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Preliminary overview of the economies

**OF LATIN AMERICA
AND THE CARIBBEAN**



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The national accounts data presented in this edition of the *Overview* are based on the official figures issued by the countries covered in this report; for purposes of comparison between countries, however, these statistics are expressed in constant 2000 dollars. Thus, in some cases there may be apparent discrepancies with the information issued by individual countries.

Explanatory notes

The following symbols are used in tables in this edition of the *Preliminary Overview*:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A point (.) is used to indicate decimals.

Use of a hyphen (-) between years (e.g., 2001-2005) indicates reference to the complete period considered, including the beginning and end years.

The word "tons" means metric tons and the word "dollars" means United States dollars, unless otherwise specified.

References to annual rates of growth or variation signify compound annual rates, unless otherwise specified.

Individual figures and percentages in tables do not necessarily add up to the corresponding totals because of rounding.

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Summary

The Latin American and Caribbean economy grew for the third consecutive year in 2005. GDP expanded by an estimated 4.3%, which translates into a per capita GDP growth rate of close to 3%. This expansionary phase of the business cycle is expected to continue into next year, although the growth rate is likely to be slightly lower (4.1%). If these projections prove correct, the average growth rate for 2003-2006 will be a little over 4%, while the cumulative increase in per capita GDP will be close to 11%. From a historical standpoint, this growth phase is an extremely positive development for Latin America and the Caribbean, but the fact remains that most of the economies in the region are growing more slowly than those in other regions of the world, and in some cases even more slowly than the developed economies.

Although growth has been seen across the board, the South American economies and, to a lesser extent, those of the Caribbean have witnessed a faster increase in activity than Central America and Mexico. One of the main reasons for these inter-subregional differences is the trend in the terms of trade, which improved by an average of 4.8% for the region as a whole in 2005. This trend has been extremely favourable for the South American countries and, to a lesser extent, Mexico, but the Central American countries, which are net oil importers and compete with China in the United States textile market, have seen not only a deterioration in their terms of trade but also a reduction in export growth in real terms.

Exports, boosted by the favourable international situation, continue to be one of the most rapidly growing

components of demand, with the region's export volumes expanding at about 8% on average. With some exceptions, the higher growth rates tend to be located in South America and the lower ones in Mexico and Central America.

The combination of this increase in export volume and the impact of remittances, together with the improvement in the terms of trade, have led to what could be regarded as the most outstanding feature of this period of economic growth, i.e., the fact that it has been coupled with a mounting surplus on the balance-of-payments current account. This is an unprecedented occurrence in the economic history of the region. For 2005, the region is expected to post a current account surplus equivalent to 1.3% of GDP, which is even higher than the surpluses of the two preceding years (0.9% in 2004 and 0.5% in 2003).

Another engine of growth has been investment, with gross fixed capital formation rising by 10% in the region as a whole (here again, with significant differences among the subregions). In virtually the entire region, however, investment, measured as a percentage of GDP, is still very low and is not climbing fast enough to fuel a sufficiently high growth rate to resolve the problems relating to employment and the population's general well-being that persist in the region. Nonetheless, the improvement in economic conditions has begun to carry over into the labour market. The upturn in employment made possible by the economies' expansion, in combination with the slower growth of the labour supply (owing, in part, to the fact that fewer young people are joining the workforce) has pushed the unemployment rate down from

10.3% to 9.3%. The fact that this reduction has been accompanied by an increase in the formal sector's share of total employment underscores the important role played by high and sustained economic growth in the improvement of labour and social conditions.

The governments of the region are taking advantage of this favourable situation to improve their public-sector accounts. The fact that the increase in fiscal revenues generated by brisker economic activity and the high prices of some of the region's commodity exports is not being accompanied by a matching trend in expenditure is quite unusual for the region. Instead, the region is using its mounting primary surpluses (1.1% of GDP as a simple average for 2005, compared to 0.7% in 2004) to pay down the public debt more rapidly than other emerging economies are, to say nothing of the developed countries, whose levels of indebtedness are actually on the rise.

The continuing appreciation of almost all the Latin American and Caribbean countries' currencies has begun to generate some concern. Although there is some scope for exchange-rate and monetary policy to influence the real exchange rate in the short term, both theoretical considerations and historical experience point to the difficulty of using this mechanism as an instrument for fostering long-term competitiveness. This can only be achieved by boosting productivity through higher levels of investment in physical and human capital and by raising the quality of products and their degree of processing, together with the ongoing incorporation of innovations.

The region is expected to grow at a similar pace in 2006, although the actual rate may be slightly lower. The projected growth rate of 4.1% would translate into per capita GDP growth of around 2.5%. The inflation rate is expected to remain stable at about 6%, as in 2005.

Regional panorama



Chapter I

Introduction

The year 2005 marks the third consecutive year of growth for the Latin American and Caribbean region. GDP growth is estimated at around 4.3%, which means that per capita GDP will rise by nearly 3%. This expansionary phase of the business cycle is expected to continue in 2006, although the growth rate is likely to be slightly lower (4.1%). If these projections are borne out, then the average growth rate for 2003-2006 will be somewhat above 4%, and the cumulative increase in per capita GDP will amount to nearly 11%. Although growth has been seen across the board, the South American economies and, to a lesser extent, those of the Caribbean have witnessed a faster increase in activity than Central America and Mexico (see table I.1).

Table I.1
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual rates of variation)

| | 2004 | 2005 ^a | 2006 ^b |
|--|------------|-------------------|-------------------|
| Latin America and the Caribbean | 5.9 | 4.3 | 4.1 |
| South America | 6.9 | 4.9 | 4.3 |
| Brazil | 4.9 | 2.5 | 3.0 |
| Southern Cone | 8.4 | 7.8 | 5.7 |
| Andean Community | 9.5 | 6.4 | 4.9 |
| Mexico and Central America | 4.2 | 3.1 | 3.6 |
| Central America | 4.0 | 3.9 | 4.2 |
| Mexico | 4.2 | 3.0 | 3.5 |
| Caribbean | 4.0 | 4.1 | 5.3 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimate.

^b Projection.

As discussed in greater detail in the chapter on the external sector, the Latin American economies' performance has not occurred in isolation, but is instead part of a picture of widespread growth throughout the world economy. Overall GDP growth for 2005 is expected to amount to around 3.3%, which is a little lower than last year's rate. The growth of world trade is projected at about 7%. The expansion of the United States (3.5%) and Chinese (9.5%) economies will continue to drive world economic growth, with the developed economies as a group growing at 2.5% and the developing economies marking up a rate of 5.7% (4.9% without China).

The United States economy's sustained expansion continues to be buoyed by consumption, and the current account deficit on the balance of payments has consequently widened to over 6% of GDP. The fiscal deficit may end up being smaller than expected (3.2% of GDP) thanks to an upswing in public-sector revenues. Japan is continuing to grow, albeit at a fairly slow pace (around 2%) and the European Union's overall growth rate is expected to slip from 2.1% to 1.5%, although the rates posted by its individual member countries vary considerably.

Table 1.2
WORLD GROWTH RATES
(Annual rates of variation)

| | 2004 | 2005 ^a | 2006 ^b |
|----------------------|------|-------------------|-------------------|
| World GDP | 4.0 | 3.3 | 3.3 |
| Developed countries | 3.2 | 2.5 | 2.5 |
| Transition economies | 7.7 | 6.0 | 5.9 |
| Developing countries | 6.6 | 5.7 | 5.6 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimate.

^b Projection.

The growth of the world economy once again had a positive impact on the region's terms of trade (especially in the case of petroleum and other minerals), which improved by 4.8% in 2005. As discussed in the section on this topic, marked differences exist among the various subregions, however. The South American countries have reaped the benefits of the improvement seen in the terms of trade in the past few years, which, as a regional average, has amounted to 13.2% between 2002 and 2005 (ECLAC, 2004 and 2005).¹ The world economy's expansion also continued to drive a notable increase in export volumes, although, here again, the differences among subregions are significant.

In assessing the scope of this expansionary phase of the business cycle in Latin America in the light of the favourable international economic environment, three elements must be taken into consideration: how it compares with developments in the region's recent past, how the current situation in the region compares with events in other regions and particularly the developing world, and investment's role as a determinant of future growth potential.

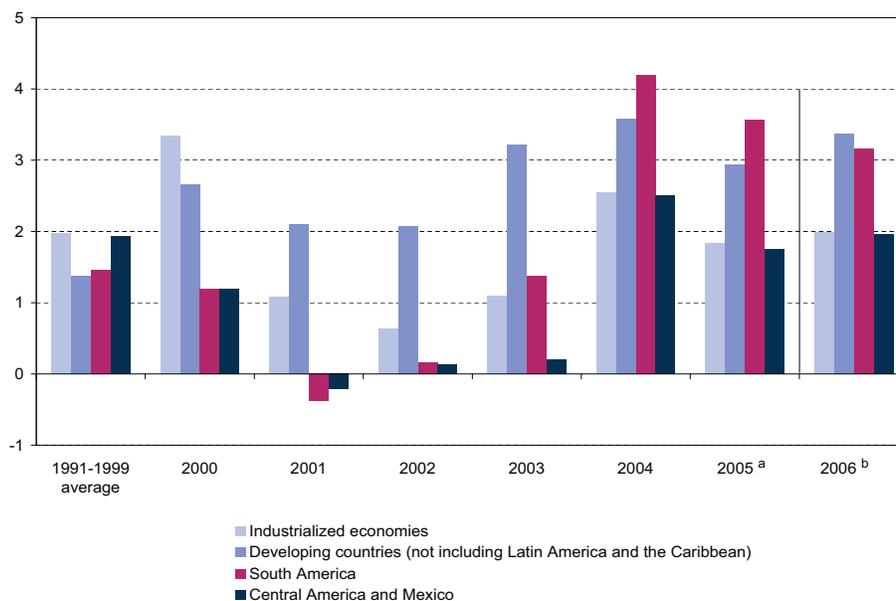
First of all, if the projections for 2006 turn out to be accurate, then the region will have grown by 4.1% in 2003-2006, as compared with the 2.6% growth rate recorded for 1990-2002. While this is an extremely positive development, the fact remains that the region is growing more slowly than developing countries as a group, whose GDP will have expanded by 5.7% in 2003-2006 (4.8% not counting China).

One of the reasons why the region's overall growth rate is relatively low is the fairly slack rate of growth observed in its two largest economies, since, as in 2004, the 2005 growth rates of the countries of the Southern Cone and the Andean Community will surpass the developing-country average, while the rates to be posted by the Central American countries will be below it. In order to diminish the influence of Brazil's and Mexico's rates when comparing the region with the international economy, the median rather than a weighted average is used in comparing the per capita GDP growth rates of the Latin American and Caribbean region with the rest of the world (see figure I.1).²

¹ *Economic Survey of Latin America and the Caribbean, 2004-2005*, (LC/G.2279-P), Santiago, Chile, August. United Nations publication, Sales No. E.05.II.G-2. Economic Commission for Latin America and the Caribbean (ECLAC), *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004* (LC/G.2265-P), Santiago, Chile, December. United Nations Publication, Sales No. E.04.II.G.147.

² If the values are arranged in increasing (or decreasing) order, the median is the middle value (half of the values of the sample are above that value and half are below it).

Figure I.1
MEDIAN ANNUAL PER CAPITA GDP GROWTH
 (Annual rates of variation)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimate.

^b Projection.

Unlike what occurred in the 1990s, thus far this decade developing countries have consistently been outpacing developed countries (see figure I.1). Interestingly enough, in 2005, as in 2004, the South American countries' median per capita GDP growth rate (3.6% and 4.2%, respectively) is likely to be higher than the rate for developing countries as a group (2.9% and 3.6%), whereas Mexico's and Central America's more sluggish pace of growth (1.7% and 2.5%) has dragged their per capita rates down to levels quite similar to those of developed countries (1.8% and 2.5%).

Finally, with regard to the region's future growth potential, it is interesting to note that investment is climbing sharply in most of the countries (a regional average of 10%). Nonetheless, since it is starting from very low levels, the investment rate in 2005 will still be equivalent to only about 22% of GDP. Although this represents an appreciable upturn, it is still not high enough to sustain

a sufficiently rapid growth rate to make any significant dent in unemployment or poverty (see figure I.5).

This means that, even though the growth phase being experienced by Latin America and the Caribbean is a noteworthy development from a historical standpoint, a comparison with what is going on in other regions of the world brings out the fact that most of the countries in Latin America and the Caribbean are growing more slowly than the developing world as a whole and, in some cases, even more slowly than the developed countries as a group. Some of the possible reasons for this are explored in the following section, together with possible explanations for the sharp contrasts found in the region, where some fairly sluggish economies exist alongside others that are experiencing rapid growth. These issues will be analysed in greater depth in subsequent chapters of this edition of the *Preliminary Overview*.

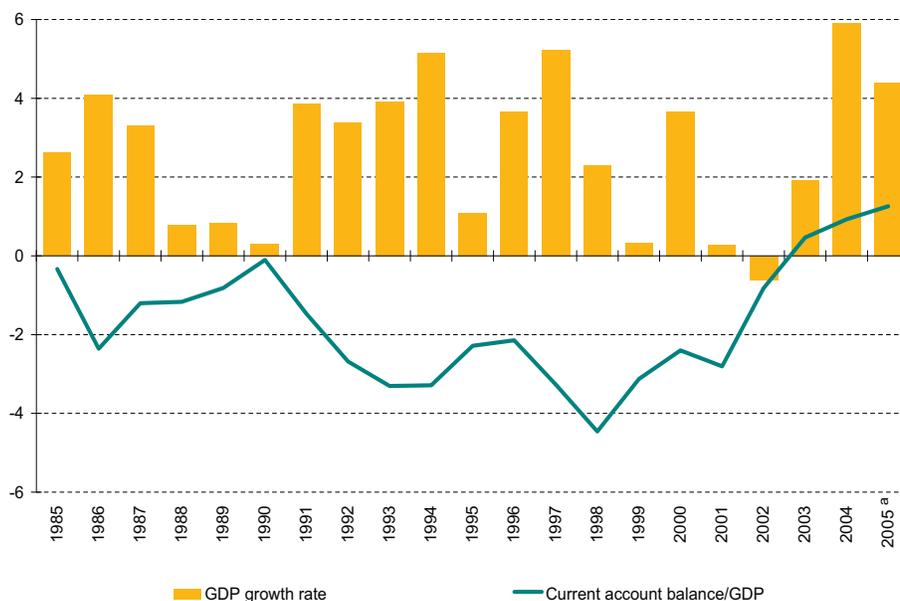
A. Distinctive features of recent trends

As ECLAC has been pointing out in a number of its recent reports, the most outstanding feature of this period of economic growth is that it is accompanied by an expanding current account surplus. This combination is without precedent in the region's economic history—at least in the last 50 years (see figure I.2). The current account surplus for 2005 is estimated at the equivalent of 1.3% of GDP, thus surpassing the surpluses recorded for the last two years (0.9% in 2004 and 0.5% in 2003). Major differences exist between subregions, however, with South America posting a current account surplus amounting to 3.0% of GDP in 2005 (2.5% in 2004 and 2.1% in 2003), while a deficit of 1.8% of GDP is projected for Central America and Mexico this year (1.4% in 2004 and 1.6% in 2003) and the Caribbean (excluding Trinidad and Tobago, which is a net oil exporter) is expected to post a deficit of over 10% on its current account.

Two of the main reasons for the behaviour of the countries' current accounts are the terms of trade and emigrant remittances. The world economy's growth and the variations in international markets for goods

and services generated by the increasingly important role of China, India and other Asian economies have greatly improved the terms of trade for the South American countries (a 31% increase between the average for the 1990s and 2005) and, to a lesser extent, Mexico's (a 22% increase during that period). In addition, some of the South American countries have succeeded in leveraging this positive effect by expanding their export volumes as well. In contrast, the Central American countries, which are net oil importers and compete with China in the United States textile market, have seen not only a deterioration in their terms of trade, (a 12% decrease between the average for the 1990s and 2005), but also a sizeable reduction in export growth in real terms. On the other hand, the Central American countries and Mexico are receiving hefty inflows of remittances from emigrant workers. Figure I.3 illustrates the effects of these two factors through a comparison of changes in the countries' current accounts based on the average for the 1990s and the average for 2004-2005. South America witnessed an expansion of its balance equivalent to nearly 5% of GDP thanks to the combined

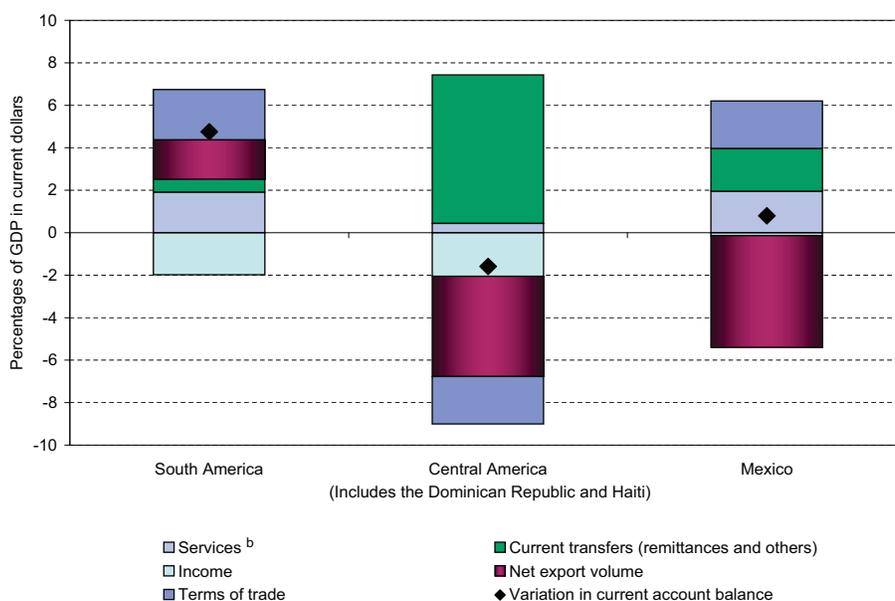
Figure I.2
GDP GROWTH AND BALANCE-OF-PAYMENTS CURRENT ACCOUNT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimate.

Figure I.3
**LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF VARIATION IN CURRENT ACCOUNT
 BALANCE BETWEEN AVERAGES FOR 1990-1999 AND 2004-2005^a**



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a The data shown for 2005 are estimates.

^b Includes residual of the combined effect of prices and volumes on the trade balance.

impact of an improvement in its terms of trade amounting to 2.4% of GDP and an upturn in its trade balance of 1.9% of GDP in real terms. In contrast, in Central America, the negative impact of these two factors, which was equivalent to 6.8% of GDP, caused its current account to worsen by 1.6% of GDP despite an increase in remittances equivalent

to 7% of GDP. Meanwhile, Mexico recorded an increase of slightly over 1% of GDP in its current account, as the positive effects of the improvement in the terms of trade (2.2% of GDP), remittances (2% of GDP) and other factors were largely offset by the deterioration in its trade balance in real terms (5.3% of GDP).

B. The business cycle

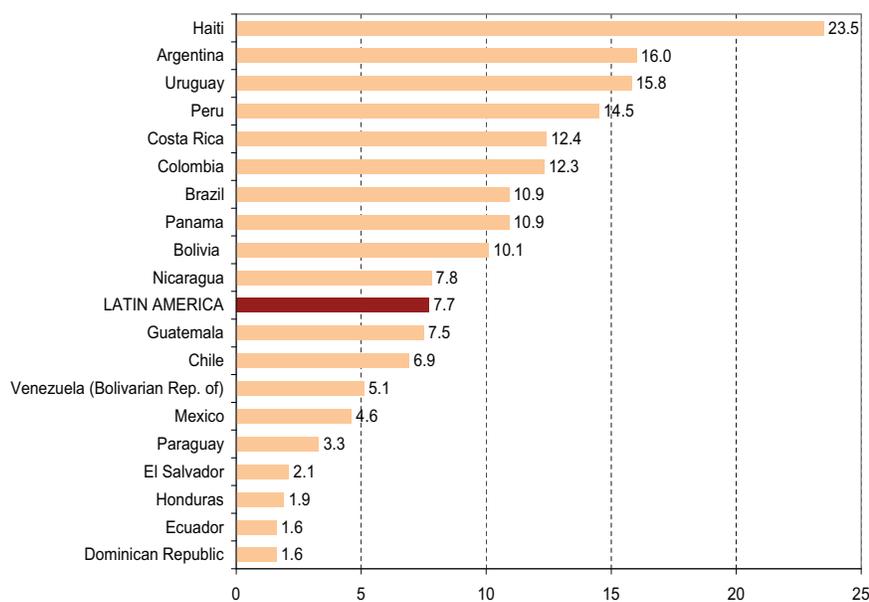
Buoyed by the favourable international environment, exports have been one of the most dynamic components of demand, especially in some of the South American countries. Although the average growth rate for the region's volume of exports, at around 8%, stands just slightly above the world average, a number of countries are posting increases of over 10% in 2005 (see figure

I.4). Most of the highest growth rates have been recorded in South America and most of the lowest in Mexico and Central America. The factors underlying these differences include differing trends in competitiveness, which will be discussed in a later section, and the varying effects that China's involvement in international markets has on the different countries.

An examination of investment provides a clear picture of the differing economic trends in the subregions of Latin America and the Caribbean. Whereas gross fixed capital formation rose at an average rate of over 12% in South America in 2005 (20% if Brazil is factored out of the calculations), in Central America and Mexico it rose by 6.5% and the rate for Central America alone is just 2% (see figure I.5). The differing implications of changes in the terms of trade and, here too, uneven trends in competitiveness have surely played a role in the differences in investment performance in the region, which, in some cases, may be constraining future growth capacity.

These differences notwithstanding, when measured as a percentage of GDP investment remains low in many countries of the region. Although some countries have seen a sharp upswing in this variable, investment in the region, on average, is still below its 1998 levels (see figure I.6). In order to grow fast enough to reduce unemployment more quickly, the region will have to boost its investment rate by various percentage points. As will be seen later, a larger increase in investment could also allow the region to maintain relatively high levels of competitiveness, regardless of what happens in the short run with the countries' exchange rates.

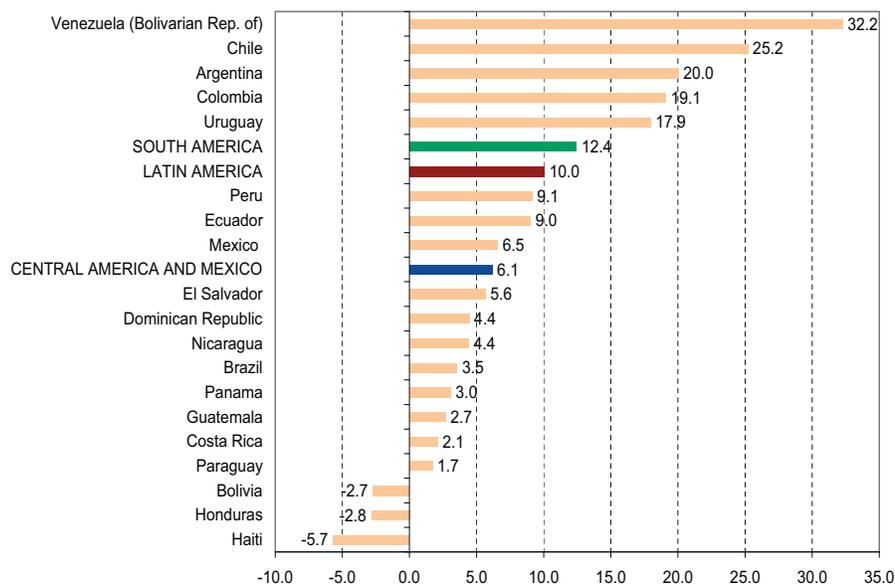
Figure I.4
LATIN AMERICA: GROWTH RATE FOR MERCHANDISE EXPORTS, 2005^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimate.

Figure I.5
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION, 2005^a
(Rates of variation based on figures in constant 2000 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Estimate.

Figure I.6
LATIN AMERICA: GROSS FIXED CAPITAL FORMATION AS A PERCENTAGE OF GDP
(Based on figures in constant 2000 dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Estimate.

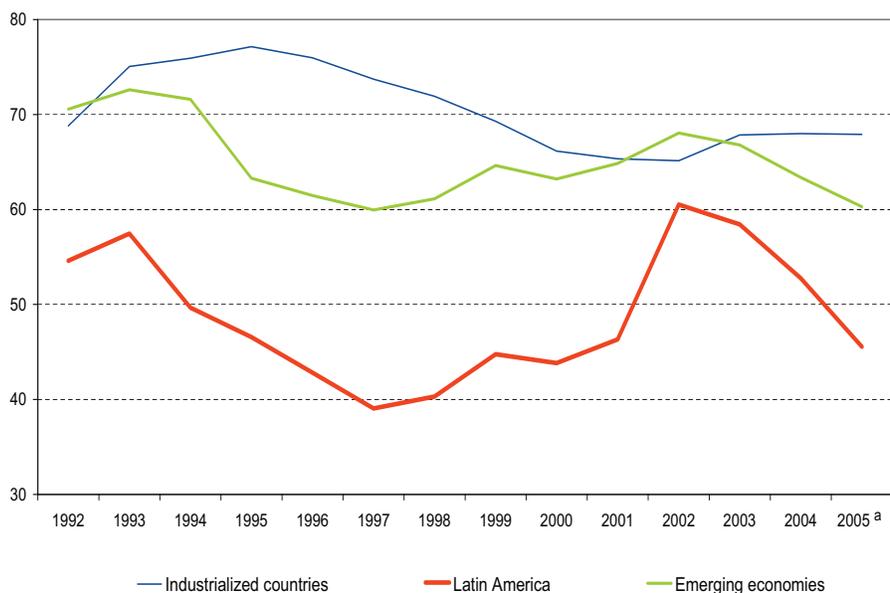
C. Fiscal policy and external vulnerability

As will be discussed in detail in the chapter on fiscal policy, the governments of the region are taking advantage of the currently favourable combination of economic factors in order to improve their public-sector accounts. The fact that the increase in fiscal revenues generated by brisker economic activity and the high prices being brought by some of the region's commodity exports (many of which are largely State-owned) is not being accompanied by a matching trend in expenditure is quite unusual for the region. Instead, the region is using its mounting primary surpluses to pay down the public debt more rapidly than other emerging economies are, to say nothing of the developed

countries, whose levels of indebtedness are actually on the rise (see figure I.7).³

Although many of the countries' debt coefficients are still very high, the reduction in their public debt-to-GDP ratios are helping to make the region less vulnerable to external shocks. Another factor that is leading the region in the same direction is the decline in the ratio between its external debt (less its international reserves) and its exports of goods and services; while exports are rising at a considerable pace, the counterpart to the current account surplus takes the form of a dual process consisting of a paydown of the external debt and a build-up of reserves, which is allowing the countries of the region to reduce their net liabilities position.

Figure I.7
PUBLIC DEBT IN LATIN AMERICA, EMERGING ECONOMIES AND INDUSTRIALIZED COUNTRIES
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and International Monetary Fund.

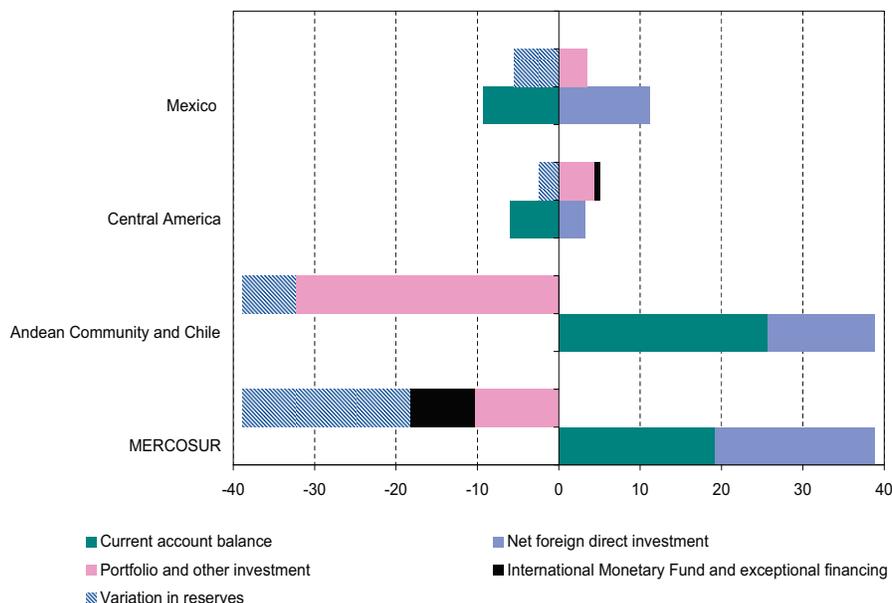
^a Estimate.

³ As noted in the *Economic Survey of Latin America and the Caribbean, 2004-2005*, some Caribbean countries have extremely high debt levels.

Figure I.8 provides a simplified schematic of the origins and destinations of foreign exchange flows which shows that, despite the striking differences existing across subregions, all of them are building up their stocks of international reserves. At the same time, the countries' debt maturity profiles are improving as they reduce the

proportion of short-term debt and they have begun to issue local-currency debt instruments on international financial markets (see box II.2). Given the favourable situation and the presence of abundant international liquidity, the region's risk premiums have descended to record lows.

Figure I.8
LATIN AMERICA AND THE CARIBBEAN: BALANCE-OF-PAYMENTS COMPONENTS, 2005^a
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund.

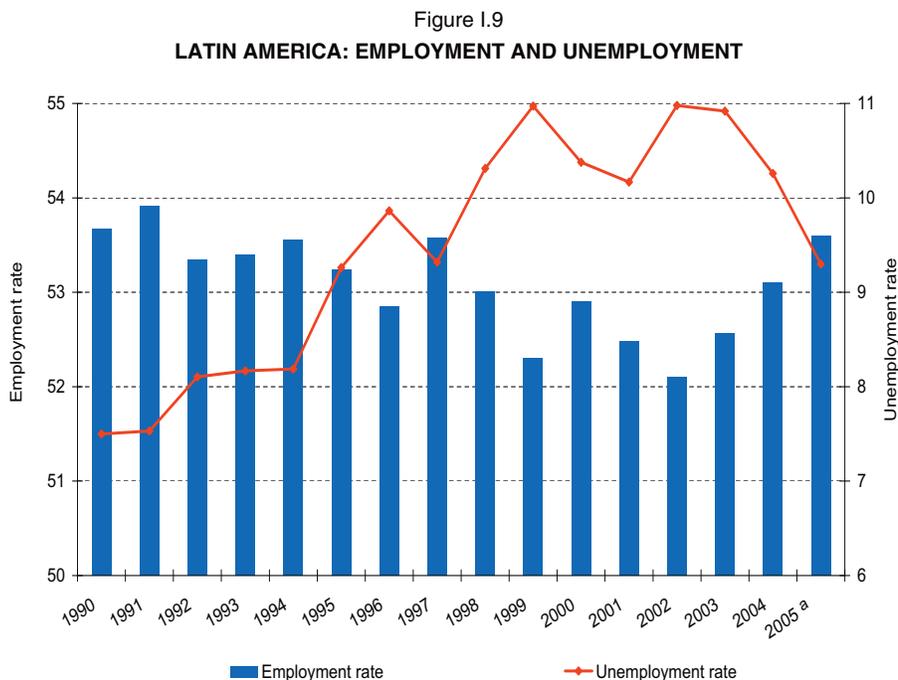
^a Estimate.

D. The labour market

The improvement in economic conditions has begun to carry over into the labour market, thereby making a start on mitigating the difficult social situation that has existed in Latin America and the Caribbean for some time now. The upturn in employment made possible by the economies' growth, in combination with the slower growth of the labour supply (owing, in part, to the fact that fewer young people are joining the workforce) has pushed the unemployment

rate down from 10.3% in 2004 to 9.3% this year at the same time that the formal sector's share of total employment is growing (see figure I.9). As is to be expected, the regional labour market's more robust performance has begun to be reflected in declining poverty indices. The estimated poverty rate for 2005 of slightly over 40% of the population, while still very high, represents a reduction of nearly four points since 2003.⁴

⁴ See Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2005* (Briefing Paper), Santiago, Chile, 2005 (in press).



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

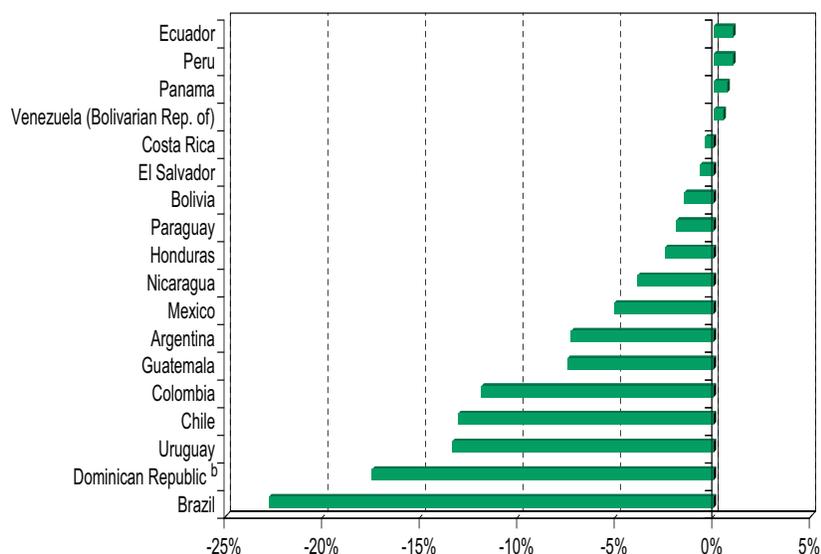
^a Estimate.

E. Competitiveness and macroeconomic performance

The exchange-rate policies implemented by the region's countries have played a major role not only in causing some of the crises that occurred at the end of the 1990s and the beginning of this decade, but also in engendering the new macroeconomic climate associated with the upturn in growth rates. The currency appreciation observed in almost all Latin American and Caribbean countries in recent months has now begun to arouse some concern, however. The region's improved position in terms of its economic and financial relations with the rest of the world has generated excess supply on the exchange market that has pushed down the region's real exchange rates, with the extent of the appreciation varying from country to country (see figure I.10).

The estimates presented in figure I.10 do not include the currencies of the other countries of the region and therefore correspond only to extraregional exchange rates. Since the region's countries are trading partners, and almost all of their currencies are increasing in value, the appreciation is actually slightly less than it appears in figure I.10. On the other hand, a longer-term analysis shows that, despite the recent appreciation, many countries have higher real exchange rates now than they did during the 1990s, when many of them were running hefty current account deficits. In any event, the appreciation appears to be more of an issue in the northern part of the region than the south (see figure I.11).

Figure I.10
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXTRAREGIONAL EXCHANGE RATES
 (Year-on-year average for August-October 2005)^a

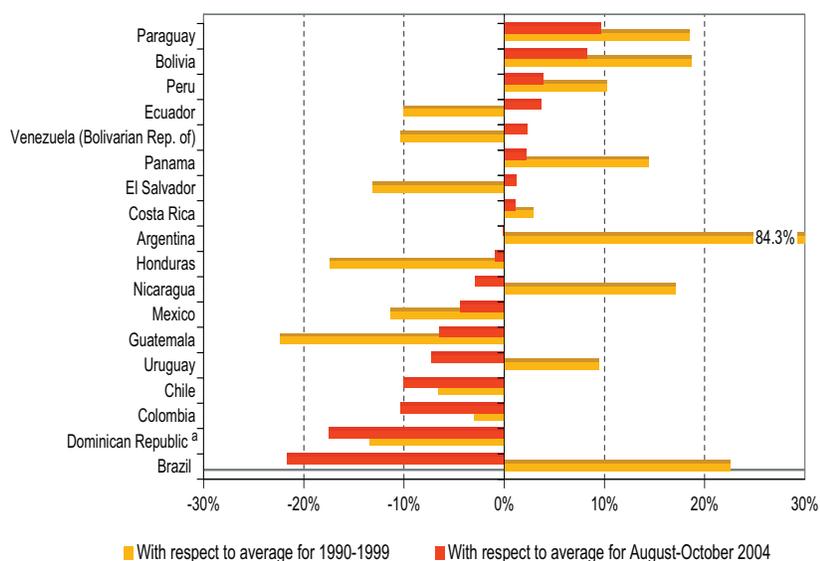


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and the International Monetary Fund.

^a The real effective extraregional exchange rate is calculated using the effective exchange rate for each of the region's countries, without including the effect of trade or the real bilateral exchange rates of other Latin American and Caribbean countries.

^b In the case of the Dominican Republic, the calculation is based on the real bilateral exchange rate against the dollar.

Figure I.11
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE
 (Average for August-October 2005 with respect to August-October 2004 and the 1990s)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and the International Monetary Fund.

^a In the case of the Dominican Republic, the calculation is based on the real bilateral exchange rate against the dollar.

Nonetheless, concerns about an entrenchment of current trends in real parities are partly a reflection of how difficult governments find it to maintain high levels of competitiveness without neglecting the stability of other domestic economic variables. The literature on exchange-rate regimes has defined this problem as the “impossible trinity”,⁵ whereby no country can simultaneously control its real exchange rate, maintain its monetary independence and be integrated into international financial markets. What is more, since financial market integration is increasing even beyond national economic policies’ sphere of influence, in practice this “impossible trinity” may eventually force countries to choose between exchange-rate stability and monetary independence.

It should be pointed out that this choice refers to absolute categories. This means that, at least in theory, there is nothing to prevent monetary authorities from adopting a monetary policy at some point or abandoning, to some degree, the objective of maintaining a specified real parity. In the short term, at least, it is therefore possible to apply a strategy aimed at achieving both objectives, obviously within a certain tolerance range. Achieving this is all the more likely if action can be brought to bear on the third element of the trinity: integration into international financial markets. One example would be a system for controlling short-term capital inflows that, if successful, would expand the scope of action for controlling the exchange rate without significantly compromising the independence of monetary policy.

Regardless of how effective such policy instruments might be, however, the problem faced by the region is somewhat different, in that the greater supply of foreign exchange is largely due to higher prices for some of the

commodities exported by the region and to emigrant remittances. Both factors can push down the real equilibrium exchange rate to a level below that needed for a wide segment of the productive fabric to compete successfully at the international level.⁶ On the other hand, given that, in the best of cases, this problem is only partly associated with financial market integration, there is limited scope for providing economic policy with greater degrees of freedom through the imposition of restrictions on capital inflows.

In the short run, then, it appears that the manoeuvring room open to economic authorities in order to escape from the trade-off between the level of monetary independence they are prepared to relinquish and the degree of currency appreciation they are willing to tolerate will depend, given the imperfection of their economies’ integration into international capital markets, on their central banks’ ability to sterilize the expansion of the money supply caused by the decision to maintain a specified real parity through open market operations. This is a delicate issue that entails extremely complex decisions that have implications not only for how the economy develops in the short term, but also for the overall production structure of each country.

In the medium term, competitiveness can be boosted by boosting non-price factors (i.e., by raising productivity and/or the quality of tradable goods). If productivity increases more quickly than production costs (calculated in foreign currency), it may be possible to maintain a certain level of competitiveness even if the currency is appreciating. With a view to analysing these variables, figure I.12 shows productivity and unit labour costs in dollars for Mexico and Central America and then for South America.⁷

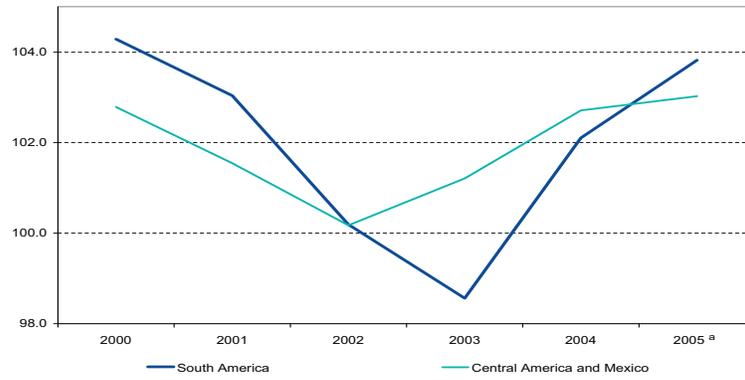
⁵ See, for example, Jeffrey Frenkel, “No single currency regime is right for all countries or at all times”, NBER Working Paper series, No. 7338, September 1999.

⁶ This is known as Dutch disease, which refers to the exchange-rate problem that occurred in the Netherlands following the discovery of major gas reserves.

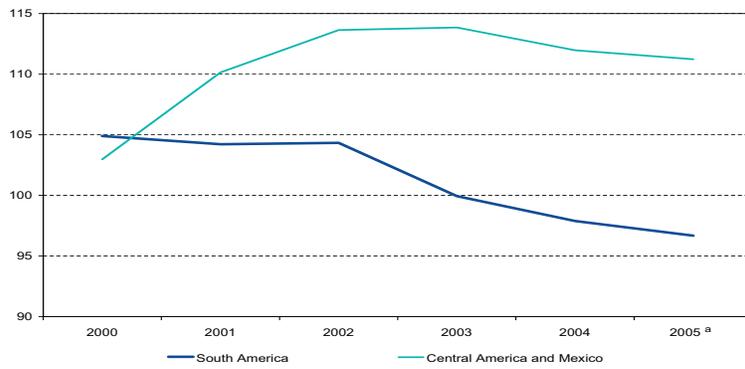
⁷ Unit labour costs in dollars are wages in dollars divided by productivity per worker. Given that the figures are only approximate, productivity would have to be analysed for all factors, not just labour.

Figure I.12
LATIN AMERICA AND THE CARIBBEAN: PRODUCTIVITY AND UNIT LABOUR COSTS, 2000-2005
(Index: 1990-1999=100)

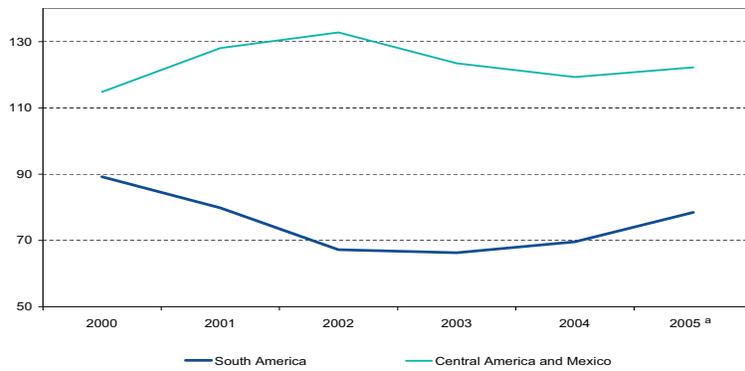
(a) Productivity



(b) Unit cost of labour in local currency



(c) Unit cost of labour in United States dollars



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Estimates.

As shown in figure I.12a, within a context of very limited productivity gains in recent years, South America is experiencing a faster rise in average productivity per employed worker than Central America and Mexico. In South America, the average rate is up by around 4% on the average for the 1990s, which is barely enough to recoup the productivity levels of 2000. In Central America and Mexico, productivity is increasing relatively slowly and as of 2005 stood at a little more than 2% above the average for the 1990s. In South America, unit labour costs measured in local currency remained stable up to 2002 and began to drop from 2003 onward as productivity increased. In Central America and Mexico, by contrast, wage rises outpaced productivity gains. The unit cost of labour consequently climbed up to 2003, and then eased back gradually in the two years that followed, but is still around 12% above the rate for the 1990s.

When measured in dollars, unit labour costs in these two subregions behave rather differently. Whereas the rise in the exchange rate in South America translated into a 33% reduction in unit labour costs between the 1990s and 2002, in Central America and Mexico it magnified the increase in the unit cost of labour, which in 2002 stood 34% above the level of the 1990s. In the last few years the appreciation of South America's currencies has exceeded the variation in unit labour costs measured in local currency. Consequently, unit labour costs in dollars have risen, although they are still 22% lower than the levels of the last decade. By contrast, given the relative exchange-rate stability in Central America and Mexico, the decrease in local-currency-denominated unit labour costs has not been reflected in labour costs measured in foreign currency, although the figures for 2005 are still 23% higher than in the 1990s.

Basically, the analysis of the behaviour of dollar-denominated unit labour costs demonstrates two things.

First, it reflects the same situation that becomes apparent from an examination of real exchange rate trends and, second, it indicates that productivity is at a relative standstill in Central America and Mexico and is making too slow of a recovery in South America. In both cases, there appears to be some room for boosting competitiveness through increased productivity, but in order for this to happen, investment, too, will have to expand more quickly. Even though, as mentioned earlier (and as analysed in more detail in the chapter on levels of activity), capital formation has been increasing at a faster rate than GDP growth in recent years, this increase is still not swift enough to achieve higher levels of competitiveness that are sustainable over time.

The other way to achieve a lasting gain in competitiveness is to make products that are of better quality or to increase their level of processing. In a number of publications, ECLAC has argued that, in order to achieve this, the necessary increase in investment must go hand in hand with a productive development strategy directed towards reducing the structural heterogeneity typical of the Latin American economies while at the same time building knowledge into their production processes.⁸

The continuation of the current favourable conditions, with their implications in terms of sustained supply pressure on foreign-exchange markets, will make it difficult to maintain high real parities. In the long run, if the positive situation created by the improvement in the terms of trade and abundant emigrant remittances persists, then the nominal appreciation or higher demand-driven inflation will probably drive down the real exchange rate. The key point would therefore be for the region to take advantage of current conditions, when it is possible to maintain a relatively high real exchange rate, to bring about changes in its economies that will allow it to achieve high levels of competitiveness which are sustainable over time.

F. The outlook for the coming year

The region is set to continue growing in 2006, although more slowly than in 2005, with a projected growth rate of 4.1% translating into an expansion in per capita GDP of about 2.5%. All the countries of the region, without exception, are expected to post positive growth rates,

although the South American and Caribbean subregions will outpace Mexico and Central America (see table I.3). The inflation rate is likely to remain stable at around 6%, which is similar to the level seen in 2005, although with some differences across countries.

⁸ See, among others, Economic Commission for Latin America and the Caribbean (ECLAC), *Productive Development in Open Economies* (LC/G.2234(SES.30/3)), Santiago, Chile, June 2004.

Table I.3
LATIN AMERICA AND THE CARIBBEAN: GROWTH OF GDP, 2005-2006^a
(Annual rates of variation)

| Country | 2005 ^b | 2006 ^c |
|--|-------------------|-------------------|
| Argentina | 8.6 | 6.0 |
| Bolivia | 3.8 | 3.0 |
| Brazil | 2.5 | 3.0 |
| Chile | 6.0 | 5.5 |
| Colombia | 4.3 | 4.5 |
| Costa Rica | 4.2 | 4.0 |
| Ecuador | 3.0 | 3.0 |
| El Salvador | 2.5 | 3.5 |
| Guatemala | 3.2 | 4.0 |
| Haiti | 1.5 | ... |
| Honduras | 4.2 | 4.0 |
| Mexico | 3.0 | 3.5 |
| Nicaragua | 4.0 | 4.0 |
| Panama | 6.0 | 6.5 |
| Paraguay | 3.0 | 3.0 |
| Peru | 6.0 | 5.0 |
| Dominican Republic | 7.0 | 5.0 |
| Uruguay | 6.0 | 4.5 |
| Venezuela (Bolivarian Republic of) | 9.0 | 5.5 |
| Caribbean | 4.1 | 5.1 |
| Latin America and the Caribbean | 4.3 | 4.1 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a The Government of Cuba estimates growth of 11.8% for 2005. ECLAC is evaluating this calculation in accordance with the United Nations methodology, a process which has not yet been concluded. As ECLAC does not have its own figures, the calculation for the regional average does not include Cuba.

^b Estimate.

^c Projection.

Some countries of the region will see their economies' growth rates begin to return to more normal levels, after having soared in the wake of crises that overtook them at the start of the decade, and this will be the main explanatory factor underlying the slower growth rate projected for Latin America and the Caribbean in 2006. Although the risk that the world economy may be in for a hard landing has not disappeared altogether, since imbalances in the United States economy persist, no sudden changes are anticipated in 2006, and the global economy is therefore expected to grow at much the same pace as in 2005.

Despite the increase in short-term interest rates triggered by the United States Federal Reserve's rate hike, longer-term rates have changed much less owing to the scarcity of investment plans and, consequently, the weaker relative demand for long-term financial resources. This flattening of the yield curve on international financial markets suggests that profit-seeking on capital markets will help to prolong the favourable conditions now being enjoyed by emerging economies (see figure I.13).

Thanks to these conditions and the benefits they have yielded for Latin America and the Caribbean in the past few years, the region may be able to further improve its debt profiles and thus continue to reduce its vulnerability to external factors. In many of the countries, this strategy should be coupled with a continued effort to achieve

primary fiscal surpluses which can then be drawn upon to pay down the debt. The countries governments must also reform the tax structure in order to ensure that they receive a sufficient inflow of revenues and that those receipts are not dependent upon the price trends of non-renewable commodities.

If current forecasts regarding financial returns are borne out, then the favourable conditions that emerging markets will continue to enjoy will keep exerting pressure on supply in foreign-exchange markets. If they find themselves faced with these circumstances, the region's central banks will have to work to strike a balance between the need to avoid any loss of competitiveness and the maintenance of a firm stance in preserving domestic macroeconomic stability.

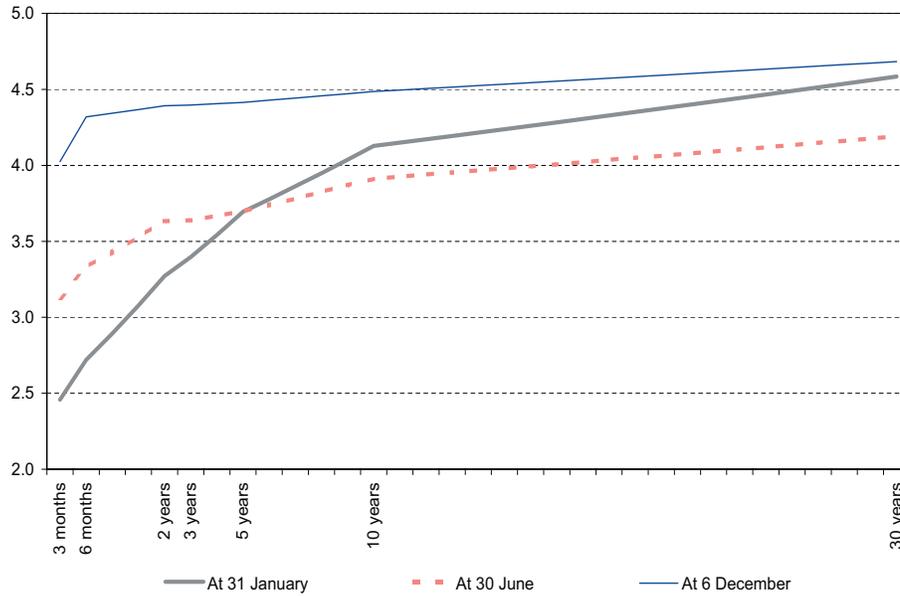
The region's democracies are expected to successfully meet the challenge, as they have in the past, of ensuring that the elections that many of them will hold in late 2005 and 2006 will not negatively influence their macroeconomic situation. However, in order to achieve a growth rate high enough to reduce poverty more quickly, reforms are needed in a variety of areas, including the tax structure, social expenditure, regulation and competition in some sectors). The countries should therefore take advantage of this period of intense political activity to build a broad social and political consensus as a basis

for strengthening governance and leveraging the region’s future growth prospects by enhancing its ability to attract more investment.

As noted earlier, in the medium term, the need to maintain a high level of competitiveness calls for a more rapid increase in investment and the use of a

policy strategy for enhancing the quality and content of the value that the countries add to their exports. Both of these elements are necessary conditions for sustaining a growth rate high enough to lower the region’s still high levels of unemployment and thus help to mitigate the social imbalances that plague the region.

Figure I.13
YIELD CURVES ON UNITED STATES TREASURY BONDS, 2005



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Chapter II

The external sector

A. International environment

1. Slight slowdown of the world economy

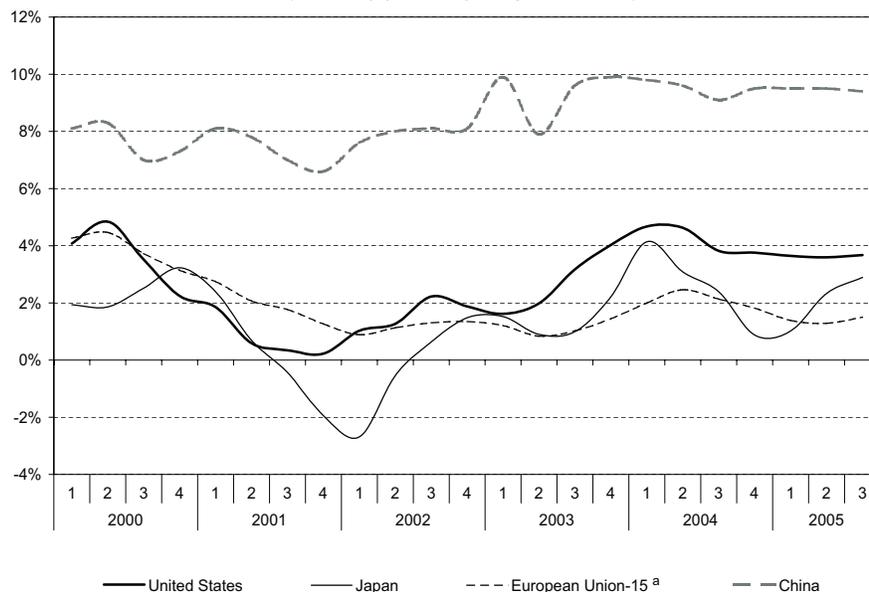
In 2005, the world economy performed fairly well, with growth of around 3.3% for GDP and 7.3% in trade. These figures are slightly below the exceptional ones registered in 2004, when GDP expanded by 4% and trade by 11%. As was the case in 2004, the expansion was more intense in developing countries than in developed nations. The momentum of growth was uneven for the world's main economies: the United States and China retained relatively stable growth rates throughout the year (3.5% and 9.5%, respectively), while the European Union displayed a slowdown and there was an upturn in economic activity in Japan (see figure II.1).

The turning point in the upswing occurred in mid-2004. The main cause of the slight slowdown in activity and trade in 2005 was the reversal of stimulus policies implemented in the United States since 2001 and measures to control the investment boom in China. Output and trade are expected to grow at similar rates during 2006, assuming that oil prices are relatively stable (albeit at a high level) and other potentially destabilizing factors are kept in check (such as sudden adjustments in interest rates, exchange rates and real estate prices in certain developed countries). Another possible feature of the near future might be divergent growth dynamics, particularly between

China (where activity might pick up) and the United States (where such a recovery is not predicted).

GDP in the United States rose by around 3.5% in 2005, compared with 4.2% in 2004, despite the increasing monetary restriction imposed by the Federal Reserve, the increase in oil prices and the natural disasters affecting the country. The wealth effect created by the previously expansionary monetary policy and the corresponding real estate boom has formed the backbone to this expansion, which has been characterized by falling levels of personal savings and high household borrowing. As in previous years, the main engines of growth were therefore consumption and property purchases rather than investment in the production of tradable goods. This explains why the balance-of-payments merchandise trade and current account deficits widened again in 2005 to stand at 6.0% and 6.3% of GDP, respectively, at the end of the second quarter. However, the slowdown in the expansion of imports ensured that the merchandise trade balance widened by less than in 2004. In the final quarter of 2004, imports at current prices increased by 19.8%, compared to 13.5% in the third quarter of 2005. Despite the worsening current account balance, the dollar appreciated following considerable official financing inflows and the relative increase in the interest rate resulting from tighter monetary policy.

Figure II.1
QUARTERLY REAL GDP GROWTH IN THE LEADING ECONOMIES, 2000-2005
(Quarterly year-on-year growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States Bureau of Economic Analysis, the Organisation for Economic Co-operation and Development (OECD), the Economic and Social Research Institute of Japan and the National Bureau of Statistics of the People's Republic of China.

^a At 2000 prices; aggregate calculation in dollars based on 2000 purchasing power parities.

Although core inflation has been kept in check (2% in October), the global consumer price index climbed by 4.3% in that same month, owing to the steady increase in the prices of energy products.¹ It is therefore understandable that the main concern of the monetary authorities is that this might exert pressure on core inflation and labour costs. However, the vitality of the labour market has remained low, and was also temporarily affected by the devastation caused by hurricane Katrina. Thanks to the buoyant expansion of public revenues in 2004, the fiscal deficit was smaller than predicted and is expected to represent around 3.2% of GDP. Increased uncertainty surrounding the United States economy has less to do with stability in the external sector and fiscal accounts, and more to do with the possible repercussions that the renewed energy price increases and the real estate market correction could have on inflation and consumption. In any event, activity can be expected to slow down even more if the gradual tightening of monetary policy continues.

Unlike what was predicted at the beginning of the year, China's GDP growth rate has remained similar to

that recorded in 2004 (around 9.5%) thanks to buoyant exports and investment. In 2005, the merchandise trade surplus was three times wider than the previous year, and the positive balance-of-payments current account balance could reach the equivalent of 6% of GDP. While exports have continued to gain strength, imports have been vulnerable to the investment restriction measures, and this contributed to the widening of the trade deficit. In mid-2005, however, the growth rate of investment gathered pace once more, which had a positive effect on imports. This upturn was not due to inflows of flight capital (which have waned in the light of higher interest rates in the United States and the slight appreciation of the yuan), but rather to the reduction of sterilization operations. This, in turn, has pushed up banking liquidity and brought down interest rates in a context of low inflation. This new monetary context could well serve to increase credit and boost investment more convincingly. If this occurs in 2006, Chinese demand on the world market would rise in contrast with a potential shrinking of United States demand.

In 2005, Japan will grow by around 2.2%, which is lower than the 2.6% recorded in 2004. This slowdown

¹ Inflation measured as annualized trend.

occurred as exports weakened following their excellent performance in 2004. Although investment, consumption, the labour market and the financial indicators of companies and banks seem to have begun picking up in 2005, the robustness of this possible recovery remains unclear, as the economy is still affected by deflationary pressure, high dependence on external demand and the need for a restrictive fiscal policy.

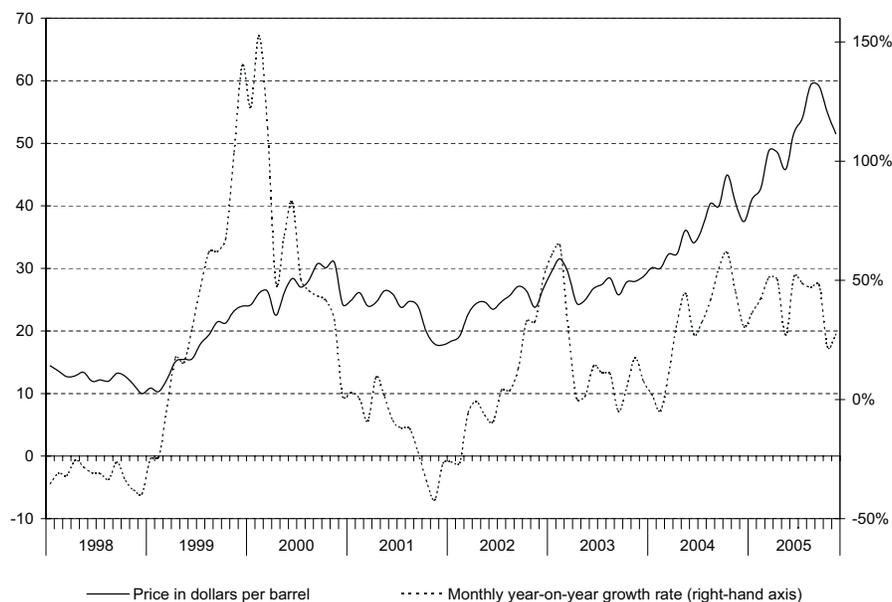
Activity in the European Union will also drop from 2.1% in 2004 to 1.5%, as the export buoyancy from the previous year failed to carry over into 2005. Despite certain differences among countries, average domestic demand in the European Union remains depressed, while the labour market is plagued by high unemployment. To date, the rise in profits, low interest rates and external stimuli have had little effect on investment, although the depreciation of the euro (almost 15% between the end of 2004 and November 2005) could provide a boost to exports in 2006.

In the first 11 months of 2005, the price of petroleum increased by 40.5%, having risen by 30.7% in 2004 (see figure II.2). Unlike in 2004, the main factor in the

most recent increase was supply problems, rather than an expected hike in demand. In 2005, world demand is expected to expand by around 1.5%, i.e. half the growth rate recorded in 2004. However, given the market's expectations of future shortages resulting from the growing needs of countries like China and India, combined with the concrete difficulties associated with increasing the excess production capacity in the short and medium term, oil prices were pushed up during most of the year. Petroleum prices have shown themselves to be highly sensitive to even minor supply problems, and this generates market tensions and volatility. It should be pointed out that the reduction in supply in the wake of hurricane Katrina and hurricane Rita was rapidly brought under control, thanks to the use of strategic reserves and extraordinary inventory production and accumulation efforts that could actually trigger a downward trend at the end of the year.² According to projections from the International Energy Agency, world demand for oil will rise by 1.6% in 2006 (which is less than predicted at the beginning of the year).

An important factor to bear in mind when analysing the world economic prospects is that the recovery observed

Figure II.2
MONTHLY OIL PRICES, JANUARY 1998-NOVEMBER 2005
(Dollars per barrel and monthly year-on-year growth rates)^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund and the International Energy Agency.

^a Weighted world average of exports, by volume.

² Both hurricanes seriously damaged refineries and distribution infrastructure. According to estimates from the International Energy Agency, this reduced the daily crude production capacity of the United States by 3.5% in 2005.

in recent years has yet to resoundingly jump-start investment—except in China. Non-concurrent episodes of overinvestment and debt overhang in certain Asian economies (including Japan) and the United States during the 1980s and 1990s were followed by crises of varying intensity that forced companies to implement paydown and saving strategies. This is why companies in several countries have channelled the bulk of profits made during the various stages of the recovery into improving their financial situation, rather than investing them. In addition, the countries that have benefited from higher prices for petroleum and other raw materials in recent years have maintained much of these profits in liquid form. Weak investment in a context of high liquidity (in the broader sense) in both developed and emerging economies has brought international interest rates to historic lows. For instance, the average rate for 10-year United States treasury bonds was 4.35% between 2002 and 2005, which is the lowest rate since 1965. Low interest rates have enabled the United States to achieve a recovery that is free from financing problems and based on consumption, although this has also worsened the country's external imbalance.

China has also benefited from worldwide liquidity, given that its current investment boom is mainly driven by inflows of external capital seeking higher yields.

Although this situation has proved stable so far, the excesses are generating various forms of vulnerability that constitute risks for the world economy. This applies to asset inflation, increased personal borrowing in the United States and inflationary pressures resulting from increased demand for raw materials (especially petroleum) during 2004 and, to a lesser extent, in 2005. Despite abundant liquidity at the international level, it is impossible to rule out a sudden variation in interest rates following a change in inflation expectations or a chain of risk factors associated with the external imbalance of the United States. Also, a cooling of the real estate market in the United States and other countries may have negative effects on consumption and activity. The fact that investment is picking up in China is again producing uncertainty about the potential effects of a reversal in this process. In terms of trade, a worsening disequilibrium in the United States might give rise to protectionist pressures, which could also hold back the world economy.

2. Effects of world economic activity on Latin American and Caribbean exports

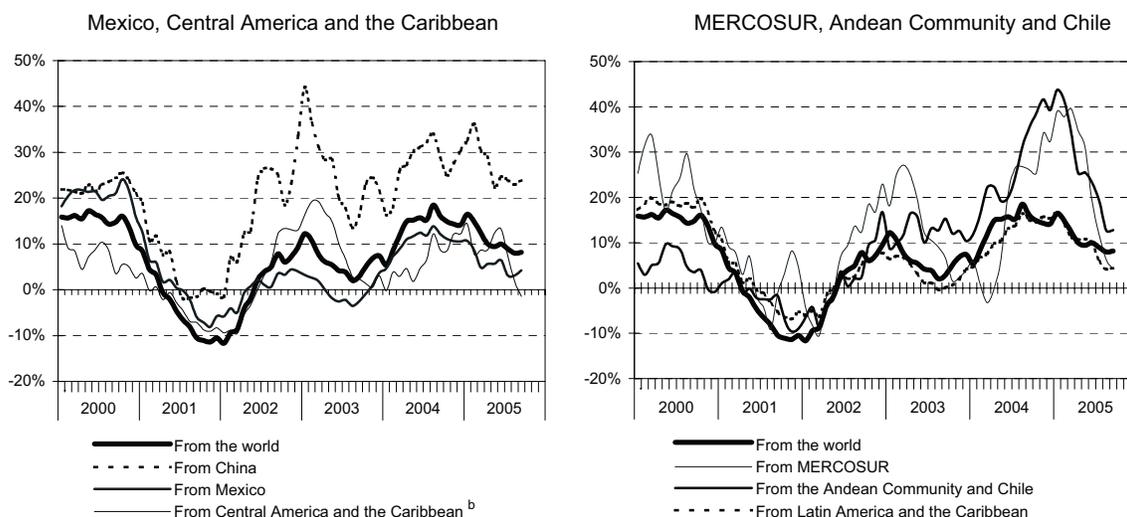
From April 2005, growth of United States non-petroleum imports from the region began to slow, although they remained an important driving force behind the region's sales (see figure II.3). Average growth in 2004 and the first three months of 2005 was 12.4%, while the growth rate between April and September was 7.7%. In September, year-on-year growth was 4.4%. The loss of buoyancy in purchases in Latin America has been similar to the total world reduction, and is consistent with the lower growth rate in the United States. At the subregional level, only Central America and the Caribbean posted higher rates for April-September 2005 (8.7%) than for January 2004-March 2005 (7.3%). The slower growth in imports from MERCOSUR, the Andean Community and Chile has been particularly striking, while imports from Mexico began to slow down from mid-2004. Indeed, the recovery

of Mexican exports to the United States observed in the first half of 2004 seems not to have become consolidated. Mexico's market share shrank again from 10.6% in 2004 to 10.4% in the first nine months of 2005, while China's market share rose from 13.4% to 14.5% over the same period. Central American and Caribbean countries³ also reduced their market share in the United States from 1.3% in 2003 to 1.1% in the first nine months of 2005.

Between April 2004 and April 2005, the growth rates of Chinese imports dropped as a result of investment control measures implemented by the authorities (see figure II.4). From May onwards, the upturn in the investment rate pushed up China's external purchases once more. This was reflected in the prices of metals and soybean, which form an important part of the export basket of many Latin American countries.

³ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic.

Figure II.3
UNITED STATES: NON-OIL IMPORTS, JANUARY 2000-SEPTEMBER 2005
(Monthly year-on-year growth rates)^a

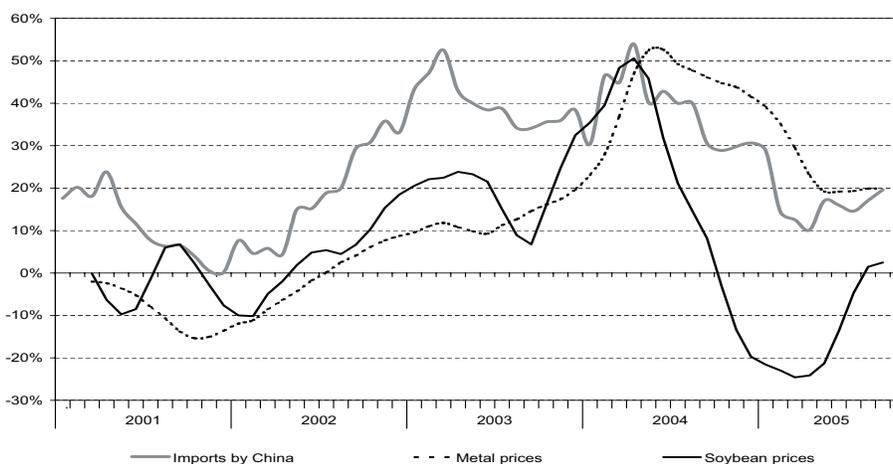


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United States International Trade Commission.

^a Calculated on the basis of the three-month moving average of the respective series, seasonally adjusted.

^b Bahamas, Barbados, Belize, Costa Rica, Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama and Trinidad and Tobago.

Figure II.4
MONTHLY IMPORTS BY CHINA AND SELECTED COMMODITY PRICES, JANUARY 2001-SEPTEMBER 2005
(Three-month moving average of monthly year-on-year growth rates)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of customs statistics from the People's Republic of China and official institutions.

3. Commodity prices

In the first 10 months of 2005, the prices of commodities exported by Latin America and the Caribbean rose by 20.6% overall, or 14.4% excluding energy products (see table II.1 and figure II.5). The increase is lower than the exceptionally high one recorded in 2004, although several products have clearly continued to benefit from very favourable conditions during 2005. Other markets, however, suffered downward price trends. In 2004 and most of 2005, the prices of all commodities except energy products increased by 27.7% compared with the average in the period 1990-2003, which gives some indication of the boom enjoyed by various commodity suppliers in the last two years.

Energy products accounted for 51% of the price increases between January and October 2005, and their contribution was higher than in 2004, with a price increase of 37.1% resulting from the petroleum market operating close to production limit, thereby creating expectations of future shortages. Minerals and metals accounted for much of the price increase (44%), despite the fact that price increases for the former have slowed down. Markets for many metals and minerals, including copper, continue to operate with decreasing and historically low inventories on account of soaring Chinese demand. Between January-July 2004 and January-July 2005, Chinese demand for copper increased by 15.3%, while demand from other countries dropped by 5.1%. This shows the divergent patterns that might emerge in world economic activity. Copper prices have continued to rise as supply has increased much less than expected for various technical and labour-related reasons. The markets for iron ore and steel products are special cases: Chinese demand for iron ore has continued to push up

prices, while China has also emerged as a world supplier of steel products, thereby bringing prices down. In the tail end of 2005, the gold market has steadily expanded due to financial and exchange-rate factors.

Some food and beverage products, including meat, coffee and sugar, have also contributed to the price increases of the region's commodity exports. As far as coffee is concerned, prices rose steadily in 2004. In April 2005, prices trended downwards as the decline in production was smaller than expected and demand grew by less than the previous year. Coffee prices picked up slightly from October onwards in the wake of hurricane Stan, which affected the harvests in Mexico and several Central American countries. The lack of supply of meat from the United States due to health and sanitation concerns is keeping meat prices high, and many Latin American producers have taken advantage of the situation to increase their exports. As for sugar, its scarcity due to growing demand for ethanol and progress made in eliminating subsidies has been steadily pushing up prices since 2004.

In 2005, oilseeds had a negative effect on variation in the prices of the region's commodity exports. Prices were lower than the maximum reached at the beginning of 2004, owing to a considerable increase in world soybean production during the 2004-2005 harvest (14.5%). At the same time, the much smaller increase in supply from the 2005-2006 harvest (3.8%)—largely on account of the estimated 13% decrease in China's production—has curbed price falls during 2005. Despite this, a year-on-year comparison shows a 12.1% decrease (although soybean prices are 29.5% higher than in 2000).

Table II.1
LATIN AMERICA AND THE CARIBBEAN: EXPORT COMMODITY PRICES, JANUARY 2003-OCTOBER 2005^a
(Percentages)

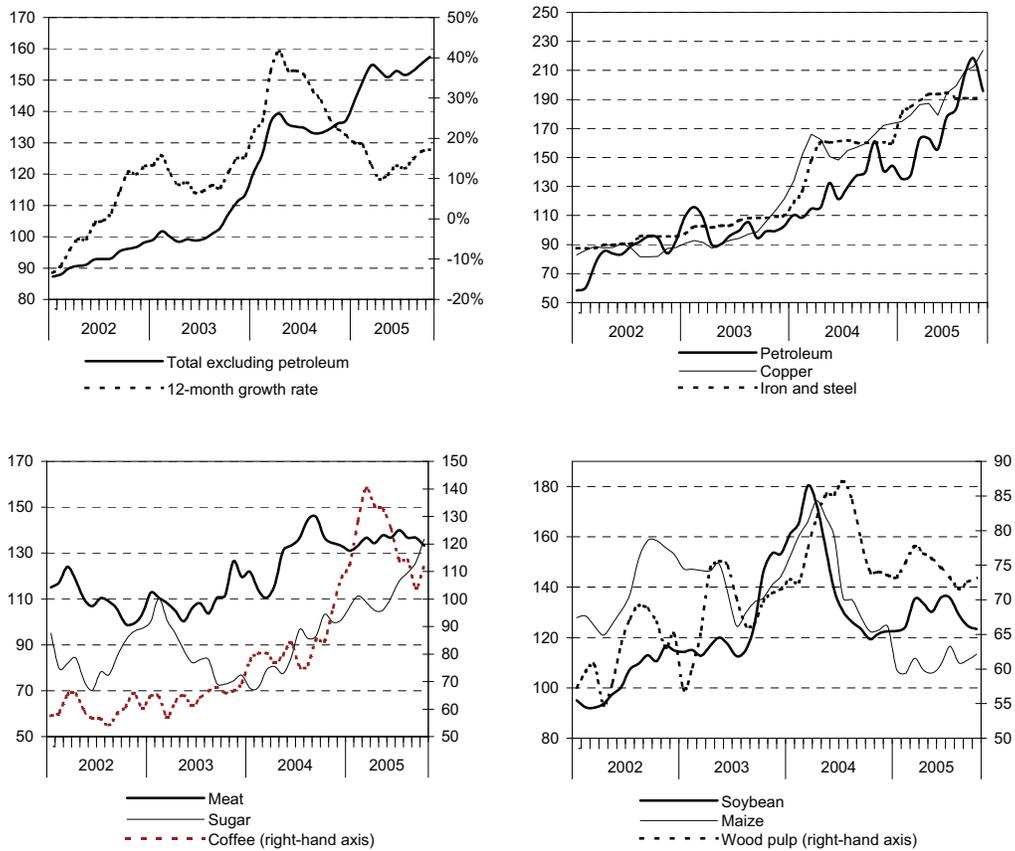
| | 2003 | | 2004 | | 2005 ^b | |
|--------------------------|-------------|--------------|-------------|--------------|-------------------|--------------|
| | Growth rate | Contribution | Growth rate | Contribution | Growth rate | Contribution |
| Total | 13.8 | 100.0 | 29.4 | 100.0 | 20.6 | 100.0 |
| Energy products | 22.3 | 46.1 | 28.8 | 30.0 | 37.1 | 51.2 |
| Non-energy products | 10.4 | 53.9 | 29.7 | 70.0 | 14.4 | 48.8 |
| Food | -6.6 | -5.4 | 11.9 | 3.8 | 5.6 | 2.3 |
| Beverages | 6.9 | 1.8 | 25.1 | 2.9 | 48.1 | 7.4 |
| Oilseeds | 19.0 | 13.8 | 14.2 | 5.1 | -11.0 | -5.1 |
| Industrial raw materials | 9.3 | 6.3 | 7.6 | 2.3 | -0.4 | -0.1 |
| Minerals and metals | 13.9 | 37.4 | 44.2 | 55.9 | 22.3 | 44.3 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Percentage variations in the price index of commodities exported by Latin America and the Caribbean, aggregated according to the proportion of each product in the region's exports in 2000.

^b January-October average.

Figure II.5
LATIN AMERICA AND THE CARIBBEAN: PRICES OF SELECTED EXPORT COMMODITIES,
JANUARY 2002-OCTOBER 2005
 (Index 2000 = 100)^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from official institutions.
^a The aggregate indices are prepared on the basis of weightings corresponding to the proportion of each product in the region's exports in 2000.

B. The region

1. Trade in goods and services

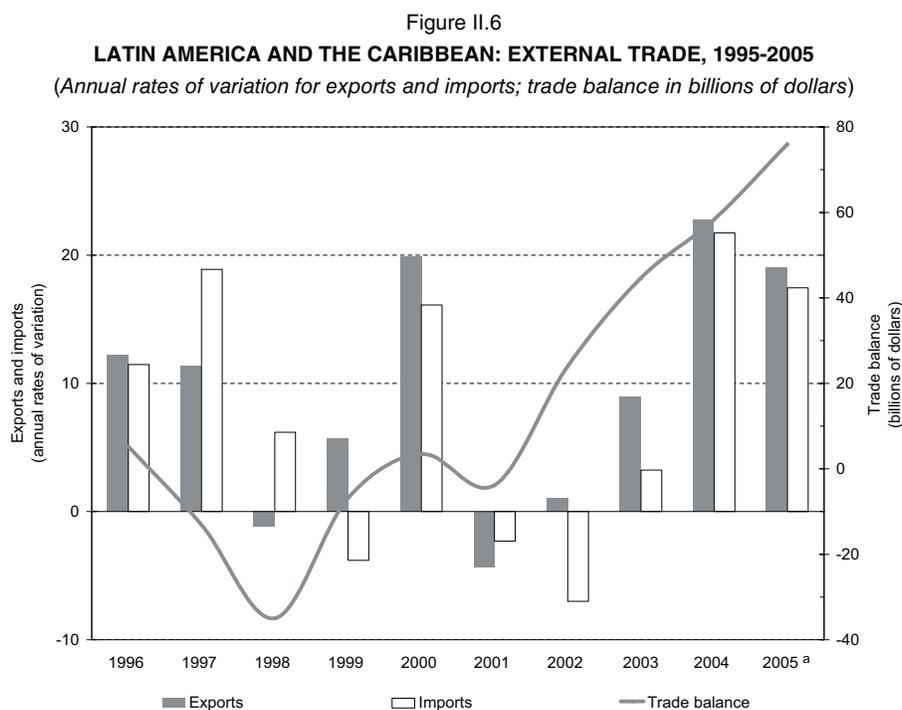
In 2005, total exports plus imports amounted to more than a trillion dollars (44% of regional GDP), while trade grew by 18.3% during the year. Exports increased by 19.0% and imports by 17.5%, which represented a slight slowdown in relation to the unprecedented growth of 22.8% and 21.7%, respectively, in 2004. In constant prices, exports expanded by 7.7% and imports by 11.4%. The merchandise trade balance, which was positive for the fourth consecutive year, stood at US\$ 75.7 billion. This represents 3.2% of regional GDP, and is US\$ 17.3 billion higher than in 2004 (see figure II.6).

Export performance in the region is linked to subregional specializations. In MERCOSUR countries, the continued hike in external sales was 20.0%, while they

increased by 32.4% in the Andean Community and Chile. As in 2004, most of these countries clearly turned in an extremely impressive export performance. This is largely due to strong markets for some commodities, combined with the satisfactory performance of manufactured exports from Argentina and Brazil.

External sales of Mexico and Central American countries, which supply a high proportion of labour-intensive manufactures, grew at similar rates to 2004. Some countries recorded increases, and this is linked to high prices of certain traditional export commodities. Mexico's exports swelled by 12% (9% excluding petroleum), compared with growth of 14.1% in 2004.

Petroleum sales were an important factor in the considerable increase in regional exports. Sales of net



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

petroleum exporters rose by almost 38% during 2005, which exceeded the 35% increase recorded in 2004. The increase in petroleum exports was almost entirely attributable to price increases.

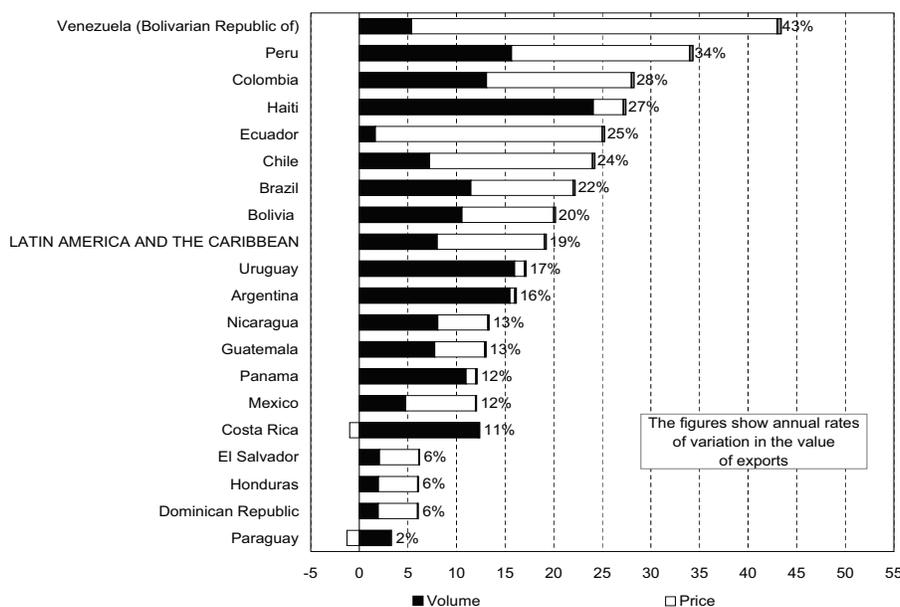
Out of the 19.0% growth of regional exports, 10.6 points correspond to price effects, while the rest is attributable to volume effects (see figure II.7). Price increases were more significant for oil producing economies (such as the Bolivarian Republic of Venezuela and Colombia) and those that produce certain minerals (including Peru and Chile). In some of the countries that benefited from the boom in oilseeds in 2004 (for instance, Argentina and Uruguay), volume had a greater effect on the increase in exports. Growth of export volumes reached double figures in nine economies (including Argentina, Brazil, Colombia and Peru). Mexico's export volume grew by less than the average (4.6%), and the country's relative size brought down the rate for the region as a whole. Other major exporters, such as Chile and the Bolivarian Republic of Venezuela, also recorded export volume growth that was below the regional total.

Imports also expanded significantly in 2005, although somewhat less so than the previous year, partly because the expansion constituted a recovery from abnormally low levels in certain countries. Import growth was in double

figures for the second year in a row: 21.7% in 2004 and 17.5% in 2005. Subregional differences are significant in this context, with a more marked slowdown of imports in MERCOSUR countries (due to a certain normalization of the increase in Argentina's external purchases, which grew by 30% compared with 62.3% in 2004) and a slowdown in the pace of activity in Brazil. In Andean countries and Chile, imports expanded again by almost 30%, although the breakdown differed from 2004: imports grew by less in the Bolivarian Republic of Venezuela, while growth increased in the other countries as a result of greater domestic demand, higher prices for some raw materials and improved international purchasing power thanks to currency appreciation and better terms of trade. The increase in the oil bill played an important part in the higher growth of Central American and Caribbean imports. In Mexico, the high correlation between external purchases and sales was reflected in the fact that imports grew by less than in 2004 (12.0% compared with 15.4%).

As shown in figure II.8, the buoyancy of the region's external trade began to falter slightly from mid-2004 onwards. Between 2002 and the first half of 2004, there was a veritable revival of exports and then of imports, in what was a most singular phenomenon in the region's economic history: export growth considerably exceeded the

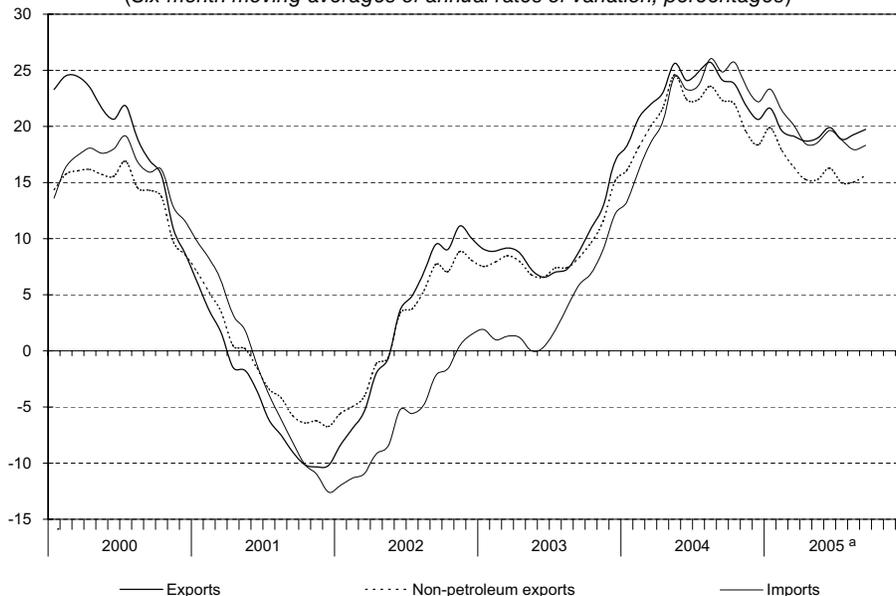
Figure II.7
LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE CHANGE IN MERCHANDISE EXPORTS, f.o.b., BY UNIT PRICE AND VOLUME, 2005^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

Figure II.8
LATIN AMERICA AND THE CARIBBEAN: TRENDS IN EXTERNAL TRADE, 2000-2005^a
(Six-month moving averages of annual rates of variation; percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Estimates.

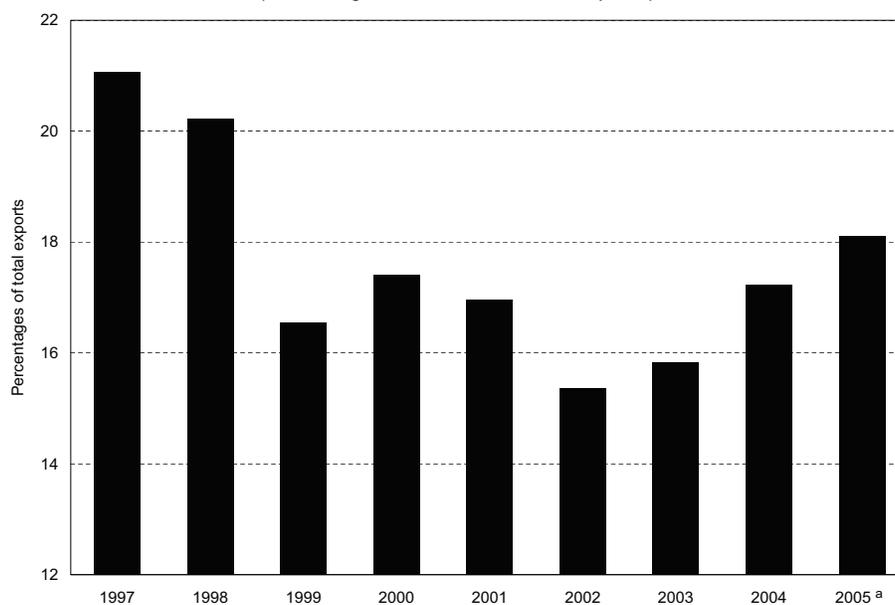
recovery rate of imports, thereby improving the external accounts in many countries. In this period, even non-oil exports increased more than imports. From mid-2004, however, export growth began to cool and the trend was even reversed: imports began to rise at slightly higher rates than total exports and at much higher rates than non-oil exports. Throughout 2005, non-oil exports slowed down more dramatically than the other two aggregates, although they still posted a noteworthy 15% annual increase in the last few months of the year.

Trade in services (exports plus imports) expanded by 19.7% in 2005, compared with 14.0% in 2004. According to a sample of countries with disaggregated information available, tourist revenues rose by 16.8% (compared with 18.7% in 2004), while transport increased by less than in

2004 due to lower international freight charges resulting from the greater availability of ships.

In 2005, intraregional trade amounted to around US\$ 100 billion, and its 25.1% expansion was greater than the 19.0% increase in exports, although the difference is smaller than the one recorded the previous year. This aggregate (measured by the percentage of exports going to countries in the region) now represents 18.1% of the total, although this still fell short of the 21.1% registered in 1997 (see figure II.9). The largest increase was in MERCOSUR (26.0%), followed by the Andean Community (22.8%) and CARICOM (21.0%), while non-maquila trade among countries in the Central American Common Market rose by 16.1%. Exports from Chile, but especially from Mexico, to the rest of the region soared.

Figure II.9
LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL TRADE, 1997-2005
(Percentages of the total value of exports)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official quarterly figures.

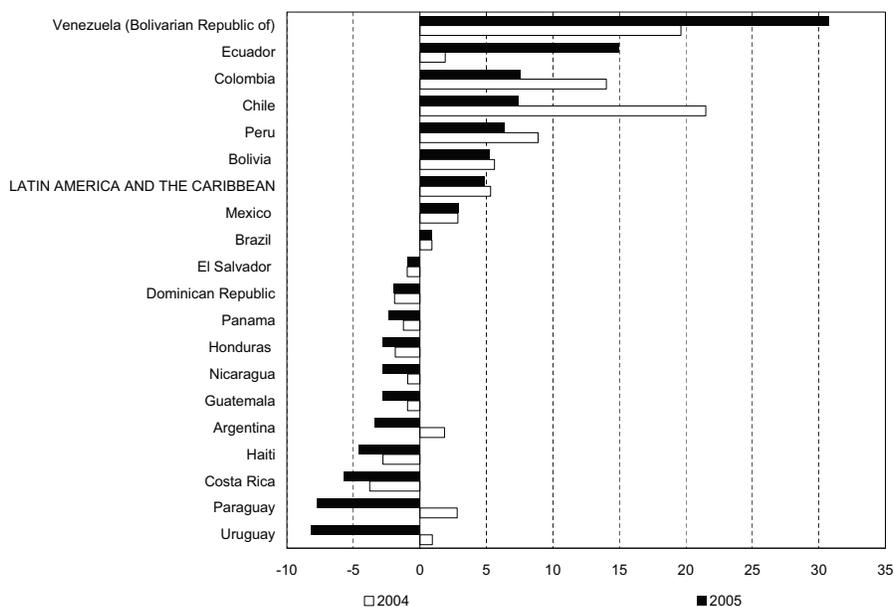
^a Preliminary figures, based on the first nine months of the year.

2. Terms of trade

Between 2002 and 2005, the region's terms of trade accumulated an increase of 13.2%. During 2005, the increase was 4.8%, which was somewhat less than the 5.3% recorded in 2004. The positive overall trend is thanks to a 10.6% increase in export prices,

while import prices rose by 5.5% (see figure II.10). The expansion is concentrated in countries that export oil, minerals and metals, while net importers of energy products suffered an even sharper decline than in 2004.

Figure II.10
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE
(Percentage variation 2004 and 2005)^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Preliminary figures.

3. Balance-of-payments current account

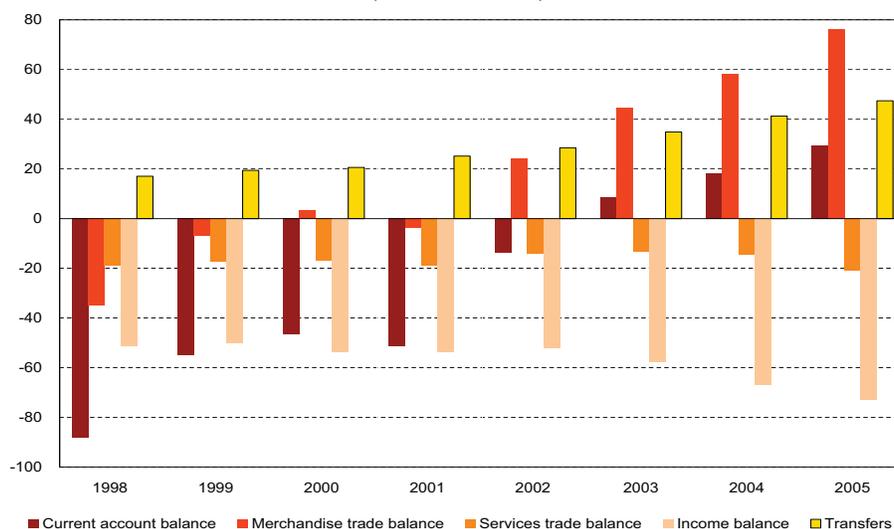
For the third year in a row, the region posted a surplus on the balance-of-payments current account, this time amounting to US\$ 29.7 billion, or the equivalent of 1.3% of GDP—almost US\$ 11.4 billion more than in 2004 (see figure II.11). Over the last three years, the average current account surplus has represented 0.9% of GDP, which is unprecedented in the region's economic history. The countries mainly responsible for the positive balance are Argentina, Bolivarian Republic of Venezuela, Brazil, Chile and Peru. The current accounts of Bolivia, Ecuador and Haiti are virtually balanced. Most net oil exporters⁴ have improved their current account balances, either thanks to an increase in surplus (as in the Bolivarian Republic of Venezuela) or to a smaller deficit (the case of Colombia and Ecuador). In contrast, the trade balance worsened in

several Central American and Caribbean countries that are highly dependent on energy product imports, although in some cases this was relieved by emigrant remittances.

The regional surplus resulted from a positive merchandise trade balance of US\$ 75.7 billion, which was almost 30% higher than in 2004. This combined with the positive current transfers balance, mainly made up of emigrant remittances (US\$ 47.4 billion), to generate a joint balance of US\$ 123.1 billion. Remittances increased again in 2005 (by 14.8%), while the balance of services displayed a deficit of US\$ 20.6 billion and the income balance deficit stood at US\$ 72.8 billion. The balance of services deficit widened, while net profit remittances from investment rose by 9.1%, which was less than the increase of almost 15.6% recorded in 2004.

⁴ Argentina, Bolivarian Republic of Venezuela, Colombia, Ecuador and Mexico.

Figure II.11
LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF CURRENT ACCOUNT BALANCE, 1997-2005^a
(Billions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

Box II.1

EFFECTS OF THE RISE IN OIL PRICES ON THE CENTRAL AMERICAN ISTHMUS AND THE CARIBBEAN

The Central American countries have been badly affected by steeply rising prices for petroleum and petroleum products between 2003 and 2005. Since 2003, when the price of oil rose from US\$ 28.20 to US\$ 35.09 per barrel, the average annual price has climbed steadily, reaching US\$ 42.24 in 2004 and US\$ 50.31 in 2005. Chiefly because of this price effect, the Central American countries' oil bill swelled from US\$ 2.386 billion in 2002 to US\$ 5.199 billion in 2005. Import volumes accounted for less of the rise, with a cumulative increase of only 8.6%, or the equivalent of 2.8% per year.

The rising oil bill has undoubtedly played a part in worsening the deficit on the subregion's balance-of-payments current account, which widened from US\$ 3.659 billion in 2002 to US\$ 5.424 billion in 2005. In this period, the proportion of the deficit accounted for by oil imports rose from 73% to 96%. In the absence of the oil bill, the Central American countries' current-

account deficit would have decreased from 1.3% to 0.2% of GDP, instead of increasing from 4.7% to 5.8% of GDP, which was what in fact occurred. Even including oil expenditure, however, four of the six countries of the isthmus were able to reduce their current-account deficits in GDP terms. The increase in this indicator was attributable to El Salvador, and, especially, Panama.

Expenditure on oil doubled between 2002 and 2005 in some of the Central American countries, with the steepest rises in Nicaragua (121.6%), Costa Rica (112.0%) and Guatemala (107.2%). The surge in prices between 2002 and 2005 was equivalent to 145% of the 2005 current-account deficit in Honduras, between 45% and 56% in Costa Rica, El Salvador and Guatemala, and around 24% in Nicaragua and Panama. For the subregion as a whole, the higher price of petroleum pushed up the oil bill by between 0.8% and 0.9% of GDP each year from 2003 to 2005.

Comparable information is lacking for the Caribbean countries, but the problem generated by the rise in petroleum prices has certainly been no less acute. In order to offset the potential effects of this phenomenon in the future, 13 Caribbean countries^a signed an energy cooperation agreement, known as PETROCARIBE, with the Bolivarian Republic of Venezuela. This arrangement replaces the Caracas Agreement on Energy Cooperation signed in 1999. Some of the main provisions of the new accord are: (i) lengthening of the payment term for short-term oil import loans from 30 to 90 days; (ii) the creation of deferred, price-linked payment systems for oil import loans, with two possible modalities: loans for oil purchased at over US\$ 40 per barrel may be paid off in 25 years at an interest rate of 1%; and those for oil bought at less than US\$ 40 per barrel carry a term of 17 years, at a rate of 2%; and (iii) a general two-year moratorium for loan payments.

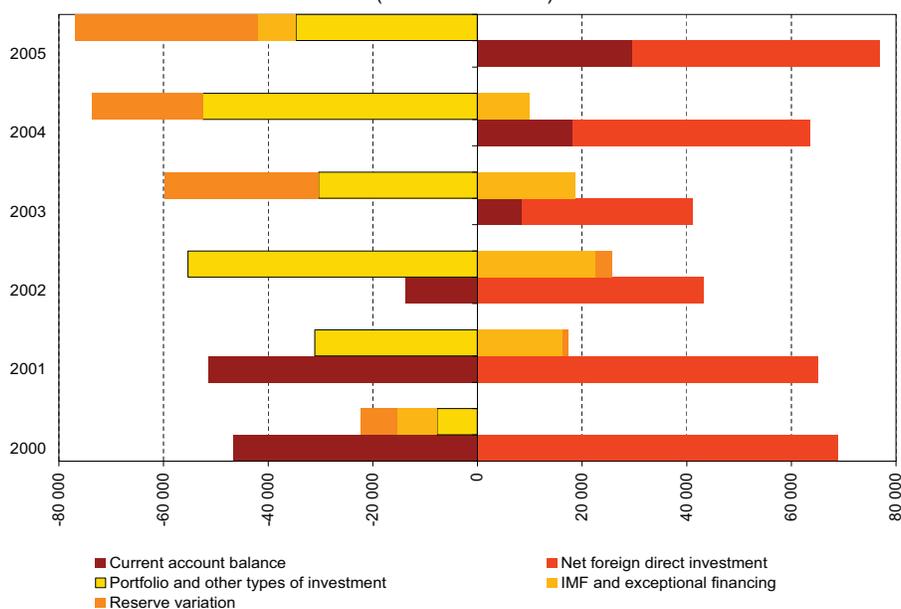
^a Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Saint Lucia and Suriname.

4. Capital flows

The conditions that had prevailed in 2004 continued to dominate the financial panorama throughout 2005, with the result that international market liquidity (caused by the factors discussed earlier) continued to be an important factor in shaping rent-seeking global capital flows. In view of these conditions, and given the positive performance of the current-account balance, the build-up of reserves and economic stability of the region, Latin America and the Caribbean continued to be an attractive international investment pole, as demonstrated by the positive take-up of international bond issues and narrow interest rate spreads. The prevailing conditions allowed a number of the region's countries to issue debt denominated in local currency, as part of the liability restructuring they undertook in order to reduce their external vulnerability. These good conditions prevailed despite moments of political tensions in a number of countries.

The good current-account results in 2005 were coupled with a positive flow of foreign direct investment (FDI) into the Latin American countries as a group. The current-account balance and net FDI are used to calculate the basic balance, which is a measure of the resources provided to the region by these two balance-of-payments items and available for allocation to a variety of purposes. As shown in figure II.12, the region's basic balance was in surplus by some US\$ 77 billion (3.3% of GDP), of which about US\$ 35 billion (1.5% of GDP) was used to build up reserves and around US\$ 42 billion⁵ went to pay down external debt, including net payments for exceptional financing and IMF credits.⁶ This means that, for the third year running, the region ran a current-account surplus and reduced its net external liabilities. Although this represents a net outward flow of capital in accounting terms, the outflow is not the result of a lack of investor

Figure II.12
LATIN AMERICA AND THE CARIBBEAN: BREAKDOWN OF BASIC BALANCE, 2000-2005
(Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF) and official figures.

⁵ Of this amount, US\$ 6 billion corresponded to the Bolivarian Republic of Venezuela's transfer of international reserves to its National Development Fund. In addition, these totals do not include the IMF debt payoffs announced by the governments of Argentina and Brazil. The two countries are to pay their entire debt to IMF (US\$ 15.5 billion in the case of Brazil and US\$ 9.8 billion for Argentina) from their respective international reserves by the end of the year.

⁶ Prominent in the category of exceptional financing is Argentina's entry, which reflects the country's debt swap operation.

confidence in the region's economies, but a reflection of the surpluses recorded in the basic balance items and debt restructuring operations.

The regional trend encompasses different developments in the groups of countries. MERCOSUR and the Andean Community and Chile ran basic balance surpluses, of which the counterpart was a drop in net external liabilities, with the exception of Bolivia, Paraguay and Uruguay, which recorded net inflows of capital. Conversely, Central America and the Caribbean posted a deficit on the basic balance, corresponding to an inflow of capital which was, in fact, sufficient to build up reserves. Mexico ran a current-account deficit, which was financed thanks to a positive flow of FDI and net inflows of financial capital.⁷

The build-up of international reserves was a widespread trend in the region (see figure II.13). All the countries except El Salvador and Nicaragua, which each recorded a marginal reduction in reserves, either used portions of the surpluses on their basic accounts to increase their reserves or took advantage of favourable lending terms to borrow funds for that purpose. Several countries, including Argentina and Brazil, are taking steps to rebuild at least part of their reserves to levels comparable to those seen before these countries' respective crises. A number of countries are also seeking to keep their exchanges

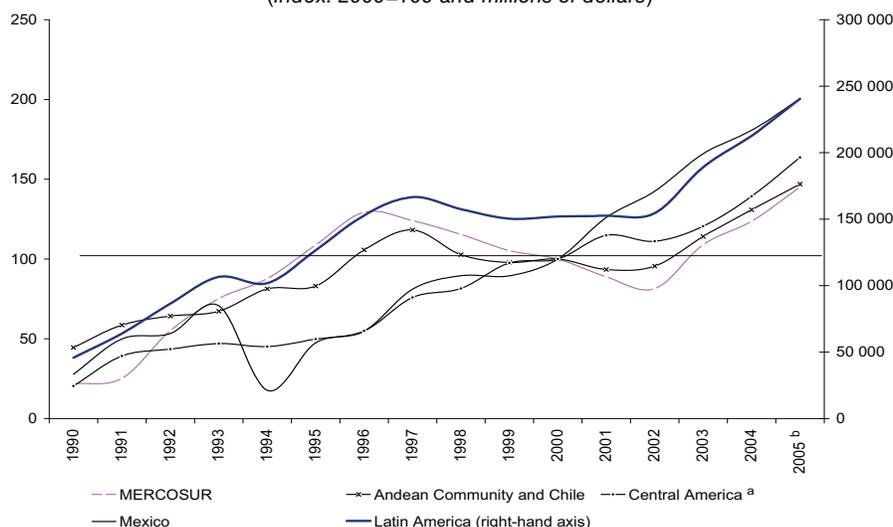
rates to a certain level. In Chile's case, good economic performance and the international confidence it now enjoys have enabled the country to keep its international reserves fairly stable over the last few years, at close to US\$ 16 billion, even though the amount accumulated in 2005 was quite small.

In October 2005, the Latin American and Caribbean region registered international reserves of almost US\$ 240 billion. This was the largest amount since 1990, and exceeded the 1999 and 2002 figures by 57% and 53%, respectively. Moreover, the average for 2000-2005 was up by 89% on the average for 1990-1999.

The region received FDI flows estimated at US\$ 47 billion (2% of GDP) in 2005, which represents an expansion of 4% in relation to 2004. The largest recipients, in descending order, were Brazil, Mexico, Argentina and Chile. Almost 35% of inflows were estimated to correspond to greenfield investments.⁸

Notwithstanding the downturn in the region's net external liabilities position, Latin America and the Caribbean had issued international bonds for almost US\$ 34.6 billion by the end of September. This sum represents 29% of all emerging economy issues and is outstripped only by the European emerging economies, which accounted for 37% of the total (see figure II.14).⁹

Figure II.13

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVES*(Index: 2000=100 and millions of dollars)*

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF).

^a Central America includes Panama and the Dominican Republic.

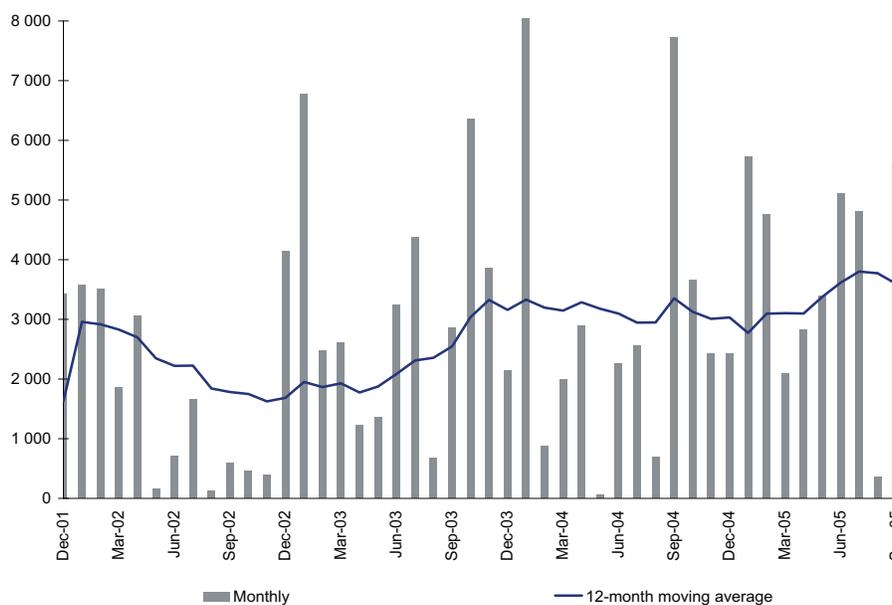
^b Data up to October.

⁷ See figure I.8 in the Introduction.

⁸ Estimate based on total FDI received by the region, minus cross-border mergers and acquisitions conducted during the year.

⁹ The total of US\$ 34.6 billion includes issues by the Andean Development Corporation for a total of US\$ 584 million, and by the Central American Bank for Economic Integration, for US\$ 200 million.

Figure II.14
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES
 (Millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Merrill Lynch and J.P. Morgan.

Interestingly enough, corporations and banks issued more debt than governments did, with an amount representing over 50% of external issues. In this context, a number of Brazilian firms issued seven perpetual bonds in the second and third quarters of 2005. In terms of total issues, Mexico and Brazil were the largest issuers, while Brazil and Bolivarian Republic of Venezuela headed the list of sovereign debt issues. Colombia, El Salvador, Jamaica, Mexico, Panama, Peru and Uruguay also issued sovereign debt. Argentina sold some US\$ 800 million in federal government bonds (BODENs), which were bought by the Bolivarian Republic of Venezuela. Ecuador launched a debt issue in December, the first since its debt restructuring of 2000, in which it issued US\$ 650 million at a maturity of 10 years.

A number of countries took advantage of current financing conditions and hedged against possible volatility caused by the approach of election periods by fully or partially covering their financing needs for 2006. Brazil, Panama and Uruguay covered part of next year's requirements, while Bolivarian Republic of Venezuela, Colombia and Mexico provided for the entirety of their

2006 borrowing needs. Mexico also announced that it had covered its financing requirements for debt principal payments falling due in 2007.

Seeking to lessen their external vulnerability, many of the countries also took steps to restructure and reduce their external liabilities. To this end, external debt was swapped for domestic (as in Argentina, Colombia and Peru) and bonds issued on the external market were redeemed (as in Argentina, Brazil, Panama, Peru¹⁰ and Mexico). As a result, the region's external debt is expected to decrease, with a ratio of external debt to GDP of just over 30% in 2005, substantially down from the 37.4% of 2004.

The restructuring was also directed towards increasing the proportion of total liabilities accounted for by long-term debt and by external debt denominated in local currency. The governments of Brazil and Colombia did in fact issue local-currency bonds on the international markets. The private sector also conducted debt issues of this type, as did firms in Mexico, Peru and Brazil and banks in this last country. Debt issuers showed an interest in branching into different currencies of issue, apart from operations in their own national currencies. Accordingly, Mexico placed

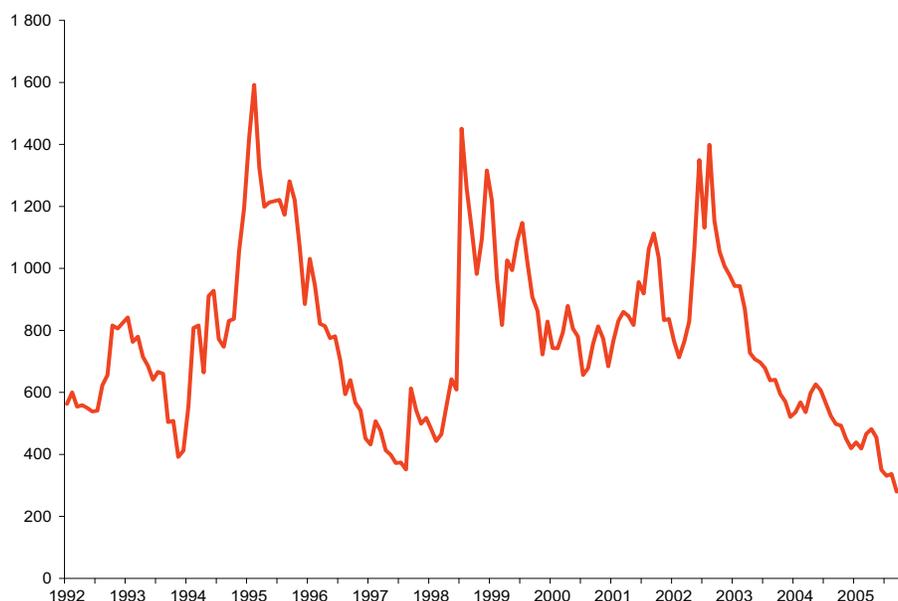
¹⁰ Peru paid some of its debt to the Paris Club using funds that were raised partly on the domestic market.

debt denominated in Swiss francs and both Mexico and Uruguay conducted operations in euros.

Despite the gradual rise in the United States Federal Reserve benchmark rate (which climbed to 4% in November, representing a cumulative increase of 1.75 percentage points since December 2004), long-term rates did not begin to respond to monetary policy until September, and came to a standstill again in early November. On 15 November, 10-year United States bonds were carrying a rate of 4.56%, as against 4.14% at the end of January and 3.89% at the beginning of June, which was the year's lowest rate. Nonetheless, the rise was not enough to offset the surplus in global liquidity, so that the dominant pattern throughout the year consisted of active rent seeking. In this regard, and despite the political tension evident in some countries, the region's interest rate spreads remained at historically low levels (see figures II.15 and II.16).¹¹ Interest rate spreads followed a general downward trend in 2005, and in September recorded the lowest value of

the series, at 280 basis points. In Argentina, the good reception of the new bonds that came out of the debt swap concluded in June led to a steep drop in the country's sovereign-risk rating, from over 6,000 basis points in May to levels close to those of Brazil, at around 400 basis points. This was associated with the change in the basket of bonds used to calculate the rating, from which the old non-performing bonds were eliminated. In November, Argentina's country-risk rating stood at 495 basis points and Brazil's at 340. Spreads measured by the Emerging Markets Bond Index (EMBI+) began to adjust to long-term rates in October and November, with a country-risk rating of 288 basis points for Latin America in both months. These larger spreads could last for a while if long-term rates in the United States continue to adjust to the tight monetary policy being deployed there and if they were to form the basis for an international trend, which would reduce investors' appetite for financial assets from emerging economies.

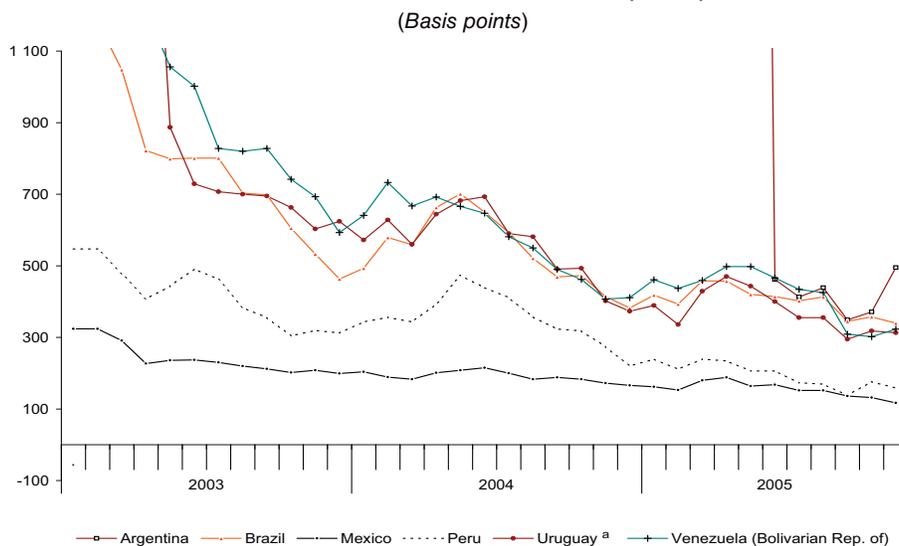
Figure II.15
**LATIN AMERICA AND THE CARIBBEAN: COUNTRY RISK MEASURED
 BY EMERGING MARKETS BOND INDEX (EMBI+)**
(Basis points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from J.P. Morgan.

¹¹ In Ecuador, the spread jumped by 215 basis points between March and May, owing to political instability in the country, but rapidly regained the downward trend seen hitherto, similarly to the other countries of the region.

Figure II.16
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): COUNTRY RISK MEASURED BY EMERGING MARKETS BOND INDEX (EMBI+)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from J.P.Morgan.

^a Uruguay's country risk is measured by the Uruguay Bond Index (UBI).

Box II.2

A BRIEF ANALYSIS OF RECENT SOVEREIGN DEBT ISSUES IN LOCAL CURRENCY

The fact that emerging economies have difficulty in issuing external debt in their own currency has been signalled as a factor that worsens macroeconomic adjustment problems when disequilibria occur in the external accounts.^a When a country's external debt is denominated in a foreign currency, a real depreciation increases the burden (in local currency) of servicing that debt, which, in turn, compresses all other expenditures and increases potential output and employment losses, as occurred in a number of Latin American countries during the crises that broke out at the start of this decade.^b Hence, foreign-currency debt issuance appears to be a procyclical factor that worsens the consequences of measures needed to correct external disequilibria. Such consequences could be lessened by issuing external debt in local currency, which should thus be a fundamental principle for the management of external

debt in the Latin American and Caribbean countries. Eichengreen, Hausmann and Paniza have argued that this difficulty is all the more acute in developing countries, over 95% of whose debt instruments are issued in foreign currency.

In view of the consequences of adjusting to external disequilibria, emerging economies have made major efforts to overcome this difficulty and in recent years have stepped up their local-currency issues, seeking to interest international investors in two ways: by making the domestic debt market more attractive and by issuing external debt in local currency. As part of the first of these strategies, Brazil and Mexico have facilitated access to foreign investors by developing and deepening local debt markets. In Brazil, 4% of locally-issued government bonds are held by foreigners, while in Mexico 70% of 20-year bonds are foreign held.^c An index was recently created for this type of debt.

The Government Bond Index-Emerging Markets (GBI-EM) lists instruments from 16 emerging economies, including 4 from Latin America: Brazil, Chile, Colombia and Mexico. The region accounts for around 10% of this type of debt.^d

In the last three years, Brazil, Chile, Colombia, Mexico and Uruguay have all issued local-currency sovereign debt on the external markets. The potential benefits of developing such a market have led a number of regional multilateral organizations, including the Inter-American Development Bank (IDB) and the Andean Development Corporation, to add their own efforts to deepen this market in the last few years. In April 2005, IDB issued a bond denominated in Mexican pesos. This was followed by issues in Colombian pesos and Brazilian reais, as well as bonds in *unidades de fomento* (UF), a unit of account employed in Chile's capital markets. The Andean Development

Box II.2 (concluded)

Corporation concluded its first issue in the local currency of a member country, Colombia, in 2004, for the equivalent of US\$ 100 million with a maturity of 6.5 years. IDB was registered as a multilateral

issuer in the Bogotá stock exchange for this transaction.

Local-currency issues of external debt have occurred in a context of low interest rates in global markets, coupled with

expectations of local currency appreciation, which has heightened their attraction as an investment instrument.

The following table contains information on a number of debt issues:

| Issue and maturity | Issuer | Millions of dollars | Description | Cost of issue | | Cost with respect to dollar bonds | | Cost with respect to local bonds |
|--------------------|----------|---------------------|--------------|------------------------------|----------------|-----------------------------------|--|--|
| | | | | Coupon rate (%) [*] | Yield at issue | Bond yield in dollars | Higher or lower relative cost (basis points)** | Higher or lower relative cost (basis points)** |
| 2003-2206 | Uruguay | 201 | Real rate | 10.500 | n/a | n/a | n/a | n/a |
| 2004-2006 | Uruguay | 250 | Nominal rate | 17.750 | 17.750 | 10.596 | 715 | n/a |
| 2004-2010 | Colombia | 375 | Nominal rate | 11.750 | 11.875 | 7.020 | 486 | -50 |
| 2005-2010 | Colombia | 125 | Nominal rate | 11.750 | 10.750 | 6.986 | 376 | -31 |
| 2005-2015 | Colombia | 325 | Nominal rate | 12.000 | 12.125 | 7.725 | 440 | -25 |
| 2005-2016 | Brazil | 1 479 | Nominal rate | 12.500 | 12.750 | 7.515 | 524 | n/a |
| 2005-2010 | IDB | 65 | Real rate | 2.150 | 2.150 | n/a | n/a | 10 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from Bloomberg.

^{*} Indicator, index or percentage determining yield payments, contractually established under the bond sale conditions.

^{**} Basis points.

Clearly, the maturities of the debt issues by Uruguay and the first two by Colombia are quite short by the standards of long-term financial investors in the international markets. The magnitude of the issues was also relatively small, with the exception of Brazil's, which, moreover, had a maturity of 10 years (longer than debt instruments issued on the local market). The dictates of international practice indicate that a bond issue must be worth no less than US\$ 500 million and have a maturity of at least 10 years if it is to be considered a useful market benchmark. The issues described above may therefore be categorized as enterprising and fairly cautious attempts to establish a track record that could, in the future, help to secure access to larger issues and longer maturities. There can be no doubt that they are making an important contribution in this regard.

The fact that these bonds were sold at yields close to face value indicates that the conditions offered were acceptable and demand was sufficient, partly because of the external circumstances mentioned. Indeed, the offerings were heavily oversubscribed in

several cases. In the case of Brazil alone, a certain amount of controversy arose with respect to the yield at issue, which caused the bond's yields to fluctuate strongly the next day in the secondary markets.

The table above shows the yields of bonds in dollars with similar maturities to local-currency offerings, in order to compare the relative merits of local-currency and dollar-denominated bond issues, from a strictly financial point of view (which does not necessarily equate with the most suitable criteria on which to base management of the overall process, since the aim is to develop a market that can avoid future macroeconomic problems). An estimate of the additional cost (in basis points) incurred by issuing international debt in local currency was obtained by using each market's swap curve to express the yield of the similar dollar bond in local currency, then subtracting this figure from the yield of the local-currency bonds. As this exercise shows, the additional cost involved in using local currency to issue debt on the external market was quite high.

A similar procedure was used to compare external issues in local currency with offerings made on the domestic market. As the figures for Colombia illustrate, generally speaking, external market issuances involved lower costs than similar operations in the domestic market, although the outcomes of these yield-based comparisons differ little after taxes are deducted. Briefly, then, the higher cost of the domestic market appears to be chiefly a function of taxes and other imperfections that limit market integration. The outcome was certainly beneficial from the point of view of the issuers, since they were able to borrow at a lower cost and maintain a better debt profile in terms of currency alignment. For Brazil, the external issue was made at longer maturities than can be achieved in the domestic market. This may be a first step towards gaining better access to the international market by using local currencies. Conversely, the cost of the issue conducted by IDB was slightly higher than that of selling debt in Chile, which explains in part why Chile has not made use of this instrument.

^a This problem has been coined "original sin", a term attributed to Eichengreen, Hausmann and Paniza, based on their work entitled, "The pain of original sin", Eichengreen and Hausmann (eds.), *Debt Denomination and Financial Instability in Emerging-Market Economies*, Chicago, University of Chicago Press, 2005.

^b See R. Martner and V. Tromben, "La sostenibilidad de la deuda pública, el efecto bola de nieve y el "pecado original"", *Gestión Pública* series N° 46 (LC/L.2150-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), June 2004.

^c See International Monetary Fund, *Global Financial Stability Report*, Washington, D.C., April 2005.

^d See "Mercados emergentes: ¿hacia el fin del "pecado original"?", *Latinwatch America* [online] Research Department, Banco Bilbao Vizcaya Argentaria (BBVA) 2005: <<http://serviciodeestudios.bbva.com/TLBB/tlbb/jsp/sve/america/publica/latinwat/index.jsp>>.

Chapter III

Macroeconomic policy

A. Fiscal policy

In keeping with the performance observed in the last few years, in 2005 the countries of the region continued to consolidate their fiscal position. This has been the outcome of a series of fiscal and financial measures taken by the Governments, in combination with a favourable macroeconomic environment and a more solvent fiscal accounts position.

Generally speaking, the fiscal performance rendered in 2003-2005 has been an unusual one for the region. First, macroeconomic conditions have helped to increase fiscal income, thanks to an upturn in activity levels and better terms of trade. Second, the region's Governments have avoided slipping into the traditional pattern of expansionary spending on the back of better macroeconomic indicators. These two factors translated into a large primary surplus, which was channelled mainly into debt paydowns.

Fiscal performance did exhibit a number of particular traits in 2005, however. While revenues continued to expand (fed by income from primary goods sectors, fundamentally

the production of hydrocarbons and minerals), spending seems to have risen in step with growth in output, unlike what occurred in 2003-2004. Despite this slight adjustment in public expenditure, however, the public accounts continued to yield positive primary balances in the Latin American and Caribbean countries.

The improvement in fiscal aggregates has helped to lessen the region's external vulnerability. This is manifested essentially in its debt indicators and is the result of a combination of factors, among which Government decisions and the traits of the business cycle figure prominently.

1. The fiscal aggregates

This performance will enable the central governments to achieve a primary surplus of 1.1% of GDP (measured as a simple average) at the end of 2005, compared with 0.7% in 2004. Taking into account the overall deficit (including

interest on the public debt), the deficit will narrow from 1.8% to 1.6% of GDP. Based on the budgets drawn up by the countries of the region, these high primary surpluses should continue in 2006 (1.1% of GDP).¹

Table III.1
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS^a
(Percentages of GDP at current prices)

| | Primary balance | | | | Overall balance | | | | Public debt ^b | | | | | | | |
|--|-----------------|------|-------------------|-------------------|-----------------|------|-------------------|-------------------|--------------------------|-------|-------|-------|-------|-------|-------|-------|
| | | | | | | | | | Central government | | | | NFPS | | | |
| | 2002 | 2003 | 2004 ^c | 2005 ^d | 2002 | 2003 | 2004 ^c | 2005 ^d | 2002 | 2003 | 2004 | 2005 | 2002 | 2003 | 2004 | 2005 |
| Latin America and the Caribbean | | | | | | | | | | | | | | | | |
| Simple average | -0.5 | -0.2 | 0.7 | 1.1 | -3.3 | -3.0 | -1.8 | -1.6 | 56.1 | 54.5 | 50.3 | 42.9 | 61.3 | 59.1 | 53.3 | 45.9 |
| Weighted average | 1.3 | 1.7 | 2.2 | 2.3 | -3.6 | -1.8 | -0.7 | -0.9 | 48.2 | 46.5 | 42.9 | 34.6 | 64.8 | 58.2 | 53.7 | 44.1 |
| MEROCOSUR ^e | 0.4 | 1.7 | 2.8 | 2.2 | -3.7 | -1.8 | 0.0 | -0.9 | 86.3 | 78.4 | 68.4 | 49.4 | 104.7 | 87.5 | 76.4 | 56.2 |
| MERCOSUR + Chile ^e | 0.3 | 1.5 | 2.9 | 2.6 | -3.2 | -1.5 | 0.4 | 0.0 | 72.2 | 65.3 | 56.9 | 41.3 | 88.2 | 74.0 | 64.6 | 48.1 |
| Andean Community ^e | -1.0 | -0.5 | 0.1 | 0.4 | -4.2 | -3.8 | -2.8 | -2.6 | 56.2 | 57.6 | 53.4 | 49.0 | 61.7 | 63.9 | 58.3 | 53.4 |
| Oil-exporting countries ^e | 1.6 | 1.5 | 1.7 | 1.6 | -2.4 | -2.4 | -1.5 | -1.5 | 51.1 | 47.9 | 44.0 | 41.6 | 48.7 | 48.8 | 42.9 | 40.1 |
| Other countries ^e | -2.7 | -1.9 | -0.9 | -0.4 | -5.3 | -4.8 | -3.7 | -3.4 | 57.8 | 60.8 | 56.5 | 51.4 | 74.7 | 79.1 | 73.8 | 66.6 |
| Mexico | 0.9 | 1.7 | 1.9 | 2.6 | -1.2 | -0.6 | -0.3 | -0.2 | 24.0 | 24.2 | 23.3 | 22.6 | 27.5 | 27.6 | 26.1 | 25.4 |
| Central America ^e | -0.5 | -0.7 | -0.1 | 0.4 | -3.0 | -3.4 | -2.6 | -2.3 | 70.2 | 71.0 | 64.0 | 58.7 | 71.7 | 72.8 | 65.8 | 60.4 |
| Argentina ^f | 1.8 | 2.2 | 3.3 | 3.2 | -0.3 | 0.3 | 2.0 | 1.3 | 145.9 | 138.2 | 126.4 | 68.5 | 184.4 | 144.8 | 132.5 | 72.7 |
| Bolivia ^g | -6.9 | -5.3 | -3.1 | -0.5 | -9.0 | -7.9 | -5.7 | -3.5 | 76.3 | 84.5 | 79.2 | 70.2 | 78.0 | 90.7 | 85.0 | 75.2 |
| Brazil ^h | 2.4 | 2.5 | 2.8 | 2.5 | -6.4 | -2.5 | -1.3 | -1.7 | 41.7 | 37.2 | 34.0 | 34.0 | 65.5 | 58.7 | 54.2 | 51.9 |
| Chile | -0.1 | 0.7 | 3.1 | 4.3 | -1.2 | -0.4 | 2.2 | 3.4 | 15.7 | 13.1 | 10.9 | 9.0 | 22.2 | 19.7 | 17.1 | 15.4 |
| Colombia ⁱ | -1.0 | -0.5 | -0.3 | -1.5 | -4.9 | -4.7 | -4.3 | -5.5 | 50.3 | 50.6 | 46.9 | 44.9 | 71.5 | 67.4 | 62.5 | 58.1 |
| Costa Rica | 0.0 | 1.4 | 1.4 | 1.3 | -4.3 | -2.9 | -2.8 | -2.8 | 40.8 | 40.0 | 41.2 | 36.2 | 45.4 | 46.4 | 48.4 | 41.4 |
| Ecuador | 2.6 | 2.6 | 1.6 | 1.3 | -0.8 | -0.4 | -1.1 | -1.4 | 51.1 | 47.9 | 44.0 | 41.6 | 55.6 | 51.8 | 47.1 | 44.4 |
| El Salvador | -1.6 | -0.8 | 0.9 | 1.6 | -3.1 | -2.7 | -1.1 | -0.6 | 35.2 | 37.5 | 38.0 | 37.0 | 38.3 | 40.9 | 40.8 | 39.7 |
| Guatemala | 0.3 | -1.1 | 0.2 | -0.4 | -1.0 | -2.3 | -1.0 | -1.8 | 16.4 | 18.4 | 18.8 | 18.0 | 17.5 | 19.4 | 19.6 | 18.6 |
| Haiti | -2.2 | -2.7 | -1.6 | -0.8 | -3.0 | -3.5 | -2.4 | -1.5 | 60.3 | 57.6 | 46.7 | 46.7 | 66.6 | 63.6 | 51.3 | 51.3 |
| Honduras | -3.4 | -4.4 | -1.8 | -1.6 | -5.3 | -5.6 | -3.1 | -3.0 | 66.3 | 70.3 | 68.5 | 58.9 | 65.8 | 69.5 | 68.4 | 59.5 |
| Mexico ^j | 0.9 | 1.7 | 1.9 | 2.6 | -1.2 | -0.6 | -0.3 | -0.2 | 24.0 | 24.2 | 23.3 | 22.6 | 27.5 | 27.6 | 26.1 | 25.4 |
| Nicaragua | -0.2 | 0.2 | -0.1 | 0.0 | -2.5 | -2.8 | -2.2 | -2.0 | 193.5 | 193.1 | 147.4 | 136.8 | 193.9 | 193.4 | 147.6 | 137.0 |
| Panama | 2.2 | 0.6 | -1.3 | 1.5 | -1.9 | -3.8 | -5.6 | -3.3 | 69.0 | 66.6 | 70.0 | 65.3 | 69.4 | 67.0 | 70.2 | 66.3 |
| Paraguay ^k | -1.7 | 0.9 | 2.8 | 0.7 | -3.2 | -0.4 | 1.6 | -0.5 | 59.2 | 43.9 | 38.4 | 32.0 | 63.0 | 46.3 | 40.1 | 33.6 |
| Peru | -0.2 | 0.2 | 0.6 | 0.7 | -2.1 | -1.8 | -1.3 | -1.2 | 46.8 | 47.3 | 43.3 | 39.1 | | | | |
| Dominican Republic | -1.4 | -3.3 | -1.0 | 1.0 | -2.7 | -5.2 | -3.0 | -0.8 | | | | | 23.9 | 44.2 | 25.3 | 24.8 |
| Uruguay | -0.8 | 1.1 | 2.4 | 2.3 | -4.9 | -4.6 | -2.5 | -2.5 | 98.7 | 94.3 | 74.7 | 63.2 | 106.0 | 100.4 | 78.9 | 66.8 |
| Venezuela (Bolivarian Republic of) | 0.6 | 0.3 | 1.8 | 2.0 | -4.0 | -4.4 | -1.9 | -1.5 | | | | | 41.9 | 45.8 | 38.7 | 35.8 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Includes social security.

^b At 31 December each year, using the average exchange rate applicable to external debt. For 2005, the latest available data were used. The public debt shown for the Dominican Republic includes external debt only.

^c Preliminary estimate.

^d Official targets.

^e Simple average.

^f National administration.

^g General government.

^h Federal Government and central bank, except in 2005 when only Federal Government debt is included.

ⁱ National central government. The balances do not include adjustments for accruals, floating debt or the cost of financial restructuring.

^j Public sector.

^k Central administration.

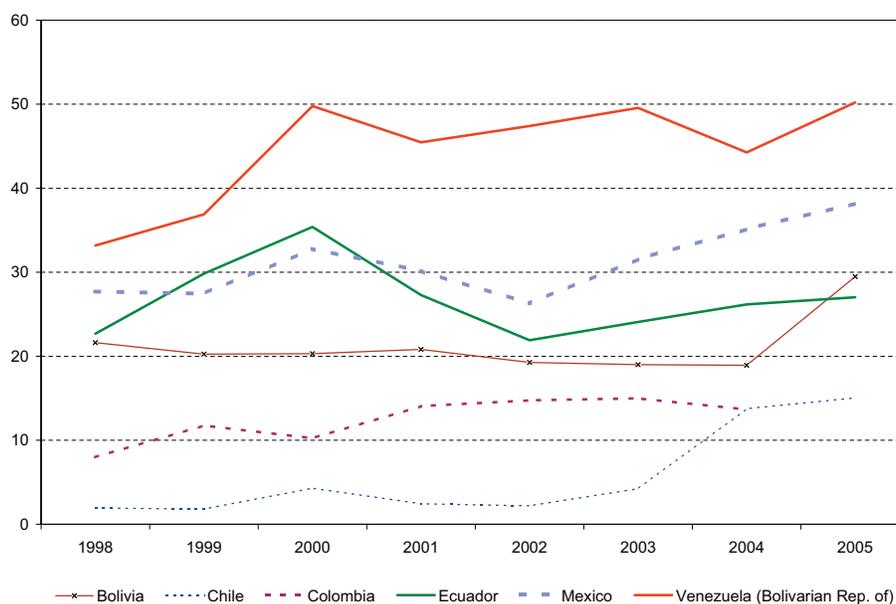
¹ As a weighted average, the primary surplus rose from 2.2% of GDP in 2004 to 2.3% in 2005.

The improvement in the countries' fiscal balances in 2002-2004 resulted from the combination of a hefty increase in fiscal revenues with respect to GDP and spending that rose, on average, more slowly than the region's output growth, which has brought it down in GDP terms (see table III.2 of the *Economic Survey of Latin America and the Caribbean, 2004-2005*). Although the preliminary data for 2005 confirm the countries' continued propensity to generate primary surpluses, this seems to be attributable, more than in 2004, to increased fiscal income. In fact, average fiscal revenues estimated for 2005 and 2006 continue to be the highest ever recorded in the region, at a time

when the countries appear to be adjusting spending, once again, to GDP.

On the income side, this performance reflects the expansion of economic activity, which has facilitated an upswing in public receipts. In addition, the higher prices being fetched by a number of the commodities in which some of the region's countries specialize (especially hydrocarbons and minerals) have swelled fiscal resources substantially, especially in 2005. As a matter of fact, compared with the figures for 2002, these sectors' estimated receipts for 2005 represent an increase of between 2% and 3% of GDP in the Bolivarian Republic of Venezuela, Bolivia, Chile, Ecuador and Mexico.

Figure III.1
LATIN AMERICA (6 COUNTRIES): PROPORTION OF FISCAL INCOME FROM NON-RENEWABLE SOURCES
(Percentages of fiscal income)



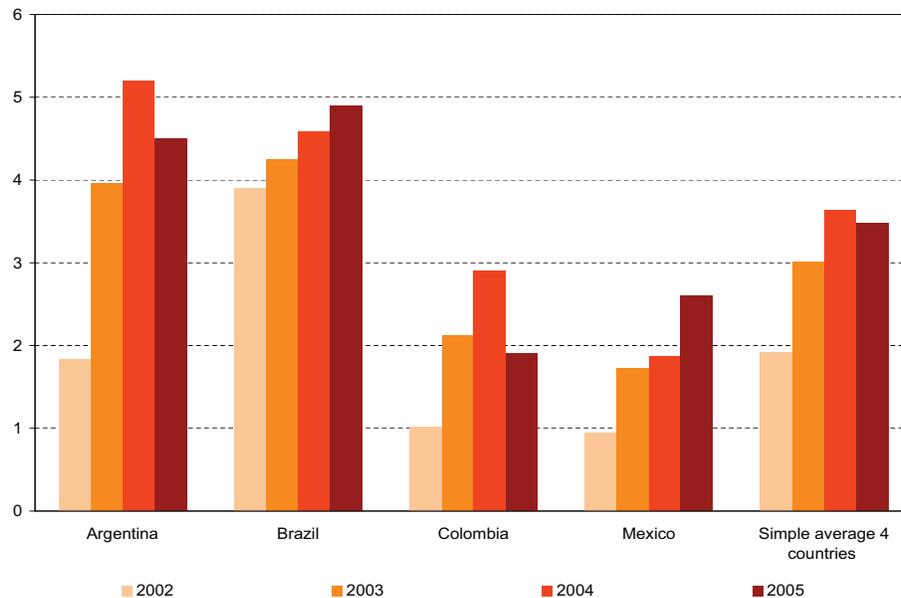
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: The data for Bolivia and Ecuador correspond to general government and NFPS accounts, respectively. For the rest of the countries shown, the figures refer to central government accounts only.

It will be recalled, moreover, that the central government fiscal balance is not entirely representative in the case of those countries of the region whose public sectors are more decentralized. Taking into account the broader public-sector accounts in Argentina, Brazil, Colombia and Mexico, the NFPS primary balance moved, on average, from 3.0% of GDP in 2003 to 3.6% in 2004, and an estimated 3.5% in 2005.²

Much of this is thanks to the improvement in the accounts of the subnational governments in those four countries. In Argentina, Brazil and Colombia, the subnational governments' primary balance for 2004 was over 1% of GDP. In all three cases, these are the highest values in the series starting in 1990. In 2005, Brazil's subnational governments will continue to improve their balances, while those of Argentina and Colombia will again return primary and overall surpluses, though of a smaller magnitude than in 2004.

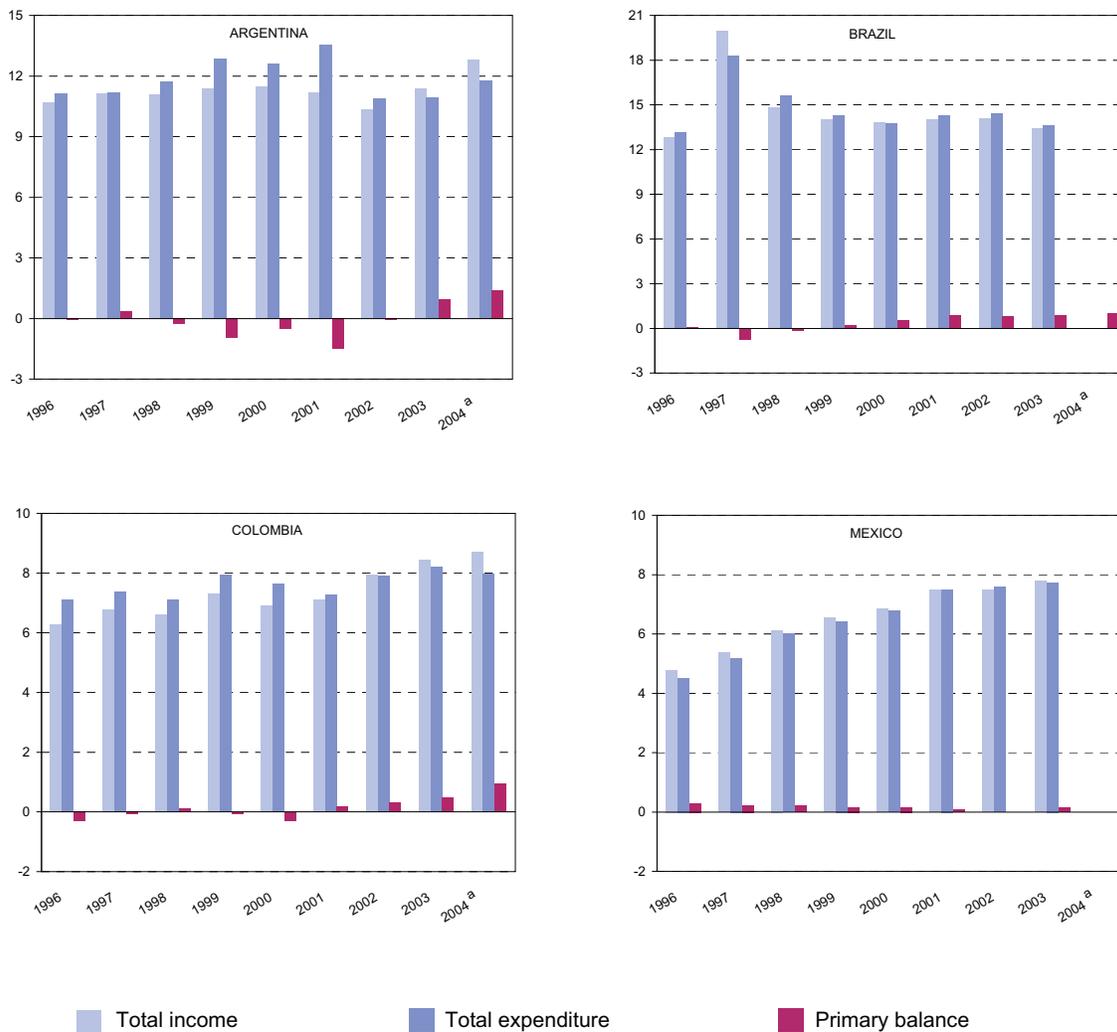
Figure III.2
LATIN AMERICA (4 COUNTRIES): NFPS PRIMARY BALANCE
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

² In the first 10 months of 2005 (January to October), Brazil's states and municipalities returned a primary surplus of 1.3% of GDP, which was 26% more than the surplus for the year-earlier period.

Figure III.3
**LATIN AMERICA (4 COUNTRIES): SUBNATIONAL GOVERNMENT INCOME, EXPENDITURE
 AND PRIMARY BALANCES, 1996-2004**
 (Percentages of GDP)

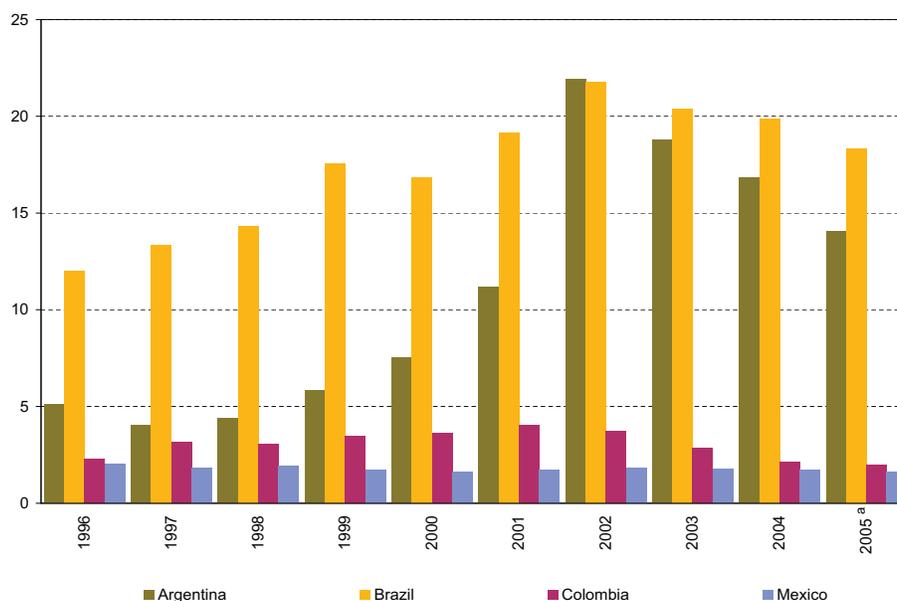


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Preliminary figures.

As shown in figure III.4, the fiscal developments of the last few years have brought about a substantial drop in the subnational governments' debt to GDP ratios. Even

so, Argentina and Brazil are still carrying a subnational debt of between 14% and 18% of GDP, representing a significant portion of each country's NFPS debt.

Figure III.4
LATIN AMERICA (4 COUNTRIES): SUBNATIONAL GOVERNMENT DEBT
 (Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Preliminary figures.

2. The public debt

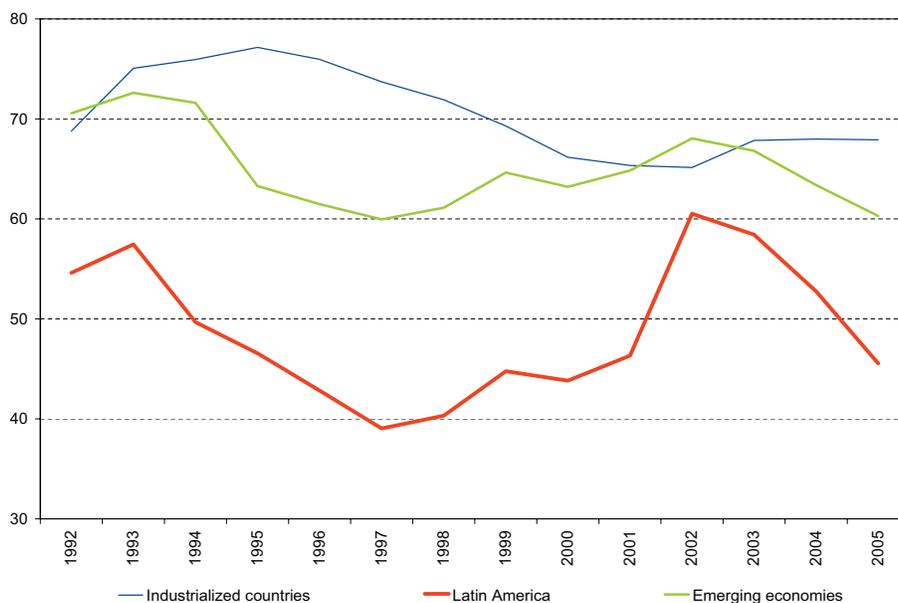
As mentioned in the introduction to this chapter, the improvement in the primary balance is not the sole cause of the decrease in the region's public debt to GDP ratio. The debt of the central governments stood at 54.5% of GDP in 2003, 50.3% in 2004, and is estimated to come in at 42.9% in 2005.

This is consistent with the generalized drop in the debt to GDP ratio observed in the emerging economies, especially in Latin America, in the last two years (see figure III.5). Interestingly enough, the industrialized countries' debt to GDP ratio has risen in this period.

Figure III.6 shows a comparison of the way debt indicators have evolved in a group of the region's countries, compared with other emerging markets.³ As discussed in the *Economic Survey of Latin America and the Caribbean, 2004-2005*, the main determinants of this pattern in the Latin American countries have been the generation of primary surpluses, debt restructuring and currency appreciation with respect to the United States dollar. As will be explained in the section on the subregions, however, the overall figures mask varying performances.

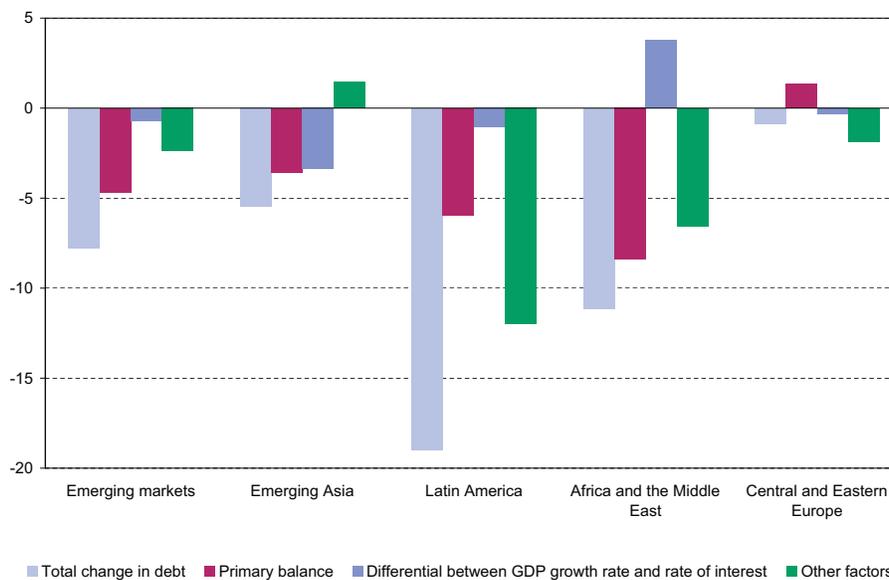
³ See International Monetary Fund, *World Economic Outlook 2005*, Washington, D.C., 2005.

Figure III.5
PUBLIC DEBT IN LATIN AMERICA, EMERGING ECONOMIES AND INDUSTRIALIZED COUNTRIES
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and the International Monetary Fund.

Figure III.6
TRENDS IN PUBLIC DEBT IN INDUSTRIALIZED COUNTRIES, EMERGING ECONOMIES AND LATIN AMERICA, 2000-2005
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and International Monetary Fund.

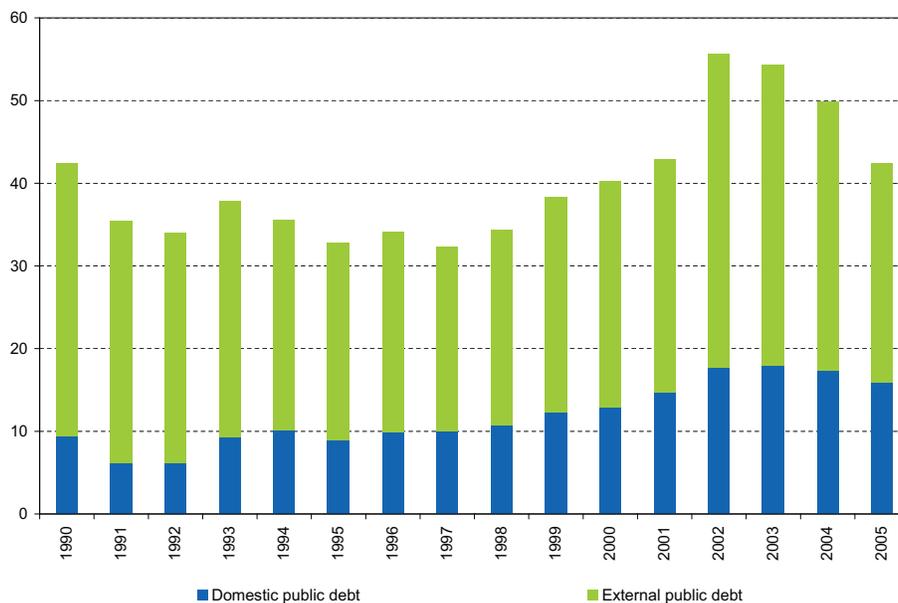
Apart from the drop in their debt to GDP ratios, the region's countries have employed a variety of instruments to lessen their vulnerability.

Until recently, Latin American and Caribbean sovereign debt was typically denominated in foreign currency. Many authors had commented on the impossibility of issuing debt in local currency and what this meant in terms of external vulnerability. In the past few years, however, as shown in figures III.7 and III.8 and as discussed in box II.2, the Governments of the region have, increasingly, been issuing debt in their local currencies. A prominent example is the debt swap conducted by the Government of Brazil, which

replaced most of its realizable Brady bonds in circulation with new bonds, thereby lengthening their maturity by 3.7 years.⁴

Furthermore, several international issues have been conducted not only in local currency, but also at a fixed rate of interest, including issuances by Colombia and by the Inter-American Development Bank (in Brazilian reais and Mexican pesos), which also had longer maturities. Another notable development was that three quarters of the sovereign debt issues planned for 2005 had been conducted by the end of June, at which time Brazil and Mexico, among other countries, had already begun to pre-pay liabilities falling due in 2006 and 2007.

Figure III.7
LATIN AMERICA (18 COUNTRIES): CHANGES IN PUBLIC DEBT BALANCES, BY CREDITOR, 1990-2004
(Percentages of GDP, simple averages, not including Nicaragua)

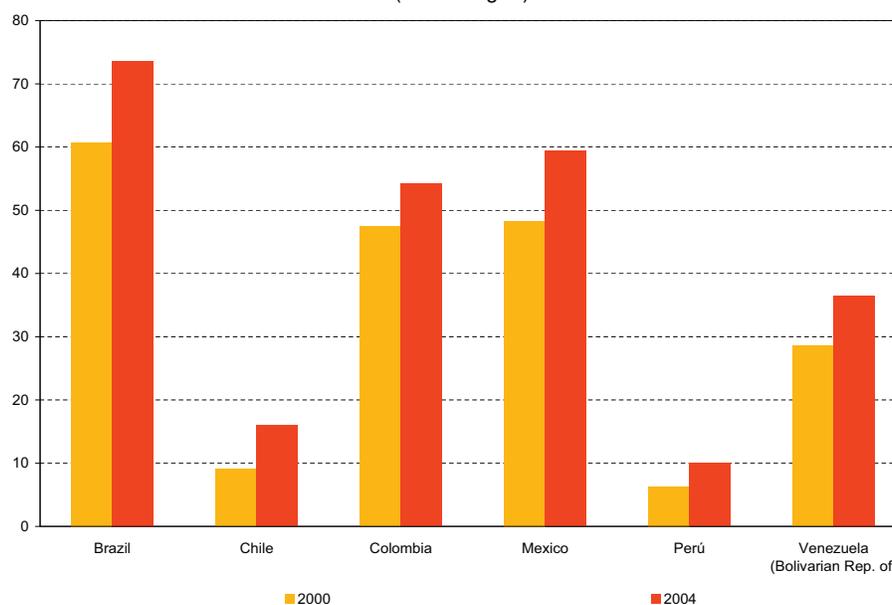


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Note: The data for Bolivarian Republic of Venezuela and Uruguay correspond to the non-financial public sector accounts.

⁴ See Nouriel Roubini, "The end of "Original Sin": Brazil issues long-term local currency denominated bonds in the international market" [online] <http://www.rgemonitor.com/blog/roubini/101663/>, September, 2005.

Figure III.8
LOCAL-CURRENCY-DENOMINATED BONDS AS A PROPORTION OF TOTAL GOVERNMENT BONDS
 (Percentages)



Source: Sebastián Briozzo, "The importance of going local: shifting away from foreign currency sovereign debt in Latin America", New York, Standard & Poors, 2005.

The smaller financing requirement implied by this fiscal performance, added to the Governments' build-up of reserves and their interest in demonstrating their own commitment (without the conditionalities inherent in a letter of intent) to maintaining fiscal solvency, reduced the incentives to conclude stand-by arrangements⁵ with IMF, as discussed in *Economic Survey of Latin America and the Caribbean, 2004-2005*.

In fact, of the region's six largest countries in GDP terms (Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia and Mexico), only Colombia had a stand-by agreement in place at the end of 2005. In this connection, in December 2005 the Brazilian authorities announced their intention to pre-pay the country's entire debt to IMF (US\$ 15.46 billion) by the end of the year.⁶

⁵ Stand-by agreements have been the most commonly used arrangement in the region, in some cases in combination with the Supplemental Reserve Facility. Honduras and Nicaragua, among other low-income countries, come within the framework of the Poverty Reduction and Growth Facility, which affords access to lower rates.

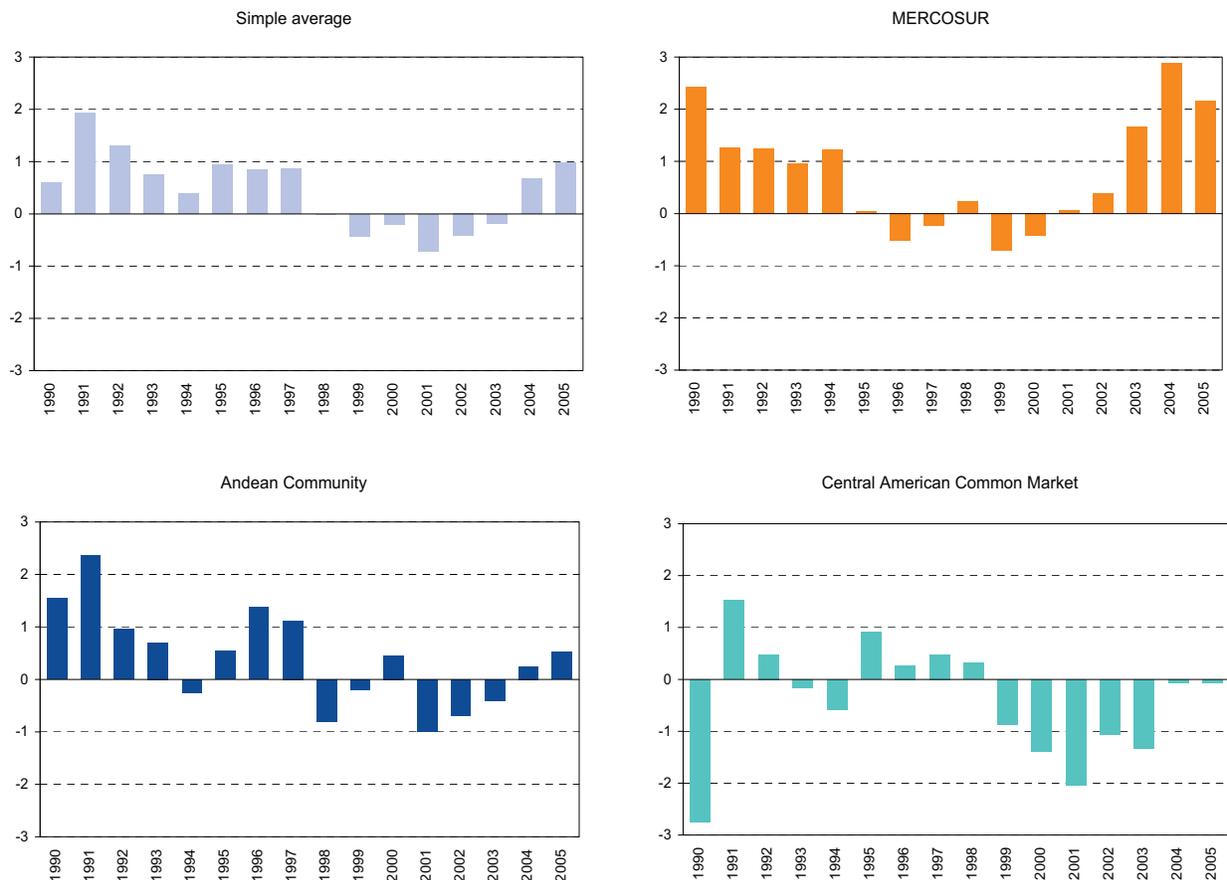
⁶ In recent months, a number of publications have signalled this new relationship between IMF and Latin America, namely: Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean, 2004-2005* (LC/G.2279-P), Santiago, Chile, 2005; "IMF's clout and relevance wane as nations turn to other lenders"; [online] http://www.bloomberg.com/apps/news?pid=10000086&sid=aG4AX5bvAr2A&refer=latin_america; Brad Setser, "Is the IMF heading toward irrelevance because of a revival in private capital flows?" [online] <http://www.rgemonitor.com/blog/setser/101449/>; Banco de España, *Informe semestral de economía latinoamericana*, November, 2005; Anoop Singh, "Global Context and Regional Outlook for Latin America and the Caribbean" [online] <http://www.imf.org/external/np/speeches/2005/101305.htm>, October 2005.

3. Subregional panorama

This brighter regional panorama does mask differences from one subregion to another. The MERCOSUR countries continued to exhibit the propensity seen over the last three years to generate large primary surpluses, which helped to bring down their debt to GDP coefficient from the high recorded in 2002 (see figures III.9 and III.10). Although with some differences among the countries, the increase in the primary fiscal balance (from 1.7% in 2003 to 2.2% in 2005) was the result of a surge in income (see figure

III.12). In 2004-2005, Argentina, Brazil and Uruguay witnessed the highest ratio of fiscal income to GDP since 1990. This pattern is expected to continue into 2006 as far as the primary surplus is concerned. As shown in figure III.11, the debt to GDP ratio dropped by more than 35% in the MERCOSUR countries between 2002 and 2005. This was thanks to substantial primary surpluses combined with the impact of debt restructuring in Argentina and the appreciation of local currencies against the dollar.

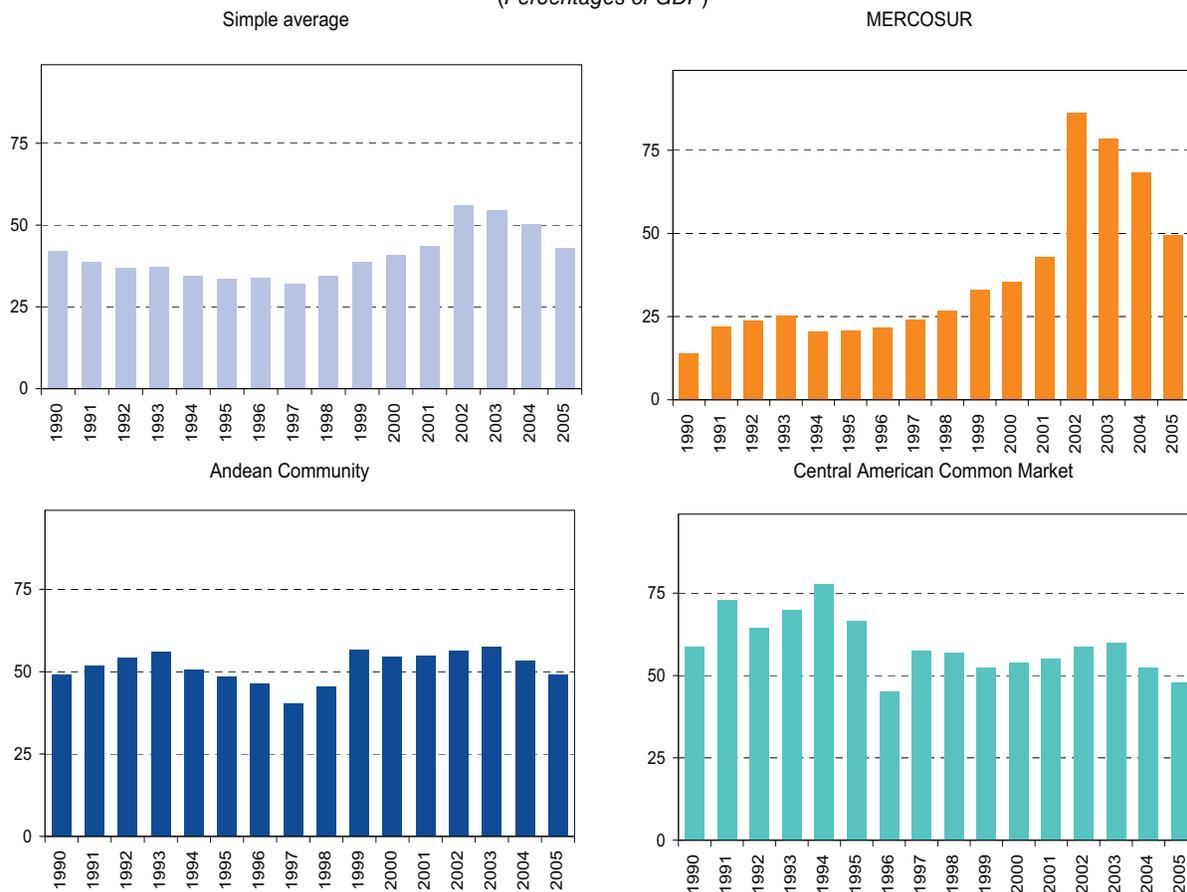
Figure III.9
LATIN AMERICA AND THE CARIBBEAN: PRIMARY BALANCE OF THE CENTRAL GOVERNMENT, BY SUBREGION, 1990-2005
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Figure III.10

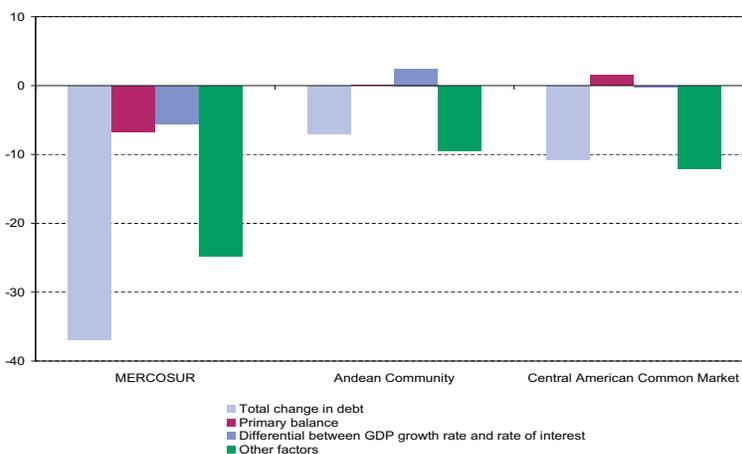
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT PUBLIC DEBT, BY SUBREGION, 1990-2005
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Figure III.11

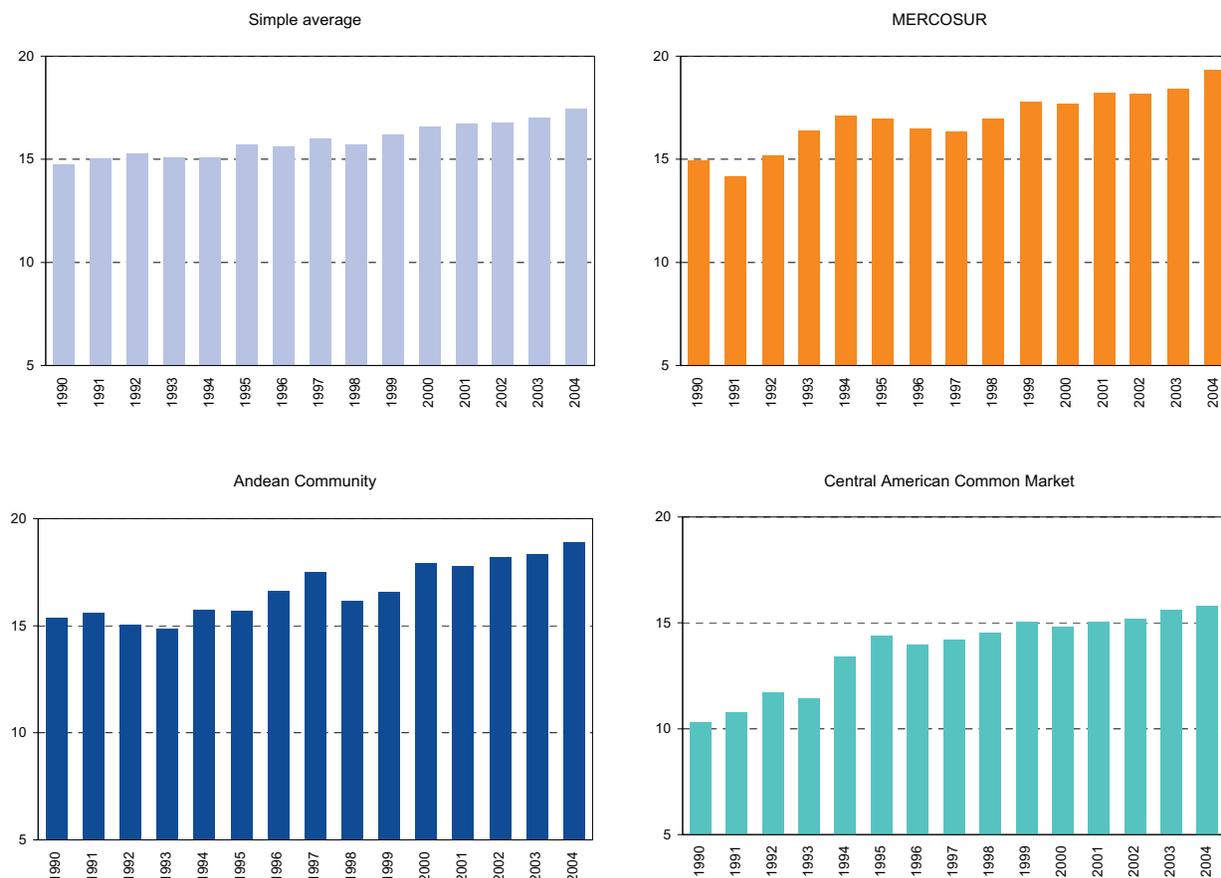
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN PUBLIC DEBT BETWEEN 2002 AND 2005, BY SUBREGION
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Figure III.12

LATIN AMERICA AND THE CARIBBEAN: TOTAL INCOME OF THE CENTRAL GOVERNMENT, BY SUBREGION, 1990-2004
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

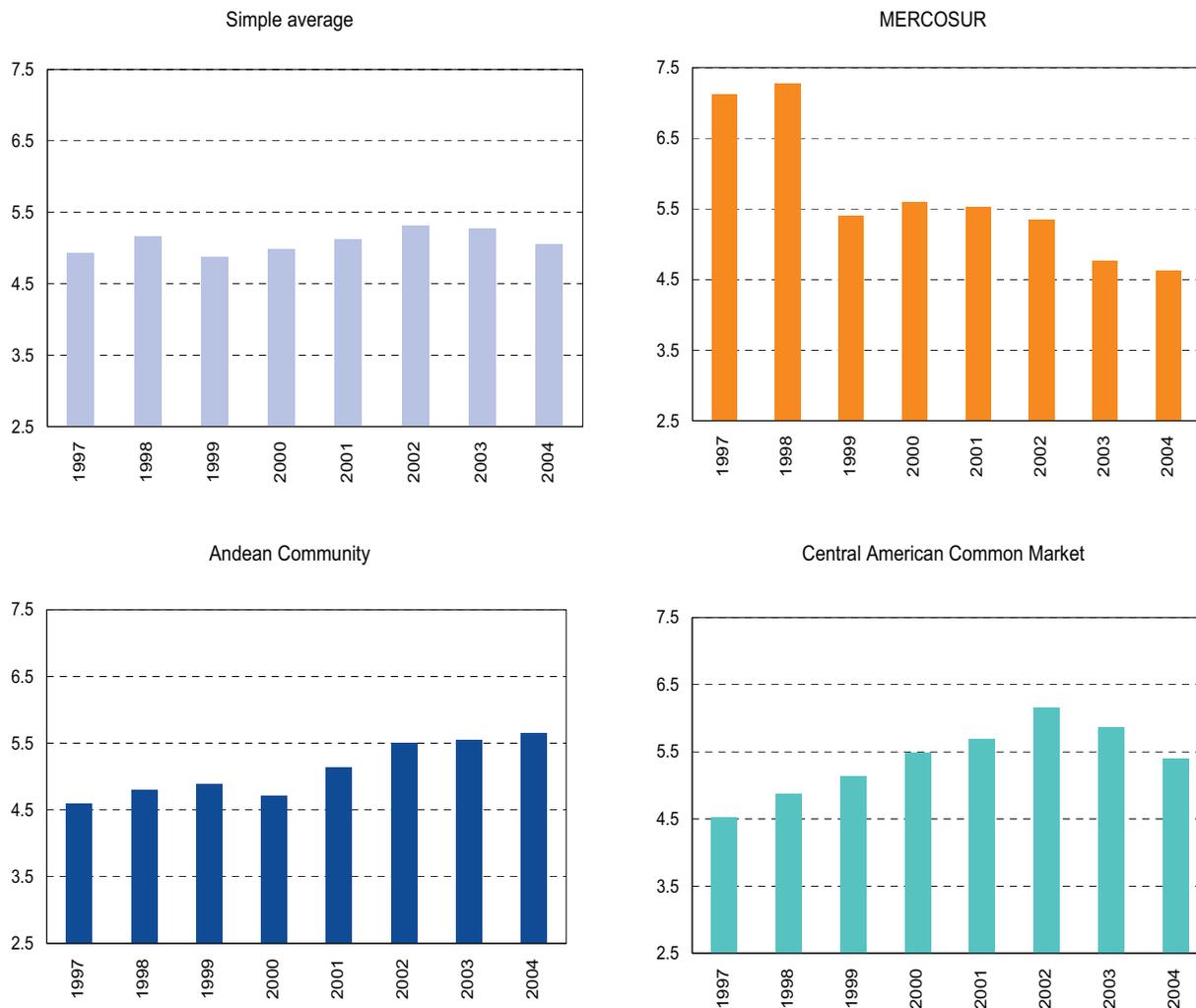
In the Andean subregion, a distinction must be made between the oil-producing countries and the non-oil producers. The petroleum-producing countries are continuing to generate hefty primary surpluses, thanks essentially to steeply rising fiscal receipts from the hydrocarbons sector, although in Ecuador the surplus is tending to decrease. As regards the rest of the subregion, Bolivia has significantly narrowed its fiscal deficit; Colombia's central government is running a substantial deficit, but the decentralized bodies returned a surplus that improves the consolidated accounts; and Peru has also put its public accounts on a substantially better footing.

The Central American countries were able to bring the subregion's primary balance to equilibrium in 2004-

2005. They continue to return a considerable overall deficit, however, of over 2% of GDP. The decline in Central America's debt to GDP ratio is chiefly a reflection of the drop in Nicaragua's debt, after the country gained access to the Heavily Indebted Poor Countries (HIPC) Initiative, under which much of its liabilities were written off.

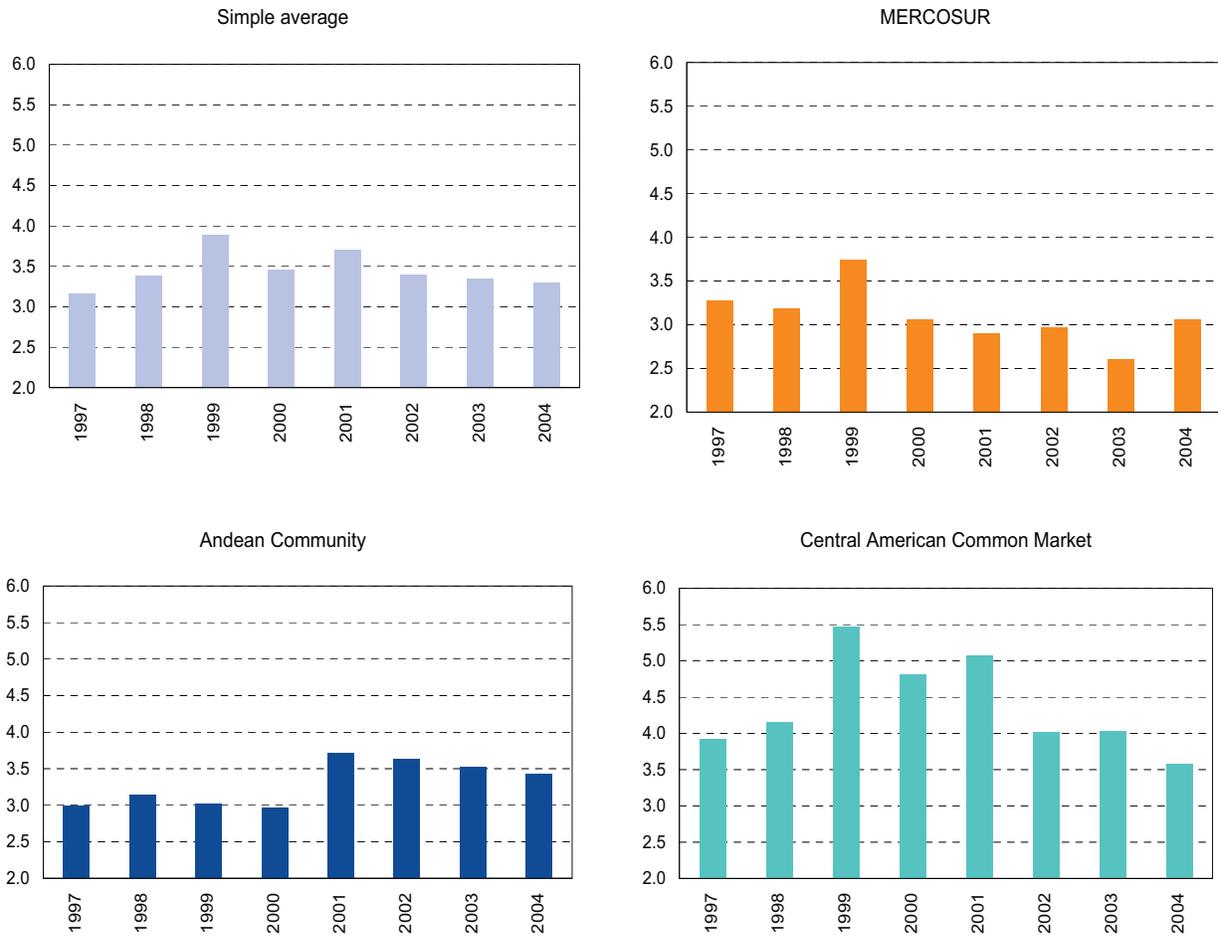
Central America exhibits differences not only in its fiscal balances, but also in the way the adjustments have come about in the last few years. A breakdown of spending shows two different phenomena involved in this pattern. Whereas in South America the dip in spending is the result of below-GDP growth in expenditures on staff and pensions, in Central America it has been caused by a drop in capital spending in relation to GDP (see figures III.13, III.14 and III.15).

Figure III.13
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT SPENDING ON STAFF, 1997-2004
(Simple averages, as percentages of GDP)



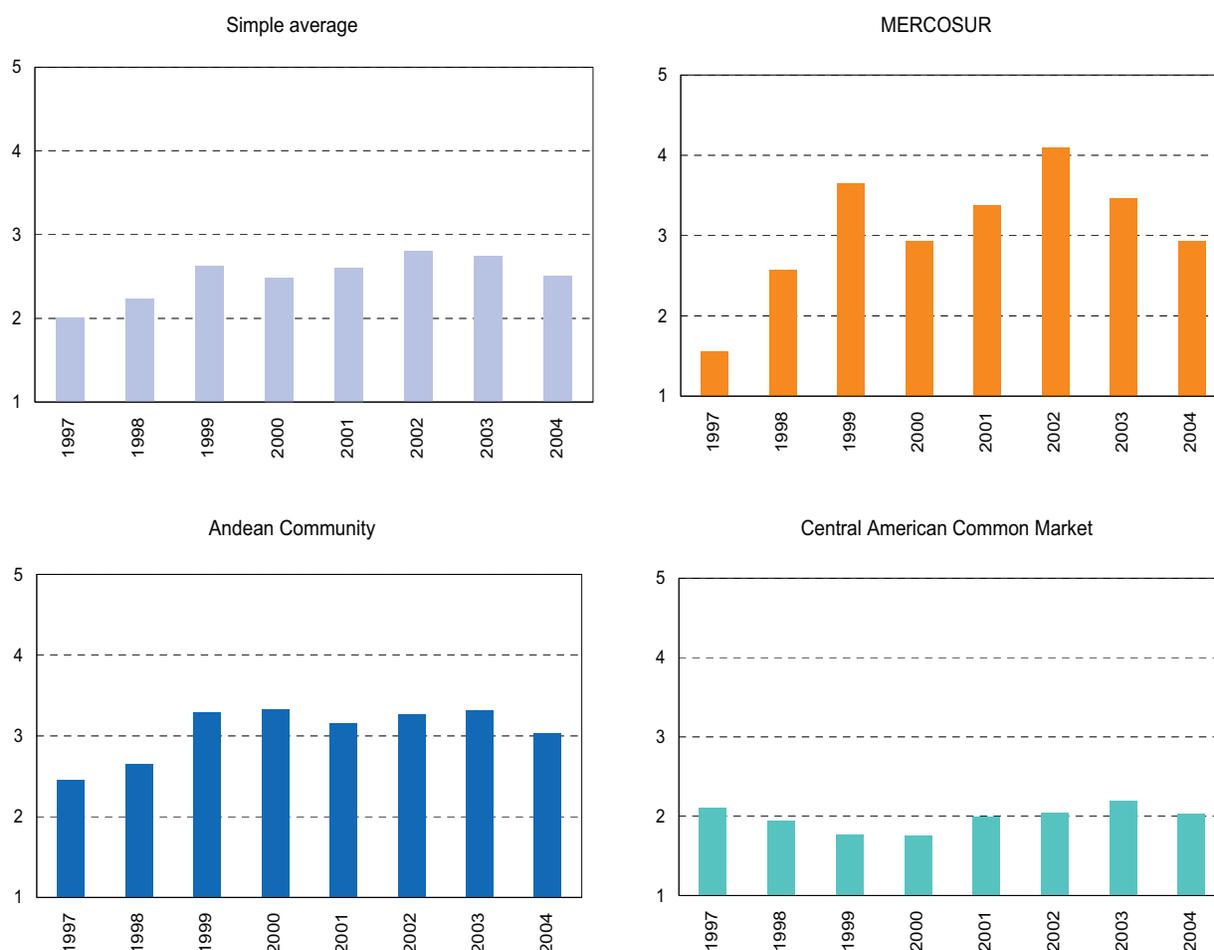
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Figure III.14

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT CAPITAL EXPENDITURE, 1997-2004*(Simple averages, as percentages of GDP)*

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

Figure III.15
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT INTEREST PAYMENTS, 1997-2004
(Simple averages, as percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

4. Summary and conclusions

In short, the period 2003-2005 was distinguished by a significant number of new developments in the region. One of these was a prudent and autonomous fiscal policy during times of economic growth, which has been helping to generate primary surpluses in most of the countries. This, together with the deployment of new financial instruments, has lessened the region's external vulnerability. Unlike previous episodes in the region, the governments have avoided shifting to a more expansionary fiscal stance

during this growth period, opting instead to pay down debt and build up reserves.

Forewarned by the explosive growth in the debt to GDP ratio in 1999-2002, the Governments have developed new mechanisms to enhance public accounts sustainability, ranging from macrofiscal rules to debt renegotiation. Added to the favourable economic conditions prevailing in 2002-2005, these strategies have lessened the region's typical dichotomy between long-term fiscal sustainability and the

deployment of stabilization policies that can respond to business-cycle fluctuations in the short term.

The region continues to display a number of structural features that are in need of attention, however. Despite rising revenue in recent years, including 2005, the region still has a weak and inequitable tax structure and shows a significant dispersion of tax burdens across the different countries. A stronger fiscal revenues structure would help the Governments to address the remaining problems in the region's public sectors, namely the low level of public investment, the need to improve the provision of social services and the need to remedy the serious coverage and solvency problems observed in social security systems.

A prominent item on the list of outstanding tasks is for the hydrocarbons-exporting countries to find ways

to make the most of the high petroleum prices recorded recently (which enabled a strong upturn in fiscal revenues in 2005) in order to diversify their tax structure and gain a stronger fiscal footing. A number of these countries have set up stabilization and savings funds in recent years, as discussed in *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004*. But, despite the high prices now being fetched by petroleum, several of these funds are not accumulating enough resources to fulfil the purpose for which they were designed.

Lastly, many of the region's countries still carry a very large debt in relation to their GDP. Thus, given the hypothesis of international conditions shaped by lower growth rates and higher interest, the region's governments should continue to implement fiscal prudence measures aimed at further reducing the debt to GDP ratio.

B. Exchange-rate policy ⁷

1. The situation in the region

During the first 10 months of 2005, the region's extraregional real effective exchange rate, which excludes trade with other countries in the region, exhibited a year-on-year appreciation of 3.8%. This was mainly the effect of faster real appreciation (5.5%) among the South American currencies, with the currency rising in value in seven of the subregion's 10 countries. Central America, Mexico and the Caribbean exhibited a lower rate of extraregional effective appreciation (2.3%), which also resulted from currency appreciation in seven countries. The Dominican Republic recorded a real currency appreciation of 35.6% against the United States dollar.

As regards the total effective exchange rate, which includes trade with the other countries of the region, 10 Latin American and Caribbean countries saw year-on-year currency appreciations in real effective terms in the first 10 months of 2005. Of these 10, three South American countries (Brazil, Colombia and Uruguay) registered double-digit currency appreciation, while Jamaica and Guatemala were the only Central American and Caribbean countries to see substantial drops in their real effective exchange rates (of 8% and 7.3%, respectively).⁸ In Argentina, Bolivia and Paraguay, the extraregional and the total effective exchange rates behaved very differently. For example, Argentina's extraregional effective exchange rate declined by 4.6%

⁷ The nominal exchange rate for a foreign currency is defined as the number of units of a given country's currency that must be surrendered in exchange for one unit of the foreign currency at any given point in time. A country's currency depreciates (appreciates) in nominal terms when, at that point in time, more (fewer) units of that currency must be surrendered in exchange for one unit of the foreign currency than during the reference period. The real bilateral exchange rate index for a foreign currency (for example, the dollar) is calculated by deflating the nominal exchange rate by the ratio between the inflation rate in one country and another (in the case of the dollar, the United States). A currency depreciates (appreciates) in real terms when the real bilateral exchange rate index rises (falls).

⁸ The Dominican Republic should be added to this list.

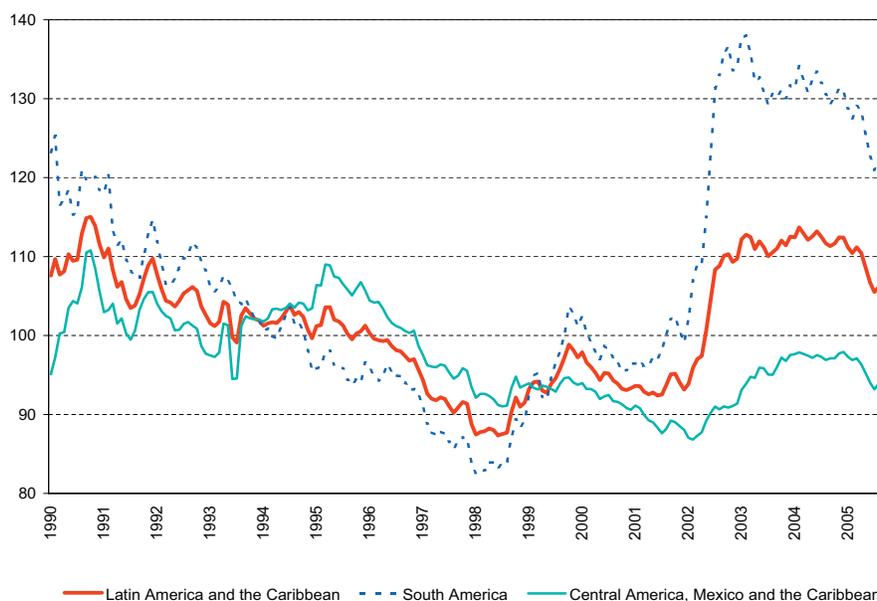
(signifying a currency appreciation), but its total effective exchange rate climbed, owing to the effects of trade with other countries, especially Brazil, whose currencies rose strongly in real terms. This factor also underpins the large total real effective depreciations recorded in Bolivia (8.3%) and Paraguay (12.1%) in 2005, together with the limited extraregional effective depreciations (0.3% and 2.4%, respectively) registered in those countries. This is an interesting development, inasmuch as the effects of regional integration mean that the currency movements of one of the region's countries affect the real exchange-rate competitiveness of the rest much more than real movements in non-regional currencies.

In order to examine exchange-rate developments in Latin America and the Caribbean from a longer-term perspective, a comparison was drawn between 2005 average effective exchange rates and the average for the 1990s (see figure III.16). Despite the effective appreciation seen

in each subregion, at the end of 2005, South America's extraregional effective exchange rate was almost 20% higher, at the aggregate level, than the average for the 1990s. The average for Central America, Mexico and the Caribbean is 6% lower than in the reference period. Figure III.17 shows each country's total effective exchange rate in 2005, compared with its average for the 1990s. The figure shows that, despite the currency appreciation seen in South America during the year, the total real effective exchange rates are still higher than in the 1990s (Brazil and Argentina) or very close to those values (Chile and Colombia). In the case of Ecuador, the average for the 1990s may not provide a very informative basis for comparison, given the strong volatility in the 1990s and the crisis of 1999. A comparison with the average for 1994,⁹ however, shows a currency appreciation of only 2%. In the case of the Bolivarian Republic of Venezuela, aside from the sharp volatility in the effective exchange rate, the calculation

Figure III.16

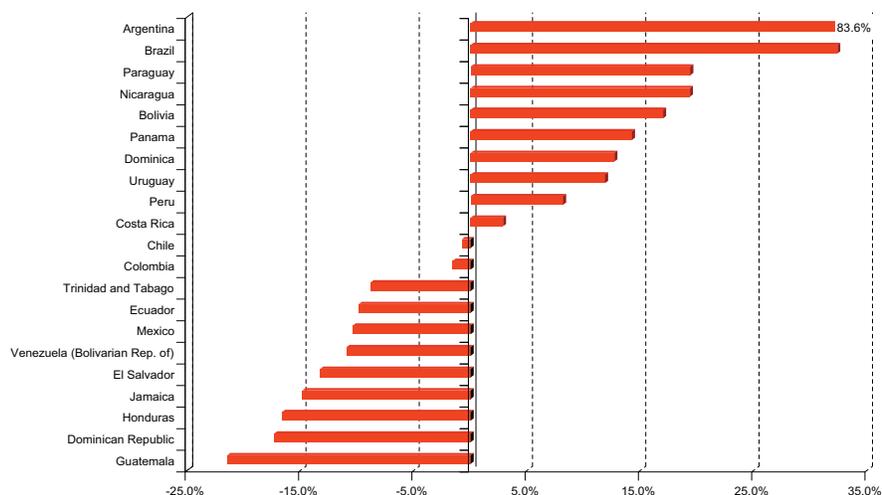
LATIN AMERICA AND THE CARIBBEAN: EXTRAREGIONAL REAL EFFECTIVE EXCHANGE RATE
(Average for January 1990-December 1999=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and International Monetary Fund.

⁹ The year 1994 may be considered more "normal" than the 1990s overall, from the point of view of domestic and external equilibria.

Figure III.17
LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): TOTAL REAL EFFECTIVE EXCHANGE RATES
(Average for January-October 2005 with respect to 1990-1999)^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and International Monetary Fund.

^a For Dominica, corresponds to average for January-August; in the case of Dominican Republic, the figures refer to the real bilateral exchange rate against the United States dollar.

must be approached cautiously since it was arrived at using the official exchange rate. Generally speaking, even with these caveats, it appears unlikely that any major real exchange rate misalignments exist in South America. Outside South America, during the first nine months of 2005, Guatemala, Honduras, Jamaica, El Salvador and Mexico recorded real effective exchange rates that were more than 10% lower (a currency appreciation) than the average for the 1990s (21.5% lower in the case of Guatemala). In the case of the Dominican Republic, the bilateral dollar exchange rate was, on average, 17.3% lower (meaning the currency appreciated) than the average for the 1990s. The rate bottomed out in April and increased (i.e. the currency depreciated) thereafter, to stand in October at 10% below the 1990s average.¹⁰ The low levels of the effective exchange rate in Central America, combined with mounting competition from China in labour-intensive manufacturing (which, with its maquila industry, is an important sector for the region's exports to the United States), have heightened the need for productivity gains in order to boost the real competitiveness of the Central American and Caribbean economies.

Factors influencing real currency movements in the region in 2005

First of all, unlike what occurred in the 1990s, capital movements were not the determining factor in the currency appreciations seen in South America in 2005. Capital inflows were recorded in a number of countries, but, according to preliminary data, the subregion registered a net outflow in 2005. A different situation prevails in Central America, the Caribbean and Mexico, since Guatemala, among other countries, witnessed considerable capital inflows.

Perhaps the most significant factor in 2005 was that currency appreciation in the region was influenced by terms-of-trade upturns in several South American countries, Mexico and some Caribbean countries, as well as by substantial income from emigrant remittances in several Central American countries.

Rising international prices for commodities such as petroleum and metals tended to bring down the real exchange rate (a currency appreciation) in several South American countries. Notably, this increase in terms of trade exceeded the average for 1990-1999. In particular,

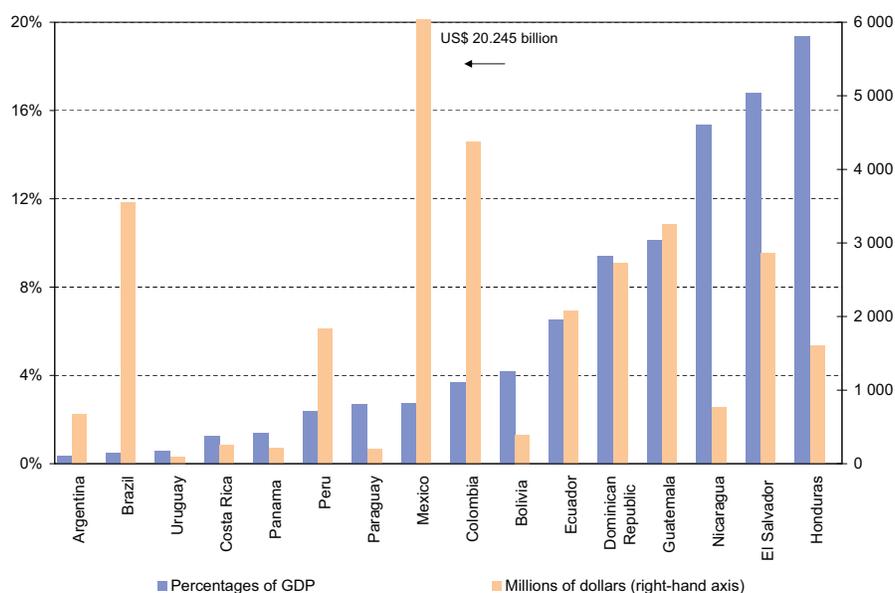
¹⁰ The Dominican peso continued to depreciate against the dollar in nominal terms during November 2005.

oil-exporting countries such as the Bolivarian Republic of Venezuela, Colombia and Ecuador, and metal exporters, such as Chile, reaped the benefits of substantial terms-of-trade gains in 2005. In Central America and the Caribbean, however, terms of trade dropped or rose little during the year. This was because the prices of some of the subregion’s export commodities (including coffee) increased less than the average for 1990-1999. Since these countries are, generally speaking, net oil importers, the higher prices for this commodity also cut into their terms of trade. Lastly, mounting competition from China in the labour-intensive manufacturing sector, including the textiles goods the region processes for export to the United States market, also appears to have contained increases in the prices of those countries’ exports.

In 2005, flows of foreign currency into Central America and Mexico in the form of transfers (of which emigrant

remittances are the main component) were again up on the already high values seen in 2004, as figure III.18 shows. This increase appears to have contributed to an effective appreciation of the Central American currencies, not only because of its sheer magnitude in dollars, but also because of its size in relation to the recipient economies. In El Salvador, Guatemala, Honduras and Nicaragua, net transfers make up over 10% of GDP. Another interesting point is that the recipient countries have different exchange-rate regimes (see table III.2), which leads to a variety of effects on the exchange rate. In the case of regimes under which the exchange rate is more fixed, such as the crawling peg scheme, the supply of foreign currency is monetized or translates into an increase in the central bank’s financial liabilities. By contrast, under more flexible regimes, the monetary authorities can intervene in the currency market on a discretionary basis.

Figure III.18
LATIN AMERICA (16 COUNTRIES): NET TRANSFERS, 2005
(Percentages of GDP and millions of dollars)^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and International Monetary Fund.

^a Estimated figures.

Table III.2
LATIN AMERICA AND THE CARIBBEAN: EXCHANGE-RATE REGIMES, 1999-2005^a

| | 1999 | 2001 | 2003 | 2005 |
|--------------------------------|---|---|---|---|
| Dollarization | Panama | Ecuador El Salvador ^b Panama | Ecuador El Salvador ^b Panama | Ecuador El Salvador ^b Panama |
| Currency board | Argentina Antigua and Barbuda ^c Grenada ^c Dominica ^c Saint Kitts and Nevis ^c Saint Lucia ^c Saint Vincent and the Grenadines ^c | Argentina Antigua and Barbuda ^c Grenada ^c Dominica ^c Saint Kitts and Nevis ^c Saint Lucia ^c Saint Vincent and the Grenadines ^c | Antigua and Barbuda ^c Grenada ^c Dominica ^c Saint Kitts and Nevis ^c Saint Lucia ^c Saint Vincent and the Grenadines ^c | Antigua and Barbuda ^c Grenada ^c Dominica ^c Saint Kitts and Nevis ^c Saint Lucia ^c Saint Vincent and the Grenadines ^c |
| Other fixed parity regimes | Bahamas Barbados Belize El Salvador | Bahamas Barbados Belize | Bahamas Barbados Belize Venezuela (Bolivarian Rep. of) | Bahamas Barbados Belize Venezuela (Bolivarian Rep. of) |
| Crawling pegs and moving bands | Bolivia Costa Rica Nicaragua Honduras Uruguay Venezuela (Bolivarian Rep. of) | Bolivia Costa Rica Nicaragua Honduras Uruguay Venezuela (Bolivarian Rep. of) | Bolivia Costa Rica Nicaragua Honduras | Bolivia Costa Rica Nicaragua Honduras |
| Flexible | Brazil Chile Colombia Ecuador Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname ^d Trinidad and Tobago ^d | Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname ^d Trinidad and Tobago ^d | Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname ^d Trinidad and Tobago ^d Uruguay | Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Suriname ^d Trinidad and Tobago ^d Uruguay |

Source: International Monetary Fund, "Classification of exchange rate arrangements and monetary policy frameworks".

^a Situation at 31 December each year.

^b The dollar is legal tender. No more new colones will be printed, but the existing stock will continue to circulate until the two currencies have fully swapped.

^c These countries belong to the Organization of Eastern Caribbean States.

^d The regime operating de facto in the country is different from the de jure regime shown.

The phenomenon of remittances reflects factors that transcend the purely economic sphere (such as the emigration fuelled by the conflict in El Salvador in the 1980s). Remittances represent a flow of foreign currency that is exogenous from the point of view of macroeconomic policy.¹¹ It is difficult for public policy to influence the effects of remittances on currency appreciation, which are often associated with Dutch disease. The only macroeconomic policy tool that can prevent remittances from being channelled into consumption is fiscal policy, specifically tax instruments. The will (and even the

capacity) of Governments to levy taxes on the recipients of remittances is doubtful, however.¹² In general, remittances go to population groups with few resources, who are often living below the poverty line, have unmet basic consumption needs and live in economically underprivileged areas. They often lack access to basic public services, among other things. Research has shown that the bulk of remittances go to finance consumption. As a result, apart from policies to encourage the channelling of remittances not spent on consumption into investment in production and housing (for example, by providing fiscal stimuli in

¹¹ This is because the factors that lead an emigrant to send remittances home are unlikely to be significantly altered by changes in a government's macroeconomic policy measures.

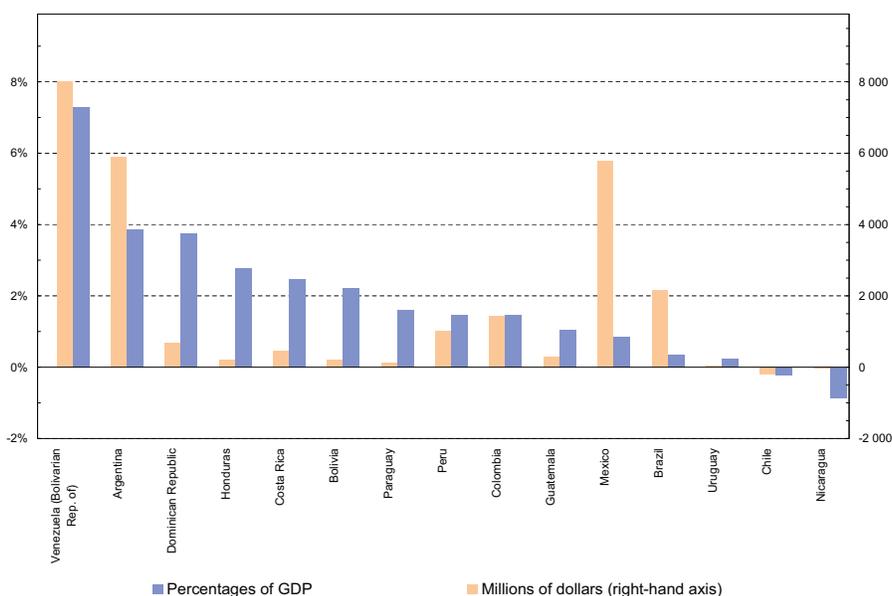
¹² Individual dispatches of remittances are usually quite small and often sent through informal channels. It would therefore probably be costly to control and collect the corresponding tax.

the form of cheap building loans secured by remittances), Governments have only limited tools for containing the effects of remittances on currency movements.

Lastly, the authorities in several of the region's countries, including Argentina, Colombia and Peru, intervened repeatedly in the currency markets, buying large volumes of foreign currency in the first nine months of the year (as shown in figure III.19), in order to offset their currencies' trend towards real effective appreciation in 2005. In some cases, such interventions

were aimed at influencing the real exchange rate. Naturally, exchange-rate stabilization is not the only reason for buying foreign currency. In some countries, the accumulation of foreign currency served to recoup reserves that had dropped to relatively low levels in the wake of the crises seen in earlier years. In countries with highly dollarized financial systems, the build-up of international reserves offers a means of stabilizing expectations in the face of potential problems in the financial sector.

Figure III.19
LATIN AMERICA (15 COUNTRIES): VARIATION IN NET INTERNATIONAL RESERVES,
DECEMBER 2004-SEPTEMBER 2005^{a b}
(Percentages of GDP and millions of dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures and the International Monetary Fund.

^a Total reserves minus gold, less reserve position in the International Monetary Fund.

^b In the Bolivarian Republic of Venezuela, Brazil and Peru, corresponds to the variation from December 2004-August 2005.

C. Monetary policy

1. External conditions

In 2005 rising petroleum prices triggered a sharp increase in prices in the United States. It may therefore be supposed that the series of interest rate hikes begun by the United States Federal Reserve in June 2004 will continue for longer than had initially been expected.

In Europe, price increases, though smaller, generated expectations that the European Central Bank would be unable to keep its benchmark rate much longer at 2%, where it had stood since June 2003. In fact, on 1 December the European Central Bank raised its monetary policy interest rate for the first time in five years, by a quarter of a point, to 2.25%, thereby opting to make inflation control more of a priority than measures to boost the weak upturn in some of its member States.

In 2006, both the United States and the European Union are expected to keep to a policy of cautious rises in their respective monetary policy rates, especially if rising fuel prices continue to put pressure on prices.

This context of higher interest rates and prices marks a slight change from the conditions that faced the region early in the year, when capital inflows and higher exports boosted liquidity, increased international reserves and caused local currencies to appreciate, resulting in the intervention of the respective central banks to offset those effects. For the region's economies, the continued rise of these rates in the industrialized countries also translates into a lengthier period of more expensive credit.

Monetary policy in the region

The main objective of monetary policy in the countries of the region continues to be to hold down inflation. Given the rise in petroleum prices, coupled with an improved outlook for economic activity, Latin America's central banks have focused increasingly on inflation. Prices have, in fact, increased at a fairly moderate rate, given the generalized appreciation of local currencies. Some central banks have had to intervene in the respective currency market in order to counteract unwanted effects and lessen currency appreciation, however.

Up until mid-2004, countries that were on track towards their inflation targets were able to use monetary

policy to help fuel their economies by means of successive cuts in interest rates. Thereafter, most of the countries having met those targets, many central banks cautiously raised monetary policy interest rates to avoid deviation from the international rates.

Since then, reference rates have risen in the region, but are still relatively low in historical terms. Given this modest rise, combined with price increases in some countries, real interest rates have stayed virtually unchanged or have even come down in the last 30 months (see figure III.21).

There are two important exceptions, however, which warrant further examination, since they concern the region's largest countries, Brazil and Mexico.

Brazil recorded the region's highest real interest rates. The central bank, which had not changed its benchmark interest rate—the Special System of Clearance and Custody (SELIC)—since September 2004, lowered it from 19.75% in August to 19.0% in October and 18.5% in December 2005. The real rate still comes in at over 13%, however, once 12-month inflation prospects are factored in. The second and third highest real interest rates in large economies are posted by China, at 6.0%, and Mexico, at 5.4%. Expectations are that the SELIC rate will drop to around 15% at the end of 2006, which would bring the real rate to between 9% and 10%. Nominal appreciation of 30% (signifying real appreciation of 20%, as weighted by international trade) has helped to hold down inflation. The most recent cut in the SELIC rate, to 18.5%, had been anticipated during the latter months of the year in view of the weakness of economic recovery.

As a result of the price rises recorded in Mexico starting in the second semester of 2004, the inflation rate breached the 4% ceiling of the target band and the authorities responded by raising interest rates, in what was to become the largest hike in the region. This trend was not broken until August 2005, when 12-month inflation dropped abruptly to 3.5%, thereby allowing the authorities to lower the interbank rate, for the first time in 18 months. A half-point reduction in August and September duly brought the interbank rate to 9% in mid-November. Although on previous occasions monetary policy tightening has involved a reduction in the *corto* (the funds Mexico's central bank

makes available to the market at twice the market rate), in this instance the shift to a looser policy stance did not, as might have been expected, lead to an increase in this rate. From this it may be deduced that the central bank has taken a first step towards making the benchmark interest rate, rather than the *corto*, its main monetary policy instrument. This shift triggered a rise in interest rates, especially medium- and long-term rates.

In Peru, the central reserve bank increased the reference rate when inflation exceeded the ceiling (3.5%) of its target band, and has kept it unchanged at 3% since October 2004, even though inflation has dropped below the floor of the band.

The Dominican Republic, Haiti and Jamaica are also exceptions to the trend in real interest rates. Those countries have suffered serious outbreaks of inflation, after which their interest rates have remained higher than in 2003.

In short, real rates of interest in Brazil and Mexico are still higher than they were two or three years ago, having come down only slightly of late. This pattern stands in contrast to most of the other countries, whose real rates remain low in historical terms with only slight rises in 2005. Prominent among those countries are Argentina and Chile.

Argentina has maintained an informal target of keeping the exchange rate above a minimum level with respect to the United States dollar. To this end, the government has attempted to build up reserves and has intervened in the foreign exchange market. In order to prevent rising liquidity from fuelling inflation, the central bank has been obliged to engage in sterilization operations by issuing paper. Monetary policy has not been tight and real interest rates continue to be negative, since the annual inflation rate stood at around 12% at the end of 2005.

Chile's central bank has continued to raise its monetary policy interest rate, quickening the pace of the adjustment whenever inflation has edged slightly above the target band's 4% ceiling. The peso has been allowed to appreciate according to the financial dictates of the market, to a level which, in early December, aroused some debate on the suitability of the existing exchange-rate system in the country's current circumstances.

Nominal interest rates

The degree of control exerted by a monetary authority is apparent in the extent to which movements in monetary policy, interbank, deposit and lending rates are synchronized. A divergence of these rates indicates a loss of control on the part of the monetary authority.

In 2005, the direction of monetary policy, interbank, deposit and lending rates shifted with

respect to 2004, exhibiting a slow, but steady, rise (see figure III.20).

The monetary authorities of Brazil, Chile, Colombia and Peru have maintained tight control over interest rates for some time now. In these countries the interbank and deposit rates are highly synchronized and, indeed, practically matched. Argentina and Paraguay began to regain a similar degree of synchronization and control in 2004 (in June and May, respectively). Other countries, such as Mexico and Costa Rica, have maintained a stable margin between the two rates, which have moved in a tightly synchronized manner.

Countries whose currency is tied to the dollar

Countries with a dollarized monetary regime or a currency tied to the dollar cannot deploy monetary policy as such since they lack an independent local currency, insofar as they adopt the rules of a dollarized system, and their interest rates are duly aligned with international rates. Interest rates rose slightly in 2005 in Ecuador, Panama and El Salvador, consistently with rises registered in international rates.

Bank credit

Bank lending is relatively more important in the Latin American and Caribbean countries than in the developed world, because the region's capital markets are less developed. In this regard, the upturn seen in bank credit in 2003 bore out expectations of better growth prospects, which have continued thus far. Total and private credit have consistently expanded at rates of over 10% in 2005, thereby continuing the previous year's trend and regaining the levels seen before 2001. Credit has continued to rise slightly in real terms in the second semester, although an uptick in prices has narrowed this positive margin in some countries.

Monetary aggregates

In 2005 monetary expansion exceeded the equivalent 2004 figure in most of the region's countries (see table III.3). The largest jumps in money supply growth were seen in Bolivia, Guatemala, Uruguay and Peru.

At the other extreme was Brazil, which recorded the steepest drop in the rate of growth of monetary aggregates (7.1% in the 12 months to September 2005, compared with 28.7% in the year-earlier period), which reflected the tight monetary policy adopted to hold down inflation, as discussed previously.

In Chile, the Dominican Republic and El Salvador, growth of monetary aggregates was significantly down on 2004.

Figure III.20
LATIN AMERICA (11 COUNTRIES): NOMINAL INTEREST RATES ^a

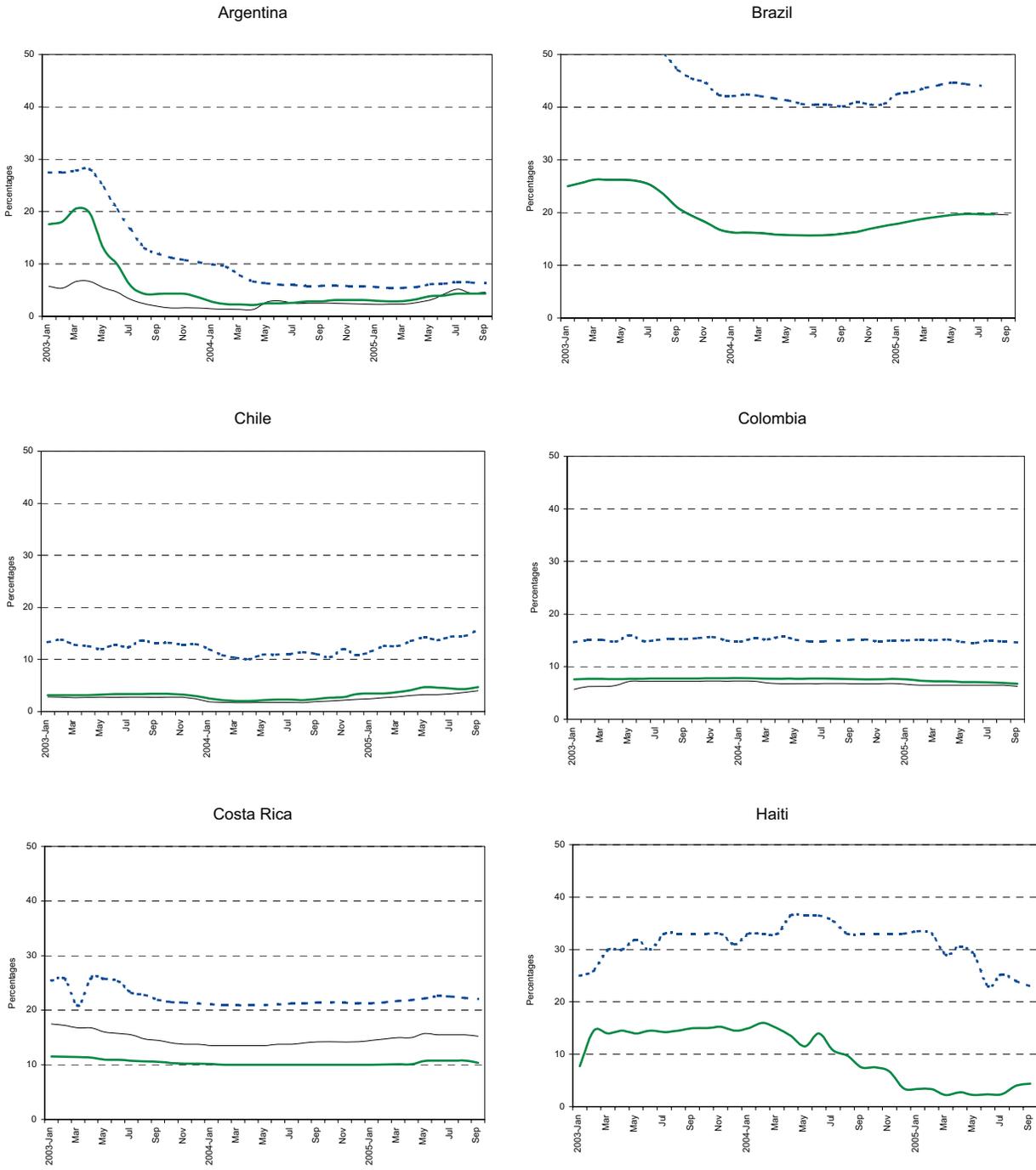
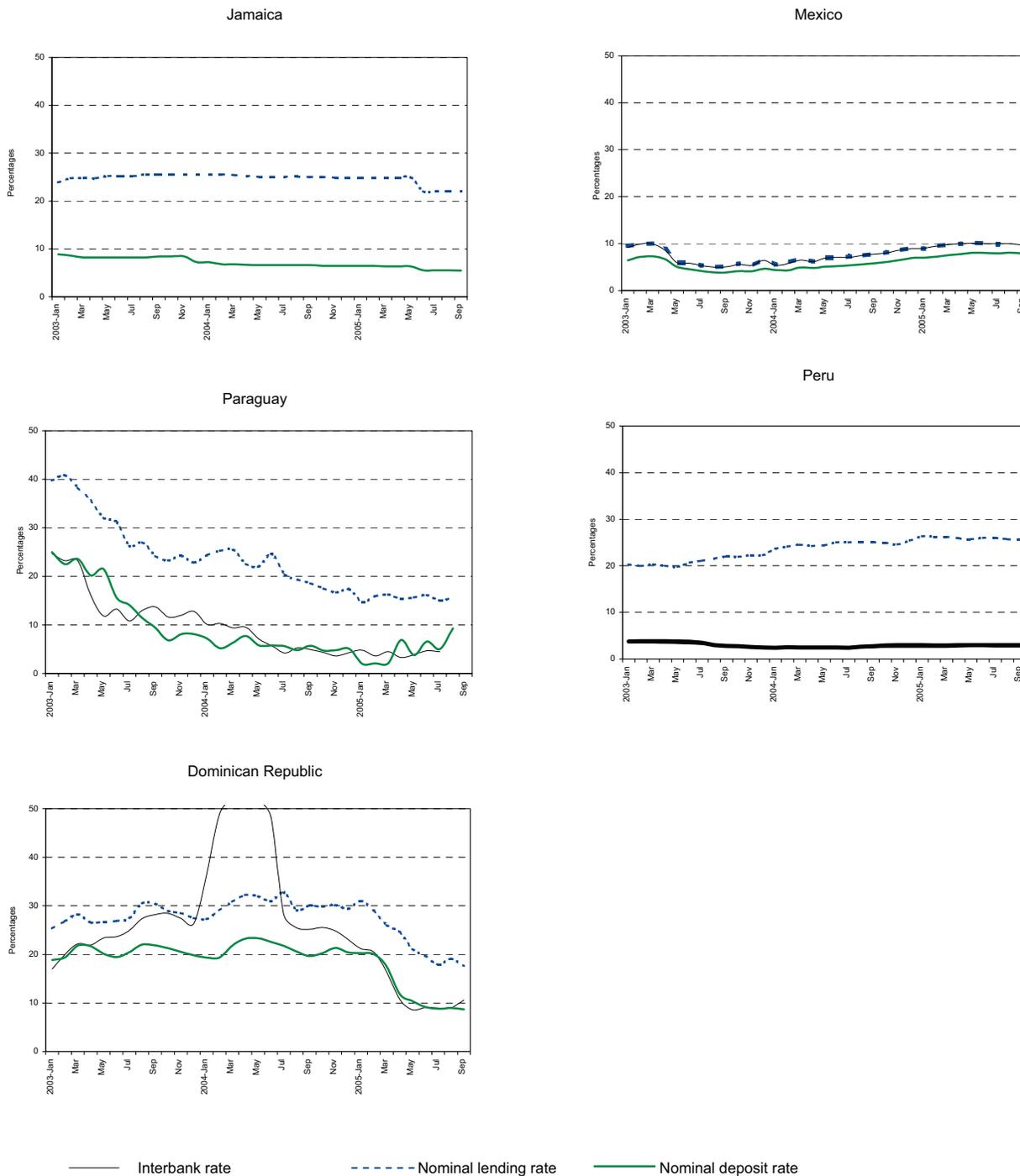


Figure III.20 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Three-month moving average centred on month t.

Figure III.21
LATIN AMERICA (11 COUNTRIES): REAL INTEREST RATES ^a

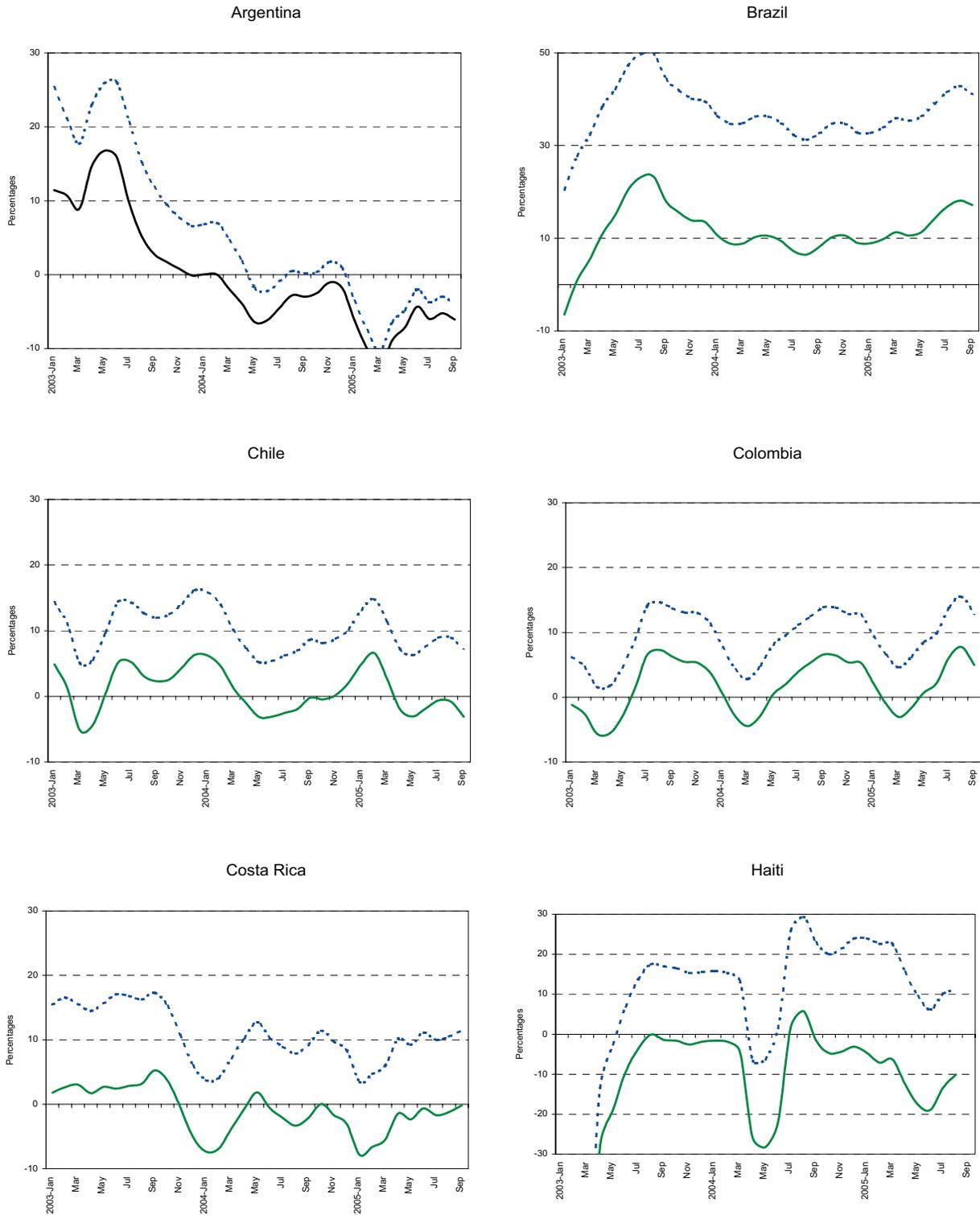
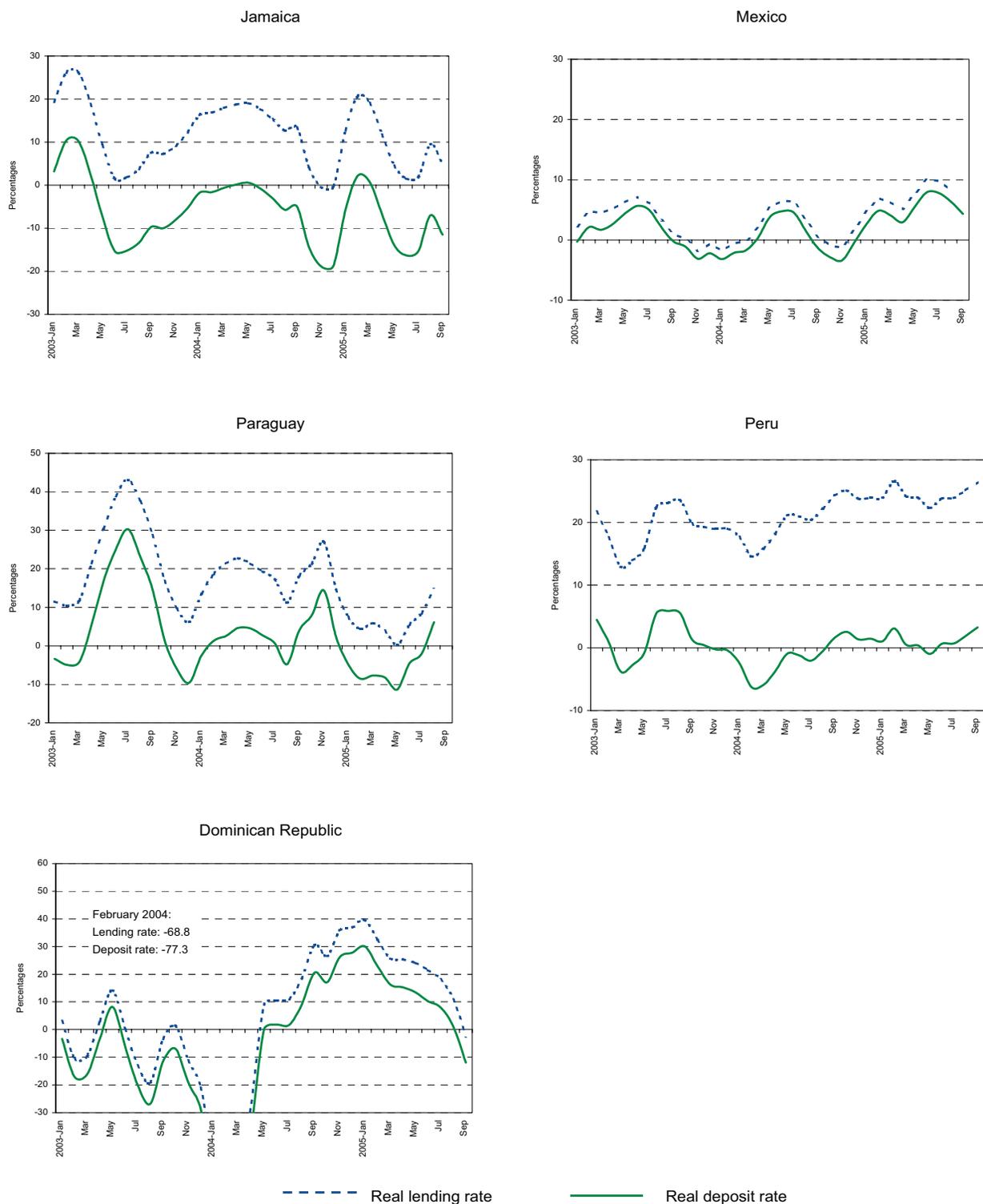


Figure III.21 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Three-month moving average, centered on the reference month. Real rates were calculated as $r = i - p$, where i is the nominal rate and p is the annualized inflation rate.

Table III.3
LATIN AMERICA (SELECTED COUNTRIES): MONETARY AGGREGATES
(Twelve-month variation, in percentages)

| | | 12-month variation to September 2003 | 12-month variation to September 2004 | 12-month variation to September 2005 |
|------------------------------------|----|---|---|---|
| Argentina | M3 | 30.5 | 23.2 | 21.5 |
| Argentina | M1 | 53.0 | 27.2 | 30.6 |
| Bolivia ^a | M1 | 25.9 | 14.4 | 45.9 |
| Brazil | M1 | -3.2 | 28.7 | 7.1 |
| Chile ^a | M1 | -6.2 | 20.4 | 13.4 |
| Colombia ^a | M1 | 17.1 | 12.6 | 19.0 |
| Costa Rica ^a | M1 | 13.0 | 15.9 | 20.0 |
| Ecuador | M2 | -7.9 | 17.4 | 23.1 |
| Ecuador | M1 | -2.8 | 21.3 | 22.6 |
| El Salvador | M1 | -0.2 | 15.6 | 5.1 |
| Guatemala | M1 | 17.2 | 5.6 | 17.7 |
| Honduras | M1 | 10.8 | 15.9 | 19.6 |
| Mexico | M1 | 13.8 | 13.5 | 12.4 |
| Nicaragua ^a | M1 | ... | 28.4 | 24.0 |
| Paraguay | M1 | 38.8 | 25.4 | 21.4 |
| Peru | M1 | 10.6 | 20.4 | 32.9 |
| Dominican Republic ^a | M1 | 59 | 32.8 | 12.8 |
| Uruguay | M1 | 27.2 | 15.4 | 27.0 |
| Venezuela (Bolivarian Republic of) | M1 | 68.9 | 51.9 | 56.1 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Variation to October each year.

Chapter IV

Domestic performance

A. Economic activity and investment

The Latin American and Caribbean economies expanded by 4.3% in 2005, which translates into a regional per capita GDP increase of 2.8%. These rates are lower than those recorded in 2004, but are still higher than the averages for the 1990s, which were 3.2% and 1.5% for global GDP and per capita GDP, respectively, and the values recorded for the period 2000-2005 (2.3% and 0.8% for GDP and per capita GDP respectively). After the poor results over the period 1998-2003, regional economic activity increased by 10.6% in the biennium 2004-2005 compared to the 2003 level, while per capita GDP rose by 7.5%.

Regional growth is expected to continue at around 4% in 2006, thanks to the buoyancy of domestic demand in the countries of the region throughout 2005 and to the performance of the international economy, which should continue to be positive, although slower expansion is expected.

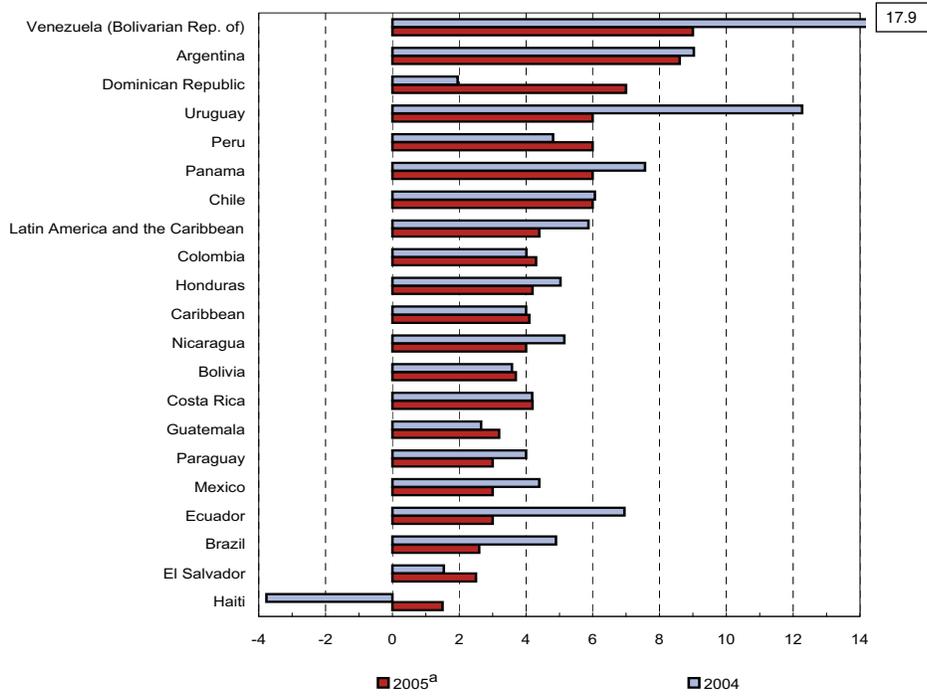
The satisfactory regional performance was reflected in most of the countries. All of them, except Guyana, posted positive growth rates; in this context, the highest were those of the Bolivarian Republic of Venezuela (9%) and

Argentina (8.6%), while the lowest were in Haiti (1.5%), Brazil (2.5%) and El Salvador (2.5%). The growth rates of Chile, Dominican Republic, Panama, Peru and Uruguay varied between 5.5% and 7%; those of Bolivia, Colombia, Honduras and Nicaragua were around 4% and those of Ecuador, Guatemala, Mexico and Paraguay around 3%.¹ The Caribbean countries managed to achieve expansion of 4.1% despite the impact of intense hurricanes; the countries which grew most in this subregion were Grenada (9%), Saint Lucia (8%) and Trinidad and Tobago (7%).

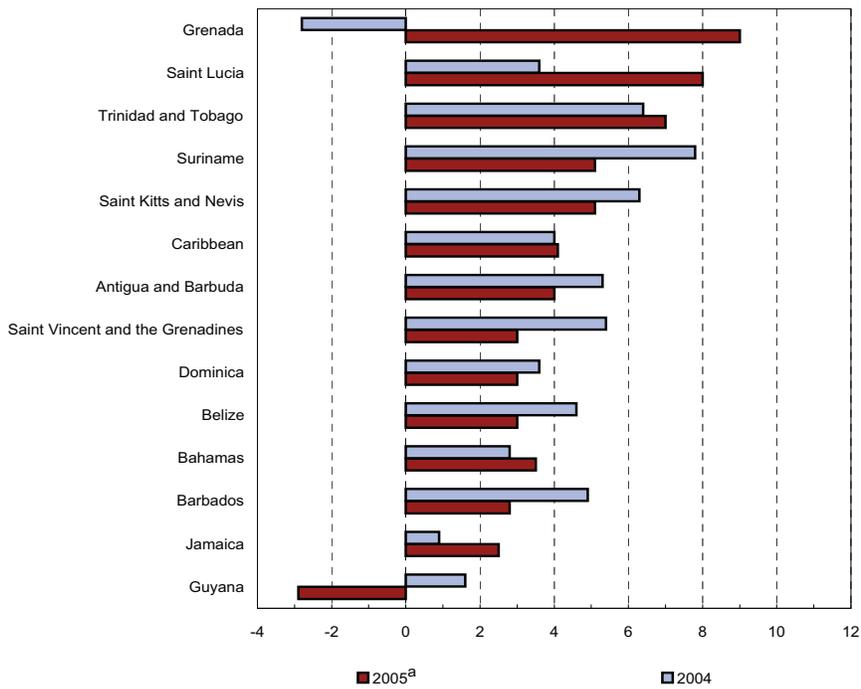
¹ The unweighted average growth rate of the Latin American and Caribbean countries was 4.5%, while the median growth rate was 4%.

Figure IV.1
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual GDP growth rates in dollars at 2000 prices)

(a) Latin America



(b) The Caribbean



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

^a Preliminary figures.

As in 2004, the economies of most countries in the region continued their expansionary trend, although more moderately than in the previous year. While most countries posted lower growth rates in 2005, some showed rates higher than the 2004 levels. This second group includes Bolivia, Colombia, Dominican Republic, El Salvador, Guatemala, Haiti, and Peru. In Bolivia and Colombia, growth in 2005 reflected the performance of 2004. The economy of Haiti, which contracted by 3.8% in 2004, expanded by 1.5% in 2005, while the economy of the Dominican Republic continued to recover from the crisis of the 2002-2003 biennium, assisted by the satisfactory performance of private consumption and non-traditional exports. The main factors contributing to economic growth in Peru were the increase in export volume and investment, especially private investment. GDP expansion in El Salvador and Guatemala was slightly higher than in 2005, but was still low and significantly below the regional average. In terms of quarterly growth, regional activity grew by around 4.4% in the first three quarters of 2005, which is close to the estimate for the annual figure for the region.

In 2005, the Latin American economies expanded in the context of the continuing positive performance of the international economy which had begun in mid-2003. Despite the slowdown in the current year, it continued to contribute to the good external-sector results of the countries in the region. Regional exports expressed in constant terms have been expanding rapidly since the fourth quarter of 2003, driven by the increase in global demand for the region's export commodities and boosted by high prices on the international markets.

Throughout 2004, the sustained external impetus boosted other activities in addition to those directly related to exports, which translated into a stimulus for domestic demand; first investment increased and then private consumption followed suit, in response to the rises in employment and in real remuneration. The more rapid expansion of investment, especially in machinery and equipment, was also due to the exchange rate appreciation which occurred in most of the countries. The performance of these aggregates was reflected in the rise in goods imports, as their volume began to increase sharply as of the first quarter of 2004. The more rapid growth of domestic demand in the Latin American countries then led to an expansion of intraregional trade, especially in manufactured products. In 2004, some economies were

continuing their recovery from significant declines in the two previous years.

The trends that began in 2004 were maintained throughout 2005. In the countries that have continued in the recovery process, GDP is expected to exceed the levels of the pre-crisis years by the end of 2005. Meanwhile, the slowdown in the growth of external demand, together with the exchange rate appreciations observed in a number of cases, has influenced export growth in some countries, and the growth rate continues to be high in regional terms in 2005 (8%), although lower than in 2004 (12.4%). The rise in the export volume is part of a trend that has continued since the 1990s through the first half of the present decade. In 2005, external sales accounted for 24.9% of regional GDP, which is a considerable increase compared to 12.5% in 1990.²

The recovery in domestic demand, which began in 2004 and was more pronounced in the second half of the year, was stronger in 2005 in most countries. As a result of this factor and of changes in exchange rates, most of the countries posted high growth rates for imports of consumer goods and capital goods. Although domestic interest rates in most cases began to follow the upward trend of international interest rates, they are still low, which facilitates both investment and consumption decisions, while the exchange rate appreciations that occurred in some countries in 2005 helped to bring down the cost of imports, thus contributing to a higher level of domestic demand. The import volume increased by 12%, so that the contribution of net exports to growth in the region was negative for the second consecutive year, while consumption rose by 3.3%, owing to the more rapid expansion of private consumption.

The performance of the region's economies in the 2004-2005 biennium compares favourably with the three-year period 2001-2003. After an annual average fall of 0.3% in 2001-2003, domestic demand grew by an annual average of 5.8% in 2004-2005, which was mainly due to the significant expansion of investment, especially gross fixed capital formation. Gross domestic investment in the region was 9.7% higher in 2005, so that in real terms it rose by 23% in 2004-2005, increasing the gross domestic investment to GDP ratio to 22.1%.³ Although this value is higher than in 2000, it is still lower than the peak level of the period 1990-2005, which was 22.5% in 1998. The coefficient of gross fixed capital formation expanded from 18.6% to 19.6% of GDP, a value that is also lower than

² Calculated in constant 2000 dollars. The evolution of imports at constant prices is similar to that of exports; in fact, the coefficient of trade opening in the region (the sum of exports and imports of goods and services divided by GDP, at constant prices) rose in 2005 to 49.3%, compared to 22.8% in 1990.

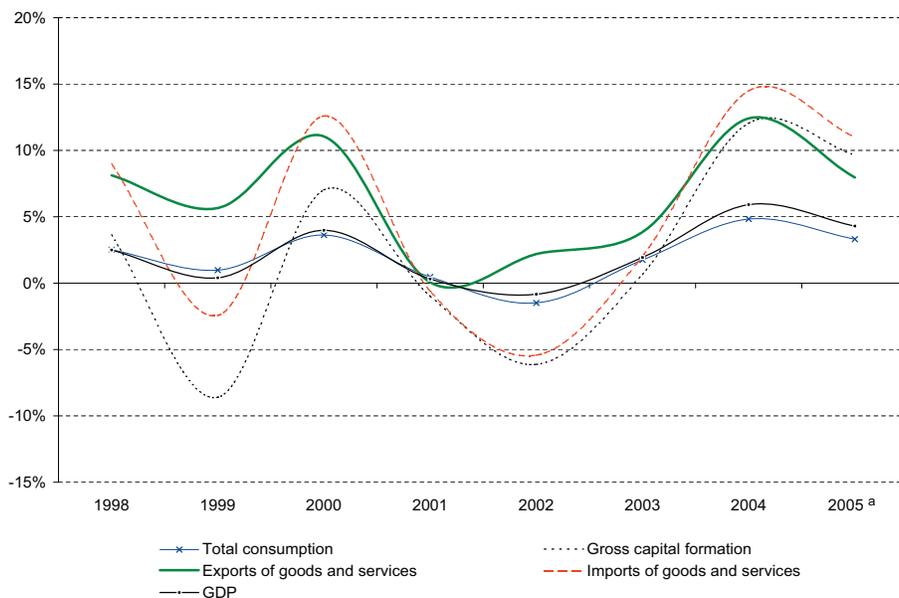
³ Calculated in constant 2000 dollars.

the highest figure for the period 1990-2005 (20.5% in 1998).⁴ The construction sector posted growth, but the most significant increase in investment was in machinery and equipment, most of which were imported.

As in 2004, one of the most noteworthy features of the regional economy in 2005 was the rapid expansion of gross national disposable income which, calculated at the previous year's prices, showed an increase of 5.6%. In general, the terms of trade had a significant impact, while other factors contributing to income measurement offset one another. In the region as a whole, the impact of the terms of trade amounted to

about 1.34% of GDP, a higher figure than in 2004. As in 2004, this significant increase in national income occurred in most of the South American countries and Mexico, except for Paraguay and Uruguay. Meanwhile, in the Central American countries, gross national disposable income grew more slowly than GDP, owing to the negative impact of the terms of trade as a result of high international oil prices. Their economies were affected in view of the importance of oil imports and because the prices of their main export commodities did not follow the same trend as those of the South American countries.

Figure IV.2
**LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
 AND COMPONENTS OF EXPENDITURE**
(Annual growth rates, figures in dollars at 2000 prices)

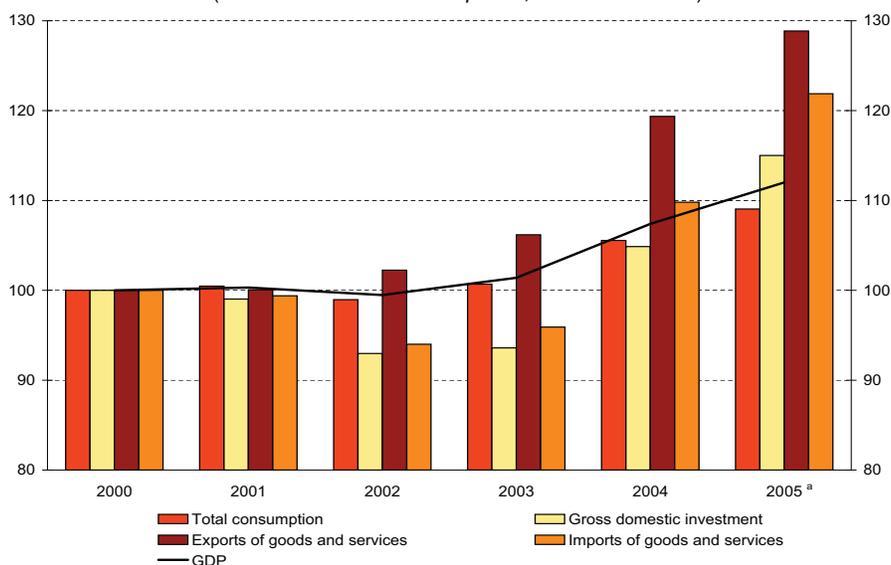


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

⁴ Taking into account the period 1990-2005. The investment coefficients recorded in the 1990s remain much lower than those achieved at the end of the 1970s.

Figure IV.3
LATIN AMERICA AND THE CARIBBEAN: GDP AND COMPONENTS OF EXPENDITURE
(Millions of dollars at 2000 prices, index: 2000=100)

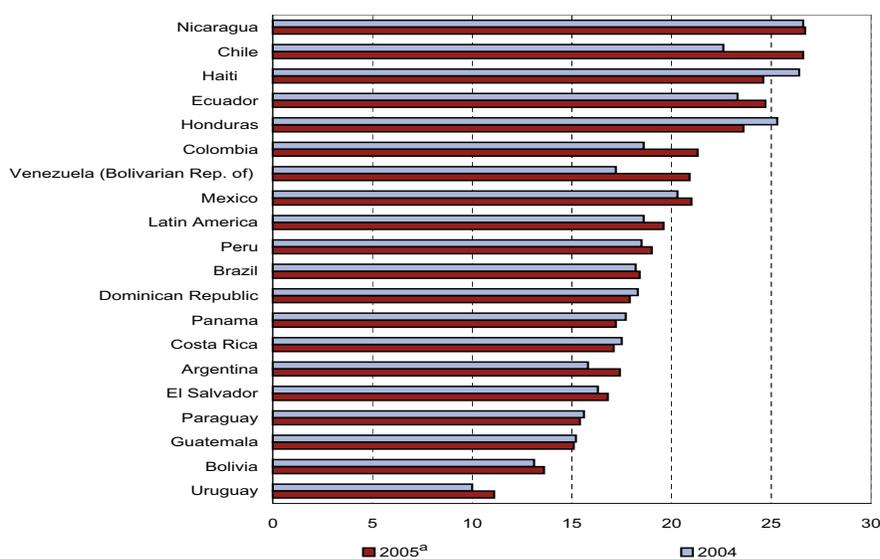


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
 a Preliminary figures.

Together with the significantly higher income posted in the region, Latin America recorded a substantial rise in national savings, which expanded considerably in a number of countries and which, at current prices and in regional terms, were equivalent to 23.1% of GDP, the highest value since 1990. Meanwhile, as in 2003 and 2004,

external savings were increasingly negative; in 2005 they amounted to 1.3% of GDP. Consequently, as in the two previous years, in 2005 regional investment was financed entirely from national savings and the surplus (negative external savings) was used to reduce the net debt of the region and to accumulate reserves.

Figure IV.4
LATIN AMERICA AND THE CARIBBEAN: FIXED GROSS CAPITAL FORMATION
(Percentages of GDP, figures in dollars at 2000 prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
 a Preliminary figures.

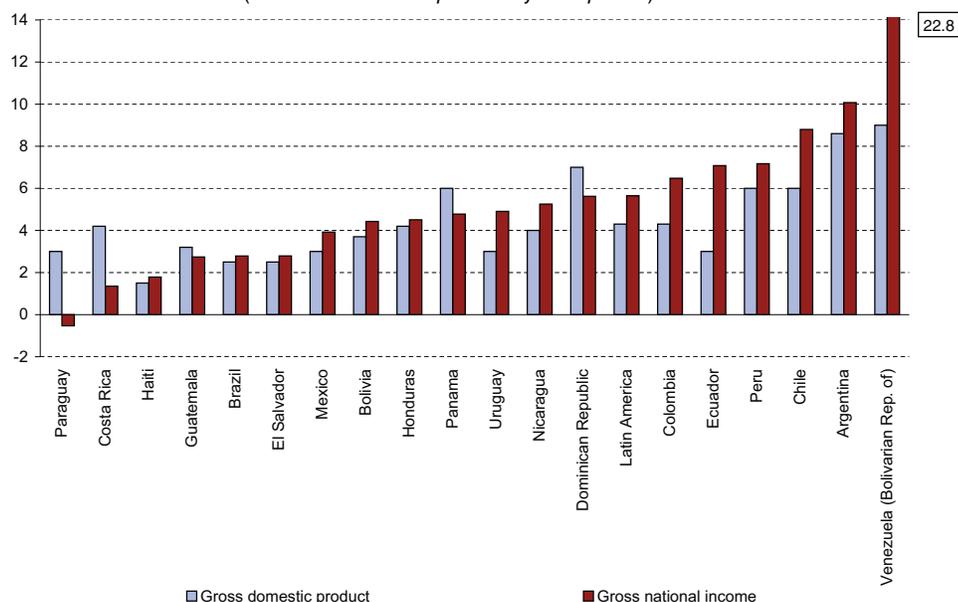
The satisfactory regional development of the components of demand was reflected in the various economic sectors. The increased mining and hydrocarbon production was a response to the persistent external demand which, together with the rise in domestic demand, continued to boost the industrial sector, thanks to the greater profitability of the tradables-producing sectors as a result of the devaluations in the 2002-2003 biennium. Although in nominal terms the exchange rates have been appreciating in relation to the United States currency, in real terms they remain favourable for the countries of the region. The agricultural sector's performance has been uneven, while in most countries the growth in construction contributed to the higher level of gross fixed capital formation. Trade was stimulated by the rise in household

consumption, while the general expansion of domestic activity gave a significant boost to the transport sector. The buoyancy of the international economy also had a positive impact on tourist-related activities; according to the data available, as of September 2005, the number of tourist arrivals was up by 15% in Central America and 10% in South America.⁵ In the Caribbean countries, the number of arrivals increased by 2.7% over the same period, which is mainly due to the influx of tourists in the Dominican Republic and Puerto Rico, but also reflects the low levels recorded in Bahamas and Barbados. Cruise-ship tourism was affected by the hurricanes which ravaged the region and the number of cruise ship passengers was down by about 3% in aggregate terms, despite the increases in Belize and Grenada.

Figure IV.5

LATIN AMERICA AND THE CARIBBEAN: GDP AND NATIONAL DISPOSABLE INCOME, 2005

(Growth rates at the previous year's prices)^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

In 2005, as previously mentioned, a number of the region's countries recovered their pre-crisis levels of GDP. Despite the general features referred to, the dynamics of growth in the region varied somewhat from country to country, which can be seen by reviewing the determinants of growth, specifically in relation to the components that led the economic expansion and how they developed over

the period 2002-2005. As external conditions were the same for all, it was each country's productive specialization and macroeconomic situation at the time when the international economy began to pick up that determined their reaction to the improved outlook. Over the period 2001-2003, the largest declines in both total consumption and investment occurred in Argentina, Brazil, Uruguay and Paraguay.⁶ The

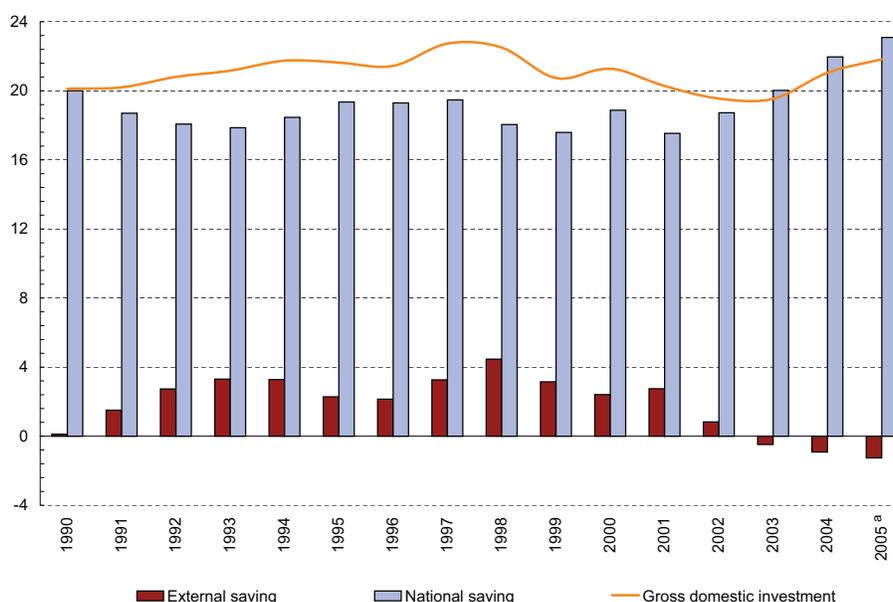
⁵ World Tourism Organization, WTO World Tourism Barometer, vol. 3, No. 3, October 2005.

⁶ See Economic Commission for Latin America and the Caribbean (ECLAC), Economic Survey of Latin America and the Caribbean, 2003-2004 (LC/G.2255-P/E), Santiago, Chile, November 2004. United Nations publication, Sales No.E.04.II.G.2.

devaluations in 2002 considerably increased exporters' income in national currency and restored to a certain extent the profitability of the goods-producing sectors. The idle capacity in some sectors also facilitated the onset of economic recovery with a steep rise in goods exports, in some cases together with import substitution. Subsequently, in view of the low level of goods imports and domestic demand in some countries, the continuing favourable external environment, together with a significant

increase in national income, allowed the other sectors of the economy to expand rapidly, recovering and in some cases surpassing pre-crisis levels. The four countries in which this phenomenon occurred accumulated a global gross domestic product in 2005 that is 11.5% higher than the level in 2000. Meanwhile, exports of goods in constant terms were 58.7% higher than the levels of 2000, and domestic demand and the import volume were 5.8% and 10.3% higher, respectively.⁷

Figure IV.6
LATIN AMERICA AND THE CARIBBEAN: RATIO OF SAVING TO INVESTMENT
(Percentages of GDP in current dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

In the Andean countries, including Chile (which for the purposes of this analysis is similar to this group of countries in view of its external trade structure), there was much less variation in domestic demand over the period 2001-2003. Specifically, there were no reductions in consumption or GDP and the decline in investment was much less steep. The increase in national income due to the favourable effects of the terms of trade was greater in the Andean countries, in response to domestic demand and in particular to the expansion of investment.

This was reflected in a significant rise in imports as of 2003, so that by 2005 this group of countries have the highest investment coefficients in the region; they include Chile, Colombia, Ecuador and the Bolivarian Republic of Venezuela, all of which post values higher than the weighted regional average. In relation to 2000, gross fixed capital formation expanded by 38% and imports of goods at constant prices rose by 57%, and there was also a rise of 21% in the export volume and 22% in total consumption in the same period.

⁷ Calculated in constant 2000 dollars.

Figure IV.7
LATIN AMERICA: GDP AND COMPONENTS OF EXPENDITURE
(Index: 2000=100 and annual growth rates, figures in dollars at 2000 prices)

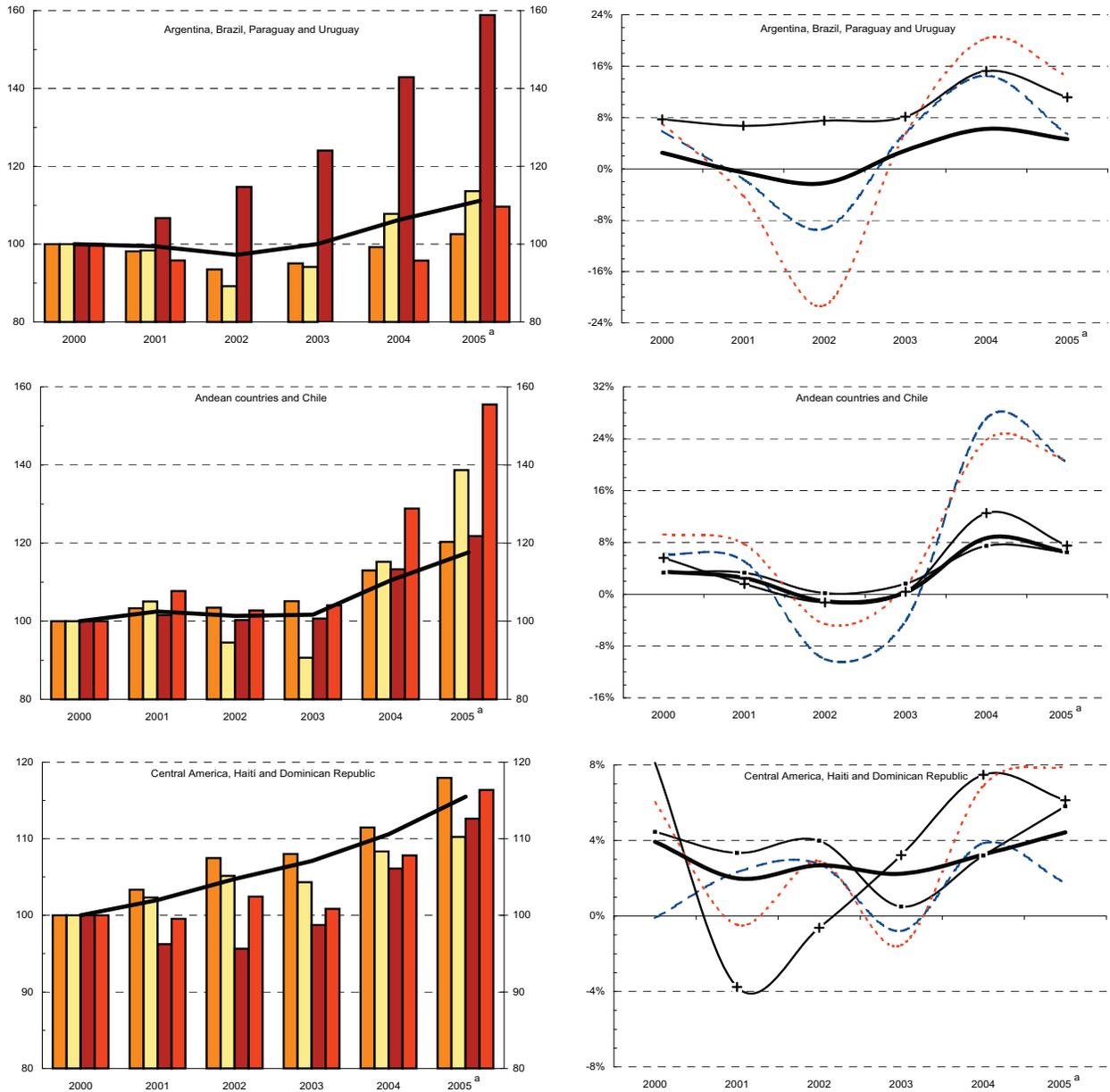
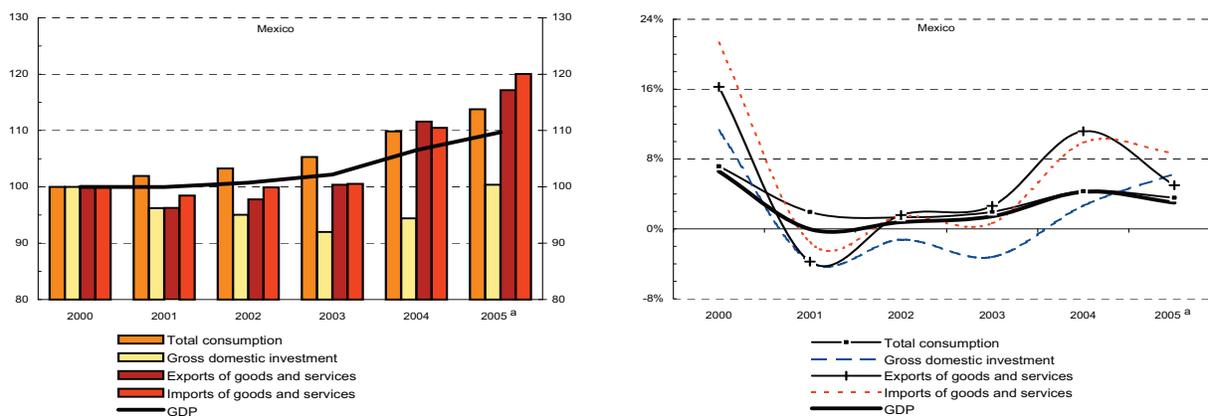


Figure IV-7 (concluded)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

A comparison of these two groups of countries shows that the economic growth of the MERCOSUR members was basically due to the expansion of the export volume, after which the other aggregates began to recover from their previous low levels. The growth of the Andean countries and Chile was based above all on the more rapid rise in domestic demand, which was due to the substantial increase in income brought by the significant improvement in the terms of trade. Although this phenomenon also occurred in the MERCOSUR countries, it was stronger in the Andean countries.

Lastly, the growth of the Central American countries and Mexico was closely linked to the business cycle of the United States, which was reflected in the buoyancy of the export sector. There was also greater competition from the Asian countries and especially China, as exporters of manufactures to the United States market, in the context of the real currency appreciation in the

countries of the subregion, which has influenced their external competitiveness. The performance of domestic demand has in turn been linked to the sustained growth in current transfers, which mainly consist of remittances from workers abroad.⁸

Exports of goods, which were affected in 2001 by the slow growth of the United States economy, began to recover gradually as of 2003. In 2004, the volume of both imports and investment began to recover. As in the Central American countries, during the period 2000-2005 the GDP of Mexico was boosted by the increase in total consumption, to which the sustained growth in remittances from abroad also contributed, although to a minor extent. Meanwhile, the volume of exports and imports has grown considerably since 2003, so that in 2005 both flows were 18% higher than in 2000, while gross fixed capital formation will exceed the levels of 2000 only in 2005.

⁸ The following table shows the net current transfers calculated on the basis of figures from the balance of payments expressed as a percentage of GDP for the years 1990 and 2005, in constant 2000 dollars.

| | 1990 | 2005 | | 1990 | 2005 |
|-------------|------|------|--------------------|------|------|
| Costa Rica | 2.0 | 1.3 | Honduras | 8.4 | 18.5 |
| El Salvador | 7.8 | 18.0 | Nicaragua | 4.2 | 14.5 |
| Guatemala | 1.9 | 12.6 | Panama | 3.3 | 1.4 |
| Haiti | 5.8 | 26.3 | Dominican Republic | 3.5 | 9.7 |
| Mexico | 1.0 | 2.8 | | | |

Box IV.1

**THE DEVASTATING IMPACT OF NATURAL DISASTERS IN 2005
AND THE NEED FOR ADAPTATION**

In 2005 there was an increase in the intensity, concentration and number of unusual weather phenomena, which surpassed even the historically unprecedented dimensions of those recorded in 2004. For the first time in 154 years of hurricane records, in 2005 there were 26 named phenomena and 13 hurricanes with devastating effects on

Mexico, Central America, the Caribbean islands and the north coast of the Gulf of Mexico, that is, in Louisiana, Missouri, Mississippi and Texas. The phenomena recorded in 2005 are estimated to have affected more than 6 million persons, resulting in about 4,600 deaths and economic costs of between US\$ 200,000 million and 210,000 million.

If the damage in the United States is excluded, the preliminary estimates exceed US\$ 6 billion (ECLAC has evaluated phenomena in Central America and the Caribbean which have caused damage of US\$ 2,222 billion). The table shows a preliminary, and in some cases unofficial, estimate of the impact of the hurricanes and other phenomena in 2005.

LATIN AMERICA AND THE CARIBBEAN: THE IMPACT OF HURRICANES, 2005

(ECLAC estimates)

| Hurricane season 2005 | | | Deaths | Persons directly affected | Damage (in millions of United States dollars) | | |
|--|---------------|--|--------|---------------------------|---|---------------------------|--------------------------|
| | | | | | Totals | Direct (stock or capital) | Indirect (loss of flows) |
| January | Guyana | Floods from Georgetown to Albion | 34 | 274 774 | 465.1 | 418.3 | 46.8 |
| October | Guatemala | Torrential rains and tropical storm Stan | 1 583 | 474 821 | 988.3 | 421.1 | 567.2 |
| October | El Salvador | Torrential rains, tropical storm Stan and eruption of the volcano Ilamatepec | 69 | 72 141 | 355.7 | 196.2 | 159.5 |
| July-September | United States | Dennis, Katrina, Rita | 1 698 | 900 000 | 200 000 | 65 000 | 135 000 |
| July-September | Mexico | Emily, Stan, Wilma, etc. | 64 | 2 680 571 | 2 200 | 1 250 | 950 |
| August | Cuba | Dennis | 16 | 2 500 000 | 1 400 | 950 | 450 |
| Other events | | | 1 134 | 3 474 389 | 150 | 100 | 50 |
| Totals | | | | | | | |
| Evaluated by ECLAC | | | 1 690 | 885 036 | 2 222 | 1 358 | 864 |
| Total (excluding United States) | | | 2 900 | 6 002 307 | 5 559 | 3 236 | 2 174 |
| Total (including United States) | | | 4 598 | 6 902 307 | 205 559 | 68 236 | 137 174 |

Note: The data for Cuba, United States and Mexico are partial and show preliminary estimates. In the case of Mexico, the official expert bodies are carrying out a full assessment. The category "other events" includes volcanic eruptions, earthquakes and floods in other countries. The corresponding data are extrapolations based on partial information. Not all of the disasters that occurred in 2005 are included; hence the total damages are even higher.

The year 2005 was also extremely difficult in the United States. The insured losses, estimated by the Insurance Services Office (ISO) at US\$ 47.200 billion, exceeded both the damages and losses caused by hurricane Andrew in 1992 and the combined effects of hurricanes Ivan, Charly and Frances in 2004. The above figure did not take account of the consequences for the oil market—reduction in extraction and refining in the Gulf of Mexico—or for the

affected population's income. Nor did it include the impact of the drop in remittances sent by workers resident in the affected states to the Central American countries and in particular to Honduras.

The 2005 hurricane season, and also the other phenomena that occurred in Latin America and the Caribbean with catastrophic consequences in terms of loss of life, housing and production activities—earthquakes in Chile and Peru,

torrential rain in the Bolivarian Republic of Venezuela and Colombia, the volcanic activity of Galeras in Colombia and drought in the Amazon—indicates the need for the countries to adapt to climate change. This would include the adoption of strategies to reduce vulnerability to growing and multiple threats, as part of the countries' policies for development, competitiveness, enhancement of productivity and achieving the Millennium Development Goals.

Box IV.1 (concluded)

Many countries in the region, in view of their geomorphologic conditions, need to adopt land-use plans and regulations for human settlements, construction codes and safety standards that help to deal with multiple dangers. When these potential dangers result in disasters, not only is there a delay in the achievement of the Millennium Development Goals

and a reduction in collective well-being, but infrastructure has to be replaced, infrastructure that was constructed with great effort and in many cases financed from external debt that is still in the process of being repaid.

The impact of natural disasters throws into relief the lack of contingency, alertness and preparation measures. At the regional

level, and particularly in the relatively less developed and smaller countries, whose economies are less diversified and more dependent on primary sectors and natural assets, there is a need for risk reduction and transfer instruments, as well as countercyclical financial instruments which can be used to compensate for the foreseeable losses.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), December 2005.

B. Domestic prices

In 2005, Latin America and the Caribbean recorded an inflation rate of 6.3% (7.4% in 2004), which continues the downward trend of this indicator in the region and reflects the drop in the inflation rates of Brazil and Mexico (6.2% and 2.9% in 2005, compared to 7.6% and 5.2% in 2004, respectively). The inflation rate was also down in the Bolivarian Republic of Venezuela (from 19.2% to 15%), Dominican Republic (from 28.7% to 7.5%), Haiti (from 20.2% to 15.4%), Peru (from 3.5% to 1.3%) and Uruguay (from 7.6% to 5.4%). In contrast, Argentina, Chile, Ecuador and Paraguay posted higher rates: the figure for Chile (4.3%) is the highest since 2000. The other countries in the region had inflation rates similar to those of 2004. Although some countries continued to post two-digit growth rates for consumer prices, for the first time no country in the region had an inflation rate higher than 20%; Haiti's rate is estimated to be the highest.

Domestic prices in the countries of the region in 2005 continued to follow the trends that had first appeared in the second half of 2004. In aggregate terms, the rise in international prices for foods and agricultural commodities slowed down, with the exception of coffee and sugar prices, which increased more rapidly in 2005 than in 2004. Metal and mineral prices continued to post substantial rises, although less than in 2004. In the first half of 2005, oil and fuel prices were rising more slowly than in 2004, but in the second half this trend was reversed. As described in the chapter on the external sector, international prices for manufactures did not change very much in 2005. The exchange rate appreciations of the national currencies of various countries mitigated to a certain degree the

price rises for imported products. Throughout 2005, real salaries and wages have shown varied results: while in Argentina, Bolivarian Republic of Venezuela, Brazil, Chile and Uruguay there were increases, in the other countries there were no significant changes or small decreases. Meanwhile, the authorities in a number of countries in the region continued to apply monetary policies designed to control inflation.

In this context, inflation varied from country to country: in some it declined sharply in relation to the accumulated values in 2004, while others recorded increases owing to price adjustments. These were due to the rise in domestic demand and the higher prices of regulated goods and services, to which are added the effects of the domestic availability of some food items. The significant rises in international oil and fuel prices, although reflected in the prices for transport services and basic services in various countries, did not have their full impact, in view of domestic price regulation policies for fuel and basic services.

The evolution of wholesale prices also varied from country to country. In Chile, Ecuador, El Salvador and Peru, they rose more rapidly than consumer prices, while in the other countries they grew at a slower rate. As the wholesale price index is calculated on the basis of baskets composed mainly of goods, its behaviour reflects to a large extent the international prices of commodities and industrial manufactures and the cost of transport and insurance of imported goods. It also reflects changes in exchange rates, especially in relation to the prices of these products.

Table IV.1
**LATIN AMERICA AND THE CARIBBEAN: CONSUMER AND WHOLESALE PRICE INDICES
 AND NOMINAL EXCHANGE RATE VARIATION, 2003-2005**
 (Percentages)

| | Consumer prices | | | Wholesale prices | | | Exchange rate | | |
|---|-----------------|------------|-------------------|------------------|-------------|-------------------|---------------|-------|-------------------|
| | 2003 | 2004 | 2005 ^a | 2003 | 2004 | 2005 ^a | 2003 | 2004 | 2005 ^a |
| Argentina | 3.7 | 6.1 | 9.8 | 2.0 | 7.9 | 9.6 | -14.8 | 0.8 | -2.3 |
| Bahamas | 2.3 | 1.0 | 1.9 ^c | | | | 0.0 | 0.0 | 0.0 |
| Barbados | 0.3 | 4.3 | 3.1 ^c | | | | 0.0 | 0.0 | 0.0 |
| Bolivia | 3.9 | 4.6 | 3.9 | | | | 4.6 | 3.0 | -0.1 |
| Brazil | 9.3 | 7.6 | 4.7 | 6.3 | 14.7 | -1.1 | -19.3 | -7.1 | -15.1 |
| Chile | 1.1 | 2.4 | 4.3 | -1.0 | 7.8 | 7.7 | -14.1 | -4.5 | -2.9 |
| Colombia | 6.5 | 5.5 | 4.7 | 5.7 | 4.6 | 2.5 | -0.2 | -13.9 | -5.1 |
| Costa Rica | 9.9 | 13.1 | 11.1 | 11.0 | 20.0 | 12.0 | 10.6 | 0.5 | 6.9 |
| Ecuador | 6.1 | 1.9 | 3.6 | 4.5 | 4.3 | 31.9 | 0.0 | 0.0 | 0.0 |
| El Salvador | 2.5 | 5.4 | 5.7 | -0.7 | 13.3 | 9.6 | 0.0 | 0.0 | 0.0 |
| Guyana | 5.0 | 5.5 | 3.3 ^c | | | | 1.3 | 2.8 | 0.1 |
| Guatemala | 5.9 | 9.2 | 8.6 | | | | 4.9 | -3.2 | -1.8 |
| Haiti | 40.4 | 20.2 | 11.6 ^b | | | | 15.4 | -12.7 | 15.6 |
| Honduras | 6.8 | 9.2 | 7.1 | | | | 5.0 | 4.9 | 1.4 |
| Jamaica | 14.1 | 13.7 | 12.5 | | | | 20.7 | 2.0 | 2.1 |
| Mexico | 4.0 | 5.2 | 2.0 | 6.8 | 8.0 | 2.9 | 10.4 | -0.5 | -3.2 |
| Nicaragua | 6.5 | 8.9 | 8.8 ^b | | | | 6.0 | 5.0 | 4.1 |
| Panama | 1.6 | 1.5 | 3.0 ^b | | | | 0.0 | 0.0 | 0.0 |
| Paraguay | 9.3 | 2.8 | 8.6 | | | | -13.8 | 2.9 | -1.8 |
| Peru | 2.5 | 3.5 | 1.0 | 2.0 | 4.9 | 2.7 | -1.2 | -5.5 | 1.9 ^b |
| Dominican Republic | 42.7 | 28.7 | 7.3 | | | | 75.6 | -21.4 | 8.5 |
| Suriname | 13.1 | 9.1 | 9.8 ^b | | | | 4.0 | 3.4 | 0.9 |
| Trinidad and Tobago | 3.0 | 5.6 | 4.8 ^b | | | | 0.0 | 0.0 | -0.5 |
| Uruguay | 10.2 | 8.6 | 4.8 | 20.5 | 5.1 | 1.1 | 7.4 | -9.1 | -11.8 |
| Venezuela (Bolivarian Republic of) | 27.1 | 19.2 | 12.3 | 48.4 | 23.1 | 12.7 | 21.0 | 20.0 | 11.9 |
| Latin America and the Caribbean (weighted average) | 8.5 | 7.4 | 5.1 | | | | | | |
| Latin America and the Caribbean (simple average) | 9.5 | 8.1 | 6.3 | 9.6 | 10.3 | 8.3 | | ... | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a October 2005 in relation to December 2004.

^b September 2005 in relation to December 2004.

^c June 2005 in relation to December 2004.

The results are also mixed when considering changes in price indices based on product groups consisting mainly of goods (usually tradables) and product groups consisting mainly of services (usually non-tradables).⁹ These indices are constructed on the basis of the goods and services included in the consumer price index baskets of the countries in the region and they show that, while the prices of tradables do affect inflation in some countries, in another group of countries the prices of non-tradables — mainly services — are growing more rapidly. Argentina, Bolivarian Republic of Venezuela, Bolivia, Colombia, Ecuador and Uruguay are in the first group, as are the Central American countries. The second group includes Brazil, Chile, Dominican Republic and Peru. In Brazil, the reduction in the headline inflation

rate in 2005 is due mainly to the significantly lower rate of increase in goods prices, especially foods, in the third quarter of the year. In the Dominican Republic, the substantial exchange rate appreciation mitigated the price rises for imported goods and for foods. In the case of Chile, despite the relatively higher rises in prices of services, and in contrast to the situation in 2003 and 2004, goods prices were also higher, which contributed to inflation.

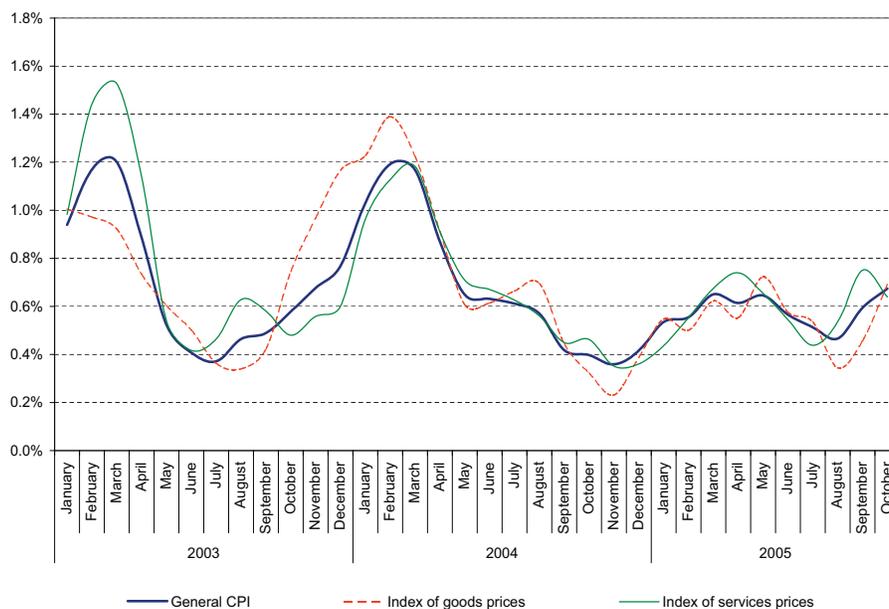
Although domestic demand and especially private consumption remained buoyant in 2005, in some countries this was not sufficient to bring higher rises in consumer prices. Core inflation, except in the cases of Brazil, Ecuador, Mexico and Uruguay, was less than headline inflation as measured by the consumer price index.¹⁰

⁹ These indices were calculated using the same procedure for all countries: grouping the sectors of food and beverages, clothing and footwear and household equipment in the goods index, and transport, housing, education, culture and recreation and health in the services index.

¹⁰ The methodology applied in all cases consisted of excluding fuels and petroleum products and perishable foods from the consumer price index.

Figure IV.8

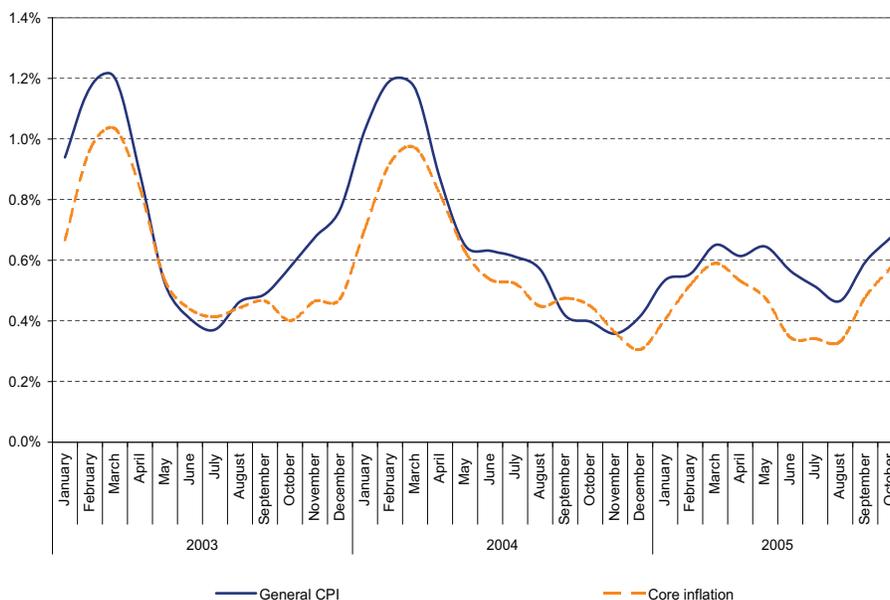
LATIN AMERICA: INDICES FOR CONSUMER PRICES, GOODS PRICES AND SERVICES PRICES
(Three-month moving average, unweighted average)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure IV.9

LATIN AMERICA: CONSUMER PRICE INDEX AND CORE INFLATION INDEX
(Three-month moving average, unweighted average)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

C. Employment and wages

Relatively high growth rates for the second consecutive year had a positive effect on job creation and, together with a fall in the labour participation rate, on open unemployment. Many countries saw significant expansion, especially in formal wage employment. The new jobs, however, are often of questionable quality. Moreover, real wages in most countries did not benefit from the buoyant labour demand.

In 2005 the relatively rapid job creation which had begun in the region in 2003 continued. The employment rate is estimated to have risen by 0.5 percentage points, which corresponds to a rise of 3.3% in urban employment. The accumulated increase over the three-year period 2003-2005 is 1.5 percentage points, which has been a key factor in lifting 13 million people above the poverty line over the past two years.¹¹

In 2005, the expansion of the annual average employment figures exceeded the growth of the working-age population in almost all countries. Of the 15 countries for which information is available, only Peru and the Dominican Republic did not follow this trend (see figure IV.10).¹²

While the increase in the employment rate was similar to the level recorded in 2004, the unemployment rate showed a much clearer improvement, as it declined by one percentage point, to 9.3%, while in the previous year it had declined from 10.9% to 10.3%.¹³ The lowering of the unemployment rate in 2005 means a reduction of 8%, or 1.5 million people, in the number of urban unemployed. As in the case of the increase in the employment rate, the reduction in unemployment has been a fairly widespread phenomenon, which was observed in 14 of the 19 countries for which information is available (see table A-22).

The higher level of employment is not the only reason for the drop in the unemployment rate; part of this reduction is due to a significant slowdown in the increase in the labour supply. In fact, the economically active urban population expanded by only 1.9% (compared to 2.6% in 2004), owing to a reduction of 0.3 percentage points in the labour participation rate of the working-age population.

This phenomenon was not observed in all countries of the region, but did occur in some of the largest (Argentina, Bolivarian Republic of Venezuela, Brazil, Colombia and Peru). In the period just prior to 2005, the regional labour participation rate had followed the trend in economic growth, increasing in economic boom periods and declining in phases of low growth, which had moderated any variation in unemployment. More detail is therefore needed to analyse the fall in the labour participation rate in 2005, which helped to reduce the unemployment rate.

In the six main metropolitan areas of Brazil the labour participation rate grew substantially in 2003, remained practically unchanged in 2004 and recorded an estimated average drop of 0.6 percentage points in 2005. The participation rate by age group shows that the stagnation of the global rate in 2004 was due to an increase in the labour participation rate of persons aged 18 years or over and a reduction for the group aged 10 to 17 years. In 2005 this process was strengthened, so that the rate for persons aged 25 years and over remained stable, while that of young people aged from 10 to 24 years declined significantly, by around two percentage points. This means a decline in the economically active young population in absolute terms. In fact, both employed and unemployed young people withdrew from the labour market.¹⁴

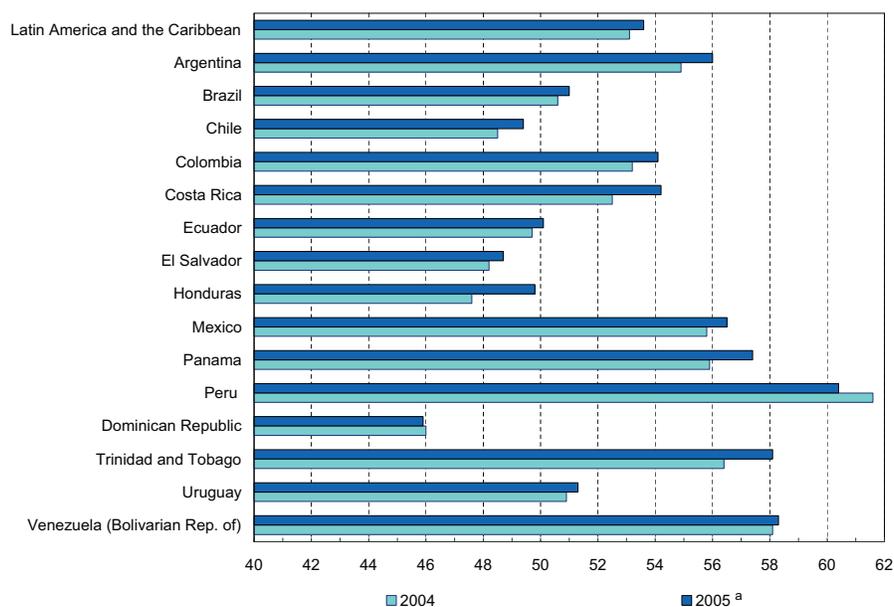
¹¹ See Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2005*, Santiago, Chile, forthcoming.

¹² The data for Peru cover Metropolitan Lima only. There are indications that job creation was more dynamic in other areas of the country. Moreover, dependent employment in Lima grew by 2.5% in the first nine months of 2005 (with higher rates for medium-sized and large enterprises) and the fall in the employment rate was due to the contraction of 0.5% in independent labour. In the case of the Dominican Republic, the preliminary estimate indicates an employment rate that is one tenth of a percentage point lower than in the previous year.

¹³ As Brazil had done in 2002 and Argentina in 2003, Mexico introduced a new current survey in 2005, the National Occupation and Employment Survey, which has a different methodology and coverage to the former National Urban Employment Survey (ENEU). The results of the new survey include showing a higher level of open unemployment. On the basis of the estimate made by the National Institute of Statistics, Geography and Informatics (INEGI) for urban unemployment in Mexico in 2004, and applying the new methodology, the unemployment rate of Latin America and the Caribbean in the previous year was 10.3%. According to the calculation using data for Mexico from the ENEU, the regional unemployment rate was 10.0% (see ECLAC, *Economic Survey of Latin America and the Caribbean, 2004-2005 (LC/G.2279-P/E)*, Santiago, Chile, August 2005. United Nations publication, Sales No.E.05.II.G.2).

¹⁴ Between January and July 2004 and the same period of 2005, the number of employed young people aged 10 to 17 years in the six main metropolitan areas declined from 495,000 to 399,000, while the number of unemployed in the same age group dropped from 252,000 to 193,000.

Figure IV.10
LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES): EMPLOYMENT RATE, 2004 AND 2005^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

The improvement in economic conditions in general and of many households in particular meant that young people withdrew from the labour market and remained in or returned to the education system. In the case of Brazil, the labour participation rate declined for both men and women, so it may be concluded that this was a positive development for both sexes.

A similar phenomenon was observed in Metropolitan Lima where the economically active population aged from 14 to 24 years showed a year-on-year contraction in absolute terms for the three-month period from August to October 2005. In Argentina, in the first half of 2005, the decline in the labour participation rate was concentrated in young people of both sexes and in adult women, while the rate for adult men remained stable.

It should be taken into account that the withdrawal of the young labour force from the labour market observed in some countries in 2005 tends to reverse the increase in the school drop-out rate which usually occurs in low-income households in periods of crisis and which can only be combated if social policy instruments are improved.

In general, the effect of economic growth on the regional unemployment rate has been more favourable in the last

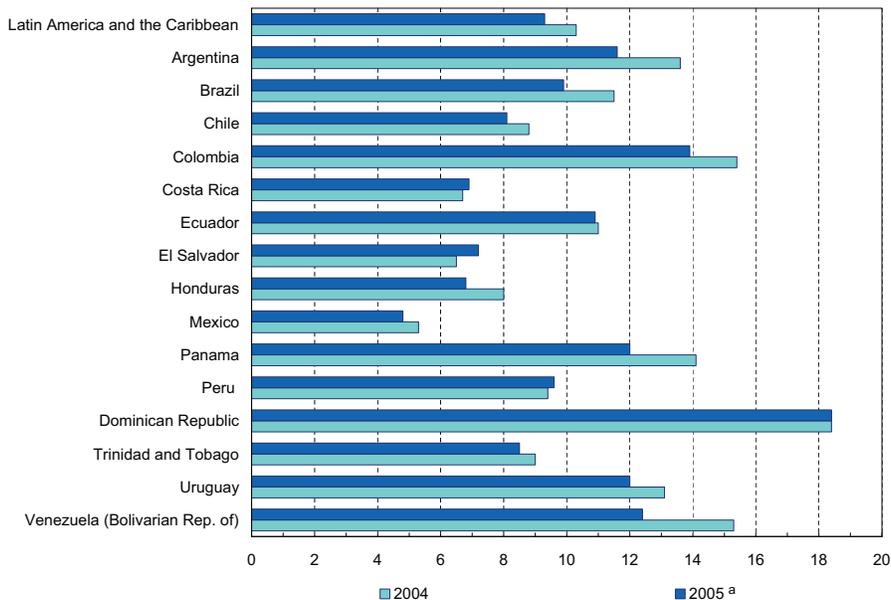
few years than in the previous decade, as shown in figure IV.12. In the 1990s, regional growth of over 4% was needed in order to have an impact on unemployment, while more recently growth of over 1.5% has been sufficient to have this effect and growth of 4% reduces the unemployment rate by half of a percentage point.

The main explanation for this more favourable effect of economic growth on open unemployment lies in the levelling-off of the trend in the labour participation rate which has been observed since the end of the 1990s. In fact, between 1990 and 1998 the urban labour participation rate (as a weighted average for 14 countries) increased from 58.1% to 59.3%; then it oscillated between 58.7% and 59.5%, reaching 59.2% in 2005. As previously mentioned, in 2003-2004 this oscillation followed economic activity, and the labour participation rate expanded by 0.6 percentage points over the biennium, whereas in 2005 it fell.

There are two relevant factors to consider. Firstly, the change observed between the periods 1991-1999 and 2000-2005 in terms of the relationship between economic growth and the unemployment rate do not necessarily reflect a structural breakdown in employment-product elasticity. As mentioned previously, there was a stable and positive correlation between economic growth and

Figure IV.11

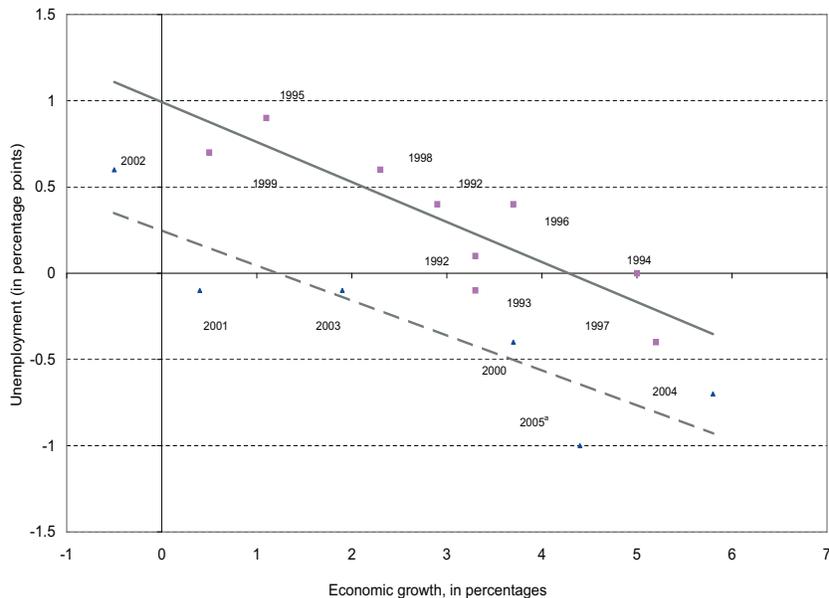
LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES): URBAN UNEMPLOYMENT RATE, 2004 AND 2005 ^a



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
^a Preliminary figures.

Figure IV.12

LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: The original data for the regional unemployment rate were used in this graph, and not the data shown in Table A.22 of the statistical appendix, which were calculated after application of the recent methodological changes.

^a Preliminary figures.

job creation over the period 1991-2004.¹⁵ Secondly, in a more long-term perspective, the levelling-off of the trend in the labour participation rate is not good news because, in view of the presence of sociocultural changes and their impact on poverty reduction, women need to be encouraged to enter the labour market in greater numbers, in order to bring the global labour participation rates closer to those of the developed countries.

Most of the jobs that were created in 2005 were in the wage sector and formal wage employment grew at high rates in a number of countries. The following indicators are uneven, but they reflect the scale of job creation by enterprises, the formalization of existing jobs and the work of the inspection agencies.¹⁶

In Argentina and Chile, the jobs covered by the pension system increased by 10.2% and 7.4%, respectively; in Brazil, the number of jobs registered with the Ministry of Labour and Employment grew by 5.7%, while the household survey reflected a rise of 6.2% in the number of workers covered by labour and social legislation; in Colombia (thirteen metropolitan areas), the number of formally employed persons grew by 4.7% (April-June); in Costa Rica, Mexico and Nicaragua, the number of workers covered by the social security systems rose by 5.2%, 2.6% and 10.6%, respectively; in Peru, the number of persons employed in enterprises with 10 or more workers increased by 4.3%; in Panama, the number of persons employed in enterprises with 5 or more workers grew by 2.5% (first half of the year), and in Uruguay, the proportion of urban employed persons without pension rights fell from 41.3% to 39.3%.

In brief, although formal employment did not grow very much in some countries, it has expanded in all of them, and in most cases, at very favourable rates. In some economies, the rise in formal employment also affected visible underemployment, which declined in Argentina, Brazil, Colombia, Ecuador and others, while it increased in Costa Rica and Peru.

Some indicators point to a growing instability of formal employment. For example, the expansion in Mexico was very uneven, as the year-on-year increase in permanent employment for the period from January to September 2005 is only 1.7%, while temporary employment expanded

by 8.1% and non-agricultural temporary employment by 11.2%. In Colombia, whose formal manufacturing employment increased by a modest 0.4%, temporary jobs in this industry grew by 2.2% and permanent employment contracted by 0.9%. A similar pattern can be observed in jobs in the formal retail trade in this country, which rose by 3.5%: permanent employment rose by only 0.7%, direct temporary employment by 8.3% and agency recruitment by 11.6%. In Chile, half of new jobs were for a period of only four months and 73% for less than one year.¹⁷

Another aspect requiring further analysis in the future is the type of jobs created in the formal sector. While in some countries there is a significant demand for highly-qualified personnel, in others this does not seem to be the case.¹⁸ In Brazil, the new formal jobs were concentrated in low-skill occupations, which generate income of between one and two times the minimum wage. The highest rates of job growth were in agriculture and construction, which are the sectors that usually require the lowest average qualifications.¹⁹

In view of the persistent high unemployment rates and also the restructuring of the global labour market, which has brought a massive influx of low-income workers, especially in Asia, wages stagnated in real terms in most of the countries. Only in Argentina and Uruguay was there a recovery of around 5%, which reflected the economic recovery and a wage policy aimed at strengthening the purchasing power of low- and medium-income households. In other countries the variations ranged from an increase of 2% (Chile) to a reduction of similar magnitude (Nicaragua). The real average regional wage in the formal sector rose by 0.2% as a weighted average and 0.1% in the median.²⁰

As indicated in figure IV.13, the improvement in employment and unemployment levels was steady throughout the year. In some countries, however, job creation slowed down over time. This was particularly the case in Brazil, where in the context of a sharp exchange rate appreciation and lower growth rates, the year-on-year increase in the employment rate gradually slowed down, and the rate for September and October of 2005 was the same as for the year-earlier period.

¹⁵ Economic Commission for Latin America and the Caribbean (ECLAC), *Economic Survey of Latin America and the Caribbean, 2004-2005* (LC/G.2279-P/E), Santiago, Chile, August 2005, figure V.2.

¹⁶ The rates given refer to year-on-year growth in formal employment for January-September 2005, unless another period is indicated.

¹⁷ This information comes from unemployment insurance figures and is for the year 2004.

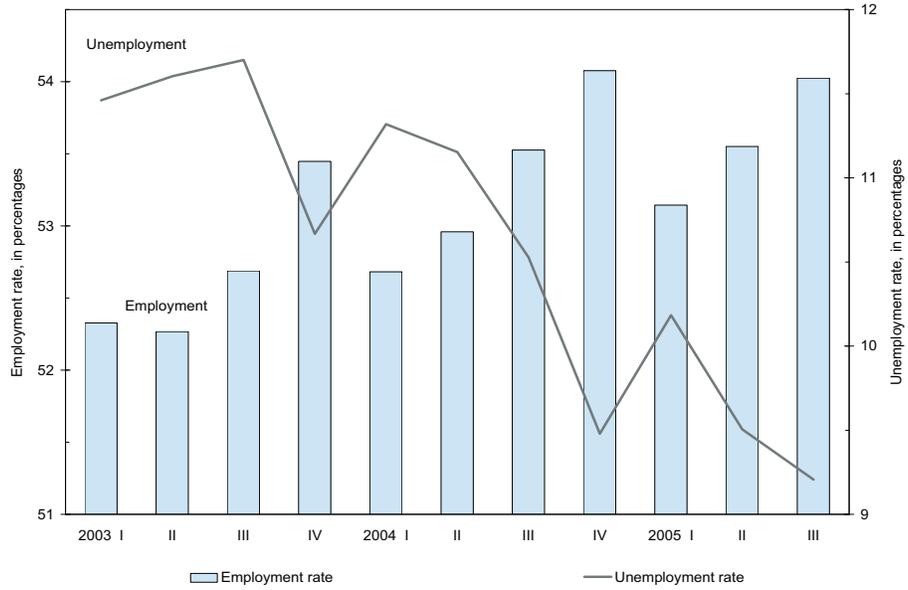
¹⁸ In Chile, the number of professionals and technical workers increased by 14% between the third quarter of 2004 and the same period in 2005.

¹⁹ This restructuring of employment could explain the fall in the real average wage of Brazilian formal workers during 2005, which contrasts with the real increase in the average wage of informal wage-earners and own-account workers.

²⁰ In the Dominican Republic, a country which does not have a formal wage series, a year-on-year comparison of real labour income for April 2005 shows an increase of 14.4%, after a drop of over 30% in the previous period.

Figure IV.13

LATIN AMERICA (9 COUNTRIES): QUARTERLY EMPLOYMENT AND UNEMPLOYMENT RATES



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

South America



Argentina

Economic activity continued to grow in 2005. With estimated GDP growth of over 8%, Argentina easily equalled the maximum recorded seven years earlier. There were significant increases in all components of demand; in particular, investment remained above the variation in output and capital formation is thought to have exceeded 20% of GDP towards the end of the year. The increased investment was financed domestically, in accordance with the balance-of-payments current-account surplus. There was a marked upturn in the volume of imports, and export volume also expanded significantly. The balance of trade once again showed a healthy surplus, although less than in 2004. There was also a notable upswing in the tax take. Thanks to this increased revenue, the public sector showed a primary surplus greater than that originally expected, despite an appreciable rise in spending. In 2005, the Government implemented the bond-swap operation for instruments on which it had defaulted in late 2001, and the swap was accepted by the holders of 76% of the debt concerned. Job creation helped to reduce the high unemployment rate. Real wages climbed, mostly owing to the growth of salaries in the formal private sector. Wage determination gave rise to many debates in 2005. With the strong growth in aggregate demand, together with rising world prices for certain domestically-consumed export goods, there was a marked upswing in inflation, which stood at about 11.5% over the year as a whole.

The outlook for 2006 points to continued expansion in economic activity. Following several years of intensive recovery, sustained growth is expected to continue and this should subsequently lead to a strengthening of investment flows and savings. As for short-term macroeconomic development, trends in prices are a subject of public interest. In late 2005, Government policy was to contain nominal public spending and curb price increases in certain sectors (especially meat and dairy products), using instruments such as export duties.

As for the fiscal area, current income of the national public sector rose by almost 17% in the first nine months of the year; the tax ratio rose by just under 22.5%, compared with the previous year's figure of 22%. There was a similar increase in revenue in all areas of taxation. Almost 55% of revenue came from VAT and profits and wealth taxes; social security contributions and duties on external trade each brought in about 13%. Primary spending rose by 22%; of particular note was the proportional increase in capital spending (over 60%), reflecting the higher volume of public investments. As a result, the primary surplus,

while lower than that recorded in 2004, remained at a markedly high level, standing at about 3.5% of GDP for the national public sector, and about one percentage point higher in relation to provincial GDP. The central government's financial balance was again in surplus.

After a process which lasted more than three years, the swap arrangement for public debt in default was implemented. Three types of bonds were issued (par, discount and quasi-par) in pesos and various foreign currencies. The holders of the new bonds received cash payments for interest accrued and overdue since 2003. The new debt incorporates "GDP-linked units" which provide for payments contingent upon growth in activity. In March 2005, at the end of the bidding period, US\$ 62 billion worth of bonds were presented for the swap, or 76% of the eligible amount. As a result, paper of an approximate value of US\$ 35 billion was issued. A significant proportion of the foreign-currency bonds were, at the choice of the creditors, replaced by adjustable peso bonds, a behaviour which suggested a real revaluation of the peso. Until late October, the yield of the bonds

resulting from the swap was reflected in levels of country risk of about 400 basis points.

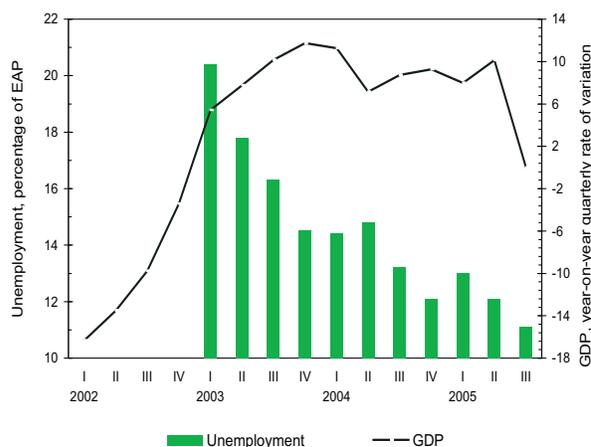
Without taking into account the holdouts, which amounted to about US\$ 20 billion of the original value, the restructured central-government public debt stood at about 70% of GDP, part of which represented amounts owed to international bodies. Although there remained a strong link between debt and GDP, the swap extended the maturity periods and considerably reduced the weight of interest payments which, during the first years and leaving aside the possible price- and interest rate-related effects, amounted to no more than US\$ 3 billion, a little under 2% of GDP. In any case, the maturity of debts in bonds and loans from international bodies led to financing needs during the current year and in future. The debt swap was carried out regardless of the IMF, with which Argentina had no agreement in force during 2005; net loan repayments to multilateral bodies in the first half of the year represented a considerable amount, almost US\$ 2.3 billion.

The monetary situation was characterized by an excessive supply of foreign currency. With central-bank interventions in the foreign exchange market totalling US\$ 9 billion over the first ten months of the year, there were only slight fluctuations in the nominal exchange rate.¹ Both the public and the financial sectors made major repayments on their debts with the central bank; the latter sterilized part of the remaining expansion by issuing bills of exchange. In any case, the monetary base expanded by almost 18% from October 2004 to October 2005. Private-sector credit climbed considerably, by about 30%, which was reflected particularly in the rapid increase in consumer loans (personal and secured).

Output exceeded the record set seven years earlier. Comparison of the macroeconomic situations for the two periods, in constant prices, shows that the export ratio and savings as a percentage of GDP were clearly higher in 2005. The investment rate was lower, by almost 2% of GDP. On the other hand, there was a marked rebound in capital formation, by about eight percentage points, from the minimum level recorded in 2002.

Spending on construction once again showed dynamic growth in 2005, and there was increased investment in durable equipment. Private building continued to rise, and there was a considerable upturn in public works. Investment in machinery and equipment also increased, particularly imported goods. Notable among the investments announced in 2005 were those relating to basic metal industries, construction materials and chemicals. Private consumption also showed a strong upswing, probably

ARGENTINA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

close to the increase in GDP recorded in the course of the year.

Agricultural output climbed strongly. The grain harvest soared by more than 20%, with an all-time record of almost 84 million tons. That was mostly due to improved yields, especially in the production of maize, sorghum and soybeans, which are among the main crops. According to the data for the 2005-2006 season, a significant reduction was anticipated in the areas sown with wheat and maize, and increases in those used for sunflowers and soybeans. The livestock industry was boosted by improved international conditions for export. In the extractive sector, there was significant growth in metal mining, but petroleum output was down again.²

During the first ten months of 2005, industrial output grew at a year-on-year rate of about 7.5%. There was notable output growth in the automotive sector and in non-metallic mineral products, mostly for construction. Supply limitations were reported in a number of sectors (textiles and clothing, refineries, metallurgy and some chemical and metal-working areas); in some cases the problems were caused by difficulties in finding skilled labour. Potential capacity restrictions were an important issue in the energy sector. In services, there was an upswing in mobile telephones.

There was less flexibility in the supply of goods and services in 2005 than in previous years, in face of strong growth in demand. This affected prices, as did the impact of events on world commodities markets. In the first ten months of the year, the consumer price index

¹ With the effect of other foreign-exchange transactions, such as payments to international bodies, the variation of foreign exchange reserves was smaller.

² The performance of petroleum production and reserves were the subject of some debate, in light of high world prices.

ARGENTINA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|--|---------|---------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 8.8 | 9.0 | 8.6 |
| Consumer prices | 3.7 | 6.1 | 12.0 ^b |
| Average real wage ^c | -1.9 | 10.0 | 5.0 |
| Money (M1) | 43.2 | 38.0 | 24.9 ^d |
| Real effective exchange rate ^e | -7.8 | 5.0 | 0.9 ^f |
| Terms of trade | 8.6 | 1.9 | -3.4 |
| Annual average percentages | | | |
| Urban unemployment rate | 17.3 | 13.6 | 11.6 |
| National government overall balance / GDP | 0.3 | 2.0 | 1.3 |
| Nominal deposit rate | 10.5 | 2.7 | 3.7 ^g |
| Nominal lending rate | 19.1 | 6.8 | 6.1 ^h |
| Millions of dollars | | | |
| Exports of goods and services | 34 163 | 39 772 | 46 525 |
| Imports of goods and services | 18 753 | 28 177 | 35 998 |
| Current account | 8 019 | 3 332 | 4 655 |
| Capital and financial account | -17 055 | -10 283 | 3 621 |
| Overall balance | -9 037 | -6 951 | 8 276 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Manufacturing.

^d Year-on-year average variation, January to September.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Year-on-year average variation, January to October.

^g Average from January to October, annualized.

^h Average from January to November, annualized.

(CPI) soared by 9.8%, an increase averaging close to 1% per month. Until October, when the value of the United States dollar recovered, the exchange rate remained somewhat below its level at the end of the previous year. This entailed a real appreciation against the dollar and the euro. However, the peso depreciated significantly against the Brazilian *real*.

Between the third quarter of 2004 and the same quarter in 2005, the employment rate increased by one percentage point, a slower rise than the previous year. The upward trend in employment was more marked in other cities than in greater Buenos Aires. Over the same period, the unemployment rate fell by 2.1 points, to 11.1%.³ Unit wages in the formal private sector rose faster than prices (20.4% in the first nine months), public-sector wages rose by 12% from September to December 2004, and those in the informal private sector failed to keep up with price increases.

The surplus on the balance-of-payments current account for 2005 is estimated at about US\$ 4.7 billion, some 2.5% of GDP, higher than the previous year.⁴ The merchandise trade account surplus remained high, while there was a considerable fall of about US\$ 2.5 billion in the investment income deficit, thanks to the impact on interest flows of the restructuring of the public debt, partially countered by rises in profits and dividends. Despite the repayment of loans from international bodies, the financial account showed a positive balance, greater than the 2004 figure. Private-sector capital flows were positive and there was an upturn in direct investment. Faced with increased capital inflows to the local financial market, the Government established compulsory reserve requirements applicable to certain flows, although the funds constituted by these reserve requirements did not add up to a significant amount. There was a considerable rise in reserves, almost US\$ 6.5 billion in the first ten months of the year. As of late October, reserves stood at about US\$ 26 billion, a figure similar to that seen during the convertibility regime which preceded the crisis.

Exports of goods are estimated to have risen by about 15% during the year, owing to rising volume, and now stand at about US\$ 40 billion. There was an upward trend throughout the year, and all the major categories of goods showed considerable increases. In volume terms, commodity sales were well up, in keeping with climbing production of grains; however, fuel exports slackened. The export volume of industrial goods (agricultural and others) rose roughly in proportion with total exports. Measured in value terms, there was a particularly strong surge (by over 30% in the first nine months) in exports of non-agricultural manufactured goods, the prices of which were higher, unlike those of agricultural products and derivatives. MERCOSUR, like the European Union, took a lower share as an export destination, down about 18% in nine months. Sales to Asia, except the Middle East, exceeded 20% of the total. Imports also continued to surge, with a 30% year-on-year increase in the nine-month cumulative total. The increases, which were widely spread, were somewhat above average for capital goods and spare parts, and more moderate in the case of intermediate and consumer goods. MERCOSUR accounted for about 38% of the imports in value terms.

³ This measurement is based on a figure of 12.5% from the calculation which considers as unemployed those persons whose main occupation derives from government job plans and who are actively seeking work (14.1% if the condition of actively seeking work is not included).

⁴ Until the debt-swap operation conducted in 2005, the balance-of-payments figures included in the income account the total of interest accrued on Government debts in default and, at the same time, showed capital income from late payments. Subsequently, the figures take into account accrued interest on the regularized debt, without including interest corresponding to the holdouts, which represented 24% of the total. For comparison, the interest on non-financial public sector liabilities in the second quarter of 2005 amounted to some US\$ 550 million.

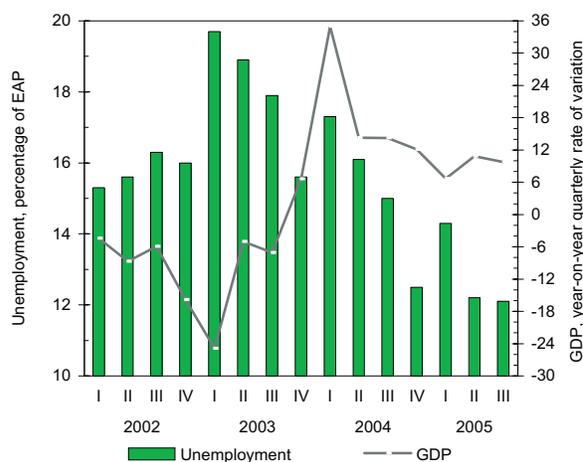
Bolivarian Republic of Venezuela

After economic growth of 17.9% in 2004, GDP was 9% higher in 2005, driven by the rapid expansion of the non-oil sector. Although there were increases across all sectors, the best results were in the financial sector, trade and construction. The most rapidly expanding components of demand were gross fixed capital formation and private consumption. In terms of the overall level of GDP, the country recovered what it had lost in the 2002-2003 biennium and, despite the stagnation in oil production, by the end of the year exceeded the previous peak which had occurred in 2001. On 9 December 2005, the Bolivarian Republic of Venezuela became a member of MERCOSUR.

The effects of economic growth brought a reduction in unemployment and to a lesser extent in informal work, and a recovery of real wages. Thanks to the boom in oil prices, an intense programme of public social work was implemented, with the “social missions” being mostly oriented to poor or extremely poor sectors of the population. Moreover, despite the pronounced increase in imports of goods, there was a high current-account surplus, which is estimated at 18% of GDP for 2005.¹ For 2006, the authorities estimate growth of 5%, an annual average inflation rate of 12% and maintenance of the exchange rate at 2,150 bolívares per United States dollar.

In terms of economic policy, both fiscal and monetary policy have continued to be clearly expansionary. In the period from January to September, central government current expenditure, according to the figures published by the Central Bank of Venezuela, increased by 39%, while income rose by 80%, boosted by the rise in both tax and non-tax receipts, and especially the higher level of petroleum royalties.² In this context, the authorities decreed a reduction in the VAT rate from 15% to 14%, as of October 2005. This decline in income was offset by an increase in the proceeds from oil sales and other domestic taxes, particularly the bank debit tax and profits on foreign exchange transactions from the central bank. In the overall balance for the year, the financial balance is expected to remain negative in 2005, although less so than in the previous year. In the first few months of 2005 the Hydrocarbons Act was implemented, which

BOLIVARIAN REPUBLIC OF VENEZUELA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

modified the taxes and royalties to be paid under operating agreements in the oil sector; royalties were raised from 1% to 16.66% of drilled oil, while the income tax rate rose from 35% to 50%.

As for monetary policy, throughout 2005 lending rates declined from 16.3% in January to 15.3% in October, and deposit rates increased from 4.8% to 7.1% over the same period, in nominal terms.³ As of 1 May 2005 the cap on annual lending rates and minimum annual rates

¹ Measured in current dollars.

² Tax receipts include oil revenues, value added tax (VAT) and taxes on imports.

³ The figures refer to the weighted average annual interest rates of the six major commercial and universal banks.

for deposits came into effect.⁴ Meanwhile, the monetary aggregates continued to expand, although in real terms the rises were much lower than those observed in 2004; in August 2005, in relation to December 2004, M1 and M2 showed expansion of 17.9% and 20.3%, in nominal terms, respectively (46.2% and 150.4% in 2004). In turn, bank loans were 32.3% higher over the same period. In accordance with the authorities' decision, minimum percentages in the bank loan portfolio were allocated to specific activities: 16% to agriculture, 10% to mortgage loans, 3% to microcredit and 2.5% to the tourism sector. Deposits increased both in national and foreign currency (26.2% and 48.5%, respectively); foreign currency, however, represented a very low percentage of the total (0.1%).

In the area of exchange-rate policy, in March 2005 the authorities devalued the bolívar by 12%, situating the exchange rate at 2,150 bolívares per United States dollar. Despite maintaining the exchange control system, in view of the higher amounts of foreign currency supplied by the Foreign Exchange Board and the establishment of quotas in foreign currency for credit cards, the exchange rate in the parallel market has remained between 15% and 20% above the official rate. In October 2005 the law on foreign exchange offences came into force, establishing penalties for the purchase and sale of any amount of foreign currency, except for operations with securities.⁵

In July 2005 the National Assembly adopted a partial reform of the Central Bank Act in which it established that the state company *Petróleos de Venezuela S.A.* (PDVSA) would no longer be obliged to sell to the central bank all of its foreign currency income from oil sales, but would only be obliged to sell the amounts needed to cover its commitments in bolívares.⁶ The difference would be transferred monthly to a special fund, the National Development Fund (FONDEN). One of the transitional provisions specified that the central bank, in the financial year 2005, would release and transfer to the National Executive on a one-time basis the sum of US\$ 6 billion from international reserves, to be allocated to FONDEN. The authorities also created the Treasury Bank and introduced changes to the Macroeconomic Stabilization Fund (FEM).⁷

As for economic trends, in the first three quarters of 2005, in a year-on-year comparison with 2004, the non-oil sector posted an expansion of 10.3%, while the

**BOLIVARIAN REPUBLIC OF VENEZUELA:
MAIN ECONOMIC INDICATORS**

| | 2003 | 2004 | 2005 ^a |
|---|--------|---------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | -7.7 | 17.9 | 9.0 |
| Consumer prices | 27.1 | 19.2 | 15.3 ^b |
| Average real wage ^c | -16.7 | -3.9 | 0.3 |
| Money (M1) | 58.0 | 61.5 | 48.2 ^d |
| Real effective exchange rate ^e | 10.6 | 4.7 | 0.1 ^d |
| Terms of trade | 12.7 | 19.6 | 30.8 |
| Annual average percentages | | | |
| Urban unemployment rate | 18.0 | 15.3 | 12.4 |
| Central government overall balance / GDP | -4.4 | -2.0 | -1.5 |
| Nominal deposit rate | 17.2 | 12.6 | 11.7 ^f |
| Nominal lending rate | 25.7 | 17.3 | 15.7 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 28 048 | 39 846 | 56 508 |
| Imports of goods and services | 14 209 | 22 042 | 29 717 |
| Current account | 11 448 | 13 830 | 24 471 |
| Capital and financial account | -6 005 | -11 932 | -21 471 |
| Overall balance | 5 443 | 1 898 | 3 000 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Private sector.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Average from January to November, annualized.

oil sector grew by 1.2%. There was substantial growth in domestic demand. In fact, the volume of imports of goods and services rose by 38.3%. Despite the more rapid growth in non-traditional exports, exports of goods and services at constant prices rose by only 5.8%. According to foreign trade figures, and over the same period, the value of goods exports grew by 44%, mainly owing to high oil prices, while imports rose by 48% (52% in the case of non-oil imports).⁸

By October 2005, the consumer price index showed an accumulated variation of 12.3%, while core inflation showed an increase of 12.4% and the authorities maintained the established price controls. The wholesale price index recorded an increase of 13.4% for the same period (14.1% and 11.2% for national and imported products, respectively).

As for remuneration, the general index shows a year-on-year rise for the period from January to September 2005 of 19.6% (16.6% and 27.5% in the private and public sectors, respectively), which in both cases means a rise in real terms. A government decree raised the minimum

⁴ A maximum of 28% in the case of lending rates and a minimum of 6.56% and 10% for savings and time deposits, respectively.

⁵ See *Gaceta Oficial*, No. 38.272 of 14 September 2005.

⁶ See *Gaceta Oficial*, No. 38.232 of 20 July 2005.

⁷ The Treasury Bank is a public financial institution whose main functions are to meet the government's payments and commitments, manage budget resources and administrate FONDEN and FEM.

⁸ In the period January-October 2005, the price of oil was at US\$ 45 per barrel, which is a year-on-year increase of 34.2% in relation to the 2004 figure for the average price of the crude basket.

wage by 26%, to be effective as of 1 May 2005. The more rapid growth in economic activity was reflected in the decline in the unemployment rate from 12.5% in the fourth quarter of 2004 to 11.4% in October 2005; in terms of the annual average, the unemployment rate was at 12.7% in 2005 (average from January to October), compared with the 2004 figure of 15.1%. The National Institute of Statistics estimated that extreme poverty in 2005 would be substantially less than in 2003, when it had reached its highest point in the last five years.

International reserves increased throughout 2005, reaching a peak of US\$ 32.111 billion in August and US\$ 29 billion at the end of November. In October 2005 the authorities announced that around US\$ 14.4 billion of international reserves in United States Treasury Bonds or United States bank deposits would be transferred to deposits with the Bank for International Settlements. In the third quarter of the year the country's foreign debt amounted to US\$ 47.149 billion, compared with US\$ 44.546 billion in the fourth quarter of 2004.

Bolivia

The development of the Bolivian economy in 2005 took place, on the one hand, in a global context which promoted price increases in raw materials, especially fuels, and on the other hand, in a domestic political and social environment characterized by social upheavals and the imminence of the presidential and parliamentary elections scheduled for the end of the year.

The Bolivian economy is estimated to have grown by about 3.8% in 2005, 0.2 percentage points more than in 2004. Growth for 2006 is forecast at about 3%. The global situation was favourable for the Bolivian economy, with high prices for raw materials, especially gas, and there was growth in exports and an improvement in the fiscal accounts.

In the first seven months of the year, the public sector (other than pensions) showed a surplus equivalent to 0.4% of GDP, resulting from an increase in the proportion of liquid fuels, the collection of the new direct tax on hydrocarbons (IDH), higher gas exports and stricter control over public spending. Estimates suggest that at the end of 2005, the fiscal balance should be better than that forecast in the draft budget for the year, which expected a fiscal deficit of 5.5% of GDP. A revised estimate was produced during the year, with a target of 5.3%, but the outcome seems likely to be about 3.5% of GDP. That would represent a considerable improvement, considering that in 2002 the fiscal deficit was 9% of GDP. For 2006, the figure is expected to be 3% of GDP.

Cumulative inflation to November 2005 was 4.33%, and the figure for the previous 12 months stood at 4.96%. The goal stipulated in the stand-by arrangement with the International Monetary Fund was 3.8%. June 2005 saw the highest monthly inflation figure since September 2000, 1.54%, which was due in part to fare increases for urban and inter-city transport. Following the upsurge in June, the twelve-month rate slowed down. Cumulative inflation to November for tradable goods (5.04%) exceeded that for non-tradables (3.83%).

Money creation showed a considerable increase, as shown in the average January-September growth rates of the M1, M2 and M3 aggregates, which were much higher than those for the same period in 2004. Compared to figures for the end of 2004, the increase in those three aggregates at the end of September stood at 21%, 23.5% and 27.5%, respectively. Two factors contributed to this result. First,

the replenishment of foreign-exchange balances in Bolivian currency, resulting from the new reserve requirements which became law in April 2005, raised the relative cost of holding foreign currency by increasing the legal reserve rate for foreign-currency instruments from 10% to 12%, and established a further reserve requirement of 2.5% on what is known as the “additional reserve base” (BEA), the difference between foreign- and local-currency denominated liabilities. Despite this major monetization, foreign-currency deposits remain a major proportion of overall deposits. Second, it resulted from the need for funds arising out of the growth in economic activity. From September 2004 to September 2005, the money stock rose by 35.39%, mostly owing to the increase in international reserves.

In the first half of 2005, Bolivia’s GDP grew by 3.97% compared with the same period in 2004. Activities related to crude oil and natural gas achieved the biggest growth, rising by 20.05% and contributing 26.95% of the overall expansion of the economy. Growth in that sector slowed in the second half of 2005, however, resulting in an increase of 15.1% for the year as a whole. There was a 40% fall in investment in exploration and development, which will have a negative impact on the volume of gas reserves in the medium term. It is also undeniable that the protests and blockades will have negative effects on both the tourism and the manufacturing sectors.

As mentioned above, Bolivia’s economic growth in 2005 is estimated at 3.8%; this took place in a much more favourable international context than the previous year, in terms of the prices of raw materials. The domestic political situation, however, saw some major demonstrations, especially in May and June, calling for the nationalization of hydrocarbons and putting forward other social demands. These demonstrations culminated with the resignation of President Carlos Mesa, who was replaced by the third person in line for the presidential succession, the President of the Supreme Court, Eduardo Rodríguez.¹

¹ According to estimates by the Economic Policy Analysis Unit (UDAPE), the loss resulting from the demonstrations in May and June totalled US\$ 83 million; the worst-affected areas were transport and storage, manufacturing industry and commerce. The fall in the annual GDP growth rate caused by these events was estimated at 0.33 percentage points.

On the demand side, the growth in private consumption for 2005 is estimated at 3.1%, but investment fell by about 2.7%. Planned private investments were basically focused on the silver and zinc mining projects of San Cristóbal, San Bartolomé and Karichipampa.

As for the external sector, from January to September 2005 imports grew more than external sales. The trade balance weakened from the US\$ 347.6 million recorded for the same period in 2004 to US\$ 303.3 million in 2005. Exports were US\$ 295.4 million (17.6%) higher than in the same period in 2004, owing to the rising world prices for gas, and hydrocarbons in general. Hydrocarbon and mineral extraction activities showed increases of US\$ 268.61 million (44.8%) and US\$ 23.5 million (16.3%) respectively, and agriculture, including livestock, grew by US\$ 32.8 million (33.6%), thanks to stronger exports of soybeans and nuts. External sales of manufactured goods dropped by US\$ 34.7 million (4.5%). Imports expanded by US\$ 339.7 million (25.6%), owing to the rising prices of fuels on world markets and external purchases for investment projects in the mining sector. The greatest increases were in industrial supplies, up US\$ 120.8 million (24.5%), fuels and lubricants (US\$ 86.2 million, or 118.7%) and capital goods (US\$ 59.9 million, or 20.9%).

In the first half of 2005, the balance-of-payments current account showed a surplus of US\$ 96.8 million, 29.8% lower than the figure for the same period in 2004. The balance-of-payments capital and financial account showed a surplus of about US\$ 90.8 million,

BOLIVIA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.8 | 3.6 | 3.8 |
| Consumer prices | 3.9 | 4.6 | 5.0 ^b |
| Average real wage | 1.7 | 2.4 | ... |
| Money (M1) | 14.3 | 15.7 | 26.4 ^c |
| Real effective exchange rate ^d | 9.2 | 7.3 | 8.3 ^c |
| Terms of trade | 2.4 | 5.6 | 5.2 |
| Annual average percentages | | | |
| Urban unemployment rate | 9.2 | 8.5 | ... |
| Non-financial public-sector overall balance / GDP | -8.1 | -5.5 | ... |
| Nominal deposit rate ^e | 10.9 | 7.0 | 4.8 ^f |
| Nominal lending rate ^e | 20.8 | 17.2 | 12.3 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 1 962 | 2 546 | 2 989 |
| Imports of goods and services | 2 049 | 2 320 | 2 932 |
| Current account | 62 | 285 | 50 |
| Capital and financial account | 15 | -159 | 171 |
| Overall balance | 77 | 126 | 222 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to October.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Average annual rates in dollars.

^f Average from January to November, annualized.

30.85% less than in the first half of 2004. In the first nine months of 2005, international reserves increased by US\$ 266.8 million (23.7%) to US\$ 1,390,100,000, the highest level recorded in the past seven years. In line with the rise in international reserves, the selling rate against the dollar rose by 2.3% between the end of 2004 and November 2005.

Brazil

GDP growth for 2005 is estimated to be of the order of 2.5%, compared to the 4.9% recorded in 2004. Economic policies designed to reduce the inflation rate contributed to this lower growth. The variation in the broad national consumer price index (IPCA) is expected to be close to 6% (7.6% in 2004 and 9.3% in 2003). Monetary policy was restrictive, interest rates were higher and the benchmark rate rose to an annual 19.75% in May 2005. Meanwhile, fiscal policy became even more austere, so that the primary surplus accumulated between January and October 2005 was equivalent to 6% of GDP, which is higher than the 5.4% recorded in the same period of 2004. The management of economic policy, the high level of foreign-currency income resulting from the large trade surplus (US\$ 36.349 billion as of October) and favourable international financing conditions (the lowest country risk rate since 1997) contributed to a substantial nominal appreciation of the real of close to 18% in relation to the United States dollar, compared to the value observed at the end of 2004. As the inflation rate moved closer to the target range, in September 2005 the central bank began to reduce the benchmark interest rate gradually, so that it reached 18.5% in November. On 13 December 2005 the country announced that it would pay off all of its existing debt with the International Monetary Fund (approximately US\$ 15.5 billion).

The macroeconomic fundamentals maintained a positive direction in 2005. The balance of payments estimate shows goods exports of US\$ 117 billion and goods imports of US\$ 74 billion, in addition to a current account balance of US\$ 13 billion, which is equivalent to 2% of GDP. In August 2005, external debt amounted to US\$ 181.6 billion, which is 9.8% less than the amount recorded at the end of 2004, so that the debt to exports of goods ratio fell to 155%, a figure which is almost half of the level recorded at the end of 2003. In 2005, it is estimated that the net public debt will remain at around 51% of GDP, once the larger primary surplus has partially compensated for the higher interest payments; until October, these payments were equivalent to 8.4% of GDP, which compares to 7.4% observed in the same period of 2004.

Meanwhile, in October 2005 the unemployment rate had declined to around 9.6% (10.5% in October 2004) and by September real labour income had grown by 2% compared to the same month of the previous year.

In the third quarter of 2005, there was a reduction of 1.2% in GDP compared to the second quarter. Some

sectors, including industry and agriculture, have grown more slowly in view of the higher real interest rates and the strengthening of the exchange rate. These factors also had an impact on the investment rate. After growing by 10.9% in 2004, gross fixed capital formation had accumulated an increase of barely 1.2% by the third quarter of 2005 in relation to 2004.

In 2005, the main goals of economic policy were to keep inflation close to the established target and to control the rise in public debt. In relation to monetary policy, real interest rates remained high, as they rose by 13% in annualized terms, and the rate of expansion of the monetary base dropped from 21% in 2004 to 11% (over the 12-month period ending in October 2005), mainly due to the fact that the central bank did not intervene in the foreign-exchange market for most of the year. Reserves were purchased in the first quarter (US\$ 7 billion) and in October and November (approximately US\$ 5 billion).

In the period January-October 2005, fiscal policy enabled the public sector to accumulate a primary surplus of 5.97% of GDP, a figure higher than the target of 4.25%

established for the year. This is explained by the higher income of some state enterprises, but in particular by the increase in revenues at all levels of government. Federal government revenues rose by 16% compared to the same period in 2004, and in the larger states income followed a similar trend. Accordingly, all levels of government showed improvement in the primary balance. The central government had a primary result of 3.8% of GDP, the states and municipalities of 1.3% and state enterprises 0.9%.

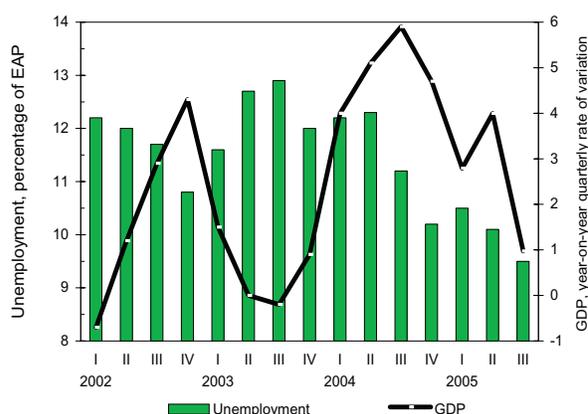
Spending grew at a slower rate. In the same period, central government outlays increased by 14.8% in nominal terms. Moreover, the growing social security deficit has remained, amounting to almost 1.7% of GDP (compared to the levels of 1.6% and 0.9% in 2004 and 2000, respectively), owing to the substantial hikes in payments for retirement and other pensions and social welfare benefits. The pressure of current spending has limited public investment, despite the implementation of a priority investment programme.

The implementation of a restrictive monetary policy and an austere fiscal policy reflected the continuing effort to comply with the goals and targets of the adjustment programmes included in the agreement signed with the International Monetary Fund, which expired in March 2005.

In relation to exchange-rate policy, the Brazilian currency accumulated a real appreciation of 18% in relation to the United States dollar over the 12-month period until October, and of 19% and 15.8% in relation to the yen and the euro, respectively, in view of the relative appreciation of the euro in relation to the other currencies.¹ As for the other Latin American currencies, the real appreciated 14.5% in the 12 month period until October. In 2005 the real exchange rate was thus at levels equivalent to those observed at the end of 1999, the year prior to the sharp increase in exports of the past few years.

The performance of Brazilian external trade is somewhat surprising in view of the exchange-rate trend. The effect on exports of the strengthening of the exchange rate may be being contained by the use of financing mechanisms that help to reduce the exporter's exchange-rate risk through the futures market. Importers, too, are acting with caution, which contributes to increasing the trade balance. Nevertheless, if the current levels of the real exchange rate and the reduction in the profitability indices of exports continue, these mechanisms may be exhausted. According to the Centre for Foreign Trade Studies Foundation (FUNCEX), the profitability index observed in October 2005 is the lowest since that series began in January 1985.

BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

As for economic activity, the lower growth was due to a slowdown in household consumption (3.1% until September 2005 compared to 4.1% in 2004) and the substantial reduction in investment growth (1.2% in the first three quarters of 2005 and 10.9% in 2004). The increase in the export volume was also a significant factor, as exports expanded by 12.9% in the first three quarters, although this figure is lower than the 18% recorded in 2004.

Slower growth has been a common factor for the three main sectors of the economy. As of the third quarter of 2005, agriculture had grown by 1.5% (5.3% in 2004), industry by 2.9% (6.2% in 2004) and services by 2.1% (3.3% in 2004).

The manufacturing sectors have recorded uneven growth. The production of durable consumer goods posted year-on-year growth of 12.6% for the period from January to October 2005, while the production of capital and intermediate goods grew by 3.2% and 1.1%, respectively. By the third quarter of 2005, the extractive industry had expanded by over 10% (2.1% in 2004), while construction showed growth of only 0.7% (5.7% in 2004), which contributed to the lower growth of investments.

The agricultural sector faced difficulties in 2005, for the first time in many years. Its real income diminished substantially, by around 11%, owing to the losses in some of the main harvests, such as coffee and maize, as well as lower domestic prices, which were affected by exchange-rate appreciation. More recently, the appearance of foot-and-mouth disease has damaged the meat trade. In October 2005, there was a decline of 15% in the export

¹ The wholesale price index was used to calculate the exchange-rate variation in real terms.

BRAZIL: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|--------|---------|--------------------|
| Annual growth rates | | | |
| Gross domestic product | 0.5 | 4.9 | 2.5 |
| Consumer prices | 9.3 | 7.6 | 6.2 ^b |
| Average real wage ^c | -8.8 | 0.7 | -0.8 |
| Money (M1) | 8.7 | 17.4 | 15.1 ^d |
| Real effective exchange rate ^e | 0.1 | -4.6 | -17.8 ^f |
| Terms of trade | -1.4 | 0.9 | 0.9 |
| Annual average percentages | | | |
| Urban unemployment rate | 12.3 | 11.5 | 9.9 |
| Federal government operating balance / GDP ^g | -2.5 | -1.3 | -1.7 |
| Nominal deposit rate | 23.3 | 16.2 | 19.2 ^h |
| Nominal lending rate | 49.8 | 41.1 | 44.0 ⁱ |
| Millions of dollars | | | |
| Exports of goods and services | 83 531 | 109 059 | 133 831 |
| Imports of goods and services | 63 668 | 80 069 | 97 907 |
| Current account | 4 177 | 11 738 | 14 976 |
| Capital and financial account | -451 | -5 131 | 4 843 |
| Overall balance | 3 726 | 6 607 | 19 819 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Workers covered by social and labour legislation.

^d Year-on-year average variation, January to September.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Year-on-year average variation, January to October.

^g Includes the central bank.

^h Average from January to November, annualized.

ⁱ Average from January to October, annualized.

value compared to October 2004, and there was a loss of assets as potentially infected cattle were destroyed.

The prices of tradable goods—especially agricultural products—declined substantially. Wholesale prices in the agricultural sector were down by 6.7% in the 12 months prior to October. Meanwhile, industrial wholesale prices, which rose by 19.5% in 2004, rose by around 2.8% in the first ten months of 2005. According to the central bank's calculations, the growth of the consumer price index in 2005 should be close to the target of 5.1%, despite the impact of administered prices, which showed an accumulated increase of 10.5% in the twelve months prior to October 2005 compared to a rise of 6.13% in the prices of non-tradable goods over the same period.

The lower growth rate for prices in 2005 made a rise in real labour income possible, although the real average salary of formal workers diminished slightly. In 2005, real labour income maintained the upward trend observed in 2004, after several years of decline. In September 2005 it increased by around 2% in the main metropolitan regions. The unemployment rate fell to 9.6% for four consecutive months (between June and October), for the first time since the implementation of the new survey in 2002.

The exceptional performance of external trade was due to the growth of exports (year-on-year growth of 22.1% for the period January–October 2005), mainly owing to the rise of 24.5% in exports of manufactures and of 18.9% in semi-manufactures. In terms of volume, and over the same period, total exports increased by 10.2%; manufactures by 12.5%, commodities by 5% and semi-manufactures by 5%. The price index for exports rose by 10.8%.

Imports expanded to US\$ 62.8 billion in the first ten months of 2005, which is 21.6% more than in the same period of 2005. The import volume grew by 7.2%, while prices rose by 10.1%. In terms of volume, imports of capital goods increased by 30%, durable consumer goods by 34.2%, non-durable consumer goods by 8.6% and intermediate goods by 7.1%. Meanwhile, the volume of imported fuel fell by 12.4%. In the first ten months of the year, import prices were 10.7% higher, to a large extent because of the rise in fuel prices (37.5%).

Between January and October 2005, the current-account balance accumulated a surplus of US\$ 12 billion (1.9% of GDP), which reflects the trade account balance (US\$ 36.4 billion), even though the deficit in the services and income balance amounted to a total of US\$ 27.3 billion. The income balance deteriorated over the first ten months of the year, accumulating a deficit of US\$ 21 billion (US\$ 16.5 billion for the same period of 2004). The higher profits obtained by enterprises and the exchange-rate appreciation generated US\$ 9.7 billion of net profit remittances abroad, which was 69% higher than the level for the same period of 2004.

Over the same period, the capital and financial account reduced its deficit to US\$ 1.2 billion (US\$ 8.9 billion between January and October 2004), owing to the expansion of direct investment and especially portfolio investment. The net inflow of foreign direct investment increased to US\$ 10.2 billion (US\$ 4.8 billion in the same period of 2004). Portfolio investment performed remarkably well, recording net income of US\$ 1.8 billion in 2005, compared to a net outflow of US\$ 4.5 billion in the same period of 2004. The net income of medium- to long-term capital continued to be lower than the level of payment requirements, and the rollover rate remained close to 68% of principal payments made. Overall, the Brazilian balance-of-payments surplus showed a year-on-year increase for the first ten months of 2005 of US\$ 10.6 billion (US\$ 0.2 billion in 2004). In October 2005, international reserves amounted to a total of US\$ 60.2 billion, corresponding to about 10 months of imports.

Chile

GDP expanded at an annual rate of 6% for the second year in a row, thereby consolidating the country's economic upturn. Inflation rose, owing chiefly to the impact of petroleum prices. Up to October, the consumer price index registered an increase of 4.1%, slightly in excess of the central bank's inflation target. The unemployment rate eased back and, though still at high levels, is expected to come in at 8%.

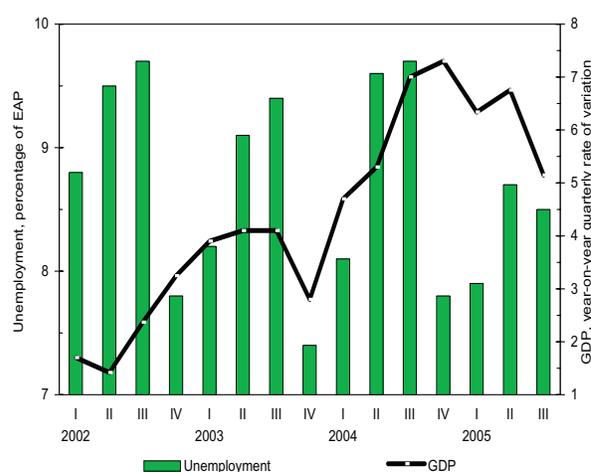
In view of a loss of momentum in a number of sectors of the economy and tighter monetary liquidity, expectations for 2006 point to slower growth (though still above 5%) and prices rising at a similar rate to that of 2005.

Economic policy continued to be geared to achieving growth with stability and averting fiscal, external and price imbalances. Provided the trend endures, the higher amounts of investment recorded—especially in the first semester—would tend to suggest that the economy would be able to withstand a reversal of the currently excellent terms of trade and a change in the prevailing international demand for its exports, in a context of monetary policy that is shifting from a highly expansionary position to a rather tighter one.

The main objective of fiscal policy continued to be the maintenance of a structural surplus equivalent to 1% of GDP, despite the pressures typical of a pre-election period. The strong buoyancy of the copper market gave the government more room for manoeuvre, which helped to turn the overall balance from a deficit of 0.4% in 2003 into a surplus of 2.2% in 2004. This surplus is expected to exceed 3% in 2005, even after a number of measures to expand government spending, such as additional bonuses and the recent announcement of a nominal 5% wage increase for civil servants. The surplus in dollars allowed the government to cut back on its external borrowing, bringing the external public debt down from 5.6% of GDP in 2003 to 4.8% in 2004. A similar reduction is anticipated in 2005.

The increase in inflation caused by rising oil prices reduced the degrees of freedom available to the makers of monetary policy, which is geared towards keeping annual inflation within the target range of 2% to 4%. This prompted the central bank to continue raising the monetary policy interest rate, following the trend set by the United States Federal Reserve. In November, the central bank raised the reference rate by 25 basis points

CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

to an annual rate of 4.5%, after a series of hikes starting from a low of 1.75%. The central bank is expected to carry on with this policy, thereby taking the monetary policy rate to over 5% in the early months of 2006.

The 12-month rate of variation in the supply of money held by private individuals (M1A) was 26% in the third quarter of 2004, but dropped steeply in 2005 to a rate of just 9%, consistently with the slowdown in economic activity.

The nominal exchange rate—in the regime of the free currency float with no intervention from the central bank—dropped by 20% between the third quarter of 2004 and the fourth quarter of 2005. This has led a number of circles to question whether the central bank's policy of non-intervention in the international currency market has been the most suitable one, and to protests on the part of

CHILE: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|--------|--------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 3.7 | 6.1 | 6.0 |
| Consumer prices | 1.1 | 2.4 | 3.6 ^b |
| Average real wage ^c | 0.9 | 1.8 | 1.9 |
| Money (M1) | 14.6 | 15.2 | 15.9 ^d |
| Real effective exchange rate ^e | 5.0 | -6.7 | -3.5 ^d |
| Terms of trade | 5.8 | 21.5 | 7.4 |
| Annual average percentages | | | |
| Urban unemployment rate | 8.5 | 8.8 | 8.1 |
| Central government overall balance / GDP | -0.4 | 2.2 | 3.4 |
| Nominal deposit rate | 3.2 | 2.4 | 4.4 ^f |
| Nominal lending rate | 13.0 | 11.0 | 13.5 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 26 473 | 37 981 | 46 951 |
| Imports of goods and services | 23 568 | 29 542 | 38 375 |
| Current account | -1 102 | 1 390 | 269 |
| Capital and financial account | 737 | -1 580 | 3 |
| Overall balance | -366 | -191 | 273 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c General hourly wage index.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Average from January to November, annualized.

small exporters squeezed between a depreciating dollar and a rising consumer price index.

The main engine of growth was, once again, the favourable export conditions Chile has been experiencing since 2004, with both volume and prices performing well. Exports are estimated to have come in at close to US\$ 39 billion in 2005, or the equivalent of 35% of GDP. The price of Chile's main export product, copper, exceeded US\$ 2 per pound at the end of November 2005. The large volume of exports has been coupled, in this reporting period, with a strong increase in investment, which appears to

have outstripped even the levels recorded before the 1999 recession (then without precedent). ECLAC estimates that investment expanded by around 6% in real terms in 2005, which was very similar to the 2004 rate of 6.1%.

Economic activity climbed at an annual rate of 6.5% between June 2004 and June 2005, but dipped to 5.3% per annum in the third quarter of 2005. This slip in momentum was attributable mainly to the contraction of mining production (by 1.7% in the nine months to September), especially of copper, together with a slowing of production expansion in other sectors in the third quarter.

Twelve-month inflation measured by the consumer price index (CPI) moved from a slightly negative rate in early 2004 to 4.1% in October 2005. According to estimates, at the end of the year consumer inflation could exceed 4%, coming in a little above the upper limit of the CPI inflation target band.

The rate of unemployment stood at 8.5% in the third quarter of 2005; consequently, the average for the year overall should come down to 8%. This level continues to exceed by more than 25% the unemployment rate recorded in 1996, 1997 and 1998 (6.3%, 6.1% and 6.3%, respectively, of the labour force).

The current account will record a deficit of US\$ 200 million (0.2% of GDP) in 2005. The balance of trade (f.o.b.) will yield a surplus of close to US\$ 8.8 billion, as compared to US\$ 9.019 billion in 2004; exports will be up from US\$ 32 billion in 2004 to almost US\$ 39 billion in 2005, while imports will rise from US\$ 23 billion to US\$ 30 billion.

International reserves stood at US\$ 15.7 billion in the third quarter of 2005, as against US\$ 15.9 billion in the same period of 2004.

External debt rose from US\$ 43.4 billion in 2004 to US\$ 45.4 billion in 2005, but declined, to 40.8%, as a proportion of GDP.

Colombia

The Colombian economy recorded more than 4% growth in 2005, driven by buoyant domestic demand, which, in turn, was fuelled by investment (up 20%) and by a strong rally in household consumption. Export and import volumes were also considerably higher. The economic expansion was reflected in a rise in employment. The fiscal position was sound, in keeping with the satisfactory economic performance, while the expansionary monetary policy kept interest rates down and liquidity levels high.

The year 2006 promises to maintain the economic buoyancy observed in the past two years. The government projects 4.0% growth, a current account deficit equivalent to 1.6% of GDP and inflation of between 4.0% and 5.0%.

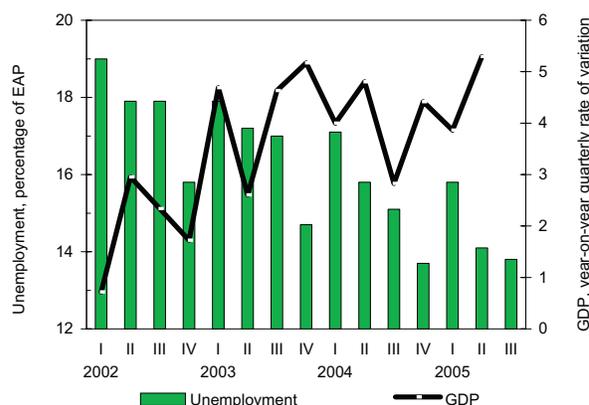
Thanks to satisfactory tax collection results and the reduction in interest payments, the government was able to reduce the central government deficit target from 6.1% to 5.5% of GDP for 2005 (equal to that of 2004) and the decentralized sector is expected to record a surplus equivalent to 4.1% of GDP, which will contribute to a consolidated public sector deficit of 1.6% of GDP, a clear improvement on the original target of 2.5%, despite the fact that this marks a slight increase over the 2004 figure of 1.2%.

Net non-financial public sector debt to June 2005 stood at 48.8% of GDP, a figure slightly below that recorded at the close of 2004 (50% of GDP). Towards the middle of the year, the external debt was equivalent to almost 60% of total debt. During the year, the government carried out various external debt buy-back operations in order to improve the country's debt profile.

Based on inflation forecasts and actual trends observed during the first nine months of the year, the Bank of the Republic decided to increase its liquidity and maintain a low interest rate policy; in September, the intervention interest rate was reduced from 6.5% to 6.0%. In the third quarter of 2005, however, a change was seen in the downward trend in inflation, triggered by an increase in prices of food items, especially potatoes, and by a slight rise in core inflation. In fact, annual inflation to October was 5.3%, close to the upper limit of the target established by monetary authorities (between 4.5% and 5.5%). This inflationary spike could alter the posture of current monetary policy.

Real interest rates remain at record lows. Until October, the real deposit rate was 2.0% (12-month average), while

COLOMBIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

the lending rate (calculated as the weighted average of the consumer, prime, ordinary and treasury lending rates) stood at 9.0%. The high liquidity levels in the economy have prompted investments in government securities, putting pressure on public debt instrument rates and reducing the cost of borrowing. The annual growth of the monetary aggregates picked up between December 2004 and October 2005. The M1 growth rate increased from 16.8% to 19% and the M3 rate from 16% to 20%.

Consumer credit and microcredit are growing at high rates (38.5% per year up to September) and with a tendency to accelerate, while mortgage loans are recovering slowly and still recording negative rates. The relatively low growth of the commercial portfolio could be due to an increase in sources of financing other than bank credit, such as bonds and reinvestment of profits.

COLOMBIA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|--|--------|--------|--------------------|
| Annual growth rates | | | |
| Gross domestic product | 4.3 | 4.0 | 4.3 |
| Consumer prices | 6.5 | 5.5 | 5.1 ^b |
| Average real wage ^c | -0.1 | 1.0 | 0.7 |
| Money (M1) | 16.4 | 14.7 | 17.9 ^d |
| Real effective exchange rate ^e | 13.2 | -9.1 | -11.6 ^d |
| Terms of trade | 2.9 | 14.0 | 7.5 |
| Annual average percentages | | | |
| Urban unemployment rate ^f | 16.7 | 15.4 | 13.9 |
| National central government overall balance / GDP | -4.7 | -4.3 | -5.5 |
| Nominal deposit rate | 7.7 | 7.7 | 7.0 ^g |
| Nominal lending rate | 15.2 | 15.1 | 14.8 ^h |
| Millions of dollars | | | |
| Exports of goods and services | 15 725 | 19 496 | 24 644 |
| Imports of goods and services | 16 598 | 19 929 | 24 857 |
| Current account | -987 | -967 | -341 |
| Capital and financial account | 804 | 3 508 | 1 730 |
| Overall balance | -184 | 2 541 | 1 389 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Manufacturing-sector workers.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Includes hidden unemployment.

^g Average from January to November, annualized.

^h Average from January to October, annualized.

The Bank of the Republic continued with the discretionary purchase of dollars and succeeded in curbing the appreciation of the peso. In addition, in June, it simplified the foreign-exchange regime and made the increase in liquidity more transparent.

In 2005, Colombia, in conjunction with Ecuador and Peru, initiated negotiations for a free trade agreement with the United States, but up to the beginning of December, agreements had still not been reached in a number of areas.

Domestic demand—both investment and household consumption—strengthened further in 2005. The economy accumulated 4.6% growth in the first half of 2005 compared with 4.0% growth in 2004.¹ Investment recorded expansion rates of 20% thanks to tax incentives, the availability of credit and low interest rates, while household consumption was favoured not only by low interest rates but also by low inflation, improved employment conditions and an increase in consumer confidence. The consumption of public administrations, especially local and regional governments, also expanded. The net contribution of the external sector to

economic growth was negative, since growth of exports was not sufficient to offset the sharp increase in the volume of imports. Commerce, restaurants and hotels, and construction accounted for most of the stronger expansion in the first half of the year, recording growth rates of approximately 9%. Industry lost momentum with growth (1.9%) below the average for the economy as a whole.

The growth of the economy has been reflected in an increase in the rate of employment and in a steady decline in unemployment, associated with the continued fall in the labour participation rate. The average rate of unemployment for urban areas (13 metropolitan areas) in the first ten months of the year was 14.3% compared with 15.8% a year earlier. At the national level, the reduction in unemployment was greater (12.1% compared with 13.9%).

Exports soared in 2005, recording a 31% expansion in the first eight months of the year. The greatest boost came from traditional exports (up 42%), thanks to high prices on international markets. Strong external demand, in particular from the Bolivarian Republic of Venezuela, continued to stimulate non-traditional exports, which grew by 22%. Total imports increased by 30.2% in the first nine months of the year. On the whole, all types of goods were buoyant, but volumes of capital goods for industry and construction and raw materials and intermediary products for industry were particularly high. This increase in imports is closely linked to the brisk pace of investment as well as to the recovery in household consumption and the currency appreciation.

The current account deficit is expected to stand at 1.0% of GDP at the end of 2005, the same percentage as in 2004. The non-factor services balance deficit, external debt payments and the increase in repatriation of profits and dividends will be offset by a surplus of the trade balance and by higher transfers, mainly remittances, although these have been growing more slowly than in 2004.

The balance-of-payments capital and financial account is expected to close the year with a surplus of the order of US\$ 1.5 billion (1.2% of GDP), which will be used to finance the current-account deficit of US\$ 1.2 billion and a US\$ 421 million increase in international reserves. An important inflow of resources was recorded, which was due to a considerable increase in net foreign direct investment, attributable largely to the merger of a brewery with a transnational corporation. Mining and quarrying (mainly coal-mining) and oil production also received foreign direct investment in 2005.

¹ The 2005 rate includes a decline equivalent to 0.1 of a percentage point of GDP for the eradication of illegal crops.

Ecuador

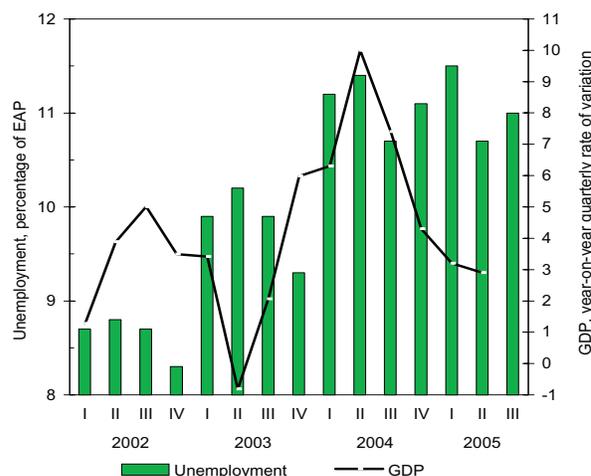
In 2005 the Ecuadorian economy is expected to grow by 3%, which is less than half of the rate in 2004 (6.9%), mainly because of the slowdown in the expansion of activity in the petroleum sector. For 2006, a slightly higher growth rate of about 3.2% is expected. Conditions for the external sector continued to be favourable during 2005, as oil prices remained high. With regard to fiscal matters, in addition to increasing the central government deficit in 2005, the budget approved for 2006 includes a significant rise in public spending.

The central government global deficit for 2005 is expected to be equivalent to 1.4% of GDP. In the first half of 2005, income from the non-financial public sector increased more than spending (12.2% and 10.2%, respectively). In particular there was a significant increase (38%) in income tax collection, owing to the higher profits of oil companies. Oil export income grew considerably, in line with the rise in international hydrocarbon prices, but revenues for the sale of petroleum products declined. This was due to the fact that domestic prices for petroleum products were lower than the international prices at which Petroecuador imported them. In December 2005 the government issued US\$ 650 million in bonds on the international market, with a yield rate of 10.77%.

In July 2005 Congress approved a reform to the Fiscal Transparency, Stabilization and Responsibility Act. In addition to limiting the cap on annual growth of central government primary spending to current primary spending, this law eliminated the Fund for Stabilization, Social and Productive Investment and Public Debt Reduction which had been set up in 2002, and replaced it with an autonomous account with the funds allocated to other areas, entitled the Special Account for Production and Social Recovery, Scientific and Technological Development and Fiscal Stabilization.

At the end of November, Congress approved the central government's draft budget for 2006, which includes significant spending increases in relation to the approved budget for 2005. The expansion of the payroll over the past few years, as well as the increases awarded by the Ecuadorian Social Security Institute (IESS) for pensions (40% of which is covered by the government), have made the public budget extremely vulnerable to a fall in oil income. A substantial part of the revenue from the profits tax also depends on oil, as it consists of payments from private oil companies.

ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Annual inflation, calculated on the basis of the variation of the consumer price index, was reduced to a minimum of 1.2% in April 2005, and then began to rise again, reaching 3.6% in October 2005. This increase is explained at least in part by the payments made from the reserve funds of the Ecuadorian Social Security Institute to its affiliates. The effective real exchange rate depreciated by an average of 5.6% in the first ten months of the year, mainly owing to the exchange-rate appreciations of the currencies of Colombia and Brazil.

The benchmark lending rate varied little between December 2004 and October 2005, reaching 8.03% in the latter month; the deposit rate was also stable and at 3.95% in October 2005. Loans usually include commissions which may be significant.

ECUADOR: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.7 | 6.9 | 3.0 |
| Consumer prices | 6.1 | 1.9 | 3.8 ^b |
| Real minimum wage | 5.9 | 2.2 | ... |
| Money (M1) | 0.7 | 19.4 | 24.9 ^c |
| Real effective exchange rate ^d | -2.4 | 4.3 | 5.6 ^e |
| Terms of trade | 3.4 | 1.9 | 15.0 |
| Annual average percentages | | | |
| Urban unemployment rate ^f | 9.8 | 11.0 | 10.9 |
| Central government overall balance / GDP | -0.4 | -1.1 | -1.4 |
| Nominal deposit rate | 5.3 | 4.0 | 3.8 ^g |
| Nominal lending rate | 12.6 | 10.2 | 8.7 ^g |
| Millions of dollars | | | |
| Exports of goods and services | 7 263 | 8 832 | 10 807 |
| Imports of goods and services | 7 911 | 9 387 | 11 409 |
| Current account | -340 | -155 | -122 |
| Capital and financial account | 461 | 436 | 631 |
| Overall balance | 120 | 281 | 509 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Includes hidden unemployment.

^g Average from January to October, annualized.

The upward trend in the proportion of the bank portfolio assigned to consumer loans continued, moving from 16.3% in May 2004 to 22% in October 2005, probably influenced by the profitability of consumer loans compared to other investment options. The interest rate for the purchase of central government bonds by the private banking sector was also kept low, as in October 2005, not only were such bonds reduced to just 2.1% (US\$ 216 million) as a proportion of bank assets, but also their nominal assets diminished by 10.4% compared to the average for 2004. The Ecuadorian Social Security Institute continued to be the main purchaser of domestic debt bonds from the central government in 2005.

In the first half of 2005, GDP exhibited year-on-year growth of 3.1%. For the end of the year, the growth rate is expected to be of the order of 3%, mainly because of the increase in trade activity and to a lesser extent in manufacturing activity and agriculture. In 2005 crude oil extraction grew very little: whereas in 2004 the daily average was 526 thousand barrels, it was 524 thousand barrels for the first ten months of 2005, despite high international prices and the excess transport capacity available in the pipelines. This low level of growth was due to a number of factors, including the fact that no new oil fields were tendered, limited operating capacity and the financial constraints of the state oil company Petroecuador, the differences between some multinational oil companies and the Ecuadorian State concerning transfers of field ownership and pending legal proceedings on tax issues,

and the increasing conflicts with local populations over hydrocarbon extraction, as demonstrated in August 2005 in the strike that took place in two provinces.

As for spending, growth was driven basically by the increase in household consumption, stimulated by the return of reserve funds by the Ecuadorian Social Security Institute during the second half of the year, in contrast to the situation in 2004, when it was exports that drove the expansion of the Ecuadorian economy. In the first half of the year, fixed gross capital formation grew moderately (3.5%).

No improvements were observed in relation to employment. The total unemployment rate varied around 11% from mid-2004 to September 2005, while the “adequate” employment rate has diminished slightly in relation to September 2004, but shows an improvement compared to the lowest level recorded in 2005, which was in May. The sectors which have shown the most growth (including trade and agriculture) are not usually able to create “adequate” employment. Meanwhile, the rise in public spending on salaries and wages increased the remuneration of a number of groups of public employees.

The year 2004 closed with a current account deficit of US\$ 154.7 million and the 2005 deficit is expected to be lower. If remittances from emigrants continue the trend of the first half of the year, as expected, they will amount to US\$ 2.1 billion for 2005. Foreign direct investment (FDI) rose compared to 2004 and should reach around US\$ 1.5 billion in 2005. Virtually all FDI was directed to the oil sector, as occurred in 2004, when that sector accounted for 77.8% of FDI.

As for errors and omissions, which are usually considered as variables indicative of private capital flight, there was a capital outflow of US\$ 480 million during the first half of 2005, which coincided with the period of political instability that culminated in the departure of President Lucio Gutiérrez and his replacement by the Vice President Alfredo Palacio in April 2005. For comparative purposes, it may be noted that the errors and omissions item posted US\$ 126.9 million for 2004.

During the first nine months of 2005, the value of exports increased by 26.7%, which was mainly due to crude exports, which rose by 35.3%, accounting for 66.3% of the overall increase, while exports of refined products contributed 8.1%. This significant increase was mainly due to a rise in prices from US\$ 29.6 to US\$ 40.5 per barrel on average during the first nine months of the year, while in the same period the number of barrels of crude oil exported diminished by 0.5% in relation to the first nine months of 2004. As for non-oil exports, shrimp exports expanded after several years of recovering from the scourge of white spot disease, as well as exports of canned fish and of vehicles to other Andean countries. Imports showed a year-on-year increase of 24.5% in the first nine months of 2005.

Paraguay

In 2005, Paraguay's economy is estimated to have grown by around 3%, with a decline in crop-farming output that was more than offset by impressive growth in the livestock sector, which spearheaded productive activity. Inflation, which in November 2005 stood at 12.3% in relation to the previous November, is expected to end the year at about 11.5%, which falls outside the $\pm 2.5\%$ band around the 5% inflation target announced by the central bank at the beginning of the year. The authorities estimate that the overall deficit of the central government will stand at 0.5% of GDP, although this result could shift towards a balance in the public accounts in the light of the surplus chalked up as far as October. The external sector is expected to turn out a less positive balance than the previous year due to a decline in the production of major export products and adverse terms of trade. Although there are no data on employment for 2005, the unemployment rate is not expected to change dramatically given the good overall performance of the economy. In 2006, an upturn is projected in soybean production once the country has overcome the effects of the 2004 drought. This will be good news for domestic production and exports. Inflation is expected to be controlled. According to estimates from the Ministry of Finance, the central government's fiscal deficit will be 0.7% in 2006.

The central government's fiscal surplus will be smaller than in 2004 (1.6%) as expenditure grew faster than income (22.9% versus 10.5%) compared with the year-earlier period.¹ The rise in current expenditure (19.6%) was mainly due to higher costs in personal services (11.3%) and current transfers (35.7%). Growth in receipts was mainly due to tax revenues, which rose by 10%, with 3.3% corresponding to income tax and 5.5% to value added tax.

Up to September, the fiscal balance was significantly positive and the nominal appreciation of the guaraní in relation to the dollar facilitated external debt relief in excess of external funding. External public debt up to September stood at US\$ 2.286 billion, compared with US\$ 2.391 billion at the end of 2004.

At the beginning of 2005, the central bank announced that it would set a short-term inflation target with the intention of replacing it with more long-term inflation targeting. In

this initial phase, the central bank defined the 35-day interest rate on debt bonds (monetary regulation instruments) as its monetary policy instrument, with the intention of adopting a more short-term rate in the future. For 2005, the annual inflation target was set at 5% ($\pm 2.5\%$), which is harsher than the target of 6% ($\pm 2\%$) agreed with the International Monetary Fund (IMF). Price surveillance is based on the 12-month interannual rate of the consumer price index, which up to November displayed a cumulative variation of 10.5% and interannual variation of 12.3%. This was mainly due to upward pressure on international fuel prices, which in some cases have been offset by the downward trend in prices of fruit and vegetable products. It was in this context that the central bank's executive committee for open market operations raised the short-term rates on monetary regulation instruments several times during the year. This brought the rates to 5.3% in October, which was higher than the 4.7% recorded in December 2004.

¹ Information up to September 2005.

PARAGUAY: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 3.8 | 4.0 | 3.0 |
| Consumer prices | 9.3 | 2.8 | 12.3 ^b |
| Average real wage | -2.0 | -2.7 | ... |
| Money (M1) | 25.7 | 29.6 | 23.2 ^c |
| Real effective exchange rate ^d | 5.1 | -3.9 | 12.1 ^e |
| Terms of trade | 5.0 | 2.8 | -7.8 |
| Annual average percentage | | | |
| Urban unemployment rate | 15.9 | 14.1 | 12.0 |
| Central administration | | | |
| overall balance / GDP | -0.4 | 1.6 | -0.5 |
| Nominal deposit rate | 15.5 | 5.7 | 5.3 ^f |
| Nominal lending rate | 30.5 | 21.2 | 15.5 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 2 766 | 3 293 | 3 405 |
| Imports of goods and services | 2 805 | 3 467 | 3 778 |
| Current account | 122 | 30 | -169 |
| Capital and financial account | 109 | 238 | 276 |
| Overall balance | 231 | 268 | 107 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Average from January to September, annualized.

Up to October, the monetary aggregates M0, M1, M2 and M3 presented cumulative variations of -9%, -2.6%, 1.8% and 2.6%, respectively. This means that M2 and M3 recovered from the seasonal decline observed at the beginning of the year thanks to savings certificates and deposits. International reserves were the main factor behind the expansion of M0, although some of its growth has been sterilized by the sale of monetary regulation instruments. In October 2005, international reserves totalled US\$ 1.292 billion, compared with US\$ 1.168 billion at the end of 2004.

Economic agents continued to show a preference for high-liquidity assets. The weighted average of deposit rates dropped from 1.7% in December 2004 to 0.5% in September 2005. Average lending rates, which were 22.5% at the end of 2004, rose to 29.9% in September 2005. The gap between the lending rate and the growth rate of credit (which stood in October at 9.7% measured on a nominal year-on-year basis and 4.8% in cumulative terms) reflects the banking system's difficulties in channelling funds into the economy. Both deposits and bank credit to the private

sector in local currency increased as a proportion of the total following the nominal appreciation of the guaraní in relation to the dollar.

The central bank sporadically intervened in the foreign-exchange market to counteract the long periods of local currency appreciation. By October, the nominal cumulative appreciation of the guaraní in relation to the dollar was 1.1%, which corresponded to a real appreciation of 4%. There was also a cumulative exchange-rate variation of 19.6% in relation to the Brazilian real (10.7% in real terms) and of -0.8% in relation to the Argentine peso (-0.4% in real terms). As for the real effective exchange rate, the cumulative depreciation of the guaraní was 2.7%.

According to estimates published by the Ministry of Agriculture, the 2004-2005 season saw production fall for soybeans (-2%) and cotton (-45%) on account of the 2004 drought, and this affected agricultural output for 2005. These estimates are currently being reviewed, which means that the decline might actually be smaller. The livestock sector will be the most buoyant, with a growth rate that is double the one recorded the previous year. Construction is expected to pick up slightly, which may boost gross fixed capital investment, and industry should perform well on the strength of meat production and sales. Private consumption is projected to grow moderately on a par with the previous year, and continues to be the main component of output.

In the external sector, the current account balance is expected to turn in a less positive result than the previous year. In addition to lower production of major export products (particularly soybean and cotton), the terms of trade were not favourable for Paraguay. International soybean and cotton prices were lower than in 2004, while the price of energy (which accounts for a significant proportion of imports) reached a record high. Merchandise exports are expected to grow by 2% in nominal terms, while imports are predicted to expand by 10%. The balance of services and the current transfers balance are expected to partially offset the disequilibrium in the trade balance.

Structural changes that remain pending include the reform of first-tier banking (which involves the restructuring of the Nation Development Bank), while the reform of second-tier banking was enacted in July. Negotiations continue with the International Monetary Fund to reach a new agreement, now that the extension has come to an end on the agreement reached in December 2003.

Peru

An extremely favourable external climate and macroeconomic policies which raised the expectations of private agents in the domestic market contributed to a 6% expansion of the Peruvian economy, the highest growth recorded since 1997. The rise in fuel prices notwithstanding, inflation remained low; the year-on-year figure for November stood at 1.1%, which is slightly below the inflation band set by the Central Reserve Bank of Peru (one point above or below the target of 2.5%). Buoyant exports fuelled a further increase in the trade balance surplus and an unprecedented surplus in the balance-of-payments current-account figure, which was above 1% of GDP. With exports and public spending expanding more slowly, the year 2006 should see slightly more moderate growth, but this should still be of the order of 5%, while inflation will remain within the above-mentioned range.

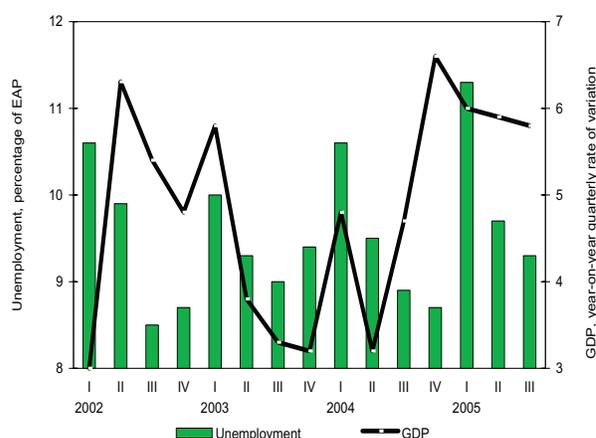
In 2005, economic policy was directed towards creating a climate conducive to economic growth (fulfilment of fiscal and monetary goals, curbing and rescheduling of public debt, low interest rates) and improving prevention mechanisms (increase in net international reserves, promoting de-dollarization) in anticipation of possible shocks.

In the short term, the thrust of fiscal policy was to increase revenue by improving collection and applying the temporary tax on net assets. Moreover, the reform of the public employees' pension system (decree-law 20530 on the "cédula viva") has brought under control substantial future expenditures. In addition, a prepayment was used to reschedule Peru's debt with the Paris Club, which will bring debt servicing within more manageable limits.

Central government revenue increased considerably (14% in real terms in the first ten months), thanks mainly to robust domestic activity and the high prices of mining products. Consequently, despite the pressures characteristic of a pre-election year and overspending of the original budget, the non-financial public sector (NFPS) deficit is expected to be below the target of 1% of GDP and the primary surplus will probably exceed 1% of GDP. The primary surplus is expected to increase slightly in 2006. Public debt fell from 45.1% of GDP in December 2004 to 38.7% in September 2005, thanks in part to the movement in the exchange rate.

Since year-on-year inflation diminished during the year, remaining within, or even slightly below, the range

PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

set for the inflation target, the authorities maintained the benchmark interest rate for loans in local currency at a low and stable level up to December, when, following the depreciation of the local currency, they raised it by a quarter of a percentage point to 3.25%. Bank lending rates (average fixed rates) continued to decline (from 18.7% in 2004 to an average of 18.0% for the period January-November 2005), while the rates on dollar loans rose in response to external trends. Up to October, credit in the

financial system expanded by 12% compared with the same month of the previous year, while the bank arrears index diminished to less than 3%. Further steps were taken to promote de-dollarization of the financial system and the share of credit in local currency increased from 29.3% in December 2004 to 32.1% in October 2005.

In the year-on-year comparison, during most of the year, the real exchange rate of the new sol against the dollar continued the trend towards appreciation observed in the previous year. In August, however, the local currency started to depreciate and, by October, the real bilateral and real effective exchange rates had gone up by 4.9% and 6.1%, respectively, compared with October 2004, resulting in an average for January-October that showed scarcely any variation with respect to the same period of the previous year.

At the end of the year, negotiations on the free trade agreement with the United States, initiated jointly with Colombia and Ecuador, but continued separately, came to fruition; in addition, a partial trade agreement was signed with Thailand.

Growth of the Peruvian economy exceeded initial expectations. In the first nine months of the year, it stood at 5.9%. Exports were buoyant (up by 14.2% in the first nine months) and gross fixed capital formation expanded strongly (11.5%, with an increase in growth of both private and public investment).¹ Private and public consumption, which expanded by 4.3% and 7.3%, respectively (compared with increases of 3.4% and 4.1% in 2004) also contributed to higher GDP growth than in the preceding year (4.8%). All branches of activity apart from fisheries grew by 5% or more; non-primary manufacturing performed remarkably well, recording 8% growth.

Inflation eased from 3.5% towards the end of 2004 to 1.1% in November 2005. Fuel price rises were cushioned by a stabilization fund and did not have a significant impact on other prices. Another contributing factor was the decline in food prices, down from the previous year's high levels, which were due to weather conditions.

Following the expansion of production, formal job creation increased by more than 4% with stronger growth in some provincial cities. In Lima, formal employment also increased, but the labour market as a whole did not prove to be very robust, as reflected in a decline in the employment rate, a slight increase in the unemployment rate and stagnation of real labour income.

Merchandise exports expanded significantly (36% up to September) thanks to the high prices of mining products, but also to higher export volumes of products such as gold, molybdenum, lead and many non-traditional products.

PERU: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|--------|--------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 4.0 | 4.8 | 6.0 |
| Consumer prices | 2.5 | 3.5 | 1.1 ^b |
| Average real wage | 1.6 | 1.1 | 0.0 ^c |
| Money (M1) | 10.6 | 22.1 | 29.9 ^d |
| Real effective exchange rate ^e | 4.3 | 1.5 | -0.1 ^f |
| Terms of trade | 3.8 | 8.9 | 6.4 |
| Annual average percentages | | | |
| Urban unemployment rate | 9.4 | 9.4 | 9.6 |
| Central government overall balance / GDP | -1.8 | -1.3 | -1.2 |
| Nominal deposit rate | 2.9 | 2.4 | 2.7 ^g |
| Nominal lending rate | 20.2 | 18.7 | 18.0 ^g |
| Millions of dollars | | | |
| Exports of goods and services | 10 786 | 14 531 | 19 050 |
| Imports of goods and services | 10 804 | 12 581 | 15 186 |
| Current account | -935 | -10 | 1 342 |
| Capital and financial account | 1 459 | 2 427 | -203 |
| Overall balance | 525 | 2 417 | 1 139 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Average from November 2004 to October 2005 with respect to the preceding 12 months.

^d Year-on-year average variation, January to September.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Year-on-year average variation, January to October.

^g Average from January to November, annualized.

Among imports (+25%), purchases of intermediate and capital goods continued to increase at rates of 25% or more, but purchases of consumer goods were also more buoyant (an accumulated growth of 21% up to September, compared with 7% in 2004). In the same period, the surplus on the merchandise balance rose to US\$ 3.46 billion, which was equivalent to an increase of 80% with respect to the previous year. Consequently, despite the rising factor service payments, the balance-of-payments current account is expected to record a surplus for the year as a whole, equivalent to more than 1% of GDP.

In 2005, the balance-of-payments financial account (including errors and omissions) started to show a slight deficit, since the increase in foreign direct investment and shareholders' investments was countered by the redemption of public and private sector debt. In January and April, the government issued sovereign bonds totalling US\$ 1.15 billion. The proceeds of the second issue, together with the funds generated by issues on the local market, were used to effect a prepayment of US\$ 1.552 billion against the debt owed to members of the Paris Club. This operation curbed the increase in the central bank's net international reserves, which swelled from US\$ 12.6 billion in December 2004 to 13.5 billion in October 2005.

¹ Gross investment grew by only 6.8%, owing to the decline in stocks.

Uruguay

In 2005, the Uruguayan economy continued to recover from the crisis of 2002 in an international context that was slightly less favourable than in previous years.

Economic growth is estimated at 6%, although the terms of trade deteriorated by about 8% in the 12-month period until June following the escalation in oil prices and a slowdown in the average increase in the prices of exports. Growth was generalized in all sectors, with the best performance shown by manufacturing; electricity, gas and water; transport and communications; and commerce, restaurants and hotels. For 2006, GDP growth is expected to be of the order of 4.5%, buoyed by activity in the agricultural and electricity, gas and water sectors as well as in commerce, restaurants and hotels.

External demand for goods and services, especially beef, remained firm; domestic demand also continued to strengthen, thanks to the gradual recovery of income. Gross fixed capital formation increased by 22% in the first half year, in comparison with the same period of the previous year, with private-sector demand for machinery and equipment growing by as much as 41%.

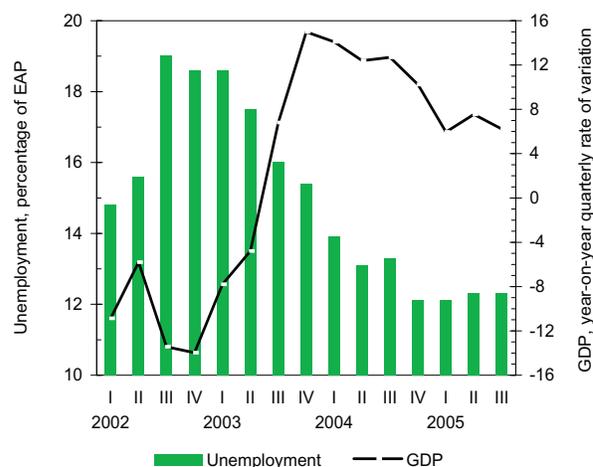
The fiscal position remained stable with a consolidated deficit equivalent to 1.1% of GDP in the 12 months to August. In turn, the primary fiscal surplus stood at 3.9% of GDP and was counterbalanced by debt interest payments, which amounted to 5% of GDP. The fiscal situation reflected the increase in collections, a certain stability in central government expenditure and a decline in the profits of public companies, due to the rise in oil prices. Fiscal revenue increased by 1.6% in real terms during that period, while primary expenditure grew by 2.3%.

The debt/GDP ratio of the non-financial public sector continued to decrease to stand at 66.8% at the end of 2005. The debt swap operation carried out in 2004 and the subsequent improvement in the sovereign risk facilitated the sale throughout the year of successive 12- and 15-year public debt instruments for close to US\$ 1 billion.

In the first half of 2005, the International Monetary Fund approved the programme presented by the new government which took office in March, providing for a series of structural reforms and the renewal of loans for the equivalent of 60% of the maturities originally agreed on with the organization for the next three years.

Monetary policy was oriented towards the control of the average level of the monetary base in order to maintain price stability. Since the end of 2004, this policy has been

URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

marked by an expansionary trend owing to the existence of deflationary risks and the slow response of domestic prices to a stronger money supply. In the 12 months to October 2005, the monetary base expanded by 25.5% in nominal terms and 20% in real terms; the means of payment (M1) expanded at a similar pace and the money multiplier increased by 1.5%.

The interest rates paid by the Central Bank of Uruguay (BCU) on monetary regulation instruments issued in national currency continued to trend downwards, reaching an annual rate of 3%. The local currency deposit rates applied to the public stood at 2.2% (annual average), while the corresponding lending rates reached an average of 23.4% per year, with the margin recording an average year-on-year decline of 1,400 basis points. Credit remained stable throughout the year, with average year-on-year growth in local currency loans standing at 9% compared with a 5% decrease in foreign currency loans.

The balance-of-payments current account deficit widened (1.2% of GDP to June 2005, compared with 0.8% in 2004), reflecting the decline in the trade surplus attributable to an increase in private expenditure, which far exceeded the reduction in public-sector spending.

Merchandise exports increased by 28% in dollars in the 12 months to June 2005, exceeding US\$ 3 billion (20.6% of GDP), owing to higher sales of meat, dairy and agricultural products. Beef sales increased substantially (34%), representing one quarter of total exports. Imports of goods grew in the same period by 36% in dollar terms, reflecting the increase in oil prices as well as stronger demand for intermediate and capital goods.

The exchange rate continued to float, the main buying agent being the public sector. The nominal exchange rate against the United States dollar showed a 13.2% decrease over the 12 months to October, accompanied by a generalized tendency towards appreciation of local currencies in the Southern Cone. Meanwhile, the overall real effective exchange rate showed a 6% appreciation in the 12 months to September 2005.

The consumer price index reflected a 4.8% variation in the 12 months to November, close to the forecast of between 5% and 7% contained in the government's monetary programme.

If the quarter August–October 2005 is compared with the same period of 2004, it can be seen that the labour market remained stable without variations in activity, employment and unemployment; indeed, the unemployment rate stood at 12.5%. Underemployment, due to insufficient working hours, increased significantly: from 14.2% in the July–September quarter 2004, to 18.9% in the same period of 2005. At the same time, the rate of formal employment improved from 60% to 63% of employed persons over the same period.

The average wage index recorded a real rise of 5.3% in the 12 months to September 2005, with an increase of 5.6% in the private sector and 4.6% in the public sector. In the course of the year, the government reinstated the salary councils, a tripartite wage-negotiation mechanism for the private sector which hands down decisions which must be applied by companies nationwide. The national minimum wage was adjusted by 21.9% in July 2005, as a result of which it accumulated an increase of 90.8% over 12 months. As of 2004, the national minimum wage has no longer been used for computing social security benefits, since a specific unit of account was created for this purpose.

URUGUAY: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|--------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.2 | 12.3 | 6.0 |
| Consumer prices | 10.2 | 7.6 | 4.8 ^b |
| Average real wage | -12.5 | 0.0 | 4.8 |
| Money (M1) | 23.0 | 22.5 | 19.7 ^c |
| Real effective exchange rate ^d | 28.4 | 1.0 | -10.0 ^e |
| Terms of trade | 2.4 | 0.9 | -8.2 |
| Annual average percentages | | | |
| Urban unemployment rate | 16.9 | 13.1 | 12.1 |
| Central government overall balance / GDP | -4.6 | -2.5 | -2.5 |
| Nominal deposit rate | 28.1 | ... | ... |
| Nominal lending rate | 121.0 | 50.3 | 39.0 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 3 084 | 4 012 | 4 739 |
| Imports of goods and services | 2 734 | 3 675 | 4 519 |
| Current account | - 58 | - 105 | - 197 |
| Capital and financial account | 1 092 | 447 | 578 |
| Overall balance | 1 033 | 342 | 381 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Average from January to December, annualized.

The creation of a Ministry for Social Development during the course of the year went hand in hand with the application of the National Social Emergency Plan (PANES), whose purpose is to relieve the situation of the poorest segment of the population. At the end of 2004, poverty in the country remained high, having spread to 22% of households and 32% of the population, including the 2% of households and 4% of the population that are indigent.

The Plan provides for a US\$ 200 million investment as well as the award of a social wage (“citizen’s income”), equivalent to some US\$ 55 per month per family group. Also, some of the beneficiaries of the plan will have access to temporary work (“work for Uruguay”) and will receive a wage equivalent to double the social wage; the two benefits may not be combined. Until October, there were more than 45,000 beneficiary households and the number is expected to increase to 60,000 by the end of the year.

Mexico and Central America



Costa Rica

In 2005, the Costa Rican economy continued to grow at a pace (4.2%) close to its trend growth rate. The expansion was driven by buoyant exports, which reflected, among other things, an upturn in exports of microprocessors manufactured by the Intel plant, tourist activity and international business services. By contrast, domestic demand felt the adverse effects of the terms-of-trade downturn on real available income, the high rate of inflation (14.2%) and larger net outflows of investment income, caused by the increase in repatriation of profits and dividends associated with foreign direct investment. This was in addition to the uncertainty generated by the delay in adopting the fiscal reform, the lack of parliamentary support for the initiatives of the executive branch and the deterioration of the political and social climate in a situation dominated by the elections of February 2006.

In this context, economic growth took place on the back of an expansion in exports, which was driven, in turn, by an upturn in sales of microprocessors produced by the Intel plant and a buoyant performance from tourism and international business services.

The central government was able to keep finances under control, thanks to the increase in income and containment of expenditure. The fiscal deficit will be similar to the previous year's (2.8%). In response to strong inflationary pressures and a widening external sector imbalance, monetary policy turned austere in the second semester, which translated into lower growth in credit than in 2004 and an upward trend in interest rates.

The balance-of-payments current-account deficit broadened to 5.2% of GDP, since the rising trade deficit and increased repatriation of profits and dividends from foreign direct investment exceeded the net surplus on the services account. Financial (especially private) resources from abroad, however, helped to swell net monetary reserves by US\$ 290 million.

On the trade front, the executive branch sent the text of the Dominican Republic—Central America—United States Free Trade Agreement (CAFTA-DR) to the legislative assembly in October. Another key development was the entry into force of the free trade agreement with the member countries of the Caribbean Community (CARICOM) in 2005.

The objective of the central bank's monetary policy was to reduce inflation. To this end, it engaged in open market operations as the main instrument of monetary

control, aiming to hold the legal reserve requirement down at 12%. The central bank also attempted to maintain a neutral exchange-rate policy while avoiding any real appreciation or depreciation of the colón. With this in mind, an austere fiscal policy stance was adopted, anticipating that the containment of domestic spending would be enough to bring down inflation.

In the first five months of the year, however, liquidity in the financial system expanded by 4%, owing to a small increase in credit (2.5%) and a rise in savings (6%). At the same time, the monetary base expanded because of rising external capital inflows attracted by high interest rates and the relative stability conferred on the foreign-exchange market by the policy of mini-devaluations. In May, cumulative inflation reached 6.37%, compared with 5.14% in the year-earlier period, which pushed the year-on-year inflation rate up from 11.45% to 14.46%. The central bank therefore decided in June to raise the reserve requirement from 12% to 15% and step up open-market operations.

In the realm of fiscal affairs, the central government's deficit (2.8% of GDP) was kept under control even though the administration's tax reform proposal has yet to be adopted by the legislative assembly, which has been discussing it for more than three years. The deficit was kept in check thanks to a large increase in current revenues, as a result of better tax collection and efforts to combat evasion. In addition, the management of State funds by means of the single-window principle has avoided the government's having to increase its borrowing

even when certain agencies have had idle resources. The fastest-growing categories of revenue were income and sales taxes and customs duties.

In contrast to what has occurred in previous years, when a large part of the fiscal deficit was financed externally by issuing bonds on the international capital markets, in 2005 the government met its financing requirements by selling debt instruments on the local market.

Real growth in production came in at 4.2% in 2005. During the first five months of the year, however, economic activity slowed because of the adverse effects of the downturn in terms of trade on domestic spending variables, the austere fiscal policy and expectations of higher rates of interest. Also to blame were lower growth in Costa Rica's main trading partner countries and a number of incidental climatic factors, which hurt production of banana and sugarcane. During the rest of the year, however, especially in the third quarter, the rate of economic activity picked up in step with the expansion of exports, especially from the high-technology segment.

At the sectoral level, manufacturing performed particularly well (5.6%), chiefly thanks to exports of microprocessors manufactured by Intel, and to the upturn in the production of the textiles sector, some of whose firms have developed innovative strategies in response to competition from China, focusing on products with shorter lead times. At the same time, growth in goods production quickened owing to expansion in the agricultural sector (4.1%). Services (especially transport), telecommunications (cellular telephony and Internet service), hotels and financial services all continued to perform well.

The inflation rate came in at 14%, thereby exceeding the target of 12.7% established in the monetary programme. The determinants of this result were the steep rise in the international prices of petroleum and petroleum products, hikes in a number of utility rates, such as water and electricity, and higher prices for some agricultural goods.

Despite the growth of the economy, the open unemployment rate rose slightly and the purchasing power of wages fell. Notably, the adjustments made to the nominal minimum wage were barely enough to make up for the increase in prices.

Partial data on the external sector's performance indicate that the balance-of-payments current account

COSTA RICA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 6.5 | 4.2 | 4.2 |
| Consumer prices | 9.9 | 13.1 | 14.2 ^b |
| Average real wage ^c | 0.4 | -2.6 | -1.2 |
| Money (M1) | 21.5 | 12.5 | 11.9 ^d |
| Real effective exchange rate ^e | 6.2 | 2.8 | 1.6 ^d |
| Terms of trade | -1.5 | -3.8 | -5.7 |
| Annual average percentages | | | |
| Urban unemployment rate | 6.7 | 6.7 | 6.9 |
| Central government overall balance / GDP | -2.9 | -2.8 | -2.8 |
| Nominal deposit rate | 10.9 | 10.0 | 10.4 ^f |
| Nominal lending rate | 23.4 | 21.2 | 22.0 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 8 190 | 8 610 | 9 756 |
| Imports of goods and services | 8 483 | 9 140 | 10 367 |
| Current account | -929 | -831 | -1 031 |
| Capital and financial account | 1 268 | 912 | 1 321 |
| Overall balance | 339 | 80 | 290 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Average wages reported by workers covered by social security.

^d Year-on-year average variation, January to October.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Average from January to November, annualized.

posted a deficit of 5.2% of GDP, which was larger than in 2004. The improvement in the services account was not enough to make up for the increase in the deficit on the income account, owing to increased repatriation of profits and dividends, associated with foreign direct investment, as well as a deterioration in the balance of trade for goods. Inflows of external financial capital swelled international assets by US\$ 290 million.

Exports of merchandise (f.o.b.) increased by 11.8%. The fastest-growing product categories included coffee (thanks to an upturn in international prices) and non-traditional agricultural goods (pineapple, melon, flowers, foliage and ornamental plants). The most prominent industrial exports were sales of microprocessors and exports to the Central American Common Market. The expansion of imports took place chiefly in the categories of raw materials and intermediate goods, which was largely a reflection of the higher oil bill and imports by firms located in the export-processing zones.

El Salvador

In 2005, GDP in El Salvador rose by 2.5%, which resulted in the largest increase in per capita GDP (0.7%) in six years. External demand, particularly for agricultural products, and the upturn in public investment were the most buoyant elements, while the increasing inflow of family remittances (16.6% of GDP) helped to boost private consumption. The economy continued to suffer the effects of the hike in international oil prices and the rise in international interest rates, which in turn pushed up debt servicing. Inflation trended upwards, and the current account deficit represented 3.9% of GDP. The floods caused by hurricane Stan and the eruption of the Ilamatepec volcano in October caused considerable damage and losses of US\$ 355 million.¹ A higher growth rate (3.5%) is expected in 2006 on the strength of reconstruction works, a buoyant world market and better performances from agriculture and tourism. The government's fiscal deficit will nonetheless be slightly wider than in 2005, when it had narrowed from 1.1% of GDP to 0.6%.

Fiscal austerity was maintained in 2005, with a view to reducing the public deficit. Tax reforms resulted in higher income than in 2004 (US\$ 172.4 million), following amendments to the tax code and the laws governing pensions, banking and income tax. The tax burden therefore rose to 13.2% of GDP, which was almost one percentage point higher than in 2004, while non-tax revenues represented 3% of GDP. The fact that the budget was approved on time and with no amendments generated a 35.6% increase in investment from the non-financial public sector (NFPS), which had dropped off by 38.3% in 2004 following delays in the adoption of that year's budget.

Current expenditure expanded for the third year in a row, mainly due to higher debt interest and pension disbursements of about 2% of GDP. With a view to reducing the impact of the rise in oil prices, up to September subsidies were allocated to the following sectors: transport (US\$ 5.86 million), energy (US\$ 17.53 million) and liquefied gas (US\$ 32.44 million). These outlays, plus reconstruction costs, generated an NFPS deficit of 3% of GDP in 2005.

Up to September, public external debt stood at US\$ 4.922 billion, as a result of the placement of bonds worth US\$ 401.8 million and loans obtained from the World Bank (US\$ 100 million) and the Inter-American Development Bank (US\$ 40 million). Overall, public external debt remained around 40% of GDP.

In 2005, nominal interest rates gradually rose due to the increase in international rates. In real terms, rates on 180-day deposits remained at -1% in 2005, while the interest rate on loans of up to one year climbed from 1.8% in 2004 to 2.4%. However, the improved economic performance generated an expansion of banking credit to the private sector (7%) and the public sector (8.5%). At the end of the year, the net international reserves of the central reserve bank were only slightly lower than in 2004.

Also during 2005, a consumer protection law was adopted and the government presented a package of laws to be reformed in preparation for the entry into force of CAFTA-DR, which will offer greater incentives and facilities for exports and foreign direct investment (especially in non-traditional and ethnic products).

¹ Economic Commission for Latin America and the Caribbean (ECLAC), "Efectos en El Salvador de las lluvias torrenciales, tormenta tropical Stan y erupción del volcán Ilamatepec (Santa Ana) octubre del 2005 y Perfiles de proyecto" (LC/MEX/R.892), Mexico City, ECLAC subregional headquarters in Mexico, November 2005.

GDP grew by 2.5% in response to the favourable terms of trade for certain agricultural goods and the expansion of private consumption, which benefited from the inflow of family remittances. Performance also improved in the following sectors: electricity, finance, services, transport and communications, construction and tourism.

The agricultural sector posted its highest growth in six years (4.3%), due to the increase in the production of basic grains and higher coffee and sugar prices. Following a 14% decline in 2004, the construction sector grew by 0.8% thanks to greater public and private investment in the Port of La Unión and the Port of Acajutla. Manufacturing value added expanded by more than twice the growth recorded the previous year (1.8%), despite the closure of certain maquila enterprises. In September, the government presented a manufacturing policy proposal due to be implemented from January 2006 with a view to strengthening the competitiveness of the manufacturing sector.

The damage and losses caused by hurricane Stan and the eruption of the Ilamatepec volcano affected mainly housing and road infrastructure and, to a lesser extent, agriculture, the environment, health, water and sanitation and tourism. Greater public investment throughout 2005 and the reconstruction works initiated at the end of the year should boost economic activity in 2006.

Year-on-year inflation up to October was 5.9% as prices rose following the temporary food supply shortages caused by the October floods and high oil prices. This figure was above the 3%-4% inflation target set for 2005, giving rise to the second straight year of reductions in families' purchasing power in the absence of wage increases. Despite economic growth, the open unemployment rate also climbed as the number of jobs dropped in the maquila sector.

The export sector performed better in 2005 (6.1%) than in 2004. This was the result of increased demand and higher prices for agricultural products including coffee and sugar, and an increase in non-traditional exports (9%). However, increased import buoyancy generated a balance-of-payments current account deficit of 3.9% of GDP, which was similar to the level observed in 2004.

EL SALVADOR: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 1.8 | 1.5 | 2.5 |
| Consumer prices | 2.5 | 5.4 | 4.6 ^b |
| Real minimum wage | 2.1 | -1.4 | -4.4 |
| Money (M1) | -2.0 | 8.5 | 8.7 ^c |
| Real effective exchange rate ^d | 1.5 | -0.1 | 1.0 ^e |
| Terms of trade | -3.9 | -1.0 | -1.0 |
| Annual average percentages | | | |
| Urban unemployment rate | 6.2 | 6.5 | 7.2 |
| Central government overall balance / GDP | -2.7 | -1.1 | -2.9 |
| Nominal deposit rate | 3.4 | 3.3 | 3.4 ^f |
| Nominal lending rate | 6.6 | 6.3 | 6.9 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 4 006 | 4 301 | 4 650 |
| Imports of goods and services | 6 462 | 7 029 | 7 684 |
| Current account | -764 | -612 | -661 |
| Capital and financial account | 1 080 | 572 | 593 |
| Overall balance | 316 | -40 | -67 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Average from January to November, annualized.

Net flows of foreign direct investment rose by 2.4% in relation to the previous year, bringing their total to at US\$ 477 million thanks to extraordinary income from the purchase of bank assets. In addition, the growing promotion of tourism generated revenues of US\$ 629 million.

The economy benefited from a significant external boost in the form of an increase in family remittances (11%), which was in turn due to lower unemployment rates and an increase in the number of Latin Americans employed in the United States, plus a rise in the average level of remittances following the recent natural disasters. Over US\$ 2.000 billion in remittances fuelled private consumption and—according to figures up to September 2005—the remittances covered almost 90% of the merchandise trade gap and, in disaggregated terms, they amounted to 80% of merchandise exports and 44% of goods imported.

Guatemala

The Guatemalan economy recorded 3.2% growth in 2005, the highest figure since 2001, and per capita GDP growth stood at 0.7%. Private consumption expanded by 4.1% thanks to favourable export prices and an increase in family remittances. The latter, together with capital inflows, triggered an appreciation of the local currency. For the second consecutive year, inflation remained at about 9%.

The authorities' projections for 2006 point to growth of just over 4%, driven by an increase in public investment and loans to the private sector. Other positive factors are the entry into force of CAFTA-DR and preferential access to European Union markets. In addition, the authorities predict inflation of between 4% and 6%, a fiscal deficit of 2.5% of GDP and a current account deficit of 3.9% of GDP.

Fiscal policy was slightly more expansionary than in 2004, when significant cuts were made in spending owing in part to the suspension of two taxes. As a result, the government deficit increased from 1% of GDP in 2004 to 1.4% in 2005.¹ The tax burden declined from 10.1% of GDP in 2004 to 9.9% in 2005. The tax reform introduced by the government in mid-2004 included the creation of an extraordinary tax imposed temporarily to support the peace agreements and modify income tax. September saw the restoration of the fuel distribution tax, which had been suspended by the Constitutional Court and replaced temporarily by an extraordinary fuel tax in December 2004.

Up to September, government spending was geared towards the priorities established in the peace agreements and the “*Vamos Guatemala*” reactivation programme. For its part, real social spending expanded by 8% compared with the same period of the previous year. More physical investment projects took place as well as capital transfers to autonomous and decentralized institutions.

The monetary authorities took measures geared to the adoption of a scheme of explicit inflation targets and the use of a single benchmark interest rate applicable to all short-term monetary stabilization operations.

The Bank of Guatemala has applied an active policy in order to moderate inflationary pressures, resorting actively

to open-market operations and raising interest rates. The rate for seven-day deposit certificates (monetary policy benchmark rate) increased by 25 basis points in February, May, September and November, to stand at 4% at the end of the year. However, in order to curb the appreciation of the quetzal, the Bank of Guatemala purchased foreign currency to the tune of US\$ 347 million in the first half of 2005, which has reportedly boosted the money supply and exerted some degree of inflationary pressure.

GDP growth of 3.2% in 2005 was fuelled by domestic demand that proved more buoyant than external demand. Public consumption grew by 4.6%, reversing the 10% decline recorded in 2004, and gross fixed capital investment (up 2.6%) was spurred by private investment. All productive sectors, except mining and construction, showed positive results. Agriculture grew by about 3%, thanks to an improvement in the production of basic grains, vegetables and greens, while coffee production remained unchanged and banana and cardamom production diminished; manufacturing was up by 2.9%, a performance associated with the recovery in exports.

In early October, Guatemala was hit by hurricane Stan, which caused the death of 669 persons, the disappearance of 884 others and material damage and losses estimated at US\$ 983 million. The strongest impact was felt in the relatively less developed departments, which are inhabited by families with very low incomes.²

The twelve-month variation in consumer prices to November stood at 9.3% (compared with 9.2% in 2004), exceeding by a wide margin the annual target of 4% to 6% set by the Bank of Guatemala. Imported inflation accounted for approximately one third of this figure. No data were available for unemployment in 2005, but the open unemployment figure for 2004 was

¹ The fiscal deficit projected in the 2005 budget was 1.8%.

² See Economic Commission for Latin America and the Caribbean (ECLAC), *Efectos en Guatemala de las lluvias torrenciales y la tormenta tropical Stan, octubre de 2005* (LC/MEX/R.895), Mexico City, ECLAC Subregional Headquarters in Mexico, November 2005.

3.1%. Up to November, there had been no adjustment in minimum wages.

The deficit on goods and services widened for the ninth consecutive year to stand at US\$ 4.137 billion (13% of GDP), despite the rise in the value of merchandise exports, based mainly on the rally in prices. In the first half of the year, non-traditional exports expanded for the fourth consecutive year (17%); clothing, natural rubber, vegetables and above all chemicals performed well. The value of merchandise imports grew by 9%, owing in part to the high oil prices.

According to the Guatemalan Tourism Institute, the number of tourists to the country declined by 100,000 as a result of hurricane Stan. Tourist arrivals are expected to amount to 1.2 million persons in 2005, which implies a US\$ 50 million fall in earnings from tourism. Net payments of profits and interest stood at US\$ 360 million, the balance of current transfers amounted to US\$ 3.25 billion, while family remittances were in the vicinity of US\$ 3 billion. The balance-of-payments current account deficit (US\$ 1.25 billion, or 4.1% of GDP) was more than offset by income from the capital and financial account and an overall balance of US\$ 325 million was recorded.

GUATEMALA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|--------|--------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.1 | 2.7 | 3.2 |
| Consumer prices | 5.9 | 9.2 | 9.2 ^b |
| Average real wage | 0.4 | -2.4 | ... |
| Money (M1) | 13.4 | 10.3 | 13.3 ^c |
| Real effective exchange rate ^d | -0.3 | -2.9 | -7.3 ^e |
| Terms of trade | -2.9 | -0.9 | -2.8 |
| Annual average percentages | | | |
| Urban unemployment rate | 3.4 | 3.1 | ... |
| Central government overall balance / GDP | -2.3 | -1.0 | -1.8 |
| Nominal deposit rate | 5.2 | 4.5 | 4.6 ^f |
| Nominal lending rate | 15.0 | 13.8 | 13.1 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 4 119 | 4 608 | 5 085 |
| Imports of goods and services | 7 302 | 8 483 | 9 223 |
| Current account | -1 039 | -1 188 | -1 250 |
| Capital and financial account | 1 589 | 1 797 | 1 529 |
| Overall balance | 550 | 609 | 279 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to September.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Average from January to November, annualized.

Honduras

In 2005, buoyant external conditions and domestic demand enabled the Honduran economy to grow by 4.2%, which was slightly lower than the growth recorded in 2004. Per capita GDP rose by 1.7%, compared with the 2.5% registered in 2004. Despite improvements in other macroeconomic indicators such as inflation and the fiscal position, the labour market situation remained precarious. Perpetuating the pattern observed in the previous biennium, growth is expected to continue to increase by more than 4% in 2006. The new government, due to take office in January, will continue to implement the programme agreed with the International Monetary Fund (IMF), which includes a further reduction of the fiscal deficit. Inflation is predicted to be lower than in 2005 thanks to less upward pressure from the international oil market. Lastly, the entry into force of CAFTA-DR in January 2006 is expected to result in more significant inflows of foreign direct investment.

The most significant achievements of 2005 in terms of fiscal policy included reaching completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in April, complying with the programme agreed with IMF and ratifying the above-mentioned treaty. These events boosted positive expectations for the economy, despite the rise in international petroleum prices.

The Heavily Indebted Poor Countries (HIPC) Initiative, together with the recent initiative of the Group of Eight, will result in debt relief of almost US\$ 2.800 billion over 15 years (60% of current external public debt). From 2006, resources saved on debt servicing will be used for social programmes implemented under the poverty reduction strategy, which will in turn help greater progress to be made towards achieving the Millennium Development Goals.

The government managed to resist pressure to increase spending in the run up to the elections, which has not always been the case in the past. The central government's fiscal deficit therefore narrowed from the equivalent of 3.4% of GDP to 2.9%, as predicted.¹ Total revenues, which swelled by 6% in real terms, were buoyed by healthy economic activity and increased tax receipts.

There was little growth in expenditure (4%), thanks to controlled wage increases and expenditure containment measures adopted in the final quarter. Outlays for the poverty reduction strategy, on the other hand, rose by over 30%. Progress was also made in the modernization of the legal framework for public finances.

Since May, monetary policy has been implemented under a new framework designed to communicate the central bank's position more clearly to agents. The changes relate both to operational targets and to central bank instruments. Intermediate targets were abandoned in favour of an operating target in the form of a short-term money-market interest rate. A distinction was also made between short-term and long-term liquidity management and monetary policy instruments were extended. In addition, the amount of liquidity needed by the financial system has been calculated empirically, in order to minimize the divergence between current rates and the operational target.

The significant increase (50%) in family remittances swelled the central bank's net international reserves more than planned, which in turn pushed up money creation by around 13% in real terms. The monetization of foreign

¹ According to data from the central bank, on the basis of accrued interest on the public external debt.

exchange obliged the central bank to partially sterilize currencies by increasing the net issuance of lempira-denominated absorption certificates.

Interest rates continued to fall amidst abundant liquidity, and real borrowing rates are on the verge of entering negative figures. Credit to the private sector rose by 16%, mainly in the form of loans to businesses, consumers and industry. Financial indicators continued to improve thanks to the favourable economic climate.

The exchange rate underwent a nominal depreciation of 2.5%, which positioned it at the lower limit of the exchange-rate band established by the central bank. In real terms, this actually constituted a slight appreciation, which helped to slow down the rate of inflation. The fact that even more significant appreciations were recorded by currencies of other Central American countries increased the competitiveness of Honduras.

The current expansionary cycle of the Honduran economy has been characterized by acceleration in external and domestic demand. However, both variables were less buoyant than in the previous year, partly due to lower growth in the world economy and the adverse effects of high petroleum prices. Largely thanks to the exceptional rise in remittances, consumption became the most robust element of domestic demand, given that investment suffered a slight setback that would have been worse were it not for growth of around 20% in public investment.

Growth was fairly uniform throughout all sectors. Although two sectors experienced slowdowns in 2004, all sectors posted positive growth rates of between 2% and 6% in 2005. The sole exception was the construction sector, which expanded by almost 15%. Growth in agriculture was dampened by weather problems, whereas manufacturing notched up more growth thanks to buoyancy in the maquila industry. Tourism and telecommunications also turned in positive performances.

In the final quarter, the upward trend of consumer prices was reined in, and inflation is therefore expected to stand at 8.0%. Although this is beyond the range of 6.5% to 7.5% stipulated in the monetary programme, it is nonetheless below the 9.2% recorded in 2004. This rate of inflation is mainly the result of the rise in petroleum prices. The largest increases were recorded in food and non-alcoholic beverages, accommodation, electricity and gas and other fuels.

Although figures on the labour market are as yet unavailable, the situation remains precarious as the underemployment rate exceeds 30%, while the real average minimum wage edged up by a mere 0.8%.

HONDURAS: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 3.5 | 5.0 | 4.2 |
| Consumer prices | 6.8 | 9.2 | 7.7 ^b |
| Real minimum wage | 8.6 | 0.8 | 0.8 |
| Money (M1) | 15.4 | 15.2 | 17.5 ^c |
| Real effective exchange rate ^d | 1.8 | 1.5 | 0.2 ^e |
| Terms of trade | -4.3 | -0.9 | -2.8 |
| Annual average percentages | | | |
| Urban unemployment rate | 7.6 | 8.0 | 6.8 ^f |
| Central government overall balance / GDP | -5.6 | -3.1 | -3.0 |
| Nominal deposit rate | 11.5 | 11.1 | 10.9 ^g |
| Nominal lending rate | 20.8 | 19.9 | 19.0 ^g |
| Millions of dollars | | | |
| Exports of goods and services | 2 693 | 3 066 | 3 257 |
| Imports of goods and services | 3 839 | 4 557 | 5 037 |
| Current account | -292 | -391 | -468 |
| Capital and financial account | 65 | 759 | 496 |
| Overall balance | -227 | 368 | 28 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to August.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Data correspond to May.

^g Average from January to September, annualized.

In terms of the external sector, the current account deficit widened slightly from the equivalent of 5.2% of GDP 5.7%. Both exports (6%) and imports (12%) grew less than in the previous year, although the latter continued to expand at higher rates than the former.

Traditional exports stagnated as the respective performances of coffee and banana cancelled each other out. The price of coffee improved while the volume exported dropped, whereas banana prices fell while export volumes increased. Non-traditional exports grew by 6%, especially shrimp, lobster and melon. Maquila value added climbed by 10%.

Merchandise imports rose as consumer goods (mainly fuelled by remittances), raw materials and intermediate goods increased in the light of the oil bill. However imports of capital goods were lower than in 2004, which was a reflection of faltering investment.

The financial account posted a positive balance of US\$ 500 million. Foreign direct investment remained at its usual level of around US\$ 200 million, most of which was channelled into free zones. The accumulation of reserve assets stood at US\$ 180 million.

Mexico

The growth rate of the Mexican economy fell from 4.2% in 2004 to 3% in 2005, and per capita GDP increased 1.6%. Inflation and interest rates remained stable with a downward trend, which contributed to reducing the level of country risk. Exports slowed despite the surge in oil income caused by high international prices. Despite the dynamic growth of the United States economy, the demand for Mexican manufactures from that country slowed down because of the increasing share of Asian products absorbed. In particular, China established itself as the second largest exporter to the United States after Canada. As the expansion rate of exports also declined, the current account deficit was similar to that of 2004 (1.2% of GDP). Consumption slowed down, although consumer credit continued its significant expansion. Capital formation rose for the second year, after three years of consecutive declines, combining higher investment in machinery and equipment with slower growth in construction, although housing loans continue to grow. Economic growth in 2004 and 2005 stimulated employment, while real remuneration remained unchanged.

Economic policy was based on fiscal and monetary austerity, while extraordinary oil income gave additional degrees of freedom for accomplishing the fiscal deficit target (0.2% of GDP) and paying off public debt. The floating exchange-rate resulted in a real appreciation in the peso (3%) because of high flows of remittances from emigrants, hydrocarbon exports and foreign direct investment.

Public-sector income rose by a real 5.2% in the period from January to October, boosted by the increase in oil income (7.1%) which amounted to 36.2% of the total. Non-oil income rose by 4.1% over the same period. Fiscal changes in 2004 contributed to a rise in VAT collection in real terms of 6.3% and in income tax of 5.8%.

The higher than expected receipts allowed a hike in real public-sector budget spending by 2.9% from January to October, in view of the impetus from higher current outlays (6.6%), although physical investment diminished (-1.1%). The additional allocations to the states from excess oil income were increased in accordance with the relevant fiscal mechanism established in the new legislation for making the use of these funds more transparent.

The public sector's financial requirements, which cover all activities, whether implemented by public or private entities, are estimated as amounting to 2.2% of

GDP and 2.3% excluding exceptional income from profits of the Banco de México or privatizations.

The federal government acquired international reserves from the Banco de México to cover maturities of debt bonds in 2006 and 2007 for a total of US\$ 4.767 billion. By October, external debt of almost US\$ 17 billion was repaid, which helped to reduce the balance by 1.3 percentage points of GDP. As domestic debt increased, total net public debt amounted to 23.1% of GDP by October, which was similar to the figure at the end of 2004.

In order to achieve the monetary-policy goal for inflation of close to 3%, the main instrument used was the "corto" (a target level for commercial banks' deposits in the central bank); this was raised to 69 million pesos per day at the end of 2004 and to 79 million pesos per day in March 2005, remaining at that level until the end of the year. The authorities maintained this restrictive stance for most of the year, in line with the monetary policy of the United States; as the financial situation became more stable and inflation declined, however, domestic monetary policy was decoupled from that of the United States in October 2005. The anchor rate, which had risen from 6.1% at the beginning of the year to 9.75% at the end of June, diminished to 9% at the end of October.

The expansion of the monetary base (by a real 7.6% in October in relation to the same month of the previous year) slowed slightly, and the preference for liquid instruments declined while it increased for other instruments. M1 expanded by 7.3%, especially current account deposits, and there was a significant rise in M2 (12.4%) and in financial savings (13.7%). The reduction in the public sector's financial needs and the flexibility of the international financial markets helped to maintain the availability of financial resources for the private sector.

Financing for the non-banking private sector rose by 3% in real terms between June 2004 and June 2005, while household credit grew by 14.1%, with particularly rapid growth in consumer loans (42%), and mortgage loans grew by 6.5%. Total financing to enterprises was down by 4.2% in real terms over the same period, although there was rapid growth in credit from commercial banks for construction, in contrast to the pronounced slowdown in credit to the manufacturing sector and the decline in the agricultural sector.

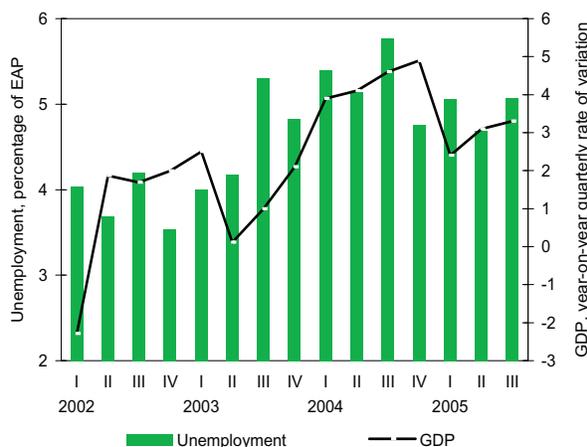
The foreign-exchange market showed a slight trend to appreciation of the peso, especially in the last quarter, when there was a greater inflow of foreign currency from remittances, foreign direct investment and oil exports. The nominal exchange rate declined from 11.26 pesos per United States dollar at the beginning of the year to about 10.50 pesos at the end of November. For the first 11 months the average parity was 10.92 pesos per United States dollar, so that the real annual appreciation is estimated at 3%.

The Banco de México continued to accumulate international reserves, although to a lesser extent than in previous years, as the mechanism to slow accumulation was operating, and US\$ 3.388 billion were sold up to October. At the end of November, the net variation in reserves was almost US\$ 4 billion in relation to the end of 2004, and there was a balance of US\$ 65.474 billion.

The economy expanded by 3% between January and September, and this figure is not expected to change in the fourth quarter. External demand slowed down owing to the displacement of Mexican products on the United States market in the face of competition from other countries. Domestic demand evolved favourably in response to the growth in employment, remittances and the expansion of credit. It is estimated that private consumption increased by about 4% over the year, while government consumption stagnated. The rise in gross fixed capital formation is estimated at 6% (7.5% in the previous year), which was a result of the slower growth in construction, as the purchase of machinery and equipment expanded significantly.

As a result of the slowdown in manufacturing exports (80% of total exports), production in that sector grew only

MEXICO: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

slightly (0.9%) in the first nine months of the year. There was a decline in activity in textiles (-1.9%), wood (-2.8%), base metals (-0.4%) and metal products and machinery and equipment (-1.2%), while paper and chemicals increased by 1.5% and 0.7%, respectively. Motor vehicle production expanded by 1% between January and October thanks to the impetus of domestic sales (4.4%) as exports continued to decline, although to a lesser extent. Basic services maintained their positive trend thanks to the boost from private consumption and public spending.

In 2005, inflation remained within the limits established by the monetary authorities and was at about 3% at the end of the year. Some inflationary pressures were observed in areas affected by hurricanes Stan and Wilma, but they were neutralized by the timely replacement of supply and did not affect the general level of prices. The lower variation in prices was partly due to the appreciation of the peso in relation to the United States dollar. The non-core component of inflation slowed gradually (2.85% as of October), owing to lower rises in agricultural prices, controlled goods and services and education. The core component diminished owing to the lower variation in prices of processed foods.

Despite the slower growth of the economy, the open unemployment rate declined from 5.4% of the urban economically active population between January and October 2004 to 4.9% in the same period of 2005, because of both the recovery of formal employment since 2004 and the absorption of workers in the informal sector. According to the new national survey of occupation and employment, the underemployed population amounted to

MEXICO: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|---------|---------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 1.4 | 4.2 | 3.0 |
| Consumer prices | 4.0 | 5.2 | 2.9 ^b |
| Average real wage ^c | 1.3 | 0.2 | -0.3 |
| Money (M1) | 14.2 | 13.9 | 10.7 ^d |
| Real effective exchange rate ^e | 12.5 | 4.7 | -2.4 ^f |
| Terms of trade | 1.0 | 2.9 | 2.9 |
| Average annual percentage | | | |
| Urban unemployment rate | 4.6 | 5.3 | 4.8 |
| Public sector | | | |
| overall balance / GDP | -0.6 | -0.3 | -0.2 |
| Nominal deposit interest rate | 5.1 | 5.4 | 7.7 ^g |
| Nominal lending interest rate | 6.9 | 7.2 | 9.9 ^h |
| Millions of dollars | | | |
| Exports of goods and services | 177 299 | 201 911 | 225 830 |
| Imports of goods and services | 187 680 | 215 372 | 241 781 |
| Current account | -8 615 | -7 271 | -9 300 |
| Capital and financial account | 18 053 | 11 329 | 14 800 |
| Overall balance | 9 438 | 4 058 | 5 500 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Manufacturing.

^d Year-on-year average variation, January to September.

^e A negative rate indicates an appreciation of the currency in real terms.

^f Year-on-year average variation, January to October.

^g Average from January to November, annualized.

^h Average from January to October, annualized.

7% of the economically active population and informal employment accounted for 11.9 million persons (28.2% of the employed population).

The number of workers affiliated to the Mexican Social Security Institute (IMSS) exceeded 13 million in October (4.2% more than in October 2004) and the annual average was higher than the previous peak recorded in 2000 (12.6 million); in this context the increase in employment in the maquila industry is striking (5.5% from January to September), reaching 1.164 billion workers, a figure which is still 10% less than the level recorded in 2000.

Labour productivity in the manufacturing industry rose by 2% up until July (6.7% for the same period of the previous year), while real average remuneration diminished by 0.4%; accordingly, the trade sector showed a productivity increase of 4.3% and a rise in remuneration of 0.3% in the same period.

Foreign trade slowed down. Between January and October, exports expanded by 12.0% (2.3 percentage points less than in 2004), the same rate as for imports, which produced a trade deficit of US\$ 4.849 billion (a year-on-year increase of 15.4%). The fastest-growing exports were in the oil sector (35.8%), despite the reduction in volume, while non-oil exports rose by 8.8% (3.7 percentage points less than in 2004). Between January and October, the average price of the Mexican mixture was US\$ 42.5 per barrel (US\$ 30.9 per barrel in 2004). The slower growth of exports affected imports, especially of intermediate goods, which grew by 9.3% in the period mentioned (15% in 2004).

The share of Mexican exports in the total world imports of the United States diminished from 10.7% to 10.2% from September 2004 to September 2005, while China's share rose from 12.8% to 14.2% over the same period. The balance-of-payments current-account deficit is expected to be US\$ 9.3 billion at the end of the year, equivalent to 1.2% of GDP. Family remittances until September showed an accumulated value of US\$ 14.719 billion (18.8% more than in 2004) and are expected to reach US\$ 20 billion by the end of the year; foreign investment would probably amount to US\$ 16 billion.

With the prospect of a slight slowdown in the United States economy and in view of the scarce growth in competitiveness, the estimate for Mexico's GDP growth in 2006 was 3.5%, mainly supported by domestic demand, which would continue to be boosted by the expansion of credit to the private sector and a low inflation rate (around 3%). Presidential elections will be held in July 2006. This is expected to be a very competitive process, but without leading to any major changes on the economic front.

Nicaragua

Real GDP grew by 4% in 2005, which is equivalent to a loss of almost one percentage point in relation to 2004 and a per capita GDP increase of 1.4%. Although the expansion of the economy and global trade boosted the country's exports, the hike in international oil prices and of some industrial commodities resulted in a deterioration in the terms of trade and a rise in inflation, which went from 8.9% in 2004 to 11.3% in 2005 and contributed to a large extent to the widening of the trade deficit.

In addition, the macroeconomic situation became weaker in view of the uncertainty caused by the lack of parliamentary support for the executive's initiatives and the growing political tensions in a situation marked by the presidential elections planned for 2006. As a result of the problems that arose during consideration and approval of the public budget for 2005 and the limited progress achieved in structural reform, the triennial agreement signed with the International Monetary Fund was in fact suspended, which led to a considerable reduction in outlays for budgetary support and the balance of payments.

Despite the commitment shown for achieving the quantitative goals and the recent efforts to implement the structural reform agenda before the end of the year, it seems increasingly unlikely that the government will be in a position to rescue the triennial agreement. Nevertheless, the debt relief planned in connection with the Heavily Indebted Poor Countries Initiative will not be affected. At the end of September 2005, Nicaragua had negotiated a reduction in external debt of US\$ 3.782 billion, of a total of US\$ 6.328 billion in scheduled relief.

It is important to emphasize that in this political and economic context, Nicaragua ratified CAFTA-DR.

The effects of the fiscal policy were a key factor in the macroeconomic performance. The central government fiscal deficit before grants was lower, which contributed to achieving monetary-policy goals in relation to price and exchange-rate stability.

Central government current income grew by 22.4% and the tax burden was raised to 16.7% of GDP. Grants, which were equivalent to 3.6% of GDP, were down by 12% compared to the previous year. Consequently, the share of total income in GDP (20.8%) diminished by half of one percentage point.

Current income increased by 13.3%, leading to an expansion of current saving, which rose from 3.4% of

GDP in 2004 to 4% in 2005. This was a result of the significant decline in outlays for interest payments on domestic and external debt (-17%). Accordingly, although total expenditure expanded by 14.6%, it remained virtually unchanged as a proportion of GDP (22.8%), despite a wage hike, the granting of subsidies to the transport sector, allocations to universities and municipalities and higher capital expenditure. Consequently, the fiscal deficit (excluding grants) declined from 6.1% of GDP in 2004 to 5.6% in 2005. The government transferred resources to the Central Bank in an amount equivalent to 1.6% of GDP, which improved its financial position.

In monetary affairs, the Central Bank maintained the exchange-rate policy of daily mini-devaluations consistent with a pre-announced annual devaluation rate to serve as an anchor for inflationary expectations. Nevertheless, in view of the lack of a clear direction in economic policy and the high inflationary pressures, it decided not to modify the devaluation rate of 5% and maintained the reserve requirement at 16.25%. At the same time, the Central Bank used open-market operations to reduce its domestic debt by paying off securities to the private sector on net terms. This paved the way for an increase in financial intermediation at lower interest rates. The structure of the credit portfolio reveals brisk growth in housing, consumer and business loans.

Real production growth was moderate in 2005, down from 5.1% to 4%. The rise in GDP was due to both the expansion of exports (6.3%) and the rise in domestic demand (5%). If inventory-rebuilding is excluded, however, the increase in domestic demand is much lower (4.1%), owing to the contraction in public investment in real terms (-1.4%). In contrast, private investment and consumer spending grew at higher rates than in 2004.

As for supply, GDP growth mainly reflected the positive performance of export-oriented agricultural activities

and the higher value added in manufacturing, especially among free-zone firms and in construction. Service activities also contributed to the economic recovery. The fastest-growing service sectors were financial services, commerce, transport and telecommunications.

Inflation, at 11.3%, was 2.4 percentage points higher than in 2004. The faster price increases were due to short-term factors—including higher fuel and transport costs, rate adjustments for certain basic services and a temporary hike in the prices of some agricultural products due to supply factors—rather than a deterioration in monetary conditions or an increase in domestic spending.

Preliminary official data show that, despite the economic growth, the level of unemployment rose slightly. In contrast, it is estimated that the real average wage increased, in particular because of the higher remuneration in central government. In April a 15% adjustment was approved for the minimum wage in all sectors.

The expansion of economic activity was accompanied by a larger imbalance in the external sector. The current account deficit (US\$ 865 million) rose from 16.5% of GDP in 2004 to 18.1% in 2005. This was due to the widening of the trade deficit, since the income account deficit was substantially less in view of lower interest payments and the substantial increase in current transfers (16.2%), especially family remittances. The reduction in official capital flows was compensated by the inflows of private capital, but the higher net capital revenue was not sufficient to finance the current-account deficit, and there was thus a loss of net international reserves.

Exports grew by 12.7%, while imports were up by 19.7%. The higher level of exports reflected both the recovery in sales of traditional products and the expansion of sales of non-traditional products, including food products, leather, wood, plastics and chemicals and the strong growth of net exports in the free zones (especially maquila firms in the textile industry) and in tourism earnings.

NICARAGUA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|--------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.3 | 5.1 | 4.0 |
| Consumer prices | 6.6 | 8.9 | 10.5 ^b |
| Average real wage | 1.9 | -2.2 | -1.6 |
| Money (M1) | ... | 24.2 | 25.6 ^c |
| Real effective exchange rate ^d | 4.0 | 1.7 | -0.4 ^c |
| Terms of trade | -3.4 | -1.9 | -2.8 |
| Annual average percentages | | | |
| Urban unemployment rate | 10.2 | 9.3 | ... |
| Central government overall balance / GDP | -2.8 | -2.2 | -2.0 |
| Nominal deposit rate | 5.6 | 4.7 | 4.0 ^e |
| Nominal lending rate | 15.5 | 13.5 | 12.3 ^e |
| Millions of dollars | | | |
| Exports of goods and services | 1 307 | 1 653 | 1 873 |
| Imports of goods and services | 2 385 | 2 851 | 3 374 |
| Current account | -749 | -732 | -865 |
| Capital and financial account | 280 | -793 | 826 |
| Overall balance | -470 | -1 524 | -39 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2005.

^c Year-on-year average variation, January to October.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Average from January to October, annualized.

All categories of imports showed substantial growth. There was a large increase in imports of commodities and intermediate goods, mainly because of the higher cost of oil and petroleum products (44.4%) and external purchases of capital goods, owing to the expansion of investment. Purchases of consumer goods expanded considerably, boosted by an increase in imports of non-durable goods.

Although the official figures for family remittances in 2005 are not yet available, they have continued to play an important role in the Nicaraguan economy. In 2004, they accounted for 11.4% of GDP and 36.7% of the trade and income balance.

Panama

Although growth was more moderate in 2005, Panama's economy has nevertheless expanded considerably over the past two years (around 6% in 2005 and 7.6% in 2004) thanks to favourable external conditions and buoyant domestic demand. This had a positive effect in terms of bringing down the unemployment rate to 9.6%, and significantly narrowing the fiscal deficit (3.6%). The balance-of-payments current-account deficit, on the other hand, widened to 9.8% of GDP and inflation exceeded usual levels (4%). Growth in 2006 is expected to be around 6.5%, provided that work is begun as planned on extending the Panama Canal and upgrading sanitation in the Bay of Panama. Unless these projects are implemented, growth will be lower as world trade is expected to slow down and interest rates look set to rise. Inflationary pressure should decrease and the fiscal balance is expected to improve, with a deficit of around 2.6%. A narrowing of the current account deficit is also predicted.

The government's main four projects for 2005 were: fiscal reform, social security reform, the conclusion of free trade negotiations with the United States and a referendum on the widening of the Panama Canal. Given that the projects have proved controversial, progress has only been made in the first two.

The fiscal reforms approved in February included 11 measures related to expenditure and 12 related to income. One of the most controversial measures, which met with opposition from the business sector and whose effects will be felt in 2006, is the "alternative calculation" of income tax, which involves paying a percentage of gross income. The proposed reform of the social security system met with even greater opposition, and led to the paralysis of sectors such as construction, which halted its activities for a month. The government therefore called for a dialogue with civil society groups, and this generated a proposal that included individual savings plans. The resulting bill was presented at the end of the year.

The deficit of the non-financial public sector (NFPS) narrowed from 5% of GDP to 3.6%. Revenues rose by around 11% in real terms as a result of increased tax receipts from buoyant economic activity, greater control in terms of collection and a rise in non-tax income from dividends. Expenditure was up by 5% due to debt interest and transfers. Public investment weakened and the payroll declined. The fiscal adjustment facilitated the reduction

of the floating debt, thereby cutting delays in payments to suppliers.

In 2005, the authorities implemented measures aimed at improving the public debt profile. Fiscal reform and the efforts to reform the social security system combined with favourable international market conditions to bring Panama's country risk to a record low. This enabled the substitution of some costly debt and the short-term maturity debt, thereby mitigating the budgetary effects of debt servicing. Up to September, public debt stood at US\$ 10.03 billion (an increase of US\$ 52 million), three quarters of which corresponds to external debt.

The banking sector benefited from a favourable economic situation at the national and regional levels—especially in terms of South American customers—and two new banks were set up. Between December 2004 and September 2005, assets increased by 4%, thereby offsetting the drop recorded between 2002 and 2003. Improvements were also recorded in other indicators including liquidity, profits and the arrears rate.

The loan portfolio increased by around 9% up to September: a rise driven by mortgages (15%), personal consumer loans (9%) and trade (13%). Deposit rates edged up slightly, while lending rates dipped, which reduced the level of intermediation.

Trade policy was directed at concluding a free trade agreement with the United States and another with

Singapore. The talks with Singapore were concluded successfully, while those with the United States stalled, although a final round of negotiations is scheduled for the beginning of 2006. Negotiations with Chile were reopened, and an agreement was signed with Mexico on the reciprocal promotion and protection of investment.

Growth was 6%, which was lower than in 2004 but higher than the potential growth of the economy. Sectors providing services to the rest of the world benefited from the buoyancy of the United States and Asian economies, and the steady growth of Latin America. Domestic demand expanded thanks to household consumption (boosted by the increase in employment and credit) and abundant private investment in sectors such as ports and tourism.

The agriculture and fishing sectors performed well (6%), mainly on the strength of increases in fishing, livestock and export crops such as coffee and pineapple. Manufacturing expanded slightly on the back of activities related to food processing and the manufacturing of metal products. Commerce also turned in a fine performance (6%), both at the strictly domestic level and in the Colón Free Zone. The most buoyant sector is still transport, storage and communications (12%), thanks to the positive results for port activities, railways, the Panama Canal and mobile telephones.

Year-on-year inflation up to October recorded growth of 3.9%, the highest rate observed since 1982. This exceptional rise was due to international petroleum prices, with transport displaying growth of over 10%. Significant increases were also registered in housing, water, electricity and gas and food and beverages. Inflation measured by the wholesale price index was higher (6.6%), which suggests that inflation will remain above usual levels in 2006.

The labour market continued to improve by virtue of the considerable buoyancy of the economy. The urban unemployment rate retreated significantly from 14.1% to 12%. There were no adjustments to the minimum wage in 2005, hence average real wages varied very little.

The balance-of-payments current account deficit widened again from the equivalent of 7.7% of GDP in 2004 to 9.7% in 2005, due to the increase in exports (12%) and imports (15%). Merchandise exports benefited

PANAMA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|--------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 4.2 | 7.6 | 6.0 |
| Consumer prices | 1.5 | 1.5 | 4.0 ^b |
| Real minimum wage | 0.7 | 0.9 | -2.9 |
| Money (M1) | 7.3 | 14.2 | 7.7 ^c |
| Real effective exchange rate ^d | 2.6 | 5.0 | 2.7 ^e |
| Terms of trade | -4.4 | -1.9 | -1.9 |
| Annual average percentages | | | |
| Unemployment rate ^f | 13.1 | 11.8 | 9.6 |
| Non-financial public-sector overall balance / GDP | -4.8 | -5.0 | -3.6 |
| Nominal deposit rate | 4.0 | 2.2 | 2.7 ^g |
| Nominal lending rate | 8.9 | 8.2 | 8.4 ^g |
| Millions of dollars | | | |
| Exports of goods and services | 7 606 | 8 611 | 9 634 |
| Imports of goods and services | 7 464 | 8 901 | 10 213 |
| Current account | - 437 | -1 104 | -1 515 |
| Capital and financial account | 284 | 709 | 1 834 |
| Overall balance | - 153 | - 395 | 319 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2005.

^c Year-on-year average variation, January to August.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Includes hidden employment.

^g Average from January to August, annualized.

from buoyant world trade, particularly exports of coffee, melon, watermelon, pineapple and shrimp larvae. Banana exports, on the other hand, declined. Merchandise imports climbed considerably, especially in terms of petroleum derivatives and capital goods.

The positive balance of services result rose by more than US\$ 100 million to stand at around US\$ 1.400 billion. This was due to increases in tolls and the volume transported by the Panama Canal, plus the good performance of port and tourist activities. The income balance, on the other hand, posted a deficit of US\$ 100 million corresponding to profits and dividends.

The financial account (including errors and omissions) recorded a positive balance of US\$ 1.800 billion. Although foreign direct investment (US\$ 700 million) was lower than in 2004, it nonetheless remained one of the main sources of financing for the hefty current account deficit.

The Caribbean



Bahamas

The Bahamian economy is estimated to have grown by 3.5% in 2005. While tourism declined, the economy was boosted by growth in construction and the expansion of consumer demand. High energy costs mean that fuel imports will continue to affect the balance of payments. Nevertheless, forecasts for 2006 point to stable growth. The continued investment in the tourism sector is having a positive impact on construction.

The fiscal deficit is expected to increase to 2.8% of GDP in 2005, after having contracted to 2.3% in 2004.¹ Thus, the deficit is expected to be close to the level observed in 2003 (2.9% of GDP).

According to estimates, fiscal revenue will grow, without any increase in taxes nor the introduction of new taxes. The government is seeking to recover a higher percentage of the expenses relating to air transport in the Family Islands, but the expansion in revenue will be mainly the result of more efficient tax administration.

The increase in collections will be insufficient to offset the additional expenditure attributable to the rises in wages and benefits paid to civil servants as well as to members of the police and national defence forces, and to education expenses. Improvements in infrastructure will push up capital expenditure.

The fiscal deficit will add to the public debt, which is cause for concern. This debt, which includes government guarantees for debt of public corporations, stood at 44.3% of GDP at the end of 2004 and increased by a nominal 10% in the 12 months to June 2005.

The monetary base expanded as a result of foreign currency inflows to the private sector and tourism earnings. This has led to an increase in time deposits (18%), reflected in a higher money supply, that is an increase in the M3 aggregate (9.6% in the 12-month period to June 2005). The more accelerated expansion in credit was insufficient to absorb these inflows and the result was higher external reserves and more abundant liquidity.

The credit supply strengthened in the 12 months to September 2005, in spite of which credit to the public sector contracted (-10.5%). On the other hand, credit to the private sector expanded by 10.3%, of which more than

half consisted of mortgage loans and approximately one third, of consumer loans.

The liquidity in the banking system fuelled an expansion in construction in the first half of 2005. In that period, the number of mortgage loans increased by 104% for housing and 68% for commerce, with respect to the same period of the previous year, and total values increased by 146% and 106%, respectively.

The tourism sector contracted in the first eight months of 2005 compared with the same period of 2004. The total number of tourist arrivals to August fell by 6.9%: arrivals of air passengers were down by 2.4% and cruise-ship visitors by 9.1%. Tourist arrivals in Grand Bahama dropped by 25.6%, partly because of a reduction in capacity due to the closure of the “Global Oasis” tourist complex in September 2004.

Investment in tourism has been substantial. Kerzner International will start the third phase of the expansion of its property “Atlantis” and Grand Bahama could benefit from various large projects that are still in the planning phase. Improvements at the airport have made it possible to increase the air transport capacity. In addition, new connections have been opened up from Europe as well as from the United States.

The sector continues to face challenges, given that the 2005 hurricane season could result in a decline in demand from the United States, while demand from Europe could be adversely affected by the increase in oil prices.

Inflation stood at 2.4% (September to September). The rise in oil prices affected the cost of transport and communications (3.1%), as well as food and beverage prices (3.3%). Indeed, price increases were seen in all categories except for clothing and footwear, which continued to follow a downward trend (-1.8%).

¹ Fiscal year 2005 runs from 1 July 2005 to 30 June 2006.

In the first half of 2005, the overall balance of payments figure stood at US\$ 93 million, 45% less than in the same period of 2004. A significant increase in the financial and capital account surplus, considering errors and omissions, offset the sharp increase in the current account deficit, which was reflected in a marginal inflow of net international reserves.

The widening of the current account deficit was due, on the one hand, to the increase in oil imports and, on the other, to a slight contraction in net inflows under travel. Meanwhile, the significant growth in transfers was cancelled by the expansion in the deficit on the income balance.

The financial and capital account, including errors and omissions, improved in the first half of 2005, compared with 2004, moving from a deficit of US\$ 85 million to a surplus of US\$ 232.8 million. The higher inflows from investments in construction and tourism as well as funds associated with the “Cable Beach” project contributed to this improvement.

BAHAMAS: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 1.9 | 2.8 | 3.5 |
| Consumer prices | 2.3 | 1.0 | 2.4 ^b |
| Money (M1) | 4.8 | 23.3 | 18.8 ^c |
| Annual average percentage | | | |
| Unemployment rate | 10.8 | 7.0 | ... |
| Central government overall balance / GDP | -2.9 | -2.3 | -2.8 |
| Nominal deposit rate | 3.9 | 3.8 | 3.2 ^d |
| Nominal lending rate | 12.0 | 11.2 | 10.5 ^d |
| Millions of dollars | | | |
| Exports of goods and services | 2 405 | 2 590 | 2 755 |
| Imports of goods and services | 2 709 | 3 032 | 3 418 |
| Current account | -418 | -199 | -408 |
| Capital and financial account | 322 | 383 | 438 |
| Overall balance | -97 | 184 | 30 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to September 2005.

^c Year-on-year average variation, January to September.

^d Average from January to September, annualized.

Barbados

In 2005 there was a dip in the rate of growth of the Barbadian economy (2.8% as compared with 4.9% in 2004). Economic activity was boosted by all sectors producing non-tradable goods. Despite the reduced growth rate, there was a significant rise in inflation (5.1% for the 12 months to June) compared with previous years, owing to the increase in international oil prices. In 2006, GDP growth is expected to be 3.3%, inflation is forecast to decline to 2.4%, and the overall balance-of-payments deficit should be down to 1.2% of GDP.

In the first nine months of 2005, fiscal accounts improved because revenue expanded more than spending. The deficit fell by 2.9 million Barbados dollars (BDS\$) to BDS\$ 98 million.

Revenue expanded by 6.3%, boosted by an increased tax take from international corporations and financial service companies. Revenue from personal taxation dipped by 14%, owing to the reduction from 40% to 37.5% of the top tax rates applicable to income in excess of BDS\$ 24,200.

Expenditure was up by 5.7%, as a result of rising current and capital spending, the latter being due to the beginning of preparations for the Cricket World Cup. The deficit was financed locally to avoid any disturbances which might affect the economy if financing had been obtained from the international capital market.

The authorities expect to end the current year with a deficit equivalent to 2.3% of GDP, in view of the slowdown of the growth rate and, as a result, of tax revenue. For 2006, a further increase in the deficit is expected (2.7% of GDP) following the rise in spending on infrastructure improvements and on preparations for the Cricket World Cup.

Faced with rising inflation, the monetary authorities adopted a restrictive approach. The central bank increased the minimum deposit rate in order to hold back rising demand for credit, reduce bank liquidity and restrain inflationary expectations. The deposit rate increased from 2.25% in January to 4.25% in September. Accordingly, the interest rate on treasury bills rose from 2.76% to 5.28%.

The broad money supply expanded by more than 6% in the first nine months of 2005, owing to increased deposits by statutory bodies and the central government. In the course of the year, the money supply is expected to grow by 7% (85.3% of GDP), slowing in comparison with the 2004 growth rate of 17%.

In the first nine months of the year, economic growth was led by the construction sector, particularly

BARBADOS: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.4 | 4.9 | 2.8 |
| Consumer prices | 0.3 | 4.3 | 5.5 ^b |
| Money (M1) | 23.4 | 22.1 | 3.0 ^c |
| Real effective exchange rate ^d | 3.3 | 4.4 | -0.3 ^e |
| Annual average percentages | | | |
| Open unemployment rate | 11.0 | 9.8 | 9.4 ^f |
| Nominal deposit rate | 2.9 | 3.0 | 3.4 ^g |
| Nominal lending rate | 7.4 | 7.4 | 8.1 ^g |
| Millions of dollars | | | |
| Exports of goods and services | 1 430 | 1 460 | 1 493 |
| Imports of goods and services | 1 584 | 1 780 | 1 819 |
| Current account | -169 | -354 | -353 |
| Capital and financial account | 237 | 184 | 208 |
| Overall balance | 67 | -170 | -145 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to June 2005.

^c Year-on-year average variation, January to August.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to June.

^f Figure shown corresponds to first semester.

^g Average from January to September, annualized.

the residential subsector, the preparations for the Cricket World Cup, and road works. Growth in wholesale and retail trade and in transport and communications (2.7% and 4.2% respectively) was due to increased demand for consumer goods and mobile telephones. Also in the first nine months, the growth rate of the tourism sector (4%) slowed from the year-earlier period (12%). The number of tourists from Canada and the United Kingdom was down by 9%. Growth of 3% is expected for the year as a whole.

The unemployment rate dipped from 9.8%, the average figure for 2004, to 9.4% for the first half of 2005.

The balance-of-payments deficit was also down, from 6.1% of GDP in 2004 to 4.8% in 2005, thanks to an

improvement in the capital and financial balance, while the current-account balance remained stable.

Goods exports rose slightly, as did imports. The latter was due to slower growth in economic activity because

of soaring international oil prices. There was a fall in tourism-related income, resulting in a reduced surplus on the services trade account (28% and 26% of GDP in 2004 and 2005 respectively).

Belize

The economy of Belize grew much more moderately in 2005 than in the previous year, slowing from 4.6% to 3%. Performance in the first half of the year was attributable to buoyancy in the fishing, trade and tourism sectors, although this was offset in the second half of the year as tourist inflows dropped off and drought caused problems in the agricultural sector. The balance-of-payments surplus widened thanks to greater net capital inflows in the form of official loans intended to cover the fiscal deficit.

The government deficit shrank from 9% of GDP to 7% between the financial years of 2004 and 2005,¹ despite the fact that revenues were below target and expenditure was higher than anticipated.

In 2004, the fiscal deficit was much wider than the target established by the authorities, and they have therefore set a target of 3% of GDP in an attempt to significantly reduce the deficit during 2005. In the light of the tax reductions implemented following the adoption of the fiscal budget and the expenditure adjustments, the target was reset at 3.6%. However, the deficit will not narrow as much as the government had hoped, on account of lower tax receipts and higher expenditure in the wake of the unexpected hike in petroleum prices. This fiscal situation will result in a 9% increase in public debt, which already exceeded 100% of GDP in 2004.

Broad money supply grew by 4.6%, owing to the expansion of net international assets, which more than offset the net domestic credit squeeze. The performance in terms of net external assets was attributable to net income from official loans and sale of shares in the Belize telecommunications company. The credit squeeze is part of a tight monetary policy designed to curb the rise in aggregate expenditure.

The authorities increased the legal reserve requirement by one percentage point in December 2004 and by another percentage point in May 2005. In July, the authorities set the parity at 2.15 Belize dollars to every United States dollars for transactions of exchange houses with operating licences.

These restrictive measures mopped up some of the excess liquidity. Commercial banks responded by increasing the level of financial intermediation by 20 basis points in

BELIZE: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|-----------------------------------|------|------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 9.2 | 4.6 | 3.0 |
| Consumer prices | 2.3 | 3.0 | 4.4 ^b |
| Money (M1) | 0.1 | 4.1 | 8.7 ^c |
| Annual average percentages | | | |
| Nationwide total unemployment | 12.9 | 11.6 | 11.0 ^d |
| Nominal deposit rate | 4.8 | 5.2 | 5.3 ^e |
| Nominal lending rate | 14.4 | 13.9 | 14.2 ^e |
| Millions of dollars | | | |
| Exports of goods and services | 529 | 526 | 571 |
| Imports of goods and services | 665 | 654 | 723 |
| Current account | -181 | -187 | -211 |
| Capital and financial account | 170 | 219 | 261 |
| Overall balance | -11 | 31 | 50 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to August 2005.

^c Year-on-year average variation, January to August.

^d Data correspond to April.

^e Average from January to September, annualized.

the first eight months of the year, thereby slowing down demand for credit. In fact, demand for credit expanded slightly in manufacturing (2.2%) and services (1.4%).

Economic activity expanded on the back of buoyant fishing, trade and tourism, while agriculture was negatively affected by lower sugar production (and associated distribution problems) and the adverse weather productions that plagued the banana harvest.

Growth in tourism slowed somewhat, partly due to the after-effects of the hurricanes that have struck the Caribbean. Between January and August 2005, the number of long-stay visitors was 1.3% higher than the

¹ Belize's fiscal year runs from April to March.

year-earlier period and the number of cruise passengers was up by 1.2%.

Between August 2004 and August 2005, inflation rose by 4.4%. Food, beverage and tobacco prices displayed the largest increases (6.3%)—due to higher import costs from the United States— followed by transport costs (5.9%) and public utilities (4.5%). The rise in transport costs is the result of higher petroleum prices, while the increase in utility prices is due to the higher cost of importing electricity from Mexico.

The unemployment rate dropped by 0.6 percentage points to stand at 11% (in April 2005).

During 2005, the fact that good export performance failed to offset the oil bill resulted in a significant current account deficit, although this was more than compensated by the widening surplus in the capital and financial account. This increased surplus is attributable to higher income from official loans, and inflows of foreign direct investment in the infrastructure and tourism sectors. As a result, the overall surplus of the balance of payments rose from US\$ 31 million in 2004 to US\$ 50 million in 2005, which represented a significant accumulation of net international reserves.

Cuba

The economy continued to grow in relation to the previous year, thanks to the combined effect of favourable external conditions resulting from growth in goods and services exports and capital inflows, making possible an increase in consumption and boosting investment.¹ This growth was also helped by greater availability of foreign exchange in Government hands, which permitted the implementation of the new monetary policy adopted in 2004.

According to data from the Government of Cuba, the growth rate reached 11.8% in 2005. As a result of the changes taking place in Cuba's productive structure, involving a greater role for tourism and the provision of highly complex services, exports of goods and services climbed by 48.5%, driven by the sale of professional services to the Bolivarian Republic of Venezuela, the growth of tourism (12.2%) and, to a lesser extent, higher sales of nickel, although sugar exports were down. Despite the fall in family remittances, the current account was in surplus. Together with considerable capital inflows, this led to a significant rise in international reserves for the second consecutive year. The payment of external debts contributed to a gradual restoration of the country's creditworthiness. Rising prices for imported oil and foodstuffs once again brought about a decline in the terms of trade.

Considerable wage adjustments pushed household consumption upwards, and there were sizeable investments, especially in the energy sector. Increased spending widened the fiscal gap, the supply of money in the hands of the population (M2) increased (27.4%), and inflationary pressures intensified (4.2%).

Although there was growth in the extraction of petroleum and gas (8.8%) and nickel (7%), the sugar industry and electric power generation remained slack, there were transport problems resulting from the substantial increase in imported goods, and the country was also affected by a drought. Also of note was the direct and indirect damage resulting from hurricane Dennis, totalling US\$ 1.4 billion, or 3.1% of GDP.

The foreign-exchange measures adopted in 2004 strengthened the centralized control of foreign currency, giving the authorities scope for greater implementation

of the economic-policy changes begun previously, especially in the monetary and financial field. Changes in State-owned corporations, intended to link incentives to productive efficiency, also continued. The overall goal is to strengthen productive and labour discipline in the face of possible diversions of resources.

The fiscal gap widened even though State revenue had been boosted by economic growth, the upswing in the tax base and improvements in fiscal discipline. As of April 2005 there were rises in pensions and social welfare benefits. These measures benefited 1,468,641 and 476,512 people respectively, and entailed additional disbursements equivalent to 2.6% of GDP.

There were also adjustments in public-sector salaries. As of May, the minimum wage for 1.6 million workers was increased, costing the equivalent of 2.4% of GDP. From December, a further 2.2 million workers received wage increases, at a budgetary cost of 2.8% of GDP. Notable among other budgeted current expenditure are increased allocations for the arts and culture, education and public health.

In response to insufficient supply of energy and increasing demand for it, the 2005 budget included US\$ 432 million for maintenance of electric power plants and improvements in distribution networks. Progress was made in the construction of a new combined-cycle power plant and the conversion of a thermo-electric plant for gas production. There were also imports of durable goods to increase domestic energy saving.

In 2005, exchange controls were strengthened and central bank interventions continued in order to absorb more foreign exchange. In November 2004, the circulation of United States dollars in cash was banned and the circulation

¹ The data on output growth contained in this note, are provided by the Government of Cuba and take into account high levels of social services exports to a number of countries, particularly the Bolivarian Republic of Venezuela. ECLAC is evaluating those calculations on the basis of the methodology used by the United Nations, a process which has not yet been concluded; ECLAC, therefore, does not yet have its own figures. Furthermore, Cuba has begun applying a new way of valuing social services, which is also being analysed.

of the convertible Cuban peso (CUC) was generalized, in reaction to new external disturbances resulting from unilateral acts by the United States of America.

The official exchange rate remained at one peso to the United States dollar, but as of 18 March, the rate in the parallel market fell from 26 to 24 Cuban pesos for the sale of convertible pesos and United States dollars, and from 27 to 25 pesos for the purchase of convertible pesos from the network of State-owned currency exchange offices (CADECA). In April 2005, the convertible peso appreciated by 8% against all foreign currencies.

As a result, the purchasing power of United States dollars fell by one third within the space of 12 months, owing to the price increases in 2004 in shops operating in foreign currency, the 10% surcharge on changing them into convertible pesos, and the appreciation of the convertible peso in April. The authorities announced that gradual and cautious increases in the exchange rate for the convertible peso would continue, and that it was expected that exchange-rate unification could be achieved in the future.

As mentioned above, the acceleration of economic growth in 2005 resulted from specialization in highly complex services, in which Cuba has achieved internationally-recognized quality, and from growth in tourism services and construction. Cuba's economic activity has also been buoyed by the Government's disaster relief efforts in Guatemala and Pakistan. There was a decline in the agricultural sector, however, mostly because of a 39% drop in sugar production. Electric power generation faltered again, because of the damage and the prolonged maintenance work caused by the eight hurricanes that have hit the country in the past four years.

The prices of goods and services rose because of the significant growth of the supply of money in the hands of the population, rising consumption resulting from higher pensions and salaries, supply problems caused by drought and hurricanes, and the rising prices of fuels on foreign-currency markets.

Consumer prices on the local-currency market rose for the second consecutive year, this time by 4.2%. With the exception of coffee, the State-controlled market held steady, with price controls and subsidies remaining unchanged. On the other hand, prices rose on the agricultural and informal free markets. Electric power prices underwent

CUBA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product ^b | 3.8 | 5.4 | 11.8 |
| Consumer prices ^c | -1.0 | 2.9 | 4.2 |
| Annual average percentages | | | |
| Urban unemployment rate | 2.3 | 1.9 | 2.0 |
| State fiscal balance / GDP | -2.8 | -3.5 | -3.6 |
| Millions of dollars ^d | | | |
| Exports of goods and services | 4 871 | 5 860 | 8 700 |
| Imports of goods and services | 5 263 | 6 219 | 8 400 |
| Current account | -127 | 41 | 60 |
| Capital and financial account | 200 | 800 | 800 |
| Overall balance | 73 | 841 | 860 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Figures provided by the Government of Cuba.

^c Local-currency markets.

^d Calculated using the official rate of 1 peso to the dollar.

a significant upward adjustment from December. Prices in foreign-currency shops increased by about 5%.

As mentioned above, there was a strong upswing in real wages and the unemployment rate remained stable at 2%, together with increased State employment and the downturn in private own-account employment.

Economic growth was strong for the second consecutive year, with a current-account surplus (US\$ 60 million) resulting from a considerable increase in exports of goods and services (48.5%), and despite rising imports (35%), a dip in family remittances (-30%) and soaring profit and interest payments (42.9%). The balance-of-payments capital account was positive (US\$ 800 million) owing to rising foreign direct investment, particularly from the Bolivarian Republic of Venezuela, Canada and China. The US\$ 860 million increase in international reserves provided some protection against external disturbances.

International tourism attracted 2.3 million people, and there were upswings in professional services and telecommunications. This resulted in a surplus in the services trade balance, in spite of increased services imports.

Of particular note was the upturn in economic relations with China, which boosted its purchases of commodities such as nickel, and with the Bolivarian Republic of Venezuela, which expanded its demand for professional services such as medical care, education, culture and sport.

Dominican Republic

The economy of the Dominican Republic expanded in 2005 (7%), with a 5.2% rise in per capita GDP, the highest percentage since 2000. The main impetus came from a strong recovery in domestic demand, particularly private consumption, but the export sector also performed better than in 2004. The consolidation of domestic macroeconomic stability, achieved thanks to the standby arrangement with the International Monetary Fund (IMF), was reflected in a major exchange-rate appreciation (30% against the United States dollar), falling interest rates, single-digit inflation (estimated at 9% for 2005) and improved public finances, including a cut in the high quasi-fiscal deficit caused by the banking crisis of 2003. The resurgence of domestic demand, together with the impact of rising oil prices, led to a strong increase in imports. The balance-of-payments current account went from a surplus equivalent to 5.9% of GDP in 2004 to a 0.8% deficit in 2005, despite increases in exports, in tourism revenue and in family remittances. The capital and financial account turned positive, and international reserves improved. The purchasing power of wages strengthened, and the April 2005 survey showed a slight upswing in the employment rate compared with that of October 2004. In 2006, it is expected that GDP will grow by 5%, inflation will be between 6% and 8%, and there will be progress in the rehabilitation of public finances.

Monetary and fiscal discipline brought about a rapid stabilization of the economy. The fiscal reform of October 2004 raised public revenue, leading to a reduction of the public-sector deficit to 0.8% of GDP and a primary surplus of 1% of GDP.

Revenue grew by 18% in real terms owing to hikes in direct and indirect taxes, the high level of economic activity, the increase from 12% to 16% in the rate of the goods and services transfer tax (ITBIS), selective consumption taxes and the foreign-exchange commission.

Spending also rose (7% in real terms), particularly current expenditure, owing to salary adjustments and increased gas and electric power subsidies, but less interest was paid on the external debt. Capital spending also rose, with a revival in physical investment and increased capital transfers.

The surplus enabled the Government to expand deposits in the commercial banking system, make overdue payments for the electric-power sector, pay off debt-servicing arrears for the rest of the public sector, and

reduce its domestic debts to suppliers. In late 2005, the Congress discussed the tax-reform proposal submitted in September by the executive branch with a view to increasing receipts.

In June, the external public debt stood at US\$ 6.448 billion, very close to the December 2004 level. The renegotiation with the Paris Club of sovereign bonds and debt made it possible to reduce interest payments and regularize arrears.

With excess liquidity resulting from the banking crisis having been sterilized, monetary policy focused on lowering inflation, emphasizing control of the monetary base and complying with pre-established ceilings. The main instrument of monetary control was open-market operations, but the authorities also used interest-bearing reserves. As of October, the stock of investment certificates was up 4.8% compared with December, an amount equivalent to 16.3% of GDP, and interest rates on those certificates were down to 11.3% compared with the figure of 32.4% 12 months earlier.

Monetary aggregates showed real increases, in contrast with the extensive reduction seen in 2004. From October to October, M1 money was up 7.5% in real terms, especially current deposits, and broad money expanded by 1.1%. Banking operations revived, in both deposits and lending, with particular intensity in the second half of the year, while interest rates fell by about 10 percentage points. As of September, deposit rates stood at 10.3% and lending rates at 20.9%. Bank lending to the private sector rose by 3.4%, mostly owing to the marked increase in lending to the construction sector and to individual borrowers, whereas other sectors lagged behind considerably.

In contrast with the considerable exchange-rate volatility and depreciation in 2004, it is estimated that in 2005, the rate against the United States dollar fell by 27%, reflecting a 30% real appreciation of the peso.

The largest expansion was in the services sectors. There was strong growth in communications (24.3%) because of the growing numbers of telephones, in commerce (17.5%), hotels, bars and restaurants (7.3%), and tourism and transport (6.3%), which mobilized a considerable volume of domestic and imported goods.¹ Expansion in the agricultural sector (4.7%) was led by growth in livestock output. The electricity, gas and water sector recovered (4.1%), while manufacturing (3.4%) was stimulated by rising private consumption, but output fell in the sugar industry and in free trade zones. Output continued to decline in construction, mining and government services.

The estimated inflation figure for 2005 stood at 9%, as against 28.7% in 2004. There was a surge in prices in the second half of the year, owing to increases in transport and housing costs in response to high international fuel prices. Food prices, however, trended downwards for most of the year. Minimum wages for public employees were raised by a nominal 30%, and in the private sector the raises of December 2004 took full effect, leading to a considerable improvement in purchasing power.

The balance-of-payments current account slumped from a surplus equivalent to 5.9% of GDP in 2004 to a 0.8% deficit in 2005. The recovery of domestic demand led to an unusual surge in imports and, as a result, in the trade deficit. Family remittances, which rose to US\$ 2.6 billion, partly made up for the deficit, and positive

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|--------|-------|-------------------|
| Annual rates of variation | | | |
| Gross domestic product | -1.9 | 2.0 | 7.0 |
| Consumer prices | 42.7 | 28.7 | 4.8 ^b |
| Real minimum wage | -9.5 | ... | ... |
| Money (M1) | 38.6 | 46.5 | 7.4 ^c |
| Terms of trade | -3.5 | -1.2 | -2.4 |
| Annual average percentages | | | |
| Urban unemployment rate ^d | 17.0 | 18.4 | 18.4 ^e |
| Central government overall balance / GDP | -5.2 | -3.0 | -0.8 |
| Nominal deposit rate | 20.6 | 21.1 | 12.8 ^f |
| Nominal lending rate | 27.8 | 30.3 | 21.8 ^f |
| Millions of dollars | | | |
| Exports of goods and services | 8 940 | 9 252 | 9 872 |
| Imports of goods and services | 8 846 | 9 057 | 10 944 |
| Current account | 1 036 | 1 088 | -240 |
| Capital and financial account | -1 583 | -541 | 1 106 |
| Overall balance | -546 | 546 | 867 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2005.

^c Year-on-year average variation, January to October.

^d Includes hidden unemployment.

^e Data correspond to April.

^f Average from January to November, annualized.

inflows of capital from abroad brought about an increase in international reserves.

Merchandise imports grew by 21.6%, owing to the considerable increase in consumer goods (52% to September), particularly consumer durables, and also in intermediate goods (18%), including a hike of almost 50% in the bill for oil, petroleum products and natural gas. The recovery in investments led to an upswing of 30% in capital goods during the same period.

Overall exports grew by 4.2%, led mostly by domestic exports (8.4%); the growth of those from free trade zones continued to stagnate, owing to the fall in clothing exports. Income from tourism swelled by almost 12%, resulting in an improved services surplus.

The outflow of capital was reversed in 2005, with the capital and financial account showing an inflow of US\$ 1.106 billion.² That was due to increased foreign direct investment, which totalled US\$ 900 million, and to inflows of short-term private capital (banking and other lending), which returned to a positive balance.

¹ Estimates for 2005 by the Central Bank of the Dominican Republic.

² Including errors and omissions.

Guyana

In 2005, GDP dropped by 2.9%, largely due to the negative impact of flooding in February that affected Guyana's main economic sectors including sugar and rice production. Inflation is expected to rise from the 5.5% recorded in 2004 to 7%, as a result of higher international petroleum prices, food shortages following the floods and the increase in the money supply.

The fiscal balance was negatively affected by flooding, higher energy costs and non-budgeted capital expenditure, bringing the deficit from 5% of GDP 2004 to 13% in 2005. The greatest costs corresponded to rehabilitation and reconstruction work in the wake of the flooding, and preparations for the World Cricket Cup to be held in 2007.

Monetary policy remained focused on carefully managing excess liquidity in the financial system in order to secure exchange-rate and price stability and improve the flow and distribution of credit to the private sector.

Despite the widening of the balance-of-payments current account deficit (17% of GDP in 2005), the government predicts a small positive overall balance thanks to greater capital inflows and the forgiveness of part of the external debt.

In 2006, the economy is expected to grow by 4% on the strength of construction and an upturn in agricultural activity. The central government deficit is predicted to remain at current levels.

The central government's debt expanded from 64.438 billion Guyanese dollars (G\$) in June 2004 to G\$ 69.203 billion in June 2005. The debt forgiveness initiative adopted by the Organisation for Economic Co-operation and Development (OECD) in July will reduce the country's debt stock and corresponding interest payments.

At the end of September 2005, the broad money supply swelled by a hefty 27% compared with the 7% contraction in the year-earlier period. This increase in the money supply was due to a rise in savings deposits.

During the first nine months of 2005, domestic credit expanded by 30%, driven by lower interest rates. This increase was significantly higher than the growth rate recorded the previous year. The rise in domestic credit mopped up some banking liquidity, although this remains high despite the open market operations actively carried out by the Bank of Guyana in order to bring the levels of liquidity down.

GUYANA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|--|------|------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 0.7 | 1.6 | -2.9 |
| Consumer prices | 5.0 | 5.5 | 7.4 ^b |
| Money (M1) | 7.4 | 19.6 | 13.1 ^c |
| Annual average percentages | | | |
| Central government overall balance / GDP | -6.6 | -4.8 | -13.0 |
| Nominal deposit rate | 3.8 | 3.4 | 3.4 ^d |
| Nominal lending rate | 16.6 | 16.6 | 16.2 ^d |
| Millions of dollars | | | |
| Exports of goods and services | 698 | 735 | 672 |
| Imports of goods and services | 777 | 852 | 944 |
| Current account | -91 | -112 | -173 |
| Capital and financial account | 100 | 66 | 176 |
| Overall balance | 10 | -45 | 3 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to September 2005.

^c Year-on-year average variation, January to June.

^d Average from January to September, annualized.

Credit to the private sector swelled by over 6% to reach G\$ 50.869 billion. Some loans were for the agricultural sector, and this enabled producers to recover production levels following the negative impact of the flooding. Average interest rates dropped between September 2004 and September 2005. The weighted prime interest rate fell from 16.84% to 16.38%, while the commercial banking rate decreased from 14.08% to 8.81%.

The net external assets of the banking system dropped by less than 1% following the impressive 21% increase registered in 2004. The expansion of the commercial banking system's net external assets for purchasing sovereign bonds was offset by the reduction in the net external assets held by the Bank of Guyana. The exchange rate depreciated by 0.2% in the first half of 2005, owing to considerable demand for foreign exchange.

The floods affected rice production (estimated contraction of 15%) and a substantial number of sugar refineries, in addition to causing a reduction in the sucrose content of sugarcane. These difficulties were further aggravated by labour problems. In the first half of the year, sugar production was 86,906 tonnes, which is the equivalent of only 27% of production that had been forecasted for 2005. For the year as a whole, the sector is expected to contract by over 20%, in contrast with the 7% increase posted in 2004. The lacklustre performance of agriculture should be partly offset by the projected 13% increase in bauxite production.

In 2005, the balance-of-payments figure is expected to be positive (US\$ 3.1 million), thanks to abundant capital

inflows. This will more than offset the current account deficit, which is wider than the previous year as a result of lower revenues from exports of goods and services and the higher oil bill.

In the first half of the year, the overall balance-of-payments position was positive (US\$ 8.1 million), despite the significant worsening of the merchandise trade deficit, which widened from US\$ 30 million in 2004 to US\$ 130 million in 2005. The poor performance of rice and sugar production was only partially offset by higher revenues from bauxite sales. In contrast, imports soared (26%) thanks to external purchases of consumer goods and intermediate and capital goods.

Haiti

The unstable socio-political context continued to be one of the most significant factors affecting the Haitian economy. GDP growth, at 1.5%, was substantially lower than the original official estimates and per capita GDP declined for the sixth consecutive year. The causes included the slower-than-expected disbursement rate of external cooperation funds, the social situation marked by recurring violent incidents and of course the impact of the high rises in international oil prices. Investment and consumption performed modestly, while the external sector showed a higher level of exports (6.9%), thanks to the rapid growth of the maquila industry, and imports showed some signs of recovery (2.2%).

In the course of the year, another three follow-up meetings were held in relation to the agreements reached under the Interim Cooperation Framework (CCI). At the meetings in Cayena (March 2005), Montreal (July 2005) and Brussels (October 2005), the international community reaffirmed its intention of implementing the agreed aid programmes, while proposing an extension of the period of validity of CCI to December 2007 and the joint preparation with the authorities of a Poverty Reduction Strategy Paper.

The largest multilateral contributions were made by the Inter-American Development Bank (US\$ 64 million), the World Bank (US\$ 28 million) and, more recently, the European Union (70 million euros, which had been frozen since 2000).

In October, the International Monetary Fund approved the second stage of the emergency post-conflict assistance programme for one year and approximately US\$ 15 million (12.5% of the country's quota). This second agreement, which includes performance targets similar to those of the agreement covering the period October 2004 to September 2005, will be evaluated in March 2006 with the new authorities.

The balance of external cooperation in the context of CCI was US\$ 567 million (90% of the agreed amount). This lower amount is due to both delays in the disbursement process by multiple donors and the absorption capacity of national entities. The delay in making disbursements has been the major criticism made of the programme.

The presidential elections planned for January 2006 dominate the political situation. This process, however, may be postponed once again in view of serious logistics and infrastructure problems (provision of electoral credentials, voting centres) and also purely political problems, including

the conflicts which have emerged within the Provisional Electoral Council and between that institution and the executive, which could alter the agreed dates.

The international financial institutions endorsed the transitional government's management of economic affairs. In general, the agreed targets—fiscal deficit, monetary and inflation control, and net international reserves—seem to have been achieved relatively successfully, taking into account the hostile socio-political context which prevailed for most of the year. The macroeconomic results, however, were more modest.

The central government deficit (4.5% of GDP, excluding grants), reflects first of all a rise in income (9.9%) which is less than expected, as revenue from foreign trade and value added taxes performed negatively in real terms (-8.5% and -14.7%, respectively) in view of the low levels of economic activity and short-term situations such as customs strikes. Income tax (20.5%) posted positive results, thanks to the administrative measures to strengthen controls. During the last two months of the financial year there was an exceptional recovery in income because of late tax payments and the operating rights for a new cellular telephony company. Spending was 10.6% lower, despite the upward adjustment of the budget (April-September). The slight rise in current spending (1.3%), which includes the wages of civil servants and energy subsidies, was insufficient to compensate for the steep drop in investment spending (-50%). In addition, there was a retreat as regards implementing some of the measures included in the Emergency Economic Recovery Programme in relation to compensation, support for private investment (a guarantee fund) and job creation.

HAITI: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|-----------------------------------|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 0.5 | -3.8 | 1.5 |
| Consumer prices | 40.4 | 20.2 | 15.2 ^b |
| Real minimum wage | 33.5 | -14.7 | ... |
| Money (M1) | 28.6 | 13.2 | 11.9 ^c |
| Terms of trade | -1.4 | -2.8 | -4.6 |
| Annual average percentages | | | |
| Central government | | | |
| fiscal balance / GDP ^d | -3.5 | -2.4 | -1.5 |
| Nominal deposit rate | 14.0 | 10.9 | 3.2 ^e |
| Nominal lending rate | 30.7 | 34.1 | 27.5 ^e |
| Millions of dollars | | | |
| Exports of goods and services | 468 | 510 | 628 |
| Imports of goods and services | 1 417 | 1 519 | 1 654 |
| Current account | - 45 | - 27 | 64 |
| Capital and financial account | 37 | 63 | - 41 |
| Overall balance | - 8 | 35 | 23 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2005.

^c Year-on-year average variation, January to June.

^d Overall balance calculated below the line.

^e Average from January to October, annualized.

In order to contain the inflationary impulse, the authorities modified monetary policy, imposing a contraction of supply, instead of the expansion that was expected in response to the weakness of the national economy. The rates of bonds from the Bank of the Republic of Haiti (BRH) rose significantly (from 7.5% to 13.4%), without an accompanying change in the nominal deposit rates (3.7% for term deposits in national currency), which translated into negative real deposit rates (-11.2%) and positive lending rates (10.9%).

Although external resources expanded, thanks to remittances and contributions from external cooperation, the nominal devaluation of the gourde (September-September) was 15.8%. Its rapid devaluation from June to August added 10 percentage points to the annual variation. The interventions by the central bank in the foreign-exchange market involved an amount of barely US\$ 40.7 million, less than half of the amount for the previous year (US\$ 98.8 million).

The balance of external debt (US\$ 1.324 billion) remained stable, as repayments (US\$ 98 million) were counteracted by service payments (US\$ 101 million). The authorities and the international financing institutions are considering a restructuring programme with the Paris Club, in the context of a possible poverty reduction and growth facility.

The budget for 2005-2006 (US\$ 860 million) included a deficit for investment spending which will be covered by external cooperation funds; in fact international contributions account for 90% of the public investment programme (US\$ 350 million). There is also the strengthening of fiscal control measures through a new decree on tax matters with rate reductions and stricter regulations for exemptions.

The socio-political instability was to a large extent responsible for the low level of economic growth and in the second half of the year policy was tightened in order to ensure that the targets agreed upon with the international financial institutions were met. Growth was mainly due to the positive export performance. Investment increased by only 0.5% and consumption was up by 1.4%, but was still restricted by the limited creation of jobs and income.

The best results in the productive sector were in the recovery of electricity generation (41%), which received numerous subsidies, and, to a lesser extent, the construction industry owing to the infrastructure works undertaken on highways and in the agricultural sector to repair the damage caused by the natural disasters of 2004.

In 2005, inflation was down by five percentage points, at 15.2%. The hike in oil prices (43%) had a strong impact on domestic hydrocarbon prices, transport (21.8%), food (17.9%) and other essential goods.

In this context, the vulnerability of the country's external accounts was once again mitigated by the flow of remittances (US\$ 1.043 billion) and the disbursement of external cooperation funds referred to, despite the significant level of capital flight (US\$ 60 million) shown by the financial account. Income from foreign direct investment remained low in view of the prevailing uncertainty.

Jamaica

Jamaica's economic performance improved somewhat in 2005, with a growth rate of 1.4%, thanks to a rally in the mining and construction sectors and, to a lesser extent, in tourism. Growth of 3% is expected in 2006, propelled by the recovery of agriculture and continuing growth in mining and tourism. The Petro Caribe initiative is expected to alleviate the pressure of energy costs on the external account by converting 40% of the oil import bill into long-term loans.

Adverse external factors and slow growth had a negative impact on the fiscal accounts, calling into question the achievement of the goal of a balanced budget which the authorities had proposed for the fiscal year 2005.¹ Even so, the Government remains committed to a substantial cut in the public deficit in order to reduce the public debt stock.

The monetary authorities, whose objectives had been focused on interest rate reductions in order to diminish the debt burden and promote economic growth, were obliged to adopt a more conservative stance owing to foreign-exchange pressure.

For fiscal 2005, the authorities are planning to balance fiscal accounts through strict spending controls and, to a lesser extent, increased tax revenue. Spending controls are based on implementation of the agreement concluded between the Government and the Jamaica Confederation of Trade Unions and the adoption of an expansionary monetary policy. The increase in revenue is based on modifications to the general consumption tax and the expansion of the tax base.

The Government expects to end the year with a deficit close to 1% of GDP, which should not endanger the authorities' commitment to reducing the external debt stock. Despite flexible monetary, fiscal and labour policies, however, the Government will find it difficult to achieve its goal, mostly owing to the impact of natural disasters and rising fuel prices.

During the first two quarters of the fiscal year (April to September), tax receipts dropped off and the total take was lower than expected. The Government responded by holding back current and capital spending, and managed to keep outflows below the budgeted level. Nonetheless, the fiscal effects associated with rehabilitation and reconstruction operations will be felt fully in the coming months.

In the first eight months of the year, the authorities followed an expansionary monetary policy. Taking advantage of a favourable situation, the Bank of Jamaica cut interest rates in order to promote economic growth and reduce interest payments on the domestic-currency denominated debt, which make up almost two thirds of total interest.

From September, the impact of natural disasters brought about a reduction in foreign-exchange inflows and, together with rising oil prices, led to heightened inflationary expectations. Economic agents reacted by replacing domestic-currency denominated assets with those denominated in foreign currency, causing the exchange rate to fall. The Bank of Jamaica responded by adopting a more cautious monetary policy and intervening in the foreign-exchange market. Open market operations were also conducted. This resulted in a fall in foreign-exchange reserves, and there was a slight fluctuation in the interest rate.

The reduction in net international reserves more than made up for the growth in net domestic assets, owing to interest payments on Bank of Jamaica securities. This resulted in a 23% fall in the money stock and a 5% decline in the M1 money aggregate from September 2004 to September 2005.

Commercial bank loans expanded by 14% in 2005. Credit expanded in response to the fall in real interest rates, which in turn was due to higher inflation and the financing of reconstruction and rehabilitation operations in the tourism sector.

The negative performance of the agricultural sector (-11%) was caused by unfavourable weather conditions and natural disasters, but the sector is expected to grow by 7% in 2006. The growth rate in manufacturing (0.6%) was held back by the agricultural situation, high production

¹ The fiscal year runs from 1 April to 31 March.

costs and low levels of competitiveness. Manufacturing is expected to achieve growth of 2% in 2006. The mining sector had to some extent been obstructed by the impact of hurricanes and labour disputes, but it made a recovery (5%) thanks to increased capacity. It also benefited from increased flows of foreign direct investment. For 2006, growth is projected at 6%.

Growth in the construction sector (8%) was boosted by an upswing in the non-residential subsector, improved access to credit, and the beginning of reconstruction and rehabilitation activities. Thanks to this stimulus, the sector is expected to expand by 5% in 2006.

Growth in the tourism sector stood at 2%. There was a fall in the numbers of extended-stay and cruise passengers, owing to increased competition from other destinations and to the interruption of tourism services as a result of natural disasters. For 2006, growth is projected at 3%.

The inflation rate was still in two figures (16%), owing to rising prices in transport and public services, energy costs, and the impact of natural disasters on agricultural and mining output.

Higher prices meant a fall in the purchasing power of wages, and the Government was forced to amend the agreement concluded with the trade unions in September 2005, providing public employees with special payments and debt rescheduling facilities. The unemployment rate (12.2% in April 2005) was mainly due to a seasonal pattern of performance and to the impact of hurricanes on some sectors.

The overall balance declined, owing to the growth of the current-account deficit (6% and 9% of GDP in 2004 and 2005 respectively) and the reduced surplus on the capital and financial account, owing to lower inflows of external private capital.

JAMAICA: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 2.3 | 0.9 | 1.4 |
| Consumer prices | 14.1 | 13.7 | 15.9 ^b |
| Money (M1) | 4.4 | 18.9 | 17.0 ^c |
| Real effective exchange rate ^d | 14.6 | -1.4 | -8.3 ^e |
| Annual average percentages | | | |
| Urban unemployment rate ^f | 11.4 | 11.7 | 11.5 ^g |
| Central government overall balance / GDP | -5.8 | -5.0 | ... |
| Nominal deposit rate | 8.3 | 6.7 | 6.0 ^h |
| Nominal lending rate | 25.1 | 25.1 | 23.4 ^h |
| Millions of dollars | | | |
| Exports of goods and services | 3 517 | 3 899 | 4 042 |
| Imports of goods and services | 4 896 | 5 271 | 5 858 |
| Current account | -761 | -509 | -847 |
| Capital and financial account | 326 | 1 203 | 1 070 |
| Overall balance | -435 | 694 | 223 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2005.

^c Year-on-year average variation, January to August.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Includes hidden unemployment.

^g Data correspond to the average for January and April.

^h Average from January to October, annualized.

The current-account deficit was due to rising imports of goods and slower growth in exports of goods. The growth of imports (44% and 45% of GDP) was caused by the rising oil bill, while exports were hit by the destructive impact of natural disasters. The capital and financial account responded to the increased differential between international and domestic interest rates and to inflationary expectations, which discouraged inflows of foreign capital.

Suriname

According to estimates from the National Planning Office, there will be economic growth of 5.2% and 5.1% in 2005 and 2006, respectively. In July 2005, the General Bureau of Statistics reported that the official figure for growth in 2004 was 7.8%, which was much higher than most of the estimates. This rapid expansion was due to the rise in private investment, especially foreign investment attracted by the improved economic stability and high international prices of export commodities such as alumina and, more recently, gold and oil.

In this context, Suriname is experiencing the five-year period with the highest growth in its 30 years of independent existence. Real per capita income has returned to the level reached in the second half of the 1970s, which had been lost owing to the political and economic disturbances of the 1980s and 1990s.

President Venetiaan was re-elected in August 2005 when the government coalition, which had been expanded from four to eight parties, managed to win 28 of the 51 seats in the National Assembly. The government agreement is still being negotiated but continuity in political and economic management is expected, together with new impetus for reform in the public sector.

The rise in international oil prices forced the new authorities to double domestic fuel prices for fiscal reasons. There had been a problem with the functioning of the hydrocarbons tax: in May 2005 the government stopped receiving income from this tax and yet was continuing to pay subsidies. The sudden price increase decreed on 1 September ended the subsidy and had a significant impact on the consumer price index for the month of October, when the 12-month variation rose to 16.6% compared with the August value of 8.7%.

Despite the fact that 2005 is an electoral year, the fiscal surplus (including grants) is expected to be 0.1% of GDP, which is an improvement compared to 2004, when there was a deficit of 0.8% of GDP. This result was due to the policy of suspending public wage adjustments and the significant rise in current revenues (over four percentage points of GDP), boosted by overall growth and in particular the higher level of imports. For 2006, the announced budget shows a large deficit (-6% of GDP), as a reduction in revenue and a significant expansion of spending are expected.

After the introduction of the Suriname dollar (SRD) on 1 January 2004, the Government kept the currency's

SURINAME: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|--|------|------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 3.5 | 7.8 | 5.2 |
| Consumer prices | 13.1 | 9.1 | 16.6 ^b |
| Money (M1) | 18.4 | 13.4 | 21.4 ^c |
| Annual average percentages | | | |
| Central government overall balance / GDP | 0.7 | -2.2 | -1.3 |
| Nominal deposit rate | 8.5 | 8.1 | 7.9 ^d |
| Nominal lending rate | 21.0 | 19.1 | 18.3 ^d |
| Millions of dollars | | | |
| Exports of goods and services | 547 | 776 | 906 |
| Imports of goods and services | 640 | 864 | 1 088 |
| Current account | -148 | -138 | -187 |
| Capital and financial account | 155 | 162 | 198 |
| Overall balance | 7 | 24 | 11 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2005.

^c Year-on-year average variation, January to September.

^d Average from January to September, annualized.

value stable in terms of United States dollars. In March, the central bank raised the exchange rate from 2.75 to 2.80 Suriname dollars per United States dollar. At the end of May, the figure was lowered to 2.78. The rate in exchange offices was virtually identical. Naturally, in view of the inflation rate of 16.6%, the real exchange rate appreciated significantly in relation to the dollar.

In May 2005 the banking law was modified and new regulations were included on advances and loans from the central bank to the government. New restrictions were placed on the legal provisions for monetary financing of the fiscal deficit.

The legal reserve rate was used to reverse the trend to dollarization and increase the demand for national

currency. At the beginning of 2005, the legal reserve rate for foreign-currency deposits was raised from 22.5% to 33.3%, with a view to ensuring monetary stability during the election period. Meanwhile, the legal reserve rate for Suriname dollar deposits remained stable at 30%.

The construction and mining sectors led the growth. Construction benefited from the regulation that allows banks to use part of the legal reserve for mortgage loans. Mining was strengthened by the expansion of gold production in the new Rosebel mine and crude oil from the state enterprise Staatsolie. Alumina production did not increase, despite higher capacity, owing to technical problems at the refinery. Meanwhile, agricultural activity recorded a sudden rise in plantain exports. For 2006, further expansion is expected in the agricultural subsector, although rice production has to be restructured, and in the mining subsector owing to new oil and possibly gold exploration.

In 2005, there were no adjustments to public sector wages and social subsidies, which meant a considerable loss of purchasing power for a large sector of the population. In the construction sector, in contrast, the real wage index increased by nine percentage points. Unemployment in Paramaribo and Wanica diminished by 9% in 2004 and by 8% in the first quarter of 2005.

The current account deficit in the first half of 2005 rose to US\$ 94 million, compared to US\$ 55 million in the first half of 2004. If this trend continues throughout the year, the deficit will reach 14% of GDP. The value of goods imports increased sharply (27%) and the higher level of exports and the improvement in the services, capital income and transfers accounts could not offset this expansion.

The financial and capital account deficit expanded from US\$ 4 million to US\$ 50 million owing to the decline in stocks of foreign currency in the commercial banking system.

Trinidad and Tobago

In 2005, economic activity continued to grow significantly in Trinidad and Tobago. The energy sector boom has been a major factor in the growth of GDP, tax collection and foreign exchange receipts. Unlike in previous periods, the energy sector has benefited from high prices and also the discovery of major petroleum and natural gas reserves. This provided a major boost to the liquefied natural gas subsector, thereby reducing the strong dependence on petroleum.

In the first half of 2005, the GDP growth rate was 6.2%, and is expected to be 7% by the end of the year and 10.6% in 2006. Growth is largely due to sustained high international petroleum and gas prices and higher value added in the energy sector. The non-energy sector also performed well, with estimated growth of 5.6% compared with the 3% recorded in 2004. Construction has been the main engine of growth (8.1%) in the non-energy sector. Although agriculture continued to decline (-0.5%), the sector turned in a better performance than in 2003 (-18.2%) and 2004 (-21.1%).

Between the first half of 2004 and the first six months of 2005, the number of people employed rose by 20,300, mainly thanks to growth in construction, which generated 16,900 new jobs. This absorbed the increase in the work force (19,100 personas), thereby bringing down the unemployment rate from 8.6% to 8.2% during the same period. The unemployment rate is expected to be below the 8% mark for the 2005-2006 fiscal year.

The economy has been subjected to inflationary pressure since the beginning of 2005. Inflation rose from 5.6% in 2004 to 6.8%, which exceeds the target set by the central bank.

Inflation was pushed up mainly by food prices, which increased by an average of 13% in 2004 and an average of 23% in 2005. Higher prices for construction materials (variation of 6.4% in 2004 and 11.3% in 2005) also contributed to the rise in inflation.

Public spending is still financed from tax receipts collected from the energy sector, although it is hoped that reforming the tax system applicable to other sectors will provide more permanent sources of income. According to recent data, fiscal revenue from the energy sector represented 43% of government receipts. However, this income is expected to fall in the 2005-2006 period as a result of reductions in corporate tax and income tax announced in the 2006 budget.

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 12.6 | 6.4 | 7.0 |
| Consumer prices | 3.0 | 5.6 | 6.8 ^b |
| Real wages | 7.6 | ... | ... |
| Money (M1) | 12.0 | 8.1 | 13.7 ^c |
| Real effective exchange rate ^d | 0.0 | 1.6 | -1.0 ^e |
| Annual average percentages | | | |
| Rate of urban unemployment ^f | 10.5 | 8.6 | 8.2 |
| Central government overall balance / GDP ^g | 1.4 | 2.1 | ... |
| Nominal deposit rate | 2.9 | 2.4 | 2.4 ^h |
| Nominal lending rate | 11.0 | 9.4 | 8.9 ^h |
| Millions of dollars | | | |
| Exports of goods and services | 5 890 | 7 335 | 10 036 |
| Imports of goods and services | 4 283 | 5 315 | 5 608 |
| Current account | 985 | 1 623 | 4 132 |
| Capital and financial account | -651 | -889 | -3 132 |
| Overall balance | 334 | 734 | 1 000 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to October 2005.

^c Year-on-year average variation, January to June.

^d A negative rate indicates an appreciation of the currency in real terms.

^e Year-on-year average variation, January to October.

^f Includes hidden unemployment.

^g Includes interest.

^h Average from January to July, annualized.

It is estimated that public expenditure will increase to 27% of GDP in the 2005-2006 fiscal year, mainly as a result of increased spending on wages and salaries (19%) and transfers and subsidies (34%). Government expenditure has been concentrated on major public construction projects, such as new government buildings and improvements to existing ones, and low-cost housing.

Monetary policy changed its expansionary stance in response to the inflationary pressure that had been making itself felt since early 2005. The repo rate rose by 100 basis points during the year to reach 6.0% in October. In addition,

the prime lending rate of the commercial banks climbed from 8.75% at the end of 2004 to 9.5% in 2005.

Liquidity has remained high, mainly due to the increase in fiscal expenditure. In the 2005 fiscal year, more than twice as many public resources were pumped into the economy than in 2004. The expansion of credit has also contributed to current liquidity pressures. Credit to the private sector was up by 20.3%, while credit from commercial banks to consumers recorded the highest increase (24.0%), followed by credit to companies (15.1%).

The central bank increased its open market operations with a view to controlling liquidity. Net sales of securities rose from an average of US\$ 14 million per month in the 2004 fiscal year to US\$ 41.4 million a month in 2005. Nonetheless, the continued expansion of liquidity challenges the central bank to identify other absorption mechanisms.

Increases in the repo rate have had limited effect on key market rates including the interbank rate and the prevailing market rates for credit from commercial banks. While the repo rate climbed several times during 2005, the interbank rate fluctuated between 4.12% and 4.31%.

Despite pressures on the foreign exchange market, the exchange rate has remained almost completely stable, while the real effective exchange rate weighted by currencies of the country's trading partners is lower than in 2004.

In the first half of 2005, the balance-of-payments current account surplus was more than twice as large as in the first six months of 2004, which was attributable to the hike in exports from the energy sector (60%). Forecasts for 2005 suggest a sizeable deficit in the capital account, based on the fact that the first six months of the year show a deficit of US\$ 1.189 billion compared with a negative balance of only US\$ 177.1 million in 2004.

Countries members of the Organization of Eastern Caribbean States (OECS)¹

The countries members of the Organization of Eastern Caribbean States (OECS) maintained their growth trajectory, achieving 5.8% growth in 2005. Economic activity was led by construction, tourism and transport. For 2006, 7% growth is predicted, driven by construction (21%), tourism (10%), transport (9%) and agriculture, which is also expected to expand.

The fiscal deficit of the OECS member countries widened as the increase in capital expenditure exceeded the rise in revenue in some of the economies. This increased spending is due mainly to preparations for the Cricket World Cup, which is scheduled to be held in 2007.

Capital expenditure in Saint Lucia and Saint Vincent and the Grenadines was up by more than 50%. Disbursements for rehabilitation and restoration operations such as those carried out in Dominica and Grenada also contributed to this result.

Most governments kept a tight rein on current expenditure. Antigua and Barbuda announced a 20% cut in public wages and Saint Kitts and Nevis closed down their sugar industry. On the other hand, the Governments of Grenada and Saint Vincent and the Grenadines increased their payroll by 8%.

In terms of revenue, some OECS member countries improved their tax collections. Antigua and Barbuda approved a tax reform which included the reintroduction of income tax, a 5% wholesale sales tax and a 7% excise tax aimed at reducing the fiscal deficit and the public debt stock. Similarly, Grenada sought to increase government revenue by improving the efficiency of public administration.

On the other hand, other member countries, in particular Saint Lucia and Saint Vincent and the Grenadines, took steps to ease the tax burden. Saint Lucia reduced the corporate tax rate, while Saint Vincent and the Grenadines established a tax credit for small businesses and raised the tax exemption threshold.

Monetary policy did not register significant changes. The Eastern Caribbean Central Bank continued to operate with liquidity levels above the statutory requirements.

The economies belonging to the Organization of Eastern Caribbean States formed a monetary union in 1983. Their single currency, the Eastern Caribbean dollar (EC\$), is linked to the United States dollar at a rate of EC\$ 2.70. The union's monetary authority, the Eastern Caribbean Central Bank (ECCB) acts as a currency board and is required by its statutes to maintain reserves equivalent to 60% of its monetary liabilities.

In 2005, foreign direct investment (FDI) inflows contributed to a rise in the net external assets of the OECS member States. At the same time, net domestic assets expanded in line with the vibrancy of some of the main economic sectors.

High liquidity and the upturn in economic activity boosted credit by 6%. This was geared mainly towards tourism, construction and, to a lesser extent, agriculture.

Grenada and Saint Lucia recorded the highest growth rates (9% and 8%, respectively), while Dominica and Saint Vincent and the Grenadines recorded the lowest rates of expansion (3% in both cases).

Agriculture contracted (-12%) owing to lower banana production in the Windward Islands, unfavourable weather conditions and pests that affected agricultural output. The poor agricultural performance was also attributable to the virtual suspension of agricultural production in Grenada, following the devastation caused by hurricane Ivan. The manufacturing sector rallied (2.3%) from the setback (-1.2%) experienced in the previous year. Saint Vincent and the Grenadines recorded the highest growth rate (4.5%), while Grenada posted a negative growth rate due to the effects of hurricanes Ivan and Emily.

The construction sector rebounded strongly (22%) thanks to the start-up of preparations for the Cricket World

¹ The members and associate members of the Organization of Eastern Caribbean States (OECS) are Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Cup, reconstruction and rehabilitation activities following the natural disasters and the continued implementation of government projects and infrastructure works relating to development of the tourism sector. This sector (5%) has responded to the sound economic performance of the main markets in the developed countries, to favourable prices for European tourists as a result of the depreciation of the United States dollar against the euro, and to the increase in air-transport capacity. Cruise-ship tourism has fallen, however, following the reduction in the number of cruises and restrictions on anchorage capacity in OECS ports.

The rate of inflation rose in line with the escalation in international oil prices and in controlled prices and the depreciation of the United States dollar vis-à-vis the euro. The jobless rate reflected the upturn in the economy.

The overall balance of payments turned slightly negative, owing to the expansion of the current account deficit (from 17% of GDP in 2004 to 23% in 2005), which more than offset the increase in the surplus on the capital and financial account (from 19% of GDP in 2004 to 23% in 2005).

OECS: MAIN ECONOMIC INDICATORS

| | 2003 | 2004 | 2005 ^a |
|-------------------------------|-------|-------|-------------------|
| Annual growth rates | | | |
| Gross domestic product | 3.7 | 3.0 | 5.8 |
| Consumer prices | 0.6 | 1.4 | ... |
| Millions of dollars | | | |
| Exports of goods and services | 1 572 | 1 805 | 1 833 |
| Imports of goods and services | 2 144 | 2 328 | 2 524 |
| Current account | -678 | -562 | -807 |
| Capital and financial account | 603 | 617 | 796 |
| Overall balance | -74 | 55 | -11 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

The current account deficit reflected the rise in international oil prices, growth in the demand for construction materials and the fall in exports of bananas and other agricultural crops. The balance on the services account was affected mainly by the variation in the category “travel” and to a lesser extent, “transport”.

The surplus on the capital and financial account (19% and 23% of GDP for 2004 and 2005) stems from the strong FDI inflows into the tourism sector.

Statistical appendix



Table A-1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|-------------------|
| Annual rates of variation | | | | | | | | | | |
| Gross domestic product ^b | 3.8 | 5.5 | 2.6 | 0.4 | 3.9 | 0.3 | -0.8 | 2.0 | 5.9 | 4.3 |
| Per capita gross domestic product ^b | 2.0 | 3.8 | 0.9 | -1.2 | 2.3 | -1.3 | -2.3 | 0.5 | 4.3 | 2.8 |
| Consumer prices ^c | 18.6 | 10.7 | 10.0 | 9.7 | 9.0 | 6.1 | 12.2 | 8.5 | 7.4 | 6.3 |
| Percentages | | | | | | | | | | |
| Urban open unemployment rate ^d | 9.9 | 9.3 | 10.3 | 11.0 | 10.4 | 10.2 | 11.0 | 10.9 | 10.3 | 9.3 |
| Total gross external debt / GDP ^e | 35.5 | 34.0 | 37.0 | 42.3 | 37.0 | 38.4 | 42.6 | 42.4 | 37.3 | 32.0 |
| Total gross external debt / exports of goods and services | 215.5 | 202.9 | 221.5 | 214.3 | 174.1 | 183.0 | 179.5 | 170.4 | 140.6 | 118.0 |
| Billions of dollars | | | | | | | | | | |
| Balance of payments | | | | | | | | | | |
| Current account balance | -38 643 | -64 412 | -88 218 | -54 914 | -46 594 | -51 438 | -13 742 | 8 571 | 18 299 | 29 670 |
| Merchandise trade balance | 5 184 | -13 134 | -34 981 | -6 823 | 3 493 | -3 831 | 24 047 | 44 693 | 58 359 | 75 683 |
| Export of goods | 257 370 | 286 680 | 283 369 | 299 393 | 359 051 | 343 532 | 347 092 | 378 206 | 464 362 | 552 768 |
| Imports of goods | 252 187 | 299 813 | 318 350 | 306 217 | 355 559 | 347 362 | 323 045 | 333 513 | 406 002 | 477 086 |
| Services trade balance | -15 858 | -18 997 | -18 973 | -17 187 | -17 118 | -18 889 | -14 216 | -13 240 | -14 569 | -20 604 |
| Income balance | -42 728 | -47 653 | -51 295 | -50 304 | -53 589 | -53 888 | -52 057 | -57 743 | -66 767 | -72 811 |
| Net current transfers | 14 759 | 15 371 | 17 032 | 19 401 | 20 620 | 25 171 | 28 484 | 34 862 | 41 276 | 47 403 |
| Capital and financial balance ^f | 63 879 | 89 213 | 63 400 | 42 583 | 61 168 | 34 021 | -12 114 | 2 237 | -7 224 | 12 645 |
| Net foreign investment | 40 301 | 57 599 | 63 677 | 79 345 | 68 876 | 65 124 | 43 225 | 32 600 | 45 351 | 47 319 |
| Financial capital ^g | 23 579 | 31 614 | -277 | -36 762 | -7 708 | -31 103 | -55 339 | -30 363 | -52 575 | -34 674 |
| Overall balance | 25 237 | 24 801 | -24 818 | -12 331 | 14 574 | -17 417 | -25 856 | 10 808 | 11 075 | 42 315 |
| Variation in reserve assets ^h | -26 129 | -15 800 | 9 085 | 6 203 | -6 882 | 986 | 3 213 | -29 501 | -21 132 | -34 986 |
| Other financing ⁱ | 892 | -9 001 | 15 733 | 6 127 | -7 692 | 16 431 | 22 644 | 18 693 | 10 058 | -7 328 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Based on official figures converted into dollars at constant 2000 prices.

^c December-December variation.

^d The data for Argentina, Brazil and Mexico have been adjusted to allow for changes in methodology in 2003, 2002 and 2005 respectively.

^e Estimates based on figures denominated in dollars.

^f Includes errors and omissions.

^g Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.

^h A minus sign (-) indicates an increase in reserve assets.

ⁱ Includes the uses of IMF credit and loans and exceptional financing.

Table A-2
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|--|------------|------------|------------|------------|------------|------------|-------------|------------|------------|-------------------|
| Latin America and the Caribbean | 3.8 | 5.5 | 2.6 | 0.4 | 3.9 | 0.3 | -0.8 | 2.0 | 5.9 | 4.3 |
| Latin America | 3.8 | 5.5 | 2.5 | 0.3 | 3.9 | 0.3 | -0.9 | 1.9 | 5.9 | 4.3 |
| Argentina | 5.5 | 8.1 | 3.9 | -3.4 | -0.8 | -4.4 | -10.9 | 8.8 | 9.0 | 8.6 |
| Bolivia | 4.4 | 5.0 | 5.0 | 0.4 | 2.5 | 1.7 | 2.4 | 2.8 | 3.6 | 3.8 |
| Brazil | 2.7 | 3.3 | 0.1 | 0.8 | 4.4 | 1.3 | 1.9 | 0.5 | 4.9 | 2.5 |
| Chile | 7.4 | 6.6 | 3.2 | -0.8 | 4.5 | 3.4 | 2.2 | 3.7 | 6.1 | 6.0 |
| Colombia | 2.1 | 3.4 | 0.6 | -4.2 | 2.9 | 1.5 | 1.9 | 4.3 | 4.0 | 4.3 |
| Costa Rica | 0.9 | 5.6 | 8.4 | 8.2 | 1.8 | 1.1 | 2.9 | 6.5 | 4.2 | 4.2 |
| Cuba | 7.8 | 2.7 | 0.2 | 6.3 | 6.1 | 3.0 | 1.5 | 2.9 | 3.0 | ... ^b |
| Dominican Republic | 7.2 | 8.2 | 7.4 | 8.1 | 8.1 | 3.6 | 4.4 | -1.9 | 2.0 | 7.0 |
| Ecuador | 2.4 | 4.1 | 2.1 | -6.3 | 2.8 | 5.1 | 3.4 | 2.7 | 6.9 | 3.0 |
| El Salvador | 1.7 | 4.2 | 3.7 | 3.4 | 2.2 | 1.7 | 2.2 | 1.8 | 1.5 | 2.5 |
| Guatemala | 3.0 | 4.4 | 5.0 | 3.8 | 3.6 | 2.3 | 2.2 | 2.1 | 2.7 | 3.2 |
| Haiti | 4.1 | 2.7 | 2.2 | 2.7 | 0.9 | -1.0 | -0.5 | 0.5 | -3.8 | 1.5 |
| Honduras | 3.6 | 5.0 | 2.9 | -1.9 | 5.7 | 2.6 | 2.7 | 3.5 | 5.0 | 4.2 |
| Mexico | 5.2 | 6.8 | 5.0 | 3.8 | 6.6 | 0.0 | 0.8 | 1.4 | 4.2 | 3.0 |
| Nicaragua | 6.3 | 4.0 | 3.7 | 7.0 | 4.1 | 3.0 | 0.8 | 2.3 | 5.1 | 4.0 |
| Panama | 2.8 | 6.4 | 7.4 | 4.0 | 2.7 | 0.6 | 2.2 | 4.2 | 7.6 | 6.0 |
| Paraguay | 0.4 | 3.0 | 0.6 | -1.5 | -3.3 | 2.1 | 0.0 | 3.8 | 4.0 | 3.0 |
| Peru | 2.5 | 6.8 | -0.7 | 0.9 | 2.9 | 0.2 | 4.9 | 4.0 | 4.8 | 6.0 |
| Uruguay | 5.6 | 5.0 | 4.5 | -2.8 | -1.4 | -3.4 | -11.0 | 2.2 | 12.3 | 6.0 |
| Venezuela (Bolivarian Republic of) | -0.2 | 6.4 | 0.3 | -6.0 | 3.7 | 3.4 | -8.9 | -7.7 | 17.9 | 9.0 |
| The Caribbean | 3.2 | 3.1 | 4.4 | 3.2 | 3.3 | 1.6 | 2.8 | 5.7 | 4.0 | 4.1 |
| Antigua and Barbuda | 6.7 | 4.9 | 4.4 | 4.1 | 1.5 | 2.3 | 3.0 | 4.7 | 5.3 | 4.0 |
| Bahamas | 4.2 | 4.9 | 6.8 | 4.0 | 1.9 | 0.8 | 1.4 | 1.9 | 2.8 | 3.5 |
| Barbados | 3.1 | 4.6 | 6.3 | 0.2 | 2.6 | -2.7 | -0.1 | 2.4 | 4.9 | 2.8 |
| Belize | 1.4 | 3.6 | 3.7 | 8.7 | 13.0 | 4.7 | 4.7 | 9.2 | 4.6 | 3.0 |
| Dominica | 3.1 | 2.0 | 2.8 | 1.6 | 1.3 | -4.2 | -5.1 | 0.0 | 3.6 | 2.8 |
| Grenada | 5.0 | 5.4 | 8.2 | 7.0 | 7.0 | -4.9 | 0.4 | 7.5 | -2.8 | 9.2 |
| Guyana | 16.0 | 2.1 | 0.9 | 0.1 | 5.0 | -0.1 | -0.4 | 0.7 | 1.6 | -2.9 |
| Jamaica | -1.1 | -1.7 | -0.3 | -0.4 | 0.7 | 1.7 | 1.0 | 2.3 | 0.9 | 1.4 |
| Saint Kitts and Nevis | 6.7 | 7.4 | 0.9 | 3.6 | 4.3 | 2.0 | 1.0 | 2.2 | 6.3 | 5.1 |
| Saint Lucia | 2.9 | -0.4 | 6.2 | 2.3 | -0.8 | -5.6 | 1.9 | 4.3 | 3.6 | 7.9 |
| Saint Vincent and the Grenadines | 1.4 | 2.9 | 5.2 | 4.4 | 1.8 | 0.8 | 3.9 | 4.1 | 5.4 | 2.8 |
| Suriname | 6.0 | 3.6 | 4.5 | -2.3 | 0.5 | 1.3 | 1.2 | 3.5 | 7.8 | 5.2 |
| Trinidad and Tobago | 7.0 | 7.7 | 8.1 | 8.0 | 6.9 | 4.2 | 6.9 | 12.6 | 6.4 | 7.0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures converted into dollars at constant 2000 prices.

^a Preliminary figures.

^b According to the data provided by the Government of Cuba, the Cuban economy has grown by 11.8% in 2005. This estimated growth rate was based on a new methodology which is being analysed by ECLAC and the Government of Cuba.

Table A-3
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT
(Annual growth rates)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|--|------------|------------|------------|-------------|------------|-------------|-------------|------------|------------|-------------------|
| Latin America and the Caribbean | 2.0 | 3.8 | 0.9 | -1.2 | 2.3 | -1.3 | -2.3 | 0.5 | 4.3 | 2.8 |
| Latin America | 2.0 | 3.8 | 0.9 | -1.3 | 2.3 | -1.3 | -2.4 | 0.4 | 4.4 | 2.8 |
| Argentina | 4.3 | 6.9 | 2.7 | -4.4 | -1.8 | -5.4 | -11.7 | 7.8 | 8.0 | 7.6 |
| Bolivia | 1.9 | 2.5 | 2.5 | -1.9 | 0.1 | -0.6 | 0.1 | 0.5 | 1.4 | 2.1 |
| Brazil | 1.1 | 1.7 | -1.4 | -0.7 | 2.8 | -0.2 | 0.5 | -0.9 | 3.4 | 1.1 |
| Chile | 5.8 | 5.1 | 1.9 | -2.0 | 3.2 | 2.2 | 1.0 | 2.6 | 4.9 | 4.9 |
| Colombia | 0.1 | 1.5 | -1.3 | -6.0 | 1.1 | -0.3 | 0.2 | 2.5 | 2.3 | 2.6 |
| Costa Rica | -1.6 | 2.9 | 5.7 | 5.7 | -0.5 | -1.0 | 0.9 | 4.5 | 2.3 | 2.3 |
| Cuba | 7.3 | 2.3 | -0.3 | 5.9 | 5.7 | 2.6 | 1.2 | 2.6 | 2.7 | ... |
| Dominican Republic | 5.3 | 6.3 | 5.6 | 6.3 | 6.3 | 1.9 | 2.7 | -3.5 | 0.3 | 5.4 |
| Ecuador | 0.7 | 2.4 | 0.6 | -7.6 | 1.3 | 3.6 | 1.9 | 1.2 | 5.4 | 1.5 |
| El Salvador | -0.4 | 2.1 | 1.6 | 1.4 | 0.2 | -0.2 | 0.3 | 0.0 | -0.2 | 0.7 |
| Guatemala | 0.6 | 2.0 | 2.6 | 1.5 | 1.2 | -0.1 | -0.2 | -0.4 | 0.1 | 0.7 |
| Haiti | 2.2 | 0.8 | 0.3 | 0.8 | -1.0 | -2.8 | -2.3 | -1.3 | -5.5 | -0.3 |
| Honduras | 0.7 | 2.1 | 0.1 | -4.5 | 3.0 | 0.0 | 0.1 | 0.9 | 2.5 | 1.7 |
| Mexico | 3.4 | 5.0 | 3.3 | 2.1 | 5.0 | -1.5 | -0.7 | 0.0 | 2.8 | 1.6 |
| Nicaragua | 4.1 | 1.9 | 1.7 | 4.9 | 2.0 | 0.9 | -1.3 | 0.2 | 3.1 | 1.9 |
| Panama | 0.7 | 4.3 | 5.3 | 2.0 | 0.8 | -1.3 | 0.4 | 2.3 | 5.7 | 4.2 |
| Paraguay | -2.2 | 0.3 | -2.0 | -4.0 | -5.8 | -0.5 | -2.5 | 1.3 | 1.5 | 0.5 |
| Peru | 0.7 | 5.0 | -2.4 | -0.8 | 1.3 | -1.4 | 3.4 | 2.4 | 3.3 | 4.5 |
| Uruguay | 4.8 | 4.3 | 3.8 | -3.6 | -2.2 | -4.1 | -11.7 | 1.5 | 11.5 | 5.3 |
| Venezuela (Bolivarian Republic of) | -2.2 | 4.3 | -1.6 | -7.8 | 1.8 | 1.5 | -10.5 | -9.3 | 15.8 | 7.1 |
| The Caribbean | 2.4 | 2.3 | 3.6 | 2.5 | 2.7 | 0.9 | 2.2 | 5.2 | 3.4 | 3.6 |
| Antigua and Barbuda | 4.5 | 2.8 | 2.4 | 2.3 | -0.2 | 0.8 | 1.7 | 3.5 | 4.0 | 2.8 |
| Bahamas | 2.5 | 3.3 | 5.2 | 2.5 | 0.4 | -0.6 | 0.0 | 0.5 | 1.4 | 2.1 |
| Barbados | 2.7 | 4.3 | 6.0 | 0.0 | 2.4 | -3.0 | -0.3 | 2.1 | 4.7 | 2.5 |
| Belize | -1.2 | 1.0 | 1.2 | 6.2 | 10.3 | 2.3 | 2.4 | 6.9 | 2.4 | 0.9 |
| Dominica | 2.2 | 1.1 | 2.0 | 1.0 | 0.8 | -4.5 | -5.2 | -0.2 | 3.3 | 2.3 |
| Grenada | 4.4 | 4.8 | 7.7 | 6.6 | 6.7 | -5.1 | 0.4 | 7.4 | -3.1 | 8.5 |
| Guyana | 15.7 | 1.8 | 0.5 | -0.3 | 4.7 | -0.3 | -0.6 | 0.5 | 1.5 | -3.0 |
| Jamaica | -1.9 | -2.6 | -1.1 | -1.2 | 0.0 | 1.1 | 0.5 | 1.8 | 0.4 | 1.0 |
| Saint Kitts and Nevis | 6.8 | 7.5 | 0.9 | 3.4 | 3.8 | 1.2 | -0.1 | 1.0 | 5.0 | 3.9 |
| Saint Lucia | 1.8 | -1.3 | 5.3 | 1.5 | -1.5 | -6.3 | 1.1 | 3.5 | 2.8 | 7.0 |
| Saint Vincent and the Grenadines | 0.8 | 2.3 | 4.6 | 3.9 | 1.3 | 0.3 | 3.4 | 3.6 | 4.8 | 2.2 |
| Suriname | 5.1 | 2.6 | 3.5 | -3.2 | -0.4 | 0.5 | 0.5 | 2.8 | 7.1 | 4.5 |
| Trinidad and Tobago | 6.5 | 7.2 | 7.7 | 7.7 | 6.5 | 3.8 | 6.5 | 12.3 | 6.1 | 6.7 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures converted into dollars at constant 2000 prices.

^a Preliminary figures.

Table A-4
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION
(Percentages of GDP)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| Latin America and the Caribbean | 18.7 | 20.2 | 20.6 | 19.3 | 19.3 | 18.7 | 17.8 | 17.5 | 18.6 | 19.6 |
| Argentina | 16.8 | 18.3 | 18.9 | 17.5 | 16.2 | 14.1 | 10.2 | 12.8 | 15.8 | 17.4 |
| Bolivia | 16.2 | 19.3 | 23.7 | 20.0 | 17.9 | 13.8 | 15.9 | 14.0 | 13.1 | 13.6 |
| Brazil | 19.9 | 21.1 | 21.0 | 19.2 | 19.3 | 19.2 | 18.3 | 17.4 | 18.2 | 18.4 |
| Chile | 23.7 | 24.6 | 24.2 | 19.9 | 20.7 | 20.9 | 20.8 | 21.2 | 22.6 | 26.6 |
| Colombia | 22.0 | 20.9 | 19.4 | 13.1 | 12.6 | 13.4 | 14.5 | 17.2 | 18.6 | 21.3 |
| Costa Rica | 16.2 | 17.9 | 20.8 | 18.3 | 17.8 | 18.0 | 18.6 | 18.9 | 17.5 | 17.1 |
| Cuba | 11.6 | 11.9 | 12.4 | 12.4 | 12.9 | 12.1 | 10.8 | 9.8 | 10.3 | ... |
| Dominican Republic | 17.1 | 18.9 | 22.5 | 23.9 | 23.5 | 23.0 | 22.4 | 20.0 | 18.3 | 17.9 |
| Ecuador | 24.2 | 23.9 | 24.3 | 18.8 | 20.5 | 21.9 | 24.8 | 23.8 | 23.3 | 24.7 |
| El Salvador | 15.6 | 16.2 | 17.3 | 16.5 | 16.9 | 16.9 | 16.9 | 17.1 | 16.3 | 16.8 |
| Guatemala | 13.4 | 15.9 | 17.9 | 18.2 | 16.1 | 16.1 | 16.4 | 15.4 | 15.2 | 15.1 |
| Haiti | 22.5 | 23.5 | 24.2 | 25.4 | 25.7 | 25.8 | 26.5 | 26.6 | 26.4 | 24.6 |
| Honduras | 22.8 | 25.0 | 27.1 | 30.1 | 26.1 | 23.6 | 21.5 | 22.7 | 25.3 | 23.6 |
| Mexico | 16.7 | 18.9 | 19.8 | 20.5 | 21.4 | 20.2 | 19.9 | 19.7 | 20.3 | 21.0 |
| Nicaragua | 24.5 | 26.3 | 27.1 | 34.4 | 29.8 | 27.5 | 25.6 | 25.1 | 26.6 | 26.7 |
| Panama | 20.3 | 20.5 | 21.9 | 23.4 | 21.2 | 15.7 | 14.5 | 17.1 | 17.7 | 17.2 |
| Paraguay | 24.0 | 23.0 | 19.5 | 17.0 | 17.5 | 16.1 | 15.1 | 15.6 | 15.6 | 15.4 |
| Peru | 23.3 | 25.1 | 24.9 | 22.0 | 20.3 | 18.6 | 17.6 | 17.8 | 18.5 | 19.0 |
| Uruguay | 14.8 | 15.4 | 15.7 | 14.8 | 13.2 | 12.4 | 9.8 | 8.6 | 10.0 | 11.1 |
| Venezuela (Bolivarian Republic of) | 19.6 | 22.6 | 23.6 | 21.3 | 21.0 | 23.1 | 20.6 | 14.2 | 17.2 | 20.9 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures converted into dollars at constant 2000 prices.

^a Preliminary figures.

Table A-5
LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT ^a
(Percentages of GDP)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|---------------------------------|------|------|------|------|------|------|------|------|------|-------------------|
| 1. Domestic saving | 20.8 | 21.1 | 19.8 | 19.4 | 20.6 | 19.0 | 20.2 | 21.4 | 23.3 | 24.1 |
| 2. Net factor income | -2.4 | -2.4 | -2.6 | -2.9 | -2.7 | -2.8 | -3.2 | -3.4 | -3.4 | -3.0 |
| 3. Net transfers | 0.8 | 0.8 | 0.9 | 1.1 | 1.1 | 1.3 | 1.7 | 2.0 | 2.1 | 2.0 |
| 4. Gross national saving | 19.3 | 19.5 | 18.0 | 17.6 | 18.9 | 17.5 | 18.7 | 20.0 | 22.0 | 23.1 |
| 5. External saving ^c | 2.1 | 3.3 | 4.5 | 3.1 | 2.4 | 2.7 | 0.8 | -0.5 | -0.9 | -1.3 |
| 6. Gross domestic investment | 21.4 | 22.7 | 22.5 | 20.7 | 21.3 | 20.3 | 19.6 | 19.5 | 21.0 | 21.8 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Based on coefficients calculated in local currency and converted into current dollars.

^b Preliminary figures.

^c These percentages may differ from the figures for the current account balance (with the sign reversed) relative to GDP given in table A-7.

Table A-6
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

| | Exports of goods, f.o.b. | | | Imports of goods, f.o.b. | | | Goods balance, f.o.b. | | | Services balance | | |
|--|-----------------------------|----------------|-------------------|-----------------------------|----------------|-------------------|-----------------------|---------------|-------------------|------------------|----------------|-------------------|
| | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d |
| Latin America and the Caribbean | 378 206 | 464 362 | 552 768 | 333 513 | 406 002 | 477 086 | 44 693 | 58 359 | 75 683 | -13 240 | -14 569 | -20 604 |
| Argentina | 29 939 | 34 550 | 40 078 | 13 134 | 21 311 | 27 704 | 16 805 | 13 239 | 12 374 | -1 395 | -1 644 | -1 847 |
| Bolivia | 1 598 | 2 146 | 2 575 | 1 616 | 1 844 | 2 268 | -18 | 302 | 307 | -69 | -76 | -250 |
| Brazil | 73 084 | 96 475 | 117 700 | 48 290 | 62 809 | 73 487 | 24 794 | 33 666 | 44 213 | -4 931 | -4 677 | -8 290 |
| Chile | 21 524 | 32 025 | 39 711 | 18 002 | 23 006 | 30 598 | 3 522 | 9 019 | 9 113 | -617 | -580 | -537 |
| Colombia | 13 825 | 17 246 | 22 075 | 13 258 | 15 878 | 20 006 | 567 | 1 368 | 2 069 | -1 441 | -1 801 | -2 282 |
| Costa Rica | 6 163 | 6 370 | 7 090 | 7 294 | 7 833 | 8 968 | -1 131 | -1 463 | -1 879 | 839 | 933 | 1 268 |
| Dominican Republic | 5 471 | 5 748 | 5 988 | 7 627 | 7 844 | 9 542 | -2 156 | -2 096 | -3 554 | 2 249 | 2 291 | 2 482 |
| Ecuador | 6 381 | 7 910 | 9 888 | 6 294 | 7 497 | 9 297 | 86 | 413 | 591 | -734 | -969 | -1 193 |
| Grenada | 3 153 | 3 330 | 3 534 | 5 428 | 5 949 | 6 466 | -2 276 | -2 619 | -2 932 | -180 | -109 | -102 |
| Guyana | 3 060 | 3 430 | 3 873 | 6 176 | 7 189 | 7 810 | -3 116 | -3 760 | -3 938 | -68 | -115 | -200 |
| Haiti | 333 | 378 | 480 | 1 116 | 1 183 | 1 285 | -783 | -805 | -805 | -166 | -203 | -221 |
| Jamaica | 2 094 | 2 411 | 2 556 | 3 059 | 3 678 | 4 120 | -965 | -1 267 | -1 564 | -181 | -224 | -217 |
| Mexico | 164 766 | 187 999 | 210 470 | 170 546 | 196 810 | 220 513 | -5 779 | -8 811 | -10 043 | -4 601 | -4 649 | -5 908 |
| Nicaragua | 1 050 | 1 363 | 1 543 | 2 021 | 2 452 | 2 912 | -972 | -1 089 | -1 368 | -106 | -110 | -133 |
| Panama | 5 049 | 5 886 | 6 592 | 6 162 | 7 471 | 8 592 | -1 113 | -1 585 | -2 000 | 1 254 | 1 295 | 1 420 |
| Paraguay | 2 175 | 2 706 | 2 761 | 2 450 | 3 116 | 3 428 | -275 | -410 | -667 | 237 | 235 | 294 |
| Peru | 9 091 | 12 617 | 16 907 | 8 255 | 9 824 | 12 084 | 836 | 2 793 | 4 823 | -854 | -843 | -958 |
| Uruguay | 2 281 | 3 025 | 3 539 | 2 098 | 2 990 | 3 588 | 183 | 35 | -49 | 167 | 302 | 270 |
| Venezuela (Bolivarian Republic of) | 27 170 | 38 748 | 55 410 | 10 687 | 17 318 | 24 418 | 16 483 | 21 430 | 30 991 | -2 644 | -3 626 | -4 201 |

Table A-6 (continued)

| | Trade balance | | | Income balance | | | Current transfers balance | | | Current account balance | | |
|--|---------------|---------------|-------------------|----------------|----------------|-------------------|------------------------------|---------------|-------------------|----------------------------|---------------|-------------------|
| | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d |
| Latin America and the Caribbean | 31 453 | 43 790 | 55 079 | -57 743 | -66 767 | -72 811 | 34 862 | 41 276 | 47 403 | 8 571 | 18 299 | 29 670 |
| Argentina | 15 410 | 11 595 | 10 527 | -7 970 | -8 950 | -6 544 | 579 | 687 | 671 | 8 019 | 3 332 | 4 655 |
| Bolivia | -87 | 226 | 57 | -302 | -385 | -401 | 451 | 444 | 394 | 62 | 285 | 50 |
| Brazil | 19 863 | 28 990 | 35 923 | -18 552 | -20 520 | -24 500 | 2 867 | 3 268 | 3 553 | 4 177 | 11 738 | 14 976 |
| Chile | 2 905 | 8 439 | 8 576 | -4 606 | -8 101 | -9 660 | 599 | 1 051 | 1 353 | -1 102 | 1 390 | 269 |
| Colombia | -874 | -434 | -213 | -3 446 | -4 183 | -4 502 | 3 333 | 3 650 | 4 375 | -987 | -967 | -341 |
| Costa Rica | -293 | -530 | -611 | -849 | -517 | -673 | 213 | 216 | 253 | -929 | -831 | -1 031 |
| Dominican Republic | 93 | 194 | -1 072 | -1 393 | -1 634 | -1 847 | 2 336 | 2 528 | 2 680 | 1 036 | 1 088 | -240 |
| Ecuador | -648 | -556 | -601 | -1 465 | -1 493 | -1 595 | 1 772 | 1 894 | 2 075 | -340 | -155 | -122 |
| Grenada | -2 456 | -2 728 | -3 034 | -422 | -460 | -483 | 2 114 | 2 576 | 2 857 | -764 | -612 | -661 |
| Guyana | -3 183 | -3 875 | -4 137 | -318 | -319 | -360 | 2 462 | 3 006 | 3 247 | -1 039 | -1 188 | -1 250 |
| Haiti | -949 | -1 009 | -1 026 | -14 | -12 | -30 | 918 | 993 | 1 120 | -45 | -27 | 64 |
| Jamaica | -1 146 | -1 491 | -1 780 | -252 | -279 | -288 | 1 106 | 1 379 | 1 600 | -292 | -391 | -468 |
| Mexico | -10 380 | -13 460 | -15 951 | -12 093 | -10 854 | -13 594 | 13 858 | 17 044 | 20 245 | -8 615 | -7 271 | -9 300 |
| Nicaragua | -1 078 | -1 198 | -1 501 | -191 | -192 | -129 | 519 | 659 | 766 | -749 | -732 | -865 |
| Panama | 141 | -290 | -580 | -820 | -1 042 | -1 150 | 241 | 228 | 215 | -437 | -1 104 | -1 515 |
| Paraguay | -38 | -174 | -373 | -4 | 10 | 10 | 165 | 194 | 194 | 122 | 30 | -169 |
| Peru | -18 | 1 950 | 3 865 | -2 144 | -3 421 | -4 350 | 1 227 | 1 461 | 1 828 | -935 | -10 | 1 342 |
| Uruguay | 350 | 337 | 221 | -491 | -531 | -514 | 82 | 89 | 97 | -58 | -105 | -197 |
| Venezuela (Bolivarian Republic of) | 13 839 | 17 804 | 26 791 | -2 411 | -3 885 | -2 200 | 20 | -89 | -120 | 11 448 | 13 830 | 24 471 |

Table A-6 (concluded)

| | Capital and financial balance ^a | | | Overall balance | | | Reserve assets (variation) ^b | | | Other financing ^c | | |
|--|--|---------------|-------------------|-----------------|---------------|-------------------|---|----------------|-------------------|------------------------------|---------------|-------------------|
| | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d | 2003 | 2004 | 2005 ^d |
| Latin America and the Caribbean | 2 237 | -7 224 | 12 645 | 10 808 | 11 075 | 42 315 | -29 501 | -21 132 | -34 986 | 18 693 | 10 058 | -7 328 |
| Argentina | -17 055 | -10 283 | 3 621 | -9 037 | -6 951 | 8 276 | -3 581 | -5 320 | -8 390 | 12 618 | 12 271 | 114 |
| Bolivia | 15 | -159 | 171 | 77 | 126 | 222 | -93 | -138 | -191 | 16 | 13 | -31 |
| Brazil | -451 | -5 131 | 4 843 | 3 726 | 6 607 | 19 819 | -8 496 | -2 244 | -12 000 | 4 769 | -4 363 | -7 819 |
| Chile | 737 | -1 580 | 3 | -366 | -191 | 273 | 366 | 191 | -273 | 0 | 0 | 0 |
| Colombia | 804 | 3 508 | 1 730 | -184 | 2 541 | 1 389 | 184 | -2 541 | -1 389 | 0 | 0 | 0 |
| Costa Rica | 1 268 | 912 | 1 321 | 339 | 80 | 290 | -339 | -80 | -290 | 0 | 0 | 0 |
| Dominican Republic | -1 583 | -541 | 1 106 | -546 | 546 | 867 | 358 | -542 | -1 410 | 189 | -4 | 543 |
| Ecuador | 461 | 436 | 631 | 120 | 281 | 509 | -152 | -277 | -495 | 32 | -4 | -14 |
| Grenada | 1 080 | 572 | 593 | 316 | -40 | -67 | -316 | 40 | 67 | 0 | 0 | 0 |
| Guyana | 1 589 | 1 797 | 1 529 | 550 | 609 | 279 | -550 | -609 | -279 | 0 | 0 | 0 |
| Haiti | 37 | 63 | -41 | -8 | 35 | 23 | 25 | -50 | -12 | -17 | 15 | -11 |
| Jamaica | 65 | 759 | 496 | -227 | 368 | 28 | 88 | -504 | -178 | 139 | 136 | 150 |
| Mexico | 18 053 | 11 329 | 14 800 | 9 438 | 4 058 | 5 500 | -9 438 | -4 058 | -5 500 | 0 | 0 | 0 |
| Nicaragua | 280 | -793 | 826 | -470 | -1 524 | -39 | -69 | -166 | 39 | 538 | 1 691 | 0 |
| Panama | 284 | 709 | 1 834 | -153 | -395 | 319 | 163 | 396 | -309 | -10 | -1 | -10 |
| Paraguay | 109 | 238 | 276 | 231 | 268 | 107 | -301 | -179 | -107 | 70 | -89 | 0 |
| Peru | 1 459 | 2 427 | -203 | 525 | 2 417 | 1 139 | -516 | -2 443 | -1 239 | -9 | 26 | 100 |
| Uruguay | 1 092 | 447 | 578 | 1 033 | 342 | 381 | -1 380 | -454 | -31 | 347 | 112 | -350 |
| Venezuela (Bolivarian Republic of) | -6 005 | -11 932 | -21 471 | 5 443 | 1 898 | 3 000 | -5 454 | -2 153 | -3 000 | 11 | 255 | 0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national sources.

^a Includes errors and omissions.

^b A minus sign (-) indicates an increase in reserve assets.

^c Includes the use of IMF credit and loans and exceptional financing.

^d Preliminary figures.

Table A-7
LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS ^a
(Percentages of GDP)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|-------------------|
| Latin America and the Caribbean | -2.1 | -3.3 | -4.5 | -3.1 | -2.4 | -2.7 | -0.8 | 0.5 | 0.9 | 1.3 |
| Argentina | -2.5 | -4.2 | -4.9 | -4.2 | -3.2 | -1.2 | 8.5 | 6.2 | 2.2 | 2.5 |
| Bolivia | -5.1 | -7.0 | -7.8 | -5.9 | -5.3 | -3.4 | -4.4 | 0.8 | 3.3 | 0.5 |
| Brazil | -3.0 | -3.8 | -4.3 | -4.7 | -4.0 | -4.6 | -1.7 | 0.8 | 1.9 | 1.9 |
| Chile | -4.1 | -4.4 | -4.9 | 0.1 | -1.2 | -1.6 | -0.9 | -1.5 | 1.5 | 0.2 |
| Colombia | -4.8 | -5.4 | -4.9 | 0.8 | 0.9 | -1.3 | -1.6 | -1.2 | -1.0 | -0.3 |
| Costa Rica | -2.2 | -3.7 | -3.7 | -4.2 | -4.4 | -4.0 | -5.4 | -5.3 | -4.5 | -5.1 |
| Dominican Republic | -1.6 | -1.1 | -2.1 | -2.5 | -5.2 | -3.4 | -3.7 | 6.3 | 5.9 | -0.8 |
| Ecuador | -0.3 | -1.9 | -9.0 | 5.5 | 5.8 | -3.3 | -5.8 | -1.3 | -0.5 | -0.4 |
| Grenada | -1.6 | -0.9 | -0.8 | -1.9 | -3.3 | -1.1 | -2.8 | -5.1 | -3.9 | -3.9 |
| Guyana | -2.9 | -3.6 | -5.4 | -5.6 | -5.4 | -6.0 | -5.3 | -4.2 | -4.4 | -3.9 |
| Haiti | -4.6 | -1.5 | -1.0 | -1.4 | -3.0 | -3.8 | -2.8 | -1.6 | -0.8 | 1.5 |
| Jamaica | -8.2 | -5.8 | -2.8 | -4.4 | -4.6 | -4.7 | -3.7 | -4.2 | -5.2 | -5.7 |
| Mexico | -0.8 | -1.9 | -3.8 | -2.9 | -3.1 | -2.8 | -2.1 | -1.3 | -1.1 | -1.2 |
| Nicaragua | -24.8 | -24.8 | -19.2 | -24.8 | -20.0 | -19.7 | -19.1 | -18.1 | -16.1 | -17.3 |
| Panama | -2.2 | -5.0 | -9.3 | -10.1 | -5.9 | -1.5 | -0.8 | -3.4 | -8.4 | -9.8 |
| Paraguay | -4.0 | -7.3 | -2.0 | -2.3 | -2.3 | -4.1 | 1.8 | 2.2 | 0.4 | -2.3 |
| Peru | -6.5 | -5.7 | -5.9 | -2.8 | -2.9 | -2.1 | -2.0 | -1.5 | 0.0 | 1.7 |
| Uruguay | -1.1 | -1.3 | -2.1 | -2.4 | -2.8 | -2.7 | 3.1 | -0.5 | -0.8 | -1.2 |
| Venezuela (Bolivarian Republic of) | 13.1 | 4.3 | -4.9 | 2.2 | 10.1 | 1.6 | 8.2 | 13.7 | 12.6 | 19.2 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund and national institutions.

^a These percentages may differ from the figures for external saving (with the sign reversed) given in table A-5.

^b Preliminary figures.

Table A-8
LATIN AMERICA AND THE CARIBBEAN: EXPORTS AND IMPORTS OF GOODS, f.o.b.
(Annual growth rates)

| | Exports | | | Imports | | |
|-------------------|---------|--------|------------|---------|--------|------------|
| | Value | Volume | Unit value | Value | Volume | Unit value |
| 1996 | 12.2 | 12.5 | -0.3 | 11.5 | 15.6 | -3.6 |
| 1997 | 11.4 | 11.3 | 0.1 | 18.9 | 21.7 | -2.3 |
| 1998 | -1.2 | 7.3 | -7.9 | 6.2 | 10.9 | -4.3 |
| 1999 | 5.7 | 6.5 | -0.8 | -3.8 | 0.3 | -4.1 |
| 2000 | 19.9 | 11.3 | 7.7 | 16.1 | 14.0 | 1.9 |
| 2001 | -4.3 | 2.5 | -6.6 | -2.3 | 0.7 | -3.0 |
| 2002 | 1.0 | 0.9 | 0.2 | -7.0 | -6.8 | -0.2 |
| 2003 | 9.0 | 3.9 | 4.9 | 3.2 | 0.5 | 2.7 |
| 2004 | 22.8 | 9.6 | 12.0 | 21.7 | 14.5 | 6.3 |
| 2005 ^a | 19.0 | 7.7 | 10.6 | 17.5 | 11.4 | 5.5 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF).

^a Preliminary figures.

Table A-9
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, f.o.b.
(Indices: 2000=100)

| | Value | | | Volume | | | Unit value | | |
|--|--------------|--------------|-------------------|--------------|--------------|-------------------|-------------|--------------|-------------------|
| | 2003 | 2004 | 2005 ^a | 2003 | 2004 | 2005 ^a | 2003 | 2004 | 2005 ^a |
| Latin America and the Caribbean | 105.3 | 129.3 | 154.0 | 107.4 | 117.7 | 126.8 | 98.1 | 109.9 | 121.5 |
| Argentina | 113.7 | 131.2 | 152.2 | 112.6 | 118.1 | 136.3 | 101.0 | 111.0 | 111.6 |
| Bolivia | 128.2 | 172.2 | 206.7 | 127.8 | 151.9 | 167.2 | 100.4 | 113.4 | 123.6 |
| Brazil | 132.7 | 175.1 | 213.7 | 137.7 | 163.8 | 181.6 | 96.3 | 106.9 | 117.6 |
| Chile | 112.0 | 166.7 | 206.7 | 116.7 | 133.6 | 142.8 | 96.0 | 124.8 | 144.7 |
| Colombia | 100.7 | 125.7 | 160.9 | 107.7 | 110.1 | 123.7 | 93.5 | 114.1 | 130.1 |
| Costa Rica | 106.0 | 109.6 | 122.0 | 114.2 | 115.7 | 130.1 | 92.8 | 94.7 | 93.7 |
| Dominican Republic | 95.4 | 100.2 | 104.4 | 96.0 | 97.3 | 98.9 | 99.3 | 103.0 | 105.6 |
| Ecuador | 124.2 | 154.0 | 192.5 | 136.7 | 158.4 | 160.9 | 90.9 | 97.2 | 119.6 |
| El Salvador | 106.4 | 112.4 | 119.3 | 111.7 | 113.4 | 115.7 | 95.3 | 99.1 | 103.1 |
| Guatemala | 99.3 | 111.3 | 125.7 | 108.2 | 112.3 | 120.7 | 91.8 | 99.1 | 104.1 |
| Haiti | 100.4 | 113.9 | 144.8 | 100.1 | 108.0 | 133.4 | 100.4 | 105.4 | 108.6 |
| Honduras | 104.1 | 119.9 | 127.1 | 133.6 | 143.8 | 146.6 | 77.9 | 83.4 | 86.7 |
| Mexico | 99.0 | 112.9 | 126.4 | 99.3 | 104.9 | 109.8 | 99.7 | 107.6 | 115.2 |
| Nicaragua | 119.2 | 154.8 | 175.2 | 139.9 | 171.4 | 184.8 | 85.2 | 90.3 | 94.8 |
| Panama | 86.5 | 100.8 | 112.9 | 88.4 | 100.1 | 111.0 | 97.8 | 100.8 | 101.8 |
| Paraguay | 93.4 | 116.2 | 118.5 | 95.2 | 107.7 | 111.3 | 98.1 | 107.9 | 106.5 |
| Peru | 130.7 | 181.4 | 243.1 | 127.2 | 150.1 | 171.9 | 102.8 | 120.9 | 141.4 |
| Uruguay | 95.7 | 126.9 | 148.5 | 97.6 | 119.8 | 138.8 | 98.1 | 105.9 | 107.0 |
| Venezuela (Bolivarian Republic of) | 81.0 | 115.6 | 165.3 | 81.2 | 90.5 | 95.1 | 99.8 | 127.8 | 173.8 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Preliminary figures.

Table A-10
LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, f.o.b.
(Indices 2000=100)

| | Value | | | Volume | | | Unit value | | |
|--|-------------|--------------|-------------------|-------------|--------------|-------------------|-------------|--------------|-------------------|
| | 2003 | 2004 | 2005 ^a | 2003 | 2004 | 2005 ^a | 2003 | 2004 | 2005 ^a |
| Latin America and the Caribbean | 93.8 | 114.2 | 134.2 | 94.3 | 108.0 | 120.3 | 99.4 | 105.7 | 111.5 |
| Argentina | 55.0 | 89.2 | 116.0 | 58.4 | 87.7 | 109.7 | 94.2 | 101.7 | 105.8 |
| Bolivia | 100.4 | 114.5 | 140.9 | 98.5 | 105.1 | 124.8 | 101.9 | 109.0 | 112.9 |
| Brazil | 86.6 | 112.6 | 131.7 | 87.1 | 103.0 | 110.6 | 99.3 | 109.3 | 119.1 |
| Chile | 105.3 | 134.6 | 179.0 | 112.8 | 134.7 | 165.9 | 93.4 | 99.9 | 107.9 |
| Colombia | 119.6 | 143.2 | 180.4 | 121.7 | 136.2 | 161.9 | 98.3 | 105.1 | 111.5 |
| Costa Rica | 121.1 | 130.0 | 148.9 | 124.5 | 126.2 | 137.6 | 97.2 | 103.1 | 108.2 |
| Dominican Republic | 80.5 | 82.8 | 100.7 | 79.3 | 77.7 | 90.0 | 101.4 | 106.5 | 111.8 |
| Ecuador | 168.2 | 200.3 | 248.4 | 166.1 | 188.5 | 218.4 | 101.2 | 106.3 | 113.7 |
| El Salvador | 115.4 | 126.5 | 137.5 | 118.3 | 123.5 | 127.9 | 97.5 | 102.4 | 107.5 |
| Guatemala | 130.2 | 151.6 | 164.7 | 132.0 | 140.9 | 141.8 | 98.7 | 107.6 | 116.2 |
| Haiti | 102.7 | 108.8 | 118.3 | 101.0 | 99.1 | 99.7 | 101.7 | 109.8 | 118.6 |
| Honduras | 114.6 | 137.8 | 154.3 | 129.4 | 144.1 | 150.8 | 88.6 | 95.7 | 102.3 |
| Mexico | 97.8 | 112.8 | 126.4 | 96.9 | 106.5 | 114.8 | 100.8 | 105.9 | 110.1 |
| Nicaragua | 112.2 | 136.1 | 161.6 | 110.7 | 124.3 | 136.7 | 101.4 | 109.5 | 118.2 |
| Panama | 88.3 | 107.0 | 123.1 | 87.7 | 101.3 | 113.1 | 100.7 | 105.7 | 108.9 |
| Paraguay | 85.5 | 108.7 | 119.6 | 88.4 | 105.0 | 108.0 | 96.7 | 103.5 | 110.8 |
| Peru | 112.1 | 133.4 | 164.0 | 111.5 | 122.8 | 137.4 | 100.5 | 108.6 | 119.4 |
| Uruguay | 63.4 | 90.3 | 108.4 | 69.4 | 92.4 | 100.8 | 91.4 | 97.8 | 107.5 |
| Venezuela (Bolivarian Republic of) | 63.4 | 102.7 | 144.8 | 62.7 | 94.9 | 128.7 | 101.1 | 108.2 | 112.5 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Preliminary figures.

Table A-11
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS, f.o.b./f.o.b.
(Indices: 2000=100)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|--|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|--------------|-------------------|
| Latin America and the Caribbean | 92.8 | 95.0 | 91.5 | 94.6 | 100.0 | 96.3 | 96.6 | 98.7 | 103.9 | 108.9 |
| Argentina | 103.5 | 102.2 | 96.6 | 90.9 | 100.0 | 99.3 | 98.7 | 107.2 | 109.2 | 105.5 |
| Bolivia | 108.0 | 107.9 | 102.0 | 97.1 | 100.0 | 95.8 | 96.2 | 98.5 | 104.1 | 109.5 |
| Brazil | 107.1 | 113.6 | 111.9 | 97.0 | 100.0 | 99.6 | 98.4 | 97.0 | 97.9 | 98.8 |
| Chile | 89.4 | 94.5 | 91.0 | 94.2 | 100.0 | 93.3 | 97.2 | 102.8 | 124.9 | 134.1 |
| Colombia | 84.3 | 93.3 | 81.2 | 87.2 | 100.0 | 94.2 | 92.5 | 95.2 | 108.5 | 116.7 |
| Costa Rica | 102.1 | 125.9 | 117.5 | 106.9 | 100.0 | 98.4 | 96.9 | 95.5 | 91.9 | 86.6 |
| Dominican Republic | 103.5 | 106.1 | 108.0 | 105.7 | 100.0 | 100.9 | 101.5 | 97.9 | 96.7 | 94.4 |
| Ecuador | 80.5 | 89.1 | 75.8 | 89.1 | 100.0 | 84.6 | 86.8 | 89.8 | 91.5 | 105.2 |
| El Salvador | 97.1 | 95.0 | 95.8 | 99.6 | 100.0 | 102.5 | 101.6 | 97.7 | 96.8 | 95.8 |
| Guatemala | 92.7 | 97.9 | 115.3 | 101.9 | 100.0 | 96.7 | 95.8 | 93.0 | 92.1 | 89.6 |
| Haiti | 98.6 | 101.4 | 107.6 | 104.2 | 100.0 | 101.2 | 100.2 | 98.7 | 96.0 | 91.5 |
| Honduras | 145.4 | 125.5 | 108.9 | 107.5 | 100.0 | 94.8 | 92.0 | 88.0 | 87.2 | 84.7 |
| Mexico | 90.8 | 89.5 | 90.6 | 99.3 | 100.0 | 97.4 | 97.9 | 98.8 | 101.6 | 104.6 |
| Nicaragua | 84.4 | 82.0 | 79.6 | 95.3 | 100.0 | 88.4 | 87.0 | 84.1 | 82.5 | 80.2 |
| Panama | 105.5 | 103.9 | 104.7 | 104.6 | 100.0 | 102.7 | 101.6 | 97.2 | 95.3 | 93.5 |
| Paraguay | 104.7 | 106.2 | 108.0 | 101.7 | 100.0 | 100.2 | 96.7 | 101.4 | 104.3 | 96.2 |
| Peru | 104.9 | 115.5 | 103.4 | 100.8 | 100.0 | 95.6 | 98.4 | 102.2 | 111.3 | 118.4 |
| Uruguay | 108.6 | 110.2 | 116.7 | 106.2 | 100.0 | 103.8 | 104.8 | 107.4 | 108.4 | 99.5 |
| Venezuela (Bolivarian Republic of) | 67.1 | 70.1 | 51.2 | 66.1 | 100.0 | 82.2 | 87.6 | 98.7 | 118.1 | 154.4 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Preliminary figures.

Table A-12
LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFERS ^a
(Millions of dollars)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|--|---------------|---------------|---------------|---------------|-------------|---------------|----------------|----------------|----------------|-------------------|
| Latin America and the Caribbean | 22 044 | 32 559 | 27 837 | -1 594 | -113 | -3 437 | -41 527 | -36 813 | -63 934 | -67 494 |
| Argentina | 5 195 | 9 309 | 10 559 | 5 678 | 1 028 | -16 030 | -20 668 | -12 408 | -6 962 | -2 808 |
| Bolivia | 482 | 447 | 637 | 324 | 182 | 34 | -130 | -271 | -532 | -260 |
| Brazil | 19 397 | 5 863 | 7 222 | -1 227 | 4 078 | 6 778 | -10 252 | -14 234 | -30 014 | -27 477 |
| Chile | 1 684 | 4 362 | -162 | -3 079 | -1 621 | -2 022 | -2 068 | -3 870 | -9 681 | -9 656 |
| Colombia | 4 308 | 3 703 | 1 763 | -2 339 | -2 165 | -304 | -1 369 | -2 643 | -675 | -2 773 |
| Costa Rica | 2 | 448 | -97 | -674 | -699 | -79 | 562 | 419 | 395 | 648 |
| Dominican Republic | -527 | -593 | -453 | -352 | -85 | 168 | -880 | -2 787 | -2 180 | -198 |
| Ecuador | -738 | -316 | 467 | -2 715 | -2 020 | -776 | 28 | -972 | -1 061 | -978 |
| El Salvador | 244 | 297 | 231 | 165 | 132 | -293 | -42 | 657 | 112 | 110 |
| Guatemala | 421 | 653 | 1 118 | 696 | 1 494 | 1 642 | 938 | 1 271 | 1 478 | 1 169 |
| Haiti | 79 | 85 | 56 | 80 | 45 | 129 | 26 | 5 | 65 | -82 |
| Jamaica | 92 | 368 | 173 | 528 | 161 | 280 | 262 | -48 | 617 | 358 |
| Mexico | -9 169 | 6 073 | 5 371 | 2 604 | 6 194 | 11 161 | 8 502 | 5 960 | 475 | 1 206 |
| Nicaragua | 554 | 749 | 471 | 888 | 573 | 442 | 652 | 627 | 706 | 697 |
| Panama | 249 | 718 | 479 | 652 | 4 | 204 | -39 | -545 | -334 | 674 |
| Paraguay | 423 | 478 | 189 | 287 | -30 | 237 | -134 | 175 | 160 | 286 |
| Peru | 3 532 | 3 037 | 975 | -633 | -324 | 318 | 468 | -693 | -968 | -4 453 |
| Uruguay | 185 | 486 | 793 | 480 | 728 | 707 | -2 601 | 948 | 28 | -287 |
| Venezuela (Bolivarian Republic of) | -4 368 | -3 606 | -1 955 | -2 957 | -7 792 | -6 035 | -14 782 | -8 405 | -15 562 | -23 671 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a The net transfer of resources is equal to total net capital inflows minus the income balance (net payments of profits and interest). Total net capital inflows correspond to the capital and financial accounts, plus errors and omissions, and the use of IMF credit and loans and exceptional financing. Negative figures indicate net outward resource transfers.

^b Preliminary figures.

Table A-13
LATIN AMERICA AND THE CARIBBEAN: TOTAL NET CAPITAL INFLOWS AND NET RESOURCE TRANSFERS^a
(Billions of dollars and percentages)

| | Total net capital inflows | | | Balance on income account ^b | Net resources transfers (5) = (3) + (4) (5) | Exports of goods and services (6) | Net resource transfer as a percentage of exports of goods and services (7) = (5) / (6) (7) |
|-------------------|---------------------------|-----------------------------|-------|--|---|--------------------------------------|--|
| | Autonomous ^c | Non-autonomous ^d | Total | | | | |
| | (1) | (2) | (3) | | | | |
| 1980 | 29.2 | 1.7 | 30.9 | -18.9 | 12.0 | 106.9 | 11.3 |
| 1981 | 38.4 | 1.8 | 40.1 | -29.1 | 11.1 | 115.6 | 9.6 |
| 1982 | 3.3 | 17.2 | 20.5 | -38.9 | -18.4 | 105.2 | -17.5 |
| 1983 | -22.3 | 30.1 | 7.9 | 34.5 | 42.4 | 105.4 | 40.2 |
| 1984 | -10.9 | 23.9 | 13.0 | -37.5 | -24.5 | 117.5 | -20.8 |
| 1985 | -16.4 | 20.3 | 3.9 | -35.5 | -31.6 | 112.8 | -28.1 |
| 1986 | -12.4 | 21.9 | 9.4 | -32.7 | -23.3 | 99.2 | -23.4 |
| 1987 | -13.2 | 25.6 | 12.4 | -31.0 | -18.6 | 113.4 | -16.4 |
| 1988 | -19.8 | 22.8 | 3.0 | -34.6 | -31.6 | 130.6 | -24.2 |
| 1989 | -18.8 | 29.0 | 10.2 | -39.0 | -28.8 | 145.8 | -19.7 |
| 1990 | -5.5 | 21.6 | 16.1 | -34.2 | -18.1 | 162.0 | -11.2 |
| 1991 | 23.3 | 11.8 | 35.1 | -31.4 | 3.7 | 164.2 | 2.3 |
| 1992 | 48.6 | 7.5 | 56.1 | -30.1 | 26.1 | 177.0 | 14.7 |
| 1993 | 68.4 | -1.9 | 66.4 | -34.5 | 32.0 | 193.5 | 16.5 |
| 1994 | 41.2 | 5.8 | 47.0 | -36.1 | 11.0 | 222.5 | 4.9 |
| 1995 | 29.3 | 31.6 | 61.0 | -40.8 | 20.2 | 265.9 | 7.6 |
| 1996 | 63.9 | 0.9 | 64.8 | -42.7 | 22.0 | 295.0 | 7.5 |
| 1997 | 89.2 | -9.0 | 80.2 | -47.7 | 32.6 | 327.3 | 9.9 |
| 1998 | 63.4 | 15.7 | 79.1 | -51.3 | 27.8 | 327.1 | 8.5 |
| 1999 | 42.6 | 6.1 | 48.7 | -50.3 | -1.6 | 343.0 | -0.5 |
| 2000 | 61.2 | -7.7 | 53.5 | -53.6 | -0.1 | 408.4 | 0.0 |
| 2001 | 34.0 | 16.4 | 50.5 | -53.9 | -3.4 | 391.7 | -0.9 |
| 2002 | -12.1 | 22.6 | 10.5 | -52.1 | -41.5 | 394.0 | -10.5 |
| 2003 | 2.2 | 18.7 | 20.9 | -57.7 | -36.8 | 428.4 | -8.6 |
| 2004 | -7.2 | 10.1 | 2.8 | -66.8 | -63.9 | 521.9 | -12.3 |
| 2005 ^e | 12.6 | -7.3 | 5.3 | -72.8 | -67.5 | 620.0 | -10.9 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Includes information for 19 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

^b Corresponds to net payments of profits and interest.

^c Includes errors and omissions.

^d Includes the use of IMF credit and loans and exceptional financing, which includes transactions such as external debt forgiveness and accumulation of arrears.

^e Preliminary figures.

Table A-14
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL ACCRUED INTEREST
 TO EXPORTS OF GOODS AND SERVICES ^a**
 (Percentages)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|-------------------|
| Latin America and the Caribbean | 16.0 | 15.5 | 16.8 | 16.2 | 14.2 | 14.7 | 12.9 | 11.8 | 9.9 | 6.0 |
| Argentina | 27.7 | 28.9 | 34.4 | 41.0 | 40.0 | 39.4 | 35.8 | 29.2 | 24.6 | 15.2 |
| Bolivia | 14.2 | 14.8 | 15.0 | 15.7 | 14.3 | 21.3 | 19.2 | 18.5 | 18.2 | 17.0 |
| Brazil | 25.3 | 26.0 | 30.5 | 31.6 | 26.5 | 26.4 | 21.9 | 18.9 | 15.3 | 13.7 |
| Chile | 7.2 | 7.3 | 8.2 | 7.9 | 8.2 | 7.7 | 6.6 | 5.3 | 4.1 | 0.0 |
| Colombia | 16.2 | 18.7 | 19.8 | 18.3 | 16.9 | 17.1 | 17.6 | 15.3 | 12.8 | 10.8 |
| Costa Rica | 4.8 | 4.6 | 3.6 | 3.2 | 4.1 | 5.1 | 4.1 | 3.9 | 3.5 | 3.8 |
| Dominican Republic | 3.9 | 3.1 | 2.8 | 2.7 | 2.8 | 3.0 | 3.4 | 3.6 | 4.6 | 0.0 |
| Ecuador | 16.4 | 15.8 | 21.1 | 21.1 | 19.9 | 19.0 | 16.9 | 15.4 | 13.1 | 10.5 |
| El Salvador | 6.1 | 8.2 | 8.0 | 8.7 | 8.6 | 9.3 | 9.8 | 11.3 | 11.4 | 12.6 |
| Guatemala | 5.0 | 4.6 | 4.2 | 3.7 | 4.7 | 5.6 | 6.2 | 5.3 | 5.4 | 5.9 |
| Haiti | 5.4 | 3.6 | 2.4 | 2.4 | 1.8 | 2.1 | 3.2 | 3.0 | 2.3 | 4.8 |
| Jamaica | 11.3 | 9.2 | 8.0 | 8.6 | 7.5 | 6.5 | 5.7 | 4.9 | 3.9 | 3.4 |
| Mexico | 12.6 | 10.5 | 9.7 | 8.7 | 7.6 | 8.0 | 7.4 | 7.2 | 6.2 | 0.0 |
| Nicaragua | 40.0 | 25.1 | 16.2 | 17.2 | 14.8 | 15.9 | 12.1 | 9.2 | 7.4 | 3.5 |
| Panama | 17.0 | 15.7 | 19.0 | 20.6 | 20.1 | 17.6 | 13.6 | 11.5 | 10.2 | 10.1 |
| Paraguay | 2.1 | 2.4 | 2.0 | 3.1 | 5.3 | 6.2 | 4.7 | 4.1 | 3.3 | 0.0 |
| Peru | 25.3 | 19.5 | 23.7 | 23.0 | 21.6 | 19.7 | 14.6 | 12.6 | 10.0 | 8.2 |
| Uruguay | 15.9 | 16.6 | 18.0 | 20.9 | 20.6 | 24.5 | 24.5 | 20.2 | 19.1 | 17.7 |
| Venezuela (Bolivarian Republic of) | 11.2 | 12.9 | 14.7 | 12.6 | 8.6 | 9.7 | 8.5 | 7.9 | 5.4 | 4.5 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Includes interest paid (without deducting interest received) and interest due but not paid.

^b Preliminary figures.

Table A-15
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF PROFIT PAYMENTS
 TO EXPORTS OF GOODS AND SERVICES ^a**
 (Percentages)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------|
| Latin America and the Caribbean | 5.2 | 6.1 | 6.4 | 5.0 | 5.6 | 5.0 | 4.4 | 5.5 | 6.3 | 3.9 |
| Argentina | 7.3 | 8.8 | 8.9 | 7.5 | 7.9 | 2.5 | 0.4 | 3.1 | 6.4 | 6.9 |
| Bolivia | 3.0 | 5.7 | 6.0 | 10.9 | 10.1 | ... | ... | ... | ... | ... |
| Brazil | 7.6 | 10.3 | 11.0 | 9.3 | 6.6 | 7.4 | 8.5 | 7.2 | 6.3 | 7.1 |
| Chile | 9.4 | 10.0 | 6.9 | 7.0 | 10.9 | 10.0 | 10.8 | 17.4 | 21.2 | ... |
| Colombia | 4.9 | 4.0 | -0.2 | -2.1 | 4.2 | 6.2 | 7.4 | 10.0 | 12.0 | 10.8 |
| Costa Rica | 1.8 | 3.4 | 5.6 | 20.9 | 14.7 | 8.2 | 4.9 | 7.8 | 3.8 | 4.2 |
| Dominican Republic | 9.8 | 10.1 | 11.1 | 12.1 | 11.9 | 13.0 | 14.0 | 15.6 | 16.5 | ... |
| Ecuador | 3.4 | 3.2 | 4.6 | 4.7 | 4.7 | 5.9 | 5.0 | 5.0 | 4.1 | 4.6 |
| El Salvador | ... | ... | 1.0 | 3.5 | 1.6 | 2.0 | 2.3 | 2.1 | 1.9 | 1.0 |
| Guatemala | 4.6 | 5.1 | 3.7 | 4.3 | 5.8 | 4.4 | 5.7 | 6.6 | 5.2 | 4.8 |
| Haiti | -0.2 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Jamaica | 3.5 | 3.2 | 2.9 | 2.0 | 2.8 | 4.3 | 4.3 | 6.3 | 6.8 | 7.1 |
| Mexico | 3.8 | 3.1 | 4.1 | 2.4 | 4.0 | 3.2 | 1.9 | 1.9 | 1.7 | ... |
| Nicaragua | 6.2 | 5.9 | 6.2 | 6.5 | 6.3 | 6.9 | 6.3 | 5.9 | 4.8 | ... |
| Panama | 5.5 | 6.1 | 7.8 | 10.1 | 7.4 | 7.3 | 2.6 | 9.4 | 11.1 | 9.3 |
| Paraguay | 1.8 | 3.8 | 4.3 | 3.6 | 2.9 | 3.6 | 1.6 | 2.0 | 2.0 | ... |
| Peru | 9.3 | 11.0 | 2.9 | 0.2 | 4.1 | 1.5 | 5.2 | 10.3 | 15.9 | 17.2 |
| Uruguay | 0.9 | 0.9 | 1.4 | 2.0 | 2.4 | 3.1 | -11.7 | 3.6 | 3.3 | 3.1 |
| Venezuela (Bolivarian Republic of) | 1.7 | 6.6 | 11.4 | 3.9 | 4.1 | 6.7 | 7.0 | 6.7 | 8.2 | 5.0 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Includes reinvestment of profits.

^b Preliminary figures.

Table A-16
LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT^{a b}
(Millions of dollars)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^c |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Latin America and the Caribbean | 40 301 | 57 599 | 63 677 | 79 345 | 68 876 | 65 124 | 43 225 | 32 600 | 45 351 | 47 319 |
| Argentina ^d | 5 348 | 5 507 | 4 965 | 22 257 | 9 517 | 2 005 | 2 776 | 878 | 3 923 | 5 200 |
| Bolivia | 472 | 728 | 947 | 1 008 | 734 | 703 | 674 | 195 | 114 | 103 |
| Brazil | 11 667 | 18 608 | 29 192 | 26 886 | 30 498 | 24 715 | 14 108 | 9 894 | 8 695 | 14 000 |
| Chile | 3 681 | 3 809 | 3 144 | 6 203 | 873 | 2 590 | 2 207 | 2 501 | 6 660 | 5 195 |
| Colombia | 2 784 | 4 753 | 2 033 | 1 392 | 2 069 | 2 509 | 1 258 | 863 | 2 909 | 3 716 |
| Costa Rica | 421 | 404 | 608 | 614 | 404 | 447 | 624 | 547 | 557 | 609 |
| Dominican Republic | 97 | 421 | 700 | 1 338 | 953 | 1 079 | 917 | 613 | 758 | 899 |
| Ecuador | 500 | 724 | 870 | 648 | 720 | 1 330 | 1 275 | 1 555 | 1 160 | 1 530 |
| El Salvador ^e | -7 | 59 | 1 103 | 162 | 178 | 289 | 496 | 154 | 459 | 457 |
| Guatemala | 77 | 84 | 673 | 155 | 230 | 456 | 111 | 131 | 155 | 168 |
| Haiti | 4 | 4 | 11 | 30 | 13 | 4 | 6 | 14 | 6 | 7 |
| Honduras | 91 | 122 | 99 | 237 | 282 | 193 | 176 | 247 | 293 | 190 |
| Mexico ^f | 9 186 | 12 831 | 11 897 | 13 055 | 16 075 | 23 331 | 16 192 | 10 966 | 14 420 | 11 250 |
| Nicaragua | 120 | 203 | 218 | 337 | 267 | 150 | 204 | 201 | 186 | 230 |
| Panama | 416 | 1 299 | 1 203 | 864 | 700 | 405 | 99 | 792 | 1 012 | 750 |
| Paraguay | 144 | 230 | 336 | 89 | 98 | 78 | 12 | 30 | 64 | 64 |
| Peru | 3 488 | 2 054 | 1 582 | 1 812 | 810 | 1 070 | 2 156 | 1 275 | 1 816 | 2 141 |
| Uruguay | 137 | 113 | 155 | 238 | 274 | 291 | 180 | 401 | 300 | 312 |
| Venezuela (Bolivarian Republic of) | 1 676 | 5 645 | 3 942 | 2 018 | 4 180 | 3 479 | -244 | 1 341 | 1 866 | 500 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Refers to direct investment in the reporting economy, minus direct investment abroad by reporting-economy residents (both excluding disinvestment). Includes reinvested profits.

^b In accordance with the fifth edition of the IMF Balance of Payments Manual, all transactions between non-financial direct investment enterprises and their parent companies and affiliates are included in direct investment.

^c Preliminary figures.

^d For 1999, includes the value of the investment by REPSOL in Yacimientos Petroliferos Fiscales. Part of this amount corresponds to the purchase of shares in the company held by non-residents. In the balance of payments, the value of those shares is reflected as a debit under the portfolio investment item.

^e From 1998 onward the figures are not comparable, since up to 1997 no official records were kept.

^f For 2001, includes the value of the investment by Citigroup in BANAMEX; for 2004, includes investment in Bancomer.

Table A-17
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES
(Millions of dollars)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|
| Latin America and the Caribbean | 54 504 | 55 635 | 40 406 | 44 107 | 40 255 | 38 503 | 20 208 | 37 906 | 36 383 | 33 859 |
| Argentina | 14 110 | 15 571 | 15 931 | 14 900 | 13 468 | 2 711 | | 100 | 200 | 150 |
| Barbados | | | | | 200 | 150 | | | | 200 |
| Belize | | | | | | | 125 | 100 | | |
| Bolivia | | | | | | | | | 108 | |
| Brazil | 13 868 | 15 839 | 8 380 | 11 180 | 12 068 | 13 010 | 6 857 | 19 364 | 11 603 | 12 544 |
| Chile | 2 349 | 1 800 | 1 063 | 1 765 | 676 | 1 515 | 1 694 | 3 200 | 2 350 | 1 000 |
| Colombia | 2 615 | 1 605 | 1 385 | 1 676 | 1 622 | 4 329 | 695 | 1 545 | 1 545 | 1 785 |
| Costa Rica | | | 200 | 300 | 250 | 250 | 250 | 490 | 310 | |
| Dominican Republic | | 200 | | | | 500 | | 600 | | |
| Ecuador | | 625 | | | | | | | | |
| El Salvador | | | | 150 | 50 | 354 | 1 252 | 349 | 286 | 375 |
| Grenada | | | | | | | 100 | | | |
| Guatemala | | 150 | | | | 325 | | 300 | 380 | |
| Jamaica | 75 | 225 | 250 | | 422 | 812 | 300 | | 814 | 800 |
| Mexico | 20 462 | 15 250 | 8 914 | 11 441 | 9 777 | 11 016 | 6 505 | 7 979 | 13 312 | 10 578 |
| Panama | 125 | 1 146 | 325 | 500 | 350 | 1 100 | 1 030 | 275 | 770 | 400 |
| Paraguay | | | | 400 | | | | | | |
| Peru | 26 | 450 | 150 | | | | 1 000 | 1 250 | 1 305 | 1 950 |
| Trinidad and Tobago | 150 | | | 230 | 250 | | | | | 100 |
| Uruguay | 100 | 479 | 550 | 350 | 641 | 856 | 400 | | 350 | 862 |
| Venezuela (Bolivarian Republic of) | 625 | 2 295 | 3 259 | 1 215 | 482 | 1 575 | | 2 354 | 3 050 | 3 115 |

Source: International Monetary Fund Research Department, Emerging Markets Studies Division and Merrill Lynch.

^a Data to September. Does not include US\$ 784 million issued jointly by the Andean Development Corporation (ADC) and the Central American Bank for Economic Integration (CABEI).

Table A-18
LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT ^a
(Millions of dollars)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------|
| Latin America and the Caribbean | 653 665 | 687 896 | 751 080 | 762 744 | 738 382 | 744 082 | 733 112 | 758 126 | 760 376 | 679 183 |
| Latin America | 647 390 | 679 913 | 742 710 | 754 647 | 729 465 | 734 285 | 722 201 | 747 022 | 748 575 | 671 755 |
| Argentina | 114 423 | 129 964 | 147 634 | 152 563 | 155 015 | 166 272 | 156 748 | 164 918 | 171 115 | 118 663 |
| Bolivia ^c | 4 643 | 4 532 | 4 659 | 4 574 | 4 460 | 4 412 | 4 300 | 5 042 | 4 951 | 4 802 |
| Brazil | 179 935 | 199 998 | 223 792 | 225 610 | 216 921 | 209 934 | 210 711 | 214 930 | 201 373 | 191 309 |
| Chile | 26 272 | 29 034 | 32 591 | 34 758 | 37 177 | 38 538 | 40 675 | 43 359 | 43 283 | 44 333 |
| Colombia | 31 114 | 34 409 | 36 681 | 36 733 | 36 130 | 39 109 | 37 336 | 38 065 | 39 460 | 37 045 |
| Costa Rica ^c | 2 859 | 2 640 | 2 872 | 3 057 | 3 151 | 3 175 | 3 281 | 3 733 | 3 884 | 3 633 |
| Cuba ^c | 10 465 | 10 146 | 11 209 | 11 078 | 10 961 | 10 893 | 10 900 | 11 300 | 12 000 | ... |
| Dominican Republic ^c | 3 807 | 3 572 | 3 546 | 3 661 | 3 682 | 4 177 | 4 536 | 5 987 | 6 380 | 6 448 |
| Ecuador | 14 586 | 15 099 | 16 401 | 16 282 | 13 564 | 14 411 | 16 288 | 16 595 | 17 010 | 17 603 |
| El Salvador ^c | 2 517 | 2 689 | 2 646 | 2 789 | 2 831 | 3 148 | 3 987 | 4 717 | 4 778 | 4 922 |
| Guatemala ^c | 2 075 | 2 135 | 2 368 | 2 631 | 2 644 | 2 925 | 3 119 | 3 467 | 3 844 | 3 766 |
| Haiti ^c | 914 | 1 025 | 1 104 | 1 162 | 1 170 | 1 189 | 1 212 | 1 287 | 1 316 | ... |
| Honduras | 4 121 | 4 073 | 4 369 | 4 691 | 4 711 | 4 757 | 4 922 | 5 143 | 5 792 | 5 608 |
| Mexico | 157 200 | 149 028 | 160 258 | 166 381 | 148 652 | 144 526 | 134 728 | 132 021 | 130 531 | 131 737 |
| Nicaragua ^c | 6 094 | 6 001 | 6 287 | 6 549 | 6 660 | 6 374 | 6 363 | 6 596 | 5 391 | 5 280 |
| Panama ^c | 5 070 | 5 051 | 5 349 | 5 568 | 5 604 | 6 263 | 6 349 | 6 504 | 7 219 | 7 200 |
| Paraguay | 1 801 | 1 926 | 2 133 | 2 697 | 2 819 | 2 652 | 2 866 | 3 086 | 2 994 | 2 944 |
| Peru | 33 782 | 28 864 | 30 142 | 28 586 | 27 981 | 27 196 | 27 873 | 29 587 | 31 117 | 30 141 |
| Uruguay ^d | 11 595 | 12 485 | 13 582 | 8 261 | 8 895 | 8 937 | 10 548 | 11 013 | 11 593 | 11 217 |
| Venezuela (Bolivarian Republic of) | 34 117 | 37 242 | 35 087 | 37 016 | 36 437 | 35 398 | 35 460 | 39 672 | 44 546 | 45 104 |
| The Caribbean | 6 275 | 7 984 | 8 369 | 8 096 | 8 917 | 9 797 | 10 911 | 11 104 | 11 801 | 7 428 |
| Antigua and Barbuda ^c | 276 | 348 | 459 | 462 | 472 | 496 | 541 | 576 | 335 | ... |
| Bahamas ^c | 286 | 335 | 323 | 338 | 349 | 328 | 309 | 362 | 343 | 289 |
| Barbados ^c | 481 | 428 | 453 | 492 | 605 | 539 | 755 | 737 | 792 | 747 |
| Belize ^c | ... | ... | 260 | 252 | 434 | 487 | 575 | 750 | 841 | ... |
| Dominica ^c | 102 | 89 | 94 | 133 | 154 | 181 | 209 | 230 | 245 | ... |
| Grenada ^c | 86 | 93 | 107 | 116 | 135 | 183 | 321 | 343 | 410 | ... |
| Guyana ^c | 1 537 | 1 513 | 1 516 | 1 210 | 1 195 | 1 193 | 1 246 | 1 092 | 1 078 | 1 065 |
| Jamaica ^c | 3 232 | 3 278 | 3 306 | 3 024 | 3 375 | 4 146 | 4 348 | 4 192 | 5 120 | 4 952 |
| Saint Kitts and Nevis ^c | 59 | 108 | 124 | 153 | 162 | 206 | 261 | 367 | 322 | ... |
| Saint Lucia ^c | 128 | 139 | 155 | 170 | 197 | 203 | 259 | 330 | 362 | ... |
| Saint Vincent and the Grenadines ^c | 86 | 89 | 101 | 160 | 160 | 170 | 170 | 192 | 221 | ... |
| Suriname ^c | ... | ... | ... | ... | ... | ... | 369 | 381 | 381 | 375 |
| Trinidad and Tobago ^c | ... | 1 565 | 1 471 | 1 585 | 1 680 | 1 666 | 1 549 | 1 553 | 1 351 | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Includes debt owed to the International Monetary Fund.

^b Data for the first semester.

^c Public external debt.

^d From 1999 on, the figures correspond to a new official series for the total debt which is not comparable with the preceding series, as it includes the private sector and does not include memorandum items on external liabilities and assets.

Table A-19
**LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL GROSS EXTERNAL
 DEBT TO EXPORTS OF GOODS AND SERVICES**
 (Percentages)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------------|
| Latin America and the Caribbean | 215 | 203 | 221 | 214 | 174 | 183 | 179 | 170 | 141 | 118 |
| Latin America | 216 | 205 | 224 | 217 | 176 | 185 | 181 | 172 | 141 | 118 |
| Argentina | 403 | 420 | 473 | 546 | 498 | 533 | 542 | 483 | 430 | 255 |
| Bolivia ^b | 354 | 321 | 344 | 349 | 303 | 290 | 276 | 257 | 194 | 161 |
| Brazil | 343 | 338 | 381 | 409 | 336 | 311 | 301 | 257 | 185 | 143 |
| Chile | 130 | 133 | 161 | 165 | 160 | 172 | 180 | 164 | 114 | 94 |
| Colombia | 236 | 242 | 273 | 263 | 229 | 260 | 263 | 242 | 202 | 150 |
| Costa Rica ^b | 59 | 49 | 42 | 37 | 41 | 46 | 46 | 46 | 45 | 37 |
| Dominican Republic ^b | 61 | 51 | 47 | 46 | 41 | 50 | 55 | 67 | 69 | 65 |
| Ecuador | 260 | 250 | 328 | 305 | 227 | 255 | 268 | 228 | 193 | 163 |
| El Salvador ^b | 114 | 92 | 87 | 88 | 77 | 88 | 105 | 118 | 111 | 106 |
| Guatemala ^b | 74 | 67 | 68 | 76 | 69 | 75 | 79 | 84 | 83 | 74 |
| Haiti ^b | 477 | 270 | 230 | 219 | 232 | 267 | 288 | 275 | 258 | ... |
| Honduras | 214 | 186 | 180 | 210 | 189 | 196 | 196 | 191 | 189 | 172 |
| Mexico | 147 | 123 | 124 | 112 | 83 | 84 | 78 | 74 | 65 | 58 |
| Nicaragua ^b | 842 | 666 | 666 | 680 | 604 | 570 | 557 | 505 | 326 | 282 |
| Panama ^b | 68 | 60 | 65 | 78 | 72 | 78 | 84 | 86 | 84 | 75 |
| Paraguay | 41 | 48 | 51 | 93 | 96 | 108 | 118 | 112 | 91 | 86 |
| Peru | 463 | 345 | 400 | 372 | 330 | 321 | 301 | 274 | 214 | 158 |
| Uruguay ^c | 301 | 296 | 327 | 238 | 243 | 274 | 392 | 357 | 289 | 237 |
| Venezuela (Bolivarian Republic of) | 135 | 148 | 183 | 166 | 105 | 126 | 127 | 141 | 112 | 80 |
| The Caribbean | 75 | 69 | 70 | 62 | 57 | 66 | 75 | 67 | 62 | 75 |
| Antigua and Barbuda ^b | 69 | 78 | 98 | 97 | 101 | 112 | 124 | 126 | 64 | ... |
| Bahamas ^b | 15 | 18 | 17 | 15 | 12 | 14 | 13 | 15 | 13 | 11 |
| Barbados ^b | 40 | 34 | 35 | 38 | 44 | 40 | 58 | 52 | 54 | 50 |
| Belize ^b | 0 | 0 | 80 | 67 | 113 | 108 | 116 | 142 | 160 | ... |
| Dominica ^b | 84 | 65 | 62 | 85 | 106 | 150 | 169 | 194 | 188 | ... |
| Grenada ^b | 66 | 67 | 65 | 53 | 57 | 93 | 186 | 191 | 211 | ... |
| Guyana ^b | 213 | 204 | 220 | 180 | 177 | 180 | 187 | 156 | 147 | 158 |
| Jamaica ^b | 97 | 96 | 98 | 87 | 94 | 124 | 135 | 119 | 131 | 123 |
| Saint Kitts and Nevis ^b | 47 | 77 | 86 | 105 | 108 | 134 | 168 | 222 | 166 | ... |
| Saint Lucia ^b | 36 | 39 | 40 | 46 | 52 | 62 | 81 | 85 | 76 | ... |
| Saint Vincent and the Grenadines ^b | 58 | 60 | 64 | 91 | 89 | 96 | 95 | 111 | 120 | ... |
| Suriname ^b | 0 | 0 | 0 | 0 | 0 | 0 | 91 | 70 | 49 | 41 |
| Trinidad and Tobago ^b | 0 | 52 | 50 | 46 | 35 | 34 | 34 | 26 | 18 | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF) and national institutions.

^a Preliminary figures.

^b Public external debt.

^c From 1999 on, the figures correspond to a new official series for the total debt which is not comparable with the preceding series, as it includes the private sector and does not include memorandum items on external liabilities and assets.

Table A-20
LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES IN DOLLARS^a
(Indices: December 2000=100)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^b |
|--|-------------|--------------|-------------|--------------|--------------|-------------|-------------|--------------|--------------|-------------------|
| Latin America and the Caribbean | 97.2 | 121.5 | 75.1 | 118.0 | 100.0 | 93.9 | 72.6 | 122.5 | 168.6 | 222.9 |
| Argentina | 119.1 | 139.7 | 100.0 | 133.3 | 100.0 | 69.1 | 34.8 | 79.4 | 97.4 | 141.1 |
| Brazil | 94.5 | 113.9 | 65.4 | 109.2 | 100.0 | 77.7 | 51.9 | 105.9 | 141.8 | 197.8 |
| Chile | 118.9 | 122.9 | 86.0 | 116.4 | 100.0 | 94.8 | 80.7 | 145.9 | 176.9 | 201.3 |
| Colombia | 324.2 | 402.3 | 227.0 | 181.5 | 100.0 | 125.1 | 137.3 | 174.7 | 376.4 | 602.1 |
| Mexico | 77.4 | 114.2 | 69.9 | 125.6 | 100.0 | 112.2 | 93.6 | 123.5 | 182.8 | 231.6 |
| Peru | 166.7 | 189.9 | 114.5 | 138.5 | 100.0 | 112.3 | 146.9 | 263.1 | 294.9 | 345.9 |
| Venezuela (Bolivarian Republic of) | 152.4 | 187.8 | 90.5 | 79.0 | 100.0 | 79.9 | 51.8 | 59.2 | 88.9 | 61.4 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Finance Corporation.

^a Year-end values; overall index.

^b Figures to October.

Table A-21
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATES^a
(Index: 2000=100, deflated by CPI)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^b | 2005 ^{b,c} |
|--|--------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|-------------------|---------------------|
| Latin America and the Caribbean^d | 105.2 | 99.8 | 98.6 | 100.0 | 100.0 | 99.1 | 106.8 | 112.2 | 113.2 | 111.4 |
| Argentina | 115.0 | 112.7 | 108.8 | 99.6 | 100.0 | 95.6 | 221.9 | 204.5 | 214.8 | 215.3 |
| Barbados | 102.5 | 98.1 | 100.6 | 101.0 | 100.0 | 98.4 | 100.1 | 103.4 | 107.9 | 107.7 ^e |
| Bolivia | 105.3 | 103.8 | 98.5 | 98.6 | 100.0 | 101.0 | 95.4 | 104.1 | 111.7 | 119.9 |
| Brazil | 71.2 | 69.9 | 72.3 | 108.0 | 100.0 | 119.7 | 130.5 | 130.6 | 124.6 | 103.6 |
| Chile | 97.1 | 90.8 | 92.5 | 98.2 | 100.0 | 111.2 | 109.1 | 114.5 | 106.9 | 103.4 |
| Colombia | 83.6 | 78.0 | 83.1 | 91.3 | 100.0 | 104.0 | 105.3 | 119.3 | 108.5 | 96.6 |
| Costa Rica | 100.9 | 100.9 | 114.0 | 101.7 | 100.0 | 97.1 | 97.6 | 103.6 | 106.5 | 107.8 |
| Dominica | 98.8 | 98.8 | 100.3 | 99.8 | 100.0 | 100.2 | 101.5 | 104.1 | 107.8 | 111.2 ^f |
| Ecuador | 68.3 | 65.8 | 65.0 | 88.8 | 100.0 | 71.4 | 62.6 | 61.1 | 63.7 | 66.8 |
| El Salvador | 106.5 | 104.0 | 101.9 | 100.4 | 100.0 | 99.6 | 99.6 | 101.1 | 101.0 | 101.8 |
| Guatemala | 94.8 | 88.3 | 88.1 | 98.7 | 100.0 | 95.7 | 88.5 | 88.2 | 85.6 | 79.8 |
| Honduras | 130.0 | 119.0 | 108.8 | 104.5 | 100.0 | 97.1 | 96.9 | 98.6 | 100.0 | 100.0 |
| Jamaica | 115.0 | 100.7 | 96.0 | 97.7 | 100.0 | 101.7 | 101.1 | 115.9 | 114.2 | 105.7 |
| Mexico | 138.5 | 119.9 | 118.9 | 108.8 | 100.0 | 93.4 | 92.9 | 104.5 | 109.5 | 106.8 |
| Nicaragua | 99.8 | 101.2 | 101.3 | 101.9 | 100.0 | 101.1 | 103.1 | 107.2 | 109.1 | 108.3 |
| Panama | 100.6 | 102.5 | 100.1 | 100.7 | 100.0 | 103.0 | 102.1 | 104.7 | 109.9 | 112.3 |
| Paraguay | 97.2 | 93.3 | 99.2 | 96.6 | 100.0 | 102.4 | 106.3 | 111.7 | 107.4 | 118.5 |
| Peru | 90.6 | 90.7 | 91.7 | 101.5 | 100.0 | 97.8 | 95.6 | 99.8 | 101.3 | 101.3 |
| Trinidad and Tobago | 104.7 | 107.9 | 105.3 | 102.2 | 100.0 | 94.5 | 91.1 | 91.1 | 92.5 | 91.5 |
| Uruguay | 111.2 | 108.5 | 107.0 | 98.3 | 100.0 | 101.2 | 117.0 | 150.3 | 151.8 | 137.9 |
| Venezuela (Bolivarian Republic of) | 177.2 | 141.4 | 116.5 | 102.6 | 100.0 | 95.2 | 123.7 | 136.8 | 143.2 | 143.9 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from official sources and from the International Monetary Fund (IMF).

^a Annual averages. A country's real effective exchange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by their shares in the country's total trade flows in terms of exports and imports. A currency depreciates in effective real terms when this index rises and appreciates when it falls.

^b Preliminary figures.

^c Average for January-October.

^d Simple average.

^e Average for January-June.

^f Average for January-August.

Table A-22
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Average annual rates)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a | |
|---|--|------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|-------------------|
| Latin America and the Caribbean ^b | 9.9 | 9.3 | 10.3 | 11.0 | 10.4 | 10.2 | 11.0 | 10.9 | 10.3 | 9.3 | |
| Argentina ^c | Urban areas | 17.2 | 14.9 | 12.9 | 14.3 | 15.1 | 17.4 | 19.7 | 17.3 | 13.6 | 11.6 ^d |
| Barbados ^e | Nationwide total | 15.6 | 14.5 | 12.3 | 10.4 | 9.2 | 9.9 | 10.3 | 11.0 | 9.8 | 9.4 ^f |
| Belize | Nationwide total | 13.8 | 12.7 | 14.3 | 12.8 | 11.1 | 9.1 | 10.0 | 12.9 | 11.6 | 11.0 ^g |
| Bolivia | Urban total ^h | 3.8 | 4.4 | 6.1 | 7.2 | 7.5 | 8.5 | 8.7 | 9.2 | 8.5 | ... |
| Brazil ⁱ | Six metropolitan areas | 5.4 | 5.7 | 7.6 | 7.6 | 7.1 | 6.2 | 11.7 | 12.3 | 11.5 | 9.9 ^j |
| Chile | Nationwide total | 6.4 | 6.1 | 6.4 | 9.8 | 9.2 | 9.1 | 9.0 | 8.5 | 8.8 | 8.1 ^j |
| Colombia ^e | 13 metropolitan areas ^k | 11.2 | 12.4 | 15.3 | 19.4 | 17.2 | 18.2 | 17.6 | 16.7 | 15.4 | 13.9 ^j |
| Costa Rica | Urban total | 6.6 | 5.9 | 5.4 | 6.2 | 5.3 | 5.8 | 6.8 | 6.7 | 6.7 | 6.9 |
| Cuba | Nationwide total | 7.6 | 7.0 | 6.6 | 6.0 | 5.5 | 4.1 | 3.3 | 2.3 | 1.9 | 2.0 |
| Dominican Republic ^e | Nationwide total | 16.5 | 15.9 | 14.3 | 13.8 | 13.9 | 15.4 | 16.1 | 17.0 | 18.4 | 18.4 ^g |
| Ecuador ^e | Cuenca, Guayaquil and Quito ^l | 10.4 | 9.3 | 11.5 | 15.1 | 14.1 | 10.4 | 8.6 | 9.8 | 11.0 | 10.9 ^j |
| El Salvador | Urban total | 7.5 | 7.5 | 7.6 | 6.9 | 6.5 | 7.0 | 6.2 | 6.2 | 6.5 | 7.2 ^d |
| Guatemala | Nationwide total | 5.2 | 5.1 | 3.8 | ... | ... | ... | 3.1 | 3.4 | 3.1 | ... |
| Honduras | Urban total | 6.5 | 5.8 | 5.2 | 5.3 | ... | 5.9 | 6.1 | 7.6 | 8.0 | 6.8 ^m |
| Jamaica ^e | Nationwide total | 16.0 | 16.5 | 15.5 | 15.7 | 15.5 | 15.0 | 14.2 | 11.4 | 11.7 | 11.5 ⁿ |
| Mexico ^o | Urban areas | ... | 5.4 | 4.7 | 3.7 | 3.4 | 3.6 | 3.9 | 4.6 | 5.3 | 4.8 ^j |
| Nicaragua | Urban total ^p | 16.0 | 14.3 | 13.2 | 10.7 | 8.3 | 11.3 | 11.6 | 10.2 | 9.3 | ... |
| Panama ^e | Urban total ^q | 16.4 | 15.4 | 15.5 | 13.6 | 15.2 | 17.0 | 16.5 | 15.9 | 14.1 | 12.0 |
| Paraguay | Urban total | 8.2 | 7.1 | 6.6 | 9.4 | 10.0 | 10.8 | 14.7 | 11.2 | 10.0 | ... |
| Peru | Metropolitan Lima | 8.0 | 9.2 | 8.5 | 9.2 | 8.5 | 9.3 | 9.4 | 9.4 | 9.4 | 9.6 ^j |
| Trinidad and Tobago ^e | Nationwide total | 16.2 | 15.0 | 14.2 | 13.2 | 12.2 | 10.8 | 10.4 | 10.5 | 8.6 | 8.2 ^r |
| Uruguay | Urban total | 11.9 | 11.5 | 10.1 | 11.3 | 13.6 | 15.3 | 17.0 | 16.9 | 13.1 | 12.1 |
| Venezuela (Bolivarian Republic of) | Nationwide total | 11.8 | 11.4 | 11.3 | 15.0 | 13.9 | 13.3 | 15.8 | 18.0 | 15.3 | 12.4 ^j |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b The data for Argentina, Brazil and Mexico have been adjusted to allow for changes in methodology in 2003, 2002 and 2005, respectively.

^c New measurements have been used from 2003 on; these data are not comparable with the preceding series.

^d Estimate based on data for January to September.

^e Includes hidden unemployment.

^f Data correspond to the first semester.

^g Figure for April.

^h Up to 1999, the figures refer to departmental capitals.

ⁱ New measurements have been used from 2002 on; these data are not comparable with the preceding series.

^j Estimate based on data for January to October.

^k Up to 1999, the figures refer to seven metropolitan areas.

^l Up to 1998, the figures refer to the urban total.

^m Figure for May.

ⁿ Data correspond to the average for January-April.

^o Data based on a new methodology and not comparable with previously published data.

^p Up to 1999, the figures refer to nationwide totals.

^q Up to 1999, the figures refer to the metropolitan region.

^r Estimate based on data for January to June.

Table A-23
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variations, December-December)

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|--|-------------|-------------|-------------|------------|------------|------------|-------------|------------|------------|-------------------|
| Latin America and the Caribbean^b | 18.6 | 10.7 | 10.0 | 9.7 | 9.0 | 6.1 | 12.2 | 8.5 | 7.4 | 6.3 |
| Argentina | 0.1 | 0.3 | 0.7 | -1.8 | -0.7 | -1.5 | 41.0 | 3.7 | 6.1 | 12.0 |
| Bahamas | 1.1 | 0.8 | 1.9 | 1.4 | 1.0 | 2.9 | 1.9 | 2.3 | 1.0 | 2.4 ^c |
| Barbados | 1.8 | 3.6 | 1.7 | 2.9 | 3.8 | -0.3 | 0.9 | 0.3 | 4.3 | 5.5 ^d |
| Bolivia | 7.9 | 6.7 | 4.4 | 3.1 | 3.4 | 0.9 | 2.4 | 3.9 | 4.6 | 5.0 |
| Brazil | 9.6 | 5.2 | 1.7 | 8.9 | 6.0 | 7.7 | 12.5 | 9.3 | 7.6 | 6.2 |
| Chile | 6.6 | 6.0 | 4.7 | 2.3 | 4.5 | 2.6 | 2.8 | 1.1 | 2.4 | 3.6 |
| Colombia | 21.6 | 17.7 | 16.7 | 9.2 | 8.8 | 7.6 | 7.0 | 6.5 | 5.5 | 5.1 |
| Costa Rica | 13.9 | 11.2 | 12.4 | 10.1 | 10.2 | 11.0 | 9.7 | 9.9 | 13.1 | 14.2 |
| Cuba | 0.0 | 1.9 | 2.9 | -2.9 | -3.0 | -0.5 | 7.0 | -1.0 | 2.9 | 4.2 |
| Dominica | 2.0 | 2.3 | 1.4 | 0.0 | 1.1 | 1.1 | 0.5 | 2.8 | 0.8 | 2.4 ^c |
| Dominican Republic | 4.0 | 8.4 | 7.8 | 5.1 | 9.0 | 4.4 | 10.5 | 42.7 | 28.7 | 4.8 |
| Ecuador | 25.7 | 30.6 | 43.4 | 60.7 | 91.0 | 22.4 | 9.3 | 6.1 | 1.9 | 3.8 |
| El Salvador | 7.4 | 1.9 | 4.2 | -1.0 | 4.3 | 1.4 | 2.8 | 2.5 | 5.4 | 4.6 |
| Grenada | 3.2 | 0.9 | 1.2 | 1.1 | 3.4 | -0.7 | 2.3 | ... | ... | ... |
| Guatemala | 10.9 | 7.1 | 7.5 | 4.9 | 5.1 | 8.9 | 6.3 | 5.9 | 9.2 | 9.2 |
| Guyana | 4.5 | 4.2 | 4.7 | 8.7 | 5.8 | 1.5 | 6.0 | 5.0 | 5.5 | 7.4 ^c |
| Haiti | 14.5 | 15.7 | 7.4 | 9.7 | 19.0 | 8.1 | 14.8 | 40.4 | 20.2 | 15.2 ^e |
| Honduras | 25.3 | 12.8 | 15.7 | 10.9 | 10.1 | 8.8 | 8.1 | 6.8 | 9.2 | 7.7 |
| Jamaica | 15.8 | 9.2 | 7.9 | 6.8 | 6.1 | 8.7 | 7.3 | 14.1 | 13.7 | 15.9 ^e |
| Mexico | 27.7 | 15.7 | 18.6 | 12.3 | 9.0 | 4.4 | 5.7 | 4.0 | 5.2 | 2.9 |
| Nicaragua | 12.1 | 7.3 | 18.5 | 7.2 | 9.9 | 4.7 | 4.0 | 6.6 | 8.9 | 10.5 ^e |
| Panama | 2.3 | -0.5 | 1.4 | 1.5 | 0.7 | 0.0 | 1.9 | 1.5 | 1.5 | 4.0 ^e |
| Paraguay | 8.2 | 6.2 | 14.6 | 5.4 | 8.6 | 8.4 | 14.6 | 9.3 | 2.8 | 12.3 |
| Peru | 11.8 | 6.5 | 6.0 | 3.7 | 3.7 | -0.1 | 1.5 | 2.5 | 3.5 | 1.1 |
| Saint Kitts and Nevis | 3.1 | 11.3 | 0.9 | 3.2 | ... | ... | ... | ... | ... | ... |
| Saint Lucia | -2.3 | 1.9 | 3.6 | 6.1 | 0.4 | 0.0 | 1.4 | ... | ... | ... |
| Saint Vincent and the Grenadines | 3.6 | 0.8 | 3.3 | -1.8 | 1.4 | -0.2 | 0.4 | 2.7 | 1.7 | 3.1 ^c |
| Suriname | 1.2 | 17.4 | 22.9 | 112.7 | 76.1 | 4.9 | 28.4 | 13.1 | 9.1 | 16.6 ^e |
| Trinidad and Tobago | 4.3 | 3.5 | 5.6 | 3.4 | 5.6 | 3.2 | 4.3 | 3.0 | 5.6 | 6.8 ^e |
| Uruguay | 24.3 | 15.2 | 8.6 | 4.2 | 5.1 | 3.6 | 25.9 | 10.2 | 7.6 | 4.8 |
| Venezuela (Bolivarian Republic of) | 103.2 | 37.6 | 29.9 | 20.0 | 13.4 | 12.3 | 31.2 | 27.1 | 19.2 | 15.3 |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Twelve-month variation up to November 2005.

^b Does not include the Bahamas, Barbados, Grenada, Guyana, Saint Vincent and the Grenadines and Saint Lucia. The figure for 2005 also excludes Cuba.

^c Twelve-month variation up to September 2005.

^d Twelve-month variation up to June 2005.

^e Twelve-month variation up to October 2005.

Table A-24
LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES
(Average annual indices: 2000 = 100)

| | 1990 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 ^a |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------------------|
| Argentina ^b | 93.3 | 94.7 | 95.0 | 95.0 | 97.8 | 100.0 | 99.2 | 85.4 | 83.8 | 92.2 | 96.8 ^c |
| Brazil ^d | 99.7 | 103.0 | 105.7 | 105.8 | 101.1 | 100.0 | 95.1 | 93.1 | 84.9 | 85.5 | 84.9 ^c |
| Chile ^e | 69.3 | 91.6 | 93.8 | 96.3 | 98.6 | 100.0 | 101.7 | 103.7 | 104.6 | 106.5 | 108.5 ^f |
| Colombia ^b | 76.3 | 88.4 | 92.1 | 92.2 | 96.3 | 100.0 | 99.7 | 102.6 | 102.5 | 103.5 | 104.2 ^c |
| Costa Rica ^g | 81.5 | 88.9 | 89.7 | 94.7 | 99.2 | 100.0 | 101.0 | 105.1 | 105.5 | 102.8 | 101.6 ^c |
| Mexico ^b | 88.9 | 90.9 | 90.4 | 92.9 | 94.3 | 100.0 | 106.7 | 108.7 | 110.1 | 110.4 | 110.1 ^c |
| Nicaragua ^g | 75.8 | 89.2 | 92.5 | 96.2 | 100.0 | 100.0 | 101.0 | 104.5 | 106.5 | 104.2 | 102.6 ^c |
| Paraguay | 87.8 | 103.2 | 102.7 | 100.8 | 98.7 | 100.0 | 101.4 | 94.9 | 93.0 | 90.5 | ... |
| Peru ^h | 93.7 | 104.2 | 103.5 | 101.4 | 99.3 | 100.0 | 99.1 | 103.7 | 105.3 | 106.5 | 106.5 ⁱ |
| Uruguay | 89.1 | 97.8 | 98.0 | 99.7 | 101.3 | 100.0 | 99.7 | 89.0 | 77.9 | 77.9 | 81.6 ^f |
| Venezuela (Bolivarian Republic of) ^j | 140.5 | 78.0 | 98.0 | 103.3 | 98.5 | 100.0 | 102.4 | 92.1 | 76.7 | 73.7 | 73.9 ^c |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary figures.

^b Manufacturing.

^c Estimate based on data for January-September.

^d Workers covered by social and labour legislation.

^e General hourly wage index.

^f Estimate based on data for January-October.

^g Average wages declared by workers covered by social security.

^h Private-sector manual workers in the Lima metropolitan area. The figure for 2005 refers to labour income in the Lima Metropolitan area.

ⁱ Average from November 2004 to October 2005 with respect to the preceding 12 months.

^j Private sector.

Table A-25
LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR DEFICIT (-) OR SURPLUS ^a
 (Percentages of GDP)

| | Coverage ^b | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 ^c | 2005 ^d |
|---|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|-------------------|
| Latin America and the Caribbean ^e | CG | -1.4 | -1.3 | -2.3 | -3.1 | -2.7 | -3.3 | -3.3 | -3.0 | -1.8 | -1.7 |
| Argentina | NA | -2.8 | -1.4 | -1.8 | -3.0 | -2.1 | -3.8 | -0.3 | 0.3 | 2.0 | 1.3 |
| | NFPS | -3.2 | -1.5 | -2.4 | -4.5 | -3.3 | -7.0 | -0.8 | 1.6 | 3.5 | ... |
| Bolivia | CG | -1.7 | -3.6 | -4.0 | -3.4 | -3.9 | -7.4 | -9.0 | -7.9 | -5.7 | -3.5 |
| | NFPS | -1.9 | -3.3 | -4.7 | -3.5 | -3.7 | -6.9 | -9.0 | -8.1 | -5.5 | ... |
| Brazil | CG ^{f g} | -2.6 | -2.6 | -5.4 | -6.8 | -3.1 | -3.7 | -6.4 | -2.5 | -1.3 | -1.7 |
| | CPS ^g | ... | ... | -7.5 | -5.8 | -3.6 | -3.6 | -4.6 | -5.1 | -2.7 | ... |
| Chile | CG | 2.2 | 2.1 | 0.4 | -2.1 | -0.6 | -0.5 | -1.2 | -0.4 | 2.2 | 3.4 |
| | NFPS | 2.3 | 1.4 | -1.4 | -3.3 | -1.0 | -0.4 | -2.5 | -1.6 | 2.4 | ... |
| Colombia | CG ^h | -3.4 | -3.7 | -4.8 | -6.1 | -5.4 | -5.3 | -4.9 | -4.7 | -4.3 | -5.5 |
| | NFPS | -1.7 | -2.8 | -3.7 | -4.1 | -4.0 | -4.1 | -3.5 | -2.6 | -0.9 | ... |
| Costa Rica | CG | -4.0 | -2.9 | -2.5 | -2.2 | -3.0 | -2.9 | -4.3 | -2.9 | -2.8 | -2.8 |
| | NFPS | -2.5 | -0.8 | -0.6 | -1.7 | -1.6 | -1.6 | -3.9 | -2.4 | -2.0 | ... |
| Dominican Republic | CG | -1.6 | -1.6 | -1.0 | -1.8 | -2.1 | -2.4 | -2.7 | -5.2 | -3.0 | -0.8 |
| Ecuador | CG ⁱ | -1.7 | -1.2 | -4.1 | -2.9 | 0.1 | -1.1 | -0.8 | -0.4 | -1.1 | -1.4 |
| | NFPS ⁱ | -2.8 | -2.1 | -5.2 | -4.9 | 1.4 | 0.0 | 0.8 | 1.7 | 2.0 | ... |
| El Salvador | CG | -1.8 | -1.1 | -2.0 | -2.1 | -2.3 | -3.6 | -3.1 | -2.7 | -1.1 | -0.6 |
| | NFPS | -2.5 | -1.8 | -2.6 | -2.8 | -3.0 | -3.7 | -3.3 | -2.1 | -0.6 | ... |
| Guatemala | CG | 0.0 | -0.8 | -2.2 | -2.8 | -1.8 | -1.9 | -1.0 | -2.3 | -1.0 | -1.8 |
| Haiti | CG ^{j k} | -0.7 | -0.6 | -1.2 | -2.2 | -2.3 | -2.2 | -3.0 | -3.5 | -2.4 | -1.5 |
| Honduras | CG | -3.5 | -2.8 | -1.3 | -3.7 | -5.0 | -6.0 | -5.3 | -5.6 | -3.1 | -3.0 |
| | NFPS | -2.5 | -1.0 | 2.9 | 0.7 | -2.3 | -2.3 | -1.8 | -4.2 | -1.7 | ... |
| Mexico | CG | -0.2 | -1.1 | -1.4 | -1.6 | -1.3 | -0.7 | -1.8 | -1.1 | -1.0 | ... |
| | PS | 0.0 | -0.7 | -1.2 | -1.1 | -1.1 | -0.7 | -1.2 | -0.6 | -0.3 | -0.2 |
| Nicaragua | CG | -0.9 | -0.8 | -1.1 | -3.3 | -4.7 | -7.5 | -2.5 | -2.8 | -2.2 | -2.0 |
| | NFPS | -2.9 | -1.0 | 0.4 | -2.2 | -4.5 | -6.3 | -1.9 | -2.2 | -1.5 | ... |
| Panama | CG | 0.2 | -0.3 | -4.2 | -2.0 | -1.1 | -1.7 | -1.9 | -3.8 | -5.6 | -3.3 |
| | NFPS | 1.6 | 0.1 | -2.3 | -0.9 | 0.7 | -0.4 | -2.0 | -4.8 | -5.0 | -3.6 |
| Paraguay | CA | -1.2 | -1.6 | -1.1 | -3.8 | -4.6 | -1.2 | -3.2 | -0.4 | 1.6 | -0.5 |
| | NFPS | 1.0 | -1.0 | 0.4 | -3.1 | -4.0 | -0.1 | -1.9 | 1.1 | 2.4 | ... |
| Peru | CG | -1.4 | -0.8 | -1.1 | -3.2 | -2.8 | -2.8 | -2.1 | -1.8 | -1.3 | -1.2 |
| | NFPS | -1.1 | 0.1 | -1.0 | -3.2 | -3.4 | -2.4 | -2.3 | -1.7 | -1.1 | ... |
| Uruguay | CG | -1.8 | -1.6 | -1.2 | -3.9 | -3.5 | -4.5 | -4.9 | -4.6 | -2.5 | -2.5 |
| | NFPS ⁱ | -0.9 | -0.9 | -0.5 | -3.8 | -3.7 | -4.0 | -3.8 | -2.8 | -0.8 | ... |
| Venezuela (Bolivarian Republic of) | CG | 0.6 | 2.0 | -4.0 | -1.7 | -1.7 | -4.4 | -4.0 | -4.4 | -2.0 | -1.5 |
| | NPS | 7.0 | 3.7 | -4.5 | 0.7 | 4.4 | -4.6 | -1.0 | 0.2 | ... | ... |

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Total income minus total expenditure, expressed in local currency.

^b Abbreviations used: NA = National administration; CA = Central administration; CG = Central government; GG = General government; CNG = Central national government; NFPS = Non-financial public sector; PS = Public sector; CPS = Consolidated public sector; NPS = Narrowly defined public sector.

^c Preliminary figures.

^d Official targets.

^e Simple average.

^f Includes the federal government and the central bank.

^g Nominal balance.

^h These results do not include adjustments for accruals, floating debt or the cost of financial restructuring.

ⁱ In 2003, does not include US\$ 130 million that the Office of the Under-Secretary of the National Treasury de-earmarked from central government accounts.

^j Overall balance calculated "below the line" (financing).

^k From 2002 onwards, the source of information used is International Monetary Fund Country Report No. 05/205.



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