ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

ECLAC

PRELIMINARY OVERVIEW OF THE ECONOMY OF LATIN AMERICA AND THE CARIBBEAN 1997

UNITED NATIONS

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Notes and explanation of symbols

The following symbols have been used in the tables in this Preliminary Overview:

Three dots (...) indicate that data are not available or are not separately reported.
A dash (–) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.
A full stop (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1969/1979.
Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.
References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual growth rates of variation mean cumulative annual rates.
Figures and percentages in tables may not neccessarily add up to the corresponding totals, because of rounding.

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FOR LATIN AMERICA AND
THE CARIBBEAN – ECLAC

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REGIONAL PANORAMA

1. INTRODUCTION

Despite the instability in international financial markets in recent months and the turbulence it has created in Latin American stock markets, in 1997 the region's economies put out their best performance in a quarter of a century, combining an average growth rate of 5.3% (compared to 3.2% during the period 1991-1996) with an average rate of inflation of under 11%. Although the current account deficit has widened considerably, from US$ 35 billion in 1996 to US$ 60 billion in 1997 (3% of GDP), inflows of foreign capital will more than cover the gap; they are expected to reach unprecedented levels, totalling at least $73 billion. Of that amount, nearly two thirds will be in the form of direct investment. The employment situation has improved slightly, although the percentage of the population unemployed continues to be very high in a number of countries. High unemployment rates are undermining efforts to move ahead more rapidly in reducing the extent of poverty –a serious problem in an otherwise generally positive scenario.

This growth was the consequence of a strong recovery in investment and continued expansion of exports, the latter due entirely to increases in volume, since, on average, export prices for the region remained stationary. Intraregional trade showed great dynamism, reinforcing economic interdependence between some countries, especially in the Southern Cone. Imports, however, exceeded exports; in part this was due to increased investment, as imports of capital goods increased sharply. The restrictive fiscal and monetary policies applied in prior years helped reduce inflation to its lowest level in half a century, an accomplishment aided by sometimes overvalued exchange rates, which also contributed to the deterioration in the trade balance. Thanks to the improved macroeconomic environment, Governments were able to allocate more funds to public investment and apply more flexible credit policies without undermining domestic stability.

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1994	1995	1996	1997[a]
Economic activity and prices				
		Annual rates of variation		
Gross domestic product	5.4	0.2	3.5	5.3
Per capita gross domestic product	3.7	-1.5	1.9	3.6
Consumer prices	335.1	25.9	18.4	10.5
Terms of trade	4.1	3.5	0.6	2.0
External sector				
		Billions of dollars		
Exports of goods and services	222.7	264.4	294.0	326.2
Imports of goods and services	200.5	272.8	302.2	354.3
Balance on goods	-13.6	1.9	4.4	-11.5
Balance on services	-12.0	-10.3	-12.6	-16.6
Balance on income account	-34.9	-38.8	-41.8	-46.3
Balance on current account	-48.6	-32.3	-35.5	-59.9
Balance on capital and financial account	42.2	25.4	62.9	73.5
Overall balance	-10.3	-6.8	27.4	13.6
Total disbursed external debt	557.0	608.0	629.1	644.6

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

As 1997 draws to a close, the chief question is whether this relatively happy state of affairs can be maintained through the coming year. The main grounds for doubt are to be found in the external context: in prices of primary products, interest rates and foreign capital flows –the latter in particular. The Asian financial crisis is expected to have negative repercussions in the region in terms of both trade and capital movements. Some countries still have heavy flows of short-term capital, which introduces a note of instability into the picture. Nevertheless, the region should be less vulnerable financially because the composition of the capital entering Latin America is more stable than it was some years ago. Moreover, the banking sector is on its way to resolving some of its problems.

Putting together the effects of the external factors, often contradictory in tendency, with macroeconomic policies adopted to reduce inflation or current account deficits, the most likely scenario is that in 1998 the region will return to a lower rate of growth, perhaps close to the average for the 1990s, than it enjoyed this year. In that case, the employment situation will continue to be cause for concern. On the other hand, it is likely that inflation will continue to slow, and the current account deficit may be reduced. In view of the determination already shown by a number of Governments to take hard measures when necessary to maintain macroeconomic stability, it seems unlikely that the Asian financial crisis will have repercussions powerful enough to provoke new foreign exchange crises in the region.

2. MACROECONOMIC POLICY

In the first three quarters of 1997, the countries of the region maintained the general thrust of the macroeconomic policy they had been following since the start of the decade. Improved expectations, however, made possible a qualitative leap in the macroeconomic environment compared with the two previous years. In 1997, countries were able to reap the fruits of their earlier efforts at domestic stabilization and rehabilitation of their banking systems. Progress was made possible not only by improved economic performance, but also by restored confidence on the part of national and foreign investors in the region's medium- and long-term prospects. Thus, in most countries, demand for money increased strongly and the local currency continued appreciating in real terms in foreign exchange markets. Renewed confidence and progress in reactivating the banking sector led to an expansion in bank lending and hence to increased investment. The effect was also observable in the public policy sphere, as the progress achieved in stabilization offered many countries the chance to ease up on some aspects of fiscal policy.

Turbulence in international financial markets following the crisis in South-East Asia dramatically changed the external environment and had obvious repercussions on the region's foreign exchange and financial markets (see box 1). However, the good performance of the region's markets to date in comparison with what is happening in other emerging markets and the rapid response capacity of government economic teams has helped to reinforce the good opinion of investors about macroeconomic achievements in Latin America and the solidity of its prospects.

BOX 1

THE REPERCUSSIONS OF THE ASIAN CRISIS IN LATIN AMERICA

The fact that the region's financial markets reacted well in July to the first shock to hit the main emerging economies of South-East Asia was taken in international circles as a sign of the progress achieved by macroeconomic adjustment programmes in Latin America and the Caribbean. After the Mexican banking and foreign exchange crisis of late 1994, the countries of the region had turned in a generally satisfactory performance, thanks to a particularly favourable international climate. The abundant supply of foreign capital —which made it possible to finance the expansion of the external deficit at a relatively low cost— and the strength of exports were the key factors enabling Governments to carry out their stabilization programmes and economic reforms.

Nevertheless, the general atmosphere in international markets towards the end of the year was one of nervousness, owing not only to uncertainty as to the direction of emerging markets, but also to fears of a financial market correction in the United States. The slide in the Hong Kong stock market on 23 October and the 7.2% fall in the New York Stock Exchange four days later therefore had a serious impact on the region. On 27 October the major Latin American stock exchanges closed with losses of between 13% and 15%. Losses in the rest of the markets were smaller, but nonetheless significant. The São Paulo stock exchange —the region's largest by far, and the most active during the first half of the year— lost one third of its value, and the national authorities depleted their reserves by 13% defending the exchange rate from a fierce speculative onslaught. The Government responded first by doubling interest rates and then, on 10 November, with a 51-point emergency plan. The impact was not as great in the remaining Latin American economies, and at the regional level, the shock was unable to reverse the cumulative gains in the financial markets up to the third quarter and had no effect on the tendency towards exchange-rate overvaluation, a trend that was on the increase during the first half.

As well as hampering external debt management in the countries of the region or raising the cost of financing their current-account deficits, the crisis is likely to depress —direct or indirectly— the regional levels of economic activity, according to the latest report of the organisation for economic co-operation and development (oecd), growth rates in the industrialized countries are set to fall by 0.9 percentage points, which will affect international trade.

Moreover, the greater exchange-rate competitiveness of Asian exports should lead to more intense competition among exports to the industrialized economies. The same Asian countries have also acquired importance as markets for a number of primary commodity and commodity-based exports from Latin America. More directly, the emergency fiscal and credit measures taken by Brazil (in an attempt to narrow its fiscal deficit by more than two points of GDP) have dampened the country's prospects for growth in 1998, with a risk of recession in the first quarter. Sluggish domestic demand in Brazil would hurt exports from the country's main trading partners, where declining product competitiveness due to the real overvaluation of their own currencies has in previous years been somewhat offset by the expansion of the Brazilian market and the strong appreciation of the real.

Fiscal policy takes on a moderately pro-cyclical slant

Economic growth faster than expected in many countries of the region brought in greater tax revenues, particularly from domestic taxes and duties on consumer goods. In addition to this regionwide trend, a number of the countries that had been having problems with their public sector accounts the previous year adopted new measures to increase tax revenues, either by raising tax rates and tax bases (as in Colombia, Ecuador and Paraguay) or by postponing planned reductions in domestic or external taxes (as in Costa Rica and Barbados). Meanwhile, non-tax revenues tended to decline for reasons unrelated to fiscal policy. Such was the case in Chile in the second half of the year because of lower international prices for copper, and in Colombia and Peru, because of a fall-off in capital revenues compared with the high levels recorded in 1996.

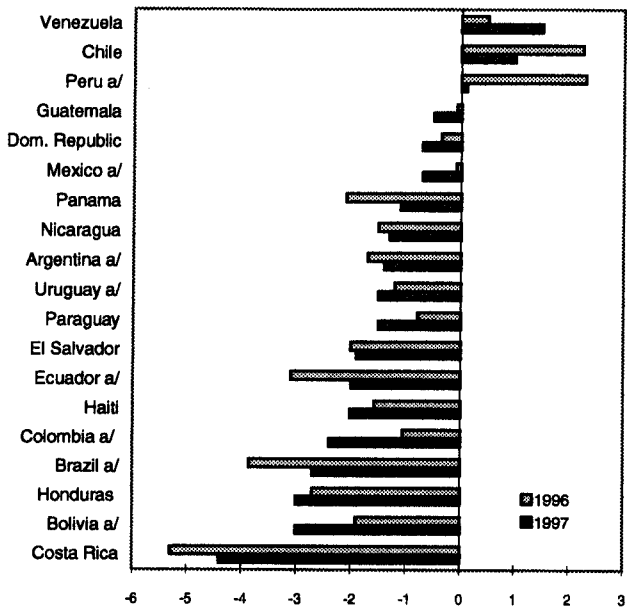
Expenditure generally increased more rapidly than revenue. Following several years of fiscal austerity, the countries of the region which found themselves in a somewhat easier fiscal situation resumed a policy of investment in new infrastructure projects and allocated more funds to social spending. This trend was most pronounced in Peru and Mexico. In some countries, increased spending was the result of mandatory increased transfers to pension and other social security systems as a result of social security reform (Argentina, Uruguay).

Due to the combination of these revenue and expenditure trends, the fiscal deficit for the region as a whole increased slightly (see figure 1). The pattern noted is that the countries whose fiscal balance improved were those which had experienced fiscal problems the year before, with an average deficit of 2.5% of GDP. In contrast, the fiscal situation tended to worsen in the countries whose public finances had previously been on a sounder footing, with an average deficit of barely half a per cent of output in 1996. In a few cases a wider deficit was the result of domestic emergencies; this was the case in Jamaica, which had to assume the cost of a serious banking crisis.

Foreign exchange policy responds to capital flows

During most of the year, foreign exchange policy was shaped by strong inflows of foreign capital that pushed

Figure 1
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT DEFICIT OR SURPLUS
(Percentages of GDP)



Source: Table A.6 of the *Statistical Appendix*.
a/ Refers to non-financial public sector.

nominal exchange rates downward, forcing monetary authorities to buy foreign currencies in order to stave off an even stronger real appreciation of the local currency and the consequent loss of competitiveness of the country's exports. The tendency towards currency appreciation was intensified in the first half, as the dollar strengthened in international markets and the cost of the region's imports from Japan and Europe became relatively cheaper, a fact that helped to control domestic inflationary pressures.

Real currency appreciation moderated after the Asian crisis, which caused uneasiness in the region's main foreign exchange markets and led to fairly sizeable foreign exchange adjustments in some countries, among them Mexico and Chile. The region's currencies underwent an average real appreciation of 4%. Colombia and Venezuela experienced the strongest appreciation (9.6% and 20%, respectively). Only three countries (El Salvador, Nicaragua and Trinidad and Tobago) saw significant real depreciation in 1997.

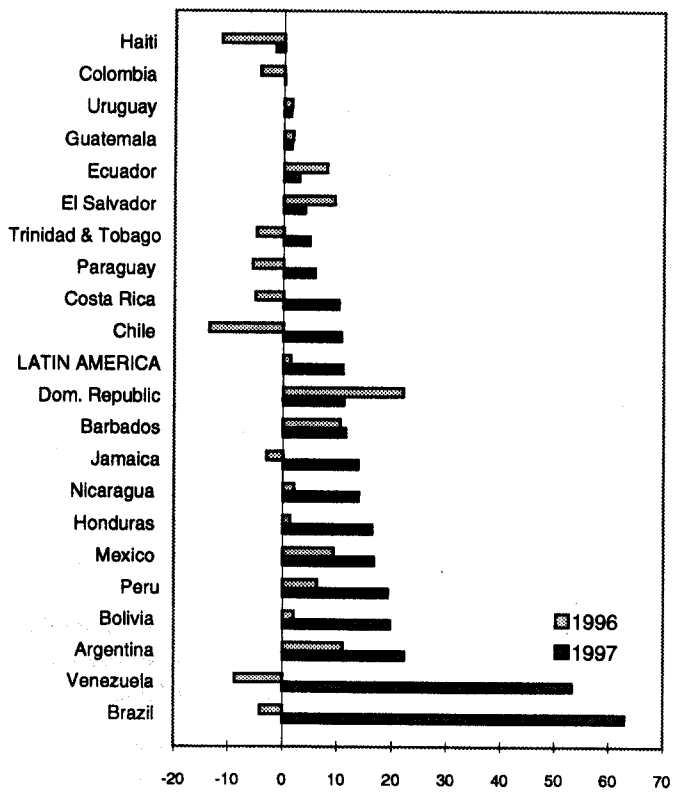
Monetary policy turns more expansive

The money supply grew strongly in 1997 as a result of monetization of incoming foreign capital, which continued to be abundant and resulted in an increase in net international reserves and an expansion in domestic credit, especially lending to the private sector (see figure 2). Despite sales of monetary stabilization bonds, the ratio of real local-currency liquidity to output rose by 5%. The monetary expansion was in response to strong demand for local currency, often observed when economies that have suffered recent bouts of high inflation remonetize. The most notable examples of expansion occurred in Brazil and Venezuela. By adjusting the money supply to greater demand for money, they avoided the destabilizing effects that usually accompany money creation on that scale. Hence, the expanded liquidity did not result in a deterioration in the external accounts, and monetary demand was accompanied by a slowdown in the rate of inflation.

Until the third quarter, nominal interest rates generally declined, for two main reasons. First, domestic financial markets finally responded to the slowing rate of inflation. Second, greater liquidity put downward pressure on interest rates. Since the decline in the inflation rate was even more rapid, the nominal drop was only partially reflected in real rates. It was significant that real lending rates were declining faster than deposit rates. In fact, between 1996 and 1997, real lending rates dropped on average from 16.6% to 15.9%, while real deposit rates rose from 2.6% to 4.5%. In most of the region, therefore, spreads were narrowing, although still high. Beginning in October, international events forced some countries to raise domestic yields to stem an outflow of capital.

Greater liquidity in the banking system and the decline in the real cost of financing resulted in a significant increase

Figure 2
LATIN AMERICA AND THE CARIBBEAN: ANNUAL VARIATION IN NARROW MONEY IN REAL TERMS
(Annual rates of variation)



Source: ECLAC, on the basis of official figures.

in bank lending in a number of countries. Increased loan operations were also spurred by the measures adopted over the past three years to strengthen national financial markets by improving the regulatory framework and enabling stricken institutions to recapitalize. Easier access to bank financing was part of the reason for expanded investment in the region. Some countries, however, were still suffering the aftermath of prior (Paraguay) or recent (Jamaica) banking crises.

3. DOMESTIC ECONOMIC PERFORMANCE

Growth increases significantly

The rebound in activity levels in the Latin American and Caribbean countries in 1996 was accentuated in 1997. Average growth is expected to be 5.3%, nearly two points higher than the average for the 1990s and among the highest rates for the last 25 years. Per capita GDP should increase by 3.6%, marking an increase of 13% since the start of the decade.

The improved regional economy is due especially to significant improvements in seven countries (Argentina, Costa Rica, El Salvador, Mexico, Peru, Uruguay and Venezuela) and continued strong growth in Chile and the Dominican Republic. Brazil, on the other hand, experienced only modest growth and because of the size of its economy kept the regional rate from showing even greater dynamism (see figure 3).

Growth in 1997 was experienced throughout the region, in confirmation of a trend already visible in 1996 and in contrast to the wide disparities observable in 1995. Not a single country experienced negative growth this year, and six (Argentina, Chile, Dominican Republic, Mexico, Peru and Uruguay) expanded activity by 6% to 8%. In seven economies the pace of growth was in the 4% to 6% range. In nine it was around 3%. Only three countries (Haiti, Jamaica and Saint Lucia) experienced little or no growth.

The region's overall progress in 1996-1997 was stimulated by growth in investment, which far exceeded growth in GDP. The ratio of investment to GDP is expected to reach 24% for the year, the highest rate in the 1990s. Investment growth was especially marked in Argentina, Bolivia, Costa Rica, Dominican Republic, Mexico, Nicaragua and Venezuela. To a large extent it was financed by external capital, since domestic saving increased more slowly than GDP.

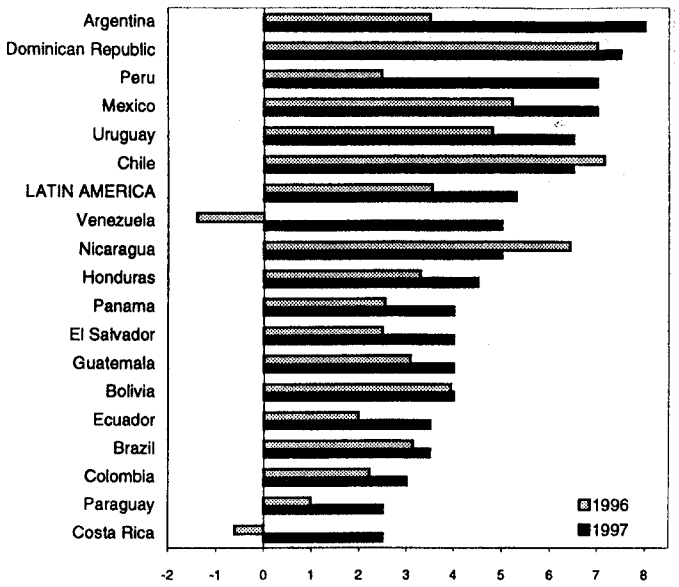
Another major factor in the acceleration of activity was export growth, which was strong in a number of countries. However, domestic activity was undercut to some extent by the diversion of a good portion of domestic demand to imports, a trend made possible by trade liberalization in recent years and favoured by a significant drop in real exchange rates in most countries of the region.

Regional economic activity was affected in 1997 by the "El Niño" phenomenon, which caused serious drought in some areas and heavy rainfall in others, hurting agricultural output in particular and causing some damage to infrastructure. It also reduced catches of cold-water fish species (see box 2).

Inflation is at its lowest level in decades

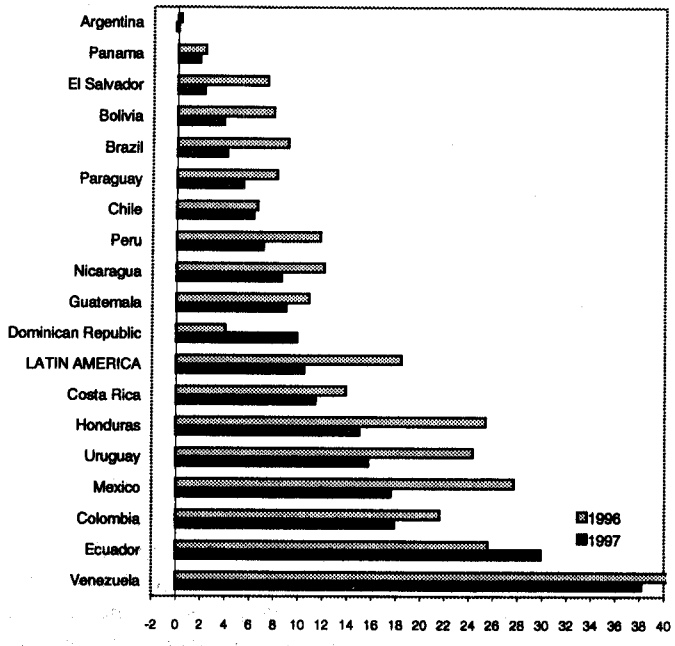
Inflation rates continued to decline. In recent years, the average inflation rate for the region has dropped steadily, from 888% in 1993 to 335% in 1994, 26% in 1995, 18% in 1996 and 11% in 1997, its lowest level in 50 years. Moreover, 13 of the 22 countries considered achieved single-digit inflation. In most of the countries the rate of price increase slowed or remained low; only Barbados, Dominican Republic, Ecuador and Haiti showed an increased inflation rate, but in two of those countries it remained under 10%. Although Venezuela succeeded in reducing its inflation rate sharply from 103% to 38%, it continues to have the highest inflation in the region. Moreover, the declining trend observable in Venezuela

Figure 3
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)



Source: Table A.1 of the *Statistical Appendix*.

Figure 4
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(12-month variations)



Source: Table A.3 of the *Statistical Appendix*.

since the second half of 1996 reversed itself, so that in the fourth quarter inflation was at an annualized rate of around 50% (see figure 4).

Among the countries with the best results were Argentina, which repeated its 1996 feat of virtually no inflation, and Brazil, which significantly slowed the pace of price increase to only 4% in 1997, in contrast to its four-digit inflation in the late 1980s and early 1990s. Progress was also made in countries that had recently suffered a fresh outbreak of inflation. In Mexico, for example, after a sharp rise in 1995, inflation declined to 28% in 1996 and again to 15% in 1997.

The dramatic slowdown in inflation in the 1990s has been due chiefly to the shift in economic policy in recent years to making inflation-fighting a top priority and has been helped along by deep structural reforms and a relatively healthy world economy. Governments of the region gave unequivocal signals of their commitment to stabilization, and this had a positive effect on the expectations of economic agents.

Unemployment remains high

In 1997 urban unemployment in the region declined slightly, from 7.7% to 7.5%, but remained high in historic terms. Moreover, the slight drop was due not to strong

BOX 2
"EL NIÑO" AND ITS IMPACT ON ECONOMIC ACTIVITY

"El Niño" refers to the cyclic warming of the water in the central and eastern portions of the Pacific near the equator every two to seven years, a phenomenon that causes unusual weather patterns in the form of intense rainfall in some areas and severe drought in others. In 1997 El Niño appeared in the first quarter, earlier than usual, and reached levels of intensity not seen in many years. The last serious El Niño (1983) took a toll of a thousand dead and some US$ 8.1 billion in property damage due to climatic disturbances. The present occurrence could be even worse, since meteorological predictions are that the phenomenon will not subside until well into 1998.

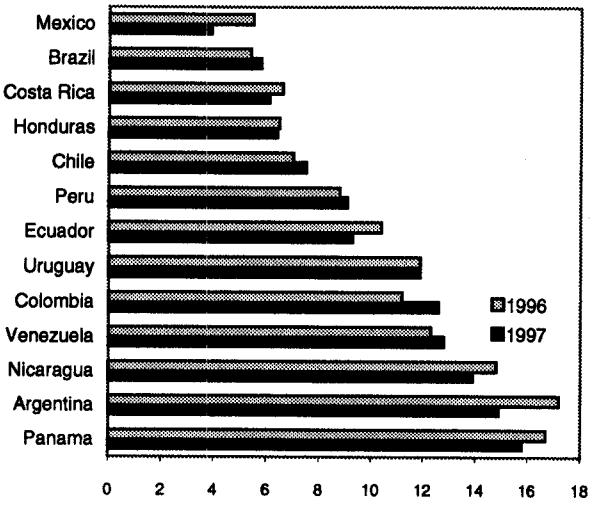
In most of the Central American and some Caribbean countries, the warm ocean current caused severe drought, causing grain production to fall off by an average of 15%. In South America, excessive rainfall affected the planting of wheat and other grains, so that Argentina, Brazil and Chile showed major reductions in area sown. Drought in Asia and heavy rains in Brazil combined to push up the price of high-quality coffee. Rains also caused destruction of infrastructure and housing.

Cold-water fisheries were also affected by the warm current, so that fishmeal production may decline in Peru and Chile. Since world stocks of fishmeal were already low, the price of high-protein fishmeal for animal feed can be expected to rise until the situation returns to normal.

Little or no rainfall in livestock-raising areas over vast territories of the southern hemisphere will reduce the availability of pasture, with the result that one can expect more slaughtering than usual, greater production of hides and lower meat prices over the short term and the reverse of these tendencies later on. In the forestry sector, the most dreaded effects of El Niño are large forest fires, like those that have broken out in Brazil, and the greater susceptibility of stressed trees to pest infestation.

Despite the damage, there have been some positive effects. In the north of Chile depleted reservoirs were refilled, enough to provide irrigation water for at least three years. Ranchers in northern Peru had a fine year thanks to better pasture. The weather changes also made it possible in that area to cultivate rice and cotton and to turn to fishing for scallops and for fish, such as dorado and tuna species, of higher value than anchovy.

Figure 5
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Average annual rates)



Source: Table A.4 of the *Statistical Appendix*.

job creation, but to reduced labour force participation. The chief exceptions to this rule were Mexico and Argentina, where a resumption of faster growth did help to generate jobs and reduce unemployment. In Brazil, Colombia and Uruguay, on the other hand, the employment rate declined (see figure 5).

In many countries of the region, economic restructuring has caused the disappearance of many jobs, which the fastest-growing sectors of the economy have not been able to replace with high-quality employment. Many of the new jobs created offer neither good benefits nor job security.

In contrast to earlier years, the spread between countries in trends in real wages in formal sectors has narrowed, an observation that accords with the region's recent tendency towards convergence in other respects. This reflects the region's successful emergence from the Mexican crisis and from bouts of high inflation and the end to the initially recessive impact of stabilization programmes. Thus, real wages either grew at moderate rates (as in Brazil, Chile and Colombia) or held steady (as in Argentina, Peru and Uruguay).

4. EXTERNAL SECTOR

Imports surge and the current account deficit widens

The current account deficit for Latin America and the Caribbean as a whole increased from US$ 35 billion in 1996 to US$ 60 billion in 1997 (3% of GDP). The result was heavily influenced by large deficits in Brazil, Argentina and Mexico and Venezuela's smaller than usual surplus (excluding the latter, the deficit would come to US$ 65 billion). In eight countries, the ratio of the deficit to GDP was over 4%, and in Bolivia, Haiti, Nicaragua and Paraguay it exceeded 5% (see figure 6).

In 1997 the region's foreign trade returned to the pattern typical of the earlier part of the decade, when imports grew faster than exports. As a result, the region's trade deficit widened from around US$ 8 billion in the two previous years to over US$ 28 billion in 1997. More than four fifths of the bulge reflected the ballooning deficits of Brazil and Argentina and the sharp contraction of Mexico's surplus. Most of the region's growing trade deficit was attributable to the shift in the merchandise trade balance to a deficit of some US$ 11.5 billion, after two years of surpluses (US$ 4.4 billion in 1996).

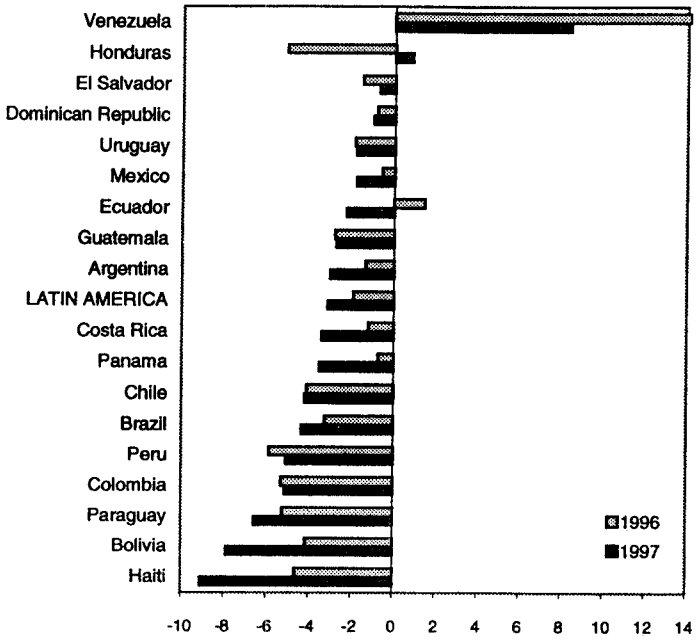
The 18% growth in the value of imports was due entirely to the strong volume increase, since import prices were lower for almost all countries. The region benefited from the containment of inflation worldwide, which held the cost of manufactured products down; from the appreciation of the dollar, which made products purchased in other currencies cheaper; and from the decline in prices of some heavily imported commodities, such as petroleum and grains.

There were a number of reasons for the upswing in the volume of merchandise imports, which was large and occurred in all the countries. One reason was the accelerated growth of domestic demand in most countries, particularly investment. This trend was most striking in Argentina, Bolivia, Ecuador, Mexico, Nicaragua and Venezuela, which all had large increases in import volumes. Another important factor was real appreciation of the currency in practically all the countries, especially Mexico and Venezuela. Other contributing factors were tariff reductions and loosening of import restrictions in the Central American countries and on some products in Brazil.

Export growth continues

Some of the increased import volumes were financed by a widespread improvement in the terms of trade (though not in Mexico or Venezuela), which together with expanded export volumes enhanced the purchasing power of exports. The terms of trade improvement resulted not only from cheaper import prices, already mentioned, but even more importantly from increases in average export prices for most of the countries, with the exception of Argentina, Bolivia, Mexico, Uruguay and Venezuela.

Figure 6
LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT BALANCE
(Percentages of GDP)



Source: Table A.11 of the *Statistical Appendix*.

What lowered the average export price for this latter group were falling international prices of petroleum and grains –which lost much of the ground gained in 1996– and beef hides –which were continuing a downward spiral. Other products of great importance to the region, however, underwent price increases, most notably coffee and bananas, which were chiefly responsible for better export prices in Central America, where the trend was most pronounced; prices of beef, shrimp, aluminum, zinc and to a lesser extent copper also went up.

What is most interesting is that despite the general real appreciation of currencies, all the countries (except Paraguay) succeeded in increasing their quantities of exports, so that volume (except in Honduras) was chiefly responsible for the growth in export earnings. For the region as a whole, the increase was more than 11%, twice the rate of increase in output, and exceeded the predicted increase (7%) in world trade volume for 1997.

This fact highlights the relative importance that factors other than exchange rates have assumed in determining the export performance of the region. Some of these reasons, apart from supply factors, are: the sustained growth of the world economy, estimated at between 3% and 3.5% in 1997; increased trade within subregional trading blocs, especially Mercosur, in which intra-bloc trade increased faster than total trade; and the development of the *maquila* industry in Central America, Mexico and the Caribbean (especially Haiti and the Dominican Republic), where some of the highest growth rates in export volumes were recorded.

In addition to the serious deterioration of the trade balance, increased factor service payments were partly to blame for the current account deficit. Profit remittances increased significantly and equalled 6% of the region's exports of goods and services. The current account deficit was readily financed despite its size, and the region increased its reserves by over US$ 13 billion. Much of that increase was attributable to the substantial reserve increases in Chile, Mexico, Peru and Venezuela.

Long-term capital flows grow stronger

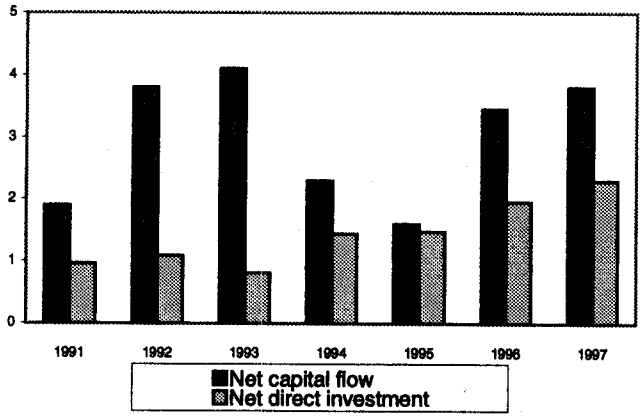
In 1997 Latin America and the Caribbean continued to receive a heavy influx of foreign capital, amounting to somewhat more than US$ 73 billion, although the flow slackened somewhat in the last quarter because of the turbulence in financial markets provoked by the Asian crisis. A large proportion of the external financing was in the form of direct investment, bonds and medium-term bank loans. Short-term capital now represents only a moderate portion of capital flows in most Latin American countries and is chiefly used to finance foreign trade transactions (see figure 7).

Foreign direct investment (FDI) in 1997 amounted to some US$ 44 billion, an unprecedented figure. FDI hit all-time highs in Brazil, Dominican Republic, Mexico and Venezuela. In seven of the region's economies it equaled over 3% of GDP. FDI was encouraged by the ongoing process of deregulation and liberalization of the rules governing foreign investment and by greater macroeconomic stability. Its sources became more geographically diverse. In consequence, foreign direct investment covered much of the balance-of-payments current account deficit for nine Latin American and Central American countries. In some countries, Brazil in particular, privatization was an important component of FDI; for the region as a whole, however, its contribution was more moderate: it accounted for only one fourth of the total.

In the first ten months of 1997 bond issues grossed some US$ 54 billion. Unlike foreign direct investment, financing through placement of debt instruments in international markets has been concentrated in just a few of the region's economies, notably Argentina, Brazil and Mexico. Most have been central government issues, with firms accounting for a lesser volume. Because of the turbulence caused by the Asian financial crisis, in the fourth quarter 1997 some Latin American Governments postponed new international bond issues to await a return to normality in international financial markets. The few issues placed during the period met with less favourable conditions.

Since 1995 there has been a steady increase in foreign bank loans. In the first half of 1997 they amounted to US$ 12 billion dollars and contributed much of the financing (77%) to private firms in the region. Most of the loans were granted by bank consortiums in the form of syndicated loans for

Figure 7
LATIN AMERICA AND THE CARIBBEAN: CAPITAL FLOWS AND DIRECT INVESTMENT
(Percentages of GDP in dollars at constant prices)



Source: Table A.12 of the *Statistical Appendix*.

terms of up to eight years, often three to five years, and spreads of 100 to 200 points above base rates.

Equity investment continued to account for a relatively small share of the short-term capital entering the region; it reached significant levels only in Argentina, Brazil, Chile and Mexico. Purchases of American depositary receipts (ADRs), representing equity in the region's firms, between January and September 1997 are estimated at US$ 4.2 billion, a figure that indicates a rebound, especially for Argentina and Brazil.

During the first half-year, prices rose spectacularly on most Latin American stock exchanges, especially Brazil's, where value doubled in dollar terms (see figure 8). The rise was due for the most part to positive expectations generated by the performance of the Latin American economies, but to some extent by speculative movements in some large international mutual funds. Due to the heavy financial turbulence in the Asian economies, most of the Latin American stock markets began to suffer sharp drops beginning in July, with some rebounds, and more decisively in October.

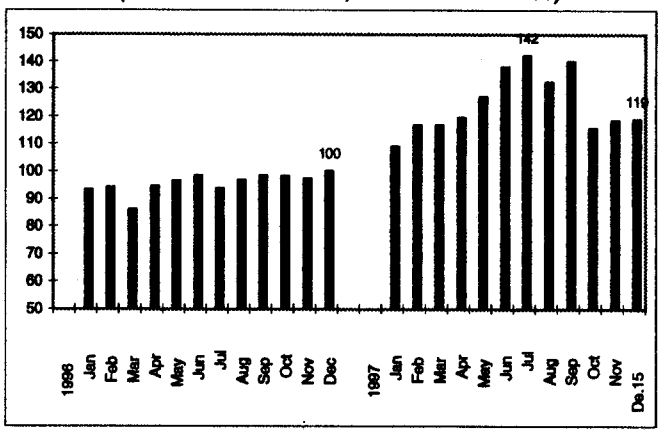
External debt grows moderately

In 1997 the region's total external debt expanded to US$ 644 billion, an increase of 2.5%, which was less than the previous year's. Only Brazil, Chile and Colombia recorded significant increases in external liabilities, due largely to increased private sector borrowing, while Argentina's increase reflected expansion of public external debt. A number of Governments followed a prudent policy of improving the structure of the maturities on their public external debt, while continuing efforts to reduce the cost of financing. To achieve that, they turned to international bond markets to take advantage of the liquidity and better conditions that prevailed to September 1997. Some used part of the plentiful funds thus obtained to pay off short-term debt, while others used it to trade in Brady bonds.

External debt burden indicators for 1997 reflected a general improvement; in fact, they were similar to those registered prior to the external debt crisis of the 1980s. For a few countries, however, particular some in Central America, the indicators still reveal cause for concern.

Peru and Bolivia made progress in external debt negotiations. In March 1997 the Government of Peru signed an agreement restructuring some US$ 8 billion in external commercial debt, including late installments and interest. In August 1997, the World Bank approved a debt relief programme for Bolivia under the terms of the heavily indebted poor countries initiative.

Figure 8
LATIN AMERICA AND THE CARIBBEAN: INDICES OF STOCK EXCHANGE PRICES IN DOLLARS a/
(Indices at end of month; December 1996=100)



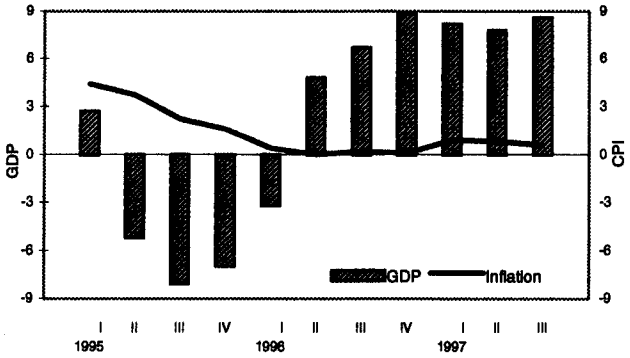
Source: ECLAC, on the basis of figures from the International Finance Corporation.
a/ Covers 333 firms in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

SOUTH AMERICA

ARGENTINA

Thanks primarily to the growth of investment, in 1997 the Argentine economy burgeoned (8%), thereby boosting output to a level 50% above the 1990 figure. Job creation also expanded strongly, thus helping to bring down the country's high level of unemployment, although most new hirings were in unstable or substandard forms of employment. Meanwhile, the country was approaching zero inflation. Merchandise exports rose by nearly 6% in value, but a sharp increase in imports caused the trade deficit to swell. Capital inflows were plentiful, an increase was seen in direct investment streams and the public sector engaged in large-scale financial operations on international markets.

ARGENTINA: GROSS DOMESTIC PRODUCT AND INFLATION
(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

The country's economic growth was associated with the favourable international conditions that prevailed for much of the year, thanks to a ready supply of external credit and an upturn in the acquisition of goods by its neighbour, Brazil. Upheavals in Asian financial markets had no immediate impact on Argentina's economy, but by late October the prices of Argentine securities and equities were slipping and uncertainty was building as to the possible impact of a deteriorating situation in Brazil. Interest rates were climbing even though the volume of bank deposits continued to expand and despite the fact that Argentina's financial system appeared to be in a better position than before to cope with externally-generated disturbances.

The **nation's public sector** ran up a deficit equivalent to 1.2% of GDP for the period from January to September, which was within the range stipulated in the country's agreement with the International Monetary Fund. Current income jumped by over 16%, in large part because of the 91% increase in fuel revenues generated by the changes made in Argentina's tax laws in 1996. Receipts from customs duties climbed by 29% as an effect of the higher value of imports and the decision to bring forward the scheduled dates for the convergence of external duties on imports of capital goods within Mercosur. Argentina also reached an agreement with its partners for the inclusion of a 3% "statistical tax" in the external tariff. The total yield from taxes on earnings and personal assets was up by nearly 20%, while revenues from the value added tax (VAT) rose by more than 9% thanks to the more vigorous pace of economic activity and higher imports. The national social security system saw a small increase in its revenues as well.

The national public sector's expenditures rose considerably (13%) during the same period, mainly because of the transfers made to the provinces under existing revenue-sharing arrangements. The social security system's outlays also increased. In addition, interest on the public debt climbed by 30% and capital expenditures by 11%, whereas outlays on personnel edged up by less than 1%.

By the end of October, the Argentine Government had issued nearly US$ 14 billion in debt instruments. In view of the strong demand for these securities, the authorities decided to float more debt paper than was actually needed to cover the Government's immediate borrowing requirements. In addition, an effort was made to lengthen the maturities of such instruments, and, indeed, the largest such operations were two issues of 20- and 30-year dollar-denominated bonds. Late in October, the downward trend in the yields of Argentine debt paper seen during the first 10 months of the year began to change. Weakening demand hampered the Government's access to sources of finance, although the following month it did begin to issue debt on the international market once again.

Between December 1996 and September 1997, the **money supply** expanded by 5%, which was less than the increase in current account bank deposits. Interest-bearing deposits denominated in the local currency rose steeply, as did foreign-currency deposits. Consequently, M3 was up by 23%. The public's increasing willingness to deposit funds in the banking system boosted the banks' lending capacity and bolstered their liquidity. The larger supply of credit was reflected in lower interest rates, and the spread between rates on peso and dollar accounts narrowed.

During 1997 a number of major **acquisitions** involving various **financial institutions** took place which included the purchase of several leading private banks by foreign firms. These transfers of ownership and controlling interests appear to be associated with the increased ability of prospective buyers to put up additional capital.

Government authorities have attempted to build up the banking system's liquidity by raising minimum reserve requirements. In January, a contingency system was set up

ARGENTINA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	-5.0	3.5	8.0
Consumer prices	1.6	0.1	-0.1
Real wages	-1.1	-0.3	-0.6
Money (M1)	1.2	11.2	22.3
Real effective exchange rate [b]	11.8	2.8	-2.5
Terms of trade	1.0	8.8	1.0
	Percentages		
Urban unemployment rate	17.5	17.2	14.9
Fiscal balance/GDP	-0.5	-1.7	-1.4
Real deposit rate	8.7	7.6	5.9
Real lending rate	14.5	19.5	13.1
	Millions of dollars		
Exports of goods and services	23 888	27 113	28 750
Imports of goods and services	23 825	27 929	34 250
Current account	-2 446	-4 005	-9 800
Capital and financial account	268	7 887	11 300
Overall balance	-2 178	3 882	1 500

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

by agreement with foreign institutions in order to give the Central Bank access to funds when it needed them to cope with emergencies. As of April, liquid bank reserves plus funds earmarked under this contingency system amounted to nearly 30% of total deposits in the financial system.

In the first part of 1997, **stock quotations** climbed steeply and bond yields slipped. Turbulence in international credit markets during the last four months of the year have weakened demand for financial assets, especially equities, and both stock and bond prices have become quite volatile while moving in a generally downward direction. Rising interest rates have helped diminish the prevailing financial instability and the volume of deposits has continued to expand.

Given **the accelerating pace of growth**, the rate for the year as a whole will probably be on the order of 8%. Investment promises to be the most dynamic component of aggregate demand, and construction was stimulated by a ready supply of mortgage financing. Purchases of production equipment were also up sharply, and this was particularly true of imports of this category of durable goods. In fact, the rate of capital formation is estimated at around 25%, the decade's highest figure so far.

The increase in activity was seen throughout the economy. The grain harvest for the 1996/1997 crop year surpassed previous records by an ample margin, and expectations of favourable conditions in the livestock sector pushed up the price of grazing land. In the mining sector, fuel production continued to rise and a major ore deposit was brought into production.

Manufacturing activity was up by nearly 9% in the first three quarters of the year. The automotive industry's growth rate was well above average thanks to stronger demand in the domestic economy and from Mercosur. A significant upturn in the output of construction- and agrochemicals-related industries has been seen in 1997, while the iron and steel industry and the metals manufactures and machinery subsector expanded somewhat more slowly.

Consumer prices held virtually steady within a non-inflationary context in which relative prices changed very little. During the first nine months of the year, food prices rose slightly, but a further drop was seen in clothes prices. Private services underwent a slight deflation, whereas, in the aggregate, the prices of public services rose; the readjustment of telephone rates in February was a contributing factor in this respect.

The upward trend in employment continued in 1997. This helped to drive down unemployment, whose average level for the year was under 15%.

Employment in Greater Buenos Aires rose by over 3% between October 1996 and May 1997, with sizeable increases being observed in manufacturing, some services and construction. A moderate upturn was registered in formal wage-based employment under permanent contracts that provide for pension benefits, but this increase's contribution to the variation in aggregate employment was quite small. A substantial part of net job creation in the metropolitan area was accounted for by wage-based employment that does not provide pension benefits and by workers employed under fixed-term contracts. The increase in employment was also concentrated among persons with post-primary educations.

Nominal wage indices in the manufacturing sector showed no significant change. Average remunerations in the non-agricultural private sector during the second quarter were about 2% lower than they had been a year earlier.

The deficit on the **current account of the balance of payment** widened substantially owing to the deterioration of the trade balance. The deficit on the financial services account also deepened as a result of higher interest payments, profit remittances and dividends. Capital inflows neared their peak levels for the decade as a whole. External finance flowed quite freely for much of the year, but since the end of October the outlook on the international credit market has dimmed. The level of foreign direct investment exhibited a further increase in 1997.

The size of the **trade deficit** attests to the considerable expansion of imports, which were expected to total about US$ 30 billion. The upswing was particularly notable in the category of capital goods, but increases were also recorded for consumer and intermediate goods.

The higher value of exports was the result of an increase in sales volumes, since prices were lower. The value of commodity exports slipped as a consequence of the downturn in sales of soybeans and cotton fibre, but the plentiful grain harvest boosted exports sharply. During the

same period, sales of agriculturally-based manufactures rose by nearly 6% despite lower sales figures for meat and dairy products, since these decreases were offset by gains in sales of oils, food by-products, hides and skins, and other product categories. Fuel exports also continued to advance in 1997, although at a more moderate pace. The 12% increase in exports of industrial manufactures reflected, in particular, the 34% surge in sales of transport equipment. In terms of the destination of this sector's exports, Mercosur's share expanded slightly to over 34%.

BOLIVIA

The maintenance of an annual growth rate on the order of 4%, the decline of the inflation rate to a similar figure and considerable increases in both the external and fiscal deficits (with the latter climbing to 3% of GDP) were the main features of the economic scene in Bolivia in 1997.

A larger deficit on the current account was coupled with a significant upturn in capital inflows. Foreign direct investment strengthened notably, thanks in part to what has become known as the "capitalization process", under which a majority of the country's State-owned firms have been transferred over to the private sector.

Bolivia was successful in its bid for inclusion in the debt-reduction scheme devised for heavily-indebted poor countries (HIPCs), which could provide it with as much as approximately US$ 500 million in debt relief. Meanwhile, work began on the construction of a pipeline that will permit Bolivia to export natural gas to Brazil on a vast scale.

Fiscal and monetary policies remained subordinate to the authorities' top priority, which is to consolidate the country's macroeconomic stability.

Although the results for 1997 with regard to inflation was excellent, a discouraging fiscal performance put a stop to the steady progress towards fiscal equilibrium that had been made during the past few years. The fiscal deficit is projected to have risen to 3% of GDP in 1997, mainly as a result of the transition that is being made to a new pension system, which requires an outlay of about US$ 200 million per year, and the downturn in revenues occasioned by the changes made in fuel taxes. In late November, the authorities decided to hike fuel prices by 28%.

Austerity measures, which tied in with the objective of maintaining price stability, continued to set the direction for monetary policy. Policy-makers concentrated on improving indirect instruments of monetary control, such as open market operations, rather than resorting to the direct methods, such as modifications of the legal reserve requirement or the suspension of development lending operations, that they had relied on quite heavily in the past.

During the first eight months of the year, net domestic lending to the public sector diminished considerably, but the flow of credit to the private sector remained more or less constant. Given these conditions, together with a substantial build-up of international reserves, money creation was stable.

The chief aim of **exchange policy** was to maintain the stability of both the nominal and real exchange rates in order to preserve the Bolivian economy's competitive position vis-à-vis its main trading partners. During the first nine months of the year, the nominal rate exhibited a variation of no more than about 1%, while the real exchange rate rose by a moderate 3%. It is important to note that the real exchange rate is fairly high, since between 1990 and 1996 a 20% gain in competitiveness was achieved.

BOLIVIA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	3.8	3.9	4.0
Consumer prices	12.6	7.9	3.8
Real wages	1.5	0.8	...
Money (M1)	23.5	10.2	24.3
Real effective exchange rate [b]	5.7	-5.4	-2.7
Terms of trade	-11.3	-10.5	1.5
	Percentages		
Fiscal balance/GDP	-2.0	-1.9	-3.0
Real deposit rate	-3.8	9.4	10.7
Real lending rate	26.0	43.4	47.8
	Millions of dollars		
Exports of goods and services	1 234	1 281	1 330
Imports of goods and services	1 582	1 669	1 970
Current account	-308	-284	-570
Capital and financial account	242	585	710
Overall balance	-66	301	140

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

In 1997 the outgoing Administration's ambitious **structural reform programme** was brought to a close. The incoming Administration, which took office in August, has not spelled out its plans in this respect. The government agenda does, however, contain two large-scale reforms, one dealing with the judicial system and the other with the institutional structure of the labour market. The latter reform initiative will seek to make job markets more flexible, to make them more attractive to formal-sector employers and to promote the adoption of labour-intensive technologies.

The new Administration and Bolivia's peasant unions agreed to resume the eradication of coca plantations following several months of inactivity. Given this hiatus, it is unlikely that the country will be able to meet its goal of destroying 7,000 hectares of coca plantations per year.

The increase of a little more than 5% in **total demand** was primarily attributable to the growth (14%) of investment, especially its private components. Consumption expanded by between 3% and 4%, but export volumes stagnated. As for total supply, output was up 4% and imports rose substantially.

Foreign direct investment was the most buoyant component of private investment, thanks to the investment programmes launched by newly capitalized firms and the operation of numerous projects in the farming, mining, electricity and natural gas sectors, which were some of the main growth leaders in the economy in 1997.

Above-average growth (5.3%) in the agricultural sector was largely a result of the expansion of these activities and particularly of agroindustrial crops. The mining sector turned in a rather lacklustre performance (2.7%), but the investments in silver, zinc and gold deposits that are already in the pipeline hold out the prospect of a boom in the sector later on. The rupture of the gas pipeline to Argentina triggered a severe slump in the hydrocarbons industry, just as work was beginning on the pipeline to Brazil which, upon its completion in 1999, will have a major impact in terms of natural gas production and exportation. The electricity, gas and water sector grew by 6% against the backdrop of a considerable increase in investments oriented towards both the domestic market and exports, especially to Brazil.

Construction registered an upswing of nearly 3% thanks to the forward momentum generated by private building (5.7%); public construction, on the other hand, contracted during the second half of the year.

Financial services showed real growth of 15%, most of which was attributable to the commercial banking system's success in attracting deposits.

As of late November, the **consumer price index** showed a cumulative increase of just 3.8% as inflation continued to dwindle. The highest rate was in July (1.3%), while negative variations were recorded in March and September.

The low level of inflation was attributable to supply-side factors (including, in particular, bumper harvests of non-industrial crops), a sound management of the money supply and the stability of neighbouring countries' currencies.

The trade balance for 1997 is projected to show a deficit of US$ 640 million, which greatly exceeds the 1996 figure. This increase is accounted for by a combination of sluggish export growth and a steep rise in imports, especially of capital goods. One highly important factor in this regard is the sharp drop (-29%) in exports of hydrocarbons, particularly in the case of natural gas sales to Argentina. Re-exports of jewellery were also down, but mineral and non-traditional exports showed a gain of around 7%.

The jump in **imports** was due to the upsurge in purchases of capital goods, which was, in turn, a consequence of the forward momentum generated by foreign direct investment. The net international reserves of the Central Bank of Bolivia continued to mount and passed the billion-dollar mark, which would be enough to cover almost eight months' worth of imports.

Bolivia completed the negotiations it had undertaken in a bid to become eligible for the debt relief scheme set up for heavily-indebted poor countries (HPICs). This scheme represents the commitment made by the international community (including all international lenders) to reduce the eligible countries' debts to sustainable levels. Under this arrangement, the debt stock of poor countries that perform well in terms of policy measures will be reduced so that they can use the bulk of their resources for development programmes. In order to be eligible, countries with unsustainable debt burdens must improve their financial management and adopt certain structural reforms as well as social policies dealing, in particular, with basic health care and education.

BRAZIL

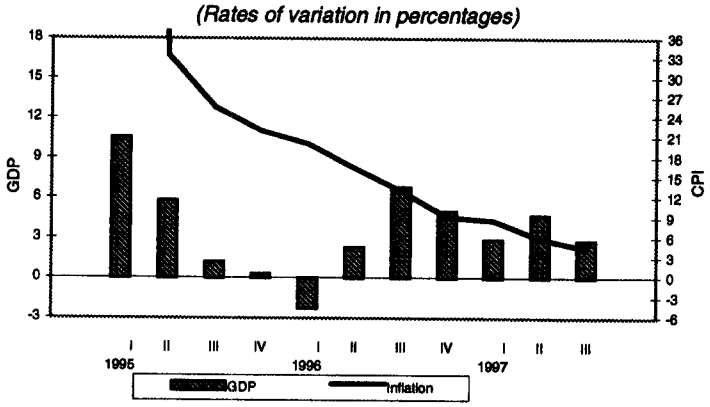
The Brazilian economy's performance for 1997 was severely affected by the deepening of the crisis in Asian financial markets in late October. Until that time, the turbulence that had begun to emerge in July had not had any major impact on Brazil except for short-term downswings on equity markets. The economy was growing at a satisfactory pace, inflation was low and heading downward and, although the external deficit was widening, enough external funds were flowing into the country to cover the shortfall; what is more, the situation appeared to be sustainable over time, given the privatization programme's excellent prospects and the incoming stream of foreign direct investment. Meanwhile, the deterioration of the real exchange rate was slowing. This state of affairs changed radically, however, in the final days of October.

The sharp cutback in financial inflows from abroad and the outflow of large sums of capital drove down prices on the country's exchanges and eroded its international reserves. In response to this emergency situation, the Government doubled real interest rates (to an annual rate of 35%) and launched a drastic fiscal austerity plan designed to cut the public sector's deficit by US$ 18 billion (2.3% of GDP). These measures were an attempt to maintain price stability and, particularly, the continuity of exchange rate policy based on a monthly devaluation of approximately 0.6%. It is believed that these steps will cool down GDP growth to 3.5% this year and to less than 2% in 1998.

Nevertheless, 1997 will mark the fifth year of uninterrupted growth (at an average annual rate of 4.1%), inflation

BRAZIL: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

continues to decline as it heads towards the 4% mark, and investment is picking up. The operating deficit on the country's fiscal accounts is expected to fall to 2.7% of GDP and the relative size of the public debt is holding steady after having increased during the two preceding years. The current account deficit, on the other hand, is expected to expand yet again (this time to 4.3% of GDP, which is almost double the 1995 figure).

As early as the first few months of the year, the country's growing external vulnerability had affected monetary policy. In May, the Central Bank halted the gradual decline in the base interest rate, holding it at 1.58% per month. In deciding to take this step, it was influenced by the prevailing uncertainty regarding the trend in the level of activity in the domestic economy and the trade balance, the need to hold to the planned rate of devaluation and the importance of proceeding cautiously in the face of possible changes in international interest rates. At the same time, the process of restructuring the financial system moved ahead. This entailed the privatization of a number of banks owned by Brazilian state governments, the sale of several leading Brazilian banks to foreign institutions, and the merger of others.

Although the authorities fell short of the targeted figure for the consolidated public sector's primary balance (1.5% of GDP), the progress made on this front and the reduction in real interest payments drove down its operating deficit from 3.9% of GDP in 1996 to 2.7% in September.

The increase in the primary surplus was attributable to the performance of the states, municipalities and State firms. In the first two cases, the fiscal austerity policies demanded of the states and municipalities by the federal government as a condition for the roll-over of their debts played a crucial role. In the case of State-owned firms, rate hikes, together with tougher controls on current expenditure, generated a surplus equivalent to 0.2% of GDP.

The federal government, on the other hand, was unable to improve its primary balance. Income was somewhat higher, while the level of spending was driven up by the increased transfers which the Treasury had to make in order to cover the social security system's shortfall. Outlays for unemployment insurance also rose.

The intensification of the **financial crisis in Asia** in late October caused quotations on Brazilian exchanges to plummet by over 30%. The effects of the outpouring of capital from the equity market was compounded by sell-offs of Brazilian Brady bonds on overseas markets as national investors sought to make up for the losses they had sustained in the local marketplace as well as in other emerging markets. Until September, the price of Brazilian paper had been rising quite rapidly owing to the low level of risk that was felt to exist in the country. The plunging prices of these securities opened up the field for profit-making through arbitrage, as the domestic interest rate was lower than these instruments' implicit rate, and for speculation in currency futures. In the face of these circumstances, the Central Bank had to sell off about US$ 10 billion in international reserves in order to shore up its exchange policy.

At this juncture, the prevailing uncertainty made it necessary to suspend trading in the domestic **financial system** due to the headlong exodus of dollars and the severe contraction of the money supply that this caused. Meanwhile, the spread between domestic and external interest rates had suddenly widened, and the loss of large amounts of capital in the exchanges and other operations pushed some financial institutions (especially brokerage houses and investment banks) to the brink of bankruptcy. The Central Bank had to buy up 3.8 billion reais worth of federal government bonds within the financial system and provide 6.5 billion reais in

BRAZIL: MAIN ECONOMIC INDICATORS

	1995	1996	1997 [a]
	Annual rate of variation		
Gross domestic product	3.9	3.1	3.5
Consumer prices	22.0	9.1	4.1
Real wages	2.6	6.9	1.4
Money (M1)	23.4	4.6	70.4
Real effective exchange rate [b]	-24.1	-8.2	-2.4
Terms of trade	-0.1	-1.8	5.8
	Percentages		
Urban unemployment rate	4.6	5.4	5.8
Fiscal balance/GDP	-4.9	-3.9	-2.7
Real deposit rate	24.8	16.5	16.2
Real lending rate	81.8	41.6	37.4
	Millions of dollars		
Exports of goods and services	51 819	54 524	59 000
Imports of goods and services	62 633	69 110	80 000
Current account	-17 972	-24 347	-33 800
Capital and financial account	31 452	33 364	25 800
Overall balance	13 480	9 017	-8 000

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currrency in real terms.

liquidity assistance, but at the same time it doubled the base interest rate (to an annual rate of 43%), thereby staunching the outflow of foreign exchange.

In addition, in order to pare down the projected deficit for 1998, a variety of **fiscal measures** were adopted, including cutbacks in spending and incentives, higher taxes and charges, the transfer of more public enterprises and the tender of more operating concessions for public utilities. Increased restrictions were also placed on borrowing by Brazil's states, municipalities and government-run firms.

A total of around US$ 13 billion in **privatizations** were carried out during 1997 at the federal and state levels. These operations included the sale of Vale do Rio Doce and of the first electrical power generating plants, as well as the tender for cellular telephone service concessions. Regulatory agencies were created to oversee the petroleum, electricity and telecommunications industries, which had formerly been State monopolies. Other reforms are moving ahead quite slowly because the federal government has run into difficulties in its attempt to secure the passage of new constitutional provisions dealing with the civil service and the social security system.

The sectors that did the most to galvanize **economic activity** in 1997 were manufacturing, which expanded by 5%, and consumer durables (7%); these activities were bolstered by increased investment in infrastructure and industry. Meanwhile, suppliers of inputs and other raw materials have embarked on intensive restructuring efforts to help them compete with imports.

Activity in the farm sector rose by 4% and its income by 5%, thanks to higher prices. The cumulative rise in agricultural prices up to October was over 12%, as compared to a 4.6% increase for manufactures. Agricultural exports were up by 26%.

The strength of the construction industry was a result of investments in infrastructure –especially in privatized areas or activities to be run on a concession basis, such as roadways– and the resumption of mortgage and urban development lending, some of which involved the use of foreign credits. Under one recently passed law, a new mortgage finance system is being created. As part of this initiative, long-standing rules about lending ceilings, repayment periods and collateral are being eased. Recently the industry has been hurt, however, by skyrocketing domestic interest rates and the crisis situation in the international market.

The Real Plan has been in operation for over 40 months now, and in 1997 Brazil boasted the lowest **inflation** rate ever reached in the absence of price controls during the entire postwar period (about 4%). Indexation mechanisms, which increase the rigidity of the relative price structure, are also being rolled back. Although public utility rates have risen, these rate hikes have been instituted in response to specific situations as a means of improving the financial standing of the firms in question.

The US$ 10 billion **merchandise trade deficit** posted for 1997 is nearly twice as high as the 1996 figure. The deficit on the current account has also widened (to 4.3% of GDP), mainly as a result of the upswing in **imports** (16%). This increase in purchases appears to be associated with the expansion of domestic activity, the consolidation of access to foreign products (particularly raw materials and capital goods) and the low level of the real exchange rate. Brazilians have also been buying more consumer goods, especially motor vehicles, thanks to tariff reductions and the implementation of a special regime for this activity.

Since mid-year **export activity** has been picking up considerably, especially in commodities (coffee beans, soybeans), and the export performance of manufactures has firmed up, particularly in the case of the automotive industry. This consolidation has been facilitated by an increased availability of financing for export firms at internationally competitive interest rates and the establishment of an export credit insurance system. The Mercosur countries and Chile are the main markets for these products. In addition, the VAT exemption instituted the year before for commodity exports made its full impact felt in 1997.

The **trade deficit on the services account,** which includes interest and profits, was 22% larger than in 1996. The main reasons for this increase were the higher levels of profit remittances, which soared by 169%, and of international travel and transport, which together grew by 37%. Net interest payments held steady.

The **capital account on the balance of payments** reflects a favourable trend in incoming financial flows up to October, although with sharp fluctuations from July on. This led to a build-up in reserves, which passed the US$ 62 billion mark. **Incoming direct investment** has risen substantially and is expected to total US$ 14.5 billion for 1997, which is more than double the sum recorded for the preceding two years and nearly half of the total financing needed for the current account. The scope of privatization operations and the expansion of external capital in manufacturing, commerce and finance were the main draws that made Brazil so attractive to foreign investors.

The stream of **funds pouring into the country's exchanges**, which had surged by 60% before the crisis, has come to be another major source of net income, with portfolio investment totalling US$ 8.075 billion up to September.

Striking aspects of Brazil's **lending activity** included the increase in bond issues (US$ 17.1 billion worth up to October, which was 46% higher than during the same period of 1996) and the mandatory financing (US$ 19.9 billion) to cover imports. Another notable development was the appreciable increase in the public sector's share of the bond market (US$ 6.9 billion in 1997).

CHILE

The Chilean economy's 6.5% rate of expansion in 1997 marked its fourteenth consecutive year of uninterrupted growth. The deficit on the current account will remain in the range of 4% of GDP, but inflows of medium- and long-term foreign investment will provide more than enough funds to cover the shortfall. The public sector will close out the year with another surplus, which this time will amount to about one percentage point of GDP. At about 6%, inflation will be somewhat lower than the year before.

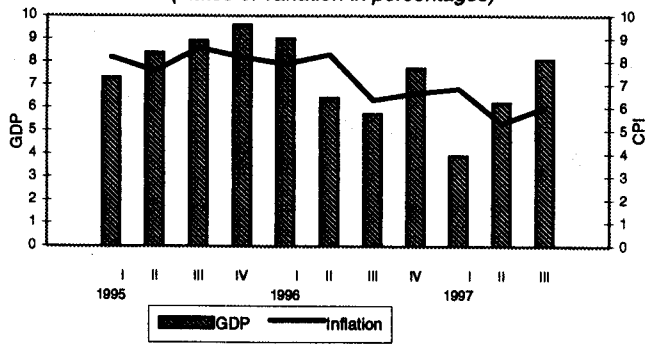
The strong performance of the Chilean economy is made possible by its high levels of gross fixed investment and domestic saving (29% and 26% of GDP, respectively, in 1997) and by its level of international reserves, which are equivalent to more than one year's worth of imports. In addition, the country's levels of debt and of short-term external commitments are quite low, although its domestic public debt totals 29% of GDP.

The debate regarding how much manoeuvring room is needed for macroeconomic policy, in view of the steep downward trend of the real exchange rate and its possible impact on exports and growth, heated up during the year. The controversy centres around how large a current account deficit is sustainable and how fast the economy can absorb net capital flows without jeopardizing its macroeconomic stability or export growth.

In line with its ongoing **policy of gradually relaxing the country's monetary adjustment measures**, the Central Bank lowered the interbank interest rate by a quarter of a point on three different occasions, which brought it to 6.5% by September. This downward trend was not always matched by long-term rates, however. In the third quarter, once the high level of activity occurring in this period had become apparent, the moderately upward trend in long-term interest rates steepened. As the year drew to a close, the future course of this variable appeared to be linked primarily to the impact of the Asian crisis on the country's external accounts.

CHILE: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

CHILE: MAIN ECONOMIC INDICATORS

	1995	1996	1997 [a]
	Annual rate of variation		
Gross domestic product	8.2	7.2	6.5
Consumer prices	8.2	6.6	6.3
Real wages	4.0	4.1	2.7
Money (M1)	14.8	-7.8	17.7
Real effective exchange rate [b]	-3.3	-2.6	-5.8
Terms of trade	13.3	-17.0	5.8
	Percentages		
Urban unemployment rate	7.4	7.0	7.5
Fiscal balance/GDP	2.5	2.2	1.0
Real deposit rate	7.0	6.4	5.2
Real lending rate	11.6	10.1	8.6
	Millions of dollars		
Exports of goods and services	19 297	18 711	20 800
Imports of goods and services	17 980	20 086	22 100
Current account	146	-2 918	-3 200
Capital and financial account	912	5 422	7 400
Overall balance	1 058	2 504	4 200

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

In January, the Central Bank widened the currency band from 10% to 12.5% on either side of the reference rate and modified the composition of the currency basket used to define the exchange rate. In March, it re-established the reserve requirement on external credit operations in the US$ 10,000-US$ 20,000 range, while letting the exemption stand for loans under US$ 10,000. In October, in an effort to restrict the surplus on the capital account as well as arbitrage activity, the Foreign Investment Committee lowered the financing ceiling on external credits for projects entering the country under decree-law 600 from 70% to 50% and raised the minimum size of such investment projects from US$ 25,000 to US$ 1 million.

Economic activity cooled down in the first quarter, but picked up again in the second and accelerated further in the third. Mining and transport and communications made a strong showing, with annual growth rates of over 10%; with rates in the 6%-7% range, construction and commerce also did well.

The tighter monetary adjustment measures implemented in late 1996 in an effort to counter an unsustainable expansion of output and spending made their effects felt in the first quarter of 1997, as GDP growth slowed to 3.8% and spending edged up by a scant 1%. This outcome was also partially attributable to the interest rate hike instituted in

December 1996 and the effects of the drought that affected the entire central and northern regions of the country.

During the following quarters the economy rebounded, thanks to improved terms of trade and a succession of interest rate reductions. In the third quarter, GDP growth topped 8% and spending increased by 12.4%. These rates put the economy at the uppermost limit of the permissible range for achieving the country's growth and inflation targets for 1998.

The substantial decrease in the **real exchange rate** was one of the most significant aspects of the economic scene in 1997. By late October, the deterioration in the rate amounted to 10% in annualized terms. During the last two months of the year this trend was reversed, however, as the Chilean economy began to feel the effects of the Asian crisis.

The annualized rate of inflation for the first 11 months of the year was 6.3%. Monetary adjustment measures drove down service and wage inflation sharply during the first two quarters. The annualized rate of price increases for non-tradables slackened from an average of 8.2% for the first quarter to 6.2% for the second and 5.7% for the third. A downward trend was also seen in tradables until the third quarter, when, despite the steep drop in the real exchange rate, it was interrupted as a consequence of the rigidity of markups on these types of goods.

Between July and October, a resurgence of inflation was observed owing to the price shocks associated with some perishable products –first meat and later fruits and vegetables– as a result of the storms unleashed by El Niño. Once seasonal variations are factored out, however, it becomes apparent that the trend of inflation has continued to be downward, as evidenced by the figures for the last two months of the year.

After standing at an annual rate of around 10% during the first quarter, the growth rate for **nominal wages** began to slip. In the period from August to October, the annualized variation was 8.1%. This deceleration carried over into real wages, whose 2.7% average real variation as of the end of October was below the increase in average labour productivity.

Employment increased at an average annual rate of 2%, with the strongest growth being observed in the second half of the year, especially in such non-tradables sectors as construction, commerce, and transport and communications, although employment in manufacturing also rebounded.

Unemployment rose in the metropolitan area but declined in the rest of the country. The increase was caused by the rapid expansion of the secondary labour force from the third quarter on.

The **current account** deficit is expected to total US$ 3.2 billion, which is US$ 280 million more than in 1996. This setback is wholly attributable to the upswing in factor payments, since the trade balance is expected to improve slightly.

The capital account shows net income of US$ 7.4 billion in 1997, for an overall surplus of US$ 4.2 billion. The first of these figures represents a US$ 2 billion increase over 1996, thanks to the prepayments on the external debt made during the first half of the year.

As 1997 drew to a close, the external debt totalled US$ 26.9 billion; 5% of this sum was made up of short-term obligations, while the public sector's share amounted to a fifth of the total. Net international reserves as of mid-November stood at US$ 19 billion, which was equivalent to more than one year's worth of imports.

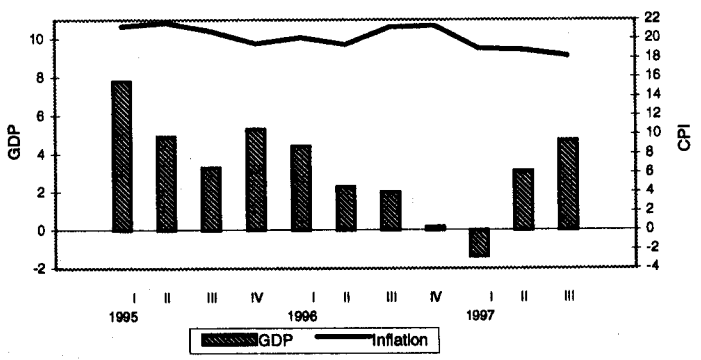
COLOMBIA

In 1997 the Colombia economy rebounded from the slump of the year before, while inflation subsided to 18%, thereby meeting the target set by the Banco de la República for the first time since that institution was granted autonomy in 1991. A nominal devaluation of nearly 30% helped to hold down the current account deficit, but the fiscal deficit was still quite hefty.

The Colombian economy had lapsed into a recession during the final quarter of 1996, when it shrank by 0.4%, and then bottomed out in the first quarter of 1997 with a contraction of 1.3%. At that point it began to rebound vigorously, marking up growth rates of 3% and 4.7% in the second and third quarters. The overall growth rate for 1997 will therefore be around 3%. This outcome is largely attributable to the steep reduction in interest rates and to high coffee prices on the international market, which gave a boost to domestic demand.

COLOMBIA: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

COLOMBIA: MAIN ECONOMIC INDICATORS

	1995	1996	1997 [a]
	Annual rate of variation		
Gross domestic product	5.9	2.2	3.0
Consumer prices	19.5	21.6	17.9
Real wages	1.2	1.5	2.4
Money (M1)	19.6	16.3	18.0
Real effective exchange rate [b]	0.6	-6.9	-9.7
Terms of trade	1.9	0.8	7.3
	Percentages		
Urban unemployment rate	8.8	11.2	12.6
Fiscal balance/GDP	-0.5	-1.1	-2.4
Real deposit rate	17.2	7.7	2.9
Real lending rate	26.6	17.2	11.9
	Millions of dollars		
Exports of goods and services	13 744	14 511	16 425
Imports of goods and services	16 056	16 561	17 700
Current account	-4 100	-4 756	-4 790
Capital and financial account	4 448	6 238	5 240
Overall balance	348	1 482	450

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

This economic recovery took place against a complicated political backdrop. In 1997 the country was again living under the threat of economic sanctions, since the United States again refused to certify the Colombian Government's efforts to combat drug trafficking. Meanwhile, labour disputes were spreading and clashes between the armed forces and guerrillas were escalating.

In addition, the effects of the weather disturbances triggered by El Niño were felt as the year progressed, especially in terms of electrical power output and agricultural production.

Monetary policy made the switch from a restrictive stance to an expansionary one, while fiscal policy was tightened up somewhat. The result was an improved coordination of the two.

The opening months of the year were a time of uncertainty. In January the Government responded to the alarming deterioration of public finances and the astounding influx of foreign exchange registered in December 1996 by declaring an **economic emergency.** The measures it adopted sought to make overseas borrowing more expensive and to boost fiscal revenues. In March, the Constitutional Court struck down these emergency measures, however, and the Banco de la República immediately proceeded to extend the 50% legal reserve requirement to apply to all foreign credits having a maturity of less than 60 months. For its part, the Government raised tariffs for a period of three months, thereby increasing the average tariff rate from 11% to 14%. Despite these measures, the country continued to accumulate foreign exchange, and in May the Banco de la República therefore imposed a 30% deposit requirement on all foreign borrowing operations.

The monetization of the foreign exchange that entered the country in December 1996 and early 1997 and its subsequent sterilization by the Banco de la República led to a spectacular increase in the Banco de la República's pass-through certificates. Net operations on the open market climbed from 900 billion pesos in October 1996 to 2.2 billion pesos the following February and remained high, with sharp fluctuations, throughout the year. In the light of the progress made in bringing down inflation, late in May the Banco de la República raised the target growth rate for the monetary base from 16% to 20%. As of mid-October, the money supply stood at 8.1 billion pesos, with a 20% annual rate of variation, while the growth rate for the broadly defined money supply (M3 plus bonds) amounted to 25%.

Given the plentiful supply of foreign exchange, for much of the year the exchange rate crept along the floor of the currency band. However, the sharp drop in interest rates (11 percentage points since the first half of 1996) brought about a shift in the relative returns on local currency and foreign exchange which increased the attractiveness of the latter. Beginning in August, the demand for dollars therefore began to swell, pushing the exchange rate up towards the ceiling of the currency band. The turbulence of stock exchanges worldwide compounded this situation, and the Banco de la República was consequently obliged to sell off some of its huge stock of international reserves. Thus, in a reversal of the trend seen in earlier years, the Colombian peso underwent a depreciation verging on 30%.

The economic emergency measures were expected to bring in fiscal revenues equivalent to 0.8% of GDP. The higher tariff rates partly made up for the income lost as a result of the revocation of the emergency declaration, but midway through the year the worrisome fiscal situation prompted the Government to secure approval for additional tax reforms, which included stricter enforcement measures to combat tax evasion and contraband, an increase in the stamp tax and a reduction in the general gasoline tax.

The changes made in the way the domestic debt was managed were another important aspect of fiscal policy. The objective was to reduce involuntary lending and to use Treasury bonds in its place in order to promote the deepening of the capital market, which is lagging behind the markets of other countries in the region in developmental terms.

The fiscal out-turn for 1997 will again be negative, but some headway was made nonetheless. The non-financial public sector's deficit is projected at 2.4% of GDP while the central government's deficit, not counting the revenues from privatizations, will be almost double that figure.

The upswing in production activity in 1997 is mainly the result of lower interest rates, higher earnings on coffee sales and the economic recovery of neighbouring Venezuela.

International coffee prices began to climb in February, and by May the domestic price was twice as high as it had been at the start of the year; this buoyed domestic demand and sped up the economy's recovery. Plans to increase petroleum production in the second half of the year were thwarted, however, by delays in the development of the Cusiana oilfields and numerous acts of sabotage by guerrilla forces.

Manufacturing and construction were slower to show signs of a revitalization, while mining continued its strong performance of recent years. Commerce returned to its former growth path during the first half of the year.

Inflation had begun to abate in the final quarter of 1996. This downward trend held throughout 1997, bringing the annualized rate of price variations down to 18%. Despite the adverse effects of El Niño, the increase in food prices was moderate. Price rises were sharper in the case of services, but even so were not as steep as in earlier years.

The situation in the **labour market** continued to deteriorate during the early part of the year. The unemployment rate for the country's seven main metropolitan areas hit 12.3% in March and by June had risen to 13.6%. A significant decrease was seen in September, however, as the rate slackened to 12.2%, possibly in response to the upturn in production activity.

Exports for the first eight months of the year were 10% higher than during the same period of 1996. With a growth rate of 14%, traditional exports rose the most and more than doubled the rate for non-traditional exports (6%). Particularly sharp increases were seen in the value of exports of coffee (43%) and coal (19%) thanks, in the first case, to higher prices and, in the second, to a larger sales volume.

During the same period, **imports** mounted by 7.4%. This increase was driven mainly by consumer products (15%) and capital goods (16%). Imports of raw materials, on the other hand, were down by 2%.

The decrease in the merchandise trade deficit outweighed the small reduction in the trade surplus on the services account, but the current account deficit remained near the US$ 4.8 billion mark; it did, however, decline slightly as a percentage of GDP (to around 5%).

The US$ 5.2 billion surplus on the **capital account** was smaller than the 1996 surplus, but was still enough to cover the deficit on current account. Preliminary figures indicate that the country's external debt expanded by 8.4% to approximately US$ 31.6 billion.

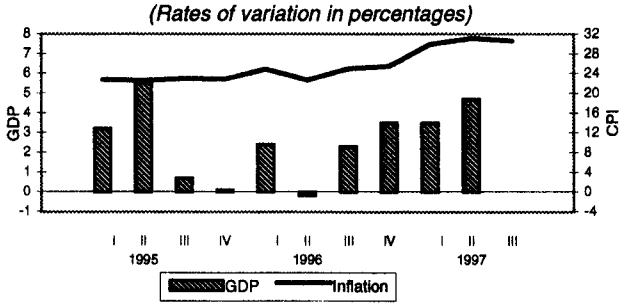
ECUADOR

The political instability that swept over the country at the start of the year hurt the Ecuadorian economy's performance, driving up the fiscal deficit and opening the way for an upsurge in inflation. The corrective steps that were taken were successful in bringing these imbalances under control, however, and by the end of the year the fiscal deficit amounted to 2% of GDP and the annualized rate of increase in the price index had leveled off around the 30% mark registered in January.

GDP growth was higher than in the two preceding years but was still fairly modest (3.5%), and unemployment thus remained high while real wages lost ground. This was partly the result of continuing political uncertainty, whose impact outweighed the positive effect of lower real interest rates.

ECUADOR: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

In February **Congress ordered that the president** elected the year before was to be **removed from office** and named an interim president in his place whose 18-month term was later confirmed by popular referendum in May. The new Administration discarded its predecessor's economic programme, whose central component was the convertibility of the sucre, and delineated a stabilization policy aimed at laying the foundations for more vigorous growth. In response to projections which indicated that the non-financial public sector's deficit would steepen to 6.6% of GDP in 1997, the interim Administration established a temporary import duty of up to 4% and reinstated the 8% tax on investment income, which had been discontinued the year before. In July some VAT exemptions were eliminated, the reduction that had been in made in the corporate income tax was revoked, and, in an effort to discourage contraband, the excise taxes levied on a number of products were lowered. As a result, tax receipts –especially from the VAT, excise taxes and import duties– rose as the year progressed, thus making it possible to keep the fiscal deficit in check.

In view of how inflationary expectations had changed, in March the interim Administration raised the **exchange-rate band** and steepened its slope. It also introduced a system of foreign-exchange auctions to dampen the exchange rate's volatility. Largely as a consequence of the dollar's rise

ECUADOR: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	2.7	2.0	3.5
Consumer prices	22.8	25.6	29.9
Real wages	18.6	9.7	-3.4
Money (M1)	12.7	35.5	33.5
Real effective exchange rate [b]	3.8	0.5	-4.4
Terms of trade	-1.8	9.1	5.1
	Percentages		
Urban unemployment rate	7.7	10.4	9.3
Fiscal balance/GDP	-1.5	-3.1	-2.0
Real deposit rate	20.9	12.9	-3.7
Real lending rate	31.2	23.3	8.3
	Millions of dollars		
Exports of goods and services	5 265	5 748	6 100
Imports of goods and services	5 036	4 548	5 465
Current account	- 735	111	-470
Capital and financial account	167	- 252	310
Overall balance	- 568	- 141	- 160

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

in value on international markets, as of September the sucre had appreciated by 4% in real terms over its 1996 average against the basket of hard currencies which is used as a benchmark.

The gradual decline in **interest rates** from their formerly very high levels, which had begun the year before against a backdrop of abundant liquidity and growing confidence in the stability of the sucre, continued in 1997. In the third quarter, the rates on sucre-denominated deposits turned negative in real terms, and this contributed to a real contraction in local-currency quasi-money. Between November 1996 and November 1997, M1 climbed by 33% and M2 (excluding foreign-currency quasi-money) rose by 20%.

In November, the State telecommunications enterprise, EMETEL, was split into two new firms in preparation for the sale of 35% of each of the new companies to private operators. This was heralded as the year's foremost structural reform measure, but the tender offer had to be declared void when no bidders stepped forward; the authorities announced that another call for bids would be made in the coming months.

Upon taking office, the interim Administration had set its **growth** target at a 3.3% annual rate. The growth rate posted for the first half of the year was actually 4.1%, but this did not reflect a genuine increase in economic activity, since, owing to the stagnation of real household income, consumer demand for goods and services expanded by only 1.6% and gross fixed capital formation slipped back by 0.2%. Exports' contribution to total demand also shrank. Thus, the economy's growth was largely based on the replenishment of inventories, which had been drawn down sharply the year before. The branches of economic activity turning in the strongest performances were agriculture, the petroleum industry and financial services.

The available information on investment activity by major corporations and the fact that the expansion of credit has failed to keep up with inflation indicate that the progress made in terms of price stabilization in the second half of the year has not yet translated into a higher level of economic activity. Another factor that militated against the creation of a favourable climate for growth was the continued political uncertainty generated by continuing clashes between different branches of government and by the election of representatives to the National Assembly in November to undertake the task of reforming the Constitution in preparation for the presidential elections scheduled for next year. In addition, during the latter part of the year agriculture and infrastructure sustained damage due to the effects of El Niño.

Steep increases in public utility rates during the first two months of 1997 drove the 12-month inflation rate far above the 25% level recorded at the end of the preceding year. During subsequent months, the variation of the CPI was kept within the range of its 1996 levels, however. Consequently, the cumulative rate of inflation as of year's end appears to be in the vicinity of 30% and appears to be headed for a significant decrease in the next few months. Fiscal policy played a key role in warding off an inflationary spiral in the first half of the year, while the currency's stability is credited with its containment during the second half of 1997.

The urban unemployment rate, which had climbed to 10.4% in 1996, fell to 9.3% in 1997, although this was still very high compared to the levels recorded during the first half of the 1990s. The minimum wage (including supplementary allowances) was eroded by around 3%, since the wage increases instituted in January and July were not large enough to offset the rise in prices completely.

Exports of goods and services rose by 6% thanks to the momentum provided by overseas sales of bananas and shrimp. The spectacular increase in banana exports (39% in the first 10 months of the year) was mainly attributable to the country's success in winning over new customers –China was one of them– but sales to traditional markets (European Union, United States) were also higher. Oil exports slumped, however, as sales volumes were flat and prices declined. Other major traditional export products, such as coffee and cocoa, also suffered setbacks. Meanwhile, sales of non-traditional exports leveled off, thus marking a break with the strong gains made in previous years.

After having contracted the year before, **imports** of goods and services jumped 20%. This pared down the country's trade surplus and turned the preceding year's unusual current account surplus into a fairly small deficit (about 2% of GDP).

The uncertainty overshadowing the economy and the failure of the move to privatize the country's telecommunications firms triggered a US$ 100 million downturn in foreign direct investment. Short-term capital outflows slowed, however, and Eurobonds were floated in order to restructure the public debt. As a result, the **capital account** yielded a substantial surplus. During the first half of the year, international monetary reserves mounted from US$ 1.8 billion to US$ 2.2 billion; the level of reserve assets fluctuated during the following months, closing out the year at around US$ 2 billion.

PARAGUAY

The strong performance of the farm sector (particularly in the case of the soybean crop) and the expansion of public investment more than made up for the poor cotton harvest and served as the underpinnings for a moderate upswing in the Paraguayan economy in 1997. Its 2.5% growth rate was slightly below the cumulative annual average for the period 1990-1996, but was more than double the rate posted for 1996.

The financial system's ongoing difficulties made it necessary for the Central Bank to intervene on a number of occasions to head off an escalation of the crisis. The monetary authorities held to the policy they had pursued in 1996 and attempted to use open market operations to counter the predictably expansionary effect of the steps taken to bail out the banking system. The Government also intervened in the foreign exchange market. These measures, along with a more ample supply of farm products, helped to push annual inflation below 6%.

Although fiscal policy continued to be aimed at maintaining a balanced budget, the central government's deficit swelled to 1.5% of GDP, which was almost double the 1996 figure. During the first half of 1997, the increase in expenditure, although slow, outpaced the increase in income. Moreover, disbursements for physical investment, which were financed with Treasury bonds and foreign borrowing, were up sharply.

In order to control expenditure more effectively, integrated management systems were implemented for the various budget items and quarterly quotas were assigned to administrative units. Measures directed towards boosting income included a tax increase for petroleum products and further steps to reform the customs administration, oversee invoicing and register taxpayers. Along with the above-mentioned measures, tax revenues collected during the first three quarters were boosted by the upsurge in economic activity and the increase in imports. Receipts from the value added tax (VAT) were significantly higher (22%).

The rehabilitation and recapitalization of two banks and one finance company through mergers and debt restructurings succeeded in keeping the **financial crisis** within bounds. In addition, the Central Bank approved loans to various institutions in the sector as part of the banking system's safety net. Slack demand for credit and prepayments tended to depress lending levels. Nevertheless, it became necessary to revoke the charters of one bank and one finance company.

PARAGUAY: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	4.5	1.0	2.5
Consumer prices	10.5	8.2	5.4
Real wages	7.7	3.1	-1.7
Money (M1)	21.0	2.1	12.0
Real effective exchange rate [b]	2.8	-4.5	-4.0
Terms of trade	2.8	-1.1	3.0
	Percentages		
Fiscal balance/GDP	-0.3	-0.8	-1.5
Real deposit rate	11.1	9.8	7.3
Real lending rate	22.1	22.2	20.5
	Millions of dollars		
Exports of goods and services	4 578	4 145	4 130
Imports of goods and services	5 225	4 878	5 045
Current account	-495	-635	-820
Capital and financial account	562	586	670
Overall balance	67	-49	-150

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Intervention by the monetary authorities led to a substantial increase in net credit to the financial system. In September 1997, the level of loans was 44% higher than it had been in September 1996. Net credit to the public sector also expanded (14%) during this period as the result of an 11% increase in net credit to the general government –made necessary by the larger deficit recorded for 1997– and the higher level of lending (23%) to the rest of the public sector. In order to sterilize this factor of monetary expansion, the Central Bank again found it necessary to float monetary regulation bonds (LRMs) on the open market. In September 1997 the sum of such securities was 21% higher than it had been 12 months earlier and was equivalent to 40% of total bank loans.

As a consequence of these measures, **the monetary base** grew by slightly more than 10% in the 12 months to September. As of the end of the third quarter, M1 had risen by an annualized rate of 12%, in contrast to the mere 2% rate recorded the preceding December.

As in 1996, the lower interest rates of LRMs put downward pressure on deposit rates, pushing down the growth rate of

local-currency quasi-money from 27% in December 1996 to 20% in September 1997. M2 expanded by 16%.

At the close of the third quarter, the Central Bank was functioning as a net seller of foreign exchange, but its role varied over the course of the year. In the first quarter, net sales totalled US$ 107 million, which offset the small net amount of purchases registered during the second quarter.

The nominal **exchange rate** rose 3.8% in the first nine months of 1997 but, since the guaraní appreciated against the Brazilian real, the real exchange rate declined somewhat.

In the highly influential **farm sector,** the 8% upswing in the soybean harvest achieved in 1996 was followed by an 11% expansion in 1997. The cotton harvest plummeted once again (-58%) as a result of a steep decrease in the amount of land under cotton cultivation and flat productivity. The other main farm products reported larger harvests than the year before. Construction activity also picked up as a consequence of the increase in public-sector building projects. Commerce was hurt by the meagreness of the cotton harvest.

The annualized rate of variation in the **consumer price index** amounted to 5.4% for 1997, which was almost three full points below the 1996 rate. In May and in the four months from July to October, the monthly rates were negative. As in 1996, the prices of tradables (food, clothing and footwear), which make up two thirds of the shopping basket, climbed much more slowly than the prices of non-tradables did (housing, health care, transport, education). This divergence reflects the effect of the administrative controls imposed on tradables, as well as the existence of an oversupply of such products and the slow rate of increase in the nominal exchange rate.

The minimum wage was raised in January to a level 10% above its April 1996 level, which represented a real increase of approximately 5% over its 1996 average. However, **nominal average wages** rose by only 6%, which means that they decreased by nearly 2% in real terms.

The figures for registered trade operations indicate that in the first three quarters of the year exports grew twice as fast as imports (12% versus 6%). It should be noted, however, that only about 40% of all exports and two thirds of total imports actually pass through Paraguayan customs. More than one third of these transactions are conducted with neighbouring Brazil.

The buoyancy of registered sales is accounted for by the fact that the soybean harvest, which had come to represent one third of the country's reported exports in 1996, set an all-time record in 1997 that boosted its share of total registered overseas sales to nearly 50%. In contrast, cotton sales slipped to 38%. Registered imports were up by 6%.

PERU

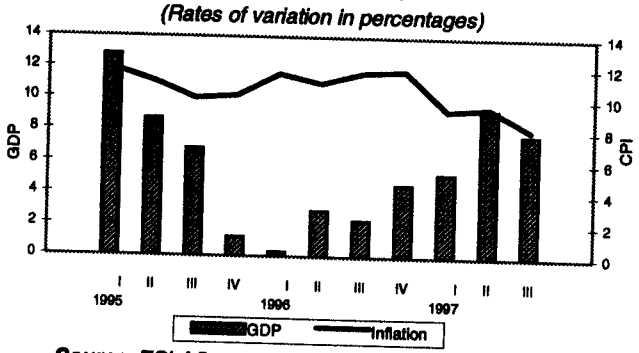
The Peruvian economy's performance in 1997 surpassed all expectations: the pace of growth was nearly three times the preceding year's rate (in the 7% range) and inflation is set to remain below 8%. The deficit on the country's external accounts –the main disequilibrium that has been weighing Peru down during the 1990s– narrowed to the equivalent of 5% of GDP as massive amounts of capital flowed into the country in the form of foreign direct investment and talks regarding the renegotiation of Peru's external debt drew to a successful close.

The **economic reactivation** that had begun at the end of 1996 gathered speed in the first and second quarters of 1997 (5.4% and 9.4%) and, as a result, the growth rate for the year as a whole will be about 7%. The most dynamic sectors were construction, manufacturing activities other than those based on natural resources, and mining (especially gold and zinc).

Exports and investment were the two components that helped to strengthen demand in the first half of the year. Consumption, on the other hand, expanded more slowly than GDP as both employment and wage levels stagnated within a monetary and fiscal policy environment that was neutral from the standpoint of domestic demand.

PERU: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

Exports in the first semester exhibited a great deal of forward momentum, and this was particularly true of non-traditional products. Later on, however, the strength of this trend was sapped by the effects of "El Niño", which hurt fishery and agricultural production.

The behaviour of private agents was a decisive factor in the positive performance of gross fixed capital formation. In the first nine months of the year, construction-related investment grew by 18%. Public-sector investment failed to expand in

PERU: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	7.8	2.5	7.0
Consumer prices	10.2	11.8	7.1
Real wages	-8.4	-4.7	-0.2
Money (M1)	23.4	18.9	26.8
Real effective exchange rate [b]	3.3	-1.1	0.4
Terms of trade	0.9	-0.5	6.7
	Percentages		
Urban unemployment rate	9.3	8.8	9.1
Fiscal balance/GDP	-1.3	2.3	0.0
Real deposit rate	0.7	-1.4	2.8
Real lending rate	23.4	17.6	22.0
	Millions of dollars		
Exports of goods and services	6 722	7 268	8 305
Imports of goods and services	9 665	9 947	10 910
Current account	-4 298	-3 605	-3 390
Capital and financial account	3 745	4 561	5 690
Overall balance	- 554	956	2 300

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

the first semester but did show a slight increase in the second half of the year as a result of the start-up of road reconstruction projects that had been postponed in 1996 and of works aimed at mitigating the effects of weather disturbances.

The nationwide **unemployment rate** for the first half of the year was unchanged from 1996. The results of labour market surveys in the country's metropolitan areas indicate that this situation remained much the same up to October, with a very slight upturn in employment in the services sector.

The Peruvian economy's revival was not linked to an expansionary **fiscal policy**. The figures show that the central government's deficit, excluding capital inflows, was reduced by one percentage point of GDP; consequently, as the end of the year approached, it was running a surplus equivalent to 0.3% of GDP. This development is almost entirely accounted for by a contraction in current expenditure.

Monetary policy did nothing to revive domestic demand either. Much of the impact of the increase in the net reserves of the Central Reserve Bank of Peru (BCRP), which by the end of October amounted to some US$ 1.5 billion, was sterilized by BCRP bond issues and by increases in the deposits of the public sector and the Banco de la Nación. Consequently, by the end of October the annualized growth rate for money creation was 16%, which was in line with an inflation rate of about 9% and GDP growth of 7%, while the money supply was up by 20% and total liquidity by 18%.

The reduction in **inflation** seems to be related to the stability of the nominal exchange rate and the slowdown in the rate of price increases for imported goods, especially food products. As of the end of October the annualized variation in the real exchange rate as measured against a specified basket of currencies was registering a fall of 4%.

The **merchandise trade** deficit narrowed to US$ 1.85 billion, which was 8% less than the previous year. This development was the outcome of a 16% increase in the value of exports (16%) together with a smaller rise in imports (10%).

The dynamism of exports, which outstripped the projections made at the start of the year, resulted from a positive trend in external demand for non-traditional products. Particularly notable performances were turned in by steel and metallurgical goods, where exports were up by nearly 70% during the first nine months of the year, textiles (30%), fishery products (37%), and non-metallic minerals (37%). The terms of trade posted a 6% improvement thanks to higher prices for fishery and agricultural products, on the one hand, and a slowdown in price increases for imported goods, on the other.

The increase in private-sector remittances was offset by the reduction in the public sector's debt service achieved under the Brady Plan; as a result, payments for financial services remained at much the same level as before. It is therefore estimated that the **balance-of-payments current account** will close out the year with a deficit of close to US$ 3.39 billion, or 5% of GDP.

The amount of private **capital flowing into the country** in the form of direct investments bordered on US$ 2 billion and was concentrated in the mining and petroleum sectors. Only US$ 127 million of that total corresponded to privatization-related inflows.

In the course of 1997, Peru completed the renegotiation of its debt with the Paris Club, as well as debt restructurings with Russia and with its commercial bank creditors under the Brady Plan. Thanks to these agreements, the size of Peru's external debt fell from 41.5% to 28% of GDP.

The **sale of two electricity companies** –EGASA and EGESUR– was postponed in expectation of the passage of a bill regulating the formation of monopolies in the generation and distribution markets. The privatization of several units of Petróleos del Perú (PETROPERU) was also delayed, as was the award of a number of infrastructure concessions.

Interest was aroused by the Government"s proposal to use the State's equity holdings in privatized companies to set up the Public Mutual Savings Fund. The principal objective of the Fund would be to improve the economic status of public-sector employees, 40% of whom are retired.

URUGUAY

In response to a sharp upswing in aggregate demand and the forward momentum imparted by fixed investment and exports, the Uruguayan economy grew by about 6% in 1997. Inflation continued its gradual descent, slowing to 16% per year, which was the lowest rate in 30 years. Unemployment, on the other hand, remained stalled at the high level of 12% until the end of the third quarter, when it fell slightly.

The fiscal and external deficits held at about 1.5% of GDP. The financial deficit of the public sector as a whole was mainly a result of extraordinary outlays made in connection with administrative and social security reforms, since the deficit registered for the regular budget actually shrank. Meanwhile, the current account deficit widened during the first half of the year but tended to narrow in the second half as imports leveled off. Against the backdrop of a favourable international environment, capital inflows were more than plentiful enough to cover the external deficit.

The turbulence that overtook equity markets during the fourth quarter caused the flow of foreign capital to dwindle and this, in turn, cooled the expansion of demand in Argentina and Brazil. This may well depress Uruguayan sales to Mercosur, which accounts for more than half of the country's total exports of goods and services. Under these circumstances, a slowdown in the growth of the Uruguayan economy in the first half of 1998 can be expected.

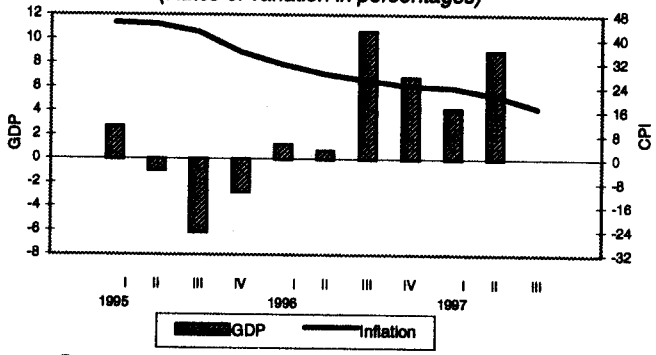
A gradual reduction in inflation to internationally acceptable levels continued to be the central goal of **economic policy**. The main tools used for this purpose were a slowing of the monthly devaluation rate and strict control of public finances.

In May the Executive branch presented its annual monetary programme to the General Assembly. The main goals set out in the programme for 1997 included achieving GDP growth of 3%, bringing the annual inflation rate down to below 17% per year, and reducing the public-sector deficit to 1.7% of GDP. Midway through the year the government signed a Òprecautionary agreement with the IMF under which US$ 174 million is to be made available only if circumstances so require.

The overall public-sector deficit stood at around 1.8% of GDP at the end of the third quarter; more than two-thirds of the shortfall consisted of outlays attributable to the reforms mentioned earlier, since the regular budget deficit amounted to just 0.4% of GDP. A good part of the improvement in fiscal accounts was due to a 9% real increase in tax revenues in a context of expanding domestic output and import volumes. Other contributing factors included the increase in the tax on bank assets and the extension of the tax on State firms' net worth. Outlays not linked to the reforms grew at a slower rate (6%), while the cost of the reforms added a further half percentage point increase. The end result was an 11% increase in total expenditure in real terms.

URUGUAY: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

Lending to the official sector contracted during the first 10 months of the year, while international reserves grew by US$ 235 million. Thus, in the year to September, the money supply expanded by 17% and thus kept pace with the rise in consumer prices. Time deposits in the local currency grew more rapidly (30%), however, and broad money (M2) therefore rose by 22%. Foreign-currency deposits continued to expand at a brisk pace (11% in dollar terms), so that by the end of the third quarter the cumulative level of such deposits stood at over US$ 7.2 billion (almost 40% of GDP).

Exchange-rate policy supported the effort to combat inflation. The rate of devaluation for the floor of the 7%-wide floatation band was cut to 1.2% per month in May, to 1% in August and to 0.8% per month (an annual rate of 10%) in November. However, the real exchange rate, as measured against a basket of the currencies of Uruguay's main trading partners, fell back by 2%.

GDP growth accelerated. In the first half of 1997 the vigorous upward surge in economic activity seen in 1996 continued, bringing the annualized growth rate for this period to nearly 7%. This high level of activity level was sustained until well into the fourth quarter.

Up to September, growth was widespread. The commerce, restaurants and hotels sector displayed the greatest expansion thanks to a brisk tourist trade and an upswing in domestic consumption. Manufacturing headed up a vigorous revival from the second quarter onward, with significant increases in the production of food, textiles, clothing and leather (all of which were boosted by strong external demand); non-metallic minerals (in response to uptum in construction); and metal products, machinery and equipment. Agriculture and construction both expanded at rates similar to total GDP growth.

Consumer prices were up by 16% in the 12-month period ending in November, the lowest annualized increase in nearly 30 years. Given the decline in the real exchange rate, it can be inferred that prices of non-tradable goods and services rose faster than those of tradables. Indeed, rents

URUGUAY: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	-2.3	4.8	6.5
Consumer prices	35.4	24.3	15.7
Real wages	-2.9	0.6	0.1
Money (M1)	31.9	26.2	17.2
Real effective exchange rate [b]	2.4	0.2	-1.1
Terms of trade	6.4	-2.9	3.6
	Percentages		
Urban unemployment rate	10.3	11.9	11.9
Fiscal balance/GDP	-1.3	-1.2	-1.5
Real deposit rate	8.7	3.1	2.9
Real lending rate	53.1	54.0	48.9
	Millions of dollars		
Exports of goods and services	3 507	3 799	4 260
Imports of goods and services	3 569	3 963	4 430
Current account	-213	-296	-300
Capital and financial account	422	439	530
Overall balance	209	144	230

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

(which are indexed to the past trend in wages), the prices of private education and health services, and public utility rates all rose faster than the general index.

At around 12% of the economically active population, unemployment remained high fodespite the acceleration in the pace of activity. It was not until near the end of the third quarter that the economy's sustained growth nudged the unemployment rate down to 11.5%. The rate of activity in urban areas in 1997 was below the average for the last three years, while the average period of unemployment lengthened to 32 weeks. Real average wages remained stagnant during the first eight months, picking up in the final third of the year, and it is likely that the average for the year will post a slight increase. Wage agreements signed during the year showed a tendency to extend adjustment periods to six months and to avoid passive mechanisms of indexation to past inflation.

The country's **external accounts** displayed similar characteristics to those seen in previous years: a sizeable deficit in merchandise trade together with a comfortable trade surplus in real services; a moderate deficit on the current account; and ample inflows of foreign capital which more than financed the shortfall on the current account as well as building up the level of international reserves.

According to the available information as of year's end, **merchandise exports** grew at a slightly faster pace than imports (13% versus 12%), and the merchandise trade deficit therefore amounted to somewhat more than US$ 760 million.

Up to August, exports of traditional goods grew rapidly (27% over the preceding year's level) thanks to active regional and worldwide demand, thereby marking up a growth rate three times as high as the rate for exports of non-traditional products (9%). The fastest-growing exports were food products, textiles, wearing apparel, paper, chemicals, basic metals and electrical goods. Sales of dairy products and transport equipment lost ground, however.

The **imports** that showed the strongest growth during the same period were consumer products (18%) and capital goods (16%), while purchases of intermediate goods rose by 9%. The country was able to consolidate its relationship with its trading partners in Mercosur, a market that absorbed 49% of all goods exported by Uruguay and provided 44% of all its imports. By mid-November, in the midst of frenetic devaluations in the Asian currencies, the Ministers for Economic Affairs of the Mercosur countries announced a 3% increase in the common external tariff as a temporary measure until the year 2000.

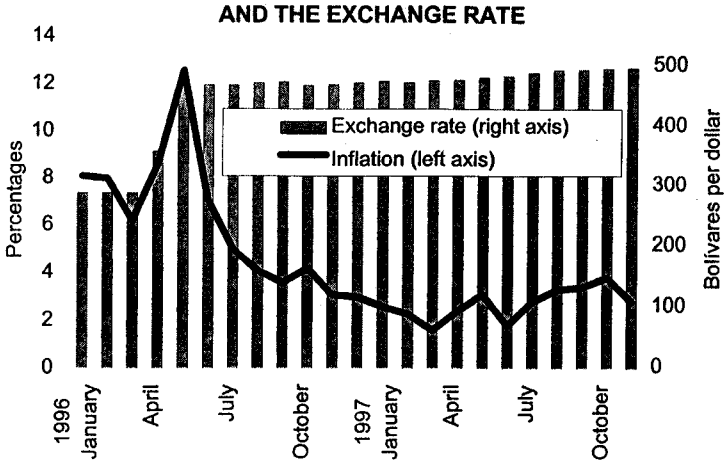
Trade in real services, meanwhile, maintained a comfortable surplus thanks to a strong performance by the tourism sector during the 1996/1997 summer season and a steady flow of Argentine visitors throughout the year.

The inflow of external resources provided more than enough financing to cover the deficit on the **current account of the balance of payments** (1.5% of GDP). One of the major financial events to occur during the year was the placement of US$ 300 million in 30-year Eurobonds at an interest rate of 7.875% (just 135 basis points above United States bonds), which enabled the country to reduce its short-term debt and increase its international reserves. At year's end the gross external debt of the non-financial public sector amounted to about US$ 5.25 billion (equivalent to one fourth of GDP) and the Central Bank's international reserves were in excess of US$ 2 billion. During the year, four major international rating agencies raised their classification of the country's foreign debt securities to investment grade.

VENEZUELA

In 1997 the Venezuelan economy began to reap the benefits of the previous year's adjustment programme, pulling out of its recession and ending the year with a growth rate of no less than 5%, to which both the oil and non-oil sectors(mainly construction) contributed. As a result, the upward trend of unemployment was halted. Inflation ended up at 38% after having been on a downward track until midway through year, when it started to climb again despite the scant nominal depreciation of the bol'var. In the external sector, both trade and private capital inflows remained buoyant, permitting the accumulation of nearly US$ 3 billion in reserves.

VENEZUELA: MONTHLY INFLATION AND THE EXCHANGE RATE



The effort to consolidate the country's basic macroeconomic equilibria –the primary goal of the adjustment programme-was not problem-free, however. The favourable situation in the external sector and an abundant supply of dollars led to an appreciation of the bolívar in real terms, thereby helping to control inflation, but because a large proportion of **fiscal** revenues come from abroad, this trend reined in the increase in local-currency revenues, which thus failed to keep pace with inflation. Meanwhile, current expenditure was swollen by the wage hikes averaging nearly 75% that were awarded to civil servants at the start of the year. Consequently, having registered deficits in the second and third quarters, the central government had to make a greater fiscal effort in order to meet its projected surplus of 1.6% of GDP for the year.

The Central Bank of Venezuela (BCV) continued to rely on the sale of monetary stabilization bonds (TEMs) to soak up liquidity. The effectiveness of this policy was limited by the short-term nature of these bonds and by the interest accrued on the huge number of these securities that were in circulation. From October onward, the BCV had government bonds at its disposal for use in its operations on the open market; these "national public debt bonds" were issued by the Government in part payment of its debt with the Central Bank, but sales were limited. The course of action taken by the BCV served to moderate the expansion of the monetary base in the first half of the year. In order to tighten up on liquidity further, at the start of the second semester the monetary authorities raised the banking system's legal reserve requirement by a total of five percentage points in two stages, setting it at 17%. These measures were not enough, however, to prevent substantial growth in monetary aggregates. By the end of October, the money supply was twice the size it had been a year earlier, while liquidity was showing an increase of nearly 70%. The smaller increase in quasi-money was a reflection of the downward trend in interest rates, which was especially strong during the first half of the year. This kept rates substantially below inflation despite the upturn seen in the second half of 1997.

Negative real rates of return on liquid holdings made equity investments more attractive. The Caracas stock exchange share-price index continued to climb thanks to buying activity by foreign investors in the wake of the explosive rise recorded in 1996. In the first 10 months of 1997, the index soared by a full two-thirds before being brought down by the fall in world markets associated with the crisis in Asia. Even so, as of mid-November the stock market index was showing a cumulative gain over the course of the year of more than 40% in current bolívares (34% in dollar terms).

Owing to the expansion of liquidity, **inflation** declined less than projected, after having dropped to its lowest monthly level in March as a result of the adjustment measures which had kept it on a downward course since June 1996. In the second half of 1997, however, the monthly rate was consistently higher and never fell below 2.8%, so the cumulative increase for the year amounted to around 38%. The BCV relied on a gradually sloping exchange rate band as its main tool for curbing inflation. The **exchange rate** continued to move within the band, whose boundaries were set at 7.5% to either side of a central parity rate which was readjusted upwards by 1.32% per month until August and by 1.16% from that point onward. The exchange rate rose more slowly than the reference rate, however, gradually drifting towards the floor of the band and reaching it by year's end. The dollar, which was quoted at 475 bolívares at the start of the year, stayed around 500 bolívares for nearly the whole of the second semester.

VENEZUELA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	3.5	-1.4	5.0
Consumer prices	56.6	103.2	38.2
Money (M1)	33.0	85.2	111.9
Real effective exchange rate [b]	-19.8	19.6	-19.9
Terms of trade	3.8	18.6	-2.0
	Percentages		
Urban unemployment rate	10.9	12.3	12.8
Fiscal balance/GDP	-4.8	0.5	1.6
Real deposit rate	-28.5	-26.7	-15.3
Real lending rate	-19.0	-16.9	-8.7
	Millions of dollars		
Exports of goods and services	20 753	24 465	25 090
Imports of goods and services	16 924	14 137	17 445
Current account	2 014	8 824	5 815
Capital and financial account	-3 400	-1 793	-2 945
Overall balance	-1 386	7 031	2 870

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currrency in real terms.

In the second year of the application of the Venezuela Agenda, the **structural reforms** called for by that programme were launched. Midway through the year an amendment to the Omnibus Labour Act was passed which laid the foundations for an in-depth restructuring of the social security system involving the recapitalization of the Venezuelan Social Security Institute and the future establishment of private pension funds. As part of this reform programme, the Government also had to acknowledge US$ 8 billion in labour-related debts which it had run up over a five-year period together with a further US$ 6 billion in recapitalization requirements. The overall public debt thus jumped by 40%.

The process of opening up the oil sector to private capital moved forward with the conclusion of a third round of operating agreements with the State-owned oil company, PDVSA. These arrangements brought in US$ 2.172 billion in oil royalties from 18 different consortia for the exploitation of a number of marginal oilfields. The privatization programme ground to a halt, however, and the main privatization operation –the sale of the Venezuelan Guayana Corporation (CVG) aluminum complex– was put off until the next year. On the other hand, the legal path was cleared for the auctioning of the Sidor steel company, which was scheduled for the second half of December.

The macroeconomic environment and the positive reaction of international financial markets created a favourable climate for an upturn in domestic investment and consumption. The **gross domestic product** for all activities other than petroleum-related industries grew by 2% in the first half, while the oil sector kept up the momentum seen in preceding years, growing by 9%. The upswing was particularly notable in the construction sector, which expanded by 14%. This trend firmed up in the second half of the year, and by the end of October, vehicle sales were registering annual growth of 165%, private purchases of imported goods were up by 32%, and the expansion of consumer credit was so substantial that it had come to account for nearly one quarter of total bank portfolios. As the year drew to a close, it was clear that the country's economic growth rate would be at least 5%.

The upward trend in unemployment, which dates back to 1993, was interrupted as the rate actually dropped back to 11.5% in the third quarter. The proportion of informal **employment** also declined, falling below 48%. These results were in large part a reflection of an increase in the number of jobs in construction and manufacturing. The upturn in consumption, meanwhile, was partly the result of the wage increases granted at the beginning of the year. In addition, in June the legal minimum wage was raised from 32,000 bolívares (including various supplementary allowances) to 75,000 bolívares.

Exports of petroleum, which is Venezuela's main product benefited from rebounding hydrocarbons prices on the international market following the downswing seen in the first quarter. As of the end of November, the average price for Venezuela's oil exports for the year as a whole was nearly 10% below its 1996 level, which led to an erosion of the country's terms of trade. Nonetheless, an increase in the volumes shipped and an upturn in non-oil exports boosted export earnings by 3%. The 30% jump in **imports** generated by the country's economic recovery and the real appreciation of the bol'var caused the trade balance to narrow, but it still yielded an ample surplus (US$ 11.5 billion), as did the current account (nearly US$ 6 billion).

The **financial account** continued to register net inflows of private foreign capital, especially under the heading of direct investment (mainly in connection with the liberalization of the oil sector). The country's international reserves grew steadily for most of the year, rising from US$ 15.229 billion at the end of 1996 to some US$ 18.4 billion by November 1997. Most of this increase corresponds to the more than US$ 2 billion generated by the conclusion of the third round of operating agreements in the oil industry. The public sector's loan repayments continued to exceed its borrowings, and late in the third quarter the Government issued an unsecured US$ 4 billion bond in exchange for US$ 4.441 billion in Brady bonds.

MEXICO AND CENTRAL AMERICA

COSTA RICA

In 1997 economic activity in Costa Rica expanded by 2.5% thanks to a sharp increase in gross fixed capital formation and a rise in the level of exports of goods and services.

The liquidity in the country's banking system facilitated investment growth, against a backdrop of lower inflation (12%) and a downward trend in real interest rates. This development was aided by moderate exchange rate devaluations, and also by greater restraint in State spending, which reduced the overall fiscal deficit to 4.4% of the gross domestic product (GDP) despite significant domestic debt service payments. Both employment and real wages increased, thereby boosting private consumption. The upturn in domestic demand caused a sharp increase in imports, which led to a marked widening of the trade deficit. However, a substantial influx of capital covered the deficit and even added to the country's international reserves.

The main objective of **fiscal policy** was the reduction of the central government and public-sector deficit, which had reached 5% of GDP in 1996. After repeated deficits in previous years, the cumulative domestic debt totalled US$ 2,568 million (32% of GDP) by the end of 1996. As a

COSTA RICA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	2.2	-0.6	2.5
Consumer prices	22.6	13.9	11.5
Real wages	-1.9	-0.9	1.1
Money (M1)	-1.9	8.0	22.0
Real effective exchange rate [b]	-2.0	-2.5	0.5
Terms of trade	1.0	-0.3	6.1
	Percentages		
Urban unemployment rate	5.7	6.6	6.1
Fiscal balance/GDP	-4.5	-5.3	-4.4
Real deposit rate	-3.8	3.1	2.1
Real lending rate	5.5	11.0	10.5
	Millions of dollars		
Exports of goods and services	3 790	4 117	4 575
Imports of goods and services	3 901	4 171	4 790
Current account	- 143	- 108	- 315
Capital and financial account	374	47	490
Overall balance	231	- 61	175

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

result of efforts to curb public expenditure, the overall fiscal deficit narrowed from 5.3% to 4.4%. On the revenue side, reforms were introduced in motor vehicle, boat and aircraft registration tax laws and excise tax rates were changed. Bond issues to a value of up to US$ 500 million were authorized for placement on the international market.

Current revenues as a proportion of GDP remained the same as in 1996 (16%), as did their composition. Total expenditure as a proportion of GDP contracted, basically because current expenditure went down from 20% to 19%. Domestic interest payments also remained unchanged as a proportion of GDP, although, as a result of the downward trend in interest rates, interest on domestic debt represented 4.8% in 1997 compared with 5.1% in 1996.

Monetary policy was geared mainly towards reducing the rate of inflation. The solid influx of capital, the Central Bank's intervention in order to maintain the rate of devaluation of the exchange rate, and the quasi-fiscal deficit put pressure on the monetary base, which was partly eased by means of sterilization operations. The monetary authorities used open market operations as their chief instrument for controlling the monetary base. Despite the absorption of liquidity through the issue of monetary stabilization bonds, narrow money (M1) expanded by 22% and broad money (M2) by just 3%. The growth of M1 was partly due to the gradual reduction in the course of the year of the minimum reserve requirement for demand deposits, which strengthened the banking system's liquidity position: lending increased and interest rates came down.

Foreign exchange policy, as in previous years, remained based on a crawling peg regime, the ultimate goal of which is to even out intertemporal fluctuations in the real exchange rate. At the beginning of the year the exchange rate was 231 colones to the dollar and in October it had reached 242 colones per dollar, while the annualized devaluation stood at 11.7%. Thus the colón showed a slight appreciation in real terms.

Overall demand expanded by 6.3% as a consequence of sharp increases in gross fixed capital formation (10%) and in exports of goods and services (6%). At the same time, private consumption revived, attaining a growth rate of 2%. After having declined for three years, investment regained its 1994 level, stimulated by a fall in real interest rates and credit rates that was due in part to expanding bank liquidity and the influx of external resources. The upturn in consumption was a result of the improvement in employment levels compared with 1996 and the rise in real wages.

Agricultural activity was affected by weather conditions, and expanded by only 0.4%. The manufacturing sector picked up by 2.2%, helped by the increase in export production. By far the most vigorous growth (18%) took place in the construction sector.

Of major significance for the country's future development was the location by INTEL, one of the world's leading manufacturers of computer microprocessors, of a plant in Costa Rica. Production got under way in 1997, and the company plans to invest between US$ 300 million and US$ 500 million.

The annual **rate of inflation** stood at 11.5%, nearly three percentage points below the figure for 1996. Although the crawling peg regime and the indexation mechanisms have generated significant amounts of inertial inflation, the slower rate of devaluation has made it possible to bring down the rate of inflation.

Wage policy was geared to maintaining the purchasing power of wages. Thus pay rises were awarded and a new wage component known as the "school bonus" was introduced, with the aim of easing the pressure on wage earners at the start of the school year by granting access to a range of goods or services provided or funded by the State. Thanks to the increase in the level of economic activity, which boosted employment opportunities by 3.7%, the urban **unemployment rate** dropped from 6.6% to 6.1%.

The overall balance of payments was positive (US$ 175 million) as a result of a financial account surplus (US$ 490 million) that easily offset the current account deficit (US$ 315 million). Growth in merchandise exports remained unchanged from the year before (11%), while imports expanded three times as fast (16%) in 1997, thereby widening the deficit in visible trade by US$ 200 million. Exports of goods and services were up significantly (6%) owing to favourable coffee prices and a rise in the value of non-traditional exports. The revival of domestic demand and the slight appreciation of the exchange rate caused a significant rise in imports of goods and services (15%). Petroleum imports were up 11%.

Net inflows of private capital, including a certain amount of short-term capital, produced a surplus in the **financial account**. Increased economic activity raised foreign investors' hopes of stability, leading to higher levels of foreign direct investment.

EL SALVADOR

During 1997 El Salvador's gross domestic product (GDP) grew by around 4%, a higher rate than in 1996 (2.5%) but below the average of 6.8% achieved during the period 1992 to 1995.

This growth was associated chiefly with the increased vigour of the external sector, due largely to the rise in international coffee prices, the expansion of *maquila* exports and the resurgence of non-traditional exports. Domestic demand continues to show signs of sluggishness, however, and formal employment is expected to decline.

Generally speaking, **economic policy** continued along the broad lines adopted in 1996. As 1997 draws to a close, the central government deficit is expected to be 1.9% of GDP, thereby exceeding the target figure. Even so, in macroeconomic terms the outturn has been favourable: inflation fell significantly, the exchange rate remained stable and nominal interest rates came down. In the external sector, the balance-of-payments current account deficit narrowed, basically as a result of the reduction of the deficit on trade in goods.

By the third quarter of 1997 **public-sector** current revenues making a slow recovery, were only 0.8% higher than they were in September 1996. Tax revenues amounted to 8,255 million colones (4.9%), thanks mainly to receipts from value added tax (VAT) (9.8%) and income tax (6.6%). Tariff income fell by 15.6% as a consequence of the tariff-reduction programme. Current expenditure was 5% lower than in the same period in 1996, owing to a drop in consumption expenditure and current transfers.

By September, current operations recorded a current saving of 2,334 million colones, an amount chiefly attributable to the surplus posted by public-sector corporations. The fiscal deficit amounted to 147 million colones, a lower figure than that recorded in September 1996, but this was a result of low levels of central government investment.

Monetary policy was geared towards the sterilization of excess liquidity by means of bond auctions on the open market. As of September 1997, annual growth in private liquidity (M3) amounted to 8.7%. During the year, the economy's liquidity was influenced by, among other things, net dollar purchases by the Central Reserve Bank, maturing "monetary administration certificates" and Treasury notes, and the opening of a stabilization fund for financial institutions with net assets of up to 100 million colones. Average nominal interest rates continued to fall, chiefly owing to low inflation and exchange rate stability. The lower interest rates allowed private credit to expand: annual credit growth in September stood at 18.2%.

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	6.3	2.5	4.0
Consumer prices	11.4	7.4	2.2
Money (M1)	4.4	17.5	6.2
Real effective exchange rate [b]	-8.8	1.2	5.5
Terms of trade	5.0	-2.5	11.3
	Percentages		
Fiscal balance/GDP	-0.5	-2.0	-1.9
Real deposit rate	10.9	6.2	8.0
Real lending rate	14.8	10.6	12.4
	Millions of dollars		
Exports of goods and services	2 049	2 204	2 765
Imports of goods and services	3 674	3 542	4 040
Current account	-323	-169	-85
Capital and financial account	471	334	310
Overall balance	148	165	225

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Tariffs on raw materials and capital goods having been cut to zero in December 1996, July 1997 saw the start of a **process of tariff reduction** for intermediate and final products, involving a reduction by one percentage point every six months. The aim is to achieve a floor of 5% and a ceiling of 10% for intermediate goods by July 1999, and a floor of 15% for final products.

The **privatization programme** continued, although somewhat behind schedule. The sale of the National Telecommunications Administration, which had been planned for April, was put off until the beginning of 1998 owing to the legislative assembly elections in March 1997 and the subsequent redrafting of the legal framework. Nevertheless, competition in the local telephony market was fostered by the signing of interconnection agreements with two private telephone companies. The privatization of the electricity distribution companies was also postponed until the following year, since potential investors requested more time to study the information on the companies.

A significant factor in the **growth of economic activity** was the greater buoyancy of external demand, chiefly as a result of the improvement in the terms of trade and the rebound in trade in the Central American region.

In August 1997 the economic activity index recorded growth of 4.9%, a result reflecting the gradual recovery observed since the beginning of the year, and a considerably higher rate than the 1.1% noted during the same period in 1996. Growth was strongest in the financial sector (12.9%), electricity (7.7%), manufacturing (7.5%), transport (4.2%) and commerce (3.7%). Construction and agriculture expanded by 2.4% and 1.8%, respectively.

The agricultural sector's lacklustre performance was due in part to the adverse effects of the El Niño phenomenon. Nevertheless, good coffee and sugar cane harvests made up for the drop in production in other areas.

Of particular importance was the upturn in the manufacturing industry, where output stalled in 1996. This recovery is attributable to increased *maquila* production and an improved showing in exports, mainly exports to the Central American region. The gradual recovery of economic activity was also reflected in the favourable performance of commerce. Wholesale trade recorded growth of 5%, retail trade 12%.

In November the annual rate of **inflation** stood at 2.1%, well below the 8.7% recorded in the same month the year before. Factors contributing to this decline in inflation include the improvement in the country's macroeconomic performance, the stability of the exchange rate, lower interest rates and appropriate levels of liquidity in the economy. It was also helped by the marked drop in the prices of petroleum products and of basic grains, as the Ministry of Agriculture released its reserves onto the market.

Despite the strength of productive activity, it is estimated that **open unemployment** topped 8% in 1997, compared with 7.7% in 1996. With investment still only just beginning to recover, insufficient numbers of new jobs were created. No significant changes were noted in **wage** trends, and nominal minimum wages remained at the levels agreed upon in July 1995. Consequently, real wages contracted, and this, together with rising unemployment, depressed household demand.

The **trade balance** showed a deficit of US$ 1,275 million, which represented a 5% improvement over the same period the preceding year. This outcome was attributable to the fact that exports grew by 25%, while imports grew by 14% under the stimulus of tariff reductions. The surge in exports was due to the rise in international coffee prices, the favourable economic outlook for the Central American countries and *maquila* activities.

Net transfers totalled US$ 1.27 billion, with family remittances –which increased by more than 8%– accounting for a substantial proportion. The **capital and financial account** also posted a surplus, which, together with the favourable performance of the current account, made it possible to achieve a balance-of-payments surplus of US$ 225 million. International reserves amounted to US$ 1.3 billion, or more than five months' worth of imports.

GUATEMALA

In 1997 the Guatemala economy grew by 4%, thanks to the performance of exports, especially coffee, and to the more relaxed monetary policy the authorities adopted in the course of the year. Inflation was moderate, and the external deficit was similar to the previous year's.

The Agreement for a Firm and Lasting Peace, signed on 29 December 1996, went into effect in 1997. The international community confirmed its support of the Guatemalan peace process by promising financial backing of approximately US$ 2 billion over the next four years. In 1997, however, the external aid disbursed was far below the expected US$ 270 million.

For the first time in 15 years, the tax burden was over 8% of GDP for two consecutive years. While negotiating with IMF on a standby agreement, the Government adopted a series of **fiscal and monetary measures** that were less restrictive than the previous year. Quasi-fiscal losses were nonetheless reduced marginally, and the overall public sector deficit ended up at around 1.4% of GDP.

The central government deficit equalled approximately 0.5% of GDP, an increase from the 0.1% recorded in 1996. The tax burden exceeded 8% for two main reasons: the continuance of the Extraordinary Solidarity Tax and the expansion of the tax base by over 30%. The growth in revenues from value added tax was modest. Government expenditure increased strongly (20% in real terms), to a great extent because of the implementation of the peace accords and the increased spending devoted to ensuring public safety. Central government investment expanded substantially (40% in real terms).

The tax structure underwent changes. The top income tax rate for firms and individuals was reduced from 30% to 25%, but various exemptions and deductions were eliminated. A number of taxes were passed to comply with the peace accords, which call for a tax burden of 10% of GDP in 1998, and other reform bills were prepared. A bill was presented that would create a Superintendency of Tax Administration in order to make administration more effective.

The public external debt was reduced slightly (US$ 2,027 million). The Government successfully placed US$ 150 million in bonds in international markets, with the aim of reducing domestic interest rates. It also continued its efforts to restructure the domestic debt; most new public debt instruments were placed at maturities of more than one year, and for the first time five-year instruments were issued.

In a reversal of the contractionary stance adopted in 1996, **monetary policy** was eased in 1997. The monetary authorities refrained from open market operations (except in

GUATEMALA: MAIN ECONOMIC INDICATORS

	1995	1996	1997 [a]
	Annual rate of variation		
Gross domestic product	5.0	3.1	4.0
Consumer prices	8.6	10.9	9.0
Money (M1)	22.8	12.8	10.1
Real effective exchange rate [b]	-3.6	-4.6	-7.0
Terms of trade	2.7	-5.3	7.2
	Percentages		
Fiscal balance/GDP	-0.7	-0.1	-0.5
Real deposit rate	-4.4	-2.9	-0.1
Real lending rate	7.1	10.7	13.6
	Millions of dollars		
Exports of goods and services	2 822	2 787	3 260
Imports of goods and services	3 727	3 527	4 065
Current account	-572	-467	-480
Capital and financial account	414	643	730
Overall balance	-158	176	250

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

August and September). The decision to encourage greater liquidity was reinforced by the decision to gradually reduce the bank reserve requirement. To balance these measures, the Government kept 2,363 million quetzales in its accounts, an amount unprecedented in recent years.

The rate on 182-day government paper was 9.12%, compared to 18% in 1996. Bank lending rates dropped from 22.4% at the end of 1996 to 16.4% in November 1997. Deposit rates also fell, from 11% to 6%, becoming negative in real terms; this reduction in real deposit rates caused some capital flight. Over the course of 1997 the nominal exchange rate depreciated slightly (around 5%), which translated into a moderate real appreciation.

Plans to privatize the communications company and a number of electrical generating plants failed to materialize, making it harder to balance the fiscal budget, which had been prepared counting on the proceeds. However, the railway company concession was awarded, and progress was made on a plan for port and airport concessions. Some other government assets were also put up for sale. The first highway built on concession by private enterprise was opened.

In **foreign trade**, tariff reductions were introduced in inputs, raw materials and capital goods used by industry. Guatemala negotiated with Mexico on a free trade agreement and moved ahead on the formation of a customs union with El Salvador.

In 1997 the Guatemalan economy accelerated **its rate of growth** (4%). Agriculture benefited from higher prices for its main export products and expanded output by 2.8%. In addition, new acreage previously threatened by the internal conflict was added to ranch land. Construction expanded by 5.5%, primarily thanks to highway repair programmes and new housing projects. Manufacturing production expanded by 2.5%, as exports to the rest of Central America revived and *maquila* exports grew. Smuggling and possibly a lag in the exchange rate continued to undercut manufacturing activity.

Consumer prices rose at a rate of 9%, more slowly than in 1996, despite price increases for some public services. **The employment picture** improved somewhat in the private sector, as stronger growth in production generated new jobs. The Government authorized new hiring in the areas of education and security, while maintaining its policy of cutting civil service jobs in areas considered low-priority. **Minimum wages** held steady for the second year in a row, since no new agreement could be reached on wage levels.

The deficit on the **balance-of-payments current account** amounted to US$ 480 million, slightly higher than in 1996. Inflows of private capital, both foreign direct investment and short-term, increased international reserves. The 17% rise in coffee prices, favourable prices for other major export productions and the good performance of non-traditional exports all contributed to an 18% increase in the value of merchandise exports. Export volumes of traditional products other than bananas also showed dynamism. Quantities of petroleum exported increased significantly (10%), and both exports to other Central American countries and *maquila* exports did better than the year before. Tourism earnings went up slightly, and unrequited transfer totaled over US$ 500 million. The total value of imports rose 15%, in contrast to the flat growth recorded in 1996. The biggest increases were observable in the categories of construction materials (25%), consumer goods (15%) and capital goods (21%). On the other hand, fuel imports dropped, as hydroelectric plants increased operations.

HONDURAS

After a slowdown in 1996, the Honduran economy reversed trend and picked up speed in 1997, achieving 4.5% growth in a climate of stability, thanks to a favourable conjunction of domestic and external factors. A rebound in consumption was the key contributor to output growth, while investment declined.

In the macroeconomic sphere, control of public finances, prudent monetary policy and exchange rate stability set the tone; in that context, inflation declined by half and real wages rose for the first time since 1993. Favourable trends in the external sector permitted a large accumulation of international reserves and resulted in an

HONDURAS: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	4.7	3.3	4.5
Consumer prices	26.8	25.4	15.0
Money (M1)	18.3	27.3	33.9
Real effective exchange rate [b]	-12.9	3.2	-8.4
Terms of trade	1.3	-3.1	10.8
	Percentages		
Urban unemployment rate	5.6	6.5	6.4
Fiscal balance/GDP	-3.4	-2.7	-3.0
Real deposit rate	-6.4	-7.0	5.5
Real lendign rate	6.1	3.5	14.2
	Millions of dollars		
Exports of goods and services	1 719	1 932	2 180
Imports of goods and services	1 913	2 128	2 225
Current account	-191	-176	30
Capital and financial account	219	278	135
Overall balance	28	103	165

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

atypical surplus in the current account on the balance of payments.

The thrust of **economic policy** was to consolidate stabilization through strict, disciplined management of public finances and monetary aggregates in order to contain inflation and correct domestic and external imbalances. At the same time, measures were taken to make room for the functioning of the market through institutional reform, tariff reduction and more efficient use of public resources.

The key features of **fiscal policy** were stepped-up collection efforts and spending discipline. The central government deficit is estimated at around 3% of GDP. Total revenue and total expenditure grew at roughly the same rate. Revenue levels were helped by a simplified system of customs payments, which improved collections of taxes on foreign trade and offset the revenues lost through tariff reductions. In addition, a new tax code went into effect that was designed to improve tax collection. Public-sector investment continued to fall off, despite an increase in spending on road construction and irrigation works.

Monetary authorities responded rapidly to a heavy influx of short-term capital (attracted by exchange rate stability and high returns in the local money market), which swelled international reserves and expanded liquidity. The Central Bank of Honduras resorted often to open market operations to avoid inflationary pressures. Another purpose of these interventions was to serve as a substitute for use of the reserve requirement as the main instrument for managing monetary aggregates.

Reserve requirements were made a uniform 12% for commercial banks, savings and loan associations and finance companies. On deposits in local currency, however, an additional percentage was specified for mandatory investment in public bonds, whereas for foreign currency deposits it was stipulated that 50% must be invested in foreign banks of recognized financial soundness. There was a lag before exchange rate stability and slowing inflation were reflected in interest rates; only in the second half did they begin to drop under the pressure of the excess liquidity in the economy. While bank credit to the public sector decreased, lending to the private sector increased, with especially rapid growth in financing in foreign currencies, which accounted for one fourth of total bank lending.

The aim of **foreign exchange policy** was to stabilize the real exchange rate. The heavy influx of foreign capital, however, kept the nominal rate stable, which meant that the lempira appreciated strongly in real terms. The programme of **tariff** reductions agreed upon in 1996 with the other countries of the subregion took effect. Tariff rates were reduced on capital goods, intermediate goods and finished products, and further reductions were planned in the medium term.

The country's total external debt remained at around US$ 4.1 billion. The public external debt was restructured and reduced by half, and bilateral credit of some US$ 165 million was forgiven. The Government also restructured its debt to the Central American Bank for Economic Integration. In terms of new debt, it adhered to the rule laid down in 1996 that it would seek only concessional credit, of which there was little in 1997.

In 1997 no major steps were taken towards **divestiture of public enterprises**. In April amendments to the law governing the Central Bank of Honduras, intended to give the institution greater autonomy in the management of monetary policy, went into effect. Within the public administration, the functions of the secretaries of state were systematized and their powers defined in order to avoid duplication, overlapping or conflict. Also in progress is a reform of the State financial administration.

The momentum in the economy came from exports and consumption, the latter expanding from 1% in 1996 to an estimated 4% or more in 1997, while investment (very dynamic in 1996) contracted by 4%; overall it is calculated that output increased by around 3.5%. Growth in agriculture slowed somewhat, although basic grains did better. Mining, which was concentrated in export products (silver, lead and zinc), continued to show strong growth. Manufacturing increased by approximately 5%. The *maquila* industry continued to grew vigourously, but construction remained depressed as a result of the reduction in public works and the slump in private activity, discouraged by high interest rates. Construction of tourism infrastructure, on the other hand, revived, thanks to foreign investment, chiefly from El Salvador.

One of the most important economic policy achievements was to **slow inflation** from 25% in 1996 to an estimated 15% in 1997. Fiscal and monetary prudence helped, as did the absence of the inflationary factors at work in 1996: the nominal exchange rate was stable, fuel prices were lower and food supplies were sufficient.

Trends in **employment** were positive in 1997, thanks to the contribution of the *maquila* industry. There was little change in employment in the public sector. Early in the year, the general minimum wage was raised an average of 29% and public employees received a 15% pay raise. The **real wage** should thus increase for the first time since 1993. At the end of May the legislature amended the minimum wage law and stipulated automatic adjustments to the minimums –beginning 1998– to keep pace with inflation.

The overall balance for the external sector was positive by US$ 165 million, the result of a current account surplus (of US$ 30 million), for the first time in many years, and a positive balance on the capital account (US$ 134 million). International reserves increased by around US$ 200 million.

The components of the **current account** surplus were the sharp reduction in the trade deficit in goods and services (US$ 150 million), the growing value added of *maquila* exports (US$ 258 million) and the reduction of around US$ 40 million in interest payments on the external debt. The value of traditional exports increased by 14%, chiefly due to coffee sales, since prices went up 40%. Non-traditional exports increased by 19% and accounted for 39% of total export value. Growth in merchandise imports (US$ 1.9 million) slowed from 12% in 1996 to 4.5% in 1997, chiefly because of a drop in the value of imports of petroleum products, due both to lower international prices and to reduced volumes purchased. The surplus on the financial account was the result not only of short-term capital flows, but also of foreign direct investment (US$ 105 million in 1997 compared to US$ 90 million in 1996), much of it of Central American origin and directed towards the tourist industry.

MEXICO

During 1997 Mexico's gross domestic product (GDP) grew by 7%, the highest rate for 16 years. In a climate of increasing financial stability and declining inflation, the revival of domestic demand and the buoyancy of exports paved the way for a rise in employment, although real wages remained depressed.

Abundant inflows of foreign investment contributed to a real appreciation of the peso and made it necessary to adjust monetary policy in order to lessen the impact of the capital flows. Their monetary effect was sterilized through the placement of government securities, and this greatly swelled the country's international assets.

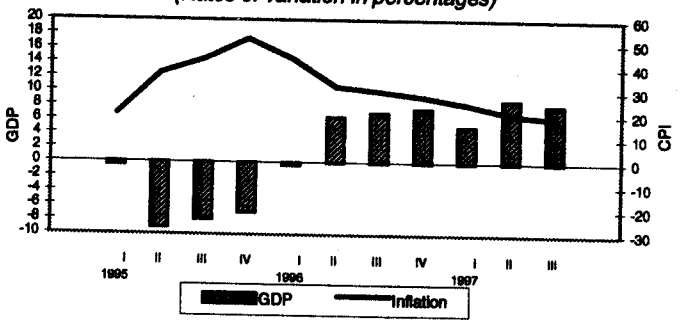
Public-sector finances recorded a slight deficit as tax revenues improved and investment and social development expenditure recovered. Because the bail-out of insolvent banking institutions required vast resources, the cost of such programmes, spread over several years, went up considerably.

The appreciation of the peso caused a slowdown in exports and growth in imports. Imports were also boosted by the revival of domestic demand, thus widening the deficit on the balance-of-payments current account. The Government continued to issue debt securities in international markets and in this way was able to refinance large amounts of short-term debt that fell due and reduce the balance of external debt.

Despite the achievements, there is a marked heterogeneity within the production sector, for it is big companies, exporters and those with external financing, that have bounced back most strongly, while smaller firms that are oriented towards the domestic market have found it less easy to obtain access to financing, and this hampers their recovery.

MEXICO: GROSS DOMESTIC PRODUCT AND INFLATION

(Rates of variation in percentages)



Source: ECLAC, on the basis of official figures.

The financial crisis that engulfed some South-East Asian countries has had some repercussions in the Mexican markets, although to date the effect has been relatively small, involving exchange rate adjustments and stock-market corrections that were deemed necessary in any case, regardless of events in Asia. Interest rates went up as a result, but basic trends in the financial markets, inflation and economic activity have been virtually unaffected.

Economic policy continued to accord priority to the reduction of inflation, the improvement of the banking system's finances and the reactivation of the economy, while maintaining the system of floating exchange rates, monetary and fiscal restraint, and the strategy of rescheduling external debt.

MEXICO: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	-6.6	5.2	7.0
Consumer prices	52.1	27.7	17.6
Real wages	-13.6	-11.0	-1.1
Money (M1)	2.4	39.6	37.9
Real effective exchange rate[b]	48.9	-11.2	-13.3
Terms of trade	0.0	0.0	-1.6
	Percentages		
Urban unemployment rate	6.2	5.5	3.9
Fiscal balance/GDP	0.0	-0.1	-0.7
Real deposit rate	3.3	-2.0	0.1
Real lending rate	3.0	-2.0	-0.8
	Millions of dollars		
Exports of goods and services	89 207	106 779	123 000
Imports of goods and services	81 454	99 700	121 600
Current account	-1 576	-1 922	-6 620
Capital and financial account	-14 793	4 246	15 620
Overall balance	-16 369	2 324	9 000

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Fiscal policy sought to keep the public sector's finances balanced and to promote domestic saving and encourage productive investment. The public-sector deficit for 1997 is expected to be 0.7% of output, higher than it was in 1996 (0.1%) and slightly above the official forecast (0.5%). A primary surplus equal to 3% of GDP is expected.

Budget revenues increased, thanks mainly to a sharp rise in tax revenues as a result of greater economic activity and tight control on the part of the authorities. More than half of the Government budget was allocated to social programmes such as food support schemes, the extension of primary education coverage, and employment programmes. Public-sector investment, in particular within the petroleum industry, also picked up.

The gross external public-sector debt (including the Central Bank) fell from US$ 111.6 billion in 1996 to US$ 99 billion in 1997. This reduction was made possible by early retirement of debt owed to the United States Treasury and of bank notes issued in 1996, as well as a repayment to the IMF. The funds used for this purpose were obtained from placements of public debt issues worth more than US$ 9 billion on international markets during the first nine months of the year, with an average maturity of nine years and an average fixed interest rate of 8.265%.

Monetary policy continued to be geared towards reducing inflation and stabilizing the financial markets. As a result of the sterilization of large inflows of foreign exchange, the accumulation of net international assets was six times greater than the minimum expected by the Central Bank. Monetary policy was therefore adjusted to encourage a decline in interest rates, which in turn would check the influx of short-term capital and slow the appreciation of the peso in real terms.

Credit to the private sector continued to decline despite the economic recovery and the rebound in bank deposits and financial saving. This was probably attributable to the banks' cautious lending policy, as reflected in real interest rates, which remained high.

Trends in nominal interest rates continued downward. The leader rate fell from 24% to around 20% between the beginning and middle of 1997, and hovered there until the end of the year. The liquidity in the economy spurred placements of government securities, so that the amount in circulation increased by 78% between the close of 1996 and October 1997. Holdings of government paper were concentrated in the hands of private companies and individuals; the proportion held by foreign investors dropped from nearly 20% at the end of 1996 to 12% in October 1997.

The schemes to bail out banks and provide support to bank debtors continued, with four million debtors (half of all agents with a net debit position with the banking system) estimated to have joined one or other of them. The banking system's capitalization and reserve ratios have improved, but there is still a long way to go before it can fully resume its role as financial intermediary, partly because of the continuing deterioration of its assets, as reflected in a high percentage of overdue loans –although during 1997 these levelled off at 13% of the total.

The fiscal cost, at current values, of the bank- and debtor-support schemes rose from 8% of GDP to 11.9%, as vast resources were channelled into assistance to insolvent institutions whose shareholders had lost their capital and their controlling interest.

In the capital markets, foreign investment and sales of equity shares by listed companies recovered, boosting dollar earnings on the Mexican stock exchange by more than 40% in the first 11 months of the year.

Foreign exchange policy remained with the floating exchange rate system, with intervention by the Central Bank under certain conditions, specified in advance. Parity remained stable, apart from short bursts of speculation, which did not affect the peso's tendency to appreciate in real terms.

With a view to building up reserves and stabilizing the foreign exchange market, the Bank of Mexico continued to operate its dollar options auction scheme for financial institutions, as a result of which net international assets accumulated rapidly, increasing by US$ 9 billion.

In the area of **structural reform**, the new social security and pensions system came into operation, long-distance telephony was opened up to competition and the rail privatization programme continued; however, the divestiture of Petróleos Mexicanos (PEMEX) petrochemical installations was delayed.

In a clear consolidation of the trends begun in 1996, **productive activity** continued its recovery in 1997. On the demand side, there was a marked upswing in consumption (5%), although the intensity varied in different economic strata. Exports slowed and investment was the most vigorous component of aggregate demand, up an estimated 11%. The surge in demand triggered a robust expansion of imports.

Manufacturing remained the key to Mexico's economic performance, having grown by nearly 10% in the first nine months of 1997. This growth was helped by the aforementioned upturn in domestic demand, and by the country's trade performance despite the real appreciation of the peso. Construction expanded by 11% in the first nine months of the year, thanks to major water, irrigation and sewage projects, and building and transport work, and generated jobs.

Inflation continued on its downward path thanks to the stability of the exchange rate, wage restraint, and monetary and fiscal stringency. The consumer price index (CPI) should show an increase of just over 16%, around half the 1996 figure.

Real **wages** remained depressed, with the exception of contractual wages, which in nominal terms rose by 20%, particularly in companies associated with export manufacturing. The number of regular employees registered with the Mexican Social Security Institute (IMSS) went up by 6.3% in the first 10 months of the year. This was equivalent to the creation of around 600,000 formal jobs. Employment in the *maquila* industry grew by 20%, reaching a total of nearly one million workers. The open unemployment rate fell to 3.2% in October, the lowest level since December 1994.

The most noteworthy events in the **external sector** were the abundant influx of financial resources from abroad and the substantial widening of the balance-of-payments current account deficit (US$ 6.6 billion), although it was kept within manageable bounds (1.8% of output).

Foreign investors' favourable expectations as to the country's economic development, along with high returns on domestic financial markets in a context of exchange rate stability, proved a strong incentive to foreign investment flows, which totalled nearly US$ 18 billion in 1997, slightly less than in 1996. Just under half of this amount corresponded to direct investment and the remainder to portfolio investment.

The **merchandise trade** surplus shrank from US$ 6.5 billion in 1996 to an estimated US$ 1.2 billion in 1997, only 0.3% of GDP. It is estimated that the balance on services and income will show a deficit of somewhat less than US$ 13 billion, mainly owing to a slight decrease in interest on the external debt compared with 1996 due to lower interest rates and to the reduction in the average balance on public external debt.

The bulk of Mexico's international trade (87% of exports and 76% of imports) continued to be concentrated in the North American Free Trade Agreement (NAFTA) area.

Between January and October the value of merchandise exports totalled nearly US$ 91 billion (15% more than in the same period in 1996). The linchpin of this growth was manufacturing (85% of total exports); petroleum exports stalled as oil prices fell. Imports expanded by 22%, amounting to just over US$ 89 billion. Capital goods imports grew by 38% in January-October and intermediate goods imports by 18%, the latter accounting for 78% of the total.

NICARAGUA

In 1997 the Nicaraguan economy achieved a growth rate of over 4% for the third year in a row while at the same time managing to bring inflation down to single-digit levels (9%). This paved the way for a moderate decrease in open unemployment (13.9%), but the country's high levels of poverty and of underutilization of the labour force (both around 50%) remained unabated.

The new Administration that took office on 10 January 1997 made no changes in the approach being taken to the management of the economy's key prices (the exchange rate, interest rates and wages) but did take steps to bolster ongoing structural reform and economic liberalization measures. Growth was driven by rapidly expanding external demand, and the agricultural sector responded with a strong performance, but the current account deficit increased despite these factors. In the fiscal arena, a determined effort was made to consolidate the stabilization process.

The authorities adopted a **fiscal policy** stance marked by austerity and discipline in relation to both current and capital expenditures. Midway through the year Congress passed a tax reform bill whose provisions include a thorough-going trade liberalization programme, the elimination of almost all tax exemptions and discretionary powers for the approval of such exemptions, the promotion of domestic competitiveness and major incentives for agricultural production. This reform package, together with improved administrative efficiency, brought about a considerable increase in tax receipts, but the gain in revenues was largely offset by a decrease in grants and donations, so the reduction made in the central government's fiscal deficit was actually quite small (from 1.5% to 1.3% of GDP). If grants and donations are not counted, then the deficit shrank from 8.4% of GDP in 1996 to 6% in 1997.

Monetary policy in 1997 focused on countering the sizeable increase in bank liquidity occasioned by the incoming stream of external capital. The Central Bank also bought foreign exchange in order to service the foreign debt and build up its international reserves. The money supply

NICARAGUA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	4.3	6.4	5.0
Consumer prices	11.1	12.1	8.6
Money (M1)	12.9	14.4	21.9
Real effective exchange rate [b]	5.3	1.2	4.5
Terms of trade	15.2	-7.6	7.7
	Percentages		
Unemployment rate	16.4	14.8	13.9
Fiscal balance/GDP	-0.5	-1.5	-1.3
Real deposit rate	0.1	-1.2	4.5
Real lending rate	8.0	6.1	16.2
	Millions of dollars		
Exports of goods and services	644	807	950
Imports of goods and services	1 083	1 298	1 585
Current account	-572	-496	-520
Capital and financial account	-502	-289	420
Overall balance	-1 074	-785	-100

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

soared, primarily as a result of the expansion of quasi-money and foreign-currency deposits. This increased liquidity was sterilized through the placement of negotiable investment certificates, and the cumulative balance as of mid-August was 1.9 billion gold córdobas, as compared to 341 million at the end of 1996.

In November 1997, the Central Bank standardized the legal reserve requirement at 17%. This represented an increase in the reserve ratio for local-currency deposits and a reduction in the ratio for foreign-currency deposits (25%). The net effect of this measure was to tighten up the money supply.

Exchange rate policy called for the continuation of the system of daily corrections in the local currency's parity against the dollar. This amounts to a nominal devaluation of 12% per year, and since Nicaragua achieved single-digit inflation in 1997, the real effective exchange rate improved slightly, in keeping with the Government's export promotion policy.

The financial system underwent a major change in 1997 with the **downsizing of the State banking sector**, particularly in the case of the Banco Nacional de Desarrollo. Most production loans are now made by private banks, and other privatizations –including the sale of the State-run electricity company– are in the pipeline. In relation to the issue of **property rights**, a bill was introduced in Congress which seeks to put an end to the numerous disputes over urban real estate and agricultural land that are further complicating what is an already difficult social situation.

The two sectors that did the most to buttress **economic growth** were agriculture (8.5%) and construction (9%). In contrast, manufacturing continued to grow at below-average rates. The appearance of El Niño had been a cause of concern in terms of the outlook for the farm sector, but the rainfall pattern returned to normal in September, and the growth of production exceeded expectations. The construction industry has been one of the chief recipients of foreign investment and repatriated capital. Activity has been particularly brisk in the construction of new hotels, which will, in turn, give a boost to the tourism industry. Among the other sectors, the country's small mining industry continues to flourish.

The reduction of **inflation** to single-digit levels represented an outstanding achievement on the part of economic policy-makers, although in November prices jumped by nearly 3% due to problems in connection with some food products. The continuity of economic policy, together with the strong showing of basic grain crops, can be credited with the consolidation of lower inflation rates. Wage policy, which continued to follow along the same lines as in the past, was also a contributing factor. Average nominal wages were virtually unchanged, and real average wage levels for the country as whole therefore decreased.

The rate of increase in formal **employment** is keeping slightly ahead of the growth of the economically active population (EAP), and open unemployment has therefore declined, although at 13.9%, it is still very high. The majority of the EAP is still employed in low-productivity activities, such as subsistence farming and informal commerce. The rate of underutilization of the labour force remains stalled in the 50% range.

The **trade deficit** widened to 29% despite the increase in the value of exports (18%). Overseas sales are expected to total nearly US$ 1 billion, in large part as a result of steady gains in non-traditional products (38%). Imports exhibited even greater momentum, with a 22% increase over their 1996 level, and amounted to US$ 1.585 billion. The upswing was particularly notable in the case of capital goods (47.7%), as was to be expected given the robust growth of investment. Despite the increase in unrequited transfers –mainly private transfer payments, since official assistance contracted in the course of the year– the current account deficit deepened. Unlike the situation in the past, much of the shortfall was covered with private capital inflows.

The authorities' external debt policy sought to consolidate the gains made in previous years. A larger percentage of debt servicing commitments were met, and the country's long-standing debt with the Central American Bank for Economic Integration was settled. No new loans of any importance were taken out, but the total amount of debt still expanded due to the accumulation of interest arrears. The signing of a second IMF structural adjustment loan agreement is an essential step towards reducing the country's debt overhang under the terms of the scheme set up by IMF and the World Bank to provide debt relief to heavily-indebted countries.

PANAMA

In 1997 economic activity in Panama grew by 4%, thereby improving on the performance of the previous two years. Contributing factors in this development were re-export activities in the Colón Free Zone and investment levels. Inflation rates remained very low, while the open unemployment rate gradually declined.

External debt restructuring and the conclusion of the process of privatizing the telecommunications corporation marked important steps in the effort to put the public sector on a sound financial footing. A number of foreign investment projects got under way in areas of the Canal Zone that have reverted to Panama. Estimates must also include a deduction for foregone revenues due to the scheduled withdrawal from United States military bases in the Canal Zone.

After consolidating the opening of the economy by taking the country into the World Trade Organization (WTO) in the first half of the year and moving ahead with the phased rollback of tariff barriers, **economic policy-makers** concentrated on continuing the modernization and reform of the public sector and putting government finances on a sound footing.

Central government is expected to post a deficit equal to 1% of gross domestic product (GDP). The rise in current receipts (4.5% in nominal terms) in the first nine months of the year meant an improvement in total central government revenues. This was a result of good yields from income tax (20%), sales tax (7.5%), production, sales and excise tax (16.5%) and import duties (4.9%). Income from non-tax sources declined by 16% owing to a 40% reduction in the fiscal contributions of State enterprises.

Total expenditures increased by 2.6% in the first nine months of the year, but it is important to note that interest and commission payments on the public debt fell by 38% early in the year. Not counting debt service, central government operating expenditure climbed by 12.7%, most notably in the health sector (24.2%). Investment spending expanded for the second year in succession, particularly in the education, health and infrastructure sectors.

In 1997 **the activities of the international banking centre** continued their rather halting expansion. In the first nine months of the year the system's total assets grew by 2%, totalling US$ 33,952 million, while deposits increased by 2.4%. The centre's total loan portfolio contracted by 1.7%, credit to the domestic market rose by 7.4% and credit to the external market shrank by 7.1%. Financing for commerce expanded by 12.1%, for housing construction by 9% and for private consumption by 9%. Both lending and deposit interest rates declined marginally.

Panama's entry to the World Trade Organization was finalized in 1997 and a **phased rollback of foreign trade tariffs** got under way. The gradual handover of Panama Canal installations began, and at the same time the sale of 49% of the stock of the telecommunications company was completed and the electricity company, which is due to be sold off in 1998, was restructured. In addition, a supervisory body known as the Public Service Regulatory Agency, and a Commission for Free Competition and Consumer Affairs were set up.

PANAMA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	1.9	2.5	4.0
Consumer prices	0.8	2.3	1.8
Terms of trade	-5.3	0.6	5.6
	Percentages		
Urban unemployment rate	16.6	16.7	15.8
Fiscal balance/GDP	0.7	-2.1	-1.1
	Millions of dollars		
Exports of goods and services	7 592	7 426	8 130
Imports of goods and services	7 764	7 531	8 435
Current account	-343	-60	-300
Capital and financial account	6	477	810
Overall balance	-337	416	510

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

Capital formation revived in 1997, expanding at a rate of nearly 3%, after having contracted (-3.4%) in 1996. It is also estimated that private consumption bounced back to a level higher than that recorded in 1996 (1.9%).

Trends in all **sectors of production** were favourable, but the most dynamic sectors were manufacturing, electricity generation, transport and communications. However, agricultural output contracted (-1%) as a result of the grave damage to the basic grains harvest caused by a long drought. Livestock farmers also incurred higher production costs because of the drought, and there were substantial losses in the volume of milk production. The output of bananas, the main agricultural crop, was badly affected by hurricanes. On the other hand, coffee production expanded.

Manufacturing expanded by 4% in 1997. Of particular note was the output of food and beverages (6.4%), textile products (13.2%), non-metallic mineral manufactures (12.7%) and metal products. Factors contributing to the upturn in the construction sector were the increase in public expenditure on road infrastructure projects and the completion of a number of hotels and shopping malls. Construction of low-income housing increased by 32% between January and August, although the prolonged decline in the remainder of the residential construction industry continued unabated. Among the other sectors, there was an increase of 10% in electricity generation and an expansion of tourist hotel activity.

Following three years of remarkable growth, traffic moving through the Panama Canal and tonnage shipped declined by 4.1% and 4.7%, respectively, in the fiscal year ending September. Nevertheless, the higher charges that came into effect at the beginning of the year boosted income to US$ 486.7 million, 1.4% more than in the same period in 1996.

In October, **consumer prices** in Panama City were 1.8% higher than in October 1996. Clothing and footwear prices dropped considerably (-4.5%), while the biggest price rises were seen in transport and communications (3.9%).

The employed population swelled by 5.1% and the unemployment rate in the metropolitan area fell to 15.8%. In particular, employment rose in the manufacturing and service sectors.

Minimum wages showed no change over the period, but average wages went up in manufacturing and the wholesale trade.

Foreign trade flows in goods and services, both national and in the Colón Free Zone, improved significantly in 1997. Total exports are estimated to have grown by 11.6%, and imports by 12%: the balance-of-payments current account deficit should therefore amount to nearly US$ 300 million.

Re-exports from the Colón Free Zone totalled US$ 5,725 million. National exports also performed better in 1997 (7.8%). The first nine months of the year saw increases in exports of sugar (17.7%), clothing (13%), meat (13%) and coffee (3.7%). On the other hand, there was a decline in exports of bananas (-2.9%) and of petroleum products (-11.8%). Lastly, national imports (which are estimated to have grown by 7%) responded to the increased rate of economic activity and the tariff reductions. Attractive conditions for bond issues on international markets made it possible to restructure foreign debt, thereby reducing the balance of external debt to US$ 5,030 million, a drop of US$ 39 million from 1996.

THE CARIBBEAN

BARBADOS

The strong economic expansion recorded in 1996 was followed by a more moderate performance in the first half of 1997, with growth slowing to around 3%. Prices rose slightly, mainly reflecting the one-time impact of the new value added tax (VAT). The rate of unemployment declined from just over 16% to 14%. The fiscal deficit doubled while interest rates fell and international reserves benefited from the expansion of the exports sector.

Economic policy in 1997[1] was geared specifically to improving debt management, avoiding overheating of the economy and curbing the sharp build-up of liquidity.

Current government revenue rose by almost 12%; indirect taxation receipts grew by almost one third thanks to the introduction of VAT, while revenue from customs duties increased as imports expanded. The increase in current expenditure was under 4%, so that the recurrent balance improved by over 60%. These savings were reallocated for capital expenditure, which grew by 73%, giving rise to an increased deficit, which was financed mainly by funds from the commercial banking system. Meanwhile, repayments against the debt contracted with the Central Bank continued for the sixth consecutive year.

Monetary policy focused on reducing the excess liquidity that had accumulated over the past two years as a result of strong foreign exchange earnings and private capital inflows. Nevertheless, liquidity remained high, so that the minimum savings rate was reduced by one percentage point to 4% and the discount rate fell from 12.5% to 9%. Cash ratios applicable for deposits were reduced by between one and three percentage points. Lastly, the Central Bank withdrew public sector deposits under its management from the financial system.

To shore up the **reform process**, various support measures were adopted to assist small and micro-enterprises, including the establishment of three funds to provide consultancy services to new entrepreneurs, stimulate innovation in business and provide support infrastructure. Measures taken to develop the local capital market focused primarily on improving the regulatory framework for the financial sector. Public funding was provided to support the private Securities Exchange Board, which had applied for membership in the International Organization of Securities Commissions.

Modest changes were made to the payments regime with small increases in the foreign exchange allocation for travellers and for pension fund investments abroad. The schedule for phasing out the surtax on foreign trade was set back. The rate of 75% would remain in force until March 1998, be reduced progressively to 35% by March 1999 and eliminated altogether by 1 April 2000.

1 The review covers the first half of 1997.

BARBADOS: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	2.6	5.5	3.0
Consumer prices	3.4	1.8	9.2
Real effective exchange rate [b]	2.7	-1.0	-5.9
	Percentage		
Unempoyment rate	19.7	16.4	14.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Economic activity remained quite strong for the first six months of 1997. A notable expansion was recorded for the tourism subsector, where value added increased by 4.1%.

Performance in agriculture was mixed. Sugar output increased for the second consecutive year as a result of increased acreage under cultivation and favourable climatic conditions. The rest of the sector did not fare as well, showing a decline of 0.4%.

In the manufacturing sector, the situation improved, showing 3.2% growth compared with a contraction of 0.8% for the corresponding period of 1996. Export manufactures led the increase, notably electronic components, processed food, beverages and chemicals.

The value added recorded in construction activities expanded by 6.6%, both in private and public construction. Energy consumption reflected the increased economic activity, residential consumption rising by 2.8%, while commercial consumption increased by over 5%. Nevertheless, the production of petroleum products recorded a 13% decline, partly attributable to the decreasing yield of existing wells. Natural gas sales also declined by 17.3%.

The **inflation rate** for the 12-month period ending June 1997 was 9.2%, compared with 3% for the quarter ending June 1996. The introduction of VAT, which extended to many items not previously taxed, was one factor that contributed significantly to inflation. However, price rises are expected to be more moderate in the second half of 1997.

Employment increased during the period under review, the **unemployment** rate falling from 16.2% at the end of June 1996 to 14% in the quarter ending June 1997.

The merchandise trade deficit increased by 15% as a result of the sluggishness in merchandise exports and an 11% expansion in imports. Intermediate imports recorded the fastest growth, at over 18%, followed by consumer goods (11%) and capital goods. The domestic component of exports showed a 7.5% increase, attributable mainly to the food and beverages subsector.

The surplus on services increased by 10% as a result of an improvement of over 12% in net earnings from tourism and gains also in transport. Nevertheless, the current account surplus was slightly lower than in 1996, since outflows of investment income increased while unrequited transfers contracted. The capital account balance also deteriorated to a slight deficit in 1997. This reversal was attributable to slower private capital inflows and increased amortization payments. As the current account surplus was higher than the capital account deficit, international reserves grew.

CUBA

Recovery of the Cuban economy slowed down (2.5%) in 1997, although further progress was made in implementing the stabilization programme. Inflation was kept within single digits, the fiscal deficit contracted to 2% of product and some success was achieved in reducing the excess liquidity. On the other hand, the currency suffered a slight depreciation on the parallel market and the balance-of-payments current-account deficit widened. The increase in revenue from tourism services and current transfers helped to attenuate the acute shortage of foreign exchange caused by intensification of the economic embargo.

Perhaps the most unfavourable economic factor was the fall in sugar production for the 1996-1997 harvest, which led to a decrease in the amount exported. This had a severe impact on the economy as a whole, since sugar production is used to guarantee foreign loans and is closely interlinked with the rest of the economy.

In 1997, Cuba continued to make headway with its **stabilization and structural adjustment programme**. The focus of fiscal policy was to modernize the tax structure to bear the brunt of macroeconomic adjustment.

The non-financial **public-sector** deficit is expected to narrow to 2% of gross domestic product (GDP), compared

CUBA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	2.4	7.8	2.5
	Percentage		
Unemployment rate	7.9	6.0	6.5

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

with 2.5% in 1996, as a result of the slight increase in income (0.2%) and the contraction in spending (-0.6%) despite hurricane damage estimated at US$ 800 million that occurred in mid-October 1996.

The monetary authorities continued to be concerned primarily with the problem of excess liquidity. The **money balance** held by the public (money in circulation plus savings accounts) declined to 39% of GDP in September 1997, compared with 41% in the previous year. The monetary authorities maintained a restrictive credit policy and continued to ration foreign exchange to government entities.

The official exchange rate was held at one peso to the United States dollar, whereas the currency depreciated on the parallel market (slipping from 19 pesos to the dollar at the end of 1996 to 22 pesos in October 1997).

Progress was made with **economic reforms** in 1997. The Central Bank of Cuba was established in 1997 as part of the programme to restructure the banking system. Its role is to consolidate macroeconomic stability and provide financial services more in keeping with market liberalization and the needs of new private economic agents. Following the divestiture of most State-owned land in 1993 and the establishment of basic cooperative production units (UBPCs), steps were taken to restructure the ministries of agriculture and the sugar industry in order to allow producers greater autonomy and improve productivity levels, which remain unsatisfactory. The first free zones were set up in Berroa, Wajay and Mariel.

Overall supply grew faster than **GDP** (2.5%) as a result of increased imports of goods and services (7%). Brisk investment activity (13.3%) contributed to higher output. For its part, consumption expanded by 2%.

Tourism-related activity went up by 18%, with increased international tourist arrivals (1.2 million) bringing in gross income of US$ 1.6 billion. Available hotel capacity increased from 26,900 rooms in 1996 to 29,000 in 1997. **Mining** expanded by 12% thanks to new joint ventures between foreign capital investors and Cuban entities, especially in the extraction of nickel and other minerals. Manufacturing grew by 5% compared with 1996, with increases in light manufacturing (4%), food processing (6%), construction materials (10%) and metal manufactures (17%). In addition, the **sugar agroindustry** experienced a further slump owing to the withholding of over US$ 200 million of funding required for the timely purchase of inputs, delays in production management, above all in cane farming, and adverse weather conditions. Sales of local products under the import substitution programme are estimated to have expanded by 40% in 1997 in the market segment where transactions are made in foreign currency.

Construction of hotels, housing and infrastructure contributed to a 3.9% expansion in the construction sector.

The performance of the **agricultural sector** was lacklustre (0.5%), with negative consequences for the economy in terms of food shortages. Moreover, the substantial volumes of food imports and insufficient exports contributed to a scarcity of foreign exchange. The poor performance of agriculture is associated with the decline in cane farming and in the production of other items, such as potatoes and bananas. On the other hand, production figures were reportedly higher for rice, beans, vegetables, coffee and tobacco. Gross fish catches increased by 14%. For the first eight months, the value of sales of agricultural produce on the open market improved slightly, with private sales representing 63.3% of the total, while the State and cooperative sectors accounted for 33.5% and 3.2% respectively.

Average nominal wages rose by a percentage similar to the rate of inflation (2%). Nevertheless, the policy of incentives in kind and foreign currency for priority activities was extended to over 1.3 million workers. Employment increased slightly, while the unemployment rate hovered around 6.5%.

The **balance-of-payments** current account deficit widened, reflecting an increase in the goods and services trade deficit and higher payments for factor services. The positive capital account balance was barely sufficient to finance the current account deficit and international reserves remained very low. The merchandise trade balance widened as a result of the slow pace of exports, the expansion of imports and the deterioration in the terms of trade (-3%).

The modest increase in the value of **merchandise exports** (1.8%) reflected the lower volume of sugar sold at lower prices and the greater volumes of nickel exported, albeit at a lower price. The services balance continued to post a surplus, thanks to inflows from tourism and international telecommunications.

The increase in the **imports** bill (10.8%) was due both to the higher volumes of purchases (7.7%) and higher prices on the international market (2.9%). Oil and food purchases increased substantially.

The **external public debt** widened slightly to US$ 10.5 billion and since one fifth was made up of short-term loans, debt-servicing continued to be a heavy burden. Access to foreign commercial and bank loans was subject to high interest rates (14%-16%, on average) and tight repayment schedules.

HAITI

In 1997, output grew by 1%, reflecting a poorer performance than in 1996. Fiscal restraint and a prudent monetary policy were the dominant features of the economic policy in 1997,[2] when the country drew on the Enhanced Structural Adjustment Facility agreed with the International Monetary Fund (IMF) at the end of 1996.

A number of different factors had an adverse effect on the economy, which had begun to show some positive signs in the first quarter. On the one hand, agricultural production and electricity generation were both affected by drought. On the other, the Government's efforts to create a macroeconomic environment conducive to investment were insufficient to boost the economy. Among the obstacles were structural constraints linked to limited facilities and infrastructure. Political events locally also created uncertainty, contributing to the modest economic performance and causing delays in the adoption of the budget and amendments to certain laws, and, consequently, setbacks in the disbursement of conditional external support.

In July, Haiti became the fifteenth member of the Caribbean Community (CARICOM).

HAITI: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	4.4	2.8	1.0
Consumer prices	23.6	14.4	17.0
Real effective exchange rate[b]	-11.8	-11.5	-2.5
Terms of trade	6.0	-5.8	8.4
	Percentage		
Fiscal balance/GDP	-4.8	-1.6	-2.0
	Millions of dollars		
Exports of goods and services	241	257	290
Imports of goods and services	802	782	800
Current account	-39	-73	-135
Capital and financial account	226	25	170
Overall balance	187	-48	35

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

In order to provide an overall framework for **public-sector operations**, in the current period the central government merged its income and expenditure budget with its investment budget, financed for the most part through external funding. Nevertheless, on account of the delay in voting the budget, the previous year's budget was used, which affected both the start of the government investment programme and the receipt of foreign budgetary support. Increased current inflows, combined with a lower increase in expenditure yielded a fiscal deficit equivalent to 2% of GDP, which was financed mainly through external funding in the form of grants and loans.

Revenue exceeded expectations. Thanks to expansion of the tax base and administrative measures to improve collections and reduce tax evasion, the amount collected in tax on the volume of operations and tariffs on foreign trade doubled. Transfers by State-owned enterprises declined substantially.

While expenditure increased, it did not exceed forecasts and the restraint observed in the second half-year of the preceding period was maintained. Steps were taken to regularize the payroll in order to freeze the wage bill, and a law was enacted governing voluntary retirement and early retirement, although its entry into effect has been postponed.

Net foreign assets recovered following a sharp fall in 1996, and reached their highest level since the beginning of the decade. With the lowering of the legal reserve requirement, **domestic credit** expanded, especially credit earmarked for the private sector. Trading was the preferred activity.

The monetary authorities applied a cautious policy in order to reduce excess money in circulation and ease inflationary pressures. For the first time, the Central Bank issued bonds that offered more attractive returns than term deposits, a measure which permitted the rate of the legal reserve requirement on deposits in commercial banks to be lowered from 44% to 26% between November 1996 and July 1997. From March, deposits in dollars were also subject to a mandatory reserve requirement of 12%.

The above measures resulted in a 4.5% contraction in real terms in the **money supply** (M1), together with a heightened tendency towards dollarization of the economy, which was reflected both in term deposits and foreign currency loans. The broad money aggregate expanded by less than 1% in real terms.

The gourde lost 12% of its value between September 1996 and September 1997. Private remittances from abroad exceeded US$ 250 million (two thirds more than in the preceding year) and helped to stabilize the rate, while certain downward pressures were felt as a result of the uncertain political climate and the preference for maintaining assets in dollars.

One of the objectives of the reforms proposed by the Government was **to modernize the State apparatus** and an interministerial board was established to carry out this and other administrative reforms. The privatization contract for the flour mill was awarded at the end of the year as part of the process of divestiture of State enterprises. In the rural sector, a process of **agrarian reform** involving the

2 The period of reference is the fiscal year which ran from October 1996 to September 1997.

hand-over of land to peasants was initiated, in accordance with the guidelines set out in the presidential decree of October 1996.

Gross national product (GDP) grew by 1%, falling short of the previous year's rate of increase and the target set for 1997. Adverse natural phenomena and negative expectations by economic agents concerning investment resulted in less buoyant economic activity.

The delays in the adoption of the State budget and in the disbursement of external support generated uncertainty and caused private investors to postpone taking decisions. Overall, construction –road-works, irrigation canals and housing– was the most dynamic sector, followed by mining.

Agriculture, which continues to be the mainstay of the Haitian economy, suffered a 2.4% decline caused by a drought that was especially severe in the north-east of the country. Production of staple crops diminished and some export crops also suffered damage.

Industrial output for domestic consumption (mostly beverages and non-metal inputs for construction) posted a small increase (0.8%). The *maquila* industry also grew, although it still generates less employment than in the years prior to the embargo.

Consumer prices rose 17%, mainly on account of inflation in food and housing costs. At a time of shortage of local goods, the devaluation of the gourde made imports, including petrol and food, relatively more expensive.

The **nominal wage** stagnated, losing purchasing power. Some wage increases were awarded in the public sector, the levels varying depending on the ministry, and this caused a chain reaction of demands for wage increases by the end of the year.

The number of **jobs** provided by the *maquila* industry amounted to around 27,000. This figure compares well with the 20,000 jobs it provided in 1996, but is less than half of the amount that existed before the 1992-1994 embargo. The labour market showed a considerable gap between job supply and demand and a high level of underemployment.

The **current account deficit** (US$ 135 million) practically doubled compared with that of the previous year and was associated with the payment of services and lower transfer inflows.

Exports continued to recover with gains especially in merchandise produced by the *maquila* industry (30%), which account for almost 70% of total sales. Sales of some agricultural products (especially coffee) also went up, although their share remained low. Imports, on the other hand, expanded somewhat but remained in the area of US$ 500 million. They consisted mainly of food, followed by manufactures, transport and machinery equipment, and petrol. Overall, the trade deficit remained in excess of US$ 500 million.

The financial account posted total income of US$ 170 million. Contrary to the situation in 1996, foreign reserves expanded in 1997 to the equivalent of the cost of more than three months' imports.

The **external debt** balance widened by US$ 116 million to reach US$ 1.03 billion, or one third of GDP. In accordance with its agreement with the financial institutions, the country restricted its acceptance of new loans to those available under concessional terms. Argentina wrote off a debt for US$ 5 million and rescheduled the outstanding debt.

JAMAICA

Output contracted in the first half of 1997,[3] but the level for the full year is expected to be the same as in 1996. Meanwhile, the current account surplus for the first half of 1996 was converted into a deficit in 1997, which meant a slump in international reserves. The Jamaican economy is facing difficulties resulting from the insolvency of a number of financial institutions. Fiscal accounts suffered a considerable deterioration owing to supplementary expenditure incurred in respect of the financial crisis. Nevertheless, prices have declined steadily.

The authorities continued to accord high priority to economic stabilization, but have also promoted efforts to increase output.

In the first six months of 1997, the **fiscal accounts**[4] deteriorated considerably compared with the same period of 1996. It was clear that supplementary expenditure would have to be incurred in the first quarter for the establishment of a body to restructure various insolvent financial institutions, requiring a 300% increase in capital expenditure. Current expenditure increased by just over 2% and the tax reform programme suffered setbacks and did not achieve the established goals. The other components of government revenue recorded a 31% increase. The deterioration in government finances was a reflection also of the 12% increase in recurrent expenditure, due mainly to the 20% rise in wages and salaries, linked to retroactive payments to public sector employees, and the 16% increase in interest payments.

3 In general, the review is based on information available for the fist half year.
4 In Jamaica, the fiscal year starts in April and ends in March.

JAMAICA: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	0.8	-1.7	0.0
Consumer prices	25.5	15.8	8.5
Real effective exchange rate [b]	-5.9	-16.6	-10.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

In order to restructure the **financial system**, avoid over-expenditure and refinance domestic debt, which in relative terms is more costly, the authorities resorted to foreign borrowing. Debt management continued to be a fundamental concern. Interest payments absorbed 39% of recurrent expenditure, while capital expenditure represented almost 40% of the total. The greater part of this amount, 67%, was allocated for debt repayment. Overall, 46% of total expenditure was earmarked for interest payments and amortization. In order to reduce inflation and maintain exchange-rate stability, the Central Bank intervened in the money market through the use of the treasury note rate and reverse repurchase rates. Between June 1996 and June 1997, growth in broad money (M2) averaged almost 2% per month; in the first half of 1997, the growth rate per month declined on average to less than 1%. The primary component of growth was savings deposits, up 5.6% in calendar year 1997. Interest rates for the 12-month period showed a downward trend. The average lending rate declined from 59.3% in June 1996 to 44.9% in June 1997, while the average savings deposit rate fell from 18.1% to 14.1% over the same period.

With the start of the second phase of the **National Industrial Policy**, interest rates began to subside gradually. Planned incentive policies included setting up a direct lending facility in the National Development Bank, where interest rates on loans are pegged to the lowest savings deposit rate. The Export Industry Encouragement Act, which provided exemptions from import duties on raw materials and capital goods to boost exports, and 10-year income tax holidays, was extended to producers with only a portion of their production earmarked for export. Increased funds were also allocated for tourism product development.

Tight **monetary policies**, which would include intervention in the foreign currency market, if necessary, were also intended to secure exchange-rate stability and curb inflation and ultimately interest rates.

Output declined in the first six months of 1997. For the year as a whole, zero growth is expected. Sectoral performance continued to suffer from decreased investment spending, while consumption expenditure also remained low in the tight macroeconomic environment. Agriculture recorded a decline of 11%, due primarily to unfavourable climatic conditions and competition from cheaper imports. In the mineral sector, bauxite production decreased by 0.2%, mainly because of an 8% decline in crude ore production. Alumina production, however, increased by almost 6%. Manufacturing continued to stagnate because of high interest rates and greater competition from imports.

Construction seemed to have shown a slight upturn. In the services sector, tourism appeared also to have picked up after the slow period experienced in the second half of 1996. Total tourist arrivals increased by 6%. Earnings from this sector increased by 3.6%, while output in the finance and insurance sectors continued to decline as a result of liquidity problems brought on by tight economic policies and insolvency in some banks.

Prices fell steadily over the survey period. At the end of June, the annual point-to-point rate of inflation fell to 8.3% (compared with 30.1% in June 1996). The 12-month rate to August 1997 was 8.5%.

The deficit on visible trade increased by 17%. The value of exports fell by 3.7%. Traditional exports, including sugar, bauxite and bananas, also contracted. Only alumina exports increased (6%). Non-traditional exports declined by 8%, primarily because of the decline in the clothing sector due to shifts in trading patterns as a consequence of the North American Free Trade Agreement (NAFTA). Imports swelled by over 80%, consumer goods expanding by 69% and capital goods by 43%. On the other hand, raw material imports shrank by 28%, reflecting the slow-down in economic activity.

The surplus on services grew by about 4%. This was attributable to a US$ 25 million decline in outflows of investment income. Conversely, the net travel balance contracted slightly since increased travel expenditures by residents more than cancelled out the increase in tourist earnings. The expansion of services and private remittances were not, however, sufficient to prevent an erosion in the current account, which moved from a modest surplus in the first half of 1996 to a deficit in the corresponding period of 1997.

The **capital account** recorded outflows of US$ 97.8 million, compared with inflows of US$ 152.9 million in the first half of 1996. While official outflows were up by 27%, the major influence on the capital account came from the sharp reduction in net private capital inflows due to lower interest rates and financial sector instability. This contraction resulted in a decline in reserves of close to US$ 129 million.

DOMINICAN REPUBLIC

Buoyed up by strong gross domestic investment and vigorous exports of goods and services, the economy retained its dynamism of recent years, expanding by 7.5%. However, this did not compensate for the increase in imports and the trade deficit widened. Increased taxation maintained the fiscal deficit at 0.7% of gross domestic product (GDP). Nevertheless, the rate of inflation increased by almost 10%.

Fiscal policy was geared towards guaranteeing fiscal balance while ensuring a shift in the pattern and direction of public spending towards higher appropriations for social spending.

Total revenues showed an increase in 1997 compared with 1996. This added one percentage point to tax revenue (15.6% of GDP), reflecting both the greater intensity in economic activity and improvements in the tax collection system. In addition, some major tax administration reforms were implemented, with the aim of eliminating duplication and cutting back on operating costs.

From January to October, current expenditure increased by 62%, while capital expenditure decreased by 0.4%. Although, initially, current expenditure was earmarked for certain social programmes, a portion of the increase was due to current transfers to public enterprises. Other recurrent expenditure rose by approximately 90%. Lastly, disbursements for personal services rose by 87%, as a result of wage increases agreed in October 1996 which took effect in 1997.

Monetary policy focused on maintaining inflation within single digits. Around half of the increase in the monetary base was attributable to an increase in net international reserves, although higher inflows of foreign direct investment, family remittances, revenues from free zones and service-related activities. Overall, the monetary base and the money supply in the strict sense expanded by 21%. The increase in the monetary base, combined with the release of funds frozen by the commercial banking system in August 1996 and the 5% reduction in the reserve requirement, meant that the commercial banking system enjoyed a more comfortable liquidity position, which pushed down interest rates and resulted in a higher percentage of private-sector credit applications being met.

In order to eliminate the penalties suffered by traditional export activities and curb the real appreciation of the local currency, the authorities established a standardized exchange rate of 14 pesos to the dollar in December 1996. In the course of 1997, banking and parallel markets recorded a slight depreciation in the local currency (2%). Nevertheless, on the official market, the rate of exchange was maintained at 14.02 pesos to the dollar, generating a real appreciation of the currency.

In another connection, the authorities are taking steps to improve tax management and increase the competitiveness of State-owned enterprises by adopting relevant legislation. There is also clear evidence of the will to enhance the Dominican Republic's integration into the global economy, in particular through integration into a Central American economic area.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	4.8	7.0	7.5
Consumer prices	9.2	4.0	9.9
Money (M1)	17.1	26.8	21.8
Real effective exchange rate [b]	-2.4	-6.6	-3.0
Terms of trade	11.2	-3.9	4.1
	Percentage		
Unemployment rate	15.8	16.5	15.9
Fiscal balance/GDP	0.6	-0.4	-0.7
	Millions of dollars		
Exports of goods and services	5 566	6 095	6 850
Imports of goods and services	5 999	6 689	7 485
Current account	-100	-110	-145
Capital and financial account	194	72	90
Overall balance	94	-39	-55

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Overall demand grew by 11% in real terms. The most vigorous component was gross domestic investment, which increased by 21%. Private consumption was lower than the 1996 level. In terms of volume, exports of goods and services performed well, increasing by 13%.

Stronger investment, especially private investment in the construction sector (18%) was bolstered by the drop in real interest rates. Private consumption expanded by 5% following increases in real wages and family remittances from abroad.

The positive figures posted by exports of goods and services were partly attributable to the dynamic performance of the **free zones** (5%), following restructuring of their production apparatus. A strong expansion in domestic demand generated a sharp increase in imports of goods and services (18%), especially from the free zones (15%).

Agricultural output grew by 3%, a lower rate than in 1996, as a result of climatic factors and pests which diminished the yield and productive area. The vigour of the manufacturing sector (6%) reflected more widespread and intensive use of production capacity. The increase in international demand for some products, such as textiles, also had an impact.

The cumulative **rate of inflation** was 9.9% mainly as a result of the rise in the price of food and, to a lesser extent, clothing.

In looking at the inflationary trend, one should bear in mind, on the cost side, climatic factors, which had a contractionary effect on the supply of food items, and the standardization of the exchange rate at the end of 1996, which pushed up the cost of imported inputs. Moreover, increases in salaries paid to civil servants from October 1996 and those for other public-sector employees, which took effect in March 1997, created demand pressure. As a result of the economic upturn, the unemployment rate went down to 16%.

The **overall balance-of-payments position** was negative (- US$ 55 million). This reflects a deficit of US$ 145 million in the current account and a surplus of US$ 90 million in the financial account.

Merchandise exports expanded by 15% in nominal terms, with both traditional and non-traditional goods making gains. Exports from the free zones, which accounted for 76% of the total, grew by 16% as a result of the implementation of new production processes which improved efficiency and competitiveness. **Merchandise imports** were up by 12%, mainly because of the increase in cost and quantity of imports of petroleum and petroleum products.

Investment income, which includes both interest paid out to service foreign debts and foreign investment earnings, recorded a deficit balance of US$ 79 million. Transfers continued to account for a higher share of foreign currency inflows into the country, increasing by US$ 88 million, owing mainly to family remittances (78% of current unrequited transfers).

The increase in **direct investment** (25%) in the form of reinvested earnings explains the US$ 90 million surplus on the capital and financial account, including errors and omissions. However, this was not sufficient to offset the current account deficit. Consequently, gross international reserves contracted by US$ 45 million.

In 1997, total public foreign debt amounted to US$ 3.54 billion, or US$ 275 million less than in 1996. Foreign debt servicing was estimated at US$ 471 million (approximately 10% of total exports).

TRINIDAD AND TOBAGO

The economy continued to expand in the first half of 1997, by 1.2% in the first quarter and 1.4% in the second,[5] and for the entire year, approximately 3% growth is expected. Inflation continued its downward trend and public accounts improved, primarily because of receipts from divestment. The balance of visible trade deteriorated, while the effect of private direct investment capital inflows was to slow the rate of depreciation of the currency and increase the balance of gross foreign assets.

Economic policy measures were essentially related to maintaining macroeconomic stability, controlling the rate of depreciation of the currency with a view to containing inflation. Others were aimed at providing incentives to increase the rate of local and foreign investment and promote expansion of the non-oil sector in the interests of economic diversification.

The number of income tax brackets was reduced from four to two: a rate of 28% on incomes of up to TT$ 50,000 and 35% on incomes above that amount. Various tax credits, allowances and deductions that had existed under the previous income-tax law were replaced by a basic allowance of TT$ 20,000 and an additional further deduction of up to TT$ 18,000 for prescribed purposes. The effect of these changes was to simplify the regime, make it more progressive and improve its enforceability.

The **public accounts** improved over the first six months of 1996, primarily because of proceeds from the divestment of the Trinidad and Tobago Methanol Company. While current expenditure declined by 4%, total revenues increased by 11% as a result of these divestment proceeds. The current revenue items that suffered the sharpest declines were oil revenues, which fell by 18%, and property tax, by 5%. Current expenditure declined by 1.2%, while capital expenditure increased by 61%. Accordingly, while the current balance deteriorated, the overall balance doubled over the first six months of 1997. External loan disbursements to the central government declined by 67%. Of these funds, 28% were allocated to the water sector and 22% to infrastructure. External debt declined by 3% compared with the second quarter of 1996.

In the area of **monetary policy**, statutory reserve requirements were reduced by 1% in each quarter and by mid-year stood at 21% for commercial banks and 6% for non-bank financial institutions. Despite efforts by the Central Bank to sterilize the increased liquidity through treasury bill issues in each quarter and the issue of other government securities, liquidity remained high so that interest rates softened. The average rate for commercial bank loans was 14.2%, down from 14.9% in the last quarter of 1996, while deposit rates fell from 6.1% to 5.8%. Owing to lower public sector demand, the rate of credit expansion continued to fall and by mid-1997 was 4%, compared with 7% at the end of 1996. Whereas the growth of the narrow money supply contracted in the first quarter to 3.8%, it surged to 8.9% in the second quarter with a steady growth in demand deposits. Meanwhile, broad money (M2) grew by 8.4% as a result of foreign inflows.

5 This review covers the first half of 1997.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1995	1996	1997[a]
	Annual rate of variation		
Gross domestic product	2.8	3.1	3.0
Consumer prices	3.8	4.3	3.6
Real effective exchange rate [b]	4.9	-4.6	4.9
	Percentage		
Unemployment rate	17.2	16.3	17.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates.
[b] A negative rate signifies an appreciation of the currency in real terms.

Trade policy reforms were adopted with a view to reducing the tariff barrier by 5%, in accordance with decisions taken by the Caribbean Community (CARICOM). The aim is to bring it down to a maximum rate of 20% (except for agricultural products) by 1 January 1998. The revenue lost would be recouped by an increase in motor fuels. Lastly, incentives were provided in the form of an employment allowance, equivalent to 200% of remuneration, for workers whose wages do not exceed TT$ 4,000 per month.

Growth occurred mainly in the non-oil sector and was distributed between the goods and services sectors. Activity in the oil sector contracted by 1.5% in the first quarter of 1997 and by a further 0.2% in the second. The petrochemical subsector continued to perform strongly, although not so strongly as in the previous year. Exports of methanol increased by 21% and prices also rose by 35%, compared with the corresponding period of 1996. Crude production fell by 4%, although drilling activity intensified in the second quarter. Expansion in the non-oil sector was more intense than in the previous year, especially in agriculture, with sugar recording a 33% increase, and in construction, distribution and transport. Manufacturing, on the other hand, continued to contract.

Inflation subsided in the first half-year, following an increase in the last three quarters of 1996. This downward trend was reflected in a rate of inflation of 3.4% in the second quarter. The sharpest price rises were for food, health services, beverages and tobacco.

Seasonal factors caused a slight increase in unemployment, which rose to 17.2%, compared with 17.1% in the corresponding quarter of 1996 and 15.9% in the fourth quarter of 1996. The services sector recorded the greatest loss of jobs, followed by manufacturing and construction. Conversely, employment increased in agriculture and in the oil sector.

The balance of **visible trade** deteriorated over the first six months of 1996. While exports increased by 13%, imports grew much faster, by almost 37%. Although net travel receipts increased by 30%, earnings from services improved by a scant 1%, so that the current account balance moved from a surplus of US$ 53.5 million to a deficit of US$ 25 million.

The **capital account** recorded an increased surplus, however, with inflows coming mainly in the form of private direct investment, in part the proceeds of the divestment of 69% of shares in the Trinidad and Tobago Methanol Company. Other inflows came from oil taxes and royalty payments. Outflows were primarily the result of trade financing and other private sector activities. Public debt repayments were 7% higher than in the corresponding period of 1996. At the end of June 1997, net international reserves had increased to US$ 692 million, while gross foreign assets stood at US$ 1.05 billion, or 4.8 months of import cover.

STATISTICAL APPENDIX

Table A-1

LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS DOMESTIC PRODUCT

(Percentages based on values at 1990 prices)

	Annual growth rates							Average annual rate	
	1991	1992	1993	1994	1995	1996	1997[a]	1981-1990	1991-1997
Latin America and the Caribbean [b]	**3.5**	**3.0**	**3.9**	**5.4**	**0.2**	**3.5**	**5.3**	**1.0**	**3.5**
Subtotal (19 countries) [b]	**3.6**	**3.0**	**3.9**	**5.4**	**0.1**	**3.5**	**5.3**	**1.0**	**3.5**
Argentina	10.0	9.5	5.7	7.5	-5.0	3.5	8.0	-0.7	5.5
Bolivia	5.3	1.6	4.3	4.6	3.8	3.9	4.0	0.2	3.9
Brazil	0.1	-1.1	4.5	5.8	3.9	3.1	3.5	1.3	2.8
Chile	7.1	10.5	6.0	4.1	8.2	7.2	6.5	3.0	7.0
Colombia	1.6	4.0	5.8	6.0	5.9	2.2	3.0	3.7	4.1
Costa Rica	2.1	7.3	6.0	4.3	2.2	-0.6	2.5	2.2	3.4
Cuba [c]	-10.9	-11.2	-14.7	0.6	2.4	7.8	2.5	3.7	-3.7
Ecuador	5.4	3.7	2.5	4.8	2.7	2.0	3.5	1.7	3.5
El Salvador	3.6	7.5	7.4	6.1	6.3	2.5	4.0	-0.4	5.3
Guatemala	3.7	4.9	4.0	4.1	5.0	3.1	4.0	0.9	4.1
Haiti	4.9	-13.2	-2.4	-8.3	4.4	2.8	1.0	-0.5	-1.8
Honduras	2.0	6.3	7.0	-1.7	4.7	3.3	4.5	2.4	3.7
Mexico	4.3	3.7	1.9	4.6	-6.6	5.2	7.0	1.8	2.8
Nicaragua	-0.4	0.8	-0.4	3.9	4.3	6.4	5.0	-1.5	2.8
Panama	9.0	8.1	5.2	2.9	1.9	2.5	4.0	1.4	4.8
Paraguay	2.4	1.6	4.1	2.9	4.5	1.0	2.5	3.0	2.7
Peru	2.8	-0.9	5.8	13.8	7.8	2.5	7.0	-1.2	5.4
Dominican Republic	0.8	6.7	2.2	4.2	4.8	7.0	7.5	2.4	4.7
Uruguay	3.2	7.8	3.3	6.4	-2.3	4.8	6.5	0.0	4.2
Venezuela	9.7	6.1	0.7	-2.7	3.5	-1.4	5.0	-0.7	2.9
Subtotal Caribbean	**1.8**	**0.5**	**0.4**	**2.0**	**2.3**	**2.1**	**2.1**	**0.1**	**1.5**
Antigua and Barbuda [d]	4.3	0.9	3.3	4.8	-4.2	5.6	...	6.1	2.4 [e]
Barbados	-3.5	-5.6	0.9	3.4	2.6	5.5	3.0	1.1	0.8
Belize	3.1	9.5	4.3	1.5	3.8	3.5	...	4.5	4.3 [e]
Dominica	2.2	2.7	1.9	2.1	1.8	3.2	...	4.4	2.3 [e]
Grenada	3.6	1.1	-1.3	2.3	2.3	3.0	...	4.9	1.8 [e]
Guyana	7.9	11.2	8.6	9.4	4.9	3.1	4.0	-2.9	7.0
Jamaica	0.7	1.6	1.5	0.7	0.8	-1.7	0.0	2.2	0.5
Saint Kitts and Nevis	3.8	3.6	4.0	3.2	2.0	3.1	...	5.8	3.3 [e]
Saint Vincent and the Grenadines	3.1	6.5	1.3	0.4	3.0	3.6	...	6.5	3.0 [e]
Saint Lucia	2.3	7.1	2.3	2.8	4.1	1.9	1.0	6.8	3.0
Suriname	3.5	4.0	-2.2	-7.0	5.0	3.0	...	0.5	1.0 [e]
Trinidad and Tobago	3.3	-1.4	-1.3	3.9	2.8	3.1	3.0	-2.6	1.9

Source: ECLAC, on the basis of official figures converted into dollars at constant 1990 prices.

Note: Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimates. [b] Does not include Cuba. [c] Calculated on the basis of constant prices in local currency. [d] Based on figures at factor cost.

[e] Refers to 1991-1996.

Table A-2

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT

(Percentages based on values at 1990 prices)

	Annual growth rates							Average annual rate	
	1991	1992	1993	1994	1995	1996	1997[a]	1981-1990	1991-1997
Latin America and the Caribbean [b]	**1.7**	**1.2**	**2.1**	**3.7**	**-1.5**	**1.9**	**3.6**	**-1.0**	**1.8**
Subtotal (19 countries) [b]	**1.7**	**1.2**	**2.1**	**3.7**	**-1.5**	**1.9**	**3.6**	**-1.0**	**1.8**
Argentina	8.5	8.1	4.3	6.1	-6.2	2.2	6.6	-2.1	4.1
Bolivia	2.8	-0.8	1.8	2.1	1.3	1.5	1.7	-1.9	1.5
Brazil	-1.5	-2.6	3.0	4.3	2.5	1.8	2.0	-0.7	1.3
Chile	5.4	8.7	4.2	2.5	6.5	5.6	4.8	1.3	5.4
Colombia	-0.4	2.0	3.8	4.1	4.0	0.5	1.3	1.6	2.2
Costa Rica	-0.4	4.7	3.5	1.9	-0.1	-2.8	0.3	-0.6	1.0
Cuba [c]	-11.6	-11.8	-15.2	0.0	1.8	7.3	2.0	2.8	-4.2
Ecuador	3.0	1.4	0.3	2.5	0.5	-0.1	1.2	-0.9	1.3
El Salvador	1.4	5.0	4.7	3.5	3.8	0.2	1.7	-1.4	2.9
Guatemala	1.1	2.2	1.3	1.4	2.2	0.4	1.4	-1.6	1.4
Haiti	2.8	-14.9	-4.4	-10.2	2.3	0.7	-1.0	-2.4	-3.7
Honduras	-1.0	3.2	3.9	-4.5	1.8	0.4	1.4	-0.8	0.7
Mexico	2.3	1.8	0.0	2.8	-8.2	3.4	5.2	-0.3	1.0
Nicaragua	-3.0	-2.1	-3.3	0.9	1.4	3.6	2.3	-3.9	-0.1
Panama	6.9	6.1	3.2	1.0	0.2	0.8	2.3	-0.7	2.9
Paraguay	-0.5	-1.1	1.3	0.2	1.8	-1.6	-0.1	0.0	0.0
Peru	0.9	-2.6	4.0	11.9	6.0	0.7	5.1	-3.3	3.6
Dominican Republic	-1.2	4.6	0.3	2.3	2.9	5.2	5.9	0.2	2.8
Uruguay	2.6	7.2	2.7	5.8	-2.9	4.2	6.1	-0.6	3.6
Venezuela	7.1	3.6	-1.6	-4.8	1.3	-3.5	2.9	-3.2	0.6
Subtotal Caribbean	**1.0**	**-0.3**	**-0.5**	**1.1**	**1.4**	**1.1**	**1.2**	**-0.9**	**0.5**
Antigua and Barbuda [d]	3.6	0.3	2.7	4.1	-4.8	5.6	...	5.6	1.9 [e]
Barbados	-3.9	-6.0	0.5	3.0	2.2	5.1	2.4	0.7	0.4
Belize	0.5	6.7	1.7	-1.1	1.1	0.8	...	1.9	1.6 [e]
Dominica	2.2	2.7	1.9	2.1	1.8	3.2	...	4.8	2.3 [e]
Grenada	3.4	0.9	-1.5	2.1	2.1	2.6	...	4.7	1.6 [e]
Guyana	7.2	10.2	7.4	8.4	3.6	2.0	2.8	-3.4	5.9
Jamaica	0.0	1.0	0.8	0.1	0.2	-2.4	-0.7	1.1	-0.2
Saint Kitts and Nevis	4.3	4.1	4.5	3.7	2.5	3.1	...	7.0	3.7 [e]
Saint Vincent and the Grenadines	2.2	5.6	0.4	-0.5	2.1	2.7	...	5.5	2.0 [e]
Saint Lucia	1.0	5.7	0.9	1.5	2.7	0.5	-0.5	5.3	1.7
Suriname	2.3	2.8	-3.3	-8.0	3.8	1.9	...	-0.7	-0.2 [e]
Trinidad and Tobago	2.1	-2.5	-2.4	2.7	1.7	2.0	2.1	-3.9	0.8

Source: ECLAC, on the basis of official figures converted into dollars at constant 1990 prices.

Note: Totals and subtotals do not include those countries for which no information is given.

[a] Preliminary estimates. [b] Does not include Cuba. [c] Calculated on the basis of constant prices in local currency. [d] Based on figures at factor cost. [e] Refers to 1991-1996.

Table A-3

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDICES

(December-December variations)

Country	1991	1992	1993	1994	1995	1996	1997 [a]
Latin America and the Caribbean	**199.7**	**417.2**	**882.2**	**335.1**	**25.9**	**18.4**	**10.5**
Argentina	84.0	17.6	7.4	3.9	1.6	0.1	-0.1 [b]
Barbados	8.1	3.4	- 1.0	0.5	3.4	1.8	9.2 [c]
Bolivia	14.5	10.5	9.3	8.5	12.6	7.9	3.8 [b]
Brazil	475.1	1 149.1	2 489.1	929.3	22.0	9.1	4.1 [b]
Chile	18.7	12.7	12.2	8.9	8.2	6.6	6.3 [b]
Colombia	26.8	25.1	22.6	22.6	19.5	21.6	17.9 [b]
Costa Rica	25.3	17.0	9.0	19.9	22.6	13.9	11.5 [b]
Ecuador	49.0	60.2	31.0	25.4	22.8	25.6	29.9 [b]
El Salvador	9.8	19.9	12.1	8.9	11.4	7.4	2.2 [b]
Guatemala	10.2	14.2	11.6	11.6	8.6	10.9	9.0 [d]
Haiti	6.6	16.9	36.2	31.7	23.6	14.4	17.0 [e]
Honduras	21.4	6.5	13.0	28.9	26.8	25.4	15.0 [d]
Jamaica	80.2	40.2	30.1	26.9	25.5	15.8	8.5 [f]
Mexico	18.8	11.9	8.0	7.1	52.1	27.7	17.6 [b]
Nicaragua	865.6	3.5	19.5	14.4	11.1	12.1	8.6 [b]
Panama	1.6	1.6	1.0	1.3	0.8	2.3	1.8 [d]
Paraguay	11.8	17.8	20.4	18.3	10.5	8.2	5.4 [d]
Peru	139.2	56.7	39.5	15.4	10.2	11.8	7.1 [b]
Dominican Republic	7.9	5.2	2.8	14.3	9.2	4.0	9.9 [d]
Trinidad and Tobago	2.3	8.5	13.4	5.5	3.8	4.3	3.6 [d]
Uruguay	81.3	59.0	52.9	44.1	35.4	24.3	15.7 [b]
Venezuela	31.0	31.9	45.9	70.8	56.6	103.2	38.2 [b]

Source: ECLAC, on the basis of information provided by official institutions in the countries.

[a] Figures correspond to the variation in prices during the 12-month period ending in the month indicated. [b] November 1996-November 1997. [c] June 1996-June 1997. [d] October 1996-October 1997. [e] September 1996-September 1997. [f] August 1996-August 1997.

Table A-4

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

		1991	1992	1993	1994	1995	1996	1997 [a]
Latin America [b]		**5.8**	**6.2**	**6.2**	**6.3**	**7.2**	**7.7**	**7.5**
Argentina	Urban areas [c]	6.5	7.0	9.6	11.5	17.5	17.2	14.9
Barbados	Total nationwide	17.2	23.0	24.3	21.9	19.7	16.4	14.0 [h]
Bolivia	Departmental capitals	5.8	5.4	5.8	3.1	3.6	4.2	...
Brazil	Six metropolitan areas	4.8	5.8	5.4	5.1	4.6	5.4	5.8 [i]
Chile	Metropolitan region	9.3	7.0	6.2	8.3	7.4	7.0	7.5 [j]
Colombia [d]	Seven metropolitan areas	10.2	10.2	8.6	8.9	8.8	11.2	12.6 [k]
Costa Rica	Total urban	6.0	4.3	4.0	4.3	5.7	6.6	6.1
Cuba	Total national	7.7	6.1	6.2	6.7	7.9	6.0	6.5
Ecuador [d]	Total urban	8.5	8.9	8.9	7.8	7.7	10.4	9.3 [l]
El Salvador	Total urban	7.9	8.2	8.1	7.0	7.0	7.5	...
Guatemala [e]	Total national	4.0	1.5	2.5	3.3	3.7	4.9	...
Honduras	Total urban	7.4	6.0	7.0	4.0	5.6	6.5	6.4 [m]
Jamaica	Total national	15.4	15.7	16.3	15.4	16.2	16.0	...
Mexico	Urban areas [c]	2.7	2.8	3.4	3.7	6.2	5.5	3.9 [i]
Nicaragua [e]	Total national	14.2	17.8	21.8	20.7	16.4	14.8	13.9
Panama [d]	Metropolitan region	19.3	17.5	15.6	16.0	16.6	16.7	15.8 [h]
Paraguay	Metropolitan Asunción [f]	5.1	5.3	5.1	4.4	5.3	8.2	...
Peru	Metropolitan Lima [g]	5.9	9.4	9.9	8.8	9.3	8.8	9.1 [h]
Dominican Republic [d]	Total national	19.6	20.3	19.9	16.0	15.8	16.5	15.9
Trinidad and Tobago	Total national	18.5	19.7	19.8	18.4	17.2	16.3	17.2 [h]
Uruguay	Total urban	8.9	9.0	8.3	9.2	10.3	11.9	11.9 [j]
Venezuela	Total urban	10.1	8.1	6.8	8.9	10.9	12.3	12.8 [j]

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Does not include the Caribbean countries. [c] Represents a large and increasing number of urban areas. [d] Includes hidden unemployment. [e] Official estimates. [f] Beginning 1994, figures are for total urban unemployment. [g] Begining 1995, figures are for total urban unemployment for the first half. [h] First half. [i] Average January-October. [j] Average January-September. [k] Average March, June and September. [l] July. [m] June.

Table A-5

LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES

(Average annual indices: 1990 = 100)

	1991	1992	1993	1994	1995	1996	1997 [a]
Argentina [b]	101.4	102.7	101.3	102.0	100.9	100.6	100.0 [j]
Bolivia [c]	93.8	97.6	104.2	112.5	114.2	115.1	...
Brazil [d]	87.4	77.8	85.9	85.8	88.0	94.1	95.4 [k]
Chile [e]	104.9	109.6	113.5	118.8	123.6	128.7	132.2 [k]
Colombia [f]	97.4	98.6	103.2	104.1	105.4	107.0	109.6 [l]
Costa Rica [g]	95.4	99.3	109.5	113.6	111.4	110.4	111.6 [m]
Mexico [b]	106.5	114.3	124.5	129.1	111.5	99.2	98.1 [k]
Paraguay [h]	104.7	103.6	104.5	106.1	114.2	117.7	115.7 [m]
Peru [i]	115.2	111.1	110.2	127.4	116.7	111.2	111.0 [m]
Uruguay	103.8	106.1	111.2	112.2	109.0	109.7	109.8 [j]

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Manufacturing. [c] Private sector in La Paz. [d] Workers covered by legislation. [e] Until April 1993, non-agricultural workers; from May 1993 on, general index of hourly wages. [f] Manual workers in manufacturing. [g] Average wages declared by workers covered by social security. [h] Asunción. [i] Private-sector manual workers in the Lima metropolitan area. [j] Average January-October. [k] Average January-September. [l] Average January-July. [m] First half.

Table A-6

LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR DEFICIT (-) OR SURPLUS AT CURRENT PRICES [a]

(Percentages of GDP)

Country	Coverage	1991	1992	1993	1994	1995	1996	1997 [b]
Argentina	NNFPS	-1.6	-0.1	1.4	-0.2	-0.5	-1.7	-1.4
Bolivia	NFPS	-4.3	-4.4	-6.1	-3.0	-2.0	-1.9	-3.0
Brazil	NFPS	-0.2	-1.8	-0.8	1.1	-4.9	-3.9	-2.7
Chile	CG	1.5	2.2	1.9	1.7	2.5	2.2	1.0
Colombia	NFPS	0.0	-0.1	0.3	2.6	-0.5	-1.1	-2.4
Costa Rica	CG	-3.1	-1.9	-1.9	-6.9	-4.5	-5.3	-4.4
Ecuador	NFPS	-1.0	-1.7	-0.4	-0.2	-1.5	-3.1	-2.0
El Salvador	CG	-3.2	-2.1	-1.5	-0.8	-0.5	-2.0	-1.9
Guatemala	CG	-0.1	-0.5	-1.5	-1.4	-0.7	-0.1	-0.5
Haiti	CG	-3.1	-4.7	-3.2	-3.3	-4.8	-1.6	-2.0
Honduras	CG	-3.3	-4.9	-9.3	-5.5	-3.4	-2.7	-3.0
Mexico	NFPS	-0.4	1.6	0.7	-0.3	0.0	-0.1	-0.7
Nicaragua	CG	4.1	-3.4	0.0	-5.1	-0.5	-1.5	-1.3
Panama	CG	-2.5	-1.3	0.5	-0.8	0.7	-2.1	-1.1
Paraguay	CG	0.8	-1.4	-0.7	1.0	-0.3	-0.8	-1.5
Peru	NFPS	-0.9	-1.5	-1.2	2.1	-1.3	2.3	0.0
Dominican Republic	CG	3.2	3.6	0.2	-0.8	0.6	-0.4	-0.7
Uruguay	NFPS	1.3	1.5	-0.8	-2.5	-1.3	-1.2	-1.5
Venezuela	CG	-0.1	-3.8	-2.5	-6.8	-4.8	0.5	1.6

Source: ECLAC, on the basis of official figures.

Note: Abbreviations used: CG= Central government. NFPS= Non-financial public sector. NNFPS= National non-financial public sector (does not include provinces or municipalities).

[a] Calculated on the basis of figures in local currency at current prices. [b] Preliminary estimates.

Table A-7

LATIN AMERICA AND THE CARIBBEAN: INDICES OF THE REAL EFFECTIVE EXCHANGE RATE FOR IMPORTS [a]

(Indices: 1990 =100)

	1991	1992	1993	1994	1995	1996	1997[b]
Argentina	73.1	64.2	59.9	63.6	71.1	73.1	71.3
Barbados	98.2	95.9	94.0	95.9	98.5	97.5	91.7
Bolivia	100.1	104.6	112.2	122.8	129.8	122.8	119.4
Brazil	120.6	130.7	119.8	94.9	72.0	66.1	64.5
Chile	99.8	96.2	98.2	98.3	95.0	92.6	87.2
Colombia	101.0	89.6	86.5	76.5	76.9	71.6	64.7
Costa Rica	110.4	105.5	104.6	105.3	103.2	100.6	101.1
Ecuador	94.6	94.9	84.8	81.7	84.8	85.2	81.5
El Salvador	100.4	101.3	93.7	93.0	84.8	85.8	90.5
Guatemala	89.0	88.3	89.2	85.0	81.9	78.1	72.6
Haiti	94.5	95.6	113.2	92.5	81.6	72.2	70.4
Honduras	109.8	105.2	116.3	129.5	112.8	116.4	106.7
Jamaica	117.0	130.2	118.4	118.6	111.6	93.1	83.8
Mexico	90.8	84.0	80.1	82.6	123.0	109.2	94.6
Nicaragua	105.0	106.1	110.8	117.2	123.4	124.9	130.5
Paraguay	93.2	98.7	105.7	105.5	108.5	103.6	99.5
Peru	84.7	84.2	94.1	89.5	92.5	91.4	91.8
Dominican Republic	103.3	105.5	102.0	100.9	98.5	92.0	89.2
Trinidad and Tobago	101.4	99.1	115.1	119.3	125.2	119.5	125.4
Uruguay	92.0	89.6	81.6	81.3	83.2	83.4	82.5
Venezuela	93.7	89.0	88.1	92.3	74.0	88.5	70.9

Source: ECLAC, on the basis of official figures.

[a] The average of the indices for the real (main official) exchange rate for the currency of each country against the currencies of its main trading partners, weighted according to the relative magnitude of imports from those countries. The weightings reflect the average for 1990-1993. For information on the methodology and sources used, see ECLAC, *Economic Survey of Latin America, 1981* (E/CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2.

[b] Average January-September.

Table A-8

LATIN AMERICA AND THE CARIBBEAN: EXPORTS Of GOODS, FOB

(Indices: 1990 = 100)

	Value			Unit value			Volume		
	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]
Latin America and the Caribbean	**166.4**	**185.3**	**206.8**	**111.4**	**113.8**	**113.1**	**149.4**	**162.9**	**182.8**
Argentina	169.7	192.7	204.8	122.6	131.9	130.6	138.4	146.1	156.8
Bolivia [b]	125.4	129.2	134.2	97.9	92.2	90.8	128.1	140.1	147.8
Brazil	148.1	152.0	165.6	106.6	105.5	107.1	138.9	144.1	154.6
Chile	192.7	183.4	203.1	119.8	99.5	100.5	160.9	184.3	202.0
Colombia	144.4	150.4	174.9	105.6	104.8	108.5	136.7	143.6	161.2
Costa Rica	183.1	202.3	225.6	124.7	124.2	129.2	146.9	162.8	174.6
Ecuador	161.9	179.9	191.6	105.2	113.1	116.5	153.9	159.0	164.5
El Salvador [b]	257.8	277.8	363.4	157.7	160.6	173.4	163.5	173.0	209.6
Guatemala	178.1	183.8	216.3	134.1	123.1	128.0	132.8	149.3	169.0
Haiti	51.5	55.7	73.4	81.0	77.0	79.7	63.6	72.3	92.0
Honduras [b]	161.9	183.4	207.8	166.7	161.2	174.1	97.1	113.8	119.3
Mexico	195.4	235.8	272.7	117.8	122.5	118.8	165.9	192.5	229.5
Nicaragua	159.4	203.1	233.2	120.2	112.3	117.9	132.7	180.8	197.8
Panama [b]	182.4	176.0	196.3	147.1	139.7	145.3	124.0	126.0	135.1
Paraguay	215.9	193.9	194.6	120.5	121.1	123.5	179.2	160.1	157.6
Peru	168.4	177.6	205.2	109.3	108.7	111.4	154.0	163.4	184.2
Dominican Republic [c]	497.3	539.6	622.9	115.0	114.1	117.5	432.5	472.9	530.1
Uruguay	126.9	144.1	162.5	111.0	108.0	106.9	114.3	133.5	152.0
Venezuela	108.3	129.9	133.5	79.7	92.7	88.1	135.9	140.2	151.6

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Preliminary figures. [b] For 1995 and 1996, the indices for unit value and volume are based on national accounts. [c] Beginning 1993, exports of goods include *maquila* exports.

Table A-9

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, FOB

(Indices: 1990 = 100)

	Value			Unit value			Volume		
	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]
Latin America and the Caribbean	**213.9**	**236.1**	**279.1**	**105.5**	**107.1**	**104.4**	**202.8**	**220.5**	**267.2**
Argentina	502.6	594.8	743.8	112.1	110.8	108.6	448.3	536.8	684.9
Bolivia [b]	158.8	166.6	199.2	131.1	137.9	133.8	121.2	120.8	148.9
Brazil	241.3	257.9	300.1	93.7	94.4	90.6	257.5	273.2	331.2
Chile	208.3	234.5	257.2	104.0	104.1	99.4	200.3	225.2	258.8
Colombia	253.0	250.3	268.2	86.2	84.9	81.9	293.5	294.8	327.5
Costa Rica	164.4	174.0	202.6	115.3	115.2	112.9	142.6	151.1	179.4
Ecuador	236.6	214.6	253.1	132.0	130.1	127.5	179.2	164.9	198.5
El Salvador [b]	243.1	231.5	257.0	114.3	119.4	115.8	212.7	193.9	221.9
Guatemala	212.1	202.7	231.8	116.0	112.5	109.1	182.9	180.2	212.5
Haiti	116.8	112.7	115.2	94.5	95.4	91.1	123.6	118.2	126.5
Honduras [b]	173.2	193.9	202.9	144.4	144.1	140.5	120.0	134.6	144.4
Mexico	174.2	215.1	264.0	111.5	115.9	114.2	156.2	185.6	231.2
Nicaragua	151.8	184.7	232.6	114.7	116.0	113.1	132.4	159.2	205.6
Panama [b]	190.6	186.0	208.3	156.8	148.0	145.8	121.6	125.7	142.9
Paraguay	273.1	248.1	257.4	108.5	110.3	109.2	251.7	225.0	235.7
Peru	265.6	270.3	296.4	115.4	115.4	110.8	230.2	234.2	267.5
Dominican Republic [c]	287.0	319.4	357.3	93.3	96.3	95.3	307.6	331.7	374.9
Uruguay	214.0	248.1	277.4	109.5	109.7	104.8	195.4	226.1	264.7
Venezuela	174.5	133.5	174.1	102.7	100.7	97.7	169.9	132.6	178.2

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Preliminary figures. [b] For 1995 and 1996, the indices for unit value and volume are based on national accounts. [c] Beginning 1993, exports of goods include *maquila* exports.

Table A-10
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE (GOODS), FOB/FOB
(Indices: 1990 = 100)

	1991	1992	1993	1994	1995	1996	1997[a]
Latin America and the Caribbean	**98.6**	**99.0**	**98.0**	**102.0**	**105.6**	**106.2**	**108.3**
Argentina	101.7	109.0	109.4	108.3	109.4	119.0	120.3
Bolivia[b]	92.6	70.4	71.2	84.1	74.7	66.9	67.9
Brazil	104.9	103.4	107.3	113.9	113.8	111.8	118.2
Chile	102.3	101.3	92.2	101.7	115.2	95.6	101.1
Colombia	106.8	108.6	105.0	120.2	122.5	123.4	132.5
Costa Rica	104.0	105.8	104.7	107.1	108.2	107.8	114.4
Ecuador	88.4	89.5	77.9	81.2	79.7	86.9	91.4
El Salvador[b]	98.5	98.6	97.1	131.4	138.0	134.5	149.7
Guatemala	104.3	103.8	97.7	112.6	115.6	109.4	117.3
Haiti	84.1	79.9	80.7	80.8	85.7	80.7	87.5
Honduras[b]	105.2	99.2	103.0	114.0	115.4	111.9	123.9
Mexico	100.5	105.6	105.7	105.7	105.7	105.7	104.0
Nicaragua	92.7	67.9	78.6	90.9	104.8	96.8	104.2
Panama[b]	95.6	97.5	98.6	99.1	93.8	94.4	99.7
Paraguay	99.5	98.6	103.5	108.1	111.1	109.8	113.1
Peru	96.1	95.1	92.1	93.9	94.7	94.2	100.5
Dominican Republic	114.6	107.2	105.2	110.8	123.3	118.5	123.3
Uruguay	99.6	104.3	94.3	95.3	101.4	98.5	102.0
Venezuela	82.6	79.4	74.0	74.8	77.6	92.1	90.2

Source: ECLAC.
[a] Preliminary figures. [b] For 1991-1996, the indices are based on national accounts.

Table A-11
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods (f.o.b.) and services			Imports of goods (f.o.b.) and services			Balance on goods			Balance on services		
	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]
Latin America and the Caribbean	**264 437**	**293 969**	**326 190**	**272 812**	**302 196**	**354 340**	**1 943**	**4 404**	**-11 530**	**-10 318**	**-12 631**	**-16 620**
Argentina	23 888	27 113	28 750	23 825	27 929	34 250	2 238	1 649	-2 415	-2 175	-2 465	-3 085
Bolivia	1 234	1 281	1 330	1 582	1 669	1 970	- 190	-219	-430	-158	-169	-210
Brazil	51 819	54 524	59 000	62 633	69 110	80 000	-3 352	-5 539	-10 000	-7 462	-9 047	-11 000
Chile	19 297	18 711	20 800	17 980	20 086	22 100	1 480	-1 146	-1 100	-163	-229	-200
Colombia	13 744	14 511	16 425	16 056	16 561	17 700	-2 699	-2 135	-1 320	387	85	45
Costa Rica	3 790	4 117	4 575	3 901	4 171	4 790	-474	-388	-585	363	334	370
Ecuador	5 265	5 748	6 100	5 036	4 548	5 465	354	1 220	880	-125	-20	-245
El Salvador	2 049	2 204	2 765	3 674	3 542	4 040	-1 524	-1 243	-1 025	-101	-95	-250
Guatemala	2 822	2 787	3 260	3 727	3 527	4 065	-872	-668	-690	-33	-72	-115
Haiti	241	257	290	802	782	800	-380	-351	-315	-181	-174	-195
Honduras	1 719	1 932	2 180	1 913	2 128	2 225	-122	-117	20	-72	-79	-65
Mexico	89 207	106 779	123 000	81 454	99 700	121 600	7 089	6 531	1 200	664	548	200
Nicaragua	644	807	950	1 083	1 298	1 585	-335	-377	-550	-104	-114	-85
Panama	7 592	7 426	8 130	7 764	7 531	8 435	-575	-630	-730	403	525	425
Paraguay	4 578	4 145	4 130	5 225	4 878	5 045	-1 483	-1 379	-1 520	836	646	605
Peru	6 722	7 268	8 305	9 665	9 947	10 910	-2 170	-2 000	-1 845	-773	-679	-760
Dominican Republic	5 566	6 095	6 850	5 999	6 689	7 485	-1 492	-1 764	-1 830	1 059	1 170	1 195
Uruguay	3 507	3 799	4 260	3 569	3 963	4 430	-563	-703	-765	501	539	595
Venezuela	20 753	24 465	25 090	16 924	14 137	17 445	7 013	13 663	11 490	-3 184	-3 335	-3 845

Table A-11 (continued)

	Trade balance			Current transfers			Balance on the income account			Balance on the current account		
	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]
Latin America and the Caribbean	**-8 375**	**-8 227**	**-28 150**	**14 955**	**14 526**	**14 510**	**-38 846**	**-41 791**	**-46 255**	**-32 266**	**-35 492**	**-59 895**
Argentina	63	-816	-5 500	432	334	300	-2 941	-3 523	-4 600	-2 446	-4 005	-9 800
Bolivia	-348	-388	-640	247	291	260	-207	-187	-190	-308	-284	-570
Brazil	-10 814	-14 586	-21 000	3 974	2 899	2 200	-11 132	-12 660	-15 000	-17 972	-24 347	-33 800
Chile	1 317	-1 375	-1 300	310	473	600	-1 481	-2 016	-2 500	146	-2 918	-3 200
Colombia	-2 312	-2 050	-1 275	679	530	565	-2 467	-3 236	-4 080	-4 100	-4 756	-4 790
Costa Rica	-111	-54	-215	154	140	120	-186	-194	-220	-143	-108	-315
Ecuador	229	1 200	635	231	290	300	-1 195	-1 379	-1 405	-735	111	-470
El Salvador	-1 625	-1 338	-1 275	1 389	1 259	1 270	-87	-90	-80	-323	-169	-85
Guatemala	-905	-740	-805	491	522	525	-158	-249	-200	-572	-467	-480
Haiti	-561	-525	-510	553	463	390	-31	-11	-15	-39	-73	-135
Honduras	-194	-196	-45	264	275	295	-261	-255	-220	-191	-176	30
Mexico	7 753	7 079	1 400	3 960	4 531	5 080	-13 289	-13 532	-13 100	-1 576	-1 922	-6 620
Nicaragua	-439	-491	-635	226	295	350	-359	-300	-235	-572	-496	-520
Panama	-172	-105	-305	154	153	155	-325	-108	-150	-343	-60	-300
Paraguay	-647	-733	-915	72	39	50	80	59	45	-495	-635	-820
Peru	-2 943	-2 679	-2 605	642	647	655	-1 997	-1 573	-1 440	-4 298	-3 605	-3 390
Dominican Republic	-433	-594	-635	992	1 080	1 165	-659	-596	-675	-100	-110	-145
Uruguay	-62	-164	-170	76	74	80	-227	-206	-210	-213	-296	-300
Venezuela	3 829	10 328	7 645	109	231	150	-1 924	-1 735	-1 980	2 014	8 824	5 815

Table A-11 (concluded)

	Balance on the capital and financial account [b]			Overall balance			Reserve assets [c] (variation)			IMF loans and credit and exceptional financing		
	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]	1995	1996	1997[a]
Latin America and the Caribbean	**25 427**	**62 870**	**73 480**	**-6 840**	**27 378**	**13 585**	**-23 363**	**-26 828**	**-13 315**	**30 202**	**-550**	**-270**
Argentina	268	7 887	11 300	-2 178	3 882	1 500	49	-3 782	-1 500	2 129	-100	...
Bolivia	242	585	710	-66	301	140	-131	-308	-150	197	7	10
Brazil	31 452	33 364	25 800	13 480	9 017	-8 000	-12 919	-8 665	8 000	-561	-352	...
Chile	912	5 422	7 400	1 058	2 504	4 200	-741	-1 107	-4 200	-317	-1 397	...
Colombia	4 448	6 238	5 240	348	1 482	450	-348	-1 482	-450	...	...	...
Costa Rica	374	47	490	231	-61	175	-154	61	-175	-77	...	...
Ecuador	167	-252	310	-568	-141	-160	233	-245	-250	335	386	410
El Salvador	471	334	310	148	165	225	-148	-165	-225	...	...	...
Guatemala	414	643	730	-158	176	250	158	-176	-250	...	...	...
Haiti	226	25	170	187	-48	35	-176	47	-35	-11	1	...
Honduras	219	278	135	28	103	165	-136	-174	-185	108	71	20
Mexico	-14 793	4 246	15 620	-16 369	2 324	9 000	-9 591	-2 324	-9 000	25 960	...	...
Nicaragua	-502	-289	420	-1 074	-785	-100	-3	-38	100	1 077	823	...
Panama	6	477	810	-337	416	510	-75	-237	-510	412	-179	...
Paraguay	562	586	670	67	-49	-150	-47	44	145	-20	5	5
Peru	3 745	4 561	5 690	-554	956	2 300	-950	-1 877	-1 575	1 503	921	-725
Dominican Republic	194	72	90	94	-39	-55	-132	15	45	38	24	10
Uruguay	422	439	530	209	144	230	-162	-119	-230	-47	-25	...
Venezuela	-3 400	-1 793	-2 945	-1 386	7 031	2 870	1 910	-6 296	-2 870	-524	-735	...

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.
[a] Preliminary estimates. Figures have been rounded to the nearest ten or five. [b] Includes errors and omissions. [c] A minus sign (-) indicates an increase in reserve assets.

Table A-12

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

(Millions of dollars)

	1991	1992	1993	1994	1995	1996	1997[c]
Latin America and the Caribbean	**10 679**	**13 228**	**11 386**	**23 603**	**25 174**	**35 386**	**44 021**
Argentina	2 439	4 052	2 555	2 941	4 026	4 080	4 500
Bolivia	50	120	122	128	372	472	470
Brazil	89	2 024	1 570	2 035	3 475	9 123	14 500
Chile [d]	400	325	375	846	971	3 012	2 500
Colombia	433	679	719	1 515	2 033	3 250	2 455
Costa Rica	173	222	244	293	390	399	400
Ecuador	160	178	469	531	470	447	350
El Salvador	25	15	16	...	38	...	...
Guatemala	91	94	143	65	75	77	85
Haiti	14	-2	-2	-3	7	4	5
Honduras	52	48	...	...	69	90	105
Mexico	4 762	4 393	4 389	10 972	9 526	8 169	12 000
Nicaragua	...	15	39	40	70	85	...
Panama	41	139	156	354	179	238	...
Paraguay	84	137	119	164	157	225	250
Peru	-7	136	670	3 083	2 083	3 571	1 985
Dominican Republic	145	180	214	348	390	380	475
Uruguay	...	...	102	155	157	169	161
Venezuela	1 728	473	-514	136	686	1 595	3 780

Source: ECLAC, on the basis of balance-of-payments figures from the International Monetary Fund and national sources.
[a] Refers to direct investment in the reporting economy minus direct investment abroad by residents. For some countries this information is not available. Includes reinvested earnings. [b] In accordance with the fifth edition of the *IMF Balance of Payments Manual*, all transactions between non-financial direct-investment enterprises and their parent companies and affiliates are included in direct investment. [c] Preliminary figures. [d] Foreign investment in the reporting economy was US$ 522 million, US$ 699 million, US$ 808 million, US$ 1.77 billion, US$ 1. 66 billion, US$ 4.09 billion and US$ 4 billion in 1991, 1992, 1993, 1994, 1995, 1996 and 1997, respectively.

Table A-13

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES[a]

(Millions of dollars)

	1991	1992	1993	1994	1995	1996	1997[b]
Latin America and the Caribbean	**7 242**	**12 577**	**28 764**	**18 091**	**23 071**	**47 157**	**53 477**
Argentina	795	1 570	6 308	5 319	6 354	13 738	14 104
Barbados	-	-	-	50	-	-	-
Bolivia	-	-	-	10	-	-	-
Brazil	1 837	3 655	6 465	3 998	7 041	11 194	14 722
Chile	200	120	322	155	300	1 750	1 700
Colombia	-	-	567	955	1 083	1 751	1 000
Ecuador	-	-	-	-	10	-	625
Guatemala		-	60	-	-	-	150
Jamaica	-	-	-	55	-	-	200
Mexico	3 782	6 100	11 339	6 949	7 646	17 823	13 767
Panama	50	-	-	250	-	75	1 315
Trinidad and Tobago	-	100	125	150	71	150	-
Uruguay	-	100	140	200	211	145	479
Venezuela	578	932	3 438	-	356	532	5 415

Source: International Monetary Fund, Research Department, Emerging Markets Studies Division.
[a] Gross issues. Includes medium-term euronotes. [b] January-October 1997.

Table A-14

LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE PRICE INDICES, IN DOLLARS [a]

(Indices: December 1990 = 100)

	1991	1992	1993	1994	1995	1996	1997	
							June	December[b]
Latin America	**215.6**	**224.3**	**340.4**	**335.0**	**274.8**	**318.7**	**439.8**	**379.0**
Argentina	493.8	357.9	598.6	448.3	487.0	578.8	705.2	651.2
Brazil	248.4	244.8	468.3	785.0	611.1	796.8	1226.9	890.3
Chile	190.0	213.3	276.1	389.8	378.5	313.5	407.0	322.3
Colombia	273.9	372.6	490.7	622.2	463.5	484.2	601.3	589.8
Mexico	202.4	242.9	356.9	208.4	152.1	176.7	228.7	247.0
Peru [c]	...	100.0	134.9	205.2	224.3	225.8	307.1	252.4
Venezuela	143.7	82.3	73.7	53.6	36.7	85.0	112.2	101.8

Source: ECLAC, on the basis of figures from the International Finance Corporation.
[a] Figures at end of month, general index. [b] As of December 15. [c] Indices: December 1992 = 100.

Table A-15

LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT [a]

(Milliions of dollars)

	1991	1992	1993	1994	1995	1996	1997 [b]
Latin America and the Caribbean	**453 300**	**469 327**	**523 932**	**556 977**	**608 000**	**629 054**	**644 625**
Argentina [c]	58 413	59 123	70 600	79 455	89 719	99 077	108 000
Bolivia [d]	3 582	3 784	3 777	4 216	4 523	4 366	4 450
Brazil	123 910	135 949	145 726	148 295	159 300	178 100	188 200
Chile	17 319	18 964	19 665	21 768	21 736	22 979	26 900
Colombia	17 335	17 277	18 942	21 954	25 050	29 202	31 665
Costa Rica	3 992	3 991	3 827	3 818	3 852	3 449	4 000
Cuba	...	...	8 785	9 083	10 504	10 465	10 500
Ecuador	12 802	12 795	13 631	14 589	13 934	14 586	14 970
El Salvador [d]	2 102	2 338	1 988	2 069	2 243	2 497	2 770
Guatemala [d]	2 403	2 252	2 086	2 160	2 107	2 075	2 030
Guyana	1 873	2 054	2 062	2 004	2 058	1 499	1 550
Haiti [d]	809	873	866	875	863	914	1 030
Honduras	3 441	3 539	3 904	4 083	4 243	4 086	4 085
Jamaica	3 874	3 678	3 687	3 652	3 452	3 232	3 200
Mexico [e]	117 817	116 501	130 524	139 818	165 837	160 000	156 000
Nicaragua [d]	10 312	10 792	10 987	11 896	10 246	6 094	6 965
Panama [d]	3 699	3 548	3 494	3 663	3 938	5 069	5 030
Paraguay	1 637	1 249	1 218	1 240	1 328	1 366	1 475
Peru	20 787	21 409	26 370	30 214	33 515	33 643	27 865
Dominican Republic [d]	4 614	4 413	4 562	3 942	3 994	3 815	3 540
Trinidad and Tobago	2 438	2 215	2 102	2 064	1 905	1 876	1 900
Uruguay [d]	4 141	4 136	4 293	4 959	5 193	5 387	5 250
Venezuela	36 000	38 447	40 836	41 160	38 460	35 277	33 250

Source: ECLAC, on the basis of official figures.

[a] Includes debt owed to the International Monetary Fund (IMF). [b] Preliminary figures. [c] Debt corresponds only to the stock of gross public-sector debt and the debt of some parts of the private sector. It does not include private-sector short-term financial debt nor, since it is gross debt, cumulative private-sector assets abroad. [d] Public external debt. [e] The public debt does not include investment by non-residents in government securities.

Table A-16

LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS [a]

(Millions of dollars)

	1991	1992	1993	1994	1995	1996	1997 [b]
Latin America and the Caribbean	**4 202**	**26 440**	**31 279**	**7 642**	**16 690**	**20 339**	**26 295**
Argentina	-1 573	6 106	9 187	7 320	-544	4 264	6 700
Bolivia	24	258	339	16	232	405	530
Brazil	-8 570	584	-1 633	-723	19 759	20 352	10 800
Chile	-870	1 183	781	1 815	-886	2 009	4 900
Colombia	-2 394	-1 629	658	1 063	1 981	3 002	1 160
Costa Rica	341	356	335	51	111	-147	270
Ecuador	-514	-1 016	-86	-85	-693	-1 245	-685
El Salvador	22	190	118	36	384	244	230
Guatemala	632	513	704	611	256	394	530
Haiti	12	37	63	-6	184	15	155
Honduras	35	108	-4	178	66	94	-65
Mexico	14 777	16 406	18 427	-1 808	-2 122	-9 286	2 520
Nicaragua	212	340	136	343	216	234	185
Paraguay	617	225	456	1 035	622	650	720
Peru	979	1 164	1 411	3 894	3 251	3 909	3 525
Dominican Republic	322	449	22	-781	-427	-500	-575
Uruguay	-161	8	231	293	148	208	320
Venezuela	311	1 158	134	-5 610	-5 848	-4 263	-4 925

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national agencies.

[a] The net transfer of resources is equal to net capital inflows (including non-voluntary inflows and errors and omissions) minus the balance on the income account (net payments of profits and interest). Negative figures indicate net outward resource transfers. [b] Preliminary figures.

Table A-17

LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL ACCRUED INTEREST TO EXPORTS OF GOODS AND SERVICES [a]

(As a percentage)

	1991	1992	1993	1994	1995	1996	1997 [b]
Latin America and the Caribbean	**21.6**	**18.7**	**18.1**	**16.7**	**16.3**	**15.2**	**14.4**
Argentina	36.1	23.1	21.3	24.3	23.5	22.6	25.0
Bolivia	26.9	23.2	21.3	14.6	16.5	14.8	15.3
Brazil	27.2	20.8	21.8	17.9	20.5	23.4	23.7
Chile	14.7	11.3	10.3	8.2	7.3	6.8	6.6
Colombia	16.4	14.6	12.3	12.9	13.7	13.7	15.4
Costa Rica	10.1	8.7	8.1	6.4	6.2	5.8	5.5
Ecuador	29.8	22.7	21.6	19.0	15.7	15.9	16.0
El Salvador	12.6	10.5	10.3	6.3	5.6	6.1	4.0
Guatemala	7.1	8.9	6.2	5.8	3.9	4.9	4.6
Haiti	7.6	5.4	8.4	6.9	11.2	3.9	4.1
Honduras	21.1	25.9	15.5	15.5	13.4	11.3	8.3
Mexico	18.0	17.5	18.3	17.0	15.2	12.6	10.3
Nicaragua	110.4	158.6	115.8	102.2	54.5	35.8	24.7
Paraguay	4.7	8.5	3.1	2.4	1.9	2.2	2.4
Peru	36.7	37.3	36.4	34.5	34.1	25.5	20.1
Republica Dominicana [c]	8.6	9.1	5.9	4.8	4.9	3.9	3.3
Uruguay	21.2	15.7	14.4	14.9	18.0	17.0	15.7
Venezuela	15.4	18.3	17.0	17.0	16.1	11.8	12.7

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national sources.
[a] Includes interest paid and interest due and not paid. [b] Preliminary figures. [c] Beginning 1993, exports of goods include *maquila* exports.

Table A-18

LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFITS PAID TO EXPORTS OF GOODS AND SERVICES [a]

(As a percentage)

	1991	1992	1993	1994	1995	1996	1997 [b]
Latin America and the Caribbean	**4.1**	**4.4**	**5.1**	**5.4**	**5.3**	**5.4**	**6.1**
Argentina	5.6	7.8	10.7	9.7	7.3	7.5	8.3
Bolivia	2.0	2.5	2.8	1.7	1.9	3.1	3.0
Brazil	3.0	2.1	4.5	4.7	7.5	7.0	10.3
Chile	5.8	7.2	6.4	7.3	4.7	7.7	8.8
Colombia	7.9	10.2	10.3	9.8	12.7	13.6	13.0
Costa Rica	3.0	3.6	3.5	2.0	2.6	2.5	2.5
Ecuador	3.8	3.5	4.0	3.9	3.6	3.4	3.8
El Salvador	4.0	2.7	2.2	1.6	1.3	...	...
Guatemala	2.6	1.9	2.6	2.6	3.3	5.5	2.9
Haiti	2.6	...	...	...	1.7	0.4	0.7
Honduras	7.1	7.1	4.5	1.8	3.7	3.6	3.4
Mexico	4.8	4.2	4.1	5.1	4.0	3.9	4.0
Nicaragua	...	3.9	2.7	2.2	2.3	2.7	2.6
Paraguay	1.0	1.2	1.5	1.1	1.4	1.7	1.8
Peru	0.9	3.5	3.0	3.3	4.3	4.6	5.8
Dominican Republic [c]	6.5	10.6	7.7	9.1	8.8	7.6	8.0
Uruguay	...	...	1.7	1.3	...	1.4	1.2
Venezuela	1.4	3.3	3.6	2.9	2.1	1.8	1.8

Source: ECLAC, on the basis of figures provided by the International Monetary Fund and national sources.
[a] Includes reinvested profits. [b] Preliminary figures. [c] Beginning 1993, exports of goods include *maquila* exports.