	Reform indices, 1970-1995	120
Table VIII.2	Macroeconomic indicators, 1983-1990 vs. 1991-1998	121

Page

		Page
Table VIII.3	GDP growth in selected periods, 1950-1998	125
Table VIII.4	Total factor productivity growth, 1950-1998	126
Table VIII.5	Employment growth and elasticities, 1950s to 1990s	128
Table VIII.6	Changes in labour-market indicators, 1990s	129
Table VIII.7	Dynamism of sectoral investment after the reforms	130
Table VIII.8	Labour productivity in manufacturing relative to the United States, 1970-1996	130
Table VIII.9	Employment growth by sector, 1990-1997	131
Table VIII.10	Primary and household income distributions, 1980s to 1990s	132
SECOND PART: THE COUNTRIES		
Table 1	Argentina: main economic indicators	140
Table 2	Argentina: main quarterly indicators	142
Table 1	Bolivia: main economic indicators	150
Table 2	Bolivia: main quarterly indicators	152
Table 1	Brazil: main economic indicators	158
Table 2	Brazil: main quarterly indicators	160
Table 1	Chile: main economic indicators	168
Table 2	Chile: main quarterly indicators	170
Table 1	Colombia: main economic indicators	176
Table 2	Colombia: main quarterly indicators	178
Table 1	Costa Rica: main economic indicators	184
Table 2	Costa Rica: main quarterly indicators	186
Table 1	Cuba: main economic indicators	191
Table 2	Cuba: gross domestic product by sectors of economic activity	192
Table 1	Ecuador: main economic indicators	198
Table 2	Ecuador: main quarterly indicators	200
Table 1	El Salvador: main economic indicators	208
Table 2	El Salvador: main quarterly indicators	210
Table 1	Guatemala: main economic indicators	216
Table 2	Guatemala: main quarterly indicators	218
Table 1	Haiti: main economic indicators	224
Table 1	Honduras: main economic indicators	232
Table 2	Honduras: main quarterly indicators	234
Table 1	Mexico: main economic indicators	240
Table 2	Mexico: main quarterly indicators	242
Table 1	Nicaragua: main economic indicators	252
Table 2	Nicaragua: main quarterly indicators	254
Table 1	Panama: main economic indicators	260
Table 1	Paraguay: main economic indicators	268
Table 2	Paraguay: main quarterly indicators	270
Table 1	Peru: main economic indicators	276
Table 2	Peru: main quarterly indicators	278
Table 1	Dominican Republic: main economic indicators	286
Table 2	Dominican Republic: main quarterly indicators	288
Table 1	Uruguay: main economic indicators	294
Table 2	Uruguay: main quarterly indicators	296
Table 1	Venezuela: main economic indicators	302
Table 2	Venezuela: main quarterly indicators	304
PART THREE: CARIBBEAN COUNTRIES		
Table 1	Caribbean subregion: gross domestic product	311
Table 2:	Caribbean subregion: consumer prices	312
Table 3:	Caribbean subregion: unemployment rate	313
Table 4	Caribbean subregion: balance on current account	315
Table 5	Caribbean subregion: disbursed gross external debt	316

FIGURES

FIRST PART: THE REGION		
Figure I.1	Latin America and the Caribbean: quarterly gross domestic product	16
Figure I.2	Latin America and the Caribbean: current account balance	17
Figure I.3	Latin America and the Caribbean: merchandise trade	18
Figure I.4a	Latin America and the Caribbean: international bond issues	20
Figure I.4b	Latin America and the Caribbean: cost and term of international bond issues	20
Figure I.5	Latin America and the Caribbean: dollar-denominated stock price indexes	21
Figure I.6	Latin America and the Caribbean: fiscal balance for non-financial public sector	23

Page

		Page
Figure I.7	Latin America and the Caribbean: quarterly variations in the real exchange rate	24
Figure I.8	Latin America and the Caribbean: real effective exchange rate	25
Figure I.9	Latin America and the Caribbean: annualized real interest rates	26
Figure I.10	Latin America and the Caribbean: gross domestic product	29
Figure I.11	Latin America and the Caribbean: saving-investment ratios	30
Figure I.12	Latin America and the Caribbean: consumer prices	31
Figure I.13a	Latin America and the Caribbean: urban unemployment rate	33
Figure I.13b	Latin America and the Caribbean: urban unemployment rate	33
Figure II.1	Latin America and the Caribbean: fiscal position of the non-financial public sector, 1991-1999	39
Figure II.2	Latin America and the Caribbean: variation in the real exchange rate and the current deficit between 1998 and 1999	42
Figure II.3a	Latin America: real exchange rate and inflation	43
Figure II.3b	The Caribbean: real exchange rate and inflation	43
Figure II.4	Latin America and the Caribbean: real exchange rate value of local currency	44
Figure II.5a	Latin America: monetary base, money supply and quasi-money	46
Figure II.5b	The Caribbean: monetary base, money supply and demand	46
Figure III.1	Latin America and the Caribbean: privatization revenues, by subsector, 1999	51
Figure IV.1	Latin american economic growth as viewed from a world perspective, 1991-2000	62
Figure IV.2	Latin America: quarterly gross domestic product	63
Figure IV.3	Latin America and the Caribbean: regional growth	63
Figure IV.4	Latin America: components of global demand	67
Figure IV.5	Latin America: growth of production sectors	68
Figure V.1	Latin America and the Caribbean: external saving, foreign direct investment and growth of GDP	82
Figure VI.1	Latin America and the Caribbean (12 countries): total participation rate (TPF) and employment rate (ER)	86
Figure VI.2	Latin America and the Caribbean: trends of wage-based employment, self-employment and open unemployment, 1995-1999	89
Figure VI.3	Latin America and the Caribbean (14 countries): economic growth and employment, by branch of activity	91
Figure VI.4	Latin America and the Caribbean: economic growth and labour performance, 1999	94
Figure VII.1	Latin America and the Caribbean: growth of merchadise trade volumes and GDP	99
Figure VII-2	Price index for non-fuel commodities exported by Latin America and the Caribbean	100
Figure VII.3	Latin America and the Caribbean: indices of export values, 1999	103
Figure VII.4	Latin America and the Caribbean: variation in import and output volumes, 1999	105
Figure VII.5	Latin America: bond yields on the secondary market	111
Figure VII.6	Latin Ameica: capital flows	113
Figure VII.7	Latin America and the Caribbean: net transfer of resources	114
Figure VIII-1	Net capital inflows, 1975-1998	119
Figure VIII.2	Investment and labour productivity trends, 1950-1998	124

SECOND PARTE: THE COUNTRIES

Figure 1	Argentina: main economic indicators	138
Figure 1	Bolivia: main economic indicators	148
Figure 1	Brazil: main economic indicators	156
Figure 1	Chile: main economic indicators	166
Figure 1	Colombia: main economic indicators	174
Figure 1	Costa Rica: main economic indicators	182
Figure 1	Ecuador: main economic indicators	196
Figure 1	El Salvador: main economic indicators	206
Figure 1	Guatemala: main economic indicators	214
Figure 1	Haiti: main economic indicators	222
Figure 1	Honduras: main economic indicators	230
Figure 1	Mexico: main economic indicators	238
Figure 1	Nicaragua: main economic indicators	250
Figure 1	Panama: main economic indicators	258
Figure 1	Paraguay: main economic indicators	266
Figure 1	Peru: main economic indicators	274
Figure 1	Dominican Republic: main economic indicators	284
Figure 1	Uruguay: main economic indicators	292
Figure 1	Venezuela: main economic indicators	300

Foreword

The *Economic Survey of Latin America and the Caribbean, 1999-2000* is the fifty-second edition in this series and incorporates a number of changes in methodology and format.

The first of these changes is that a new CD-ROM format has been adopted which includes the statistical appendix, graphics and complete text of the *Survey.* In addition, a new methodology that was introduced in the preceding edition is being used for the country studies (Parts Two and Three). This methodology is based on national accounts statistics expressed in the local currency, rather than United States dollars, and uses the base year employed by the relevant country. The chapters on regional issues (Part One) use statistics expressed in dollars and take 1995 as the base year for calculations at constant prices. In order to correct for seasonal variations, the 12-month rate of inflation has been used, rather than annualized monthly rates, in computing the real interest rates shown in table 2 of the country studies.

The modifications that were introduced in 1995 in the *Survey's* coverage of regional economic conditions have been maintained in this edition. Once again, the *Survey* has been published in a single volume consisting of three parts. Part One presents an overview of the regional economy in 1999 and the first half of 2000. This summary has also been published as a separate document. The other six chapters in Part One review the region's economic performance in 1999, as well as drawing upon data for the first half of 2000. The eighth chapter assesses the impact of economic reforms in terms of growth, employment and social equity in Latin America and the Caribbean during the past decade.

Part Two presents reports on the performance of the 20 countries of Latin America during 1999 and includes information on the early months of the year 2000. Part Three is devoted to an analysis of the economic situation in the countries of the English-speaking Caribbean.

The statistical appendix supplied on CD-ROM includes over 400 tables providing ready access to data for recent years and permits the creation of spreadsheets. The full text and graphics are also provided in electronic format on the CD-ROM.

First part

The region

Chapter I

Summary

1. Introduction

During the year 2000, Latin America and the Caribbean have gradually been recovering from the recession that hit many of these economies in the last half of 1998 and in 1999. While regional GDP was virtually stagnant in 1999, projections put the growth of output for this year at about 4%, on average. This more robust performance will be accompanied by an average inflation rate for the region of around 10% (a rate similar to the figure for 1997-1999) and by a slightly improved situation in the labour market. The current account deficit is expected to be around 3% of GDP, which is about the same level as in 1999 but substantially lower than in 1998. In most countries, capital inflows should be sufficient to cover the deficit.

This relatively optimistic outlook stems from the reversal of the international economic trends that set off the 1998-1999 recession. As the economies of Asia recover and growth picks up in Europe, the prices of many of the commodities exported by Latin American and Caribbean countries have been on the rise. Although the United States economy may be beginning to slow down, it is still expected to grow at a fairly rapid rate. The resulting upswing in trade should permit an increase of about 15% in the value of the region's exports in 2000, compared to a decline in 1998 and an increase of less than 6% in 1999. Indeed, export growth is the most powerful force behind the recovery of GDP. Imports will also strengthen, but they are expected to grow at a somewhat slower rate than exports.

A moderate expansion of external financial flows to Latin America and the Caribbean is expected. While foreign direct investment will continue to be the most important component, it is unlikely to match the record levels reached in 1999. Bond issues in the first quarter of 2000 were the highest since mid-1997 (before the outbreak of the Asian crisis), although they fell back again in the second quarter, thus demonstrating their continuing volatility. Bank lending is expected to rebound somewhat, thereby surpassing its 1999 level, as will equity portfolio investment. Overall, capital flows should reach around 3%-3.5% of GDP in 2000, compared to 2.8% the year before. Some uncertainty persists, however, and the upward trend in these flows could therefore be undermined by contagion from United States financial markets if a sharp increase in interest rates, a partial reversal of capital inflows to the United States economy or some other event precipitates a steep downturn in the stock market or a devaluation of the dollar, thus pushing that economy into a "hard landing".

In most countries of the region, the management of macroeconomic policy has benefited from the improvement in the international economic situation. Fiscal policy is expected to be somewhat more austere in 2000 than in 1999, when, at an average of 3%, deficits reached their peak level for the decade. The smaller deficits will partly be a result of the increased revenues and lower transfers resulting from higher growth rates. In addition, expenditure will be lower. At the same time, it appears that monetary policy is beginning to be relaxed somewhat now that inflation has been brought under control.

Exchange-rate policy has been moving in a new direction during the past 18 months. At a time when the countries that were most seriously affected by the international crisis were finding it increasingly costly to defend their currency bands, the flotation of the Mexican peso following that country's 1994-1995 financial crisis set an example for others, since it proved to be a relatively successful alternative; Brazil, Chile, Colombia and Ecuador thus followed suit in 1999. Except in the case of Ecuador, the resulting devaluations were generally successful in encouraging exports and restraining imports, thereby stimulating economic growth in those countries.

The decline in the value of local currencies –together with the upturn in growth rates– does not appear to be having a significant impact on inflation. In the first half of 2000, consumer prices rose slightly more than they had in 1999 in most of the countries, but these increases have been far outweighed at the regional level by improvements in Brazil, Mexico and Venezuela. The main exception to this bright picture has been Ecuador, where the inflation rate for the 12-month period ending in June exceeded 100% and led to the adoption of a dollarization scheme in January 2000. The fact that inflation has not rebounded in other countries following devaluations and the subsequent upswing in GDP growth adds to the mounting body of evidence that the region may be arriving at a new stage of stability following the long years of high or even hyper-inflation.

The countries' success in quelling inflation has had a positive impact on real wages. In Chile, Colombia and Mexico, average real wages in the formal sector increased during the first half of 2000, and the slide in pay levels in Brazil slowed. The employment rate also climbed slightly in the eight countries for which information is available; this improvement has not yet been reflected in the unemployment rate, however, due to the fact that the participation rate has also risen. In addition, of course, the recovery has not proceeded as rapidly in some economies as in others.

During the two preceding years, a pattern had developed whereby the northern and southern halves of the region displayed sharply different economic trends, with most of the South American countries sliding into recession while the Mexican, Central American and Caribbean economies continued to expand (albeit more slowly than before), thanks in large part to their sustained level of exports to the United States market. In the first half of 2000, however, this distinction became blurred. Although the northern-tier countries continue to do well, they have been joined by several of their South American counterparts, whose economies have staged a recovery as economic trends improve in Europe and Asia, as well as in the regional market itself. In fact, current projections indicate that Chile and Peru, as well as Costa Rica, the Dominican Republic, Mexico and Nicaragua, will outpace the region's estimated average growth rate of 4%.

From the perspective of the region as a whole, the Latin American and Caribbean countries are entering their third growth cycle of the last 10 years. Dating the cycles on an annual basis from trough to trough, the first ran from 1990 to 1995, the second from 1995 to 1999, and the third began in 1999. From 1994 on, the cycles can be dated more precisely using quarterly data for a number of countries, as shown in figure I.1.[1] Measurements based on these statistics indicate that the peak of the first cycle came in the fourth quarter of 1994 and the trough in the fourth quarter of 1995. Negative growth was seen in the last two quarters of 1995 and the first of 1996. The peak of the second cycle occurred in the second quarter of 1997, after which growth declined, ending in four quarters of negative growth (the fourth quarter of 1998 through the third of 1999). Judging from the available information and projections for the year 2000, the upward phase of the third cycle would appear to have started in the last quarter of 1999.

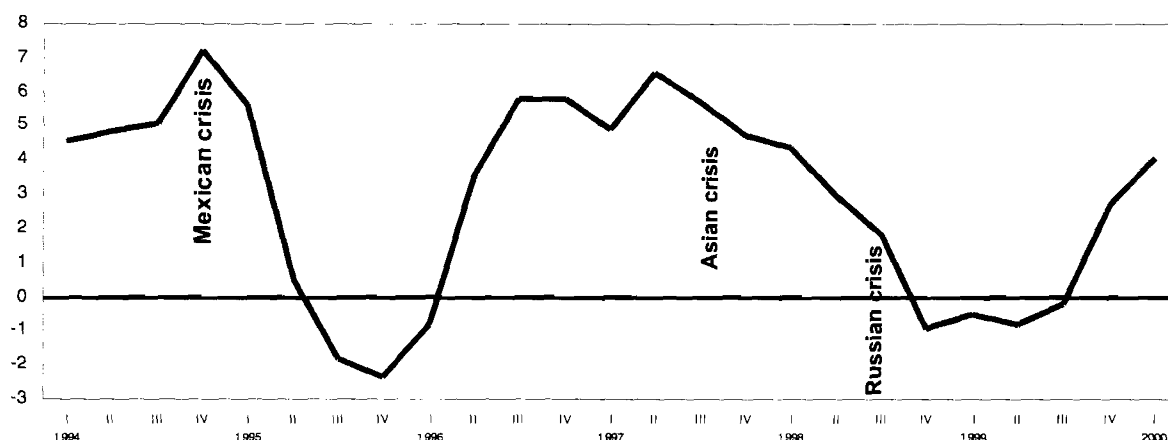
Although the two previous cycles had many differences, they also had some similarities from which lessons can be drawn that may be useful in managing the third and subsequent cycles. The most important difference between the 1990-1995 and 1995-1999 cycles had to do with the origin and extent of the downswing. In the first case, the main factor was the performance of the Mexican economy, whose large current account deficit, accompanied by a debt structure heavily weighted towards the short end, led to a foreign-exchange crisis when political shocks undermined confidence in the sustainability of this dynamic. The Mexican crisis spread to Argentina and Uruguay through an outflow of foreign capital, but it had little effect elsewhere in the region. In the second cycle, by contrast, the triggering events came from outside the region, although problems in the Latin American and Caribbean economies themselves also provided fertile ground for the contagion process, which began with a speculative attack on several currencies, especially the Brazilian real. These attacks were, in turn, sparked by expectations that the existing exchange rate regime would not be sustainable in the face of falling commodity prices, weaker external demand and capital

1 Ideally, seasonally adjusted quarterly rates should be used for these types of measurements.

Figure I.1

LATIN AMERICA AND THE CARIBBEAN: QUARTERLY GROSS DOMESTIC PRODUCT [a]

(As percentage of variation with respect to the same quarter of the previous year)



Source: ECLAC, on the basis of official figures.
[a] Includes Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

outflows. In this case the impact was widespread, although, as noted earlier, it was stronger in South America.[2]

Another difference between the two cycles was their effect on the banking sector. In the first cycle, the Mexican and Argentine foreign-exchange crises were followed by banking crises as weak and poorly supervised financial institutions were hit by massive withdrawals of deposits. In the second cycle, Brazil and other South American countries had already embarked upon financial restructuring programmes that had strengthened their banking sectors before the external shocks occurred. Thanks to these improvements in regulation and supervision, the negative financial impact in the region during 1998 and 1999 was less severe (although difficulties nonetheless arose, especially in Ecuador, Colombia and several Central American countries), and growth resumed more quickly. These changes, together with the prompt reaction of the international community, were significant factors in Brazil's better-than-expected performance following the January 1999 devaluation.

An important similarity between the two cycles is the procyclical behaviour of foreign capital flows and domestic spending, both public and private, during the cycles' upswings. Foreign capital –especially short-term flows– flooded into the region as growth resumed, thereby driving growth rates up even further. Renewed access to external financing eased the existing constraints on investment and consumption, while the rise in foreign reserves drove up liquidity. These expansionary phases were in many cases accompanied by overvalued exchange rates and by some substitution of domestic for external savings, which discouraged exports and encouraged imports. Consequently, the countries' current account deficits expanded rapidly, thereby heightening their exposure to exogenous shocks.

Eventually, expectations turned negative in some instances, and foreign capital withdrew, depressing growth in the process. In other cases, governments and central banks became so worried by the balance-of-payments situation that they themselves triggered recessions as they strove to reduce their current account deficits. In either event, the positive phase of the cycle was reversed, and many domestic agents that were heavily indebted in hard currency were forced into bankruptcy. This further destabilized an already weakened financial sector.

2 For further information on the international crisis' causes and impact in the region, see the *Economic Survey of Latin America and the Caribbean, 1998-1999* (LC/G.2056), Santiago, Chile, November 1999. United Nations publication, Sales No: E.99.II.G.2.

This brief review of some of the key elements in the two previous cycles raises several points that governments may wish to take into consideration now that a new cycle appears to have begun.[3] Some of the lessons to be drawn from these experiences have already been learned in many countries, which is why liability policies aimed at establishing an appropriate debt profile and the prudential regulation of the banking sector both generally improved between the first and second cycles. The present challenge is therefore to prevent backsliding and to help make sure that all the countries move in this direction.

In view of the difficulty of altering the procyclical behaviour of foreign actors or of the countries' domestic private sectors, another lesson is that it is imperative for the region's governments to pursue strong countercyclical policies in order to prevent their economies from overheating as they move out of recession. This demands great self-discipline, especially in view of the depth of these recessions, which in many cases have also included high unemployment rates. The region's experiences indicate, however, that procyclical management does not lead to higher growth rates over the long term and that the greater volatility of growth associated with such an approach can lead to an accumulation of risk or discourage investment in production, thereby halting or dampening growth.

In this initial phase of a new upswing, consideration should also be given to the possibility of introducing policies designed to protect the countries' economies from the worst ravages of procyclical capital flows. This is all the more important given the fact that the volatility of financial flows will probably increase in the future when the inflow of foreign direct investment, which was attracted to the region by the privatization programmes of the 1990s, tapers off and profit remittances pick up.

In summary, a careful analysis of the lessons to be learned from the macroeconomic policies implemented during the 1990s may help ensure that this new cycle will be longer in duration than its immediate predecessors and that the downswing –when it comes– will be less severe.

2. The external sector

The region's balance-of-payments current account deficit is expected to verge on US$ 50 billion –3% of GDP (see figure I.2)– in the year 2000, which is similar to the figure for the year before but far lower than the US$ 87.5 billion deficit registered in 1998. If it were not for the hefty surplus being run up by Venezuela, however, the region's deficit would be nearer to US$ 60 billion. Colombia, Mexico and some Central American countries are likely to post larger current account deficits in 2000, while Chile is expected to have a moderate deficit after having balanced its account in 1999. Other countries are likely to show no significant variation on this account or to have smaller deficits than the year before (e.g., Argentina, Brazil and Uruguay).

The lack of any significant change in the region's current account deficit is the net result of two opposing trends. On the one hand, the upturn in import growth associated with the recovery of economic activity will reverse the slump seen in 1999. On the other, the value of exports is expected to climb sharply thanks both to an increase in volume and to the higher prices of many commodities, especially raw materials. Within this context, the rise in oil prices has been particularly influential, since this product accounts for a sizeable portion of the region's sales. The combination of these two trends makes for a trade deficit quite similar to the preceding year's, which was substantially lower than it had been before.

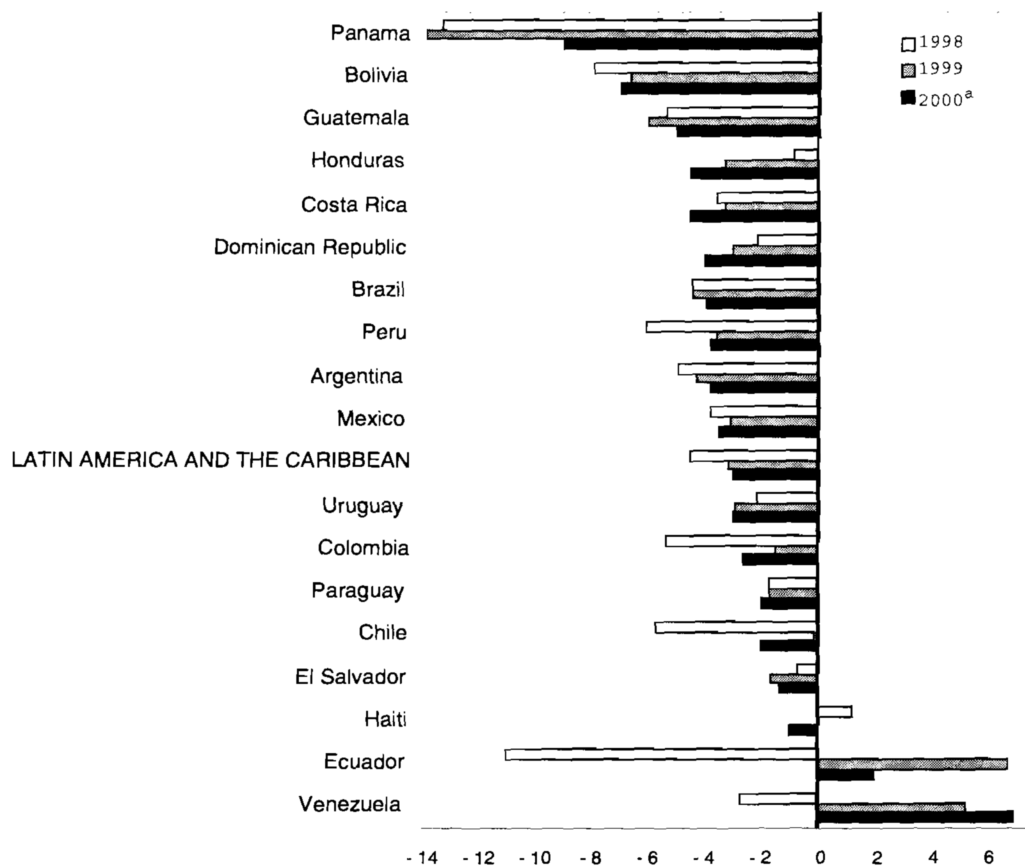
The deficit on the factor income account may be somewhat larger, but this rise will once again be mitigated by higher current transfers. Capital flows appear to be recovering, albeit with ups and downs. It is even possible that they may exceed the current account deficit. If this happens, then for the first time since 1997 and the start of the global crisis, the region will post an overall balance-of-payments surplus and will not have to draw on its reserves in order to cover deficits.

3 For a discussion of countercyclical management of the economy, see ECLAC, *Equity, Development and Citizenship* (LC/G.2071(SES.28/3)), chapter 8, Santiago, Chile, March 2000.

Figure I.2

LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT BALANCE

(As a percentage of GDP)



Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Projections.

A solid recovery in external trade following the 1999 slump

During the year 2000, merchandise trade has clearly been on the rise and has emerged from the slump seen in 1999. This recovery has been brought about both by factors that determine the prices of the region's exports (especially commodities) and by factors that influence the volume of external sales, such as world and regional economic activity levels. The economic recovery has also given a significant boost to imports.

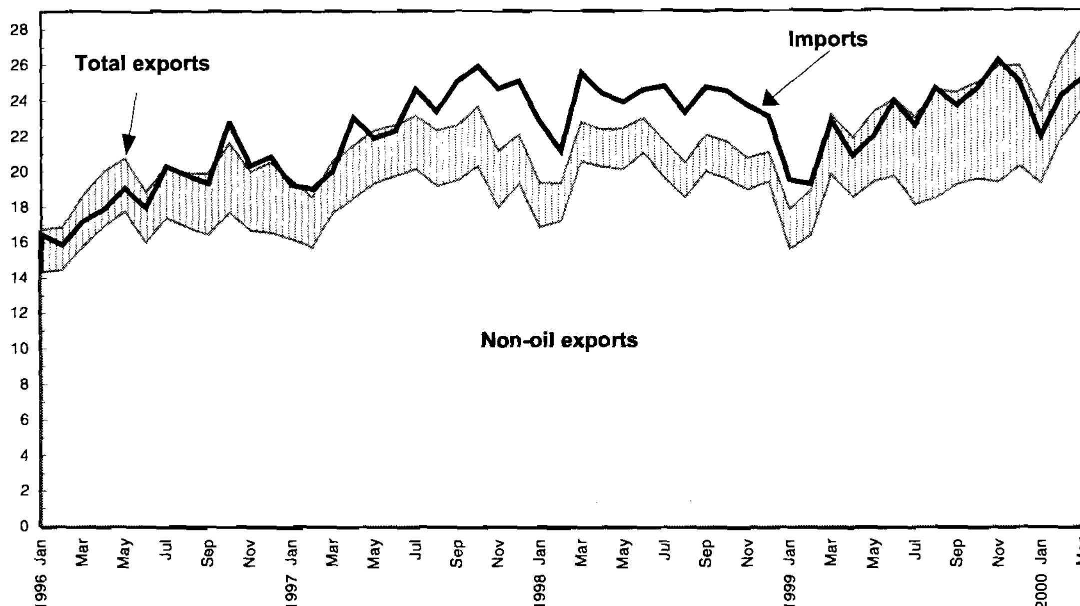
Trade statistics bottomed out in early 1999. For that year as a whole, merchandise imports shrank by 2.7% in terms of volume and fell even more sharply in value (by over 4%) as a result of the drop in unit values. By contrast, the value of merchandise exports rose by nearly 6%; this improvement was attributable to a 7% increase in export volumes, since unit values for exports were lower than they had been the year before (see figure I.3). If Mexico's statistics are factored out of the calculations, however, in value terms, exports were down by 1.7% and imports by 15.7%.

Clearly, then, these aggregate figures mask the varying situations in individual countries, each of which has had differing levels of exposure to the main factors that exert a positive or negative influence on trade performance. One of those factors was the continuation of the recessionary phase in world commodity markets that was triggered by the outbreak of the Asian crisis, causing export values to contract. Beef, nickel and, especially, oil were among the very few products whose average prices rose in 1999, with the upturn in oil prices substantially raising net exporters' earnings from this commodity and net importers' outlays.

Figure I.3

LATIN AMERICA: MERCHANDISE TRADE [a]

(In billions of dollars)



Source: ECLAC, on the basis of official figures.

[a] Includes Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela, which together account for 93% of the region's trade.

On the other hand, the pace of world economic activity was faster than it had been the year before, and this boosted external demand for the region's products. Growth was particularly robust in the United States (4.2%), and this was a boon for Mexico, Central America and the Caribbean, which posted widespread increases in export volumes. The same was true of exports to the countries of South-East Asia, whose economies rebounded so strongly that they were growing at rates of over 6%.

In contrast, the sluggishness of economic activity in the region dampened import demand, which was down across the board in the countries that were doing poorly. This trend was reinforced by currency depreciation in many instances, as in Brazil. Weaker regional demand sapped the strength of intraregional trade, especially in the case of manufactured goods, which is the largest category of such transactions, and of the countries having the greatest degree of trade integration (chiefly the members of Mercosur and of the Andean Community).

The mix of negative and positive factors and the varying degrees to which they influenced the individual countries of the region generated a heterogeneous situation with respect to trade performance. In the southern portion of the region, most net oil importers saw a widespread decline in the unit values of their exports and in their real terms of trade, as well as in their export volumes. This drove down the value of their exports, with the notable exceptions of Brazil, Chile and Peru. In contrast, the countries whose main export product is oil (Colombia, Ecuador and Venezuela) benefited from the steep ascent of hydrocarbons prices and thus registered an upswing in unit values which translated into higher export earnings and improved real terms of trade.

With the sole exception of Honduras, which was ravaged by Hurricane Mitch, the countries in the northern part of the region managed to raise the volume of their exports thanks to the robust demand generated by the United States market. The *maquila* industry, which is geared towards that market, played an important role in this respect. The unit values of exports slipped in all the countries except Mexico, mainly as a result of the lower prices of the commodities they export (chiefly bananas, coffee and sugar). These decreases, however, were offset by higher volumes in some cases.

The value of imports was lower for most of the countries. Despite higher oil prices, unit values declined

across the board. The trend in volumes mirrored the trend in domestic demand and, in the case of Brazil, the movement of the exchange rate. Consequently, the situation in the South American countries and in Panama, which registered lower import volumes and values, differed from that of the rest of the region, in which both of these indicators generally rose.

Thanks to the region's trade performance, its merchandise trade deficit shrank considerably, dropping from its 1998 level of US$ 33.36 billion to just slightly more than US$ 4 billion in 1999. Trade in non-factor services also produced a smaller deficit, mainly because of a reduction in the amount paid for the shipment of merchandise. As a result, the deficit registered for trade in goods and non-factor services fell to approximately US$ 18.6 billion.

In the early months of the year 2000, the conditions affecting merchandise trade improved. Thanks to the moderate ascent of many commodity prices, the averages for the first five months of 2000 have been higher than they were for the same period of 1999 for bananas, shrimp, aluminium, copper, tin, zinc, iron ore, soybeans, cotton and fishmeal, although the figures for the last four products are still below their 1998 levels. Nickel prices have been climbing even more steeply. Average oil prices are up by almost 50% over their 1999 levels. In contrast, coffee, wheat, sugar, lead and silver prices have continued to slip.

World economic activity has remained on an upward path, and the growth rate is projected to rise to as much as 3.5% in the year 2000. With a somewhat higher growth rate for Europe, some measure of convergence among the developed regions of the world is also expected. The recovery of the region's economies will be an important factor in the reactivation of intraregional trade.

The available trade statistics for the first three to five months of the year corroborate the above observations. Exports have expanded in almost all of the countries and especially in Chile, Colombia and Mexico, where increases of between 20% and 24% have been posted. Argentina, Brazil, Ecuador, Paraguay and Peru have increased exports by between 13% and 17%. Imports are also up in most cases, and particularly large increases have been observed in Chile (26%), Mexico (23%), Venezuela (21%), Peru (12%) and Brazil (11%). The only country in which imports have continued to decline is Ecuador, while import growth has been flat in Argentina and Paraguay. The expansion of trade seen in 2000 has thus been quite solid so far, although the low base of comparison provided by the figures for 1999 should be taken into consideration.

Capital inflows recover by fits and starts

The speed of the recovery in external financing for Latin America and the Caribbean in 2000 will primarily depend upon how interest rates in the United States behave during the second half of the year. In the first semester, the fallout from the international financial crisis was still a factor. Although the region continued to receive significant flows of direct investment, the flow of external finance obtained from the issue of bonds remained highly volatile, while bank lending rebounded slightly early in the year.

In 1999, Latin America and the Caribbean had been seriously shaken by the after-effects of the crisis, which had deepened further when the Russian Federation declared a moratorium in August 1998; this situation was further compounded by the devaluation of the Brazilian real in January 1999. Autonomous capital inflows shrank to just US$ 48 billion after having reached US$ 85 billion and US$ 70 billion in 1997 and 1998, respectively. For the second year in a row, foreign direct investment helped to mitigate the effects of the crisis, and in some economies, particularly Brazil's, the extraordinary financing provided by multilateral lending agencies (especially the International Monetary Fund) was another important factor. However, substantial outflows of the more volatile sorts of finance, such as equity investment and commercial bank loans, were observed.

Bond issues amounted to US$ 42 billion in 1999, but much of this funding continued to be used for the amortization of debt; therefore this source provided very little fresh financing. The cost of external credit has hovered around an annual rate of 12%, which is substantially lower than the 15% rate recorded in August 1998 but still much higher than the pre-crisis, mid-1997 figure. Maturities have also been growing shorter since the crisis, dropping to an average of just five years in the second half of 1999.

Commercial bank lending has been one of the most volatile types of flows in recent years and has been markedly procyclical, especially since the second quarter of 1998. Data as of December 1999 indicate that there has been a continuing capital outflow of around US$ 15 billion; a portion of this amount can be attributed to the weakening of demand for short-term financing as a consequence of the reduction in foreign trade operations the preceding year. These withdrawals of capital from the commercial banking system were heavily concentrated in Brazil, but they reached significant levels in Chile, Colombia, Ecuador and Peru as well. A positive net flow was seen in the fourth quarter of 1999, however, following five quarters of negative flows.

In 2000, foreign direct investment will once again help to cushion the region from the impact of the crisis, although it will probably not match its 1999 record levels. Much of the funding derived from bond issues will once again be used to pay off matured debts. While equity investment and commercial bank lending registered net outflows in 1999, it is likely that these trends will be reversed in 2000, especially if international interest rates hold more or less steady.

In the first quarter of 2000, the region's bond sales rebounded sharply (see figure I.4), but the slippage that occurred in the second quarter attested to the continuing volatility of this type of flow. By the same token, the trend towards longer maturities, which brought them to an average of 12 years in the first quarter, was reversed in the second, when the average fell to eight years. Most bond sales are still being made by the central government and the public sector; the last one in the first semester was carried out in June by Uruguay for a total of US$ 300 million at 300 basis points over United States Treasury bonds and a 10-year maturity. Nonetheless, Latin American firms' access to this market remains very limited, and for the most part the terms and conditions are quite burdensome.

Figure I.4a

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES

(In billions of dollars)

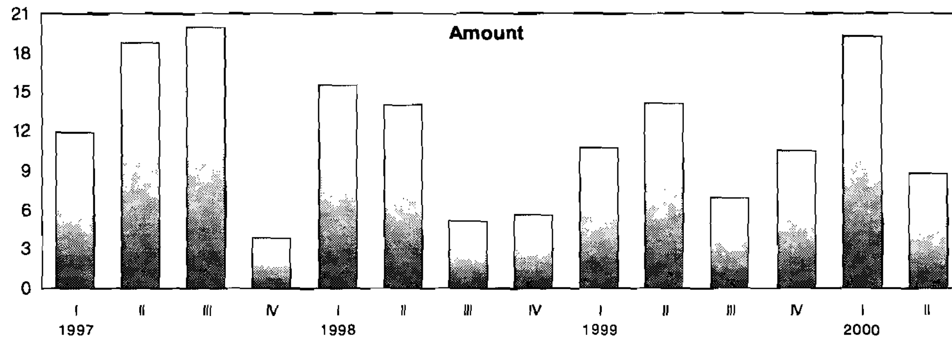
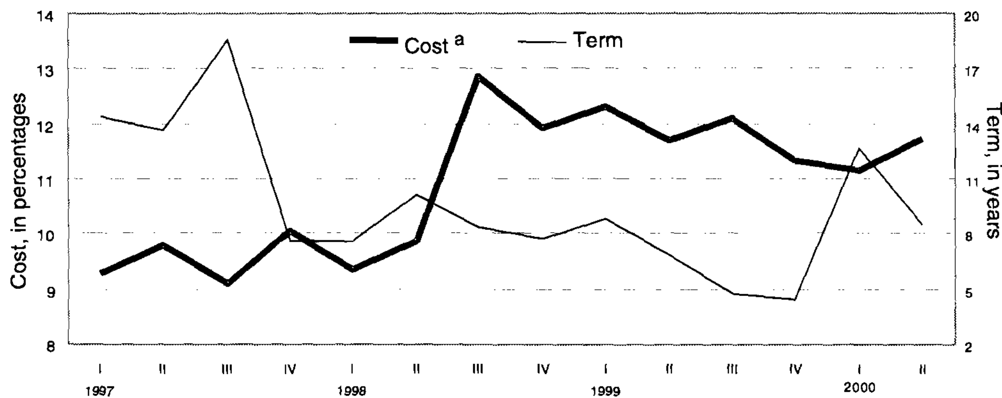


Figure I.4b

LATIN AMERICA AND THE CARIBBEAN: COST AND TERM OF INTERNATIONAL BOND ISSUES



Source: ECLAC on the basis of figures from official sources, the World Bank and the International Monetary Fund.
[a] Sum of the average spread for bond issues plus the yield of long-term United States Treasury bonds.

The cost of external credit for the region hovered around 12% per annum through June 2000, which is similar to the rate recorded a year earlier. In the first half of 2000, external finance cost about 8%-9% annually for Chile, Mexico and Uruguay, whereas the figure was close to 12%-13% for Argentina, Brazil and Colombia and around 15% for Venezuela.

In the early months of 2000, equity investment flows made a partial recovery, albeit with some ups and downs. This improvement has come at a time when share prices have been gaining ground, after having plunged to record lows during 1998. The net result is that, as of mid-2000, the regional stock index is 15% lower than it was in mid-1997, before the outbreak of the Asian crisis (see figure I.5). This recovery has been given a strong boost by Mexico, which has the only stock market in the region whose share price index is 20% higher than it was before the Asian crisis. The Mexican economy also experienced a sharp increase in equity flows in 1999, and this trend continued during the first half of 2000. For example, during the first four months of the year a total of US$ 1.3 billion in ADRs were issued.

Multilateral agencies have already approved a considerable amount of financing for Argentina, Colombia and Ecuador, and these funds may be disbursed any time in the period 2000-2002. In fact, Ecuador received some of this credit in April. By May, Brazil had amortized most of the extraordinary financing it had received in 1998-1999.

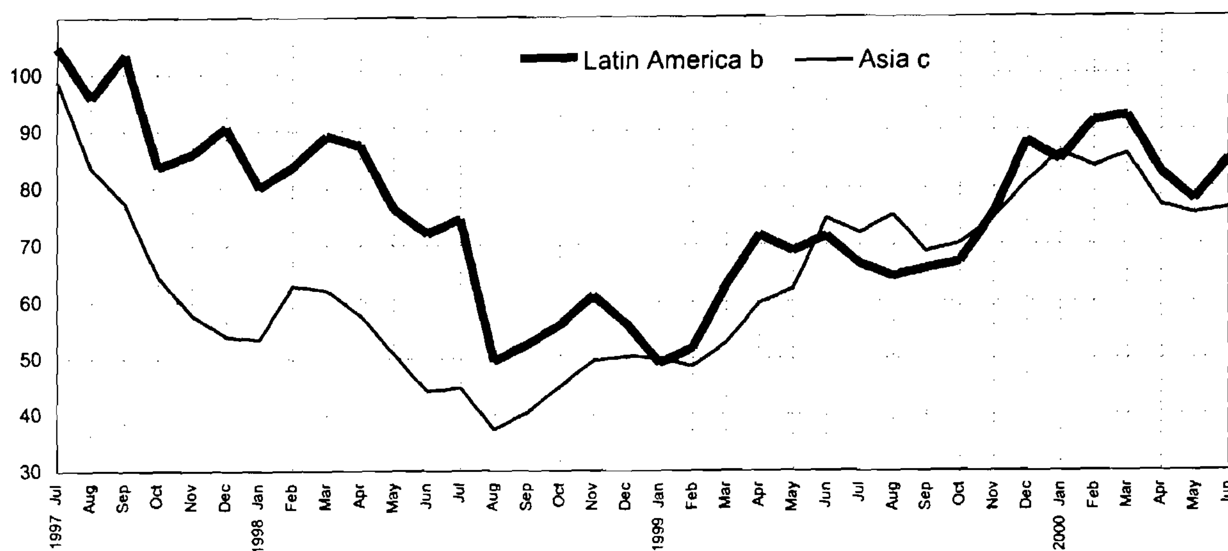
External borrowing edged up by just 1.5% in 1999. Even so, many countries continue to have disturbingly high debt ratios. Foreign borrowing may rise again this year as activity on the international bond market picks up and commercial bank loans become somewhat more accessible. The ascent of international interest rates may, if it continues, create problems for some of the region's heavily indebted countries. The United States Federal Reserve's decision to refrain from implementing any interest rate hikes in June was seen as sending out mixed signals, since the Federal Reserve also indicated that it might raise interest rates in the near future.

In the area of external debt restructurings, Honduras' bilateral external debt has been forgiven under the Naples Terms, thereby cutting the country's external liabilities by US$ 400 million. Ecuador is in the process of restructuring its external debt following its default on the interest payments on its guaranteed Brady bonds and other commitments with private creditors in 1999. Nicaragua is involved in negotiations in an effort to establish its eligibility for the debt reduction initiative that has been devised for heavily indebted poor countries, a scheme in which Bolivia and Guyana are already participating.

Figure I.5

LATIN AMERICA AND THE CARIBBEAN: DOLLAR-DENOMINATED STOCK PRICE INDEXES[a]

(Indexes, June 1997=100)



Source: ECLAC, on the basis of figures from the International Finance Corporation.

[a] Month-end values. [b] Includes 331 firms from Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. [c] Includes 1,077 firms from China, India, Indonesia, The Republic of Korea, Malasya, Philippines, Pakistan, Sri Lanka, Thailand and Taiwan, Province of China.

3. Macroeconomic policy and reform

Major qualitative changes in macroeconomic policy are to be seen in the region as it emerges from the crisis of the last two years. During this period, macroeconomic policy responses have been shaped to a great extent by the external environment and by the domestic fallout from the international financial crisis. In an effort to meet these challenges, in 1999 governments began to take a more flexible approach so that they could gear their policies to the different phases of the economic cycle and thus respond in a more pragmatic way to developments as they occur.

Ideally, this increased response capacity is based on a more pragmatic approach to the design and management of monetary and exchange-rate policies, with fiscal policy playing a stabilizing role in the medium term. Accordingly, a growing number of countries have floated their currencies and have begun to define monetary policy in terms of inflation targets rather than basing it on strict rules concerning monetary aggregates or the exchange rate, as many of them did in the past. In parallel with this, new fiscal legislation has been passed in order to prevent chronic deficits and to establish medium-term goals. Also, many countries that have been affected by cyclical international price swings are making greater use of stabilization funds, which they create during economic booms and can then use to finance countercyclical fiscal measures in times of recession.

The key factor underlying this substantive change in macroeconomic policy in the region has been the slowdown in inflation, which has remained stable at around 10% for a fourth consecutive year despite considerable external turmoil (climatic and financial disturbances) and the devaluation of several countries' currencies. Greater internal stability has made it possible to broaden the objectives of monetary and exchange-rate policy and, above all, to lengthen the time horizons for their coordination. These longer horizons tend to mitigate the procyclical biases which have been typical of the countries' macroeconomic policies in the 1990s and thus make it possible for them to absorb transitory external shocks at a lower real cost in terms of production, income or employment.

Towards a smaller fiscal deficit in 2000

The governments of the region are taking a more cautious approach to fiscal policy in 2000 than they did in 1999, when the average fiscal deficit of the non-financial public sector reached 3% of GDP, the highest figure of the 1990s. The economic environment that will serve as the context for this approach is expected to allow for more breathing space on the revenue side while generating less pressure on the expenditure side of their accounts.

In 1999, alarm about poor economic growth prospects prevailed over concerns about the need to narrow the countries' fiscal deficits, which had been widening during the preceding years. As prospects for financing the deficit improved and internal inflationary pressures subsided, the economic environment became more conducive to the adoption of fiscal policies oriented towards sustaining domestic demand. Only three of the region's countries (Ecuador, Panama and Venezuela) substantially reduced their borrowing requirements with respect to the previous year, and even in these cases, the reductions were made from historically high levels and by means of specific adjustment programmes.

The increase in the regional deficit was brought about by the fact that spending rose faster than revenue did in real terms, particularly in the case of non-tax income. The improvement in international fuel prices, the increase in other current income and greater capital inflows tempered the negative effect of the economic cycle on tax revenues in a number of the region's countries. In response to this volatile situation, several governments passed tax reforms on both direct and indirect taxation in an attempt to soften the cycle's impact.

Most of this increased expenditure went to three main areas. A number of governments placed priority on bolstering the economic sectors that had been hit the hardest by the international crises of 1997 and 1998 in order to lessen a potential contraction in 1999. A second area of importance was the continuation of investments directed at rebuilding areas that had been devastated by the natural disasters of recent years in the Caribbean, Central America and several Andean countries. The third factor was that the debt service rose again. Furthermore, public finances recorded a slightly negative primary balance.[4] This development sounds a note of caution, since any further increase in the public debt service will boost net borrowing requirements and thus expose the fragile position of the countries' public-sector accounts.

4 The primary balance is equivalent to the fiscal balance less debt interest payments.

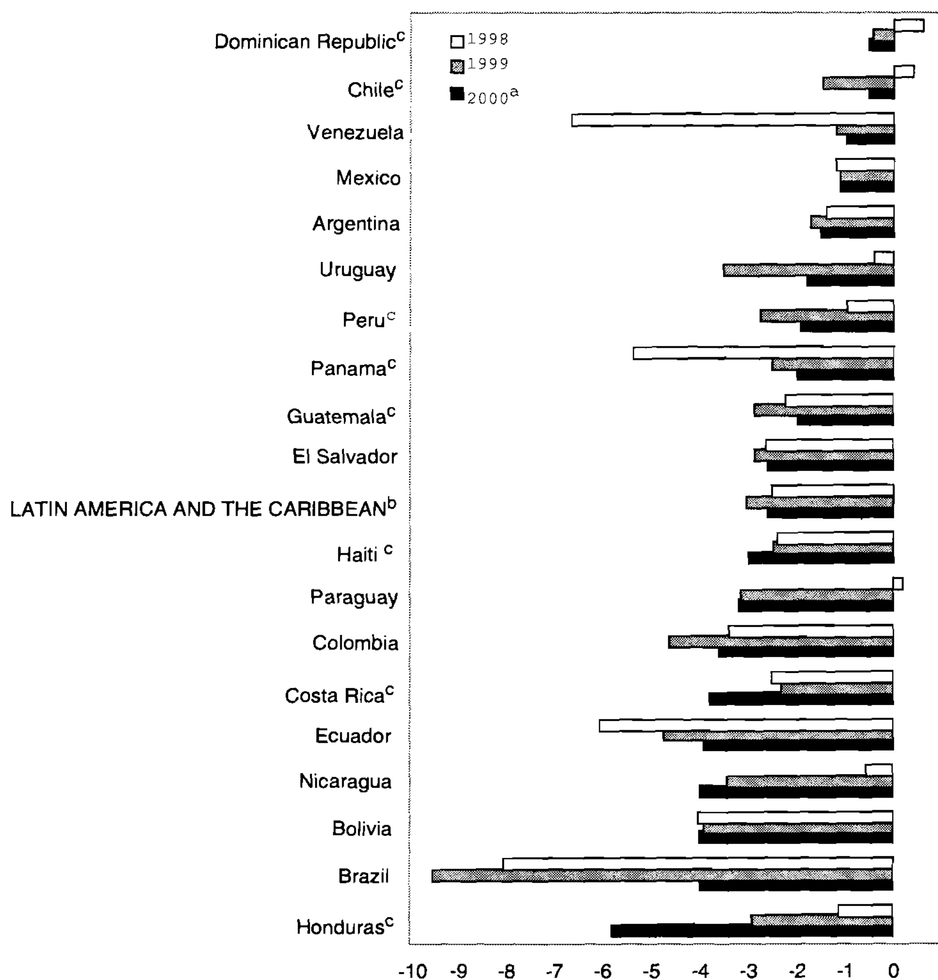
With more encouraging growth prospects for 2000, the fiscal policies being pursued by Latin American and Caribbean governments have swung back towards a more austere stance. Fiscal budgets include major spending adjustments and, on average, the targets that have been set will, if met, bring the countries' fiscal deficits down to levels similar to where they were in 1998 (see figure I.6). Some of the pressures that existed on both the revenue and the expenditure sides in 1999 have eased in 2000, and this has paved the way for these budget cuts. The economic recovery will help to boost tax revenues and will lessen the need to continue to shore up the production sector. At the same time, the amount of investment required for reconstruction should diminish, and high international oil prices will help restore tax revenues to their former levels.

In a move to avoid future fiscal deficits, Argentina and Peru passed legislation in 1999 which requires that fiscal accounts be kept within certain bounds. Brazil and Ecuador followed suit in the first semester of this year, and the effort to meet the fiscal targets that have been established will bring greater austerity to fiscal policy in 2000 and the coming years.

Figure I.6

LATIN AMERICA AND THE CARIBBEAN: FISCAL BALANCE FOR NON-FINANCIAL PUBLIC SECTOR

(As a percentage of GDP)



Source: ECLAC, on the basis of official figures.
[a] Targets and projections. [b] Simple average for 19 countries. [c] Data for central government.

Foreign-exchange markets stabilize

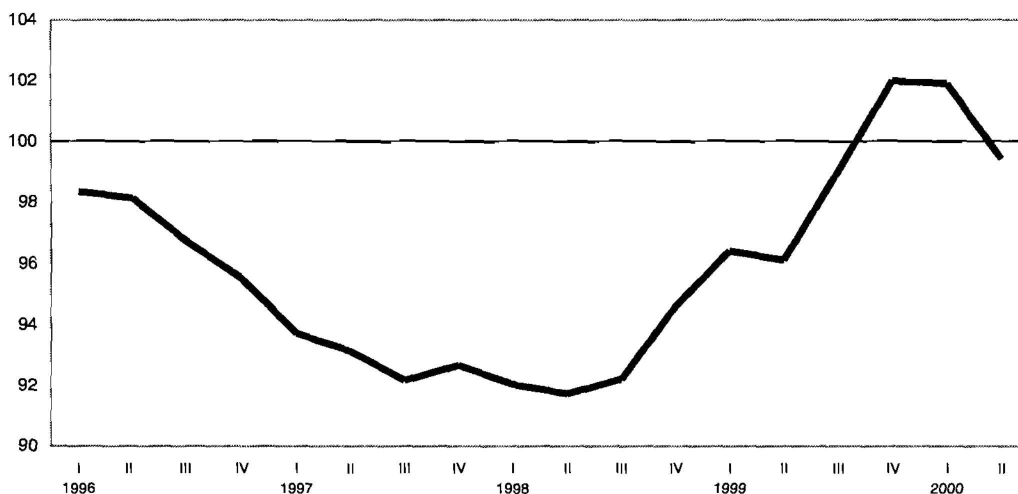
Exchange markets did not see a great deal of movement during the first semester of 2000, particularly in comparison to the first half of 1999, which was marked by major exchange-rate fluctuations. The region's major currencies began to appreciate during the first quarter, but some of them later slipped back due to a combination of international factors related to interest rate hikes in the United States and domestic factors, many of which were not economic in nature. Nevertheless, the trend towards a real appreciation of these currencies is likely to prevail for the year as a whole.

In spite of the existing level of uncertainty regarding the international environment, as the semester drew to a close nominal exchange rates were expected to follow a moderate trend, given the less disturbing outlook with regard to future increases in international interest rates and the encouraging reaction of the region's major foreign-exchange markets to political disturbances. Improved growth expectations and more favourable terms of trade for 2000 in the region as a whole –and, in the particular case of the Andean subregion, the decreased risk of macroeconomic destabilization– make for a more favourable scenario for the year. Therefore, even against a background of lower inflation in the region, the tendency towards a real appreciation of the countries' currencies seen in the early months of the year should continue during the rest of 2000 (see figure I.7).

Figure I.7

LATIN AMERICA AND THE CARIBBEAN: QUARTERLY VARIATIONS IN THE REAL EXCHANGE RATE

(Simple average of indexes, 1995=100)[a]



Source: ECLAC, on the basis of official figures.

[a] An increase in the index denotes a depreciation of the local currency.

This stabilization of exchange rates is occurring against the backdrop of a more flexible market than in previous years. In 1998 and 1999, the countries' currency bands, which limited the range of variation around a central reference rate, had failed to withstand speculative attacks when the market lost confidence in their sustainability.

The devaluation of the *real* in January 1999 may be the event that best illustrates the trend of the region's exchange rates. Three other countries (Chile, Colombia and Ecuador) have since abandoned their exchange-rate bands and allowed their currencies to float. With the exception of Chile, this move was prompted by the fact that it had become impossible to sustain the reference rate, and the shift over to the new exchange-rate regime was accompanied by steep devaluations. In Ecuador, confidence in the local currency could not be restored in 1999, and in early 2000 the authorities opted for the formal dollarization of the economy.

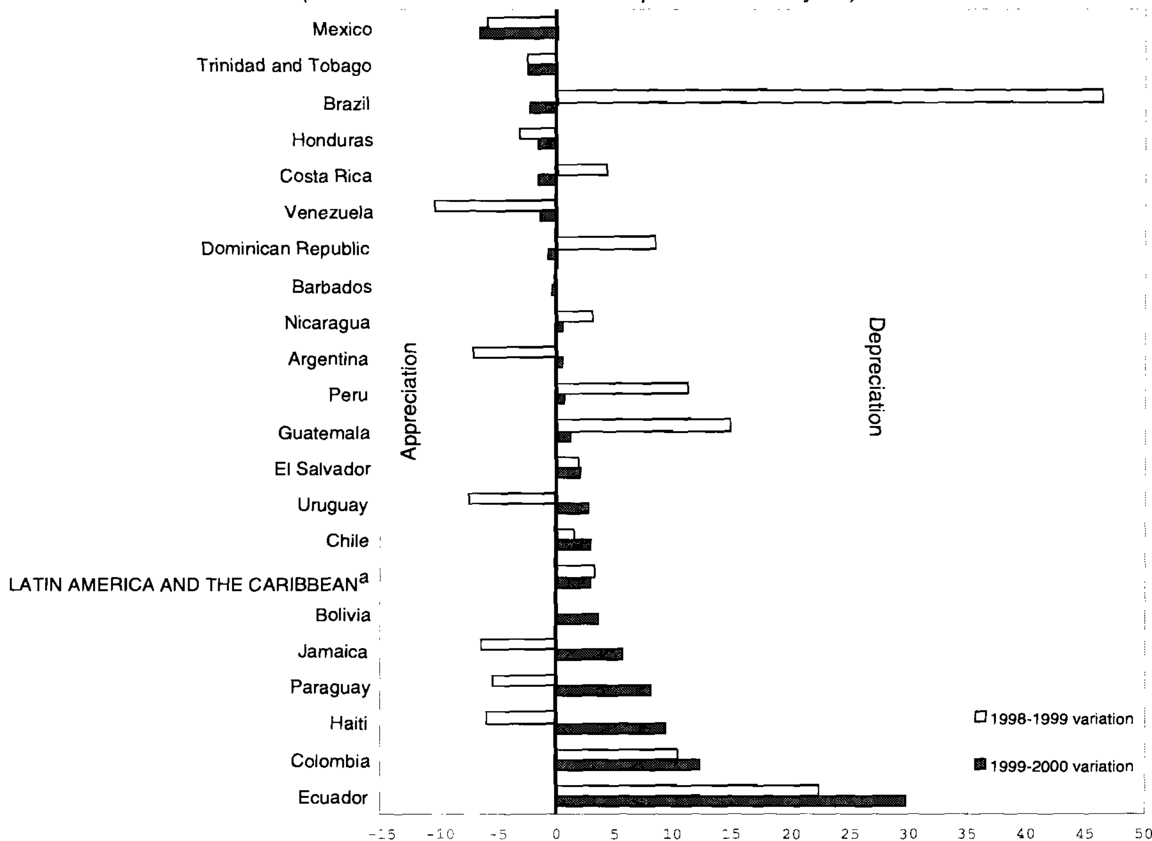
Three waves of anxiety –corresponding to the devaluation of the *real*, Ecuador's partial external debt moratorium and apprehension about interest rates in the United States– rippled through the region's foreign-exchange markets in 1999. Exchange-rate swings were particularly sharp in South America but were also felt in the rest of the region. The Mexican and Central American exchange markets quickly returned to normal in the second quarter, however, thanks chiefly to capital inflows in the case of Mexico. With a few exceptions, such as Jamaica, the Caribbean countries were free of these disturbances and generally continued to follow the pattern of slight devaluations that has prevailed in recent years.

Thanks to these exchange-rate adjustments, which did not impinge to any great extent on national inflation indicators, in 1999 the value of the Latin American currencies continued along the downward path it has followed since the second half of 1998, thus correcting the overvaluation that had built up since 1993. Meanwhile, the Caribbean countries continued to exhibit an almost diametrically opposed medium-term trend, although the international financial situation has slowed the appreciation of their currencies somewhat over the last two years. There have even been some signs of depreciation since the last quarter of 1999 due, in particular, to exchange-rate fluctuations in Haiti (see figure I.8).

Figure I.8

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE

(Annual variation as of second quarter of each year)



Source: ECLAC, on the basis of official figures.
[a] Simple average.

Monetary austerity eases

The move towards a less austere monetary policy continued during the first few months of 2000. In particular, the first quarter saw a further decline in real interest rates which brought them close to the pre-crisis levels of the fourth quarter of 1997. However, the rise in international interest rates suggests that monetary policies in the region as a whole may be tightened up somewhat in the second half of 2000. Monetary expansion also slowed at the beginning of 2000, following an upturn in the last two quarters of 1999.

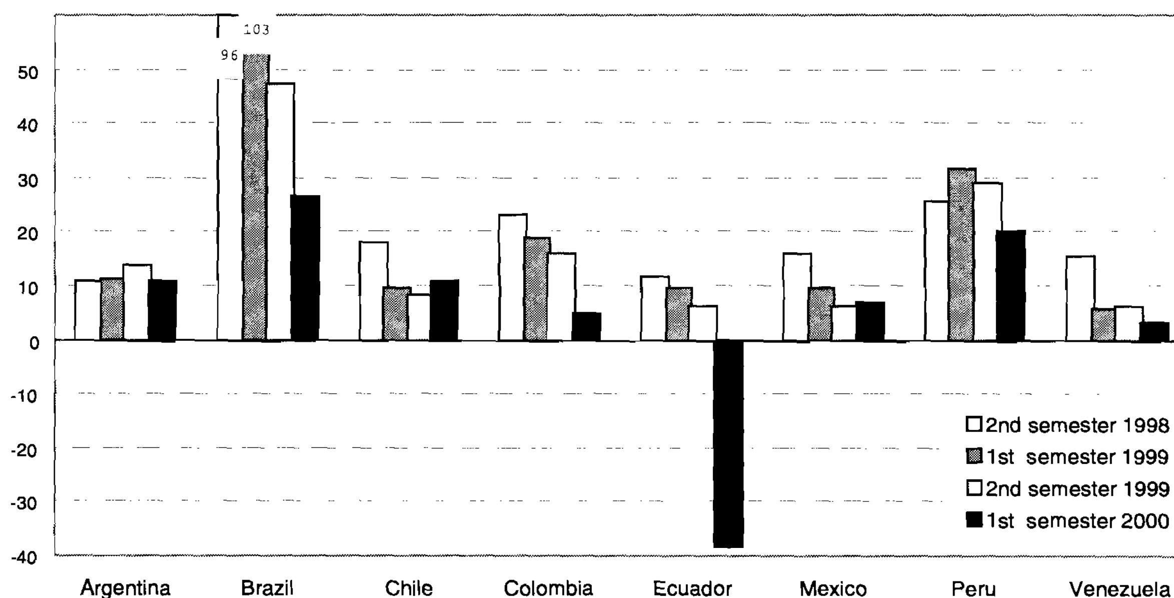
Monetary policy was very restrictive at the start of 1999 owing to the uncertainty prevailing in the external sector, particularly in connection with capital market access. In the second quarter, however, there began to be signs that the phase of increasingly tight monetary policy that had started in the last quarter of 1997 was bottoming out, and monetary policy in Latin America began to ease. The real variation in the monetary base, which had been negative since September 1998 for the region as a whole, started on an upward trend that put it back into positive figures as of November 1999. The trend in the money supply (M1) was quite similar to that of the monetary base, although it did grow more rapidly as the economic recovery that began in the second semester of 1999 boosted demand. Nonetheless, over the year as a whole, monetary policy was generally very tight.

Since the second half of 1999, interest rates have been falling steadily from the high levels reached in 1998. Despite the drop in nominal rates, however, real rates have remained comparatively high in relation to the years preceding the Asian crisis due, among other factors, to the abatement of inflation (see figure I.9). Banking spreads widened, which also helped to keep the real cost of credit high. As in the case of exchange rates, the Caribbean countries followed a very different pattern, with a tightening of monetary policy in the second quarter of 1999 breaking the cycle of accelerating growth that had begun in 1997.

Figure I.9

LATIN AMERICA AND THE CARIBBEAN: ANNUALIZED REAL INTEREST RATES[a]

(Percentages, semester averages)



Source: ECLAC, on the basis of figures from the International Monetary Fund.
[a] Short-term lending rates, deflated by the consumer price index.

Domestic credit remains tight

Domestic lending activity has been fairly sluggish during the last few quarters in both Latin America, where monetary policy has been somewhat more relaxed, and in the Caribbean, where policy constraints have been greater. The real growth of credit to the public sector turned negative again in 1999, after a brief upturn in late 1998, and is likely to maintain this trend in 2000. In contrast, a moderate upswing is expected in credit to the private sector as the trend towards the reactivation of production and growth in investment firms up.

The expansion of private credit in Latin America had become virtually flat by the end of 1999. A number of short-term and sectoral factors are to blame for the lack of lending activity, which was so marked in some countries that it assumed the nature of a true credit crunch and acted as a brake on the reactivation of domestic demand.

Demand for credit was affected by high interest rates and the devaluation of various local currencies, especially in highly dollarized countries, since this made borrowing more expensive. Demand was also hurt by slack activity in some sectors, such as construction, which is still reeling from the effects of the recession. On the supply side, the fragility of Latin America's financial sector and the fact that the structure of loan portfolios need to be improved in a number of countries caused lenders to adopt a very cautious attitude.

Reforms regain momentum in 2000

The fallout from the Asian crisis had a profound impact on the region's structural reform process in 1999, since governments focused their efforts on addressing immediate needs instead. This not only relegated structural reforms to a lower order of importance, but in some cases government measures even put the process into reverse, which had a particularly adverse effect on international trade. In addition, uncertainty in the political arena, in combination with the problems some of the countries were having in maintaining public order, did not provide an environment that was conducive to the implementation of reforms. With the improvement of the international climate and the reactivation of the region's economies in 2000, the structural reform process is expected to gain momentum once again.

Many privatization projects that were originally scheduled for 1999 were postponed until 2000. Privatization revenues, which barely topped US$ 12 billion last year, could be much more substantial this year but are unlikely to reach the 1998 record figure of US$ 42 billion. Argentina and Brazil led the field in privatizations in 1999, while the Dominican Republic stood out among the smaller economies. The sectoral diversification of privatizations and concessions continued as transactions of this sort were undertaken in connection with road works, railways, ports, airports, drinking water systems, telecommunications, electricity generation and distribution, oil and natural gas.

Attempts to strengthen State institutions and regulate monopolies are continuing in the region. In the first of these spheres, the struggle against corruption merits special mention as a new issue that is occupying an increasingly important place on governmental agendas. In some cases, legislation on this problem has been passed or supervisory institutions created, while in others anti-corruption programmes have been put in place.

The economic crisis and the authorities' response to it, mainly in the form of tight monetary policy, posed serious problems for the region's financial systems in 1999. As a result, several countries set up programmes to assist financial institutions that are still under way in 2000. The sector continued to come under tighter supervision and oversight in 1999, especially in Central America, and two countries (Nicaragua and Guyana) gave their central banks greater autonomy. The difficult position in which the region's financial systems found themselves triggered a drastic restructuring and consolidation process involving numerous mergers and acquisitions, particularly in Colombia, Ecuador, Panama and Peru. All of these processes continued into the first half of 2000, but they did so within a context marked by less urgency and more liquidity, thanks to the overall improvement of the economic situation.

The economic crisis had a major impact on international trade in 1999. Many of the region's countries implemented a variety of adjustment measures, including devaluations and, to a lesser extent, tariff increases and non-tariff measures, in order to curb imports. The friction that this caused was particularly strong among the Mercosur countries, but it also affected the Andean Community. However, as economic activity recovers and some international prices improve, such protectionist measures are likely to be rolled back.

The integration process continues despite the economic crisis, although with some delays in the implementation of agreements that have already been reached. The Caricom countries have made progress towards the establishment of a common market and unified economy, and Haiti was admitted as a member in 1999. Guatemala and El Salvador decided to form a customs union; Chile signed a free trade agreement with the Central American countries and another with

Mexico; and Mexico reached an agreement with the European Union which was expected to lead to a free trade arrangement starting in July 2000. Finally, Brazil signed a preferential tariff agreement with the Andean Community countries in 1999, and Argentina followed suit in 2000.

Considering the adverse environment and the internal difficulties that the countries of the region had to contend with, it is noteworthy that none of the subregional processes was overtaken by a serious crisis. Furthermore, during the first semester of 2000 there were clear signs of economic recovery, and at the same time steps were being taken to reactivate regional integration processes. In particular, Mercosur and the Andean Community have been working to achieve an increasing alignment of their macroeconomic policies.

4. Domestic economic performance

Rapid recovery in 2000 after the crisis of 1999

A significant upswing in the economic growth of the region is expected in 2000. Growth is forecast at around 4% based on the positive performance of many Latin American and Caribbean countries in the first half of the year and a bright outlook for the international economy, which should make for high growth rates in most developed and developing countries alike.

Growth prospects for Mexico, Central America and the Caribbean have been placed at a minimum of 4.5%. Data from the first months of 2000 confirm that this expansion will be led by the Dominican Republic, an upswing in Honduras and a faster growth rate for the Mexican economy. For the countries of South America, a major improvement in economic growth is expected in 2000; in fact, growth is set to reach 3.3%, compared with a 0.9% fall in 1999. The highest rates are expected in Brazil, Chile and Peru (see figure I.10).

In 1999, the regional economy had suffered a significant slowdown in activity levels for the second year running, leading to the stagnation of GDP (0.4%) after an expansion of 2.1% in 1998 and of 5.5% in 1997. The first three quarters of 1999 yielded negative growth rates, followed by a clear upturn at year's end. Since the region has high population growth rates as well, per capita output fell by 1.2% in 1999, bringing the increase in this variable over the decade to just 15%.

The regional average reflected very different growth rates in the various groups of countries. Generally speaking, Mexico, Central America and the Caribbean turned in a better performance, benefiting from their links with the strong United States economy. The South American countries made a poorer showing, since they were hit harder by trends in world and intraregional trade and by the effects of more sluggish domestic markets.

In 1999, the region's economies were characterized by slower growth of all the components of supply and demand, with the exception of exports and factor income, which improved slightly. Overall supply fell by 0.2%. Among the components of domestic demand, investment took the steepest fall, down by 9.6%, while growth in consumption was similar to that of output.

Investment recovers in 2000 from its steep fall of 1999

The upturn in output forecast for Latin America as a whole also entails a considerable improvement in savings and investment. Projections place the increase in investment at similar or slightly higher levels than GDP growth, in contrast to the 9.6% drop of 1999.

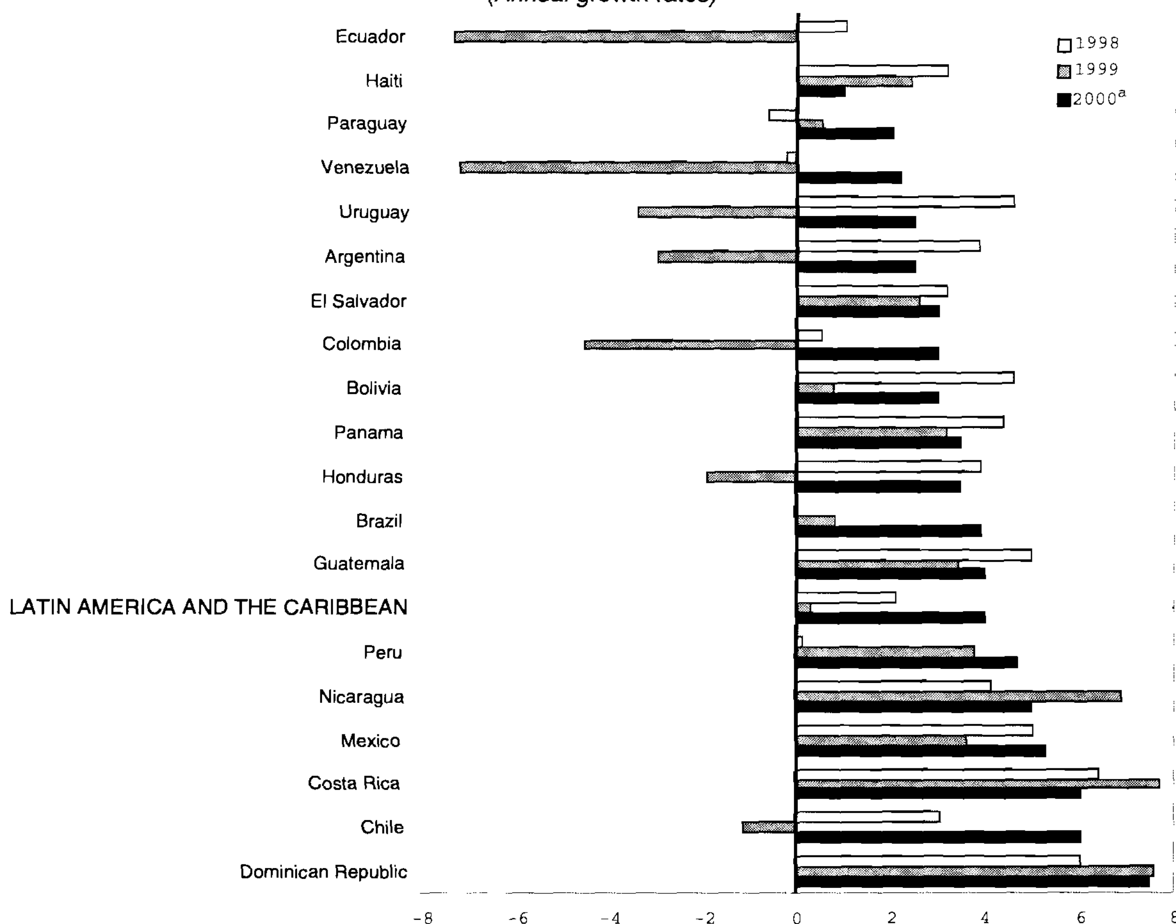
Investment will pick up in the northern portion of the region, particularly in Mexico, where it is set to increase by over 6% in 2000, in comparison with just 2% in 1999. A major recovery in investment is also forecast in South America after a slump of over 10% last year. In Brazil, an increase of over 6% in investment is expected to be the driving force behind that country's economic recovery.

An analysis of the composition of investment shows machinery and equipment to have been the hardest hit sector in 1999, although construction slipped as well. In general, the slide was steeper in private investment and especially in small and medium-sized industry, which saw its access to bank credit abruptly restricted.

Figure I.10

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Annual growth rates)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.

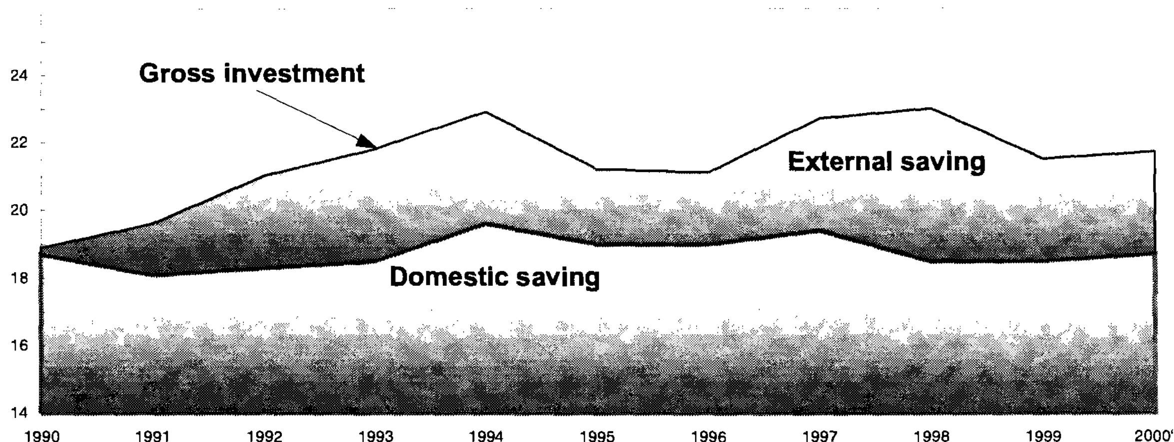
Measured as a percentage of GDP, investment fell from 23% to 21.5% in 1999 due to a steep reduction in external savings. In fact, in 1999 external savings financed only 15% of investment, compared with 22% in 1998. National savings remained unchanged from 1998, at one of the lowest levels since the beginning of the 1990s. Gross investment is expected to be slightly more robust in 2000 thanks to an increase in domestic saving, while external saving will stay in more or less the same range as the year before (see figure I.11).

The decline in investment during 1999 was due to a combination of factors, including the effect of the international crisis and shrinking external demand, tight economic policies that dampened domestic demand and the conclusion of investment cycles. Intraregional demand had a significant impact in Argentina, Bolivia, Paraguay and Uruguay, which were affected by the devaluation in Brazil. Most of the South American countries were also hurt by weak world commodity markets, which led to a fall in their export volumes. Investment was constrained by domestic demand, particularly in Ecuador and Venezuela. Argentina, Chile and Colombia also registered major downturns in domestic demand, which sent contractionary signals to investors. In contrast, buoyed by the strength of the United States market, Mexico and the Central American and Caribbean countries were able to increase the volume of their exports, which had a positive effect on investment. The conclusion of an investment cycle affected the level of this variable in Bolivia, with the completion of major infrastructure works for natural gas exports, and in Chile, where large mining projects entered the production phase.

Figure I.11

LATIN AMERICA AND THE CARIBBEAN: SAVING-INVESTMENT RATIOS

(As a percentage of GDP, in dollars, at current prices)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.

Inflation remains low

In the first half of 2000, the annual rate of inflation in the region overall was just under 10%, which was similar to the 1999 rate and slightly lower than the figures for the two preceding years. This is the region's lowest inflation rate in the last 50 years and is the result of a drop in the pace of price rises from almost 900% in 1993 to around 10% in 1997. This noteworthy slowdown stems mainly from changes in economic policy since the 1980s, when stabilization came to be the top priority. The moderate pace of the price rises seen since that time has been maintained even after the financial crisis that erupted in some regions of the world in the second semester of 1997.

In 1999, five of the 22 countries for which information is available recorded annual inflation of below 3%, and in another 13 it came in below 15%. Only two countries posted higher inflation rates –Venezuela (20%) and Ecuador (60%)– and only two others witnessed significant rises: Brazil, where the figure rose from 2.5% in 1998 to just over 8% in 1999, and Ecuador, where the already high rate of the previous year (43%) increased by 17 percentage points.

Several demand-related factors affected inflation in 1999. Continued austerity in monetary policy offset the clear deterioration in fiscal accounts. The recession in the region was also an important factor in keeping inflation down, as GDP shrank in six economies and rose by 3% or more in only five. In this recessionary climate, consumer prices benefited from reduced profit margins on imported products.

The most significant supply-related factor in terms of its impact on inflation in 1999 was the exchange rate, but this variable behaved quite differently from one economy to another. In some countries, where difficulties in the external sector drove the authorities to gradually abandon their policy of using the exchange rate as an anchor, the movement in this rate pushed inflation upward, with the nominal exchange rate for the dollar climbing by 60% in Brazil, 160% in Ecuador and by 10% to 25% in another eight countries. Wholesale prices rose steeply due to the large proportion of tradables in the market; however, these higher costs did not lead to matching rises in consumer prices as market conditions prevented the full effect of the devaluation from being passed on to the consumer. In contrast, the stability or slow slide of the nominal exchange rate in other countries helped to keep inflation in check. This was particularly the case in Argentina, Barbados, El Salvador, Honduras, Jamaica, Mexico and Venezuela.

Wages did not have an inflationary effect in 1999, since adjustments were moderate. The rise in oil prices did, however, since it called for drastic adjustments in the domestic prices of petroleum products in addition to the adjustments that had been already made to compensate

for the effects of the devaluation of several of the countries' currencies. Prices were also affected by rises in public utility rates.

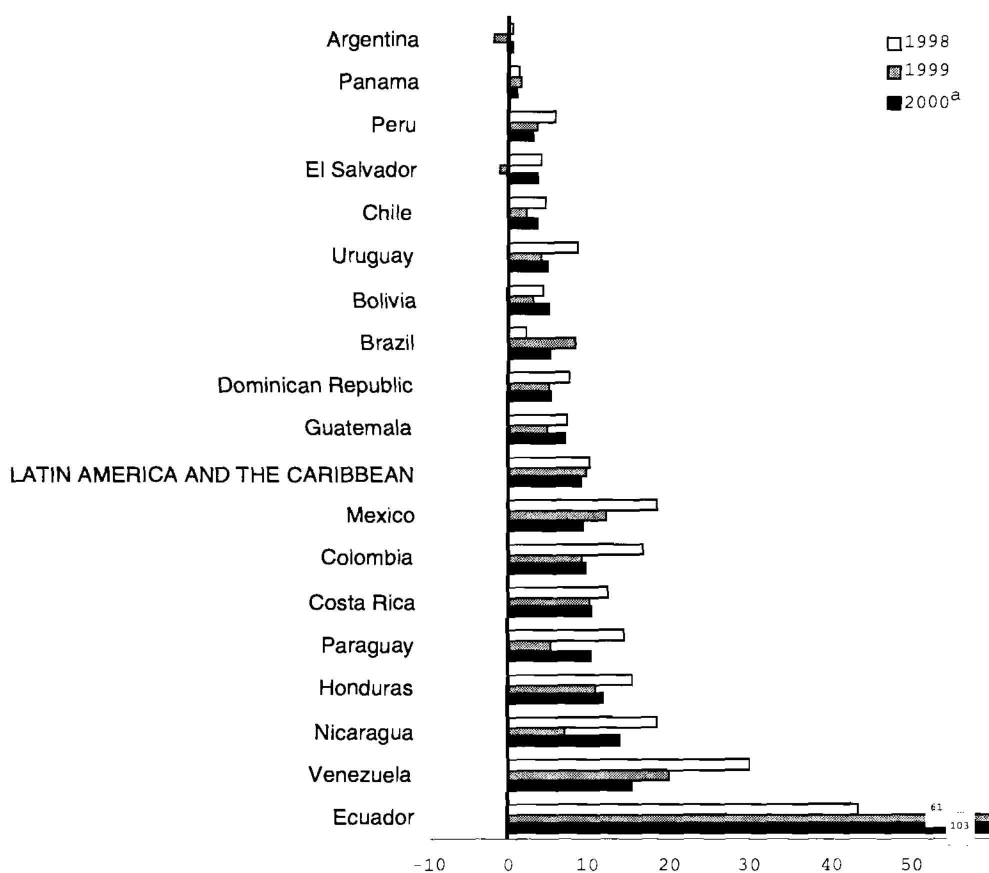
In 2000, moderate rises in most countries were compensated for by better results in four economies, including the region's two largest. In Brazil, inflation has fallen by four percentage points, thus practically returning to the 1998 pre-devaluation rate, while Mexico is giving clear signs that it is consolidating its stabilization process, with inflation under 10% for the first time in several years. Inflation has also slowed in Peru, where moderate rates have been consolidated, and in Venezuela, where inflation will probably be less than 15% for the year as a whole.

In 11 countries, inflation in the first semester rose very slightly, and no major changes in that pattern are expected in the coming months. In Nicaragua and Paraguay, the 12-month variation in inflation showed an increase from 5 to 7 percentage points, propelling it back into double digits. These setbacks are largely explained by continued devaluations in some countries, fresh rises in international oil prices and the economic reactivation that has followed the recession of 1999. The exception to the rule continues to be Ecuador, where price rises have become even steeper in 2000, with the 12-month variation to June amounting to over 100%. As a consequence of the dollarization of this economy, however, the annualized rate of inflation is expected to decline in the fourth quarter (see figure I.12).

Figure I.12

LATINA AMERICA AND THE CARIBBEAN: CONSUMER PRICES

(Twelve-month variations)



Source: ECLAC, on the basis of official figures.
[a] To June 2000.

The labour situation improves slightly

The slow pace of economic growth brought about a marked deterioration in labour conditions in 1999, especially in South America, and unemployment reached unprecedented levels. In 2000, job creation and wages are responding favourably to the upswing in several of these countries, in combination with sustained growth in Mexico and many Central American and Caribbean countries. This positive impact has thus far been somewhat muted, however, since, firstly, labour demand has, as is typical, been slow to respond to the upturn in economic activity and, secondly, the labour supply has increased as more job opportunities become available. Moreover, other countries have yet to send out clear signals of recovery, and this has been reflected in high or even rising unemployment. Thus, the region as a whole can be expected to attain no more than a modest decrease in unemployment over the year.

As the labour situation worsened in 1999, the region continued to follow the pattern that prevailed for most of the second half of the 1990s. With most countries posting low or negative growth, unemployment rose from 8.1% to 8.7%, thereby not only reaching it speak level of the 1990s, but even outstripping the levels recorded during the debt crisis of the early 1980s. Given the fact that, in the region's largest countries, unemployment actually fell (Mexico) or held steady (Brazil), the record regional unemployment figures clearly signalled a worsening situation in a number of South American countries.

Indeed, as was also true the year before, there was a marked difference in the labour market's performance between Mexico, Central America and the Caribbean, on the one hand, and South America, on the other, mainly as a result of these subregions' very different economic situations. The effect of the international financial crisis on economic growth –exacerbated by domestic events in some cases– drove down the demand for labour, and this was reflected in sharp decreases in employment together with jumps of 2% or more in unemployment in Chile, Colombia, Ecuador, Paraguay and Venezuela and smaller increases in Argentina, Peru and Uruguay. Brazil was the only South American country not to record a rise in open unemployment, but the levels reached in 1998 and 1999 were the highest since 1981. In contrast, more dynamic economic growth stimulated demand for labour in several Caribbean and Central American countries and in Mexico; the favourable effects of this trend included a reduction in average unemployment.

The main culprit in the rise in unemployment at the regional level has been the weak demand for labour, which is a clear reflection of slack economic activity. In fact, at the regional level, wage employment grew by a mere 0.4%. Under these conditions, the countercyclical nature of self-employment in many countries was clearly demonstrated, as it accounted for 63% of all new jobs in 1999. This was not enough to compensate for the slow rate of job creation for wage-based positions, however, and employment as a whole therefore expanded by just 1.1%; this was reflected in a fall in the employment rate from 53.6% to 52.7% (a weighted average of 12 countries). This average masks sharp contrasts within the region since employment grew by just 0.2% in South America, while in the rest of the region it expanded at rates of over 3%.

The effects of sluggish job creation also showed up in poorer job quality indicators, particularly because of the difficulties people had in obtaining full-time positions. Wage trends were more varied. Labour-income indices were up in several countries, in line with the trend in real wages in formal-sector firms, which rose in some countries as inflation abated. In other countries, however, the economic crisis and the acceleration of inflation caused wages to lose a great deal of ground. Given this mixed picture, although real wages rose by a modest amount (1%) in most countries of the region, both the simple and weighted averages were lower (0.9% and 1.8% respectively). Minimum wages performed slightly better: at the regional level, the real median increase was 1.7% and the real simple and weighted averages amounted to 0.7% and 0.5%, respectively.

Some improvement was seen in employment at the regional level at the beginning of 2000, chiefly due to a greater demand for labour in Brazil and Mexico, and to a lesser extent in Colombia. In a group of eight countries for which information on the labour market is available for early 2000, the employment rate reached 52.9%, compared with 52.4% during the first semester of 1999. Only Argentina, Uruguay and Venezuela reported a level of employment below the figure for the same period of 1999 (see figure I.13a).

Owing to the simultaneous increase in the supply of labour, however, the expansion of employment has not yet resulted in a reduction in unemployment. In fact, in the above-mentioned group of countries, unemployment stood at 9.1%, slightly above the 9% figure posted for the first semester of 1999. This was partly due to rises in unemployment in 2000 in Argentina, Colombia, Ecuador and Uruguay; Chile and Mexico were the only countries to record an improvement in this indicator, while in Brazil and Venezuela the unemployment rate varied only minimally (see figure I.13b).

Nevertheless, the higher rate of job creation is likely to have a moderately positive impact on unemployment

over the year in view of the greater economic buoyancy to be observed in a number of countries and the projections for economic growth to reach around 4% at the regional level. Consequently, it is estimated that regionwide unemployment will decrease from 8.7% in 1999 to 8.5% in 2000. Available information also points to a moderate increase in real average wages in the formal sector for the region as a whole thanks to the rises expected in such countries as Chile, Colombia and Mexico, along with a decrease in the rate of decline of average wages in Brazil.

Figure I.13a

LATIN AMERICA AND THE CARIBBEAN: URBAN EMPLOYMENT RATE

(Working population as a percentage of the working-age population, first half of each year)

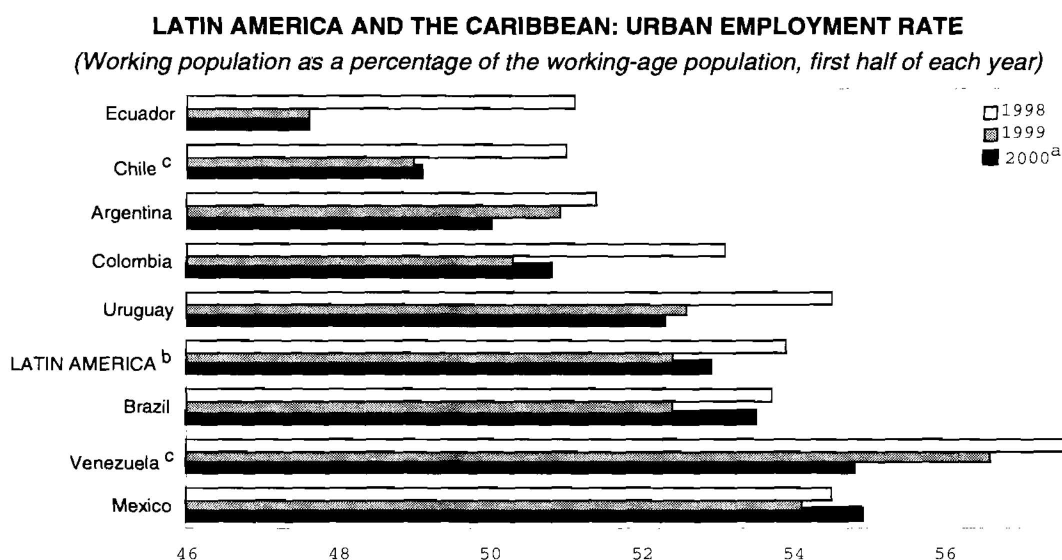
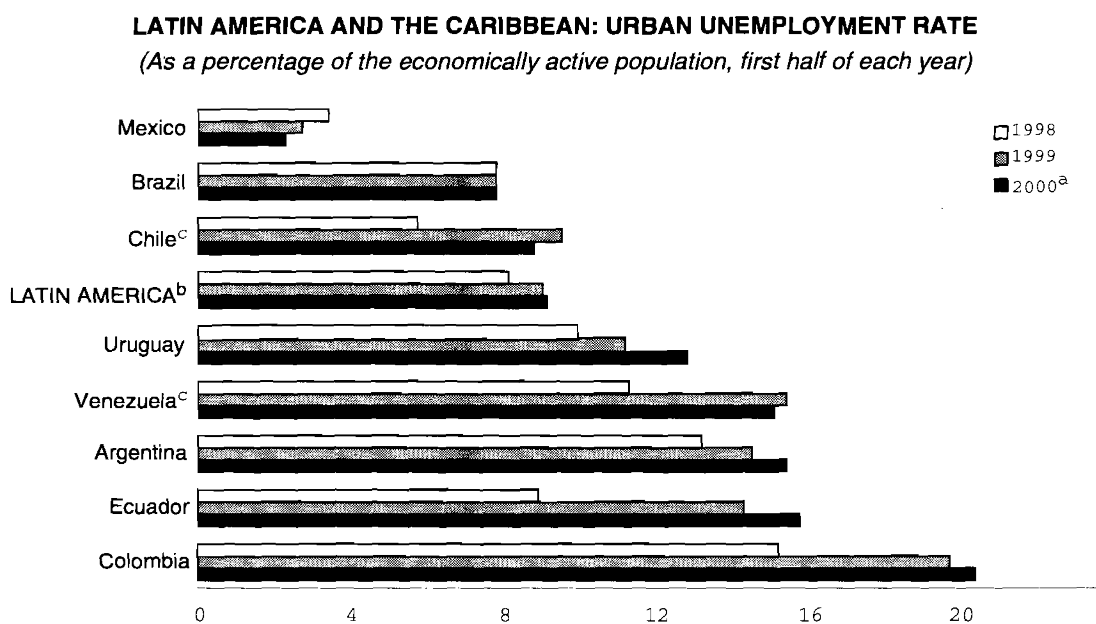


Figure I.13b

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT RATE

(As a percentage of the economically active population, first half of each year)



Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Weighted average. [c] Nationwide.

Chapter II

Macroeconomic Policy

1. General trends

In 1999, macroeconomic policy was heavily influenced by the international crisis that has been affecting many of the region's countries since the final quarter of 1997. A series of external shocks and a downturn in several economies –particularly in South America– have given rise to a pattern marked by monetary prudence, more flexible exchange rates and widening fiscal deficits. Apart from concerns sparked by the vagaries of immediate circumstances, in most of the countries the authorities had to continue focusing on the prudential regulation of the financial system. The fragility of the banking sector, rising financial costs and the recessionary expectations that prevailed in 1999 created an adverse environment for domestic lending activity.

ONE OF THE SIGNIFICANT developments seen in 1999 was a weakening of the link between domestic prices and the exchange rate, although this was partly accounted for by the recessionary climate prevailing in many of the economies that devalued their currencies. This had the effect of strengthening arguments in favour of more flexible macroeconomic policies, especially since the region's economies remain exposed to major, recurrent external shocks. What happened in Brazil after it was obliged to abandon its currency-band policy was a particularly decisive factor in this respect. The country was just emerging from a long period of hyperinflation, and at the start of the year all the economic forecasters feared that, having lost the nominal anchor for its exchange rate that had underpinned the success of the Real plan, the economy would relapse once more into instability and stagflation. In the event, this did not happen; indeed, far from plunging into recession, the

economy actually expanded (albeit slightly) without prices rising by more than a fraction of the nominal devaluation. In Colombia, which floated its currency after having been obliged to devalue (24%), price rises were held below 10%, while in Chile, under qualitatively very different conditions, the flotation of the exchange rate was also accompanied by very low inflation.

The priority given in recent years to fighting inflation and restoring the credibility of stabilization policies had given a procyclical bias to macroeconomic policy, and at the end of a highly volatile decade on the external front, during which bouts of uncertainty and crises had followed on the heels of periods of contagious optimism, the economic and social costs of these policies were clear to see. Nonetheless, the progress made in controlling inflation has provided more scope for autonomous management of national macroeconomic policy and has made it possible to lengthen its time horizon.

A recent ECLAC document analyses the costs of procyclical macroeconomic management and sets out a number of emerging policy options for coping with volatility.[1] Although the region's macroeconomic policies in 1999 were strongly influenced by short-term events, several developments on the exchange-rate, monetary and fiscal fronts point to a gradual shift towards a macroeconomic policy approach that seeks to combine credibility with consistency and flexibility.

The currency-band system, which had been adopted at a preliminary stage of the countries' domestic stabilization programmes when they were relying quite heavily on the use of nominal anchors, was shown to be unsuitable for dealing with the large-scale movements of foreign capital associated with full capital-account convertibility and the speculative operations of large international funds. As mentioned earlier, the increased credibility gained by the monetary authorities thanks to the success of previous counter-inflationary policies and the successful management of recent crises enabled a number of countries to abandon the currency-band approach and adopt more flexible arrangements.

This greater flexibility of the exchange-rate regime also gave monetary policy-makers more autonomy. Many of the countries that have floating exchange rates are gradually shifting towards the implementation of monetary policies based on inflation targets and moving away from the use of fixed standards for the exchange rate or for the behaviour of monetary aggregates (Brazil, Chile, Colombia, Guatemala, Mexico and Peru, among others). The use of these targets gives the authorities greater manoeuvring room in determining the policy mix needed to cope with external or domestic shocks. In this context, a successful outcome increasingly depends on how well the different aspects of macroeconomic policy are coordinated, and it is especially important for inflation targets to be compatible with fiscal policy. Fiscal policy needs to be flexible enough to meet the needs of macroeconomic management when circumstances so require, without putting key domestic balances at risk. Several steps in this direction were taken in 1999 and again in the first half of 2000, with fiscal responsibility pacts being signed in four countries (see box II.1 in the section on fiscal policy and public finance).

Regional macroeconomic policy coordination was also assigned a higher priority in 1999. The crisis that arose in Mercosur as a result of Brazil's devaluation and the more specific difficulties faced by the Andean Community were some of the main reasons for this new interest in macroeconomic coordination as part of a scheme of open regionalism.

2. Fiscal policy and public finance

(a) General policy features and outcomes

In most countries, fiscal policy was somewhat looser in 1999 than it had been in preceding years. Exogenous factors generally do not allow governments much discretion in managing fiscal policy and, ideally, the deficit will tend to function as an automatic stabilizer. Fiscal income, especially tax revenues, move closely in line with the rise and fall of the business cycle, while budgetary rigidities on the expenditure side, in particular consumption spending and debt service, make this economic tool a fairly inflexible one. However, the recent emphasis on restoring the macroeconomic authorities' credibility and the establishment of set

1 See ECLAC, Equity, Development and Citizenship (LC/G.2071(SES.28/3), 28 February 2000, chapter 8.

targets for the fiscal deficit that remain unchanged over the course of the business cycle have to some extent diminished the effectiveness of such automatic stabilizers, and this has given fiscal policy a procyclical bias.[2]

In 1999, however, expectations of reduced inflationary pressure and more abundant financing from both domestic and external sources gave governments the extra degrees of freedom they needed to implement a less austere policy than in 1998. Accordingly, they were able to bolster domestic demand and avoid any steps that would dampen the countries' already low growth prospects even further.

The combination of this policy and the effect of the automatic stabilizers resulted in an increase in the average fiscal deficit for the non-financial public sector (NFPS) amounting to about 3% of GDP,[3] its highest level of the decade. Meanwhile, savings rates fell for the second year running, dropping to their lowest level of the 1990s. In fact, only three countries (Ecuador, Panama and Venezuela) managed to make a sizeable reduction in their borrowing requirements. The fiscal situation in most of the non-Spanish-speaking Caribbean countries also deteriorated, as spending rose and revenues shrank in most cases; the only exceptions were Grenada, Guyana, Jamaica and Montserrat, which saw their finances improve.

The widening deficit in 1999 did not undermine macroeconomic stability in the short run because the potential effects of greater demand pressure from the public sector on inflation or on the external deficit were offset by other variables (see chapters IV and VII). Nonetheless, the behaviour of the primary surplus is seen as a warning sign as to the long-term sustainability of current patterns of fiscal income and expenditure.

In 2000, most governments have returned to the austerity policies that typified the 1990s, with major cuts being made in fiscal budgets in an effort to preserve macroeconomic stability. For the most part, these targets are aimed at trimming the countries' deficits back to their 1998 levels. Apart from budgetary laws, several countries have entered into agreements with the International Monetary Fund, and some have even passed fiscal discipline legislation (Argentina, Brazil, Ecuador and Peru) prescribing multi-annual targets (see box II.1). Budget cuts in the region should become easier to make as some of the pressures that existed in 1999 ease. For example, expenditure on reconstruction work in areas devastated by natural disasters and emergency transfers to sectors hit by the international crises of 1997 and 1998 can both be expected to diminish in 2000 thanks to stronger growth prospects.

Improvements on the income side of the ledger are expected on two fronts: tax revenues should be driven up by the economic recovery in most of the countries, and a number of governments are implementing tax reforms and are taking steps to reduce tax evasion in order to boost both direct and indirect receipts. Non-tax revenues are also expected to continue rising thanks to higher oil prices, since oil is the main export of public-sector enterprises in Colombia, Ecuador, Mexico, Trinidad and Tobago, and Venezuela.

As exceptions to the general rule, a few governments are not anticipating any rise in revenues, either because an economic slowdown is projected (Costa Rica, Nicaragua) or because additional public investment is needed to carry forward reconstruction work (Haiti, Honduras).

(b) Trends in finances and financing

The NFPS deficit widened in 1999, as expenditure grew faster than income in real terms.[4] Governments focused their resources on three main areas. One of the priorities for a number of them was to support the economic sectors that were hit the hardest by the international crises of 1997 and 1998 in the hope of averting a potential contraction in 1999. Expenditures in this connection included additional investment by public-sector enterprises, the expansion of infrastructure, and transfers or subsidies, especially for agriculture. A second major area was the continuing flow of investment to rebuild zones devastated by the natural disasters that have befallen the Caribbean, Central American and Andean countries in recent years. The third factor was that debt service once again approached the level of the deficit; this is a somewhat alarming development since, barring an improvement in other accounts, any further increase in debt service would drive up net borrowing requirements.

Revenues improved, thanks to the growth of non-tax revenues. The higher sales recorded by State-owned oil

2 Nonetheless, during the 1990s the fiscal deficit did tend to increase in slower-growth years and vice versa.

3 This figure is the simple arithmetic mean of the fiscal deficits of 19 of the region's countries. Central government financial results also ended the 1990s with their highest deficit of the decade (2.7% of GDP). Central government income and expenditure trends were similar to those of the NFPS as a whole and accounted for three quarters of those totals.

4 Moreover, in 1999 primary expenditure (excluding debt service) grew in real terms throughout the region, except in Ecuador, Panama and Venezuela.

companies as a result of rebounding international hydrocarbons prices, improved results from other public-sector enterprises, an increase in the official aid provided to some countries and larger capital inflows all offset the business cycle's negative effect on tax revenues in several countries. To smooth out the effects of the cycle, a number of governments also reformed their tax laws, with implications for both direct and indirect taxation.

Table II. 1

LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR ACCOUNTS, 1998-1999[a]

(As percentages of GDP)

	Total revenue		Current revenue		Tax revenue		Total expenditure		Current expenditure		Interest payments		Financial balance	
	1998	1999[b]	1998	1999[b]	1998	1999[b]	1998	1999[b]	1998	1999[b]	1998	1999[b]	1998	1999[b]
Latin America and the Caribbean	**21.3**	**22.4**	**20.2**	**20.8**	**14.8**	**14.7**	**23.8**	**25.4**	**18.6**	**19.3**	**2.6**	**2.8**	**-2.5**	**-3.0**
Argentina	19.0	20.3	18.8	19.3	17.6	17.6	20.4	22.0	19.1	20.9	2.2	2.9	-1.4	-1.7
Bolivia	31.0	30.8	29.7	29.8	14.1	12.8	35.0	34.7	28.7	27.4	1.4	1.2	-4.0	-3.9
Brazil	32.1	34.4	26.8	27.6	26.3	26.6	40.0	43.9	36.4	40.0	7.5	6.3	-8.0	-9.5
Chile[c]	23.6	23.1	23.0	22.6	17.8	16.9	23.2	24.5	18.9	20.0	0.7	0.4	0.4	-1.5
Colombia	29.5	32.5	27.6	30.1	18.0	18.6	32.9	37.1	23.6	27.1	4.2	5.3	-3.4	-4.6
Costa Rica[c]	12.9	13.1	12.9	12.6	12.8	12.5	15.4	15.4	14.0	14.0	3.2	3.8	-2.5	-2.3
Ecuador	20.3	25.2	20.3	25.2	9.8	10.2	26.3	30.0	20.5	23.1	5.0	8.8	-6.0	-4.8
El Salvador	15.0	14.6	14.8	14.3	10.3	10.5	17.6	17.5	13.8	14.2	1.5	1.4	-2.6	-2.9
Guatemala[c]	10.6	11.1	10.4	11.0	9.6	10.0	12.8	14.0	8.1	8.7	1.1	1.3	-2.2	-2.8
Haiti[c]	9.0	9.4	8.9	9.1	8.9	9.1	11.4	11.9	9.3	9.7	0.8	0.8	-2.4	-2.5
Honduras[c]	19.5	19.5	18.8	19.1	17.0	17.7	20.6	22.5	15.9	16.3	3.3	2.2	-1.1	-2.9
Mexico	20.4	20.7	14.2	14.5[c]	10.5	11.2[c]	21.6	21.8	14.2	14.7[c]	2.5	3.1[c]	-1.2	-1.1
Nicaragua	39.0	42.7	35.3	33.9	30.1	29.5	39.6	46.2	26.8	25.5	4.5	2.8[c]	-0.5	-3.4
Panama[c]	19.0	20.0	18.2	19.9	12.1	12.6	24.4	22.5	19.7	18.3	4.4	5.0	-5.4	-2.5
Paraguay	22.4	24.2	22.2	23.8	11.6	10.8[c]	22.2	27.4	15.9	16.2	0.7	0.8[c]	0.2	-3.2
Peru[c]	14.3	13.0	14.0	12.8	12.1	11.4	15.3	15.8	12.3	12.8	1.7	1.9	-1.0	-2.7
Dominican Republic[c]	16.1	15.8	15.9	15.3	15.0	14.4	15.5	16.2	11.1	11.2	0.8	0.9	0.6	-0.4
Uruguay	30.6	30.0	30.6	30.0	17.5	16.8	31.0	33.5	26.9	29.2	1.3	1.7	-0.4	-3.5
Venezuela	21.0	24.7	20.8	24.3	11.0	11.0	27.6	25.9	17.6	18.0	2.8	3.4	-6.6	-1.2

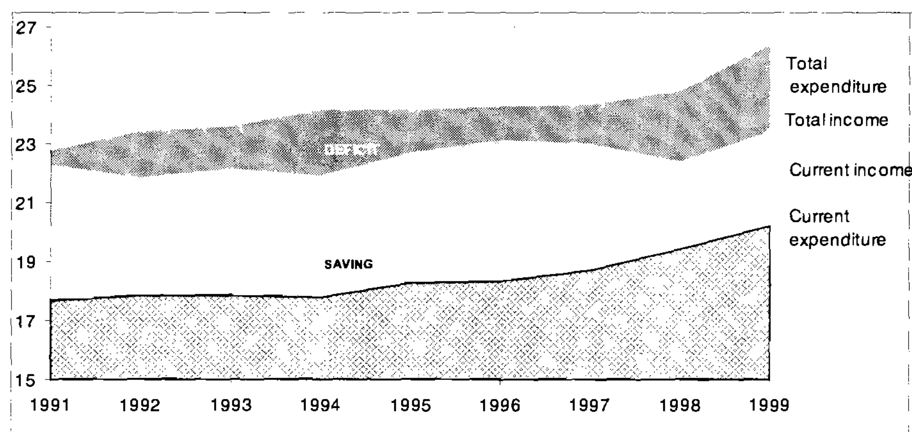
Source: ECLAC, on the basis of official figures.
[a] Calculated using figures in local currency at current prices. [b] Preliminary figures [c] Central government statistics.

The fact that current expenditure rose faster than current income pushed down the NFPS savings rate. This development was part of a trend that had begun to worsen in 1998 as a result of the cyclical behaviour of current income and the growth of expenditure. Most countries in the region generated a lower level of current saving in 1999, and four actually registered dissaving (Argentina, Brazil, Costa Rica and Haiti). The first three of these countries all saw a substantial upturn in debt service, a situation that has been chronic over the last five years. In Haiti, on the other hand, recurrent income has been insufficient to finance expenditure throughout the 1990s even though spending levels have held steady.

Figure II.1

LATIN AMERICA AND THE CARIBBEAN: FISCAL POSITION OF THE NON-FINANCIAL PUBLIC SECTOR, 1991-1999

(As percentages of GDP)



Source: ECLAC, on the basis of official figures.

In 1999 the region's primary fiscal surplus (financial result minus debt service) was negative for the first time in the decade, mainly because of lower tax revenues, larger transfers to decentralized bodies and production sectors, and the need for physical investment.

In most cases, governments financed their deficits with external funds in 1999. This constituted a departure from the pattern seen in 1998, when foreign borrowing diminished in the wake of the international crises. The preference for external funding was particularly noticeable in the small and medium-sized economies, whereas the larger countries opted for domestic borrowing.

The widening of the region's average fiscal deficit has generated significantly higher levels of total public debt in some countries. The domestic component of the total debt has recently been increasing, after having remained at relatively low levels until a few years ago. This has come on top of an upswing in the external debt which has brought it to disturbing levels in some of the region's countries. The task of servicing this debt was made more difficult in 1999 by higher international interest rates, which are expected to continue rising in the second half of 2000. This growing debt burden adds a further element of rigidity to fiscal policy.

Box II.1

FISCAL DISCIPLINE LAWS

Concern about the need to ensure the fulfilment of fiscal targets and support macroeconomic stability has taken on a new institutional form in the region, with the Governments of Argentina, Brazil, Ecuador and Peru[a] all recently passing fiscal responsibility laws that set explicit limits in terms of budget performance. In Argentina and Ecuador, the degrees of freedom available to fiscal policy-makers were limited by law in order to lend greater credibility to the sustainability of monetary policy, which was based on the use of the exchange rate as an unyielding nominal anchor, and to drive down domestic interest rates by reducing both public-sector borrowing requirements and the level of perceived sovereign risk. In a different context marked by floating exchange rates, Brazil and Peru also decided to impose formal controls on their governments' capacity to run up recurrent fiscal deficits.

Although the economic policy climate and the degree of legal compulsion incorporated into fiscal reforms vary among these four countries, they share a common core content.

The first basic principle involves setting limits or targets for the fiscal deficit and for the medium-term growth rate of expenditure. The Government of Argentina intends to restrict its deficit to 1.5% of GDP in 2000 and to achieve a balanced budget by 2003. In addition, real primary expenditure may not grow faster than GDP. In Peru, the consolidated public-sector deficit may not exceed 1% of GDP and its total debt may not grow faster than the deficit. In times of emergency, however, the deficit will be allowed to rise to as much as 2% of GDP. The law also restricts the real growth of general government expenditure to 2% per year and includes measures designed to delink public finances from the political cycle. In neighbouring Ecuador, the Fiscal Responsibility Act prohibits the Ministry of Finance and Public Credit from presenting a budget with a deficit greater than 2.5% of GDP in any given year and requires fiscal accounts to balance, on average, over a three-year period. Expenditure, meanwhile, may not grow by more than 5% over the previous year's inflation rate. In Brazil, where the focus has been more on enhancing the fiscal decentralization process than on setting specific quantitative limits, the Government has committed to setting yearly budgetary targets for all the various levels of government for revenue, expenditure, the nominal and primary fiscal accounts and the public debt for the current and the following two years. These targets also have to be consistent with the Multi-Year Plan.

Another common feature of these reforms is that they all seek to achieve fiscal transparency by requiring that biannual budgetary performance reports be prepared at the various levels of government to ensure compliance with established short- and medium-term fiscal targets. The Governments of Argentina and Peru are also setting up stabilization funds to help them meet their fiscal targets. Unlike the commodity stabilization funds already in existence, in this case fiscal surpluses, whether arising from a given level of saving, a percentage of revenues from the sale of assets and/or other non-recurrent revenues, will be placed in a fund for use when a decrease in current income is projected.

[a] Argentina passed the Fiscal Convertibility Act in August 1999; then, late in the same year, the Peruvian Congress passed a Fiscal Prudence and Transparency Act. In March 2000, Ecuador reformed its Public Sector Budget Law, and in May the Brazilian Senate passed Supplementary Fiscal Responsibility Act 101.

3. Foreign exchange policy

Foreign exchange policy has perhaps been the most active macroeconomic domain during the period under review. Regional currency markets exhibited a great deal of volatility, as they had during 1998 as well, in the wake of the international financial crisis. Following two years of relative calm, the median rate of devaluation in 1998 and 1999 was higher than it had been in 1995, which was also a crisis year. As had occurred in Mexico at that time, these tensions revealed the fragility of currency regimes based on exchange-rate bands when markets are moving towards devaluation. Four countries (Brazil, Colombia, Chile and Ecuador) abandoned this system and allowed their currencies to float; as is shown in table II.2, flotation is now the most common exchange-rate regime in Latin America.

Table II.2

LATIN AMERICA AND THE CARIBBEAN: EXCHANGE-RATE REGIMES, 1999

Fixed or dollarized	Crawling peg or flotation band	Floating (de jure) [a]
Argentina, Barbados, Belize, El Salvador, Panama, Organization of Estern Caribbean States (OECS)	Bolivia, Costa Rica, Honduras, Nicaragua, Dominican Republic, Uruguay and Venezuela	Brazil, Chile, Colombia, Ecuador [b], Guatemala, Guyana, Haiti, Jamaica, Mexico, Paraguay, Peru, Trinidad and Tobago

[a] Flotation schemes usually include some degree of central-bank intervention (dirty floats). [b] Ecuador adopted a dollarization scheme in early 2000.

In general, however, floats are not entirely free, as central banks intervene from time to time to prevent excessively sharp movements in the exchange rate. Intervention in a currency float has two objectives: one is to influence expectations when market movements reflect a great deal of uncertainty; the other is to cushion the transmission of exchange-rate shocks to the domestic economy and maintain liquidity in the banking system. The latter is becoming very important in the region, especially in countries with a highly dollarized credit portfolio.

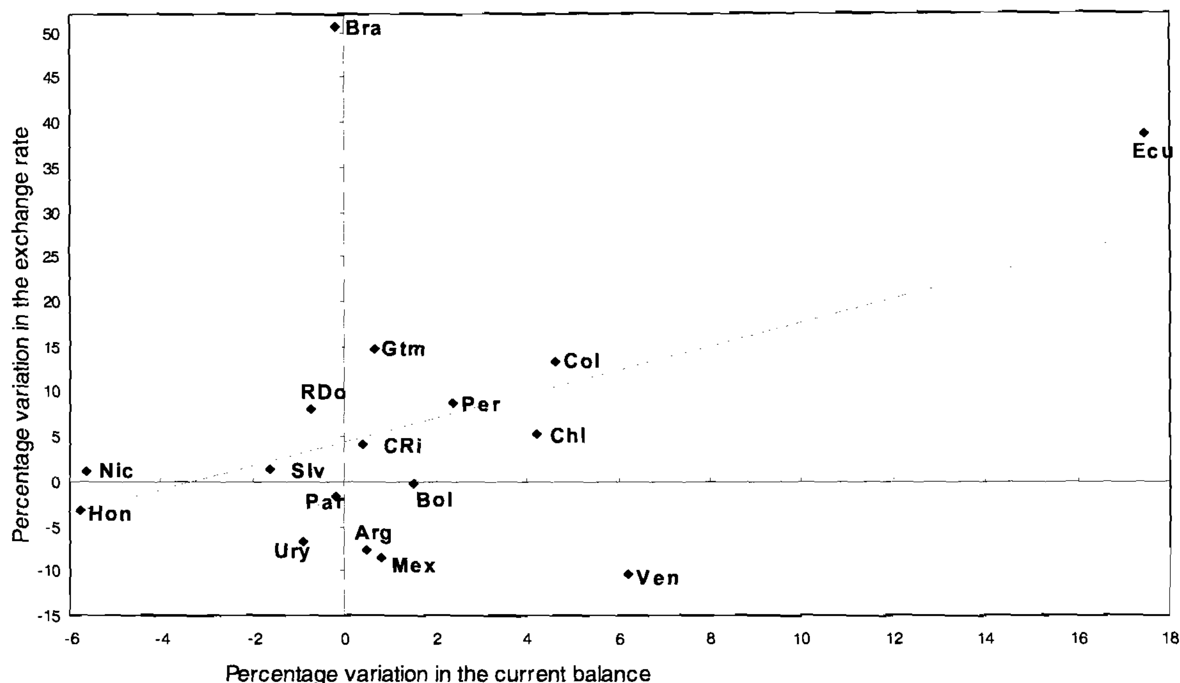
Two countries with very different exchange-rate histories –Brazil and Peru– provide an illustration of this situation. In Brazil, the authorities had to play a very active role in the market in order to give direction to expectations, after having been obliged to abandon the currency-band regime that had been so instrumental in stabilizing this country's hyperinflationary economy. The interest rate climbed to 45% in March and did not descend until preliminary inflation figures began to show that domestic price indexation mechanisms were weakening. Peru, on the other hand, is one of the few countries in which the use of the exchange rate as an anchor did not figure as one of the main planks of the stabilization programme implemented during the 1990s; instead, it has allowed its currency to float from the very outset. For the first time in several years, however, the authorities had to sell a portion of the country's reserves on two occasions (fourth quarter of 1998 and first quarter of 1999) in order to smooth out swings in the exchange rate and, above all, maintain foreign-exchange liquidity in the country's highly dollarized banking sector.

Bolivia and Costa Rica represent interesting and special cases in terms of their experiences with a crawling-peg system. In both of these countries, for several years now the goal has been to maintain the stability of the real exchange rate in order to enhance these economies' external competitiveness. The variation in these countries' real exchange rate indices since the beginning of the 1990s has been very small (5.0% and 2.9%, respectively) compared to the regional average of 11.5%. Only Barbados and Panama –very open economies that maintain a fixed parity against the dollar– have had even more success in maintaining the stability of their real exchange rates.

There was an intense debate on the relative advantages of free floats and fixed exchange rates in 1999, but some degree of consensus eventually emerged as to the virtues of a flexible system when the stability of the domestic situation and the depth of the domestic financial market are sufficient to permit suitable forms of monetary policy management. The smaller economies, however, continue to prefer to use exchange-rate targets as their main point of reference, whether in a fixed-rate or crawling-peg system, since their domestic financial markets are shallow and their foreign trade flows account for a large percentage of GDP. In any event, as noted earlier, the region's floating exchange-rate regimes generally involve a significant degree of intervention.

Unlike the years prior to the crisis, when financial factors had predominated, exchange-rate trends in 1999 largely mirrored the behaviour of the real economy. As was to be expected under these circumstances, there was a negative correlation between external accounts in 1998 and movements in the real exchange rate between 1998 and 1999. Countries with large external deficits were more inclined to devalue, and the devaluations were fairly successful in correcting those imbalances (see figure II.2). Nevertheless, under the circumstances prevailing in 1999, it has not always been easy to identify the relative contributions made to these results by the price effect (transmitted via devaluations) and the income effect, as many of these devaluations took place in a recessionary setting. The prevailing recessionary climate also helped to block domestic price indexation mechanisms, thereby helping to break the link between what had previously been the parallel trends of the real exchange rate and inflation (see figures II.3, a and b).

Figure II.2
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE REAL EXCHANGE RATE AND THE CURRENT DEFICIT BETWEEN 1998 AND 1999
(Percentages)



Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

Since currency markets were more closely in step with the trends in fundamentals than they had been in the past, they behaved very differently in the South American economies, which were hit by domestic recessions and the aftermath of external shocks, than they did in the rest of the region. As of the final quarter of the year, seven of the South American countries were displaying double-digit or larger annual increases in their nominal exchange rates, with particularly notable rises being recorded in Ecuador (160%), Brazil (60%) and Colombia (25%). Relatively large devaluations in comparison to the pattern of recent years were also seen in Chile and Peru, and these nominal fluctuations were passed on to real exchange rates, as shown in figure II.4.

Although currency floats ushered in a period of relative stability in Brazil, Chile and Colombia –following adjustments in the cases of Brazil and Colombia– the situation in Ecuador deteriorated so much that in January 2000 the authorities were obliged to choose the path taken by Argentina in 1991 to deal with its hyperinflation and opted for dollarization (see box II.2).

Venezuela's foreign-exchange market was conspicuous for its relative stability within this complex South American picture. This economy managed to keep its currency within a crawling band at a 1.3% monthly devaluation rate, thanks to the intervention of the Central Bank, which was able to draw upon the substantial increase in international reserves generated by higher oil prices.

In the rest of the subcontinent, where the real economy behaved in a more normal fashion, the currency market was calmer. In Mexico, apart from a short period of volatility on international markets caused by the devaluation of the Brazilian real (which pushed up interest rates), the peso tended to strengthen. The copious capital inflows received by this economy were mainly attributable to the faster pace of economic activity, to favourable expectations regarding the prospects for the real sector and to the improvement seen the perceived level of financial risk.

Figure II.3a

LATIN AMERICA: REAL ECHANGE RATE AND INFLATION

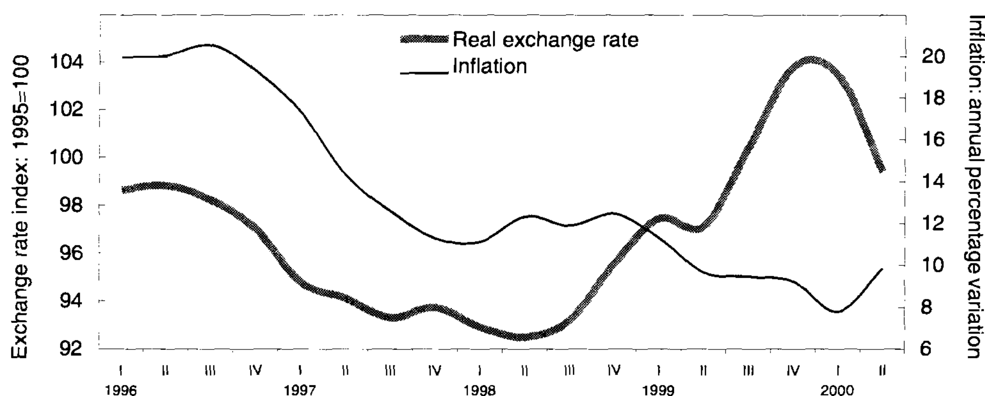
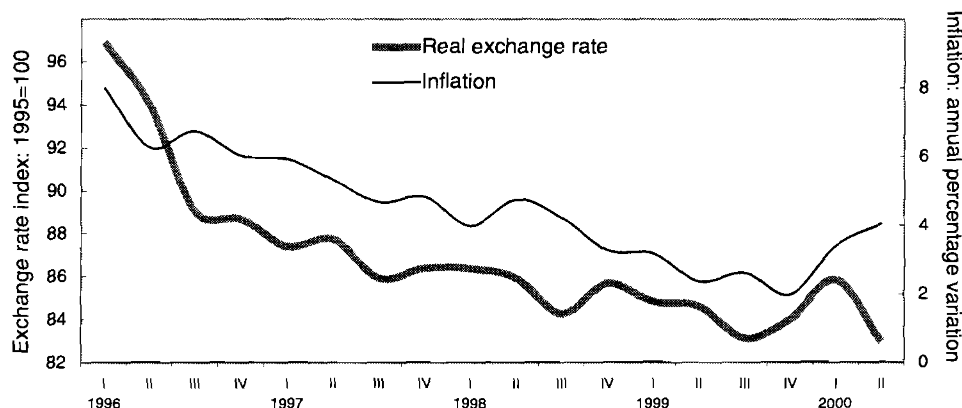


Figure II.3b

THE CARIBBEAN: REAL EXCHANGE RATE AND INFLATION

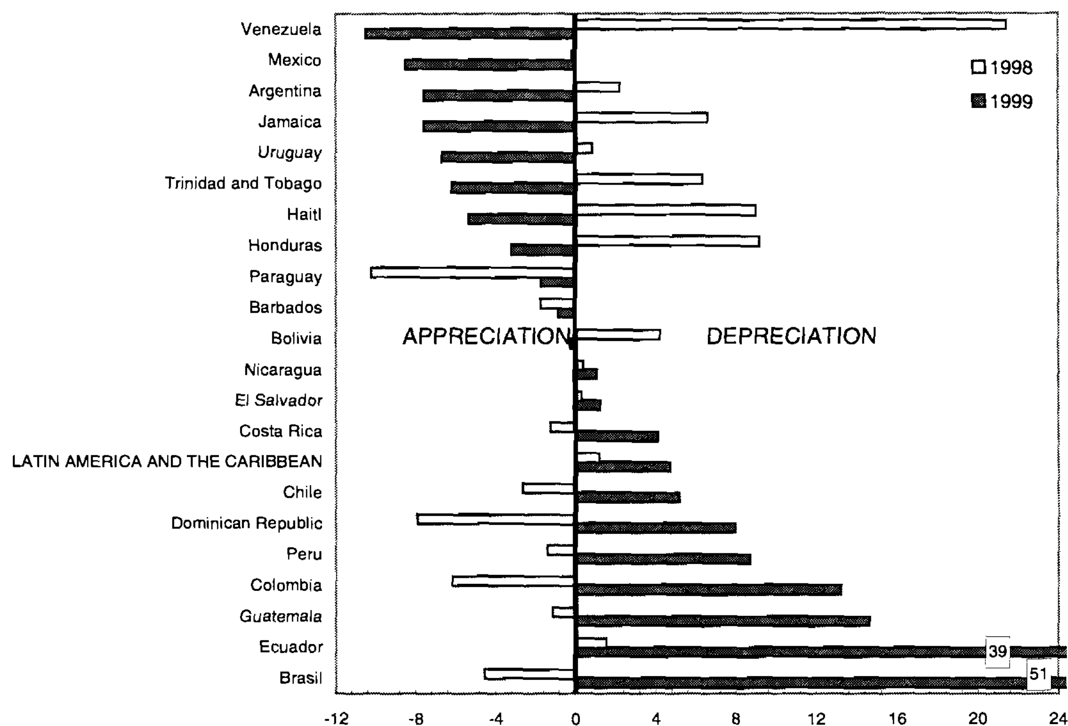


Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

Exchange rates in the Caribbean and in Central America generally moved along their medium-term trend lines. Guatemala was an exception to this general rule, in that it registered a nominal depreciation of 16% as a result of lower domestic interest rates and concern about its large external deficit. Mention should also be made of the situation in Haiti, where renewed tensions in the foreign-exchange market towards the end of the year brought about a sudden reversal in what had been an appreciating trend. This development, in combination with a steady rate of devaluation in Jamaica and lower inflation at the regional level, accounts for the slight upturn in the real exchange rate for the subregion as a whole posted in the fourth quarter of 1999 (see figure II.3.b).

Figure II.4

LATIN AMERICA AND THE CARIBBEAN: REAL EXCHANGE RATE VALUE OF LOCAL CURRENCY



Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

4. Monetary and credit policy

Monetary policy in Latin America changed course in 1999, especially in the South American countries. At the start of the year, tight monetary constraints inherited from the previous year's external shocks prevailed throughout the region. Once they were free from the need to defend an overvalued exchange rate, however, the monetary authorities in countries that had devalued were able to relax their policies somewhat in order to support the reactivation of production. In addition, the positive trend in domestic prices enabled central banks to adopt a relatively looser policy stance in the second half of the year, since they had already met their inflation targets.

In addition to these factors, the Y2K phenomenon had a collateral effect that drove up the volume of currency in circulation quite sharply during the final quarter of 1999. Worried by the widely predicted possibility of Y2K system failures, the region's central banks stepped up currency issues to avert potential (but ultimately not forthcoming) problems in the processing of bank transactions. This relative relaxation of monetary issues was an extremely prudent step,

Box II.2

DOLLARIZATION IN ECUADOR

The exchange rate for the sucre rose by 350% in nominal terms and by 116% in real terms between August 1998 and January 2000, as economic agents' began to lose confidence in the local currency in the wake of a financial crisis and domestic difficulties. To deal with this situation, in January the authorities announced the dollarization of the Ecuadorian economy based on an exchange rate of 25,000 sucres to the dollar. This was followed in March by the passage of the Ecuadorian Economic Transformation Act, which set out the main features of a new monetary and exchange-rate scheme. This Act also placed a 2.5% cap on the non-financial public-sector (NFPS) deficit as from 2001 and set up a stabilization fund to be financed out of windfall gains, especially those generated when oil prices exceed the price used for budget estimates.

The transition to the new framework involves exchanging sucre banknotes currently in circulation for dollars. To this end, the international assets held by the Central Bank of Ecuador (CBE) were split into four different accounts. The first of these accounts (the exchange account) contains a portion of the Bank's unencumbered reserves and covers sucres in circulation. A second account consisting of another portion of the unencumbered reserves is used to cover banks' deposits with the CBE and monetary stabilization bonds (the financial reserve account). A third account (the operations account) has been set up as a tool for recycling liquidity. The assets in this account include the balance of unencumbered reserves, repo operations and government bonds owned by the CBE; its liabilities consist of deposits held by the NFPS and private individuals at the CBE, together with other CBE financial obligations. A fourth account (the "other operations" account) contains the Central Bank's remaining assets and liabilities.

A six-month deadline has been set for the exchange of sucres for dollars (with the possibility of an extension for a further six months if necessary). United States cents are to be employed as fractional currency and will be used alongside coins of the same size and material minted in sucres, which will only be issued in exchange for old sucre or dollar bills.

To provide the banking system with liquidity, a fund was established that was initially financed with external credits and bank contributions. A swap of the existing credit portfolio was provided for within a maximum range of interest rates (a lending rate of 16.82% and a deposit rate of 9.35%) with an interest-rate cap calculated as the London interbank offered rate (LIBOR) plus a margin for country-risk based on bond spreads and a bank operations margin of up to 4%. The terms for deposit insurance were altered (50% as from the second year of the law's entry into force, with a minimum of US48,000; 25% from the third year on, with a minimum of US$ 8,000; and up to US$ 8,000 as from the fourth year). Measures taken to strengthen the banking system have included the redefinition of capital and reserve requirements, closure of non-viable banks, and the strengthening of the Deposit Insurance Agency and the Superintendency of Banks.

however, and its effects were limited to the second half of 1999. The net effect of a first semester of very tight monetary policy, followed by a second semester that was somewhat more expansionary, was nonetheless a definitely restrictive stance for year as a whole.

As had also been the case in 1998, the monetary behaviour of the Caribbean economies was almost diametrically opposed to that of their continental counterparts. Monetary aggregates indicate that the expansionary phase that had begun in the second half of 1998 lasted until August 1999, after which the rate of real currency issues began to slow down.

(a) The main aggregates

Until the first quarter of 1999, monetary aggregates in Latin America continued to display the contractionary trend that had been apparent since late 1997 and had been strengthening since the second half of 1998. This had put an end to the recovery and subsequent expansion of real liquidity that had accompanied the production sector's recovery following the Mexican crisis of December 1994 and the ensuing difficulties experienced by the banking system in several of the region's countries.

As figure II.5.a shows, in the space of just 18 months the average growth trend for real base money slowed from a positive rate of over 30% in August 1997 to a contraction that hovered around –5% in the first quarter of 1999. The trend in the money supply (M1) mirrored the variation in base money, whereas savings accounts and time deposits (quasi-money) were much less affected by short-term fluctuations.

This regional trend is the sum total of widely differing situations in the various subregions, however (see table II.3). The trend in monetary variables resembled the behaviour of the real sector, and here again there was a clear dichotomy as South America endured a year of serious difficulties and monetary austerity, while the rest of Latin America continued along its moderate growth path.

Figure II.5a

LATIN AMERICA: MONETARY BASE, MONEY SUPPLY AND QUASI-MONEY

(Real 12-month variation, simple average)

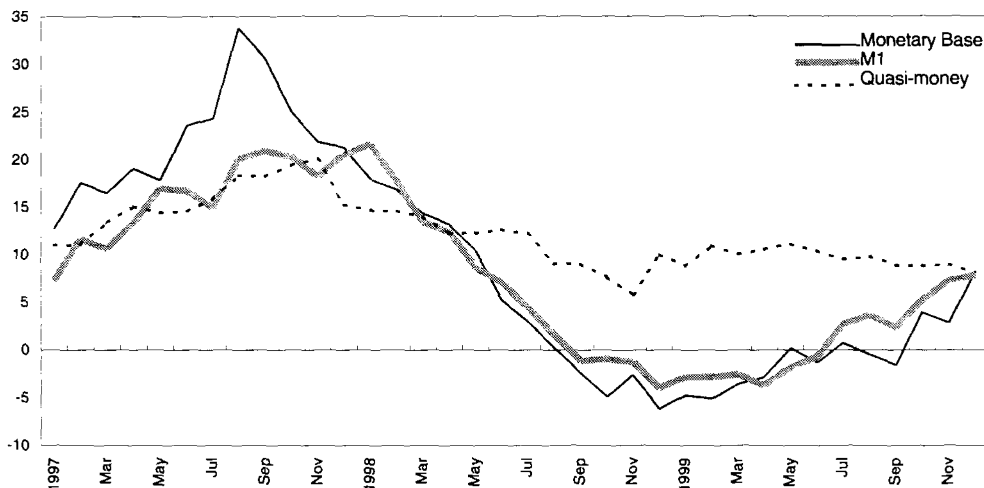


Figure II.5b

THE CARIBBEAN: MONETARY BASE, MONEY SUPPLY AND QUASI-MONEY

(Real 12-month variation, simple average)

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

Within South America itself, there were differences of degree, but not of trend. The Southern Cone countries experienced a moderate contraction of the monetary base which began in September 1998 with the financial tensions arising from the crisis triggered by the Russian moratorium and lasted until the end of the third quarter of 1999. The Andean countries followed a similar pattern (with the exception of Ecuador, see box II.2), albeit with more pronounced cyclical fluctuations both in the downswing and when indicators turned positive again in the final quarter of 1999.

Table II.3

LATIN AMERICA AND THE CARIBBEAN: QUARTERLY TRENDS IN THE MONETARY BASE, 1999

(Real variation expressed as a percentage with respect to the same period of the previous year)

	Quarter I	Quarter II	Quarter III	Quarter IV	Annual average
Brazil	-13.4	-22.2	-27.6	-10.6	-18.5
Mexico	22.7	29.3	28.4	23.1	25.9
Southern Cone	-3.2	-1.9	0.4	5.2	0.1
Andean countries [a]	-17.0	-9.6	-4.1	8.3	-5.6
Central America [b]	1.0	3.8	1.6	2.4	2.2
Caribbean [c]	9.5	12.1	10.1	10.4	10.5

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Does not include Ecuador. [b] Does not include Panama. [c] 11 countries.

The situation was marked by much sharper contrasts in Brazil, which until August 1998 had maintained a rate of expansion averaging 30%, but was forced to change course abruptly in the fourth quarter of 1998. The subsequent devaluation of the real in January 1999 did not affect this policy change; on the contrary, the contraction in the real money supply approached 40% in August, after which it began to subside as the outlook for production activity and inflation brightened. Nevertheless, the monetary base did not start to expand again until the end of the year.

In Central America, real monetary growth was much more moderate than in the previous few years, but except in a few cases it remained at positive levels throughout the period under review.

Mexico stood out against this Latin American backdrop of austerity and contraction. In view of the unsettled international environment, the monetary authorities' goal was to maintain the level of net reserves and restrict the expansion of the monetary base by reining in domestic credit. There was a strong demand for base money, however, given the sustained pace of economic activity, while capital inflows and an increase in reserves boosted the supply of monetary assets.

The Caribbean countries felt the monetary and real effects of the global financial crisis less strongly than the rest of the region, and they continued on their previous course of monetary expansion (see figure II.5.b). However, this pattern was reversed at the end of the year, when several countries had to make macroeconomic policy adjustments, either by toning down their expansionary stance (Haiti) or by adopting highly restrictive measures (Guyana, Jamaica).

(b) Domestic credit

Lending activity was flat in 1999 owing to a net contraction in credit to the public sector and a reduction in private-sector financial intermediation. The latter stemmed from a reluctance on the part of businesses and households to take on debt, together with the very cautious attitude adopted by the banking system in the face of short-term uncertainties and the need to improve the quality and structure of bank portfolios.

As part of a parallel phenomenon, lending activities in some countries have been developing outside the bounds of the banking system both in the business-loan and in the consumer-credit and home-loan segments. Mexico provides what is perhaps the clearest example of these spontaneous responses to the scarcity of bank credit. There are a number of systemic risks associated with this development, however, as many of these credit mechanisms do not fall within the supervisory purview of the superintendencies responsible for regulating and monitoring financial activity. Disintermediation can also destabilize the production sector if a credit crunch induces an involuntary expansion of supplier credit, which is actually nothing more than an increase in the chain of overdue payments.

In 1999, domestic lending activity was reduced by factors on both the supply and demand sides. In Latin America as a whole, real interest rates, which had begun to rise in 1997, peaked at the beginning of 1999. Following a decline in the second quarter, the real deposit rate then settled at what were still high levels compared to those seen before the outbreak of the Asian crisis. The rise in rates was accompanied by wider spreads (the difference between deposit and lending rates) as part of a trend that had begun in late 1997. The

increases made in international interest rates in early 2000 served to restrain the downward course of nominal local rates (except for important exceptions such as Brazil, which lowered its benchmark rate three times late in the first half of 2000), and the real cost of credit is expected to remain high due to the existence of a moderate inflationary trend.

In the specific case of South America, while the demand for credit was certainly discouraged by these high financial costs, the strongest restraint was actually the prevailing level of uncertainty, which caused businesses and households to adopt a cautious attitude and reduce their borrowing. In the region as a whole, supply-side factors also played a part in reducing credit activity, as the still fragile situation of the banking system in the vast majority of countries, and the need to improve the prudential profile of the banks themselves, led to discrimination in favour of higher-quality borrowers. As these borrowers can often obtain more favourable terms and conditions on the international market, competition to attract such clients intensified, thereby contributing to greater segmentation of the local credit market. This, in turn, held back investment and job creation in smaller firms, which caused the recessionary trends inherited from the previous year's external shocks to last until the final quarter of 1999 in a number of countries.

Thus, real growth in domestic private-sector lending, which had been slowing down since the fourth quarter of 1997, continued to fall in 1999, despite signs of a recovery in GDP during the second half of the year. Meanwhile, lending to the public sector shrank again in real terms, the larger fiscal deficit notwithstanding.

In the Caribbean, financial trends were similar to those in the rest of the region's countries, in contrast to the situation with respect to the cycles in the real sectors of these two groups of economies, which are almost diametrically opposed. The growth rate of private-sector domestic lending had been declining in real terms since the fourth quarter of 1997, and in 1999 it even lagged behind GDP growth. Public-sector borrowing continued to shrink.

Chapter III

Structural reforms

1. General trends

The region's ongoing structural reform processes came to a halt in 1999 as governments concentrated on short-term economic management in an effort to deal with the international financial crisis. Not only did this leave structural reforms on the back burner, but in a number of cases the measures that were introduced represented a step backward and had particularly negative effects on international trade.

THERE ARE SEVERAL reasons why the structural reform process lost momentum. The difficult international situation made both foreign and local investors more cautious and less enthusiastic about making further commitments in the region, and this held up the execution of many projects that were already in the pipeline. In addition, the economic authorities reacted to the international financial crisis by tightening up monetary policy, which drove up interest rates and put a number of national financial systems in a difficult position. Many of the countries' monetary authorities also sought to mitigate the impact of devaluations in other countries, both within the region and elsewhere, by introducing measures to curb imports.

Within this context, short-term economic management took centre stage, and structural reforms faded into the background. Given the economic authorities' limited capacity to pursue their agendas, this change in priorities led to the absence or postponement of new reform initiatives. Another important factor was the political cost involved in carrying out certain types of reforms –such as those involving privatizations– at a time when unemployment was on the rise. Furthermore, 1999 was an election year in a number of countries and was marked by difficulties in maintaining public order, and both of these factors tend to discourage structural reform efforts.

The postponement of many privatization projects was reflected in the total amount of proceeds from such operations, which barely exceeded US$ 12 billion. Argentina and Brazil led the field in this respect, but the Dominican Republic was the most active country in relative terms, bringing in privatization revenues equivalent to 6% of GDP in 1999. The sectoral diversification of privatizations and concessions continued, with transactions being undertaken in a wide range of areas, including highways, railroads, ports, airports, drinking water systems, telecommunications, electric power generation and distribution, and natural gas.

In order to cope with the economic crisis and with the resulting deterioration of fiscal accounts, the authorities sought to generate additional revenues through tax hikes, especially on domestic financial transactions. Such levies were applied in several countries because they are easy to implement and collect. In order to preclude future fiscal deficits, four countries passed laws making it mandatory to keep public accounts in balance. Progress was also made in strengthening State institutions and, to a lesser extent, in the regulation of monopoly markets. The anti-corruption measures that were introduced as part of the authorities' institution-building efforts merit special mention, since they address a new issue on government agendas.

Some of the countries' financial sectors experienced serious problems as a result of both the crisis and the authorities' response to it. In order to deal with this situation, programmes were designed and put in place to assist financial institutions and debtors. Efforts to strengthen supervision and oversight of the sector continued, especially in the Central American countries, and two nations (Nicaragua and Guyana) gave greater autonomy to their central banks. The Caribbean countries concentrated on introducing regulations to cut down on money laundering. The difficulties faced by the region's financial systems also sparked numerous mergers and acquisitions aimed at restructuring and consolidating the sector.

The few labour and pension system reforms that were implemented included a move towards universal social security coverage in Venezuela based on provisions included in that country's new constitution; pension system reforms in Costa Rica; and the introduction of further labour law amendments in Argentina and Ecuador.

The economic crisis had an even greater impact on international trade than it did in other spheres. The various adjustment measures adopted by many countries to restrain imports included devaluations, tariff hikes and the establishment of non-tariff measures, and these moves generated considerable friction within Mercosur and the Andean Community, in particular. However, in view of the economic recovery and the improvement in the terms of trade (especially in the case of oil-exporting countries), it is expected that such protectionist measures will be withdrawn in the future. The Caribbean and Central American countries were less strongly affected by the crisis, thanks to their strong links with the United States economy.

Despite the economic crisis, integration processes continued to move forward, although there were some delays in implementing agreements that had already been reached. Given the adverse economic climate and the domestic difficulties experienced by the countries of the region, it is noteworthy that no subregional integration process was abandoned or overtaken by an insurmountable crisis. In fact, as soon as clear signs of an economic reactivation began to emerge in the first half of 2000, efforts to relaunch regional integration processes began; the plans being made to coordinate the macroeconomic policies of Mercosur and the Andean Community constitute a particularly significant step in this regard.

2. Public-sector reforms

(a) Privatizations

The economic crisis dealt a severe blow to privatization processes in the region, and many planned projects were either postponed or cancelled altogether. Consequently, whereas privatization proceeds in 1998 amounted to a record US$ 42 billion, in 1999 they barely cleared the US$ 12 billion level. In quantitative terms, Argentina and Brazil led the field in the region, raising slightly over US$ 4 billion each. In the case of Brazil, however, this sum was just a fraction of the privatization proceeds posted in 1998 (US$ 36 billion), as the devaluation of the *real* and the uncertainty associated with the modification of the exchange-rate regime led to an abrupt slowdown in privatization activity in that country. Another relevant factor was the absence of any

large-scale project comparable to the privatization of Telecomunica ıes Brasileiras (Telebras) in 1998 or Companhia de Vale do Rio Doce in 1997. In Argentina, on the other hand, the amount of privatization revenues received in 1999 approached the levels attained during the great wave of privatizations of the early 1990s (see table III.1).

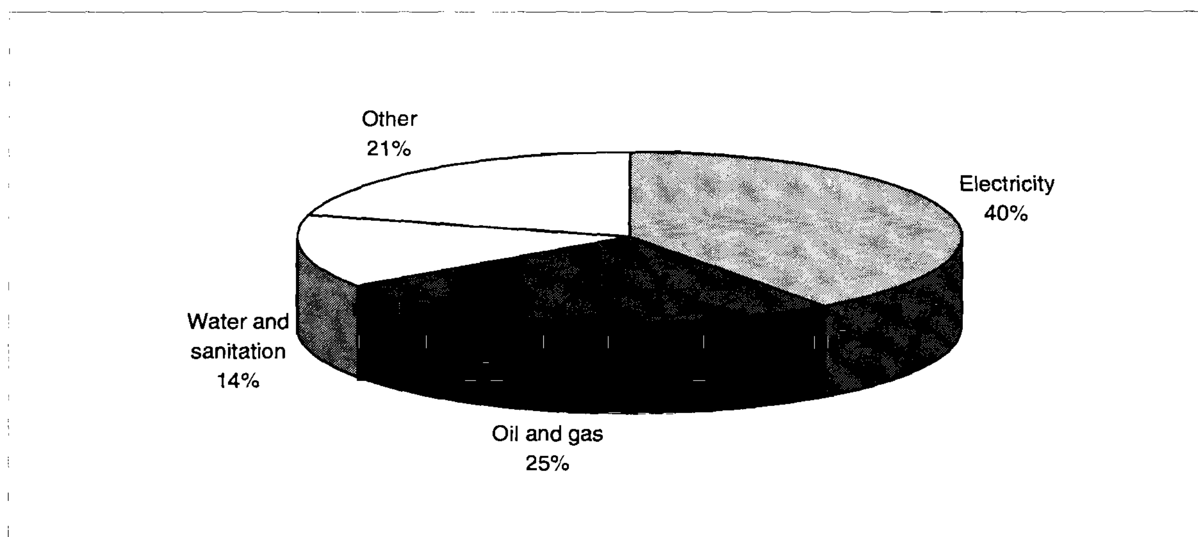
Another country that received a relatively high level of revenues from the sale of State assets during the year (US$ 1.434 billion) was Chile, the region's privatization pioneer, which returned to the field in 1999 following several years of inactivity to sell off State-owned companies in the water and sanitation subsector. In relation to economic size, privatization activity was also particularly significant in the Dominican Republic in 1999, which took in US$ 1.054 billion (the equivalent of 6% of its GDP). In several other countries, however –particularly in the Andean subregion, where the recession was deeper– privatizations had to be postponed.

Unlike what had occurred the year before, when the telecommunications sector had dominated privatization activity, the electric power industry was the most active subsector in 1999, accounting for nearly 40% of total privatization proceeds (see figure III.1). This was partly due to the absence of major privatization projects in the telecommunications industry, since most countries had already opened this area up to private capital. Another consideration is the fact that, although Brazil's move to open up the electric power industry to private ownership did indeed generate massive revenues, this was only because it is the region's largest economy. The oil and gas sector was in second place in terms of revenues, contributing 26% of total privatization proceeds. Taken together, these two sectors thus accounted for 65% of the region's total earnings from privatization in 1999, a fact which underscores the attractiveness of these two industries, whose potential had largely been ignored in the past. Not surprisingly, very high premiums were received, as in the case, for example, of Companhia de Gas de São Paulo (Comgas), for which a consortium consisting of British Gas and the Royal Dutch/Shell Group paid 119% over the reserve price.

Somewhat unexpectedly, the energy subsector was followed in the ranking by water and sanitation, which accounted for 14% of the total revenue raised. Although privatizations in this area had begun several years earlier, activity has been sporadic. In 1999, however, a number of large enterprises were sold, including numerous water and sanitation companies in Chile, which raised a total of US$ 1.29 billion. The level of private-sector interest was again reflected in the prices paid, with the premium in the most successful case –Empresa Metropolitana de Obras Sanitarias (EMOS)– amounting to 130%.

Figure III.1

LATIN AMERICA AND THE CARIBBEAN: PRIVATIZATION REVENUES, BY SUBSECTOR, 1999



Source: ECLAC, on the basis of official figures.

The figures for the individual countries show that the electric power sector contributed 100% of privatization proceeds in El Salvador, 88% in Brazil, and 61% in the Dominican Republic. Oil and gas companies generated 90% of the total in Bolivia and 50% in Argentina, while 90% of privatization revenues in Chile came from the water and sanitation subsector. Other industries did not play a major role, as the firms that were sold generally brought in smaller amounts. Europeans were active buyers of the region's State-owned firms in 1999, with all of the Chilean water and sanitation companies, for example, being acquired by investors from that continent. United States investors also maintained a strong presence in the region, while participation by local capital was once again led by Brazil and, to a lesser extent, Chile.

A broader definition of privatization would also include concessions, where there is a long list of projects involving airports, ports, telecommunications, oil and gas, highways, railways, sanitation systems, etc. As the number of State-owned firms in the region that remain to be privatized diminishes, concessions are likely to become an increasingly important area of activity, especially since this way of opening industries up to private-sector capital generates less controversy than privatization as such. This qualitative change entails a new type of relationship between the State and the private sector based on mutual trust and cooperation and marks the emergence of a new dialogue between the two as they work together to provide the necessary goods and services. Thus, although the State still has an important role to play, it is now as a regulator of private-sector activity, rather than as a producer.

Following the postponement of many projects in 1999, privatization activity is expected to be more buoyant in 2000. Continuing divestments in the electric power subsector, together with the sale of a minority holding in the giant Petróleo Brasileiro (Petrobras), should boost privatization earnings in Brazil, while Argentina's and Columbia's plans for the energy industry during the year should also generate sizeable revenues. The sale of water and sanitation companies is expected to continue in Chile and Brazil, while Columbia and Honduras are planning to place telecommunications firms in private hands. The list of planned concessions includes oil and gas projects in Brazil, Columbia and Peru; highways, railroads and inland waterways in Colombia; airports in Honduras, Mexico and Peru; and drinking water systems in Peru.

Table III.1

LATIN AMERICA AND THE CARIBBEAN: VALUE OF PRIVATIZATIONS, 1990-1999 [a,b]

(Millions of current dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Total
Argentina [c]	2 139	1 896	5 312	4 589	1 441	1 340	1 033	969	598	4 082	23 399
Bolivia	-	-	7	14	-	848 [d]	874 [e]	-	-	137	158
Brazil	-	1 564	2 451	2 621	1 972	910	3 752	17 400	36 600	4 440	71 710
Chile	29	117	21	-	203	3	579	12	186	1 434	2 584
Colombia	117	105	27	4	681	138	1 476	3 180	470	292	6 490
Mexico	3 580	10 716	6 799	2 507	771	-	-	84	581	360	25 398
Peru [c]	-	3	209	344	3 195	1 225	2 669	681	292	301	8 919
Venezuela	10	2 276	30	32	15	21	2 090	1 505	174	37	6 190
Other	1	25	31	95	868	75	68	837	3 390	1 291	6 681
Total	**5 876**	**16 702**	**14 887**	**10 206**	**9 146**	**3 712**	**11 667**	**24 668**	**42 291**	**12 374**	**151 529**

Source: 1990-1995: R. Cominetti "La privatización y el marco regulatorio en Bolivia y Nicaragua: un análisis comparativo", Reformas de Política Pública series, No. 43 (LC/L.973/Add.1), Santiago, Chile, ECLAC, 1996; 1996-1999: authors' calculations based on *Latin Finance* (various editions), *Privatisation International* (various editions), *Latin American Weekly Report* (various editions), *Latin American Economy & Business* (various editions) and official statistics for those years.

[a] Cash proceeds plus revenues in the form of external and domestic bonds valued at their prices on the secondary market, except in the case of Brazil, where domestic debt paper was valued at par. [b] Figures do not include concessions, except in the cases of Argentina and Peru. [c] Includes concessions. [d] Includes US$51 million in privatization proceeds and US$ 797 million from the capitalization process. [e] Corresponds to capitalization.

(b) Institutional changes and market regulation

In the second half of the 1990s the region began to see the need for a more comprehensive modernization of the State that would go beyond the boudns of privatization-based downsizing. This led policy-makers to abandon the simplistic idea that it was merely a matter of changing the relationship between the State and the market at the expense of the former. The central idea that is now steadily gaining ground is that efficient markets cannot exist without an efficient State. The State needs to become more efficient in activities where the private sector fails to supply goods and services at a socially optimal level, occupies the position of a natural monopoly or either has no incentive to provide certain socially necessary services or lacks the necessary legitimacy to do so (national security, law and order). Public-sector involvement is crucial in all of these cases in order to raise service provision to socially optimal levels. This does not mean that the public sector necessarily has to produce the corresponding goods and services itself, however, because many of the above problems can be resolved through appropriate fiscal policy (taxes and subsidies) or a suitable regulatory framework. It is also essential for the State to become more efficient in implementing economic and social policies, and in order for it to perform these more functions effectively while using fewer resources, a high-quality, well-trained and transparent public sector is vital. Hence, as the decade comes to an end, the reform agenda has become considerably broader than it once was.

Some of the activities carried out in 1999 fall within the above framework. In the area of fiscal policy, four countries passed laws or regulations making it mandatory to meet specified fiscal targets. In 1999, the Fiscal Convertibility Act was passed in Argentina and the Fiscal Prudence and Transparency Act in Peru, while the first half of 2000 saw the passage of the Fiscal Responsibility Act in Brazil and a public-sector budget reform in Ecuador. The significance of these initiatives is multi-faceted (see box II.1), but two aspects are particularly important from the standpoint of the reform process. Firstly, the requirement that a fiscal balance or surplus be achieved in the future means that fiscal discipline is now likely be stricter than before. On the other hand, in order to overcome the region's "social deficit", social spending will have to be increased or be made more efficient, or both. Given these two opposing elements, the public sector will clearly have to become more efficient, at least in the areas of tax collection and social programme delivery. In addition, the competition for increasingly scarce public resources could well make the resource allocation process more transparent. Secondly, within the context of regional integration schemes, stricter fiscal discipline is an essential element for the future coordination of macroeconomic policy, and the implementation of these laws and regulations may therefore contribute to a greater integration of the members of such schemes.

Another area of activity within this framework which is a relatively new item on the authorities' agenda is the fight against corruption. Governments are unlikely to be able to achieve their goals if corruption exists in the policy- and programme-implementation phase, and attitudes about this issue in the region are changing. State objectives are, by definition, intended to be in the public interest, and corruption is the antithesis of any such effort, since it sacrifices collective interests in order to serve individual aims. The outcome is that the State loses credibility as its operations become increasingly inefficient and less transparent.

The specific anti-corruption measures adopted in 1999 varied considerably from country to country. Some passed legislation to combat corruption (Ecuador, Chile) while others set up institutions to do so (Argentina); still other countries chose to implement programmes to deal with this problem (Colombia). In Mexico, the driving force came from civil society, which developed a proposal for setting up a network of civic education institutions to study the phenomenon and to work to inculcate the values of an anti-corruption culture, not only at all levels of government, but also in the private sector and among the general public. Bolivia pressed ahead with the ambitious anti-corruption programme launched during the current Administration, whose main components are reforms to the judicial system, a civil service statute and changes in the customs system. A new customs law was passed in 1999 aimed at professionalizing the service, increasing its efficiency, and combating contraband, corruption and nepotism. In Brazil, legislation was passed under which corrupt election practices will be severely punished.

Market regulation is particularly important in developing stronger State institutions. An appropriate regulatory system is essential in order to deal with situations involving monopolies, externalities or major economies of scale, yet many of the region's countries have no antitrust agencies, and in those cases where they do exist, they often lack resources and political support. All of this makes it virtually impossible to enforce antitrust laws. This situation is not entirely surprising, however, since the need to counter monopolistic practices has been very low on the list of government priorities. What is more, different government agencies may be working at cross-purposes, since ministries responsible for privatization tend to want to sell

State-owned assets on an "as is" basis in order to maximize the sale price, while antitrust agencies prefer to break up State monopolies to ensure competition in the newly privatized sector. In addition, in many cases the purchaser is guaranteed uncontested access to the market for several years in order to enable the local firm to consolidate its position before it has to deal with outside competition. This is tantamount to using antitrust policy to achieve an industrial-policy goal, while leaving consumers to foot the bill.

Such practices are no longer the rule in the region, however, and efforts were made throughout the 1990s to put an end to monopolies in privatized sectors. The telecommunications subsector is being opened up to competition in Argentina, Jamaica and Peru. In Brazil, legislation was passed in 1997 to put an end to the oil monopoly in that country, although genuine competition did not begin until 1999, following the award of 12 exploration concessions; this process was given an additional boost in 2000 with another round of 27 concessions. Ecuador plans to open up the oil subsector to competition in the course of the year, while the scope of the latest constitutional changes on this issue in Venezuela has not yet been fully clarified.

A number of recent changes in the region have helped to set sectoral integration processes in motion. The combined effect of privatization, market liberalization and more open trade has given rise to a new sectoral configuration in which economic interests predominate over political considerations. One example is Brazil's growing integration with its neighbours in the field of energy. The demand for electric power in Brazil is growing faster than local supply, and this has stimulated energy projects in neighbouring countries. The existing gas pipeline between Bolivia and Brazil is shortly to be supplemented by others connecting Argentina, Uruguay, Peru and Venezuela to the region's largest economy. Since these are binational or multinational projects, they could well represent a significant step towards greater regional integration. Until recently, however, this type of cooperation in the energy sector would have been unthinkable both because of political factors and because of the restrictive nature of the regulations in force. Another example of integration in this field is the Electrical Interconnection System for Central America (SIEPAC), a project scheduled for completion in 2004. This initiative aims to promote private investment and to consolidate the integration of the electric power markets of Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica and Panama. The multilateral banking system has already pledged financing for this project, which is now entering the execution stage.

(c) Social security reforms

Unlike what occurred in previous years, none of the countries of the region made any major changes in their social security systems in 1999. A pension reform bill was submitted in Ecuador in an effort to replace the current system, which is beset by financial difficulties. As a consequence of the economic crisis and the relatively weak position of the present Administration, however, the bill foundered in its initial stages. Venezuela's new Constitution provides for universal social security coverage, but questions relating to the cost of this initiative and the State's capacity to implement it remain to be resolved.

Brazil passed legislation intended to encourage workers in the private sector to postpone their retirement by reducing the benefits paid to people retiring at the usual age. This is just one of the pieces of pension legislation that have been awaiting congressional approval for several years now. In Colombia, the finances of the public pension system continued to deteriorate at a swifter rate than had originally been foreseen, and this prompted the Administration to initiate a debate on the future of the country's social security system. In Panama a new pension system for civil servants began to operate which is based on individual accounts and voluntary contributions. This scheme could eventually cover up to 160,000 public-sector employees and is seen as a testing ground for a future private system covering the entire economy. In the first half of 2000, a pension reform bill was passed in Costa Rica that introduces the concept of voluntary saving and increases the supervision of the various retirement schemes.

Nearly all the countries with private pension systems moved forward with their consolidation and concentration. Apart from a reduction in the number of pension funds, there were two other trends in this area that grew stronger during the period under review. Firstly, banks are increasingly becoming involved as owners of pension fund management companies, since their experience in portfolio management makes them natural candidates for the administration of such pension funds' relatively vast resources. Another clear trend is the entry of foreign investors (generally banks) into the pension fund business via acquisitions. Spanish banks have been the most active participants in this type of

operation and now hold an interest in most of the countries' banking systems. In the space of just a few years, the recently merged Banco Bilbao Vizcaya y Argentaria (BBVA) has gained control of about 30% of the Latin American pension market. Since Banco Santander Central Hispano (BSCH) holds another 15%, these two banks now control nearly half of this market, which has considerable growth potential. The degree of concentration that is developing is a cause for concern, however, as it facilitates a variety of harmful practices such as bandwagon behaviour, collusion and price-fixing.

3. Financial and capital market reforms

In the last two years, the international financial crisis, and the very tight monetary policies with which the authorities have responded to it, have weighed heavily on the region's financial sector. Several countries tried to maintain their currency-band systems, but this drove up real interest rates to their peak levels for the decade, which dampened the demand for financial services and consequently held back business activity in this sector. What is more, these high interest rates, coupled with the economic crisis and rising unemployment and bankruptcy rates, have caused default indicators to worsen and the number of non-performing loans to rise steeply. Finally, under pressure to replenish State coffers, a number of governments imposed taxes on financial transactions in 1998 and 1999, thereby undermining the intermediary functions of the financial system still further.

Given these circumstances, several countries' financial systems have experienced major problems. The situation has become especially critical in Ecuador, where the financial crisis has lasted for three years and deepened further in 1999. The year saw bank runs and failures, bankruptcies of other financial institutions, a freeze on deposits, and government intervention in 14 financial institutions that together accounted for 65% of the entire system's assets. The crisis in Colombia was less severe, thanks to the fact that the authorities had declared an "economic state of emergency" in November 1998 and taken steps to improve the positions of the financial system, borrowers in the social housing system and savers in the cooperative system. In addition, the Financial Institutions Guarantee Fund (Fogafin) was strengthened and steps were taken to begin restructuring State financial institutions, which sustained greater losses than the private sector did.

Other countries' financial systems were not as troubled, but measures were nonetheless taken to prevent a widespread deterioration in the situation. In Peru, for example, the economic authorities approved a US$ 400 million programme to strengthen the banking system. Under this programme, the government took over the banks' non-performing loan portfolios in exchange for their agreement to implement a plan designed to put them on a sounder footing. In Mexico, the situation of the financial system is improving, thanks to the steady economic growth the country has enjoyed since the 1995 crisis. The only exception in 1999 was the failure of Banco Serfin, but this did not have repercussions on the rest of the system. In countries such as Jamaica, Paraguay and Venezuela, which had gone through banking crises several years ago, the gradual improvement in financial-sector indicators continued.

The situation in 2000 promises to be less problematic, as a revival of growth in the region can be expected to lead to lower default rates. The shift towards floating exchange rates has given the monetary authorities additional manoeuvring room, and this has resulted in a significant increase in liquidity. A revival of lending activity –and, as a result, the financial sector's resumption of its intermediation functions– can therefore be expected. On the other hand, the taxes levied on financial transactions, which have such a harmful effect on the sector, remain in force and, in fact, legislation has actually been proposed in Brazil and Colombia that would make such taxes permanent.

One of the side effects of the financial crisis has been an intensive restructuring and consolidation of the sector. Economic crises are particularly effective catalysts for such processes, since large institutions can usually weather them more easily than small ones. Moreover, they are usually associated with a decrease in asset prices, which makes mergers and acquisitions more attractive. The most recent crisis was no exception, with the number of financial institutions shrinking in various countries as a result of acquisitions, interventions or bankruptcies. This process was particularly intense in Colombia, Ecuador, Peru and Panama. The foreign banks that flooded into the region's financial sectors during the decade played a leading role in this connection. Apart from being able to

provide more efficient service because of their more advanced technology, these foreign banks are also provided with massive financial backing by their parent companies. This last factor is particularly important because it helps to reduce systemic risk during financial crises and thereby lowers the cost of bailing out troubled financial institutions.

Another outcome of the crisis was that the economic authorities launched an intensive effort to set up prudential regulatory frameworks and strengthen their financial systems. The measures they adopted include a banking law and the creation of a deposit insurance fund in El Salvador; the submission of a bill to set up a similar institution in Honduras; the establishment of capitalization rules in Mexico; a supervisory system and a banking law in Nicaragua; the introduction of deposit insurance in Bolivia; and an extension of bank audit procedures to embrace other types of financial institutions in Ecuador. In addition, legislation has been passed to curb money laundering in Honduras and Saint Lucia, and a number of proposals have been presented in Caribbean countries aimed at tightening up the regulation of their financial systems. Guyana and Nicaragua, meanwhile, granted greater independence to their central banks.

An important event in the capital market was that trading began on the new euro-based Latin American stock market, LATIBEX. This new exchange, established with Spanish capital, is designed to help generate financing in European markets for firms in the region. A new stock exchange law was adopted in Panama to complement the banking legislation passed in 1998 and, in the first half of 2000, the Argentine, Brazilian and Uruguayan stock exchanges signed an agreement that will allow them to interconnect their operations in the future. This represents an important additional step towards integration within Mercosur.

4. Labour reforms

Changes in the labour market were conspicuous by their absence: just two initiatives have been implemented during the year, in addition to the constitutional changes made in Venezuela. In Argentina, a law was passed in the first half of 2000 to encourage job creation and boost the competitiveness of business firms by lowering labour costs. This legislation decentralizes the collective bargaining process; puts an end to the traditional automatic renewal of such contracts without the express agreement of both parties; extends the trial period for new workers from one to six months; and reduces employer's contributions for newly hired workers' social security benefits. A reform introduced in Ecuador, also in 2000, includes requirements to standardize wages and the rules on hourly-based hiring. Lastly, the new Venezuelan Constitution alters the regulatory principles governing labour relations in ways that will make them more rigid and is likely to raise labour costs as well.

5. Progress in implementing trade reforms and in the regional integration process

(a) Trade reforms

The international financial crisis has had a profound impact on trade reforms in the region. As previously abundant capital inflows began to wane, the region could no longer draw on these flows in order to cover its widening trade deficit. Consequently, a number of countries found it necessary to implement various adjustment measures, including devaluations, tariff hikes and the imposition of non-tariff barriers aimed at restraining imports from all sources. The devaluations prompted other countries to adopt protectionist measures. The upshot of all this was a nearly 18% contraction in intraregional trade and a proliferation of trade disputes among the region's countries.

The South American economies were hit the hardest, and nearly all of them posted negative growth rates for the year. On the other hand, Mexico and the Central American and Caribbean countries were not as strongly affected by the international financial crisis, thanks to their close ties with the burgeoning United States economy. In South America, a great deal of friction arose within Mercosur as a result of disagreements between Argentina and Brazil over macroeconomic management and within the Andean Community owing to the depth of the recessions in Colombia, Ecuador and Venezuela.

The measures that were adopted in response to this situation included safeguards in Chile; administrative controls on imports in Argentina; import permits in Brazil; import quotas in Argentina and Brazil; import restrictions in Colombia; a system of minimum import prices in Argentina; and certification programmes for agricultural imports entering Argentina, Bolivia and Brazil. However, the economic recovery taking place in 2000, together with stronger international prices for certain export products (especially oil), could cause the use of protectionist measures in the region to subside.

(b) The integration process

The fallout from the Asian crisis also had a major impact on the integration processes that are unfolding in Latin America and the Caribbean. The effects were particularly adverse in the cases of the Andean Community and Mercosur, while the countries of the Central American Common Market (CACM) and the Caribbean Community (CARICOM) suffered far less. The adverse effects of the crisis put a halt to the institutional development of the first two of these integration schemes and brought about a substantial reversal in terms of the degree of trade integration they had achieved in the past. Nevertheless, as the first signs of economic recovery began to appear in 2000, efforts were made to relaunch the region's integration processes; a particularly noteworthy development has been the steps that are being taken to increase macroeconomic policy coordination.

(i) Mercosur

The international financial crisis began to have strong repercussions in Mercosur in January 1999, when Brazil floated the *real* and it depreciated sharply. Soon thereafter, this country's trade relations with its three Mercosur partners began to fray. These tensions were most intense in the case of Argentina, where the authorities took steps to stem the rising tide of cheaper Brazilian merchandise that was flooding the market. However, although friction between the two countries in this area has increased significantly, so far it has proved possible to cope with the situation through bilateral negotiations. All of this had major consequences in at least three areas. Firstly, the level of merchandise exports traded within Mercosur fell significantly; secondly, debate was renewed on the need to consolidate and deepen the integration process by strengthening the scheme's institutional structure and complying with existing agreements; and lastly, a higher priority was assigned to the harmonization of macroeconomic policy.

The creation of the Mercosur free trade area is moving ahead on schedule, and the tariffs on products included on the exceptions and adaptation lists should be lifted at some point during 2000. The customs union is also well on its way to completion, since Argentina, Brazil and Uruguay are at this point applying the common external tariff (CET) to nearly 90% of all products; only Paraguay still has an extended deadline of 2005. Capital goods, along with products related to information technology and telecommunications, will be brought into line with the CET no later than 2006 in all the member countries. The sugar and automotive industries are not yet included either in the reciprocal free trade regime or in the CET, however.

(ii) The Andean Community

In the Andean region, Peru's exports were depressed by falling commodity prices and by shrinking demand on Asian markets, which are a major destination for the country's foreign sales. The reduced availability and higher cost of external financing forced all the Andean countries to make sharp adjustments in their economies. The members of this group have, for the most part, mounted unilateral responses to the crisis in the form of devaluations, temporary tariff surcharges and non-tariff barriers on imports. Several of these measures were particularly harmful to intra-community trade, which shrank by nearly one-third after a flat performance in 1998; during the rest of the decade, trade within the Community had grown vigorously.

Progress in the negotiations aimed at forming a larger free trade area that would embrace both the Andean Community and Mercosur has been fitful ever since their commencement was first announced at the second Summit of the Americas (Santiago, Chile, April 1998). The process was jump-started, however, by Brazil's decision to undertake unilateral negotiations with the Andean Community. In August 1999, these

talks culminated in the signing of an economic complementarity agreement under which a preferential trade area covering a wide range of products was established between Brazil and the Andean countries. The Andean Community countries reached a similar agreement with Argentina in 2000 and hope to begin negotiations with Paraguay and Uruguay in the near future with a view to establishing a free trade area encompassing all the member countries of the Andean Community and Mercosur.

In September 1999, Colombia, Ecuador and Venezuela signed a new complementarity agreement for the automotive industry which did away with subregional content rules in order to bring this sector into line with commitments undertaken in the World Trade Organization (WTO). As in Mercosur, motor vehicles and vehicle parts have become one of the fastest-growing segments of subregional trade. On another front, the five Andean Community countries approved and ratified an additional protocol to the Cartagena Agreement that sets forth the Community's commitment to democracy and provides for the suspension of any member country in which a serious breakdown of democracy occurs.

(iii) The Central American Common Market (CACM)

Although the Central American countries were not seriously affected by the Asian crisis, several of them are still striving to cope with the damage caused by Hurricane Mitch in late 1998. Honduras and Nicaragua have been two of the hardest hit countries, especially because of the destruction suffered by their transport and communications infrastructure, which has hurt subregional trade. Recent presidential summits have addressed the needs of these countries in particular. At one such meeting, the President of the United States announced his country's intention to provide debt relief for Nicaragua and Honduras. He also pledged to set up a strategic framework for reducing the effects of disasters in Central America and making the subregion less vulnerable to them. At the most recent summit, the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) was asked to propose an institutional arrangement for establishing a mechanism to settle trade and investment disputes.

As was the case with the region's other integration schemes as well, during much of the 1990s CACM made significant progress towards establishing a customs union among its member countries and thus bringing about a revival of subregional trade. This momentum faded somewhat in the second half of the decade, however, as the countries sought to deal with the problems involved in implementing a common external tariff. Accordingly, in mid-1997 the countries agreed to postpone the full application of that tariff –originally scheduled for 1999– until 2005. More notable progress was made in re-introducing free trade, which was expanded to include 95% of the tariff universe, although there were later some isolated setbacks in this respect.

(iv) The Caribbean Community (CARICOM)

CARICOM also decided to rationalize its common external tariff in the early 1990s. The new structure for this tariff was approved in late 1992 and called for a five-year programme intended to conclude with tariff rates ranging between 5% and 20%. Fulfilling this commitment has proved to be problematic, however, since it entails a reduction in fiscal revenues for the countries concerned. With regard to the free movement of goods among CARICOM member countries, in late 1999 the Community's secretariat observed that seven countries were still requiring permits for imports of a series of products that are also produced locally and are classified as "sensitive". Haiti was admitted as a new member of CARICOM in 1999.

The structural conditions of the CARICOM economies bear some resemblance to those of the Central American countries. Both groups are closely linked to the North American economy, although the Caribbean countries also have long-standing ties with members of the European Union. Thanks to these bonds with other regions of the world, the Asian crisis has had less of an impact on this group of countries than it has had on South America.

(v) Other integration processes

In addition to the four established schemes, a number of bilateral integration processes continue to forge ahead. Guatemala and El Salvador agreed to form a customs union, while Chile signed a free trade agreement with the Central American countries and another with Mexico in 1999. Mexico also reached an agreement with the European Union with a view to concluding a free trade treaty by July 2000 and signed another pact with Israel. In 2000, El Salvador, Guatemala and Honduras signed a free trade treaty with Mexico that is to take effect in January 2001. Cuba became the twelfth member of the Latin American Integration Association (LAIA) in 1999. Another significant event in 2000 was the passage of legislation in the United States granting Caribbean countries the same conditions as those provided in

certain sectors under the North American Free Trade Agreement (NAFTA). NAFTA remains the most successful of all the integration schemes in the continent, with the Mexican economy becoming ever more closely integrated with the United States and, to a lesser extent, with Canada. The spectacular upswing in Mexican exports to the United States, which averaged a growth rate of 20% per year between 1994 and 1998, is a direct result of NAFTA, and has turned Mexico's export sector into the engine of the country's economic development.

Chapter IV

Level of activity and inflation

1. Level of activity

Adverse developments in the international economy were a key factor in the region's performance in 1999. worsening external financing conditions and lower non-fuel commodity prices resulted in a net transfer of resources from latin america and the caribbean to the rest of the world for the first time since 1990. this, in combination with weaker domestic demand, led to a sharp slowdown in activity in the region for the second straight year, and GDP growth was consequently flat (0.4%), following expansions of 2.1% in 1998 and 5.4% in 1997. as the region's population growth rate is still high, this translated into a 1.2% reduction in per capita output in 1999. as a result, this indicator of well-being ended with an improvement of just 10% for the decade as a whole.

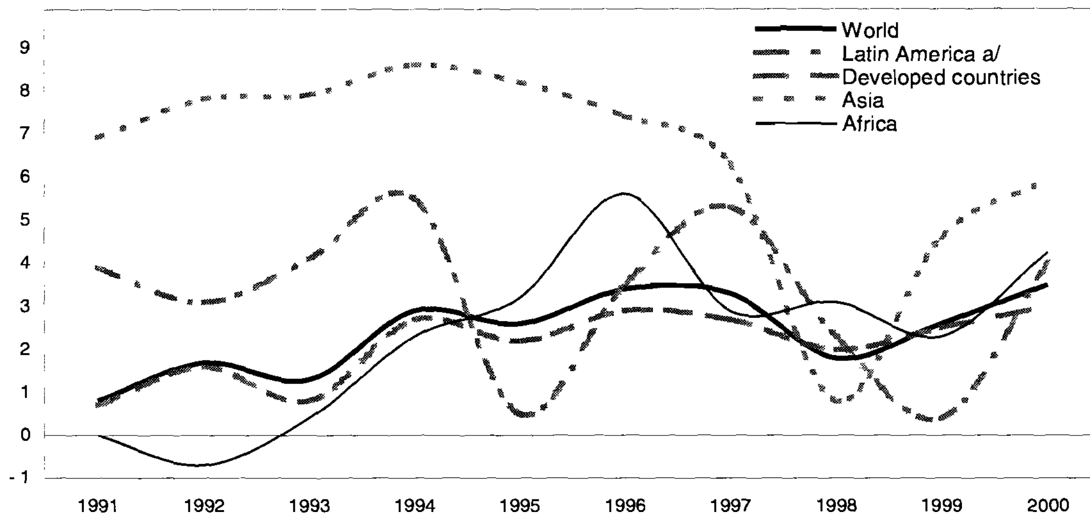
REGIONAL OUTPUT fluctuated widely during 1999, falling in the first three quarters and then picking up strongly late in the year. this upswing carried over into the first half of 2000, and growth is therefore projected at just under 4% for the year as a whole.

Economic performance in 1999 was noticeably worse in Latin America than in other regions of the world, where the vast majority of countries saw a recovery. The clearest example of this pattern can be found in Asia, which grew by 4.6% in 1999, compared to less than 1% in 1998 (see figure IV.1), thanks to expansionary macroeconomic policies and favourable external conditions. Despite unpromising expectations, the United States economy continued growing strongly on the strength of productivity increases and burgeoning

Figure IV.1

LATIN AMERICAN ECONOMIC GROWTH AS VIEWED FROM A WORLD PERSPECTIVE, 1991-2000

(Annual growth rates)



Source: United Nations, *World Economic Situation and Prospects for 2000*, New York, 2000, and *The World Economy in 2000*, New York, 2000.
[a] *ECLAC, on the basis of official figures.*

domestic demand, while the European economies were buoyed by export growth. Africa saw a slight improvement, primarily as a result of higher oil exports. The sharp divergence seen in 1999 is unlikely to be repeated in 2000, however, as the region's economic performance is forecast to be more in line with other parts of the world this year.

Economic growth in Latin America had slowed sharply in 1998, following the robust results of the two preceding years. In late 1998, regional output was jolted by the deepening international economic crisis, which intensified in August when Russia declared a moratorium on its external debt. This adverse state of affairs then persisted until the third quarter of 1999, with existing problems being further compounded by a steep devaluation of Brazil's currency, which hurt regional trade among the Southern Cone countries, in particular.

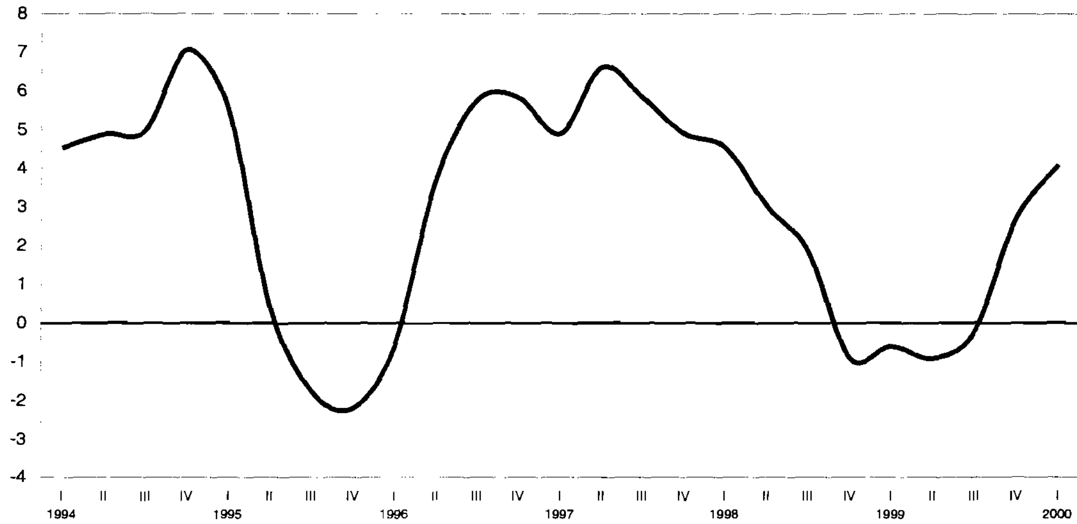
A major turning point was reached in the final quarter, however, when regional economic activity expanded by nearly 3% following four quarters of negative growth (see figure IV.2). The main reasons for this were a significant improvement in the external economic climate, an easing of monetary policy in several countries in the region, and a relatively rapid restoration of economic stability in Brazil.

There were also significant differences among the individual economies of the region in 1999. Mexico, Central America and the Caribbean generally posted growth rates of around 4%, whereas the South American economies shrank by 0.9%. The first group tended to perform better because of these countries' closer links to the United States economy, which has been extremely buoyant in recent years. The poor showing of the South American economies, on the other hand, was attributable to the decline in intraregional trade, smaller capital flows and negative trends on domestic markets (see figure IV.3). The sharp difference between the economic performances of the northern and southern portions of

Figure IV.2

LATIN AMERICA: QUARTERLY GROSS DOMESTIC PRODUCT

(Percentage change from same quarter of previous year)

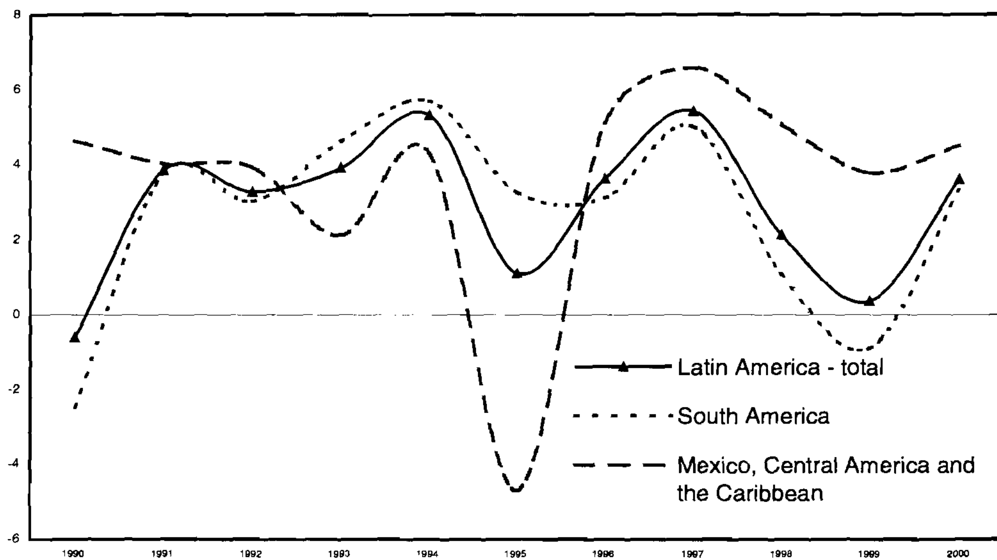


Source: ECLAC, on the basis of official figures.

Figure IV.3

LATIN AMERICA AND THE CARIBBEAN: REGIONAL GROWTH

(Growth rates)



Source: ECLAC, on the basis of official figures.

the region is a central topic of discussion in many of the chapters of this edition of the *Economic Survey*.

Three phases can be distinguished in the economic activity of these two subregions during the 1990s. The north grew more vigorously in the first part of the decade, South America performed better from 1992 to 1996, and since 1996 the northern subregion has again taken the lead. Taking a longer-term view, the region as a whole grew by an average annual rate of 3% during the 1990s, with South America posting a rate of 2.7% and the countries to the north one of 3.6%.

In 1999, economic activity declined in seven of the region's countries (Argentina, Chile, Colombia, Ecuador, Honduras, Uruguay and Venezuela), compared to just two in 1998 (Paraguay and Venezuela); in 1997, all the countries had registered positive GDP growth. Six of the seven countries where output shrank were South American, while another six countries (Brazil, Costa Rica, Dominican Republic, Nicaragua, Paraguay and Peru) posted better growth figures than they had in 1998. The Caribbean grew faster (4%) than the rest of the region as a whole.

Table IV. 1

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]	1991 - 1999
Latin America and the Caribbean [b]	**3.8**	**3.3**	**3.9**	**5.3**	**1.1**	**3.6**	**5.4**	**2.1**	**0.4**	**3.6**
Subtotal (19 countries) [b]	**3.8**	**3.3**	**3.9**	**5.3**	**1.1**	**3.6**	**5.4**	**2.1**	**0.4**	**3.6**
Argentina	10.6	9.6	5.9	5.8	-2.9	5.5	8.0	3.9	-3.0	5.3
Bolivia	5.4	1.7	4.3	4.8	4.7	4.5	4.9	5.4	0.8	4.5
Brazil	1.0	-0.3	4.5	6.2	4.2	2.5	3.5	-0.1	1.0	2.8
Chile	7.3	11.0	6.6	5.1	9.1	6.9	6.8	3.1	0.0	7.0
Colombia	2.0	4.1	5.2	6.1	5.2	2.1	3.4	0.4	-4.5	3.0
Costa Rica	2.3	8.6	5.9	4.8	3.9	0.6	5.6	7.7	8.0	5.9
Cuba [c]	-9.5	-9.9	-13.6	0.6	2.5	7.6	2.5	1.3	6.2	...
Ecuador	5.0	3.0	2.2	4.4	3.0	2.3	3.9	1.0	-9.4	1.8
El Salvador	2.8	7.3	6.4	6.0	6.2	1.8	4.2	3.5	2.6	5.1
Guatemala	3.7	4.9	4.0	4.1	5.0	3.0	4.4	5.3	3.4	4.8
Haiti	0.1	-13.8	-2.2	-8.3	5.0	2.8	1.5	3.2	2.4	-1.4
Honduras	2.7	5.8	7.1	-1.9	3.7	3.7	5.0	3.3	-2.0	3.4
Mexico	4.2	3.7	1.8	4.4	-6.1	5.4	6.8	5.0	3.6	3.6
Nicaragua	-0.4	0.8	-0.4	4.0	4.4	5.1	5.4	4.1	6.9	3.7
Panama	9.0	8.2	5.3	3.1	1.9	2.7	4.7	4.4	3.5	5.3
Paraguay	2.5	1.7	4.0	3.0	4.5	1.1	2.4	-0.6	0.2	2.3
Peru	2.5	-0.9	5.7	13.6	8.6	2.3	8.6	0.1	1.9	5.2
Dominican Republic	0.8	6.4	2.0	4.3	4.4	6.8	7.1	6.0	7.6	5.7
Uruguay	2.9	6.6	2.2	5.9	-1.9	4.4	4.5	4.3	-2.4	3.3
Venezuela	10.5	7.0	-0.4	-3.7	5.9	-0.4	7.4	0.4	-7.5	2.2
Subtotal-Caribbean [d]	**1.6**	**0.7**	**0.6**	**3.1**	**2.8**	**2.8**	**1.9**	**2.5**	**4.0**	**2.5**
Antigua and Barbuda	2.7	0.9	5.0	6.2	-4.8	6.0	5.5	3.9	4.5	3.7
Barbados	-3.6	-5.5	1.0	3.5	2.6	4.0	2.4	4.3	2.5	1.3
Belize	3.0	9.0	4.3	1.6	3.7	1.3	4.1	1.5	5.7	4.3
Dominica	2.1	2.3	1.9	1.9	1.2	2.9	2.2	3.6	0.4	2.3
Grenada	3.7	1.0	-1.1	3.4	3.0	3.2	4.7	5.0	7.6	3.8
Guyana	9.4	9.4	11.8	9.6	3.2	8.5	9.1	-2.2	3.0	7.7
Jamaica	0.3	2.5	1.8	1.9	1.8	-0.3	-2.2	-1.0	0.7	0.7
Saint Kitts and Nevis	2.5	3.2	5.3	5.5	3.2	5.8	7.2	1.7	2.7	4.6
Saint Vicent and the Grenadines	1.6	6.7	2.4	-2.6	7.8	1.7	3.2	5.5	3.9	3.7
Saint Lucia	-0.3	7.5	1.6	1.6	2.1	0.8	-0.3	2.3	3.0	2.3
Suriname	3.9	-1.8	-11.8	-0.8	3.7	7.6	5.3	2.3	-1.5	0.2
Trinidad and Tobago	3.5	-1.0	-1.2	4.2	4.2	4.4	4.0	5.3	7.8	3.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures. [b] Does not include Cuba. [c] Based on figures in pesos at constant 1981 prices. [d] Based on figures at factor cost.

The regional growth projection of just under 4% for 2000 is based on the positive results already achieved by a good number of countries in the first half of the year and on the encouraging outlook for the international economy, given the strong growth rates recorded in a majority of developed and developing countries. At nearly 5%, projected GDP growth is higher for the countries in the northern portion of the region. This upswing will be led by Mexico, which enjoyed high growth rates in the early months of 2000. Activity levels in the South American countries are also set to pick up sharply, with a projected increase of 3.5% overall (Brazil, Chile and Peru are expected to post the highest individual rates). The forecast for South America is founded upon expectations that regional exports will be boosted by the buoyancy of the international economy, a reactivation of intraregional trade, a modest upturn in investment (especially in the private sector) and a normalization of access to external financing.

Table IV. 2

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT

(Annual growth rates)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]	1991-1999
Latin America and the Caribbean [b]	**2.0**	**1.4**	**2.1**	**3.5**	**-0.6**	**1.9**	**3.7**	**0.5**	**-1.2**	**1.6**
Subtotal (19 countries) [b]	**2.0**	**1.4**	**2.1**	**3.5**	**-0.6**	**1.9**	**3.7**	**0.5**	**-1.2**	**1.6**
Argentina	9.2	8.2	4.5	4.4	-4.1	4.1	6.6	2.6	-4.2	3.8
Bolivia	3.0	-0.7	1.7	2.3	2.2	2.0	2.4	3.0	-1.5	1.8
Brazil	-0.6	-1.8	3.0	4.7	2.7	1.1	2.1	-1.4	-0.3	1.1
Chile	5.6	9.1	4.8	3.5	7.4	5.3	5.3	1.7	-1.4	5.1
Colombia	0.0	2.1	3.2	4.0	3.2	0.1	1.5	-1.4	-6.3	0.8
Costa Rica	-0.8	5.2	2.6	1.6	1.0	-2.0	2.9	5.0	5.4	2.6
Cuba [c]	-10.4	-10.6	-14.2	0.2	2.2	7.2	2.1	0.9	5.7	...
Ecuador	2.7	0.7	-0.1	2.1	0.8	0.2	1.8	-0.9	-11.2	-0.6
El Salvador	0.9	5.1	4.2	3.7	4.0	-0.3	2.1	1.4	0.5	2.7
Guatemala	1.1	2.2	1.3	1.4	2.2	0.3	1.7	2.6	0.7	1.7
Haiti	-1.9	-15.4	-4.0	-9.9	3.1	0.9	-0.4	1.3	0.5	-3.4
Honduras	-0.4	2.7	4.0	-4.7	0.7	0.8	2.1	0.5	-4.6	0.1
Mexico	2.2	1.8	-0.1	2.6	-7.8	3.7	5.1	3.3	2.0	1.5
Nicaragua	-3.1	-2.1	-3.3	0.9	1.5	2.2	2.6	1.3	4.0	0.5
Panama	6.9	6.2	3.4	1.3	0.1	0.9	2.9	2.7	1.8	3.3
Paraguay	-0.4	-1.1	1.3	0.4	1.7	-1.6	-0.2	-3.2	-2.3	-0.7
Peru	0.6	-2.6	4.0	11.6	6.8	0.5	6.7	-1.6	0.1	3.2
Dominican Republic	-1.2	4.3	0.0	2.4	2.6	5.0	5.3	4.3	5.8	3.5
Uruguay	2.2	5.9	1.4	5.1	-2.6	3.7	3.8	3.6	-3.1	2.5
Venezuela	7.9	4.6	-2.7	-5.8	3.7	-2.5	5.2	-1.6	-9.3	-0.2
Subtotal-Caribbean [d]	**0.7**	**-0.2**	**-0.3**	**2.1**	**1.9**	**1.9**	**1.1**	**1.6**	**3.2**	**1.5**
Antigua and Barbuda	1.1	-0.6	2.8	4.1	-6.2	4.4	4.5	2.4	3.6	2.0
Barbados	-4.0	-6.3	0.6	2.7	2.2	3.6	2.0	3.6	2.1	0.8
Belize	0.4	6.2	1.7	-1.3	1.2	-1.5	1.8	-1.1	3.5	1.3
Dominica	2.1	2.3	1.9	1.9	1.2	2.9	2.3	3.6	0.3	2.3
Grenada	3.5	0.8	-1.3	3.2	2.8	2.8	4.3	4.5	7.1	3.4
Guyana	8.7	8.5	10.7	8.6	2.2	7.5	8.0	-3.2	1.9	6.5
Jamaica	-0.5	1.6	0.9	1.0	0.9	-1.1	-3.1	-1.9	-0.2	-0.3
Saint Kitts and Nevis	3.0	3.7	5.8	6.0	3.7	5.8	7.2	1.7	2.7	4.9
Saint Vicent and the Grenadines	0.7	5.7	1.5	-3.5	6.8	0.8	2.3	4.5	3.1	2.7
Saint Lucia	-1.6	6.1	0.3	0.3	0.7	-0.5	-1.7	0.9	1.6	0.7
Suriname	3.2	-1.9	-12.0	-1.1	3.2	7.1	4.8	1.6	-2.0	-0.2
Trinidad and Tabago	2.7	-1.8	-1.9	3.3	3.4	3.8	3.4	4.7	7.3	3.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary giures. [b] Does not include Cuba. [c] Based on figures in pesos at constant 1981 prices. [d] Based on figures at factor cost.

Table IV. 3

LATIN AMERICA AND THE CARIBBEAN: PRINCIPAL COMPONENTS OF NATIONAL INCOME AND EXPENDITURE

(Annual growth rates)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
1. Total supply (2 + 3)	5.4	4.9	4.8	6.8	1.4	4.5	7.5	3.3	-0.2
2. Gross domestic product	3.8	3.2	3.9	5.8	1.0	3.6	5.5	2.1	0.4
3. Imports of goods and services	20.5	18.7	11.4	13.7	4.1	10.1	19.5	9.1	-2.9
4. Exports of goods and services	6.3	7.0	10.5	8.9	10.8	9.9	10.5	7.5	7.5
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	5.3	4.6	4.1	6.5	0.1	3.7	7.0	2.5	-1.6
6. Final consumption expenditure + change in stocks [b]	5.3	4.0	3.6	5.4	1.5	3.3	4.9	2.4	0.8
7. Gross fixed capital formation [c]	5.0	7.1	5.9	11.3	-5.8	5.0	16.3	3.2	-9.5
8. Factor income	-3.8	-2.7	15.4	2.2	5.2	5.9	12.5	12.7	4.3
9. Real gross national income [d]	3.9	3.3	3.4	6.4	1.2	3.7	5.2	1.2	0.2

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures. [b] For 1991-1996, does not include changes in stocks in Haiti; for 1997-1998, does not include changes in stocks in Haiti or Colombia. [c] For 1997-1998, includes changes in stocks in Haiti; for 1997-1998, includes changes in stocks in Haiti and Colombia. [d] Includes factor income current external transfers and the terms-of-trade effect.

2. Supply and demand

The Latin American and Caribbean economies turned in a poor performance with respect to virtually all components of supply and demand in 1999, except in the case of the physical volume of goods and service exports, although even here some categories also contracted. Total supply was generally flat as a result of sluggish output growth and a smaller volume of imports. Domestic demand shrank by nearly 2% in the wake of sharply lower investment (-9.5%); consumption rose very slightly (0.7%), although still somewhat faster than output (see figure IV.4).

Regional export volumes grew by 7.5%, which was similar to the 1998 figure, with the expansion of Mexico's exports acting as a very influential factor in this respect. Other countries that recorded sizeable increases in export volumes included Brazil, Chile, Costa Rica, Dominican Republic, El Salvador, Haiti and Peru. Despite these higher volumes, however, the value of foreign sales was driven down by the tumbling prices of the region's main export products.

The volume of the region's imports declined by 3%. This was the net effect of an across-the-board decrease in South America and an upswing in most of the other countries in the region. Thus, unlike the case of exports, the volume of imports declined along with their value, although the latter did so even more steeply because of the drop in import prices (see chapter VII, "The external sector", for a more detailed analysis).

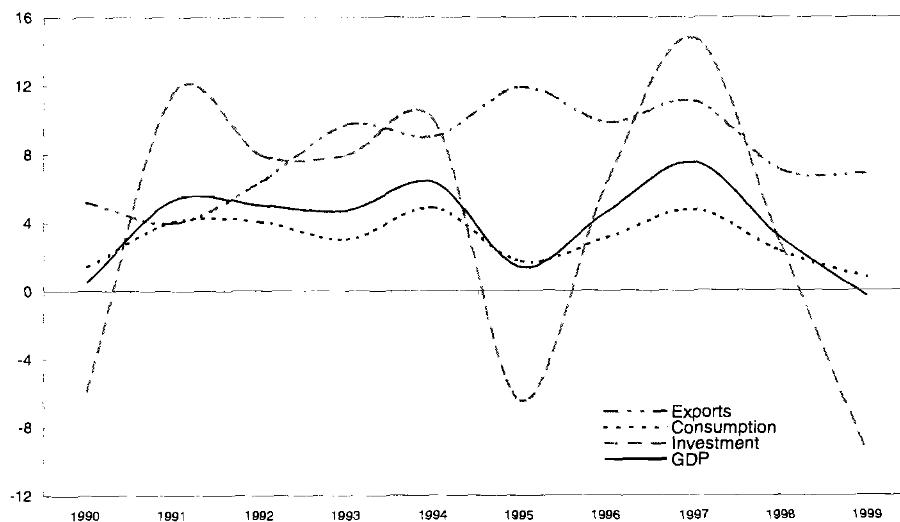
Investment is usually one of the most volatile elements of aggregate demand, and 1999 was no exception (see figure IV.4). In fact, investment was the component of aggregate demand that was hit the hardest by the slowdown in growth rates and, in turn, was the main factor underlying the weakness of economic activity (see chapter V, "Investment and saving").

Per capita consumption declined by an average of 1.2% in 1999, with more pronounced slumps in South America, and especially in Ecuador and Venezuela. Even so, average per capita consumption levels were still higher than in 1990, although by just 10%. Per capita consumption in 1999 was below the 1990 figure in only four countries (Ecuador, Haiti, Paraguay and Venezuela). In contrast, Argentina, Chile and Panama turned in the best performances of the entire region in the 1990s.

Figure IV.4

LATIN AMERICA: COMPONENTS OF GLOBAL DEMAND

(Annual rates of change)



Source: ECLAC, on the basis of official figures.

Table IV.4

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT, BY BRANCH OF ECONOMIC ACTIVITY

(Annual growth rates)

	Agriculture		Mining and quarrying		Manufacturing		Construction		Subtotal goods		Basic services		Other services	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
Latin America and the Caribbean	**1.9**	**4.9**	**3.5**	**0.6**	**0.3**	**-0.7**	**2.3**	**-4.2**	**1.1**	**-0.2**	**5.6**	**3.3**	**2.2**	**0.4**
Argentina	10.3	-0.5	2.3	-0.6	1.6	-6.9	7.2	-4.2	4.1	-5.0	7.7	-1.1	4.0	-1.3
Bolivia	-3.4	2.5	8.6	-8.0	2.6	3.3	32.4	-14.2	3.5	-0.4	7.8	0.5	5.5	5.3
Brazil	0.0	9.5	9.3	0.8	-4.1	-1.2	1.4	-3.7	-1.7	0.4	3.6	3.2	0.3	0.7
Chile	3.0	-0.6	4.1	16.9	-1.5	-0.7	-0.4	-10.0	0.7	2.0	9.4	2.4	3.8	-1.2
Colombia	0.6	-0.4	6.7	6.6	-0.3	-12.8	-12.0	-24.3	-1.2	-7.8	2.7	-3.2	-0.3	-3.0
Costa Rica	6.0	3.6	9.3	8.5	11.0	24.7	15.1	11.9	9.5	16.5	8.1	6.3	6.2	2.6
Ecuador	-1.4	-1.3	-3.1	2.6	1.2	-12.2	6.0	-8.0	0.3	-6.8	1.6	-22.3	0.7	-11.4
El Salvador	-1.8	6.6	5.3	3.0	6.6	3.7	7.1	2.2	4.0	4.4	4.5	2.9	3.1	1.6
Guatemala	3.5	2.2	21.8	1.7	3.6	2.6	10.2	6.4	4.5	2.7	7.3	5.6	5.5	3.5
Haiti	2.1	1.8	6.4	6.9	3.1	1.4	9.3	7.8	4.1	3.3	1.4	10.4	1.9	0.6
Honduras	-2.9	-8.7	5.6	7.0	3.4	2.6	6.2	10.4	0.9	-1.4	4.2	1.4	5.7	-0.3
Mexico	3.0	3.5	2.7	-3.2	7.3	4.1	4.2	4.5	6.1	3.7	5.9	8.4	4.4	2.8
Nicaragua	3.5	4.8	44.6	28.9	2.1	3.3	10.4	53.4	4.3	8.7	4.3	5.0	3.8	4.6
Panama	5.9	0.3	25.0	0.0	4.1	-4.6	6.7	12.0	5.6	0.7	6.2	12.7	4.1	2.5
Paraguay	0.2	3.1	2.5	2.0	1.0	0.0	1.0	2.5	0.6	2.0	2.2	9.2	-2.4	-3.4
Peru	0.8	14.6	4.2	10.0	-2.3	7.6	1.3	-12.3	-0.6	3.1	3.0	1.8	0.3	0.8
Dominican Republic	1.1	6.8	-15.9	-1.5	6.2	6.7	19.6	18.3	5.3	9.0	13.0	11.0	5.5	5.5
Uruguay	6.9	-8.2	15.0	2.6	2.3	-8.4	8.9	3.3	4.5	-6.5	7.8	1.2	4.1	1.5
Venezuela	0.6	-2.0	1.5	-9.1	-3.9	-6.7	-0.4	-20.4	-0.8	-8.7	5.2	1.7	-1.1	-6.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.

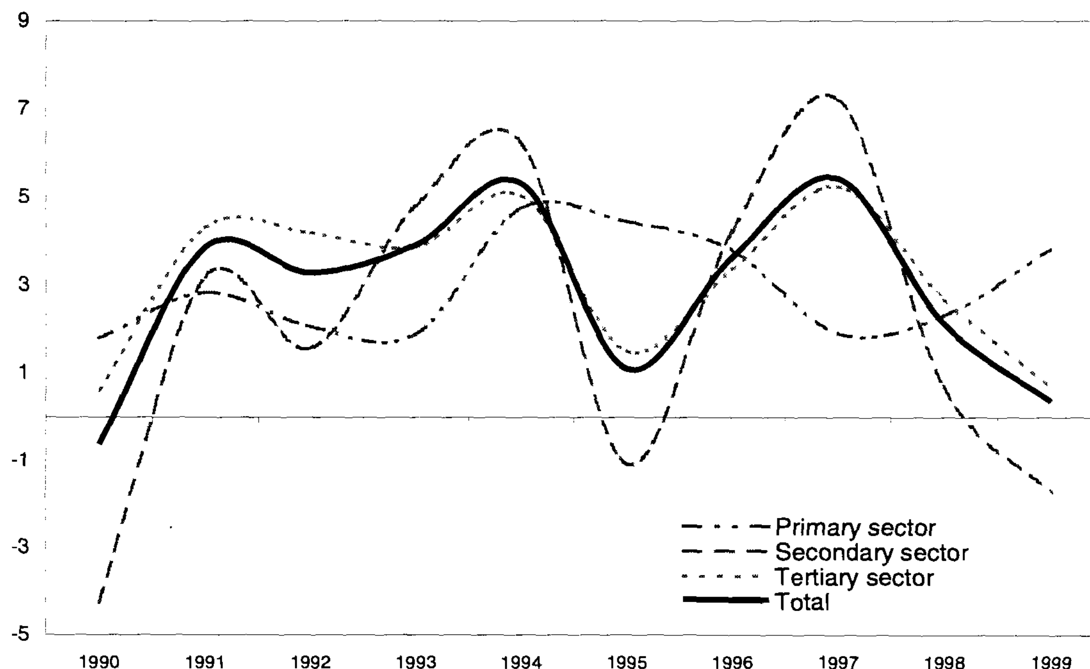
3. Production sectors

In most cases, the secondary sector of the economy was the one that was most seriously affected by the 1999 crisis, and its output actually shrank. This sector has been highly volatile throughout the decade, with peak levels in 1997 and 1994, and record lows in 1995 and 1990 (see figure IV.5). Sectoral growth figures indicate that the services sector expanded at much the same rate as overall GDP. The primary sector, which had been quite depressed in 1997 and 1998, was the strongest performer in 1999 thanks in large part to the results turned in by agricultural activities.

Tourism is one of the most dynamic sectors in several Latin American and Caribbean countries, especially in the northern part of the region. This branch of activity is not classified as a sector in its own right for national accounts purposes, and its output is recorded under a number of different headings, including transport, commerce, and hotels and restaurants. The available information indicates that in 1999 the tourism industry benefited from favourable circumstances in developed countries, particularly the United States. Tourism expanded in most Caribbean countries, especially Cuba, the Bahamas and the smaller islands, while in Central America it was particularly buoyant in Costa Rica and Nicaragua.

Figure IV.5

LATIN AMERICA: GROWTH OF PRODUCTION SECTORS



Source: ECLAC, on the basis of official figures.

(a) Agriculture

The agricultural sector in Latin America as a whole expanded by 4.9% in 1999, recovering strongly after two years of growth rates below the regional average. The performance gap between the northern and southern portions of the region was not as wide in agriculture as in other sectors of the economy. The rapid growth of this sector in the two largest economies –Mexico and particularly Brazil, which posted an increase of 9.5%– was a key factor in the expansion of this sector at the regional level since, between them, those two countries account for nearly 60% of the region's agricultural output. Elsewhere, agricultural production was largely flat. Although the sector's growth rate was three percentage points higher in 1999 than it was in 1998 for the region as a whole, the number of countries where output declined nearly doubled, from four to seven. There was considerable volatility in individual countries as well, since those economies that registered a contraction in 1999 (Argentina, Chile, Colombia, Ecuador, Honduras, Uruguay and Venezuela) had all grown faster than the regional average the year before.

Weather conditions were generally favourable for agriculture in most of the region in 1999. There were adverse conditions in some countries (hurricanes in the Caribbean, rains and drought in the Southern Cone), but they were less severe than they had been in the two preceding years. Several economies were also affected by a contraction of external demand in the sector and, in particular, by the low prices that most agricultural products consequently brought. Output in a number of countries was also undermined by phytosanitary problems, as in the case of Ecuador and Panama, where White Spot Syndrome Virus (WSSV) hurt the shrimp industry, and in Colombia, where coffee plantations were hit by an outbreak of coffee berry borers (CBB).

Table IV.5

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES

(December-December percentage variation)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Latin America and the Caribbean	**199**	**414**	**877**	**333**	**25.8**	**18.2**	**10.4**	**10.3**	**9.6**	**9.2**
Argentina	84.0	17.6	7.4	3.9	1.6	0.1	0.3	0.7	- 1.8	0.7
Barbados	8.1	3.4	- 1.0	0.5	3.4	1.8	3.6	1.7	2.9	2.6[b]
Bolivia	14.5	10.5	9.3	8.5	12.6	7.9	6.7	4.4	3.1	5.2
Brazil	476	1 149	2 489	929	22.0	9.1	4.3	2.5	8.4	5.5
Chile	18.7	12.7	12.2	8.9	8.2	6.6	6.0	4.7	2.3	3.7
Colombia	26.8	25.1	22.6	22.6	19.7	21.6	17.7	16.7	9.2	9.7
Costa Rica	25.3	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.1	10.5
Ecuador	49.0	60.2	31.0	25.4	22.8	25.6	30.6	43.4	60.9	103.4
El Salvador	9.8	20.0	12.1	8.9	11.4	7.4	1.9	4.2	- 1.0	3.7
Guatemala	10.2	14.2	11.6	11.6	8.6	10.9	7.1	7.5	4.9	7.2
Haiti	6.6	16.1	44.4	32.2	24.8	14.6	15.6	7.5	7.6	12.3[c]
Honduras	21.4	6.5	13.0	28.9	26.8	25.3	12.7	15.6	10.9	11.9
Jamaica	80.2	40.2	30.1	26.9	25.5	15.8	9.2	7.9	6.8	8.6[d]
Mexico	18.9	11.9	8.0	7.1	52.1	27.7	15.7	18.6	12.3	9.4
Nicaragua	866	3.5	19.5	14.4	11.1	12.1	7.3	18.5	7.2	14.0
Panama	1.6	1.6	1.0	1.3	0.8	2.3	- 0.5	1.4	1.5	1.1[d]
Paraguay	11.8	17.8	20.3	18.3	10.5	8.2	6.2	14.6	5.4	10.5
Peru	139	56.7	39.5	15.4	10.2	11.8	6.5	6.0	3.7	3.2
Dominican Republic	7.9	5.2	2.8	14.3	9.2	4.0	8.4	7.6	5.1	5.5[c]
Trinidad and Tobago	2.3	8.5	13.4	5.5	3.8	4.3	3.5	5.6	3.4	2.0[d]
Uruguay	81.3	59.0	52.9	44.1	35.4	24.3	15.2	8.6	4.2	4.8
Venezuela	31.0	31.9	45.9	70.8	56.6	103	37.6	29.9	20.0	15.4

Source: ECLAC, on the basis of information provided by official institutions of the relevant countries.
[a] July 1999-June 2000 variation. [b] March 1999-February 2000 variation. [c] May 1999-April 2000 variation. [d] April 1999-March 2000 variation.

(b) Mining

In 1999, the mining and quarrying sector turned in its poorest growth performance of the decade (0.6%), mainly as a result of the international crisis. There was a significant decline in demand for a number of mining products, and this was compounded, in most cases, by sharply lower prices on international markets.

The region's two largest mining producers, Chile and Venezuela, posted very different growth rates for the year. In Venezuela –the region's top producer– this sector's output shrank by 9% due to a steep drop in oil production. In Chile, however, mining production expanded by 17%, thanks to the conclusion of a major investment cycle and the start-up of a number of large-scale projects, especially in the copper industry.

(c) Manufacturing

The manufacturing sector endured one of its worst years of the decade, shrinking by 0.7% regionwide. Manufacturing trends varied greatly from country to country, however. The contraction in South America was widespread (with the only exceptions being Bolivia and particularly Peru) and was attributable to a slackening of both domestic demand –Argentina, Brazil, Colombia, Ecuador, Uruguay and Venezuela– and external demand –Argentina and Uruguay– as a consequence, in large part, of the downturn in the Brazilian market. The growth seen in Peru was based mainly on the expansion of agribusiness, which was boosted by an increase in the supply of agricultural products and the recovery that followed upon the previous year's slump.

Manufacturing output expanded in virtually all the countries in the northern portion of the region except Panama, and in Mexico the sector expanded by 4.1%. The buoyancy of manufacturing in these countries was generally driven by an upturn in domestic demand, a larger volume of exports of manufactures to the United States and, in several of these economies, higher output from export processing zones (EPZs).

(d) Construction

The construction sector fared worse than any other in 1999, as output slumped by 4.2%. As is well known, construction is the most volatile industry in terms of its reactions to fluctuations in the overall level of economic activity, and it is also highly sensitive to macroeconomic policies on monetary variables (via its effect on credit) and on fiscal matters (via its impact on the execution of public works). Here again, there was a clear-cut difference between the sector's performance in South America, where production was down everywhere except in Paraguay and Uruguay, and in the northern part of the region, where construction activity generally trended upward.

(e) Services

The services sector as a whole expanded by 0.7% in 1999, which was slightly higher than overall GDP growth. The performance of the different subsectors was mixed, however, with basic services up by 3.3%, which was better than the other sectors in 1999 but below this area's own trend level for the decade as a whole. These results stood out in contrast to the performance of the commerce, restaurants and hotels segment, for example, which registered an average downswing of 1.1%, with very steep declines being recorded in Argentina, Ecuador and Venezuela.

The growth rate for electricity, gas, water and sanitation services was a 10-year low. Many countries were affected by adverse weather conditions that reduced their hydroelectric power generation levels, but elsewhere the output of hydroelectric power improved thanks to abundant rainfall. In several countries, these events served to strengthen the position of groups advocating an expansion of electric power interconnections and the extension of oil and gas pipelines as a means of reducing the volatility of hydroelectric power generation. The production and use of natural gas increased in a significant number of countries (Argentina, Bolivia, Brazil, Chile, Uruguay and the Central American nations) thanks to better integration and interconnection. The 3.5% upswing seen in transport, storage and communication services was led by Mexico (8.8%) and by some Caribbean countries (Dominican Republic and Haiti).

4. Inflation

As measured by consumer price indices (CPI), inflation came in at just under 10% for the region as a whole in 1999, marginally lower than in the two preceding years. Inflation had been explosive in the 1980s and early 1990s, with price increases at three- and four-digit levels and even some instances of hyperinflation. Prices began to rise more slowly in 1994, however, dropping to 10% by 1997 and then settling around this level. As a result, inflation for the last three years has been the lowest in half a century, and no cases of repressed inflation have been observed either. Five of the 22 countries for which information is available registered annual inflation rates of under 3% in 1999, or even deflation, while average price increases were held to under 13% in a further 15 economies. Inflation was higher that that figure in just two countries: Venezuela, where it topped 20%, and Ecuador, which recorded a level of 60%. In the vast majority of economies, inflation rates either fell or stayed very low. What is more, there were significant increases in just two cases: Brazil, where inflation climbed from 2.5% in 1998 to slightly over 8% in 1999 although, following a sharp rise early in the year, it then fell back significantly; and Ecuador, where the already high rate in 1998 (43%) surged by a further 17 percentage points in 1999. This level of inflation, which is atypical by current regional standards, has not been seen since 1996, when Venezuela posted a rate of just over 100%.

Wholesale prices (or producer prices where this other measurement does not exist) rose by 21.5% for the region as a whole in 1999, compared to just 7% the year before. The divergence of this indicator from the pattern of consumer prices was also mainly due to negative results in Brazil and Ecuador, where wholesale price indices outpaced the CPI, rising by 20 and 126 percentage points, respectively. There were also differences, albeit smaller ones, in Argentina, Chile, Colombia and Peru. In Mexico and Venezuela, by contrast, consumer prices rose faster.

The pace of inflation in the region as a whole remained stable in the first half of 2000, despite moderate increases in some countries, since these were offset by better results in the two largest economies: Brazil, where inflation fell by three percentage points, and Mexico, which achieved inflation below 10% for the first time in several years and is showing clear signs of consolidating its stabilization process. Once again, the exception was Ecuador, where price increases continued to accelerate, running at just over 100%. In another three countries, the 12-month inflation rate climbed by between two and seven percentage points, while nine other countries experienced much smaller increases. Apart from Ecuador, these setbacks cannot be seen as a turning point in the prevailing trends of the second half of the 1990s, since they are basically accounted for by continuing devaluations, the recent oil price hikes on international markets and the reactivation of individual economies following the 1999 recession.

The major slowdown in inflation during the decade had basically been due to a change in the direction of economic policy in nearly all countries since the late 1980s. The slow rate of inflation achieved with these new policies held firm even after the outbreak of major financial problems in several parts of the world starting in the second half of 1997. Nonetheless, difficulties have arisen in the foreign-exchange market in a number of countries and this has complicated monetary and fiscal policy management. The problematic external situation, involving large current account deficits, has become a critical factor in some of the stabilization processes being pursued in the region.

The factors influencing inflation rates in 1999 and the first half of 2000 –some positive and others negative– can be divided into demand-side and supply-side variables. The first group includes monetary, fiscal and financial factors, together with the recession. Monetary policies in 1999 were more relaxed than in 1998, when they had generally been kept very tight because of the acute crisis originating abroad; but they still remained austere, thus helping to keep price increases under control. Monetary policy management has become more difficult in recent years because fiscal accounts have deteriorated significantly, as evidenced by the fact that all 19 Latin American countries for which information is available posted deficits in 1999, with the most serious being in Brazil, Colombia and Ecuador. Solvency and liquidity problems in the banking system, which in the past had been one of the main sources of quasi-fiscal expenditures, had a significant effect only in Ecuador in 1999; isolated problems arose in other countries, but were overcome fairly easily. Consequently, there was no need to resort to money creation to meet the public sector's greater borrowing requirements in 1999, except in the case of Ecuador.

The recession in the region in 1999 clearly played an important part in restraining inflation. Output grew modestly in the region as a whole, but GDP shrank in six economies and grew by 3% or more in only five. Domestic demand in the region retreated by nearly 2%, with negative figures being posted in 11 of the 19 countries for which information is available. The recession prevented cost pressures from carrying over to consumer prices, which also benefited from smaller profit margins on imported products, since prevailing market conditions prevented the full impact of the devaluation from being passed on to consumers.

Supply-side factors influencing inflation in 1999 included cost increases stemming from trends in the exchange rate, wages, oil prices and public utility rates, together with the supply disruptions caused by natural disasters. The most important of these factors in 1999 was certainly the exchange rate, although the situation varied from country to country. In some cases the exchange rate put pressure on inflation, while in others it once again served as the mainstay of the stabilization process. Heightened vulnerability on the external front led to much more significant changes in stabilization policies than in previous years, with the authorities gradually abandoning the practice of using the exchange rate as an anchor in some countries as a consequence of the mounting difficulties being experienced in the external sector. As a result, the nominal exchange rate for the dollar rose by 60% in Brazil, 160% in Ecuador and by between 10% and 25% in a further eight countries. In nearly all cases the depreciation of the exchange rate considerably outpaced the rise in consumer price indices. Nonetheless, fighting inflation continues to be a priority and, despite some setbacks, inflation remains low, with the exception of Ecuador. The brisker pace of devaluation did not generate similar rises in consumer prices owing to the cost effect of the recession. Wholesale prices rose more sharply than the CPI, however, given the greater weight of tradables, and particularly imported goods, in the corresponding index.

In a number of other countries –particularly Argentina, Barbados, El Salvador, Honduras, Jamaica, Mexico and Venezuela– nominal exchange rates held steady or showed no more than a slight depreciation, and this helped to restrain inflation. The anchor provided by the exchange rate therefore held firm, as in previous years, in a majority of the countries of the region, and in most of these instances, the pattern was thus diametrically opposed to that seen in the cases discussed above, as wholesale prices rose less sharply than consumer prices. Depreciation of the euro and the real against the dollar also helped to keep inflation down in countries for which Europe and Brazil are important trading partners.

The region's external accounts were generally more solid in 1999, after the major difficulties experienced the year before. This was the result of adjustments made in a number of countries and a partial restoration of capital flows starting in the second quarter, which helped to ease pressures on foreign-exchange markets and thus avert an upsurge in inflation. This new state of affairs gave a boost both to economies that continued to use the exchange rate as an anchor and to those that had already phased it out.

Pay raises were not a source of inflationary pressure in 1999, as increases were moderate. In some countries wages rose less than prices did owing either to the effects of a serious economic crisis or a deterioration in labour-market conditions. In others, where inflation was already on a downward track, pay raises were lower still, thereby helping to consolidate the stabilization process. On the other hand, the rise in oil prices was a contributing factor to inflation in 1999, as it became necessary to make steep adjustments in the domestic prices of petroleum products, in addition to the adjustments made in response to the devaluation of the local currency in several of the region's countries. Prices were also pushed up by higher public utility rates, including the rates charged for electric power and telecommunications. In both cases these increases were largely due either to clauses in service providers' privatization contracts that tied rate hikes to the behaviour of specific price indices, or else to clauses that provided for adjustments in cases where rates had lagged behind in real terms.

Supply disturbances, including those caused by the string of weather-related natural disasters that have hit the region since the second half of 1997, were less significant in 1999, except for some lingering effects of Hurricane Mitch in Central American countries during the early part of the year. Generally speaking, the countries that sustained damage in 1998 registered either a fall or a very small increase in agricultural prices in 1999, thanks to the recovery of output in the affected areas.

The consolidation of the countries' stabilization processes hinges largely upon the elimination of existing indexation mechanisms, which came into widespread use in the region during episodes of high inflation, especially in the 1980s. In the ensuing decade, however, they became less prevalent as inflation was brought under control, and by 1999 they were no longer very common. Nonetheless, as the demise of indexation occurred during a recessionary period, there is some fear that it may make a comeback if the region's economies

regain momentum. Thus, external or domestic shocks that generate temporary price increases, compounded by potential difficulties on the fiscal or external fronts, might create conditions conducive to a revival of indexation systems. Escalation clauses based on past inflation could be reintroduced into labour contracts, the practice of setting interest rates on an ex post basis might again become common, and monetary correction mechanisms could once again appear in a wide range of contracts. In a new scenario of this type, inflation would accelerate while policies for controlling it could pose serious problems, given the renewed inertia that price increases would begin to exhibit.

There were no obvious cases of repressed inflation in 1999, however. The price controls that had played an important role in the past were gradually phased out during the 1990s and are now only used in specific cases involving sensitive products. Thus, repressed inflation would have been unlikely, given the absence of rationing or shortages, except in the case of the supply disruptions associated with natural disasters. Nor were there any cases of lags in public utility rates, since such a situation has been made quite unlikely by the privatization of public utilities under existing regulations. The sharply lower real exchange rates seen in some countries cannot be classified as repressed inflation since, rather than being accounted for by the existence of exchange controls, they were attributable to the fact that the countries in question had the foreign exchange they needed to cover demand or that they had no need to draw heavily upon their central bank's international reserves.

Despite the rapid slowdown in price increases during the 1990s, in some countries inflation has continued to hover at levels above those commonly seen in developed countries, although it is still well below historical standards for the region. Recent turbulence, compounded by devaluations and substantial wholesale price hikes, raise doubts as to the consolidation of stabilization processes. The delicate situation in Ecuador, the Brazilian currency crisis of January 1999 and the difficulties faced by Venezuela in 1996 have all fuelled these fears. Negative factors could reappear either on the external (a deterioration of the terms of trade, rationing of capital flows, sharp interest-rate hikes) or domestic fronts (widening fiscal deficits, imprudent monetary policies, large devaluations, financial crises, natural disasters), with negative impacts on individual economies that could set the scene for new outbreaks of inflation.

Although success in controlling inflation was widespread in 1999, sharp differences could be seen across countries. In some cases, inflation was non-existent or very low, while in others inflation was moderate but there were no clear signs of its imminent disappearance. Disturbing situations were observed in only a few economies, however, either because inflation remained high by current regional standards or because it was up sharply. The economies of the region can currently be divided into four groups: (i) countries with stable prices or very low inflation, defined as deflation or annual price increases below 5%; (ii) countries with moderate inflation, defined as price increases of between 5% and 20% per year; (iii) high-inflation countries, defined as those having annual increases above 20% but below 100%; and (iv) countries with very high inflation, i.e., annual rates in the three- or four- digit range, or with outright hyperinflation. In 1999 there was no country was in the fourth group. Some countries fall clearly into one or another of these groups because their inflation rates have been in the corresponding bracket for over a year. Other countries are only in a given group provisionally, having recorded the corresponding price increase for one year only.

The group with stable prices or very low inflation currently includes 10 countries: Argentina, Barbados, Bolivia, Chile, El Salvador, Guatemala, Panama, Peru, Trinidad and Tobago, and Uruguay. Five of these countries have been in this group for several years now, while the others entered the category for the first time in 1998 or 1999. **Argentina** has been a member of the group for a number of years, thanks to the considerable progress made by its stabilization process since the introduction of its dollar convertibility regime in 1991. The country experienced deflation in 1999 which carried over into the early months of 2000 in the wake of the recession that began in the second half of 1998. This came after two years of negligible price increases. The slowdown was particularly notable in the case of goods, although service prices also fell. The largest increases were seen in fuels (9%) and public utility rates. **El Salvador** also experienced deflation, thus consolidating the achievements of the preceding years, when inflation had been brought down to very low levels by tight monetary policies and a stable nominal exchange rate. The decline in food prices was especially notable (-5.2%).

Three other countries maintained their customarily low inflation rates. In **Barbados,** inflation rose by one percentage point due to increases in the prices of food, housing, education and, especially, oil. In **Panama,** inflation has traditionally been very low and stable, and there was little change in 1999, as prices rose by 1.5%, which was virtually the same as in 1998. Wholesale prices rose faster than the CPI, increasing by 6.8% as a

result of the hike in international oil prices, which was partly passed on to consumer goods. **Trinidad and Tobago**, which has nearly always had low rates of inflation, saw prices rise by 2.3% in 1999 –three percentage points less than the year before– despite the fact that the fiscal deficit widened to 3% of GDP. The steepest price increase was recorded for food products (8%).

The other five countries in this group –Bolivia, Chile, Guatemala, Peru and Uruguay– posted their best results for several decades in 1999, thereby consolidating stabilization processes embarked upon several years earlier. In **Bolivia** the slowdown in the growth of aggregate demand led to minor increases in the prices of locally produced products, while higher hydrocarbons prices internationally had both direct and indirect (transport) effects, and proved to be the most inflationary component of the basic shopping basket. In **Chile**, inflation was just 2.3% in 1999, down from the previous year's 4.3%. This result was mainly due to weaker demand and high unemployment, which prevented the devaluation-induced higher cost of imported products from being passed on to retail prices. The moderate scale of increases in labour costs also contributed to price stability. Wholesale prices, on the other hand, rose much more steeply (13.5%) than the CPI because of the relative weight of tradable goods in that index.

Price rises in **Peru** were held to just 3.7% for the year, despite a devaluation and higher fuel prices. This low rate of inflation was mainly attributable to the drop in food prices. The devaluation pushed up the wholesale prices for imports (10.7%) more sharply than the wholesale prices for locally produced goods, which rose by just 4.1% during the year. **Uruguay** joined the moderate-inflation group in 1999, having brought inflation down to just 4% –its lowest rate in 50 years. Weak demand, revaluation of the local currency against the *real* and the euro, and the decision to borrow the funds needed to cover the fiscal deficit all helped to hold down retail prices. As in previous years, the prices of non-tradable goods and services –particularly health care and education– rose faster than those of tradables. Inflation in **Guatemala** came in at just under 5% –the lowest rate since 1982 and nearly three percentage points below the previous year's figure– despite a significant depreciation of the quetzal against the dollar. Factors contributing to this lower inflation figure included a downturn in consumption, surplus production of green vegetables and legumes (thanks to the sector's recovery from the effects of Hurricane Mitch) and the steps taken by the Government to cut electricity rates and overturn increases in some types of telephone charges.

The moderate inflation group consists of 11 countries, four of which (Dominican Republic, Jamaica, Nicaragua and Paraguay) posted price increases below 8%, while another six (Brazil, Columbia, Costa Rica, Haiti, Honduras and Mexico) recorded increases of between 8% and 12%. Venezuela was at the upper limit of this group with prices rising by 20%. In **Jamaica**, inflation was cut back to 7%, one point below the 1998 figure. This third consecutive year of single-digit price rises was the outcome of policies aimed at achieving macroeconomic stability together with a stable exchange rate and a smaller fiscal deficit. Inflation in **Nicaragua** fell to 7.2%, following a steep increase in 1998 that was attributable to food supply disruptions caused by El Niño and Hurricane Mitch. Factors helping to restrain inflation included a slower rate of devaluation, efforts to regulate primary liquidity and the continued application of tariff rollbacks. Lower food prices partly offset price increases for fuels and construction materials and higher public utility rates. In **Paraguay**, following a brief upsurge in 1998, inflation resumed its downward course to fall to its lowest level in the last two decades (5.4%). The devaluation in Brazil, which is the source of most of Paraguay's imports, was the key restraint on price increases in this country. As a result, tradable goods prices climbed the least (5%), with food products rising by just 3.7%. In the **Dominican Republic**, consumer price rises were held to around 5%, or nearly three percentage points below the previous year's figure. This low rate of inflation is accounted for by a rebounding food supply (which had been sharply reduced by the effects of Hurricane Georges in 1998), a tight monetary policy and exchange-rate stability. In October there was a temporary flare-up of inflation (prices rose by 3.5% in the month) as a result of an increase in the commissions charged on foreign-exchange transactions and a hike in domestic fuel prices, but this effect subsequently subsided.

The fact that **Brazil** is in this group represents a setback, since in 1998 it had been among the stable-price or very-low-inflation countries (although only temporarily), having posted an average price increase of just 2.5% for the first time since the Second World War. Thanks to the Real Plan, inflation had been slashed from 5,000% for the 12-month period ending in June 1994 to the very low levels seen in recent years. The steep devaluation in January 1999, followed by major currency-market turbulence in the ensuing months, led to a setback which initially raised fears that all the achievements of recent years in combating inflation

would be wiped out. In the event, however, price increases only accelerated slightly for a few months before resuming the slow pace of the last few years. Consumer prices rose by just over 8% in 1999 as a whole. The devaluation of the *real* raised tradable goods prices, especially in the case of imports, which then fed through into the wholesale price index, pushing it up by 29%. The situation was compounded by increases in public utility rates (electric power and telecommunications) and the steady rise in international oil prices. On the other hand, the prices of housing, education, clothing and personal expenses all rose by less than the general index, which suggests that the indexation mechanisms that were so influential in the past did not have a major effect on price formation this time around.

The rate of inflation in **Colombia**, at 9.2%, represented a 30-year low. Monetary policy was kept tight in order to maintain a stable exchange rate, and the 15% inflation target was easily achieved as a consequence of the deep recession triggered by that policy. The prices of housing, clothing, and cultural and leisure activities all rose by less than the other components of the family shopping basket. This successful outcome was also founded upon an abundant supply of farm products, thanks to favourable weather conditions, which held food price increases to just 7.5%. In **Costa Rica**, weaker demand, a tight monetary policy and a slower rate of devaluation combined to ease inflation, which had reached nearly 12% in 1998. The first half of the year saw a continuation of the tight monetary policy adopted in 1998 in response to inflationary pressures and international reserve losses. The prices of farm products fell by 3.6%, while fuel products, housing, electric power and health services recorded the largest increases. In **Haiti**, the inflation rate was nearly three percentage points higher than the 1998 figure of 7.5%. The authorities continued to apply a tight monetary policy in an effort to bring price increases under control, but these measures proved insufficient, as the money supply expanded by 18%, which was five percentage points above GDP growth at current prices. In **Honduras**, the authorities' approach to macroeconomic management prevented inflation from accelerating at a time when the economy was still suffering from the devastation caused by Hurricane Mitch. Foreign donations of food, which eased supply problems, together with a moderate rate of devaluation, also helped to keep inflationary pressures in check.

In **Mexico**, inflation headed firmly downward in 1999. Economic policy was aimed at curbing price increases through tight fiscal and monetary policies while maintaining the floating exchange-rate regime intact. Following a few bouts of instability early in the year, exchange-rate and interest-rate volatility subsided, and a downward trend emerged. The strength of the peso helped to curb price increases for tradable goods (prices were up by 10.3%, compared to 14.8% in the case of non-tradables), while moderate price hikes for products such as fruit and vegetables did their part in balancing out higher increases in other prices (e.g., tortillas and telephone rates). Inflation for the first five months of 2000 came in at 3.8%, and it is therefore reasonable to think that it may well remain below 10% for the year as a whole. In **Venezuela,** inflation continued along the downward path it has been following since mid-1997, and the CPI rose by 20%, which was significantly below the figure of nearly 30% recorded the previous year and the lowest rate for the entire decade. Higher oil prices enabled the central government to cut its budget deficit to under 3% of GDP and helped the Central Bank to maintain the very gradual rate of depreciation. The bolívar slipped by 15% against the dollar during the year, which, together with weaker demand, contributed to the effort being made to rein in inflation.

The sole member of the **high-inflation group** at the moment is **Ecuador**, where inflation climbed to 60% for 1999 as a whole. In the 12 months ending in June 2000, however, the rate soared to just over 100%, a level unseen in the country since consumer price indices were first calculated in the 1950s. This sharp acceleration was brought about by the steep depreciation of the currency and a high rate of money creation. In addition, the wide gap existing between the nominal rate of depreciation and the rise in the CPI, and between this and the producer price index –which rose by nearly 190%– reflected an accumulation of inflationary pressures that began to feed through into consumer prices in 2000. Since the steps taken to dampen liquidity with a view to curbing exchange-rate volatility and averting a spike in inflation failed to produce the desired effects, in January 2000 the authorities announced a radical change in the monetary system involving the substitution of the United States dollar for the sucre as the country's legal tender. Despite this move, the troubled economic and social situation led to a political crisis which ultimately led to the ouster of the President and his replacement by the country's Vice President. The new government authorities maintained the dollarization programme as the main plank of their macroeconomic policy, and March saw the passage of the legislation needed to undertake monetary, exchange-rate, fiscal, structural and labour-market reforms and to introduce the new monetary regime.

Chapter V

Investment and saving[1]

1. General trends

The persistence of an adverse international environment, with deteriorating external financing conditions and lower prices for the region's non-fuel commodity exports, was one of the factors that helped explain why economic growth in Latin America and the Caribbean slowed further in 1999 and why investment levels were sharply lower. The negative impact of these circumstances was stronger than it had been in 1998, as total gross investment retreated by a full 9.5%, with a 5.7% drop in fixed investment and a much steeper downturn in inventory building. Total investment shrank in all the South American countries, whereas Mexico, the Caribbean and the Central American countries were less affected and posted a small increase.

1 This chapter uses data series at both constant 1995 and current prices. The investment series are in constant prices, since this provides a clearer picture of the expansion of the economy's production capacity and growth potential. The saving-investment balance is expressed in current prices, as this is a better indicator of flows, especially financial ones. These two types of series need to be combined in order to eliminate the distortions created by inflation and permit the construction of regional aggregates. Accordingly, the data in current prices are expressed as percentages of gross domestic product.

AS DISCUSSED in another recent ECLAC publication,[2] one of the most harmful impacts of macroeconomic volatility is the effect it has on investment, and this was clearly demonstrated by the events of 1999. Capital formation was one of the components of expenditure that was hit the hardest by the slowdown, whereas consumption edged up by slightly more than gross domestic product (GDP).

In the area of investment financing, a sizeable decrease in external saving was wholly responsible for the reduction in gross capital formation. External saving had represented 4.5% of GDP in 1998, but in 1999 it amounted to just 3%. Nonetheless, all but three of the countries in the region were net recipients of external saving, which implies that they ran up deficits on their current accounts. Although this category of saving did shrink, one of its components –foreign direct investment (FDI) –expanded significantly and, for the first time in the 1990s, surpassed total external saving.

National saving in the region as a whole was unchanged from its 1998 level, which was one of the lowest since the early 1990s; the figures for the individual countries were also quite stable, except in the case of Venezuela, where the rate rose sharply thanks to the steep rise in oil prices. Unlike what occurred in 1998, there was no substitution of external saving for national saving.

The trends observed in 2000 point towards a strong upswing in growth, together with an improvement in investment, with the latter variable being expected to keep pace with GDP or to outperform it by a slight margin, after having fallen in 1999. Investment growth in the northern part of the region is set to accelerate, with Mexico leading the pack with an increase of over 6% (compared to just 2% in 1999). A strong recovery is also expected in the South American countries, where investment had plunged in 1999. Investment growth in Brazil, projected to reach at least 6%, is expected to be the driving force behind economic recovery in that country. The current account deficit is likely to remain in the same range as before and domestic saving ought to rise slightly, thereby opening the way for a limited recovery in investment. Foreign investment in general looks set to stay at very high levels in 2000, although below those achieved in 1999.

2. Investment

The sharp cutback in investment seen throughout Latin America and the Caribbean during the year was attributable to several factors, including the international economic crisis, which not only undermined access to external financing but also eroded external demand, and tight economic policies that restrained domestic demand. In addition, a number of investment cycles in the region were brought to completion.

Access to external financing other than FDI was very limited in 1999, and investment levels fell considerably as capital outflows reached substantial levels in nearly all categories.

The retreat of external demand had a very strong impact on investment in countries such as Argentina, Bolivia, Paraguay and Uruguay, which were affected not only by lower sales but also by an increase in supply from Brazil as a consequence of the devaluation of the real in January 1999. Most South American countries were also hurt by the weakness of world commodity markets, which led to a marked reduction in export volumes and lower prices.

Export volumes increased in Mexico, Central America and the Caribbean, however, thanks to the strength of the United States market, and this had a positive influence on investment levels in those countries.

The sharpest cutbacks in investment in response to weaker domestic demand occurred in Ecuador and Venezuela, although significantly lower domestic demand also sent out negative signals for investment in Argentina, Chile and Colombia. The level of this variable in Bolivia was affected by the conclusion of a major investment cycle, as the pipeline to be used to export natural gas to Brazil was completed; this happened in Chile, as well, as the start-up and outfitting of a number of major mining ventures was completed and these projects moved on to the production phase.

2 ECLAC, Equity, development and citizenship (LC/G.2071(SES.28/3)), Santiago, Chile, 2000, document presented in Mexico City at the twenty-eighth session of ECLAC.

The combination of these domestic and external factors led to reductions of over 10% in investment in Bolivia, Brazil, Chile, Colombia, Ecuador, Peru and Venezuela and to smaller decreases in another six countries. In contrast, Dominican Republic, Honduras, Mexico, Nicaragua and Panama all registered positive growth rates for investment, although only in Honduras and Nicaragua were the percentage increases greater than in 1998 (see table V.1).

Table V.1

LATIN AMERICA AND THE CARIBBEAN: REAL GROWTH CAPITAL FORMATION

(Annual growth rates)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
Latin America and the Caribbean [b]	**11.6**	**7.9**	**8.0**	**9.9**	**- 6.4**	**6.4**	**14.8**	**2.7**	**- 9.6**
Argentina [c]	29.9	32.2	15.1	13.5	- 13.0	8.8	17.5	6.8	- 7.6
Bolivia	29.9	5.4	- 0.2	- 11.0	12.6	18.8	30.2	24.4	- 17.0
Brazil	7.4	- 7.1	13.5	10.5	6.3	3.4	8.9	- 1.6	- 12.9
Chile	- 0.2	20.4	21.3	- 0.3	30.8	6.4	11.2	- 1.4	- 26.2
Colombia	- 6.8	19.2	34.5	24.9	6.1	- 12.0	- 0.6	- 8.7	- 31.3
Costa Rica	- 13.6	25.2	19.6	2.4	- 4.9	- 12.2	22.4	11.8	- 2.6
Ecuador	27.6	- 2.5	- 4.3	5.6	6.3	- 11.6	17.1	9.7	- 52.9
El Salvador	16.6	26.3	9.6	14.0	14.0	- 20.5	6.4	21.3	- 5.8
Guatemala	23.1	29.5	- 4.7	1.8	- 1.6	- 15.8	21.6	24.4	- 3.1
Haiti	- 3.6	- 40.1	- 7.4	- 7.1	88.8	- 1.6	- 1.5	7.4	4.0
Honduras	18.0	12.4	29.2	7.3	3.0	- 6.1	6.2	2.8	4.7
México	10.6	13.7	- 1.4	10.4	- 35.3	26.2	25.8	8.9	1.4
Nicaragua	15.8	- 0.3	- 15.5	48.5	4.5	21.4	9.1	7.9	39.8
Panama	10.7	38.8	14.0	14.2	10.9	6.0	1.1	11.7	3.4
Paraguay	8.8	- 6.1	3.5	4.3	6.9	0.1	- 1.9	- 4.3	- 3.5
Peru	11.3	- 1.1	11.0	28.1	17.9	- 4.8	12.1	- 2.0	- 12.3
Dominican Republic	- 8.7	23.9	18.7	0.4	5.3	9.8	18.7	27.3	16.6
Uruguay	31.6	13.5	9.8	12.9	3.7	- 3.8	7.6	14.1	- 9.0
Venezuela	82.6	38.4	- 19.0	- 30.1	39.0	- 12.3	36.8	- 3.2	- 26.2

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures. [b] Up to 1992, does not include changes in stocks in Argentina. [c] Up to 1992, refers to gross fixed capital formation.

All components of investment posted poor results in 1999, but the figures were particularly gloomy in the case of inventory building, which fell by over 40% in the countries for which information is available. Within total gross fixed capital formation, private and public investment behaved very differently, as private-sector investment fell by an average of 7% and slumped particularly sharply in small and medium-scale industry, where access to bank credit was curtailed quite abruptly.

Public-sector investment did not perform as badly, since it was generally flat. In several countries the authorities undertook public investment programmes to offset cutbacks made in capital expenditure in other areas in line with austerity policies aimed at controlling macroeconomic imbalances. In some cases, public-sector investment levels were up significantly thanks to the work required to repair damage caused by natural disasters, in particular the destruction caused by Hurricane Mitch in late 1998.

Investment in construction slipped by 4%, but machinery and equipment purchases fell even more steeply, by 8%, as imports of these products plummeted. Nonetheless, strong FDI growth helped to offset the negative trend of gross capital formation to some degree, especially with respect to imports of capital goods.

Fixed investment amounted to 20% of GDP in the region as a whole (see table V.2), but this average figure

masks sharp differences among the rates in individual countries. The highest levels were recorded in Chile, Dominican Republic, Honduras, Nicaragua and Panama, while the lowest were seen in Colombia, El Salvador, Haiti, Uruguay and Venezuela. GDP growth rates were much higher in the first group than in the second, except in the case of El Salvador.

Table V.2

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION, BY SECTOR

(As percentages of GDP)

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
Latin America and the Caribbean [b]	**18.5**	**19.2**	**19.7**	**20.6**	**19.3**	**19.5**	**21.0**	**21.3**	**20.0**
Argentina	14.2	17.1	18.6	20.0	17.9	18.5	20.1	20.7	19.7
Bolivia	15.0	16.6	16.3	14.3	15.5	16.6	20.1	24.4	20.9
Brazil	20.1	19.1	19.4	20.3	20.5	20.4	21.5	21.5	20.0
Chile	17.7	19.5	21.7	21.6	23.9	24.5	25.4	25.2	20.9
Colombia [c]	14.6	15.8	20.3	23.3	22.4	21.6	20.5	19.4	14.0
Costa Rica	16.6	18.8	19.9	19.5	19.3	17.6	19.2	22.3	20.9
Ecuador	18.5	18.9	18.6	18.5	18.6	18.5	18.5	19.4	13.9
El Salvador	14.1	15.3	16.6	17.6	18.7	16.3	16.9	17.7	17.2
Guatemala	11.7	14.4	15.0	14.1	14.5	13.7	16.2	18.6	19.4
Haiti [d]	11.5	8.0	7.6	7.7	13.8	13.2	12.8	13.4	13.6
Honduras	18.8	22.5	28.5	29.0	24.0	23.9	26.5	30.1	31.8
Mexico	20.3	21.8	20.8	21.6	16.2	17.9	20.5	21.2	21.7
Nicaragua	17.8	20.4	19.4	25.0	23.9	28.2	28.9	29.5	39.3
Panamá	13.6	17.9	24.0	24.6	26.0	24.6	24.7	27.3	27.5
Paraguay	24.0	22.2	22.1	22.4	23.1	22.8	22.0	21.1	20.2
Peru	17.0	17.7	18.8	21.7	23.8	22.3	24.1	24.0	21.2
Dominican Republic	16.6	19.5	22.8	21.9	22.1	22.8	25.3	30.5	33.1
Uruguay	11.4	12.4	14.0	14.1	13.5	13.8	14.5	15.2	14.5
Venezuela	17.7	21.4	20.2	17.1	16.5	15.3	18.0	17.4	14.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures. [b] Includes changes in stocks in Haiti; for 1997 and 1998, includes changes in stocks in Colombia. [c] For 1997 and 1998, includes changes in stocks. [d] Includes changes in stocks

3. Saving

Domestic investment financing fell from 23% of GDP in 1998 to 21.5% in 1999 as a result of significantly lower external saving, which slipped from 4.5% to 3% of GDP during the same period. That reversal made this variable one of the most contractionary components of financing for gross capital formation. National saving, meanwhile, remained stable at a level quite close to its 1998 rate, as did gross domestic saving (see table V.3). This similarity is explained by the lack of any major swings in current transfers or net factor payments. The latter trended upward to 2.5% of GDP in 1999, a level likely to be maintained or even increased in the next few years, given the strong flow of FDI into the region.

Table V.3

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT [a]

(As percentages of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[b]
Domestic saving	21.0	20.9	20.9	21.7	21.0	20.8	21.0	20.2	20.3
Factor income	- 3.4	- 3.1	- 2.8	- 2.5	- 2.4	- 2.2	- 2.0	- 2.0	- 2.2
Transfers	0.5	0.5	0.4	0.4	0.4	0.3	0.3	0.3	0.3
Gross national saving	18.1	18.3	18.5	19.6	19.0	19.0	19.4	18.5	18.5
- Public	2.1	1.7	2.3	- 1.0	0.6	3.3	2.5	0.4	0.6
- Private	16.0	16.6	16.2	20.6	18.4	15.7	16.9	18.0	17.9
External saving	1.5	2.7	3.3	3.3	2.2	2.1	3.3	4.5	3.0
Gross capital formation	19.7	20.9	21.8	22.9	21.2	21.1	22.6	23.0	21.5

Source: ECLAC, on the basis of official figures converted into dollars at current prices.
[a] Based on ratios calculated in local currency, converted into current dollars. [b] Preliminary figures.

The previous year's downswing in public saving carried over into 1999 as governments strove to cushion the economy from the negative effects of the international crisis. In a number of countries, including Argentina, Brazil, Colombia and Haiti, public-sector saving was negative, and the rate was virtually zero in Ecuador, El Salvador, Guatemala, Panama and Peru. By contrast, public saving rose to very high levels in the Dominican Republic and Nicaragua.

The scarcity of external saving was associated with the world economic crisis, which made international capital flows more volatile and undermined economic growth in the region. Despite the large reduction in external saving generally, however, there were striking differences across countries. Bolivia, Guatemala, Nicaragua, Panama and Paraguay (which, with the exception of Panama, are the least developed countries in the region) all benefited from very high levels of external saving. Ecuador, Haiti and Venezuela, on the other hand, had negative external savings rates, which means that their balance-of-payments current accounts yielded surpluses.

National savings rates were high in Chile, Dominican Republic, Ecuador and Honduras; domestic saving was also very high in these countries and in Costa Rica.

A deterioration in the terms of trade did, however, have an adverse influence on national saving in Chile, Ecuador, El Salvador, Honduras, Nicaragua and Peru, while the Dominican Republic, Mexico, Panama and Venezuela all benefited from higher international prices.

Unlike external saving, FDI[3] was very resilient, approaching 4% of GDP in 1999 and accounting for just under 20% of total investment. As a result, FDI exceeded external saving by 30%, which was more than enough to make up for large capital outflows in other categories. Foreign investors tended to concentrate either on acquiring State or private-sector enterprises or else on creating new assets, whereas other capital account categories, such as equity investment and bank loans, registered net outflows totalling nearly US$ 30 billion. In 1998-1999, the Asian crisis had no impact whatsoever on net FDI inflows to the region, but in other categories it had a very harmful effect.

FDI in Latin America and the Caribbean trended clearly upward during the 1990s (see figure V.2), growing from just under US$ 11 billion at the start of the decade to a record level of US$ $77.5 billion by 1999.

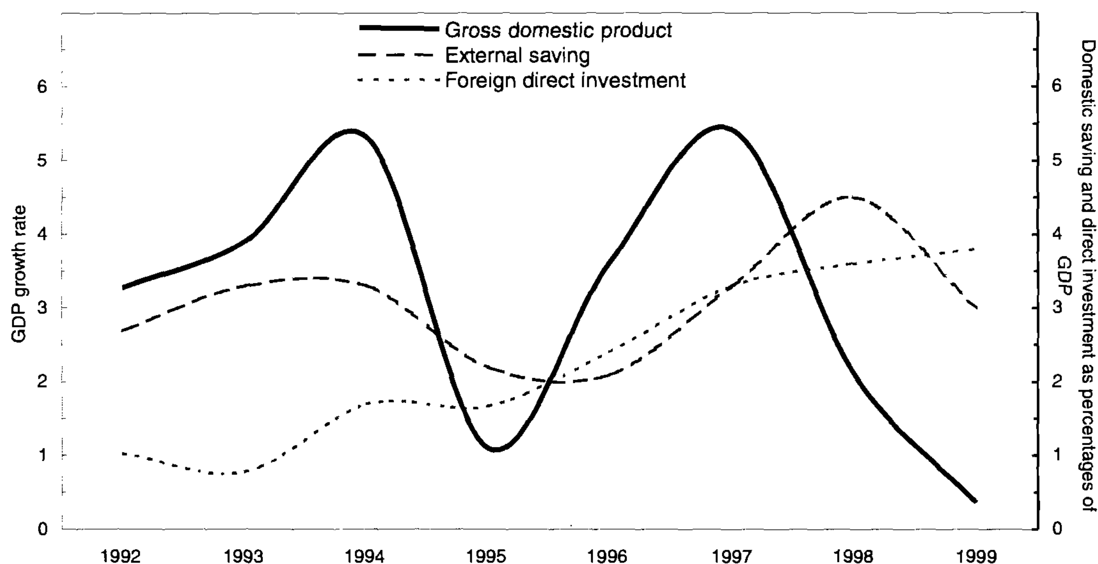
This trend was also reflected in transnational corporations' growing share of total Latin American and Caribbean sales during the 1990s. These corporations' share in the total sales of the region's 500 largest companies climbed from 27% to 39% during the period, while local private-sector firms' share remained at around 40%, and that of State-owned enterprises fell steeply, from 35% to 19%.

3 See ECLAC, *Foreign Investment in Latin America and the Caribbean, 1999 report* (LC/G.2061-P), Santiago, Chile, January 2000. United Nations publication, Sales No. E.00.II.G.4.

Figure V.1

LATIN AMERICA AND THE CARIBBEAN: EXTERNAL SAVING, FOREIGN DIRECT INVESTMENT AND GROWTH OF GDP

(Percentages of GDP and growth rates)



Source: ECLAC, on the basis of official figures.

Another noteworthy trend has been the greater geographical diversification of FDI in recent years. At the start of the decade, investment was mainly concentrated in the region's larger countries, but more recently this variable has expanded in nearly all of them. In terms of the sectoral mix, 80% of investment has been channelled into either services or the manufacturing sector, with this sum being divided fairly evenly between the two; primary activities have received under 20%.

Over 40% of total FDI entering the region in 1999 went to Brazil, where the liberalization and deregulation of financial services, together with privatizations in the telecommunications sector and the electric-power generation and distribution industries, opened up major opportunities for foreign investors interested in acquiring existing assets. In Mexico, on the other hand, the creation of new assets was the primary mode of foreign investment.

Chapter VI

Employment and wages

1. Main trends

Sluggish economic activity at the regional level led to a serious deterioration in labour-market conditions. The employment rate, in particular, dropped sharply, and an especially steep decrease was seen in some of the countries in which GDP actually declined. The total participation rate also fell slightly, which prevented the sluggish pace of job creation from generating an even larger rise in unemployment. Even so, unemployment still climbed from 8.1% to 8.7%. This was higher than the rates recorded during the debt crisis of the early 1980s and, in fact, set a new record for the entire period in which representative measurements have been available for the region. In some countries the difficult situation in the labour market also hurt real wages, which fell by 1.8% as a weighted average.

THE LABOUR markets of the South American countries, on the one hand, and those of Mexico, Central America and the Caribbean, on the other, turned in even more sharply divergent performances than in 1998. In nearly all the countries in the first group, economic activity was either flat or declined, and this led to a deterioration (and quite a severe one in some cases) in employment and unemployment indicators. By comparison, even though Mexico and most of the Central American and Caribbean countries posted slower growth rates than they had the year before, their economies generally expanded faster than those of the countries to the south. In addition, their labour markets performed far better in terms of employment,

unemployment, labour demand, job quality and real wages. Thus, the differences observed in employment trends across countries were largely attributable to their economies' differing growth rates.

In the region as a whole, the worsening situation seen in the labour market in 1998 deteriorated further during 1999 as a result of weak job creation. In what was the worst year in terms of economic growth since 1990, the demand for labour by firms and the public sector alike was extremely depressed, and this was reflected in a very slow growth rate for wage employment; non-wage employment was unable to take up the slack, although it did display a countercyclical behaviour pattern. Consequently, the overall number of employed persons edged up by a meagre 1.1%, which implied a sharp drop in the employment rate.

In keeping with the longer-term trend, participation rates rose in most of the countries, however, and this was reflected in an improvement in the simple average. Nevertheless, the labour participation rate declined in the region's largest economies (Brazil and Mexico), thus driving down the regionwide weighted average. The slower expansion of the labour supply mitigated the impact of slack job creation on unemployment levels but did not offset it entirely.

The sluggishness of domestic demand in many countries seriously eroded employment in branches of activity such as manufacturing and construction, where the number of jobs actually shrank. This reinforced the already strong trend towards the concentration of new jobs in tertiary activities, which has been a predominant factor throughout the 1990s. The slow rate of wage-based job creation further increased the level of informality in the region's labour markets, thereby strengthening a trend that has been in evidence since the 1980s. With the exception of income levels, which rose in some countries, job-quality indicators also deteriorated in many cases. Nonetheless, sharply lower real wages in other countries (Brazil, Ecuador, Venezuela) pushed the regional average down in real terms. As had been the case in 1998, trends in minimum wages were generally more favourable than they were for average wages, since policies were aimed at stabilizing their real values; this line of policy, given the prevailing downward trend in inflation, allowed the real minimum wage to rise slightly.

In early 2000, the situation in the labour market improved in some countries, and, thanks to relatively strong job creation in Brazil and Mexico, the regional employment rate has been rising fairly sharply. As participation rates have also been climbing at much the same pace, however, the higher rate of job creation has not yet brought about a reduction in unemployment. In several countries, including Argentina, Colombia, Ecuador and Venezuela, the situation in the labour market remains extremely serious and national unemployment rates are far above their historical levels.

2. Unemployment

The regional unemployment rate has been rising sharply since the mid-1990s, with no more than a short-lived hiatus in this trend being seen during a period of robust economic growth in 1997. In 1999, unemployment climbed quite steeply once again, (from 8.1% to 8.7%), pushing the indicator past the peak levels recorded in the 1980s (see table VI.1). In one respect this result is somewhat surprising, since unemployment in the region's largest economies was either flat (Brazil) or fell (Mexico); this apparent paradox is accounted for by the severity of the economic crises that afflicted a number of countries. In fact, with the above-mentioned exception of Brazil, all the South American countries registered higher unemployment rates, and in most cases (Bolivia, Chile, Colombia, Ecuador, Paraguay and Venezuela) the increase amounted to at least two additional percentage points in the year-on-year average.[1] Consequently, the simple average of the unemployment rates in the countries of this subregion rose from 9.4% to 11.6%. As discussed further below, the reason why unemployment did not rise in Brazil was because the labour supply contracted, since the employment rate also fell, in keeping with the pattern seen in other countries of the subregion.

1 In a number of countries the increase is much greater when specific periods in these two years are compared. For example, between the second quarters of 1998 and 1999, unemployment rose by 4.7 percentage points in Chile, 6.9 percentage points in Ecuador and 4.5 points in Venezuela; in Colombia, comparing the third quarters of the two years yields an increase of 5.1 percentage points (see table VI.6).

Table VI.1

LATIN AMERICA AND THE CARIBBEAN (22 COUNTRIES): URBAN UNEMPLOYMENT

(Average annual rates)

	1980	1985	1990	1992	1993	1994	1995	1996	1997	1998	1999[a]
Latin America and the Caribbean[b]	**6.2**	**7.3**	**5.8**	**6.5**	**6.5**	**6.6**	**7.5**	**7.9**	**7.5**	**8.1**	**8.7**
Single average (22 countries)	...	...	...	9.9	10.0	9.5	10.2	10.6	10.0	9.8	10.4
Argentina											
Urban areas [c]	2.6	6.1	7.4	7.0	9.6	11.5	17.5	17.2	14.9	12.9	14.3
Barbados											
Total nationwide [d]	...	...	14.7	23.0	24.3	21.9	19.7	15.6	14.5	12.3	9.8
Bolivia											
Departmental capitals	...	5.8	7.3	5.4	5.8	3.1	3.6	3.8	4.4	4.1	6.1
Brazil											
Six metropolitan areas	6.3	5.3	4.3	5.8	5.4	5.1	4.6	5.4	5.7	7.6	7.6
Chile											
Total nationwide [e]	10.4	15.3	7.8	6.7	6.5	7.8	7.4	6.4	6.1	6.4	9.8
Colombia [d]											
Seven metropilitan areas	10.0	13.9	10.5	10.2	8.6	8.9	8.8	11.2	12.4	15.3	19.4
Costa Rica											
Total urban	6.0	6.7	5.4	4.3	4.0	4.3	5.7	6.6	5.9	5.4	6.2
Cuba											
Total nationwide	...	...	...	6.1	6.2	6.7	7.9	7.6	7.0	6.6	6.0
Ecuador [d]											
Total urban	5.7	10.4	6.1	8.9	8.9	7.8	7.7	10.4	9.3	11.5	14.4
El Salvador											
Total urban	...	...	10.0	8.2	8.1	7.0	7.0	7.5	7.5	7.6	6.9
Guatemala [f]											
Total nationwide	2.2	12.1	6.0	1.5	2.5	3.3	3.7	3.7	5.0	5.9	...
Honduras											
Total urban	8.8	11.7	7.8	6.0	7.0	4.0	5.6	6.5	5.8	5.2	5.3
Jamaica [d]											
Total nationwide	...	...	15.3	15.7	16.3	15.4	16.2	16.0	16.5	15.5	15.7
Mexico											
Urban areas [c]	4.5	4.4	2.7	2.8	3.4	3.7	6.2	5.5	3.7	3.2	2.5
Nicaragua											
Total nationwide	...	3.2	7.6	14.4	17.8	17.1	16.9	16.0	14.3	13.2	10.7
Panama [d]											
Metropolitan region	9.9	15.6	20.0	17.5	15.6	16.0	16.6	16.9	15.5	15.2	14.0
Paraguay											
Total urban [g]	4.1	5.2	6.6	5.3	5.1	4.4	5.3	8.2	7.1	6.6	9.4
Peru											
Lima metropolitan area	7.1	10.1	8.3	9.4	9.9	8.8	8.2	8.0	9.2	8.4	9.2
Dominican Republic [d]											
Total nationwide	...	...	...	20.3	19.9	16.0	15.8	16.5	15.9	14.3	13.8
Trinidad and Tobago											
Total nationwide [d]	...	...	20.1	19.6	19.8	18.4	17.2	16.2	15.0	14.2	13.1
Uruguay											
Total urban [h]	...	...	8.5	9.0	8.3	9.2	10.3	11.9	11.5	10.1	11.3
Venezuela											
Total nationwid[e]	6.0	13.1	10.4	7.8	6.6	8.7	10.3	11.8	11.4	11.3	14.9

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Until 1990, does not include the Caribbean. [c] Represents a large and increasing number of urban areas. [d] Includes hidden unemployments. [e] The figure entered for 1985 actually relates to 1984. [f] Official estimates. [g] Until 1993, the figures are for the Asunción metropolitan area. [h] Figures for 1980 and 1985 refer to unemployment in Montevideo.

The situation was quite different in both Mexico and some Central American and Caribbean countries, where economic growth has been more stable in recent years. Taking a simple average of the countries for which information is available, unemployment dropped from 8.3% to 7.6% in Mexico and Central America (Guatemala is not included, for want of data) and from 12.9% to 11.9% in the Caribbean.[2]

2 A broader definition of unemployment is used in the Caribbean than in most Latin American countries, and this difference prevents a direct comparison of the indicators for the two subregions from being made.

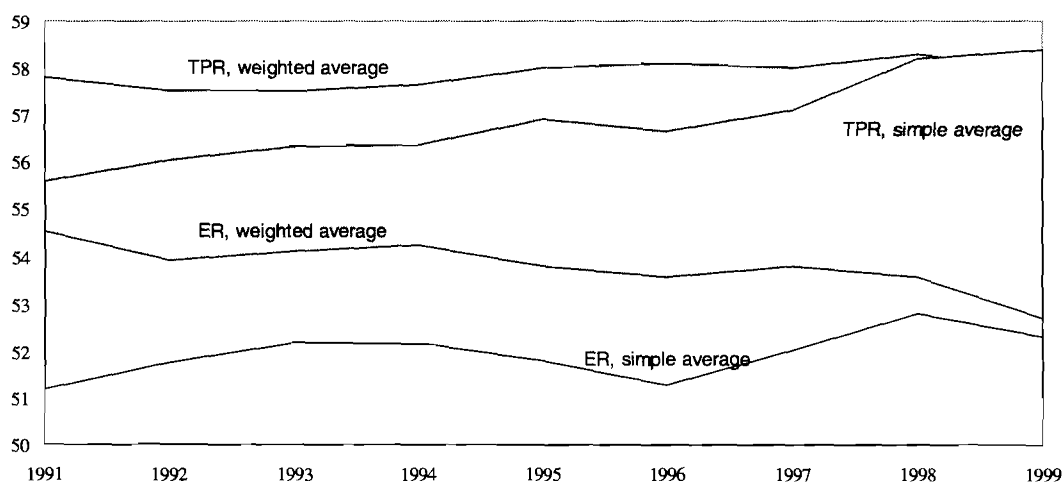
3. Labour supply

In 1999, trends in the labour supply varied widely among the 16 countries for which information is available, with the total participation rate rising in nine of them, falling in six, and staying unchanged in one. Given the slight predominance of increases, the simple average rose somewhat, although less than it had the year before (see figure VI.1).[3] However, since the countries in which the labour participation rate declined included the region's two largest economies (Brazil and Mexico), the weighted average was dragged down. The discrepancy between these two measurements, which persisted throughout the 1990s, thus remained in evidence, as a downturn in the labour participation rate in Brazil counteracted the prevailing trend in the rest of the region, which saw increasing numbers of women entering the labour market and a consequent rise in the total participation rate.

Some of the countries that witnessed severe slumps in economic activity also posted the largest increases in the labour participation rate (Colombia, Ecuador, Venezuela). This reflected the well-known phenomenon of rising participation rates among members of households experiencing such problems as unemployment or a drop in real income, as these people seek to boost their households' disposable resources. At the opposite extreme, in countries that enjoyed fairly vigorous economic growth (Dominican Republic, Panama), labour participation increased because of the perceived existence of greater job opportunities. When participation rates are disaggregated by gender, the results point to the existence of quite homogeneous patterns, since in nearly all cases for which information is available, increases and decreases in the participation rate were registered for both men and women alike. The increases were more pronounced in the case of women, however, and their participation rates also fell less where there were general declines. Consequently, taking a simple average for 12 countries, the female labour participation rate maintained its upward trend, while the figure for men slipped slightly (see the section on employment and wages in the statistical appendix). The long-term trend towards a growing proportion of women in the labour force thus persisted.

Figure VI.1

LATIN AMERICA AND THE CARIBBEAN (12 COUNTRIES): TOTAL PARTICIPATION RATE (TPR) AND EMPLOYMENT RATE (ER) [a]



Source: ECLAC, on the basis of official figures.
[a] The TPR and ER are expressed as percentages of the working-age population, as is the weighted average open unemployment rate for the region (shaded area).

3 Figure VI.1 shows the trend in 12 countries for which complete series are available for the years indicated.

4. Employment trends

The slackening of economic activity had a serious impact on employment. The drop in employment rates was quite widespread, as the Dominican Republic, Honduras, Nicaragua and Panama were the only countries out of the 15 for which information is available where employment expanded faster than the working-age population. At the other extreme, Brazil, Chile, Colombia, Uruguay and Venezuela all saw sharp downswings of a percentage point or more. As a result, both the simple average and the weighted average employment rates for the region declined, from 52.8% to 52.3% and from 53.6% to 52.7%, respectively (see figure VI.1). In the latter case the drop was the steepest of the decade and accentuated the downward trend this indicator has displayed during the 1990s.

The weakness of new job creation was also reflected in the corresponding rate, which amounted to a scant 1.1% for the region as a whole (measured as a weighted average of 14 countries) –clearly below the population growth rate for the working-age population. As with the unemployment figures, there were sharp differences between subregions. In a number of South American countries, the impact of the economic crisis was so severe that employment actually stagnated in absolute terms (Brazil and Venezuela) or even contracted (Chile, Colombia and Uruguay). Consequently, South America as a whole recorded a very slender increase of just 0.2% in the number of employed persons, whereas the rest of the region saw employment expand by over 3% (see table VI.2). Although the growth of employment is strongly influenced by the expansion of the labour supply and, in particular, demographic trends, in this case the glaring differences between these two subregions is largely a reflection of their different rates of economic growth (see chapter IV).

The sluggish rate of job creation at the regional level can be attributed to the weakness of labour demand, as evidenced by the meagre 0.5% increase in wage employment (excluding domestic service); absolute decreases were registered in Argentina, Brazil, Chile, Colombia, Uruguay and Venezuela, and a 1% contraction in this employment category was therefore posted for the South American countries as a group. By contrast, wage employment grew quite strongly in Mexico (over 4%) and, to a lesser extent, in some Central American countries (2.1% for the group). In the case of Central America, however, it should be noted that wage-based jobs increased less than total employment did, and their share of total employment therefore decreased, as was also the case in the South American countries.

Table VI.2

LATIN AMERICA AND THE CARIBBEAN (14 COUNTRIES): JOB CREATION BY BRANCH OF ACTIVITY AND SUBREGION [a]

Branch of activity and occupational category [b]	Latin America and the Caribbean	Subregions		Central America and the Caribbean [d]
		South America[c]	Mexico (urban areas)	
Total (14)	**1.1**	**0.2**	**3.3**	**3.4**
Agriculture (9)	2.9	2.9	...	2.9
Manufacturing (14)	-1.1	-3.6	5.6	0.7
Construction (14)	-0.8	-4	11.6	4.5
Commerce, restaurants and hotels (14)	1.9	1.4	1.3	8.8
Basic services (12)	3.8	3.8	3.3	6.5
Financial, business and other services (12)	5.3	6.1	...	-0.2
Community, social and personal services (14)	2.1	2.1	1.6	3
Wage earners (13)	0.4	-1	4.4	2.1
Own-account workers (13)	2.6	2.9	2.1	4.7
Domestic service workers (9)	7.7	7.1	...	10.2
Unpaid workers (11)	-2.5	-3.2	-3.3	6

[a] Variations refers to national rates, weighted by the population aged 10 and over and by the relative size of each branch of activity and occupational category. [b] The figures given in parentheses indicate the number of countries for which information is available. [c] Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Uruguay and Venezuela. [d] Costa Rica, Dominican Republic (branches of activity only), El Salvador, Honduras and Panama.

Box VI.1

PRO- AND COUNTER-CYCLICAL PATTERNS IN INFORMAL EMPLOYMENT

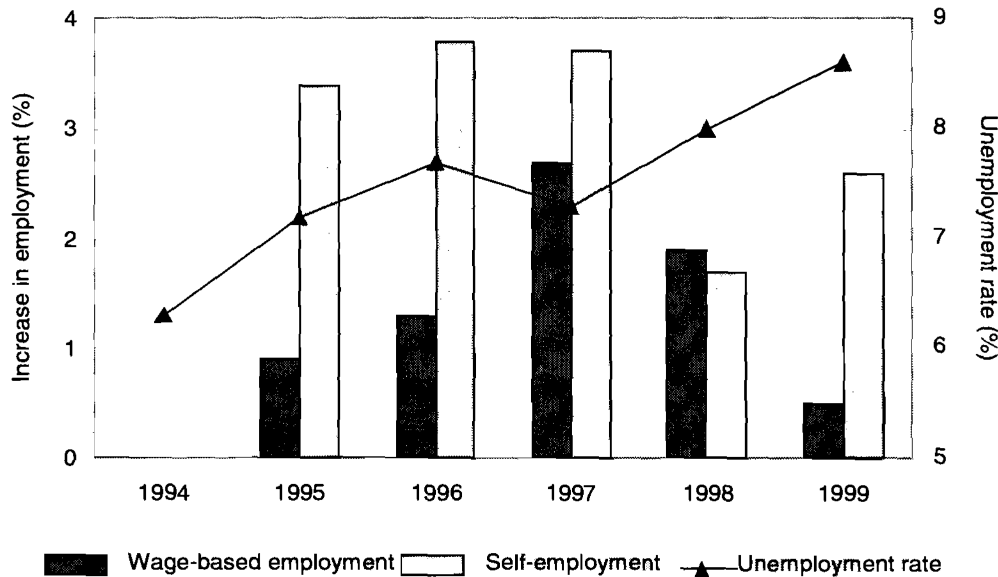
There are conflicting opinions as to whether informal employment behaves essentially pro- or counter-cyclically. Analysis of the growth patterns of self- and wage-based employment over recent years can shed light on some aspects of this issue, for although not all self-employment can be considered informal, nor all wage employment formal, the two categories do largely correspond to these sectors. By the same token, most formal employment is wage-based, while self-employment is the main category in the informal labour market.

As can be seen in figure VI.2, weak labour demand –manifested in a low rate of wage-based job creation– coincided with a rapid growth rate for own-account employment in three of the five years forming the second half of the 1990s (1995, 1996, 1999). This pattern points up the countercyclical nature of self-employment, since a very large proportion of these jobs represent a means of survival for people who lose –or fail to find– a wage-based job, especially in formal enterprises. Nonetheless, own-account work also seems to have a procyclical component, for it continued to expand rapidly in 1997 even though the economic buoyancy marking that year was reflected in a relatively high rate of wage-based job creation. It can therefore be concluded that when economic growth picks up, it creates not only wage-based jobs but also new self-employment opportunities, and that faster growth in wage-based employment will therefore not necessarily be accompanied by a decrease in self-employment. Within the context of the rapid economic growth seen in 1997, at least, these income-earning opportunities, in conjunction with the needs of many households, appear to have stimulated job creation in this category. Hence, in recent years the pattern of self-employment has reflected both pro- and counter-cyclical trends.

A final point to consider in this connection is that economic crises can also limit the creation of self-employment opportunities, thereby undermining the latter's countercyclical character. In the late 1990s (1998 and 1999) job creation rates for this category were lower than they were between 1995 and 1997, despite the fact that, as discussed earlier, the countercyclical aspect of this variable predominated, at least in 1999. One possibility is that, after two decades of rapid expansion, the labour-absorption capacity of some informal activities may be waning, which would explain why the weakness of labour demand has been associated with a larger increase in open unemployment in the 1990s than in the 1980s.

Figure VI.2

LATIN AMERICA AND THE CARIBBEAN: TRENDS OF WAGE-BASED EMPLOYMENT, SELF-EMPLOYMENT AND OPEN UNEMPLOYMENT, 1995-1999



Source: ECLAC, on the basis of official figures.

Public-sector employment compounded this dismal regional performance by retreating in seven out of the 10 countries for which information is available. In this case Brazil was an exception, however, as it saw an expansion for the first time in the 1990s.[4]

When the demand for labour falls sharply in one category, pressure from labour supply usually causes employment to expand in others. Accordingly, in 1999 self-employment grew by 2.6% and domestic employment by 7.1%, although in this case there were no marked differences between the subregions. Within this context, it is somewhat surprising that unpaid family work should have shrunk (-2.5%) in the region as a whole. A fall in employment in this category is not unusual in itself, since this has been the predominant trend in many of the region's countries throughout the decade due, essentially, to a decline in family-based work (young people) in peasant economies. What was unexpected, however, was that this trend did not reverse itself under the economic circumstances prevailing in 1999. As a tentative hypothesis, it may be posited that, aside from the strength of the above-mentioned trend in many peasant households, its persistence in this situation was also the result of constraints affecting the labour-absorption capacity of family-run firms engaged in non-farm activities.

As can be seen in table VI.3, the largest contribution to the region's relatively scant job creation in 1999 came from self-employment (63%), with wage employment (including domestic service) contributing a further 48%. Given the predominant characteristics of self-employment, these figures indicate that the trend towards greater informality that was observed throughout the decade strengthened further in 1999.

Table VI.3

LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTIONS TO NET JOB CREATION, 1999[a]

(Percentages)

Contribution of each branch of activity to increase in non-agricultural employment		Contribution of each occupational category to increase in total employment	
Total (14 countries)[a]	**100**	**Total** (13 countries)[b]	**100**
Manufacturing	-14	Wage earners (including domestic service workers)	48
Construction	-3	Own-account workers	63
Commerce, restaurants and hotels	27	Unpaid workers	-11
Basic services	19	Other	0
Other services (includes social, community and personal services, and finance, insurance, real estate and business services)	65		
Other	6		

Source: ECLAC, on the basis of official figures.
[a] For basic services, 12 countries.. [b] For unpaid workers, 11 countries.

Once again, in 1999 new jobs mainly corresponded to tertiary activities, and, as in previous years, financial, real estate and business services, together with basic services (electricity, gas and water; transport, storage and communications), posted the highest growth rates (5.3% and 3.8%, respectively). Employment expanded more slowly in commerce (1.9%) and in community, social and personal services (2.1%), but these activities still provided the bulk of new jobs (see table VI. 3). The buoyancy of tourism was once again an important factor in creating service jobs in some countries in the Caribbean (Antigua and Barbuda, Bahamas, Cuba, Dominican Republic and Jamaica) and in Central America (including Costa Rica and Guatemala).

The cooling of domestic demand and a slowdown in intraregional trade seriously eroded employment in manufacturing and construction, and these sectors' output decreased at the regional level in absolute terms (by 1.1% and 0.8%, respectively). Argentina, Brazil, Chile, Colombia, Uruguay and Venezuela all recorded substantial job losses in manufacturing and, in South America as a whole, employment in this branch of

4 Although figures on total public-sector employment are not available for the Dominican Republic, El Salvador or Mexico, it is known that employment in the civil service grew in these three countries.

activity therefore declined by 3.6%. Formal employment in manufacturing was hit the hardest, with declines in Argentina (-6.2%), Bolivia (the average decrease for a group of five different industries was -4.8%), Brazil (-3.4%), Chile (-4.8% between September 1998 and September 1999), Peru (-3.9%) and Uruguay (-11.9%), among other countries.

In Mexico, on the other hand, formal employment in the manufacturing sector was up sharply, particularly in the *maquila* industry, where nearly 160,000 new jobs were created during the year (an increase of 15%). In contrast, employment in formal non-*maquila* manufacturing enterprises grew by a modest 1.4% between December 1998 and the same month a year later, and the strong recovery of employment in this segment, which was boosted by the depreciation of the peso following the 1994/1995 crisis, therefore seems to have come to an end.

Employment in the construction industry was sharply lower in Chile (-20%) and Colombia (-10%). Once again, the situation was brighter in Mexico, where, despite a cutback in public investment, this branch of activity grew faster than total GDP, with employment in this sector growing by 12% overall and by 10% in formal enterprises registered with the Mexican Social Security Institute, as a year-on-year average.

Unlike what occurred in the manufacturing and construction sectors, agricultural employment grew by 2.8% at the regional level, in a reversal of the trend prevailing throughout the 1990s. There were two reasons for this. In some countries, an increase in the area sown, prompted by better weather conditions, generated a stronger demand for labour. For example, in Brazil there were notable increases in the production of maize, rice, beans, coffee and other crops, and this drove up labour demand by an estimated 4.5% compared to the previous year's figure.[5] Even so, this was not enough to make up for the slump in the demand for farm labour that had occurred in 1998, and demand therefore remained below its 1997 level. Significant growth in agricultural output also seems to have spurred the demand for labour in this sector in the Dominican Republic and in Paraguay.

In contrast, a higher level of agricultural employment coincided with lower output for this sector in Colombia and Venezuela. In these countries, the larger number of workers presumably signals increased underemployment in the peasant economy, which may have served as a refuge for workers who were unable to find more productive alternatives in other sectors.

Figure VI.3 highlights two aspects of the relationship between job creation in different branches of activity and the growth of sectoral output. Firstly, in 1999 there was a weak positive correlation between economic growth and job creation. The two sectors posting the largest increases in output at the regional level (agriculture and basic services) were among the three sectors in which employment expanded the most, while at the other extreme, two of the three branches of activity in which output declined (manufacturing and construction) also recorded downturns in employment. A second observation is also called for, however. As discussed earlier, labour supply exerts a great deal of pressure for both job creation and self-employment, and this was reflected in two developments. One was that employment grew faster than output in all branches of activity (in the figure these are located above the 45° line) except for two tradables sectors,[6] resulting in a 0.7% drop in average output per worker.

Secondly, there was a wide gap between job creation and output growth in the categories of commerce, restaurants and hotels, and financial institutions, insurance, real estate and business services. The increase in employment in commerce, which accounted for 27% of total job creation in 1999 despite a contraction in this sector's output, was probably due to an expansion of informal activities. In Argentina and Venezuela, for example, job growth in the second of these categories (despite a lack of buoyancy both in their economies and in aggregate job creation) was apparently a reflection of sectoral restructuring processes rather than intensive new job creation.[7]

Slack labour demand and the need of many households to generate additional income were bound to undermine job quality (see the section on employment and wages in the statistical appendix). In six of the nine countries for which data on the volume of employment are available (Argentina, Chile, Colombia, Honduras, Peru, Uruguay), the existing problems in this respect

---

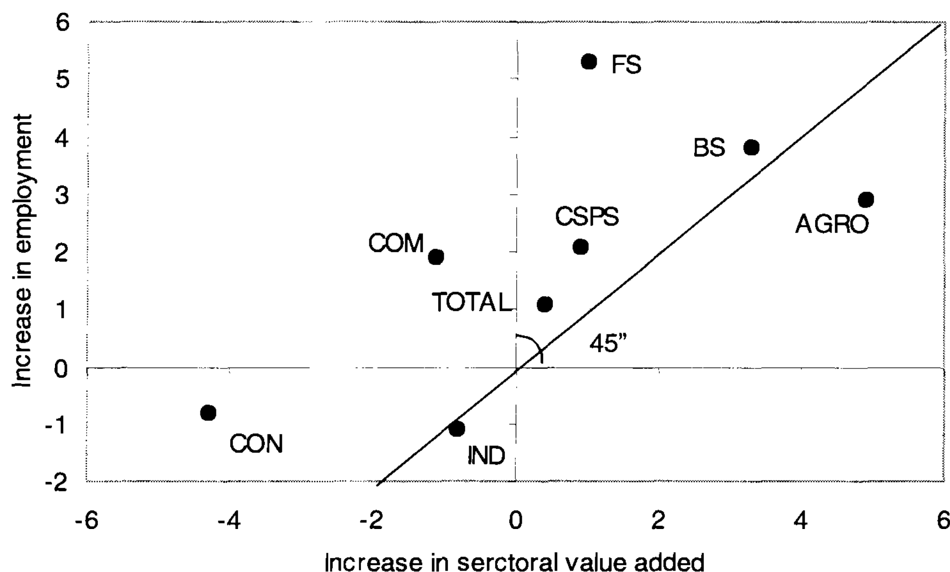
5 Data Analysis System Foundation of the State of São Paulo (SEADE), "Boletim de acompanhamento de demanda de força de trabalho agrícola no estado de São Paulo e no Brasil. Sensor rural", November 1999 [http://www.seade.gov.br].

6 Information on employment trends in mining is only available in a few countries that have large mining industries. These data indicate that employment in this sector was down sharply in Chile (-12%), Colombia (-22%) and Venezuela (-28%). Permanent formal employment in Mexico declined slightly (1%). Hence, with an increase of 0.6% in sectoral output, output per employee apparently also rose in this branch of tradable goods production.

7 It should be pointed out that most employment in this branch of activity corresponds to business services, with financial institutions contributing a much smaller share.

Figure VI.3

LATIN AMERICA AND THE CARIBBEAN (14 COUNTRIES): ECONOMIC GROWTH AND EMPLOYMENT, BY BRANCH OF ACTIVITY



Source: ECLAC, on the basis of official figures.
[a] AGRO - Farming, livestock and fisheries; COM - Commerce, restaurants and hotels; CON - Construction; IND - manufacturing industries; BS - Basic services; CSPS - Community, social and personal services; FS - Financial services, insurance, real estate.

grew worse in 1999, suggesting that a significant proportion of the new jobs created did not provide people working a normal number of hours per day with enough income to meet their needs. The improvement recorded in Mexico and the somewhat less significant advances seen in Costa Rica and Paraguay were the exceptions to this general rule.

The situation on the income front was more varied, with the relevant indicators showing slight improvements in Honduras, Mexico, Paraguay and Peru, while the figures for Costa Rica remained unchanged and those for Brazil and Colombia worsened. Indicators of the degree of instability and/or informality of employment deteriorated in Brazil, Ecuador and Venezuela but improved in El Salvador, Mexico and Uruguay, with the results in these latter cases reflecting more extensive social security coverage. In Colombia, the proportion of people working in temporary jobs decreased, but in a crisis year such as 1999, this was primarily a result of job losses among the least stable segment of the labour force, rather than of improved job stability. The bulk of this decline occurred in the construction industry, where many temporary workers are laid off when a building is finished and will then be unemployed unless they are rehired for a new project. The number and proportion of temporary workers also shrank in transport and, to a lesser extent, in manufacturing and services, however; this may be because in difficult times many firms adopt a strategy whereby workers in the most precarious contractual situations are the first to be laid off. In Argentina, too, the share of employment in formal activities accounted for by temporary workers diminished, but in this case a 1998 labour reform that did away with several types of fixed-term employment contracts also played a part.

5. Wages

Unlike the situation in previous years, wage trends were very uneven. In one group of countries, real wages fell by over 4% in real terms, either as a result of a serious economic crisis (Ecuador and Venezuela) or because an earlier deterioration in conditions in the labour market had a delayed effect on wages in formal activities (Brazil). Wages also lost purchasing power in Paraguay and Peru, although to a lesser extent (see table VI.4).

Table VI.4

LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

(Indices of annual averages: 1995 = 100)

	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
Argentina [b]	128.8	99.1	100.4	101.7	100.4	101.1	100.0	99.9	99.3	99.0	98.2
Bolivia [c]	57.6	87.6	82.1	85.5	91.2	98.5	100.0	100.4	107.3	111.5	118.5
Brazil [d]	94.6	103.5	86.5	85.1	93.1	95.5	100.0	110.5	114.3	115.7	110.0
Chile [e]	77.2	80.9	84.9	88.7	91.8	96.1	100.0	104.1	106.6	109.5	112.1
Colombia [f]	80.7	94.9	92.4	93.5	97.9	98.8	100.0	101.5	104.2	102.8	105.9
Costa Rica [g]	104.0	89.8	85.6	89.2	98.3	102.0	100.0	97.9	98.7	105.5	111.6
Ecuador [h]	88.3	65.4	68.4	74.2	83.5	90.9	100.0	105.4	103.0	98.9	...
Guatemala [g]	88.7	77.1	72.1	82.9	88.8	89.3	100.0	109.6	112.7	116.7	123.5
Mexico [b]	113.1	88.1	93.8	100.7	109.7	114.9	100.0	90.1	89.1	91.5	92.4
Nicaragua [i]	390.8	81.8	84.5	100.5	93.3	98.2	100.0	97.9	97.7	104.9	109.4
Paraguay [j]	89.5	87.7	91.8	90.9	91.7	93.0	100.0	103.1	102.6	100.7	98.6
Peru [k]	265.0	85.7	98.7	95.2	94.4	109.2	100.0	95.2	94.5	92.7	90.8
Uruguay	99.5	91.7	95.2	97.3	102.0	102.9	100.0	100.6	100.8	102.7	104.3
Venezuela [l]	302.4	138.1	130.1	136.5	124.4	104.8	100.0	76.7	96.3	101.5	92.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Manufacturing. [c] Private sector in La Paz. The figure shown in the column for 1980 refers to 1985. [d] Workers covered by social and labour legislation in six metropolitan areas. Average for 1980 for Rio de Janeiro and São Paulo. [e] Until April 1993, non-agricultural wage earners. Since May 1993, the general hourly wage index is used. [f] Workers in the manufacturing sector. [g] Average declared wages of workers covered by the social security system. [h] Non-agricultural enterprises with 10 or more employees. The figure shown in the column for 1980 refers to 1995. [i] Average wages, not including payment in kind or other benefits. [j] Asunción. [k] Private-sectir manual workers in the Lima metropolitan area. [l] Urban non-manual and manual workers; second half of each year. The figure shown in the column for 1980 refers to 1982.

In a larger group of countries, lower inflation led to higher real wages, particularly where, owing to the depressed level of economic activity, price rises came in below expectations, as occurred in Bolivia, Chile, Colombia and Uruguay. The most favourable trends were seen in some of the Central American countries, where real wages rose by more than 4%.

This unevenness was reflected in the regional indicators: the fact that real wages grew in most countries resulted in a 1% rise in the median, but the steep decreases recorded in some countries led to a 1% drop in the simple average, and the weighted average fell even further (1.8%), mainly because of the slippage in wages in Brazil.

Trends in real minimum wages were also very uneven (see table VI.5). On the one hand, negotiated nominal increases combined with significantly lower inflation to generate improvements in countries such as Bolivia, Chile, Colombia, Dominican Republic and Guatemala, which saw real increases on the order of 4% or more. On the other hand, there were also countries where wages were seriously eroded, either because nominal minimum wages were flat (Haiti, Paraguay and

Peru) or rose very little (Mexico) or because inflation rose (Ecuador). Between these two extremes, there was a relatively large group of countries in which real minimum wages rose by moderate amounts of up to 3%; this group included Argentina, Brazil, Costa Rica, El Salvador, Uruguay and Venezuela, among others. For the region as a whole, the real minimum wage rose slightly, with the weighted average climbing by 0.5%, the simple average by 0.7% and the median by 1.7%. Thus, in a departure from the pattern seen in virtually the whole of the 1990s (except for 1998), minimum wages in 1999 performed slightly better than average wages.

Table VI.5

LATIN AMERICA AND THE CARIBBEAN: REAL URBAN MINIMUM WAGE

(Indices of annual average: 1995 = 100)

	1980	1990	1992	1993	1994	1995	1996	1997	1998	1999[a]
Argentina	132.4	28.4	57.9	74.9	103.4	100.0	99.8	99.3	98.4	99.4
Bolivia	...	51.5	84.9	92.7	102.1	100.0	96.7	98.6	114.5	123.2
Brazil	121.5	87.8	90.0	99.2	94.8	100.0	104.3	106.9	111.2	112.7
Chile	87.9	76.9	87.9	92.2	95.6	100.0	104.2	107.9	114.1	123.4
Colombia	97.4	104.6	99.4	102.1	100.4	100.0	99.3	101.2	99.6	103.7
Costa Rica	83.7	101.2	95.4	99.5	102.2	100.0	101.9	105.7	109.3	112.2
Ecuador[b]	209.8	72.8	63.4	72.8	84.4	100.0	109.7	105.8	98.3	88.8
El Salvador[c]	278.6	97.0	101.5	101.5	99.6	100.0	96.4	92.2	95.3	97.5
Guatemala	409.2	197.2	142.9	123.8	109.5	100.0	99.0	90.7	95.3	98.8
Haiti	157.5	115.6	96.1	74.0	53.2	100.0	82.9	71.3	63.3	58.3
Honduras	131.3	111.6	121.3	123.0	105.8	100.0	96.0	102.0	105.4	105.8
Mexico[d]	323.9	128.0	116.4	114.5	114.7	100.0	91.0	90.0	90.7	88.4
Panama	94.5	93.8	91.3	102.0	100.6	100.0	104.3	103.1	105.9	109.5
Paraguay[e]	87.5	114.5	99.8	96.0	98.5	100.0	102.4	107.4	105.8	102.2
Peru[f]	676.1	158.0	107.4	75.5	97.8	100.0	103.2	181.2	200.9	194.7
Dominican Republic	109.8	83.4	98.4	93.5	99.5	100.0	100.6	102.0	106.3	111.5
Uruguay	233.9	161.3	141.0	122.3	108.5	100.0	96.6	94.8	98.1	98.8
Venezuela[g]	184.6	88.3	108.8	95.3	106.8	100.0	94.6	80.7	80.5	82.3

Source: ECLAC, on the basis of official figures.
[a] Preliminary Figures. [b] Minimun living wage including supplementary allowances. [c] Minimum wage for the manufacturing and services sectors in San Salvador. [d] Minimum wage deflated by the consumer price index (CPI) for Mexico City. since 1996, the figures are deflated by the CPI for low-income groups. [e] Minimum wage in Asunción. [f] Minimun wage in the Lima metropolitan area for non-agricultural activities. [g] Nationwide minimun wage in non-agricultural activities; from 1992 onward, includes meal and transport allowances.

6. The labour market and economic growth

In order to measure the labour performance of the region's countries, an index has been constructed based on variations in five of the indicators discussed above: the unemployment rate, the employment rate, the share of new jobs accounted for by wage employment, job quality and the real average wage (in cases where information on this variable was not available, the real minimum wage was used instead). Five sub-indices were calculated for each of these variables, with improvements in the indicator being expressed in values ranging from 0 to 1 and a deterioration showing up as a value between 0 and minus 1. The exact calculations were carried out with reference to the best and worst performances, which were assigned the values 1 and minus 1. The overall labour performance index was calculated as an average of these sub-indices. It should be borne in mind that figures for each of the variables were not available for every country, so indices were computed only for those countries having data on at least three of these variables.

As shown in figure VI.4, labour performance was fairly negative, since the indicator yielded a value below

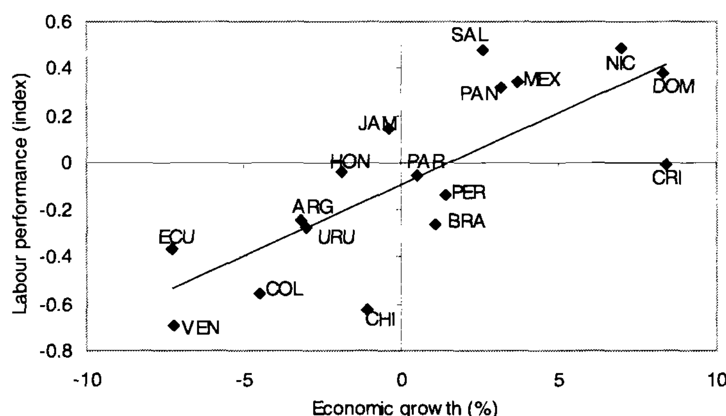
zero in 10 out of 17 countries. The countries displaying a positive performance were the Dominican Republic, El Salvador, Jamaica, Mexico, Nicaragua and Panama, while all the South American countries posted negative results. The figures in the graph confirm that, as suggested above, these differences in labour performance were largely due to differences in economic growth.

One of the countries that deviated the most from the regional trend was Costa Rica, where the high rate of economic growth was largely due to the operations of a single firm whose impact on total employment in the country was limited. If this firm's operations are factored out so that only the growth of the rest of the economy (3.4%) is considered, then the country's labour performance falls much more closely into line with the predominant trend.

Another country that diverged sharply from the trend was Chile, where the economic crisis severely undermined labour performance by generating a steep decline in labour demand (a contraction in wage employment) that was not offset by job creation in other activities (a falling employment rate). As the participation rate remained unchanged, unemployment rose sharply. The job-quality indicator also deteriorated; only wage trends were mildly positive.

Figure VI.4

LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND LABOUR PERFORMANCE, 1999



Source: ECLAC, on the basis of official figures.

7. Employment trends in early 2000

The first few months of 2000 saw some improvement in employment patterns at the regional level, mainly thanks to stronger labour demand in Brazil and Mexico. In Brazil, the employment rate was higher than it had been during the same period of the preceding year for the first time since 1996. A significant portion of the increase in employment is attributable to a revival of labour demand, as formal wage-based employment expanded by 1.4% in the period January-April. Employment was up in manufacturing for the first time since 1995, partly as a consequence of earlier efforts to improve this sector's competitiveness and partly thanks to the favourable impact of the devaluation of the *real.* In the first few months of the year, the employment rate also rose in Chile and Colombia, but declined in Argentina, Uruguay and Venezuela.

Thus, for the eight countries for which information is available on employment and unemployment trends in

the first half of 2000, the employment rate edged up to 52.9% from the 52.4% level posted a year earlier. Since the labour supply also increased, however, the higher level of employment did not show through in terms of lower unemployment, which remained around the level recorded in the first half of 1999. This was also partly because in some countries (Argentina, Colombia, Ecuador, Uruguay) unemployment was higher than it had been during the same period a year earlier (see table VI.6).

Pre-existing wage trends have generally carried through into early 2000. In Mexico's manufacturing sector, real wages have continued to climb, although they have still not regained the levels attained prior to the crisis of the mid-1990s. Chile and Colombia have also seen improvements as compared to the first quarter of 1999, although in Colombia real wage gains are tending to dissipate. In Uruguay, real wages have held steady, while in Brazil they continue to trend downward.

Table VI. 6

LATIN AMERICA AND THE CARIBBEAN: QUARTERLY LABOUR INDICATORS

	1998				1999				2000[a]	
	I	II	III	IV	I	II	III	IV	I	II
	Unemployment rate									
Argentina Urban areas[b]	...	13.2	...	12.4	...	14.5	14.5	13.8	...	15.4
Brazil Six metropolitan areas	7.6	8.0	7.8	6.9	7.8	7.9	7.5	7.0	8.0	7.7
Chile Total nationwide	5.3	6.1	6.8	7.2	8.2	10.8	11.4	8.9	8.2	8.9[c]
Colombia Seven metropolitan areas	14.4	15.9	15.0	15.6	19.5	19.9	20.1	18.0	20.3	20.4
Ecuador Cuenca, Guayaquil and Quito	9.2	8.7	10.5	11.4	13.0	15.6	16.5	15.5	16.6	14.9
Mexico Urban areas[b]	3.5	3.2	3.2	2.8	2.9	2.6	2.3	2.2	2.3	2.2
Uruguay Total urban	10.0	9.8	10.2	10.3	11.2	11.1	11.4	11.4	12.0	13.7[c]
Venezuela Total nationwide	12.1	10.6	11.0	11.4	15.6	15.1	15.4	13.5	15.6	14.3[d]
	Real average wage (index: 1995=100)									
Argentina[e]	98.5	98.2	97.8	101.6	97.9	97.7	97.7	99.5	99.1	...
Brazil[f]	110.4	107.4	108.5	117.3	107.1	104.4	103.4	109.0	103.2	103.4[d]
Chile[g]	109.2	109.7	109.5	109.5	112.1	112.0	112.2	112.2	114.0	113.5[d]
Colombia[h]	103.6	103.0	103.0	101.8	100.7	106.5	107.7	108.7	105.7	108.4[i]
Mexico[e]	88.1	90.0	89.6	98.4	87.9	90.7	89.8	101.3	91.7	96.4[d]
Peru[j]	93.5	92.6	92.3	92.3	90.4	91.0	91.1	90.8	...	...
Uruguay	102.6	102.9	102.7	102.5	104.3	104.0	104.5	104.5	104.0	103.5[d]

Source: ECLAC, on the basis of official figures from the relevant countries.
[a] Preliminary figures. [b] Represents a large and increasing number of urban areas. [c] March-May average. [d] Average for April and May. [e] Manufacturing. [f] Workers covered by social and labour laws. [g] General index of hourly wages. [h] Manual workers in the manufacturing sector. [i] April. [j] Private- sector manual workers in the Lima metropolitan area.

Chapter VII

The external sector

For the second year running, the region's external sector felt the effects of a drastic reduction in foreign capital inflows. Unlike 1998, however, the severe adjustment that the region's economies had to make as a result of the international situation put a stop to the upward trend in the deficit on the region's balance-of-payments current account, which shrank from 4.5% of GDP in 1998 to 3.1% in 1999.

THIS REDUCTION in the deficit is largely attributable to a decrease in the trade gap. This, in turn, was accounted for by the significant drop in imports caused by a decline in the level of activity in the southern part of the region and the real depreciation of many countries' currencies. Export earnings increased, although there were major differences from one country to another. Higher oil prices and the robust health of the United States economy boosted the incomes of hydrocarbons exporters and of the countries in the northern portion of the region. On the other hand, many countries' exports were hurt by lower commodity prices and by the sluggishness of the South American economies, and intraregional trade plummeted.

The narrower trade gap offered a respite which was further enhanced by higher incoming current transfers, especially family remittances, which continued on their upward trend in the Central American and Caribbean countries. Even so, this improvement was counterbalanced by smaller inflows of foreign capital and by higher interest payments and profit remittances. Together, these two factors resulted in a net transfer of resources out of the region for the first time since the recession of 1990.

As in 1998, the region was obliged to use international reserves and compensatory financing (US$ 6 billion in 1999). The decline in international reserve assets was less widespread than in 1998, however; Brazil headed up the list, while Chile, Colombia Ecuador and Peru were also affected, although to a lesser extent.

1. External trade

Latin American and Caribbean merchandise exports returned to the upward trend that had been interrupted in 1998, increasing by almost 6% in 1999 to over US$ 298 billion. This improvement was attributable to an increase of over 7% in export volumes, since export unit values were lower than the previous year. In contrast, merchandise imports decreased both in volume (by almost 3%) and in unit value. Their total value consequently fell by over 4% to about US$ 302 billion, thus reversing the upward path of this variable, which had been on the rise for the past 15 years running. The regional merchandise trade deficit narrowed by over US$ 29 billion.

Table VII. 1

LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS [a]

(Rates of variation)

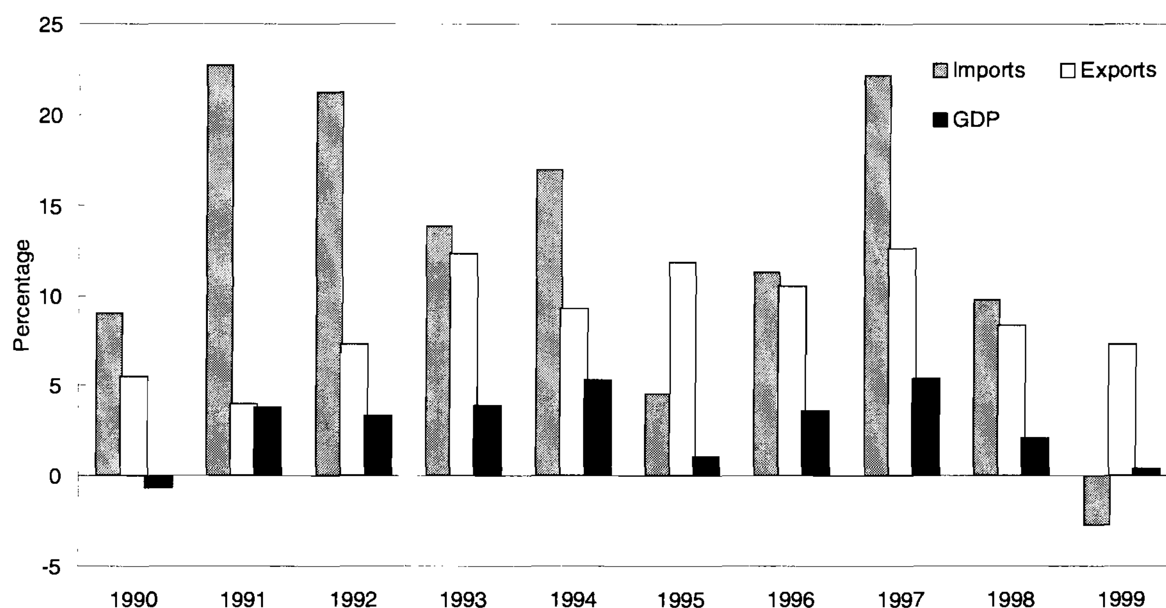
	Exports [b]			Imports [b]		
	Value	Unit value	Volume	Value	Unit value	Volume
1985	-5.3	-10.0	5.2	0.9	-3.4	4.5
1986	-14.2	-14.7	0.7	2.6	1.8	0.7
1987	14.9	5.6	8.8	13.5	8.6	4.6
1988	16.1	-0.4	16.5	16.4	4.2	11.7
1989	10.9	2.3	8.5	8.6	6.7	1.8
1990	10.1	4.4	5.5	12.9	3.7	9.0
1991	0.6	-3.2	4.0	17.7	-4.0	22.7
1992	8.0	0.6	7.3	22.8	1.3	21.2
1993	9.9	-2.1	12.3	11.7	-1.8	13.8
1994	16.3	6.5	9.3	18.8	1.5	17.0
1995	21.2	8.3	11.8	11.9	7.1	4.6
1996	11.6	1.0	10.5	10.9	-0.4	11.3
1997	11.6	-0.9	12.6	18.7	-2.8	22.2
1998	-1.4	-9.0	8.3	6.1	-3.4	9.8
1999 [c]	5.8	-1.1	7.0	-4.1	-1.5	-2.7

Source: ECLAC, on the basis of figures from the International Monetary Fund and national sources.
[a] Includes 17 Spanish-speaking countries, plus Brazil and Haiti. [b] The figures for unit values and volumes shown here do not necessarily coincide with the corresponding rates of variation in unit values and volumes calculated on the basis of the countries' national accounts owing to differences in methodology and coverage. [c] Preliminary figures.

The services trade gap also decreased, as the downturn seen in imports was greater in magnitude than the reduction in exports. The combination of these factors caused the region's trade deficit to shrink by almost two thirds, to about US$ 18.6 billion. Unlike the previous year, when all the region's countries had recorded trade deficits, in 1999 four countries posted surpluses: the three South American countries whose main export is oil, and Costa Rica. At over US$ 6.7 billion, the hefty surplus recorded by Venezuela was particularly noteworthy.

The decrease in the volume of merchandise imports signalled a departure from another trend of the 1990s, when these imports had grown faster than GDP (see figure VII.1); 1999 also marked the second year of the decade in which the growth rate for the volume of imports did not outpace the rate for the volume of exports. Even so, exports continued to make a positive contribution to economic activity since, although they slowed for the second year in a row, they still grew at a faster rate than GDP, as they have throughout the decade.

Figure VII.1
LATIN AMERICA AND THE CARIBBEAN: GROWTH OF MERCHANDISE TRADE VOLUMES AND GDP
(Percentages)



Source: ECLAC, on the basis of official figures.

These aggregate results mask widely varying figures for the different countries, however. Indeed, if Mexico, which accounted for 46% of total Latin American and Caribbean exports, were to be excluded from the equation, then the value of the region's merchandise exports fell would have fallen by 1.7% and imports by almost 16%.

Mexico's weight in the calculations also played an important part in keeping the region's terms of trade at virtually the same level as they had fallen to in 1998, when they worsened by almost 6%. In most countries, however, the terms of trade deteriorated further; one of the few exceptions was Venezuela, which recorded the greatest improvement with an upswing of 35%.

(a) General factors influencing trade performance

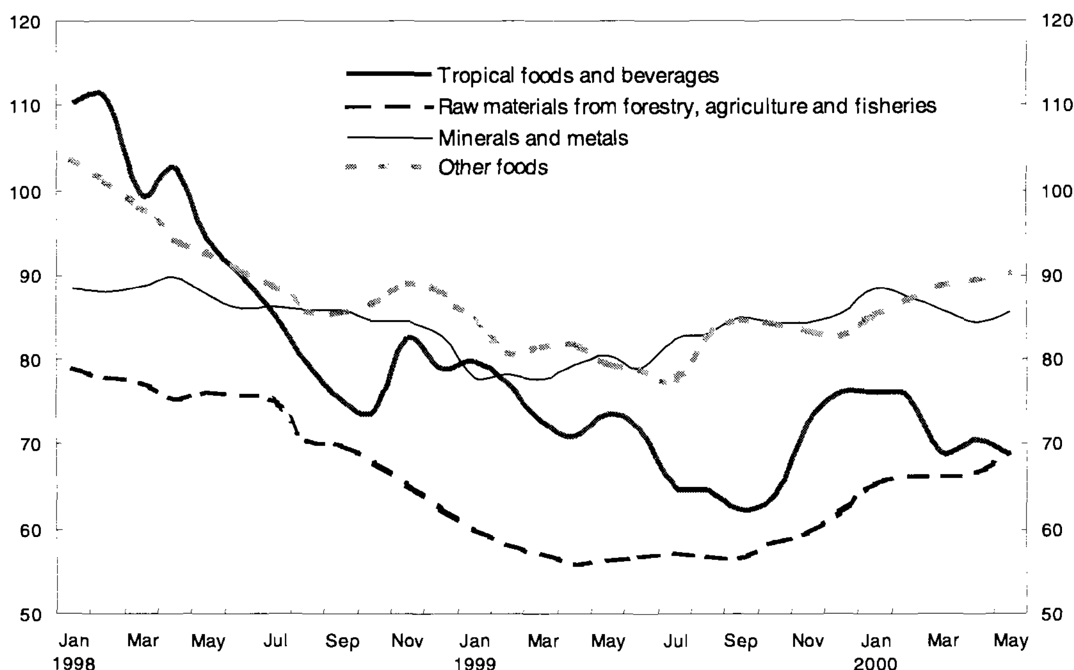
The variety of situations underlying the regional aggregates reflect the differing extents to which the individual countries were exposed to the main factors that have a beneficial or adverse influence on trade performance. Some of these factors were country-specific, such as weather conditions and how they affected harvests, but the most influential ones have to do with the external environment. Two of the main facets of that environment are firstly, conditions in the commodities market in general and the hydrocarbons market in particular and, secondly, world and regional economic activity. The influence of these external aspects on the value of trade varied, with some having an expansionary impact and others a contractionary one.

(i) Weak non-fuel commodity markets

In 1999 world commodity markets, on which the exports of most of the region's countries are heavily dependent, remained in the recessionary phase of the cycle that began with the Asian crisis. An oversupply of many commodities continued to drive prices down, and in many instances, they fell to record lows in 1999. A modest upswing followed which was most visible in the category of raw materials. Average prices over the year were lower than in 1998, however, in the great majority of cases; beef and nickel were important exceptions, given their significance for the region.

Figure VII.2

PRICE INDEX FOR NON-FUEL COMMODITIES EXPORTED BY LATIN AMERICA AND THE CARIBBEAN [a]



Soruce: ECLAC, on the basis of official figures.
[a] Indices weighted by the proprotion of each product.

The main decreases in average prices in 1999 were seen in the agricultural commodities produced by the tropical and sub-tropical countries of Central and South America. For example, coffee lost 23% of its value; prices for bananas sold outside the protected European Union market were down by 34% and those of sugar fell by 30%. The expansionary supply trend which contributed to the decrease in sugar prices was partly due to a steady increase in the supply from Brazil, which has become the world's largest sugar exporter.

In addition to wheat, which saw its average price fall by 14%, raw materials also became cheaper, especially in the case of minerals. Cotton prices decreased by 20%; copper, lead and silver prices by 5%; iron ore by 11%; steel by almost 10%; and tin by 3%. In contrast, the average price of beef rose by 7% and mean price levels for nickel and zinc were up by 30% and 5%, respectively.

The widespread slump in commodity markets pulled down the unit values of the region's exports. Although the countries' shared vulnerability to the same external disturbances could have some beneficial aspects (for example, by encouraging countries to coordinate their macroeconomic policies), it also poses a risk, since it precludes the potentially positive complementarities that could arise among economies at different phases of the economic cycle which are engaged in an increasing volume of intraregional trade. Although this was true of most commodity exports, however, the situation in the region in 1999 was a powerful reminder that there is one major exception: hydrocarbons.

(ii) Rising hydrocarbon prices

What sets the oil market apart from other commodity markets is that a real possibility exists of voluntarily tailoring supply to alter price conditions. In 1999, this kind of adjustment caused oil prices to depart from the patterns shown by other commodity prices. The resulting expansionary effect on regional oil exports ran

counter to the contractionary forces affecting other commodity exports, and oil was virtually the sole exception to the general downward trend of export unit values.

The monthly average price for oil, which is of crucial significance in the exports of some of the region's countries and has a considerable impact on the imports of most of them, reached its lowest level in December 1998, when the Brent spot price dropped below US$ 10 per barrel. The supply cutbacks that were then agreed upon by the world's main oil-exporting countries, including Mexico and Venezuela, drove up prices from March 1999 onward, and the average price for the month of December reached US$ 25.6 per barrel.

Thanks to this development, the annual average price of the mix exported by Venezuela, for example, rose from US$ 10.6 per barrel in 1998 to US$ 16.1 in 1999, while prices paid for Ecuador's crude oil exports rose from US$ 9.2 per barrel to US$ 15.5 in the same period. At pre-1999 export levels, every extra dollar added to the per-barrel price increased regional export earnings by some US$ 1.8 billion. Taking into account the reduction in the volume of shipments in 1999, oil and petroleum products are estimated to have generated an increase in earnings of over US$ 9 billion, which is over half of the total increase registered in regional goods exports.

(iii) A strong world economic performance and its geographical distribution

The region saw external demand boosted by the upswing in world economic activity and trade. Worldwide, economic activity grew by 2.7% and trade by 5.6% in terms of volume.[1] The geographic distribution of this expansion was far from even, however. Among the countries of significance to the region, growth was particularly strong in the United States, whose output and imports increased at a rate well above the world average. The United States market is very important for Mexico and the Central American and Caribbean countries, since it purchases most of their exports, and these countries' exports therefore posted widespread increases in volume. The same was true of exports to the countries of South and East Asia, whose economies enjoyed an appreciable upturn that benefited their main suppliers, which in Latin America are Chile and Peru.

The growth of the world economy also paved the way for a recovery in the prices of some raw materials, especially in the second half of the year, thus slowing the descent of annual averages. At the same time, inflation was held down, in part by low commodity prices. As a result, the unit value of manufactures exported by developed countries, as estimated by the World Bank, fell slightly (by 0.6%) over the year, which helped to lower the cost of the region's imports.

(iv) A weak regional economy and intraregional trade

In contrast to the expansionary influence of a growing world economy, the sluggish pace of economic activity in the region, particularly in South America, had an adverse effect on the demand for imports which was reflected in the volumes of imports and of intraregional exports. Imports declined across the board within an environment marked by the depreciation of many of the countries' currencies, a factor that hurt Brazilian imports in particular. Exports to other countries in the region also suffered the consequences of flagging demand, which were particularly evident in the category of manufactured goods, the main component of intraregional trade, and in countries having a greater degree of trade integration, especially the members of the Southern Common Market (Mercosur).

The total value of intraregional trade consequently shrank by 23%. This was a reflection of the trade results in the South American integration schemes. Exports among Mercosur countries fell by 24%, which was significantly sharper than the decline in the group's exports to other parts of the world. As a result, the level of intra-group sales as a percentage of total Mercosur exports, which had increased spectacularly during the decade, jumping from 9% in 1990 to 25% in 1998, fell back to 20% in 1999. The situation was quite similar in the Andean Community. Exports to other countries within the group decreased by 27% and the level of these exports as a proportion of the total fell to below 10% for the first time since 1990.

This performance stands in contrast to trends in the Central American Common Market (CACM), where exports within the grouping increased by 9% and thus maintained their approximately 20% share of total exports.

---

1 United Nations estimates are available in the *World Economic and Social Survey, 2000*, New York, July 2000. United Nations publication, Sales No. E.00.II.C.1.

Table VII.2

LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL AND TOTAL EXPORTS

(Billions of dollars and percentage share)

	1992	1993	1994	1995	1996	1997	1998	1999[a]
Mercosur								
Within Mercosur	7.2	10.0	12.0	14.5	17.1	20.5	20.0	15.1
World	50.5	54.2	61.9	70.1	74.4	82.6	80.2	74.3
Mercosur / world (%)	14.3	18.5	19.5	20.6	23.0	24.8	25.0	20.4
Andean Group								
Within Andean Group	2.2	2.9	3.5	4.9	4.7	5.6	5.4	3.9
World	28.3	29.8	33.7	39.1	44.4	46.6	38.9	43.2
Andean Group / world (%)	7.8	9.7	10.3	12.4	10.6	12.1	13.9	9.1
LAIA								
Within LAIA	19.4	23.7	28.2	35.6	38.4	45.5	43.2	34.4
World	134.9	145.2	167.2	204.2	229.2	255.4	251.3	264.2
LAIA / world (%)	14.4	16.3	16.8	17.4	16.8	17.8	17.2	13.0
CACM								
Within CACM	1.0	1.1	1.2	1.5	1.6	1.9	2.2	2.3
World	4.6	5.1	5.5	6.8	7.3	9.3	11.1	11.6
CACM / world (%)	21.7	21.6	22.3	21.4	21.2	20.1	20.2	20.1
Caricom [b]								
Within Caricom	0.2	0.3	0.5	0.7	0.8	0.8	...	...
World	3.7	3.7	4.1	4.5	4.6	4.7	...	...
Caricom / world (%)	6.1	7.9	12.7	15.3	16.9	16.7	...	...
Latin America and the Caribbean [c]								
Intraregional	24.5	29.3	35.1	42.7	46.6	54.8	51.7	42.6
World	146.1	156.4	177.3	216.0	241.6	270.0	267.2	280.1
Region / world (%)	16.8	18.7	19.8	19.8	19.3	20.3	19.3	15.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates. [b] Includes Barbados, Guyana, Jamaica, and Trinidad and Tobago. [c] Includes LAIA, CACM, Barbados, Guyana, Jamaica, Trinidad and Tobago, Bahamas, Belize, Haiti, Panama, Dominican Republic and Suriname.

(b) Merchandise exports

Given the different types of effects that the above-mentioned factors had on the region's economies, export performance varied depending on whether a country was a net oil exporter or importer, on how large a proportion of its total exports were made up of manufactured goods and on how close or far away it was from the main markets. The resulting picture was therefore fairly mixed and served to point up the differences that have emerged among the individual countries in terms of their positions in international markets. Judging from the situation in 1999, at least three groups of countries can be identified based on their differing results (see figure VII.3).

Table VII.3

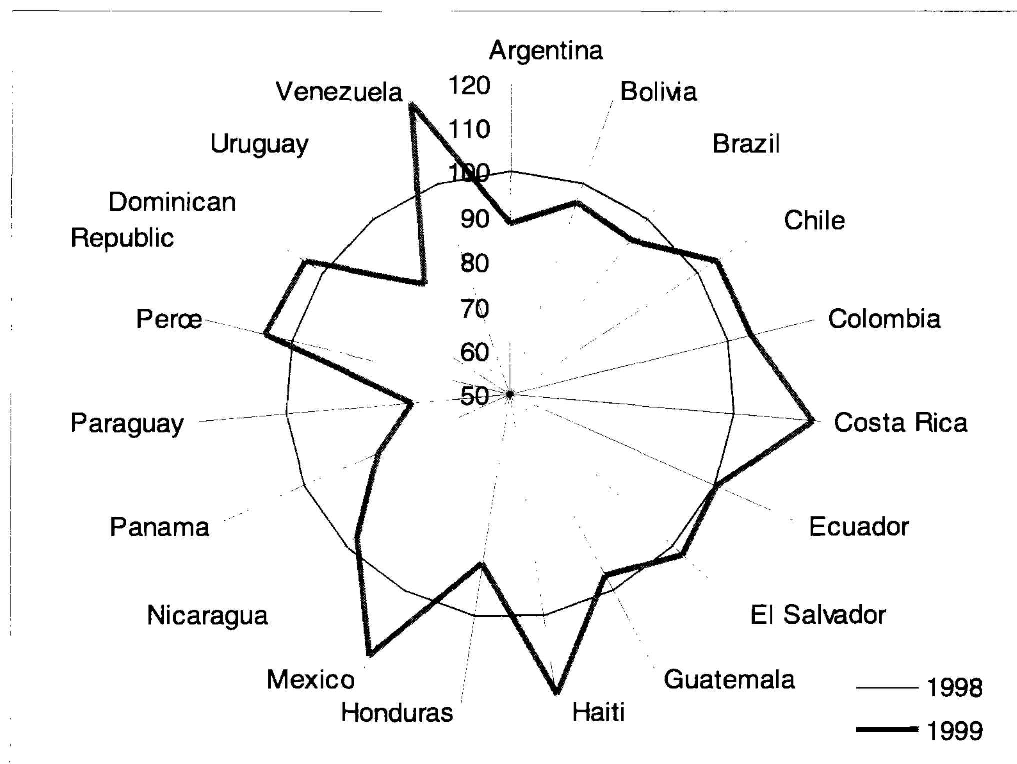
TRENDS IN TRADE PERFORMANCE, 1999

Groups of countries	Exports			Imports		
	Value	Unit value	Volume	Value	Unit value	Volume
Major oil-exporting countries	+	+	±	–	–	–
Countries located to the north of the Panamanian Isthmus	±	– (Mexico)	+ (Honduras)	+ (Guatemala)	–	+ (Guatemala)
Other countries	– (Chile, Peru)	– (Panama)	±	–	–	–

A + sign indicates an increase. A - sign indicates a decrease.
The names of the countries in brackets indicated exceptions to the trend.

Figure VII.3

LATIN AMERICA AND THE CARIBBEAN: INDICES OF EXPORT VALUES, 1999



Source: ECLAC, on the basis of official figures.

(i) Major oil-exporting countries

This group consists of Colombia, Ecuador and Venezuela, the South American countries whose principal export in 1999 was oil. All three benefited from the steep rise in the price of hydrocarbons and recorded increases in unit values as well as in the total value of their exports.

Ecuador and Venezuela, however, saw export volumes fall. In the case of Venezuela, this was largely due to the policy of supply cuts negotiated among the main oil-exporting countries. Even so, Venezuela, which is more dependent on oil than any other South American country, also posted the greatest increase in unit value (over 30%) and in export income (almost 20%).

In contrast, Ecuador's export earnings barely rose at all, as the increase in oil prices was offset by lower prices for other products, such as bananas, coffee and shrimp, and by the decrease in shipments, despite the devaluation of the sucre. The upturn in Colombia's earnings is attributable to improved hydrocarbon prices, as the rest of the country's exports performed poorly; since drilling began in the Cusiana and Cupiaga oilfields, oil and petroleum products' share in the value of Colombian exports has climbed to almost a third of the total, displacing coffee as the main export product.

(ii) Mexico and the Central American and Caribbean countries[2]

Thanks to the robust performance of the United States market, these countries managed to increase the volume of their exports. The *maquila* industry, which targets that market, played an important role in this respect. The sole exception was Honduras, where

2 Does not include English-speaking countries, for which detailed information is not available.

agriculture suffered the after-effects of Hurricane Mitch, which devastated the region in October 1998. The buoyant performance of the *maquila* industry in Honduras was not enough to compensate for the drastic reduction in agricultural exports (shipments of the main export product, bananas, plunged by 77%).

Export unit values fell in all the countries of this group except Mexico, owing largely to the deterioration in the prices of their export commodities (bananas, coffee and sugar, mainly). This reduction was offset by an increase in volume in some cases (Costa Rica, Haiti, El Salvador and Dominican Republic), but not in others (Guatemala and Nicaragua, which was also ravaged by Hurricane Mitch).

The 16% expansion in the value of Mexico's external sales was driven both by the vigorous United States market (which buys 87% of the country's exports) and, like other net oil exporters in the region, by the rise in oil prices. The latter played a key role in narrowing the country's trade gap. The remainder of its exports, consisting chiefly of manufactured products, turned in a very favourable performance, thanks in part to the *maquila* industry, which accounts for almost half of total exports.

(iii) The other countries

The third group of countries are all South American, with the exception of Panama. Almost all of them recorded a decline in external sales due to a decline in the volumes exported (in most cases) and the deterioration in commodity prices which affected all the South American countries.

Panama and three of the four Mercosur member countries (Argentina, Paraguay and Uruguay) turned in the worst results, with export earnings showing percentage drops in the two-digit range. Panama's shipments to the depressed South American economies declined sharply, especially in the case of the Andean countries, while these three Mercosur member countries suffered the consequences of the appreciation of their currencies against the Brazilian *real.*

Despite the devaluation of its currency, the volume of Brazil's exports did not increase enough to compensate for the steep downward slide of export prices, which plummeted by 12% (the sharpest drop in the region, together with Uruguay's). The increase in Brazilian shipments was concentrated in commodities and semi-manufactures. In contrast, the rise in export volumes in Chile and Peru was more than enough to make up for the decline in unit values and, as a result, these were the only countries in the group to post higher export earnings than the year before.

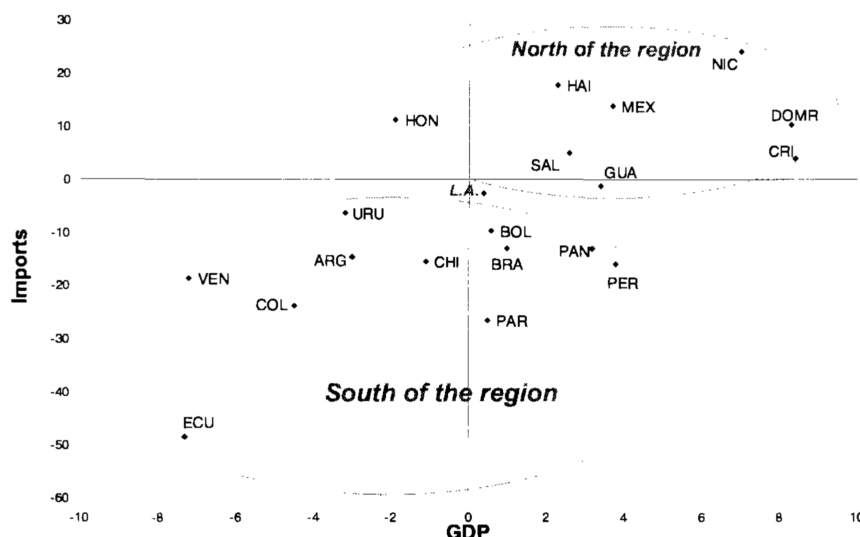
(c) Merchandise imports

Imports turned in a somewhat more even performance than exports. Despite the jump in oil prices, unit values fell in all the countries. The trend in volumes was in keeping with domestic demand. In consequence, two groups of countries can be identified, once again on the basis of their position in the northern or southern portions of the region: the South American countries (and Panama), which recorded decreases in import volumes, and the rest, where imports generally increased. The first group spent less on external purchases, while the second group (with the exception of Guatemala) spent more.

Figure VII.4 depicts the relationship between import volumes and GDP performance, as well as the clear differentiation between the two groups of countries mentioned earlier. These data indicate that the trend in economic activity was the fundamental determinant of the volume of imports and thus exerted an even stronger influence than exchange rate variations, since no such correlation was observed between exchange rates (in real terms) and external purchases. In fact, the appreciation of the exchange rate was accompanied by larger import volumes only in Mexico, Haiti and Honduras. The other Central American and Caribbean countries saw both a depreciation of the exchange rate and an increase in external purchases. Similarly, in Mercosur, the appreciation of the Argentine, Paraguayan and Uruguayan currencies coincided with sharply lower physical imports; much the same type of situation was observed in Venezuela.

Figure VII.4

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN IMPORT AND OUTPUT VOLUMES, 1999



Source: ECLAC, on the basis of official figures.

Brazil stood out among those countries where a real depreciation of the currency was coupled with a decrease in the volume of imports. The devaluation of the *real* at the beginning of the year had an adverse effect on external purchases, and the volume of imports of some products fell faster than their rate of consumption did.

(d) Services trade

In the region as a whole, service exports turned in a poorer showing than merchandise exports, as their value fell by almost 2%. Service imports also shrank, by over 8%, which was more than double the decrease in merchandise imports. As a result, the trade gap on the services account narrowed by about US$ 4.7 billion to under US$ 14.6 billion.

In most of the countries, service imports are closely related to imports of merchandise, since the main category is the insurance and freight services involved in the international transport of goods. Since the major freight forwarders are all foreign companies, the reduction in the number of shipments was reflected in a decline in outlays on this item. Thus, payments for the shipment of merchandise followed a similar pattern to the volume of merchandise trade. Accordingly, these expenditures decreased in the South American countries and increased in Mexico and a number of Central American and Caribbean countries (the Dominican Republic, El Salvador, Haiti, Honduras and Nicaragua).

The income generated by the shipment of merchandise is much less significant at the regional level. In Colombia, where this item is more important owing to the existence of a merchant fleet, revenue from shipping services increased by 7%, while in Mexico it fell by 4%. Another country where transport activity is particularly influential is Panama, since it obtains considerable income from the collection of Canal tolls. This income, whose level is determined by the volume of regional and world trade, grew by a scant 2%. Consequently, the downturn seen in offshore banking activities –the other pillar of the Panamanian services economy– resulted in a slight reduction in total earnings from so-called "invisible" exports.

Tourism is the main category of services exports for many countries in the region and is especially important in the Caribbean, Mexico, Central America and Uruguay. In 1999, tourism activity received a boost from the robust economic performance recorded at the international level and particularly in the United States.

Worldwide, tourism grew by 3% in volume and 4% in value, according to data from the World Tourism Organization. In the region, the number of international tourists increased sharply in Central America and the Caribbean, especially in countries such as Guatemala, which recorded an increase of almost 30%, the Dominican Republic (15%), Cuba (12%) and Costa Rica (9%). In Brazil, which became a more inexpensive travel destination owing to the devaluation of the *real*, tourism was up by 5%.

In line with the increase in volume, income from tourism rose by 9% in the Bahamas and by over 10% in practically all the countries of Central America and in the Dominican Republic. Other countries in the region that received higher income were Brazil (2%) and the Andean countries of Bolivia, Ecuador and Peru. In contrast, tourism earnings fell by 4% in Mexico, which is the main tourist destination in the region and the eighth most popular destination at the world level, and in Haiti.

Most tourists visiting the Southern Cone come from other countries within the same subregion, so tourism revenue was hurt by the poor economic results and exchange rate realignments in those countries. Tourism income fell steeply in Argentina (4%), Chile (9%), Uruguay (9%) and Paraguay (28%). Visits to Paraguay continued to suffer as a result of the difficulties affecting cross-border trade with Brazil. Colombia recorded a 7% reduction in tourism income, at least partly as a result of social unrest and problems with respect to personal safety in various areas of the country.

(e) Trade in 2000

The factors mentioned above as having an influence on trade took on a brighter hue in 2000. The prices of most of the region's major commodities took a turn for the better, although in general a modest one. As a result, the averages for the first five months of 2000 were higher than those for all of 1999 in the cases of soybeans, bananas, shrimp, cotton, aluminium, copper, iron ore, tin and zinc. Nickel prices increased their already steep upward climb. Average oil prices were already nearly 50% higher than the 1999 average. Among the exceptions to this trend were coffee, where price movements failed to consolidate an upward trend, and wheat, which was not expected to stage a recovery until mid-year.

The factors influencing the volume of trade were also more favourable: the pace of world economic activity continues to rise; a somewhat higher growth rate is expected for the year overall in Europe and South-East Asia; the United States economy remains solid despite a succession of interest rate hikes as a defence against the threat of inflation; and the upturn in the economies of the region will act as a engine for the reactivation of intraregional trade.

The merchandise trade results available for the first three to five months of 2000 confirm this outlook. Imports continued to slip only in Ecuador, but held steady in Argentina and Paraguay and increased in another six countries, including Mexico (with an increase of 23%), Brazil (11%), Chile (26%) and Venezuela (21%). An upswing in exports was recorded in the 10 countries for which information is available, with particularly noteworthy results in Mexico, Brazil, Chile and Colombia, all of which posted increases of between 20% and 24%, and Venezuela. These figures are based on a comparison with the same period of the previous year, however, during which the results were particularly poor. This means that the balance at the end of the year is likely to show more moderate figures, but even so the upturn in trade was clearly on track.

2. The balance-of-payments current account and its financing

The current account deficit for Latin America and the Caribbean underwent a drastic reduction in 1999, narrowing from US$ 87.5 billion in 1998 to US$ 54 billion in 1999, chiefly because of the US$ 34 billion decrease in the region's trade deficit. Measured in terms of GDP, the trade gap thus narrowed from 4.5% to 3.1% but even so, as in 1998, the region had to draw upon its international reserves to finance part of that deficit.

In most of the individual countries there was also a notable reduction in the deficit, with the exception of

some Central American and Caribbean countries. Ecuador and Venezuela generated hefty surpluses that marked a sharp contrast with their 1998 deficits. Chile and Colombia, however, registered a steep drop of some 4 or 5 percentage points of GDP, while Honduras and Nicaragua saw their deficits widen considerably (see table VII.4).

Current transfers, especially family remittances, continued to follow the upward trend of recent years and consequently made a significant contribution to the reduction in the current account deficit. The regional balance of current transfers, which had tripled between 1989 and 1999 and had increased year on year throughout nearly that entire period, climbed to US$ 18.2 billion in 1999. The importance of current transfers for some of the region's economies, especially the smaller ones, stands out clearly in the case of El Salvador, in which this category was equivalent to one half of the country's total goods and services exports in 1999.

Table VII.4

LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS

(Percentages of GDP)[a]

	Trade balance (goods and services)		Balance on current account		Balance on capital and financial account[b]		Overall balance	
	1998	1999[c]	1998	1999[c]	1998	1999[c]	1998	1999[c]
Latin America and the Caribbean	-2.6	-0.9	-4.5	-3.1	3.5	2.8	-0.9	-0.3
Argentina	-2.5	-1.7	-4.9	-4.3	6.3	4.7	1.4	0.4
Bolivia	-9.9	-8.1	-7.9	-6.6	9.0	6.1	1.2	-0.5
Brazil	-2.1	-1.3	-4.4	-4.4	2.2	2.5	-2.2	-1.9
Chile	-3.6	2.0	-5.7	-0.1	2.8	-1.0	-2.9	-1.1
Colombia	-4.0	0.5	-5.3	-1.4	3.9	1.1	-1.4	-0.4
Costa Rica	-1.2	6.1	-3.6	-3.2	2.5	6.4	-1.1	3.2
Ecuador	-7.1	10.8	-11.0	6.8	6.4	-13.0	-4.6	-6.2
El Salvador	-12.8	-12.2	-0.7	-1.7	3.2	3.3	2.5	1.6
Guatemala	-8.1	-8.6	-5.3	-6.0	6.6	5.3	1.3	-0.7
Haiti	-15.4	-16.8	1.2	0.0	-0.2	0.5	1.0	0.5
Honduras	-6.1	-13.8	-0.8	-3.3	3.5	8.8	2.7	5.5
Mexico	-2.0	-1.5	-3.7	-3.1	4.5	4.0	0.8	0.9
Nicaragua	-38.8	-51.7	-38.4	-47.2	27.6	43.2	-10.8	-4.0
Panama	-9.3	-8.5	-13.3	-13.9	8.2	12.3	-5.1	-1.5
Paraguay	-2.6	-2.1	-1.7	-1.7	2.6	3.8	0.9	2.2
Peru	-4.8	-1.9	-6.1	-3.6	3.9	2.2	-2.2	-1.4
Dominican Republic	-9.1	-8.5	-2.1	-3.0	2.2	3.9	0.1	1.0
Uruguay	-1.5	-2.3	-2.1	-2.9	3.7	2.9	1.6	0.1
Venezuela	-0.9	6.6	-2.7	5.2	-0.4	-4.2	-3.1	1.0

Source: ECLAC, on the basis of figures from the International Monetary Fund and official sources.
[a] Estimates based on figures expressed in dollars at constant prices. [b] Includes errors and omissions. [c] Preliminary figures.

The deficit on the factor income account widened slightly, from US$ 51 billion to US$ 54 billion, with a third of this amount corresponding to net profit remittances. In Argentina and Brazil, net interest payments and profit remittances amounted to significant percentages of external sales (29% and 34%, respectively), while in Bolivia, Ecuador, Panama and Peru the figure bordered on 25%.

Interest payments increased only moderately, since external liabilities rose very slightly and international interest rates were raised by no more than a small amount (see table VII.5). The largest interest rate hike came in the second half of 1999 and, in fact, the average for the first semester of 1999 was even lower than the average for the second semester of 1998. The region as a whole did not witness any significant variation in the ratio of interest payments to exports of goods and services exports in 1999; however, in eight countries this ratio was higher than the regional average and in half of them it was over 20%. As for profit remittances, seven countries had ratios of around 9%-10%, while in Costa Rica the ratio tripled in 1999 (see table VII.6).

Table VII.5

LATIN AMERICA: CAPITAL AND FINANCIAL ACCOUNT INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP [b]								
Current account balance	-1.5	-2.7	-3.3	-3.3	-2.2	-2.1	-3.2	-4.5	-3.1
Capital and financial account balance [c]	2.0	3.9	4.5	2.7	1.8	3.7	4.3	3.5	2.8
Overall balance	0.5	1.3	1.2	-0.6	-0.4	1.6	1.1	-0.9	-0.3
	Percentages								
Capital inflows to Latin America / Capital inflows to developing countries [d]	18.5	32.0	28.1	19.2	11.6	21.4	24.7	21.9	16.6
LIBOR (nominal)	6.0	3.9	3.4	5.1	6.1	5.6	5.8	5.5	5.5
LIBOR (real)	1.3	0.8	0.6	2.7	3.5	3.2	3.7	4.1	4.1
Yield on United States government bonds	7.9	7.0	5.9	7.1	6.6	6.5	6.4	5.3	5.6

Source: ECLAC, on the basis of figures from the International Monetary Fund, The World Bank and official sources.
[a] Preliminary figures. [b] Coefficients have been estimated on the basis of figures expressed in dollars at constant prices. [c] Includes errors and omissions. [d] Net flow of long-term resources.

Table VII.6

LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFIT REMITTANCES TO EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[b]
Latin America and the Caribbean	**4.4**	**4.5**	**5.2**	**5.5**	**4.7**	**5.2**	**5.9**	**6.8**	**5.8**
Argentina	5.6	7.3	10.2	9.4	7.6	6.2	7.6	8.4	8.3
Bolivia	0.4	2.6	1.9	2.2	3.1	5.4	5.7	6.0	10.9
Brazil	3.0	2.1	4.5	4.7	5.3	7.6	10.3	13.1	9.9
Chile	7.9	8.4	8.1	12.9	11.2	11.2	11.6	8.4	7.6
Colombia	9.7	11.3	10.4	5.4	3.3	5.3	4.6	5.2	5.8
Costa Rica	3.0	3.0	2.9	1.7	2.4	1.8	3.2	5.3	17.5
Ecuador	3.8	3.5	4.0	3.9	3.7	3.4	3.3	4.8	4.6
El Salvador	4.0	2.7	2.2	1.6	...	...	...	...	2.3
Guatemala	2.6	1.9	2.6	2.6	2.6	3.7	5.4	4.7	5.5
Haiti	2.6	...	...	...	...	...	0.5	0.3	0.3
Honduras	7.1	7.1	4.5	1.8	3.6	3.7	2.8	2.8	1.7
Mexico	4.8	4.2	4.1	5.1	3.1	3.9	3.4	4.1	3.1
Nicaragua	3.4	3.9	2.8	2.1	4.9	6.8	6.3	7.0	7.5
Panama	4.9	5.1	4.5	3.6	3.9	6.5	6.4	8.2	11.1
Paraguay	1.0	0.9	1.3	1.0	1.3	1.6	2.1	1.7	2.2
Peru	0.9	3.5	3.0	3.3	5.3	5.7	6.8	6.3	6.5
Dominican Republic	6.5	10.6	10.8	10.7	10.9	9.8	10.1	11.1	11.6
Uruguay	...	...	1.7	1.3	1.5	0.9	0.6	1.4	1.8
Venezuela	1.4	3.3	3.6	2.9	2.1	1.7	4.1	5.5	2.8

Source: ECLAC, on the basis of figures from the International Monetary Fund and national sources.
[a] Includes reinvestment of profits. [b] Preliminary figures.

3. Capital flows and international reserves

Net inflows of capital to the region in 1999 totalled a paltry US$ 48 billion, after having reached US$ 85 billion in 1997 and US$ 69 billion in 1998. In terms of GDP, the drop amounted to 1.5% between 1997 and 1999 (see table VII.5). Since the current account deficit was also much smaller, however, the region's balance-of-payments deficit was just US$ 6 billion, a third of the 1998 figure. For the second year running, this deficit was financed entirely with international reserves. The region's international reserves hovered around US$ 155 billion during the year, peaking in April and May of 1999. The countries that managed to build up their international reserves the most were Argentina, Costa Rica, Honduras and Mexico; in contrast, Brazil, Chile and Colombia suffered the heaviest losses.

The after-effects of the international crisis that had broken out in mid-1997 continued to be felt in Latin America, although their impact was mitigated somewhat by inflows of foreign direct investment (FDI) and, to a lesser extent, by funds made available by multilateral agencies. Capital inflows to the region were quite uneven for nearly the entire year. New international issues of debt instruments continued to decline in relation to pre-crisis levels, and access to commercial bank credit was more restricted. The phase of tight external financing, which had been triggered by the Russian moratorium declared in August 1998, continued in 1999. The consequences of this were felt mostly in the countries of South America, while most of the countries of Central America and the Caribbean managed to increase their capital inflows.

In keeping with its upward trend of recent years, FDI came in at an unprecedented US$ 78 billion. In contrast, other components of the region's financial and capital accounts posted a hefty negative balance. In fact, in the course of the year, equity investment flows, short-term bank loans and other capital together fell by close to US$ 30 billion. Net flows of debt instruments on international markets continued to be positive, although they provided little new financing, since a large proportion of foreign exchange inflows had to be allocated to paying off debt arrears.

(a) Foreign direct investment

The US$ 78 billion of net FDI inflows to the region easily outstripped the already exceptional figure reached in 1997-1998. The largest single investment in the region in 1999 was Spanish investors' acquisition of the Argentine company Yacimientos Petrolíferos Fiscales (YPF) for US$ 11.6 billion. Owing to the system used for calculating the balance of payments, this inflow of direct investment entailed an offsetting US$ 11 billion decrease in portfolio investment liabilities (since the YPF shares had previously belonged to a large number of small investors, the purchase of that stock by the Spanish company Repsol S.A. altered the type of investment they represented). Leaving aside the YPF sale, regional FDI amounted to US$ 67 billion, which was still a record figure. The country to receive the largest share of these inflows was Brazil, but flows to Argentina, Bolivia, Chile, the Dominican Republic, Honduras, Nicaragua and Uruguay also reached all-time highs, and flows to Mexico held steady around the US$ 11.5 billion-mark posted for the previous two-year period (see table VII.7). In some of the smaller economies, FDI flows were of considerable relative magnitude; in Bolivia, for example, FDI inflows amounted to around 10% of GDP for the third year running.

In a year in which private debt flows were allocated almost entirely to amortization payments, these inflows were a significant factor in providing financing for the current account in over half the countries of Latin America and the Caribbean. The trend observed in recent years towards a greater geographical diversification of FDI continued to gain ground in 1999, and in some Central American countries sizeable sums were again channelled into the *maquila* industry.

Table VII.7

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT[a b]

(Millions of dollars)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[c]
Latin America and the Caribbean	11 066	12 506	10 362	23 706	24 856	39 489	55 620	60 974	77 543
Argentina	2 439	3 218	2 059	2 480	3 756	4 937	4 924	4 175	21 958[e]
Bolivia	50	91	125	147	391	472	728	870	951
Brazil	89	1 924	801	2 035	3 475	11 666	18 608	28 541	30 254
Chile	697	538	600	1 672	2 204	3 445	3 353	1 842	4 366
Colombia	433	679	719	1 297	712	2 795	4 894	2 379	777
Costa Rica	173	222	243	292	331	421	400	604	...
Ecuador	160	178	469	531	470	491	695	831	636
El Salvador[d]	25	15	16	...	38	...	...	873	214
Guatemala	91	94	143	65	75	77	85	673	155
Haiti	14	- 2	- 2	- 3	7	4	4	11	30
Honduras	52	48	52	42	69	90	128	99	230
Mexico	4 742	4 393	4 389	10 973	9 526	9 186	12 830	11 311	11 568
Nicaragua	42	42	40	40	75	97	173	184	300
Panama	109	145	170	393	267	410	1 256	1 206	22
Paraguay	84	118	75	137	155	246	270	423	356
Peru	- 7	150	687	3 108	2 048	3 242	1 702	1 930	2 068
Dominican Republic	145	180	189	207	414	97	421	700	1 435
Uruguay	...	...	102	155	157	137	113	155	225
Venezuela	1 728	473	- 514	136	686	1 676	5 036	4 168	1 998

Source: ECLAC, on the basis of figures from the International Monetary Fund and national sources.
[a] Refers to direct investment in the reporting economy minus direct investment abroad by its residents. This information is not available for some countries. Includes reinvestment of profits. [b] According to the fifth edition of the IMF *Balance of Payments Manual*, all transactions between non-financial enterprises undertaking direct investment and their parent companies and subsidiaries are included in direct investment. [c] Preliminary figures. [d] The Central Reserve Bank of El Salvador has been keeping a systematic record of foreign direct investment since 1998. [e] This entry includes the value of the Repsol investment in the company Yacimientos Petrol feros Fiscales. Part of this figure corresponds to the purchase of shares in the company from non-residents. The value of these assets constitutes a debit in the portfolio investment entry on the Balance of Payments.

An appreciable proportion of these capital flows continued to be used to acquire existing assets; these operations took the form of the privatization of State enterprises or the purchase of privately-owned local companies. In the Latin American Integration Association (LAIA) countries, recent estimates indicate that around 60% of FDI was used to create new assets[3].

Direct investment abroad undertaken by Chilean and Brazilian residents again reached significant levels; in fact, in Chile it bordered on US$ 5 billion.

(b) International bond issues

Despite the increase in international interest rates, issues of debt instruments on international markets climbed to over US$ 43 billion in 1999. However, although this was higher than the previous year's figure, it was still well below the 1996-1997 average. After deducting amortization payments, the net flow in 1999 turns out to have been quite small. As in the past few years, the bulk of these funds went to central governments and public-sector companies and, also as in recent years, this market continued to be very volatile, with a great deal of activity in March, April and October and very few issues in August and September.

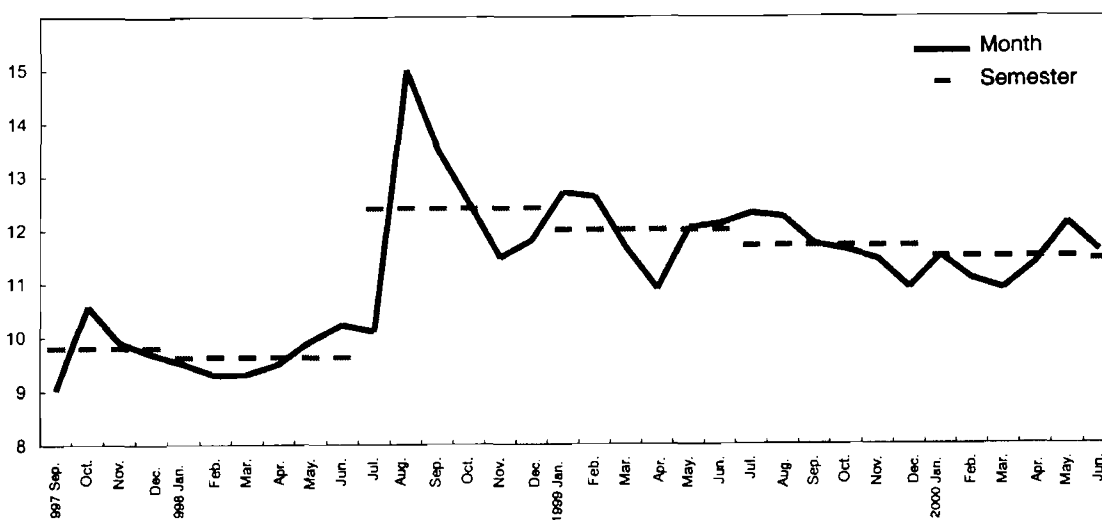
The terms and conditions of placements continued to compare poorly with those offered before the international financial crisis. The year concluded with an average financial cost for the region of 11%, which was slightly lower than the end-1998 figure, but much higher than the cost recorded in the pre-crisis period (see figure VII.5), even though the yields of United States Treasury bonds rose slightly in 1999. The maturities of new issues shortened significantly over the year, standing at just

3 ECLAC, "The nineties: an overview", Santiago, Chile, 30 March, 2000.

four years in the final quarter, which was only half the average maturity recorded at the end of 1998 (see table VII.8). Although access to the international market continued to be uneven, in April 1999 seven of the region's governments were able to issue bonds on international markets at a premium of 550 basis points. The euro market was quite active, with issues by Argentina accounting for almost half the total.

Figure VII.5

LATIN AMERICA: BOND YIELDS ON THE SECONDARY MARKET [a]



Source: ECLAC, on the basis of figures from J.P. Morgan.
[a] Weighted average yield of eurobonds issued by Argentina, Brazil, Chile, Colombia, Mexico, Panama and Venezuela.

Bond issues continued to be concentrated in Argentina, Brazil and Mexico, as was the case throughout nearly the whole of the 1990s. The Brazilian Government made a striking return to international financial markets in April with a US$ 3 billion bond issue. Other countries also floated bond issues; apart from Chile, Colombia and Uruguay, which have resorted to this type of financing continually over the last five years, this market played an important role in 1998-1999 for a number of smaller economies as well, such as Costa Rica, El Salvador, and Trinidad and Tobago. Another noteworthy event was a US$ 400 million placement made by the Government of Paraguay which was guaranteed by the Government of the Chinese Province of Taiwan.

For the second year in a row, the considerable reduction in external debt prices on secondary markets encouraged the region's governments to trade in Brady bonds. In 1999 Argentina, Brazil, Mexico and Uruguay exchanged Brady bonds for new issues equivalent to US$ 6 billion, which freed up resources that had been used as collateral and therefore increased the availability of funds for their central governments. In June 2000, Argentina exchanged US$ 3.3 billion in Brady bonds and thereby reduced its public-sector debt by US$ 930 million, as well as releasing the bonds that had been used as a guarantee.

(c) Commercial bank credits

Commercial bank lending has been one of the most volatile types of flows in recent years as well as being strongly procyclical, especially from the second quarter of 1998 on. After the Russian moratorium was declared in August 1998, international banks adopted a very cautious attitude regarding loans to the region and

Table VII.8

LATIN AMERICA: INTERNATIONAL BOND ISSUES [a]

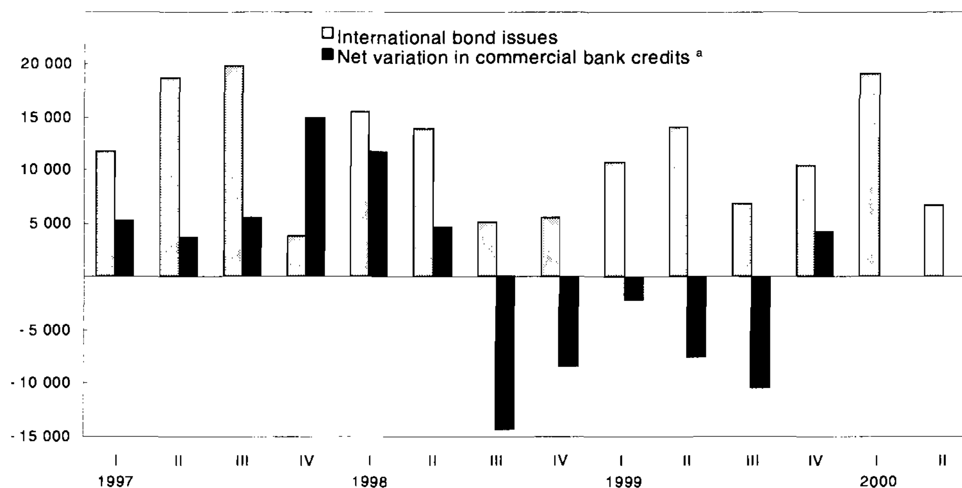
	1996	1997	1998	1999	1999			
					I quarter	II quarter	III quarter	IV quarter
A. Maturity of new issues (years)								
Region	**7.8**	**15.4**	**8.5**	**6.2**	**8.8**	**6.8**	**4.7**	**4.4**
Argentina [b]	9.2	13.5	10.6	7.5	11.6	7.8	4.1	5.0
Brazil [c]	6.5	16.5	7.9	4.1	4.2	4.5	3.8	4.0
Chile	7.3	35.6	11.0	9.7	9.4	10.0	-	-
Colombia	6.9	15.0	7.9	7.5	5.0	10.0	-	-
Costa Rica	-	-	...	10.0	-	10.0	-	-
Ecuador	-	5.0	-	-	-	-	-	-
Mexico	7.4	9.4	9.1	10.0	8.5	15.0	8.0	10.0
Panama	-	19.6	-	30.0 [d]	30.0	-	-	-
Uruguay	-	30.0	5.0	10.0	-	10.0	-	-
Venezuela	7.0	30.0	20.0	...	...	-	-	-
B. Spread (Differential between the yield on bonds issued and the yield on United States treasury bonds with comparable maturities, 100 basis points equals 1%).								
Region	**370**	**285**	**500**	**580**	**568**	**588**	**588**	**579**
Argentina	383	298	441	588	681	601	572	504
Brazil [c]	358	327	541	632	605	656	667	610
Chile	86	96	235	269	353	191	-	-
Colombia	188	140	409	563	630	495	-	-
Costa Rica	-	-	...	409	-	409	-	-
Ecuador	-	470	-	-	-	-	-	-
Mexico	393	263	329	413	440	428	357	357
Panama	-	219	-	420	420	-	-	-
Uruguay	-	135	345	213	-	213	-	-
Venezuela	440	325	780	...	...	-	-	-

Source: ECLAC, on the basis of figures from the International Monetary Fund and national sources.
[a] Refers to direct investment in the reporting economy minus direct investment abroad by its residents. This information is not available for some countries. Includes reinvestment of profits. [b] According to the fifth edition of the IMF *Balance of Payments Manual*, all transactions between non-financial enterprises undertaking direct investment and their parent companies and subsidiaries are included in direct investment. [c] Preliminary figures. [d] The Central Reserve Bank of El Salvador has been keeping a systematic record of foreign direct investment since 1998. [e] This entry includes the value of the Repsol investment in the company Yacimientos Petrol feros Fiscales. Part of this figure corresponds to the purchase of shares in the company from non-residents. The value of these assets constitutes a debit in the portfolio investment entry on the Balance of Payments.

maintained this stance until the end of 1999. Judging from the available figures on net flows of bank credit up to December, the region appears to have sustained a capital outflow of slightly over US$ 15 billion, partly because of the decline in demand for short-term financing caused by the decrease in external trade operations. Outflows continued to be heavily concentrated in Brazil, although they were also sizeable in Chile, Colombia, Ecuador and Peru; in contrast, Mexico, Venezuela and some Central American and Caribbean countries recorded capital inflows during the same period. Even in some of these countries, however, credits were highly volatile. During the second and third quarters, the region registered a significant outflow, but in the fourth quarter, the region saw a positive net flow of bank lending for the first time since mid-1998 (see figure VII.6). According to data compiled by the Bank for International Settlements, most Latin American debtor countries increased their average maturities in 1999, mainly by reducing their short-term obligations.

Figure VII.6

LATIN AMERICA: CAPITAL FLOWS



Source: ECLAC, on the basis of figures from the International Monetary Fund and the Bank for International Settlements.
[a] Information not available for 2000.

(d) Equity capital

In 1999 equity capital flows made a partial recovery, although with ups and downs, but the upswing was not strong enough to make up for the withdrawal of US$ 5 billion in equity capital in 1998. These figures do not consider adjustments in Argentina's balance of payments for the YPF sale.

This timid upturn took place in a context of rebounding stock quotations, which had plummeted in 1998 and triggered an unprecedented collapse in share prices. Overall, by the end of 1999, the regional index was still 12% lower than it had been in mid-1997, before the Asian crisis broke out (see table VII.9). This upswing was driven by Mexico, which was the only stock exchange in the region to record a rise in its share price index of over 25% above pre-Asian crisis levels by the end of 1999. According to preliminary estimates, Mexico also appears to be the only country to record a notable increase in equity capital flows in 1999; buoyed by the upturn in economic activity, this trend was still in evidence as of mid-2000.

Table VII.9

LATIN AMERICA: INDEXES OF SHARE PRICES IN DOLLARS [a]

(Index: June 1997 = 100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[b]
Latin America	**49.0**	**51.0**	**77.4**	**76.2**	**62.5**	**72.5**	**90.6**	**56.0**	**88.0**	**77.6**
Argentina	70.0	50.7	84.9	63.6	69.1	82.1	96.3	68.9	91.9	78.8
Brazil	20.2	20.0	38.2	64.0	49.8	64.9	78.3	44.9	75.0	66.4
Chile	46.7	52.4	67.8	95.8	93.0	77.0	79.6	55.7	75.4	73.4
Colombia	45.5	62.0	81.6	103.5	77.1	80.5	99.9	56.4	45.1	33.4
Mexico	88.5	106.2	156.0	91.1	66.5	77.3	114.1	69.5	125.4	106.2
Peru	...	32.6	43.9	66.8	73.1	73.6	83.8	50.5	61.1	53.7
Venezuela	128.0	73.3	65.6	47.8	32.7	75.7	93.3	44.9	39.3	46.3

Source: ECLAC, on the basis of figures from the International Finance Corporation.
[a] Year-end figures. [b] Figures at the end of May.

(e) Official flows

Official financing, which became strongly countercyclical with the outbreak of the financial crisis in Mexico in 1995, followed a similar pattern during the Brazilian financial crisis of late 1998 and early 1999. At the end of 1999, the Central Bank of Brazil paid back US$ 5.5 billion of the US$ 17.8 billion disbursed in the international assistance package approved in 1998. Honduras, Nicaragua and Panama also received significant IMF credits in 1999. Other countries received major support from the World Bank and the Inter-American Development Bank. In contrast, the flow of bilateral financing to the region was negative for the second year in a row.

4. Net resource transfers and external debt

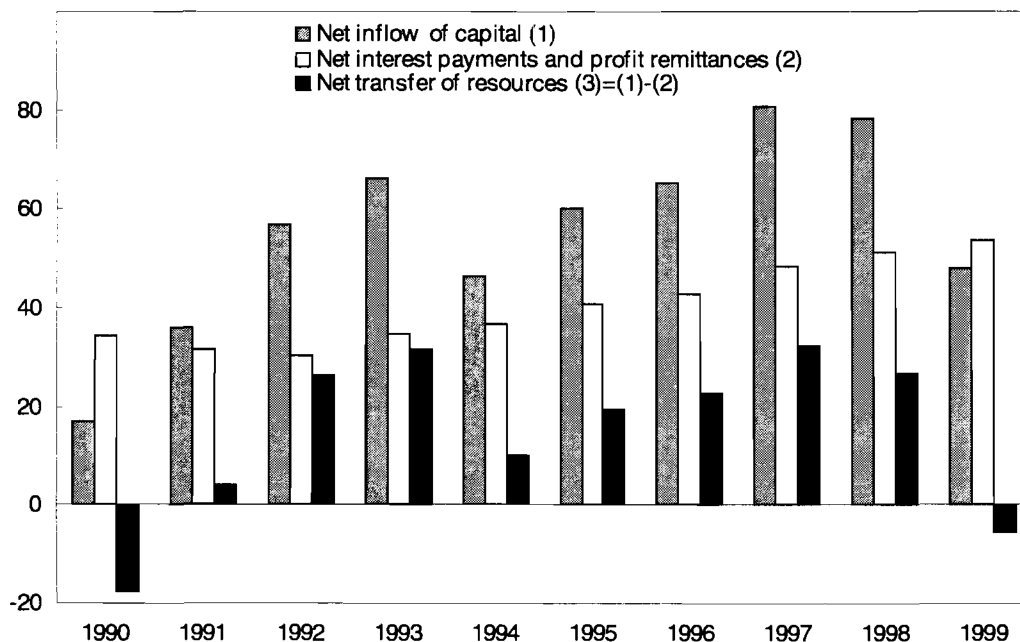
(a) Net resource transfers

With net capital income decreasing to just US$ 48 billion and net payments of profits and interest amounting to US$ 54 billion in 1999, there was a net transfer of resources out of the Latin American and the Caribbean region of US$ 6 billion. This was the first time a negative figure had been recorded since 1990 (see figure VII.7).

Figure VII.7

LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES [a]

(Billions of dollars)



Source: ECLAC, on the basis of figures from the International Monetary Fund.
[a] For net capital inflow, includes autonomous and non-autonomous flows.

Nine Latin American and Caribbean countries closed out the year with net outward transfers amounting in total to some US$ 17 billion dollars: Brazil, Colombia, Chile, Ecuador and especially Venezuela registered sizeable negative transfers. On the other hand, 10 Latin American countries recorded positive transfers for the third consecutive year, this time in the amount of almost US$ 11 billion; the size of these transfers was particularly notable in the cases of Argentina, Guatemala, Panama, Nicaragua and Mexico.

The net transfer of resources into the region during the period 1991-1999 is estimated at an average annual rate of 1% of GDP. Over this period Argentina received the largest annual transfer, equivalent to 2% of GDP on average, while Venezuela had an average annual net outward transfer of resources equivalent to 3% of GDP.

(b) External debt

The level of Latin American and Caribbean external debt reached US$ 757 billion in 1999, rising by 1.5% in nominal terms. This was the smallest increase to be posted in recent years and reflected the difficulties encountered in obtaining financing on international bond or banking markets during 1999. In most of the countries whose external liabilities rose, the increase was moderate, including Chile, El Salvador, Guatemala and Honduras, where the figure was around 7% per annum; Paraguay, however, increased its debt by an exceptionally high 33%. Other countries did not record significant variations in external borrowing, with the exception of considerable decreases in the cases of Jamaica (-8%) and Guyana (-20%), which were able to avail themselves of the heavily indebted poor countries (HIPC) debt relief initiative.

The ratio of total interest payments to exports of goods and services was over 20% in seven economies; this indicator increased further in all of these countries except Peru during the period 1998-1999, and significantly so in Argentina and Ecuador. According to World Bank estimates, the region's debt service (including amortization payments) has increased to over 35% of the value of its exports, which is the highest figure to be recorded in the 1990s. Within the prevailing context of rising international interest rates, the region's governments and public-sector enterprises have pursued what has proven to be a successful policy of improving the maturity profile of their external debt in recent years.

The ratio of external debt to goods and services exports in the region improved slightly, since external sales grew at a faster rate than external liabilities; this indicator reached its best level in 1997, when the external debt stood at twice the value of total exports. In 1999, as in previous years, the results varied a great deal across countries. Nicaragua continued to be the most worrisome case, as the country's external debt amounted to eight times the value of its external sales, despite the successive renegotiations and debt write-offs conducted in recent years; nevertheless, these measures have brought the debt/export ratio down considerably since the early 1990s, when the country's external liabilities were 30 times the value of its exports. The region's two largest economies, Argentina and Brazil, recorded their highest ratios of the 1990s; in both countries the deterioration in this indicator has been concentrated in the last two years. A second group of heavily indebted countries includes Bolivia, Ecuador and Peru (see table VII.10), while a number of other countries were able to maintain their debt at moderate levels, including Chile, Colombia, Mexico, Uruguay and Venezuela. In the Central American countries, with the exception of Nicaragua, the level of external debt is lower than the value of total exports.

Honduras succeeded in having its bilateral external debt written off under the Naples terms, which enabled the country to reduce its external liabilities by US$ 400 million. Ecuador continued to work on restructuring its external debt, after it defaulted on interest payments on collateralized Brady bonds and other obligations to private creditors in 1999. Nicaragua continued to pursue negotiations aimed at qualifying for the Heavily Indebted Poor Countries (HIPC) deft relief initiative, for which Bolivia and Guyana have already been declared eligible.

Table VII.10

LATIN AMERICA AND THE CARIBBEAN: RATIO OF GROSS DISBURSED EXTERNAL DEBT TO EXPORTS OF GOODS AND SERVICES[a]

(Percentages)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[b]
Latin America and the Caribbean	**272.2**	**261.7**	**263.1**	**244.5**	**225.2**	**211.1**	**197.9**	**223.1**	**216.3**
Argentina	426.3	407.1	438.8	440.4	393.9	385.5	403.0	451.8	521.2
Bolivia [c]	390.6	489.5	421.1	346.8	364.9	331.5	299.6	323.9	330.2
Brazil	354.4	340.9	334.3	302.6	302.5	342.7	338.0	407.3	430.3
Chile	156.5	153.4	167.9	150.7	113.8	120.5	128.5	167.2	175.3
Colombia	190.5	186.9	190.0	204.9	203.2	224.0	225.3	250.8	246.0
Costa Rica [d]	182.4	132.5	115.2	100.1	87.2	69.8	60.1	50.8	46.0
Ecuador	375.8	344.1	367.2	318.5	265.1	253.8	248.1	327.5	323.6
El Salvador [c]	245.0	240.3	173.7	125.4	106.1	114.3	99.3	95.9	90.9
Guatemala	154.8	132.8	114.8	115.6	104.8	109.6	101.0	103.2	114.7
Haiti [c]	237.2	589.2	530.6	628.6	351.1	277.1	270.3	229.5	231.7
Honduras	338.7	344.9	318.0	295.0	244.5	215.2	186.8	177.9	204.5
Mexico	226.9	210.0	212.6	196.4	185.6	147.1	122.4	124.7	112.7
Nicaragua [c]	2 946.6	3 492.6	3 368.1	2 457.4	1 736.4	918.3	708.1	757.1	774.9
Panama	68.4	56.1	52.0	49.2	51.7	68.7	60.8	64.6	78.6
Paraguay	82.3	52.9	38.0	33.6	30.0	32.7	32.7	38.2	70.0
Peru	491.2	476.1	631.5	536.8	498.7	462.3	340.6	400.9	368.5
Dominican Republic [c e]	248.5	230.9	96.1	75.3	69.8	61.5	49.7	47.7	44.2
Uruguay [c]	134.0	128.9	129.6	130.9	126.2	121.7	112.7	125.9	151.4
Venezuela	219.7	247.8	253.3	232.9	185.4	135.4	123.9	155.2	131.8

Source: ECLAC, on the basis of figures from the International Monetary Fund and national sources.
[a] Includes public and private-sector liabilities. [b] Preliminary figures. [c] Includes public-sector liabilities. [d] From 1992 on, includes *maquila* exports under the heading of goods . [e] From 1993 on, includes *maquila* exports under the heading of goods .

Chapter VIII

Growth, employment, and equity: the impact of the economic reforms in Latin America and the Caribbean[1]

1. Introduction

Over the last 15 years, countries in the region have made increasing use of structural reforms to turn their economies away from the closed, state-led economic model of the import-substitution industrialization period, toward greater market-orientation and openness to the rest of the world. Complementary aspects of this process have involved a higher priority for macroeconomic stability –especially in terms of lower inflation– and, more recently, greater social expenditure. Policymakers expected these changes to enhance productivity and boost economic growth, leading to job creation and greater equality.

1 This chapter is taken from the summary volume of an ECLAC research project on the impact of the economic reforms in Latin America and the Caribbean. See Barbara Stallings and Wilson Peres, *Growth, Employment, and Equity: the Impact of the Economic Reforms in Latin America and the Caribbean*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and The Brookings Institution, 2000.

TO WHAT extent have those expectations been fulfilled? Only a preliminary assessment can be made at this point, since in many cases the reforms are less than a decade old; nonetheless, the recent search programme by ECLAC (see box VIII.1) suggests a number of tentative conclusions. Overall, the reforms seem to have had a surprisingly small impact on average regional aggregates; econometric evidence points to a small positive effect on investment and growth, but a small negative impact on employment and income distribution. It is only at the country, sectoral, and microeconomic levels that evidence of strong effects begins to show through. The reforms fostered investment and modernization, but they also generated significant differences in performance: high- and low-growth countries, dynamic and lagging sectors, a gap between large and small firms, and a growing dispersion between the earnings of the well educated and those of the rest of the population. The result has been specialization and polarization, along with their attendant opportunities and challenges.

It is true that the reforms have solved some longstanding problems, such as excessive protection and inefficient public utilities. They have also opened up unexpected possibilities, of which the most dramatic are the export potential demonstrated by the region and the dynamism of modern sectors –some of which, like telecommunications, have been radically transformed by technological progress. But the reforms have also exacerbated some old problems and created new ones: low rates of investment and productivity growth in many countries and sectors, sluggish job creation and poor quality of new jobs, failure to reduce the high levels of inequality that have traditionally characterized the region, weak integration of the leading sectors and firms with domestic economies, widening trade deficits and increased dependence on volatile external capital.

Box VIII.1

The project entitled "Growth, Employment and Equity: the Impact of the Economic Reforms in Latin America and the Caribbean" was a three-year joint venture between the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) and local researchers in the countries covered by the study. The project focused on nine "project countries", which were selected because they had the longest history of implementing economic reforms. Four of them –Bolivia, Chile, Costa Rica and Mexico– have reforms that date to the mid-1980s or, in the case of Chile, to the mid-1970s. The other five –Argentina, Brazil, Colombia, Jamaica and Peru– began their reforms in the early 1990s, although Argentina had a brief experience with reforms in the 1970s. The countries selected also represent the vast majority of the population, economic output, and international trade of the Latin American and Caribbean region. The results of the project will be published in a number of country volumes. In addition, a summary and four books on the main topics of the project present the results from the regional perspective.

Barbara Stallings and Wilson Peres, *Growth, Employment, and Equity: the Impact of the Economic Reforms in Latin America and the Caribbean*, Santiago, Chile, The Brookings Institution/Economic Commission for Latin America and the Caribbean (ECLAC), 2000.

Jorge Katz, *Reformas estructurales, productividad y conducta tecnológica en América Latina*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/Fondo de Cultura Económica, 2000, forthcoming.

Graciela Moguillansky and Ricardo Bielschowsky, *Reformas económicas e inversión: América Latina en los años noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/Fondo de Cultura Económica, 2000, forthcoming.

Samuel Morley, *El problema de la distribución del ingreso en América Latina*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/Fondo de Cultura Económica, 2000, forthcoming.

Jürgen Weller, *Reformas económicas, crecimiento y empleo: los mercados de trabajo en América Latina durante los años noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC)/Fondo de Cultura Económica, 2000, forthcoming.

2. International context

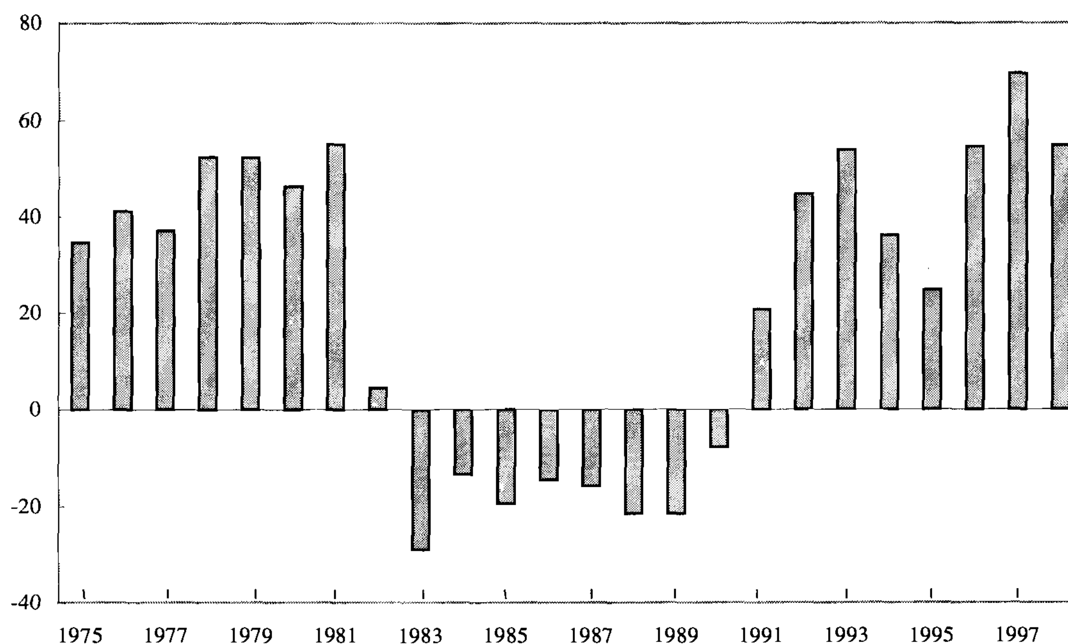
Several features of the international environment have had a major influence on the impact of the reforms on economic performance. With respect to world trade, the region's share of total global exports declined throughout the postwar period before recovering somewhat in the 1990s. Part of this recent recovery may be explained by the economic reforms; nonetheless, stronger export growth (in both volume and value terms) has not been matched by growth in output. Moreover, imports have grown even faster, leading to burgeoning trade deficits.

Global capital flows have also increased rapidly, and in this case Latin America's share has grown in both the portfolio and foreign direct investment (FDI) categories, although the former has increased more than the latter. A key feature of capital flows to Latin America has been their volatility, and the cycles of surges followed by steep declines became more frequent in the 1990s (see figure VIII.1). Crises also occurred more often, and greater volatility led to uncertainty, which discouraged the investment that is crucial to enable the reforms to bear fruit and generate higher growth in the future. Compared to the region's participation in world trade, capital flows and GDP growth in Latin America seem to be much more closely correlated: when capital flows increase, growth accelerates; when they fall significantly or are reversed, growth declines.

Figure VIII.1

NET CAPITAL INFLOWS, 1975–1998

(Billions of 1990 dollars)[a]



Source: Stephany Griffith-Jones, "International capital flows to Latin America", *Reformas económicas series*, No. 55 (LC/L.1351), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), March 2000.

[a] Data are deflated by the United States consumer price index.

There is also a significant relation between trade and capital-flow trends. One reason why the link between exports and GDP growth is weak in Latin America is that creating such a link requires the development of supplier networks, and this takes time. Investment needs to occur in many sectors and in enterprises of different sizes, including small and medium-size suppliers, so that large exporting firms can transmit growth to other parts of the economy. If the volatility of capital flows is such that the investment process is frequently interrupted, then the necessary incentives will be absent. The region's highly problematic capital-flow experience during the 1990s raises the possibility that large surges of easily reversible capital flows (e.g., portfolio investment) may have had net negative effects on long-term growth and development. This contrasts with increasing empirical evidence that foreign direct investment and trade both contribute to long-term growth.

3. Structural reforms and public policies

Structural reforms can be defined in a number of ways, but those most prevalent in the region entailed liberalizing imports, opening the capital account of the balance of payments, liberalizing the domestic financial system, privatization and tax reform. The feature that was common to all of them was greater reliance on market mechanisms, both domestically and internationally.

In order to study these five reforms, the project built upon previous work done at the Inter-American Development Bank to create a set of indices for analyzing and comparing reform implementation processes. The indices measure the degree to which the economy is more open and more market-led, using scores ranging from 0 to 1. Table VIII.1 shows the pattern of the reforms in the 1970-1995 period.

Table VIII.1

REFORM INDICES, 1970–1995[a]

	Import liberalization	Financial reform	Capital account opening	Privatization	Tax reform	Average
1970	0.501	0.315	0.588	0.773	0.198	0.472
1975	0.567	0.329	0.543	0.773	0.269	0.493
1980	0.662	0.439	0.567	0.745	0.307	0.548
1985	0.652	0.448	0.545	0.696	0.348	0.541
1990	0.803	0.725	0.683	0.722	0.445	0.638
1995	0.946	0.927	0.848	0.804	0.573	0.821

Source: Samuel A. Morley, Roberto Machado and Stefano Pettinato, "Indexes of structural reform in Latin America", Reformas económicas series, No. 12 (LC/L.1166), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), January 1999.

[a] The sample includes the nine project countries plus Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Paraguay, Uruguay and Venezuela.

(a) Aggressive vs. cautious reformers

Within the overall reform process, it is possible to identify a set of countries that were "aggressive" reformers compared to others that were more "cautious" in terms of the speed and scope of their reforms. The former group made comprehensive reforms in a relatively short period of time, while the latter proceeded more gradually and partially. These differences are closely correlated with the initial conditions prevailing in the pre-reform period. Four elements in particular influenced policy choice: prior growth performance, inflation, degree of economic distortion (here measured by the reform index), and level of governability.

These elements tended to cluster; at one extreme, Argentina, Bolivia, Chile and Peru scored poorly on all four of them. On average, these countries had annual inflation rates of over 1,200% during the five years preceding the initiation of the reform process, with GDP shrinking by an average of 0.7% in the same period. The reform index indicated a high governance level of economic distortion, and had broken down substantially. The consequence of these traumatic experiences was to create an environment in which governments and other important actors became willing to experiment with drastic changes in economic policy.

The initial conditions among the cautious reformers (Brazil, Colombia, Costa Rica, Jamaica and Mexico) contrasted sharply with those of countries that were more aggressive. Average inflation among these five countries during the preceding period was comparatively much lower, at 168%, while growth was a lot higher at 3.0%. The level of economic distortion was lower, and problems of governance were minor in comparison. Another way of viewing the difference between the two groups is that the key actors in the cautious reformers believed their countries were basically sound and had much that was worth preserving. Brazil and Mexico, for example, were among the dozen largest economies in the world and had powerful industrial sectors, while Colombia enjoyed a historical reputation for sensible policy decisions and economic stability, and Costa Rica had a popular set of social benefits that underpinned a vibrant democracy.

(b) Macroeconomic policies and outcomes

The most important factors influencing the impact of the structural reforms, apart from the content of the reforms themselves, were the international context and the macroeconomic policies implemented by the respective governments. The greater value attached to macroeconomic stability in the region over the last 15 years (see table VIII. 2) has been as important as the change in the development model.

Table VIII.2

MACROECONOMIC INDICATORS, 1983-1990 VS. 1991-1998 [a]

(Percentages)

Indicator	1983-1990[b]	1991	1992	1993	1994	1995	1996	1997	1998
Inflation [c]	537.1	98.0	149.0	291.9	115.8	19.4	12.7	8.6	8.2
GDP growth [d]	2.0	4.1	4.2	4.7	5.8	2.5	2.8	4.5	2.6
Fiscal balance [e]	-4.4	-0.7	-0.4	-0.3	-0.1	-0.9	-2.5	-2.8	-3.1
Current account [f]	-4.0	-1.9	-2.8	-4.9	-3.1	-3.4	-3.6	-4.6	-5.5
Real interest rates [g]	143.4	24.8	32.6	37.6	15.2	17.7	15.4	19.6	21.2
Real exchange rates [h]	107.4	100.4	100.1	99.2	98.4	100.2	93.7	89.0	89.4

Source: Project database, on the basis of ECLAC and IMF statistics.
[a] Simple averages for the nine project countries. [b] Period is 1988-1990 for interest rates and 1987-1990 for exchange rates.
[c] Variation in consumer price index, December–December. [d] Based on constant 1980 dollars. [e] Percentage of GDP, non-financial public sector except Chile and Costa Rica (central government only). [f] Percentage of GDP, based on constant 1995 dollars [g] Average annual short-term lending rates to businesses, deflated by the consumer price index. [h] Average of the indices of the real exchange rate for the currency of each country against the currencies of its main trading partners, deflated by the consumer price index, 1990=100.

The macroeconomic policies that accompanied the structural reforms can be characterized in terms of their attributes. First, there was a clear focus on bringing inflation down to single digits, or even to the average level of the industrialized countries. Second, fiscal policy supported the fight against inflation through shrinking deficits, achieved primarily through expenditure cuts, and less frequently by raising taxes or other revenues. Third, monetary policy was also geared toward stabilization, with interest rates used as the key instrument of stabilization in combination with floating exchange rates and fixed or semi-fixed regimes. Lastly, exchange-rate policy was more diverse. In some countries and in certain periods, the exchange rate was used primarily to reduce inflation; later, it was increasingly employed to maintain international competitiveness and stimulate growth. The shift from one approach to the other generally proved to be traumatic.

While stabilization policies did manage to reduce inflation, they also restrained growth rates in the short and medium run. Moreover, they tended to be procyclical, as interest rates were raised and fiscal expenditure cut to slow down price increases, maintain the exchange rate, or deal with balance-of-payments problems. Output growth in the 1990s thus displayed a stop-go pattern in the project countries as a group, and in most of them individually. As table VIII.2 shows, growth rates peaked twice in the decade, in 1994 and 1997, and each peak was followed by a sharp decline. Attempts to control inflation and regain investor confidence following large devaluations were major causes of both declines.

(c) Links between the reforms and macroeconomic policy

An important question to ask, both about the reforms themselves and about their relation to macroeconomic policies, is whether they have been consistent and mutually reinforcing, or whether they have been so contradictory as to undermine the effectiveness and credibility of the package as a whole. The evidence is mixed, across countries and time periods and also across reform and policy areas.

(i) Consistencies

At the most general level, the trend toward a more balanced macroeconomic policy stance, together with a set of reforms that opened up new opportunities for the domestic and foreign private sectors, gave a major psychological boost to entrepreneurs. Reforms plus macroeconomic stability also eased the external financial constraint that had crippled the region for most of the 1980s. At a more specific level, the most successful mix of reforms and macroeconomic policy occurred in the area of inflation. As governments generally targeted macroeconomic policy on restraining price rises, trade liberalization supported these efforts by lowering the cost of inputs and restricting the ability of local businesses to raise prices, while privatization helped lower inflation through its positive impact on fiscal deficits.

(ii) Inconsistency syndromes

In other areas, however, there were significant contradictions between reforms and macroeconomic policies, resulting in three "inconsistency syndromes". The first arose from capital account liberalization, which provoked a substantial short-term capital inflow and caused local currencies to appreciate; this had its counterpart in trade deficits and also sent mixed signals to firms that had taken encouragement from trade reform to invest in new capacity oriented toward exports. Although the trade deficit could be covered in the short run by the same capital inflows that were causing the exchange rate to appreciate, these flows were eminently reversible and were liable to leave the country as quickly as they had entered in response to domestic problems or international financial trends. In the best of cases, these capital outflows caused disruptions to the local economy; at worst, they resulted in currency crises that were extraordinarily costly and took years to overcome.

A second inconsistency arose between financial liberalization and monetary policy, which became more difficult to manage under conditions of capital-account opening. Financial liberalization resulted in higher interest rates. Overshooting was quite typical, since counter-inflationary monetary policies further increased the cost of money, resulting in local interest rates that were substantially higher than their international counterparts; this was especially problematic for small firms that did not have access to the international capital markets. Even more important were the problems that financial liberalization caused for the banking sector. Local banks lacked experience in evaluating long-term credit risks and became overextended when large amounts of foreign capital entered their countries. Problems were particularly severe when borrowing took place in foreign currency, with debts ballooning out of control when the reversal of capital inflows forced devaluation; as a result, banking crises merged with currency crises.

The third inconsistency syndrome involved fiscal policy. Governments sought to reduce or eliminate their fiscal deficits, but several of the reforms actually made this more difficult, such as tax reform which lowered rates on individuals and corporations. Another reform that interfered with the reduction of fiscal deficits was import liberalization; this was particularly serious for the smaller and less-developed countries that relied heavily on tariffs as a source of government revenue. A third reform, decentralization, exacerbated central government fiscal deficits by shifting revenues to provinces and municipalities without always transferring the counterpart obligations. Privatization, in turn, acted to support fiscal policy in the short run, but created its own trap later on.

(d) Social policy and social expenditure

Social policy was an integral part of the reform process from the outset, at least in principle. The basic idea was to get the government out of productive activities, where the private sector could do a better job, thereby freeing up public resources for social expenditure. These policies were perceived as having a dual value: they would lead to higher productivity and better economic performance, while also enhancing equity and mobility in highly unequal societies.

Social expenditure had declined in most Latin American and Caribbean countries in the 1980s, reflecting the urgent need to reduce fiscal deficits, but countries gave greater priority to the social area in the 1990s, albeit in differing degrees and with differing emphases. All nine project countries increased their per capita social expenditure, and, except for Peru, the increase more than made up for the decline of previous decade. After taking account of inflation, the average rise in per capita social expenditure between 1980-1981 and 1996-1997 was 25%. Social expenditure as a share of total public spending followed a similar pattern, rising by an average of 23%, and it also grew in relation to GDP in most countries, but more slowly (13%) than the other two indicators.

Aside from the issue of the quantity of social services, there were also serious problems with the quality of those services in Latin American countries at the start of the 1990s, which led many governments in the region to embark upon reforms in this area. One type of reform aimed to improve central government delivery of education, health, housing, and social security services through better staff training, enhanced facilities and greater participation by beneficiaries. A second reform focused on decentralizing social services to municipal and provincial levels of government –especially in the case of education and health care. The third approach was most closely related to the economic reforms, as it entailed privatizing certain aspects of social service delivery: several countries encouraged the establishment of private schools, health care and pension systems for those who could afford to pay, while the rest of the population had to continue to rely on the public system.

4. Reforms, investment, productivity and growth

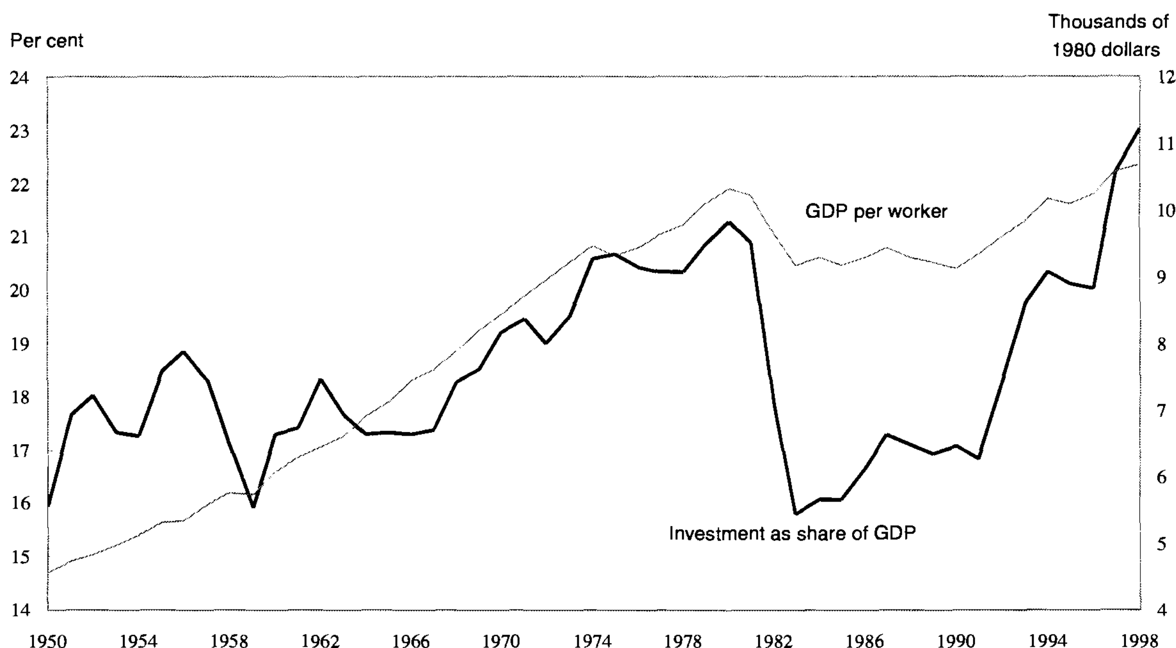
Reform advocates expected that by opening up Latin American economies to world markets and giving greater space to the private sector, investment and productivity would both increase, resulting in faster growth with exports becoming more important as production shifted toward tradable goods. To some extent this has occurred, but the results across countries and sectors have varied.

(a) Long-term trends in investment and productivity

In most project countries, investment and labour productivity have regained their former levels following the steep declines of the 1980s: measured in terms of simple averages, by 1998 both variables were back at, or slightly above the levels they had at the end of the import-substitution period (see figure VIII.2). These averages conceal substantial differences across countries, however: Bolivia, Chile and Costa Rica were particularly successful in raising their investment rates, while Argentina, Chile and Colombia were the leaders in terms of productivity growth, with Mexico and Brazil lagging behind.

Figure VIII.2

INVESTMENT AND LABOUR PRODUCTIVITY TRENDS, 1950-1998[a]



Source: Project database.
[a] Based on a simple average for eight project countries (excluding Jamaica).

Whether a given investment rate is sufficient depends firstly on the growth rate that is desired. Several years ago, ECLAC suggested that annual growth of 6% was needed to tackle the social issues that were outstanding in the region (poverty and unemployment, for example), and there seemed to be substantial consensus around such a figure. Capital-output ratios for a number of countries indicate that this growth rate requires investment at a rate of 28% of GDP –nearly five percentage points higher than the simple average shown in figure VIII.2– which underscores the need for higher saving and investment in the countries of the region.

(b) Post-reform investment phases

The potential impact of the reforms can be better understood if a transitional period is distinguished from a consolidated one. The transition period, in turn, consisted of a phase dominated by negative factors, followed by another in which positive factors prevailed. The former was centred on the uncertainty caused by the reforms themselves, often compounded by macroeconomic disequilibria or problematic international conditions. Investors tended to react defensively to this by rationalizing production processes and introducing disembodied technical change to raise productivity levels; the more positive transitory factors, involving one-time investments, began when some of this uncertainty had been dissipated. Once these two transitional phases had ended, investment would again be determined by the "normal" factors that characterize all capitalist economies (such as macroeconomic stability, anticipated demand, relative prices, and technological upgrading).

The evidence supports the existence of these three phases. Immediately following the reforms, investment coefficients declined, while in the second half of the 1990s they returned to levels similar to those seen during the postwar period. So far only Chile has reached the third phase with its reforms consolidated; all the other countries remain in the transition phase, so it is difficult to predict what their investment rates will be once that period is over.

According to both econometric and qualitative evidence, the two reforms that had the greatest effect on investment patterns were import liberalization and privatization. Each appears to have had a positive but delayed impact: import liberalization lowered costs for imported items (both inputs and capital goods) and heightened competitive pressures, while privatization introduced new actors to the region, notably transnational corporations.

(c) Reforms and growth

While investment and productivity had returned to their pre-debt-crisis levels by the end of the 1990s, the same could not be said for GDP growth. Simple averages for the nine project countries show that growth rates declined from 5.3% to 4.0% between the 1950-1980 base period and the 1990s (see table VIII.3).

Table VIII.3

GDP GROWTH IN SELECTED PERIODS, 1950-1998[a]

(Percentages)

Country	Base period (1950-1980)	Crisis period	Post-crisis period		1990s (1991-1998)
			Recovery	Growth	
High growth					
Argentina	3.8	-1.1	10.1	4.5	5.8
Bolivia	3.5	-1.7	3.5	4.3	4.3
Chile	3.9	1.4	5.2	7.6	7.7
Peru	4.9	-1.2	5.1	4.2	4.6
Simple average	4.0	-0.7	6.0	5.2	5.6
Low growth					
Brazil	7.0	1.3	...	2.4	1.8
Colombia	5.1	2.8	...	3.8	3.6
Costa Rica	6.5	0.2	...	4.0	4.0
Jamaica	5.5	-1.2	....	2.1	0.2
Mexico	6.5	1.0	2.4	3.3	3.1
Simple average	6.1	0.8	...	3.1	2.5
Simple average, total	5.2	0.2	5.3	4.0	3.9
Weighted average, total	6.0	0.8	4.9	3.4	3.2

Source: André Hofman, "Economic growth and performance in Latin America", Reformas económicas series, No. 54 (LC/L.1350), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), March 2000.

[a] Average annual compound growth rate.

These simple averages conceal sharply different performances between two groups of countries. The four that grew most slowly in the base period (Argentina, Bolivia, Chile and Peru) were the fastest growing in the 1990s. These countries also grew considerably faster in the 1990s than in their own past (except for Peru, which grew at about the same rate). Average growth in this group in the base period was 4.0%, rising to 5.6% in the 1990s, the largest increase occurring in Chile, where growth rates nearly doubled.

The remaining five countries (Brazil, Colombia, Costa Rica, Jamaica and Mexico) grew more slowly in the 1990s than in the base period, and more slowly in the 1990s than the other four countries. The simple average growth rate among the five was 6.1% in the base period, compared to 2.5% in the 1990s, with the most dramatic slowdowns occurring in Brazil, Mexico and Jamaica. The fact that the first two are the largest economies in the region explains the difference between the simple and weighted averages shown in table VIII.3.

(i) Growth accounting

Part of the explanation for these trends can be found in a growth-accounting framework. Labour input increased between the base period and the 1990s, and, as hours worked declined in most countries, this implies a larger number of people employed. Capital accumulation, on the other hand, fell sharply between the base period and the later years.

These averages again conceal diverging trends: the rate of growth of labour input more than doubled among the faster-growing countries in the 1990s, while in the slower-growing countries it actually fell. Capital accumulation suffered a relatively small decline in the fast-growing countries, but declined much more dramatically in the slow-growing group. Despite these differences with respect to past trends, however, the two groups of countries displayed similar growth rates for both labour input and capital accumulation during the 1990s, which suggests that other variables must explain much of the difference in GDP growth rates between the two groups in that decade.

Indeed, it is in terms of productivity that one can begin to distinguish between the high- and low-growth countries during the 1990s, rather than just with respect to their own past performance. Factor inputs grew at fairly similar rates across the two groups in the 1990s, and education levels were also nearly identical. But the productivity of labour and capital increased at very different rates, with labour productivity among the faster growing countries rising four times as quickly as in the slower group (2.9% compared to 0.7%). The productivity of the capital stock increased at 1.6% on average in the fast-growing countries, while declining slightly elsewhere.

These results are also reflected in total factor productivity, which represents all factors combined plus residual elements not captured in the analysis. Table VIII.4 gives data for two measures: total factor productivity and doubly-augmented total factor productivity, with the latter including quality improvements in both labour and capital rather than just quantitative changes. Not surprisingly, we find the same pattern here as for labour and capital productivity. All the fast-growing countries except Bolivia made total productivity gains between the base period and the 1990s, while the slower countries saw the basic productivity measure decline. Insofar as productivity is a crucial determinant of a country's ability to compete in the world economy, these figures would suggest that the countries that grew fastest in the 1990s –largely thanks to higher productivity– are likely to enjoy additional advantages in the future.

Table VIII.4

TOTAL FACTOR PRODUCTIVITY GROWTH, 1950-1998[a]

(Percentages)

Country	Total factor productivity		Doubly-augmented Total factor productivity	
	Base period (1950-1980)	1991-1998	Base period (1950-1980)	1991-1998
High Growth				
Argentina	1.54.0		0.6	3.2
Bolivia	2.01.2		0.9	0.0
Chile	2.03.9		1.2	2.8
Peru	1.92.0		0.9	1.5
Simple average	1.92.8		0.9	1.9
Low Growth				
Brazil	2.60.1		1.4	-0.7
Colombia	2.41.1		1.4	-0.3
Costa Rica	2.20.7		1.2	-0.3
Mexico	1.80.7		0.5	-0.3
Simple average	2.30.7		1.1	-0.4
Simple average, both groups	2.11.7		1.0	0.7

Source: André Hofman, "Economic growth and performance in Latin America", Reformas económicas series, No. 54 (LC/L.1350), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), March 2000.

[a] Average annual compound growth rate.

(ii) The impact of the reforms on growth

Econometric evidence indicates that, like investment, the reforms had a positive impact on growth, although the coefficients suggest that this impact was small.[2] In particular, import liberalization, privatization, and capital account opening appear as positively and significantly correlated with higher growth rates; these positive effects increased over time, with stronger results reported for three and five-year averages of the reform variables than for contemporaneous values.

2 Similar conclusions are reached for a larger sample of seventeen Latin American and Caribbean countries. See Hubert Escaith and Samuel Morley, "The impact of structural reforms on growth in Latin America and the Caribbean: an emprirical estimation", Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2000, forthcoming They conclude that the reforms had a positive effect on growth, but mainly through other variables such as investment, macroeconomic policy, and so on, rather than in addition to them.

As regards individual country performances, the four countries identified as aggressive reformers were also those that grew most rapidly in the 1990s, while the cautious reformers grew more slowly (see table VIII.3). On the face of it, this relation appears to provide evidence that more reform leads to higher growth, but in reality the situation is actually far more complex. The reforms worked in conjunction with macroeconomic and international trends, and the elimination of hyperinflation, in particular, had a very positive impact on growth. Moreover, the aggressive reformers chose to undertake many reforms in a very short time period because they were in such dire straits in terms of hyperinflation and negative growth beforehand. Their economies were also much more distorted than those of the other group, and this was often compounded by problems of governance. Not surprisingly, the change in policy stance led to new investment and faster growth, once economic actors had assured themselves that it would be maintained.[3]

Countries that had been doing reasonably well in the pre-reform period had less reason to undertake major structural changes. Although they did implement gradual and selective reforms, the stimulus these provided was smaller because there was no reservoir of opportunities waiting to be exploited. These countries also encountered serious macroeconomic problems that had a negative effect on growth rates. Mexico and Brazil already had high inflation rates at the start of the reform period, and the stabilization policies they followed, which relied on an overvalued exchange rate, eventually resulted in foreign exchange crises. Colombia, Costa Rica and Jamaica also began to suffer from growing macroeconomic imbalance during the 1990s.

5. Reforms and employment

The reforms were expected to impact employment positively through faster output growth and a shift toward more labour-intensive production technologies, while higher demand for unskilled labour was also expected to lower the skill premium and improve income distribution. None of these expectations was actually fulfilled.

(a) Long-term trends

Long-term employment trends are generally thought to be determined by changes in labour supply, although other factors, including the impact of reform, can be significant in the short and medium run. Table VIII.5 shows economic growth for each decade in the postwar period, together with both total and wage employment, and their respective elasticities. Leaving aside the 1980s, which were clearly atypical, elasticities in the 1990s were not significantly different from those of the 1950-1980 base period, so to the extent that the reforms had their impact in the 1990s, it can be inferred that they had neither positive nor negative effects on the long-term relation between GDP growth and job creation. Instead, what stands out in the 1990s are lower growth rates, which led to more sluggish job creation, especially for wage earners.

3 Another study (Paunovic 2000) reaches similar conclusions for a larger sample of 17 Latin American and Caribbean countries. See Igor Paunovic, "Growth and Reforms in Latin America and the Caribbean in the 1990s", Working Paper, No. 70, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2000. Specifically, a combination of a strong macroeconomic effort and comprehensive structural reforms signaled that the government was committed to continue the reforms and that they were irreversible.

Table VIII.5

EMPLOYMENT GROWTH AND ELASTICITIES, 1950s TO 1990s[a]

(Annual weighted average)

Period	GDP growth	Growth of employment	Employment elasticity w.r.t. output	Growth of wage employment	Wage employment elasticity w.r.t. output
1950s	5.1	1.9	0.4	2.5	0.5
1960s	5.7	2.3	0.4	2.7	0.5
1970s	5.6	3.8	0.7	4.7	0.8
1980s	1.2	2.9	2.6	2.4	2.0
1990-1997	3.7	2.2	0.6	2.2	0.6
Average	4.3	2.6	0.9	2.9	0.9

Source: Jürgen Weller, *Reformas económicas, crecimiento y empleo: los mercados de trabajo en América Latina durante los años noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and Fondo de Cultura Económica, 2000, under preparation.

[a] Figures for employment growth in the 1950s, 1960s and 1970s refer to growth of the labour force. From the 1950s through the 1980s, 20 countries are included; for 1990–1997, the number is 17.

(b) Problems in the 1990s

The slow growth of employment in the 1990s was compounded by deteriorating job quality; employment shifted from the formal to the informal sector, where, according to the International Labour Organization (ILO), nearly 60% of new jobs in the project countries were created. This sector was especially significant in Colombia, and in Brazil, where formal-sector employment declined in absolute terms. Informal employment was least important in Argentina and Chile.

Sluggish job creation led to high rates of unemployment during the 1990s; while average unemployment for the decade was slightly down from the 1980s figure, it remained at levels that were historically very high for the region. Moreover, the rate rose throughout the 1990s, to average nearly 9% among project countries in 1998. Theory would predict an inverse relationship between unemployment and wage trends, but this was not evident in the 1990s, as real wages increased or at least held their own in nearly all cases. In Argentina, the elimination of inflation was accompanied by virtually constant real wages, and only Chile saw continuous increases throughout the period.

Table VIII.6 provides a simple qualitative summary of the behaviour of several labour-market indicators: the employment rate, unemployment, wage employment compared to total employment, real wages, and labour productivity. The table assigns a plus where conditions improved, a minus where they deteriorated, and a zero where they remained relatively constant. Real wages displayed the most positive trends, often linked to productivity increases, while rising unemployment appears to have been the biggest problem; this was also frequently related to productivity but in the opposite direction. Changes in the level and type of employment (wage-paying employment as a proportion of total new jobs) seem to have been more varied among the nine project countries.

(c) The impact of the reforms on employment

To what extent are the overall trends among labour-market variables and the specific country differences reform-related? Econometric evidence points to two conclusions: firstly, that the generally weak growth rates of the 1990s –compared to the earlier years of the postwar period, although not to the 1980s– caused much of the employment problem; and the stop-go growth pattern of the 1990s discouraged job creation still further.

A second conclusion is that the reforms themselves hindered job creation, since coefficients were negative and significant on the average reform index and the trade-reform and capital-account indices, using both contemporaneous values of the reforms and three-year averages. Such impacts have been partially offset by economic growth, which was boosted by the reforms, but the direct effect on job creation was clearly negative.

(d) Wage differentials

Wage differentials increased in the 1990s in all countries except for Costa Rica and to some extent Chile. A widening of skill differentials is the opposite of what was expected, and one possible explanation might be that relative-price changes led to a higher capital-labour ratio with labour being replaced by capital. According to data gathered by the project, however, relative price trends did not show any consistent pattern in relation to the capital-labour ratio

Table VIII.6

CHANGES IN LABOUR-MARKET INDICATORS, 1990s[a]

Country	Occupation level[b]	Unemployment[c]	Wage employment[d]	Real wage[e]	Labour productivity[f]
Argentina	-	-	+	=	+
Bolivia	+	+	-	+	-
Brazil	-	-	=	+	+
Chile	+	+	+	+	+
Colombia	=	-	-	+	+
Costa Rica	+	=	=	+	+
Jamaica	-	=	+	+	-
Mexico	+	-	+	+	=
Peru	+	-	-	+	+

Source: Jürgen Weller, *Reformas económicas, crecimiento y empleo: los mercados de trabajo en América Latina durante los años noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and Fondo de Cultura Económica, 2000, under preparation.

[a] The evaluation relates to changes that occurred from the beginning of the 1990s until 1998 (Bolivia and Peru: 1997). + means a favourable change; - means an unfavourable change; = means very little or no change. [b] Percentage change in the rate of employment. [c] Percentage change in unemployment rate. [d] Growth of wage employment with respect to total employment. [e] Percentage change in real average wages in the formal sector. [f] Percentage change in average labour productivity.

If relative prices cannot explain the widening wage gap, another possibility is company restructuring that was not associated with skilled labour complementing capital. Restructuring that entailed greater outsourcing of services may have caused more skilled workers to be employed in the tertiary sector and fewer unskilled workers within the firm itself. The functioning of the labour market provides another possible explanation, with declining union strength probably having a role in some countries, since lower-skilled workers were less likely to be represented by labour unions. The minimum wage may also have played a part, as it has frequently lagged behind the average wage.

6. Heterogeneity in the responses of sectors and firms

Sectoral and microeconomic analyses provide an essential complement to the aggregate results. As reform proponents believed that Latin America's advantage lay in unskilled labour, they expected labour-intensive sectors to produce the most dynamic export performance and small labour-intensive firms to grow faster than larger ones.

Trade liberalization in fact led to two different patterns of export growth in the 1990s: integration with the North American market through manufactured exports in Mexico, Central America and the Caribbean, versus a concentration on natural-resource-based commodities in South America. The difference was the result of trade arrangements such as the North America Free Trade Agreement (NAFTA) and the Caribbean Basin Initiative (CBI), which fostered manufacturing exports, particularly from maquila plants.

(a) Investment and productivity dynamics: increasing specialization

Investment in the post-reform period was concentrated in a relatively small number of sectors. Only one sector (telecommunications) saw dynamic investment in all countries, and only one country (Chile) increased investment in every major sector (see table VIII.7). Manufacturing investment was particularly dynamic in certain capital-intensive subsectors (for example, cement, steel, petrochemicals, and chemicals). Privatization fostered investment in certain tradables (for example, mining and natural gas), although linkages with the rest of the economy remained weak. Among non-tradables, the largest increases in investment were in telecoms, while results were mixed in electricity and transportation.

Table VIII.7

DYNAMISM OF SECTORAL INVESTMENT AFTER THE REFORMS[a]

Country	Mining	Oil and gas	Manufacturing	Tele-communi-cation	Electricity	Transportation
Argentina	Medium	High	Medium	High	Medium	Medium
Bolivia	High	High	Low	High	Medium	n.a.
Brazil	Low	Low	Medium	High	Low	Low
Chile	High	Medium	High	High	High	High
Colombia	n.a.	High	Medium	High	Medium	Low
Costa Rica	n.a.	n.a.	High	High	High	High
Mexico	n.a.	Medium	Medium	High	Medium	High
Peru	Medium	Low	Low	High	Medium	High

Source: Graciela Moguillansky and Ricardo Bielschowsky, *La inversión en un proceso de cambio estructural: América Latina en los noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and Fondo de Cultura Económica, 2000, under preparation.

[a] High (low) dynamism implies that investment-GDP coefficients were larger (smaller) following the reforms than in the pre-reform period, except for Argentina and Chile, for which the base periods used were the early 1990s and early 1980s respectively. When coefficients are not significantly different between the two periods, dynamism is classed as medium.

Large firms were the most active investors, although smaller companies had a minor presence in some activities where investment grew rapidly. Among large firms, subsidiaries of transnational corporations gained ground vis-à-vis large domestic conglomerates. The former were responsible for much of the investment growth, not only in the most dynamic areas of manufacturing, but also in mining and telecoms. Privatization, together with an easing of regulations precluding foreign firms from investing in a number of sectors, and the globalization of major industries, all combined to strengthen the position of foreign corporations. Nonetheless, these large firms contributed relatively little to job creation as they tended to be more capital-intensive.

Productivity gains were more evenly spread across broad sectors of the economy (agriculture, manufacturing, and services), but there was greater heterogeneity between subsectors –for example, between commercial and family agriculture. In the manufacturing sector also, some subsectors performed very well while others lagged behind. Despite productivity increases in the 1990s, the overall manufacturing productivity gap vis-à-vis the United States failed to narrow (see table VIII.8). Although the gap between large firms and small and medium-size enterprises grew smaller in some countries, performance remained extremely uneven, and, like investment, modernization processes occurred mainly among larger firms.

The importance of external factors in the incorporation of new technologies grew in tandem with the investment process. The increasing significance of imported capital goods, together with a substitution of foreign inputs for domestic ones and the construction of technologically advanced plants by foreign firms, all contributed to a heavier foreign component in the region's sectoral innovation systems. At the same time, as the State has scaled down its participation in technology development, private actors have not always stepped in to take its place.

Table VIII.8

LABOUR PRODUCTIVITY IN MANUFACTURING RELATIVE TO THE UNITED STATES, 1970-1996

Country	1970	1980	1990	1996
Argentina	0.42	0.41	0.55	0.67
Brazil	0.28	0.26	0.29	0.37
Chile	0.25	0.24	0.23	0.20[a]
Colombia	0.29	0.25	0.37	0.34
Costa Rica	n.a.	n.a.	0.15	0.14[b]
Jamaica	0.26	0.16	0.16	0.13[b]
Mexico	0.32	0.30	0.44	0.38[c]
Peru	0.33	0.25	0.16	0.15

Source: Jorge Katz, Reformas estructurales, productividad y conducta tecnológica en América Latina, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and Fondo de Cultura Económica, 2000, under preparation.

[a] Data for 1995. [b] Data for 1992. [c] Data for 1994.

Trade liberalization and privatization were the reforms that had the greatest impact at the sectoral and microeconomic levels. The former not only put pressure on firms to increase their competitiveness, but also facilitated subregional integration processes that opened up markets for manufacturing exports. Privatization, meanwhile, was instrumental in stimulating investment and modernization. Despite these positive developments, major problems remain, including burgeoning manufacturing trade deficits; the enclave nature of large mining companies; uncertainty about future investments; and weak regulation plus high entry barriers to new competitors in both electricity and telecoms.

(b) Increasing heterogeneity in sectoral employment

Changes in sectoral employment occurred across sectors, as well as within them, and activities that have traditionally produced the largest volume of employment, such as textiles and garments, declined across the board. Only the *maquila* assembly plants, operating under different conditions from the rest of the economy, provided the strong growth in highly labour-intensive activities that the reforms were expected to generate. Commercial agriculture and manufacturing firms in the formal sector underwent important modernization processes, involving more intensive use of capital; this restrained job creation in sectors where output grew most strongly, such as natural-resource-based commodities and the automobile industry.

Slow growth among labour-intensive tradables had a number of causes. Firstly, the inherent contradiction between the reforms on the one hand (which sought to move toward an export-led growth model) and macroeconomic policies (which led to overvalued exchange rates), sent producers ambiguous signals that hindered investment in tradable goods production. Secondly, assumptions about the region's comparative advantage were wrong, at least at the level of generalization to which they were applied: the regional experience shows that the main advantages of Latin America in general, and the South American countries in particular, lie in natural resources rather than in unskilled labour. This was compounded by changes in relative factor prices, which occurred when trade liberalization sharply reduced the relative cost of capital goods.

As the concentration of growth in capital-intensive activities created few jobs, services became the residual employer; and while high-quality jobs were created in telecoms, banking, and finance, the bulk of employment in the service sector was low-skill (see table VIII.9). There was ever greater polarization between activities that had been rapidly modernized and traditional ones employing a low-skill workforce; residual labour tended to be employed by the latter, and this led to slow growth in the overall productivity of the sector. Microenterprises generated the largest number of jobs, mostly operating on an informal basis; and this, together with the low rate of job creation by large modern firms offering higher wages, led to widening wage differentials. Weak job creation in the tradables sectors has thus been accompanied by an increasingly heterogeneous and polarized labour market.

Table VIII.9

EMPLOYMENT GROWTH BY SECTOR, 1990-1997[a]

(Percentages)

Sector	Employment growth	Contribution to total
Agriculture	-0.9	-11.1
Manufacturing industry	1.2	9.0
Construction	2.8	8.4
Commerce, restaurants, and hotels	3.5	30.9
Electricity, gas and water, transportation, storage, and communications	4.9	12.0
Financial services, insurance, real estate, and business services	6.8	14.0
Social, communal, and personal services	2.8	40.3
Other	-3.2	-3.5
Total	**2.0**	**100.0**

Source: Jürgen Weller, *Reformas económicas, crecimiento y empleo: los mercados de trabajo en América Latina durante los años noventa*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and Fondo de Cultura Económica, 2000, under preparation.

[a] Weighted averages for the nine project countries.

7. Patterns of income distribution

The income-distribution concept most closely linked to labour-market outcomes is the primary distribution, which measures incomes accruing to factors of production (mainly labour in our data). The primary distribution is also the most relevant for measuring the impact of the reforms on distribution, as the operation of the labour market is a key intervening factor. However, it does not take account of unemployment since it only covers individuals reporting "earned" income.

Table VIII.10 shows both the primary and household distributions for the project countries. The data are taken from household surveys, which provide a great deal of information on certain types of income, although not always on all of them –for example, profits are frequently excluded. Nor do they sample the wealthiest groups in society, which, there is reason to believe, were the prime beneficiaries of the reforms. The following analysis therefore probably underestimates the impact of the reforms in increasing inequality.

Table VIII.10

PRIMARY AND HOUSEHOLD INCOME DISTRIBUTIONS, 1980s TO 1990s

Country	Pre-reform	Post-reform	Latest
Primary distribution[a]			
Argentina[b]	.293 (1986)	.268 (1991)	.283 (1996)
Bolivia[b]	.668 (1985)	.486 (1989)	.595 (1996)
Brazil	.680 (1985)	.700 (1990)	.710 (1997)
Chile	n.a.	.658 (1987)	.636 (1996)
Colombia[b]	.582 (1988)	.596 (1993)	.625 (1996)
Costa Rica	n.a.	.490 (1988)	.478 (1995)
Jamaica	n.a.	n.a.	n.a.
Mexico	.200 (1984)	.270 (1989)	.290 (1996)
Peru	.579 (1985)	.502 (1991)	.485 (1996)
Household distribution[c]			
Argentina[b]	.407 (1986)	.461 (1991)	.486 (1996)
Bolivia[b]	.590 (1985)	.430 (1989)	.480 (1996)
Brazil	.590 (1985)	.610 (1990)	.590 (1997)
Chile	n.a.	.560 (1987)	.553 (1996)
Colombia	.516 (1978)	.531 (1991)	.533 (1995)
Costa Rica	.415 (1986)	.361 (1988)	.376 (1995)
Jamaica[d]	.436 (1989)	.382 (1993)	.369 (1996)
Mexico	.474 (1984)	.537 (1989)	.540 (1994)
Peru	.519 (1985)	.467 (1991)	.435 (1996)

Source: Samuel Morley, *El problema de la distribución del ingreso en América Latina*, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC) and Fondo de Cultura Económica, 2000, under preparation.
[a] Theil index. Wide differences in the primary distribution index reflect the particular population subgroup analysed. [b] Urban only.
[c] Gini coefficient; [d] Expenditure rather than income data.

(a) Income distribution trends

Three patterns can be distinguished in the primary income distribution, the first of which involves declining inequality in Chile, Costa Rica and Peru. A second pattern is found in Brazil, Colombia and Mexico, where inequality increased from the pre-reform period to the most recent year, although none of the changes was very large. Lastly, Argentina and Bolivia followed a mixed pattern with inequality declining between the pre- and early post-reform periods, after which it began to rise again. These results pertain only to the reforms of the 1980s and 1990s. Chile and Argentina both suffered significantly higher inequality during their earlier reform experiences in the 1970s,

although it is hard to determine whether this should be attributed to the reforms per se, or to the repressive policies imposed by the military governments.

Household income distribution data mostly display trends similar to the primary distribution, except in Argentina where inequality in household income continues to worsen, probably because unemployment has risen rapidly.

Primary distribution trends are correlated with the behaviour of the wage gap: differentials narrowed in Chile and Costa Rica, and income distribution improved; differentials grew in Brazil, Colombia and Mexico, and income distribution in those countries became more unequal. The situation is more complicated in Argentina, Bolivia and Peru, however, as these countries had very high inflation around the time the reforms were implemented. Since lowering high inflation has a positive impact on income distribution, this factor was probably at least partially responsible for the U-shaped trends observed, where inequality began to rise again in Argentina and Bolivia following a one-time improvement. Peru presents a special case in which greater equality involved less dispersion around a falling average income level in the 1985-1990 period, whereas in the 1990s per capita income growth was positive but poverty still continued to rise.

(b) The impact of the reforms on distribution

In contrast to nearly all previous research, an econometric study of the nine project countries (plus seven others) for 1970-1995 finds evidence of a "Kuznets curve" –an inverted U-shaped relation in which inequality worsens on the way up the income curve, before reaching an inflection point and subsequently improving.

When the impact of the reforms is measured in terms of the Gini coefficient, regressions indicate that the overall reform variable had a small, but negative effect on distribution, thereby confirming qualitative case-study evidence from other sources. The individual indices show a more complex pattern, however. Three of the reforms provide consistent results across several different samples (urban, rural and national): trade liberalization and tax reform were always regressive, while capital account opening was always progressive. In other cases, the results are not consistent enough to make a firm judgement.

(c) Social expenditure and equity

Expenditure on basic social services significantly boosted household incomes in the lowest quintiles in several countries, with effects ranging from 41% in Colombia to 142% in Argentina, and an average of 87% for four countries studied (the two mentioned plus Brazil and Chile). In other words, when added to autonomous household income, the monetary equivalent of the benefits provided through social programs had a significant impact on the welfare of the poorest 20% of the population. Social expenditure also had a positive impact on income distribution, reducing the gap between the highest and lowest income quintiles. On average, in the absence of social expenditure, the income of the highest quintile among the four countries would have been sixteen times that of the lowest quintile, whereas social expenditure brought this ratio down to nine. Despite this improvement in distribution, the concentration of income in the region is still well above that of most low- and middle-income countries in Europe and Asia, even when social expenditure is included.

8. Conclusions

One major conclusion to emerge from the results of this study is that structural reforms should not be considered in isolation but rather as part of a policy package that also includes the macroeconomic and social areas. These three elements can either collaborate to create a propitious environment that encourages private actors to invest and increase output, or they can be contradictory, sending mixed signals to the private sector and undermining incentives. Countries that managed to combine the three elements have so far fared better. Secondly, the initial conditions in the various countries were quite diverse, and this affected not only the extent

of the reforms adopted, but also their subsequent performance. Thirdly, the reforms were often slow to produce an impact because of the uncertainty they generated, especially when combined with macroeconomic instability; moreover, their positive effects were frequently undermined by unfavourable trends in the international economy. Fourthly, effects on productivity growth and employment were extremely heterogeneous across sectors. Lastly, certain assumptions about the region's comparative advantages proved to be incorrect, and, consequently, reforms in the area of employment and equity have produced unexpected results, with some problems being exacerbated. Although high and stable growth rates would help to mitigate this, active public policies are also needed.

In brief, 15 years of reforms in the region have resulted in significant accomplishments, but much remains to be done and many problems still persist. Further progress requires policies to accelerate economic growth through greater investment and faster technological progress, together with a social offensive to create jobs and improve equity, and better macroeconomic management. Policy implementation requires cooperation between governments and the private sector in order to build institutions capable of extending the benefits of the new economic model to the vast majority of the population.

Second part

The countries

Argentina

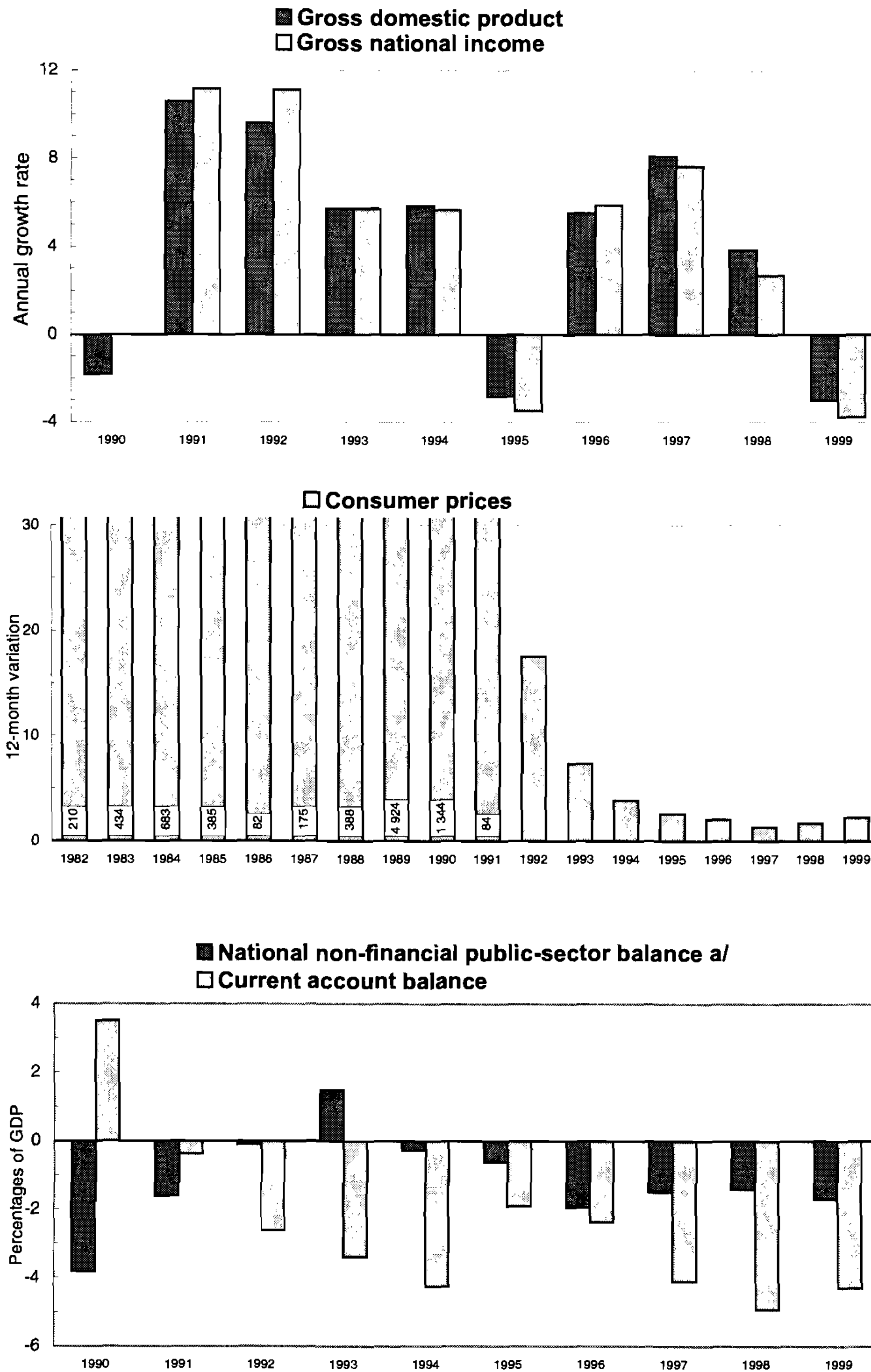
1. General trends

The level of activity fell by 3% in 1999, and the downturn in domestic spending had an impact on consumption and, above all, investment. For the first time in seven years the volume of goods and services exports actually decreased. Although the aggregate decrease in quantity was slight, the slump in unit prices led to an appreciable reduction in the value of merchandise exports. The decline in imports caused the trade gap to narrow by a significant amount, however, and this helped to scale back the negative balance on the current account. Against a backdrop of flagging demand, and with the exchange rate firmly tied to the dollar, the country witnessed price deflation, with the CPI dropping by 1.8% in 1999. For the year overall, the rising labour participation rate, combined with weaker demand for labour, raised the unemployment rate. However, although high, it did not approach the levels recorded during the recession of the mid-1990s. The compressed tax base hurt government revenues and, although capital inflows offset the impact of this trend to some extent, the national government deficit did rise somewhat. The adverse fiscal outlook prompted the new Administration, which took office in late 1999, to adopt adjustment measures based on spending cuts and tax changes.

VARIOUS INTERNATIONAL trends influenced macroeconomic developments. The terms of trade for goods again moved against Argentina in 1999, and export prices fell in what amounted to a cumulative decrease of over 20% from the peaks recorded three years earlier. Sales to Argentina's main trading partner, Brazil, were also hurt by prevailing macroeconomic conditions there. External financing conditions had been affected when the prices of Argentine assets sustained heavy losses in 1998, after the turmoil in Russia, and the subsequent upturn in asset prices suffered another setback with the Brazilian exchange crisis in early 1999. However, this time the effect on Argentine markets was not as intense as it had been in 1998, despite the interdependence of these two countries' trade flows. Moreover, the impact on the demand for assets tended to fade during the following months. As the year progressed, credit markets performed erratically, partly in response to the proximity of presidential elections in October, but these variations were relatively moderate. In general terms, credit supply in 1999 was less fluid than in previous years, although there were no serious disturbances (such as those of the 1995 crisis), nor was the operation of the banking system impaired, although credit to the private sector did decrease.

The economic downswing was clearly perceptible as early as the second half of 1998, with sharp falls in spending and industrial output, and it persisted throughout the first half of 1999. These contractionary trends eased in the latter part of the year with the first

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

[a] Does not include provinces or municipalities.

signs of an improvement in international prices and the recovery of Brazilian demand, while domestic interest rates also moved downward slightly. The level of activity began to show a tentative upturn as well, and GDP in the fourth quarter was similar to its level of a year earlier, although this was still significantly lower than the previous cyclical peak. Signals regarding GDP performance were not very clear during the first few months of 2000 since, although financial markets were free of disturbances, domestic demand failed to pick up even though merchandise exports were considerably higher than the previous year and industrial indicators trended upward. Under these circumstances, the level of economic activity was a particularly important indicator, not only because of its effects on employment, but also because of its implications for public finances, whose performance was closely monitored, particularly by agents in the financial assets market.

The fiscal results for April sparked concern about public finances and this, in combination with interest rate hikes in the United States, drove down the prices of securities. In response, the government announced sizeable spending cuts which were implemented in late May.

2. Economic policy

The targets agreed upon with IMF for 1999 were based on a projected upturn in activity from the levels recorded during the latter part of 1998. The limit on the public sector's borrowing requirements was set at 1% of GDP (without considering privatizations). When the targets were reviewed a few months later, however, the projected deficit was significantly higher than the original figure. Financing conditions for the government also varied considerably during 1999, with sharp fluctuations in country risk spreads at the beginning of the year and somewhat more moderate swings during the third quarter. Even so, the government was able to cover its financing needs during the period as a whole by maintaining a cushion of credit operations in advance of its immediate funding requirements. The status of government finances and the structure of the tax system were a controversial subject throughout 1999. Legislation was passed during the year that set a sliding scale for the progressive reduction of the federal government deficit. This law entered into effect the following year. The goal for 2000 (close to 1.5% of GDP) was a central issue in the budget debate.

The recessionary environment and the external shocks affecting the economy did not appear to undermine the broad consensus that exists as to the central role played in the economy by the fixed exchange-rate regime. During this period there was a great deal of debate, however, about the design of monetary institutions, particularly in relation to the possible alternatives between dollarization, on the one hand, and regional macroeconomic coordination, on the other. Nevertheless, after the presidential elections in late October, the new Administration confirmed its policy of maintaining the existing system of convertibility.

The incoming Administration viewed existing fiscal trends with concern and took the view that, in the absence of strong corrective measures, the public deficit would be high in 2000 and could have serious implications for credit markets. Spending cuts and tax adjustments were therefore proposed, particularly for income and wealth taxes. The government also suspended reductions in employer contributions to the social security system that had already been approved. Negotiations began between the federal and provincial governments concerning mechanisms for transferring resources to local jurisdictions as part of a revenue-sharing agreement. Then, in January 2000, the government formalized a stand-by agreement with IMF based on a targeted annual public-sector deficit of around 1.5% of GDP.

In May 2000, a number of labour law reforms were passed. Among other provisions, these reforms are directed towards decentralizing collective bargaining by giving priority to agreements at the company level, when such agreements exist.

During the second quarter, fiscal accounts and international credit markets were sources of increasing concern for the authorities. In late May, facing the prospect of a greater deficit than envisaged, the government took steps to curb public spending. These measures included public-sector wage cuts for staff earning salaries over a certain threshold and deductions from special pension schemes; in addition, several government agencies were slated for restructuring or mergers. The government also announced reforms in the State-run public health system and in the pension system.

Table 1

ARGENTINA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	10.6	9.6	5.7	5.8	-2.8	5.5	8.1	3.9	-3.0
Per capita gross domestic product	9.1	8.1	4.3	4.5	-4.1	4.2	6.7	2.6	-4.2
Gross domsstic product, by sector									
Goods	10.6	10.0	5.4	5.7	-4.7	5.2	8.4	4.2	-4.9
Basic services	8.1	11.3	6.9	10.4	3.0	6.3	10.5	7.7	-1.0
Other services	9.9	7.6	5.6	5.9	-2.4	5.3	7.3	4.2	-1.3
Total consumption [c]	14.8	13.2	5.3	5.0	-3.6	5.9	7.9	3.1	-3.4
General government				0.4	0.8	2.2	3.2	-1.1	10.1
Private				5.9	-4.4	6.7	8.8	3.9	-5.7
Fixed domestic investment	29.9	32.6	15.3	13.7	-13.1	8.9	17.7	6.6	-7.6
Exports of goods and services	-3.6	-1.0	4.7	15.1	22.6	7.8	12.0	10.1	-1.1
Imports of goods and services	80.1	65.7	14.9	21.1	-10.0	17.4	26.6	8.4	-11.2
	Percentages of GDP [d]								
Gross national income	97.9	99.2	99.1	99.0	98.3	98.7	98.4	97.3	96.5
Gross domestic investment	14.2	17.1	18.6	20.0	17.9	18.5	20.1	20.7	19.7
National savings	13.8	14.3	14.7	15.2	15.9	15.9	15.5	15.0	14.7
External savings	0.4	2.9	4.0	4.8	2.1	2.6	4.7	5.7	5.0
	Percentages								
Employment and wages									
Labour force participation rate [e]	39.5	40.0	41.3	41.0	42.0	41.5	42.2	42.2	42.6
Open unemployment rate [f]	6.5	7.0	9.6	11.5	17.5	17.2	14.9	12.9	14.3
Real average wage (index: 1995 = 100) [g]	100.4	101.7	100.4	101.1	100.0	99.9	99.3	99.0	98.2
	Growth rates								
Prices (December-December)									
Consumer prices	84.0	17.5	7.4	3.9	1.6	0.1	0.3	0.7	-1.8
Wholesale prices	56.7	3.2	0.1	5.8	6.0	2.1	- 0.9	- 6.3	1.2
External sector									
Terms of trade (index: 1995=100) [d]	100.2	100.7	104.8	105.6	100.0	108.5	108.9	103.9	98.5
Nominal exchange rate (pesos per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate for imports (index: 1995=100)	116.3	103.0	94.4	93.8	100.0	101.9	98.9	96.8	89.4
	Millions of dollars								
Balance of payments									
Current account	- 647	-5 488	-8 003	-10 949	-4 938	-6 468	-12 036	-14 698	-12 155
Trade balance (goods and services)	2 820	-3 859	-5 585	-7 831	- 969	-1 606	-6 301	-7 400	-4 799
Exports	14 386	15 418	16 457	19 451	25 016	28 471	30 940	31 093	27 757
Imports	11 566	19 277	22 042	27 282	25 985	30 077	37 241	38 493	32 557
Capital and financial accounts [h]	- 159	8 631	11 039	11 171	2 920	9 984	15 342	18 790	13 355
Overall balance	- 806	3 143	3 036	222	-2 018	3 516	3 306	4 092	1 200
Variation in reserve assets (- indicates and increase)	-2 040	-3 274	-4 250	- 682	102	-3 882	-3 273	-3 438	-1 200
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	32.3	27.4	28.0	30.4	35.2	36.9	42.6	47.1	51.2
Net interest (as a percentage of exports) [i]	24.0	9.4	9.0	8.9	9.7	11.4	13.3	16.5	20.6

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Non-financial public sector									
Current revenue [j]	15.0	17.4	21.5	19.3	18.9	17.2	18.6	18.8	19.3
Current expenditure	16.2	16.8	18.7	18.4	18.8	18.2	19.1	19.1	20.9
Saving	-1.2	0.6	2.8	0.9	0.1	-0.9	-0.4	-0.3	-1.6
Capital expenditure (net)	0.4	0.7	1.3	1.2	0.7	1.0	1.1	1.1	0.1
Financial balance	-1.6	-0.1	1.5	-0.3	-0.6	-1.9	-1.5	-1.4	-1.7
			Growth rates						
Money and credit									
Monetary balance of banking system									
Net domestic credit	108.8	15.0	33.8	27.6	5.6	12.6	20.6	14.0	5.8
To public sector	55.9	- 21.6	- 61.2	- 9.6	112.8	14.0	- 4.4	30.3	25.4
To private sector	112.0	53.5	23.7	8.8	- 0.6	9.4	17.0	12.0	- 2.7
Money (M1)	144.4	51.5	34.0	13.4	1.7	10.6	14.6	1.0	- 1.5
Local currency savings and time deposits	64.9	73.9	51.3	9.1	- 10.5	19.3	36.2	13.0	- 2.8
M2	104.0	60.7	41.7	11.4	- 4.0	14.4	24.4	7.0	- 2.2
Other deposits	269.3	64.6	60.7	25.6	- 0.4	23.0	24.0	20.1	10.2
			Annual rates						
Real interest rate (annualized, %)									
Deposit rate	...	...	0.5	3.8	8.2	7.1	6.4	6.6	9.4
Lending rate	...	...	3.1	5.7	14.0	10.3	8.7	9.6	12.4
Equivalent interest rate in foreign currency [k]	...	...	11.3	8.1	11.9	7.4	7.0	7.6	8.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on constant 1986 pesos. [c] Includes changes in stocks. [d] Based on constant 1995 dollars. [e] Percentages of the total population in urban areas. [f] Percentages of the economically active population in urban areas. [g] Refers to manufacturing industry. [h] Capital pending classification according to the methodology used in the fifth edition of the Balance of Payments Manual. Includes the banking sector and the non-financial public and private sectors. Includes errors and omissions. [i] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [j] Includes the national administration, the national social security system and public-sector enterprises. Based on final budget figures. [k] Interest rate on deposits, deflated by the variation in the exchange rate.

Although for many years Mercosur had been perceived as playing a key role in economic development, it now became a focus of tension, as trade restrictions imposed by both Argentina and Brazil led to disputes relating to the cross-border trade of various goods. Schemes to boost investment (such as those used by state governments in Brazil) were also subject to debate. At the same time, the authorities continued to insist that Mercosur was a high-priority undertaking. Intergovernmental negotiations were stepped up during the early months of 2000, and one of the issues discussed was the definition of regional criteria for trends in macroeconomic indicators. An agreement was also reached on a new regional regime for the automotive industry. These initiatives signalled the authorities' commitment to bolstering Mercosur, even though some major issues relating to its future operation are yet to be resolved.

(a) Fiscal policy

In 1999, public-sector outlays increased and current revenue decreased, and capital inflows were not plentiful enough to compensate. The cash deficit rose to 1.7% of GDP (1.4% in 1998) while, excluding privatizations, the fiscal deficit reached around 2.6% of GDP, versus 1.5% the year before. Interest payments rose sharply (by 22%, or more than twice the level of just four years earlier). On the other hand, social security expenditure was slightly lower, and outlays on payroll and transfers (including sums sent to provinces as part of the revenue-sharing scheme) rose very little. Capital expenditure fell steeply

Table 2

ARGENTINA: MAIN QUARTERLY INDICATORS

	1997				1998[a]				1999[a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	8.2	8.2	9.0	8.2	6.4	6.7	3.3	-0.6	-3.0	-4.9	-4.1	0.1	1.0
Consumer prices (12-month variation, %)	0.9	0.8	0.6	0.4	0.8	1.1	1.1	0.7	-0.7	-1.3	-2.0	-1.8	0.0
Exports (millions of dollars)	5 774	7 205	6 903	6 335	5 890	7 686	7 027	5 838	5 062	6 397	5 917	5 942	5 685
Imports (millions of dollars)	6 493	7 520	8 195	8 242	7 535	8 214	8 429	7 226	5 839	6 019	6 850	6 831	5 847
International reserves (millions of dollars)	...	19 501	20 400	22 482	21 213	22 923	24 157	25 703	23 666	23 689	22 637	26 407	24 729
Real effective exchange rate [b] (index: 1995=100)	99.4	99.6	98.1	98.5	96.6	96.7	95.7	98.0	89.0	89.8	89.0	89.8	90.5
Real interest rates (annualized, %)													
Deposit rate	6.3	5.8	5.7	7.9	6.4	5.4	6.9	7.5	8.2	7.9	9.8	11.7	8.9
Lending rate	8.8	7.2	7.1	11.8	9.4	7.1	10.3	11.7	12.1	10.2	12.3	15.1	11.7

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

(by over 15%) to not much more than 1% of GDP. At the national level, aggregate public-sector primary expenditure was down slightly, although not enough to offset the downturn in income. The financial deficit of the provincial governments, meanwhile, climbed to around 1.1% of GDP. Social problems arose in several provinces, and tensions were running high in 1999 and the early months of 2000.

Federal tax receipts decreased by 5% in 1999 and revenues from social security taxes also suffered a further drop (13%). Sluggish imports led to a steep slide in foreign trade tax receipts (18%). The recession also had a strong impact on VAT revenues, which fell more steeply than GDP. In contrast, receipts from income and personal property taxes continued to climb.

The nation's public-sector debt grew considerably (by around 8%), verging on US$ 122 billion (around 43% of GDP). Almost US$ 12 billion in bonds was floated on international markets in 1999. Most of this activity was on the European market, since for a large part of the year it proved more difficult to place bonds on the United States market. The government also increased its local financing component, particularly through placements with pension fund managers and banks. Privatization operations supplied the non-financial public sector with a sum equivalent to close to 1% of GDP (considerably higher than the figure for 1998), most of which came from the sale of a block of shares in the oil company Yacimientos Petrolíferos Fiscales (YPF).

Despite sagging tax receipts in the first quarter of 2000, the federal government's deficit was within the target range agreed upon with IMF. The drop in income reflected lower VAT receipts (as a result of sluggish consumption and lower prices) and slimmer receipts from social security taxes and customs duties. By contrast, income tax revenues were higher, with a year-on-year increase of around 2% in April; even so, the fiscal deficit figures were high.

(b) Monetary policy and financial markets

Central Bank monetary liabilities were slightly higher in 1999 but were easily covered by international reserves. The money supply (M1) shrank by 1.5%, as demand for money waned. The growth rate for the volume of bank deposits slowed considerably, although the rate for the year as a whole was positive. Peso deposits slipped, but dollar-denominated deposits rose by 10%. As a result, M3 posted a gain of 3%.

The absence of signs of strain in the banking sector marked a contrast with the events that had surrounded the 1995 recession. Even so, bank credit to the private sector shrank by about 2.5%. Financing to the public sector, however, increased by around 16%. The squeeze on private-sector lending reflected a cautious attitude on the part of the banking industry. Banks were more willing to grant financing in the early months of 2000, however, particularly to the mortgage market, where loans of up to 30 years were on offer. The uncertain environment and the level of financial costs also dampened the demand for loans. The quality of private bank portfolios deteriorated somewhat, although not seriously.

Liquidity was reflected in interest rates on deposits, which fluctuated around levels lower than the rates observed during the latter part of 1998. The prime rate for corporate loans varied considerably, swinging between peaks of around 14% in pesos and 10% in dollars and lows of close to 9% in pesos and 6% in dollars. The highest figures were recorded in early 1999 and in the closing months of the year; a decline in the first quarter of 2000 took the rates to just above the previous year's low. Apart from the fluctuations in these benchmark rates, access to credit varied considerably for different categories of borrowers. What is more, against a deflationary background, real interest rates were nonetheless well in the positive range.

Asset markets experienced wide swings. In January 1999, the demand for shares and bonds plummeted, but prices gradually picked up over the following months, topping those recorded at the end of 1998. Around mid-year, the uncertainty engendered by the forthcoming elections helped to drive down the prices of financial instruments. As a result, Argentina's country risk ratings were higher in the third quarter than in the second and exceeded average emerging-market premiums. In the latter part of the year, financial markets eased up, and the demand for assets began to recover. Thus, at the end of the review period, bond and equity prices were above their 1998 levels (although still far below the prices seen before the disturbances of 1997). Financial markets suffered no upsets during the early months of 2000, but in May bond prices fell sharply.

3. The main variables

(a) Economic activity

The level of activity slipped by 3% in 1999, with the drop in national income being exacerbated by higher external interest payments and the deterioration in the terms of trade. The volume of exports shrank slightly (1%) but imports were down by 11% and investment was 7.5% lower. The decrease was fairly moderate in construction but steeper in durable capital goods. As a result, capital formation slid, although it was still above 20%. Consumption fell at a slightly faster rate than GDP.

The first signs of weakening demand were seen in mid-1998, with a slackening of investment. Later, the squeeze spread to domestic spending in general; then export volumes also recorded a decline. This widespread reduction in demand continued throughout the first half of 1999. Then, in the third quarter, consumption showed signs of an upturn and the slide in exports levelled off; this was enough to boost GDP to a level slightly higher than the previous quarter. The fourth quarter saw an increase in all the components of demand (especially exports) in relation to the third quarter, which pushed GDP back up to its 1998 levels. Even so, the upturn was still only partial, and the early months of 2000 did not bring reliable signs of the consolidation of this trend.

The slump in output in 1999 was felt in almost all the main sectors of activity. There was a comparatively steep downturn (7%) in manufacturing, and construction also fell back (4.2%), but the decline in agricultural output was much smaller (0.4%). The grain harvest (cereals and oilseeds) had peaked in 1997/1998, but price conditions were much less favourable by the following year, and this caused difficulties for the sector and influenced production decisions. The harvest was significantly smaller (by around 12.5%), although still above the levels recorded prior to the 1997/1998 peak. The descent was concentrated in cereals, since oilseed production actually rose again, with a particularly sharp increase in the sunflower harvest (27%). The 1999/2000 agricultural cycle is likely to bring a slight decrease in the oilseed harvest, however, while an upswing is expected in cereals. Thus, an increase of around 5% is forecast for the grain harvest as a whole. In the cattle industry, the number of head and slaughtering both rose in 1999, while relative livestock prices fell considerably.

In the manufacturing sector, the output of the automotive industry declined significantly in response to sagging domestic demand (despite a system of tax incentives designed to encourage the purchase of new cars and the withdrawal of older vehicles from the market) and lower sales to Brazil. This also had repercussions on other market segments, such as vehicle parts and tyres. Output of consumer durables tumbled, while smaller decreases were recorded in activity levels in industries such as cement, paper, and iron and steel products. Despite the widespread recession, output was up in some parts of the food and chemicals industries, however.

It is probable that a considerable number of manufacturing firms saw their financial situation deteriorate, as many had increased their level of borrowing in previous years so that they could step up their investments. Although companies did not collapse en masse, bankruptcies and the number of creditor meetings that were called did increase, and there were signs of greater merger and acquisitions activity. The contraction also seems to have generated a cautious attitude regarding market prospects and new projects. Possible competition from Brazil in attracting investment, and the effects of the tax incentives being offered there, were a subject of considerable debate. In the event, however, investment shifts seem to have been limited to certain types of businesses, particularly in the area of motor vehicle parts, and to the location of new plants belonging to transnational companies that maintain a presence in both markets.

In the first quarter of 2000, manufacturing production indicators showed a year-on-year increase, and an upturn in exports appears to have been a contributing factor. Activity picked up in several industries, including motor vehicles, chemicals, iron and steel, and aluminium processing. A more moderate upswing was also seen in foodstuffs and paper, but not in the cement industry.

Basic services turned in a mixed performance in 1999. Electricity generation and water distribution were up, but urban transport and rail and air cargo were down. In the telecommunications industry, there was an increase in long distance connections and a further considerable rise in the number of mobile phones in service, which topped 3.2 million by year's end.

(b) Prices, wages and employment

There was an appreciable deflation in consumer prices in 1999, with sizeable declines in goods, particularly food and clothing prices. The prices of several services also fell (although to a lesser extent) in areas such as tourism and leisure, but there were slight increases in the cost of education, and sharper ones in health services. The most significant rises were in fuels (9%) and public utilities (electricity, gas and water, transport and communications). This marked a continuation of the strong upward trend of public utility rates seen over the last few years.

The wholesale price index showed an upturn of 1.2% in 1999. This is attributable to higher commodity prices, since prices of manufactures decreased slightly. The performance of primary commodities was very mixed: agricultural prices fell by over 15%, while mineral prices (among which oil weighs very heavily) more than doubled. Lower price levels were posted for practically all categories of manufactured goods, with the exception of petroleum products.

Despite a considerable expansion of employment during the preceding economic upswing, at 12.4% the rate of unemployment was still high. The unemployment rate climbed again in 1999 and, after reaching levels of 14.5% in May and August, took a slight downward turn which brought it back to 13.8% in October. The annual average unemployment rate rose as a result of both a higher participation rate and lower employment levels. Even so, between October 1998 and October 1999, the number of employed persons had increased by around 1.7%. However, in the third quarter of 1999 the number of employees reported to the social security system was lower than it had been a year earlier, which suggests that the informal sector's share of employment may have grown. At the same time, labour turnover remained high, with a reduction in the proportion of employed persons covered by permanent contracts. The percentage of jobs created by manufacturing and commerce slipped back, while various services sectors' share in total employment increased.

Industrial indices reflected a nominal average drop of around 1.8% in manual workers' wages in 1999, with a sharper fall (3.8%) if a year-on-year reading is taken for the fourth quarter.

(c) The external sector

The current account deficit narrowed to around US$ 12.2 billion in 1999 thanks to the fact that, since imports dropped more steeply than exports, the negative balance on trade in goods and real services shrank. On the other hand, the increase in interest payments (to over US$ 11 billion) outweighed the slump in foreign companies' profits, so the deficit on the income account continued to widen. Estimated interest accruals by residents remained

near the US$ 5.4 billion mark. Net capital inflows thinned, but at US$ 14.4 billion, were still considerable. International reserves showed less variation than in 1998, but the total did rise again due to the sizeable increase recorded in the fourth quarter.

A large part of the net external financing that was obtained was the result of non-financial public-sector operations. Federal government privatizations brought in significant revenues (US$ 3 billion), while local government privatizations supplied over US$ 1 billion. Net credit to the federal government decreased slightly, to just under US$ 7 billion; security issues were higher than in 1998, but so were credit amortizations. Loans from international agencies also declined to a net figure of US$ 1.5 billion (as against US$ 2.1 billion in 1998).

Net capital inflows to the non-financial private sector totalled US$ 2.3 billion (versus US$ 4.2 billion in 1998). Of particular note was the sale of a stake in YPF to a Spanish company, an operation which generated an inflow of foreign direct investment and an outflow of portfolio investment. In fact, purchases of private assets reached the extraordinarily high sum of US$ 18.5 billion (compared to US$ 5.1 billion in 1998). However, as a significant proportion of the YPF shares were bought from non-residents, there was a large disinvestment in portfolio assets (close to US$ 11 billion). Apart from the YPF transaction, foreign investment in the form of capital contributions was also significant (US$ 3.4 billion), while reinvested profits bordered on US$ 900 million. External placements by the non-financial private sector fell considerably in 1999 (to US$ 3.2 billion, or less than half of the previous year's figure), so the net financing obtained by this means was almost nil. Payments on foreign bank loans taken out by the non-financial private sector exceeded the total of new loans received.

Financial institutions other than the Central Bank obtained external financing through lines of credit (US$ 1.25 billion), direct investment and, to a lesser extent, issues of bonds and securities. All together, capital inflows to the sector amounted to US$ 2.2 billion.

The gross external debt swelled by around US$ 4 billion to US$ 144 billion, or the equivalent of about 50% of GDP and a little over six times the value of exports, which was the highest ratio of the decade. The composition of the debt by type of borrower changed very little: a bit less than 60% of total liabilities corresponded to the non-financial public sector and the Central Bank, 25% to the non-financial private sector and the rest to financial institutions.

The value of merchandise exports fell (by around 12%), for the first time since 1991. This was the result of lower unit values, since the total volume of exports remained virtually unchanged. This stagnation of export volumes, which contrasted with the buoyancy of previous years, was attributable to unfavourable conditions on the international market. The reduction in the value of exports was reflected in almost all the major categories of goods except for fuel, whose price trends diverged from the rest. Commodity exports fell further than the average. Grain sales took heavy losses, and exports of fruit, oils, cotton fibre and meat were down as well. Fishery exports also slid, as activity in the sector was hurt by the effects of the overexploitation of resources. One of the main reasons for the decrease in non-traditional manufacturing exports was the strong downturn in sales of transport equipment, although there were also appreciable declines in metal manufactures, electrical machinery, chemicals, textiles and paper.

There was a marked change in the geographical distribution of exports in 1999. Brazil's share of total exports, which had amounted to over 30% in the two preceding years, fell to less than a quarter (the lowest figure since 1994). Although the slump in these exports (a drop of about 30%) was observed across all the major categories of goods, it was particularly severe in manufactures (especially automotive products). Exports to the North American Free Trade Area (NAFTA) and the European Union (EU) increased, particularly in the category of non-traditional manufactures, but these markets are not major ones for Argentine sales of such goods.

The decrease in imports (19%) was also across the board: consumer goods fell by close to 8%, which was less than intermediate goods (21%) and capital goods (17%). Among the latter, the steepest descent was in machinery for the manufacturing sector, while imports of equipment used in the production of basic services decreased slightly less.

Towards the end of 1999 there were signs of an upturn in export prices, and the Brazilian economy began to bounce back. As a result, the value of external sales in the fourth quarter was higher than the comparatively low figure recorded for the same quarter of 1998. Exports for the first quarter of 2000 were over 11% higher than those of the first quarter of 1999, with a particularly marked increase in sales to Mercosur countries. Import values were similar to those posted for the first part of 1999, and the quarter's trade deficit consequently narrowed to just under US$ 200 million.

Bolivia

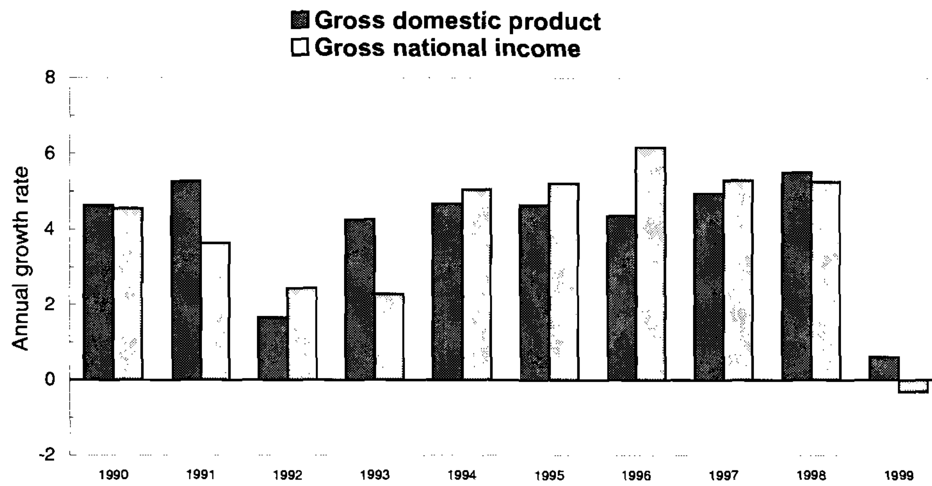
1. General trends

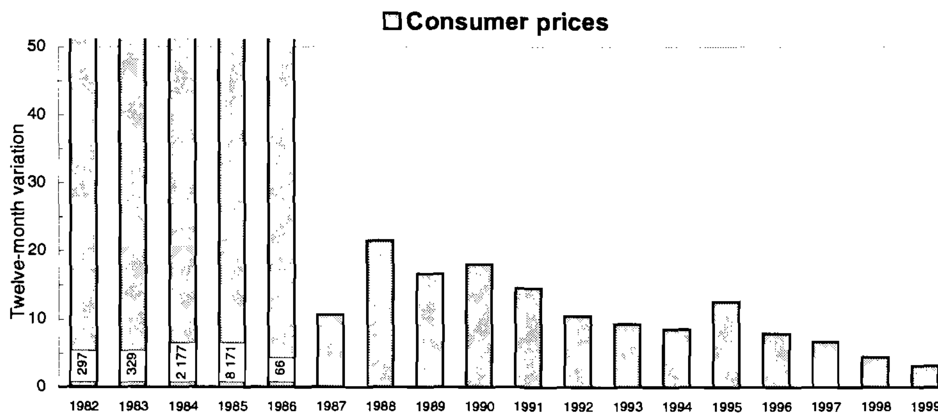
The Bolivian economy grew by 0.6% in 1999, compared to a rate of close to 5% in 1998 and an annual average of over 4% for the 1990s. This slowdown was associated with the international crisis, which had a particularly strong impact on external transactions, and domestic factors that flattened out domestic demand. The fiscal deficit shrank to 3.9% of GDP, and this figure actually included pension reform costs amounting to 4.1% of GDP. Although exports decreased, imports fell more steeply, thus paring down the current account deficit to around 6.5% of GDP. Foreign direct investment (FDI) in Bolivia continued to mount in 1999, in keeping with the trend seen throughout the 1990s. Thanks to large-scale investments in natural gas exploration, proven reserves tripled in 1999, the gas pipeline between Bolivia and Brazil was completed, and the country began to export natural gas to Brazil. The cumulative inflation rate for 1999 was one of the lowest to be recorded in the second half of the century and, at 3.1%, was well below the year's stipulated target of 5%.

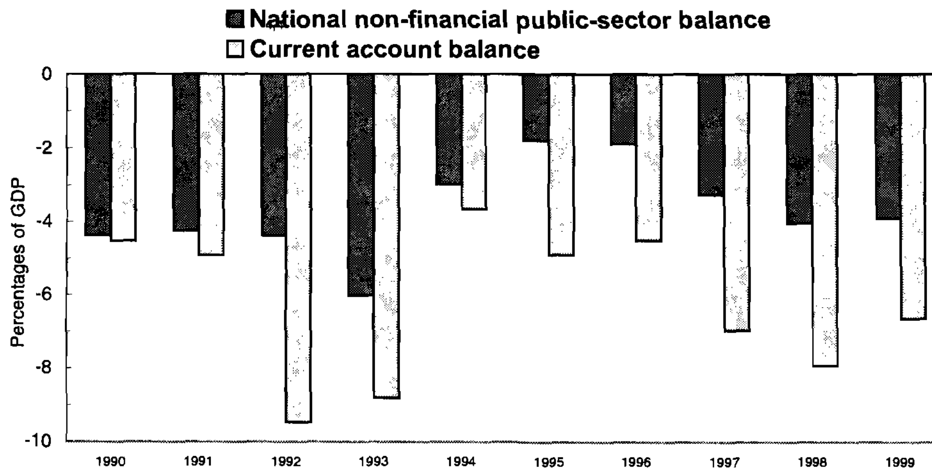
THE GOVERNMENT passed an Economic Reactivation Act in April 2000 aimed mainly at boosting the liquidity of the financial sector, providing credit to small producers, promoting exports, and financing the maintenance and upgrading of infrastructure damaged by adverse weather conditions. The amounts allocated for this programme are estimated at between US$ 300 million and US$ 500 million.

Projections for 2000 suggest that growth will swing back into the overall pattern of the 1990s, with an increase in GDP of between 4% and 5%. This rate of growth will be fuelled partly by an upturn in the prices and production of primary sectors (agriculture, mining and natural gas) and partly by investment projects, mostly in the mining, telecommunications and hydrocarbons sectors. However, the Government's declaration of a stage of siege and a wave of protests by peasant farmers and other groups could undermine growth. A second round of negotiations in 2000 is expected to lighten Bolivia's external debt burden under the Heavily Indebted Poor Countries (HIPC) debt relief initiative. The current account deficit is forecast at less than 7% and the fiscal deficit at about 4%. Inflation increased during the early part of 2000, with a cumulative rate of 2% recorded for the first quarter.

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS







Source: ECLAC, on the basis of official figures.

2. Economic policy

The authorities maintained the broad lines of the macroeconomic policy pursued in recent years, which have included the promotion of economic growth within a context of macroeconomic stability, steady price levels and international competitiveness, although economic growth was undercut by the international crisis and bad local weather conditions.

No major changes were made in the country's overall monetary and foreign-exchange policies, whose main objective continued to be to preserve the purchasing power of the boliviano and provide the money supply needed for economic growth. Amid the slowdown in economic activity, the nominal monetary base increased by just 3.3%. The country's foreign-exchange policy seeks to maintain the stability of the real multilateral exchange rate within the context of an external economic balance in the medium term. Thus, in view of the rate of depreciation in a number of neighbouring countries (Brazil, Chile and Peru), the Central Bank decided to step up the pace of mini-devaluations.

The main focus of fiscal policy has been to maintain a structurally balanced budget that is in keeping with the objectives of monetary and foreign-exchange policy. In fact, if it had not been for the transitory cost of pension reforms, then a slight surplus would have been posted on the public sector's accounts, despite the storm damage sustained by infrastructure and the need for additional expenditure on repairs. The cost of these reforms held steady at around 4% of GDP, however.

Bolivia's sharp economic slowdown in 1999 can be attributed to a combination of factors, some deriving from adverse external processes and others from domestic circumstances. The international crisis clearly dampened the economic growth of the country, but it is important to distinguish between the direct and indirect effects of crises in different locations around the world:

- The Asian crisis: This crisis did not have such a strong direct effect on exports, but the indirect effect it had by driving down the prices of Bolivia's export products had a major impact.
- The Brazilian currency crisis of early 1999 slowed Bolivia's growth by lowering external demand; products exported to Brazil became less competitive and were even crowded out of the domestic market by Brazilian imports.
- The moratorium declared by the Russian Federation had only a minor effect, as capital inflows registered an increase in FDI entering Bolivia.

A combination of domestic factors also influenced Bolivia's pace of growth in 1999. Between October 1998 and March 1999, several parts of the tropical region of the country experienced heavy rains and flooding that wiped out rice, maize, soybean and cotton crops in a number of areas. Despite the medium-term benefits expected, the implementation of two structural reforms (eradication of coca plantations and changes in the customs system) had the effect of reining in domestic demand in the short term, especially in the informal sector. On the fiscal policy front, the year ended with a public-sector deficit of 3.9% of GDP, thus coming in below the agreed target for 1999 of 4.2%. Most monetary aggregates slipped, and money creation at the end of 1999 stood at practically the same level as it had in the corresponding period of the previous year. These results reflect less buoyant economic activity and slacker domestic demand. The Central Bank continued to follow a monetary policy that entailed adjusting the money supply to changes in demand.

(a) Fiscal policy

Fiscal policy was directed towards maintaining the deficit within the same range as in 1998. The non-financial public sector's deficit was 3.9% in 1999, but leaving aside the cost of pension reforms, there was a fiscal surplus of around 0.2% of GDP, a slight improvement over the 1998 figure.

During the first half of 1999, receipts fell short of the targets set for internal revenue and customs duties, and for the year as a whole revenues from these sources were consequently down by 2.5 percentage points of GDP (US$ 175 million). However, This drop was offset by the proceeds from the privatization of State-owned oil refineries of Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and a cement plant, the Fábrica Nacional de Cementos. Consequently, in the aggregate, current income held steady at around 30% of GDP.

Total public-sector income also remained stable. Fiscal outlays fell from 28.7% of GDP in 1998 to 27.4% in 1999. This reduction occurred mainly in current expenditure, which slipped from 23.6% to 21.1% of GDP, and was a reflection of a policy of greater austerity,

Table 1

BOLIVIA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	5.3	1.6	4.3	4.7	4.7	4.4	5.0	5.5	0.6
Per capita gross domestic product	2.8	- 0.8	1.8	2.2	2.2	1.9	2.5	3.1	- 1.7
Gross domestic product, by sector									
Goods	6.0	- 0.4	4.6	5.1	5.0	4.2	4.0	4.2	- 1.2
Basic services	6.6	4.6	6.0	6.8	6.4	6.3	8.5	8.3	0.1
Other services	3.8	4.1	4.2	4.0	3.0	5.2	7.0	5.5	5.4
Consumption	3.3	3.6	3.2	3.0	3.4	3.2	5.1	5.2	2.0
General government	3.3	3.7	2.5	3.1	6.6	2.6	3.3	3.5	2.6
Private	3.3	3.6	3.3	2.9	2.9	3.3	5.4	5.5	1.9
Gross domestic investment	29.3	5.3	- 0.1	- 10.6	12.3	18.8	30.2	24.4	- 16.2
Exports of goods and services	7.3	1.1	5.3	15.1	9.1	4.1	- 2.1	6.6	- 9.7
Imports of goods and services	12.6	9.9	- 0.7	- 0.6	8.9	7.9	13.5	18.5	- 15.7
	Percentages of GDP [c]								
Gross national income	100.5	101.3	99.3	99.6	100.1	101.7	102.1	102.0	100.9
Gross domestic investment	16.8	17.4	16.7	14.2	15.2	17.3	21.5	25.4	20.9
National saving	10.2	9.2	8.2	9.3	10.7	13.4	14.2	14.4	12.2
External saving	6.6	8.2	8.5	4.9	4.6	3.9	7.3	11.0	8.7
	Percentages								
Employment and wages									
Labour force participation rate [d]	51.7	50.7	52.5	53.7	55.1	56.5	52.5	...	...
Open unemployment rate [e]	5.8	5.4	5.8	3.1	3.6	3.8	4.4	4.1	6.1
Real average wage (index: 1995=100)	82.1	85.5	91.2	98.5	100.0	100.4	107.3	111.5	118.5
	Growth rates								
Prices (December-December)									
Consumer prices	14.5	10.5	9.3	8.5	10.6	9.9	6.7	4.4	3.1
External sector									
Terms of trade (index: 1995=100) [c]	112.4	92.0	88.3	102.5	100.0	111.7	115.6	109.9	109.8
Nominal exchange rate (bolivianos per dollar)	3.6	3.9	4.3	4.6	4.8	5.1	5.3	5.5	5.8
Real effective exchange rate for imports (index: 1995=100)	83.8	87.3	92.7	97.7	100.0	93.4	91.1	87.4	87.2
	Millions of dollars								
Balance of payments									
Current account	- 263	- 534	- 506	- 218	- 328	- 333	- 553	- 677	- 556
Trade balance (goods and services)	- 198	- 579	- 537	- 244	- 334	- 399	- 649	- 845	- 678
Exports	917	773	897	1 216	1 239	1 317	1 413	1 355	1 310
Imports	1 115	1 352	1 433	1 460	1 574	1 716	2 062	2 200	1 989
Capital and financial accounts [f]	115	403	525	228	421	625	656	779	514
Overall balance	- 147	- 132	20	10	92	292	103	102	- 42
Variation in reserve assets (- indicates and increase)	- 8	- 41	100	- 26	- 147	- 310	- 76	- 133	32
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	67.0	67.0	65.9	70.5	67.4	59.0	53.4	51.5	51.7
Net interest (as a percentage of exports) [g]	26.8	22.4	20.2	13.4	14.3	12.1	14.8	15.1	16.0

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
National non-financial public sector									
Current revenue	30.7	30.5	29.4	30.8	30.4	27.6	27.9	29.7	29.8
Current expenditure	27.4	27.7	27.7	27.3	25.9	23.9	25.4	28.7	27.4
Saving	3.3	2.8	1.7	3.6	4.5	3.7	2.5	1.1	2.4
Capital expenditure (net)	7.5	7.1	7.7	6.6	6.3	5.5	5.8	5.1	6.3
Financial balance	-4.2	-4.4	-6.0	-3.0	-1.8	-1.9	-3.3	-4.0	-3.9
			Growth rates						
Money and credit									
Money balance of banking system									
Net international reserves	48.1	6.9	8.8	24.4	50.0	97.7	10.1	38.3	33.3
Net domestic credit to public sector	6.5	184.2	29.9	6.0	- 84.6	- 2.7	96.7	4.8	- 35.3
Domestic credit to private sector	47.8	45.7	39.3	24.0	12.6	28.2	21.6	23.4	2.9
Money (M1)	25.2	19.0	14.6	33.4	23.5	10.6	18.6	7.0	- 3.8
Local-currency savings and term deposits	8.9	- 19.5	7.8	74.6	- 22.4	115.0	15.4	5.6	0.6
M2	22.7	13.9	14.0	37.0	18.3	18.3	18.2	6.8	- 3.2
Dollar deposits	68.2	44.2	41.8	18.7	7.5	49.1	19.8	15.3	3.6
			Annual rates						
Real interest rates (annualized, %)									
Deposit rate	...	...	12.6	17.7	18.3	5.9	9.5	4.8	9.9
Lending rate	...	...	41.8	44.3	37.1	38.6	43.3	30.7	32.5
Equivalent interest rate in foreign currency [h]	...	...	21.1	17.7	18.3	18.5	14.3	12.9	12.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on bolivianos at constant 1990 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population. [e] Percentages of the economically active population. [f] Includes errors and omissions. [g] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [h] Interest rate on deposits, deflated by the variation in the exchange rate.

particularly with respect to current transfers and personal services. Capital expenditure was up from 5.1% of GDP in 1998 to 6.3% in 1999.

The fiscal deficit was financed chiefly with external resources, with most of these funds being concessional in nature (2.5%), while the domestic financing that was used amounted to 1.4% of GDP. The use of external financing made it possible to cut back on issues of treasury bonds, which helped to ease the pressure on domestic interest rates.

(a) Monetary policy

Monetary policy in 1999 had to be adapted to the conditions created by the international financial crisis and the resulting domestic constraints, but it continued to be directed towards keeping the expansion of the money supply in line with growth and inflation targets.

In general, the variables influencing monetary policy reflected the effects of the restrictive environment. Money creation, a key tool for Bolivia's Central Bank, remained at practically the same nominal level as in 1998. Variables relating to total local-currency liquidity (M1, M2 and M3) fell by about 3%. A review of more broadly defined variables reveals similar or even larger decreases in M'1 and M'2, due to a sizeable reduction in foreign-currency sight deposits. These declines were offset by increases in M'3 and M'4, however, owing to an upswing in foreign-currency fixed-term deposits and in government securities denominated in foreign currencies and held by the non-financial private sector. Borrowing and lending rates generally rose by a slight amount, with the exception of the local-currency bank lending rate, which moved down from about 36% in 1998 to 31% in 1999.

Table 2

BOLIVIA: MAIN QUARTERLY INDICATORS

	1997				1998				1999				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	3.6	5.2	3.7	6.7	9.4	7.9	7.2	4.4	2.0	1.5	2.6	3.1	5.6
International reserves (millions of dollars)	...	1 038	1 150	1 087	963	854	839	860	812	838	844	917	837
Real effective exchange rate [b] (index: 1995=100)	92.1	91.7	90.5	90.0	86.8	86.9	86.7	89.2	85.8	87.0	87.5	88.4	89.3
Real interest rates (annualized, %)													
Deposit rate	11.4	10.0	8.7	8.1	4.8	4.2	4.9	5.2	9.7	11.1	9.5	9.1	6.5
Lending rate	51.5	50.7	41.7	29.2	33.3	32.4	32.7	24.5	35.3	30.6	33.6	30.5	31.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

Trading on the stock exchange suffered a major setback (a slide of 11%) for the first time since its creation in the early 1990s. The great majority of the exchange's trading volume (97%) is in securities denominated in foreign currencies (primarily dollars). Share trading on the stock exchange is very limited. The main indicators of the banking system's performance showed an increase in liquidity together with a rise in the proportion of non-performing loans from 4.6% to 6.6% of its portfolio. Profits were similar to those of 1998 for private local banks, but private foreign banks posted negative results.

(c) Foreign-exchange policy

Bolivia's exchange-rate regime works on the basis of a sliding parity system, and the rate of devaluation is determined by the movement of relevant macroeconomic variables, the level of inflation and the rate of depreciation in the country's main trading partners. The objective of foreign-exchange policy has been to maintain the stability of the real multilateral exchange rate within a framework of external equilibrium. The central-parity exchange rate is calculated on the basis of a basket of the currencies of the country's eight main trading partners, weighted according to the value of each country's trade with Bolivia. The Central Bank continued with its policy of setting the parity rate through mini-devaluations, which it implements by intervening in the exchange market through an auction mechanism known as the *bolsin.*

The Central Bank stepped up the pace of mini-devaluations in 1999, especially between June and September. The nominal devaluation rate reached 6% in 1999, or almost twice as much as domestic inflation, yielding a depreciation in the real exchange rate against the dollar of almost 6%. The real multilateral exchange rate for imports held steady during the year, however. This stability has been made possible by low levels of inflation and by a policy decision to allow the nominal exchange rate to depreciate more rapidly in view of the depreciating currencies of Brazil and other trading partners. In addition, the devaluation of the nominal exchange rate has kept pressure off domestic price levels, thereby helping to maintain macroeconomic equilibrium.

(d) Structural reforms

The National Roads Service (SNC) resumed responsibility for the administration of the highway system in 1999. It is expected, however, that most of the maintenance, repair and construction work on the basic road network will be tendered out to the private sector

following passage of the Transport Public Works Concessions Act and supporting regulations.

During 1999 the Superintendency of Telecommunications continued to grant broadcasting licences and, by the end of September 1999, 332 radio stations were operating legally and with all the required documentation. The Superintendency invested US$ 2 million in an automatic monitoring system which makes it possible to keep a constant check on the use of the frequency spectrum in the departments on the trunk system.

3 The main variables

(a) Economic activity

Economic growth in 1999 amounted to just 0.6%. When the country's GDP is disaggregated by type of expenditure, it becomes clear that total demand weakened as a result of a 9% decrease in exports of goods and services and a steep reduction in capital formation (-16%), while consumption rose slightly (2%). Total supply was a combination of modest GDP growth and a steep downswing in goods and services exports (-16%). In gross capital formation, the variable that was most affected was private investment, following the completion of the gas pipeline to Brazil. As a percentage of GDP, fixed capital formation fell by over three percentage points, from over 23% to less than 20%.

Activity in the agricultural, hunting, fishing and forestry sector climbed by 2.5% in 1999. Highland agriculture performed normally (6%). In contrast, various areas of the tropics were affected by rains and flooding, which led to a slump in production. The eradication programmes now being implemented, which have established an eradication target of 15,000 hectares, have played an important role in reducing coca production activity. In response to the damage caused by El Niño, the Government passed an Agricultural Sector Emergency Act. This legislation provides for the creation of a fund for renegotiating the payment schedules of existing loans, extends the deadline for the payment of various sorts of taxes, and establishes criteria to be used as a basis in writing off the debts of some peasant farmers. Only moderate growth is forecast for 2000, in view of the drought in the eastern portion of the country and the eradication of coca plantations.

Mineral production was 16% lower in 1999 than it had been the year before. The output of small- and medium-sized mining enterprises and of cooperatives fell by 13% and 22%, respectively, whereas the production of State mines enjoyed an upturn of 23%. Increases were recorded in the production of tin (3.1%) and silver (0.7%), but decreases were posted for the output of antimony (–36%), wolfram (–34%), lead (–33%) and gold (–25%). A compensatory mechanism was created whereby the advance tax payments made by export companies that undertake what the Government considers to be high-priority investments will automatically be refunded to them. A stronger performance is expected from the sector in 2000 based on a projected improvement in mineral prices, with the recovery of zinc production expected to make this industry one of the frontrunners.

Thanks to major investments in oil and natural gas exploration, Bolivia's natural gas reserves have soared. In 1999 alone, proven and probable reserves more than tripled. In addition, a 46-kilometre gas pipeline extension to the highlands was completed. This extended line will supply natural gas to the city of La Paz and the towns of Parotani and Sayari and will thus ensure a continuous supply of natural gas for new industries setting up facilities in the Cochabamba-Oruro-La Paz triangle. YPFB refineries were privatized at the end of 1999, generating proceeds of US$ 102 million. This marked the start of a programme to transfer the refining, transport and marketing of hydrocarbons to the private sector in the course of the year 2000; during this period a major increase in the production of natural gas is also expected as the country begins to export natural gas to Brazil.

The manufacturing sector grew by 3.3% in 1999. The most buoyant segments were: printing, publishing and allied industries (41%); basic industrial chemicals (39%); plastic products (22%); and wine and other fermented beverages (20%). Segments showing a decrease were: grocery products (–22%); glass and glass products (–18%); cocoa, chocolate and sugar confectionery (–16%) and clothing other than footwear (–13%). The world financial crisis had an adverse impact on some segments of national industry owing to the

effect of the devaluation of the *real,* which encouraged contraband and boosted legal imports from Brazil.

The transport sector grew by 2.3% as a consequence of an increase in road and air transport, even though rail transport slipped by 3%.

The telecommunications sector expanded by 10%. The Empresa Nacional de Telecomunicaciones (Entel) continued to lay fibre-optic cable along the length and breadth of the country, completing over 3,000 kilometres of the departmental and 170 kilometres of the interdepartmental networks. This US$ 313 million project has connected the cities of La Paz, Cochabamba and Santa Cruz. The Empresa Telefónica Celular de Bolivia (Telecel) made an investment bordering on US$ 40 million to install a digital network with a 250,000-customer capacity.

(b) Prices, wages and employment

Consumer prices rose by 3.1%, the smallest increase since 1965. A combination of domestic and external factors had a bearing on inflation in 1999. The increase in international hydrocarbons prices had an inflationary impact, both directly and indirectly (through transport). This was the most inflationary component of the basic basket that is used to calculate the rate of price increases and accounted for 1.6 percentage points of the overall rise. The slowdown in the growth of aggregate demand led to smaller increases in the prices of domestic products, and the effect of this variable on total inflation amounted to 1.9 percentage points. Price stability in neighbouring countries and the slight variation in the exchange rate served to rein in the prices of tradable manufactures, which added just 0.6 percentage points to total inflation. Lastly, the prices of agricultural products had a –1 point impact on overall price rises, since they fell by 11% (the steepest decrease of the last decade) as a result of plentiful harvests,.

Projections prepared on the basis of available information to date put the open urban unemployment rate at 6.1%, a considerable increase over preceding years. It should be noted, however, that the methodology used in conducting the most recent survey differs from previous ones. In February 1999, the Government raised the minimum wage to 330 bolivianos per month, which represented a nominal increase of 10% over the 1998 rate. At the beginning of 2000 the minimum wage was increased again, this time to 355 bolivianos. In the public sector, employees earning the minimum wage received an increase of 10%, and raises for other employees were established on a sliding scale in inverse proportion to their salaries up to a threshold of 3,200 bolivianos; individuals earning salaries over that level received no increment.

(c) The external sector

The deficit on the current account of the balance of payments declined from 8% to 6.6% of GDP, with the narrowing trade gap being largely responsible for this improvement. Imports, particularly of capital goods and raw materials, declined significantly (16%) following the completion of the gas pipeline to Brazil; the sagging level of economic activity was another factor in this connection. The value of exports (mostly commodities) dropped by 8% in the wake of the international crisis as a consequence of lower international prices and shrinking demand.

FDI topped the 1998 figure, reaching almost US$ 900 million (10.5% of GDP). It is important to understand, however, that a large percentage of the investments made in the complicated international context prevailing during this period are not directly linked to "capitalization", the Bolivian approach to privatizing State enterprises based on investment commitments. In 1999, foreign investment was directed mainly to the hydrocarbons sector (67%), commerce and services (28%), and agribusiness and mining (5%). These inflows financed the current-account deficit and added US$ 42 million to the Central Bank's international reserves, bringing them to US$ 1.113 billion dollars (equivalent to seven months' worth of goods and services imports).

The external debt was reduced by 2% from its 1998 level as a result of the debt workout negotiated within the context of the original Heavily Indebted Poor Countries (HIPC I) debt relief initiative. The Bolivian Government is negotiating the application of an Enhanced HIPC programme on the basis of the Cologne Initiative, in which the G7 countries and a number of multilateral agencies such as IMF and the World Bank have proposed additional debt relief for Bolivia and other heavily indebted countries.

Brazil

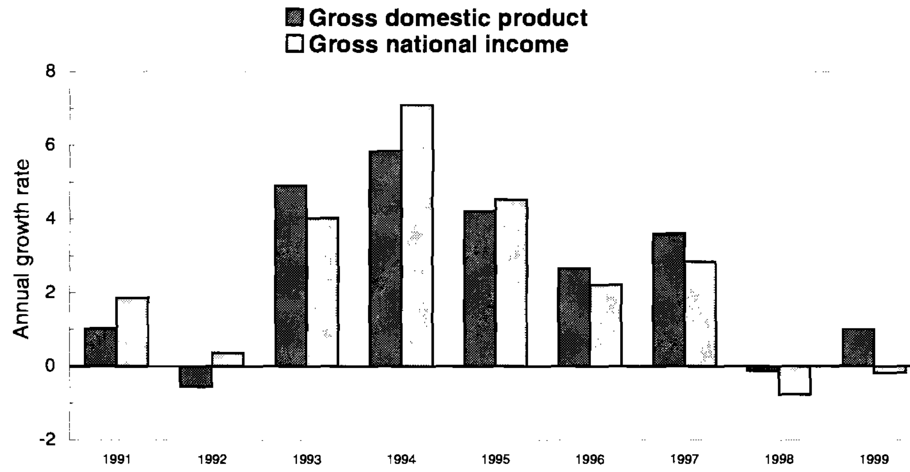
1. General trends

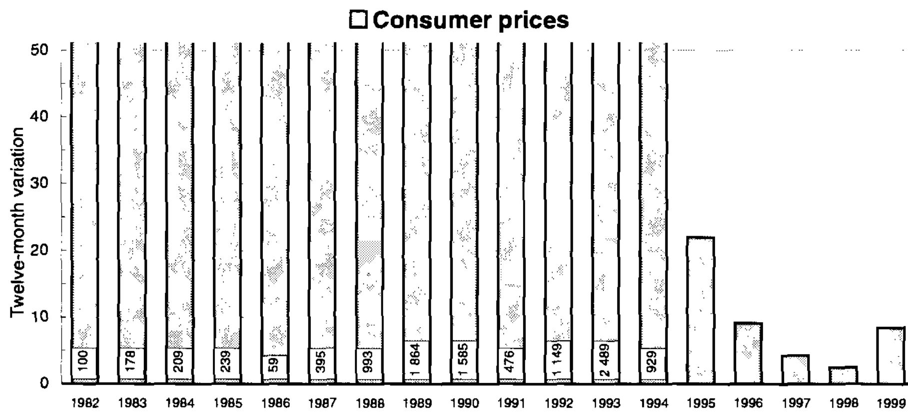
The Brazilian economy had been quite fragile since late 1997, and in early 1999 this situation deteriorated into a full-blown crisis. The country's balance-of-payments position, which was already highly vulnerable to external shocks because of the country's large fiscal deficit and overvalued currency, was further complicated by a downturn in the terms of trade and a sharp reduction in capital flows to emerging economies. when it became impossible to continue defending the currency within the framework of the crawling peg system then in use, the exchange-rate band had to be abandoned and the currency was allowed to float freely. The result was an abrupt devaluation. The Central Bank responded to the instability of the exchange rate with a steep interest-rate hike. Interest rates were later reduced, however, and by the end of the year they had settled back to rates near their pre-crisis levels. These measures were accompanied by a policy of fiscal austerity directed at reducing the high public-sector deficit. An agreement with the International Monetary Fund (IMF) provided access to an ample supply of external financial resources, and this helped to stabilize the volatile exchange market. In order to provide guidelines as to its future decisions, the Central Bank chose to set specific inflation targets. Meanwhile, although the pace of privatizations slowed, progress was made on reforms in the social security system.

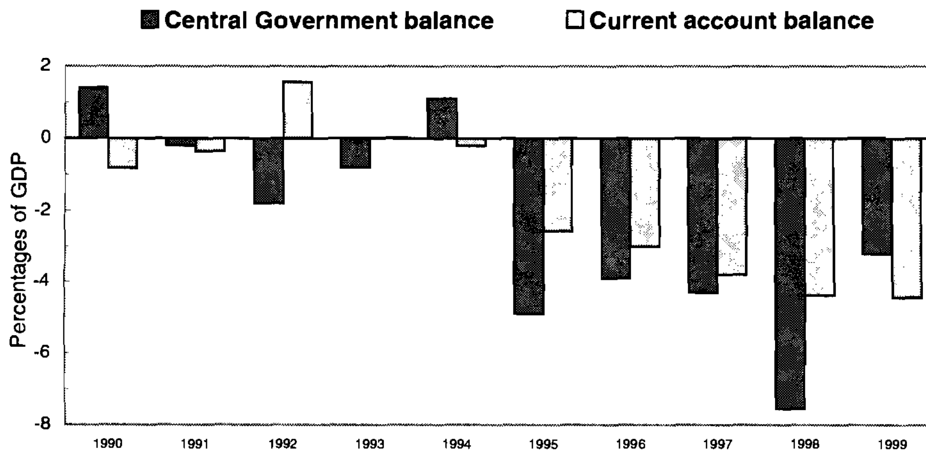
GIVEN THE SCALE of the devaluation and the severity of the fiscal and monetary measures that had been adopted, in the weeks following these events forecasts for 1999 pointed to a slackening of activity and to higher inflation and unemployment. In fact, however, the results did not bear out these predictions, since GDP stabilized over the course of the year (although at one of its lowest levels since the start of the Real Plan). The upturn in industrial output and investment did not begin until the final quarter of 1999, however, so GDP growth was slight (1%), while per capita output decreased for the second year running. Inflation rose, but not at the pace expected. Even so, it was the highest rate since 1995 and reversed the downward trend of recent years, which had brought it to near zero. Consumer prices recorded increases of a little over 8%, but wholesale prices jumped by 29% due to the strong influence of imported products.

The annual unemployment rate of 7.6% was practically the same as the 1998 figure, but this was mainly attributable to a reduction in the number of job seekers. Real average wages fell by 5.5% in 1999, thus steepening the downward slide begun in 1998, when they had slipped by 0.5%. In the industrial centre of São Paulo, the employment adjustment process continued, and the employment rate was 26% lower than it had been when the Real Plan was launched in July 1994.

Figure 1
BRAZIL MAIN ECONOMIC INDICATORS







Source: ECLAC, on the basis of official figures.

The current account deficit stood at US$ 24 billion, which was equivalent to 4.4% of GDP. Although this was similar to the 1998 deficit (4.5%) in percentage terms, the actual figure was US$ 9.3 billion lower thanks to the reduction of the deficits on both the merchandise trade balance (from US$ 6.6 billion to US$ 1.2 billion) and the services account; the latter was mainly attributable to a reduction in travel expenditure. Net profit remittances fell by over US$ 3 billion, but net interest payments amounted to US$ 15.2 billion, compared to US$ 12 billion in 1998. The total external debt was US$ 241 billion, which was slightly less than in 1998. The current account adjustment and the record inflow of foreign direct investment narrowed the balance-of-payments deficit.

The main sector driving GDP growth was agriculture, which expanded by 9% thanks to plentiful harvests. The momentum gained by the services sector enabled it to maintain a slight growth rate, and this partly compensated for the downswing in manufacturing and construction. This slump in construction, in combination with a decrease in purchases of both local and imported capital goods, led to a 4.8% reduction in fixed investment, which brought the rate of gross fixed capital formation down to its lowest level since 1994, at 20.3% of GDP.

The economic expansion seen during the latter months of 1999 carried over into the first quarter of 2000, with GDP growth of 3.1% being led by the manufacturing sector, which posted a rise in output of 5.2%. At 8%, the unemployment rate was higher than the 7.5% recorded in the first quarter of 1999; this was partly a reflection of an increase in the demand for employment, which outstripped the net creation of 968,000 jobs. The cumulative inflation rate for the first half of 2000 was 1.1%, well below the figure corresponding to the overall target for the year of 6%. There was also a major improvement in the country's external accounts.

Although more favourable than expected, these results were not sufficient to dissipate doubts about the viability of combining a higher growth rate with a tight external financing environment, which puts pressure on the exchange rate and domestic prices. Under these circumstances, it was not until March 2000 that the Central Bank reduced the base rate from 19% to 18.5%, after it had remained unaltered for almost six months. This cautious attitude reflects uncertainty regarding the performance of the world economy, the consolidation of the domestic fiscal adjustment and the prospects for an upswing in exports.

2. Economic policy

The new exchange-rate regime altered the fiscal and monetary policy mix. Fiscal policy was made more austere in an effort to reduce the deficit and thus stabilize the debt/GDP ratio. In relation to monetary policy, the Central Bank set specific targets for inflation control and lowering real interest rates, which had previously been heavily influenced by fears of a devaluation.

One important effect of these monetary and fiscal policies was to soften the impact of the exchange crisis. Another key mitigating factor was the use of a package of external resources furnished by multilateral agencies and the central banks of other countries. At the end of 1998, Brazil obtained almost US$ 41 billion as part of an adjustment programme negotiated with IMF. Of this amount, US$ 17.8 billion was used to shore up international reserves and intervene in the currency market in order to ward off severe foreign exchange shortages.

The Central Bank set inflation targets in order to guide expectations concerning its objectives: the target for the inflation rate was set at 8% for 1999, plus or minus two percentage points, and at 6% for 2000. In addition, the Central Bank adopted new procedures for the disclosure of its price trend analyses and made a commitment to indicate not only the level, but also the trend of its base interest rate.

(a) Fiscal policy

The fiscal policy pursued in 1999 had, to a great extent, been defined in the second half of the preceding year as an initial response to the external pressure that began to be felt following the Russian crisis of August 1998. In September 1998, a target of almost 1% of GDP was set for the federal government's primary surplus for the year. In December an adjustment programme was

Table 1

BRAZIL: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	1.0	-0.5	4.9	5.9	4.2	2.7	3.6	-0.1	1.0
Per capita gross domestic product	-0.6	-2.1	3.4	4.3	2.7	1.2	2.2	-1.5	-0.3
Gross domestic product, by sector									
Goods	0.1	-2.8	5.9	6.7	2.0	3.1	4.5	-1.4	0.5
Basic services	...	6.4	2.1	5.8	6.1	10.0	5.4	4.2	3.7
Other services	-1.2	-6.3	4.5	7.0	-0.4	5.2	8.7	1.4	-3.7
Consumption	0.5	0.1	4.1	5.9	7.0	3.1	3.2	0.5	1.9
General government	2.3	2.8	2.3	0.3	1.3	1.4	2.7	2.3	1.5
Private	-0.1	-0.7	4.6	7.5	8.7	3.7	3.3	-0.1	2.0
Gross domestic investment	9.0	-8.6	14.3	13.0	8.1	2.8	8.9	-2.1	-13.0
Exports of goods and services	-4.9	16.6	11.7	4.0	-2.0	0.6	11.5	1.1	9.5
Imports of goods and services	11.1	4.5	26.8	20.3	30.7	5.4	18.5	1.1	-15.0
	Percentages of GDP [c]								
Gross national income	97.6	98.2	97.7	98.6	98.9	98.6	98.0	97.3	96.2
Gross domestic investment	20.8	19.3	21.0	21.8	22.3	22.5	23.7	23.3	20.1
National saving	19.9	20.0	20.6	21.1	19.3	18.8	18.5	17.4	15.7
External saving	0.9	- 0.7	0.4	0.8	3.0	3.7	5.2	5.9	4.4
	Percentages								
Employment and wages									
Labour force participation rate [d]	61.0	59.5	58.6	59.3	59.3	59.6	58.5	58.2	57.1
Open unemployment rate [e]	4.8	5.8	5.4	5.1	4.6	5.4	5.7	7.6	7.6
Real average wage (index: 1995=100) [f]	89.0	87.0	95.6	96.3	100.0	107.9	110.8	110.8	105.9
	Growth rates								
Prices (December-December)									
Consumer prices	476	1 149	2 489	929	22.0	9.1	4.3	2.5	8.4
Wholesale prices	472	1 154	2 640	921	6.4	8.1	8.1	1.5	28.9
External sector									
Terms of trade (index: 1995=100) [c]	71.2	74.2	79.9	91.5	100.0	101.0	106.8	104.6	94.4
Nominal exchange rate (reales per dollar)	0.0001	0.002	0.03	0.6	0.9	1.0	1.1	1.2	1.8
Real effective exchange rate for imports (index: 1995=100)	108.5	117.3	112.6	113.6	100.0	94.2	93.2	97.6	147.1
	Millions of dollars								
Balance of payments									
Current account	-1 450	6 089	20	-1 153	-18 136	-23 255	-30 493	-34 000	-24 730
Trade balance (goods and services)	6 687	11 897	8 739	5 515	-10 652	-13 518	-15 963	-16 236	-7 333
Exports	34 938	39 881	43 595	49 010	52 641	52 509	59 176	59 705	56 016
Imports	28 251	27 984	34 856	43 495	63 293	66 027	75 139	75 941	63 349
Capital and financial accounts [g]	-4 016	4 496	6 789	7 578	30 753	32 207	22 586	16 702	13 952
Overall balance	-5 424	10 639	6 890	6 598	12 969	8 952	-7 907	-17 299	-10 778
Variation in reserves assets (- indicates an increase)	369	-14 670	-8 709	-7 215	-12 920	-8 666	7 907	7 970	7 822
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	30.4	34.8	33.1	27.1	22.6	23.2	25.0	31.4	43.3
Net interest (as a percentage of exports) [h]	24.7	18.2	15.6	13.1	7.9	8.0	6.0	20.0	27.1

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Public sector									
Total revenue	24.6	24.2	26.3	28.5	27.2	28.1	28.9	32.1	34.4
Total expenditure	30.6	30.7	33.3	29.3	32.8	32.9	34.1	40.0	43.9
Operating balance [i]	-0.2	-1.8	-0.8	1.1	-4.9	-3.9	-4.3	-7.5	- 3.2
Nominal balance	...	...	...	...	...	-5.9	-6.1	-8.0	- 9.5
			Growth rates						
Money and credit									
Net international reserves	- 5.7	152.5	35.6	20.5	33.6	16.0	- 13.2	- 14.6	...
Money (M1)	330.7	867.3	2 129.4	- 99.0	23.4	4.6	58.9	7.1	22.7
			Annual rates						
Real interest rates (annualized, %)									
Deposit rate	...	...	88.2	40.7	-11.8	9.8	17.8	24.1	19.8
Lending rate	...	...	396.8	512.2	23.2	33.5	41.9	88.5	75.2
Equivalent interest rate in foreign currency [j]	...	...	2 314	3 423	49.8	26.1	23.9	28.6	22.5

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on reales at preceding-year prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population in six urban areas. [e] Percentages of the economically active population in six urban areas. [f] Workers covered by existing social and labour laws. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [j] Includes operating adjustments. [k] Interest rate on deposits, deflated by the variation in the exchange rate.

signed with IMF, but in January 1999 the fiscal targets had to be reviewed because of the devaluation.

The most significant fiscal impact of the rise in the exchange rate was seen in the country's net public debt, which initially rose by almost nine percentage points of GDP, from 42.7% of GDP in December 1998 to 51.7% in February 1999. This was mainly attributable to the increase in the local-currency value of external debt and to the use of public debt instruments that were indexed to the exchange rate, as well as the losses suffered by the Central Bank on the forward exchange market. The revaluation of the currency over the following months helped to moderate this initial impact. At the close of the year, the total net public debt stood at 47% of GDP.

The public sector achieved a primary surplus of 3.1% of GDP in 1999, thanks to a significant effort by the federal government, whose results more than counterbalanced the social security system's primary deficit. The other components of the public sector also contributed to this result. State enterprises turned in a primary surplus of 0.6% of GDP for 1999, compared to a deficit of 0.3% in 1998. The state and municipal governments also improved their performance by turning the 1998 primary deficit of 0.2% of GDP into a surplus of 0.2% for 1999.

The federal government achieved this surplus by adopting a variety of measures to increase tax collection and cut spending, and it succeeded in boosting revenues by 14.8% in nominal terms and reducing expenditure by 5.9%. The rise in income came mainly from changes in social items (such as the increase from 2% to 3% made in the social security tax rate and the extension of this levy to apply to the services sector, including financial services) and from administrative measures aimed at eliminating backlogs and gaining quicker access to resources retained under judicial claims. These steps made it possible to offset the decrease in revenues from traditional taxes, such as the levy on manufactured products. In addition, the government raised income from other sources by, for example, reintroducing the tax on financial transactions (whose collection had been suspended because of a delay in securing congressional approval for its renewal), as well as from concessions, State company profits and fuel taxes.

The central government reduced its expenditure by the equivalent of 1.1% of GDP. In real terms, with the exception of transfers to state and municipal authorities (which rose very slightly), decreases were posted for all the other items. An attempt was made to ensure that these cuts would not affect social spending on health,

Table 2

BRAZIL: MAIN QUARTELY INDICATORS

	1997				1998				1999 [a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	4.7	4.9	2.8	1.5	1.0	1.4	0.3	- 2.1	0.7	- 0.2	- 0.1	3.6	3.1
Consumer prices (12-month variation, %)	8.6	5.9	4.4	4.3	4.3	4.6	3.2	2.5	3.9	3.1	5.9	8.4	5.8
Exports (millions of dollars)	10 656	14 130	14 899	13 301	11 901	14 067	13 492	11 660	10 045	12 406	12 581	12 979	12 048
Imports (millions of dollars)	13 223	15 409	17 248	16 103	13 416	14 557	15 299	14 286	10 860	12 209	12 734	13 414	12 022
International reserves (millions of dollars)	...	56 795	61 161	51 359	68 594	70 898	45 811	44 556	32 873	40 417	41 943	35 554	38 429
Real effective exchange rate [c] (index: 1995=100)	92.6	92.4	93.0	94.7	94.2	95.4	97.8	103.1	148.6	139.7	149.3	150.7	137.3
Money (M1) (change from same quarter of preceding year)	63.6	60.3	55.6	58.9	11.9	16.4	12.3	7.1	8.5	4.3	7.0	22.7	16.5
Real interest rates (annualized, %)													
Deposit rate	12.7	13.2	15.6	29.7	26.2	16.3	20.9	33.0	32.2	22.1	14.4	10.4	10.9
Lending rate	41.3	29.5	33.3	63.6	68.6	93.9	86.8	104.8	126.4	80.0	54.2	40.2	23.9

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures at constant domestic prices. [c] Refers to exchange rate for imports.

education or social welfare; budgetary allocations in other areas, such as defence and infrastructure, were lower than at any other time since the start of the Real Plan.

The Government set itself the task of curbing the expansion of the social security deficit, both in the general private system and in the system for civil service employees. In the general system, when efforts to establish a minimum retirement age failed, an actuarial factor was adopted to adjust retirement benefits on the basis of each pensioner's life expectancy, thus encouraging workers to postpone retirement. Difficulties arose in connection with the civil service pension system, however, when the courts ruled that people who have already retired cannot be charged social security taxes until the Constitution is amended.

The improvement in the results of state and municipal governments was attributable to the consolidation of debt-renegotiation agreements with the federal government. The states pledged to generate primary surpluses so that they could service their debts, and it was established that, if they fell into arrears, the federal government could use a portion of its constitutionally-mandated transfers to cover those overdue payments, as occurred in the state of Minas Gerais. In May 2000, this programme was extended to include some state capitals, such as São Paolo and Rio de Janeiro, which have thus been able to reschedule and consolidate their debts with the federal government over maturities of up to 30 years at real annual interest rates of between 6% and 9%. The Fiscal Responsibility Act, passed in April 2000, establishes a number of rules regarding spending ceilings for all the various levels of government and provides that no level of government may refinance another. This regulation is intended to put an end to the almost continuous cycle of state and local government debt workouts with the federal government.

The upturn in the performance of State enterprises was mainly due to the rise in fuel prices and electricity rates. In addition, these companies' levels of investment expenditure were cut. The privatization process fell short of the targets established with IMF, with only US$ 4.4 billion being raised instead of the projected figure of US$ 14 billion. This sluggish pace of privatization activity is attributable to legal and operational problems which arose when the electricity generation companies and state banks were being readied for privatization.

These better-than-expected primary fiscal balances led to improvements in public debt management. The National Treasury was able to resume the issue of fixed-rate instruments, although the share of the federal government's total stock of bonds represented by these securities plummeted from almost 56% in May 1998 to just 1.2% by March 1999. Economic agents were only interested in instruments indexed to the Selic overnight rate, or to the exchange rate. Then, with the fulfilment of fiscal targets and declining inflation throughout the second quarter, the placement of fixed-rate instruments became more feasible, and by November 1999 these securities' share of the total had risen to 11.3%. It also became possible to increase the average maturity to nine months, after it had shrunk to less than five months during the early part of the year.

(b) Monetary policy

The new exchange-rate regime allowed for a more flexible form of monetary policy management. Until the new system was introduced, the function of the domestic interest rate had been to maintain capital flows. With the adoption of a floating exchange rate, the Central Bank indicated that its main goal was to control inflation and that it would use monetary and credit instruments for that purpose. In March, seeking to avoid any further deterioration of the exchange rate, the Central Bank raised the annual interest rate to 45%. Later, when fiscal results improved and sufficient foreign exchange became available to allow intervention, the interest rate took a sharp downward turn, and by September it stood at levels close to those recorded at the end of December 1998 (20%). With the return of a nominal value similar to rates seen before the Russian crisis, in late 1999 the country witnessed the lowest interest rates it had seen since the beginning of the Real Plan, although they were still positive and, in fact, close to an annual rate of 10%.

As well as influencing the trend of interest rates, the Central Bank attempted to encourage an orderly form of credit expansion, mainly through measures aimed at narrowing interest-rate spreads. Some of the steps it took to accomplish this were to reduce the reserve requirement on sight deposits from 75% to 65%, lower the tax on loans and encourage greater use of rating services so that banks could assign more accurate credit ratings. This contributed to a gradual expansion of credit, especially from the final quarter of 1999 on.

(c) Foreign-exchange policy

In January 1999, under pressure from heavy reserve losses, the government had to alter the exchange-rate system. Until then, it had used a currency band, although in practice it had worked like a managed peg, since the Central Bank intervened continually in the market, with alternating periods of sharp increases and steep decreases in reserves. Faced with these difficulties, the authorities tried to prop up the exchange-rate regime by widening the currency band, but were forced to abandon this attempt two days later in favour of a free float.

The foreign-exchange market was very volatile for two months, until the situation began to turn around in mid-March. Then, from April to October, the currency underwent a continuous devaluation (the exchange rate reached two reales to the dollar), after which it began to swing upward again in a slow process of appreciation that lasted until March 2000 (1.72 reales to the dollar). In May 2000, when United States stock markets became more volatile, the exchange rate slipped back to 1.80 reales to the dollar.

These wide swings between depreciation and appreciation created uncertainty which, at times, required the intervention of the Central Bank. The initial overshooting of the exchange rate following the devaluation was counteracted by using resources from the external assistance package to finance intervention by the Central Bank, while maintaining international reserves above the specified minimum levels agreed upon with IMF. In addition, a system of daily reports on the level of reserves was put in place. This increased supply of foreign exchange was not used to smooth out exchange-rate fluctuations, however.

2. The main variables

(a) Economic activity

The level of activity in 1999 was largely determined by the adjustments made in the latter months of 1998. In the environment of the increased uncertainty created by the use of high interest rates to maintain the government's exchange-rate policy, industrial output decreased significantly, and this translated into a drop of 6.3% in the final quarter of that year. This adjustment continued throughout the first nine months of 1999 and, as a result, the level of idle capacity was quite high in several branches of the manufacturing sector, such as the automotive industry, whose output was 35% lower than the 1997 figure. There was less idle capacity in the intermediate goods sector, since the level of investment in this sector has been lower under the Real Plan and domestic demand has been more stable, thanks in part to the import substitution process observed since the devaluation in January 1999.

The expectation was that this idle capacity would make for a rapid expansion of exports of manufactures in 1999. As it turned out, however, even though the volume exported grew by 4.3%, the value of exports fell by 7%, since the devaluation brought down external prices. Exports did not start to rebound until the final months of 1999, when volume increased by 22% and value by 9%. This upward trend continued throughout the first quarter of 2000.

Although the impact on exports was not as expected, industrial activity did benefit from import substitution, as well as from more favourable trends in agriculture, commerce and services, and the sector's output consequently fell by only 1.6%. Textiles posted a positive growth rate after four consecutive years of declines. There was a sharp decrease in automobile sales, but sales of domestically-manufactured equipment such as tractors and harvesters increased by 3.5% and 18%, respectively.

Agricultural output expanded by 9% in 1999, thanks both to record harvests and to an upturn in the livestock industry. The rice crop was excellent, with a 46% increase in output, and cotton, maize, sugar cane and wheat all performed well, with increases of between 7% and 13%. Only the soybean harvest recorded a decrease (–2%), after having expanded by 34% over the previous two years. The grain harvest consequently reached an impressive total of over 82 million tons. Livestock activity expanded by 5.7% as a result of the recovery of external beef and poultry markets.

In commerce, sales were hurt badly by the slump in the automotive market, which amounted to 32% in São Paulo. This was partly offset by a 7.8% increase in other sales, which were stimulated by low price rises. The devaluation, together with hikes in public utility rates and fuel prices, raised merchants' costs, but the recessionary environment prevented them from passing the full increase on to consumers.

In the services sector, communications were again the most dynamic performer, marking up a growth rate of 8.6%, compared to 5.9% in 1998. This strong expansion was attributable to the implementation of investment plans, as in the case of mobile telephones, and to the transfer of management to the private sector. The transport industry remained flat due to the poor performance of production activity and external trade.

This adverse scenario had a negative impact on investment decisions during most of 1999, so the downward trend observed since early 1998 continued. By the third quarter, the rate of investment had fallen by almost four percentage points of GDP, and an especially large decrease (–20%) was seen in the volume of capital goods imports. Then, in the last quarter, investment prospects took a decided turn for the better, and this positive trend carried over into the early months of 2000. Thus, construction expanded by 1.6% in the first quarter and the production of capital goods by 11%.

(a) Prices, wages and employment

Consumer prices rose by 8.4% in 1999, compared to only 2.5% in 1998. The acceleration of inflation was attributable to three different shocks: the devaluation of the real in January, the adjustment of public utility rates and the rise in fuel prices. Wholesale and consumer prices exhibited quite different patterns.

The new exchange-rate regime significantly altered price formation in several sectors, especially in the case of imports, and this had a particularly strong impact on the wholesale price index, which jumped by 28.9%. The rise in public utility rates, such as electricity and telecommunications, also put pressure on prices. In both cases, the hikes were a result of the fact that, when the companies providing these services were privatized, the terms of the contracts linked rate changes to trends in the

general price index, which includes wholesale prices, or to adjustment clauses for lags in these rates. In 1999, the regulatory body overseeing the energy sector approved rates increases amounting to 20.9%.

Fuels were another managed-price commodity that pushed inflation upward, since the uninterrupted rise in international prices of crude oil was exacerbated by the devaluation of the Brazilian real. In addition, the end price of fuels includes a tax whose proceeds are to be used to pay off the debt that the federal government owes to the oil company Petróleo Brasileiro (Petrobras) as the result of a differential between international prices and local production costs. Given these pressures, fuel prices climbed by over 50% in 1999.

Changes in other prices that have a major impact on the indices, such as housing, education, clothing and personal expenses, underwent only moderate annual variations of between 2.8% and 6.3%. This would suggest that the indexing mechanisms that were used so frequently in the past did not have a major influence on price formation.

Employment patterns reflected trends in economic activity and can be divided into two distinct periods in 1999. The first period, covering the first eight months of the year, was the less favourable, with the lowest participation rates of the last two years as a result of a decline in the number of people seeking work and the net loss of 64,000 jobs. From September on, the situation was reversed: the participation rate rose by one percentage point and 480,000 new jobs were created.

This expansion did not, however, extend to formal urban employment, which decreased by 2.5% in the steepest slide since 1992, exacerbating the trend towards the informalization of the labour market observed since 1996. The worst figures were seen in construction, where the employment rate plunged by 9.6%, and in manufacturing, where it declined by 3.4%. Even the services sector witnessed a drop of 1% in employment, after two years of growth.

Because the participation rate was down, the average rate of unemployment in major metropolitan regions was the same as in 1998 (7.6%). Later, however, as the participation rate increased in the latter months of the year, the unemployment rate in the first quarter of 2000 rose to 8.4%, thus exceeding the rate of 7.8% observed in the first quarter of 1999.

Total wages and the real average wage both slipped back in 1999. The previous year had already broken with the steady upward trend observed in these indicators since the start of the Real Plan in 1994, which had made it possible to accumulate increases of 36% and 29%, respectively, in total and average wages. In 1999, both indicators posted real losses of about 5%. In contrast to other crisis periods, this adjustment was not concentrated solely in the lower wage brackets.

Fiscal restrictions shaped the trend in the minimum wage, given their importance in the determination of periodic adjustments in social security benefits. In May 1999 the minimum wage increased by 4.6% (to 136 reales), in step with the rise in the consumer price index. The government brought forward the date set for its review to April 2000 and raised it to 151 reales, for a real increase of 5%.

(c) The external sector

The declines seen in the deficit on trade in goods and services and in net profit remittances contributed to a major improvement in the current account balance, with the deficit narrowing from US$ 33.6 billion to US$ 24.4 billion. The capital account registered an inflow of US$ 30.1 billion in direct investment, a record figure which made it possible to amortize US$ 50 billion of debt and attract net financial capital inflows of US$ 34.2 billion (including short-term funds). All in all, the balance of payments closed out the year with a deficit of US$ 10.7 billion. In addition, funds included in the external assistance package, which were entered below the line, increased the supply of foreign exchange available to the Central Bank. Thanks to this less pressured situation, at the end of the year the Central Bank was able to pay back US$ 5.5 billion of the US$ 17.8 billion disbursed in the aid package.

The sharp devaluation triggered an adjustment in foreign trade, but it was not as severe as expected. Although exports performed poorly, this was more than offset by the decrease in imports. The 7% downturn in external sales was attributable to weaker export prices, which were 20% lower than they had been in 1996. The prices of many major agricultural products suffered particularly steep slides, such as coffee (-24%), soybeans (-17%) and orange juice (-16%), as well as mining products such as iron (-25%) and aluminium (-24%). As a result, the terms of trade deteriorated significantly (-13%).

Contagion from the Brazilian crisis dampened demand in its trading partners in the region: sales to Mercosur countries fell by 24% in 1999 and by 16% to other members of LAIA. In 1998, these markets had accounted for close to 26% of Brazil's total exports. The European Union's share of the total (close to 28%) fell by 6.8%. Only exports to the United States increased, by 10%.

Manufacturing exports were down by 7%, since the increase in quantity was not large enough to compensate for the decline in prices. A number of factors were involved here: the difficulties being experienced by the country's main export markets (especially Argentina); limitations on access to international credit lines during the early months of 1999; and the higher cost of this type of credit. Even so, two areas that did record an increase were exports of aircraft and communications equipment (mobile telephones).

The rise of the exchange rate and its volatility deepened the downswing in merchandise imports that had begun in 1998 when the level of activity stalled. After almost doubling in value between 1994 and 1997, imports slipped back by 3.5% in 1998 and by 15% in 1999. The sharpest decrease (-31%) was in consumer goods; capital goods fell by 16%, and intermediate goods other than fuels, by 13%. In contrast, purchases of fuels and other petroleum products were up by 3.7%.

The higher exchange rate also discouraged international travel, which slumped by 38%; as a result, the deficit on the services account shrank by US$ 3.3 billion in 1998 to US$ 1.4 billion in 1999.

After reaching an all-time record of US$ 7.2 billion in 1998, net profit remittances tumbled to US$ 4.1 billion. Net interest payments continued to rise, reaching US$ 15.2 billion, 27% higher than the 1998 figure. This was attributable to the previous year's increase in the external debt and to the fact that, for Brazil, the costs of raising capital became higher in the wake of the Asian and Russian crises.

One notable development on the capital account was the trend in foreign investment, which reached a net figure of US$ 30.1 billion in 1999. The sector to benefit the most was manufacturing, which received US$ 7.8 billion. Once again, the main sources of these flows were the United States, Spain and Portugal.

Brazil's access to cash loans and bond issues on financial markets fluctuated widely in 1999. As a result of this uncertainty, interest payments (particularly on bank notes and loans) were moved forward during the first quarter, when a total of US$ 12.8 billion was paid. A net outflow of resources was seen during the third quarter as well. On average, once access to capital flows was regained, the level of transactions amounted to 40% less than in 1998, with shorter maturities and higher costs. In 2000, with a view to improving Brazil's access to financial markets, the government took the lead with six issues totalling US$ 3.9 billion, which represents almost two thirds of Brazilian borrowings. Private banks' and businesses' interest in these transactions waned, however, as the spread between domestic and external interest rates narrowed.

The favourable balance-of-payments situation was sustained during the first quarter of 2000, with the trade account remaining balanced and a smaller deficit being posted on the current account. The abundant inflow of investment also continued, as did a net inflow of financial capital. In April, the Central Bank regularized flows and paid back over US$ 10 billion to the creditors that had put its assistance package together, thereby reducing the pending balance to just over US$ 2 billion. The Central Bank's international reserves stood at US$ 29 billion, which was fairly close to the US$ 35 billion held in reserve prior to the crisis of January 1999.

Chile

1. General trends

In 1999, the Chilean economy was convalescing from the external shock and the adjustment policies of the previous year. This translated into decreases of 1.1% in GDP and of 9.9% in domestic demand (17% in investment), along with higher unemployment, which peaked in August at a nationwide rate of 11.5%. The government responded to the fall in private spending by expanding public spending more than had originally been planned. This, added to the drop in government revenue, generated a global deficit in the non-financial public sector (1.6% of GDP) for the first time in 12 years. Nevertheless, the year ended on a brighter note, as the balance in external accounts was regained and the inflation rate barely topped 2%.

THE CAUSES of the economic recession date back to 1997, when the economy's excessively high rate of expenditure was reflected in a current account deficit on the balance of payments equivalent to 5.0% of GDP. This situation made the Chilean economy vulnerable to the worsening external crisis. Then, in 1998, the terms-of-trade effect deteriorated by 3.5% of GDP, and dwindling external financial flows made a harsh adjustment necessary. That year was also marked by a number of speculative attacks on the peso and by bouts of uncertainty, which caused credit to shrink during certain periods and led to interruptions in credit flows, particularly in September and October of 1998.

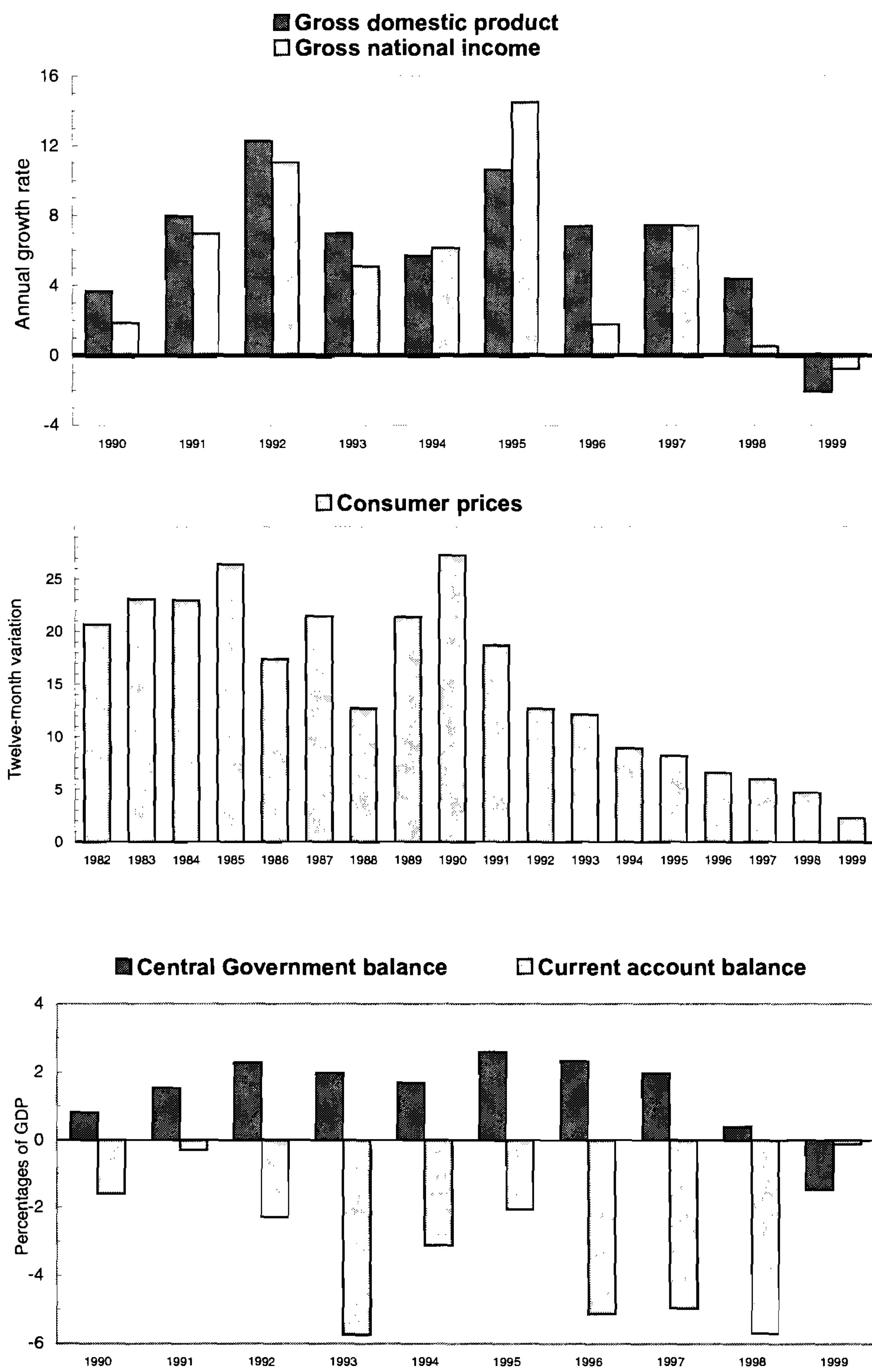
All these factors, together with the scarcity of rainfall, which triggered a serious electric power shortage during the first quarter of 1999, combined to dampen expectations (which had been running high throughout the 1990s) so severely that spending plunged (-9.9%) and the banking sector began to proceed with extreme caution. The bleak outlook combined with the low prices of the country's main export products to generate an environment in which an expansionary fiscal policy and looser monetary policy took a long time to make their effects felt. Thus, the reactivation did not begin until the fourth quarter of 1999. Sluggish demand was the main factor that slowed inflation, which came in at an annual rate of 2.3% in December; this was less than the Central Bank's projected figure for 1999 and the lowest in 60 years.

The uncertainty typically seen in a general election year was compounded by the underutilization of installed capacity, the financial system's cautious approach to lending and high interest rates early in the year (to defend the peso against the 1998 attacks). As a result, gross fixed capital formation, measured in constant 1986 prices, dropped from 31.8% of GDP in 1998 to 26.7% in 1999.

Slacker economic activity and the low price of copper curbed public revenues at a time when spending estimates had been based on what turned out to be overly optimistic projections of GDP growth. This, added to the need to bring forward labour-intensive public investment and offset the fall in private spending, generated a non-financial public-sector deficit of 1.6% of GDP.

The economic contraction and the rise of almost 11% in the real exchange rate paved the way for the correction of the external imbalance, and the current account went from a deficit of 5.7% of GDP in 1998 to a near-zero balance in 1999. A rise in merchandise exports of close to 8% and a 19% drop in imports were contributing factors.

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

In the course of 1999, the Chilean economy was able to reduce its external vulnerability and regain the confidence of the international financial market. This achievement was partly attributable to the placement of a US$ 500 million sovereign bond issue in the second quarter of 1999 that had the narrowest spread over United States Treasury bond rates of any country in the entire region.

After a costly adjustment, the Chilean economy ended the year on a more auspicious note. Even so, there were other imbalances that will need to be corrected in the course of 2000 and 2001. As part of this effort, both private investment and unemployment will have to be restored to their traditional levels, and the public sector will need to regain its surplus position.

Against the backdrop of more buoyant international and, particularly, Asian economies and following the correction of the external imbalance and the relaxation of monetary policy, prospects for 2000 appeared to be good. GDP growth is projected at about 6%. Despite the rise in oil prices, which have a strong impact on domestic prices, the authorities forecast an inflation rate in the 4% range. The external sector is expected to have a balanced trade account, while a slight deficit (around 2% of GDP) is forecast for the current account.

2. Economic policy

With improving external conditions and a return to macroeconomic stability, the government envisaged a rapid reactivation of the economy. This was to be brought about by an increase in exports -made possible by an improved exchange rate- and an expansionary monetary policy. Fiscal policy was planned in such a way that employment and investment could be reactivated within a framework of austerity. Thus, the year began with an austere fiscal policy and an expansionary monetary policy. However, the high interest rates prevailing at the beginning of the year, the electricity shortage, the banking system's cautious attitude -which made it difficult to satisfy credit demand- and high unemployment generated an atmosphere of poor expectations that prevented economic activity from making a rapid recovery. As a result, activity levels continued to slide throughout the first half of the year.

These events led the economic authorities to put together a policy package designed to speed up the reactivation. For the Central Bank, this entailed making successive reductions in the reference interest rate for monetary policy and abandoning the exchange-rate band in favour of a free float. Other steps were also taken to revitalize and deepen the capital market. Meanwhile, fiscal policy-makers implemented a series of measures to encourage spending, especially on employment, but also on investment.

(a) Fiscal policy

What had originally been designed as a contractionary fiscal policy gradually became more expansionary as the year went on.

The government adopted a number of measures to support the sectors that had been hurt the most by the crisis, such as ensuring free hospital care for unemployed persons, increasing the number of young people and women in training programmes, developing retraining programmes, raising the minimum wage by 8.9% in real terms and increasing the retirement pensions paid by the State-run system.

In addition to this set of policies, which were funded in the 1999 budget, the authorities introduced temporary spending measures to boost employment and investment, with the express intention of eliminating these expenditures once the economy was back on its feet. These initiatives covered a wide range of areas and included expanding labour-intensive public investment programmes with the help of municipal governments and ministries; bringing forward investments in State-owned enterprises, particularly the Corporación Nacional del Cobre (Codelco), with a project to extend the Radomiro Tomic field; providing tax incentives for home buyers; reprogramming payments to the Banco del Estado de Chile for 60,000 debtors having annual sales of less than 750 million pesos; and rescheduling the liabilities of debtors in arrears with the public sector, as well as cancelling interest payments and fines incurred between 1 January 1998 and 31 May 1999.

Table 1

CHILE: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	8.0	12.3	7.0	5.7	10.6	7.4	7.4	3.4	- 1.1
Per capita gross domestic product	6.2	10.4	5.2	4.0	8.9	5.9	5.9	2.0	- 2.4
Gross domestic product, by sector									
Goods	5.3	8.8	6.8	5.0	8.1	6.3	5.1	0.8	2.2
Basic services	12.4	19.8	5.6	5.6	12.9	8.3	10.8	9.8	2.5
Other services	8.7	11.2	5.8	5.1	9.3	6.9	7.3	4.0	- 1.6
Consumption	8.2	12.7	7.0	7.4	9.2	8.8	7.9	3.5	- 2.4
Government	3.6	5.6	4.3	1.9	4.2	4.0	5.0	3.9	2.5
Private	8.9	13.8	7.4	8.2	9.8	9.4	8.2	3.5	- 3.0
Gross domestic investment	0.7	21.8	21.1	0.8	34.2	5.9	11.8	- 1.4	- 26.2
Exports of goods and services	12.4	13.9	3.5	11.6	11.0	11.8	9.4	5.9	6.9
Imports of goods and services	7.0	21.8	14.2	10.1	25.0	11.8	12.9	2.1	- 14.3
	Percentages of GDP [c]								
Gross national income	92.1	92.1	90.9	91.7	96.3	91.7	92.2	90.0	89.0
Gross domestic investment	18.4	19.9	22.7	21.5	25.8	25.7	26.7	25.6	18.9
National saving	18.2	18.0	17.9	18.7	23.7	20.7	21.6	19.8	18.8
External saving	0.2	1.9	4.8	2.8	2.1	5.0	5.1	5.8	0.1
	Percentages								
Employment and wages									
Labour force participation rate [d]	52.7	53.2	55.2	55.4	54.8	54.2	54.2	54.4	54.4
Open unemployment rate [e]	8.2	6.7	6.5	7.8	7.4	6.4	6.1	6.4	9.8
Real average wage (index: 1995=100)	84.9	88.7	91.8	96.1	100.0	104.1	106.6	109.5	112.1
	Growth rates								
Prices (December-December)									
Consumer prices	18.7	12.7	12.2	8.9	8.2	6.6	6.0	4.7	2.3
Wholesale prices	16.5	8.9	6.7	7.8	8.2	3.1	1.9	0.3	13.5
External sector									
Terms of trade (index: 1995=100) [c]	83.5	81.2	74.2	84.1	100.0	80.7	83.0	73.3	73.5
Nominal exchange rate (pesos per dollar)	349	363	404	420	397	412	419	460	509
Real effective exchange rate for imports (index: 1995=100)	111.8	108.1	110.1	106.3	100.0	96.4	90.0	92.4	97.2
	Millions of dollars								
Balance of payments									
Current account	- 99	- 958	-2 554	-1 585	-1 345	-3 512	-3 728	-4 144	- 78
Trade balance (goods and services)	1 518	545	-1 217	583	1 060	-1 352	-1 509	-2 632	1 350
Exports	11 069	12 365	11 709	14 444	19 359	19 066	20 773	18 949	19 406
Imports	9 551	11 820	12 926	13 861	18 299	20 418	22 281	21 580	18 056
Capital and financial accounts [f]	1 355	3 505	2 984	4 736	2 403	6 016	6 914	2 004	- 670
Overall balance	1 257	2 546	430	3 151	1 058	2 505	3 185	-2 140	- 748
Variation in reserve assets (- indicates an increase)	-1 049	-2 344	- 173	-2 919	- 741	-1 107	-3 185	2 140	748
	Percentages								
External debt									
Gross debt (as percentage of GDP)	47.2	43.6	43.1	42.2	33.3	33.5	35.5	43.5	50.4
Net interest (as a percentage of exports) [g]	9.5	7.1	6.1	4.3	3.1	3.5	2.8	3.4	4.0

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Non-financial public sector									
Current revenue	...	...	37.1	34.8	33.1	34.1	33.7	33.1	31.2
Current expenditure	...	...	30.2	28.7	26.3	26.9	27.1	27.9	27.7
Saving	...	...	6.9	6.1	6.8	-7.2	-6.6	-5.2	3.5
Capital expenditure (net)	...	...	4.6	4.1	4.1	5.4	5.7	5.9	5.1
Financial balance	...	...	2.3	2.0	2.7	1.8	0.9	-0.7	-1.6
			Growth rates [h]						
Money and credit									
Money balance of banking system									
Net international reserves	470.9	43.5	41.0	62.5	26.6	31.6	40.9	1.2	28.3
Net domestic credit [i]	23.7	29.0	22.5	11.9	20.8	17.1	14.7	10.8	4.2
To public sector	-4.6	-10.1	15.1	-18.1	-11.2	-14.6	-24.2	10.0	54.1
To private sector	24.8	31.3	26.9	14.6	23.1	16.6	11.6	8.6	6.1
Money (M1)	48.0	40.7	20.6	20.6	23.5	10.5	16.6	-5.5	20.4
Local-currency savings and time deposits	34.5	33.0	-6.9	18.9	31.4	26.5	23.4	19.1	9.0
M2	37.5	34.8	-0.1	19.4	29.0	21.8	21.6	12.9	11.4
Dollar deposits	23.2	-17.2	31.3	-20.7	-7.3	-9.9	6.2	...	...
			Annual rate						
Real interest rate (annualized, %)									
Deposit rate	...	...	4.9	3.3	5.1	5.7	5.6	9.5	5.1
Lending rate	...	...	10.3	8.0	9.2	9.3	9.0	14.5	9.0
Equivalent interest rate in foreign currency [j]	...	...	17.0	15.8	13.6	13.1	11.8	14.8	8.4

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on constant 1986 pesos. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population. [e] Percentages of the economically active population. [f] Includes errors and omissions. [g] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [h] Owing to changes in the methodology used, the figures given for 1998 are not strictly comparable with those of previous years. [i] Includes entries under the heading "other" which could not be divided between the public and private categories. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

These policies led to an expansion of total expenditure that had a macroeconomic effect equivalent to 1.4% of GDP. The combination of this increase in spending and the downturn in fiscal income (5.7% in real terms) caused by the economic recession resulted in an overall deficit for the non-financial public sector of 1.6% of GDP. The new economic authorities consider this deficit to be temporary, and expect to reduce the shortfall to half a point of GDP in 2000 and to balance their accounts by 2001.

Another step taken by the Ministry of Finance to improve expectations and reassure foreign investors was to launch a US$ 500 million sovereign bond issue in April. The interest-rate spread on these bonds between the second quarter of 1999 and the first quarter of 2000 varied from 160 to 200 points over United States Treasury bonds, which is very narrow compared to the rest of the region.

(b) Monetary policy

Since the 3.5% inflation target did not appear to be an obstacle to an expansionary monetary policy, reactivation became the sole objective of monetary policy in 1999. The Central Bank adjusted the benchmark interest rate downward on several occasions over the course of the first semester until finally steadying it at 5% in an attempt to send out clear signals to buoy the reactivation. These signs were considered positive, but they were not enough to speed up the very hesitant reaction of economic agents in the wake of the deterioration in corporate finances and sharp drop in sales caused by the severe monetary shock of 1998.

The main monetary aggregates grew faster than in 1998. Broad money, including sight deposits, increased by a yearly average of 6%. Following its correction by the variation in nominal interest rates, real money did not

Table 2

CHILE: MAIN QUARTERLY INDICATORS

	1997				1998				1999[a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	5.1	6.4	8.9	9.9	7.9	5.8	2.9	- 2.8	- 2.7	-3.6	-1.7	3.9	5.5
Consumer prices (12-month variation, %)	6.8	5.3	6.0	6.0	5.3	5.4	4.8	4.7	4.0	3.8	2.9	2.3	3.4
Exports (millions of dollars)	4 643	4 364	3 999	3 918	4 040	3 990	3 426	3 439	3 940	3 903	3 678	4 095	4 843
Imports (millions of dollars)	4 000	4 213	4 741	5 264	4 613	4 530	4 490	3 713	3 321	3 358	3 669	3 607	3 976
International reserves (millions of dollars)	...	17 598	18 130	17 841	16 937	15 551	15 315	15 992	14 898	15 014	14 615	14 710	14 497
Real effective exchange rate [c] (index: 1995=100)	92.2	90.8	88.6	88.3	91.4	91.5	93.0	93.8	94.5	92.8	98.4	103.0	97.2
Money (M1)[d] (change from same quarter of preceding year)	14.7	18.2	20.4	20.0	10.8	8.2	-5.3	-8.3	-1.6	-0.4	12.7	20.2	10.8
Real interest rates (annualized, %)													
Deposit rate	6.2	3.7	5.2	7.1	6.3	7.2	13.7	10.7	4.7	6.2	3.4	6.1	6.2
Lending rate	9.6	7.4	8.5	10.5	10.8	10.7	20.7	15.7	9.2	10.1	6.9	9.8	10.4

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on official figures denominated in the local currency at constant prices. [c] Refers to exchange rate for imports. [d] Private-sector money.

exhibit positive 12-month growth rates until the third quarter. Total private financial saving -including private-sector term deposits, savings accounts and foreign-currency deposits- expanded by 10%, a figure substantially below the average for the second half of the 1990s.

To help deepen the financial system, the authorities widened the range of derivatives that financial institutions could trade on the local market, either among themselves or with third parties in the country or abroad. The new instruments to receive authorization included futures, forwards, swaps and local/foreign-currency combinations thereof. In addition, in June financial institutions were authorized to split up Central Bank readjustable coupon bonds (PRCs) and dollar-indexed promissory notes (PRDs) before their sale or transfer, thereby making it possible to diversify maturities and interest rates.

(c) Foreign-exchange policy

With less uncertainty in the external market and greater macroeconomic stability, the Central Bank began to widen the exchange-rate band on a daily basis by increments that were announced in advance. External expectations began to have an impact on the peso in the second half of the year, and in September the Central Bank responded to this situation by suspending its formal commitment to intervene in the currency market to defend the band. It would thereafter intervene only in exceptional cases and would announce its decisions to do so.

As a result, the real exchange rate began to climb, peaking in November, when the cumulative 12-month annual rate of increase amounted to 14%. The authorities expected this devaluation to contribute to an economic reactivation. This measure also removed a factor that had been undermining Central Bank

credibility and gave monetary policy more breathing space by freeing it from the external interest rate. In addition, it was well-timed in terms of external condition, with calm reigning in international financial markets and a good rating for Chile's sovereign bond. The financial system's results also showed it to be in a solid position, with non-performing loans holding steady at around 1.7% of its total loan portfolio, ample loan-loss provisions and the highest capital-asset ratio in two years.

(d) Structural reform

A series of measures were applied in the course of 1999 to deepen the Chilean financial system's integration into the international financial market. In line with the prevailing policy of streamlining and liberalizing international exchange operations, the authorities relaxed the restrictions on external credits to give exporters unhindered direct access to overseas credits to finance their operations. The authorities also did away with the requirement for prior Central Bank authorization for sales of foreign exchange to be used in payments of royalties, technical assistance services, foreign-currency employment contracts, leasing arrangements, export promotion expenses, etc.

The process of privatizing the country's water and sanitation companies was begun in 1999. A consortium formed by Aguas de Barcelona (50%) and Suez Lyonnaise des Eaux (50%) acquired a 42% stake in the water utility company Empresa Metropolitana de Obras Sanitarias (Emos) for US$ 960 million. Other foreign consortiums purchased the Empresa de Obras Sanitarias de la Regiõn de Valparaíso (Esval) and the Empresa de Servicios Sanitarios de Los Lagos (Essal) for US$ 138 million and US$ 94 million, respectively. Dock concessions in the ports of Valparaíso, San Antonio and San Vicente were also tendered to consortiums formed by Chilean and foreign investors. There was very little movement in 1999 on the Ministry of Public Works' call for bids on highway concessions. It was not until late in the year that the concession for the Santiago-Talca leg of the Pan-American Highway was awarded to the Spanish company Cintra Concesiones, which committed itself to a US$ 750 million investment. This company also won the bid for the Cerro Moreno Airport concession in Antofagasta, involving a further US$ 2 million investment.

3. The main variables

(a) Economic activity

The year was marked by a recessionary cycle that began in November 1998 and lasted until the third quarter of 1999, and a 1.1% contraction in GDP was consequently recorded for the year as a whole. The upturn seen in the fourth quarter was driven by supply -and particularly exports of goods and services, which rose by 7%- while consumption made a tentative move towards recovery. The continued fall of gross fixed capital formation, the rundown of inventories and the contraction of private consumption led to a drop of almost 10 points in domestic demand. In line with this pattern, goods and services imports fell by 14%.

Since the terms-of-trade effect took a turn for the worse for the second year in a row, real disposable national income shrank by 1.5%, which translated into a 2.8% decrease in per capita income. The slump in gross fixed capital formation brought investment down from 26.5% to 21.1% of GDP (measured in current pesos), of which 20.9 points were financed by gross national saving and just 0.2 points by external saving.

A complex set of sectoral phenomena combined to magnify the adverse impact of macroeconomic conditions on activity and employment levels, particularly during the first semester. One of these factors was the rationing of electricity, which lasted almost the whole of April and depressed the level of activity by leading to a partial paralysis of industry and interfering with commerce in general. In the fisheries industry, the closed seasons on certain species used in the production of fishmeal and fish oil blocked a stronger recovery from the sharply lower catches of 1998 caused by El Niño and La Niña. In addition, one of the road works concessions was halted due to financial problems, which also hurt employment.

At the sectoral level, GDP was boosted by growth in mining (17%) and fisheries (1.8%), as well as by services as a whole, with increases of 2.7% in transport and communications, 1.8% in electricity, gas and water, and

2.9% in financial services. Although manufacturing managed to raise its output considerably in the last quarter, for the year as a whole it recorded a negative figure of almost 1%; construction was clearly the hardest hit sector, with a slump of 10%.

(b) Prices, wages and employment

In 1999, inflation came in well below the 4.3% target set by the Central Bank authorities, reaching just 2.3%. This achievement was a result of the severe contraction of domestic demand and high unemployment, which prevented the increase in the exchange rate, which began in May, from being passed on to retail prices; the effect of this was to be seen in 2000. The moderate performance of wages and the cost of labour, which increased by 4.7% in nominal terms (three points less than the previous year), also contributed to price stability.

Wholesale prices rose much faster than the consumer price index (CPI), with an increase of 13.5% in 1999, thereby generating expectations that cost pressures will gradually carry over to prices once the economy reactivates. The 1999 rise in oil prices, whose effect on fuel prices was held back on the eve of the forthcoming presidential election, will also increase inflation in 2000.

Figures from the National Institute of Statistics (INE) show that unemployment rose from 6.5% in June 1998 to 11.5% in June 1999. By December, however, unemployment had fallen to 8.9%, signalling the beginning of a return to more normal conditions on the labour market and ending the year with a single-digit rate. There was some degree of lag in the adjustment of real wages, which rose by 2.4%, to the scarcity of jobs.

(c) The external sector

The balance of payments ran up a deficit of US$ 748 million in the course of the year, while the international reserves held by the Central Bank fell from US$ 16 billion to US$ 14.7 billion. The current account deficit shrank to 0.2% of GDP (almost 6 points less than in 1998), thanks to an improvement in the trade balance, which yielded a surplus of US$ 1.7 billion. The negative balance recorded on the current account was almost entirely attributable to payments for financial services amounting to US$ 1.88 billion and for non-financial services of US$ 310 million.

External trade figures demonstrate the severity of this expenditure-based adjustment, which led to a 19% drop in the value of imports. The downswing encompassed consumer, intermediate and especially capital goods, which were 36% lower than in 1998. The value of exports was up by US$ 790 million despite the deterioration in the prices of Chilean export products. The top exports in terms of volume were copper, forest products, and paper and pulp. Copper prices improved throughout the second semester but, in spite of the upturn, at 71.4 cents per pound the average price remained below that of the previous year.

In 1999 there was an outflow of US$ 5.3 billion of short-term capital, which was offset by a net inflow in the form of foreign direct investment of US$ 4.4 billion. This income came from the sale of the water and sanitation companies, the Banco de Santiago and Endesa, as well as the completion of energy and mining investment projects that had been started in previous years.

Unlike the situation in 1998, the net balance for portfolio investment was positive, with inflows of US$ 2.5 billion and an outflow of US$ 2.4 billion. The latter included US$ 2.07 billion in foreign investments made by privately-managed pension funds. This demonstrates that, although capital outflows are useful in offsetting excess foreign inflows, they can also play a counter-productive role during runs on the peso by increasing volatility.

The total external debt amounted to US$ 34 billion, which was US$ 2.3 billion more than in 1998. The bulk of this figure corresponds to the private sector, as total public debt remained at around US$ 5.8 billion, or just 17% of the total.

Colombia

1. General trends

In 1999 the Colombian economy experienced its deepest recession of the entire twentieth century. A drastic adjustment of private-sector spending in the wake of the international financial crisis led to a 4.5% drop in gross domestic product (GDP) and pushed unemployment up to 20% in urban areas. As capital flows reversed direction, an adjustment had to be made in the current account, and it took the form of devaluation and recession. The magnitude of the external adjustment amounted to 4% of GDP, while inflation registered its lowest rate in 30 years (9.2%).

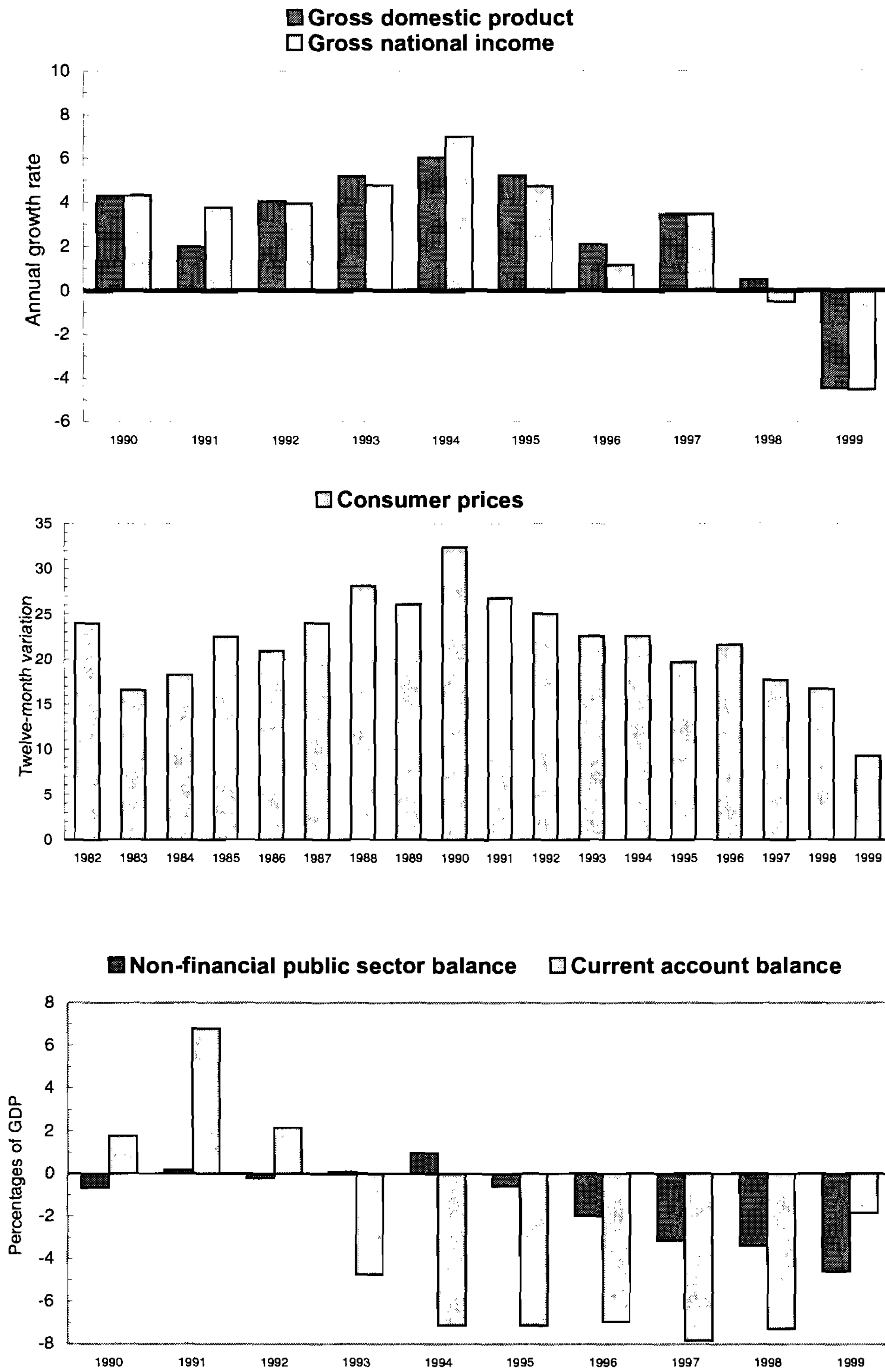
THE INTERNATIONAL financial crisis revealed major external and fiscal imbalances in the Colombian economy, both of which reflected an excess of expenditure over income during the decade. The adjustment process required in order to overcome these imbalances was precipitated by a fierce speculative attack on the local currency, which began in January 1998 and lasted, with varying intensity, for more than 18 months. The monetary authorities' decision to defend the currency band merely postponed the inevitable, thus prolonging the siege and increasing the cost of the adjustment in the real sector, which had to endure six consecutive quarters of shrinking output.

The prolongation of the crisis and the postponement of corrective measures in the fiscal and external sectors led to a reduction in the country's sovereign debt rating and raised the cost of external financing. As a result, the effort to defend the exchange-rate band was eventually abandoned, in September, and the currency was allowed to float freely. The economic authorities were also forced to turn to the International Monetary Fund (IMF) in the third quarter of the year.

The crisis that broke out in the financial sector in late 1998 not only placed additional demands on the Treasury, but also had a corollary in the form of a credit crunch that practically closed off financing for the real sector altogether. On top of this, an earthquake that damaged the coffee-growing region of the country in January 1999 also required additional fiscal expenditure, which, along with the reduction in tax receipts generated by the deep recession, widened the fiscal deficit to 6% of GDP.

In the early months of 2000 relative calm prevailed on the currency front, together with an upturn in economic activity and a steep rise in exports. The second quarter of the year was marked by political uncertainty, however, which sparked sharp fluctuations in the exchange rate and increased the cost of Colombian debt instruments on international markets. Projections based on the assumption that there would be no further disturbances in the political arena during the remainder of the year put GDP growth at over 3% for the year 2000.

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy

Economic policy-makers were faced with a difficult situation in 1999. The previous year's defence of the currency band had resulted in high interest rates and a slowdown in economic activity, and this was followed by a crisis in the financial sector. Given these circumstances, monetary policy sought to alleviate the effects of the resultant liquidity squeeze by adopting a less contractionary stance, so long as the real exchange rate remained stable. The fruits of this policy were seen in a sharp drop in nominal interest rates, although the reduction was less pronounced in real terms given the substantially lower rate of inflation. When faced with renewed speculative attacks towards the end of the second quarter, the Banco de la República (Colombia's central bank) decided to devalue the peso by shifting the exchange rate band for the second time in nine months.

The impairment of the economic authorities' ability to carry out the necessary adjustments triggered further onslaughts which eventually forced the central bank to do away with the currency-band regime altogether, after having lost nearly US$ 500 million in reserves in September alone. This policy shift, together with a commitment to undertake a fiscal adjustment as stipulated in the agreement with IMF, made it possible to adopt a more expansionary monetary stance.

(a) Foreign-exchange and monetary policy

The currency crises in Brazil and Ecuador early in the year did not cause major disturbances in Colombia. From April onward, however, exchange-rate pressures mounted as economic agents began to realize that no significant adjustment measures were being taken; as a result, the exchange rate hit the ceiling of the band in June. The consequent loss of reserves forced the central bank to devalue the Colombian peso by shifting the band upward by nine points and widening it.

This measure had a temporary effect, but it also undermined credibility in the exchange-rate regime then in force, and it thus proved impossible to absorb a further round of attacks stemming from the country's low sovereign-risk rating in the third quarter of the year. Following a fruitless attempt to ease pressures by selling off international reserves, the central bank finally gave way and, on 25 September, put the local currency into a free float. The absence of upheavals since that time is accounted for by the cumulative depreciation of the previous months, which had brought the real exchange rate close to its equilibrium level, by the large amount of external funding secured from the multilateral banking system (US$ 6.9 billion), and by the agreement reached with IMF.

The cumulative nominal depreciation as of the end of September was on the order of 30%. In the following months, however, the general calm reigning on the currency market and the petroleum sector's increasingly abundant foreign-exchange earnings led to a slight appreciation, and the local currency thus ended the year with a nominal depreciation of 23%, equivalent to 10% in real terms. In order to build up international reserves and dampen exchange-rate volatility, the Banco de la República adopted a new framework for intervention in the foreign-exchange market in November based on auctions of foreign-exchange options. The foreign-exchange market remained tranquil in the early months of 2000, but turbulence returned in April and May in the wake of political events.

Monetary policy in 1999 sought to mitigate the effects of the previous year's squeeze, while at the same time holding the exchange rate steady. With these goals in mind, an inflation target of 15% was set, and a number of steps were taken to boost liquidity. Some of these measures were aimed at streamlining access to central bank funds, while others were designed to lower their cost. Accordingly, discount rates, which were the main monetary policy instrument used in 1999, were lowered by the Banco de la República on 10 consecutive occasions.

Interest rates thus fell rapidly until June, after which they held steady for four months because of the instability on the foreign-exchange market before rising again. The financial system benchmark rate (the average rate of interest paid by the financial system on fixed-term deposits) dropped from 34% in January to 16% in December 1999. Other interest rates followed the same pattern, reaching their low point in February 2000 (rates on fixed-term deposits fell to 10%). To forestall an upturn in inflation, however, the central bank raised its intervention rates, and this caused market interest rates to rise slightly.

Monetary aggregates (except for M3 plus bonds) started the year with negative growth rates, but these gradually turned positive thanks to the steps taken by the central bank. The monetary base was showing a

Table 1

COLOMBIA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	2.0	4.0	5.2	6.0	5.2	2.1	3.4	0.5	-4.5
Per capita gross domestic product	0.0	2.0	3.2	4.0	3.2	0.1	1.5	-1.4	-6.2
Gross domestic product, by sector									
Goods	2.1	1.1	1.7	3.9	5.1	-2.7	1.1	-1.1	-7.7
Basic services	3.4	4.1	4.3	6.9	5.3	4.1	4.4	2.7	-3.2
Other services	2.3	4.9	6.7	6.2	7.3	7.7	5.0	-0.3	-3.0
Consumption	1.8	4.1	7.6	5.4	2.7	5.2	5.3	0.8	-3.0
Government	3.2	10.6	7.3	11.1	-5.3	26.0	17.0	2.4	4.1
Private	1.6	3.0	7.7	4.4	4.5	1.1	2.4	0.4	-5.1
Gross domestic investment	-8.7	43.0	30.7	34.0	10.2	-8.2	-0.7	-8.8	-31.3
Exports of goods and services	12.0	5.6	6.6	-0.3	14.7	4.2	8.1	6.0	5.5
Imports of goods and services	3.4	41.3	38.7	22.8	8.1	3.0	9.6	-3.2	-15.4
	Percentages of GDP [c]								
Gross national income	99.3	99.1	98.7	99.5	99.1	98.2	98.2	97.2	97.2
Gross domestic investment	14.9	17.0	21.7	25.6	25.8	22.2	21.4	19.4	14.0
National savings	19.5	18.1	18.3	19.3	18.5	15.0	13.5	12.3	10.9
External savings	-4.6	-1.1	3.4	6.3	7.3	7.2	7.8	7.1	3.1
	Percentages								
Employment and wages									
Labour force participation rate [d]	59.5	60.8	60.1	60.0	59.9	59.7	59.9	62.2	63.1
Open unemployment rate [e]	10.2	10.2	8.6	8.9	8.8	11.2	12.4	15.3	19.4
Real average wage (index: 1995=100) [f]	92.4	93.5	97.9	98.8	100.0	101.5	101.5	102.8	105.9
	Growth rates								
Prices (December-December)									
Consumer prices	26.8	25.1	22.6	22.6	19.5	21.6	17.7	16.7	9.2
Wholesale prices	23.1	17.9	13.2	20.7	15.4	14.5	17.5	13.5	12.7
External sector									
Terms of trade (index: 1995=100)	71.2	74.2	79.9	91.5	100.0	101.0	106.8	104.6	94.4
Nominal exchange rate (pesos per dollar)	633	679	787	827	913	1 037	1 141	1 426	1756
Real effective exchange rate for imports (index: 1995 = 100)	134.9	120.0	114.5	99.9	100.0	92.7	86.8	92.6	104.9
	Millions of dollars								
Balance of payments									
Current account	2 349	901	-2 102	-3 626	-4 637	-4 770	-5 896	-5 293	-1 252
Trade balance (goods and services)	2 740	1 189	-1 458	-3 261	-3 789	-3 300	-4 180	-4 015	409
Exports	9 100	9 246	9 949	10 668	12 266	13 176	14 220	13 516	13 993
Imports	6 360	8 057	11 407	13 929	16 056	16 476	18 400	17 531	13 584
Capital and financial accounts [g]	- 586	374	2 566	3 825	4 633	6 497	6 122	3 896	920
Overall balance	1 763	1 274	464	199	- 4	1 727	226	-1 397	- 332
Variation in reserve assets	-1 763	-1 274	- 464	- 199	4	-1 727	- 226	1 397	332
	Percentages								
External debt									
Gross debt (as a percentage of GDP))	36.10	30.1	29.1	26.8	26.9	30.4	30.0	34.1	39.8
Net interest (as a percentage of exports) [h]	12.4	9.9	7.4	10.1	10.1	10.9	12.4	12.1	12.9

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Non-financial sector									
Current revenue	25.1	25.4	27.1	27.0	30.8	32.3	31.6	27.6	30.1
Current expenditure	18.2	18.5	19.0	19.3	23.6	24.1	24.4	23.6	27.1
Saving	6.9	6.9	8.1	7.7	7.2	8.2	7.2	4.0	3.0
Capital expenditure (net)	6.7	7.1	8.0	6.7	7.8	10.3	10.3	7.3	7.6
Financial balance	0.2	-0.2	0.1	1.0	-0.6	-2.0	-3.1	-3.4	- 4.6
	Growth rates								
Money and credit									
Monetary balance for the banking system									
Net international reserves	94.1	29.9	- 2.1	- 5.6	18.5	18.6	24.8	10.1	34.7
Net domestic credit	19.6	31.2	55.3	18.1	25.9	33.9	21.9	9.5	3.9
To public sector	40.9	- 12.9	27.2	- 18.0	- 25.4	2.3	101.3	268.0	63.6
To private sector	17.1	37.6	57.8	35.9	35.8	25.3	25.0	12.8	- 1.3
Money (M1) [i]	28.1	39.1	32.8	22.9	19.5	16.0	22.2	1.9	28.1
Local-currency savings and time deposits	30.7	27.4	45.8	50.0	29.9	21.8	26.1	16.9	10.0
M2	19.6	31.2	55.3	18.1	25.9	33.9	21.9	9.5	3.9
	Annual rates								
Real interest rates (annualized, %)									
Deposit rate	...	...	2.8	5.0	9.6	8.8	4.8	11.7	9.2
Lending rate	...	...	10.9	14.2	17.4	44.8	13.3	19.8	17.4
Equivalent interest rate in foreign currency [j]	...	...	24.5	28.5	30.5	31.1	20.9	31.9	21.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Up to 1994, based on pesos at constant 1975 prices; subsequently, based on constant 1994 pesos. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population in seven metropolitan areas. [e] Percentages of the economically active population in seven metropolitan areas. [f] Manufacturing industry workers. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [i] In the private sector. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

cumulative increase of 25% by mid-December and ended the year with growth of 40% as temporary liquidity was pumped into the system as a hedge against the Y2K problem. Means of payment expanded by 21%, but the broadest liquidity measure (M3 plus bonds) grew by just 6.3%. This was largely due to the fact that economic agents shifted into cash to avoid paying the "two per thousand" tax on financial transactions.

Credit expansion trended downward to end the year in negative territory (-4%), with net local-currency lending decreasing by 1% and foreign-exchange lending activity shrinking by 42%. This credit crunch can be attributed to a series of events: the Colombian financial sector had suffered substantial losses in 1998 (0.8% of GDP), as high interest rates undermined many borrowers' ability to pay and pushed up the non-performing loan portfolio from 10% in early 1999 to 16% in November, before it slipped back to 14.4% in December. The consequent higher credit risk was also accompanied by a loss in the value of collateral owing to the steep decline in real estate prices. In addition, loan-loss provisions were increased as a result of the higher percentage of non-performing loans, and this reduced the supply of resources available for new lending still further.

Apart from this, an "inverse wealth effect" occurred on the demand side of the credit market. Business losses, together with an increase in unemployment, precipitated a drop in household income and cutbacks in consumption. As many clients of the financial system were over-extended when the monetary squeeze of 1998 supervened, the increase in debt led to a reduction in payment capacity and the resulting failure to meet obligations. The result was very weak credit demand in 1999, despite lower interest rates. Thus, the financial sector moved from a situation of high growth rates and over-expansion in 1992-1997 to the opposite extreme. Under these circumstances, financial institutions preferred to buy foreign exchange, invest in public-debt securities or deposit their spare resources with the central bank, rather than lend to the economy's prostrate production sector.

Table 2

COLOMBIA: MAIN QUARTERLY INDICATORS

	1997				1998				1999 [a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	0.8	3.5	4.6	4.9	0.5	5.2	- 1.5	- 3.5	- 5.7	-7.3	-4.6	-1.1	...
Consumer prices (nationwide) (12-month variation, %)	19.0	18.8	18.2	17.8	19.3	20.7	17.8	16.7	13.6	9.0	9.4	9.1	9.7
Exports (millions of dollars)	2 429	2 109	2 961	3 025	2 601	2 896	2 664	2 660	2 420	2 795	3 080	3 274	3 134
Imports (millions of dollars)	3 143	3 901	4 062	4 271	3 958	3 950	3 689	3 037	2 507	2 557	2 594	3 002	2 789
International reserves (millions of dollars)	...	10 271	10 229	9 881	9 412	9 048	8 765	8 714	8 725	8 366	7 855	8 077	...
Real effective exchange rate [b] (index: 1995=100)	84.8	82.8	86.0	93.8	92.4	88.0	89.5	100.5	95.5	97.2	111.9	115.0	110.4
M1 (change from same quarter of preceding year)	14.9	22.7	19.6	21.5	12.2	2.2	-1.0	-5.4	-1.7	6.3	14.4	22.1	35.4
Real interest rates (annualized, %)													
Deposit rate	5.3	4.5	4.3	5.1	6.3	10.1	13.7	16.6	12.3	8.7	8.7	7.3	2.1
Lending rate	14.4	13.3	13.0	12.6	14.2	18.8	21.1	25.0	20.3	17.9	15.9	15.7	14.4

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures.. [b] Refers to exchange rate for imports.

The government's efforts to overcome the financial crisis produced the desired results. The measures adopted to cope with the economic emergency of November 1998, followed by others in 1999 aimed at restructuring debts and recapitalizing financial institutions, prevented a general collapse of the financial system and set it on the road to recovery. At the same time, the sectoral consolidation and concentration process continued, and the number of financial institutions operating in the market shrank from 113 in December 1998 to 91 a year later.

(b) Fiscal policy

The fiscal balance of the non-financial public sector (NFPS) reported for 1999 (- 6% of GDP) is not directly comparable to previous years' figures due to a number of major methodological changes that have taken place (the deficit is now measured on an accruals rather than a cash basis, and some NFPS accounts have been reclassified). The substantial deficit was mainly generated by cyclical factors, whose influence grew rapidly in the wake of lower tax receipts. Apart from this, unforeseen expenses arising from the January 1999 earthquake (0.2% of GDP) added to the central government fiscal deficit (-7.6% of GDP), although this was partly offset by the surpluses posted by the social security system (1%) and Ecopetrol (0.6%).

Measured using the previous methodology, the central government deficit widened from 5.1% to 5.7% of GDP in 1999. One of the most significant changes in the new methodology is the exclusion from current government income of profits earned by the Banco de la República, which in 1999 amounted to 0.8% of GDP. Another decisive factor in 1999 was the feeble nominal increase in total revenues (13.2%), despite the collection of a new tax on financial transactions (0.6% of GDP) and the effects of fiscal reforms approved in December 1998. Capital income grew by 72% thanks to the transfer of financial surpluses to the government from the National Social Security Fund (which was closed down), while current income increased by 11.1%. Tax receipts, excluding the effect of the reform and the "two per thousand" tax, expanded by 3.8% 5.4% fall in real terms as a result of the recession and the collapse of imports.

Central government expenditure grew by 21.5% in nominal terms, as the net result of lower investment (-1.1%) and higher current expenditure (23.9%). The

latter was pushed up by higher interest payments (23%) and operating expenses (24.1%), which were themselves driven by larger transfers to departmental and municipal governments (29.3%). Half of the central government deficit was financed with resources obtained on the domestic market, one third out of external funding, and the rest from Banco de la República's profits and other sources.

3. The main variables

(a) Economic activity

At the start of the year the Colombian economy had already endured two quarters of negative growth, and the economy's low point was reached in the second quarter of 1999 when it shrank by more than 7%. Growth rates were less negative in the second half of the year, thanks to the steep fall in interest rates and a depreciation of the local currency; taking the year as a whole, however, GDP shrank by 4.5%. In contrast, strong export growth and the buoyancy of the manufacturing and agricultural sectors augured well for 2000.

The adverse conditions prevailing in 1999 mainly affected the private sector, with investment reaching only half its 1998 level; public-sector investment, meanwhile, declined by about 6%. Private-sector consumption fell less sharply (-5.1%) and was partly offset by growth in public-sector consumption (4.1%). Domestic demand retreated by about 9% as a result, and, with imports falling as well (15.4%), aggregate demand shrank by 6.4%.

Except for mining, which was buoyed up by higher extraction rates for crude oil and metallic minerals, and social, community and personal services, all the economic activities posted negative growth rates. Construction was affected the most, dropping back by one quarter of its total value added compared to the previous year. This came on top of three years of zero or negative growth resulting from the oversupply that had accumulated during the boom of the first half of the decade. High interest rates hit the construction sector both on the supply side (costs) and on the demand side (mortgage lending). Manufacturing production declined less steeply (-12.8%), partly because one segment of this sector's production activity is tradable. The only industries to achieve positive results were sugar, tobacco products and oil refining. Financial services slipped back for the second year in a row (-7.3%), reflecting the depth of the financial crisis. The stagnation of agricultural activity (-0.4%), meanwhile, resulted from a steep reduction in coffee output, which was partly made up for by the strong performance of other agricultural products intended for domestic consumption.

(b) Prices, wages and employment

The rate of inflation, measured by the variation in the consumer price index (CPI), amounted to just 9.2% in 1999, which was 7.5 percentage points lower than in 1998. Greater progress than expected was made in this area for two reasons. First, the deep recession, stemming from the 1998 credit squeeze, tended to mitigate relative price adjustments and weaken indexation mechanisms. As a result, the prices of housing, clothing, and cultural and recreational activities increased by less than the other components of the household shopping basket. Second, an abundant agricultural supply made possible by favourable weather conditions held down the increase in food prices to just 7.5%. The other components of the index rose by more than the average, but by less than they had the year before.

In contrast, the producer price index (PPI) rose by 12.7% in 1999 –only slightly less than the year before– as the effects of real depreciation and higher oil prices began to show through in the second half of the year. In the early months of 2000, these same delayed effects, compounded by the higher prices of certain agricultural products and a gradual dismantling of subsidies for public utility customers, led to a slight upturn in the CPI.

Two opposing labour-market trends were discernible during the year. Given the widespread indexation of collective bargaining contracts, wages in the manufacturing sector benefited from the favourable trend in inflation. In real terms, wages increased by 6% for white-collar workers, and by half this amount for manual workers. This was accompanied by a very steep increase in the urban unemployment rate, which jumped from an annual average of 15.2% in 1998 to 19.4% in 1999 in the country's seven major metropolitan areas. On the demand side, the sluggish economic activity of the past four years has stilted job creation. Labour supply, on the other hand, as measured by the overall

participation rate, continued to increase (by more than one percentage point in 1999), partly because increasing numbers of women and students have been joining the economically active population. As a result, unemployment rose sharply, and the employment rate fell back by 1.5 percentage points. The revival of economic activity in the first quarter of 2000 eased these trends but had still not managed to bring unemployment down to below the 20% mark.

(c) The external sector

The external adjustment carried out in 1999 was closely linked to the economic slowdown. The deficit on the current account of the balance of payments narrowed from 5.3% of GDP in 1998 to 1.5% of GDP (US$ 1.25 billion), while the surplus on the financial account decreased from 4.5% of GDP to 0.5% (US$ 460 million) over the same period. This lower net inflow led to a reduction of almost US$ 640 million in net international reserves.

In the first half of the year, monthly growth figures for merchandise exports were negative in value terms, despite the larger volumes exported, as a result of the decline in prices, especially for the most important export products (oil and coffee). Thus, as the international price of oil increased, the country's export performance improved. The vigorous upswing in the value of oil exports (over 60%) was mainly due to the higher price levels, but there was also an increase in the volume of these exports. The opposite was true for coffee (-30%), which registered decreases in both the international price and in the volume of exports. Non-traditional exports slipped by a slight amount (-3%), as the beneficial effects of the currency's depreciation did not begin to make themselves felt until the early months of 2000 (this category of exports soared by 30% during the first quarter of that year). Export performance would have been more buoyant in 1999 if it had not been for the recessions in Ecuador and Venezuela, which caused exports to these economies to drop by 45% and 19% in value terms, respectively.

Merchandise imports descended steeply until the final months of the year, and did not begin to recover until the first signs of a revival in economic activity appeared. Imports of capital goods dropped the most (-34%), owing to their close link with investment patterns, while other merchandise import categories suffered less pronounced falls. The deficit in factor income, meanwhile, widened by more than 40% as a result of higher interest and dividend payments and larger profit remittances.

The reduction in imports was accompanied by meagre capital inflows (US$ 460 million), equivalent to one-tenth of the 1998 figure. This was the outcome of a radical change in economic agents' expectations as to the sustainability of the Colombian economy's external position. Net inflows of long-term resources plummeted from US$ 4.465 billion in 1998 to US$ 1.63 billion in 1999. After several years of sizeable capital inflows, foreign direct investment (FDI) plunged from US$ 2.91 billion to US$ 870 million, partly as a result of lower privatization revenues. Net long-term borrowing was down by US$ 1 billion on expectations of a further depreciation of the local currency and the higher cost of external financing.

Net outflows of short-term capital were estimated at US$ 1.17 billion, reflecting a greater inclination among Colombians to invest abroad, less willingness to take out new loans, and greater difficulty in obtaining credit. The private sector thus reduced its outstanding external debt to US$ 14.72 billion. The public sector, on the other hand, increased its external borrowings by US$ 1.3 billion, with total external debt outstanding rising to US$ 34.43 billion, the equivalent of 41% of GDP.

Costa Rica

1 General trends

For the second year running, the Costa Rican economy witnessed rapid GDP growth (8.4%), to a great extent thanks to the operations of the company Componentes Intel de Costa Rica, which accounted for around 60% of this increase. Indeed, if the company's operations were excluded from the calculations, the figure would have been 3.4% instead.

THE TIGHT ECONOMIC policy in place since late 1998 made it possible to curb the expansion of monetary aggregates, moderate inflation and diminish the deficit on the balance-of-payments current account, but it also had a detrimental effect on the domestic economy. Restrictions were loosened towards the middle of the year, but this was not enough to boost economic activity unrelated to the operations of the Intel subsidiary. In addition, the locally-based export sector, which has a significant influence on the income of the population, encountered adverse conditions which were reflected in a 12% drop the value of its exports.

The slump in domestic activity brought down consumption, (per capita consumption was down by 1.5%) and raised both unemployment and the percentage of households that were unable to meet their basic needs, with the latter variable rising to 22% from its mid-1998 level of 19.2%. This, in combination with the restrictive monetary policy, was influential in holding price rises below the previous year's figure, and the economy thus met its projected inflation target of 10%. Price containment and a larger supply of foreign exchange made it possible to rein back the daily slippage of the exchange rate in the second semester, with the result that its depreciation for the year as a whole (11%) was within the targeted range.

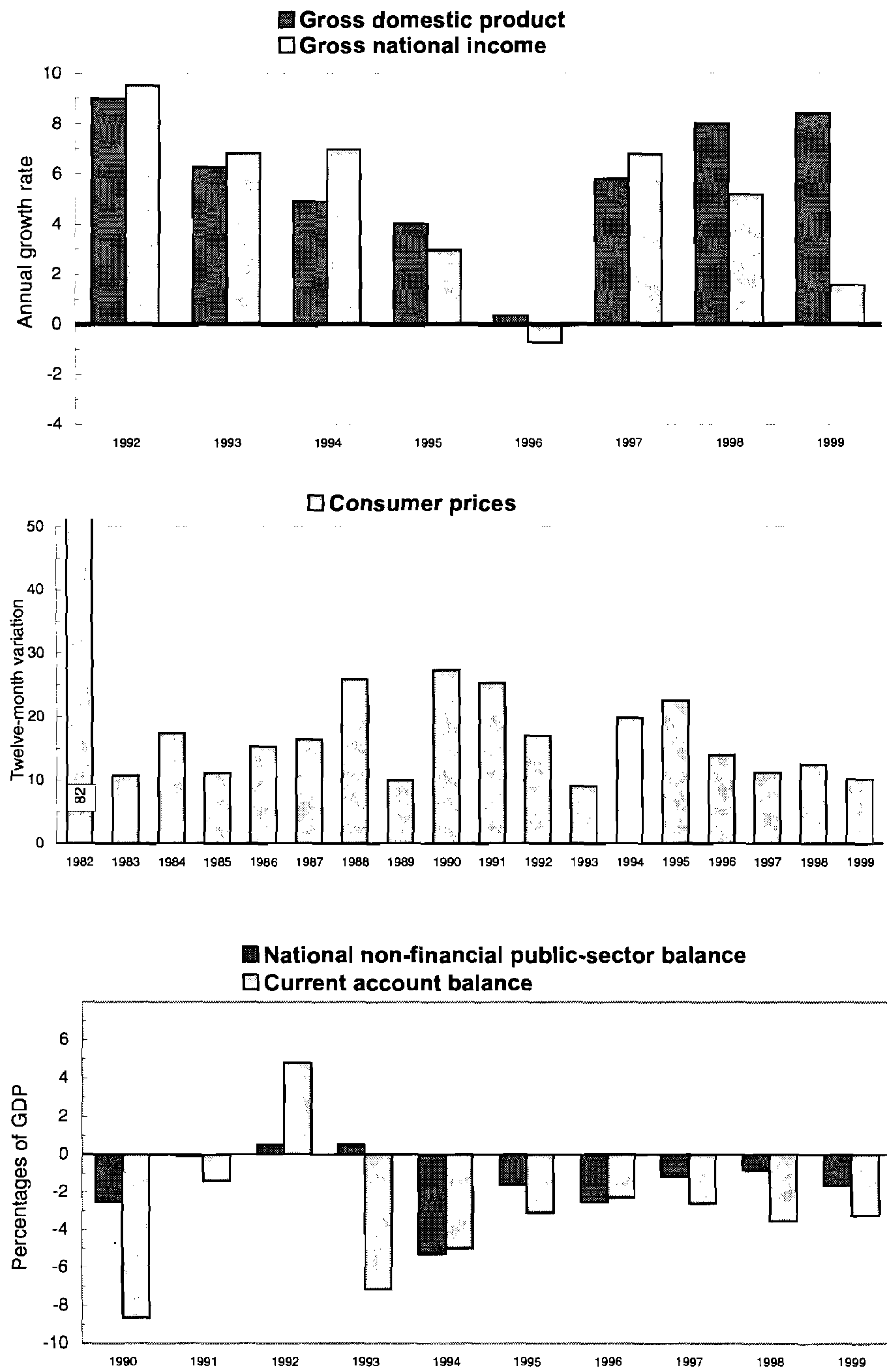
The fiscal deficit, which registered a nominal increase despite an upswing in central government revenues, continued to be one of Costa Rica's most worrisome problems. Even so, robust GDP growth pushed the deficit/GDP ratio down from 2.5% in 1998 to 2.3% in 1999. Recurring shortfalls on central government accounts have led to the expansion of the public debt, which rose to the equivalent of 45% of GDP in current values in 1999; 73% of the total debt is made up of domestic liabilities and the rest corresponds to external debt.

Interest payments on the country's unwieldy domestic debt continued to weigh heavily on public finances, since they absorb almost one third of the sector's income. In order to lighten this burden, for the second year running the government covered a portion of the fiscal deficit with foreign-exchange proceeds from an international bond issue. The 1999 issue totalled US$ 300 million and was floated at an interest rate well below the going rate on the domestic market.

In the country's external accounts, the deficit on the income account more than tripled (largely due to the outflow of Intel profits) and, even though the trade balance ran a hefty surplus, this translated into a current account deficit of US$ 488 million, which was just 1.3% less than in 1998. Nonetheless, the inflow of foreign capital was voluminous enough to offset this deficit and boost reserves by US$ 480 million.

Growth prospects were less bright for 2000. Intel projects a 33% rise in exports, in contrast to the 163% surge posted in 1999, and its investment programme has now been completed, so the company's influence on the

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

economy is expected to diminish. Although monetary policy-makers plan on an inflation rate of 10% (the same as in 1999), a less restrictive monetary and credit policy is likely to bring greater credit expansion and a lower interest rate. No changes are to be made in the exchange-rate policy, and the authorities will continue to apply the existing system of daily exchange-rate adjustments, which will make the devaluation of the colón over the year similar to the 1999 rate. The combination of these factors is likely to make for GDP growth of around 5%.

2. Economic policy

From the last quarter of 1998 to mid-1999, monetary policy was tightened up in an effort to correct the imbalance caused by credit expansion, lower the growing deficit on the balance-of-payments current account, curb the slide of international reserves and safeguard the progress made in stabilizing prices. These restrictions were loosened midway through the year when a number of indicators showed some degree of improvement.

Fiscal policy was chiefly aimed at raising revenues by combating tax evasion, and major reforms in the Tax Rules and Procedures Code came into effect in October which will provide the government with the means to do so.

(a) Fiscal policy

Revenue rose more than total expenditure (23% versus 21%), thereby bringing the central government deficit/GDP ratio down from 2.5% in 1998 to 2.3% in 1999. In the case of the consolidated public sector, however, this coefficient was higher than it had been the year before.

The upturn recorded in current income was associated with the expansion of the income tax base, which included the Costa Rican Electricity Institute (ICE) for the first time, and the decision to treat corporate Tax Credit Certificates (CATs) as taxable benefits. The tax amnesty granted when the new Tax Rules and Procedures Code came into effect also enabled some delinquent taxpayers to regularize their tax situation.

Indirect taxes, which account for over 70% of current income, increased at only half the previous year's rate, as levies on consumption and imports were affected by sluggish demand and the slow pace of growth in domestic economic activity.

In an unusual turn of events, investment portfolio transfers by some public institutions generated capital income, which placed more resources at the government's disposal; this was offset by the increased expenditure of some State-owned enterprises, however.

The growth rates for some items of current expenditure plunged, as in the cases of goods and services and transfers, but interest payments rebounded sharply. Interest on domestic debt jumped by close to 40%, as capital yields remained high, but also as a result of the deferral until 1999 of the redemption of zero-coupon bonds issued in June 1998.[1] Interest on the external debt, though lower than in the case of the domestic debt, soared by over 70% due to international bond flotations. Wages and salaries were also influential in pushing up expenditure, as jobs were created in order to support high-priority education and public safety programmes; wage increases were a secondary contributing factor.

Following a flat performance in 1998, capital expenditure rebounded by 28%, mainly as a result of higher transfers to public-sector agencies, although real investment also recovered from the previous year's slide.

The central government covered two thirds of the deficit with a late-April flotation of US$ 300 million in 10-year bonds on the international financial market at an interest rate of 9.33%.

The consolidated public-sector deficit more than doubled, rising from 0.8% of GDP to 1.6%. This was primarily a result of a contraction in the surplus of the largest decentralized agency, the Costa Rican Social Security Fund (CCSS), and of the losses reported by the formerly profitable ICE.

1 This kind of obligation does not involve periodic interest payments, since the yield consists entirely of the difference between the issue price and the redemption value.

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment [b]									
Gross domestic product	2.3	9.0	6.3	4.9	4.0	0.3	5.8	8.0	8.4
Per capita gross domestic product	- 0.8	5.6	2.9	1.8	1.1	- 2.3	3.1	5.3	5.8
Gross domestic product, by sector									
Goods	3.0	9.2	6.2	3.7	5.6	- 1.2	5.5	9.8	16.9
Basic services	3.3	10.1	11.2	7.2	6.0	4.2	8.9	8.0	6.4
Other services	1.2	7.6	5.8	5.1	2.4	1.3	4.9	6.5	2.5
Consumption	- 0.9	8.4	7.4	6.0	3.1	2.3	5.3	5.2	0.0
General government	- 0.9	2.7	4.8	2.0	- 0.1	- 0.6	3.7	3.1	1.0
Private	- 1.0	9.5	7.9	6.7	3.6	2.8	5.6	5.5	- 0.1
Gross domestic investment	- 13.4	25.2	19.6	2.4	- 4.9	- 12.2	22.4	11.8	- 2.6
Exports of goods and services	8.9	16.5	8.2	3.8	10.4	6.5	8.6	26.4	17.0
Imports of goods and services	- 3.4	22.7	17.2	4.6	2.6	3.1	14.2	20.2	- 1.0
	Percentages of GDP [c]								
Gross national income	96.4	97.2	98.1	100.1	99.2	97.9	99.0	96.7	91.0
Gross domestic investment	17.1	19.7	22.3	21.7	19.9	17.4	20.1	20.9	18.9
National saving	13.3	14.8	15.0	16.3	16.3	13.6	15.2	15.6	16.1
External saving	3.8	4.9	7.3	5.5	3.6	3.7	4.9	5.3	2.7
	Percentages								
Employment and wages									
Labour force participation rate [d]	52.2	51.5	52.6	53.1	53.9	52.2	53.8	55.3	54.8
Open unemployment rate [e]	5.5	4.1	4.1	4.2	5.2	6.2	5.7	5.6	6.0
Real average wage (index: 1995=100)	85.6	89.2	98.3	102.0	100.0	97.9	98.7	105.5	111.6
	Growth rates								
Prices (December-December)									
Local consumer prices	25.3	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.1
Industrial producer prices [f]	...	10.4	6.2	19.9	21.9	13.3	10.1	8.8	11.3
External sector									
Terms of trade (index: 1995=100) [c]	76.6	81.0	84.5	93.9	100.0	94.9	100.6	103.9	102.8
Nominal exchange rate (colones per dollar)	122.4	135.0	142.0	157.0	179.8	207.8	232.6	257.2	285.8
Real effective exchange rate for imports (index: 1995=100)	108.3	103.1	103.1	103.6	100.0	99.0	101.2	102.6	106.8
	Millions of dollars								
Balance of payments									
Current account	- 99	407	- 679	- 520	- 358	- 267	- 330	- 494	- 488
Trade balance (goods and services)	- 43	- 356	- 583	- 533	- 267	- 229	- 212	- 163	914
Exports	2 190	3 078	3 317	3 573	4 173	4 466	5 041	6 233	7 235
Imports	2 232	3 417	4 065	4 348	4 729	5 069	5 690	7 047	7 129
Capital and financial accounts [g]	262	544	703	416	580	212	546	345	968
Overall balance	163	137	24	- 105	222	- 55	216	- 149	480
Variation in reserve assets (- indicates an increase)	- 416	- 137	- 24	105	- 222	55	- 216	149	- 480
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	58.0	48.8	42.0	39.2	36.1	31.2	20.8	20.7	20.3
Net interest (as a percentage of exports) [h]	5.7	3.1	3.4	1.4	1.9	1.5	1.2	0.8	1.5

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Central government									
Current revenue	11.8	12.3	12.4	12.0	12.7	12.9	12.8	12.9	12.6
Current expenditure	13.1	12.5	12.3	15.7	14.7	15.5	14.1	14.0	14.0
Saving	-1.3	-0.1	0.0	-3.6	-2.0	-2.6	-1.3	-1.1	-1.3
Net capital expenditure	1.1	1.4	1.6	1.8	1.5	1.4	1.7	1.4	1.0
Financial balance	-2.4	-1.5	-1.5	-5.5	-3.5	-4.0	-3.0	-2.5	-2.3
Domestic financing	1.7	1.3	2.2	5.6	4.3	5.1	3.8	1.1	0.8
External financing	0.7	0.2	-0.7	-0.1	-0.8	-1.0	-0.8	1.4	1.5
			Growth rates						
Money and credit									
Money balances of banking system									
Net international reserves	156.5	23.0	4.9	4.6	41.6	-2.0	22.2	-2.7	52.8
Net domestic credit	4.7	24.3	31.5	27.6	3.3	46.3	18.5	38.7	8.1
To public sector	4.9	-4.3	2.7	28.6	30.8	127.1	31.2	20.5	- 21.7
To private sector	8.9	48.0	36.1	15.7	30.9	18.7	26.2	51.2	18.8
Money (M1)	29.0	36.0	7.8	31.1	-0.4	17.5	43.2	12.3	20.6
Local-currency savings and term deposits	22.2	40.9	40.1	10.6	17.3	30.1	2.8	23.4	14.4
M2	25.3	38.6	25.2	18.7	9.6	25.1	17.9	18.4	17.1
Dollar deposits	67.1	0.2	10.3	20.9	29.6	33.1	22.9	40.9	20.8
			Annual rate						
Real interest rates (annualized, %)									
Deposit rate	...	...	6.5	3.8	0.6	- 0.2	- 0.1	0.9	3.9
Lending rate	...	...	18.4	17.3	10.8	7.4	8.2	9.6	14.3
Equivalent interest rate in foreign currency [j]	...	...	15.7	16.7	22.2	15.8	11.8	12.6	14.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] For 1991, growth rates were calculated using constant 1966 prices; from 1992 on, they are based on the new series that use constant 1991 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population. [e] Percentages of the economically active population. [f] In 1993 the use of the wholesale price index was discontinued and was replaced with an industrial producers price index. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. Since 1992, the *maquila* industry's exports are included in these figures. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

(b) Monetary policy

The first semester saw the continuation of the monetary policy adopted in September 1998, when inflationary pressures and thinning international reserves led the monetary authorities to take restrictive measures. Open-market operations were stepped up in order to sop up extra liquidity; the suspension of the phased reduction of the minimum reserve requirement remained in place, and the legal reserve requirement for new financial agents and instruments continued to edge upward. Lastly, private-sector lending remained subject to a 26% ceiling from October 1998 to December 1999.

Although monetary policy was relaxed somewhat following a review in mid-1999, it remained tight in order to hold prices steady. Following a better-than-expected performance for GDP, reserves and some external-sector variables, together with price levels and exchange rates similar to the projected figures, the ceiling on personal loans was raised to 30% for this period and, as of 1 October, the reserve requirement was reduced by one point to 14%. However, open-market operations designed to soak up liquidity were continued, chiefly in order to sterilize government issues of securities on the international market and, to a lesser extent, to offset the surplus on the private exchange market.

For the year as a whole, the money supply (M1) climbed by 20.6%, or much the same rate as GDP growth in current values (20%), while local-currency liquidity

Table 2

COSTA RICA: MAIN QUARTERLY INDICATORS

	1997				1998				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Economic activity index (change from same quarter of preceding year)	2.3	4.1	4.6	5.0	5.6	6.0	7.4	9.3	10.5	9.2	6.9	4.2	1.3
Consumer prices (12-month variation, %)	14.8	13.6	11.9	11.2	11.2	10.8	12.7	12.4	10.7	10.6	8.6	10.0	12.0
Exports (millions of dollars)	976	1 125	1 027	1 077	1 220	1 413	1 396	1 495	1 682	1 675	1 635	1657	1 634
Imports (millions of dollars)	1 140	1 255	1 240	1 335	1 451	1 507	1 536	1 745	1 660	1 531	1 561	1 565	1 609
International reserves (millions of dollars)	...	1 151	1 223	1 262	1 152	1 166	969	1 063	1 184	1 440	1 354	1 460	1 440
Real effective exchange rate [b] (index: 1995=100)	99.5	100.4	101.7	103.2	102.1	102.5	101.5	104.2	104.4	106.8	108.1	107.8	105.9
Money (M1) (change from same quarter of preceding year)	9.8	28.4	35.6	43.2	44.8	23.6	21.8	12.3	11.9	18.0	23.6	20.6	21.7
Real interest rates (annualized, %)													
Deposit rate [c]	- 0.2	- 1.3	- 0.1	1.1	1.1	1.5	0.1	1.0	2.1	4.0	5.4	4.1	2.2
Lending rate [d]	7.9	6.9	8.3	9.8	9.7	10.0	9.2	9.6	11.6	14.4	16.4	14.8	13.1

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports. [c] 180-day deposits. [d] Short-term loans.

(M2) increased by 17%, as the growth of savings deposits slowed drastically due to the strengthening demand for Central Bank bonds. Foreign-currency deposits expanded only 21%, versus 41% the previous year, and this was reflected in the 18.5% growth rate for the broad money supply (M3), down from 26% the year before. Savers' diminishing preference for financial assets denominated in foreign currency was associated with the slower pace of the local currency's programmed devaluation, since this means savers are assured of higher yields for local instruments than for foreign-currency investments. Even so, foreign-currency liabilities still represented 40% of total liquidity.

Loans to the public and private sectors crept up by a scant 1%, in contrast to the rapid increase of the preceding two years (28% and 38%). Government borrowing shrank by 23% as a result of movements in accounting entries involving the recording of government debt with the Central Bank, since net credit received was similar to its level as of December 1998. Credit to the private sector grew by 19%, which was substantially less than the previous year (51%), as a consequence of the ceilings established by the Central Bank.

In marked contrast to the previous year, when net reserves were down by a small amount, reserves climbed by 53% in 1999 as a consequence of the US$ 300-million international bond issue, the inflow of private external capital and the virtual stagnation of imports.

During the first four months of the year, the deposit rate (as measured by the base rate[2]) was similar to what it had been during the last two months of 1998 (24.5%). In May it began to slip, and by year-end it stood at 18.25%.

2 Calculated by the Central Bank, the base rate is the weighted average of the six-month interest rates of commercial banks, non-banking financial institutions, the central government and the Central Bank of Costa Rica.

This trend was associated with the lower returns offered in the joint auction run by the Central Bank and Finance Ministry, which dropped almost seven points as a result of slacker demand for central government resources. The deposit rate paid by State and private banks also fell, but less sharply. Loan rates did not decrease, however, so these institutions' spreads widened.

(c) Exchange-rate policy

In 1999 the country's foreign-exchange policy was aimed at maintaining an exchange rate that would safeguard foreign competitiveness, keep domestic production profitable and hold import prices steady. To that end, the rate for the dollar was adjusted daily on the basis of the differential between domestic price rises and increases in a selected group of countries, including, of course, the United States.

The exchange rate rose about 11%, from an average of 257.2 colones to the dollar in 1998 to 285.7 in 1999. At year's end, the price of the dollar stood at about 300 colones. During the first semester, the colón was devalued by an average of 12 cents per day, but in the second semester the daily rate of depreciation eased to 9.2 cents. This was made possible by a slower increase in domestic prices and favourable external conditions. As a yearly average, however, the real exchange rate rose by 3.2%.

3 The main variables

(a) Economic activity

The most buoyant element of the economy was external demand, while domestic demand edged downward. The scant 1% rise in gross fixed investment was principally attributable to an upturn in public investment (mostly in road building and electricity generation infrastructure), since private investment was dampened by the completion of the work involved in setting up the Intel plant and by the slump in residential construction. Total consumption was flat, as the timid rise in public consumption (1%) was too slight to offset the downturn in private consumption.

Expanding external demand (17%) was boosted by Intel exports and, to a lesser extent, by increased tourism, with other areas of activity generally recording negative results or growth below the previous year's figures. Goods and services exports rose from 42% of GDP in 1997 to 53% in 1999.

On the supply side, at 8.4%, GDP exhibited its biggest growth spurt in the last 20 years. This can be attributed in large measure to the expansion of Intel's operations, since it accounted for 5 points of this percentage, which means that the contribution of all the other activities amounted to 3.4%. Because of Intel's high level of profit remittances, however, gross national income actually dropped slightly. Imports of goods and services shrank by 1%, basically because of the downswing in external purchases of consumer and capital goods, since purchases by intermediaries climbed due to the acquisition of inputs by Intel and other in-bond (maquila) industries.

Manufacturing was the second-most dynamic sector after construction, which achieved a slightly higher growth rate than the preceding year's thanks to the boost it received from public investment. The remaining sectors posted lower rates.

After the healthy pace of the previous year, the expansion of agriculture slowed as production for the overseas market, especially of bananas and sugar, dwindled; coffee, despite a price drop on the international market, actually enjoyed an upturn in growth. Production for domestic consumption intensified with the help of good weather conditions, and there were actually oversupplies of some products.

Manufacturing activity expanded thanks to the buoyancy of the maquila industry and especially Intel, which more than doubled its value added and was responsible for around 90% of the increase in this activity's output. The rest of the country's industrial activity grew slowly (1.5%).

Because of the importance that the maquila industry has acquired in the economy, industrial policy has been focused on promoting the development of national suppliers for this segment. The aim is to boost the productivity of small and medium-sized enterprises, in the expectation that this will raise sales of inputs and services to maquila industries by 5% the first year, 10% the second and 15% the third.

(b) Prices, wages and employment

Inflation as measured by the consumer price index was 10%, averaged over the year, which was in line with monetary programme targets. Slacker demand, a tight monetary policy and a slower rate of devaluation all helped to lower inflation, which had reached 11.7% the year before.

The rise in fuel prices had an adverse influence on this indicator, as there were several hikes during the year. Higher housing costs, electricity rates and health care costs were also influential. In the category of food, beverages and tobacco, however, the prices of agricultural products were down by 3.6%.

The average minimum wage climbed by 12.5%, which translated into an increase of 2.2% in real terms. The situation varied according to the type of employer concerned: real average earnings of workers in the private sector went up by 4% and those of central government employees rose by 1.5%, but wages in the rest of the public sector fell by 3%.

Open unemployment had fallen slightly in 1998 to 5.6% of the workforce, but it climbed back up to 6% in 1999. Underemployment, measured in terms of equivalent unemployment, rose from 7.5% to 7.8%.

(d) The external sector

The current account deficit totalled US$ 488 million, 1.3% less than 1998, and dropped from 3.6% to 3.2% of GDP. Goods and services exports jumped by 17%, while imports increased only 1%. As a result, the trade balance yielded a surplus of US$ 914 million, in contrast to the US$ 163 million deficit of the previous year. The impact of this accomplishment was diluted, however, by the increase in payments for factor services, which skyrocketed from US$ 607 million to US$ 1.67 billion, as remittances of profits and dividends almost quadrupled.

The performance of the external sector was heavily influenced by the expansion of Intel. This company's exports (parts for modular circuits and electrical microstructures) soared by 163%, and its share of total merchandise exports consequently jumped from 17% in 1998 to 38% in 1999. Foreign sales by other maquila companies increased just 5.2%, and their export share thus slipped from 18% to 16%. In all, maquila industries were responsible for over half of the country's exports of goods.

The remainder of the manufacturing sector's exports dropped by 5%, bringing its contribution to the total down from 29% to 23%. All together, exports of manufactures represented over three quarters of the total, marking a radical change in the country's export structure.

Commodity exports fell by 18%; coffee and bananas, the two major exports in this category, slid by 21% and 5%, respectively, owing to poor conditions on the international market. Total foreign sales of fishery products plunged by 52.5%. Only meat and some agricultural products, such as pineapples and melons, achieved an increase.

Merchandise imports grew by less than 1%. This small rise was attributable to purchases of inputs, since imports of both consumer and capital goods sagged in response to the stagnation of domestic demand. The upturn in imports of intermediate goods for industry, which accounted for 80% of the increase, was associated with activity in the maquila industry, especially Intel.

The services trade account posted a larger surplus than the year before, thanks to an increase in income from tourism. This industry has been doing very well for a number of years now.

Capital inflows were considerably higher, in part due to the government's US$ 300 million bond issue on the international market and the use of external credit by ICE to continue its electricity generation projects. The bulk of this sum, however, came from inflows of private capital directed towards the maquila industry, the banking sector and services. The significant inflow of foreign capital enabled the country to cover its current account deficit and build up its reserves by US$ 480 million.

The public external debt increased by 6.4% to a total of US$ 3,056,500,000, the equivalent of 21% of GDP. Debt service was down by 4%, thus dropping from the equivalent of 8.9% of goods and services exports to the more acceptable figure of 7.3%.

Cuba

1. General trends

Following two years of sluggish growth, production picked up strongly (6.2%) in 1999. Per capita GDP improved for the sixth consecutive year (5.7%) following the steep downswing of 1990-1993. The fiscal deficit was maintained at 2.2% of GDP and the rate of exchange remained stable (at 20 pesos to the dollar on the parallel market), which helped to keep inflation under control (-3%) within an economic environment marked by the stability of government-regulated prices and declining prices on the open market. The balance-of-payments current account deficit (0.6% of GDP) narrowed for the third year in a row and was the lowest in the decade in relative terms, thanks to a decline in the deficit on trade in goods and services and an increase in family remittances from abroad. Inflows from international tourism were up, but the merchandise trade deficit widened further despite the increase in the volume of commodity exports owing to a severe deterioration in the terms of trade. The positive balance on the capital account was sufficient to cover the current account deficit and add a small amount to the country's meagre international reserves.

GDP GROWTH was driven by the recovery of sugar production (and its multiplier effects on other production activities), the buoyancy of international tourism and a stronger performance by the energy sector. Weather conditions (a long winter and good rainfall) contributed to growth in agriculture (10.1%).

The reform process consolidated the advances made earlier in the government and financial sectors and in the area of foreign investment. Further efforts were made to boost the efficiency of public enterprises and to foster greater transparency, order and inner consistency in public resource management. On the other hand, the number of own-account workers making up the country's small private sector, which began to emerge in 1993-1994 as a first step towards liberalization, has continued to decline.

The chronic problems facing the external sector were expected to lead to a 4%-4.5% slowdown in production in 2000, but even this estimate was based on a projected upturn in overall production efficiency. These projections pointed to an improvement of 3.5% in labour productivity, a 1.4% decline in energy intensiveness, a 4.6% increase in investment efficiency and a 7% drop in the ratio of foreign-exchange expenditures per dollar of gross income. A 4.5% upturn was expected in manufacturing output based on higher production figures for both the sugar industry and other industrial activities, with the 1999/2000 sugar crop expected to exceed 4 million tons. In the energy sector, total crude production was projected to increase by 24% to 2.6 million tons, while natural gas production was expected to total 600 million m^3 and oil refining capacity to come

in at 2.6 times above the 1999 figure. National energy production was therefore expected to cover 70% of total electricity generation by the end of 2000.

The fiscal deficit was projected to rise to 3% of GDP, as a result of a higher increase in expenditure (1.8%) than in income (0.9%). Tax and non-tax revenues were expected to expand at similar rates (1% and 0.8%, respectively). A 14.3% increase was budgeted for wage hikes in priority sectors.

The balance-of-payments current account deficit was expected to narrow in 2000 due to a reduction in the trade (goods and services) deficit, an increase in net current transfers (remittances from family members) and higher factor service payments. Despite higher international oil prices, exports of goods and services were expected to outpace imports, largely as a result of higher volumes of sugar and nickel exports and an expansion of the tourism industry. The surplus on the capital account was expected to finance the current account deficit and to boost international reserves.

2. Economic policy and structural reforms

(a) Fiscal policy

The fiscal deficit was held in check (2.2% of GDP), since the expansion of total revenues (7.3%) covered the increase in expenditure (7.4%). Tax receipts were up by 13.9%, whereas non-tax income declined by 11.5%. These higher tax receipts reflected a larger increase in indirect (14.3%) than in direct tax revenues (13.2%). Receipts from circulation, sales and excise taxes strengthened, owing mainly to higher sales of cigarettes, beer and other alcoholic beverages. A 17.8% improvement in tax receipts from services was due to stronger activity under the headings of restaurants, hotels and electricity generation.

The growing number of companies being incorporated into the new tax system helped boost revenues from corporate taxes (17.8%), the labour force use rate (15.7%) and social security contributions (8.8%). Personal income tax receipts climbed by 5.2% despite the decline in the total number of own-account workers (the only persons subject to personal income tax are own-account workers, private transport operators, artists, real estate lessors, small-scale sugar-cane producers and intermediaries involved in the open agricultural market).

Capital expenditure increased faster (30.5%) than current expenditure (4.2%). Current outlays for defence and public order were higher (40.1%), as were those for sports (35.2%), education (21.2%), housing and community services (21%) and health (15.5%). Most of these increases were accounted for by wage hikes and incentive payments for persons employed in those activities. Product and price-differential subsidies also rose (33%).

An economic upturn and improved production efficiency resulted in a reduction in subsidies to cover losses of State-owned companies (-32.4%) and economic assistance to basic cooperative production units (UBPCs) (-48.1%).

(b) Foreign-exchange and monetary policy

The amount of currency outside banks remained virtually unchanged, while the broadly defined money supply shrank by two percentage points (to 35%) due to the effect of GDP growth. The price control policy was maintained, and the parallel exchange rate declined to 20 pesos to the United States dollar, after which it held steady, while the official rate remained the same (1 peso to the dollar).

The government's monetary income rose at almost the same rate as government disbursements (11.8%). Under the heading of income, charges for housing, electricity, gas and water went up (17.9%), as did merchandise sales (9.4%); the cost of transport services increased more gradually (1.9%). The most notable increases in disbursements were in day wages, salaries and payments to UBPCs (7.9%), while savings account balances were lower.

As part of the policy aimed at the de-dollarization of the Cuban economy, new savings mechanisms were established in the form of certificates of deposit which, in relative terms, made it more attractive to save in Cuban pesos or in convertible pesos. The interest rates on deposits in United States dollars for residents are well below international rates and represent only a fraction of the opportunity cost, measured as the cost to Cuba of accessing external financing. For example, at the end of

Table 1

CUBA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	-9.5	-9.9	-13.6	0.6	2.5	7.6	2.5	1.3	6.2
Per capita gross domestic product	-10.4	-10.6	-14.2	0.2	2.2	7.2	2.1	0.9	5.7
Gross domestic product, by sector									
Goods	-16.2	-19.2	-16.7	4.2	7.1	11.8	6.0	1.9	7.8
Basic services	-10.4	-13.2	-17.2	-0.9	7.0	7.0	4.6	1.2	4.5
Other services	-4.4	-3.3	-11.5	-1.1	-0.5	5.3	0.0	1.0	5.4
Consumption	-9.9	-11.1	-5.1	0.7	1.6	3.6	2.1	2.2	2.7
Government	-10.4	-5.2	-1.1	-1.9	-0.6	4.0	1.3	2.0	0.7
Private	-9.6	-14.4	-7.7	2.5	3.0	3.3	2.6	2.3	4.0
Gross domestic investment	-45.9	-58.3	-39.7	1.9	35.2	22.8	13.7	7.3	9.4
Exports of goods and services	-3.5	-5.9	-24.9	9.1	4.3	24.6	5.8	2.0	11.0
Imports of goods and services	-37.0	-45.3	-5.4	19.2	11.5	24.3	11.0	8.0	3.0
	Percentages								
Employment									
Rate of unemployment	...	...	...	...	7.9	7.6	7.0	6.6	6.0
	Growth rates								
Prices (December-December)									
Consumer prices	...	...	...	...	-11.5	-4.9	1.9	2.9	-3.0
External sector									
Terms of trade (index: 1985=100)	69.9	51.5	54.4	65.9	73.9	66.7	68.5	66.8	57.4
Official exchange rate (pesos per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Informal exchange rate (pesos per dollar) [c]	20.0	35.0	78.0	95.0	32.1	19.2	23.0	21.0	20.0
	Millions of dollars								
Balance of payments									
Current account	-1 454	-420	-372	-260	-518	-167	-437	-396	-176
Trade balance (goods and services)	-1 138	-215	-371	-308	-639	-419	-746	-617	-426
Exports	3 563	2 522	1 968	2 542	2 926	3 707	3 882	4 182	4 521
Imports	4 702	2 737	2 339	2 849	3 565	4 125	4 628	4 800	4 947
Capital and financial accounts	1 421	419	356	262	596	174	458	413	200
	Percentages								
External debt									
Gross debt (as a percentage of GDP) [d]	37.0	39.1	52.9	44.6	45.6	42.7	41.1	43.3	39.9
	Percentages of GDP								
State income and expenditure									
Total revenue	62.4	56.5	57.3	62.6	56.6	50.0	49.5	48.3	48.6
Total expenditure	83.8	86.3	87.7	69.6	60.0	52.3	51.3	50.5	50.8
Financial balance	-21.4	-29.7	-30.4	-7.0	-3.3	-2.3	-1.9	-2.2	-2.2
Money									
Liquidity	37.4	51.0	66.5	48.8	40.2	38.9	38.3	37.5	35.4
Currency outside banks	18.9	24.9	27.4	17.7	15.4	16.3	16.3	16.6	16.1
Regular savings deposits	18.5	26.1	39.0	31.1	24.8	22.7	22.0	21.0	19.3

Source: ECLAC, on the basis of official figures and own estimates.
[a] Preliminary figures. [b] Based on series at constant 1981 prices. [c] Average exchange rate. [d] Calculated on the basis of the official rate of 1.00 peso to the dollar.

Table 2

CUBA: GROSS DOMESTIC PRODUCT BY SECTORS OF ECONOMIC ACTIVITY

(Millions of Cuban pesos at constant 1981 prices)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
Gross domestic product	18 415	16 591	14 332	14 421	14 783	15 909	16 306	16 522	17 546
Goods	6 701	5 413	4 511	4 701	5 035	5 627	5 966	6 080	6 556
Agriculture	1 335	1 197	925	879	916	1 075	1 074	1 018	1 120
Mining	82	106	96	98	152	177	182	184	186
Manufacturing	4 200	3 507	3 104	3 341	3 555	3 835	4 155	4 291	4 618
Construction	1 085	604	386	384	412	539	556	588	632
Basic services	1 485	1 290	1 069	1 059	1 133	1 211	1 267	1 282	1 340
Electricity, gas and water	427	378	335	350	384	398	422	427	430
Transport, storage and communications	1 059	912	733	709	748	813	845	855	910
Other services	10 229	9 888	8 753	8 661	8 616	9 071	9 072	9 159	9 650
Commerce, restaurants and hotels	4 396	4 050	2 936	2 935	2 985	3 251	3 176	3 090	3 368
Financial establishments, real estate and services to firms [b]	1 807	1 722	1 699	1 683	1 678	1 717	1 748	1 808	1 922
Communal, social and personal services [c]	4 025	4 116	4 118	4 043	3 953	4 104	4 149	4 262	4 360

Source: ECLAC, on the basis of figures from the National Statistics Office (ONE) and own estimates.
[a] Preliminary figures. [b] Includes adjustments for home ownership. [c] Includes governmental services, other diverse services and adjustments for unregistered economy and discrepancies.

March 2000, 12-month fixed-term deposits in dollars, convertible pesos and Cuban pesos carried interest rates of 1.25%, 2.50% and 3% per annum, respectively.

In 1999, the national financial system extended approximately US$ 1.5 billion in short-term credit to production units, compared to US$ 993 million in 1998. In 1997-1999, US$ 500 million in external medium- and long-term loans were obtained for the purchase of equipment for use in the sugar industry, construction of airports and telecommunications. The terms of financing for the reactivation of production are gradually improving, as companies which have viable projects and qualify for satisfactory risk ratings with commercial banks can obtain working capital loans of up to US$ 1 million. There has also been an increase (32%; 5.2 million Cuban pesos) in local-currency loans to production companies.

(c) Economic reforms

The process of opening up the economy to foreign investment has proceeded in the real estate and energy sectors, and the restructuring of the banking system has been consolidated. In all, 370 joint ventures representing a total investment in excess of US$ 4 billion have already been set up. Most of these enterprises are engaged in international tourism, nickel production, oil production and telecommunications, and Spain, Canada and Italy have been particularly active in these industries. Bilateral investment protection agreements have been signed with 45 countries, and double-taxation agreements already exist with two countries and are being negotiated with five others. The three existing customs-free areas have 294 operators engaged in commercial and service activities. One foreign operator has been awarded the contract for managing and operating the airport terminal at Cayo Coco, in the north-eastern part of the island.

Further progress has been made with the corporate development programme designed to improve the efficiency of more than 1,200 public enterprises. This new independent management system is based on the principle of self-financing, according to which each firm must be able to generate enough income to cover its costs and turn a profit. These enterprises have decentralized control over a portion of their profits and can reinvest them in order to improve the working and living conditions of their workers and to offer incentives to the most efficient employees by expanding existing public-sector salary scales.

Decree-law No. 92 on the financial administration of the State was enacted in 1999 to foster transparency and efficiency in the management and control of public financial resources. This legal instrument regulates various operational aspects of fiscal affairs and public credit. A superintendency of insurance was also created to oversee this activity in accordance with the financial reform programme. Decree-law No. 177 of 1997 established standards for the insurance market as a whole together with prudential regulations governing insurance activities in order to protect the rights of policyholders.

In addition to the free farmers' markets established in 1994, which are regulated by the Ministry of Domestic Commerce, in 1999 the Ministry of Agriculture set up parallel agricultural markets (referred to as "placitos de acopio" or farm produce centres) to bring down prices. Local authorities set price ceilings in these markets, based on local conditions, which usually work out to be lower than those of the open market, but higher than the prices that can be obtained with the allowance booklet. The State thus increased its supply of agricultural products from 28% of the total for both markets in 1998 to 45% in 1999. Private enterprise's share of these two markets declined as a result of this competition from State suppliers, but still had the largest share (53%) of total supply.

The consolidation of the economic reform process still appears to depend on the design of new measures to help bring about the full recovery of the agricultural sector, a phasing out of the two-tier exchange-rate and pricing systems, consolidation of the macroeconomic adjustment and a more flexible management of private forms of self-employment.

3. The main variables

(a) Economic activity

Total supply expanded considerably (5.6%) thanks to an increase in output (6.2%), since imports of goods and services grew more slowly (3%). External demand was more robust (11%) than domestic demand (3.4%). The 11% increase in exports of goods and services was mainly accounted for by larger export volumes of sugar and mining products, together with a growing influx of international tourists. For the first time, Cuba also exported 250,000 tons of petroleum in 1999.

Investment grew by 9.4%, while the increase in consumption was more gradual (2.7%). The authorities are continuing to give priority to capital formation in key foreign-exchange-generating activities, such as tourism and telecommunications, and to import-substitution sectors (energy). In 1999, 4,300 new hotel rooms for international tourism were completed and a number of thermoelectric plants were modernized. By contrast, other activities unconnected with foreign exchange, such as housing and transport (including road infrastructure), continue to show the effects of a shortage of investment funds.

Sales were up on the State-controlled market (6.5%), in State-run public food centres (18.2%) and on the open market for agricultural products (36%). This made it possible to increase the population's daily food intake, although it has not yet reached the level recorded prior to the 1989 crisis. The value of domestic sales made in dollars increased by 9%, and some 62% of the population had access to this market, compared with 56% the year before.

Growth was recorded across the board, with the most notable improvements occurring in tourism (13%), agriculture (10.1%), commerce (9%), manufacturing (7.6%) and construction (7.5%). Slower growth was seen in transport, storage and communications (6.4%), the financial sector (6.3%), government services (2.3%) and mining (1%).

Gross income from tourism rose by 8.1% owing to an increase in the number of visitors (13.2%) to 1.6 million persons. The overall growth rate for tourism slowed in 1999, however, as a consequence of the decrease in December arrivals caused by international uncertainty over the Y2K problem.

The agricultural sector rebounded (10.1%) from its 1997-1998 downturn, with the output of agricultural items other than sugar climbing more sharply than sugar production itself. In the fisheries industry, the gross catch was up 8% thanks to the increase in aquaculture (11%) and coastal fishing, since the output of the high-seas fleet diminished.

Industrial production expanded, with increases in both the sugar and non-sugar sectors. The 1998/1999 sugar-cane harvest yielded 3.8 million tons of sugar, 17% more than the preceding harvest. The upturn in the

sugar industry has fuelled an expansion in various sugar products, including refined sugar (15%), blackstrap molasses (15%) and rum (11%).

The food industry benefited from the larger volume of raw materials generated by the upturn in agriculture. Increases in beverages and tobacco were attributable to the greater availability of inputs and to the strength of market segments linked to tourism and sales in dollars on the domestic market. Beer production was up by 14%, soft drinks by 8%, rolled tobacco by 8% and cigarettes by 5%.

The expansion of construction was accounted for by the work carried out in areas of activity that generate foreign exchange, including hotels and motels, and by budgeted projects such as schools and public health centres. Road and housing repair and maintenance work in both the State and private sectors also increased, but the number of completed housing units declined (-6.6%; 41,997 units).

In the energy sector, oil production topped 2 million tons (an increase of 25%), while associated natural gas output was 3.7 times higher at 460 million m^3. Electricity generation also expanded (2.5%) thanks to production incentives and the entry of foreign investors. National oil and gas production was sufficient to cover one third of the country's energy requirements, including 41% of its electricity needs, and efforts were made to substitute more efficient and cleaner energy products. This was reflected in a net reduction in power cuts.

(b) Prices, wages and employment

Increases in wages and other production costs were counterbalanced by a substantial expansion in the supply of goods and services available to the population and by higher subsidies on price-controlled products, while the parallel exchange rate remained stable. Consequently, these variables had no adverse effect on prices in 1999. The consumer price index declined by 3% as prices moved downward on agricultural markets and in the informal economy, whereas on the controlled market, no changes were reported. The value of agricultural sales rose by 36% as a net result of a 75% expansion of supply and a 25.8% decrease in prices.

The increase in the average monthly wage (5.7%; 223 pesos) was in line with the upswing in average productivity and benefited 60% of the public sector. The system of foreign-exchange incentives was extended (6%; 1,080,000 workers), while the system of productivity-linked local-currency incentives was applied to 781,000 persons. These increases notwithstanding, real purchasing power is still not on a par with its level of 10 years ago.

Open unemployment slipped to 6% despite a 5.4% rise in labour productivity. Unemployment was highest in the eastern provinces of the country, even though 87,000 new jobs were created there. The number of own-account workers declined by 8% owing to stiffer competition and tighter controls. The legal registration of self-employed private individuals showed rises in the number of private carriers (33%), artists (22%), real estate lessors (2.2 times) and small-scale sugar producers (37%).

(c) The external sector

The balance-of-payments current account deficit narrowed (US$ 176 million; 0.6% of GDP at the official exchange rate) as the net outcome of a larger merchandise trade deficit, an increase in the trade surplus in services and higher net current transfers. The merchandise trade deficit widened as the result of a 14.1% deterioration in the terms of trade, since export volumes grew faster (10%) than import volumes (2.5%). Particularly large increases were seen in export volumes of sugar (16%) and mining products (15%). International sugar prices dropped, resulting in a loss of potential earnings of US$ 265 million, but the price of nickel exports picked up. Smaller amounts of petroleum and petroleum products (-17%) were imported, but at higher prices.

The positive performance of the services account was attributable to growth in international tourism and telecommunications, as net factor service payments remained practically the same as the year before (US$ 600 million).

Further progress was made with import substitution. Cuban products accounted for 51% of supplies to the tourist industry and 47% of sales in dollar stores.

The external debt edged downward (-1.9%) to stand at US$ 11 billion, but it still represents a very high percentage of the value of exports of goods and services (2.4 times). Talks have begun with the secretariat of the ad hoc group of Paris Club creditor countries with a view to negotiating a multilateral restructuring of Cuba's official debt with the member countries of that group. Between 1998 and 1999, renegotiation agreements were signed with Japanese suppliers and with the government export credit insurance agencies of Italy, the United Kingdom, Belgium and Japan, and negotiations along the same lines are being conducted with other countries.

Ecuador

1. General trends

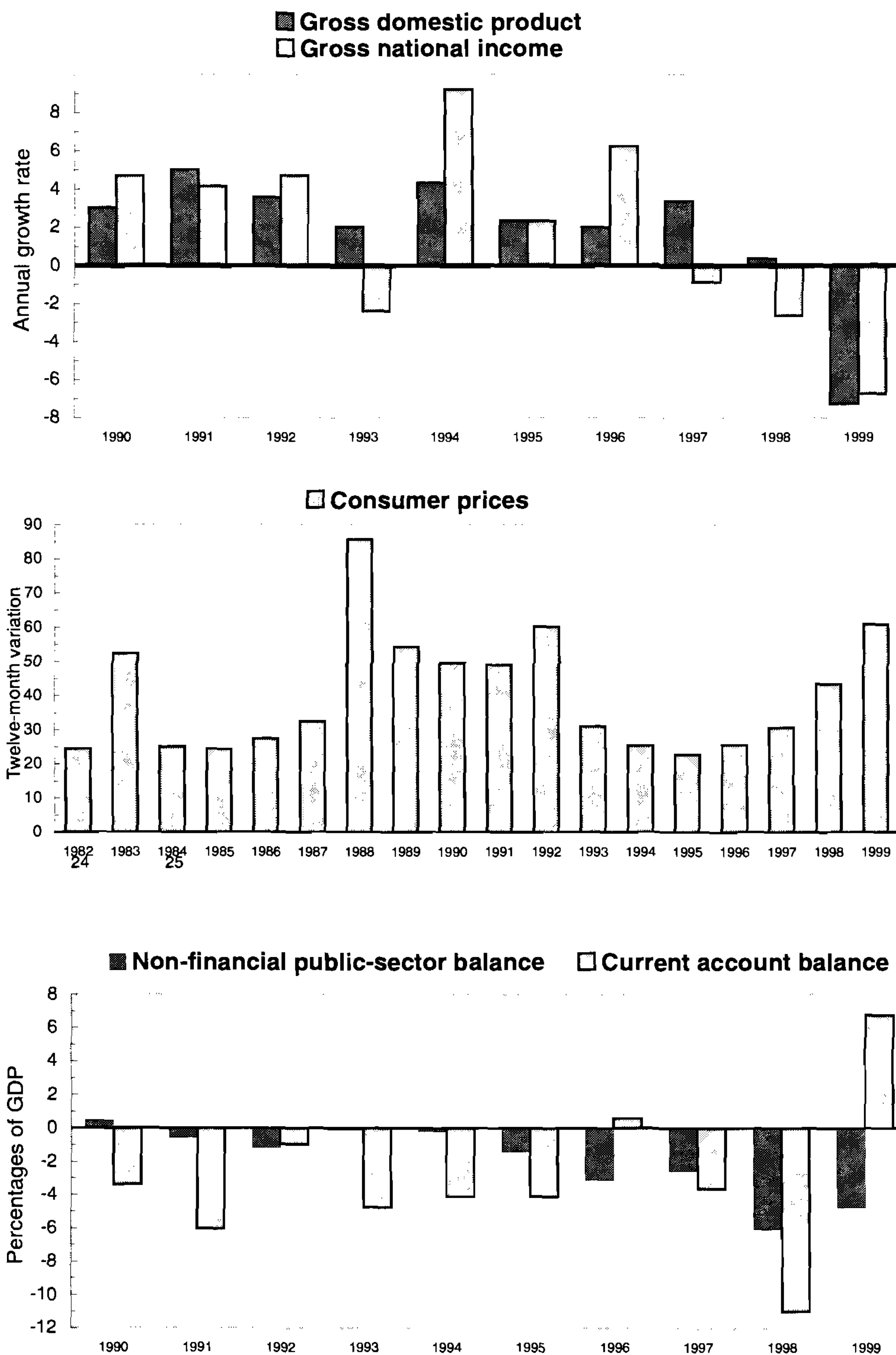
Ecuador's economy suffered a deep financial and foreign exchange crisis that had severe monetary and fiscal repercussions and drastic effects on production. GDP shrank by over 7%, imports plummeted, unemployment shot up to over 14% and inflation soared to 60%. Towards the end of the year, faced with the rising fiscal cost of the local currency's depreciation, the authorities suspended public external debt servicing. The financial sector had been enjoying robust growth since 1994, with hefty inflows of external capital being attracted by the relative stability of the real exchange rate and high interest rates. This process was not adequately supervised, however, and the sector's existing weaknesses (lack of precaution on the part of banks, mismanagement) were exacerbated during the boom, leaving it ill-prepared to deal with the series of adverse events which began to unfold in 1998. The effects of El Niño undermined many companies' ability to service their debts, and foreign credit flows were interrupted as a result of a string of international financial crises. This, in combination with the financial disintermediation caused by the introduction of a capital circulation tax, seriously reduced the liquidity of many banks.

WHEN, IN ADDITION to all these circumstances, foreign capital inflows were interrupted in early 1999, the exchange-rate regime, which was based on a pre-established currency band, became untenable. Over the course of the year, waning confidence in both the financial sector and the local currency translated into an increasingly marked preference for cash, particularly dollars. In March, the authorities responded to signs that a growing number of banking institutions were weakening by freezing a large portion of deposits in an attempt to protect the financial system as a whole from a massive withdrawal of funds. This affected payments the system, further depressed the economy's already sagging domestic demand and placed additional limitations on the production sector's possibilities of recovery, all of which drove unemployment up sharply.

The measures taken to stabilize the financial sector and the exchange rate did not produce the desired results and, by the end of the year, the Deposit Insurance Agency (AGD) had intervened in 14 banks, including some of the country's largest, while the exchange rate shot up by 39% in real terms in the year. The measures adopted to bail out the banking system and the steep drop in the sucre boosted inflation, although this was partly offset by slack domestic demand.

The fiscal balance benefited from the upturn in oil prices, but the steep depreciation heightened the difficulties the country was having in servicing its dollar-denominated public debt and, at the end of the year, the government defaulted on interest payments to private creditors.

Figure 1
ECUADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

Seeking to address these deep internal and external imbalances, the government announced the replacement of the sucre as legal tender by the United States dollar in January 2000. The severe deterioration of the population's living conditions and the erosion of political confidence triggered a crisis that culminated in the removal of the President elected in 1998. Nevertheless, the new Administration continued with the dollarization plan and passed major legal reforms during the first quarter to pave the way for its implementation.

2. Economic policy

Macroeconomic policy had to deal with a debilitated financial system and a loss of confidence in the sucre. Early in the year, dwindling capital flows pushed the exchange rate upward, obliging the authorities to do away with the currency band and allow the sucre to float, after having tried unsuccessfully to defend the exchange-rate band by selling foreign reserves and raising interest rates. From then on, the main objectives of economic policy were to stabilize the banking system and rein in the fiscal deficit. The policies that were implemented at this point had a high cost in terms of economic growth and monetary expansion, however, and failed to re-establish internal and external equilibrium.

In March, the authorities froze a large proportion of bank deposits in an effort to forestall what they feared would be a widespread run on the banks, to halt the depreciation of the exchange rate and to block the threat of an inflationary surge. This measure had the effect of sharply curtailing economic activity.

Exchange-rate volatility persisted, however, and the rate of depreciation escalated midway through the year and again in the last quarter. This hindered debt servicing and, even though tax reforms in late 1998 and April 1999 and higher oil prices helped to lower the non-financial public sector's deficit to 4.8% of GDP, dollar-denominated interest payments to private creditors ceased in September. At the same time, measures taken to bail out the banking sector (recapitalization of banks in which the AGD had intervened, deposit guarantees) had a strong expansionary impact on the monetary base.

Towards the end of the year, the authorities turned to measures designed to restrict liquidity (raising interest rates and bank reserve requirements, announcing that the schedule for lifting the freeze on deposits was to be changed) in an attempt to curb the volatility of the exchange rate and its steep depreciation, as well as to address the threat of an inflationary spike. As these measures proved unsuccessful, a far-reaching change in the monetary system was announced in January 2000 which called for the United States dollar to replace the sucre as the country's new legal tender. The difficult economic and social situation sparked a political crisis which culminated in the removal of the President, who was replaced by the Vice President. Dollarization continued to be the pivotal element of macroeconomic policy, however, and in March the Economic Transformation Act was passed. This act sets out a series of monetary, foreign-exchange, fiscal, structural and labour reforms as a means of regulating the transition to the new monetary scheme[1] and its subsequent operation. In April, the International Monetary Fund (IMF) approved a 12-month stand-by arrangement to bolster the authorities' efforts to stabilize the economy and resume negotiations with the international financial community.

(a) Fiscal policy

In order to reduce the fiscal deficit, which had reached 6% of GDP in 1998, the income tax was replaced by a 1% capital circulation tax (ICC) in the 1999 budget. A new surcharge of between 2% and 10% was applied to imports in February. Even so, a first-quarter deficit of over 8% of GDP made further measures necessary, and in April a fiscal package was passed that reinstated a 15% income tax rate, eliminated some of the exemptions from the value added tax (VAT) and, for 1999 only, levied a tax on corporate equity and luxury automobiles. In the following quarters the non-financial public-sector (NFPS) deficit was smaller (between 2.2% and 4.5%), and the NFPS closed out the year with a deficit of 4.8%, which was financed mainly by external sources (governments and multilateral agencies).

1 See the box entitled "Dollarization in Ecuador" in chapter 2 for further details.

Table 1

ECUADOR: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	5.0	3.6	2.0	4.3	2.3	2.0	3.4	0.4	- 7.3
Per capita gross domestic product	2.6	1.3	- 0.2	2.1	0.2	- 0.1	1.3	- 1.6	- 9.0
Gross domestic product, by sector									
Goods	5.2	3.9	2.8	6.0	2.8	1.8	3.7	- 1.0	- 3.1
Basic services	5.4	5.3	4.1	4.0	2.1	3.0	3.7	1.6	- 7.1
Other services	3.8	2.4	2.9	2.9	2.2	3.2	2.4	0.6	- 11.1
Consumption	1.8	1.5	2.0	2.5	2.2	1.6	2.0	1.8	- 10.4
Government	- 2.2	- 3.2	- 1.2	0.0	1.9	- 1.0	- 0.3	0.2	- 15.5
Private	2.5	2.3	2.5	2.9	2.2	1.9	2.4	2.0	- 9.7
Gross domestic investment	29.9	- 1.2	- 4.1	6.6	8.5	- 11.6	17.1	9.7	- 52.9
Exports of goods and services	10.5	9.6	4.2	8.7	5.0	3.6	4.3	- 3.2	- 0.4
Imports of goods and services	16.0	1.0	0.8	6.0	9.8	- 5.9	8.8	5.5	- 39.0
	Percentages of GDP [c]								
Gross national income	93.7	95.2	91.0	95.2	94.6	98.2	93.7	90.3	93.0
Gross domestic investment	20.2	19.1	17.9	18.1	18.7	16.2	18.2	19.8	10.3
National savings	12.3	14.9	10.4	15.6	14.3	18.1	14.5	10.2	15.7
External savings	7.9	4.2	7.5	2.5	4.4	- 1.9	3.7	9.5	- 5.4
	Percentages								
Employment and wages									
Labour force participation rate [d]	56.8	58.9	58.0	55.6	55.8	55.8	57.3	58.4	60.0
Open unemployment rate [e]	8.5	8.9	8.9	7.8	7.7	10.4	9.3	11.5	14.4
Real average wage (index: 1995 =100)	68.4	74.2	83.5	90.9	100.0	105.4	103.0	98.9	...
	Growth rates								
Prices (December-December)									
Consumer prices	49.0	60.2	31.0	25.3	22.8	25.6	30.6	43.4	60.9
Wholesale prices [f]	48.0	54.7	39.2	18.2	...	...	...	...	186.9
External sector									
Terms of trade (index: 1995=100) [c]	121.7	116.3	106.4	108.9	100.0	109.6	111.9	99.6	106.2
Nominal exchange rate (sucres per dollar) [g]	1 046	1 534	1 919	2 197	2 565	3 190	3 998	5 447	11 787
Real effective exchange rate for imports (index: 1995=100)	114.8	116.0	103.4	98.1	100.0	100.4	96.2	94.7	131.2
	Millions of dollars								
Balance of payments									
Current account	- 708	- 122	- 678	- 681	- 735	111	- 714	-2 169	926
Trade balance (goods and services)	495	905	449	188	236	1 127	246	-1 402	1 473
Exports	3 407	3 718	3 712	4 581	5 257	5 748	6 087	5 007	5 031
Imports	2 912	2 813	3 263	4 393	5 021	4 621	5 841	6 409	3 558
Capital and financial accounts [h]	- 302	- 844	54	150	167	- 245	770	1 270	-1 774
Overall balance	-1 010	- 966	- 624	- 531	- 568	- 134	56	- 899	- 848
Variation in reserve assets (- indicates an increase)	- 78	- 22	- 490	- 449	233	- 245	- 237	475	395
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	108.9	101.1	95.3	87.9	77.7	76.6	76.4	83.2	118.9
Net interest (as a percentage of exports) [i]	29.0	22.0	21.0	17.9	14.2	14.7	14.3	19.7	21.6

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
	Percentages of GDP								
Non-financial public sector									
Current revenue	25.4	25.8	24.9	24.4	25.5	24.4	23.8	20.3	25.2
Current expenditure [j]	18.6	19.6	18.2	18.1	20.3	19.9	20.0	20.5	23.1
Saving	6.8	6.2	6.7	6.3	5.2	4.5	3.7	-0.2	2.2
Capital expenditure	7.4	7.3	6.8	6.5	6.6	7.6	6.3	5.8	6.9
Financial balance	-0.6	-1.2	-0.1	-0.2	-1.4	-3.1	-2.6	-6.0	-4.8
Domestic financing	...	...	...	-1.3	1.7	0.5	0.4	4.5	0.8
External financing	...	...	...	1.5	-0.3	2.6	2.2	1.5	4.0
	Growth rates								
Money and credit									
Monetary balance of baking system									
Net international reserves	80.0	65.4	50.7	46.6	4.4	68.1	11.5	- 3.6	165.3
Net domestic credit	44.6	50.6	54.6	74.6	59.6	32.9	48.4	62.4	59.5
To private sector	66.9	62.3	76.9	71.4	52.5	25.3	46.8	35.7	52.1
Money (M1)	46.5	44.4	49.4	35.7	12.7	35.4	29.7	34.8	88.6
Local currency savings and time deposits	68.6	60.8	52.1	64.6	41.1	39.7	20.0	29.6	29.1
M2	57.6	53.3	51.0	52.2	30.2	38.3	23.2	31.4	50.0
Dollar deposits	69.5	139.0	79.5	112.6	143.1	69.8	80.4	72.3	141.9
	Annual rates								
Real interest rates (annualized, %)									
Deposit rate	...	...	-9.6	4.9	16.6	13.9	-2.3	2.6	- 2.0
Lending rate	...	...	1.2	13.0	26.6	24.3	9.5	10.3	7.9
Equivalent interest rate in foreign currency [k]	...	...	31.1	31.8	40.6	38.7	25.1	37.6	40.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on constant 1975 sucres. [c] Based on constant 1995 dollars. [d] Percentages of the total urban working-age population. [e] Percentages of the total urban economically active population. [f] In 1999, refers to producer prices. [g] Until 1992, refers to the exchange rate resulting from market intervention. From 1993 on, refers to the free-market exchange rate. [h] Includes errors and omissions. [i] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [j] In 1994, 1995, 1998 and 1999, includes expenditure on downsizing. [k] Interest rate on deposits, deflated by the variation in the exchange rate.

This slight reduction in the deficit was attributable to a marked expansion of real income, which, when measured in terms of the country's shrinking GDP, rose from 20.3% to 25.1% of that aggregate. The main factor underlying this increase was an external one, i.e., the rise in oil prices, since oil revenues climbed from 4.6% to 7.5% of GDP. The tax reforms also had an impact, however, since the ICC and the income tax together contributed 3.3% of GDP to income, compared to the 1.8% contribution made in 1998 by the income tax alone. In contrast, VAT, excise taxes and tariff proceeds were dampened by the economic crisis and, taken together, dropped from 7.8% to 6.7% of GDP.

Expenditure also increased in real terms, climbing to 29.6% of GDP, as compared to 25.9% in 1998. A major part of this increase came from the higher interest payments (up from 5% of GDP to 8.7%) resulting from the steep depreciation of the sucre. In contrast, staff cuts and falling real average wages trimmed the wage bill from 8.5% to 7.1% of GDP. Capital expenditure crept up from 5.8% to 6.9% of GDP, mainly owing to the reconstruction work undertaken in regions devastated by El Niño and to increased investment in State-owned companies.

The NFPS deficit does not include the costs of bailing out the banking sector, which reached 1.1% of GDP in 1999. Within this same context, the central bank recorded a quasi-fiscal deficit of 1.2% of GDP, which brought the consolidated public-sector deficit to around 7%.

Table 2

ECUADOR: MAIN QUARTERLY INDICATORS

	1997				1998 [a]				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	2.9	4.2	3.8	2.7	0.4	1.6	0.1	- 0.1	-5.4	-7.3	-8.0	-8.3	-1.3
Consumer prices (12-month variation, %)	29.9	31.1	30.6	30.7	30.5	35.9	37.8	43.4	54.4	52.9	50.3	60.7	80.7
Exports, f.o.b. (millions of dollars)	1 273	1 322	1 362	1 308	1 160	1 097	965	982	1 001	1 117	1 147	1 186	1 175
Import, c.i.f. (millions of dollars)	1 097	1 178	1 282	1 399	1 314	1 435	1 519	1 308	952	611	695	759	674
International reserves (millions of dollars)	...	2 226	2 231	2 093	1 940	1 878	1 642	1 698	1 178	1 296	1 274	872	778
Real effectrive exchange rate [c] (index: 1995=100)	97.5	97.0	95.9	94.3	90.5	92.8	94.3	101.2	117.1	113.4	126.7	167.6	185.8
Money (M1) (change from same quarter of preceding year)	38.8	40.3	40.6	29.7	25.0	20.2	11.4	34.8	33.9	58.2	89.6	88.6	152.3
Real interest rates (annualized, %)													
Deposit rate	0.3	- 2.1	- 3.9	- 3.3	1.9	2.1	4.6	2.0	5.3	- 3.5	- 5.1	- 4.7	- 37.4
Lending rate	10.7	10.8	9.0	7.7	9.5	8.2	12.6	10.9	12.9	6.6	5.9	6.2	- 31.4

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures at constant domestic prices. [c] Refers to the exchange rate for imports.

In January 2000, the VAT was raised from 10% to 12% and the income tax from 15% to 25%. The ICC tax rate was lowered from 1% to 0.8% and, for natural persons, was converted into an advance payment against income tax.

(b) Foreign-exchange policy

The sucre came under severe pressure in late 1998 when financial flows were halted following the Russian Federation's moratorium. The situation was exacerbated by the Brazilian crisis and, in February, the exchange rate shot through the ceiling of the exchange-rate band that had been the pivotal mechanism of the stabilization regime since 1994. After suffering heavy losses of international monetary reserves in their bid to defend the exchange rate, the authorities replaced the band system with a dirty float.

The sucre plummeted, and from January to March the real exchange rate jumped by 24%. In March, the reduction in liquidity caused by the freeze imposed on a large portion of bank deposits succeeded in reducing the exchange rate temporarily, but it remained highly volatile. At year's end, the suspension of external debt payments to private creditors and growing political uncertainty drove up the demand for dollars. The informal dollarization of the economy expanded, speculation and exchange-rate spreads increased, and the currency's depreciation accelerated. The authorities tried to halt the ascent of the exchange rate by implementing measures to restrict liquidity in sucres (raising the reserve requirement and interest rates). Again, however, these measures had only a transitory effect, and the year ended with a nominal exchange rate of around 20,000 sucres to the dollar, compared to 7,000 sucres at the end of 1998. This brought the real exchange rate up by 39% in comparison with the 1998 and 1999 averages and by 67% taking a December-December reading. Unable to hold back the slide of the sucre, in mid-January 2000 the government announced the formal dollarization of the country's economy, based on an exchange rate of 25,000 sucres to the dollar, which thereafter held steady.

(c) Monetary policy

The financial system had expanded rapidly during the 1990s. Hefty inflows of foreign capital attracted by high interest rates and the relative stability of the real exchange rate provided by the currency-band system were two of the factors driving its growth. Inadequate banking supervision failed to signal the growing weaknesses of the system, however, which were exacerbated by mismanagement (linked loans, lack of control over offshore transactions). Then, in 1998, the effects of El Niño on the production sector's payment capacity, the shrinkage of foreign capital flows as a result of a series of international financial crises, the repercussions of the capital circulation tax on financial intermediation and the resulting erosion of public confidence led to the outbreak of a crisis that affected the entire financial system. In 1999, saving in the financial system fell in nominal terms by 2% and private bank loans by 25%,[2] while the percentage of non-performing loans soared from 10% to 61% of the total portfolio. Since its creation in late 1998, the Deposit Insurance Agency (AGD) has intervened in or closed down 14 financial institutions whose holdings represented 65% of the system's total assets.

In March, believing a run on the banks was imminent, the authorities declared several days to be bank holidays and froze some deposits. This freeze began to be lifted in August based on a schedule that differentiated among the various types of savings. The measures implemented to assist banking institutions that passed into the hands of the AGD were funded by the Finance Ministry, which issued US$ 1.4 billion in bonds up to the end of 1999 in order to clean up the banks' finances and cover the corresponding deposit insurance payments. These bonds were rediscounted or sold to the central bank. This had a strong expansionary effect, and neither the fall in international reserves nor the implementation of an open-market policy (through the use of monetary stabilization bonds, which skyrocketed by 236% between December 1998 and December 1999) were enough to compensate. Efforts to soak up excess liquidity were also hindered by the fact that many banks paid off their obligations to the central bank with government paper or immovable assets. As a result, the monetary base swelled by 136%. The fragility of the financial system and the freeze on bank deposits stimulated the population's cash preference, and currency in circulation expanded by 160%, while quasi-money shrank by 3%.[3]

In an attempt to curtail increases in money creation, towards the end of the year the bank reserve requirement for sucre deposits was hiked from 16% to 19% and then to 24%, and interest rates were raised. When these liquidity control measures proved ineffective, the authorities opted for dollarization. The bank reserve requirement was standardized at 9%.

(d) Structural reforms

Early in the year, a series of minor public agencies were closed and the Ecuadorian Electrification Institute (INECEL) was split into six generation companies, one transmission company and 19 distributors in preparation for their subsequent privatization. In the course of the year, political instability and the difficult economic situation impeded further structural reforms, but progress was made in the preparatory work for privatization and the award of concessions in the electrical power industry, telecommunications and ports.

3. The main variables

(a) Economic activity

The crisis in the financial system and the steps taken to contain its effects contributed to a 7.3% real decrease in GDP, while a 9% drop in per capita GDP brought this indicator to its lowest level since 1976 (with the exception of 1987, when oil production was brought to a halt). Domestic demand sagged by 18.3%, as economic and political instability caused private investment to dry up. High unemployment, the slippage of real wages and a contraction of credit limited households' buying power,

2 Calculated on the basis of a reference exchange rate for foreign currency savings and loans.
3 Includes foreign-currency quasi-money, calculated on the basis of a reference exchange rate.

and the public sector cut its consumption expenditure. Thus, gross fixed capital formation shrank by 35.5%, falling to 11% of GDP, and public and private consumption dropped by 15.5% and 9.7%, respectively. The impact on GDP was mitigated by a 39% slump in imports, while exports stagnated. As a result, aggregate supply and demand slid by 13.4%.

The agricultural sector performed poorly in 1998 due to the damage caused by El Niño. This climatic phenomenon did, however, have a positive impact on the following year's production by improving soil conditions, and agricultural production consequently increased by 2.4% in 1999, chiefly thanks to the banana, coffee, cocoa and maize harvests. Even so, the scarcity of financing prevented the sector from making full use of its natural advantages, and its growth in 1999 was not enough to offset the previous year's shortfall. In addition, livestock production was down and fishing output fell by 10% as a result of problems in the shrimp industry (due to the White Spot Syndrome Virus, or WSSV), and this translated into a moderate decline of 1.3% for the agricultural sector as a whole. While these activities were hindered primarily by supply-side problems, weak domestic demand was the main cause of the decreases of between 8% and 12% in output recorded for manufacturing, construction, commerce and transport. Financial and government services also contracted sharply and, apart from agricultural activities, only electricity, gas and water, and oil and mining were able to resist this downward slide.

In the first quarter of 2000, GDP slipped by 1.3%, and the authorities were projecting a growth rate of around 1% for the year as a whole.

(b) Prices, wages and employment

The consumer price index (CPI) soared by 60.7% between December 1998 and December 1999 –compared with 43.4% in the previous 12-month period– due to the rapid depreciation of the currency and the high rate of money creation. Slack domestic demand averted even greater price increases but, even so, accumulated inflationary pressures widened the gap between the nominal depreciation of the exchange rate and the CPI, as well as between the CPI and the producer price index (PPI), which climbed by 186.9%. The cumulative increase in the CPI for the first six months of the year 2000 amounted to 65%, which translated into a 12-month inflation rate of 104% as of June.

The economic crisis had a heavy impact on the labour market, where demand was limited while household needs drove up the labour supply (the participation rate rose from 58.4% to 60% between November 1998 and November 1999). Consequently, urban unemployment climbed from 11.5% to 14.4%. The quality of employment also underwent a marked deterioration, and urban underemployment increased from 45.8% to 56.9%.

Against the background of flagging demand for labour and high inflation, the downward trend observed in the real wages being paid by formal-sector companies since 1997 deepened, while the minimum wage (plus additional allowances) fell by 10.7% in real terms. Deteriorating conditions in the labour market helped push poverty up from 46% to 69% nationwide; in rural areas the situation was extremely serious, with the poverty level there reaching 88%.

(c) The external sector

The economic crisis was reflected in many different ways in the balance of payments. Merchandise imports plunged by 50%, with consumer goods, raw materials and capital goods all being affected. In contrast, exports -which had fallen sharply in 1998- recovered slightly (up 6%). This did not reflect success in capitalizing upon the favourable conditions created by the depreciation of the sucre, however, but instead resulted almost exclusively from the upturn in oil prices. In fact, thanks to its higher price, oil recovered the lead export position it had lost the previous year, despite a decline in export volume. In contrast, almost all the other major export products saw foreign sales drop owing to low prices in some markets (bananas, coffee) and production problems that limited the volume of supply in others (shrimp). In fact, cocoa was the only traditional export product that posted an upswing. Non-traditional products, which had expanded strongly until 1996, suffered a further drop, and only petroleum products and products derived from cocoa recorded significant increases.

Be that as it may, the trade balance yielded a large surplus and, since the negative balance on the income accounted increased only slightly and a significant upturn in remittances was recorded, the current account showed a surplus of almost US$ 1 billion which, combined with the effect of the reduction in GDP as measured in dollars, represented almost 7% of GDP.

As foreign capital flows dwindled and large amounts of short-term capital were withdrawn from the country, the financial account (including errors and omissions) recorded a deficit of US$ 1.8 billion. The only source of significant inflows to the financial account was (thanks to the oil sector) foreign direct investment, although it did drop from US$ 830 million to

US$ 635 million. Thus, the overall balance amounted to a deficit of US$ 850 million, which meant reserve assets fell by US$ 400 million.

The steep depreciation of the sucre and the country's balance-of-payments problems led to growing difficulties in servicing the dollar-denominated public debt. Between 1998 and 1999, interest payments swelled from 22.5% to 36.8% of total central government expenditure. Given the sharp downturn in GDP as measured in dollars, the public external debt came to the equivalent of 100% of GDP. At the end of September, the government announced to its Brady bond creditors that, of the interest payments that had fallen due in August, it would service only past-due interest (PDI) bonds, and proposed that holders of collateralized bonds should call in their guarantees. This proposal was rejected, and the government decided to cease servicing all dollar-denominated debt held by private creditors (Brady bonds, eurobonds, domestic debt in dollars). By year's end, debt arrears had reached US$ 925 million, most of which corresponded to the Paris Club. However, a stand-by agreement with IMF signed in April 2000 has enabled the government to begin negotiating agreements with its different groups of creditors.

El Salvador

1. General trends

Gross domestic product (GDP) grew by 2.6% in 1999. This was in line with the projections made for the monetary and financial programme but less than the 1998 figure (3.5%) and well below the robust, sustained annual increase of 6.9% achieved during 1992-1995, after the peace accords were signed. Per capita GDP posted a negative growth rate (-0.2%) after having expanded by 1.4% in 1998. National income stagnated as the terms of trade deteriorated and net external income payments Increased.

A NEW ADMINISTRATION –of the same party as its predecessor– was elected and took office in 1999. Passage of the general budget was delayed, which held back projects dealing with physical infrastructure and basic services. Restrictive monetary policies helped to vanquish inflation, stabilize the exchange rate and strengthen the financial system. These policies also had the effect of curtailing domestic demand, however, owing particularly to an 8.8% reduction in public investment, which explains why the gain in GDP was so modest in 1999. In addition, merchandise exports were weakened by steep decreases in the international prices of coffee and sugar and by flat sales to Central America.

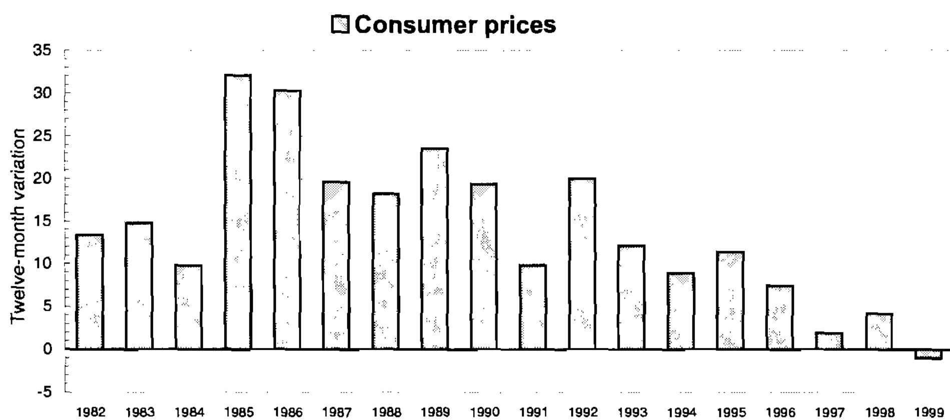
The increase in current expenditure raised the non-financial public-sector (NFPS) deficit to 2.9% of GDP –slightly above the 1998 figure– while the tax burden remained virtually the same even though the authorities continued to implement measures aimed at widening the tax base, reducing evasion and modernizing tax administration.

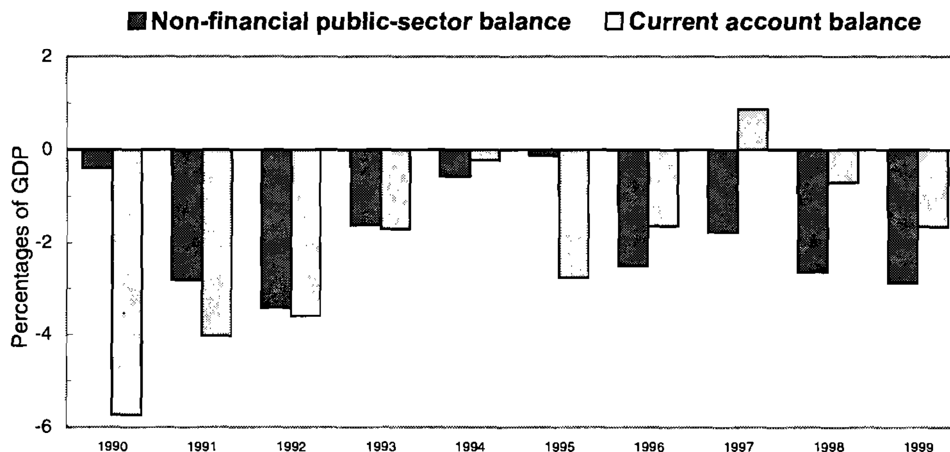
December-December inflation was negative (-1%), the nominal exchange rate remained stable, as in previous years, and the real average wage rose by less than one percentage point; minimum wages have shown no significant variation since 1990. Nominal interest rates for both lending and borrowing rose slightly; this was consistent with the indicators, which signalled a financial regrouping and the stability of both this sector and inflation.

Family remittances continued on their upward trend and, at the equivalent of 55% of merchandise exports, were sufficient to finance a small trade deficit. The current account ran a moderate-sized deficit, but net international reserves increased nonetheless.

Prospects for 2000 centred on a continuing effort to preserve macroeconomic stability, while the debate on the dollarization of the economy continued to intensify. A steady flow of transfers from overseas capable of sustaining the current account was expected. The target for GDP growth was set at between 3% and 4% and inflation was slated to total between 2% and 4%; the fiscal and current account deficits were projected at 2.6% and 2.1% of GDP, respectively.

Figure 1
EL SALVADOR: MAIN ECONOMIC INDICATORS





Source: ECLAC, on the basis of official figures.

2. Economic policy and structural reform

The basic objectives of economic policy were largely the same as in 1998: to bolster macroeconomic stability as a means of achieving sustained growth based on measures directed at keeping domestic inflation in line with the international rate and safeguarding the stability of the exchange rate and the financial system. Mainly as a result of the deterioration of the external environment, however, the targets for growth and per capita income were not met; in fact, the country's economic performance in 1999 was the second worst of the entire decade.

(a) Fiscal policy

Public finances deteriorated slightly. The fiscal deficit widened, current saving trended downward and, given the significant increase in current expenditure, real public investment slowed. Previously financed in large part by non-recurrent income from the privatization of State-owned companies, the deficit in 1999 was covered by net external financing. Major fiscal measures were implemented during the year in an effort to widen the tax base and reduce evasion.

The NFPS deficit totalled 2.9% of GDP, which was less than the 3% that had been set as a policy objective. Current saving dwindled to almost nothing, as current income stagnated and current spending expanded considerably. The increase in consumption expenditure was particularly notable, and this counteracted a sizeable reduction in capital expenditure.

The central government turned in a deficit of 2.2% of GDP, given the rise in current expenditure, particularly on wages, and the fact that current income edged up by a mere 0.5%. Tax receipts rose by 5.5% in nominal terms, bringing the tax burden to 10.5% of GDP, which was similar to the 1998 figure. Although receipts from direct taxes climbed by 11.1%, easily surpassing the preceding year's figure of 5.1%, receipts from indirect taxes increased by just 3.1%, as a result of a 3% VAT hike and a slight upturn in import duties. Non-tax income fell sharply (32.3%) and current transfers nearly dried up altogether, in keeping with the downward trend of recent years.

While current expenditure increased by 7%, capital expenditure fell by 13.4%. The monetary and financial programme had projected a 3.6% decline in public investment in absolute terms, but the actual decrease amounted to 8.8%, owing largely to the five-month delay in approving the budget -which held back public investment- and to the authorities' austere spending policy. The combination of these factors had the effect of dampening aggregate demand.

The deficit was largely financed by short-term external borrowing, since in 1999, unlike 1998, the government did not receive any income from privatizations. It was therefore necessary to reschedule Treasury bill (Letes) issues.

If the Administration continues to encounter difficulties in raising income, the fiscal deficit is likely to come under increasing pressure, particularly in view of the pension payments that will have to be made by the Treasury over the coming five-year period, which will amount to over US$ 1 billion. The need to increase spending on health care and education could also push up deficit figures in the future.

In view of this situation, the Finance Ministry has programmed increases in the tax burden designed to raise it to 14.5% of GDP by 2005. Within this context, a package of VAT and income tax reforms was approved in mid-September and, in October, an enforcement plan to ensure the issuance of VAT receipts was put into effect. The main income tax reforms refer to indemnities, bonuses, equity earnings and the elimination of tax credits. The use of a simplified tax regime, the passage of a new tax code and the elimination of VAT exemptions for basic grains and medicines are also awaiting approval. Other measures under discussion are the re-introduction of a wealth tax, an increase in excise taxes, discontinuation of the drawback scheme and a phased increase in the municipalities' budget allocations from 6% to 12%. In addition, new tax options for municipal authorities have begun to be analyzed within the framework of the Omnibus Municipal Tax Act.

During the last week of November, the 2000 budget was approved, with an increase of 6.7% over 1999. Budgeted expenditure amounts to 16% of GDP, which was almost the same proportion as in 1998. The budget was drawn up based on the assumption of a real GDP growth rate of 3.5%, inflation of 2.5% and a stable exchange rate.

Table 1

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Annual growth rates [b]						
Growth and investment									
Gross domestic product	3.6	7.5	7.4	6.1	6.4	1.7	4.2	3.5	2.6
Per capita gross domestic product	1.6	5.3	5.1	3.8	4.2	- 0.4	2.1	1.4	0.6
Gross domestic product, by sector									
Goods	3.8	8.8	- 1.4	4.1	6.0	1.7	5.1	3.9	4.4
Basic services	- 2.9	9.1	6.8	5.9	5.5	2.9	7.4	4.4	3.0
Other services	3.7	5.8	3.9	6.3	7.2	1.5	3.5	3.1	1.6
Consumption	3.1	7.5	7.7	7.5	9.2	1.6	2.1	3.3	2.3
Government	3.1	0.9	1.0	3.0	7.9	2.8	2.8	2.5	2.0
Private	3.0	8.3	8.4	8.0	9.3	1.5	2.0	3.3	2.4
Gross domestic investment	17.3	28.1	10.0	14.2	15.2	- 22.1	6.5	21.9	- 5.9
Exports of goods and services	- 0.5	6.5	30.1	8.4	13.9	8.7	20.3	5.2	14.9
Imports of goods and services	5.6	17.1	21.3	15.0	21.1	- 6.1	9.2	10.9	5.8
			Percentages of GDP [c]						
Gross national income	105.3	108.6	109.1	112.5	113.9	110.1	110.4	110.9	108.2
Gross domestic investment	14.3	16.9	17.4	18.7	20.0	15.7	16.0	18.7	17.2
National savings	11.3	14.8	15.6	18.2	17.8	14.1	16.6	17.7	15.4
External savings	3.0	2.0	1.7	0.5	2.2	1.6	- 0.6	1.1	1.8
			Percentages						
Employment and wages									
Labour force participation rate [d]	51.6	52.2	...	53.4	52.4	51.3	50.9	53.5	52.6
Open unemployment rate [e]	8.7	9.3	9.9	7.7	7.6	7.7	8.0	7.5	6.4
Real average wage (index: 1995=100) [f]	100.0	101.5	101.5	99.6	100.0	96.4	92.2	95.3	97.5
			Growth rates						
Prices (December-December)									
Consumer prices	9.8	20.0	12.1	8.9	11.4	7.4	1.9	4.2	-1.0
Wholesale prices	- 3.2	9.5	2.7	10.5	6.7	4.9	- 2.0	- 6.6	4.4
External sector									
Terms of trade (index: 1995=100) [c]	70.6	61.1	63.7	81.0	100.0	93.6	94.1	91.7	86.9
Nominal exchange rate (colones per dollar)	8.08	8.44	8.70	8.75	8.76	8.76	8.76	8.76	8.76
Real effective exchange rate (index: 1995=100)	125.4	124.7	112.5	105.7	100.0	92.2	91.9	91.7	92.8
			Millions of dollars						
Balance of payments									
Current account	- 212	- 195	- 118	- 18	- 262	- 169	96	- 84	- 205
Trade balance (goods and services)	- 717	- 950	-1 011	-1 212	-1 581	-1 333	-1 180	-1 526	-1 510
Exports	898	975	1 138	1 639	2 044	2 203	2 708	2 742	3 090
Imports	1 614	1 925	2 149	2 851	3 625	3 536	3 888	4 268	4 599
Capital and financial accounts [g]	65	61	177	131	408	334	267	387	409
Overall balance	- 148	- 148	- 148	- 148	- 148	- 148	- 148	- 148	- 148
Variation in reserve assets (- indicates an increase)	70	- 92	- 112	- 113	- 147	- 165	- 363	- 303	- 204
			Percentages						
External debt									
Gross debt (as a percentage of GDP)	43.9	43.1	28.4	25.4	22.8	24.4	24.2	22.0	22.7
Net interest (as a percentage of exports) [h]	10.1	8.0	8.0	4.4	5.9	4.1	3.2	2.4	8.7

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Non-financial public sector									
Current revenue	13.0	13.6	14.3	16.0	17.1	17.5	15.8	14.8	14.3
Current expenditure	13.8	13.4	13.6	14.0	13.9	15.7	13.9	13.8	14.2
Saving	-0.8	0.2	0.8	2.0	3.2	1.8	1.9	1.0	0.1
Capital expenditure (net)	4.1	6.7	4.5	4.0	4.2	4.5	3.9	3.8	3.3
Financial balance	-2.8	-3.4	-1.6	-0.6	-0.1	-2.5	-1.8	-2.6	- 2.9
Domestic financing	0.8	0.6	-0.3	-1.5	-1.2	0.1	-0.3	2.8	1.4
External financing	2.0	2.8	2.0	2.1	1.3	2.4	2.0	-0.2	1.4
			Growth rates						
Money and credit									
Monetary balance of banking system									
Net international reserves	1.7	26.1	13.7	10.3	-6.1	32.4	31.9	35.3	14.3
Net domestic credit	22.7	37.5	45.5	26.2	39.5	-3.1	20.5	8.7	6.4
To public sector	23.2	14.3	3.8	-27.5	-27.6	20.3	-7.8	...	- 43.8
To private sector	12.8	31.0	37.5	27.1	55.4	2.4	27.7	13.3	4.9
Money (M1)	6.1	31.8	12.4	10.3	4.4	17.5	-1.9	8.6	13.5
Local currency savings and time deposits	29.1	31.2	48.6	25.3	33.7	-4.9	27.6	15.7	5.1
M2	20.0	31.4	35.9	25.9	29.5	0.9	21.7	14.5	8.4
Dollar deposits	-34.4	99.0	1.7	58.3	21.9	41.6	41.4	18.4	10.1
			Annual rates						
Real interest rates (annualized, %)									
Deposit rate	...	...	- 3.0	2.6	4.0	3.8	6.9	7.6	10.2
Lending rate	...	...	0.5	7.5	8.3	8.0	11.0	12.2	14.9
Equivalent interest rate in foreign currency [i]	...	...	15.8	13.4	14.4	14.0	11.7	10.3	10.7

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on constant 1990 colones. [c] Based on constant 1995 dollars. [d] Percentages of the population of working age. [e] Percentages of the economically active population. [f] Real minimum wage in the manufacturing and services sectors in San Salvador. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

(b) Monetary and foreign-exchange policy

Monetary policy was restrictive and was applied in coordination with the measures adopted in recent years to regulate and reduce excess liquidity on the money market. The aim of these measures is to guarantee monetary stability to economic agents and forestall pressure on prices. The main instruments of monetary regulation continued to be reserve requirements and open-market operations, which have paved the way for the stability of both prices and the financial system.

The reserve requirement has been the most heavily used and most influential mechanism, while open-market operations have been employed as short-term measures to adjust liquidity. In 1998 the authorities introduced an additional 3% reserve requirement which they then phased out in 1999, but open-market operations were stepped up to compensate. These monetary regulation measures generated quasi-fiscal financial costs.

M3 reached 56 billion colones in 1999, with an annual growth rate of 8.5% (6.3 percentage points less than in 1998). This increase in broad liquidity was partly accounted for by the central bank's net international reserves, which climbed at an annual rate of 11.6% and turned in a balance of US$ 1.97 billion, and partly by banking credit and investment operations with the private sector, which increased by 9%.

Nominal annual interest rates on local-currency loans and deposits (15.5% and 10.8% on average, respectively) remained stable during the year; within the framework of the country's zero-inflation economy, real interest rates were similar to the nominal figures.

Table 2

EL SALVADOR: MAIN QUARTERLY INDICATORS

	1997				1998 [a]				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	3.6	4.5	4.1	3.7	3.5	3.3	2.9	3.4	2.9	3.1	3.2	1.3	3.0
Consumer prices (12-month variation, %)	7.4	4.9	2.1	1.9	1.5	3.2	1.5	4.2	1.9	- 1.3	1.4	- 1.0	0.5
Exports (millions of dollars)	...	...	...	...	712	640	570	524	643	630	605	619	765
Imports (millions of dollars)	...	...	...	...	947	1 023	997	993	990	1 034	1 037	899	1 120
International reserves (millions of dollars)	...	1 136	1 126	1 308	1 705	1 495	1 655	1 613	1 870	1 903	2 023	2 004	2 030
Real effective exchange rate [c] (index: 1995=100)	90.9	91.6	92.1	93.3	92.3	91.1	91.1	92.2	91.7	92.9	93.0	93.7	93.8
Real interest rates (annualized, %)													
Deposit rate	3.7	5.0	8.8	10.0	9.3	6.8	7.6	6.7	7.9	12.1	10.5	10.3	9.9
Lending rate	8.1	9.4	12.9	13.7	13.7	11.6	12.2	11.1	12.6	16.7	15.2	15.1	14.9

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures at constant domestic prices. [c] Refers to exchange rate for imports.

Since 1993, the nominal exchange rate has been held to a fixed rate by means of central bank intervention in order to sterilize excess dollars. During this time the real exchange rate has slipped considerably, and in 1999 it continued to act as an inflation-control mechanism and as a nominal anchor for the economy. In recent years, the small size of the differential between the inflation rates of El Salvador and its main trading partners has also contributed to the stability of the nominal exchange rate.

The debate about various exchange-rate options has intensified, and two positions can now be clearly distinguished: one school of thought argues that the exchange rate has appreciated steadily over recent years and that a more flexible regime should therefore be adopted; the other contends that a currency board should be established with a view to the eventual dollarization of the economy.

The Banking Act entered into force on 9 October 1999 as part of the process of modernizing and tightening up the regulation and supervision of the financial system. This legislation provides for the creation of a Deposit Insurance Agency and for measures to combat illegal deposit-taking, bolster confidence in the financial system and bring the legal framework into line with international rules and regulations, particularly those relating to prudential standards.

(c) Trade policy

Trade policy was focused on international trade negotiations –but care was taken not to override the objectives of the tariff reduction programme, which include a floor of 5% and a ceiling of 10% for intermediate goods and a 15% ceiling for final goods by July 1999– with a view to encouraging investment, promoting competition, removing barriers to trade and gaining access to new technologies and production processes.

Negotiations on a free trade agreement between Mexico and the Northern Triangle countries (El Salvador, Guatemala and Honduras) are in their final stage, with the issues yet to be resolved relating to the committee on regional issues, safeguards for agricultural products and an agreement on some sensitive products.

A free trade agreement was concluded between Central America and the Dominican Republic in 1998. The Dominican Republic has not yet ratified it, but El Salvador has already done so. Preliminary negotiations have been undertaken with the Andean Community to define a partial reciprocity agreement covering a list of 200 products. Discussions are also under way with Chile to complete the tariff reduction programme, as the regulatory portion of that scheme has finally been agreed upon. El Salvador has been negotiating with Panama for the last two years in an effort to establish a free trade arrangement with an emphasis on maritime transport and financial services, and preliminary talks have begun with Canada regarding liberalization and negotiations.

In August El Salvador signed a customs union agreement with Guatemala with a view to creating a model customs arrangement and concluding agreements on the regulation of trade and investment between the two countries. This has implications for the country's trade policy, since it establishes specific goals in terms of tariffs, customs administration, tax policy, services and investment, and health records.

Then, in October, an investment act was passed which was designed to give the external sector a boost by attracting more foreign investment to the country and establishing an appropriate legal framework for it. The provisions of this act include one that authorizes the creation of the National Investments Office (ONI), whose main purpose is to facilitate, centralize and coordinate government procedures in order to streamline the process for investors.

(d) Structural reforms

After considerable progress was made in carrying out structural reforms in 1998 with the privatization of the National Telecommunications Administration (Antel) and the State's thermoelectric power generation plants and distribution companies, 1999 saw no major action in this field. The idea of privatizing the Banco Hipotecario (a mortgage bank) and the Banco de Fomento Agropecuario (an agricultural development bank) has apparently been discarded. In fact, the government announced it would make a capital contribution to the Banco Hipotecario so that it could meet the borrowing requirements of microenterprises and small and medium-sized businesses, and another to the Banco de Fomento Agropecuario in order to enable it to channel financing to small agricultural producers.

The structural reform process was consolidated in 1998 when the five pension fund management companies (AFPs) became operational. Since then, funds have accrued, and there has been increasing interest in having the AFPs diversify their investment options.

Progress was also made in 1999 with the establishment of mechanisms for the surveillance and supervision of the financial system. One such mechanism is the Banking Act, which, among other provisions, introduces new capital requirements for banks, one of which raises the capital fund requirement to 12% of all risk-weighted assets. In addition, the minimum amount of capital stock required to establish a bank was set at 100 million colones.

3. The main variables

(a) Economic activity

The slowdown in economic activity in 1999 was accounted for by the steep downturn in public investment and slack public and private consumption; the combination of these factors choked off domestic demand, which grew by barely 0.9%. As in previous years, the invariably considerable level of family remittances (almost US$ 1.4 billion in 1999, slightly more than the 1998 figure) exerted a positive influence.

Agriculture was the fastest-growing sector, with a rate of 6.6%, thus surpassing the pessimistic projections made following the passage of Hurricane Mitch. This result can be attributed to increased coffee production, since although coffee prices fell during most of the year, an upswing was recorded in the latter months. A strong expansion was also seen in the production of beans (46.4%), maize (19.6%) and rice (15%), while livestock rebounded vigorously. In contrast, sugar cane production slumped by 4.1% and sugar exports suffered the effects of lower prices on international markets.

Manufacturing, which had been the best performer in recent years and the most powerful engine driving GDP growth, thanks to the robust *maquila* industry, grew

by just 3.7% in 1999, or half the 1998 rate. This meagre increase stems from the decline in intraregional exports and a substantial slowdown in non-traditional exports. The *maquila* industry grew by 7%, which was much less than the 1998 rate of 20.6% and far below the 35% rates posted in the mid-1990s.

The construction industry's growth rate was the lowest to be recorded in the last three years (2.2%) owing to delays in investment projects and a decline in the construction of housing (–37%) and service facilities (–87%). Commercial construction increased by 14.6%, while total construction, measured in terms of area, plunged by almost 45%. Commerce grew by 1.7% and financial services and insurance by 1.9%, half their respective 1998 rates.

(b) Prices, wages and employment

As measured by the consumer price index (CPI), December-December inflation fell back by 1%, with an abrupt decrease in the category of food products (-5.2%). El Salvador thus continued to boast the lowest inflation rate of all Latin America, differing by a fairly wide margin from the other Central American economies.

Minimum wages in seasonal agricultural activities have not changed since May 1998. Coffee and sugar refinery workers earned 31.20 and 22.80 colones per day, respectively, while in the rest of the agricultural sector the minimum wage remained at 21.60 colones per day. In manufacturing, commerce and services, the minimum wage has stayed at 42 colones per day since May 1998, and no adjustment was planned in 2000.

The nationwide open unemployment rate stood at 6.5% in November 1999, which was lower than the 7.6% average recorded for 1994-1998. The average rate of underemployment was 32.2%.

(c) The external sector

The current account posted a deficit once again, this time of US$ 205 million, or the equivalent of less than 2% of GDP. This imbalance was easily offset by the surplus on the capital and financial accounts, which enabled the central bank to build up US$ 1.97 billion in net international reserves, a sum equivalent to five months' worth of imports.

The trade balance showed a deficit of US$ 1.5 billion, which was similar to its 1998 level. For the second year running, export performance was weak. Traditional exports, which accounted for only 12.6% of total merchandise exports, fell as coffee, sugar and shrimp prices tumbled. The *maquila* industry, on the other hand, which accounted for 53.4% of total exports, continued to expand quite rapidly (12.1%), although more slowly than during 1995-1998.

Sales to Central America, which accounted for 25% of total exports, slipped by 1.7% (after an increase of 6.6% in 1998) as a result of the regionwide economic slowdown and the steady real appreciation of the colón. Central American sales were also affected by the non-tariff barriers imposed by some countries.

Imports climbed by 3.2%. The most significant change in this regard was a 9% increase in purchases of consumer goods, especially durables. Of total imports, intermediate goods accounted for 31.8%, consumer goods for 24.8%, the *maquila* industry for 23.4% and capital goods for 20%. Imports from Central America (15.6% of the total) expanded by 6.4%.

Foreign-exchange inflows in the form of foreign direct investment (FDI) totalled US$ 215 million, a considerably smaller sum than the US$ 870 million received the previous year. The flow of family remittances (equivalent to 11% of GDP) continued to counterbalance the trade gap, however.

The total external public debt amounted to US$ 2.8 billion, which was 6.8% more than in 1998. Even so, this debt –all of which corresponds to the public sector and almost all of which is composed of medium-term obligations– has been kept at a prudential level. The debt service amounted to US$ 550 million, and the total external debt/goods and services exports ratio was a little over 90%, lower than the figures recorded in earlier years.

Guatemala

1. General trends

In 1999, the Guatemalan economy grew by 3.5%, which represented a slowdown from the previous year's rate (5.1%), while per capita GDP expanded by less than 1%. This slackening of production activity was partly due to a contraction of domestic demand brought about by the application of a cautious lending policy on the part of the banking system, the impact of Hurricane Mitch, and the solvency problems experienced by some financial and stock-market institutions. A number of monetary and fiscal policy concerns that arose during the election campaign and the change of Administration also played a part in this situation.

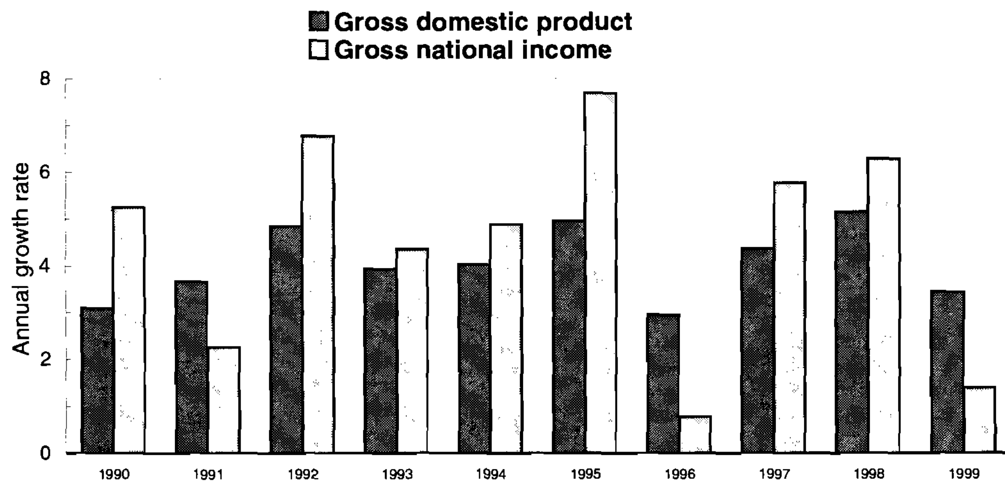
PUBLIC SPENDING increased throughout the year, and a flexible monetary policy was maintained up to the end of August. These two factors help account for the considerable depreciation of the quetzal against the dollar. Even so, inflation remained low (4.9%), thanks in part to a slump in consumption and the fact that the prices of some agricultural products were kept in check.

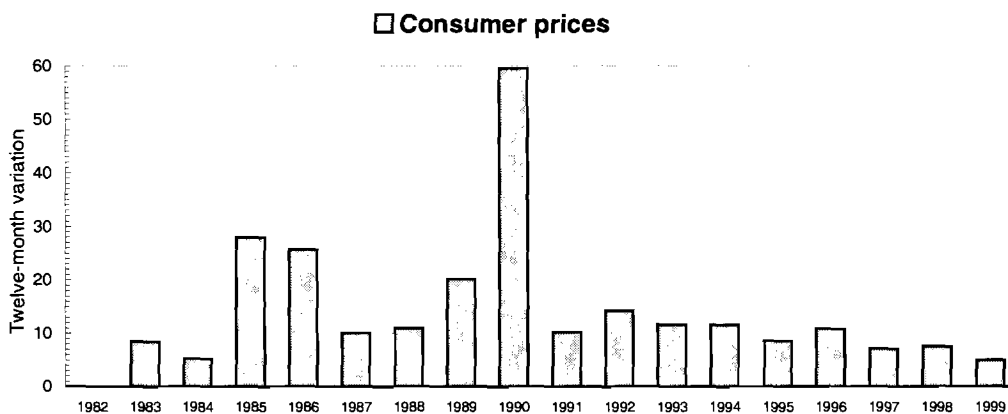
The decline in confidence that had begun in the latter part of 1998 as a consequence of the bankruptcies and solvency difficulties seen financial sector was compounded by bleak projections regarding the country's foreign-exchange inflows and concerns about the management of monetary and fiscal policy.

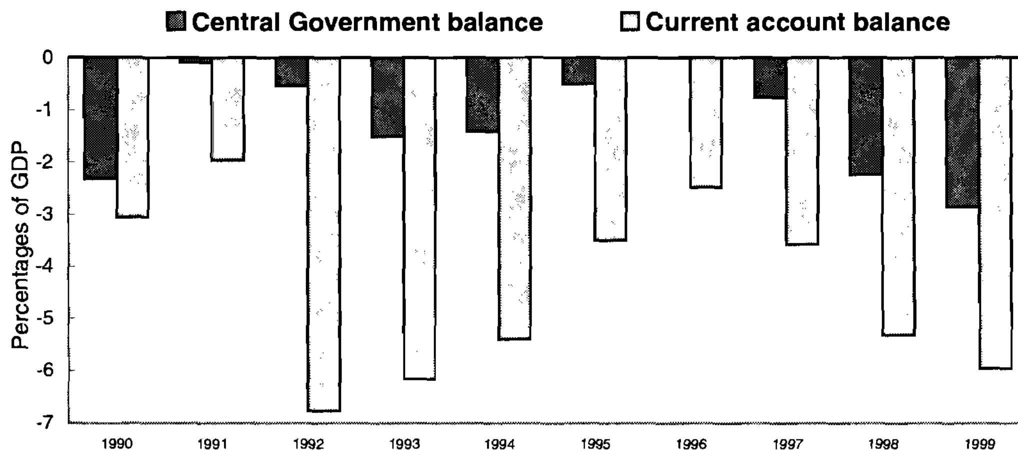
During the last four months of the year, a more restrictive monetary and fiscal policy was applied. Banco de Guatemala (the country's central bank) raised interest rates on its open-market operations quite sharply, restricted its sales of foreign exchange and began to engage quite actively in money-desk operations (the banking system established the money desk in February in order to moderate the volatility of the short-term financial market). The authorities also applied a policy of fiscal austerity that enabled them to cut the projected deficit from 3.2% to 2.8% of GDP. This was still higher than the 1998 figure, however.

For the year 2000, the new Administration expected to achieve economic growth of 3.7%, to reduce the fiscal deficit to at least 2% of GDP by means of deep budget cuts that had already been approved by Congress, and to boost the level of reserves by US$ 150 million. In addition, they set the inflation target at the same level as the year before (between 5% and 7%).

Figure 1
GUATEMALA: MAIN ECONOMIC INDICATORS







Source: ECLAC, on the basis of official figures.

2. Economic policy

At 3.5%, the economic growth rate was lower than had been envisaged. The inflation target was met easily, however, and the rate of price increases was held to the lowest rate (4.9%) since 1982. The goal of increasing the tax burden to 10.3% was not met, but by the end of the fiscal year it had risen to 10%.

In addition to changing the direction of monetary and fiscal policy, far-reaching measures were taken in the areas of tariffs and utility rates, authorization was given to sign contracts with import certification firms, and banking legislation was reformed. In the absence of an agreement with the International Monetary Fund (IMF), efforts to strengthen tax collection and administration were continued and the Preparatory Commission for the Fiscal Covenant was set up.

(a) Fiscal policy

Fiscal policy continued on its expansionary course for the third year in a row. As a result, the central government deficit has risen steadily during recent fiscal years and reached 3.804 billion quetzals in 1999, which was equivalent to 2.8% of GDP.

Government spending again rose considerably (20%), mainly as a result of the dynamism of public investment. While current expenditure was up by 18%, capital expenditure climbed by 24%. Under the latter heading, both direct investment and transfers to government agencies increased. This was especially true in the case of those agencies known as "social funds", through which an increasingly large flow of investment –much of which is connected with international financial assistance– is being channelled.

The growth of capital outflows is accounted for both by the reconstruction of the basic infrastructure damaged by Hurricane Mitch and by the priority that the Administration assigned to completing a number of infrastructure projects connected with the peace agreements (particularly in social areas such as education and health, as well as roadway (bridges and highways) projects.

Tax receipts rose at an annual rate of 15 %, thanks to the work of the Office of the Superintendent of Tax Administration (SAT), which began operations in August 1998 and presumably played a part in boosting the tax burden to a two-digit level (10%). Revenues from the value added tax (VAT) rose by 18%, 13 points above inflation. The combined totals for income tax and the tax on mercantile and agricultural companies, which is credited to the former, yielded an annual nominal increase of 22%. Revenues from customs duties also rose, although moderately (8% in nominal terms), despite the drop in imports and the continuing process of tariff reduction. Finally, tax receipts on petroleum and petroleum products were up by 11% and accounted for over 10% of the total.

The Preparatory Commission for the Fiscal Covenant was officially established in March 1999 for the purpose of coordinating efforts to reach a social consensus regarding the application of a long-term fiscal policy based on clear and stable rules. Most of the process was deferred until 2000, the first year in which the current Administration would actually be in office.

(b) Monetary policy

The chief aim of monetary policy was to hold down changes in consumer prices to a range of between 5% and 7% in order to maintain the purchasing power of the quetzal, and this goal was achieved. The authorities also sought to curb the volatility of short-term markets, maintain adequate coordination between fiscal and monetary policies, and strengthen public confidence in the currency and in the national financial system.

Monetary policy was fairly expansionary up to July 1999. The bank reserve rate was lowered four times until it stood at 14.6%, which freed up a considerable volume of liquidity, although a sizeable share of such liquidity was invested by the banking system in treasury bonds in order to shore up the banks' financial position.

The Banco de Guatemala traded actively on the open market, especially from May onward; although these transactions were not large in volume, they were significant because of their almost daily frequency and because of the rise in interest rates that began in mid-August. The central bank also engaged quite actively in money-desk operations in order to maintain an adequate supply of liquidity for the banking system and, more specifically, to ensure the coverage of reserve positions.

Thus, from August on, some liquidity problems were experienced. This had also been the case during the first two months of the year, when adjustments were made in monetary policy in order to ease the heavy

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	3.7	4.8	3.9	4.0	4.9	3.0	4.4	5.2	3.4
Per capita gross domestic product	1.0	2.1	1.2	1.3	2.2	0.3	1.6	2.4	0.8
Gross domestic product, by sector									
Goods	2.8	4.3	2.2	2.5	3.8	2.6	3.5	4.2	2.6
Basic services	5.4	8.9	6.0	4.5	7.9	4.2	8.2	7.1	6.0
Other services	4.1	4.4	5.0	5.3	5.3	3.0	4.2	5.5	3.5
Consumption	3.6	5.1	4.5	4.7	4.8	2.5	4.2	6.0	3.2
Government	1.7	5.6	8.0	3.0	1.3	0.0	6.2	10.6	4.8
Private	3.8	5.0	4.1	4.8	5.2	2.8	4.0	5.5	3.0
Gross domestic investment	22.6	29.6	- 5.7	1.5	- 1.2	- 14.9	20.1	21.9	- 4.0
Exports of goods and services	- 4.9	8.3	9.6	3.4	12.6	8.7	8.1	6.0	4.8
Imports of goods and services	7.3	37.0	4.2	5.0	7.6	- 6.9	19.5	22.9	- 1.7
	Percentages of GDP [c]								
Gross national income	97.5	99.2	99.5	100.2	102.8	100.6	101.9	102.8	100.7
Gross domestic investment	14.5	17.9	16.4	16.1	15.1	12.3	14.3	16.9	15.8
National savings	12.8	12.0	10.7	10.7	11.6	9.7	10.1	10.3	9.0
External savings	1.7	5.9	5.7	5.4	3.5	2.6	4.3	6.6	6.8
	Percentages								
Employment and wages									
Open unemployment rate [d]	4.0	1.5	2.5	3.3	3.7	3.7	5.0	5.9	...
Real average wage (index: 1995=100)	72.1	82.9	88.8	89.3	100.0	109.6	112.7	116.7	123.5
	Growth rates								
Prices (December-December)									
Consumer prices (nationwide)	10.2	14.2	11.6	11.6	8.6	10.9	7.1	7.5	4.9
External sector									
Terms of trade (index: 1995=100) [c]	77.2	81.6	84.3	89.9	100.0	87.7	94.8	94.3	87.2
Nominal bank exchange rate (quetzales per dollar)	5.03	5.17	5.60	5.80	5.81	6.05	6.07	6.39	7.39
Real effective exchange rate for imports (index: 1995=100)	110.0	109.0	110.2	104.6	100.0	95.2	90.4	91.5	104.8
	Millions of dollars								
Balance of payments									
Current account	- 184	- 706	- 702	- 700	- 511	- 391	- 635	-1 012	-1 081
Trade balance (goods and services)	- 341	- 955	- 947	- 938	- 920	- 767	-1 009	-1 541	-1 567
Exports	1 689	1 898	2 024	2 287	2 801	2 767	3 180	3 507	3 442
Imports	2 029	2 853	2 970	3 224	3 721	3 534	4 188	5 048	5 010
Capital and financial accounts [e]	815	692	901	707	354	567	863	1 254	957
Overall balance	631	- 14	200	6	- 157	176	229	242	- 125
Variation in reserve assets (*- indicates and increase*)	- 551	52	- 121	- 47	157	- 176	- 257	- 242	125
	Percentages								
External debt									
Public debt (as a percentage of GDP)	25.5	21.6	18.3	16.6	14.4	13.1	12.0	12.4	14.5
Net interest (as a percentage of exports) [f]	5.7	7.5	4.9	4.2	3.4	4.8	2.5	0.8	1.2

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Central Government									
Current revenue	9.0	10.1	9.1	7.7	8.8	9.4	9.8	10.4	11.0
Current expenditure	7.6	7.8	7.5	6.9	6.7	6.7	6.7	8.1	8.7
Saving	1.5	2.4	1.5	0.8	2.1	2.7	3.1	2.3	2.3
Capital expenditure	1.5	2.9	3.1	2.3	2.7	2.7	3.9	4.7	5.3
Financial balance	-0.1	-0.5	-1.5	-1.4	-0.5	0.0	-0.8	-2.2	-2.8
	Growth rates								
Money and credit									
Monetary balances of the banking system									
Net international reserves	...	57.6	19.2	- 15.8	- 13.9	22.4	66.4	13.8	5.0
Net domestic credit	15.1	11.2	5.8	39.6	18.3	10.9	18.2	12.1	8.6
To public sector	94.7	- 31.0	- 34.4	- 47.4	- 74.9	...	...	...	...
To private sector	18.4	35.1	15.3	14.2	32.3	12.2	18.5	27.3	14.0
Money (M1)	18.3	5.4	21.1	34.9	22.8	12.8	31.3	13.5	14.2
Local-currency savings and time deposits	64.1	27.4	3.4	20.1	6.6	12.2	20.8	11.6	3.0
M2	44.1	19.5	9.0	25.3	12.7	12.4	25.1	12.5	7.9
	Annual rates								
Real interest rates (annualized, %)									
Deposit rate	...	...	- 0.6	- 2.5	- 0.7	- 3.0	- 3.4	- 1.3	2.6
Lending rate	...	...	10.1	9.3	11.7	10.5	8.8	9.1	13.6
Equivalent interest rate in foreign currency [g]	...	...	11.3	9.8	7.2	7.7	5.1	5.3	7.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on quetzales at constant 1958 prices. [c] Based on constant 1995 dollars. [d] Percentages of the economically active population. [e] Includes errors and omissions. [f] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [g] Interest rate on deposits, deflated by the variation in the exchange rate.

pressure being brought to bear on the foreign-exchange market. As a result, interest rates on the short-term money market (repo operations) tended to rise during those periods; in fact, they actually were well above the average bank lending rates.

The level of non-performing loans in the banking system climbed from 7.6% of the total portfolio in December 1998 to 10.5% in December 1999. This was a reflection of the solvency problems that had started to arise the year before in some organizations outside the purview of the financial supervisory system, which ended up affecting a number of stock brokerages and eventually spread to several institutions in the regulated banking system. Throughout the year, deposit-taking slowed and conversions of investments into foreign currency tended to intensify, thus diminishing secondary money creation on the part of the bank system. Thus, while monetary issues rose at a rate of 34%, the means of payment did so by only around 8%.

Under these circumstances, the authorities found it necessary to take measures such as granting emergency advances in order to shore up the banks' financial position and calling for reforms in banking laws aimed at strengthening the sector's institutional structure. In February, Congress passed a law providing for the creation of the Savings Protection Fund (FOPA), and in August passed a banking law reform bill. Both of these instruments were challenged in the courts, however, and therefore did not enter into force in 1999.

(c) Exchange policy

As had also been the case the year before, in 1999 the authorities set themselves the objective of achieving a

Table 2

GUATEMALA: MAIN QUARTERLY INDICATORS

	1997				1998				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	11.5	9.0	8.3	7.1	6.1	7.5	5.6	7.5	3.9	4.3	6.8	4.9	8.3
International reserves (millions of dollars)	...	1 058	1 109	1 111	1 040	1 035	1 367	1 335	1 220	1 220	1 140	1 189	1 348
Real effective exchange rate [b] (index: 1995=100)	90.6	89.5	90.2	91.5	90.8	90.4	90.7	93.9	99.4	103.7	107.5	108.7	108.4
Real interest rate (annualized, %)													
Deposit rate	- 5.0	- 3.2	- 2.8	- 2.7	- 1.0	- 2.4	- 1.5	- 0.2	1.6	3.3	2.0	3.6	3.2
Lending rate	8.7	9.5	9.3	7.8	9.4	7.8	8.7	10.6	13.0	14.6	12.9	13.9	13.7

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

neutral exchange rate in terms of the country's export and import flows. Thus, the rate was to be determined by the free movement of supply and demand on the foreign-exchange market, although the possibility of action by the Banco de Guatemala remained open.

The exchange rate underwent a nominal depreciation of 15.9% during the year, which represented a real decline of 12.6% against the dollar. This was the result of both external and financial factors (the trade imbalance and the reduction, in dollar terms, of the yield on bank deposits, among others) and of unfavourable expectations that undermined confidence in the quetzal and fueled a continuous conversion of financial assets into foreign currencies.

Early in the year, a Partial-Scope Agreement was signed with Cuba providing for tariff preferences on 386 Guatemalan products and 260 Cuban products. In August, a customs union agreement was signed with El Salvador which is currently being harmonized in preparation for its entry into force on 31 December 2002. Then, in October, Guatemala and the other Central American countries signed a framework agreement on the establishment of a free trade treaty with Chile. In addition, along with the other two countries belonging to what is known as the " Northern Triangle" of Central America (El Salvador and Honduras), Guatemala continued to work on negotiating a similar agreement with Mexico.

Import duties on a series of dairy products were raised from 15% to 39% for the express purpose of protecting small-scale dairy producers in the country. The 10% duty on imports of oil products was eliminated in order to lower retail prices.

(d) Structural reform

Most of the privatization programme promoted by the previous Administration was concluded in 1998 with the sale of Empresa Eléctrica de Guatemala, Sociedad Anónima (Eegsa) and Empresa Telecomunicaciones Guatemala (Telgua) and the transfer of the two regional electric power distribution companies that belonged to the Instituto Nacional de Electrificación (Inde). By 1999, the only matters pending were some ancillary aspects of those operations, such as the task of opening up international telephone service to competition —which was done in July— and the piecemeal sales of 13% of the shares in the two power distribution companies that were still owned by the government. This last task was postponed until December 2000, however. The process of tendering the concessions for La Aurora and Santa Elena international airports, as well as the cargo and warehousing services for the seaports of Santo Tomás de Castilla and Quetzal, were also left up to the new Administration (2000-2004).

3. The main variables

(a) Economic activity

Global supply dropped sharply, as imports shrank by 1.7% after having soared by 23% in 1998, while real GDP growth amounted to 3.4%, as compared to 5.2% the year before. The downturn in the growth of domestic demand from 7.7% to 2.3% was a decisive factor in the slackening of production activity; this segment of demand, in turn, was influenced by the slowdown in gross fixed capital formation and consumption in both the private and the public sectors. Growth in the export sector slipped from 6% to 4.8%, with exports of services counteracting a large part of the contraction in sales of goods. The rate of increase for gross fixed public-sector investment fell from 12.1% to 7.8%, while the rate of private investment plunged from 22.3% to 7.4%. Although government consumption was down considerably (from 10.6% to 4.8%), the loss of momentum was most evident in private consumption (where the growth rate slid from 5.5% to 3%), which accounts for a little over three-fourths of the value of GDP.

Agricultural output reflected declines in such major products as sugar (-7%) and bananas (-20%). In the case of sugar, both international prices and production sagged, while banana production was hurt both by labour problems on some plantations and by the fact that it was not until the middle of the year that production began to recover from the damage caused by Hurricane Mitch in late October 1998.

In contrast, the coffee industry flourished, despite lower international prices and the problems many producers had in obtaining financing for the harvesting and marketing of their crops. Crops intended for domestic consumption also rose, with the bean crop up by 8% and maize by 3% thanks to the expansion of the areas planted and good rainfall. Vegetable and legume production also rose

Growth in the manufacturing sector slowed from 3.6% to 2.6%, as domestic consumption weakened and exports to the Central American market shrank. In addition, smuggling made inroads in the foodstuffs, textile, garment and footwear industries.

Oil production fell by 11% (from 8.1 to 7.2 million barrels), as drilling waned owing to operational problems and the delay of public tenders for the concession of new prospecting areas.

The descent of the construction industry's growth rate from 10% in 1998 to 6.4% in 1999 was attributable to the slackening pace of private construction (2.2%). Commerce and transport, storage and communications activities suffered the adverse impact of the slowdown in agriculture and manufacturing, the flatter domestic market and the contraction of foreign trade flows.

Growth in the electricity, gas and water industry accelerated from 5.8% to 8.6%. Thanks to the fact that several plants went on stream in late 1998 and the rural electrification programme was launched in mid-1999, this was the only industry to post a higher rate in 1999 than in 1998.

(b) Prices, wages and employment

In 1999, the rate of inflation was 4.9%, down from the 1998 level of 7.5%. The annual variation in the consumer price index therefore came in under the year-end target range of 5%–7% set by the monetary authorities.

The consumer price index did not reflect the steep depreciation of the exchange rate or the continuing increases in fuel prices observed during the year. The intervention of the government in June to reduce electricity rates and annul the adjustments that had been made in some telephone rates exerted a positive influence.

The figures for foodstuffs and beverages changed very little during the year, owing to the overproduction of agricultural goods following the initial damage caused by Hurricane Mitch. Among the goods and services that posted the greatest increases were transport (7.1%) and education (11.8%).

According to unofficial sources, during 1999 employment conditions deteriorated in various agricultural activities, including banana production (where three farms were closed down and 900 workers were laid off in the north-eastern part of the country) and real estate (where, according to the Chamber of Construction, 13,000 of the nearly 30,000 workers who had been employed in building construction up to mid-1998 were laid off).

In January 1999, a 10% wage hike was approved for public-sector employees, and in February, a 10% adjustment was made in minimum wages for

agricultural, commercial and industrial workers. In February 2000, minimum wages were again raised by 10%, and a monthly supplementary allowance of 200 quetzals was approved for public-sector employees. In March, the productivity bonus for rural and urban workers was also raised.

(c) The external sector

On the balance of payments, the current account deficit widened once again and the financial account surplus decreased appreciably. As a result, international monetary reserves shrank, after having climbed for three years in a row. The current account deficit amounted to US$ 1.081 billion, which was slightly more than the during 1998 (US$ 1.102 billion) and was equivalent to 6% of GDP (5.3% in 1998).

Merchandise exports sagged by 4.2%. The sharpest drops –in sugar (-39%) and bananas (-30%)– were the result of a combined decrease in both volume and prices. The steep slide in the average price of coffee was largely offset by a substantial increase in exportable production, which totalled nearly 6 million quintals.

In contrast, cardamom sales jumped by 54% and oil exports by 39%, thanks to attractive international prices for these products. The growth of sales to the Central American market subsided to 5.5% (versus 9.5% in 1998). Maquila exports also slowed down, as the value added rose by only 1% in 1999 after having ascended at an average annual rate of nearly 20% during the previous three years.

The volume of imports also fell (-2.3%), marking a sharp contrast with the figures for previous years, when growth rates had reached over 20%. Among the three major categories of imports, only capital goods posted an increase (7%), while the other two had negative annual growth rates: –7% for consumer goods and –4% for raw materials and intermediate products. Imports from the rest of the Central American region, which totalled US$ 485 million, also decreased (-20%).

Net capital inflows returned to their usual levels after having surged in 1998 as a result of the privatizations implemented during that period. The balance-of-payments financial account was nearly US$ 300 million lower and thus proved insufficient to offset the rise in the current account deficit. This drained US$125 million from the country's international monetary reserves, which brought them down to US$ 1.242 billion, the equivalent of 3.3 months' worth of imports.

Public-sector borrowing rose significantly during 1999. The external public debt was up by 11%, to US$ 2.631 billion, while domestic debt climbed by nearly 25% to 7.807 billion quetzals (around US$ 1.056 billion, at the average exchange rate for the year).

The public external debt expanded from 12.4% of GDP in 1996 to 14.5% in 1999. During the same period, the external debt of the non-financial public sector jumped by 43% (from US$ 1.751 billion to US$ 2.504 billion), while the Central Bank slashed its debt by 61% (from US$ 324 million to US$ 127 million) by making it a policy to refrain from seeking direct financing from abroad. The service on the public external debt amounted to US$ 237 million, or the equivalent of 7% of exports of goods and services.

Domestic borrowings rose by nearly 25%, as the level of regular fiscal revenues was simply too low to cover the increase in public spending.

Haiti

1. General trends

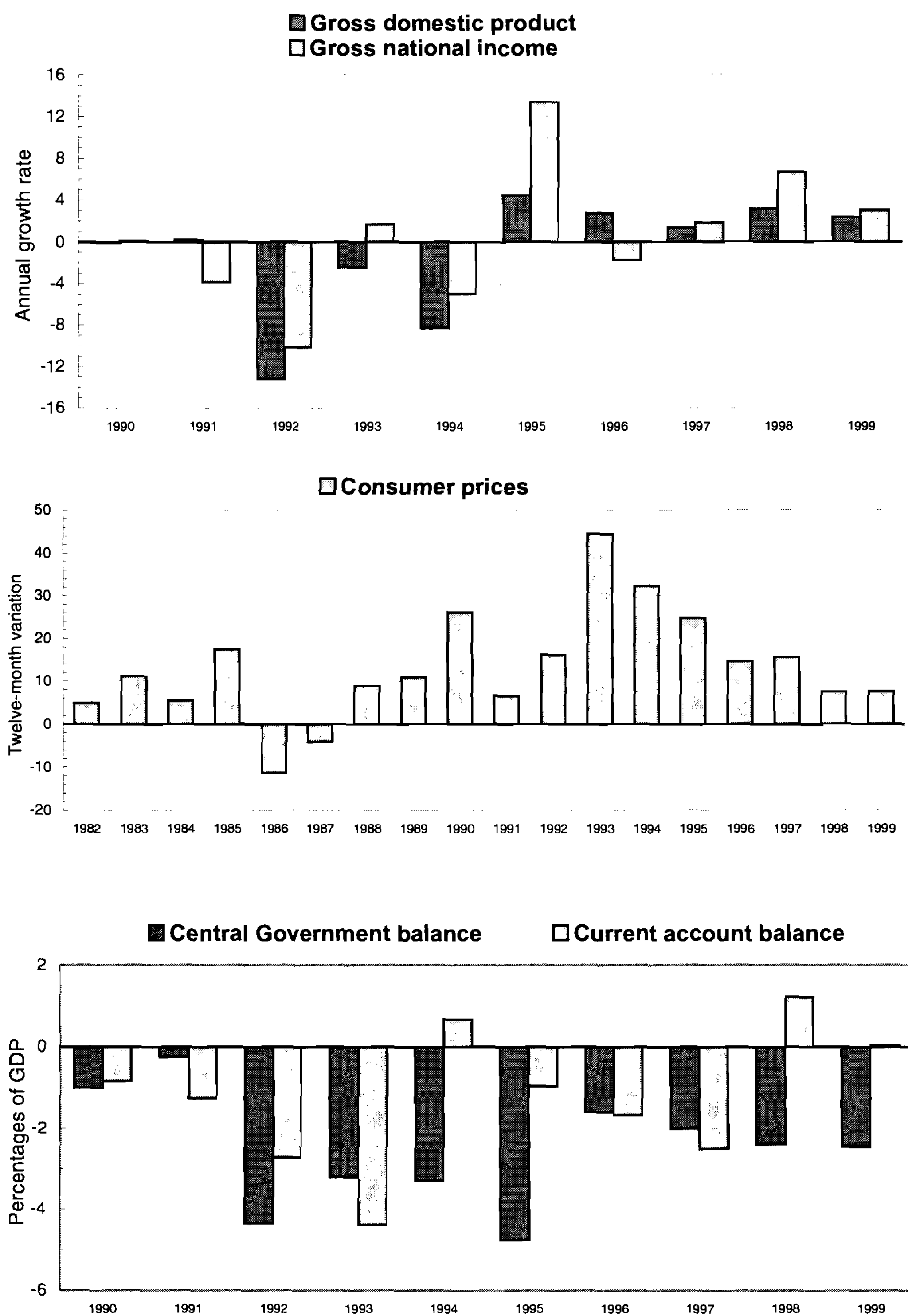
In 1999[1] the Haitian economy recorded a growth rate of 2.3%, an unsatisfactory performance given the extent of the lags accumulated in recent years. Macroeconomic indicators were generally favourable, with single-digit inflation for the second consecutive year. The fiscal deficit was equivalent to 2.5% of GDP, the rate of exchange remained practically unchanged and the balance-of-payments position was in equilibrium.

ONE IMPORTANT factor in this fairly lackluster economic picture was the scarcity of external finncing. Disbursements of foreign aid were contingent upon the establishment of a new legislative body, and since this condition was not met, projects that relied on the main international sources of financing were delayed. On the other hand, current transfers from abroad, in particular remittances (from family members and other non-official sources), increased and thus continued to account for a substantial proportion of foreign-exchange inflows.

In the first half of the 1999/2000 fiscal year, a number of signals pointed to a fairly bleak outlook for the national economy. External constraints continued to be a factor. The legislative elections scheduled for March 2000 were postponed (for the second time) until May. The increasingly tense political situation and the latent conflict between the executive branch and the main political parties do not bode well for a positive solution in the near future. In addition, half way into the fiscal year, inflation and the exchange rate were sending out worrisome signals; the net credit disbursed by the central bank to the government (819.5 million gourdes) was already nearing the total sum allocated for the entire year; and the broad money supply had expanded by 9%.

1 The period under review is the fiscal year running from October 1998 to September 1999.

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



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

2. Economic policy and structural reform

(a) Fiscal policy

For the third consecutive year (since the 1996/1997 fiscal year), the budget had to be maintained at the same level of expenditure, since a new legislative body with the power to change that level has not yet been established. The fiscal deficit for 1998/1999 amounted to 2.5% of GDP –a slightly higher percentage than in the preceding year (2.4%)– and was financed almost entirely by the central bank .

Up to the third quarter, fiscal policy yielded results that were in line with the targets established under the Fund-monitored programme which, as a result of institutional problems, replaced the Enhanced Structural Adjustment Facility agreed upon with the International Monetary Fund (IMF) in 1997. This made it possible to obtain 2.5% more resources than projected. The upturn in public-sector inflows was largely due to the growth of tariff revenues (18%) and of both direct (35%) and indirect (13%) tax receipts. In addition, transfers from State-owned enterprises rebounded, almost doubling the amount recorded for the previous fiscal year. In real terms, however, they were still 40% lower than in 1996. Thanks to the reforms undertaken by the National Port Authority, this semi-public entity's transfers were four times higher than the year before in nominal terms.

The almost 8% cutback in civil service posts (to a total of 46,000) in 1999 accounts for the 3% reduction in the wage bill in spite of an average 28% pay raise that was awarded starting in March.

The fiscal situation deteriorated, however, with total expenditure for the last quarter of the fiscal year standing 7.5% higher than the target figure, as both capital expenditure (611 million gourdes, or almost double the target) and the current account entry (a large part of which was left to the discretion of the ministries) exceeded their budget appropriations. It should be noted that public-sector capital expenditure was about 30% higher, in nominal terms, than it had been the year before (11% in real terms), but it should also be borne in mind that additional expenditures related to the damage caused by Hurricane Georges and the financing of the electoral process accounted for 6% of total expenditure.

Borrowing requirements exceeded the fiscal deficit, as external debt payments made by national authorities were 20% higher than in 1998 and were not offset by new capital inflows. The result was a net deficit of 581 million gourdes. Grants and external concessional loans to the public sector plummeted from 645 million gourdes to 115 million gourdes between 1998 and 1999, and the promise of budgetary aid from the European Union (US$ 21 million) did not materialize because the stipulated political conditions were not met.

Consequently, financing came chiefly from domestic sources. The central bank provided 1.09 billion gourdes in credit (1.6% of GDP), or 5% less than the amount agreed upon with IMF. The resulting credit shortfall of another 1 billion gourdes translated into arrears on domestic obligations.

In the first quarter (October-December 1999) of the 1999/2000 fiscal year, the net credit (819.5 million gourdes) extended to the government by the central bank was already nearing the amount set aside for the entire fiscal year (1.1 billion gourdes). In view of this state of affairs, it became necessary for the Ministry of Economic Affairs and Finance and the central bank to sign a cash management protocol, whereby the Ministry undertook to refrain from disbursing funds in excess of its monthly inflows and to keep a close check on its expenditures.

(b) Monetary policy

The IMF-compliant policy implemented by the monetary authorities in an effort to curb inflation was clearly reflected in public- and private-sector financing. However, narrow money (M1) grew by close to 18%, five points more than nominal GDP. While inflationary pressure was held in check in the second quarter of the fiscal year, after an average rise of 4.9% in the first quarter, it rebounded in the following six months owing to seasonal factors and exceptional circumstances (e.g., the cost of the reconstruction work required following the passage of Hurricane Georges in late September 1998).

The levels of reserve requirements (26.5% and 12.5% on local-currency and dollar deposits, respectively) kept the credit supply low, and lending rates remained stable (22.5% in gourdes and 12.5% in dollars). Rates on deposits were lowered from 14.8% to 6.8% (for gourde deposits) and were almost zero in real terms. The equivalent interest rate on dollar deposits amounted to 9.5%. This led to a widening of the interest-rate spread and fueled a growing preference for government securities (bonds issued by Haiti's central

Table 1

HAITI: MAIN ECONOMIC INDICATORS [a]

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [b]
	Annual growth rates [c]								
Growth and investment									
Gross domestic product	0.2	- 13.2	- 2.4	- 8.3	4.4	2.7	1.4	3.1	2.3
Per capita gross domestic product	- 1.8	- 14.8	- 4.2	- 9.9	2.5	0.8	- 0.5	1.2	0.5
Gross domestic product, by sector									
Goods	- 2.4	- 13.3	- 5.9	- 10.0	- 1.5	3.5	1.4	4.0	3.2
Basic services	- 7.4	- 12.1	- 2.4	- 13.2	13.1	5.3	- 0.2	1.4	10.4
Other services	3.2	- 10.7	1.1	- 4.4	7.2	1.0	0.6	1.9	0.5
Consumption	- 1.8	0.6	14.5	- 8.1	18.7	- 2.4	2.3	4.5	1.6
Gross fixed capital formation	- 3.6	- 40.1	- 7.4	- 7.1	88.8	- 1.6	- 1.5	7.4	4.0
Exports of goods and services	9.1	- 47.8	4.2	- 15.8	50.9	37.0	5.8	21.8	3.5
Imports of goods and services	- 0.3	- 18.9	60.4	- 10.4	78.2	3.1	4.0	13.9	2.1
	Percentages of GDP [d]								
Gross national income	98.6	102.8	106.9	110.8	119.5	114.2	114.6	118.4	119.1
Gross domestic investment	11.5	8.0	7.6	7.7	13.8	13.2	12.8	13.4	13.6
National savings	10.1	7.0	4.4	8.1	14.1	11.3	11.1	14.8	15.9
External savings	1.4	1.0	3.2	- 0.4	- 0.3	1.9	1.7	- 1.4	- 2.3
	Percentages								
Employment and wages									
Real minimum wage (index: 1995=100)	100.3	96.1	74.0	53.2	100.0	82.9	71.3	63.3	58.3
	Growth rates								
Prices (December-December)									
Consumer prices	14.5	16.1	44.4	32.2	24.8	14.7	15.6	7.4	7.6
External sector									
Terms of trade (index: 1995=100) [c]	97.8	92.9	94.1	96.8	100.0	90.6	94.8	96.7	95.3
Nominal bank exchange rate (gourdes per dollar)	7.70	9.10	12.80	13.00	15.30	15.75	16.68	16.77	16.92
Real effective exchange rate for imports (index: 1995=100)	116.3	117.5	141.3	113.4	100.0	85.0	73.0	67.0	63.4
	Millions of dollars								
Balance of payments									
Current account	- 30	- 42	- 68	14	- 23	- 46	- 78	43	2
Trade balance (goods and services)	- 234	- 184	- 227	- 141	- 545	- 498	- 512	- 542	- 658
Exports	341	148	163	139	257	330	379	479	516
Imports	575	332	390	281	802	827	891	1 021	1 174
Capital and financial accounts [e]	58	14	27	- 47	208	0	108	- 8	20
Overall balance	29	- 28	- 41	- 33	185	- 46	30	35	21
Variation in reserve assets (*- indicates an increase*)	- 12	- 4	1	- 8	- 176	49	- 50	- 29	- 34
	Percentages								
External debt									
Gross debt (as a percentages of GDP)	34.4	56.9	55.8	42.5	38.6	33.6	33.1	31.2	29.7
Net interest (as a percentage of exports) [f]	7.7	5.5	7.9	6.1	11.9	3.2	3.2	2.0	2.2

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Central Government									
Current revenue	8.4	7.0	5.5	2.6	6.4	7.4	9.1	8.9	9.1
Current expenditure	8.7	10.8	8.4	5.7	10.9	9.1	9.8	9.3	9.7
Saving	-0.4	-3.7	-2.9	-2.9	-4.5	-1.8	-0.7	-0.4	-0.5
Capital expenditure	0.2	0.6	0.6	0.2	0.8	0.3	1.4	2.1	2.2
Financial balance	-0.3	-4.4	-3.2	-3.3	-4.8	-1.6	-2.0	-2.4	-2.5
	Growth rates								
Money and credit									
Monetary balance of the banking system									
Net domestic credit	-7.7	26.4	26.3	27.9	-2.1	13.2	18.1	12.2	20.8
To Central Government	14.1	16.1	7.7	30.9	-4.6	21.7	-2.9	2.5	27.0
To private sector	-18.3	4.6	40.0	8.7	59.2	17.0	43.4	16.0	9.0
Money (M1)	5.1	24.8	26.7	21.1	25.9	0.6	11.8	3.4	17.5
Local-currency savings and time deposits	7.2	28.6	35.1	25.8	8.5	1.9	16.3	12.6	12.5
M2	6.2	26.8	31.3	23.8	15.9	1.3	14.2	8.5	14.7

Source: ECLAC, on the basis of official figures.
[a] Figures to September of each year. [b] Preliminary figures. [c] Based on gourdes at constant 1976 prices. [d] Based on constant 1995 dollars. [e] Includes errors and omissions. [f] Refers to net interest as shown in the balance of payments, divided by exports of goods and services.

bank, the Banque de la République d'Haïti (BRH)). In fact, holdings of these bonds, which were offered at more attractive rates of between 6.8% and 10.3% at the close of the fiscal year, more than doubled. The return on dollar deposits declined from 7% to 6.5%.

The dollarization of the economy seems to have intensified. Deposits in dollars gradually increased to almost 32% of total deposits (versus 29% in 1998), while the placement of dollar-denominated loans, which had accounted for less than one third of total credits in 1998, rose to more than 40% by September 1999. At the same time, borrowing in dollars increased by 33%; this currency's 40% share of total bank credit was due to the fact that the interest-rate spread on loans in dollars made them much more attractive (12.5% for United States dollars versus 22.5% for loans in gourdes), as did the marked stability of the foreign-exchange market (the local currency appreciated, on average, by 1.2% in nominal terms and 6.7% in real terms with respect to 1998).

In fiscal 1999/2000, the broadly defined monetary aggregate (M3) –which includes dollar deposits– had already shown a 9% increase by January 2000, compared to 6% in the same period of the previous fiscal year; this expansion was largely attributable to a 15% rise in dollar deposits. During the same period, net domestic credit exhibited an upward trend (8%), after having grown by a mere 3% the year before.

(c) Foreign-exchange policy

The exchange rate for the gourde remained stable (at an average of 16.7 gourdes to the dollar) for nearly the entire fiscal year. This is quite remarkable, given the fact that foreign-exchange inflows entering the country though the traditional routes for foreign assistance were virtually nil and given the listless performance of exports. The average monthly adjustment in the rate did not exceed 0.4%, with the central bank intervening in the currency market on a routine basis. In the course of the fiscal year, purchases and sales of foreign exchange amounted to 46.1 million gourdes and 13.4 million gourdes, respectively, and the central bank was therefore able to build up its net reserves.

The gourde had started to appreciate in March 1998 and continued to do so until the second-to-last month of the fiscal year. The trend reversed itself in September, however, and the depreciation of the currency during the

first half of fiscal 1999/2000 had already amounted to 2.4% by February. This forced the central bank to intervene on several occasions, especially in January 2000; in the course of these operations it sold a total of US$ 10 million, which was far more than the cumulative sum for the whole of the previous year.

Substantial amounts of dollars have poured into the country as a result of drug trafficking, and their effect in stabilizing the local currency should not be underestimated. In many quarters it was felt that the Columbus Operation, undertaken jointly by the Haitian, United States and Dominican Governments in October 1999 in an effort to combat this traffic, placed a great deal of pressure on the gourde and that this was the cause of its subsequent depreciation. Indeed, by February 2000 the gourde had lost approximately 11% of its value as of October 1999. Within this context, uncertainty over the political situation clearly had a negative effect on the expectations of private economic agents.

(d) Structural reforms

As part of the structural reform of the public sector, the decision, adopted in May, to privatize the cement company, *Ciment d'Haïti*, was implemented with the sale of 65% of its capital to a private Haitian-Swiss-Colombian consortium. As part of the downsizing of the public-sector payroll (8%) in fiscal 1998/1999, 6,398 civil servants opted for the voluntary or early retirement scheme or some other arrangement.

In the second quarter of the fiscal year, portfolio clean-up operations were started at the Banque Nationale de Crédit (BNC), the government's principal banking agency, and staff cuts began in November with the lay-off of approximately two-thirds of all the posts slated for elimination. Although the privatization of telephone services, electricity utilities, and ports and airports is still pending, the entry into the first of these markets of two private telephone companies associated with United States capital is tantamount to a *de facto* liberalization of the communications subsector.

The memorandum of agreement between the central bank and the Ministry of Economic Affairs and Finance regarding the economic and financial policy to be adopted for fiscal 1999/2000 under IMF surveillance has been under review since November 1999 and was still awaiting ratification at the end of the first semester. However, the implementation in February 2000 of the cash management protocol agreed upon by the central bank and the Ministry seems to be evidence of the authorities' decision to submit to strict central bank supervision on issues relating to public expenditure.

3. The main variables

(a) Economic activity

Despite signs of a significant degree of macroeconomic stability, the sluggish growth of GDP and investment (2.3% and 4%, respectively) are cause for concern, since these rates are too low to meet the country's urgent needs.

Growth in the agriculture has been slack (1.8%). This is by far the most important industry in the economy, since it accounts for 27% of total value added, and close to 60% of the economically active population live in rural areas. Furthermore, the progress made to date in agrarian reform has yet to be consolidated. So far, approximately 2,000 hectares of State-owned land have been redistributed to some 4,000 farmers.

In addition, the notable inroads being made by agricultural imports on the local market since trade was liberalized in 1995 have had an adverse effect on local agricultural production. Studies on the subject have found that, rather than leading to any significant decrease in consumer prices, the existence of a monopoly in the import sector has simply resulted in wider profit margins.

Agricultural production figures –which must, however, be used with extreme caution given the chronic shortcomings of the statistics on this subject– also indicate that growth has not been fast enough, even in the case of exports such as coffee and cocoa; what is more, the sharp downswing in international prices for these two products (23% and 32%, respectively) has done nothing to help boost production. Staple crops (rice and corn) appear to have rallied somewhat, however.

Almost all sectors trended downward, except for transport, storage and communications (14.2%), electricity, gas and water (1.9%) and mining (6.9%). The buoyancy of communications was mainly due to the

investments made by two new cellular telephone companies that entered the country in the course of the fiscal year, each of which was a combination of United States and Haitian capital. The State-owned company also joined forces with private national investors to launch a new company to compete in this market.

Growth in construction slowed from 9.3% to just 7.8%, and even this level was maintained only as a result of public-sector infrastructure works.

Even though the *maquila* industry rebounded with a nominal growth rate of 30%, the manufacturing sector grew very little (1.4%); this sector has not met with success in its attempts to compete with imports and has high operating costs as a result of poor infrastructure and the high cost of credit.

In the electricity subsector, gross power generation was virtually flat (1%), while power losses –both technical and non-technical– were on the order of 56%. These figures underscore the existence of a chronic energy deficit whose adverse impact on commercial and industrial activity, in particular, was reflected in a 3.5% decrease in total consumption.

(b) Prices, wages and employment

The inflation rate at the close of the fiscal year (9.9%) was higher than forecast, but the average annual rate (8.1%) was well below the previous year's (12.7%). Selective salary raises (28% on average) were given to civil servants in March 1999. The minimum wage, on the other hand, remained at 36 gourdes (as it has since 1995), which translated into a 7.5% decline in real terms.

Employment statistics are few and far between in Haiti. The working population of around 2.7 million persons is concentrated in the agricultural sector and, according to the most recent assessments, the unemployment rate is estimated at close to 55%. In an economy that has come to a virtual standstill and has a very limited supply of jobs in the formal sector –where less than 10% of the economically active population is employed– the only activities that appeared to be absorbing increasing numbers of workers are in the informal sector.

Although the exports of the *maquila* subsector surged, its role in terms of job creation seems to have declined, especially in the textiles industry.

(c) The external sector

In the first few months of 2000, the central bank revised its balance-of-payments statistics and made substantial adjustments in the figures for 1998 and 1999. For 1998, it noted an external dissaving (that is, a net outflow of financing) of US$ 43 million and, for 1999, one of US$ 2 million. Current transfers (US$ 597 million and US$ 672 million), which include both official grants and remittances and errors and omissions, were the items in which the largest adjustments were made.

The merchandise trade deficit for 1999 amounted to close to US$ 400 million as the result of an 18% increase in exports and a 14% upswing in imports. The *maquila* industry turned in the strongest performance (29%), while exports of coffee and cocoa shrank by nearly 17% and 41%, respectively.

The food import bill went up by 21% and accounted for approximately one third of Haiti's total imports. The increase in the merchandise trade deficit (11%) was more than offset by the rise in unrequited external transfers (13%), however.

On the other hand, imports of petroleum products, which represented 7% of Haiti's imports, were lower than the year before. Nevertheless, the price rises that began to be seen on the international market from the third quarter of 1999 onward had a significant effect on the level of outlays under this heading; in fact, whereas imports of petroleum products were 23% higher than in the preceding quarter when measured by volume, the increase in value terms was almost 63%.

The deterioration in the terms of trade (-4.7%) was mitigated by lower prices on the international market for various food products (wheat, oils) and the very modest increase in the price of rice (0.7%).

The 16% expansion in reserve assets (US$ 33.6 million) contrasted with a year-on-year contraction in the cumulative total for net reserves of almost 40% owing to a reduction in IMF funding.

The net external debt (US$ 1.166 billion) was scarcely 6% higher than the year before. New disbursements amounted to US$ 105 million, the greater part (60%) being fresh funding granted by the Inter-American Development Bank (IDB) in fulfilment of commitments made prior to the appearance of the country's legislative void. To date, IDB has approved loans and projects amounting to approximately US$ 264 million which are now awaiting ratification and approval by a new legislative body.

Almost US$ 55 million were earmarked for foreign debt servicing, a much higher figure than in 1998 (US$ 35 million). This sum included increases for both multilateral and bilateral debt servicing (approximately 65% and 20%, respectively).

Honduras

1. General Trends

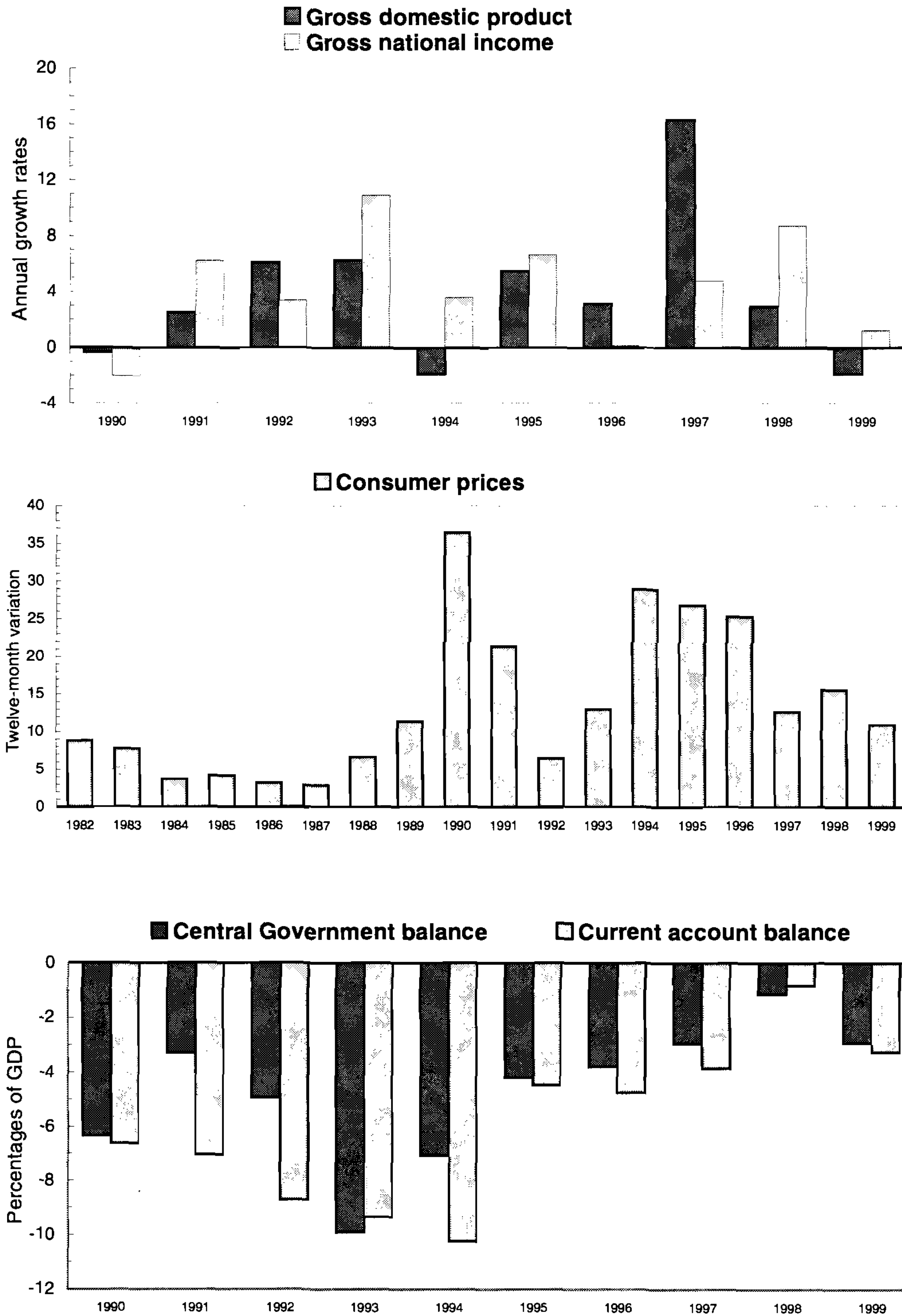
Economic activity in Honduras fell by 1.9% as a consequence of Hurricane Mitch, which hit the country in October 1998. The decline in the economic situation, which was reflected in a 4.6% drop in per capita GDP, would have been even worse had it not been for the opportune arrival of international aid in the form of significant donations, concessional credits and the deferral of service payments on the country's foreign debt. Accordingly, thanks to the reduction in the corresponding expenditure on interest and a strong increase in transfers from abroad, national income rose by 1.3%, while consumption also increased moderately. The export sector performed poorly and imports rose, leading to a significant increase in the deficit on the balance-of-payments current account. The fiscal deficit also expanded due to the increased expenditure required for the necessary reconstruction work. On the other hand, a tight monetary policy helped to keep inflation under control and to ensure that the depreciation of the exchange rate was fairly modest.

AGRICULTURE SUFFERED a steep decline due to the fall in production of both exportable goods and crops intended for domestic consumption. Donations of food from abroad made in order to counter this situation succeeded in preventing shortages. Other production sectors experienced a general slowdown, particularly basic services such as electric power and transport, commerce and manufacturing. Only the construction, mining and maquila sectors enjoyed significant growth.

Given the magnitude of the disaster, the country performed relatively well in terms of macroeconomic stability. The speed with which international aid reached the country was a decisive factor in this regard. The Consultative Group for the Reconstruction and Transformation of Central America granted Honduras over US$ 2.7 billion in aid to carry out its Master Plan for National Reconstruction, and the country also signed an enhanced structural adjustment facility (SRAE) agreement with the International Monetary Fund which paved the way for it to negotiate a deferral of official debt service payments to the Paris Club and helped to expedite disbursements from international and donor organizations.

The reconstruction programme, whose priority goals were to reactivate agricultural production and rehabilitate damaged infrastructure, was launched in late 1998. Thus, in 1999, macroeconomic management focused on preserving stability; however, given the significant expansion of public capital expenditure and the stagnation of income, the fiscal deficit widened nonetheless. Thanks to a restrictive monetary policy and also, in part, to food imports, inflation was lower than it had been the year before; furthermore, the relative abundance of foreign exchange helped to hold the crawling peg

Figure 1
HONDURAS: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

regime, which had been introduced in mid-1998, to a moderate pace.

Although the deficit on trade in goods and services more than doubled, due to falling exports and rising imports, the deficit on the balance-of-payments current account rose by just 3.3% of GDP; international reserves were up, thanks to inflows of external credits for reconstruction and a significant amount of foreign direct investment.

For obvious reasons, the natural disaster made it necessary to postpone economic reforms; even so, some progress was made, above all in terms of strengthening financial institutions by improving bank supervision and creating a Deposit Insurance Fund .

For 2000, GDP growth is projected at between 4% and 5% and inflation at between 9% and 11%; the fiscal deficit is expected to be twice as large as it was in 1999 as a result of reconstruction expenditures.

2. Economic policy and structural reforms

The aim of the economic programme designed for 1999-2001 is to achieve a rapid recovery within a framework of macroeconomic stability. The government plans to accomplish this goal through a large-scale reconstruction and rehabilitation effort, the restoration of agricultural production and the encouragement of private-sector activity, as well as by applying policies that favour increased public-sector saving.

To support this economic programme, on 26 March 1999 the government signed a new SRAE agreement with IMF. The purpose of this agreement was to encourage Paris Club creditors to provide assistance by suspending all foreign debt service payments for the three-year period 1999-2001 and by providing deft relief through the establishment of more favourable conditions; the new agreement also made it possible to speed up disbursements of funds from the World Bank, the Inter-American Development Bank and other donors.

(a) Fiscal policy and public finance

The decline in fiscal income and the steep increase in expenditures drove up the fiscal deficit from 1.1% to 2.9% of GDP. The central government's current income showed no growth in real terms, in contrast with increases of 20.7% and 12.1% in 1997 and 1998, due to the negative effects of the more sluggish pace of economic activity, as well as the tax reforms introduced in 1998.

Income tax revenues fell by 23.7% in real terms, partly as the result of the reduction in the marginal rate from 42% to 25% as required by the tax reform mentioned above, and partly due to the losses that business firms sustained as a result of Hurricane Mitch in 1998, which affected their tax payments in 1999. This decline, along with a decrease in the duty collected on foreign trade operations, was partly offset by an increase (14.7%) in revenues from the general sales tax as a result of the fact that the rate was raised from 7% to 12% in 1998. The increase in central government spending, meanwhile, was mainly attributable to the sharp rise in capital expenditure (28%) that was made to finance emergency and reconstruction work after the natural disaster, as mentioned earlier.

The fiscal deficit was financed entirely with external credit and international transfers, since the country's restrictive monetary policy ensured that domestic funding for the public sector was negative. Thanks to agreements signed with Paris Club creditors, interest payments fell from 2.31 billion lempiras in 1998 to 1.65 billion lempiras in 1999, while foreign debt amortizations were down from 1.6 billion to 1.1 billion lempiras.

The international aid that flowed into the country in response to the disaster caused by Hurricane Mitch was reflected in the figures on inbound external credit, which climbed from 2.35 billion lempiras in 1998 to 5 billion in 1999 and on international transfers received by the central government, which jumped from 400 million to 1.41 billion lempiras.

(b) Monetary policy

In 1999 the monetary authorities decided to maintain the restrictive policy they had applied in

Table 1

HONDURAS: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	3.3	5.6	6.2	- 1.3	4.1	3.7	5.0	2.9	- 1.9
Per capita gross domestic product	0.2	2.5	3.1	- 4.1	1.1	0.8	2.1	0.1	- 4.5
Gross domestic product, by sector									
Goods	3.9	7.3	4.0	- 2.6	6.3	2.0	5.2	0.1	- 2.9
Basic services	2.4	3.4	4.4	- 3.9	9.2	7.0	5.2	3.8	1.4
Other services	0.9	5.3	9.7	- 0.5	3.4	3.4	5.1	6.1	- 0.5
Consumption	2.8	3.5	2.5	- 0.2	1.2	5.4	3.4	5.2	1.9
Government	- 10.2	12.9	- 9.4	- 5.1	- 2.8	5.3	- 6.6	21.7	10.9
Private	5.0	2.2	4.4	0.5	1.7	5.5	4.6	3.4	0.8
Gross domestic investment	17.9	12.4	29.2	7.3	3.0	- 5.9	6.0	2.8	4.7
Exports of goods and services	- 2.0	8.0	- 1.1	- 10.1	13.6	8.1	1.3	0.3	- 9.4
Imports of goods and services	6.0	7.5	7.1	1.1	4.0	2.4	- 1.4	5.9	6.7
				Percentages of GDP [c]					
Gross national income	91.2	89.0	92.1	97.3	100.0	96.6	96.4	101.4	104.7
Gross domestic investment	22.7	24.1	29.0	31.8	31.6	28.6	28.9	28.8	30.7
National savings	15.3	14.8	19.2	21.9	27.2	24.3	25.6	28.1	27.9
External savings	7.4	9.3	9.8	9.8	4.3	4.3	3.3	0.6	2.8
				Percentages					
Employment and wages									
Labour force participation rate [d]	47.4	48.9	50.2	49.2	49.5	52.2	53.1	52.9	55.7
Open unemployment rate [e]	4.5	3.8	3.8	2.8	3.7	4.5	3.6	3.5	3.7
Real minimum wage (index: 1995=100)	107.8	121.3	123.0	105.8	100.0	96.0	102.0	105.4	105.8
				Growth rates					
Prices (December-December)									
Consumer prices	21.4	6.5	13.0	28.9	26.8	25.4	12.7	15.6	10.9
Wholesale prices	20.4	9.6	14.0	35.1	21.1	23.0	14.7	9.6	11.3
External sector									
Terms of trade (index: 1995=100) [c]	86.9	82.2	90.3	92.1	100.0	92.8	115.4	118.0	110.2
Nominal exchange rate (lempiras per dollar)	5.60	5.51	6.50	8.60	9.54	11.71	13.00	13.39	14.21
Real effective exchange rate for imports (index: 1995=100)	98.1	92.9	103.9	115.4	100.0	101.6	96.2	88.1	85.3
				Millions of dollars					
Balance of payments									
Current account	- 213	- 298	- 327	- 351	- 177	- 194	- 183	- 43	- 176
Trade balance (goods and services)	- 124	- 192	- 320	- 345	- 178	- 212	- 277	- 322	- 743
Exports	1 016	1 041	1 211	1 370	1 735	1 915	2 175	2 475	2 312
Imports	1 139	1 233	1 531	1 715	1 913	2 128	2 452	2 797	3 056
Capital and financial accounts [f]	54	51	135	331	216	297	370	185	473
Overall balance	- 160	- 247	- 192	- 21	39	103	187	141	298
Variation in reserve assets (- indicates an increase)	- 67	- 92	105	- 17	- 136	- 174	- 295	- 230	- 474
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	113.9	106.0	110.3	117.9	107.1	101.0	86.0	84.0	87.8
Net interest (as a percentage of exports) [g]	20.2	25.0	14.5	14.2	11.5	9.8	7.2	5.6	5.1

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Central Government									
Current revenue	17.4	17.4	16.9	16.0	18.2	16.6	16.9	18.8	19.1
Current expenditure	16.5	16.6	18.4	16.6	15.6	16.0	16.4	15.9	16.3
Saving	1.0	0.8	-1.5	-0.6	2.6	0.6	0.5	2.9	2.8
Capital expenditure (net)	4.3	5.7	8.8	7.2	7.7	5.1	3.4	4.7	6.1
Financial balance	-3.3	-4.9	-9.9	-7.1	-4.2	-3.8	-2.9	-1.1	- 2.9
Domestic financing	-3.3	-2.9	0.9	2.5	-0.3	0.6	0.2	-1.1	- 4.1
External financing	6.6	7.8	9.0	4.6	4.5	3.2	2.7	2.2	7.1
	Growth rates								
Money and credit									
Monetary balance of the banking system									
Net international reserves	...	109.8	-62.9	79.1	252.4	133.0	82.9	41.8	60.5
Net domestic credit	2.6	18.1	25.8	28.7	9.4	34.5	24.3	6.4	- 4.1
To public sector	-12.0	-26.6	16.3	14.5	-93.2	...	...	...	...
To private sector	10.3	24.8	14.9	24.7	21.1	49.2	42.5	34.3	21.0
Money (M1)	16.8	14.3	13.0	37.0	18.3	27.1	33.8	12.7	21.8
Local-currency savings and time deposits	8.1	28.6	6.1	17.1	21.0	47.3	49.7	19.3	20.8
M2	11.6	22.6	8.8	25.1	19.8	38.5	43.3	16.8	21.2
	Annual rates								
Real interest rates (annualized, %)									
Deposit rate	...	...	0.9	- 7.9	- 13.6	- 5.7	0.9	4.5	6.9
Lending rate	...	...	10.3	2.8	- 2.0	4.9	9.9	15.0	16.6
Equivalent interest rate in foreign currency [h]	...	...	9.3	8.6	11.1	13.8	21.1	18.5	19.3

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on lempiras at constant 1978 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population nationwide. [e] Rate of open unemployment nationwide. [f] Includes errors and omissions. [g] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [h] Interest rate on deposits, deflated by the variation in the average bank exchange rate (selling rate) for banknotes.

previous years in order to maintain price and exchange-rate stability. They also took measures to strengthen the institutions of the financial system.

The steady rise in the balance of international reserves resulted in a cumulative increase amounting to US$ 300 million in 1999, not counting the US$ 175 million in exceptional financing that was received. This outcome was largely a reflection of a further tightening of the authorities' restrictive policy stance, which led to a reduction in net Central Bank credit to the public sector as a whole. In contrast, private sector credit rose by 21% in nominal terms.

The Central Bank used open market operations as its main monetary policy instrument. Legal reserve requirements did not change during the year, but the sum of monetary absorption certificates (CAMs) placed on the market by the Central Bank rose by 18.2%. The interest rate on central government securities and on the CAMs that were sold in public auction trended downward throughout the year. The average yield on 180-day securities fell from 22% to 13.9%, in line with the decline in inflation.

The figures for the various monetary aggregates show that broad money (M3) rose by 22.3% in nominal terms, while narrow money (M1) climbed by 21.8% and foreign-currency deposits by 26.1%, which meant that they came to represent 29.3% of local-currency liquidity (M2).

Table 2

HONDURAS: MAIN QUARTERLY INDICATORS

	1997				1998[a]				1999[a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	26.0	21.7	17.1	12.7	12.3	14.2	13.5	15.7	13.3	10.6	10.7	10.9	10.9
International reserves (millions of dollars)	...	507	530	580	699	731	633	818	871	1 094	1 087	1 258	1 376
Real effective exchange rate [b] (index: 1995=100)	98.4	97.4	94.9	94.1	91.6	88.3	86.0	86.5	85.3	85.5	85.8	84.5	83.8
Real interest rates (annualized, %)													
Deposit rate	- 4.7	0.3	2.7	5.2	6.8	3.9	3.3	3.8	4.7	7.4	8.1	7.5	7.0
Lending rate	2.9	8.1	12.2	16.5	17.8	14.5	14.2	13.6	13.8	17.3	18.0	17.1	17.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

During the year some firms suspended payments and a commercial bank underwent forced liquidation. In October 1999, the Temporary Financial Stabilization Act went into effect, under which the Deposit Insurance Fund (FOGADE) was created. The Central Bank also raised the minimum capital requirement applying to financial institutions from 50 million lempiras to 100 million lempiras for commercial banks; from 20 million to 30 million lempiras for savings and loan associations; and from 10 million to 20 million for finance companies.

(c) Exchange rate and trade policy

Although the SRAE agreement with the IMF called for greater efforts to be made to expedite the replacement of the auction system with an interbank market as the mechanism to be used in determining the exchange rate, the Central Bank maintained its crawling peg regime, which is based on the ratio between price trends in Honduras and those of its main trading partners. This scheme, which works through the public foreign-exchange allocation system, allowed the nominal exchange rate to rise gradually, resulting in a mean depreciation of 6%, while the real exchange rate appreciated by 4.4%.

The government continued to phase in reductions in customs duties as it worked towards its target of lowering the mean tariff on consumer goods from 18% to 15% in the period between early 1999 and 2000.

Trade negotiations between Chile and the Central American countries as a group were concluded, and these countries moved on to the stage of bilateral definitions of terms. Talks with Mexico were completed in 2000; Honduras, Guatemala and El Salvador signed a free trade agreement with Mexico with a view to a possible future association with the North American Free Trade Agreement (NAFTA).

(d) Public debt policy

The external debt rose by 7.4%, from US$ 4.4 billion to US$ 4.73 billion. The central government's external liabilities increased by 12%, from US$ 2.32 billion to US$ 2.6 billion.

The reorganization of part of the central government's foreign debt and negotiations with Paris Club creditors, which were successfully concluded on 13 April, lowered debt amortization payments by 10.5% and the interest payments by 26%. Negotiations with the Paris Club also yielded balance-of-payments support in the form of a debt relief package amounting to US$ 440 million in nominal terms, whose application will run through March 2002. In addition, an agreement on exceptional treatment was reached which provides for an improvement in the terms agreed upon in previous negotiations.

In May 1999, the Consultative Group for the Reconstruction and Transformation of Central America met in Stockholm. During that meeting, the international community defined the conditions that would govern cooperation with Central American countries affected by Hurricane Mitch. Honduras received almost US$ 2.8 billion in financial support.

The central government's domestic debt amounted to 3.28 billion lempiras in 1999. Debt held by the Central Bank was down to 990 million lempiras, thanks to the

restrictive policy approach taken to credit for the central government, a reduction (from 35% to 25%) in the reserve requirement for commercial banks, and a decrease in compulsory investment in government securities (from 25% to 13%).

(e) **Structural reforms**

The 1999-2001 economic programme, developed after Hurricane Mitch, included the structural reforms to be carried out during this three-year period. These reforms mainly involve privatization, modernization, and improvements in public-sector efficiency, together with measures designed to strengthen the financial system. The essential goals of the privatization programme are to complete the transfer of control of the Honduran telecommunications company, Hondutel, to a strategic partner, to hand over the electric power distribution grid to the private sector and to sell management and maintenance concessions for the country's airports and public works projects. The sale of Hondutel was originally scheduled for December 1999, but there were a number of delays, and the time horizon for the completion of the transaction was consequently extended to the first half of 2000.

Delays also arose in the privatization of the electric power distribution grid and, as a result, in October only the billing and meter-reading portions of the grid's operation were transferred to a private firm. The entire process is expected to be completed during 2000. Tenders for the concessions for the country's four international airports were also delayed, but were expected to be completed in the first quarter of 2000 nonetheless.

3. The main variables

(a) **Economic activity**

As expected, the full consequences of Hurricane Mitch's passage through the country in 1998 were felt in 1999. Although activity fell by 1.9%, the economy was expected to recover in 2000. Domestic demand also weakened, growing by just 2.7%; a sharp upturn (4.7%) was seen, however, in gross domestic investment. This surge was the result of the significant increase in public investment (16%) occasioned by reconstruction work, since private investment was virtually flat (0.8%) after having climbed sharply in previous years.

Total consumption slowed, rising by 1.9% compared to 5% in 1998. Private consumption edged up by just 0.8%, indicating a 2.5% drop in per capita consumption, while public-sector consumption climbed by 10.9%. In response to reconstruction needs and local shortages, imports increased by 6.7%.

The hurricane dealt the agricultural sector the worst blow of all, and this sector's total output consequently plunged by 8.7%, leading to a sharp drop in exports (-9.4%). The plantain crop sustained the most damage, and as a result its production index plummeted by 77%, followed by the banana (-72%), rice (-53%), beans (-41%) and coffee (-11%) crops. The livestock industry's level of activity slumped by 2.8% and that of the fisheries subsector by 1.3%; this last decrease was basically due to a reduction in shrimp cultivation (-4.2%), since increases were registered in both lobster production (24%) and the fish catch (1.2%).

With upswings of 10.4% and 7%, respectively, both construction and mining helped to offset the decline in agricultural activity,. Manufacturing and basic services grew moderately, while other services, among them commerce and banking, slipped by 0.5%.

Manufacturing output was up by 2.6%, with exceptionally strong increases being posted for textile production (27.2%), cement (18%) and asbestos-cement sheets (10.9%). In contrast, downturns in production were recorded for steel rods (-43%), vegetable fats (-2.9%), beer (-2.8%) and cigarettes (-0.6%). Industrial consumption of electricity also fell (-13.9%). Activity in the maquila industry increased by 25%, raising its value added to the equivalent of 12% of GDP. In the construction subsector, the amount of area under construction expanded by 2.3% as the result of a 5.5% increase in residential building (its main component), along with upswings in commercial building and other categories, which rose by 2.1% and 17.7%, respectively.

Electric power output fell by 1% and consumption by 13%, while imported electrical energy rose by 10%. Consumption was down across the board (commercial, industrial, residential, public offices and public lighting categories). Distribution losses, which remain sizeable, jumped by 63%.

(b) Prices, wages and employment

Inflation slowed from 15.6% in 1998 to 10.9% in 1999, thanks to the moderate rate of devaluation, the food donations received to cover domestic shortages and the authorities' tight monetary policy.

Consumer prices continued to trend downward in 1999. The annualized rate of inflation was 16.7% in January and then slipped to 9.3% in July, before rising slightly. The food price index fell faster than the general index, with an increase of just 4.8% for the entire year, whereas wholesale prices rose by 11.3%. Agricultural prices were up by 16.2% and the prices of construction materials by 13.7%. The prices of imported goods climbed by 9.1% while those of domestic goods increased by 12.2%.

The average minimum daily wage rose by 10.4%, from 38.74 to 42.77 lempiras. Since this was less than the average rate of inflation for the year (11.6%), there was a 1% decrease in real terms. Among public-sector employees, physicians received a 30% nominal increase and teachers one of 20%.

En Tegucigalpa, the open unemployment rate fell from 7% to 5.9%. However, the national underemployment rate reached 22.2% (28.1% in rural areas, 15.8% in urban areas, 14.3% in the Central District and 7.5% in San Pedro Sula). The maquila sector created over 14,000 jobs during the year, bringing the total for this industry to over 115,000.

(c) The external sector

The deficit on the balance-of-payments current account widened from US$ 43 million in 1998 to US$ 175 million in 1999. Although the deficit on trade in goods and services increased sharply (from US$ 530 million to US$ 900 million), abundant inflows of international transfers (US$ 725 million) forestalled a larger current account deficit.

The surplus on the balance-of-payments financial account swelled from US$ 190 million in 1998 to US$ 420 million in 1999. This included almost US$ 220 million in loans to the pubic sector –mostly credits for reconstruction– and inflows of US$ 230 million in foreign direct investment.

Capital inflows financed the US$ 175.4 million current account deficit and also contributed to the US$ 300 million increase in international reserves. Exceptional financing (US$ 175 million) also boosted the level of reserve assets.

Exports of goods slipped to US$ 1.85 billion (from US$ 2.1 billion in 1998) as a result of downturns in a number of products: 80% in the case of bananas, 40% for coffee, 23% for wood, 42% for meat and 48% for sugar. Products whose export value rose included tobacco and zinc, among traditional exports, and lobsters, melons, pineapples, and soaps and detergents, among non-traditional exports. The value added accounted for by maquila exports jumped from slightly less than US$ 440 million to over US$ 540 million; the value of traditional exports plunged by 46%, but that of non-traditional exports hardly fell at all (-0.9%). Exports to Central America, which were up by 5.2% in terms of value, represented 13% of total foreign sales.

Imports of goods rose from US$ 2.34 billion to US$ 2.56 billion. Those from Central America increased by 3.9%, while imports from the rest of the world climbed by 10.2%. The average increase for imported consumer goods, raw materials and capital goods was 8.1%; this figure does not include fuels, however, which rose almost 20% due to higher oil prices.

The export price index fell by 10%, while the import price index edged up by 1.1%, leading to a 10.6% decline in the terms of trade.

Mexico

1. General trends

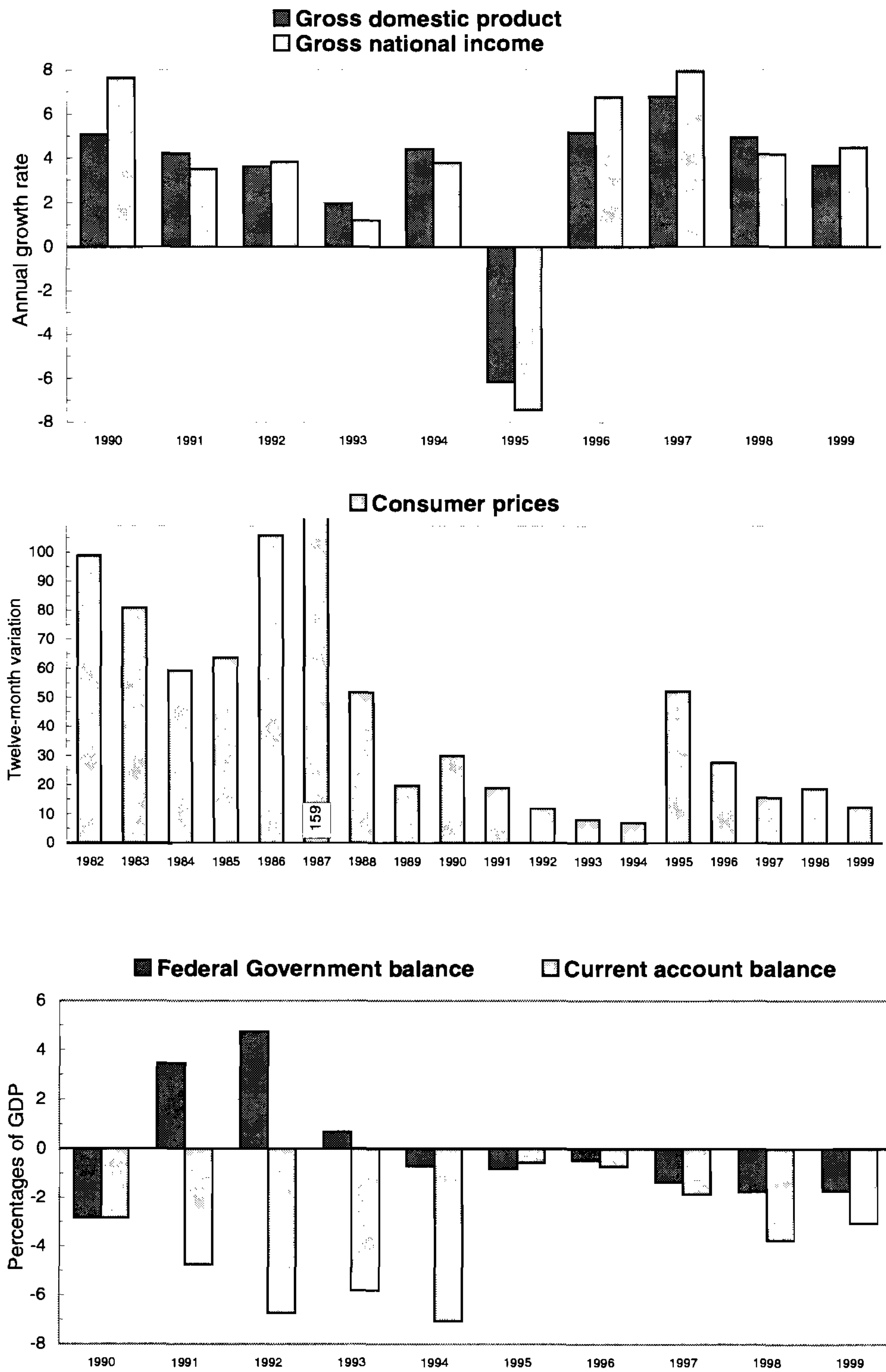
The mexican economy's growth rate fell to 3.7% in 1999, down from 4.9% in 1998. Even so, this result exceeded the rate projected at the beginning of the year, owing to the fact that international conditions improved in the second semester. The export sector recorded a major expansion, thanks to the sustained buoyancy of the United States economy, while higher oil prices helped to bolster public finances. The growth rate of domestic demand weakened, but real income rose slightly and the rate of employment increased. Financial markets stabilized after the disturbances of 1998, which carried over into early 1999; inflation trended downward and the deficit on the balance-of-payments current account narrowed somewhat.

MEXICAN MERCHANDISE exports, and particularly those of the *maquila* industry (which now account for 47% of the total), received a powerful boost from the upturn in the United States economy during the last two quarters of the year. Mexico's trade balance has improved considerably under the North American Free Trade Agreement (NAFTA), and its external deficit consequently narrowed slightly, after having more than doubled in 1998. Large amounts of foreign capital continued to flow into the country, especially in the form of foreign direct investment (FDI), and, as a result, international reserves continued to climb until they reached unprecedented levels. The relative abundance of foreign exchange, together with a tight monetary policy and the floating exchange rate system adopted in 1995, helped to steady the exchange rate from the second quarter on; in fact, during the rest of the year, the peso actually appreciated significantly in both nominal and real terms.

Fiscal deficit targets were also met, thanks to careful management of public finances and the boost given to tax receipts by steep oil price hikes in the second half of the year. The balance on the federal government's gross external debt remained unchanged, but gross domestic debt expanded considerably (33%), largely because of an increase in the amount of government securities in circulation (with an average maturity of 561 days), which came to the equivalent of US$ 53,312,000,000 at the end of 1999.

The growth rate of consumption and investment expenditure slipped in 1999, although it picked up again slightly in the second semester. The rate of fixed capital formation was almost halved, since private investment increased at a sedate pace compared with the rapid expansion of the previous three-year period. Public investment retreated for the second year running, coming in at just 2% of gross domestic product (GDP). The pace of both government and household consumption also faltered somewhat, although less markedly. Strikingly, although bank consumer credit remained sluggish, alternative means of financing continued to gain ground, particularly credit from large department stores and automobile distributors.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

The Mexico's national banking system continued to be weak. Real deposit-taking slipped back and real financing to the private sector decreased for the fifth consecutive year; this had a particularly strong impact on small and medium-sized businesses, since they are not able to resort to international borrowing, as large export companies can. As a result, non-bank sources of financing continued to expand, especially supplier credit and reinvestment of earnings. After a sharp rise in the first quarter, nominal deposit rates tended to level off at around 20% for the rest of the year, for a real average rate of 10% per annum. Lending rates remained quite high, as a reflection of both the scarcity of bank credit and wide interest-rate spreads.

Seeking to avert an economic crisis similar to those that have occurred in the run-up to the last four presidential elections, the government borrowed extensively from international financial agencies at the end of 1999 in order to shore up macroeconomic stability (see box 1).

GDP was expected to grow by 4.5% in 2000, while inflation was to come in at below 10%. The public-sector deficit for the year was forecast at 1% of GDP and the current account deficit at 3.1%. The main economic risks facing the country arose from the uncertain international environment; a sharp slowdown in the United States economy, a slump in oil prices or a new bout of financial volatility would all hurt economic growth. Furthermore, towards the middle of the year, the country's financial variables were clearly showing the effects of the uncertainty generated by the electoral process.

All things considered, Mexico's economic performance in 1999 consolidated the sweeping transformation it has undergone over the last five years. The macroeconomic framework has improved considerably and, under the leadership of a vibrant export sector, the economy is now among the most open to international trade and investment. This sector is, however, limited to a small group of companies which interact very little with the rest of the domestic apparatus and which generate a vast demand for imports. The export boom has also ushered in greater segmentation in terms of the productivity of the industrial structure. Competitive companies, which are typically large and linked to transnational firms, coexist with thousands of small establishments that have little or no access to technological development and bank financing.

Box 1

MACROECONOMIC FRAMEWORK 1994 AND 2000

The hefty loans obtained from international financial agencies - the Mexican authorities' "financial armour"- are intended to curb the risks of macroeconomic destabilization associated with the elections. As demonstrated by the indicators shown below, the economy is more stable now than it was six years ago. This situation is associated with the continuity of economic policy, based mainly on a tight monetary policy, the floating exchange rate and public accounts that are virtually in balance, although they continue to depend heavily on oil revenues.

	1994	2000
Domestic saving (as a percentage of GDP)	14.7	21.7
Balance on current account as a percentage of GDP)	-7.0	-3.1
Foreign direct investment / deficit on current account (percentages)	37.0	71.4
Net external public debt / total exports	126.3	54.1
Exchange-rate regime	Floating band	Float
Public-sector external debt maturities for the following year (billions of dollars)	33.3	1.6
International reserves (billions of dollars)	6.1	32.7[a]
Financial support programme (billions of dollars)	-	23.7

Source: Ministry of Finance and Public Credit of Mexico.
[a] As of 31 December 1994. [b] As of 31 May 2000.

Table 1

MEXICO: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	4.2	3.6	2.0	4.4	- 6.2	5.2	6.8	4.9	3.7
Per capita gross domestic product	2.3	1.7	0.1	2.6	- 7.8	3.4	5.0	3.2	2.0
Gross domestic product, by sector									
Goods	3.3	3.4	0.7	3.9	- 6.5	9.1	7.7	5.9	3.7
Basic services	3.0	5.0	3.8	8.1	- 3.9	7.5	9.2	5.7	8.2
Other services	5.1	3.7	2.7	4.3	- 6.7	2.1	6.0	4.3	2.8
Consumption	4.8	4.3	1.6	4.4	- 8.4	1.8	6.0	5.0	3.9
Government	5.4	1.9	2.4	2.9	- 1.3	- 0.7	2.9	2.2	1.0
Private	4.7	4.7	1.5	4.6	- 9.5	2.2	6.5	5.4	4.4
Gross domestic investment	9.9	13.3	- 0.8	10.3	- 34.8	25.7	24.8	10.2	1.4
Exports of goods and services	5.1	5.0	8.1	17.8	30.2	18.2	10.7	12.1	13.9
Imports of goods and services	15.2	19.6	1.9	21.3	- 15.0	22.9	22.7	16.5	12.8
	Percentages of GDP [c]								
Gross national income	99.9	100.0	99.4	98.8	97.4	98.6	99.6	98.8	99.6
Gross domestic investment	25.6	28.1	27.2	28.8	19.8	23.7	27.9	29.0	28.3
National saving	20.7	20.6	20.3	20.5	19.4	23.1	26.1	25.1	25.0
External saving	4.9	7.5	6.9	8.2	0.4	0.6	1.9	3.8	3.3
	Percentages								
Employment and wages									
Labour force participation rate [d]	53.3	53.8	55.2	54.7	55.4	55.4	56.2	56.5	55.8
Oper unemployment rate [e]	2.7	2.8	3.4	3.7	6.2	5.5	3.7	3.2	2.5
Real average wage (index: 1995=100) [f]	93.8	100.7	109.7	114.9	100.0	90.1	89.1	91.5	92.4
	Growth rates								
Prices (December-December)									
Consumer prices (nationwide)	18.8	11.9	8.0	7.1	52.1	27.7	15.7	18.6	12.3
Wholesale prices (Mexico City)	15.7	10.7	7.4	7.8	58.1	27.0	13.6	17.3	9.9
External sector									
Terms of trade (index: 1995=100) [c]	105.8	105.0	104.9	103.3	100.0	102.8	104.0	100.4	102.3
Nominal exchange rate (new pesos per dollar)	3.02	3.10	3.12	3.38	6.42	7.60	7.92	9.14	9.56
Real effective exchange rate for imports (index: 1995=100)	74.8	69.1	65.8	67.6	100.0	89.0	77.2	77.3	70.8
	Millions of dollars								
Balance of payments									
Current account	-14 888	-24 442	-23 400	-29 662	-1 577	-2 330	-7 448	-15 726	-14 013
Trade balance (goods and services)	-9 369	-18 618	-16 010	-20 432	7 753	6 612	94	-8 473	-6 980
Exports	51 556	55 471	61 402	71 184	89 207	106 899	121 702	129 387	148 601
Imports	60 925	74 089	77 412	91 616	81 454	100 287	121 608	137 859	155 581
Capital and financial account [g]	22 861	26 187	30 632	12 465	-14 735	6 190	21 447	18 936	18 292
Overall balance	7 973	1 745	7 232	-17 197	-16 310	3 860	13 998	3 210	4 279
Variation in reserve assets (- indicates an increase)	-8 154	-1 173	-6 057	18 398	-9 648	-1 806	-10 515	-2 138	- 592
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	37.2	32.0	32.4	33.2	57.9	47.7	37.2	38.3	36.5
Net interest (as a percentage of exports) [h]	12.4	13.6	14.9	10.5	10.6	9.4	7.8	7.0	6.4

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Federal Government									
Current revenue	17.0	17.7	15.5	15.1	15.2	15.7	15.9	14.2	14.5
Current expenditure	15.0	13.7	13.4	13.3	14.1	14.2	15.2	14.2	14.7
Saving	2.0	4.0	2.1	1.9	1.1	1.5	0.7	0.0	-0.1
Capital expenditure (net)	2.3	2.4	1.8	2.3	1.8	1.9	2.0	1.7	1.6
Financial balance	3.4	4.8	0.7	-0.7	-0.8	-0.5	-1.4	-1.7	-1.7
			Growth rates						
Money and credit									
Monetary balance									
Banco de Mexico									
international reserves	79.9	7.3	31.8	-57.0	267.5	14.5	64.0	32.0	-2.1
Net domestic credit	35.6	21.4	11.5	29.2	31.1	-6.8	32.2	10.5	1.0
To central government (net)	-2.5	-51.9	...	...	...	...	...	8.6	-7.8
To private sector	61.5	47.7	24.3	40.3	-4.8	-29.7	44.2	18.1	-0.5
Money (M1)	124.8	14.7	17.9	1.1	2.4	39.6	29.4	16.2	28.5
Local-currency savings and time deposits	20.0	24.2	8.1	33.2	55.6	26.1	15.1	23.1	12.0
M2 [i]	47.2	20.4	11.8	22.7	38.7	30.1	19.1	21.6	16.8
Dollar deposits	...	...	...	...	85.7	51.4	24.1	38.2	21.1
			Annual rates						
Real interest rates (annualized, %)									
Deposit rate (30 days)	...	...	4.9	5.9	3.3	-7.7	-5.1	-1.8	-6.0
Lending rate	...	...	11.2	12.5	19.3	1.3	3.1	11.1	7.9
Equivalent interest rate in foreign currency (30 days) [j]	...	...	15.1	10.5	31.7	24.2	14.1	13.4	9.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on pesos at constant 1993 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population in urban areas. [e] Percentages of the economically active population in urban areas. [f] Refers to the manufacturing industry. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [i] Includes dollar deposits. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

2. Economic policy

As in the previous four years, in 1999 economic policy was directed towards reducing inflation, as well as towards the use of fiscal and monetary austerity measures to manage the growth ceiling imposed by the external-sector deficit. These measures remained unaltered over the year, despite the greater economic flexibility associated with the rise in international oil prices. In fact, the upswing in oil revenues shored up public saving, which made it possible not only to offset the costs of social security reform, debtor support programmes and the financial overhaul, but also to increase resource transfers to states and municipalities.

The federal government and the Banco de México signed a letter of intent with the International Monetary Fund (IMF) regarding credits from international financial agencies to be used to pre-empt potential financial shocks. As part of this agreement, the government made a commitment to deepen the structural reforms already under way. In addition to IMF resources amounting to US$ 4.2 billion, it obtained US$ 5.2 billion in credits from the World Bank, US$ 3.5 billion from the Inter-American Development Bank, US$ 4 billion from the United States Export-Import Bank (Eximbank) and US$ 6.8 billion in contingency financing under the North American Financial Agreement.

Table 2

MEXICO: MAIN QUARTERLY INDICATORS

	1997				1998				1999 [a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product [b] (change from same quarter of preceding year) [b]	4.6	8.4	7.5	6.6	0.0	7.5	5.2	2.6	1.8	3.1	4.3	5.2	7.9
Consumer prices (12-month variation, %)	24.6	20.4	18.7	15.7	15.3	15.3	15.9	18.6	18.2	17.4	15.8	12.3	10.1
Exports (millions of dollars)	25.1	27.4	28.2	29.7	28.2	29.9	28.6	30.8	30.1	33.7	35.3	37.6	38.0
Imports (millions of dollars)	23.5	26.8	28.5	31.0	30.0	31.0	30.8	33.4	31.2	34.6	36.3	40.0	39.3
International reserves (millions of dollars)	...	23.8	27.0	28.8	29.4	29.8	28.5	29.7	30.1	30.2	30.9	30.7	34.0
Real effective exchange rate [c] (index: 1995=100)	80.1	78.3	75.2	75.3	74.6	74.6	79.1	81.1	75.7	70.2	68.7	68.4	66.3
Money (M1) (change from same quarter of preceding year)	41.6	39.3	34.4	29.4	22.1	19.5	15.1	16.2	14.8	15.1	22.6	28.5	24.5
Real interest rates (annualized, %)													
Deposit rate [d]	-6.3	-5.2	-5.2	-3.6	-2.2	-2.6	-1.1	-1.2	-4.4	-7.8	-6.9	-5.1	-3.5
Lending rate	1.3	3.4	3.2	4.7	6.1	6.0	13.8	18.4	13.4	5.4	6.3	6.5	7.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on series that have not been seasonally adjusted, at constant domestic prices. [c] Refers to the exchange rate for imports. [d] 30-day deposits.

(a) Fiscal policy and public finance

Fiscal and monetary policy were both focused on the central target of driving down inflation. Expenditure was kept at a moderate level in order to limit borrowing requirements, and the authorities took steps to boost tax revenues. The higher-than-expected rise in oil prices had a considerable affect on fiscal accounts and helped to meet the public-deficit target (1.1% of GDP) even though it was partially offset by the drop in the volume of exports and the appreciation of the peso, while the primary surplus of the public sector amounted to 2.5% of GDP.

The steps taken to strengthen tax collections raised both fiscal revenue and the income of public agencies and enterprises (by 10% and 2.3% in real terms, respectively), while non-tax income decreased by 7.6%. Oil revenues, which accounted for 31% of total budgeted income, increased by 5.2% over the year, as the effects of the upswing in oil prices began to be felt from the second semester on. Tax receipts represented 11.2% of GDP, up from 10.5% in 1998.

Overall expenditure trended upward (4.2%). Since primary expenditure rose only slightly, this increase was attributable to the 26.4% rise in the financial cost of debt servicing, which climbed to 16.3% of budgetary expenditure, compared to 13% in 1998. This greater cost was due to high interest rates and transfers of resources to the Bank Savings Protection Institute (IPAB). Overall, 85% of financial expenses corresponded to payments of public-debt interest and commissions and the remainder was accounted for by debtor support programmes and the financial restructuring of the banking sector. An

operational breakdown shows that 62% of expenditure was allocated to social development.[1]

The objective of fiscal policy in 2000 was, once again, to meet the public-deficit target of 1.1% of GDP. The high level of oil prices[2] gave public finances some manoeuvring room at a time when the non-recurrent income from privatizations (airports, the petrochemical industry) turned out to be lower than originally expected.

(b) Monetary and financial policies

As during the previous year, the authorities continued to implement a tight monetary policy in 1999. The monetary programme of Banco de México (the central bank) was aimed at maintaining net foreign assets at their 1998 level or above and established quarterly limits on the variation in the monetary base. By equating the monetary base with the sum of net international assets and net domestic credit, a ceiling was automatically set on the Banco de México's net domestic credit. The increase in liquidity, however, was greater than expected for the year overall, since the pace of economic activity outstripped the estimates used in designing the monetary programme. Broad money expanded by 14.3% in real terms, which was also partly due to the effects of public wariness surrounding the Y2K phenomenon.

At the beginning of the year, the continuing volatility of the international financial situation, exacerbated by the devaluation of the Brazilian real, led the authorities to tighten up monetary policy. Consequently, in mid-January the interest rate on 28-day treasury certificates (Cetes) rose to 33%. From April onward, these rates stabilized around 20%, then dipped to 18% in October, in keeping with the decrease in inflation and expectations of its continued decline. Even so, real rates remained high, at an average of around 10% per annum.

The circulation of government paper increased considerably, although holdings by foreign investors fell to less than 4% of the total on the government bond market (as against 6.5% at end-1998).

Financial saving (M4, less notes and coins) expanded by 6.1% in real terms, thanks to a considerable increase in saving by residents (7.2%), since saving by non-residents slid by 19.1%. The most active branches were holdings of government securities by residents, pension funds and deposits in development banks.

Commercial bank deposits declined by 4.5% in real terms and credit to the non-financial private sector retreated by a real rate of 9%. Non-bank financing mechanisms continued to operate, such as suppliers' credit and the build-up of arrears. Thus, most of the production apparatus continued to lack access to credit. In contrast, a core group of dynamic enterprises (mainly exporters) received financing from overseas commercial banks, official banks created to promote foreign trade (Eximbank), suppliers and -in the case of subsidiaries of transnational corporations- parent companies. Non-bank private-sector debt had risen to US$ 44,762,000,000 by the end of 1998 and to US$ 56 billion by December 1999. Amortization payments for the year 2000 amounted to US$ 18,593,000,000, of which 49.9% was owed to commercial banks, 43.2% to suppliers connected with external trade activity and the rest to the capital market.

Financial authorities established new rules regarding capitalization and the rating of loan portfolios as part of their continued drive to clean up the finances of the banking sector. In September 1999 the bank arrears index (non-performing loans as a percentage of the total credit portfolio) stood at 22.7%, up from 21.1% in December 1998; commercial and development banks recorded indexes of 32.5% and 3%, respectively (up from 30.6% and 2% in 1998), and this situation was a factor in the persistent sluggishness of financing.

IPAB began operations in September, and credit institutions began to exchange their holdings of promissory notes issued by the defunct deposit insurance fund, Fobaproa, for IPAB notes. At the end of 1999, the new Institute's liabilities stood at 722.5 billion pesos, the equivalent of 16% of that year's GDP. Real interest payments by IPAB amounted to 59.471 billion pesos in 2000. The Institute hopes to raise 20 billion pesos from the sale of portfolio assets and another 4.5 billion from bank contributions to the system. The remaining 35 billion will come from the Federation's budget.

Boosted by the country's macroeconomic performance and the booming United States stock market, the Index of Prices and Quotations (IPYC) on the Mexican Stock Exchange climbed by 80% in 1999, after having fallen by 25% in 1998. This represented a 60% gain in real terms or one of 87% in dollar terms, due to the

---

1 The term "social development" as used here refers to education, health care, social security, employment, social welfare and supplies, and regional and urban development. The other two sectors of expenditure, according to this operational breakdown, are production activities and government management.

2 The government's original forecast for 2000 was US$ 16 per barrel on average, but by mid-year analysts were placing the year's average price at US$ 20 per barrel.

appreciation of the peso. IPYC recorded a decline of 7% between December 1999 and the beginning of June 2000, however.

(c) Foreign-exchange policy and markets

The currency float enabled the exchange rate to react swiftly to the increase in international volatility in the second semester of 1998 and to the disturbances caused by the devaluation of the Brazilian real in January 1999. In fact, during the early weeks of the year, the nominal exchange rate moved sharply upward, although by the end of the first quarter it had returned to the level recorded at the end of August 1998, where –with the exception of occasional wide swings– it stayed for the rest of the year. As a result, the peso appreciated by 8.3% in real terms against the dollar over the year as a whole.

In 1999, the Banco de México raised US$ 2,225,000,000 (US$ 800 million more than in 1998) through the use of options; this mechanism has been in operation for three years and enables the Banco de México to build up its reserves within the framework of the currency float.

The ample supply of external resources -mainly FDI, equity investment, and public and private international debt issues- helped to strengthen the currency. The nominal exchange rate remained stable during the early months of 2000 thanks, in particular, to the continuity of capital flows (mainly of FDI), resulting in a steady real appreciation of the peso until the end of May. In June, however, the proximity of the July elections sparked an episode of volatility which increased the value of the dollar by 6%. In addition, foreign investors' government bond holdings decreased by US$ 100 million in April and by a further US$ 712 million in May. At the beginning of June 2000, total foreign investment in government paper stood at US$ 1,702,000,000.

(d) Reforms

In December 1998 Congress passed part of a financial reform bill submitted by the Executive. This legislation lifted restrictions on foreign investment in the financial system and authorized the creation of IPAB to take over the liabilities of Fobaproa and administer its assets. Congress also approved the inclusion of an item in the federal government budget, which must be re-authorized each year, to pay the interest on Fobaproa's debt. Decisions remained pending on: (i) the management of foreign-exchange policy by the Banco de México; (ii) changes in the legal status of the National Banking and Securities Commission (CNBV) and its role in regulating and supervising the financial system; and (iii) consolidation of Fobaproa's debt with the public debt of the federal government.

In April 2000 Congress passed legal provisions concerning bankruptcy and credit acquisition; these measures are expected to help reactivate bank financing by making the borrower-creditor relationship more transparent. Under the new Act of Mercantile Concourse (which replaces the bankruptcy code passed in 1942), the cost of bankruptcy proceedings will be reduced, since the process is shortened from six years to 12 months and debts can be redocumented in inflation-indexed investment units (UDIs) in order to protect the real value of credits. The new Omnibus Credit Guarantee Act allows borrowers to use the assets for which they are seeking the loan as collateral, as well as merchandise they produce and all sorts of immovable assets. It also creates a legal mechanism to ensure foreclosure on collateral in the event of default.

3. The main variables

(a) Economic activity

The pace of economic activity slowed as a consequence of the international financial turbulence that erupted in the second half of 1998, which was exacerbated by the Brazilian crisis of January 1999. Thanks to an upswing that began in the second quarter, however, GDP growth for the year came to 3.7%. The engines of growth were buoyant external demand and an upturn in wages that set the stage for a 4.3% increase in private consumption.

Private capital formation picked up gradually and by the end of the year turned in an increase of 5.8%, following two-digit growth rates for the previous three-year period. The growth rate of investment in machinery and equipment slowed from 16.8% to 7.1%,

with imported goods faring better than domestically produced ones, as investment in this latter category declined.

Agricultural output was up by 3.5% in 1999. Several states experienced heavy rainfall that caused flooding and crop losses, and the government allocated 1,194,000,000 pesos (US$ 125 million) to assist producers and help the production units that had sustained damage to implement investment and rehabilitation projects. The output of staple grains (maize, sorghum, beans, rice and wheat) and of the main oilseeds fell considerably in the 1998/1999 crop year, but the next harvest was expected to more than make up the shortfall.

The growth rate for the manufacturing sector fell from 7.3% in 1998 to 4.1% in 1999. The best performers were export-related segments (mainly metal products, machinery and equipment, whose output increased by almost 6%), as well as the *maquila* export industry, which expanded by 14.9%. With the exception of wood products and basic metal manufactures, however, growth was seen in all manufacturing activities. For example, the output of the automotive industry reached 1.54 million vehicles (5.3% more than in 1998); exports increased by 11.6% and accounted for 71% of total output. Domestic sales, which fell during the early part of the year, gradually picked up and posted an increase of 5.9% for the year overall.

At 4.5%, the construction sector's growth rate topped the preceding year's, thanks to the boost received from private building projects. In contrast, mining output retreated, largely because of low prices on international markets. Basic services turned in the highest growth rate, at 8.2%, as the consequence of a very buoyant performance by transport, storage and communications (especially telephone and mobile telephony services). The electricity, gas and water sector also turned in better results than the previous year. The rest of the services sector suffered from the effects of slack domestic demand, and the growth rates of its various components declined.

The economy sustained its strong performance in the early months of 2000: GDP increased by 7.8% in the first quarter, which was the highest rate in three years; there was also an upturn in credit to the private sector; a significant upswing in domestic demand (for example, local motor vehicle sales rose by 30% in the first five months of the year); and exports continued to perform vigorously. Taken together, these factors made for estimates of 5% GDP growth for the year as a whole.

(b) Prices, wages and employment

After the high rate of 1998 (18.6%), inflation clearly trended downward in 1999, easing to 12.3% measured from December to December, which was even better than the target figure of 13%. This trend was strongly influenced by the exchange rate. Prices rose during the first two months of the year as the peso depreciated in the wake of the Brazilian real's devaluation. From March onward, however, inflation stabilized at around 1% per month; this trend held steady even in September (0.97%), when prices normally rise because of adjustments for school fees at the beginning of the school year.[3]

The strong peso slowed the rise in the prices of tradable goods, which increased by 10.3% compared with 14.8% for non-tradable goods, while the moderate price increases of products such as fruit and vegetables offset higher increases in other products (tortillas and telephone rates). Mean annual inflation was 16.6% in 1999 and the producer price index (PPI) rose by 15.7%.

The minimum wage was raised by 14% in December 1998 and remained unaltered throughout 1999; in real terms, it therefore fell by 3.5% during the year. In contrast, the average wage in manufacturing rose by 1.1%, and readjustments obtained through contractual negotiations are also thought to have entailed a significant increase in real terms. The existing wage differentials reflect varying skill levels and illustrate the diverging trends existing between real wages in competitive sectors, such as manufacturing, and in less developed sectors, such as the majority of the informal sector.

The situation in the labour market was looking up. The number of workers permanently affiliated with the Mexican Social Security Institute (IMSS) reached almost 13 million in December, which was 6.1% more than in December 1998. The average rate of open unemployment came in at 2.5%, which was the lowest figure in 14 years, and it held to its downward path, reaching 2.2% in December. The most dynamic sector in terms of job creation was the *maquila* industry, where new jobs increased by 14%, bringing the total number of persons employed in the sector to an estimated 1.2 million in 1999. In contrast, employment in the manufacturing sector edged up by just 1%.

3 In fact, excluding this factor from the calculations, inflation for September would have been 0.59%, a similar figure to the four preceding monthly rates.

Underemployment levels also eased, although they were still high; for example, the partial employment ratio (the number of openly unemployed persons plus those employed for less than 35 hours per week as a percentage of the economically active population) stood at 19.1%, down from 21.8% in 1998.

(c) The external sector

The external sector turned in a favourable showing in 1999. Unlike other years, one of the most noteworthy features of its performance was the reduction in the deficit on the balance-of-payments current account, in combination with a moderate expansion of the economy and a strong increase in external trade. This was partly due to the expansion of non-oil exports, although oil exports also posted a considerable upturn. The capital account registered a substantial level of income for the third year running and was buoyed up by equity investment (US$ 3.8 billion compared with a negative flow the previous year), external debt issues (over US$ 7 billion against less than US$ 100 million in 1998) and the continued inflow of FDI, which topped US$ 11.5 billion.[4]

The current account deficit amounted to US$ 14 billion, or 2.9% of GDP (versus 3.7% in 1998), which means that FDI financed 83% of that negative balance. This result was largely due to the reduction in the total trade deficit (from US$ 8.5 billion to less than US$ 7 billion), since the income balance remained at a virtual standstill at around US$ 13.3 billion and the balance on the transfers account increased fractionally to a total of US$ 6.3 billion.

The slower rate of economic growth, the buoyancy of external demand and the upturn in oil prices were largely responsible for the trend in the merchandise trade deficit, which went from almost US$ 8 billion to less than US$ 5.4 billion. Total merchandise trade amounted to US$ 278 billion (of which 49% were exports), a sum close to 60% of GDP. Despite the reduction of 14% in export volume that had been agreed upon with other producers, the value of oil sales jumped by 39% following a 38% decrease in 1998. This upswing was a key factor in narrowing the trade gap since, unlike other exports with a high import content, an expansion of oil exports does not automatically entail increased imports. Even without taking oil into account, external merchandise sales grew apace (15.1%), and this was particularly true of manufactures (15.4%), which represented 90% of the total. The *maquila* industry accounted for 47% of the goods that were exported.

The expansion of imports slowed slightly in 1999, although –at 13.3%– it was still considerable. Capital goods turned in the best performance (18.5%), but intermediate goods maintained their preponderance (77%) as a result of the economy's strong links with the international market. Imports of manufactures (94% of the total) grew by 14.4%. The resulting trade deficit of over US$ 10 billion in this sector for 1999 was somewhat higher than the 1998 figure. This provides some idea of how dependent the domestic production apparatus is on imports, and this reliance is even more clearly illustrated by the figures on trade in non-*maquila* manufactured goods, where the deficit widened from US$ 5 billion in 1995 to over US$ 23 billion in 1999.

Negotiations on a free trade agreement between Mexico and the European Union were concluded late in the year. This agreement was to come into effect in July 2000 and is expected to provide a platform for the diversification of trade and investment, which are, for the time being, very closely linked to the United States. This country purchases 88% of Mexico's exports and is the source of 74% of its imports and two thirds of FDI. Mexico continues to be the United States' third-largest goods supplier, after Canada and Japan, with a market share of 10.7% (up from 10.4% in 1998). In the first semester of 2000 negotiations to establish a free trade agreement with the Central American northern triangle countries (El Salvador, Guatemala and Honduras) were also successfully concluded. The agreement was to be signed at the end of June and is slated to enter into force on 1 January 2001, following ratification by the respective Congresses.

At the close of the first quarter of 2000, the current account showed a deficit of US$ 4.203 billion (compared to US$ 4.43 billion at the same point in 1999), and inflows of FDI were projected to reach at least US$ 10 billion for the year as a whole. Exports and imports had matching growth rates (24%) during the first four months of 2000, and a trade gap of US$ 8.5 billion was likely for the year, while the current account deficit was set to come in at around US$ 17 billion (3.5% of GDP).

The balance of gross external public debt remained practically unaltered in 1999, at just over US$ 92 billion. Thus, the net external debt/GDP ratio, at 20%, was the lowest since 1993, and short-term debt represented less than 5% of total payments.

---

4 Of this sum, 38% corresponded to new investment, 25% to reinvestment of earnings, 24% to imports of machinery and equipment by the *maquila* industry and 13% to the increase in liabilities held by parent companies.

As part of its programme for restructuring the external debt, the government bought US$ 1.035 billion in Brady bonds on the market and financed the purchase by issuing US$ 825 billion in new debt. The consequent reduction in the external debt balance and recovery of collateral amounted to US$ 410 million. Government issues on international markets were close to US$ 6.2 billion, of which almost US$ 5.2 billion corresponded to the federal government and the rest to enterprises such as Petróleos Mexicanos and Nacional Financiera. In general, interest rates were lower than in 1998 and maturities were higher (8.5 years versus 7.7). Issues of federal government debt instruments reached over US$ 4 billion in the first semester of 2000.

Nicaragua

1. General trends

Nicaragua's rate of economic growth increased from 4.1% to 6.9% in 1999, despite the damage inflicted by Hurricane Mitch in late October 1998, and per capita income rose by 4.2%. With external demand weakening and lower international prices for the country's main export products, the expansion was driven by buoyant domestic demand, which in turn was fueled by an increase in investment and consumption in both the public and the private sectors. Significantly higher investment was largely attributable to increased public expenditure on reclamation and reconstruction work and social projects.

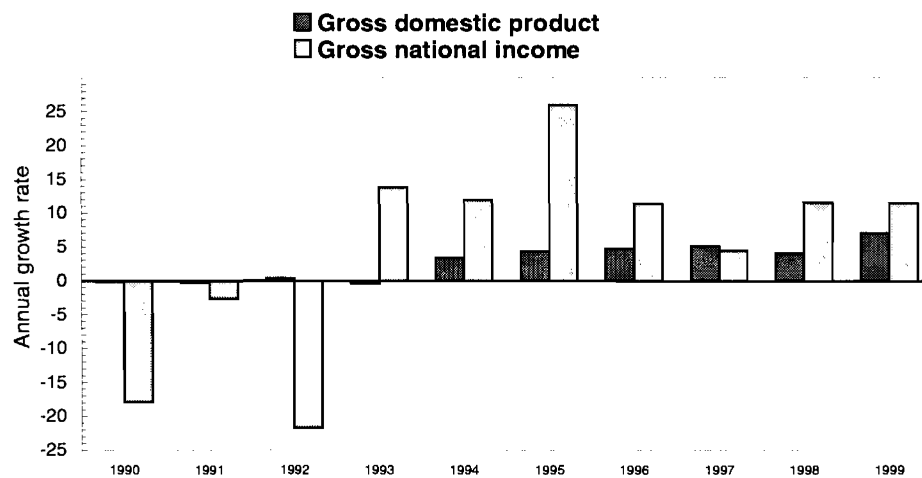
THE COUNTRY'S SOLID economic performance would not have been possible without the hefty inflow of external resources (about US$ 1 billion) that provided the means, to a great extent, to preserve macroeconomic stability and helped to finance the reconstruction programme and to cover Nicaragua's external debt commitments.

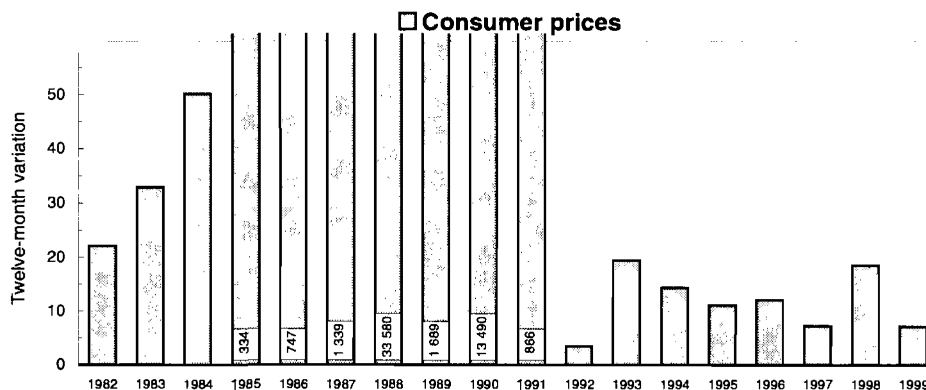
As a result of several factors -buoyant economic activity, the steps taken to limit the expansion of the fiscal deficit and a cautious credit policy- the annual inflation rate (7.2%) slowed down and the rate of open unemployment fell to 10.7%. In order to reduce inflation, the annual rate of devaluation for the nominal exchange rate which is used to determine the size of the pre-announced, daily mini-devaluations was cut from 12% to 9% in July and then to 6% in November. There was a considerable rise in real demand for money during the year. At the same time, deposits in the banking system continued to increase, and credit to the private sector expanded significantly. Family remittances and private capital flows rose sharply, which bolstered the process of remonetization and the increase in monetary aggregates, especially foreign-currency deposits.

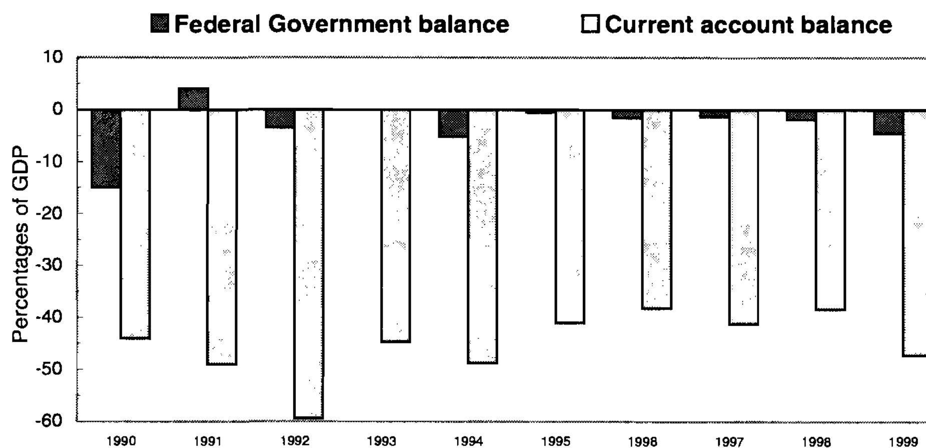
Domestic demand grew at a faster rate than GDP, and this generated a sizeable increase in imports, thus widening the trade gap and the current account deficit on the balance of payments. Even so, with the help of large grants and donations from abroad, together with foreign investment, financing from the International Monetary Fund (IMF) and an increase in arrears on current payments, the country managed to cover almost all of its unsustainably high current account deficit (47% of GDP) and to consolidate its net international reserves.

Although in recent years Nicaragua has made notable progress in managing its external debt, it is still the most heavily indebted country in Central America, and its debt service represents an intolerable burden for the country's fiscal accounts and balance of payments.

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS







Source: ECLAC, on the basis of official figures.

2. Economic policy and structural reform

Given the magnitude of the damage caused by Hurricane Mitch, economic policy was focused on the emergency reclamation and reconstruction programme. Fiscal and monetary measures were directed at curbing the expansion of domestic demand, fending off price increases and preventing any further debilitation of the country's external position.

The Consultative Group for the Reconstruction and Transformation of Central America, which met from 25 to 28 May 1999 in Stockholm, pledged US$ 2.5 billion in financial aid to Nicaragua over the next four years. This financial assistance is contingent upon government efforts to rebuild and transform the country and reduce existing levels of ecological and social vulnerability; emphasis has also been placed on transparency, governance and the participation of civil society.

The results of economic policy were generally in line with the targets and performance criteria agreed upon with IMF under the enhanced structural adjustment facility for 1998-2000. This enabled Nicaragua to qualify for the Highly Indebted Poor Countries (HIPC) debt relief initiative of IMF and the World Bank. Accordingly, the government is now required to meet a series of conditions, which include the design of a strategy to alleviate poverty and the adoption of measures aimed at improving governance and transparency in its financial transactions.

The country pushed ahead with its structural reform programme in 1999. In the public sector, 1,700 jobs were cut from the government payroll. In addition, the pension and health-care accounts of the Nicaraguan Social Security Institute (INSS) were separated in order to put the social security system on a sounder financial footing and introduce a private system of pension fund management.

Although there were some delays, the process of downsizing the public sector's participation in production and services activities continued. The oil distribution company Petróleos de Nicaragua (Petronic) was successfully transferred to an international company, and restructuring of the electricity company Empresa Nicaragüense de Electricidad (Enel) began, but the privatization of the State telephone company, Empresa Nicaragüense de Telecomunicaciones (Enitel), suffered a new setback. As for the reform of the financial system, 51% of the stock in the Banco Nicaragüense de Industria y Comercio (Banic) was sold; prudential standards and banking supervision were tightened; and the legal framework of the banking system was strengthened.

(a) Fiscal policy

As a result of the need to implement a broad-ranging public investment programme, the total public-sector deficit swelled from 5.9% of GDP in 1998 to 12.9% in 1999. The increase in expenditure was financed with external resources received in the form of grants (equivalent to 8.5% of GDP) and concessional loans.

Seeking to raise additional public funds, the Administration raised excise tax rates on goods produced by State-run industrial activities, hiked public utility rates and lifted price controls on petroleum products. At the same time, however, it lowered the top marginal income tax rate from 30% to 25%. As a percentage of GDP, the tax burden was reduced from 30.1% to 29.5% by the tariff reduction process. Due to a major increase in grants and donations, however, the total income of the non-financial public sector (NFPS) climbed from 39% of GDP in 1998 to 42.7% in 1999.

Total NFPS expenditure was 46.2% of GDP, compared to 39.6% in 1998. This increase was the result of higher capital expenditure, which came to represent just under half of total spending, since current expenditure decreased as a percentage of GDP, largely because of a sharp reduction in interest payments on domestic and external debt.

The NFPS saving rate was similar to the 1998 figure (8.4% of GDP), while primary saving as shown on the current account (11.6% of GDP) was two percentage points lower than the previous year. The increase in public-sector capital expenditure widened the overall NFPS deficit (before grants) from 4.2% of GDP in 1998 to 11.9% in 1999.

(b) Monetary policy

The main objectives of monetary policy in 1999 were to reduce the level of the central bank's net domestic assets, in line with the growth target for net international reserves, and to bring down inflation.

Table 1

NICARAGUA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	- 0.2	0.4	- 0.4	3.3	4.3	4.8	5.1	4.1	7.0
Per capita gross domestic product	- 2.9	- 2.5	- 3.3	0.3	1.3	1.9	2.3	1.3	4.2
Gross domestic product, by sector									
Goods	0.4	- 0.3	1.0	6.6	5.2	6.4	7.0	4.4	9.3
Basic services	3.1	2.0	- 2.0	0.9	5.4	5.2	5.6	4.1	4.2
Other services	- 1.5	0.9	- 1.8	- 0.3	2.9	2.5	2.3	3.6	4.2
Consumption	8.9	- 2.6	- 3.6	3.9	4.7	2.6	3.2	8.3	6.3
Government	- 34.1	- 10.9	- 3.3	- 2.7	- 0.4	6.4	- 0.4	0.1	9.6
Private	37.6	0.0	- 3.6	5.8	6.0	1.7	4.1	10.4	5.6
Gross domestic investment	15.7	- 1.0	- 14.9	30.5	19.0	6.7	18.0	13.5	39.8
Exports of goods and services	- 15.2	20.2	4.4	2.1	6.4	16.4	22.3	0.2	6.7
Imports of goods and services	19.8	4.3	- 10.5	13.9	13.0	9.0	19.8	12.9	19.8
	Percentages of GDP [c]								
Gross national income	73.2	56.9	64.9	69.9	84.3	89.3	88.5	94.8	98.8
Gross domestic investment	20.3	20.1	17.0	24.3	24.4	28.1	29.1	30.2	39.5
National savings	- 32.6	- 45.8	- 33.6	- 26.7	- 16.1	- 5.8	- 7.9	- 8.1	- 3.9
External savings	52.9	65.9	50.6	51.0	40.5	33.9	37.0	38.3	43.4
	Percentages								
Employment and wages									
Open unemployment rate	11.5	14.4	17.8	17.1	16.9	16.0	14.3	13.2	10.7
Real average wage (index: 1995=100)	84.5	100.5	93.3	98.2	100.0	97.9	97.7	104.9	109.4
	Growth rates								
Prices (December-December)									
Consumer prices	866	3.5	19.5	12.4	10.9	12.1	7.3	18.5	7.2
External sector									
Terms of trade (index: 1995=100) [c]	98.3	71.9	81.3	95.5	100.0	88.1	83.9	87.4	81.1
Nominal exchange rate [d]	4.27	5.00	5.62	6.72	7.53	8.44	9.45	10.59	11.80
Real effective exchange rate for imports (index: 1995=100) [e]	84.7	85.6	89.7	95.4	100.0	102.2	108.0	107.6	108.7
	Millions of dollars								
Balance of payments									
Current account	- 852	-1 095	- 879	- 893	- 774	- 755	- 834	- 817	-1 072
Trade balance (goods and services)	- 492	- 610	- 475	- 477	- 477	- 526	- 719	- 825	-1 172
Exports	350	309	356	476	590	664	848	830	839
Imports	843	919	831	953	1 067	1 190	1 566	1 656	2 011
Capital and financial accounts [f]	360	- 13	- 95	- 269	97	295	907	588	981
Overall balance	- 492	-1 108	- 975	-1 162	- 677	- 460	73	- 230	- 91
Variation in reserve assets (- indicates an increase)	- 38	- 11	91	- 85	12	- 53	- 173	31	- 156
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	593.1	585.4	609.5	638.4	543.1	308.9	296.6	296.0	286.4
Net interest (as a percentage of exports) [g]	103.6	156.1	117.8	95.7	58.2	42.1	24.9	16.1	16.3

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Central Government									
Current revenue	19.3	20.3	19.6	20.3	21.5	21.7	24.2	26.2	25.1
Current expenditure	23.5	22.1	20.6	21.5	19.2	19.7	19.9	21.2	19.7
Current saving	-4.2	-1.7	-1.0	-1.2	2.4	2.0	4.4	5.0	5.4
Capital expenditure (net)	3.3	5.9	6.3	8.8	11.2	10.4	9.9	9.8	17.1
Financial balance	4.1	-3.4	0.0	-5.2	-0.5	-1.5	-1.3	-1.8	- 4.5
Domestic financing	-4.6	-6.1	0.0	-1.2	0.7	-3.6	-0.1	-5.6	- 5.1
External financing	0.5	9.4	0.0	6.4	-0.2	5.1	1.4	7.5	9.7
			Growth rates						
Money and credit									
Monetary balances									
Net international reserves	449.2	4.1	- 51.6	132.7	- 10.1	185.6	137.0	- 4.5	7.3
Net domestic credit	2 518.7	56.5	80.3	54.7	51.4	24.9	25.4	50.5	26.4
To public sector	295.5	794.4	7.9	5.0	- 6.1	- 17.9	18.2	7.3	7.2
To private sector	1 659.4	21.8	49.8	33.7	26.6	- 8.2	39.8	45.3	39.9
Money (M1)	850.8	16.4	- 4.4	36.9	16.3	26.8	30.7	18.1	18.7
Local-currency savings and time deposits	808.0	39.9	48.7	99.4	24.7	29.9	75.7	17.8	30.0
M2	841.8	21.1	7.9	56.9	19.7	28.1	50.1	18.0	24.4
Dollar deposits	770.5	55.3	70.8	77.6	59.8	61.3	57.2	35.3	18.7
			Annual rates						
Real interest rates (annualized, %) [h i]									
Deposit rate (savings accounts)	...	...	- 7.2	3.8	0.0	0.0	2.0	- 1.9	- 0.9
Lending rate (short-term)	...	...	0.0	11.6	7.9	7.5	9.7	7.8	9.8
Equivalent interest rate in foreign currency [j]	...	...	22.6	10.4	9.8	10.9	11.2	10.6	10.1

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on córdobas at constant 1980 prices. [c] Based on constant 1995 dollars. [d] From 1991 on, gold córdobas per dollar, official exchange rate. [e] Official exchange rate. [f] Includes errors and omissions. [g] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [h] Does not include the effects of the maintenance-of-dollar-value provision, which affects bank deposit-taking and issue of instruments. [i] These figures represent a simple average of the floor and ceiling rates in the State and private banking systems. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

Monetary policy measures tended to promote the expansion of the monetary base (66.7%), since they included the reduction of the legal reserve requirement from 17% to 16.25% (in response to a stronger demand for credit) and the net redemption of central bank debt instruments. Another factor leading to monetary expansion was the central bank's quasi-fiscal losses, which were due to the financial cost of its negotiable investment certificates (Cenis). The pressure on the monetary base was counteracted by the transfer of NFPS resources to the central bank, and the latter's net domestic assets consequently shrank. Together with the more robust demand for money, this helped build up international reserves.

Total liquidity grew by 20.7%, thus continuing the economy's sustained process of remonetization. The high percentage of dollarization evidenced in monetary aggregates has made it possible to prevent this expansion from having an inflationary impact. At the end of 1999, the balance on dollar deposits accounted for 65% of the total money supply.

Bank credit to the private sector increased by 39.9%, with commerce receiving 42.1% of the total, agriculture 24.9% and manufacturing 12.6%. Nominal interest rates did not vary significantly in 1999 but, because of the lower rate of inflation, they rose in real terms and increased interest-rate spreads, so financial costs became even higher.

(c) Foreign-exchange policy

With a view to reducing inflation, the annual rate of devaluation for the nominal exchange rate (12%), which is used to set the pre-announced daily mini-devaluations, was cut to 9% in July and to 6% in November. Since prices are increasingly being indexed to the nominal exchange rate, it was hoped that this slower rate of devaluation would lead to a reduction in inflation.

Table 2

NICARAGUA: MAIN QUARTERLY INDICATORS

	1997				1998 [a]				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	9.2	9.5	9.3	7.3	10.9	14.1	12.5	18.5	12.0	8.2	13.6	7.2	14.6
International reserves (millions of dollars)	...	319	242	378	378	364	359	350	414	514	488	510	47.1
Real effective exchange rate [b] (index: 1995=100)	106.0	108.1	108.6	109.3	108.9	106.5	108.7	106.2	107.4	109.7	109.3	108.6	108.1
Real interest rates (annualized, %)													
Deposit rate	0.6	2.2	1.2	3.9	1.6	- 2.3	- 1.3	- 5.6	- 3.9	1.0	- 1.5	1.0	- 1.8
Lending rate	8.3	9.8	8.8	12.1	11.4	7.0	8.9	4.1	6.8	12.0	8.6	11.7	8.3

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports

At the end of December, the year-on-year devaluation of the nominal exchange rate was 10.3%, while the real effective exchange rate against the United States dollar reflected a real depreciation of 2.5%.

(c) Structural reform

In line with the country's policy of opening its economy up to international markets, Nicaragua signed a free trade agreement that had been negotiated between the Central American countries and Chile in October; the ratification of this treaty was pending. This agreement was to be added to the free trade treaty between Nicaragua and Mexico that has been in place since July 1998. Together with the other Central American countries, Nicaragua also signed a free trade agreement with the Dominican Republic, which was due to enter into force in 1999 but was postponed because the two parties had not yet completed their ratification formalities.

The Tourism Industry Incentives Act was passed in 1999. Under the provisions of this law, which rates tourism as an activity that redounds to the national interest, attractive tax incentives are offered to Nicaraguan or foreign natural or legal persons who contribute to the development of the sector.

3. The main variables

(a) Economic activity

The Nicaraguan economy enjoyed a strong upturn in 1999, despite the damage inflicted by Hurricane Mitch at the end of October 1998, the weakening prices of Nicaragua's main export products and the hefty increase seen in oil prices. In fact, at 6.9%, the rate of economic growth was the highest of the 1990s. This result was largely due to the significant expansion in public and private domestic demand (13%) seen in the categories of both investment (39.8%) and consumption (6.3%).

The factors that buoyed economic growth included the public expenditure on reconstruction and social development projects, higher foreign direct investment (FDI), credit growth, a decrease in unemployment, higher nominal wages and increased family remittances from Nicaraguans living abroad, which, given the lower domestic inflation rate and the slower rate of devaluation, helped to raise domestic purchasing power. Tourism generated US$ 125 million in 1999 and thus became the country's second largest source of foreign exchange.

Secondary activities turned in the most buoyant performance, growing 14% and accounting for 54% of the increase in GDP. This was mainly a reflection of a boom in construction (53.4%) and the higher output of the mining sector (28.9%), which, even so, grew at a slower rate than the previous year. Manufacturing output increased by only 3.3% and largely reflected the increase in the production of beverages, chemicals, paper and paper products, and some oil and non-metal mineral products (especially cement). Several companies, mostly small and medium-sized enterprises, were obliged to cut back on production or shut down altogether, which caused a loss of added value in some major branches of the sector, such as foodstuffs, cigarettes, detergents, soaps, packaging, textiles and leather products. The main culprits in this respect were the high cost of bank financing, the heavy tax burden, higher fuel prices and public utility rates, and the reduction in the tariff ceiling on finished goods.

The output of the mining sector continued to expand rapidly (28.9%) thanks to the production of non-metal minerals, which was boosted by a stronger demand for construction materials. This largely offset the effects of the decision to scale back gold and silver mining operations in response to falling international prices.

Despite the low international prices of most agricultural products and the production problems caused by Hurricane Mitch, the growth rate of the primary sector (4.8%) was 1.3 percentage points above the previous year's figure. This result was due almost entirely to the increase in output of crop-farming activities (7.8%), however, since the livestock sector showed almost no growth and the value added of the fishery sector fell by 7.6%.

With the exception of coffee, which reaped the benefits of a plantation renewal programme implemented in the early 1990s, output of export products declined significantly in the 1998/1999 crop year. In contrast, the output of staple grains enjoyed rapid growth. Expectations for the 1999/2000 season were for a record coffee harvest (1.7 million quintals) and an increase in the production of peanuts, sesame and sugar cane. Slower growth was forecast for the production of staple grains, however, owing to the losses caused by the late start of the rainy season and the damage done by plant diseases and rodents.

The destruction caused by Hurricane Mitch and the continuing lack of financial resources to help overcome technological limitations were important factors in the stagnation of the livestock sector. Increased exports of meat on the hoof and higher milk and poultry production offset only a small part of the considerable downswing in cattle slaughtering and the resulting decrease in meat production.

The decline in the value added by fishery activities was mainly attributable to the damage done by Hurricane Mitch, which destroyed production infrastructure and the habitat of some marine species, thus resulting in a smaller catch and poorer harvests of farmed shrimp.

Services activity expanded by 4.2% and generated 43.5% of GDP. Commerce alone, which grew by 6.3%, contributed 16.1% to the overall growth of the economy. Significant upturns in value added were also recorded in transport and communications, financial services and housing.

(b) Prices, wages and employment

The average rate of inflation amounted to 11.2%, which was 13% less than the 1998 figure. The year-on-year inflation rate, at 7.2%, was below the target of 10% established at the beginning of the year and was significantly lower than cumulative inflation in 1998 (18.5%). The moderation of price increases is attributable, to a great extent, to a slower rate of devaluation, the steps taken to regulate primary liquidity, ongoing tariff reductions, and the solid performance of those agricultural goods that are included in the basket of staple goods.

Prices of foodstuffs and beverages decreased, which partly offset the rises recorded in other sectors as a result of increases in the prices of fuels and construction materials, as well as public utility rate hikes.

The buoyancy of the economy and the slowdown in inflation were influential in the growth of the real average wage nationwide (4.3%). Minimum wages, which had been unchanged since November 1997, were reviewed and updated in August by the National Minimum Wage Commission, whose decisions also applied, for the first time ever, to the Las Mercedes export processing zone.

Labour trends remained positive. The high rate of economic growth brought unemployment down from 13.2% in 1998 to 10.7% in 1999. The rate of underemployment (12.3%), however, measured as equivalent open unemployment, climbed by almost one full percentage point. Job creation was boosted mainly by the construction sector (39.4%).

(c) The external sector

Once again, the merchandise trade deficit increased significantly (40.6%), as exports fell by 5.1 while imports continued to grow strongly, at 21.6%. As a

percentage of GDP, the trade gap increased from 38.1% to 50.2%. This resulted in a higher deficit on current account, which reached US$ 1.072 billion and was equivalent to 47% of GDP, despite the increase in unrequited private transfers from abroad (which rose from US$ 200 million to US$ 300 million) and the fact that the deficit on the services and income accounts remained virtually constant.

The considerable growth registered on the capital and financial accounts, including the higher level of financing obtained under the IMF structural adjustment programme and the increase in arrears on current payments, covered almost all of the sizeable deficit on current account. At the same time, net international reserves firmed up substantially.

Merchandise exports f.o.b. totalled US$ 543.8 million, compared to US$ 573.2 million in 1998. The decrease was due to a steep reduction in traditional exports (9%), which included downturns in the value of sales of coffee (22%), sugar (7.6%), bananas (30.4%), shrimp (10%) and gold (6.2%). The causes of this poor performance were the after-effects of Hurricane Mitch and shrinking world demand, which drove down international prices.

Imports of goods c.i.f. rose to US$ 1,845,700,000, which was 23.7% higher than the year before. The reconstruction agenda was largely responsible for this increase, along with continuing tariff reductions, low international prices, higher investment and sustained levels of consumption. The most notable increases were recorded in the areas of capital and intermediate goods, which constitute the basis of the economic reactivation. Average oil prices were over US$ 25 per barrel, which was around 45% higher than in 1998.

The tariff rollback programme went ahead according to the schedule set out in 1997, with a ceiling of 10%, a floor rate of 0% and an effective average tariff of 7%. In addition, Nicaragua adopted the safeguard clause included in the Central American tariff and customs regime, which is intended to facilitate further progress in the regional economic integration process. Protective measures were taken with regard to some products, such as rice, yellow maize, sorghum, carbonated beverages and beer, as part of a tax scheme designed to match the effect of the incentives granted in the other countries in the area.

As the result of a border dispute, the National Assembly passed a law under which a 35% duty was levied on goods and services imported from Honduras and Colombia.

The public external debt stood at US$ 6,498,900,000 at the end of 1999, which was an increase of US$ 211.8 million over the balance recorded in 1998. Of that total, bilateral creditors accounted for 62.6%, multilateral agencies for 33.3% and commercial banks for 3.7%. The remaining 0.4% was owed to suppliers. External debt service payments falling due amounted to US$ 262.4 million, of which US$ 168.2 million was actually paid (US$ 94.1 million in amortization and US$ 74.1 million in interest payments). In 1999, US$ 44 million less was paid than in 1998 as a result of the deferment of US$ 46.1 million granted by the Paris Club and Spanish commercial banks, together with the forgiveness of US$ 94.6 million in debt owed to various bilateral creditors. To cover its external borrowing requirements, the government adopted a policy directed at obtaining loans on very soft terms, with maturities of up to 40 years, 10-year grace periods and a maximum annual rate of 3%.

Panama

1. General trends

The pace of growth in the Panamanian economy slowed to 3.2% in 1999, following rates of over 4% in the two preceding years. Growth figures were undermined for the second year running by a downturn in external demand, especially from the rest of Latin America, which led to a steep drop in the level of re-exports from the Colon Free Zone. The formerly vigorous expansion of domestic demand slowed somewhat, partly as a result of the elections and change in Administration, which led to restrictions on public spending and generated a brief period of uncertainty. The economy maintained its traditional low level of inflation and the fiscal deficit was reduced, but a large deficit persisted on the current account of the balance of payments. An event of great significance for the country's modernization drive occurred in December when the United States completed the process of handing over the assets and facilities of the Panama Canal to the Panamanian Government.

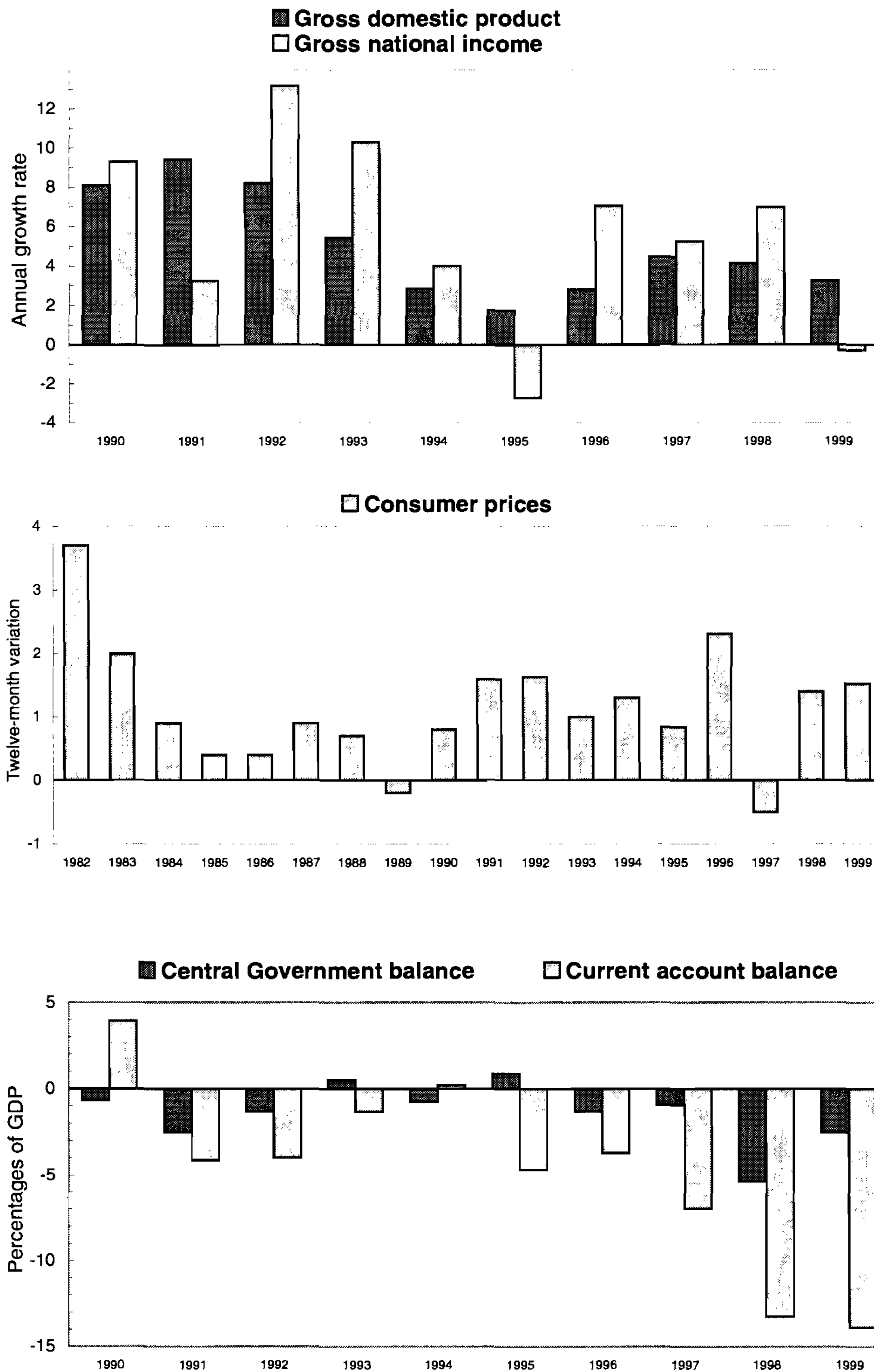
RE-EXPORTS from the Colón Free Zone, one of the highest value-added activities in the Panamanian economy, fell sharply in the wake of reduced purchases by three of its main customers (Columbia, Ecuador and Venezuela) which were going through economic difficulties. This also weakened the external operations of the international banking centre, although an increase in domestic banking activity was able to take up the slack. Among other international services, those provided by the Panama Canal grew very little, while the operations of the container transshipment system the largest in Latin America continued to expand steadily.

Capital formation, which had increased considerably in 1998 (15.8%), slowed somewhat in 1999 as major private- and public-sector investment projects in such areas as the highway network, communications and social infrastructure came to an end. Private-sector consumption was sustained by inertial job creation and by higher real incomes and personal consumer credit, but it also grew much more slowly than in previous years.

Apart from the fisheries subsector, agricultural output expanded significantly, partly because banana production recovered from its steep drop in 1998 and partly because of a recovery in basic grain output, especially rice. In contrast, fisheries activity dropped off sharply as a result of a smaller fish catch and a reduced shrimp harvest, the latter the result of a viral disease. Hydroelectric power generation was up sharply following the previous year's drought, and modern telecommunications services also continued to expand. Growth in the construction industry doubled its pace thanks to highway and infrastructure work, with several projects reaching conclusion during the year. In addition, progress was made in a number of private-sector building projects having to do with the port system, as well as in hotel and commercial construction.

The completion of the handover of the Panama Canal by the United States authorities to the Panamanian Government had far-reaching consequences for the country's economy, as income from services provided to military contingents and their families stationed in the

Figure 1
PANAMA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

Canal Zone dried up. On the other hand, a variety of local and foreign investment projects aimed at the productive development of Canal Zone facilities and areas point to a strengthening of the country's role as a provider of modern international services.

For the year 2000, gross domestic product (GDP) was expected to grow by between 3.6% and 4.1%, on the back of ongoing private-sector investments and a revival of demand among the Latin American economies. The new government's economic programme calls for a continuation of the effort to eliminate the fiscal deficit, pare down the external debt and press ahead with the selective privatization process.

2. Economic policy and structural reform

In a year marked by elections and a change of government, economic policy concentrated on reducing the deficit of the non-financial public sector (NFPS), which had expanded to 3% of GDP in 1998 as a result of higher investment spending. This led to a suspension of disbursements under the Enhanced Structural Adjustment Facility (ESAF) arrangement agreed upon with the International Monetary Fund (IMF) in late 1997. The strategy for restructuring the external debt was maintained, and a selective, temporary tariff increase was levied on imports of sensitive agricultural products. In early 2000, the new Administration made public the basic guidelines it would use in determining its future economic policy priorities.

(a) Fiscal policy

The NFPS deficit narrowed from 3% to 1.2% of GDP in 1999, while the central government's deficit decreased from 5.4% to 2.5%. The slowdown in public spending was more pronounced in the final quarter, which facilitated progress towards the goal of reducing the public sector's financial imbalance. Other contributing factors included higher tax revenues and receipts from the Social Security Fund and a robust performance on the part of decentralized bodies.

Tax receipts swelled by 9.7%, thanks to administrative efforts to improve compliance. Income tax revenues increased by 27.5%, particularly in the "juridical income" category, which reflected the tax payments made by recently privatized electrical power and telecom companies. Current income was boosted by additional contributions from the Panama Canal Authority and by interest earnings from the Development Trust Fund, which was set up with the proceeds from the privatization of State-owned enterprises in earlier years.

Despite higher interest payments on the external debt (17.3%), total current outlays were lower than in 1998 as a result of the reduction of government operating expenses and the lower level of transfers from the central government to the Social Security Fund. Capital expenditure was also lowered (-5.7%) in line with plans set out at the start of the year, after it had climbed to 6.2% of GDP in 1998.

The central government deficit was partly financed with external resources, including a US$ 500 million bond issue on capital markets, and partly through the issues of government securities on the local market.

The positive balance maintained by the public sector at the National Bank of Panama increased during the year. The Development Trust Fund grew to a total of US$ 1,317,700,000 as a result of the divestment of assets recovered in the Canal Zone and the sale of a 50% stake in the national electric power company. These resources are held as time deposits and bonds in local and foreign banks and yield 5.25% per year.

The total gross public debt amounted to US$ 7.543 billion as of 31 December (equivalent to 78.5% of GDP), of which US$ 5.412 billion, or 56.3% of GDP, corresponded to external debt and US$ 2.131 billion (22.2% of GDP) to domestic payment obligations. External liabilities amounted to 4.5% more than they had in 1998 due to borrowing and the issuance of US$ 500 million in global bonds.

(b) Credit policy and the international banking centre

The economic difficulties being faced by the South American countries had a significant negative impact on the operations of Panama's international banking centre. Nonetheless, this was more than offset by a substantial

Table 1

PANAMA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	9.4	8.2	5.5	2.9	1.8	2.8	4.5	4.1	3.2
Per capita gross domestic product	7.3	6.2	3.5	1.0	0.0	1.1	2.7	2.4	1.6
Gross domestic product, by sector									
Goods	13.0	10.5	8.8	3.3	2.0	- 1.0	4.3	5.4	0.3
Basic services	0.3	1.2	1.6	4.9	7.4	6.3	4.3	5.5	13.2
Other services	7.6	10.7	4.3	4.4	0.1	3.6	5.0	4.2	2.7
Consumption	17.1	3.3	3.8	- 1.8	- 2.8	8.2	12.6	12.7	3.9
Government	8.7	- 8.0	2.8	- 0.4	4.6	3.4	7.0	4.5	1.4
Private	19.7	6.4	4.1	- 2.2	- 4.7	9.5	14.0	14.7	4.4
Gross domestic investment	10.5	38.6	13.8	14.3	10.8	6.1	1.1	11.9	2.9
Exports of goods and services	39.4	- 8.4	- 10.4	- 3.4	9.8	- 9.3	12.7	- 4.5	- 10.5
Imports of goods and services	47.2	- 6.5	- 9.1	- 3.4	9.0	- 3.8	17.2	5.9	- 7.2
	Percentages of GDP [c]								
Gross national income	92.3	96.5	101.1	102.0	97.3	101.4	102.0	104.5	100.7
Gross domestic investment	18.1	23.2	25.1	27.8	30.3	31.3	30.2	32.3	32.2
National savings	18.4	24.2	28.6	31.5	30.5	30.2	25.5	20.5	15.5
External savings	- 0.3	- 1.0	- 3.5	- 3.6	- 0.2	1.1	4.7	11.8	16.7
	Percentages								
Employment and wages									
Labour force participation rate [d]	57.5	60.2	60.4	60.7	61.7	60.6	61.5	62.2	62.8
Open unemployment rate [e]	16.0	14.7	13.3	14.0	14.0	14.3	13.2	12.7	11.9
Real minimum wage (index: 1995=100)	92.7	91.3	102.0	100.6	100.0	104.3	103.1	105.9	109.5
	Growth rates								
Prices (December-December)									
Consumer prices	1.6	1.6	0.9	1.4	0.8	2.3	- 0.5	1.4	1.5
External sector									
Terms of trade (index: 1995=100) [c]	82.2	104.0	106.8	110.1	100.0	101.3	103.4	103.3	105.9
	Millions of dollars								
Balance of payments									
Current account	- 241	- 264	- 96	16	- 369	- 302	- 604	-1 212	-1 333
Trade balance (goods and services)	- 31	- 67	- 13	89	- 157	- 120	- 343	- 846	- 813
Exports	5 408	6 330	6 714	7 449	7 610	7 382	8 304	8 023	6 888
Imports	5 439	6 397	6 728	7 359	7 768	7 501	8 646	8 869	7 700
Capital and financial accounts [f]	- 87	80	- 213	- 378	32	566	945	749	1 185
Overall balance	- 328	- 184	- 308	- 362	- 337	264	341	- 463	- 148
Variation in reserve assets (- indicates and increase)	- 148	116	- 93	- 106	- 75	- 297	- 610	103	- 185
	Percentages								
External debt									
Gross debt (as a percentage of GDP) [g]	63.3	53.4	48.2	47.4	49.8	62.2	58.3	56.6	56.3
Net interest (as a percentage of exports) [h]	5.9	3.5	3.9	2.3	3.6	0.4	-1.4	-1.9	-2.2

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Central Government									
Current revenue	18.5	18.3	18.7	17.7	18.6	18.6	18.2	18.2	19.9
Current expenditure	15.9	18.0	16.1	16.3	16.1	17.6	17.4	19.7	18.3
Saving	2.5	0.4	2.5	1.4	2.5	1.0	0.8	-1.5	1.6
Capital expenditure	5.1	1.7	2.1	2.1	1.8	2.4	2.4	4.7	4.2
Financial balance	-2.5	-1.3	0.5	-0.7	0.9	-1.3	-0.9	-5.4	-2.5
Domestic financing	0.1	1.6	-0.1	0.7	-0.9	1.3	0.9	5.4	2.5
External financing	2.4	-0.3	-0.4	0.1	0.5	-0.2	-1.8	...	...

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on balboas at constant 1982 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population. [e] Percentages of the economically active population. [f] Includes errors and omissions. [g] Refers to external debt contracted by the public sector; no adjustment has been made for currency fluctuations. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services.

increase in domestic operations, and the total assets of the financial centre rose slightly.

Deposits received from abroad declined (-4%), as did external lending by the financial centre (-16.5%). In contrast, both deposits and lending in the domestic market climbed (by 7% and 13.6%, respectively). Personal consumer credit expanded by 36% during the year, following a 40% increase in 1998. There was also considerable growth in mortgage financing (14.5%), while lending to the commercial sector increased by 8.4%.

Higher international interest rates appear to have had no effect on the Panamanian market, given the relative abundance of loanable funds. The interest rate on three-month deposits, for example, edged down to 6.52%; rates on short-term lending to the commercial sector held steady (9.93%), while interest rates on loans to industry decreased slightly and those applying to personal loans registered a marginal increase.

The new Administration extended the preferential mortgage lending policy for a further five years in a step aimed at encouraging the construction of middle- and low-income housing. The abundant supply of loanable funds generated active competition among commercial banks that were vying to channel funds into this sector. The mortgage interest rate, at an average of 9.75%, was slightly lower than the year before.

The financial system continued its gradual process of bringing bank capital into line with the capital adequacy standards established in the Basle Accord, while the application of new bank liquidity standards and rules on related-party lending were the subject of ongoing debate. Issues relating to exposure and interest rates in the Panamanian market are also currently under study.

(c) Trade policy

Upon assuming office, the new Administration temporarily raised import tariffs on certain agricultural classified as "sensitive products". The tariff hikes, which came into effect at the beginning of 2000 and were within the limits permitted by the World Trade Organization (WTO), were intended to help local producers prepare themselves to face foreign competition. The tariff lines covered by this measure include products such as ham, salt, cabbage, carrots, celery, oils and margarine.

Despite some progress, negotiations with Mexico and Chile encountered serious obstacles and eventually came to a standstill, whereas negotiations for a trade agreement with the Central American countries and the Free Trade Area of the Americas (FTAA) moved ahead.

(d) Structural reforms

The new Administration ruled out the privatization of the State water works and sewerage company, so the only pending project was the Tocumen international airport concession. Debate continued on the possible sale of the 49% stake that the State had retained in the telecommunications company Cable & Wireless, along with the equity it still holds in electrical power generation and distribution activities. Apart from this, the program to divest Panama Canal assets moved ahead during the year under the supervision of the Interoceanic Region Authority.

3. The main variables

The economy's performance in 1999 was energized by continued buoyancy in domestic demand, although growth rates were down somewhat from the levels seen during the boom of the previous two years. Exports of international services lost momentum due to sluggish demand from the South American economies. The growth of consumption was fueled by factors such as increased employment and higher real wages; severance payments for staff employed in the military bases; and personal consumer credit growth, although the latter showed signs of moderating. In the area of investment expenditure, major public- and private-sector investment projects, many of which involved the construction of infrastructure works, were completed, while other port and commercial development projects proceeded.

(a) Economic activity

The pace of growth in the services sector, which accounts for nearly 60% of total GDP, slackened in 1999, partly because of a considerable slowdown in activity in the Colón Free Zone (-14.5%). As mentioned earlier, the financial difficulties being faced by Panama's main Latin American customers (Columbia, Ecuador and Venezuela), led to weaker demand in the Zone, and this undermined both imports and re-exports and hurt commercial activities, which shrank by about 3.4%.

Transport and communications, on the other hand, grew by a substantial 10.8% during the year, for although Panama Canal operations —which are among the most important in this sector— grew relatively moderately (1%), the new national port system continued to expand its consolidation, transshipment and merchandise redistribution services. The total volume of cargo handled amounted to 19.3 million tons, representing a 45% increase over the previous year's figure.

Rapid growth continued in the communications sector, thanks to the spread of mobile telephony and ancillary activities. Driven by bank lending operations in the domestic market, financial intermediation services also rose sharply (10.4%). Growth in tourism-related activities was more modest, however, owing to the poor performance of the Colón Free Zone.

The GDP of the goods-producing sector was virtually flat. Fisheries output fell by 29.3% as a result of a smaller fish catch and lower production in shrimp farms (-46.5%) due an outbreak of white spot syndrome (WSS). Manufacturing output slipped by 4.6% as a result of the problems faced in the food, garment and chemical sectors; increases in other activities, such as oil refining and the manufacture of construction materials, were unable to reverse this downward trend.

In contrast, the agricultural sector (excluding fisheries) managed to post a substantial upturn (6.9%) thanks to a 28.8% recovery in the production and export of bananas (the country's main agricultural product), which had been undermined by a long strike and adverse weather conditions in 1998. Cereal crops also performed better, with increases of 9% in rice output, 4.2% in sorghum and 5% in beans. The poultry industry also continued to expand (5.3%).

Output in the construction industry rose by 12% —nearly twice the 1998 rate— thanks to commercial, hotel and housing projects undertaken by the private sector, together with the continuation and conclusion of public infrastructure works dealing with social health services and the urban highway network, along with work on the Pan-American Highway. The construction industry also received a strong boost as a result of the government's decision to maintain support for the country's middle- and low-income housing construction programme by subsidizing mortgage interest rates.

The electricity, gas and water subsector surged by 20.6%, following its 4.7% decline in 1998. A substantial expansion of hydroelectric power generation following the previous year's severe drought, and a corresponding reduction in thermal generation, led to a considerably higher level of value-added in electric power output. Commercial energy use (by far the largest segment) increased by 8.7%, while residential and industrial consumption grew by 4.2% and 7%, respectively.

(b) Prices, wages and employment

Inflation, measured on a December-to-December basis, amounted to 1.5% in 1999, almost identical to the previous year's rate of 1.4%. Food products and beverages, which carry the greatest weight in the index, increased by 1.6%, as did rents, fuels and electric power. By comparison, price increases were far above average for medical care and other health services (4.3%), transport and communications (3.1%) and recreation,

entertainment and cultural or educational services (2.4%). Furniture and electrical accessory prices fell (-2.6%), as did those of clothing and footwear (-0.6%).

Wholesale prices rose more consumer prices did: 2.7% on average for the year and 6.8% on a December-December basis. This was largely due to a 6% rise in import prices including oil, where higher international prices were partly passed on to consumers.

Job creation continued to grow steadily during the year. According to the country's household survey, the number of jobs increased by 2.8% between August 1998 and the same month a year later, with the largest increase occurring in the metropolitan region (3.2%). As a result, the unemployment rate for that region fell from 16% to 13.8% during the review period, although job creation is thought to have lost momentum in the second half of the year owing to the economic slowdown and the change in Administration.

Wages also rose significantly: 4.3% in nominal terms in wholesale commerce, and 9.2% in retail trade. Other services, covering a variety of tertiary activities, rose by an average of 10.5%. Given Panama's traditionally low inflation rate, these wage hikes implied significant increases in purchasing power.

(c) The external sector

For the second year running, the current account of the balance of payments registered a sizeable deficit compared to those seen in earlier years. The deficit for 1999 amounted to US$ 1,332,700,000, which was 10% above the 1998 figure and equivalent to 14% of GDP. In the Panamanian economy, which uses a dollar-based monetary system, a widening of the current account deficit is the necessary counterpart to larger foreign capital inflows foreign direct investment (FDI) and loans from abroad as the automatic mechanism generating higher consumption and investment expenditure comes into play.

Merchandise trade registered a deficit of US$ 1,397,800,000, slightly above the previous year's figure. In contrast, the balance on services trade, which has traditionally been positive, rose by 11.5% to US$ 585 million. Movements on the income account, which are largely determined by interest earnings and payments in the banking system, posted a net negative balance of US$ 684 million, partly as a result of a decline in interest receipts from abroad, which in turn reflected the slowdown in international banking operations.

The value of re-exports from the Colón Free Zone fell to US$ 4.853 billion, down by 18.7% from the previous year's figure, while imports were 23.8% lower at US$ 4.052 billion. These figures reflect the lower prices paid for products obtained from Asian countries due to the currency devaluations that occurred during the year as well as weaker regional demand. Nonetheless, adjusted Free Zone operations posted a surplus of US$ 1,058,100,000.

Exports of national origin were more or less flat, at US$ 707 million, or just 0.2% above the 1998 figure. There were steep declines in major products such as shrimp (both fresh and frozen), fishmeal, coffee, sugar and a variety of tropical fruits. Banana sales increased, following three years of sharp decreases, as did sales of leather products, cattle hides and petroleum products (157.7%).

Although the c.i.f. value of imports entering the local market grew by 2.9% to US$ 3.516 billion, the pattern among the different import categories was very uneven. External purchases of food and beverages, mineral products and chemicals were significantly higher, while imports of agricultural products, plastic materials and rubber, textiles and manufactures all suffered considerable drops. Capital goods imports fell by 5.8%, mainly because of reduced communications and transport equipment purchases. In contrast, crude oil purchases soared by 63.6%, partly as a result of higher international prices but also partly because of an expansion of refining activity.

Foreign investment registered a positive balance of just US$ 22 million in 1999, after having reached figures in excess of US$ 1 billion during the previous two years because of the privatization of State-owned telecommunications and electric power companies. This amount includes US$ 149 million of additional investment in a variety of firms, US$ 328.6 million in reinvested profits, and an accounting item of – US$ 457.5 million due to the transfer of Panama Canal assets.

Paraguay

1. General trends

A 0.5% growth rate for gross domestic product (GDP) in 1999 was too slight to prevent a fall in per capita GDP for the fourth year running. Consequently, the Paraguayan economy ended the 1990s with an average growth rate of just over 2%, one percentage point less than in the 1980s.

THE MAIN SOURCE of what little growth there was in 1999 was the upswing seen in the agricultural sector, following its stagnation the previous year. A record increase in soybean production, along with good harvests of other agricultural products, compensated for the reduction in the cotton harvest. To a lesser extent, the production of some basic services, such as electricity, transport and telecommunications, helped to sustain a positive growth rate. These two variables offset a downswing (9%) in commerce, which was mainly affected by a drop in informal trade[1] and in cotton sales. Informal trade was hurt by restrictions imposed by Brazil on the entry of products re-exported from Paraguay and by the decrease in Brazilian buying power caused by the devaluation of the real.

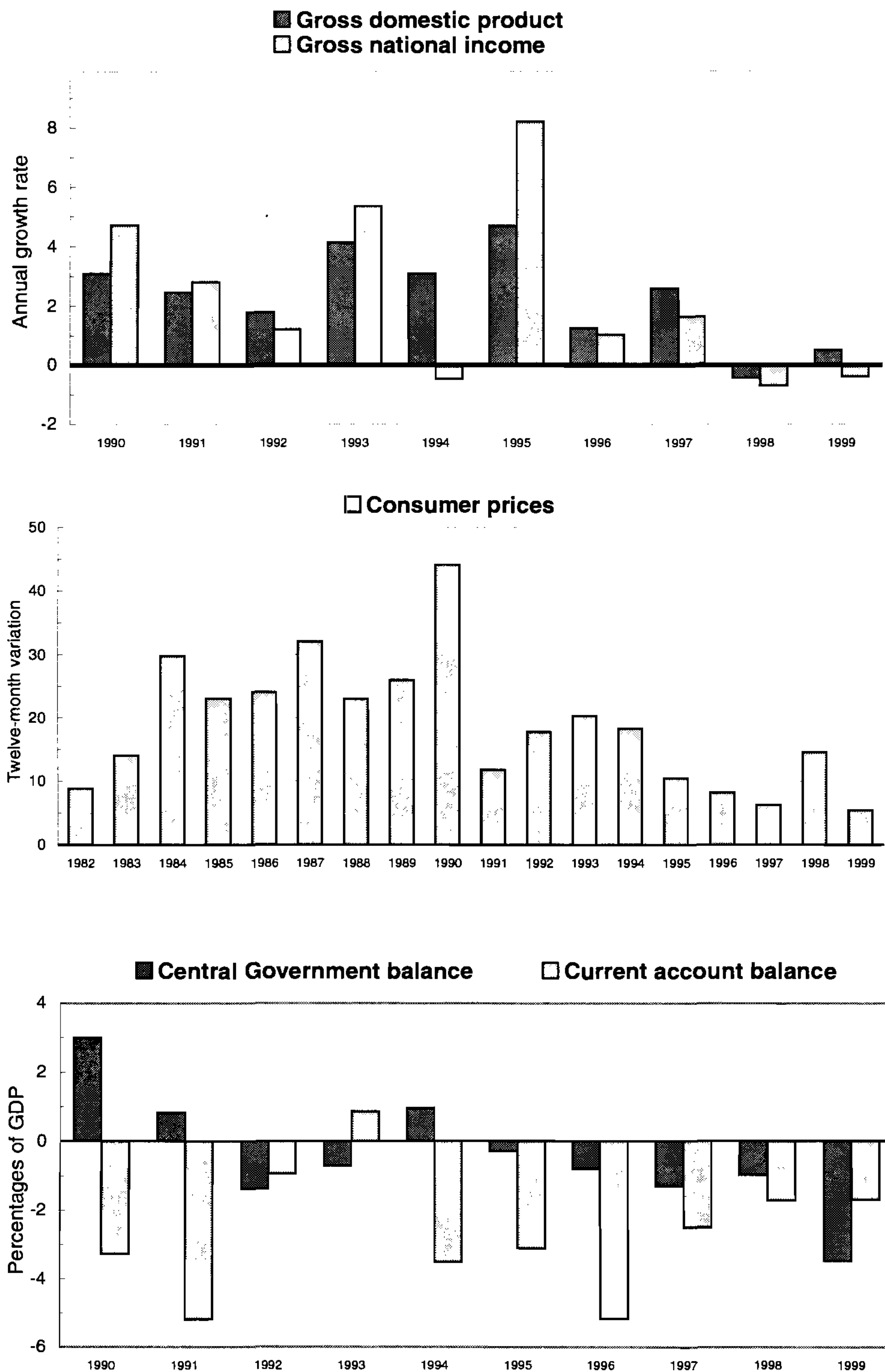
Slacker business activity reduced the government's tax revenues and this, in combination with the increase in government expenditure, pushed the deficit up to 3.5% of GDP. However, the current account deficit remained unchanged from the previous year, since a drop in imports similar in magnitude to the downturn in exports averted any further widening of the trade deficit. An abundant flow of capital from international sales of Treasury bonds backed by the Government of the Chinese Province of Taiwan and from foreign direct investment (FDI) provided more than enough funds to cover the current account deficit and, from the second semester of 1999 onward, facilitated the management of economic policy aimed at reactivating the economy.

GDP growth notwithstanding, both total open and urban unemployment increased as a result of the slump in labour-intensive sectors such as commerce and cotton production. However, improved availability of other agricultural products for domestic consumption helped to reduce inflation to 5.4%

Domestic and external factors made for a more favourable outlook for the year 2000. The agricultural sector was expected to continue on its upward path, and an upturn in the demand for Paraguayan exports by Mercosur partners was considered to be likely as their economies recover. International prices for Paraguay's main export products –soybeans and cotton– should follow suit. The exchange rate was expected to stabilize after an increase in the first quarter. The 5.5% cumulative inflation rate for the first six months of the year was a reflection of adjustments in fuel prices, an increase in the minimum wage and seasonal upswings in some products.

1 Informal trade consists of imports of products which are then sold tax-free on Paraguayan soil to tourists who are in fact merchants. These traders, most of whom come from Brazil, then re-export these products to their country of origin.

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic Policy

In the first half of 1999, monetary, foreign-exchange and fiscal policy all continued to reflect the austerity approach of the preceding year. The aim of monetary and foreign exchange policy was to hold the exchange rate steady in the face of the ongoing speculative attacks on the guaraní that had begun the year before. Initially, the Central Bank of Paraguay (BCP) intervened by selling foreign exchange through money-desk operations; later, it also resorted to open-market operations to defend the guaraní, since the level of international reserves was such that it was unable to continue using the money desk as actively as before. Faced with this critical situation, the monetary authorities sought external capital to fend off a balance-of-payments crisis. Fenced in by a lack of financing, the prospect of scant tax revenues in the wake of slack business activity and budgetary rigidities, the Ministry of Finance also adopted an austerity policy during the first semester.

The need for financing was met early in the second semester by an issue of Treasury bonds underwritten by the Government of the Chinese Province of Taiwan that was floated on the international market. Equivalent to 5% of GDP, these funds afforded some relief for both monetary and fiscal policy. This injection of foreign exchange lessened the threat of a depreciation of the currency and enabled the monetary authorities to reduce the rates on open-market issues. Fiscal policy-makers were then able to reactivate deferred capital investments and the new Administration that took office in the second quarter was able to implement a more expansionary policy to boost the country's flagging economy. There was little time for these reactivation policies to yield noticeable results during 1999, but it was expected that they would have a greater effect during 2000.

(a) Fiscal policy

The central government's deficit soared to its peak level of the 1990s (3.5% of GDP),[2] driven by a significant increase in capital expenditure aimed at energizing the recovery of the Paraguay's sagging economy. This increase was funded by external financing equivalent to 6% of GDP, most of which was obtained from bond sales on the international market and official international loans during the second semester of 1999. In addition, the inflow of foreign capital boosted public-sector deposits with the central bank.

Total central government revenues were virtually flat. The slowdown in domestic and external commerce cut into tax receipts, particularly from the valued added tax (VAT), and tariff revenues, which fell by 30% of GDP. The shortfall in tax receipts was offset, however, by an increase in non-tax revenues, including royalty payments from the binational Itaipú and Yacyretá dams.

A 16% increase in public spending (measured as a percentage of GDP) was chiefly the result of higher capital expenditure (investments of physical capital directly financed by external resources) and an increase in current transfers (mainly pension payments). The rest of the items of current expenditure increased slightly, but payments for personal services continued to represent the bulk of expenditure (40%), rising 4.5% in terms of GDP.

The non-financial public sector (NFPS) also ended the year with a hefty deficit (3.2% of GDP), even though State enterprises saw an improvement equivalent to two percentage points of GDP. Both decentralized agencies and State-run companies nearly doubled their capital expenditure in comparison to the previous year.

A similar performance was expected for 2000 based on, once again, external finance. The government sought to maintain its existing levels of capital investment, transfers to the agricultural sector, and expenditure on health care and education. Transfers to the pension system, which was running a deficit, were also to continue. The prospects for a brisker pace of economic activity promised a slight upturn in tax receipts, although downward pressure would, at the same time, be exerted by the reduction in re-export trade to Brazil, which affects tariff revenue and VAT on imports from border trade.

(b) Monetary and foreign-exchange policy

The monetary authorities' economic policy in 1999 can be divided into two distinct phases. During the first part of the year, they continued to apply their policy of

2 Since 1997, fiscal results have been calculated on the basis of accrued expenditure. On a cash basis, the central government deficit is equivalent to 2.3% of GDP. Either way, it is the decade's largest deficit.

Table 1

PARAGUAY: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	2.5	1.8	4.1	3.1	4.7	1.3	2.6	- 0.4	0.5
Per capita gross domestic product	- 0.4	- 0.9	1.4	0.4	2.0	- 1.4	- 0.1	- 3.0	- 2.0
Gross domestic product, by sector									
Goods	0.4	0.8	4.0	0.6	5.9	0.4	3.1	0.6	2.1
Basic services	6.8	6.0	8.1	11.7	9.1	4.4	3.7	2.2	9.1
Other services	4.1	2.2	3.5	4.1	2.5	1.5	1.8	- 2.1	- 3.5
Consumption	3.7	7.2	5.3	8.5	8.1	2.4	3.1	- 0.7	- 3.6
Government	20.0	7.8	5.3	3.9	12.1	10.0	2.0	0.7	3.7
Private	2.1	7.2	5.3	9.1	7.6	1.6	3.2	- 0.8	- 4.5
Gross domestic investment	8.6	- 6.5	2.3	4.5	7.1	- 0.1	- 2.0	- 4.7	- 3.8
Exports of goods and services	7.4	- 4.1	39.6	14.5	8.7	- 11.6	- 5.9	- 7.2	- 27.0
Imports of goods and services	14.5	4.1	31.6	23.4	14.4	- 6.1	- 4.0	- 7.0	- 27.1
	Percentages of GDP [c]								
Gross national income	100.9	100.4	101.7	98.3	101.8	101.7	101.0	100.9	100.3
Gross domestic investment	25.1	23.2	23.1	23.4	23.9	23.7	22.7	21.8	21.0
National savings	19.2	14.6	15.2	7.3	8.1	7.0	5.8	6.0	9.2
External savings	5.9	8.6	7.9	16.0	15.8	16.7	16.9	15.9	11.9
	Percentages								
Employment and wages									
Labour force participation rate [d]	59.4	...	...	59.1	64.8	63.0	61.9	60.6	58.8
Open unemployment rate [e]	5.1	5.3	5.1	4.4	5.3	8.2	7.1	6.6	9.4
Real average wagel (index: 1995=100)	91.8	90.9	91.7	93.0	100.0	103.1	102.6	100.7	98.6
	Growth rates								
Prices (December-December)									
Consumer prices	11.8	17.8	20.4	18.3	10.5	8.2	6.2	14.6	5.4
Wholssale prices	12.4	...	14.8	15.1	13.9	9.0	0.5	20.4	2.0
External sector									
Terms of trade (index: 1995=100) [c]	86.7	79.4	87.2	105.1	100.0	100.0	99.9	92.4	87.7
Nominal exchange rate (guaraníes per dollar)	1 325	1 500	1 744	1 912	1 971	2 063	2 191	2 726	3 119
Real effective exchange rate for imports (index: 1995 = 100)	96.5	102.0	106.4	100.5	100.0	95.7	94.0	103. 5	101.8
	Millions of dollars								
Balance of payments									
Current account	- 324	- 60	59	- 274	- 279	- 495	- 238	- 147	- 136
Trade balance (goods and services)	- 390	- 91	- 74	- 411	- 427	- 643	- 326	- 228	- 169
Exports	2 024	2 362	3 298	3 786	4 798	4 386	4 505	4 272	3 123
Imports	2 415	2 453	3 372	4 197	5 225	5 030	4 831	4 500	3 293
Capital and financial accounts [f]	687	20	- 4	576	402	421	54	222	308
Overall balance	363	- 40	55	302	123	- 75	- 185	75	172
Variation in reserve assets (- indicates an increase)	- 299	364	- 87	- 346	- 62	44	216	- 29	- 123
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	26.7	19.8	18.2	16.2	16.0	14.9	15.4	19.0	27.3
Net interest (as a percentage of exports) [g]	1.4	3.0	-0.1	-0.1	0.0	-0.3	0.3	0.6	2.2

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Central Government									
Current revenue	11.8	12.6	12.3	14.5	15.3	14.8	15.6	16.0	16.2
Current expenditure	8.5	11.5	11.1	11.4	11.7	12.4	12.7	13.7	14.2
Saving	3.3	1.1	1.1	3.1	3.7	2.5	2.8	2.4	2.0
Capital expenditure (net)	2.5	2.4	1.8	2.1	4.0	3.3	4.1	3.3	5.5
Financial balance	0.8	-1.4	-0.7	1.0	-0.3	-0.8	-1.3	-1.0	- 3.5
			Growth rates						
Money and credit									
Monetary balances of banking system									
Net international reserves	46.3	- 11.4	28.3	41.3	- 0.4	12.6	- 19.8	40.0	43.6
Net domestic credit	107.5	532.4	19.6	8.2	58.1	37.5	50.5	- 8.5	- 4.4
To public sector	...	...	- 2.2	- 82.9	...	...	...	- 82.0	...
To private sector	59.6	39.2	35.7	36.7	18.3	22.8	12.3	- 2.8	10.6
Money (M1)	27.5	30.5	17.7	32.4	21.1	2.0	13.9	7.4	9.5
Local-currency savings and time deposits	99.1	- 3.9	4.1	59.3	22.2	39.4	1.1	- 13.6	5.7
M2	48.1	23.4	9.7	38.4	28.3	15.4	7.2	- 2.8	10.9
Dollar deposits	56.0	66.5	53.0	15.3	3.0	39.5	25.8	26.1	25.8
			Annual rates						
Real interest rates (annualized, %) [h]									
Deposit rate	...	...	3.3	2.1	6.9	6.7	5.6	4.6	12.1
Lending rate	...	...	10.7	12.3	18.2	20.1	19.5	17.1	21.9
Equivalent interest rate in foreign currency [i]	...	...	20.3	22.4	20.9	16.2	12.2	16.3	19.5

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on guaraníes at constant 1982 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population in Asunción. From 1994 on, national total for urban areas. [e] Percentages of the economically active population. Up to 1993, this figure refers to the Asunción metropolitan area. From 1994 on, it refers to the national total for urban areas. [f] Includes errors and omissions. [g] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [h] Figures are annual averages. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

maintaining price stability through exchange controls and open-market operations at similar rates to those of 1998. During the second semester, however, monetary policy was redefined to encourage the reactivation of the economy by attracting significant levels of capital inflows to ease the pressure on reserves.

During the first seven months of the year, the exchange rate was driven up by 14%. A series of factors trailing back to 1998 were to blame, including the deterioration of the external sector and the demand for foreign exchange deriving from the devaluation of the Brazilian real, together with the political uncertainty generated by the sudden change of government in the second quarter of 1999 and the poor outlook for the country's production sectors. The BCP came to the defence of the guaraní by selling foreign exchange through the money desk. As a result, international reserves fell to US$ 650 million in June, for a loss of US$ 220 million since the end of 1998. In response to this situation, the BCP issued Treasury bills (known as "monetary regulation notes", or LRMs) at rates of around 27%, which was slightly higher than the average 1998 rate for these instruments.

The authorities sought external financing to cope with this critical situation, and the Government of the Chinese Province of Taiwan agreed to underwrite a US$ 400 million international issue of Paraguayan Treasury bonds. These securities were floated early in the second semester, easing pressure on the country's depleted international reserves. In fact, the nominal exchange rate steadied so much that it did not vary more than 0.2% between August and December. Granted this respite, the new Administration turned its attention to implementing economic policies that would jump-start the stagnated economy. In fact, LRM issues dropped by one third and their average interest rates dipped to around 14%, eleven points below the average issue rates in 1998. Expectations of a further depreciation of the local

Table 2

PARAGUAY: MAIN QUARTERLY INDICATORS

	1997				1998 [a]				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	8.6	7.9	5.9	6.2	6.6	10.8	14.9	14.6	9.4	4.5	4.8	5.5	9.8
Registered exports (millions of dollars)	207	430	359	146	208	430	359	146	159	287	165	130	182
Registered imports (millions of dollars)	726	702	895	802	611	622	662	575	394	425	423	483	395
International reserves (millions of dollars)	...	825	735	695	595	653	611	774	584	601	1 006	987	...
Real effective exchange rate [b] (index: 1995=100)	93.6	92.5	93.6	96.3	102.1	104.3	103.9	103.9	95.9	98.8	106.1	106.3	108.0
Real interest rates (annualized, %)													
Deposit rate	6.3	5.5	4.8	5.9	5.6	5.7	3.6	3.6	9.9	16.0	11.0	11.4	7.6
Lending rate	19.3	18.8	20.5	19.2	20.5	18.6	15.4	13.8	17.8	25.8	22.3	21.6	19.5
Equivalent interest rate in foreign currency	14.5	13.1	10.9	10.3	12.0	16.0	17.4	19.7	22.3	22.0	16.9	16.8	16.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figuress. [b] Refers to exchange rate for imports.

currency were mitigated by these new capital inflows, enabling the BCP to issue LRMs at these lower rates to help push down market interest rates. Money-desk operations in the second semester resulted in net purchases of foreign exchange.

The overall effect of these two different phases of monetary and foreign exchange-policy was expansionary. Open-market interventions closed with an average balance of issues equivalent to three quarters of the previous year's and an average rate five percentage points below that of 1998, while the guaranti-denominated international assets of the BCP increased by 33% with respect to 1998. Although net domestic credit shrank, expansionary variables more than compensated for the drop. Net credit to the public sector decreased as the government obtained more than enough external financing to cover the fiscal deficit. Deposits in the BCP rose, and no further loans were made to floundering banks, as had been done in previous years. Following the steps taken up to 1998 to put banks on a sound financial footing, foreign banks increased their participation in the overall portfolio.

In nominal terms, average lending rates dropped slightly, while borrowing rates increased by two percentage points, thus narrowing the spread. The nominal exchange rate climbed by 14%, eleven percentage points less than the 1998 rate of depreciation. In real terms, on the basis of a basket of the currencies of Paraguay's major trading partners, the guaraní appreciated by 6%, owing to the effect of the devaluation of the Brazilian real.

These results led to a 34% expansion in the monetary base, which can be accounted for by the steep increase in reserves. Local-currency deposits were slightly higher than in 1998 and, once again, there was a marked preference for foreign-exchange deposits. A small increase in sight deposits boosted M1 by 9%, two percentage points more than the year before. Following a contraction in 1998, savings and term deposits, together with other local-currency deposits, pushed up M2 by 11%. Foreign bank positioning on the domestic market, and the continued preference for foreign-currency and particularly dollar deposits, drove foreign-currency deposits up by 26% to the equivalent of 3.8 billion guaraníes, thus outstripping the broad monetary aggregate in local currency.

(c) Structural reforms

The reform process has not seen a great deal of progress since 1994, when the airline Líneas Aéreas Paraguayas was privatized. However, an Executive

Reform Office was created which was given ministerial status together with responsibility for implementing a broad agenda of reforms. In May 2000, the Senate passed a law to reform State-owned companies, including three in the areas of telecommunications, water supply and railways.

3. The main variables

(a) Economic activity

Slight growth in the production of goods (2%) counterbalanced the decline in total services production (-0.9%), yielding a meagre growth rate of 0.5%. Agriculture led the goods-producing sectors with a 4% increase, mainly owing to a further upturn in soybean production (10%), thanks to the expansion of the area under cultivation and better yields. Increases were also seen in the output of maize, wheat, cassava, sugar cane, groundnuts, beans and sunflowers as a result of more extensive areas of cultivation and/or improved yields. The combination of good harvests offset a 9% decrease in cotton production, which had already stagnated at the end of the 1997/1998 crop year. The drop in production was largely due to a reduction in the area under cultivation, despite improved weather and phytosanitary conditions. Slack foreign demand hurt the livestock sector, reducing slaughter levels.

The rest of the country's goods-producing activities, accounting for one fifth of total output, recorded a slight upswing. Zero growth was registered in the manufacturing sector, which is mainly composed of food processing plants and fuel refineries, but construction rose 2.5% thanks to a series of roadwork projects in 1999 which carried over into 2000.

In the services sector, commerce and finance (accounting for 22% of GDP in 1999) took the heaviest fall (9%) for the second year running. This was accounted for by the decline in commercial activity, which, in turn, was directly related to the downturn in the marketing and distribution of cotton. In addition, activity in this sector was dampened by the drastic reduction in cross-border, or so-called "triangular", trade (see the section on the external sector) caused by the sluggishness of the Brazilian economy and the devaluation of the real. Basic services climbed by 9%, however.

Tugged down by the severe contraction of foreign demand (–27%), which had been slipping ever since 1996, total demand fell by 8%. Overall demand was also affected by a decrease in private investment (4%), itself stricken by persistently high credit costs, by an unsettled political situation for most of the year, and by a slump in private consumption (4.5%) for the second year running, which demonstrated the weak purchasing power of the population. The only component of total demand that grew was government expenditure, which rose almost 4%. Listless GDP growth resulted in a 2% fall in per capita GDP, which has failed to make any recovery since 1996.

(b) Prices and wages

Following a brief upsurge of inflation in 1998 owing to both domestic and external factors, inflation returned to its downward path in 1999, reaching its lowest level in the last two decades (5.4%). This trend was strengthened by the devaluation in Brazil, which is the source of most of Paraguay's imports, the freezing of the official minimum wage, maintenance of public utility rates at their existing levels and the languid pace of economic activity during the year. These factors offset the inflationary pressure exerted by the rise in the international prices of petroleum and petroleum products.

The prices of tradables showed the least variation (5% on average). Food products, which make up almost 40% of the consumer price index (CPI), edged up by only 3.7%. Clothing prices rose less than 6%. The prices of non-tradables went up more sharply (7% on average), but less than in 1998. The largest increase was in health care (14.7%). Prices of transport, education and housing climbed more slowly (by 13%, 11% and 6%, respectively). The producer price index matched the pace of the CPI (5.3%), since the producer shopping basket consists mainly of tradable products. Within this category, the very small increase in domestic goods (2.6%) mitigated the steeper increase in imported products (11.3%), which was due to the upward trends in the prices of minerals, metal products and machinery.

As in 1998, employees in the formal sectors suffered an average loss of 2.5% in purchasing power, since average wages in all sectors rose more slowly than consumer prices. Workers employed in construction and commerce were affected the most, since their average wages showed no change in nominal terms. The transport and industry sectors posted nominal salary increases of only 2%. Workers in basic services obtained a nominal increase of almost 4%, but this was still below the rate of inflation.

Despite the slight increase in economic activity, the level of open unemployment in 1999 was higher than the figure resulting from the previous year's survey, rising from 5.4% to 6.8% in the country as a whole and from 6.6% to 9.4% in the country's urban areas. This was mainly due to the slump in commercial activity, which accounts for a fifth of all workers, and the poor performance of areas linked to the labour-intensive activities of cotton processing and harvesting.

(b) The external sector

At 2% of GDP, in 1999 the current account deficit remained at the same level as in 1998 and was easily covered by capital flows in the form of official loans and FDI, which pushed up the balance-of-payments surplus to US$ 170 million.

The persistence of the current account deficit is attributable to the fact that the trade balance for goods and services did not undergo any great changes. These balances conceal significant decreases, however, since both total exports and total imports plunged by almost 30%, reducing total merchandise trade to its lowest level since 1992. Unregistered and re-export[3] trade, which together account for over half of the country's merchandise trade, suffered greater setbacks than registered trade.

The 30% drop in the total value of exports was a reflection of low international soybean and cotton prices, which are the country's main registered export products. The value of registered exports to Brazil declined by one third as a result of the devaluation of the real. In turn, registered exports to Argentina plummeted to a third of their 1998 value owing to a downturn in the demand for Paraguayan soybeans caused by increased domestic production in Argentina. The rest of the country's exports, accounting for 73% of the total, slid by one third to their lowest level since 1992 owing to stricter customs controls on triangular re-export trade in the tri-border area and the weakening of Brazilian purchasing power.

The 30% contraction in registered imports was a consequence of reduced domestic demand. Consumer goods slid furthest, with a 43% drop, followed by intermediate and capital goods, which fell by one fifth. Unregistered imports –equivalent to 36% of the total and mostly destined for re-export– lost 27% of their value during the year.

The capital account closed with a hefty surplus of US$ 600 million, equivalent to 8% of GDP. This can be attributed to the inflow of US$ 400 million from the placement of bonds underwritten by the Government of the Chinese Province of Taiwan and to fresh inflows of FDI. These investments were directed mainly towards the telecommunications sector and the financial system.

Total external debt increased by one third, mainly as a result of the above-mentioned international bond issues. The balance as of December was equivalent to around 25% of GDP. Almost all of this debt corresponds to the public sector, with three fourths being held by the central government and one fifth by State-owned companies. The country's creditors were equally divided between international financial agencies and foreign governments.

3 The merchandise trade figures in the balance of payments include an estimate of non-registered imports and exports. In addition, exports include products which are brought into Paraguay for re-export to neighbouring countries.

Peru

1. General trends

The course taken by the Peruvian economy in 1999 was largely determined by the repercussions of the external shocks that had buffeted the country the year before. Output returned to a moderate 3.8% growth path,[1] and there was also success on the inflation front, where a new record low of 3.7% was set. Economic recovery was largely confined to the primary sector, however, while the rest of the economy continued to flounder in the aftermath of the previous year's recession. The tight credit conditions that had led to an outflow of short-term foreign capital starting in late 1998 were compounded by financial difficulties in a number of sectors and the persistence of negative expectations for much of the year. The result was a contraction of domestic demand (-3%), which led to a drop in employment (-6%) and a crisis situation in the financial sector. The privatization process ran out of steam, and less than half of the programme originally envisaged for 1999 could actually be carried out.

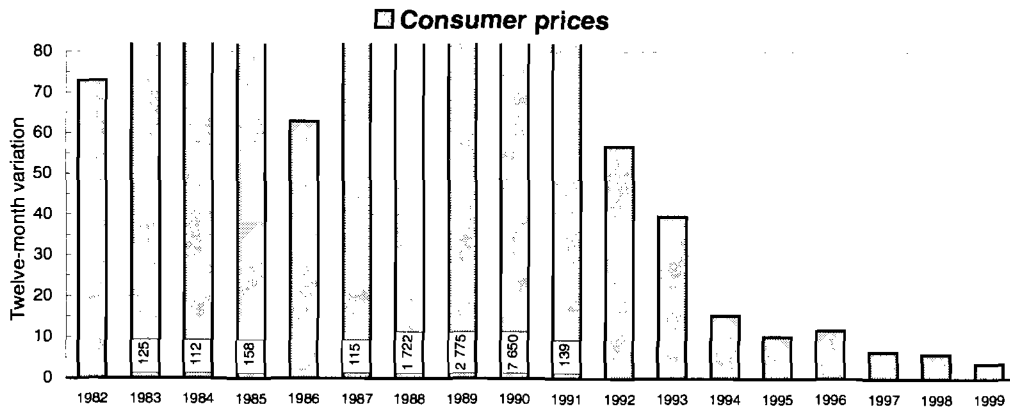
MACROECONOMIC POLICY was made more flexible in an attempt to mitigate the effects of these events. Public expenditure was not cut back to match the reduction in tax revenues, and the fiscal deficit therefore widened to 2.6% of gross domestic product (GDP). Part of the external shock was absorbed by a devaluation of the local currency, while monetary policy was aimed at restoring the banking system's liquidity. This was complemented by an assistance programme to facilitate the restructuring of the financial sector.

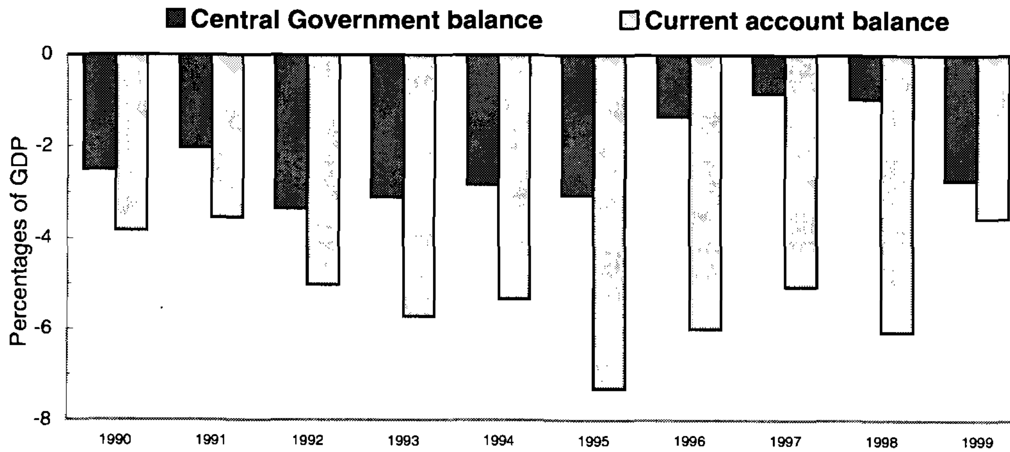
The rapid growth of the supply of commodities for the export market, together with the collapse of demand for imported products, resulted in a smaller deficit on the current account of the balance of payments (3.6% of GDP), even though the terms of trade deteriorated further. Despite this narrowing of the current account deficit, however, the reversal of short-term capital flows still led to a further reduction in international reserves.

Domestic economic prospects began to take a turn for the better in the fourth quarter of 1999, and GDP grew strongly during the first three months of 2000 (8.6%). In the first half of the year 2000, however, financial and foreign-exchange markets suffered from the uncertainty surrounding the presidential election, despite a revival of the privatization and concessions programmes. Even so, national projections for 2000 pointed to growth of 5% and an inflation rate of between 3.5% and 4%. The fiscal deficit was projected at 1.9% of GDP, with a 3.8% current account deficit.

1 At the close of this edition of the *Economic Survey of Latin America and the Caribbean*, the country had just published new series at constant 1994 prices according to which the country had grown by 1.4% in 1999. These figures were not available at the time this chapter was written. Consequently, the analysis of Peru's economic trends presented here was prepared on the basis of the preceding series at constant 1979 prices.

Figure 1
PERU: MAIN ECONOMIC INDICATORS





Source: ECLAC, on the basis of official figures.

2. Economic policy

Macroeconomic policy reached a turning point late in the second half of 1998, as signs of financial crisis began to appear. In 1999, the difficulties carried over from the previous year, when GDP had been flat following a long-lasting expansion, undermined the country's ability to service its private-sector domestic debt. This was compounded by the uncertainty prevailing on the external front following the withdrawal of foreign capital, and the combination of these two factors gave a recessionary bias to domestic demand. In an effort to contain the effects of this slowdown, macroeconomic policy in 1999 was set on a moderately expansionary course.

(a) Fiscal policy

Unlike what had happened in 1998, public expenditure programmes were not adjusted in line with the decrease in tax receipts resulting from weaker domestic demand. In order to shore up demand, the authorities allowed the fiscal gap to widen, which resulted in a non-financial public-sector (NFPS) deficit of 2.6% of GDP far higher than the original target of 1.2%.

The central government recorded a deficit of 2.7%; the primary balance was negative (- 1.1% of GDP) for the second time in the decade, and the debt service burden increased. Current income declined by 4% in nominal terms to the equivalent of 12.8% of GDP (14% in 1998), with the reduction stemming mainly from lower income tax receipts. The recession prevailing in the domestic market, together with the adjustment required as a result of the reimbursement of the previous fiscal year's tax surcharge, led to sharply lower revenues (-0.6% of GDP) in this category. The upturn of activity in the primary sector did not contribute additional revenue to public finances, since in some cases growth represented a recovery from 1998 (agriculture and fishing) against a backdrop of low prices and profit levels while, in others, profits were reinvested and hence not taxable (mining).

Indirect revenues were also affected, although to a lesser extent, with receipts from import duties and the general sales tax falling by 0.1% and 0.3% of GDP, respectively. To ward off a steeper drop in revenues, the scheduled discontinuation of the special solidarity tax (5% of the payroll) was not implemented, and excise taxes on fuels and tobacco were raised. The special wealth tax was eliminated, however.

Expenditure grew by 8% in nominal terms to 15.8% of GDP, versus 15.2% in 1998; current outlays expanded by 9.5%, driven by higher payroll expenses (11.5%) and a 16% increase in public-sector debt service (almost entirely external), which was inflated by the effects of the devaluation. Reconstruction work and assistance in areas damaged by El Niño pushed public-sector investment expenditure up from 2.6% to 2.8% of GDP.

Most of the central government deficit was financed domestically (2.2% of GDP) by drawing on the large current deposits held in the financial system by the public sector, which represented the proceeds from earlier privatizations. Operations of this type contributed a further 0.7% of GDP during the financial year, while the external public-sector debt shrank by 0.2% of GDP.

(b) Monetary and foreign-exchange policy

The goal of monetary policy for 1999 was to achieve an inflation rate of between 5% and 6%; however, while this target was met with ease, the monetary authorities had to cope with the difficult situation that had been created in the financial sector when, during the second half of 1998, the reversal of foreign capital flows had triggered a liquidity crisis in the banking system owing to the extensive dollarization of financial operations in the commercial banking sector (83% of the loan portfolio and 74% of deposits).

For the first time in recent years, in the fourth quarter of 1998 and again in the first quarter of 1999, the monetary authorities had to sell reserves to cover the demand for dollars in the foreign-exchange market. The negative impact of these sales on liquidity in soles was offset by open-market operations (to reduce the level of outstanding certificates of deposit). With the transfer of part of the vast public deposits held by State-owned banks to their counterparts in the private sector, and a change in their denomination from dollars to soles to finance the fiscal deficit, the management of public-sector accounts also eased demand pressure on the currency and helped to improve bank liquidity.

These measures, coming on top of others adopted in the second half of 1998 a reduction of the marginal reserve requirement on foreign exchange from 45% to 35%, and later to 20%, and an increase in the interest paid

Table 1

PERU: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	2.8	- 1.4	6.4	13.1	7.3	2.4	6.9	0.3	3.8
Per capita gross domestic product	0.9	- 3.1	4.6	11.1	5.5	0.7	5.0	- 1.5	2.0
Gross domestic product, by sector									
Goods	3.7	- 2.7	8.0	16.1	6.4	1.6	7.7	0.1	6.7
Basic services	2.4	2.1	6.5	7.5	9.8	6.0	8.5	2.6	1.7
Other services	2.8	- 2.2	4.0	11.0	11.7	4.3	9.3	- 0.1	0.7
Consumption	1.9	1.9	4.4	9.8	9.7	1.8	3.9	- 0.1	0.1
Government	1.9	2.9	3.1	8.6	9.9	6.7	7.8	1.8	3.2
Private	1.9	1.8	4.5	9.9	9.6	1.1	3.4	- 0.4	- 0.4
Gross domestic investment	11.3	- 1.1	11.0	28.1	17.9	- 4.9	12.1	- 2.0	- 12.3
Exports of goods and services	11.5	0.8	3.6	18.7	6.5	10.7	13.0	3.4	7.5
Imports of goods and services	20.1	13.7	1.3	23.9	24.8	0.6	10.2	0.2	- 17.1
	Percentages of GDP [c]								
Gross national income	96.5	96.5	96.3	97.4	97.7	98.1	99.0	97.4	95.9
Gross domestic investment	20.4	20.3	21.4	24.1	26.2	24.3	25.1	24.6	21.2
National savings	16.8	15.3	16.1	18.8	18.9	18.4	20.0	18.5	17.9
External savings	3.6	5.1	5.3	5.3	7.3	5.9	5.1	6.1	3.3
	Percentages								
Employment and wages									
Labour force participation rate [d]	57.2	58.8	60.8	59.7	62.4	60.3	63.3	...	...
Open unemployment rate [e]	5.9	9.4	9.9	8.8	8.2	8.0	9.2	8.4	9.2
Real average wage (index: 1995=100) [f]	98.7	95.2	94.4	109.2	100.0	95.2	94.5	92.7	90.8
	Growth rates								
Prices (December-December)									
Consumer prices	139	56.7	39.5	15.4	10.2	11.8	6.5	6.0	3.7
Wholesale prices	96	50.5	34.1	10.5	8.8	11.4	5.0	6.5	5.5
External sector									
Terms of trade (index:1995=100) [c]	86.8	95.0	89.1	95.7	100.0	96.5	103.2	89.7	83.3
Nominal exchange rate (new soles per dollar)	0.77	1.25	1.99	2.20	2.25	2.45	2.66	2.93	3.38
Real effective exchange rate for imports (index: 1995=100)	94.8	94.7	106.2	100.2	100.0	98.6	99.1	100.5	109.3
	Millions of dollars								
Balance of payments									
Current account	-1 510	-2 102	-2 301	-2 649	-4 307	-3 624	-3 279	-3 791	-2 030
Trade balance (goods and services)	- 602	- 916	-1 181	-1 499	-2 928	-2 673	-2 488	-3 005	-1 064
Exports	4 232	4 497	4 353	5 662	6 720	7 312	8 370	7 487	7 793
Imports	4 834	5 413	5 535	7 161	9 648	9 985	10 858	10 492	8 857
Capital and financial accounts [g]	908	1 328	2 329	4 016	3 732	4 634	5 841	2 420	1 237
Overall balance	- 602	- 774	28	1 367	- 575	1 010	2 562	-1 371	- 793
Variation in reserve assets (- indicates an increase)	- 788	- 716	- 657	-2 978	- 929	-1 932	-1 733	1 006	775
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	48.8	51.1	68.3	61.2	56.9	55.9	44.1	48.0	50.1
Net interest (as a percentage of exports) [h]	31.5	32.7	34.1	28.4	24.3	16.6	10.5	13.2	14.1

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Central Government									
Current revenue	9.5	11.5	11.6	13.1	13.6	14.4	14.3	14.0	12.8
Current expenditure	10.0	12.2	11.8	12.4	13.3	12.8	12.0	12.3	12.8
Saving	-0.5	-0.8	-0.1	0.6	0.3	1.6	2.3	1.7	0.0
Capital expenditure (net)	1.5	2.6	3.0	3.5	3.4	2.9	3.2	2.7	2.7
Financial balance	-2.0	-3.3	-3.1	-2.8	-3.1	-1.3	-0.8	-1.0	-2.7
Non-financial public sector									
Financial balance	-0.9	-1.5	-1.2	3.0	-0.1	2.4	0.1	-0.7	-2.6
Domestic financing	2.1	1.1	1.5	1.1	1.1	0.7	-0.5	0.3	-0.1
External financing	-1.2	0.4	-0.3	-4.2	-1.0	-3.1	0.4	0.4	2.7
			Millions of new soles						
Money and credit									
Monetary balances of the banking system									
Net international reserves	1 856	3 953	6 255	13 109	15 461	23 040	21 710	22 472	26 934
Net domestic credit	1 976	3 080	5 699	4 532	7 562	8 726	15 713	18 480	20 066
To non-financial public sector	- 32	- 391	- 844	-5 754	-7 825	-14 709	-16 535	-18 529	-16 352
To private sector	2 471	4 852	8 444	13 934	19 834	29 314	38 639	46 745	49 868
Money (M1)	945	1 620	2 399	3 792	4 678	5 523	6 590	6 623	7 468
Local-currency saving and time deposits (millions of dollars)	591	845	1 297	2 545	3 785	4 793	6 365	6 021	6 642
M2	1 536	2 465	3 696	6 337	8 463	10 316	12 955	12 644	14 110
Foreign-currency (millions of dollars)	2 391	2 803	3 841	5 185	6 161	8 100	8 867	8 985	9 205
			Annual rates						
Real interest rates (annualized, %)									
Deposit rate	...	...	-22.6	-11.4	-1.3	-1.2	1.6	3.4	7.9
Lending rate	...	...	29.9	24.9	22.5	17.9	20.5	23.6	30.3
Equivalent interest rate in foreign currency	...	...	12.1	9.9	8.8	8.9	10.0	10.7	11.7

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on new soles at constant 1979 prices. [c] Based on constant 1995 dollars. [d] Percentages of the *working-age population.* [e] *Percentages of the economically active population in the Lima metropolitan area.* [f] *Private-sector* workers in Lima. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. i Interest rate on deposits, deflated by the variation in the exchange rate.

on these reserves made it possible to overcome the liquidity crisis in early 1999.

The greater dollar liquidity that prevailed throughout the remainder of 1999 was insufficient to revive foreign-exchange lending activity, however. New lending declined as a more cautious stance was adopted by banks and borrowers alike, who perceived the uncertainty of the prevailing circumstances and faced the additional financial costs resulting from higher interest rates and devaluation.

The foreign-exchange market was buffeted by two waves of devaluations in 1999, one associated with the economic crisis in Brazil and the currency-market problems in Ecuador, and the second, on a smaller scale, stemming from the Ecuadorian moratorium and the general nervousness prevailing on regional markets in the third quarter of the year. The situation returned to normal towards the end of the year, and the pace of devaluation, which had reached 20% in the first quarter, slowed to 11% in December. The annual average rate of devaluation came in at 15% in nominal terms and 8.7% in real terms, thereby reversing a large part of the currency's cumulative appreciation since 1990.

These bouts of acute liquidity shortages in the banking system, or tensions on foreign-exchange markets, generated a sharp increase in both the level and

Table 2

PERU: MAIN QUARTERLY INDICATORS

	1997				1998				1999				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	5.9	8.8	6.2	6.0	0.3	2.8	2.4	- 0.6	1.3	5.3	0.3	0.3	8.5
Consumer prices (12-month variation, %)	9.3	9.5	8.1	6.5	8.2	8.7	6.6	6.0	3.4	2.9	3.4	3.8	3.9
Exports (millions of dollars)	1 602	1 852	1 770	1 571	1 192	1 336	1 553	1 649	1 415	1 412	1 584	1 703	1 648
Imports (millions of dollars)	1 930	2 133	2 281	2 217	2 074	2 158	2 042	1 927	1 549	1 606	1 689	1 869	1 787
Net international reserves (millions of dollars)	...	9 674	9 768	10 169	10 248	10 399	10 064	9 183	8 822	8 704	8 627	8 404	8 803
Real effective exchange rate [c] (index: 1995=100)	100.9	100.5	97.5	97.6	97.2	98.2	100.6	106.0	111.3	109.1	106.7	110.0	109.9
Money (M1) (change from same quarter of preceding year)	24.2	19.8	22.0	19.3	15.8	14.4	0.4	0.5	- 2.7	-3.5	13.3	12.8	8.6
Real interest rates (annualized, %)													
Deposit rate	0.5	1.3	1.9	2.8	2.0	1.9	3.7	6.1	8.4	9.8	7.9	5.6	5.7
Lending rate	19.4	20.4	20.6	21.8	21.4	21.6	22.8	28.6	30.7	32.7	31.4	26.5	26.5
Central Government economic result (as a percentage of GDP)	0.6	1.8	- 1.3	- 4.4	0.4	0.8	- 0.4	- 4.7	- 1.2	-2.3	-4.1	-3.2	-2.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on local currency figures at constant 1979 prices. [c] Refers to exchange rate for imports.

volatility of the interbank interest rate, which, on foreign currency operations, climbed to an average of 23.1% per year in March before dropping to 6.8% in August and then rebounding again to 18.8% in October.

Average lending rates remained high during the first five months of the year (36.5% on local currency, 17% on dollars), before falling gradually as expectations improved (32% and 15%, respectively, in December). As an annual average, local-currency lending rates were 2.4 percentage points higher than in 1998 and foreign-exchange lending rates were 0.5 points higher. The local-currency deposit rate climbed to 11.8%, one percentage point above the average for 1998, while the rate on foreign-exchange deposits remained stable at around 5.1%.

Broad liquidity rose from 22.3% to 24% of GDP between 1998 and 1999, once again driven by an expansion in quasi-money in foreign currency and the greater weight of these deposits as a consequence of the devaluation. Quasi-money denominated in the local currency remained at approximately 3.4% of GDP, while the ratio for narrow liquidity (M1/GDP) edged up slightly to 3.9%.

This modest monetary expansion was based on growth in net external assets, as domestic credit remained flat at around 10.4% of GDP.

(c) Financial markets

The course taken by the economy during the year was heavily influenced by the sluggishness of private-sector credit. Private lending had expanded strongly in previous periods on the back of external credit lines, but devaluation and the recession that began in 1998 seriously impaired the country's capacity to service those loans. In 1999, the quality of direct and indirect lending deteriorated significantly (problem-free loans declined from 76% to 66% of the total loan

portfolio between late 1998 and late 1999, while the non-performing loan rate climbed from 5% to 7.8% in August 1999).

These developments undermined the asset positions of financial institutions, and a support programme had to be put in place. Apart from the elements of monetary policy mentioned above, this policy package had two main components: one aimed at helping to restructure business-sector debt (in particular by introducing a more flexible approach to the payment of tax arrears); and the other intended to strengthen the asset position of the banking system. An initial programme was implemented between December 1998 and June 1999 involving temporary swaps of loan portfolios for non-negotiable Treasury bonds; this was followed between June and December 1999 by another programme that offered the possibility of transferring higher-risk loans. In addition, public-sector deposits were shifted in an attempt to stabilize the asset position of financial firms going through restructuring processes. The value of the assets that were transferred amounted to less than 2% of GDP.

Thanks to these measures, the non-performing loan rate dropped to 5.9% in December, but the financial crisis still made some consolidation necessary in the sector. Several banks had to take part in mergers or submit to takeovers, one small local bank was liquidated, and three institutions of minor importance were also dissolved.

(d) Structural reforms

The Omnibus Financial and Insurance Systems Act was amended in May 1999 in order to upgrade the authorities' intervention capacity. With a view to enhancing transparency in the management of monetary and financial policy, the authorities decided to publicly announce the monetary programme of the Central Reserve Bank of Peru at the start of each year and then to report on subsequent adjustments and degrees of fulfilment on a quarterly basis.

The most outstanding event to occur in connection with public finances was the passage of the Fiscal Prudence and Transparency Act in December. This legislation sets annual limits on the fiscal deficit and on the growth of public-sector borrowing (1% of GDP in each case, except under exceptional circumstances), together with additional restrictions in election years. The growth of primary expenditure is to be limited to 2% per year in real terms, which ought to generate fiscal surpluses over the medium term. The legislation also sets up a fiscal stabilization fund, to be financed out of surpluses generated from current public-sector revenues, plus 75% of the net inflows from privatizations and 50% of the proceeds from concessions. This fund, which will be capped at 3% of GDP, will be used to smooth out short-term variations in public-sector income. To give greater transparency to fiscal policy, the Ministry of Economic Affairs and Finance will also be required to publish a three-year macroeconomic plan, together with a biannual report on the plan's performance.

The privatization programme faced both economic difficulties and problems of a political or regulatory nature during the year, and only US$ 300 million was raised from the divestment of State assets instead of the US$ 800 million originally anticipated. Most of this revenue came from the sale of the remaining shares in previously privatized power and telecommunications firms, together with the sale of a mining company. The concessions programme was limited to the auction of reinforcement work in the southern electric power grid, the national railway system and the ports of Matarani and Ilo. The privatization programme for 2000 envisaged receipts amounting to US$ 650 million.

After several delays, the first quarter of the year saw a resumption of the bidding process for the Camisea natural gas field (involving a potential investment of over US$ 2 billion), for which the production, transport and distribution segments were divided up and stronger market guarantees were provided. The operating concession was awarded in February 2000.

3. The main variables

The upturn in economic activity in 1999 was mainly driven by buoyant exports, which grew by 7.5% in volume terms, particularly in the category of commodities and their derivatives. The retreat of domestic demand (- 3%), on the other hand, generated a recessionary climate for firms serving the domestic market. Gross private investment slid by 16%, while private-sector consumption was flat, with fiscal expenditure propping up public-sector demand in both

the consumption and investment categories (3.2% and 7.2%, respectively).

As a result, total demand shrank (-0.9%), after having shown almost no growth in 1998 (0.3%). This two-year slowdown interrupted an expansionary process that had boosted the growth of aggregate demand to an average annual rate of 6.8% between 1991 and 1997. Unlike the previous year, however, the effects of the recession on domestic and external sources of supply were not identical: whereas domestic output grew by 3.8% basically thanks to primary-sector activities imports plummeted (-17%).

Domestic saving held steady at around 18% of GDP, but its composition changed. The sluggishness of private-sector consumption pushed the private-sector saving ratio up by two points, whereas public-sector saving fell from 3.6% to 1.7% of GDP. Given the retreat of short-term capital, external saving declined by nearly three percentage points, to the equivalent of 3.6% of GDP.

(a) Economic activity

Total GDP growth of 3.8% was mainly the result of supply-side factors. The production of commodities was boosted as investment projects in the mining sector came on line and as the agricultural and fisheries sectors began to recover from the damage caused by El Niño. Expansion in the primary sector had a knock-on effect on activity indicators in processing industries.

Thanks to favourable weather conditions, an increase in the areas under cultivation and the statistical effect of the modest comparison base provided by the previous year's figures, agricultural output displayed growth of 15% for 1999 as a whole, although the pace began to slacken from August onward. Prices of agricultural and fisheries products remained depressed, however, which undermined the sector's profitability.

A support programme for the farming sector was implemented during the year, as many enterprises that had been affected by El Niño found themselves unable to finance plantings. Even so, two-digit growth rates were recorded in the production of foodstuffs (potatoes, rice) and in output destined for industry or export (cotton, coffee); this buoyancy also extended to certain parts of the livestock industry, such as sheep- and poultry-raising activities.

Output from high-seas fisheries almost doubled, thereby easily recovering from the previous year's steep decline. Fishery activities also benefited from a support programme to help restructure the sector, which had invested heavily between 1992 and 1997 only to fall into difficulties as a result of the immediate effects of El Niño and over-fishing.

In the mining sector, gold production posted further growth (36%); copper rebounded by 11%, following its 5% drop in 1998, and a major investment project was begun in the final quarter of the year (Altamina). Other non-ferrous metals also registered improved results, although production increases were more modest. In contrast, iron production activities collapsed as output plummeted by 20%; the performance of the hydrocarbons segment was mediocre.

In construction, which had formerly been a highly dynamic activity and a major job provider, the recessionary trend already visible in 1998 deepened, and production declined by 12%. The underlying causes of this setback were pessimistic expectations that lowered the demand for commercial building, greater caution on the part of households, and a scarcity of credit. The public-works segment, on the other hand, benefited from sustained State investment, particularly in irrigation and highway projects.

The investment slowdown also affected a number of branches of industry producing machinery or inputs for the construction industry, but indicators for agribusiness and other processing activities posted strong results, thereby making a 7.6% increase in average sectoral output possible.

Given the crisis in the financial system and weaker commercial activity in the wake of the recession, services remained more or less flat (0.9%); the only category to record positive growth was telecommunications, particularly mobile telephony.

(b) Inflation, wages and employment

The 3.7% increase in the consumer price index (CPI) recorded at end-1999 represented the lowest rate of inflation in 30 years. This achievement was mainly due to a decline in food prices which account for 58% of the index with more abundant supply forcing wholesale and retail prices down by 8% and 1%, respectively. The relative stagnation of domestic consumption probably also played a part in restraining inflation, but it was clearly not the decisive factor, since the prices of non-tradable goods rose much more than the average (housing, 13.9%; health, 10.8%).

Devaluation of the local currency, together with higher fuel prices, forced up production costs by 13.5% (including transport and communications). The wholesale prices of imported products rose faster than those of national origin (10.7% versus 4.1%), and the

annual variation in the wholesale price index amounted to 5.5% in December (versus 6.5% in 1998).

The lacklustre performance of certain segments of the domestic market led to a reversal of the recovery seen in formal employment since 1994. Employment among firms hiring more than five workers shrank by 5.8%, and the unemployment rate edged up to 8.2% in a context of widespread underemployment.

The minimum wage rose by 3.1% from 370.27 soles in January 1999 to 381.75 soles in October, while public-sector wages were raised by 16% in April, for the first time since 1997. On average, the real minimum wage fell by 3% during the year, while the purchasing power of wages grew by 7%.

(c) The external sector

The current account gap narrowed to 3.6% of GDP, thanks to the restoration of the balance on merchandise trade, which came in at -1.1% of GDP (-3.9% in 1998). A large part of this improvement has to be attributed to the collapse of imports (-18%), however, since export values rose only slightly (6.6%) as a result of negative international price trends, despite a robust expansion in volume. The terms of trade deteriorated further (-7.1%) in 1999, following their steep fall of the previous year (-13%).

Traditional exports grew by 12% in volume, with the level of fishery exports largely recovering from the sharp downswing of 1998, although international prices remained very depressed (US$ 361 per ton for fishmeal versus US$ 588 in 1998). Mineral and ore sales also expanded, but non-traditional exports declined by 5% as a result, in particular, of a sharp drop in the machine tool and steel metallurgy categories (-20%).

The decline in imports that had begun in 1998 accelerated to 18% as a consequence of weaker domestic demand and devaluation; the categories most affected were consumer durables (-32%) and capital goods (-17%).

The surplus on the financial account retreated by 60% from the previous year's figure, and by 80% compared to the high levels attained in 1997. This turnaround is attributable to short-term capital outflows (US$ 1.8 billion) linked to the amortization of interbank credit lines, which began to be obtained in 1998 and were particularly large in early 1999. The balance remained positive thanks to a sustained increase in foreign direct investment (FDI), which totalled US$ 1.85 billion and was destined mainly for the mining and telecoms sectors, along with the recapitalization of one of the country's banks. The overall balance of payments was negative, however, and net international reserves shed a further US$ 775 million.

The external debt shrank by 5% in the wake of a reduction in short-term liabilities, and public-sector debt service amounted to US$ 1.8 billion.

Dominican republic

1. General trends

For the fourth consecutive year, the Dominican Republic experienced robust economic growth (8.3%). In fact, its growth rate was a record high for the decade and one of the highest in the entire region. Shored up by abundant inflows of foreign investment and external credit, higher remittances from family members living abroad and higher levels of employment and real income, domestic demand remained buoyant and exports of goods and services continued to expand. Agricultural production recovered fully from the damage caused by Hurricane Georges in September 1998. The macroeconomic climate was relatively stable, there was a small fiscal deficit, the December-December variation in the exchange rate was lower than the economy's declining rate of inflation, and interest rates decreased slightly.

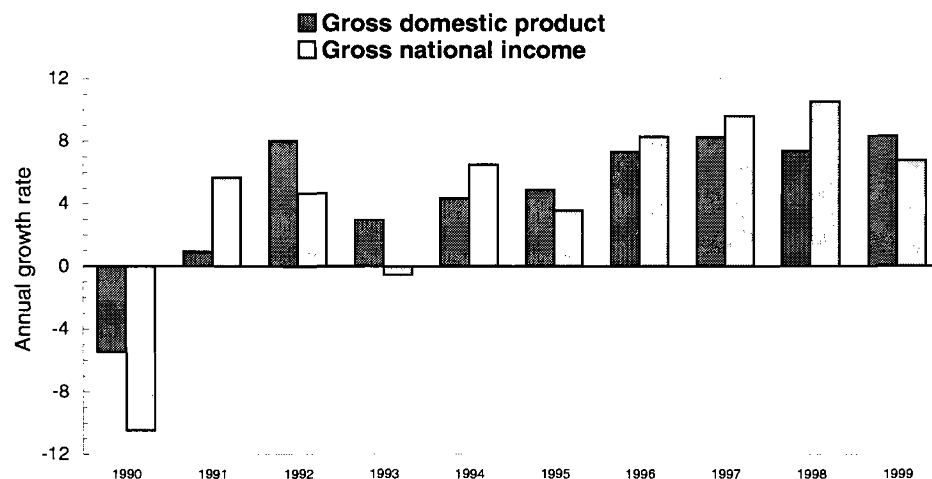
ECONOMIC POLICY was designed to prevent the economy from overheating and, above all, to forestall any expansion in imports that might increase the deficit on the balance-of-payments current account. The authorities therefore decided to concentrate on controlling the money supply, and this, together with the relatively stable exchange rate –facilitated by larger flows of foreign exchange into the country and the country's success in rescheduling its external debt in the wake of Hurricane Georges– held the rate of inflation to 5%. Fiscal accounts were affected by the rise in petroleum prices, however, since this cut into the revenues obtained from the oil price differential, and the authorities were therefore obliged to raise the commission on foreign-exchange transactions in order to meet their debt servicing obligations.

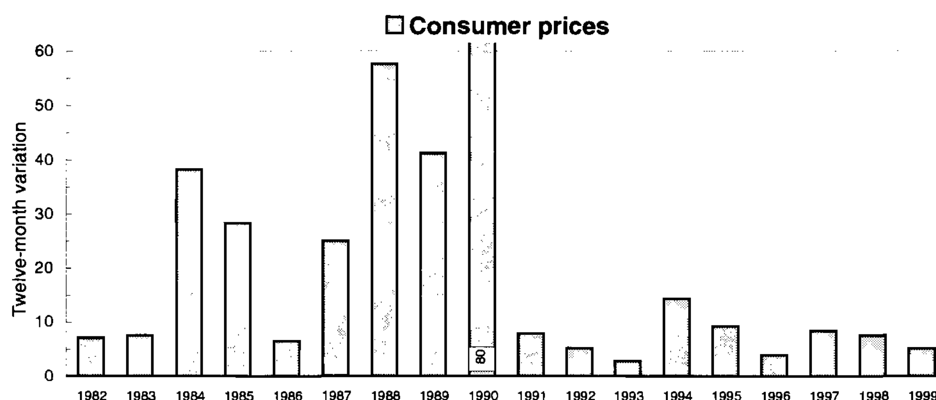
The balance of payments again showed a surplus, and the largest inflow of foreign direct investment (FDI) in the entire decade (US$ 1.435 billion) boosted international reserves. This was more than sufficient to offset a deficit on current account equivalent to 2.9% of GDP. Merchandise exports continued to grow thanks to the performance of the country's customs-free areas, albeit at a lower rate than the previous year.

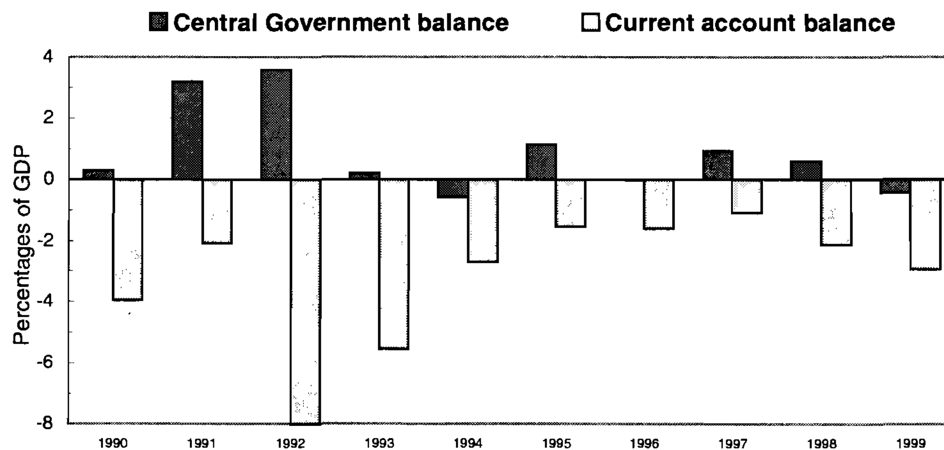
2. Economic policy and structural reforms

Economic policy was directed towards maintaining price stability by controlling aggregate demand in the face of hefty capital inflows. On the one hand, the external environment was favourable, as attested to by the steady

Figure 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS







Source: ECLAC, on the basis of official figures.

expansion of external demand; on the other, rising international oil prices had a negative impact on the balance of payments and on fiscal performance.

(a) Fiscal policy

In 1999, central government fiscal accounts yielded a deficit for the second time in the decade (the first time being in 1994). The 1999 deficit, equivalent to 0.4% of GDP (lower than the 0.6% deficit posted in 1994), was attributable to an increase in total expenditure from 15.5% of GDP in 1998 to 16.2% in 1999 and to a contraction in the tax burden equivalent to 0.6 percentage points of GDP.

Total inflows expanded by 6% in real terms –a slightly slower rate than the year before– owing to an increase in current revenues as well as in capital income and grants. Tax revenues rose by 4.1% but would have climbed more had it not been for the decline in fuel tax receipts, whose contribution to total revenues shrank from 17% to 10%. Despite the 1996 reforms, this tax remained vulnerable to fluctuations in international fuel prices, and in 1999 this led the government to fall into arrears on its external debt payments. In order to recoup the loss of fiscal revenue, domestic fuel prices were raised in October as a means of passing the tax burden on to the consumer.

In October, the commission on foreign exchange transactions was raised from 1.75% to 5%, a measure that generated an estimated US$ 44 million in revenue. Receipts from the goods and services transfer tax (ITBIS) climbed from 10% in 1998 to 12% in 1999. Revenues from the tax on foreign trade expanded steadily (14%).

Total central government expenditure increased by 13% in real terms, compared with 9% the previous year, due to the combination of a steep increase in capital expenditure and higher current disbursements. The latter jumped by 24% as a result of outlays for construction work and agricultural development. More specifically, this sharp increase was accounted for by road works, social infrastructure projects and housing construction programmes to assist people whose homes had been destroyed by Hurricane Georges. In addition, capital contributions were made to local governments and public infrastructure institutes.

Current expenditure was up by 9.3% in real terms (close to the rate recorded the preceding year). This was partly attributable to a 65% salary hike for medical staff in State-run institutions that was awarded in two stages: 35% in August 1999 and the other 30% in 2000.

Current transfers rose by 14% even though the positive effects of the capitalization of public-sector companies have not yet been reflected in government accounts. This is partly a consequence of the fiscal burden represented by outlays for severance pay and pensions.

(b) Monetary policy

Monetary policy was directed towards moderating aggregate expenditure in order to maintain price and exchange-rate stability. As a result of this policy, the monetary base and the narrowly defined money supply grew by 12% and 22% respectively, whereas broad money expanded by 29% owing to an increase in dollar deposits.

At the beginning of the year, the monetary authorities introduced a series of preventive measures aimed at averting the dissipation of real balances, whose rate of increase had intensified in the last few months of 1998, on the goods or foreign-exchange markets. Limits were placed on the net amount of credit that the reserve bank could extend to the government and on the expansion of commercial banks' portfolios of business loans. In addition, a 45-day deferral was authorized on the early redemption of one-year central bank pass-through certificates held by commercial banks. Lastly, 20% of the excess reserves held by commercial banks, estimated at 348 million pesos, were frozen in a central bank account paying an annual interest rate of 8% for an interim period of 90 days.

As a result of these measures, the narrow money supply contracted by an average of 1.1% between February and April. This paved the way for an initial decline in real liquid assets (-4.7% from January to March), which thereafter held steady in accordance with the objectives proposed by the monetary authorities.

The freeze on the commercial banks' excess reserves was lifted in May. At the same time, these institutions were allowed to redeem their investments in central bank pass-through certificates.

Towards the end of the year, foreign investment flows boosted net international assets, which consequently acted as a factor working to expand the monetary base. The rise in international fuel prices reduced fuel tax receipts, thereby impairing the country's capacity to repay its foreign debt, since revenues from this tax are earmarked for debt payments. After intervening in the foreign-exchange market to prevent the reserves position from impacting the money supply, the authorities proceeded to issue and sell pass-through certificates in December.

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	1.0	8.0	3.0	4.3	4.7	7.3	8.2	7.3	8.3
Per capita gross domestic product	- 1.0	5.9	1.1	2.4	2.8	5.4	6.4	5.6	6.6
Gross domestic product, by sector									
Goods	0.1	10.2	0.8	5.6	4.3	7.2	8.2	6.9	9.7
Basic services	9.7	13.9	7.0	5.5	7.8	10.7	12.5	13.1	10.8
Other services	- 0.1	4.5	4.1	2.8	4.6	6.4	7.0	6.0	6.1
Consumption	11.0	8.0	- 7.9	6.5	1.5	7.6	6.8	7.6	3.6
Government	1.6	5.7	- 1.9	7.2	- 0.5	10.7	1.3	6.4	6.1
Private	12.5	8.3	- 8.7	6.4	1.9	7.2	7.6	7.8	3.2
Gross domestic investment	- 8.7	23.9	18.7	0.4	5.3	9.8	18.7	27.3	16.6
Exports of goods and services	- 13.8	9.8	134.9	6.6	12.2	8.0	13.9	14.5	14.5
Imports of goods and services	12.6	26.8	100.4	8.2	7.6	10.1	18.2	26.6	13.2
	Percentages of GDP [c]								
Gross national income	104.9	103.2	100.7	102.8	101.9	103.2	105.5	110.0	109.1
Gross domestic investment	16.9	19.7	22.9	22.1	22.3	22.9	25.3	30.4	33.0
National savings	15.1	12.2	17.9	19.6	20.7	21.2	24.2	27.9	29.4
External savings	1.8	7.5	5.0	2.5	1.5	1.6	1.2	2.5	3.6
Employment and wages									
Real minimum wage (index: 1995 = 100)	80.9	98.4	93.5	99.5	100.0	100.6	102.0	106.3	111.5
	Growth rates								
Prices (December-December)									
Consumer prices	7.9	5.2	2.8	14.3	9.2	4.0	8.4	7.8	5.1
External sector									
Terms of trade (index: 1995=100) [c]	106.6	96.2	90.7	95.6	100.0	97.7	102.0	103.1	104.0
Nominal exchange rate (pesos per dollar)	12.69	12.77	12.70	13.20	13.60	13.78	14.27	15.27	16.06
Real effective exchange rate for imports (index: 1995 = 100)	104.5	108.8	106.5	103.0	100.0	93.5	95.7	103.9	112.2
	Millions of dollars								
Balance of payments									
Current account	- 157	- 708	- 533	- 283	- 183	- 213	- 163	- 336	- 513
Trade balance (goods and services)	- 351	- 818	- 730	- 584	- 406	- 656	- 720	-1 435	-1 481
Exports	1 857	1 911	4 748	5 240	5 731	6 193	7 060	7 482	8 111
Imports	2 208	2 729	5 478	5 825	6 137	6 848	7 780	8 917	9 592
Capital and financial accounts [d]	414	644	35	- 142	251	183	258	348	684
Overall balance	257	- 64	- 498	- 425	68	- 30	95	13	171
Variation in reserve assets (- indicates an increase)	- 357	- 64	- 156	387	- 131	15	- 40	- 98	- 194
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	60.8	50.0	47.5	37.8	33.5	28.6	23.3	22.5	20.6
Net interest (as a percentage of exports) [e]	3.9	6.3	4.4	2.9	2.5	2.0	1.3	1.1	0.7

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Central Government									
Current revenue	13.1	15.3	15.9	15.0	14.8	14.2	15.9	15.9	15.3
Current expenditure	5.3	6.0	8.2	7.6	7.8	8.1	10.9	11.1	11.2
Saving	7.9	9.4	7.8	7.3	7.0	6.1	4.9	4.7	4.1
Capital expenditure	2.2	3.5	5.0	5.6	4.6	4.7	2.9	2.1	2.8
Financial balance	3.2	3.6	0.2	-0.6	1.1	0.0	0.9	0.6	- 0.4
Domestic financing	-2.5	-2.2	1.4	2.1	0.5	1.0	0.1	0.1	0.7
External financing	-0.7	-1.4	-1.6	-1.3	-1.1	-1.0	-1.0	-0.7	- 0.2
	Growth rates								
Money and credit									
Monetary balances of the banking system									
Net international reserves	94.2	53.8	45.3	-91.4	409.7	1.4	37.9	-6.7	63.5
Net domestic credit	34.9	24.4	17.4	40.6	11.9	22.9	21.4	21.3	27.1
Money (M1)	27.6	15.3	25.1	2.3	16.9	26.5	22.2	7.8	22.2
Local-currency savings and time deposits	48.9	38.9	30.3	15.8	19.4	13.5	23.6	32.1	32.6
M2	37.4	27.1	27.9	9.8	18.4	18.8	23.0	21.5	28.6
Dollar deposits	...	94.7	-71.4	-8.4	101.3	164.0	8.2	-50.6	76.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on pesos at constant 1970 prices. [c] Based on constant 1995 dollars. [d] Includes errors and omissions. [e] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. From 1993 on, export figures include *maquila* exports.

In addition, the authorities raised the commission on foreign-exchange transactions to help compensate for the loss of tax revenue caused by the rise in oil prices and thus offset its impact on the country's capacity to meet its foreign debt repayment schedule. A temporary restriction was placed on commercial bank loan portfolios in late November as a preventive measure to deal with seasonal liquidity pressures.

In view of the 77% surge in dollar deposits, regulations were set up to limit the exposure of financial institutions holding external debts, and commercial banks were given the option of maintaining their foreign-currency deposits either in foreign banks or as interest-bearing deposits with the central bank.

In May, nominal interest rates in the commercial banking system started to fall. The weighted average interest rate on loans was 25%. However, monetary measures taken at the end of the year, combined with the decline in inflation, pushed real interest rates up from 16% to 19%. In line with interest rate trends, commercial bank loans to the private sector climbed by 19% in real terms, a rate very similar to the figure for 1998. Loans were mainly extended to commerce (36%), construction (6%) and manufacturing (13%). Credit to the public sector was up by 35% as a result of the government deficit, payroll obligations and generator maintenance costs.

(c) Foreign-exchange and trade policy

The government's foreign-exchange policy was aimed at maintaining the crawling peg system adopted in the second half of 1998. A slight depreciation of the official exchange rate was seen during the year (a December-to-December rate of 3%); the currency's strength was buoyed by the official capital that flowed into the country following Hurricane Georges and by the deferral of foreign debt payments.

Trade policy was geared towards a gradual process of trade liberalization. Export Reactivation and Promotion Act No. 84-99 was passed, which provides, among other things, for a scheme of customs drawbacks and a system for temporary customs clearance for inward-processing trade. Application of this law is, however, subject to regulations that are yet to be approved.

Implementation of the free trade agreements signed in 1998 with the Caribbean Community (Caricom) and Central America remained on hold while the relevant instruments were being negotiated. In March 2000, the

Table 2

DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	1997				1998				1999				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	5.1	9.5	7.5	9.9	5.9	7.1	7.4	8.3	5.5	...	...	...	11.5
Consumer prices (12-month variation, %)	6.7	7.5	9.9	8.4	5.3	4.6	2.9	7.8	7.7	6.4	5.3	5.1	5.7
International reserves (millions of dollars)	...	364	371	391	356	306	329	502	457	537	613	689	54.2
Real effective exchange [b] (index: 1995=100)	95.3	96.1	94.6	96.8	99.2	104.1	103.6	108.8	111.8	112.8	113.3	110.9	111.3

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

negotiations on the first protocol for the implementation of the Caricom agreement were concluded. Under this protocol, 8,000 products will be duty-free; 50 other products appear on a list of excluded items. The two parties also agreed on specific criteria of origin for over 5,000 products.

(d) Structural reforms

The capitalization of the State-owned electrical power utility, Corporación Dominicana de Electricidad (CDE), was completed midway through the year. This transaction involved the transfer of energy distribution and some generating plants to private companies and took the form of an auction whereby the highest bidder received a 50% stake in the company and management control. Energy transmission remained under State control, together with the system's hydroelectric plants and responsibility for contracts involving the use of private generators.

In addition, a 30-year lease on the support facilities for the 10 sugar refineries belonging to the State Sugar Council (CEA) was signed. Under this arrangement, the State will recover the value of its capitalized assets at the end of the period, while during the term of the lease, the concession-holders will invest in the modernization of these plants.

3. The main variables

(a) Economic activity

Bolstered by exports of goods and services (14.5%) and domestic demand, aggregate demand continued to expand at a robust rate (10.1%). The growth of domestic demand slowed to 7.7%, however, down from 13.2% the previous year, as a result of smaller increases in private consumption (3.2%) and gross fixed investment (16.8%). Private investment, on the other hand, advanced energetically, thereby fulfilling economic growth expectations and boosting construction, in particular of infrastructure projects for the tourism industry.

Although private consumption benefited from an expansion in employment, real wages and foreign

remittances, its buoyancy was checked by domestic spending controls designed to prevent the economy from overheating. Government consumption, on the other hand, continued to climb fairly sharply due to an increase in the central government's and other public agencies' payrolls.

Almost all the sectors of the economy grew vigorously. Manufacturing rose by 9.6%, basic services were up 10.8% and commerce expanded by 9.5%. Other services exhibited a moderate growth pattern.

The agricultural sector rallied (7%) in the wake of its poor performance in 1998 (1%), thanks to an upsurge in production during the last quarter of the year, after the sector had posted negative growth rates for the period January-September. This rebound was fueled by the strong performance of domestic food crops (22%). This, in turn, was made possible by higher yields, as the production of export crops plummeted by 31%, mainly as a result of lower prices on the international market.

Spurred by strengthening domestic demand, an expansion in production capacity, the booming construction sector and –thanks to the buoyancy of the United States economy– an increase in external demand, the manufacturing sector grew at much the same rate (6.7%) as the year before.

Exports from the customs-free areas increased by 5%, which was much lower than the 14% rate recorded the preceding year. Nevertheless, value added fell by 2.5%, owing mainly to cuts in the number of firms and employees working in the textile industry. This downsizing was part of the restructuring effort undertaken in order to cope with the unequal conditions of access to the United States market resulting from the failure to pass parity legislation for the textile industry. The United States Congress ultimately did approve the textile parity bill in May 2000, however.

Growth in the construction industry (18%) was stimulated by foreign direct investment in the tourism sector, the dynamism of the economy and the channelling of credit towards this sector, which posted a 50% real growth rate over the 1998 figure.

The output of the electricity, gas and water sector climbed by 8%. A contributing factor in this respect was the increased generation of electrical power, mainly by hydroelectric and gas-fired plants.

Growth in transport and telecommunications (11%) was similar to the previous year's rate and was attributable to the performance of the telephone subsector (16%), and, above all, the expansion in cellular telephone services. The tourism sector bounced back (10%) from the slump that occurred after the passage of Hurricane Georges.

(b) Prices, wages and employment

The cumulative rate of inflation was 5.1%, or about three percentage points lower than in 1998. The price index showed slight fluctuations in both directions throughout the year, despite an inflationary spike in October that was promptly brought under control by the authorities.

In October, the introduction of an increase in the commission on foreign-exchange transactions so that the government could honour its foreign debt obligations combined with domestic fuel price hikes to boost the monthly inflation rate to 3.51%. In the end, however, the enforcement of stringent monetary measures in the last two months of the year brought the rate of inflation back down to a figure even lower than the target set by the authorities.

Nominal wages were raised by 20% in June 1999, and this, together with a decline in the rate of inflation, resulted in a 13% increase in real terms. The salaries of health-sector professionals were raised by 65% between 1999 and 2000 (bill No. 80-99 of July 1999), with 35% of the increase entering into effect upon the legislation's entry into force and the remaining 30% taking effect in 2000.

The overall unemployment rate stood at 13.8%, compared with 14.4% in 1998. The most dynamic sectors of the economy in terms of job creation were farming and livestock (6%), construction (6%) and transport and telecommunications (9%). The government payroll expanded as a result of the creation of 4,825 new jobs.

(c) The external sector

The overall balance of payments position (US$ 171 million) reflected the level of foreign direct investment, which was more than enough to offset the current account deficit of US$ 513 million, or 3% of GDP. The authorities were therefore able to build up international reserves –which in net terms came to US$ 547 million– and thus to maintain a relatively stable exchange rate.

Merchandise exports were up by 4.3% and imports by 8.1%. The upswing in total exports was accounted for by the expansion of exports from the customs-free areas (5.6%), since domestic exports contracted (–1.8%). Within the latter category, traditional exports plunged by 28%, while non-traditional exports soared by 38%.

Although exports from customs-free areas did rise, they nonetheless lost some momentum as a result of closures in the textile sector and job losses. Even so, these areas still generated US$ 887 million in foreign

exchange, which was a 7.3% increase over the 1998 figure, and it is expected that the passage of the textile parity bill in May 2000 will enable these activities to return to a growth path more in keeping with their export potential.

The increase in imports was more moderate than it had been the previous year (15% in 1998 versus 8% in 1999) due to a variety of factors. Growth was fueled by the increased imports needed to satisfy private consumer demand (11%) and to provide the imported machinery and equipment needed by a burgeoning economy; the rise in fuel prices, which pushed up the cost of imports of petroleum and petroleum products by 30%; and the higher commission on foreign-exchange transactions.

The balance on non-factor services yielded a surplus of US$ 1.529 billion thanks to the buoyancy of tourism and telecommunications.

The growth rate for unrequited private transfers plummeted from 47% in 1998 to –3% in 1999 as official grants and reinsurance payments slid back from their exceptionally high post-hurricane levels. Family remittances, which climbed by 15%, continued to act as an important source of foreign exchange and a mainstay of the country's balance-of-payments position.

The surplus on the financial account, which more than offset the current account deficit, was based on a steep year-on-year increase in foreign direct investment (105%) due to the capitalization of the State-run electrical power utility, Corporación Dominicana de Electricidad (CDE) (47% of the total), investments in tourism (22%) and the buoyancy of the telecommunications sector (16%).

The official external debt closed out the year at US$ 3.582 billion, the equivalent of 44% of exports of goods and services or 20% of GDP. Interest amounted to US$ 125 million, or 1.5% of exports of goods and services. External debt servicing was lower than the year before, as the net flow of debt payments took a turn for the better thanks to the deferral granted by the Paris Club and by Venezuela following Hurricane Georges.

Buoyed by foreign investment inflows on the order of US$ 1 billion, a current account deficit of close to 3% of GDP is projected for the year 2000 together with an overall surplus of over US$ 120 million. A 14% improvement in export figures is possible in view of the passage of the textile tariff parity bill.

Uruguay

1. General trends

Gross domestic product (GDP) fell by over 3% in 1999 owing to declines in both domestic and external demand and a prolonged drought that cut back agricultural supply. The reversal in the terms of trade caused national income to shrink by 5% after having posted a 7% growth rate in 1998. The procyclical nature of the tax regime was one of the factors underlying the expansion of the non-financial public-sector (NFPS) deficit to 3.6% of GDP, while the external current account deficit widened to almost 3% of GDP. This widespread downturn raised unemployment to over 11% and this, in combination with imported deflation and a slowdown in monetary expansion, held domestic price increases to just 4%, the lowest figure in the last 50 years.

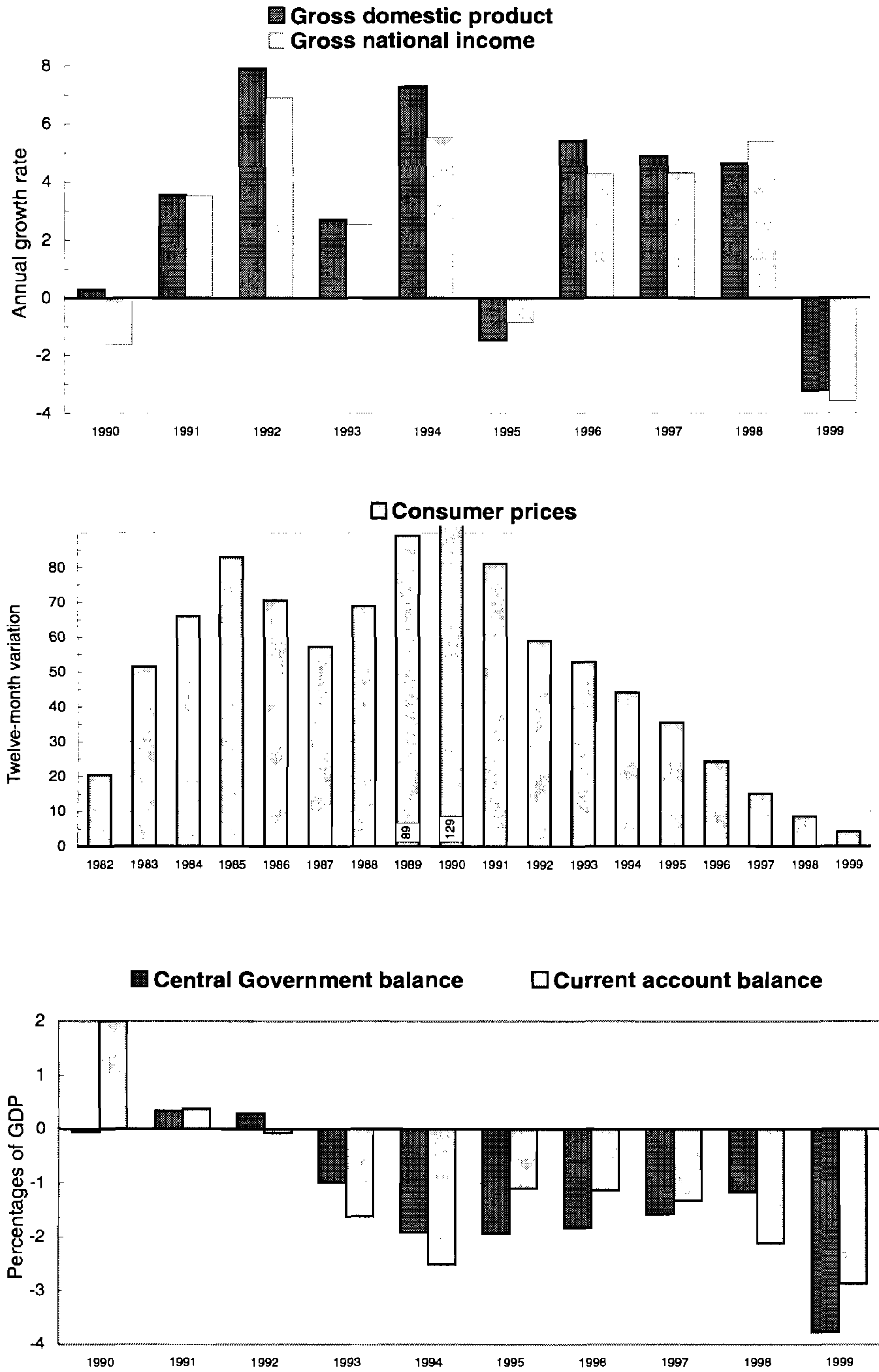
EXTERNAL CIRCUMSTANCES having an impact on Uruguay took a sharp turn for the worse at the beginning of 1999. In particular, the sudden devaluation of the Brazilian real (on the order of 30% in real terms) triggered a process which severely affected Uruguay's bilateral trade capacity and then, in quick succession, slashed demand by its two main trading partners and dampened the expectations of domestic and external economic agents. The prices of major raw material exports (such as meat, wool and rice) fell while oil prices rose sharply and interest rates trended upward.

Domestic demand shrank considerably. The change in expectations that came in the wake of the Brazilian devaluation was compounded by the uncertainty associated with any general election year. The private sector responded with a major adjustment (on the order of 2% of GDP), with saving in 1999 being one percentage point higher than investment, whereas in 1998 investment had been more than one GDP percentage point higher than saving.

Given this combination of depressive factors, the government sought to ride out the unfavourable period with a countercyclical policy, taking advantage of its comfortable fiscal situation and relatively easy access to credit, thanks to its sovereign debt's investment-grade credit rating. The behaviour of the public and private sectors was therefore quite different from what it had been in preceding years: while in 1996-1998 the private sector's domestic demand had expanded more than the public sector's had, in 1999 public spending grew by 5.5% while private expenditure fell by 4%.

During the first few months of 2000, the economy's performance was mixed. The peso continued to appreciate against the euro, against a background of high oil prices and an upward trend in international interest rates, but the international prices of major raw material exports began to recover at the same time as Uruguay's two largest neighbours began to show signs of revival. The private-sector adjustment would have been completed at that point, but the new Administration that took office in March set about cutting spending. The authorities projected 2%-2.5% GDP growth in this more favourable domestic and external environment, but private analysts' projections were more conservative. Data for the first quarter of the year 2000 showed a rise in exports and imports and an upturn of almost a half percentage point in GDP compared with the first quarter of 1998 (the level of activity climbed by almost 4% with

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

respect to the previous quarter, thereby completing two positive-growth quarters in succession). Industrial output figures suggested that the higher level of activity stemmed primarily from export growth rather than from a recovery in domestic demand. Inflation remained within its projected range.

2. Economic policy

The financial programme agreed upon with the International Monetary Fund (IMF) early in the year envisaged a major slowdown in economic activity, after three years of sustained growth, in view of the deterioration of external conditions in the second half of 1998. The financial programme was based on projections of listless economic activity, a widening of the public-sector deficit from 0.9% to 1.8% of GDP, a slight increase in the trade gap and a US$ 200 million loss of international reserves. With a projected slowdown in the rate of devaluation, inflation was expected to continue on its downward path, reaching an annual rate somewhere in the range of 4%-6%. Given the abrupt change in prices relative to Brazil, devaluation was set to continue at the same pace as the previous year (7.5% annually). It was expected, however, that imported deflation and weak domestic demand would help the economy to reach the original inflation target.

Domestic factors had a negative impact on economic development during the year. Firstly, the elections held at the end of the year greatly increased uncertainty about the continuation of the economic policy that had been in place for the preceding two years. There was particular concern about the exchange-rate regime, given the peso's strong appreciation against the currency of its main Mercosur trading partner and the considerable decrease in exports to Mercosur in general. A persistent drought created very unfavourable conditions for the agricultural sector, which saw income fall steeply and production costs increase.

Midway through the year, as the external situation (especially at the regional level) continued to deteriorate, the fiscal target was changed to a deficit of 2% of GDP, in the expectation of a similar drop in the level of activity. The government relaxed its fiscal programme in order to avoid exacerbating recessionary pressures. The sliding exchange-rate band was maintained, however; for a good part of the year the dollar floated within the band and on several occasions the central bank sold dollars at the band's ceiling exchange rate.

The main priority of the Administration that took office in March 2000 was to bring the fiscal deficit back into line with stabilization targets in the medium term, and steps were therefore taken to curb expenditure. It was hoped that these measures, together with the higher tax receipts expected from the recovery of economic activity, would reduce the NFPS deficit to 1.8% of GDP, which would be financed by borrowing. The government also announced that the existing exchange-rate policy and rate of devaluation were to be maintained for the 2000 financial year. These measures were aimed at keeping the annual inflation rate in the 4%-6% range.

(a) Fiscal policy

Tax revenues, which are closely related to the business cycle, fell by 5% in real terms in 1999. Breaking with their previous practice, the authorities did not aim fiscal policy at adjusting expenditure to income. Instead, taking a countercyclical approach in the face of a tough private-sector adjustment, the government continued with its programme of public investment in construction and took steps to support the agricultural sector as it sought to deal with the difficulties it was experiencing. As a result, at -3.6% of GDP, the NFPS deficit was well over the projected figure.

The expansion of this deficit was chiefly attributable to the central government's fiscal performance. In fact, while the deficit of the central government and the social security system climbed from 1.7% of GDP in 1998 to 4.6% in 1999, State-owned enterprises recorded a surplus (1.2% of GDP) similar to the previous year's despite higher costs due to the increase in oil prices and reduced use of hydroelectric energy because of the severe drought.

The drop in tax receipts was seen across the board: in real terms, income from the value added tax (VAT) fell by over 5%; internal revenue receipts decreased by over 10% (chiefly due to considerably reduced domestic sales of motor vehicles); receipts from the direct income taxes levied on industry and commerce were down by more than 3%; and tax revenues from foreign trade shrank

Table 1

URUGUAY: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	3.6	7.9	2.7	7.3	- 1.5	5.4	4.9	4.6	- 3.2
Per capita gross domestic product	2.9	7.2	2.0	6.5	- 2.2	4.6	4.1	3.8	- 3.9
Gross domestic product, by sector									
Goods	1.6	5.5	- 5.6	6.8	- 1.0	4.8	1.4	4.5	- 7.2
Basic services	7.8	12.8	8.1	11.8	6.5	7.0	6.3	7.1	1.6
Other services	1.8	5.0	4.4	3.6	- 2.8	4.5	5.5	4.1	1.5
Consumption	4.4	12.3	5.1	8.2	- 3.1	7.9	5.2	6.2	- 1.0
Government	1.1	1.5	0.9	4.5	0.2	5.0	2.3	3.0	4.5
Private	5.0	14.4	5.8	8.9	- 3.7	8.4	5.7	6.7	- 1.8
Gross domestic investment	32.4	14.1	9.3	12.8	4.4	- 2.3	8.2	13.5	- 10.6
Exports of goods and services	2.7	9.1	8.6	15.1	- 1.9	10.3	13.0	0.3	- 7.3
Imports of goods and services	18.1	25.1	17.2	18.3	- 3.0	11.3	13.2	7.6	- 4.8
	Percentages of GDP [c]								
Gross national income	97.9	98.1	98.5	98.2	99.2	99.0	98.8	99.8	98.6
Gross domestic investment	12.0	12.7	13.7	14.6	15.4	14.2	14.6	16.0	14.9
National savings	12.2	12.7	12.1	12.1	14.2	12.9	13.1	13.5	11.6
External savings	- 0.3	0.1	1.6	2.5	1.2	1.2	1.5	2.5	3.3
	Percentages								
Employment and wages									
Labour force participation rate [d]	57.4	57.4	56.6	58.1	59.1	58.2	57.7	60.5	59.3
Open unemployment rate [e]	8.9	9.0	8.3	9.2	10.3	11.9	11.5	10.1	11.3
Real average wage (index: 1995=100)	95.2	97.3	102.0	102.9	100.0	100.6	100.8	102.7	104.3
	Growth rates								
Prices (December-December)									
Consumer prices	81.3	59.0	52.9	44.1	35.4	24.3	15.2	8.6	4.2
Wholesale prices	68.6	46.9	31.1	41.0	27.7	23.5	13.3	3.3	-0.34
External sector									
Terms of trade (index: 1995=100) [c]	98.2	96.2	94.6	94.7	100.0	96.7	96.4	103.1	94.9
Nominal bank exchange rate (pesos per dollar, annual average)	2.02	3.03	3.95	5.05	6.35	7.97	9.45	10.47	11.34
Real effective exchange rate for imports (index: 1995=100)	130.2	127.2	113.9	104.3	100.0	99.1	97.1	96.3	89.8
	Millions of dollars								
Balance of payments									
Current account	42	- 9	- 244	- 438	- 213	- 233	- 288	- 476	- 605
Trade balance (goods and services)	235	150	- 105	- 237	- 62	- 127	- 169	- 336	- 483
Exports	2 201	2 632	2 760	3 248	3 507	3 847	4 217	4 136	3 586
Imports	1 966	2 482	2 865	3 485	3 568	3 974	4 386	4 472	4 069
Capital and financial accounts [f]	37	147	437	547	440	386	687	836	618
Overall balance	80	138	193	109	228	152	399	360	13
Variation in reserve assets (- indicates an increase)	- 114	- 186	- 179	- 99	- 218	- 141	- 390	- 521	- 13
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	70.6	64.3	56.7	55.7	57.2	60.6	57.5	60.5	64.5
Net debt (as a percentage of GDP	24.3	20.5	17.3	19.0	16.4	15.0	13.5	13.0	14.7
Net interest (as a percentage of exports)	5.6	3.2	1.9	3.5	1.3	0.4	0.4	0.1	- 1.2

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
			Percentages of GDP						
Non-financial public sector									
Current revenue	31.1	28.5	28.2	28.3	28.7	28.6	29.7	30.6	30.0
Current expenditure	25.7	23.6	24.6	25.4	26.0	26.1	27.1	26.9	29.2
Saving	5.4	4.9	3.6	2.9	2.7	2.5	2.6	3.7	0.8
Capital expenditure	4.1	3.6	4.4	5.2	3.9	3.6	3.7	4.1	4.3
Financial balance	1.3	1.3	- 0.8	- 2.2	- 1.2	- 1.1	- 1.1	- 0.4	- 3.5
			Growth rates						
Money and credit									
Monetary balances of the banking reserves									
Net international reserves	66.9	45.8	25.5	39.2	45.0	33.5	18.5	10.2	33.8
Net domestic credit	90.7	49.4	38.9	37.4	22.7	38.9	35.9	28.3	14.0
To public sector	17.7	60.1	31.4	46.5	10.1	- 5.8	- 22.9	...	...
To private sector	65.8	70.2	46.8	40.1	50.2	36.2	35.0	28.7	16.9
Money (M1)	91.5	70.1	58.4	39.6	31.7	26.4	21.4	13.1	9.3
Local-curreny savings and time deposits	76.6	44.1	35.2	24.6	54.7	29.4	19.8	30.4	4.8
M2	84.4	58.3	48.8	34.0	39.8	27.5	20.8	19.9	7.4
Dollar deposits	77.7	45.7	29.5	39.2	30.4	38.6	29.6	20.8	24.7
			Annual rates						
Real interest rates (annualized, %)									
Deposit rate	...	...	- 9.7	- 5.5	- 3.0	- 0.4	- 0.3	3.8	8.1
Lending rate	...	...	27.9	34.5	39.7	48.8	42.9	42.4	45.8
Equivalent interest rate in *foreign curreny* [g]	...	...	35.8	33.0	35.6	25.4	17.8	14.9	14.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on new pesos at constant 1983 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population in urban areas nationwide. [e] Percentages of the economically active population in urban areas nationwide. [f] Includes errors and omissions. [g] Interest rate on deposits, deflated by the variation in the exchange rate.

almost 18% as a consequence of the sharp contraction of imports. The increase in government expenditure was also widespread, with the exception of payrolls, which dropped almost 1% in real terms. Social security expenditure went up the most (almost 9% in real terms), as outlays on both pension payments and unemployment benefits rose; expenditure in the form of debt interest also rose (due to the increase in both the amount owed and the international rate) and investment expanded by more than 2% in real terms.

If the effect of administrative and social security reforms are discounted, on the basis that these are transitory outlays, then the NFPS results show a deterioration from a surplus of 0.7% of GDP in 1998 to a 2.4% deficit in 1999.

(b) Foreign-exchange policy

Although the exchange-rate policy was not changed, and the flotation band of 3% around a sliding rate set daily by the central bank was maintained, developments in the exchange market set it apart from previous years. During the preceding three-year period, following the Mexican currency crisis, the price of the dollar had consistently remained at the floor of the band, only occasionally floating upward somewhat due to temporary excesses of liquidity or for short-lived crunches triggered by external events. At this point in time, however, the expectations of economic agents changed significantly as a result of the considerable real devaluation of the Brazilian currency and election-related uncertainty about future economic policy.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	1997				1998 [a]				1999 [a]				2000 [a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product [b] (change from same quarter of preceding year)	3.3	8.4	4.4	4.6	6.8	1.7	5.6	4.3	-0.2	-0.86	-5.99	-5.33	0.40
Consumer prices (nationwide) (12-month variation, %)	23.8	21.2	17.1	15.2	12.4	10.3	10.1	8.7	7.21	6.11	4.09	4.18	4.49
Exports, f.o.b. (millions of dollars)	583	726	730	687	669	745	728	627	509	554	556	618	559
Imports, c.i.f. (millions of dollars)	822	893	946	1 055	899	926	970	1 016	792	796	841	928	896
International reserves (millions of dollars)	...	1 301	1 501	1 559	1 673	1 746	1 664	2 073	1 959	2 033	2 040	2 000	...
Real exchange rate [c] (index: 1995=100)	97.1	97.2	97.1	96.9	96.4	96.5	96.2	96.0	88.7	89.3	90.8	90.4	91.9
Money (M1) (change from same quarter of preceding year)	24.8	21.4	17.3	16.9	18.6	17.1	16.5	14.4	6.3	43.7	7.6	9.2	3.8
Real interest rates (annualized, %)													
Deposit rate	- 2.0	- 0.8	0.1	1.4	2.9	3.7	3.8	4.7	6.5	6.9	9.2	9.8	8.6
Lending rate (non-preferential)	44.4	43.3	41.9	41.9	42.3	45.5	41.2	40.7	49.1	43.6	43.3	47.1	45.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures that have not been seasonally adjusted, at constant domestic prices. [c] Refers to exchange rate for imports.

The price of the dollar began to float upward as soon as the real was devalued, and in the days immediately following the devaluation the central bank had to sell foreign exchange at the top of the band. Even so, the dollar stayed within the flotation band throughout almost the whole of the year since, in addition to the factors mentioned earlier, the local-currency fiscal deficit generated an excess supply of liquidity that the central bank refrained from attempting to absorb though open-market operations, given the loss of competitiveness caused by the devaluation of the real and the appreciation of the dollar against the euro; moreover, a tight monetary policy would have worked against the countercyclical fiscal policy that was being pursued. The exchange rate settled back down to the floor of the flotation band at the end of the year, after the government party won the elections and the continuity of the general framework of economic policy was thus assured. This also coincided with a seasonal increase in the demand for money at year's end.

Accordingly, although fluctuations in the peso lasted longer than in previous years, in 1999 the exchange rate rose by 7.4%, in line with expectations. In any case, the real exchange rate, calculated on the basis of a basket of currencies of the country's main trading partners, dropped considerably (7%) as a result of the devaluation of the real and the euro, which more than compensated for the rise in the exchange rate against the dollar.

(c) Monetary and financial policy

The flotation of the dollar within the band provided some breathing space for monetary policy. In order to maintain consistency with fiscal policy, however, the monetary authorities did not resort to open-market operations to soak up liquidity, nor did they raise short-term interbank interest rates; on the contrary, the interbank rate on call money was kept at between 11% and 13%, and short-term rates in local currency were

gradually brought down from between 14% and 15% at the beginning of the year to between 9.5% and 11.25% at the end of the year.

Although central bank foreign-exchange sales topped US$ 400 million, international reserves actually increased, albeit only slightly. Credit to the central government grew by almost two percentage points of GDP, though this was more than counterbalanced by increased deposits in the banking system. The main monetary aggregates showed moderate variations, with M1 recording a slight downturn and M2 a slight rise, of -0.6% and 0.3% in real terms, respectively.

Credit to the private sector contracted sharply. As a result of the restrictive measures adopted the previous year, together with mounting uncertainty, the retreat of private spending and the change in banking companies' policies, which shifted credit towards the public sector, credit to the private sector registered a nominal increase of only 4% in 1999 and in real terms stood still. Although the fallback in credit took place across the board, the slide in consumer credit was particularly marked: after expanding 34% in 1998, it crept up nominally by just 5% in 1999. Interest rates on foreign-currency deposits did not vary to any significant degree. Rates on peso deposits fluctuated, but in general trended downward, particularly after the election results. Lending rates in both currencies followed a similar pattern.

Offshore private banking activity expanded only slightly, consolidating a downward trend in the face of strengthening regional financial centres. The Assets Securitization Act, passed during the year, allowed the issue of financial assets collateralized by existing issues.

(d) Trade policy

The devaluation of the Brazilian real undercut the progress of Mercosur during 1999, following several years during which intraregional trade had strengthened substantially, as member countries spontaneously coordinated macroeconomic policies and pursued liberalization policies on a reciprocal basis. But in 1999, difficult negotiations on sensitive sectors and products compounded the effect of a rapid reduction of trade flows within the regional grouping.

The process of adjusting regional trade to the new relative price situation was also hampered by the absence of supranational mechanisms or agencies -such as those used by the European Union, for example- to settle disputes. Negotiations took on a sectoral slant in some cases, and on numerous occasions it became necessary to resort to talks at the presidential level. This points up the lack of any institutional structure that would allow Mercosur to deal with events such as those which began to unfold in January 1999.

3. The main variables

(a) Economic activity

After growing at over 6.5% annually, final demand shrank by almost 4% in 1999. Both domestic and external demand fell markedly (by 2.6% and 7.3%, respectively). Although the reduction in demand was triggered by external factors, domestic demand played a somewhat more influential role in the contraction of total demand (equivalent to three points of GDP) than the drop in exports did. On the supply side, while output was down by 3.2%, the decrease in imports was equivalent to 2.5% of output.

Total gross investment slumped by almost 11% owing to the steep drop in private investment. Purchases of machinery and equipment plummeted by 20%, while construction stagnated after growing almost 12% the previous year. Consumption shrank by 1%, with a decline of almost 2% in private consumption, which had grown at a rate of 6% over the previous three-year period. This was attributable to the increase in unemployment, worsening expectations and the sudden slowdown in consumer credit after several years of expansion in household borrowing at high real rates. Consequently, private spending shrank by 2% after the previous year's 7% increase, while public spending grew by 4.5%, with a significant upturn (9%) in public investment. The steep fall in exports was due almost exclusively to reduced purchases by Argentina and Brazil, which together account for over half of Uruguay's total exports.

The countercyclical strategy adopted by the public sector was the only factor to have a positive effect on overall demand, but its impact encompassed both gross fixed capital formation –thanks to the increase in

construction expenditure and the purchase of machinery and equipment– and consumption expenditure, which accelerated to an annual rate of 4.5%. The downward trend in demand was reflected in declines in almost all sectors of production, with the only exceptions being construction, transport and communications. The drop was particularly severe in manufacturing (down 8.4%), agriculture (down 8.2%) and commerce, restaurants and hotels (down 3.4%). Manufacturing exports fell almost 10% due to a range of factors that included the drop in international wool prices, the crisis in Asian markets and the reduction in regional demand, which significantly affected the production of textiles, clothing, leather, various foodstuffs, motor vehicles and chemicals. Slack domestic demand was also reflected in the shrinkage of many branches of the manufacturing sector.

The agricultural sector performed well during the first semester, but the persistent drought slashed production during the second. Commerce, restaurants and hotels reflected the general retreat of domestic demand and the weakening of inbound tourism. On the other hand, particularly as a result of public investment, construction continued to grow (3.2%), while communications kept up its rapid pace of activity.

(b) Prices, wages and employment

Thin demand, the appreciation of the currency against the real and the euro, and the government's decision to finance the fiscal deficit through borrowing held retail price increases to just 4% in 1999, the smallest increase in 50 years. The slump in the prices of tradables had a greater effect on the wholesale price index, which slipped by a slight amount. As in previous years, the prices of non-tradable goods and services, in particular health care and education, climbed more rapidly than tradables.

Measures adopted the previous year had spread out wage adjustments in view of the gradual drop in inflation. Even so, the buying power of wages increased again (1.5%) in 1999, thanks mainly to a public-sector wage hike of 3% in real terms, since the increase in the private sector was less than 1%.

Given the consideration drop in national income, the adjustment of the wage bill took the form of a decrease of over 2% in employment. As the participation rate fell by 1%, unemployment rose by only one percentage point over the previous year's figure, to 11.3% of the economically active population. Job losses were fairly widespread across all sectors, with the exception of construction.

(c) The external sector

Given the change in external conditions, the current account deficit on the balance of payments expanded from just over 2% of GDP in 1998 to almost 3% in 1999. Continued capital inflows were more than sufficient to finance the wider external deficit, however. A third of total revenue, which amounted to over US$ 600 million, came from non-registered movements (errors and omissions) that were partly a reflection of income from difficult-to-measure service exports (software, export processing zones) and partly attributable to direct investment in the form of the acquisition of existing companies.

The merchandise trade deficit increased, while the surplus on services trade slipped back. The widening of the trade gap was almost entirely attributable to the decline in exports to Uruguay's two large neighbours. In fact, total exports fell by US$ 524 million (19%) and exports to Mercosur dropped by US$ 511 million, with a 40% reduction in sales to Brazil and a 28% decrease in sales to Argentina. Exports to Mercosur accounted for 45% of total external merchandise sales in 1999.

The descent of merchandise exports can be attributed both to a 2% drop in prices and a 7.6% decrease in the volumes exported. Beef, rice and wool prices, three of the country's major export products, all tumbled. Tourism income slumped as a result of the recession in Argentina and the loss of competitiveness stemming from the change in prices relative to Brazil. Together with increased travel outside the country, these factors reduced the balance on the services account.

Although merchandise imports also fell, they did so by a smaller amount (-12%). The steepest decrease was in capital goods (-25%), followed by consumer goods and non-oil intermediate goods (-14%). The oil account swelled by a substantial 60% due to soaring international prices.

As mentioned earlier, capital inflows were more than enough to finance the larger current account deficit. During 1999 the public sector launched a single international issue, in May, of US$ 250 million in 10-year bonds, at a spread of 212.5 basis points over United States Treasuries. Towards the end of the year, the government also swapped US$ 95 million in Brady bonds for US$ 85 million of bonds maturing in 2021, with a spread of 195 basis points. This operation also released US$ 25 million in zero-coupon bonds that had been used as collateral. A good part of the public sector's borrowing requirements were covered by placements on the domestic market. Finally, although the central bank continued to build up reserves, since a portion of these assets corresponded to debt held by the local financial system, the international reserves taken into account in the IMF agreement decreased by US$ 161 million.

Venezuela

1. General trends

In 1999, the Venezuelan economy experienced an unusual combinationof severe economic recession (indeed, the worst in a decade) and a significant upturn in the prices of its oil exports. The decline of over 7% in output was primarily attributable to production cuts that Venezuela applied in conjunction with other major oil-exporting countries in order to reverse the downward trend of prices. Private activity was slack despite the drop in interest rates. This decrease was brought about by monetary policy within the context of a protracted process of political and institutional change whose outcome appeared to be uncertain. The economic recession resulted in a serious deterioration in employment conditions.

THE POLICY of limiting oil production pushed prices up, and the approximate prices of Venezuela's hydrocarbons exports jumped from US$ 9 to US$ 23 per barrel in 1999. This increase enabled the central government to hold its budget deficit to less than 3% of gross domestic product (GDP). The Central Bank of Venezuela (BCV) was also able to maintain its policy based on a gradually sliding exchange-rate band. The bolívar thus depreciated by 15% against the dollar over the year, which, together with a fall in demand, made it possible to keep inflation on its downward path: the annual rate was 20%, the best result in a decade.

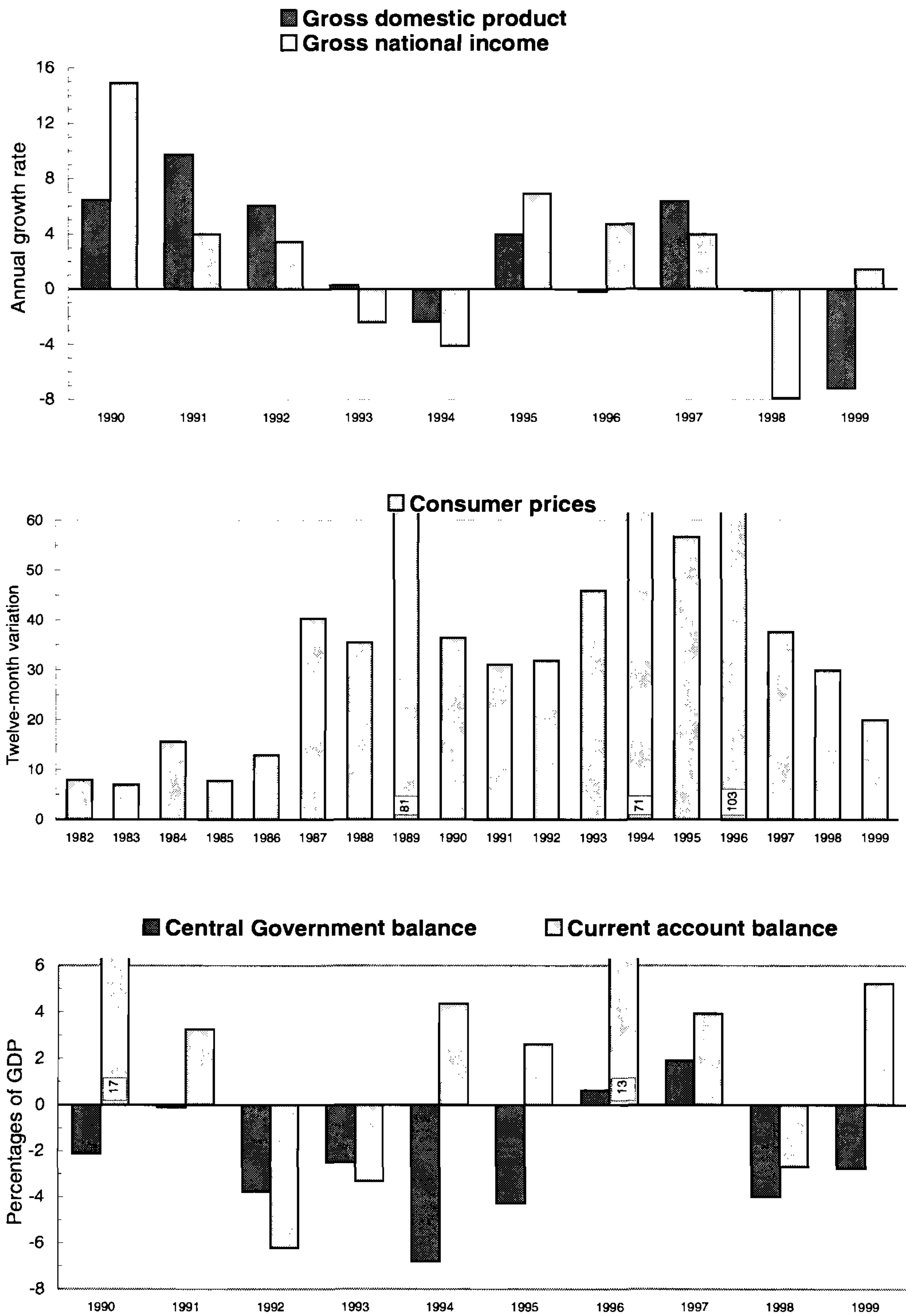
Higher oil revenues and slack demand for imports also generated a hefty trade surplus, as well as a surplus equivalent to over 5% of GDP on the current account of the balance of payments. This compensated for the capital outflows triggered by poor economic prospects early in the year and boosted reserves, including those of the recently created Macroeconomic Stabilizatio Fund (MSF) and the Debt-Rescue Fund.

In December 1999, several parts of the country were inundated by torrential rains that caused heavy losses of human life and destroyed physical and production infrastructure. ECLAC has estimated the material damage to be around US$ 3.24 billion, or the equivalent of 3.3% of GDP, although in the State of Vargas, where the heaviest losses were suffered, the cost of the damage exceeded the value of output. The catastrophe was likely to have some effect on the growth of the economy in 2000, and the originally programmed rate of 2.2% was then adjusted to 2%; however, these events would not affect all sectors of the economy in the same way.[1]

While output was, for all intents and purposes, stagnant during the first quarter of 2000 (with a growth rate of 0.3% over the depressed first-quarter figure for 1999), oil prices remained high, the balance of payments closed with a surplus of over US$ 700 million and inflation continued to decrease, reaching a year-on-year rate of less than 17% in May. The Administration hoped to achieve a rate of 15% by the end of 2000.

1 See ECLAC, *Los efectos socioeconómicos de las inundaciones y deslizamientos en Venezuela en 1999* (LC/MEX/L.421) (SEM.101/3), 14 February 2000 (http://www.cepal.org.mx). Spanish only.

Figure 1
VENEZUELA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy

The main economic challenges facing the new Administration that took office in February 1999 were the need to reactivate the stagnant economy, boost employment and find ways of raising the funds needed to finance public spending in the face of the steady downward slide of oil prices, the main source of Treasury income. Fiscal policy was driven by the need for financing, in line with the 1999-2000 Transitional Economic Programme. Exchange-rate policy was also used to promote a macroeconomic balance. Both policies were given a boost by the upturn in oil prices in the second quarter as a result of production cuts agreed upon by Venezuela and other oil-exporting countries.

These cuts ran counter to the economic reactivation, however, even though monetary policy-makers lowered interest rates in an attempt to boost the economy. In pursuit of the same objective, a programme of State intervention known as Bolívar 2000 was also planned. Private demand remained slack during the transitional period in which the new Administration was taking office in February 1999, however, and throughout the constituent process which lasted until December and which gave rise to an unsuccessful call for general elections in May 2000. In response, the President announced a series of sectoral rehabilitation plans beginning in February 2000; these programmes included the Vargas State recovery plan; a production scheme for agriculture, tourism, industry and commerce; an aluminium sector plan, an infrastructure plan; and a plan for the oil industry.

(a) Fiscal policy

Congress did not approve the proposed 1999 budget, making it necessary to roll over the 1998 budget. This budget had been drawn up on the basis of a significantly higher estimated oil price than the early 1999 figure, so the economy was at risk of developing a heavy fiscal deficit. The new Administration's efforts were therefore focused on limiting the size of the deficit and ensuring that there was some means of financing it. Measures were adopted to cut public spending by 10%, and authorization was obtained from Congress to strengthen tax collections. This initiative included a temporary bank debit tax which was to last for one year, a broadening of the tax on luxury goods and wholesale products -which thus became a genuine value added tax- and income tax reform.

The effects of these measures were counteracted by the economic recession's negative impact on tax receipts, however. As a result, the central government's non-oil revenues fell in real terms, although they held almost steady as a percentage of GDP (above 10%). In contrast, there was an upturn in tax receipts from the petroleum industry following the rise in hydrocarbon prices that began in March. The mean price of the mix of petroleum products exported by Venezuela rose to over US$ 16 per barrel during the year, well above the US$ 9 initially envisaged in the budget and the low US$ 11 yearly average obtained in 1998. This price rise compensated for the lower volume sold. At 6.4% of GDP, tax receipts from oil were slightly higher than in 1998.

The component of expenditure that was hit the hardest by the government's spending cuts was capital expenditure, which fell to less than 3% of GDP, in keeping with the pattern prevailing during most of the decade. Thus, the slight increase in current expenditure was not enough to prevent total central government expenditure from shrinking by one percentage point of GDP, coming in once again below 20%. All this combined to hold the fiscal deficit down to 2.8% of GDP, which was lower than the 1998 figure of 4%.

A portion of oil revenue was allocated to the MSF, in keeping with the new rules adopted for the Fund, and this raised borrowing requirements by the same amount. The funds to make up for this shortfall were obtained on the domestic market, mainly through the issue of Treasury bills and public debt instruments, since stringent borrowing conditions on external markets made them an unfeasible source of financing. The central government made net amortization payments on its external debt equivalent to 1% of GDP. It was not until March 2000 that the government was able to issue bonds on the international market (amounting to 500 million euros) for the first time since 1998.

The rise in oil prices led to a notable upturn in the operating results of the State company Petróleos de Venezuela (PDVSA), and total income for the non-financial public sector (NFPS) climbed from the equivalent of 21% of GDP in 1998 to almost 28% in 1999. Capital expenditure slipped for the third year running, reaching its lowest level of the decade, and fixed investment followed suit (it came to just a little over 5% of GDP). The government was thus able to reduce the overall public-sector fiscal deficit, which ended up at 1.2% of GDP. PDVSA issued debt

Table 1

VENEZUELA: MAIN ECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
	Annual growth rates [b]								
Growth and investment									
Gross domestic product	9.7	6.1	0.3	- 2.3	4.0	- 0.2	6.4	- 0.1	- 7.2
Per capita gross domestic product	7.1	3.6	- 2.0	- 4.5	1.7	- 2.3	4.2	- 2.1	- 9.0
Gross domestic product, by sector									
Goods	10.6	6.0	2.1	- 1.4	4.9	2.3	8.0	- 0.8	- 8.9
Basic services	5.7	5.1	1.4	- 2.2	3.1	1.6	7.9	4.9	1.7
Other services	7.9	5.5	- 1.7	- 2.7	0.9	- 3.9	2.0	- 0.7	- 5.8
Consumption	9.1	6.9	- 0.7	- 4.7	1.2	- 4.9	5.0	0.3	- 3.8
Government	15.2	- 0.2	- 5.2	- 5.9	2.6	- 7.6	4.2	2.2	1.4
Private	8.0	8.3	0.1	- 4.5	0.9	- 4.4	5.1	- 0.1	- 4.7
Gross domestic investment	80.2	38.2	- 18.7	- 29.3	36.5	- 11.0	34.0	- 2.6	- 26.2
Exports of goods and services	4.2	- 2.0	12.0	8.1	6.3	7.8	9.4	4.0	- 11.1
Imports of goods and services	49.6	26.2	- 6.5	- 18.5	23.9	- 11.2	33.9	7.3	- 21.0
	Percentages of GDP [c]								
Gross national income	102.3	98.9	96.9	96.6	97.4	102.4	99.1	90.9	99.4
Gross domestic investment	18.1	23.4	19.0	13.8	18.1	16.0	20.3	19.6	15.6
National savings	21.1	17.3	15.9	17.9	21.0	28.8	25.1	16.0	23.7
External savings	- 3.1	6.1	3.1	- 4.1	- 2.8	- 12.9	- 4.8	3.6	- 8.1
	Percentages								
Employment and wages									
Labour force participation rate [d]	60.1	59.6	58.2	59.1	61.6	62.2	63.8	65.1	66.3
Open unemployment rate [e]	9.5	7.8	6.6	8.7	10.3	11.8	11.4	11.3	14.9
Real average wage (index: 1995=100) [f]	130.1	136.5	124.4	104.8	100.0	76.7	96.3	101.5	92.8
	Growth rates								
Prices (December-December)									
Consumer prices	31.0	31.9	45.9	70.8	56.6	103.2	37.6	29.9	20.0
Wholesale prices	23.1	26.0	47.4	89.5	43.6	105.8	17.3	23.3	13.6
External sector									
Terms of trade (index: 1995=100) [c]	116.0	108.0	100.9	100.0	100.0	115.6	110.8	79.9	107.0
Nominal exchange rate (bolívares per dollar)	56.80	68.40	90.80	149.00	176.75	417.75	488.59	547.53	605.75
Real effective exchange rate for imports (index: 1995 =100)	130.6	124.4	121.3	126.4	100.0	119.2	92.6	76.3	68.3
	Millions of dollars								
Balance of payments									
Current account	1 736	-3 749	-1 993	2 541	2 014	8 914	3 476	-2 562	5 358
Trade balance (goods and services)	2 698	-1 629	90	4 520	3 829	10 501	6 019	- 849	6 710
Exports	16 388	15 514	16 119	17 679	20 753	25 280	25 192	19 021	22 155
Imports	13 690	17 143	16 029	13 159	16 924	14 779	19 173	19 870	15 445
Capital and financial accounts [g]	135	2 699	2 262	-3 901	-3 400	-2 381	63	- 370	-4 324
Overall balance	1 871	-1 050	269	-1 360	-1 386	6 533	3 530	-2 932	1 034
Variation in reserve assets (- indicates an increase)	-2 645	845	144	1 173	1 910	-6 563	-3 078	3 380	- 584
	Percentages								
External debt									
Gross debt (as a percentage of GDP)	67.3	63.6	68.0	70.5	49.7	48.5	35.2	30.9	30.0
Net interest (as a percentage of exports) [h]	-0.2	5.4	6.2	3.9	3.6	0.7	-0.1	-2.3	-1.4

Table 1 (concluded)

	1991	1992	1993	1994	1995	1996	1997	1998	1999 [a]
	Percentages of GDP								
Central Government									
Current revenue	22.8	17.2	16.5	17.1	15.7	19.2	23.1	16.5	16.7
Current expenditure	17.8	15.7	14.3	17.4	15.7	15.1	17.3	16.4	16.5
Saving	5.0	1.6	2.2	-0.2	-0.1	4.1	5.8	0.1	0.2
Capital expenditure (net)	2.1	3.2	2.8	2.4	2.8	2.1	3.0	3.3	2.6
Net loans granted	3.0	2.2	1.9	4.2	1.4	1.4	0.9	0.8	0.3
Financial balance	-0.1	-3.8	-2.5	-6.8	-4.3	0.6	1.9	-4.0	-2.8
	Billions of bolívares								
Money and credit									
Monetary balances of the banking system									
Net international reserves	685	814	910	1 232	1 788	5 721	8 467	8 110	9 497
Domestic credit [i]	431	507	726	1 513	2 301	- 681	1 426	13 333	12 971
To public sector	33	97	345	974	2 052	457	577	1 903	1 497
To private sector	577	768	860	916	1 354	2 708	5 839	6 022	6 558
Money (M1)	366	396	438	1 007	1 339	2 524	4 633	4 938	6 094
Local-currency savings and time deposits	750	925	1 223	1 588	2 196	2 986	4 323	5 684	6 630
M2	1 116	1 321	1 661	2 595	3 536	5 511	8 956	10 622	12 724
	Annual rates								
Real interest rates (annualized, %)									
Deposit rate	...	...	12.1	-11.1	-22.1	-35.3	-24.4	0.2	-2.7
Lending rate	...	...	17.1	-1.7	-13.1	-29.1	-19.4	6.8	6.0
Equivalent interest rate in foreign currency [j]	...	...	50.2	32.4	20.6	22.2	13.9	36.0	20.4

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on bolívares at constant 1984 prices. [c] Based on constant 1995 dollars. [d] Percentages of the working-age population. [e] Percentages of the economically active population. [f] From June 1992 on, includes food and transport allowances. [g] Includes errors and omissions. [h] Refers to net interest as shown in the balance of payments, divided by exports of goods and services. [i] In addition to loans to the public and private sectors, includes the net amount of "Other accounts". [j] Interest rate on deposits, deflated by the variation in the exchange rate.

instruments on the external market, but they amounted to less than the net amortization payments made by the central government, so the financing of the overall deficit had to be borne by the domestic market. The balance of the external public debt thus fell from 24.5% of GDP in 1998 to 21.7% in 1999.

(b) Monetary and foreign-exchange policy

The BCV intervened in the foreign-exchange market in order to ensure that inflation remained on its downward path. This intervention was within the parameters of foreign-exchange policy, which was directed at keeping the exchange rate for the dollar within a range of 7.5% on either side of a parity rate that was devalued each month by 1.28%. This increased the price of the dollar in the course of the year from 564 to 648 bolívares, the average of which implied an appreciation in real terms of 10% with respect to the previous year; the real exchange rate thus accumulated an appreciation of more than 50% over the decade.

Intervention in the money market was directed at reducing the high lending rates seen at the beginning of the year and was undertaken in response to the banking sector's deteriorating performance in the face of falling demand for money in the prevailing recessionary climate. In this regard, the BCV reduced its official discount rate on two occasions, lowering it from 60% in April to 38% in July, and increased the interest-bearing portion of the banking reserve requirement. In August, an agreement was reached by the BCV, the government, the Superintendency of Banks and Financial Institutions, the Deposit Insurance and Bank Protection Fund (Fogade) and the Banking Association of Venezuela to reduce interest rates on lending and raise deposit rates.

Table 2

VENEZUELA: MAIN QUARTERLY INDICATORS

	1997				1998				1999[a]				2000[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	0.4	8.7	9.4	6.7	- 0.1	9.4	- 5.3	- 4.9	- 9.3	-8.90	-5.90	-4.5	0.3
Consumer prices (12-month variation, %)	75.0	43.6	39.2	37.6	38.2	39.1	34.4	29.9	27.6	23.4	21.2	20.1	17.6
International reserves (millions of dollars)	...	16 655	18 330	17 818	15 796	15 499	13 006	14 849	13 442	14 357	13 989	15 164	14 419
Real effective exchange rate [b] (index: 1995=100)	101.2	96.0	90.3	83.0	79.1	76.1	76.4	73.4	68.9	68.2	68.0	68.0	67.9
M1 (change from same quarter of preceding year)	66.5	90.5	109.6	58.4	69.1	39.0	18.8	6.6	-1.6	3.1	10.4	23.4	30.1
Real interest rates (annualized, %)													
Deposit rate	-38.5	-25.3	-17.5	-16.2	-10.5	-4.7	9.2	6.6	0.9	-2.1	-6.7	-3.1	-2.0
Lending rate	-34.6	-20.1	-11.8	-11.1	-4.2	0.3	19.8	11.3	6.5	4.7	5.9	6.9	7.9
Equivalent interest rate in foreign currency	12.7	13.4	14.3	15.3	22.7	32.6	48.4	40.2	30.4	21.2	13.8	16.3	15.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

In addition, the monetary authorities continued to resort to open-market operations to regulate the money supply. These transactions took the form of sales of monetary stabilization bonds (TEMs). Issues of these instruments during the year, which were carried out taking into consideration how the issues of government paper on the domestic market influenced domestic interest rates, were lower in value than amortization payments. As a result, the balance of TEMs in circulation decreased by 40% and their average yield fell from 37% to 12%.

These operations had the effect of boosting liquidity, as did the monetization of a 17% increase in BCV international reserves denominated in bolívares. Both factors were instrumental in the 32% increase recorded in the monetary base. However, given slacker lending activity and the resulting reduction in the money multiplier, the monetary base expanded by only 23% and M2 increased even less, by 20%, which was similar to the rate of inflation.

Interest rates fell steadily, particularly during the first quarter, under the influence of monetary policy, declining from 40% and 33% on loans and deposits, respectively, to around 27% and 14% by year's end. Thus, in March, money yields turned negative again in real terms, after a scant eight months of positive figures. The high lending rates early in the year, together with the economic recession, led to an increase in bank arrears and a major reduction in capital market transactions, despite the fact that bank lending activities were focused mainly on equity investments, given the stagnation of the credit portfolio.

(c) Structural reform

The Executive successfully petitioned Congress for special powers in the form of an enabling act to facilitate the adoption of structural reforms, including the restructuring of the civil service, a partial reform of the customs regime, the creation of the Fondo Social Unico (Single Social Fund) and the Banco del Pueblo (People's Bank), the creation of a public financial system to bolster production activities and amendments to the MSF legislation. An attempt was also made to boost private investment in various sectors by such means as the Electricity Act, the Gaseous Hydrocarbons Act, the Mining Act (a law intended to promote and protect national and foreign investment), the Concessions Act and the Tenders Act.

The reforms introduced in the recently created MSF merit further discussion. Initially, this fund was to be financed by the windfall oil revenues generated when the

price of the dollar exceeded the sliding average of the preceding five-year period. This rule was amended in May 1999, with the resulting change remaining in effect until 2004. During this period, the MSF is to be apportioned half of all income over a benchmark level calculated on the basis of a fixed price of US$ 9 per barrel, after deducting the contribution to the Debt Rescue Fund. This Fund is to be allocated 30% of all tax receipts from oil revenues in excess of the budgeted amount whenever annual debt servicing surpasses 20% of recurrent income. The Executive may disburse the resources accumulated in the MSF subject to consultation with Congress. These modifications changed the basic stabilizing role for which the MSF was originally designed.

At the end of the first quarter of 2000 –the deadline for 1999 contributions– the MSF stood at US$ 1.706 billion (US$ 2.015 billion at the beginning of May) and the Debt Rescue Fund had climbed to US$ 580 million.

3. The main variables

(a) Economic activity

The recession that had begun in 1998 intensified in 1999, and practically all the components of total demand shrank, with the exception of public consumption expenditure (which grew by a little more than 1%, mainly during the second half of the year). Investment decreased by one fourth, for which public and private investment were almost equally responsible. This brought the investment/GDP ratio to its lowest level of the decade, at barely 12.5%. The reduction in public investment was attributable to the difficulties encountered by the public sector in raising financing and, particularly, its rescheduling of plans to expand the oil industry; private investment was curtailed by the climate of uncertainty and political transition, as well as the high price of money and slack demand.

Private domestic consumption also fell sharply, by close to 5%, making it the second most important cause of the economic slump in absolute terms. The main culprit was the 11% reduction in goods and services exports, which was itself a reflection of cuts in production and in exports of hydrocarbons.

Aggregate demand shrank by almost 10%, causing imports of goods and services to plummet by 20% and domestic production to fall by 7.2%. As a result, in 1999 the Venezuelan economy suffered its worst recession of the decade.

The downturn in activity was reflected in all sectors of production except for a very few (e.g., the electricity, gas and water sectors; transport, storage and communications; and government services). The output of the mining sector, which includes hydrocarbons (the production of which edged down from 3.45 million barrels per day in 1998 to 3.16 million barrels in 1999), shrank by 9%; agriculture fell back by 2%; commerce and hotels by 13%; the financial sector by 6%; and construction by 20%. The manufacturing sector turned in a result similar to that of total output, as the production of almost all its main sectors decreased. The reduction in demand was sorely felt in the manufacture of motor vehicles which, with 12,000 units, came to barely a tenth of the level recorded a year earlier.

(b) Prices, wages and employment

Inflation continued on the downward trend begun in mid-1997. The consumer price index (CPI) increased by 20% during 1999, which was substantially lower than the previous year's rate of just under 30% and the lowest for the decade. In September, the monthly rate fell below 1% for the first time since the deflationary episode of March 1988 and the discontinuation of price controls in 1989. In February 2000 inflation fell to 0.4% and in May the year-on-year rate stood at less than 17%. The official target for 2000 was set at 15%.

The fact that inflation slowed at a time when total supply was shrinking at a rapid rate is indicative of the extent to which slack aggregate demand influenced prices. The increase in consumer prices was similar in magnitude to the increase in the money supply (M2).

A number of other indicators also illustrated the fundamental role played by the controlled slide of the exchange rate, despite the drastic reduction in the volume of imports. Both the wholesale price index (WPI) and the producer price index (PPI), which do not take the important sector of non-tradable services into account, rose less than the CPI (13.6% and 9.7%, respectively). The WPI climbed by 15.8% for domestic goods, but by only 6.4% for imported goods. A

breakdown of the CPI shows that, with price rises of 25%, the services sector was primarily responsible for the increase. In contrast, prices in agricultural sector, where the contraction of supply was the mildest, increased by less than 7%. In general, the prices of non-tradables rose by 9 percentage points more than tradables did.

The annual inflation rate served as a point of reference for a public-sector wage hike in May. This increase, which consequently matched the inflation rate, was also extended to private-sector employees under agreements reached among the government, employers and trades unions. For the year as a whole, however, the preliminary results of household surveys indicated that the approximate increase in average income as measured against the previous year was 7% in the public sector and 9% in the private sector. Consequently, the purchasing power of wages fell by over 8% on average for all wage earners. A further hike of 20% was announced in 2000 for the public sector, and an increase was also to be made in the minimum wage, which had been raised from 100,000 bolívares in 1998 to 120,000 in 1999.

The drop in real income was compounded by an increase in unemployment as a result of the economic recession. The number of employed persons decreased over the year, bottoming out during the third quarter. At year's end, there were 18,000 fewer jobs than a year earlier, and during that time the number of persons seeking work had increased by over 225,000. Thus, the rate of unemployment rose from 11.4% at the end of 1998 to 15.3% in the first quarter of 2000. At the same time, employment conditions worsened, and this was reflected in the greater proportion of people employed in the informal sector of the economy (around 52%).

(c) The external sector

The combination of higher oil prices and domestic recession turned the deficit on the current account of the balance of payments into a surplus of US$ 5.358 billion, equivalent to over 5% of GDP. This was enough to compensate for the negative balance on the financial account and produce an overall surplus of over US$ 1 billion.

The surplus on current account was attributable to the large positive balance on merchandise trade, which was well over US$ 9 billion. This was a result of both higher exports and lower imports. The higher level of exports reflected a 36% increase in the value of oil sales, thanks to the ascent of oil prices that began in the second quarter of 1999. This was more than enough to compensate for the reduction in shipments, which fell from an average of 3.1 million barrels per day to 2.8 million between 1998 and 1999, since the average price rose by 45% over the same period of time.

In contrast, non-oil exports fell for the second year running, this time by some US$ 500 million. This was in response both to the weakness of demand on the part of Latin American trading partners, especially Colombia, and to the lower prices of raw materials. After several years of real appreciation of the bolívar, non-oil exports stood at just over US$ 3.7 billion, the lowest level since 1993, and their share in total sales was barely 18%.

The value of total imports also plummeted (–21%) as a consequence of shrinking demand and, to some extent, lower prices for imported products. The decrease was much sharper in imports of capital goods and raw materials. The value of consumer goods rose, despite the reduction in volume, particularly in the case of non-durables. Services imports followed a similar downward trend, especially under the headings of shipping services, which are closely linked to purchases of goods, and travel abroad.

Both factor income and factor payments trended downward. The descent of payments, which include remittances of profits and dividends on direct investment and debt interest, was particularly steep.

The deficit of almost US$ 3 billion on the financial account was mainly the result of the sharp downturn in direct and portfolio investment and the outflow of private capital. The former was principally a reflection of the absence of privatization activity and the fact that no debt issues were floated on international financial markets, while the latter was a direct consequence of the weaker demand for money that was seen because of the precarious state of the economy and of public finances in the early months of the year.

The overall payments surplus enabled the BCV to increase its international reserves to US$ 15.164 billion, the equivalent of 15 months worth of merchandise imports, by the end of 1999. The reserves accumulated in the MSF should be added to this figure.

Part three

Caribbean countries

Member Countries of the Organization of Eastern Caribbean States (OECS)[1]

1. Overview

The economic performance of the countries belonging to the Organization of Eastern Caribbean States (OECS) varied considerably in 1999, although growth was generally positive, ranging from 0.4% in Dominica to 8.2% in Grenada. In Montserrat, however, gross domestic product (GDP) declined by an estimated 1.5% as the country continued its struggle to overcome the effects of the 1997 volcanic eruption. In five of the countries GDP grew faster than in 1998, probably reflecting the cumulative effects of government policy and the product mix in the countries concerned. Value added in the goods-producing sectors tended to decline, while services remained buoyant.

THE FISCAL BALANCE in most OECS countries worsened, with expenditure characteristically outstripping revenue. All the countries recorded overall fiscal deficits, although half of them managed to achieve surpluses on current account. Price rises were kept under control either through policy or because of the quality and direction of the countries' trading patterns. In many cases inflation rates were lower than in the previous year.

1 Antigua and Barbuda, Anguilla, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines.

2. Economic policy

(a) Fiscal management

Central government current accounts were mixed in 1999, reflecting both economic performance and fiscal management. Current surpluses were recorded in Anguilla, Grenada, St. Lucia, and St. Vincent and the Grenadines, while Antigua and Barbuda, along with Dominica, Montserrat, and St. Kitts and Nevis all posted deficits. A number of countries took steps to improve their tax-collection systems to make up for the lower customs revenues resulting from trade liberalization.

In **Anguilla**, the current fiscal surplus narrowed to EC$ 5.7 million or 2% of GDP, versus EC$ 13.1 million (5% of GDP) in 1998, as revenues fell and expenditure increased. Inclement weather late in the year was partly responsible for the lower tax receipts, while capital expenditure retreated by 26.5%, as there was less current saving available to finance it. Of total capital expenditure, 68.4% was financed out of the current fiscal surplus and deposits held at commercial banks. The overall deficit narrowed to EC$ 2.4 million.

Antigua and Barbuda saw its current fiscal deficit widen from EC$ 21.7 million in 1998 (1.3% of GDP) to EC$ 41.5 million in 1999 (2.3% of GDP). Current income grew by 1.4%, with tax receipts up by 3.3%, but the increase was outweighed by current expenditure. Capital spending contracted by 3.3%, despite the development of several major projects, mainly in infrastructure; and the overall deficit rose by 15.2% to EC$ 78.2 million, equivalent to 4.4% of GDP.

Dominica recorded a current deficit of EC$ 6.0 million in 1999, having achieved a surplus of EC$ 8.8 million the year before. Revenues were down by 2.2%, as tax receipts declined; there were also substantially higher outlays, with capital spending rising to EC$ 82.7 million (11.7% of GDP) as the Government made payments for land acquired to construct an international airport. The overall fiscal deficit rose to EC$ 74.0 million, equivalent to 10.5% of GDP.

Grenada achieved a current surplus of EC$ 48.6 million, or 4.7% of GDP. This was significantly better than the previous year's surplus of EC$ 9.2 million (1% of GDP), thanks to a major improvement in tax efficiency that made it possible to raise current income by 18.1% to EC$ 271.7 million. This revenue improvement was supported by a modest increase in current expenditure. Capital spending grew by 8.8% to EC$ 106.4 million, of which over 92% related to outlays on major public-sector projects. Expenditure was financed by foreign loans and grants, plus local financing, and the overall fiscal deficit came in at EC$ 23.0 million, equivalent to 2.2% of GDP.

The current fiscal deficit in **Montserrat** was trimmed to EC$ 31.1 million in 1999 (1.7% of GDP) from EC$ 34.7 million or 1.9% of GDP in 1998, as current income increased and expenditure fell off slightly. More efficient tax administration boosted revenue by 19.7%, while capital expenditure retreated by 22% to EC$ 13.8 million (0.9% of GDP), partly as the result of a lower rate of execution of the public-sector investment programme. The overall fiscal result before grants was a deficit of EC$ 11.9 million, but with grants included there was a surplus EC$ 11.5 million.

St. Kitts and Nevis saw its 1998 current fiscal surplus of EC$ 2.8 million turn into a deficit of EC$ 14.3 million in 1999 (1.7% of GDP). Current expenditure rose by 12.8% while income grew by 5.4%, with improved tax collection raising receipts by 4.7% to EC$ 183.6 million. Capital expenditure dropped back to EC$ 34.6 million on completion of a number of projects, and the overall fiscal deficit ended at EC$ 45.8 million.

The current surplus in **St. Lucia**, at EC$ 85.9 million, was some 19.7% smaller than in 1998. Current expenditure rose by 9.7% to EC$ 354.6 million, with staff remuneration, including wage increases, growing by 1.7%. Capital expenditure rose to EC$ 187.5 million in fiscal year 1999/2000, and the overall deficit was EC$ 26.4 million, or 1.7% of GDP.

St. Vincent and the Grenadines also recorded a smaller current fiscal surplus than in the previous year –EC$ 33.8 million versus EC$ 39.4 million in 1998, or 4.6% of GDP. Total current income increased by 4.9% as a result of better tax administration, while capital spending dropped to EC$ 61.8 million from EC$ 103.3 million in 1998, as a number of public-sector projects reached completion. The overall fiscal deficit narrowed to EC$ 13.6 million from EC$ 25.0 million a year earlier.

Table 1

CARIBBEAN SUBREGION: GROSS DOMESTIC PRODUCT

(Millions of dollars at constant 1995 prices)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
Subregion	**14 264**	**14 359**	**14 441**	**14 883**	**15 298**	**15 726**	**16 028**	**16 429**	**17 094**
Antigua and Barbuda	387	391	410	436	415	440	464	482	503
Barbados	1 567	1 481	1 495	1 547	1 588	1 652	1 691	1 764	1 807
Belize	412	449	468	476	493	500	520	528	558
Dominica	202	207	211	215	218	224	229	237	238
Grenada	219	221	219	226	233	241	252	265	285
Guyana	332	363	406	445	459	498	544	532	548
Jamaica	4 837	4 960	5 051	5 147	5 239	5 226	5 111	5 058	5 092
Saint Kitts and Nevis	164	170	179	188	194	206	221	224	230
Saint Vincent and the the Grenadines	195	208	213	207	223	227	234	247	257
Saint Lucia	324	348	354	360	367	370	369	377	389
Suriname	582	572	505	501	519	559	589	602	593
Trinidad and Tobago	5 041	4 989	4 930	5 134	5 349	5 585	5 806	6 113	6 593

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures.

(b) Money and credit

In **Anguilla** the broad money supply (M2) grew by 8.4% to EC$ 369.8 million, in line with economic activity, while domestic credit expanded at a rate of 36.2%. This growth reflected increased lending to the private sector (up by 29.2%), and a decline in net central government deposits. The country's net foreign asset position deteriorated to EC$ 109.0 million in 1999, 35% below the 1998 level. Liquidity in the commercial banking system tightened during the year, but interest rates remained broadly stable. Rates on savings deposits ranged from 4.0% to 5.0%, while those on 12-month time deposits varied between 2.0% and 5.8%. The prime lending rate fluctuated between 11.5% and 12%, with other lending rates varying between 13.5% and 19.5%.

The total monetary liabilities of the banking system (M2) in **Antigua and Barbuda** grew by 10.5% to EC$ 1,311.7 million, reflecting developments in both the narrow money supply (M1) and quasi-money. Domestic credit expanded by 12.3% to EC$ 1,408.4 million, mainly because of an addition to the stock of private-sector debt. Net credit channelled to central government grew by 16.4% to EC$ 277.4 million, associated with increased lending by the commercial banks, while the net foreign assets of the banking system grew by 12% to EC$ 54.9 million. The ratio of loans and advances to total deposits eased from 100.1% at the end of 1998 to 89.1%, and the cash reserve ratio fell to 6.8%. Interest rates remained stable throughout the year, except for the top rate on six-month time deposits, which edged down marginally from 5.8% to 5.5%.

Developments in the commercial banking system in **Dominica** during the year were dominated by central government bond issues to finance the international airport, and the receipt of European Union (EU) funds to diversify and restructure the banana industry. Commercial banks accumulated net foreign assets amounting to EC$ 40.2 million and remained relatively liquid. Monetary liabilities and domestic credit both expanded while interest rates were stable throughout the year.

Total monetary liabilities (M2) grew by 10.4% to EC$ 468.3 million, with narrow money supply and quasi-money both increasing. Domestic credit grew by 4.6% to EC$ 420.4 million, as a result of higher lending to both the public and private sectors. Central government continued to rely on the banking system for funding, with outstanding credit growing by 6.2% to EC$ 105.2 million. Lending to the private sector increased by 2.4% to EC$ 419.8 million. Net foreign assets held by the banking system rose to EC$ 125.4 million at the end of December 1999, mainly as a result of commercial-sector activity.

Credit, monetary liabilities and net foreign assets all expanded in **Grenada** in 1999. Monetary liabilities (M2) grew by 13.9% to EC$ 854.6 million, as a result of a 9.8% increase in narrow money supply (M1) and 15% growth in quasi-money. Private-sector foreign-currency deposits rose sharply, while private-sector savings and time deposits grew by 12.6% and 15.4% respectively.

Domestic credit extended by the banking system expanded by 7.7% to EC$ 762.4 million, with lending to the private sector increasing by 12.2% to EC$ 767.9 million. Net foreign assets of the banking system grew by 51.7% to EC$ 133.8 million. Interest rates remained broadly stable throughout the year, with prime lending rates ranging from 9.5% to 10.5%, while other rates went as high as 16.0%. Rates on savings deposits fluctuated between 4.0% and 6.0% while those on three-month time deposits varied between 1.5% and 5.5%.

Table 2

CARIBBEAN SUBREGION: CONSUMER PRICES

(Annual variation)

	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
Subregion	**36.6**	**23.4**	**31.3**	**55.2**	**15.6**	**8.5**	**6.6**	**10.0**	**12.9**
Aruba	3.7	4.5	6.4	4.7	3.1	3.1	2.8	1.5	3.7
Bahamas	6.5	3.7	2.4	1.5	1.6	1.1	0.8	1.9	1.4
Barbados	8.1	3.3	-1.0	1.4	2.8	1.8	3.6	1.7	2.9
Dominica	2.0	4.4	1.7	-0.2	1.4	2.0	2.3	1.4	0.0
Grenada	1.1	4.6	3.5	1.8	2.1	3.2	0.8	1.2	0.3
Guyana	1.7	2.6	0.0	16.1	8.1	4.5	4.2	4.7	8.6
Jamaica	80.2	40.2	30.1	26.8	25.6	15.8	9.2	7.9	6.8
Saint Vincent and the Grenadines	...	...	5.0	0.0	3.1	3.6	0.8	3.3	-1.8
Saint Lucia	...	...	0.8	2.9	5.5	1.3	-0.5	2.8	...
Suriname	29.9	57.4	224.9	586.3	37.0	1.2	17.4	...	116.6
Trinidad and Tobago	2.4	8.5	13.5	5.5	3.8	4.3	3.5	5.6	3.4

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Preliminary figures.

In **Montserrat** total monetary liabilities (M2) shrank by 5.2% to stand at EC$ 111.3 million by end-1999, largely as a result of a 16% contraction in the narrow money supply (M1).

Net domestic credit contracted by EC$ 1.6 million in 1999 compared to EC$ 1.4 million a year earlier, as result of reduced lending to the private sector and larger deposits held by non-bank financial institutions, non-financial public-sector enterprises and central government. Construction was the only productive sector to increase its level of borrowing.

The ratio of loans and advances to deposits fell to 19.0%, down by 3.7 percentage points from its 1998 level; the ratio of total liquid assets to total deposits contracted, and the cash reserve ratio fell to 15.7% because of a decrease in net cash reserves (EC$ 44.1 million) and a fall in total deposits (EC$ 15.4 million).

The total monetary liabilities of the banking system (M2) in **St. Kitts and Nevis** grew by 11.3% to EC$ 607.4 million, following a 4% expansion in 1998. This was also reflected in the behaviour of narrow money (M1) and quasi-money.

Domestic credit increased by 22.4% to EC$ 627.0 million during the year, following growth of 5.8% in 1998. While loans outstanding to the private sector expanded by 8.3%, lending to non-bank financial institutions grew by 73.0%; given that the deposits of these institutions more than doubled, the result was an increase in their net deposits position.

The net foreign assets of the banking system fell by 43.3% to EC$ 99.5 million by the end of 1999, following the 25.4% recorded the previous year, as the commercial banks moved from a net asset position in 1998 to net liabilities by the end of 1999.

Liquidity in the commercial banking system tightened, with the ratio of loans and advances to deposits rising to 91.2% by the end of 1999 compared to 87.5% a year earlier.

Commercial bank interest rates remained broadly unchanged, rates on savings deposits varying between 4.0% and 6.0%, while those on three-, six- and twelve-month time deposits ranged from 1.5% to 7.0%. Lending rates fluctuated between 9.5% and 21.6%.

In **St. Lucia**, total monetary liabilities of the banking system (M2) expanded by 9.7% to EC$ 1,093.3 million, with both M1 and quasi-money growing mainly as a result of an increase in private-sector deposits.

Domestic credit grew by 12.6% to EC$ 1,114.6 million following its 3.9% expansion in 1998; this reflected a 10.8% increase in borrowing by the private sector. The strength of bank lending to tourism, transport, and professional and other services was indicative of the buoyant nature of these activities during the period. Net central government deposits rose by 7.4% to EC$ 139.9 million, while total deposits grew by 20.4% to EC$ 203.7 million.

The foreign assets of the banking system declined by 12.1% to stand at EC$ 81.4 million at the end of 1999, compared to EC$ 92.6 million a year earlier; the net foreign assets position of the commercial banks deteriorated by 23.6%.

Liquidity in the commercial banking system remained tight, with the ratio of loans to deposits edging up to 96.4% from 95.2% a year earlier.

Interest rates were stable in 1999: the prime lending rate ranged from 9.5% to 10.5%, while the maximum rate on savings deposits held steady at 6.0% and rates on three-, six- and 12-month time deposits were unchanged at 9.3%.

The broad money supply (M2) in **St. Vincent and the Grenadines** had risen to EC$ 580.5 million by the end of 1999 from EC$ 516.1 million a year earlier.

Domestic credit expanded by 12.1%, following growth of 1.5% in 1998, with net lending to central government rising by 18.6% as a result of increased central bank advances and larger commercial bank treasury bill holdings. Lending to the private sector increased by 12.2%, following growth of 8.8% in 1998, with borrowing for house purchase accounting for most of this.

Net foreign assets held by the banking system rose by 20% to EC$ 215.4 million at the end of 1999, thanks to inflows associated with foreign direct investment (FDI) and larger deposits held by offshore businesses.

The liquidity of the banking system improved during the year: the ratio of loans to deposits eased from 73.0% to 70.8% in 1999, while the ratio of total liquid assets to total deposits edged up from 30.4% to 34.4%.

Table 3

CARIBBEAN SUBREGION: UNEMPLOYMENT RATE

(Percentage of the economically active population)

	1993	1994	1995	1996	1997	1998	1999[a]
Barbados	24.3	21.9	19.7	15.6	14.5	12.3	9.8
Belize	9.8	9.0	12.5	13.8	12.7	14.3	12.8
Jamaica	16.3	15.4	16.2	16.0	16.5	15.5	15.7
Suriname	14.0	12.4	8.4	10.9	10.5	10.6	...
Trinidad and Tobago	19.8	18.4	17.2	16.2	15.0	14.2	13.1

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Preliminary estimates.

3. Economic performance

(a) Economic activity

Value added by tourism in **Antigua and Barbuda**, as measured by the hotel and restaurant sector, increased by 2.7% in 1999, following a 2.2% contraction the year before; the contribution of tourism to GDP remained constant at 13.5%, however. Tourist arrivals by air increased by 1.9%, to 207,862, following their 3.5% decline in 1998. Of total arrivals, 71,313 (34.3%) came from the United Kingdom, representing a 6.1% increase in that country's share of total visitors. The higher number of arrivals from the United Kingdom, which was the result of improved air access and successful marketing, was offset by fewer stay-over visitors from the United States (1.6%), Canada (20.5%) and elsewhere in the Caribbean (6.5%). Arrivals from continental Europe also continued to decline. The number of sea arrivals rose by 7.6% to 23,852, having grown by 7.1% in

1998, while cruise ship arrivals fell by 2.1% to 339,794. Tourist arrivals by yacht declined by 14.2% to 17,358 in 1999, having increased by 9.1% in 1998; there were also 15.3% fewer yacht calls.

Construction was again vibrant in 1999, with value added rising by 8.0% and the sector contributing 13.2% to total output. The former was directly related to the relatively high rate of execution of public-sector investment projects, in which a number of public facilities were built or renovated. There was also considerable private-sector construction activity, including residential housing, commercial buildings and office complexes.

Although value added by the country's small agricultural sector increased by 3.2%, its contribution to GDP dropped to 3.5% versus the previous year's 4.2%. The relatively slow growth in value added was partly due to the impact of Hurricanes Jose and Lenny in the fourth quarter of 1999. Onion was the most widely planted crop with 73.3 acres under cultivation.

The transport sector expanded by 3.8%, having grown by just 0.9% in 1998, with higher value added in air transport contributing significantly to this result. In the services sector, value added in wholesale and retail trade was unchanged at 4.5%, while banking and insurance grew by 7.4% and communications by 7.6%. Value added by government services, the largest contributor to GDP with a share of 15.9%, grew by 3.5%.

Following a 5.2% increase in 1998, real GDP in **Anguilla** grew by 8.2% in 1999, led by construction, which expanded by 21.2%. This sector's robust performance resulted in its contribution to GDP rising to 16.2%, compared to 14.5% in 1998. Construction activity in the private sector centred on hotels and commercial building, while in the public sector the focus was on roads and other categories of infrastructure.

Tourism growth accelerated in 1999, despite the impact of Hurricane Lenny which struck the island in November 1999. Real value added in the sector increased by 6.6% compared to 1.6% in 1998, with the sector's contribution to GDP falling slightly to 32.0%, from 32.5% the year before. The overall performance of the sector was boosted by a 6.6% increase in tourist stay-over arrivals, which totalled 46,782. The number of excursionists declined by 14.3%, contributing to an overall decline of 6.2% in the total number of visitors. The major tourist market continued to be the United States, though arrivals from that country declined by 1.3% in 1999, whereas stay-over visitors from the Caribbean increased by 25.2%. The relative importance of the Italian tourist market continued to make itself felt, with the number of visitors from Italy rising by 33,9%.

The agricultural sector continued to be a small contributor to GDP. Having increased by 7.2% in 1998, real value added by the sector shrank by 11.0% in 1999 in the wake of Hurricane Lenny; the output of crops, livestock and fish were all down from the previous year's levels.

Activity among other services remained buoyant, with value added increasing in all segments except transport, which declined by 3.7%. Manufacturing output grew by 59.9% as the fabrication of concrete blocks for construction started operations.

In **Dominica**, value added in the construction sector increased by 2.8% in 1999, following three years of decline, while the sector's share of GDP edged up to 7.9%. Recovery in the sector was largely due to higher government capital expenditure on schools, housing, sea defences, road works and health facilities. Private-sector construction activity included residential building.

Tourism, as indicated by value added in the hotel and restaurant sector, grew more slowly in 1999 (1.2%) than in 1998 (2.5%), accounting for 2.6% of GDP. The number of stay-over arrivals increased by 12.2% to 73,506, as the promotion of local cultural events attracted visitors to the island. Caribbean visitors dominated the tourist market, accounting for 58% of all stay-overs. The number of excursionists more than doubled to 3,904, but cruise ship passenger arrivals fell back by 17.4% because the main cruise line temporarily suspended calls. Total visitor arrivals declined by 10.3% to 279,350.

The manufacturing sector contributed less to GDP in 1999 than in 1998, with the proportion declining from 8.2% to 6.9%; sectoral value added contracted by 15%.

The major influence on results in the agriculture sector was banana production, which decreased by 3.0% in 1999 to a total of 27,784 tonnes, in the wake of bad weather and as marginal producers continued to leave the industry. The output of non-traditional crops increased, on the other hand.

Agricultural output in **Grenada** grew by 10%, following progressively slower growth rates from 1996 to 1998, and the sector's contribution to GDP edged up slightly from 8.7% to 8.9% in 1999. Agricultural performance during the year largely reflected increased production among the traditional export crops: nutmeg, mace and bananas. Nutmeg and mace output grew by 44% and 82.2% to 3,018 and 277 tonnes, respectively, in response to increased demand and higher prices for these crops both at home and internationally. Banana production expanded from 94 tonnes in 1998 to 584 in 1999, following the resumption of exports to the United Kingdom in the fourth quarter of 1998 as a result of the Banana Rehabilitation Plan.

Table 4

CARIBBEAN SUBREGION: BALANCE ON CURRENT ACCOUNT

(Millions of dollars)

	1993	1994	1995	1996	1997	1998	1999[a]
Aruba	21.6	60.1	- 15.4	- 61.9	- 196.0	21.9	...
Bahamas	49.7	- 41.6	- 148.2	- 271.1	- 665.9	- 994.4	- 667.2
Barbados	69.9	123.8	113.1	76.6	- 0.4	- 8.8	- 50.0
Belize	- 48.5	- 40.1	- 17.2	- 6.6	- 31.9	- 59.8	...
Dominica	- 23.4	- 38.4	- 49.8	- 39.9	- 33.6	- 17.5	...
Guyana	- 136.4	- 100.8	- 94.9	- 53.8	- 105.1	- 96.5	...
Jamaica	- 184.0	93.2	- 172.7	- 237.8	- 400.6	- 322.8	...
Trinidad and Tobago	113.0	221.4	270.0	68.2	- 578.9	- 649.2	16.0

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Preliminary estimates.

Cocoa production continued to decline in 1999, with output falling by 31.4% owing to reductions in acreage planted and in the number of farmers cultivating this crop.

Manufacturing growth, while remaining buoyant, slowed in 1999 to 12.1% from the previous year's rate of 14.1%. The sector's contribution to GDP rose from 7.9% to 8.1% in 1999, mainly as a result of increased production in the food and drink segments.

Construction activity also remained buoyant in 1999, but weakened somewhat on completion, or near completion of major capital projects in both the public and private sector. Sectoral growth amounted to 8.0% in 1999, compared to the previous year's figure of 16.9%. Commercial bank lending for house building and renovation increased by 15.9% during the year.

Tourist activity was broadly stable in 1999, accounting for 7.5% of GDP –the same as the year before. The hotel and restaurant segment grew by 8.2% in real terms, versus 2.1% in 1998, although visitor arrivals declined by 3.3% to a total of 378,874. The latter is explained by a 7.7% decline in the number of passenger arrivals on cruise ships, as one of the major cruise line stopped visiting the island. Stay-over arrivals rose by 8.1% to 125,211, boosted by a larger number of arrivals from the United States and Canada. The number of visitors from the United Kingdom increased by 12.5% to 26,234, while arrivals from other European countries fell back by 42.8%.

In the tertiary sector, government services increased by 5.2% while banking and insurance declined.

In **Montserrat**, construction activity has been the economy's driving force since the volcanic eruption of 1997, and accounted for 26.6% of total GDP in 1999. The pace of activity slowed in 1999, however, as several major public-sector projects neared completion. Private-sector construction mainly related to housing and commercial buildings.

Government services, the second largest sector of the economy in terms of output, shrank to 25% of GDP in 1999 from 31.9% a year earlier, with capital expenditure scaling down as projects were completed. Value added in distribution increased by 41.7%, following a 34.5% decline in 1998.

Tourism grew by 66.7% during the year, versus 45% in 1998, with preliminary data showing that the total number of stay-over visitors increased by 27.0% to 9,785. Visitors from elsewhere in the Caribbean accounted for 53.5% of the year's total, compared to 60.4% in 1998. Negative travel advice linked to the perceived instability of the volcano has continued to undermine growth in this sector.

In agriculture, real value added grew by 16.5%, following a 2.0% contraction in 1998 and a collapse of 81.3% in 1997. Sectoral growth during the year was driven by a 29.3% expansion in vegetable production.

All segments of the service sector in Montserrat registered positive growth in 1999.

In **St. Kitts** and Nevis agricultural value added shrank by 9.9% in 1999, given the continuing decline of sugar-cane production, where output fell by 18% to 196,784 tonnes, after a 21.3% decline in 1998. In the non-sugar agricultural segment, the production of vegetables and root crops grew by 13%, following the previous year's 5% decrease. As a result, overall value added in the sub-sector rose by 7.7% for the year, having fallen by 21.6% in 1998.

Manufacturing activity strengthened in 1999, with value added expanding by 8.0% in real terms following a decline of 0.9% in 1998. This reflected a substantial increase in the production of electronic components for export to the United States. Sugar refining shrank by

27.8% to 17,319 tonnes, as a result of the reduced output of sugar cane.

Following its 28.7% growth in 1998, the tourism industry contracted by 10.4% in 1999, as total visitor arrivals dropped back. Value added in the hotel and restaurant sector fell by 12.6%, as the number of stay-over and yacht-passenger arrivals dwindled following the closure of a major hotel and damage to the cruise ship mooring facility. Stay-over visitors from the United States, the United Kingdom and the Caribbean declined by 13.0%, 2.8% and 9.9%, in that order, while the smaller number of cruise ship calls led to an 11.0% drop in arrivals, following growth of 17.7% and 48.6% in 1997 and 1998, respectively. The number of excursionists rose by 4.3% to 3,006.

Table 5

CARIBBEAN SUBREGION: DISBURSED GROSS EXTERNAL DEBT

(Millions of dollars)

	1993	1994	1995	1996	1997	1998	1999[a]
Bahamas	453.4	410.4	393.4	357.9	362.4	341.0	...
Barbados	352.3	357.2	358.9	365.1	350.1	343.3	...
Belize	167.9	184.0	184.3	219.8	232.7	256.9	...
Dominica	94.1	98.6	103.0	102.4	88.9	109.0	...
Guyana	1 953.5	1 999.5	2 058.3	1 537.0	1 513.0	1 496.5	1 196.0
Jamaica	3 687.2	3 651.8	3 451.9	3 231.9	3 277.7	3 306.4	3 050.0
Saint Lucia	99.0	106.0	117.0	129.0	139.0	184.0	...
Trinidad and Tobago	2 102.4	2 063.5	1 905.2	1 875.8	1 541.1	1 429.8	1 510.0

Source: ECLAC, on the basis of figures from official sources and the World Bank.
[a] Preliminary estimates.

Value added in the construction sector grew by 6.8%, having expanded by 7.0% in 1998. Sectoral growth was boosted as work gathered pace on the construction of two major hotels in the private sector at an estimated cost of EC$ 432.0 million. In the public sector, construction activity involved the building of low and middle-income housing, together with education and health facilities and road refurbishment.

Value added in distribution increased by 4.5%, following growth of 5.6% and 4.2% in 1997 and 1998, respectively. Value added in government services, the largest contributor to GDP with a 15.6% share, increased by 1.1% in 1999, having grown by 4.7% the year before.

Construction was the major contributor to economic growth in **St. Lucia** in 1999, with production expanding by about 6.0% to EC$ 96.1 million. The sector's contribution to total GDP edged up to 8.3% from 8.1% a year earlier. A major part of construction activity involved public-sector expenditure on roads, bridges, commercial development and a free-zone goods distribution complex. Private-sector building activity included hotels and private housing.

Total tourist arrivals declined by 0.8%, as a result of fewer cruise ship calls. This was offset to some extent by a 4.6% increase in the number of stay-overs from France, the United Kingdom and the United States, while the number of cruise ship visitors fell by 5.6% to 351,233, following the previous year's 19.9% increase.

Agricultural output declined, mainly as a result of a smaller banana crop, estimated at a total of 65,196 tonnes for the year – 11% down from the 1998 figure.

Agricultural value added in **St Vincent and the Grenadines** shrank by 5.7% in real terms, following growth of 8.3% in 1998. The main reasons for this included the drop in banana production and a reduced fish catch. Banana output declined by 6.3% to 37,386 tonnes, which accounted for 28.6% of total banana production in OECS countries. In the "other crops" segment, value added was marginally higher.

Construction contracted in 1999, with value added declining by 4.1% following the conclusion of several large public-sector projects in 1998 and early 1999. These projects were part of a government policy to improve air and road transport, along with health and education facilities. Manufacturing continued to decline in 1999, with value added falling by 1.6%.

The indications are that tourism grew by 9.1% in 1999 as larger numbers of stay-over, cruise and yacht

visitors came to the island. Arrivals from the United Kingdom and Canada rose on the order of 3.6% and 1.3%, respectively, while the numbers of visitors from the Caribbean and the United States were broadly unchanged. The number of excursionists declined by 16.4%.

(b) Inflation, wages and employment

Inflation was kept under control through policy and through the quality and direction of OECS countries' trade. In many cases price increases in 1999 were smaller than in the previous year.

Wage hikes in 1999 were generally similar throughout OECS, with increases in the private sector ranging from 3% to 10%. In Antigua and Barbuda, public-sector wages rose by 5%, versus 4.4% in the private sector. Unemployment is estimated to have risen, although the number of job seekers registered with the labour department fell during the year. Public-sector wage increases ranged between 3% and 6% in Antigua and Barbuda, Anguilla, Dominica, Grenada, Montserrat, St. Kitts and Nevis and St.Vincent and the Grenadines; while there were smaller increases in St. Lucia on the order of 2%. Private-sector unemployment is estimated to have fallen in Dominica, while rising in Anguilla and in St. Kitts and Nevis. In Grenada and St. Lucia, unemployment figures were not readily available.

There is no consumer price index in Antigua and Barbuda, although an indirect estimate of inflation can be obtained from the GDP deflator, which rose by 1.9% in 1999. Inflation rates ranged from -1.8% in St. Vincent and the Grenadines to 3.5% in St. Lucia. Prices rose by 0% in Dominica, -1% in Grenada, 0.8% in Montserrat, 1.8% in St. Kitts and Nevis, and by an estimated 2.5% in Anguilla.

(c) Trade and Payments

The basic similarity of the production and consumption structures in all OECS countries is echoed in their balance-of-payments figures. Current account balances were generally negative, with deficits in goods and services revealing the countries' dependence on trade with the rest of the world, in which they export a narrow range of goods and services and import most of what they consume.

In **Anguilla** the overall balance of payments stayed in surplus, at EC$ 5.0 million or 1.8% of GDP, although the current account deficit widened considerably to EC$ 128.8 million versus EC$ 51.4 million in 1998. The goods, transport and income accounts posted deficits amounting to EC$ 211.4 million, EC$ 49.6 million and EC$ 11.2 million, respectively.

The surplus on service trade for 1999 came in at EC$ 86.6 million or 31.0% of GDP, compared to EC$ 112.0 million, or 43.8% of GDP in 1998. The balance on the travel account improved slightly to EC$ 145.1 million, associated with visitor arrivals.

The surplus on the capital and financial account grew to an estimated EC$ 133.8 million (47% of GDP) in 1999, versus EC$ 56.5 million (20.2% of GDP) in 1998, boosted by a substantial increase in foreign direct investment (FDI).

The overall external surplus in **Antigua and Barbuda** strengthened from EC$ 23.4 million in 1998 to EC$ 28 million (1.6% of GDP) in 1999, although the current account deficit widened from EC$ 192.4 million to EC$ 264.9 million, largely as a result of import growth of 8.8%. The travel account posted a slightly larger surplus than in 1998, as a result of tourist industry growth, with higher number of visitor arrivals by both air and sea. Net current transfers increased by 5.8% to EC$ 73.3 million and were generally destined for the private sector.

Net inflows on the capital and financial account rose to EC$ 292.8 million in 1999 from EC$ 215.9 million the year before, with long-term lending to the public sector expanding.

In **Dominica**, the overall balance-of-payments surplus grew from EC$ 10.2 million in 1998 to EC$ 29.3 million in 1999, as a result of movements on both current and capital accounts. The current account deficit widened to EC$ 89.8 million in 1999 (12.7% of GDP) from the previous year's EC$ 77.8 million, largely as a result of weaker merchandise trade. Net inflows from services trade increased by 6.7% to EC$ 70.1 million, equivalent to 10.0% of GDP, while a 6.3% increase in the number of visitors generated income estimated at EC$ 109.7 million. The capital and financial account surplus grew from EC$ 88.0 million to EC$ 122.9 million in 1999, thanks almost entirely to central government bond issues during the year. Net inflows on the financial account rose by 71.2% from EC$ 50.4 million to EC$ 86.3 million, reflecting foreign investment in bonds issued by the Government of Dominica amounting to approximately EC$ 110.9 million.

The current account deficit in **Grenada** grew to an estimated EC$ 288.3 million in 1999 from EC$ 244.2 million the year before, with the visible trade gap widening by 8.5% to EC$ 401.5 million. The value of merchandise imports increased by 10.8% to EC$ 547.4 million, while merchandise exports grew by 18.7% on

the back of higher nutmeg and mace prices. The value of cocoa exports declined by 36.7% as a result of lower volumes exported.

Although the surplus on services trade increased to EC$ 126.9 million, following the previous year's downturn (EC$ 117.3 million), it has still not regained its 1995-1997 levels. Income from travel explains much of the improvement, although net inflows associated with government services also increased substantially to turn an EC$ 18.9 million deficit in 1998 into a surplus of EC$ 2.1 million year later. The net surplus on other business services slipped from EC$ 13.1 million in 1998 to EC$ 12.8 million in 1999.

The capital and financial account surplus grew by 17% to EC$ 299.2 million in 1999, thanks to a significant increase in net inflows in the "other investment" category, where the surplus more than doubled from EC$ 41.2 million to EC$ 100.1 million, in the wake of private-sector borrowing. Long-term credit to the public-sector was also substantially higher, rising from EC$ 10.5 million in 1998 to EC$ 25.5 million in 1999.

Movements on the current and capital accounts combined to record an overall balance-of-payments surplus of EC$ 10.9 million.

In **Montserrat**, the current-account deficit narrowed by 13.8% to EC$ 43.7 million (equivalent to 40.3% of GDP), thanks mainly to better results on the merchandise trade, transport and travel accounts. Net inflows on the capital and financial account shrank by 83.1% to EC$ 14.6 million, or 13.6% of GDP, following positive growth in 1998. On the capital account, net transfers increased to EC$ 13.3 million, on the back of capital grants from the British government, while the net surplus on the financial account shrank to EC$ 1.3 million, versus EC$ 77.4 million in 1998.

The country's net external position deteriorated, as the previous year's balance-of-payments surplus of EC$ 36.4 million became a deficit of EC$ 29.0 million in 1999.

St. Kitts and Nevis saw its current account deficit widen to EC$ 211.4 million in 1999 from the previous year's figure of EC$ 113.2 million, partly as a result of larger shortfalls both in goods and services trade and on the income account. Despite remaining positive overall, net trade in services weakened as the travel account retreated by 12.8% from its 1998 surplus of EC$ 189.4 million.

Net inflows on the income account grew by 20.4% to EC$ 84.2 million (10.2% of GDP), reflecting higher investment by commercial banks and insurance companies. Net current transfers were concentrated in non-government sectors and fell back to EC$ 50.0 million from their 1998 level of EC$ 82.3 million. Net inflows on the capital and financial account increased by 61.6% to EC$ 218.7 million in 1999, mostly related to FDI inflows.

The outcome of all these movements was an overall balance-of-payments surplus of EC$ 7.3 million.

St. Lucia recorded an overall surplus of EC$ 10.6 million, significantly down from the EC$ 25.7 million of 1998 as a result of developments on both the current and capital accounts.

On current account, the deficit widened to EC$ 211.7, from EC$ 181.1 million in 1998, mainly as a result of a deterioration on goods and services trade, where the deficit grew from EC$ 111.5 million to EC$ 134.3 million in 1999. Within this account, the merchandise trade gap widened by 8.7% to EC$ 683.1 million, with goods exports falling by 5.2% to EC$ 159.1 million, caused partly by a 4.9% drop in banana export earnings.

Net current transfers shrank to EC$ 44.6 million, owing to significantly smaller transfers to the private sector, while inflows to the government sector grew. The surplus on the capital and financial account increased to EC$ 222.3 million in 1999, compared to EC$ 206.7 million in 1998, mainly reflecting movements on the financial account, where the surplus grew from EC$ 147.0 million to EC$ 181.9 million.

St. Vincent and the Grenadines achieved an overall balance-of-payments surplus of EC$ 10.4 million in 1999, although the merchandise trade gap widened to EC$ 343.9 million, or 38.6% of GDP, with export receipts shrinking by 7.1% to EC$ 133.4 million, as banana earnings fell in the wake of unfavourable prices.

The net surplus on the services account grew by 3.1% to EC$ 149.6 million in 1999, with net travel income rising by 3.5% to EC$ 185.7 million.

Net outflows on the income account weakened to 4.0% of GDP in 1999, as a result of lower levels of repatriation of investment income. The surplus on the capital and financial account slipped from EC$ 213.0 million in 1998 to EC$ 202.3 million in 1999, owing to a decline in both direct investment and inflows related to public-sector projects.

Bahamas

Preliminary figures show that the Bahamian economy achieved positive growth in 1999, at a rate reflecting the country's restored and augmented tourism capacity plus expansions in construction and financial services. Inflation, which is largely determined by external cost conditions, was held to an extremely mild rate of 1.3%. In this situation, stable money and credit trends allowed for some relaxation of monetary policy, making it possible for fiscal expenditure to be geared towards achieving social targets. Provisional estimates of the balance of payments for 1999 point to a significantly smaller current account deficit ($ 667.2 million), despite a wider trade gap resulting from higher non-oil imports.

1. Economic policy

Government policies were aimed at improving social, health and public-safety. On 1 July 1999 the Government devolved its three hospitals to the Public Hospitals Authority in a move to improve efficiency, and it reaffirmed its commitment to provide affordable low- and middle-income housing through the government-guaranteed mortgage loan programme and the sale of building lots. It also approved the Physical Landscape Act aimed at conserving and protecting the landscape; this created a list of protected trees and provided tighter regulations on cutting down or excavating virgin forest for development.

Government budgetary allocations reflected priority policy areas, with health care, education, the criminal justice system, social services, youth and the environment all figuring prominently. Overall, government expenditure for fiscal year 1999/2000 was expected to exceed income by $ 66.8 million, some 5.5% below the preliminary estimate for fiscal 1998/1999.

The direct charge on the Government for calendar year 1999 rose by $ 80.8 million to $ 1,512.3 million, following a $ 56.4 million increase to $ 1,431.5 million in 1998. Contingent liabilities grew by $ 21.4 million to $ 354.3 million, mainly as a result of a government bond issue in March 1999 to fund the construction of a bridge, together with external borrowing. The national debt rose by $ 102.2 million to $ 1,866.6 million by the end of the year. Of this, however, outstanding public-sector debt in foreign currency (which includes borrowing accounted for as domestic debt) fell by 1.1% to $ 374.9 million during calendar 1999. Debt service in foreign currency declined by 2.5% to $ 69.5 million, consisting of $ 45.5 million in principal and $ 24.0 million in interest charges.

The Central Bank of Bahamas eased monetary policy in late June 1999, lowering the discount rate by 75 basis points to 5.75% and increasing liquidity. As a result, narrow money (M1) expanded by 27.1% during the year, compared to about 15% in 1998, and banks lowered their prime rates from 6.75% to 6% as of 1 July, for the first time since April 1994. The average 90-day treasury bill rate fell to 19.7% at the end of 1999. Although deposit and lending rates were both lower, the spread between the two widened from 6.76 to 7.34 percentage points.

The drop in interest rates caused fixed-term deposits to increase by a modest 4.4%, and although the growth in savings deposits more than doubled to 25.1% in 1999, broad money supply (M3) expanded by just 11.8%, versus 15.8% in 1998. Currency in circulation grew by 18.2% in 1999, following a 14.5% increase the year before, while demand deposits expanded by 29.5%, compared to 15.1% in the previous period.

2. Economic performance

Refurbished and augmented tourist capacity in New Providence, together with associated activity in the construction and financial services sectors, ensured a healthy rate of economic growth in 1999, although its extent cannot yet be precisely quantified in the absence of official GDP figures.

Tourism recovered strongly in 1999 as major hotel renovations were completed, and visitors responded to active marketing by taking up the extra capacity. Arrivals increased by 9% to 3,648,291 during the year, following a 3.1% contraction in 1998. Preliminary data indicate that visitor expenditure grew by some 11% to $ 1.5 billion, having fallen slightly in 1998. Capacity expansion and improvements in accommodation are expected to continue into the year 2001.

Construction activity peaked in 1998 on completion of a major hotel project, before declining somewhat in 1999; nonetheless, the sector continued to provide a stimulus to output and employment growth throughout the year. Estimates for the first nine months of 1998 and 1999 indicate a 15.7% reduction in building starts in the latter year, with value falling by slightly less to $ 123.0 million. The number of building completions dropped by 7.2% in 1999 to 886 units, but value rose by some 29.3% to $ 169.4 million, versus $ 127.9 million in 1998.

Agricultural value added declined by an estimated $ 8.8 million to $ 45.0 million, with crop production dropping by 21.6% to $ 15.7 million in the major producing areas, as a result of damage by tropical hurricanes. Estimates from the Department of Fisheries for the first nine months of 1999 show a slight rise in output in this sector, as larger fish and lobster catches, coupled with better prices, helped to boost recovery. The value of fish catches increased by some 7.8% to $ 46.8 million, despite volume declining by 2.5% to 7.9 million pounds. Crawfish tails were the dominant component of catches, accounting for 47.6% of total volume and 81.4% of value.

Inflation, as measured by the change in the annual average retail price index, amounted to 1.3% in 1999, essentially reflecting the stable inflationary environment in the country's main trading partner, the United States. The largest individual price increases were seen in education costs (12.2%) and in recreation and entertainment (4.3%).

Provisional balance-of-payments estimates for 1999 point to a considerable narrowing of the current account deficit ($ 667.2 million versus $ 994.4 million in 1998). The shortfall for the year was mostly financed by the $ 605.2 million surplus on the capital and financial account, with Central Bank external reserves being drawn down by $ 65.3 million.

The merchandise trade gap widened by 3.9% to $ 1,427.6 million, mainly as a result of larger non-oil imports, despite the fact that fish exports increased in value by 20.9% during the year to $ 71.4 million, the bulk of this ($ 70.6 million) being accounted for by crawfish. Services trade was in surplus by $ 859.7 million –a 58.4% increase over the previous year's figure of $ 542.8 million, due mainly to an 8.8% increase in net tourism receipts.

On the income account, net factor payments fell by 31.3% to $ 135.8 million in 1999, as a result of a 17.4% increase in payments to foreign labour and a 41.6% drop in the net repatriation of investment income. Net transfers increased by 6.3% to $ 36.4 million in 1999, partly as a result of larger net inflows to the Government, which rose from $ 38.0 million to $ 41.5 million in 1999. Net private-sector remittances grew moderately to $ 5.1 million during the year.

The estimated surplus on the capital and financial account, although 25% below the 1998 figure, is still the second highest on record and is explained by the major hotel construction and refurbishment projects mentioned above. Net outflows in respect of migrant transfers, at $ 14.6 million, were slightly higher in 1999 than the $ 11.7 million recorded the year before, while private-sector direct investment rose slightly to $ 146.6 million. In the public sector, net borrowing of $ 17.0 million was a reversal of the situation in 1998 when the Government ended the year with a net repayment of $ 11.4 million. Net short-term inflows through the banking system increased significantly to $ 95.3 million in 1999, up from $ 29.9 million the year before.

Barbados

The Barbadian economy recorded its seventh straight year of growth in 1999, expanding by an estimated 3.2% compared to 4.2% in 1988. Employment levels were also higher and the inflation rate was low. The non-traded sectors grew faster than tradables for the third successive year, with the result that foreign exchange earnings weakened and the balance-of- payments deficit on current account grew by slightly over one percentage point compared to the 1998 figure. The Government scaled back its capital investment programme to prevent the economy from overheating, and liquidity was tightened to protect foreign exchange reserves, which were replenished in the second quarter of 1999 with a $ 150 million loan raised on the regional capital market.

BARBADOS: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual growth rates		
Gross domestic product	2.4	4.3	2.5
Per capita gross domestic product	2.0	3.6	2.1
Consumer prices	3.6	1.7	2.9
Real effective exchange rate [b]	-5.8	1.8	-0.9
	Percentages		
Unemployment rate	14.5	12.3	9.8
	Millions of dollars		
Balance on current account	-50.0	-56.5	-52.5
Disbursed gross external debt	349	343	...

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates. [b] A negative rate signifies a real appreciation.

1. Economic policy

The economic authorities successfully managed the trade-offs between growth, low inflation, higher employment and protection of the country's foreign reserves. Fiscal management had to deal with revenue that undershot expectations, while monetary policy, which was tightened late in the year, was used to balance conflicting objectives.

Central government operations incurred a deficit during calendar 1999, estimated at $ 101.635 million; this was equivalent to 2% of GDP and was significantly worse than the previous year's shortfall of $ 39.740 million. Total expenditure and net lending grew by 5.2% over the same period, while current revenue for the calendar year totalled $ 1.546 billion, virtually unchanged from its 1998 figure of $ 1.527 billion.

Bank lending to the private sector grew in the first half of the year to support demand from the personal, distribution and construction sectors, and by year-end

had posted an expansion of $ 308.4 million - more than the growth of domestic deposits ($ 276 million). Expansion led to strong import demand and caused the Central Bank to take steps to restrain foreign exchange losses; these entailed increasing the cash reserve ratio from 5% to 6% and raising the discount rate by one percentage point to 10%. To further absorb liquidity in the system, the Central Bank allowed 1.5% of deposits in the domestic banking system to be invested in foreign securities. Apart from this, the minimum savings rate was raised from 4% to 5% in order to encourage saving and restrain spending, following a slowdown in the growth of domestic deposits. By the second half of the year, lending to the private sector had moderated, and the excess liquidity ratio had fallen by year's end to 4% from the 8.5% recorded a year earlier.

2. Economic performance

Construction continued to be the main driving force in the non-traded sector, which grew by 4.7% in 1999. Ongoing investment in commercial, residential and hotel properties generated sectoral growth of 9.3% versus 13% the year before, while the distribution sector expanded by 4.5% (6.2% in 1998).

Growth in the tourism sector, at 0.2%, was the lowest since 1993. Cruise passenger arrivals declined by 14.6% while the number of stopover visitors increased by 1.1%. Activity in the international business and financial sector expanded in 1999, despite a slowdown in the entry of new competitors.

Manufacturing output declined by 0.8% following five years of growth, as the industry adjusted to the challenges of trade liberalization. Beverages and food processing shrank by 4.2% and 2.6%, respectively, and the closure of the oil refinery in 1998 meant a discontinuation of the production of petroleum products. Relatively strong growth in the construction sector led to an 11.5% increase in the output of other non-metallic mineral products.

Following the 25.7% drop in sugar production in 1998, favourable weather conditions made possible a larger cane harvest in 1999, and production recovered by 10.8% to 53,196 tonnes. Increased acreage harvested and better weather offset a late start to the cane harvest caused by protracted wage negotiations, but sugar exports to the European Union were slightly below the quota notwithstanding the year's larger crop.

Non-sugar agriculture declined by 6.5%, after first-quarter results had held out the promise of growth for the year as a whole. Changing marine conditions caused by the "La Niña" weather pattern resulted in a 15.1% decrease in the volume of fish caught, contrasting sharply with the 29.3% increase in 1998. Milk production decreased by 12.2%, as result of a prolonged rainy season compounded by management/ownership changes in the sub-sector. Chicken production rose by 4%, on the back of stronger demand as consumers bought poultry instead fish, which was in short supply.

The annual average of the "All Items" retail price index rose by 1.5% over its 1998 level, following the 1.2% fall registered in 1998. Categories that were responsible for the increase included food, housing and education. The higher level of economic activity helped to bring unemployment down to 11.8% by December 1999, versus 12.3% a year earlier.

The balance-of-payments deficit on current account widened for the third year running, to 3.6% of GDP –slightly more than one percentage point above the 1998 figure. This resulted from slower growth of foreign receipts and high import demand. Although export earnings grew by some 3.5%, on the back of stronger electronic component sales, net receipts from trade in services were sluggish, with earnings from tourism increasing by just 0.1%, following the closure of two major hotels. On the import side, retained merchandise imports grew by 5% in 1999 to approximately $ 2.135 billion. Consumer goods imports increased by 7.4% and capital goods, by 16%. Motor vehicle imports were up by 15%, while imports of food and beverages grew by 8.5%. A major portion of the capital goods purchased abroad consisted of machinery for use in the construction industry. Intermediate good purchases, destined mainly for the manufacturing industry, contracted for the second year in a row.

Net international reserves (NIR) held by the monetary authorities expanded by $ 70.9 million in 1999, thanks largely to the $ 150 million loan raised on the regional capital market; this implied an increase in import cover from 12.9 weeks in 1998 to 14.1 by the end of 1999.

Guyana

Real GDP in **Guyana** grew by 3% in 1999, in contrast to its 1.3% decline in 1998. The agricultural sector responded well to favourable weather conditions and technological improvements, while manufacturing recovered strongly; mining, on the other hand, lost ground. Inflation rose to 8.6%, with wages and salaries increasing considerably following strong trade-union pressure; this prompted the authorities to tighten monetary conditions. Labour unrest led to a drop in registered imports and a narrowing of the merchandise trade gap.

GUYANA: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
	Annual growth rates		
Gross domestic product	9.1	-2.2	3.0
Per capita gross domestic product	8.0	-3.2	1.9
Consumer prices (annual average)	4.2	4.7	...
Real exchange rate[b]	-2.5	1.7	12.3
	Percentages		
Interest rate on deposits	8.6	8.1	9.3[c]
Interest rate on loans	16.9	16.9	17.1[c]
	Millions of dollars		
Exports of goods and services	593	549	578
Imports of goods and services	642	601	620
Balance on current account	- 105	- 97	...
Disbursed gross external debt	1 514	1 500	1 196

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates and projections. [b] A negative rate signifies a real appreciation.
[c] As of the end of June.

1. Economic policy

The Government pursued a number of social and economic policies through its Public Sector Investment Programme (PSIP), specially targeting the following five priority areas: health care, education, water supply and sanitation, home ownership, and improvement and expansion of the economic infrastructure.

Despite a 55-day strike by public-service workers in the second quarter of 1999, central government current income surpassed its target for the year. Tax revenue expanded to G$ 36.6 billion in 1999 –some 4.7% above the budget of G$ 34.9 billion and 10.5% higher than the 1998 figure. Major factors behind this result included a greater-than-expected increase in national output, and a change in the method used by the Inland Revenue Department to assess company tax liabilities.

Customs revenue grew by some 6.1% in 1999 to G$ 15.9 million, but still ended nearly G$ 200 million short of the target, owing to difficulties in clearing imports through customs during the strike by public-service workers.

Central government current expenditure for 1999 is estimated at G$ 24.1 billion, up by 22.5% from the previous year, partly as a result of large increases in wages, salaries and allowances. Staff emoluments

amounted to an estimated G$ 11.8 billion –some G$ 2.7 billion more than in 1998 and G$ 2.2 billion above budget. Of the latter figure, about G$ 1.6 billion is accounted for by higher wage and salary payments to public-sector employees, while a further G$ 500 million was used to meet the cost of higher allowances.

Both foreign and domestic interest payments were below budget. Scheduled foreign interest payments amounted to G$ 6.5 billion, but thanks to the debt relief extended under the Highly Indebted Poor Country (HIPC) Initiative, interest actually paid only came to G$ 3.9 billion. Capital expenditure and net lending declined by G$ 600 million to G$ 12.3 billion.

The overall deficit excluding grants narrowed to G$ 9.9 billion, or 8.2% of GDP. Of this, G$ 6.6 billion was funded through HIPC relief and non-project grants, while the remainder was mainly financed through other external flows.

Revenues received by public-sector enterprises and the National Insurance Service totalled G$ 50.0 billion in 1999, compared to G$ 50.2 billion in 1998. Although increased production and exports of sugar, supported by a weak Guyanese dollar, boosted income at the State-owned sugar company, revenues earned by the bauxite and rice industries were hit by lower export prices.

Monetary policy focused on price and exchange-rate stabilization by absorbing excess liquidity in the financial system. The monetary base shrank by 4% in 1999, following its 11.8% increase during the previous year, with Central Bank liabilities to the commercial banking system decreasing by 20%. Broad money grew by 12.1%, however, in contrast to its 6.8% expansion in 1998, with narrow money expanding by 21.1%. Both components of the narrow money aggregate grew more strongly than in 1998: demand deposits expanded by 25.7%, compared to 4.7% in 1998, while currency in circulation grew by 18.4%.

Despite a moderation in overall net domestic credit expansion, loans and advances to the private sector increased by 7.7%. This mainly reflected larger deposits by the public sector and subdued private-sector borrowing, despite a fall in the weighted-average of commercial-bank lending rates. About 18% of outstanding private-sector loans were in the manufacturing sector, 19% in the distribution and personal sector and 15% in agriculture. Domestic debt rose to 35.3% of GDP, up from 31.9% at the end of 1998.

2. Economic performance

Real GDP grew by 3% in 1999, driven mainly by agriculture; this exceeded the target rate of 1.8% in sharp contrast to the 1.3% decline recorded the previous year.

Sugar production increased by 25.8% from its 1998 level as a result of favourable weather conditions, new cane varieties, better yields and the application of science and technology. The 321,438 tonnes of sugar produced in 1999 was the highest level of output since 1978. Rice production grew by 7.6% to 365,469 tonnes in 1999, also thanks to better weather.

Forestry output totalled 498,400 cubic metres in 1999, some 12.9% higher than the previous year. Livestock production grew significantly in response to government support for the sub-sector, while poultry meat expanded by 10.2% to 12.4 million kg, and egg production grew by 7% to 25.7 million.

Output from the mining and quarrying sector fell by 8.4% in 1999, with gold production falling by 8.9% to 414,390 ounces, and bauxite increasing by 4.1% to 2,359,272 tonnes. Both calcined and chemical-grade bauxite production declined, however, by 27% and 33% respectively, although this was partly offset by an 8.4% increase in the production of metal-grade bauxite.

Manufacturing recovered strongly in 1999 to grow by 6.8%, boosted by a combination of aggressive marketing techniques, greater processing capacity and increased use of modern technology by manufacturing enterprises. Garment production declined by 1.5%, on the other hand, because of weaker demand on foreign markets, and the engineering and construction sector shrank by 10%, largely because of a cutback in the public-sector investment programme.

Prudent monetary and fiscal policies helped to contain inflation to single digits, despite strong cost pressures. Nonetheless, prices rose by an average of 8.6%, compared to the 4.6% recorded in 1998. Factors contributing to this included a weakening of the Guyanese dollar, quarterly increases in electricity rates and a major hike in fuel prices during the second half of the year.

Other cost pressures stemmed from the substantial wage increases awarded in 1999 in response to strong union pressure. The salaries paid to traditional public servants rose by 31%, and the minimum wage was raised

pari passu from G$ 11,445 to G$ 15,000 per month. Wage increases for other categories of public-service workers varied between 8.5% and 12%.

The merchandise trade gap narrowed to US$ 25.2 million from US$ 54.2 million in 1998, largely because of slower import growth. Although agricultural exports increased in volume terms, total merchandise export earnings fell by 4% to US$ 525 million. In the case of sugar, the volume exported increased by 19%, but a significant drop in the average price from US$ 544.8 per tonne in 1998 to US$ 483.5 per tonne in 1999, meant that receipts grew by only 5.6%. Rice displayed a similar pattern: the average export price dropped to US$ 282.7 per tonne from US$ 293.5 in 1998, and earnings shrank by 3% to US$ 71.1 million, despite a slight increase in the volume exported. Gold and bauxite prices were also down, leading to lower export earnings in 1999. In the case of timber, on the other hand, a combination of higher prices and a larger export volume generated revenues of US$ 37.3 million in 1999, some 20.3% higher than in the previous year.

Merchandise imports declined by 8.5% to US$ 550.2 million, with imports of consumer and capital goods shrinking by 9.7% and 16.7% respectively. Part of the reason for the slowdown in imports in 1999 related to widespread labour unrest during the first half of the year. Net services imports amounted to US$ 89 million –virtually unchanged from the previous year– while net transfer payments were US$ 5 million lower at US$ 39 million. The goods, services and transfer accounts combined to reduce the current account deficit from to US$ 75.2 million from US$ 98.5 million in 1998, while the capital account surplus narrowed slightly to US$ 71.4 million versus US$ 79.8 million the year before. The overall balance-of-payments deficit went down to US$ 4.4 million in 1999 compared to US$ 22.7 million in 1998.

Jamaica

According to preliminary estimates, GDP in **Jamaica** declined by 0.4% in 1999. Output in the goods-producing sectors fell by 0.8% in real terms, in response to international and local factors, while the services sector grew strongly. Depressed domestic demand was the main reason for the decline, despite a substantial liquidity expansion and lower interest rates. This also helped to keep inflation in check at 6%, but was unable to prevent a worsening of the balance of payments, with net international reserves shrinking by US$ 131.8 million.

JAMAICA: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
Annual growth rates			
Gross domestic product	-2.2	-1.0	0.7
Per capita gross domestic product	-3.1	-1.9	-0.2
Consumer prices	9.2	7.9	6.8
Nominal exchange rate	-4.6	3.2	6.9
Real effective exchange rate[b]	-14.1	-6.1	-7.6
Percentages			
Unemployment rate	16.5	15.5	15.7
Real interest rate on deposits	3.9	6.4	6.9
Real interest rate on loans	24.3	24.0	21.8
Millions of dollars			
Balance on current account	- 312	- 255	- 239
Disbursed gross external debt	3 278	3 300	3 050

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates. [b] A negative rate signifies a real appreciation.

1. Economic policy

Economic policy concentrated on consolidating past stabilization gains, while creating more favourable conditions for real economic growth. Major objectives continued to include bringing inflation down in line with rates in the country's main trading partners, and reducing the fiscal deficit to give more space for private-sector lending in an inflation-targeting context. The Government continued to cushion the impact of negative supply shocks, such as the effect of NAFTA on Jamaica's international competitiveness; the "gas price" demonstration in April 1999, which hurt the tourism industry; the 1999 accident at the Gramercy Alumina Refinery in Louisiana, United States, which resulted in lower bauxite exports; and uncertainties surrounding the millennium date change (the Y2K problem), which discouraged tourism still further.

The fiscal deficit for the nine months to December 1999, excluding amortization payments, fell to $ 16.1 billion –a decrease of some 15.7%. This was the result of a 16.8% increase in revenue and grants, which rose to $ 63.8 billion by December 1999, following a 12.5% increase in 1998. At the same time, total expenditure grew by 8.5% to $ 79.9 billion as at December 1999. The fiscal out-turn was nevertheless worse than the programmed shortfall of $ 12.9 billion, since revenues undershot by 1.0% and expenditures went over budget by 3.3%.

To finance both the fiscal deficit and amortization payments, $ 51.2 billion was raised in loans on domestic and international markets. This represented an increase of $ 5.1 billion, or 10.5%, over the total amount funded in this way during the corresponding nine-months of fiscal 1998/99. Amortization payments grew by $ 11.2 billion to $ 37.8 billion during the period.

A lowering of bank reserve ratios and reduced open-market operations, in a context of lower inflation, made it possible to cut nominal interest rates during the year. Liquid assets and cash reserve ratios at commercial banks continued to fall as programmed, to 34.0% and 16.0% respectively by October, versus 43.0% and 21.0% at the end of 1998. Reverse repurchase (repo) agreements were the main open-market tool used to manage the growth of base money in 1999, and these grew by $ 711.6 million to a total of $ 27.4 billion. Repo rates fell from 22.0% at the end of 1998 to a low of 18.4% in August 1999, and then stayed flat for the rest of the year. As a result, money supply (M2) expanded by 20.4%, far outstripping its 1998 growth rate of 7.2 %. Narrow money supply (M1) and quasi-money increased by 39.5% and 12.4% respectively; currency in circulation grew by 45.7%, and demand deposits expanded by about 34.6%.

2. Economic performance

Goods production declined by 0.8% overall in 1999, while services grew by 4.8%. The generally lower level of output during the year seems to have been caused by slow growth in both private and government consumption, and in private investment. Export growth was also sluggish, but net exports of goods and services still increased as weak consumption demand drew in fewer imports.

Agriculture, forestry and fishing was the only goods sector to register positive growth in 1999 (1.7%), following two years of contraction. The production of crops for the domestic market increased, benefiting from better weather conditions, but the export crop segment shrank by 7.9%, and most of the traditional crops continued to fare poorly. Adverse price movements in coffee and cocoa were part of the reason for this. Sugar cane production, however, benefited from the better weather to grow by 2.6% in real terms during the year.

After three growth years, output in the mining and quarrying sector declined by 1.2% in 1999, mainly because of cutbacks in crude bauxite production following an accident at the United States refinery to which this commodity is exported. In contrast to this, alumina benefited from increased production and higher prices on the international market.

Performance in the manufacturing sector was mixed, with higher output in the following segments:

sugar, molasses and rum, alcoholic and non-alcoholic beverages, textiles, apparel and footwear, furniture and fixtures, chemicals, and other non-metal products; the other sub-sectors, meanwhile, slipped back. The net result was a decrease in manufacturing output of 1.4% in 1999 –the fifth straight year of negative growth.

Construction and installation shrank for the fourth year running (1.6%), having dropped by 5.9% in 1998. The building sub-sector, and non-residential construction in particular, declined, while other sub-sectors grew by 9.0% overall thanks to greater activity stemming from major government projects.

Growth in basic services gathered pace during 1999, with output measured at constant 1986 prices rising by 7.6% compared to 5.8% in 1998. Growth also accelerated in the transport, storage and communications sector (8.5%), but electric light and power expanded more slowly (5.0% in 1999 compared to 6.5% in 1998), as did water and sanitation services (3.8% versus 5.5% the year before).

Tourism turned in a strong performance in 1999, with total visitor arrivals rising by 6.0% to an estimated 2,012,738 during the year, which compares favourably with the 2.5% growth of 1998. Cruise-ship arrivals grew by 13.5% to 764,341 while stop-overs rose by 2.0% to 1,248,397. Hotel occupancy rates fell to 55.9% in 1999, as the supply of rooms expanded.

The financial sector registered a turnaround in 1999, as valued-added by finance and insurance services expanded by 19.5%, following four years of decline. This is likely to have been the result of restructuring and consolidation initiatives, supported by innovation and better strategies to enhance profitability. The distribution sector, which contributed about 22.5% to total GDP in 1999, declined by 1.0%. This was the second straight year of negative growth, and reflected weaker domestic demand stemming from sluggish growth, not only in private and government consumption but also in private investment.

Price increases were held to single-digit levels for the third consecutive year, with the point-to-point rate of inflation coming in at 6.8% for calendar year 1999, compared to 7.9% the year before (the annual average was 6% higher in 1999 than in 1998). Significant increases in the prices of housing, miscellaneous expenses, food and drink, health care and personal services had a major impact on the overall index.

The average weekly wage for workers in large establishments rose by 16.1%, substantially less than in previous years, although increases ranged widely across sectors from 4% to 44.2%.

The economy's weak performance in 1999 was accompanied by a 0.8% decline in the labour force, maintaining the downward trend for a fourth successive year. The number of people in employment averaged 943,800 during 1999, which implies about 9,800 jobs lost during the year. Total unemployment grew to 175,200, or 15.7% of the labour force, with rates of 10.0% among males and 22.4% among females. Women continued to account for a smaller share of the labour force (roughly 45%), and represented 41.7% of all employed persons in 1999.

The balance of payments worsened in 1999, as net international reserves fell by US$ 131.8 million, in contrast to their US$ 41.5 million improvement in 1998. Net reserves stood at US$ 450.2 million at the end of December 1999, with gross reserves of US$ 551.8 million, equivalent to 10.5 weeks' imports.

The merchandise trade deficit came in at US$ 1,140.6 million, representing an increase of US$ 43.9 million over the 1998 figure. Total goods exports dropped by US$ 122.8 million to US$ 1,490.6 million (f.o.b.), while total merchandise imports were US$ 78.9 million lower at US$ 2,631.2 million (f.o.b.). The drop in export earnings was largely due to a 16.6% fall in the non-traditional goods category. Manufacturing exports continued to decline in 1999, shrinking by 9.2% to US$ 414.6 million, partly because of sharply lower exports of wearing apparel (down by US$ 41.1 million to US$ 159.8 million). A steep fall in drink and tobacco exports was the result of weaker demand for tobacco and tobacco products. Exports from the food-processing industry grew by US$ 7.8 million to US$ 38.1 million.

These movements on the goods and services accounts led to a current account deficit of US$ 273.1 million in 1999 –an improvement of US$ 17.3 million on the previous year's result, with the services, income and current transfer accounts all strengthening to outweigh the deterioration in merchandise trade. The increasing share of services in export earnings is indicative of Jamaica's transformation into a service economy, with tourism accounting for most of the sector's earnings. Visitors from the United States, the United Kingdom and the Caribbean between them provide most of the tourist traffic. The net balance of current private transfers grew by US$ 14.1 million to US$ 603.4 million during the year, reflecting larger remittances received from abroad, consistent with the continued expansion of remittance company networks. The behaviour of the capital and financial account was marked by reduced inflows on the "other official investment" account, resulting from higher borrowing costs stemming from the financial crisis in Brazil and elsewhere.

Trinidad and Tobago

The economy performed strongly in 1999, as real GDP growth accelerated, based on solid results in both the energy and non-energy sectors. Average unemployment for the first nine months of the year fell to 13.1%. Government revenue and the balance of payments were both hit by lower oil prices in the early part of 1999, but later improved as oil prices strengthened. This prompted the Central Bank to take stabilization measures in the foreign-exchange and money markets to sustain the value of the currency and keep inflation to a level of 3.4%. The year ended with an improvement in the country's international reserve position.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1997	1998	1999[a]
Annual growth rates			
Gross domestic product	4.0	5.3	7.8
Per capita gross domestic product	3.4	4.7	7.3
Consumer prices	3.5	5.6	3.4
Nominal exchange rate	4.1	0.8	-0.04
Real effective exchange rate[b]	1.0	-5.9	-6.2
Percentages			
Unemployment rate	15.0	14.2	13.1
Millions of dollars			
Balance on current account	- 614	- 645	16
Disbursed gross external debt	1 541	1 430	1 511

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates. [b] A negative rate signifies a real appreciation.

1. Economic policy

Counter-inflationary monetary policy and a stable exchange rate underpinned economic growth during the year. In response to large foreign-exchange outflows and weak inflows due to soft prices among the country's main export commodities early in 1999, the Central Bank provided US$ 150.5 million to support the market, and this contributed to exchange-rate stability throughout the year. Monetary policy had to deal with conditions of high liquidity in the financial system caused by government deficit financing.

The overall government fiscal deficit worsened from $ 401.5 million in 1998 to $ 1,287.6 million in 1999, representing an increase from 1.2% to 3.1% of GDP during the calendar year. During this period, government expenditure grew by 9.6% compared to its 1998 level, outstripping revenue growth. The deficit was financed by drawing down balances at the Central Bank and by making use of divestment proceeds.

Total tax receipts grew by 1.4% in 1999, following a 3% fall in the previous year. This was partly attributable to developments in the petroleum sector, where a recovery in oil prices from an average of US$ 14.40 per barrel in 1998 to US$ 19.24 in 1999, together with an increase in production, contributed $ 1,998 million (20.4%) of total revenue collected.

Having grown by 12.3% the year before, non-oil revenues declined by 3.2% in 1999. This was mainly the result of sharply lower receipts from value added tax (VAT), which generated 22.6% less than in 1998 and accounted for 17% of total revenue collected. Non-tax income grew by 15.1% as profits from State enterprises more than doubled, and administrative fees and charges rose by 65.4%. Interest income decreased by 26.1% as central government balances held at the Central Bank were drawn down sharply during the year. Capital income grew at over four times its 1998 rate, to reach $ 121.5 million in 1999, including inflows from asset sales and from grants.

Government expenditure was kept tightly in check throughout the year, and this affected the development programme since capital expenditure was cut back to $ 483 million, some 34.6% below its 1998 level. Current expenditure proved harder to control, however, and grew by 13.1% to $ 10,593.5 million.

Expansionary fiscal policy and a growing disequilibrium on the foreign exchange market presented a major challenge to monetary policy in 1999, as the Government turned to the Central Bank to finance its widening fiscal deficit, and sought to increase its borrowing limit. To counteract the inflationary effects of the monetary expansion generated by this borrowing, the Central Bank engaged in open-market operations and withdrew some $ 700 million from the banking system in the first six months of the year. Open-market operations during the year expanded the stock of bills outstanding by $ 295 million, following their $ 260 million decline in 1998. In the second half of the year, market borrowing by central government and by two statutory bodies helped to absorb excess liquidity from the system.

Easy liquidity conditions in the early part of the year led to prime lending rates being trimmed by an average of one percentage point to 16.50% in July 1999. Commercial bank lending to the private sector, which had not varied much in 1998, grew by 17.6% during the year, on the back of strong demand from consumers and from the service sector. Greater Central Bank lending to the Government generated growth of 15.7% in the banking system as a whole, having been on the order of 5.2% the year before.

2. Economic performance

The economy of Trinidad and Tobago achieved its the sixth consecutive year of expansion in 1999, with output increasing by 5.1%, compared to 4% growth the year before. Growth was balanced across goods-producing (5.5%) and non-goods-producing (4.6%) sectors.

The important petroleum sector grew by 8%, led by continued expansion in the petrochemical segment (17.8%) and an improved performance by the "other petroleum" sub-group (6%). Most petrochemicals facilities operated at near full capacity, with methanol output and exports both attaining record levels in 1999, as production rose to 2,149.8 thousand tonnes to exceed the previous year's figure by 10.4%. A new plant started up in late 1999, with a rated capacity of 825,000 tonnes, and is expected to add significantly to total production. Nitrogenous fertilizer output increased by 21.6% compared to 1998. In the "other petroleum" sub-group, output was boosted by the commissioning of the country's first liquefied natural gas facility.

Non-energy based sectors generally continued to perform well in 1999, registering growth of 4.2%. The exceptions were agriculture (-1.6%) and electricity and water (-0.6%). The strongest growing sectors were transport, storage and communications (9.3%), construction (7.8%), distribution (7.0%), and, to a lesser extent, manufacturing, which posted growth of 3.8%.

Agriculture continued to decline, following its poor performance in 1998, as bad drainage, theft, inclement weather and marketing problems all continued to pose challenges to the sector. Although bad weather conditions and a new pest (the citrus black fly) hit production in the citrus industry, output still increased, with deliveries to the main processors totalling 16,859 thousand kg in 1999 versus 7,725.4 thousand kg the year before. The cocoa crop also suffered from the weather, and output dropped to 1,160 thousand kg from 1,270.3 in 1998, with local sales and exports also both decreasing. Coffee production shrank by 6.5% to 343.1 thousand kg, and local sales plunged from 709.5 thousand kg in 1998 to 378 thousand in 1999. Data for the first nine months of 1999 indicate that total meat production grew to 2,026 thousand kg, 1.5% above the previous year's volume. Pork and beef production grew by 1.8% and 3.5%, respectively, while mutton decreased.

A number of problems were successfully overcome in the sugar industry. Raw sugar production increased by 5.9% from its 1998 level to reach 68.5 thousand tonnes, while the output of refined sugar grew by 19.5% to 43.6 thousand tonnes, allowing both exports and domestic sales to expand.

In the manufacturing sector, the output of iron and steel billets, at 724 thousand tonnes, was down by 6.8% from its 1998 level, while wire rod production also continued to head downward, falling by 1.8%., Direct reduced iron (DRI) production, on the other hand, grew by 26.4% in 1999 to 1.3 million tonnes, as a third DRI facility came on stream in the latter half of the year.

Inflation, as measured by the change in the annual average of the Retail Price Index (September 1993=100), eased to 3.4% from its 1998 level of 5.6%. The largest price increases were seen in food (8.6%), drink and tobacco (3%) and education/recreation (2.6%). Clothing and footwear prices, on the other hand, fell by 2.5%.

Unemployment averaged 13.1% for the first nine months of 1999 versus 13.7% in the same period a year earlier, improved labour-market conditions having caused the number of people out of work to fall continuously since 1994. A total of 491,200 persons were employed during the first three quarters of 1999, an increase of 10,800, or 2.3% up from the 1998 figure; as a result, the overall jobless figure declined by 3,400. Youth unemployment, although slightly lower than in 1998, remained above the national average at 27.8% as of end-September 1999.

The overall balance of payments registered a surplus, thanks to a doubling of oil prices and a US$ 230 million Eurobond flotation in September 1999. The size of the surplus (US$ 162.1 million) was double that achieved in 1998 and equivalent to 2.5% of GDP. Gross official international reserves expanded to just under US$ 950 million by the end of 1999, representing cover for 3.5 months' imports of goods and non-factor services.

Small surpluses were recorded on both the merchandise trade and current accounts in 1999, following two successive deficit years. The current account surplus amounted to 0.2% of GDP, compared to a 10.6% shortfall in 1998. This was the result of an improvement in visible trade, since service exports were lower. A merchandise trade surplus of US$ 63.6 million was recorded in 1999 –the first in three years– thanks mainly to higher oil prices and increased petrochemical exports.

Exports increased by 24.3% to US$ 2,815.8 million, with sales of mineral fuels and lubricants growing by 51.3% to a total of US$ 1,523.2 million. Methanol shipments were 14% higher than in 1998, while sales of nitrogenous fertilizers continued to grow with export volume increasing by 23.2% from its 1998 level to 3.6 million tonnes. Sugar exports expanded to 64.3 thousand tonnes ($ 214.9 million), compared to 58 thousand tonnes in the previous year.

Imports shrank by 8.5% in 1999, with purchases of machinery and transport equipment dropping by US$ 282 million to US$ 937.5 million, possibly as a result of a number of large-scale energy projects reaching completion, as direct investment in the sector continued to level off. Imports of manufactured goods also decreased, by 9.7% during the year.

Having registered its first surplus for twenty years in 1998, the combined services and income account recorded a deficit of US$ 81.6 million in 1999, while the capital account surplus narrowed considerably to US$ 146.2 million. The latter was the result of smaller FDI inflows compounded by some large outward direct and portfolio investments made in the Caribbean Community (CARICOM) region. Trinidad and Tobago's net external position strengthened by US$ 88.3 million in 1999 to US$ 1,073.2 million, as a result of a rise in net foreign reserves held by the monetary authorities.

The public-sector external debt rose to US$ 1,511 million during the year, compared to US$ 1,429.6 million at the end of 1998. There was little change in the country's total external debt profile, with the proportion denominated in United States dollars rising to 89.1% from 81% at the end of 1998 and remaining the dominant component. The maturity structure of the debt continued to be skewed toward the medium- and long term, and the variable-interest rate component shrank to 39%.

ECLAC publications

ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN
Casilla 179-D Santiago, Chile

PERIODIC PUBLICATIONS

C E P A L Review

CEPAL Review first appeared in 1976 as part of the Publications Programme of the Economic Commission for Latin America and the Caribbean, its aim being to make a contribution to the study of the economic and social development problems of the region. The views expressed in signed articles, including those by Secretariat staff members, are those of the authors and therefore do not necessarily reflect the point of view of the Organization.

CEPAL Review is published in Spanish and English versions three times a year.

Annual subscription costs for 2001 are US$ 30 for the Spanish version and US$ 35 for the English version. The price of single issues is US$ 15 in both cases.

The cost of a two-year subscription (2001-2002) is US$ 50 for Spanish-language version and US$ 60 for English.

Revista de la CEPAL, número extraordinario: CEPAL CINCUENTA AÑOS, reflexiones sobre América Latina y el Caribe, 1998, 376 pp.

Síntesis estudio económico de América Latina y el Caribe, 1999-2000, 1999, 34 pp.

Summary Economic Survey of Latin America and the Caribbean 1999-2000, 1999, 34 pp.

Balance Preliminar de las Economías de América Latina y el Caribe, 2000, 107 pp.

Preliminary Overview of the Economies of Latin America and the Caribbean, 2000, 107 pp.

Panorama Social de América Latina, 1999-2000, 312 pp.

Social Panorama of Latin America, 1999-2000, 312 pp.

La Inversión Extranjera en América Latina y el Caribe, 1999, 220 pp.

Foreign investment of Latin America and the Caribbean, 1999, 223 pp.

Panorama de la inserción internacional de América Latina y el Caribe, 1998, 246 pp.

Latin America and the Caribbean in the World Economy, 1998, 240 pp.

Estudio Económico de América Latina y el Caribe		***Economic Survey of Latin America and the Caribbean***	
1997-1998,	386 pp.	***1996-1997,***	335 pp.
1998-1999,	359 pp.	***1997-1998,***	360 pp.
1999-2000,	352 pp.	***1998-1999,***	326 pp.

(Issues for previous years also available)

Anuario Estadístico de América Latina y el Caribe / *Statistical Yearbook for Latin America and the Caribbean (bilingual)*

1997,	894 pp.	*1998,*	880 pp.
1999,	851 pp.		

(Issues for previous years also available)

Libros de la C E P A L

1 *Manual de proyectos de desarrollo económico,* 1958, 5th. ed. 1980, 264 pp.
1 Manual on economic development projects, 1958, 2nd. ed. 1972, 242 pp. (Out of stock)
2 *América Latina en el umbral de los años ochenta,* 1979, 2nd. ed. 1980, 203 pp.
3 *Agua, desarrollo y medio ambiente en América Latina,* 1980, 443 pp.
4 *Los bancos transnacionales y el financiamiento externo de América Latina. La experiencia del Perú,* 1980, 265 pp.
4 Transnational banks and the external finance of Latin America: the experience of Peru, 1985, 342 pp.
5 *La dimensión ambiental en los estilos de desarrollo de América Latina,* Osvaldo Sunkel, 1981, 2nd. ed. 1984, 136 pp.
6 *La mujer y el desarrollo: guía para la planificación de programas y proyectos,* 1984, 115 pp.
6 Women and development: guidelines for programme and project planning, 1982, 3rd. ed. 1984, 123 pp.
7 *África y América Latina: perspectivas de la cooperación interregional,* 1983, 286 pp.
8 *Sobrevivencia campesina en ecosistemas de altura,* vols. I y II, 1983, 720 pp.
9 *La mujer en el sector popular urbano. América Latina y el Caribe,* 1984, 349 pp.
10 *Avances en la interpretación ambiental del desarrollo agrícola de América Latina,* 1985, 236 pp.
11 *El decenio de la mujer en el escenario latinoamericano,* 1986, 216 pp.
11 The decade for women in Latin America and the Caribbean: background and prospects, 1988, 215 pp.
12 *América Latina: sistema monetario internacional y financiamiento externo,* 1986, 416 pp. (Out of stock)

12 ***Latin Ameción ocupacional y crisis social en América Latina,*** 1989, 243 pp.

13 *Raúl Prebisch: Un aporte al estudio de su pensamiento,* 1987, 146 pp.

14 *Cooperativismo latinoamericano: antecedentes y perspectivas,* 1989, 371 pp.

15 *CEPAL, 40 años (1948-1988),* 1988, 85 pp.

15 ***ECLAC 40 Years (1948-1988),*** 1989, 83 pp.

16 *América Latina en la economía mundial,* 1988, 321 pp. (Out of stock)

17 *Gestión para el desarrollo de cuencas de alta montaña en la zona andina,* 1988, 187 pp.

18 *Políticas macroeconómicas y brecha externa: América Latina en los años ochenta,* 1989, 201 pp.

19 *CEPAL, Bibliografía, 1948-1988,* 1989, 648 pp.

20 *Desarrollo agrícola y participación campesina,* 1989, 404 pp.

21 *Planificación y gestión del desarrollo en áreas de expansión de la frontera agropecuaria en América Latina,* 1989, 113 pp.

22 *Transformación ocupacional y crisis social en América Latina,* 1989, 243 pp.

23 *La crisis urbana en América Latina y el Caribe: reflexiones sobre alternativas de solución,* 1990, 197 pp. (Out of stock)

24 ***The environmental dimension in development planning I,*** 1991, 302 pp.

25 *Transformación productiva con equidad,* 1990, 3rd. ed. 1991, 185 pp.

25 ***Changing production patterns with social equity,*** 1990, 3rd. ed. 1991, 177 pp.

26 *América Latina y el Caribe: opciones para reducir el peso de la deuda,* 1990, 118 pp.

26 ***Latin America and the Caribbean: options to reduce the debt burden,*** 1990, 110 pp.

27 *Los grandes cambios y la crisis. Impacto sobre la mujer en América Latina y el Caribe,* 1991, 271 pp.

27 ***Major changes and crisis. The impact on women in Latin America and the Caribbean***, 1992, 279 pp.

28 ***A collection of documents on economic relations between the United States and Central America, 1906-1956,*** 1991, 398 pp.

29 *Inventarios y cuentas del patrimonio natural en América Latina y el Caribe,* 1991, 335 pp.

30 *Evaluaciones del impacto ambiental en América Latina y el Caribe,* 1991, 232 pp. (Out of stock)

31 *El desarrollo sustentable: transformación productiva, equidad y medio ambiente,* 1991, 146 pp. (Out of stock)

31 ***Sustainable development: changing production patterns, social equity and the environment,*** 1991, 146 pp.

32 *Equidad y transformación productiva: un enfoque integrado,* 1993, 254 pp.

33 *Educación y conocimiento: eje de la transformación productiva con equidad,* 1992, 269 pp.

33 ***Education and knowledge: basic pillars of changing production patterns with social equity,*** 1993, 257 pp.

34 *Ensayos sobre coordinación de políticas macroeconómicas,* 1992, 249 pp.

35 *Población, equidad y transformación productiva,* 1993, 2nd. ed. 1995, 158 pp.

35 ***Population, social equity and changing production patterns,*** 1993, 153 pp.

36 *Cambios en el perfil de las familias. La experiencia regional,* 1993, 434 pp.

37 *Familia y futuro: un programa regional en América Latina y el Caribe,* 1994, 137 pp.

37 ***Family and future. A regional programme in Latin America and the Caribbean,*** 1995, 123 pp.

38 *Imágenes sociales de la modernización y la transformación tecnológica,* 1995, 198 pp.

39 *El regionalismo abierto en América Latina y el Caribe,* 1994, 109 pp.

39 ***Open regionalism in Latin America and the Caribbean,*** 1994, 103 pp. (Out of stock)

40 *Políticas para mejorar la inserción en la economía mundial,* 1995, 314 pp. (Out of stock)

40 ***Policies to improve linkages with the global economy,*** 1995, 308 pp.

41 *Las relaciones económicas entre América Latina y la Unión Europea: el papel de los servicios exteriores,* 1996, 300 pp.

42 *Fortalecer el desarrollo. Interacciones entre macro y microeconomía,* 1996, 116 pp.

42 ***Strengthening development. The interplay of macro- and microeconomics,*** 1996, 116 pp.

43 *Quince años de desempeño económico. América Latina y el Caribe, 1980-1995,* 1996, 120 pp.

43 ***The economic experience of the last fifteen years. Latin America and the Caribbean, 1980-1995,*** 1996, 120 pp.

44 *La brecha de la equidad. América Latina, el Caribe y la cumbre social,* 1997, 218 pp.

44 ***The equity gap. Latin America, the Caribbean and the social summit,*** 1997, 219 pp.

45 *La grieta de las drogas,* 1997, 218 pp.

46 *Agroindustria y pequeña agricultura: vínculos, potencialidades y oportunidades comerciales,* 1998, 180 pp.

47 *El pacto fiscal. Fortalezas, debilidades, desafíos,* 1998, 280 pp.

47 ***The Fiscal Covenant. Strenghts, weaknesses, challenges,*** 1998, 290 pp.

48 *Las dimensiones sociales de la integración regional en América Latina*, Rolando Franco y Armando Di Filippo, 1999, 238 pp.

49 *Teorías y metáforas sobre el desarrollo territorial,* Sergio Boisier, 1999, 128 pp.

50 *Privatización portuaria: bases, alternativas y consecuencias,* 1999, 248 pp.

51 *Nuevas políticas comerciales en América Latina y Asia. Algunos casos nacionales,* 1999, 584 pp.

52 *Un examen de la migración internacional en la Comunidad Andina,* 1999, 114 pp.

53 *Transformaciones recientes en el sector agropecuario brasileño,* M. Beatriz de A. David, Philippe Waniez, Violette Brustlein, Enali M. De Biaggi, Paula de Andrade Rollo and Monica dos Santos Rodrigues, 1999, 127 pp.

54 *La CEPAL en sus 50 años. Notas de un seminario conmemorativo,* 2000, 149 pp.

55 ***Financial globalization and the emerging economies,*** José Antonio Ocampo, Stefano Zamagni, Ricardo Ffrench-Davis y Carlo Pietrobelli, 2000, 328 pp.
57 *Las mujeres chilenas en los noventa. Hablan las cifras,* 2000, 214 pp.

MONOGRAPH SERIES

Cuadernos de la C E P A L

1 *América Latina: el nuevo escenario regional y mundial/****Latin America: the new regional and world setting***, (bilingual), 1975, 2nd. ed. 1985, 103 pp.
2 *Las evoluciones regionales de la estrategia internacional del desarrollo,* 1975, 2nd. ed. 1984, 73 pp.
2 ***Regional appraisals of the international development strategy,*** 1975, 2nd. ed. 1985, 82 pp.
3 *Desarrollo humano, cambio social y crecimiento en América Latina,* 1975, 2nd. ed. 1984, 103 pp.
4 *Relaciones comerciales, crisis monetaria e integración económica en América Latina,* 1975, 85 pp.
5 *Síntesis de la segunda evaluación regional de la estrategia internacional del desarrollo,* 1975, 72 pp.
6 *Dinero de valor constante. Concepto, problemas y experiencias,* Jorge Rose, 1975, 2nd. ed. 1984, 43 pp.
7 *La coyuntura internacional y el sector externo,* 1975, 2nd. ed. 1983, 106 pp.
8 *La industrialización latinoamericana en los años setenta,* 1975, 2nd. ed. 1984, 116 pp.
9 *Dos estudios sobre inflación 1972-1974. La inflación en los países centrales. América Latina y la inflación importada,* 1975, 2nd. ed. 1984, 57 pp.
s/n ***Canada and the foreign firm,*** D. Pollock, 1976, 43 pp.
10 *Reactivación del mercado común centroamericano,* 1976, 2nd. ed. 1984, 149 pp.
11 *Integración y cooperación entre países en desarrollo en el ámbito agrícola,* Germánico Salgado, 1976, 2nd. ed. 1985, 62 pp.
12 *Temas del nuevo orden económico internacional,* 1976, 2nd. ed. 1984, 85 pp.
13 *En torno a las ideas de la CEPAL: desarrollo, industrialización y comercio exterior,* 1977, 2nd. ed. 1985, 57 pp.
14 *En torno a las ideas de la CEPAL: problemas de la industrialización en América Latina,* 1977, 2nd. ed. 1984, 46 pp.
15 *Los recursos hidráulicos de América Latina. Informe regional,* 1977, 2nd. ed. 1984, 75 pp.
15 ***The water resources of Latin America. Regional report,*** 1977, 2nd. ed. 1985, 79 pp.
16 *Desarrollo y cambio social en América Latina,* 1977, 2nd. ed. 1984, 59 pp.
17 *Estrategia internacional de desarrollo y establecimiento de un nuevo orden económico internacional,* 1977, 3rd. ed. 1984, 61 pp.
17 ***International development strategy and establishment of a new international economic order,*** 1977, 3rd. ed. 1985, 59 pp.
18 *Raíces históricas de las estructuras distributivas de América Latina,* A. di Filippo, 1977, 2nd. ed. 1983, 64 pp.
19 *Dos estudios sobre endeudamiento externo,* C. Massad and R. Zahler, 1977, 2nd. ed. 1986, 66 pp.
s/n ***United States – Latin American trade and financial relations: some policy recommendations,*** S. Weintraub, 1977, 44 pp.
20 *Tendencias y proyecciones a largo plazo del desarrollo económico de América Latina,* 1978, 3rd. ed. 1985, 134 pp.
21 *25 años en la agricultura de América Latina: rasgos principales 1950-1975,* 1978, 2nd. ed. 1983, 124 pp.
22 *Notas sobre la familia como unidad socioeconómica,* Carlos A. Borsotti, 1978, 2nd. ed. 1984, 60 pp.
23 *La organización de la información para la evaluación del desarrollo,* Juan Sourrouille, 1978, 2nd. ed. 1984, 61 pp.
24 *Contabilidad nacional a precios constantes en América Latina,* 1978, 2nd. ed. 1983, 60 pp.
s/n ***Energy in Latin America: The Historical Record,*** J. Mullen, 1978, 66 pp.
25 *Ecuador: desafíos y logros de la política económica en la fase de expansión petrolera,* 1979, 2nd. ed. 1984, 153 pp.
26 *Las transformaciones rurales en América Latina: ¿desarrollo social o marginación?,* 1979, 2nd. ed. 1984, 160 pp.
27 *La dimensión de la pobreza en América Latina,* Oscar Altimir, 1979, 2nd. ed. 1983, 89 pp. (Out of stock)
28 *Organización institucional para el control y manejo de la deuda externa. El caso chileno,* Rodolfo Hoffman, 1979, 35 pp.
29 *La política monetaria y el ajuste de la balanza de pagos: tres estudios,* 1979, 2nd. ed. 1984, 61 pp.
29 ***Monetary policy and balance of payments adjustment: three studies,*** 1979, 60 pp. (Out of stock)
30 *América Latina: las evaluaciones regionales de la estrategia internacional del desarrollo en los años setenta,* 1979, 2nd. ed. 1982, 237 pp.
31 *Educación, imágenes y estilos de desarrollo,* G. Rama, 1979, 2nd. ed. 1982, 72 pp.
32 *Movimientos internacionales de capitales,* R. H. Arriazu, 1979, 2nd. ed. 1984, 90 pp.
33 *Informe sobre las inversiones directas extranjeras en América Latina,* A. E. Calcagno, 1980, 2nd. ed. 1982, 114 pp.
34 *Las fluctuaciones de la industria manufacturera argentina, 1950-1978,* D. Heymann, 1980, 2nd. ed. 1984, 234 pp.
35 *Perspectivas de reajuste industrial: la Comunidad Económica Europea y los países en desarrollo,* B. Evers, G. de Groot and W. Wagenmans, 1980, 2nd. ed. 1984, 69 pp.
36 *Un análisis sobre la posibilidad de evaluar la solvencia crediticia de los países en desarrollo,* A. Saieh, 1980, 2nd. ed. 1984, 82 pp.
37 *Hacia los censos latinoamericanos de los años ochenta,* 1981, 146 pp.
s/n ***The economic relations of Latin America with Europe,*** 1980, 2nd. ed. 1983, 156 pp.
38 *Desarrollo regional argentino: la agricultura,* J. Martin, 1981, 2nd. ed. 1984, 111 pp.
39 *Estratificación y movilidad ocupacional en América Latina,* C. Filgueira and C. Geneletti, 1981, 2nd. ed. 1985, 162 pp.
40 *Programa de acción regional para América Latina en los años ochenta,* 1981, 2nd. ed. 1984, 62 pp.
40 ***Regional programme of action for Latin America in the 1980s,*** 1981, 2nd. ed. 1984, 57 pp.

41 *El desarrollo de América Latina y sus repercusiones en la educación. Alfabetismo y escolaridad básica*, 1982, 246 pp.
42 *América Latina y la economía mundial del café*, 1982, 95 pp.
43 *El ciclo ganadero y la economía argentina*, 1983, 160 pp.
44 *Las encuestas de hogares en América Latina*, 1983, 122 pp.
45 *Las cuentas nacionales en América Latina y el Caribe*, 1983, 100 pp.
45 National accounts in Latin America and the Caribbean, 1983, 97 pp.
46 *Demanda de equipos para generación, transmisión y transformación eléctrica en América Latina*, 1983, 193 pp.
47 *La economía de América Latina en 1982: evolución general, política cambiaria y renegociación de la deuda externa*, 1984, 104 pp.
48 *Políticas de ajuste y renegociación de la deuda externa en América Latina*, 1984, 102 pp.
49 *La economía de América Latina y el Caribe en 1983: evolución general, crisis y procesos de ajuste*, 1985, 95 pp.
49 The economy of Latin America and the Caribbean in 1983: main trends, the impact of the crisis and the adjustment processes, 1985, 93 pp.
50 *La CEPAL, encarnación de una esperanza de América Latina*, Hernán Santa Cruz, 1985, 77 pp.
51 *Hacia nuevas modalidades de cooperación económica entre América Latina y el Japón*, 1986, 233 pp.
51 Towards new forms of economic co-operation between Latin America and Japan, 1987, 245 pp.
52 *Los conceptos básicos del transporte marítimo y la situación de la actividad en América Latina*, 1986, 112 pp.
52 Basic concepts of maritime transport and its present status in Latin America and the Caribbean, 1987, 114 pp.
53 *Encuestas de ingresos y gastos. Conceptos y métodos en la experiencia latinoamericana*, 1986, 128 pp.
54 *Crisis económica y políticas de ajuste, estabilización y crecimiento*, 1986, 123 pp.
54 The economic crisis: policies for adjustment, stabilization and growth, 1986, 125 pp.
55 *El desarrollo de América Latina y el Caribe: escollos, requisitos y opciones*, 1987, 184 pp.
55 Latin American and Caribbean development: obstacles, requirements and options, 1987, 184 pp.
56 *Los bancos transnacionales y el endeudamiento externo en la Argentina*, 1987, 112 pp.
57 *El proceso de desarrollo de la pequeña y mediana empresa y su papel en el sistema industrial: el caso de Italia*, 1988, 112 pp.
58 *La evolución de la economía de América Latina en 1986*, 1988, 99 pp.
58 The evolution of the Latin American Economy in 1986, 1988, 95 pp.
59 Protectionism: regional negotiation and defence strategies, 1988, 261 pp.
60 *Industrialización en América Latina: de la "caja negra" al "casillero vacío"*, F. Fajnzylber, 1989, 2nd. ed. 1990, 176 pp.
60 Industrialization in Latin America: from the "Black Box" to the "Empty Box", F. Fajnzylber, 1990, 172 pp.
61 *Hacia un desarrollo sostenido en América Latina y el Caribe: restricciones y requisitos*, 1989, 94 pp.
61 Towards sustained development in Latin America and the Caribbean: restrictions and requisites, 1989, 93 pp.
62 *La evolución de la economía de América Latina en 1987*, 1989, 87 pp.
62 The evolution of the Latin American economy in 1987, 1989, 84 pp.
63 *Elementos para el diseño de políticas industriales y tecnológicas en América Latina*, 1990, 2nd. ed. 1991, 172 pp.
64 *La industria de transporte regular internacional y la competitividad del comercio exterior de los países de América Latina y el Caribe*, 1989, 132 pp.
64 The international common-carrier transportation industry and the competitiveness of the foreign trade of the countries of Latin America and the Caribbean, 1989, 116 pp.
65 *Cambios estructurales en los puertos y la competitividad del comercio exterior de América Latina y el Caribe*, 1991, 141 pp.
65 Structural Changes in Ports and the Competitiveness of Latin American and Caribbean Foreign Trade, 1990, 126 pp.
66 The Caribbean: one and divisible, 1993, 207 pp.
67 *La transferencia de recursos externos de América Latina en la posguerra*, 1991, 92 pp.
67 Postwar transfer of resources abroad by Latin America, 1992, 90 pp.
68 *La reestructuración de empresas públicas: el caso de los puertos de América Latina y el Caribe*, 1992, 148 pp.
68 The restructuring of public-sector enterprises: the case of Latin American and Caribbean ports, 1992, 129 pp.
69 *Las finanzas públicas de América Latina en la década de 1980*, 1993, 100 pp.
69 Public Finances in Latin America in the 1980s, 1993, 96 pp.
70 *Canales, cadenas, corredores y competitividad: un enfoque sistémico y su aplicación a seis productos latinoamericanos de exportación*, 1993, 183 pp.
71 *Focalización y pobreza*, 1995, 249 pp. (Out of stock)
72 *Productividad de los pobres rurales y urbanos*, 1995, 318 pp. (Out of stock)
73 *El gasto social en América Latina: un examen cuantitativo y cualitativo*, 1995, 167 pp. (Out of stock)
74 *América Latina y el Caribe: dinámica de la población y desarrollo*, 1995, 151 pp.
75 *Crecimiento de la población y desarrollo*, 1995, 95 pp.
76 *Dinámica de la población y desarrollo económico*, 1997, 116 pp.
77 *La reforma laboral y la participación privada en los puertos del sector público*, 1996, 168 pp.
77 Labour reform and private participation in public-sector ports, 1996, 160 pp.
78 *Centroamérica y el TLC: efectos inmediatos e implicaciones futuras*, 1996, 164 pp.
79 *Ciudadanía y derechos humanos desde la perspectiva de las políticas públicas*, 1997, 124 pp.
80 *Evolución del gasto público social en América Latina: 1980-1995*, 1998, 200 pp.
81 *La apertura económica y el desarrollo agrícola en América Latina y el Caribe*, 1997, 136 pp.
82 *A dinâmica do Setor Saúde no Brasil*, 1997, 220 pp.

83 *Temas y desafíos de las políticas de población en los años noventa en América Latina y el Caribe,* 1998, 268 pp.
84 *El régimen de contratación petrolera de América Latina en la década de los noventa,* 1998, 134 pp.
85 *Centroamérica, México y República Dominicana: maquila y transformación productiva,* 1999, 190 pp.

Cuadernos Estadísticos de la C E P A L

1 *América Latina: relación de precios del intercambio,* 1976, 2nd. ed. 1984, 66 pp.
2 *Indicadores del desarrollo económico y social en América Latina,* 1976, 2nd. ed. 1984, 179 pp.
3 *Series históricas del crecimiento de América Latina,* 1978, 2nd. ed. 1984, 206 pp.
4 *Estadísticas sobre la estructura del gasto de consumo de los hogares según finalidad del gasto, por grupos de ingreso,* 1978, 110 pp. (Out of print; replaced by No. 8 below)
5 *El balance de pagos de América Latina, 1950-1977,* 1979, 2nd. ed. 1984, 164 pp.
6 *Distribución regional del producto interno bruto sectorial en los países de América Latina,* 1981, 2nd. ed. 1985, 68 pp.
7 *Tablas de insumo-producto en América Latina,* 1983, 383 pp.
8 *Estructura del gasto de consumo de los hogares según finalidad del gasto, por grupos de ingreso,* 1984, 146 pp.
9 *Origen y destino del comercio exterior de los países de la Asociación Latinoamericana de Integración y del Mercado Común Centroamericano,* 1985, 546 pp.
10 *América Latina: balance de pagos, 1950-1984,* 1986, 357 pp.
11 *El comercio exterior de bienes de capital en América Latina,* 1986, 288 pp.
12 *América Latina: índices del comercio exterior, 1970-1984,* 1987, 355 pp.
13 *América Latina: comercio exterior según la clasificación industrial internacional uniforme de todas las actividades económicas,* 1987, Vol. I, 675 pp; Vol. II, 675 pp.
14 *La distribución del ingreso en Colombia. Antecedentes estadísticos y características socioeconómicas de los receptores,* 1988, 156 pp.
15 *América Latina y el Caribe: series regionales de cuentas nacionales a precios constantes de 1980,* 1991, 245 pp.
16 *Origen y destino del comercio exterior de los países de la Asoción Latinoamericana de Integración,* 1991, 190 pp.
17 *Comercio intrazonal de los países de la Asociación de Integración, según capítulos de la clasificación uniforme para el comercio internacional, revisión 2,* 1992, 299 pp.
18 *Clasificaciones estadísticas internacionales incorporadas en el Banco de Datos del Comercio Exterior de América Latina y el Caribe de la CEPAL,* 1993, 313 pp.
19 *América Latina: comercio exterior según la clasificación industrial internacional uniforme de todas las actividades económicas (CIIU) - Volumen I -Exportaciones,* 1993, 285 pp.
19 *América Latina: comercio exterior según la clasificación industrial internacional uniforme de todas las actividades económicas (CIIU) - Volumen II -Importaciones,* 1993, 291 pp.
20 *Dirección del comercio exterior de América Latina y el Caribe según principales productos y grupos de productos, 1970-1992,* 1994, 483 pp.
21 *Estructura del gasto de consumo de los hogares en América Latina,* 1995, 274 pp.
22 *América Latina y el Caribe: dirección del comercio exterior de los principales productos alimenticios y agrícolas según países de destino y procedencia, 1979-1993,* 1995, 224 pp.
23 *América Latina y el Caribe: series regionales y oficiales de cuentas nacionales, 1950-1994,* 1996, 130 pp.
24 *Chile: comercio exterior según grupos de la Clasificación Uniforme para el Comercio Internacional, Rev. 3, y países de destino y procedencia, 1990-1995,* 1996, 480 pp.
25 *Clasificaciones estadísticas internacionales incorporadas en el Banco de Datos del Comercio Exterior de América Latina y el Caribe de la CEPAL,* 1998, 287 pp.
26 *América Latina y el Caribe: series estadísticas sobre comercio de servicios 1980-1997,* 1998, 124 pp.

Estudios e Informes de la C E P A L

1 *Nicaragua: el impacto de la mutación política,* 1981, 2nd. ed. 1982, 126 pp.
2 *Perú 1968-1977: la política económica en un proceso de cambio global,* 1981, 2nd. ed. 1982, 166 pp.
3 *La industrialización de América Latina y la cooperación internacional,* 1981, 170 pp. (Out of print, will not be reprinted.)
4 *Estilos de desarrollo, modernización y medio ambiente en la agricultura latinoamericana,* 1981, 4th. ed. 1984, 130 pp.
5 *El desarrollo de América Latina en los años ochenta,* 1981, 2nd. ed. 1982, 153 pp.
5 Latin American development in the 1980s, 1981, 2nd. ed. 1982, 134 pp.
6 *Proyecciones del desarrollo latinoamericano en los años ochenta,* 1981, 3rd. ed. 1985, 96 pp.
6 Latin American development projections for the 1980s, 1982, 2nd. ed. 1983, 89 pp.
7 *Las relaciones económicas externas de América Latina en los años ochenta,* 1981, 2nd. ed. 1982, 180 pp. (Out of stock)
8 *Integración y cooperación regionales en los años ochenta,* 1982, 2nd. ed. 1982, 174 pp.
9 *Estrategias de desarrollo sectorial para los años ochenta: industria y agricultura,* 1981, 2nd. ed. 1985, 100 pp.
10 *Dinámica del subempleo en América Latina. PREALC,* 1981, 2nd. ed. 1985, 101 pp.
11 *Estilos de desarrollo de la industria manufacturera y medio ambiente en América Latina,* 1982, 2nd. ed. 1984, 178 pp.
12 *Relaciones económicas de América Latina con los países miembros del "Consejo de Asistencia Mutua Económica",* 1982, 154 pp.
13 *Campesinado y desarrollo agrícola en Bolivia,* 1982, 175 pp.
14 *El sector externo: indicadores y análisis de sus fluctuaciones. El caso argentino,* 1982, 2nd. ed. 1985, 216 pp.
15 *Ingeniería y consultoría en Brasil y el Grupo Andino,* 1982, 320 pp.
16 *Cinco estudios sobre la situación de la mujer en América Latina,* 1982, 2nd. ed. 1985, 178 pp.
16 Five studies on the situation of women in Latin America, 1983, 2nd. ed. 1984, 188 pp.
17 *Cuentas nacionales y producto material en América Latina,* 1982, 129 pp.

18 *El financiamiento de las exportaciones en América Latina,* 1983, 212 pp.

19 *Medición del empleo y de los ingresos rurales,* 1982, 2nd. ed. 1983, 173 pp.

19 Measurement of employment and income in rural areas, 1983, 184 pp.

20 *Efectos macroeconómicos de cambios en las barreras al comercio y al movimiento de capitales: un modelo de simulación,* 1982, 68 pp. (Out of stock)

21 *La empresa pública en la economía: la experiencia argentina,* 1982, 2nd. ed. 1985, 134 pp.

22 *Las empresas transnacionales en la economía de Chile, 1974-1980,* 1983, 178 pp.

23 *La gestión y la informática en las empresas ferroviarias de América Latina y España,* 1983, 195 pp.

24 *Establecimiento de empresas de reparación y mantenimiento de contenedores en América Latina y el Caribe,* 1983, 314 pp.

24 Establishing container repair and maintenance enterprises in Latin America and the Caribbean, 1983, 236 pp.

25 *Agua potable y saneamiento ambiental en América Latina, 1981-1990 /* ***Drinking water supply and sanitation in Latin America, 1981-1990*** (bilingual), 1983, 140 pp.

26 *Los bancos transnacionales, el estado y el endeudamiento externo en Bolivia,* 1983, 282 pp.

27 *Política económica y procesos de desarrollo. La experiencia argentina entre 1976 y 1981,* 1983, 157 pp.

28 *Estilos de desarrollo, energía y medio ambiente: un estudio de caso exploratorio,* 1983, 129 pp.

29 *Empresas transnacionales en la industria de alimentos. El caso argentino: cereales y carne,* 1983, 93 pp.

30 *Industrialización en Centroamérica, 1960-1980,* 1983, 168 pp.

31 *Dos estudios sobre empresas transnacionales en Brasil,* 1983, 141 pp.

32 *La crisis económica internacional y su repercusión en América Latina,* 1983, 81 pp.

33 *La agricultura campesina en sus relaciones con la industria,* 1984, 120 pp.

34 *Cooperación económica entre Brasil y el Grupo Andino: el caso de los minerales y metales no ferrosos,* 1983, 148 pp.

35 *La agricultura campesina y el mercado de alimentos: la dependencia externa y sus efectos en una economía abierta,* 1984, 201 pp.

36 *El capital extranjero en la economía peruana,* 1984, 178 pp.

37 *Dos estudios sobre política arancelaria,* 1984, 96 pp.

38 *Estabilización y liberalización económica en el Cono Sur,* 1984, 193 pp.

39 *La agricultura campesina y el mercado de alimentos: el caso de Haití y el de la República Dominicana,* 1984, 255 pp.

40 *La industria siderúrgica latinoamericana: tendencias y potencial,* 1984, 280 pp.

41 *La presencia de las empresas transnacionales en la economía ecuatoriana,* 1984, 77 pp.

42 *Precios, salarios y empleo en la Argentina: estadísticas económicas de corto plazo,* 1984, 378 pp.

43 *El desarrollo de la seguridad social en América Latina,* 1985, 348 pp.

44 Market structure, firm size and Brazilian exports, 1985, 104 pp.

45 *La planificación del transporte en países de América Latina,* 1985, 247 pp.

46 *La crisis en América Latina: su evaluación y perspectivas,* 1985, 119 pp.

47 *La juventud en América Latina y el Caribe,* 1985, 181 pp.

48 *Desarrollo de los recursos mineros de América Latina,* 1985, 145 pp.

48 Development of the mining resources of Latin America, 1989, 160 pp.

49 *Las relaciones económicas internacionales de América Latina y la cooperación regional,* 1985, 224 pp.

50 *América Latina y la economía mundial del algodón,* 1985, 122 pp.

51 *Comercio y cooperación entre países de América Latina y países miembros del CAME,* 1985, 90 pp.

52 Trade relations between Brazil and the United States, 1985, 148 pp. (Out of stock)

53 *Los recursos hídricos de América Latina y el Caribe y su aprovechamiento,* 1985, 138 pp.

53 The water resources of Latin America and the Caribbean and their utilization, 1985, 135 pp.

54 *La pobreza en América Latina: dimensiones y políticas,* 1985, 155 pp.

55 *Políticas de promoción de exportaciones en algunos países de América Latina,* 1985, 207 pp.

56 *Las empresas transnacionales en la Argentina,* 1986, 222 pp.

57 *El desarrollo frutícola y forestal en Chile y sus derivaciones sociales,* 1986, 227 pp.

58 *El cultivo del algodón y la soya en el Paraguay y sus derivaciones sociales,* 1986, 141 pp.

59 *Expansión del cultivo de la caña de azúcar y de la ganadería en el nordeste del Brasil: un examen del papel de la política pública y de sus derivaciones económicas y sociales,* 1986, 164 pp.

60 *Las empresas transnacionales en el desarrollo colombiano,* 1986, 212 pp.

61 *Las empresas transnacionales en la economía del Paraguay,* 1987, 115 pp.

62 *Problemas de la industria latinoamericana en la fase crítica,* 1986, 113 pp.

63 *Relaciones económicas internacionales y cooperación regional de América Latina y el Caribe,* 1987, 272 pp.

63 International economic relations and regional co-operation in Latin America and the Caribbean, 1987, 267 pp.

64 *Tres ensayos sobre inflación y políticas de estabilización,* 1986, 201 pp.

65 *La industria farmacéutica y farmoquímica: desarrollo histórico y posibilidades futuras. Argentina, Brasil y México,* 1987, 177 pp.

66 *Dos estudios sobre América Latina y el Caribe y la economía internacional,* 1987, 125 pp.

67 *Reestructuración de la industria automotriz mundial y perspectivas para América Latina,* 1987, 232 pp.

68 *Cooperación latinoamericana en servicios: antecedentes y perspectivas,* 1988, 155 pp.

69 *Desarrollo y transformación: estrategia para superar la pobreza,* 1988, 114 pp.

69 Development and change: strategies for vanquishing poverty, 1988, 114 pp.

70 *La evolución económica del Japón y su impacto en América Latina,* 1988, 88 pp.

70 *The economic evolution of Japan and its impact on Latin America,* 1990, 79 pp.

71 *La gestión de los recursos hídricos en América Latina y el Caribe,* 1989, 256 pp.

72 *La evolución del problema de la deuda extema en América Latina y el Caribe,* 1988, 77 pp.

72 *The evolution of the external debt problem in Latin America and the Caribbean,* 1988, 69 pp.

73 *Agricultura, comercio exterior y cooperación internacional,* 1988, 83 pp.

73 *Agriculture, external trade and international co-operation,* 1989, 79 pp.

74 *Reestructuración industrial y cambio tecnológico: consecuencias para América Latina,* 1989, 105 pp.

75 *El medio ambiente como factor de desarrollo,* 1989, 2nd. ed. 1991, 123 pp.

76 *El comportamiento de los bancos transnacionales y la crisis internacional de endeudamiento,* 1989, 214 pp.

76 *Transnational bank behaviour and the international debt crisis,* 1989, 198 pp.

77 *Los recursos hídricos de América Latina y del Caribe: planificación, desastres naturales y contaminación,* 1990, 266 pp.

77 *The water resources of Latin America and the Caribbean - Planning hazards and pollution,* 1990, 252 pp.

78 *La apertura financiera en Chile y el comportamiento de los bancos transnacionales,* 1990, 132 pp.

79 *La industria de bienes de capital en Amérca Latina y el Caribe: su desarrollo en un marco de cooperación regional,* 1991, 235 pp.

80 *Impacto ambiental de la contaminación hídrica producida por la Refinería Estatal Esmeraldas: análisis técnico-económico,* 1991, 189 pp.

81 *Magnitud de la pobreza en América Latina en los años ochenta,* 1991, 177 pp.

82 *América Latina y el Caribe: el manejo de la escasez de agua,* 1991, 148 pp.

83 *Reestructuración y desarrollo de la industria automotriz mexicana en los años ochenta: evolución y perspectivas,* 1992, 191 pp.

84 *La transformación de la producción en Chile: cuatro ensayos de interpretación,* 1993, 372 pp.

85 *Inversión extranjera y empresas transnacionales en la economía de Chile (1974-1989). Proyectos de inversión y estrategias de las empresas transnacionales,* 1992, 257 pp.

86 *Inversión extranjera y empresas transnacionales en la economía de Chile (1974-1989). El papel del capital extranjero y la estrategia nacional de desarrollo,* 1992, 163 pp.

87 *Análisis de cadenas agroindustriales en Ecuador y Perú,* 1993, 294 pp.

88 *El comercio de manufacturas de América Latina. Evolución y estructura 1962-1989,* 1993, 150, pp.

89 *El impacto económico y social de las migraciones en Centroamérica,* 1993, 78 pp.

90 *El papel de las empresas transnacionales en la reestructuración industrial de Colombia: una síntesis,* 1993, 131 pp.

91 *Las empresas transnacionales de una economía en transición: La experiencia argentina en los años ochenta,* 1995, 193 pp.

92 *Reestructuración y desarrollo productivo: desafío y potencial para los años noventa,* 1994, 108 pp.

93 *Comercio intemacional y medio ambiente. La discusión actual,* 1995, 112 pp. (Out of stock)

94 *Innovación en tecnologías y sistemas de gestión ambientales en empresas líderes latinoamericanas,* 1995, 206 pp.

95 *México: la industria maquiladora,* 1996, 237 pp.

Serie INFOPLAN: Temas Especiales del Desarrollo

1 *Resúmenes de documentos sobre deuda extema,* 1986, 324 pp.

2 *Resúmenes de documentos sobre cooperación entre países en desarrollo,* 1986, 189 pp.

3 *Resúmenes de documentos sobre recursos hídricos,* 1987, 290 pp.

4 *Resúmenes de documentos sobre planificación y medio ambiente,* 1987, 111 pp.

5 *Resúmenes de documentos sobre integración económica en América Latina y el Caribe,* 1987, 273 pp.

6 *Resúmenes de documentos sobre cooperación entre países en desarrollo, II parte,* 1988, 146 pp.

7 *Documentos sobre privatización con énfasis en América Latina,* 1991, 82 pp.

8 *Reseñas de documentos sobre desarrollo ambientalmente sustentable,* 1992, 217 pp. (Out of stock)

9 *MERCOSUR: resúmenes de documentos,* 1993, 119 pp.

10 *Políticas sociales: resúmenes de documentos,* 1995, 95 pp.

11 *Modemización del Estado: resúmenes de documentos,* 1995, 73 pp.

12 *Gestión de la información: reseñas de documentos,* 1996, 152 pp.

13 *Políticas sociales: resúmenes de documentos II,* 1997, 80 pp.

Recent co-publications

On occasion ECLAC concludes agreements for the co-publication of texts that may be of special interest to other international organizations or to publishing houses. In the latter case, the publishing houses have exclusive sales and distribution rights.

Las nuevas corrientes financieras hacia América Latina: Fuentes, efectos y políticas, Ricardo Ffrench-Davis y Stephany Griffith-Jones (comp.), México, CEPAL/Fondo de Cultura Económica, primera edición, 1995.

Hacia un nuevo modelo de organización mundial. El sector manufacturero argentino en los años noventa, Jorge Katz, Roberto Bisang, Gustavo Burachick editores, CEPAL/IDRC/ Alianza Editorial, Buenos Aires, 1996.

América Latina y el Caribe quince años después. De la década perdida a la transformación económica 1980-1995, CEPAL/Fondo de Cultura Económica, Santiago, 1996.

Tendências econômicas e sociais na América Latina e no Caribe / Economic and social trends in Latin America and the Caribbean / *Tendencias económicas y sociales en América Latina y el Caribe,* CEPAL/IBGE/CARECON RIO, Brasil, 1996.

Flujos de Capital e Inversión Productiva. Lecciones para América Latina, Ricardo Ffrench-Davis -Helmut Reisen (compiladores). CEPAL/M. Graw Hill, Santiago, 1997.

Políticas para mejorar la inserción en la economía mundial. América y El Caribe, CEPAL/Fondo de Cultura Económica, Santiago, 1997.

La Economía Cubana. Reformas estructurales y desempeño en los noventa, Comisión Económica para América Latina y el Caribe. CEPAL/Fondo de Cultura Económica, México, 1997.

La Igualdad de los Modernos: reflexiones acerca de la realización de los derechos económicos, sociales y culturales en América Latina, CEPAL/IIDH, Costa Rica, 1997.

Estrategias empresariales en tiempos de cambio, Bernardo Kosacoff (editor), CEPAL/Universidad Nacional de Quilmes, Argentina, 1998.

Grandes empresas y grupos industriales latinoamericanos, Wilson Peres (coord.), CEPAL/Siglo XXI, Buenos Aires, 1998.

Cincuenta años de pensamiento en la CEPAL: textos seleccionados, dos volúmenes, CEPAL/Fondo de Cultura Económica, Santiago, 1998.

América Latina y el Caribe. Políticas para mejorar la inserción en la economía mundial, CEPAL/Fondo de Cultura Económica, Santiago, 1998.

Macroeconomía, comercio y finanzas para reformar las reformas en América Latina, Ricardo Ffrench Davis, CEPAL/Mc Graw-Hill, Santiago, 1999.

La reforma del sistema financiero internacional: un debate en marcha, José Antonio Ocampo, CEPAL/Fondo de Cultura Económica, Santiago, 1999.

La inversión en Chile ¿El fin de un ciclo de expansión?, Graciela Mouguillansky, CEPAL/Fondo de Cultura Económica, Santiago, 1999.

El gran eslabón: educación y desarrollo en el umbral del siglo XXI, Martín Hopenhayn y Ernesto Ottone, CEPAL/Fondo de Cultura Económica, Argentina, 1999.

La modernidad problemática: cuatro ensayos sobre el desarrollo Latinoamericano, Ernesto Ottone, CEPAL/JUS, México, 2000.

Brasil uma década em transição, Renato Baumann, CEPAL/ CAMPUS, Brasil, 2000.

Ensayo sobre el financiamiento de la seguridad social en salud, Tomos I y II, Daniel Titelman y Andras Uthoff, CEPAL/Fondo de Cultura Económica, Chile, 2000.

Integración regional, desarrollo y equidad, Armando Di Filippo y Rolando Franco, CEPAL/Siglo XXI, México, 2000.

Cinqüenta anos de pensamento na CEPAL, Tomos I y II, Ricardo Bielschowsky, CEPAL/RECORD/COFECOM, Brasil, 2000.

Growth, employment, and equity. The impact of the Economic Reforms in Latin America and the Caribbean, Barbara Stallings and Wilson Peres, CEPAL/Brookings Institution Press, Washington, D.C., 2000.

Crecimiento, empleo y equidad. El impacto de las reformas económicas en América Latina y el Caribe, Barbara Stallings y Wilson Peres, CEPAL/Fondo de Cultura Económica, Santiago, 2000.

Reformas económicas, crecimiento y empleo. Los mercados de trabajo en América Latina y el Caribe, Jürgen Weller, CEPAL/Fondo de Cultura Económica, Santiago, 2000.

Reformas estructurales, productividad y conducta tecnológica en América Latina, Jorge Katz, CEPAL/Fondo de Cultura Económica, Santiago, 2000.

Inversión y reformas económicas en América Latina, Graciela Moguillansky y Ricardo Bielschowsky, CEPAL/Fondo de Cultura Económica, Santiago, 2000.

La distribución del ingreso en América Latina y el Caribe, Samuel Morley, CEPAL/Fondo de Cultura Económica, Santiago, 2000.

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى : الامم المتحدة ، قسم البيع في نيويورك او في جنيف .

如何购取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez -vous à: Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están a la venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Las publicaciones de la Comisión Económica para América Latina y el Caribe (CEPAL) y las del Instituto Latinoamericano y del Caribe de Planificación Económica y Social (ILPES) se pueden adquirir a los distribuidores locales o directamente a través de:

Publicaciones de las Naciones Unidas
Sección de Ventas – DC-2-0853
Fax (212)963-3489
E-mail: publications@un.org
Nueva York, NY, 10017
Estados Unidos de América

Publicaciones de las Naciones Unidas
Sección de Ventas, Fax (22)917-0027
Palais des Nations
1211 Ginebra 10, Suiza

Unidad de Distribución
CEPAL – Casilla 179-D
Fax (562)208-1946
E-mail: publications@eclac.cl
Santiago de Chile

Publications of the Economic Commission for Latin America and the Caribbean (ECLAC) and those of the Latin American and the Caribbean Institute for Economic and Social Planning (ILPES) can be ordered from your local distributor or directly through:

United Nations Publications
Sales Sections, DC-2-0853
Fax (212)963-3489
E-mail: publications@un.org
New York, NY, 10017
USA

United Nations Publications
Sales Sections, Fax (22)917-0027
Palais des Nations
1211 Geneve 10, Switzerland

Distribution Unit
CEPAL – Casilla 179-D
Fax (562)208-1946
E-mail: publications@eclac.cl
Santiago, Chile

ECONOMIC SURVEY OF LATIN AMERICA AND THE CARIBBEAN, 1999-2000

STATISTICAL APPENDIX

(Electronic version)

INTRODUCTION

As in the last four editions of the *Survey*, this year's edition includes a statistical appendix on CD-ROM which provides ready access to data for recent years and permits the preparation of spreadsheets covering a longer time period. The same methodology as the year before has been used for the presentation of this statistical information.

The CD-ROM contains the complete set of statistical tables upon which the *Economic Survey for Latin America and the Caribbean 1999-2000* is based. A number of these tables are also included in the printed version.

In order to facilitate access to the data, a query system by subject area and by country has been incorporated.

Refinements made after the *Economic Survey*'s copy deadline in the historical series for the public sector in some countries are reflected in the CD-ROM version of the tables. Several errors that were subsequently detected in tables contained in the printed document have also been corrected.

USING THE TABLE DISPLAY PROGRAM

This is the second application to be produced jointly by the ECLAC Documents and Publications Division and the Economic Development Division. It is experimental in nature and will be improved upon in subsequent editions. The program allows the user to select tables by country or by subject area, view them on screen, and print them and/or export them to the hard disk or to a specific directory in spreadsheet format (Microsoft Excel 4.0 or higher).

INSTALLATION

The program is accessed by opening the CD-ROM file **<Economic Survey 1999-2000.htm>** using the browser of your choice. The program can be worked with directly from the CD-ROM or by copying all the files to a user-specified directory (approximately 9.6 Mb).

The program works with any browser you choose (Internet Explorer, Netscape, etc.). Internet Explorer 4.0 and the Adobe Acrobat Reader 3.0 software needed to view the PDF files have been included on the CD-ROM.

NOTE

In addition to the text-viewing software, this edition also includes folders containing the statistical figures, the print version in Acrobat PDF files and the original Excel files.

These files and programs will soon be available on the ECLAC Web site (www.eclac.cl) as well.