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REGIONAL OVERVIEW

PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN 2003

- | Regional Overview
- 2 **OPINION**
Reflections on the Improved Scenario Expected for This Year
- 3 The External Sector
- 5 Latin America and the Caribbean: Trade Negotiations
- 6 Macroeconomic Policy
- 8 Internal Performance
- 11 **STATISTICAL APPENDIX**
- 12 **RECENT TITLES**
- 12 **CALENDAR**

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UNITED NATIONS



Economic Commission for Latin America and the Caribbean

The economy of Latin America and the Caribbean grew 1.5% in 2003 and for 2004 is expected to grow by 3.5%. If the positive external outlook holds, the prospects for the coming year look favourable.

The region's better economic performance is associated with trends in the international economy, particularly recovery in the United States and Japan, and growth in China. For the first time since 1997, no Latin American economy is projected to experience negative growth in the coming year.

In any case, the recovery is not enough to turn around the stagnation of recent years and output per capita is 1.5% lower than in 1997. After six years of negative per capita growth and sluggish labour markets, 44.4% of the

population (227 million people) live under the poverty line. Improved economic activity triggered a slight rise in employment but unemployment remains high (10.7%).

In its annual study, *Preliminary Overview of the Economies of Latin America and the Caribbean 2003*, ECLAC reports that the terms of trade rose (1.3%), halting a fall that began in 1998 and continued through 2002 (3.3%). Prices for the region's commodities rose by 15.9%, although the shift in the overall export price index, including manufactured goods, was lower (2.8%). The oil price rose 23%. Soybeans, copper and gold also improved significantly.

(continued on page 3 ➡)

Latin America and the Caribbean: Economic Growth 2003 and Projections for 2004 (Annual variation rates)



Source: ECLAC

REFLECTIONS ON THE IMPROVED SCENARIO EXPECTED FOR THIS YEAR

JOSÉ LUIS MACHINEA

The year 2003 saw Latin America and the Caribbean's regional output grow by 1.5% and we estimate that in 2004 growth will reach 3.5%. As presented in the report *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003*, we interpret these results from a double perspective.

On the one hand, the data shows a turnaround in the conditions experienced in recent years. On the other hand, it is also clear that the six years that have gone by since the 1997 Asian crisis added new difficulties to the region's traditional weaknesses. This highlights the importance of fully taking advantage of the improved economic scenario expected for 2004.

For the world economy a growth rate of 3.4% is projected, well above the rates of previous years, based on the expansion in the economies of the United States, Japan and China. However, this scenario is not exempt from risk. The world's largest economy has accumulated some fiscal and external imbalances that will undoubtedly have an impact in terms of a higher interest rate, as corrections are applied. Although we do not expect this to occur during 2004, it is a warning sign that recommends caution.

The forecast suggests that markets for our countries' exports will ensure their good performance for yet another year, benefiting oil-producing countries and those offering commodities such as soybeans, tin, and copper. The higher income from natural resources must be used effectively. As several experiences underway suggest, the fiscal revenue

thus generated can be used as a tool to deal with the economic cycle.

The region must explore other ways of becoming integrated into trade flows that move beyond traditional commodities. Still pending is the task of developing an export base incorporating more value-added, which is technologically complex and that has a larger impact on job creation. The search for new opportunities for international trade will have to occupy an ever higher priority in the economic policy agendas of our countries. It is from this perspective that the region will have to take some crucial steps in terms of trade negotiations.

“We must fully take advantage of the improved economic scenario expected for 2004.”

The challenge is double: to preserve intra-regional trade flows and, at the same time, to expand and diversify the supply of exports.

Another lesson that arises from the economic performance of 2003 has to do with the use and direction of fiscal and monetary policies. Countries have performed extraordinarily well in terms of bringing inflationary pressures under control and increasing the solvency of public finances. The data from the *Preliminary Overview* indicates that the task has been successfully completed in most cases. Nonetheless, fiscal and

monetary instruments could not be used in a counter-cyclical way, as would have been most suitable. Given the better prospects for 2004, the lesson for economic policy is clear: to make the most of the expansive phase of the cycle to overcome the most serious restrictions limiting the effectiveness of monetary and fiscal instruments.

Finally, it is in the area of social policy that the outlook is least encouraging. Poverty and indigence have grown throughout the region: 227 million people, 44.4%, live under the poverty line, 20% in extreme poverty. Open unemployment has reached a record level of almost 11%.

ECLAC has warned about two issues that strike us as worth repeating by way of conclusion. First, overcoming these levels of social exclusion is a task intimately associated with short- and medium-term economic performance, given that job creation, in terms of both its profile and its strength, is a key variable for the creation of income.

But we also know that the economy alone cannot solve this problem. Social public expenditure plays an essential role and there are some very enlightening experiences and initiatives that have been undertaken by some countries. The region requires the advances in this area to multiply, so that the better news that 2004 seems to promise can translate into some relief from the grim situation that half the population of our countries faces on a daily basis. 

The author is ECLAC Executive Secretary.

In Central America, the Andean Community and Chile, sales abroad rose 5% and in the case of Mercosur they rose 18%. Intraregional trade also recovered somewhat. This performance contrasted with the stagnation experienced by Mexico's non-oil exports. The combination of volume and prices turned 2003 into a record year for the trade surplus (US\$41 billion).

For the first time in fifty years, Latin America's current account posted a surplus, of US\$6 billion in 2003. The lack of external saving and relatively low levels of domestic saving limited long-term growth and investment. Gross capital formation remained virtually unchanged and its current level is 12.5% lower than five years ago.

Capital flows, meanwhile, performed reasonably well, contrary to what had happened in 2002. The region's sovereign bonds issues recovered and financial outflows ceased. The cost of the region's external financing returned to levels prior to the Asian crisis and countries were able to capture funds in markets at costs averaging about 300 basis points less than 12 months earlier.

The ECLAC study reveals that the flow of foreign direct investment fell yet again, reaching US\$29 billion, substantially below the average for 1990-2002, which was about US\$38 billion, and 25% less than in 2002. The importance of migrants' remittances stands out, as these reached US\$33 billion, a substantial slice of external resources for Mexico and Central

America. Finally, the region received about US\$22 billion in compensatory funds, almost half from the International Monetary Fund.

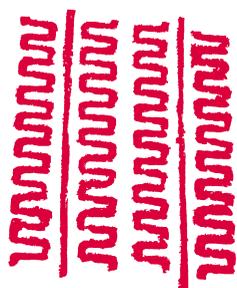


Strength After Turbulence

A significant trend according to ECLAC has been the domestic strengthening achieved after years of turbulence, with most countries emerging with monetary and fiscal policies under control, along with more competitive exchange rates. Economies that were enmeshed in profound crises, such as Argentina and Brazil, have already started on the road to recovery.

After the turnaround last year, inflation resumed its falling trend and most countries posted single digit inflation, with the regional average weighing in at 8.5%. Despite the decline in inflation, real wages fell in most countries and stagnated in others, as labour markets suffered from weak demand for labour.

The region continued to move toward more flexible exchange rate regimes, except for Venezuela. Southern Cone countries saw the exchange rate appreciate against the dollar, partly turning around sharp devaluations from 2002. In contrast, in Central America, Mexico and the Caribbean, appreciation ground to a halt and started to reverse. Today, the real exchange rate in Latin America and the Caribbean is 18% higher than the average for the past five years. 



THE EXTERNAL SECTOR

The region's better performance is associated with international economic recovery.

In this sense, ECLAC's report highlights the recovery in the United States, where annual growth, estimated at almost 3%, made possible an increase in the exports from most Latin American and Caribbean countries to that country. Similarly, the Asian economies, led by China, have become the strongest performers in world markets and have pushed up purchases and prices of some of the region's export products, among them copper, tin, iron and soybeans.

In 2003, the commodity price index for Latin American and Caribbean exports rose 15.9%, although the overall rise for export prices was just 2.8%. This reflects the fact that the prices for some products, such as manufactured goods, rose much less or declined in 2003, affecting countries whose export baskets depend on these goods.



Terms of Trade Improved

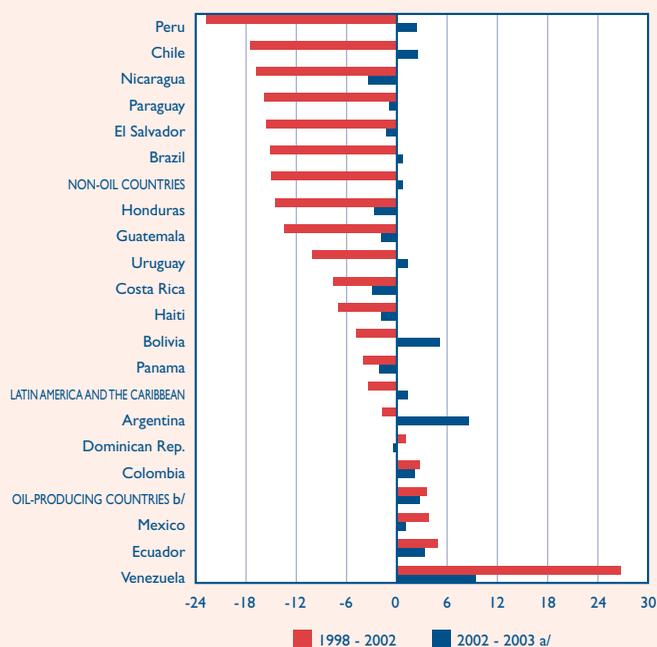
In any case, the recovery of export prices combined with lower growth in imported product prices (1.5%), interrupted the decline in the terms of trade, which between 1998 and 2002 reached 3.3%. The improvement in 2003 was 1.3% and was apparent in both oil and non-oil countries, except for those of Central America.

Driven by better prices for some agricultural goods, Argentina and Bolivia saw their terms of trade improve by 8.6% and 4.9%, respectively. In the case of Chile and Peru, the improvement reached 2.4% and 2.2%, due to higher prices for copper and gold. This is no minor matter, since these countries had accumulated a decline of 17.5% and 22.7% respectively, between 1998 and 2002.

At 7.4% growth, exports were the strongest performers within demand in 2003, reaching US\$372 billion. The balance of goods posted a record surplus of US\$41 billion. Exports performed

Latin America and the Caribbean: Terms of Trade

(Percentage variation for 1998-2002 and variation for 2003)



Source: **ECLAC**, on the basis of official figures.

a/ 2003, preliminary figures. b/ Argentina, Colombia, Ecuador, Mexico and Venezuela.

strongly pretty much everywhere, rising by around 5% in Central America, the Andean Community and Chile, and three times more in the Mercosur countries. This contrasts with the sluggish performance of Mexico's non-oil exports. The region's imports rose 2.5%, recovering from a 6.8% decline in 2002, particularly during the second half of the year.

The significant trade surplus was further enhanced by the size of family remittances, which this year outdid foreign direct investment inflows to reach US\$33 billion. This flow has become a structural component within the balance of payments for Latin America and the Caribbean and is key in several countries, particularly Mexico and some Central American and Caribbean economies.

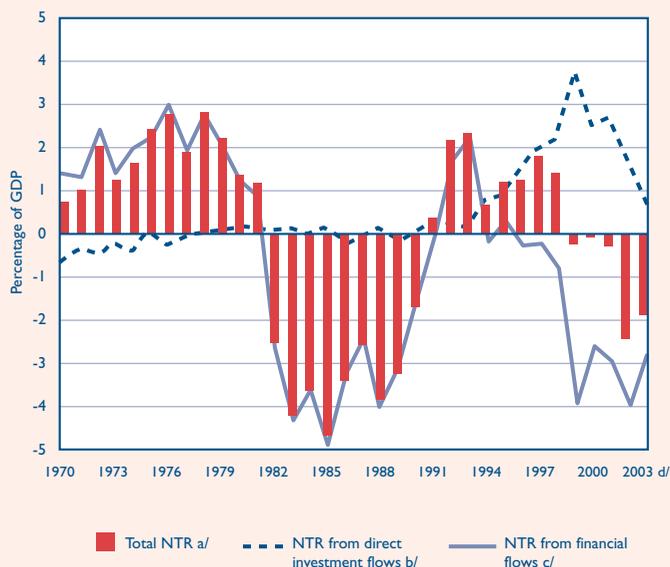
The sizeable surplus in the balance of goods and remittance inflows from the migrant population contributed to an almost unheard of result in the region's balance of payments current account: a US\$6 billion surplus, the first in fifty years.

This surplus, equivalent to negative external saving, should be treated with caution when it comes to interpreting its role in the growth process. In emerging economies, external saving is necessary to complement national saving to sustain capital accumulation. This year, in contrast, part of domestic saving moved abroad or became international reserves.

Capital flows did not behave negatively, as occurred in 2002. Movements of autonomous capital were practically neutral: net income of US\$3.5 billion was apparent, which compares well against US\$14 billion with the opposite sign, the previous year.

Latin America and the Caribbean: Net Transfer of Resources

(In percentages of the gross domestic product at current prices)



Source: **ECLAC**, on the basis of official figures.

a/ The net transfer of resources (NTR) is calculated by subtracting the income balance (net profit and interest payments) from total net capital inflow. The total net capital inflow corresponds to the capital and financial balances, plus errors and omissions, IMF loans and credit and exceptional financing. Negative figures indicate outward resource transfers. b/ Is equivalent to net foreign direct investment inflow (FDI) minus net profit remittances. c/ Is equivalent to net inflow from other non-FDI capital, minus net interest payments. d/ Preliminary estimate.

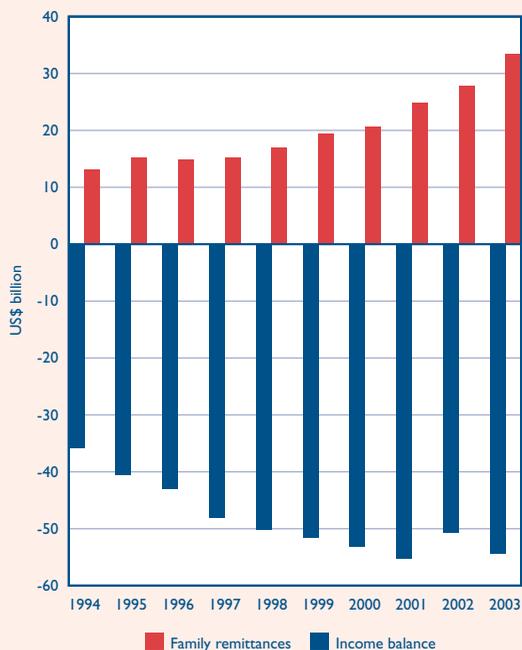
Foreign Investment Is Down Once Again

Foreign direct investment (FDI) has been losing momentum since 2000, a trend that **ECLAC** considers "worrying".

The amount for this year, US\$29 billion, is substantially lower than the average for 1990-2002 of US\$38 billion. **ECLAC** sees this falling trend as reflecting the virtual completion of the privatization process, a slowdown in the expansion strategies of some transnational groups, and a downturn in foreign residents' purchases of privately held domestic assets. In countries where FDI performed more strongly, almost 30% of inflows corresponded to reinvested profits.

FDI fell in eleven countries. In Brazil, net flows fell from US\$14 billion in 2002 to US\$7.15 billion in 2003. In Chile, net FDI flows were similar to 2002, but that year FDI abroad doubled and more. In Mexico, net inflows remained similar to the average for the previous five years. Ecuador was the only country that received unprecedented inflows of FDI in 2003, reflecting investment in the oil sector.

Two Structural Phenomena: Family Remittances on the Rise and an Ongoing Deficit in the Income Balance



Source: ECLAC, on the basis of official figures.

LATIN AMERICA AND THE CARIBBEAN: TRADE NEGOTIATIONS

During 2003, the region participated in several trade negotiations:

- On the multilateral level, in mid-September, the Fifth Ministerial Meeting of the World Trade Organization (WTO) took place in Cancun. The meeting failed to produce results, due to the difficulties to make progress in the negotiations on agricultural items, and to the reservations of some developing countries regarding negotiations on trade and investment, competition policy, transparency in government procurement, and trade facilitation.
- Chile ratified a Free Trade Agreement with the United States, which will come into effect on 1 January 2004.
- Central America countries, except Costa Rica, in December reached an agreement to sign a Free Trade Agreement with the United States.
- At the end of 2002, the United States extended the duration of the Andean Trade Preference Act, turning it into the Andean Trade Promotion and Drug Eradication Act.
- The Eighth Ministerial Meeting, held in Miami in November 2003, of the Free Trade Area of the Americas (FTAA), broke with the “single undertaking” principle, according to which all issues would be negotiated as a block. Instead, a mixed plan was defined, in which countries will accept shared obligations on several points, but will have the option of engaging in bilateral or multilateral negotiations on several issues. In ECLAC’s opinion “Although this solution will permit the negotiations to be formally concluded by the agreed deadline, the fragmentation of the negotiating agenda could be detrimental for countries with relatively less bargaining power.”
- In 2003, Mercosur conversations with the European Union continued on schedule.
- In intraregional negotiations, both Mercosur and the Andean Community issued formal statements that bear witness to a clear political will to extend the regional integration process.
- The Caricom countries have managed to maintain a consistent position in several negotiations through the Caribbean Negotiating Machinery.

Meanwhile, Latin America and the Caribbean received nearly US\$22 billion in funds from multilateral organizations, almost half coming from the International Monetary Fund. The other half came from delays in servicing debt. Altogether, countries accumulated almost US\$32 billion in reserves.

Despite significant financing, the net transfer of resources remained negative, at US\$29 billion, compared to US\$40.2 billion in 2002. In the past five years, resource outflows abroad have amounted to 5% of the region’s output.

The Costs of External Borrowing Declined

As of December 2002, after seven months virtually without the placement of securities in the region, the bond market became more lively. Between January and September 2003, gross placements reached US\$21 billion, higher than for the whole of the previous year.

The average cost of issues reached 9.6%, three hundred basis points lower than 12 months earlier. By early December 2003, interest rates paid by the region were similar to those of the first half of 1997, before the Asian crisis erupted. Brazil posted a decline of 1,800 basis points between the last quarter of 2002 and December of this year, while risk premiums for Chile and Mexico are the lowest in the region and in their history, at 90 and 190 basis points, respectively.

In recent years, the resources obtained by most of the region’s governments have gone to refinance external liabilities. Several governments have reached the limit of their debt-carrying capacity. As a result, ECLAC warns, “It is therefore important for such governments to adopt a prudent external borrowing policy during this relative boom on the bond market.”



MACROECONOMIC POLICY

International conditions have been more promising than last year providing a better framework for countries to design their economic policies. However, “Fiscal and monetary instruments have once again failed to produce the hoped-for countercyclical effects,” **ECLAC** states, in its report *Preliminary Overview of the Economies of Latin America and the Caribbean 2003*.

In terms of public finance, high levels of outstanding debt, which in several countries reached more than 50% of GDP, acted as a significant restriction. Strengthening long-term fiscal solvency governed the design of income and expenditure policies, causing the region’s fiscal policies to focus mainly on increasing the government’s primary surplus. Despite low growth rates, the budget did not attempt to stimulate demand. The region’s primary balance improved by almost one percentage point and went from a deficit of 0.3% to a surplus of 0.6% of GDP. This should hold throughout 2004, with primary surpluses being the same or higher than current ones.

Countries applied spending cuts along with other measures of a more structural nature. Many governments resorted to reforming social security systems, new decentralization schemes, fiscal rules in the area of macroeconomic policy, and tax reforms.

In its annual report, **ECLAC** underlines that “macroeconomic management calls for effective tools capable of moderating the cycle.” It noted that “countries will not recover the ability to make use of fiscal instruments overnight, however, as a number of structural issues that strongly influence solvency must first be resolved. Hence the importance of the public-sector reform agenda being pursued by the countries.”



More Freedom in Monetary Management

In terms of monetary policy, the region’s central banks main concern related to the control of inflationary pressures. Several countries have established inflation targeting, using the interest rate as their instrument. Others have chosen to target a monetary aggregate.

Aside from instrumental differences, the prevailing objective was to reduce inflation, which in 2002 saw the regional average reach two digits. At the beginning of 2003, Mexico, Brazil and Colombia dealt with inflationary levels that threatened their policy targets. In light of this situation, the authorities initially boosted interest rates and restricted liquidity.

Once these inflationary pressures were contained, interest rates were cut to reverse the cycle.

This greater freedom in monetary management was possible, among other reasons, thanks to better results posted by government finances. Argentina, Brazil and Mexico ended the year with real lending interest rates much lower than at the start of the year. However, credit has still not bounced back and in most of the region’s economies, domestic private expenditure remains weak.



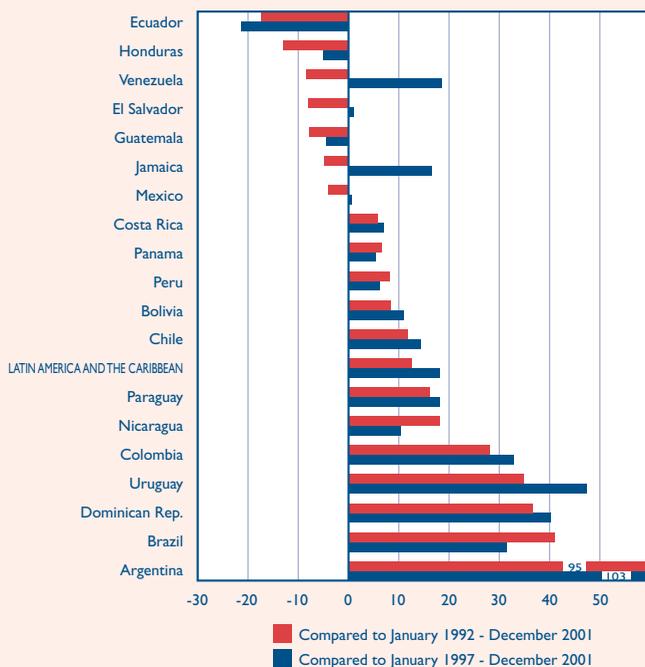
More Flexible Foreign Exchange Rate Regimes

The real exchange rate is a key variable for trade competitiveness, according to the **ECLAC** study. At the end of the first ten months of the year, the average index for the region’s actual exchange rates had depreciated slightly (2.6%) over the end of 2002.

Most countries consolidated a more flexible approach to foreign exchange policy and gradually eliminated restrictions on foreign exchange operations. Only Venezuela adopted a fixed exchange rate with rigid control over foreign exchange operations, in February.

Latin America and the Caribbean: Percentage Variation of the Nominal Effective Exchange Rate

(October 2003 compared with historical averages)



Source: **ECLAC**, on the basis of official figures.

Latin America and the Caribbean: Central Government Fiscal Indicators a/

(Percentages of gross domestic product at current prices)

	Preliminary balance		Global balance		Public debt b/ 2002
	2002	2003 c/	2002	2003 c/	
Latin America and the Caribbean d/	-0,3	0,6	-3,0	-2,4	67,0
Argentina e/	1,8	1,8	-0,3	-0,2	134,4
Bolivia f/	-7,1	-3,7	-9,2	-6,6	82,9
Brazil g/	2,3	2,5	-0,3	-1,1	52,6
Chile	-0,5	-0,3	-0,8	-0,8	15,8
Colombia h/	-1,0	-0,3	-4,9	-4,7	49,2
Costa Rica	0,0	1,4	-4,3	-2,8	38,6
Ecuador	2,6	2,1	-0,8	-0,9	55,6
El Salvador	-1,6	-0,3	-3,1	-2,1	41,5
Guatemala	0,3	-0,4	-1,0	-1,6	17,2
Haiti	-2,3	-3,0	-3,1	-4,0	52,8
Honduras	-3,3	-3,5	-5,2	-5,4	70,5
Mexico	0,8	2,0	-1,8	-0,6	20,4
Nicaragua	1,6	2,8	-4,1	-2,3	329,9
Panama	2,7	2,7	-2,4	-2,6	82,9
Paraguay i/	-1,8	0,4	-3,1	-0,8	42,4
Peru	-0,2	0,1	-2,2	-1,9	47,2
Dominican Rep.	-1,3	1,9	-2,2	-0,4	20,9
Uruguay j/	0,0	3,0	-4,6	-3,6	82,1
Venezuela	1,0	1,9	-3,3	-3,0	35,6

Source: ECLAC, on the basis of official figures.

a/ Includes social security. b/ Debt figures correspond to the public sector; except in Chile, Costa Rica, El Salvador, Honduras and Peru where the coverage corresponds to central government. c/ Preliminary estimate. d/ Simple average. e/ National administration. f/ General government. g/ Federal government. h/ National central government. i/ Central administration. j/ Public sector.

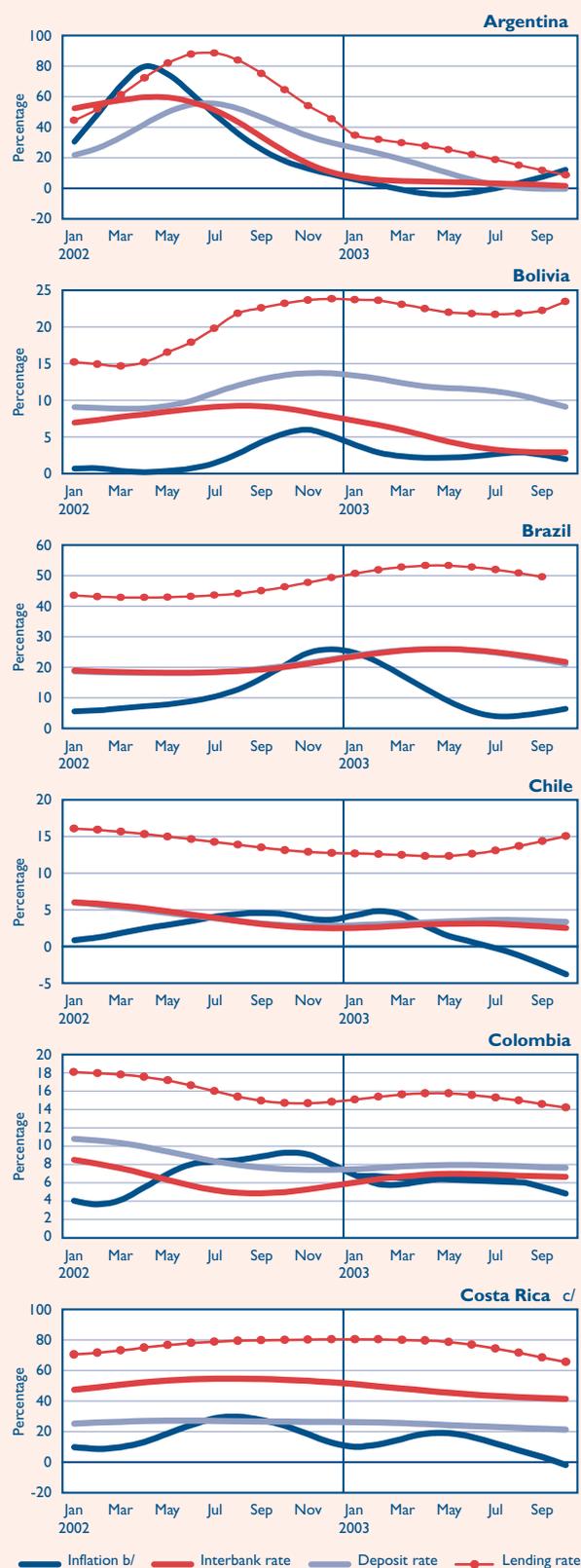
Despite this preference for a flexible exchange rate, the authorities monitor carefully currency prices, due to the influence of the latter on financial and real flows. Similarly, several countries continue to be highly dollarised or have adopted the dollar as legal tender.

Currency movements have been very uneven in recent months. In South America, the currencies of several countries (Argentina, Brazil, Chile) not only appreciated significantly against the dollar, but also slightly (1.6%) against their trading partners' currencies as a whole. In contrast, the currencies of Central America and Mexico devalued by almost 6% against the dollar and 8.4% against other currencies.

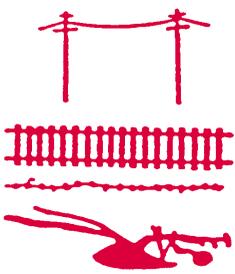
The exchange rates relevant to the region's trade today stand 18% higher than the average for 1997-2001. "Maintaining suitable exchange rates is an essential ingredient in expanding the export base while bringing in higher value-added and more technologically complex production activities," states the UN body.

Latin America: Nominal Interest Rate Trends a/

(Annualized percentages)



Source: ECLAC, estimates on the basis of official figures. a/ Monthly rates seasonally adjusted (X-12) and smoothed using the Hodrick -Prescott filter ($\lambda=10$). b/ Underlying monthly inflation rate (annualized). c/ Reference rate set by the Central Bank of Costa Rica for six-month open-market operations. d/ Interbank interest rate not available.



INTERNAL PERFORMANCE

In 2003, the economy of Latin America and the Caribbean grew 1.5%, a substantial improvement over the 0.4% reduction in GDP suffered the previous year, according to the *Preliminary Overview of the Economies of Latin America and the Caribbean 2003*, from ECLAC.

The region, however, has not yet recovered the growth rates prior to the Asian crisis, and even those prior to the 1980s debt crisis. Domestic demand has not yet recovered and consumption has risen only slightly, while gross fixed capital formation remains at an all-time low. From 1998 to 2003, GDP rose on average by barely 1.3% annually and per capita GDP still remains 1.5% lower than in 1997.

After having accelerated in 2002, inflation fell in 2003, “thanks to prudent monetary and fiscal policies and greater exchange-rate stability,” ECLAC indicates, although it considers the slim turnaround in economic activity insufficient to improve social indicators. The unemployment rate remained high and real wages fell in some countries and stagnated in others.

The modest improvement in 2003 was favoured by world economic reactivation, which helped push the region’s exports up. Considering the outlook for the world economy, combined with domestic factors, the UN body suggests that favourable prospects should bring growth to 3.5% in 2004.

Among these favourable domestic factors are internal interest rates. International interest rates are expected to remain low during most of 2004, thus reducing the external pressures in the direction of increasing domestic rates.

Secondly, the exchange rates prevailing among the region’s countries should remain high, despite some cases of currency appreciation observed in the final months of 2003. Thirdly, in a context in which economic activity is starting to pick up, fiscal policy should stop being restrictive and could even become slightly expansionary in some countries.

Finally, the region’s performance will not be immune to the electoral processes that will take place in several countries in 2004.

Economic Performance Uneven

In 2003, economic trends were irregular, unlike the clear downward trend in 2001 or the sustained recovery posted in 2002.

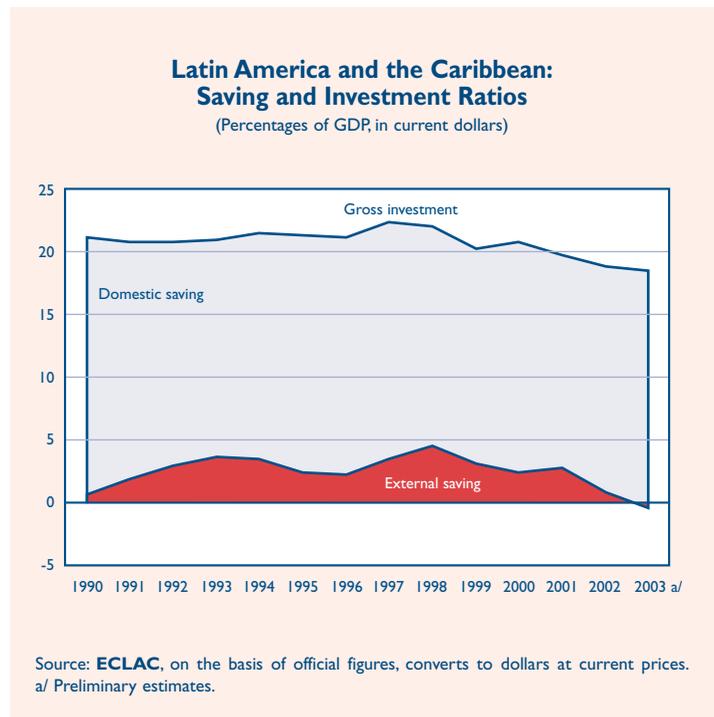
During the first three quarters, GDP growth was very weak and only began to pick up toward year’s end. This is in keeping with the more buoyant performance of the world’s economy during the second half of the year. It also reflects the pattern of GDP growth in Brazil, where stagnation only gave way to some signs of a turnaround during the last quarter of the year.

In Mexico, the economy grew 1.2%. Venezuela experienced a 9.5% contraction, after a similar plunge the previous year. Argentina posted clear signs of reactivation in 2003 (7.3%), after contracting 10.8% in 2002.

Although Chile, Costa Rica, Colombia and Peru are all growing at rates higher than 3%, the other economies in the region posted weak performances reflected in figures of around 2%.

In 2003, most countries’ economies showed a significant rise in exports, which reached 4.4% at the regional level, while domestic demand remained sluggish.

Consumption, which contracted significantly in 2002, strengthened somewhat in 2003, but still grew at a lower rate than GDP.



Investment Was Low and External Saving Negative

Gross fixed capital formation fell by 1.7%, down substantially from the 6% decline experienced in 2002, but nonetheless reflecting the ongoing decline in this variable, which has fallen 12.5% since 1998. Investment, as a percentage of the region’s GDP, reached 18%, its lowest point since the beginning of the 1970s.

According to ECLAC’s report, the decline in total saving for the countries of Latin America and the Caribbean is one of the inevitable outcomes of the slump in investment.

This year, for the first time in a decade, the balance-of-payments current account posted a surplus. This is the result of the decline in domestic spending, a significant trade surplus, and a rise in income in the form of remittances received from abroad.

Negative external saving, however, has meant that part of national saving went to reducing net borrowing by paying off external liabilities or investing capital abroad, or to building up international reserves. In fact, in 2003 countries accumulated international reserves worth US\$30 billion.

The countries of Latin America and the Caribbean need much more investment than they are currently receiving to grow more strongly, **ECLAC** warns. For this to become feasible, both domestic and external saving must increase appropriately.

Modest recovery in 2003 was driven mainly by strong exports rather than domestic demand, according to the **ECLAC** report. However, the UN regional Commission also points to two internal factors that encouraged higher export volumes this year: the exchange rate and previous investment.

The evolution of foreign exchange rates was behind some sectors' exports in 2003. Strong devaluations in 2002 in some countries improved their competitiveness and increased the profitability of local currencies received by exporters and, in some cases, favoured import-substitution processes. The region today has managed to keep its foreign exchange rates competitiveness, despite the fact that during the second half of 2003, some countries posted real revaluations against the dollar.

In other areas, investment from previous years also created enough installed capacity to increase production in some areas, in particular mining and hydrocarbons.

Inflation Moves Downward Again

The annual inflation rate for Latin America and the Caribbean reached 8.5% in 2003, down almost four percentage points from 2002. This implies a return to the single-digit levels recorded in 1998-2001. In 18 of the 22 economies for which there is information, price rises were low or moderate and only four experienced two-digit increases.

Several demand- and supply-side factors are behind the decline in inflation in 2003, according to **ECLAC**.

On the demand side, "the appropriate management of macroeconomic -and particularly monetary- policies and the adoption of a prudent policy stance in almost all the countries have clearly had an impact." Central banks only used their instruments more actively in the second half of 2003, once they were sure of meeting inflation targets announced early in the year. **ECLAC** adds that monetary policies gained some degree of freedom. Flexible exchange rates and the use of nominal anchors in several countries contributed to the improved performance from monetary policy. Likewise, fiscal accounts turned around

the deteriorations suffered during previous years and did not pressure credit markets nor sources of primary money expansion, thus controlling any risk of spiralling inflation.

On the supply side, variations in costs associated with higher exchange rates have abated, in contrast with conditions in 2002, when some countries experienced strong devaluations. In 2003, depreciations affecting several of the region's currencies were moderate (except for the Dominican Republic and, to a lesser degree, Jamaica and Mexico), which helped to control inflation. Nominal wages had a similar effect, as they did not pressure costs nor affected fiscal accounts.

Unemployment Rate Stays at Record Levels

The modest upturn in economic growth was not enough to improve conditions in the labour market. As a result of moderate increases of the employment and labour force participation rates, the unemployment rate for the year will probably remain virtually unchanged, edging upward by one-tenth of a percentage point to 10.7%. The sluggish performance of several economies in recent years has pushed unemployment rates well above their historic average.

Due to the increase in the labour supply, this slight rise in the unemployment rate represents an increase of 700,000 in the number of urban unemployed, raising their number to 16.7 million. Moreover, wages reflected weak labour demand and tended to decline or remain the same in real terms.

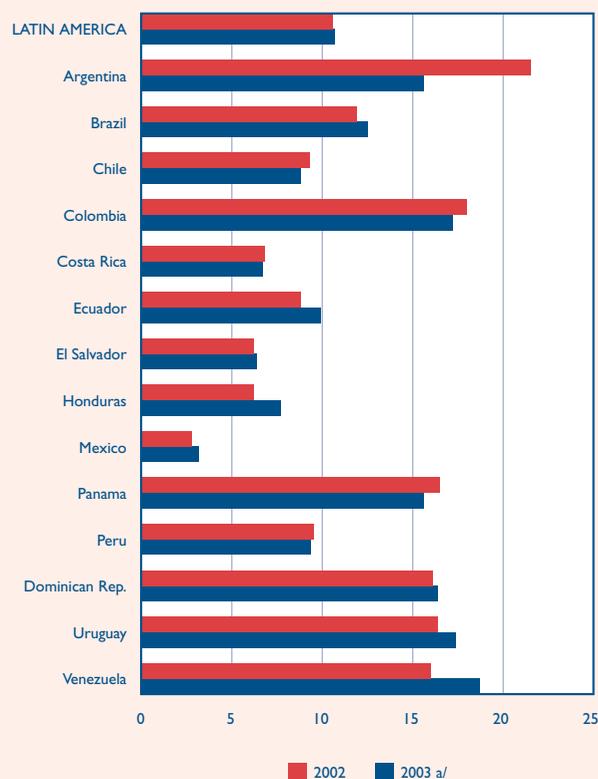
In 2003, the employment rate rose slightly from 51.8% to 52.1% of the population of working age, reflecting a partial recovery in employment in Argentina, along with modest rises in several other countries.

In several countries, firms' demand for labour remained cautious. The proportion of wage labour in the occupational structure fell in six (Argentina, Brazil, Chile, Panama, Uruguay and Venezuela) of eleven countries, held steady in two (Mexico and Peru) and rose in just three (Colombia, Costa Rica and Ecuador). According to **ECLAC**, this indicates that "precarious employment conditions, in terms of contractual status and social security coverage, probably became even more widespread in 2003."

Real wages did not recover in 2003. In the 11 countries for which information is available, the weighted average real wage fell by an estimated 4.7%. The **ECLAC** report concludes that trends in the labour market contributed little to reactivating domestic demand, since the modest rise in employment occurred mainly in non-wage-earning activities (which usually generate low income), while real wages trends in the formal sector did not contribute to raising households' purchasing power either. The weak performance from several economies in recent years and high unemployment are behind the lack of a recovery in nominal wages.

Latin America and the Caribbean: Urban Unemployment Rate

(Average January to September, 2002 and 2003)



Source: **ECLAC**, on the basis of official figures.
a/ Preliminary estimate.

For 2004, some recovery is forecast for the labour market. Given economic growth projections (3.5%), the unemployment rate should fall by half a percentage point to reach just over 10%. A further rise in the employment rate should contribute to this, a tendency also enhanced by greater labour demand from firms. At the same time, declines in real wages posted in some countries in 2003 should halt, while in others lower inflation and greater labour demand should lead to slight increases of the real wage in the formal sector.



Some Country Projections for 2004

ECLAC projects that Argentina, which has recovered quickly since late 2002, will grow at a rate of 4.5% in 2004. The recovery of domestic consumption should continue next year, although its strength will depend on the credit's recovery. The restructuring of the financial system is under way and foreign debt renegotiations remain pending.

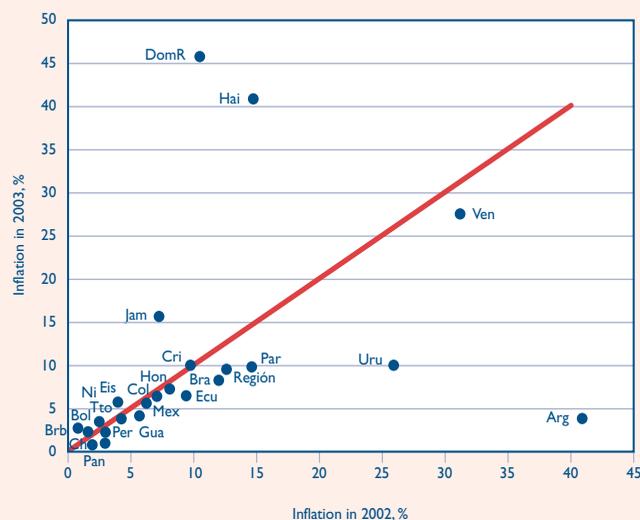
In Brazil, a more rapid growth of 3.3% is projected, above the modest growth rate posted in 2003, based on domestic demand's recovery in terms of both private consumption and investment. Interest rates should continue to fall, provided there is no pressure on the exchange rate and nothing else pushes prices higher. The recovery of manufacturing in the last months of 2003 should continue into 2004.

The Mexican economy should grow 2.8%, closely linked to the performance of the United States, although competitiveness issues may continue to limit its ability to make the most of rising demand in that country.



Latin America and the Caribbean: Consumer Price Indices

(Annual percentage variation)



Source: **ECLAC**, on the basis of official figures.

Produced by **ECLAC Information Services**

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The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the milestones in the region's history. The symbols are engraved on the outside of the conference rooms at **ECLAC** headquarters in Santiago, Chile.



The European
Immigration



Irrigation
Systems



Fell's Cave



Electricity,
Railroads



Nahua
Glyphs

**Latin America and the Caribbean:
Total and Per-Capita Gross Domestic Product**

(In percentage, based on values in constant 1995 dollars)

Annual growth rates								
	2000		2001		2002		2003 ^{a/}	
	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita
Latin America and Caribbean	3,7	2,1	0,4	-1,1	-0,4	-1,9	1,5	0,0
Subtotal (20 countries)	3,7	2,1	0,4	-1,1	-0,4	-1,9	1,5	0,0
Argentina	-0,8	-2,1	-4,4	-5,6	-10,8	-11,9	7,3	6,0
Bolivia	2,3	-0,1	1,6	-0,7	2,7	0,4	2,5	0,2
Brazil	4,0	2,6	1,5	0,2	1,9	0,6	0,1	-1,2
Chile	4,2	2,8	3,2	1,9	2,1	0,8	3,2	2,0
Colombia	2,4	0,5	1,4	-0,4	1,7	-0,1	3,4	1,6
Costa Rica	1,8	-0,6	1,2	-1,0	2,9	0,7	5,6	3,5
Cuba	6,3	5,9	2,9	2,5	1,2	0,9	2,6	2,3
Dominican Republic	7,3	5,5	3,0	1,3	4,3	2,6	-1,3	-2,9
Ecuador	0,9	-1,0	5,5	3,5	3,8	1,9	2,0	0,2
El Salvador	2,0	0,0	1,7	-0,2	2,1	0,2	2,0	0,1
Guatemala	3,4	0,7	2,6	0,0	2,2	-0,5	2,4	-0,2
Haiti	2,0	0,2	-0,6	-2,4	-0,5	-2,3	0,7	-1,1
Honduras	5,6	2,8	2,7	0,0	2,4	-0,2	3,0	0,4
Mexico	6,7	5,0	-0,3	-1,8	0,8	-0,7	1,2	-0,3
Nicaragua	4,4	1,6	3,1	0,4	0,7	-1,9	2,3	-0,4
Panama	2,6	0,6	0,4	-1,5	0,8	-1,1	3,0	1,1
Paraguay	-0,6	-3,2	2,4	-0,2	-2,5	-4,9	2,5	0,0
Peru	2,7	1,0	0,2	-1,4	4,9	3,2	4,0	2,4
Uruguay	-1,9	-2,6	-3,5	-4,2	-10,7	-11,4	1,0	0,3
Venezuela	3,8	1,7	3,5	1,5	-9,0	-10,7	-9,5	-11,2
Subtotal Caribbean	4,7	4,0	2,2	1,4	1,7	1,0	3,3	2,6
Antigua and Barbuda	2,6	1,4	1,6	0,6	1,7	0,9	3,2	2,6
Barbados	3,1	2,8	-2,2	-2,6	-0,4	-0,7	2,5	2,1
Belize	10,5	8,0	4,7	2,4	3,7	1,5	4,0	1,8
Dominica	1,3	0,7	-3,3	-3,8	-5,8	-6,2	0,4	0,1
Granada	6,7	7,3	-3,4	-2,9	-1,5	-1,2	1,0	1,3
Guyana	-2,3	-2,7	2,3	1,8	1,5	1,1	1,0	0,7
Jamaica	1,0	0,1	1,8	0,9	0,9	0,0	1,0	0,1
Saint Kitts and Nevis	5,0	6,0	2,0	2,8	0,5	1,0	1,9	2,2
San Vicente and the Granadinas	1,8	1,2	0,3	-0,2	1,0	0,4	1,0	0,4
Santa Lucia	0,3	-0,4	-5,0	-5,7	1,0	0,2	2,0	1,2
Suriname	-1,2	-2,1	1,3	0,5	1,2	0,4	3,5	2,7
Trinidad and Tobago	9,2	8,8	4,3	3,9	3,0	2,6	5,5	5,1

 Source: **ECLAC** on the basis of official figures.

a/ Preliminary estimate.

1 *Mercados de tierras agrícolas en América Latina y el Caribe. Una realidad incompleta* (Agricultural Land Markets in Latin America and the Caribbean. An incomplete reality), edited by Pedro Tejo (LC/G.2202-P, only in Spanish). The 14 articles in this book examine the challenges facing agricultural land markets in Latin America after a decade of incentives designed to develop them. The book provides case studies from Argentina, Brazil, Colombia, Guatemala, Paraguay, Peru and the Dominican Republic. [www](http://www.eclac.org)



sugar, coffee, vegetables, cut flowers, wine) during the last decade of the 20th century.

2 *Mercados nuevos y tradicionales para las exportaciones de productos básicos latinoamericanos al final del siglo XX* (New and Traditional Markets for Latin America's Basic Export Products), by Valentine Kouzmine. Comercio Internacional series No. 33, July 2003 (LC/L.1975-P, Spanish, US\$10). This publication provides an overview of Latin America's basic exports (plantains,

3 *El mapa migratorio de América Latina y el Caribe, las mujeres y el género* (Migratory Map of Latin America and the Caribbean, Women and Gender), by Jorge Martínez Pizarro. Población y Desarrollo series No. 44, September 2003 (LC/L.1974-P, Spanish, US\$10). Martínez examines trends in Latin American and Caribbean migration, paying special attention to women's

participation and gender expressions requiring some interpretation. [www](http://www.eclac.org)

4 *Los municipios y la gestión de los recursos hídricos* (Municipal Governments and Water Resource Management), by Andrei Jouravlev. Recursos Naturales e Infraestructura series No. 66, November 2003 (LC/L.2003-P, Spanish, US\$10). This publication focuses on water management when decentralized with municipal government participation, and its inherent limitations. [www](http://www.eclac.org)



5 *Medir la economía de los países según el sistema de cuentas nacionales* (Measuring Countries' Economies Using the National Accounts System), by Michel Séruzier, co-published by ECLAC and Alfaomega, available in bookstores. National accounting is an instrument used to provide systematic information about a country's economic situation. This book is a contribution to those involved in compiling national accounts and organizing countries' macroeconomic facts and figures.

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MONTH	EVENTS	VENUE
JANUARY		
27 - 29	Sixteenth Regional Seminar on Fiscal Policy. IMF/World Bank/IDB /ECLAC	ECLAC Headquarters, Santiago, Chile
27	Second Regional Workshop on Fiscal Policy and the Environment. GTZ/IMF/OECD/UNDP/World Bank /ECLAC	ECLAC
FEBRUARY		
5-6	Subregional Meeting for Central America and Mexico, in preparation for the Ninth Regional Conference on Women in Latin American and the Caribbean. ECLAC's Women and Development Unit.	Tegucigalpa, Honduras
11-13	Caribbean Subregional Meeting, in preparation for the Ninth Regional Conference on Women in Latin American and the Caribbean. ECLAC's Women and Development Unit.	Saint Vincent and the Grenadines
3-14	Workshop for specializing in Redatam data base creation and the applications R+xPlan and R+WebServer. CELADE/ECLAC	ECLAC
MARCH		
8-9	International workshop-seminar on the role of open housing cooperatives and their relationship with sustainable urban development. ECLAC	ECLAC
15-19	Consultation meeting for Latin America and the Caribbean: Associates for a New Era. ECLAC	ECLAC
25-26	Subregional meeting for South America in preparation for the Ninth Regional Conference on Women in Latin American and the Caribbean. ECLAC	Brasilia, Brazil
APRIL		
9-14	Meeting of experts on economic security for senior citizens. Inter-American Development Bank (IDB)/International Labour Organization (ILO)/ECLAC	Panama City, Panama
MAY		
3-4	International course on the "Use of Socio-Economic Indicators for Evaluating the Impact of Anti-Poverty Programmes and Projects." Latin American and Caribbean Institute for Economic and Social Planning (ILPES) Projects and Investment Programming Area /ECLAC	ECLAC

