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REGIONAL OVERVIEW

LATIN AMERICA AND THE CARIBBEAN OUTDO EVEN THE MOST OPTIMISTIC FORECASTS, RISING 5.5% IN 2004

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UNITED NATIONS

ECLAC

Economic Commission for Latin America and the Caribbean

The economy of Latin America and the Caribbean grew 5.5% in 2004, outdoing even the most optimistic forecasts. Thus, the region's per capita GDP rose about 4% and for 2005 it is expected to grow another 4%, making possible an additional recovery in per capita GDP, according to figures from the *Preliminary Overview of the Economies of Latin America and the Caribbean 2004*, published by ECLAC.

Except for Haiti, all countries enjoyed positive growth rates. This is the second time

in the past 20 years that the region's six largest economies (Argentina, Brazil, Chile, Colombia, Mexico and Venezuela) have all grown more than 3% at the same time. This occurred previously in 1997.

The report reveals that some economies are well into recoveries after severe crises. This is the case in Venezuela, which will grow 18% and Uruguay (12%). Argentina (8.2%), Brazil (5.2%), Chile (5.8%), Ecuador (6.3%) and Panama (6%) are all posting growth of over 5%.

(continued on page 3 ➡)

Latin America and the Caribbean: Economic Growth

Country	2003	2004	2005 a/
Argentina	8,7	8,2	5,0
Bolivia	2,4	3,8	4,0
Brazil	0,6	5,2	4,0
Chile	3,3	5,8	6,0
Colombia	4,1	3,3	3,0
Costa Rica	6,4	4,1	3,5
Cuba	2,5	3,0	4,0
Dominican Republic	-0,4	1,8	2,0
Ecuador	2,3	6,3	3,5
El Salvador	2,0	1,8	2,0
Guatemala	2,0	2,6	3,0
Haiti	0,5	-3,0	2,0
Honduras	3,5	4,3	4,0
Mexico	1,2	4,1	3,6
Nicaragua	2,3	4,0	3,5
Panama	4,7	6,0	4,5
Paraguay	3,8	2,8	3,5
Peru	3,8	4,6	4,0
Uruguay	3,0	12,0	6,0
Venezuela (Bolivarian Republic of)	-9,7	18,0	5,0
Latin America	1,9	5,5	4,0
Caribbean	3,4	4,3	4,0
Latin America and the Caribbean	1,9	5,5	4,0

Source: ECLAC, based on official figures. a/ Projections

THE REGION IN A GROWTH PHASE: THE CHALLENGES TO ECONOMIC POLICY

JOSÉ LUIS MACHINEA

As the *Preliminary Overview of the Economies of Latin America and the Caribbean 2004* indicates, the economic results of the past 12 months have been very favourable: GDP rose 5.5% (4% per capita). One would have to look back more than 20 years in the region's history to find economic growth of similar magnitude.

ECLAC's forecasts for 2005 remain positive, although growth will probably be lower: 4%. This more benevolent economic environment favours some reflection on the context in which the region finds itself and the challenges ahead.

The current economic boom has two, clearly linked, outstanding attributes. The first is that the balance of payments surplus went up in 2004, despite the rising pace of activity. Second, as sovereign risk premiums fell, there were net capital outflows, bringing with them a decline in the region's external liabilities.

This sort of expansionary cycle, which started in the second half of 2003 and deepened in 2004, largely reflects the fact that exports, followed by investment, drove demand. Consumption, meanwhile, rose more slowly than GDP, and imports rose 2.5 times more than output.

A situation of this nature has never occurred before. Latin America and the Caribbean's current account has tended to decline each time the pace of economic activity has picked up. In the past, capital outflows have been associated with traumatic situations: the flight of domestic financial assets,

devaluations and falling activity. We must examine the domestic and international factors behind these current trends.

In the first place, we must note that Latin America and the Caribbean have benefited from the world economy's 3.9% growth in 2004. While growth is forecast to be slightly less in 2005 (3.2%), imbalances affecting the main economies and especially the United States should encourage the appropriate corrections. Dollar depreciation posted in recent months forms part of this process.

“For the recent boom to lead to solid regional growth, some of the challenges pending must be dealt with, by increasing investment, diversifying trade, and increasing total productivity.”

Depending on the circumstances, these factors could lead to higher interest rates and less growth of the world economy, which undoubtedly would negatively affect the region. This means that monetary and fiscal policy design in our countries must be attentive to the alternatives arising from the international economy.

To date, monetary policy has been flexibly focused, which has aided recovery. But for this instrument to continue in this direction, domestic inflationary pressures must be avoided. Although we believe that fiscal policy

has managed to improve and increase fiscal solvency, we cannot forget that the region's public debt levels are high.

Secondly, faced with the very positive data that we are seeing, we must wonder whether we are in the presence of a qualitative leap in the region's growth trajectory. Is Latin America on the threshold of a process such as that experienced by the Asian countries some time ago and China today, i.e. high growth with none of the associated decline in the current account that typically accompanied expansionary phases in the region? Rapid export growth, similar to that of imports, is clearly necessary for this to happen.

We believe that this is not the case. Although growth of the region's exports has picked up (by somewhat more than a real 9% since 1990), the transformations effected in Latin America and the Caribbean leave no room for complacency: integration in trade flows is not solid or diversified enough, the investment rate is low, and aggregate productivity is shifting very slowly. However, we must recognize that the region faces a new opportunity. Whether Latin America can leave behind years of stagnation and frustration will depend on if we can make the most of this opportunity, and that includes the need to improve equity, both for reasons of justice and its positive impact on development. 

The author is ECLAC Executive Secretary.

The region's strong performance is associated with the international economy. In 2004, world economic activity accelerated and global GDP is estimated to have grown slightly under 4% (up from 2.6% in 2003), while growth in world trade should exceed 9%. The United States and China have driven this expansion, pushing up commodity prices, to the benefit of several countries, particularly in South America, but hurting economies short of raw materials in Central America and the Caribbean.

Positive trends internationally were decisive to improve the terms of trade, an indicator that rose 5.6% over last year's improvement of 1.3%. Commodity price trends, particularly in the case of oil and metals, were decisive in these results. The rise in the oil price was behind more than half the gain in last year's regional terms of trade.

Characteristics of the Recovery

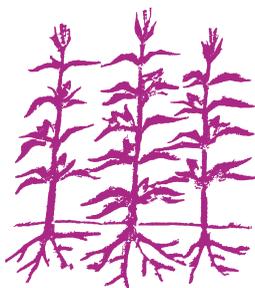
ECLAC has highlighted two distinctive features of the current recovery process. On one hand, 2004 is the second year running that GDP growth came with a surplus in the balance of payments current account. On the other, the rise in output occurred in a context of capital outflows which resulted in a sharp drop in net capital flows into the region, compared to the previous year.

Exports rose 22.4% (10.8% by volume and 10.5% by price), while imports rose 19.8% (14.4% by volume and 4.7% by price). For the third year running the goods balance posted a surplus, that reached US\$61.875 billion in 2004 (3.2% of GDP). This increase and the net current transfers (mostly workers' remittances), which rose 16.8%, were behind the surplus in the balance of payments current account, which reached 1.1% of the region's GDP.

The rise in activity brought with it significant growth in job creation. The supply of labour grew modestly and the unemployment rate fell slightly, from 10.7% in 2003 to 10% last year. However, this brought no general improvement to labour indicators, which still reflect economies emerging from critical conditions.

Meanwhile, inflation continued to fall and the regional average for the 12 months ending in November 2004 reached 7.7%, down from 8.5% in 2003 and 12.1% in 2002.

For 2005, the international outlook remains promising but less favourable to this region than last year, with world growth reaching about 3%. A probable slowdown in the US economy and the recessive and inflationary effects stemming from the high oil price are the main elements behind these expectations. The economies of China, Japan and the Euro Zone will also experience some cooling. 



THE EXTERNAL SECTOR

In 2004, world economic activity picked up, with GDP rising 4% and trade almost 9% (up from 5.5% in 2003). Developing and developed economies expanded, with the latter posting the strongest performance.

The United States and China were the main drivers in the world economy in 2004. The US' GDP seems to be growing at about 4%, led by exceptional fiscal and monetary stimuli applied to avoid deepening the 2001 recession. The growth rate slowed somewhat throughout the year and is projected to fall further in 2005.

For its part, China grew 9.5% in the first three quarters of 2004, prolonging a rapid investment phase that began in 2003. The rise occurred as world trade heated up amidst capital inflows, thanks to high expected yields and expectations that the yuan would be revalued.

Japan is estimated to have grown 4% in 2004, driven by exports to China and the US, although this faded somewhat in the

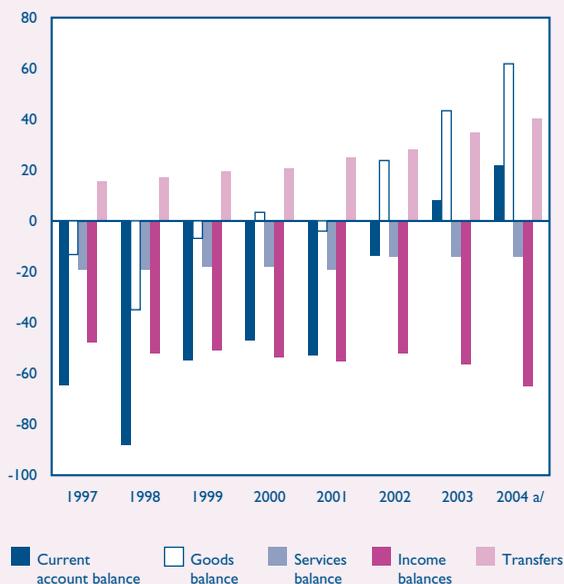
last two quarters, revealing the impact of some cooling in the Chinese economy and yen appreciation. European Union growth should reach around 2%.

The international scenario for the region in 2005 is promising, but less favourable than 2004. Risks facing the world economy this year have to do with imbalances in the US economy and their potential effects on interest rates and the dollar, with a possible sudden brake on growth in China, uncertainty surrounding the oil market, and the potential for protectionist measures to appear.

A Good Year for South America

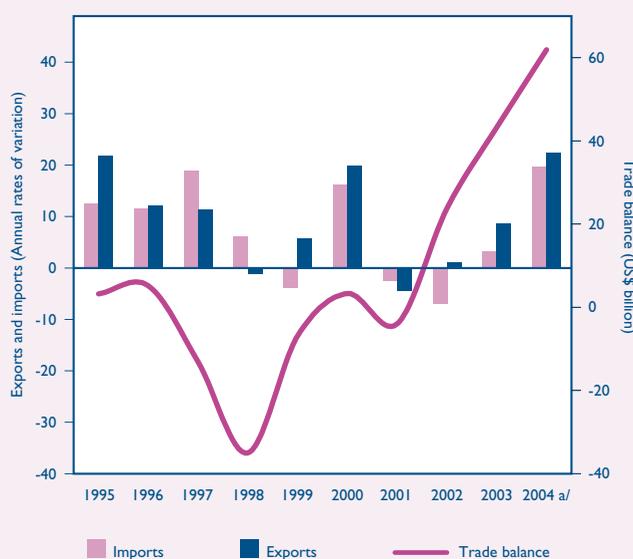
Latin America and the Caribbean's external sector performed well in 2004. The region's terms of trade rose by 5.6%, as a result of a 10.5% rise in export and a 4.7% rise in import prices. Trends in commodity prices, especially oil and metals, played a major role in this result.

Latin America and the Caribbean: Structure of the Current Account Balance, 1997-2004 (US\$ billion)



Source: ECLAC, based on official figures.
a/ Preliminary figures.

Latin America and the Caribbean: External Trade, 1995-2004 (exports and imports, annual rates of variation; balance of trade, US\$ billion)



Source: ECLAC, based on official figures.
a/ Preliminary figures.

The sharp rise in several commodity prices particularly benefited some of the South American countries, but countries in Central America and the Caribbean saw their external accounts deteriorate during the year. This meant that the stimulus from greater demand in the United States proved unable to offset the rise in import costs and, at the same time, deal with strong competition from goods made in China.

Three Different Patterns

In the first ten months of 2004 the commodity price index for exports from Latin America and the Caribbean rose by 25.9%, 27.1% excluding oil. Minerals and metals posted a 41.9% rise, performing better than oil. According to the April 2004 peak in the aggregate index, ECLAC has identified three patterns in price behaviour.

First, products such as oil and meat continued to rise. In the case of oil, rising world demand since 2003 led to a high use of installed capacity and the low reserve productive capacity magnified the impact of geopolitical tensions and specific supply problems on prices. The rise in the price of meat came from closure of Pacific markets to US exports, on sanitary grounds.

A second pattern of behaviour involved strong price rises through April 2004, where they then held relatively steady, although with some fluctuation. Copper, gold and coffee were typical of this path. These markets operated in conditions of scarcity caused by the push from demand (metals) or weak supply (coffee).

A third pattern, in contrast, showed sharp drops in prices starting in April. This was the case with soy, whose fall was linked to protectionist measures in China and a large rise in world production. Crop projections for 2004/2005 suggest a 20% rise in production.

The Export Phenomenon

In 2004, trade in the region's goods turned in a strong performance. Exports rose 22.4% (up from 8.6% in the year before), while imports rose 19.8% (up from 3.2% in 2003).

Mercosur and the Andean countries (including Chile, but excluding Venezuela) confirmed the previous year's solid performance and account for about 55% of the growth in the region's external sales in 2004, led by agricultural and mining products. They also contributed to growth in manufactured exports, particularly from Argentina and Brazil.

Secondly, exports from Mexico and Venezuela only improved in 2004, accounting for 43% of the growth in regional exports, as they recovered from their previously depressed levels.

Finally, exports from Central America posted mixed results, with agricultural markets improving less than in South America, while in manufacturing, only those countries with the lowest labour costs were able to make the most of recovering demand in the US.



Growth Adds to Current Account Surplus

This is the second year running in which GDP growth came with a surplus in the balance of payments current account. In the past, growth episodes typically came with a steady decline in the current account, which posted trade deficits. Inversely, improvements in the current account balance responded to a contraction in imports, reflecting a weak performance from domestic demand.

In 2004, the current account surplus reached US\$ 21.85 billion (1.1% of GDP), triple the surplus for last year. Brazil accounted for 51%, with Argentina, Bolivia, Chile, Ecuador, Dominican Republic and Venezuela also contributing. Haiti, Panama, Peru and Uruguay managed a current account close to balance, thus improving their position over the previous year, as did Mexico, which reduced its deficit by 18%. In contrast, the Central American countries current account deficit deteriorated even further in 2004, rising 9% over 2003.

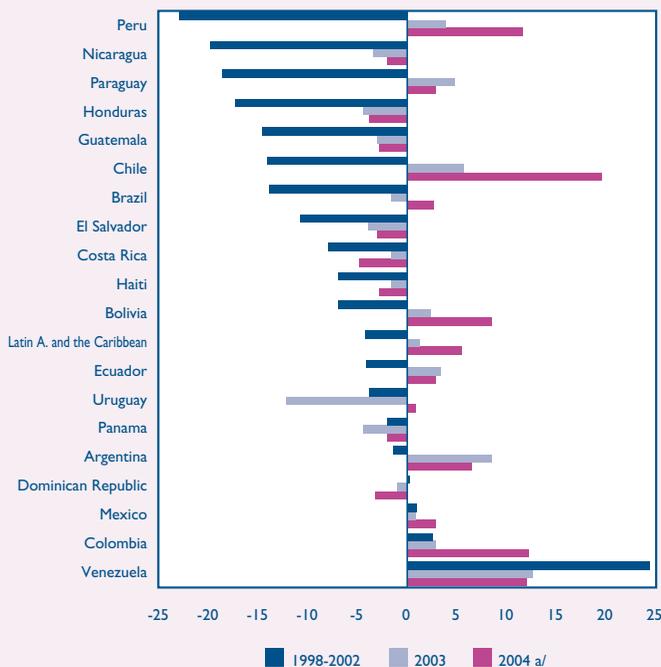
Latin America: Net Capital Inflows as a Percentage of GDP and Rates of GDP Growth



Source: ECLAC, based on official figures.

Latin America and the Caribbean: Terms of Trade

(accumulative percentage variation 1998-2002 and variation in 2003 and 2004)



Source: ECLAC, based on official figures. a/ Preliminary figures.

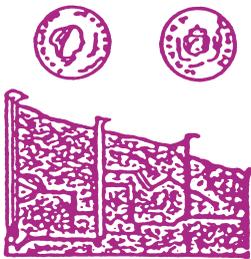
The positive components in the regional current account balance were the balance of goods (US\$61.875 billion) and the balance of current transfers, mainly remittances from workers (US\$40.275 billion), with a combined balance of US\$ 102.150 billion. Remittances rose by 16.8%.

In 2004 the region used its large current account surplus of almost US\$21.85 billion (1.1% of GDP) to accumulate reserves of US\$ 9.3 billion and pay off liabilities abroad worth 0.6% of GDP. In accounting terms, this involved US\$18 billion in capital outflows.

The region's bond issues reached US\$ 17.509 billion through July 2004, down 15% over the same period of the previous year. Although the region has lost ground compared to other emerging markets (Central and Eastern Europe), some countries have started to place long-term securities denominated in local currencies.

Country-risk, measured by sovereign debt spreads, continued to fall during the past year, a trend that began after peaks posted in the third quarter of 2002. The decline in risk premiums affected countries throughout the region and continued despite the rise in international interest rates occurring during 2004.





MACROECONOMIC POLICY

The region's macroeconomic performance in 2004 significantly improved countries' **fiscal accounts**, thanks to which central governments achieved a primary surplus amounting to a weighted average of 2% of GDP (up from 1.8% in 2003). This trend is expected to continue in 2005.

Including interest on debt, the overall deficit went from 1.2% to 1% of GDP. In contrast, using a sample representative of the region's most decentralized countries (Argentina, Brazil, Colombia and Mexico), the public non-financial sector's primary surplus rose on average from 3.2% of GDP in 2003 to 3.8% of GDP in 2004.

This solid fiscal performance held in 2004, producing results unheard of for many years. The rise in revenues explains the fiscal results for the year, since expenditures remained constant in real terms.

Reasons Behind the Solid Fiscal Performance

On the income side, several reasons were behind this solid performance. On one hand, the rise in activity contributed to tax revenues by raising the tax base and improving compliance. On the other, the rise in some commodity prices improved fiscal accounts in producing countries. This performance occurred in a context of generally rising tax revenues in recent years. Tax collection is the highest for the series starting in 1990.

In terms of expenditure, prudent management of public disbursements boosted fiscal saving. In this hitherto unheard of situation for the region, trends in spending did not follow economic growth.

According to **ECLAC**, "A number of reforms and decisions combined to produce this result: the operation of macro-fiscal rules (Brazil's Fiscal Responsibility Act; Peru's Fiscal Prudence and Transparency Act), government commitment to maintaining the fiscal surplus in the medium term (Chile's structural balance rule) and fiscal policy decisions that take advantage of favourable economic conditions (Argentina's decision to postpone revenues and bring forward expenditure corresponding to 2005 owing to an expected slowdown in growth that year; Brazil's decision to raise the primary surplus target for 2004)."

Savings and stabilization funds are another type of instrument used to isolate higher fiscal revenues arising from the increase in commodity prices, permitting the application of less volatile fiscal policy. In any case, the report indicates that this set of policy decisions and rules made it possible to cushion expenditure increases, thus boosting public saving throughout the region.

The Debt-Output Ratio Declines

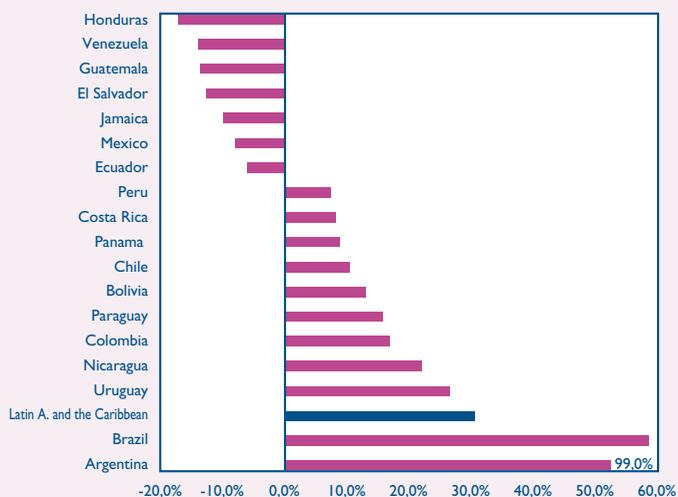
Although most countries maintained a high debt to GDP ratio, the public debt to output ratio dropped from 51% in 2003 to 46.6% in 2004. The regional United Nations commission recommends that governments continue to apply fiscal prudence to ensure ongoing progress in the reduction of the debt/output ratio.

Monetary policy accompanied the recovery in domestic demand by reducing interest rates in both 2003 and part of 2004. Real interest rates continued to fall, with few exceptions, reaching negative amounts in some countries, reinforced at times by a recovery in inflation. This was possible thanks to greater freedom provided by a favourable external environment, the lack of major pressures on foreign exchange, and ongoing low inflation in most countries.

ECLAC has warned that the rise in interest rates applied by the US Federal Reserve and expectations that there will be further increases in the near future indicate changes in regional interest rates, whose size and order will respond to events in international financial markets, although it foresees moderate changes in this sense.

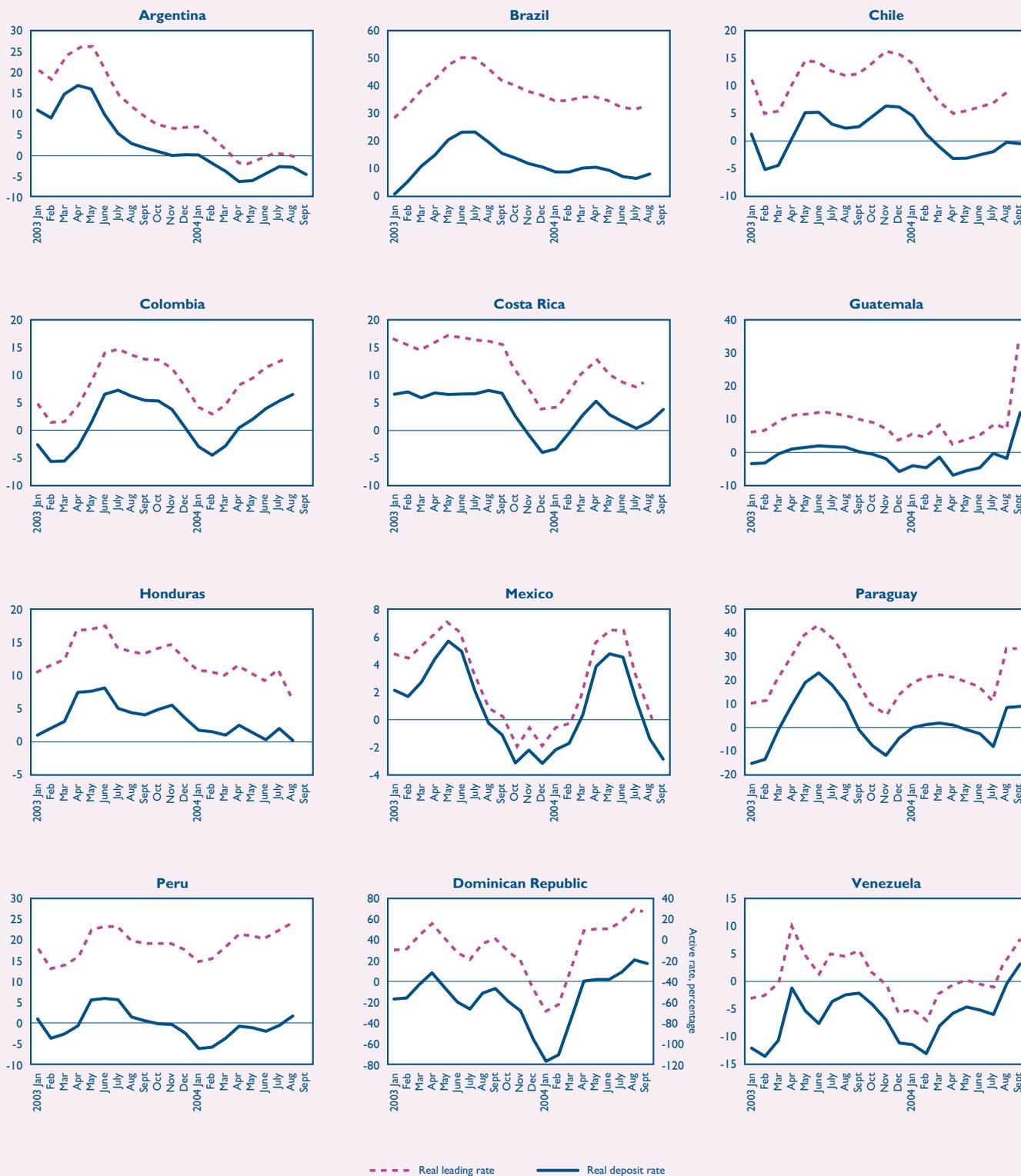
The **foreign exchange policies** applied by the region's countries, almost without exception in a restriction-free context, managed to keep real exchange rates relatively stable. This task did involve some difficulties, due to high commodity prices and the rise in export volumes, especially in South America, where there was a slight real appreciation in exchange rates.

**Latin America and the Caribbean:
Real Effective Exchange Rates**
(current period compared to historical average 1992-1998)



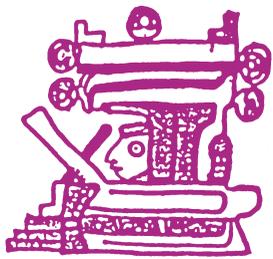
Source: **ECLAC**, based on official figures.

Latin America (12 countries): Real Interest Rates a/ (percentage)



Source: ECLAC, based on official figures.

a/ Moving three-month average, centred around the reference month. Real rates were calculated as $r = i - p$, where i is the nominal rate and p is the annualization inflation rate.



DOMESTIC PERFORMANCE

In 2004, Latin America and the Caribbean's Gross Domestic Product grew 5.5%, its highest rate since 1980. The region's per capita GDP grew 4% in 2004, its largest increase since 1979. Likewise, gross national disposable income grew 5.2% per capita, measured at the previous year's prices.

The rise in economic activity in 2004 was driven by expanding exports, which rose 10% in real terms in 2004, bringing the annual average rate for 2002-2004 to 5.1%. Similarly, the improved terms of trade reinforced the real increase in domestic demand. Thanks to the increase in export volumes and the higher purchasing power of exports, it was possible to boost demand for imports and still generate a significant trade surplus.

In Brazil, domestic demand picked up significantly and, combined with the strong exports growth since 2003, pushed growth to over 5%. Argentina enjoyed high growth in 2004 (8.2%), driven by the recovery in domestic demand and a return to investment levels similar to those prior to the crisis. The Mexican economy profited from the continuing rise in US demand and grew 4.1%.

Growth in Venezuela (18%) and Uruguay (12%) reflected their economic recovery from very low levels and a turnaround in domestic demand, arising from both investment and consumption. The Haitian economy contracted 3% due to the complex political and economic conditions in that country.

Exchange Rate Favours Competitiveness

Changes in the exchange rate in 2002 corrected relative prices for several countries' goods and services and favoured the external competitiveness of their export sectors. This combined with existing idle capacity and a policy of cutting interest rates allowed countries to make the most of expanding demand in 2003 and 2004 resulting from more favourable external conditions.

Growth in regional investment in 2004 is estimated to have reached 11%, thus recovering to 1998 levels. This result reflects low previous levels together with the recovery in economic activity, the use of idle capacity -especially in manufacturing- and low interest rates.

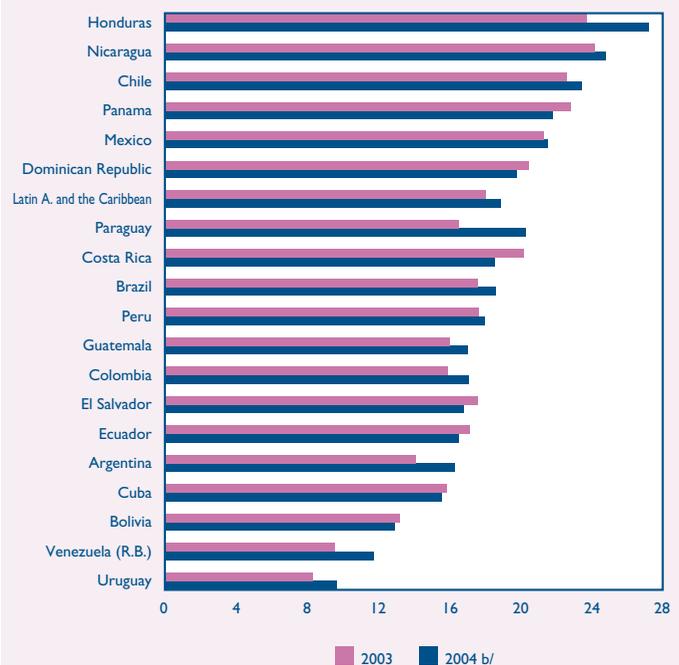
The behaviour of exchange rates and higher demand stimulated a significant recovery in investment in machinery and equipment, mostly imported, as did the availability of more bank credit. Nonetheless, and as a percentage of GDP, the investment ratio was slightly under 19%, up from 2002 but down from the 1990s.

The 4.8% increase estimated for total consumption is well up from previous rates. Using the previous decade as a point of reference, only in 1994 and 1997, with regional GDP growing over 5%, did growth in consumption reach similar rates.

The significant rise in employment at the regional level and slight improvements to wages and salaries also favoured the rise in private consumption. In this process, public consumption was not adjusted; however, governments held to public finance targets due to the significant rise in revenues.

One of the highlights of economic performance has been the significant rise in disposable gross national income which, measured at the previous year's prices, rose 6.8%. This reflected the impact of improved terms of trade for Latin America, equivalent to 1.3% of regional GDP. Higher net payments abroad due to income were offset by an equivalent rise in current transfers to the region, mostly remittances from non-residents.

Latin America: Gross Fixed Capital Formation, as a Percentage of GDP, Constant 1995 Dollars a/



Source: ECLAC, based on official figures.

a/ Does not include Haiti, since this indicator would give an overestimate of the magnitude of investment relative to GDP in the country.

b/ Preliminary figures.



Total Saving Also Rose

The region's total savings also rose, from 18.4% of GDP in 2003 to 19.2% in 2004. National savings reached a rather higher figure, rising from 18.7% of GDP in 2003 to 20.2% in 2004, most of which went to finance negative external saving being borne by the region since the previous year, and which in 2004 reached 1.0% of GDP.

The positive effect of the terms of trade was more significant in the countries of South America. In the Andean countries growth in economic activity was associated with the performance of the hydrocarbon sector (Ecuador, Bolivia), and metals and minerals (Chile, Peru), as well as the rise in domestic demand, driven by more growth in investment (Colombia) or recovery to previous levels (Venezuela).

In the Mercosur countries, economic growth was linked to recovering domestic demand in Argentina, Brazil and Uruguay and persistent external demand, which stimulated a rise in the production of agricultural goods going mainly to export (soy and derivatives, meat, wool).

In Argentina, the unemployment rate fell and combined with some recovery in real wages contributed to a substantial rise in consumption. The manufacturing sector continued the strong performance begun in 2003 amidst moderate real exchange rate appreciation throughout the year. Meanwhile, improved terms of trade positively affected government revenues.

In Brazil, domestic demand recovered, thanks to investment in machinery and equipment and the construction sector. High external demand boosted manufacturing production going to exports, particularly capital goods (steel and aeronautics) and durable consumption (car industry), sectors that grew at a rate of about 25% during the year.

In Mexico, high oil prices pushed up government revenues up and more external demand from the United States reactivated the maquila industry. Investment in machinery and equipment recovered, as did the construction sector. Private consumption rose, stimulated by growth in remittances and consumer credit.

As with Mexico, in some Central American countries the performance of the maquila industry was helped along by US economic growth (Honduras, Nicaragua), at the same time as domestic demand picked up, except for El Salvador.



Inflation Falling

In 2004, inflation in Latin America and the Caribbean was just over 7.5% (down from 8.5% in 2003). Thus, it continued to fall, although several of the region's countries exceeded the targets announced by their authorities at the start of the year. Regional inflation reflected the decline in inflation in Brazil, from 9.3% in

DRAMATIC HURRICANE SEASON IN THE CARIBBEAN

The extraordinary ferocity of the 2004 hurricane season caused terrible damage in the Caribbean, estimated at about US\$5.593 billion, including assets lost, destroyed or damaged and economic transactions interrupted or disturbed.

Upon request of the governments of the affected areas, **ECLAC** carried out evaluations in the Bahamas, Granada, the Cayman Islands, Jamaica, the Dominican Republic and Haiti, the last of which was underway in December, as this edition closed.

Of the five cases already investigated, the evaluation concluded that 79% of losses were goods (houses, companies, highways and bridges, schools, public health buildings) and activity fell by more than US\$ 1.195 billion. Damages also occurred primarily in social sectors (48%) and productive activities (33%), especially tourism. Losses to infrastructure and electric power, water, sewage and transportation installations reached 16% of the total, while direct environmental effects were 1.4%.

Damages add up to 212% of total annual GDP in Granada and 138% in the Cayman Islands. Figures are lower for Jamaica (8%) and the Bahamas (7%), but still represent a significant burden on the economy. The Dominican Republic was less hard hit, with damages reaching 2% of GDP.

The most serious social damages affected the smallest, less developed countries, whose ability to rebuild and resume growth is limited for lack of insurance coverage, institutional response capacity, and suitable preventive policies. This is particularly true of Haiti and Granada, but other countries, with fragile environments and indebted economies or poor performances, have also been very hurt by these calamities.

Granada and the Cayman Islands, with estimated damages worth US\$889 million and US\$3.432 billion respectively, illustrate this point. Granada had virtually no insurance coverage or the domestic resources to respond to a disaster of these proportions, while the Cayman Islands had some insurance and reconstruction should be possible.

The longer term effects of the damages will vary depending on each country's response and the size, diversification and solidity of their economies, societies and infrastructure. The accumulated effects of these natural disasters will further worsen the hurdles to development that these countries face.

2003 to about 7.5% in 2004, in Haiti (from 40.4% to 18.5%), Venezuela (from 27.1% to 18%) and the Dominican Republic (from 42.7% to 36.5%).



New Jobs Created

The turnaround in economic activity created new jobs, although real wages did not change much. In 2004, urban employment rose 3.8%, pushing regional unemployment down from 10.7% to 10%. The decline in the unemployment rate was the largest since 1986.

The employment rate, meanwhile, rose from 52.2% to 52.7% of the working age population (14 countries).

In most countries (nine of the 13 for which information is available) the employment rate also rose. Of these nine countries, however, only four (Argentina, Brazil, Venezuela and Uruguay) experienced a clear improvement in their labour conditions, since in these cases high economic growth brought a significant rise in the employment rate that in turn reduced the unemployment rate. For the region as a whole, real wages posted a modest increase, for a weighted average of 0.9% and a median of 0.2% for 11 countries, thus ending the fall of the two previous years. The main exception was Argentina, where wages started to recover previous

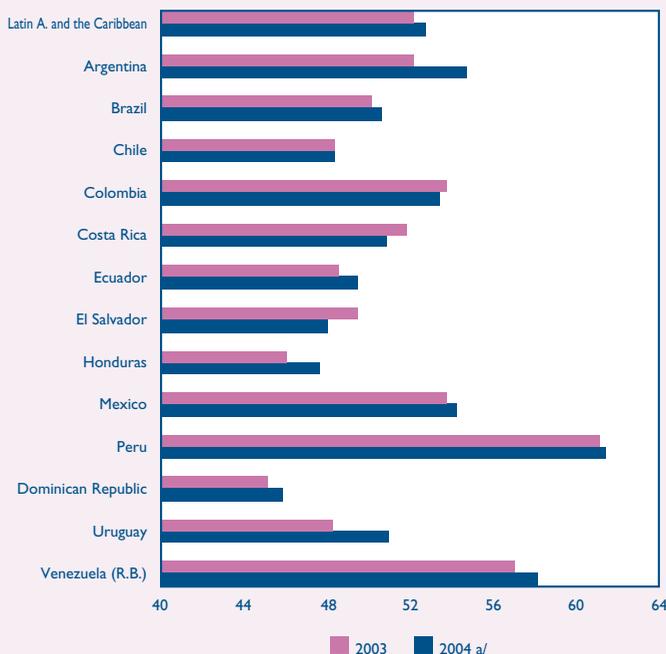
losses to purchasing power, but are still 8% below their 2000 level. In short, in most countries the turnaround in economic growth created new jobs, but did not improve wages. Regional unemployment fell rather substantially, although only some countries posted a decline. In others, the rise in employment was offset by an increase in the supply of labour.

The rise in employment levels helped to reduce the percentage of people living in poverty from an estimated 44.3% in 2003 to 42.9% to date, and indigence fell from 19.6% to 18.6% in the same period.

However, in many countries labour conditions remain very hard, as persistent migratory flows indicate.

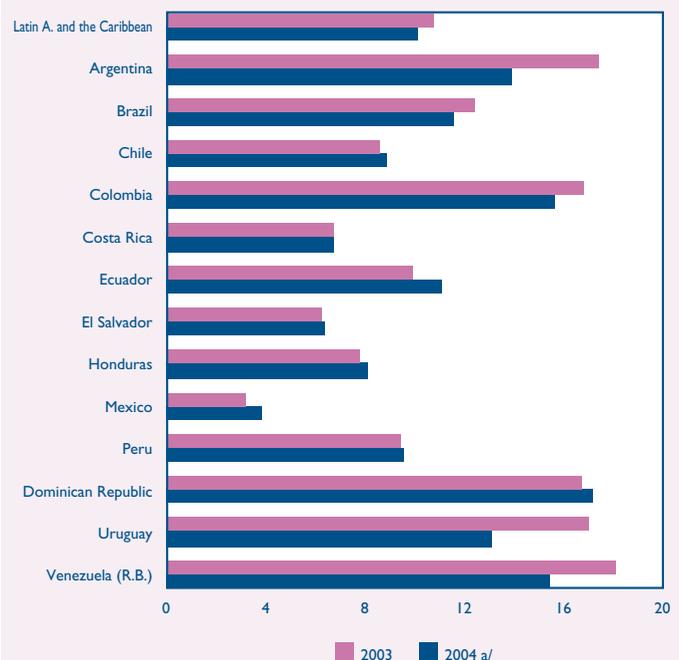


**Latin America and the Caribbean
Employment Rate, 2003 and 2004 a/**



Source: ECLAC, based on official figures.
a/ Preliminary figures.

**Latin America and the Caribbean
Urban Unemployment, 2003 and 2004 a/**



Source: ECLAC, based on official figures.
a/ Preliminary figures.

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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.



Mayan numbers



God or priest with hoes



Corn



Mining and trade



Astronomic observatory

STATISTICAL APPENDIX

Latin America and the Caribbean: Main Economic Indicators

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 a/
Annual rates of change										
Gross Domestic Product b/	1,1	3,7	5,2	2,3	0,5	3,7	0,4	-0,5	1,9	5,5
Per Capita Gross Domestic Product b/	-0,6	2,0	3,4	0,6	-1,1	2,1	-1,1	-2,0	0,4	4,0
Consumer prices c/	26,0	18,6	10,7	10,0	9,7	9,0	6,1	12,2	8,5	7,7 d/
Percentage										
Open urban unemployment rate e/	7,7	8,5	9,2	8,8	9,9	10,5	10,0	9,8	10,6	10,5
Total gross external debt GDP f/	36,6	35,1	33,5	37,8	43,1	37,6	38,0	42,5	42,8	37,2
Total gross external debt /										
exports of goods and services	228,4	215,5	203,2	227,3	218,2	177,6	181,5	178,6	170,8	140,6
US\$ billion										
Balance of payments										
Current account balance	-37,8	-38,6	-64,4	-88,2	-54,9	-46,7	-52,8	-13,6	8,1	21,8
Merchandise trade balance	3,2	5,2	-13,1	-35,0	-6,8	3,4	-3,9	23,8	43,3	61,9
Exports of goods and services, f.o.b.	229,4	257,4	286,7	283,4	299,4	358,9	343,0	346,6	376,3	460,7
Imports of goods and services, f.o.b.	226,2	252,2	299,8	318,4	306,2	355,6	346,9	322,8	333,0	398,8
Services trade balance	-15,5	-15,9	-19,0	-19,0	-17,1	-17,1	-19,2	-14,3	-13,8	-15,0
Income balance	-40,8	-42,7	-47,7	-51,3	-50,4	-53,6	-54,7	-51,2	-55,8	-65,3
Net current transfers	15,2	14,8	15,4	17,0	19,4	20,6	25,0	28,2	34,5	40,3
Capital and financial balances g/	29,3	63,9	89,2	63,4	42,3	61,2	35,5	-14,5	2,7	-19,4
Net foreign direct investment	25,8	40,3	57,6	63,7	79,3	68,9	64,9	39,2	28,5	37,8
Financial capital h/	3,5	23,6	31,6	-0,3	-37,0	-7,7	-33,5	-54,6	-27,5	-
Overall balance	-8,5	25,2	24,8	-24,8	-12,6	14,5	-17,2	-28,1	10,8	2,5
Change in reserve assets i/	-23,1	-26,1	-15,8	9,1	6,3	-6,9	1,0	3,3	-29,5	-9,3
Other financing j/	31,6	0,9	-9,0	15,7	6,3	-7,7	16,2	24,7	18,7	6,8

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Based on official figures converted to dollars at constant 1995 prices.

c/ December-on-December variation.

d/ November 2004 compared to November 2003.

e/ Includes a correction to Brazil's data, for methodological changes in 2002.

f/ Estimates based on dollar figures at current prices.

g/ Includes errors and omissions.

h/ Refers to surpluses (deficits) in capital and financial accounts (including errors and omissions) minus net foreign direct investment.

i/ The minus sign (-) indicates a rise in reserve assets.

j/ Includes the use of credit and loans from the International Monetary Fund (IMF) and exceptional financing.

1 Social Panorama of Latin America 2004 (LC/L.220-P/E, November 2004, report summary, in Spanish and English). This is the 12th edition of this annual report from **ECLAC**, which evaluates social trends in the region's countries, using data on poverty and income distribution, major demographic changes, social conditions of young people and changes in family structure. [www](#)



2 Pequeñas y medianas empresas y eficiencia colectiva. Estudios de caso en América Latina (*Small and Medium-Sized Firms and Collective Efficiency, Case Studies in Latin America*), Marco Dini and Giovanni Stumpo, coordinators, jointly published by Siglo Veintiuno Editores and **ECLAC**. The recent history of Latin America, with acute crises and profound social divisions has not helped to develop coherent and dynamic competitive systems, although

in recent years a new tendency has become apparent. Four case studies (two from Brazil and two from Chile) reveal the complexity of developments in the relations between firms and institutions. [www](#)

3 Reformas e inversión en la industria de hidrocarburos de América Latina (*Reforms and Investment in the Hydrocarbon Industry of Latin America*), by Humberto Campodónico (LC/L.2200-P,

October 2004, Spanish, Recursos naturales e infraestructura series N° 78). This study analyzes changes to hydrocarbon laws in recent years in eight countries: Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, Peru and Venezuela. It also examines the behaviour of foreign direct investment and new investment in natural gas. [www](#)

4 Estratificación y movilidad social en Chile: entre la adscripción y el logro (*Social Mobility and Stratification in Chile*), by Florencia Torche and Guillermo Wormald (LC/L.2209-P/E, October 2004, Spanish, Políticas sociales series N° 98). This report describes changes in social stratification in Chile in the last decades of the 20th century and the opportunities available to different social segments for access to welfare and social mobility. It uses data from the social mobility survey by Chile's Catholic University. [www](#)

5 Desarrollo de infraestructura y crecimiento económico: revisión conceptual (*Infrastructure Development and Economic Growth*), by Patricio Rozas and Ricardo Sánchez (LC/L.2182-P, October 2004, Spanish, Recursos naturales e infraestructura series N° 75). This study examines the role of investment in basic infrastructure in countries' development and identifies the factors that affect the relationship between investment and economic growth. [www](#)

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MONTH	EVENT	PLACE
JANUARY		
13	Seminar "Labour Opportunities and Equity in the Chilean Financial Sector," organized by ECLAC / German cooperation agency (GTZ)	ECLAC headquarters, Santiago, Chile
19 - 20	Meeting of the advisory council to the connectivity institute of the Americas (<i>Instituto para la Conectividad de las Américas</i> , ICA), International Development Research Centre (IDRC), Canada	ECLAC
24 - 27	17th Regional Seminar on Fiscal Policy, organized by ECLAC / International Monetary Fund (IMF)/ World Bank/ Inter-American Development Bank, IDB	ECLAC
25 - 26	Third regional workshop on fiscal policy and the environment, organized by ECLAC	ECLAC
25 - 27	Meeting of the international talent mobility project, organized by ECLAC / United Nations University (UNU)/World Institute for Development Economics Research (WIDER)	ECLAC
FEBRUARY		
16	Meeting of the ECLAC plenary committee	New York
21 - 22	International seminar "Constitutional Reform and Gender Equity" (<i>Reforma constitucional y equidad de género</i>), organized by ECLAC /Corte Electoral de Bolivia (Bolivian Electoral Court)	Santa Cruz, Bolivia

