SOUTH AMERICA

Argentina

The demise of the convertibility regime, after a long and traumatic downslide, marked a turning point in the Argentine economy and substantially altered the way it operated. The disruption in the system of contracts caused by the devaluation of the peso sharpened the financial crisis and helped to prolong the steep downtrend in activity that had accelerated in mid-2001. Economic activity bottomed out in the first quarter of 2002, however, and from the second quarter on production showed signs of a slight upturn, driven by sectors linked to exports and import substitution.

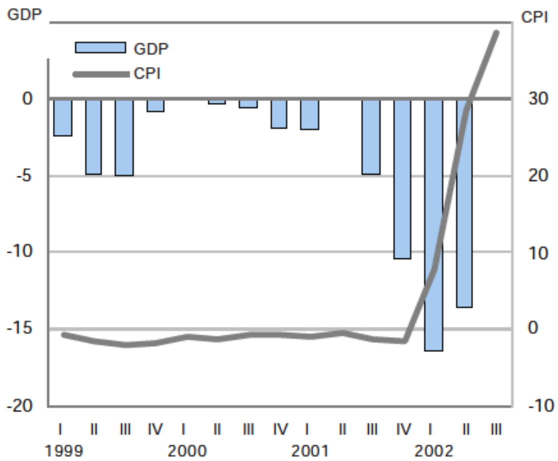
GDP shrank by 11% in 2002, which translated into a cumulative decline of 20% in a period of four years and represented a level of activity below the figure posted in 1993. At the same time, in May the urban unemployment rate rose to 21.5%, which exceeded all existing records. The currency depreciated sharply in the first half of 2002, then stabilized later in the year. This heavy devaluation generated a steep rise in prices, but did not ignite an inflationary spiral. Nominal wages varied only slightly. The downturn in employment and in real wages worsened the country's levels of poverty and indigence.

Aggregate spending slumped heavily. In particular, investment plunged by 35%. The decline in imports contributed to a trade surplus of US$ 15.6 billion, which was equivalent to over 50% of exports. The current account yielded a surplus of 8.6 GDP points. The public sector did not service its bond debt, and there were widespread instances of arrears or renegotiations of private external debts. Nevertheless, international reserves declined, which was a reflection of heavy capital outflows in the private sector, especially in the early part of the year, and of the pressure of net capital and interest payments to multilateral agencies, which represented close to 4% of GDP. Laborious negotiations went on throughout the year with IMF, but no agreement was reached. Consequently, in November the government deferred a capital amortization payment to the World Bank, in order to preserve international reserves. Such a default on obligations to a multilateral agency was unprecedented.

The government's primary spending posted no significant nominal variation and declined as a percentage of GDP. The tax burden also shrank, although to a lesser extent. The lower tax receipts generated sharp fiscal tensions at the beginning of the year, when the government had already announced the suspension of debt payments. In the first quarter, the national non-financial public sector recorded a primary deficit of 1.7% of quarterly GDP. Later, as the effects of price rises and export taxes began to kick in, the government's nominal revenues rebounded, thus easing the payment difficulties of the public sector. One of the outcomes of the critical state of public finances early in the year was that the national administration and several local governments

ARGENTINA: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

issued small-denomination bonds to meet their current obligations. These quasi currencies circulated –with varying degrees of acceptance– as "emergency monies".

The crisis in Argentina was marked by severe disarray in the financial markets. Towards the end of 2001, in response to the draining of deposits and the run on the currency, the authorities restricted cash withdrawals from the banks and transfers of funds abroad. Restrictions on the withdrawal of funds constrained transactions and further fuelled the existing social and political tensions. President De la Rua resigned in December. Congress appointed a successor who remained in the post for only a week, during which the government announced the suspension of public debt servicing payments. In early 2002, a new government formally terminated the convertibility regime and announced the establishment of a dual currency system. This was replaced a few weeks later by a unified floating exchange rate subject to intervention by the central bank. In addition, restrictions continued to apply to the use of the foreign-currency proceeds of export activity and to the purchase of dollars. However, the exchange rate in the informal market did not differ appreciably from the rate used for authorized transactions.

As was to be expected, the effects of devaluation on net worth were extremely costly, since they called the whole contract system into question. Currency depreciation cast a spotlight on the treatment of payments denominated in foreign currency. Creditors (particularly the holders of dollar-denominated bank deposits) insisted upon their right to recoup dollars at the rate agreed. Debtors, on the other hand, resisted making repayments in a currency whose price had risen dramatically. The authorities imposed a system of "asymmetric pesification" of assets and liabilities within the financial system. The bulk of all loans were converted at a rate of one peso to the dollar, and deposits at a rate of 1.4 pesos to the dollar, while banks were to receive government bonds to cover the difference.

These measures, which generated large distributional effects, were highly controversial. In response to widespread protests on the part of borrowers, the authorities postponed the application of a mechanism indexing debt to domestic prices, which had been established together with the conversion into local currency. Savers reacted with public demonstrations and a plethora of legal submissions. The authorities also reprogrammed fixed-term deposits, and maintained restrictions on cash withdrawals. These measures were not sufficient to ease the pressure on bank liquidity, due to outflows of deposits authorized under the existing legislation and, in particular, to the impact of numerous court orders ("amparos") giving individual savers the right to withdraw their funds. As a result, in the early months of the year bank activity was irregular and rediscounts, which were extended in large volumes, became a source of considerable monetary expansion. Between January and March the central bank's peso-denominated liabilities grew by 70%.

The money creation entailed in the return of deposits helped to step up pressure on the currency markets, while the virtual breakdown of credit mechanisms visibly affected the circulation of funds and the conduct of transactions. In the first quarter, GDP contracted sharply (about 6% in seasonally adjusted terms, with respect to the preceding quarter). In the same period the nominal exchange rate rose by around 200%, in a climate of extreme apprehension and despite interventions on the part of the central bank, whose reserves declined by some US$ 2 billion. In marked contract to past experiences, however, prices responded in a fairly subdued manner. The peso retained its function as a price denominator and a means of exchange for day-to-day transactions. Tradable goods (and goods with a large proportion of tradable inputs) rose considerably in price, but other articles did not follow suit and no wage adjustments were made. The government announced the pesification of utility rates that had been contractually fixed in dollars, and refused to authorize rate hikes. In the first quarter the wholesale price index rose by almost 35%, but consumer price inflation remained below 10%. In the months that followed, assistance to banks continued to drive domestic credit creation, which was partly offset by issues of central bank bills. Initially, these bills were auctioned in small amounts, with very short maturities

ARGENTINA: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	-0.8	-4.4	-11.0
Consumer prices	-0.7	-1.5	40.6 [b]
Real wages [c]	1.5	-1.2	-15.4 [d]
Money (M1)	-2.7	-23.8	106.9 [b]
Real effective exchange rate [e]	1.6	-3.9	136.4 [f]
Terms of trade	10.5	-0.6	1.5
Average annual percentages			
Urban unemploymen rate	15.1	16.4	21.5 [g]
Central government fiscal balance/GDP	-2.2	-3.9	-2.5
Real deposit rate	10.0	15.3	-6.1 [h]
Real lending rate	12.7	28.2	...
Millions of dollars			
Exports of goods and services	31,092	30,846	29,322
Imports of goods and services	32,822	27,360	13,742
Current account	-8,864	-4,429	9,282
Capital and financial account	7,647	-17,030	-17,282
Overall balance	-1,218	-21,459	-8,000

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Refers to manufacturing.
[d] Estimate based on average January-September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average January-October.
[g] Estimate.
[h] Average January-September, annualized.

(14 days) and at high rates of interest. Pressures in the exchange market persisted, however, and at the end of June the dollar exchange rate came close to four pesos, while reserves continued to decline in the second quarter. The instability of the currency market helped to speed the transmission to prices, with a rise of 10% in the CPI in April and a cumulative increase of 30% in the first semester.

Despite the gravity of the financial crisis, payment mechanisms gradually shifted back towards normality. Also, the changes in relative prices enabled a number of firms to recover their margins, which allowed them to generate cash flows to substitute for the almost non-existent supply of credit. In the second quarter, GDP posted a slight upturn (seasonally adjusted) although it was still 13.5% down on the year-earlier figure. Price increases and the maintenance of real activity boosted VAT receipts, which in May and June exceeded the nominal levels recorded in the same months of 2001. In addition, revenues from export duties were also significant; in June taxes on external trade represented over 15% of the federal tax agency's receipts.

The treatment of reprogrammed bank deposits continued to be hotly debated in the courts and in the arena of economic policy. The authorities announced a voluntary swap operation, which would allow savers to swap their deposits for public bonds denominated in dollars. The take-up of this option encompassed about a quarter of all deposits.

Towards mid-year, the withdrawal of deposits through court-ordered releases slowed, which meant that assistance to the financial system could be greatly scaled down. This helped to reduce the issue of base money through domestic lending operations. Regulations on the sale of export-generated foreign currency were tightened, however. Outflows of private capital eased and the large trade surplus made itself felt on the exchange market. Between July and November, the price of the dollar held steady (the peso even appreciated somewhat) while market interventions resulted in net purchases of US$ 2 billion. The calm in the currency market was clearly reflected in price trends. The variation of the CPI became steadily more moderate, and in October a rate of just 0.2% was posted. As well, there was an incipient return of flows towards to the banks and interest rates came down: around mid-November peso-denominated bills issued by the central bank with maturities of 90 days were yielding an annual rate of under 20%. The level of activity did not make a decisive recovery, but it did post a slight upturn in the third quarter and looked set to maintain this trend into the following months. A number of surveys reported a slight improvement in the demand for labour.

Although there were signs of an upswing in export activity during the year, the value of exports shrank by 5% in 2002 overall. A number of factors were to blame for this result. Unit values were down (possibly partly because of declarations engineered to sidestep tax payments and requirements to sell foreign currency). The acute shortage of credit and higher input prices affected the supply of goods, including exportables. At the same time, some of these goods acted as reserves of value: for example, amid mistrust of financial instruments, part of the grain harvest is believed to have been stored and its export delayed. Another factor was the downturn in sales to Brazil. Even so, the trade surplus was extraordinarily high, at about 15% of GDP, because of a heavy slump of about 60% in goods imports. Capital movements reflected the serious disruption of the economy, mainly in the first semester. The public sector ran up arrears of some US$ 4.3 billion. Direct investment was down, and the other operations of the non-financial private sector together generated a net outflow of about US$ 13 billion.

At the end of 2002, the state of the economy remained fragile, although there were signs of a return to normality. The asset effects of the exit from convertibility had yet to be resolved; in particular, litigation continued over the forced conversion of deposits into pesos. Rate setting for privatized public utilities remained a pressing issue. Public debt restructuring was still to be addressed and private external debt renegotiations were still ongoing. The government and IMF were yet to arrive at an agreement on the refinancing of obligations to multilateral agencies. The authorities therefore decided to cease the drawdown of reserves to service loans from those agencies, which led to a default on a capital payment on a World Bank loan. On the other hand, restrictions were lifted on all current and savings accounts, without this leading to a loss of bank deposits or increased tensions in the currency market. On the contrary, the central bank built up reserves in the last few months.

In summary, to put the economy's performance in 2002 into perspective, it may be observed that exports have stagnated since the late 1990s, as the dollar appreciated and the real exchange rate rose in Brazil, while external credit was shrinking. These factors translated into a currency misalignment and a loss of competitiveness. They also exerted downward pressure on aggregate spending, which was forced down in dollar terms. A disturbance of this nature could not be absorbed by the rigidity of the currency regime and a system in which financial contracts were widely dollarized. In addition, weaknesses began to show clearly in the tax structure, exacerbated by a prolonged recession. As agents began to perceive that no there was no clearly defined exit scenario but that, on the contrary, the financial system and the currency regime were becoming ever more fragile, their decisions regarding demand for goods and asset holdings tended to steepen the slide in activity and accentuate the drain on deposits and reserves, while fiscal problems deepened due to a large downturn in revenues. This led to the collapse of the currency regime and rendered the public sector insolvent. Convertibility carried high exit costs, given the extent of dollarization of public and private debts. These costs were manifested in a breakdown of the financial contract system, generating grave conflicts –many of which remain unresolved– over the apportionment of major areas of ownership rights. The credit supply was therefore interrupted and, with a massive outflow of capital when spending was already depressed, the level of activity continued to slip backwards in the months immediately after devaluation. The peso retained its function as a transaction currency, however, and the impact on prices was relatively moderate. After a troubled first quarter, activity showed some signs of a return to normalcy and the volume of production ceased to decline. Although the crisis may have bottomed out, however, the story is far from over: highly complex questions remain to be answered, especially in relation to the asset effects of the crisis (in respect of the domestic financial system, public debt and private external debt) and to the form the fiscal regime will take henceforth.

The Argentine crisis also revealed serious analytical failings on the part of the international community which underestimated the risks run by the Argentine economy and failed to help define measures to cope with the emergency, beyond general calls for sustainable policies. The effects of contagion on other economies were also underestimated. At a broader level, it became clear that the global financial institutions were unprepared to deal with financial crises in large emerging economies.

Bolivia

For the fourth consecutive year, the Bolivian economy recorded low growth with GDP expanding by barely 2% in 2002. This result was based mainly on natural gas production. Domestic demand remained depressed, given the uncertain external environment both internationally and regionally, coupled with a domestic situation marked by the elections and the change in Government at the beginning of the second half-year. These two factors triggered an outflow of capital, which, together with a negative export performance, led to a deterioration in the current-account and balance-of-payments deficits and a sharper depreciation of the Bolivian currency. There was an upsurge in inflation with the inter-annual rate rising to 2.3% in November.

Natural gas production was once again the driving force of the economy, recording almost 30% growth in the first three quarters. Although this sector is export-oriented, its increased product was not sufficient to boost overall external sales. On the other hand, inventories expanded considerably and so did gross investment, albeit to a lesser extent; however, these increases had little impact on GDP since they carry limited weight in this indicator.

Weak demand kept inflation low, although the monthly rate moved up from the negative value recorded in March. This trend meant that rises in nominal wages translated into parallel increases in purchasing power. In the first half-year, when inflation was lower, real private-sector wages had gone up by 3.5% in comparison with the same period of 2001. At the beginning of the year, the Government raised the national minimum wage to 430 bolivianos, up from 400 bolivianos in 2001.

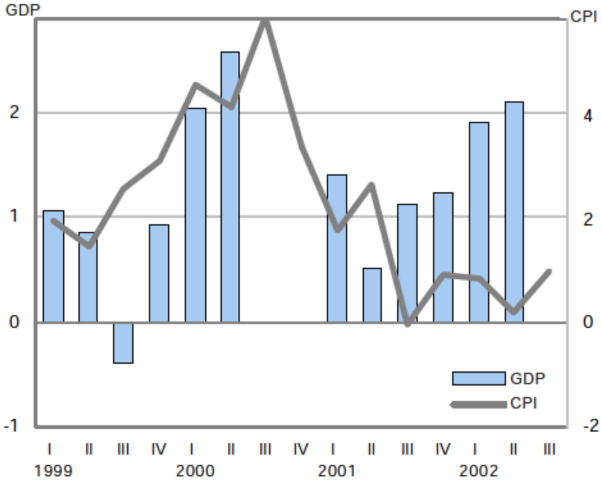
The increase in investment was led by the public sector, which sought to compensate for the sluggishness of private investment in the face of the prevailing uncertainty at home and abroad. Scheduled public investment was almost 10% higher than in 2001, reflecting the bias of a fiscal policy whose margin for manoeuvre was determined by external contributions in a context of weak, flat tax collection.

In this context, public spending increased, while total income also grew as a result of grants from abroad. The fiscal deficit, already close to 6% of GDP in the first three quarters, remained at a similar level to that of the previous year. Growth in expenditure was due mainly to higher investment spending geared especially to job creation. The cost of the transition from a social security system to a private system continued to be a burden on the public purse. By the middle of the year, the number of workers affiliated to pension fund management companies (AFP) had grown by 7% compared with the figure one year earlier. The social security deficit was in itself equivalent to the total fiscal deficit.

Given the concessionary nature of external financing, most of which was provided under the highly indebted poor countries (HIPC) initiative, domestic borrowing in 2002 accounted for far more than a quarter of total public debt.

In the absence of inflationary pressures, authorities had more leeway in setting monetary policy and foreign exchange policy. The latter was directed towards avoiding excessive variations in the real external value of the boliviano in relation to the currencies of the

BOLIVIA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

BOLIVIA: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	2.3	1.3	2.0
Consumer prices	3.4	0.9	2.3 [b]
Real wages [c]	0.9	4.0	2.1 [d]
Money (M1)	6.4	13.7	10.7 [e]
Real effective exchange rate [f]	1.2	0.9	-0.8 [g]
Terms of trade	2.0	-1.3	-3.1
Average annual percentages			
Urban unemployment rate	7.5	8.5	...
Central government fiscal balance/GDP	-4.4	-7.2	-7.5
Real deposit rate	7.7	9.1	6.8 [h]
Real lending rate	30.5	19.2	17.9 [h]
Millions of dollars			
Exports of goods and services	1,470	1,521	1,463
Imports of goods and services	2,078	1,996	2,051
Current account	-447	-292	-415
Capital and financial account	408	255	296
Overall balance	-39	-37	-118

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] Private sector in La Paz.
[d] First half-year.
[e] Percentage change September 2001-September 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average for January to October.
[h] Average for January to September, annualized.

country's main trading partners. Thus, at the beginning of the year, monetary authorities announced a more active foreign exchange policy, which resulted in an acceleration in the nominal depreciation to accompany the sharp devaluations in the Argentine and Brazilian currencies, which fuelled a higher demand for foreign currency in Bolivia. In mid-December, the nominal depreciation accumulated over the year with respect to the dollar exceeded 9%, compared with 6.6% over the preceding year, but, in real terms, the boliviano appreciated against the other currencies.

Capital outflows, prompted by the uncertainty prevailing both internationally and domestically, combined with a run on deposits to put pressure on domestic liquidity. The Central Bank of Bolivia responded by providing liquidity through open market operations. Disbursements from the Central Bank's net reserves amounted to approximately US$ 190 million in the first eleven months as a result of which, by November, the level of reserves had fallen to US$ 890 million. The Central Bank's policy served to counter-balance the contractionary effect of this reduction on the monetary base, which in November showed an inter-annual growth of 20%, in contrast with a 7% reduction in liquidity. The pressure on the latter interrupted the decline in interest rates observed in 2001. In October, nominal deposit and lending rates reached monthly averages of 10.6% and 25% respectively, compared with 8% and 19% at the beginning of the year, although they returned to these levels in November.

The balance-of-payments deficit widened as a result of the lower export earnings and private capital outflows. The value of exports declined slightly owing especially to the results in the mining sector, including the natural gas industry which saw an almost 10% contraction in sales in the first three quarters. This was due to a fall in prices, since the volumes exported were almost 8% higher. Since these sales account for such a high proportion of exports, their decline could not be offset by the buoyant performance of agricultural exports. Imports, on the other hand, expanded at a rate somewhat higher than domestic economic activity owing to the high level of purchases of intermediary goods, since imports of consumer and capital goods declined significantly. This increase is attributable largely to the expansion of imports from the MERCOSUR countries.

Consequently, the trade balance deteriorated; the same occurred with the current-account balance, which also reflected a decline in transfers. In the first three quarters, the current deficit was equivalent to 5% of GDP. Private capital outflows offset the bulk of the increase in inflows in the form of net public-sector borrowing and, above all, foreign direct investment, which remained high. The overall balance-of-payments deficit in the first nine months was close to US$ 200 million, double that recorded in the same period of the preceding year.

Brazil

In 2002 the Brazilian economy posted a moderate rate of growth (1.5%) for the second year running, although there were some signs of an upswing during the year. This performance was attributable to adverse conditions in the world and regional economies, a downturn in terms of trade, a serious shortage of external credit and the collapse of trade with Argentina. All this forced the government to maintain a cautious stance on monetary policy, amid steep rises in the exchange rate. Currency speculation intensified in the run-up to the elections, while spreads on Brazil's sovereign bonds rose to over 2,000 basis points, which was more than double the figure recorded in December 2001. This situation obliged the government to negotiate a new agreement with IMF, which will secure an additional US$ 24 billion in funding. This amount should easily cover the current-account deficit projected for 2003, but in itself is not enough to meet amortization payments.

In 2002 the rate of inflation was over 11%, which exceeded the target ceiling of 5.5%, while wholesale prices rose by a steep 31.29%. Currency devaluation hurt the fiscal balance, especially public debt, which expanded by more than 10 percentage points to 64% of GDP. The current-account deficit declined to 1.8% of GDP, by comparison with a figure of 4.5% in 2001. There was also a downturn in foreign direct investment and in sales of Brazilian debt portfolios, while international banks scaled down their credit exposure, which translated into a 60% decrease in capital inflows during the year.

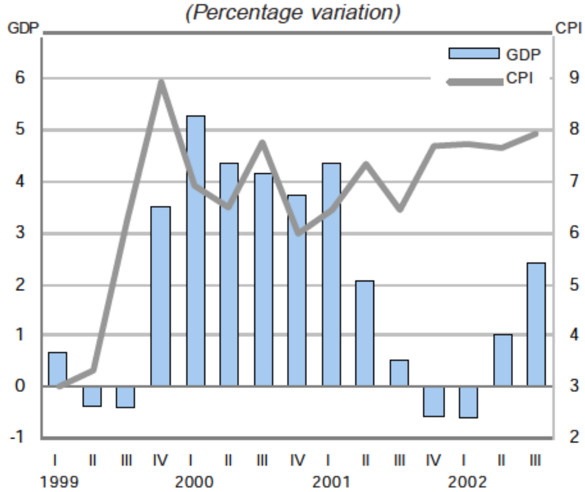
Thanks to more favourable trends in the exchange rate, in the latter months of 2002 balance-of-payments current transactions yielded excellent results, which narrowed the current-account deficit from US$ 23.217 billion in 2001 to US$ 8.601 billion in 2002. The goods surplus multiplied fivefold, from US$ 2.642 billion in 2001 to US$ 12.5 billion in 2002. The services deficit narrowed by 34.55% and the deficit on the income account by 7%. By contrast, the capital account posted negative results. Net direct investment was down by 46%, while portfolio investments moved from a net inflow of US$ 3.4 billion to a net outflow of US$ 2.8 billion.

Exports performed well from mid-year onwards. In the second semester the value of exports increased by 24% with respect to the same period of 2001, which was more than enough to compensate for the downturn of 13% posted in the first semester. The expansion for the year overall was 3.6%, despite a decline in export prices, a large decrease in sales to Argentina (almost two thirds), which hurt manufactures, and the protectionist measures imposed on Brazilian goods by the United States. The trade surplus was not –as it had been until recently– solely the fruit of limited demand for imports, but also the result of a good export performance. The largest increase in export volumes was recorded in commodities and semi-manufactures (11%). This was partly offset, however, by a downturn of over 5% in prices (which have slipped by 22% in five years). The volume of manufactured exports decreased, chiefly because of the crisis in Argentina, but began to post an upturn in July, thanks to sales in new markets such as the United States, Canada, Mexico, China, India and Russia.

Import volumes were down again, this time by 13%, amid controversy over whether Brazil was running an

BRAZIL: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

import substitution scheme. Industry accounted for 95% of the downturn, since the sector's external trade deficit narrowed from US$ 7 billion in 2001 to US$ 700 million in 2002. Three quarters of this adjustment, however, was attributable to four areas alone: metallurgy, mechanics, chemicals and electrical and telecommunications materials. It was argued that a substitution process would require increasing rates of investment, which have not been in evidence in recent years. On the other hand, since 2002 a gap has opened up between physical production and the import of inputs, which appears to indicate that any such process could not be considered to be temporary.

In September 2002 international reserves stood at US$ 38.4 billion, which was equivalent to 10 months of imports, compared with US$ 35.9 billion in December 2001. In July estimated total external debt was US$ 216 billion, of which US$ 187 billion corresponded to medium- and long-term holdings and US$ 29 billion to short term liabilities.

In 2002 Brazil met the IMF-agreed fiscal targets for the four year running, with a primary fiscal surplus of around 4% of GDP. This was not enough to offset the impact of the heavy devaluation on the stock of public debt, however, which was equivalent to 5.4% of GDP. Meanwhile, the states and municipalities yielded a primary surplus of 0.8% of GDP, which was a tribute to the effectiveness of the refinancing agreements signed three years ago and the Fiscal Responsibility Act that came into force in 2000. The central government's larger primary surplus reflected the expansion of extraordinary revenues and new sources of funding. Federal tax receipts, not including social security, expanded by more than 10% in real terms in 2002. New mechanisms of arrears collection and tax on income from pension funds, together with a new levy on fuels, account for most of the real increase. In contrast, the economic slowdown and financial uncertainty translated into lower receipts from taxes on imports, automobiles and capital gains and interest. Higher growth in revenues provided scope for a looser stance on federal government spending than had originally been envisaged. Primary expenditures (excluding interest) expanded by 17% in nominal terms, which was less than the nominal growth in revenues (25%). On the other hand, the social security deficit continued to widen, to reach 1.2% of GDP.

The administration's management of monetary policy was affected in 2002 by the downturn in external borrowing conditions, inflationary pressures generated by currency devaluation and uncertainty over the path economic policy, particularly fiscal policy, would take in view of the approaching change in government. The central bank sought to draw a distinction between speculative movements and structural situations, in order to avert unnecessary damage to the level of activity. Meanwhile, although it maintained the system of inflation targets, the central bank refrained from using it too intensively. The annual base rate of interest was therefore cut from 19% in December 2001 to 18.5% in March and 18% in July. Only when inflation surged in August and September did the central bank raise interest rates, to 21% in October and 22% in November. As well, in 2002 the method of valuation of investment fund portfolio assets was changed, requiring them to be marked to market, and alterations were made to the system of payments among financial institutions, which lowered the central bank's systemic risk in day-to-day market operations. These factors helped to accentuate a preference for liquid assets, which expanded the means of payment.

As the conditions for refinancing public debt became tougher, the treasury and the central bank opted to redeem liabilities rather than renew them. Consequently, the monetary base expanded rapidly (by 41% over the 12 months to October). To control the expansion of liquidity –which also affected demand for dollars– the central bank raised the banking reserve requirement. Difficulties also arose with securities indexed to the exchange rate, because the market demanded a much higher rate of interest to renew such instruments, amid fears that they could be subject to some type of restriction in the future. Only from November on was it possible to fully roll over maturing debt of this category.

BRAZIL: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	4.0	1.5	1.5
Consumer prices	6.0	7.7	10.9 [b]
Real wages [c]	-1.0	-5.0	-2.3 [d]
Money (M1)	18.5	11.2	31.9 [e]
Real effective exchange rate [f]	-6.8	20.0	5.9 [g]
Terms of trade	-3.0	-0.2	-4.1
Average annual percentages			
Urban unemployment rate	7.1	6.2	7.3 [h]
Central government fiscal balance/GDP	-3.2	-3.9	-6.0
Real deposit rate	10.7	9.5	8.8 [i]
Real lending rate	48.1	46.4	48.1 [i]
Millions of dollars			
Exports of goods and services	64,469	67,545	69,567
Imports of goods and services	72,774	72,652	62,138
Current account	-24,669	-23,217	-8,601
Capital and financial account	32,731	19,766	-76
Overall balance	8,061	-3,450	-8,677

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Workers covered by existing social and labour legislation.
[d] Estimate based on average January-September.
[e] Variation between October 2001 and October 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average January-October.
[h] Estimate based on average January-October.
[i] Average January-September annualized.

The sharp devaluation recorded in 2002 was attributable to market factors and external pressures. The fact that 2002 was an election year, coupled with the relative concentration of domestic and external public debt commitments and with the shortage of liquidity in international markets, exerted pressure on the currency market. The nominal exchange rate rose by more than 50% in 2002, with real gains in relation to the currencies of the country's main trading partners. The real depreciated by 36% with respect to the euro, but appreciated by 14% in relation to the Latin American currencies due, in particular, to the devaluation of the Argentine peso.

As well as its effects on the public accounts, currency depreciation had an adverse impact on private-sector borrowing. A number of firms –in the segments of air transport, communications and basic inputs– approached their creditors with requests for restructuring of loans. In some cases, BNDES, the official development bank, provided assistance in the form of local-currency credit lines to enable the restructuring of foreign currency-denominated liabilities.

The level of activity was modest again, although it trended upwards throughout 2002 following the downslide recorded from the second quarter of 2001. In the first quarter of 2002 activity was down by 0.6% by comparison with the year-earlier period, but by the third quarter it was up by 2.4%, driven by a strong export performance. Gross fixed capital formation declined by 4.8% in 2002, in response to a downswing in public works, a contraction in the demand for housing, idle capacity in manufacturing, high rates of interest and uncertainty over the future of the economy. Private consumption stood still. The large increase in the volume of exports, however, served to offset these adverse trends.

Economic performance varied from one sector to another. Mineral extraction was up by 12%, thanks to excellent conditions in petroleum production, while the agricultural sector expanded by 4.5% and services posted a moderate growth rate of 1.6%. By contrast, manufacturing and construction contracted heavily, although the trend was less negative at the end of 2002.

The rate of unemployment reached 7.3% of the economically active population, which was higher than the rate of 6.2% posted in 2001. The economy's sluggish performance and the rise in inflation translated into a real decline of 1.6% in the wage bill. This was despite an increase of 1.6% in the rate of employment, which reflected an expansion in labour-intensive activities, such as agriculture. The number of formal contracts rose at a faster rate than might be expected from their proportion of overall employment, which represented the continuation of a positive trend that began in 2000. Labour productivity expanded again in 2002, widening the gap with respect to the trend in real wages, which have declined steadily in the last four years.

Despite the trying circumstances described, the Brazilian economy enjoys enough manoeuvring room to ensure fiscal and external solvency, which should help the country recover a positive growth path in the next few years. Its external competitiveness has improved, given the high level of the real exchange rate and the large gap between labour productivity and real wages. Having already made the major adjustments that were needed, Brazil is on a sound footing to deal with external and public debt issues, although it faces a number of large maturities in 2003. The public accounts have yielded a significant primary surplus, which is enough to service interest payments, providing these maintain a reasonable real rate. Large trade surpluses such as those Brazil has recorded in recent years help to meet external commitments, but sovereign spreads of the magnitude seen in the second semester of 2002 during the run-up to the elections convey an extremely high implicit rate of interest that makes Brazilian public and external debt unsustainable, stymies domestic adjustment efforts and tightens constraints on the management of domestic economic policy.

Chile

In 2002 the Chilean economy continued to post a moderate rate of growth. GDP expanded by 1.8%, compared with 2.8% in 2001. Inflation exhibited seasonal fluctuations and proved sensitive to exchange-rate variations and to the international prices of petroleum and petroleum derivatives. Overall, the inflation rate was around 3%, in keeping with the monetary authority's target. The world economic slowdown, the regional crisis and the increase in global risk premiums not only translated into a sharp downturn in external trade, but also a steady worsening in the terms of trade –which were down 9% in the biennium 2001-2002– and a contraction in capital inflows which, together, amounted to over 5 percentage points of GDP. The external environment was one of the harshest experienced since the crisis of 1982-1983 and Chile did not escape the effects of external turbulence and of the drastic reduction in capital flows to emerging economies.

As a result of the crisis in Argentina and the slowdown in Brazil, exports to those countries decreased by 60.7% and 23.2%, respectively, which represented a decline of over US$ 500 million in the period from January to October 2002 with respect to the same period of 2001. Contagion spread mainly through trade losses, which were only partially offset by the redirection of exports to other markets. Financial contagion was less significant, judging from the volume of financial and investment flows. In 2002 net external transfers were negative again, at -2% of GDP. The nominal exchange rate reacted strongly, however, rising by more than 10% between January and October, when it peaked. The central bank announced that it was prepared to use up to US$ 4 billion over a period of four months for foreign exchange operations (until November, some US$ 600 million had been sold on the currency market). These measures, together with the calm post-electoral atmosphere in Brazil, counteracted expectations of a sharply rising exchange rate, and nominal currency depreciation was no more than 5% over the year.

With inflation under control, monetary policy was geared towards at boosting domestic demand. The Central Bank Board cut the Monetary Policy Rate, or MPR (sometimes referred to by its Spanish acronym, TPM), six times, by a total of 350 basis points between January and August 2002, to reach a historically low nominal annual rate of 3%. Nevertheless, the transmission of TPM cuts to market interest rates was slow and concentrated in large and long-term loans.

Fiscal policy, meanwhile, continued to be governed by a rule requiring the maintenance of a structural surplus of 1% of GDP. The central government's structural balance represents a recalculation of fiscal revenues taking into account potential GDP growth and the long-term price of copper. As macroeconomic conditions worsened, fiscal revenues were lower than had been provided in the budget law, but this did not entail adjustments to public spending plans. The cyclical component of the public-sector balance was therefore negative by almost two GDP percentage points, which meant that the government had to deploy a considerable countercyclical effort. Public finances played an important stabilizing role by softening the impact of the harsh external conditions on domestic spending. A new feature in the preparation of the 2003 budget was the use of non-government experts to estimate potential output and the price of copper for the coming year, showing that the authorities are taking an increasingly non-discretionary approach to complying with the fiscal rule.

The projected accounting deficit of 0.9% of GDP for 2002 was financed with an issue of sovereign bonds on the international market, in April, in the amount of US$ 900 million. The remainder of that operation was used to prepay older and more expensive external loans and to refinance the Copper Stabilization Fund. In 2003 a deficit of 0.7% of GDP is projected. This should be covered easily, given the central government's low level of indebtedness, which is equivalent to 17 GDP points in gross terms.

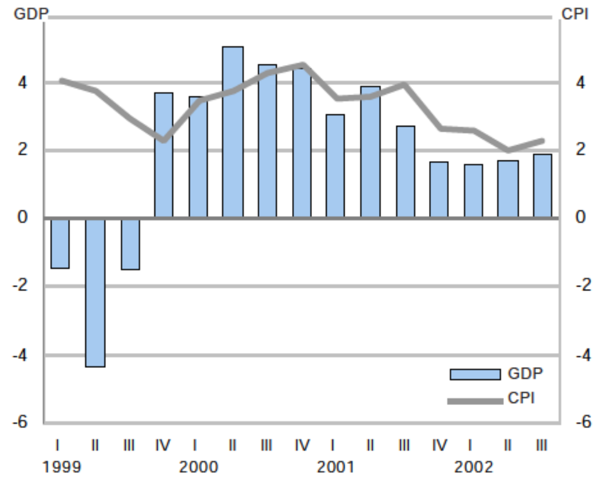
In the first semester of 2002 the price effect brought down the value of exports. Negative variations of 16.4% and 8.9% were recorded in the first and second quarters, respectively, by comparison with the same quarters of 2001. In the third quarter the price effect was positive, however, with a rise of 2.7% in relation to the third quarter of 2001. By volume, manufactured goods were up 13.9%, mining by 3.7% and agricultural, forestry and fisheries exports by 14%. The value of imports decreased by 7.8% (comparing the periods January-September of 2001 and 2002), with declines of 3.3% in consumer goods, 9.2% in intermediate goods and 8% in capital goods. To September, foreign direct investment inflows were US$ 1,574 billion, which was far less than the figure of US$ 3.9 billion recorded to the same month of 2001. International reserves were US$ 14.9 billion at October 2002.

At the end of the year, the heavy decline in imports and the negative trend in supermarket sales were evidence that domestic demand remained slack, with consumption sluggish and rates of unemployment relatively high. There were some signs of an upturn, however, such as an increase in sales of houses and apartments and in consumer credit, while the large firms have taken advantage of the lower rates of interest to conduct massive debt restructuring operations. In the last three months the register of private investment projects for the coming five years expanded by 11.2%, as a number of initiatives that were at the planning stage came on stream, mainly in the mining sector. In addition, total bank credit increased by 3.6% in nine months and consumer credit was up by 6.3% between January and September. The non-performing loans portfolio stood at 1.8% of total assets, a low figure according to international standards.

In spite of expectations of an upswing in 2003, unemployment continues to be the main unresolved item, although for the first time in three years it stayed below 10% in the winter months. The labour situation was mitigated in part by direct public employment programmes and subsidies to private employment (reintegration and training allowances). These programmes financed 160,000 jobs during the three-month winter period.

CHILE: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

A number of structural reforms were carried out in different areas in 2002. One of the most significant facts or from the point of view of Chile's position in the international economy was the signing of a free trade agreement with the United States, which will come into effect at the end of 2003 subject to ratification by congress in the two countries. This agreement will improve trade with the United States by regulating matters relating to dispute settlement, access to goods and services markets –including financial markets– labour and the environment. A controversial aspect of the agreement was the elimination of Chile's reserve requirement on short-term capital inflows, which is currently applicable under Chilean law (though now at a rate of zero). The agreement will ultimately eliminate restrictions on the free movement of capital between the United States and Chile, but provides tools that allow Chile to implement temporary capital controls in extreme circumstances that may have serious effects on economic conditions. These barriers would not enter into conflict with the other clauses in the agreement.

Trade agreements were also reached with the European Union and South Korea. The European Union is Chile's largest trading partner, its main source of

CHILE: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	4.4	2.8	1.8
Consumer prices	4.5	2.6	3.0 [b]
Real wages [c]	1.4	1.6	2.3 [d]
Money (M1)	9.3	6.6	16.4 [e]
Real efective exchange rate [f]	1.6	12.1	1.3 [g]
Terms of trade	0.0	-6.9	-2.1
Average annual percentages			
Unemployment rate	9.2	9.1	9.0 [d]
Central government fiscal balance/GDP	0.1	-0.3	-0.9
Real deposit rate	4.3	3.9	-0.5 [h]
Real lending rate	9.7	9.5	3.4 [h]
Millions of dollars			
Exports of good and services	22,971	22,315	21,870
Imports of good and services	21,702	21,221	20,271
Current account	-1,073	-1,241	-526
Capital and financial account	1,410	645	1,326
Overall balance	337	-596	800

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] General index of hourly wages.
[d] Estimate based on average January-October.
[e] Variation between October 2001 and October 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average January-October.
[h] Average January-September, annualized.

foreign investment and largest provider of international cooperation. The accord was signed on 18 November and is to come into effect in 2003. The most important trade implication of the accord is that 85% of Chilean exports to the European Union will enter tariff-free once the agreement comes into force, while remaining products will be subject to tariff-reduction programmes of up to 10 years. According to official estimates, agricultural exports could double within five years, with significant increases in exports of red and white meats.

The free trade agreement with the Republic of Korea, the first of its kind between an Asian and a Western economy, is also the first for Korea and a pioneering venture in cross-Pacific trade agreements. The Republic of Korea is an important trading partner for Chile, as it ranks between fourth and sixth as an export destination, competing with Brazil and Mexico. Tariff reductions will be applicable to goods from the fisheries, mining, forestry, agricultural, industrial and agribusiness sectors.

On the domestic front, a wide range of legal and institutional modifications are covered by what is known as the “Agenda for growth”, a private sector initiative that was quickly embraced by the public authorities. The initiatives are: regulatory measures to improve competitiveness, policies on technology and on expanding the use of new information technologies, measures to simplify public-sector procedures, changes to the tax structure to boost investment, deepening of the capital market, measures to increase the efficiency of public expenditures, labour projects and export development. Before it can come into effect, this agenda will require the enactment of a substantial package of legislation, part of which is currently in Congress.

The government obtained legislative approval for tax measures aimed at stimulating growth and creating conditions that will facilitate the use of Chile as a platform for regional investment. The extension of the accelerated depreciation mechanism will enable investors to recoup investment costs more quickly. The new law also exempts the refinancing of mortgage loans of over one year that were granted for the purposes of acquiring, building or extending a dwelling from the stamp duty on credit operations. A special tax regime was also created to exempt income generated in third countries from taxation on passing through Chile to the country where the investment originated.

Overall, growth is expected to pick up considerably in 2003 in the context of a broadly balanced economic performance.

Colombia

The slowdown that was evident in the Colombian economy in 2001 carried over into the first quarter of 2002. From the second quarter on, indicators corresponding to the real sector pointed to a moderate upturn. As a whole, output expanded by 1.6%, as against 1.4% in 2001. Unemployment remained high and underemployment continued to rise. The government pursued an expansionary monetary policy, in order to bring down interest rates and thus aid economic reactivation and stimulate an upturn in the financial system. No resumption of credit to the private sector ensued, however. The current-account deficit widened to 2.3% of GDP and, although the exchange rate returned to competitive levels, non-traditional exports declined due to sluggish growth in the economies of the country's main trading partners. A downturn in the fiscal balance translated into a consolidated public-sector deficit of 4% of GDP, which was attributable chiefly to lower public revenues.

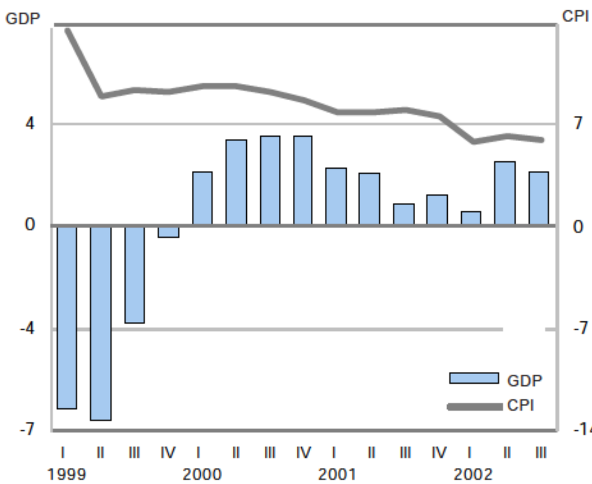
In August Alvaro Uribe took office as President after a sweeping election victory, which was interpreted as a mandate to bring the internal conflict –perceived as the country's main problem– to a rapid solution. A few days into his term, the new President declared a "state of internal disturbance", which gave the government the power to enforce temporary public order measures. The measures taken in this framework included, in particular, the enactment of a tax of 1.2% on net worth to finance higher spending on national security. In addition, the new government submitted to Congress a proposal on tax reforms to raise the revenues needed to put fiscal affairs on a sounder footing, together with programmes covering labour reform and the pension scheme. A referendum was also proposed, encompassing fiscal austerity measures.

Considerable liquidity in the market and the satisfactory performance of inflation enabled the central bank to continue to implement an expansionary monetary policy, which translated into a decrease in interest rates, particularly in the first semester. Money-market intervention rates declined by 3.25 percentage points and most were even lower than current inflation. Market rates followed suit, trending down in the first semester and stabilizing in the second. As a result, the average borrowing rate in the financial system for 90-day term deposits stood at 7.9% in mid-December, which was three percentage points lower than the figure recorded in January.

This downward trend was unaffected by the temporary rise in the rates of interest payable on public debt in the third quarter. Rates on treasury bills increased, which reflected a combination of domestic factors, with the new government's acknowledgement of the existence of serious public finance problems, and external factors, as spreads on Colombian debt increased as a result of contagion from speculative pressures on the Brazilian economy. These pressures eased in the last quarter, however, and the government was even able to issue bonds on the international market, in the amount of US$ 500 million.

The decline in the price of public debt in the third quarter placed strong pressure on the exchange rate. At the end of September, the price of the dollar rose above 2,850 Colombian pesos, which represented an annual devaluation of over 23%. These speculative pressures receded later, but the currency continued to be volatile into the final months of the year and in mid-December the rate of annual devaluation was 16%.

COLOMBIA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	2.2	1.4	1.6
Consumer prices	8.8	7.6	7.1 [b]
Real wages [c]	3.9	0.3	4.7 [d]
Money (M1)	30.5	12.1	15.8 [b]
Real effective exchange rate [e]	10.0	3.7	-0.5 [f]
Terms of trade	12.9	-5.7	-1.0
Average annual percentages			
Urban unemployment rate [g]	17.2	18.2	17.6 [h]
Central government fiscal balance/GDP	-5.9	-5.8	-6.5
Real deposit rate	3.4	4.7	2.4 [i]
Real lending rate	9.5	12.4	9.2 [i]
Millions of dollars			
Exports of goods and services	15,668	14,971	14,568
Imports of goods and services	14,399	15,844	15,540
Current account	424	-1 538	-1 897
Capital and financial account	445	2,756	2,197
Overall balance	869	1,218	300

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Workers in manufacturing.
[d] Estimate based on average January-August.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average January-October.
[g] Includes hidden unemployment.
[h] Estimate based on average January-October.
[i] Average January-September, annualized.

The financial system's portfolio showed some signs of improvement in the third quarter, but this process was not fully consolidated. The mortgage portfolio continued to trend downwards, in terms of both quantity and quality. Although the financial portfolio expanded at a rate of over 12%, excluding purchases of public debt securities this was only slightly higher than inflation. In consequence, credit to the private sector, which is the main channel of transmission for an expansionary monetary policy, failed to carry out this function properly as banks and debtors maintained a cautious stance.

Fiscal affairs took a turn for the worse. The expected adjustment did not materialize and the targets agreed upon with IMF were not met. The central government deficit increased to 6.5% of GDP and the non-financial public sector deficit expanded to 4%, by comparison with 5.8% and 3.6%, respectively, in 2001. This increase was basically a reflection of a decline in revenues, owing to the economic slowdown recorded in 2001 and early 2002.

The government covered its borrowing requirements for 2003 with new loans from multilateral banks (worth about US$ 2.7 billion, or 78% of the external borrowing requirement), the World Bank, IDB and the Andean Development Corporation, in addition to the bond issues mentioned earlier. An IMF technical mission gave its approval to the government's economic programme and agreed to extend a new stand-by loan that will provide US$ 2 billion in funds to be disbursed over the next two years.

Between January and September GDP grew by 1.5%, which was similar to the rate recorded in the year-earlier period. By sector, growth has been led by construction and agriculture, with an upturn also apparent in industrial production. Mining, especially petroleum extraction, contracted, however. In the third quarter the annualized GDP growth rate was 1.9%, as against 0.8% in the same quarter of 2001, which pointed to a slight acceleration of this upswing.

Urban unemployment (13 metropolitan areas) continued to be high, with an average rate of 17.6% in the first 10 months of 2002, compared to 18.2% a year earlier. The overall labour force participation rate of 64% remained unchanged from the year before, due to increased participation by secondary household workers in response to lower household income. The employment rate rose slightly, but the deterioration in the quality of employment was reflected in a marked increase in underemployment, which rose from 30%

in the first 10 months of 2001 to 33% in the same period of 2002.

Driven by a gradual upswing in domestic demand, consumer price inflation reached 7.1% in the 12-month period to November, which meant that the central bank missed its target rate of 6%. Cumulative inflation was 6.7% in November as consumer prices rose under pressure from supply shocks, especially those affecting food (and particularly potatoes). The sharpening of devaluation in the third quarter had no particular effect on consumer prices, but did lead to a significant rise in producer prices, which were up by 9% in November.

The external environment was defined in the first nine months by a downswing in exports (-5.2%) which was larger than the decline in imports (-3.9%). Traditional exports were down by 10%, which was chiefly attributable to a decrease in petroleum sales, which declined by 10% between January and September as production contracted. Non-traditional exports were down 1.4%, which was a reflection of the slow economic upswing in the United States and the decline of economic activity in Latin America, particularly the crisis in Venezuela. Exports to Ecuador expanded, but this was not enough to fully offset the downward trend: in the first nine months of the year the trade surplus narrowed to US$ 128 million, which will translate into a current-account deficit of around 2.3% of GDP for the year overall.

Net capital inflows were considerably smaller than the previous year, mainly because international issues of public debt instruments were lower than in 2001, when issues were stepped up in order to bolster the economy against the potential destabilizing effects of the elections in early 2002. At the close of the year, the capital and financial accounts of the balance of payments will yield a surplus of about US$ 2.2 billion, and international reserves will stand at around US$ 10.8 billion.

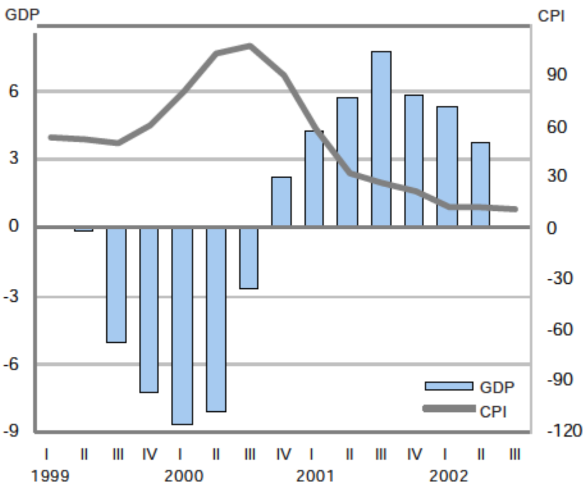
Ecuador

The money in economic activity in 2001 (6.0%) could not be maintained in 2002, and the Ecuadorian economy grew at a more moderate rate. GDP increased by only 3.4%, despite the significant level of investment related to the construction of the heavy crude oil pipeline (OCP), while the gap in the balance-of-payments current account continued to widen, rising to the equivalent of 8.4% of GDP. In contrast, inflation and unemployment rates showed a clear improvement.

In 2002, Ecuador was on the way to completing three years of relative economic and political stability as the dollarization of the economy proceeded. The high prices for oil, the country's main export, and the continuous increase in tax revenue were crucial for this performance. The price of Ecuadorian oil remained at around US$ 21 per barrel over the three-year period 2000-2002, compared to the historical average of US$ 16. Also, the improvements in tax collection resulted in a significant increase in the tax ratio from 7% of GDP in 1998 to 13% in 2002. The relatively favourable conditions existing during this period, however, were only partly exploited, as the economy remained vulnerable to external and domestic crises.

In this election year, privatizations of public energy distribution companies were suspended, and the

ECUADOR: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

ECUADOR: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	2.3	6.0	3.4
Consumer prices	91.0	22.4	9.7 [b]
Real minimum wage	-3.5	11.5	...
Real effective exchange rate [c]	13.2	-29.7	-12.4 [d]
Terms of trade	16.5	-7.7	6.9
Average annual percentage			
Urban unemployment rate [e]	14.1	10.4	8.7 [f]
Central government fiscal balance/GDP	-1.1	0.9	1.0
Real deposit rate	-39.0	-8.5	-2.8 [g]
Real lending rate	-34.6	-0.9	6.1 [g]
Millions of dollars			
Exports of goods and services	5,987	5,774	5,940
Imports of goods and services	5,012	6,754	7,943
Current account	916	-704	-1,703
Capital and financial account	-6,623	474	1,578
Overall balance	-5,707	-230	-125

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] A negative rate indicates an appreciation of the currency in real terms.
[d] Average from January to October.
[e] Includes hidden unemployment.
[f] Estimate based on average from January to October.
[g] Average from January to September, annualized.

previously planned price increases for public services were cancelled. At the same time, private oil companies began litigation against the State for the return of VAT payments, thereby jeopardizing Ecuador's participation in the plan for extension of the United States tariff preferences granted to the Andean countries. Lastly, and despite the government's efforts, no new agreement was reached with IMF. All of these factors, together with the financial turbulence that affected the region, were reflected in the emerging market bond index (EMBI) for Ecuador, which went from 1,000 basis points in April to around 2,000 in the last quarter of the year.

The most important fiscal event of the year was the adoption of the Fiscal Responsibility, Stabilization and Transparency Act, the central element of which is the use of the additional fiscal resources to be received from the commissioning of the OCP to set up stabilization fund. These resources will mainly be used for payment or purchase operations of external and domestic public debt and, to a lesser degree, for dealing with fiscal problems or natural disasters and for social development projects. The same act also introduces a 3.5% ceiling for annual growth in public spending in order to strengthen the government's fiscal position.

Fiscal revenue was boosted by high international oil prices and by improved tax collection. In fact, the Internal Revenue Service collected more than US$ 2.7 billion, which is an increase of around 20% over the year before. On the expenditure side, there was an increase of about 50% in wage payments. Public-sector wages thus exceeded the level reached prior to the 1999 crisis. In the first six months, the non-financial public sector showed a surplus; however, as the fiscal accounts were under review, at the time of writing it was not yet possible to give a fiscal result for the year as a whole.

The situation of the financial system continued to improve, although its restructuring is not yet completed. The increases in deposits and credit were significant, both with nominal annual growth rates of close to 20%. As there was a high level of liquidity in the financial system, the slow decline in interest rates was maintained, more in the case of deposits than loans. The ratio of non-performing loans for private banks went down to 10%, whereas in the public-sector banks it remained at 90%. The Monetary Reserve of Free Availability (RILD) maintained a relatively high level –between US$1.1 and 1.2 billion– mainly thanks to public-sector deposits in the central bank. In view of the inflation rate differential between Ecuador and the United States and the strong depreciation of some currencies in the region, the real effective exchange rate continued to appreciate and, as a result, is now overvalued by around 10% compared to the average for the 1990s.

The 3.4% rise in GDP was the result of an increase of over 5% in aggregate demand, but a larger proportion of the latter was oriented to external supply than in previous years. Whereas imports grew by 15%, exports grew by less than 2% in volume. With regard to domestic demand, investment was significant, especially private investment, which expanded by more than 20%, driven by construction of the OCP. For the same reason, the highest level of sectoral growth was in construction (18%), followed by trade (7%). The only sector that contracted was oil and mines, owing to the lower level of extraction of crude oil.

Inflation continued to decline, and in November the inter-annual inflation rate was at 9.7%, compared to 22.4% in the previous year. Real wages recovered a significant part of their purchasing power owing to the combined effect of nominal rises and reduced inflation. The labour market also improved substantially, as the unemployment rate went down from an average 10.4% in the first ten months of 2001 to 8.7% for the same period of 2002.

The Ecuadorian trade balance continued to deteriorate in 2002. Imports, encouraged by the overvalued real exchange rate, grew by 23%, whereas exports increased their value by only 5%. Imports of consumer and capital goods were the most dynamic, bolstered by the recovery of salaries and the OCP construction, respectively. Exports of primary products were responsible for the overall increase in exports. Remittances from emigrants, again close to US$ 1.5 billion, did not manage to compensate entirely for the deficit in the services and income balances. The deficit on the balance-of-payments current account doubled in 2002 over the previous year's is level, reaching around US$ 1.7 billion, equivalent to 8.4% of GDP. This gap was financed with long-term capital inflows, especially foreign direct investment and the increase of over 50% in private-sector foreign debt. This expansion of private foreign debt led to an increase in total external debt of over US$ 1.5 billion.

Paraguay

Faced with the precarious situation in the subregion and greater disturbances than in 2001, especially from June to September, the Paraguayan economy slipped into recession in 2002; GDP declined by 3%, bringing to a halt the recovery of the previous year and completing five years of lacklustre economic performance. All of this occurred amidst an intense debate on domestic economic reforms. Unlike the situation in 2001, adverse weather conditions caused a marked loss in dynamism in crop production. The depreciation of the guaraní pushed inflation up to 14.6%, real wages fell while weak demand caused a decline in real tax revenues; thus the fiscal deficit rose to the equivalent of 2.5% of GDP.

In the first quarter, a sharp debate arose over the transparency of the COPACO telephone company privatization process, provided for under the State Reform Act and contemplated in the 2001 IMF monitoring programme. A series of delays since the start of the year ended in June, when Congress approved the indefinite suspension of the sale of this company. Negotiations with IMF were resumed and culminated in August in the approval of an agreement for 200 million United States dollars' worth of special drawing rights. The disbursement of funds under this agreement is subject to approval by Congress of fiscal and banking reforms.

At the beginning of 2002, it was projected that a portion of privatization proceeds would be made available as exceptional financing but when the privatizations were suspended, legal amendments were proposed in an effort to reduce the shortfall between government revenue and expenditure. Since September, the National Congress has been debating an economic transition bill which provides for a series of measures including a rise in VAT from 10% to 12%, an increase in public utility rates, salary cuts in the public service and regulations for improving tax collection. With presidential elections in the offing, the study of this body of laws has been delayed.

In September, fiscal revenue fell by more than 10% in real terms with a sharp reduction in tax revenue –almost 15%– attributable to the recessionary environment. The smaller decrease in non-tax revenue stemmed from the lower contractual income and royalties from binational entities. For its part, total expenditure stagnated in real terms with higher funds earmarked for physical investments. Capital expenditure, unlike current expenditure, expanded making good the decline of 2001, but remaining below the 1997 level. The trend in these variables points to a government deficit of around 2.5% of GDP, financed mainly through domestic borrowing.

Until April, the foreign exchange market enjoyed stability: the exchange rate was in the range of 5,000 guaraníes to US$ 1. However, as a result of the intense debates on privatizations and the spillover from turbulence in the Brazilian market, the exchange rate rose sharply to 6,300 guaraníes to the United States dollar by the end of July. In accordance with its policy of avoiding wide fluctuations in the value of its currency, The Central Bank intervened in the middle of the year and managed to stabilize the exchange rate at 6,100 guaraníes to the dollar in August. In the fourth quarter, it again soared to almost 6,800 guaraníes per dollar. In order to curb exchange-rate volatility, the central bank ordered commercial banks to reduce their degree of participation in the foreign exchange market. In the third quarter, the authorities raised the rate of monetary management instruments to an average of 30% for the same purpose. Monetary policy continued to be restrictive and, up to September, M1 scarcely varied in nominal terms, while inflation continued to rise. Despite the soaring exchange rate, there was only a moderate real depreciation, given the domestic inflation and the sharp devaluations sustained by two of Paraguay's main trading partners.

PARAGUAY: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	-0.6	2.4	-3.0
Consumer prices	8.6	8.4	14.6 [b]
Real wage	1.3	1.4	-4.9 [c]
Money (M1)	17.8	9.0	4.1 [d]
Real effective exchange rate [e]	3.3	3.4	8.5 [f]
Terms of trade	-3.9	-0.1	-0.5
Average annual percentages			
Urban unemployment rate	10.0	10.8	...
Central government fiscal balance/GDP	-4.3	-1.1	-2.5
Real deposit rate	6.3	7.9	7.1 [g]
Real lending rate	16.5	19.1	17.2 [g]
Millions of dollars			
Exports of goods and services	2,926	2,907	2,782
Imports of goods and services	3,335	3,278	2,938
Current account	-192	-220	-96
Capital and financial account	-145	164	-25
Overall balance	-336	-56	-121

Source: Statistical appendix.
[a] Preliminary estimates.
[b] Percentage change November 2001-November 2002.
[c] First half-year.
[d] Percentage change October 2001-October 2002.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average for January to October.
[g] Average January to September, on an annualized basis.

Contagion from the Argentine crisis showed up through financial and commercial channels. In addition to the effects of the exchange rate, the impact was visible in the financial system, where the authorities adopted emergency measures to bail out one of the largest national banks following losses in Argentina and a decline in depositor confidence. The banking reform under review is aimed precisely at giving greater stability to the financial system and guaranteeing savers' deposits.

The economic downturn became more evident in September. By contrast with the buoyancy of 2001, the crop-farming sector was affected by the adverse weather conditions. A drought in the early part of the year, followed by heavy rainfall, caused extensive damage to crops yielding heavy losses. Soya bean production decreased by 6%, despite a 7% expansion in the area under cultivation. Corn and cotton also registered poor results; on the other hand, wheat and cassava were buoyant. For its part, industrial production lost momentum, while the recovery in other activities was sluggish except for livestock production, although this was affected by outbreaks of foot-and-mouth disease in some areas of the country in October. Against this background, the jobless rate is expected to soar to its highest level in the last five-year period, up from 11% in 2001. The situation is all the more precarious bearing in mind the expansion in informal activity.

Since June, inflationary pressures have grown with the intensification in the devaluation of the guaraní. The producer price index, owing to its high import component reflected more rapidly these pressures and rose in September to 24% per year. On the other hand, owing to depressed demand, inflation measured by the consumer price index (CPI) remained relatively controlled until this month recording an annual variation of 13.8%. Real wages fell by 5% in the first half-year.

Up to September, foreign trade was affected strongly by the sharp devaluation sustained by neighbouring countries. Imports were down drastically in value terms, (-20%), whereas exports declined by 5%; this reduced the merchandise trade deficit to half its former level. The non-factor services balance showed a lower surplus, owing to the reduction in income from tourism, while lower remittances from Argentina resulted in a decline in current transfers. The outcome of these movements was a reduction in the current account deficit to US$ 96 million, which can be compared with US$ 220 million in 2001.

This deficit was financed by drawing on reserves as there was a small deficit on the capital and financial account. The balance of payments deficit stood at US$ 120 million. Given the constraints on access to external financing, as of September the government external debt had increased only slightly in nominal terms to stand at US$ 2.2 billion.

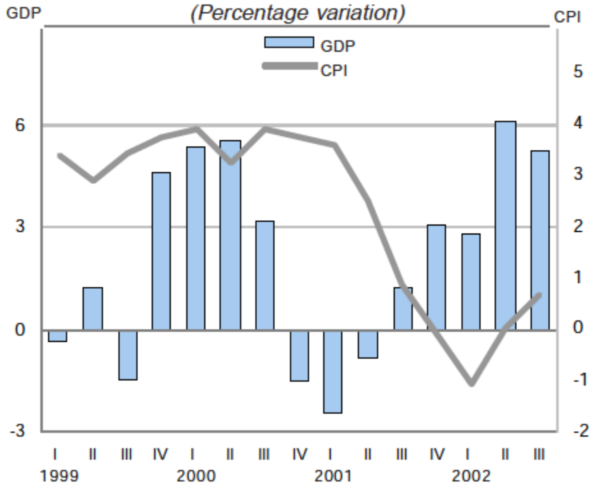
Peru

In a difficult regional and global context, Peru continued with the moderate recovery that had begun in the second semester of the previous year and achieved a growth rate of 4.5% in 2002, the best result of the past five years. This expansion was helped by the increase in mining exports and –especially in the second semester– a recovery of domestic demand, stimulated by the moderately expansionary monetary policy in place since the end of 2001 and a moderate upturn in the labour market, while credit and public spending (apart from incentives for construction) did not contribute significantly to growth.

The authorities that took over in July 2001 sought to strengthen the stability inherited from the transitional government and to stimulate economic growth. They defined their goals in a new stand-by agreement with IMF and implemented a programme of inflation targeting, with the objective being a rate of 2.5% within a range of one percentage point on either side. Given the slight deflation observed at the beginning of the year and the very low inflation recorded subsequently, this range made it possible to apply an expansionary monetary policy, although the greater instability of the exchange rate in the third quarter led to a more cautious policy. Even so, as of October the monetary base had grown by an annual rate of around 14%. Broad money in national currency expanded by 16%, while total broad money (including quasi-money in dollars) grew by only 8%, owing to the slight de-dollarization of the financial system. At the same time, during the first semester interest rates continued the descent that had begun in the previous year. In the third quarter, the greater volatility of the external situation caused a slight increase; both nominal and real rates, however, remained low in historical terms.

Following the contraction in credit to the private sector over the two previous years, the latter has still not become an engine of growth. Although there was a

PERU: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

recovery, it was slight, at 2.5% in October (7.8% in new soles and a drop of 2.9% in dollars), which was less than the nominal economic growth rate. In any case, the financial system continued to grow stronger, and the ratio of non-performing loans was reduced from almost 10% of total credit at the end of 2001 to 8% in September, while loan-loss provisions exceeded 125% of non-performing loans.

The nominal exchange rate, which remained stable during the first half of the year, was affected by regional instability in the third quarter, and appreciated again towards the end of the year. The average for the period from January to October thus showed a real depreciation of 1.2% with regard to the dollar, while, in view of the strong devaluations of other currencies in the region, the multilateral exchange rate declined by 1.3%.

The drop in fiscal income during the first half of the year, caused by the reduction in the special solidarity tax, the lowering of tariffs and the settlement of tax debts, precluded a more expansive fiscal policy, in view of the deficit goal of 1.9% of GDP, which was subsequently adjusted to 2.3%. In the second part of the year, collection increased significantly, owing to the recovery of internal demand and improvements in tax administration. Accordingly, in terms of percentage of GDP, central government income fell from 14.3% to 14.1% during the first three quarters. Over the same period, current spending remained at 14.3%, while capital spending fell from 2.1% to 1.9%, so that the central government deficit was maintained at 2.1%. For the end of the year the estimated non-financial public sector deficit amounted to 2.3% of GDP. This shortfall was financed mainly with foreign debt, but also with bonds floated on the domestic market, while income from privatizations was less than programmed.

Another factor that tended to favour internal demand was the development of the labour market, as over the year the level of employment rose. Although most new jobs appeared in informal activities and the labour demand from the formal sector was weak, the new jobs generated purchasing power. In addition, the government made efforts to deal with the difficult labour situation through a new programme of temporary employment. At the same time, the increase in employment was accompanied by a larger supply, so that the inter-annual variation in unemployment was modest.

Over the first months of the year there was deflation, but subsequently the CPI rose slightly, and in November inflation reached an inter-annual value of 1.5%, at the floor of the range envisaged by the authorities. These price changes contributed to an increase in real salaries.

Owing to the development of the labour market, household consumption, which had been weak at the beginning of the year, recovered in the second quarter. Public consumption, which had contracted in the previous year, grew significantly, mainly as a result of salary increases granted at the end of 2001, whereas the fiscal restrictions mentioned led to a fall in private investment. Fixed private investment continued the decline of the four previous years during the first months of 2002, but then recovered slightly in the second quarter and grew by more than 4% in the third quarter.

Exports were thus the main engine of growth. The expansion of mining played a key role, as it grew by 15% during the first nine months of the year, in particular owing to the opening of the Antamina mine in the previous year.

Another dynamic sector was construction, which, after contracting in previous years, expanded by 10% during the first three quarters of the year, thanks in part to public programmes to promote housing construction. The agricultural sector also recovered from the fall of the previous year, with growth of more than 5% over the same period. Non-primary manufacturing showed a similar level of recovery in the second quarter, with an expansion of more than 4% up to September.

PERU: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	3.0	0.2	4.5
Consumer prices	3.7	-0.1	1.5 [b]
Real wages [c]	0.8	-0.9	4.1 [d]
Money (M1)	-1.7	6.6	20.0 [e]
Real effective exchange rate [f]	-0.8	-2.4	-1.3 [g]
Terms of trade	-2.9	-4.1	4.9
Average annual percentages			
Urban unemployment rate	8.5	9.3	9.4 [h]
Central government fiscal balance/GDP	-2.7	-2.8	-2.3
Real deposit rate	9.1	10.8	0.5 [i]
Real lending rate	23.2	21.4	11.0 [i]
Millions of dollars			
Exports of goods and services	8,614	8,597	9,267
Imports of goods and services	9,723	9,487	9,809
Current account	-1,568	-1,094	-1,211
Capital and financial account	1,437	1,511	2,256
Overall balance	-131	417	1,045

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Percentage change: November 2001- November 2002.
[c] Private-sector works in the Lima metropolitan area.
[d] March.
[e] Percentage change: September 2001- September 2002.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Average for January - October.
[h] Estimate based on the average for January - October.
[i] Average: January - September on annualized basis.

Exports increased by 9%, partly because they benefited from price increases for some main products. Apart from mining products, however, there was only an increase in sales of non-traditional agricultural products. Imports showed a higher level of dynamism as of mid-year and in a comparison of the first nine months of 2002 and 2001, imports of consumer goods increased by 10.5%, whereas capital goods and inputs fell by 1.8%. An increase in imports of 3% is estimated for the year as a whole. As a result, the balance of goods was slightly positive, for the first time in twelve years. Owing to a larger payment for factor services, the balance-of-payments current account deficit remained stable, at 2.2% of GDP.

The financial account showed a surplus of more than 3% of GDP (compared to 2% in 2001) owing to a higher level of foreign direct investment and two placements of public bonds, one for an amount of US$1.43 billion (US$500 million in global bonds and 930 million for a Brady bond swap) at the beginning of the year and another for US$500 million in November. External debt, however, remained stable at 51% of GDP (in October), as the increase in public debt was offset by a decrease in private debt. The net international reserves of the Central Bank had increased by US$1.1 billion by the beginning of December.

Uruguay

In a situation of serious economic and financial crisis, the GDP of Uruguay collapsed (-10.5%), inflation accelerated abruptly to an annual 25% and the unemployment rate rose to 19%. Despite cutbacks in spending, the loss of income due to the recession prevented the public sector deficit from being reduced to less than 4% of the product, while the significant rise in the price of the dollar and weak internal demand contributed to closing the external gap.

The financial crisis in Argentina had serious consequences for the financial system, as from the beginning of the year there was a mass withdrawal of non-resident deposits. In the first months of 2002, Uruguay lost the investment grade rating that had made it possible to obtain external financing at low interest rates. As of that time, public bonds fell sharply. During the same period, two large banks were in serious difficulties owing to the continuous withdrawal of deposits. At the end of June, the Central Bank adopted a floating exchange rate regime after a number of years of a sliding exchange-rate band, which encouraged uncertainty in a highly volatile exchange market. As a result, the price of the dollar rapidly doubled its value in pesos, a factor which together with its immediate consequence for domestic prices, substantially raised the value in national currency of the extensive public- and private-sector debts in dollars.

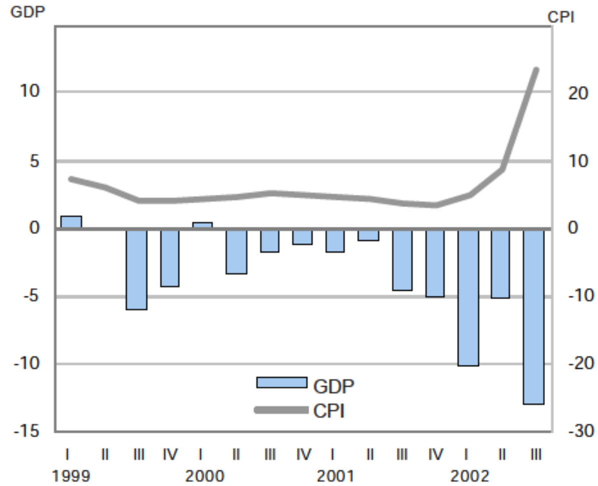
The unavailability of deposits in Argentine banks had a negative effect on expectations in Uruguay, where the domestic economic situation was very weak after three years of recession and in the context of a disadvantageous real exchange rate with Brazil and the European Union. The sudden devaluation of the Argentine peso undermined the country's external competitiveness, although the authorities had already begun to accelerate the devaluation of the Uruguayan peso. All of the above had a strong impact on the national financial system. Deposits by non-residents, almost all Argentine, which at the end of 2000 amounted to US$4.6 billion and had increased by US$1.6 billion in 2001, contracted by more than 3 billion in the first six months of 2002. Meanwhile, resident deposits to a value of US$1.45 billion were withdrawn over the same period.

The rapid loss of deposits exploded in mid-year when the activity of another national private bank was suspended because of fraudulent operations by the owners. At this point, there was a marked acceleration in the daily decline of the international reserves of the Central Bank, which together with its function of lender of last resort is the guarantor for timely service payments for the huge external debt of the national government. When international reserves reached the equivalent of one fifth of the level recorded at the end of the previous year, the authorities ordered -at the end of July- a one-week bank holiday, in addition to temporarily suspending the activities of four national private banks, and approving a bill on the unilateral restructuring of fixed-term deposits in State banks. A substantial level of financial support from multilateral credit organizations –amounting to close to US$4 billion (almost one third of the country's current GDP in dollars)– together with the contribution from the United States Treasury (which assigned a bridge loan of U$1.5 billion while the above loans were being negotiated), allowed the rest of the financial system to reopen (official and foreign-owned banks). The problem of the suspended banks had to wait for a later solution.

The financial assistance referred to was based on a new agreement with the IMF, the third such agreement signed during the year, which predicted a fall in GDP of 11% in 2002 and of 4.5% in 2003, and estimated inflation for the current year of the order of 40%, with the possibility of rising to 50% in the following year.

URUGUAY: GROSS DOMESTIC PRODUCT AND INFLATION

(Percentage variation)



Source: ECLAC, on the basis of official figures.

With a new external situation, the current-account surplus for 2002 is expected to be equivalent to 0.9% of GDP (-2.5% in 2001).

The agreement signed with the IMF aimed to achieve a primary consolidated public-sector surplus equivalent to 1.6% of GDP in 2002 (-1% in 2001), which would grow to 4.3% of GDP in 2003. The public deficit would thus be reduced to 3.4% of the product in 2002 and to only 1.5% in 2003. In order to achieve these ambitious goals, the letter of intent stated that there would be no public-sector wage increases in 2002, and that pension adjustments would be limited to the legal requirement, which would involve slight variations in 2003, as pensions are adjusted with changes in average wages.

The agreement made it possible to create the Fund for the Stabilization of the Banking System, in order to preserve the functioning of the payment chain. This initiative, which used US$1.5 billion of multilateral credit, finances the withdrawal of current-account deposits denominated in pesos and in dollars from the official banks and the suspended national banks. The law that established the Fund also made provision for postponing the maturity of fixed-term deposits with the State banks. Deposits in all other foreign or domestic banks that had reopened were not subject to restrictions.

URUGUAY: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	-1.9	-3.4	-10.5
Consumer prices	5.1	3.6	24.7 [b]
Real wages	-1.3	-0.2	-9.1 [c]
Money (M1)	15.6	-5.6	11.3 [d]
Real effective exchange rate [e]	1.9	1.6	17.0 [f]
Terms of trade	-9.2	1.0	1.5
Average annual percentages			
Urban unemployment rate	13.6	15.3	17.0 [g]
Central government fiscal balance/GDP	-4.2	-4.7	-4.3
Real deposit rate	6.8	9.7	0.4 [h]
Real lending rate	41.9	45.6	53.9 [i]
Millions of dollars			
Exports of goods and services	3,659	3,276	2,859
Imports of goods and services	4,193	3,718	2,672
Current account	-567	-512	117
Capital and financial account	733	815	-4,135
Overall balance	167	302	-4,018

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation from November 2001 to November 2002.
[c] Estimate based on the average from January to October.
[d] Variation from August 2001 to August 2002.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Average from January to October.
[g] First three quarters.
[h] Average from January to July, annualized.
[i] Average from January to August, annualized.

The figures available do not show divergences from what was planned. On the one hand, the fall in GDP (-10.5%) was almost at the expected level. The positive development of the agricultural sector, which showed significant growth (7%), partially offset the decline in other activities. The significant decrease in demand, both domestic and external, had a strong impact on the manufacturing industry, construction and the commerce, restaurants and hotels segment of services, which were down more than 10%.

Inflation, limited by depressed domestic demand, decelerated rapidly in the final quarter, to a level of around an annual 25% (3.6% in 2001). This change took place in the context of substantial deterioration in real wages (more than 10%) and a sudden increase in the unemployment rate, which with a considerable loss of jobs, reached a historic maximum in the third quarter of almost one fifth of the economically active population.

In other areas, the expected turnabout in the external current account did occur, but this was due to the drop in imports of goods and services, as exports continued to fall. The increase in traditional exports was not sufficient to counteract the substantial decline in sales of non-traditional goods, so that exports of goods contracted by 10%. The increase in traditional exports was mainly due to the expansion of beef sales, after their paralysis in the previous year following the outbreak of foot-and-mouth disease.

Non-traditional products, on the other hand, in the context of the stagnation of domestic credit and still with a low level of international competitiveness despite the considerable depreciation of the peso (the currencies of neighbouring countries also depreciated substantially), continued to fall steeply. In particular, demand from Argentina collapsed 65%. The devaluation of the Uruguayan currency, however, together with the sudden fall in domestic demand, caused an even greater fall in imports, which slumped by 30%.

Lastly, the decline in public income kept the fiscal deficit above the expected level, as there was continued resistance to going below the level of 4% recorded in recent years. Nominal expenditure was maintained, which brought a sizeable reduction in disbursements in real terms. Nevertheless, the banking crisis affected the private sector with immediate consequence on tax collection, which fell dramatically. In a vicious circle, the public sector postponed payment to private creditors, which then aggravated the decline in the level of activity, the delay in tax payments and the financial restriction. The persistent public sector deficit and the external account surplus showed that the private sector continued to make significant adjustments.

The economic and financial situation in Uruguay towards the end of the year showed a certain improvement. In October there was an increase in bank deposits for the first time during the year. The dollar exchange rate slowed down significantly after its rapid ascent in the third quarter, which was a pattern similar to that observed for domestic prices. There was still uncertainty, however, as to how the subregional situation would develop, taking into account the forthcoming changes of government in Argentina and Brazil, while in the following year there would be an heavy schedule for foreign debt service payments. At the end of November the banks suspended at the time of the bank closure in July had still not been able to reopen, which meant a postponement of two loan instalments agreed with the IMF while severe credit restrictions were maintained.

Venezuela

The Venezuelan economy became caught up in a serious political and economic crisis in 2002, as a result of which GDP declined by 7% and inflation rose. The rate of inflation measured by the consumer price index was 30%, compared with 12.3% in 2001, while wholesale prices increased by around 50%. GDP contracted in the first semester, then experienced a slight upturn in the third quarter. Petroleum activity slipped further than the non-petroleum sector and investment plunged. In the external sector, the current-account surplus was twice the figure recorded in 2001, thanks to an upswing in the value of exports in the second semester and a large decline in imports as economic activity contracted. The fiscal deficit remained around 4% of GDP in 2002, which was still a considerable figure given the relatively high oil prices. This was attributable to the government's procyclical fiscal policy, which entails taking advantage of favourable crude oil prices to increase spending, but which forces adjustments on a large scale when the price of crude declines and the fiscal deficit widens dangerously.

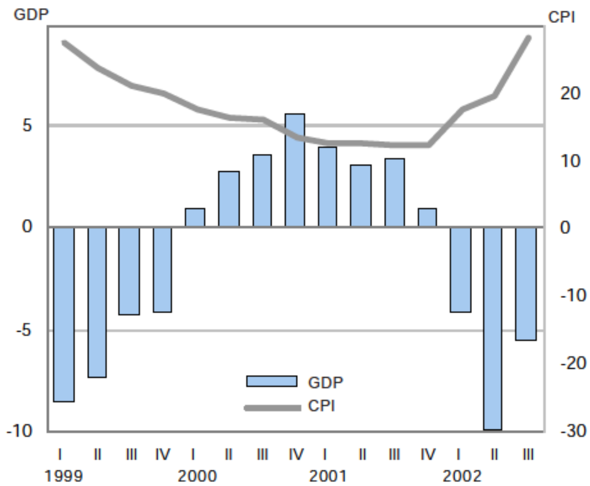
An increasingly complicated political situation was largely to blame for the woes of the Venezuelan economy, with a number of strikes during the year that hurt productive activity and investment. In combination with the strong appreciation of the bolívar seen in recent years, the political crisis also helped to trigger a large outflow of capital. In these straitened circumstances, the Central Bank of Venezuela (BCV) was forced to allow the bolívar to float freely in February 2002. Until then the nominal exchange rate had been kept within a systems of bands set by BCV, but serious exchange-rate and fiscal disequilibria –which had already been mounting– sharpened in late 2001 and early 2002.

As part of the effort to halt currency depreciation, the authorities drew on international reserves, which declined form US$ 20 billion to US$ 15 billion in the early months of 2002. BCV then raised interest rates sharply, which helped to recoup reserves but also dampened the incipient economic upturn.

With the new exchange-rate system, the price of the dollar initially surged by 40% and went on to rise by a total of 70% in the year overall, from 763 bolívares at the end of December 2001 to about 1,300 bolívares a year later. The highest dollar price was recorded in September, when it peaked at 1,500 bolívares. Towards the end of the year there was a slight decrease in the nominal exchange rate, which was a reflection of an increase in the value of exports as the petroleum price rose. Currency depreciation helped to boost fiscal revenues, which meant that the deficit, though still sizeable, was narrower than had been envisaged early in the year. The proceeds of debt issues were not enough to cover the government's spending commitments, and the deficit was financed by means of a drawdown of funds from the Macroeconomic Stabilization Fund (MSF), among other measures.

The petroleum sector experienced the sharpest contraction in economic activity in 2002, with a heavy decline in the second quarter (down 12% from the preceding quarter). Petroleum activity declined throughout 2001 and the first quarter of 2002 because of the quota reductions negotiated with OPEC. This was

VENEZUELA: GROSS DOMESTIC PRODUCT AND INFLATION
(Percentage variation)



Source: ECLAC, on the basis of official figures.

VENEZUELA: MAIN ECONOMIC INDICATORS

	2000	2001	2002 [a]
Annual growth rates			
Gross domestic product	3.8	2.9	-7.0
Consumer prices	13.4	12.3	30.7 [b]
Wages	...	4.0	-7.6 [c]
Money (M1)	31.5	13.2	8.0 [b]
Real effective exchange rate [d]	-2.3	-4.8	29.5 [e]
Terms of trade	47.0	-16.2	4.0
Average annual percentages			
Unemployment rate	14.0	13.4	15.8 [f]
Central government fiscal balance/GDP	-1.6	-4.3	-4.5
Real deposit rate	3.2	2.9	-5.4 [g]
Real lending rate	11.2	9.0	0.5 [g]
Millions of dollars			
Exports of goods and services	34,394	28,296	28,760
Imports of goods and services	19,868	21,775	16,628
Current account	13 112	4 365	8 672
Capital and financial account	-7,294	-6,435	-10,672
Overall balance	5,818	-2,070	-2,000

Source: Statistical Appendix.
[a] Preliminary estimates.
[b] Variation between November 2001 and November 2002.
[c] Estimate based on average January-September.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average January-October.
[f] To the third quarter.
[g] Average January-September, annualized.

exacerbated in the second and the fourth quarters by a downturn in activity on the part of PDVSA, the state-owned oil company, which reflected the serious events that unfolded during the month of April and the strike in December. By contrast, in the third quarter PDVSA production posted an upturn and the output of private firms and petroleum refineries expanded. Economic activity in general picked up in the third quarter, on the back of the upswing in the petroleum sector. Nevertheless, Venezuela fell short of the OPEC targets for the second semester, as production decreased because of the depletion of a number of oil fields and a lack of investment in new ones, in combination with labour conflicts within PDVSA.

The increase in inflation in 2002 was chiefly the result of the devaluation of the bolívar. Imported goods account for a high proportion of total consumption and of intermediate goods, which tends to translate into large price rises. In addition, unemployment rose sharply, from an average rate of 13.4% in 2001 to 15.9% in 2002. The increase in unemployment would have been sharper but for the government's decision to extend a firing freeze applicable to public- and private-sector workers earning up to 633,000 bolívares per month. As well, the obligatory minimum wage for workers in urban areas was increased by 20% and a bonus of three months' wages was announced for public-sector employees.

Total exports declined in 2002, which was attributable to a downturn in petroleum shipments. The value of state petroleum exports trended sharply downwards in the first semester. In the second semester, however, a significant upturn was recorded in the value of exports thanks to an increase of 16.6% in the international price of hydrocarbons and to increased sales of crude petroleum by private firms, as well as a steady rise in the volumes exported by non-petroleum state enterprises, particularly chemicals and base metals. Although overall private-sector non-petroleum exports posted a small decline of 3.5%, there were considerable rises in iron and steel products and in the automotive sector. Imports were down by 24% in 2002, with a sharper fall in the second semester. This large contraction was attributable to currency depreciation and to the downswing in the real economy, which led to lower rates of consumption and investment. The plunge in imports translated into a considerable increase in the trade surplus. The balance-of-payments current account yielded a surplus of US$ 8.7 billion, which was US$ 4.3 billion more than in 2001. The net outflow of capital on all items was even larger, however, at close to US$ 11 billion.