

Second part

Countries



South America

Argentina

1. General trends

Economic expansion continued apace in 2004 with GDP growth of 9%, and in the first half of 2005 the level of activity appears to have matched the highs recorded some seven years ago. Although the strong recovery was associated with a significant jump in consumption, the ratio of domestic saving to GDP also rose to well above the last decade's figures. In 2004 fixed investment expanded by nearly 35%, thereby enabling a recovery of capital formation, which climbed to 17.7% (19% in the third quarter).

The expansion in economic activity again brought a considerable amount of job creation, although much of this new employment was in the informal sector. Even allowing for the possible effects of a new methodology and the inclusion of beneficiaries of State programmes, the employment rate rose well above past figures. There was also a further drop in the rate of unemployment, which nevertheless remains high. Higher demand for labour and government-approved pay increases contributed to an upturn in real wages. In combination, these trends helped to lower rates of poverty and indigence, which even so continue to represent a serious social problem.

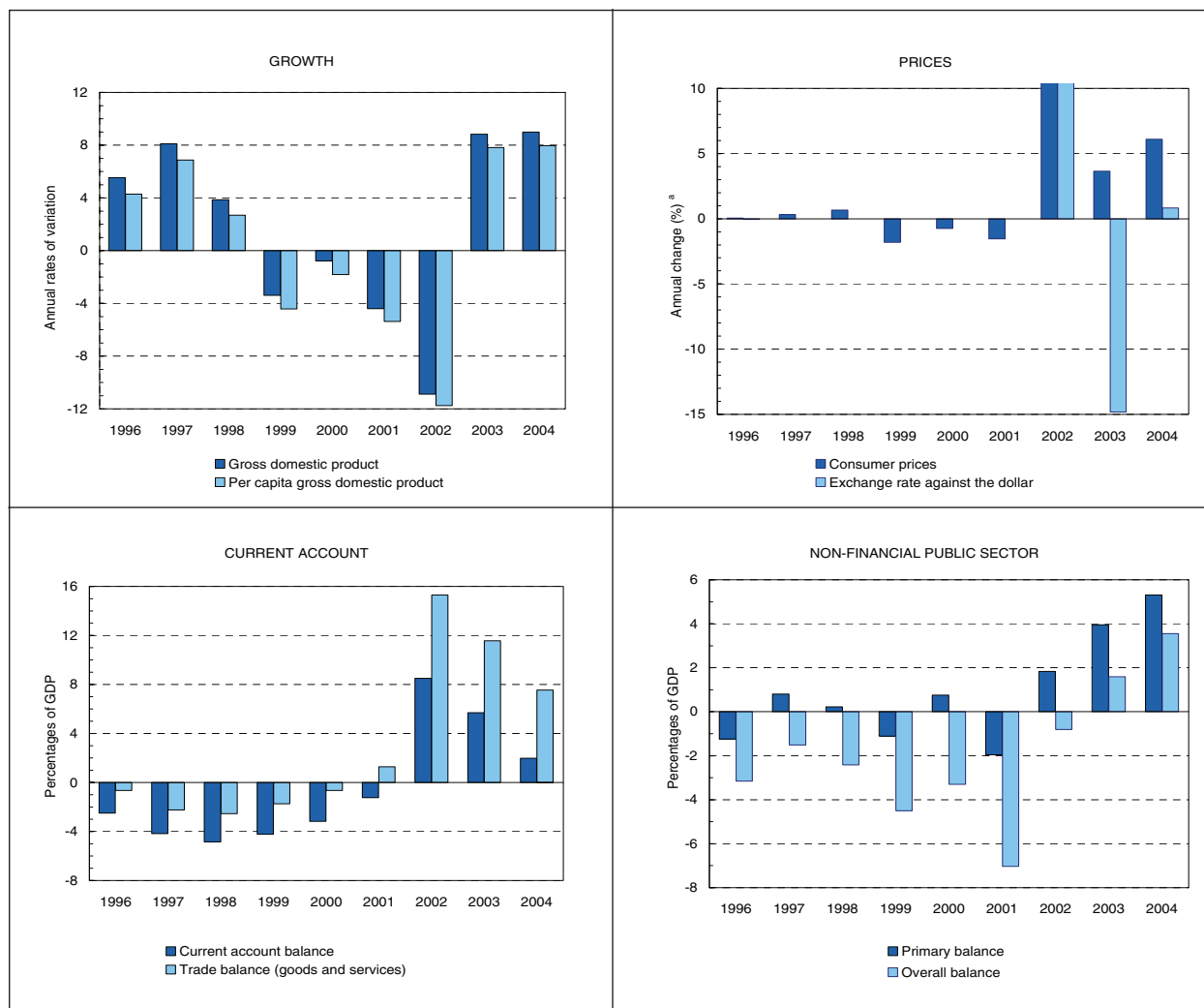
Prices continued to climb only slowly until well into 2004, but the rate then picked up at the end of the year and into the early months of 2005; in fact, between November 2004 and April 2005 the consumer price index rose by a monthly average of well over 1%. This was probably due to a combination of intermittent effects (such as seasonal price rises and external prices) and price rises fuelled by strongly expanding domestic demand. Be that as it may, keeping inflation within the planned limits (around 10% or below) became a key economy policy issue.

Goods imports responded in a highly elastic fashion to domestic demand, surging by over 60%. This tended to narrow the trade surplus, which nevertheless exceeded US\$ 13 billion, or around 9% of GDP. The current-account balance decreased but came in positive again, at almost 2% of GDP, counting interest accrued on defaulted

debt. Capital movements in the non-financial private sector were slightly positive, contrasting with the three preceding years. Throughout the reporting period there was a persistent oversupply of foreign exchange which, given the authorities' wish to keep the real exchange rate high, fed into a build-up of reserves.

Receipts from national taxes again rose considerably to reach an all-time high of 22% of GDP. This higher income provided manoeuvring room for fiscal management and helped to build up a national public-sector primary surplus of over 5% of GDP, the largest for several decades. The provinces also returned highly positive—and historically exceptional—fiscal balances, with a primary surplus of 1.4% of GDP. Although the fiscal targets agreed upon with the International Monetary Fund (IMF) were easily met, the respective programme was abandoned over differences with the Fund, particularly as regards structural measures and the restructuring of past-due public debt. This led to the suspension of scheduled disbursements, which translated into net repayment of US\$ 2 billion in Fund loans. The government devised a debt swap offer based on a flow of debt servicing commitments compatible with government primary surpluses of around 3% of GDP. This proposal did not involve the multilateral agencies in write-downs of principal or interest. The offer was taken up by bondholders representing a considerable proportion (76%) of the eligible bonds.

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

As economic activity bounced back strongly, strengthened by large primary surpluses in the public sector and a positive external trade balance, the last vestiges of the crisis in the contracts system gradually dissipated. In this regard, the debt swap represented an important step towards regaining a normal economic footing. One major outstanding contractual issue is the reworking of the operating frameworks of utilities run by privatized companies, given the need to respond to probable increases in demand in such

areas as energy supply, where difficulties arose in 2004. In more general terms, the authorities were trying to steer the economy onto a path that would continue the recovery in the long term. With this in mind, it was evidently important to extend decision horizons and strengthen processes of saving and investment, and to identify opportunities for productive growth with a medium-term perspective. The distributive implications of social and labour policies and wage setting were also prominent issues.

2. Economic policy

Two prominent traits of macroeconomic management were the considerable volume of the public sector primary surplus, national and provincial alike, despite an increase in government spending, and the maintenance of the real exchange rate (with a slight appreciation against the dollar), in a context of voluminous sales of foreign exchange by the private sector. Aside from this, the period was marked by complex discussions and negotiations over debt restructuring which, as well as the national authorities, involved developed country governments, IMF, courts of justice in several countries (especially the United States) and a broad array of private creditors. Tensions flared on several occasions,¹ and the parties decided to suspend implementation of the agreement, which meant that commitments were not refinanced as they fell due and were paid by the government. IMF declared that it would not participate in the government's proposed debt swap. After the offer closed, the Fund and the Argentine government resumed discussions on a new accord, with one of the items on the table being how to deal with debt owed to creditors who did not enter the debt swap.

(a) Fiscal policy

National tax receipts rose by around 36% in 2004, which was well above the rate of nominal output, considerably boosting the tax ratio again. The largest variations in returns were recorded in VAT (48%) and in the range of taxes on income and assets (43%). These broad-base taxes represent 58% of all tax receipts. Aside from the effect of certain price rises on tax liabilities (since balances were not adjusted for inflation, nor was any nominal change made to tax exemption limits), there was a trend towards higher compliance. Social security payments and contributions also rose significantly (31%), reflecting a higher proportion of formal-sector wages. Less steep increases were recorded in revenues from external trade taxes (20%, with the largest impetus coming from import taxes) and from the tax on financial transactions (30%), whose share in fiscal revenues dropped to 20%.

Higher public revenues had a direct impact on tax transfers to the provinces, which expanded by more than

one GDP percentage point. This increase, together with larger capital outlays on infrastructure projects, drove the primary spending of the national public sector up to 19.6% of GDP (as against 18.3% in 2003). Staff expenditures rose 8.8%, which was above the rate of inflation, but lower than growth in GDP. The government raised the minimum pension and, at the end of the year, awarded a fixed sum to pensioners in the form of a special, one-off bonus. Spending on social security rose 18%, in line with nominal GDP. Overall, net primary expenditure on transfers rose slightly as a proportion of GDP, but remained lower in net terms than the levels posted prior to devaluation. The volume and quality of spending, especially on social concerns, were heavily debated topics.

Government debt in the form of performing bonds and loans from international agencies decreased in 2004, and was serviced out of the surplus and by central bank credits. The exchange of defaulted bonds, the window for which closed in March 2005, was accepted by holders of eligible debt amounting to US\$ 82 billion (see box II.3).

(b) Monetary policy

The expansion of the monetary base (13%, compared with 59% the previous year, when quasi-money in circulation was redeemed) came close to the ceiling established in the monetary programme. Cash in circulation expanded more rapidly than commercial bank deposits in the central bank, although the commercial banks did place funds in the central bank through swap operations known as "pases", while maintaining a comfortable liquidity position. The expansion of the monetary base was the result of intervention in the foreign-exchange market, only partially sterilized by the paying off of rediscounts and the issue of bills. The central bank gradually shifted the focus of monetary regulation towards interest rates and away from quantitative monetary targets. The effects of monetary expansion on money demand eased in the first few months of 2005, as the authorities increased interest rates. A scheme was also created to encourage ahead-of-schedule payment of rediscounts.

¹ Differences arose between the government and IMF towards mid-2004, during negotiations over the implementation of a new tranche of the Fund programme. The government was seeking to focus conditionality on fiscal targets, defined in relation to the debt swap offered to private creditors. The Fund, on the other hand, broadened its requirements to encompass such matters as tariff adjustments and fresh consultations with bondholders' groups.

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|---------|---------|---------|--------|---------|---------|---------|-------------------|
| Annual growth rates ^b | | | | | | | | | |
| Gross domestic product | 5.5 | 8.1 | 3.9 | -3.4 | -0.8 | -4.4 | -10.9 | 8.8 | 9.0 |
| Per capita gross domestic product | 4.3 | 6.9 | 2.7 | -4.4 | -1.8 | -5.4 | -11.7 | 7.8 | 8.0 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -1.2 | 0.5 | 8.7 | 2.5 | -1.8 | 1.1 | -2.3 | 6.9 | -1.5 |
| Mining | 4.5 | 0.7 | -3.8 | -3.3 | 6.7 | 4.7 | -3.7 | 3.7 | -0.4 |
| Manufacturing | 6.5 | 9.2 | 1.9 | -7.9 | -3.8 | -7.4 | -11.0 | 16.0 | 11.9 |
| Electricity, gas and water | 4.1 | 8.2 | 7.6 | 3.6 | 6.6 | 1.1 | -3.0 | 6.9 | 6.5 |
| Construction | 8.4 | 16.6 | 8.7 | -7.9 | -9.3 | -11.6 | -33.4 | 34.4 | 29.4 |
| Wholesale and retail commerce, restaurants and hotels | 7.9 | 10.9 | 3.4 | -6.9 | -2.4 | -7.8 | -16.8 | 11.7 | 12.4 |
| Transport, storage and communications | 6.9 | 11.2 | 8.9 | -1.3 | 1.7 | -4.6 | -7.9 | 8.2 | 13.4 |
| Financial institutions, insurance, real estate and business services | 6.1 | 7.3 | 7.0 | -0.5 | 1.3 | -4.4 | -9.6 | -1.1 | 2.2 |
| Community, social and personal services | 2.3 | 4.0 | 1.5 | 1.9 | 1.7 | -0.1 | -3.3 | 2.8 | 4.3 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 5.0 | 8.1 | 3.5 | -1.3 | -0.5 | -5.2 | -12.8 | 7.0 | 8.3 |
| General government | 2.2 | 3.2 | 3.4 | 2.6 | 0.6 | -2.1 | -5.1 | 1.5 | 2.7 |
| Private | 5.5 | 9.0 | 3.5 | -2.0 | -0.7 | -5.7 | -14.4 | 8.2 | 9.4 |
| Gross domestic investment | 8.9 | 17.7 | 6.5 | -12.6 | -6.8 | -15.7 | -36.4 | 38.2 | 34.5 |
| Exports (goods and services) | 7.6 | 12.2 | 10.6 | -1.3 | 2.7 | 2.7 | 3.1 | 6.0 | 8.2 |
| Imports (goods and services) | 17.5 | 26.9 | 8.4 | -11.3 | -0.2 | -13.9 | -50.1 | 37.6 | 39.8 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving ^c | | | | | | | | | |
| Gross domestic investment | 19.6 | 20.9 | 21.0 | 17.9 | 17.5 | 15.6 | 11.0 | 14.6 | 18.9 |
| National saving | 17.1 | 16.7 | 16.1 | 13.7 | 14.3 | 14.4 | 19.5 | 20.3 | 20.8 |
| External saving | 2.5 | 4.2 | 4.9 | 4.2 | 3.2 | 1.2 | -8.5 | -5.7 | -2.0 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -6 822 | -12 219 | -14 510 | -11 948 | -9 015 | -3 336 | 8 682 | 7 370 | 3 029 |
| Merchandise trade balance | 1 760 | -2 123 | -3 097 | -795 | 2 452 | 7 385 | 17 178 | 16 448 | 13 267 |
| Exports, f.o.b. | 24 043 | 26 431 | 26 434 | 23 309 | 26 341 | 26 543 | 25 651 | 29 566 | 34 453 |
| Imports, f.o.b. | 22 283 | 28 554 | 29 531 | 24 103 | 23 889 | 19 158 | 8 473 | 13 118 | 21 185 |
| Services trade balance | -3 527 | -4 408 | -4 490 | -4 151 | -4 323 | -3 911 | -1 561 | -1 448 | -1 733 |
| Income balance | -5 503 | -6 203 | -7 387 | -7 456 | -7 548 | -7 237 | -7 487 | -8 208 | -9 210 |
| Net current transfers | 448 | 515 | 465 | 454 | 403 | 427 | 552 | 578 | 705 |
| Capital and financial balance ^d | 10 080 | 15 549 | 18 600 | 13 960 | 7 798 | -18 123 | -22 067 | -16 407 | -10 184 |
| Net foreign direct investment | 5 348 | 5 507 | 4 965 | 22 257 | 9 517 | 2 005 | 2 776 | 1 113 | 3 934 |
| Financial capital ^e | 4 732 | 10 042 | 13 635 | -8 297 | -1 720 | -20 128 | -24 843 | -17 521 | -14 118 |
| Overall balance | 3 258 | 3 331 | 4 090 | 2 013 | -1 218 | -21 459 | -13 385 | -9 037 | -7 154 |
| Variation in reserve assets ^f | -3 875 | -3 293 | -3 436 | -1 186 | 439 | 12 083 | 4 516 | -3 581 | -5 320 |
| Other financing ^g | 617 | -38 | -654 | -826 | 778 | 9 376 | 8 869 | 12 618 | 12 474 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 115.0 | 112.7 | 108.8 | 99.6 | 100.0 | 95.6 | 221.9 | 204.5 | 214.8 |
| Terms of trade for goods (index: 2000=100) | 103.5 | 102.2 | 96.6 | 90.9 | 100.0 | 99.3 | 98.7 | 107.2 | 109.2 |
| Net resource transfer (percentage of GDP) | 1.9 | 3.2 | 3.5 | 2.0 | 0.4 | -5.9 | -20.3 | -9.3 | -4.5 |
| Total gross external debt (billions of dollars) | 114.4 | 130.0 | 147.6 | 152.6 | 155.0 | 166.3 | 156.7 | 165.0 | 172.8 |
| Total gross external debt (percentage of GDP) | 42.0 | 44.4 | 49.4 | 53.8 | 54.5 | 61.9 | 153.6 | 127.4 | 112.9 |
| Net profits and interest (percentage of exports) ⁱ | 7.3 | 8.8 | 8.9 | 7.5 | 7.9 | 2.5 | 0.4 | 3.8 | 7.4 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^j | 41.5 | 42.2 | 42.2 | 42.6 | 42.6 | 42.5 | 42.4 | 45.7 | 45.9 |
| Open unemployment rate ^k | 17.2 | 14.9 | 12.9 | 14.3 | 15.1 | 17.4 | 19.7 | 17.3 | 13.6 |
| Visible underemployment rate ^k | 13.2 | 13.2 | 13.5 | 14.3 | 14.6 | 15.6 | 19.3 | 17.1 | 15.1 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|------|------|------|------|------|------|-------|-------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 0.1 | 0.3 | 0.7 | -1.8 | -0.7 | -1.5 | 41.0 | 3.7 | 6.1 |
| Variation in wholesale prices (December-December) | 2.1 | -0.9 | -6.3 | 1.2 | 2.4 | -3.4 | 113.7 | 2.0 | 7.9 |
| Variation in nominal exchange rate (December-December) | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 243.7 | -14.8 | 0.8 |
| Variation in average real wage | 0.6 | 0.3 | 0.0 | 2.9 | 2.3 | -0.8 | -13.9 | -1.9 | 10.0 |
| Nominal deposit rate ^l | ... | 7.0 | 7.6 | 8.3 | 8.5 | 16.3 | 39.3 | 10.5 | 2.7 |
| Nominal lending rate ^m | ... | 9.2 | 10.6 | 11.0 | 11.1 | 26.5 | 53.0 | 19.1 | 6.8 |
| Percentages of GDP | | | | | | | | | |
| Non-financial public sector ⁿ | | | | | | | | | |
| Current income | 21.7 | 22.6 | 22.9 | 23.5 | 24.6 | 23.3 | 23.6 | 26.5 | 16.5 |
| Current expenditure | 23.1 | 22.7 | 23.4 | 26.2 | 26.7 | 29.2 | 23.6 | 23.7 | 13.2 |
| Current balance | -1.4 | -0.1 | -0.5 | -2.7 | -2.1 | -5.9 | -0.1 | 2.9 | 3.3 |
| Net capital expenditure | 1.6 | 1.4 | 1.9 | 1.9 | 1.2 | 1.1 | 0.7 | 1.3 | 1.5 |
| Primary balance | -1.2 | 0.8 | 0.2 | -1.1 | 0.8 | -2.0 | 1.8 | 4.0 | 3.3 |
| Overall balance | -3.2 | -1.5 | -2.4 | -4.5 | -3.3 | -7.0 | -0.8 | 1.6 | 2.0 |
| National government public debt | | | | | | | | | |
| Domestic | 35.7 | 34.5 | 37.6 | 43.0 | 45.0 | 53.7 | 145.9 | 138.2 | 126.5 |
| External | 8.9 | 9.6 | 10.4 | 13.9 | 16.4 | 22.3 | 52.1 | 58.2 | 54.5 |
| Interest payments of NFPS (percentage of current income) | 26.8 | 24.9 | 27.1 | 29.1 | 28.6 | 31.5 | 93.7 | 80.0 | 72.1 |
| 8.8 | 10.2 | 11.5 | 14.4 | 16.5 | 21.8 | 11.3 | 8.9 | ... | |
| Money and credit ^o | | | | | | | | | |
| Domestic credit ^p | 24.6 | 25.6 | 28.7 | 32.2 | 32.8 | 32.9 | 41.5 | 34.5 | 29.1 |
| To the public sector | 5.4 | 5.5 | 5.9 | 7.2 | 8.5 | 9.9 | 24.8 | 23.0 | 19.6 |
| To the private sector | 19.2 | 20.1 | 22.7 | 25.0 | 24.2 | 23.0 | 16.7 | 11.5 | 9.6 |
| Liquidity (M3) | 24.5 | 27.5 | 31.3 | 34.9 | 35.7 | 35.4 | 32.3 | 31.6 | 34.2 |
| Currency in circulation and local-currency deposits (M2) | 14.8 | 16.8 | 18.4 | 19.1 | 18.6 | 16.6 | 28.4 | 30.3 | 32.0 |
| Foreign-currency deposits | 9.7 | 10.8 | 12.9 | 15.9 | 17.1 | 18.7 | 3.9 | 1.3 | 2.2 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1993 prices. ^c Based on figures in local currency expressed in dollars at current prices. Gross domestic investment does not include changes in stocks. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the total population in urban areas. ^k Unemployment and underemployment rates as percentages of the economically active population, urban areas. ^l Fixed-term deposits, all maturities. ^m 30-day loans to leading firms. ⁿ Accrual basis. The figures for 2004 refer to central government. ^o The monetary figures are annual averages. ^p Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

M3 monetary aggregates increased by 15% in the course of 2004, similarly to the monetary base. Money demand shifted from less quickly accessible liquid assets towards cash and sight deposits, in a context of low interest rates. Narrow money (M1) therefore increased considerably (26.6%), with a similar variation in cash in circulation and current-account deposits.

Bank credit to the private sector, which had contracted sharply during the financial crisis of 2001-2002, increased by 26% in 2004 (well in excess of inflation), but still fell short of 10% of GDP. The slow recovery in financing was combined with a rather weak demand for credit and took place against a backdrop of interest rates that declined up to the end of 2004. At the end of the year, nominal annual yields on short-term deposits were around 3%,

while average rates on advances and discounts varied between 10% and 15%. The early months of 2005 brought incipient signs of interest rate rises.

The securities markets continued to stage a gradual recovery from the devastating effects of the crisis. In fact, the prices of government bonds issued after the default rose in 2004, thereby reducing the implicit interest rate premium; notably, the spread between bonds maturing in 2012 and similar United States instruments was around 6% in December. Share prices also rose by 28%, partly reflecting both local and international conditions. The rise in long-term interest rates in the United States impacted on the prices of government paper, which dropped after rising strongly in the first two months of 2005.

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|--------|--------|--------|-------------------|--------|--------|--------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 5.4 | 7.8 | 10.2 | 11.7 | 11.3 | 7.1 | 8.7 | 9.3 | 8.0 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 6 556 | 8 125 | 7 550 | 7 336 | 7 353 | 6 314 | 8 911 | 8 842 | 8 367 | ... |
| Merchandise imports, c.i.f. (millions of dollars) | 2 502 | 3 336 | 3 712 | 4 283 | 4 662 | 3 832 | 6 027 | 6 274 | 5 953 | ... |
| International reserves (millions of dollars) | 10 517 | 12 183 | 13 406 | 14 119 | 15 003 | 17 442 | 18 223 | 19 645 | 20 338 | 23 052 |
| Real effective exchange rate (index: 2000=100) ^c | 208.4 | 198.5 | 202.4 | 209.0 | 215.4 | 208.2 | 215.4 | 220.5 | 217.2 | 214.7 ^d |
| Unemployment rate | 20.4 | 17.8 | 16.3 | 14.5 | 14.4 | 14.8 | 13.2 | 12.1 | 13.0 | ... |
| Consumer prices (12-month percentage variation) | 31.7 | 10.2 | 3.5 | 3.7 | 3.1 | 4.9 | 5.9 | 6.1 | 9.1 | 9.0 |
| Average nominal exchange rate (pesos per dollar) | 3.12 | 2.80 | 2.83 | 2.86 | 2.89 | 2.89 | 2.98 | 2.94 | 2.93 | 2.89 |
| Average real wage (variation from same quarter of preceding year) | -19.5 | 0.0 | 5.3 | 9.2 | 16.0 | 13.7 | 7.8 | 3.9 | 2.0 | ... |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 18.8 | 14.2 | 4.8 | 4.1 | 2.5 | 2.4 | 2.8 | 3.1 | 2.9 | 3.8 |
| Lending rate ^f | 27.6 | 24.3 | 13.9 | 10.8 | 9.1 | 6.3 | 5.9 | 5.8 | 5.5 | 6.0 |
| Interbank interest rate ^g | 6.0 | 5.6 | 2.5 | 1.6 | 1.4 | 2.3 | 2.5 | 2.4 | 2.3 | 3.4 |
| Sovereign bond spread (basis points) | 6 165 | 4 554 | 5 484 | 5 632 | 4 873 | 5 188 | 5 440 | 4 703 | 5 393 | 462 |
| Stock price index (in dollars, December 2000=100) | 43.9 | 57.2 | 60.3 | 79.4 | 87.3 | 69.7 | 88.1 | 97.4 | 107.8 | 114.6 |
| Domestic credit (variation from same quarter of preceding year) ^h | 6.1 | -12.3 | -13.6 | -7.5 | -1.0 | 1.0 | 3.5 | 7.8 | 11.8 | 12.8 ⁱ |
| Non-performing loans as a percentage of total credit ^j | 14.0 | 13.8 | 15.0 | 14.1 | 11.8 | 10.6 | 9.5 | 8.3 | 7.2 | 6.7 ^d |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1993 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e Fixed-term deposits. ^f 30-day loans to leading firms. ^g Buenos Aires interbank offered rate (BAIBOR). ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Data for April. ^j Refers to total credit extended by the banking system.

3. The main variables

(a) Economic activity

Economic activity took a steady upward course in 2004, levelling off in the second quarter and picking up strongly again in the last semester, thanks to an increase in export volumes and in private consumption. The domestic savings ratio remained relatively high, at 21.5%, compared to 19.65% at the peak of the cycle in 1998 and 18.5% in 2001. The contrast is sharper when observed in current values, since capital goods have become relatively more expensive since devaluation, with domestic saving in 2004 (27% of GDP) 8 points higher than in 1998 and 9 points

above the 2001 figure. Nevertheless, the trend in saving was partly due to the fact that investment was financed, in aggregate terms, out of domestic resources.

Capital formation surged in construction (25.5%), with the strongest component being machinery and equipment (52.5%). Investment in production for the domestic market was driven by the upturn in demand, while the maintenance of the real exchange rate provided room for investment in the production of tradable goods.

Overall, the goods-producing sectors expanded more quickly than services. Output was up in construction (29% on average over the year), due to a faster rate of

both private building and public works. Manufacturing increased by almost 12%, whereas mining was practically flat and agriculture contracted slightly.

Despite an increase in the area under crops, grain production slipped marginally to 69.3 million tons in the 2003-2004 growing season, down from 70.8 million tons the previous year. Oilseeds accounted for much of the decline, since there was an expansion in the cereal harvest, especially wheat. External demand for beef livestock was up, partly thanks to the absence of fresh outbreaks of foot-and-mouth disease, and this was reflected in higher exports. Domestic demand also rose.

Crude petroleum production dropped again in 2004, this time by 6%. By contrast, production of natural gas rose, though this did not prevent supply constraints. In the first part of the year there was a surge in demand for gas both for industrial use and for electricity generation and transport (in the form of compressed natural gas). In addition to the expansion in economy activity, other contributing factors were a rate scheme that encouraged the use of gas and a shift in energy supply towards thermal sources, since climatic factors meant that less water was available for hydroelectric generation. Signs of excess demand generated a variety of reactions, among other things because of the cutting back of the gas supply to Chile. The problems that ensued clearly signalled the need for a system of incentives and an investment plan to serve as a frame of reference for energy suppliers and users alike. Negotiations did take place in 2004 on the definition of regulatory and contractual frameworks to govern the sector's activities, but specific agreements remained on the agenda for 2005.

Manufacturing activity grew strongly throughout 2004, despite a dip in the second quarter that may have been partly attributable to energy supply problems, as well as the effects of demand. Be that as it may, the uptrend still had plenty of momentum in the second half of the year and the early months of 2005, and pushed March's industrial production index above the previous high recorded in 1998.

(b) Prices, wages and employment

The consumer price index rose 6.1% in 2004. This figure was higher than the preceding year's rate, but exhibited no sharp variations until the end of the year. Prices rose more quickly between December 2004 and March 2005, however, accumulating an increase of 4.9% and turning the public spotlight on inflation. In general, the rise over this period was attributable to the sharpening of traits that were already decipherable in 2004. In any case, the inflation rate dipped considerably in April, to 0.5%. The price trends in the coming months will show

whether the surge was simply the sum of a number of isolated adjustments or part of a persistent uptrend with broader macroeconomic implications.

The items in the wholesale price index basket fluctuated strongly, reflecting a number of factors influencing prices, some domestic and others generated by the international markets. Whereas the overall index rose by 7.9% over the year, the prices of agricultural goods dropped by 10.4% on average, with cereals, oilseeds and vegetables slumping as much as 20% in price. At the other extreme, the wholesale price of electricity rose 39%, and there were also sharp rises in the prices of petroleum and natural gas.

Economic policy focused on limiting variation in the real exchange rate and keeping it relatively high. The price of the dollar fluctuated throughout 2004 without building up any appreciable variation, which meant a slight appreciation in real terms. Given international currency trends, the Argentine peso lost value with respect to the country's main trading partners, including the economies of the region.

The government decreed large rises in the minimum wage and fixed sum pay increases for private-sector workers. The effects of higher demand for labour also began to kick in, with an upturn in real wages that carried over into the early months of 2005. Although formal workers in the private sector have built up the largest wage increases during the recovery, informal workers and civil servants have also benefited.

Formal employment rose steeply once again, by approximately 7% in the course of 2004, notwithstanding the still very high degree of informality in the labour market. The increase took place across the board, encompassing manufacturing, construction and services.

This expansionary trend was also evident in the higher employment ratio as recorded in household surveys, in which it reached historical levels. This translated into a visible reduction in unemployment, even though the labour force participation rate varied at higher levels than at the end of 2003. In the fourth quarter of 2004, unemployment stood at around 12%, which was 2.5 points lower than a year earlier. This rate, however, rises to 14.5% when people working mainly in the framework of State programmes and actively seeking other employment are included. This figure, in turn, represents a drop of just over 3 percentage points in relation to the equivalent rate at the end of 2003.

(c) The external sector

The current-account balance decreased in 2004, but was still high and positive, at US\$ 3 billion. This figure was calculated with accrued interest on unpaid debt figuring as debits, not counting reductions and write-downs. The

goods trade balance returned a substantial surplus. Within services, tourism-related income and expenditures both increased, as the activity of the sector expanded and demand from residents rose. The profits and dividends of foreign firms operating in Argentina also climbed by a significant US\$ 1.6 billion.

After three years of a large, albeit decreasing, deficit, the combined capital movements of the non-financial private sector resulted in a small surplus. This was in addition to an upturn in foreign direct investment which, however, at about US\$ 4 billion, still fell clearly short of the figures seen before the crisis of 2001-2002. The non-financial private sector received net credit from suppliers for its imports and made payments on bonds and bank loans in excess of the resources received. The banks, too, reduced their external liabilities. True to the pattern that has continued since 2002, net financing from international agencies was negative, this time by US\$ 2.4 billion. Amortizations to the World Bank and the Interamerican Development Bank exceeded disbursements, but the bulk of net payments (some US\$ 2 billion) went to IMF.

The increase in exports in 2004 (by 17%, to US\$ 34.5 billion) was due partly to price rises (11%), led by agricultural manufactures and fuels. Prices edged back down in the course of the year, however, so that towards the end of the period they were lower in aggregate terms than a year earlier. In any case, there was also a considerable expansion in the volumes exported: the year-on-year rate in the fourth quarter (18%) more

than compensated for the drop in prices, with the value exported up 13%.

The increased value of exports in 2004 was thanks mainly to manufactures, of agricultural and industrial origin alike (19% and 24%, respectively). Of particular note among agricultural exports was the rise in meat sales, which appeared to reflect an uptrend associated with the opening of new markets. In general, the prices of non-traditional manufactures also rose, particularly in the case of automotive vehicles and chemicals. Exports of primary goods recorded a smaller increase of 6%; the expansion in this category was led by cereals and copper, which stood at about US\$ 650 million, and was partially offset by smaller sales of oilseeds. The MERCOSUR countries went some way to regaining their share in total exports, at 19.6% compared to 19.1% in 2003. The proportion exported to the rest of Latin America and NAFTA also increased, while exports to China increased more than the average, although they represented only 8% of the total.

Imports soared again in 2004, by 61%. The steepest rises were seen in imports of capital goods (114%) and fuels, accounted for mainly by increased volumes. Significant price movements were seen in imports of intermediate goods, which rose by 15%, and volumes grew by an amount that exceeded GDP growth in net terms. Generally speaking, the MERCOSUR countries retained their share of Argentina's imports, which stands at around 37%, whereas the share of the European Union dropped to below 19%.

Bolivarian Republic of Venezuela

1. General trends

The economic expansion that started in the third quarter of 2003 continued in 2004. Growth of 17.9% over the year brought activity close to the levels recorded prior to the general strike at the end of 2002. The recovery took place across practically all the sectors and was stronger than original estimates had suggested. The political turmoil in the country continued during much of 2004. The result of the recall referendum held on 15 August confirmed the President's continuation in office until the end of his mandate at the beginning of 2007. According to data available for the first quarter of 2005, the economy grew by 7.9%, led by the non-petroleum sector, in particular the subsectors of construction, commerce, transport and finance. A growth rate of 7% is forecast for 2005 as a whole.

Several factors contributed to the expansion recorded in 2004. In the first place, the first quarter of 2003 represents a low basis for comparison.¹ In fact, activity was up by 35% year-on-year in the first quarter of 2004. Second, the economic policies adopted by the authorities provided a stimulus. The third factor is statistical in nature, since the base year used by the Central Bank of Venezuela (BCV) to prepare the national accounts was changed from 1984 to 1997. One significant result of this change in the country's accounting system has been a decline in the proportion of the economy accounted for by the oil sector, from around 25% of GDP to approximately 18%. Since the most buoyant branches of activity in 2004 corresponded precisely to the non-oil sector, the change in the structure

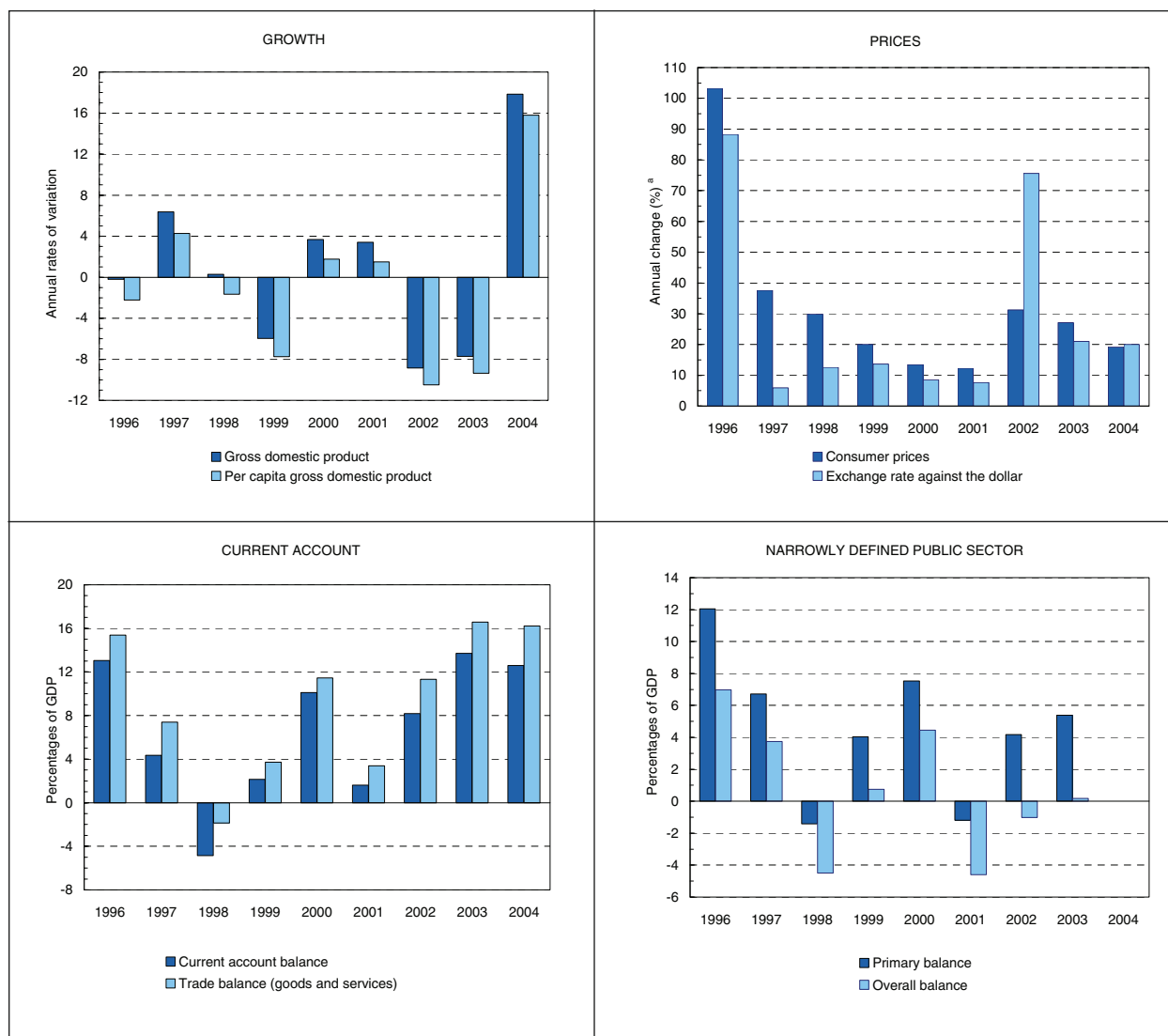
of the economy magnified their good performance and downplayed the petroleum sector's lower productivity in GDP terms.

In the labour markets, the robust economic recovery translated into a decrease in unemployment and, to a lesser extent, in informality; it also triggered an improvement in real wages, especially in the public sector. In spite of a considerable increase in imports, the current-account surplus was higher in 2004 than in 2003, thanks primarily to the high price of oil on international markets.

Fiscal and monetary policies remained openly expansionary and the authorities continued to apply the foreign exchange control system adopted in 2003.

¹ In the first quarter of 2003, economic activity declined sharply as a result of the work stoppage called by the opposition and business groupings, which lasted from December 2002 until early February 2003.

Figure 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

2. Economic policy

(a) Fiscal policy

The fiscal policy deployed in 2004 kept up the expansionary trend in current expenditure. During the year, central government expenditure increased by

approximately 50% in nominal terms. Fiscal revenue was up by close to 60%, also in nominal terms. Nevertheless, the central government financial balance recorded a deficit of close to 2% of GDP, considerably less than the 2003 figure of 4.3%.

The substantial increase in current revenue was due mainly to higher tax receipts, in particular to the proceeds of income tax, value-added tax (VAT) and duties on ordinary imports, with the rise in these tax items reflecting, in turn, the upturn in economic activity and in imports. This was in addition to efforts to reduce tax evasion and a generalized rise in the prices of goods and services subject to consumption taxes. The fastest-growing category among non-tax revenues was petroleum royalties, thanks to the high price of the Venezuelan basket in international markets.²

In the light of these developments, the government lowered the VAT rate from 16% to 15%, with effect from 1 September 2004. The tax on corporate assets was eliminated on the same date. The resulting decline in revenue was offset by an increase in the proceeds from oil sales and other domestic taxes, particularly the tax on bank debits, and profits on foreign exchange transactions turned over to the government by the central bank.

In 2004, the government carried on the process of refinancing and restructuring the national public debt. The executive continued its policy of issuing new debt instruments in order to buy back and swap older treasury bills and thereby restructure its portfolio on more favourable conditions as regards terms and interest rates. The public debt continued to increase in 2004, albeit at a slower rate than in 2003, and showed an improvement in terms of GDP. In 2004, the public debt/GDP ratio was close to 40%, down from 45.9% in 2003, but significantly higher than the figure of 30.4% recorded in 2001. Debt servicing represented 5.2% of GDP, the lowest level since 1998. This was due to a reduction in domestic debt servicing payments from 4.8% of GDP in 2003 (a similar percentage to that of 2002 and the highest on record since 1996) to 2% in 2004, which was equivalent to pre-2000 levels.

In the first quarter of 2005, the authorities kept fiscal policy expansionary. According to information published by the central bank, in this period, central government operating expenditure increased by 44% over the first quarter of 2004. The increase in spending was, however, offset by a significant rise in current revenues (67%), in particular from taxes (84%).

In 2004 and the months of 2005 included in the reporting period, the authorities continued their social welfare programmes or “missions”, several of which

target low-income groups. In general, they are directed towards providing health services, education and food at subsidized prices, with food distribution centres set up by the government under the Mercal programme. These programmes are funded through special mechanisms set up by the authorities, in particular a fund for economic and social development (FONDESPA) funded from the proceeds of oil sales by *Petróleos de Venezuela S.A. (PDVSA)*.³

Following the referendum of August 2004, a number of laws that had been adopted in 2001 came into effect. A land and agrarian development act—which is directed towards identifying large nonproductive estates and which has been the subject of much controversy—took effect late in 2004. The beginning of 2005 saw the entry into force of a new hydrocarbons law, which modified the taxes and royalties to be paid under operating agreements in the oil sector. Royalties were raised from 1% to 16.66% of drilled oil, while the income tax rate was increased from 35% to 50%.

(b) Monetary and exchange-rate policy

In 2004, nominal interest rates continued the downward trend begun in 2003. Private lending by the banking system soared by 60% in nominal terms between December 2003 and December 2004, coming to account for 41% of the banking system’s total assets, as compared with 30% in January 2004. Investments in both government and central bank securities decreased from 39% of banking assets in January 2004 to 29% in December 2004. Up to May 2005, credit to the private sector dropped to 38.4% of assets, while investments in public securities remained at around 29%. The authorities determined minimum allocations of the banks’ credit portfolios for specific activities: 16% for agriculture, 3% for micro-credits and 10% for mortgages.

Monetary aggregates continued to expand in 2004, though at much slower rates than in 2003. From December 2003 to December 2004, currency in circulation (M1) grew by 46.3% in nominal terms and broad money (M2), by 50.4%, compared with 87.7% and 63.1%, respectively, in 2003. Deposits in the banking system increased at a similar rate to 2003, except for time deposits, which were up by 71% in the period. The expansion in monetary aggregates slowed in the first five months of 2005: M1 increased by 2.1% over the level of December 2004 and M2, by 5.9%.

² In 2004, the average price of the basket of Venezuelan crude was US\$ 32.61 per barrel, 26.6% higher than the average of US\$ 25.76 per barrel recorded in 2003.

³ The Fund for the Economic and Social Development (FONDESPA) is denominated in dollars. It is funded by contributions from *Petróleos de Venezuela S.A.* and used for social spending. It may accumulate up to US\$ 2 billion and its income is channelled directly from the country’s sales of crude petroleum, not from international reserves. The fund is authorized by the Central Bank of Venezuela.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|--------|--------|--------|---------|--------|---------|--------|-------------------|
| Annual growth rates ^b | | | | | | | | | |
| Gross domestic product | -0.2 | 6.4 | 0.3 | -6.0 | 3.7 | 3.4 | -8.9 | -7.7 | 17.9 |
| Per capita gross domestic product | -2.2 | 4.3 | -1.6 | -7.8 | 1.8 | 1.5 | -10.5 | -9.3 | 15.8 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 2.0 | 2.4 | 3.5 | 1.9 | 6.5 | 2.0 | -0.8 | -1.8 | ... |
| Mining | 8.2 | 9.8 | 0.6 | -6.4 | 2.4 | 2.6 | -12.9 | -0.5 | 11.6 |
| Manufacturing | -3.0 | 5.1 | -1.7 | -7.3 | 4.8 | 0.3 | -13.7 | -7.6 | 7.1 |
| Electricity, gas and water | 1.2 | 4.7 | 0.5 | -2.2 | 4.7 | 4.8 | 2.1 | -0.5 | 6.9 |
| Construction | 1.1 | 17.2 | 1.4 | -17.4 | 4.0 | 13.5 | -8.4 | -39.5 | 32.1 |
| Wholesale and retail commerce, restaurants and hotels | -7.2 | 4.1 | -1.3 | -5.3 | 4.8 | 4.2 | -12.4 | -9.6 | 11.0 ^c |
| Transport, storage and communications | 1.7 | 9.0 | -0.1 | -7.5 | 7.7 | 2.8 | -4.4 | -6.5 | 18.3 |
| Financial institutions, insurance, real estate and business services | -3.3 | 3.0 | 0.6 | -6.8 | 0.5 | 3.4 | -3.1 | -4.6 | 12.5 |
| Community, social and personal services | -1.5 | -0.5 | -0.4 | -3.9 | 2.2 | 2.4 | -0.2 | 3.4 | 14.8 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | -4.9 | 5.0 | 0.8 | -2.9 | 4.6 | 6.2 | -6.2 | -2.5 | 16.0 |
| General government | -7.6 | 4.2 | -3.1 | -7.5 | 4.2 | 6.9 | -2.5 | 5.7 | 13.9 |
| Private | -4.4 | 5.1 | 1.8 | -1.7 | 4.7 | 6.0 | -7.1 | -4.6 | 16.6 |
| Gross domestic investment | -11.0 | 34.0 | 4.4 | -10.6 | 6.7 | 13.6 | -34.0 | -34.0 | 89.8 |
| Exports (goods and services) | 7.8 | 9.4 | 3.5 | -11.0 | 5.8 | -3.6 | -4.0 | -9.9 | 11.8 |
| Imports (goods and services) | -11.2 | 33.9 | 11.3 | -9.3 | 12.4 | 14.1 | -25.2 | -19.6 | 60.0 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving ^d | | | | | | | | | |
| Gross domestic investment | 22.8 | 27.7 | 30.7 | 26.5 | 24.2 | 27.5 | 21.2 | 15.6 | 21.5 |
| National saving | 35.8 | 32.0 | 25.8 | 28.7 | 34.3 | 29.1 | 29.3 | 29.3 | 34.1 |
| External saving | -13.1 | -4.3 | 4.9 | -2.2 | -10.1 | -1.6 | -8.2 | -13.7 | -12.6 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | 8 914 | 3 732 | -4 432 | 2 112 | 11 853 | 1 987 | 7 599 | 11 448 | 13 830 |
| Merchandise trade balance | 13 770 | 8 954 | 952 | 6 471 | 16 664 | 7 460 | 13 421 | 16 483 | 21 430 |
| Exports, f.o.b. | 23 707 | 23 871 | 17 707 | 20 963 | 33 529 | 26 667 | 26 781 | 27 170 | 38 748 |
| Imports, f.o.b. | 9 937 | 14 917 | 16 755 | 14 492 | 16 865 | 19 207 | 13 360 | 10 687 | 17 318 |
| Services trade balance | -3 269 | -2 608 | -2 649 | -2 839 | -3 253 | -3 305 | -2 909 | -2 644 | -3 626 |
| Income balance | -1 725 | -2 517 | -2 534 | -1 453 | -1 388 | -2 020 | -2 756 | -2 411 | -3 885 |
| Net current transfers | 138 | -97 | -201 | -67 | -170 | -148 | -157 | 20 | -89 |
| Capital and financial balance ^e | -2 676 | -638 | 1 027 | -1 054 | -5 895 | -3 818 | -12 026 | -6 005 | -11 932 |
| Net foreign direct investment | 1 676 | 5 645 | 3 942 | 2 018 | 4 180 | 3 479 | -244 | 1 341 | 1 866 |
| Financial capital ^f | -4 352 | -6 283 | -2 915 | -3 072 | -10 075 | -7 297 | -11 782 | -7 346 | -13 798 |
| Overall balance | 6 238 | 3 094 | -3 405 | 1 058 | 5 958 | -1 831 | -4 427 | 5 443 | 1 898 |
| Variation in reserve assets ^g | -6 271 | -2 643 | 3 853 | -608 | -5 449 | 2 028 | 4 427 | -5 454 | -2 153 |
| Other financing ^h | 33 | -452 | -448 | -450 | -508 | -197 | 0 | 11 | 255 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ⁱ | 177.3 | 141.4 | 116.5 | 102.6 | 100.0 | 95.2 | 123.7 | 136.8 | 143.2 |
| Terms of trade for goods (index: 2000=100) | 67.1 | 70.1 | 51.2 | 66.1 | 100.0 | 82.2 | 87.6 | 98.7 | 118.1 |
| Net resource transfer (percentage of GDP) | -6.4 | -4.2 | -2.1 | -3.0 | -6.7 | -4.9 | -15.9 | -10.1 | -14.2 |
| Total gross external debt (millions of dollars) | 34 117 | 37 242 | 35 087 | 37 016 | 36 437 | 35 398 | 35 460 | 39 672 | 44 546 |
| Total gross external debt (percentage of GDP) | 50.0 | 43.4 | 38.4 | 37.8 | 31.1 | 28.8 | 38.2 | 47.5 | 40.6 |
| Net profits and interest (percentage of exports) ^j | 1.7 | 6.6 | 11.4 | 3.9 | 4.1 | 6.7 | 7.0 | 6.7 | 8.2 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^k | 62.2 | 63.8 | 65.1 | 66.3 | 64.6 | 66.5 | 68.7 | 69.2 | 68.5 |
| Open unemployment rate ^l | 11.8 | 11.4 | 11.3 | 15.0 | 13.9 | 13.3 | 15.8 | 18.0 | 15.3 |
| Informal sector ^m | 48.7 | 47.7 | 49.8 | 52.4 | 53.0 | 50.3 | 51.0 | 52.6 | 49.8 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|---|-------|------|------|------|------|------|-------|-------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 103.2 | 37.6 | 29.9 | 20.0 | 13.4 | 12.3 | 31.2 | 27.1 | 19.2 |
| Variation in wholesale prices (December-December) | 105.8 | 17.3 | 23.3 | 13.6 | 15.8 | 10.2 | 49.4 | 48.4 | 23.1 |
| Variation in nominal exchange rate (December-December) | 88.3 | 5.9 | 12.6 | 13.6 | 8.5 | 7.7 | 75.6 | 21.0 | 20.0 |
| Variation in average real wage | -23.3 | 25.6 | 5.4 | -4.6 | 1.5 | 2.4 | -10.1 | -16.7 | -3.9 |
| Nominal deposit rate ⁿ | ... | 14.5 | 36.2 | 20.6 | 14.9 | 14.7 | 28.8 | 17.2 | 12.9 |
| Nominal lending rate ^o | ... | 22.0 | 45.3 | 31.3 | 24.5 | 24.8 | 38.4 | 25.7 | 17.1 |
| Percentages of GDP | | | | | | | | | |
| Public sector, narrowly defined ^p | | | | | | | | | |
| Current income | 35.0 | 30.0 | 24.1 | 26.8 | 32.7 | 27.3 | 29.4 | 32.3 | ... |
| Current expenditure | 16.8 | 18.1 | 18.2 | 18.1 | 19.7 | 20.9 | 20.7 | 22.1 | ... |
| Current balance | 18.2 | 12.0 | 5.9 | 8.7 | 13.0 | 6.4 | 8.7 | 10.2 | ... |
| Net capital expenditure | 10.5 | 7.2 | 10.0 | 7.5 | 7.5 | 9.5 | 8.3 | 8.8 | ... |
| Primary balance | 12.0 | 6.7 | -1.4 | 4.0 | 7.5 | -1.2 | 4.2 | 5.4 | ... |
| Overall balance | 7.0 | 3.7 | -4.5 | 0.7 | 4.5 | -4.6 | -1.0 | 0.2 | ... |
| Debt of the non-financial public sector | 46.8 | 31.7 | 29.1 | 29.0 | 26.7 | 30.0 | 41.9 | 45.8 | 39.0 |
| Domestic | 7.8 | 5.1 | 4.6 | 5.9 | 8.8 | 12.1 | 14.8 | 17.7 | 14.3 |
| External | 39.0 | 26.6 | 24.5 | 23.0 | 17.9 | 17.9 | 27.1 | 28.1 | 24.6 |
| Interest payments (percentage of current income) | 14.5 | 9.9 | 12.8 | 12.3 | 9.4 | 12.5 | 17.7 | 16.1 | ... |
| Money and credit ^q | | | | | | | | | |
| Domestic credit ^r | 10.0 | 10.5 | 13.8 | 12.8 | 11.8 | 12.6 | 11.5 | 10.0 | 10.5 |
| To the public sector | 2.9 | 0.6 | 0.4 | 0.6 | 0.8 | 1.6 | 2.2 | 2.5 | 2.7 |
| To the private sector | 7.1 | 9.9 | 13.4 | 12.3 | 11.0 | 11.0 | 9.3 | 7.5 | 7.8 |
| Liquidity (M3) | ... | 15.8 | 18.3 | 18.2 | 16.8 | 17.4 | 15.1 | 17.1 | 17.2 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1997 prices. ^c The figure for 2004 does not include restaurant and hotel activities, which are only considered in total GDP. ^d Based on figures in local currency expressed in dollars at current prices. ^e Includes errors and omissions. ^f Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^g A minus sign (-) denotes an increase in reserves. ^h Includes the use of IMF credit and loans and exceptional financing. ⁱ Annual average, weighted by the value of merchandise exports and imports. ^j Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^k Economically active population as a percentage of the working-age population, nationwide total. ^l Unemployment rate as a percentage of the economically active population, nationwide total. ^m Population employed in the informal sector as a percentage of the employed population. ⁿ 90-day deposits. ^o Average lending rate of the country's six major commercial and universal banks. ^p The narrowly-defined public sector is composed of the budgetary central government, Petróleos de Venezuela, S.A. (PDVSA), a set of non-financial public enterprises, the Venezuelan Social Insurance Institute (IVSS), the Deposits and Bank Protection Guarantee Fund (FOGADE) and the Venezuelan Investment Fund (FIV). ^q The monetary figures are annual averages. ^r Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

The central bank's board of directors set a minimum rate for deposits and a cap on lending rates, which came into effect on 1 May 2005. Restrictions were imposed on bank commissions as well. The maximum annual interest rate on lending operations, including credit card transactions, was set at 28%, while minimum interest rates on savings and time deposits were fixed at 6.56% and 10%, respectively.

With regard to exchange-rate policy, the government devalued the bolívar by 20% in nominal terms in February 2004, to a rate of 1,920 bolívares to the dollar. Exchange-rate controls remained in place but were loosened slightly.⁴ This was reflected in the parallel exchange market, in which the local currency has tended to appreciate.⁵ In March 2005, the authorities devalued the bolívar by 12%, bringing the new rate of exchange against the United States dollar to 2,150 bolívares.

⁴ Foreign exchange became easier to obtain in the controlled market because the list of legal import products was extended and the travel quota was increased. The quota for remittances abroad was also raised. In addition, the Foreign Exchange Board (CADIVI) has significantly increased the amount of foreign currency released daily.

⁵ The bolívar-dollar exchange rate in the parallel market moved from 3,240 in February 2004 to 2,500 in May 2005.

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|--------|--------|--------|-------------------|--------|--------|--------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | -24.9 | -5.0 | -7.1 | 6.6 | 35.0 | 14.3 | 14.2 | 12.1 | 7.9 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 4 262 | 7 159 | 7 737 | 7 703 | 8 556 | 6 555 | 10 496 | 10 848 | 11 333 | ... |
| Merchandise imports, f.o.b. (millions of dollars) | 2 189 | 2 082 | 2 774 | 3 296 | 3 187 | 2 557 | 4 857 | 5 431 | 4 969 | ... |
| International reserves (millions of dollars) | 15 142 | 17 959 | 19 184 | 21 366 | 23 262 | 23 226 | 21 841 | 24 208 | 25 646 | ... |
| Real effective exchange rate (index: 2000=100) ^c | 135.4 | 143.1 | 136.8 | 132.2 | 143.5 | 146.4 | 142.0 | 141.0 | 137.5 | 150.2 ^d |
| Unemployment rate | 19.7 | 18.9 | 17.9 | 15.6 | 17.3 | 16.1 | 15.0 | 12.5 | 14.3 | 12.2 |
| Consumer prices (12-month percentage variation) | 34.1 | 34.2 | 26.6 | 27.1 | 23.1 | 22.3 | 20.8 | 19.2 | 15.8 | 15.9 |
| Average nominal exchange rate (bolívars per dollar) | 1 634 | 1 598 | 1 598 | 1 598 | 1 811 | 1 918 | 1 918 | 1 918 | 1 918 | 2 147 |
| Average real wage (variation from same quarter of preceding year) | -19.5 | -20.1 | -15.7 | -10.8 | -5.7 | -3.4 | -3.1 | -3.2 | 0.0 | ... |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 23.1 | 16.1 | 15.6 | 14.1 | 12.4 | 12.7 | 13.0 | 13.2 | 12.4 | 11.8 |
| Lending rate ^f | 34.1 | 25.9 | 22.6 | 20.1 | 18.8 | 18.2 | 17.8 | 17.3 | 17.3 | 16.7 |
| Interbank interest rate ^g | 28.3 | 9.7 | 9.0 | 5.5 | 3.7 | 4.0 | 3.6 | 6.2 | 1.1 | 3.5 |
| Sovereign bond spread (basis points) | 1 412 | 1 002 | 828 | 593 | 667 | 647 | 490 | 411 | 459 | 466 |
| Stock price index (in dollars, December 2000=100) | 43.3 | 72.3 | 86.9 | 59.2 | 67.7 | 75.4 | 91.2 | 88.9 | 77.2 | 68.5 |
| Domestic credit (variation from same quarter of preceding year) ^h | 16.1 | -1.8 | 2.4 | 6.8 | 36.2 | 79.3 | 85.7 | 93.4 | 58.6 | 59.9 ⁱ |
| Non-performing loans as a percentage of total credit ^j | 7.9 | 7.1 | 5.8 | 3.7 | 3.4 | 2.5 | 2.2 | 1.5 | 1.6 | 1.5 ^d |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1997 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e 90-day deposits. ^f Average lending rate of the country's six major commercial and universal banks. ^g Monetary policy reference rate. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Data for April. ^j Refers to total credit extended by the banking system.

3. The main variables

(a) Economic activity

In 2004, economic activity expanded substantially in the oil and non-oil sectors alike (11.6% and 17.8%, respectively) and import duties were up by 34.3%. Although the strong upturn during the year brought economic activity overall back up to 2001 levels, not all

sectors recovered their previous performance. The oil sector and, to a lesser extent, construction are at lower levels than in 2001.⁶

The most buoyant sectors were construction (32.1%), commerce and repair services (25.5%), transport and storage (26.4%) and financial institutions (26.6%). Oil production over the year varied little from the end of 2003, suggesting

⁶ Levels of activity in the oil and construction sectors are actually lower than in 1997.

that the expansion recorded is due to the low basis for comparison represented by the first quarter of 2003.

The increase in central government spending was reflected in a significant expansion in public consumption (13.9%). Private consumption grew by 16.6% and gross domestic investment, by 90% (including a 43% rise in gross fixed investment). Thus, domestic demand increased by 29% during the year, as reflected in a significant real expansion in imports of goods and services (60%). The increase in exports (12%) was attributable to the performance of the oil sector and, like it, reflects the low basis for comparison of the first quarter of 2003.

Boosted by non-oil activity (9.3%), GDP grew by 7.9% in the first quarter of 2005, compared with the same period in 2004. Petroleum-related activity was up by 1%. The fastest-growing sectors were commerce and repair services (17.8%), construction (15.4%) and transport (14.7%). With respect to spending, domestic demand increased by 20.3%, with rises in private consumption (12.2%), public consumption (8.5%) and gross fixed investment (38.8%). The expansion in public consumption is attributable to the increase in government expenditure on health and education, while the rise in private consumption reflects falling unemployment and rising credit. The expansion in gross domestic investment was accounted for by a substantial increase in the construction sector and in imports of machinery and equipment.

(b) Prices, wages and employment

In 2004, inflation, measured by the consumer price index, stood at 19.2%, much lower than the 2003 figure of 27.1%. This was attributable to the real appreciation of the bolívar, exchange-rate policy measures, the maintenance of price controls and the wider availability of goods. This last factor resulted from an increase in imports made possible, in turn, by the release of larger amounts of foreign exchange. The core inflation index rose by 21.1% in 2004. The slower rate of increase in consumer prices was partly due to the food subsidies extended by the government. Price controls have been effective in containing, but have not eliminated, price rises for some products, since the price index for controlled products rose by the same percentage as the general consumer price index (CPI).

In the first half of 2005, the CPI showed a variation of 8.0%, lower than that recorded in the year-earlier period (11.0%). The core inflation index rose by 9.5% between December 2004 and June 2005, compared with 13.6% for December 2003 to June 2004.

The wholesale price index was up by 22.4% in 2004. The price indexes for domestic products and imports showed similar rises. Between December 2004 and June 2005, the wholesale index rose by 10.9% (11.4% and 9.4% for domestic products and imports, respectively). The increases recorded in 2005 were due to higher prices for capital and intermediate goods.

Wages improved in nominal terms in 2004, with the general wage index published by the central bank showing an average increase of 22% over the year, although they remained constant in real terms. Private sector wages rose by 17% on average during the year, while public-sector wages were up by 37.7%. The government raised the minimum wage by 26% with effect from 1 May 2005. The increase in economic activity led to a decline in the unemployment rate, from 16.8% in the second half of 2003 to close to 12.5% in the fourth quarter of 2004. The rate of informal employment, which exceeded 50% at the end of 2003, declined to 47% on average at the end of 2004. In May 2005, the unemployment rate stood at 12.6%.

(c) The external sector

Exports climbed strongly (43%) in 2004. Oil exports were up by 45% and non-oil exports, by 33%. The increase in oil exports was due to the steep rise in the international price of the Venezuelan oil basket in international markets and to the increase in exports of oil derivatives, including orimulsion.⁷ Among non-oil exports, iron products and iron ore performed well (up 82% and 94.6%, respectively). Imports expanded by 81.9% during the year. While all products recorded significant growth, the most dynamic were consumer goods (durables and non-durables) and capital goods, in particular machinery and equipment.

Despite the surge in imports, the high price of oil drove an increase in the trade surplus from US\$ 16.483 billion in 2003 to US\$ 21.430 billion in 2004. The wider deficits on the services and income balances prevented a larger jump in the current-account surplus, however, which moved from US\$ 11.448 billion in 2003 to US\$ 13.830 billion in 2004.

In the first quarter of 2005, merchandise exports maintained their upward trend, expanding by 35.4% in relation to the same period of 2004; oil and non-oil exports posted increases of 39.3% and 16.5%, respectively. Imports recorded a 56% increase in the same period.

International reserves swelled throughout 2004. In December 2004, they stood at US\$ 23.498 billion, up from US\$ 20.666 billion in December 2003. In May 2005, they amounted to US\$ 27.293 billion.

⁷ Orimulsion is an emulsion of bitumen (extra heavy crude) with water.

Bolivia

1. General trends

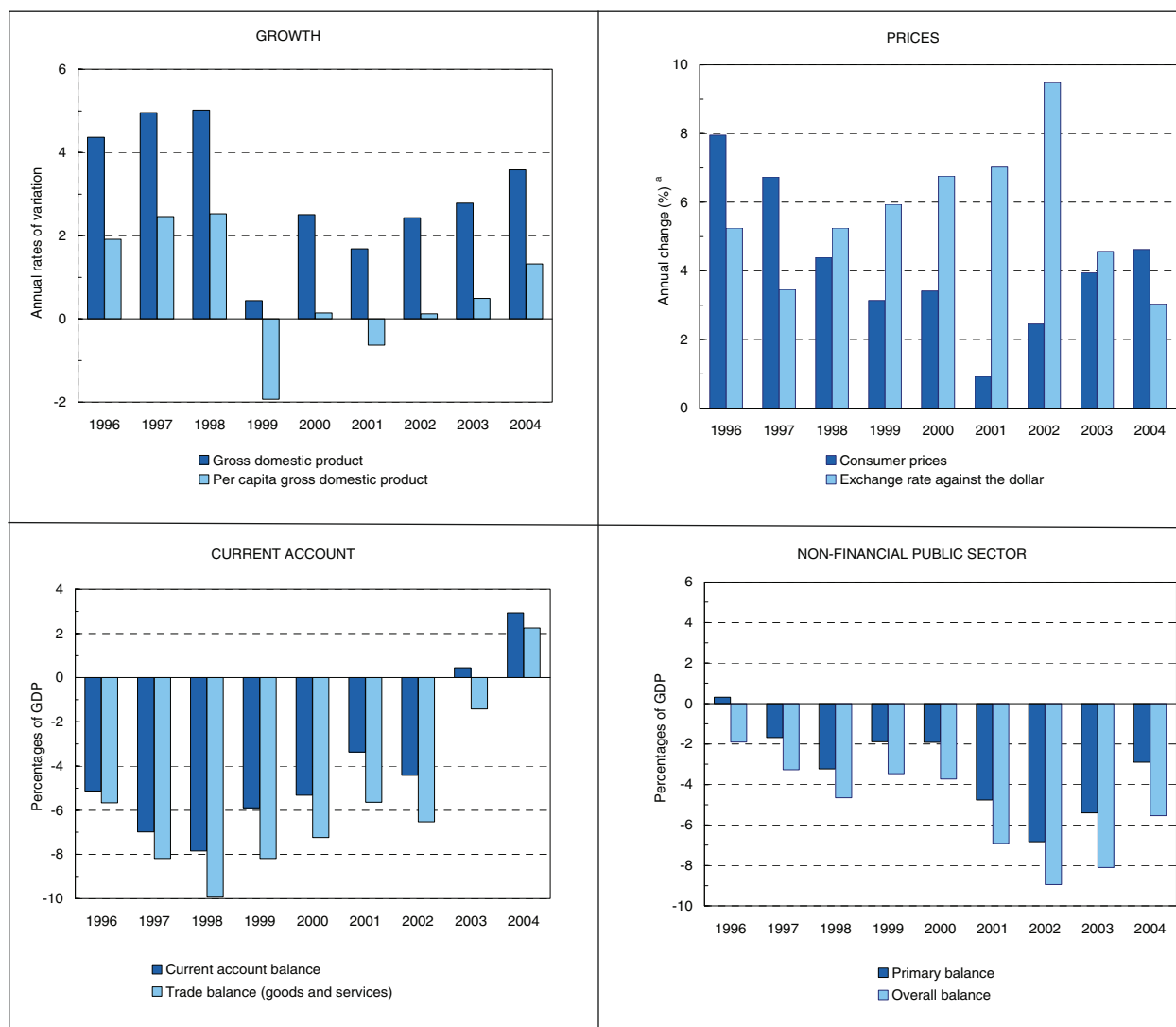
Bolivia's economy turned in a good performance in 2004, on the strength of favourable external conditions and a degree, albeit tenuous, of political and social stability. In 2005, however, although external conditions remained favourable, a grave political crisis culminated in the resignation of the President in early June and his replacement by a transition government, whose main objective is to hold general elections before the year is out. The mobilizations in May and June took their toll on economic activity, inflation and tax receipts. The situation had begun to deteriorate in January, when demands for autonomy by the department of Santa Cruz were heightened after the government raised fuel prices. Later, the debate surrounding the hydrocarbons act escalated with some movements pressing for the nationalization of the industry, leading, ultimately, to the resignation of the President. In May Congress passed hydrocarbons legislation providing for a direct tax of 32% on the value of production (in addition to the existing royalty of 18%) and afforded the State a larger role and increased regulatory capacity in the sector. There are some signs that this, together with the possibility of nationalization, could deter future investments in the industry. Bolivia is now engaged in a debate on the political reorganization of the State which, among other things, would involve changes in the degree of departmental autonomy.

Despite the complicated panorama, some of the economic indicators for the first part of 2005 are good and look consistent with external conditions that have remained favourable since 2003, perhaps signalling that economic agents have become somewhat accustomed to political instability. In April 2005, the International Monetary Fund (IMF) approved the fifth review of the standby agreement signed a year earlier and extended it for another year, which will afford Bolivia US\$ 64.5 million in resources. The agreement includes commitments on the fiscal deficit and international reserves and is directed towards a gradual flexibilization of exchange-rate policy, a strengthening of

the financial system, improved public-debt management and the adoption of legislation on hydrocarbons to broaden tax revenues and encourage investment.

In 2004, GDP expanded at a rate of 3.6% (compared to 2.8% in 2003), nudging per capita GDP up above its 2003 level, though this still fell short of the 1998 figure, patently illustrating the deeply negative effects of the low growth period that began in 1999. The non-financial public sector (NFPS) deficit came down substantially to 5.5% of GDP in 2004 (which was one percentage point lower than mid-year projections suggested) compared with 7.9% in 2003. Not including the heavy

Figure 1
BOLIVIA: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

burden of pension payments, the deficit was 3.1% of GDP in 2003 and 0.9% in 2004. The impetus from exports meant that the balance-of-payments position was also comfortable in 2004, with a second year of current-account surplus which, in fact, reached a record level. A number of monetary and financial variables

improved slightly, while inflation remained within reasonable limits throughout the year. Data from the first semester of 2004 show a decline in real wages in both public and private sectors, while the rate of unemployment remained high, although it may have dipped with respect to 2003.

2. Economic policy

The tight fiscal and monetary restraints on Bolivia's economy eased somewhat in 2004, especially in the second part of the year, and exchange rate trends were also favourable.

(a) Fiscal policy

The NFPS fiscal deficit narrowed by 2.3 GDP percentage points, from 4.88 billion bolivianos in 2003 to 3.86 billion in 2004, with 84% of this sum corresponding to outlays on pensions. Income-side contributors to the narrower deficit were the success of the tax regularization schemes, a levy on financial transactions and increased revenues from hydrocarbons exports. Higher fiscal revenues from the first two factors accounted for 73% of growth in total income, which increased by 23.3% over the year. Grants represented 2.5% of GDP (1.744 billion bolivianos), which was lower than the 2.9% recorded in 2003, but higher than the average of 2.0% in 1998-2002. On the expenditures side, the aggregate total expanded by 12.7%, with capital spending being the fastest-growing component (26.6%) and current spending rising relatively little. In fact, spending on goods and services actually shrank by 8%, reflecting the austerity programmes implemented to ease the critical fiscal situation carried over from 2003. Higher-than-expected revenues and complementary external financing allowed an expansion in public investment, which went chiefly to infrastructure and social investment.

External loans covered 73.2% of the deficit, and domestic credit the remaining 26.8%. Domestic credit fell into two categories: securities sold to pension fund companies and treasury bond purchases by the financial system. According to central bank figures, at the end of December 2004 the public debt stood at US\$ 6,925,500,000, which represented 78.9% of GDP.¹ Of the balance owed, US\$ 4,950,600,000 was external debt, with a grant component of 39.3%, reflecting the highly concessional²

profile of Bolivia's external public borrowing. In 2004 the outstanding balance dropped by 1.8% thanks to debt forgiveness from Japan and Brazil, which condoned US\$ 506.2 million and US\$ 21.9 million, respectively, and 92% of external debt now corresponds to loans from multilateral agencies. Domestic debt rose 15.4% (14.3% in 2003), to stand at the equivalent of US\$ 1,974,900,000, of which only 30% is denominated in bolivianos, although this component has increased significantly in the last few years. The treasury resorted to liquidity credits from the central bank in order to ease cash flow difficulties, particularly in the first semester. Although by the end of the year 612.9 million bolivianos had been extended in net financing (with a total balance of 1,937,900,000 bolivianos), this amount was within the limits stipulated in the respective Memorandum of Understanding between the central bank and the Ministry of Finance, and is expected to be lowered in 2005. Public-sector borrowing has remained constant, representing almost half of the monetary base since the end of 2002.

Although Congress did not approve the budget for 2005, since the projected revenues included income that was subject to approval of the hydrocarbons act, it legally came into effect. At the end of December, the government decreed an increase in hydrocarbons prices in order to lessen the distortion in relative prices, which was causing shortages of some products and encouraging exports to neighbouring countries, and to contain the growth in the subsidies used to keep the domestic price below the international level. The authorities then established a fiscal target of 5.2% of GDP for 2005, with an increase of 10.5% in income and 7.8% in expenditures. Almost 70% of the extra income is to come from new levies on the hydrocarbons sector, since preliminary estimates of the income effect of the hydrocarbons act place the associated revenues at about US\$ 200 million, slightly more than the amount envisaged in the budget. Returns from the financial transactions tax and the last remaining effects

¹ Economic Commission for Latin America and the Caribbean (ECLAC) *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004* (LC/G.2265-P), Santiago, Chile, December 2004, p. 81 indicates that "total public debt [...] amounted to US\$ 8.032 billion". This information came from the newspaper "La Razón" of 16 November 2004 and had apparently been released by the Ministry of Finance, whose authorities, however, did not confirm this. In this connection, it is worth noting that the estimate of the central bank is based on net domestic public debt, whereas some of the statistics prepared by the Ministry of Finance include debts owed by the treasury to the central bank.

² The grant component of debt incurred is calculated as a percentage, using the ratio (1 - present net value/nominal value) multiplied by 100; when this figure is over 35% IMF categorizes the debt as "concessional".

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| Annual growth rates ^b | | | | | | | | | |
| Gross domestic product | 4.4 | 5.0 | 5.0 | 0.4 | 2.5 | 1.7 | 2.4 | 2.8 | 3.6 |
| Per capita gross domestic product | 1.9 | 2.5 | 2.5 | -1.9 | 0.1 | -0.6 | 0.1 | 0.5 | 1.3 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 6.7 | 4.5 | -4.4 | 2.6 | 3.4 | 3.5 | 0.5 | 8.1 | 0.3 |
| Mining | -2.0 | 6.1 | 5.5 | -4.6 | 6.4 | -1.5 | 2.6 | 4.2 | 9.0 |
| Manufacturing | 4.9 | 2.0 | 2.5 | 2.9 | 1.8 | 2.7 | 0.7 | 3.6 | 5.1 |
| Electricity, gas and water | 3.4 | 4.7 | 2.4 | 4.6 | 1.9 | 0.7 | 2.2 | 3.0 | 2.2 |
| Construction | 9.0 | 4.9 | 35.7 | -16.9 | -4.1 | -7.0 | 17.0 | -23.2 | 1.2 |
| Wholesale and retail commerce, restaurants and hotels | 5.1 | 4.1 | 2.0 | 0.8 | 3.6 | 1.1 | 2.1 | 2.1 | 3.4 |
| Transport, storage and communications | 6.9 | 9.2 | 7.1 | -0.8 | 2.4 | 3.0 | 4.4 | 3.9 | 3.0 |
| Financial institutions, insurance, real estate and business services | 8.5 | 12.6 | 12.5 | 13.3 | -0.6 | 0.2 | -2.9 | -2.2 | -1.8 |
| Community, social and personal services | 2.5 | 4.9 | 3.6 | 2.9 | 2.4 | 2.6 | 3.1 | 3.0 | 2.0 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 3.2 | 5.1 | 5.1 | 2.8 | 2.3 | 1.5 | 2.3 | 2.1 | 2.2 |
| General government | 2.6 | 3.4 | 3.8 | 3.2 | 2.1 | 2.9 | 3.5 | 3.6 | -0.7 |
| Private | 3.3 | 5.4 | 5.2 | 2.8 | 2.3 | 1.3 | 2.1 | 1.9 | 2.6 |
| Gross domestic investment | 18.8 | 30.2 | 28.5 | -18.8 | -7.4 | -17.5 | 18.8 | -12.8 | -10.1 |
| Exports (goods and services) | 4.1 | -2.1 | 6.5 | -12.8 | 15.0 | 8.4 | 4.3 | 12.3 | 16.1 |
| Imports (goods and services) | 7.9 | 13.5 | 22.3 | -17.1 | 4.7 | -5.0 | 12.7 | 0.6 | 5.4 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving ^c | | | | | | | | | |
| Gross domestic investment | 16.2 | 19.6 | 23.6 | 18.8 | 18.1 | 14.3 | 16.6 | 13.4 | 12.4 |
| National saving | 11.1 | 12.6 | 15.8 | 12.9 | 12.8 | 10.9 | 12.2 | 13.8 | 15.3 |
| External saving | 5.1 | 7.0 | 7.8 | 5.9 | 5.3 | 3.4 | 4.4 | -0.4 | -2.9 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -380 | -554 | -666 | -488 | -446 | -274 | -350 | 36 | 257 |
| Merchandise trade balance | -236 | -477 | -656 | -488 | -364 | -423 | -476 | -36 | 266 |
| Exports, f.o.b. | 1 132 | 1 167 | 1 104 | 1 051 | 1 246 | 1 285 | 1 299 | 1 573 | 2 129 |
| Imports, f.o.b. | 1 368 | 1 644 | 1 760 | 1 539 | 1 610 | 1 708 | 1 775 | 1 610 | 1 863 |
| Services trade balance | -182 | -172 | -189 | -190 | -244 | -36 | -41 | -78 | -69 |
| Income balance | -208 | -197 | -162 | -196 | -225 | -211 | -205 | -302 | -369 |
| Net current transfers | 247 | 292 | 341 | 386 | 387 | 396 | 371 | 452 | 429 |
| Capital and financial balance ^d | 648 | 654 | 791 | 515 | 407 | 237 | 57 | 41 | -131 |
| Net foreign direct investment | 472 | 728 | 947 | 1 008 | 734 | 703 | 674 | 195 | 114 |
| Financial capital ^e | 176 | -74 | -156 | -493 | -327 | -467 | -617 | -154 | -245 |
| Overall balance | 268 | 101 | 125 | 27 | -39 | -37 | -293 | 77 | 126 |
| Variation in reserve assets ^f | -310 | -90 | -133 | -32 | 39 | 28 | 275 | -93 | -139 |
| Other financing ^g | 42 | -11 | 8 | 5 | 1 | 9 | 17 | 16 | 13 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 105.3 | 103.9 | 98.5 | 98.6 | 100.0 | 101.0 | 95.4 | 104.1 | 111.7 |
| Terms of trade for goods (index: 2000=100) | 108.0 | 107.9 | 102.0 | 97.1 | 100.0 | 95.8 | 96.2 | 98.5 | 104.1 |
| Net resource transfer (percentage of GDP) | 6.5 | 5.6 | 7.5 | 3.9 | 2.2 | 0.4 | -1.6 | -3.0 | -5.6 |
| Gross external public debt (millions of dollars) | 4 366 | 4 234 | 4 655 | 4 574 | 4 461 | 4 412 | 4 300 | 5 042 | 4 951 |
| Gross external public debt (percentage of GDP) | 59.0 | 53.4 | 54.8 | 55.2 | 53.1 | 54.2 | 54.3 | 62.3 | 56.4 |
| Net profits and interest (percentage of exports) ⁱ | 3.0 | 5.7 | 6.0 | 10.9 | 10.1 | ... | ... | ... | ... |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^j | 56.5 | 52.5 | 49.5 | 55.9 | 56.1 | 60.6 | 58.0 | 60.4 | ... |
| Open unemployment rate ^k | 3.8 | 4.4 | 6.1 | 7.2 | 7.5 | 8.5 | 8.7 | 9.2 | 8.5 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|------|------|------|------|------|------|------|------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 7.9 | 6.7 | 4.4 | 3.1 | 3.4 | 0.9 | 2.4 | 3.9 | 4.6 |
| Variation in nominal exchange rate (December-December) | 5.3 | 3.5 | 5.3 | 5.9 | 6.8 | 7.0 | 9.5 | 4.6 | 3.0 |
| Variation in real minimum wage | -3.3 | 2.0 | 16.1 | 7.6 | 2.9 | 10.8 | 4.7 | 0.8 | -4.2 |
| Nominal deposit rate ^l | ... | ... | ... | ... | ... | ... | 2.7 | 1.8 | 2.0 |
| Nominal lending rate ^l | ... | ... | ... | ... | ... | ... | 10.9 | 9.1 | 8.2 |
| Percentages of GDP | | | | | | | | | |
| Non-financial public sector | | | | | | | | | |
| Current income | 28.1 | 28.1 | 29.9 | 30.8 | 31.5 | 28.5 | 25.8 | 26.8 | 25.0 |
| Current expenditure (includes pensions) | 24.2 | 23.3 | 25.3 | 25.2 | 26.2 | 24.9 | 23.9 | 25.0 | 19.6 |
| Current balance | 3.9 | 2.5 | 1.0 | 1.8 | 1.1 | -0.9 | -2.7 | -2.8 | 1.1 |
| Net capital expenditure | 5.8 | 5.8 | 5.6 | 5.3 | 4.9 | 6.0 | 6.3 | 5.3 | 6.6 |
| Primary balance | 0.3 | -1.7 | -3.2 | -1.9 | -1.9 | -4.8 | -6.8 | -5.4 | -2.9 |
| Overall balance | -1.9 | -3.3 | -4.7 | -3.5 | -3.7 | -6.9 | -9.0 | -8.1 | -5.5 |
| Debt of non-financial public sector | 67.0 | 61.7 | 61.2 | 65.0 | 66.3 | 74.9 | 79.3 | 93.3 | 85.0 |
| Domestic | 14.1 | 13.6 | 13.8 | 16.7 | 19.4 | 26.4 | 29.1 | 31.6 | 31.5 |
| External | 52.9 | 48.1 | 47.4 | 48.3 | 46.9 | 48.5 | 50.2 | 61.7 | 53.5 |
| Interest payments (percentage of current income) | 7.9 | 5.7 | 4.7 | 5.1 | 5.7 | 7.5 | 8.2 | 10.1 | 10.6 |
| Money and credit ^m | | | | | | | | | |
| Domestic credit ⁿ | 46.7 | 53.3 | 58.9 | 65.2 | 61.3 | 58.6 | 55.1 | 52.6 | 45.4 |
| To the public sector | 2.7 | 1.1 | 1.6 | 2.2 | 1.7 | 2.9 | 3.7 | 4.5 | 3.5 |
| To the private sector | 44.0 | 52.2 | 57.3 | 63.1 | 59.6 | 55.7 | 51.3 | 48.1 | 41.9 |
| Liquidity (M3) | 40.4 | 47.9 | 50.0 | 52.3 | 50.3 | 52.7 | 48.9 | 47.4 | 40.8 |
| Currency in circulation and local-currency deposits (M2) | 6.2 | 7.1 | 7.0 | 6.5 | 6.0 | 6.3 | 6.3 | 6.7 | 7.0 |
| Foreign-currency deposits ^o | 34.2 | 40.9 | 43.0 | 45.8 | 44.3 | 46.4 | 42.7 | 40.7 | 33.8 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, urban total; up to 1998, departmental capital cities. ^k Unemployment rate as a percentage of the economically active population, urban total; up to 1998, departmental capital cities. ^l Bank operations (61-90 days), in dollars. ^m The monetary figures are annual averages. ⁿ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^o Refers to demand and time deposits, savings banks and other obligations of the banking sector with the private sector.

of the tax regularization programmes will also represent an important contribution. In the first quarter, the total income of NFPS rose by 12.7% and its expenditure, by 3.7%. Of the increase in income, 34% is attributable to the correction of domestic hydrocarbons prices and 60% to the increase in tax revenues from that sector.

(b) Monetary policy

The country's monetary policy is aimed at keeping the inflation rate low and stable, with the central bank setting intermediate targets for both domestic assets (with a cap on net domestic credit) and external assets (a minimum level of net international reserves). In the mid-1980s there was a clear link between the expansion of net domestic credit

and inflation, because the central bank financed a large portion of the fiscal deficit, but this relationship is not so clear-cut today. The international reserves target is essential to the stability of the payments system in Bolivia's highly dollarized economy. Open-market operations comprise the main instrument of monetary regulation. Several runs on deposits have occurred since 2002 in the context of a process of financial disintermediation generated by sluggish economic growth since 1999.

In 2004, the announcement of a financial transactions tax and the referendum on hydrocarbons policy triggered a run on deposits that peaked in June, after which deposits began a gradual recovery that continued into the early months of 2005, despite political instability. In April rumours of false dollars in circulation led to an increase of

Table 2
BOLIVIA: MAIN QUARTERLY INDICIATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|------|-------|-------|-------|-------------------|-------|-------|-------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 3.7 | 4.8 | 2.4 | 0.3 | 3.1 | 1.3 | 4.9 | 5.1 | 3.9 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 350 | 412 | 446 | 437 | 469 | 402 | 619 | 583 | 552 | ... |
| Merchandise imports, c.i. f. (millions of dollars) | 379 | 381 | 404 | 451 | 395 | 308 | 467 | 559 | 495 | ... |
| International reserves (millions of dollars) | 729 | 868 | 902 | 976 | 889 | 805 | 951 | 1 123 | 1 035 | 1 163 |
| Real effective exchange rate (index: 2000=100) ^c | 97.2 | 105.4 | 106.1 | 108.2 | 110.5 | 109.8 | 111.1 | 115.5 | 117.8 | 120.4 ^d |
| Consumer prices (12-month percentage variation) | 2.8 | 3.2 | 3.6 | 3.9 | 3.9 | 4.9 | 4.3 | 4.6 | 5.7 | 6.4 |
| Average nominal exchange rate (bolivianos per dollar) | 7.55 | 7.61 | 7.70 | 7.77 | 7.86 | 7.91 | 7.96 | 8.02 | 8.06 | 8.09 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 2.3 | 1.8 | 1.6 | 1.6 | 1.6 | 2.1 | 2.5 | 1.8 | 1.7 | 1.6 |
| Lending rate ^e | 9.6 | 9.7 | 9.7 | 7.5 | 7.4 | 7.9 | 8.8 | 8.8 | 8.5 | 7.6 |
| Repurchase rate ^f | 6.4 | 6.7 | 6.7 | 7.2 | 6.4 | 8.1 | 9.8 | 7.8 | ... | ... |
| Domestic credit (variation from same quarter of preceding year) ^g | 1.9 | 2.7 | 4.6 | 3.0 | 2.0 | -1.4 | -2.6 | 0.5 | 0.6 | 3.6 ^d |
| Non-performing loans as a percentage of total credit ^h | 20.1 | 19.7 | 18.6 | 17.1 | 18.7 | 18.1 | 17.4 | 14.5 | 16.8 | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1990 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e Bank operations (61-90 days); three-month average, in dollars. ^f Repurchase rate, in dollars. ^g Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^h Refers to total credit extended by the banking system.

almost US\$ 92 million in deposits, as private individuals sought to ensure the security of their holdings. At the end of May bank deposits stood at US\$ 2.653 billion, which was 2.2% lower than the balance recorded at the end of 2003 but 10.7% higher than the figure at the end of June 2004. In response to withdrawals in the early part of 2004, the central bank injected liquidity into the financial system in the form of repo operations, credits secured against the liquid assets fund (RAL) and the purchase of securities, as interest rates rose. The upturn in deposits brought down the respective rates of interest, but lending rates remained high into 2005. The average dollar lending rate rose from 8.3% in March 2004 to an average of 10.4% in the first five months of 2005. Rising international interest rates, the perceived high risk of lending and measures to absorb liquidity in the second part of the year go some way to explaining this pattern. The recapturing of deposits has not been accompanied by an increase in the banking portfolio, except for a few isolated cases. In May 2005 lending was down by 5.5% with respect to December 2003 and by 2.2% compared

with June 2004. The expansion in deposits has therefore swelled bank liquidity, especially short-term investments abroad, which at the end of May represented some US\$ 360 million, corresponding to 31.2% of total liquidity and 13.5% of deposits, in a trend that clearly reflects the prevailing uncertainty. In May 2005 the non-performing portfolio represented 16.8% of the total.

Annual growth of the monetary base was 10.1% at the end of 2004 and occurred in the second half of the year when net international reserves increased. Credit to the financial system and to the government was neutral in terms of primary liquidity creation. In the first quarter of 2005, the drop in net international reserves caused the monetary base to contract by 17.1%. The boliviano-denominated proportion of monetary aggregates increased as a result of the mid-2004 introduction of the financial transactions tax, from which local-currency savings funds are exempt. On average, in 2003 bolivianos accounted for 44.9% of M1, but this figure rose to 53.4% in the first quarter of 2005; the equivalent figures for M3 were 14.8% and 20.5%. In May 2005 the central bank raised from 10%

to 12% the portion of the required dollar legal reserve that banks are permitted to keep in authorized securities (the liquid assets fund), in order to boost the liquidity of financial entities in the dollarized environment, fuel demand for bolivianos and strengthen the central bank's performance as a lender of last resort. As regards non-bank intermediation (which represents 25% of credit), in 2004 deposit-taking and lending by private financial funds increased to 29.0% and 32.6%, respectively, on the back of increasing financial formalization of microenterprises and small firms.

(c) Exchange-rate policy

Bolivia operates a crawling-peg exchange rate regime (with non-previously-announced depreciations of the boliviano against the dollar) which is intended to sustain external competitiveness. This is subordinate to the

inflation target, however, and requires particular care to avoid currency mismatches in a highly dollarized system. In 2004, nominal depreciation was 2.8%, which was lower than the figure of 4.5% recorded in 2003, although the real effective exchange rate depreciated by 7.1%, mainly because the currencies of Bolivia's main trading partners rose in value against the dollar. Real depreciation against the dollar amounted to 1.4%. The boliviano has attained record levels of competitiveness, thereby fuelling exports. In the first four months of 2005, the real effective exchange rate was standing 15.1% above its level of 1990-1999. Demand for dollars in the central bank's "bolsín", an indicator used for exchange-rate management, dropped by 50% in relation to 2003, reflecting an inflow of foreign exchange linked to the country's balance-of-payments position. At the end of May 2005, nominal depreciation was a mere 0.5%, while the real effective exchange rate remained practically unchanged.

3. The main variables

(a) Economic activity

The economy expanded by 3.6% in 2004, with the most dynamic component being exports (16.1%), especially hydrocarbons (23.8%), on the strength of increased gas exports to Brazil and the resumption of shipments to Argentina. By contrast, domestic demand virtually stagnated, with an increase of just 0.4%, although this reversed the contraction of 0.3% seen in 2003. Gross fixed capital formation declined again, this time by 4.8%, which was not as sharp a drop as the preceding year, when it was down 10.9%. This variable has declined by 39% since 1998 and now accounts for only 12.5% of GDP. Imports were up by 5.4% at constant prices, which mainly reflected a recovery from the low level of 2003. The industrial sector expanded by 5.1%, led by activities linked to the export of textiles and leather, which was facilitated by the Andean Trade Promotion and Drug Eradication Act (ATPDEA), and construction posted a slight upturn after contracting sharply in 2003. Mining outturn dropped as a number of gold deposits were depleted, but good international prices and the start-up of investments in new projects augur an increase in production in 2005. Meanwhile, agriculture was hit by weather problems.

Economic activity trended upwards in 2004, with a surge in the second semester in particular, followed by

an expansion of 3.9% in the first quarter of 2005. First-quarter indicators were good in agriculture, construction and gas production, which rose 37%. At the start of the year, the government had estimated the year's growth at 4.5%, but the complex political situation that developed in mid-2005 is likely to shear about half a percentage point off this figure.

(b) Prices, wages and employment

Inflation from December 2003 through to December 2004 came in at 4.6%, thereby overshooting the central bank's target of 3.5%, although core inflation was 3.2%. Domestic fuel price hikes and diesel shortages had a heavy impact on inflation in 2004, through both direct and indirect channels, especially transport costs and the prices of certain foods. The correction of fuel prices in January 2005 had a strong effect on inflation that month (1.37%), though this tapered off in the months that followed. In May and June shortages in a number of cities rebounded on the price index, which recorded a cumulative variation of 2.22% in those two months. In June, cumulative inflation for the year was 3.45%, compared with a 3.8% target for 2005 overall.

No detailed information on wage developments is available for 2004, although it is known that public-sector

pay slipped by 6.4% in real terms over the year. In the first semester, real wages in the private sector declined (5.6%) and, although they may have stabilized in the second part of the year, their level will nevertheless be similar to that of mid-2002. The only available figure for urban unemployment in 2004 is a projection that places it at 8.5%, which represents a drop with respect to the 9.2% posted at the end of 2003.

(c) The external sector

Exports attained an all-time high of US\$ 2.19 billion in 2004, reflecting a growth rate of 37.3%. The expansion occurred across a large variety of products, but was strongest in hydrocarbons, which accounted for 58% of the increase, of which 39% corresponded to gas alone. Minerals and soya were also robust contributors, thanks to price rises. Imports were up 11.6%, which represented a strong comeback after the dip of 7.6% in 2003. Imports of intermediate goods for industry, construction and agriculture accounted for much of the increase. Exports expanded in the first quarter of

2005, although at a lower rate (15.2%) than in 2004, while the import momentum that had been incipient in the fourth quarter of 2004 gathered strength. In 2004 the goods balance posted a surplus of close to US\$ 270 million, which was the main contributing factor in a large current account surplus of 2.9% of GDP, or US\$ 257 million. Also playing a role in this surplus were official transfers, which represented 2.8% of GDP, not including resources received under the Heavily Indebted Poor Countries (HIPC) initiative. Net foreign direct investment was only US\$ 114 million, as against US\$ 195 million in 2003. A voluminous flight of capital and loss of reserves occurred in the first semester of 2004, but these built back up in the second semester and the year closed with growth of US\$ 139 million. In the first quarter of 2005, the racking up of imports together with slackening exports resulted in a current-account deficit of US\$ 15 million. This was in addition to capital outflows of US\$ 69 million, mainly in the form of short-term external assets. The deficit on the overall balance was financed out of reserves, which dropped by US\$ 84 million.

Brazil

1. General trends

In 2004, the Brazilian economy recorded its strongest expansion in 10 years, with growth in GDP attaining 4.9%. This performance took place against the backdrop of a favourable balance-of-payments position attributable to an unprecedented surplus on both the trade and current-account balances, which led, in turn, to an improvement in external borrowing indicators. On the domestic front, the fiscal primary surplus increased and the nominal deficit on the public accounts shrank to its lowest level in decades, thus helping to reduce public-sector debt. On the strength of this economic upturn, as reflected in the behaviour of its principal indicators, Brazil decided not to renew its agreement with the International Monetary Fund (IMF), following six years of Fund programmes.

These buoyant conditions generated a significant expansion in employment: 1.5 million new jobs were created in the formal market and, for the first time in seven years, the real average wage improved. The average unemployment rate fell to 11.5% in 2004, down from 12.3% in 2003.

The monetary authorities sought to contain inflationary pressures generated by the rate of economic expansion. According to the broad consumer price index, inflation stood at 7.6% in 2004, thereby remaining within the allowable deviation from the target of 5.5%. Nevertheless, in view of steeper price rises and in order to achieve the inflation target of 5.1% set for 2005, in September 2004

the central bank started to raise the benchmark interest rate (Special System of Clearance and Custody, SELIC),¹ which rose to 19.75% in May 2005, thus matching the level recorded in September 2003.

The rise in interest rates has had repercussions for the progress of economic activity. Indeed, the growth rate slowed in the last quarter of 2004 (0.4%) and in the first quarter of 2005 (0.3%).² Gross fixed capital formation declined by 3.9% in the fourth quarter of 2004 and 3.0% in the first quarter of 2005. In view of these developments, growth projections for 2005 have been adjusted to 3%.

2. Economic policy

(a) Fiscal policy

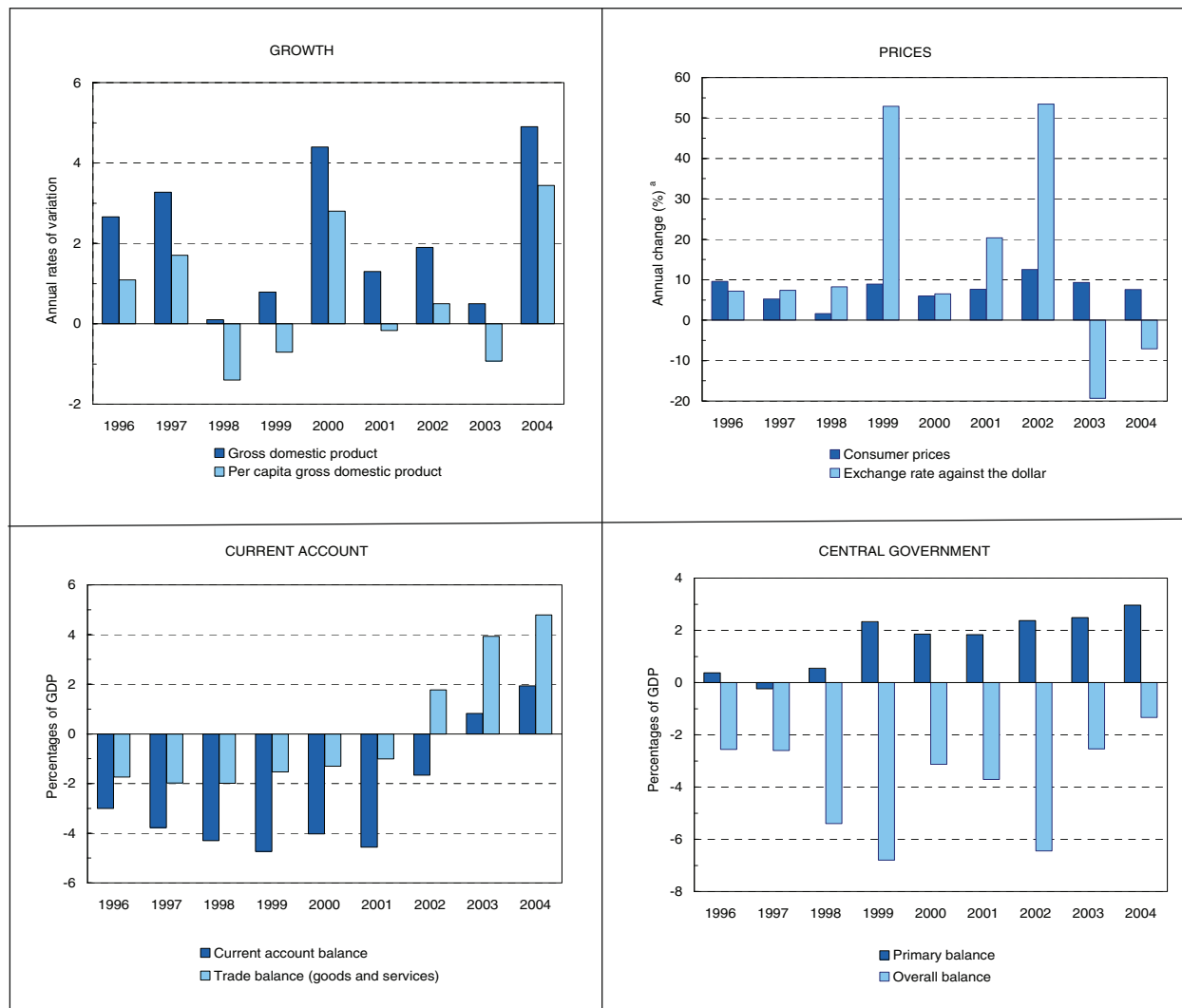
The public sector recorded a positive outturn for the sixth consecutive year with a primary surplus equivalent

to 4.6% of GDP in 2004. The nominal deficit narrowed to less than 3% of GDP, its lowest level in the past two decades. Thus, net public-sector debt fell from 57.2% of GDP in 2003 to 51.6% in 2004, with the nominal

¹ The central bank decreed nine consecutive rises in the SELIC rate between September 2004 and May 2005.

² Both rates refer to the seasonally adjusted variation in GDP in relation to the preceding quarter.

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

appreciation of the real also helping to lower external public indebtedness.

The primary surplus was mainly a reflection of a 10.7% real increase in federal government revenue in 2004. Increased income from production and income taxes was attributable to the higher level of economic activity. Receipts from the tax on industrial goods were up —by 20% in real terms in the case of automobiles— while payroll withholding taxes rose 11.7%. Social security contributions reflected the impact of the change in rates,

as well as collections of the levy on imports as from May 2004. For example, the proceeds of the Contribution to the Financing of Social Security (COFINS) tax showed a 21% rise in real terms in 2004 and represented a total of 4.4% of GDP. These increases in federal taxes and similar expansions in state and municipal taxes are expected to bring Brazil's tax burden to over 36% of GDP.

The higher revenues were sufficient to sustain a 10% real increase in federal spending in 2004. Current expenditure was the main contributor to the increase in

spending, with real variations of 24.4% in social welfare payments and 5.2% in government payroll in 2004. Federal government investments grew by over 70% in real terms, but were still modest in absolute terms, accounting for just 0.2% of GDP, compared with federal primary expenditures, which were equivalent to 17% of GDP. The deficit on the social security system's accounts widened to 1.8% of GDP, compared with 1.3% in 2003. Real increases in the minimum wage and a higher number of beneficiaries contributed to an expansion of over 10% in the system's expenditure in 2004, as against a 9% real increase in revenues, whose growth was due to the high rate of formal job creation generated by the economic upturn.

Notwithstanding the pressure exerted by these higher expenditures, the federal government increased its primary surplus, including the social security accounts, from 2.5% of GDP in 2003 to 3.0% in 2004. This boosted the public-sector surplus from 4.25% of GDP in 2003 to 4.6% in 2004, thus meeting commitments made in the framework of the agreement with IMF. The state and municipal governments, which generated a primary surplus of close to 1% of GDP in 2004, also contributed to these results. In 2004, the states compensated for a drop (from 0.12% of GDP in 2003 to 0.08% of GDP in 2004) in the primary surplus posted by the municipalities, whose finances were pressured by local elections.

A decrease in interest payments by the public sector, from 9.3% of GDP in 2003 to 7.3% in 2004, also contributed to the narrowing of the nominal deficit (from 5.0% of GDP in 2003 to 2.7% in 2004). Public debt-servicing payments are expected to increase in 2005 as a result of rising interest rates. Although fixed-rate securities are accounting for a higher proportion of total debt (21.2% in May 2005, compared with 11.6% of total in December 2003), close to 55% of all public securities are still indexed to the SELIC rate.

Up to April 2005, the balances on the public accounts reflected the government's sustained efforts to achieve a primary surplus of 4.25% of GDP and help to lower public debt. Thanks to steadily expanding revenue and tighter current spending controls, the public-sector primary surplus for the 12 months to April stood at 5.0% of GDP. Net public debt diminished to 50.1% of GDP at the end of April, continuing the pattern observed in 2004.

Following lengthy negotiations, a pilot investment plan is being put in place to increase public investment, especially in infrastructure. It includes a series of projects, whose expenditure will not affect the calculation of the fiscal balance, under certain conditions agreed upon with IMF. This expenditure should amount to something over US\$ 3 billion over a three-year period. In addition, the Public-Private Corporations Act (legislation governing

public-private investment partnerships) was approved by Congress at the end of 2004 and came into force in early 2005. The respective projects are expected to be launched towards the end of the year.

(b) Monetary policy

Throughout 2004, the authorities applied a prudent monetary policy as regards the movements of the benchmark interest rate (SELIC). The downtrend initiated in June 2003, in which the SELIC rate fell from 26.5% to 16.5%, was halted in January, before further reductions in March and April brought it down to 16%. In September, the central bank announced the start of a series of interest rate hikes in order to counter inflationary pressures and create expectations of lower inflation in 2005. In recognition that inflation expectations were higher than the authorities would have wished, the reference rate of the inflation-targeting system was revised from 4.5% to 5.1% in 2005. Interest rate hikes continued until May 2005, when the rate reached 19.75%.

A credit expansion that started in the second half of 2003 contributed to economic growth in 2004, by financing household consumption in particular. Total credit grew by more than 10% in real terms following a flat performance in 2003; personal loans expanded by a real 19% and business loans, by 8% in real terms following a real contraction of almost 9% in 2003. Loans extended for housing and agriculture and credits provided by the National Bank for Economic and Social Development (BNDES) increased by only 2.7% in real terms.

Among personal loan instruments, there was a sharp rise in loans directly secured by wages and deducted from the payroll. Such operations, which were introduced in 2003, accounted for one third of personal lending by April 2005, following a nominal expansion of 110.9% in the preceding 12 months. Even with the rise in interest rates, credit for the purchase of consumer durables, especially automobiles, continued to expand and recorded a nominal expansion of 28% up to April 2005. Households have taken advantage of the broader credit facilities and lower interest rates to take out loans not only for consumption purposes, but also to pay off former credit obligations incurred under less favourable circumstances, which has kept the level of lending arrears stable.

The resources for this lending boom were provided by an expansion in the money supply. After recording a 1.7% nominal rise in 2003, M1 increased by 16.7% in 2004, owing to a policy of purchasing public securities in open-market operations. The main purpose of this policy was to bring the proportion of exchange-rate-linked securities to less than 10% of the total in December 2004

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|---------|---------|---------|---------|---------|---------|---------|---------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Gross domestic product | 2.7 | 3.3 | 0.1 | 0.8 | 4.4 | 1.3 | 1.9 | 0.5 | 4.9 |
| Per capita gross domestic product | 1.1 | 1.7 | -1.4 | -0.7 | 2.8 | -0.2 | 0.5 | -0.9 | 3.4 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 3.1 | -0.8 | 1.3 | 8.3 | 2.2 | 5.8 | 5.5 | 4.5 | 5.3 |
| Mining | 7.5 | 5.5 | 8.6 | 5.9 | 10.5 | 3.2 | 6.2 | 3.3 | -0.7 |
| Manufacturing | 2.1 | 2.9 | -3.5 | -2.5 | 5.1 | 0.4 | 3.2 | 0.6 | 7.7 |
| Electricity, gas and water | 6.0 | 5.9 | 5.2 | 1.4 | 4.2 | -5.6 | 3.0 | 2.7 | 4.6 |
| Construction | 5.2 | 7.6 | 1.5 | -3.7 | 2.6 | -2.7 | -1.8 | -5.2 | 5.7 |
| Wholesale and retail commerce, restaurants and hotels | 1.8 | 3.0 | -4.7 | -0.6 | 4.5 | 0.5 | -0.2 | -1.8 | 7.9 |
| Transport, storage and communications | 5.5 | 4.3 | 0.9 | 4.0 | 8.6 | 5.8 | 6.5 | 1.6 | 3.5 |
| Financial institutions, insurance, real estate and business services | 2.8 | 3.1 | 1.9 | 1.9 | 4.3 | 1.9 | 1.7 | 0.8 | 3.5 |
| Community, social and personal services | 1.3 | 1.0 | 2.1 | 2.1 | 1.8 | 0.9 | 0.2 | 1.2 | 5.6 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 3.1 | 2.9 | -0.0 | 0.3 | 3.2 | 0.6 | -2.5 | -0.8 | 3.0 |
| General government | 1.4 | 2.1 | 2.4 | 2.4 | 1.3 | 1.0 | 1.4 | 1.3 | 0.1 |
| Private | 3.7 | 3.1 | -0.8 | -0.4 | 3.8 | 0.5 | -0.4 | -1.5 | 4.1 |
| Gross domestic investment | 2.8 | 8.3 | -0.6 | -7.6 | 10.0 | -1.1 | 5.3 | -2.4 | 10.9 ^c |
| Exports (goods and services) | 0.6 | 11.1 | 3.7 | 9.2 | 10.6 | 11.2 | 7.9 | 9.0 | 18.0 |
| Imports (goods and services) | 5.4 | 17.8 | -0.3 | -15.5 | 11.6 | 1.2 | -12.3 | -1.7 | 14.3 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving^d | | | | | | | | | |
| Gross domestic investment | 20.9 | 21.5 | 21.1 | 20.2 | 21.5 | 21.2 | 19.8 | 19.8 | 21.3 |
| National saving | 17.9 | 17.7 | 16.8 | 15.4 | 17.5 | 16.6 | 18.1 | 20.6 | 23.2 |
| External saving | 3.0 | 3.8 | 4.3 | 4.7 | 4.0 | 4.6 | 1.7 | -0.8 | -1.9 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -23 248 | -30 491 | -33 829 | -25 400 | -24 225 | -23 215 | -7 637 | 4 177 | 11 669 |
| Merchandise trade balance | -5 453 | -6 652 | -6 603 | -1 261 | -698 | 2 650 | 13 121 | 24 794 | 33 693 |
| Exports, f.o.b. | 47 851 | 53 189 | 51 136 | 48 011 | 55 086 | 58 223 | 60 362 | 73 084 | 96 475 |
| Imports, f.o.b. | 53 304 | 59 841 | 57 739 | 49 272 | 55 783 | 55 572 | 47 240 | 48 290 | 62 782 |
| Services trade balance | -8 059 | -9 309 | -9 045 | -6 983 | -7 162 | -7 759 | -4 957 | -4 931 | -4 773 |
| Income balance | -12 177 | -16 344 | -19 617 | -18 844 | -17 886 | -19 743 | -18 191 | -18 552 | -20 520 |
| Net current transfers | 2 441 | 1 814 | 1 436 | 1 688 | 1 521 | 1 638 | 2 390 | 2 867 | 3 268 |
| Capital and financial balance ^e | 31 930 | 22 240 | 17 527 | 8 635 | 32 206 | 19 764 | -3 542 | -451 | -5 062 |
| Net foreign direct investment | 11 667 | 18 608 | 29 192 | 26 886 | 30 498 | 24 715 | 14 108 | 9 894 | 8 695 |
| Financial capital ^f | 20 263 | 3 632 | -11 665 | -18 251 | 1 708 | -4 951 | -17 650 | -10 345 | -13 757 |
| Overall balance | 8 682 | -8 251 | -16 302 | -16 765 | 7 981 | -3 450 | -11 178 | 3 726 | 6 607 |
| Variation in reserve assets ^g | -8 326 | 8 284 | 6 990 | 7 783 | 2 260 | -3 307 | -302 | -8 496 | -2 244 |
| Other financing ^h | -356 | -33 | 9 312 | 8 983 | -10 242 | 6 757 | 11 480 | 4 769 | -4 363 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ⁱ | 71.2 | 69.9 | 72.3 | 108.0 | 100.0 | 119.7 | 130.5 | 130.6 | 124.6 |
| Terms of trade for goods (index: 2000=100) | 107.1 | 113.6 | 111.9 | 97.0 | 100.0 | 99.6 | 98.4 | 97.0 | 97.9 |
| Net resource transfer (percentage of GDP) | 2.5 | 0.7 | 0.9 | -0.2 | 0.7 | 1.3 | -2.2 | -2.8 | -5.0 |
| Total gross external debt (billions of dollars) | 180 | 200 | 224 | 226 | 217 | 210 | 211 | 215 | 201 |
| Total gross external debt (percentage of GDP) | 23.2 | 24.8 | 28.4 | 42.0 | 36.1 | 41.3 | 45.7 | 42.5 | 33.3 |
| Net profits and interest (percentage of exports) ^j | 7.6 | 10.3 | 11.0 | 9.3 | 6.6 | 7.4 | 8.5 | 7.2 | 6.3 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^k | 59.6 | 58.5 | 58.2 | 57.1 | 58.0 | 56.4 | 56.7 | 57.1 | 57.2 |
| Open unemployment rate ^l | 5.4 | 5.7 | 7.6 | 7.6 | 7.1 | 6.2 | 11.7 | 12.3 | 11.5 |
| Visible underemployment rate ^l | ... | ... | ... | ... | ... | ... | 3.6 | 4.4 | 4.1 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|------|------|------|------|------|------|------|-------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 9.6 | 5.2 | 1.7 | 8.9 | 6.0 | 7.7 | 12.5 | 9.3 | 7.6 |
| Variation in wholesale prices (IPA-DI) (December-December) ^m | 8.1 | 7.8 | 1.5 | 28.9 | 12.1 | 11.9 | 35.4 | 6.3 | 14.7 |
| Variation in nominal exchange rate (December-December) | 7.2 | 7.4 | 8.2 | 52.9 | 6.5 | 20.4 | 53.4 | -19.3 | -7.1 |
| Variation in average real wage | 7.9 | 2.7 | 0.1 | -4.5 | -1.1 | -4.9 | -2.1 | -8.8 | 0.7 |
| Nominal deposit rate ⁿ | ... | 24.9 | 29.3 | 25.8 | 17.5 | 17.4 | 19.0 | 23.3 | 16.2 |
| Nominal lending rate ^o | ... | 63.2 | 68.3 | 64.8 | 41.9 | 41.1 | 44.4 | 49.8 | 41.1 |
| Percentages of GDP | | | | | | | | | |
| Central government ^p | | | | | | | | | |
| Total income ^q | ... | 15.5 | 17.1 | 18.1 | 17.8 | 18.9 | 19.8 | 19.2 | 20.1 |
| Total expenditure ^r | ... | 17.6 | 22.2 | 25.1 | 20.9 | 22.6 | 26.2 | 21.7 | 21.6 |
| Primary balance ^s | 0.4 | -0.2 | 0.6 | 2.3 | 1.9 | 1.8 | 2.4 | 2.5 | 3.0 |
| Overall balance ^t | -2.6 | -2.6 | -5.4 | -6.8 | -3.1 | -3.7 | -6.4 | -2.5 | -1.3 |
| Central government debt | 16.5 | 19.3 | 25.3 | 32.5 | 32.1 | 34.4 | 41.7 | 37.2 | 34.0 |
| Domestic | 14.9 | 17.3 | 21.1 | 23.9 | 24.3 | 25.7 | 27.0 | 26.9 | 26.9 |
| External | 1.6 | 2.0 | 4.2 | 8.5 | 7.8 | 8.6 | 14.7 | 10.3 | 7.1 |
| Money and credit ^u | | | | | | | | | |
| Domestic credit ^v | 42.4 | 43.7 | 45.6 | 62.0 | 65.5 | 66.4 | 64.7 | 64.4 | 67.0 |
| To the public sector | 10.0 | 13.0 | 12.5 | 28.5 | 32.7 | 32.1 | 31.1 | 31.7 | 34.5 |
| To the private sector | 32.4 | 30.7 | 33.1 | 33.5 | 32.8 | 34.3 | 33.6 | 32.7 | 32.5 |
| Liquidity (M3) | 24.7 | 25.5 | 28.5 | 25.5 | 23.2 | 23.4 | 24.9 | 24.0 | 23.6 |
| Currency in circulation and local-currency deposits (M2) | 22.7 | 23.8 | 26.9 | 26.7 | 24.2 | 24.2 | 25.9 | 25.1 | 24.7 |
| Foreign-currency deposits | 2.0 | 1.7 | 1.6 | -1.2 | -0.9 | -0.8 | -1.0 | -1.1 | -1.2 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Index based on the previous year's prices. ^c The figure for 2004 refers to gross fixed capital formation. ^d Based on figures in local currency expressed in dollars at current prices. ^e Includes errors and omissions. ^f Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^g A minus sign (-) denotes an increase in reserves. ^h Includes the use of IMF credit and loans and exceptional financing. ⁱ Annual average, weighted by the value of merchandise exports and imports. ^j Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^k Economically active population as a percentage of the working-age population; six metropolitan areas. ^l Unemployment and underemployment rates as percentages of the economically active population; six metropolitan areas. ^m IPA-DI: wholesale price index (acronym in Portuguese). ⁿ Certificates of deposit. ^o Pre-set corporate rate. ^p Includes federal government and the central bank. ^q Refers to total income net of transfers to local governments. ^r Includes nominal interest payments. ^s Balance calculated "below the line". Figures from the Central Bank of Brazil. ^t Nominal. ^u The monetary figures are annual averages. ^v Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

and to 4.4% in April 2005 (such securities had accounted for more than a third of the total at the end of 2002).

(c) Exchange-rate policy

The real exchange rate continued to strengthen against the United States dollar in 2004 and the first few months of 2005, with a cumulative nominal appreciation of 12% between December 2003 and April 2005. This translated into a significant real appreciation in relation to Brazil's main trading partners: by April 2005, the real effective exchange rate calculated by ECLAC was 12% lower than the average for 2004.

Although the free float of the currency is one of the pillars of Brazil's macroeconomic policy, exchange-rate appreciation has generated reactions and expectations in terms of the impact on external trade and on the behaviour of investment. This prompted the central bank to intervene in the market in certain circumstances by buying foreign exchange. In effect, the bank purchased US\$ 4 billion in January 2004, US\$ 2.8 billion in December 2004 and US\$ 9 billion in the first quarter of 2005. Gross international reserves thus swelled by some US\$ 3.6 billion in 2004, to stand at US\$ 52.9 billion in December. In May 2005, reserves stood at US\$ 60.709 billion.

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|--------|--------|--------|-------------------|--------|--------|--------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 1.5 | 0.0 | -0.2 | 0.9 | 4.0 | 5.1 | 5.9 | 4.7 | 2.9 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 15 045 | 17 957 | 19 788 | 20 294 | 19 448 | 17 269 | 26 972 | 26 197 | 24 451 | 29 226 |
| Merchandise imports, f.o.b. (millions of dollars) | 11 239 | 11 364 | 12 393 | 13 263 | 13 315 | 10 357 | 16 898 | 17 605 | 16 133 | 17 877 |
| International reserves (millions of dollars) | 42 335 | 47 956 | 52 675 | 49 296 | 51 612 | 49 796 | 49 503 | 52 937 | 61 960 | 59 885 |
| Real effective exchange rate (index: 2000=100) ^c | 148.0 | 127.2 | 124.3 | 124.4 | 125.2 | 129.6 | 125.0 | 118.8 | 113.8 | 106.4 ^d |
| Urban unemployment rate ^e | 11.6 | 12.7 | 12.9 | 12.0 | 12.2 | 12.3 | 11.2 | 10.2 | 10.5 | 10.1 |
| Consumer prices (12-month percentage variation) | 16.6 | 16.6 | 15.1 | 9.3 | 5.3 | 6.1 | 6.7 | 7.6 | 7.5 | 7.3 |
| Average nominal exchange rate (reals per dollar) | 3.49 | 2.99 | 2.93 | 2.90 | 2.90 | 3.04 | 2.98 | 2.78 | 2.67 | 2.48 |
| Average real wage (variation from same quarter of preceding year) | -7.1 | -12.8 | -11.3 | -6.0 | -1.8 | 1.5 | 0.8 | 2.2 | -1.5 | ... |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^f | 25.6 | 26.1 | 23.2 | 18.2 | 16.2 | 15.8 | 15.8 | 16.9 | 18.4 | 19.5 |
| Lending rate ^g | 52.5 | 53.0 | 49.6 | 44.1 | 42.2 | 41.2 | 40.3 | 40.7 | 43.0 | 44.4 ^d |
| Interbank interest rate ^h | 25.7 | 26.2 | 23.3 | 18.3 | 16.3 | 15.8 | 15.9 | 17.0 | 18.5 | 19.5 |
| Sovereign bond spread (basis points) | 1 048 | 801 | 698 | 463 | 559 | 650 | 469 | 382 | 458 | 414 |
| Stock price index (in dollars, December 2000=100) | 53.9 | 66.6 | 78.3 | 105.9 | 104.5 | 92.6 | 116 | 142 | 147 | 155 |
| Domestic credit (variation from same quarter of preceding year) ⁱ | 13.2 | 15.1 | 16.6 | 23.0 | 20.4 | 19.0 | 16.0 | 15.0 | 17.9 | 19.0 ^j |
| Non-performing loans as a percentage of total credit ^k | 4.3 | 4.5 | 4.7 | 4.2 | 4.1 | 3.8 | 3.6 | 3.6 | 3.7 | 3.6 ^d |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Index based on the previous year's prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e New methodology used as of the first quarter of 2002. Data not comparable to previous figures. ^f Cumulative monthly rate on certificates of deposit. ^g Pre-set corporate rate. ^h SELIC (Special System for Settlement and Custody) rate. ⁱ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^j Data for April. ^k Refers to total credit extended by the banking system.

3. The main variables

(a) Economic activity

Gross domestic product grew by 4.9%, led by commerce (7.9%), manufacturing (7.7%) and construction (5.7%). Agricultural activity continued to expand (5.3%), as in the last seven years. Communications, however, which has been one of the most dynamic sectors in recent years, recorded a fall in value added for the first time in two decades (-1.4%). The mining sector showed flat growth (0.7%), owing to difficulties in bringing new areas of oil production into operation.

The leading components of demand in 2004 were investment and household consumption, which expanded by 10.9% and 4.5%, respectively, together with a sharp increase in export volumes (18%). The two first aggregates had declined in recent years: in the category of investment, gross fixed capital formation fell by 8.1% in the period 2000-2003, while household consumption fell by 1.8% between 2001 and 2003.

In 2005, first-quarter growth of 0.3% with respect to the last quarter of 2004 has generated expectations of slower expansion for the year overall. Adverse weather

conditions, especially the drought in the south of the country, will hurt agriculture, while higher interest rates will have a negative impact on manufacturing.

Investment indicators have become a source of concern. In the early months of 2005, the business confidence index published by the National Confederation of Industry showed levels below those of the last quarter of 2004. In addition, data supplied by the National Bank for Economic and Social Development (BNDES) reflected a more cautious stance on investment decisions, with a nominal expansion of 9% in financing in the first five months of 2005 with respect to the year-earlier period.

(b) Prices, wages and employment

In 2004, inflation stood at 7.6% (IPCA), which was close to the ceiling of the 2.5 percentage-point allowable deviation from the target of 5.5%. In 2003, the annual rate of inflation had reached 9.3% and in 2002, 12.5%, exceeding the original targets in each case.

The absence of a more substantial drop in inflation may be attributed, on the one hand, to the persistence of forms of indexation that have generated greater pressure on price adjustment contracts for regulated services, such as electricity and telephones, and, on the other, to higher prices for industrial products, whose wholesale prices increased by 19.5% in 2004, compared with a 6.9% variation in 2003. Agricultural prices helped to counteract these pressures: wholesale agricultural prices over the year showed a variation of around -2.7%.

In the first few months of 2005, inflation tended to converge with the targets set by the government (5.1%, with a deviation of 2.5% in either direction). In May, the 12-month IPCA showed a variation of 8.1%. Exchange-rate appreciation and the slowdown in economic activity, however, may help to lower inflation over the rest of the year. In May, the wholesale indexes showed a monthly deflation that encompassed the general index (almost 1.0%), agricultural prices (2.8%) and, especially, industrial prices (0.4%).

The favourable trend in economic activity has boosted labour markets. In 2004, the rate of unemployment in the main metropolitan regions was 11.5% on average, down from 12.3% in 2003. Employment rose in the formal market (6.6%), with more than 1.5 million jobs created, especially in the manufacturing industry, which accounted for more than 500,000 of these new posts (a 9.4% expansion). Much of the overall increase in formal employment was observed outside the metropolitan areas,

where 546,000 new jobs were created. Indicators for 2005 continue to confirm the rise in employment, with a net generation of 558,000 new posts up to April.

The minimum wage increased in real terms by 3.8% as an annual average, maintaining the gains made in its purchasing power, which has accumulated a real variation of 50% since 1995. In May 2005, the authorities raised the minimum wage by a nominal 15%. Real average income in metropolitan areas improved for the first time since 1997, by 2%.³

(c) The external sector

As in the last two years, the external accounts continued to show a favourable balance. In the first four months of 2005, the value of exports amounted to US\$ 33 billion, while imports totalled US\$ 21 billion. In the 12 months to April, exports exceeded US\$ 104 billion, while imports posted a value of over US\$ 66 billion. The resulting surplus, of US\$ 38 billion, is the highest among all the emerging economies in this period.

Exports expanded by 29% in the first four months of 2005, with respect to the same period of 2004, while imports were up by 20% in this period. The expansion in exports has not only outstripped growth in imports, but has coincided with a higher level of activity and a real appreciation of the local currency. The increase in the value of exports was driven mainly by a sharp expansion in volumes (17% in the first four months of 2005 compared with the year-earlier period). Industrial manufactures were strong contributors to this trend, with manufactures and semi-manufactures up 21.7% and 11.7%, respectively, in volume and 1.3% and 20.5%, respectively, in price.

In 2004, sharp increases were recorded in both exports and imports (30.1%) of goods. Merchandise exports jumped by 32%, reflecting a rise in prices (18.3% for commodities and 14.5% for semi-manufactures) and volumes (19.2%), particularly in the case of manufactures (26.1%). The rate of expansion of exports is expected to slow, however, given the continued appreciation of the real, the slower pace of world economic growth, weaker international prices for a number of agricultural commodities and the indicators available for some categories of manufacturing.

Import figures reflect the impact of the higher cost of petroleum imports, which soared by 19% in the first four months of 2005. Imports of capital and intermediate goods imports were also up (20.9% and 18.2%, respectively). Currency appreciation may encourage an increase in imports, especially of consumer goods, which in 2004

³ Refers to the real average income regularly received by employees in six metropolitan areas.

grew by 17% in value, accounting for close to 8.4% of total imports. From January to April 2005, the import value of consumer goods increased by 24.4% compared with the same period of 2004.

The current-account balance totalled US\$ 3.45 billion (1.5% of GDP) in the first four months of 2005. The figure for the 12 months to April 2005 is the highest since 1947 (2.2% of GDP) and reflects mainly the large trade surplus (US\$ 12 billion), which offset a deficit of US\$ 9 billion on the services and income accounts.

In 2004, the balance-of-payments capital and financial accounts yielded a negative balance of US\$ 7.4 billion, owing in part to a reduction in private-sector liabilities abroad, and just over 50% of the private bonds that matured during the year were renewed. Approximately 60% of private bonds maturing in the first four months of 2005 were renewed. Net foreign direct investment stood at US\$ 8.7 billion in 2004, reflecting an exceptional outflow of Brazilian investments, including inter-company loans to the tune of US\$ 9.5 billion, in the wake of mergers in a variety of sectors, particularly food and beverages.

The capital and financial balance showed a net inflow of US\$ 5.7 billion in the first four months of 2005. For the first time since January 2004, direct investments, portfolio investments and other foreign investments recorded a positive net balance. This was due largely to interest arbitrage transactions, the procurement of credit lines for forward exchange transactions and the establishment of interbank credit lines with banks outside the country, also associated with arbitrage transactions. Portfolio investments performed well, moving from a net deficit of US\$ 2.2 billion between January and April 2004 to a positive balance of US\$ 2.6 billion in the same period of 2005. After recording an overall surplus of US\$ 2.2 billion in 2004, the balance of payments stood at US\$ 9.9 billion in the first four months of 2005.

Brazil's total external debt diminished by 6.3% in 2004, to stand at US\$ 201.7 billion at the end of December. This drop, together with the external sector results, boosted Brazil's net borrowing indicators; bearing in mind the level of international reserves, the ratio of net debt to exports fell to 1.54, which compares with 3.94 at the end of 1999.

Chile

1. General trends

Chile's economy expanded by 6.1% in real terms in 2004, amply outstripping the rates of 2.2% and 3.7% posted in 2002 and 2003, respectively. This performance was mainly thanks to the buoyancy of exports, which surged by 48.8%, and gross domestic investment, which posted the highest growth rate seen in nine years (16.1%). GDP is expected to grow around 6% in 2005.

The upswing in exports in 2004 came about in a context of international economic expansion and an upturn in the prices of raw materials, including copper. For the first time in five years, the balance-of-payments current account closed with a surplus, amounting to 1.5% of GDP.

The central government's overall balance posted a surplus of 2.2% of GDP while its external debt eased

down from 13.1% of GDP in 2003 to 10.8% in 2004. Inflation came in at 2.4%, within the limits of the central bank's target band.

Hourly wages went up by 1.8% on average last year. The revival of economic activity pushed the labour force participation rate up 0.3 percentage points in 2004, while unemployment edged up from 8.5% to 8.8%.

2. Economic policy

In 2004, economic policy continued to be geared to maintaining price stability and fiscal equilibrium, improving the fiscal accounts in the medium term and consolidating Chile's position in the international markets.

The central bank continued to use its inflation-targeting scheme to maintain price stability. The fiscal authorities maintained the self-imposed requirement of an overall surplus equivalent to 1% of GDP on the central government's accounts. The international context of low interest rates, combined with low country risk, provided some leeway which the government used to restructure the external public debt and the burden thereof, thus steepening the downward trend of this debt item.

The government hopes that the signature of trade accords in the last two years with the United States, the European Union and the Republic of Korea will boost the potential of Chile's export sector.

The thrust of economic policy is expected to remain unchanged in 2005. It appears that the fiscal rule will be maintained: although parliamentary and presidential

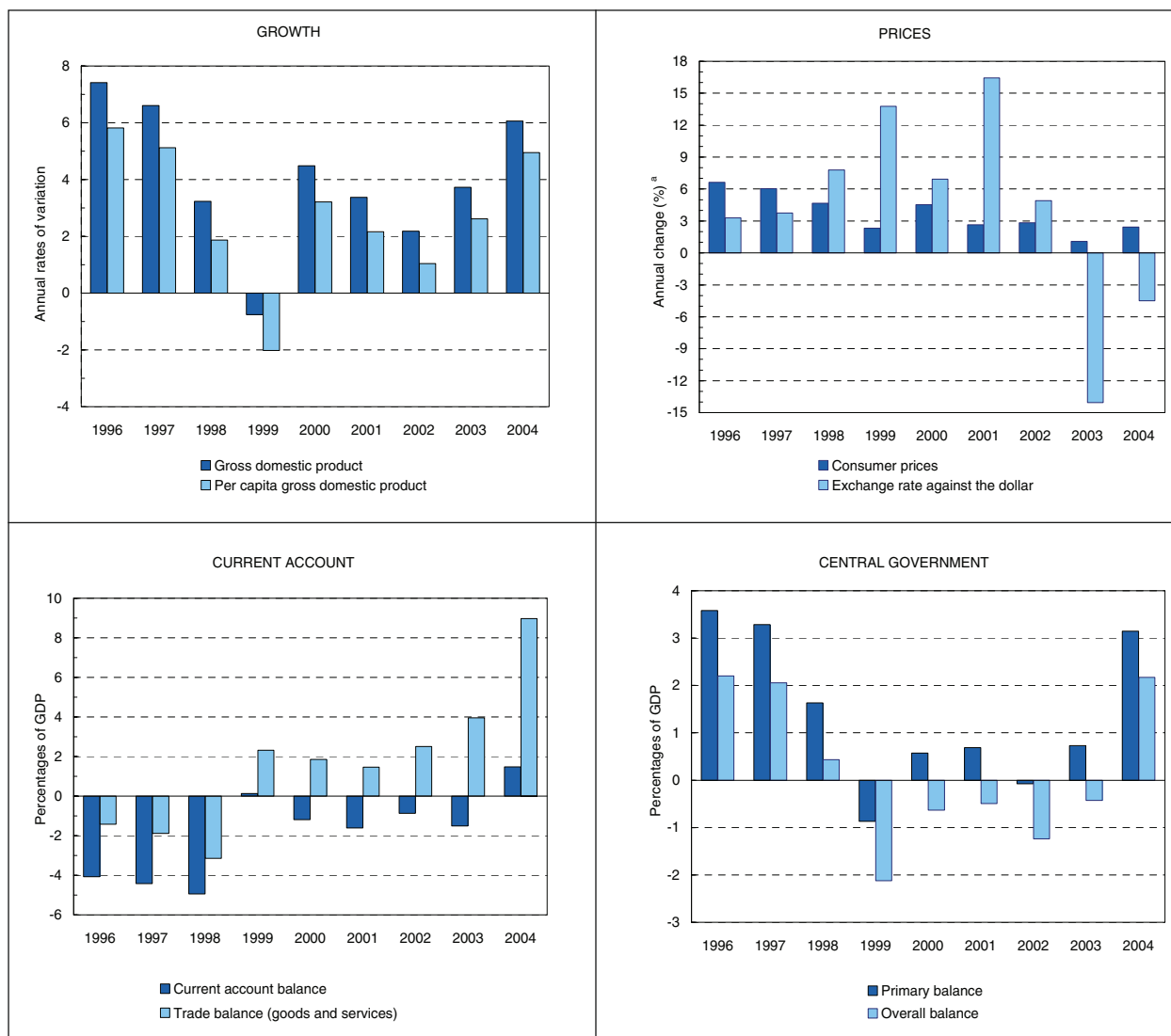
elections are due this year, the leading presidential candidates have declared that they would retain this policy if elected.

(a) Fiscal policy

The public sector deployed its financial strategy on two fronts in the reporting period: one short-term, focused on budget design and implementation, and another medium-term, involving the restructuring of external public debt.

With regard to the budget, for the fifth consecutive year the government enforced its rule requiring a structural surplus of 1% of GDP per year. The central government's overall surplus (calculated on an accrual basis, as established in 2003) was 2.2% of GDP in 2004, compared to a deficit of 0.4% the previous year. Current spending by the central government decreased from 18.1% in 2003 to 17.0% in 2004, while capital spending again dropped slightly, from 3.3% to 3.1% of GDP.

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

The government took advantage of propitious external conditions, including low interest rates and relatively low country risk, to improve the structure of the external public debt burden. In January 2004, a new sovereign bond was issued for US\$ 600 million, with a spread of 43 basis points over the LIBOR rate, and the proceeds went to pre-pay older debts incurred at higher rates of interest. The outcome of these strategies, combined with scheduled payments, was a drop from 5.6% to 4.8% of

GDP in the central government's external debt, in a trend which appears likely to continue in 2005.

The budget law for 2005 proposes to reduce public indebtedness by means of US\$ 1.567 billion in scheduled amortizations. Indeed, the central government's gross financial debt declined to 10.9% of GDP in December 2004. The consolidated figure for this debt together with the central bank's liabilities represents 29.2% of GDP, which is lower than the 33.7% of GDP recorded in 2003.

In 2004 Chile's budget was prepared for the first time on an accrual basis, meaning that any economic operation carried out by the government is recorded at the time a payment obligation is incurred (i.e., when a good is delivered, a service is provided or work is performed). In addition, the budget includes income and expenditure under the copper reserve law and the provisions of the petroleum stabilization fund. Up until this system came into operation, the government's practice had been to record operations at the time when it made the relevant payments (cash basis).

(b) Monetary and exchange-rate policy

Prices rose by 2.4% in 2004, well within the inflation target range of 2% to 4% set by the central bank. In 2003 the rate of inflation had been 1.1%, beneath the floor level of the band, and the trend in the early months of 2005 suggests that it will come in at between 2% and 3% at the end of the year.

Low inflation and the enforcement of the fiscal rule have afforded more room for manoeuvre to the central bank, which was thus in a position to lower the monetary policy interest rate during the low-growth years up to and including 2003, and raise it again from September 2004 onward. One factor constraining the central bank's strategy on interest rate rises was the sluggish performance of employment, which has lagged behind the main economic variables. Wage employment figures began to take a turn for the better from the third quarter on, however.

The central bank's rate-cutting policy began in January 2002, starting from a nominal annual rate of 6.5%, and entailed a series of reductions that brought the rate to 3% in August 2002. The absence of inflationary pressures made it possible to lower the interest rate steadily in the course of 2003, from 3.0% in December 2002 to 1.75% in February 2004, and to keep it at that level in the subsequent months. The reversal of this trend began in September 2004, when the interest rate rose to 2.0%, and continued with further hikes approximately every two months, bringing the rate to 3.25% in May 2005.

In real terms, the monetary policy rate established by the central bank, which was barely positive at the end of 2003 and turned negative in 2004, became slightly positive again in 2005.

The higher demand for real monetary balances continued to be evident in 2004. The year-on-year variation in the private money supply (M1A) between December 2003 and December 2004 was 19.8% in real terms, which was higher than the variation of 15.1% recorded in 2003, when inflation was 1.1%. Notes and coins in circulation rose by 12.5% in real terms in 2004, compared to only 4.1% the previous year, and the rate of one- to three-year deposits reached a nominal annual rate of just 3.16%.

The average interest rate on local-currency loans (with terms of between 90 days and a year) fell from 13.0% in December 2003 to 10.8% in December 2004, then rose to 13.6% in April 2005.

Bank credit increased by 13% in December 2003, then by 6.3% up to April 2005. The banking system reduced the level of non-performing loans from 1.6% in December 2003 to 1.2% in December 2004, where it remained until March 2005.

A combination of factors were implicated in the appreciation of the Chilean peso in 2004: an improvement of the situation in Argentina, good expectations in Brazil and, at the end of the year, a larger inflow of dollars on the back of higher copper prices, increased profits from exports and inflows of financial capital attracted by a boom in the stock market. In parallel to all this, foreign direct investment has continued to climb steadily.

The drop in the nominal exchange rate hurt exporters, and the central bank was obliged to account for its decision not to intervene in the currency market while the peso was strong, but to reserve its intervention options for times of exchange-rate surges (such episodes had occurred in response to expectations of a crisis in Argentina in 2001 and uncertainty over the Brazilian real in 2002).

In the second half of 2004 and the early months of 2005 the exchange rate remained at appreciated levels, with parities of less than 600 pesos to the dollar, since exports continued to generate foreign currency and international conditions remained favourable.

The average real effective exchange rate index dipped 6.67% in 2004 with respect to 2003, which is attributable to the fact that the peso has appreciated against the United States dollar and against other currencies that behaved in a similar fashion (including the yuan), but has not risen in value relative to the euro.

(c) Trade policy

The signature of trade agreements with the United States, the European Union and the Republic of Korea raised expectations of more stable trade with those countries and areas. Chile now faces new challenges in realizing the potential of those accords, as well as the free trade agreements with India and China that the government hopes to sign shortly. Such challenges include proper training, the implementation of quality standards in national production, the achievement of more efficient production and the adoption of effective marketing mechanisms. These agreements are therefore particularly significant for the Chilean economy, in which exports account for a third of GDP, making growth prospects highly dependent on world economic trends and on domestic policies that affect the profitability of external sales.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Annual growth rates ^b | | | | | | | | | |
| Gross domestic product | 7.4 | 6.6 | 3.2 | -0.8 | 4.5 | 3.4 | 2.2 | 3.7 | 6.1 |
| Per capita gross domestic product | 5.8 | 5.1 | 1.9 | -2.0 | 3.2 | 2.2 | 1.0 | 2.6 | 4.9 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 2.8 | 3.4 | 2.3 | 0.8 | 6.6 | 7.5 | 6.8 | 0.7 | 10.3 |
| Mining | 15.8 | 11.3 | 8.3 | 10.6 | 3.2 | 5.7 | -4.2 | 5.0 | 6.9 |
| Manufacturing | 3.2 | 4.7 | -2.3 | -0.5 | 4.9 | 0.6 | 1.9 | 3.1 | 6.9 |
| Electricity, gas and water | -3.8 | 8.3 | 4.4 | -4.7 | 9.5 | 1.5 | 3.3 | 3.8 | 3.8 |
| Construction | 8.6 | 6.3 | 1.9 | -9.9 | -0.7 | 4.1 | 2.5 | 4.5 | 5.0 |
| Wholesale and retail commerce, restaurants and hotels | 9.5 | 7.6 | 3.5 | -4.4 | 4.4 | 2.6 | 0.9 | 4.8 | 6.8 |
| Transport, storage and communications | 10.2 | 10.9 | 6.6 | 0.8 | 8.6 | 7.4 | 5.3 | 5.1 | 4.6 |
| Financial institutions, insurance, real estate and business services | 6.1 | 5.9 | 5.0 | 0.5 | 4.0 | 3.0 | 2.8 | 2.8 | 4.6 |
| Community, social and personal services | 4.6 | 4.8 | 2.7 | 1.8 | 3.0 | 2.8 | 2.5 | 3.0 | 3.6 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 8.8 | 6.5 | 4.3 | -0.4 | 3.6 | 2.9 | 2.5 | 3.9 | 5.2 |
| General government | 4.0 | 5.8 | 2.3 | 2.7 | 3.0 | 2.9 | 3.1 | 2.4 | 3.0 |
| Private | 9.4 | 6.6 | 4.7 | -1.0 | 3.7 | 2.9 | 2.4 | 4.1 | 5.6 |
| Gross domestic investment | 5.9 | 9.4 | 2.2 | -20.1 | 14.0 | 0.8 | 2.2 | 7.8 | 16.1 |
| Exports (goods and services) | 11.8 | 11.2 | 5.2 | 7.3 | 5.1 | 7.2 | 1.6 | 5.9 | 12.8 |
| Imports (goods and services) | 11.8 | 13.2 | 6.7 | -9.5 | 10.1 | 4.1 | 2.3 | 9.5 | 18.6 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving ^c | | | | | | | | | |
| Gross domestic investment | 27.4 | 27.7 | 26.9 | 20.9 | 21.9 | 22.1 | 21.7 | 22.0 | 21.7 |
| National saving | 23.3 | 23.3 | 22.0 | 21.0 | 20.7 | 20.5 | 20.8 | 20.5 | 23.2 |
| External saving | 4.1 | 4.4 | 4.9 | -0.1 | 1.2 | 1.6 | 0.9 | 1.5 | -1.5 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -3 083 | -3 660 | -3 918 | 99 | -898 | -1 100 | -580 | -1 102 | 1 390 |
| Merchandise trade balance | -1 072 | -1 428 | -2 040 | 2 427 | 2 119 | 1 844 | 2 386 | 3 522 | 9 019 |
| Exports, f.o.b. | 16 627 | 17 870 | 16 323 | 17 162 | 19 210 | 18 272 | 18 180 | 21 524 | 32 025 |
| Imports, f.o.b. | 17 699 | 19 298 | 18 363 | 14 735 | 17 091 | 16 428 | 15 794 | 18 002 | 23 006 |
| Services trade balance | -1 | -136 | -452 | -737 | -719 | -844 | -701 | -617 | -580 |
| Income balance | -2 518 | -2 617 | -1 889 | -2 233 | -2 856 | -2 526 | -2 847 | -4 606 | -8 101 |
| Net current transfers | 508 | 520 | 462 | 643 | 558 | 427 | 583 | 599 | 1 051 |
| Capital and financial balance ^d | 5 677 | 6 979 | 1 727 | -846 | 1 234 | 504 | 779 | 737 | -1 580 |
| Net foreign direct investment | 3 681 | 3 809 | 3 144 | 6 203 | 873 | 2 590 | 2 207 | 2 501 | 6 660 |
| Financial capital ^e | 1 995 | 3 170 | -1 417 | -7 049 | 361 | -2 086 | -1 428 | -1 765 | -8 240 |
| Overall balance | 2 594 | 3 318 | -2 191 | -747 | 337 | -596 | 199 | -366 | -191 |
| Variation in reserve assets ^f | -1 119 | -3 318 | 2 191 | 747 | -337 | 596 | -199 | 366 | 191 |
| Other financing ^g | -1 475 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 97.1 | 90.8 | 92.5 | 98.2 | 100.0 | 111.2 | 109.1 | 114.5 | 106.9 |
| Terms of trade for goods (index: 2000=100) | 89.4 | 94.5 | 91.0 | 94.2 | 100.0 | 93.3 | 97.2 | 102.8 | 124.9 |
| Net resource transfer (percentage of GDP) | 2.2 | 5.3 | -0.2 | -4.2 | -2.2 | -2.9 | -3.1 | -5.3 | -10.3 |
| Total gross external debt (millions of dollars) | 26 272 | 29 034 | 32 591 | 34 758 | 37 177 | 38 538 | 40 675 | 43 396 | 43 764 |
| Total gross external debt (percentage of GDP) | 34.7 | 35.1 | 41.1 | 47.6 | 49.4 | 56.2 | 60.5 | 59.1 | 46.5 |
| Net profits and interest (percentage of exports) ⁱ | 9.4 | 10.0 | 6.9 | 7.0 | 10.9 | 10.0 | 10.8 | 17.4 | 21.2 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^j | 54.2 | 54.2 | 54.4 | 54.4 | 53.7 | 52.9 | 52.5 | 52.9 | 53.2 |
| Open unemployment rate ^k | 6.4 | 6.1 | 6.4 | 9.8 | 9.2 | 9.1 | 9.0 | 8.5 | 8.8 |
| Visible underemployment rate ^k | 3.8 | 5.2 | 4.0 | 4.9 | 5.4 | 6.4 | 5.6 | 5.9 | 7.6 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|---|------|------|------|------|------|------|------|-------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 6.6 | 6.0 | 4.7 | 2.3 | 4.5 | 2.6 | 2.8 | 1.1 | 2.4 |
| Variation in wholesale prices (December-December) | 3.1 | 1.9 | 0.3 | 13.5 | 7.9 | 3.1 | 10.4 | -1.0 | 7.8 |
| Variation in nominal exchange rate (December-December) | 3.3 | 3.8 | 7.8 | 13.8 | 6.9 | 16.4 | 4.9 | -14.1 | -4.5 |
| Variation in average real wage | 4.1 | 2.4 | 2.7 | 2.4 | 1.4 | 1.7 | 2.0 | 0.9 | 1.8 |
| Nominal deposit rate ^l | ... | 12.7 | 16.3 | 8.9 | 8.7 | 6.5 | 4.1 | 3.2 | 2.4 |
| Nominal lending rate ^l | ... | 20.2 | 27.4 | 17.6 | 18.7 | 16.7 | 14.4 | 13.0 | 11.0 |
| Percentages of GDP | | | | | | | | | |
| Central government ^m | | | | | | | | | |
| Current income | 21.8 | 21.6 | 21.1 | 20.4 | 21.6 | 21.8 | 21.1 | 20.9 | 22.3 |
| Current expenditure | 16.4 | 16.4 | 17.3 | 18.9 | 19.1 | 18.9 | 18.9 | 18.1 | 17.0 |
| Gross operating balance | 5.4 | 5.2 | 3.8 | 1.5 | 2.5 | 2.8 | 2.2 | 2.8 | 5.3 |
| Net acquisition of non-financial assets | 3.2 | 3.2 | 3.4 | 3.6 | 3.2 | 3.3 | 3.4 | 3.3 | 3.1 |
| Primary balance | 3.6 | 3.3 | 1.6 | -0.9 | 0.6 | 0.7 | -0.1 | 0.7 | 3.1 |
| Overall balance | 2.2 | 2.1 | 0.4 | -2.1 | -0.6 | -0.5 | -1.2 | -0.4 | 2.2 |
| Public debt | 15.1 | 13.2 | 12.5 | 13.8 | 13.7 | 15.0 | 15.7 | 13.1 | 10.9 |
| Domestic | 10.9 | 10.0 | 9.3 | 9.8 | 10.0 | 10.4 | 10.0 | 7.6 | 6.0 |
| External | 4.2 | 3.2 | 3.2 | 4.0 | 3.6 | 4.5 | 5.7 | 5.6 | 4.8 |
| Interest payments of NFPS (percentage of income) | 6.4 | 5.7 | 5.7 | 6.2 | 5.6 | 5.4 | 5.5 | 5.5 | 4.4 |
| Money and credit ⁿ | | | | | | | | | |
| Domestic credit ^o | 60.4 | 63.6 | 64.0 | 67.2 | 66.6 | 68.9 | 70.8 | 72.2 | 72.4 |
| To the public sector | -0.6 | 0.4 | 0.1 | 0.6 | 0.7 | 1.0 | 1.7 | 1.8 | 2.4 |
| To the private sector | 61.1 | 63.2 | 63.9 | 66.6 | 65.9 | 67.8 | 69.1 | 70.5 | 70.0 |
| Liquidity (M3) | 37.8 | 40.3 | 45.4 | 50.1 | 49.9 | 51.6 | 52.6 | 49.8 | 47.1 |
| Currency in circulation and local-currency deposits (M2) | 35.9 | 38.7 | 43.2 | 46.1 | 45.5 | 46.3 | 46.7 | 44.2 | 41.9 |
| Foreign-currency deposits | 1.9 | 1.6 | 2.3 | 4.0 | 4.4 | 5.3 | 5.9 | 5.6 | 5.1 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1996 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; nationwide total. ^k Unemployment and underemployment rates as percentages of the economically active population; nationwide total. ^l Non-adjustable 90-360 day operations. ^m Reflects the new accounting methodology set out in the 2001 IMF manual. ⁿ The monetary figures are annual averages. ^o Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

3. The main variables

(a) Economic activity

Chile's GDP grew by 6.1% in real terms in 2004, driven by a 12.8% rise in exports and by domestic demand. This last item expanded by a substantial 7.9%, which was well above the rate of 4.8% posted in 2003 and represented a real leap relative to the growth rates in overall demand seen since 1999, which have all been closer to the 2003 figure. Within domestic demand, investment performed particularly well, with growth of 16.1%.

In 2004 profits from export activities began a pronounced upward trend, which carried over into 2005, thanks to an expansion in the volumes shipped and higher prices for copper and other export products. Terms of trade rose by 21.5% in the course of 2004.

The increased buoyancy of the export sector helped to push up domestic demand. In 2004 consumption by the private sector and central government rose 5.6% and 3.0%, respectively. The increase in investment, as noted earlier, was also a major contributing factor.

Table 2
CHILE: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|--------|--------|--------|-------------------|--------|--------|--------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 3.9 | 4.1 | 4.1 | 2.8 | 4.7 | 5.3 | 7.0 | 7.3 | 5.7 | 6.1 |
| Merchandise exports, f.o.b. (millions of dollars) | 5 282 | 5 283 | 5 153 | 5 805 | 7 484 | 5 168 | 7 933 | 8 681 | 9 203 | ... |
| Merchandise imports, c.i. f. (millions of dollars) | 4 556 | 4 847 | 4 901 | 5 078 | 5 404 | 3 849 | 6 624 | 7 113 | 7 298 | 5 260 |
| International reserves (millions of dollars) | 16 499 | 15 490 | 15 655 | 15 851 | 15 965 | 15 853 | 15 843 | 16 016 | 15 380 | 17 253 |
| Real effective exchange rate (index: 2000=100) ^c | 117.8 | 118.0 | 115.5 | 107.1 | 103.3 | 109.1 | 109.0 | 106.4 | 106.7 | 106.3 ^d |
| Unemployment rate | 8.2 | 9.1 | 9.4 | 7.4 | 8.1 | 9.6 | 9.7 | 7.8 | 7.9 | ... |
| Consumer prices (12-month percentage variation) | 4.5 | 3.6 | 2.2 | 1.1 | -0.7 | 1.1 | 1.4 | 2.4 | 2.4 | 2.7 |
| Average nominal exchange rate (pesos per dollar) | 737 | 710 | 693 | 625 | 587 | 629 | 628 | 593 | 579 | 581 |
| Average real wage (variation from same quarter of preceding year) | 0.2 | 0.0 | 1.0 | 2.4 | 3.1 | 2.5 | 1.3 | 0.4 | 1.2 | 1.8 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 3.1 | 3.2 | 3.4 | 3.2 | 2.2 | 2.2 | 2.3 | 2.9 | 3.6 | 4.5 |
| Lending rate ^e | 13.3 | 12.5 | 13.0 | 13.0 | 11.0 | 10.6 | 11.2 | 11.1 | 12.2 | 13.8 |
| Interbank interest rate | 2.7 | 2.7 | 2.7 | 2.7 | 1.8 | 1.7 | 1.8 | 2.2 | 2.7 | 3.2 |
| Sovereign bond spread (basis points) | 195 | 162 | 133 | 121 | 127 | 118 | 97 | ... | ... | ... |
| Stock price index (in dollars, December 2000=100) | 80.7 | 100.8 | 126.3 | 145.9 | 142.3 | 138.2 | 154.8 | 176.9 | 177.2 | 184.2 |
| Domestic credit (variation from same quarter of preceding year) ^f | 8.4 | 13.9 | 11.9 | 11.7 | 11.0 | 10.9 | 16.9 | 17.8 | 19.3 | ... |
| Non-performing loans as a percentage of total credit ^g | 1.9 | 1.9 | 1.8 | 1.6 | 1.6 | 1.5 | 1.4 | 1.2 | 1.2 | 1.2 ^h |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1996 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e Non-readjustable 90-360 day operations. ^f Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^g Refers to total credit extended by the banking system. ^h Data for April.

Two sectors to perform particularly well in 2004 were agriculture, with growth of 10.3%, and manufacturing, both of which posted the highest rates of expansion for the last nine years. In another prominent development, the construction sector expanded by 5%—the highest rate since 1997— fuelled by infrastructure investment programmes and an upturn in the real estate segment. Manufacturing was up 6.9% in 2004, compared to 3.1% in 2003. The industrial production index was 10.2% higher than in 2003, and the supermarket sales index displayed a real variation of 7.6% in 2004 in relation to the previous year.

If the current international conditions continue and no major turnarounds occur, the Chilean economy should grow by around 6% in 2005. The main external source of difficulties could, potentially, be a correction of the

disequilibria in the United States economy, which would devalue the currency, push up interest rates and trigger fresh hikes in petroleum prices.

(b) Prices, wages and employment

Inflation came in at 2.4% in 2004, which was within the limits of the central bank's target range of 2% to 4%. Underlying inflation amounted to an average of 0.9%, and the wholesale price index showed an average increase of 2.5% in the 12 months up to December 2004, while the consumer price index rose by 2.9% in the 12 months ending in April 2005. Also in April, underlying inflation rose to 2.0% and wholesale price inflation, to 8.0%. The central bank has estimated that the inflation rate will be

2.8% in the 12 months up to December 2005, and will vary between 3% and 3.5% in the subsequent 12 months.

In 2004 real hourly wages increased by an average of 1.8% relative to 2003. Despite the upturn in economic activity, unemployment rose from 8.5% in 2003 to 8.8% in 2004, which kept it above the pre-1999 level. This reflected the fact that, in response to economic expansion, the labour force participation rate increased from 52.9% to 53.2% in the same period, thus outstripping the employment rate, which rose by only a tenth of a percentage point on average over the year.

Job creation picked up at the end of the year, bringing the employment rate up from 49.2% in the last quarter of 2003 to 50.0% in December 2004 and boosting the employed population by 3.3% over that period. The sectors with the highest rates of job creation were construction (10.7%), commerce (5.7%) and financial services (4.2%), contrasting with the transport sector, where this variable recorded a contraction.

The government in office has continued to support the most vulnerable sectors of the population through employment schemes and the *Chile Solidario* (Solidarity Chile) programme, and has systematically expanded the coverage of pre-school education in the last five years.

(c) The external sector

The value of goods exports showed an expansion of 48.8% in 2004, far outstripping of the 18.4% increase

seen in 2003. The current account recorded a surplus of US\$ 1.39 billion (1.5% of GDP) and the trade balance (f.o.b.) exceeded US\$ 8.4 billion. The value of exports expanded by 88.5% in the mining sector, by 25.9% in manufacturing and by 12.6% in agriculture, livestock, forestry and fishing. Imports grew 27.8%, with imports of fuels and lubricants rising 41.8%. Imports of capital goods rose 28.3% and consumer goods imports climbed 25.9%.

The merchandise trade surplus widened from US\$ 3.522 billion to US\$ 9.019 billion, but this was offset by a US\$ 8.1-billion deficit on the factor income account. The current account turned in a surplus of US\$ 1.39 billion and the balance of payments shows a deficit of US\$ 191 million (0.2% of GDP).

Growth in the value of exports accelerated in the early months of 2005, sharpening the steady uptrend carried over from 2004, chiefly because of rises in the prices of export products. In 2005 the merchandise trade balance is expected to differ little from the 2004 figure, at US\$ 9.3 billion, and the current-account balance should be equivalent to 0.7% of GDP.

International reserves increased from US\$ 15.851 billion in December 2003 to US\$ 16.016 billion the following December and US\$ 17,053,900,000 in April 2005.

External debt declined from 58.7% to 46.4% of GDP, partly thanks to the appreciation of the peso against the United States dollar, and the debt ratio of both public and private sectors decreased.

Colombia

1. General trends

In 2004 the Colombian economy turned in a real GDP growth rate of 4.1%, which was similar to the figure observed in 2003. Private investment and exports were the main drivers of growth. Both unemployment and inflation trended downwards and interest rates were low and steady. Market liquidity and credit availability were at acceptable levels. The peso rose in value in 2004 after having depreciated sharply between June 2002 and March 2003. Fiscal policy continued to dominate the agenda, while the balance on the public accounts improved. International conditions provided a boost to economic activity, thanks to growth in global demand, an upswing in the Bolivarian Republic of Venezuela, higher commodity prices and larger capital inflows.

The signs are that growth will continue at a similar rate in 2005. Investment will continue to climb rapidly, owing to an upturn in public works; consumption will rise thanks to positive developments in the labour market and the buoyancy

of activity in the coffee-growing areas; and inflation will continue to decline. The government projects a growth rate of 4.0%, a current-account deficit of 1.4% of GDP, a fiscal deficit of 2.5% and an inflation rate of 5%.

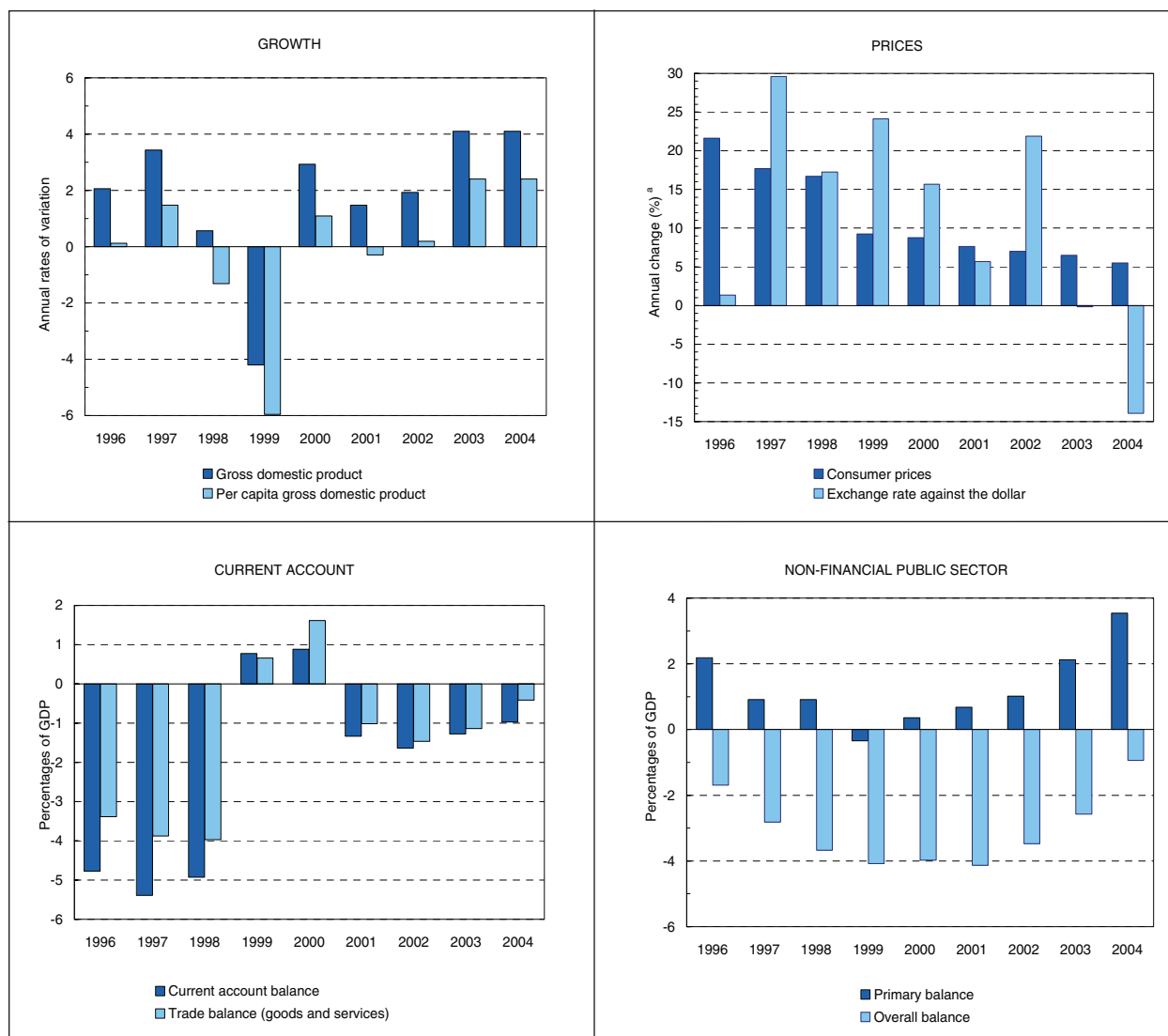
2. Economic policy

Economic policy has been geared towards boosting growth and reducing unemployment, while safeguarding the achievements with respect to macroeconomic stabilization. The good performance of inflation allowed the central bank to keep its benchmark interest rates low, which helped to fuel domestic demand. The central bank intervened in the foreign-exchange market in order to halt the appreciation of the peso and maintain export competitiveness. Colombia's high level of indebtedness means that the fiscal situation continues to be difficult, even though the country met its fiscal deficit targets comfortably.

(a) Fiscal policy

Fiscal affairs went favourably in 2004, on the back of the economy's good performance. The consolidated public sector deficit came in at 1.2% of GDP, lower than the target of 2.5% agreed upon with IMF. The central government's deficit was 5.6% of GDP and the decentralized sector returned a surplus of 4.2%, with this last result reflecting the departmental and municipal authorities' spending of a relatively small proportion of the resources budgeted, as well as the accumulation of resources in the Petroleum Stabilization Fund, thanks to the high price of petroleum.

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

The central government's deficit not only came in high, but is showing a tendency to increase, while expenditures continue to mount. Revenues represented 16% of GDP, which was one percentage point higher than in 2003. This rise was mainly a result of an increase in tax income, particularly receipts from domestic activity, with income tax being the main contributor in this category. Prominent on the spending side is growth in transfers and pensions, reflecting the structural problem in central

government's finances. The authorities made prepayments on costly external debt with a view to reducing future expenditure. In addition, Congress approved a pension system reform which eliminated special pension regimes and the system known as "mesada 14" (which provided two additional months of pension payments annually) for future pensioners; brought forward the entry into force of the 1993 law 100 provisions from 2014 to 2010; set a cap of 25 times the minimum wage on pensions; and prohibited

workers from securing better retirement conditions than the general regime through collective agreements. The fiscal impact of this reform is expected to represent a saving equivalent to 18% of GDP in 2005.

The government is expected to submit a fresh proposal on the basic budget law, which would be crucial to the achievement of the fiscal targets. Still to be considered are initiatives on reforms to the tax structure and to territorial transfers.

The net debt of the non-financial public sector amounted to 46.6% of GDP in December 2004, which was a lower figure than was recorded at the end of 2003 (51%). The government has been making efforts to swap net external for net domestic credit. The central government's debt came down from 54.7% of GDP in 2003 to 51.6% in 2004, with domestic debt representing 30.8% of GDP and external debt, 20.8%. The external component of public debt declined from 46% in 2003 to around 40% in 2004, with much of this drop being attributable to the appreciation of the Colombian peso.

IMF approved the government's macroeconomic programme and extended a new standby arrangement for 2005 and 2006, the main objectives of which are to reduce the fiscal deficit and bring down public debt. Colombia will have access to this credit in the event of difficulties in obtaining financing on international markets, but the authorities anticipate that, like in previous years, this will not be necessary.

According to government estimates, the consolidated public sector deficit will be equivalent to 2.5% of GDP in 2005; the decentralized sector's surplus, at 3.7%, will be smaller than in 2004 (4.2%); and the central government's deficit will be larger (6.1%, compared to 5.6% in 2004).

In the first quarter of 2005 the central government's deficit came in at 2.2% of GDP, thereby exceeding the figure seen in the same period of 2004 (1.7% of GDP), since growth of expenditure (22.8%) outpaced that of revenues (12%). Revenues increased by 3.6% of GDP, thanks to an expansion equivalent to 3.5% of GDP in tax receipts, especially from income and value added taxes. The rise in spending was accounted for by an increase of 41.4% in transfers, mainly for pension payments. Interest payments on the debt dropped by 8.2%, owing to the effect of exchange-rate appreciation on debt denominated in United States dollars.

(b) Monetary policy

The inflation trends both observed and projected in 2004 allowed the central bank to adopt a looser monetary stance. As a result, deposit and lending rates alike dropped in nominal terms. The benchmark rate decreased from

7.25% to 6.5% in 2004, following a drop of 50 basis points in the first quarter and a further 25-point dip in December. Real interest rates remained low in comparison with previous years. The real rate on deposits was 2.2% (12-month average) and the real lending rate amounted to 9.1%. The drop in interest rates on securities was a feature of the domestic public debt market throughout 2004.

M1 liquidity grew at a much faster rate than GDP, at an average annual rate of 15%, which was 1.6 percentage points lower than in 2003. Broad money (M3) expanded by 13%, exceeding the rate of 10.4% posted in 2003. The financial sector achieved faster growth and a better quality of loan portfolios, especially in business and consumer lending.

Annual growth in monetary aggregates picked up between December 2004 and June 2005. The rate of expansion of M1 increased from 16.8% to 17.4%, thanks to an increase in current accounts and cash; the rate for M3, meanwhile, rose from 16% to 18.5%.

The nominal deposit rate came down from 7.8% at the end of 2004 to 7.2% (representing a real rate of 2.2%) in May 2005, and the lending rate held steady at 15% (or a real rate of 9.5%). Consumer loans and micro-credit expanded strongly, by 31% and 53%, respectively.

(c) Exchange-rate policy

The Colombian peso appreciated in 2004, mainly because of an increase in net capital inflows (in the form of foreign direct investment and asset movements); an upturn in terms of trade; a rise in the volumes and values of exports; and higher remittances. In the course of the year the peso's average nominal exchange rate against the dollar decreased by 8.7% with respect to 2003. The real exchange rate index declined 10.5%, even though the monetary authorities took measures to slow the peso's appreciation. As part of this effort, they stepped up their purchases of foreign currency in the domestic market; slowed the rate of monetization of resources from external credit; required banks to provide more backing in dollars for their liabilities in that currency; lowered the cap on the permissible physical transport of dollars; suspended the purchase of notes from intermediaries in the foreign-exchange market and lowered the benchmark interest rate by 75 basis points.

In 2005 the central bank has continued to purchase dollars on a discretionary basis, in order to control the decline of the exchange rate. In June the exchange-rate regime was simplified and the liquidity supply made more transparent. In the first semester of 2005 the nominal exchange rate was about 2,350 pesos per dollar, which represented a 3% appreciation in the local currency with respect to December.

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Gross domestic product | 2.1 | 3.4 | 0.6 | -4.2 | 2.9 | 1.5 | 1.9 | 4.1 | 4.1 |
| Per capita gross domestic product | 0.1 | 1.5 | -1.3 | -6.0 | 1.1 | -0.3 | 0.2 | 2.4 | 2.4 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -1.2 | 0.7 | 0.0 | 0.0 | 3.9 | -0.4 | 0.0 | 3.2 | 2.6 |
| Mining | 7.3 | 3.7 | 15.6 | 18.5 | -10.3 | -6.1 | -2.4 | 13.3 | 2.9 |
| Manufacturing | -1.9 | 0.4 | -0.3 | -8.4 | 11.7 | 1.5 | 1.2 | 4.2 | 4.8 |
| Electricity, gas and water | 4.9 | 1.0 | 1.8 | -4.2 | 0.9 | 3.0 | 2.3 | 3.7 | 3.0 |
| Construction | -12.9 | 2.2 | -7.2 | -27.0 | -3.9 | 3.9 | 12.5 | 13.4 | 9.7 |
| Wholesale and retail commerce, restaurants and hotels | -0.3 | 1.8 | -1.5 | -15.7 | 7.5 | 2.9 | 2.0 | 5.8 | 5.9 |
| Transport, storage and communications | 3.8 | 5.8 | 2.5 | -1.9 | 1.5 | 4.0 | 2.5 | 4.3 | 5.1 |
| Financial institutions, insurance, real estate and business services | 5.2 | 4.9 | -1.3 | -4.9 | -1.0 | 2.2 | 2.4 | 4.6 | 4.3 |
| Community, social and personal services | 16.2 | 7.2 | 1.8 | 3.3 | 0.6 | 0.7 | 0.2 | 0.8 | 2.8 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 5.2 | 5.3 | -0.1 | -3.2 | 1.4 | 2.3 | 2.3 | 2.0 | 3.7 |
| General government | 23.9 | 15.8 | 2.1 | 3.6 | -0.3 | 3.9 | 0.2 | 4.8 | 3.3 |
| Private | 1.0 | 2.4 | -0.8 | -5.4 | 2.0 | 1.7 | 3.0 | 1.2 | 3.9 |
| Gross domestic investment | -12.0 | -0.6 | -6.3 | -38.7 | 12.3 | 1.9 | 9.9 | 23.6 | 12.4 |
| Exports (goods and services) | 9.6 | 3.2 | 7.4 | 5.9 | 6.1 | 2.4 | -6.1 | 3.5 | 10.2 |
| Imports (goods and services) | 2.3 | 6.2 | -3.9 | -24.7 | 6.0 | 6.8 | 1.1 | 9.7 | 16.7 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving^c | | | | | | | | | |
| Gross domestic investment | 22.2 | 20.9 | 19.7 | 12.9 | 13.7 | 14.3 | 15.4 | 18.2 | 18.8 |
| National saving | 17.4 | 15.5 | 14.8 | 13.7 | 14.6 | 12.9 | 13.8 | 17.0 | 17.7 |
| External saving | 4.8 | 5.4 | 4.9 | -0.8 | -0.9 | 1.3 | 1.6 | 1.3 | 1.1 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -4 641 | -5 751 | -4 857 | 671 | 740 | -1 094 | -1 340 | -1 021 | -952 |
| Merchandise trade balance | -2 092 | -2 638 | -2 450 | 1 775 | 2 633 | 579 | 239 | 524 | 1 368 |
| Exports, f.o.b. | 10 966 | 12 065 | 11 480 | 12 037 | 13 722 | 12 848 | 12 316 | 13 782 | 17 246 |
| Imports, f.o.b. | 13 058 | 14 703 | 13 930 | 10 262 | 11 090 | 12 269 | 12 077 | 13 258 | 15 878 |
| Services trade balance | -1 193 | -1 500 | -1 461 | -1 203 | -1 279 | -1 412 | -1 435 | -1 433 | -1 773 |
| Income balance | -2 062 | -2 326 | -1 697 | -1 355 | -2 286 | -2 615 | -2 848 | -3 446 | -4 193 |
| Net current transfers | 706 | 713 | 750 | 1 455 | 1 673 | 2 354 | 2 704 | 3 334 | 3 647 |
| Capital and financial balance ^d | 6 370 | 6 028 | 3 460 | -983 | 121 | 2 311 | 1 479 | 837 | 3 493 |
| Net foreign direct investment | 2 784 | 4 753 | 2 033 | 1 392 | 2 069 | 2 509 | 1 258 | 855 | 2 862 |
| Financial capital ^e | 3 587 | 1 276 | 1 427 | -2 376 | -1 948 | -198 | 221 | -18 | 631 |
| Overall balance | 1 729 | 278 | -1 398 | -312 | 862 | 1 217 | 138 | -184 | 2 541 |
| Variation in reserve assets ^f | -1 729 | -278 | 1 398 | 312 | -862 | -1 217 | -138 | 184 | -2 541 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^g | 83.6 | 78.0 | 83.1 | 91.4 | 100.0 | 104.0 | 105.3 | 119.3 | 108.5 |
| Terms of trade for goods (index: 2000=100) | 84.3 | 93.3 | 81.2 | 87.2 | 100.0 | 94.2 | 92.5 | 95.2 | 108.5 |
| Net resource transfer (percentage of GDP) | 4.4 | 3.5 | 1.8 | -2.7 | -2.6 | -0.4 | -1.7 | -3.3 | -0.7 |
| Total gross external debt (millions of dollars) | 31 114 | 34 409 | 36 681 | 36 733 | 36 130 | 39 109 | 37 336 | 38 066 | 39 561 |
| Total gross external debt (percentage of GDP) | 32.0 | 32.3 | 37.2 | 42.6 | 43.1 | 47.7 | 45.7 | 47.5 | 40.5 |
| Net profits and interest (percentage of exports) ^h | 4.9 | 4.0 | -0.2 | -2.1 | 4.2 | 6.2 | 7.4 | 10.0 | 12.0 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ⁱ | 59.7 | 59.9 | 62.2 | 63.1 | 63.5 | 64.2 | 64.2 | 64.5 | 62.9 |
| Open unemployment rate ^{j,k} | 11.2 | 12.4 | 15.3 | 19.4 | 17.2 | 18.2 | 17.6 | 16.7 | 15.4 |
| Visible underemployment rate ^l | ... | ... | ... | ... | 11.7 | 13.4 | 14.0 | 12.7 | 12.9 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|---|------|------|------|------|------|------|------|------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 21.6 | 17.7 | 16.7 | 9.2 | 8.8 | 7.6 | 7.0 | 6.5 | 5.5 |
| Variation in producer prices (December-December) | 14.5 | 17.5 | 13.5 | 12.7 | 11.0 | 6.9 | 9.3 | 5.7 | 4.6 |
| Variation in nominal exchange rate (December-December) | 1.4 | 29.6 | 17.3 | 24.1 | 15.7 | 5.7 | 21.9 | -0.2 | -13.9 |
| Variation in average real wage | 2.3 | 4.1 | 0.2 | 4.4 | 3.9 | -0.3 | 2.8 | -0.1 | 1.0 |
| Nominal deposit rate ^l | ... | 23.8 | 31.7 | 20.8 | 11.9 | 12.3 | 8.9 | 7.7 | 7.7 |
| Nominal lending rate ^m | ... | ... | 44.5 | 29.4 | 18.8 | 20.7 | 16.3 | 15.2 | 15.1 |
| Percentages of GDP | | | | | | | | | |
| Non-financial public sector | | | | | | | | | |
| Current income | 28.7 | 28.8 | 28.3 | 32.9 | 33.2 | 35.1 | 34.5 | 35.2 | 37.3 |
| Current expenditure | 21.5 | 22.5 | 24.8 | 29.6 | 29.4 | 30.6 | 29.8 | 29.8 | 30.6 |
| Current balance | 7.2 | 6.2 | 3.5 | 3.3 | 3.9 | 4.4 | 4.7 | 5.3 | 6.6 |
| Net capital expenditure | 8.8 | 9.0 | 7.2 | 7.4 | 7.7 | 8.5 | 8.1 | 7.9 | 7.7 |
| Primary balance | 2.2 | 0.9 | 0.9 | -0.3 | 0.4 | 0.7 | 1.0 | 2.1 | 3.5 |
| Overall balance | -1.7 | -2.8 | -3.7 | -4.1 | -4.0 | -4.1 | -3.5 | -2.6 | -0.9 |
| Public debt of consolidated NFPS | 29.7 | 34.6 | 39.1 | 50.1 | 57.2 | 58.7 | 71.1 | 67.5 | 62.5 |
| Domestic | 16.9 | 20.2 | 22.1 | 28.4 | 33.6 | 35.8 | 40.8 | 38.8 | 38.9 |
| External | 12.8 | 14.5 | 17.0 | 21.7 | 23.5 | 22.9 | 30.3 | 28.7 | 23.6 |
| Interest payments (percentage of current income) | 13.5 | 12.9 | 16.2 | 11.3 | 13.0 | 13.7 | 13.0 | 13.4 | 12.0 |
| Money and credit ⁿ | | | | | | | | | |
| Domestic credit ^o | 19.2 | 20.8 | 24.6 | 26.5 | 23.5 | 25.4 | 27.2 | 27.3 | 27.6 |
| To the public sector | 2.6 | 3.3 | 3.8 | 5.3 | 5.4 | 7.0 | 8.2 | 8.8 | 9.3 |
| To the private sector | 16.5 | 17.5 | 20.7 | 21.2 | 18.1 | 18.4 | 19.0 | 18.6 | 18.2 |
| Liquidity (M3) | 35.1 | 36.9 | 38.6 | 38.0 | 34.0 | 33.8 | 33.7 | 33.3 | 33.9 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Annual average, weighted by the value of merchandise exports and imports. ^h Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ⁱ Economically active population as a percentage of the working-age population, thirteen cities; up to 1999, seven cities. ^j Unemployment and underemployment rates as percentages of the economically active population, thirteen cities; up to 1999, seven cities. ^k Includes hidden unemployment. ^l 90-day fixed-term certificates of deposit for banks and corporations. ^m Actual total system-wide rate. ⁿ The monetary figures are annual averages. ^o Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

(d) Trade policy

In 2004 the Andean Community and the MERCOSUR countries concluded negotiations on a free trade agreement, which came into effect in February 2005. In May 2004 negotiations began on a free trade agreement encompassing Colombia, Ecuador, Peru and the United States. Up until June 2005, 10 rounds of talks had been held, with the discussions due to conclude in the middle of the second semester. The outcomes are expected to be submitted to the respective national congresses for

approval with a view to entry into force in January 2007. The most controversial issues have revolved around agricultural goods (maize, rice, beans, cereals and poultry) and intellectual property, especially as regards access to medicines. With regard to industrial goods, the authorities hope to consolidate and extend preferences in the framework of the Andean Trade Promotion and Drug Eradication Act (ATPDEA), eliminate tariff and technical barriers in order to secure genuine access to markets and agree on rules of origin that would broaden the export supply.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|--------|--------|--------|-------------------|--------|--------|--------|-------------------|-------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 4.5 | 2.5 | 4.5 | 5.0 | 4.0 | 4.9 | 3.1 | 4.5 | 3.6 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 2 991 | 3 278 | 3 439 | 3 420 | 3 406 | 2 756 | 4 568 | 4 733 | 4 604 | ... |
| Merchandise imports, c.i. f. (millions of dollars) | 3 331 | 3 306 | 3 611 | 3 642 | 3 598 | 2 728 | 4 260 | 4 803 | 4 560 | ... |
| International reserves (millions of dollars) | 10 616 | 10 500 | 10 863 | 10 916 | 11 330 | 11 588 | 12 115 | 13 536 | 12 780 | ... |
| Real effective exchange rate (index: 2000=100) ^c | 121.3 | 118.6 | 118.1 | 119.1 | 112.5 | 109.5 | 106.6 | 105.4 | 98.4 | 97.3 ^d |
| Unemployment rate | 17.9 | 17.2 | 17.0 | 14.7 | 17.1 | 15.8 | 15.1 | 13.7 | 15.5 | ... |
| Consumer prices (12-month percentage variation) | 7.6 | 7.2 | 7.1 | 6.5 | 5.5 | 6.1 | 5.9 | 5.5 | 5.0 | 4.8 |
| Average nominal exchange rate (pesos per dollar) | 2 941 | 2 871 | 2 855 | 2 843 | 2 713 | 2 691 | 2 602 | 2 509 | 2 354 | 2 340 |
| Average real wage (variation from same quarter of preceding year) | 0.7 | -1.1 | -0.5 | 0.9 | 1.0 | 1.3 | 1.3 | 0.5 | 0.8 | ... |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 7.7 | 7.7 | 7.7 | 7.8 | 7.8 | 7.7 | 7.7 | 7.6 | 7.4 | 7.1 |
| Lending rate ^f | 14.9 | 15.2 | 15.2 | 15.4 | 15.1 | 15.2 | 15.0 | 15.0 | 15.1 | 14.8 |
| Interbank interest rate ^g | 6.1 | 7.0 | 7.3 | 7.3 | 7.1 | 6.8 | 6.8 | 6.8 | 6.6 | 6.5 |
| Sovereign bond spread (basis points) | 602 | 451 | 478 | 431 | 379 | 486 | 408 | ... | ... | ... |
| Stock price index (in dollars, December 2000=100) | 134 | 156 | 152 | 175 | 252 | 234 | 278 | 376 | 403 | 495 |
| Domestic credit (variation from same quarter of preceding year) ^h | 16.1 | 8.3 | 4.8 | 10.0 | 12.0 | 13.7 | 15.4 | 16.0 | 13.6 | ... |
| Non-performing loans as a percentage of total credit ⁱ | 8.6 | 8.1 | 7.9 | 6.8 | 6.7 | 5.4 | 4.4 | 3.3 | 3.5 | 3.5 ^d |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e 90-day fixed-term certificates of deposit for banks and corporations. ^f Actual total system-wide rate. ^g Reverse repo rate. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Refers to total credit extended by the banking system.

3. The main variables

(a) Economic activity

Private investment and exports were the main drivers of the 4.1% economic growth rate.¹ Private consumption continued to increase at a rate slightly below GDP, reflecting mainly consumption of durable goods fuelled by the appreciation of the peso and low rates of interest in the domestic market. The expansion took place across the board, with the upturn particularly strong in construction

(9.7%), commerce (5.9%), transport (5.1%), manufacturing (4.8%) and the financial sector (4.3%).

In the first quarter of 2005 the Colombian economy expanded by 3.6%, which represents a slight slowdown with respect to the annual rate of 4.0% posted in the first quarter of 2004. The fastest-growing sectors were construction (10.6%), mainly thanks to an upturn in public works (43.6%), commerce (7.3%) and mining (5.1%). Manufacturing and the financial sector contracted

¹ Factoring the illegal-crop eradication scheme out of aggregate production gives a growth rate of 4.2%.

by 1% and 2.7%, respectively. Investment continued to climb; household consumption slowed and public consumption went up. Import growth outpaced that of exports. The second quarter data available point to an upturn in manufacturing in April and positive indicators for energy demand. A surge in imports could undermine output growth, however.

(b) Prices, wages and employment

Inflation eased down once again in 2004; at the year's end the consumer price index had risen 5.5%, thus remaining within the target range. Except for a few short-lived upsurges associated with sharp rises in food prices, consumer inflation trended downwards throughout the year, thanks to positive developments in tradable goods prices which were attributable, in turn, to exchange-rate appreciation. For 2005 the central bank set a range of 4.5% to 5.5% as the annual inflation target.

Overall inflation dropped to 4.8% in the first semester of 2005. The basic inflation rate, from which food is the most notable exclusion, trended downwards in response to the decrease in the exchange rate, though the drop in the prices of non-tradable goods also contributed. Food prices rose, although this did not put strong pressure on inflation.

Producer prices rose 4.6% in 2004, which represented a slowdown with respect to 2003 (5.7%). The downtrend steepened in the first semester of 2005 and the index shows a rise of only 2.7% in 12 months.

Urban unemployment remained high in 2004 (15.4% in 13 cities), although it came down from the rate of 16.7% registered in 2003. This drop is attributable mainly to a contraction in labour force participation, which decreased from 64.5% in 2003 to 62.9% in 2004. A worrying development was the drop in the employment rate, from 53.8% to 53.2%. Conversely, the decline in underemployment (from 32.0% to 30.9%) was a positive factor. Nationwide, the reduction in unemployment was smaller (from 14.2% to 13.6%). The nationwide employment rate also declined, from 53.3% to 52.5%, and the labour force participation rate decreased from 62.1% to 60.8%, while underemployment remained broadly stable (at 31.6%, compared with 31.9%).

The results recorded in the first five months of 2005 were positive. Urban unemployment continued to decline, from 16.6% to 15.1% (in 13 cities), and the employment rate appeared to be recovering, up from 52.5% to 52.8%. Underemployment was unchanged at 30.1%. The figures for the national level show a larger decrease in unemployment (from 14.9% to 13.0%) and a drop in both employment and underemployment rates, from 52.2% to 51.8% and from 31.7% to 30.8%, respectively.

The monthly minimum wage (equivalent to US\$ 136) reflected a real increase of 1.8% in 2004. The real wages of industrial workers rose 2.5% and those of manual labourers and technical workers, 1.1%.

(c) The external sector

Exports picked up in 2004, thanks to high commodity prices and growth in world demand, with the recovery in Bolivarian Republic of Venezuela contributing strongly. Exports rose 26%, as both traditional and non-traditional exports performed well. The United States continued to be the main destination for Colombia's exports (39% of total exports), followed by the countries of the Andean Community (19%), principally the Bolivarian Republic of Venezuela (10%).

Traditional exports benefited from the increase in international prices. The output of the segments exporting hydrocarbons, coal, coffee and ferronickel increased, even though the export volumes of these products declined. Non-traditional exports were very buoyant, especially machinery and equipment (consisting mainly of transport materials), textiles and clothing, and chemicals.

Imports increased significantly, fuelled by the low price of the United States dollar and tax incentives to invest in machinery and equipment. Total imports expanded by 21%, led by imports of raw materials and intermediate and capital goods for industry (26% and 17%, respectively). Imports of consumer goods increased by 18%, particularly durable goods (28%).

Exports picked up by 36% in the first four months of 2005, thanks to a strong boost from traditional exports (43%), while non-traditional exports kept up their good performance (29%). Meanwhile, imports increased 29%, led by capital goods, raw materials and intermediate goods for industry. Imports of consumer goods continued to increase (29%), with an upturn in imports of non-durables.

In 2004, the balance of payments posted a current-account deficit of US\$ 952 million, or 1.0% of GDP, with net capital inflows of US\$ 3.493 billion and an increase in gross reserves of US\$ 2.541 billion. In December the reserve stock amounted to US\$ 13.536 billion, or the equivalent of 8.2 months of imports of goods and services.

Merchandise trade turned in a surplus of US\$ 1.368 billion, which exceeded the 2003 surplus by US\$ 844 million. The deficits on the non-factor services and factor income accounts were partly offset by the increase in net transfers, consisting mainly of workers' remittances, which rose by 9% and amounted to US\$ 3.647 billion.

The capital and financial account recorded a large inflow of resources, as a result of a strong increase in net foreign direct investment, which stood at US\$ 2.862 billion in 2004 and was 235% higher than the year before,

mainly thanks to investments in mining and petroleum. Short-term financial flows to the private sector also increased in volume.

In the first quarter of 2005 the balance-of-payments current account returned a deficit of US\$ 517 million (1.8% of quarterly GDP) and the capital account, a deficit of US\$ 227 million (0.8% of quarterly GDP), while the balance on the errors and omissions account rose to US\$ 151 million. The overall balance showed a decline of US\$ 593 million in gross international reserves, which reflected the transfer to the government of central bank

profits and proceeds from foreign-currency sales to prepay external debt.

External debt dropped from 47.5% of GDP in 2003 to 40.5% in 2004. Of this total, external borrowing by the private sector decreased from 16.9% to 14.2% of GDP and by the public sector, from 30.7% to 26.5% of GDP. Colombia's external debt stock represented 33.5% of GDP in February 2005, compared with 39.3% in the same month of 2004. Of this, private debt represented 11.7% of GDP and public debt, 21.8%, with this positive outcome being largely attributable to the drop in the exchange rate.

Ecuador

1. General trends

In 2004, Ecuador recorded its highest growth in a decade, at 6.9%. GDP growth of 3% is forecast for 2005, however, with the slowdown attributable to the disappearance of the impetus provided by the heavy crude pipeline that came on stream in the third quarter of 2003.

Notwithstanding GDP growth in 2004, unemployment increased. Job creation is expected to remain weak in 2005.

Although the fiscal situation is under control, thanks mainly to surging revenues from petroleum, the government has little political leeway for carrying out a number of essential economic reforms (particularly in electricity, hydrocarbons and social security) which are crucial for ensuring the country's future growth and have yet to be implemented.

In 2004, the banking sector started to use a larger proportion of its rising deposit takings to extend loans,

especially consumer credit. This expansion is expected to continue into 2005, though possibly at a slower rate.

The external sector was very dynamic in 2004, thanks to a sharp increase in the volume and value of crude petroleum exports, together with significant (albeit smaller) rises in imports. The merchandise trade balance was positive and contributed to the first current account surplus since 2000. Migrant remittances expanded more moderately than in 2003, but even so totalled US\$ 1.604 billion (5.3% of GDP) in 2004, thus representing a source of income whose magnitude virtually rivaled that of all the country's traditional non-petroleum exports combined.¹

2. Economic policy

The stand-by agreement signed with the International Monetary Fund (IMF) was not renewed when it expired in April 2004.

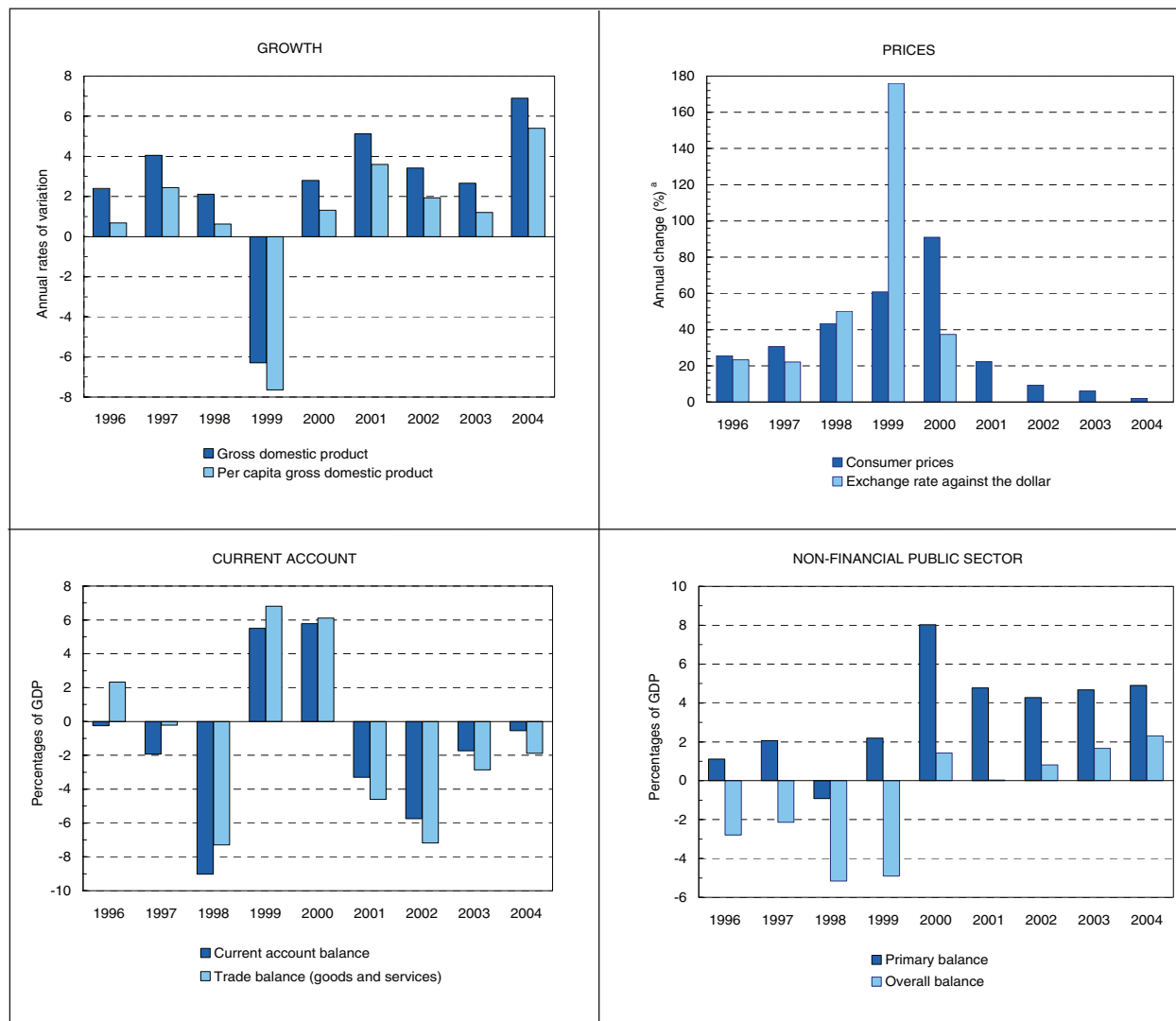
In July 2004, Congress upped the pensions paid by the Ecuadorian Social Security Institute (IESS), with this increase to be paid by the central government.² In March 2005, the executive branch sent to Congress a bill for economic rationalization of the State, better known as the "*Ley Topo*", which sought to modify legislation in several areas, including hydrocarbons, social security and the electricity sector. In the case of hydrocarbons, the proposal was to allow contracts for works, goods or

services to be signed between the State-owned Petroleum Corporation of Ecuador (Petroecuador) and the private sector at all stages of the oil industry, including work in fields operated by Petroecuador. In social security, a number of reforms were proposed with a view to establishing a mixed social security system. Under the proposed changes in the electricity sector, the government would be authorized to subsidize electricity consumption, but with the overall aim of making distributors more efficient. The State would be responsible for the difference between charges to consumers and the (higher) real costs of that energy (including generation, transmission and distribution)

¹ Traditional non-petroleum exports are banana and plantain, coffee and related products, shrimp, cocoa and related products, tuna and unprocessed fish.

² IESS had already increased pensions in 2004 following an actuarial study.

Figure 1
ECUADOR: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

between April 1999 and December 2004, with an issue of public bonds proposed to cover those costs. Congress rejected the *Ley Topo*, however.

(a) Fiscal policy

In 2004, the primary surplus of the non-financial public sector (NFPS) was equivalent to 4.9% of GDP, while the overall surplus amounted to 2.3% of GDP. This was a

slight improvement with respect to 2003. Conversely, the central government recorded a deterioration in its fiscal accounts. The primary surplus diminished from 2.6% to 1.6% of GDP, while the overall deficit increased from 0.4% to 1.1% of GDP. For 2005, the primary surplus and the total NFPS surplus are projected to reach 4.8% and 2.2%, respectively, while the central government is expected to return a primary surplus of 0.9% of GDP and a global deficit of 1.8%.³

³ If the government secures approval for its proposal to include the resources of the Fund for Stabilization, Social and Productive Investment and Reduction of Public Debt (FEIREP) in the budget, then the primary surplus will be 2.6% of GDP and the central government's overall deficit, 0.1% of GDP.

NFPS spending increased by 13.4% in 2004, with the main items contributing to this increase being salaries and social security transfers. These same items account for 80% of the expansion in central government spending: salaries increased by 9.9% in nominal terms (coming to represent 37.3% of total central government spending or 6.8% of GDP) and current transfers expanded by 42.2%, owing to pension increases in 2004. NFPS revenue was up by 18% in 2004, driven especially by revenue from petroleum exports. Revenues from import duties and income tax also showed strong gains, up by 18.6% and 19.6%, respectively. Domestic sales of hydrocarbon derivatives (such as liquefied petroleum gas) brought in notably low receipts in the first quarter of 2005, since they were sold at less than the import price.

The central government borrowing requirements in 2005, especially for short-term debt repayments, were covered by domestic debt issues, for which the largest purchaser, as in 2004, was the Ecuadorian Social Security Institute. The central government's domestic debt rose by US\$ 472.9 million in 2004 and represented 11.5% of GDP in December 2004, while external public debt (including the central bank) fell by US\$ 431.6 million to stand at 36.5% of GDP. In the first five months of 2005, domestic debt was up by US\$ 365.3 million with respect to December 2004.

Large public investment projects planned for 2005 include two irrigation projects (one in Manabí and the other in the south of the country), the construction of a bridge and work on the Amazon Highway.

Following the departure of President Lucio Gutiérrez in April 2005 and his replacement by the Vice President, the new government submitted to Congress a proposed reform to the Organic Law on Responsibility, Stabilization and Fiscal Transparency. The proposal was, first, to maintain the current cap of a real annual 3.5% on increases in budgeted expenditures only for salaries and central government current transfers. Second, it proposed to bring the entire Fund for Stabilization, Social and Productive Investment and Reduction of Public Debt (FEIREP) into the budget, and to shift the allocation of these funds to other areas of expenditure. In 2004, the government used FEIREP essentially to buy back domestic debt (US\$ 381 million) and to compensate for the decline in fiscal revenue caused by domestic sales of hydrocarbon derivatives. By mid-June 2005, FEIREP had built up some US\$ 460.6 million.

(b) Monetary policy

The benchmark lending rate fell, with some fluctuation, from 11.2% in December 2003 to 8% in December 2004, but rose again to 9.4% in June 2005. This last rise was directly related to the political commotion that led to

the departure of President Gutiérrez in May 2005. The benchmark deposit rate, in contrast, declined throughout the period, falling to 3.6% in May 2005. It should be noted that interest rates in Ecuador are less and less a measure of the real cost of credit to the debtor, given the growing significance of banks' income from commissions. Unlike interest rates, such commissions are not subject to a legal maximum. The Superintendency of Banks therefore issued a series of regulations in April 2005, in order to make bank commissions more transparent.

The balances of open private banks show strong growth in their assets and liabilities in 2004 (20.5% between December 2003 and December 2004). This rate of growth slowed somewhat in the first five months of 2005, but continued to be high.

After fluctuating in 2004, bank liquidity in cash and deposits represented 19.7% of assets in December. Since then, this liquidity has contracted sharply and in May 2005 stood at 14.2%, reflecting a decrease in deposits held abroad. Foreign securities accounted for 12.1% of assets in May 2005. Thus, in April 2005, highly liquid assets with a low average return amounted to US\$ 2.471 billion (26.3%) of the banking sector's assets, of which US\$ 1.944 billion (20.7% of assets) were held abroad. The strong preference for keeping liquidity abroad was due in part to the absence of a lender of last resort; it also appeared to indicate the sector's inclination to keep a foreign-currency-denominated "insurance fund" outside the country.

In 2004 and early 2005, bank lending to businesses varied from 28% to 29% of total assets, growing at a slightly lower rate than the sector's overall holdings. Consumer loans increased by a nominal 63.5% during this period, rising from 19.5% of assets in December 2003 to 21.2% in May 2005. On the supply side, this increase was due to the growing availability of bank funds for loans, the high returns on consumer lending in comparison with other credit alternatives and low rates of arrears. On the demand side, the expansion was attributable to economic growth driven by oil and services, combined with lower rates of interest.

(c) Other policies

Ecuador's real effective exchange rate showed a 7.4% year-on-year depreciation in December 2004. Around half of this real depreciation was attributable to the real appreciation of the euro and the Colombian peso against the United States dollar; most of the rest was associated with real appreciations in the currencies of Peru, Brazil and the Republic of Korea with respect to the dollar, as well as a drop in inflation to below the United States rate. In the first five months of 2005, the real effective exchange rate varied very little.

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Gross domestic product | 2.4 | 4.1 | 2.1 | -6.3 | 2.8 | 5.1 | 3.4 | 2.7 | 6.9 |
| Per capita gross domestic product | 0.7 | 2.4 | 0.6 | -7.6 | 1.3 | 3.6 | 1.9 | 1.2 | 5.4 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 7.6 | 10.0 | -3.0 | 9.1 | -0.1 | 0.7 | 7.2 | 1.5 | 0.7 |
| Mining | 0.8 | -1.9 | -1.6 | 1.4 | 8.0 | 1.7 | -3.5 | 6.5 | 25.0 |
| Manufacturing | -2.8 | 8.5 | 8.3 | -23.5 | -32.4 | 20.8 | -0.3 | 9.2 | -3.2 |
| Electricity, gas and water | 11.9 | 6.8 | 8.5 | 23.0 | 2.6 | 4.6 | 2.4 | -3.0 | 5.0 |
| Construction | 1.3 | 2.7 | -0.2 | -24.9 | 18.3 | 4.0 | 14.7 | 0.5 | 1.2 |
| Wholesale and retail commerce, restaurants and hotels | 5.2 | 4.4 | 1.1 | -11.3 | 3.8 | 4.3 | 3.7 | 1.8 | 3.2 |
| Transport, storage and communications | 3.2 | 8.2 | 9.4 | -0.3 | 7.7 | 1.7 | 1.3 | 1.3 | 3.5 |
| Financial institutions, insurance, real estate and business services | 6.7 | 1.6 | -5.0 | -20.6 | 2.3 | 15.0 | 2.7 | 3.6 | 1.7 |
| Community, social and personal services | 1.1 | 3.4 | 5.1 | -1.3 | 5.8 | 1.6 | 1.3 | 0.0 | 1.4 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 0.4 | 4.3 | 3.6 | -6.8 | 3.9 | 4.8 | 4.6 | 2.5 | 4.2 |
| General government | -5.2 | 4.7 | -2.2 | -5.5 | 4.7 | 0.5 | 3.2 | 1.1 | 2.0 |
| Private | 1.4 | 4.2 | 4.5 | -7.0 | 3.8 | 5.4 | 4.8 | 2.7 | 4.6 |
| Gross domestic investment | -8.8 | 12.6 | 14.2 | -49.4 | 29.0 | 36.8 | 21.8 | 0.2 | 5.1 |
| Exports (goods and services) | 2.4 | 7.8 | -5.1 | 7.8 | -1.0 | -1.3 | 0.9 | 3.2 | 15.1 |
| Imports (goods and services) | -10.2 | 15.4 | 7.0 | -29.5 | 15.8 | 17.2 | 17.2 | 0.8 | 8.4 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving^c | | | | | | | | | |
| Gross domestic investment | 19.7 | 21.5 | 25.3 | 14.7 | 20.1 | 25.7 | 27.7 | 27.7 | 27.2 |
| National saving | 19.4 | 19.5 | 16.2 | 20.2 | 25.9 | 22.4 | 22.1 | 26.0 | 26.9 |
| External saving | 0.3 | 1.9 | 9.0 | -5.5 | -5.8 | 3.3 | 5.6 | 1.7 | 0.4 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -55 | -457 | -2 099 | 918 | 921 | -695 | -1 398 | -472 | -166 |
| Merchandise trade balance | 921 | 491 | -1 132 | 1 588 | 1 395 | -397 | -998 | -71 | 321 |
| Exports, f.o.b. | 4 929 | 5 360 | 4 326 | 4 615 | 5 137 | 4 781 | 5 198 | 6 197 | 7 813 |
| Imports, f.o.b. | 4 008 | 4 869 | 5 458 | 3 028 | 3 743 | 5 179 | 6 196 | 6 268 | 7 492 |
| Services trade balance | -427 | -543 | -563 | -451 | -420 | -572 | -748 | -708 | -888 |
| Income balance | -1 040 | -1 026 | -1 171 | -1 308 | -1 405 | -1 364 | -1 305 | -1 464 | -1 493 |
| Net current transfers | 492 | 621 | 767 | 1 090 | 1 352 | 1 639 | 1 652 | 1 772 | 1 894 |
| Capital and financial balance ^d | -71 | -65 | 1 314 | -1 862 | -6 618 | 436 | 1 275 | 591 | 447 |
| Net foreign direct investment | 500 | 724 | 870 | 648 | 720 | 1 330 | 1 275 | 1 555 | 1 160 |
| Financial capital ^e | -571 | -789 | 444 | -2 511 | -7 338 | -894 | 0 | -964 | -713 |
| Overall balance | -126 | -521 | -784 | -944 | -5 697 | -258 | -123 | 119 | 281 |
| Variation in reserve assets ^f | -247 | -253 | 461 | 489 | -307 | 106 | 66 | -152 | -277 |
| Other financing ^g | 373 | 774 | 324 | 455 | 6 004 | 152 | 58 | 33 | -4 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 68.3 | 65.8 | 65.0 | 88.8 | 100.0 | 71.4 | 62.6 | 61.1 | 63.7 |
| Terms of trade for goods (index: 2000=100) | 80.5 | 89.1 | 75.8 | 89.1 | 100.0 | 84.6 | 86.8 | 89.8 | 91.5 |
| Net resource transfer (percentage of GDP) | -3.5 | -1.3 | 2.0 | -16.3 | -12.7 | -3.7 | 0.1 | -3.1 | -3.5 |
| Total gross external debt (millions of dollars) | 14 586 | 15 099 | 16 400 | 16 282 | 13 565 | 14 411 | 16 287 | 16 595 | 17 010 |
| Total gross external debt (percentage of GDP) | 68.6 | 63.9 | 70.5 | 97.6 | 85.1 | 68.5 | 67.0 | 61.0 | 56.2 |
| Net profits and interest (percentage of exports) ⁱ | 3.4 | 3.2 | 4.6 | 4.7 | 4.7 | 5.9 | 5.0 | 5.2 | 4.6 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^j | 55.8 | 57.3 | 58.4 | 60.0 | 56.8 | 55.6 | 54.1 | 53.8 | 55.8 |
| Open unemployment rate ^k | 10.4 | 9.3 | 11.5 | 15.1 | 14.1 | 10.4 | 8.6 | 9.8 | 11.0 |
| Visible underemployment rate ^l | ... | ... | 13.6 | 15.2 | 13.8 | 11.3 | 9.3 | 8.8 | 7.2 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|---|------|------|------|-------|------|------|------|------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 25.7 | 30.6 | 43.4 | 60.7 | 91.0 | 22.4 | 9.3 | 6.1 | 1.9 |
| Variation in producer prices (December-December) | ... | ... | ... | 186.9 | 64.9 | -5.6 | 17.7 | 4.5 | 4.3 |
| Variation in nominal exchange rate (December-December) ^m | 23.4 | 22.2 | 50.1 | 176.0 | 37.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Variation in minimum urban wage | 9.7 | -3.5 | -7.2 | -10.7 | -3.5 | 11.4 | 1.2 | 6.0 | 2.2 |
| Nominal deposit rate ⁿ | ... | ... | ... | ... | ... | 6.6 | 5.1 | 5.3 | 4.0 |
| Nominal lending rate ⁿ | ... | ... | ... | ... | ... | 15.5 | 14.1 | 12.6 | 10.2 |
| Percentages of GDP | | | | | | | | | |
| Non-financial public sector | | | | | | | | | |
| Total income | 21.9 | 19.9 | 17.3 | 21.1 | 25.9 | 23.6 | 26.2 | 25.4 | 26.9 |
| Total expenditure ^o | 24.6 | 22.1 | 22.1 | 25.0 | 24.4 | 23.5 | 25.3 | 24.2 | 24.7 |
| Net capital expenditure | 6.8 | 5.3 | 5.0 | 6.0 | 5.0 | 6.7 | 6.5 | 5.4 | 5.3 |
| Primary balance ^o | 1.1 | 2.1 | -0.9 | 2.2 | 8.0 | 4.8 | 4.3 | 4.7 | 4.9 |
| Overall balance ^o | -2.8 | -2.1 | -5.2 | -4.9 | 1.4 | 0.0 | 0.8 | 1.7 | 2.3 |
| Public debt | 64.4 | 56.6 | 62.5 | 93.7 | 79.7 | 63.4 | 55.6 | 51.8 | 47.1 |
| Domestic ^p | 8.8 | 7.0 | 11.1 | 19.8 | 17.8 | 13.3 | 11.4 | 11.1 | 11.5 |
| External | 55.6 | 49.6 | 51.4 | 73.9 | 62.0 | 50.1 | 44.2 | 40.7 | 35.6 |
| Interest payments (percentage of total income) | 17.9 | 21.1 | 24.5 | 33.7 | 25.5 | 20.1 | 13.2 | 11.9 | 9.8 |
| Money and credit ^q | | | | | | | | | |
| Domestic credit ^r | 26.6 | 27.0 | 34.2 | 41.6 | 34.5 | 27.5 | 22.8 | 16.8 | 16.7 |
| To the public sector | 0.8 | 1.2 | 2.2 | 4.5 | 3.9 | -0.4 | -1.2 | -2.2 | -2.9 |
| To the private sector | 25.9 | 25.8 | 32.0 | 37.1 | 30.6 | 27.9 | 24.1 | 19.1 | 19.5 |
| Liquidity (M3) | ... | ... | ... | ... | ... | 22.3 | 23.2 | 20.1 | 21.0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 2000 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, three cities; up to 1998, urban total. ^k Unemployment rate as a percentage of the economically active population, three cities; up to 1998, urban total. Includes hidden unemployment. ^l Underemployment rate as a percentage of the economically active population, three cities; up to 1998, urban total. ^m In January 2000, the country adopted the United States dollar as its official currency. ⁿ Reference rate in dollars, monthly average. ^o US\$ 130 million that was de-earmarked from the central government accounts by the Office of the Under-Secretary for the Treasury (equivalent to 0.5% of GDP) has not been deducted for 2003. ^p Refers to the central government. ^q The monetary figures are annual averages. ^r Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. As of 2000, includes net credit extended by the Central Bank of Ecuador and the National Finance Corporation.

3. The main variables

(a) Economic activity

GDP increased by 6.9% in 2004, generating a 5.4% gain in per capita GDP, to 9.3% above the 1994 level.

Economic growth in 2004 was attributable mainly to a 54.4% expansion in private oil extraction, which drove a 26.1% increase in total oil extraction (108,000 more barrels per day, on average). The petroleum sector now accounts for 23% of GDP. Conversely, the production of the State company Petroecuador, which has declined every year since 1994, dipped by 3.4% in 2004. The non-oil economy,

as in 2003, recorded only meagre growth. Services was the only sector of the economy to expand by over 3%. This was further confirmation that the economy's fresh momentum was essentially on the back of hydrocarbon exports, although there has also been a recovery in shrimp farming, contrasting with the poor results in the fishing sector due to climatic factors.

Domestic demand grew more strongly than in 2003 (up 4.8%), driven mainly by rising household consumption thanks to improved access to credit and higher pensions, among other factors. Gross fixed capital formation and

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|--------|--------|--------|-------------------|--------|--------|--------|-------------------|-------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 3.4 | -0.8 | 2.1 | 6.0 | 6.3 | 10.0 | 7.4 | 4.3 | 3.2 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 1 513 | 1 423 | 1 486 | 1 616 | 1 657 | 1 316 | 2 011 | 2 014 | 2 120 | ... |
| Merchandise imports, c.i. f. (millions of dollars) | 1 549 | 1 601 | 1 666 | 1 718 | 1 663 | 1 230 | 2 048 | 2 246 | 2 087 | ... |
| International reserves (millions of dollars) | 770 | 762 | 991 | 813 | 824 | 885 | 1 180 | 1 070 | 1 025 | ... |
| Real effective exchange rate (index: 2000=100) ^c | 60.1 | 60.9 | 61.2 | 62.0 | 63.1 | 62.5 | 63.7 | 65.5 | 67.0 | 66.8 ^d |
| Unemployment rate | 9.9 | 10.2 | 9.9 | 9.3 | 11.2 | 11.4 | 10.7 | 11.1 | 11.5 | 10.7 |
| Consumer prices (12-month percentage variation) | 9.2 | 7.6 | 7.6 | 6.1 | 3.7 | 2.9 | 1.6 | 1.9 | 0.8 | 1.9 |
| Average nominal exchange rate (sucres per dollar) ^e | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 | 25 000 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^f | 5.4 | 5.3 | 5.2 | 5.2 | 4.8 | 4.1 | 3.7 | 3.7 | 3.6 | ... |
| Lending rate ^f | 13.3 | 13.0 | 12.2 | 11.9 | 11.5 | 10.7 | 9.6 | 8.9 | 8.4 | ... |
| Interbank interest rate ^g | 1.1 | 0.9 | 0.8 | 0.8 | 0.7 | 0.8 | 0.7 | 0.7 | 1.0 | ... |
| Sovereign bond spread (basis points) | 1 372 | 1 178 | 1 121 | 799 | 701 | 952 | 778 | ... | ... | ... |
| Domestic credit (variation from same quarter of preceding year) ^h | -26.8 | -30.5 | -5.5 | -2.4 | 3.4 | 11.3 | 17.9 | 17.6 | 18.2 | 19.9 ⁱ |
| Non-performing loans as a percentage of total credit ^j | 25.0 | 24.6 | 23.8 | 20.7 | 19.7 | 18.2 | 18.1 | 15.0 | 15.7 | 15.0 ^d |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 2000 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e In January 2000, the country adopted the United States dollar as its official currency. ^f Reference rate in dollars, monthly average. ^g Interbank market, weighted average. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Data for April. ^j Refers to total credit extended by the banking system.

government consumption expanded more moderately (by 3.5% and 2.9%, respectively). Exports were particularly buoyant, with a 7.1% rise. This took place alongside a strong increase in imports (7.5%).

GDP growth for 2005 is projected at 3%; the year-on-year increase in the first quarter of 2005 was 3.2%. Oil production is expected to expand only slightly in 2005, even though there is substantial transport capacity still available in the heavy crude pipeline and some companies in the consortium have not attained their intended production and transport capacity. The production of crude in 2005 had increased by only 1.8% up to May, although there are no technical reasons why oil activity should cease to expand: Ecuador has unexploited fields with extensive proven and probable reserves (for example, Pungarayacu-Oglán and Ishpingo Tambococha Tiputini) as well as vast areas yet to be explored (for example, in the south-east). In 2004, the pipeline transported an average of 170,000 barrels per day, compared with a capacity of 450,000; thus, ample transport capacity is still available. Owing to the natural decline of fields in production, heavy investments would be needed in order to boost oil extraction significantly; according to preliminary figures for the first quarter of 2005, however,

foreign direct investment was down on the same period of 2004. The backdrop to these developments is that some private oil companies have reservations over how much to invest in view, for example, of lawsuits outstanding with the State of Ecuador over tax refunds and the general political instability. It is therefore unlikely that activity in this sector will increase much in 2005. Conversely, an upturn is expected in fishing production, due to climatic conditions, and in construction. In the banana sector, growth prospects are limited by developments in international prices for bananas.

Lastly, the electricity sector needs wide-ranging reform in order to boost efficiency, reduce the cost of electricity to the productive sector and consumers, increase generation capacity and lower the explicit and implicit fiscal costs of operating the system.

(b) Prices, wages and employment

Inflation was lower than the United States rate, at just 1.9% in 2004. Twelve-month inflation to June 2005 was 1.7%, while the minimum wage in the private sector increased by 3.1% in real terms between December 2003 and December 2004.

The unemployment situation deteriorated in 2004 and early 2005, notwithstanding sharp rises in GDP and in the gross employment rate, which strengthened from an average of 48.5% in 2003 to 49.7% in 2004 and stood at 49.4% during the first five months of 2005. The total jobless rate increased from an average of 9.8% in 2003 to 11% in 2004 and climbed to an average of 11.2% in the first five months of 2005. This higher unemployment was due to the fact that the economically active population increased more rapidly than the number of employees. The slowdown in economic growth does not augur well for any significant reduction in unemployment in 2005.

(c) The external sector

The balance-of-payments current-account deficit continued to shrink in 2004, closing the year at US\$ 166.2 million (0.5% of GDP) compared with US\$ 471.9 million, or 1.7% of GDP, in 2003 and well below the figure of US\$ 1,398,500,000 (5.8% of GDP) recorded in 2002. The steep rise in the volume and prices of oil exports boosted the merchandise trade balance, which yielded its first surplus since 2000, at US\$ 320.6 million (1.1% of GDP).

The income balance continued to reflect the increase in prior years of investment and loans to residents, with net payments of economic rents up to 5% of GDP. Income from remittances also continued to expand (4.2%), although at almost half the rate of 7.5% recorded in 2003, and amounted to US\$ 1,604,200,000 (5.3% of GDP).

A prominent development in 2004 was the 25.4% slump in foreign direct investment (FDI), which thus dropped to US\$ 1,160,300,000 (3.8% of GDP). This was because 2003 had been an exceptional year in terms of petroleum-sector investments, with work on the heavy oil pipeline and related infrastructure and investment in the drilling of crude oil to be transported through the pipeline. FDI is unlikely to increase significantly in 2005.

With respect to other financial movements, along with the aforementioned developments in the banking sector, placements of currency and deposits abroad doubled, from US\$ 611.6 million (2.2% of GDP) in 2003 to US\$ 1,249,600,000 (4.1% of GDP) in 2004.

Exports climbed by 26.8% in 2004, boosted by the surge in hydrocarbons (62.4% or US\$ 1.627 billion). Other export items, mainly bananas, vehicles, fresh and canned fish and cocoa, showed declines. Exports of coffee and shrimp also rose significantly, although in much lower amounts than hydrocarbons. Oil and oil derivatives have thus become consolidated as Ecuador's main export items and foreign-exchange earners: in 2002, crude petroleum accounted for 36.5% of total exports and bananas (the second export item in terms of value) accounted for 19.2%; by 2004, crude represented 50.9% and bananas, 13.4%.

Imports went up by 19.8% in 2004, in step with rapid growth in GDP and consumption over the year. Imports of raw materials and fuels and lubricants recorded the steepest rises (26.7% and 21.1%, respectively), reflecting high international prices for raw materials (including oil derivatives) during the year and a tight domestic supply of fuels and lubricants. Imports of consumer goods grew by 16.4%, while capital goods imports increased by 14.5%.

In 2005, the expansion in petroleum export volumes will slow considerably, which will limit the increase in the value of total exports. In the first five months of 2005, for example, crude petroleum exports were up by only 2.8% in volume, although average price increases translated into a value gain of 28.8%. In 2005, upturns are also expected in exports of shrimp and of tuna and other fish. During the first four months of the year, exports in those two categories expanded by 22.6% and 5.7%, respectively.

Imports expanded by 25.3% in the first five months of 2005, with the rise taking place across all the import categories and led by capital goods (34%), closely followed by raw materials (27.5%).

Paraguay

1. General trends

Paraguay's GDP grew by 4% in 2004, which was the highest rate since 1995.¹ This result was not exclusively attributable to expansion in the agricultural sector (as in 2003), but was also driven by an upturn in non-agricultural activities, especially meat production and commerce. The rate of inflation dropped considerably, to 2.8%, but is expected to come in around 8% in 2005, which coincides with the maximum rate stipulated in Paraguay's agreement with IMF. Unemployment stood at 7.3%, compared to 8.1% in 2003.² A more moderate expansion of GDP, of around 2.8%, is forecast for 2005, as agricultural output drops and the economy faces less propitious international conditions.

The government's fiscal accounts exhibited a surplus of close to 1.6% of GDP, which represented a reversal of the previous year's deficit (-0.4%). The primary surplus was equivalent to 2.7% of GDP, compared with 0.7% in 2003. The government has continued and, in some cases, stepped up its policy measures to improve tax collection and cut spending.

The value of Paraguay's exports of goods and services rose 19%, thanks to expansion in the country's main trading partner economies, but imports posted an even steeper climb of 24%. This resulted in a deficit on the goods and services account, which was, in turn, offset by positive trends in the

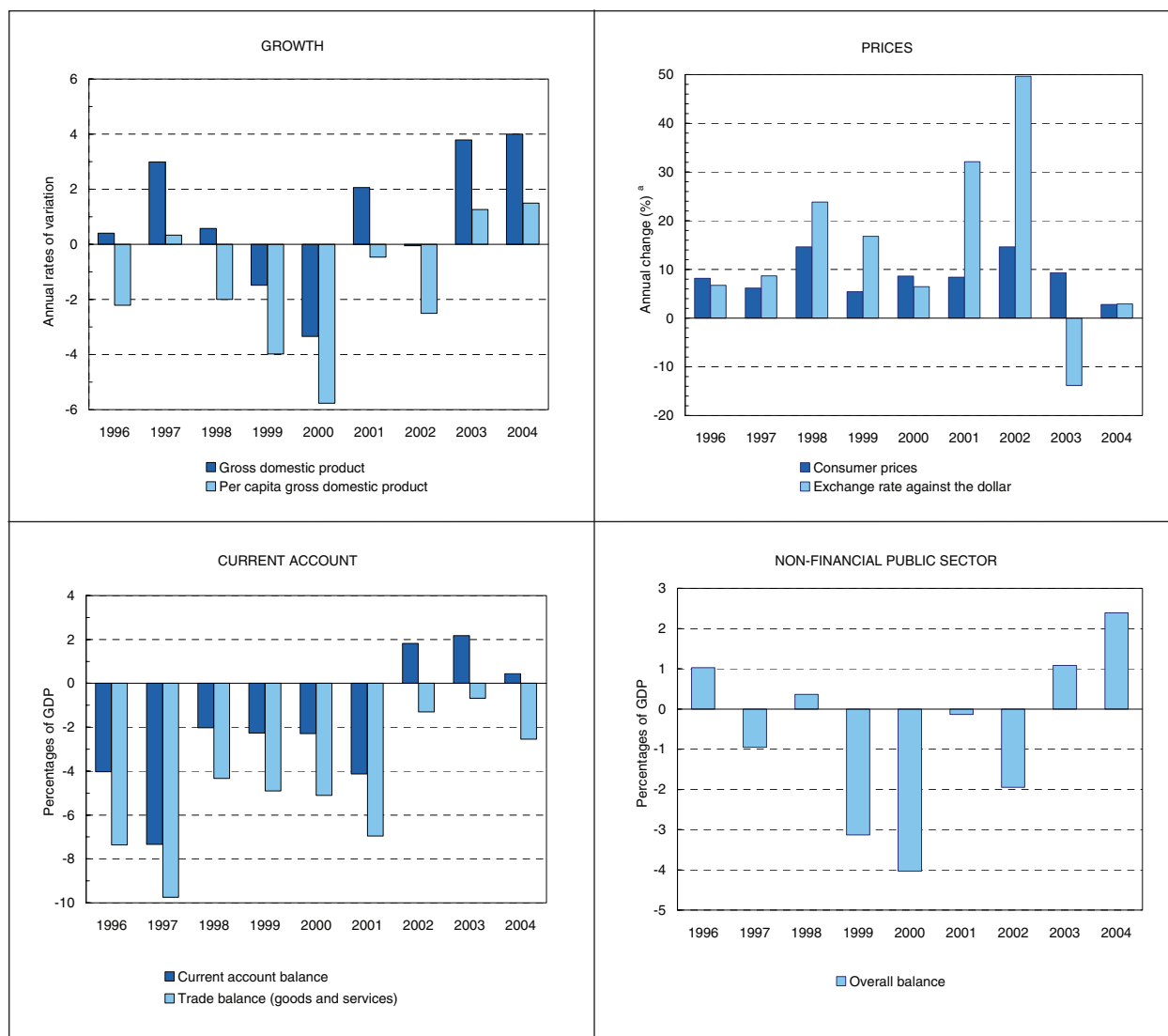
income and current transfers accounts. Overall, the current-account balance was positive for the third year running, at 0.44% of GDP. The guaraní has depreciated by 13% in real effective terms since the end of 2003.

Agricultural output is projected to contract in 2005, owing to a drought early in the year. Particularly affected are soybean and cotton, with a drop in production as well as unfavourable price trends in the international markets. Inflation is expected to rise substantially, but should remain in single figures. The fiscal balance may deteriorate owing to the combination of lower economic growth and higher spending.

¹ The Central Bank of Paraguay is now using 1994 as the base year for its national accounts, instead of 1982 as previously. Calculations based on this new series give a growth rate of 4% for 2004, whereas the rate based on the previous methodology would be 2.9%.

² The Department of Statistics, Surveys and Censuses used a new sample framework, based on the 2002 census, for its 2004 permanent household survey.

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

2. Economic policy

The real sector's performance was set within a context of rationalization of the economy and the public administration, involving the adoption of legislation and resolutions that have made the economy more

transparent and efficient. Most of these measures are part of the set of actions agreed upon with IMF and governed by the standby arrangement signed in December 2003.

The government met most of the IMF targets established for 2004. These included turning the fiscal deficit into a surplus, reducing inflation to 8% by the end of the year and accumulating at least US\$ 855 million in international reserves. Indeed, the deficit of -0.4% of GDP in 2003 became a surplus of 1.6% in 2004, that year's inflation was 2.8% and in December international reserves stood at US\$ 1.17 billion. Since there was a delay in the presentation of the government's plan to allow private investors to buy stakes in State-owned enterprises, the respective target will be included, with a later deadline, in the new agreement due to be signed soon.

(a) Fiscal policy

A number of milestones were achieved in fiscal policy, including a customs code reform and a social security reform and sustainability act which were ratified at the end of 2003; and a fiscal reform bill passed into law in 2004. Briefly, under the new customs code, customs becomes independent from the Ministry of Finance, while the social security reform establishes a new contribution rate for workers and reduces the database of beneficiaries. The fiscal reform introduces a personal income tax, broadens the value added tax base; establishes a general rate of 10% for value added tax, with a lower rate of 5% on staples in the domestic household basket; and raises corporate tax. These changes and adjustments have gone a long way to reduce spending and increase fiscal revenues, by making the system more formal, expedient and transparent.

The central government's overall fiscal balance yielded a surplus of 1.6% of GDP in 2004, after a deficit of -0.4% of GDP at the end of 2003. The primary balance rose from 0.7% in 2003 to 2.7% in 2004. Total revenues were up by a nominal 26%, and the central government's expenditures climbed by 11.4%. Tax revenues posted a 34% increase, with the main contributions coming from taxes on net income and profits and on external trade, which rose by 41% and 36%, respectively. Receipts from taxes on goods and services rose 30%, with fuel tax revenues up by 43% (reflecting higher petroleum prices) and overall VAT receipts by 23%. Current expenditures climbed 8%, with staff outlays rising 9.5%. Capital spending expanded by 25%.

The fiscal balance will be subjected to opposing pressures in 2005. On the one hand, slackening economic growth this year will mean a smaller tax take. On the other, the positive effects of the fiscal reforms should

continue to make themselves felt. Indeed, some of the reforms ratified in 2004, including the fiscal reform, do not become effective until this year or next. In any case, the government has sent a strong signal to economic agents regarding its commitment to enforce its economic rationalization principles and the reforms may be expected to do much to increase the formal economy's impact on the country's economy in general.

(b) Monetary and exchange-rate policy

Headway was made, too, in legislation relating to monetary policy, some pieces of which were already under way. These advances are important for the smooth operation of the economy and include, in particular, an act governing deposit guarantees and insolvency resolution for financial intermediation agencies subject to the provisions of the general act on banks, personal loan providers and other lending agencies, which guarantees privately-funded deposits. Other prominent pieces of legislation were a banks act, which aims to bring a larger number of financial intermediaries under the surveillance of the Superintendence of Banks; and a public banking act (now in the process of being approved), which establishes a first tier for lending operations and a second tier to collect and channel funds into the first. The approval of this last piece of legislation is an important step in building up the credit system and the development banking segment. The National Development Bank, which handles 8% of the banking sector's assets and holds 58% of non-performing loans,³ is still to be restructured.

In an effort to tighten control of the money supply and make its own operations more flexible, the central bank established a mechanism to buy back monetary regulation instruments, similarly to a repo scheme. This mechanism consists of credit lines known as "RIRs", whose purpose is to inject liquidity into the financial system. Credit line operations partly compensate for the illiquidity of the monetary regulation instruments, which are medium-term instruments with no secondary market. The central bank's strategy is to inject vigour into the short-term securities market and link its rates more closely to the international rates. The rates of longer-term issues have a built-in time premium.

Monetary aggregates expanded less sharply than the year before: at the end of 2004 base money posted a year-on-year expansion of 17.3% and M1, of 24.2%. This increase was driven mainly by the variation

³ Data from IMF.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Gross domestic product | 0.4 | 3.0 | 0.6 | -1.5 | -3.3 | 2.1 | 0.0 | 3.8 | 4.0 |
| Per capita gross domestic product | -2.2 | 0.3 | -2.0 | -4.0 | -5.8 | -0.5 | -2.5 | 1.3 | 1.5 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | -1.3 | 6.9 | 1.2 | 1.3 | -7.0 | 11.6 | 4.2 | 8.0 | 2.9 |
| Mining | -6.1 | -3.0 | -3.8 | -0.4 | -5.2 | -8.3 | -9.1 | 15.6 | 2.7 |
| Manufacturing | 1.9 | 0.8 | -0.2 | -1.9 | -0.9 | -0.6 | -1.4 | 0.7 | 3.3 |
| Electricity, gas and water | -1.2 | 2.4 | 1.9 | 1.7 | 1.9 | 1.9 | 1.1 | 4.6 | 2.9 |
| Construction | -6.7 | -2.5 | -0.7 | -5.8 | -7.8 | -1.4 | -8.9 | 14.4 | 2.0 |
| Wholesale and retail commerce, restaurants and hotels | 1.4 | -1.2 | 1.5 | -6.0 | -3.6 | 0.0 | -1.6 | 5.5 | 5.8 |
| Transport, storage and communications | 5.8 | 18.7 | 2.2 | 1.3 | 1.4 | 2.1 | 2.0 | 0.7 | 4.3 |
| Financial institutions, insurance, real estate and business services | 1.2 | 1.9 | -1.9 | 0.6 | -0.8 | 1.2 | 0.8 | -4.9 | 1.8 |
| Community, social and personal services | 4.0 | 4.2 | 0.9 | 2.3 | -1.9 | -5.1 | -1.1 | 0.2 | 6.2 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 3.6 | 4.3 | -1.1 | -1.1 | -4.7 | 1.4 | -6.7 | 2.3 | 5.5 |
| General government | 2.7 | -1.6 | 1.1 | -0.9 | -2.6 | -8.6 | -3.2 | -2.0 | 23.7 |
| Private | 3.8 | 5.0 | -1.3 | -1.1 | -5.0 | 2.6 | -7.1 | 2.8 | 3.5 |
| Gross domestic investment | -0.7 | 7.4 | -14.4 | -14.1 | -9.1 | 11.0 | -13.7 | 8.5 | 2.2 |
| Exports (goods and services) | -10.9 | -9.6 | 5.8 | -25.5 | 8.0 | -9.6 | 15.9 | 4.4 | 29.5 |
| Imports (goods and services) | -5.8 | -3.7 | -4.5 | -26.2 | 0.9 | -6.1 | -6.2 | 3.6 | 33.8 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving^c | | | | | | | | | |
| Gross domestic investment | 25.4 | 26.5 | 22.7 | 20.8 | 18.8 | 18.7 | 18.7 | 21.0 | 22.1 |
| National saving | 21.4 | 19.1 | 20.7 | 18.5 | 16.5 | 14.6 | 20.5 | 23.1 | 22.5 |
| External saving | 4.0 | 7.3 | 2.0 | 2.3 | 2.3 | 4.1 | -1.8 | -2.2 | -0.4 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -353 | -650 | -160 | -165 | -163 | -266 | 93 | 122 | 30 |
| Merchandise trade balance | -587 | -865 | -393 | -441 | -537 | -614 | -280 | -275 | -410 |
| Exports, f.o.b. | 3 797 | 3 328 | 3 549 | 2 312 | 2 329 | 1 890 | 1 858 | 2 175 | 2 706 |
| Imports, f.o.b. | 4 383 | 4 192 | 3 942 | 2 753 | 2 866 | 2 504 | 2 138 | 2 450 | 3 116 |
| Services trade balance | -58 | 0 | 50 | 82 | 175 | 165 | 214 | 237 | 235 |
| Income balance | 110 | 33 | 6 | 18 | 22 | 16 | 43 | -4 | 10 |
| Net current transfers | 182 | 181 | 177 | 175 | 177 | 167 | 116 | 165 | 194 |
| Capital and financial balance ^d | 306 | 435 | 177 | -148 | -181 | 217 | -217 | 109 | 238 |
| Net foreign direct investment | 144 | 230 | 336 | 89 | 98 | 78 | 12 | 30 | 64 |
| Financial capital ^e | 162 | 205 | -160 | -237 | -280 | 138 | -229 | 79 | 174 |
| Overall balance | -46 | -216 | 17 | -313 | -344 | -50 | -124 | 231 | 268 |
| Variation in reserve assets ^f | 39 | 206 | -23 | -104 | 215 | 45 | 84 | -301 | -179 |
| Other financing ^g | 7 | 10 | 7 | 418 | 129 | 5 | 40 | 70 | -89 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 97.2 | 93.3 | 99.2 | 96.6 | 100.0 | 102.4 | 106.3 | 111.7 | 107.4 |
| Terms of trade for goods (index: 2000=100) | 104.7 | 106.2 | 108.0 | 101.7 | 100.0 | 100.2 | 96.7 | 101.4 | 104.3 |
| Net resource transfer (percentage of GDP) | 4.8 | 5.4 | 2.4 | 3.9 | -0.4 | 3.7 | -2.6 | 3.1 | 2.3 |
| Total gross external debt (millions of dollars) | 1 801 | 1 926 | 2 133 | 2 697 | 2 819 | 2 652 | 2 866 | 3 086 | 2 994 |
| Total gross external debt (percentage of GDP) | 20.6 | 21.7 | 26.9 | 36.9 | 39.7 | 41.1 | 56.3 | 54.9 | 43.6 |
| Net profits and interest (percentage of exports) ⁱ | 1.8 | 3.8 | 4.3 | 3.6 | 2.9 | 3.6 | 1.6 | 2.0 | 2.0 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^j | ... | ... | 57.9 | 57.3 | 63.7 | 59.2 | 61.2 | 59.8 | 63.4 |
| Open unemployment rate ^k | 8.2 | 7.1 | 6.6 | 9.4 | 10.0 | 10.8 | 14.7 | 11.2 | 10.0 |
| Visible underemployment rate ^k | 6.1 | 6.3 | 5.9 | 5.3 | 8.2 | 7.4 | 8.1 | 7.8 | 7.5 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|---|------|------|------|------|------|------|------|-------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 8.2 | 6.2 | 14.6 | 5.4 | 8.6 | 8.4 | 14.6 | 9.3 | 2.8 |
| Variation in nominal exchange rate (December-December) | 6.7 | 8.7 | 23.8 | 16.8 | 6.5 | 32.1 | 49.7 | -13.8 | 2.9 |
| Variation in average real wage | 3.1 | -0.4 | -1.9 | -2.1 | 1.3 | 1.4 | -6.4 | -2.0 | -2.7 |
| Nominal deposit rate ^l | ... | 8.8 | 6.8 | 8.7 | 9.7 | 9.8 | 12.3 | 10.2 | 2.7 |
| Nominal lending rate ^m | ... | 27.8 | 30.5 | 30.2 | 26.8 | 28.3 | 34.3 | 30.5 | 21.2 |
| Percentages of GDP | | | | | | | | | |
| Non-financial public sector | | | | | | | | | |
| Current income | 28.9 | 31.6 | 32.9 | 32.2 | 33.1 | 35.0 | 32.6 | 31.4 | 35.0 |
| Current expenditure | 23.1 | 23.9 | 24.5 | 23.6 | 30.5 | 29.3 | 28.9 | 25.9 | 27.5 |
| Current balance | 5.8 | 7.7 | 8.4 | 8.6 | 2.6 | 5.6 | 3.6 | 5.6 | 7.5 |
| Net capital expenditure | 4.8 | 8.7 | 8.0 | 11.8 | 6.7 | 5.8 | 5.7 | 4.8 | 5.3 |
| Global balance | 1.0 | -1.0 | 0.4 | -3.1 | -4.0 | -0.1 | -1.9 | 1.1 | 2.4 |
| Public debt | 16.5 | 23.2 | 23.5 | 33.5 | 35.3 | 44.0 | 63.0 | 46.3 | 40.9 |
| Domestic | 0.9 | 6.3 | 3.2 | 3.3 | 4.1 | 6.4 | 8.2 | 4.9 | 4.2 |
| External | 15.6 | 16.9 | 20.3 | 30.2 | 31.2 | 37.6 | 54.8 | 41.4 | 36.7 |
| Money and credit ⁿ | | | | | | | | | |
| Domestic credit ^o | 23.4 | 24.9 | 26.3 | 24.8 | 24.5 | 25.3 | 24.8 | 17.5 | 14.5 |
| To the public sector | -2.3 | -3.4 | -2.7 | -1.8 | -1.5 | -1.8 | -1.6 | -0.7 | -1.0 |
| To the private sector | 25.7 | 28.3 | 29.0 | 26.6 | 26.0 | 27.0 | 26.4 | 18.2 | 15.5 |
| Liquidity (M3) | 24.9 | 27.2 | 27.9 | 28.6 | 30.5 | 31.5 | 29.5 | 27.1 | 26.8 |
| Currency in circulation and local-currency deposits (M2) | 15.9 | 16.7 | 14.7 | 13.5 | 13.9 | 13.5 | 12.3 | 11.7 | 13.0 |
| Foreign-currency deposits | 9.0 | 10.6 | 13.2 | 15.1 | 16.7 | 18.0 | 17.2 | 15.5 | 13.8 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population; urban total. ^k Unemployment and underemployment rates as percentages of the economically active population; urban total. ^l Weighted average of effective interest rates on deposits. ^m Weighted average of effective interest rates on loans, excluding overdrafts and credit cards. ⁿ The monetary figures are annual averages. ^o Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

in international reserves, which climbed to around US\$ 1.17 billion, or more than twice the record low registered in mid-2002, when they amounted to only US\$ 530 million. Monetary regulation instruments have expanded less strongly and their yields have dipped steeply, from an annual rate of 12.8% in late 2003 to 4.3% at the end of 2004.

Money demand has centered on more liquid assets, such as notes and coins and sight deposits, which reflect the difficulty in channelling resources into financing for production. At the end of 2004, interest rates were 0.4% for sight deposits and 5.1% for time deposits, while the weighted average for lending rates was 22.5%.⁴ The first

quarter of 2005 saw an upward trend in lending rates, combined with an across-the-board drop in deposit rates. The former appear to be adjusting to expectations of higher inflation, while the latter are determined in great measure by the rates on monetary regulation instruments, which are continuing to decline.

At the end of 2004, bank lending to the private sector posted an increase of 16% in relation to 2003, thereby reversing a real downward trend that had lasted more than three years. In March 2005, bank credit to the private sector exceeded the figure registered at the end of the previous year, although the nature of the banking sector's assets means that the funds available in the system are

⁴ Effective nominal rates.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|-------|-------|-------|-------|-------------------|-------|-------|-------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | -1.4 | 2.8 | 5.6 | 8.0 | 3.9 | 3.4 | 4.3 | 4.4 | 4.3 | ... |
| Merchandise exports, f.o.b. (millions of dollars) ^c | 402 | 667 | 629 | 477 | 620 | 752 | 731 | 604 | 438 | ... |
| Merchandise imports, f.o.b. (millions of dollars) ^c | 494 | 581 | 704 | 671 | 646 | 740 | 882 | 848 | 567 | ... |
| International reserves (millions of dollars) | 688 | 769 | 810 | 969 | 1 001 | 1 071 | 1 180 | 1 168 | 1 188 | ... |
| Real effective exchange rate (index: 2000=100) ^d | 113.6 | 114.1 | 111.1 | 108.2 | 108.2 | 102.4 | 104.8 | 114.6 | 119.9 | 119.2 ^e |
| Consumer prices (12-month percentage variation) | 20.2 | 15.7 | 8.1 | 9.3 | 1.6 | 5.5 | 6.7 | 2.8 | 4.4 | 6.1 |
| Average nominal exchange rate (guaraníes per dollar) | 6 961 | 6 514 | 6 152 | 6 070 | 6 062 | 5 816 | 5 916 | 6 104 | 6 290 | 6 231 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^f | 14.5 | 13.1 | 7.8 | 5.5 | 4.9 | 2.9 | 1.8 | 1.1 | 0.6 | 0.8 ^d |
| Lending rate ^g | 39.6 | 32.9 | 25.8 | 23.5 | 25.0 | 23.1 | 19.4 | 17.2 | 15.6 | 15.5 ^d |
| Interbank interest rate | 23.7 | 13.7 | 12.5 | 12.1 | 9.9 | 7.4 | 4.8 | 4.1 | 4.3 | 4.0 |
| Domestic credit (variation from same quarter of preceding year) ^h | -2.2 | -15.7 | -18.3 | -20.3 | -19.4 | -5.3 | -1.0 | 8.6 | 12.2 | 9.5 ^d |
| Non-performing loans as a percentage of total credit ⁱ | 21.7 | 21.6 | 22.7 | 20.6 | 18.6 | 17.4 | 14.9 | 10.4 | 10.3 | 10.3 ^d |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c The figure for 2005 includes reported trade only. ^d Quarterly average, weighted by the value of merchandise exports and imports. ^e Data to May. ^f Weighted average of effective interest rates on deposits. ^g Weighted average of effective interest rates on loans, excluding overdrafts and credit cards. ^h Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ⁱ Refers to total credit extended by the banking system.

short term. Long-term lending is, moreover, constrained by the generalized climate of mistrust in the country, which is largely motivated by events occurring outside the economic sphere and notwithstanding the country's achievements in that area, and this factor undoubtedly places serious limits on economic recovery.

The central bank's intervention in the foreign-exchange market helped to stabilize the price of the guaraní and keep its real parity reasonably competitive. The real effective exchange rate dropped in the first half of the year, but this was more than offset by the depreciation that began in June and sharpened towards the end of the year, when the guaraní's real effective parity was almost 13% higher than at the end of 2003. The currency's real depreciation against the dollar amounted to about 3.9%, while the real exchange rate rose 22% against the Brazilian real and 8.5% against the Argentine peso in the same period. At the start of the second quarter of 2005 the tendency was towards

a nominal appreciation of the guaraní against the dollar, coupled with a slight depreciation against the real and a stable rate of exchange with the Argentine peso.

(c) Other policies

At the end of March 2005, IMF completed the fourth review of its agreement with Paraguay, thereby making some further US\$ 4.5 million available to the authorities. The government has not yet drawn on these funds, however, and continues to consider the arrangement a precautionary one.

Early in the second quarter of 2005, the government decided to continue Fund surveillance, for which it must either request an extension of the existing agreement or negotiate a new accord with the institution. The current arrangement terminates at the end of June 2005 and its final review is due in September.

3. The main variables

(a) Economic activity

In 2004 GDP growth, at 4%, exceeded the previous year's rate of 3.8%.⁵ Much of this expansion occurred in the fourth quarter, when the economy surged by 12% relative to the previous quarter. Measured year-on-year, quarterly GDP was positive from the second quarter of 2003 onward, after the contraction of 2002.

Items of spending show the strongest boost to the economy coming from general government consumption, which rose by 24% after having fallen steadily since 1999. Private consumption continued to be the largest component of output, growing at a similar rate to GDP (3.5%) and above the rate of increase in investment, which was 2.7% in 2004. This last figure was lower than the 7.4% recorded in 2003, owing chiefly to a sluggish performance by the construction sector. Imports expanded at a rate that was more than high enough to offset the expansion in exports.

The main stimulus to aggregate production came from sectors producing goods of agricultural origin, as well as commerce and communications. Contrasting with the previous year, in 2004 non-arable activities made a substantial contribution to GDP growth, with an expansion of 4.6%.⁶ Arable farming output rose 1.4%.

Soybean production stood at 3.6 million tons, down from 4.2 million tons in 2003, owing to poor weather conditions. International trends in soybean prices were highly favourable, however, which contributed to a steep rise in this sector's income. Cotton production came in at 330,000 tons, which was an increase of around 91% with respect to 2003.

The livestock subsector was very buoyant, with an expansion of 8%. Industrial activity was fuelled by the performance of meat packing plants and, with growth of 3%, reflected the overall trends seen in the goods production segment. Conversely, construction posted a more modest upturn of 2%, while services expanded by 5%, thanks to trends in general government services and communications and commerce, as well as fresh momentum in business services and transport and a rise in electricity generation.

In 2005 soybean production continues to feel the effects of the drought and production tonnage is likely to drop 2% in relation to 2004, which will hurt agricultural output. International prices for soybean, as well as for cotton, will also be less favourable. Cotton production will contract by close to 45%.

Per capita GDP climbed for the second year in a row (1.5% in 2004 and 1.3% in 2003), putting an end to a long stretch of zero or negative growth. Population growth has held steady at around 2.5% per year for the last four years, meaning that GDP will have to increase at an annual rate of over 4%, provided that population growth continues at the same rate, just to recoup the level of per capita GDP recorded in 1995. In 2004 Paraguay attained a good rate of growth which, if it continued, would contribute significantly to reducing the country's poverty gap; the slowdown in GDP growth this year will push this goal further away, however.

(b) Prices, wages and employment

Variations in the real exchange rate in 2004 have reflected the movements of the consumer price index (CPI), which exhibited a monthly rate of variation of 0.3% at the start of the year, followed by negative movements for several months in the middle of the year, and a monthly variation of 1.6% in December. The rate of inflation came in at 2.8% for the year overall, after reaching 9.3% in 2003 and 14.6% in 2002. The guaraní posted a year-on-year nominal depreciation of 2.9% against the United States dollar in December 2004.

Consumer price variations reflected the sum of opposite movements in two groups of products: downward pressure coming from foods, especially non-processed products, and upward pressure generated by fuels.

The rate of inflation for 2005 is expected to be around 8%, close to the upper limit stipulated under the standby agreement with IMF, which sets a target of 6% with a 2% margin on either side. If this inflation rate of 8% is to be achieved at the year's end, monthly consumer prices rises may average no more than 0.35% from June to December (which would be lower than the rates recorded in the

⁵ Based on the methodology used previously, growth for 2003 would have been 2.6%.

⁶ Corresponds to the aggregate growth of sectors other than arable farming: livestock, forestry, and fishing; mining and manufacturing; electricity and water; construction; commerce, services and goods imports.

preceding months). The movements of the CPI will be closely tied to diesel fuel prices and imported inflation from Brazil, Paraguay's main trading partner.

The nationwide rate of open unemployment eased back from 8.1% in 2003 to 7.3% in 2004, at the same time as the labour force participation rate increased from 59.8% to 63.4%. Urban unemployment stood at 10%, which was lower than the rate of 11.2% posted in 2003, while the underemployed population expanded by 8.2% countrywide and by 6.3% in urban areas. Real wages for manual workers fell by almost 2.7%, signifying a fresh loss in their purchasing power. In the first quarter of 2005 the nationwide minimum wage was raised 12%, but given the proportion of the economy in the informal sector, this measure could have only a limited impact on income redistribution and poverty reduction.

(c) The external sector

The external-sector accounts show a surplus of some US\$ 268 million on the overall balance of payments. This was an increase of 16% with respect to 2003 and enabled the government to build up international reserves and pay off external liabilities.

The current-account balance continued to run a surplus, this time of US\$ 30 million. Year on year, the value of goods exports climbed by 24% compared to 2003, but the export basket is heavily concentrated in a small range of goods which go, moreover, mainly to a limited number of countries, thus exacerbating the Paraguayan economy's vulnerability. Good imports increased at a faster rate than exports, rising by 27% with respect to the previous year on the back of the economic upswing. As a result, the trade balance turned in a deficit of US\$ 410 million, sharply up from the same period of 2003 when the negative balance stood at US\$ 275 million. The balances

on services, income and current transfers have been fairly favourable, which has contributed to the positive trends seen in the current-account balance. Weaker growth in the economies of Paraguay's main trading partners is expected to slacken the country's export growth in 2005, and this will diminish its current-account surplus. In Brazil, Paraguay's foremost trading partner, more subdued private consumption and investment caused, in turn, by domestic interest rate rises, will lead to a more sluggish performance than in 2004 (4.9%). Economic trends in Argentina remain positive, but are expected to slow in 2005.

The balance on the capital and financial accounts has remained positive, although, like the current-account balance, with a smaller surplus than in 2003.⁷ Foreign direct investment performed well, increasing by 114% with respect to 2003 and 432% compared with the ten-year low recorded in 2002. Most of the investment flows went to the utilities sector.

The external public debt stock⁸ declined in relation to 2003, thanks to payments of capital and interest by the public sector. At the year's end, the external public debt amounted to US\$ 2.4 billion, or the equivalent of 36% of GDP, which represented a lightening of the external public debt burden compared with the figure of 44% of GDP registered in 2003. The bulk of the external public debt is long term and carries favourable rates of interest. With regard to the distribution of creditors, in 2004 most of Paraguay's external debt fell into two categories: debt equivalent to 54.5% of the total owed to international agencies, and debt owed to foreign governments, amounting to 45.5%. Commercial banks and private creditors no longer account for a significant proportion of Paraguay's external creditors. At the end of the first quarter of 2005, the external public debt amounted to US\$ 2.379 billion.

⁷ Not including errors and omissions.

⁸ Refers to gross external debt.

Peru

1. General trends

In 2004 Peru's economy outstripped early expectations to post a growth rate of 4.8%, thanks to export buoyancy and an upturn in private investment. Favourable external conditions and the macroeconomic rationalization begun in previous years were also contributing factors. In this context, Peru's trade balance closed with a hefty US\$ 1.95 billion surplus, while the balance-of-payments current-account deficit dropped to just US\$ 10 million. International reserves climbed by over US\$ 2.4 billion, to stand at US\$ 12.6 billion, which sufficed to cover the totality of dollar liabilities in the banking system, in addition to short-term external debt.

Price stability was undermined in the course of 2004 by the high cost of fuels. Nevertheless, the year-on-year increase in prices was 3.5% at the end of 2004, which was in fact the ceiling of the range established by the authorities in the context of their inflation-targeting regime.

Economic growth had little effect on labour indicators. Although there was a fair amount of formal job creation, this was not enough to bring down

unemployment, which remained at 9.4%. The slack performance of the labour market also meant that real wages stood still.

Exports and investment continued to expand apace in early 2005. With spending expected to increase more briskly this year, annual GDP growth should be slightly higher than last year, while inflation will remain within the 1.5% to 3.5% range allowed by the authorities.

2. Economic policy

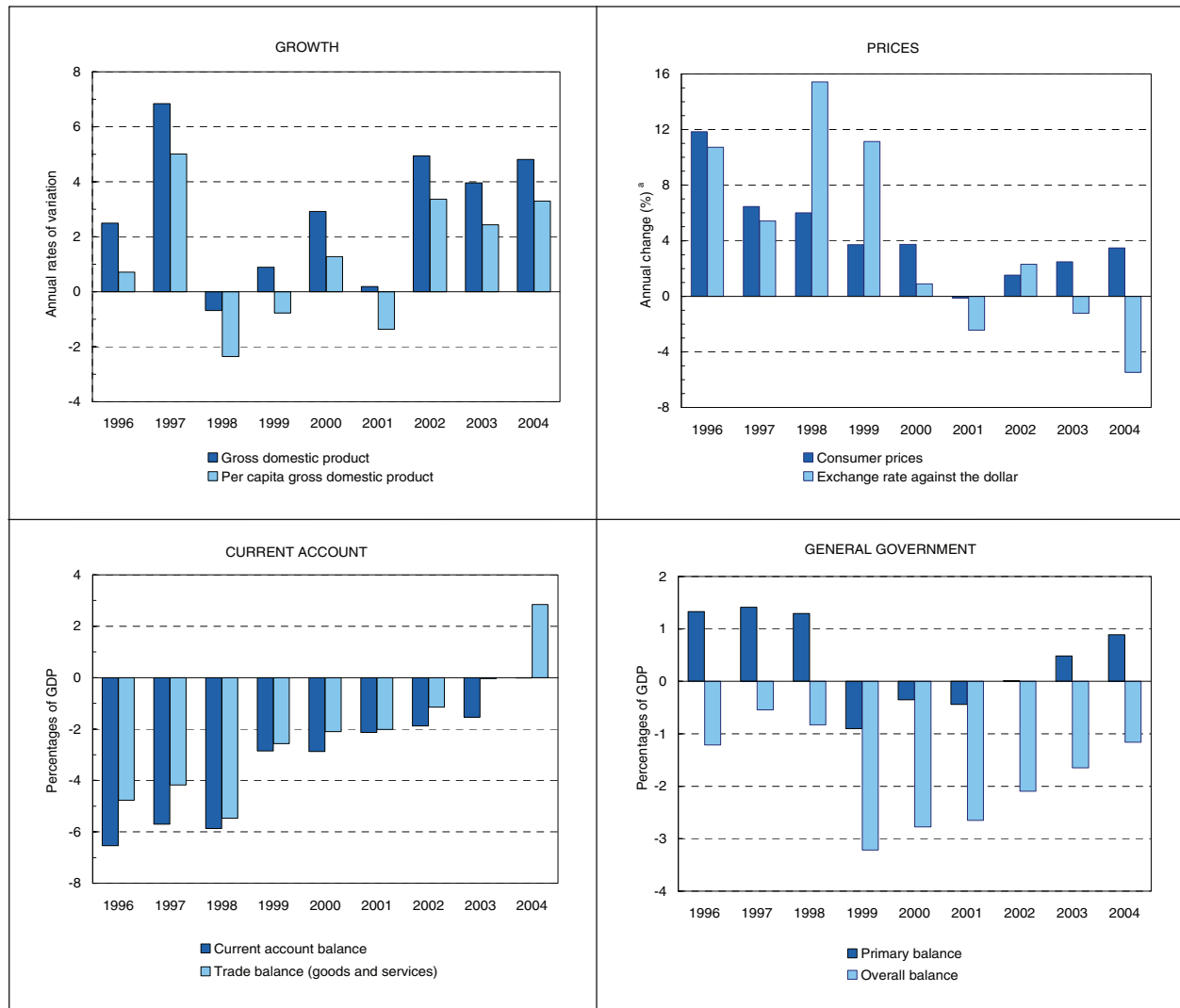
In 2004 and the first semester of 2005, economic policy continued in the same vein as recent years. The main policy objectives were to foster economic growth and price stability, reduce the vulnerability of the economic and financial sectors and strengthen Peru's trading position in the international markets.

The favourable external conditions smoothed the way for substantial progress in improving the fiscal accounts, reducing the degree of dollarization of the financial system, augmenting international reserves and managing external debt. Monetary policy helped to spur economic growth

since, although benchmark interest rates rose twice in 2004, they remained low in real terms. Meanwhile, the tax authorities took the opportunity to further consolidate the public finances.

As a result, the government did not need to draw on the funds available under its arrangement with the International Monetary Fund (IMF), but nevertheless signed a new standby agreement in June 2004. Efforts to deepen the country's trade integration revolved around negotiations, conducted jointly with Colombia and Ecuador, on a free trade agreement with the United States.

Figure 1
PERU: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

(a) Fiscal policy

Seeking to ensure the sustainability of its public debt, Peru has instituted a multi-year plan that envisages steadily reducing the fiscal deficit by generating a growing primary surplus. Auspicious economic circumstances in 2004 enabled faster progress in this direction than had been scheduled. The deficit of the non-financial public sector (NFPS) narrowed from 1.7% of GDP in 2003 to 1.1%, compared with the target of 1.4%. At the same time, the primary surplus increased from 0.4% to 1.0% of GDP (as against the target of 0.7%).

The targets for 2005—a NFPS deficit of 1.0% and a primary surplus of 1.2% of GDP—therefore look quite feasible, especially since fiscal revenues rose in the early months of the year. This more ample room for manoeuvre could put extra pressure on spending, however, especially in a year preceding elections.

During this reporting period the authorities took a number of steps to boost fiscal income, which was considered insufficient to sustain physical and social infrastructure expenditures. In particular, the highest rate of income tax payable by private individuals was increased from 27% to 30%. A three-year tax on financial transactions was

also introduced, at a rate of 0.1% for 2004 and 0.08% for 2005. In addition, a temporary tax on net assets was approved, levying a rate of 0.6% on corporate net assets in excess of 5 million new soles. Efforts to improve the efficiency of collection procedures also continued.

Combined with the beneficial effects of economic growth, these measures more than compensated for the drop in income resulting from the January 2004 cut in the rate of the special “solidarity tax” and its elimination in December, and from the lowering of the excise tax on fuels in response to rising petroleum prices. Between 2003 and 2004 the central government’s income thus climbed from 15.1% to 15.2% of GDP, thanks in large part to the hikes in income tax and general sales tax, as well as the contribution of the tax on financial transactions (0.3% of GDP).

The central government’s current income continued to expand in the first semester of 2005, with an increase of 16% in real terms.

Public spending management was a contributing factor in the better fiscal performance in 2004, since although all the major items of the central government’s current spending increased in real terms, they were outpaced by GDP. Despite an upsurge at the end of the year, capital spending continued to trend downwards with respect to output, at only 1.8% for the central government and 3.0% for the NFPS (compared with a high of 5.9% in 1994). The central government’s total spending dropped from 16.9% to 16.5% of GDP.

One measure that will have a major impact on fiscal affairs, albeit essentially in the long term, is the reform enacted in early 2005 to the pension regime governed by Decree Law 20530 (a special indexed pension scheme known as “cédula viva”). This reform stopped up a source of major potential increase in expenditure by establishing ceilings on pensions and closing the system to new entrants.

By contrast to the previous year, in 2004 the deficit was financed from external sources, principally two issues of sovereign bonds. Amortizations of domestic debt exceeded fresh domestic issues, and privatizations and concessions accounted for a mere 0.2% of GDP. Public debt dropped from 47.3% to 43.3% of GDP.

(b) Monetary and exchange-rate policy

The monetary authorities continued to apply an inflation-targeting regime in 2004 and 2005. The target was a rate of 2.5% by the end of 2004, with a one percentage point margin on either side. Between June and November, the inflation rate breached the ceiling of the band and, although the authorities considered the upsurge to be only temporary, they raised the benchmark rate of interest on

two separate occasions (August and November), bringing it to 3.0%, compared to 2.5% early in the year. The interbank rate followed suit but, as competition mounted in the financial market, commercial bank lending rates in local currency continued to inch downwards, from an average of 20.2% in 2003 to 18.7% in 2004 and 18.3% in the first semester of 2005 (average fixed rates).

The achievement of the inflation target was eased by the real appreciation of the new sol in the second semester of 2004, a trend which continued into early 2005. Contributing factors in this were the local currency’s real appreciation against the United States dollar (an average of 2.8% in 2004), sparked by the turn for the better in the country’s external accounts, and the dollar’s weakness against other foreign currencies. A result of this was that the authorities built up US\$ 2.34 billion in 2004 and US\$ 2.118 billion in the first semester of 2005 and therefore had to step up sterilization measures. The balance on deposit certificates in the central reserve bank increased from 4.097 billion new soles in December 2003 to 10.465 billion in June 2005. Even so, primary money creation recorded an expansion of over 25% in 2004, though this did not trigger a surge in inflation thanks to a strong demand for local currency driven, in turn, by the de-dollarization process.

Lending by the financial system, which had tended to wane in previous years, gathered fresh momentum with an expansion of loans both in new soles (a nominal 11.0%) and in United States dollars (3.9%), thus helping to fuel economic growth. This trend steepened into the early months of 2005.

This expansion occurred in the context of greater stability in the financial system, as illustrated by the steady shrinking of the arrears portfolio, which narrowed from 5.8% in December 2003 to 3.3% in May 2005. In order to spur de-dollarization, in October 2004 and February 2005 the central bank reduced the rate of interest payable on the additional reserve held by financial entities with the central bank, and legislation was passed requiring that all commercial prices be expressed in local currency. Dollar-denominated loans extended by the financial system to the private sector did in fact drop from 73.1% in late 2003 to 69.7% in May 2005. Given that the new sol is expected to appreciate further, de-dollarization is occurring faster in savings: in the same period, the dollar-denominated proportion of liquidity declined from 47.2% to 41.0%. The appreciation of the local currency clearly has a role in shaping these results.

(c) Other policies

The authorities forged ahead with their efforts to integrate Peru more deeply into the international markets.

Table 1
PERU: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Gross domestic product | 2.5 | 6.8 | -0.7 | 0.9 | 2.9 | 0.2 | 4.9 | 4.0 | 4.8 |
| Per capita gross domestic product | 0.7 | 5.0 | -2.4 | -0.8 | 1.3 | -1.4 | 3.4 | 2.4 | 3.3 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 4.5 | 5.0 | -0.3 | 11.0 | 6.8 | -0.1 | 5.9 | 1.3 | 0.4 |
| Mining | 5.1 | 9.0 | 3.7 | 13.1 | 2.4 | 9.9 | 12.5 | 6.8 | 5.4 |
| Manufacturing | 1.5 | 5.3 | -3.5 | -0.7 | 5.8 | 0.7 | 4.1 | 2.4 | 6.7 |
| Electricity, gas and water | 5.9 | 12.7 | 6.2 | 3.0 | 3.2 | 1.6 | 5.5 | 4.9 | 4.6 |
| Construction | -2.3 | 14.9 | 0.6 | -10.5 | -6.5 | -6.5 | 7.9 | 4.2 | 4.7 |
| Wholesale and retail commerce, restaurants and hotels | 1.4 | 7.5 | -2.7 | -0.6 | 3.4 | 0.7 | 3.8 | 3.5 | 4.9 |
| Transport, storage and communications | 5.6 | 5.6 | -1.0 | 2.1 | 2.6 | -0.4 | 3.7 | 4.9 | 7.2 |
| Financial institutions, insurance, real estate and business services | 5.3 | 8.1 | 0.3 | -1.1 | 2.0 | -1.5 | 4.9 | 4.2 | 3.8 |
| Community, social and personal services | 2.1 | 2.8 | 0.4 | 3.9 | 1.7 | 0.0 | 3.8 | 4.7 | 3.9 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 3.2 | 4.8 | -0.6 | 0.0 | 3.6 | 1.1 | 4.1 | 3.2 | 3.5 |
| General government | 4.4 | 7.6 | 2.5 | 3.5 | 3.1 | -0.9 | 0.2 | 3.8 | 4.1 |
| Private | 3.1 | 4.5 | -0.9 | -0.4 | 3.6 | 1.4 | 4.6 | 3.1 | 3.4 |
| Gross domestic investment | -4.9 | 14.9 | -2.3 | -13.6 | -2.7 | -7.5 | 4.4 | 4.6 | 5.8 |
| Exports (goods and services) | 8.9 | 13.1 | 5.6 | 7.6 | 8.0 | 7.2 | 6.9 | 6.3 | 14.7 |
| Imports (goods and services) | 0.1 | 12.2 | 2.3 | -15.2 | 3.8 | 2.7 | 2.6 | 3.5 | 10.4 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving^c | | | | | | | | | |
| Gross domestic investment | 22.8 | 24.1 | 23.7 | 21.2 | 20.2 | 18.8 | 18.7 | 18.8 | 18.5 |
| National saving | 16.3 | 18.4 | 17.8 | 18.3 | 17.4 | 16.7 | 16.9 | 17.3 | 18.5 |
| External saving | 6.5 | 5.7 | 5.9 | 2.8 | 2.9 | 2.1 | 1.9 | 1.5 | 0.0 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -3 646 | -3 367 | -3 321 | -1 464 | -1 526 | -1 144 | -1 063 | -935 | -10 |
| Merchandise trade balance | -1 991 | -1 678 | -2 437 | -655 | -411 | -195 | 292 | 836 | 2 793 |
| Exports, f.o.b. | 5 878 | 6 825 | 5 757 | 6 088 | 6 955 | 7 026 | 7 714 | 9 091 | 12 617 |
| Imports, f.o.b. | 7 869 | 8 503 | 8 194 | 6 743 | 7 366 | 7 221 | 7 422 | 8 255 | 9 824 |
| Services trade balance | -671 | -786 | -657 | -663 | -705 | -890 | -941 | -854 | -843 |
| Income balance | -1 899 | -1 822 | -1 204 | -1 112 | -1 410 | -1 101 | -1 457 | -2 144 | -3 421 |
| Net current transfers | 914 | 920 | 977 | 966 | 999 | 1 042 | 1 043 | 1 227 | 1 461 |
| Capital and financial balance ^d | 4 526 | 5 421 | 2 080 | 602 | 1 384 | 1 568 | 2 030 | 1 459 | 2 427 |
| Net foreign direct investment | 3 488 | 2 054 | 1 582 | 1 812 | 810 | 1 070 | 2 156 | 1 275 | 1 816 |
| Financial capital ^e | 1 038 | 3 367 | 498 | -1 210 | 575 | 498 | -125 | 184 | 611 |
| Overall balance | 880 | 2 055 | -1 241 | -862 | -142 | 423 | 968 | 525 | 2 417 |
| Variation in reserve assets ^f | -1 784 | -1 493 | 1 142 | 985 | 440 | -275 | -852 | -516 | -2 443 |
| Other financing ^g | 904 | -562 | 99 | -122 | -298 | -148 | -116 | -9 | 26 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 90.6 | 90.7 | 91.7 | 101.5 | 100.0 | 97.8 | 95.6 | 99.8 | 101.3 |
| Terms of trade for goods (index: 2000=100) | 104.9 | 115.5 | 103.4 | 100.8 | 100.0 | 95.6 | 98.4 | 102.2 | 111.3 |
| Net resource transfer (percentage of GDP) | 6.3 | 5.1 | 1.7 | -1.2 | -0.6 | 0.6 | 0.8 | -1.1 | -1.4 |
| Total gross external debt (millions of dollars) | 33 781 | 28 863 | 30 142 | 28 586 | 27 981 | 27 195 | 27 872 | 29 587 | 31 117 |
| Total gross external debt (percentage of GDP) | 60.5 | 48.9 | 53.2 | 55.6 | 52.7 | 50.6 | 49.3 | 48.7 | 45.3 |
| Net profits and interest (percentage of exports) ⁱ | 9.3 | 11.0 | 2.9 | 0.2 | 4.1 | 1.5 | 5.2 | 10.3 | 15.9 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^j | 60.3 | 63.3 | 65.4 | 66.9 | 64.4 | 66.7 | 68.4 | 67.4 | 68.1 |
| Open unemployment rate ^k | 8.0 | 9.2 | 8.5 | 9.2 | 8.5 | 9.3 | 9.4 | 9.4 | 9.4 |
| Visible underemployment rate ^k | 16.1 | 14.5 | 11.6 | 11.3 | 11.3 | 11.7 | 10.7 | 8.8 | 8.6 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|---|------|------|------|------|------|------|------|------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 11.8 | 6.5 | 6.0 | 3.7 | 3.7 | -0.1 | 1.5 | 2.5 | 3.5 |
| Variation in wholesale prices (December-December) | 11.4 | 5.0 | 6.5 | 5.5 | 3.8 | -2.2 | 1.7 | 2.0 | 4.9 |
| Variation in nominal exchange rate (December-December) | 10.7 | 5.4 | 15.4 | 11.1 | 0.9 | -2.4 | 2.3 | -1.2 | -5.5 |
| Variation in average real wage | -4.7 | -0.7 | -2.0 | -2.1 | 0.8 | -0.9 | 4.6 | 1.6 | -1.7 |
| Nominal deposit rate ^l | ... | 10.3 | 10.9 | 11.8 | 9.8 | 7.5 | 3.5 | 3.1 | 2.4 |
| Nominal lending rate ^l | ... | 31.0 | 32.7 | 35.1 | 30.0 | 25.0 | 20.8 | 21.0 | 24.7 |
| Percentages of GDP | | | | | | | | | |
| General government | | | | | | | | | |
| Current income | 18.6 | 19.0 | 18.9 | 17.7 | 17.9 | 17.2 | 17.2 | 17.6 | 17.8 |
| Current expenditure | 15.6 | 15.0 | 15.8 | 16.9 | 17.3 | 17.0 | 16.8 | 16.7 | 16.3 |
| Current balance | 2.9 | 4.0 | 3.2 | 0.8 | 0.6 | 0.2 | 0.5 | 0.9 | 1.5 |
| Net capital expenditure | 4.1 | 4.5 | 4.0 | 4.0 | 3.4 | 2.9 | 2.6 | 2.5 | 2.6 |
| Primary balance | 1.3 | 1.4 | 1.3 | -0.9 | -0.4 | -0.4 | 0.0 | 0.5 | 0.9 |
| Overall balance | -1.2 | -0.5 | -0.8 | -3.2 | -2.8 | -2.6 | -2.1 | -1.6 | -1.2 |
| Central government public debt | 47.8 | 32.6 | 43.6 | 49.1 | 46.1 | 45.2 | 46.8 | 47.3 | 43.3 |
| Domestic | 0.0 | 0.0 | 6.3 | 9.7 | 9.6 | 10.6 | 10.2 | 10.0 | 9.1 |
| External | 47.8 | 32.6 | 37.3 | 39.4 | 36.5 | 34.7 | 36.6 | 37.3 | 34.3 |
| Interest payments (percentage of current income) | 15.9 | 11.1 | 11.9 | 14.4 | 14.7 | 15.0 | 13.8 | 13.3 | 12.5 |
| Money and credit ^m | | | | | | | | | |
| Domestic credit ⁿ | 16.1 | 20.3 | 25.4 | 27.7 | 27.1 | 26.4 | 25.0 | 22.3 | 19.4 |
| To the public sector | -1.9 | -1.1 | -0.5 | -0.3 | 0.9 | 1.3 | 1.6 | 1.3 | 0.7 |
| To the private sector | 18.0 | 21.4 | 25.9 | 28.0 | 26.2 | 25.1 | 23.3 | 21.0 | 18.7 |
| Liquidity (M3) | 19.7 | 21.5 | 23.3 | 25.2 | 25.0 | 25.4 | 25.4 | 24.5 | 23.0 |
| Currency in circulation and local-currency deposits (M2) | 6.7 | 7.0 | 7.6 | 7.4 | 7.3 | 7.7 | 8.5 | 8.8 | 9.3 |
| Foreign-currency deposits | 12.9 | 14.5 | 15.7 | 17.8 | 17.7 | 17.8 | 16.9 | 15.7 | 13.7 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^j Economically active population as a percentage of the working-age population, Lima metropolitan area; 1996-2000, urban total. ^k Unemployment and underemployment rates as percentages of the economically active population, Lima metropolitan area. ^l Average rate. ^m The monetary figures are annual averages. ⁿ Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions.

To this end, in May 2004 Peru began negotiations, jointly with Colombia and Ecuador, on a free trade agreement with the United States.

After the privatization of two electricity companies was called off in 2002 amid massive protests, no further

large-scale privatization projects were broached. In 2004, the State sold its stake in the La Pampilla refinery and awarded concessions for the operation of the Yuncán hydroelectric project, the copper mine of Las Bambas and, at the start of 2005, the Bayóvar phosphate mine.

3. The main variables

(a) Economic activity

As in previous years, in 2004 exports were the main engine of overall demand, climbing 15.0%. Thanks in

particular to the thrust of private investment, net fixed capital formation rose 8.7% in real terms, which nudged gross domestic investment up from 18.2% to 18.3% of GDP (at constant prices).

Table 2
PERU: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|--------|-------|-------|--------|-------------------|--------|--------|--------|-------------------|--------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | 5.8 | 3.8 | 3.3 | 3.2 | 4.8 | 3.2 | 4.7 | 6.6 | 5.4 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 2 023 | 2 188 | 2 320 | 2 454 | 2 747 | 1 967 | 3 389 | 3 607 | 3 707 | ... |
| Merchandise imports, c.i. f. (millions of dollars) | 2 043 | 1 983 | 2 087 | 2 144 | 2 131 | 1 591 | 2 545 | 2 732 | 2 658 | ... |
| International reserves (millions of dollars) | 10 443 | 9 997 | 9 755 | 10 194 | 10 411 | 10 855 | 11 187 | 12 631 | 13 555 | 14 044 |
| Real effective exchange rate (index: 2000=100) ^c | 97.2 | 99.4 | 100.2 | 102.3 | 103.1 | 101.9 | 99.9 | 100.3 | 100.9 | 100.7 ^d |
| Unemployment rate | 10.0 | 9.3 | 9.0 | 9.4 | 10.6 | 9.5 | 8.9 | 8.7 | 11.3 | 9.7 |
| Consumer prices (12-month percentage variation) | 3.4 | 2.2 | 2.0 | 2.5 | 2.8 | 4.3 | 4.0 | 3.5 | 1.9 | 1.5 |
| Average nominal exchange rate (new soles per dollar) | 3.49 | 3.48 | 3.48 | 3.48 | 3.47 | 3.48 | 3.40 | 3.30 | 3.26 | 3.26 |
| Average real wage (variation from same quarter of preceding year) | ... | 0.2 | ... | 2.6 | ... | 1.6 | ... | ... | ... | ... |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 3.5 | 3.3 | 3.0 | 2.7 | 2.4 | 2.4 | 2.4 | 2.5 | 2.5 | 2.7 |
| Lending rate ^e | 20.2 | 20.2 | 21.5 | 22.2 | 24.1 | 24.6 | 25.1 | 25.0 | 26.2 | 25.9 |
| Interbank interest rate | 3.8 | 3.8 | 3.1 | 2.9 | 2.5 | 2.5 | 2.6 | 3.0 | 2.9 | 3.0 |
| Sovereign bond spread (basis points) | 478 | 491 | 355 | 312 | 343 | 439 | 323 | 220 | 239 | 206 |
| Stock price index (in dollars, December 2000=100) | 171 | 186 | 209 | 263 | 294 | 245 | 273 | 295 | 313 | 304 |
| Domestic credit (variation from same quarter of preceding year) ^f | -4.1 | -5.6 | -7.4 | -5.1 | -3.9 | -2.2 | -5.1 | -2.9 | -1.4 | -1.3 ^g |
| Non-performing loans as a percentage of total credit ^h | 7.7 | 7.7 | 7.6 | 5.8 | 5.8 | 5.1 | 4.6 | 3.7 | 3.6 | 3.0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1994 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e Average rates. ^f Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^g Data to April. ^h Refers to total credit extended by full-service banks.

Reflecting a small increase in the employment rate—and stoked by the expansion of credit—private consumption rose a moderate 3.4%. Overall, domestic demand increased by 3.8% (compared with 3.5% in 2003) and global demand, by 6.9%. In contrast to previous years, imports, too, responded to the economic upturn and rose in volume by 10.1%. GDP expanded by 4.8%.

The upswing spread across the board, with almost all branches of activity growing by over 4%. Agriculture alone experienced a downturn, which was attributable to poor weather conditions that reduced the area sown and lowered the yield of many crops, though the livestock segment recorded a modest gain. The outlook for 2005 is brighter, with an estimated growth rate of 4% for the sector. Fishing outstripped the other branches of activity, more than compensating for its contraction in 2003, thanks to greater availability of marine species for human consumption and industrial processing alike.

The expansion of mining slackened, partly due to a drop in the metal content of the ore extracted, as well as the fact that no major new deposits came on stream. By contrast, the start-up of operations in the Camisea gas field reversed the downward trend in hydrocarbons production. Mining is expected to expand by 6% in 2005.

Manufacturing posted a climb of 6.7%, mainly on the back of expansion of over 7% in the non-primary segment, which benefited from access to the United States market (especially in the case of textiles), and a modest upturn in domestic demand. This robust performance carried over into 2005, with non-primary activities again leading the way, and the sector is expected to turn in a growth rate of 5% for the year overall.

Construction was up by 4.7%, continuing the upswing begun in 2002. The increase was mainly attributable to private investment projects and was fuelled by an increase in mortgage lending. Commerce got off to a slow start in

2004, but was revitalized in the second semester by the swell in consumption and recorded a rate of 4.8% for the year overall. Other services expanded by 4.7%. All three segments should record similar or slightly higher rate of expansion in 2005.

Based on the Peruvian economy's buoyant performance in the first five months of 2005, when it expanded by 6.0%, it is expected to report a growth rate of around 5.5% for the year overall.

(b) Prices, wages and employment

Higher prices for certain agricultural goods, domestic and imported alike (due to adverse weather conditions in the former case), and, especially, for fuels drove up consumer inflation in Metropolitan Lima, which thus in the first half of the year came in over target to post a year-on-year increase of 4.6% in July. In August, inflation began to ease back down and ended the year at the upper limit of the band set as part of the authorities inflation-targeting scheme, at 3.5%.¹ At the start of 2005, this downward trend steepened and in June inflation was 1.5%, although fuel prices continued to exert upward pressure.

Formal employment in urban areas climbed by an average of 2.7% over the year. The employment rate in Metropolitan Lima rose by half a percentage point. Since the economic growth encouraged people who had not been economically active into the labour market, however, the rate of unemployment did not give ground, but remained at an annual average of 9.4%. The weakness of the labour market was also a factor in prompting large-scale emigration, involving some 300,000 people in 2004. At the start of 2005 the creation of formal employment gathered pace (up 3.7% in the first five months), although this positive development failed to have an effect on unemployment in Metropolitan Lima.

Mounting demand for labour did not impact on wages, since in 2004 the average nominal labour income of employed inhabitants of Lima increased by only 1.9%, which represented a drop of 1.7% in their purchasing power.

(c) The external sector

Thanks to strong demand for raw materials from Asia and access to the United States market—facilitated by the Andean Trade Promotion and Drug Eradication Act (ATPDEA)—exports surged by almost 40% to over US\$ 12.6 billion. This expansion reflected an increase in both traditional and non-traditional exports (42% and 33%, respectively). Prominent among the first group were

certain metals, which benefited from high international prices, especially copper, of which sales almost doubled, but also lead, tin, silver, iron and gold. In some cases, again notably copper, export volumes also increased. Agricultural goods (such as coffee) and fishing products were also served by improvements in both prices and production. All the non-traditional export segments performed very strongly, with a case in point being textiles, whose sales exceeded US\$ 1 billion for the first time.

Following on from the positive trend in export prices, terms of trade improved by 8.9%.

As a result of the uptick in investment, capital goods imports increased by 19%, but remained below the figures seen in the second half of the 1990s. High fuel prices contributed to an expansion in imports of intermediate goods (23%) and a small rise in private consumption signified an increase in imports of consumer goods (7%), which outstripped the previous high recorded in 1998.

The vigorous expansion in exports produced a large trade surplus which, despite a hefty increase in the factor services deficit, practically wiped out the balance-of-payments current-account deficit. This was also partly attributable to an increase (to US\$ 1.467 billion) in current transfers. Exports continued to grow strongly in the first part of 2005 (36% in the first five months) and it is estimated that they will represent over US\$ 14 billion for the year overall.

Due in part to an increase in foreign direct investment, in 2004 the financial account recorded its largest surplus since 1997. As a result, the overall balance was in surplus by over US\$ 2.4 billion, boosting net international reserves from US\$ 10.194 billion at the end of 2003 to US\$ 12.631 billion twelve months later and over US\$ 13.8 billion at the end of the first semester of 2005.

External public debt rose in 2004, as the government floated bonds for US\$ 500 million in April and 650 million euros in October, taking advantage of relatively favourable borrowing conditions created by the drop in sovereign bond spreads from an average of 429 basis points in 2003 to 349 in 2004. This trend was still in evidence at the start of 2005, with a the figure of 229 basis points for the first semester. External debt measured in dollars also expanded due to the appreciation of the euro. In terms of GDP, however, total external debt came down from 48.7% to 45.3%, thanks to a decrease in private debt. A new bond issue was launched in January 2005, this time for US\$ 400 million. The authorities were also able to reprofile Peru's debt to the Paris Club, which eased its amortization schedule. To this end, in July a fresh bond issue was launched on the domestic market and another, for US\$ 750 million, was floated on the external market.

¹ The more recently instituted nationwide consumer price index showed a 3.7% year-on-year increase in December.

Uruguay

1. General trends

In 2004 the Uruguayan economy recorded GDP growth of 12.3%, which was much higher than expected. The fastest-growing sector was manufacturing (21.6%), and it was also the largest contributor to overall growth (3.7%). Despite this exceptional result, per capita GDP was 9.5% less than in 1998. Domestic demand increased by 13.3%, with rises of 11.4% in final consumption expenditure and 27% in gross capital formation.

This favourable economic performance occurred amid significant political events, such as the national elections in October 2004, which were won by a political grouping which was new to national government. The new authorities taking office in March 2005 carried on the existing macroeconomic policy, aiming to maintain a tight rein on the fiscal accounts, keep inflation low and ensure an unpressured external situation. They also adopted important social measures, including the implementation of a social emergency plan to help the most needy sectors.

The country also reduced its vulnerability in real and financial terms. First, exports diversified: sales to MERCOSUR came down to 26% of the total (from 55% in 1998), while exports going to the United States and Europe expanded to 20% and 22%, respectively. Second, as regards finance, high economic growth, combined with the Uruguayan peso's appreciation against the dollar, helped to reduce the external debt to GDP ratio, which diminished from 98% in 2003 to 88% at the end of 2004. The gross external debt stood at US\$ 11.597 billion at the end of the year.

The December-December inflation rate declined by almost three percentage points in 2004 and was close to the floor of the target range of 7%-9%, after the upward trend of the price index had been broken by a dip of 0.33%

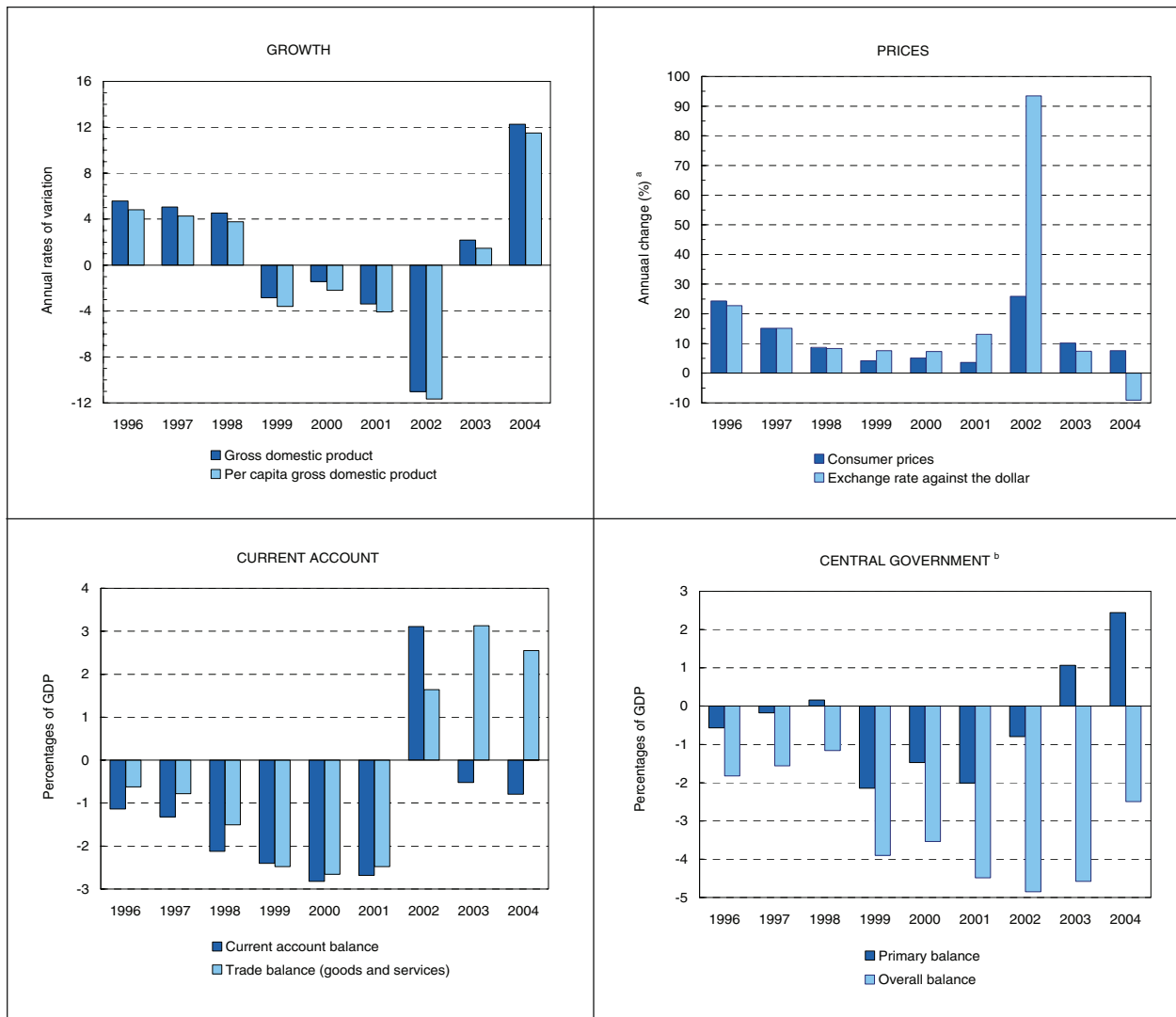
in October, the first monthly deflation since August 2001. With the inflation target on track, the government loosened its monetary policy, thus allowing the monetary base to expand by 1.574 billion pesos in 2004.

Although fiscal policy was not countercyclical, since the current primary expenditure of the non-financial public sector (NFPS) was up by a nominal 11.6%, rising income resulted in a public-sector primary surplus of around 3.9% of GDP, together with an overall deficit of 2% of GDP. Both figures were well within the targets set out in the agreement with the International Monetary Fund (IMF), which allowed a primary surplus of 3.4% of GDP and a deficit of 2.9%.

Unemployment continued to trend downwards to reach a moving average of 12.1% in the last quarter and the real average wage showed no change in relation to 2003. The informal sector of employment expanded and the percentage of individuals living below the poverty line continued to increase, reaching 31.2% of the population (up from 30.9% in 2003).

In 2005, the Uruguayan economy is expected to achieve 6% growth in a favourable regional context. Inflation will come in at around 5.5%-6.5% and the primary surplus will be 3.5% of GDP, with an overall deficit of 1.5% of GDP.

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a December-December variation.

^b In 1999 the accounting methodology was changed.

2. Economic policy

(a) Fiscal policy

Although in 2004 Uruguay easily met the primary surplus and overall balance targets agreed upon with IMF, part of the primary surplus accumulated in the first nine months of the year (4.3% of GDP) was spent during the

fourth quarter. Moreover, some of the reforms set out in the respective Letter of Intent were not implemented, including a tax reform intended, among other things, to eliminate certain exemptions and reduce the number of taxes (though without raising the tax burden), and a reform to the pension funds for police, military and bank personnel.

In addition, the large taxpayer unit proposed within the Tax Administration Department was not set up, although evasion control and higher levels of economic activity led to an increase in receipts, to which VAT contributed prominently with 19% real growth over the year.

Central government income also expanded by 13.7% in real terms, while NFPS revenue grew by a somewhat lower 9.2%, in view of losses sustained by public enterprises. NFPS disbursements were up by a real 3.1% over the 2003 figure, thanks to the limited increase in social security benefits (0.4%). Central government investment rose by about 34%, although in constant terms it amounted to only two thirds of the level reached in 1998.

By May 2005, the 12-month moving average of the primary surplus stood at 3.9% of GDP and the overall deficit was 1.4%, while the Tax Administration Department's receipts grew by 6.4% in real terms over the first five months of the year.

In view of the heavy debt/GDP ratio, the government's fiscal policy will have to remain tight on the expenditure side in order to ensure compliance with the agreed primary surplus targets and bring the external debt/GDP ratio down to 60% within five years. Spending is under pressure, however, both to improve wage levels and to increase public investment, in the energy sector among others. Nevertheless, civil servants and private-sector wage earners alike benefited from the income tax reduction brought in last year. In January, social security benefits were delinked from rises in the minimum wage.

As of 2006, Uruguay will be facing large payments on maturing external debt, representing 20% of GDP, and will have to turn to the international financial markets to secure the necessary resources. In November 2004, the successful review of the current drawing rights agreement with IMF led to the release of US\$ 212.3 million, which went to pay debt maturing in the first quarter of 2005. Uruguay's financing needs for 2005 amount to US\$ 500 million, which led the government to issue US\$ 300 million, then a further US\$ 200 million, in bonds maturing in 2017. These bonds carry an annual interest rate of 9.25% and are repayable at maturity. These issues, together with another for 300 million euros (maturing in 2016 at an annual interest rate of 6.875%), will cover more than 60% of the country's financing needs in 2006.

The new government gave priority to the national social emergency plan (PANES). The plan, costing the equivalent of 0.5% of GDP, will be implemented by the new Ministry of Social Development. It is a temporary, two-year programme, directed towards population groups living in extreme poverty, and is intended not only to guarantee basic

needs coverage, but also to offer an exit from indigence and poverty for the most vulnerable sectors of the population.¹ PANES will include the provision of food assistance, contingent monetary transfers, emergency health services, temporary work and services for the homeless.

(b) Monetary policy

At the beginning of 2003 the Uruguay's central bank started to apply a monetary policy directed towards controlling monetary aggregates, in order to meet its inflation targets. Some of the targets were altered in 2004 to increase flexibility, with one of the most significant changes being the adoption of a target range instead of a single value for the monetary base. In addition, greater use was made of a number of local-currency-denominated instruments in order to reduce the economy's degree of dollarization.

Given the extent of dollarization in the economy, and in view of the decline of the exchange rate and the change in the monthly inflation trend in October, the central bank shifted to a more flexible monetary policy stance. In the last quarter of the year, consumer prices showed a variation of -0.5%, which compared to rates of 2.8%, 2.6% and 2.5% in the previous three quarters.

At the end of November 2004, the central bank raised the operating target of the monetary base to 1.9% below the ceiling of the target range. In 2004, the monetary base expanded by 1.574 million Uruguayan pesos, bringing the annual average to the level envisaged by the central bank. Meanwhile, interest rates trended downwards. Interest rates on peso-denominated bills placed on the primary market went down from 20% in September to 6% at the end of December. The one-day interbank rate behaved in a similar fashion. In December, the central bank began to publish the variations in monetary assets and liabilities on a daily basis in order to enhance the transparency of financial information.

Private-sector deposits in the financial system by both residents and non-residents were 16% higher than in the previous year. As in 2003, sight deposits expanded, and they accounted for 74% of total deposits in December. Among the assets of the financial system, the most prominent development was an increase in liquid assets. Although the year-end figures show a contraction of US\$ 54 million in gross credit to the non-financial sector, once transfers of gross non-performing loans to memorandum accounts and credit in the form of crossed loans have been factored out, performing loans in fact showed an increase of 4%, mostly in the form of local-currency transactions. The profits of the private banks amounted to

¹ The National Institute of Statistics reports that approximately 200,000 individuals live in extreme poverty.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|--------|--------|--------|-------|-------|-------|--------|--------|-------------------|
| Annual growth rates^b | | | | | | | | | |
| Gross domestic product | 5.6 | 5.0 | 4.5 | -2.8 | -1.4 | -3.4 | -11.0 | 2.2 | 12.3 |
| Per capita gross domestic product | 4.8 | 4.3 | 3.8 | -3.6 | -2.2 | -4.1 | -11.7 | 1.5 | 11.5 |
| Gross domestic product, by sector | | | | | | | | | |
| Agriculture, livestock, hunting, forestry and fishing | 9.4 | -6.1 | 5.2 | -7.5 | -3.0 | -7.1 | 5.1 | 10.6 | 12.8 |
| Mining | 7.6 | 22.1 | 29.4 | -5.8 | -8.8 | -5.2 | -37.6 | 14.1 | 7.2 |
| Manufacturing | 4.0 | 5.9 | 2.3 | -8.4 | -2.1 | -7.6 | -13.9 | 4.7 | 21.6 |
| Electricity, gas and water | 4.3 | 6.7 | 11.5 | -0.1 | 5.0 | 1.7 | -0.6 | -7.4 | 1.2 |
| Construction | -1.8 | 2.4 | 9.8 | 8.9 | -11.1 | -8.7 | -22.0 | -7.1 | 7.2 |
| Wholesale and retail commerce, restaurants and hotels | 6.0 | 8.8 | 2.4 | -3.4 | -5.3 | -3.2 | -24.5 | -1.0 | 21.0 |
| Transport, storage and communications | 8.0 | 6.0 | 4.5 | 3.7 | 1.5 | 0.3 | -9.1 | 3.1 | 11.7 |
| Financial institutions, insurance, real estate and business services | 5.2 | 5.4 | 6.8 | 6.4 | 2.2 | 1.7 | -0.9 | -5.3 | -1.6 |
| Community, social and personal services | 2.2 | 3.4 | 2.7 | -0.5 | -0.6 | -2.3 | -3.3 | 0.7 | 3.5 |
| Gross domestic product, by type of expenditure | | | | | | | | | |
| Consumption | 7.8 | 5.4 | 6.4 | -1.3 | -1.4 | -2.1 | -15.9 | 1.1 | 11.4 |
| General government | 5.0 | 2.3 | 4.0 | 0.6 | -0.3 | -2.9 | -9.3 | -4.8 | 2.5 |
| Private | 8.3 | 5.9 | 6.8 | -1.5 | -1.6 | -2.0 | -16.9 | 2.0 | 12.8 |
| Gross domestic investment | -1.0 | 8.3 | 12.1 | -9.8 | -13.0 | -9.1 | -34.5 | 18.0 | 27.0 |
| Exports (goods and services) | 10.3 | 13.0 | 0.3 | -7.4 | 6.4 | -9.1 | -10.3 | 4.2 | 22.7 |
| Imports (goods and services) | 11.3 | 13.2 | 7.6 | -5.8 | 0.1 | -7.1 | -27.9 | 5.8 | 24.5 |
| Percentages of GDP | | | | | | | | | |
| Investment and saving^c | | | | | | | | | |
| Gross domestic investment | 15.2 | 15.2 | 15.9 | 15.1 | 14.0 | 13.8 | 11.5 | 12.6 | 13.3 |
| National saving | 14.1 | 13.9 | 13.7 | 12.7 | 11.1 | 11.1 | 14.6 | 12.1 | 12.5 |
| External saving | 1.1 | 1.3 | 2.1 | 2.4 | 2.8 | 2.7 | -3.1 | 0.5 | 0.8 |
| Millions of dollars | | | | | | | | | |
| Balance of payments | | | | | | | | | |
| Current account balance | -233 | -287 | -476 | -502 | -566 | -498 | 382 | -58 | -105 |
| Merchandise trade balance | -687 | -704 | -772 | -896 | -927 | -775 | 48 | 183 | 35 |
| Exports, f.o.b. | 2 449 | 2 793 | 2 829 | 2 291 | 2 384 | 2 139 | 1 922 | 2 281 | 3 025 |
| Imports, f.o.b. | 3 135 | 3 498 | 3 601 | 3 186 | 3 311 | 2 915 | 1 874 | 2 098 | 2 990 |
| Services trade balance | 560 | 536 | 436 | 377 | 394 | 316 | 153 | 167 | 302 |
| Income balance | -189 | -193 | -198 | -34 | -61 | -68 | 109 | -491 | -531 |
| Net current transfers | 83 | 74 | 59 | 50 | 27 | 30 | 72 | 82 | 89 |
| Capital and financial balance ^d | 386 | 687 | 831 | 675 | 833 | 824 | -4 310 | 1 092 | 447 |
| Net foreign direct investment | 137 | 113 | 155 | 238 | 274 | 291 | 180 | 401 | 300 |
| Financial capital ^e | 249 | 574 | 676 | 437 | 559 | 533 | -4 490 | 691 | 147 |
| Overall balance | 152 | 400 | 355 | 173 | 267 | 326 | -3 928 | 1 033 | 342 |
| Variation in reserve assets ^f | -141 | -392 | -515 | -11 | -222 | -278 | 2 328 | -1 380 | -454 |
| Other financing ^g | -12 | -8 | 160 | -162 | -45 | -49 | 1 600 | 347 | 112 |
| Other external-sector indicators | | | | | | | | | |
| Real effective exchange rate (index: 2000=100) ^h | 111.2 | 108.5 | 107.0 | 98.3 | 100.0 | 101.2 | 117.0 | 150.3 | 151.8 |
| Terms of trade for goods (index: 2000=100) | 108.6 | 110.2 | 116.7 | 106.2 | 100.0 | 103.8 | 104.8 | 107.4 | 108.4 |
| Net resource transfer (percentage of GDP) | 0.9 | 2.2 | 3.5 | 2.3 | 3.6 | 3.8 | -21.2 | 8.5 | 0.2 |
| Total gross external debt (millions of dollars) ⁱ | 11 595 | 12 485 | 13 582 | 8 261 | 8 895 | 8 937 | 10 548 | 11 013 | 11 597 |
| Total gross external debt (percentage of GDP) ⁱ | 56.5 | 57.5 | 60.7 | 39.5 | 44.3 | 48.2 | 85.9 | 98.4 | 87.8 |
| Net profits and interest (percentage of exports) ^j | 0.9 | 0.9 | 1.4 | 2.0 | 2.4 | 3.1 | -11.7 | 3.6 | 3.3 |
| Average annual rates | | | | | | | | | |
| Employment | | | | | | | | | |
| Labour force participation rate ^k | 58.2 | 57.7 | 60.5 | 59.3 | 59.6 | 60.6 | 59.1 | 58.1 | 58.5 |
| Open unemployment rate ^l | 11.9 | 11.5 | 10.1 | 11.3 | 13.6 | 15.3 | 17.0 | 16.9 | 13.1 |
| Visible underemployment rate ^l | 6.0 | 5.2 | 4.7 | 6.5 | 10.3 | 13.0 | 15.3 | 16.0 | 13.7 |

Table 1 (concluded)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^a |
|--|------|------|------|------|------|------|-------|-------|-------------------|
| Annual percentages | | | | | | | | | |
| Prices | | | | | | | | | |
| Variation in consumer prices (December-December) | 24.3 | 15.2 | 8.6 | 4.2 | 5.1 | 3.6 | 25.9 | 10.2 | 7.6 |
| Variation in producer prices, local products (December-December) | 23.5 | 13.3 | 3.3 | -0.3 | 9.5 | 3.8 | 64.6 | 20.5 | 5.1 |
| Variation in nominal exchange rate (December-December) | 22.7 | 15.1 | 8.3 | 7.6 | 7.3 | 13.1 | 93.5 | 7.4 | -9.1 |
| Variation in average real wage | 0.6 | 0.2 | 1.8 | 1.6 | -1.3 | -0.3 | -10.7 | -12.5 | 0.0 |
| Nominal deposit rate ^m | 27.1 | 19.1 | 14.9 | 13.8 | 12.0 | 14.7 | 43.8 | 28.1 | ... |
| Nominal lending rate ⁿ | 90.6 | 69.3 | 56.5 | 53.4 | 57.9 | 58.3 | 92.0 | 121.0 | 50.3 |
| Percentages of GDP | | | | | | | | | |
| Central government ^o | | | | | | | | | |
| Current income | 17.8 | 18.8 | 19.5 | 20.9 | 20.3 | 20.8 | 21.2 | 21.4 | 21.6 |
| Current expenditure | 17.9 | 18.5 | 18.5 | 22.2 | 22.0 | 23.4 | 24.7 | 24.7 | 22.6 |
| Current balance | -0.1 | 0.3 | 1.0 | -1.3 | -1.7 | -2.6 | -3.5 | -3.3 | -1.0 |
| Net capital expenditure | 1.7 | 1.9 | 2.2 | 2.6 | 1.9 | 1.8 | 1.4 | 1.3 | 1.5 |
| Primary balance | -0.6 | -0.2 | 0.2 | -2.1 | -1.5 | -2.0 | -0.8 | 1.1 | 2.4 |
| Overall balance | -1.8 | -1.6 | -1.2 | -3.9 | -3.5 | -4.5 | -4.9 | -4.6 | -2.5 |
| Public debt | 22.0 | 22.6 | 24.0 | 26.2 | 31.9 | 41.9 | 98.7 | 94.3 | 74.7 |
| Interest payments (percentage of total income) | 7.0 | 7.4 | 6.8 | 8.4 | 10.2 | 12.0 | 19.1 | 26.3 | 22.9 |
| Money and credit ^p | | | | | | | | | |
| Domestic credit ^q | 24.8 | 26.4 | 31.3 | 50.4 | 53.7 | 55.7 | 68.5 | 54.5 | 39.2 |
| To the public sector | 1.9 | 2.1 | 1.6 | 3.4 | 3.3 | 3.6 | 7.4 | 6.9 | 4.5 |
| To the private sector | 22.9 | 24.3 | 29.7 | 47.0 | 50.4 | 52.1 | 61.1 | 47.6 | 34.7 |
| Liquidity (M3) ^r | 49.4 | 49.0 | 52.1 | 60.1 | 67.5 | 81.7 | 84.9 | 76.0 | 72.0 |
| Currency in circulation and local-currency deposits (M2) ^r | 10.1 | 10.0 | 10.1 | 10.7 | 10.7 | 11.0 | 8.6 | 8.2 | 8.1 |
| Foreign-currency deposits ^r | 39.3 | 39.0 | 42.0 | 49.4 | 56.8 | 70.8 | 76.3 | 67.8 | 63.8 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1983 prices. ^c Based on figures in local currency expressed in dollars at current prices. ^d Includes errors and omissions. ^e Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment. ^f A minus sign (-) denotes an increase in reserves. ^g Includes the use of IMF credit and loans and exceptional financing. ^h Annual average, weighted by the value of merchandise exports and imports. ⁱ As of 1999, the figures refer to the new official series for the total debt and are not comparable with the previous figures. It includes the private sector and does not include memorandum items on external liabilities and assets. ^j Refers to net investment income as a percentage of exports of goods and services as shown on the balance of payments. ^k Economically active population as a percentage of the working-age population, urban total. ^l Unemployment and underemployment rates as percentages of the economically active population, urban total. ^m Average rate for fixed-term deposits for six months or less. ⁿ One-year non-readjustable cash loans in local currency to families. ^o As of 1999 the accounting methodology was changed. ^p The monetary figures are annual averages. ^q Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^r Up to 2000, the source used was IMF. As of 2001 the source was the Central Bank of Uruguay.

US\$ 7 million. The interest rate for dollar-denominated deposits remained stable despite rises in international rates, while the dollar lending rate diminished for all types of loans. The lending rate for peso-denominated loans stood at 29% in the last quarter.

In view of the high level of non-performing loans in the portfolio of the State development bank, Banco de la República Oriental del Uruguay (64.5% of all credits to the non-financial sector), the institution created three financial trust funds, in late 2003 and the course of 2004, to take over and administer the poorest quality loans. Meanwhile, the delinquency rate for the private bank portfolio was down to 10% in December 2004, as compared with 18.5% a year earlier. As of January 2006, banks will classify their risk portfolios according to debtors' ability to pay, which will reduce the significance of guarantees.

(c) Exchange-rate policy

Uruguay maintained its currency float in 2004. Over the year, the Uruguayan peso appreciated by 13% against the United States dollar, with a competitiveness loss of 10% in relation to Argentina and Brazil, and 6% at the extraregional level. Nevertheless, the effective exchange rate with all countries is 51% higher than in February 2002. This appreciation continued in the first five months of 2005 with a further 8%.

(d) Other policies

Despite an upturn in gross capital formation, it still represented only 13.3% of GDP at the end of 2004, which was lower than the 16% recorded in 1998. Seeking to

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

| | 2003 | | | | 2004 ^a | | | | 2005 ^a | |
|---|-------|-------|-------|-------|-------------------|-------|-------|-------|-------------------|------------------|
| | I | II | III | IV | I | II | III | IV | I | II |
| Gross domestic product (variation from same quarter of preceding year) ^b | -7.8 | -4.8 | 6.8 | 15.0 | 14.1 | 12.4 | 12.7 | 10.3 | 7.1 | ... |
| Merchandise exports, f.o.b. (millions of dollars) | 441 | 580 | 579 | 606 | 589 | 522 | 788 | 796 | 711 | ... |
| Merchandise imports, c.i. f. (millions of dollars) | 471 | 519 | 583 | 617 | 662 | 493 | 817 | 899 | 915 | ... |
| International reserves (millions of dollars) | 787 | 1 163 | 1 716 | 2 087 | 2 243 | 2 244 | 2 351 | 2 512 | 2 095 | 2 525 |
| Real effective exchange rate (index: 2000=100) ^c | 146 | 153 | 147 | 156 | 159 | 155 | 149 | 145 | 141 | 139 ^d |
| Urban unemployment rate | 18.6 | 17.5 | 16.0 | 15.4 | 13.9 | 13.1 | 13.3 | 12.1 | 12.1 | ... |
| Consumer prices (12-month percentage variation) | 28.5 | 24.6 | 11.6 | 10.2 | 8.7 | 9.6 | 9.6 | 7.6 | 5.5 | 4.1 |
| Average nominal exchange rate (pesos per dollar) | 28.33 | 28.20 | 27.53 | 28.78 | 29.53 | 29.72 | 28.77 | 26.80 | 25.33 | 24.72 |
| Average real wage (variation from same quarter of preceding year) | -19.9 | -16.7 | -7.4 | -3.8 | -1.9 | -1.3 | 0.5 | 2.4 | 4.6 | 4.4 |
| Nominal interest rates (annualized percentages) | | | | | | | | | | |
| Deposit rate ^e | 34.8 | 21.4 | ... | ... | ... | ... | ... | ... | ... | ... |
| Lending rate ^f | 146.3 | 157.2 | 109.7 | 70.8 | 53.2 | 50.8 | 51.0 | 46.2 | 44.5 | 41.6 |
| Sovereign bond spread (basis points) | 2 367 | 729 | 695 | 624 | 560 | 693 | 491 | 373 | 429 | 400 |
| Domestic credit (variation from same quarter of preceding year) ^g | 13.7 | -4.4 | -23.0 | -25.0 | -7.0 | -1.3 | -14.0 | -12.4 | ... | ... |
| Non-performing loans as a percentage of total credit ^h | 25.6 | 24.8 | 22.9 | 18.5 | 17.0 | 15.0 | 11.9 | 9.8 | ... | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures. ^b Based on figures in local currency at constant 1983 prices. ^c Quarterly average, weighted by the value of merchandise exports and imports. ^d Data to May. ^e Average rate for deposits of six months or less. ^f One-year non-readjustable cash loans in local currency to families. ^g Refers to net credit extended to the public and private sectors by commercial banks and other financial and banking institutions. ^h Refers to total credit extended by commercial and private banks and commercial establishments.

remedy this situation, the government proposes to attract foreign direct investment and break into new export markets, among other things. In this connection, two large pulp mill construction projects have been approved, one by Botnia of Finland, with an investment of US\$ 1.1 billion, and the other by the Spanish group ENCE, for US\$ 600 million. With regard to encouraging private ventures, in May 2004 Telefónica de España and América Móvil were awarded rights to use airwave space.

In the area of trade policy, having signed a free trade accord with Mexico and an investment protection agreement with the United States, Uruguay is now looking at the possibility of a free trade deal with Japan. In addition, MERCOSUR is to begin negotiations this year with Canada, China, Egypt, Israel, Morocco and the Republic of Korea. Another important development is the MERCOSUR project to establish a structural convergence fund starting in 2006.

3. The main variables

(a) Economic activity

On the supply side, growth in 2004, unlike in 2003, was led by manufacturing (21.6%), which was fuelled by

domestic demand and the expansion of external demand. Production was up across all the sectors of industry, with the most dynamic branches being foodstuffs, beverages and tobacco; and chemicals and metal products, specifically

machinery and equipment. The sector of commerce, restaurants and hotels grew by 21.0% owing, among other things, to the increased tourist arrivals. Transport and communication activity was up by 11.7%, while agricultural activity expanded by 12.8% thanks to a simultaneous increase in agricultural and fishing production. Construction expanded by 7.2%, as a result of a rise in public and private construction.

Economic growth slowed in the first quarter of 2005. GDP was up by 7.1% in relation to the same period in 2004 and by 0.1%, in seasonally adjusted terms, on the fourth quarter of 2004. This standstill was the result of a slowdown recorded in almost all the sectors, with the exception of transport and communications and others.

(b) Prices, wages and employment

In 2004 consumer prices rose by 7.6% and wholesale prices, 5.1%. In the last quarter, consumer prices dropped by 0.5%, after an average increase of 2.6% in the previous quarters. Underlying the fall in prices at the end of the year were the drop in the exchange rate and in meat prices, and a reduction in international oil prices and telecommunications rates. Inflation stood at 2.1% in the first half of 2005, which translated into a cumulative rise of 4.1% in the 12 months ending in June. The target range for inflation has been set at 5.5%-7.5% for 2005.

Throughout 2004 the real average wage remained unchanged compared to 2003, which meant a decline of 1.4% in the private sector and a rise of 2.6% in the public sector. In the first four months of 2005 wages in both sectors increased slightly, by about 0.7%.

In July 2004 the minimum wage was raised by 9.7%. The adoption of legislation creating a unit of account for adjusting social security benefits removed the fiscal impact of adjustments to the minimum wage, which had previously performed this function. The minimum wage was then increased by 56% as of January 2005, bringing it to approximately US\$ 80.

In the labour market, the average employment rate was 50.9% in 2004, compared to 48.3% in 2003. Nevertheless,

15.9% of those employed were underemployed, in other words, working a limited number of hours. This was exacerbated by the fact that 40.7% of those employed lacked social security coverage. Unemployment continued to trend downwards, coming to stand at 12.1% as a moving average for the quarter ending in December 2004; this trend then changed direction for the quarters ending in March and April with moving averages of 12.1% and 12.6%.

(c) The external sector

In 2004, exports amounted to US\$ 3.025 billion, which was a rise of 32.6%, while imports expanded to US\$ 2.99 billion, with an increase of 42.5%. The balance of trade in goods posted a small surplus of US\$ 35 million, while the overall trade balance built up a surplus of US\$ 337 million and the current account showed a deficit of US\$ 105 million, equivalent to 0.8% of GDP (0.5% in 2003), since the deficit on the income balance widened with respect to 2003.

In view of the economic upturn, imports of capital goods increased by 89.9% and those of intermediate and consumer goods grew by 38.2% and 37.2%, respectively. Electricity imports were a prominent item, with a cost of US\$ 51 million, compared to US\$ 5.3 million in 2003. In 2004, the company Usinas y Trasmisiones Eléctricas imported 350 MWh from Brazil in view of the drought and Uruguay's heavy dependence on hydroelectric generation. For this reason, another of the new government's priorities is to increase regional energy interconnection.

Exports of beef amounted to 402,784 tons, which was an increase of 26% on 2003; meat sales in general brought US\$ 724 million dollars into the country, or 58% more than in 2003. The main export market was the United States, which accounted for 66% of the total. Meat export prices rose by 29% with respect to the previous year and averaged US\$ 1,545 per ton.

Uruguay received net foreign direct investment of US\$ 300 million (2.3% of GDP) in total, while the overall balance showed a surplus of US\$ 342 million.