SOUTH AMERICA

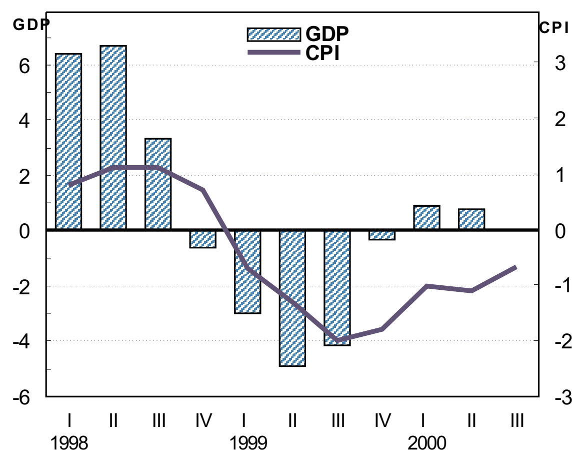
Argentina

The year 2000 saw the Argentine economy still beleaguered by the crisis that overtook it in mid-1998, as the terms and conditions of external financing remained adverse and the authorities continued to encounter difficulties in reducing the fiscal deficit. GDP stagnated after the slump of the preceding year, while fixed investment decreased again. The consumer price index slipped further against a backdrop of slack demand, and unemployment rose above 15%. Average export prices were driven up by higher oil prices while aggregate export volumes increased slightly, and the year consequently closed with a merchandise trade surplus of US$ 1.8 billion, f.o.b. The current account deficit narrowed in spite of increased payments for financial services.

Although economic policy-makers addressed a variety of issues, such as the tax regime for investments in physical capital, labour market regulations, public utility regulation and regional integration, their main focus was on public finances. The authorities implemented several measures to increase income and reduce expenditure, and the government thus appears to have achieved an increase (albeit smaller than hoped) in the primary surplus during the year. The financial deficit, on the other hand, widened further. External credit performed erratically, as it was fairly fluid at the start of the year, but contracted sharply later. Against the background of a complex political situation, demand for Argentine instruments fell back drastically in October and November, generating severe tension on asset markets. In response to these circumstances, the government negotiated a substantial credit package, mainly with multilateral agencies, and announced measures designed to achieve fiscal solvency in the medium term, although this was not enough to avoid an upward revision of the projected deficit figure for the coming year.

The Administration that took office in December 1999 confirmed that the existing monetary regime would remain in place, but expressed concern about existing fiscal trends. New tax measures were announced, including changes in the profits tax and a temporary levy on high-income brackets. The tax base for the VAT was

ARGENTINA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

also enlarged, the sales tax was raised for several products and the cuts that had been programmed in social security contributions were cancelled. The government also negotiated resource-transfer mechanisms with the nation's provinces as part of a revenue-sharing scheme. An agreement was concluded with the International Monetary Fund (IMF) in January which envisaged a deficit of 1.7% of GDP (2.7% if the projections for the provincial deficits are taken into account).

The tax measures that were adopted were directed at reducing Argentina's country-risk premiums and improving private-sector credit terms. Interest rates were reduced initially, but economic activity did not pick up and tax revenues were consequently lower than expected. The deficit targets for the first quarter were met, but the April figures gave cause for concern and the prices of securities plunged. The government took measures to cut spending, including wage cuts for senior posts within the Administration, and created easy-payment terms for tax debts.

Although the tension in financial markets eased, rates of return continued to be higher than in previous months. From a fiscal perspective, the first-semester financial deficit was in line with the target figure, thanks to the nominal reduction of primary expenditure. The increase in tax receipts was attributable to their performance in the second quarter, when the effect of the moratorium began to be felt. Revenues from social security and foreign trade taxes were lower than they had been in the same period of 1999, while a slight upturn was recorded in VAT receipts. Receipts from excise taxes and from taxes on income and net worth were all higher.

The long period of slack activity, the feebleness of signs of a recovery and, probably, the perception that economic policy was focussed on adjustment measures created a pessimistic climate marked by precautionary behaviour and a contraction in private spending. In October, the government announced measures to boost investment, such as a reduction in the tax on interest payments, changes in the fiscal treatment of amortizations and VAT rebates. At the same time, the Administration extended fuel-production concessions and stepped up the negotiation of investment contracts for roads and railways.

These announcements came at a time of political turbulence which was marked by the resignation of the Vice President and tensions within the governing coalition. Analysts and financial agents also expressed doubts about the public sector's possibilities of gaining access to credit. The lack of confidence was reflected in the demand for bonds, whose yields soared to levels typical of situations of extreme tension. The government negotiated a standby credit package in an effort to instil some calm amid the financial turmoil. The associated policy programme calls for a commitment on the part of the provinces to freeze nominal levels of primary expenditure and for social security reforms. The authorities intend to use the resources from the IMF agreement to change the legislation on fiscal solvency. This would entail a higher public deficit in the short term, but the deficit would then be phased out altogether over a five-year period with the help of further spending cuts.

The immediate aims of these measures were to restore liquidity, and at first the demand for instruments did show some recovery. With conditions remaining uncertain and exceedingly short decision-making horizons, however, the need remained for a growth outlook that would serve as a foundation for spending and financing decisions feasible and alleviate pressure on public finances in a sustainable manner.

Output showed some signs of an upswing at the end of 1999, as fiscal policy was relaxed and the credit supply become relatively fluid, but the seasonally adjusted GDP declined in the first semester of 2000. An analysis by sector shows that construction and agricultural activity slackened, despite a larger grain harvest. Mining output rose and industrial activity increased slightly. Output of various intermediate goods and the manufacture of motor vehicles improved upon their previously very low

ARGENTINA: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	3.9	-3.4	0.0
Consumer prices	0.7	-1.8	-0.7
Real wages	-0.3	0.3	1.5
Money (M1)	0.9	-2.1	-1.9
Real effective exchange rate [b]	-3.0	-7.4	0.9
Terms of trade	-4.6	-5.2	6.4
	Percentages		
Urban unemployment rate	12.9	14.3	15.1
Fiscal balance/GDP	-1.4	-1.7	-2.0
Real deposit rate	6.6	9.4	8.9
Real lending rate	9.6	12.4	11.7
	Millions of dollars		
Exports of goods and services	31 093	27 757	31100
Imports of goods and services	38 493	32 557	33 700
Current account	-14 698	-12 155	-10 400
Capital and financial account	18 790	13 355	8 400
Overall balance	4 092	1 200	-2 000

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

levels. In contrast, the production of inputs for construction and household articles decreased. Services posted a modest gain, however. In general, economic activity exhibited a weak expansion until well into the second semester, and aggregate output for the year is therefore thought to be similar to the 1999 figure.

The falling rate of employment pushed the annual average rate of unemployment up to 15.1%, which was the highest figure for three years, while wages in the manufacturing sector held steady in real terms.

Consumer prices decreased by 0.7% over the first 11 months of the year. The fall was steeper in services, which are traditionally supplied by the private sector, while goods prices varied only slightly. Tax shifts and rise in oil prices affected fuel prices, and electricity rates also rose.

Domestic inflation was once again lower than international inflation, and the real exchange rate for imports thus continued its gradual climb against the dollar. The appreciation of the dollar against other currencies eroded Argentina's competitiveness in several markets.

The current account deficit decreased again, but is nevertheless set to be above 3.5% of GDP for the year as a whole. Net factor payments rose to some US$ 8.3 billion, which is 85% more than five years earlier and the equivalent of over 30% of the value of merchandise exports. Net capital income fell to about US$ 8.4 billion and this, together with weaker demand for base money, brought about a fall in reserves.

Merchandise export values regained much of the ground they had lost in 1999, thanks to a considerable increase in export prices. If fuels are excluded from the calculations, however, then average export prices in the first semester were much the same as they had been in the same period of the preceding year.

Analysis of the data for the first eight months of the year reveals an increase in the value of fuel exports, despite a decrease in volume. Non-agricultural manufacturing sales were also higher, but the rise -although close to 15%- was too patchy to fully compensate for the fall in 1999. Positive trends in cereals and oilseeds were partly responsible for a slight increase in the value of commodity exports. Exports of agriculturally-based manufactures decreased, with steep declines being recorded for fats and oils due to weaker external demand. In contrast, sales of meat and food by-products increased.

Overall, imports recorded a slight upswing in the first eight months, although capital goods were lower while consumer and intermediate goods rose strongly.

Exports to other Mercosur countries increased as a percentage of overall exports, but still came in well below the pre-1999 figures. The interruption of the expansionary trend in intraregional exports prompted tense and lengthy negotiations on trade in such products as motor vehicles, while at the macroeconomic level the relevant governments agreed to establish guidelines for fiscal and price indicators.

Bolivia

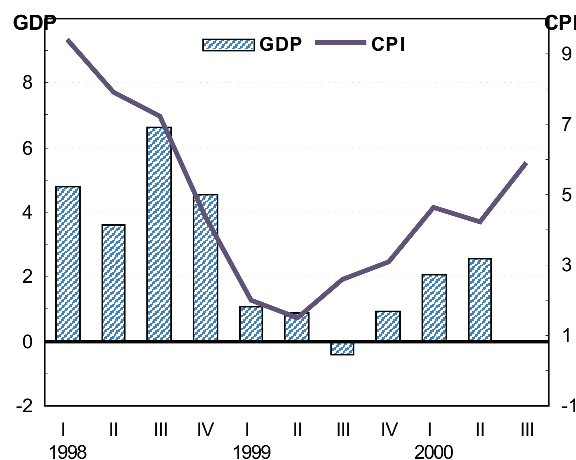
Thanks to a buoyant export sector, particularly in the case of sales of natural gas to Brazil, the Bolivian economy grew by 2% in 2000, up from 0.6% in 1999. This was still far short of the target rate of 4.0%-4.5%, however, due to weak domestic demand and protests by rural workers during the last four months of the year that brought the country to a virtual standstill. The annualized rate of inflation was close to 4% as of November. Estimates indicate that the fiscal deficit will remain at around 4% of GDP. Foreign direct investment (FDI) fell, as the bulk of the privatization programme was completed, as was the construction of the gas pipeline to Brazil.

In April, the government launched an Economic Reactivation Programme aimed at improving companies' access to bank financing, speeding up infrastructure works and implementing emergency employment plans. The response from the private sector, however, was weak, and Congress' delay in approving the necessary legislation thwarted some of these initiatives.

Monetary policy continued to be tight. A comparison of monetary aggregates between September 1999 and September 2000 reveals an increase of barely 3% in M1-M4. The monetary base expanded by 8% and money creation increased by 3% over the same period. During the first nine months of 2000, however, most of the main monetary aggregates followed a more contractionary trend, and the monetary base shrank by 15%. Local-currency M1- M4 posted falls of around 10%, whereas foreign-currency monetary aggregates turned in modest increases. This tight monetary environment was associated with a weak demand for money, which was attributable to poor expectations on the part of agents and to the forced eradication of coca plantations and the implementation of the Customs Act, both of which siphoned off liquidity from the informal sector. Local- and foreign-currency interest rates remained stable, and international reserves decreased from US$ 1.1 billion at the beginning of the year to under US$ 1 billion at the end of September.

As in 1999, the government was obliged to negotiate an increase in the fiscal deficit from 3.7% to 4% of GDP with the International Monetary Fund (IMF) in order to finance the Economic Reactivation Programme and deal with the social conflicts that broke out in the latter part of the year. Most of the deficit –3.7% of GDP– derived from the cost of reforming the pension system.

BOLIVIA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

BOLIVIA: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	5.5	0.6	2.0
Consumer prices	4.4	3.1	3.8
Real wages	3.9	6.3	...
Money (M1)	10.0	-3.7	3.1
Real effective exchange rate [b]	-2.6	-0.2	2.9
Terms of trade	-4.9	-0.1	2.0
	Percentages		
Urban unemployment rate	4.1	6.1	...
Fiscal balance/GDP	-4.0	-3.9	-4.0
Real deposit rate	4.8	9.9	6.0
Real lending rate	30.7	32.5	30.1
	Millions of dollars		
Exports of goods and services	1 355	1 310	1 445
Imports of goods and services	2 200	1 989	2 095
Current account	-677	-557	-600
Capital and financial account	778	515	365
Overall balance	-101	-42	-235

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

The central bank continued to use the sliding parity exchange-rate regime, under which the rate of devaluation is determined by macroeconomic variables. The monthly rate of devaluation of approximately 0.5%, which was established in March 1999, was maintained in 2000. By the end of November, the cumulative nominal depreciation thus stood at nearly 6%, which translated into a small devaluation in the real exchange rate with the country's major trading partners.

Early in the year Bolivia was declared eligible for a new external debt reduction initiative. The country was granted, in principle, an additional US$ 854 million in debt relief in net present-value terms, which is equivalent to a nominal value of US$ 1.3 billion. Around two thirds of this sum will come from multilateral creditors (Inter-American Development Bank, World Bank, International Monetary Fund and the Andean Development Corporation) and the rest from bilateral creditors. The allocation of these relief funds was analysed by representatives of civil society through the mechanism known as "National Dialogue 2000".

Primary-sector activities and communications were the best performers, while construction slumped, particularly in the private sector. The agricultural sector benefited from increases in the wheat and soybean harvests. Substantial increases in the prices and sales volumes of the country's main export minerals –zinc, gold and tin– backed up the recovery of this sector, which had been hurt particularly badly by the international crisis in 1999. The hydrocarbons sector saw considerable improvements as several large investment projects matured, with a 22% increase in natural gas production being registered thanks to increased exports to Brazil.

Cumulative inflation amounted to 3.2% from January to November and to just under 4% for the last 12 months, with sharp increases in September and October (1.8% and 1.3%, respectively) that were associated with the outbreak of social conflicts. In November, however, there was a major drop in the rate of inflation (-2.5%). The rise in international oil prices and the increase in excise taxes early in the year also had an impact on the overall upward trend of inflation.

The little information that is available on the labour market indicates that the rate of unemployment worsened again, after having already risen from 4.1% in 1998 to 6.1% in 1999.

The current account deficit is estimated to have ended the year at around 7% of GDP, which is similar to the 1999 figure. Goods exports increased by 15%, which was double the rate of imports (7%). There was also a major increase in factor payments, which was associated with the privatization (capitalization) of State enterprises in earlier years. Current transfers remained at a level similar to those of recent years.

Imports of consumer goods, raw materials and intermediate products grew particularly strongly. Purchases of capital goods, in contrast, declined, largely owing to the drop in FDI.

The increase in exports was led by sales of natural gas to Brazil, followed by soybeans and soy products. Minerals and manufactures also performed well.

The balance on the capital account fell considerably, with a drop of US$ 165 million recorded in international reserves for the first time in several years.

At the end of September the country's outstanding medium- and long-term external debt stood at US$ 4.426 billion, which was 3% lower than the figure as of 31 December 1999. The reduction was attributable to exchange-rate variations and debt write-offs arranged for within the framework of the first external debt reduction initiative. Japan's forgiveness of Bolivia's bilateral debt with that country had a particularly important impact.

Brazil

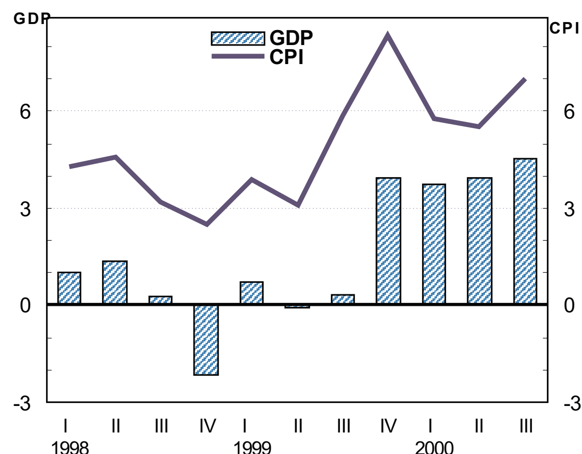
After two years of recession, escalating inflation, steep devaluation, a decline in reserves and a high fiscal deficit, the Brazilian economy recorded 4% growth in 2000, the current account deficit narrowed to 4.1% of GDP (from 4.5% in 1999) and prices rose by just 5.5%. Foreign direct investment (FDI) increased further and thus was sufficient to cover the bulk of the current account deficit and net expenditure under other items of the capital account. As a result, the fiscal deficit declined to less than 5% of GDP (down from almost 10% in 1999).

Monetary policy was based on the use of inflation targets, which were set at 6% for 2000 and 4% for 2001. The central bank lowered the annual benchmark rate from 19% at the end of 1999 to 16.5% in the following July, or by just over 10% in real terms. This rate was then maintained until nearly the end of the year, however, owing to the level of external uncertainty, and it was not until December that it was finally lowered to 15.75%. In addition, the central bank reduced legal reserve requirements, triggering a 25% expansion in the money supply. This increased liquidity and the lower cost of money contributed to an increase in credit to the private sector.

Federal government revenues were down by 2.6% in real terms. Factors underlying this decrease included a sharp drop from the very high levels of non-recurrent revenues recorded the previous year, which had included the proceeds from the tendering of concessions, and the disappearance of what had been a surplus on the oil account, since the rise in crude oil prices was not passed on in full to consumers. In order to rectify this situation, the government raised fuel prices in July. Receipts from most regular taxes were higher thanks to the economic upturn, the increase in tax rates and improved tax administration. Total expenditure was down more sharply than revenue as a result of a decrease in public debt service payments from 9.9% of GDP in 1999 to 4.7% in 2000 in nominal terms. Other outlays, however, remained essentially stable. Thus, the federal government deficit contracted from 6.9% of GDP to just 2.2% of GDP.

State and municipal governments, along with State-owned enterprises, posted more favourable results. The increase in state and municipal revenues was a reflection of the more dynamic pace of activity. In

BRAZIL: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

BRAZIL: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	0.2	0.9	4.0
Consumer prices	2.5	8.4	5.5
Real wages	0.0	-4.4	-1.3
Money (M1)	7.1	22.7	22.8
Real effective exchange rate [b]	5.2	50.6	-7.4
Terms of trade	-2.1	-9.7	-7.4
	Percentages		
Urban unemployment rate	7.6	7.6	7.5
Fiscal balance/GDP	-8.0	-9.5	-4.6
Real deposit rate	24.1	19.8	10.7
Real lending rate	88.5	75.2	36.6
	Millions of dollars		
Exports of goods and services	59 570	55 813	64 200
Imports of goods and services	75 835	63 472	71 200
Current account	-33 616	-24 996	-24 500
Capital and financial account	17 314	8 230	21 300
Overall balance	-16 302	-16 766	-3 200

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

addition, agreements were reached with the federal government which require subnational governments to pay interest on their debts and reduce their level of indebtedness. Petrobras was one of the State-owned enterprises reporting the largest increase in earnings.

At the start of the year, the Fiscal Responsibility Act entered into force. This act limits the scope of action open to public administrators in creating new items of expenditure and calls for the establishment of annual and pluriannual fiscal targets for each level of government's performance and level of indebtedness.

Structural adjustment of the financial system proceeded with the transfer of ownership of two major state banks. The sale of these banks and of a number of state electricity distribution companies demonstrated the authorities' desire to proceed with the privatization programme. Meanwhile, further efforts were made to amend the relevant legislation in order to allow the sale of federal power generators and sanitation facilities.

The currency float did not give rise to any major fluctuations in the exchange rate, thanks to strong inflows of FDI, and the exchange rate actually strengthened in real terms against a basket of currencies. However, the persistence of a high external deficit leaves Brazil vulnerable to shocks on international financial markets, which, under the new foreign-exchange regime, take the form of sharp fluctuations. In the last few months of the year, the exchange rate, which had stabilized at around 1.85 reais to the dollar, increased to almost 2 reais as a result of the worsening situation in Argentina, the upsurge of oil prices, expectations of interest rate hikes on the international market, increased volatility on United States stock exchanges and the persistent trade deficit.

The inflation target agreed upon with the International Monetary Fund (IMF) for the year 2000 was met, since the annualized variation in the consumer price index (CPI) was on the order of 6%, but it was doubtful that this performance could be repeated in July and August, when the monthly rise averaged 1.5%. This was due to the adverse effect of poor weather conditions on the prices of agricultural products, higher utility rates and the steep rise in fuel prices, which amounted to an increase of 20% in July and August.

The financial market reacted with unease to the government's conclusion that this was a temporary phenomenon and its decision to continue to lower interest rates; however, these fears were allayed when the CPI posted a low figure in September within a context of reasonable rates of growth and devaluation.

The reactivation was driven by the strength of the export sector and especially by the sustained decline in interest rates and the expansion in consumer credit. Manufacturing made a robust recovery (6%), with the most dynamic performances coming from consumer durables (17%) and capital goods (10%). Unfavourable weather conditions hurt agricultural output, which increased by only 2.5%, while construction picked up (3.5%) after its decline of the previous year. With the stagnation of government activities as a result of the steps taken to curtail expenditure, services expanded only moderately.

The brisker pace of activity was a contributing factor in the creation of almost one million jobs, which was reflected in a marked decline in unemployment starting in June that brought the rate down to less than 7% by September. Many job-seekers than began to re-enter the market, however, and the resulting expansion of the labour force slowed the decline in unemployment. Nonetheless, a sharp increase in formal-sector hiring was observed. Real wages fell in the first semester but rose moderately later on.

There is no guarantee that this growth trend will prove to be sustainable, in view of the economy's high

degree of external vulnerability. Despite the devaluation, no substantial trade surplus has yet been generated. Exports swelled, but imports remained high owing to increased oil prices and the country's reliance on imports of industrial inputs and capital goods.

In addition, the weakening of the euro against the dollar eroded the competitiveness of Brazilian products on the prized European market, which absorbs 27% of Brazil's exports, although it also contributed to a decline in the price of imports from that source. At the beginning of the year, a US$ 6 billion merchandise trade surplus had been projected, but the actual outturn was a US$ 500 million deficit, which brought the current account deficit to an estimated US$ 24.5 billion; even so, this was somewhat lower than the 1999 deficit.

Export volumes expanded by 12%, but prices, dragged down by commodities, rose by only 1% and were 18% below the decade's peak 1997 figure. The rise in oil prices drove up the cost of oil imports by 73% and the cost of total imports by 5%. The deficit on the services balance widened slightly, partly as a result of increases in travel and transport expenses. The deficit on the factors account showed almost no change, and net interest payments held at US$ 16 billion.

Net capital inflows totalled US$ 21.3 billion. Since this was less than the current account deficit, the result was an overall balance-of-payments deficit of US$ 3.2 billion. Long-term capital inflows were in excess of US$ 30 billion, but a net outflow of US$ 9 billion was recorded under the other capital-account headings. At approximately US$ 30 billion for the year –total net inflows of US$ 90 billion in the last three years– FDI was once again a major source of long-term inflows. Although a portion of these funds came from privatizations, the bulk was used for corporate mergers and acquisitions. Inflows of medium- and long-term loans, bonds and notes rebounded but were still lower than they had been in 1997, prior to the outbreak of the crisis. This cautious approach on the part of the international financial system was clearly reflected in the maintenance of short maturities and wide spreads for the non-financial private sector.

The public sector sought to strengthen the country's linkages with international financial markets. In an attempt to improve its international rating, the Treasury issued 30-year securities to replace older debts. In October, one of the main international rating agencies announced a favourable reassessment of Brazil's position. The government has also been working with multilateral agencies (the Inter-American Development Bank and the World Bank) to maintain a positive flow of finance. To boost investor confidence, Brazil prepaid almost all of the loans that had been included in the aid package it received in late 1998.

Chile

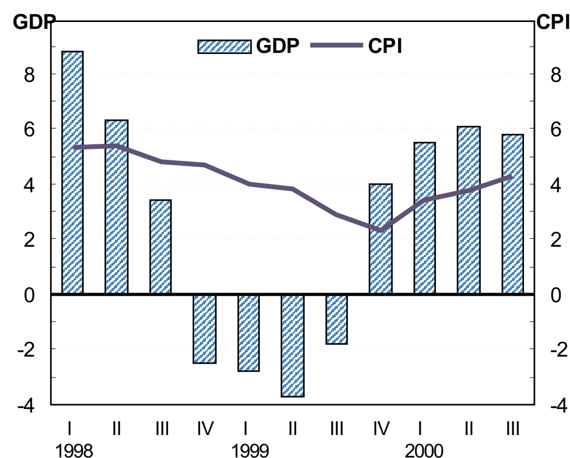
The Chilean economy registered an estimated growth rate of 5.5% for 2000 -slightly short of the target set by the new Administration that took office in March, which is part of the same coalition that has been in power since 1990- as the authorities continued to pursue their policy of reverting the fiscal deficit and generating a structural surplus. Exports continued to fuel growth, thanks to rising prices for the country's main exports on world markets. In contrast, higher oil prices drained about US$ 800 million from national income and drove down personal spending. In combination with dwindling capital flows and a contractionary monetary policy, this undermined the measures aimed at supporting the economic reactivation and fighting unemployment. Domestic demand trended upward, but was insufficient to compensate for the fall of the previous year. The primary and basic services sectors recorded the highest growth rates, while manufacturing and commerce expanded at approximately the same rate as GDP and the construction industry contracted once again.

The value of merchandise exports increased by 17% to about US$ 18.5 billion, as the upturn in Asian demand pushed up the prices of forestry products and copper. Thanks to the increase in the real exchange rate, Chile's exports became more competitive; this was especially true of non-traditional exports, which showed an increase in volume of 9%.

The construction sector, however, which is closely associated with investment and labour absorption, remained severely depressed until well into the year. In combination with reduced inflows of foreign capital and the completion of major projects, this meant that investment, which had already shrunk by 17% in 1999, continued to post negative growth rates in the first semester. This trend was not broken until the third quarter.

Together, the objectives of the central bank and the Finance Ministry -to keep inflation in check and to balance fiscal accounts, respectively- conspired against a more vigorous reactivation of expenditure and of the labour market. Consequently, between January and September the rate of unemployment rose from 8.7% to

CHILE: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

CHILE: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	3.9	-1.1	5.5
Consumer prices	4.7	2.3	4.7
Real wages	2.7	2.4	1.5
Money (M1)	-8.3	20.2	3.0
Real effective exchange rate [b]	3.5	5.2	1.2
Terms of trade	-11.8	0.4	1.8
	Percentages		
Unemployment rate	6.4	9.8	9.4
Fiscal balance/GDP	0.4	-1.5	-0.1
Real deposit rate	9.5	5.1	5.6
Real lending rate	14.5	9.0	10.5
	Millions of dollars		
Exports of goods and services	18 949	19 406	22 150
Imports of goods and services	21 580	18 056	21 180
Current account	-4 143	-78	-865
Capital and financial account	2 004	-670	365
Overall balance	-2 139	-748	-500

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

10.7% nationwide, although it fell back to 10% in November.

The interest rate was raised twice during the first quarter, with a total increase of 50 basis points. Monetary policy was targeted at containing inflation in the face of upward cost pressures, generated by rising oil prices, and the expected demand pressures resulting from the encouraging trend in economic activity in the last quarter of 1999. The central bank went ahead with this policy even though credit was growing at a slower rate than during the preceding four-month period. Nor did the authorities consider the fact that inflows of external capital might be significantly smaller than in previous years. In a move to boost investment, in May the central bank eliminated the one-year minimum stay requirement for foreign investments. Other major measures were later adopted, such as the abolition of capital gains tax for non-residents and the introduction of a greater degree of flexibility in the percentage of borrowings that could be entered as foreign investment.

In combination with the cautious monetary policy, reduced public spending made it possible to balance the accounts, after a non-financial public-sector deficit of 1.5% of GDP had been posted in 1999. The ratio of fiscal expenditure to GDP remained stable in the first semester and then took a slight downturn in the third quarter, while income climbed sharply in line with the upswing in the rate of activity. Budget performance remained within the stringent limits imposed by the new authorities, despite the adoption of extraordinary to expand the coverage of emergency employment programmes.

In the third quarter the upturn showed some signs of weakening. The annualized growth rate for broad money in the private sector, which had reached 17.7% in January, fell back to 6.7% in July, while unemployment continued to rise. The central bank responded by reducing the interest rate by 50 basis points and the Finance Ministry announced measures intended to improve access to credit, deepen financial integration and make sectoral regulation more flexible. In a bid to boost demand, a one-off extra payment of 10,000 pesos was allocated to beneficiaries of the consolidated household allowance, an advance reimbursement of income tax overages was made to almost a million private individuals, and tax debts were renegotiated.

In an effort to soften the impact of the external shocks which have periodically affected the Chilean economy, the authorities have devised a new macroeconomic policy approach. From 2001 onward, the authorities will attempt to generate a structural fiscal surplus equivalent to 1% of GDP. In the area of monetary management, the central bank proposes to keep inflation between 2% and 4% while focusing its attention on the underlying inflation rate over a 1- to 12-month time horizon and on the CPI over a 13- to 24-month time frame. In addition, a fund for implementing emergency employment plans will be activated whenever the rate of unemployment passes a certain threshold.

The underlying or trend inflation rate, which excludes the impact of variations in external prices, remained stable at around 3% in line with central bank projections. The effective inflation rate, which in annualized terms stood at 4.7% in November, was influenced particularly by fuel price hikes and the rise in the nominal exchange rate, which had an impact on import prices. The increase in real wages tapered off in the course of the year for an overall average of 1.5%.

The exchange market was more flexible in 2000, following the elimination of the exchange rate band in September 1999. The rate of devaluation of the peso increased in the second semester and at the beginning of

the fourth quarter the annualized figures showed a 3% rise in the real exchange rate.

Imports enjoyed a significant upturn (20%) from the low level observed in 1999 but, even so, the performance of exports was vigorous enough to generate a surplus of US$ 1.5 billion on the merchandise trade balance. The balance-of-payments capital account showed little movement (US$ 370 million), and US$ 500 million in international reserves therefore had to be used to finance the current account deficit of US$ 870 million. Capital transfers resulted in a net outflow of US$ 780 million in foreign investment as of the end of the third quarter, in contrast to a net inflow of US$ 4.5 billion in 1999, while foreign equity investments (US$ 2.8 billion) easily outstripped capital inflows under Chile's Foreign Investment Statute (better known as Decree Law 600) and Chapter XIV of the country's foreign-exchange regulations.

Colombia

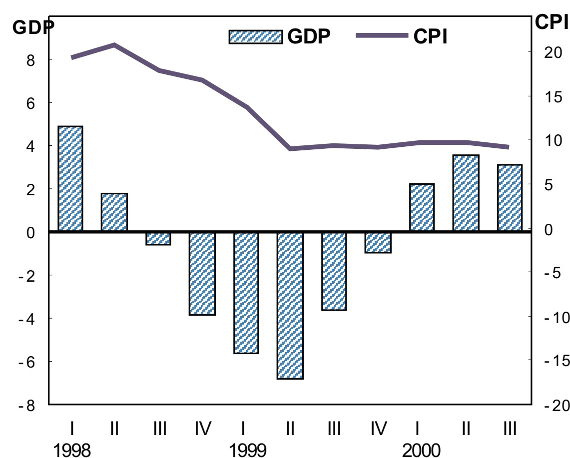
Following its plunge into the deepest depression of the twentieth century, when output fell by 4.3%, the Colombian economy made a modest recovery (3%) in 2000 that was led by exports, particularly of petroleum. The upswing was insufficient to combat unemployment, however, which remained at a high 20% in the country's seven major metropolitan areas.

Other macroeconomic indicators reflected positive trends. Inflation continued to move downward and was expected to end the year at below 9%, which was lower than the authorities' targeted figure. Fiscal accounts also appear to have complied with the International Monetary Fund (IMF) agreement signed in December 1999, partly thanks to high international oil prices and the domestic economy's reactivation, which was reflected in an increase in imports.

With the help of soaring international oil prices and a highly competitive exchange rate, the external sector posted a trade surplus for the second year running and a slight deficit (0.4% of GDP) on the current account. Owing to the country's internal security situation, however, Colombia's country-risk rating worsened again, and financing on international markets became considerably more costly as a result.

Fiscal management was directed at achieving an appreciable decrease in the deficit, within the framework of the country's IMF programme. As in 1999, cyclical factors were instrumental in determining the final result.

COLOMBIA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

COLOMBIA: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	0.5	-4.3	3.0
Consumer prices	16.7	9.2	8.8
Real wages	-1.3	3.0	3.1
Money (M1)	-5.4	22.1	35.3
Real effective exchange rate [b]	10.0	13.2	8.7
Terms of trade	-8.3	7.1	15.9
	Percentages		
Urban unemployment rate	15.3	19.4	20.4
Fiscal balance/GDP	-3.4	-6.0	-3.6
Real deposit rate	11.7	9.2	2.5
Real lending rate	19.8	17.4	13.1
	Millions of dollars		
Exports of goods and services	13 408	13 866	15 775
Imports of goods and services	17 298	13 408	14 510
Current account	-5 162	-179	-320
Capital and financial account	3 772	-140	1 035
Overall balance	-1 390	-319	715

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

After reaching a high of 6% of GDP, the non-financial public-sector deficit decreased on target to around 3.6%, aided by windfall profits from oil exports and a reduction in contraband.

The government appears to have met its fiscal targets despite an adverse ruling by the Constitutional Court which obliged the Administration to unfreeze wages and pay a retroactive wage adjustment equivalent to the previous year's inflation rate to all public-sector employees. In December, Congress was expected to approve a tax reform bill intended to boost fiscal revenues by about 3.8 billion pesos per year (2% of GDP).

A substantive change was made in monetary policy in 2000, as the Banco de la República replaced its intermediate-target strategy with an inflation-based system. This step was made possible by the decision to abandon the use of the currency band as the main tool of exchange-rate policy, the significant decrease in inflation and the moderation of inflationary expectations. The central bank was generally able to maintain enough liquidity in the financial system throughout the year by means of open market ("repo") operations backed by public debt or other instruments. After falling to 10% in February as a result of the liquidity temporarily injected into the economy at the end of 1999, the financial system reference rate, or DTF rate (the average rate paid on fixed-term deposits in the financial system), rose gradually, reaching 13% by November. At the same time, the "two per thousand" tax on financial transactions and the drop in interest rates triggered a shift in agents' preferences, as M1 grew by 35% in the 12-month period up to the beginning of November, while broad money (M3 plus bonds) increased by just 4.2%.

Although it was gradually recovering from the most recent crisis, the financial sector continued to show signs of fragility. Given the weakness of domestic demand, the banks were reluctant to grant credit to the real sector, preferring to invest excess liquidity in public securities. By November total credit had marked up an annualized fall of 8%, as a result of portfolio write-downs and a decrease in mortgage placements. Non-mortgage credits, however, showed faint signs of an upturn.

After playing a major part in economic policy over the two previous years, exchange-rate policy played a less prominent role in 2000. There were two episodes of instability, first in April and May, when the President threatened to dissolve Congress, and then in September, as a result of seasonal trends and of fears that the scheduled privatizations might not go ahead. The nominal devaluation rate as of the end of November stood at 15.8%.

The moderate upswing that had begun in the second semester of 1999 continued into 2000, which made it quite feasible for the government to meet its inflation target of 3% of GDP by year's end. Preliminary projections point to a modest upturn in total consumption that would be led by private consumption, since public-sector spending was restricted in order to keep the fiscal deficit in check. Investments have followed a similar pattern, but have not yet become an engine for job creation on a large scale. The driving force behind the economic upturn was exports, which grew at a rate of around 15%. In a sector-by-sector analysis, manufacturing stands out with a growth rate of 10%, while agriculture and commerce each expanded by over 4%. The financial sector turned in a negative figure for the third year running, while construction posted zero growth after several years' of declines.

Urban unemployment in the seven metropolitan areas levelled off at a high of around 20%, peaking at an all-time record of 20.5% in September despite a slight increase in total employment. Real wages increased in

line with productivity gains, thus contributing to the decline in inflation.

Consumer prices were favoured by an abundant food supply and slack domestic demand. The effects of the real devaluation had a modest impact on the producer price index (PPI), which as of November was 3 percentage points above the consumer price index (CPI).

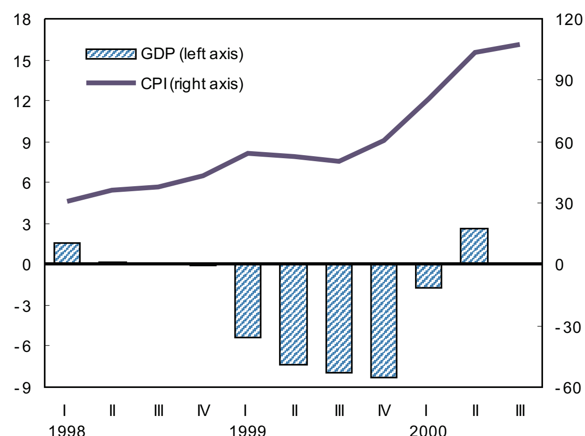
The real devaluation of the currency and very robust external demand (mostly from the United States and Venezuela) brought about a considerable increase in non-traditional exports, especially those of industrial origin. Added to the substantial increase in oil revenues, this easily explains the 14% upswing in the value of exports, which thus outdistanced imports (up by less than 9%) chiefly because of the results turned in by the intermediate goods sector. The deficit on the factor account offset the trade surplus, and the current account therefore posted a slight deficit (0.4% of GDP). The surplus on the financial account continued to shrink as a consequence of outflows of private capital, external debt payments and lower levels of external borrowing.

Ecuador

In January 2000 in the wake of serious financial and exchange rate disturbances during the preceding year, the authorities announced their decision to substitute the United States dollar for the sucre. This proposal withstood even the political crisis which culminated with the deposition of the President of the Republic and, after a six-month transition period, the dollar become Ecuador's sole legal tender. Inflation remained very high, however. In fact, by the end of December it stood at around 90%, although it was showing signs of relenting. The downward trend of GDP was broken in the second quarter, and a growth rate of 2% is projected for the year overall. Despite an upturn in imports, the current account of the balance of payments posted a surplus of approximately US$ 750 million; this was attributable to a substantial improvement in oil prices, which was also instrumental in eliminating the non-financial public-sector (NFPS) deficit. The country's public external debt with private creditors was restructured in August on the basis of a special drawing rights agreement with the International Monetary Fund (IMF).

The Economic Transformation Act, which was passed in March, provided the legislative basis for the transition to the new monetary and exchange regime, and the Investment Promotion and Citizen Participation Act, passed in August, contributed to the consolidation of the process. Within the framework of this legislation, the authorities created a stabilization fund to soften the impact of oil price fluctuations on fiscal income and began setting up a liquidity fund to serve as a lender of last resort. Limits were also established on the State guarantee for deposits and the banking reserve requirement was reduced to 9% early in the year and to 8% by its end.

ECUADOR: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

Seeking to make the labour market more flexible, the government introduced contracts based on the number of hours worked and began a process of wage consolidation. The proportion of privately-held stock permitted in electricity and telecommunications companies was increased in order to encourage foreign direct investment. The Constitutional Tribunal ruled that some of the other proposed reforms were unconstitutional.

The VAT was raised from 10% to 12%, and income tax from 15% to 25%. The capital circulation tax, on the other hand, was reduced from 1% to 0.8%, and in the case of natural persons, it was converted into an advance payment on income tax. The rise in oil prices had a more significant impact on fiscal income, however, making it possible to eliminate the NFPS deficit, which was a far better result than the target of 3.9% stipulated in the IMF agreement.

The bank deposits that had been frozen in March 1999 were released. Most of the funds freed up by this procedure remained in the financial system, and quasi-money expanded by 12% between the end of 1999 and October 2000. In contrast, credit to the private sector contracted by 2%, which was a reflection of the low level of activity. Real interest rates remained deeply negative, especially when they are deflated by the existing rate of inflation, but they appear to be much less so if they are instead deflated by projected inflation. The financial system remained fragile, with the bulk of its assets being held by the Deposits Guarantee Agency and a high percentage of the portfolio in arrears (over 50% in the third quarter of 2000).

Following a 7% fall in GDP in 1999, the economy continued to shrink during the first quarter of 2000 but subsequently began to show signs of an upturn. The first semester closed with a growth rate of 0.5% and the year as a whole ended with an estimated rate of 2%. The upswing was led by household and government consumption, thanks to the unfreezing of bank deposits, the payment of deposit guarantees and increased fiscal revenues. Capital formation and exports performed sluggishly, however. During the first semester, government services, manufacturing and transport were the most vigorous sectors, although in the course of the year oil production also increased, thanks to the extension of the trans-Ecuadorian pipeline. The agricultural sector contracted, mainly as a result of a crisis in the shrimp-farming industry.

The consumer price index (CPI) rose at an average monthly rate of 10.7% the first quarter, largely as a consequence of the considerable depreciation of the sucre and the high rate of money creation, whose effects

ECUADOR: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	0.4	-7.3	2.0
Consumer prices	43.4	60.7	96.6
Real wages	-7.2	-10.7	-4.0
Money (M1)	34.8	88.6	...
Real effective exchange rate [b]	3.8	38.7	18.6
Terms of trade	-11.0	6.7	14.3
	Percentages		
Urban unemployment rate	11.5	15.1	14.7
Fiscal balance/GDP	-5.6	-4.6	0.0
Real deposit rate	2.6	-2.0	-43.0
Real lending rate	10.3	7.9	-38.6
	Millions of dollars		
Exports of goods and services	5 007	5 264	5 845
Imports of goods and services	6 409	3 761	4 165
Current account	-2 169	956	750
Capital and financial account	1 335	-1 847	-950
Overall balance	-834	-891	-200

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

were carried over from the previous year. This trend then began to weaken, however, and by the third quarter the average monthly rate of inflation had dropped to 2.5%. By November the annualized increase was 97%, with a downward trend clearly visible.

The slight upturn in the level of activity was reflected in a moderate decrease in unemployment from the second quarter on, and the average rate of unemployment for the first 10 months of the year was consequently 14.7%, which was slightly less than the equivalent figure for 1999. Corporate demand for labour did not increase significantly, however, and the share of formal employment in the structure of urban employment shrank once again. The real minimum wage fell at the beginning of the year as inflation surged. A wage hike at the end of the first semester partially restored buying power, but the overall annual average showed a loss of 4%.

Up to October, exports recorded an increase of 11% with respect to the first 10 months of 1999. This expansion was the result of improved prices and, to a lesser extent, increased volumes of shipments of oil and petroleum products. Other export products did not benefit from the sharp exchange-rate depreciation of 1999, and their sales slumped drastically. Imports –led by fuels, consumer goods and raw materials– grew at a similar rate to overall exports. Purchases of capital goods decreased again, however, as a reflection of the lag in investment, and this trend was not turned around until June.

As a result of the voluminous surplus on the trade balance, the balance-of-payments current account recorded a surplus of US$ 750 million, which was equivalent to 6% of GDP. The deficit on the financial account (including errors and omissions) widened, since government loans and foreign investment in the oil industry were not enough to compensate for outflows of private capital. Owing to the large amount of special financing that was made available, however, the central bank's unencumbered international reserves climbed from US$ 873 million at the end of 1999 to US$ 1.25 billion by the end of November 2000.

In August an agreement with reached with holders of Brady bonds and eurobonds, which the authorities had ceased to service in October 1999. These bonds were exchanged for new ones maturing in 2012 and 2030 and carrying interest rates of 12% and step-down, step-up rates of 4%-10%, respectively. As a result, the public external debt fell from US$ 13.8 billion at the beginning of the year to US$ 11.2 billion by the end of October. A preliminary debt workout agreement was reached in September with the Paris Club.

Paraguay

The Paraguayan economy enjoyed a slight upturn in 2000, with a growth rate of 1.5%, which was again fuelled by the performance of the agricultural sector: the increase in the cotton harvest, in particular, was more than enough to compensate for a decrease in soya production. Weakening exports, however, prevented the improvement in agriculture and the reactivation policies applied from having more impact on output. The high level of reserves early in the year enabled the authorities to intervene in the exchange rate, thus keeping the guaraní stable and preventing inflation —which posted an annualized rate of 9.6% in November— from rising faster as a result of hikes in utility rates, oil prices and the minimum wage.

PARAGUAY: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	-0.4	0.5	1.5
Consumer prices	14.6	5.4	9.6
Real wages	-1.9	-2.1	2.1
Money (M1)	7.4	9.4	33.5
Real effective exchange rate [b]	12.1	-1.7	4.9
Terms of trade	-7.5	-5.1	-4.8
	Percentages		
Urban unemployment rate	6.6	9.4	...
Fiscal balance/GDP	0.2	-3.2	-2.2
Real deposit rate	5.8	12.6	6.0
Real lending rate	17.1	21.9	16.5
	Millions of dollars		
Exports of goods and services	4 278	3 267	2 915
Imports of goods and services	4 517	3 534	3 325
Current account	-56	-65	-270
Capital and financial account	73	-250	-75
Overall balance	17	-315	-345

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

From the second semester of 1999 on, which coincided with the changeover to a new Administration, the monetary and fiscal authorities assigned priority to the objective of reactivating the economy, which had been practically stagnant since 1998.

Aided by inflows of external financing during the second half of 1999 and the first half of 2000, the public sector —particularly State-owned enterprises— undertook large capital investments and expanded current spending. Total income shrank in real terms owing to a decrease in domestic tax receipts. Tariff income, however, rose slightly, thanks to improved customs administration and an increase in imports. The central government is expected to close the year with a deficit of around 4% of GDP, and the deficit of the non-financial public sector will be 2.2%, one percentage point lower than the previous year, thanks to the improvement of the operating balance of public enterprises.

Monetary policy was also clearly expansionary in 2000, with open market operations being used to lower interest rates. In the first semester, the central bank kept the average rate on monetary regulation notes below 15%. During the third quarter, the average dropped below 8%, the lowest figure of the decade. In addition, the average balance outstanding on these notes was barely two thirds of the 1999 level. The increase in net lending to the public sector, in line with the widening of the fiscal deficit, also had an expansionary effect.

Money-desk interventions were aimed at preserving the stability of the guaraní. Net currency sales in the first nine months of the year outstripped those of the same period in 1999 by a third, with the highest concentration of these transactions occurring in early 2000 and during the third quarter when the real and nominal exchange rates trended upward in relation to the dollar. It was only in the second quarter that official intervention consisted of buying foreign exchange. The nominal exchange rate thus remained relatively stable, after an initial rise of 4% in February. The real exchange rate, which includes the currencies of Paraguay's main trading partners, also held steady, increasing by less than 5% during the first three quarters.

At the end of September, the annualized increase of monetary aggregates overall was greater than in 1999, while the monetary base grew by 6.5%. M1 showed considerable growth (33%), reflecting the introduction of interest-bearing current accounts in July. Broader aggregates displayed increases of around 10%, while real lending and deposit rates fell to 16.5% and 6% respectively.

Progress in the different sectors of production was modest. In agriculture, there was an improvement in the harvest, especially of cotton, which grew by close to 20%, after the fallback of the previous season caused by bad weather and crop diseases. In contrast, soya output declined for the first time in ten years. Other agricultural products (maize, wheat and sugar cane) are expected to show increases of between 10% and 30%. The livestock sector is also likely to grow, albeit moderately. Construction will probably turn in a rate of expansion of around 4%. Services should display a slight upturn, thanks to improvements in cotton output and marketing and the upswing in the Brazilian economy, which has a positive impact on formal trade.

Cumulative inflation to November was 9.1%, with an annualized rate of 9.6%. The largest variations were reported in the first semester, after the rises in both transport and fuel prices and the minimum wage. The producer price index (PPI) increased by 10.9% to September, which was more than the variation in the consumer price index (CPI), owing to the influence of petroleum products. In February, the official minimum wage was raised by 15%, which meant a real improvement of around 5%. The real average wage increased by 2%, after having deteriorated in 1999.

The current account gap widened owing to the increase in the merchandise trade deficit. The value of total exports decreased by 13% in response to lower demand for exports linked to the informal border trade with Brazil and Argentina. These transactions, referred to as “unregistered and re-export trade”, represent around three quarters of total exports and are facing increasingly stringent customs restrictions in Paraguay’s neighbouring countries. Among registered exports, the value of cotton exports increased thanks to a rise in international prices. The value of soya exports dropped slightly, since the upturn in prices was not enough to offset the fall in production.

Likewise, total imports fell by 6%, since the increase in registered imports was not sufficient to compensate for decreased inflows of products destined for re-export (which account for a third of the total). The increase in registered imports was largely due to significant growth in purchases of intermediate goods, the values of which were affected by the rise in the price of oil and petroleum products. Imports of consumer goods particularly non-durables, also increased. Purchases of capital goods, however, fell by around 10%.

Capital flows declined in 2000, since in 1999 Paraguay had received an extraordinary inflow of US$ 400 million through bond issues on the international market, which were underwritten by the Government of the Chinese Province of Taiwan. This reduction in capital flows was partially offset by the inflow of foreign exchange from the bi-national hydroelectric dams of Itaipú and Yacyretá, in the form of royalties and compensation for flooded land and preferential assignment of electric power. It is therefore expected that the deficit on the balance of payments will be close to US$ 350 million.

The balance on the external public debt increased by about US$ 100 million as a result of the disbursement for that amount that was made at the beginning of the year by the Export Import Bank of the Chinese Province of Taiwan.

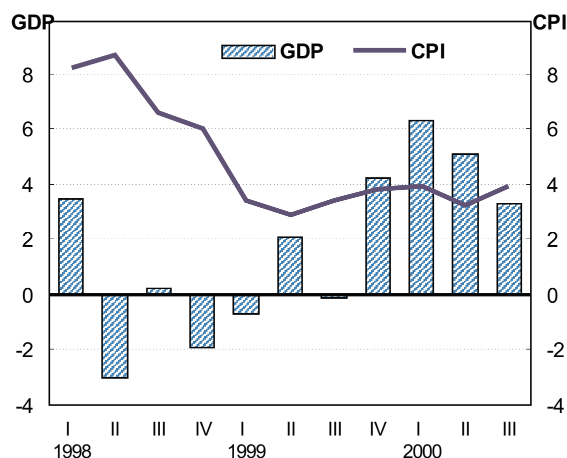
Peru

The complex political situation in Peru in early 2000 discouraged domestic and foreign investment and caused economic activity to slow down during the second half of the year. Growth was higher than in 1999, but does not seem to have brought about improvements in urban employment or in real wages. Although the fiscal target was not met, inflation remained under control, and the external gap was narrowed once again. The authorities found it necessary to implement a third rescue programme to help enterprises deal with their financial difficulties, and lending to the private sector again shrank. The prevailing uncertainty made it difficult to move ahead with plans for privatization and concessions; nevertheless, some significant transactions were carried out at the beginning and the end of the year.

Current expenditures expanded substantially during the election campaign in the first half of the year. Tax revenues were lower than anticipated, since direct collections dropped owing to the weakness of the upturn in domestic demand. Moreover, revenues from the excise tax increased only as much as the product did, making it impossible to achieve the original goal of reducing the deficit to 2.1% of GDP.

In order to keep imbalances within an acceptable range, during the second half of the year the authorities

PERU: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

tried to control expenditures, especially by cutting public investment. Tax measures were also adopted with a view to establishing an *ad valorem* scale for calculating excise taxes and cutting certain exemptions. Despite these measures, the current balance of central government was slightly negative. The resulting overall deficit of 2.7% was partly financed with resources from privatization (35%) and financial-sector deposits (20%); the remainder had to be covered with external resources. It is estimated that the non-financial public-sector deficit amounted to 2.8%, owing to the difficulties faced by public enterprises.

The money creation and excessive fiscal spending that had taken place in anticipation of potential computer problems relating to the year 2000 led the authorities, early in the year, to adjust the liquidity of national currency and adopt a policy based on their growth and inflation goals. In August, the legal reserve requirement in national and foreign currency was lowered from 7% to 6%, and the foreign-currency reserve requirement was lowered by an amount equivalent to 3 percentage points of deposits, in order to offset the fiscal adjustment of the second half of the year and provide greater liquidity. Nevertheless, money creation continued to decline during the second half of the year; thus, circulation of money in soles for the year as a whole decreased in nominal terms as demand fell. Growth occurred mainly as a result of an increase in net lending to the public sector (decrease in deposits) and an increase in external assets, given that lending to the private sector fell.

Interest rates continued to fall, despite sporadic rises in the inter-bank rate caused by occasional tensions in the exchange market, which recovered at the end of the year, closing with a negligible nominal devaluation that was reflected in a slight real appreciation (1%).

To alleviate the financial difficulties experienced by local companies and improve the quality of bank assets, at midyear the authorities put underway a third debt-rescheduling programme for businesses for a total amount of US$ 500 million, US$ 100 million of which was earmarked for agriculture. Nevertheless, as delinquency indicators deteriorated once again, banks maintained a cautious lending policy. The banking sector itself continued to experience difficulties.

After two years of contraction, overall demand rose by 4%, thanks mainly to the impetus provided by exports –which grew by 9% in real terms—and a rebound in consumption (4.4%), especially in the public sector. Instead of responding to this more encouraging panorama, fixed investment stagnated (0.5%), and reactivation lost impetus throughout the year, owing to the prevailing political unrest and the weak financial

PERU: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	-0.4	1.4	4.0
Consumer prices	6.0	3.7	4.0
Real wages	-1.9	-2.2	-0.7
Money (M1)	0.5	12.8	-1.0
Real effective exchange rate [b]	2.1	8.8	-0.8
Terms of trade	-13.1	-7.1	-0.9
	Percentages		
Urban unemployment rate	8.4	9.1	10.3
Fiscal balance/GDP	-1.0	-3.0	-2.7
Real deposit rate	3.4	7.9	5.3
Real lending rate	23.6	30.3	24.9
	Millions of dollars		
Exports of goods and services	7 505	7 635	8 630
Imports of goods and services	10 563	8 851	9 525
Current account	-3 634	-1 817	-1 580
Capital and financial account	2 264	1 024	1 695
Overall balance	-1 370	-793	115

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

position of both private business and the public sector. Thus, even though the product grew to 6% during the first quarter, the figure for the year as a whole is expected to be around 4%.

The primary sector continued to be the most dynamic one, particularly in the case of agriculture (6%) and fisheries (11%), although mining slowed down (3.7%) as sectoral investment projects matured. Manufacturing grew by 7.5%, thanks to a boom in processing of primary resources (10%) and a recovery in the rest of the sector (6.7%) after two years of recession. Commerce followed a similar trend (5.5%), as domestic consumption recovered. Construction had another bad year (-1%), having been affected both by the weakness of private investment and by cuts in spending on public works.

Despite the rise in prices of energy products, the authorities continued to project an annual inflation rate of 4%. An increase in the supply of foodstuffs and the sluggishness of domestic markets helped contain price increases. Wage demands were moderate, owing to the difficult situation of labour in the urban sector (10% unemployment in Lima) and the critical financial state of many companies. Nevertheless, the minimum wage rose by 19% in March.

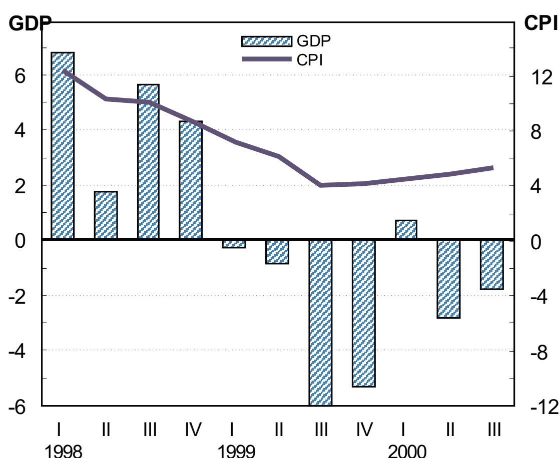
The value of imports of goods rose by somewhat over 8%. Purchases of consumer and capital goods stagnated as a result of moderate domestic demand and an increase in agricultural production. At the same time, purchases of intermediate goods rose by 18%. Traditional exports again showed great impetus, as they increased by 15%, thanks mainly to the considerable growth of fishery production (60%). Non-traditional exports rose by more than 9%, easily recovering from the previous year's slump. The increase in sales made it possible to halve the merchandise trade deficit; this explains the overall reduction of the current-account shortfall, which represented around 2.9% of GDP.

The balance on the financial account improved as a net effect of two opposite trends. Long-term capital inflows fell considerably, owing to the sharp decline of direct investment. Even greater, however, was the reduction in net short-term capital outflows (mostly from banks), which had caused the financial crisis of 1999. By the end of the year, after constant fluctuations, international reserves had risen slightly, by US$ 100 million. The external debt declined by nearly US$ 400 million, thanks to the nearly 30% reduction in short-term obligations of the financial sector, while long-term debts rose by somewhat over US$ 300 million.

Uruguay

Recession continued to dog the Uruguayan economy in 2000. Output shrank by close to 1%, after falling by over 3% in 1999, and a new downturn in the terms of trade reduced disposable national income by another percentage point. The close relationship between fiscal income and activity levels, in combination with the difficulty in cutting public spending, made it impossible to reduce the deficit to less than 4% of GDP. Although exports enjoyed a slight rebound after the heavy fall of the previous year, the impact of a steeply climbing oil price was instrumental in keeping the deficit on the current account of the balance of payments at around 3%, which was amply covered by external borrowing. The annual rate of inflation increased to almost 6% and unemployment rose above 13%.

URUGUAY: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

The financial programme launched by the Administration that took office in March projected GDP growth of around 2.5% and prescribed public spending cuts, in the hope that this would bring the fiscal deficit in check. Contrary to expectations, however, the external environment, which had been highly favourable to Uruguay during most of the 1990s, continued to deteriorate. Despite the growth of the Brazilian economy, Uruguayan sales to Brazil continued to shrink; exports to Argentina also failed to recover the levels attained two years before. The rise of the dollar against the euro also reduced the competitiveness of the Uruguayan currency in the important European market, as the peso was devaluing only slowly in relation to the dollar. The interest rate hike announced by the United States Federal Reserve increased public spending on debt service, while poor terms of trade continued to undercut national income, as a result of falling export prices in combination with the high price of oil. Agricultural supply was hurt by persistently bad weather during the first semester and a new outbreak of foot-and-mouth disease.

The slow upturn in exports was not enough to compensate for the weakness of the domestic market. Private consumption continued to suffer as a result of falling income, rising unemployment, poor expectations and a slowdown in lending for consumption, which had remained virtually stagnant since the end of 1999, after recording a real expansion of 30% in mid-1998. The persistent recession also had an impact on private investment, which posted a sharp fall, while the fiscal adjustment focussed on curtailing spending in general and capital expenditure in particular.

Goods production fell by more than 4%. To add to the setbacks in agriculture, there was a new fallback in industry, and construction plummeted. Commerce was seriously affected by shrinking demand but, together, communications, electric energy and other services expanded output by around 0.5%.

Against this recessionary background, unemployment climbed by more than two percentage points from the previous year's figure, as a decrease in the employment coefficient coincided with an increase in the activity rate. Real wages also deteriorated, falling by more than one percentage point. Real household income indicators point to an even greater squeeze than the sum of these two effects.

In May 2000, the anticyclical policy of the previous year and some items of extraordinary expenditure brought the consolidated public-sector deficit to 4.7% of GDP. The new Administration reduced capital and

URUGUAY: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	4.6	-3.2	-1.0
Consumer prices	8.6	4.2	5.8
Real wages	1.8	1.6	-1.2
Money (M1)	14.4	9.2	3.0
Real effective exchange rate [b]	1.9	-6.6	2.7
Terms of trade	7.0	-7.9	-8.4
	Percentages		
Urban unemployment rate	10.1	11.3	13.4
Fiscal balance/GDP	-0.5	-3.5	-4.0
Real deposit rate	3.8	8.1	7.3
Real lending rate	42.4	45.8	43.1
	Millions of dollars		
Exports of goods and services	4 136	3 587	3 710
Imports of goods and services	4 471	4 069	4 120
Current account	-475	-603	-580
Capital and financial account	836	616	655
Overall balance	361	13	75

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

non-personnel expenditure, and the deficit eased over the following months as a result, albeit less than anticipated. Real income decreased by more than 1%, in line with the trend in GDP and imports. Interest payments on public debt shot up by 16% in real terms to September, in the wake of the international interest rate hike and increased borrowing. Finally, lower tax receipts and higher payments for unemployment benefits resulted in an expansion of social security expenditure. By September, the deficit stood at over 4% of GDP, but was expected to drop somewhat in the final quarter.

Similarly to previous years, the fiscal deficit was financed through increased external borrowing, rather than credit from the monetary authority, which increased central bank international reserves by US$ 180 million to October. Bank lending to the private sector remained stable in nominal terms.

The contraction of the money supply made it possible to persevere with the policy of a sliding exchange-rate band, which was fixed at 3% between floor and ceiling, with a monthly devaluation of 0.6% (7% per year) in relation to the dollar. In this context, despite the fact that the rise in fuel prices had a direct impact on the annual inflation rate around 1%, domestic prices followed a more moderate trend. Purchases of oil in 2000 cost half as much again as the previous year, and 150% the amount spent in 1998. As only part of the international oil price hike was transferred to the public, the transfer of earnings from state enterprises to central government was much reduced.

To October, the increase in the oil bill corresponded almost entirely to the increase in merchandise imports (6%). The purchase of other intermediate goods increased by 7%, which was offset by the reduction in purchases of capital and consumer goods, which decreased by 11% and 3%, respectively. As prices deteriorated slightly, the growth of exports, which was similar to that of imports, was largely due to an increase in shipments. The buoyancy of the export market was generated by demand in the North American Free Trade Agreement countries and in Asia. Mercosur exports saw a slow upturn, while sales to Europe declined. The outbreak of foot-and-mouth disease was expected to bring down meat exports for the final quarter, so that the year overall should see growth of 4-5% in the goods trade.

The external deficit continued to be financed by means of increased borrowing. Uruguayan debt has retained a good investment grade rating, which enabled the authorities to place official notes at interest rates affording a moderate spread, of around 250-300 basis points over United States instruments. In November, Uruguay issued debt denominated in Chilean pesos with a spread equivalent to 330 basis points over United States instruments, which was acquired mainly by Chilean social security agencies.

Venezuela

In 2000 the price of oil rose to levels that enabled the Venezuelan economy to pull out of the deep recession that had overtaken it the year before. GDP grew by close to 3.5%, partly recouping the drop of over 6% suffered in 1999. This upswing was mainly attributable to an expansionary fiscal policy, which the Administration was able to finance thanks to increased revenues from the sale of hydrocarbons. The average price of Venezuelan oil in 2000 was about two thirds higher than it had been in 1999 and two and one-half times higher than in 1998. In this context of increased inflows from abroad, the current account recorded a substantial surplus, while the crawling peg exchange-rate policy helped to contain pressure on domestic prices. Inflation decreased for the fourth year running, coming to stand at around 14%.

A portion of oil revenues was allocated to the recently established Macroeconomic Stabilization Fund, which amounted to US$ 3.6 billion by year's end. Some of the extra income was also used to finance an increase in public spending. Overall, the public sector achieved a surplus of more than 3% of GDP thanks to the surplus recorded by the State-owned oil company PDVSA.

Within the public sector, the central government recorded the largest increase in expenditure. Both capital and, especially, current expenditure rose as a result of a 20% increase in wages and pensions. This hike was approved on 1 May and entailed an increase in transfers to administrative and social security agencies.

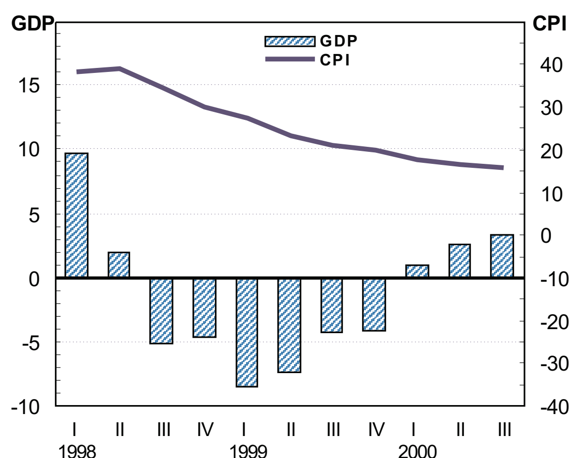
Consequently, the central government's accounts ended the year with a deficit of slightly over 1% of GDP. The Administration covered most of its financing requirements through domestic borrowing in the form of public debt bonds (DPNs), especially early in the year. Overall, however, the level of domestic borrowing was much lower than the previous year. The government also borrowed on external capital markets for the first time since 1998. Even so, the external public debt, which had reached 57% of GDP in 1995, continued to follow a downward trend, falling to around 19% of GDP by mid-year. In contrast, the domestic public debt grew for the second consecutive year, reaching over 6% of GDP during the same period.

The public-sector surplus was reflected in a considerable increase in deposits held by the central bank (BCV). In a move that coincided with the elections held in the second quarter, PDVSA transferred a large part of its deposits from private banks to the BCV; this drained liquidity from the financial system and offset pressure on the bolívar. The increased deposits in the central bank had a contractionary effect on the monetary base, which partially compensated for the expansionary influence of the build-up in international reserves and, particularly, of the amortization of monetary stabilization bonds (MSBs) issued previously by the BCV.

The disappearance of these instruments marked a change in the tools being employed by monetary policy-makers as they shifted towards the use of government bond operations. These securities were also used to regulate short-term liquidity through repo operations with private banks.

At the end of October 2000, the monetary base registered a year-on-year increase of around 25%, which was similar to the increase in narrow money (M1) and broad money (M2). Interest rates, which were also affected by the decrease in inflation, continued to drop. Lending rates fell by 4.5 percentage points over the first

VENEZUELA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

three quarters to 23.7%, while deposit rates decreased by 3.25 points to 14%. The spread between the cost and yield of money therefore narrowed.

The bolívar stayed within the exchange-rate band set by the central bank throughout the year and even spent a considerable amount of time below the central parity rate, expressed in bolívares per United States dollar. This was a reflection of the strength of the Venezuelan currency, which was bolstered by abundant oil revenues. The price of the dollar thus increased from 648 to slightly less than 700 bolívares over the year, and the bolívar thus appreciated again in real terms.

Buoyed by public-sector consumption expenditure -which increased by over 11% in real terms in the first semester- GDP gradually picked up in response to aggregate domestic demand and exports. The public works programme suffered some delays, but the second semester saw a gradual upturn in investment and in the rate of economic activity, which was also favoured by the stabilization of the political situation after the elections. Oil output dropped slightly in the first quarter but rose later when the Organization of Petroleum Exporting Countries agreed to increase supply. Thus, in the first three quarters GDP grew by 1%, 2.8% and 3.3%, respectively, and turned in a growth rate of close to 3.5% of GDP for the year as a whole.

The nominal depreciation of the bolívar was similar in magnitude to the increase in the cost of imported products. This moderate drop was reflected in a decrease in the rate of inflation, which stood at 14% at the end of November. The prices of tradable goods and producer prices (which do not include services) both rose at considerably lower rates. This marked the fourth consecutive year in which inflation had declined after having hit a three-digit high of 103% in 1996.

Labour conditions also improved, as the increase in nominal wages was higher than the rate of inflation. Also, economic reactivation made it possible to lower the rate of unemployment to 13% by the third quarter, down from 15% in the first quarter. This result was also partly attributable to higher income and consumption, which acted as a stimulus for informal employment.

External accounts were marked by an abundance of foreign exchange from oil sales, which reached an all-time high. Non-oil external sales grew at a rate of almost 30% during most of the year. The total value of goods exports thus reached almost US$ 34 billion.

There was also a considerable upswing in merchandise imports, which climbed by over 30% to about US$ 15.5 billion by the end of the year. The resulting current account surplus stood at close to US$ 14 billion, which was equivalent to almost 13% of GDP. The financial balance closed with a deficit of US$ 7.5

VENEZUELA: MAIN ECONOMIC INDICATORS

	1998	1999	2000[a]
	Annual growth rates		
Gross domestic product	0.2	-6.1	3.5
Consumer prices	29.9	20.0	14.2
Money (M1)	6.6	23.4	25.0
Real effective exchange rate [b]	-11.3	-10.4	-1.3
Terms of trade	-27.9	33.3	44.1
	Percentages		
Unemployment rate	11.3	14.9	14.6
Fiscal balance/GDP	-6.6	-1.2	3.4
Real deposit rate	0.2	-2.7	-1.5
Real lending rate	6.8	6.0	7.0
	Millions of dollars		
Exports of goods and services	19 021	22 155	36 050
Imports of goods and services	19 870	15 445	20 855
Current account	-2 562	5 358	13 895
Capital and financial account	-370	-4 324	-7 515
Overall balance	-2 932	1 034	6 380

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] A negative rate indicates an appreciation of the currency in real terms.

billion, largely as a consequence of the level of external debt payments and, particularly in the first quarter, of outflows of private capital. Foreign direct investment flows were relatively voluminous, amounting to almost US$ 3.5 billion, but were still not sufficient to compensate for outflows under other headings. The overall balance of payments turned in a surplus of close to US$ 6.4 billion. In December, the central bank held over US$ 17 billion in international reserves, which was equivalent to 10 months' worth of imports; this was in addition to the resources held in the Macroeconomic Stabilization Fund.