SOUTH AMERICA

Argentina

The difficulties facing the Argentine economy took a turn for the worse in 2001 as gross domestic product contracted for the third year running and the rate of unemployment –already high– rose again while price and wage deflation intensified. Private external financing dried up completely, deposits dwindled and the credit supply shrank with sharp interest rate hikes. The decline in domestic spending was reflected in imports but, given that exports expanded, the trade balance turned in a considerable surplus. This significantly reduced the current-account deficit, which was financed with reserves. Growing interest on the country's debt, declining receipts and drying up of credit sources placed severe pressures on fiscal policy. Primary spending was reduced, but was this was not enough to prevent a widening of the government's deficit. As the value of public debt titles plummeted, scepticism grew about the government's ability to meet its commitments. In November the government conducted a swap of old debt for new issues with lower rates of interest. In early December, facing a massive flight of deposits, the authorities imposed limits on the withdrawal of funds held in banks and on transfers of capital out of the country.

Macroeconomic instability forced the government to implement a series of mainly fiscal measures, which generated heated argument. The debate extended to other central aspects of policy, including the monetary regime and regional integration (MERCOSUR).

In late 2000, as private funding began to dry up, the government obtained a large package of official external credits, but then failed to meet its fiscal targets and confidence began to seep away again. In March a new economic team proposed a programme to reduce public spending, but this generated such fierce opposition that it could never be implemented. After another ministerial shuffle, the authorities announced a plan that involved creating a tax on current-account debits and credits and sectoral programmes that included tax reductions. Efforts were made to strengthen public finances by devising an easily collectable tax, improving the competitiveness of local industries and boosting expectations of an upturn in activity. Domestic demand did not react as had been hoped, however, and the government's borrowing conditions worsened still further. In response to concerns over public debt maturities, the government conducted a debt swap for about US$ 30 billion, mainly with local creditors, which extended the maturity of the debt but entailed paying higher rates of interest. The authorities also established an "enhanced convertibility" scheme, which maintained the central features of the currency regime, such as the requirement for monetary liabilities to be covered by reserves. According to the new scheme, the peso would become convertible at a fixed parity to a basket of currencies, consisting in equal parts of dollars and euros, contingent on the dollar-euro rate first reaching parity. Most external trade transactions would be closed immediately at the basket price, which would entail a slight increase in the effective exchange rate, although reimbursements on exports were simultaneously reduced.

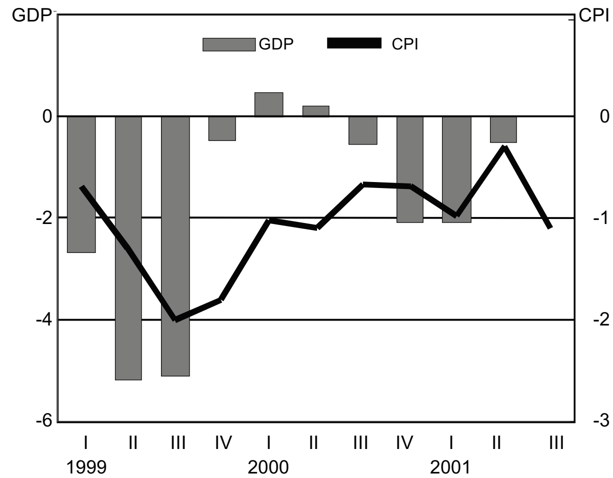
After a brief respite following the debt swap, Argentina's country-risk rating increased again and quickly became an everyday point of reference among the public: it soared from 700 points in January to 1,400 in July. Bank deposits trended downwards at an ever faster rate and, in response to the threat of a run on the banks, the central bank extended emergency loans and reduced reserves. Even so, credit contracted very sharply, while the public sector absorbed a growing proportion of lending capacity.

Around mid-year, it became evident that the government no longer had access to market financing. In July the authorities set out to reduce the deficit to zero, by stringently restricting spending to the amount of incoming tax receipts. Public sector wages and pensions of over US$ 500 per month were subject to cuts of 13%, with immediate effect, and contract spending was reduced substantially. The government also negotiated an advance payment of tax with a group of large firms. After lengthy discussions, in August an agreement was reached with IMF on an additional loan package, based on the zero-deficit plan and reform of the system of tax sharing with the provinces.

These measures caused a brief hiatus in the flight of bank deposits, but the severe credit contraction hurt economic activity and tax receipts. Fiscal difficulties arose both at the national level and in the provinces, some of which began to issue payments –including wages– in bonds that circulated as "emergency money". The prices of national securities continued to fall and in

ARGENTINA: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

ARGENTINA: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-3.4	-0.6	-3.8
Consumer prices	-1.8	-0.7	-1.6
Real wages	1.1	1.5	0.0
Money (M1)	-0.3	-5.7	-18.8
Real effective exchange rate[b]	-6.9	0.6	-2.8
Terms of trade	-5.2	10.4	-1.0
	Percentages		
Urban unemployment rate	14.3	15.1	17.4
Fiscal balance/GDP	-1.7	-2.4	-3.5
Real deposit rate	9.4	9.4	15.6
Real lending rate	12.4	12.2	24.2
	Millions of dollars		
Exports of goods and services	27 751	30 938	31 500
Imports of goods and services	32 698	32 717	29 050
Current account	-12 038	-8 973	-5 301
Capital and financial account	14 065	8 533	-14 499
Overall balance	2 027	-1 218	-19 800

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

November Argentina's country-risk rating rose above 3,000 points.

At that point the government set about restructuring its debt. The first stage of this initiative was conducted in the domestic market and involved swapping national and provincial securities for loans, which had a ceiling interest rate of 7% and guaranteed tax allocation. The operation was considerable (US$ 50 billion), and it is estimated that annual interest payments will be reduced by about US$ 3.5 billion. Provincial debt was reprogrammed as part of agreements that redefined the amounts and conditions of tax-sharing, part of which will be paid in treasury bills.

Despite the debt swap, in late November fiscal and financial affairs were extremely fragile. The financial stranglehold on the public sector was reflected in the budget proposal for 2002, which envisaged a reduction in primary spending of around 1.4% of GDP. The government was still to deal with difficult negotiations to restructure the external portion of public debt in bonds. Deposit flight worsened, to the point that the government found itself obliged to impose restrictions on withdrawals and on transfers abroad, but continued to rule out currency devaluation. The domestic crisis deepened and the government stepped down in late December.

With the new decrease in 2001, GDP has fallen by around 7% over the last three years. Investment has continued to decline, and the capital formation ratio is thus likely to have dropped below 16%. The downward trend of demand and GDP became steeper in the second semester and translated into sharp decreases in manufacturing and construction output.

The grain harvest was an exception to the overall recessionary picture. Cereals (particularly maize, sorghum and rice) and some oleaginous products (sunflower and groundnuts) declined, but a surge in soya output –of more than 30%– was more than enough to compensate for this. Despite climatic disturbances, the 2001/2002 season is expected to bring new increases in output.

In manufacturing the activities least affected by the economic crisis were certain sectors of intermediate goods that enjoy access to external markets. By contrast, the metallurgy and machinery industries, especially the automobile sector, saw output fall considerably.

The contraction of demand helped to maintain the deflationary tend of consumer prices, which affected both goods and services. Wholesale prices decreased appreciably, with sharp falls in primary products and more moderate declines in manufactured goods.

The employment ratio dropped by one percentage point, with a steeper decrease in Greater Buenos Aires, while the labour force participation rate increased slightly. Employment increased in the localities of the interior overall, but trends were very uneven. Unemployment rose from 15.1% in 2000 to 17.4% in 2001, with larger increases in the second semester (in October the rate was 18.3%).

Reduced domestic spending generated an elastic response from imports, which recorded their lowest level since 1995. All the major categories saw backslides, in particular capital goods. The value of exports expanded, due to the effect of volume. The sales of primary commodities increased considerably across the board, especially oleaginous seeds. Smaller increases were recorded in exports of non-traditional manufactures and fuels. By contrast, sales of agricultural manufactures declined, especially vegetable oils, whose exporters encountered access difficulties in a number of markets; and meat, which faced sluggish external demand because of outbreaks of foot and mouth disease in livestock.

External trade generated a considerable surplus –the highest since the early 1990s– with a turnaround of almost US$ 10 billion with respect to the deficit recorded three years earlier. Consequently, and despite the widening of the deficit in the line of interest and earnings, the current-account deficit narrowed significantly, to record what may be the lowest percentage of GDP since 1996. As financing conditions grew harsher, inflows have corresponded mainly to loans from international agencies and to direct investment –though this has weakened– while private capital has flowed out of the country and the portfolio of public debt titles held by non-residents has shrunk. The pressure of demand for external assets has been reflected in a heavy loss of reserves.

Bolivia

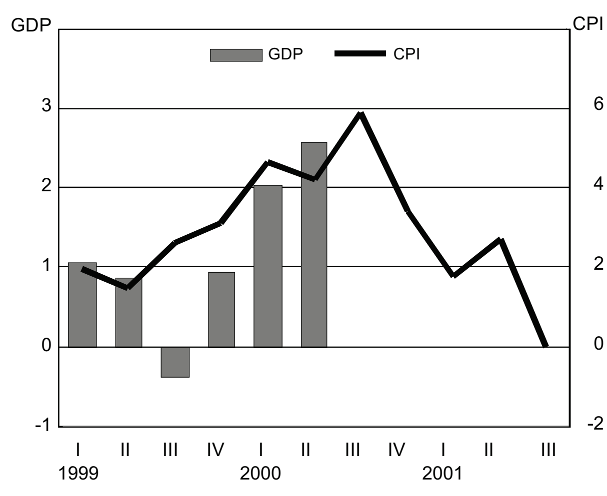
Bolivia's zero-growth rate in 2001 was attributable to the weakness of domestic and external markets, despite the Economic Reactivation Programme. A boom in the hydrocarbons sector was undermined by persistently low rates of investment and consumption. Unlike previous years, the external sector was unable to provide the impetus to turn this situation around, as exports –particularly of minerals and soya products– were subdued by the slowdown in the world economy. Estimates show that the fiscal deficit will remain around 4% of GDP, and that foreign direct investment flows will be similar to 2000. Exports, by contrast, will have slackened, despite strong growth in sales of natural gas to Brazil. Exports of mining products and non-traditional manufactures were particularly weak in 2001. Sluggish domestic demand meant that imports decreased at a lower rate than exports, which generated a current-account deficit just slightly smaller than the 2000 figure. The general inertia has also been reflected in a sharp decrease in the rate of inflation. In late October the consumer price index displayed a cumulative annual rate of barely over 1%.

The Economic Reactivation Programme begun in April included measures to improve bank financing to economic agents, to accelerate the construction of infrastructure and, in particular, to deploy emergency employment programmes that were expected to generate between 30,000 and 50,000 jobs.

The Economic Reactivation Programme begun in April included measures to improve bank financing to economic agents, to accelerate the construction of infrastructure and, in particular, to deploy emergency employment programmes that were expected to generate between 30,000 and 50,000 jobs.

The monetary authority sought actively to maintain price stability and an adequate level of international reserves. The central bank implemented a monetary programme directed at preserving liquidity in the financial system. Net domestic credit was stable after the previous year's decrease. A comparison of monetary aggregates between November 2000 and November 2001 reveals a slight increase, of around 3% in most cases.

BOLIVIA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

International reserves remained on a sound footing at the end of 2001, at US$ 90 million down on the previous year's figure. In June 2001 the second stage of the Highly Indebted Poor Countries Initiative was approved. This will allow Bolivia additional debt relief worth an estimated US$ 1.543 billion in nominal terms over the next 15 years.

The central bank persevered with the sliding parity exchange rate regime. The rate of devaluation is subject to macroeconomic trends and to the rate of inflation. The devaluation of approximately 0.5% per month implemented in March 1999 was maintained in 2001, which meant that in late November a nominal devaluation of almost 6% had been accumulated. The nominal depreciation of the Brazilian and Chilean currencies, however, and the imposition of a currency surcharge on importers in Argentina –which amounted in practice to a depreciation of the peso– generated an appreciation of almost 2% in the real exchange rate.

Bolivia's sluggish economic activity in 2001 was the result of downturns in almost all the sectors of production. In the first half of the year output declined in mining, manufacturing, electricity, gas and water, construction, commerce and financial services. A substantial expansion in crude petroleum and natural gas and communications was barely enough to offset this combined slowdown. Natural gas output increased by 53% in the first semester of 2001, with respect to the same period of the previous year, on the back of increased exports to Brazil. The value of these exports also increased thanks to favourable prices. The telecommunications sector recorded a growth rate of close to 10%, which was mainly attributable to an increase in national long distance traffic. Public administration also returned a relatively high growth rate.

Few labour market statistics are available, but there are signs that in 2001 unemployment was over 7% and underemployment rose, which led the government to implement emergency employment programmes. As labour market conditions took a turn for the worse, wages stagnated in the formal sector.

Bolivia faced adverse external conditions in 2001, as global demand ebbed significantly, which translated into sharp declines in demand for commodities. In the first semester of 2001 foreign direct investment was slightly higher than the same period of 2000 and continued to go primarily to hydrocarbons, commerce and services. The value of imports fell, which was chiefly attributable to the slowdown in domestic activity, with the worst affected being capital goods, especially transport equipment and intermediate goods for industry and construction materials. Exports also declined in response to the downshift in the world economy. The only exception was sales of hydrocarbons, in particular natural gas exports to Brazil. A sharp downturn was recorded in the mining sector, in which a number of products, such as silver and zinc, saw substantial falls in both price and volume of shipments. The value of non-traditional products (soya, cotton and coffee) was down by over 10%. It is therefore estimated that in 2001 the current-account deficit will be slightly less than the figure recorded in 2000.

In late August 2001 outstanding medium- and long-term external public debt was US$ 4.477 billion, which was slightly more than the balance at 31 December 2000. This may be attributed to increased commitments to multilateral creditors, as debt owed to bilateral creditors decreased.

BOLIVIA: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	0.4	1.8	0.0
Consumer prices	3.1	3.4	1.1
Real wages	6.2	0.9	...
Money (M1)	-6.6	0.8	5.1
Real effective exchange rate [b]	-1.0	2.9	0.0
Terms of trade	-0.1	*2.0*	-4.9
	Percentages		
Urban unemployment rate	8.0	7.6	...
Fiscal balance/GDP	-3.8	-4.1	-4.0
Real deposit rate	9.9	6.1	7.8
Real lending rate	32.5	*28.7*	17.6
	Millions of dollars		
Exports of goods`and services	1 310	1 453	1 435
Imports of goods and services	1 989	2 078	1 976
Current account	-489	-463	-367
Capital and financial account	515	425	257
Overall balance	27	-39	-110

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

Brazil

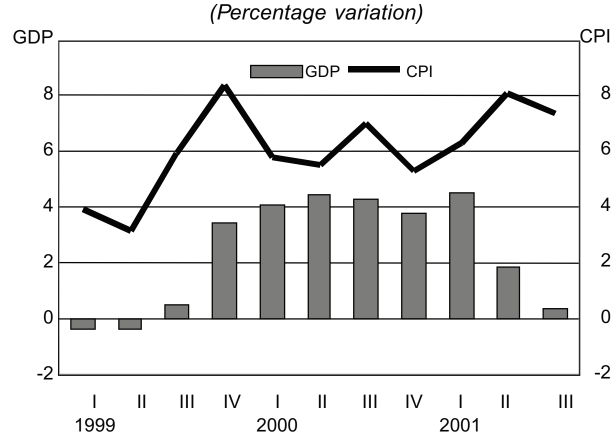
The favourable expectations that were entertained in early 2001 for the Brazilian economy were thwarted by a series of supply and aggregate demand shocks. These held back growth, further unbalanced the public accounts, choked external capital flows and increased exchange volatility. GDP expanded by a meagre 1.7%, which was a considerably lower rate than the figure of 4.5% recorded in 2000. According to the extended national consumer price index, inflation increased to reach a cumulative rate of 7% in November, which was higher than the official target of 6%. The nominal public deficit increased to 8% of GDP (compared with 4.5% in 2000), while the current-account deficit widened from 4.2% to 4.7% of GDP owing to the exchange-rate effect. External financing contracted markedly, with a drop of 34% in autonomous net capital inflows. This decrease included even foreign direct investment, which has performed well in recent years. Unemployment decreased to 6.3% in the period from January to October, which is 0.8 percentage points lower than the average rate for 2000.

Mounting uncertainty in the external markets and the resulting upward trend of the exchange rate led the central bank to reverse its policy of using interest-rate cuts to keep inflation on target. The recessionary impact of higher nominal interest rates was exacerbated by energy rationing and by the substantial increase in the exchange rate (29% in the first semester). In response to exchange rate volatility, in July the central bank announced the supply of an additional US$ 50 million per day until the end of the year, or a total of US$ 6 billion. In August, the Brazilian government negotiated a new stand-by arrangement with IMF, to run until December 2002, which provided additional resources of about US$ 10 billion. At the same time, the floor level of international reserves was renegotiated –down to US$ 20 billion– which freed foreign currency for exchange market intervention.

The events of September and the relentless deterioration of the situation in Argentina, however, exacerbated poor expectations. The exchange rate rose by a further 10%, which represented a cumulative increase for the year of 44%. In order to avoid new increases in the interest rate, which was already at 19%, in the two-month period September-October the central bank sold US$ 9.1 billion in exchange rate-indexed debt, which caused a severe impact on the state of fiscal affairs.

BRAZIL: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

BRAZIL: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	0.7	4.5	1.7
Consumer prices	8.4	5.3	9.2
Real wages	-4.4	-1.0	-3.1
Money (M1)	13.3	13.5	6.9
Real effective exchange rate[b]	50.6	-7.1	16.8
Terms of trade	-9.7	-3.1	-0.3
	Percentages		
Urban unemployment rate	7.6	7.1	6.3
Fiscal balance/GDP	-10.0	-4.6	-8.0
Real deposit rate	19.8	10.5	9.2
Real lending rate	49.1	30.0	29.7
	Millions of dollars		
Exports of goods and services	55 205	64 470	67 507
Imports of goods and services	63 443	72 741	73 924
Current account	-25 397	-24 636	-23 657
Capital and financial account	8 592	32 698	20 105
Overall balance	-16 805	8 061	-3 552

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

The issuance of these securities was in response to a surge in demand for an instrument to hedge foreign-exchange risk. In addition, the banks' reserve requirements on time deposits increased to 10%, which drained liquidity from the system. Lastly, October saw the entry into force of measures that had been announced in July, which stipulated higher capital adequacy ratios on banks' foreign-exchange exposure.

Slower growth and higher exchange rates contributed to an improvement in the trade balance, which began to display a sizeable surplus in August. As international interest rates continued to trend downwards and Brazil's external borrowing conditions were increasingly differentiated from those of Argentina, expectations in the foreign exchange market improved, which generated a rebound in the exchange rate trend in November. The cumulative increase in the price of the dollar to 10 December was therefore 21%, which was half of the figure recorded in September.

The state of fiscal affairs took a turn for the worse in 2001, despite a considerable consolidated public-sector primary surplus which, at 4.5% of GDP in January-October, outstripped the target. The nominal deficit widened considerably; this was entirely attributable to nominal interest which was, in turn, a consequence of devaluation. Brazil's currency depreciated by 4.9% of GDP, given that a significant portion of public debt is indexed to the exchange rate or denominated in foreign currency. The appreciation of the real in the last two months of the year made it possible to mitigate this effect, but nevertheless the impact over the year as a whole was considerable. The increase in the deficit pushed the net public debt to GDP ratio up from 49.4% in December 2000 to 54.8% in October 2001, though this trend eased at the year's end.

Against this complex macroeconomic backdrop, trends in activity varied greatly between sectors. Growth of 5.5% in the agricultural sector contrasted with stagnation in manufacturing, while services posted an intermediate result of 2.8%. Within manufacturing, capital goods output increased by almost 13%, while the other subsectors stagnated or even slipped back (-1.8% in consumer durables). On the supply side, the year was marked by an acute energy crisis that broke out in May, triggered by a severe drought in a country in which, after a decade of patent underinvestment, 93% of the electricity supply comes from hydroelectric sources. This crisis forced a reduction of up to 20% with respect to the second quarter average of 2000 in power consumption by households, industry and commerce in the south-east and north-east of the country.

The performance of capital goods appears to have been associated with favourable trends in gross fixed capital formation, which were in turn a delayed response to output growth in 2000 and early 2001. Between January and September investment accounted for 19.4% of GDP, compared with 18.4% in the same period of the preceding year. This component of aggregate demand has heightened the positive impact of exports and offset the negative effect of a contraction in aggregate demand. It appears, however, that in the last quarter investment slipped back somewhat.

Owing to the subdued expansion of GDP, net job creation between January and September was 20% below the figure recorded in the same period of 2000. In the second semester of 2001, however, rates of urban unemployment stabilized at around 6.3%, which was lower than a year earlier.

In 2001 inflation will be higher than in 2000, owing in particular to increases in administered prices (energy, telecommunications and petroleum), which are in turn attributable to the entry into force of privatization contacts in a number of these utilities. In addition, agricultural prices have proven sensitive to currency depreciation, as exports account for a large share of some sectors. Lastly, some firms attempted to recover profit margins by passing on the higher costs –in particular of imported inputs– to the final consumer.

Despite international disturbances, the external sector recorded a number of advances in the current account and adverse results in the capital account. In the first ten months of the year exports increased by 7.3% with respect to the same period of 2000. This expansion was led by commodities, the sales of which were up by 24%. From July on, power rationing and the downshift in the world economy combined to depress the value of exported manufactures and semi-manufactured goods. The price effect became a constraining factor once again, with a drop of over 2% in exports as a whole. This phenomenon was particularly marked in semi-manufactured goods (down by 13%) and commodities (down by 9%). The crisis in Argentina also hurt manufacturing exports, with a decrease of 5.4% in total value in the third quarter, which accounted for 91% of the total decrease in exports of manufactures in this period.

Imports posted an increase of just over 4% in the first ten months of the year, led by capital goods and, to a lesser extent, consumer durables. By contrast, the expansion of raw materials, intermediate products and fuels was slight.

To October, the current-account deficit was US$ 19.9 billion. This was 4% higher than the previous year, despite an improvement in the goods balance, which posted a surplus of US$ 1.5 billion. The deficit on the factor account widened to US$ 22.7 billion, which was US$ 2.2 billion more than the 2000 figure, owing to interest payments and increased profit remittances.

Despite the relatively positive position of current transactions, the Brazilian economy faced external borrowing problems. Owing to the deterioration of the international environment, net inflows from bond sales decreased in the period January-October from US$ 5.1 billion in 2000 to US$ 490 million in 2001. The resulting decrease in liquidity halted the expansion of Brazil's external debt which, according to a new method of calculation, appears to have decreased in August to US$ 210 billion, compared with US$ 216.9 billion in December 2000.

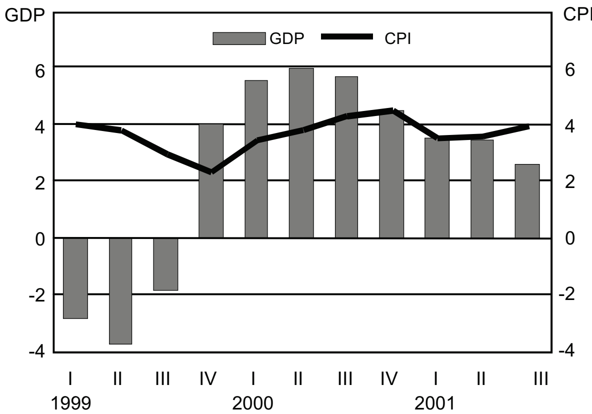
Constraints on credit access were accompanied by a dampening of foreign direct investment, which in the first ten months of the year amounted to US$ 18.5 billion, which was 20% lower than the figure for the same period of the previous year.

Chile

The Chilean economy –one of the most open in Latin America– will see its growth rate decline from 5% in 2000 to 3% in 2001. The world economic slowdown has severely hurt terms of trade, which have fallen back by 7% and, as a result, gross domestic income will increase by a meagre 1%. Despite the harsh international conditions, with an increase in the exchange rate and a reduction in the rate of interest, the authorities were able to generate monetary conditions conducive to reactivation in the medium term.

According to official estimates, total income will have dropped by around 7 GDP percentage points, owing to the effect of copper and petroleum prices, reduced flows of external capital and slower growth of export volumes than in a "normal" year. In 2001 Chile faced some of the worst external conditions since the mid-1980s. The exchange rate increased markedly until October, keeping inflation at the top of the central bank's target range (an annual rate of between 2% and 4%), although later a considerable drop in fuel prices brought the rate to 3.1% for the year as a whole. The nominal exchange rate rose by 25% in the 12 months to October, which was equivalent to a real currency depreciation of 12%, taking into consideration variations in exchange rates and in prices in main trading-partner countries. Although this adjustment is partly attributable to reduced inflows of foreign exchange and an expansion of domestic liquidity, for much of the year the nominal exchange rate shadowed the trend of Argentina's country-risk rating, which was a clear indication of a degree of contagion. In response to the magnitude of the increase in the exchange rate, in August the central bank announced the sale of up to US$ 2 billion in reserves until December, thus ending the hitherto clean

CHILE: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

CHILE: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-0.1	4.9	3.0
Consumer prices	2.3	4.5	3.1
Real wages	2.4	1.4	1.6
Money (M1)	17.5	-1.7	13.5
Real effective exchange rate[b]	5.2	1.3	9.1
Terms of trade	0.3	0.1	-6.8
	Percentages		
Urban unemployment rate	9.8	9.2	9.5
Fiscal balance/GDP	-1.5	0.1	-0.5
Real deposit rate	5.1	5.2	2.4
Real lending rate	9.0	10.5	8.2
	Millions of dollars		
Exports of goods and services	19 406	22 087	21 902
Imports of goods and services	18 056	21 209	20 752
Current account	-78	-988	-1 200
Capital and financial account	-670	1 223	1 000
Overall balance	-748	234	-200

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

float of the exchange rate. The moderate response of the inflation rate to devaluation and the subsequent intervention of the central bank in the exchange market made it possible to keep the base rate of interest very low from June onwards (a nominal rate of 6.5%), after five consecutive cuts since the beginning of the year, which represented a total of 150 basis points.

In mid-November the exchange rate began to break free from the Argentine country-risk rating, which appeased fears that inflation would surge as a result of the exchange rate's patent misalignment with forecasts made early in the year. In October international reserves rose above US$ 14 billion, as the sale of close to US$ 800 million to the commercial banks as part of the intervention programme announced in August was offset by an increase in fiscal deposits in the central bank, which corresponded to the proceeds of a government bond issue. In a move to bring the management of monetary policy tools into line with international practices, in August the central bank abandoned its system of setting a real daily interest rate in favour of a nominal rate regime.

With respect to fiscal affairs, income was 3.5% lower than the budgeted figure, which was a reflection of lower than-expected economic growth and the deterioration in the price of copper (the production of which is almost 50% State-owned). This will generate a public-sector deficit equivalent to 0.5% of GDP.

Public spending remained on target with an expansion of 5%. The government's policy of allowing automatic fiscal stabilizers to operate freely permitted the deficit to widen in response to unforeseen cyclical variations in income, consistently with the medium-term target of achieving a structural surplus. The comparative autonomy of spending against a background of volatile income constitutes a distinguishing feature of the current fiscal policy and has had a significant stabilizing effect on the level of activity. In October the government conducted a sovereign bond issue for US$ 650 million, with a spread of 256 basis points. Part of this sum will go to the Copper Stabilization Fund to deal with the eventuality of a further deterioration in the price of the commodity in 2002.

The government obtained approval for a number of laws to which it attaches great importance. The legislation on unemployment insurance provides for the creation of individual funds for new contracts, so that a worker who becomes unemployed after contributing to the fund for a full year can accede for five months to unemployment insurance on a sliding scale. The tax reforms include a law which tightens controls and should reduce evasion by just over one GDP percentage point in the medium term. Another piece of tax legislation has altered the structure of income tax, by reducing the marginal rate on medium- and high-income bands, and progressively raising tax on corporate profits from 15% to 17%. Capital market reforms have eliminated capital gains tax, lowered the tax rate on interest payments of fixed-income instruments for foreign investors and created tax incentives to encourage voluntary saving on the part of workers. This legislation complements other initiatives, such as the Law on Public Share Offers and Corporate Governance (known as the OPAS legislation), and the completion of the capital-account liberalization process announced by the central bank in April. In December a labour reform entered into force which entails tighter controls and a possible –though moderate– increase in the cost of laying off workers. The promulgation of this legislation put an end to a prolonged debate between the government and representatives of the business community.

High risk premiums and constraints on commercial bank lending have exacerbated the difficulties of small and medium-sized firms, which partly accounts for the meagre growth recorded in manufacturing. These factors have also contributed to the persistence of unemployment, which continues to be the Administration's main unresolved issue, standing at around 10% in the winter months for the third year running. The seasonally-adjusted rate fluctuated around 8.5%. Employment programmes financed directly by the public sector or through subsidies to private employment created over 150,000 jobs, which helped to mitigate the deterioration in the labour market.

The value of exported goods will decline, mainly in response to the worsening of the price of copper –which fell by 12%– and of pulp, as export volumes increased by 8%. The value of imports decreased by 3%, with decreases in consumer goods (-5%) and intermediate goods (-2%) and increases in capital goods (5% in value and just over 7% in volume). A decrease of 7% in the price of petroleum accounts for a drop in the value of intermediate goods imports. To October, foreign direct investment inflows stood at US$ 4.032 billion, which corresponded to purchases of local firms in late 2000 and large-scale mining projects. Outward foreign investment flows were US$ 3.092 billion, compared with US$ 4.8 billion in 2000.

Colombia

In 2001 the Colombian economy failed to consolidate the slight upturn recorded in 2000 and weakened again. Output will have expanded by 1.5% –more than a percentage point below the previous year's figure of 2.7%– which means that the country has not yet recovered from the downshift experienced in the recession of 1999. Despite an expansionary monetary policy, domestic demand weakened by a number of factors including unemployment and underemployment –which affect half of the economically active population– was unable to offset a downturn in external demand. Terms of trade took a turn for the worse, especially the international prices of petroleum and coffee. This, in combination with a downturn in crude petroleum production, hurt the external balance (-2.6% of GDP). The fiscal balance improved slightly, to record a deficit of 3.3% of GDP.

Macroeconomic policy became increasingly expansionary as the year progressed, in an effort to stimulate domestic demand in response to worsening external conditions. In a context marked by the downward trend of inflation and a stable exchange rate, the central bank cut the intervention rate it uses to manage liquidity seven times, from 12% at the beginning of the year to 8.5% in December. Interest rates in the market followed suit and decreased considerably. In early December, the deposit rate (measured as the financial system's average for 90-day fixed-term deposits) was 11.5%, which was two percentage points below the

January figure. Lending rates did not display a significant decrease until the last quarter.

The financial system remained fragile, despite some promising signs. The total portfolio continued to shrink in nominal terms, but at a slower rate than early in the year. In particular, from February on the contraction of the mortgage portfolio became gradually less severe.

The fiscal balance improved despite the economic downshift. The central government deficit decreased to a figure equivalent to 4.6% of GDP, compared with 5.6% in 2000, and the non-financial public sector deficit was down from 3.5% of GDP in 2000 to 3.3% in 2001. The government's narrower deficit is attributable to a nominal increase of 27% in tax receipts in the first three quarters, thanks to tax reforms that came into effect in January. The tax ratio thus increased from 8.9% of GDP to 10.2% in this period, which enabled the government to increase overall spending by 18%. The rest of the non-financial public sector deteriorated slightly, mainly due to a downturn in output and a decrease in petroleum prices. The government and IMF arrived at an agreement to increase the upper limit of the target for the NFPS deficit from the initial figure of 2.8% of GDP to 3.3%. In addition, the Administration obtained approval for reforms to the system of transfers to regional and local governments, and a project to reform the pensions system is to be discussed in Congress in 2002.

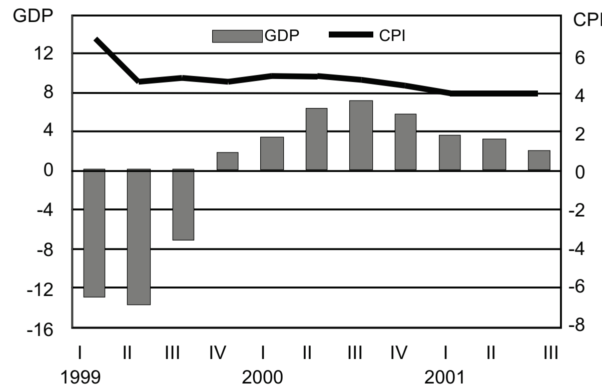
The government secured guarantees for its external borrowing requirements for 2001 and much of 2002, in order to avoid payment of a higher risk premium generated by the period of elections in combination with international financial instability. The Administration also continued to diversify its sources of financing and restructured domestic public debt, which lowered the costs of external and domestic borrowing. As a result of foreign exchange inflows obtained by the government, from June the exchange rate stabilized, and nominal currency depreciation at the end of November thus came to 4%.

The slowdown in the economy began in the final quarter of 2000 and intensified in 2001. GDP growth from January to September was 1.4%, compared with 2.8% in the year-earlier period. External demand, which was the driving component of aggregate demand in 2000, weakened during the year, while domestic demand continued to be sluggish, especially consumption. The hardest hit sector was manufacturing, which declined by an average of 0.2% in the first nine months of the year, after expanding by 10% in 2000. Agriculture and commerce also performed poorly. By contrast, construction and the financial sector displayed a slight upturn after several years of decline.

Urban unemployment (13 metropolitan areas) remained high, posting an average rate of 18.5% in the first nine months of 2001, compared with 17.2% a year earlier. Despite the high average, the general trend was downward, as the unemployment rate decreased from a peak of 21% in January to 16.8% in October. The overall labour force participation rate was similar to 2000, which was still higher than the long-term trend, owing to

COLOMBIA: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

COLOMBIA: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-4.1	2.7	1.5
Consumer prices	9.2	8.8	7.8
Real wages	3.0	3.9	0.2
Money (M1)	11.6	19.9	-0.4
Real effective exchange rate[b]	13.4	9.7	2.5
Terms of trade	7.1	12.9	-6.1
	Percentages		
Urban unemployment rate	19.4	17.2	18.5
Fiscal balance/GDP	-5.1	-4.1	-3.3
Real deposit rate	9.2	2.7	4.3
Real lending rate	17.1	10.0	13.7
	Millions of dollars		
Exports of goods and services	13 895	15 678	14 851
Imports of goods and services	13 396	14 384	15 802
Current account	190	306	-2 061
Capital and financial account	-510	564	2 821
Overall balance	-319	870	760

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

increased participation by secondary household workers in response to declines in household income.

Lacklustre domestic demand helped to keep the trend of consumer price increases at around 8% throughout the year, in line with the central bank's target. As a result of lower prices for agricultural and mining goods and smaller cumulative depreciation, from May on the wholesale price index (WPI) displayed less variation and the rate eventually converged with consumer price rises.

On the external front, the first nine months of the year saw an increase of 13.6% in imports and a decrease of 3.9% in total exports. These trends had the effect of substantially reducing the trade surplus, which will bring the current-account deficit to around 2.6% of GDP for the year overall.

Due to both a downswing in international prices and reduced shipments, the export value of the main generators of foreign currency declined drastically (with hydrocarbons down by 28% and coffee by 33%) which resulted in a slump of over 18% in traditional exports. By contrast, sales of non-traditional exports continued to rise (up 11%), led by exports to Venezuela (34%) and Ecuador (61%).

Capital inflows, particularly long-term funds, were more than enough to finance the current-account deficit. The balance-of-payments capital account is set to close the year with a surplus of about US$ 2.9 billion, and international reserves will stand at US$ 10 billion.

Ecuador

Spurred by investment in various areas, including the construction of a new oil pipeline, and by an upturn in household consumption, GDP in Ecuador grew by 5% in 2001, which, with the recovery in the preceding year, should bring it closer to the 1998 level. Inflation declined to less than 25% or a quarter of the rate recorded in 2000, and public sector figures are expected to show a small surplus for the second consecutive year. The marked decline in oil prices again exposed the economy's vulnerability and resulted in an 8% deterioration in the terms of trade. Moreover, difficulties continued to plague the banking and financial situation, while fiscal and social security reform remained a key issue on the agenda.

The funds provided by the International Monetary Fund under the programme adopted in April 2000 and scheduled to run until the end of 2001 were crucial for the central bank to consolidate the dollarization of the economy. Operations for converting sucres to United States dollars were completed in June, while further steps were taken to whittle the bank cash ratio down to 4%. In the first half-year, interest rates for dollars showed little variation, with the nominal annual rate on deposits remaining at around 7% and the nominal lending rate at around 15.5%; despite some fluctuations, by the end of the year, rates had declined by half of a percentage point, still remaining negative in real terms.

With the dollarization of the economy, the central bank exercised less control on the monetary base, as the latter included only bank reserves (cash reserves) and the issue of subsidiary coin in national currency. As a result, the performance of the economy is more a function of fiscal policy. The fiscal situation, which had already shown some progress in the preceding year, associated with the favourable movement in oil prices, showed further improvements thanks to the recovery and to modernization of the tax administration, that is, domestic factors. In the first half of 2001, total non-financial public-sector revenue represented 28% of GDP, (compared with 26% in the corresponding period of the previous year - annualized figures); this figure reflects the substantial increase in tax collections and a slight rise in oil revenue, although oil revenue on exports actually declined. The price of crude fell from US$ 25 per barrel in 2000 to US$ 20 dollars per barrel in January-September 2001 and continued to slide until late into the last quarter. It should be noted that a one-dollar decline in the average price for crude means US$ 7-8 million dollars per month in forgone revenues. Despite the fact that the 12%-14% rise in VAT adopted by Congress in June was overruled by the Constitutional Court, internal tax collections actually increased.

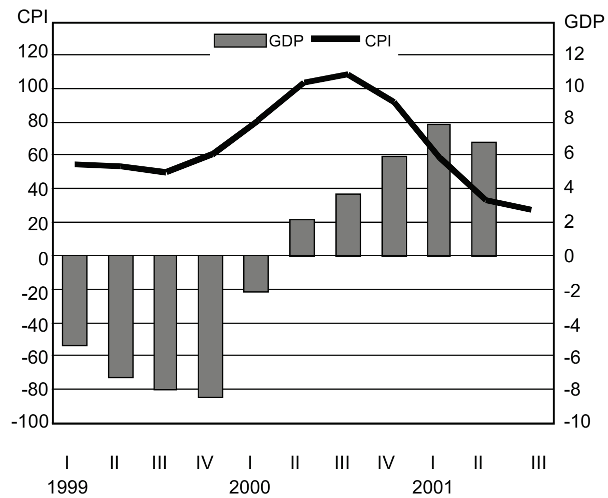
There were fresh outbreaks in the prolonged crisis of the banking and financial system. The collapse, in mid-2001, of the largest State-owned bank (Filabanco) was followed by the failure of the Banco del Pacífico; both of these liquidations gave rise to considerable quasi-fiscal costs, which will have to be added to the costs of the bailout carried out previously. Conversely, the private banking system displayed more favourable indicators and improved their management with a view to redeeming its non-performing loan portfolio, which, in September, accounted for 14% of its loans. Under the IMF agreement, authorities pressed ahead with a series of regulations for tightening up on banking administration and financial supervision and, in particular, with a system for refinancing private debts.

Gross domestic product growth was fuelled by domestic demand and by the increase in oil supply. Led once again by the private sector, gross fixed investment expanded by 30%, a record rate attributable in part to the construction of the Crudos Pesados oil pipeline (OCP); despite this, it remained below the 1998 level. For the 2000-2001 biennium, private consumption is expected to show a cumulative recovery of about 5%, thus reversing by half the decline recorded in 1999. Imports maintained their dynamism, with purchases of capital goods remaining buoyant. In this context, the average employment rate rose to 49.7%, up by almost one percentage point compared with the average for 2000. Nevertheless, with high levels of emigration to destinations abroad, unemployment declined much more, i.e., from 14.1% to 10.9%.

Inflation was highly favourable. In November, the consumer price index showed a cumulative rise of 24.6%, compared with 96.8% a year earlier; this result reflects the reduction in the price of food and beverages. From June to October, the producer price index reflected negative changes, which heralds lower rates of inflation for the first few months of 2002. In January, the monthly minimum wage increased from US$ 98 to US$ 121, a rate that was maintained up to November; in view of the downward trend in inflation, minimum wages, measured in real terms, should have increased by around 12%.

The effects of the global slowdown have spilled over into the Ecuadorian economy through the business channels, especially via prices. In October, merchandise exports fell by 9% in value terms; oil products, by 17% and banana and shrimp, by about 2%. Conversely,

ECUADOR: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

ECUADOR: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-9.5	2.8	5.0
Consumer prices	60.7	91.0	24.6
Real minimum wage	-10.7	-3.5	11.7
Real effective exchange rate[b]	37.4	12.0	-28.6
Terms of trade	6.6	16.5	-8.1
	Percentages		
Urban unemployment rate	14.4	14.1	10.9
Fiscal balance/GDP	-4.7	0.4	0.3
Real deposit rate	-2.0	-43.3	-28.3
Real lending rate	7.9	-38.9	-20.9
	Millions of dollars		
Exports of goods and services	5 263	5 793	5 670
Imports of goods and services	4 073	4 582	6 689
Current account	955	1 383	-823
Capital and financial account	-1 846	-1 167	518
Overall balance	-891	216	-305

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

boosted by the fall in the real effective exchange rate, merchandise imports increased strongly (47%), led by imports of capital goods (80%) and consumer goods (75%).

In 2001, the balance-of-payments current account showed a deficit of some US$ 800 million (4.5% of GDP), reversing the surplus recorded in 2000. Current transfers, mainly remittances from Ecuadorians abroad, remained in the US 1.5 billion range, helping to offset the chronic deficit in services and factor income. Contributing to the change in this last item was the interest relief granted when the external debt was restructured in August 2000. Long-term capital inflows, especially foreign investment, mainly in the petroleum sector, reached a record figure of US$ 1.37 billion; but, as there was also an appreciable outflow of short-term private capital, the net balance was US$ 520 million. The global balance of payments showed a deficit of US$ 300 million, two thirds of which was financed by IMF loans and the remainder out of international reserves.

The gross external debt of Ecuador, of the order of US$ 13.6 billion, did not reflect any significant variation. Nevertheless, indicators of the external debt burden continued to be cause for concern. Thus, despite the restructuring negotiated with private creditors in August 2000, the external debt/GDP ratio stood at 80%.

Paraguay

After four years of poor performance and six years of decline in the per capita GDP, in 2001 the Paraguayan economy grew by 1.5%, as the recovery in the agricultural sector offset the fall in the other productive sectors. The fragile external situation resulted in a real depreciation of the guaraní, which in view of the low level of reserves, made it necessary to adopt a contractionary policy. Against this background, at the end of November, the accumulated rate of inflation over the twelve-month period was at around 6%.

After two consecutive years of expansionary fiscal policies, the government decided in 2001 to implement more austere policies, in view of the accumulated public debt, the lesser degree of access to external financing and the urgent need to achieve the goals established in the staff-monitored programme with the International Monetary Fund.

The deficit of the central government was reduced to the equivalent of one percentage point of GDP (3.6% in the previous year), basically by increasing income. This was achieved by increasing the collection of duties on goods and services, particularly selective taxes on fuels, and of non-tax receipts from binational dams. At the same time, expenditure was reduced, mainly by means of cuts in capital investment. At the end of the third quarter barely a quarter of such projects had been implemented. Current expenditure had also been maintained at the same level as the previous year by cutting expenditure on goods and services. It was estimated that the rest of the public sector would also reduce its deficit, thanks to an improvement in the accounts of public enterprises.

During the third quarter, the depreciation of the guaraní and an inflationary surge led the Central Bank of Paraguay (BCP) to sell around 100 million dollars. Open-market operations with the placement of monetary regulation instruments were not very significant. In the second quarter, in contrast, when the national currency suffered severe shocks because of the fragile subregional situation, BCP chose to make more placements of such instruments in view of the country's low level of international reserves. In the third quarter, both the rates and placements of monetary regulation instruments increased significantly, in order to raise interest rates and prevent a fall in the guaraní.

As a result of this policy, the real lending and deposit rates rose by 19% and 7% respectively. The interannual growth rate in monetary aggregates at the end of September was less than the level observed in the same month in 2000. In fact, the M1 grew by only

4.0%. The real effective exchange rate, calculated on the basis of the currencies of Paraguay's main trading partners, a formula in which the Brazilian real predominates, recorded an increase of 6% between December 2000 and September 2001 and the nominal exchange rate (denominated in Guaranís per United States dollar) rose by 20%. The level of reserves at the end of the third quarter had decreased to US$ 690 million, a figure equivalent to a little more than two months of imports.

With regard to the reforms, the government went ahead with the privatization process, intervening in the administration of the Sanitary Works Corporation (CORPOSANA) and the National Telecommunications Administration (ANTELCO) in order to prepare for their sale to the private sector.

The only sector with positive growth in 2001 was agriculture, which after shrinking by 8.5% in the previous year, grew by around 10%, thanks to an increase in the production of its main export crops, cotton and soya, in both cases by 20%. There were good crops of the main products for national consumption, tapioca, maize and sugar. The other productive sectors remained stagnant or declined, as suggested by the preliminary indicators for the construction sector (including public works) and the manufacturing industry.

In November cumulative inflation for the year reached 6.8%, three percentage points lower than the comparator, and 6.4% over a twelve-month period. The variation in the prices of national goods followed the general trend, although the prices of non-tradable goods, especially housing, transport and education, rose by more than the average (around 10%). In turn, the increase in the prices of imported goods fluctuated at around 8%, owing to the depreciation of the guaraní. The producer price index (PPI) increased similarly to the CPI (6.4% in twelve months), which was mainly due to the rise in imported products, as the wholesale prices of national inputs did not change.

The minimum salary was readjusted by 15% in May which represented an average real increase of 3% in the first half of the year. The average salary improved a little over 2% in real terms during the first half of 2001 compared to that period in the previous year. The sectors of basic services, transport, communications and services suffered real losses and workers in commerce, construction and industry recorded slight improvements.

The current account deficit contracted to US$ 100 million owing to a reduction in the trade deficit. This is explained in turn by a decrease in imports, which were affected by the lower income from products destined for re-export. The rest of imports, that is, those recorded, had until September a level similar to that of the previous year in the same period (US$ 1.45 billion). Imports from partners within the zone increased slightly.

PARAGUAY: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-1.1	-0.6	1.5
Consumer prices	5.4	8.6	6.4
Real wages	-2.1	1.3	...
Money (M1)	3.8	8.5	4.0
Real effective exchange rate[b]	-1.8	3.8	0.2
Terms of trade	-5.1	-4.0	1.1
	Percentages		
Urban unemployment rate	9.4	10.7	...
Fiscal balance/GDP	-1.0	-3.6	-1.0
Real deposit rate	8.1	3.4	7.3
Real lending rate	21.9	*16.4*	19.1
	Millions of dollars		
Exports of goods and services	3 242	2 782	2 867
Imports of goods and services	3 533	3 321	3 156
Current account	-86	-315	-99
Capital and financial account	-227	-43	-211
Overall balance	-313	*-358*	-310

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

Total exports stagnated owing to the weakening in the flow of products to the informal markets of Brazil and Argentina, countries which imposed greater access barriers. This reduction was barely offset by exports, which in September increased by 12.5% (from US$ 686 million to US$ 772 million), thanks to the increase of close to 20% in the value of soya sales, which increased by US$ 300 million. In this area, the increase in the physical volume (25%) easily compensated for the drop in the international price (-5%). Cotton exports increased by 15% (reaching 72 million) thanks to a 30% increase in volume, which also managed to offset the steep drop in international prices which occurred as of September 2000. Meat exports increased by 12% (US$ 57 million). Sales recorded to MERCOSUR fell by around 20%, as a result of the weakening of the markets in neighbouring Brazil and Argentina, which could not be offset by the increased exports to Uruguay.

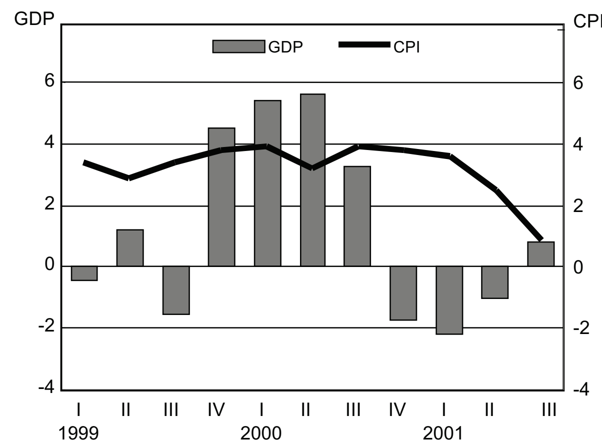
The balance of external public debt at the end of the third quarter was US$ 2,190 million, similar to the level recorded twelve months previously.

Peru

In a year of political transition, the gross domestic product of Peru contracted by a half percentage point. The first half of the year was marked by political uncertainty and a worsening of the recession that the country had fallen into at the end of 2000, but signs of recovery appeared in the second half of the year. The weakness of internal demand eroded fiscal revenue, which contracted in real terms; however, cuts in expenditure, especially in investment, diminished the public sector deficit to 2.4% of GDP, a gap that was financed mainly by external resources. In this recessionary situation, employment grew by scarcely 1%, so that the annual rate of inflation was practically zero. As a result of the moderate increase in exports and a slight reduction in imports, the external deficit continued to diminish and was equivalent to 2% of GDP.

Although GDP grew by 3% in 2000, the economy entered a recession in the final quarter of that year in view of increasing political uncertainty. This situation continued into the first half of 2001, when the interim government, while improving the transparency of public accounts, managed to ensure sound fiscal management, after the increase in expenditure in the first half of the previous year. The culmination of the election cleared up the political uncertainty. The first measures taken by the new government were designed to revitalize internal demand and reduce unemployment. The freedom to set interest rates was maintained, as well as the floating exchange-rate system, with occasional intervention from the Central Bank. In order to achieve the desired recovery, in August the Congress approved a reduction of the emergency solidarity tax from 5% to 2%; an increase of 9% in the salaries of lower-level public-sector employees; the implementation of an emergency programme of US$600 million to generate employment, financed mainly by external donations; and the creation of an agricultural bank for granting loans to small-scale farmers. Electricity prices for small consumers were also reduced and some personal and company income tax rates were reduced.

PERU: GROSS DOMESTIC PRODUCT AND INFLATION
(*Percentage variation*)



Source: ECLAC, on the basis of official figures.

Internal demand remained weak for most of the year. Private investment, which had begun to fall in the middle of the previous year, continued to decline during 2001. Public expenditure also diminished, in the context of fiscal caution encouraged both by the interim government and by the new government that took over in July. Private consumption was the only positive component of internal demand. Exports also continued to rise, but were not sufficient to counteract the negative effects previously mentioned. In addition to weak internal demand, there were unfavourable factors affecting supply in the primary sectors, so that GDP fell by 0.5%.

Agricultural production did not manage to achieve the high level of production of the previous year. The performance of fishing was irregular, owing to changes in seawater temperature, while construction continued its marked de, in view of the lack of financing and the weakness of internal demand. Only mining showed significant growth, due to the start-up of production at the Antamina polymetal mine, which as of 2002 will add a few percentage points to GDP growth. During the third quarter, however, the primary sectors showed a significant recovery (almost 7% higher than the levels of the previous year), which seemed to indicate the end of the recession. The non-primary sectors remained negative until the third quarter, but with a clear trend to recovery towards the end of the year.

The fall in GDP caused a deterioration in public revenue in real terms, despite which the fiscal imbalance was reduced. In the first half of the year the strict fiscal management of the interim government reduced the deficit by almost one percentage point. In the context of greater availability of external financing, the strategy of the new government gave priority to overcoming the recession, and managed to enhance the flexibility of the agreement reached with the IMF, which involved reducing the deficit in 2001 to the level of 1.9% of GDP. In this new situation the annual deficit was equivalent to 2.4% of GDP. Two-thirds of this gap was financed from external sources; income obtained from privatizations also contributed, although it was less than in the previous year.

The new political situation also had positive effects on the exchange market. The reduced level of uncertainty attenuated the demand for foreign currency, at a time when the supply was increasing owing to the recovery in primary exports and the flow of external funds was increasing. In this way, in contrast with the volatility observed in the months prior to the election, as of July the Peruvian currency appreciated in relation to the dollar and its nominal value at the end of the year was almost 3% less than at the end of 2000.

The greater confidence in the exchange market also had repercussions on interest rates, which rapidly declined after the election. The inter-bank rate for national currency, which had climbed to an annual 16% in June was below an annual 4% in November. Foreign

PERU: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	0.9	3.0	-0.5
Consumer prices	3.7	3.7	0.1
Real wages	-2.2	1.2	-2.0
Money (M1)	8.6	-5.3	0.2
Real effective exchange rate[b]	8.9	-1.1	-2.9
Terms of trade	-7.2	-2.9	-2.1
	Percentages		
Urban unemployment rate	9.2	8.5	9.5
Fiscal balance/GDP	-3.1	-2.5	-2.4
Real deposit rate	7.9	5.3	5.2
Real lending rate	30.3	24.7	22.2
	Millions of dollars		
Exports of goods and services	7 635	8 552	8 713
Imports of goods and services	8 851	9 578	9 453
Current account	-1 817	-1 645	-1 120
Capital and financial account	1 024	1 513	1 421
Overall balance	-793	-132	301

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

currency rates showed a similar pattern, reaching around 3% at the end of the year. In any case, credit to the private sector remained depressed: although placements in national currency increased by 5%, the bulk of the credits, denominated in foreign currency, contracted by almost 4%. The banking system continued the rescheduling process, but in a situation where non-performing debts were still at a level of about 10%. The spread on sovereign bonds for Peruvian debt improved after the elections, reaching around 570 basic points at the end of November.

The stability of the exchange rate and the weakened internal demand kept prices depressed, to the extent that there was deflation in the second quarter. The inflation rate for the twelve-month period ending in November was zero, the lowest value for over 40 years.

The higher export offer and the recession contributed to a further reduction in the trade gap, which this year was equivalent to 2% of GDP (3% in 2000). The exports of goods increased by 1.5% owing to the significant increase (8%) in shipments, as international prices for the main traditional products shrank by 6%. The rise in external sales was thus concentrated in non-traditional products, whose value increased by more than

10%. Imports also contracted slightly, as the increase in the quantity imported did not manage to offset the fall in prices. The decline in purchases of capital goods due to the low level of investment contrasted with the growth in purchases of consumer goods and intermediates. The external current account deficit was financed without difficulty with capital income, mainly private, so that there was an accumulation of international reserves.

Uruguay

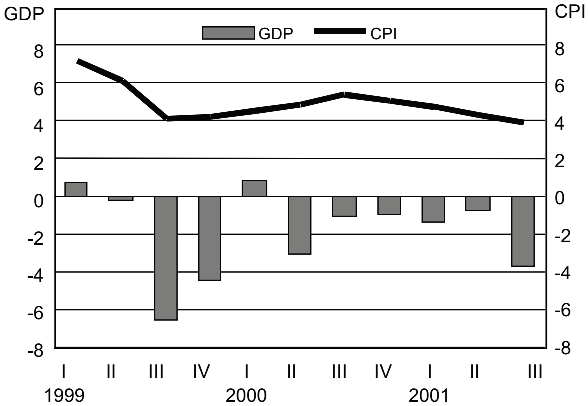
The instability of neighbouring countries and the reappearance of foot-and-mouth disease adversely affected the performance of the Uruguayan economy in 2001. The gross domestic product fell by 2.5%, with a cumulative reduction of 7% over the past three years, which is more than 10% in the case of national income. Despite the care taken to manage expenditure, the public sector deficit was equivalent to 3.8% of GDP, owing to the close relation between the level of activity and fiscal revenue. As the private sector showed a surplus, the gap in the current account of the balance of payments, financed by external borrowing, was maintained at around 3% of GDP. In this situation of recession internal prices rose by only 4%, but unemployment shot up to 15%.

At the beginning of 2001 there was hope for some relief from the unfavourable international situation and for significant improvements in the economies of Argentina and Brazil, which would support an increase of 2% in the gross domestic product. Economic policy aimed to reduce the consolidated public sector deficit from 4 to 2.6%; and the imbalance in the external current account from 3% to 2.4% of GDP. If the pattern of monthly devaluation of 0.6% was maintained, annual inflation should be around 5% and the country should gradually recover its external competitiveness. These expectations were upset by the worsening of the crisis in Argentina, as well as by the sudden slowdown in the economy and the continuing real depreciation of the Brazilian currency. In the middle of the year, the growing uncertainty with regard to the neighbouring economies and the strengthening of the dollar against the euro changed the exchange rate trend, doubling the devaluation rate (from an annual 7.4% to 15.4%) and the width of the flotation band (from 3 to 6%).

The regional uncertainty was exacerbated by the events in September in the United States and the threat of a recession in the developed economies. The external and internal demand remained depressed, as the reappearance of foot-and-mouth disease, after many years of absence, severely damaged the export offering. Investment, both public and private, declined by more than 10%. The fiscal adjustment brought a reduction in public consumption expenditure, while private consumption also contracted. The sudden halt to beef shipments reduced the physical volume of exports in goods by almost 4%, while the quantity of imports declined by more than 3%. The low level of internal demand and the imported deflation contributed to maintaining inflation at historically low values, with indications that the accumulated variation over the twelve month period would be less than 4% at the end of the year.

The agricultural, manufacturing, and construction sectors were severely affected, as well as commerce, restaurants and hotels. There was only growth in transport and communications and electricity generation. Unemployment rose by almost two percentage points, coinciding with a weakening in the demand for labour, attributable to the prolonged recession, with a broadening of the labour supply.

URUGUAY: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

URUGUAY: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-2.9	-1.5	-2.5
Consumer prices	4.2	5.1	3.5
Real wages	1.6	-1.3	-0.4
Money (M1)	4.8	-10.3	-2.2
Real effective exchange rate[b]	-6.2	2.0	1.2
Terms of trade	-7.9	-9.1	1.6
	Percentages		
Urban unemployment rate	11.3	13.6	15.4
Fiscal balance/GDP	-3.8	-4.1	-4.2
Real deposit rate	8.1	7.0	8.9
Real lending rate	45.8	42.3	43.8
	Millions of dollars		
Exports of goods and services	3 530	3 705	3 445
Imports of goods and services	3 981	4 204	3 981
Current account	-551	-526	-564
Capital and financial account	564	697	594
Overall balance	13	171	29

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

Measured in real terms, central government expenditure increased by 1.5% in 2001. The significant increase in interest payments for public debt, which now represent almost 9% of current expenditure, was alleviated to a significant extent by the contraction in investment and the lower transfer payments. Fiscal revenue, which is highly correlated with national income, diminished by 1% in real terms, so that the fiscal gap increased to 4% of GDP. The positive result of the public companies was not sufficient to reach the goal for the public sector deficit, which showed strong resistance to contraction. The deficit was financed, as planned, with a higher level of external debt, at rates which included additional charges of the order of 300 basis points over United States bonds.

By September, the financial uncertainty prevailing in Argentina had caused an increase of US$ 900 million (+18%) in deposits by non-residents in Uruguay, with an increase of 5% in dollar deposits by residents. Credit to the private sector, however, not only did not expand, but even contracted slightly, as the banks chose to locate abroad the deposits received or to purchase public bonds, in view of the internal recession. There was also a rapid increase (13% in real terms) in term deposits in the national currency, which amount to scarcely 15% of those made in foreign currency. The dollar maintained its level, fluctuating around the centre of the flotation band. On the whole, there was scarcely any growth in the money supply over this period. The real exchange rate as measured with a basket of the currencies of the main trading partners continued to appreciate in relation to Brazil, whose currency was devaluating significantly, but depreciated in relation to the rest of the world.

The economic situation in the MERCOSUR countries, which had been the destination for more than half of Uruguay's exports in goods and almost all of its tourism sales over the past three years, impeded the development of the subregional agreement, to which was added the weakening of world trade. Thus, exports from Uruguay diminished by 7% in 2001, after contracting by more than 17% in the previous biennium. The decline was mainly due to the fall in beef exports when the outbreak of foot-and-mouth disease paralysed sales. Also significant was the reduction in exports of transport equipment and textile manufactures. In contrast, sales of leather and its products and of wool expanded. Exports of goods to Uruguay's two main neighbours continued to collapse. Sales to Argentina contracted by almost one quarter (after falling by 20% in the two previous years) and those to Brazil diminished by 14%, after a drop of one-third from 1998 to 2000. Imports also diminished (-5%) in response to the weakness of internal demand. The contraction of purchases of capital goods (-17%) was significant, as well as the reduction in the oil bill (25%) in view of the collapse of the price of crude oil, while acquisitions of consumer goods and the rest of intermediates showed a slight reduction. At the end of

2001 Uruguay recorded negative trade balances with almost all of its significant trading partners, which was a very rare event.

The current account deficit of the balance of payments increased slightly and reached US$ 560 million. As a higher level of external credit was obtained, international reserves were increased by about US$ 30 million. At the end of November, in the context of the official strategy of obtaining advance financing for the following year, and given the high level of uncertainty in the subregional environment, the government placed an external bond for US$ 300 million.

Venezuela

The Venezuelan economy was moving in 2001 towards an estimated growth of around 3%. Unlike the previous year, this result came from the private sector, as the influential state oil sector reduced its production in accordance with the policy of the Organization of Petroleum Exporting Countries (OPEC) to reduce supplies in order to curb the declining fuel price observed at the end of 2000. Despite this, the average price of Venezuelan crude oil dropped by one fifth from the high level of the previous year. This loss affected external accounts, which showed a large deficit, as well as confidence in maintaining a limited depreciation of the bolívar, which was the corner stone of the anti-inflationary policy. In a climate of political tension, this resulted in a substantial outflow of short-term capital which the monetary and exchange rate authority tried to counteract by stabilizing the inflation rate below an annual 13%. Meanwhile, boosting the economy was left to fiscal policy.

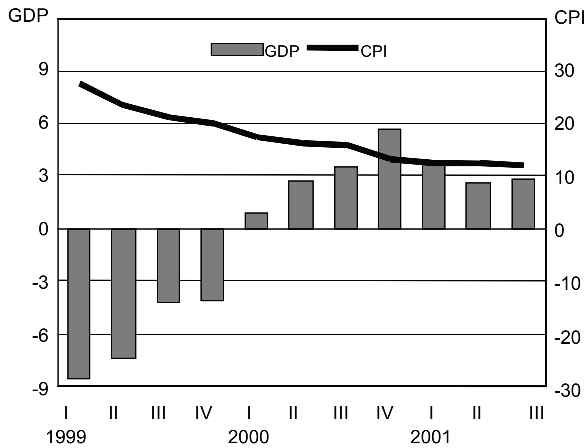
The year-on-year variation rate in the non-oil sector of the economy, which had been gradually improving until the final quarter of 2000, dropped in 2001 and was at around 4% in each of the first three quarters. This growth was mostly due to the construction and communication sectors, which experienced double-digit increases. Construction had continued on its expansionary path since its recovery from the recession prior to 2000. Communications were responding to the expansion in basic and mobile telephony services. The sectors of manufacturing, commerce and transport also grew, to a lesser degree, although in the former two sectors there was some deceleration in the second half of the year.

These activities were boosted by investment expenditure, which was mainly public, or to a lesser degree by private consumption and non-oil external demand. Public expenditure was financed mainly with revenue from oil exports. The transfer to the central government of dividends from the Petróleos de Venezuela S.A. (PDVSA) in the first half of the year offset the fall in tax revenue from external sales.

As a result of OPEC's policy of cuts, the export quota of Venezuela was reduced by more than 400,000 barrels of oil per day to 2.67 million. Despite this, the average price of Venezuelan crude oil fell by around 20% with regard to the previous year. This decline affected fiscal policy in the second half of the year, when the public sector was obliged to adjust expenditure and reduce investment items in order to meet the payroll, and endangered the fiscal objective of achieving an end-of-year deficit equivalent to 3% of GDP.

The BCV continued to try to control inflation by keeping the currency within a sliding band of 7.5% around a central parity. The depreciation of the central parity was lowered early in the year to an annual rate of 7%.

VENEZUELA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

VENEZUELA: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
	Annual growth rates		
Gross domestic product	-5.8	4.0	2.8
Consumer prices	20.0	13.4	12.7
Money (M1)	2.8	16.0	18.9
Real effective exchange rate[b]	-10.6	-2.3	-4.8
Terms of trade	34.0	47.1	-13.3
	Percentages		
Unemployment rate	14.9	14.0	13.9
Fiscal balance/GDP	-2.6	-1.7	-3.5
Real deposit rate	-2.7	-1.3	1.4
Real lending rate	6.0	6.9	10.5
	Millions of dollars		
Exports of goods and services	22 122	34 394	28 158
Imports of goods and services	16 985	19 868	21 340
Current account	3 557	13 112	5 100
Capital and financial account	-2 508	-7 294	-7 350
Overall balance	1 049	5 818	-2 250

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

The central bank (BCV) continued trying to control inflation by keeping the bolívar within a sliding band of 7.5% around a central parity. The slippage of the central parity was lowered at the beginning of the year to an annual 7%. High oil prices initially made this exchange-rate policy possible, while monetary policy took a passive role, allowing the inflow of foreign currency to cause an expansion of the money supply and a slightly declining trend in interest rates which contributed to reactivating the economy.

The reduction in those prices however and the subsequent outflow of short-term capital forced the bolívar down. The BCV used its foreign-currency reserves to support the exchange rate and, when the pressure increased as of May, proceeded to drain liquidity from the system through open-market operations, placing national public debt securities by means of repo operations and, in the second half of the year, issuing seven-day deposit certificates. It also reduced its high discount rate to levels that made it more efficient and thus effective as an tool of monetary policy. As a result of all this, the money supply contracted in the first ten months, although in November it expanded considerably, and interest rates rose. By the beginning of December, the nominal lending rates had risen from 21% to 25% and deposit rates from 12.5% to approximately 16%.

The action taken by BCV during the first eleven months resulted in a loss of its reserve holdings to the amount of about US$ 3.3 billion (although, if those accumulated in the Investment Fund for Macroeconomic Stabilization are added, this figure is reduced to about $800 million) and curbed the depreciation in the exchange rate, which went from 699 to 745 bolívares per dollar. This made it possible to control inflation, which at the end of November showed a year-to-year variation of 12.7%, somewhat higher, however, than the official target.

The increasing price of money also contributed to a deceleration in economic activity, which may have also been affected by the uncertainty with regard to the promulgation of numerous legislative reforms, many of them in the framework of the enabling law, that allowed the President of the Republic to legislate by decree. These new laws included one on land, which, *inter alia*, provided for the possibility of expropriation and redistribution of agricultural land; the law on hydrocarbons, which provided for increasing taxation and majority State participation in the new oil associations with the private sector; and the law relating to the Central Bank of Venezuela, which brings into effect the principle of macroeconomic cooperation between the latter and the Ministry of Finance.

Special mention should be made of a new reform of the Investment Fund for Macroeconomic Stabilization

(FIEM) which moves it away from its initial aim of amortizing variations in oil income. By virtue of the new law, contributions to the Fund for the last quarter of 2001 and for 2002 were suspended. The subsequent contributions were established in terms of a fixed percentage of the oil price, independently of its level.

The construction boom contributed to a fall in unemployment to 12.8% in July, almost two percentage points below the figure recorded one year previously and three points less than the seasonally high level at the beginning of the year. In this same month an increase of 10% in the minimum salary was announced.

Despite the growth in non-traditional exports, the reduction in the value of hydrocarbon sales resulted in a decrease in the current account surplus during the year, which amounted to US$ 5 billion at the end of the year. This net income was less than the outflows recorded for the financial account balance and for errors and omissions, where short-term capital outflows predominated. Accordingly, although foreign direct investment showed a net balance of the order of US$ 2 billion for the first three quarters, the balance of payments showed a deficit, estimated for the year as a whole, at a level higher than the latter figure.