South America

Argentina

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

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

As for the fiscal area, current income of the national public sector rose by almost 17% in the first nine months of the year; the tax ratio rose by just under 22.5%, compared with the previous year's figure of 22%. There was a similar increase in revenue in all areas of taxation. Almost 55% of revenue came from VAT and profits and wealth taxes; social security contributions and duties on external trade each brought in about 13%. Primary spending rose by 22%; of particular note was the proportional increase in capital spending (over 60%), reflecting the higher volume of public investments. As a result, the primary surplus, while lower than that recorded in 2004, remained at a markedly high level, standing at about 3.5% of GDP for the national public sector, and about one percentage point higher in relation to provincial GDP. The central government's financial balance was again in surplus.

After a process which lasted more than three years, the swap arrangement for public debt in default was implemented. Three types of bonds were issued (par, discount and quasi-par) in pesos and various foreign currencies. The holders of the new bonds received cash payments for interest accrued and overdue since 2003. The new debt incorporates "GDP-linked units" which provide for payments contingent upon growth in activity. In March 2005, at the end of the bidding period, US$ 62 billion worth of bonds were presented for the swap, or 76% of the eligible amount. As a result, paper of an approximate value of US$ 35 billion was issued. A significant proportion of the foreign-currency bonds were, at the choice of the creditors, replaced by adjustable peso bonds, a behaviour which suggested a real revaluation of the peso. Until late October, the yield of the bonds resulting from the swap was reflected in levels of country risk of about 400 basis points.

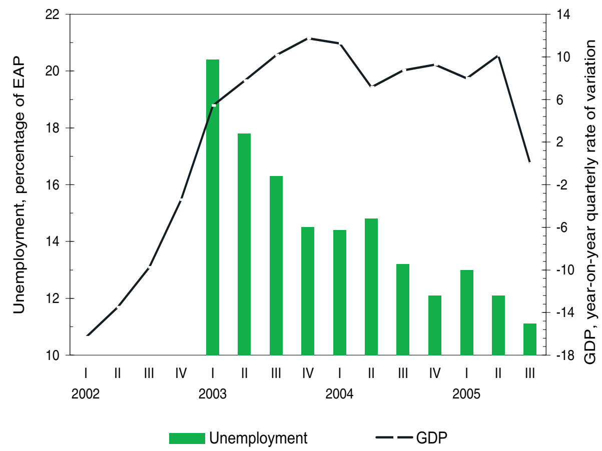
Without taking into account the holdouts, which amounted to about US$ 20 billion of the original value, the restructured central-government public debt stood at about 70% of GDP, part of which represented amounts owed to international bodies. Although there remained a strong link between debt and GDP,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

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

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

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

ARGENTINA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

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

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

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

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

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

ARGENTINA: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Manufacturing.
[d] Year-on-year average variation, January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] Average from January to October, annualized.
[h] Average from January to November, annualized.

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

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

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

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

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

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

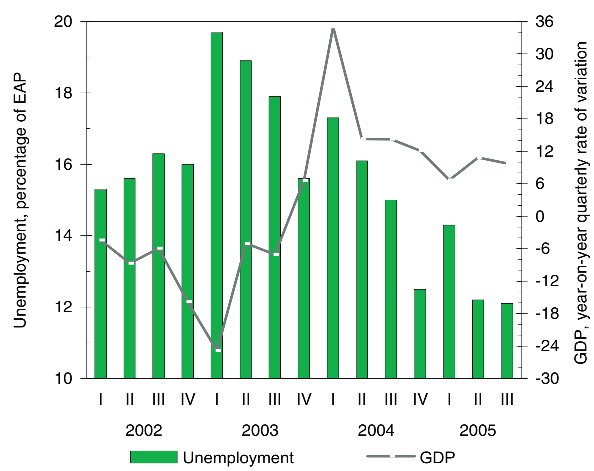
Bolivarian Republic of Venezuela

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

The effects of economic growth brought a reduction in unemployment and to a lesser extent in informal work, and a recovery of real wages. Thanks to the boom in oil prices, an intense programme of public social work was implemented, with the "social missions" being mostly oriented to poor or extremely poor sectors of the population. Moreover, despite the pronounced increase in imports of goods, there was a high current-account surplus, which is estimated at 18% of GDP for 2005.[1] For 2006, the authorities estimate growth of 5%, an annual average inflation rate of 12% and maintenance of the exchange rate at 2,150 bolívares per United States dollar.

In terms of economic policy, both fiscal and monetary policy have continued to be clearly expansionary. In the period from January to September, central government current expenditure, according to the figures published by the Central Bank of Venezuela, increased by 39%, while income rose by 80%, boosted by the rise in both tax and non-tax receipts, and especially the higher level of petroleum royalties.[2] In this context, the authorities decreed a reduction in the VAT rate from 15% to 14%, as of October 2005. This decline in income was offset by an increase in the proceeds from oil sales and other domestic taxes, particularly the bank debit tax and profits on foreign exchange transactions from the central bank. In the overall balance for the year, the financial balance is expected to remain negative in 2005, although less so than in the previous year. In the first few months of 2005 the Hydrocarbons Act was implemented, which modified the taxes and royalties to be paid under operating agreements in the oil sector; royalties were raised from 1% to 16.66% of drilled oil, while the income tax rate rose from 35% to 50%.

BOLIVARIAN REPUBLIC OF VENEZUELA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

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[1] Measured in current dollars.

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

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

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

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

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

As for economic trends, in the first three quarters of 2005, in a year-on-year comparison with 2004, the non-oil sector posted an expansion of 10.3%, while the oil sector grew by 1.2%. There was substantial growth in domestic demand. In fact, the volume of imports of goods and services rose by 38.3%. Despite the more rapid growth in non-traditional exports, exports of goods and services at constant prices rose by only 5.8%. According to foreign trade figures, and over the same period, the value of goods exports grew by 44%, mainly owing to high oil prices, while imports rose by 48% (52% in the case of non-oil imports).[8]

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

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

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Private sector.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average from January to November, annualized.

4 A maximum of 28% in the case of lending rates and a minimum of 6.56% and 10% for savings and time deposits, respectively.
5 See *Gaceta Oficial*, No. 38.272 of 14 September 2005.
6 See *Gaceta Oficial*, No. 38.232 of 20 July 2005.
7 The Treasury Bank is a public financial institution whose main functions are to meet the government's payments and commitments, manage budget resources and administrate FONDEN and FEM.
8 In the period January-October 2005, the price of oil was at US$ 45 per barrel, which is a year-on-year increase of 34.2% in relation to the 2004 figure for the average price of the crude basket.

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

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

Bolivia

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

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

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

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

Money creation showed a considerable increase, as shown in the average January-September growth rates of the M1, M2 and M3 aggregates, which were much higher than those for the same period in 2004. Compared to figures for the end of 2004, the increase in those three aggregates at the end of September stood at 21%, 23.5% and 27.5%, respectively. Two factors contributed to this result. First, the replenishment of foreign-exchange balances in Bolivian currency, resulting from the new reserve requirements which became law in April 2005, raised the relative cost of holding foreign currency by increasing the legal reserve rate for foreign-currency instruments from 10% to 12%, and established a further reserve requirement of 2.5% on what is known as the "additional reserve base" (BEA), the difference between foreign- and local-currency denominated liabilities. Despite this major monetization, foreign-currency deposits remain a major proportion of overall deposits. Second, it resulted from the need for funds arising out of the growth in economic activity. From September 2004 to September 2005, the money stock rose by 35.39%, mostly owing to the increase in international reserves.

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

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

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

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

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

In the first half of 2005, the balance-of-payments current account showed a surplus of US$ 96.8 million, 29.8% lower than the figure for the same period in 2004. The balance-of-payments capital and financial account showed a surplus of about US$ 90.8 million, 30.85% less than in the first half of 2004. In the first nine months of 2005, international reserves increased by US$ 266.8 million (23.7%) to US$ 1,390,100,000, the highest level recorded in the past seven years. In line with the rise in international reserves, the selling rate against the dollar rose by 2.3% between the end of 2004 and November 2005.

BOLIVIA: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Year-on-year average variation, January to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average annual rates in dollars.
[f] Average from January to November, annualized.

Brazil

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

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

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

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

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

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

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

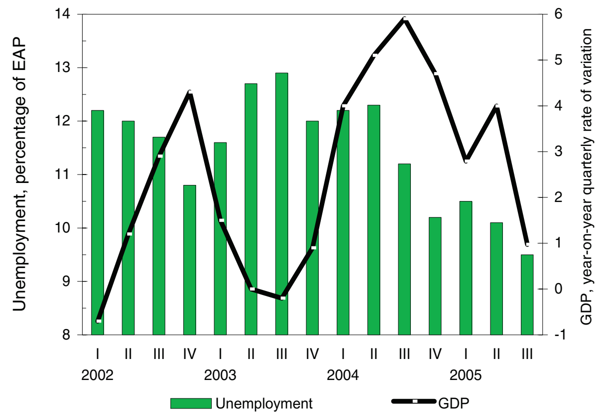
Spending grew at a slower rate. In the same period, central government outlays increased by 14.8% in nominal terms. Moreover, the growing social security deficit has remained, amounting to almost 1.7% of GDP (compared to the levels of 1.6% and 0.9% in 2004 and 2000, respectively), owing to the substantial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

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

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

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

BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

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

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

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

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

BRAZIL: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Workers covered by social and labour legislation.
[d] Year-on-year average variation, January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] Includes the central bank.
[h] Average from January to November, annualized.
[i] Average from January to October, annualized.

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

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

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

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

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

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

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

Chile

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

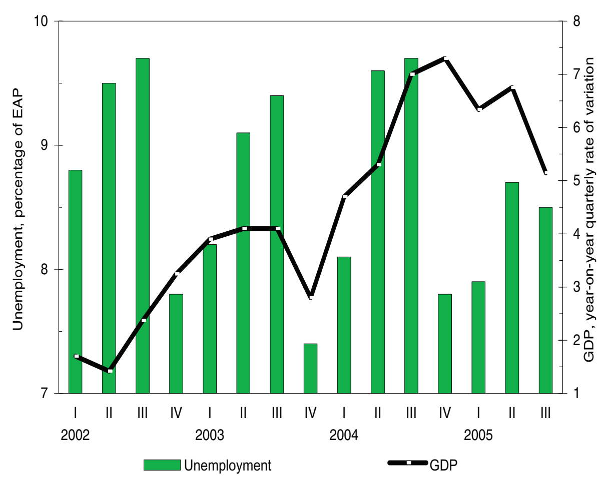
In view of a loss of momentum in a number of sectors of the economy and tighter monetary liquidity, expectations for 2006 point to slower growth (though still above 5%) and prices rising at a similar rate to that of 2005.

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

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

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

CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

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

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

CHILE: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] General hourly wage index.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average from January to November, annualized.

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

The main engine of growth was, once again, the favourable export conditions Chile has been experiencing since 2004, with both volume and prices performing well. Exports are estimated to have come in at close to US$ 39 billion in 2005, or the equivalent of 35% of GDP. The price of Chile's main export product, copper, exceeded US$ 2 per pound at the end of November 2005. The large volume of exports has been coupled, in this reporting period, with a strong increase in investment, which appears to have outstripped even the levels recorded before the 1999 recession (then without precedent). ECLAC estimates that investment expanded by around 6% in real terms in 2005, which was very similar to the 2004 rate of 6.1%.

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

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

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

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

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

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

Colombia

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

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

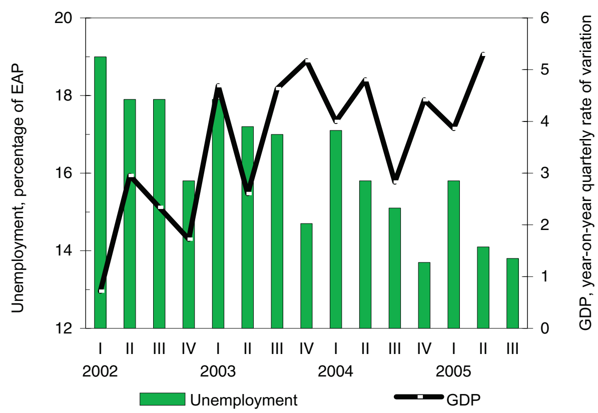
Thanks to satisfactory tax collection results and the reduction in interest payments, the government was able to reduce the central government deficit target from 6.1% to 5.5% of GDP for 2005 (equal to that of 2004) and the decentralized sector is expected to record a surplus equivalent to 4.1% of GDP,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

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

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

Real interest rates remain at record lows. Until October, the real deposit rate was 2.0% (12-month average), while the lending rate (calculated as the weighted average of the consumer, prime, ordinary and treasury lending rates) stood at 9.0%. The high liquidity levels in the economy have prompted investments in government securities, putting pressure on public debt instrument rates and reducing the cost of borrowing. The annual growth of the monetary aggregates picked up between December 2004 and October 2005. The M1 growth rate increased from 16.8% to 19% and the M3 rate from 16% to 20%.

COLOMBIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

COLOMBIA: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Manufacturing-sector workers.
[d] Year-on-year average variation, January to October.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Includes hidden unemployment.
[g] Average from January to November, annualized.
[h] Average from January to October, annualized.

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

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

Domestic demand —both investment and household consumption— strengthened further in 2005. The economy accumulated 4.6% growth in the first half of 2005 compared with 4.0% growth in 2004.[1] Investment recorded expansion rates of 20% thanks to tax incentives, the availability of credit and low interest rates, while household consumption was favoured not only by low interest rates but also by low inflation, improved employment conditions and an increase in consumer confidence. The consumption of public administrations, especially local and regional governments, also expanded. The net contribution of the external sector to economic growth was negative, since growth of exports was not sufficient to offset the sharp increase in the volume of imports. Commerce, restaurants and hotels, and construction accounted for most of the stronger expansion in the first half of the year, recording growth rates of approximately 9%. Industry lost momentum with growth (1.9%) below the average for the economy as a whole.

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

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

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

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

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

Ecuador

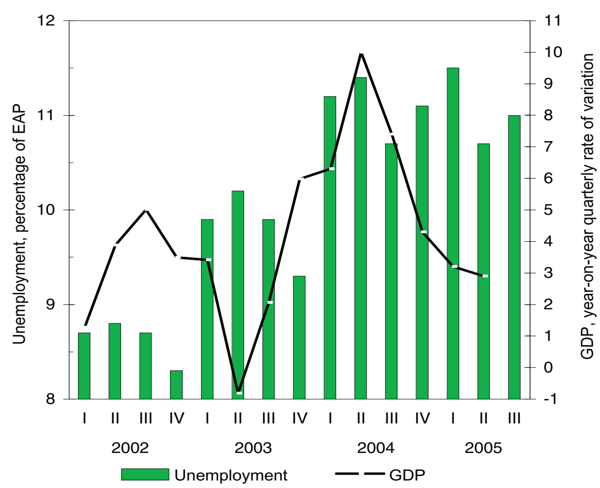
In 2005 the Ecuadorian economy is expected to grow by 3%, which is less than half of the rate in 2004 (6.9%), mainly because of the slowdown in the expansion of activity in the petroleum sector. For 2006, a slightly higher growth rate of about 3.2% is expected. Conditions for the external sector continued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

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

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

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

ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

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

ECUADOR: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Includes hidden unemployment.
[g] Average from January to October, annualized.

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

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

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

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

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

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

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

Paraguay

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

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

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

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

1 Information up to September 2005.

PARAGUAY: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Average from January to September, annualized.

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

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

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

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

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

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

Peru

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

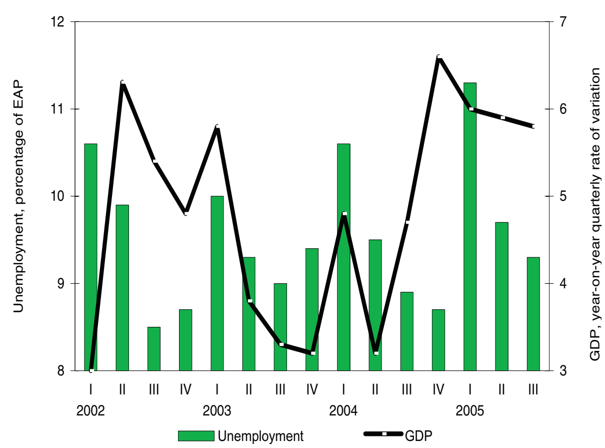
In 2005, economic policy was directed towards creating a climate conducive to economic growth (fulfilment of fiscal and monetary goals, curbing and rescheduling of public debt, low interest rates) and improving prevention mechanisms (increase in net international reserves, promoting de-dollarization)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

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

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

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

PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

set for the inflation target, the authorities maintained the benchmark interest rate for loans in local currency at a low and stable level up to December, when, following the depreciation of the local currency, they raised it by a quarter of a percentage point to 3.25%. Bank lending rates (average fixed rates) continued to decline (from 18.7% in 2004 to an average of 18.0% for the period January-November 2005), while the rates on dollar loans rose in response to external trends. Up to October, credit in the financial system expanded by 12% compared with the same month of the previous year, while the bank arrears index diminished to less than 3%. Further steps were taken to promote de-dollarization of the financial system and the share of credit in local currency increased from 29.3% in December 2004 to 32.1% in October 2005.

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

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

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

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

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

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

PERU: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Average from November 2004 to October 2005 with respect to the preceding 12 months.
[d] Year-on-year average variation, January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] Average from January to November, annualized.

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

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

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

Uruguay

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

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

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

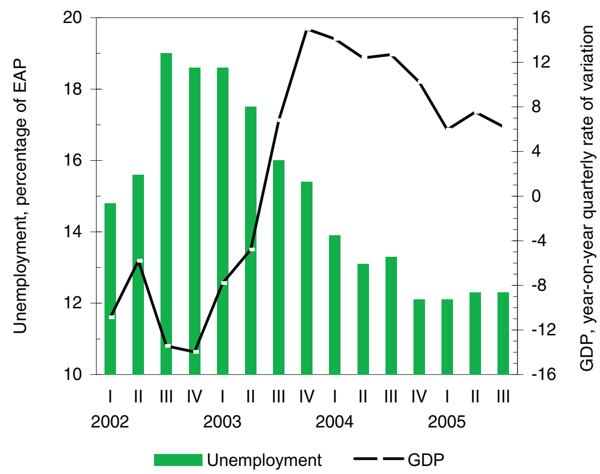
The fiscal position remained stable with a consolidated deficit equivalent to 1.1% of GDP in the 12 months to August. In turn, the primary fiscal surplus stood at 3.9% of GDP and was counterbalanced by debt interest payments, which amounted to 5% of GDP. The fiscal situation reflected the increase in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

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

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

Monetary policy was oriented towards the control of the average level of the monetary base in order to maintain price stability. Since the end of 2004, this policy has been marked by an expansionary trend owing to the existence of deflationary risks and the slow response of domestic prices to a stronger money supply. In the 12 months to October 2005, the monetary base expanded by 25.5% in nominal terms and 20% in real terms; the means of payment (M1) expanded at a similar pace and the money multiplier increased by 1.5%.

URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

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

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

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

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

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

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

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

URUGUAY: MAIN ECONOMIC INDICATORS

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

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2005.
[c] Year-on-year average variation, January to September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year average variation, January to October.
[f] Average from January to December, annualized.

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

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