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# **Preliminary Overview of the Economies**

**OF LATIN AMERICA  
AND THE CARIBBEAN**



**UNITED NATIONS**

**ECLAC**

The *Preliminary Overview of the Economies of Latin America and the Caribbean* is an annual publication prepared by the Economic Development Division in collaboration with the Statistics and Economic Projections Division, the Latin American and Caribbean Institute for Economic and Social Planning (ILPES), the ECLAC subregional headquarters in Mexico and Trinidad and Tobago, and the Commission's country offices in Argentina, Brazil, Colombia, the United States of America and Uruguay.

We are grateful to the central banks and statistical offices of the countries in the region for their valuable cooperation in supplying the statistical information used in the preparation of the *Preliminary Overview*.

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., 2001-2006) 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

During much of 2007, the Latin American and Caribbean region witnessed a great deal of volatility in financial markets owing to uncertainty about the impact that the financial crisis in the United States could have on that country's and the world's real economies. This crisis has not, however, had any significant repercussions in terms of the level of economic activity or international trade, and most of the economies in the region have continued to grow rapidly. This growth—estimated at 5.6% for the region as a whole—has been driven primarily by domestic demand, with particularly sharp increases being noted in private consumption and gross capital formation.

The strength exhibited by domestic demand pushed up imports sharply, while the volume of goods exports rose more slowly than the region's GDP for the first time in six years. All the same, most natural-resource exporters have benefited from higher price levels, and the region marked up yet another improvement (this time of about 2.6%) in its terms of trade. Higher export prices were also a contributing factor in the region's fifth consecutive surplus on the balance-of-payments current account. The considerable upswing in imports brought the surplus down from 1.7% of GDP in 2006 to 0.7% in 2007, however, thus reversing the upward trend in the current account surplus observed since 2002.

The region also received a larger inflow of foreign direct investment than at any time since 1999 (about US\$ 95 billion), as well as a somewhat less remarkable but still sizeable inflow of portfolio investment.

These flows were reflected in a hefty surplus on the financial account. As a result, net international reserves climbed steeply (by the equivalent of 3.5% of regional GDP), while the region's external debt, measured as a percentage of GDP, continued to shrink; however, its levels of country risk rose in response to turbulence in financial markets.

Economic policymakers were faced with a variety of challenges. Fiscal revenues were up, thanks to high growth rates, efforts to streamline tax collection and, in some countries, the high prices brought by natural resources. Public spending also rose steeply, however, and, as a result, the overall balance on the countries' central government accounts (which, as a simple average, had yielded a surplus in 2006) showed a deficit in 2007. The primary surplus was smaller as well.

At the world level, fuel and food prices were on the rise. In some countries, this trend was exacerbated by adverse weather conditions that depressed the supply of agricultural products. In some cases, demand pressures were also a contributing factor. The end result was that, for the first time since 2002, the region's inflation rate was close to 6%, as compared to 5.0% in 2006. Since, in many cases, this increase in price levels was combined with strong domestic demand, in many countries the authorities decided to raise interest rates. In a number of instances, these decisions involved a number of trade-offs, since the copious foreign-exchange inflows triggered by current account movements (trade surpluses, remittances from emigrant workers), together

with sizeable inflows on the financial account (foreign direct investment and portfolio investment), as well as the weakness of the dollar and higher inflation, resulted in the appreciation of many of the countries' currencies in real terms.

The trends observed in the region's labour markets in earlier years carried over into 2007. Job creation remained brisk and was once again centred around wage employment. This led to a reduction in the unemployment rate from 8.6% in 2006 to 8.0% in 2007. The upturn in formal employment was a particularly outstanding feature of this trend, while real wages rose at a measured pace (1.5% at the regional level). The increase in total wages contributed to a further reduction in poverty and to a notable increase in household consumption. In many countries, these factors, combined with a considerable expansion of credit, generated a significant demand-side impulse for economic growth.

Thus, a number of the economic features seen in recent years were repeated in 2007: high economic growth

rates in historical terms (although other world regions attained higher rates), surpluses on the primary fiscal and current accounts, an improvement in the terms of trade, lower unemployment, higher international reserves and a smaller external debt. There were also some changes, however, although on the whole they were fairly moderate: a slackening of the growth rate in the volume of exports, higher inflation and a reversal of the steady upward trend in the fiscal surplus.

The outlook for 2008 will depend, to a large extent, on developments in the world economy. Although the most likely scenario is a slowdown in the United States economy followed by a partial recovery, the possibility of a recession cannot be ruled out. The more probable outcome, however, remains that of a fairly slight slackening of the pace of growth in the world economy that would have a limited impact on emerging economies. In the case of Latin America and the Caribbean, these factors are expected to result in a moderately lower economic growth rate in 2008 (4.9%) than in 2007.

## Regional panorama





## Chapter I

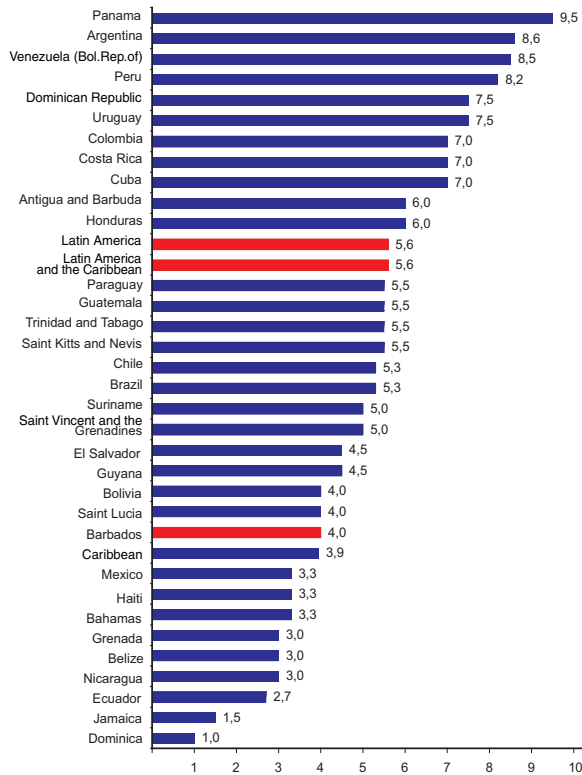
# Introduction

Since 2003, economic conditions in Latin America and the Caribbean have been very favourable, and this has been reflected in a strong growth performance virtually across-the-board. In 2007, however, the region was confronted with a worsening external financial situation caused by a high level of volatility in international financial markets and rising uncertainty, both largely the result of the crisis originating in the United States financial market. Despite this, most of the region's economies continued to grow at a brisk pace thanks to strong domestic demand, which was driven both by private consumption and by gross capital formation.

Consequently, ECLAC is projecting a GDP growth rate of 5.6% for Latin America and the Caribbean in 2007 and estimates the region's 2008 growth rate at 4.9% (see figure I.1). If these projections are borne

out, 2008 will be the sixth consecutive year of growth and, by its end, per capita GDP in the region will have marked up a cumulative increase of 23%, equivalent to 3.5% per year.

Figure I.1  
LATIN AMERICA AND THE CARIBBEAN:  
GDP GROWTH RATES, 2007<sup>a</sup>



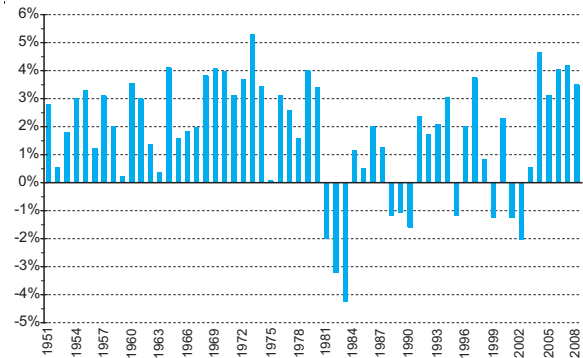
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

The last period of sustained per capita GDP growth of over 3% per year was 40 years ago, during the regional growth phase that occurred between the late 1960s and the first oil price shock in the early 1970s, when the region's economy expanded at comparable rates for seven years in a row (see figure I.2).

The last years have been exceptional ones for the world economy, which has now been growing at over 3% annually for four years running. Thus, the performance of the Latin American and Caribbean

Figure I.2  
LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GDP  
(Annual growth rates)



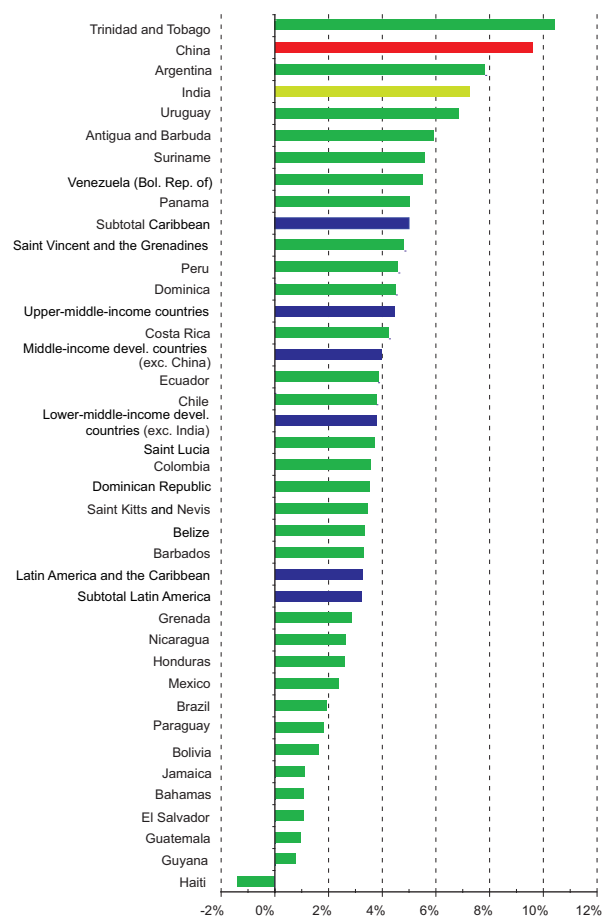
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Note: The statistic given for 2007 is based on preliminary figures; the figure for 2008 is a projection.

economies is not an isolated occurrence but is rather taking place against a general backdrop of growth. In this connection it should be noted that, while the region's growth rates are high by past standards, they are not high by comparison with those in other regions of the developing world.

A comparison of per capita GDP growth rates between 2003 and 2006 in a group of middle-income countries (the category into which all the region's countries fall, with the exception of Haiti) shows that the regional average is lower than those for all categories of middle-income countries (see figure I.3). At the country level, the best performers are Trinidad and Tobago, where growth has been driven by the production of hydrocarbons, and Argentina, Uruguay and the Bolivarian Republic of Venezuela, where it represents a bounce-back from domestic crises. In addition, a number of Caribbean countries have been among the top performers of recent years.

**Figure I.3**  
**LATIN AMERICA AND THE CARIBBEAN COMPARED WITH OTHER**  
**MIDDLE-INCOME COUNTRIES**  
*(Annual per capita GDP growth rates, 2003-2006)*



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

During 2007, many of the characteristics of the current economic growth phase that have been analysed in earlier ECLAC<sup>1</sup> reports continued to be observed.

These features include a continuing (albeit substantially smaller) current-account surplus, a further (although less marked) improvement in the terms of trade, a continuing positive primary balance in fiscal accounts, falling unemployment, rising international reserves and lower external debt as a percentage of GDP.

At the same time, some alterations in the trends of recent years have been observed. While these changes are unlikely to dampen the region's growth prospects for 2008, undoubtedly represent an economic policy challenge for the years to come. Some developments worthy of special mention are the steeper increase in public spending, which represents a setback in relation to the overall fiscal balance achieved by the region in 2006; the weakened momentum of goods exports, whose volume grew by less than GDP for the first time in many years; a rise in inflation that interrupted the downward trend of the last four years; and an increase in the sovereign risk of the region's countries against the backdrop of the financial market turbulence that began in May.

## A. The external context and global imbalances

The first thing to remember is that, while the events triggered by the crisis in the subprime mortgage market eclipsed the global risks associated with the United States balance-of-payments current account deficit, these risks remain latent, which means that global demand for dollar assets still needs to be shored up in order to cover the imbalance. Interest in the subject was overshadowed from mid-2007 onward, however,

by the threat from increasing volatility in international financial markets fuelled by the mortgage crisis and the danger that its negative effects might spread to other areas of the financial market and end up by generating a credit shock that could curb global demand.

Although there are still more questions than answers about economic developments in 2008, these risks do cast some doubt upon the prospects for a

<sup>1</sup> See ECLAC, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2006* (LC/G.2327-P), Santiago, Chile, December 2006; and *Economic Survey of Latin America and the Caribbean, 2006-2007* (LC/G.2338-P), Santiago, Chile, July 2007.

continuation of the external boom that has been so beneficial for Latin America and the Caribbean. While a slowdown in the United States economy involving slower household consumption growth, higher saving and a depreciation of the dollar would not necessarily be negative for the world economy, its ultimate impact will largely depend on the speed and form taken by the adjustment. If it turns out to be slow and gradual, it could enhance the stability of global growth; a hard landing, on the other hand, could be deeply destabilizing.

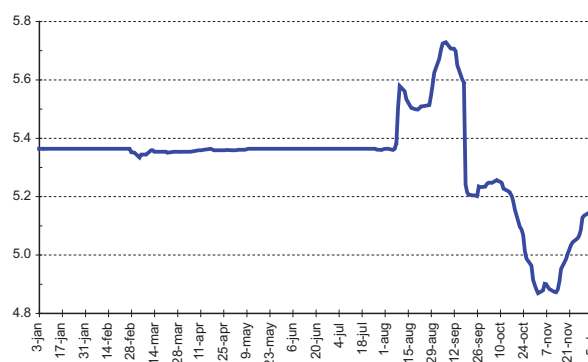
The initial perception of the risk of a slowdown in the United States economy was based on three factors: (i) the decline in property values and thus in household consumption (because of the wealth effect) and home-building; (ii) the effects of the subprime mortgage problem on lending spreads, particularly in relation to risk ratings, and on the workings of credit markets in general, and (iii) a drop in property-secured lending and mortgage refinancing, which could lead to a further slowdown in consumption.<sup>2</sup>

The rapid response of the United States Federal Reserve, which increased liquidity and reduced monetary-policy reference rates, quickly restored calm to financial markets, together with a widely shared initial confidence that even if shocks like those seen midway through the year were repeated, the Reserve and other central banks would carry on intervening to ensure the necessary liquidity was in place so that adjustments would be as untraumatic as possible.

This confidence held up as the year went on, although it was less widely shared than it had been initially, as there was an increasing fear that a deterioration in the conditions underlying financial activity might begin to undermine the effectiveness of central bank intervention. If the illiquidity that initially affected property transactions spreads on a large scale to other segments of financial activity, it is possible that banks might reduce the supply of funds on the interbank market in order to maintain liquidity in a context of uncertainty.<sup>3</sup> Growing demand

for liquidity, and concern among credit providers about the risks of an economic slowdown that might reduce loan asset quality, could exacerbate the credit constraints affecting firms and consumers and act as a self-fulfilling prophecy that would counteract the efforts deployed by central banks. The recent trend of the interbank rate in the London financial market is an indication of worsening volatility, one of the risk factors pointed to in the previous paragraph (see figure I.4).

Figure I.4  
90-DAY LIBOR



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

Not all recent indicators are discouraging, however. The rise in net exports from the United States and improved labour market indicators, which could have a favourable effect on disposable income and thus on consumption and investment in machinery and equipment, are developments that could go some way towards offsetting the slowdown in consumption that is likely to ensue in the wake of turbulence in the property market and lower consumer confidence in the immediate prospects of the country's economy. In addition, in early December the United States government announced an emergency programme to support the renegotiation of mortgage loans as a means of alleviating the situation of borrowers and mitigating the danger of financial system insolvency.

<sup>2</sup> See M. Feldstein, "Housing, credit markets and the business cycle", *Working Paper*, No. 13471, National Bureau of Economic Research (NBER), October 2007, for an analysis of the effects of the crisis in the United States subprime mortgage market.

<sup>3</sup> See J. Yellen, "Speech to the Seattle Community Development Roundtable and the Seattle Chamber of Commerce Board of Trustees", Federal Reserve Bank of San Francisco, December 2007, for a description of the concerns aroused by the situation in the United States financial market in late 2007.



In consequence, and given the fact that the reduction in inflationary pressures gives the Federal Reserve greater scope for the application of an expansionary strategy,

the most likely outcome is a gradual slowdown between late 2007 and early 2008, followed by a recovery in the second half of that year.<sup>4</sup>

Table I.1  
**WORLD GROWTH RATES<sup>a</sup>**  
(Calculated on the basis of United States dollars at 2000 prices)

	2003	2004	2005	2006	2007 <sup>b</sup>	2008 <sup>c</sup>
<b>World</b>	<b>2.7</b>	<b>4.0</b>	<b>3.4</b>	<b>3.9</b>	<b>3.7</b>	<b>3.4</b>
<b>Developed countries</b>	<b>1.9</b>	<b>3.0</b>	<b>2.4</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>
United States	2.5	3.6	3.1	2.9	2.2	2.0
European Union (27)	1.3	2.5	1.8	3.0	2.9	2.5
Japan	1.4	2.7	1.9	2.2	2.0	1.7
<b>Developing countries</b>	<b>5.2</b>	<b>7.0</b>	<b>6.5</b>	<b>7.0</b>	<b>6.9</b>	<b>6.5</b>
Africa	4.6	4.8	5.2	5.7	5.8	6.2
Latin America and the Caribbean	2.1	6.2	4.6	5.6	5.6	4.9
East and South Asia	6.8	7.8	7.5	8.1	8.1	7.5
China	10.0	10.1	10.4	11.1	11.4	10.1
India	7.1	8.5	8.8	9.4	8.5	8.2
West Asia	4.7	6.9	6.5	4.6	5.7	5.2
<b>Transition countries</b>	<b>7.2</b>	<b>7.6</b>	<b>6.6</b>	<b>7.5</b>	<b>8.0</b>	<b>7.1</b>
<b>World growth rate (weighted averages based on PPP dollars)</b>	<b>4.0</b>	<b>5.2</b>	<b>4.8</b>	<b>5.4</b>	<b>5.3</b>	<b>4.9</b>

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Economic Situation and Prospects, 2008 (forthcoming).

<sup>a</sup> Based on weighted averages (GDP in dollars and exchange rates for 2000) of the countries' growth rates.

<sup>b</sup> Estimates.

<sup>c</sup> Projections.

Growth in the European Union is expected to slow because of rising interest rates, some tightening of lending conditions and the appreciation of the euro. Growth is projected at 2.9% in 2007 and at about 2.5% in 2008. Much the same holds for Japan, where growth is projected to slip from 2% in 2007 to about 1.7% in 2008.

These factors point to a moderate slowdown in the world economy, chiefly because of slower growth in the developed countries, which may have limited and differentiated effects on emerging economies in 2008.

## B. The balance-of-payments current account

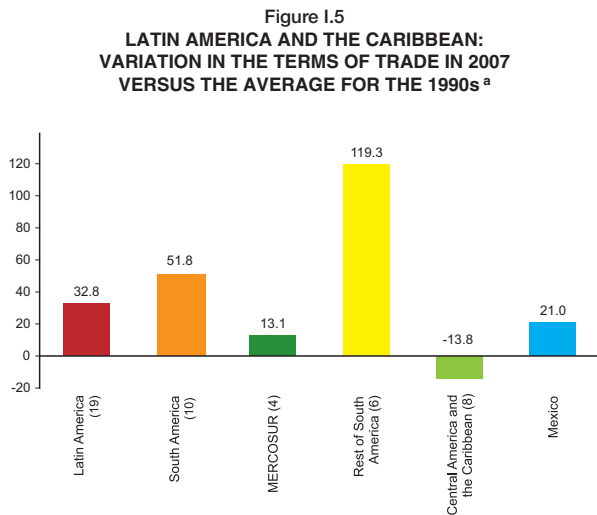
Growth was once again accompanied by a current account surplus in 2007, although it was smaller than in previous years (0.7%, as against 1.7% in 2006). This contrast with the situation of growing surpluses in

earlier years is chiefly due to the deteriorating trade balance (see chapter IV). Among the factors associated with this aggregate, the main developments in the last few years have been the rise in the terms of trade of

<sup>4</sup> At its 11 December meeting, the Federal Reserve decided to cut the monetary-policy reference rate (i.e., the Federal Funds rate) by one fourth of a point to 4.25%.

the region as a whole and the increase in remittances from emigrant workers.

The terms of trade for the region as a whole are estimated to have risen by about 2.5%, on average, in 2007, thereby exceeding their average 1990s value by some 33%, although with very marked differences across countries (see figure I.6).<sup>5</sup>



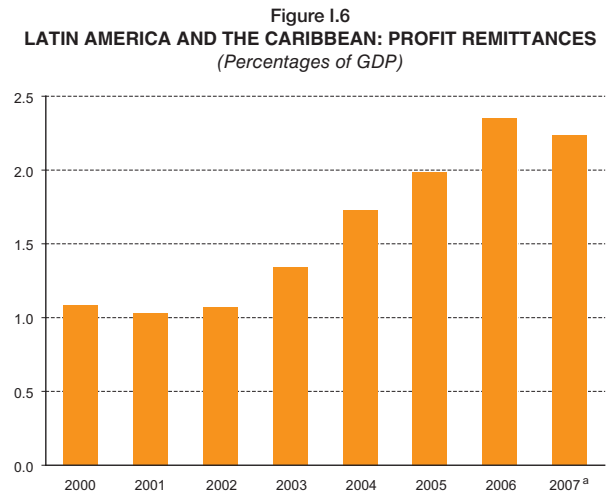
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

In addition, many Central American countries and Mexico are the largest recipients of emigrant workers' remittances. Large inflows of foreign exchange were again recorded under this heading in 2007, although the growth rate declined, owing at least in part to the worsening employment situation of many emigrant workers, particularly in the construction sector, and the restrictions placed on migration by the United States. Remittances represented about 2% of GDP

in the region as a whole in 2007, but accounted for about 11% of GDP in Central America and 2.8% in Mexico. In the three English-speaking Caribbean countries that are the largest recipients of remittances in the subregion (Grenada, Guyana and Jamaica), the average is about 20% of GDP.

Another characteristic of the balance-of-payments current account in recent years has been the sharp rise in profit remittances sent by foreign companies, particularly from South America, to their headquarters. This situation that can be attributed in part to the rise in certain commodity prices and the fact that the development of natural resources is often in the hands of foreign firms (see figure I.6). Chile and Peru account for over half of this outflow of foreign exchange, even though they produce only 8% of the region's GDP in current dollar terms.



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

<sup>a</sup> Preliminary figures.

<sup>5</sup> This subject is analysed in greater detail in ECLAC, *Economic Survey of Latin America and the Caribbean, 2006-2007* (LC/G.2338-P), Santiago, Chile, July 2007.

## C. Output, income and the components of demand

One feature of the last few years is that the gross disposable national income (GdNI) of the region's countries has been growing at a higher rate than GDP. In 2007, this aggregate rose by 6.5% while GDP grew by 5.6%, largely because of the improvement in the terms of trade, which was equivalent to 3.7% of GDP. At the national level, the effects of the different components accounting for the difference between GDP and GdNI have been quite heterogeneous.

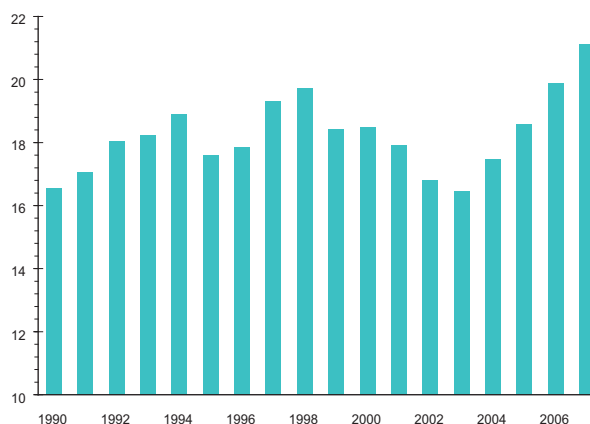
With the rise in the region's GdNI, national saving again grew over the previous year (albeit at a slower rate) owing to the dynamism of consumption. It represented 21.2% of GDP at current prices and, as has been the case for some years, was enough to finance regional investment in its entirety.

Domestic demand in the region's countries increased by 7.7% in 2007, driven by growth in gross fixed capital formation (11.6%) and, to a lesser extent, by higher private consumption (6.8%), the result of improved labour market indicators and a considerable expansion of bank lending to the private sector (see chapter III).

Gross fixed capital formation, which has been the most buoyant component of demand, increased at an annual rate equivalent to about 10% between 2004 and 2007. This expansion reflects the dynamism not just of construction but also, and particularly, of investment in plant and equipment, whose contribution has accounted for about two thirds of the rise in this indicator over the last four years. As a percentage of GDP, gross fixed capital formation exceeded 21% in 2007, the highest level recorded in the 1990-2007 period (see figure I.7).

Differences in the performance of the region's economies are also reflected in the behaviour of the most dynamic components of demand in recent years: investment and exports. Among other things, the increase in capital formation has clearly been higher in the South American countries, boosted by the improved

Figure I.7  
LATIN AMERICA AND THE CARIBBEAN:  
GROSS FIXED CAPITAL FORMATION<sup>a</sup>  
(Percentages of GDP at 2000 prices)



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

<sup>a</sup> The statistic given for 2007 is based on preliminary figures.

terms of trade. The volume of goods exports rose by 5.4% in 2007, following a 7.3% increase the year before. This change is largely due to the sharp drop in the volume of exports from the Bolivarian Republic of Venezuela.

Lastly, it is interesting to note the current growth in exports of real services in some of the region's countries. For one thing, their average growth rate has been higher than that of goods in many cases. In the last four years, furthermore, El Salvador has joined the better-known cases of Panama and Costa Rica as a country where growth exceeds the regional average. Also striking is the strong growth in a number of South American countries, principally Argentina, Brazil, Peru and Uruguay.<sup>6</sup>

<sup>6</sup> See ECLAC, *Latin America and the Caribbean in the World Economy 2006. Trends 2007* (LC/G.2341-P), Santiago, Chile, August 2007, for a breakdown of developments in real services.

Meanwhile, driven by rising activity and currency appreciation, the volume of goods and services imports rose rapidly once again in 2007, by 13.3%, as a result

of which net exports had a negative impact on growth, as has been the case since 2004.<sup>7</sup>

## D. External assets and liabilities and macroeconomic vulnerability

In 2007, Latin America and the Caribbean's net liability position with the rest of the world continued to improve, contributing to an ongoing reduction in the region's external vulnerability as external liabilities shrank even as reserves increased. The basic balance is estimated at over 3% of GDP, reflecting the reduction in the current account balance, which is put at 0.7% of GDP, and the rise in net FDI, projected at about 2.3% of regional GDP.

In addition to the surpluses deriving from positive basic balances, most of the region's countries are seeing a large inflow of private capital. This development, which began in Brazil in 2006, became quite widespread in 2007, at least in the earlier part of the year.<sup>8</sup> The combination of currency inflows and sound basic balances placed further pressure on exchange rates and led to a large build-up of international reserves, owing to the decision by some central banks in the region to prevent or at least limit currency appreciation (see chapter II). These movements have diminished as a result of the turmoil in international markets in the second half of 2007, but they could recur if the strains in the international capital markets recede, something that

might be assisted by the prospect of a steady reduction in interest rates by the United States Federal Reserve and the European Central Bank.

The basic balance surplus plus the incentives created by lower domestic interest rates and more flexible currencies have sharply reduced the foreign debt burden in the last few years, both in GDP terms and as a percentage of exports.<sup>9</sup>

Although external debt remains high in some countries, the net external debt/goods and services export ratio has dropped to about 0.29, after averaging 1.7 in the second half of the 1990s.

As in other regions, the countries of Latin America and the Caribbean have been building up international reserves at an increasingly rapid rate. Indeed, in 2006 and 2007 the pace of reserves growth in the countries picked up as a result of currency market intervention motivated by the concern of some central banks (particularly those of Argentina, Brazil and Colombia) about the level of their real exchange rates (see figure I.8). Reserves increased by the equivalent of 1% of GDP in 2004 and 1.6% in 2006, and it is estimated that the 2007 increase will top 3.5% of regional GDP.<sup>10</sup>

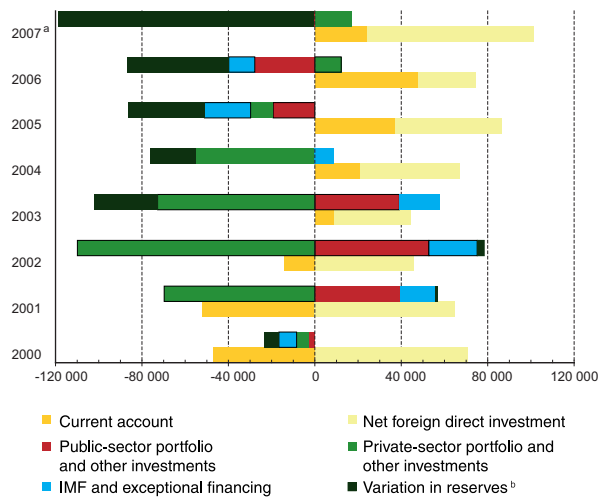
<sup>7</sup> As analysed in greater detail in the *Economic Survey of Latin America and the Caribbean, 2006-2007*, imports are still growing with an average elasticity of about 2.5.

<sup>8</sup> It should be noted that about two thirds of the private-sector capital inflows into Brazil in 2006 were to finance the takeover of a Canadian mining firm by CVRD.

<sup>9</sup> In both cases, consideration should also be given to the behaviour of the variables affecting the denominator of these ratios.

<sup>10</sup> The subject is analysed in J.L. Machinea, O. Kacef and J. Weller (2007), "América Latina en el 2007: situación económica y del mercado de trabajo", document presented at the annual meeting of the CIDOB Foundation (Centre for International Relations and Development Studies), Barcelona, 26 October 2007.

**Figure I.8**  
**LATIN AMERICA AND THE CARIBBEAN:**  
**BALANCE-OF-PAYMENTS SOURCES AND USES**

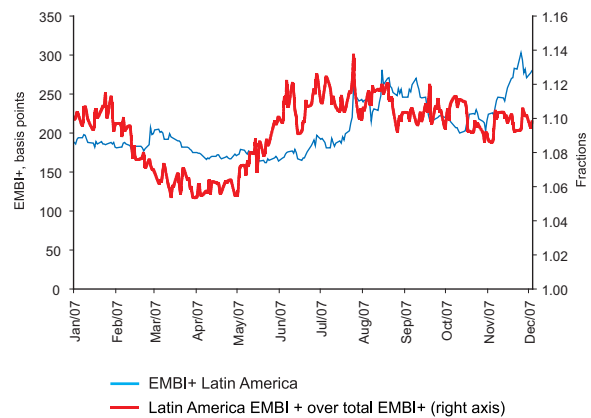


**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

<sup>b</sup> A negative variation implies an accumulation of reserves.

**Figure I.9**  
**LATIN AMERICA AND THE CARIBBEAN: ABSOLUTE AND**  
**RELATIVE RISK, 2006 AND 2007**



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

Meanwhile, increased volatility in international financial markets<sup>11</sup> cut short the pronounced downward trend of country risk in the region's countries. The EMBI+ reached record lows (168 basis points) in late May 2007 after which, with some fluctuations, it began to climb, ending the year at around 270 basis points. At the same time, Latin America's EMBI+ increased relative to that of emerging markets in general (see figure I.9). The region's relative risk had increased because of developments with bond prices in Argentina and the Bolivarian Republic of Venezuela even before the latest bout of global financial volatility, and it stabilized in the second half of 2007 at a level more than 10 basis points higher than the emerging market average.

As we have repeatedly stressed, the region's countries are much better placed than formerly to cope with a

situation like the one characterizing the international financial markets in the second half of 2007. This is because average basic balances are in surplus, debt levels are lower and have better profiles in respect of repayment terms, rates and issuing currencies, and international reserves are higher.

As box I.1 explains, while the external surplus achieved by the region as a whole is largely due to the terms of trade, which could be affected by a shift in the global GDP trend, the basic balance deficit of 1% of GDP that Latin America and the Caribbean would have if the terms of trade returned to their 1990s levels does not seem excessively high when set against a stock of international reserves equivalent to 12% of regional GDP. Again, we would be highly unlikely to see a rapid return to 1990s levels even if the trend in international commodity prices were reversed.

<sup>11</sup> Volatility in international financial markets began to intensify well before the subprime mortgage crisis. In May 2006, a number of emerging economies liquidated debt in response to heightened risk aversion caused by expectations of rising inflation in the United States and a possible tightening of monetary policy. In late February and early March 2007 another shock occurred, this time triggered by the announcement of economic policy adjustments in China to restrain the rise of asset prices in that country, which led to the Shanghai stock market falling by some 9%.

## Box I.1

## BASIC BALANCE IN LATIN AMERICA

The basic balance is the sum of the current account balance and net foreign direct investment. Since the latter is a relatively stable component of the balance of payments, once any variation in international reserves has been discounted, the basic balance reflects a country's external borrowing requirements.

Since 2003, high raw-material prices, coupled with high growth rates in export volumes, have resulted in a series of surpluses on the region's current account. The occurrence of these surpluses in tandem with a growth phase such as the one now being experienced by Latin America and the Caribbean is an unprecedented event. This combination of economic growth and current account surpluses is a positive feature in that it reduces external vulnerability, which is especially important at a time when international financial markets are exhibiting greater volatility, increasing illiquidity and more risk aversion. Since this result depends, however, on the recent trend in the terms of trade (and on migrant workers' remittances), the question arises as to what would happen if commodity prices were to fall back to lower levels.

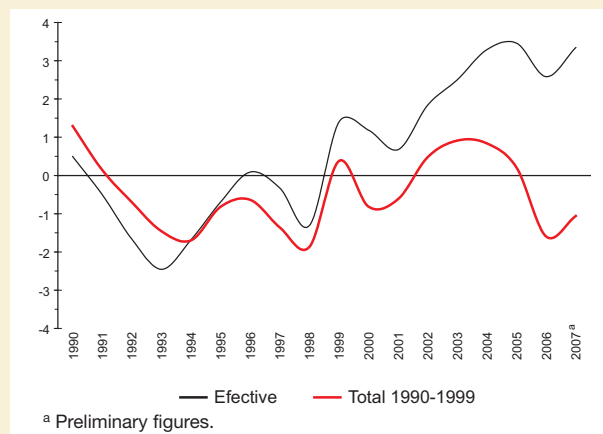
Bearing in mind that the upswing in the terms of trade began in the 1990s, the basic balance has been calculated using average relative prices for goods and services traded in 1990-1999. For this purpose, unit value indices (UVI) (2000=100) were used for each country's exports and imports of goods and services. The current figures for the goods (services) exports of the different countries were then corrected by deflating them by the UVI of exports of goods (services) and inflating them by the UVI of imports of goods (services). Intuitively, this adjustment is quite simple. Current figures for each country's exports are converted to average 1990s prices, and the series are then "retrieved" at current prices for each year using import price indices, thus obtaining a calculation of what the figures would be "at current prices" if the terms of trade for 2007 were equal to the average for the 1990s.

The counterpart item for the hefty foreign-exchange earnings from raw-material exports on the current account is the repatriation of profits by foreign companies that are developing natural resources in the different countries of the region (Chile and Peru being emblematic

cases). It is therefore necessary to correct this item on the income balance in order to determine what the net effect on the basic balance would be if export prices were to fall back to their 1990s levels. In the absence of specific deflators for this item, the same adjustments were made as for goods exports. This approach is based on the assumption that either the repatriation of profits is directly related to the production and hence international price levels of commodities, or else that these price trends are related to the level of activity and hence to corporate profits.

The figure below shows the basic balance for Latin America (19 countries) as a percentage of GDP at current prices, calculated on the basis of both the terms of trade for each year and the average terms of trade for 1990-1999. The effective basic balance (that is, at current prices) yields a surplus of 3.4% of GDP in 2007, whereas, when calculated on the basis of the terms of trade for the 1990s, it shows a deficit of -1.1% of GDP. This level is not excessively high when compared, for example, with the region's international reserves, which are somewhere above 12% of the region's GDP.

LATIN AMERICA (19 COUNTRIES): BASIC BALANCE, 1990-2007  
(Percentages of GDP)

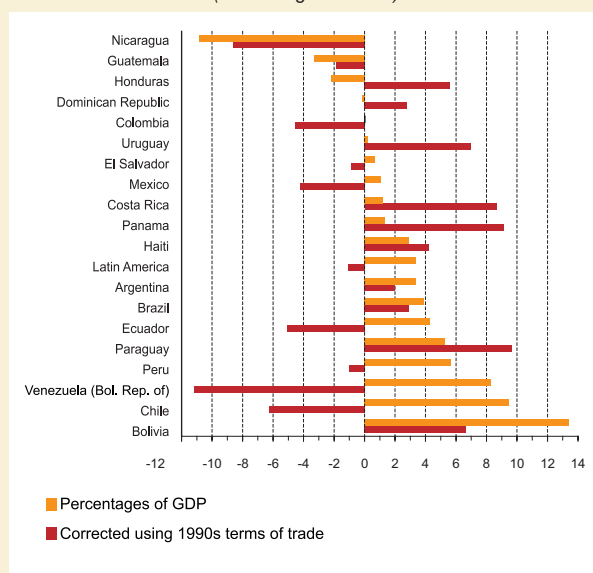


Box I.1 (conclusion)

A country-by-country comparison also proves interesting. As shown in the second figure included in this box, a return to the terms of trade of the 1990s would, on the whole, be very prejudicial to the hydrocarbon- and metal-exporting countries of the region (with the exception of Bolivia), which have benefited the most from the improvement in the terms of trade. By contrast, the Central American countries would find themselves in a better position. The larger MERCOSUR countries

would not see their situation change significantly, whereas Paraguay and Uruguay would be in a better position. It should be added that these estimates are based on fairly extreme assumptions, since, even though commodity prices could conceivably fall and the terms of trade for the region worsen, it is difficult to imagine the situation reverting in the short term to the conditions that prevailed in the 1990s.

LATIN AMERICA (19 COUNTRIES): BASIC BALANCE, 2007  
(Percentages of GDP)



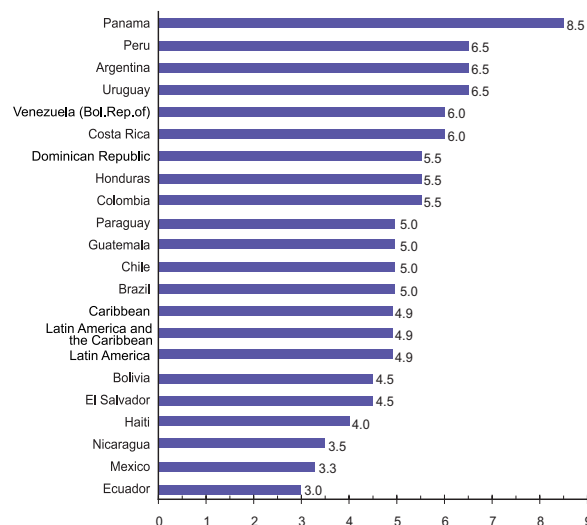
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

## E. Prospects, threats and challenges

Despite the recent turmoil in financial markets and the prospect of a slowdown in the United States economy, the relative stability of the region's economies provides grounds for cautious optimism. As stated at the beginning of this Introduction, the growth rate in 2007 is expected to be 5.6%, and if the projections are right then 2008, with forecast growth of about 4.9%, will be the sixth consecutive year of growth and the fifth with a rate in excess of 4%, implying an increase in per capita output of more than 3% a year.

These forecasts depend to some extent on whether the strategies implemented to control the situation in international financial markets as of late 2007 actually succeed in preventing a deeper retrenchment that could affect the sustainability of world growth and, in a context of greater financial market volatility, lead to mounting risk premiums and a further deterioration in financial conditions for emerging economies.

Figure I.10  
LATIN AMERICA AND THE CARIBBEAN:  
GDP GROWTH RATES, BY COUNTRY, 2008



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

Even if the situation develops positively in the region, the slowdown in United States growth can be expected to affect Mexico and Central America the most, as their exports are more oriented towards the United States market and consist mainly of manufactures, many of which are subject to very specific rules of origin and are thus harder to reposition in the short run (see figure I.11).<sup>12</sup>

While investment is expected to remain the principal driver of demand, particularly given that current levels are still not high enough to sustain a growth rate of some 5% to 6%, the heightened uncertainty is casting doubt over the future prospects for this aggregate. At the same time, the impact of net exports is going to turn negative again owing to the loss of export dynamism since the start of the current expansion and to the growth of imports, driven by the higher level of activity and the strengthening of real exchange rates.

returning it to levels similar to those of the early 1990s before the succession of crises that had such negative repercussions on the region's labour markets.

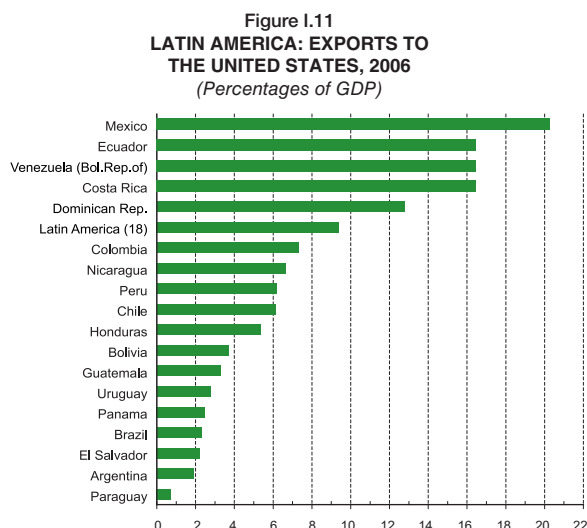
Furthermore, unemployment is falling at a time when employment quality is improving and this, in conjunction with economic growth, is having a positive effect on poverty indicators. Improved labour-market indicators and lower poverty, combined with an incipient lessening of inequity (as revealed by lower Gini coefficients in some economies), could boost consumption and thus support domestic demand in the region's countries.

The current situation is obviously not free of risk. Where the international context is concerned, global imbalances have not gone away and the expected slowdown in the United States economy, whose ramifications are still difficult to identify, is being compounded by a series of exogenous factors that could influence developments in the region's economies, as analysed in previous sections.

Other warning signs have come from the region itself and relate to the macroeconomic policy applied in the countries. One of them is the persistent strengthening of exchange rates in certain South American economies, despite the measures taken by the monetary authorities of some of them to restrain this currency appreciation.

At the same time, inflation is accelerating in a number of countries, reflecting the emergence of pressures from both the supply side (rising food and energy prices) and the demand side (partly reflecting sustained economic growth, but also partly a consequence of certain policy decisions). With the exception of Brazil, this situation has caused the inflation rate to exceed the upper limit of its band in countries where monetary policy sets explicit inflation targets (see chapter II).

In addition to the above, public spending has tended to increase everywhere not only by more than nominal output, but by more than revenues. This procyclical behaviour of public spending does not raise fiscal problems in the short term because resources have been increasing, but it does give grounds for some concern because of the possibility that it might signal a change of course in economic policy (see chapter II).



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

Another encouraging feature of the current situation has been the drop in the unemployment rate, which is projected at 8.0% in 2007 and less than this in 2008,

<sup>12</sup> The short-term income elasticity of United States imports is estimated at 2.3. See P. Hooper, K. Johnson and J. Marquez, "Trade elasticities for the G-7 countries", *Princeton Studies on International Economics*, No. 87, August 2000.



In the early years of the current period of growth, the public accounts improved as revenues rose and spending declined as percentages of GDP. In a second stage, this improvement went further, essentially because of extraordinary revenue growth that outstripped spending growth. In 2007, on the other hand, the primary fiscal surplus contracted as revenue growth fell (to the equivalent of 0.4 points of GDP) and spending expanded more strongly (by 0.7 points of GDP), intensifying the pressure of demand on prices and contributing to real currency appreciation. On top of this, the reduction in fiscal balances is limiting the ability of the public sector to fund increases in physical and human capital investment.

At the same time, consumer credit is growing strongly in several of the region's countries, and this

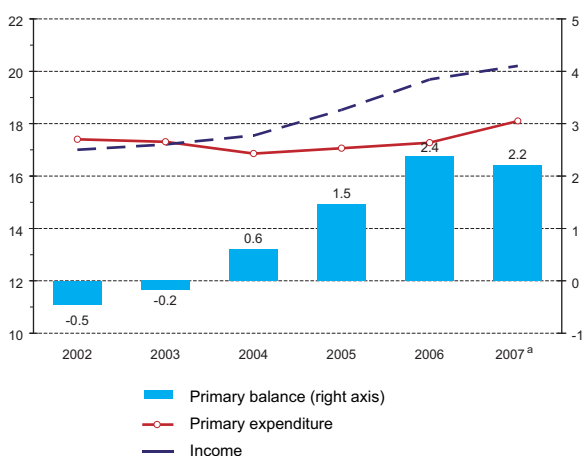
may put further upward pressure on prices at a time of steadily rising demand (see chapter II).

Rising inflation may face central banks with a need to raise interest rates at a time when the opposite tendency is being seen around the world, or at any rate when international interest rates are unlikely to increase in the near future. If this should happen, capital inflows into the region are likely to grow, as occurred in some countries in 2007, and this would heighten the pressure for real currency appreciation. In that case, lower demand would be the result of falling exports, which is the least favourable alternative.

In this context, a tighter fiscal policy seems the best strategy, as it would reduce inflationary pressures as well as relieving the strain on the credit market and making it possible for interest rates to be cut. What is being proposed in this case is not just the usual recommendation of adopting a countercyclical fiscal policy to mitigate the volatility of our economies, but a specific, targeted recommendation to deal with this particular situation, given the threat of a possible upsurge in inflation and further appreciation of real exchange rates.

Again, where capital inflows become one of the causes of currency appreciation (by contrast with the situation up until 2006), controls on such inflows should not be ruled out. Such controls were used by Chile and Colombia in the 1990s, by the latter again recently, and by Argentina a couple of years ago.

Figure I.12  
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT REVENUES, PRIMARY SPENDING AND PRIMARY BALANCES



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

<sup>a</sup> Preliminary figures.

## F. Looking further ahead

While these factors are unlikely to affect the region's growth prospects in 2008, they do raise questions about what may happen in the medium term. Taking a longer view, there are also doubts as to whether the region is taking advantage of this favourable external situation to allocate some of the extraordinary resources now available to the countries to activities that might

contribute to sustained growth. Industrialization in the less developed countries of Asia, particularly China and India, has led to a structural shift in global demand that favours the commodities and other primary products produced by Latin America and the Caribbean. Consequently, it is highly likely that these structural changes in global goods supply

and demand will continue to benefit the region for a number of years to come.

To take up the opportunities this presents, commodity production activities need to be given a strategic boost so that assets developed earlier can be fully exploited. However, the development of other activities, many of them related to these commodities, also needs to be stimulated. There are two reasons for this. First, the countries should be preparing themselves for the time, which will undoubtedly come, when the relative value of commodities will diminish. Second, it is possible that development based exclusively on natural resources with no further value added and, in particular, without any incorporation of additional know-how may not contribute to better income distribution. It may also be insufficient to generate externalities that boost the development process.

Accordingly, the region's countries should formulate strategies for incorporating know-how into natural resource-based activities and for developing new sectors, which will often be linked to these. In this context, three things are indispensable: infrastructure, an innovation network and higher-quality education. In none of these areas is the region doing all it might. For one thing, domestic and external transport infrastructure and energy sector infrastructure still

present major deficiencies, compounded by a lack of investment in the area. The provision of universal subsidies that include high-income sectors does not contribute to better income distribution but deprives public investment of resources while failing to offer the necessary incentives for private-sector investment. Again, innovation mechanisms require substantial resources and a technological infrastructure that are not generally to be found in the region, at least not on the scale needed for significant progress to be achieved. If progress is to be made, in fact, it is essential to adopt a strategy that prioritizes these activities, one which must be coordinated with the private sector but in whose formulation the State must play a leading role. Lastly, the more the region succeeds in improving education quality, i.e., the training of human resources, the easier it will be to endow its exports and the production structure in general with a higher knowledge content.

Resources and capabilities should be allocated to these activities in pursuance of a strategic decision to make the best use of revenues from the exploitation of natural resources in the present circumstances. While some countries have made progress in this area, it is plainly inadequate, casting doubt on the region's ability to lay the groundwork for sustainable growth.

## Chapter II

# Macroeconomic policy

## A. Fiscal policy

As earlier publications have pointed out, the vulnerability of the region's countries has decreased in recent years thanks to improved public accounts balances and the decline in public debt/GDP ratios.

The 2002-2006 period was characterized by a growing primary surplus, a falling overall deficit (which in 2006 turned, on average, into a small but unprecedented surplus) and a sustained decline in public debt. This improvement in the fiscal balances came about essentially because revenues rose faster than spending.

In this respect, 2007 presents distinctive characteristics, for while the region's countries once again achieved a large primary surplus, it was lower than in 2006. This can be attributed to the apparent stabilization of the revenue/GDP ratio and faster growth in spending than in economic output.

This drop in the primary surplus and the reappearance, on average, of fiscal deficits after interest payments raises doubts about the soundness of the fiscal position achieved by the region's countries in recent

years, and about future prospects. As is argued later on, the strength of the fiscal position depends on the prospects of sustaining the revenue/GDP ratio, which is currently high by the past standards of the region, and of moderating the expenditure growth that has been the trend of the last few years.

At the central government level,<sup>13</sup> the fiscal performance of the region's countries meant that at the end of 2007 they were running primary surpluses averaging 2.2% of GDP (simple average), as compared to a figure of 2.4% in 2006. Conversely, the overall balance, which includes interest payments on the public debt, worsened from 0.1% to -0.1% of GDP.

This average primary surplus reflects a fiscal performance that is common to almost all the region's countries. Of the 19 countries analysed in table II.1, 16 have achieved a primary surplus in 2007 (only Guatemala, Haiti and Honduras have a primary deficit). This is a major contrast to the situation in 2002, when just eight countries presented a surplus.

<sup>13</sup> The institutional diversity of the region's public sectors makes it hard to find an indicator reflecting the full range of situations. Central government accounts data will be used to provide an initial approach to fiscal developments (this is sometimes the only information available, particularly near the end of the budgetary accounting year) and later supplemented with more aggregate indicators such as those for the non-financial public sector (NFPS).

Table II.1  
**LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL INDICATORS <sup>a</sup>**  
*(Percentages of GDP at current prices)*

	Central Government								Public debt <sup>b</sup>							
	Primary balance				Overall balance				Central Government				Non-financial public sector			
	2004	2005	2006	2007 <sup>c</sup>	2004	2005	2006	2007 <sup>c</sup>	2004	2005	2006	2007 <sup>c</sup>	2004	2005	2006	2007 <sup>c</sup>
<b>Latin America and the Caribbean <sup>d</sup></b>	<b>0.6</b>	<b>1.5</b>	<b>2.4</b>	<b>2.2</b>	<b>-1.9</b>	<b>-1.1</b>	<b>0.1</b>	<b>-0.1</b>	<b>53.0</b>	<b>44.5</b>	<b>37.6</b>	<b>31.8</b>	<b>54.9</b>	<b>47.4</b>	<b>39.9</b>	<b>...</b>
Argentina	3.2	2.3	2.7	2.8	2.0	0.4	1.0	0.7	126.4	72.8	63.6	55.3	132.5	77.8	65.5	...
Bolivia <sup>e</sup>	-3.1	0.3	5.4	3.4	-5.7	-2.3	3.6	2.1	81.1	76.4	50.7	37.7	83.9	79.2	54.3	39.4
Brazil	2.5	2.5	2.1	2.1	-1.2	-3.2	-3.1	-2.8	31.0	30.9	31.7	30.7	49.3	46.7	46.0	43.4
Chile	3.1	5.4	8.4	8.7	2.1	4.5	7.7	8.0	10.7	7.2	5.3	4.9	16.8	12.9	10.6	...
Colombia	-1.4	-1.4	0.1	1.0	-5.4	-4.8	-4.1	-3.3	46.4	46.6	44.9	39.8	49.2	45.8	43.1	41.9
Costa Rica	1.4	2.0	2.8	2.2	-2.7	-2.1	-1.1	-1.3	41.0	37.5	33.9	28.2	46.9	42.9	39.5	32.7
Ecuador	1.5	1.8	2.1	1.6	-1.0	-0.5	-0.2	-0.5	40.8	36.6	30.0	28.1	43.7	39.4	32.7	30.5
El Salvador	0.9	1.1	2.0	3.2	-1.1	-1.0	-0.4	1.0	38.0	37.8	37.7	34.6	40.8	40.9	39.8	36.6
Guatemala	0.3	-0.3	-0.6	-0.9	-1.1	-1.7	-1.9	-2.3	21.4	20.7	21.6	21.6	22.4	21.5	21.9	21.8
Haiti	-2.4	0.4	0.8	-0.8	-3.1	-0.6	-0.0	-1.6	46.7	44.1	35.6	30.6	51.1	47.5	38.1	32.8
Honduras	-1.7	-1.3	-0.1	-1.6	-3.4	-2.6	-1.3	-2.4	70.1	52.0	33.6	19.9	69.9	52.2	34.9	20.8
Mexico <sup>f</sup>	2.5	2.4	2.9	2.6	-0.2	-0.1	0.1	0.0	23.0	22.4	23.3	22.9	26.9	25.3	25.5	25.4
Nicaragua	-0.1	0.1	1.8	0.7	-2.2	-1.8	0.0	-0.9	100.6	93.0	70.3	42.0	100.7	93.1	70.7	42.4
Panama	-1.2	1.2	4.5	3.7	-5.4	-3.9	0.2	-0.5	69.6	65.1	60.4	54.5	70.4	66.1	61.1	55.1
Paraguay	2.7	2.0	1.5	1.0	1.6	0.8	0.5	0.0	38.0	31.4	24.8	21.0	41.7	32.8	25.8	21.9
Peru	0.6	1.1	3.2	3.6	-1.3	-0.7	1.4	1.8	41.8	38.2	30.9	27.6	...	...	...	...
Dominican Republic	-1.6	0.6	0.3	2.4	-3.4	-0.6	-1.0	1.0	...	21.2	19.8	16.7	25.1	25.7	22.5	19.4
Uruguay	2.4	2.8	3.3	2.6	-2.5	-1.6	-1.0	-1.5	74.6	67.0	59.3	56.5	78.9	70.4	62.6	59.8
Venezuela (Bol. Rep. of)	1.8	4.6	2.1	2.6	-1.9	1.6	0.0	0.5	...	...	...	...	38.1	32.9	24.3	18.1

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

<sup>a</sup> Includes social security.

<sup>b</sup> On 31 December each year, applying the average exchange rate for external debt. The 2007 figures are for June.

<sup>c</sup> Official targets included in 2008 budgets.

<sup>d</sup> Simple average.

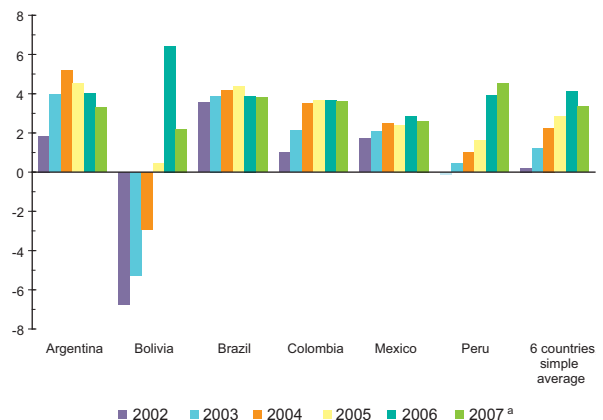
<sup>e</sup> General government.

<sup>f</sup> Public sector.

The number of countries showing a deterioration in their fiscal balance has increased in the last year. In 2007, 12 of the 19 countries analysed recorded a larger deficit or a smaller surplus. This stands in contrast to the situation in 2006 and 2005, when just four countries recorded a deterioration.

As already noted, taking central government figures alone is not wholly representative in the case of those countries in the region that have a more decentralized public sector or large public-sector enterprises. Fuller coverage of some selected countries also reveals a deterioration in the primary balance of the non-financial public sector, which fell on average from 4.1% to 3.3% of GDP between 2006 and 2007.

Figure II.1  
**LATIN AMERICA (6 COUNTRIES): PRIMARY BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR, 2002-2007**  
*(Percentages of GDP)*



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

<sup>a</sup> Preliminary figures.

Table II.2  
LATIN AMERICA AND THE CARIBBEAN: CHANGE IN CENTRAL GOVERNMENT FISCAL INDICATORS, 2007 <sup>a</sup>  
(Points of GDP)

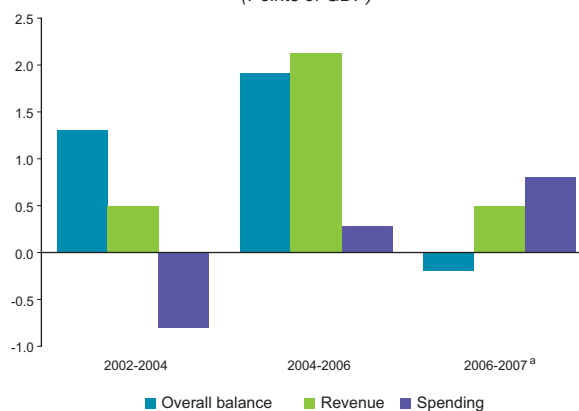
	Revenue	Spending	Primary spending	Primary balance	Overall balance
<b>Latin America and the Caribbean</b>	<b>0.4</b>	<b>0.7</b>	<b>0.8</b>	<b>-0.2</b>	<b>-0.2</b>
Argentina	1.0	1.3	0.9	0.1	-0.3
Bolivia	-1.4	-0.0	0.5	-2.0	-1.5
Brazil	0.8	0.4	0.7	-0.0	0.3
Chile	0.3	0.1	0.1	0.2	0.2
Colombia	0.8	0.6	0.5	0.9	0.7
Costa Rica	0.8	1.0	1.3	-0.6	-0.3
Ecuador	3.2	3.5	3.6	-0.5	-0.4
El Salvador	0.0	-1.4	-1.3	1.2	1.4
Guatemala	-0.5	-0.0	-0.2	-0.3	-0.5
Haiti	0.5	2.1	2.1	-1.6	-1.6
Honduras	0.9	2.0	2.4	-1.4	-1.1
Mexico	-0.9	-0.8	-0.7	-0.3	-0.1
Nicaragua	1.1	2.0	2.2	-1.1	-0.9
Panama	0.2	1.0	1.0	-0.8	-0.7
Paraguay	-0.8	-0.3	-0.2	-0.6	-0.5
Peru	0.8	0.4	0.4	0.4	0.4
Dominican Republic	...	...	...	2.1	2.0
Uruguay	-0.2	0.3	0.4	-0.7	-0.5
Venezuela (Bol. Rep. de)	...	...	...	0.5	0.5

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

## 1. The 2002-2007 period

Fiscal performance in 2007 presents differences from the 2002-2006 period. Whereas the fiscal position in 2002-2004 improved because fiscal revenues increased while spending grew more slowly on average than regional output,<sup>14</sup> the rising primary surplus in 2004-2006 was due to a substantial increase in resources, easily outstripping the public expenditure growth of the last two years. This situation changed in 2007, when the primary surplus diminished because revenues grew by 0.4% of GDP but primary spending by 0.8%.

Figure II.2  
LATIN AMERICA AND THE CARIBBEAN: CHANGES IN CENTRAL GOVERNMENT REVENUES AND EXPENDITURE, 2002-2004, 2004-2006 AND 2006-2007  
(Points of GDP)



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

<sup>a</sup> Preliminary figures.

<sup>14</sup> This situation is largely due to the changes in relative prices brought about by sharp currency devaluations in some of the region's countries (Argentina, Brazil, Uruguay) in the late 1990s and early 2000s. While most public spending is in local currency, expenditure arising from the tradable sectors of the economy moves with the dollar. See O. Cetrángolo and J.P. Jiménez, "Política fiscal en Argentina durante el régimen de convertibilidad", *Gestión pública* series, No. 35 (LC/L.1900-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2003, United Nations publication, Sales No. S.03.II.G.60, concerning the abandonment of convertibility in Argentina, and E. Levy-Yeyati and F. Sturzenegger, "A balance-sheet approach to fiscal sustainability", *Working Paper*, N°. RWP07-044, Harvard University, 2007, for a detailed analysis of the effect of currency shocks on fiscal sustainability.

## 2. Revenue

The substantial rise in fiscal revenues seen in the last few years has lifted public-sector resources to unprecedented levels. While average fiscal revenues in the region were equivalent to 15.6% of GDP in 1990-1995, the figure was 16.3% in 1996-2000, 17.4% in 2001-2005 and 20% in the last two years, at the central government level.

Figure II.3  
LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT  
FISCAL REVENUES, 1990-2007  
(Points of GDP)



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

<sup>a</sup> Preliminary figures.

In 2007, average fiscal revenue in the region increased once again over the previous year, but at a lower rate than before. While it rose by more than one point of

GDP in 2005 and 2006 (from 17.5% in 2004 to 19.7% in 2006), in 2007 it rose by just 0.4% of GDP.

A number of factors have come together in the last few years to raise the countries' fiscal revenues. One of them is the substantial increase in economic activity, which has major implications for tax collections.<sup>15</sup> A higher level of activity feeds through to fiscal revenue not only because of growth in the tax base and changes in the composition of output,<sup>16</sup> but also because of improved tax compliance. Again, higher prices for certain commodities have enabled producer countries to capture a larger volume of fiscal revenues.<sup>17 18</sup>

This increase in commodity prices was a major factor in the expansion of economic activity in the region's countries. Governments have developed a variety of fiscal mechanisms for appropriating some of these resources. In the case of agricultural products, Argentina has financed much of its spending from resources generated by export duties. Something similar has happened in countries that produce large amounts of non-renewable resources, as their governments have created mechanisms to capture revenue. In addition, as the previous edition of the *Preliminary Overview* explains in detail, the Bolivarian Republic of Venezuela, Bolivia and Chile have created new taxes as a way of increasing the amount of revenue raised from their non-renewable resources.<sup>19</sup> The combination of these factors has led to the share of total fiscal resources represented by such revenue in Bolivia, Chile, Colombia and Mexico rising from averages of 27.8%, 7.6%, 9.9% and 29.4%, respectively, in the 1990s to 34.8%, 20%, 14.2% and 37.5% in 2006-2007, while in the Bolivarian Republic of Venezuela the share remained at levels similar to those

<sup>15</sup> See O. Cetrángolo and J.C. Gómez Sabaini (comps.), *Tributación en América Latina. En busca de una nueva agenda de reformas* (LC/G.2324-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December 2006, and C. De Cesare and J. Lazo Marín, "Impuestos al patrimonio en América Latina", unpublished.

<sup>16</sup> The elasticity of tax revenue is usually greater than 1. In the upturns of the cycle, revenues increase more than proportionately because growth leads to an expansion of the formal economy and generates disproportionate growth in imports and the associated taxes. In downturns, conversely, revenues fall disproportionately owing to the reversal of the mechanisms referred to and a substantial rise in tax evasion.

<sup>17</sup> Another factor that would account for this increase is the substantial rise in tax rates over recent years. For value added tax (the main source of tax revenue in the region), the average rate in May 2007 was 14.7%, as compared to 11.7% in 1994.

<sup>18</sup> Also, a number of countries in the region are applying what are generally regarded as emergency taxes, such as those levied on financial transactions in Argentina, the Bolivarian Republic of Venezuela, Bolivia, Brazil, Colombia, the Dominican Republic, Paraguay and Peru.

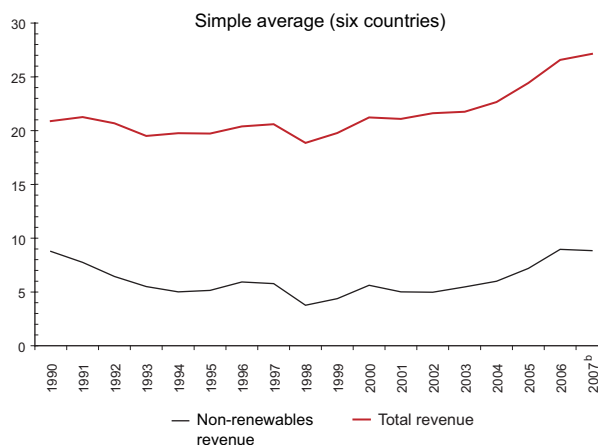
<sup>19</sup> See J.P. Jiménez and V. Tromben, "Fiscal policy and the commodities boom: the impact of higher prices for non-renewables in Latin America and the Caribbean", *CEPAL Review*, N° 90 (LC/G.2323-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2006.

of the previous decade (falling from 59.6% to 56.4%) and in Ecuador it fell from 32.1% to 25.5%.

This provided a large fiscal income boost in 2005 and 2006, even though fiscal revenues from these sectors grew more slowly in the latter year and were actually lower in Bolivia, Ecuador and Mexico than the year before.

Revenues rose in 11 countries in 2007, but by much less than in previous years.<sup>20</sup> Only in Nicaragua, in fact, did the increase exceed 1% of GDP. In four countries, meanwhile (Bolivia, Guatemala, Mexico and Paraguay), fiscal revenues fell by over 0.5% of GDP in 2007.

Figure II.4  
LATIN AMERICA AND THE CARIBBEAN:  
CENTRAL GOVERNMENT REVENUES IN COUNTRIES  
SPECIALIZING IN NON-RENEWABLES<sup>a</sup>  
(Percentages of GDP)



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

<sup>a</sup> Bolivarian Republic of Venezuela, Bolivia, Chile, Colombia, Ecuador and Mexico.

<sup>b</sup> Preliminary figures.

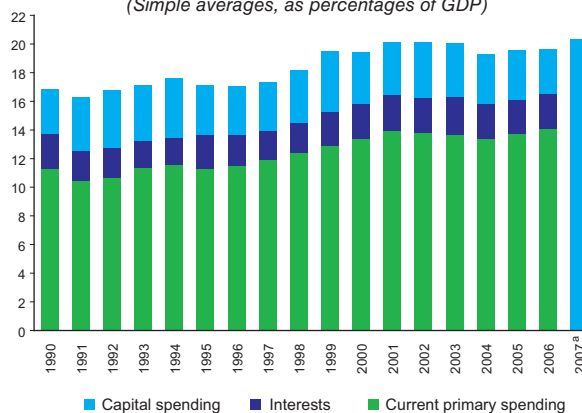
### 3. Spending

By contrast with the 2002-2006 period, public spending growth in the region more than offset the small increase in fiscal revenues, as it rose from an average of 19.6% of GDP in 2006 to 20.4% in 2007, leading to a deterioration in the primary and overall fiscal balances.

In the period under consideration, primary spending increased by 10.6% in real terms. This compares with a rise of 9.5% in 2006 and 7.1% in 2005.

Analysis by country reveals that the rise is almost across the board. Spending fell in only three countries (El Salvador, Mexico and Paraguay), while it rose by more than a percentage point of GDP in six countries and by more than two points in four of these (Ecuador, Haiti, Honduras and Nicaragua).

Figure II.5  
LATIN AMERICA AND THE CARIBBEAN:  
COMPOSITION OF CENTRAL GOVERNMENT SPENDING  
(Simple averages, as percentages of GDP)



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

<sup>a</sup> Preliminary figures.

<sup>20</sup> A number of countries have initiated tax reforms in the last year. Mexico passed a set of fiscal measures that will come into effect in 2008, including the new flat-rate business contribution (CETU), a reform to the PEMEX tax regime and the imposition of a tax on bank cash deposits. A tax reform that came into effect in Uruguay in 2007 abolished some low-yielding taxes, cut the VAT rate and removed some exemptions, and introduced a personal income tax for the first time. See A. Barreix and J. Roca, "Strengthening a fiscal pillar: the Uruguayan dual income tax", *CEPAL Review*, N° 92 (LC/G.2339-P/E), Santiago, Chile, August 2007.

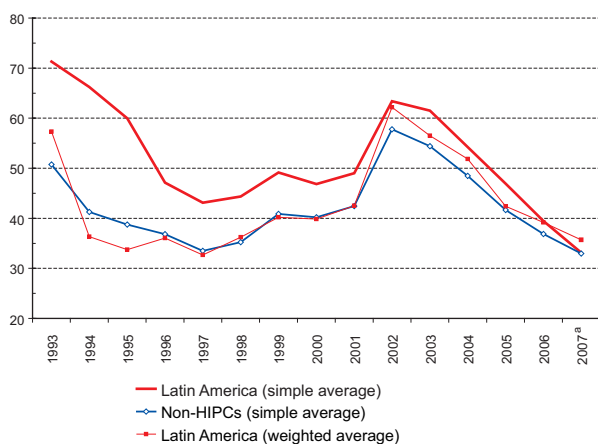
In Honduras, most of the increase was accounted for by personnel spending (0.9% of GDP) and capital spending (1.3%). In Nicaragua, the increase can be attributed to the growth of capital spending (1.7% of GDP).

Spending on debt interest, meanwhile, has fallen in most of the countries, increasing in just a few such as Argentina and Colombia.

## 4. Public debt

The public debt/GDP ratio fell again in 2007, to 31.8% of GDP, from a simple average of 37.6% in 2006 (central government figures).

Figure II.6  
LATIN AMERICA AND THE CARIBBEAN: PUBLIC DEBT  
OF THE NON-FINANCIAL PUBLIC SECTOR  
(Percentages of GDP)



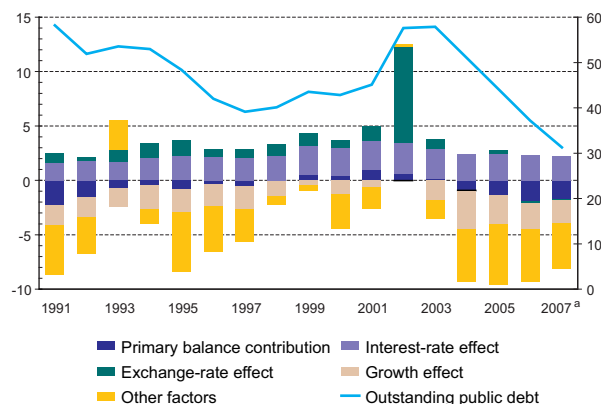
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

In 2002-2007, the public debt/GDP ratio fell by about 30% of GDP (from 60.7% in 2002 to 31.8% in 2007 at the central government level). The factors contributing most to this change were sharp fluctuations in macro variables (exchange rate and interest rate variations and the great volatility of economic activity) and debt restructuring processes.

Figure II.7 presents a debt calculation exercise that gives an idea of the influence of different factors (including the primary balance, growth, interest rates and exchange rates) on the level of public debt.<sup>21</sup> The right-hand axis presents the outstanding public debt balance and the left-hand axis presents changes in debt levels, in both cases as a proportion of GDP.

Figure II.7  
LATIN AMERICA AND THE CARIBBEAN:  
PUBLIC DEBT OF THE NON-FINANCIAL PUBLIC SECTOR  
(Percentages of GDP)



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

<sup>a</sup> Preliminary figures.

Despite the above, the countries where the public debt/GDP ratio fell most in 2007 (more than 10% of GDP) were Bolivia, Honduras and Nicaragua. It must be borne in mind here that these three countries entered the Heavily Indebted Poor Countries (HIPC) debt initiative and the Multilateral Debt Relief Initiative,

<sup>21</sup> The public debt dynamic can be broken down using the following formula:

$$d_t - d_{t-1} = -pb_t + d_{t-1} \cdot \frac{r}{1+n} - d_{t-1} \cdot \frac{n}{1+n} + d_{t-1}^S \cdot \Delta s + sf_t$$

where all the variables are expressed as a proportion of GDP. The first term on the right-hand side of the equation represents the contribution of the primary balance to the public debt dynamic; the second term refers to the effect of the interest rate; the third to the contribution of economic growth; the fourth to the effect of the exchange rate on the portion of the debt expressed in foreign currency; and the last term is a remainder (other factors or balance-flow).



enabling them to reduce their public debt considerably. If these countries are excluded, the debt/GDP ratio falls by only 3.3% of output, from 34.8% in 2006 to 31.5% in 2007.

The debt structure of the region's countries has been improving greatly over recent years as foreign-currency debts have been reduced and the repayment terms of local-currency debt extended. In 2007, a number of the region's countries issued long-term bonds in local currency. Specifically, Peru carried out operations to replace and repurchase Brady Bonds and Global Bonds due 2012 with new bonds falling due in 2026, 2033 and 2037, and in October it made an early repayment of US\$ 1,794 million to the Paris Club, largely financed from local-currency bonds.

In conclusion, a number of analyses of the region's fiscal performance have highlighted the lessening of external vulnerability in its economies, something that can be put down to the fiscal and financial policies of recent years. The current situation of international uncertainty is a good opportunity to test the increased robustness of the region's economies in the face of international turmoil.

To sum up, the fiscal situation of the region's countries improved significantly over 2002-2006. The greater fiscal leeway that has resulted, chiefly because of a sharp increase in revenues, has raised public spending pressures. In this context, two sometimes contradictory priorities need to be considered: the great

need for higher social and infrastructure spending in the region to expand investment in physical and human capital, and the need for countercyclical policies to create greater fiscal leeway so that these measures are sustainable.

Although primary surpluses held up well in 2007 and debt levels have carried on falling, there are a number of factors that give cause for concern about the sustainability of fiscal indicators.

Concerning public debt, while the trend of the public borrowing/GDP ratio is still downward, the decline has been smaller than in previous years if countries entering debt reduction initiatives are excluded from the calculation.

Although revenues have reached levels that are very high and indeed unprecedented in the region, which is certainly a positive development, it must not be forgotten that this is due to an extraordinary combination of factors (high growth, low inflation, high commodity prices and improved taxation mechanisms).

Looking ahead, the projections for 2008 give some cause for concern. More than half the countries for which 2008 budgetary information is available are planning to increase spending by more than economic growth. If the current slowdown in revenue growth continues, this will mean less fiscal leeway just at a time when international uncertainty suggests the need for prudence.

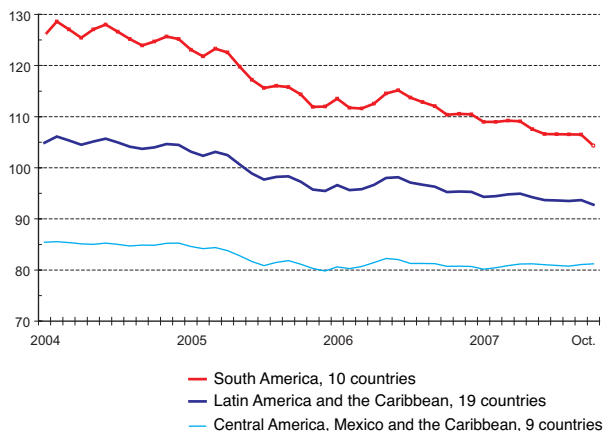
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## B. Exchange-rate policy

The real effective currency appreciation described in the 2006 edition of the Preliminary Overview continued in 2007, particularly in South America. During the first 10 months of 2007, the extraregional real effective exchange rate of Latin America and the Caribbean (which excludes trade between the countries in the region) appreciated by 2.7% compared to the same period the year before. This was almost entirely due to the real appreciation of 4.8% in South America over the period, with

currencies strengthening in seven of the subregion's 10 countries. Currency appreciation in South America in 2007 took place in a context where the commodities exported by the subregion were fetching high prices and a number of countries were receiving substantial capital inflows. Meanwhile, the currencies of five countries in the Central America, Mexico and Caribbean subregion appreciated modestly, giving rise to effective extraregional appreciation of just 0.4% over the period.

Figure II.8  
**LATIN AMERICA AND THE CARIBBEAN:  
 EXTRAREGIONAL REAL EFFECTIVE EXCHANGE RATE**  
 (Base index: January 1990-December 1999=100)



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

Analysis of movements in total effective exchange rates, which include trade with other countries in the region, shows that the total effective real exchange rates of nine countries in Latin America and the Caribbean appreciated during the first 10 months of 2007 in relation to the same period in 2006. Of these, the currencies of four South American countries (Colombia, the Bolivarian Republic of Venezuela, Paraguay and Brazil) appreciated by over 5% (three of them by over 10%), while the currencies of four countries in the Central America, Mexico and Caribbean subregion underwent effective appreciation, in all cases of less than 2.5%. In Paraguay, Bolivia and Ecuador, there was a large divergence between movements in the total and extraregional effective exchange rates: in Paraguay and Bolivia, the extraregional appreciation was considerably higher than the total appreciation, owing to the amount of trade they do with Brazil, while in Ecuador the total depreciation was larger than the extraregional depreciation, owing to the importance of the country's trade with Colombia. The effective appreciation in the Bolivarian Republic of Venezuela was due to a combination of high inflation and a fixed exchange rate, while the cases of Colombia and

Brazil, whose currencies appreciated despite central bank intervention, merit closer analysis.

Colombia experienced an average real effective appreciation of 12% in the first 10 months of 2007. The nominal appreciation of the peso against the dollar was 12.2%, at a time when inflation was above the central bank target. The nominal appreciation of the peso during the first half of the year was connected with the financial account surplus of the Colombian balance of payments, which in turn was the result of rising FDI,<sup>22</sup> higher external borrowing (by both the private and public sectors) and, to a lesser extent, capital inflows for portfolio investment. These capital inflows can be explained by the dynamism of the Colombian economy in 2006 and 2007 and by monetary policy decisions which led to the reference interest rate rising by 325 basis points between April 2006 and July 2007. Between July and August 2007, however, the international financial turmoil resulting from the subprime mortgage crisis in the United States resulted in a temporary depreciation of the peso. Appreciation resumed in October 2007, following the liquidity injection and interest rate cut decided upon by the United States Federal Reserve and other central banks.

Brazil experienced an average real effective appreciation of 6.5% in 2007.<sup>23</sup> The real appreciated by an average of 9.1% against the dollar in nominal terms during the first 10 months of the year. However, because the dollar was losing value against the euro and yen, among other currencies, the effective appreciation of the Brazilian currency over the period was less than its real bilateral appreciation against the dollar (9.8%). As in 2006, the favourable balance of the country's current account in 2007, which can be attributed chiefly to good export performance, helped to increase the supply of currency. There were also substantial FDI capital inflows. The differential between Brazilian and international interest rates and the improvement in the country's risk rating led to non-residents acquiring Brazilian assets such as shares and fixed-income securities. As in Colombia, the effects of the United States subprime mortgage crisis on demand for emerging market assets contributed to the nominal depreciation of the real between July and August 2007. The currency began appreciating again in September and October.

<sup>22</sup> Including FDI for the construction of an oil refinery.

<sup>23</sup> Comparing the average for the first 10 months of 2007 with the same period in 2006. Comparing October 2007 with December 2006 yields a real effective appreciation of 13.3%, the region's highest (Colombia was second with 9.6%).

The Paraguayan currency also experienced a substantial total effective appreciation in the period, of 10.4%. The nominal exchange rate of the guaraní appreciated by an average of 10.6% during the first 10 months of 2007 because of improvements in the external sector coinciding with the appreciation of the Brazilian real.

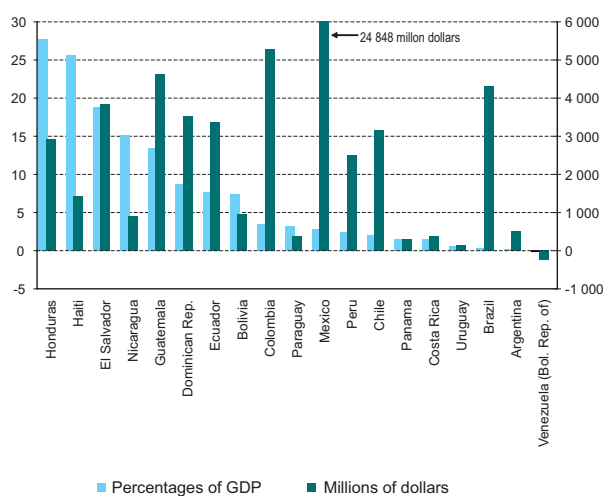
The improvement in South America's terms of trade that characterized 2006 continued in 2007, as described in the chapter on the external sector in this edition of the Preliminary Overview. This was due to rising international prices for the agricultural products, hydrocarbons and minerals exported by the South American countries. The improvement not only resulted in an increased balance-of-payments current account surplus in countries such as Brazil and Peru, but boosted investor confidence in the future of the subregion's economies and made their assets more attractive. Both factors contributed to the effective currency appreciation that was the trend in most of the South American economies. In the meantime, the terms of trade of the Central American and Caribbean countries deteriorated, owing to their being net importers of energy, while Mexico experienced a limited improvement in its terms of trade thanks to rising hydrocarbon prices.

As the chapter on the external sector also points out, South America received large capital inflows in 2007, including FDI, which contributed to currency appreciation during the period, especially in Colombia and Brazil.

Emigrants' remittances continued to be a major source of currency in the region, particularly in Central America and Mexico, as the balance-of-payments net transfers data in figure II.9 show. The continuing growth of transfers has been a vital component of currency revenues for several Central American countries. Consideration therefore needs to be given to the potential effect on the subregion's exchange rates of any slowdown in emigrants' remittances in future, something that might occur for both endogenous reasons (such as a fall-off in emigration thanks to improved employment opportunities in the region) and exogenous ones, such as an economic slowdown in the United States resulting in a lower demand for

labour (and thus lower remittances) among Latin American emigrants living in the country.

Figure II.9  
LATIN AMERICA (16 COUNTRIES):  
CHANGE IN NET TRANSFERS, 2007<sup>a</sup>  
(Percentages of GDP and millions of dollars)



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

<sup>a</sup> Estimates.

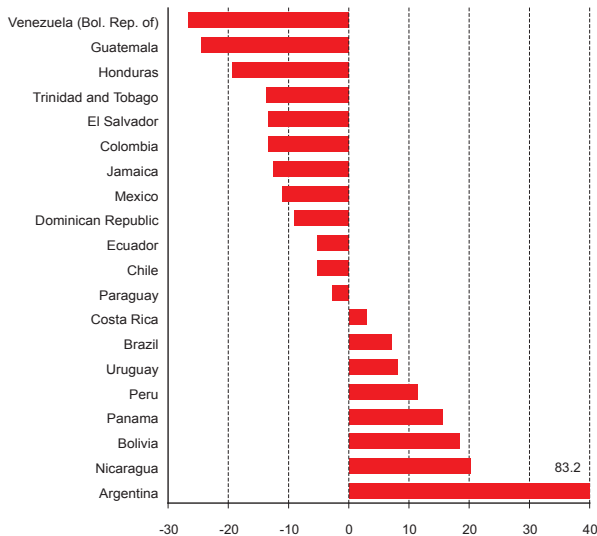
Comparison with the 1990s reveals that the average extraregional real effective exchange rate in Latin America and the Caribbean was weaker in 2007 than in the earlier period, but only by 1.7%. The average South American rate was 10.1% weaker and that of the Central America, Mexico and Caribbean subregion 8.1% stronger.

Figure II.10 shows the level of total average real effective exchange rates in the region's countries during the first 10 months of 2007 compared to the 1990s. It should be noted that, despite strong effective appreciation in 2006 and 2007, total effective exchange rates in Brazil, Paraguay and Colombia were not far from their 1990s levels. The chart also shows how much Argentina's real effective exchange rate has weakened since the 1990s.

Table II.3 shows developments in the currency regimes operating in the region from 1998 to the present.<sup>24</sup> Some recent changes in currency policy in two Central American countries, Guatemala and

<sup>24</sup> The "flexible" category covers a variety of central bank approaches to currency intervention, ranging from Argentina's aggressive intervention to prevent nominal appreciation to Chile's application of an inflation targeting system without intervention.

Figure II.10  
**LATIN AMERICA AND THE CARIBBEAN (22 COUNTRIES):**  
**TOTAL REAL EFFECTIVE EXCHANGE RATE <sup>a</sup>**  
*(Average in the first 10 months of 2007 compared*  
*to the 1990-1999 average)*



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

<sup>a</sup> The calculation methodology for the Dominican Republic was different to that used for the other countries.

Costa Rica, will now be examined. Guatemala has adopted an explicit medium-term inflation targeting system and a flexible exchange-rate regime compatible with this, while Costa Rica has officially announced its intention of doing the same.<sup>25</sup>

Although the 2002 legal charter of the Bank of Guatemala already gave priority to general price stability, the decision was taken in 2005 to adopt an explicit inflation targeting scheme.<sup>26</sup> As part of this policy, it was decided that rules should be laid

down for currency market intervention by the Bank of Guatemala to moderate volatility in the nominal exchange rate, without affecting the trend.<sup>27</sup> Use of this rule may have contributed to a reduction in the build-up of reserves in 2007.

In Costa Rica, the Central Bank has adopted a number of measures to make the transition from the crawling peg regime in operation until 2006 to a flexible exchange-rate regime compatible with inflation targeting. As one of these measures, in October 2006<sup>28</sup> the Central Bank adopted a currency band that widened over time, with a floor (exchange rate at which the Bank intervened to buy dollars) which rose by six céntimos a day, and a ceiling (exchange rate at which the Bank intervened to sell dollars) which rose by 14 céntimos a day. Shortly afterwards, in January 2007,<sup>29</sup> it was decided that the rate at which the ceiling of the band devalued should be reduced to 11 céntimos a day and that the floor of the band should be fixed at 519.16 colones per dollar. Over the following months the nominal exchange rate held steady at the floor of the band while the Central Bank systematically bought dollars. Finally, in November 2007, it was decided that the parameters of the exchange-rate band should be modified once again:<sup>30</sup> having stood at 519.16 colones per dollar until 21 November, the buy threshold was reduced to 498.39 colones per dollar on 22 November, and it was decided that the ceiling of the band should rise more slowly (six céntimos a day) while the floor of the band would be lowered by six céntimos a day.

Lastly, a number of the region's countries took advantage of favourable international conditions in 2007 to build up reserves.<sup>31</sup> In volume terms, Brazil, Argentina, Colombia and Peru headed this group, but in GDP terms three of the region's smaller economies were also active: Bolivia, Costa Rica and Paraguay.

<sup>25</sup> The board of directors of the Central Bank of Costa Rica approved the strategic plan for explicit inflation targeting in Costa Rica at session 5229 of 5 January 2005. See Banco Central de Costa Rica, "Informe de inflación de julio 2006", San José, 2006.

<sup>26</sup> Monetary Board resolution JM-185-2005.

<sup>27</sup> See Monetary Board resolution JM-1685-2006 for an exact description of the intervention rule for currency trading during 2007.

<sup>28</sup> Decision taken at board of directors session 5300 of 13 October 2006 and implemented on 17 October 2006.

<sup>29</sup> Decision taken at board of directors session 5314 of 29 January 2007.

<sup>30</sup> At the board of directors session of 21 November 2007.

<sup>31</sup> See the section on capital flows in this Overview.

Table II.3  
LATIN AMERICA AND THE CARIBBEAN (31 COUNTRIES): EXCHANGE-RATE REGIMES, SELECTED YEARS <sup>a</sup>

	1998	2002	2006	2007
Dollarization	Panama	Ecuador El Salvador <sup>b</sup> Panama	Ecuador El Salvador <sup>b</sup> Panamá	Ecuador El Salvador <sup>b</sup> Panamá
Currency board	Antigua and Barbuda <sup>c</sup> Argentina Dominica <sup>c</sup> Grenada <sup>c</sup> Saint Vincent and the Grenadines <sup>c</sup> Saint Kitts and Nevis <sup>c</sup> Saint Lucia <sup>c</sup>	Antigua and Barbuda <sup>c</sup> Dominica <sup>c</sup> Grenada <sup>c</sup> Saint Kitts and Nevis <sup>c</sup> Saint Vincent and the Grenadines <sup>c</sup> Saint Lucia <sup>c</sup>	Antigua and Barbuda <sup>c</sup> Dominica <sup>c</sup> Grenada <sup>c</sup> Saint Kitts and Nevis <sup>c</sup> Saint Vincent and the Grenadines <sup>c</sup> Saint Lucia <sup>c</sup>	Antigua and Barbuda <sup>c</sup> Dominica <sup>c</sup> Grenada <sup>c</sup> Saint Kitts and Nevis <sup>c</sup> Saint Vincent and the Grenadines <sup>c</sup> Saint Lucia <sup>c</sup>
Other fixed parity regimes	Bahamas Barbados Belize El Salvador	Bahamas Barbados Belize	Bahamas Barbados Belize Trinidad and Tobago <sup>d</sup> Venezuela (Bol. Rep. of)	Bahamas Barbados Belize Trinidad and Tobago <sup>d</sup> Venezuela (Bol. Rep. of)
Crawling pegs and moving bands	Bolivia Chile Colombia Costa Rica Ecuador Honduras Nicaragua Uruguay Venezuela (Bol. Rep. of)	Bolivia Costa Rica Honduras Nicaragua	Bolivia Costa Rica <sup>e</sup> Honduras <sup>f</sup> Nicaragua	Bolivia Costa Rica <sup>e</sup> Honduras <sup>f</sup> Nicaragua
Flexible	Brazil Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Trinidad and Tobago <sup>d</sup>	Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Trinidad and Tobago <sup>d</sup> Uruguay Venezuela (Bol. Rep. of)	Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Uruguay	Argentina Brazil Chile Colombia Guatemala Guyana Haiti Jamaica Mexico Paraguay Peru Dominican Republic Uruguay

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of International Monetary Fund (IMF), *Classification of Exchange Rate Arrangements and Monetary Frameworks*.

<sup>a</sup> Situation as of 31 December each year.

<sup>b</sup> The dollar is the legal medium of payment. No new nuevos colones are being printed but they will be legal tender until they have been fully exchanged for dollars.

<sup>c</sup> These countries are members of the Organisation of Eastern Caribbean States.

<sup>d</sup> This is the de jure regime, but the de facto exchange-rate regime is different.

<sup>e</sup> Costa Rica changed its crawling peg regime for a moving band regime on 17 October 2006 as part of a gradual monetary reform that includes exchange-rate liberalization.

<sup>f</sup> The rate of devaluation has been a constant 5% since 2003. Since 2004, consequently, the IMF has categorized the country as having a crawling peg.

## C. Monetary policy

Although inflation in the region was still low by historical standards in 2007, as it has been for some years past, countries with an inflation targeting regime (including Brazil, Chile, Colombia, Mexico, Paraguay and Peru) or an inflation target range (such as Costa Rica, Guatemala and Honduras) saw prices increase by more than the inflation target set by their central banks. This was partly due to rising prices for fuels<sup>32</sup> and foodstuffs.

Figure II.11 shows that inflation was above target in Chile, Colombia and Peru in 2007. The inflation rate in Mexico was about 4%, one percentage point above target. Brazil is the only country where inflation remained within its target range. It should be noted, however, that Colombia and Peru had lowered the ceiling and floor of their target ranges, since inflation had been converging on the levels originally set.

Most central banks reacted to this situation by raising the monetary policy rate. In Colombia, five rate rises took this from 7.5% to 9.25% between December 2006 and October 2007, while in Chile it was raised from 5.25% to 5.75% in two stages. The monetary policy rate went up from 4.5% to 5% in Peru, from 5% to 6% in Guatemala, from 6% to 7% in Honduras and from 8.25% to 10.25% in Argentina.<sup>33</sup> In Brazil, on the other hand, the central bank cut the nominal SELIC rate from 13.25% to 11.25%. Although this rate has fallen since 2006, it remains high in real terms by comparison with rates in the other countries of the region.

Ecuador, El Salvador and Panama are special cases in the region in that their economies are dollarized, so that their interest rates vary with international rates. Largely as a result of exchange-rate controls, meanwhile, monetary aggregates grew strongly in the Bolivarian Republic of Venezuela, the country with the region's highest inflation in 2007. The country's central bank sought to check this growth by raising the legal reserve

requirement from 15% to 17% and by carrying out operations to absorb excess liquidity.<sup>34</sup>

As the United States Federal Reserve lowered its monetary policy rate and the countries of Latin America and the Caribbean increased theirs, the yield differential widened. This helped to swell the flow of resources into the region's economies and thus contributed to the appreciation of their exchange rates. In 2007, the central banks of these countries were faced with a difficult choice between inflation and currency appreciation. Colombia is an interesting case study. To prevent the peso from appreciating over the first four months of 2007, the Bank of the Republic increased its international reserves by some US\$ 4.5 billion (28.7%) by intervening in the currency market and increased the monetary policy rate on three occasions, taking it from 7.5% to 8.25%. In May it announced that it would be abandoning the policy of intervention, since the pressure on the monetary aggregates was making it harder to meet the inflation target, and established a non-interest-bearing legal reserve requirement of 40% for loans taken out abroad and gross portfolio income. The term for paying back the deposit was six months.<sup>35</sup>

If central banks carry on raising rates to deal with inflationary pressures, currency appreciation will become more of a factor. This judgement is largely based on the high level of real interest rates and expectations of improved country risk ratings after five years in which the terms of trade have been favourable, all of which has resulted in capital inflows. This could have significant effects on the real economy.

Currency inflows have led to increases in international reserves and thence in monetary aggregates, forcing central banks to redouble their efforts to soak up liquidity. The case of Argentina is worth focusing on. In the first half of 2007, the Central Bank of the Argentine Republic intervened in the currency market

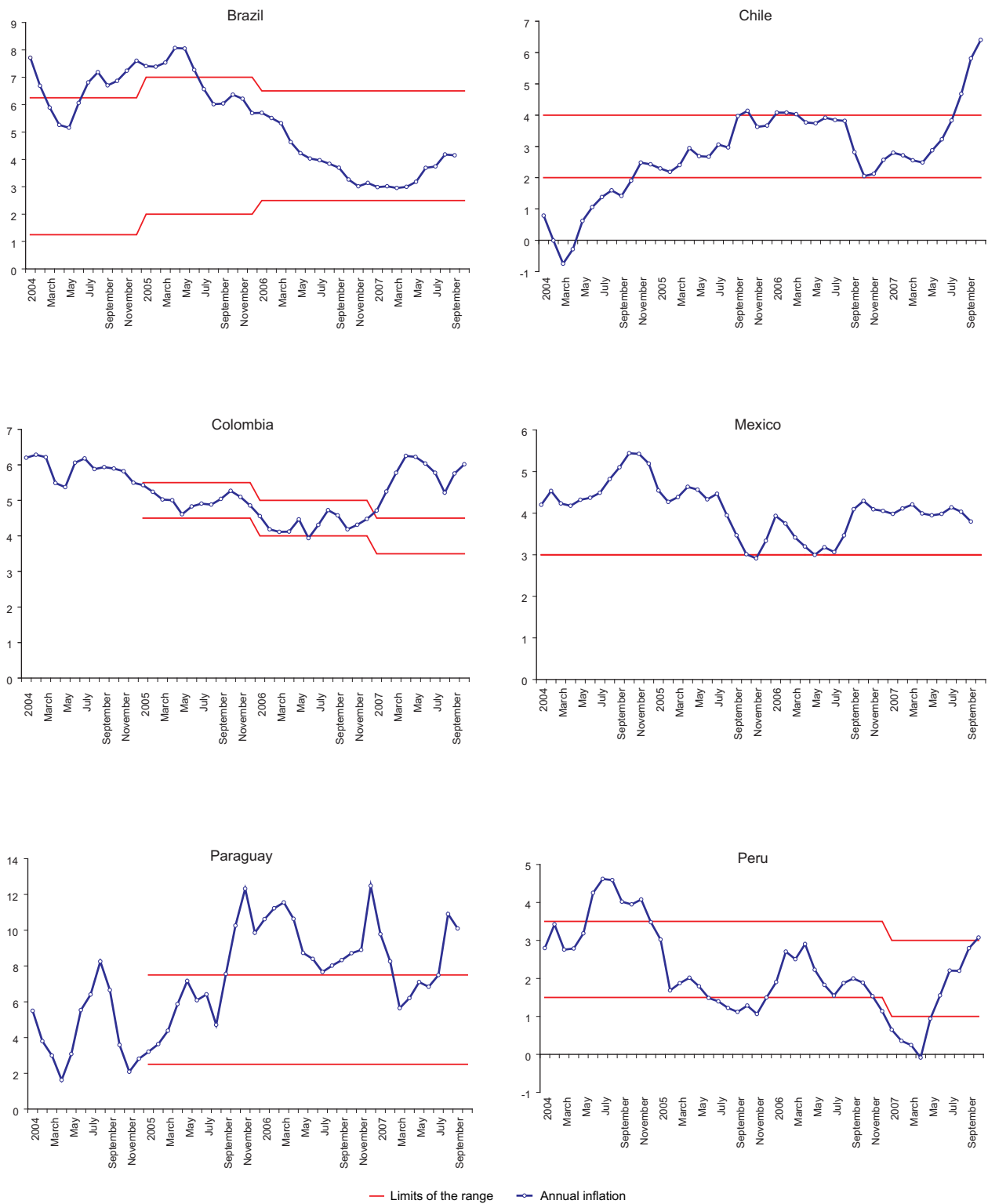
<sup>32</sup> In 2006, higher than expected inflation was already being blamed on rising gas and oil prices in the reports issued by central banks in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay, Uruguay and other countries in the region that are net importers of these products.

<sup>33</sup> The monetary policy rate was raised twice in Peru, four times in Honduras and five times in Guatemala.

<sup>34</sup> Operations to absorb liquidity were largely carried out not by the Central Bank of Venezuela but by the government, which sold bonds denominated in dollars but payable in bolívars in the domestic market.

<sup>35</sup> This reserve requirement was originally established in 2000.

Figure II.11  
LATIN AMERICA AND THE CARIBBEAN (6 COUNTRIES): INFLATION TARGETS AND ACTUAL INFLATION



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

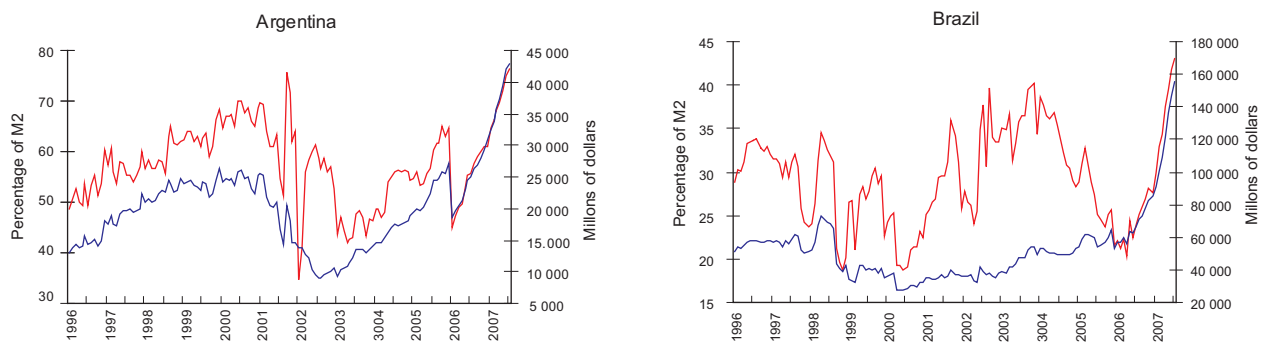
to buy dollars, with a view to holding down the peso. This intervention led to growth in the monetary aggregates that could not be offset by absorption operations. In the third quarter, conversely, the bank's purchases in the currency market were negative. In the first nine months of the year, M2 rose by 29%. Brazil<sup>36</sup> also experienced a very sharp rise in both international reserves (of more than 80% from the December 2006 level) and monetary liquidity. The Central Bank of Brazil bought a considerable amount of dollars to prevent exchange-rate appreciation. However, attractive interest rates meant that net foreign portfolio investment (mainly in shares and fixed-income securities) rose from US\$ 2.5 billion in January-September 2006 to US\$ 35.5 billion in the same period in 2007. The ratio between international reserves and M2 rose in both Brazil and Argentina.<sup>37</sup> In both Chile and Colombia, conversely, this ratio fell. In Chile, indeed, the correlation between the two variables turned negative in mid-2004.

Whether the dilemma between inflation and currency appreciation continues into 2008 will depend on a number of factors, particularly the monetary policy of the United States Federal Reserve<sup>38</sup> and the perception of central banks concerning the causes of

rising inflation. Further interest rate cuts in the United States would make any increase in interest rates by Latin American central banks more costly in terms of appreciation against the dollar. Again, if higher inflation is due to temporary constraints on the supply of food, among other products, or to external factors such as higher energy prices, it should not lead to higher interest rates. However, if these pressures are linked to overheating in the country's economies, further interest rate rises are more likely. The 2008 inflation estimates of the central banks of Chile, Mexico and Peru are lower than the current figures. In Chile, the explicit position is that monetary policy should be oriented towards meeting the inflation target in a period of 12 to 24 months.

A central bank working within an inflation targeting regime is more likely to react to any inflationary surge because, for the policy to be effective, the market has to be able to assume that the monetary authority will intervene to ensure that inflation meets medium-term targets. If the central bank focused on the effect the monetary policy rate may have on economic activity, market expectations might lose their anchor, and this would affect the dynamic of price- and wage-setting in the economy.

Figure II.12  
LATIN AMERICA AND THE CARIBBEAN (4 COUNTRIES): INTERNATIONAL RESERVES  
(Millions of dollars and percentages of M2)



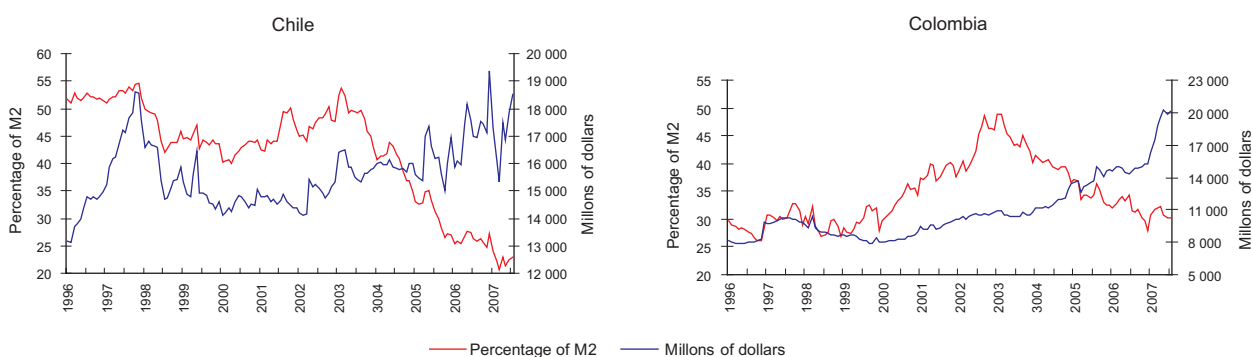
<sup>36</sup> As mentioned in the section on capital movements, Brazil has been receiving large short-term capital inflows. In May, furthermore, its Standard & Poor's risk rating improved from BB to BB+.

<sup>37</sup> To calculate this ratio, international reserves (excluding gold) were converted into local currency using the exchange rate at the end of each month. Currency appreciation raises the numerator of the ratio.

<sup>38</sup> In its September statement, the board of the Central Bank of Chile announced that the external situation, and particularly the actions of the United States Federal Reserve, would play an important role in determining the country's monetary policy rate.



Figure II.12 (concluded)



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

## 1. Nominal interest rates

The rise in Argentina's monetary policy rate caused lending interest rates to increase by 5.3 percentage points between December 2006 and October 2007, while deposit rates rose by 2.4 percentage points. The country saw the region's largest increase in lending rates, in both absolute and relative terms, followed by Colombia (3.8 percentage points) and

Chile (one percentage point). Deposit rates in these two countries rose by 1.7 and 0.6 percentage points, respectively. In Brazil, Costa Rica, Honduras and Peru, both lending and deposit rates fell. In all cases the interest rate spread widened. Brazil continued to have the region's highest lending and deposit rates.

## 2. Bank lending

Bank lending is more important in Latin America and the Caribbean than in economies with deep capital markets. The recovery of lending seen since 2003 continued in 2007. This was to be expected, given that this variable is markedly procyclical in the region. The type of credit that expanded most was consumer credit. As in 2006, the Bolivarian Republic of Venezuela saw the strongest growth in this indicator (79.9%). This can be explained by a negative real interest rate and a currency control

regime that has decoupled the domestic rate from international rates. Consumer and mortgage lending were the most dynamic in the country.<sup>39</sup> The second-largest increase in overall lending was in Argentina (57.2%). Mortgage lending grew the most strongly in the country as a result of rising property prices, particularly in Buenos Aires. Total lending in Costa Rica and Peru rose by more than 30%. Mortgage lending also performed very strongly in Peru, owing to the dynamism of the construction sector.

<sup>39</sup> In the Bolivarian Republic of Venezuela, consumer credit has been greatly expanded by an upsurge in credit card use thanks to credit limits of US\$ 8,000 at the official exchange rate (see country note). The growth of mortgage lending can be partly attributed to the fulfilment of quotas imposed on the banking sector.

Table II.4  
**LATIN AMERICA AND THE CARIBBEAN (11 COUNTRIES): BANK LENDING**  
*(12-month percentage increase)*

Country	Period	Industrial lending and commercial lending		Mortgage lending		Consumer lending		Total lending	
		2006	2007	2006	2007	2006	2007	2006	2007
Argentina	October to October	...	...	12.9	37.4	69.5 <sup>a</sup>	59.9 <sup>a</sup>	40.6	57.2
Bolivia	June to June	-3.3	11.3	17.4	11.5	18.6	23.0	1.5	11.9
Brazil	September to September	16.7	24.3	22.7	25.2	26.2 <sup>b</sup>	31.4 <sup>b</sup>	18.0	25.5
Chile	July to July	18.7	17.3	21.2	19.6	26.9	18.5	19.8	17.8
Costa Rica	August to August	31.6	27.4	27.8	35.2	24.1	28.7	29.6	34.0
Ecuador	October to October	19.5	9.8	23.5	35.2	39.1	15.5	25.2	14.3
El Salvador	October to October	8.2	8.7	8.9	4.3	20.8	24.3	12.3	9.0
Mexico	June to June	15.1 <sup>c</sup>	30.7 <sup>c</sup>	50.3	20.4	52.9	34.2	9.8	20.1
Paraguay	September to September	6.3	9.6	...	...	14.2	19.1	4.7	23.5
Peru	September to September	17.6	29.4	14.0	18.3	31.5	49.1	19.1	30.9
Venezuela (Bol. Rep. of)	October to October	55.6	69.6	245.8	100.0	123.4	101.5	76.6	79.9

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

<sup>a</sup> Includes credit cards.

<sup>b</sup> Personal lending.

<sup>c</sup> Commercial lending only.

## Chapter III

# Domestic Performance

## A. Economic activity and investment

Economic activity in Latin America and the Caribbean expanded by 5.6% in 2007, which translates into regional per capita GDP growth of 4.2%. Growth in 2008 is expected to be lower, at around 4.9%. If these forecasts are borne out, the region will have experienced six consecutive years of growth (2003-2008) in which per capita GDP will have risen by some 23%, equivalent to an annual average of 3.5%.

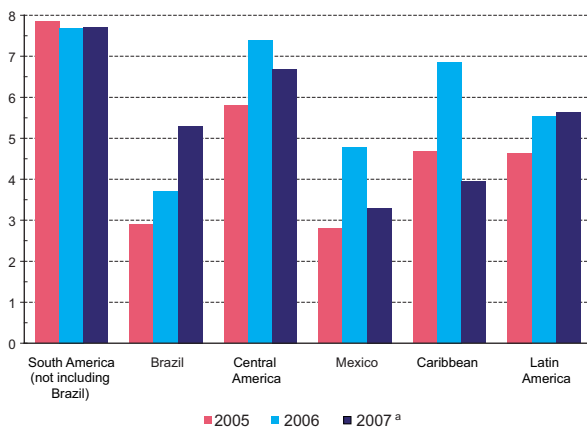
In 2007, the tendencies of earlier years continued and the expansion spread to all the countries; while several had higher growth rates than in 2006, others slowed down. The first group includes Brazil, with growth of 5.3% (3.7% in 2006), and Chile with 5.3% (4% in 2006). In Mexico, economic activity expanded less strongly, with the growth rate falling from 4.8% in 2006 to 3.3%. Although the rate of GDP growth in the Dominican Republic and the Bolivarian Republic of Venezuela declined in 2007, they are still among the countries that are expanding strongly in the region. Panama (9.5%) and Argentina (8.6%) had the highest growth rates, followed by the Bolivarian Republic of Venezuela (8.5%), the Dominican Republic (7.5%) and

Peru (8.2%). Slower-growing countries included Mexico (3.3%) and Ecuador (2.7%). In weighted terms, growth rates expressed as a simple average or median were similar to or even higher than those of 2006. The simple average of 2007 growth rates is 5.9% (6% in 2006) and the median is 5.5% (4.9% in 2006); this would suggest that while regional growth in 2007 was similar to that of 2006, the number of countries growing at higher rates has increased. Regional performance has been affected by slower growth in Brazil and Mexico, which account for about two thirds of regional GDP. At the subregional level, South America is still growing the most strongly, as it did in 2006 (a rate of 7.7% in both years), while Central America has maintained growth rates of close to 7% in the last two years (6.7% and 7.4%). While growth in the Caribbean has slowed, economic activity still expanded by 3.9% (6.9% in 2006).

The current stage of growth in the region presents special characteristics. From a historical perspective, it can only be compared to the late 1960s and early 1970s, the period when the region recorded its highest rates of growth. In terms of per capita GDP, on the other

hand, the highest average annual growth rates were recorded in the 2004-2007 period (4%), the result not only of strong GDP growth but also of demographic changes in the region's countries. Only from the late 1960s to the early 1970s is it possible to find a similar period of 3% plus growth in per capita GDP over a period of more than three years.

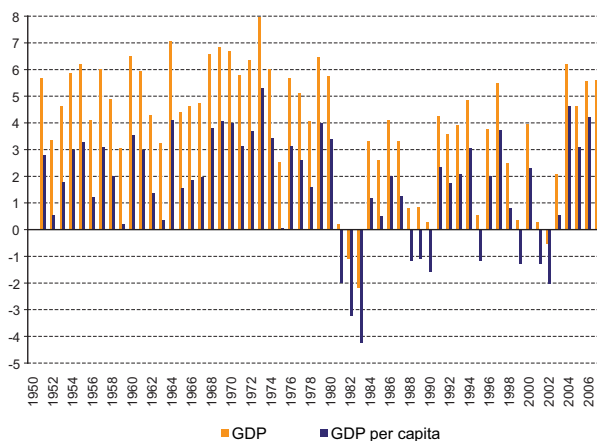
Figure III.1  
LATIN AMERICA AND THE CARIBBEAN: ANNUAL RATE OF GROSS DOMESTIC PRODUCT GROWTH, BY SUBREGION  
(At constant 2000 dollars and percentages)



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

<sup>a</sup> Estimates.

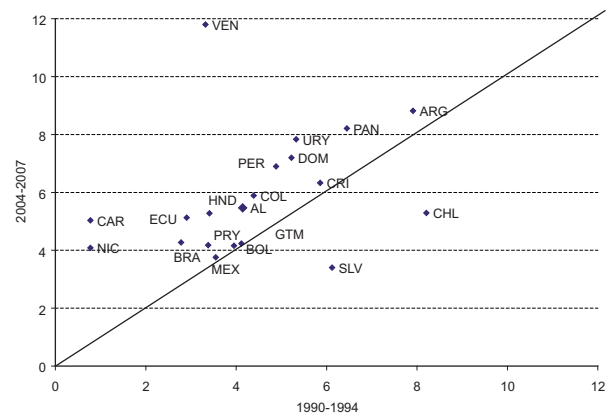
Figure III.2  
LATIN AMERICA: ANNUAL RATE OF GDP AND PER CAPITA GDP GROWTH  
(At constant 2000 dollars and percentages)



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

Again, growth in the current period has been higher than in the other recent period of regionwide expansion. Between 1990 and 1994, Latin America grew at an average annual rate of 4.1%, with all the countries except Haiti and Cuba recording positive growth; in the current phase (2004-2007), the region has been growing by an average of 5.5% a year. In comparative terms, only Chile and El Salvador now have lower average GDP growth rates than in the early 1990s (see figure III.3). As regards the region's two largest economies, Mexico is now growing at about the same rate as in the earlier period while Brazil is growing faster. Haiti, meanwhile, has been recording positive average annual growth in this second period (1%), in contrast to an average annual contraction of 5.2% in the earlier one.<sup>40</sup> Taken together, the Caribbean countries have experienced a substantial increase in their growth rate (0.8% and 5% in the first and second period, respectively), reflecting the increased dynamism of the Trinidad and Tobago economy since the second half of the 1990s. Indeed, growth rates have risen in all the countries of the subregion other than Guyana.

Figure III.3  
LATIN AMERICA: AVERAGE ANNUAL GDP GROWTH RATES AT CONSTANT PRICES, 1991-1994 AND 2004-2007<sup>a</sup>



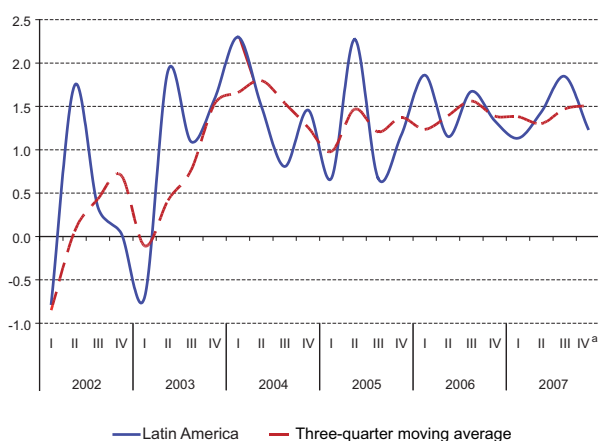
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Estimate.

<sup>40</sup> Haiti is not included in figure III.3 because its figures diverge so much from those of the region's other countries.

Latin America's steady growth since 2003 is also reflected in the region's quarterly growth rates. In seasonally adjusted terms, quarterly growth has ranged from 1% to 2.0%,<sup>41</sup> while the year-on-year rate<sup>42</sup> has ranged from 4.5% to 6.0% over the last 17 quarters.

Figure III.4  
**LATIN AMERICA: QUARTERLY GDP GROWTH RATE,  
 PERCENTAGE CHANGE ON THE PREVIOUS QUARTER**  
*(Seasonally adjusted figures)*



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

<sup>a</sup> Estimate.

Despite growing turmoil in international markets during the year and uncertainty about developments in the United States economy, the region's economies continued to perform well. Their expansion has come against the backdrop of the last few years' trends in the other economic regions, specifically a general pattern of growth, high liquidity and easy access by emerging

economies to international capital markets. High external demand for the region's export commodities and high international prices for these<sup>43</sup> have led to a considerable rise in export receipts, and in most of the countries this has also meant an increase in fiscal revenues. Growth has also been taking place in a context of renewed domestic demand in a number of the countries, driven by higher disposable national income and also a recovery of previous levels. In a number of countries, it was not until 2005 (Panama and Bolivarian Republic of Venezuela) or 2006 (Argentina, Brazil, Dominican Republic and Peru) that gross fixed capital formation returned to earlier levels.

Against this background, the volume of goods and services exported by the region continued to expand in 2007 (5.3%), although this growth has been slowing in the last three years (7.3% and 8.1% in 2006 and 2005, respectively). Meanwhile, domestic demand continued to grow at high rates (7.7%) owing to a substantial increase in private consumption (6.8%) driven by improved employment indicators, a modest rise in real wages, persistently low interest rates in a number of countries providing a stimulus to consumer lending,<sup>44</sup> and currency appreciation, which brought down the prices of imported final consumption goods. This has taken place at a time when the authorities of several countries have raised interest rates because of concerns about domestic price rises driven by increases in international prices for raw materials, fuels and food, although rates are still low by past standards. Meanwhile, consumption has grown much more slowly in the public sector than in the private sector (by 3.6% in 2007 and 5% in 2006).

The rate of expansion in gross fixed capital formation (12.2%) was similar to the 2006 figure (12.9%), making this the component of demand to have grown the most over the last four years; indeed, regional gross fixed capital formation grew by a cumulative 59% between 2003 and 2007. The rise in regional fixed investment is

<sup>41</sup> Change on the previous quarter.

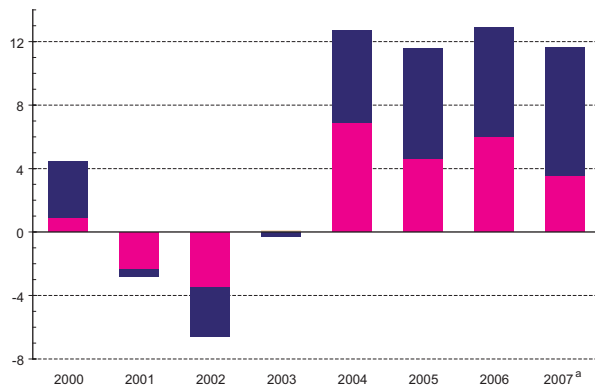
<sup>42</sup> Change on the same quarter the year before.

<sup>43</sup> Because most commodities are quoted in dollars on international markets, one of the causes of the steady rise in commodity prices has been the no less steady depreciation of the dollar.

<sup>44</sup> In 2007, lending to families by the financial system rose by 30% in Brazil (August 2006-August 2007), 28.5% in Mexico (September 2006-September 2007), 18.5% in Chile (July 2006-July 2007) and 60% in Argentina (September 2006-September 2007).

mainly due to the rapid growth of investment in plant and equipment, most of it imported,<sup>45</sup> a development contributed to by the appreciation of most of the countries' currencies against the United States dollar and by rising domestic and external demand.

Figure III.5  
LATIN AMERICA: RATE OF GROWTH IN GROSS  
FIXED CAPITAL FORMATION, BY COMPONENT  
(At constant 2000 dollars and percentages)



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

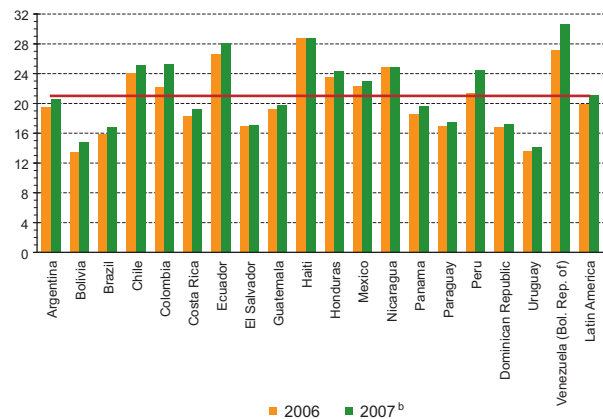
<sup>a</sup> Estimate.

The figures given reveal that regional gross fixed capital formation, expressed as a percentage of GDP and in constant dollars, continued to increase so that it stood at 21.1% in 2007, as against 19.9% in 2006. This is still considerably lower than the levels of the 1970s, but it does represent a substantial increase over the lows of 2002 and 2003 (16.8% and 16.4%, respectively). The regional total is heavily influenced by the figures from Brazil, which accounts for about 30% of the region's gross fixed capital formation and has one of its lowest investment ratios (16.9%), along with Bolivia, the Dominican Republic, El Salvador, Paraguay and Uruguay.

In current dollars, regional investment has also continued to trend upward. Expressed as a percentage of GDP, gross fixed investment rose to 20.7% in 2007 from 20.2% in 2006. As in earlier years, these levels of investment were financed entirely out of national saving, given the persistence of negative external

saving in the region. The national saving rate in the region was 21.2% in 2007 (21.8% in 2006), while the negative external saving that has been a feature of the region since 2003 narrowed from -1.7% of GDP in 2006 to -0.7%.

Figure III.6  
LATIN AMERICA: GROSS FIXED CAPITAL  
FORMATION AS A PERCENTAGE OF GDP  
(At constant 2000 dollars)<sup>a</sup>

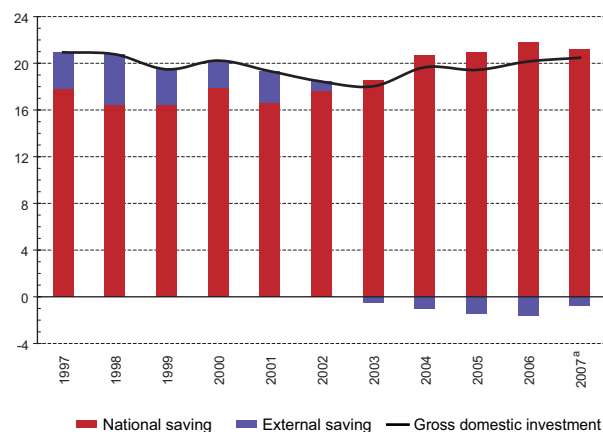


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> The line shows the regional investment ratio in 2007.

<sup>b</sup> Estimate.

Figure III.7  
LATIN AMERICA:  
FINANCING OF GROSS DOMESTIC INVESTMENT  
(Current dollars and percentages of GDP)



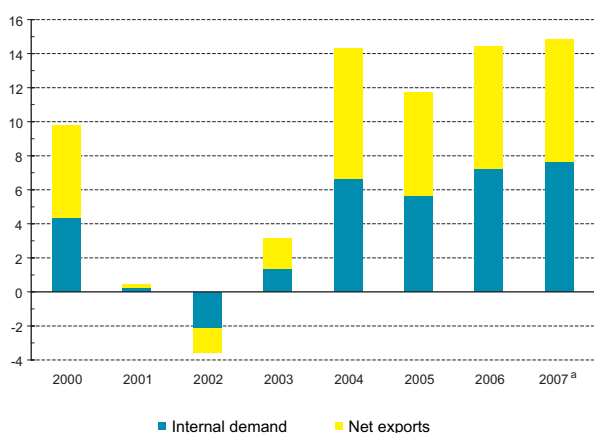
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Estimate.

<sup>45</sup> The volume of goods and services imports grew by a cumulative 66% over the same period. The October 2006 to October 2007 rise in the capital goods imports aggregate was 24% in Argentina, 33.9% in Brazil, 17.4% in Chile, 22.9% in Costa Rica and 26.7% in Mexico; figures to September were 45.9% in Peru, 19.7% in Uruguay and 50.7% in the Bolivarian Republic of Venezuela. In the other countries with information available, capital goods imports increased by 10% or less.

The sharp rise in domestic demand in the region was reflected in a rising volume of goods and services imports (13.4%). Given that this aggregate has been rising consistently faster than the volume of goods and services exports since 2004, net external sales have been making an increasingly negative contribution to regional GDP growth.

Figure III.8  
LATIN AMERICA: GDP GROWTH AND CONTRIBUTION TO THE  
RISE OF NET EXPORTS AND DOMESTIC DEMAND  
(At constant 2000 dollars and percentages)



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

<sup>a</sup> Estimate.

Growth in demand had its counterpart in the performance of the different sectors of activity. Regionally, the most dynamic were transport and communications, construction, trade, and financial and business services. Greatly improved cereal harvests (Argentina, Paraguay) and the growing of export crops (Costa Rica, Honduras, Panama) resulted in a substantial expansion of the farm sector, while in other countries poor weather conditions affected performance (Bolivia, Chile). Mining expanded only very modestly in the region as a whole, although output in Chile rose as new workings came on stream. The industrial sector continued to grow at about the same rate as in 2006, owing to rising domestic and external demand. Although most currencies in the region rose markedly against the United States dollar, this appreciation was not large when compared with the currency movements seen between the region's

countries themselves. Countries with a dollarized economy benefited from the depreciation of the United States currency. Mexico saw the largest contraction in manufacturing industry, owing to developments in the textile and automotive industries and a slowdown in goods exports to the United States.<sup>46</sup>

At the regional level, the performance of the construction sector was uneven. Argentina, the Bolivarian Republic of Venezuela, Colombia, Chile, Costa Rica, Ecuador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay and Uruguay saw a marked slowdown in this sector, although some of them still posted double-digit growth rates. In the Bolivarian Republic of Venezuela and Mexico, the construction industry's slackening growth rates can be put down to the trend in public investment, which exhibited a slower rate of expansion in the former and an actual decrease in the latter. In Colombia, Chile, Costa Rica, Honduras, Nicaragua and Paraguay, however, the pace of activity in this sector was brisker than the year before. At the same time, the upswings in domestic credit, financial transactions and domestic economic activity were reflected in the expansion of financial and business services.

Sharp increases in commodity prices and in the export revenues of the region's countries meant that, regionwide, the terms of trade remained favourable in 2007. Although many imported products rose in price, particularly food and energy, the prices of manufactures increased only very slightly, so that the purchasing power of the region's exports continued to grow. The trade gains resulting from the improvement in the terms of trade amounted to 3.7% of GDP in 2007 (3.1% in 2006), the main beneficiaries being the South American countries and Mexico.

This situation, combined with a slight drop in net factor payments to the rest of the world (although these are still high) and a steady increase in net current transfers from the rest of the world, meant that gross disposable national income in the region's countries rose by more than GDP for the fifth year running, increasing by 6.5% in 2007 (7.1% in 2006). To look at the subregional picture, however, this aggregate expanded at a slower rate than economic activity in the Central American countries owing to slower growth in emigrants' remittances and the negative impact of the terms of trade. In Mexico, slower growth in this aggregate was offset by the positive effects of the terms of trade because of high international oil prices.

<sup>46</sup> In the third quarter of 2007, Mexico's exports to the United States rose by only 3.5% over the same period the previous year, compared with 18.3% in the same period in 2006.

**Box III.1**  
**RECENT ECONOMIC EXPANSION IN THE CENTRAL AMERICAN COUNTRIES:**  
**WHY ARE THOSE ECONOMIES GROWING?**

In the past four years, the economies of the Central American isthmus (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) have generally benefited less from the international situation than the South American countries. China has become an increasingly important competitor and the terms of trade for the countries of the Central American subregion have worsened, given their status as net importers of oil and fuels. Although the economy of the United States, the Central American countries' main trading partner, slowed in 2007, their average growth rate should be somewhat over 6% for the year (similar to the 2006 figure, and the second highest in 30 years). Their performance in 2007 reflects an upward trend in their average growth rate since 2002 (2.8%, 3.8%, 4.2%, 4.6% and 6.2%, in 2002, 2003, 2004, 2005 and 2006, respectively). With the exception of 2004, those percentages were higher than those for Latin America as a whole. In terms of per capita GDP, however, the Central American countries posted a somewhat lower expansion because of higher demographic growth rates.

Costa Rica and Panama, two of the largest Central American economies (together they made up 43% of the GDP of the subregion in 2006), posted the highest growth rates. Nonetheless, economic activity in El Salvador, Guatemala and Honduras also rose in 2006 and 2007. Nicaragua was the exception, with its growth rate declining from 4.3% to 3.7% and then 3.5% in 2005, 2006 and 2007, respectively.

Although there are differences from one country to another, a number of factors contributed to expansion in those

economies. One common ingredient was the performance of external demand in the biennium 2006-2007, an important item given the countries' high openness ratio (0.92). Goods exports increased at rates exceeding 12%, mostly because of rising export volumes which account for 75% of the total increase. Although the value of maquila and free trade zone exports grew more slowly, other exports trended upwards strongly (special textiles (lace and embroidery), edible marine products, chemicals and industrial waste, and manufactured products with mineral inputs such as cement, copper and lead), boosted by the entry into force in 2006 of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), which boosted clothing exports to the United States, and by swelling intraregional trade resulting from increased economic activity. While those exports were in many cases starting from a modest base, the data appear to confirm that there is a trend, albeit still incipient, towards restructuring and diversification of Central American exports. This is particularly clear in the case of Costa Rica, which is diversifying its production and export structure towards higher value added goods and services. Services exports (tourism, financial and call-centre services) expanded strongly in the subregion, except for Guatemala and Honduras.<sup>a</sup>

Increasingly strong internal demand, boosted by both consumption and investment, has also played a part. In El Salvador, Guatemala, Honduras and Nicaragua, increased spending has been financed to a great extent by ever-increasing remittances from emigrants

from those countries. As percentages of GDP, they stood at 20% for El Salvador, 12.5% for Guatemala, 25% in Honduras and 14% in Nicaragua. Although the rate of increase in remittances declined in 2007, mostly owing to the slowdown in the United States economy, they are still close to or slightly higher than previous levels when expressed as percentages of GDP. All the countries posted improvements in employment indicators and increasing credit to the private sector.

Fiscal consolidation contributed to the growth of credit to the private sector. As a percentage of GDP, the average central government fiscal deficit fell from 3.4% in 2003 to 1% in 2007, leading to reduced fiscal pressure on the financial market; the supply of bank credit was encouraged to move towards the private sector thanks to reduced public-sector credit demand.

All the countries of the subregion saw rising investment, partly thanks to the growth of credit to the private sector. The upward trend in gross fixed capital formation was more marked in Costa Rica and Panama, owing to the expansion of private-sector civil construction in both countries and, in the latter country, to work on widening the Panama Canal and on housing designed mostly for foreigners. In the other economies, the sustained rise in emigrants' remittances has also contributed significantly to housing construction. Nonetheless, although rates of increase of gross fixed capital formation in the subregion exceeded 10% in the biennium 2006-2007, it represents only 15% of GDP, well below the regional percentage of 21%.



Box III 1 (concluded)

Also in 2006-2007, foreign direct investment (FDI) picked up strongly, swelling by the equivalent of 1.5% of GDP between 2005 and 2007. These FDI inflows were more significant in Costa Rica and Panama, countries which generally receive considerable amounts from this source (between 5% and 10% of GDP). Thanks to remittances from emigrants and the increase in FDI, the subregion posted a positive figure for net resource transfers, exceeding 4% in 2006-2007.

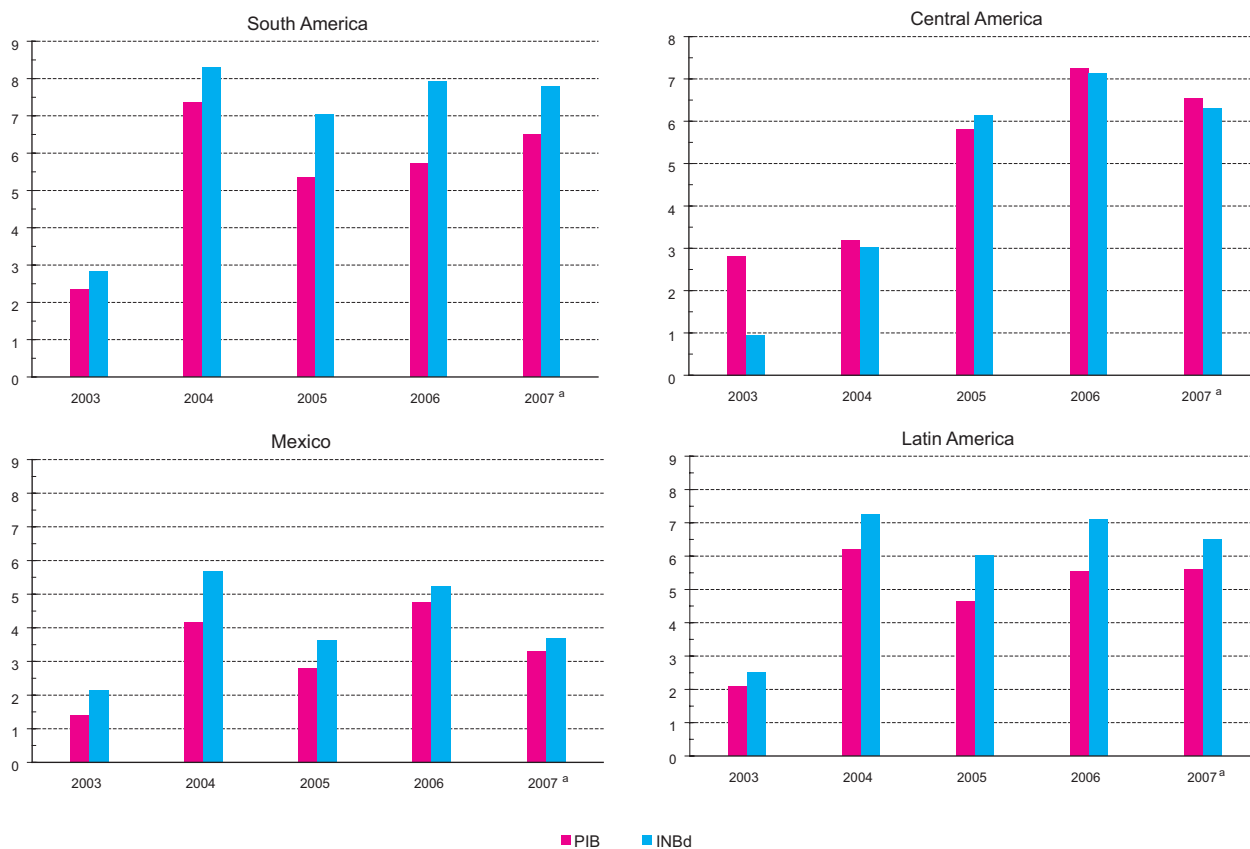
Despite these positive developments, the subregion still has a number of characteristics which make it vulnerable to changes in the world economy, particularly the United States economy. In 2008, falling demand in the United States may have a negative impact on the Central American countries' exports to that country, and a worsening of employment indicators in the United States would be reflected in a slower rate of increase in emigrants' remittances

to the subregion. Another factor which may affect remittances is a tightening of United States migration policy, whose consequences are likely to be felt more strongly from 2008 onwards. Against that background, problems such as inequality, violence, institutional deficiencies and the lack of political agreements take on even greater significance and contribute to uncertainties about the future growth of the Central American countries.

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

<sup>a</sup> ECLAC, *Latin America and the Caribbean in the World Economy, 2006. Trends 2007* (LC/G.2341-P), Santiago, Chile, August 2007.

Figure III.9  
**LATIN AMERICA: GROWTH IN GDP AND GROSS DISPOSABLE NATIONAL INCOME, BY SUBREGION**  
*(At constant 2000 dollars and percentage rates of change)*



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

<sup>a</sup> Preliminary figures.

## B. Domestic prices

The inflation rate in Latin America and the Caribbean is estimated at 5.9% in 2007, as compared to 5% in 2006. The figure for the present year represents an increase over last year, cutting short the gradual decline in this indicator at the regional level since 2002. It also reflects the sharp rise in prices for some goods and services, particularly food. A number of countries

have seen inflation increase markedly; specifically, in the 12 months to October 2007, the largest rises were in Bolivia: 11.3% (4.9% in 2006); Chile: 6.5% (2.6% in 2006); Guatemala: 7.7% (5.8% in 2006); Honduras: 8.3% (5.3% in 2006); Panama: 5.7% (2.4% in 2006); Peru: 3.1% (1.1% in 2006); and Uruguay: 8.9% (6.4% in 2006).

Table III.1  
LATIN AMERICA AND THE CARIBBEAN:  
CONSUMER AND WHOLESALE PRICE INDICES AND NOMINAL EXCHANGE RATES 2005, 2006 AND 2007  
(In percentages)

	Consumer prices			Wholesale prices			Exchange rates		
	Dec. 2005- Dec. 2004	Dec. 2006- Dec. 2005	Oct. 2007- Oct. 2006	Dec. 2005- Dec. 2004	Dec. 2006- Dec. 2005	Oct. 2007- Oct. 2006	Dec. 2005- Dec. 2004	Dec. 2006- Dec. 2005	Oct. 2007- Oct. 2006
<b>Latin America and the Caribbean:</b>									
<b>Weighted average</b>	<b>6.2</b>	<b>5.0</b>	<b>5.7</b>						
<b>Unweighted average</b>	<b>7.6</b>	<b>6.2</b>	<b>7.2</b>	<b>7.1</b>	<b>7.1</b>	<b>9.2</b>	...	...	...
Argentina	12.3	9.8	8.4	10.7	7.1	13.4	1.8	1.0	1.7
Bahamas	1.2	2.3	2.1 <sup>a</sup>	...	...	...	0.0	0.0	0.0
Barbados	7.4	5.6	3.9 <sup>b</sup>	...	...	...	0.0	0.0	0.0
Bolivia	4.9	4.9	11.3	...	...	...	-0.1	-0.7	-3.5
Brazil	5.7	3.0	4.1	-1.0	4.3	6.8	-11.8	-8.7	-18.6
Chile	3.7	2.6	6.5	3.2	7.9	11.2	-8.1	3.9	6.0
Colombia	4.9	4.5	5.2	2.1	5.5	-0.6	-5.3	-2.6	-13.6
Costa Rica	14.1	9.4	9.8	12.1	13.7	13.1	8.3	4.3	0.3
Ecuador	3.1	2.9	2.4	21.6	7.2	6.9 <sup>a</sup>	0.0	0.0	0.0
El Salvador	4.3	4.9	5.5	6.9	0.6	9.6 <sup>a</sup>	0.0	0.0	0.0
Guatemala	8.6	5.8	7.7	...	...	...	-1.8	0.2	1.4
Guyana	8.2	4.5	8.5 <sup>c</sup>	...	...	...	0.3	0.4	1.9 <sup>a</sup>
Haiti	14.8	10.2	8.1	...	...	...	15.5	-12.6	-7.1
Honduras	7.7	5.3	8.3	...	...	...	1.4	0.0	0.0
Jamaica	12.9	5.8	5.4 <sup>b</sup>	...	...	...	4.8	4.1	3.8 <sup>d</sup>
Mexico	3.3	4.1	3.7	3.4	7.3	4.9	-4.3	1.0	0.0
Nicaragua	9.6	10.2	12.8	...	...	...	5.0	5.0	5.0 <sup>a</sup>
Panama	3.4	2.4	5.7	...	...	...	0.0	0.0	0.0
Paraguay	9.9	12.5	12.0	10.8	6.6	7.3	-2.1	-15.2	-7.5 <sup>d</sup>
Peru	1.5	1.1	3.1	3.7	1.3	4.2	4.5	-6.4	-6.8
Dominican Republic	7.4	5.0	7.2	...	...	...	12.1	-3.1	-0.4
Suriname	15.8	4.7	5.6 <sup>b</sup>	...	...	...	0.9	0.2	0.0
Trinidad and Tobago	7.2	9.1	7.5	...	...	...	0.0	0.0	-0.2
Uruguay	4.9	6.4	8.9	-2.2	8.2	18.4	-8.5	1.2	-7.6
Venezuela (Bol. Rep. of)	14.4	17.0	17.2	14.2	15.9	14.8	11.9	0.0	0.0

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

<sup>a</sup> As of September 2007 relative to December 2006 levels.

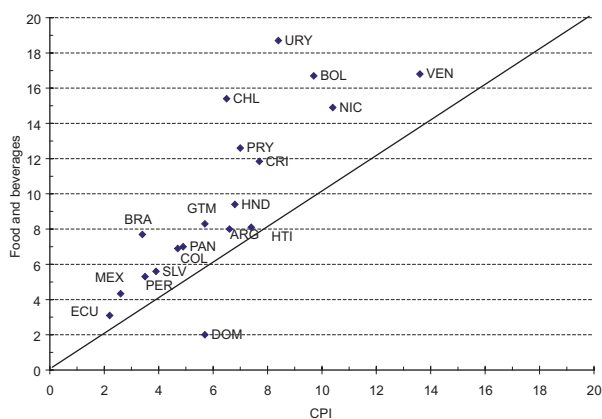
<sup>b</sup> As of July 2007 relative to December 2006 levels.

<sup>c</sup> As of February 2007 relative to December 2006 levels.

<sup>d</sup> As of June 2007 relative to December 2006 levels.

There were some unprecedented developments in 2007, while at the same time a number of trends were carried over from 2006. In aggregate terms, domestic prices in the countries showed the effects of large international price rises for foodstuffs, particularly cereals, oils and oil products, meat and certain beverages. In a number of countries (Bolivia, Chile, Uruguay), prices in the “food and beverages” category rose by considerably more than the CPI. Again, although international prices for oil and oil derivatives fell back in the first half of the year from their levels in the second half of 2006, this trend went into reverse in mid-2007, resulting in upward pressure on domestic prices for fuel and basic services. This was compounded in some countries by supply constraints affecting both food, because of weather conditions (Bolivia, Chile, Uruguay), and energy (Chile).

Figure III.10  
LATIN AMERICA:  
FOOD AND BEVERAGES CONSUMER PRICE INDEX  
(Cumulative change to October 2007)

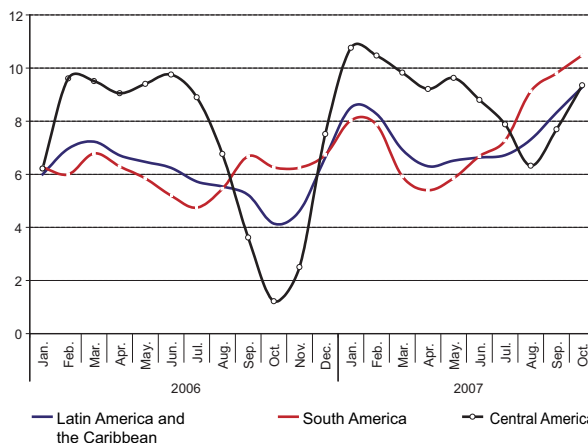


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Meanwhile, international prices for manufactures increased slightly in 2007, but by much less than those of imported food and fuel. In several countries, currency appreciation partially offset the higher prices of imported products. Developments with real wages and salaries over the course of 2007 were heterogeneous: while they rose in Argentina, Brazil, Chile and Colombia, they remained broadly unchanged or even fell slightly in the other countries. As in earlier years, a number of countries applied economic policies to control inflation in 2007.

The overall effect was that the regional inflation rate picked up during 2007. Figure III.11 illustrates the trend of the regional inflation rate as a simple average (three-month moving average), showing that, despite a small dip in the second quarter of the year, regional inflation has been moving steadily upward. This development can mainly be put down to price changes in the South American countries, since Central America saw inflation drift downward until August, although an upward trend then resumed. The Caribbean countries saw inflation pick up in the first half of the year, after which this tendency was largely reversed.

Figure III.11  
LATIN AMERICA AND THE CARIBBEAN:  
ANNUALIZED MONTHLY VARIATION OF THE CONSUMER PRICE INDEX AND FOOD AND BEVERAGES CATEGORY  
(Unweighted three-month moving averages, as percentages)



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

Analysis of wholesale prices in the region’s countries reveals that the index for these rose by at least as much as the consumer price index everywhere except Colombia and Paraguay. Given that the baskets used in wholesale price indices are mainly composed of goods, their movements largely reflect international prices for commodities, industrial manufactures and energy products.

The combination of strongly rising domestic consumption in the region’s countries and the increased pressure on domestic prices described above

has also impacted core inflation indices, which are rising faster than the CPI in some countries (Mexico, Bolivarian Republic of Venezuela) and at a similar

rate in others (Colombia, Paraguay). Core inflation in Chile is lower than CPI inflation, but has been rising substantially.

## C. Employment and wages

In 2007, with sustained economic growth in the region as a whole, the gradual improvement in labour markets seen in previous years continued. Specifically, job creation remained high and the regional employment rate is expected to rise again, by an estimated 0.5 percentage points, from 54.1% to 54.6% of the working-age population. The labour participation rate is estimated to have edged up from 59.4% to 59.5%, so the rise in the employment rate was reflected in a further fall in the unemployment rate, from 8.6% to 8.0%. Most of the countries saw only slight increases in real wages, underlining the nature of the current economic recovery, in which strong labour demand is reflected in job creation but to a much lesser extent in wage rises.<sup>47</sup>

Developments in labour supply were uneven. While labour participation rates rose in a number of countries, they fell in Argentina, the Bolivarian Republic of Venezuela and Mexico, among others<sup>48</sup> (see table A-16 of the statistical appendix). In most of the countries which posted rises in labour-market participation this was, as in earlier years, related to increased participation by women, while the rate for men continued its slow decline, mainly because young men were staying longer in the education system. In

the few countries where information is available in this respect, labour-market entry among young people is declining. In Brazil and Chile, for example, there were falls in labour-market participation by young people (aged up to 17 and up to 24 years, respectively), while that of older age groups rose. In the Bolivarian Republic of Venezuela, which saw an overall decline in labour-market participation, the figures for younger age groups declined most. Argentina is an exception in a number of respects. It also has seen an overall decline in labour-market participation, which in this case is due to lower labour-market integration among women of various age groups, while the integration of males, both young and adult, has risen.

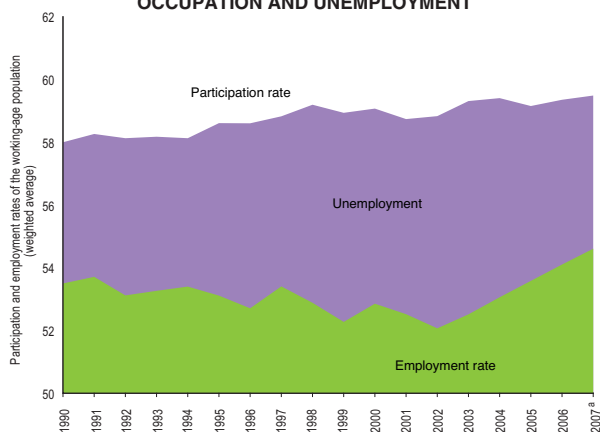
In contrast with the uneven figures for labour-market participation, preliminary figures for 2007 suggest that the employment rate has risen in almost all the countries; only in three —Honduras, Mexico and Trinidad and Tobago— has it fallen (see table A-18 of the statistical appendix).<sup>49</sup> In the past five years, the employment rate for the region has risen by 2.5 percentage points. This has not only made up for the earlier fall, but also represents an increase of 1.5 percentage points over the region's average employment rate for the 1990s (see figure III.12).

<sup>47</sup> Only in 2006 did the region show a relative recovery in wages (a weighted average of 2.8%, but a median of only 1.7%); the recovery was due to increases recorded in certain South American countries.

<sup>48</sup> In the case of Colombia there are some doubts as to the comparability of the labour participation and employment rates for 2006 and 2007 (see Universidad Externado de Colombia, *Boletín del observatorio del mercado de trabajo y la seguridad social*, No. 10, Bogotá, D.C., October 2007). The introduction of methodological changes apparently caused a break in those series, resulting in a dip, after which both rates showed an upward trend. Taking the average for the year, it is estimated that the labour participation rate will pick up slightly in the figures for the principal urban areas and will drop off at the national level.

<sup>49</sup> The employment rate for Colombia slackened at the national level. As with the labour participation rate, the decline was mostly in rural areas, whereas the indicator rose in urban areas (see previous footnote on the year-to-year comparability of the employment rate in Colombia).

Figure III.12  
LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES):  
TRENDS IN LABOUR-MARKET PARTICIPATION,  
OCCUPATION AND UNEMPLOYMENT



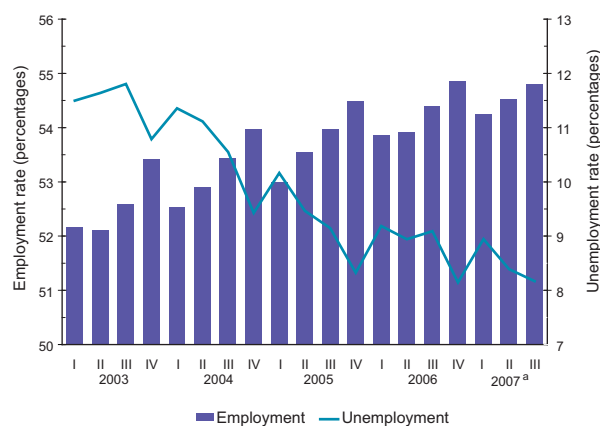
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

The rising employment rate had a positive impact on the unemployment rate, which not only fell again in the region as a whole but also, according to preliminary estimates, in the yearly averages for 16 out of 18 countries for which information was available (see table A-17 of the statistical appendix). In Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, Costa Rica, Honduras, Panama, and Uruguay, urban unemployment fell by at least one percentage point. Only Mexico, which posted one of the region's lowest growth rates in 2007, saw a slight rise in unemployment.

The past year's progress compounds that of earlier years; in fact, in the past five years, unemployment in the region has dropped by almost three percentage points, coming close to the levels of the early 1990s, as can be seen from the difference between the rates of employment and of labour-market participation (see figure III.12). The numbers of urban unemployed fell by about 800,000 in 2007, leaving the total of urban unemployed people at a little less than 17 million. This reveals a continuing situation of very serious unemployment, closely linked to high levels of poverty, which are nonetheless falling.<sup>50</sup>

The positive trends in the employment and unemployment rates continued throughout 2007 (see figure III.13).

Figure III.13  
LATIN AMERICA (9 COUNTRIES): QUARTERLY  
EMPLOYMENT AND UNEMPLOYMENT RATES  
(Weighted averages)



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

<sup>a</sup> Preliminary figures.

The most notable characteristic of the current period of growth is that the significant increase in job numbers is concentrated in wage employment. This trend continued in 2007; in almost all the countries for which information is available in this regard, wage employment increased at a higher rate than total employment. The main exceptions are Brazil (six metropolitan areas) and Peru (Lima metropolitan area), where there were notable increases in own-account work. This does not signify that labour demand had weakened in such cases, and this is confirmed by the rates of increase in wage employment, especially formal wage employment (see table III.2).

It is estimated that employment as a whole rose by 2.8% (a little less than the previous year's figure) and that wage employment was up 4.0%. The upturn in own-account work in Brazil and Peru this year, unlike 2005 and 2006, was reflected in a significant rate of increase in that type of work (1.9%), but in five of the 10 countries for which information is available there were falls in own-account work, and in three others it was up by less than 1%.

The strong upward trend in formal employment also continued in 2007. Argentina, Brazil, Chile, Costa Rica, Mexico, Nicaragua, Panama and Peru saw increases of about 5%, even more in the first half or the first three quarters of the year. As in previous

<sup>50</sup> ECLAC estimates that between 2002 and 2007, the number of people living in poverty in Latin America fell from 221 million to 190 million (see Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America 2007* (LC/G.2351), Santiago, Chile. United Nations publication, Sales No. E.07.II.G.124.).

years, these high rates of increase suggest that the upturn is not due only to new job creation, but that part of the rise is caused by the formalization of pre-existing jobs.<sup>51</sup> In any case, the combination of the two trends—formal job creation and formalization of existing positions— would boost the size of the formal sector, measured by the indicator of registered

employment or by the number of those contributing to social security systems. In the past five years, if the estimates for 2007 prove to be correct, formal employment will have risen by about 17.5% in Mexico, 25.3% in Brazil, 26.9% in Peru, 29.3% in Costa Rica, 31.2% in Chile, 47.6% in Nicaragua and 49.5% in Argentina.

**Table III.2**  
YEAR-ON-YEAR GROWTH IN EMPLOYMENT, WAGE EMPLOYMENT, OWN-ACCOUNT WORK,  
FORMAL EMPLOYMENT AND AVERAGE REAL FORMAL WAGES

Country	Period	Total employment	Wage employment	Own-account work	Formal employment	Real wages <sup>a</sup>
Argentina	January-June	3.8	4.7	-2.6	7.4 <sup>b</sup>	10.2
Brazil	January-October	2.9	2.9	4.7	4.9 <sup>b</sup>	0.4
Chile	January-September	3.0	4.7	0.8	7.9	2.9
Colombia <sup>c</sup>	January-September	-0.2	7.4	-4.1	n.d.	-1.1
Costa Rica	July	5.2	8.7	-2.9	8.5 <sup>d</sup>	1.3
Honduras	May-July	2.9	5.4	0.7 <sup>e</sup>	...	...
Mexico	January-September	1.3	2.5	-0.2	6.3	1.2
Nicaragua	January-September	...	...	...	9.4	-1.0
Panama	August	4.8	9.7	-5.7	5.8 <sup>f</sup>	2.5
Peru	January-September	5.8	4.1	10.1	8.2 <sup>g</sup>	0.9
Venezuela (Bol. Rep. of)	January-June	2.8	4.8	0.9	n.d.	0.4

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

**Note:** The sources of data on formal employment are not the same as those used for total employment and other types of work. Consequently, different methodologies are used in calculations and the coverage of the data, meaning that the latter are not strictly consistent.

<sup>a</sup> This estimate corresponds to the average for the year based on available data (see table A-19 of the statistical appendix).

<sup>b</sup> Year-on-year growth rate for the period from January to September.

<sup>c</sup> Owing to changes in the measurement method in 2007, the absolute level of employment appears to have fallen.

<sup>d</sup> Year-on-year growth rate for June.

<sup>e</sup> Non-wage employment.

<sup>f</sup> Year-on-year growth rate for the period from January to June.

<sup>g</sup> Year-on-year growth rate for the period from January to August.

The above does not mean that there has been a general improvement in employment quality. On the one hand, the indicators relating to the volume of employment improved fairly generally, as tends to be the case when open unemployment is falling. Indeed, in eight of the 10 countries for which relevant information is available (Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Honduras and Uruguay), preliminary figures show a decline in the rate of visible underemployment,<sup>52</sup> while it increased in Mexico and remained practically

unchanged in Peru. On the other hand, when other indicators are used, performance appears more uneven. Specifically, measurement in terms of insufficient labour income showed a worsening subjective situation in Colombia and little change in Brazil and Honduras, but improvements in Costa Rica and Peru. One matter for concern is the growing lack of stability in formal contracts, reflected in a rise in fixed-term contracts in Colombia (in manufacturing industry and in retail trade) and in Mexico.

<sup>51</sup> In Panama and Peru, the data are from establishment surveys on the number of persons employed regardless of the degree of formality. The high rates recorded in those two countries show that a significant proportion of new formal jobs relate to job creation.

<sup>52</sup> Open underemployment relates to persons who are employed but wish to work more hours and are able to do so.

Real wages in the formal sector showed a slight increase in most of the countries (see table A-19 of the statistical appendix). The largest rises were in Argentina and Uruguay. In the latter, however, average real wages remain approximately 10% below where they were before the crisis of the early 2000s. Only two other countries (Chile and Panama) posted increases of more than 2% in real wages,

while the others showed very small rises or even slight falls. Taking the region as a whole, real wages increased by 1.5% (weighted average), or 1.2% (median growth rate), thanks to which they recently regained their 2000-2001 level. It can therefore be concluded that, during the current period of strong economic growth, the expansion of real wages has not kept pace with labour productivity.





## Chapter IV

# External sector

## A. The balance-of-payments current account

### 1. Introduction

In 2007, the Latin American and Caribbean region posted a surplus on its balance-of-payments current account amounting to 0.7% of GDP. The capital and financial account balance (including errors and omissions) was exceptionally positive (2.8% of GDP), partly thanks to foreign direct investment

(FDI) and financial capital movements. Net FDI soared to represent 2.3% of GDP, while net financial capital flows were positive (0.5% of GDP) for the first time in almost 10 years. As a result, the region built up considerable reserves to the tune of 3.5% of GDP.

### 2. The current account as a whole

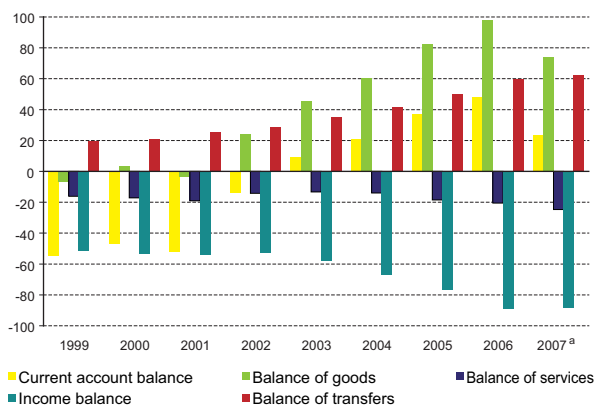
The region is expected to post a current account surplus for the fifth year running in 2007, this time amounting to US\$ 23.5 billion (0.7% of GDP). This is significantly smaller than the 1.7% of GDP surplus recorded in 2006. Two thirds of the region's countries recorded a deterioration in the current account balance. The reduced surplus is almost exclusively

due to a smaller merchandise trade surplus, as the services, transfers and income balances remained fairly stable overall.

Nine individual countries posted a current account surplus, which was two more than in 2006. The regionwide surplus was nonetheless once more highly dependent on the positive balances posted

by a handful of countries, especially the Bolivarian Republic of Venezuela (9.7%), which is responsible for over 40% of the region's surplus. Bolivia also has a large surplus representing 11.5% of GDP. Those with the widest deficits as a percentage of GDP are the Central American economies of Nicaragua (-15.1%), Honduras (-6.9%), Costa Rica and Guatemala and the South American country of Colombia (-4.4%).

Figure IV.1  
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE OF THE CURRENT ACCOUNT BALANCE, 1999-2007  
(US\$ billions)



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

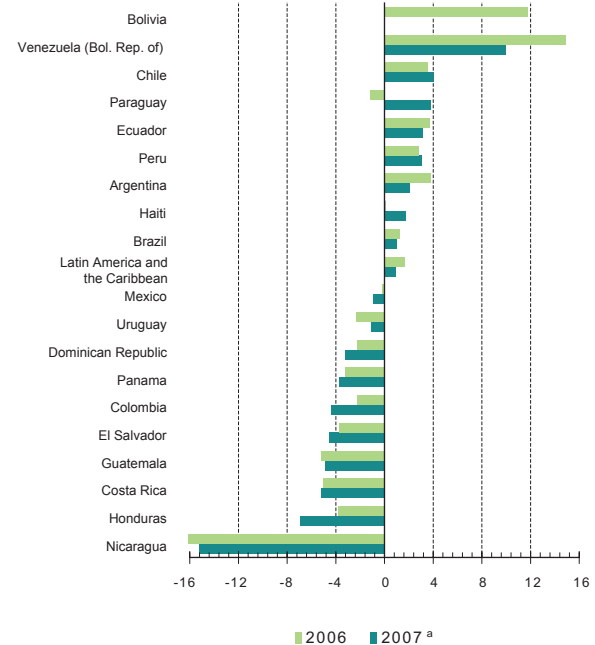
<sup>a</sup> Preliminary figures.

### 3. Trade in goods and services

In 2007, total Latin American exports rose by 12.3% to reach an estimated US\$ 751 billion. Imports, however, grew more quickly at a rate of 18%, to reach US\$ 677 billion. This brought down the merchandise trade balance from US\$ 98 billion to US\$ 74 billion (or from 3.3% of GDP to 2.2%).

The increase in merchandise exports was as much to do with higher prices (6.3%) as higher volumes (5.3%). The prices of many commodities remain high (especially energy and mining products), with the prices of some

Figure V.2  
LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT BALANCE  
(Percentage of GDP in current dollars)

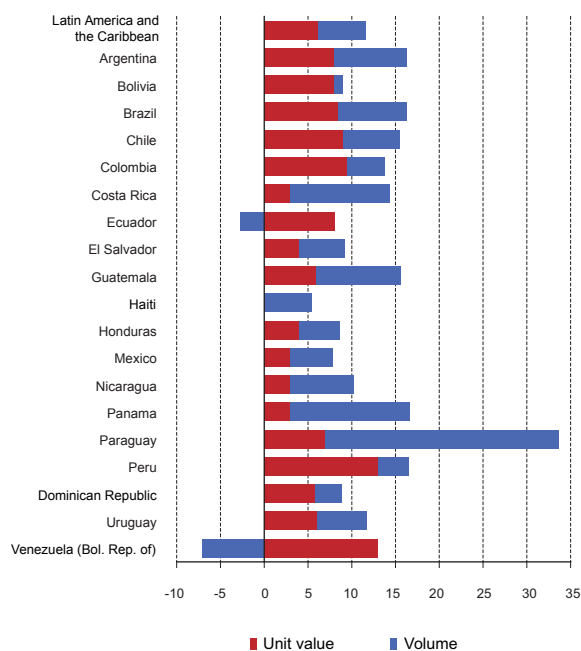


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary figures.

foodstuffs (cereals and oilseeds) soaring more recently. Nonetheless, some countries saw their export volumes fall (Bolivarian Republic of Venezuela, Mexico and Ecuador). The countries that have posted the largest increases in export volumes are Paraguay (26.7%) (thanks to high soybean prices), Panama (13.6%), Guatemala (9.6%) and Costa Rica (9.3%). Argentina and Brazil have also considerably expanded their export volumes (by 8.3% and 7.8%, respectively), thanks to buoyant manufactures and primary products.

**Figure IV.3**  
**EXPORT GROWTH, VOLUMES AND UNIT VALUES, 2007<sup>a</sup>**  
(In percentages)



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

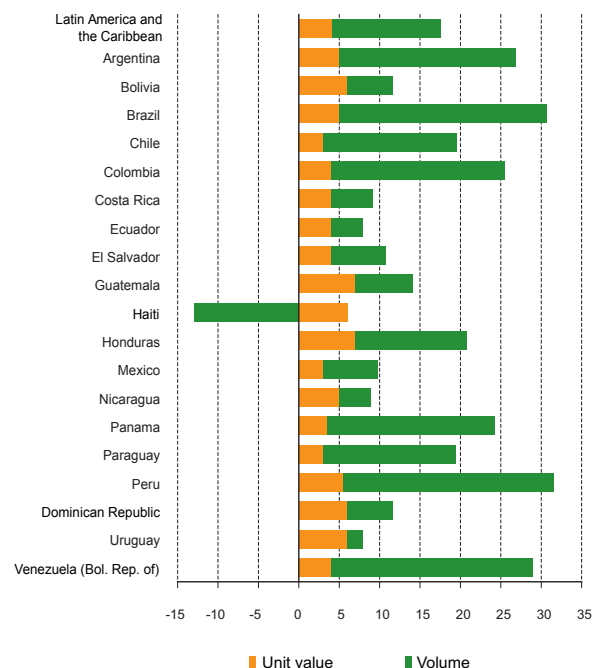
<sup>a</sup> Preliminary figures.

As for merchandise imports, most of the increase is due to a rise in volumes: 13.5% for the region as a whole (see Figure IV.4). Due to the fact that imports comprise mainly manufactures and consumer products, the increase in import prices (4.1%) has been smaller than the increase in export prices (6.3%). Merchandise import volumes have soared by more than 20% in five countries: Brazil and Peru (26% in each), Bolivarian Republic of Venezuela (25%) and Argentina and Colombia (22% in each). If these trends continue, the trade surplus could undergo a reversal in the next few years.

For the region as a whole, the ongoing non-factor services deficit reached an estimated US\$ 24.5 billion in 2007 (-0.7% of GDP). This result is partly due to the transport deficit (only Panama and Chile are major exporters of transport services), even more so this year as import volumes are up. Other business services also continued to post deficits, especially in countries like Brazil. However, some countries such as Argentina, Brazil, Chile and

Uruguay began to post healthy figures in sales and exports of software services and certain business services (although these were much lower than in countries like India).

**Figure IV.4**  
**IMPORT GROWTH, VOLUMES AND UNIT VALUES, 2007<sup>a</sup>**  
(In percentages)



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

<sup>a</sup> Preliminary figures.

The rise in tourist revenues was not sufficient to offset the deficits registered in other services. According to estimates from the World Tourism Organization for 2007,<sup>53</sup> visitors to the Caribbean spent 3.0% less as a result of the depreciation of the dollar and the delicate macroeconomic situation in the United States (the subregion's main source of tourists). However, tourist spending rose in the rest of the region: by 9.6% in Central America and 7.3% in South America. In recent years, several of the region's countries (such as Argentina) have seen a rise in tourist revenues. The region's countries are also spending more on tourism abroad, especially Brazil (+33%) and Argentina (+24%), thanks to their strong economies and currency appreciation (especially in the case of Brazil).

<sup>53</sup> World Tourism Organization (UNWTO), *World Tourism Barometer*, vol. 5, N° 3, October 2007.

As mentioned previously, the services trade balance is negative for the region as a whole and for many individual countries, with exceptions including certain Central American and Caribbean countries, as well as Paraguay and Uruguay. However, as stated in *Latin America and the*

*Caribbean in the World Economy 2006. Trends 2007*,<sup>54</sup> a larger deficit is not necessarily a weakness, as it could indicate greater use of external services to improve the competitiveness of the rest of the economy, especially in terms of the development of merchandise exports.

#### 4. Commodity prices

The total index of commodity prices exported by Latin American and Caribbean countries rose for the sixth year running in 2007. In September 2007, cumulative variation (15.5%) and 12-month variation (17.8%) were higher than for the year earlier period (13% and 10.4%, respectively). Energy products spearheaded the rise in export commodity prices, with a cumulative increase of 28.8% and a 12-month increase of 35.2%. The price index of agricultural products posted cumulative growth of 27.1% and 12-month growth of 17.2%, which were higher than the 5.8% and 2.8% observed in the price index of the minerals and metals subgroup.

Variation in the price index of energy products was very similar to changes in the price index for crude petroleum, which is the predominant product in the group and whose prices have been impacted by fundamentals and news stories affecting this particular market. In terms of fundamentals, one striking example is high and sustained demand from China and India, as well as the historically low levels of gasoline reserves in the United States as a result of some refineries shutting down for maintenance as other refineries affected by hurricane Katrina in 2005 began to relaunch their operations. The news stories that have affected the sector include the unresolved situation in Iraq, controversy surrounding the nuclear programme of the Islamic Republic of Iran and,

more recently, the Turkish-Kurdish conflict, violence in the oil region of Nigeria and the situation in Pakistan. These factors, along with the depreciation of the United States dollar, have generated a wave of expectation in operations involving spot and futures transactions, which in turn pushed up the price of benchmark crudes to over 90 dollars per barrel at the end of 2007.<sup>55</sup> Oil prices climbed considerably between September and November.<sup>56</sup> That quarter saw a 34.7% increase on the average for the first eight months of the year, with the price going from 64.5 dollars per barrel to 86.9 dollars.

Rising crude prices have also been reflected in the market of other energy commodities, such as gas and coal, whose price indices have risen by 25.4% and 45%, respectively, in the last 12 months.

One of the striking features of patterns in the price index for agricultural products are the trends in the subgroup of oil, flour and seeds, which posted a cumulative variation of 46.8% and a 12-month variation of 66%, which were well above the previous year's figures of 1.5% and 0.9%, respectively. The price of soybean, an important product for the agricultural sectors of Argentina, Brazil and Paraguay, was the driving force behind this trend, as it was up 65.1% on September 2006 and 43.4% for the year as a whole.<sup>57</sup> The outlook for 2008 suggests that the price of soybean will continue to rise, with a smaller harvest expected

<sup>54</sup> LC/G-2341-P, August 2007.

<sup>55</sup> Benchmark crudes are listed in dollars. There has been no major variation in terms of euros. The Organization of Petroleum Exporting Countries (OPEC) appears to consider these events transitory, as it decided to maintain present levels of production at a meeting in November 2007. The last increase in production (of 500,000 barrels a day) was decided at a meeting in September 2007.

<sup>56</sup> The benchmark crude used is West Texas Intermediate.

<sup>57</sup> The main soybean derivatives (soya flour and soya oil) posted variations of 64.9% and 59.3%, respectively, over the last 12 months.

in Brazil, the world's second main producer and exporter behind the United States. Also, the soybean crop in Argentina has been affected by the dry weather (rainfall in the soybean producing provinces was half its usual level in November). The food price index grew by 16.5% in the last 12 months and 7.6% for the year as a whole. In this subgroup, the price of wheat, which is an important export product for Argentina, rose by even more (68.8% in the last 12 months and 62.5% for the year as a whole), due to low levels of reserves in the wake of the Northern Hemisphere's bad harvest as adverse weather conditions affected Canada, United States and the Russian Federation. The situation is not expected to change in the short term as the intense drought caused by El Niño in Australia this summer means that the harvest will not be a good one in the Southern Hemisphere. The increase in the price of wheat could also affect the price of substitute products such as maize, especially in terms of cattle feed.<sup>58</sup> As far as maize and sugar are concerned, the recent interest in developing biofuels (especially on the part of Brazil) may generate sustained price increases, which would in turn have repercussions for the prices of other agricultural products whose production could fall as a result of competition for crop areas.<sup>59</sup> In 2007, the price index for maize displayed a cumulative increase of 2.4% and a 12-month increase of 38.5%. This price of maize was most dynamic between September 2006 and February 2007, when it grew by 47.5%. In addition, the price index of beef posted a cumulative fall of 2.5%, while the price indices of banana and coffee (major products for Central American countries) recorded 12-month increases of 22.0% and 17.1%, respectively, especially in the final quarter of 2006 (with variations of 1.5% and -1.0% in 2007).

As for the metals and minerals subgroup, those products whose price indices recorded the highest level of cumulative variation were lead, tin and copper. Lead posted cumulative variation of 89.2% and 12-month variation of 140.7%, as supply decreased in the wake of the temporary closure of the Magellan mine in Australia and reduced exports from China following a surge in domestic demand. All this resulted in a 38% inventory reduction in the first eight months of 2007. The tin price index recorded cumulative variation of 34.7% and 12-month variation of 66.3%, as supply shrank on the world market following the closure of several illegal mines in Indonesia. It should be pointed out that lead and tin have little significance in the price index of export commodities. The copper price index posted cumulative variation of 14.6% and 12-month variation of 0.2%. Copper prices were expected to climb more moderately, as supply fell because of the construction slowdown in the United States. However, this variation was partly offset by increased demand from China, which resulted in the level of inventory dropping from an average of three to two days of consumption, thereby rendering the price very vulnerable to any event affecting supply flows, such as the miners' strike in Chile in July 2007. No large new copper mine is expected to begin operations in 2008 or 2009, which means there will be no major increases in supply.<sup>60</sup> The price indices for nickel, zinc and aluminium posted cumulative decreases of 14.6%, 34.6% and 15%, respectively.<sup>61</sup> Since May 2007, the price of nickel has fallen as it has been replaced by cheaper metals in the production of stainless steel. Zinc prices have fallen in response to increased market supply thanks to increased exports from China. As for aluminium, inventories are far

<sup>58</sup> In nominal terms, average prices of wheat and maize displayed reached historical highs in 2007. The average price of maize in 2007 was 1.8 times higher than in 2000, while the price of wheat was twice as high. Approximately 25% of maize production is used as feed for beef cattle.

<sup>59</sup> The sugar price index recorded a cumulative decrease of 15.6% and a 12-month decrease of 19.2% as a result of excess supply following a bumper harvest. The price is nonetheless above its historical average. In terms of biofuels, see Worldwatch Institute, *Biofuels for Transport*, Washington, D.C., 2007; and Peter Pfaumann, "Biocombustibles ¿La fórmula mágica para las economías rurales de América Latina y el Caribe?", Washington, D.C., Inter-American Development Bank, November 2006.

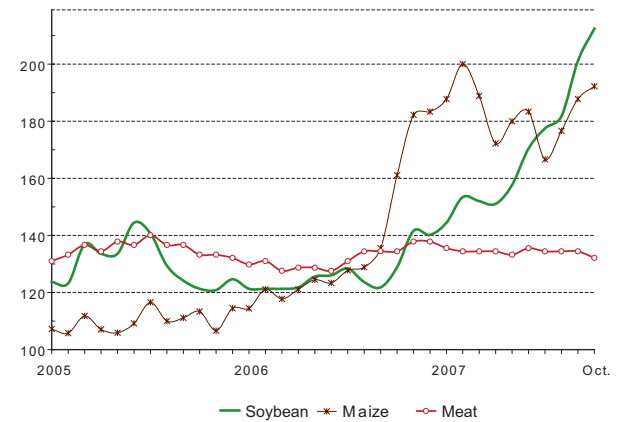
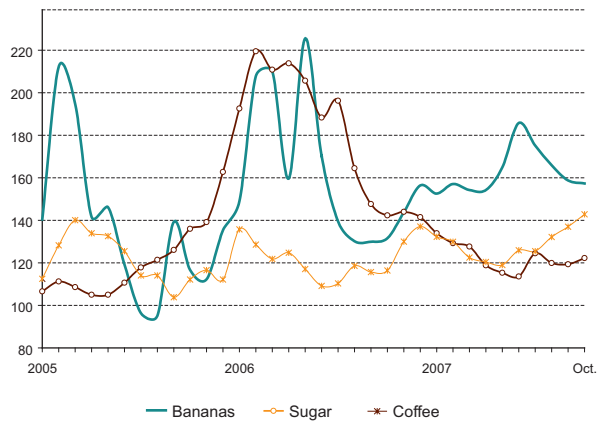
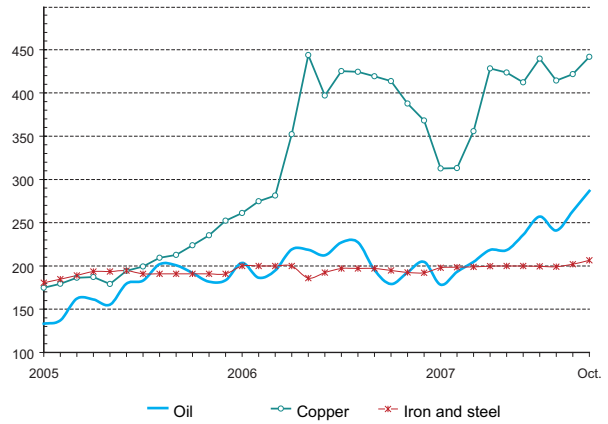
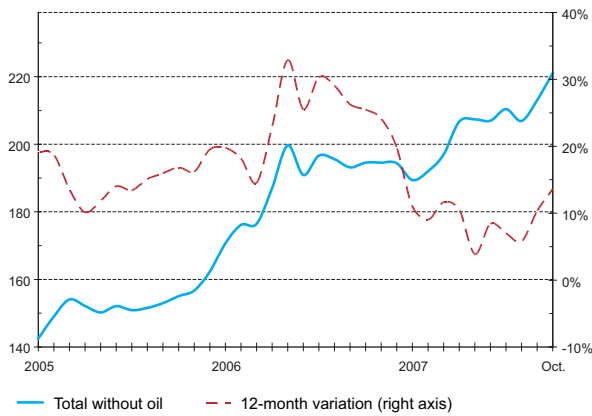
<sup>60</sup> The Oyu Tolgoi mine in Mongolia is expected to begin operating in five years or more. Its production is expected to be 25 times higher than the average increase mining production forecast for the period 2008-2009.

<sup>61</sup> Decreases over 12 months amounted to 2%, 15.3% and 3.3%, respectively.

above the historical average. The gold price index recorded a cumulative increase of 13.2%, and grew by 7.1% in September as agents switched to less risky

assets in the wake of the problems in the subprime mortgage market.

Figure IV.5  
**LATIN AMERICA AND THE CARIBBEAN: PRICE OF CERTAIN EXPORT COMMODITIES, JANUARY 2005–SEPTEMBER 2007**  
 (Index 2000=100) <sup>a</sup>



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

<sup>a</sup> Indices weighted by the proportion represented by each product in the region's exports for 2000.

**Box IV.1  
LONG-TERM COMMODITY PRICES**

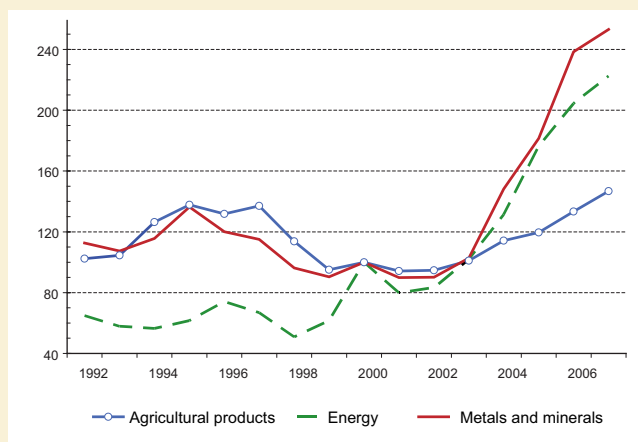
The price index for commodity exports from Latin America and the Caribbean has risen for the sixth year running. The scale of this boom has varied in scale and duration according to the products involved. Below is a brief examination of the long-term trend in the price index of commodities exported by the region's countries.

The prices of energy products, especially crude petroleum,<sup>a</sup> were the first to rise. Since 1998, the price of crude has increased by 309% in real terms.<sup>b</sup> This price hike has lasted longer and occurred more gradually than the one during the 1970s. Back then, the price of crude on international markets shot up twice: once in the final quarter of 1973

(when Arab countries introduced the oil embargo) and again in 1979 (as a result of the war between the Islamic Republic of Iran and Iraq). The expansionary cycle that began in 2002 appears to be mainly the result of a surge in demand following the manufacturing boom in China and India; the policies of the Organization of Petroleum Exporting Countries (OPEC); and conflict in oil regions that threatens supply. The average annual price has not yet reached the record level of US\$ 91.6 (2006 dollars) per barrel recorded in 1981. The average for 2007 was double the historical average and far exceeded the average observed during the 1990s. Available data suggest that oil prices are unlikely to drop to those levels in 2008-2009.

Mineral and metal prices have also risen over the last five years. The price of copper, in particular, climbed by 281% in real terms between 2002 and 2007. The historical high of 313 dollars per tonne recorded in 1974 was equalled in 2006 and surpassed in 2007. The factors behind the rise in the price of copper on the international markets include growth in demand from China and India and decreasing stocks as price hikes push up the financial cost, with no new mines opened or existing ones significantly expanded. As in the case of oil, copper prices are not expected to fall to levels observed in the 1990s in the short term.

**LATIN AMERICA AND THE CARIBBEAN: PRICE TRENDS OF SOME GROUPS OF COMMODITIES EXPORTED BY THE REGION'S COUNTRIES**  
(Index 2000=100) \*



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

\* Indices weighted by the proportion represented by each product in the region's exports for 2000.

<sup>a</sup> The reference used was the price of West Texas Intermediate crude.

<sup>b</sup> In 2001 and 2002, prices reverted to levels similar to those observed in 1997.

## Box IV.1 (concluded)

Agricultural products have been the least buoyant group in the last five years. Prices only began to pick up noticeably in 2007. The prices of wheat, soybean, maize and sugar posted a secular decrease in relation to oil and copper prices. In the short term, the prices of these agricultural products

could indeed revert to levels observed prior to recent increases, as such rises are due cyclical factors including adverse weather conditions. Increased demand for biofuels could give rise to structural changes in the demand for agricultural products and therefore could also bring about more sustained price increases,

which would in turn affect purchases of certain agricultural products and their substitutes. It would be necessary to know the future demand for biofuels in order to calculate the medium-term derived demand of agricultural products.

**REAL PRICE TRENDS OF SOME COMMODITIES EXPORTED BY THE REGION'S COUNTRIES**  
(In 2006 dollars)



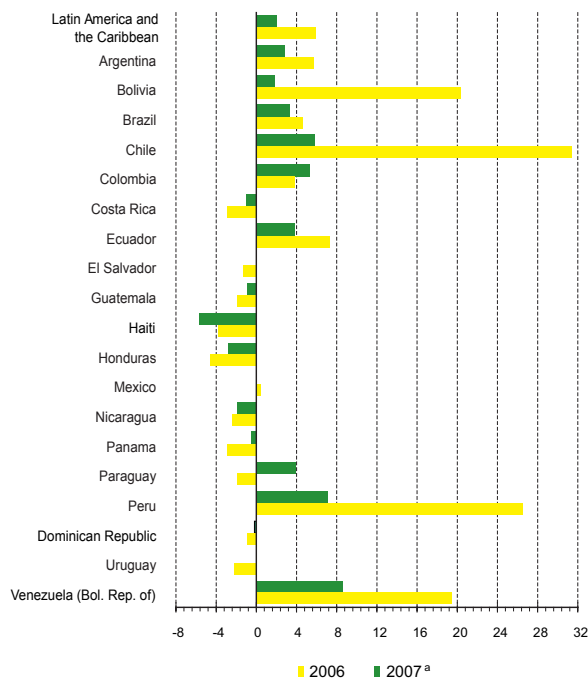
**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.



## 5. Terms of trade

Between 2003 and 2007, Latin America’s terms of trade showed a cumulative improvement of 19%. However, change is afoot in the factors that have been conducive to regional terms of trade. In 2006, there was a 5.9% improvement in the merchandise terms of trade, while this figure dropped to 2.2% in 2007. Although the improvement in terms of trade has been smaller in 2007, countries such as the Bolivarian Republic of Venezuela, Bolivia, Chile and Peru have nonetheless made striking gains thanks to increases in the prices of their raw materials. Generally speaking, it is the terms of trade of Central American countries that continue to be far less favourable.

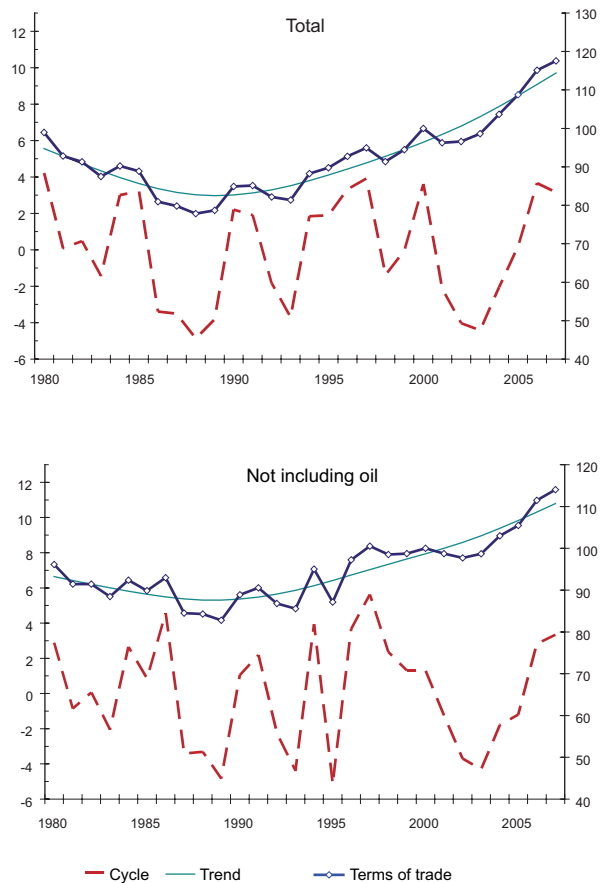
**Figure IV.6**  
**LATIN AMERICA AND THE CARIBBEAN: VARIATION IN MERCHANDISE TERMS OF TRADE f.o.b./f.o.b., 2006-2007**



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

<sup>a</sup> Preliminary figures.

**Figure IV.7**  
**LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE TERMS OF TRADE f.o.b./f.o.b., 1980-2007**  
(Index 2000=100 and rates of variation)



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

**Note:** Calculated using the Hodrick-Prescott filter (lambda = 100).

Using the Hodrick-Prescott filter to analyse the underlying trends of the terms of trade between 1980 and 2007 reveals a strong upward trend for Latin America thanks to the price hikes of raw materials throughout the period, following the price slump of the 1980s. This is a striking trend even excluding the impact of oil on regional trade prices.

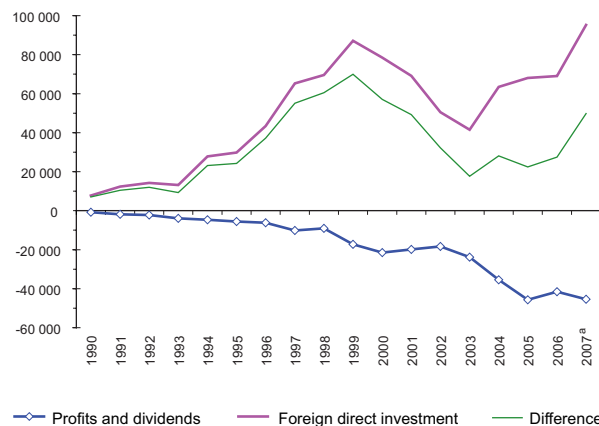
## 6. Transfer balance and income balance

Current transfers, mainly in the form of immigrant remittances, were moderately affected by the economic slowdown in the United States. Indeed, the positive transfers balance increased by 5% (compared with almost 20% in 2006) to stand at around US\$ 62.5 billion.

The income balance, on the other hand, was very similar to the previous year: a deficit of US\$ 88 billion (compared with US\$ 89 billion in 2006). As shown in figure IV.7, the repatriation of profits and dividends has expanded significantly in recent years. A striking example from 2007 is Costa Rica, where such repatriation was up six fold on the previous year to stand at US\$ 915 million. More remarkable yet is the case of Chile, whose income balance continued its recent trend with extremely high repatriation of profits and dividends mainly owing to copper mining. This in turn resulted in transfer revenues in the form of the additional tax. Brazil also recorded a strong increase in external income, but in this case due to returns on shorter-term financial

placements or those on the fixed-income market, which have benefited from the higher prevailing interest rates in the country (carry trade).

Figure IV.8  
LATIN AMERICA AND THE CARIBBEAN: FOREIGN DIRECT INVESTMENT (FDI) AND REPATRIATION OF PROFITS, 1990-2007<sup>a</sup>



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

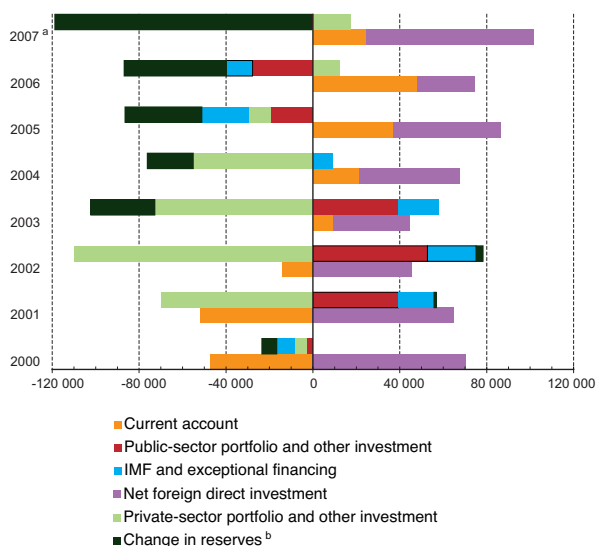
<sup>a</sup> Preliminary figures.

## B. Capital movements

In 2007, the capital and financial account of Latin America and the Caribbean (including errors and omissions) recorded an extraordinary surplus of 2.8% of regional GDP. This was the result of a large rise in net FDI, which reached the equivalent of 2.3% of

GDP, and a substantial net inflow of financial capital equivalent to 0.5% of GDP. Combined with the current account surplus (0.7% of GDP), these flows led to a build-up of reserves in the region equivalent to 3.5% of GDP (see figure IV.9).

Figure IV.9  
LATIN AMERICA AND THE CARIBBEAN:  
SOURCES AND USES OF THE BALANCE-OF-PAYMENTS  
(Millions of dollars)



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

<sup>a</sup> Preliminary figures.

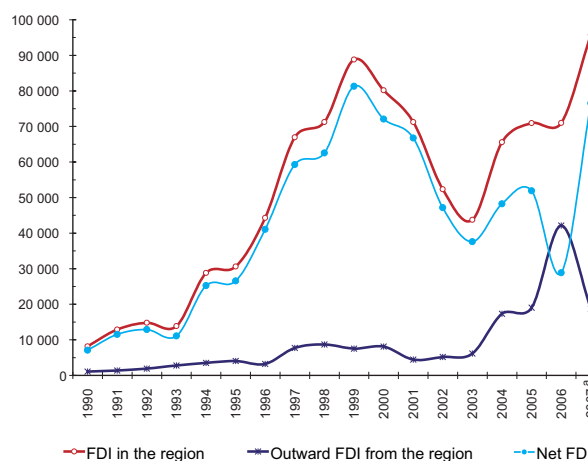
<sup>b</sup> Negative values indicate an increase in reserves.

At an estimated 2.3% of GDP, the net FDI inflow into Latin America and the Caribbean in 2007 was almost as high as its 1999 peak. One of the main contributing factors was the estimated rise of almost 34% in direct investment in the region's countries, i.e., an investment flow of some US\$ 95 billion, which was the highest FDI figure ever for Latin America and the Caribbean. This sizeable FDI inflow was combined with a drop of almost 55% from the record high of 2006 in outward direct investment by the region's countries (see figure IV.10).

Net FDI flows increased substantially in a number of countries. Colombia, Costa Rica, Ecuador and Mexico saw increases of more than 20% and Chile, El Salvador, Guatemala and Peru of more than 50%. The country that appears to have experienced the largest rise was Brazil, however, with FDI inflows estimated at an unprecedented figure of almost US\$ 35 billion.

In 2006, this country recorded negative net FDI as a result of direct investment operations abroad, principally the purchase of Inco (Canada) by the Companhia Vale do Rio Doce (CVRD) for some US\$ 17 billion. In 2007 this operation was still affecting the outward direct investment figures, but

Figure IV.10  
LATIN AMERICA AND THE CARIBBEAN:  
FOREIGN DIRECT INVESTMENT  
(Millions of dollars)



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

<sup>a</sup> Preliminary figures.

this time because of large capital inflows relating to lending operations between these firms.

Over the course of the year, foreign investors sought out financial investment opportunities in countries in the region whose domestic markets showed particular growth potential, especially those offering advantages in terms of interest rates and expected currency appreciation. The largest flows resulted from short-term operations (particularly the carry trade in Brazil and Colombia), which are better suited to contexts of volatility like that seen in international markets over the year. Brazil and Colombia also experienced the smallest rises in country risk (as measured by the EMBI+) over the year, even in the periods of greatest risk-aversion.

A breakdown of the financial account between the public and private sectors reveals some characteristics of the financial operations conducted with other countries and their contribution to the final result (see figure IV.9). First, the most substantial negative financial flows were due to the build-up of assets abroad by Chile and the Bolivarian Republic of Venezuela, involving not only the public sector but also mutual and pension funds (Chile), companies and individuals (Chile) and companies (Bolivarian

Republic of Venezuela). The build-up of external assets by the public sector continued to be driven by fiscal, monetary and exchange-rate policy decisions.

In 2007, however, these negative flows originating from the public sector in Chile and Venezuela were offset at the regional level by inflows of foreign portfolio investment and higher external borrowing by the public sector in other countries, particularly Brazil and Mexico, this being the second salient characteristic of 2007. Thus, the net balance for financial capital going to the public sector was virtually nil.

The great bulk of financial flows in the Brazilian public sector consisted of foreign investment in Brazilian fixed-income securities, most of them negotiated within the country. In Mexico, public-sector financial flows largely derived from securities issued abroad, mainly to finance initiatives under the Projects with a Deferred Impact on Public Expenditure Recording (PIDIREGAS) scheme, and from an increase in foreign loans. In most of the region's other countries, financial capital inflows into the public sector came from higher foreign borrowing, particularly in the form of short-term loans.

The balance of net financial flows into Argentina's public sector was influenced by the issuing of the Bond of the South II in February (for US\$ 1.5 billion) and the Bond of the South III in September (US\$ 1,258 million), each consisting of 50% Venezuelan interest and principal-protected (TICC) bonds and 50% Argentine Boden 15 bonds. Other bonds were also issued abroad by the Argentine central government and local governments, and the same happened with other countries.

Up to the third quarter of 2007, the countries of Latin America and the Caribbean issued a total of US\$ 33.6 billion in new bonds abroad, an increase of 9.8% over the same period of 2006, even though new issues were suspended in August because of the unfavourable conditions in international financial markets.

Much of the rise in issues abroad was due to increased issues by agents in Argentina, Jamaica, Peru and the Bolivarian Republic of Venezuela. Sovereign issues continued to lose ground to those of other sectors, which accounted for about 75% of total issues in the region up to the third quarter. This preponderance of non-sovereign issues reveals the growth potential of firms and banks in the Latin American and Caribbean countries, which have ever larger and more diverse sources of financing at their disposal.

The dynamism of the private sector was another major feature of 2007. This sector is estimated to have received net financial capital flows of some US\$ 17 billion across the region, which is higher than the figure for the previous year. In 2007, however, unlike 2006, this private-sector balance was not offset by a negative net balance in the public sector, so that the overall result was a quite large positive balance in the region's financial capital movements.

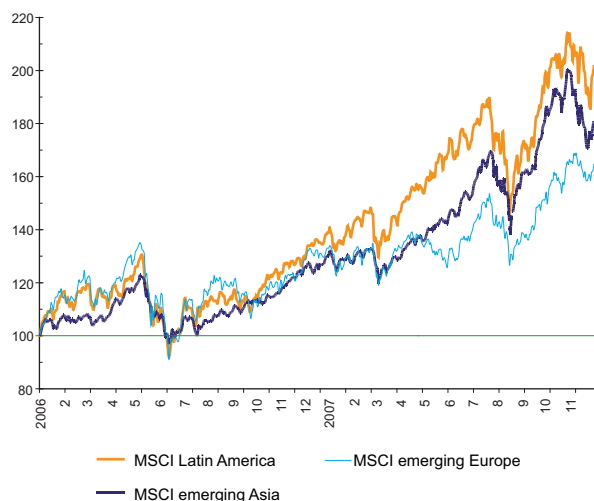
As happened with net FDI and the financial capital movements of the region's public sector, net financial capital flows into the private sector were heavily influenced by developments in Brazil. The Brazilian private sector received copious portfolio investments whose debit and credit movements were oriented towards short-term returns.

These investments strongly drove up share prices on the Brazilian stock market, and the same happened in other countries of the region, particularly Chile, Colombia and Peru. This was one factor behind the remarkable surge in the stock market indices of the Latin American countries, outstripping share price gains in the emerging economies of Asia and Europe, according to the relevant Morgan Stanley Capital International indices (see figure IV.11).

The private sector in Brazil also saw large inflows as a result of higher external borrowing in the form of commercial credits and other short-term loans, most of which went to the banking sector. In the region's private sector generally, the dominant picture was one of borrowing from abroad in the form of loans and other short-term credits, plus securities issues abroad. The private sector also built up a large stock of assets abroad in the form of portfolio investments and deposits. These movements further emphasize the positive net balance of financial capital movements in the year as a whole.

To sum up, the region received a large volume of foreign investment, both direct and in the form of financial capital. In the case of the latter, foreign investors generally sought to profit by the advantages accruing to the region's countries from developments in international markets, particularly the depreciation of the dollar and the financial market turmoil caused by the mortgage crisis in the United States. These conditions also meant that the region's residents could increase their external liabilities and expand their deposits, funds or other assets abroad for a smaller local-currency outlay, owing to exchange-rate movements. In net terms, the region had a positive financial capital flow of 0.2% of regional GDP.

Figure IV.11  
MORGAN STANLEY CAPITAL INTERNATIONAL  
EMERGING MARKETS INDEX, 2006  
(Daily series, index value of 2 January 2006=100)



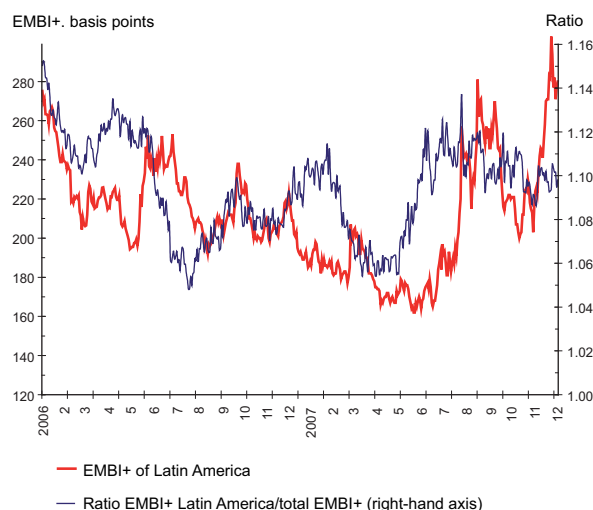
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from Bloomberg.

The international market turmoil in August and early September, whose underlying causes had already led to some briefer episodes of volatility in February and May, had a fairly limited impact on the region. Although Latin America's country risk, as measured by the EMBI+, rose from an average of about 175 basis points in June to a peak of 281 in mid-August, contributing to a temporary lull in international issues, the financial positions of foreign investors in the region did not sustain any significant or prolonged reverses (see figures IV.11 and IV.12). This relative immunity was a characteristic of emerging markets generally. Country risk diminished again from the second half of August until November, when there were further signs of problems linked to mortgage lending in the United States and Europe. The interest rate differential for the region was 271 basis points at the end of that month.

The increase in liabilities abroad pushed up the total external debt of the Latin America and Caribbean region, particularly its short-term component. The stock of debt was some US\$ 680 billion by the second quarter, representing a rise of 5% over the figure for the end of 2006, although as a percentage of GDP it is estimated to have fallen from 22% to about 20.5% in 2007. The rise in the stock of external debt reflected the appreciation of several of the region's currencies

and other currencies, particularly the euro, against the dollar. There was also a tendency for foreign borrowing to rise in quite a number of the region's countries.

Figure IV.12  
EMBI+ INDEX:  
LATIN AMERICA AND EMERGING MARKETS  
(Daily series in basis points)



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

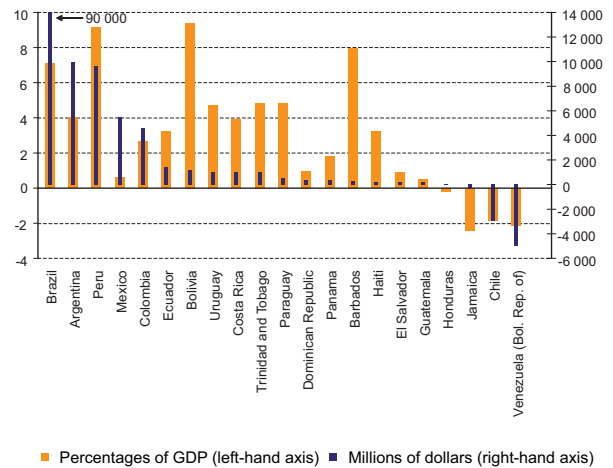
The most striking exception to this rising trend was the reduction in the outstanding foreign debt of the region's heavily indebted poor countries (Bolivia, Guyana, Honduras and Nicaragua) as a result of debt forgiveness under the Multilateral Debt Relief Initiative (MDRI), particularly by the Inter-American Development Bank (IDB).

As a result of operations abroad, the international reserves of Latin America and the Caribbean rose substantially in 2007 and there was a net flow of 3.5% of regional GDP, with some countries exceeding that figure (see figure IV.13). This build-up took place in a context of currency appreciation and a rising number of monetary sterilization operations in several of the region's countries, as analysed in the exchange-rate and monetary policy chapters, respectively.

The region's international reserves totalled close to US\$ 420 billion in October, a rise of almost 30% from the end of the previous year. The high proportion of dollar assets in the region's total international

reserves creates a potential risk at a time when the value of the dollar is falling against currencies everywhere. A sharp depreciation of the dollar in the short or medium term could produce a large negative wealth effect that would be reflected in the monetary balances of central banks. This is a concern in many parts of the world, particularly emerging countries, which hold a large proportion of the assets deriving from the external imbalance of the United States in the form of large international reserves.

Figure IV.13  
**LATIN AMERICA AND THE CARIBBEAN:**  
**CHANGE IN NET INTERNATIONAL RESERVES<sup>a</sup>**  
*(Millions of dollars and percentages of GDP)*



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

<sup>a</sup> Preliminary figures.

## South America







## Argentina

In 2007, the country's economy once again turned in an excellent performance. GDP growth was similar to the previous year's, at more than 8%, thus continuing the remarkable expansionary phase which followed the crisis of the early 2000s. Economic activity was almost 25% above the peak recorded in 1998. There were large increases in domestic demand –especially for durable goods– and in private investment and government spending. The investment-to-GDP ratio (at constant prices) is expected to stand at 23%, surpassing the record levels of the 1990s. Employment continued to grow strongly. In late 2007, the unemployment rate was down to about 8%, and growth was also being reflected in rising wages. In the first half of 2007 poverty and indigence rates continued to decline, falling to 23.4% and 8.2% of the population, respectively, compared with 54% and almost 28% four years earlier. ECLAC projects growth for 2008 at 6.5%.

International financial fluctuations affected the value of Argentine assets. The external situation remained favourable in terms of trends in export prices, but there were also rises in import prices. The impact of the prices and volumes of external sales contributed equally to the aggregate value of exports, which is estimated to have risen to almost US\$ 64 billion. Services exports were particularly buoyant. Despite the strong rise in imports, the country once again posted a large trade surplus. The rising current-account surpluses caused by the economy's strong expansion over several years was a characteristic feature of the period. Capital flows posted a positive net balance, despite the outflows from the private sector at certain times of year in response to worldwide financial uncertainties and the upcoming presidential election. At other times, the central bank intervened by purchasing large amounts of foreign exchange (sterilizing a large part of its monetary impact), which led to a major increase in reserves, and the peso depreciated somewhat against the dollar and more so against other trading partners' currencies.

Higher prices for exported goods and the marked increase in domestic demand affected the inflation rate, in an economy where the margins of idle resources had already narrowed. The measurement criteria for price indices, especially for the calculation of the consumer price index (CPI) for Greater Buenos Aires, were the object of some debate during this period. The published CPI estimate showed a fall compared to the previous year, with a cumulative variation of 6.6% for the first 10 months of 2007 (8% for the same period in 2006). Data collected in localities in the interior of the country showed higher increases, however, and much bigger rises were reported in other price aggregates such as the wholesale price index (WPI) –12.7% over 10 months, compared with 6.7% in 2006– and the construction cost index, up 20% as against 16.7% in 2006.

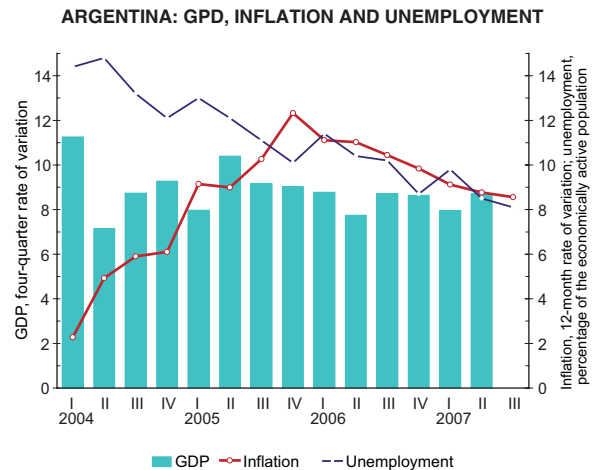
Despite a sustained upward trend in receipts, fiscal surpluses experienced a significant slowdown in 2007 in GDP terms. Reforms to the pensions system adopted in 2007 were designed to allow contributors to fully-funded pension plans to transfer to the state

pension system, which then received not only additional contributions but also the funds accumulated by the contributors. Current income in the domestic public sector rose by almost 31% in the first nine months of the year if those funds are not included, or 40% if they are. Primary spending soared by almost 45%. As a result, the primary surplus is estimated to have fallen to about 1.9% of GDP during the period (2.7% if the transfer of accumulated funds is included), compared with 3.5% for 2006 as a whole. The national government's financial balance was about 0.7% of GDP (1.4% including the transfers).

In the first 10 months of 2007, tax receipts rose by 32.5%. All categories of taxation showed appreciable increases. The largest sources of revenue continued to be taxes on value added, profits and wealth (55% of the total). In order to boost fiscal revenue, in early November 2007 the authorities increased the rates of export duties on the principal grains and their by-products (by between 5 and 10 percentage points) and on oil and petroleum products. There were considerable upturns in the main components of spending: social security benefits (up 58% in nine months), transfers to the private sector (which rose by 57%, and which include subsidies on energy and transport prices, among other things) and capital spending (40%).

The central bank continued its policies of accumulating reserves and sterilizing the resulting expansion through the placement of long-term bonds and rediscount loan recovery. Up to mid-2007, against the background of international financial fluctuations, there was some pressure on interest rates and foreign-exchange demand. The government reacted by seeking to prevent exchange-rate instability and by supporting liquidity. Interest rates climbed gradually throughout the year. While means of payment (M1) and fixed-term deposits which are not adjusted for inflation grew at a pace similar to that of 2005 (about 25% and 30% year-on-year, respectively), deposits indexed to the CPI again dropped significantly. Bank lending to the private sector soared by almost 30% year-on-year.

Internal and external aggregate demand rose sharply. Consumption is estimated to have risen by a figure similar to or slightly above GDP growth, but investment posted a substantially larger increase. In the first half of 2007, investment in construction grew sharply, by 7.7%, although that was well below the 2006 figure of 18.5%. Investment in durable construction equipment expanded rapidly (over 20% in the first semester), boosting the trend in volume imports of capital goods, up 25% in the first nine months of 2007. If these figures are extrapolated to the year as a whole, the equipment investment ratio for 2007 may exceed the records of the 1990s, at over 9% of GDP.



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

GDP growth was equally strong in goods and services sectors. Agriculture was prominent among the goods sectors, mostly thanks to a boom in the production of grains. The harvest for the 2006/2007 season was around 94 million tons, 22.5% above the previous season. There was outstanding growth in the harvests of soybean (up 17.5%, to 47.6 million tons), maize (up 50% to almost 21 million tons) and wheat (up 16%). As for the livestock sector, economic policy continued to emphasize internal supply of beef rather than exports, on which certain restrictions were retained. The number of animals slaughtered rose considerably in 2007, with a growing proportion of females, which suggests that the producers saw little incentive to increase their stocks. Mining was a clear exception to the wide growth of output, as a result of falling volumes in oil and natural gas extraction.

The automotive industry once again distinguished itself among manufacturing sectors with a steep rise in its output, helped by a boom in both internal and external sales. This in turn boosted the metal-working segments dedicated to manufacturing auto parts. There were significant rises in the production of agricultural machinery and consumer durables. Some branches of the chemical industry were held back by problems with supplies of gas, but the subsector managed a year-on-year increase of nearly 6.5% in the first three quarters of 2007. Growth in the food and textile industries was more moderate. The secondary sector hired more workers (5% more in the first three quarters of 2007 than in 2006), and wages were higher.

Among services, the swift growth of the transport and communications branches continued, with a particularly strong performance by mobile telephony.

There was more modest progress in the output of the electric power, gas and water sectors. At certain times in the year, the supply of gas was insufficient to meet demand, in which case domestic supply was given priority. Demand for electric power also strained generation capacity, and the largest users resorted to generating power for their own use. Regulation, prices and investment in the energy sectors are issues that require attention in terms of growth prospects.

Labour demand was on the increase. The urban employment rate for the second half of 2007 (42.4%) was 0.6 points above the previous year's figure and almost five points higher than the figure for the same semester in 2003, at the beginning of the recovery. Also in the second semester of 2007, the unemployment rate fell by almost two percentage points. If those whose main occupation comes from an official welfare programme are included, the unemployment rate rose by 0.5 points to 9.0%, compared with 3.2 points in the same period in 2003. In the first three quarters of 2007, the aggregate wage index rose by 17%. The highest increases were in the public sector (23%) and the informal private sector (18%). The cumulative increase in incomes since the early 2000s, however, was significantly lower in those sectors than in the formal private sector.

The balance of payments current-account surplus in the first half of 2007 was somewhat smaller than in 2006, owing to a smaller trade surplus in goods, but it nonetheless exceeded US\$ 6 billion. As for real services, there were considerable increases in inflows from business and professional services (which exceeded US\$ 1 billion in the first half of 2007) and tourism (US\$ 2.1 billion during the same period). The improvement in real services compensated for increased spending on foreign travel. The income account posted a deficit of some US\$ 2.7 billion for the semester. Net capital inflows for the year were plentiful, leading to a major increase in reserves (US\$ 11 billion in the first 10 months of 2007), mostly in the first half of the year.

Export values rose on the back of almost all product categories, with the notable exception of fuels.

#### ARGENTINA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	9,2	8,5	8,6
Per capita gross domestic product	8,1	7,4	7,5
Consumer prices	12,3	9,8	8,5 <sup>b</sup>
Average real wage <sup>c</sup>	6,0	8,7	10,2 <sup>d</sup>
Money (M1)	26,8	24,2	25,3 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	0,2	1,8	0,7 <sup>g</sup>
Relación de precios del intercambio	-2,1	5,7	2,9
<b>Annual average percentages</b>			
Urban unemployment rate	11,6	10,2	8,4 <sup>d</sup>
National administration overall balance / GDP	0,4	1,0	0,7
Nominal deposit rate	3,9	6,6	7,5 <sup>h</sup>
Nominal lending rate	6,2	8,7	10,1 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	46 813	54 150	63 971
Imports of goods and services	34 925	41 138	51 972
Current account	5 690	8 097	6 500
Capital and financial account	1 705	5 182	3 500
Overall balance	7 394	13 279	10 000

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Manufacturing sector.

<sup>d</sup> Estimate based on data from January-September 2007.

<sup>e</sup> Twelve-month variation to September 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October.

<sup>h</sup> Average from January to October, annualized.

There was also a large rise in the volume and value of imports. Exports of primary goods rose by 40% in the first nine months, in both volume and value. Among manufactures of agricultural origin (where the impact of prices was most significant), sales of vegetable oils rose steeply; meat exports were also lively, despite the restrictions in force. The increase in manufactures of industrial origin (14%) was to a great extent due to the increase of volume sales. Of particular note were exports of metal products, machinery and, above all, of vehicles. MERCOSUR and the Asian countries absorbed an increasing share of the country's exports. Total import values swelled by almost 30%, with increases of 24% for capital goods and 28% for intermediate goods.

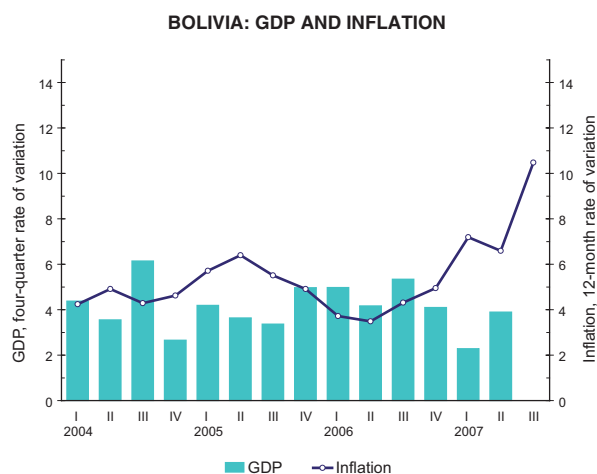


## Bolivia

In 2007, Bolivia posted 3.8% growth in GDP, slightly down on the 2006 figure. The rate in the first half of the year was 3.2%, compared with the same period of 2006. While growth was recorded in the first half-year in activities such as construction (7.5%), transport and storage (5.6%), and manufacturing (4.5%), there were declines in others: crop production, forestry, hunting and fisheries (down 1.6%) and metallic and non-metallic minerals (down 4.3%). The first of these declines was due to flooding, which affected the eastern departments of the country in February and March, causing damage estimated by ECLAC at a total of US\$ 443 million.<sup>1</sup> The contraction in the mining industry was attributable mainly to social unrest at the Huanuni mine, which led to a substantial fall in tin production. A recovery in mining activity is expected in the second half-year, as the San Cristóbal mine is scheduled to dispatch its first exports in October.

Annual inflation, which stood at 4.95% at the close of 2006, is expected to rise to approximately 12% in 2007, mainly as a result of higher food prices (meat and wheat flour, especially). Once again, these increases are largely attributable to unsettled weather in the first quarter of the year associated with the El Niño phenomenon, which brought flooding to the eastern departments, while La Niña brought drought to the high Andean plateau. The problem was compounded by rising wheat prices in international markets. Nevertheless, measures taken by the government in the second half-year (in particular, the suspension of import tariffs on meat and wheat) helped to moderate these trends.

Central bank policies have also been directed at countering inflationary pressures. The 63.5% expansion in the money supply (M1) between September 2006 and September 2007 is indicative of the abundant



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

<sup>1</sup> See ECLAC, *Economic Survey of Latin America and the Caribbean 2006-2007* (LC/G.2338-P/I), Santiago, Chile, 2007. United Nations publication, Sales No. E.07.II.G.2.

liquidity situation. The central bank stepped up its open-market operations and postponed the relevant maturity dates in order to deepen the liquidity control policy and reduce the risk of reabsorption by maturity concentration. Consequently, the rate of return on 13-week public local-currency securities went up from 4.81% to 7.05% in the space of one year. The Central Bank of Bolivia used the local currency in a more dynamic way and, in order to contain the external pressures on prices, brought about a 3% appreciation of the peso between September 2006 and September 2007. In addition, the rate of the transaction fee on remittances of funds from abroad was increased to 1% in a bid to avert speculative capital inflows that could inject more liquidity into the economy; this measure does not apply to transactions conducted through the Central Bank by exporting companies.

A quick evaluation of the data for the first three quarters of 2007 compared with the same period of 2006 reveals that the government's fiscal policy was expansionary, with spending by the NFPS growing from 21.1% of GDP to 27.8%. The figures are not directly comparable, however, since the wholesale operations of Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) and of the companies Empresa Metalúrgica Vinto and Huanuni were nationalized and thus incorporated into the public sector. If the effect of these nationalizations in the public accounts is discounted, the variation in total expenditure amounts to just 0.8% of GDP. In order to analyse the fiscal position and its impact on inflation, it should be borne in mind that the fiscal accounts, while slightly lower than in the previous year, continue to show a surplus: the NFPS balance shows a total accumulated surplus of 3.9% of GDP to September 2007, compared with 6.3% in the first eight months of 2006. In terms of external debt, the public accounts continue to benefit from the processes initiated under the highly indebted poor countries debt initiative (HIPC II). In June 2007, an Inter-American Development Bank (IDB) debt-relief package for a total of US\$ 1.171 billion came into effect, reducing accumulated debt to US\$ 2.094 billion in September 2007.

The Government of Bolivia is continuing to prioritize investment in the social sector: it has built hospitals and launched various health and education programmes. Between 2005 and 2006, social spending soared by 34% and a similar increase is expected in 2007. The rate of investment in the production sector of the economy still remains low, however: 5% of GDP by the private sector and 7% by the public sector in 2006. The weak investment rate, which has been a problem for decades, will make it difficult to sustain the growth rate. The government is therefore

#### BOLIVIA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.0	4.6	3.8
Per capita gross domestic product	1.8	2.5	1.7
Consumer prices	4.9	4.9	11.9 <sup>b</sup>
Real minimum wage	-5.1	4.5	-1.0
Money (M1)	30.1	44.7	49.0 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	7.4	1.9	-0.4 <sup>e</sup>
Terms of trade	7.5	20.4	1.9
<b>Annual average percentages</b>			
General government overall balance / GDP	-2.3	3.6	2.1
Nominal deposit rate <sup>f</sup>	1.7	2.5	2.4 <sup>g</sup>
Nominal lending rate <sup>f</sup>	8.2	7.9	8.2 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 280	4 297	4 684
Imports of goods and services	2 865	3 437	3 809
Current account	634	1 319	1 471
Capital and financial account	-197	120	-271
Overall balance	437	1 439	1 200

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October.

<sup>f</sup> Annual average of rates on transactions in dollars.

<sup>g</sup> Average from January to October, annualized.

adopting measures to stimulate investment and promote greater public-sector participation. Thus, for 2007, public capital investment is forecast to jump by 68% in nominal terms.

As in the last three years, the external sector posted a surplus (US\$ 698.9 million) on the current account in the first half of 2007. Assuming that the trend observed in the second half of 2006 persists, the surplus will be higher than in that year (US\$ 1.319 billion or 11.9% of GDP). All things being equal, by the end of 2007, the country's international reserves will exceed the US\$ 5 billion mark, or 18 months' imports.

In the first half of 2006, goods imports totalled US\$ 1.543 billion, which was 10.1% more than in the same period of 2006; this reflected increases in consumer goods (17.6%), intermediate goods (8.1%) and capital goods (6.5%). Goods exports expanded by 8%, favoured by the international context of rising commodity prices, in particular prices of minerals and some agricultural crops. Thus, the surplus on the trade balance diminished. Net foreign direct investment amounted to US\$ 95 million in the first half of 2007, compared with just US\$ 12 million in the first half of 2006.

Job creation was up in the mining sector and, to a lesser extent, in construction. However, this has not affected the national employment rate. The

government has implemented various measures to foster job creation in small and medium-sized enterprises, for example, through the Productive Development Bank. Nevertheless, some time will pass before these initiatives bear fruit.

In 2008, according to the central bank, the main engines of growth will be agricultural activity, the new

investments in the hydrocarbon sector, the expansion of production at the San Cristóbal and San Bartolomé mining projects, and the El Mutún mining project, which is soon to come on stream.

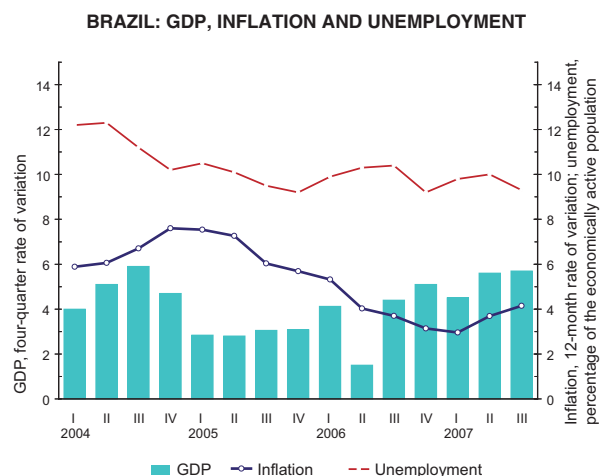
ECLAC predicts a growth rate of 4.0% for 2008. However, this will only be feasible if the political instability observed in 2007 is overcome.

## Brazil

In 2007, according to preliminary estimates, the Brazilian economy grew by 5.3% (3.7% and 3.2% in 2006 and 2005, respectively) thanks to the good performance of economic variables such as the annual inflation rate, which was below the 4.5% target; goods exports, whose expansion produced a trade surplus of almost US\$ 39 billion; and international reserves, which swelled by almost US\$ 80 billion. From the fiscal viewpoint, the primary surplus was maintained in accordance with the planned target (3.8% of GDP), influenced positively by a record tax take and improvements in the area of employment, such as a lower unemployment rate (averaging 9.4% in 2007 as against 10% in 2006) and increases in higher real incomes (averaging 3.4%). Market projections suggest that the growth rate will be slightly lower in 2008.

This strong performance was boosted by events in the world economy, with high demand for commodities and abundant liquidity, and by lower domestic interest rates and the resulting growth of credit and the domestic capital market. There were, however, constraints on economic activity in the infrastructure and energy supply sectors. Furthermore, the growing tax burden and the inflexibility of public expenditure have revived the debate on the need for tax reform and the role of public investment.

It is noteworthy that in the past two years, the contribution of investment to growth has been almost 10% per year, although its level has not yet exceeded 17% of GDP. Encouraged by the Growth Acceleration Programme (PAC), the public sector once again boosted its investments, especially in the transport and energy sectors. The private sector had greater access to new resources for investment thanks to the availability of funds on the capital market, market entry by corporations and the issue



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



of shares on the stock market, and the placement of long-term bonds on the local market, all of which came to an unprecedented total of 121 billion reais up to October.

This trend in investment, bringing with it improved production capacity, complements the expansion of credit and domestic consumption which have been the basis of economic growth since 2004. In 2007, the volume of exports, which had sustained growth in the early part of the decade, showed a lower growth rate than that of imports, which soared by almost 20%. As a result, the external sector's contribution to GDP growth was negative for the second consecutive year.

Maintaining the current growth rate in 2008 will depend on trends in world financial markets and on any unexpected constraints in terms of energy costs and supply. In comparison with the past, the Brazilian economy has reduced its vulnerability to unfavourable changes in the world economy. A policy has been implemented to manage public debt, bringing about a significant cut in the proportion of Treasury securities indexed to the exchange rate. The sizeable trade surplus and, to a lesser extent, the balance of payments current-account surpluses of recent years and the sizeable inflows of foreign capital (both FDI and financial flows) have led to a record level of international reserves, whose total amount (US\$ 176 billion) is close to that of the total external debt (US\$ 194.6 billion). Lastly, the growth of the country's economy has been focused on the domestic market, especially the expansion of industrial production and construction, as well as formal job creation.

Uncertainties over developments in the world economy and a greater increase of demand in relation to domestic supply have encouraged the central bank to take a moderate approach to monetary policy. Following a gradual decline in interest rates since September 2005 (when the Special System of Clearance and Custody (SELIC) rate stood at 19.5%), the central bank decided in October 2007 to stabilize the rate at 11.25%. That measure cut the real yearly interest rate to about 8%, which is the lowest since 2002, although high in relation to international rates.

Pushed up by volatile prices for energy and some foodstuffs, the inflation rate exceeded forecasts for the second semester. In August, the wholesale price index posted a monthly variation of 1.96%. The volatility reflected trends in the exchange rate; in early August the latter exceeded 2.00 reais to the dollar, then returned to the nominal appreciation trend observed since 2003. In November, the nominal exchange rate fell to almost 1.73 reais to the dollar, the lowest since March 2000 and almost 19% below its level in

#### BRAZIL: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.9	3.7	5.3
Per capita gross domestic product	1.5	2.3	3.9
Consumer prices	5.7	3.1	4.2 <sup>b</sup>
Average real wage <sup>c</sup>	-0.3	3.5	0.5 <sup>d</sup>
Money (M1)	14.0	15.3	21.6 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	-18.3	-10.9	-6.5 <sup>g</sup>
Terms of trade	1.4	4.7	3.3
<b>Annual average percentages</b>			
Urban unemployment rate	9.8	10.0	9.4 <sup>h</sup>
Central government operating balance / GDP <sup>i</sup>	-3.2	-3.1	-2.8
Nominal deposit rate	9.2	8.3	7.9 <sup>j</sup>
Nominal lending rate	43.7	39.8	34.9 <sup>j</sup>
<b>Millions of dollars</b>			
Exports of goods and services	134 356	157 270	184 979
Imports of goods and services	97 962	120 466	156 394
Current account	13 985	13 621	4 624
Capital and financial account	13 606	16 948	85 376
Overall balance	27 590	30 569	90 000

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Workers covered by social and labour legislation, private sector.

<sup>d</sup> Estimate based on data from January to September 2007.

<sup>e</sup> Twelve-month variation to October 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Estimate based on data from January to October 2007.

<sup>h</sup> Year-on-year average variation, January to October.

<sup>i</sup> Includes the central bank.

<sup>j</sup> Average from January to October, annualized.

late 2006. Nonetheless, consumer prices remained below the annual target of 4.5% for 2007 and showed cumulative increases of 3.3% for the year and 4.1% for the 12 months to October. Market projections for 2008 suggest that that level of inflation (4.1%) will continue, and that the nominal exchange rate will be more stable, coming close to 1.80 reais to the dollar.

Federal government spending rose by 12.4% between January and October 2007. Notable in the area of fiscal policy is the recovery of public investment, particularly by the federal government, which was up by 28% in terms of the cumulative total to October, compared with 2006. There was also a marked upswing in other spending by the federal government, for the same period. Spending on personnel and benefits by the social security system rose by 11.9% and 10.9%, respectively.

Nonetheless, that higher spending did not endanger the primary surplus target of 3.8% of GDP in 2007, thanks to greater increases in government revenue and

the financial results of subnational governments and state-owned corporations. Total federal government revenue to October was up 15.4%, over 10% in real terms. Swelling economic activity (production and imports), unprecedented profits in banking and other businesses, and rising salaries and financial-sector gains have boosted revenue from taxes of all kinds. There were improvements in the tax take from corporate income tax (41% in real terms), personal taxation (14%) and the car tax (18%). Revenue from social security contributions reflected the expansion of the payroll (11.5% in real terms). The strong growth of receipts increased the tax burden to a new maximum of 35% of GDP, calculated by the new methodology for national accounts; as a result, in the 12 months to October the primary fiscal surplus remained at 4.2% of GDP and the nominal overall fiscal deficit stood at 2.2% of GDP.

The accelerating economic growth was accompanied by greater sectoral diversification. Unlike previous years, estimates call for relative homogeneity in sectoral growth rates. Agriculture and industry were the leaders in growth (4.5% and 5.0%, respectively), and 4.4% growth is estimated for the services sector. Mining, which had performed strongly in the previous two years, is expected to post a growth rate close to 5%. Civil construction achieved a growth rate of over 5.5%, higher than the 2006 figure (4.6%); the figure for manufacturing industry is expected to be 5.3%, significantly higher than the 1.6% posted in 2006.

The performance of the various branches of manufacturing has been more uneven. The capital-goods sector was the most dynamic, up 15% for the 12 months to September. This is a positive result, since Brazil's productive capacity needs to be broadened and most supply is devoted to investments within the country. Brazil needs to strengthen this sector of its productive structure, given its importance for innovation and the dissemination of technology. Meanwhile, activity in the consumer durables sector expanded by 6.8%, boosted by increases in the payroll and consumer credit. Much slower growth is expected in intermediate goods (3.7%) and non-durable consumer goods (3%).

The investment mood is optimistic in the petroleum and mining sectors, encouraged by very favourable world prices and the availability of natural resources, as well as the recent discovery of a large oil and gas

deposit. There are signs that this favourable trend may be spreading throughout the private sector. According to the business survey entitled *Sondagem especial da Confederação Nacional da Indústria*,<sup>1</sup> 86% of the 1,655 industrial companies surveyed stated that they intended to invest in 2007, and this was borne out fully or partially in 85% of cases. The outlook for 2008 is also encouraging. The same survey reports that 42% of industrial firms stated their intent to increase their investment in machinery and equipment, a percentage well above those of previous years (about 30% in 2005 and 2006) and close to the figure for 2004, when the trend was very positive.

The balance of payments was improved by considerable inflows of foreign exchange. In the first 10 months of 2007, the overall balance of payments surplus more than tripled relative to the same period in 2006 (from US\$ 23.1 billion to US\$ 78 billion) and the current account surplus rose to US\$ 6 billion (0.5% of GDP), on the basis of a trade surplus of US\$ 34.4 billion and a US\$ 32.2 billion deficit in the services and income balance (US\$ 30 billion in 2006). This result is much less striking than that of the first 10 months in 2006, when the surplus reached 1.3% of GDP. Noteworthy among the country's exports was the upswing in external sales of commodities (26.1% in value terms, 12.8% in volume) and semi-manufactures (14.2% in value, 2.3% in volume), while sales of manufactures also picked up (12.7% in value, 7.5% in volume). Imports soared to the unprecedented level of US\$ 98 billion, boosted by increased imports of consumer durables (50.6% in value, 54.4% in volume) and non-durables (32.8% in value, 17.8% in volume). Also noteworthy were increases in import volumes of capital goods (38.5%) and of intermediate goods (28.6%). Improvements in the terms of trade have contributed a great deal to the trade surplus. In October 2007 the real effective exchange rate showed an appreciation of 13.3% compared with December 2006.

In the first 10 months of the year, the income balance showed a deficit of US\$ 22.1 billion, close to the US\$ 21.9 billion deficit during the same period in 2006. The figure for net outflows including interest payments was negative (US\$ 6.4 billion), an improvement over the 2006 figure of US\$ 9.5 billion. Net outflows including profit remittances showed a deficit of US\$ 16 billion (US\$ 12.5 billion in 2006).

The capital and financial account posted a surplus (US\$ 77.5 billion) larger than that of 2006 (US\$ 11.8

<sup>1</sup> National Confederation of Industry (CNI), *Sondagem especial da Confederação Nacional da Indústria*, year 5, N° 4, November 2007.

billion), reflecting net FDI inflows (US\$ 31.1 billion in the first nine months of 2007 compared with US\$ 4.1 billion during the same period in 2006), as well as purchases of shares on the local market by foreign investors (US\$ 19.1 billion, more than double the 2006 figure of US\$ 7.7 billion) and purchases of Brazilian fixed-income bonds (which totalled US\$

22.7 billion as against US\$ 1.1 billion in 2006).

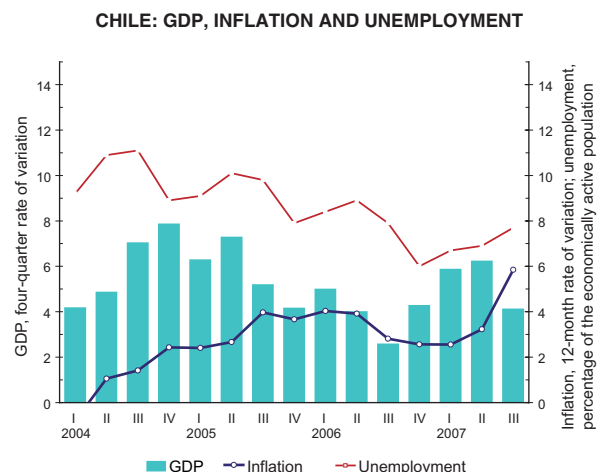
In October 2007 the total external debt stood at US\$ 194 billion, of which US\$ 153 billion was medium-term debt and US\$ 41.6 billion was short-term debt. Measured as a percentage of the total value of exports, debt servicing was reduced from 41.3% in December 2006 to 36% in October 2007.

## Chile

In 2007, the rate of expansion of the Chilean economy increased in relation to the 4% recorded in 2006, and GDP growth for the year is estimated at close to 5.3%. This improvement was helped along by strong upward trends in most components of internal demand, led by a rise in investment of about 12%, a boom in comparison with the low levels of 2006. This was complemented by strong export growth which was due to high worldwide demand for the country's main exports (copper, molybdenum, wood pulp, methanol and salmon). Private consumption continued to expand, sustained by an active labour market, and public consumption was up almost 8.5%, in accordance with the terms of the budget law.

Macroeconomic management was made more difficult by risks which arose in the external and internal environments. First, soaring world commodity prices, while favourable for several of the country's exports, were reflected in increasing costs for a number of goods which affected prices on the domestic market: fuels, wheat, maize and milk. This was accentuated by a hard winter, the worst in many years, which had a strong negative impact on the supply of fruits and vegetables and caused sharp, albeit temporary, price rises. Furthermore, rising fuel prices and the energy shortage led to increases in regulated prices. This caused unexpected and sharp rises in both short- and long-term inflation indices from April onwards, and the inflation figure for the 12 months to October stood at 6.5%, exceeding the central bank's target range.

Second, the crisis in the United States mortgage market initially led to higher country-risk premiums for the emerging economies. This had a limited impact on Chile because the country is well equipped to deal with such fluctuations. The measures taken by the monetary authorities in the United States to deal with the crisis, including interest rate cuts, widened the positive margin between the rate in Chile and the United States rate. This led to faster appreciation of



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

the Chilean peso against the dollar, making it harder for some Chilean products to compete with imports and eroding the competitiveness of some exports.

Third, the outbreak of labour disputes cut the output of the state-owned and private mining industry and of some agro-industrial and forestry enterprises.

In the case of the Corporación Nacional del Cobre de Chile (CODELCO), it is estimated that the labour conflicts will result in higher costs and make it more difficult to generate surpluses.

Lastly, in July severe restrictions were placed on the supply of natural gas from Argentina, but this did not have a significant impact on electric power generation, thanks to the fact that many power stations which had been using gas are also able to run on diesel fuel. In any case, the cost of thermoelectric power generation increased and its value added fell. The production and export of methanol, the main input of which is natural gas, was affected, and this situation is expected to continue.

Despite these negative events, the foundations of the Chilean economy remain strong, characterized by great fiscal solvency, careful macroeconomic management and continuing buoyancy in the markets for its principal exports, which are well diversified. Thus, the economy is in a good position to cope with external fluctuations. The main exogenous risk factors are rising oil prices and the danger that an economic slowdown in the United States may spread to other developed economies. On the domestic scene, a possible source of risk might be a worsening of political and labour disputes in an election year such as 2008. However, the upturn in investment will strengthen supply and the continuing improvements in the labour market will boost consumption, so most analysts expect yearly GDP growth in 2008 to be around 5.0%.

There was continuity in the general orientation of the government's main policies, although some changes were seen in the parameters which govern them. Fiscal policy continued to aim for a structural surplus, the target for which was set at 1% of GDP up to 2007 but was lowered to 0.5% for 2008. Together with a relative increase in structural revenue from copper, this will continue to boost the economy. Real spending growth for 2007 is estimated at 8.5%, and the effective surplus should be about 7% of GDP.

In the monetary policy area, the authorities continued attempting to hold inflation within a target range of 2% to 4% annually, a goal which, according to the central bank, aims at the medium-term, or a period of 18 to 24 months. Unexpected surges in inflation from April onwards led to a series of increases of 25 basis points each in the monetary policy rate, in July, August and September, bringing it up to 5.75%. The rate has remained unchanged since October because of a relative slackening in economic activity, evidence that ripple price effects have had little impact on other products or on domestic wages, and that medium-term inflationary expectations had remained steady at an

#### CHILE: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	5.7	4.0	5.3
Per capita gross domestic product	4.6	2.9	4.2
Consumer prices	3.7	2.6	7.4 <sup>b</sup>
Average real wage <sup>c</sup>	1.9	1.9	2.9 <sup>d</sup>
Money (M1)	14.7	11.9	16.5 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	3.1	-4.3	2.2 <sup>g</sup>
Terms of trade	11.9	31.4	5.8
<b>Annual average percentages</b>			
Urban unemployment rate	9.2	7.7	7.0 <sup>h</sup>
Central government overall balance / GDP	4.5	7.7	8.0
Nominal deposit rate	4.5	5.5	5.8 <sup>i</sup>
Nominal lending rate	13.5	14.4	13.8 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	48 317	65 620	77 263
Imports of goods and services	38 148	44 329	53 133
Current account	1 315	5 256	7 985
Capital and financial account	442	-3 245	-10 985
Overall balance	1 757	1 997	-3 000

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> General hourly wage index.

<sup>d</sup> Estimate based on data from January to September.

<sup>e</sup> Twelve-month variation to October 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October 2007.

<sup>h</sup> Estimate based on data from January to October.

<sup>i</sup> Average from January to November, annualized.

annual rate of 3%. The authorities have not ruled out further rate rises if hikes in the prices of certain goods (foodstuffs, fuels) were to spread to other prices or to wages, thereby altering expectations. The central bank argues that the monetary policy rate is still below the neutral level and therefore has stimulated demand in practical terms; future rate rises cannot therefore be implicitly ruled out.

With a floating exchange-rate policy, a high level of integration into world markets and a low country risk, the depreciation of the United States dollar against other reserve currencies, improving terms of trade and the need for the state to sell a greater proportion of its dollar revenues to cover increased spending, should lead to further appreciation of the peso. The trend intensified in September owing to the widening gap between the central bank's internal and external interest rates, following its decision to increase them while the Federal Reserve of the United States was cutting its rates. Currency market trends in November 2007 do not point to any significant changes in that area, and the central bank denies that the real exchange rate is clearly out of alignment with its equilibrium level.

In sum, given the pickup in economic activity and the inflationary shocks, together with the downward trend in the value of the United States dollar against the world's currencies, monetary and exchange-rate policies will continue to face the challenge of striking a delicate balance between inflation targets and the need to maintain the competitiveness of the economy.

The labour market has reflected the recent economic buoyancy, recording the decade's lowest unemployment rates during the third quarter, and showing a marked increase in formal wage employment. The unemployment rate will average 7.0% for 2007, comparing favourably with the annual rate of 7.8% recorded in 2006.

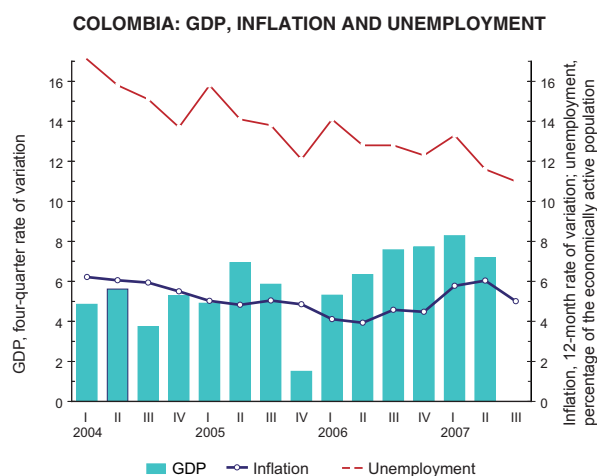
In the first semester of 2007, the country's total exports posted a 12-month increase of 13.6%, led by mining (18.9%) and agriculture (6.5%). Over the same period, the volume of imports expanded by 17.5%, mostly owing to purchases of capital goods (20.5%) and intermediate goods (19.6%). The prices of the country's exports were up by 4.2% and those of its imports by 2%, indicating an improvement in the terms of trade. As a result, the balance-of-payments current account continued to show a surplus, which is expected to stand at 5.4% of GDP for the year as a whole. In October 2007, the central bank's international reserves totalled US\$ 16.2 billion.

## Colombia

Boosted by strong domestic demand, economic activity in Colombia grew by almost 7% in 2007. Private investment and consumption were determining factors in this performance. Since 2006, the economic authorities have been taking a series of measures to avoid overheating of the economy and contain inflationary pressures. Such pressures were inevitable, however, because of food price rises due to the effects of the El Niño southern oscillation phenomenon in the early part of the year and because the response to measures designed to control demand was slow; as a result, the inflation target set by the Banco de la República was not met.

The increase in central bank intervention rates was designed to curb consumer spending and credit and, hence, aggregate demand. However, still of concern are potential risks such as the possible slowdown in the Venezuelan and United States economies, the widening of the current-account deficit and the steady appreciation of the peso. ECLAC is predicting GDP growth of close to 5.5% in 2008, accompanied by restrictive monetary and fiscal policies.

In fiscal terms, the objective of improving the public finance balance was maintained in 2007. Tax collections were up thanks to the favourable economic cycle, and the government, with support from the independent commission on public spending, cut back on expenditure. This commission, made up of experts from the private sector and academia, made recommendations in order to restrict public spending. The consolidated public-sector deficit declined from 0.8% to 0.7% of GDP, while the primary surplus stood at 3.6% of GDP, down from 3.8% in 2007. The national central government deficit continued its downward trend, diminishing from 4.2% in 2006 to 3.3% in 2007. The primary surplus stood at 1% of GDP. An austerity budget, in terms of expenditure, was approved for 2008 and a deficit of



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

1.4% of GDP is projected for the consolidated public sector, along with maintenance of the national central government deficit. This deficit stems mainly from a deterioration in the social-security sector, attributable to pension liabilities and to the transfer of funds from

the Petroleum Saving and Stabilization Fund (FAEP) to the national central government.

The main monetary policy instrument of the central bank in Colombia was the intervention interest rate. From April 2006, this rate was adjusted 12 times to stand at 9.25% in August, when variables such as credit and inflation gave the first signs of declining in response to the control measures taken. However, towards the end of the year, the central bank decided to raise the rate once again, this time to 9.50%, on the assumption that, since aggregate demand was so robust, this further adjustment would be necessary in order to meet the inflation targets projected for the coming years.

The exchange-rate policy favoured the continued strong appreciation of the peso, which, by the end of 2007, had appreciated by almost 10%. The contributing factors continued to be the same: favourable terms of trade, vibrant growth in external demand, strong GDP growth, high inflows of remittances (approximately US\$ 4.2 billion) and of foreign direct investment (FDI) (over US\$ 7.6 billion), among others. In addition to the adjustment in public spending, the economic authorities carried out discretionary interventions up to April for an amount in excess of US\$ 4.5 billion as well as market options, without being able to avoid the trend towards appreciation of the currency. The international reserve balance for the end of the year will be close to US\$ 21 billion, compared with US\$ 15.4 billion in 2006.

Since 2006, economic growth reflected the buoyancy of domestic demand, a trend which continued in 2007. Private consumption and investment continue to act as engines of growth, since the climate of security existing in the country boosted confidence among agents. According to surveys, entrepreneurs perceive economic and political conditions as favourable to investment and consumer confidence is at an unprecedentedly high level. The most robust categories of gross capital formation were transport equipment, public works, and machinery and equipment.

In the first half-year, the sectors that recorded the highest rate of growth were manufacturing, trade, transport and construction, with rates above 10%. Nevertheless, construction declined owing to the reduction in the value added of public works. The least dynamic sectors were agriculture, mining, and energy and gas, with growth rates of 2.4%, 2.1% and 2.8%, respectively.

At the end of 2007, inflation is expected to stand at around 5.5%, one percentage point higher than the target set by the Banco de la República. Buoyant domestic demand, together with poor crop production at the beginning of the year as a result of the El Niño phenomenon, pushed

#### COLOMBIA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4,7	6,8	7,0
Per capita gross domestic product	3,3	5,4	5,8
Consumer prices	4,9	4,5	5,4 <sup>b</sup>
Average real wage <sup>c</sup>	1,4	3,4	-0,6 <sup>d</sup>
Money (M1)	18,4	20,4	15,9 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	-11,4	1,5	-12,0 <sup>g</sup>
Terms of trade	8,5	3,8	5,3
<b>Annual average percentages</b>			
Urban unemployment rate <sup>h</sup>	14,0	13,0	11,6 <sup>i</sup>
National central government overall balance / GDP	-4,8	-4,1	-3,3
Nominal deposit rate	7,0	6,2	7,9 <sup>j</sup>
Nominal lending rate	14,6	12,9	15,1 <sup>j</sup>
<b>Millions of dollars</b>			
Exports of goods and services	24 393	28 554	32 503
Imports of goods and services	24 900	30 352	37 443
Current account	-1 881	-3 057	-6 703
Capital and financial account	3 610	3 080	11 305
Overall balance	1 729	23	4 602

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Manufacturing-sector workers.

<sup>d</sup> Estimate based on data from January to August.

<sup>e</sup> Twelve-month variation to September 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October 2007.

<sup>h</sup> Includes hidden unemployment.

<sup>i</sup> Estimate based on data from January to October.

<sup>j</sup> Average from January to October, annualized.

up prices, counteracting the effects of the measures taken since the previous year to avoid such pressures. In the first half-year, the rise concerned mainly foodstuffs, although public-utility, transport and petrol prices also went up. Thanks to the monetary policy applied and to the recent adjustments in the intervention interest rate, the central bank hopes that inflation will settle down next year at between 3.5% and 4.5%, with a specific target of 4.0%, which was the target set for 2007; once again the rate is being redirected towards its long-term target. For 2009, inflation is predicted to stand at between 3.0% and 3.5%, which places it within the long-term range (2.0% to 4.0%).

Unemployment has been declining. The average for the year is estimated to be 11.6%, well below the rate recorded in 2006 (13.0%). While changes in methodology make it difficult to make comparisons, a significant increase was recorded in the level of employment, especially in urban areas. With inflation higher than projected, real wages dipped slightly.

In the external sector, imports expanded by more than 25%. This increase is attributable mainly to the



imports of intermediate and capital goods required for expanding the country's production capacity. Exports grew by almost 15%, while exports of non-traditional products were up by about 20%, despite the appreciation of the peso. Exports to the United States were down in 2007, while non-traditional exports to the Venezuelan market were up.

The balance-of-payments current account showed a deficit equivalent to 4% of GDP and may well be a source of vulnerability should international markets prove volatile. It will be noted, however, that this indicator was based on purchases of military equipment on the

external market for an amount equivalent to almost 1% of GDP, and this is unlikely to be repeated in the next few years.

In June 2007, the Colombian Congress approved the free trade agreement between Colombia and the United States. Despite Colombia's various efforts to obtain approval for the agreement in the United States Congress, there is still uncertainty and it is not expected to enter into force until 2009; thus Colombia is hoping to obtain a further extension of the preferential treatment granted by the United States under the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

## Ecuador

In the first half of 2007, GDP increased by 1.3% over the figure for the first half of 2006 and, according to projections, it will grow by 2.7% in 2007 (considerably less than the 3.9% recorded in 2006). Inflation was lower than in 2006. The incumbent administration obtained a significant majority in the elections held on 30 September 2007 concerning the establishment of a constituent assembly, and it is expected that this political support will translate into the implementation of various economic reforms in support of President Correa's economic agenda.

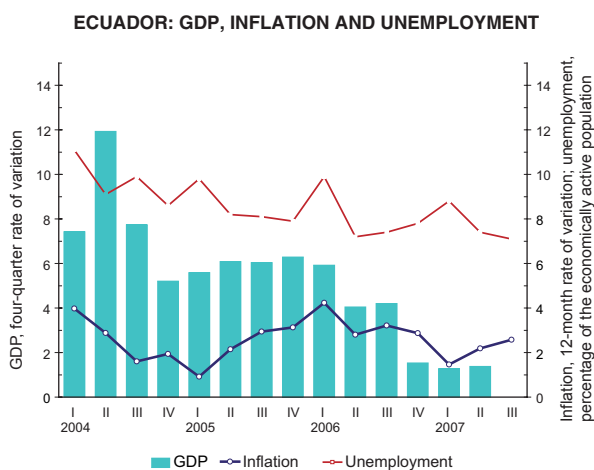
In the first nine months of 2007, the central government recorded a primary surplus of 2.1% of GDP, while the overall surplus was 0.7% of GDP. As growth in expenditure outstripped the expansion of revenues, both indicators showed a decline with respect to the figures for the same period of 2006. In the non-financial public sector, revenues were up by 22.4% and expenditure by 20.1%. During the first nine months of the year, the increase in non-oil revenues (11.9%), which was mainly attributable to social security contributions, was significantly higher than the increase in oil revenues (6%). The surplus posted by non-financial public corporations was also higher. Capital expenditure, in particular gross fixed capital formation by the central government, rose significantly (73%) in the first nine months of 2007.

At the beginning of October 2007, the government signed an executive order under which the State's share of the differential between the current market price of oil drilled by private companies that have signed participation contracts and the benchmark price set when those contracts were signed was raised to 99%. Previously, the State's share of such proceeds had been 50%.

The 12-month inflation rate to October 2007 was 2.4% (the figure for the first 10 months of the year was 2.2%). The real effective exchange rate showed an average depreciation of 5.4% between January

and September 2007 due mainly to the weakness of the United States dollar against the currencies of such trading partners as Colombia and to the low level of inflation.

In July 2007, Congress adopted the Regulation of the Maximum Effective Cost of Credit Act. This law caps the interest rate that can be charged by any given financial segment at the system-wide average plus two standard deviations. Charges that



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

do not relate to the provision of a service, as well as charges for services not accepted by clients, have been prohibited; in addition, it was ruled that creditors cannot charge commissions on credit operations or apply any commission or charge on prepayments that affect their debtors in cases where the agreed interest rate is adjustable.

In the first nine months of 2007, growth in the assets of open private banks slowed to 7.4%, down from 14.6% during the same period of 2006. Loans expanded more than bank assets (8.1%), especially loans to non-corporate residents, which were up by 14.2% during the period and accounted for 25.9% of total assets in September 2007. Bank demand for public securities was still negligible and, as a result, these securities accounted for just 0.8% of total assets in that month.

The slowdown in 2007 was due to a sharp decline in the mining and quarrying industry (down 5.3% in the first half-year) that was attributable to the marked decrease in oil extraction during the year and the weak performance of the construction sector (down 4.2%). The sectors contributing to growth in 2007 were commerce, manufacturing and other services, whose expansion was underpinned by the upswing in domestic consumption. Higher expenditure in the first six months of the year was fuelled primarily by the increase in household consumption and, secondly, by the variation in stocks; this marked a departure from the situation in 2006, when exports played a substantial part in boosting GDP. It should also be noted that in the first half of 2007, gross fixed capital formation and exports were both sluggish, with the former growing by a scant 0.1% and the latter declining by 1%.

The production of the State corporation PETROECUADOR fell sharply in the period June 2006 to April 2007, reaching a floor of 251,000 barrels a day, then picking up slightly in the following months, thanks in particular to the recovery of Block 15 (which includes the joint Eden-Yuturi and Limoncocha fields), administered independently of the rest of the PETROECUADOR subsidiary Petroproduction.<sup>1</sup> Oil production was hurt by strikes, claims and resistance by the inhabitants of areas in the vicinity of oil-producing regions, as well as by operational problems experienced by PETROECUADOR itself. Private oil production has been flat since 2006.

#### ECUADOR: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	6,0	3,9	2,7
Per capita gross domestic product	4,5	2,4	1,2
Consumer prices	3,1	2,9	2,7 <sup>b</sup>
Real minimum wage	3,0	3,3	4,0
Money (M1)	24,4	21,0	13,9 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	4,1	1,1	5,4 <sup>e</sup>
Terms of trade	11,9	7,3	3,8
<b>Annual average percentages</b>			
Unemployment rate <sup>f</sup>	8,5	8,1	7,6g
Central government overall balance / GDP	-0,5	-0,2	-0,5
Nominal deposit rate	3,8	4,4	5,1 <sup>h</sup>
Nominal lending rate	8,7	8,9	9,7 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	11 480	14 204	14 976
Imports of goods and services	11 851	13 764	14 912
Current account	322	1 540	1 468
Capital and financial account	344	-1 670	-68
Overall balance	666	-131	1 400

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Cuenca, Guayaquil and Quito. Includes hidden unemployment.

<sup>g</sup> Estimate based on data from January to September.

<sup>h</sup> Average from January to July, annualized.

While there have been methodological changes that hamper the analysis of labour market behaviour in Ecuador, it may be noted that the unemployment rate has dropped, with a consequent rise in the employment level. Most new jobs have, however, been concentrated in the informal sector. The real minimum wage rose by an annual average of approximately 4%.

In 2006, the balance of payments showed a current account surplus of US\$ 1.5393 billion. As from the second quarter of 2006, however, this surplus diminished, falling from US\$ 1.04 billion in the first half of 2006 to US\$ 101.7 million in same period of 2007. This was due to the deterioration in the merchandise trade balance, following a rise in imports and a weak performance by exports.

In the first nine months of 2007, the total value of exports grew by just 1.4%, which implies

<sup>1</sup> In May 2006, the Government of Ecuador terminated its agreement with the private oil company Occidental Petroleum. This resulted in an increase in the production of PETROECUADOR, since the latter took over the assets previously administered by Occidental Petroleum.

a deceleration with respect to 2006. This was due to an 8.5% decline in the volume of crude exported, which was not offset by the slight increase in prices (1.9%). Meanwhile, non-oil exports expanded by 9.3% during the period, thanks essentially to shipments of cocoa, canned fish and vegetable oils, which were up by 58.9%, 43.8% and 104.8%, respectively.

In the first nine months of 2007, the value of imports increased by 7.3% compared with the figure recorded for the same period of 2006. Although GDP statistics for the third quarter of the year were not available at the time of writing, this import performance reflects a slowdown in growth during the year, especially when compared with the 20.6% surge in imports recorded

between January and September 2006. In 2007, commodities (up by 17.1%) accounted for the bulk of the expansion in imports in a context characterized by high international commodity prices, while capital goods imports grew by 5.3% and consumer goods imports by 2.7%.

In the first half of 2007, foreign direct investment was considerably higher than it had been in the first half of 2006, since there were inflows of US\$ 285.4 million, compared with the negative figure of US\$ 101 million of net FDI recorded in the first six months of 2006. Nevertheless, the level of FDI received by Ecuador remains low compared with the rest of the region (0.9% of GDP estimated for 2007).

## Paraguay

In 2007, the growth rate of the Paraguayan economy was in the 5.5% range, driven by the extraordinary output in the crop-farming sector. Livestock farming, in contrast with the three preceding years, was affected by a decline in external demand and by drought in the second part of the year—and contracted, resulting in a fall in meat exports. On the other hand, external sales of soybean and cereals strengthened significantly and, together with services, contributed to the surplus on the current account. The guaraní continued to appreciate and, at the same time, inflation remained high.

The central government ended the year with fiscal accounts in equilibrium and a primary balance estimated at 0.9% of GDP. Growth in revenues is also forecast to be significant, exceeding the figure recorded in 2006. Once again, the entry into force of personal income tax was postponed, this time until 1 January 2009. Preparations for presidential elections (April 2008) were intensified and fiscal spending also increased substantially. In March, treasury bond issues amounted to 90 billion guaraníes and US\$ 7.1 million (a total equivalent to US\$ 24.85 million) and, in the same month, due bonds, amounting to close to US\$ 60 million at the close of 2006, were paid up. External financial public debt recorded in the Debt Management and Financial Analysis System (DMFAS) Programme diminished by 4.5% between December 2006 and October 2007; total external public debt was up by 1.2% in the first quarter of 2007, while private external debt grew by 7.2%.<sup>1</sup>

The Development Finance Agency (AFD) issued State-guaranteed bonds to the tune of US\$ 6 million in October; in November, the Inter-American Development Bank (IDB) approved a loan for US\$ 10 million to

support the export sector, leaving AFD in charge of loan allocations.

The appointment of a new board of directors of the central bank in March resulted in a few changes in monetary policy. Monetary regulation instruments were first sold at auction and then, as of mid-April, reinvested at benchmark rates. The respective rates fell considerably, from an average of 11% in February to 8% in March and 5.1% in October. The authorities continued to issue increasing volumes of monetary regulation instruments in their effort to attenuate the monetary effects of the central bank's intervention in the foreign-exchange market.

Monetary aggregates grew significantly throughout the year in both nominal and real terms, influenced by the substantial expansion in local-currency deposits. The latter outstripped growth in foreign currency deposits, while the expansion in savings deposits was much greater than that of sight deposits. These trends reflect moves to take advantage of the appreciation of the guaraní against the United States dollar and the higher rates of return on local-currency, in particular, term deposits. Foreign-currency loans (measured in

<sup>1</sup> The total external public debt includes debt recorded by DMFAS, the debt of the Central Bank of Paraguay with the Latin American Integration Association (LAIA), the external debt of the National Electricity Administration and external public commercial loans.

guaraníes) showed a marginally higher increase than loans in local currency. Although this still denotes risk aversion, the increase in lending is indicative of greater confidence in the financial system and in the economy in general; moreover, it is consistent with the decline in lending rates.

As regards the inflation target (5%), the consumer price index recorded a final variation close to the upper limit (7.5%) of the corresponding band. Prices were influenced by supply shortages (in the case of fruits and vegetables) and increases in international prices (bakery goods). In November 2007, the consumer price index rose by 7.4% compared with the previous year; meanwhile, core inflation (not including fruits and vegetables) stood at 7.3% and core X1 (not including fruits and vegetables or regulated services and fuels), at 8.3%. The rise in oil prices started to have an impact on fuel and transport prices in October, when the price of diesel was raised by 7.6% and transport by 5%, while the minimum wage was increased by 10% (close to US\$ 270).<sup>2</sup>

The exchange rate reflected a strong appreciation of the currency. Following a decisive intervention by the central bank in March and April, the foreign-exchange market started to show signs of greater stability but the appreciation intensified towards the end of the year. The guaraní appreciated against the dollar and the Argentine peso, but, up to October, these appreciations were lower than those of the previous year, while, in relation to the real, from the middle of the year it registered a nominal and real depreciation as a result of the substantial appreciation of the Brazilian currency against the dollar. The real effective exchange rate showed an 8% appreciation on average up to October, a result which has not affected the current account in any significant way.

In 2006, the Paraguay economy received a strong boost from the crop-growing sector, which achieved growth of close to 20%. Soybean production expanded by almost 72%, while cotton output contracted for the third year in a row, this time by 42%, although its yield was up by 30%. The output of other major crops, such as sugar cane (up 28%) and maize (up 14%), also contributed to the sector's robust performance. Livestock farming was affected by weak external demand and drought in the third quarter, which led to a decline of approximately 7%. Meat production, which accounts for 20% of the manufacturing industry, was affected, thus contributing to the downturn in the sector's performance.

#### PARAGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.9	4.3	5.5
Per capita gross domestic product	0.9	2.3	3.6
Consumer prices	9.9	12.5	7.4 <sup>b</sup>
Average real wage	1.1	0.6	-0.4 <sup>c</sup>
Money (M1)	22.3	16.5	33.0 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	9.5	-10.5	-10.4 <sup>f</sup>
Terms of trade	-6.6	-1.9	3.9
<b>Annual average percentages</b>			
Urban unemployment rate	7.6	8.9	...
Central administration overall balance / GDP	0.8	0.5	0.0
Nominal deposit rate	6.1	9.9	6.3 <sup>g</sup>
Nominal lending rate	15.3	16.8	15.3 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	4 045	5 645	7 418
Imports of goods and services	4 158	6 167	7 384
Current account	41	-110	422
Capital and financial account	119	493	120
Overall balance	160	383	541

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Estimate based on data for June.

<sup>d</sup> Twelve-month variation to October 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Average from January to September, annualized.

<sup>h</sup> Average from January to August, annualized.

In the services sector, the strongest components were communications, which continued to attract significant inflows of foreign direct investment (FDI), and the financial sector. Net FDI inflows were buoyant for the second consecutive year in 2007, when they are estimated to have increased by close to 9% and to have reached the highest level for eight years.

Paraguay's current account reflects the increase in exports of goods and services. Goods exports are estimated to have expanded considerably more than imports, thanks in part to the good crop harvest. Up to October, exports of soybean grew by 143% over the previous year's figure. External sales of oils, cereals and flours also increased quite substantially. Thus, the year-on-year decline in meat exports, which stood at 21% in October, was more than offset by the exports of crops, resulting in an overall 67% rise in exports to October. Imports of capital goods, in particular machinery and equipment, continued

<sup>2</sup> Diesel and transport prices are controlled by the government.

to play a prominent role, soaring by 42% over the previous year in October; this boosted gross domestic investment and productive activity.

The services sector's sound performance, largely attributable to the export of electricity by the binational entities, was partially counterbalanced by a decrease in current transfers. The current account showed a surplus estimated at around 3.5% of GDP. The capital

and financial balances, including errors and omissions, showed a smaller surplus than in 2006 (1% of GDP), owing to a slight outflow of financial capital. Lastly, in keeping with the central bank's foreign-exchange operations and external trade balance figures, international reserves swelled to US\$ 2.24 billion at the end of October. The build-up of net reserves corresponded to 5% of GDP.

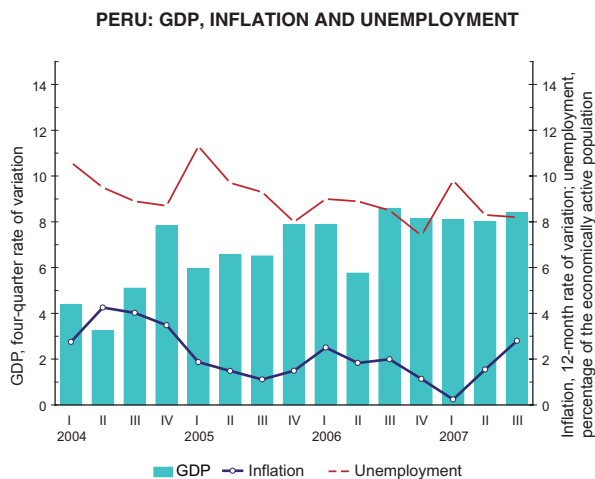
## Peru

With economic expansion at 8.2%, the Peruvian economy enjoyed its fourth consecutive year of growth in excess of 5%. Domestic demand rose by more than 10%, and a further improvement in the terms of trade contributed to a fiscal surplus of 2%. Inflation picked up somewhat in the second semester, influenced by supply factors, and exceeded the ceiling of the inflation target range set by the Central Reserve Bank of Peru. The lessened buoyancy of the world economy is expected to lead to a worsening of the terms of trade in 2008, but domestic demand should remain strong, so there should be only a small decline in the growth rate, to about 6.5%.

In early 2007 a new standby drawing rights agreement was signed with the International Monetary Fund. To facilitate a significant increase in public investment, investments and transfers were excluded from the ceiling of 3% per year established under the Fiscal Responsibility and Transparency Act. Administrative measures were also taken to expedite public works. Furthermore, reconstruction work has to be undertaken following the August earthquake, which mostly affected the department of Ica. Although constraints relating to the efficient use of available funds persist, general government gross capital formation is estimated to have risen slightly in GDP terms. Since general government non-financial current expenditure fell in GDP terms, total general government spending is estimated to have dipped from 18.1% to 17.7% of GDP.

Revenue swelled considerably thanks to buoyant economic growth and the high prices of natural resources, which boosted income tax receipts. For the year as a whole, general government current revenue is expected to climb from 19.7% to 20.5% of GDP. As a result, the overall balance of the non-financial public sector, which had been forecast to be a 0.8% deficit, is now expected to post a larger surplus than in 2006. In 2008, the authorities are facing the challenge of improving

the inclusion of growing sectors of the population in the benefits of economic and social growth. Forecasts call for a smaller primary surplus and a slight overall deficit for the non-financial public sector, as a result of higher spending (especially capital spending), and zero growth in government revenue in GDP terms.



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



Given the favourable circumstances in 2007, the government stuck to its strategy of reducing the vulnerability associated with the public debt. In February, it bought back Brady bonds and global bonds due in 2012, replacing them with new bonds due in 2016, 2033 and 2037. In October it prepaid some US\$ 1.794 billion to Paris Club creditors, financing most of that amount by issuing bonds denominated in national currency. It is estimated that the public debt will fall from 32.7% to 28.4% of GDP.

The authorities retained the inflation target system, set in a range whose central value was reduced from 2.5% to 2% with a range of one percentage point on either side. The consumer price index (CPI) rose gradually in the course of the year and in October it exceeded the ceiling of the inflation target range. Although the increase was due more to supply factors (fuels, foodstuffs) than to demand pressure, the authorities, as a precaution, raised the benchmark interest rate in July and September, by 25 basis points each time, after having held it at 4.5% for 13 months.

Lending rates in national currency (fixed structure of rates) continued to decline gradually, from an average of 17.1% in 2006 to 16.4% (January to October 2007), but short-term rates rose from the third quarter onwards, in line with monetary policy. Credit to the private sector remained an engine of growth, with two-figure increases year-on-year throughout 2007 (18.5% year-on-year as of October).

The trend in the value of the dollar and the strength of the Peruvian external sector helped to bring about a gradual nominal appreciation of the new sol against the dollar throughout the year, a process which accelerated from September onwards. In October, real bilateral appreciation posted a year-on-year rate of 6.4%. However, owing to the appreciation of other currencies, the real effective exchange rate fell by only 0.7%. The authorities are facing the challenge of meeting the inflation target without spurring a greater real appreciation of the national currency.

The central bank intervened to restrain the real bilateral appreciation of the new sol by means of purchases totalling almost US\$ 9 billion. As a result, its net international reserves rose to US\$ 24.9 billion. To avoid a major inflationary effect, the total amount of deposit certificates was increased from about 8 billion new soles in late 2006 to almost 20 billion new soles in October 2007.

Of fundamental importance to Peruvian trade policy were the efforts to ensure approval by the United States Congress of the free trade agreement. That finally occurred in late 2007.

## PERU: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	6.7	7.6	8.2
Per capita gross domestic product	5.5	6.3	7.0
Consumer prices	1.5	1.1	3.5 <sup>b</sup>
Average real wage	-1.9	1.2	0.9 <sup>c</sup>
Money (M1)	29.1	18.0	26.5 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	0.6	1.7	1.4 <sup>f</sup>
Terms of trade	7.3	26.5	7.1
<b>Annual average percentages</b>			
Urban unemployment rate	9.6	8.5	8.4 <sup>g</sup>
Central administration overall balance / GDP	-0.7	1.5	1.8
Nominal deposit rate	2.7	3.4	3.5 <sup>h</sup>
Nominal lending rate	17.9	17.1	16.5 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	19 657	26 251	31 057
Imports of goods and services	15 205	18 266	24 124
Current account	1 148	2 589	1 524
Capital and financial account	264	632	8 032
Overall balance	1 411	3 221	9 556

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Year-on-year average variation, November 2006 to October 2007.

<sup>d</sup> Twelve-month variation to September 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Estimate based on data from January to October.

<sup>h</sup> Average from January to November, annualized.

The high level of economic growth (8.2%) was based on buoyant domestic demand, especially private investment, which rose by about 25% and was especially strong in mining and in activities related to the domestic market, such as construction. The marked growth of household consumption (over 7%) was mainly sustained by dynamic job creation and strong expansion of credit. Public investment rose throughout the year and eventually exceeded a 10% growth rate, while public consumption was up 3%. Exports once again grew at a moderate pace (5%), whereas imports rallied in response to soaring demand. The sectors which enjoyed the fastest growth included construction and non-primary manufacturing, which achieved two-figure rates.

Rapid economic growth encouraged the creation of formal jobs (8.2% in the first eight months of the year). Aggregate employment also rose, but the unemployment rate showed little change owing to a considerable increase in labour supply

as unemployment and underemployment levels remained high, workers' incomes stagnated. To boost low incomes, increases in the minimum wage totalling 10% were announced for October 2007 and January 2008.

Traditional exports were affected by a fall in gold production, but this was more than compensated for by the favourable trend in prices. In the first three quarters, traditional exports were up by 17% and non-traditional exports by 20%. For the year as a whole, the increase in external sales is estimated at

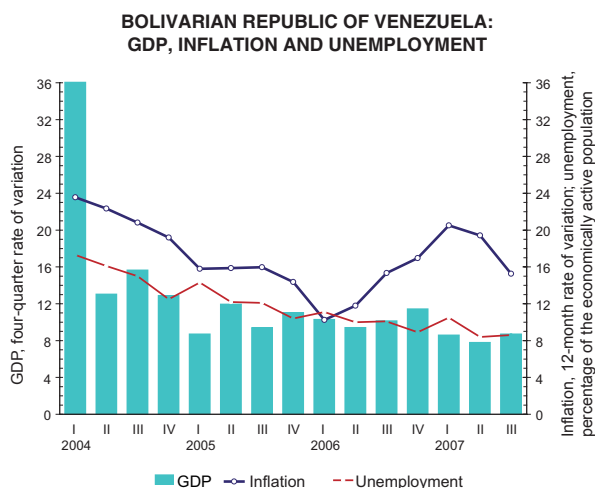
17% and that of imports at 33%, with a very strong performance by capital goods purchases (close to 50%), encouraged by tariff reductions. As a result, there were smaller surpluses on the trade balance and the current account. The latter fell from 2.8% to about 1.6% of GDP.

There were copious financial flows, particularly in the form of foreign direct investment. These were partly counteracted by the reduction of public sector external debt. Estimates place the financial account surplus at around US\$ 8 billion.

## Bolivarian Republic of Venezuela

GDP growth for 2007 is estimated to be over 8% thanks to the increased buoyancy of internal demand. GDP rose by 8.4% in the first three quarters, boosted by growth in the non-oil sectors (9.9%). The oil industry was down by 6.1%. The strongest sectors were commerce (18.3%), communications (23.2%) and financial services (22.2%), while construction grew by only 12.5% during the same period.<sup>1</sup> On the demand side, there were increases in consumption (16.5%) and investment (22.7%), reflecting growth in the volume of imports (31.1%), but export volumes continued to fall (-3.9%). For 2008, the authorities estimate GDP growth at about 6%, an exchange rate holding steady at 2,150 bolívares to the United States dollar, and annual inflation averaging 11%.

Following the enactment of an enabling law by the executive branch in February 2007, the government implemented a number of policy measures. In January, it announced the nationalization of two public-service companies: Electricidad de Caracas S.A. and Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV). As of 1 May, Petróleos de Venezuela, S.A. (PDVSA) acquired controlling stakes in the strategic partnerships operating in the Orinoco oil belt. Also in May, the government did not renew the operating licence of a television channel which had operated for many years. In October, the National Assembly adopted the constitutional reform proposed by the President. The new constitution was submitted to a referendum on 2 December, but was not approved by the electorate. Among the most controversial measures were the decision to strip the central bank of its independence, changes to the country's territorial structure which would have implications for budgetary outlays, the indefinite re-election of the President, the creation of the legal concept of popular power, and changes in provisions relating to ownership.



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

<sup>1</sup> The construction sector had been growing at rates exceeding 20% since 2004.

Fiscal policy remained expansionary in 2007, as it had been in recent years, although at a more moderate level. In the period from January to August 2007, central government current expenditure rose by 12.8% (56.2% for the same period in 2006), while revenue was up by 13.8% (43.5% for the same period in 2006). Current revenue and spending are increasing very slowly in real terms. For the year as a whole, the fiscal balance is expected to be close to the 2006 level.

There were a number of changes in tax policy during the year. In February, as part of their anti-inflation policy, the authorities announced a cut in the VAT rate from 14% to 9%, to be implemented in two stages: from 14% to 11%, as of 1 March 2007, and from 11% to 9%, as of 1 July. On 15 March, VAT was abolished for a number of foodstuffs and the rate was lowered for transport services for foodstuffs. In October, the government announced a rise in taxation on alcoholic beverages and cigarettes and, as from 1 November, the entry into force for November and December 2007 of the tax on banking transactions, which levies 1.5% on corporate withdrawals and transfers.

As in the previous two years, the government invested dollars in purchases of foreign bonds, continued to build up foreign-exchange funds outside the country and pursued its external debt renegotiation programme. The authorities issued a number of bonds in the course of the year: in early 2007, the Southern Bond II (US\$ 1.5 billion), the bond issued by *Petróleos de Venezuela, S.A.* (US\$ 7.5 billion) and in August, the Southern Bond III (US\$ 1.2 billion).<sup>2</sup>

In 2007, the authorities implemented measures to hold back the growth of monetary aggregates. Early in the year, it was determined that the payment of taxes by *Petróleos de Venezuela, S.A.* to the Treasury should take place directly in dollars via the Treasury's accounts outside the country. In the first semester, the authorities ordered a new transfer, of US\$ 6.77 billion, from the international reserves of the central bank to the National Development Fund (FONDEN). In July, the central bank increased annual deposit rates from 6.5% to 8.0% (savings deposits) and from 10.0% to 11.0% (time deposits); it also raised the legal reserve rate from 15% to 16% and subsequently, as of 1 October, to 17%.<sup>3</sup> The central bank continued to intervene in the market with absorption measures. In October 2007, broad money (M3) was 18% up on the

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

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	10.3	10.3	8.5
Per capita gross domestic product	8.5	8.5	6.7
Consumer prices	14.4	17.0	20.7 <sup>b</sup>
Average real wage	2.6	5.1	0.4 <sup>c</sup>
Money (M1)	50.0	71.3	64.6 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	0.1	-6.0	-10.8 <sup>f</sup>
Terms of trade	30.8	19.4	8.7
<b>Annual average percentages</b>			
Unemployment rate	12.4	10.0	8.7 <sup>g</sup>
National administration overall balance / GDP	1.6	0.0	0.5
Nominal deposit rate	11.7	10.1	10.5 <sup>h</sup>
Nominal lending rate	15.6	14.6	15.9 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	56 829	66 669	70 002
Imports of goods and services	28 915	37 944	48 641
Current account	25 534	27 167	22 611
Capital and financial account	-20 110	-22 431	-27 611
Overall balance	5 424	4 736	-5 000

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Estimate based on data from January to September.

<sup>d</sup> Twelve-month variation to September 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Estimate based on data from January to October.

<sup>h</sup> Average from January to October, annualized.

December 2006 figure (42% for the same period in 2006). In the first eight months of 2007, bank credit to the private sector rose by 45.2%, while lending by the financial system to the public sector declined by 32.6% compared with December 2006.

A redenomination of the bolívar will take place on 1 January 2008, when three zeros will be cut from the currency unit. The currency's new name will be the "strong bolívar" and it will be represented by the symbol "Bs.F." Both currencies will be in circulation for a period of six months, during which the prices of goods and services are to be displayed in both denominations.

The authorities maintained the foreign-exchange management regime which had been in place since

<sup>2</sup> Like the Southern Bond I, these bonds were made up of equal parts of Argentine bonds (BODEN 15) and principal and interest covered bonds issued by the Venezuelan government.

<sup>3</sup> For the first ten months of 2007, on average, and for the six principal commercial and universal banks, lending rates stood at 16%, and the rates for savings deposits and time deposits were 7.1% and 10.5%, respectively.

2003 and the restrictions on capital outflows. The official exchange rate remained unchanged. In the last months of 2007, despite the fact that foreign exchange was now more readily available through the Foreign Exchange Administration Commission (CADIVI) and the raising of the limits on the amount of foreign-currency credit that credit-card holders may use outside the country, the rate of exchange on the parallel market rose significantly.<sup>4</sup>

In November 2007, the consumer price index (CPI) was up by 18.6% compared with December 2006. The sharpest increases were in the prices of foodstuffs and beverages, health care, and restaurants and hotels, despite price controls on a significant group of products in the CPI basket. In the last months of the year, the shortages of certain foodstuffs worsened. During the same period, the wholesale price index recorded an increase of 14.5% (15.2% and 12.0% for national and imported products, respectively). As for wages, the general index showed an

average rise for the period from January to September 2007 of 17.3% compared with the 2006 average (17.2% and 17.5% in the private and government sectors, respectively). The minimum wage was raised by 20% as of 1 May. In the first nine months of the year, in terms of the yearly average, the unemployment rate stood at 9.1% (10.4% for the same period in 2006).

In the first three quarters, the current account of the balance of payments posted a surplus (US\$ 16.034 billion), less than the figure for the same period in 2006 (US\$ 22.993 billion), owing to the 2.8% fall in oil exports and the large increase in goods imports (up 35.9%).<sup>5</sup> The country's external debt rose to US\$ 48.078 billion (US\$ 44.184 billion in 2006) because of rising public debt. Public and private debts were equivalent to 68% and 32% of the total, respectively. As of November 2007, the central bank's international reserves stood at US\$ 30.331 billion (as against US\$ 36.5 billion at the beginning of the year).

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<sup>4</sup> Up to November 2007, the dollar exchange rate on the parallel market was 210% higher than the official rate.

<sup>5</sup> As of November 2007, the average price of the Venezuelan crude-oil basket was US\$ 62.61 per barrel, compared with an average of US\$ 56.45 in 2006.

## Uruguay

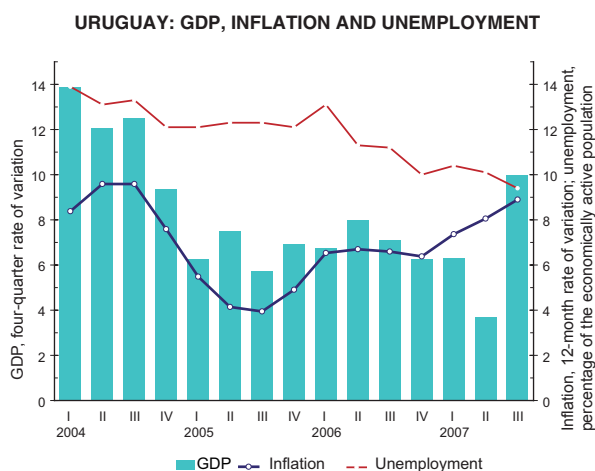
In 2007, Uruguay enjoyed its fourth consecutive year of economic expansion, achieving a growth rate of about 7.5% thanks to increases in both external and domestic demand. This higher demand, together with supply limitations in some sectors and upward trends in world commodity markets, led to inflationary pressure in the country's economy (8.6% in the 12 months to November 2007). For the year as a whole it is estimated that the value of goods and services exports will be up 14% and imports by 10%, so the balance of payments current-account deficit should stand at about 1% of GDP. If current conditions in local and international markets continue, economic growth in 2008 should be close to 6.5%.

The fiscal situation remained balanced, with a primary surplus of some 4% of GDP and interest payments on debt at a similar level. Tax receipts picked up thanks to increased activity and a growing formalization of the economy, as well as a slight improvement in profits from state-owned enterprises, against the background of rising production costs. Spending by the non-financial public sector once again diminished in relation to GDP, closing the year at about 29% of GDP.

A reform of the tax system came into force in mid-2007, with the main goals of improved efficiency and equity. On the efficiency side, the system was simplified with the abolition of certain taxes which had generated few receipts; value added tax (VAT) was applied more widely, but its rates were cut. As for equity, the tax reform introduced a dual personal income tax system with progressive rates, with separate regimes for work income and capital income.

The gross debt/GDP ratio of the non-financial public sector fell once again, standing at 60% in mid-2007. External debt restructuring continued by means of bond issues and buy-back operations in the market. Gross reserves were over US\$ 3.6 billion as of late October, about 16% of GDP.

Monetary policy continued to aim at preserving price stability, but its main instrument changed with the introduction of a system to set the short-term interbank interest rate. The interbank overnight rate (call rate) was initially set at 5% per year, and was then



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

raised by successive meetings of the Monetary Policy Committee of the Uruguay Central Bank, reaching 7.25% in November.

Monetary-policy measures were combined with fiscal measures to attenuate the impact of inflation. These included the establishment of a fund to subsidize urban public transport fares, holding fuel prices steady despite the hikes in international oil prices, and cuts in public and health service charges.

The total gross credit to the non-financial system rose by 4.1% in real terms to June 2007, with a further increase in the share of credit in national currency, which stood at 25.5% of the total compared with 21% a year earlier.

The nominal exchange rate continued to float, and the appreciation of the local currency against the dollar is estimated at about 9% in late 2007. This was due to the depreciation of the dollar on world markets and the increased availability of foreign exchange on the local market owing to tight monetary policy. Meanwhile, the overall real effective exchange rate is expected to appreciate by about 1% for the year.

The achievement of 7.5% economic growth was based on increased output in all sectors, especially manufacturing, transport, communications and electricity, gas and water, where growth was above the average level, although manufacturing and transport probably grew more slowly than in 2006. Growth in the commerce, restaurants and hotels sector is expected to be equal to or somewhat higher than the economy as a whole, but it will be below average in agriculture, construction and other branches of activity.

External demand for goods and services held steady in the course of the year, while internal demand continued its upward trend because of the recovery in household incomes. Consumption is estimated to be up by 8% at the end of 2007, while the increase in gross capital formation should be 10% higher than the average for 2006.

With year-on-year inflation of 8.6% as of November, estimates suggest that the year will close with a higher rate than had been forecast in the monetary programme, which placed it between 4.5% and 6.5%. The inflationary trend was due to rising prices for export goods and fruits and vegetables, as well as international oil prices. Wholesale inflation was well above the rate of increase of consumer prices; the producer price index was up 18.4% in the year to October.

The labour market remained strong in urban areas. The employment rate rose from 53.5% in the first nine months of 2006 to 56.4% in the same period in 2007, accompanied by a two-point rise in

#### URUGUAY: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	6.6	7.0	7.5
Per capita gross domestic product	6.6	6.8	7.2
Consumer prices	4.9	6.4	8.6 <sup>b</sup>
Average real wage	4.6	4.3	5.2 <sup>c</sup>
Money (M1)	22.4	28.9	22.0 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	-9.9	-0.7	0.0 <sup>f</sup>
Terms of trade	-9.2	-2.2	0.0
<b>Annual average percentages</b>			
Urban unemployment rate	12.2	11.4	9.7 <sup>g</sup>
Central government overall balance / GDP	-1.6	-1.0	-1.5
Nominal deposit rate	2.3	1.7	2.1 <sup>h</sup>
Nominal lending rate	15.3	10.5	9.8 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	5 085	5 516	6 297
Imports of goods and services	4 693	5 708	6 537
Current account	42	-436	-579
Capital and financial account	753	2 832	1 641
Overall balance	796	2 396	1 062

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Estimate based on data from January to October.

<sup>d</sup> Twelve-month variation to September 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Estimate based on data from January to September.

<sup>h</sup> Average from January to October, annualized.

the labour force participation rate. Unemployment dropped by almost two percentage points, from an average of 11.9% in the first three quarters of 2006 to 10% for the same period in 2007. The average wage index posted a real increase of 4.6% in the twelve months to October 2007, with rises of 4.7% in the private sector and 4.4% in the public sector. The national minimum wage was adjusted upwards by 8.1% in nominal terms, and is now equivalent to approximately US\$ 150 per month. Household incomes are estimated to have risen by 4.5% in real terms for the year, thanks to rising wages and pensions and the growth of employment in 2007.

Urban poverty fell again, standing at 25% of the total population in the first half of 2007, compared with 27% 12 months earlier. Children under 12, among whom the poverty level remains at about 50%, continued to be particularly affected by the situation.

Goods exports rose by 11.6% year-on-year for the period from January to September, and the principal export destinations continued to be Brazil (16%), the

United States (12%) and Argentina (8.6%). The trend in goods imports was also positive in January to October, with the energy component taking a large share and

strong demand for consumer and capital goods. In the first half of 2007, the balance-of-payments current account posted a deficit of 2% of GDP.



## Mexico and Central America

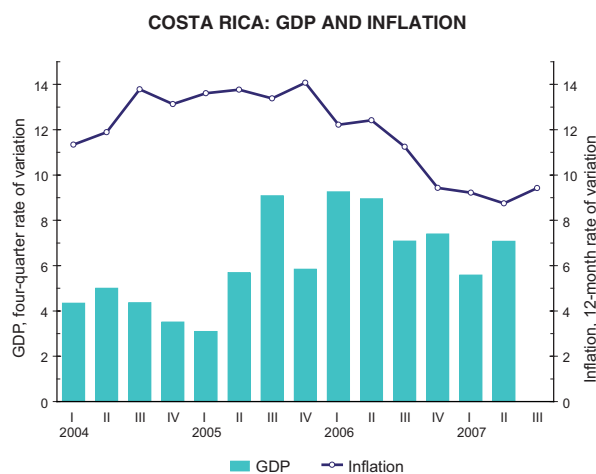




## Costa Rica

The expansion of the Costa Rican economy slowed from 8.2% in 2006 to 7.0% in 2007. The growth rate remains high, however, especially in comparison with potential growth, estimated at 4.5%. Exports rose by 9% at constant prices and continued to show the greatest buoyancy. The open unemployment figure fell from 6.0% to 4.6%. Inflation picked up during the last months of 2007 and is expected to reach 10.0% by the end of the year, exceeding the 2006 figure (9.4%) and the target set by the central bank (8%). The central government fiscal deficit edged up somewhat from the equivalent of 1.1% of GDP in 2006 to 1.3% in 2007, while the balance of payments current-account deficit rose slightly to 5.2% of GDP. The central bank has set an inflation target of 6% for 2008. ECLAC estimates forecast real GDP growth of 6.0% and an inflation rate of 7%. The central government fiscal deficit is expected to decline slightly to 1.1% of GDP, while the balance of payments current-account deficit as a percentage of GDP should be similar to the 2007 figure.

Lack of parliamentary support for government initiatives hindered implementation of a number of important economic policy measures, including approval of the tax reform bill. The central government fiscal deficit was up slightly (1.3% of GDP) and current revenue grew thanks to the buoyancy of the economy and improvements in tax administration. The payment of wages and pensions, as well as a sharp rise in “other expenditure”, were the causes of the moderate upturn in the deficit.<sup>1</sup> In order to discourage short-term capital inflows and restrain the fluctuation of the dollar, the central bank kept the floor of the crawling band system unchanged and lowered interest rates. However, mostly owing to the excess of dollars in the national market, which was partly caused by high financial inflows from abroad, the dollar exchange rate



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

<sup>1</sup> “Other expenditure” consists mainly of transfers to municipalities and the “Avancemos” programme, financing provided to the National Highway Council (CONAVI) and spending on school meals and non-contributory pensions.

remained at or close to the floor of the exchange-rate band (520 colones) despite considerable purchases of dollars by the central bank. In August, the year-on-year variation of the nominal exchange rate was 0.3%. Owing to the inflation gap, the Costa Rican currency posted a real appreciation of 5.5% against the dollar. In response, the central bank decided in November that on the basis of an intervention rate of 498.39 colones (buying) and 562.83 (selling), the daily depreciation would be 6 cents.

In the course of the year, the central bank cut the monetary-policy rate from 9.75% to 6.0%.<sup>2</sup> This change was reflected in the interest rate structure of central bank debt instruments and led to widespread cuts in commercial banks' lending and deposit rates. Nonetheless, given the central bank's inflation target of 8%, the upswing in inflation in late 2007 is expected to bring about interest rate rises.

Following the referendum of 7 October which approved the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), the country's President enacted the agreement as a law of the Republic. The approval by Congress of the implementation programme remained pending, however.

Trade and investment cooperation agreements were signed with China following the establishment of diplomatic relations in July. The accords include an agreement on reciprocal protection of investments and an agreement to explore the possibility of signing a free trade agreement. An agreement was also reached between the Costa Rican Oil Refinery (RECOPE) and the China National Petroleum Corporation. Among other things, the agreement provides for Chinese technical assistance to analyse the possibility of extending the existing refinery operated by RECOPE.

At 7%, the growth of the Costa Rican economy in 2007 was greater than had been forecast (5%) and the national open unemployment rate fell from 6.0% to 4.6%. At the sectoral level, there were notable increases in value added in construction, transport, storage and communications, financial intermediation services, manufacturing—thanks to the output of companies operating in the free trade zones and those which export mostly to Central America—and agriculture. In the last quarter of the year, economic activity was affected by the negative impact of the heavy rainfall that hit the north of the country and the Caribbean coast.

Year-on-year inflation, measured by the yearly variation of the consumer price index (CPI), stood

#### COSTA RICA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	5.9	8.2	7.0
Per capita gross domestic product	4.0	6.3	5.2
Consumer prices	14.1	9.4	10.1 <sup>b</sup>
Average real wage <sup>c</sup>	-1.9	1.6	1.9 <sup>d</sup>
Money (M1)	13.7	21.0	23.3 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	1.4	-0.2	-1.5 <sup>g</sup>
Terms of trade	-3.8	-2.9	-1.0
<b>Annual average percentages</b>			
Unemployment rate	6.6	6.0	4.6
National administration overall balance / GDP	-2.1	-1.1	-1.3
Nominal deposit rate	12.1	11.3	7.2 <sup>h</sup>
Nominal lending rate	24.0	22.6	17.4 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	9 721	11 023	12 515
Imports of goods and services	10 747	12 426	13 518
Current account	-971	-1 122	-1 346
Capital and financial account	1 364	2 153	2 346
Overall balance	393	1 031	1 000

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Average wages reported by workers covered by social security.

<sup>d</sup> Estimate based on data from January to August.

<sup>e</sup> Twelve-month variation to October 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October 2007.

<sup>h</sup> Average from January to November, annualized.

at 9.4% in September, the same as at the end of 2006. According to ECLAC estimates, the inflation figure will be about 10%, given the upward trend in international oil prices, excess demand especially in the private sector, which particularly affected non-tradables, and the concentration of banking resources in high-liquidity financial assets.

In the external sector, the balance-of-payments current account posted a deficit equivalent to 5.2% of GDP. The rising deficit on the income account, caused by increased repatriation of profits and dividends associated with foreign direct investment (FDI), surpassed the net surplus on the services account. The current-account deficit, however, stood at only 57.3% of the surplus on the capital and financial account, mostly owing to the high level of FDI, which rose to more than US\$ 1.65 billion, with major investments in the real estate and tourism sectors. This gave a considerable boost (32%) to net international reserves, which stood at US\$ 4.115 billion.

<sup>2</sup> As of March 2006, the monetary-policy rate was defined as the interest rate of the overnight deposit facility.

Goods exports grew overall by 14.7%. The fastest-growing agricultural products included bananas, pineapples and coffee. Prominent among industrial exports were integrated circuits, electrical microstructures and components for modular circuits, and exports to the Central American Common

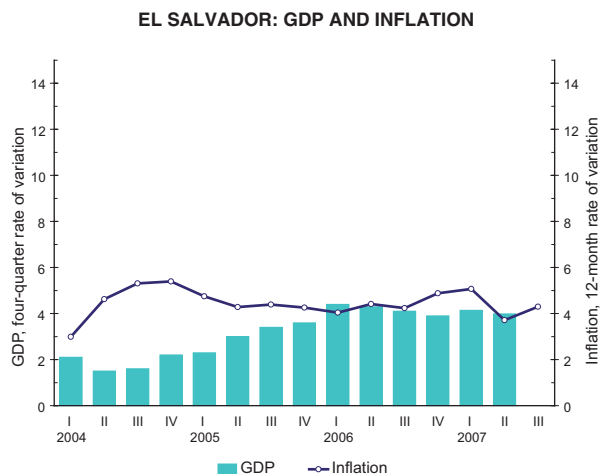
Market. Import growth of 9.3% was concentrated in raw materials and intermediate goods, largely reflecting the country's rising oil bill, imports of raw materials for construction and, to a lesser extent, foreign purchases by companies operating in its free trade zones.

## El Salvador

El Salvador posted a GDP growth rate of 4.5% in 2007, half a percentage point higher than the previous year and the best level in 12 years. Expansion was boosted by widespread buoyancy in the agricultural, manufacturing and services sectors. Family remittances (18.7% of GDP) once again stimulated private consumption and alleviated the impact of rising world oil prices on the current account, which registered a deficit of 4.6% of GDP. The overall fiscal deficit of the non-financial public sector (NFPS) stood at 0.6% of GDP, while annual inflation was about 5%.

GDP growth for 2008 is forecast at around 4.5%. Increased growth is expected in the agriculture, services and construction sectors thanks to the use of resources from the Millennium Challenge Account (US\$ 80 million in 2008) and the high level of public investment (3.4% of GDP, a figure not seen since the earthquakes in 2001). These factors are expected to compensate for a slowing in external demand and remittances. Inflation is projected at about 4%. The main economic policy goal is to continue strengthening fiscal discipline and improve the efficiency of tax collection with a view to achieving a tax burden of 15.5% of GDP in 2011.<sup>1</sup>

Current revenue in 2007 was 17.6% of GDP. The tax burden was 14.2% of GDP (13.6% if refunds are discounted), almost a point higher than in 2006. This was due to the effects of economic growth and improvements in tax administration adopted as part of the 2005 reform measures, which broadened the tax base by including part of the informal sector, cross-referencing tax data and implementing large-scale inspection plans by the Internal Revenue Service and the customs service. Current spending (15.6% of GDP)



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

was pushed up by the increase in public consumption and debt interest payments. The consumption of electric power and liquefied gas was subsidized, for the third consecutive year, to the tune of about US\$ 140 million.

<sup>1</sup> The tax burden grew considerably between 2004 and 2007, by 2% of GDP. There is, however, still room for a tax reform which will provide increased resources to meet the population's current needs. The average tax burden in Latin America and the Caribbean is about 17% of GDP.

The creation in September 2006 of a trust fund to manage the pension system debt was an accounting modification which improved the fiscal accounts of the NFPS. Payments on the debt of the social insurance system fell by 1.6% of GDP between 2006 and 2007. The purpose of the trust fund, managed by the Multisectoral Investment Bank (BMI), is to issue social insurance debt certificates to be purchased by pension-fund managers for a term of 25 years. This has enabled the State to defer some US\$ 328 million in debt and scale down the NFPS debt from 39.4% of GDP in 2006 to 36.5% of GDP in 2007. These measures reduced the overall deficit of the NFPS from the equivalent of 1.1% of GDP in 2006 to 0.6% of GDP in 2007 (including grants amounting to 0.3% of GDP). The central government's global deficit (0.4% of GDP) was unchanged in relation to 2006, while the central government's primary surplus declined slightly, slipping from 2.0% to 1.8% of GDP.

Nominal interest rates edged up in 2007 owing to higher international rates but, given rising prices, the real lending and deposit rates remained unchanged. Together with an improving economic performance, this led to expansion in bank lending, mainly to response to the demand for housing mortgages and consumer loans. In late 2007, the central bank had net international reserves of US\$ 2.091 billion (9.6% more than the 2006 figure), equivalent to 2.6 months' worth of goods and services imports.

For the third consecutive year, the performance of the agricultural sector was strengthened by favourable prices for certain products. Thanks to the execution of infrastructure projects such as the construction of the Port of La Unión, and rising demand for housing, the construction sector achieved growth of 4%. Performance also improved in the following sectors: tourism, finance, electric power, transport and communications and manufacturing. The latter represented 23% of total GDP and rose by 3.9% in 2007 compared with 3.2% in 2006. Private investment was up (10.8%), but public investment declined by 2.4%. Some 5% of private consumption was sustained by remittances. All these factors led to an upswing in economic growth from 4.2% to 4.5%, despite the slowdown in the United States economy.

Year-on-year inflation stood at 5.5% in October, which was considerably higher than the figure of 4.9% recorded at the end of 2006, owing to the continuing rise in international prices for food and oil, which had a negative impact on the cost of gasoline and transport. Minimum wages were raised in mid-November 2007 by 3% in the maquila sector and by 5% in other areas.

## EL SALVADOR: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	3.1	4.2	4.5
Per capita gross domestic product	1.3	2.4	2.8
Consumer prices	4.3	4.9	6.2 <sup>b</sup>
Real minimum wage	-4.5	-0.7	2.6
Money (M1)	9.3	14.1	11.0 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	1.4	0.4	0.6 <sup>e</sup>
Terms of trade	0.0	-1.3	0.0
<b>Annual average percentages</b>			
Urban unemployment rate	7.3	5.7	...
National administration overall balance / GDP	-1.0	-0.4	1.0
Nominal deposit rate	3.4	4.4	4.8 <sup>f</sup>
Nominal lending rate	6.9	7.5	7.8 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	4 556	5 070	5 409
Imports of goods and services	7 744	8 741	9 650
Current account	-724	-700	-926
Capital and financial account	665	771	1 109
Overall balance	-59	72	183

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Average from January to October, annualized.

These increases did not make up for the earlier fall in real wages, however, with the January-October average down by 4%. With the addition of 26,000 new contributors to the Salvadoran Social Security Institute (ISSS), there was a small downturn in open unemployment, to 6.5%. The need to create more high-quality jobs is a problem that remains to be addressed.

Exports of goods and services climbed by 6.7%. Non-traditional exports were up by 22.5%, while traditional exports rose by barely 0.7%. Maquila exports ended their downward trend of previous years. Goods and services imports showed stronger growth (10.4%). Imports of consumer goods, intermediate goods and capital goods increased by 13.4%, 10.5% and 15.7%, respectively, in comparison with 2006. The oil bill stood at US\$ 1.4 billion, equivalent to 6.9% of GDP and 14.5% of total goods and services imports.

The economy experienced a strong upsurge thanks to inflows of family remittances (US\$ 3.783 billion), although the annual rate of increase in such remittances slowed to 9% (versus 18% in 2006) owing to the economic slowdown in the United States and the hardening of its migration policy. Remittances covered 89% of the

trade deficit (21% of GDP). Income from tourism was close to US\$ 1 billion, thanks to over 1.2 million tourist arrivals. These various trends added up to a balance-of-payments current account deficit of 4.6%

of GDP, almost one percentage point higher than in 2006. Foreign direct investment was four times more than the 2006 level, at US\$ 1.027 billion, as a result of receipts from the sale of bank assets.



## Guatemala

The Guatemalan economy grew by 5.5% in 2007 thanks to the buoyancy of private consumption, which was boosted by large inflows of family remittances (12.5% of GDP). Those inflows went some way towards financing the country's large trade deficit (about 17% of GDP). The current-account deficit (5% of GDP) was more than covered by foreign direct investment and other capital inflows. The yearly inflation figure to November was 9.1%, mostly owing to supply factors, so the 2007 inflation target of 4%-6% was not met.

For 2008, the authorities project GDP growth of 5.0%, an inflation rate between 3.5% and 5.5% and a central government deficit of 1.6% of GDP. The new government will take office in January 2008, and is expected to comply with the commitment to maintain macroeconomic stability and give greater priority to social policies. It will have to face the public security problems and construct legal standards to enable the authorities to have access to stable and sufficient revenue. The tax burden stood at 12% of GDP, well below the average for Latin America and the Caribbean.

Up to September 2007, total government revenue in real terms rose by 9% (compared with 11% in 2006), boosted by economic growth. In real terms, current expenditure increased by 8% and capital expenditure by 17%. Particularly significant was the growth of physical investment as a result of new public works projects. As a result, the government deficit in 2007 was slightly above the 2006 figure of 1.9% of GDP. A one-year extension is currently being arranged for the extraordinary tax imposed temporarily to support the peace agreements (IETAP), which is due to expire at the end of 2007. If this is agreed, it will generate revenue equivalent to 1% of GDP for the 2008 budget.

In the course of the year, in order to counter inflationary pressures, the monetary authorities made five increases of 0.25 points each to the monetary policy rate, which stood at 6.25% in December. International reserves rose, mostly because of disbursements from government external borrowing; this was reflected in an

increase in public external debt of US\$ 300 million. A proportion of the resulting resources was held in central bank deposits, so fiscal policy contributed to holding back the growth of the money supply. Open-market operations were continued, albeit at a lower rate than in 2006. In October, the year-on-year variation of means of payment in real terms was 4%, while variation in credit to the private sector was 12% for local-currency and 34% in terms of foreign currency. This was beyond the range established in the monetary programme, due to lower financial costs and the relative stability of the nominal exchange rate.

Up to November, the central bank did not intervene in the exchange market. In comparison with 2006, the quetzal experienced a slight real effective appreciation (0.5%). However, the appreciation was significant (12%) with regard to the average for the period 2000-2006.

Despite the suspension of two banks (one in October 2006 and the other in January 2007), the country's banking system operated in a framework of relatively stable interest rates. The nominal lending rate averaged 12.9%, while the average nominal borrowing rate was 4.8%. Several bank mergers have taken place since October 2006 in response to the strategy of national banks to increase their solvency. Non-performing loans and loans in arrears, as a percentage of the total credit portfolio, fell from 5.9% in 2006 to 5.3% in 2007.

GDP growth in 2007 was due to buoyant construction and transport and communications, which posted growth rates of around 15%. Construction

was boosted by increased public investment and the expansion of credit to the private sector. Growth in the transport and communications sector was mainly attributable to investment by telecommunications enterprises. Agriculture grew by 4% thanks to a recovery of traditional crops. Coffee production climbed as its prices picked up on the international markets, while sugar production rose owing to increased demand in the light of higher export quotas under the Dominican Republic - Central America - United States Free Trade Agreement (CAFTA-DR). Manufacturing growth remained modest at 3%.

Inflation gathered pace during the year to reach year-on-year variation of 9.1% in November, compared with 5.8% at the end of 2006. The main determinants were supply factors such as the price hikes in petroleum and its derivatives as well as in food (partly offset by the relative stability of the exchange rate). In October, food prices chalked up year-on-year variation of 14.0%, partly due to the harvest losses in the wake of high rainfall.

In 2007, the minimum daily wage was 44.58 quetzals for agricultural activities and 45.82 quetzals for non-agricultural activities. In September, the cost of the basic basket of foods was 55.16 quetzals a day. Real minimum wages fell by 1%. According to the three employment surveys carried out by the Social Research and Study Association (ASIES), half of companies reported employment as unchanged.<sup>1</sup> However, there was a rise in the number of companies reporting an increase in the number of jobs (from 27% in January to 36% in September).

The value of merchandise exports climbed by 16% in 2007, mainly on the strength of the increase in traditional exports (especially banana and coffee). The best performances by non-traditional exports were fruits, vegetables and legumes, as well as other food products (in terms of volumes) and mineral products (by volumes). Up to August, external sales of clothing showed a decline (-28%). The value of merchandise imports expanded by 15%. Main examples included purchases of durables (24%)

#### GUATEMALA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	3.5	4.9	5.5
Per capita gross domestic product	0.9	2.3	2.9
Consumer prices	8.6	5.8	9.1 <sup>b</sup>
Real minimum wage	-1.4	3.2	-1.4
Money (M1)	14.5	18.2	19.0 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-7.1	-3.1	-0.4 <sup>e</sup>
Terms of trade	-0.9	-1.9	-0.9
<b>Annual average percentages</b>			
National administration overall balance / GDP	-1.7	-1.9	-2.3
Nominal deposit rate	4.6	4.7	4.9 <sup>f</sup>
Nominal lending rate	13.0	12.8	12.8 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	6 611	7 420	8 561
Imports of goods and services	11 234	12 750	14 425
Current account	-1 432	-1 592	-1 678
Capital and financial account	1 686	1 871	1 846
Overall balance	254	279	169

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Twelve-month variation to October 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Average from January to October, annualized.

and construction materials (35%). The oil bill continued to grow and represented 18% of total imports.

Revenues from family remittances amounted to US\$ 4.2 billion. The rate of growth of remittances fell from 21% in 2006 to 17% in 2007. This reduced buoyancy is a reflection of rising unemployment, lower wages for Guatemalan emigrants working in the troubled construction industry in the United States and the recent toughening of the migration policy in that country.<sup>2</sup> Income from remittances remains a key factor in financing the wide goods and services deficit. The current-account deficit was amply covered by capital inflows, causing international reserves to swell by US\$ 170 million.

<sup>1</sup> The latest data on employment are from the national employment and income survey of 2004. The national employment and unemployment survey was carried out in the fourth quarter of 2007, and its results will be available in 2008.

<sup>2</sup> There are estimated to be 1.4 million Guatemalans living abroad, most of those in the United States.

## Honduras

In 2007, the Honduran economy expanded by 6%, with per capita GDP growth of 12% over the last five years. This performance was attributable to the impact of family remittances (25% of GDP) on private consumption, as well as the private construction boom following the expansion of bank credit. Mainly as a result of supply factors, inflation increased to an annual rate of variation of 9.6% in November (compared with 5.3% at the end of 2006), which was outside the target range of 4% to 6%. The government deficit widened from 1.3% of GDP in 2006 to 2.4% in 2007. The unprecedented trade deficit of 32% of GDP, along with the income balance deficit, was only partly financed by current transfers. The balance-of-payments current account therefore posted a significant deficit that represented 7% of GDP.

For 2008, the authorities project GDP growth of 5.5% and have established a target range of 5% to 6% for inflation. February 2007 saw the conclusion of the Poverty Reduction and Growth Facility (PRGF) with IMF, although arrangements are currently under way for another such agreement.

Up to August, total real government revenues rose by 17%, thanks to increased economic activity and improved tax receipts. Real current expenditure climbed by 15%, due to wage increases. Although capital expenditure rose significantly, this did not offset the decline of the previous year in terms of GDP. For the year as a whole, the primary deficit is expected to widen considerably (to 1.6% of GDP), as is the overall central government deficit. In addition, the authorities are still faced with solving the financial management problems of State-owned enterprises in the electric power (ENEE) and telecommunications (HONDUTEL) sectors. In the period 2003-2005, the enterprise ENEE posted financial losses of US\$ 120 million a year.

Public external liabilities fell by US\$ 1.024 billion in 2007, largely thanks to debt forgiveness by the Inter-American Development Bank under the Multilateral Debt Relief Initiative (MDRI). In 2007, relief on the

servicing of public external debt amounted to US\$ 233 million, with US\$ 118 million used to finance spending associated with the poverty reduction strategy. Following the amendment of the law on the poverty reduction strategy in 2004, 70% of the relief originally intended for that strategy has been mainly used to finance current expenditure.

With a view to reducing inflationary pressure, a temporary yield-bearing required reserve of 4% was established in June, in addition to the legal reserve requirement of 12%. In the second half of the year, the monetary policy interest rate was raised four times, bringing the rate up to 7.5%. In real terms, broad liquidity expanded by 9% and credit to the private sector soared by 19%. The nominal exchange rate remained unchanged, although the lempira did experience appreciation, in terms of both the real bilateral exchange rate in relation to the dollar (-3.5% on average between January and September) and the real effective exchange rate (-1.5%). Indicators of solvency, asset quality and banking system profitability improved during 2007. The proportion of non-performing loans and loans in arrears as a percentage of total credit fell from 7% in 2006 to 6% in 2007.

The most buoyant sectors in 2007 were construction and telecommunications.<sup>1</sup> Construction grew by 11% on the strength of the boom in private activity, mainly residential projects and buildings for agroindustrial use. Transport and telecommunications also performed well. Growth in industry (5%) was driven by the non-metals sector and cement production. The basic metal industry recorded a decline. Agriculture expanded by a mere 3%, due to climatic events such as the tropical storm Felix that struck mainly the north west of the country in September.

Inflation increased to reach a 12-month annual variation of 9.6% in November (compared with 5.3% at the end of 2006). This was mainly due to higher prices for petroleum and its derivatives, and also for maize and wheat. The situation was partly offset by the stability of the nominal exchange rate. In November, the food sector posted an annual increase of 15.9%, which had an impact on the basic basket.

Although the open urban unemployment rate fell from 4.9% in 2006 to 4.1% in May 2007, the rate of informal employment remained high due to the number of temporary and low-productivity jobs. In May, the urban underemployment rate was estimated at 25%. The average minimum daily wage rose to 101 lempiras in early 2007, with a nominal variation of 9.6%. Between January and September, the minimum wage posted an average real increase of 3%.

The growth of merchandise exports was similar to that of the previous year (9%). Up to August, traditional exports expanded by 11% on the strength of sales of coffee and banana, while non-traditional exports were less buoyant (7%). Maquila value added rose by 10%, compared with the average rate of 15% for the three-year period between 2004 and 2006. Between January and July, exports of clothes to the United States market were 8.8% higher than in the year-earlier period (following the 4% decline recorded in 2006). Sales of electrical harnesses for automobiles in the United States were up by 18%.<sup>2</sup> Imports, boosted by the real appreciation of the lempira, grew by 22%. Purchases of capital goods for metallurgical projects, communications and construction expanded by 35%, followed by consumer goods (25%). The oil bill represented 18% of total imports.

#### HONDURAS: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4,1	6,0	6,0
Per capita gross domestic product	2,0	3,9	3,9
Consumer prices	7,7	5,3	9,6 <sup>b</sup>
Real minimum wage	5,8	5,1	3,1
Money (M1)	18,8	22,4	20,8 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-0,0	-1,2	-1,5 <sup>e</sup>
Terms of trade	0,0	-4,6	-2,8
<b>Annual average percentages</b>			
Urban unemployment rate	6,5	4,9	4,1 <sup>f</sup>
National administration overall balance / GDP	-2,6	-1,3	-1,6
Nominal deposit rate	10,9	9,2	7,7 <sup>g</sup>
Nominal lending rate	18,8	17,4	16,7 <sup>g</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 493	3 753	4 088
Imports of goods and services	5 245	6 206	7 424
Current account	-147	-355	-727
Capital and financial account	364	626	656
Overall balance	217	271	-71

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Data for the period May-July.

<sup>g</sup> Average from January to September, annualized.

In 2007, revenues from family remittances amounted to US\$ 2.64 billion, which represented growth of 12% (compared with 35% in 2006). Determining factors in this performance included unemployment and lower wages for some Honduran emigrants working in the troubled construction industry in the United States and the recent toughening of that country's migration policy. Most of the estimated one million Honduran nationals abroad are living in the United States.

The balance-of-payments current-account deficit stood at 7% of GDP, which is the highest level since 1996, and was the net result of two opposing trends: a deficit on non-factor and factor goods and services (35% of GDP) that was partly offset by the surplus of current transfers (28% of GDP).

<sup>1</sup> At the end of November, the central bank presented new statistics from the System of National Accounts (SNA, 1993), monetary and financial sector (IMF, *Monetary and Financial Statistics Manual*, October 2000) and the balance of payments (IMF, *Balance of Payments Manual*, fifth edition, September 1993). These statistics will be incorporated in the forthcoming *Economic Survey of Latin America and the Caribbean 2007-2008*.

<sup>2</sup> Encased electrical wires.

## Mexico

The growth rate of Mexican GDP slowed from 4.8% in 2006 to 3.3% in 2007, which reflected the slowdown of the United States economy. Low demand from Mexico's neighbour resulted in a less buoyant manufacturing industry (the main source of exports), with growth dropping from 4.7% in 2006 to less than 1% in 2007. Despite higher petroleum prices, which provided flexibility for public spending and helped to achieve the fiscal balance target, hydrocarbon exports lost momentum due to a fall in volumes. As for imports, their continued buoyancy resulted in the trade deficit almost doubling in size.

Private consumption increased by around 4% thanks to the expansion of employment, credit and, to a lesser extent, remittances. Capital formation rose by almost 6%, mainly on the strength of machinery and equipment, while construction waned.

Inflation is expected to come in at 4%, as a result of higher international prices for food and energy, as well as rises in some domestic prices. There were hikes in the production costs of certain foods: maize prices were affected early in the year and the floods that struck Tabasco and Chiapas towards the final quarter affected over a million people, with marginal repercussions for economic growth expected next year.

In 2008, the Mexican economy is expected to grow at the same rate of 3.3%, on the back of the domestic market and investment generated by the launch of the National Infrastructure Programme 2007-2012. Inflation is estimated to be 3.5%, and a virtual fiscal equilibrium is also forecast. This greater economic growth could swell the current-account deficit to over US\$ 8.0 billion (1% of GDP).

Public-sector revenues increased by 2.4% in real terms between January and September, as oil revenues (34.2% of total receipts) dropped by 4.6%, while non-oil revenues rose by 6.4%.

**MEXICO: GDP, INFLATION AND UNEMPLOYMENT**



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

Oil revenues declined as a result of the 22.6% fall in hydrocarbon duties and facilities due to lower natural gas prices, smaller volumes of extracted crude and a fall in the amount paid in tax. In contrast, the revenues of the parastatal enterprise *Petróleos Mexicanos* (PEMEX) grew by 66.4% in real terms as the price of petroleum rose to US\$ 56.37 per barrel by the end

of the third quarter, which was much higher than the US\$ 42.5 per barrel set out in the general economic policy guidelines.

There were two main factors behind the expansion of non-oil revenues: first, the considerable increase in duties and facilities, and second, higher receipts from income tax, VAT and the special tax on production and services. In the case of VAT, the improvement was due to increased sales. As for the special tax on production and services, it was due to increased receipts from alcoholic beverages and tobacco. Higher-than-expected receipts made it possible to raise real budgetary expenditure in the public sector by 2.7% between January and September, at the time of a 5.2% rise in current expenditure and, above all, a 15% rise in capital expenditure. Physical investment expanded by 2.5% to represent 15.8% of programmable spending. Public-sector borrowing requirements are estimated to stand at 1.6% of GDP, which is double the amount recorded in 2006.

In September, Congress approved an amended version of the fiscal reform initiative proposed by the executive. The reform will enter into force in 2008 and includes the following: (i) a new law on flat-rate business contributions that will initially tax companies at 16.5%, increasing on a yearly basis to 17.5% in 2010; (ii) a reformed tax regime to provide PEMEX with additional resources; and (iii) a 2% tax on cash bank deposits above 25,000 pesos a month, in order to discourage informal employment. With the adoption of this law, the government expects tax revenues to rise by 1.1% of GDP in 2008, and by up to 2.1% in 2012.

The federal government purchased international reserves from the central bank to cover debt bonds maturing in 2006 and 2007 to the tune of US\$ 4.767 billion. Up to September 2007, amortization of external liabilities amounted to US\$ 5.806 billion. Also in September, net external debt represented 4.6% of GDP. Internal public debt reached 15.8% of GDP, which was 1.4 percentage points higher than in 2006.

Monetary policy aimed to maintain inflation at around 3%. However, inflationary pressure increased throughout the year due to rising international food prices (especially grains and dairy products), which resulted in a 3.97% annual increase in the consumer price index up to November (with the figure expected to be 4% for the year as a whole). In order to curb inflationary pressure, in October the central bank decided to restrict monetary conditions by raising the cost of funds by 25 basis points to 7.5%. The central bank also announced that, from 21 January 2008, it will use the one-day interbank interest rate to regulate the

#### MEXICO: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.8	4.8	3.3
Per capita gross domestic product	1.9	3.7	2.1
Consumer prices	3.3	4.1	3.9 <sup>b</sup>
Average real wage <sup>c</sup>	-0.3	0.4	1.2 <sup>d</sup>
Money (M1)	11.0	16.2	13.2 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	-3.2	0.1	0.6 <sup>g</sup>
Terms of trade	1.9	0.5	0.0
<b>Annual average percentages</b>			
Urban unemployment rate	4.7	4.6	4.8 <sup>h</sup>
National administration overall balance / GDP	-0.1	0.1	0.0
Nominal deposit rate	7.6	6.0	6.0 <sup>i</sup>
Nominal lending rate	9.9	7.4	7.5 <sup>j</sup>
<b>Millions of dollars</b>			
Exports of goods and services	230 299	266 218	287 354
Imports of goods and services	242 599	278 087	305 676
Current account	-4 665	-1 994	-6 975
Capital and financial account	11 830	991	12 475
Overall balance	7 164	-1 003	5 500

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to November 2007.

<sup>c</sup> Manufacturing industry.

<sup>d</sup> Estimate based on data from January to September.

<sup>e</sup> Twelve-month variation to September 2007.

<sup>f</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>g</sup> Year-on-year average variation, January to October 2007.

<sup>h</sup> Estimate based on data from January to October.

<sup>i</sup> Average from January to November, annualized.

<sup>j</sup> Average from January to September, annualized.

credit-money market, which is in line with the practice in other countries.

As inflows of foreign exchange continued to flood the exchange market, the peso gained ground against a weakened dollar, which led to a slight real appreciation of the peso (0.34%) in the 12 months up to September 2007.

The ongoing process of remonetization caused the monetary base to expand by 12.3% in September 2007 in comparison with the year-earlier period. Monetary aggregates grew by slightly less than in 2006, in keeping with slower economic activity. The reduction in public-sector borrowing requirements helped to maintain the availability of resources for the private sector.

Credit provided by commercial banks to the private sector continued to grow in double figures. Credit to companies, which had been the least buoyant in recent years, expanded by 34% between September 2006 and September 2007. Consumer loans were up by 23.8% and mortgage loans by 22.3% in the same period. The delinquency ratio (non-performing loans as a proportion

of the total portfolio) of loans by commercial banks to the private sector was 4.12% in June 2007, which was 0.92 percentage points higher than in June 2006.

The central bank continued to use the auction mechanism for slowing the accumulation of international reserves and US\$ 2.901 billion were sold up to 31 October. The reserve stock registered a net variation of almost US\$ 6.8 billion in relation to the year-earlier period and reached US\$ 75.538 billion.

One determining factor in economic activity was the slowdown in demand from the United States, which failed to be offset by higher sales of cars and other durables to Japan and the European Union. Internal demand, following six months of extremely slow growth, is estimated to have gradually expanded in the second half of the year in response to the recovery in employment and credit.

The positive performance in terms of supply was spearheaded by services, which grew by around 4% as a result of the good results in communications and transport, as well as financial services and insurance. Manufacturing lost momentum due to reduced production of wood and wood products, textiles and clothing and other manufactures, while production increased in machinery and equipment, paper, printing and publishing and non-metallic minerals. Particularly striking was the 10.3% annual expansion (October to October) of automobile production, especially for the export market.

Owing to reduced economic buoyancy, the employment rate dipped slightly, and open unemployment rose from 3.6% of the economically active population (EAP) between January and September 2006 to 3.8% in the same period of 2007. According to the national survey on occupation and employment, 11.2% of the economically active

population were in critical employment conditions in the third quarter of the year, while almost 27% were in informal employment. However, there was relatively fast growth in the number of people affiliated to the Mexican Social Security Institute (IMSS) (5.7% in October compared with the year-earlier period), although just over 50% of the jobs created were temporary. The sectors to generate the highest number of permanent jobs were business, personal and household services (213,224), commerce (86,410) and construction (77,432).

As a result of the slower economic pace in the United States, the growth rate of the value of exports more than halved from 19.8% between January and September 2006 to 6.6% in the same period of 2007. At the same time, there were striking increases in imports of consumer goods (15.1%) and capital goods (11.6%). All of the above generated a trade deficit that was US\$ 5.633 billion wider than it was in the period January-September 2006. The non-oil trade deficit stood at 4.3% of GDP.

The share of Mexican exports in total United States imports went from 10.7% in the first three quarters of 2006 to 10.8% in the same period of 2007, while China's share increased by 1.5 percentage points to reach 16.5% of the United States market. The current account deficit is expected to weigh in at around 1% of GDP (US\$ 8.0 billion). The growth rate of family remittances fell due to the sluggishness of the United States economy, particularly the construction sector. Up to September, such remittances represented revenues of US\$ 18.2 billion (1.3% more than in 2006). In 2007, foreign direct investment (FDI) is expected to range between US\$ 21.0 billion and US\$ 23.0 billion. In the first six months of the year, increased flows of FDI were channelled into the automobile industry, household appliances and services.

## Nicaragua

Economic growth in Nicaragua slowed slightly in 2007. Real GDP climbed by 3%, driven by the increase in exports. However, the rise in consumption (the main component of aggregate expenditure) was smaller than in 2006. At the same time, private investment grew more slowly, while public investment was affected by underexecution of the budget expenditure.

In this macroeconomic context, the open unemployment rate increased from 5.2% in 2006 to 5.9% in 2007. Inflation (measured by annual variation in the consumer price index) stood at 13.8%, which was much higher than both the 9.4% recorded in 2006 and the 7.3% target set by the central bank. There was a worsening of the central government's fiscal situation (including grants), which went from a balanced result to a 0.9% deficit, while the balance-of-payments current account deficit remained virtually unchanged at 16% of GDP.

According to estimates by ECLAC, in 2008 real GDP will grow by 3.5% and inflation should not exceed 8.5%. The central government's fiscal imbalance (1.1% of GDP) is expected to increase slightly, while the balance-of-payments current account deficit is expected to represent a similar percentage of GDP as in 2007.

The main objectives of the government's new economic programme are to contribute to macroeconomic stability while providing enough fiscal leeway to reduce poverty without compromising debt sustainability. In October 2007, the government signed a three-year agreement with the International Monetary Fund (IMF) for US\$ 111.3 million, which resulted in an immediate payment worth US\$ 18.5 million.

It should nonetheless be pointed out that macroeconomic stability is perceived as a means of reducing poverty, rather than an end in itself. This stability, as well as promoting a business environment conducive to national and foreign investment, is considered essential for achieving export growth, job creation and higher incomes.

In 2007, the fiscal imbalance of the central government after grants (0.9% of GDP) was due to increases in current

expenditure and, to a lesser degree, capital expenditure. Despite higher expenditure, however, the authorities have kept the fiscal situation under control by increasing revenues through improvements to tax and customs administration. In 2008, urgent spending on top-priority social programmes and infrastructure (especially energy and water) is expected to result in a temporary fiscal expansion. To make sure the Millennium Development Goals are achieved, the programme of the authorities aims to enhance the targeting of social spending, while increasing access by the poor to health, education, water and sanitation, food security, housing and training opportunities.

Nicaragua continued to benefit from debt-relief initiatives, with the external public debt decreasing by almost US\$ 4.5 billion to just over US\$ 2.0 billion.

The main objectives of monetary policy were to contain inflationary pressure, strengthen the stability of the exchange-rate regime, consolidate international reserves and improve some vulnerability indicators such as coverage of the monetary base and imports. The central bank therefore continued to use the exchange rate as a nominal price anchor and maintained the annual pre-announced daily rate of devaluation of 5%. Another measure to guarantee currency convertibility was to have an ongoing target for international reserves. In addition, the central bank continued its attempts to reactivate the securities market by placing short-term financial instruments with a view to neutralizing the increases in liquidity that resulted from internal debt payments.

A striking development in terms of international cooperation was Nicaragua's incorporation into the Bolivarian Alternative for Latin America and the Caribbean (ALBA), which is an initiative launched by the Bolivarian



Republic of Venezuela and Cuba and subsequently joined by Bolivia. For Nicaragua, the ALBA project will mean energy sector cooperation, as well as resources for infrastructure, health, agricultural development and the construction of housing.

In 2007, real output growth was more moderate: 3% compared with 3.7% in 2006, which resulted in a 1% increase in per capita GDP. The country's economic performance was affected by adverse climatic conditions. In September and October, the country experienced hurricane Felix (level five), a low-pressure centre and two tropical waves. Particularly badly hit was the Bosawás ecological reserve, the largest in Central America, where 1.3 million hectares of moist broadleaf and pine forests were affected.

In terms of demand components, the export sector was extremely buoyant, thanks to both increased demand and higher export prices. Another positive contributing factor was the entry into force of the Dominican Republic – Central America – United States Free Trade Agreement (CAFTA-DR), which helped to push up exports, particularly of clothing and textiles. At the same time, domestic demand slumped as high international oil prices affected the structure of production costs and caused electricity supply cuts, domestic price hikes and a fall in disposable income. Other determining factors in the slowdown included the downward trend of real wages, slower growth of family remittances and the less favourable results of the tourist sector compared with previous years.

Year-on-year inflation stood at 13.8%, which was significantly higher than the 9.4% recorded in 2006. This was mainly due to higher international oil prices, which in turn had a direct effect on domestic fuel, electricity and transport prices. Other generators of inflationary pressure were the climatic phenomena affecting agricultural production, the high external cost of some food products and the energy crisis.

The current-account deficit (US\$ 913.8 million) swelled slightly but continued to represent around 16% of GDP. This is the result of the wider trade deficit, as the

#### NICARAGUA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.3	3.7	3.0
Per capita gross domestic product	3.0	2.3	1.7
Consumer prices	9.6	10.2	12.8 <sup>b</sup>
Average real wage	0.2	1.4	-1.0 <sup>c</sup>
Money (M1)	24.5	20.0	16.7
Real effective exchange rate <sup>d</sup>	-0.7	0.3	2.9 <sup>e</sup>
Terms of trade	-1.4	-2.4	-1.9
<b>Annual average percentages</b>			
Urban unemployment rate	7.0	7.0	...
National administration overall balance / GDP	-1.8	0.0	-0.9
Nominal deposit rate	4.0	4.9	6.0 <sup>f</sup>
Nominal lending rate	12.1	11.5	13.1 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	1 963	2 319	2 567
Imports of goods and services	3 404	3 905	4 264
Current account	-745	-855	-914
Capital and financial account	748	875	851
Overall balance	3	21	-63

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2007.

<sup>c</sup> Estimate based on data from January to September.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Average from January to October, annualized.

income account remained practically the same and current transfers (including family remittances) continued to grow healthily, although more slowly than in 2006.

The f.o.b. value of merchandise exports rose by 10.7% and that of imports by 9%. The most buoyant exports were agricultural products and foods (such as meat, livestock on the hoof, sugar, dairy products and peanuts), manufactures, beverages and rum. There was also a considerable rise in net exports from free zones (20%), especially from the maquila textile industry. The import expansion, for its part, was the result of significant increases in the oil bill and imports of consumer goods.

## Panama

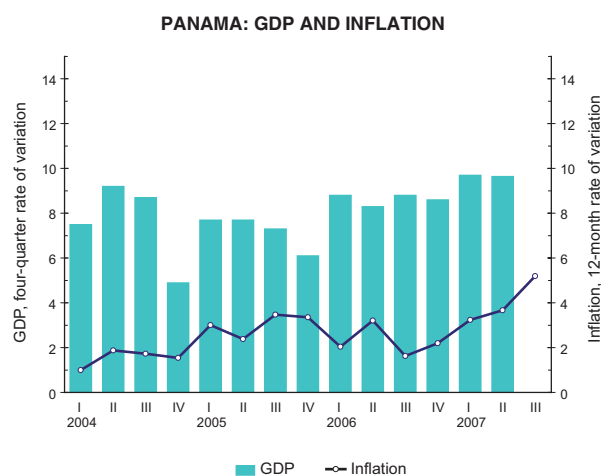
In 2007, Panamanian GDP grew by 9.5% thanks to burgeoning domestic and external demand. For the fourth year running, per capita GDP rose substantially (7.7%). The balance-of-payments current account deficit widened to the equivalent of 3.9% of GDP due to increased imports, while the central government deficit represented 0.5% of GDP. Consumer prices climbed by 5.8%, which was more than double the growth seen in 2006 and the highest rate in over 20 years. This was attributable to high import prices and delays in several production sectors. Unemployment fell significantly on the strength of high economic buoyancy, and some wage adjustments were also introduced.

For 2008, strong economic growth is expected to continue but at a slightly slower rate (8.5%), in the light of lower projected external demand for goods and services, and despite the fact that investment will remain extremely buoyant and works to extend the Panama Canal will be stepped up. The public deficit is expected to be below 1% of GDP.

The government maintained fiscal discipline and continued to reduce public debt in 2007. The authorities also promoted public investment, poverty reduction programmes and measures to ease the impact of inflation on the cost of the basic basket by subsidizing some items therein. In the second half of the year, work began on extending the Panama Canal, with almost 25% of 2007 GDP invested for the period 2007 to 2012.

Tax revenues rose thanks to stronger economic growth, higher tax revenues resulting from the 2005 fiscal reform and improved efficiency in tax collection. The 23% increase in tax collection exceeded expectations and was the result of higher receipts from direct and indirect taxes, especially tax on external trade. There was also a rise in transfers from decentralized enterprises (particularly the Panama Canal Authority) to the central government.

Current expenditure expanded moderately and priority was given to social health and education programmes such as technical training and nutritional support programmes in primary schools. Greater public investment was channelled into health, housing and education infrastructure; sanitation in Panama City and the Bay of Panama;



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

and improvements to the Pan-American Highway and various domestic roads.

Public debt is expected to represent US\$ 10.4 billion by the end of the year, which constitutes a reduction from 61% of GDP to 54%. External debt stood at around US\$ 8.2 billion, while domestic debt fell to US\$ 2.2 billion.

Trade negotiations were completed with Nicaragua and the United States, with approval by the United States Congress still pending. Progress was also made in negotiations with Chile and Guatemala, as well as advances towards joining the Central American integration scheme.

Prevailing high liquidity continued to drive credit, while interest rates remained low and stable. Deposit-taking soared thanks to the Latin American boom. On the domestic market, credit expanded by almost 15% in response to the country's impressive economic growth, with increases of around 20% in commerce, construction (particularly mortgages) and personal consumption. External demand for credit rose by 27%. Following increases observed the previous biennium, on a par with the London interbank offered rate (LIBOR), local lending and borrowing rates remained practically unchanged, except for a slight upturn in lending rates for personal loans.

Domestic and external demand continued to exert varying degrees of pressure on physical and urban infrastructure, the installed capacity of some production sectors and the supply of skilled labour. Although these issues have not visibly hampered production growth, the resolution of such tensions is undoubtedly one of the main challenges facing the administration.

Productive activity climbed dramatically in the transport and communications sector, with significant increases in freight handling in ports, as well as on rail and air transport. Although the level of transit and freight transported on vessels through the Panama Canal did increase, but the significant rise in revenues (15%) was mostly a result of amended and higher charges. The commercial sector was boosted by growing re-exports from the Colón Free Zone. Hotels, bars and restaurants posted increased buoyancy thanks to high inflows of tourists, while banking and insurance activity multiplied its domestic and foreign operations.

The ongoing construction boom was based on luxury apartment buildings over 60 floors high and middle-class housing, partly supported by subsidized mortgages for low-income groups. Other projects included ports, shopping centres and hotels. Production costs shot up and the revitalization of urban land and some rural areas continued. Domestic demand boosted retail commerce and manufacturing activity. In the

#### PANAMA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	7.2	8.7	9.5
Per capita gross domestic product	5.4	6.8	7.7
Consumer prices	3.4	2.2	5.5 <sup>b</sup>
Average real wage	-1.2	2.3	2.5 <sup>c</sup>
Money (M1)	9.6	23.9	33.9 <sup>d</sup>
Real effective exchange rate <sup>e</sup>	2.0	1.3	1.7 <sup>f</sup>
Terms of trade	-1.9	-2.9	-0.5
<b>Annual average percentages</b>			
Unemployment rate <sup>g</sup>	9.8	8.7	6.3
National administration overall balance / GDP	-3.9	0.2	-0.5
Nominal deposit rate	2.7	3.9	4.8 <sup>h</sup>
Nominal lending rate	8.2	8.1	8.3 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	10 808	12 415	14 848
Imports of goods and services	10 688	11 928	14 685
Current account	-759	-552	-743
Capital and financial account	1 434	728	1 093
Overall balance	675	176	350

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2007.

<sup>c</sup> Estimate based on data from January to June.

<sup>d</sup> Twelve-month variation to July 2007.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> Year-on-year average variation, January to October 2007.

<sup>g</sup> Includes hidden unemployment.

<sup>h</sup> Average from January to October, annualized.

agricultural sector, some products (rice, dairy products and seafood) were scarce, while production expanded in terms of fruit for export, beef and pork.

The unusual level of inflation (estimated to stand at 5.8% by the end of the year) reached worrying levels by Panamanian standards, pushing up the price of the basic basket in the wake of higher prices for oil and other imports. The largest increases were for food (8.8%) (especially bread and cereals, meat, milk and cheese), transport (8.8%) (due to high fuel prices), new vehicles and vehicle maintenance.

Employment improved considerably thanks to buoyant demand. The nationwide open unemployment rate dropped to 4.6% in August, while visible and hidden underemployment also fell. In some production sectors, certain wage adjustments were introduced, while preparatory consultations were opened on adjusting the minimum wage in 2008.

The balance-of-payments current account deficit weighed in at US\$ 743 million, on account of the merchandise trade imbalance generated by the surge in imports, while the surplus on the services account continued to widen.

As for exports, sales from the Colón Free Zone (mainly medicines, televisions, perfume and footwear) grew by nearly 15%, driven by buoyant demand from the Bolivarian Republic of Venezuela, Central America and Ecuador. Local exports also posted rapid growth of almost 11%, especially sales of fruit (melon, watermelon and pineapple), coffee and sugar. Bananas posted a smaller increase, while fish and seafood were in decline. There was an upturn in the demand for imports, both in terms of manufactures in the Colón Free Zone (with growth of over 18%) and from the domestic market (up almost 35%). Purchases of capital goods rose, particularly for construction, as

did purchases of inputs, fuels and lubricants, consumer durables and consumer non-durables.

Service exports continued to fare extremely well, with increased movement of merchandise in ports (mainly containers), railways, the Panama Canal and international flights. Visitor arrivals were up 16% on the previous year, with average tourist spending climbing by 14%.

Inflows of foreign direct investment (FDI) stood at US\$ 1.0 billion, which was less than half the amount recorded in 2006 (when two major national banks were sold). The main recipients were the real estate and hotel sectors.

## The Caribbean





## Bahamas

In 2007, the economy is estimated to have grown by between 3% and 3.5% relative to 3.4% in 2006. Growth in 2007 has been pinned back somewhat by a fall in value added in the tourism sector, lower consumer demand and less dynamic foreign investment inflows. The consumer price index rose to 2.2% in September (cumulative over nine months), compared with 1.8% in 2006. The fiscal position is expected to deteriorate, with the overall fiscal deficit expanding to 1.8% of GDP, up from 1.2%. As of the first semester of 2007 compared to the first semester in 2006, the current account deficit was slightly down, but the capital and financial account was stronger. This resulted in a balance-of-payments surplus (US\$ 143 million). GDP is expected to grow by 3.5% in 2008.

Fiscal management is a policy challenge for the Bahamian economy, especially given the one-to-one peg to the United States dollar. The fiscal stance was expansionary in fiscal year 2006/2007,<sup>1</sup> as expected in an election year. The overall deficit widened by US\$ 88.7 million to 1.8% of GDP, up from 1.2% of GDP in fiscal year 2005/2006 and surpassing the projected 1.6% of GDP. Revenue receipts firmed by 18.5%, responding to dynamic growth in tax proceeds and non-tax receipts. Taxes on international trade and transactions, which account for almost 54% of total tax receipts, expanded by 6.9%; while returns from business and professional licence fees related to offshore financial services, were up by 11%. However, growth in revenue was eclipsed by a 12.6% rise in expenditure. Spending on goods and services expanded by 12.1%, largely reflecting acquisitions for education, health, infrastructure and community services. Underscoring its more favourable expectations for the economy, Standard & Poor's has revised its outlook on the long-term sovereign credit rating for the Bahamas to positive from stable, providing an A- rating for the long-term and A-2 for the short-term sovereign debt.

The government has targeted a recurrent budget surplus for fiscal year 2007/08 and plans to eliminate the overall fiscal deficit by fiscal year 2012/13. This is aimed at reducing the debt-to-GDP ratio to around 35%. The debt burden, currently around 38% of GDP, is not onerous but sharp growth in debt servicing costs could put a strain on fiscal and macroeconomic stability, undermining the gains achieved in the past two decades.

The hard peg to the United States dollar means that monetary policy is indirect and largely focused on ensuring sufficient reserve cover to back domestic currency issue, so as to maintain stability and confidence in the regime. Moderation in the growth of imports, slower growth in credit and stability of the commercial banks' prime rate at around 5.5% allowed the central bank to maintain a conservative monetary stance in 2007. The bank held its benchmark discount rate at 5.25%. Commercial banks remained quite profitable as returns were bolstered by higher interest income and efficiency gains from lower operating costs.

Despite the impact of higher international fuel and other commodity prices and the relative depreciation of

<sup>1</sup> The fiscal year runs from July of the current year to June of the following year.

the Bahamian dollar against currencies such as the euro and the Canadian dollar, inflation edged up to 2.2%<sup>2</sup> as of September (cumulative over nine months). Price increases were led by other goods and services (up 6.6%) and food and beverages (up 4.2%). There was no general public-sector wage increase during the year, although higher wages were offered to some specific categories of workers.

Tourism and construction, two important engines of growth, turned in weaker performances in 2007 relative to 2006. Buffeted by high fuel prices and difficulties for United States travellers arising from the Western Hemisphere Transport Initiative (WHTI), which requires United States visitors to countries such as the Bahamas to obtain passports, visitor arrivals to the Bahamas declined by 12.1% to 1.15 million during the first semester of 2007, relative to growth of almost 7% over the similar period of 2006. In addition, a slowdown in construction reinforced the dampening effects of the contraction in tourism. Reflecting softer construction activity, the total value of outstanding mortgages was up by 12.5% in the first semester of 2007 (17.1% for the same period in 2006). Activity in offshore financial services remained buoyant as evidenced by higher receipts from international business companies.

The balance of payments recorded a surplus of US\$ 143 million for the first semester of 2007, owing to high foreign investment outflows, an increase in offshore companies' local expenses and a slight improvement in the current account deficit (US\$ 705 million in the first semester of 2006 compared with US\$ 670 million in the same period in 2007, reflecting a moderate downturn in imports and increased exports). These favourable developments were able to offset the dampening effects of a 3.2% decline in net travel receipts associated with a soft tourism market. The structural surplus on the services account decreased by 5.9% to US\$ 376 million. The capital and financial account surplus increased from US\$ 770 million in the first semester of 2006 to US\$ 812 million in the same

#### BAHAMAS: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	2.7	3.4	3.3
Per capita gross domestic product	1.5	2.1	2.0
Consumer prices	1.2	2.3	2.2 <sup>b</sup>
Money (M1)	16.8	3.7	1.3 <sup>c</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>d</sup>	10.2	7.6	...
National administration overall balance / GDP	-3.8	-1.5	-1.8
Nominal deposit rate	3.2	3.4	3.6 <sup>f</sup>
Nominal lending rate	10.3	10.0	10.6 <sup>f</sup>
<b>Millions of dollars</b>			
Exports of goods and services	3 075	3 128	...
Imports of goods and services	3 773	4 540	...
Current account	-815	-1 578	-670 <sup>g</sup>
Capital and financial account	726	1 499	812 <sup>g</sup>
Overall balance	-89	-79	143 <sup>g</sup>

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> New Providence. Nine-month variation to September 2007.

<sup>c</sup> Twelve-month variation to August 2007.

<sup>d</sup> Includes hidden unemployment.

<sup>e</sup> Fiscal year.

<sup>f</sup> Average from January to June, annualized.

<sup>g</sup> Data refer to first semester.

period in 2007, with private-sector investment inflows expanding by 26%. With respect to specific projects, phase III of the Kerzner project to expand the Atlantis tourist complex has been completed and the US\$ 500 million Baker's Bay investment on Abaco has started.

The new Free National Movement government, elected in May, prioritizes fiscal consolidation, an improved tourism product and a competitive financial services sector as key policy areas. The Bahamian economy will face challenges relating to sustainable growth and maintaining FDI inflows to fuel the competitiveness of the tourism sector. There is a need to strengthen the business environment to facilitate FDI as well as to harmonize the incentive regime for FDI and domestic investment, in order to boost investment in key activities.

<sup>2</sup> Based on data for New Providence only.



## Barbados

Economic growth in 2007 is expected to be around 4% (3.8% in 2006), driven mainly by the growth in the non-tradable sector and the strong performance of tourism stimulated by the Cricket World Cup. The fiscal deficit in the current fiscal year<sup>1</sup> is expected to stay at 1.5% of GDP, well within the target set by the government (2.5%). Public debt remains a major policy concern, with an estimated debt-to-GDP ratio of around 73% at end of 2007. Inflation posted a rate of 3.9% for the 12 months to July 2007 despite rising imported oil and food prices. Unemployment hovered around 8.1%. The current account deficit declined as compared to 2006 owing to increased tourism receipts which, combined with strong capital and financial inflows, resulted in a substantial increase in the overall balance of payments surplus. For 2008, economic growth is forecast at 3.5%.

Preliminary data show that central government current revenue for the first eight months amounted to US\$ 423 million, a year-on-year increase of 3.5%, while current expenditure reached US\$ 567 million, 16.3% higher than the previous year. Capital expenditure stood at US\$ 43 million, a rise of 13.4% over the same period in 2006. In fiscal year 2007-08 the fiscal balance is, therefore, expected to post a deficit of 1.5% of GDP, slightly lower than the 1.8% deficit recorded in the fiscal year 2006-07.

Various factors explain the widening of the fiscal deficit in 2007: the increase in the public sector wage bill, including the payment of arrears associated with the 7.5% rise in salaries and wages carried forward from 2006, the increase in current transfers and pensions, the increase in current and capital spending associated

with the Cricket World Cup, and payments related to the Harrison's Cave Redevelopment project. The deficit was financed mainly from domestic sources.

Central government debt remained above 70% of GDP at the end of 2007, constituting a serious obstacle for fiscal policy management. If the guaranteed debt of public entities is included, the debt-to-GDP ratio reaches 90%. The government has set the goal of reducing the central government debt to 60% of GDP by 2012.

Meanwhile, inflation posted a rate of 3.8% as of July 2007 (5.6% in 2006), owing to slower growth in domestic credit to the non-financial private sector combined with an increase in deposits at commercial banks. The latter rose by a high 12.6% to September, twice as fast as the expansion recorded during the

<sup>1</sup> The current fiscal year runs from April 2007 to March 2008.

same period in 2006. In November, as a result, the Central Bank reduced the minimum deposit rate from 5.25% to 4.75%.

Preparing for the removal of exchange controls in December 2007, the government announced that it was in the process of liberalizing interest rates, reducing the securities element of the reserve requirement by another 6 percentage points, and increasing the autonomy of the Central Bank. It also stated that it will allow the Central Bank to set the minimum deposit interest rate without prior approval from the Ministry of Finance.

Economic growth in 2007 has been driven mostly by growth in the non-tradable sector; however, it represents only a quarter of total real economic activity. The disparity in performance between the tradable and non-tradable sectors signals continuity in a trend observed since 2005 and is indicative of a potential loss of competitiveness and transitional structural challenges in some parts of the tradable sector, especially agriculture and manufacturing.

Growth in the non-tradable sector was around 5%, propelled by the wholesale and retail trade sector (5.9%); transportation, storage and communications (5.6%); business and other services (5.1%), and construction (5%). The latter sector was buoyed by continued work on both public and private road infrastructure programmes as well as residential and commercial developments spurred by increased mortgages.

In 2007 growth in the tradable sector was less sluggish than in 2005 and 2006, at 2.5%. This was mainly driven by renewed strength in the tourism sector resulting from the Cricket World Cup held in March and April, which attracted tourists to Barbados from new countries of origin, in addition to the traditional markets of Canada, the United Kingdom and the United States. Real value added in the tourism sector grew by about 3.3% in 2007, more than twice the figure of 1.6% recorded in 2006. There were, however, declining arrivals from Trinidad and Tobago and other CARICOM countries, accounted for by a reorganization of regional air carriers and increased costs of intraregional travel in early 2007. The cruise industry rebounded in 2007, in part thanks to the Cricket World Cup.

As regards the external sector, in 2007 the current account deficit declined to US\$ 268 million (7.2% of GDP), compared with US\$ 289 million (7.7% of GDP) the previous year. As mentioned above, this improvement was mainly the result of rapid growth in net travel and tourism receipts, which were 10.2% higher than in

#### BARBADOS: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	4.1	3.8	4.0
Per capita gross domestic product	3.7	3.5	3.7
Consumer prices	7.4	5.6	3.9 <sup>b</sup>
Money (M1)	6.8	4.6	5.5 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-1.3	-2.7	1.2 <sup>e</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>f</sup>	9.1	8.7	8.1
National administration overall balance / GDP <sup>g</sup>	-1.4	-1.6	-1.5
Nominal deposit rate <sup>h</sup>	3.8	5.0	5.5 <sup>i</sup>
Nominal lending rate <sup>j</sup>	8.5	10.0	10.5 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	1 836	2 062	2 184
Imports of goods and services	2 144	2 209	2 311
Current account	-385	-289	268
Capital and financial account	317	333	566
Overall balance	-68	44	298

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to July 2007.

<sup>c</sup> Twelve-month variation to August 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to July 2007.

<sup>f</sup> Includes hidden unemployment.

<sup>g</sup> Fiscal year (April-March).

<sup>h</sup> Weighted average of the deposit rate.

<sup>i</sup> Average from January to August, annualized.

<sup>j</sup> Prime rate.

2006. Surges of net inflows in the capital and financial account reflected long-term private sector inflows tied to tourism-related projects and purchases of real estate, long-term public inflows resulting from a bond issue by a statutory corporation, and short-term net inflows related to pre-shipment financing for the sugar harvest and financing of the airport development project. As a result, the overall balance of payments surplus increased substantially (US\$ 298 million compared to US\$ 44 million in 2006), and net international reserves increased to US\$ 1.15 billion as at the end of August 2007, up from US\$ 929 million at the end of 2006.

Continuing challenges will be export competitiveness and the advent of the CARICOM Single Market and Economy (CSME) in 2008. The government is moving to phase out foreign exchange controls as part of a strategy designed to attract increased foreign investment in targeted economic areas. As authorities embark on a new tourism marketing strategy based on promoting lifestyle tourism, the sector's performance next year may be adversely affected by continued oil price rises and the resulting increased airfares and higher costs of port-calling for

cruise liners. Prospects of an economic slowdown in the United States, together with the Western Hemisphere Transport Initiative (WHTI), which introduces passport

requirements for United States citizens returning from the Caribbean, may also have an important negative effect on tourist arrivals.

## Belize

Following exceptional growth in 2006 (5.6%), driven by newly developed commercial oil production, growth in 2007 is expected to slow to 3%. While petroleum production continued to increase, the slowdown is mainly due to the impact of Hurricane Dean on the agricultural, fisheries and other sectors as well as sluggish growth in tourism. Inflation moderated to an estimated 3.5% from 4.3% in 2006, dampened by lower acquisition costs for diesel and gasoline. Propelled by capital spending, partly hurricane-related, the fiscal deficit increased from 1.8% to 2.1% of GDP. The balance of payments weakened but continues to post a surplus (estimated at US\$ 8 million compared with US\$ 50 million in 2006). The tropical storm caused significant damage and losses, with a negative impact on economic performance in 2007, and also in 2008 when the economy is expected to grow by 3%.

Fiscal policy continues to be the main concern in Belize. While the successful debt restructuring in early 2007 gave the authorities some latitude in fiscal management, short-term fiscal outcomes have been derailed by election spending and the impact of Hurricane Dean on government expenditure. Capital spending shot up by over 30%, particularly in relation with social development projects and rehabilitation and reconstruction after the hurricane, and the overall deficit increased slightly from 1.8% to 2.1% of GDP.<sup>1</sup>

Current spending was much more subdued as wage costs were contained and interest payments benefited from the debt rescheduling. Revenues were bolstered by a spike in petroleum revenue with increased output from the Spanish Lookout oilfield. Tax returns fared well with an improved take from taxes on international

trade and transactions, partly associated with growth in imports in the aftermath of the disaster. Grant receipts also increased, reflecting greater international assistance.

The debt burden has eased with the restructuring, which has extended the average maturity and duration of the public-sector external debt owed to private creditors by roughly 11 and 6.8 years, respectively. The public debt stock stood at US\$ 1,171.700,000 as at the end of the first semester, 90.4% of GDP. Importantly, the government has embarked on implementing a petroleum revenue management fund to save some of the returns from the sector for the future.

Monetary conditions were relatively stable in 2007. Broad money posted dynamic growth of almost 10% at the end of the first half of the year relative to the

<sup>1</sup> The 2007 overall fiscal balance will be distorted by one-off accounting items on the expenditure side linked to the execution of the February 2007 debt exchange. Without these accounting distortions the overall fiscal balance for 2007 would be forecast at -0.5% of GDP.

similar period last year. This upturn was driven by growth in domestic credit and inflows from tourism and merchandise exports. However, money growth slowed in the second half of the year, dampened by the impact of the hurricane, leading to fairly stable overall growth. Credit expanded to productive activity in tourism, construction, agriculture and fisheries, helping to ease the constraints faced by these sectors. Credit to the government also rose fairly sharply to facilitate debt restructuring payments. The overall increase in inflows to tourism boosted the net foreign asset position of the banking system.

Inflationary pressures eased in 2007, with the rate dropping to 3.5%, compared with 4.3% in 2006. Prices of clothing, transportation and medical care decreased, while the impetus for higher consumer prices came from food shortages stemming from the hurricane, household goods and recreation. The unemployment rate fell to 8.5% from 9.4% in 2006.

Growth in 2006 was exceptional, spurred by newly-developed commercial oil production; as a result, it was expected to slow in 2007. Nevertheless, the adverse impact of the hurricane as well as reduced output in shrimp farming, garment manufacturing and a decline in the number of cruise ship arrivals from the United States over the second half of the year meant that at 3%, growth outturn came in below projections. Oil production rose sharply by an estimated annualized 41% reflecting more intense exploitation of existing wells. In the first semester, the wholesale and retail sector concentrated in the free trade zone also expanded and new hydroelectric energy production got started. Agriculture was severely affected by the hurricane, with output expected to fall by around 13%. Papaya, banana and other crop subsectors, in particular, as well as livestock and fisheries suffered. The adverse impact on tourism is estimated at around \$9.4 million. Growth of tourism was sluggish, around 1.2% in the relatively high-value-added stay-over segment.

In spite of a 40% increase in petroleum exports, the balance of payments deteriorated in 2007, reflecting the impact of Hurricane Dean on agricultural exports. The overall balance surplus contracted from 4.1% of GDP in 2006 to an estimated 0.6% of GDP in 2007 with the current account deficit increasing from 2% of GDP in 2006 to an estimated 3.7% of GDP in 2007. Agricultural exports were buffeted by the hurricane, with an impact estimated at over 60% of the sector's GDP and around 12% of exports of goods and services. Tourism earnings were

#### BELIZE: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	3.0	5.6	3.0
Consumer prices <sup>b</sup>	3.7	4.3	3.5
Money (M1)	30.1	12.1	16.5 <sup>c</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>d</sup>	11.0	9.4	8.5
National administration overall balance / GDPB	-5.5	-1.8	-2.1
Nominal deposit rate	5.4	5.8	5.7 <sup>e</sup>
Nominal lending rate	14.2	14.2	14.3 <sup>e</sup>
<b>Millions of dollars</b>			
Exports of goods and services	325	426	462
Imports of goods and services	556	612	650
Current account	-161	-25	-49
Capital and financial account	177	67	57
Overall balance	17	50	8

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Annual average.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> Includes hidden enemployment.

<sup>e</sup> Average from January to March, annualized

also affected by the damage from the hurricane. Current transfers rose by more than 13%, partly associated with relief and recovery assistance in the wake of the hurricane. The financial account remained robust with a surplus of US\$ 57 million. Underscoring renewed confidence in the wake of the debt restructuring, foreign direct investment remained strong at around US\$ 69 million and is expected to increase in the short term with further oil exploration. Meanwhile, reserves are expected to reach US\$ 94 million at the end of 2007, providing two months of import coverage; although below the stipulated three months, this was the highest level since the first quarter of 2005.

Against a background of overall macroeconomic stability, Belize faces several challenges to achieving sustainable growth. The most immediate concern is debt. Although debt restructuring has provided some breathing space for the economy, fiscal prudence and careful debt management must be maintained to prevent debt from undermining other macroeconomic gains. Keeping spending under control will be a challenge given the impending election of next year. The country also needs to tackle the competitiveness of production systems and to further enhance service quality, value for money and product differentiation in the tourism sector.

## Cuba

Data provided by the National Statistical Office show that, in 2007, the Cuban economy posted GDP growth of 7%, with a similar growth rate in per capita GDP. According to public budget data, the fiscal deficit widened slightly from 3.2% of GDP in 2006 to 3.4% in 2007. Inflation came in at 2.5%, which was about half the 5.7% recorded in 2006. The external deficit narrowed slightly thanks to improved export performance.

In 2007, GDP growth was mainly the result of buoyant agriculture, manufactures and especially community, social and personal services. Given that these services represent a high proportion of total GDP (37%), they were responsible for 70% of the country's economic growth. Agriculture picked up compared to the previous year to become the fastest growing sector in 2007. Construction and commerce, which had registered the highest levels of growth in 2006, turned in adverse performances. Construction declined considerably while commerce stagnated.

For 2008, the government authorities project GDP growth of 8%. Exports of goods and services, as well as investment in sectors where the country wishes to substitute imports (food and light industry), are expected to be the driving forces of economic growth. Agriculture is also expected to perform well, driven by production incentives introduced in 2007.

In 2007, measures were adopted to improve investment efficiency and strengthen the link between labour productivity and wages. Attention was directed at solving some of the major problems of the agricultural sector, with a view to increasing production and improving supply.

The fiscal deficit for 2007 was similar to the previous year but wider than forecast, mainly due to expenditure to mitigate the damage caused by floods in the western provinces during the final quarter. According to preliminary estimates, the floods are thought to have caused losses of US\$ 500 million.

According to information from the budget, public-sector current revenues rose by 23.6% in 2007. The fastest growth was posted by non-tax revenues (which include the price differential of external trade) with an increase of 53%, while other headings recorded more modest rates of growth. Total expenditure was in turn up by 23.2%. Current outlays were up by 28% and capital expenditure fell by 4%. Greater emphasis was placed on spending efficiency and sanctions were introduced for inefficient use of budget money. The rise in expenditure was due, in addition to spending implemented to alleviate the effects of flooding, to higher prices paid on the parallel agricultural market for some of the main foodstuffs. Health spending climbed as a result of the construction of new hospitals and repairs to clinics, while education spending also increased.

Monetary aggregates displayed a moderate expansion. Cash in circulation increased by 3.5% in real terms, while M1 and M2 grew by 0.4% and 3.8%, respectively. These aggregates only reflect changes in the non-convertible Cuban peso used for transactions among the general population. Inter-company transactions are carried out in convertible pesos, which are not expressed in monetary aggregates. There was no change in nominal interest rates or in the exchange rate between the non-convertible and convertible peso (24:1).

The trade policy continued the course initiated at the end of 2004, concentrating on trade with certain

countries from within the region (Bolivarian Republic of Venezuela, Bolivia, Ecuador, Nicaragua) and beyond (China). Cuba's trade relations with the Bolivarian Republic of Venezuela expanded substantially, making it the country's main trading partner.

Community, social and personal services were highly buoyant (13.6%), which was attributable to increased health and education spending. Agriculture managed to turn around the negative performance of the previous year thanks to measures adopted to reduce delays in payments to producers, higher prices on the parallel agricultural market and extremely favourable weather conditions. Agricultural production (pork, ground provisions and legumes) soared by 22.4% to offset the reduction observed in the year-earlier period (-6%). Despite the considerable damage caused by flooding during the final quarter, the sector expanded considerably in 2007. However, the impact on overall output was limited as the sector represented only 4% of GDP. Manufacturing (except sugar production) also performed well, with growth of 7%. The most buoyant sectors were pharmaceuticals, food and household equipment production. Value added for transport, storage and communications was up by 6.3% thanks to improvements in road freight transport, maritime transport and urban transport in Havana. Growth in mining was also higher, with an increase of almost 4% (twice as much as in the previous year).

In 2007, the production of electricity, gas and water (6.9%) benefited from high rainfall. Improvements to the electrical system and higher levels of production resulted in the elimination of blackouts that had previously been a daily occurrence. Construction, on the other hand, declined by 9% after having expanded by 37.7% in 2006. Commerce also sustained a decline

(-1.8%) in 2007. Tourism fell again (-1.8%), owing to something of a Caribbean-wide slowdown in the industry and a reduction in "health tourism", with many patients now treated by Cuban medical staff in their countries of origin. Lastly, the public health and social assistance sector grew by 21.7%.

Following a hike of 5.7% in 2006, the consumer price index (CIP) posted lower growth (2.5%) in 2007. There was no repeat of the increase in wages and pensions that had contributed to the rise in 2006. Between January and September 2007, average real wages dipped by 0.4%. Employment was up by 1.7%, while unemployment remained at 1.9%.

The total value of merchandise exports from January to September swelled by over 40% on the strength of price increases, as export volumes dropped slightly. Particularly striking was the 74% rise in the price of nickel and, to a lesser extent, higher prices for tobacco (12%), which more than offset the 35% fall in the price of sugar. Additionally, as import prices registered only a small increase, the terms of trade were improved substantially. The value of merchandise imports climbed by only 2.6% in the same period, compared with rates of over 20% in the three previous years.

In terms of non-traditional exports, medicines turned in another excellent performance. As far as traditional exports are concerned, nickel was boosted by high international prices, while export volumes also rose slightly. Tobacco also fared well, while sugar export volumes continued to shrink.

The value of imports of consumer and capital goods decreased by around 6%, as it proved impossible to repeat the extraordinary results of the previous year when huge quantities of household equipment and power units were imported. Intermediate goods, on the other hand, expanded by 9.8%.

## Guyana

In 2007 the economy is expected to record an estimated annual growth rate of 4.5%, similar to the 2006 figure (4.7%). Inflation picked up to 10.4% (4.2% in 2006) owing to a number of factors including the one-off effect of the introduction of VAT in January. Despite the increase in revenue from this tax, the fiscal deficit widened. The current account deficit remained high (27.9% of GDP), reflecting significant capital and intermediate goods imports associated with ongoing private and public investment projects as well as high import prices and deterioration in tourism earnings. Capital inflows were not enough to finance the external gap, resulting in an overall balance of payments deficit of some US\$ 54 million (surplus of US\$ 45 million in 2006). It is expected that the Guyanese economy will grow around 3.5-4% in 2008.

In recent years, economic policy has been conducted within the framework of the poverty reduction strategy paper (PRSP) agreed upon with international financial institutions. Under this agreement the country has benefited from concessional lending from the IMF poverty reduction and growth facility (PRGF) and from debt relief under the Heavily Indebted Poor Countries (HIPC) Debt Initiative and the Multilateral Debt Relief Initiative (MDRI). In mid-2007 external public debt was US\$ 655 million (some 70% of GDP), nearly half the level observed one year before. This considerable reduction was due to US\$ 189 million in debt forgiveness under the MDRI and US\$ 412 million in debt relief granted by the Inter-American Development Bank.

In January 2007 Guyana introduced VAT. Despite the higher- than-expected increase in revenue from this tax, the fiscal deficit widened to 12.1% of GDP (11.9% in 2006) owing to rapid growth in capital spending, partly related to the Cricket World Cup and the upgrade of the Guyana Sugar Corporation (GUYSUCO), an investment to modernize the state-

owned sugar monopoly in order to reduce production costs and enhance competitiveness.

The inflation rate accelerated from 4.2% in 2006 to 10.4% in 2007 owing to the combined effect of the introduction of VAT (at a rate of 16%) and increasing oil and food import prices. The one-off effect of the new tax drove monthly inflation to 6.6% in January.

The central bank reduced the expansion rate of monetary aggregates in an effort to meet the inflation target of 8%. From January to August 2007, domestic credit to the private sector increased by 9.8% (17.9% in 2006). Meanwhile, M1 grew by 21.7% in September year on year (13.8% in 2006), whereas M3 expanded by 12.7% (15.9% in 2006). While the nominal lending rate slightly decreased (from 14.9% to 14.5%), the deposit rate fell more sharply (from 3.3% to 2.5%).

The largest increase in loans and advances is attributed to consumer and housing credits, followed by the mining and services sectors. Loans and advances to agriculture and manufacturing experienced declines.

The financial sector became less vulnerable, as the non-performing loan ratio fell from 18.9% in March 2005



to 11% in March 2007. With the monetary authorities operating a managed float the exchange rate slightly appreciated in the second semester of 2007 to a rate above G\$ 200 per US\$.

The fair level of growth recorded by the Guyanese economy was mainly driven by agriculture and mining. During the first half of the year, agriculture is expected to expand at an annualized rate of 6% led by the strong output of crops such as sugar (12%) and rice (20%). Mining also expanded in response to high international prices. In particular, in January-June gold production picked up by 20% year on year.

The sugar industry is an important foreign exchange earner and employs a large number of workers. However, the recent European Union decision to reduce minimum prices by 36% over a four-year period—a decision linked to the reformed common market organization—could pose a serious challenge to the export performance of GUYSUCO. The government has already begun to invest heavily in its modernization to increase competitiveness. Meanwhile, biofuel production has awakened some interest in the industry and considerable savings might be possible in converting molasses to ethanol.

In the case of rice, there is uncertainty in the CARICOM market as Jamaica, a major importer, has been threatening to import extraregionally, neglecting its obligation to impose tariffs on extraregional rice imports. The timber industry is challenged by maintaining sustainable harvesting and the low level of processing taking place in the sector.

The current account deficit on the balance of payments is large, around US\$ 250 million or 27.9% of GDP (20.1% in 2006). During January-June travel and tourism receipts dropped by 6%, as the expected earnings from the Cricket World Cup failed to materialize. The number of actual visitors was below expectations, as India and Pakistan exited the tournament early. This was partly offset by a 25% increase in inward transfers owing to higher workers' remittances. Capital inflows were not enough to finance the current account deficit despite high foreign direct investment in telecommunications

#### GUYANA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	-2.0	4.7	4.5
Per capita Gross domestic product	-2.0	4.7	4.7
Consumer prices	8.2	4.2	10.4
Money (M1)	10.2	13.8	21.7 <sup>b</sup>
<b>Annual average percentages</b>			
National administration overall			
balance / GDP	-12.6	-11.9	-12.1
Nominal deposit rate	3.4	3.3	3.2 <sup>c</sup>
Nominal lending rate	15.1	14.9	14.2 <sup>c</sup>
<b>Millions of dollars</b>			
Exports of goods	551	604	533
Imports of goods	784	885	875
Current account	-158	-181	-250
Capital and financial account	166	226	196
Overall balance	8	45	-54

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to September 2007.

<sup>c</sup> Average from January to August, annualized.

(especially Digicel, a newly arrived mobile-phone operator), mining and forestry. The balance of payments will record an estimated overall deficit of US\$ 54 million compared with a US\$ 45 million surplus in 2006.

As regards the Millennium Development Goals (MDG), Guyana has already attained two targets, the eradication of extreme hunger and the achievement of universal primary education. It is expected that the reduction of the infant mortality rate and access to safe drinking water by more than half of the population will be met by 2015.

The aforementioned European Union decision to reduce sugar prices will necessitate restructuring of the industry and technology upgrades. Other export sectors such as rum and rice will have to undergo similar restructuring. These problems are aggravated by difficulties with the full implementation of government reforms and by infrastructure bottlenecks which hamper productivity and competitiveness.

## Haiti

In 2007 the Haitian economy recorded positive GDP growth (3.3%) for the third year running. However, several sectors turned in modest performances, suggesting that the economic recovery has not fully taken hold. Local supply remains limited, partly due to shortcomings in infrastructure (particularly in terms of energy) that may become systematic bottlenecks blocking a sustained economic recovery. GDP growth of 4% is projected for 2008.

The 2006/2007 fiscal year, which was the first full budget cycle managed by the government authorities that took office in May 2006, was globally positive in terms of the main macroeconomic indicators. Inflation was lower than in the year-earlier period, while the fiscal deficit (1.6% of GDP) was covered without monetary financing from the central bank. In addition, the balance-of-payments current account posted a surplus and the levels of net international reserves would cover over three months of imports for the first time in 10 years.

The authorities finalized the Poverty Reduction and Growth Strategy Paper, although this has yet to be approved by the executive branch and parliament, and is pending validation by the International Monetary Fund (IMF) and the World Bank. When those stages have been completed, the economic and social policy strategies will be defined for the next three years, particularly in terms of possible debt reduction and forgiveness. In the 2007/2008 fiscal year, the assessment and follow-up of the strategy will confirm the effective availability of the resources required (approximately US\$ 464 million).

The expectations for 2008 will probably be affected not only by those factors but also by other political changes. The need for constitutional reform (repeatedly called for by President René Prével) and the presumable renewal of members of the Electoral Council in the run up to the senatorial by-elections are the main issues in a dispute that could weaken the country's political stability if a consensus is not reached.

The one-year extension of the mandate of the United Nations Mission in Haiti, and the ratification of commitments undertaken by bilateral and multilateral donors, are encouraging signs of a consolidation of efforts to provide cooperation to the country.

In the 2006/2007 fiscal year, there was a considerable delay in budget implementation throughout the period. The largest items of expenditures (37% of total spending) were paid out in the last few months (especially in September).

The results of economic policy were in keeping with the guidelines laid down in the Poverty Reduction and Growth Facility (PRGF) agreed with IMF. The fiscal situation significantly improved in real terms, on the level of both revenues (6.7%) and outlays (23.3%). This generated a deficit of 1.6% of GDP, following the virtually balanced result of the previous year.

The current surplus (0.6% of GDP) was the result of the favourable performance (in real terms) of indirect taxes (8%). Items to fare well included VAT, tax on external trade and, in particular, the heading of "various" indirect taxes. One of the main examples of the latter is the effective collection of duties known as road maintenance funds. Stricter control of tax evasion, fraud and corruption also had a positive effect. The strong rise in spending (despite the curbing of current expenditure (6.3%) in the first nine months), is largely attributable to the hike in capital expenditure (202%).

The Bank of the Republic of Haiti (BRH) continued to implement a policy of monetary stability

to contain inflation. As a result, the monetary base expanded by only 3.2% in real terms. However, the nominal rates on BRH bonds (91 days) were reduced by nine percentage points (to 8.64% at the end of the fiscal year), in an attempt to boost credit within the economy. Even so, net domestic credit to the private sector edged up by a mere 2.8% in real terms: loans in dollars made a positive contribution (9.1%), while local-currency loans fell (-4%). Although non-performing loans only increased slightly on last year from 11% to 12% of gross credit, it is a cause for concern as it shows the banking system has been unable to reverse the upward trend.

Apart from September, when the central bank had to intervene by selling US\$ 10 million of currency, the gourde continued to appreciate in nominal and real terms thanks to inflows of foreign exchange in the form of remittances and external cooperation, and contained import demand. In the 2006/2007 fiscal year, currency appreciation averaged 9.8% in nominal and 15.2% in real terms. Indicators of dollarization (43.3% of deposits and 55.4% of credit) remained relatively stable, but with a slight increase of 3.2 points in terms of credit.

The positive GDP result (3.3%) was attributable to the performance of agriculture, construction (4.5%) and trade services (19.4%). Agriculture fared well thanks to favourable weather conditions, while construction was supported by investments in public works and trade benefited from the upturn in consumption resulting from remittances and small but segmented increases in employment. As for investment, higher capital expenditure in the public sector (up 202% in real terms) had an extremely positive effect on the overall indicator.

October-to-October inflation (8.1%) was considerably lower than the 10.3% recorded at the end of the previous year, partly thanks to greater control by the authorities but mainly due to the effects of currency appreciation. This is demonstrated by the fact that the price of the basket of local goods rose by 8.4%, while the basket of imported goods increased by just 2.7%. This result cushioned the fall in real wages (with the 8.2% lower

## HAITI: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	1.8	2.3	3.3
Per capita gross domestic product	0.2	0.7	1.6
Consumer prices	14.8	10.2	8.1 <sup>b</sup>
Real minimum wage	-13.2	-12.0	-7.6
Money (M1)	14.7	9.3	1.3 <sup>c</sup>
Terms of trade	-3.7	-3.8	-5.7
<b>Annual average percentages</b>			
National administration overall balance / GDP	-0.6	-0.0	-1.6
Nominal deposit rate	3.5	5.9	5.5 <sup>d</sup>
Nominal lending rate	27.1	29.7	32.6 <sup>d</sup>
<b>Millions of dollars</b>			
Exports of goods and services	604	698	731
Imports of goods and services	1 785	2 086	2 045
Current account	39	-19	99
Capital and financial account	14	113	70
Overall balance	53	94	169

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2007.

<sup>c</sup> Twelve-month variation to September 2007.

<sup>d</sup> Average from January to October, annualized.

than the 12.5% recorded in 2006). Despite this, job creation is still lagging.

The US\$ 99 million surplus on the balance-of-payments current account was due to net transfers (particularly remittances) totalling US\$ 1.1 billion and a US\$ 74 million reduction in the trade deficit. There was a net decrease in imports, both in terms of value (-8%) and volumes (-13%). The rise in import prices combined with a slight fall in export prices to bring down the terms of trade (-6.2%). The capital flight trend in banking services changed direction to post US\$ 11 million in net inflows, while official funds saw a hike in outlays (up from US\$ 99 million to US\$ 146 million) in the form of loans, and an increase in debt servicing (from US\$ 57 million to US\$ 75 million). Meanwhile, net international reserves (US\$ 290 million) were more than twice the level recorded in 2006.

## Jamaica

Badly affected by the impact of Hurricane Dean in August 2007, the Jamaican economy is expected to grow by only 1.5% in 2007 as compared to 2.5% in 2006. Inflation recorded an estimated annual rate of 8.5%, below the Bank of Jamaica target of 9-10%, despite food price increases in the wake of the hurricane. Meanwhile, the fiscal deficit for the fiscal year 2007-2008<sup>1</sup> is estimated at 4.3% of GDP (4.5% was budgeted for that fiscal year) owing to above-budget revenue. The trade deficit widened to 31% of GDP, resulting in a current account deficit of 13.5% of GDP (10.7% in 2006). Jamaica's economic management continues to be constrained by its huge debt burden of some 135% of GDP and tight fiscal measures will have to be continued for some considerable time. The country's economy is expected to grow by 3% in 2008.

Jamaica's economic policies have been guided by the Medium Term Socio-Economic Policy Framework (MTF) which was approved in 2004 and embodies the development strategy for the period 2004-2007. The MTF aims at achieving macroeconomic stability through prudent fiscal management, keeping inflation down to single figures and promoting private-sector development as well as social stability.

The main economic policy challenge in 2007 was public debt management. Current levels of public debt, around 135% of GDP, are well above any level that can be considered as sustainable. The debt burden is so great that, despite a primary fiscal surplus of some 10% of GDP<sup>2</sup> in 2007, the fiscal deficit reached 4.3% of GDP. The primary fiscal surplus was achieved through increased revenue, associated mainly with improved tax administration through an aggressive tax compliance programme.

Roughly 45% of the public debt is external and 55% is domestic. Approximately 8% is denominated in or linked to the United States dollar. In addition, around 36% of the public debt is subject to variable interest rates. This means that public finance is highly vulnerable to exchange-rate depreciations and domestic interest-rate rises, and the economic-policy space for manoeuvre is extremely tight.

In the context of relatively high domestic liquidity and some exchange-rate instability, the Bank of Jamaica kept its interest rate for open-market operations unchanged at 12%.<sup>3</sup> M1 expanded by 20.3% as of August 2007 (16.2% in 2006), and the growth of credit to the private sector also accelerated; during the second quarter it grew by 5.4% year on year, exceeding the Bank of Jamaica target of 2.9%, driven by personal loans and borrowing by the tourism sector. As a result, personal loans accounted for the majority of credit

<sup>1</sup> The fiscal year runs from 1 April to 31 March.

<sup>2</sup> In the budget for fiscal year 2007-2008, interest payments make up 37% of current expenditure, whereas amortization accounts for 68% of capital spending.

<sup>3</sup> This is the 180-day reverse repurchase known as "repo".

to the private sector (55%), absorbing resources that preferably should have been devoted to productive investment. The monetary authorities also intervened in the foreign-exchange market to foster exchange-rate and price stability. The Jamaican dollar (J\$) depreciated by almost 6% against the United States dollar. Inflation posted an estimated annual rate of 8.5%, below the Bank of Jamaica target of 9-10% but above the 5.8% recorded in 2006. Given the inflation-rate differential, this means that the real bilateral exchange rate remained fairly constant.

Economic growth was particularly affected by two main events during the third quarter of 2007. In August, Hurricane Dean hit the country and had a significant impact on agriculture, whose output dropped by 6%. Second, general elections held in September brought to power the Jamaica Labour Party (JLP), which had been in opposition since 1989. Its electoral platform had focused on anti-crime and anti-corruption policies. On the economic front, the challenge will be to jump-start economic growth and rebuild infrastructure after Hurricane Dean. The new government will face the same fiscal constraints as its predecessors. Although it has announced the privatization of the Jamaica Sugar Company, which should be completed by June 2008, no major changes in economic policy are expected.

On the expenditure side of GDP, the most dynamic component was gross fixed investment, which posted an annualized 5.2% growth rate. Investment was especially strong in mining (alumina and bauxite), attracted by still-high international commodity prices.

Hurricane Dean had a heavy impact on the result of the external sector, through a combination of slower export volume growth and higher import volumes of agricultural products. As a result, the trade balance posted a deficit of around US\$ 3,342 million, or 31% of GDP (29% in 2006). The services surplus dropped by 5.3% to US\$ 595 million as compared to 2006, owing to a deterioration of tourism earnings associated with lower-than-expected arrivals during the Cricket World Cup in the first quarter of the year and the recovery

#### JAMAICA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	1.4	2.5	1.5
Per capita gross domestic product	0.8	1.9	0.9
Consumer prices	12.9	5.8	8.5 <sup>b</sup>
Money (M1)	15.7	16.2	20.3 <sup>c</sup>
Real effective exchange rate <sup>d</sup>	-7.7	0.8	4.0 <sup>e</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>f</sup>	11.3	10.3	9.9 <sup>g</sup>
Overall public sector balance / GDP <sup>h</sup>	-3.4	-5.3	-4.3
Nominal deposit rate	5.9	5.3	5.1 <sup>i</sup>
Nominal lending rate	23.2	22.0	22.1 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	4 095	4 856	5 048
Imports of goods and services	6 007	6 999	7 573
Current account	-1 009	-1 097	-1 436
Capital and financial account	1 238	1 327	1 174
Overall balance	229	230	-262

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Yearly estimate.

<sup>c</sup> Twelve-month variation to August 2007.

<sup>d</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>e</sup> Year-on-year average variation, January to October 2007.

<sup>f</sup> Includes hidden unemployment.

<sup>g</sup> Estimate based on data from January to April.

<sup>h</sup> Fiscal year.

<sup>i</sup> Twelve-month average to October, annualized.

of Cancún as a tourist destination after the natural disasters of recent years. This was partly offset by an increase in the current-transfers surplus of around US\$ 140 million, mainly owing to workers' remittances. All in all, the current account deficit widened from 10.7% of GDP in 2006 to 13.5% in 2007. Capital inflows were not enough to finance the external gap, resulting in an overall balance-of-payments deficit of some US\$ 262 million (compared with a balance-of-payments surplus of US\$ 230 million in 2006).

## Dominican Republic

In 2007, the economy of the Dominican Republic grew by 7.5%, which was a slower rate than in 2006 but higher than the 6% set out in the monetary programme. Inflation stood at 7%. The fiscal deficit represented 1% of GDP, while the current-account deficit amounted to almost 3% of GDP. Due to the international economic slowdown, the country's GDP is expected to rise by 5.5% in 2008, which is considerably lower than the growth observed in the previous three-year period but closer to the long-term trend of the economy.

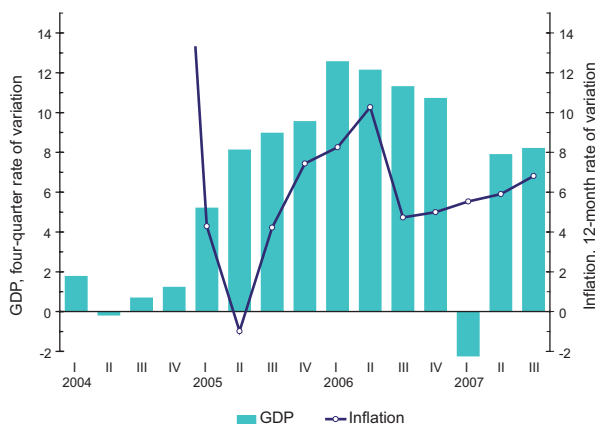
Although public spending remained high in 2007, it was nonetheless within planned levels and, as a percentage of GDP, was similar to the amount observed in 2006. Under the law on austerity in the public sector, the increase in government consumption expenditure was reined in, while other components of current expenditure shot up. Transfers to the energy sector (electricity and liquefied petroleum gas) are estimated to have climbed 20% in real terms, while external-debt interest payments were up by almost 25%. The proportion represented by these two items within total current expenditure (40%) rose by five percentage points in 2007. Capital expenditure remained as buoyant as in the previous year. Public works (mainly the metro in Santo Domingo, due to be opened in February 2008) accounted for two thirds of the absolute increase in capital expenditure.

Total central government revenues were 7% higher than the projected figure. Real annual growth is expected to come in at around 17%. This encouraging performance was due to various factors, in particular more efficient collection (spurred by the introduction of a tax receipt for operations concerning transfers of goods and provision of services) following the implementation of a tax amendment bill early in the year, a rise in international nickel prices and extraordinary revenues from company profits. The fastest growing item of tax revenues in relative terms was tax on property (mainly real estate and motor vehicles), which posted a real increase of 34% compared with 2006. The two main

tax items (income tax and goods and services transfer tax) also rose considerably in 2007 (by around 21% and 16%, respectively, in real terms).

As a result of the above, the central government's operational surplus represented 1% of GDP. Given that the quasi-fiscal deficit narrowed from 2.6% of GDP to 2.1%, the consolidated deficit shrank to 1.1% of GDP in 2007.

DOMINICAN REPUBLIC: GDP AND INFLATION



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

Monetary policy focused on achieving the target range of 4% to 6% for inflation set out in the monetary programme. In a context of inflationary pressure generated by the rise in international hydrocarbon prices, inflation was about two points higher than in 2006 and one percentage point above the target range.

Open-market operations were the main instrument of monetary policy. The increase in the central bank's balance of certificates did not involve any rises in interest payments, as the interest rates fell both in terms of auctions and counter operations. This helped to narrow the quasi-fiscal deficit. In October, the one-year benchmark interest rates dropped from 15% to 13%, which in turn pushed bank rates down to an all-time low in the same month. The maturity on issued securities continued to lengthen to a maximum term of seven years in 2007.

The nominal exchange rate remained stable. At the end of 2007, the exchange rate was barely higher than the average for the previous year. The central bank's interventions in the exchange market were limited to avoiding the excessive appreciation of the real exchange rate caused by hefty inflows of external capital and the inflation differential. Between October 2006 and October 2007, the peso appreciated by 3% against the dollar in real terms.

Productive activity remained intense, although aggregate growth was slower than in the previous year, partly due to the tropical storm Noel that struck the country at the end of October. Unlike the previous year, GDP growth in 2007 was significantly driven by private consumption expenditure. Another determining factor of performance was gross capital formation.

Financial and business services displayed above-average buoyancy in 2007. Growth tended to slow in communications and in tourism, while construction was boosted by public investment and mortgage expansion. Manufacturing and agricultural output both grew more slowly than the economy as a whole, while output from free zones contracted once more.

The main factors affecting inflation were the persistent increases in international oil prices. In 2007, 45% of the rise in the consumer price index (CPI) was attributable to higher oil prices, which indicates a significant imported component in total inflation.

The expanded unemployment rate trended downwards. According to the National Labour Force Survey, the rate fell by 0.4 percentage points in April and another half percentage point in October

**DOMINICAN REPUBLIC:  
MAIN ECONOMIC INDICATORS**

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	9.3	10.7	7.5
Per capita gross domestic product	7.6	9.0	5.9
Consumer prices	7.4	5.0	7.2 <sup>b</sup>
Real minimum wage	18.7	-7.1	5.1
Money (M1)	13.3	13.9	...
Terms of trade	-1.0	-1.0	-0.2
<b>Annual average percentages</b>			
Urban unemployment rate <sup>c</sup>	18.0	16.2	15.6 <sup>d</sup>
National administration overall balance / GDP	-0.6	-1.0	1.0
Nominal deposit rate	12.7	9.6	7.0 <sup>e</sup>
Nominal lending rate	21.4	15.5	11.9 <sup>e</sup>
<b>Millions of dollars</b>			
Exports of goods and services	10 058	10 664	11 328
Imports of goods and services	11 336	12 748	14 231
Current account	-478	-786	-1 703
Capital and financial account	1 183	1 057	2 103
Overall balance	705	271	400

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2007.

<sup>c</sup> Includes hidden unemployment.

<sup>d</sup> Data refer to April.

<sup>e</sup> Average from January to October, annualized.

compared with the year-earlier period. This brought unemployment down to just under 15% (16% in 2006). The minimum wage in the private sector, which had been frozen since the end of 2005, rose by 11.3% in early 2007.

The value of merchandise exports in dollars increased by around 6%. Determining factors in this result included exports of ferronickel, whose international prices soared by over 150% due to burgeoning demand. Compared with the previous year, the share of ferronickel in the total value of non-maquila exports went from 30% to just over 45%. Exports from free zones continued to decline (-12%). The value of merchandise imports climbed by 12%, with a quarter of that increase due to imports of capital goods.

The net current transfers of the balance of payments rose once more, this time by nearly 16.5%. Family remittances, which represented almost US\$ 2.98 billion (up by about 9%), accounted for 90% of such transfers. Nevertheless, the balance-of-payments current account deficit was wider than in 2006, representing around 3% of GDP.

The capital and financial account balance was positive, amounting to almost 4% of GDP.<sup>1</sup> Foreign direct investment bordered on US\$ 1.2 billion, which was 5% more than in the previous year. The country also recorded net financial capital inflows of nearly 1% of GDP.

The central bank continued to implement the policy of building up reserves that it introduced in 2004. Available net reserves are estimated to have swelled by around 1% of GDP, which exceeds the minimum level agreed with IMF.

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<sup>1</sup> Including errors and omissions.



## Suriname

In 2007 the Surinamese economy has grown by an estimated 5% (5.8% in 2006), led by extractive industries that benefited from high international prices. The fiscal balance posted a surplus of 2% of GDP, 0.8 percentage points less than in 2006. Monetary aggregates expanded rapidly, with M1 recording a growth rate of 33.7% in the year to June (20% in 2006). Coupled with increasing imported food prices, this pushed up the annual inflation figure to an estimated 5.6% from 4.7% in 2006. The external sector exhibited a better performance than in 2006, the current account posted a surplus of 2% of GDP, while the estimated overall balance of payments will record a surplus of 7.2% of GDP (5.6% in 2006). The economy is expected to grow by 5% in 2008.

The fiscal accounts are expected to report a surplus of approximately 2% of GDP (2.8% in 2006). Contributions from mining output expanded, but the tax revenue collected from the major mining and oil players—Rosebel, Suralco, Staatsolie and Billiton—has remained around 4% of GDP since 2005. Fiscal policy has been deliberately tight in order to properly manage the current booming conditions, with revenue expanding more rapidly than spending. During the first half of 2007, total revenue was up 28.7% year on year, while growth of total expenditure was a little below 23%. Direct taxation receipts almost doubled owing to higher contributions of companies in the extractive industry, especially the state-owned oil company Staatsolie and the private bauxite firms.

The issue of a stabilization fund has been raised with the government of Suriname, most notably by the International Monetary Fund (IMF), but the discussion has not yet reached the parliamentary level. Studies are being undertaken to determine the best course of action in establishing a fund.

Although public debt is not at excessive levels by international standards, debt reduction turned out to be an important policy goal for the Surinamese authorities, who have chosen to devote significant

portions of fiscal revenue to redeeming government liabilities. At the end of June 2007, public debt reached around 27% of GDP, of which some 60% was external. Over 2007, a booming export sector and an improved fiscal position have encouraged continuous efforts to minimize new debt contracted by the public sector. External debt stood at US\$ 340 million in the first half of 2007, a 12.6% drop as compared with the end of 2006, and its first decrease since 2000. Discussions on restructuring and paying off debt are ongoing. At the end of 2007 Suriname was in talks with Brazil and the United States. The Netherlands forgave Surinamese debt for € 68 million (equivalent to US\$ 98 million).

The Central Bank and the Ministry of Finance coordinate their economic policy in view of achieving macroeconomic goals. Monetary policy is specifically aimed at targeting inflation, though there is an understanding that such policy must be slack enough to encourage growth. The inflation rate accelerated from 4.7% in 2006 to an estimated 5.6% in 2007. This still compares favourably with price increases of 15.8% posted in 2005.

The main monetary instrument is adjusting the reserve requirements of commercial banks, rather than modifying interest rates. Money supply expanded

significantly. During the first semester of 2007, M1, M2 and M3 grew 33.7%, 31.4% and 33% year on year, respectively. Likewise, domestic credit to the private sector expanded by 25.2% during the same period, while domestic credit to the public sector remained stagnant. The deposit rate moved down marginally from 2006 to 6.5% in June 2007, while the lending rate fell from 15.3% to 13.8%. GDP has grown consistently within this monetary policy framework.

Exchange rate policy remained unchanged in 2007, maintaining the de facto fixed nominal exchange rate of SD\$ 2.78 to the United States dollar. The Central Bank engages in foreign exchange swaps as a measure to maintain the exchange rate regime.

The economy recorded an estimated growth rate of 5% in 2007, stimulated by further increases in the international prices of gold and bauxite. This represented the eighth consecutive year of real economic expansion, a record by Surinamese standards. The main contributor to GDP growth was the mining sector, which peaked by 18.4% as gold, oil and aluminium production continued to expand. The increased output shows a return on the investments made by mining companies in the earlier part of the decade. The sector is, however, due for a likely sharp slowdown in the near future, and is expected to average just over 1.1% growth in 2008-2010, compared with 15.3% in 2005-2007.

Exports of goods grew as a result of increased production and high commodity prices in 2007, while imports of goods showed a larger fall. The current account surplus, however, decreased to 2% of GDP. The overall balance of payments will record an estimated surplus of 7.2% of GDP in 2007. There have been increases in exports to the CARICOM Single Market and Economy (CSME) countries of goods such as

#### SURINAME: MAIN ECONOMIC INDICATORS

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	5.6	5.8	5.0
Per capita gross domestic product	4.9	5.1	4.4
Consumer prices	15.8	4.7	5.6 <sup>b</sup>
Money (M1)	18.3	20.0	33.4 <sup>c</sup>
<b>Annual average percentages</b>			
National administration overall balance / GDP	-0.6	1.7	2.0
Nominal deposit rate	8.0	6.7	6.5 <sup>d</sup>
Nominal lending rate	18.1	15.7	14.1 <sup>d</sup>
<b>Millions of dollars</b>			
Exports of goods	1 212	1 174	1 208
Imports of goods	1 189	1 013	945
Current account	-144	115	48
Capital and financial account	168	-21	122
Overall balance	24	94	170

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Yearly estimate.

<sup>c</sup> Twelve-month variation to August 2007.

<sup>d</sup> Average from January to August, annualized.

butter, margarine, timber, fish and fish products. In addition, the country has done well in the context of the European Union-Caribbean trade negotiations in that it has outperformed its neighbouring countries in terms of developing a more competitive banana sector. Nonetheless, the eventual removal of quota and tariff limitations, granted by the E.U. to African, Caribbean and Pacific (ACP) countries, may negatively affect the prospects of the Surinamese banana industry.

Export diversification and the establishment of a stabilization fund built up out of mining and oil windfall revenue appear to be the major economic policy challenges in the near future.

## Trinidad and Tobago

Despite still high energy prices and historically record highs in oil prices, in 2007 Trinidad and Tobago's economy is expected to record a marked slowdown with growth of 5.5%, well below the impressive 12.0% recorded in 2006. Rapid growth in capital spending associated with public infrastructure projects made fiscal policy rather expansionary, resulting in a reduction of the fiscal surplus. Monetary policy was conducted conservatively and resulted in a lower inflation rate (7.3% year on year, as at the end of September 2007). The nominal exchange rate remained stable. The current account surplus declined, but remained over 20% of GDP. The economy is expected to grow by 7% in 2008.

The fiscal balance for fiscal year 2006-07,<sup>1</sup> not including transfers to the Heritage and Stabilization Fund (HSF)—an oil stabilization and savings fund—posted a surplus of 2.5% of GDP, well below the 6.9% recorded in fiscal year 2005-06. Revenue grew by 4% in nominal terms, led by tax collection in a context of rising incomes and dynamic economic activity. Nonetheless, spending growth outpaced revenue expansion and rose by 5.8%, driven by capital spending associated with ongoing infrastructure projects.

The combination of high imported food prices, expansionary fiscal policy and excess liquidity put upward pressures on domestic prices. To keep inflation under control, the Central Bank took a conservative position that helped to reduce the inflation rate to 7.3% year on year, as at the end of September 2007 (9.1% in 2006). While maintaining the benchmark “repo” interest rate constant at 8%—which meant a zero real interest rate—monetary authorities took measures to absorb excess liquidity. These included open market operations, foreign exchange operations, and a secondary reserve requirement of 2% on commercial bank liabilities. In the year to September, these instruments absorbed 28%, 64% and 5% of fiscal injections (TT\$ 12.18 billion), respectively. This helped

to moderate the expansion of monetary aggregates to 8.6% in the case of M1 (23.6% in 2006) and 12.5% in the case of M2 (17.3% in 2006). Notwithstanding, domestic credit to the private sector increased by 17.6% in the year to September (24.8% in 2006). Growth in consumer credit continued to outpace business credit (28% and 13.9%, respectively).

As a result of the strong foreign exchange position fed by a booming energy sector, international reserves increased by US\$ 1 billion, despite the sale of foreign exchange, and totalled some US\$ 7.6 billion at the end of 2007. The nominal exchange rate remained at around TTS\$ 6.3 to one United States dollar. Given the inflation rate differential, this meant a real appreciation of around 5% against the dollar.

The main reason for the cooling of the economy observed in 2007 (from 12% to 5.5%) was the absence of the new large-scale energy projects that fuelled the economy in 2006, such as the gas processing plant. While the GDP of the energy sector grew by an impressive 21.4% in 2006, it expanded by only 4.4% in 2007. Exploration and production were stagnant, after having increased by 16.4% in 2006. Meanwhile, refining and petrochemicals output growth dipped from 41% to 14.4% and from 13.9% to 3.2%, respectively.

<sup>1</sup> The fiscal year runs from 1 October to 30 September.

More importantly, a report prepared by the US consultancy Ryder Scott and released in August highlighted a reduction in proven gas reserves, estimating that these would be exhausted within 11 years and probable reserves in a further nine years. This is explained by the fact that no major gas reserves have been discovered in the country since 2004. The government reacted by providing fiscal incentives for new oil and gas exploration, and in September it approved revisions to oil and natural-gas production-sharing contracts (PSCs), allowing for consolidation of profits and losses from different areas of operation, reducing the overall tax burden in the energy sector. Furthermore, the authorities aim to create conditions conducive to developing a strong and sustainable non-energy sector.

On the demand side, growth was led by a 9% increase in gross fixed investment (12% in 2006); this was due to several construction projects both public and private. However, there are indications that the sector is overheating, including high increases in input prices as well as labour costs. For instance, the prices of concrete and structural steel have multiplied by a factor of three since 2003, and that of aggregate has increased by 280%.

As regards the external sector, high energy prices coupled with increased volumes resulted in exports growing by almost 13% in nominal terms as compared to 2006, reaching US\$ 13.65 billion. However, the value of imports increased more rapidly, posting an expansion of 21% to some US\$ 8.3 billion. This caused the trade surplus to fall from 29% of GDP in 2006 to 25% in 2007. The income balance deficit widened to around US\$ 1.3 billion (US\$ 936 million in 2006) owing to higher repatriation of profits by multinational corporations in the energy sector. Overall, the current account surplus declined to a still-impressive US\$ 4,288 million or 20.1% of GDP (25.5% in 2006).

On the private sector side, in October it was announced that the Royal Bank of Canada (RBC) will buy RBTT Financial Holdings Limited for US\$ 2.2 billion. The resulting entity will serve some 1.6 million clients in the Caribbean. International investors ratified or improved their optimistic view of the country's economic prospects. In September, Moody's confirmed its Baa1 rating and stable outlook, citing low and

**TRINIDAD AND TOBAGO:  
MAIN ECONOMIC INDICATORS**

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	8.0	12.0	5.5
Per capita gross domestic product	7.6	11.6	5.1
Consumer prices	7.2	9.1	7.3 <sup>b</sup>
Money (M1)	23.5	23.6	8.6 <sup>b</sup>
Real effective exchange rate <sup>c</sup>	-1.6	-3.5	-2.3 <sup>d</sup>
<b>Annual average percentages</b>			
Unemployment rate <sup>e</sup>	8.0	6.2	5.9 <sup>f</sup>
National administration overall balance / GDP <sup>g</sup>	5.4	6.9	2.5
Nominal deposit rate	2.4	2.4	2.4 <sup>h</sup>
Nominal lending rate	9.1	10.2	10.6 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	10 573	...	...
Imports of goods and services	6 099	...	...
Current account	3 594	4 655	4 288
Capital and financial account	-1 701	-3 009	...
Overall balance	1 893	1 645	...

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to September 2007.

<sup>c</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>d</sup> Year-on-year average variation, January to October 2007.

<sup>e</sup> Includes hidden unemployment.

<sup>f</sup> Estimate based on data from January to June.

<sup>g</sup> Fiscal year.

<sup>h</sup> Average from January to June, annualized.

<sup>i</sup> Average from January to September, annualized.

declining public debt ratios, a diversified energy sector and rapid economic growth as supporting factors for the rating. By the same token, Standard and Poor's revised its long-term foreign currency rating outlook to positive from stable, placing the rating at A-.

General elections held in November re-elected the government of the People's National Movement (PNM). The economic policy challenge in the coming years is how to use the current energy windfall to support long-term economic growth while at the same time expanding proven gas reserves. The "Vision 2020" development plan will be further implemented, which implies continued expansion of public investment financed by energy revenue to fund infrastructure projects and social spending.

## Eastern Caribbean Currency Union (ECCU)<sup>1</sup>

During 2007, the eight economies of the Eastern Caribbean Currency Union (ECCU)<sup>2</sup> are expected to grow by 4.3% (weighted average). However, this figure hides huge differences among countries, from the booming economy of Anguilla, expanding by 11.9%, to the recessive phase in Montserrat, whose output dropped by 2.7%. Hurricane Dean, which hit in August, caused serious damage. A major economic policy concern continued to be the high levels of public debt in most countries, with four posting debt-to-GDP ratios above 100%.

The countries of the ECCU can be divided into three groups according to their growth rates in 2007. The first group, the rapid-growth countries, includes Anguilla (11.9%), Saint Vincent and the Grenadines (6.6%) and Antigua and Barbuda (6.1%). In the first country, growth was led by the tourism sector, especially the luxury segment. In the other two, the dynamic performance was driven by tourism-related construction. The second group, countries with moderate growth, includes Saint Kitts and Nevis (3.5%), Grenada (3.1%) and Saint Lucia (2.2%). The third group comprises the stagnant and recessive countries, Dominica (0.3%) and Montserrat (-2.7%). In this latter group, growth performance was highly influenced by natural disasters: Hurricane Dean in the former country, and volcanic activity in the latter.

The states of the ECCU continued to show high levels of public debt. Particularly worrisome is the case of Saint Kitts and Nevis, whose debt-to-GDP ratio exceeds 175%, placing it among the world's most indebted countries. Although no new external debt has

been contracted for the last three to four years, public debt has continued to grow owing to the issuance of domestic debt. The latter currently accounts for almost two thirds of total debt in Saint Kitts and Nevis, more than half in Antigua and Barbuda, and around one third in Saint Lucia and Saint Vincent and the Grenadines.

In July 2006 the Eastern Caribbean Central Bank (ECCB) set the target for a debt-to-GDP ratio below 60% by 2020. This implies a significant fiscal adjustment on the part of the highly indebted countries. Given the downwards rigidity of public spending owing to the high share of debt service, salaries and wages, and other functioning outlays in public spending, most of this adjustment should be done by increasing tax revenue. In that light, Dominica introduced VAT in March 2006 and Antigua and Barbuda in January 2007. Likewise, most countries have changed the methodology for estimating the property tax base from annual rental value to market value, which should have a positive impact on the tax take.

<sup>1</sup> The *Preliminary Overview of the Economies of Latin America and the Caribbean* usually contains a chapter entitled “Member countries of the Organization of Eastern Caribbean States (OECS)”. The source for these data is the Eastern Caribbean Central Bank, which is the monetary authority of the Eastern Caribbean Currency Union. All the OECS members except the British Virgin Islands are members of this Union. As the statistical information refers to the member countries of the Union and not of OECS—in other words, it does not include the British Virgin Islands—from this year onward, the chapter will be entitled “Member Countries of the Eastern Caribbean Currency Union”.

Monetary policy focused on supporting the currency, which has since July 1976 been pegged to the United States dollar at a rate of 2.7 Eastern Caribbean dollars (EC\$) to one United States dollar. Interest rates remained fairly constant, with the discount rate kept at 6.5%, whereas nominal deposit and lending rates were 4.2% and 10.2%, respectively.<sup>2</sup> As regards monetary aggregates, M1 expanded by 8.9% in the year to June as compared to 8.2% recorded in 2006. Meanwhile, domestic credit to the private sector grew by 21% during the first quarter year on year, three percentage points more than in 2006, reflecting more dynamic demand during the Cricket World Cup. Annual inflation is estimated at 3.5%. The convergence of the inflation rate in ECCU with United States levels is crucial, given its peg to the dollar. Any increase in domestic prices above United States inflation would mean a real exchange rate appreciation and thus a loss of competitiveness that would harm export activities as well as import-competing sectors.

Tourism is the main economic sector and the most important foreign exchange earner in ECCU countries. In 2007, numbers of stopover visitors decreased in most of the countries, with the exceptions of Anguilla and Grenada, where they grew by 22.2% (January-March, year on year) and 16.5% (January-May, year on year), respectively. On the contrary, in Saint Lucia—the main tourism destination of the subregion—stopover arrivals decreased by 9.2% in the January-May period year on year. This is explained by the disruption of normal tourism activities generated by the Cricket World Cup, hosted in the subregion during the first quarter, together with the decrease in inter-islands flights owing to the informal merger of airlines LIAT and Caribbean Star, which eroded competition and increased fares sharply. In addition, the introduction of passport requirements by the United States government for its own nationals also negatively affected the tourism sector. Cruise-ship passenger numbers are expected to increase, based on preliminary figures up to June 2007 which recorded a 13.2% increase over the same period in 2006.

Activity in the construction sector is expected to decline owing to the completion of major infrastructure projects related to the Cricket World Cup. As a result, value added in this sector is projected to grow by 5.9% compared with 11.9% in 2006. The manufacturing sector is expected to increase by 0.6 percentage points over 2006, driven by expansions in Saint Kitts and Nevis and Grenada.

**EASTERN CARIBBEAN CURRENCY UNION (ECCU):  
MAIN ECONOMIC INDICATORS**

	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	5.8	7.1	4.3 <sup>b</sup>
Consumer prices	4.6	1.4	3.5 <sup>c</sup>
Money (M1)	10.1	8.2	8.9 <sup>d</sup>
<b>Annual average percentages</b>			
Overall public sector balance / GDP	2.6	-4.6	...
Nominal deposit rate	3.2	3.3	4.2 <sup>e</sup>
Nominal lending rate	10.2	9.9	10.2 <sup>e</sup>
<b>Millions of dollars</b>			
Exports of goods and services	1 893	2 281	...
Imports of goods and services	2 546	3 230	...
Current account	-705	-948	...
Capital and financial account	632	1 122	...
Overall balance	-16	92	...

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

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Weighted average.

<sup>c</sup> Simple average.

<sup>d</sup> Twelve-month variation to June 2007.

<sup>e</sup> Twelve-month average to April 2007.

Hurricane Dean had a strong impact on Dominica, where more than 90% of production (banana crops) was destroyed. In Saint Lucia, the damage was less intense but still considerable. Although the Windward Islands Crop Insurance scheme will compensate most producers for their losses, financial distress will nonetheless be important as it will take at least one year to have a new harvest. More importantly, the future of the Caribbean banana industry is uncertain, as the European Union is evaluating its preferential banana quotas allocated to Africa-Caribbean-Pacific (ACP) countries. These have been challenged within the World Trade Organization (WTO) by Ecuador, Colombia and the United States.

The external sector deteriorated in 2007 owing to less dynamic exports in agriculture and lower-than-expected demand for tourism services. Together with high import volumes associated with large construction projects and high international oil and food prices, this led to an increase in the current account deficit. A main source of foreign capital continued to be FDI in the tourism sector, especially in Anguilla, Saint Kitts and Nevis and Saint Lucia. In addition, official grants for reconstruction in Dominica and Saint Kitts and Nevis rose in the third and fourth quarters in the aftermath

<sup>2</sup> Interest rates in the currency union are set at the discretion of commercial banks, except for the minimum interest rate for savings, which is set by the ECCB.

of Hurricane Dean. All in all, the balance of payments is likely to register a small surplus, but lower than in 2006 (US\$ 92 million).

There are a number of economic policy concerns in the near future. One is the worsening conditions in the United States economy. This could have a negative impact in tourist arrivals from that country.<sup>3</sup> Second, without any preferential treatment in the European Union, the ECCU banana industry will be severely challenged by competitors such as Ecuador and some Central American countries. Third, public finance will be very restricted given the magnitude

of debt service in most countries. Furthermore, to achieve the goal of reducing debt-to-GDP ratios to below 60% by 2020 most governments would need huge primary surpluses without jeopardizing economic growth. Finally, the ECCU economies will continue to be vulnerable to natural disasters such as hurricanes, earthquakes and volcanic activity. In this regard, the Caribbean Catastrophe Risk Insurance Facility established in the wake of Hurricane Dean could play an important role in mitigating the effects of such events and provide funding for reconstruction.

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<sup>3</sup> However, the net effect is uncertain as difficulties in the United States economy are behind the significant depreciation of the dollar against the euro and the pound. This should foster tourist arrivals from Europe.





## Statistical Annex





Table A-1  
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Annual growth rates</b>										
Gross domestic product <sup>b</sup>	2.5	0.2	3.9	0.3	-0.5	2.1	6.2	4.6	5.6	5.6
Per capita gross domestic product <sup>b</sup>	0.8	-1.3	2.4	-1.1	-1.8	0.8	4.8	3.3	4.2	4.2
Consumer prices <sup>c</sup>	10.0	9.7	9.0	6.1	12.2	8.5	7.4	6.1	5.0	6.1
<b>Percentages</b>										
Urban open unemployment <sup>d</sup>	10.3	11.0	10.4	10.2	11.0	11.0	10.3	9.1	8.6	8.0
Total gross external debt/GDP <sup>e</sup>	35.6	41.1	36.2	37.6	41.5	41.5	36.1	26.1	22.0	20.3
Total gross external debt / exports of goods and services	216	211	173	181	178	170	139	101	84	79
<b>Balance of payments<sup>f</sup></b>										
<b>Millions of dollars</b>										
Current account balance	-87 712	-54 703	-47 019	-51 922	-14 044	9 200	21 132	36 947	48 010	24 410
Merchandise trade balance	-34 896	-6 791	3 148	-3 666	24 233	45 235	60 718	82 421	97 795	75 099
Exports of goods f.o.b.	283 453	299 364	358 717	343 572	347 140	378 479	466 647	563 688	670 731	752 264
Imports of goods f.o.b.	318 349	306 155	355 569	347 238	322 906	333 244	405 928	481 267	572 936	677 164
Services trade balance	-19 548	-16 112	-17 150	-19 122	-14 217	-13 290	-13 951	-18 456	-20 485	-24 818
Income balance	-50 331	-51 202	-53 689	-54 303	-52 581	-57 639	-67 274	-76 800	-88 980	-88 337
Net current transfers	17 063	19 401	20 673	25 170	28 520	34 894	41 639	49 783	59 590	62 466
Capital and financial balance <sup>g</sup>	68 609	42 385	62 113	34 705	-11 582	1 572	-8 844	19 823	11 125	93 325
Net foreign direct investment	60 999	80 004	70 510	64 904	45 531	35 198	46 220	49 503	26 692	77 051
Financial capital <sup>h</sup>	7 610	-37 619	-8 397	-30 199	-57 114	-33 626	-55 064	-29 679	-15 567	16 274
Overall balance	-19 103	-12 318	15 094	-17 217	-25 626	10 772	12 288	56 770	59 136	117 736
Variation in reserve assets <sup>i</sup>	10 045	6 242	-6 882	996	3 156	-29 443	-21 139	-35 334	-47 089	-118 182
Other financing <sup>j</sup>	9 057	6 076	-8 212	16 221	22 470	18 671	8 851	-21 434	-12 033	183
Net transfer of resources <sup>f</sup>	27 336	-2 740	211	-3 377	-41 693	-37 396	-67 268	-78 411	-89 888	5 435
International reserve assets <sup>k</sup>	173 897	166 559	170 118	163 307	165 409	201 224	227 708	263 483	320 908	440 270
<b>Fiscal sector<sup>l</sup></b>										
<b>Percentages of GDP</b>										
Overall balance	-2.3	-3.0	-2.7	-3.3	-3.2	-2.9	-1.9	-1.1	0.1	-0.1
Primary balance	0.0	-0.3	-0.1	-0.7	-0.5	-0.2	0.6	1.5	2.4	2.2
Ingreso total	16.0	16.5	16.9	16.9	17.0	17.2	17.5	18.5	19.7	20.2
Total revenue	40.4	44.9	45.3	47.6	60.7	59.5	53.0	44.5	37.6	31.8
Public debt of the non-financial public sector (NFPS)	44.4	49.2	46.9	49.3	64.4	62.3	54.9	47.4	39.9	...

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Based on official figures expressed in 2000 dollars.

<sup>c</sup> December - December variation.

<sup>d</sup> The data for Argentina and Brazil have been adjusted to allow for changes in methodology in 2003 and 2002, respectively.

<sup>e</sup> Estimates based on figures denominated in dollars at current prices.

<sup>f</sup> Includes 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.

<sup>g</sup> Includes errors and omissions.

<sup>h</sup> Refers to the capital and financial balance (including errors and omissions) minus net foreign direct investment.

<sup>i</sup> A minus sign (-) indicates an increase in reserve assets.

<sup>j</sup> Includes the use of IMF credit and loans and exceptional financing.

<sup>k</sup> Including gold.

<sup>l</sup> Central government. Simple averages.

Table A-2  
**LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT**  
*(Annual growth rates)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean<sup>b</sup></b>	<b>2.5</b>	<b>0.2</b>	<b>3.9</b>	<b>0.3</b>	<b>-0.5</b>	<b>2.1</b>	<b>6.2</b>	<b>4.6</b>	<b>5.6</b>	<b>5.6</b>
<b>Latin America<sup>c</sup></b>	<b>2.4</b>	<b>0.2</b>	<b>3.9</b>	<b>0.3</b>	<b>-0.5</b>	<b>2.1</b>	<b>6.2</b>	<b>4.6</b>	<b>5.5</b>	<b>5.6</b>
<b>The Caribbean<sup>d</sup></b>	<b>4.1</b>	<b>3.9</b>	<b>3.4</b>	<b>1.7</b>	<b>3.6</b>	<b>6.5</b>	<b>4.7</b>	<b>4.7</b>	<b>6.9</b>	<b>3.9</b>
Antigua and Barbuda	4.4	4.1	1.5	2.2	2.5	5.2	7.2	4.7	12.5	6.0
Argentina	3.9	-3.4	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.6
Bahamas	6.8	4.0	1.9	0.8	2.3	1.4	1.8	2.7	3.4	3.3
Barbados	6.2	0.5	2.3	-4.6	0.7	2.0	4.8	4.1	3.8	4.0
Belize	3.7	8.7	12.9	4.9	5.1	9.3	4.6	3.5	5.6	3.0
Bolivia	5.0	0.4	2.5	1.7	2.5	2.7	4.2	4.0	4.6	4.0
Brazil	0.0	0.3	4.3	1.3	2.7	1.1	5.7	2.9	3.7	5.3
Chile	3.2	-0.8	4.5	3.4	2.2	3.9	6.0	5.7	4.0	5.3
Colombia	0.6	-4.2	2.9	1.5	1.9	3.9	4.9	4.7	6.8	7.0
Costa Rica	8.4	8.2	1.8	1.1	2.9	6.4	4.3	5.9	8.2	7.0
Cuba	0.2	6.3	6.1	3.0	1.5	2.9	4.5	...	...	...
Cuba <sup>e</sup>	...	...	...	3.0	1.8	3.8	5.4	11.8	12.5	7.0
Dominica	3.2	0.6	0.6	-3.6	-4.2	2.2	6.3	3.4	5.3	1.0
Ecuador	2.1	-6.3	2.8	5.3	4.2	3.6	8.0	6.0	3.9	2.7
El Salvador	3.7	3.4	2.2	1.7	2.3	2.3	1.9	3.1	4.2	4.5
Grenada	8.2	7.0	7.3	-4.8	1.8	8.1	-7.2	14.0	0.8	3.0
Guatemala	5.0	3.8	3.6	2.3	3.9	2.5	3.2	3.5	4.9	5.5
Guyana	-1.7	3.8	-1.4	2.3	1.1	-0.7	1.6	-2.0	4.7	4.5
Haiti	2.2	2.7	0.9	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.3
Honduras	2.9	-1.9	5.7	2.6	2.7	3.5	5.0	4.1	6.0	6.0
Jamaica	-1.2	1.0	0.7	1.5	1.1	2.3	1.0	1.4	2.5	1.5
Mexico	5.0	3.8	6.6	0.0	0.8	1.4	4.2	2.8	4.8	3.3
Nicaragua	3.7	7.0	4.1	3.0	0.8	2.5	5.3	4.3	3.7	3.0
Panama	7.3	3.9	2.7	0.6	2.2	4.2	7.5	7.2	8.7	9.5
Paraguay	0.6	-1.5	-3.3	2.1	0.0	3.8	4.1	2.9	4.2	5.5
Peru	-0.7	0.9	3.0	0.2	5.0	4.0	5.1	6.7	7.6	8.2
Dominican Republic	7.0	6.7	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	7.5
Saint Kitts and Nevis	0.9	3.6	4.3	2.0	1.1	0.5	7.6	5.2	5.9	5.5
Saint Vincent and the Grenadines	5.2	4.4	1.8	1.0	3.7	3.2	6.2	3.6	8.7	5.0
Saint Lucia	6.4	2.4	-0.2	-5.1	3.1	4.1	5.4	5.9	4.0	4.0
Suriname	3.1	-2.4	4.0	5.9	1.9	6.1	7.7	5.6	5.8	5.0
Trinidad and Tobago	8.1	8.0	6.9	4.2	7.9	14.4	8.8	8.0	12.0	5.5
Uruguay	4.5	-2.8	-1.4	-3.4	-11.0	2.2	11.8	6.6	7.0	7.5
Venezuela (Bolivarian Republic of)	0.3	-6.0	3.7	3.4	-8.9	-7.8	18.3	10.3	10.3	8.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Excluding Cuba.

<sup>c</sup> Includes 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.

<sup>d</sup> Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

<sup>e</sup> Data supplied by the National Statistical Office of Cuba.

Table A-3  
**LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT**  
*(Annual growth rates)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean<sup>b</sup></b>	<b>0.8</b>	<b>-1.3</b>	<b>2.4</b>	<b>-1.1</b>	<b>-1.8</b>	<b>0.8</b>	<b>4.8</b>	<b>3.3</b>	<b>4.2</b>	<b>4.2</b>
<b>Latin America<sup>c</sup></b>	<b>0.8</b>	<b>-1.4</b>	<b>2.4</b>	<b>-1.1</b>	<b>-1.9</b>	<b>0.7</b>	<b>4.8</b>	<b>3.3</b>	<b>4.1</b>	<b>4.2</b>
<b>The Caribbean<sup>d</sup></b>	<b>3.4</b>	<b>3.2</b>	<b>2.6</b>	<b>1.0</b>	<b>2.9</b>	<b>5.7</b>	<b>4.0</b>	<b>4.0</b>	<b>6.2</b>	<b>3.4</b>
Antigua and Barbuda	1.8	1.7	-0.7	0.3	0.8	3.7	5.7	3.3	11.1	4.7
Argentina	2.7	-4.4	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4	7.5
Bahamas	5.2	2.5	0.5	-0.6	0.9	0.2	0.6	1.5	2.1	2.0
Barbados	5.7	0.1	1.8	-5.0	0.3	1.6	4.4	3.7	3.5	3.7
Belize	1.0	5.9	10.1	2.3	2.6	6.8	2.2	1.2	3.3	0.8
Bolivia	2.5	-1.9	0.1	-0.6	0.2	0.4	1.9	1.8	2.5	1.9
Brazil	-1.5	-1.2	2.8	-0.2	1.2	-0.3	4.2	1.5	2.3	3.9
Chile	1.9	-2.0	3.2	2.2	1.0	2.8	4.9	4.6	2.9	4.2
Colombia	-1.1	-5.8	1.3	-0.1	0.4	2.3	3.3	3.3	5.4	5.6
Costa Rica	5.7	5.7	-0.5	-1.0	0.9	4.4	2.4	4.0	6.3	5.2
Cuba	-0.2	6.0	5.8	2.7	1.3	2.7	4.3	...	...	...
Cuba <sup>e</sup>	...	...	...	2.7	1.5	3.6	5.1	11.7	12.4	6.9
Dominica	3.3	0.8	0.8	-3.5	-4.0	2.4	6.5	3.6	5.6	1.3
Ecuador	0.6	-7.6	1.3	3.8	2.8	2.1	6.5	4.5	2.4	1.2
El Salvador	1.7	1.4	0.2	-0.2	0.4	0.5	0.1	1.3	2.4	2.8
Grenada	7.8	6.5	6.6	-5.6	0.7	6.9	-8.0	13.3	0.4	2.9
Guatemala	2.6	1.5	1.2	-0.1	1.3	0.0	0.6	0.9	2.3	2.9
Guyana	-1.5	4.0	-1.3	2.2	1.0	-0.9	1.4	-2.0	4.7	4.7
Haiti	0.3	0.9	-0.8	-2.7	-1.8	-1.2	-5.0	0.2	0.7	1.6
Honduras	0.7	-3.9	3.6	0.5	0.6	1.4	3.0	2.0	3.9	3.9
Jamaica	-2.0	0.2	-0.1	0.8	0.4	1.5	0.3	0.8	1.9	0.9
Mexico	3.2	2.1	5.1	-1.1	-0.1	0.6	3.4	1.9	3.7	2.1
Nicaragua	1.9	5.2	2.4	1.5	-0.6	1.2	4.0	3.0	2.3	1.7
Panama	5.2	1.9	0.8	-1.3	0.4	2.3	5.6	5.4	6.8	7.7
Paraguay	-1.6	-3.6	-5.3	0.0	-2.0	1.8	2.1	0.9	2.3	3.6
Peru	-2.1	-0.5	1.6	-1.1	3.7	2.8	3.9	5.5	6.3	7.0
Dominican Republic	5.2	4.9	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	5.9
Saint Kitts and Nevis	-0.4	2.3	3.0	0.7	-0.2	-0.8	6.3	3.4	5.0	4.2
Saint Vincent and the Grenadines	4.6	3.9	1.3	0.4	3.2	2.6	5.6	3.1	8.1	4.5
Saint Lucia	5.5	1.5	-1.1	-6.1	2.0	3.0	4.2	4.8	2.9	2.8
Suriname	2.0	-3.4	3.0	5.0	1.1	5.3	7.0	4.9	5.1	4.4
Trinidad and Tobago	7.6	7.6	6.5	3.8	7.6	14.0	8.4	7.6	11.6	5.1
Uruguay	3.9	-3.4	-1.8	-3.6	-11.0	2.2	11.9	6.6	6.8	7.2
Venezuela (Bolivarian Republic of)	-1.6	-7.7	1.8	1.5	-10.5	-9.4	16.2	8.5	8.5	6.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Excluding Cuba.

<sup>c</sup> Includes 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.

<sup>d</sup> Includes Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

<sup>e</sup> Data supplied by the National Statistical Office of Cuba.

Table A-4  
**LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION**  
*(Percentages of GDP)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean<sup>b</sup></b>	19.7	18.4	18.5	17.9	16.8	16.5	17.5	18.6	19.9	21.1
Argentina	19.1	17.2	16.2	14.3	10.2	12.9	15.9	17.9	19.5	20.5
Bolivia	23.9	20.1	17.9	13.8	16.0	13.9	13.2	13.2	13.5	14.8
Brazil	18.2	16.7	16.8	16.7	15.4	14.5	15.0	15.1	15.8	16.9
Chile	23.0	19.0	19.8	19.9	19.8	20.2	20.9	24.1	24.1	25.2
Colombia	19.3	13.2	12.6	13.4	14.5	16.1	17.6	20.0	22.2	25.2
Costa Rica	20.6	18.3	17.8	18.0	18.7	18.8	18.0	18.0	18.2	19.3
Cuba	12.5	12.5	12.9	12.1	10.9	9.9	10.1	...	...	...
Cuba <sup>c</sup>	...	...	11.8	11.1	9.9	8.9	9.1	9.7	...	...
Ecuador	24.3	18.8	20.5	24.0	27.4	26.4	25.7	26.8	26.6	28.0
El Salvador	17.2	16.4	16.9	16.9	17.1	17.1	15.9	15.8	16.9	17.1
Guatemala	21.3	21.7	19.1	19.0	20.0	18.9	18.2	18.4	19.2	19.8
Haiti	19.3	23.3	27.3	27.3	28.0	28.8	28.9	28.8	28.8	28.8
Honduras	27.6	29.9	26.1	23.5	21.6	22.3	25.4	22.6	23.5	24.4
Mexico	19.7	20.5	21.4	20.2	19.9	19.7	20.3	21.3	22.3	23.0
Nicaragua	27.6	35.0	29.9	27.4	25.5	25.0	25.8	26.4	24.9	24.9
Panama	22.0	23.5	21.2	15.7	14.4	17.1	17.4	17.3	18.5	19.6
Paraguay	19.2	17.1	17.5	16.1	15.0	15.5	15.6	16.5	17.0	17.5
Peru	24.9	21.9	20.2	18.5	17.5	17.8	18.3	19.2	21.4	24.5
Dominican Republic	22.3	19.0	20.5	19.3	19.1	15.3	14.8	15.4	16.9	17.3
Uruguay	15.8	14.9	13.2	12.4	9.4	8.1	9.5	11.1	13.6	14.0
Venezuela (Bolivarian Republic of)	23.6	21.2	21.0	23.1	20.7	14.1	17.9	22.4	27.1	30.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures expressed in constant 2000 dollars.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Excluding Cuba.

<sup>c</sup> Data supplied by the National Statistical Office of Cuba.

Table A-5a  
**LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT**  
*(Percentages of GDP)<sup>a</sup>*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>b</sup>
1. Domestic saving	18.1	18.2	19.5	18.1	19.0	19.8	21.9	22.0	22.8	22.2
2. Net factor income	-2.5	-2.8	-2.7	-2.8	-3.1	-3.2	-3.3	-3.1	-3.1	-2.6
3. Net transfers	0.8	1.1	1.0	1.3	1.7	2.0	2.0	2.0	2.1	1.9
4. Gross national saving	16.5	16.4	17.9	16.6	17.6	18.6	20.7	20.9	21.8	21.4
5. External saving	4.3	3.0	2.4	2.7	0.8	-0.5	-1.0	-1.5	-1.7	-0.7
6. Gross domestic investment	20.8	19.5	20.2	19.3	18.4	18.0	19.7	19.4	20.2	20.7

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

<sup>a</sup> Based on coefficients calculated in local currency expressed in current dollars.

<sup>b</sup> Preliminary figures.

Table A-5b  
**LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC INVESTMENT, NATIONAL INCOME AND SAVING**  
*(Annual growth rates)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
Gross domestic investment	4.3	-9.4	7.1	-2.2	-9.1	-0.1	14.4	5.3	12.6	12.7
Gross national disposable income	1.7	0.6	5.0	-0.3	-0.4	2.5	7.2	6.0	7.1	6.5
National saving	-1.9	-1.6	11.3	-5.9	0.2	6.7	17.9	7.2	12.0	7.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures expressed in current 2000 dollars.

<sup>a</sup> Preliminary figures.

Table A-6  
**LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS**  
*(Millions of dollars)*

	Exports of goods f.o.b.			Exports of services			Imports of goods f.o.b.			Imports of services		
	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>
<b>Latin America and the Caribbean</b>	<b>578 431</b>	<b>688 649</b>	<b>...</b>	<b>77 123</b>	<b>85 959</b>	<b>...</b>	<b>499 253</b>	<b>593 196</b>	<b>...</b>	<b>92 377</b>	<b>103 514</b>	<b>...</b>
<b>Latin America and the Caribbean<sup>e</sup></b>	<b>564 943</b>	<b>672 222</b>	<b>753 712</b>	<b>70 577</b>	<b>79 081</b>	<b>90 016</b>	<b>484 071</b>	<b>575 895</b>	<b>680 214</b>	<b>88 176</b>	<b>98 626</b>	<b>111 047</b>
Antigua and Barbuda	82	72	...	492	508	...	390	462	...	208	234	...
Argentina	40 387	46 456	54 354	6 426	7 694	9 617	27 300	32 585	41 709	7 625	8 553	10 264
Bahamas	590	692	...	2 486	2 436	...	2 399	2 624	...	1 374	1 916	...
Barbados	379	461	453	1 457	1 601	1 731	1 464	1 462	1 525	680	747	786
Belize	325	426	462	292	350	...	556	612	650	159	150	...
Bolivia	2 791	3 863	4 211	489	434	473	2 183	2 631	2 947	683	805	862
Brazil	118 308	137 807	161 235	16 047	19 462	23 744	73 606	91 350	120 581	24 356	29 116	35 813
Chile	41 297	58 116	69 159	7 020	7 504	8 104	30 492	35 903	43 443	7 656	8 426	9 690
Colombia	21 729	25 181	28 745	2 664	3 373	3 758	20 134	24 859	31 399	4 766	5 493	6 044
Costa Rica	7 100	8 068	9 257	2 621	2 955	3 258	9 242	10 811	11 820	1 505	1 616	1 698
Dominica	43	43	...	85	97	...	146	147	...	52	54	...
Ecuador	10 468	13 188	13 847	1 012	1 016	1 128	9 709	11 423	12 337	2 142	2 341	2 575
El Salvador	3 429	3 567	3 903	1 128	1 503	1 507	6 534	7 257	8 052	1 210	1 484	1 598
Grenada	39	32	...	128	132	...	280	243	...	107	93	...
Guatemala	5 381	6 025	7 001	1 230	1 395	1 560	9 626	10 920	12 512	1 608	1 830	1 913
Guyana	551	604	533	148	104	...	784	885	875	201	218	...
Haiti	459	494	521	145	204	210	1 308	1 548	1 429	476	538	...
Honduras	2 750	2 997	3 259	744	756	828	4 239	5 037	6 131	1 006	1 169	1 293
Jamaica	1 664	2 117	...	2 431	2 739	...	4 246	5 062	...	1 761	1 936	...
Mexico	214 233	249 997	269 997	16 066	16 221	17 357	221 820	256 130	281 743	20 779	21 957	23 933
Nicaragua	1 654	1 978	2 185	309	342	382	2 956	3 422	3 735	448	483	...
Panama	7 591	8 476	9 916	3 217	3 940	4 931	8 907	10 201	12 752	1 781	1 726	1 934
Paraguay	3 352	4 838	6 557	693	808	860	3 814	5 772	6 922	344	395	462
Peru	17 368	23 800	27 846	2 289	2 451	3 211	12 082	14 866	19 772	3 123	3 400	4 352
Dominican Republic	6 145	6 440	7 020	3 913	4 224	4 308	9 869	11 190	12 533	1 467	1 558	...
Saint Kitts and Nevis	54	59	...	152	157	...	185	218	...	92	112	...
Saint Vincent and the Grenadines	43	37	...	158	171	...	203	240	...	84	91	...
Saint Lucia	89	100	...	410	405	...	418	448	...	172	187	...
Suriname	1 212	1 174	1 208	204	234	...	1 189	1 013	945	352	264	...
Trinidad and Tobago	9 672	12 100	...	...	...	...	5 725	6 843	...	...	...	...
Uruguay	3 774	4 230	4 780	1 311	1 285	1 517	3 753	4 806	5 454	939	902	1 083
Venezuela (Bolivarian Republic of)	55 473	65 210	68 471	1 356	1 459	1 532	23 693	32 226	41 894	5 222	5 718	6 747

Table A-6 (continued)

	Trade balance			Current transfers balance			Income balance			Current account balance		
	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>
<b>Latin America and the Caribbean</b>	<b>63 924</b>	<b>76 920</b>	<b>...</b>	<b>52 026</b>	<b>61 997</b>	<b>...</b>	<b>-79 036</b>	<b>-91 512</b>	<b>...</b>	<b>37 271</b>	<b>48 763</b>	<b>...</b>
<b>Latin America and the Caribbean<sup>e</sup></b>	<b>63 273</b>	<b>75 805</b>	<b>49 189</b>	<b>50 096</b>	<b>60 009</b>	<b>62 648</b>	<b>-77 125</b>	<b>-89 370</b>	<b>-88 724</b>	<b>36 244</b>	<b>47 515</b>	<b>23 844</b>
Antigua and Barbuda	-24	-116	...	8	10	...	-42	-48	...	-58	-154	...
Argentina	11 888	13 013	11 999	532	501	501	-6 730	-5 417	-6 000	5 690	8 097	6 500
Bahamas	-698	-1 412	...	85	52	...	-203	-218	...	-815	-1 578	...
Barbados	-308	-147	-127	95	86	103	-172	-228	-245	-385	-289	-268
Belize	-97	15	-189	51	74	79	-114	-118	-142	-161	-25	-49
Bolivia	415	861	875	584	822	946	-364	-364	-350	634	1 319	1 471
Brazil	36 394	36 804	28 585	3 558	4 306	3 900	-25 967	-27 489	-27 861	13 985	13 621	4 624
Chile	10 169	21 291	24 130	1 791	3 356	3 155	-10 645	-19 392	-19 300	1 315	5 256	7 985
Colombia	-507	-1 798	-4 940	4 082	4 743	5 285	-5 456	-6 003	-7 047	-1 881	-3 057	-6 703
Costa Rica	-1 026	-1 403	-1 003	270	349	376	-215	-68	-719	-971	-1 122	-1 346
Dominica	-70	-61	..	20	17	...	-28	-31	...	-78	-74	...
Ecuador	-372	440	64	2 635	3 049	3 354	-1 942	-1 950	-1 950	322	1 540	1 468
El Salvador	-3 187	-3 671	-4 241	3 035	3 490	3 841	-571	-519	-526	-724	-700	-926
Grenada	-220	-172	...	114	47	...	-24	-29	...	-129	-155	...
Guatemala	-4 623	-5 331	-5 864	3 523	4 117	4 637	-331	-379	-451	-1 432	-1 592	-1 678
Guyana	-286	-397	-342	167	259	...	-39	-43	...	-158	-181	-250
Haiti	-1 181	-1 388	-1 314	1 254	1 367	1 423	-35	2	-10	39	-19	99
Honduras	-1 752	-2 453	-3 336	1 979	2 518	2 926	-374	-420	-316	-147	-355	-727
Jamaica	-1 911	-2 143	...	1 578	1 727	...	-676	-681	...	-1 009	-1 097	-1 436
Mexico	-12 300	-11 869	-18 323	20 733	24 124	24 848	-13 098	-14 249	-13 500	-4 665	-1 994	-6 975
Nicaragua	-1 442	-1 586	-1 697	824	856	915	-127	-124	-132	-745	-855	-914
Panama	120	-488	-272	245	258	295	-1 125	-1 298	-1 200	-759	-552	-743
Paraguay	-113	-521	33	224	426	373	-70	-15	15	41	-110	422
Peru	4 452	7 985	6 933	1 772	2 185	2 490	-5 076	-7 581	-7 900	1 148	2 589	1 524
Dominican Republic	-1 278	-2 084	-2 903	2 697	3 033	3 310	-1 897	-1 735	-2 110	-478	-786	-1 703
Saint Kitts and Nevis	-71	-114	...	21	20	...	-34	-33	...	-84	-128	...
Saint Vincent and the Grenadines	-87	-124	...	18	21	...	-31	-35	...	-100	-138	...
Saint Lucia	-91	-131	...	13	12	...	-73	-80	...	-150	-198	...
Suriname	-125	130	264	22	36	...	-40	-52	...	-144	115	48
Trinidad and Tobago	3 947	5 257	...	50	47	...	-760	-936	...	3 594	4 655	4 288
Uruguay	393	-192	-240	144	134	141	-494	-469	-480	42	-436	-579
Venezuela (Bolivarian Republic of)	27 914	28 725	21 361	-99	-46	-250	-2 281	-1 512	1 500	25 534	27 167	22 611



Table A-6 (concluded)

	Capital and financial balance <sup>a</sup>			Overall balance			Reserve assets (variation) <sup>b</sup>			Other financing <sup>c</sup>		
	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>	2005	2006	2007 <sup>d</sup>
Latin America and the Caribbean	21 482	12 474	...	58 754	61 228	...	-37 333	-49 195	...	-21 420	-12 016	...
Latin America and the Caribbean <sup>e</sup>	20 483	11 752	94 407	56 728	59 261	118 251	-35 308	-47 228	-118 529	-21 419	-12 016	183
Antigua and Barbuda	65	172	...	7	15	...	-7	-15	...	0	0	...
Argentina	1 705	5 182	3 500	7 394	13 279	10 000	-8 857	-3 530	-10 000	1 463	-9 749	0
Bahamas	726	1 499	...	-89	-79	...	89	79	...	0	0	...
Barbados	317	333	566	-68	44	298	68	-44	-298	0	0	0
Belize	177	67	57	17	50	8	-18	-33	-8	0	0	0
Bolivia	-197	120	-271	437	1 439	1 200	-463	-1 286	-1 200	26	-152	0
Brazil	13 606	16 948	85 376	27 590	30 569	90 000	-4 319	-30 569	-90 000	-23 271	0	0
Chile	442	-3 245	-10 985	1 757	1 997	-3 000	-1 757	-1 997	3 000	0	0	0
Colombia	3 610	3 080	11 305	1 729	23	4 602	-1 729	-23	-4 602	0	0	0
Costa Rica	1 364	2 153	2 346	393	1 031	1 000	-393	-1 031	-1 000	0	0	0
Dominica	92	88	...	14	13	...	-14	-13	...	0	0	...
Ecuador	344	-1 670	-68	666	-131	1 400	-710	124	-1 400	43	7	0
El Salvador	665	771	1 109	-59	72	183	59	-72	-183	0	0	0
Granada	102	160	...	-27	6	...	27	-6	...	0	0	...
Guatemala	1 686	1 871	1 846	254	279	169	-254	-279	-169	0	0	0
Guyana	166	226	196	8	45	-54	-24	-62	-41	16	17	0
Haiti	14	113	70	53	94	169	-22	-109	-193	-29	15	24
Honduras	364	626	656	217	271	-71	-372	-387	20	155	116	52
Jamaica	1 238	1 327	1 174	229	230	-262	-228	-230	262	-1	0	0
Mexico	11 830	991	12 475	7 164	-1 003	5 500	-7 164	1 003	-5 500	0	0	0
Nicaragua	748	875	851	3	21	-63	-60	-132	-1	56	111	63
Panama	1 434	728	1 093	675	176	350	-521	-166	-350	-154	-10	0
Paraguay	119	493	120	160	383	541	-146	-387	-541	-14	4	0
Peru	264	632	8 032	1 411	3 221	9 556	-1 472	-3 209	-9 600	60	-12	44
Dominican Republic	1 183	1 057	2 103	705	271	400	-1 109	-319	-400	404	48	0
Saint Kitts and Nevis	77	145	...	-7	17	...	7	-17	...	0	0	...
Saint Vincent and the Grenadines	97	150	...	-3	12	...	3	-12	...	0	0	...
Saint Lucia	135	212	...	-15	13	...	15	-13	...	0	0	...
Suriname	168	-21	122	24	94	170	-24	-94	-170	0	0	0
Trinidad and Tobago	-1 701	-3 010	...	1 893	1 645	...	-1 893	-1 645	...	0	0	...
Uruguay	753	2 832	1 641	796	2 396	1 062	-620	15	-1 062	-175	-2 411	0
Venezuela (Bolivarian Republic of)	-20 110	-22 431	-27 611	5 424	4 736	-5 000	-5 424	-4 736	5 000	0	0	0

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

<sup>a</sup> Includes errors and omissions.

<sup>b</sup> A minus sign (-) indicates an increase in reserve assets.

<sup>c</sup> Includes the use of IMF credit and loans and exceptional financing.

<sup>d</sup> Preliminary figures.

<sup>e</sup> Only includes the countries with complete data for the three years.

Table A-7  
**LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS f.o.b.**  
*(Indices 2000=100)*

	Value			Volume			Unit value		
	2005	2006	2007 <sup>a</sup>	2005	2006	2007 <sup>a</sup>	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean</b>	<b>157.1</b>	<b>187.0</b>	<b>209.7</b>	<b>128.4</b>	<b>137.4</b>	<b>144.5</b>	<b>122.4</b>	<b>136.1</b>	<b>145.2</b>
Argentina	153.3	176.4	206.3	136.0	144.9	157.0	112.7	121.7	131.5
Bolivia	224.0	310.0	337.9	171.8	182.9	184.6	130.4	169.5	183.1
Brazil	214.8	250.2	292.7	178.5	185.7	199.3	120.3	134.7	146.9
Chile	215.0	302.5	360.0	141.2	144.0	155.8	152.2	210.1	231.1
Colombia	158.4	183.5	209.5	128.0	136.1	141.9	123.7	134.8	147.7
Costa Rica	122.1	138.8	159.2	129.0	146.6	163.3	94.7	94.7	97.5
Ecuador	203.8	256.7	269.6	171.8	185.0	179.8	118.6	138.8	149.9
El Salvador	115.7	120.4	131.7	111.2	112.3	118.2	104.0	107.2	111.5
Guatemala	174.6	195.5	227.2	163.1	173.9	190.7	107.1	112.4	119.1
Haiti	138.3	149.1	157.1	126.2	133.3	140.5	109.6	111.8	111.8
Honduras	136.7	148.9	162.0	150.4	157.6	164.8	90.9	94.5	98.3
Mexico	129.0	150.5	162.5	112.0	124.5	129.9	115.2	120.9	125.2
Nicaragua	187.8	224.6	248.1	191.7	219.5	234.3	98.0	102.3	105.9
Panama	130.0	145.2	169.8	125.3	137.1	155.8	103.8	105.9	109.0
Paraguay	143.9	207.7	281.5	134.7	190.6	241.4	106.9	109.0	116.6
Peru	249.7	342.2	400.4	175.1	176.4	182.7	142.6	194.0	219.2
Dominican Republic	107.1	112.3	122.4	100.0	100.8	103.8	107.1	111.4	117.9
Uruguay	158.3	177.5	200.5	149.1	156.8	167.1	106.2	113.2	120.0
Venezuela (Bolivarian Republic of)	165.4	194.5	204.2	95.2	91.0	84.6	173.8	213.7	241.5

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

<sup>a</sup> Preliminary figures.

Table A-8  
**LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, f.o.b.**  
*(Indices 2000=100)*

	Valor			Volume			Unit value		
	2005	2006	2007 <sup>a</sup>	2005	2006	2007 <sup>a</sup>	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean</b>	<b>135.4</b>	<b>161.1</b>	<b>190.4</b>	<b>120.3</b>	<b>136.3</b>	<b>154.7</b>	<b>112.5</b>	<b>118.2</b>	<b>123.1</b>
Argentina	114.3	136.4	174.6	108.4	126.6	154.3	105.5	107.8	113.2
Bolivia	135.6	163.4	183.0	116.2	129.7	137.1	116.6	125.9	133.5
Brazil	131.9	163.8	216.2	108.8	126.2	158.6	121.3	129.8	136.3
Chile	178.4	210.1	254.2	163.8	183.7	213.7	108.9	114.4	118.9
Colombia	181.6	224.2	283.1	162.9	191.5	232.6	111.5	117.0	121.7
Costa Rica	153.4	179.5	196.2	143.1	162.5	170.9	107.2	110.4	114.8
Ecuador	259.4	305.2	329.6	223.9	241.7	251.0	115.9	126.3	131.3
El Salvador	138.9	154.3	171.2	129.2	137.4	146.6	107.5	112.3	116.8
Guatemala	203.0	230.3	263.9	173.1	183.5	196.5	117.3	125.5	134.2
Haiti	120.4	142.5	131.5	101.5	113.3	98.7	118.6	125.7	133.2
Honduras	158.1	187.9	228.7	151.7	165.3	188.1	104.3	113.6	121.6
Mexico	127.1	146.8	161.5	114.4	126.4	135.0	111.2	116.2	119.7
Nicaragua	164.1	189.9	207.3	136.3	147.4	153.2	120.4	128.9	135.3
Panama	127.6	146.1	182.6	115.0	125.4	151.5	111.0	116.5	120.6
Paraguay	133.1	201.4	241.5	121.3	176.5	205.5	109.7	114.1	117.5
Peru	164.0	201.8	268.4	137.3	157.2	198.2	119.4	128.4	135.4
Dominican Republic	104.1	118.1	132.2	93.1	100.5	106.2	111.8	117.4	124.5
Uruguay	113.4	145.1	164.7	96.9	113.8	121.8	117.0	127.6	135.2
Venezuela (Bolivarian Republic of)	140.5	191.1	248.4	124.8	164.9	206.1	112.5	115.9	120.5

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

<sup>a</sup> Preliminary figures.

Table A-9  
**LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS f.o.b. / f.o.b.**  
*(Indices 2000=100)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean</b>	<b>91.3</b>	<b>94.5</b>	<b>100.0</b>	<b>96.3</b>	<b>96.6</b>	<b>98.6</b>	<b>103.7</b>	<b>108.7</b>	<b>115.1</b>	<b>117.9</b>
Argentina	96.6	90.9	100.0	99.3	98.7	107.2	109.2	106.9	113.0	116.2
Bolivia	102.0	97.1	100.0	95.8	96.2	98.5	104.1	111.8	134.6	137.2
Brazil	111.9	97.0	100.0	99.6	98.4	97.0	97.9	99.2	103.8	107.8
Chile	91.0	94.2	100.0	93.3	97.2	102.8	124.9	139.8	183.7	194.3
Colombia	81.2	87.2	100.0	94.2	92.5	95.2	102.3	111.0	115.2	121.3
Costa Rica	117.5	106.9	100.0	98.4	96.9	95.5	91.9	88.3	85.8	84.9
Ecuador	75.8	89.1	100.0	84.6	86.8	89.8	91.5	102.4	109.9	114.1
El Salvador	95.8	99.6	100.0	102.5	101.6	97.7	96.8	96.8	95.5	95.5
Guatemala	115.3	101.9	100.0	96.7	95.8	93.0	92.1	91.3	89.6	88.8
Haiti	107.6	104.2	100.0	101.2	100.2	98.7	96.0	92.4	88.9	83.9
Honduras	108.9	107.5	100.0	94.8	92.0	88.0	87.2	87.2	83.2	80.8
Mexico	90.6	99.3	100.0	97.4	97.9	98.8	101.6	103.6	104.1	104.6
Nicaragua	79.6	95.3	100.0	88.4	87.0	84.1	82.5	81.4	79.4	78.3
Panama	104.7	104.6	100.0	102.7	101.6	97.2	95.3	93.5	90.8	90.4
Paraguay	108.0	101.7	100.0	100.2	96.7	101.4	104.3	97.4	95.5	99.2
Peru	103.4	100.8	100.0	95.6	98.4	102.2	111.3	119.4	151.1	161.8
Dominican Republic	108.0	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9	94.7
Uruguay	104.4	95.9	100.0	104.0	102.6	103.5	99.9	90.7	88.7	88.7
Venezuela (Bolivarian Republic of)	51.2	66.1	100.0	82.2	87.6	98.7	118.1	154.4	184.4	200.4

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

<sup>a</sup> Preliminary figures.

Table A-10  
**LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFER <sup>a</sup>**  
*(Millions of dollars)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>b</sup>
<b>Latin America and the Caribbean</b>	<b>29 055</b>	<b>-2 671</b>	<b>1 156</b>	<b>-1 293</b>	<b>-41 308</b>	<b>-38 161</b>	<b>-67 021</b>	<b>-78 672</b>	<b>-91 059</b>	<b>7 258</b>
Antigua and Barbuda	35	44	16	56	75	90	29	23	124	...
Argentina	10 513	5 639	993	-16 030	-20 773	-12 535	-7 182	-3 563	-9 983	-2 500
Bahamas	873	136	240	366	300	431	348	523	1 281	...
Barbados	2	114	241	241	42	131	58	145	105	322
Belize	14	60	161	115	91	61	8	65	-56	-85
Bolivia	637	324	182	30	-156	-226	-565	-535	-396	-621
Brazil	7 257	-1 336	4 077	6 778	-10 252	-14 234	-29 955	-35 633	-10 541	57 515
Chile	-162	-3 079	-1 621	-2 022	-1 985	-4 076	-10 097	-10 203	-22 637	-30 285
Colombia	1 763	-2 338	-2 177	-302	-1 371	-2 608	-850	-1 846	-2 923	4 258
Costa Rica	-97	-691	-714	-63	580	443	432	1 150	2 085	1 627
Cuba	-39	-29	183	92	-300	-450	150	300	0	...
Dominica	11	21	31	39	36	23	23	64	57	...
Ecuador	467	-2 715	-2 020	-817	-100	-953	-1 084	-1 554	-3 613	-2 018
El Salvador	231	165	132	-293	-42	595	119	94	252	583
Grenada	62	32	61	70	109	81	30	78	131	...
Guatemala	1 118	696	1 494	1 642	938	1 271	1 501	1 355	1 492	1 395
Guyana	20	29	81	81	58	39	-1	143	200	291
Haiti	56	80	45	129	26	5	94	-50	129	84
Honduras	173	528	228	280	258	-64	601	145	322	391
Jamaica	53	-271	517	1 168	208	-246	612	561	646	1 174
Mexico	4 865	1 691	6 491	11 161	8 502	5 960	315	-1 269	-13 258	-1 025
Nicaragua	471	888	624	455	607	520	616	678	862	783
Panama	479	652	3	202	-39	-506	-356	156	-580	-107
Paraguay	189	287	-30	237	-134	168	-97	35	482	135
Peru	990	-701	-293	391	512	-670	-1 262	-4 752	-6 961	176
Dominican Republic	-453	-352	-85	168	-881	-2 787	-2 324	-310	-630	-7
Saint Kitts and Nevis	34	57	32	84	95	71	43	43	111	...
Saint Vincent and the Grenadines	87	57	19	30	18	55	99	66	115	...
Saint Lucia	28	63	64	73	75	115	45	62	132	...
Suriname	163	25	31	123	18	91	112	127	-73	122
Trinidad and Tobago	378	-268	-732	-453	-440	-1 257	-1 309	-2 461	-3 945	...
Uruguay	793	480	672	707	-2 602	979	-137	84	-48	1 161
Venezuela (Bolivarian Republic of)	-1 955	-2 957	-7 792	-6 031	-14 785	-8 679	-17 037	-22 391	-23 943	-26 111

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

<sup>a</sup> The net resource transfer is equal to total net capital inflows minus the income balance (net payments of interest and profits). Total net capital inflows correspond to the balance on the capital and financial accounts plus errors and omissions, plus loans and use of IMF credit and exceptional financing. Negative figures indicate outward resource transfers.

<sup>b</sup> Preliminary figures.

Table A-11  
**LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT <sup>a</sup>**  
*(Millions of dollars)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>b</sup>
<b>Latin America and the Caribbean</b>	<b>62 544</b>	<b>81 305</b>	<b>72 055</b>	<b>66 753</b>	<b>47 148</b>	<b>37 601</b>	<b>48 622</b>	<b>51 911</b>	<b>28 657</b>	<b>77 126</b>
Antigua and Barbuda	23	32	43	98	66	166	80	116	190	...
Argentina	4 965	22 257	9 517	2 005	2 776	878	3 449	3 954	2 721	1 863
Bahamas	165	149	250	192	209	247	443	564	706	...
Barbados	15	16	18	17	17	58	-16	53	0	...
Belize	13	54	23	61	25	-11	111	126	72	75
Bolivia	947	1 008	734	703	674	195	63	-242	237	240
Brazil	26 002	26 888	30 498	24 715	14 108	9 894	8 339	12 550	-9 420	32 000
Chile	3 144	6 203	873	2 590	2 207	2 701	5 610	4 751	5 076	8 411
Colombia	2 033	1 392	2 069	2 509	1 283	820	2 941	5 578	5 365	6 739
Costa Rica	608	614	400	451	625	548	733	904	1 371	1 657
Dominica	7	18	18	15	18	29	24	33	33	...
Ecuador	870	648	720	1 330	1 275	1 555	1 160	493	271	400
El Salvador	1 103	162	178	289	496	123	430	388	254	1 070
Grenada	49	42	37	59	54	89	65	26	116	...
Guatemala	673	155	230	456	111	131	155	227	354	536
Guyana	44	46	67	56	44	26	30	77	100	...
Haiti	11	30	13	4	6	14	6	26	160	75
Honduras	99	237	282	193	176	247	325	404	489	494
Jamaica	287	429	394	525	407	604	542	582	0	...
Mexico	12 409	13 712	17 789	23 045	18 472	14 087	18 038	13 407	13 453	16 900
Nicaragua	218	337	267	150	204	201	250	241	282	293
Panama	1 203	864	624	467	99	771	1 004	962	2 574	1 000
Paraguay	336	89	98	78	12	22	32	46	166	181
Peru	1 582	1 812	810	1 070	2 156	1 275	1 599	2 579	3 467	6 000
Dominican Republic	700	1 338	953	1 079	917	613	909	1 023	1 183	1 393
Saint Kitts and Nevis	32	58	96	88	80	76	46	85	200	...
Saint Vincent and the Grenadines	89	57	38	21	34	55	66	41	84	...
Saint Lucia	83	83	54	59	52	106	77	78	115	...
Suriname	9	-62	-148	-27	-74	-76	-37	28	-163	...
Trinidad and Tobago	730	379	654	685	684	1 034	972	599	513	...
Uruguay	155	238	274	291	180	401	315	811	1 322	1 000
Venezuela (Bolivarian Republic of)	3 942	2 018	4 180	3 479	-244	722	864	1 400	-2 632	-3 200

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

<sup>a</sup> Refers to direct investment in the reporting economy, minus direct investment abroad by reporting-economy residents. Includes reinvested profits.

<sup>b</sup> Preliminary figures.

Table A-12  
**LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS EXTERNAL DEBT <sup>a</sup>**  
*(Millions of dollars)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>b</sup>
<b>Latin America and the Caribbean</b>	<b>743 457</b>	<b>763 170</b>	<b>739 273</b>	<b>745 702</b>	<b>734 445</b>	<b>763 186</b>	<b>765 825</b>	<b>662 341</b>	<b>647 831</b>	<b>676 696</b>
Antigua and Barbuda	394	398	391	388	434	497	532	317	321	...
Argentina	147 634	152 563	155 015	166 272	156 748	164 645	171 205	113 804	107 866	116 188
Bahamas <sup>c</sup>	338	355	350	328	309	363	343	335	331	...
Barbados	444	479	611	774	756	761	816	899	1 047	...
Belize <sup>c</sup>	233	255	431	495	652	822	913	970	985	985
Bolivia <sup>c</sup>	4 659	4 573	4 460	4 497	4 400	5 142	5 045	4 942	3 248	2 056
Brazil	223 792	225 610	216 921	209 935	210 711	214 930	201 373	169 450	172 589	191 358
Chile	32 591	34 758	37 177	38 527	40 504	43 067	43 515	44 934	47 590	49 458
Colombia	36 681	36 733	36 130	39 097	37 325	38 008	39 441	38 456	40 162	43 304
Costa Rica	3 402	3 641	3 748	3 883	4 118	4 621	4 979	4 979	4 995	...
Cuba <sup>c</sup>	11 209	11 078	10 961	10 893	10 900	11 300	12 000	...	...	...
Dominica <sup>c</sup>	91	132	150	175	202	219	209	221	222	...
Ecuador	16 221	15 902	13 216	14 376	16 236	16 756	17 211	17 237	17 099	17 508
El Salvador <sup>d</sup>	2 646	2 789	2 831	3 148	3 987	7 917	8 211	8 642	9 305	9 300
Grenada <sup>c</sup>	105	115	139	154	262	279	331	401	424	...
Guatemala <sup>c</sup>	2 368	2 631	2 644	2 925	3 119	3 467	3 844	3 723	3 958	4 353
Guyana <sup>c</sup>	1 516	1 210	1 193	1 197	1 247	1 085	1 071	1 096	921	..
Haiti <sup>c</sup>	1 104	1 162	1 170	1 189	1 229	1 316	1 376	1 335	1 484	1 487
Honduras	4 369	4 691	4 711	4 757	4 922	5 242	5 912	5 103	3 889	2 799
Jamaica <sup>c</sup>	3 306	3 024	3 375	4 146	4 348	4 192	5 120	5 376	5 796	6 031
Mexico	160 258	166 381	148 652	144 526	134 980	132 273	130 925	128 255	116 653	122 938
Nicaragua <sup>c</sup>	6 287	6 549	6 660	6 374	6 363	6 596	5 391	5 348	4 527	3 381
Panama <sup>c</sup>	5 349	5 568	5 604	6 263	6 349	6 504	7 219	7 580	7 788	8 269
Paraguay	2 386	2 996	3 275	3 074	3 336	3 371	3 330	3 056	3 028	...
Peru	30 142	28 586	27 981	27 195	27 872	29 587	31 244	28 657	28 300	29 637
Dominican Republic	3 546	3 661	3 679	4 176	4 536	5 987	6 380	6 813	7 266	7 242
Saint Kitts and Nevis	124	152	162	216	261	316	304	285	280	...
Saint Vincent and the Grenadines	101	160	160	168	168	195	219	231	231	...
Saint Lucia <sup>c</sup>	134	153	170	204	246	324	344	350	365	...
Suriname <sup>c</sup>	...	...	291	350	371	382	382	371	389	...
Trinidad and Tobago <sup>c</sup>	1 471	1 585	1 680	1 666	1 549	1 553	1 369	1 334	1 259	1 236
Uruguay <sup>e</sup>	5 467	8 261	8 895	8 937	10 548	11 013	11 593	11 418	10 560	11 910
Venezuela (Bolivarian Republic of)	35 087	37 016	36 437	35 398	35 460	40 456	43 679	46 427	44 952	47 256

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

<sup>a</sup> Total gross external debt includes debt owed to the International Monetary Fund.

<sup>b</sup> Figures for the first semester.

<sup>c</sup> The figures refer to public external debt.

<sup>d</sup> Figures up to 2002 refer to public external debt. From 2003 onward, figures refer to total external debt.

<sup>e</sup> Figures for 1998 refer to public external debt. From 1999 onward, figures refer to total external debt.

Table A-13  
**LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL RESERVE ASSETS <sup>a</sup>**  
*(Millions of dollars)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
										I	II	III
<b>Latin America and the Caribbean</b>	<b>173 897</b>	<b>166 559</b>	<b>170 118</b>	<b>163 307</b>	<b>165 409</b>	<b>201 224</b>	<b>227 708</b>	<b>263 483</b>	<b>320 908</b>	<b>344 457</b>	<b>387 014</b>	<b>414 362</b>
Antigua and Barbuda	59	70	64	80	88	114	120	127	143	135	152	155
Argentina	31 736	33 100	34 234	15 232	10 476	14 119	19 646	28 077	32 037	36 849	43 157	42 891
Bahamas	347	411	350	319	381	491	674	586	461	631	650	471
Barbados	366	302	473	690	669	738	580	603	636	707	774	779
Belize	44	71	123	112	115	85	48	71	114	72	90	90
Bolivia	1 193	1 223	1 160	1 139	897	1 096	1 272	1 798	3 193	3 547	3 888	4 742
Brazil	44 586	36 342	33 012	35 867	37 823	49 296	52 935	53 800	85 839	109 531	147 101	162 962
Chile	16 292	14 946	15 110	14 400	15 351	15 851	16 016	16 963	19 429	15 390	17 897	16 320
Colombia	8 740	8 103	9 006	10 245	10 844	10 921	13 540	14 957	15 440	18 997	19 999	20 554
Costa Rica	992	1 472	1 318	1 334	1 500	1 839	1 922	2 313	3 115	3 492	3 734	3 886
Dominica	28	32	29	31	45	48	42	49	63	68	61	66
Ecuador	1 786	1 888	1 180	1 074	1 008	1 160	1 437	2 147	2 023	2 182	3 204	3 611
El Salvador	1 766	1 972	1 894	1 712	1 591	1 910	1 893	1 833	1 908	1 911	2 144	2 420
Grenada	47	51	58	64	88	83	122	94	100	96	104	109
Guatemala	1 369	1 243	1 885	2 359	2 381	2 932	3 529	3 783	4 061	4 250	4 489	4 274
Guyana	277	268	305	287	284	276	232	252	280	281	267	307
Haiti	258	264	182	141	82	62	114	133	253	281	...	...
Honduras	...	1 255	1 312	1 414	1 523	1 430	1 971	2 330	2 633	2 637	2 703	2 545
Jamaica	709	555	1 054	1 901	1 645	1 195	1 846	2 170	2 399	2 614	2 472	1 943
Mexico	31 799	31 782	35 585	44 814	50 674	59 028	64 198	74 110	76 330	75 851	77 934	82 168
Nicaragua	357	513	497	383	454	504	670	730	924	896	1 009	1 036
Panama	954	823	723	1 092	1 183	1 011	631	1 211	1 335	...	...	1 685
Paraguay	875	988	772	723	641	983	1 168	1 297	1 703	1 903	2 153	2 182
Peru	9 982	9 003	8 563	8 838	9 690	10 206	12 649	14 120	17 328	18 456	21 555	22 855
Dominican Republic	659	881	818	1 341	829	279	825	1 929	2 251	2 547	2 705	2 922
Saint Kitts and Nevis	47	50	45	56	66	65	78	72	89	96	78	97
Saint Vincent and the Grenadines	39	43	55	61	53	51	75	70	79	82	79	86
Saint Lucia	71	75	79	89	94	107	133	116	135	126	158	134
Suriname	283	109	127	188	112	113	137	140	237	308	346	379
Trinidad and Tobago	799	963	1 403	1 924	2 049	2 477	3 195	4 888	6 608	5 542	...	...
Uruguay	2 589	2 600	2 823	3 100	772	2 087	2 512	3 078	3 091	3 458	3 686	3 540
Venezuela (Bolivarian Republic of)	14 849	15 163	15 883	12 296	12 003	20 666	23 498	29 636	36 672	31 520	24 424	29 154

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

<sup>a</sup> Including gold.

Table A-14  
**LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES**  
*(National indices to end of period, 31 December 2000=100)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007		
										I	II	III
Argentina	103	132	100	71	126	257	330	370	502	505	526	525
Brazil	44	112	100	89	74	146	172	219	291	300	356	396
Chile	73	104	100	109	92	137	166	181	248	270	320	300
Colombia <sup>a</sup>	156	140	100	134	206	291	542	1 187	1 393	1 334	1 328	1 302
Costa Rica	44	58	100	113	116	104	90	98	170	179	188	202
Ecuador	103	132	100	71	126	257	330	370	502	505	526	525
Jamaica	71	76	100	117	157	234	390	362	348	314	312	333
Mexico	70	126	100	113	108	156	229	315	468	509	551	536
Peru	111	152	100	97	115	202	307	397	1 066	1 420	1 851	1 806
Trinidad and Tobago	99	95	100	111	124	157	243	242	220	210	207	212
Venezuela (Bolivarian Republic of)	70	79	100	96	117	325	439	299	765	717	582	546

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

<sup>a</sup> The figures up to 2000 are based on the Bogota Stock Exchange Index (IBB).

Table A-15  
**LATIN AMERICA AND THE CARIBBEAN: OVERALL REAL EFFECTIVE EXCHANGE RATES <sup>a</sup>**  
*(Index 2000=100, deflated by CPI)*

	1998	1999	2000	2001	2002	2003	2004 <sup>b</sup>	2005 <sup>b</sup>	2006 <sup>b</sup>	2007 <sup>b c</sup>
<b>Latin America and the Caribbean <sup>d</sup></b>	<b>95.0</b>	<b>100.8</b>	<b>100.0</b>	<b>99.5</b>	<b>116.1</b>	<b>124.2</b>	<b>124.5</b>	<b>117.7</b>	<b>113.9</b>	<b>111.1</b>
Argentina	108.8	99.6	100.0	95.6	225.3	204.9	214.9	215.3	219.1	221.4
Bolivia	98.5	98.6	100.0	101.0	95.4	104.1	111.6	119.9	122.1	121.6
Brazil	72.3	108.2	100.0	120.1	132.1	131.0	124.7	101.8	90.7	84.7
Chile	92.5	98.3	100.0	111.3	109.1	114.6	98.6	101.6	97.3	99.2
Colombia	83.2	91.6	100.0	104.0	105.5	119.2	108.4	96.0	97.4	86.3
Costa Rica	99.8	101.8	100.0	97.0	97.3	103.3	106.8	108.3	108.1	106.6
Ecuador	64.7	89.2	100.0	70.9	61.8	60.2	62.8	65.4	66.1	69.5
El Salvador	101.9	100.4	100.0	99.6	99.5	100.0	100.2	101.6	102.0	102.7
Guatemala	88.1	98.7	100.0	95.7	88.5	88.6	85.9	79.9	77.4	77.2
Honduras	108.8	104.5	100.0	97.1	96.9	98.4	100.0	100.0	98.8	97.4
Jamaica	96.0	97.7	100.0	101.6	101.1	115.9	114.3	105.6	106.4	110.4
Mexico	119.1	108.9	100.0	93.5	92.9	104.5	109.4	106.0	106.1	107.1
Nicaragua	101.1	101.9	100.0	101.1	103.3	107.0	108.9	108.1	108.4	111.0
Panama	100.1	100.7	100.0	102.9	101.2	103.2	108.4	110.6	112.0	113.7
Paraguay	99.2	96.7	100.0	102.6	106.4	112.5	108.3	118.6	106.1	96.6
Peru	91.7	101.5	100.0	97.8	95.6	99.8	101.3	101.9	103.6	104.9
Trinidad and Tobago	105.3	102.2	100.0	94.5	91.1	91.8	93.2	91.7	88.5	86.9
Uruguay	107.0	98.3	100.0	101.2	118.3	150.4	151.9	137.0	136.0	135.6
Venezuela (Bolivarian Republic of)	116.6	102.6	100.0	95.2	125.0	137.2	143.3	143.4	134.8	121.7

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

<sup>a</sup> Annual averages. A country's overall real effective exchange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by that partner's share in the country's total trade flows in terms of exports and imports. The extraregional real effective exchange rate index excludes trade with other Latin American and Caribbean countries. A currency depreciates in real effective terms when this index rises and appreciates when it falls.

<sup>b</sup> Preliminary figures, weighted by trade in 2003.

<sup>c</sup> January-October average.

<sup>d</sup> Simple average of the extraregional real effective exchange rate for 19 countries.



Table A-16  
**LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE**  
*(Average annual rates)*

		1999	2000	2001	2002	2003	2004	2005	2006	2006	2007 <sup>a</sup>
		January to September average									
Argentina <sup>b</sup>	Urban areas	57.8	57.7	57.3	57.2	60.2	60.3	59.9	60.3	60.3	59.6
Brazil <sup>b</sup>	Six metropolitan areas	57.1	58.0	56.4	56.7	57.1	57.2	56.6	56.9	56.7	56.8
Chile	National total	54.8	54.4	53.9	53.7	54.4	55.0	55.6	54.8	54.8	54.7
Colombia	Thirteen metropolitan areas	...	63.5	64.2	64.2	64.5	62.9	62.7	61.1	61.6	60.9
Costa Rica	National total	54.8	53.6	55.8	55.4	55.5	54.4	56.8	56.6	56.6	57.0 <sup>c</sup>
Ecuador	Cuenca, Guayaquil and Quito	...	56.8	55.6	54.1	53.8	55.8	56.1	56.8	56.5	56.3 <sup>d</sup>
Honduras	National total	54.9	...	52.5	51.7	50.0	50.6	50.9	50.7	50.7	50.4 <sup>e</sup>
Jamaica <sup>f</sup>	National total	64.5	63.4	63.0	65.8	64.4	64.3	63.9	64.7	65.0	64.8 <sup>g</sup>
Mexico	Urban areas	58.3	58.7	58.1	57.8	58.3	58.9	59.5	60.7	60.6	60.6
Panama	National total	61.2	59.9	60.5	62.6	62.8	63.3	63.6	62.6	62.6	62.7 <sup>h</sup>
Peru	Metropolitan Lima	...	...	66.7	68.4	67.4	68.1	67.1	67.4	66.7	69.2
Dominican Republic	National total	53.5	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.0	56.0 <sup>i</sup>
Trinidad and Tobago	National total	60.8	61.2	60.4	60.9	61.6	63.0	63.7	63.9	64.0	62.9 <sup>j</sup>
Uruguay	Urban total	59.3	59.7	60.8	59.3	58.1	58.5	58.5	60.9	60.7	62.7
Venezuela (Bolivarian Republic of)	National total	66.3	64.6	66.5	68.7	69.3	68.5	66.3	65.4	65.5	64.9

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> New measurements have been used since 2003; the data are not comparable with the previous series.

<sup>c</sup> The figures in the last two columns refer to the measurement of July.

<sup>d</sup> The figures in the last two columns refer to the period January-August.

<sup>e</sup> The figures in the last two columns refer to the period May-July.

<sup>f</sup> New measurements have been used since 2002; the data are not comparable with the previous series.

<sup>g</sup> The figures in the last two columns refer to the period January-April.

<sup>h</sup> The figures in the last two columns refer to the measurement of August.

<sup>i</sup> The figures in the last two columns refer to the measurement of April.

<sup>j</sup> The figures in the last two columns refer to the period January-June.

Table A-17  
**LATIN AMERICA AND THE CARIBBEAN: OPEN URBAN UNEMPLOYMENT**  
*(Average annual rates)*

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean<sup>b</sup></b>		<b>10.3</b>	<b>11.0</b>	<b>10.4</b>	<b>10.2</b>	<b>11.0</b>	<b>11.0</b>	<b>10.3</b>	<b>9.1</b>	<b>8.6</b>	<b>8.0</b>
Argentina <sup>c</sup>	Urban areas	12.9	14.3	15.1	17.4	19.7	17.3	13.6	11.6	10.2	8.4 <sup>d</sup>
Bahamas <sup>e</sup>	National total	7.8	7.8	...	6.9	9.1	10.8	10.2	10.2	7.6	...
Barbados <sup>e</sup>	National total	12.3	10.4	9.2	9.9	10.3	11.0	9.8	9.1	8.7	8.1
Belize <sup>e</sup>	National total	14.3	12.8	11.1	9.1	10.0	12.9	11.6	11.0	9.4	8.5
Bolivia	Urban total <sup>f</sup>	6.1	7.2	7.5	8.5	8.7	9.2	6.2	...	...	...
Brazil <sup>g</sup>	Six metropolitan areas	7.6	7.6	7.1	6.2	11.7	12.3	11.5	9.8	10.0	9.4 <sup>h</sup>
Chile	National total	6.4	10.1	9.7	9.9	9.8	9.5	10.0	9.2	7.7	7.0 <sup>h</sup>
Colombia <sup>e</sup>	Thirteen metropolitan areas <sup>i</sup>	15.3	19.4	17.2	18.2	17.6	16.7	15.4	14.0	13.0	11.6 <sup>h</sup>
Costa Rica	Urban total	5.4	6.2	5.3	5.8	6.8	6.7	6.7	6.6	6.0	4.6
Cuba	National total	6.6	6.3	5.5	4.1	3.3	2.3	1.9	1.9	1.9	1.9
Ecuador <sup>e</sup>	Urban national <sup>j</sup>	11.5	14.4	14.1	10.4	8.6	9.8	9.7	8.5	8.1	7.6 <sup>d</sup>
El Salvador	Total urbano	7.6	6.9	6.5	7.0	6.2	6.2	6.5	7.3	5.7	...
Guatemala	Urban total	...	...	...	...	5.4	5.2	4.4	...	...	...
Honduras	Urban total	5.2	5.3	...	5.9	6.1	7.6	8.0	6.5	4.9	4.1 <sup>k</sup>
Jamaica <sup>e</sup>	National total	15.5	15.7	15.5	15.0	14.2	11.4	11.7	11.3	10.3	9.9 <sup>l</sup>
México	Urban areas	4.7	3.7	3.4	3.6	3.9	4.6	5.3	4.7	4.6	4.8 <sup>h</sup>
Nicaragua	Urban total <sup>m</sup>	13.2	10.7	7.8	11.3	11.6	10.2	9.3	7.0	7.0	...
Panamá <sup>e</sup>	Urban total <sup>n</sup>	15.5	13.6	15.2	17.0	16.5	15.9	14.1	12.1	10.4	7.7
Paraguay	Urban total	6.6	9.4	10.0	10.8	14.7	11.2	10.0	7.6	8.9	...
Perú	Metropolitan Lima	8.5	9.2	8.5	9.3	9.4	9.4	9.4	9.6	8.5	8.4 <sup>h</sup>
Dominican Republic <sup>e</sup>	National total	14.4	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6 <sup>o</sup>
Trinidad and Tobago <sup>e</sup>	National total	14.2	13.2	12.2	10.8	10.4	10.5	8.4	8.0	6.2	5.9 <sup>p</sup>
Uruguay	Urban total	10.1	11.3	13.6	15.3	17.0	16.9	13.1	12.2	11.4	9.7 <sup>d</sup>
Venezuela (Bolivarian Republic of)	National total	11.3	15.0	13.9	13.3	15.8	18.0	15.3	12.4	10.0	8.7 <sup>h</sup>

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> The data for Argentina and Brazil have been adjusted to reflect changes in methodology in 2003 and 2002, respectively.

<sup>c</sup> New measurements have been used since 2003; the data are not comparable with the previous series.

<sup>d</sup> Estimate based on data from January to September.

<sup>e</sup> Includes hidden unemployment.

<sup>f</sup> Up to 1999, the figures relate to the departmental capitals.

<sup>g</sup> New measurements have been used since 2002; the data are not comparable with the previous series.

<sup>h</sup> Estimate based on data from January to October.

<sup>i</sup> Up to 1999, the figures relate to seven metropolitan areas.

<sup>j</sup> From 1999 to 2003, the figures relate to Quito, Guayaquil and Cuenca.

<sup>k</sup> Figure for May to July.

<sup>l</sup> Estimate based on data from January to April.

<sup>m</sup> Up to 1999, the figures relate to the national total.

<sup>n</sup> Up to 1999, the figures relate to the metropolitan region.

<sup>o</sup> Figure for April.

<sup>p</sup> Estimate based on data from January to June.

Table A-18  
**LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE**  
*(Employed population as a percentage of working-age population, average annual rates)*

		1999	2000	2001	2002	2003	2004	2005	2006	2006	2007 <sup>a</sup>
		January to September average									
Argentina <sup>b</sup>	Urban areas	49.6	49.0	47.4	45.9	49.8	52.0	52.9	54.1	53.9	54.4
Brazil <sup>b</sup>	Six metropolitan areas	52.7	53.8	52.9	48.7	50.1	50.6	51.0	51.2	51.0	51.3
Chile	National total	49.2	49.1	48.6	48.4	49.3	49.5	50.4	50.5	50.2	50.8
Colombia	Thirteen metropolitan areas	50.8	52.6	52.5	52.9	53.8	53.2	54.0	53.2	53.4	53.6
Costa Rica	National total	51.5	50.8	52.4	51.8	51.8	50.9	53.0	53.3	53.3	54.4 <sup>c</sup>
Ecuador	Cuenca, Guayaquil and Quito	47.8	48.8	49.8	49.5	48.6	49.7	50.1	51.0	50.6	50.8 <sup>d</sup>
Honduras	National total	53.7	...	50.3	49.7	47.4	48.6	48.6	49.0	48.9	48.8 <sup>e</sup>
Jamaica <sup>f</sup>	National total	54.4	53.4	53.5	54.0	57.1	56.8	56.7	58.0	57.6	58.2 <sup>g</sup>
Mexico	Urban areas	56.1	56.8	56.0	55.5	55.6	55.8	56.7	57.9	57.8	57.6
Panama	National total	54.0	51.8	52.0	54.1	54.6	55.9	57.3	57.2	57.2	58.8 <sup>h</sup>
Peru	Metropolitan Lima	...	...	60.5	62.0	61.1	61.6	60.7	61.8	60.8	63.1
Dominican Republic	National total	46.1	47.6	45.8	46.2	45.4	46.0	45.9	46.9	46.8	47.2 <sup>i</sup>
Trinidad and Tobago	National total	52.8	53.8	53.8	54.6	55.2	57.8	58.6	59.9	59.5	58.9 <sup>j</sup>
Uruguay	Urban total	52.6	51.6	51.4	49.1	48.3	50.9	51.4	53.9	53.5	56.5
Venezuela (Bolivarian Rep. of)	National total	56.4	55.5	57.6	57.8	56.8	58.1	58.1	58.9	58.7	59.0

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> New measurements have been used since 2003; the data are not comparable with the previous series.

<sup>c</sup> The figures in the last two columns refer to the measurement of July.

<sup>d</sup> The figures in the last two columns refer to the period January-August.

<sup>e</sup> The figures in the last two columns refer to the period May-July.

<sup>f</sup> New measurements have been used since 2002; the data are not comparable with the previous series.

<sup>g</sup> The figures in the last two columns refer to the period January-April.

<sup>h</sup> The figures in the last two columns refer to the measurement of August.

<sup>i</sup> The figures in the last two columns refer to the measurement of April.

<sup>j</sup> The figures in the last two columns refer to the period January-June.

Table A-19  
**LATIN AMERICA AND THE CARIBBEAN: TREND IN REAL AVERAGE WAGES**  
*(Average annual Index, 2000=100)*

	1990	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
Argentina <sup>b</sup>	94.7	95.0	97.8	100.0	99.2	85.4	83.8	92.1	97.6	106.1	116.9 <sup>c</sup>
Brazil <sup>d</sup>	103.0	105.8	101.1	100.0	95.1	93.1	84.9	85.5	85.2	88.2	88.6 <sup>c</sup>
Chile <sup>e</sup>	91.6	96.3	98.6	100.0	101.7	103.7	104.6	106.5	108.5	110.6	113.8 <sup>f</sup>
Colombia <sup>b</sup>	88.4	92.2	96.3	100.0	99.7	102.8	102.2	103.6	105.0	108.6	107.9 <sup>g</sup>
Costa Rica <sup>h</sup>	88.9	94.7	99.2	100.0	101.0	105.1	105.5	102.8	100.8	102.4	104.3 <sup>g</sup>
Mexico <sup>b</sup>	90.9	92.9	94.3	100.0	106.7	108.7	110.2	110.5	110.2	110.6	111.9 <sup>c</sup>
Nicaragua <sup>h</sup>	89.2	96.2	100.0	100.0	101.0	104.5	106.5	104.2	104.5	105.9	104.8 <sup>c</sup>
Panama <sup>i</sup>	98.9	106.7	105.6	100.0	98.8	95.8	95.3	94.5	93.4	95.5	98.0 <sup>j</sup>
Paraguay	103.2	100.8	98.7	100.0	101.4	96.3	95.6	97.2	98.2	98.8	98.4 <sup>k</sup>
Peru <sup>l</sup>	104.2	101.4	99.3	100.0	99.1	103.7	105.3	106.5	104.4	105.7	106.7 <sup>m</sup>
Uruguay	97.8	99.7	101.3	100.0	99.7	89.0	77.9	77.9	81.5	85.0	89.4 <sup>f</sup>
Venezuela (Bolivarian Rep. of) <sup>n</sup>	78.0	103.3	98.5	100.0	106.9	95.1	78.4	78.6	80.7	84.8	85.1 <sup>c</sup>

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Manufacturing

<sup>c</sup> Estimate based on data from January to September.

<sup>d</sup> Workers covered by social and labour legislation. Since 2003, only the private sector.

<sup>e</sup> General index of hourly wages.

<sup>f</sup> Estimate based on data from January to October.

<sup>g</sup> Estimate based on data from January to August.

<sup>h</sup> Average wages declared by workers covered by social security.

<sup>i</sup> Average wages declared by workers covered by social security. 2007: average wages in manufacturing, trade and services.

<sup>j</sup> Estimate based on data from January to June.

<sup>k</sup> Figure for June.

<sup>l</sup> Private-sector manual workers in the Lima metropolitan area. 2007: Average income for working population.

<sup>m</sup> Average November 2006 to October 2007 relative to the previous 12 months.

<sup>n</sup> General wage index. Until 1999, average income of manual and office workers in urban areas.

Table A-20  
**LATIN AMERICA AND THE CARIBBEAN: MONETARY INDICATORS**  
*(Percentages of GDP, end-of-year balances)*

	Monetary base				Money Supply (M3) <sup>a</sup>				Foreign-currency deposits			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
Antigua and Barbuda	15.6	15.5	15.1	...	92.4	92.6	92.3	91.2	6.1	5.8	7.6	8.4
Argentina	11.7	10.3	12.2	11.1	24.7	25.8	25.8	22.9	1.7	2.0	2.3	2.6
Bahamas	4.7	3.8	3.5	...	78.1	82.3	82.8	84.6	1.7	2.5	2.6	...
Barbados	9.1	9.6	...	...	126.5	141.0	130.8	151.5	10.7	16.4	11.1	15.3
Belize	...	...	...	...	59.1	59.9	61.5	63.6	...	...	...	...
Bolivia	8.3	10.4	12.6	14.1	42.3	43.5	43.4	47.4	33.1	31.2	27.4	26.7
Brazil	4.6	4.7	5.2	4.8 <sup>b</sup>	25.4	27.1	28.5	28.7	...	...	...	...
Chile	4.1	4.4	4.5	4.2	50.3	53.0	53.6	56.6	4.9	4.6	4.7	5.4
Colombia	7.5	8.0	8.4	7.5 <sup>c</sup>	37.7	39.5	41.0	41.6	...	...	...	...
Costa Rica	5.5	6.1	6.5	6.0	43.1	44.4	45.5	43.2	20.5	20.9	20.4	18.6
Dominica	15.2	15.1	17.0	...	76.3	77.3	79.5	...	1.7	1.3	1.3	...
Ecuador	1.2	1.5	1.4	1.2	21.7	23.5	24.5	24.7	...	...	...	...
El Salvador	10.4	10.0	9.3	10.3	39.1	37.4	38.2	40.4	...	...	...	...
Grenada	25.9	16.9	17.1	...	117.1	98.2	96.6	97.5	7.0	6.8	5.0	5.5
Guatemala	10.0	10.2	11.1	10.5	34.0	35.6	37.8	36.7	3.7	3.9	4.2	4.8
Guyana	...	...	...	...	73.2	75.1	79.8	73.2	...	...	...	...
Haiti	22.7	21.1	20.0	18.5	42.5	42.1	37.8	34.8	16.6	18.0	15.6	15.0
Honduras	10.7	10.4	11.2	11.9	56.3	58.6	63.1	62.7	16.7	15.9	16.3	15.8
Jamaica	8.3	8.2	8.8	7.6	39.2	38.1	39.1	38.4	12.9	12.1	11.5	11.9
Mexico	4.4	4.5	4.9	4.3	50.0	53.5	55.6	55.0	1.6	1.7	1.5	1.5
Nicaragua	7.5	7.8	8.7	7.9	43.0	41.4	39.4	38.1	28.6	27.9	25.8	25.8
Panama	...	...	...	...	75.3	74.7	86.3	86.1	...	...	...	...
Paraguay	9.8	9.2	9.4	9.1	28.3	27.5	27.6	29.2	13.1	11.7	10.9	11.3
Peru	3.9	4.5	4.5	4.6	24.0	25.8	24.1	24.9	13.2	14.1	12.3	3.9
Dominican Republic	8.6	8.8	8.5	...	29.2	29.2	27.6	...	0.0	0.0	0.0	...
Saint Kitts and Nevis	19.6	16.7	19.2	...	101.9	99.4	103.5	106.2	28.8	29.0	32.4	35.3
Saint Vincent and the Grenadines	15.2	14.4	14.7	...	73.5	72.7	71.0	98.8	2.3	1.2	2.3	2.5
Saint Lucia	15.7	12.5	13.4	...	70.1	71.8	81.8	77.3	1.8	2.6	8.3	4.2
Suriname	14.4	13.4	13.4	...	56.0	53.9	60.2	63.9	27.5	25.7	28.8	29.8
Trinidad and Tobago	5.9	7.5	7.3	...	34.9	37.2	37.9	35.1	8.8	7.7	9.2	10.5
Uruguay	4.1	5.1	4.7	5.8	67.7	60.6	58.6	53.3	58.5	49.7	47.0	42.3
Venezuela (Bolivarian Republic of)	7.8	7.6	11.5	11.1	21.8	23.4	30.7	28.1	...	...	...	...

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

<sup>a</sup> According to the ECLAC definition, this corresponds to M1 plus savings and time deposits in national currency plus foreign currency deposits.

<sup>b</sup> According to the country's definition, this corresponds to M1 plus special interest-bearing deposits, savings deposits and securities issued by deposit institutions.

<sup>c</sup> According to the country's definition, this also includes deposits of entities in liquidation and, since 2001, term deposit certificates of special entities and demand deposits of non-bank entities.

Table A-21  
**LATIN AMERICA AND THE CARIBBEAN: REPRESENTATIVE LENDING RATES**  
*(Annual average of monthly annualized rates)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
Antigua and Barbuda <sup>b</sup>	11.0	11.0	10.7	10.8	11.0	10.7	10.6	10.8	10.8	10.8 apr.
Argentina <sup>c</sup>	10.6	11.0	11.1	26.5	53.0	19.1	6.8	6.2	8.7	10.1 oct.
Bahamas <sup>d</sup>	...	...	...	...	...	12.0	11.2	10.3	10.0	10.6 jun
Barbados <sup>e</sup>	...	...	...	...	...	7.6	7.4	8.5	10.0	10.5 aug.
Belize <sup>f</sup>	16.5	16.3	16.0	15.5	14.8	14.4	13.9	14.2	14.2	14.3 mar.
Bolivia <sup>g</sup>	...	...	...	13.7	10.9	9.1	8.2	8.2	7.9	8.2 oct.
Brazil <sup>h</sup>	68.3	64.8	41.9	41.1	44.4	49.8	41.1	43.7	39.8	34.9 oct.
Chile <sup>i</sup>	27.4	17.6	18.7	16.7	14.4	13.0	11.0	13.5	14.4	13.8 nov.
Colombia <sup>j</sup>	44.5	29.4	18.8	20.7	16.3	15.2	15.1	14.6	12.9	15.1 oct.
Costa Rica <sup>k</sup>	...	29.8	28.1	26.7	26.8	26.2	23.4	24.0	22.6	17.4 nov.
Dominica <sup>b</sup>	10.0	10.0	10.0	10.0	9.8	9.5	9.3	9.3	9.3	9.3 apr.
Ecuador <sup>l</sup>	...	...	15.2	15.5	14.1	12.6	10.2	8.7	8.9	9.7 jul.
El Salvador <sup>m</sup>	...	...	10.7	9.6	7.1	6.6	6.3	6.9	7.5	7.8 oct.
Grenada <sup>b</sup>	10.0	10.0	10.0	10.0	9.8	9.3	9.0	9.0	9.4	9.5 apr.
Guatemala <sup>n</sup>	16.5	19.4	20.9	19.0	16.9	15.0	13.8	13.0	12.8	12.8 oct.
Guyana <sup>o</sup>	17.0	17.1	17.2	17.3	17.3	16.6	16.6	15.1	14.9	14.2 aug.
Haiti <sup>p</sup>	23.5	22.9	25.1	28.6	25.5	30.7	34.1	27.1	29.7	32.6 oct.
Honduras <sup>n</sup>	30.6	30.2	26.8	23.8	22.7	20.8	19.9	18.8	17.4	16.7 sep.
Jamaica <sup>q</sup>	42.1	36.8	32.9	29.4	26.1	25.1	25.1	23.2	22.0	22.1 oct.
Mexico <sup>r</sup>	26.4	23.7	16.9	12.8	8.2	6.9	7.2	9.9	7.4	7.5 sep.
Nicaragua <sup>s</sup>	...	17.6	18.1	18.6	18.3	15.5	13.5	12.1	11.5	13.1 oct.
Panama <sup>t</sup>	9.9	10.1	10.3	10.6	9.2	8.9	8.2	8.2	8.1	8.3 oct.
Paraguay <sup>u</sup>	30.5	30.2	26.8	28.3	34.3	30.5	21.2	15.3	16.8	15.3 aug.
Peru <sup>v</sup>	...	...	...	...	22.3	20.2	18.7	17.9	17.1	16.5 sep.
Dominican Republic <sup>w</sup>	23.5	22.2	23.6	20.0	21.3	27.8	30.3	21.4	15.5	11.9 oct.
Saint Kitts and Nevis <sup>b</sup>	10.8	10.5	10.3	10.5	10.6	9.8	9.4	8.7	8.8	8.8 apr.
Saint Vincent and the Grenadines <sup>b</sup>	11.3	11.3	10.8	10.1	10.0	10.0	9.8	10.0	10.0	10.0 apr.
Saint Lucia <sup>b</sup>	10.0	10.0	10.0	10.0	10.0	9.9	9.8	9.8	9.8	9.8 apr.
Suriname <sup>r</sup>	27.1	27.4	29.0	25.7	22.2	21.0	20.4	18.1	15.7	14.1 aug.
Trinidad and Tobago <sup>x</sup>	17.0	17.1	16.5	15.6	13.4	11.0	9.4	9.1	10.2	10.6 sep.
Uruguay <sup>y</sup>	38.4	39.0	32.1	38.1	116.4	56.6	26.0	15.3	10.5	9.8 oct.
Venezuela (Bolivarian Republic of) <sup>z</sup>	45.3	31.3	24.5	24.8	38.4	25.7	17.3	15.6	14.6	15.9 oct.

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

<sup>a</sup> Average from January to the month indicated for the annualized monthly rates.

<sup>b</sup> Prime lending rate, average of minimum and maximum rates.

<sup>c</sup> Thirty-day loans in pesos to leading firms, arithmetical average.

<sup>d</sup> Interest rate on loans and overdrafts, weighted average.

<sup>e</sup> Prime lending rate.

<sup>f</sup> Rate on personal, commercial, residential construction and other loans; weighted average.

<sup>g</sup> Nominal dollar rate for 60- to 91-day banking operations.

<sup>h</sup> Preset lending rates for legal persons.

<sup>i</sup> Lending rates for periods of 90-360 days, non-adjustable operations.

<sup>j</sup> Total lending rate of the system.

<sup>k</sup> Average rate of the financial system for loans in national currency.

<sup>l</sup> Benchmark dollar lending rate.

<sup>m</sup> Basic lending rate for up to 1 year.

<sup>n</sup> Weighted average lending rates.

<sup>o</sup> Weighted average prime rate.

<sup>p</sup> Average of minimum and maximum lending rates.

<sup>q</sup> Average interest rate on loans.

<sup>r</sup> Lending rate published by the International Monetary Fund.

<sup>s</sup> Weighted average of the weekly lending rate for loans in national currency in the system.

<sup>t</sup> Interest rate on 1-year trade credit.

<sup>u</sup> Weighted average of effective lending rates in national currency, not including overdrafts or credit cards.

<sup>v</sup> Average lending rate, constant structure.

<sup>w</sup> Prime lending rate.

<sup>x</sup> Prime interest rate on term loans.

<sup>y</sup> Business credit, 30-367 days.

<sup>z</sup> Average rate for loan operations for the six major commercial banks.

Table A-22  
**LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES**  
*(Percentage variation December – December)*

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean<sup>b</sup></b>	<b>10.0</b>	<b>9.7</b>	<b>9.0</b>	<b>6.1</b>	<b>12.2</b>	<b>8.5</b>	<b>7.4</b>	<b>6.1</b>	<b>5.0</b>	<b>6.1</b>
Antigua and Barbuda	...	...	...	...	2.5	1.8	2.8	2.5	...	...
Argentina	0.7	-1.8	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.5
Bahamas	1.9	1.4	1.0	2.9	1.9	2.4	1.9	1.2	2.3	2.4 <sup>c</sup>
Barbados	1.7	2.9	3.8	-0.3	0.9	0.3	4.3	7.4	5.6	3.9 <sup>d</sup>
Belize	-0.8	-1.2	0.6	1.1	2.3	2.6	3.1	3.7	4.3	3.5
Bolivia	4.4	3.1	3.4	0.9	2.4	3.9	4.6	4.9	4.9	11.9
Brazil	1.7	8.9	6.0	7.7	12.5	9.3	7.6	5.7	3.1	4.2
Chile	4.7	2.3	4.5	2.6	2.8	1.1	2.4	3.7	2.6	7.4
Colombia	16.7	9.2	8.8	7.6	7.0	6.5	5.5	4.9	4.5	5.4
Costa Rica	12.4	10.1	10.2	11.0	9.7	9.9	13.1	14.1	9.4	10.1
Cuba	2.9	-2.9	-3.0	-0.5	7.0	-1.0	3.0	3.7	5.7	...
Dominica	1.4	0.0	1.1	1.1	1.7	2.8	3.3	3.8	4.1	...
Ecuador	43.4	60.7	91.0	22.4	9.3	6.1	1.9	3.1	2.9	2.7
El Salvador	4.2	-1.0	4.3	1.4	2.8	2.5	5.4	4.3	4.9	6.2
Grenada	1.2	1.1	3.4	-0.7	-0.4	1.1	2.5	5.8	...	...
Guatemala	7.5	4.9	5.1	8.9	6.3	5.9	9.2	8.6	5.8	9.1
Guyana	4.7	8.7	5.8	1.5	6.0	5.0	5.5	8.2	4.2	10.4
Haiti	7.4	9.7	19.0	8.1	14.8	40.4	20.2	14.8	10.2	8.1 <sup>e</sup>
Honduras	15.7	10.9	10.1	8.8	8.1	6.8	9.2	7.7	5.3	9.6
Jamaica	7.9	6.8	6.1	8.7	7.3	14.1	13.7	12.9	5.8	8.5 <sup>f</sup>
Mexico	18.6	12.3	9.0	4.4	5.7	4.0	5.2	3.3	4.1	3.9
Nicaragua	18.5	7.2	9.9	4.7	4.0	6.6	8.9	9.6	10.2	12.8 <sup>e</sup>
Panama	1.4	1.5	0.7	0.0	1.9	1.5	1.5	3.4	2.2	5.5 <sup>e</sup>
Paraguay	14.6	5.4	8.6	8.4	14.6	9.3	2.8	9.9	12.5	7.4
Peru	6.0	3.7	3.7	-0.1	1.5	2.5	3.5	1.5	1.1	3.5
Dominican Republic	7.8	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.0	7.2 <sup>e</sup>
Saint Kitts and Nevis	0.9	3.2	...	...	1.7	3.1	1.7	7.2	...	...
Saint Vincent and the Grenadines	3.3	-1.8	1.4	-0.2	0.4	2.7	1.7	4.7	...	...
Saint Lucia	3.6	6.1	0.4	0.0	1.4	0.5	3.5	5.2	-0.6	...
Suriname	22.9	112.9	76.1	4.9	28.4	14.0	9.3	15.8	4.7	5.6 <sup>f</sup>
Trinidad and Tobago	5.6	3.4	5.6	3.2	4.3	3.0	5.6	7.2	9.1	7.3 <sup>c</sup>
Uruguay	8.6	4.2	5.1	3.6	25.9	10.2	7.6	4.9	6.4	8.6
Venezuela (Bolivarian Republic of)	29.9	20.0	13.4	12.3	31.2	27.1	19.2	14.4	17.0	20.7

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

<sup>a</sup> Twelve-month variation up to November 2007.

<sup>b</sup> The only English-speaking Caribbean countries included are Barbados, Jamaica and Trinidad and Tobago. From 2005 onwards, does not include Cuba.

<sup>c</sup> Twelve-month variation up to September 2007.

<sup>d</sup> Twelve-month variation up to July 2007.

<sup>e</sup> Twelve-month variation up to October 2007.

<sup>f</sup> Annual estimate.

Table A-23  
**LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT BALANCE**  
*(Percentages of GDP)*

	Primary balance					Overall balance				
	2003	2004	2005	2006	2007 <sup>a</sup>	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean</b>	-0.2	0.6	1.5	2.4	2.2	-2.9	-1.9	-1.1	0.1	-0.1
Argentina <sup>b</sup>	2.1	3.2	2.3	2.7	2.8	0.2	2.0	0.4	1.0	0.7
Bolivia <sup>c</sup>	-5.1	-3.1	0.3	5.4	3.4	-7.7	-5.7	-2.3	3.6	2.1
Brazil <sup>d</sup>	2.3	2.5	2.5	2.1	2.1	-2.3	-1.2	-3.2	-3.1	-2.8
Chile	0.7	3.1	5.4	8.4	8.7	-0.5	2.1	4.5	7.7	8.0
Colombia <sup>e</sup>	-0.8	-1.4	-1.4	0.1	1.0	-5.0	-5.4	-4.8	-4.1	-3.3
Costa Rica	1.4	1.4	2.0	2.8	2.2	-2.9	-2.7	-2.1	-1.1	-1.3
Ecuador <sup>f</sup>	2.5	1.5	1.8	2.1	1.6	-0.4	-1.0	-0.5	-0.2	-0.5
El Salvador	-0.8	0.9	1.1	2.0	3.2	-2.7	-1.1	-1.0	-0.4	1.0
Guatemala <sup>g</sup>	-1.3	0.3	-0.3	-0.6	-0.9	-2.6	-1.1	-1.7	-1.9	-2.3
Haiti	-2.7	-2.4	0.4	0.8	-0.8	-3.1	-3.1	-0.6	0.0	-1.6
Honduras	-4.3	-1.7	-1.3	-0.1	-1.6	-6.2	-3.4	-2.6	-1.3	-2.4
Mexico <sup>h</sup>	2.1	2.5	2.4	2.9	2.6	-0.6	-0.2	-0.1	0.1	0.0
Nicaragua	0.3	-0.1	0.1	1.8	0.7	-2.8	-2.2	-1.8	0.0	-0.9
Panama <sup>i</sup>	0.5	-1.2	1.2	4.5	3.7	-3.8	-5.4	-3.9	0.2	-0.5
Paraguay <sup>g</sup>	0.9	2.7	2.0	1.5	1.0	-0.4	1.6	0.8	0.5	0.0
Peru	0.2	0.6	1.1	3.2	3.6	-1.7	-1.3	-0.7	1.5	1.8
Dominican Republic <sup>j</sup>	-2.7	-1.6	0.6	0.3	2.4	-4.4	-3.4	-0.6	-1.0	1.0
Uruguay	1.0	2.4	2.8	3.3	2.6	-4.6	-2.5	-1.6	-1.0	-1.5
Venezuela (Bolivarian Republic of)	0.3	1.8	4.6	2.1	2.6	-4.4	-1.9	1.6	0.0	0.5

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> National public administration, on an accrual basis.

<sup>c</sup> General government.

<sup>d</sup> Federal government and central bank. The figures are derived from the primary balance based on the below-the-line criterion and nominal interest.

<sup>e</sup> Central national government. Does not include the cost of financial restructuring.

<sup>f</sup> Accrual basis.

<sup>g</sup> Central administration.

<sup>h</sup> Public sector. The balance includes non-recurrent income from the sale of companies and the non-budgetary balance.

<sup>i</sup> The overall balance for 2005 includes an adjustment for compensation to bondholders amounting to 111.6 million balboas.

<sup>j</sup> Accrual basis. The overall balance includes the residue and other transfer payments.



Table A-24  
**LATIN AMERICA AND THE CARIBBEAN: REVENUE AND EXPENDITURES OF THE CENTRAL GOVERNMENT**  
*(Percentages of GDP)*

	Total revenue			Current revenue			Total expenditure		
	2005	2006	2007 <sup>a</sup>	2005	2006	2007 <sup>a</sup>	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean</b>	<b>18.5</b>	<b>19.7</b>	<b>...</b>	<b>13.5</b>	<b>14.1</b>	<b>...</b>	<b>19.6</b>	<b>19.6</b>	<b>...</b>
Argentina	16.7	17.4	18.4	13.8	13.8	12.8	16.3	16.5	17.8
Bolivia	30.8	33.6	32.2	20.9	23.8	26.9	33.2	30.1	30.0
Brazil <sup>b</sup>	18.8	19.4	20.2 <sup>d</sup>	10.1	10.4	10.4	22.2	22.6	23.0
Chile <sup>d</sup>	23.7	26.0	26.3	16.8	17.1	18.5 <sup>e</sup>	19.1	18.2	18.3
Colombia <sup>f</sup>	16.0	17.5	18.4	14.8	16.0	16.8	20.7	21.1	21.7
Costa Rica <sup>g</sup>	13.8	14.5	15.3	13.3	13.9	14.7 <sup>h</sup>	15.9	15.5	16.5
Ecuador	16.6	16.9	20.1	10.3	10.4	10.6	17.1	17.1	20.6
El Salvador <sup>g</sup>	13.6	14.5	14.5	12.6	13.4	13.1 <sup>h</sup>	14.6	14.9	13.5
Guatemala	12.0	12.7	12.2	11.2	11.8	11.3	13.7	14.6	14.6
Haiti <sup>g</sup>	10.8	10.7	11.2	9.7	10.0	...	11.5	10.7	12.8
Honduras <sup>g</sup>	20.5	21.2	22.1	16.9	17.9	19.1 <sup>h</sup>	23.1	22.5	24.5
Mexico	23.3	24.7	23.8	9.7	9.7	10.3 <sup>i</sup>	23.4	24.6	23.8
Nicaragua <sup>g</sup>	21.5	22.7	23.8	16.8	17.5	18.2	23.3	22.7	24.7
Panama <sup>g</sup>	15.2	18.6	18.9	8.9	10.6	11.2	18.3	18.4	19.4
Paraguay	18.3	18.9	18.1	11.8	12.4	12.0 <sup>h</sup>	17.5	18.3	18.1
Peru	15.8	17.4	18.2	13.6	14.9	15.3	16.5	15.9	16.3
Dominican Republic <sup>g</sup>	15.1	15.3	...	14.1	14.1	...	16.2	16.2	...
Uruguay	21.8	21.9	21.7	19.7	18.6	17.9	23.5	22.9	23.2
Venezuela (Bolivarian Republic of)	27.7	30.0	...	11.6	12.0	... <sup>j</sup>	26.0	30.0	...

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Refers to "liquid revenue", equivalent to total income less transfers to states and municipalities.

<sup>c</sup> Gross tax revenue.

<sup>d</sup> Total revenue corresponds to revenue plus sales of financial assets.

<sup>e</sup> Total expenditure refers to expenditure plus investment, capital transfers and fixed capital consumption.

<sup>f</sup> Total revenue includes special funds and does not include revenues arising therefrom.

<sup>g</sup> Total revenue includes grants.

<sup>h</sup> Total expenditure includes net lending.

<sup>i</sup> Total expenditure includes non-programmable expenditure.

<sup>j</sup> Total expenditure includes extrabudgetary expenditure and net lending.

Table A-25  
**LATIN AMERICA AND THE CARIBBEAN: PUBLIC DEBT**  
*(Percentages of GDP)*

	Central government					Non-financial public sector				
	2003	2004	2005	2006	2007 <sup>a</sup>	2003	2004	2005	2006	2007 <sup>a</sup>
<b>Latin America and the Caribbean</b>	<b>59.5</b>	<b>53.0</b>	<b>44.5</b>	<b>37.6</b>	<b>31.8</b>	<b>62.3</b>	<b>54.9</b>	<b>47.4</b>	<b>39.9</b>	<b>...</b>
Argentina <sup>b</sup>	138.2	126.4	72.8	63.6	55.3	144.8	132.5	77.8	65.5	...
Bolivia <sup>c</sup>	86.8	81.1	76.4	50.7	37.7 <sup>d</sup>	89.5	83.9	79.2	54.3	39.4
Brazil <sup>e</sup>	34.0	31.0	30.9	31.7	30.7 <sup>f</sup>	53.7	49.3	46.7	46.0	43.4
Chile <sup>g</sup>	13.0	10.7	7.2	5.3	4.9 <sup>g</sup>	19.5	16.8	12.9	10.6	...
Colombia <sup>h</sup>	50.7	46.4	46.6	44.9	39.8 <sup>i</sup>	53.9	49.2	45.8	43.1	41.9
Costa Rica	41.3	41.0	37.5	33.9	28.2	45.6	46.9	42.9	39.5	32.7
Ecuador	45.8	40.8	36.6	30.0	28.1 <sup>d</sup>	49.2	43.7	39.4	32.7	30.5
El Salvador <sup>c</sup>	37.2	38.0	37.8	37.7	34.6 <sup>d</sup>	40.6	40.8	40.9	39.8	36.6
Guatemala <sup>c</sup>	20.9	21.4	20.7	21.6	21.6 <sup>d</sup>	22.0	22.4	21.5	21.9	21.8
Haiti <sup>j</sup>	57.5	46.7	44.1	35.6	30.6 <sup>j</sup>	63.5	51.1	47.5	38.1	32.8
Honduras	72.0	70.1	52.0	33.6	19.9	71.0	69.9	52.2	34.9	20.8
Mexico <sup>k</sup>	24.2	23.0	22.4	23.3	22.9 <sup>l</sup>	28.6	26.9	25.3	25.5	25.4
Nicaragua	137.7	100.6	93.0	70.3	42.0	138.0	100.7	93.1	70.7	42.4
Panama <sup>m</sup>	66.6	69.6	65.1	60.4	54.5	67.0	70.4	66.1	61.1	55.1
Paraguay	44.4	38.0	31.4	24.8	21.0	46.9	41.7	32.8	25.8	21.9
Peru <sup>n</sup>	47.3	41.8	38.2	30.9	27.6	...	...	...	...	...
Dominican Republic	...	...	21.2	19.8	16.7 <sup>o</sup>	40.8	25.1	22.5	19.4	17.2
Uruguay	94.3	74.6	67.0	59.3	56.5	100.4	78.9	70.4	62.6	59.8
Venezuela (Bolivarian Republic of)	...	...	...	...	...	46.3	38.1	32.9	24.3	18.1

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

<sup>a</sup> Preliminary figures to June 2007.

<sup>b</sup> National public administration. As from 2005, does not include debt not presented for swap.

<sup>c</sup> Does not include publicly guaranteed private debt.

<sup>d</sup> External debt of the non-financial public-sector and domestic debt of the central government.

<sup>e</sup> Net public debt. Federal government and central bank.

<sup>f</sup> Net public debt. Public sector.

<sup>g</sup> Consolidated gross public debt.

<sup>h</sup> Central national government.

<sup>i</sup> Consolidated non-financial public sector.

<sup>j</sup> Does not include public-sector commitments to commercial banks.

<sup>k</sup> Federal government.

<sup>l</sup> External debt of the public sector and domestic debt of the federal government.

<sup>m</sup> Does not include domestic floating debt.

<sup>n</sup> Includes local and regional government debt with the Banco de la Nación.

<sup>o</sup> Public sector.



