SPECIAL ISSUE

ECLAC Notes

PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN 1999

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United Nations

ECLAC

Economic Commission for Latin America and the Caribbean

REGIONAL PANORAMA

International financial problems continued dominating the economic scene in Latin America and the Caribbean for the second year running. A sharp drop in capital inflows, along with the high volume of money leaving the country in the form of interest and dividends, produced a negative net transfer of funds to the region for the first time since the end of the debt crisis. Low commodity prices (oil excepted) in conjunction with a drop in intraregional trade in South America reduced the export revenue of many countries.

Growth of GDP stalled in 1999. However, the individual situations that are reflected in this regional average vary quite considerably. Mexico and most of the Central American and Caribbean countries, which have close links with the thriving economy of the United States, enjoyed moderate or even high growth. The performance of the South American economies, on the other hand, which centre on commodity exports and a great deal of intraregional commerce in industrial products,

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Latin America: Gross Domestic Product
(Annual variation) a/

	1995	1996	1997	1998	1999 Estimate	2000 Estimate
Argentina	-2.9	5.5	8.0	3.9	-3.3	2.5
Bolivia	4.7	4.5	4.1	4.6	1.0	3.5
Brazil	4.2	2.9	3.8	0.0	0.4	3.5
Chile	9.1	6.9	7.0	3.1	-1.4	5.5
Colombia	5.2	2.1	2.7	0.7	-5.2	3.0
Costa Rica	2.2	-0.5	3.5	5.5	7.5	5.5
Ecuador	3.0	2.3	3.9	1.0	-7.2	2.0
El Salvador	6.2	1.8	4.2	3.2	2.3	3.5
Guatemala	5.0	3.0	4.3	5.0	3.6	4.0
Honduras	3.7	3.8	5.0	3.9	-1.9	4.0
Mexico	-6.2	5.2	6.8	4.9	3.4	4.5
Nicaragua	4.4	5.0	5.5	4.2	6.0	5.0
Panama	1.9	2.7	4.7	4.4	2.8	3.5
Paraguay	4.5	1.1	2.4	-0.6	0.0	1.0
Peru	8.6	2.3	8.6	0.1	2.8	4.0
Dominican Rep.	4.5	6.8	7.1	6.0	7.0	7.0
Uruguay	-2.0	5.0	5.0	4.6	-2.2	3.0
Venezuela	5.9	-0.4	6.6	-0.2	-7.0	2.5
TOTAL	**1.1**	**3.7**	**5.4**	**2.1**	**0.0**	**3.6**

Source: ECLAC, Statistics and Economic Projections Division.
a/ Based on official figures in constant 1995 dollars. See page 11 for additional information.

OPINION

THE LATIN AMERICAN ECONOMY IN 1999

José Antonio Ocampo

During the past year, the economies of Latin America and the Caribbean were exposed to the impact of contradictory external dynamics that were largely negative. On the positive side, the United States economy continued expanding at a high rate, Asia recovered rapidly and an unprecedented boom in foreign direct investment in the region continued. On the negative side, international financial uncertainty persisted, leading to scarce, irregular, costly and shorter-term financing. As a result, the net transfer of funds from abroad became negative for the first time in the nineties. In other words, outgoing payments for interest and earnings of foreign firms exceeded the amount of capital coming in.

Two trade-related factors also affected the region negatively: depressed prices for raw materials (except for oil), and a drop in intraregional trade. This meant that despite adjustments in exchange rates the value of the region's exports fell 2% if Mexico is excluded from the calculation.

The net effect was negative, especially in South America. As a whole, ECLAC estimates that the Latin American and Caribbean economy experienced zero growth. However, this overall performance reflects a recession in South America, moderate growth in Mexico and moderate to rapid growth in various smaller Central American and Caribbean economies. Four South American countries experienced declines of more than 3% (Argentina, Colombia, Ecuador and Venezuela), while another three experienced moderate declines (Chile, Paraguay and Uruguay). Brazil had very low growth for the second year in a row. Only Peru and Bolivia escaped this scenario. Though their economies did not grow at high rates, there was growth. In the northern part of the region, the impact of the United States economy dominated the scene through greater maquila and other industrial exports and tourism. Mexico was the strongest large economy (3.5% growth). Some of the smaller economies, however, grew more than 6% (Costa Rica, Cuba, Dominican Republic, Nicaragua and Trinidad and Tobago).

...the 1990-2000 decade will close with average annual growth of 3.2%...

Despite a very significant external shock, inflation fell in most of the region. For the third year in a row it was around 10%, the lowest level in half a century. On the other hand, employment declined and became more informal, and the open unemployment rate rose from 8.0% to 8.7%.

The crisis has taught us that defending exchange rates by restrictive monetary policy, with consequent high interest rates, is very costly in terms of economic activity and jobs. It is not for nothing that a number of countries, especially in South America, moved towards greater exchange rate flexibility, while none moved towards convertibility and dollarization despite an intense campaign for such a course. Another lesson is that borrowing sprees in times of abundance are costly when the crisis arrives and the excessive risks assumed by economic agents becomes clear. At least seven countries experienced crises of various degrees of severity in their national financial systems.

Fortunately, this discouraging picture has begun to recede. The world economy is expanding, prices of raw materials have risen and financial flows are returning to normal in the last months. Hence, ECLAC projections call for economic growth of 3.6% for the year 2000. This means that the 1990-2000 decade will close with average annual growth of 3.2%. This is positive, but far less than what the region's economies experienced during the three decades preceding the debt crisis (5.5% annual growth). There are very few exceptions to this rule, the most notable being Chile. We have much to learn still about managing the financial instability that is characteristic of today's world.

The author is ECLAC's Executive Secretary.

(➡ from page 1)

was poor. Nevertheless, there have been signs of a turnaround in the fourth quarter, and it is likely to gain momentum in the year 2000.

Job creation fell in most of the South American countries, but was healthier in Mexico, Central America and a good deal of the Caribbean. Employment in the region was off from 54% of the work force in 1998 to 52% in 1999, while unemployment rose from 8.0% to 8.7%. The consolidation of price stabilization continues to be one of the principal successes of the decade, with inflation under control at around 10%.

Although both import and export prices fell, most countries' terms of trade worsened. However, the trade deficit diminished, primarily due to declining imports. Exports also fell for many countries, with an overall drop (excluding Mexico) of 3%. The result was a smaller current account deficit, which fell to US$ 55 billion (3.1% of GDP) from its 1998 figure of US$ 87 billion (4.5% of GDP).

Autonomous capital inflows were the main source of financing for the current account, even though they only reached the level of US$ 42 billion after figures of US$ 69 billion and US$ 83 billion in 1998 and 1997, respectively. The rest of the deficit was covered by compensatory flows and international reserves.

In their response to the international crisis, macroeconomic authorities took a less contractionary approach than they had in 1998. Government expenditure in many cases was not reduced to compensate for the decline in revenue, and hence the region's average deficit will come in at more than 3% of GDP, the highest level of the decade. Nominal interest rates fell toward the end of the year, while the adoption of flexible currency exchange regimes in a number of countries gave monetary policy a larger role. The most striking case of changing exchange policy was in Brazil, though similar changes took place in Chile, Colombia and Ecuador.

Slow growth, delayed effects from high interest rates and currency depreciation had negative effects on the financial sector in many countries. The reform process slowed down as some privatizations were postponed, and in some cases governments resorted to higher tariffs in order to deal with temporary emergencies. Though progress continued in negotiations among the region's institutions, trade between regional trade groups fell markedly and conflicts over monetary policy emerged.

1999 closes on a promising note. The United States economy continues increasing at a relatively high rate, as does the European economy, while Japan and the rest of Asia are recovering from crisis conditions. International financial markets have become more favourable to the region's countries, and commodity prices are on the rise again.

ECLAC predictions for the year 2000 call for a regional growth rate of 3.6%. The figure will probably be higher in Mexico and Central America (4.5% and 4.7%, respectively), followed by Brazil (3.5%), the Southern Cone (2.9%) and the Andean countries (2.8%).

THE EXTERNAL SECTOR

For the second year in a row, the international crisis left its mark on the region's external sector, which suffered from decreased foreign capital and the continuing decline of non-fuel commodities. Unlike 1998, however, the severe adjustment that the international situation forced on the countries' economies interrupted the rise in the current account deficit of the region's balance of payments, and the deficit fell from its 1998 figure of 4.5% of GDP to 3.1% for 1999.

This notable drop in the deficit is due to a falling trade balance deficit, due in turn to a sharp reduction of imports, which counterbalanced the flattening or descending curve of exports that characterized most of the countries, particularly the South American ones.

The decrease in the regional deficit was checked by lesser inflows of foreign capital and greater profit remittances, which combined to produce a negative net transfer for the first time since 1990. As in 1998, the region had to use international reserves and compensatory capital, this time to the tune of US$ 13 billion. The drop in international reserve assets was less widespread than in 1998 and affected principally Brazil and, to a lesser extent, Chile, Colombia and Peru.

Fall in net capital inflow continues

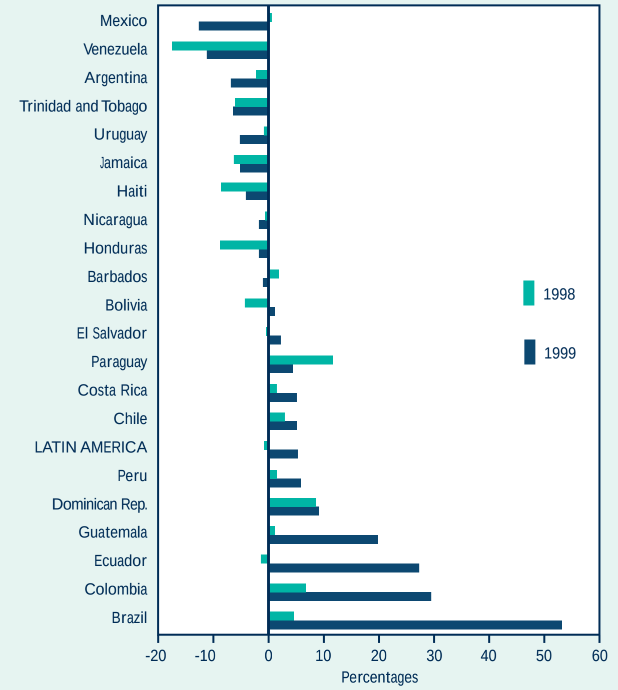
In 1999, Latin America received autonomous capital on the order of US$ 42 billion, which was less than in 1998 and slightly more than half of the 1997 inflow. Only certain countries, above all the Central American ones, showed a rise in capital inflow. The figure fell to a lower level in most countries, while Ecuador and Venezuela registered net outflow. Subsequently, there has been an upturn, but not a steady one.

As in the previous biennium, a great deal of external financing in 1999 was made up of less volatile capital, mostly foreign direct investment (FDI), which exceeded the exceptional 1997-1998 figure. In some countries where available private external funds were inadequate, financing from official sources, especially multilaterals, proved essential in dealing with the deficit.

As of November 1999, international bond placements had risen to approximately US$ 40 billion, somewhat above the 1998 figure.

Latin America and the Caribbean: Real exchange rates

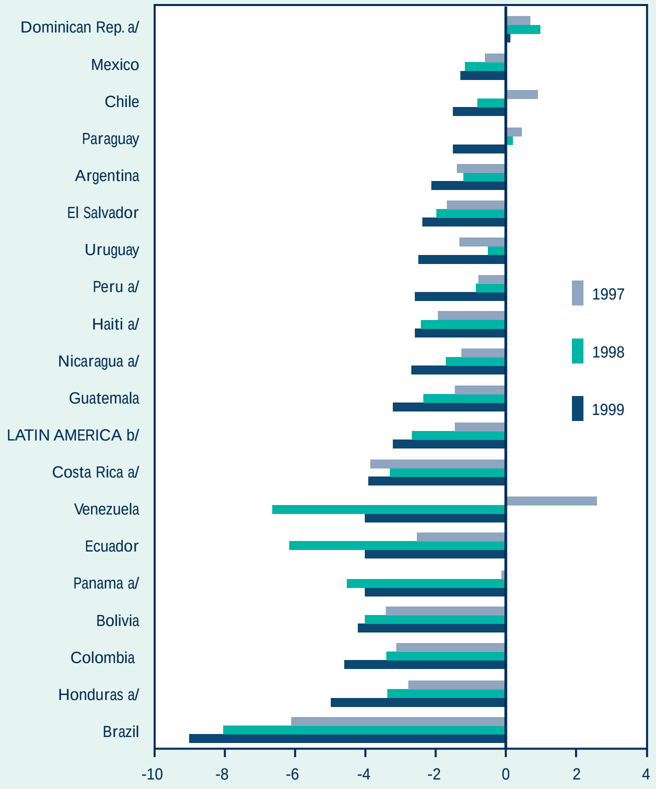
(Annual variation)



Source: ECLAC, on the basis of official figures.

Latin America and the Caribbean: Public-sector fiscal balance

(Percentage of GDP)



Source: ECLAC, on the basis of official figures.
a/ Central government b/ Simple average

The proceeds went to Argentina, Brazil and Mexico and, to a lesser extent, Chile, Colombia and Venezuela. After the Russian moratorium of August 1998, the cost of the region’s external financing rose considerably, to an annual rate of almost 15%, then gradually dropping back from that level. One notable fact is that in April 1999, three months after the devaluation of the Brazilian *real*, seven of the region’s governments were able to issue US$ 10 billion on international financial markets at a premium of 550 base points (5.5%) above United States Treasury bonds (5% in April), so that the annual cost of this financing was 10.5% that month. It then rose again, to 12%, around which level the rate remained for the rest of the year, with only slight fluctuations.

Bank lending was also affected by the international financial turbulence. According to the Bank for International Settlements, most of the reduction in international bank lending for the first semester of 1999 was due to Brazil, with Chile, Colombia, Ecuador, Guyana, Mexico and Peru playing a lesser role. Recovery from this reduced level of lending activity has been very slow, especially compared with bond activity.

As far as the most volatile external capital is concerned, stock market investment funds began returning to the region’s main bourses in the middle of the second half of 1999.

Region’s foreign debt increases slightly

The Latin American and Caribbean gross foreign debt disbursed in 1999 rose to almost US$ 750 billion, a nominal change of only 0.5%, the lowest figure this decade. The slowdown in growth was sharp in comparison to recent years, reflecting the difficulty of obtaining foreign funds, especially private funds.

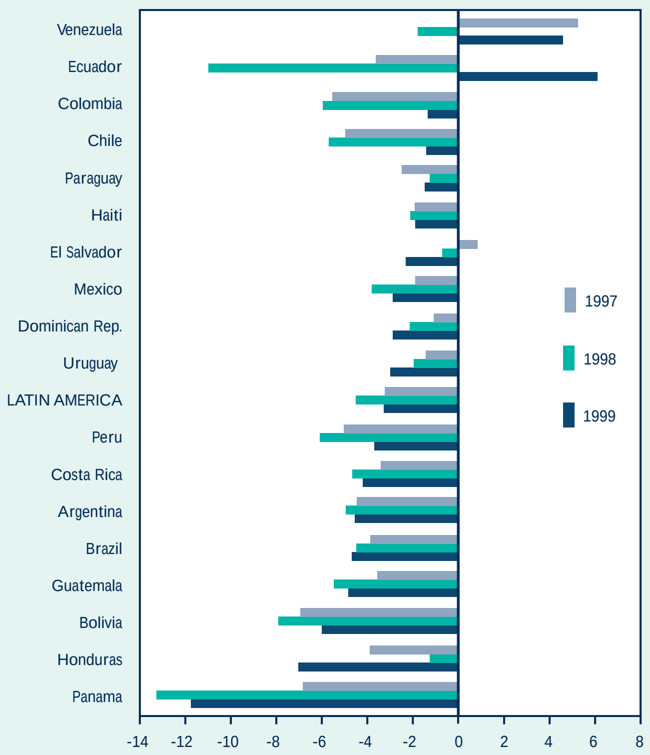
As to the renegotiation of the foreign debt, the second half of 1999 was marked by Ecuador’s failure to pay interest on collateralized Brady bonds and on other government obligations in private hands. It is important to note that the international financial community has seen these events as limited to Ecuador. Honduras and Nicaragua are hoping to benefit from the Highly Indebted Poor Countries Debt Initiative, in which Bolivia and Guyana are already involved.

Imports fall and terms of trade worsen

The value of the region’s foreign purchases fell for the first time in 15 years. The drop was 4.5%, which becomes 16% if Mexico is excluded from the calculation. As a result, all the South American countries underwent a sizeable drop in import volume in the double-digit range in almost all cases, and affecting all categories of goods.

Latin America and the Caribbean: Current account balance

(Percentage of GDP)



Source: ECLAC, on the basis of official figures.

There were factors in some instances, however, that stimulated imports. Those countries that increased their sales thanks to the *maquila* industry also had to increase their foreign purchases, especially for intermediate goods, due to the nature of the industry, which assembles foreign components. This factor contributed to Mexico's increased import volume and was a determining factor in a number of Central American and Caribbean countries, beginning with Costa Rica. Other circumstantial factors were foreign direct investment accompanied by capital goods purchases (as in Bolivia), rebuilding after natural disasters (Nicaragua and Honduras), and food needs, as in Haiti.

The import bill was also lightened by the widespread fall in the price of goods bought (with the notable exception of oil). Prices of manufactured products exported by the developed countries, which are the largest component of the region's imports, fell an average of 1.5%. This was in addition to an even greater fall in the prices of many industrial commodity goods, food and other non-fuel commodities. As a result, all of the countries in the region posted declines in unit values of imports.

LOW PRICES AND DECLINE IN INTRAREGIONAL TRADE CAUSE A REDUCTION IN EXPORTS

The value of the region's total sales rose more than 5%, but this is due in great measure to the huge influence of Mexico. Excluding Mexico from the assessment, there is a net fall of 3%, with approximately one half of the countries individually experiencing a decline.

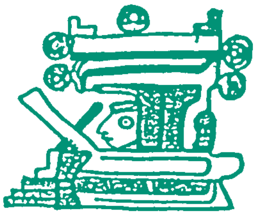
Gains in competitiveness resulting from currency devaluations and drops in domestic demand did not translate into greater export revenues, since the countries of Latin America and the Caribbean continue to be large producers of commodities, the short-term supply of which is price-inelastic. Also, commodity sales (excepting hydrocarbons) were hit by continuous price drops on world markets, especially for agricultural products, since the downward trend of non-fuel commodities continued.

The value of intraregional trade, which in 1998 had already suffered its first decline in 12 years, fell sharply in the first three quarters of 1999. Trade between Mercosur members fell by one quarter, and in the Andean Community the drop was even greater (35%).

The case of manufactured products exported by Mexico and various Central American and Caribbean countries, targeted mostly at the United States market, is different. On the whole, the majority of the region's countries managed to increase export volume, but all, except the main oil-exporting countries, suffered drops in the unit value of their foreign sales.

These declines, however, did not in most cases counter-balance the drop in unit values of exports, which led to a corresponding fall in the terms of trade. The main exception was Venezuela, recovering its loss of the previous year with a gain of 27%. Modest rises were posted by the other oil-exporting countries, including Mexico, as well as Costa Rica and Panama. The regional average rose slightly after the fall of 1998.

Considering the value of trade in the various countries, changes in the terms of trade created losses of close to 1% of GDP or more for the Central American countries (except Panama) and for Chile and Peru. Venezuela, on the other hand, saw a gain of almost 5% of GDP, while Ecuador and Mexico posted gains of 1.5% and 1%, respectively.



In the course of the year, macroeconomic policy took a course full of contrasts. The rising fiscal deficit partially compensated for falling private domestic demand. Currency exchange controls became more flexible. Until the close of the second quarter of the year, monetary policy displayed unblemished austerity. It then relaxed, however, with a slight reduction in real interest rates. The condition of the banking sector continued to be worrisome in various countries, since new lending fell and the quality of the banking system's loan portfolio underwent some deterioration.

The fiscal deficit rises

Recessionary conditions had negative effects on government revenues at a time when a number of countries had planned to increase public spending in their 1999 budget. The paramount objective was to maintain insofar as possible the level of public investment and spending that had been planned for the social sector. Thus, for the first time in the 1990s, fiscal policy in most of the countries was not procyclical. Consequently, the non-financial public-sector deficit rose to 3.2% of average GDP, its highest level this decade.

The higher spending is the result of four factors. In addition to infrastructure investment that could no longer be postponed, a number of countries faced the consequences of natural disasters and needed large amounts for rebuilding. The region's governments intensified efforts to satisfy social demands that had been put off. Finally, service on foreign public debt denominated in local currency continued to rise in 1999 due both to a small rise in foreign borrowing and to devaluation. Domestic debt service also led to greater spending due to the delayed effect of monetary policy in countries where there were attempts to check depreciation of the currency by raising interest rates.

Another factor in the widening of the fiscal gap was the drop in revenue, as the economic slowdown and reduced international trade lowered tax revenues for the second year running. Tariff reductions also contributed, especially in Central America. Nevertheless, an upturn in non-tax revenues driven by the recovery of international oil prices (in Colombia, Ecuador, Mexico and Venezuela) and other non-recurrent revenues partially counterbalanced these losses.

Monetary policy takes a less defensive posture

Monetary policy was driven by events in the external sector, in particular by the issue of access to capital markets. 1999 began very austerely in most of the countries.

During the first quarter, the real deposit interest rate was one point higher than in the last quarter of 1998 and three points above its level in the first quarter of 1998. The regime of austerity continued through much of the first two quarters because of the uncertainty generated by turbulence in currency exchange markets during that period, with devaluations in various countries and a partial moratorium on foreign debt in Ecuador. A defensive monetary posture was widespread in the region and was present in very diverse economies (Argentina, Brazil, Mexico, Costa Rica).

At the end of the second quarter, monetary policy started to become more flexible as authorities attempted to support economic recovery, but increased government debt necessitated a degree of prudence. In some countries, the nominal interest rate began a cautious descent at the end of the second quarter, which moderated the prevailing trend of reduction in real liquidity.

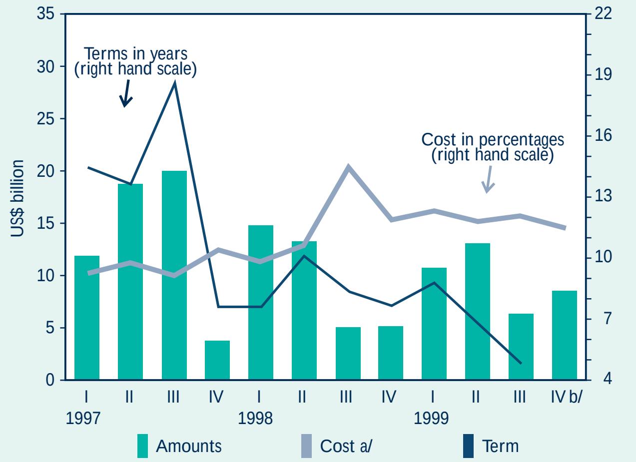
A decrease in the rate of inflation partially counterbalanced the fall in the nominal rate. Hence, the real interest rate did not fall by the same proportion as did the nominal rate. Considering the first three quarters of 1999 as a whole, the real interest rate remained high -on average above the corresponding figure for the same period in 1998. This was especially true for Mexico, Paraguay, Peru and Bolivia. The main exceptions were Chile and Ecuador.

The banking crisis continues

The recession that hit many countries, along with the high real interest rates prevailing since the international crisis of September 1998, reduced demand for new loans. The rise in lending rates complicated dealing with businesses that were in trouble, and this in turn affected the quality of banks' loan portfolios.

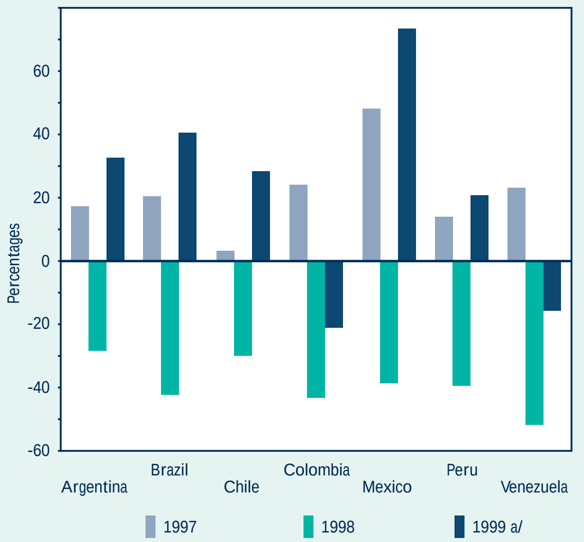
In addition, in most of the countries there were financial-sector problems that made banks more cautious. Tight money and recessionary conditions up to mid-1999 were typical features of the region's economies, especially in South America, triggering liquidity problems in small and medium-sized enterprises (SMEs). All of this resulted in an increase in delinquent debt as a fraction of total loan portfolio, and banks became more cautious.

Latin America and the Caribbean: International bond issues



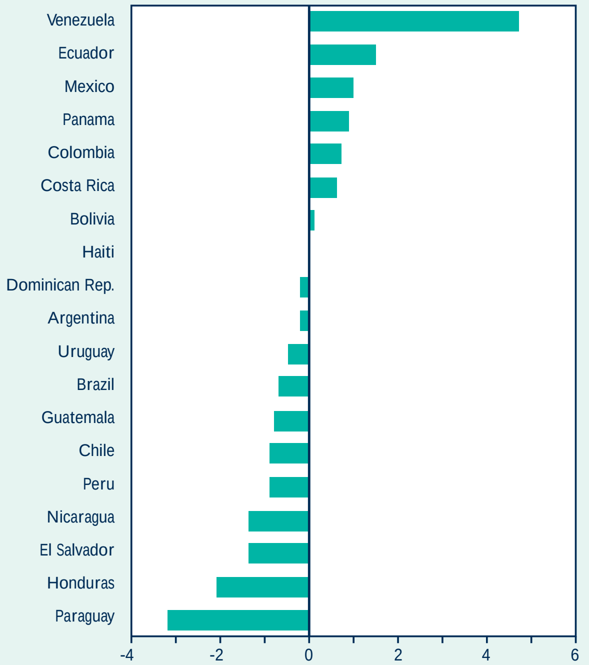
Source: ECLAC, on the basis of official figures and data provided by the World Bank and International Monetary Fund.
a/ The sum of the average spread on the bond issue plus the yields on long-term United States Treasury bonds.
b/ October and November.

Latin America and the Caribbean:
Stock exchange prices
(Variation in indices expressed in dollars)



Source: ECLAC, on the basis of figures from the International Finance Corporation.
a/ To 10 December.

Latin America and the Caribbean:
Terms of trade gains and losses
(Percentage of GDP)



Source: ECLAC, on the basis of official figures.

EXCHANGE RATE POLICIES BECOME MORE FLEXIBLE

There was increased flexibility in the handling of exchange rates. Four countries (Brazil, Colombia, Chile and Ecuador) abandoned currency bands in favour of floating regimes, which are now the most common systems in the region. The prior currency band approach has been the target of criticism in light of its vulnerability to attacks of speculation.

The first half of the year saw intense debate on the advantages and disadvantages of freely floating currencies or highly credible fixed rates (based on currency boards or complete dollarization). Controversy then abated, giving way to a consensus that, save in a few specific cases, current regional and international conditions called for more exchange rate flexibility. Only three Latin American countries (Argentina, El Salvador and Panama) and a group of small economies in the eastern Caribbean still have either *de facto* or *de jure* fixed dollar parity. All of the floating systems involve a more than negligible amount of intervention. In Mexico and Brazil, monetary authorities intervened repeatedly to moderate fluctuations in the exchange rate, and monetary policy continued to be highly dependent on external factors.

Changes in nominal exchange rates were very different in South America from the rest of the region. In South America, the increase in the nominal rate of devaluation, which had begun in late 1997, gained momentum starting in January 1999 because of the Brazilian devaluation. The sharpest devaluations occurred in Ecuador (99%), Brazil (57%) and Colombia (24%).

Mexican and Central American currency markets, after suffering the impact of the Brazilian crisis in the first quarter, returned to normal levels. Mexico's success in quickly regaining investors' confidence was an important factor in this, since it is a leading market in the subregion.

The Caribbean countries, in a pattern that was already visible the previous year, remained isolated from the international financial turbulence that affected other countries in the region. Changes in exchange rates here continued as before, with average devaluations on the order of 2%.

With falling inflation in almost all the region's countries, changes in real exchange rates have varied little from past patterns of nominal variation. In 1999, Latin American currency as a whole depreciated by 3.5% (the simple average of the depreciations of the various currencies). Only the Caribbean subregion posted a rise, and it was slight (1.7%). This confirms the change that was visible already in 1998 and contrasts with the previous two years (1996 and 1997), when the countries of the region saw real appreciation in their currencies.

Reforms continue at a slower pace

In 1999, the economic crisis held back structural reform, since authorities' efforts were centred on managing the immediate situation. Privatization suffered, as planned projects were deferred, and the total amount raised (slightly over US$ 12 billion) was far less than the previous year's record figure of US$ 40 billion. One third of the amount was attributable to Argentina, and a similar amount to Brazil. The sectoral diversification of privatizations and concessions continued, involving ports, airports, public water systems, highways, railroads, telecommunications, power generation and distribution, and natural gas.

DOMESTIC PERFORMANCE

Except in the area of inflation, which was under control in most of the Latin American and Caribbean countries, the region's overall economic performance was weak in 1999. Growth was zero, and investment and consumption fell. It is no surprise, therefore, that job creation was less than in 1998 and that unemployment rose. Projections for the year 2000, however, are more encouraging.

Venezuela- national income did better than GDP as a result of the significant rise in hydrocarbon prices. Deteriorating terms of trade in most countries, along with smaller inflows of foreign capital, led to low levels of consumption and investment in a number of countries. A flattening export-volume curve was also a factor. However, the negative impact that these elements might have had on output was partially offset by falling import volume.

Regional output stalls

The economic growth curve in Latin America and the Caribbean was flat for 1999. This left growth 2% under the 1998 figure and more than 5% under the 1997 figure, which was one of the best years in the last quarter century. Per capita output declined 1.5%, but is still 14% above its level at the beginning of the decade.

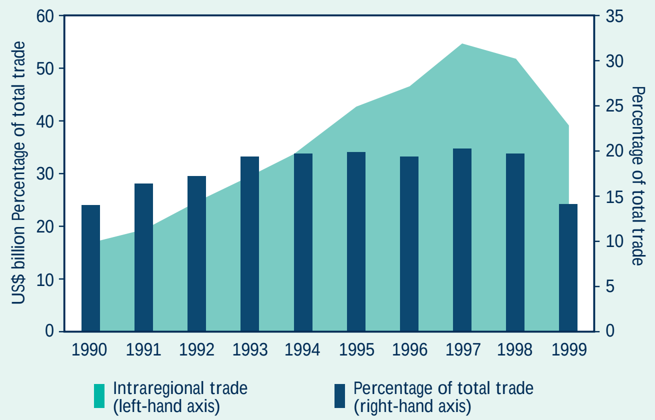
Overall economic performance in 1999 was the product of two groups of countries whose economies performed quite differently. On the one hand were the dynamic economies of Mexico and various Central American and Caribbean countries. Costa Rica, Cuba, Dominican Republic, Nicaragua and Trinidad and Tobago were particularly notable, with GDP growth of between 6% and 8%. Mexico's economy was the strongest of the medium and large economies in the region (3.5%). Not all countries in this subregion prospered in this way, however. The Honduran economy, for example, contracted in the wake of Hurricane Mitch, which had devastated the country at the end of 1998, and the Jamaican economy slowed down as well.

In South America, problems were much more widespread. Declines of 3% or more were posted in Argentina, Colombia, Ecuador and Venezuela, and there were smaller downturns in Chile, Paraguay and Uruguay. Brazil's small growth figure of 0.5% was a significant factor in the stagnation of the region's economy, given the weight of the Brazilian economy.

This period of weakness in the region's economy began in late 1997. It intensified as the impact of the international financial crisis grew, with abrupt drops in capital flows and heavy reductions in the terms of trade. National economic growth fell off, while the number of countries with declining output grew. In Brazil, the downward shifts were most intense in 1998 and the first quarter of 1999. Following this, there was a degree of recovery driven by import-substitution industries and the strong performance of the agriculture and mining sectors.

The region's national income also stalled in 1999, though individual figures varied from country to country. In most countries, the unfavourable turn in the terms of trade noticeably affected national income, which fell in a number of cases. In the oil-producing countries, however -particularly Mexico and

Latin America and the Caribbean: Intraregional trade during the 1990s



Source: ECLAC, on the basis of official figures.

Moderate recovery is expected in 2000

In 2000, the Latin American economy will rebound from the 1999 recession. ECLAC estimates that growth will be 3.6%, ringing in the end of the 1991-2000 decade with an average growth rate of 3.2%. This fairly encouraging picture is based on a good outlook for the international economy, with significant growth, very low inflation, and low interest rates in the developed countries. At the same time, the external sector is expected to improve in various countries of the region as a result of increased real exchange rates, which will drive exports and keep imports down. This scenario assumes that international capital markets will settle back firmly into a normal state of affairs, leading to greater capital inflows.

Growth rates in Mexico and in the Central American and Caribbean countries will also increase next year. In the South American countries, recovery from a poor 1999 is expected. There are already signs of an upturn in Brazil, which can be expected to be helpful to neighbouring countries.

Investment declines

Investment in 1999 fell sharply as a result of the international crisis. Private investment was heavily affected. The drop was quite uneven, with the Central American and Caribbean countries suffering less than South America. The greatest declines were in Chile, Colombia, Ecuador and, to a lesser extent, Argentina, Peru, Uruguay and Venezuela, while the best-performing economies were those of Honduras, Nicaragua, Panama and Cuba, which received the benefit of a marked increase in public investment for rehabilitation and reconstruction following the devastation of Hurricane Mitch (in the cases of Honduras and Nicaragua) and increased public and private investment in infrastructure (in the case of Panama).

The stagnation of the region's economy in 1999 had a strong effect on private investment. Especially important were the adjustment policies of the second half of both 1998 and 1999. Those hardest hit were the region's SMEs. Reduced foreign investment in some of the countries also was a factor.

Changes in the sources of investment financing include a decrease of more than 2% of GDP for external saving and an increase of more than 1% for domestic and national saving. In 14 of the 19 countries for which information is available, however, the latter was affected by increasingly unfavourable terms of trade. This was a particularly significant factor in Chile, El Salvador, Honduras, Nicaragua, Paraguay, Peru and Uruguay.

Inflation continues to stabilize at the low level reached the previous year

Average inflation for the region was approximately 10% in 1999, slightly less than what it had been in the previous two years, which featured the lowest figures in half a century. Inflation declined in the last few years, dropping from 888% in 1993 to 10% in 1997, where it levelled out. It should also be noted that 17 of the 22 countries considered here were in the single digit range for the year. In addition, in most countries, either the upward curve of prices flattened out or continuing upward trends were slight to begin with. Only in two cases were there significant increases: Brazil moved from 2.5% in 1998 to around 9% in 1999, and Ecuador rose from 43% to 53% in the same interval of time.

Among the strongest economies, Argentina again stood out, with a drop of 1.7% in its consumer price index. Other countries with very low inflation were Bolivia, Chile, El Salvador and Panama, where prices rose less than 3%. It is also clear that in the first three of these countries stabilization is firmly established, following very significant progress over the last few years. Panama's usual low rate of inflation continued.

Uruguay is also a noteworthy case. Though until very recently it faced rapidly rising prices, inflation in 1999 was less than 4%, the lowest figure in 50 years. The case of Colombia was somewhat similar, since its 9.7% inflation rate was the lowest in almost 30 years. In another six countries there was single digit inflation despite rates of over 10% in the two preceding years. Venezuela reduced inflation from 30% to 20%, but this was still high for the region, with only Ecuador at a more elevated level. Mexico also made headway, with a nearly 5% drop in inflation. Despite devaluations in various of the region's currencies, this loss of value was not transferred to domestic prices, due to tight monetary policy and the recession that persisted through the first three quarters.

Brazil suffered a setback in its efforts to stabilize prices, which in the preceding years had managed to keep inflation under control. The setback is directly linked with the sharp devaluation of the currency in the early part of the year. Between the effects of recession and the process of deindexing over the last years, however, Brazil largely managed to avoid the devaluation's affecting consumer prices. Though prices did rise slightly towards the end of the year, this is thought to be due to problems of narrow scope. Hence, given the support of international financial organizations and the country's rigorous monetary policy, there is no great threat that the country will enter a period of uncontrolled inflation. The situation in Ecuador is the most difficult in the region, due to the depth of the economic and financial crisis there, which has caused a surge of inflation, with rates of more than 50% appearing for the first time since 1995.

Labour market problems continue to worsen

The aggravation of labour market problems that emerged in mid-decade (with a temporary remission in 1997) continued on its course in 1999. The economic problems of various countries, especially in the southern part of the region since the end of 1998, were reflected in falling employment and sharply rising unemployment.

Low rates of economic growth led to a drop in the employment rate for a group of nine countries. Calculated as a weighted average, the decline was from 53.7% to 52.5%, and calculated as a simple average, from 53.5% to 52.1%. It should be emphasized that this is a very significant drop for this indicator. In addition to Brazil, seven other countries registered a decline (Argentina, Chile, Colombia, Ecuador, Mexico, Uruguay and Venezuela), with a rise posted only in Panama.

Decreasing economic growth or, more especially, falling output, is generally reflected in a reduction of demand for labour by business, which is why the proportion of wage earners with jobs decreased in many countries, including Argentina, Brazil, Chile, Colombia and Ecuador. The result was further informalization of the labour market.

The economic downturn was particularly hard on jobs in construction and manufacturing. In Greater Buenos Aires, for example, manufacturing jobs as a percentage of all jobs fell from 19.2% to 16.9% between August 1998 and August 1999. In Brazil, formal construction jobs fell 11% between October 1998 and October 1999.

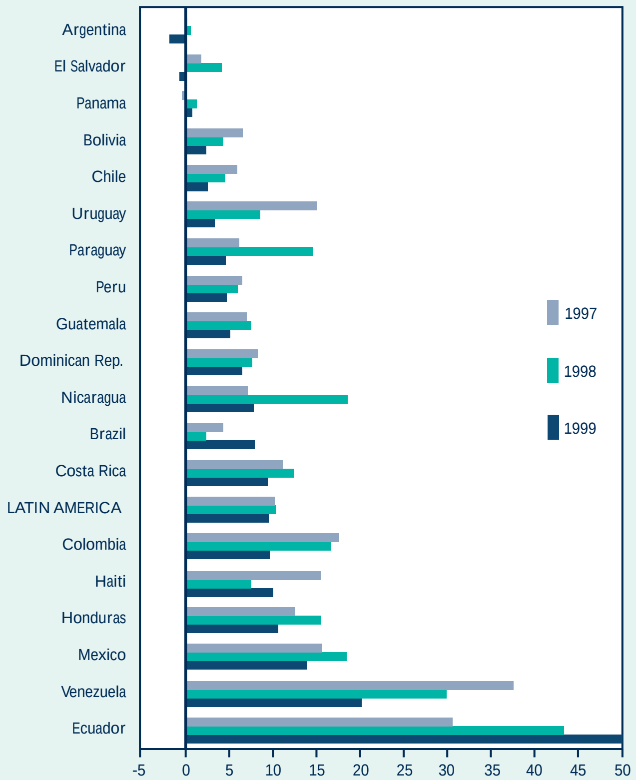
As during the previous year, the higher growth rate in Mexico and some Central American and Caribbean countries was good for jobs. Thus, Mexico experienced relatively high demand for labour, and wage-earning employment increased as a fraction of all employment. In contrast to the situation in the southern part of the region, both manufacturing and construction gained as a share of all employment.

Symmetrically, the unemployment rate for the region rose from 8.0% to 8.7%, the highest level ever since labour statistics became available for a statistical critical mass of the region's countries. The greatest increase in unemployment was in Argentina, Chile, Colombia, Ecuador and Venezuela. By contrast, the rate in Brazil, where unemployment in 1998 had reached levels comparable with the early 1980s, remained relatively constant, while in Mexico and a number of Central American and Caribbean countries it fell.

The increase in unemployment at the regional level occurred despite the fact that the weighted average participation rate for nine countries in 1999 fell from 58.5% to 57.9%, interrupting a long-term rising trend.

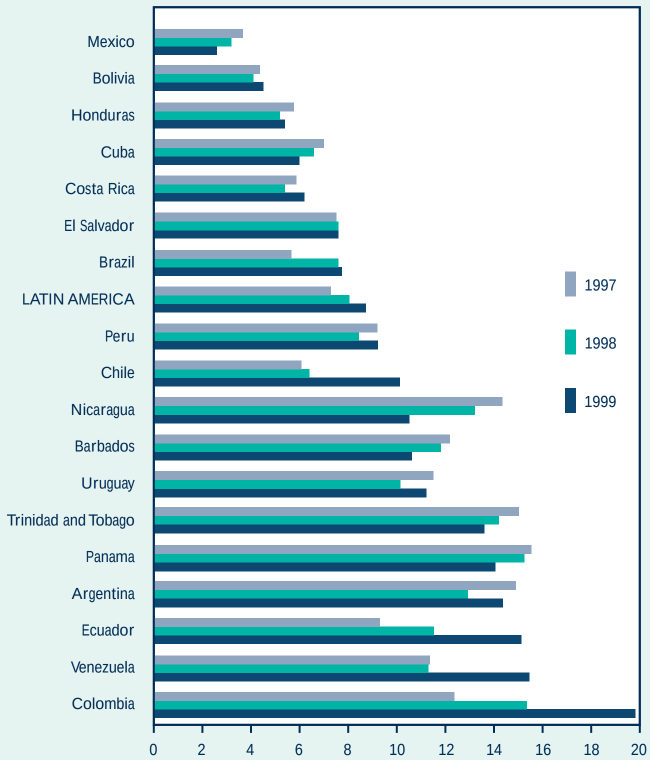
Real wages in the formal sector turned in a better performance than employment, rising in Chile, Colombia, Costa Rica, Nicaragua and Uruguay. Increased wages in all these countries were due in large part to diminishing inflation, especially in those cases where prices rose less than projected (principally Chile, Colombia and Uruguay). In contrast, real wages were flat in Argentina, Mexico and Paraguay, and fell in Brazil and Peru.

Latin America and the Caribbean: Consumer prices
(Twelve-month rates of variation)



Source: ECLAC, on the basis of official figures.

Latin America and the Caribbean: Urban unemployment
(Average annual rate)



Source: ECLAC, on the basis of official figures.

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The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the milestones in the region's history. The symbols are engraved on the outside of the conference rooms at ECLAC headquarters in Santiago, Chile.

Mining and trade | Astronomic observatory | Kukulcan temple | Electricity, railroads, barbed wire, plow | The Constitution, the press

STATISTICAL APPENDIX

Latin America and the Caribbean: Total and per-capita gross domestic product.

(Annual variation)

	Annual growth rates						Annual average rate	
	1997		1998		1999[a]		1991-1999	
	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita	GDP	GDP/capita
Latin America and Caribbean [c]	**5.4**	**3.7**	**2.1**	**0.4**	**0.0**	**- 1.6**	**3.2**	**1.4**
Subtotal (19 countries) [c]	**5.5**	**3.7**	**2.1**	**0.4**	**0.0**	**- 1.6**	**3.2**	**1.4**
Argentina	8.0	6.6	3.9	2.6	- 3.5	- 4.5	4.7	3.3
Bolivia	4.1	1.7	4.6	2.1	1.0	- 1.3	3.9	1.4
Brazil	3.8	2.4	0.0	- 1.4	0.5	- 0.9	2.5	1.0
Chile	7.0	5.5	3.1	1.7	- 1.5	- 2.7	6.0	4.4
Colombia [d]	2.7	0.7	0.7	- 1.2	- 5.0	- 6.9	2.5	0.5
Costa Rica	3.5	0.8	5.5	3.0	7.5	5.0	4.1	1.2
Cuba [e]	2.5	2.0	1.5	1.1	6.0	5.6	- 2.1	- 2.6
Ecuador	3.9	1.8	1.0	- 0.9	- 7.0	- 9.0	1.9	- 0.2
El Salvador	4.2	2.0	3.2	1.1	2.5	0.3	4.4	2.3
Guatemala	4.3	1.6	5.0	2.3	3.5	0.9	4.2	1.5
Haiti	1.5	- 0.4	3.2	1.3	2.5	0.4	- 1.2	- 3.1
Honduras	5.0	2.1	3.9	1.1	- 2.0	- 4.5	3.1	0.2
Mexico	6.8	5.1	4.9	3.2	3.5	1.8	3.1	1.3
Nicaragua	5.5	2.6	4.2	1.4	6.0	3.2	3.2	0.3
Panama	4.7	2.9	4.4	2.7	3.0	1.2	4.7	2.8
Paraguay	2.4	- 0.2	- 0.6	- 3.2	0.0	- 2.5	2.1	- 0.6
Peru	8.6	6.7	0.1	- 1.6	3.0	1.0	4.7	2.9
Dominican Republic	7.1	5.3	6.0	4.2	7.0	5.3	5.0	3.1
Uruguay	5.0	4.3	4.6	3.8	- 2.5	- 3.2	3.2	2.4
Venezuela	6.6	4.4	- 0.2	- 2.2	- 7.0	- 8.8	1.9	- 0.3
Subtotal Caribbean [f]	**1.8**	**1.0**	**1.8**	**0.9**	**3.1**	**2.3**	**2.0**	**1.1**
Antigua and Barbuda	5.7	4.2	…	…	…	…	2.9 [g]	2.3 [g]
Barbados	2.6	2.2	4.8	4.0	2.5	2.1	1.4	0.9
Belice	4.0	1.7	1.3	- 1.3	…	…	3.5 [h]	0.8 [h]
Dominica	2.6	2.7	3.5	3.5	…	…	2.6 [h]	2.7 [h]
Granada	4.7	4.3	5.0	4.5	…	…	2.9 [h]	2.6 [h]
Guyana	6.2	5.1	- 1.3	- 2.3	2.0	0.7	6.6	5.6
Jamaica	- 2.1	- 3.0	- 0.7	- 1.6	- 1.0	- 1.9	0.4	- 0.5
Saint Kitts y Nevis	7.2	7.2	1.7	1.7	…	…	4.3 [h]	4.6 [h]
San Vicente and the Granadines	3.2	2.3	5.5	4.5	…	…	3.2 [h]	2.3 [h]
Saint Lucia	2.9	1.5	1.9	0.5	4.0	2.5	1.9	0.6
Suriname	3.6	3.1	…	…	…	…	1.4 [g]	1.1 [g]
Trinidad and Tobago	3.2	2.6	3.3	2.7	7.0	6.3	3.0	2.3

Source: ECLAC on the basis of official figures in constant 1995 dollars.

Note: Totals and subtotals do not include those countries for which no information is given.
[a] Preliminary estimate. Figures have been rounded to the nearest 0.5.
[c] Does not include Cuba.
[d] Figures for the period 1997-1999 were estimated by ECLAC, on the basis of preliminary figures provided by the National Bureau of Statistics (DANE).
[e] Calculated on the basis of constant prices in local currency.
[f] Calculated on the basis of figures at factor cost.
[g] Refers to 1991-1997.
[h] Refers to 1991-1998.

RECENT TITLES

1 Gasto público en servicios sociales básicos en América Latina y el Caribe. Análisis desde la perspectiva de la Iniciativa 20/20 (LC/R.1933, Spanish, available without charge).

Study on public-sector social spending in Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Jamaica, Nicaragua and Peru. Includes a comparative analysis which shows that no country has achieved universal access to quality services in basic education and health care and drinking water supply. WWW

2 El desafío de las nuevas negociaciones comerciales multilaterales para América Latina y el Caribe, Temas de coyuntura series N° 7 (LC/L.1277-P, Spanish and English, US$ 10).

Analyses trade negotiations as a permanent and ongoing process and considers the region's involvement in the international economy between two negotiating rounds. Also analyses access to goods and services markets, and future negotiations. WWW

3 Impactos ambientales de los cambios en la estructura exportadora en nueve países de América Latina y el Caribe: 1980-1995, by Marianne Schaper. Medio ambiente y desarrollo series N° 19 (LC/L.1241-P, Spanish, US$ 10).

The economic reforms carried out in the region during the past two decades have not only changed the course of the countries' growth process, but also their export profile and environment. This study analyses these changes and measures the environmental impact of liberalization policies in nine countries. WWW

4 Documents on Colombia:

Price-based capital account regulations: the Colombian experience, by José Antonio Ocampo, Executive Secretary of ECLAC, and Camilo Ernesto Tovar. Financiamiento del desarrollo series N° 87 (LC/L.1243-P, English, US$ 10). WWW

Colombia: un análisis de su competitividad internacional, by José Luis Bonifaz and Michael Mortimore. Desarrollo productivo series N° 58 (LC/L.1229-P, Spanish, US$ 10).

Changes in the distribution of income and the new economic model in Colombia, by Mauricio Cárdenas and Raquel Bernal. Reformas económicas series N° 36 (LC/L.1227, English, available without charge). WWW

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CALENDAR

MONTH	EVENT	VENUE
JANUARY		
19 - 21	Regional consultative meeting on sustainable development in Latin America and the Caribbean, United Nations Division for Sustainable Development, Department of Economic and Social Affairs (DESA), New York/ECLAC/OAS/IDB/UNDP/SEED and UNDP/Latin America and the Caribbean	ECLAC Santiago, Chile
24 - 27	Twelfth Regional Seminar on Fiscal Policy, ECLAC/International Monetary Fund (IMF)/World Bank/ Inter-American Development Bank (IDB), sponsored by the Finance Ministry of Chile	ECLAC
27	Workshop on methodologies and procedures for estimating and calculating fiscal indicators, ECLAC/National Bank for Economic and Social Development (BNDES), Brazil	ECLAC
	Workshop on the evaluation of public expenditure in education, ECLAC/IDB	ECLAC
27 - 28	Meeting of senior managers on the fight against rural poverty, ECLAC/Food and Agriculture Organization of the United Nations (FAO)	Buenos Aires, Argentina
FEBRUARY		
8 - 10	Eighth session of the Regional Conference on Women of Latin America and the Caribbean, ECLAC. ECLAC will present a working paper entitled, "The challenge of gender equity and human rights on the threshold of the twenty-first century", which deals with the two main issues to be discussed at the session.	Lima, Peru
14 - 16	Meeting to discuss challenges and proposals for a more effective implementation of economic instruments in environmental management in Latin America and the Caribbean, ECLAC/UNDP project	ECLAC
APRIL		
3 - 8	Twenty-eighth session of ECLAC This biennial meeting brings together representatives of member States and associate members to report on the work carried out between 1998 and 1999 and to discuss the work programme planned for the coming biennium. This will include the topics of rights and integrated development; equity, competitiveness and citizenship; education; macroeconomic stability; changing production patterns; social policies, and the environment.	Mexico City

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