2000-2001

Economic survey

OF LATIN AMERICA AND THE CARIBBEAN

UNITED NATIONS

CEPAL
ECLAC

LC/G.2139-P
December 2001

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UNITED NATIONS PUBLICATION

Sales number E.01.II.G.2

ISSN 0257-2184
ISBN 92-1-121319-3

The *Economic Survey of Latin America and the Caribbean* is prepared annually by the ECLAC Economic Development Division with the assistance of the Statistics and Economic Projections Division, the subregional headquarters in Mexico and Port of Spain, and the national offices of the Commission in Bogotá, Brasilia and Buenos Aires. The *Survey* is prepared under the overall supervision of Barbara Stallings, Director of the Economic Development Division. Hubert Escaith, Chief of the Macroeconomic Analysis Unit, is responsible for its technical coordination.

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NOTES

The following symbols have been used in the tables shown in the *Survey*.

Three dots (...) indicate that data are not available or are not separately reported.
A dash (–) indicates that the amount is nil or negligible.
A full stop (.) is used to indicate decimals.
The word "dollars" refers to United States dollars unless otherwise specified.

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Foreword

The *Economic Survey of Latin America and the Caribbean, 2000-2001* is the fifty-third edition in this series and incorporates a number of changes in the format which are intended to expand its regional coverage and make the study more readable.

Once again, the Survey has been published as a single volume. The first part covers the regional economy, while the second part contains analyses of the individual countries in Latin America and the Caribbean. The statistical appendix is published in electronic form in order to facilitate data processing.

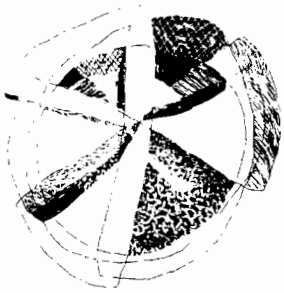
The first part of the Survey has a new, more compact structure. It begins with a chapter covering the situation in the first half of 2001 and the prospects for the year as a whole. The analysis of the various aspects of the regional economy in 2000 consists of three chapters on macroeconomic policies and reforms, the performance of the internal economy and the external sector.

The second part contains brief analyses of the economic performance of the 20 countries of Latin America and the English-speaking Caribbean during 2000 and early 2001. The country reports include tables and figures on the main economic indicators.

The statistical appendix, which is supplied on CD-ROM, includes over 400 tables providing ready access to data for recent years and permits the creation of spreadsheets. The full text and graphics are also provided in electronic format on the CD-ROM.

First part

The region



Chapter I

Current conditions and outlook in 2001

1. Introduction

With external conditions proving to be much less favourable than initially expected and with adverse developments in the region –including electricity supply problems in Brazil, weak domestic demand and political difficulties in other countries– the Latin American and Caribbean region is likely to find the year 2001 a disappointing one. GDP growth projections for the region as a whole have repeatedly been adjusted downward. By the start of the second semester, output was expected to expand by only about 2%, or just half the 4% rate achieved in 2000.[1] This meagre growth rate is likely to be accompanied by a continuing decline in inflation (the regional average for the first half of the year fell below 8%) but also by continuing high unemployment (around 8.5% of the region's workforce). The current account deficit is expected to rise from the preceding year's figure of US$ 47 billion (2.5% of GDP) to US$ 58 billion (3% of GDP), mainly because lower oil prices will reduce Venezuela's surplus. The deficit should be covered by capital inflows of around US$ 60 billion (see table 1).

1 Growth forecasts for the main economies in 2001 have been revised sharply downward by all sources, both private and public. The Economic Commission's current forecast of a 2% growth rate contrasts with the 2.7% to 3% projected in May 2001and the 3.8% estimate it issued in December 2000. See ECLAC, *Perspectivas de América Latina en el nuevo contexto internacional de 2001*, Estudios estadísticos y prospectivos series, No. 13 (LC/L.1554-P), Santiago, Chile, June 2001, and *Preliminary Overview of the Economies of Latin America and the Caribbean, 2000* (LC/G.2123-P), Santiago, Chile, December 2000.

Table I.1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1999	2000	2001[a]
Annual growth rates			
Economic activity and prices			
Gross domestic product	0.4	4.1	2.0
Per capita gross domestic product	-1.1	2.5	0.5
Consumer prices[b]	9.5	8.7	7.5
Percentages			
Open urban unemployment	8.8	8.5	8.5
Fiscal balance / GDP	-3.1	-2.4	-3.0
Total disbursed external debt / GDP[c]	42.7	37.5	39.0
External debt / exports of goods and services	217.9	176.0	178.0
Billions of dollars			
External sector			
Exports of goods and services	341	406	425
Imports of goods and services	361	418	446
Trade balance (goods and services)	-20	-12	-21
Current account balance	-56	-47	-58
Capital and financial account balance[d]	44	67	60

Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates subject to revision. [b] December-December variation. [c] Estimates on the basis of figures in current dollars. [d] Includes errors and omissions.

The difficult external environment has two main components. Firstly, there is the slowdown in world economic growth, which is being led by a decline in the United States that has spread to Europe and the developing countries of Asia. At the same time, Japan is lapsing back into recession. Having been repeatedly revised downward, projections for world growth now stand at between 2% and 2.5%, as compared to 4% in 2000. The slackening of economic growth has been transmitted from one country to another through a sharp slowdown in world trade. As a result of all these factors, the Latin American and Caribbean economies are facing both weaker demand and lower prices for their export products.

Secondly, the international financial markets that are relevant to developing countries have not yet fully recovered from the Asian and Russian crises of 1997-1998. Since then, borrowing costs in emerging markets have remained high, maturities have generally been short and the supply of credit has been unstable. Since the latest bout of instability, furthermore, bank loans and equity investment have virtually dried up as a source of new money, and bond markets are mainly being used to roll over debt. While all emerging markets have faced constraints, Latin America's access has been particularly limited in recent months because of investors' concerns about the situation in Argentina and the possible contagion of other economies in the region.

Despite the problems affecting financial markets, however, foreign direct investment continues to be a reliable source of capital for Latin America and the Caribbean. Although they will probably be somewhat lower than last year, net FDI inflows should still amount to around US$ 50 billion in 2001, with an increase in Mexico partly offsetting declines in Argentina and Brazil. Receipts from bond issues will once again be used primarily to roll over existing debt, but multilateral credits will increase. Overall, net autonomous capital flows to the region this year will roughly match the average for 1998-2000. In addition, compensatory credits will be used. Already, both Argentina and Brazil have announced that they will draw upon the financial packages that have been approved for their use. The end result of these trends is expected to be a virtually nil net transfer of external resources to the region for the third year running.

The principal effect that the world economy's sluggishness has had on the region's trade performance during the first half of the year has been a slowing of export growth. Since imports continue to expand at a relatively robust pace in a number of countries, the trade and current account deficits will widen. Countries whose exports are still growing fairly strongly include Brazil and some of its Mercosur partners; expansion also continues in Mexico, but at a much slower rate than last year. Elsewhere, external sales are either stalled or actually falling. Imports, by contrast, grew at double-digit rates during the first half in Brazil, Colombia, Ecuador and Paraguay, although they fell in relative or even absolute terms in all the other countries. It is likely that there will be a deceleration in imports during the second half of the year, and export earnings may also decline further.

Domestic macroeconomic conditions have tended to exacerbate the contraction triggered by the external sector. The principal variable in this respect has been monetary in nature, since credit has been in short supply, even where interest rates have been lowered. With the exception of Mexico, the currencies of countries with floating exchange rates have tended to decline against the dollar in real terms. In the other countries, exchange rate trends have been mixed. Owing to the strength of the dollar against other reserve currencies, however, the region as a whole has once again seen a decline in its average real effective exchange rate and in the competitiveness of its exports. In countries with substantial intraregional trade flows, this trend has been

compounded by fluctuations in the currencies of their regional trading partners.

In contrast to other macroeconomic factors, fiscal policy has generally had a more favourable effect on domestic demand. In most of the countries, budget deficits will rise for endogenous reasons, since weaker growth and lower raw material prices have depressed tax revenues, while persistently high unemployment and interest rates have raised costs. The overall effect of these macroeconomic trends has been to dampen the growth of domestic demand for both investment and consumer goods. Continuing problems in the labour market, which will be discussed in a later section, are also inhibiting consumption and, consequently, investment.

This decline in growth is especially disappointing because at the beginning of the preceding year the region's economies appeared to be entering a new growth cycle after the recession of 1999. Indeed, as figure 1 shows, growth rates accelerated from the second quarter of 1999 through the first quarter of 2000. After peaking at just over 4% in the latter quarter, however, they levelled off and then began to drop from the fourth quarter onward, with the decline carrying over into the first half of 2001. It is now hoped that growth will pick up somewhat in the second half of the year, but a more solid recovery will have to wait until 2002.

One of the most significant aspects of the year's growth performance has been the narrowing of the wide gap that opened up over the last five years between Mexico and Central America, on the one hand, and South America, on the other. During that period, the former group of countries, which have close ties to the strong United States economy, burgeoned thanks to the robust performance of their export sectors and especially their *maquila* industries. At the same time, many of the economies of South America were mired in a recession brought on by the international financial crisis of 1997-1998 from which many had yet to recover fully as of 2000. With the general international slowdown, and particularly that of the United States, the differential is now much smaller, and the two subregions will have very similar performance levels this year.

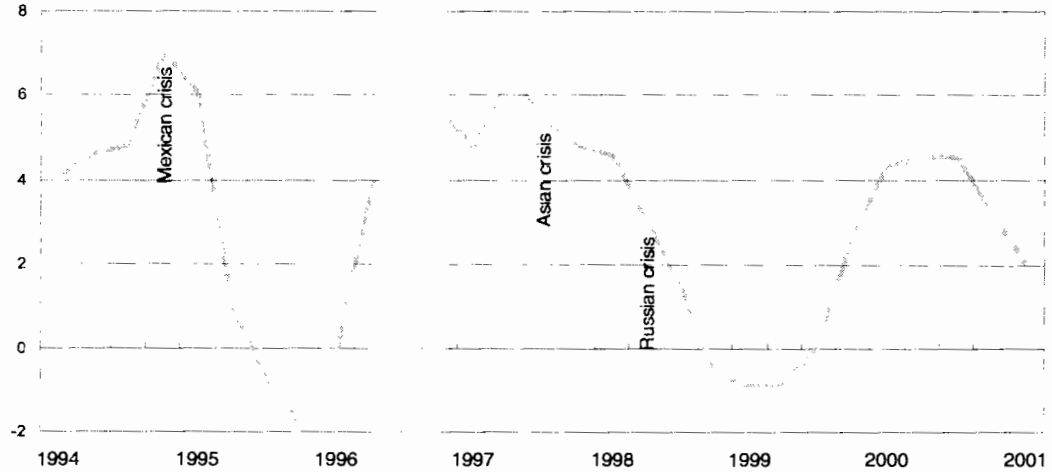
At the individual country level, the two largest economies have seen their growth rates slow substantially. The Dominican Republic, which has been the most dynamic economy in recent years, has also seen its growth rate decline. The most difficult conditions are found in Argentina, Peru and Uruguay, where growth will probably be flat or even negative. The highest rate of GDP growth is expected to be in Ecuador, but economic activity in that country will still be below its 1998 levels.

The employment situation will deteriorate somewhat, but just as job creation in 2000 did not match the overall recovery of output, neither will the current year's performance reflect the full extent of the slowdown. In fact, the employment rate for the first half of the year only slipped from 52.9% to 52.6%, although it is likely to decrease further in the second half. At the same time, the unemployment rate for the region as a whole

Figure I.1

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT [a]

(Perccentage variation with respect to the same quarter of previous year)



Source: ECLAC, on the basis of official figures.

[a] Includes Agentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

actually fell in the first half of 2001 with respect to the same period in 2000 (from 9.0% to 8.5%) owing to a decline in the labour force participation rate. It should be noted, however, that these regional figures are heavily influenced by Brazil. The situation with regard to wages was mixed, but no major changes were seen in the very few countries reporting on this variable.

The one consistent achievement of recent years –the reduction of consumer price inflation– is likely to be sustained in 2001. In the first half of the year, the 12-month rate fell to 7.5% (from 8.7% for the same period in 2000). Inflation was either lower than it had been in 2000 or remained constant in 17 of the 22 countries with information available, and rose in only five. Overall, the drop in energy prices is helping to bring inflation down, as is the appreciation of most of the countries' real effective exchange rates. Low growth rates are also making it difficult for businesses to pass price rises on to consumers.

2. The external sector

Latin America's balance-of-payments current account deficit is expected to verge on US$ 58 billion –equivalent to 3% of GDP– in 2001, up from the previous year's figure of US$ 47 billion (see figure 2). This increase will be chiefly attributable to the fact that Venezuela's trade surplus is likely to shrink while Brazil's and Mexico's deficits will expand. Overall, the region's trade deficit will amount to some US$ 21 billion.

In 2001 the region will receive current transfers of about US$ 18 billion and net payments of interest and profits will be around US$ 55 billion, which is quite similar to the results for 2000. Projections for these factor services indicate that profit remittances will remain on the upward trend seen in recent years, but net interest payments on external debt will shrink slightly due to the reduction in international interest rates.[2]

If projected trends in the current and capital accounts are borne out, the net transfer of resources to the region will be almost nil. For the third year running, gross capital inflows will have to be allocated entirely to debt amortization and factor services.

Trade activity –particularly exports– cools off

The momentum gathered by the region's external trade activity in 2000 thanks to world and regional economic trends has slackened considerably in 2001. The figures for the early months of the year attest to this deterioration, which has thus far affected exports more than imports.

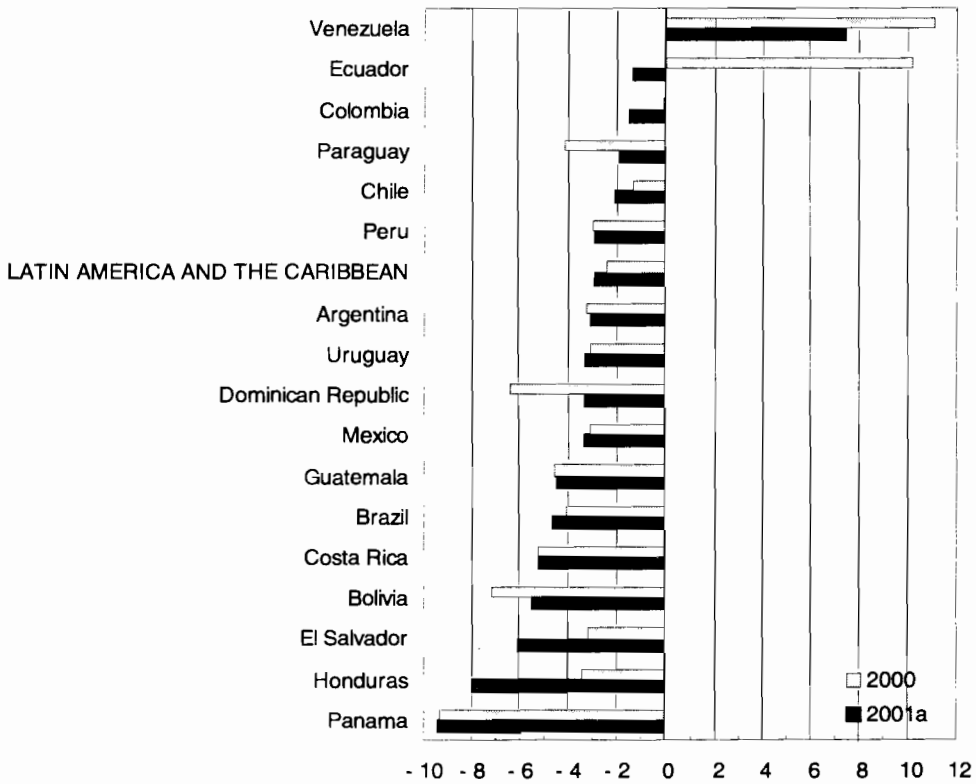
The world economic slowdown that was looming at the end of 2000 has now clearly arrived. The decline began in the United States –previously the main driver of world economic activity– and has been spreading to the rest of the world. As a result, projections for world growth in 2001 are between 2% and 2.5%, compared to 4% in 2000. The economic slowdown in the United States, whose growth projections for the year overall are between 1.25% and 2%, will have a major impact on the region, especially Mexico, Central America and the Caribbean. The European Union countries have also lowered their growth projections, as their economies are unlikely to expand by much more than 2%, if that. In Japan, the economy may well stagnate again or even shrink slightly. The other Asian economies will also be seriously affected by the harsher environment.

This outlook has already affected international commodity markets, particularly for raw materials. In the first semester of 2001, the dollar price index prepared by ECLAC for Latin American and Caribbean mineral and metal exports dropped almost 4% from its level in 2000. Price decreases were recorded for such commodities as copper (5%), tin (7%), zinc (12%) and steel products (9%). Aluminium prices stagnated, but lead prices regained part of the ground lost in 2000 and iron ore prices rose by 5%.

Coffee prices continued to plummet in the first semester of 2001, losing a quarter of the preceding year's average value. Cocoa prices, in contrast, rebounded from their previous plunge. The upward trend in oil prices was

2 It is estimated that a 1% reduction in the international interest rate will generate an immediate net annual saving of about US$ 1 billion for the region. Non-guaranteed short-term external liabilities and international reserves will be most affected in the short term.

Figure I.2
LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT BALANCE
(As a percentage of GDP)



Source: ECLAC, on the basis of figures from official sources and from the International Monetary Fund.
[a] Projections.

reversed, and first-semester prices were almost 15% lower than the previous year's average.

Only food prices remained impervious to the worldwide economic slowdown. Driven largely by supply-side factors, significant upturns were recorded in the prices of bananas (40%), sugar (17%) and wheat (12%), although prices for the latter two products were still well below the figures seen prior to the Asian crisis. Price rises, albeit smaller ones, were also recorded for shrimp, beef and maize. Thanks to these developments, the overall non-fuel commodity price index hardly fell at all during the period under review (see figure 3).

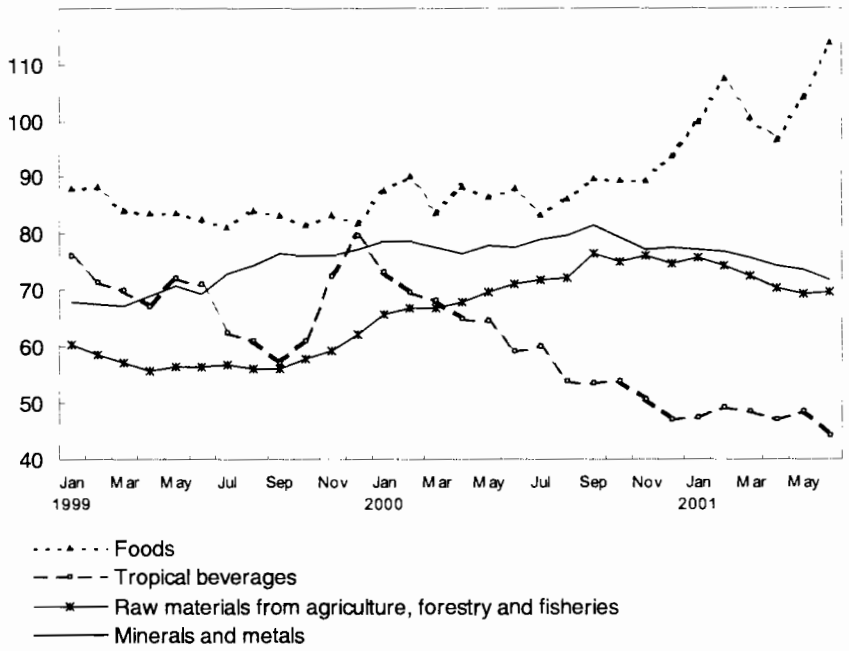
In the case of manufactured goods, the downward trend in dollar prices has been compounded by a slump in the volume of trade. Electronic products have proven to be highly sensitive to the business cycle, and United States demand for the types of electronics produced by *maquila* industries in Mexico and Costa Rica has consequently fallen off sharply.

Many of the region's countries posted lower export earnings in the early months of 2001 as a result of sluggish demand and lower prices for their export products. The countries in this group included several Central American nations (particularly Costa Rica, Guatemala and Nicaragua, which saw a drop of about 20%), as well as Ecuador and Venezuela (where the decrease was 6%).[3] Colombia, Cuba and Peru recorded meagre export growth, while Mexican exports gradually slowed to a rate of barely 3%.

The main exception to this bleak export picture was Mercosur. The four member countries all turned in positive rates, although Argentina failed to match its 2000 figures. Brazil, in particular, was able to maintain its buoyant export trend, with growth of 12%. In fact,

3 Interestingly, however, with the exception of Venezuela, the exports of Andean Community countries to other members of the group retained much of the momentum gained in 2000. Intra-Community trade grew by 20% in the first four months of 2001.

Figure I.3
PRICE INDEXES OF LATIN AMERICAN AND CARIBBEAN NON-FUEL COMMODITY EXPORTS [a]
(Indices: 1995=100)



Source: ECLAC, on the basis of official figures.
[a] Indices weighted by the proportion that each product represent in the value of total exports from the region.

with an 18% increase in imports (the best performers being capital and durable consumer goods), Brazil has clearly been the driver of trade growth in Mercosur, whereas imports plunged in Argentina and Uruguay. The steep rise seen in Paraguay's imports (22%) is no doubt related to Brazilian demand, as Paraguayan exports also increased (13%); these results provide clear evidence of the importance for Paraguay of its re-exports to Brazil.

Outside Mercosur, imports declined in a number of Central American countries, slowed significantly in Mexico, Peru, El Salvador and Venezuela and were flat in Chile. Colombia's imports, by contrast, were up by 18% during the first four months of the year despite the economic slowdown and the depreciation of its currency, although they still fell short of the level reached prior to the 1999 recession. Ecuador (whose currency continued to appreciate strongly in real terms in the midst of an economic upswing) also saw import growth (see figure 4).

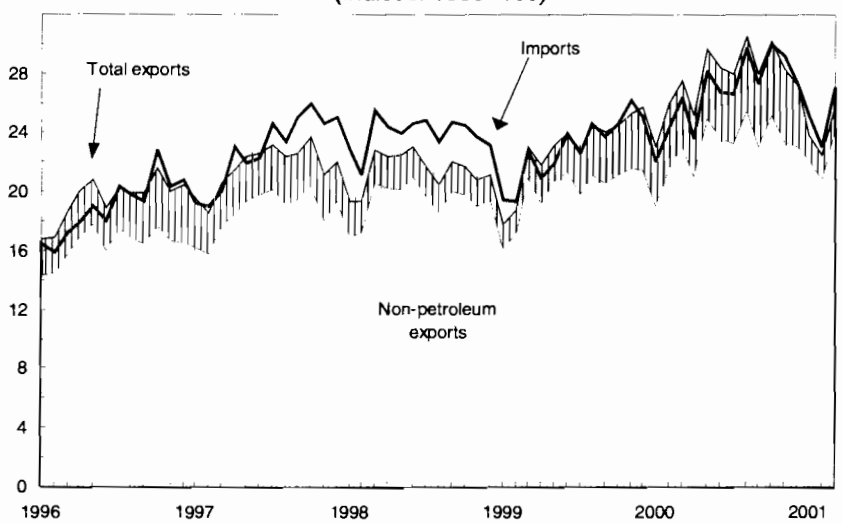
Capital flows still subdued

Latin America is set to receive some US$ 60 billion in autonomous capital inflows in 2001, which is similar to the 1998-2000 average but still well below the 1997 figure. The main components of these flows will be foreign direct investment and, to a lesser extent, regular official financing, with other types of capital accounting for only a small percentage.

Capital inflows to most Latin American countries will be comparable to 1998-2000 levels. The regional average in 2001 will be heavily influenced by two trends: firstly, the increase in capital flows to Mexico, which has benefited from the reduction in United States interest rates and high real domestic rates; and, secondly, dwindling flows of private capital to Argentina, where the Government has faced serious difficulties in obtaining financing on international markets since September 2000. In June, the Argentine Government conducted a debt swap for US$ 30 billion, of which close to 30% corresponded to international issues. Although this operation has contributed little fresh financing and entails very high interest rates, it has nevertheless made it possible to considerably reduce debt payments in 2001-2002.

Argentina, Brazil and Ecuador will have compensatory official financing at their disposal, mainly

Figure I.4
LATIN AMERICA AND THE CARIBBEAN: MERCHANDISE TRADE[a]
(Indices: 1995=100)



Source: ECLAC, on the basis of official figures.
[a] Includes Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela, which together account for 93% of the region's trade.

from the International Monetary Fund (IMF); by the end of June, Argentina and Brazil had drawn US$ 5.3 and US$ 2 billion of these resources, respectively.

By mid-year almost all the region's governments had met the targets set for international public debt issues; the largest issues were made by Brazil, Colombia and Mexico. Private loan placements, in contrast, were small and limited mainly to Brazilian and Mexican agents. Although there was some improvement in 2000 and the first semester of 2001, external financing for the region remained unstable and experienced frequent bouts of volatility (see figure 5). The region's international reserve assets fluctuated considerably over the 12-month period ending in May 2001 and failed to regain the level recorded before the moratorium declared by Russia in August 1998.

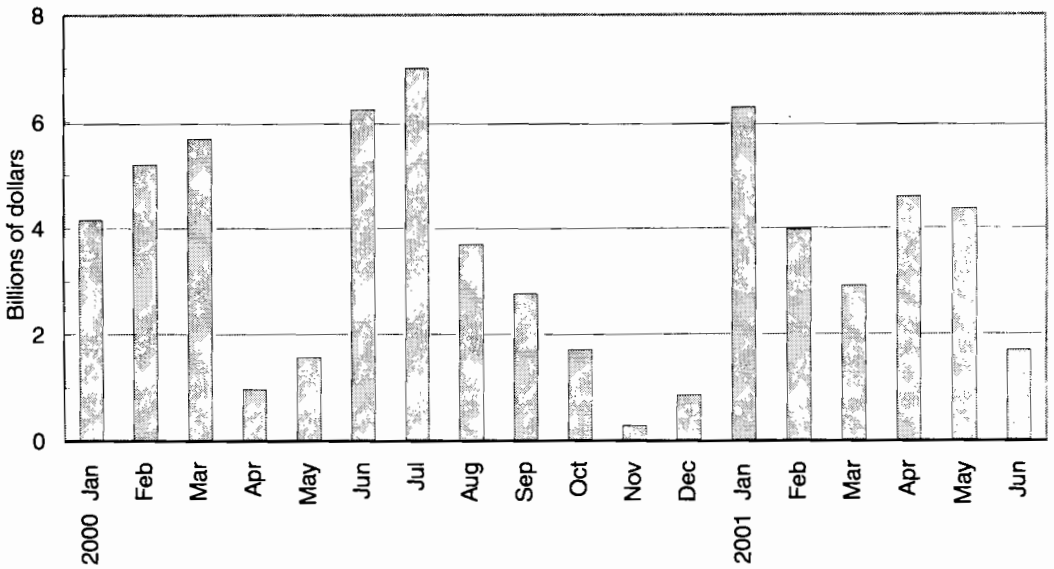
Foreign direct investment will decline for the second year running, but will still amount to around US$ 50 billion. Increased flows to Mexico will compensate to a great extent for deteriorating flows to Brazil, which will drop to almost half their previous value. A number of countries have seen foreign direct investment lose momentum since 2000, which suggests that these flows are becoming more concentrated. Indeed, as in 2000, Brazil and Mexico together will account for almost two thirds of the regional total. The bond market was quite buoyant in the first semester of 2001 but, as in previous years, these funds are largely going to cover debt payments. The situation is quite similar in the case of international commercial bank lending, which, rather than contributing significant amounts of fresh financing to the region, is mainly being used to roll over existing credits.

External borrowing terms have not yet reverted to pre-Asian crisis levels. As of mid-year, the cost of external finance for the region stood at around 13% per annum (see figure 6). Argentina saw the worst deterioration in borrowing terms and conditions during the first semester (with rates rising from 12.5% to 15.5%), followed by Brazil (where the cost climbed from 12.5% to 13.5%); Colombia, in contrast, experienced the most substantial improvement (a drop in rates from 13% to 10.5%). Chile, Mexico and Uruguay continue to figure among the countries with the lowest borrowing costs (7%-8%).

Inflows of equity investment capital are significant for Argentina, Brazil, Chile and Mexico, and decreases in these flows are reflected in their stock markets. At the end of June 2001 the regional stock index showed a drop of 12% –though with some ups and downs– from its level of a year earlier. Equity capital inflows to the region declined somewhat in the early months of 2001, with the exception of Mexico.

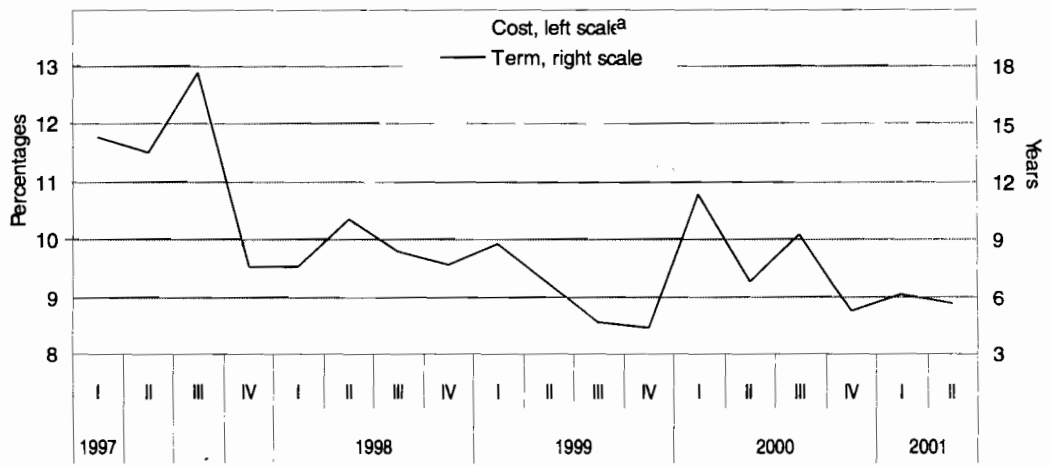
In line with the projected trends in the current and capital accounts on the balance of payments, net resource transfers to Latin America and the Caribbean will be almost nil for the third year running. This means that net capital inflows will go entirely to financing payments of factor services (interest payments and profit remittances).

Figure I.5
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES



Source: ECLAC, on the basis of figures from Merrill Lynch.

Figure I.6
LATIN AMERICA AND THE CARIBBEAN: COST AND MATURITIES OF INTERNATIONAL BOND ISSUES



Source: ECLAC, on the basis of figures from J.P. Morgan and Merrill Lynch.

[a] Sum of the average spread for bond issues and yields of long-term United States Treasury bonds.

3. Macroeconomic policy and reforms

As the external environment became more hostile, a reduction was seen in the manoeuvring room that had become available to monetary policy-makers when exchange regimes were made more flexible in 1999 and 2000. The troubled situation in Argentina affected neighbouring countries and led to a depreciation of their currencies. Most of the smaller economies were untouched by speculative onslaughts, however, and the majority registered a real appreciation of their currencies. A more austere stance was adopted by monetary policy-makers, but in view of the mediocre level of domestic activity and lower fuel prices, an increase in fiscal deficits is being projected.

A continuing real effective revaluation within a more volatile exchange-rate environment

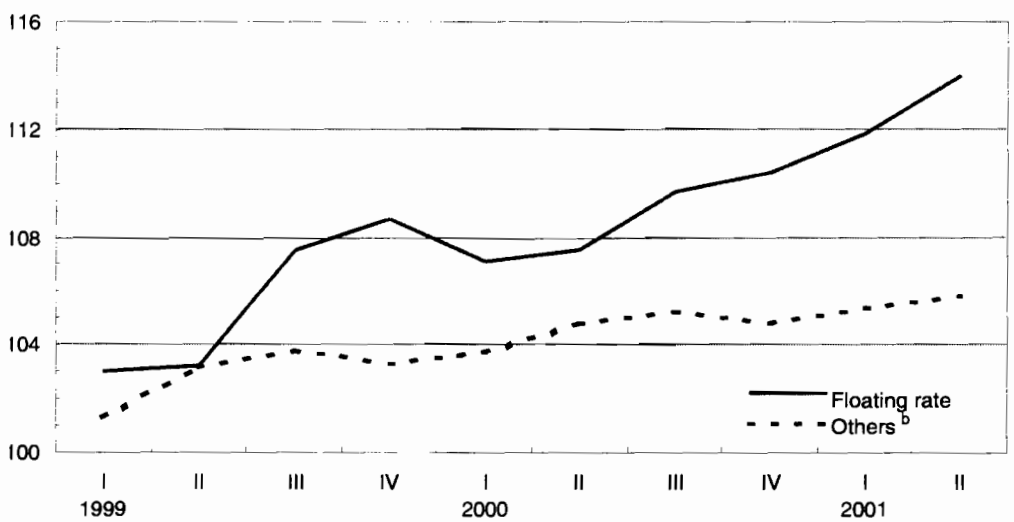
The complex international situation affected trends in regional foreign-exchange markets to varying degrees. This diversity, together with the persisting wide dispersion of national inflation rates and differences in the geographical distribution of trade, resulted in a wide range of real exchange movements in the first half of 2001.

Economies with a floating exchange rate generally experienced a steeper rate of real devaluation against the dollar (see figure 7). In this group of countries, which are currently the most influential ones in the region owing to the size of their economies, the largest increases in the real exchange rate against the dollar occurred in Brazil (an annualized rate of 18% during the first semester of 2001), Chile (14%), Colombia (9.5%) and Jamaica (8%). The Mexican peso, on the other hand, again showed a real appreciation amounting to an annual rate of about 3.5% over the first six months of 2001. The same figure was recorded in Guatemala.

With the exception of Ecuador, where the inflation differential with the United States is still very high and resulted in a 35% drop in the real exchange rate, no significant real movements were observed in the economies that have a fixed nominal exchange rate against the dollar. The real exchange rate for the United States dollar rose by 4% in Argentina, which

Figure I.7

LATIN AMERICA AND THE CARIBBEAN: QUARTERLY INDEX OF THE REAL BILATERAL EXCHANGE RATE FOR THE DOLLAR, 1999-2001



Source: ECLAC, on the basis of figures from official sources and from the International Monetary Fund.

[a] An increase denotes a real devaluation.

[b] Countries with fixed or managed exchange rates; does not include Ecuador.

experienced deflation, and declined by 2% in El Salvador. Trends were much more uneven in countries that are pursuing a managed devaluation, where the variations against the dollar varied from a real depreciation of 7% in Uruguay to a real appreciation of 5% in the Dominican Republic.

The trends of the different countries' real effective exchange rates, which measure the competitiveness of the exchange rate from the standpoint of international trade, reflected the wide range of exchange-rate movements against the dollar, the strength of this currency in relation to other reserve currencies and the depreciation observed in Brazil, which is an important trading partner for a number of South American economies. For the region as a whole, the sum of these trends resulted in a continuation of the real effective revaluation which had begun in the first months of 2000. This trend masks significant differences across countries, however (see figure 8).

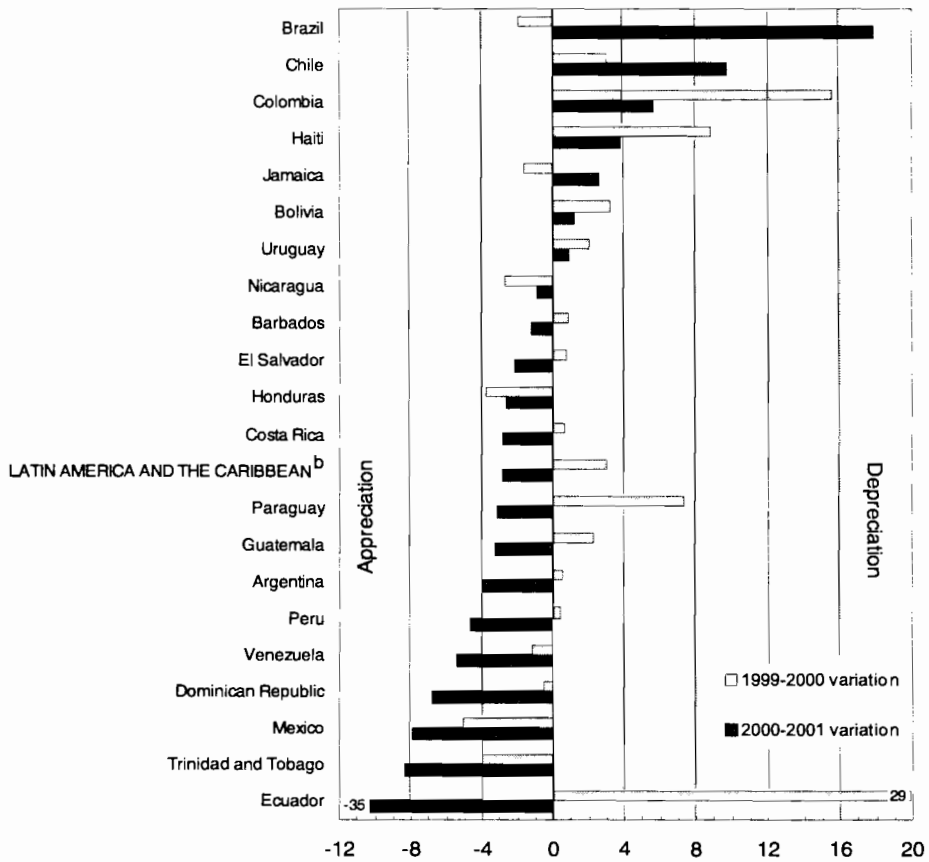
Short-term trends in the countries' foreign exchange markets during the first six months of 2001 were heavily influenced by their degree of exposure to contagion from the Argentine crisis. Accordingly, pressure for a devaluation continued to be felt in the southern portion of the continent, while the situation remained calmer in the rest of the region, with the exception –for purely domestic reasons– of some Andean and Caribbean countries (such as Haiti and Jamaica).

Faced with external liquidity difficulties, the Argentine authorities modified the convertibility system (see box 1) as part of a broader package of economic measures. A basket of currencies was established which will include the euro when it reaches parity with the dollar, and a temporary system was established under which an exchange-rate differential will be applied to

Figure I.8

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE

(Annual variation as of secondquarter of each year)[a]



Source: ECLAC, on the basis of official figures.

[a] An increase denotes a real devaluation. [b] Simple average.

Box I.1

MACROECONOMIC POLICY MEASURES IN ARGENTINA IN THE FIRST HALF OF 2001

The Argentine Government is facing severe financial constraints owing to asset holders' reluctance to finance the fiscal deficit and the country's large debt payments. All told, these gross financing requirements were equivalent to about 12% of GDP in 2000. In order to ease this situation, an IMF-led financial assistance package was announced in December 2000 which provides for a number of new fiscal measures.

The effect of this announcement on expectations was short-lived, however. Against a background of growing financial turbulence, the country's economic authorities were replaced twice in a short space of time.

The team that took over at the end of March 2001 set about working to strengthen public revenues as soon as possible. A financial tax on credits and debits was established for this purpose. The programme that has been introduced with the aim of improving competitiveness by about 20% also has the medium-term goal of streamlining the tax system. Employers' social security contributions have been standardized and a plan is being implemented to consolidate those contributions and the financial tax with the VAT and income tax. This consolidation and the introduction of a regulation under which payments of over 1,000 pesos cannot be made in cash are expected to reduce tax evasion significantly.

Another package of tax measures seeks to encourage private consumption by raising the tax exemption limit and increasing personal deductions, offering a tax credit for salary increases of less than 1,500 pesos and raising the maximum deduction for mortgage interest payments.

A decision was also taken to use a currency basket, which is to include the euro as well as the dollar, for the determination of the exchange rate. This mechanism will not be applied to the economy as a whole until the euro reaches parity with the dollar, however. An increase of the external tariff to 35% for consumer goods was also negotiated with Mercosur.

As a new export promotion measure, an "exchange-rate bridging mechanism" was also created for foreign trade transactions (except for fuel) which allows agents to take advantage of the relative weakness of the euro immediately. An exchange rate of one peso to the dollar still applied to other transactions, including financial operations.

In addition, a debt swap involving approximately US$ 30 billion was carried out in early June to improve the country's maturity profile. The yield of the new securities that were issued amounts to approximately 15% per annum.

These measures were announced in the context of a complex domestic and external environment. Argentina's country risk, which had dropped below 900 basis points in the wake of the "mega-swap", was rising again and then surged to around 1,300 points at the beginning of July. This higher perceived level of country risk has had a contagion effect on neighbouring economies, especially Brazil, where the exchange rate rose by more than 25% in the first half of the year.

trade operations. The financial market's reaction was reserved however, and there was a marked increase in the perceived level of sovereign risk. The increase in spreads was transmitted to Brazil, even though the forecasts being made in early 2001 regarding its growth prospects were still very favourable. When those prospects dimmed somewhat during the second quarter, the exchange rate for the real came under even stronger pressure, thus accelerating the rate of devaluation despite increases in domestic interest rates. Conditions in these two economies and the fairly lacklustre outlook at the international level also affected the other economies of the Southern Cone by boosting their nominal devaluation rates; thus, by the end of the first semester the cumulative annual rate of depreciation amounted to 16% in Chile and 11% in Paraguay and Uruguay.

In the Andean countries, domestic conditions were what influenced exchange rates the most. In Ecuador, where inflation remained high and was eroding the competitiveness of the real exchange rate, the authorities sought to consolidate the dollarization regime by taking steps to reinforce public finances and reduce the perceived level of country risk. The situation was much the same in Venezuela, where the rate of devaluation was slowed by an anti-inflationary policy which the authorities were able to implement thanks to the country's accumulated international reserves. In Colombia the exchange rate continued to devalue at a leisurely rate, but in Peru the central bank had to intervene for the first time since 1999 to control the sudden depreciations triggered by the uncertainty that arose during the run-up to the second round of presidential elections.

Despite its greater exposure to the risk associated with a recession in the United States, Mexico received abundant capital flows which strengthened its currency. In Central America, exchange rates were influenced by the decision taken in January by El Salvador to move towards a dollarization of its economy and the announcement by the Government of Guatemala that it would study the feasibility of implementing such an exchange-rate regime. In the Caribbean, complex domestic situations in Haiti and Jamaica sparked significant exchange-rate movements. In the other economies of this subregion that do not have a fixed exchange rate, the rate of devaluation was much slower.

Monetary policy is tightened

In 1999 and for most of 2000 a regional trend towards a relaxation of monetary austerity policies had been observed, but the first half of 2001 confirmed the signs of a reversal in this stance that had begun to appear late in 2000.

Real interest rates tended to rise in the region's three largest economies (see figure 9). The increase was mainly a reaction to the rise in nominal rates in Argentina and Brazil that was triggered by negative external factors. In the case of Mexico, there were also domestic factors involved, given the need to bring the high growth rate of domestic expenditure into line with the slowdown in foreign trade that appears to be in the offing. The downward trend in inflation augmented the effect of these nominal movements, thereby helping to increase the real cost of money further.

Some countries, including Chile and Peru, continued to try to reactivate their domestic economies by lowering interest rates. It should be noted that both of these countries have ample international reserves which, in combination with a flexible exchange rate, afford them a certain degree of autonomy in managing their monetary policy. Despite the reduction in borrowing costs in these economies, no recovery was seen in credit to the private sector owing to the unfavourable expectations of producers and consumers.

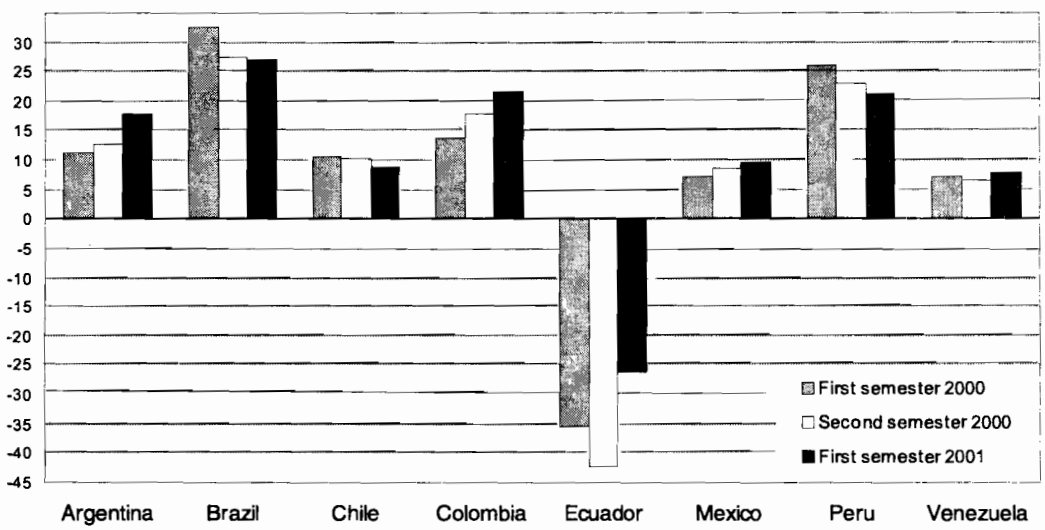
As a result of these movements in domestic interest rates and real exchange rates, the region's monetary conditions index fell by almost one percentage point during the first semester of 2001. This indicator, which measures the expansionary or restrictive effects on domestic and external demand of changes in real interest and exchange rates, had risen by 2.7% over the same period in 2000 (see figure 10). The increase in interest rates and the loss of exchange-rate competitiveness in relation to main trading partners are expected to dampen effective demand, while the depreciation against the United States dollar will lead to a deterioration in public and private debt indicators.

In general terms, domestic lending in the region will continue to deteriorate in 2001 and, given the halting growth rates posted for production activity, this could generate a vicious circle of contractions in domestic lending, rising default rates and a further widening of domestic financial spreads.

The fiscal deficit increases again

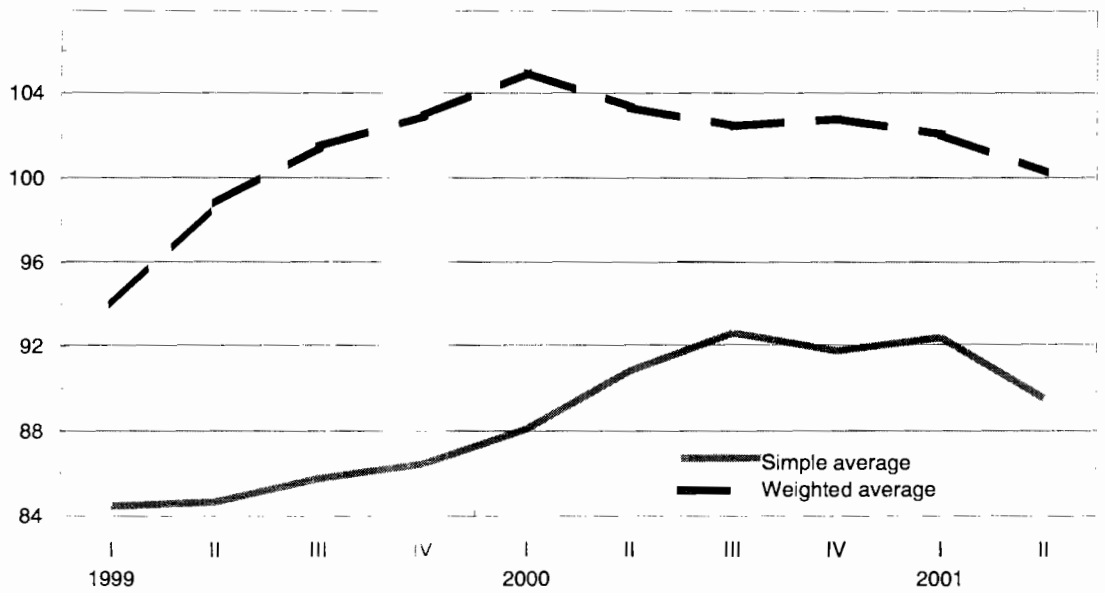
After exceeding 3% of GDP in 1999 as a consequence of the 1997-1998 crisis, weather-related disasters and the need to revitalize the region's economies, in 2000 the public-sector deficit was reduced to 2.3%. This improvement was based on higher government

Figure I.9
LATIN AMERICA: ANNUALIZED REAL INTEREST RATES[a]
(Percentages, semester averages)



Source: ECLAC, on the basis of figures from the International Monetary Fund.
[a] Short-term lending rates, deflated by the consumer price index.

Figure I.10
LATIN AMERICA AND THE CARIBBEAN: INDEX OF MONETARY CONDITIONS, 1999-2001[a]



Source: ECLAC, on the basis of figures from official sources and from the International Monetary Fund.
[a] An increase in the index reflects more expansionary conditions.

revenues, thanks to increases in international oil prices, and a higher level of economic activity. The situation appears to be taking a turn for the worse in 2001, however, and it is estimated that half of the countries of the region will have a higher public sector deficit.

To a large extent, the mediocre external situation explains this development. The countries of the Central American isthmus expect that slacker demand for their products in the United States will curb economic activity and hurt government coffers. For example, El Salvador and Honduras foresee deficits of about 5% of GDP, while Nicaragua has budgeted its financing requirements at 10% of GDP (owing to a crisis in the coffee sector and plans to boost the currently low rate of activity by means of hefty public investments).

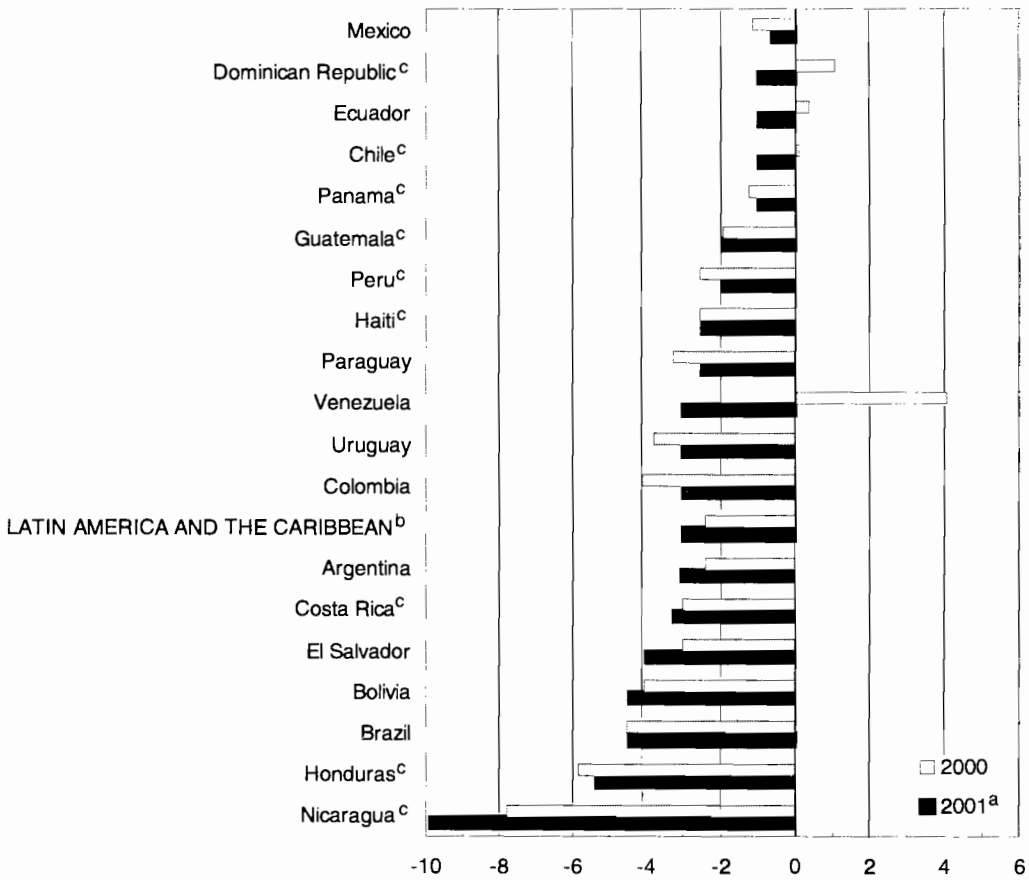
Most of the governments whose revenues are dependent upon commodity exports are also predicting a drop in receipts. Several of them are planning to offset the reduction in revenues, especially from oil, with tax increases and spending cuts.

Mexico is expecting to see an improvement in its public accounts, however, thanks to the steps taken by the government in the past few years to diversify its sources of income and thus soften the impact of fluctuations in oil revenues. The Chilean Government is projecting a deficit of close to 1% of GDP owing to a downturn in proceeds from copper exports and a lower level of economic activity.

In the two largest economies of the Southern Cone, the fiscal situation is expected to remain fragile in 2001. As indicated in box 1, Argentina has been obliged to react to the prospect of an increase in its fiscal deficit and financial obligations at a time when the prevailing degree of uncertainty has spurred capital outflows. This has had an impact on Brazil, where the authorities have decided to apply a tight monetary policy to prevent a steeper depreciation. This, in turn, has hurt its public accounts as revenues have been eroded by the slowdown in economic activity and outflows have risen as a consequence of the high financial cost of domestic borrowing.

As a result, public financing requirements in the region as a whole, in dollar terms, will be higher than in 2000 (see figure 11). It is estimated that in 2001 there will be less access to external financing than in 2000, and the governments will once again have to seek domestic resources, which will result in higher interest rates. This, in turn, will counteract the expansionary effect of the larger fiscal deficit on domestic demand.

Figure I.11
LATIN AMERICA AND THE CARIBBEAN: FISCAL BALANCE OF THE NON-FINANCIAL PUBLIC SECTOR
(As a percentage of GDP)



Source: ECLAC, on the basis of official figures.
[a] Targets and projections as of the end of the first semester.
[b] Simple average for 19 countries.
[c] Data for central government.

The pace of reform slows

The implementation of structural reforms in the region during early 2001 proceeded more slowly than in previous years. The main reason has no doubt been the worsening economic situation both in the region and in its main trading partners.

This deterioration of the economic environment may have been a factor in the postponement of several privatization operations in the region. As a result of these deferrals, privatization revenues in 2001 will fall short of the level posted in 2000 (US$ 18,000 million). The countries which once had ambitious plans for the year (Brazil, Colombia and Ecuador) have already suffered setbacks in this area.

A number of pieces of draft legislation submitted to various countries' law-making bodies have met with difficulties. Cases in point include a labour reform bill in Chile and a fiscal reform bill in Mexico. In Ecuador, amendments made with the aim of boosting fiscal revenues have turned out to be less far-reaching than those originally proposed. Tax reforms have been announced for the second semester in Bolivia and Chile, however, and Colombia has moved ahead with an extensive reform process which includes various bills designed to bolster its fiscal sustainability in the medium-term; one of these bills, which amends the constitutional provisions dealing with transfers to subnational governments, was passed in June 2001.

Recent initiatives to promote competition include a bill that would consolidate regulatory bodies and consumer protection agencies in Brazil into a single entity in order to streamline procedures. In Ecuador a regulation was adopted which opens up the telecommunications sector to competition as of December 2001.

The financial consolidation process continued in the first half of 2001, as did government implementation of remedial measures. New debt relief measures were also announced, in particular for small and medium-sized enterprises.

In 2001 the countries of Latin America and the Caribbean continued their efforts to move towards greater regional integration, despite the unfavourable economic situation. Mercosur, in particular, had difficulties making further progress owing to the continuing recession in Argentina. In order to alleviate the situation, in March 2001 Argentina chose to apply a set of tariffs that differ from the Mercosur common external tariff. In May, Paraguay and Uruguay reiterated their interest in looking into the possibility of establishing a supranational tribunal for the settlement of trade disputes.

In July 2001 the Andean Community and Mercosur agreed to establish a mechanism for dialogue and political consensus-building. The aim of this initiative is to spur the integration of these two groups with a view to the formation of a South American free trade zone by January 2002.

Within the framework of the negotiations concerning the Free Trade Area of the Americas (FTAA), the Sixth Trade Ministerial Meeting was held in Buenos Aires in April 2001, where it was agreed that the Trade Negotiations Committee should intensify its efforts to reach an agreement. During the Third Summit of the Americas (Quebec, April 2001), the commitment was reaffirmed to complete the negotiations so that the FTAA can begin to operate in 2005. Progress towards this goal will depend on how much support is received from the new Administration in United States, however, as it is not yet certain that Congress will pass the necessary Trade Promotion Authority to replace the expired "fast track" authority.

4. Domestic economic performance

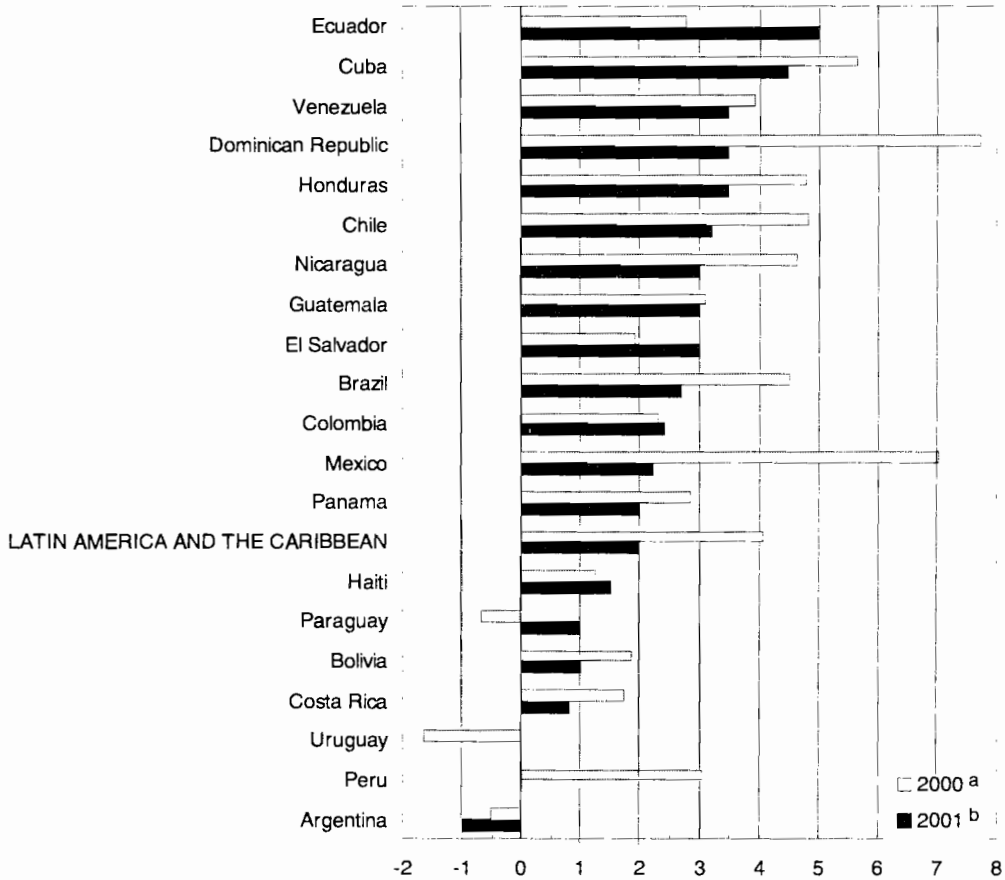
Growth in the regional economy slackens

After making a satisfactory recovery in 2000 from the crisis of the year before, the economies of Latin America and the Caribbean have been growing more slowly in 2001. Output in the region as a whole is expected to increase by 2% over the year, with per capita output rising 0.5%. These disappointing estimates, which are based on the poor results seen during the first half and the discouraging prospects for the rest of the year, are far below the minimum rate (GDP growth of 6%) required for significant improvements to be achieved in the living standards of Latin American and Caribbean society (see figure 12).

The poor performance of the region's largest economies is particularly striking. Growth in Mexico is expected to be just one third of the very high rate achieved in 2000 as the strong expansion seen over recent years in the United States, which buys almost 90% of Mexico's exports, winds down. This adverse situation will be partially offset, however, by continued buoyancy in oil prices. In Brazil, meanwhile, the promising recovery seen in 2000 and the first quarter of 2001 was cut short by a severe electricity crisis which coincided with a deterioration of the external environment. Argentina has not yet been able to emerge from a recession that is now in its fourth year, owing to the virtual evaporation of external financing and the difficulty the country is having in reducing its fiscal deficit.

In the Chilean economy, too, a nascent recovery has come to a halt despite the strength of the country's economic fundamentals, the measures taken to reduce interest rates, and an exchange rate that is highly favourable to exports. The economy of Peru, which is just emerging from a serious political crisis, is expected to continue performing poorly, with investment down sharply. Uruguay is likely to remain in recession, as the effects of the devaluation of the real and the deepening crisis in Argentina have been compounded by the severe problems in the agricultural sector caused by outbreaks

Figure I.12
LATIN AMEICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)



Source: ECLAC, on the basis of official figures.
[a] Preliminary estimates. [b] Projections.

of foot-and-mouth disease in various parts of the country. Serious political problems in Bolivia and Paraguay are expected to hold growth down to fairly low levels.

Few of the region's economies are expected to post satisfactory growth rates in 2001. The Dominican Republic, whose GDP has been expanding strongly for several years, should once again do well, although there too, growth is likely to be weakened by the same problems being experienced by the other countries. Ecuador should also grow relatively rapidly, thereby bolstering a recovery that began in 2000 with the dollarization of the economy and that has recently been buoyed by high oil prices. Nonetheless, a return to 1998 levels of economic activity is not expected. Cuba should continue to recover, despite difficulties in the sugar industry. Venezuela is expected to see moderate growth, but high oil prices and the country's high real exchange rate should provide the basis for a strong expansion of domestic demand, much of which will filter out of the country due to a sharp rise in imports. Consequently, non-oil activities should grow more quickly than overall output. In the countries of Central America, growth is likely to be somewhat below the trend of recent years. The exception is Costa Rica, where growth is once again expected to be very modest owing to the problems affecting the electronics industry. The outlook for the Caribbean countries is mixed, due both to the external environment and to complex domestic situations (Haiti, Jamaica).

Sluggish investment growth expected in 2001

The level of total gross investment growth seen in 2000 is probably not going unlikely to be repeated in 2001. The substantial decline in capital flows to a number of the

region's countries, which is the result of low expectations among international investors, makes a return to the levels of investment seen up until 1998 unlikely.

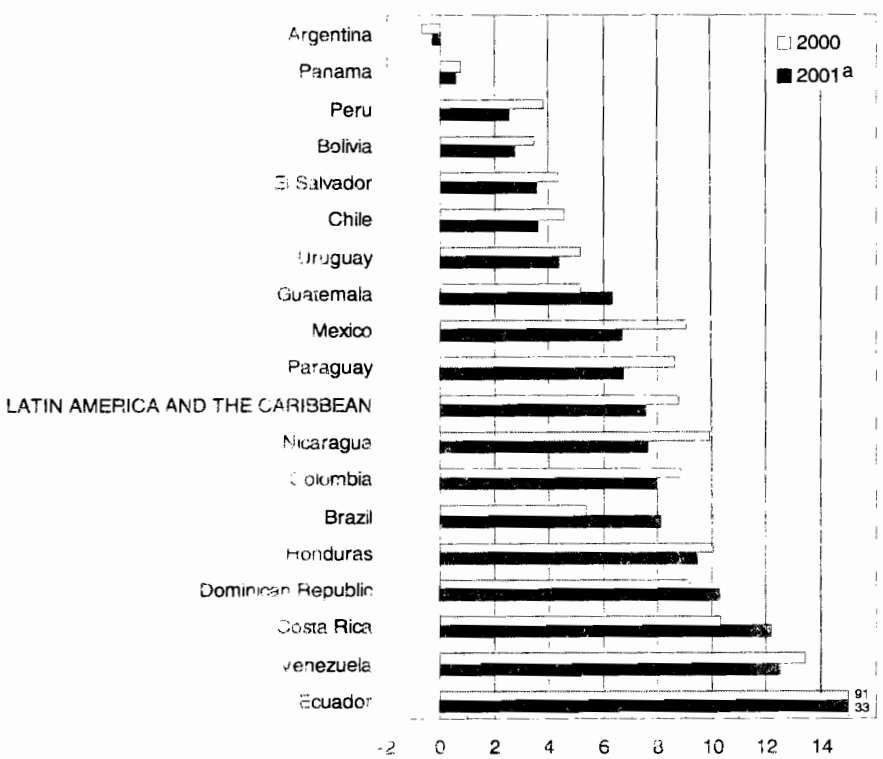
The decline in investment is expected to occur across the board. In the northern part of the region, the results will be very different from the high levels seen in 2000, particularly in Mexico, where investment rose by almost 9%. In 2001, conditions are very different; investment declined by 6% in the first quarter, mainly owing to inventory reductions, while fixed investment was virtually stagnant. In the Dominican Republic, investment is unlikely to hold up; this is particularly true of the construction industry, where investment contracted in the first quarter. In the other countries the outlook is fairly poor as well due to the modest level of economic growth that is expected.

The prospects for South America are not very encouraging either. Brazil and Chile saw substantial investment growth in the first quarter of 2001, but this situation was reversed in the second quarter. After sharp decreases in investment in previous years, Argentina, Peru and Uruguay continued to see poor results in the first quarter of 2001, and there are no signs of any improvement. The recovery that began in Colombia in 2000 may continue this year, thanks to the oil boom. Venezuela should not have any great difficulty in keeping investment levels up, particularly in the case of public investment, because of the abundant tax revenues generated by oil exports.

Inflation falls again, but moderately

The inflation rate for the region as a whole declined slightly once again in the first half of 2001 to stand at an annual figure of just under 8%. Wholesale prices increased at a single-digit rate following sharp rises in 1999. The moderate level of inflation in the region is mainly attributable to the stability of most of the countries' exchange rates and to the end of the surge in oil prices. The continued application of prudent monetary policies has also helped to subdue inflation, as have the recessions being experienced in a number of countries (see figure 13).

Figure I.13
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Twelve-month variation)



Source: ECLAC, on the basis of official figures.
[a] To June 2001.

The prospects for the second half of 2001 are somewhat bleaker in view of the increases in the exchange rate being seen in some countries, particularly Brazil but also, to a lesser extent, Chile, Paraguay and Uruguay. In all the other countries, however, the outlook for the rest of the year is good, as there is no sign of any threat to the current situation.

Price rises eased off in 10 of the 22 countries for which information is available, while inflation remained virtually unchanged in another seven. Inflation accelerated in five economies, most notably Brazil, where it rose by three percentage points over 2000 levels.

The best performance was turned in by Ecuador, where inflation fell significantly. The inflationary surge seen in 1999 and early 2000 was halted by the dollarization of the economy, after which the rate of price increases slowed sharply. This tendency is expected to continue in the second half of the year, as producer prices are rising much more slowly than consumer prices.

In Mexico the situation was also encouraging. There were clear signs that the country's stabilization process was firming up, and inflation fell back to 6% for the first time in several years. Inflation also fell in Nicaragua and Paraguay after a resurgence the previous year; this sound performance was largely the result of the turnaround in oil price trends on the international market.

Argentina experienced actual deflation once again in the 12-month period ending in June, but it is possible that prices may pick up during the remainder of the year as a result of recent measures that have had the effect of raising the exchange rate for foreign trade operations. Barbados and Panama maintained their usual low rates of inflation, while Bolivia and Peru continued to make progress in bringing price rises under control. Inflation was moderate once again in Chile, El Salvador, Guatemala and Uruguay. Lower inflation in Colombia attested to the consolidation of the stabilization efforts pursued in recent years.

In Brazil, the sharp rise in the exchange rate seen in the first half of 2001 could stoke inflation during the rest of the year, although this may be counteracted by the lower economic growth expected from the second quarter onward and by a tighter monetary policy. In the Dominican Republic, on the other hand, higher 12-month inflation was largely the result of the inflationary spike witnessed in September 2000 when the new Administration adjusted fuel prices, which the previous authorities had allowed to lag behind in real terms. The rate of price increases subsequently fell off sharply, so for 2001 as a whole the country may well see single-digit inflation once again.

Inflation rose slightly in Costa Rica, while in Honduras it declined somewhat to just under 10%. Inflation continued to fall in Venezuela –a process that was strengthened by the improved exchange-rate situation– and by the end of the year will undoubtedly be somewhere around 10%. In Haiti, meanwhile, inflation stopped rising and then actually declined slightly, slipping to 16%. This was largely due to a substantial reduction in the rate of devaluation and to the stability of oil prices.

Slow growth hurts employment

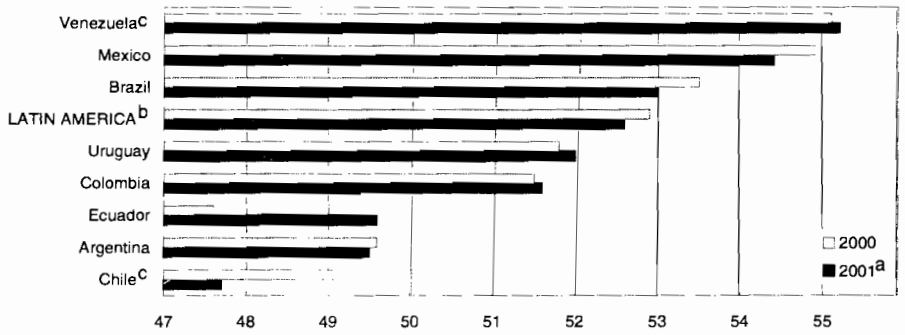
The improvement seen in the region's labour market in 2000, particularly in terms of job creation but also, although to a lesser degree, unemployment, has generally come to a halt and is now being eroded by the slackening of economic activity in 2001.

This deterioration was already evident in the early months of the year, when the employment rate in a group of eight countries fell to 52.6%, as against 52.9% in the first half of 2000. This development was largely due to the fall in this indicator in the region's largest economies, Brazil and Mexico. The employment rate also declined in Chile, while remaining virtually unchanged in Argentina, Colombia and Venezuela and rising in Ecuador and Uruguay (see figure 14).

Mexico is being affected by the cooling of the United States economy, which is stifling job creation in export activities. Job growth in the *maquila* sector, which was over 10% a year in the 1990s, has been weaker since late 2000, and in May the annual growth rate fell to 1.7% owing to an absolute decline in the number of people employed in the sector since February. Employment in the rest of the manufacturing sector was 2.3% lower in the first few months of 2001 than in the same period of 2000, the result being a 0.8% decline in formal employment in manufacturing as a whole. Formal-sector jobs were also lost in construction. Robust job creation in some tertiary activities resulted in a slight overall increase in formal employment however, with an annual growth rate of 1.8% being recorded in the year to May.

In Brazil, the growth in formal employment seen during 2000 carried over into the early months of 2001, particularly in the manufacturing sector, where output continued expanding at high rates. Overall, however, new job creation slowed sharply, with employment growth in the six major metropolitan areas falling from a month-on-month rate of 3.6% in January to one of 0.2% in May. Consequently, the employment rate fell by half a percentage point between the first half of 2000 and the first half of 2001. Employment growth in the manufacturing sector remained stable at 2.1% between

Figure I.14
LATIN AMERICA AND THE CARIBBEAN: URBAN EMPLOYMENT RATE
(Employed persons as a percentage of the working-age population, first half of each year)



Source: ECLAC, on the basis of official figures.
[a] Preliminary figures.
[b] Weighted average.
[c] Nationwide

May 2000 and May 2001, but stagnated in the tertiary sector and fell in construction. Slower economic growth in the second half of the year is expected to have a further negative impact on job creation.

In Argentina, job creation remained slack during the early months of 2001 following a negative performance in 2000. In fact, the information available for Greater Buenos Aires indicates that formal employment fell by 0.4% between December 2000 and April 2001, for an annualized decline of 0.8%. The year-on-year fall was most marked in construction, manufacturing and basic services, with formal employment expanding in other service activities.

In Chile, formal job creation began to taper off in the fourth quarter of 2000, and by April 2001 employment had contracted by 0.8% with respect to the same month the year before. This decline affected both wage and non-wage employment, and in the March-May quarter of 2001 total employment was down by 1.7% over the same period of the previous year; as a result, the employment rate fell from 49.2% to 47.5%.

In Colombia, formal employment in the manufacturing sector began to pick up slightly in the second half of 2000, and in January-April 2001 it was 1.9% up on the same period of the preceding year. In general, however, the demand for labour remained weak, and between the first quarter of 2000 and the first quarter of 2001 wage employment fell from 52.5% to 51.1% of total employment. The seasonal decline in the employment rate between the second half of 2000 and the first half of 2001 was sharper than in other years, although the level remained relatively stable by comparison with the first half of 2000, while underemployment increased slightly.

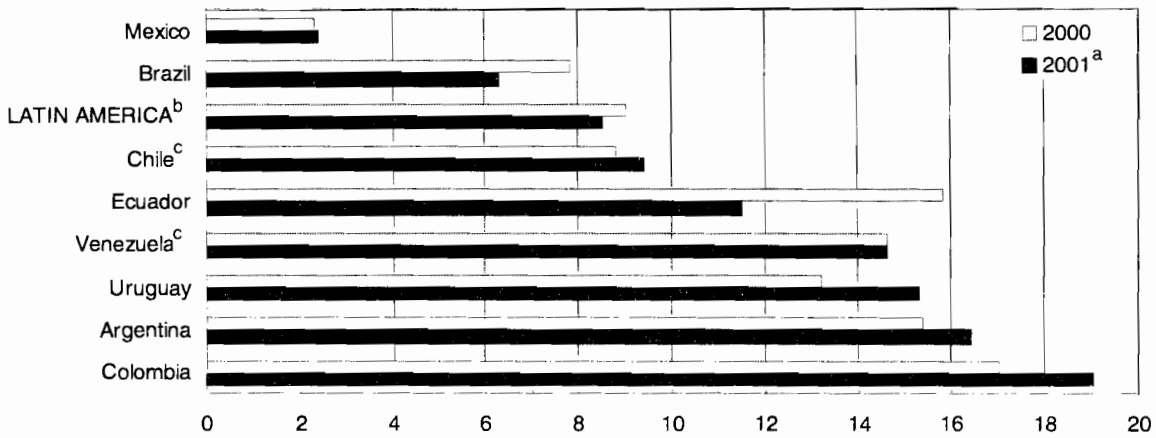
Ecuador is recovering from a deep economic crisis whose effects included a decrease in formal employment and a sharp increase in unemployment. The employment rate began to rise again in the second half of 2000, climbing from 47.6% to 49.6% between January-May 2000 and the same period in 2001.

Although the employment rate has declined in the region as a whole, no deterioration has been seen in unemployment indicators owing to slight declines in the labour force participation rates of Brazil and Mexico. According to the information available for eight countries, the unemployment rate fell from 9% to 8.5% between the first half of 2000 and the early months of 2001. Despite this favourable trend at the regional level, unemployment increased significantly in half of the countries for which information is available (Argentina, Chile, Colombia and Uruguay) and edged up in Mexico, while it remained unchanged in Venezuela and fell in Brazil and Ecuador (see figure 15).

For the year as a whole, the drop in the employment rate is expected to be even sharper and the seasonal reduction in unemployment that is usually seen across the region in the second semester is not expected in 2001. Projections for the region as a whole therefore put the average unemployment rate for the year at 8.5%.

The sluggishness of the region's labour markets is also affecting wages. A comparison of the early months of 2001 with the same period of 2000 shows small increases (between 1% and 1.5%) in Chile and Colombia and a decrease of about 1% in Argentina, Brazil and Uruguay. The only exception is Mexico, where wages rose by almost 5%. This rise, however, is largely due to increases registered in the course of 2000, and the annual rate of increase actually declined from 7.1% in January 2001 to 3.2% in April.

Figure I.15
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Percentage of the economically active population, first half of each year)



Source: ECLAC on the basis of official figures.
[a] Preliminary figures. [b] Weighted average. [c] Nationwide.

Chapter II

Economic policy in 2000

A. Macroeconomic policy

1. Main trends

In a continuation of the trend seen in recent years, in 2000 the leading Latin American economies drew on experience gained from dealing with the decade's wide external fluctuations, in an attempt to reduce their vulnerability to economic shocks. This effort generally aimed at alleviating the financial burden of debt –by reducing the relative weight of short-term obligations and rescheduling external debt repayment liabilities into the long term– while also creating room for manoeuvre in domestic macroeconomic policy in order to have more scope for smoothing out short-run fluctuations. In addition, a number of integration groupings made renewed efforts to coordinate their domestic macroeconomic policies more closely, particularly the Andean Community and Mercosur.

IN MACROECONOMIC policy management, the reforms introduced from 1999 onward gave priority to two main areas, the exchange rate and fiscal policy. With some exceptions (for example, Venezuela), the countries abandoned the currency-band system in favour of flexible exchange rates, or else more rigid fixed-rate systems, both of which are considered more suitable for weathering the turbulence and uncertainties of external financial markets.

Having said that, even in the larger economies that opted for flexible exchange rates, thereby gaining some autonomy in setting interest rates within an inflation-targeting framework, greater monetary flexibility cannot in itself provide a sufficient basis for

effective counter-cyclical policies in the downswing phase without support from fiscal policy. Several countries have introduced fiscal reforms aimed at bolstering public-sector saving, and are considering setting up contingency funds to be replenished in periods of strong growth, in order to maintain expenditure levels during economic downswings. These are especially important in countries with fixed exchange rates or highly dollarized economies, where autonomous monetary policy is precluded.

Success in controlling inflation in previous years also created scope for more active monetary policy. In a situation where preserving the purchasing power of the local currency was the overriding central bank objective, the lasting reduction achieved in underlying inflation rates made it possible to tackle other goals such as accommodating fluctuations in demand.

The capacity of the South American countries to react to the external shocks that buffeted their economies also improved, as the large current-account deficits of 1997 and 1998 narrowed and reserve levels grew in relation to broad money supply. Thus, in 2000 most of these economies implemented recovery policies aimed at encouraging and nurturing the economic revival that had begun in the fourth quarter of the previous year. Nonetheless, the real effect of counter-cyclical policies remained limited for a number of reasons.

The room for manoeuvre of macroeconomic policy in both the monetary and fiscal domains has been limited. In the first case, while it is true that greater exchange-rate flexibility has afforded more autonomy in managing interest rates, devaluations carried out in a recessionary climate have eroded balance sheets among firms that have debts in foreign currency but serve the domestic market. Moreover, after several years of pro-cyclical fiscal expenditure management and rising borrowing levels, governments entered the cyclical downswing in 1998 with large public-sector deficits, which required prudent fiscal policy management.

The real business cycle is largely determined by external forces, as these tend to dominate the domestic macroeconomic policy signals that guide expectations among local investors and consumers. Many countries are also confronting complex domestic situations in which economic factors and political uncertainties feed on one another to create an environment that is not conducive to the success of economic stimulation policies. The perception of uncertainty and greater risk meant that private-sector borrowing remained in the doldrums in 2000, despite more favourable monetary conditions.

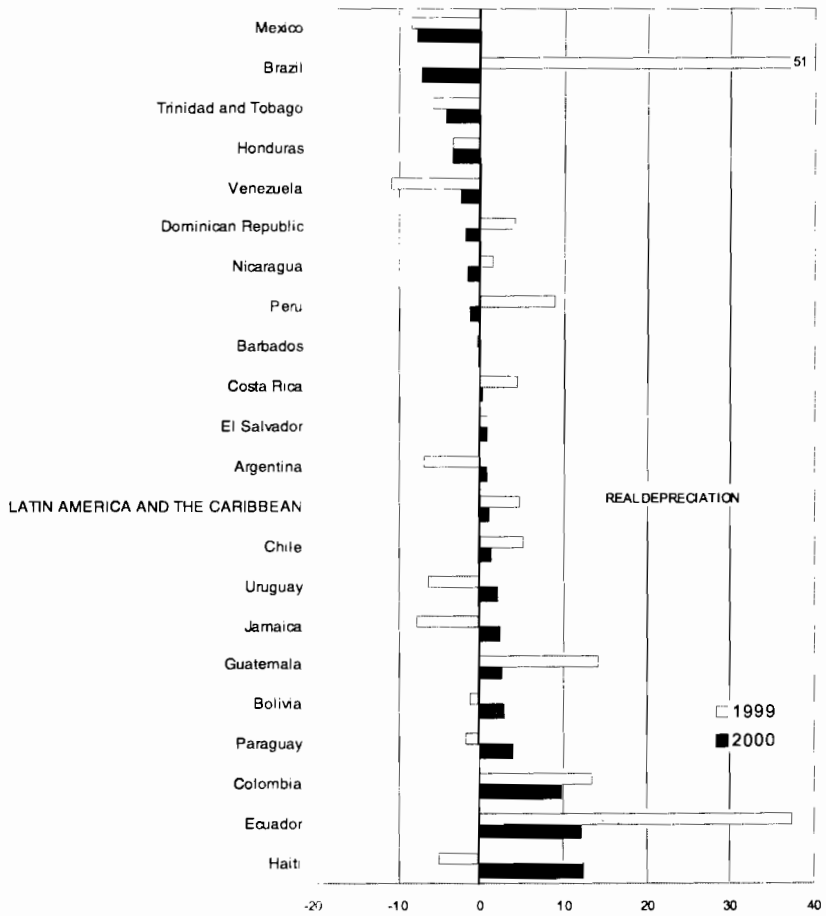
With the important exception of Brazil, structural reform throughout the region had been disrupted by the crisis of 1998 and 1999. It regained momentum with the recovery of economic activity, especially in areas such as institutional reform, competition and the labour market. Priorities have been shifting towards a new relationship between government and the private sector in which the instruments of choice are concessions and regulations, with the latter playing a crucial role in the financial sector, which is still in the process of consolidation. Reforms also moved forward in the area of trade and integration agreements.

2. Exchange-rate and monetary policy

The region's currency markets were calmer in 2000, following the shift in 1999 from currency-band systems to flexible exchange rates, accompanied by a real devaluation of some 5%. The key events in 2000 were the move towards formal dollarization in Ecuador and the announcement of a similar measure in El Salvador. A gradual return to normality in international financial markets also helped to create a more tranquil climate in currency markets, and the rate of real depreciation in 2000 was much slower than in the preceding year. Real exchange rates in the region rose on average by 1% (see figure II.1).

When the factors underlying these exchange-rate movements are analysed, it can be seen that the largest real depreciations between 1999 and 2000 generally occurred in countries with high levels of foreign borrowing and a mediocre foreign trade performance. Such devaluations, however, generated significant improvements in current-account and trade deficits. In these countries, the rise in the real exchange rate was accompanied by a larger fall in domestic real interest rates, in situations of high fiscal deficits and slowing growth compared to the rest of the region. In general, though, the economies that devalued had been through

Figure II.1
LATIN AMERICA AND THE CARIBBEAN: REAL EXCHANGE RATES, 1999-2000
(Percentage annual variation)



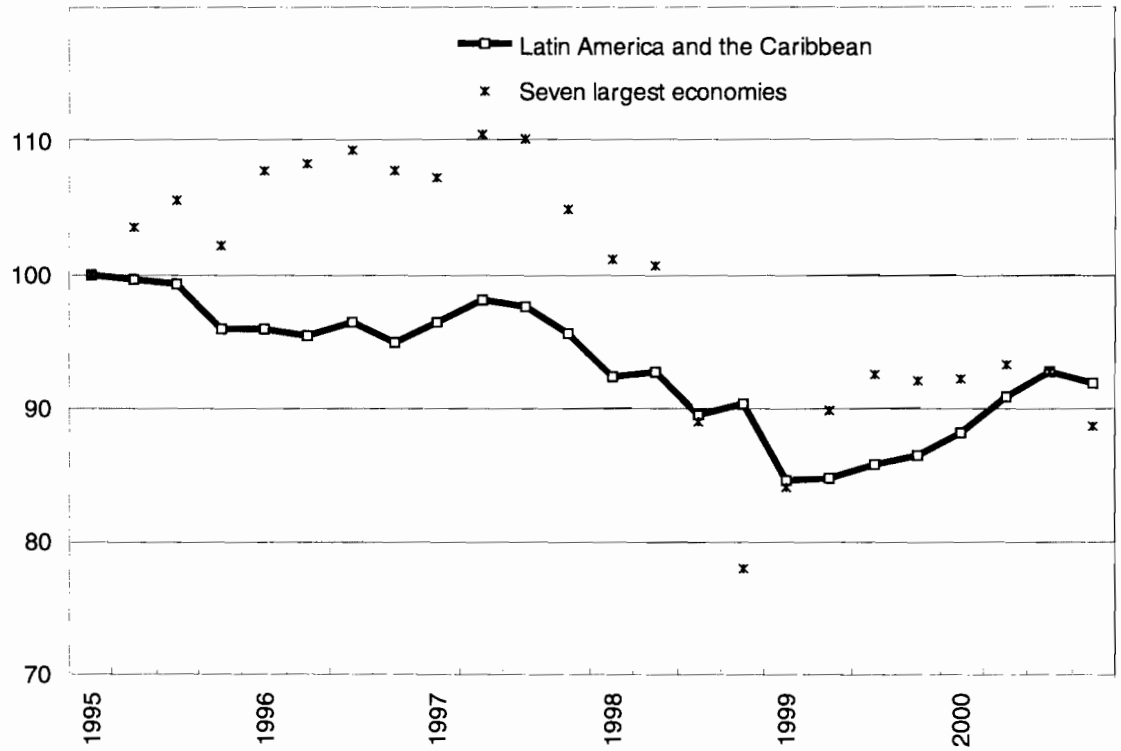
Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

the deepest recessions in 1999, so they were able to post strong rates of recovery in 2000 without fanning domestic inflation. As a result, nominal devaluations resulted in real depreciation.

These changes in exchange-rate policy had repercussions for the conduct of monetary policy. As can be seen in figure II.2, the regional index of monetary conditions (IMC) recovered strongly from the second quarter of 1999 until the third quarter of 2000. The rise in the index during this period was mainly the result of lower interest rates. Money-market conditions tended to fluctuate most sharply in the region's seven largest economies, because the smaller ones are generally less exposed to external financial shocks and have more conservative macroeconomic policies.

This tendency lent a progressively expansionary character to the monetary landscape, following the two years of severe austerity that began in the second half of 1999, when the first symptoms of the Asian crisis and its subsequent transformation into a global upheaval began to be felt in Latin America. The clearest illustration of this trend is Brazil, where the IMC came down considerably in 1997 and 1998 as the currency band was defended. The January 1999 devaluation of the real did not alter the country's monetary stance immediately, but the index rose from the second quarter of that year, when the first signs that the devaluation had been successful began to appear. The small negative variation in the IMC for 2000 as a whole masks a combination of positive and negative quarterly changes.

Figure II.2
LATIN AMERICA AND THE CARIBBEAN: REGIONAL INDEX OF MONETARY CONDITIONS [a]
(Indices 1995=100)



Source: ECLAC, on the basis of official figures.
[a] A rise in the index indicates a more expansionary stance. See box II.1 for a description of the methodology used.

By the end of the year, negative trends again prevailed in the regional monetary panorama as a result of financial factors, such as wider spreads owing to the heightened tension on international markets, and of greater uncertainty about the strength and sustainability of economic recovery.

The regional trend masks variations among individual countries, resulting from a lack of synchronization in their business cycles. Generally speaking, countries whose monetary stance had been more expansionary in 1999 made an adjustment the following year, and those that were more expansionary in 2000 had adopted a tighter stance in 1999 (see figure II.3).

An analysis of macroeconomic conditions and the real factors distinguishing countries that had stronger monetary expansion than the rest of the region in 2000 reveals the following trends.[4]

Countries in the more "expansionary" group grew more slowly than the other countries in 2000 (2% compared to 4.2%), but this represented a more vigorous recovery from their 1999 performance

4 These results were obtained by discriminant analysis applied to the main economic variables pertaining to a set of 16 countries for which data are available. The countries were divided into two groups of eight on the basis of the behaviour of the index of monetary conditions during 2000.

Box II.1
INDEX OF MONETARY CONDITIONS

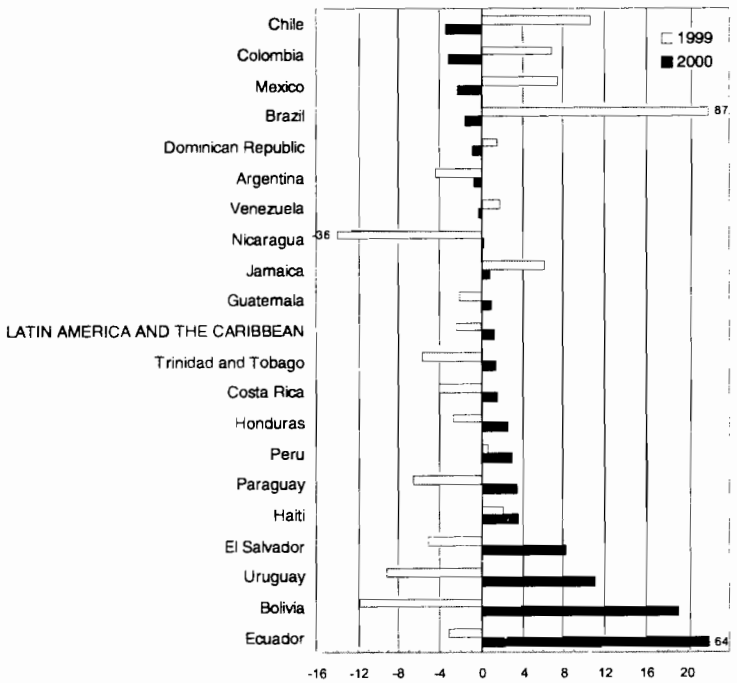
The index of monetary conditions (IMC) measures the general orientation of monetary policy. It is calculated by combining the real interest rate on loans with indices of the real bilateral exchange rate against the dollar and the effective exchange rate with the country's trading partners. Accordingly, it may not agree with the effects that this monetary policy has on domestic monetary aggregates. The index is constructed as a weighted average of quarterly percentage-point variations in the real interest rate on loans and the percentage change in the real exchange-rate index from one quarter to another.

The weightings used (q) are as follows: the difference in interest rates on loans (IR) is weighted by the ratio between domestic credit and GDP. The percentage change in the real effective exchange-rate index (RERI) is weighted by the country's coefficient of trade openness (total value of exports and imports, divided by GDP). The percentage change in the index of the real bilateral exchange rate against the dollar (RBRI) is weighted by the external debt ratio(value of external debt divided by GDP).A fall in the index indicates a potentially negative effect on aggregate demand, either directly through domestic and external demand (the effects of TI and RERI), or indirectly through its impact on the debt position (the effect of RBRI).

The regional index was calculated as the median of quarterly movements in 20 countries. It was also calculated for the seven largest economies in the region.

$$ICM_t \quad ICM_{t\ 1} * 1 \quad {}_1 * TI_{t\ 1} \quad TI_t \quad {}_2 * \ln \frac{ITCR_t}{ITCR_{t\ 1}} \quad {}_3 * \ln \frac{ITBR_t}{ITBR_{t\ 1}}$$

Figure II.3
LATIN AMERICA AND THE CARIBBEAN: AVERAGE ANNUAL VARIATION IN THE INDEX OF MONETARY CONDITIONS, 1999-2000
(Percentages)



Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

(nearly three percentage points in the expansionary group, compared with just over one point in the other countries). They owed this greater vigour to the fact that they had much smaller trade and current-account deficits than the other countries of the region, and also less external borrowing. Generally speaking, these countries also have more competitive real exchange rates than the other ones analysed: since the mid-1990s they seen cumulative real depreciation of 15%, while the other group has seen appreciation of 3%. In 2000, they also benefited from a more favourable trend in the terms of trade for goods and services, which compensated for weaker growth in export volumes.

The stronger recovery among countries adopting expansionary monetary policies was achieved at the expense of price control, since it occurred against a backdrop of higher inflation which, furthermore, showed no tendency to fall. The opposite occurred in countries whose IMC was more moderately expansionary in 2000, or even somewhat restrictive. In this group, inflation was significantly lower, and there are consistent signs that it will continue to fall.

There is also evidence that the monetary stimulus introduced in 1999 had delayed defects in 2000, but only in cases where the measures concerned were underpinned by basically positive fundamentals, such asbetter fiscal results and stronger external accounts. Thus, the highest growth rates in 2000 were mostly associated with large interest rate cuts in 1999 (see table II.1). By contrast, stable or even rising lending rates in 2000 did not generally prevent the real economy registering strong growth in both output and the volume of foreign trade, against a backdrop of improved fiscal results.

Despite a regional climate more conducive to liquidity expansion, the behaviour of monetary aggregates varied from country to country. Differences among central bank

Table II.1

LATIN AMERICA AND THE CARIBBEAN: REAL INTEREST RATES AND ECONOMIC PERFORMANCE IN 2000[a]

	Strong performance[b]	Intermediate or weak performance[c]	Regional average[d]
Real GDP growth	5.0	0.9	3.0
Real growth in total exports	9.4	-0.1	5.5
Real growth in total imports	12.6	-5.4	5.5
(Percentages of GDP)			
Change in GDP growth rates from 1999 to 2000	5.6	-0.8	2.1
Change in current-account balances from 1999 to 2000	3.9	-3.1	1.4
Year-on-year change in average interest rates (basis points)			
Real lending rate, 1999-2000	-5	-334	-655
Real deposit rate, 1998-1999	-291	426	78
Real lending rate, 1998-1999	-367	336	29
Dollar equivalent rate, 1998-1999	-608	67	-90

Source: Statistical appendix.

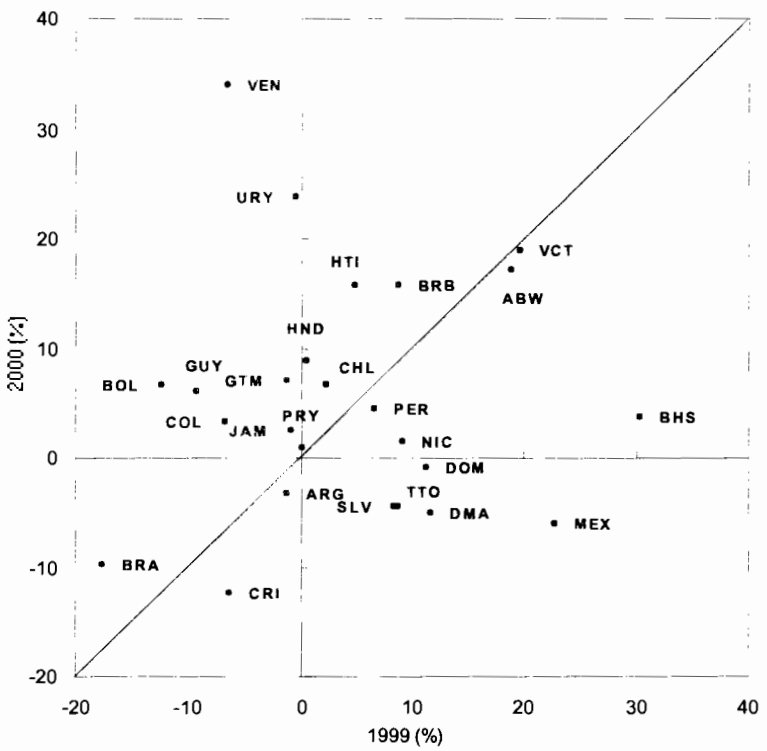
[a] Classification based on a ranking obtained using factor analysis of the main economic indicators for a group of 16 countries. [b] Chile, Colombia and Mexico. [c] Nicaragua, Paraguay and Uruguay. [d] Simple average.

money-supply policies are largely explained by disparities in the countries' real economies. Several countries in the north of the region, including Mexico, experienced a contraction of the monetary base in 2000, following a large expansion in the previous year (see figure II.4). These economies, unlike those of South America, had not been greatly affected by the global crisis.

In addition, the demand for money did not always follow the course set by central bank money supply. Not only were there cases where M1 grew faster than the monetary base, but in several countries the former expanded while the latter actually shrank (Brazil, Costa Rica and Mexico, in particular). Only in Bolivia, Uruguay and, to a lesser extent, Peru did M1 decline in real terms as a result of the behaviour of bank lending, even though the central bank injected additional liquidity into the financial system.

As can be seen in figures II.5 a and b, the monthly pattern was quite similar from subregion to subregion, by contrast with previous years. Despite a decline in the final quarter, the demand for money, measured as an annual average, was greater in 2000 than in 1999, because more dynamic economic activity boosted money demand for transaction purposes, while lower inflation also favoured larger money holdings.

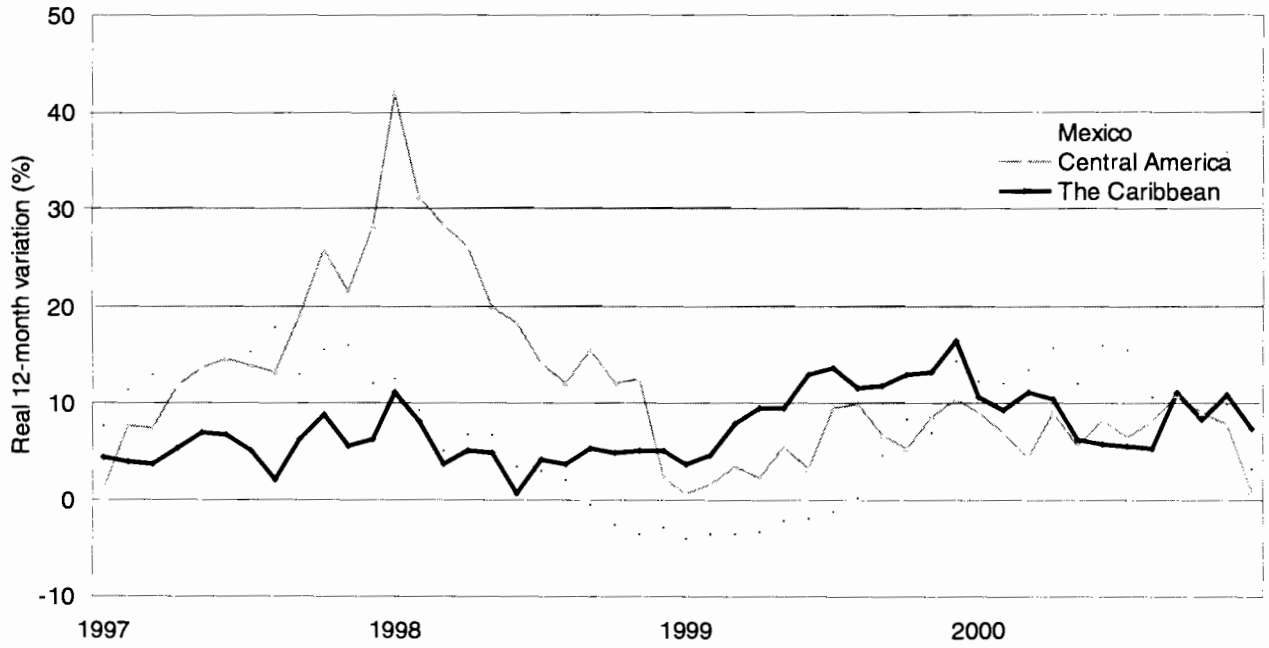
Figure II.4
LATIN AMERICA AND THE CARIBBEAN: REAL VARIATION IN THE MONETARY BASE, 1999-2000
(Percentages)



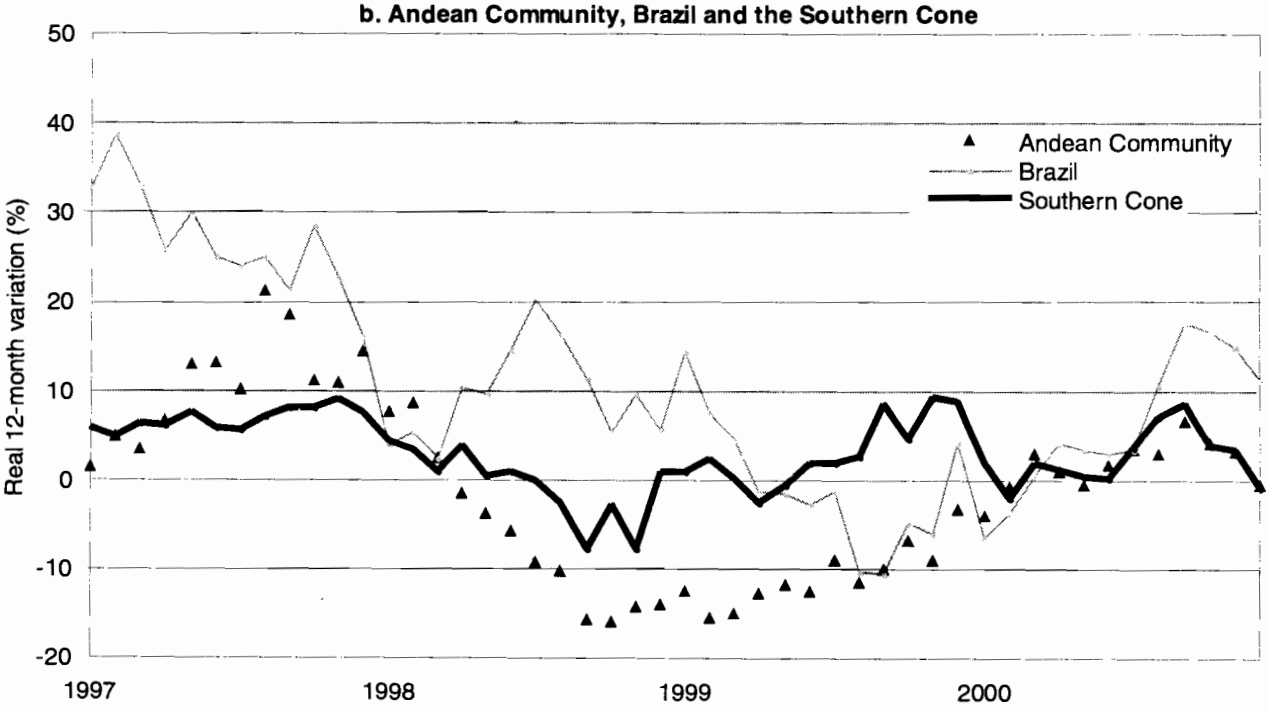
Source: ECLAC, on the basis of official figures.

Figure II.5
LATIN AMERICA AND THE CARIBBEAN: REAL YEAR-ON-YEAR CHANGE IN M1

a. Mexico, Central America and the Caribbean



b. Andean Community, Brazil and the Southern Cone



Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

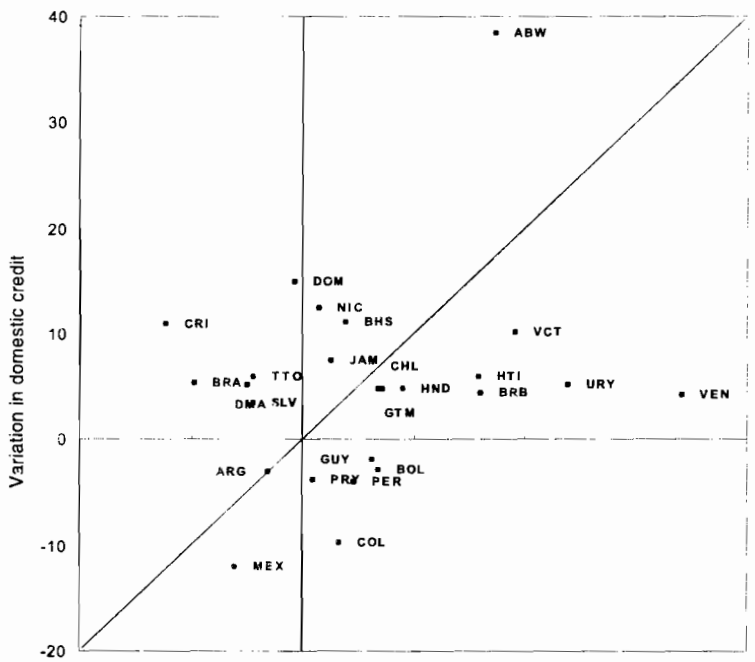
3. The financial sector

Private credit conditions in Latin America have traditionally been unsatisfactory, as lending to small-scale producers and families tends to be rationed, resulting in high financing costs and short repayment terms. In the recent past, this situation has been aggravated by the more austere monetary policies applied in many countries, either for stabilization purposes or to attract the external saving needed to bridge the deficit on current transactions and refinance the growing external debt in a context of international financial crisis.

The year 2000 began with more positive conditions in domestic credit markets. The external situation was characterized by relative stability in sovereign debt markets, and foreign direct investment (FDI) flows were abundant. The unexpected strength of the Brazilian recovery fostered a conviction that the crisis in the largest Latin American economy would not now engulf the entire region, as it had seemed inevitable that it would. Domestically, inflation was kept in check despite external shocks, thereby providing evidence of consolidating economic fundamentals. In this situation, the monetary authorities adopted a less austere stance that allowed interest rates to fall in most countries.

Domestic banking sectors reacted cautiously to this more propitious climate. Lending volumes remained fairly flat and interest-rate spreads stayed high. Nonetheless, this general trend masks differences arising from the specific external situation in each country. For example (see figure II.6), countries such as Brazil, Costa Rica, the Dominican Republic, El Salvador and Trinidad and Tobago, among others, saw credit expand despite a contraction of the monetary base. This suggests that either or both of the following occurred: i) government credit policies focused on variables not directly linked to

Figure II.6
LATIN AMERICA AND THE CARIBBEAN: GROWTH IN THE MONETARY BASE AND DOMESTIC CREDIT
(Percentage variation 1999-2000)



the expansion of the monetary base, as happened in Brazil, where a specific policy of reducing bank spreads was applied (see the note on Brazil in the second part); and ii) money-creating banks had optimistic expectations, which led them to expand their lending in spite of reserve constraints.

In countries such as Bolivia, Colombia, Guyana, Paraguay and Peru, banks reacted to looser monetary policy in a clearly conservative manner, thereby demonstrating the weakness of demand for credit among firms and households and a lack of optimism in the private financial sector.

This improvement in monetary conditions did not lead to a significant upturn in fixed investment, which continued to grow more slowly than GDP in nearly all the countries of the region (Paraguay was one of the few exceptions). Moreover, any increase in investment was either associated with large firms that obtain financing externally, or else involved FDI, which does not affect domestic credit demand.

By late 2000, the demand for credit was also weighed down by changing perceptions of external and domestic conditions in the Latin American and Caribbean economies. Interest-rate cuts in the United States had not fed through into base rates in the countries of the region because of heightened international uncertainty, which has decisive implications for the fundamentals of many regional economies (exports, fiscal balances and economic prospects).

Most of the growth in the demand for domestic credit in 2000 related to exports and associated inputs, and to domestic consumption. Generally speaking, both types of credit have short repayment terms, which allows banks to maintain a low-leverage asset and liability structure.

The fact that the economies were growing in a context of greater liquidity, while credit remained tight, helped the banking sector to remain relatively stable during the year. Despite this, the financial system in countries such as Ecuador, Jamaica and Peru continued to suffer problems arising from domestic factors and previous crises, and there were bank failures in several Central American countries.

4. Fiscal policy and the public finances

Most of the region's Governments chose to adopt a more austere fiscal policy in 2000 than in the previous year, both for financial reasons and to send out signals of stability to economic agents at a time when monetary policy was becoming more flexible. In 1999, many countries allowed automatic stabilizers to operate, and fiscal deficits widened as a result. Transfers to the economic sectors worst hit by the financial crises of 1997 and 1998 compounded this, as did the increase in natural disaster-related infrastructure investments, all of which conspired to push the average deficit to its highest level of the decade.

In this situation, an increasing number of Latin American Governments decided to curb budgetary growth by adopting longer-term structural measures such as fiscal responsibility laws setting caps on expenditure growth, and multi-year deficit targets. The aim of this is to give greater credibility and room for manoeuvre to monetary and exchange-rate policy by mitigating the potential interest-rate effects of governments' domestic and external financing requirements. Making fiscal management more transparent and predictable is particularly important in countries where monetary policy management is shifting away from rules based on monetary aggregates or exchange-rate targets towards inflation targeting.

In fact, the average deficit of the non-financial public sector (NFPS) narrowed from 3.1% of GDP in 1999 to 2.3% in 2000, thanks to expenditure controls and rising revenue (see table II.2). This reduction in the average deficit is mainly explained by exogenous factors that supported fiscal policy efforts. The recovery of international prices for commodities exported by public-sector firms, supported by the effects of the economic recovery itself, helped swell total NFPS income. This demonstrates how sensitive public-sector revenue is to the business cycle and external conditions.

The efforts made by finance ministries, which applied tax and budgetary control measures, also contributed to this reduction. In fact, most of the Governments that had allowed automatic stabilizers to operate in 1999 posted smaller deficits in 2000.

Central government deficits were held at virtually the same level as in the previous year, just edging down from 2.8% of GDP to 2.7%. This is explained by the very low growth in central government revenues, which was

Table II.2
LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR ACCOUNTS [a]
(As percentages of GDP)

	Total revenue		Current revenue		Tax revenue		Total expenditure		Current expenditure		Interest payments		Financial balance	
	1999	2000[b]	1999	2000[b]	1999	2000[b]	1999	2000[b]	1999	2000[b]	1999	2000[b]	1999	2000[b]
Latin America and the Caribbean	**22.5**	**23.2**	**20.4**	**21.1**	**14.7**	**14.8**	**25.6**	**25.5**	**19.1**	**19.4**	**2.8**	**2.8**	**-3.1**	**-2.3**
Argentina	20.2	19.6	19.2	19.5	17.6	18.1	21.9	22.0	20.8	21.0	2.9	3.4	-1.7	-2.4
Bolivia	31.6	32.7	30.5	31.1	13.1	13.4	35.4	36.7	28.3	29.7	1.2	1.5	-3.8	-4.1
Brazil	34.4	38.2	27.6	30.6	26.6	29.8	44.4	42.7	40.4	38.9	6.7	4.7	-10.0	-4.6
Chile [c]	23.0	24.1	22.5	23.7	16.9	17.5	24.4	24.0	20.0	20.0	0.4	0.5	-1.5	0.1
Colombia	31.3	30.7	28.8	28.5	17.8	18.1	36.4	34.8	27.4	25.8	5.2	5.4	-5.1	-4.1
Costa Rica [c]	13.0	12.9	12.5	12.7	12.4	12.6	15.3	15.9	13.9	14.3	3.8	3.7	-2.3	-3.0
Ecuador	25.3	28.3	25.3	28.3	10.2	12.3	30.0	27.9	22.8	22.3	8.5	7.6	-4.7	0.4
El Salvador	15.0	15.6	14.7	14.8	10.2	10.2	17.8	18.7	14.5	15.4	1.4	1.5	-2.8	-3.0
Guatemala [c]	11.0	10.9	10.9	10.8	9.8	10.1	13.8	12.8	8.6	9.1	1.3	1.2	-2.8	-1.9
Haiti [c]	9.3	8.0	9.0	8.0	9.0	8.0	11.7	10.6	9.5	8.2	0.8	0.5	-2.4	-2.6
Honduras [c]	19.6	18.0	19.3	18.0	17.7	16.6	23.6	23.8	15.8	16.6	2.2	1.6	-4.0	-5.9
Mexico	20.8	21.8	14.7	15.9[c]	11.4	10.6[c]	22.0	22.9	15.0	15.7[c]	3.2	3.3[c]	-1.2	-1.1
Nicaragua	43.8	39.4	34.8	31.9	30.2	29.8	47.6	45.7	26.2	26.3	2.8	3.4[c]	-3.8	-6.2
Panama [c]	20.1	19.7	20.0	19.5	12.7	11.3	20.8	21.0	18.4	19.3	5.0	5.6	-0.7	-1.3
Paraguay	25.0	28.6	24.7	27.4	11.1	11.4[c]	28.3	31.8	16.7	19.3	0.8	1.2[c]	-3.3	-3.3
Peru [c]	14.8	15.0	14.5	14.7	12.5	12.1	18.0	17.7	14.6	14.9	2.1	2.2	-3.2	-2.7
Dominican Republic [c]	15.8	16.0	15.3	14.8	14.5	13.7	16.2	14.9	11.2	11.3	0.5	0.7	-0.5	1.1
Uruguay	30.0	30.3	19.2	19.4[c]	15.4	15.5[c]	33.5	34.1	20.6	21.6[c]	1.7	2.1[c]	-3.5	-3.8
Venezuela	23.8	31.1	23.5	30.9	10.3	9.5[c]	24.9	27.0	17.3	19.2	3.2	3.0	-1.1	4.1

Source: ECLAC, on the basis of official figures.
[a] Calculated using figures in local currency at current prices. [b] Preliminary figures. [c] Central goverment statistics.

mainly due to the stagnation of tax revenues, the largest source of fiscal funding. Central government expenditure, which accounted for three quarters of the NFPS budget, grew only very slightly because of institutional efforts to curb outgoings (see figure II.7). This policy was carried through at the expense of public-sector investment, however.

Central government saving remained steady at an average of 0.5% of GDP. The difference between the NFPS and central government results is accounted for by the operational surpluses achieved by public-sector firms, which are included in the broader public-sector accounts but not in those relating to central government.

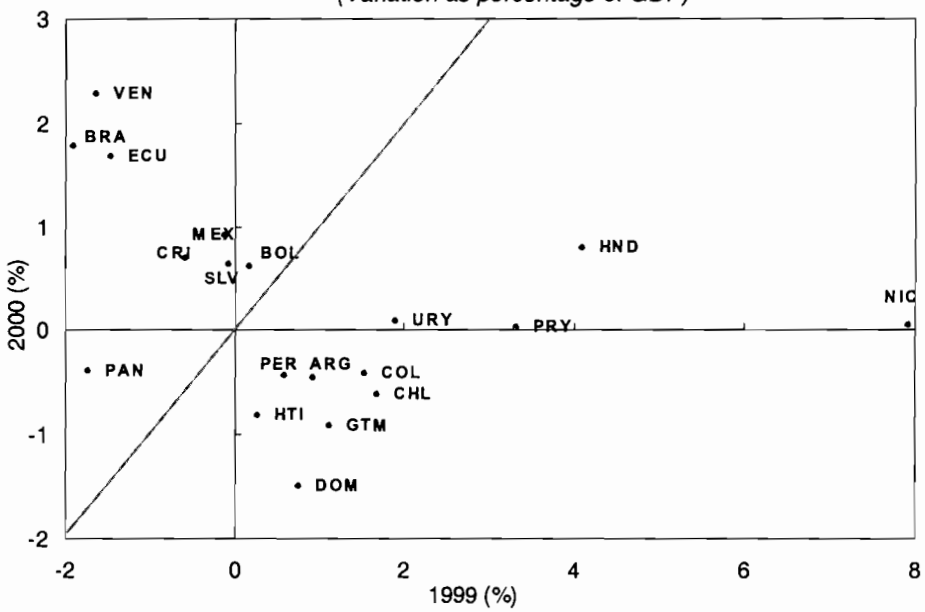
The improvement in NFPS revenues in oil-exporting countries was largely the result of the recovery in the international prices of petroleum and petroleum derivatives. The contribution made to public-sector revenues in Venezuela by Petróleos de Venezuela S.A. (PDVSA) increased by nearly 8% of GDP. Oil company revenues in Ecuador and Mexico also grew by two percentage points of GDP, while revenues from domestic and external oil sales in Bolivia increased by an even larger proportion of GDP. Petroleum refining firms also benefited in a number of oil-importing countries.

The economic upturn helped to assure the success of the taxation measures implemented by various Governments. Tax revenues grew particularly strongly in Brazil, which introduced a system for supervising financial transactions, and in Ecuador, where value added tax was raised, among other measures. In Chile, administrative improvements were introduced to help increase tax revenues. Capital inflows into the region remained at the same level as in 1999, largely because State asset sales had levelled off.

The average level of total expenditure as a percentage of GDP was similar to that registered in 1999, a notable achievement given the increase that took place in the second half of the 1990s. A rise in current expenditure of 0.5% of GDP was offset by a similar reduction in capital expenditure.

While few countries managed to reduce or even contain their current spending, there were several notable developments. Although this type of expenditure is inherently rigid (especially payroll expenses, which are the largest item), several countries managed to cut costs in this area. These included Argentina, Brazil,

Figure II.7
LATIN AMERICA AND THE CARIBBEAN: PRIMARY CENTRAL GOVERNMENT EXPENDITURE, 1999-2000
(Variation as percentage of GDP)



Source: ECLAC, on the basis of official figures.

Chile, Colombia and Ecuador (in the case of Ecuador, this was the result of high inflation following the dollarization process, which was not matched by wage increases). In Argentina, Colombia and the Dominican Republic, transfer payments to decentralized bodies were also lower. In the case of Colombia, the reduction was quite large, since transfer payments are calculated on the basis of the previous year's revenues, and these had fallen. Debt servicing costs remained broadly unchanged, except in Brazil and Ecuador, where greater exchange-rate stability and debt restructuring, respectively, made it possible to cut back these outlays drastically.

Most Governments tried to reduce their deficits, whether through fiscal responsibility laws establishing institutional restrictions (Argentina, Brazil, Ecuador and Peru), fiscal pacts (Guatemala), implementation of a structural surplus rule (Chile) or agreements with the International Monetary Fund (Argentina, Colombia and Ecuador, among others), or in some other way. The relative flexibility of investment spending and capital transfers meant that these were the items most frequently adjusted to allow fiscal targets to be met. Throughout much of the region, the rule was to cut back on infrastructure investments and on capital transfers to key productive sectors (such as agriculture), and to postpone projects in public-sector firms.

Rising current revenues enabled the countries to increase their savings, or at least reduce their dissavings. There were some exceptions, such as Costa Rica, El Salvador and Uruguay, where dissaving increased in response to the growing needs of decentralized institutions, especially social security systems. Although average saving recovered, it still remains below the levels achieved throughout much of the 1990s. Similarly, the primary surplus, which excludes debt servicing charges, improved from a slight deficit in 1999 to a surplus of 0.5% of GDP in 2000.

In contrast to the situation in 1999, countries financed their deficits largely with domestic funds. This was especially true of the larger economies, but it was also the case in some of the smaller ones, and it was the result of more limited access to external financing combined with greater liquidity in domestic financial markets, where bank lending to the private sector had fallen. In addition, the stock of public-sector debt, both domestic and external, has climbed to relatively high levels in recent years in countries such as Argentina, Bolivia, Brazil, Colombia and Ecuador. The first four of these have outstanding balances equivalent to around 50% of their respective GDP, while Ecuador's debt exceeds GDP, which suggests a need to take steps to prevent the situation worsening.

B. Structural reform

1. Introduction

Structural reforms again made mixed progress in 2000, as they had over the preceding five-year period. As the process naturally wound down in areas such as trade and financial liberalization, the focus shifted to other areas. Structural reform in 2000 centred on the awarding of concessions, privatization, competition-boosting measures, labour market reforms and the regional integration process.

To evaluate the achievements of 2000 more precisely, it is helpful to view them from the perspective of the reform movement that continued throughout the 1990s. In order to quantify and analyse these processes, a set of structural reform indices has been prepared using the methodological criteria described in box II.2. [5]

Box II.2
STRUCTURAL REFORM INDICES: METHODOLOGICAL ASPECTS

The indices discussed in this chapter are an updated version of those devised by Morley, Machado and Pettinato (1999), who themselves had adopted and modified the index preparation methodology of Eduardo Lora ("A Decade of Structural Reforms in Latin America; What Has Been Reformed and How to Measure It", Working Paper, No. 348, Washington, D.C., Inter-American Development Bank (IDB), June 1997).The general index is an average of five subindices: domestic financial liberalization, trade liberalization, tax reform, privatization and balance-of-payments capital-account liberalization. Each subindex is the average of several components, calculated using the following formula:

$$Iit = (IRit - Min) / (Max - Min)$$

where:
Iit = value of the index for country i in year t;
IRit = value of the measured component of the reforms for country i in year t;Max and Min = highest and lowest measured values of this reform component in all the countries for every year between 1971 and 2000.
This means that the value of each component, e.g., the tariff rate, is normalized to a range of 0 to 1. To continue with the same example, the country with the highest tariff rate among those analysed will have the index value 0, whereas the lowest tariff rate among the countries in the sample is given a value of 1. This number is then multiplied by 100, so the value 100 signifies the lowest level of intervention

5 The indices are an attempt to quantify the structural reform process, and thus do not involve value judgements. Specifically, a high index value is not inherently better than a lower one, as the optimal value may be different for each economy.

2. Reforms during the 1990s

The 1990s were characterized by an intense and widespread economic reform process. As can be seen from the reform indices shown in table II.3, at the start of the decade the situation among the region's economies varied greatly, as Argentina, Bolivia, Chile and Mexico had already made many changes, but other economies were just starting. Approaching 2000, the indices show significant convergence among the 17 countries for which data is available, which indicates that, other than in fiscal matters, most of them have now substantially reformed their economies.

At a more detailed level there are marked differences, however (see figure II.8). In some respects, the situation is very similar in the countries analysed. For example, tariff rates are low everywhere and their dispersion small (around 12% and 7%, respectively). Financial-sector liberalization has also been carried out widely across the region. In 2000, therefore, the trade reform and financial reform indices are the highest, at 93.9 and 92.1, respectively, reflecting convergence towards a high level of openness and liberalization. In addition, the capital account is now almost completely open in most countries, with very few controls on capital inflows and outflows remaining.

Where privatization is concerned, on the other hand, the situation is more varied. Some countries have already sold most of their State-owned firms, but elsewhere such enterprises still play a major part in the production of goods and services, and in many firms that still remain in the public sector productivity has been rising as a result of growing competition and new management practices. Lastly, little progress has been made with fiscal reform, the average index value for the countries studied being a mere 56.1. Although top income-tax rates for both firms and individuals were gradually lowered during the decade, in several countries this was not accompanied by sufficient widening of the tax base.

Another characteristic of the structural reform process was its loss of momentum over the course of the decade. In the early 1990s, many countries carried out wide-ranging and profound reforms over a very short period of time, dealing not only with structural aspects but also macroeconomic stabilization measures. The most recent major example of this type was the Plan Real

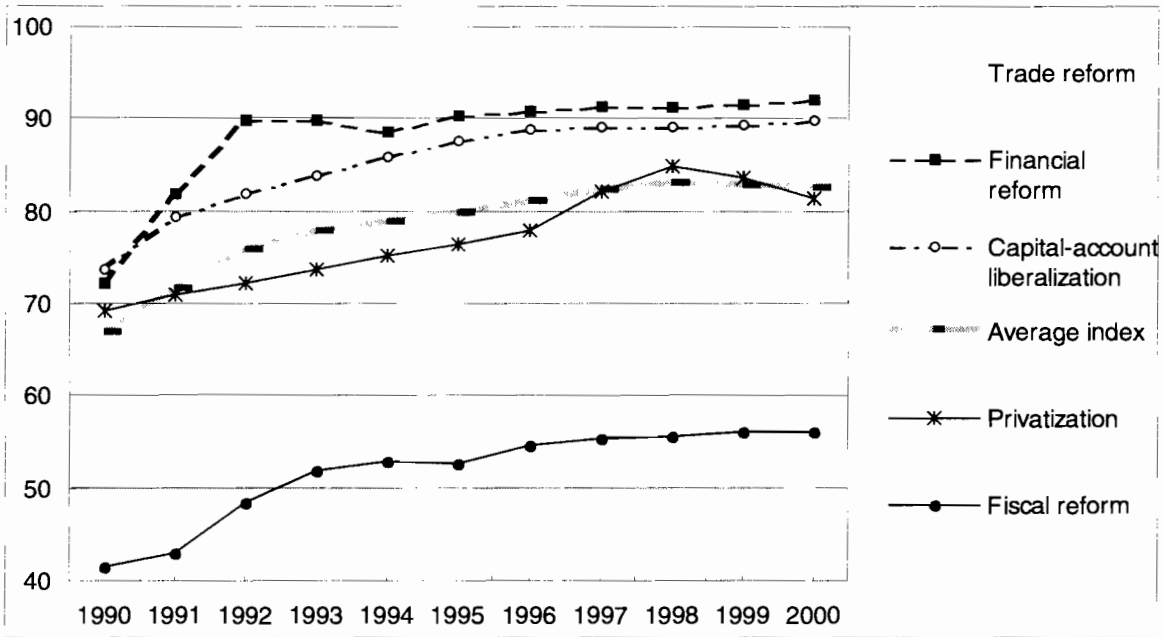
Table II.3
LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES): INDICES OF STRUCTURAL REFORM [a b]

	Trade reform			Capital-account liberalization			Financial reform			Fiscal reform			Privatization		
	1990	1999	2000[c]	1990	1999	2000[c]	1990	1999	2000[c]	1990	1999	2000[c]	1990	1999	2000[c]
Average	**72.2**	**91.5**	**92.1**	**73.7**	**89.3**	**89.9**	**79.0**	**93.9**	**93.9**	**41.4**	**56.2**	**56.1**	**69.2**	**83.6**	**81.4**
Argentina	86.5	87.4	87.4	82.1	98.2	98.2	87.8	92.8	92.7	49.4	53.9	53.7	88.4	99.7	99.7
Bolivia	96.5	97.6	97.6	93.0	75.4	75.4	94.8	97.5	97.7	65.2	58.3	61.0	34.5	98.5	100.0
Brazil	88.5	84.9	89.7	46.1	70.3	72.6	76.0	92.2	92.2	59.5	63.5	67.1	74.1	83.5	84.3
Chile	90.6	90.0	90.0	56.7	87.5	87.5	94.9	97.5	97.9	62.0	60.8	60.8	63.1	82.8	81.7
Colombia	91.3	89.0	89.0	45.4	79.9	86.8	83.8	93.9	93.9	45.6	46.8	47.4	73.8	87.2	80.7
Costa Rica	81.8	97.1	97.6	100.0	100.0	100.0	84.3	92.5	92.5	47.2	51.8	51.8	71.0	85.9	87.3
Ecuador	29.1	87.6	90.0	79.9	87.9	87.9	75.5	93.2	90.0	49.2	60.4	65.7	65.5	71.9	77.3
El Salvador	92.5	92.6	93.3	50.7	93.5	93.5	88.8	96.3	95.6	19.2	55.9	56.1	91.5	88.1	88.4
Guatemala	27.4	97.1	97.1	98.2	96.8	96.8	85.4	94.9	95.2	39.9	52.6	50.2	89.6	...	...
Honduras	64.9	97.6	97.6	77.3	100.0	100.0	66.0	95.2	95.5	25.0	68.1	57.0	76.8	77.7	79.2
Jamaica	74.7	74.0	75.9	85.7	91.1	91.1	74.8	94.8	94.8	31.2	56.1	56.2	36.2	...	...
Mexico	91.0	91.7	91.7	78.6	79.2	79.2	94.1	87.9	87.9	45.3	42.9	42.6	63.1	90.3	91.8
Paraguay	92.5	96.9	96.9	77.4	91.4	91.4	88.3	93.8	93.7	26.1	60.1	59.4	89.3	73.5	77.6
Peru	26.4	98.3	98.3	63.1	92.9	93.9	55.7	94.9	94.9	41.0	55.6	55.7	79.9	90.2	90.4
Dominican Republic	27.3	95.7	95.7	60.8	88.8	88.8	25.2	90.9	94.1	16.7	49.8	49.7	97.9	93.3	...
Uruguay	80.3	89.7	89.7	80.0	90.2	90.2	83.7	93.2	93.0	69.8	71.8	71.7	81.7	70.8	69.3
Venezuela	85.4	88.1	88.1	78.1	94.4	94.4	84.6	95.0	95.4	11.9	46.9	47.4	1.0	60.1	32.4

Source: ECLAC. on the basis of official figures.

[a] A value of 100 indicates the lowest level of intervention (see box III.1). [b] Privatization indices for Venezuela are highly variable because of the preponderance of the State-owned enterprise Petróleos de Venezuela (PDVSA), whose results depend on international oil prices. [c] Preliminary figures.

Figure II.8
LATIN AMERICA AND THE CARIBBEAN: INDICES OF STRUCTURAL REFORM, 1990-2000



Source: ECLAC, on the basis of official figures.

in Brazil, implemented in 1994. Subsequent reforms were more piecemeal, partly because the more radical changes had already been made. The average structural reform index value had risen from 71.6 in 1991 to 79.8 in 1995, but by the end of the following five-year period it had only crept up to 82.9, a pattern that can also be detected in the subindices. This could also be evidence of a degree of disenchantment with the reforms, or at least the version of them favoured in the early 1990s.

3. Reforms in 2000

(a) Privatization and concessions

Privatizations carried out in 2000 generated revenues of US$ 18.5 billion, 50% more than in the previous year, thanks to the more favourable business climate resulting from improved economic conditions. Nonetheless, proceeds were significantly lower than those obtained in 1997 and 1998 (see table II.4). The process was once again dominated by major asset sales in Brazil, which generated nearly 70% of total proceeds,

Table II.4
LATIN AMERICA AND THE CARIBBEAN: VALUE OF PRIVATIZATIONS, 1990-2000 [a] [b]
(Millions of current dollars)

	1990-1995	1996	1997	1998	1999	2000	Total
Total	**61 377**	**12 541**	**24 668**	**42 291**	**12 374**	**18 464**	**171 715**
Argentina [c]	16 717	1 033	969	598	4 082	309	23 708
Bolivia	869 [d]	874 [e]	-	-	137	27	1 907
Brazil	9 518	3 752	17 400	36 600	4 440	12 260	83 970
Chile	373	579	12	186	1 434	429	3 013
Colombia	1 072	1 476	3 180	470	292	433	6 923
Mexico	24 373	-	84	581	360	4 298	29 696
Peru [c]	4 976	2 669	681	292	301	380	9 299
Venezuela	2 384	2 090	1 505	174	37	23	6 213
Other	1 095	68	837	3 390	1 291	305	6 986

Source: 1990-1995: R. Cominetti, "La privatización y el marco regulatorio en Bolivia y Nicaragua: un análisis comparativo", Reformas de política pública series, No. 43 (LC/L.973/Add.1), Santiago, Chile, ECLAC, 1996; 1996-2000: authors' calculations based on Latin Finance (various issues), Privatisation International (various issues), Latin American Weekly Report (various issues), Latin American Economy & Business (various issues) and official statistics for those years.

[a] Cash proceeds plus revenues in the form of external and domestic bonds valued at their prices on the secondary market, except in thecase of Brazil, where domestic debt paper was valued at par. [b] Figures do not include concessions, except in the cases of Argentinaand Peru. [c] Includes concessions. [d] Includes US$ 51 million in privatization proceeds and US$ 797 million from the capitalization process. [e] Capitalization.

although Mexico's share (23%) was also significant. Banks accounted for 44% of total privatization revenues, followed by the oil sector (23%) and electrical power (16%). The partial sale of the giant Petróleo Brasileiro (PETROBRAS) generated the entirety of the sector's privatization proceeds.

Other countries also decided to open up new sectors to private enterprise, under a variety of forms. Recent examples include ports in Uruguay, sanitation in Ecuador, telecommunications in Jamaica and Paraguay and airports in Honduras and Peru. At the same time, a number of established concession programmes were continued in 2000 (port operations in Chile, gas in Brazil), and new sectors were opened up, such as oil in Ecuador. This suggests a consolidation of the change in emphasis that has become visible over recent years, with concession projects playing a more and more important role in bringing modernization and efficiency to a variety of service and infrastructure areas.

(b) Market regulation and institutional changes

Another process that is increasingly visible in the region involves sectors being opened up to competition with the State acting as regulator. The aims here are to enhance efficiency, especially in sectors that are lagging a long way behind in this regard, and to lay down clear and transparent rules. Telecommunications in Argentina and Venezuela were finally opened up to competition in 2000.

The liberalization of national markets, particularly in infrastructure sectors, has caused firms to rethink their strategies. These are no longer designed with only the domestic market in mind, but now have a regional outlook. The presence of transnational firms has unquestionably been important in this regard, as is clearly exemplified by the production and distribution of gas in Mercosur and electricity in Central America, subregions in which production and consumption areas do not coincide. The outcome of these processes has been a wide range of projects that aim to connect users and producers across national borders. The plan to integrate infrastructure across Mercosur, which was sponsored by the member countries' transport ministers, falls into this pattern, and another similar project envisages creating a subregional telecommunications regulator for five Caribbean countries.

Given that transparency in public administration and efforts to combat corruption are becoming increasingly important issues, the countries of the region pressed ahead during the year with a variety of projects to strengthen State institutions. In addition to the

governmental and non-governmental initiatives of previous years, the new President of Mexico announced the creation of a national transparency commission to combat corruption, while the Caribbean countries decided to set up a subregional court. In addition, El Salvador passed legislation against smuggling and the evasion of customs duties. In view of the fact that corruption is often a transnational phenomenon, initial steps have been taken to develop international cooperation to prevent it. Initiatives include an agreement signed by Aruba, Colombia, Panama and the United States to fight money-laundering, since the results achieved by countries individually have not been satisfactory. The same idea underlies the Caribbean Financial Action Task Force (CFATF), an initiative by countries in that subregion to join forces in fighting illicit financial practices. This project is part of a set of measures the Caribbean countries are putting into place to clean up the image of their financial systems and promote them as international financial centres.

(c) Financial and capital market reforms

The banking crises of previous years gave rise to a strong movement in support of stricter prudential regulations in the region's financial systems. Colombia, Ecuador, Nicaragua and Peru are among countries that took steps to further strengthen their regulatory arrangements, at a time of major consolidation in their financial systems. Nicaragua passed a deposit guarantee law aimed at strengthening the credibility of its financial system, which had been badly shaken by two major bank failures. Brazil has also been making determined efforts to simplify its payments system, reduce financial transaction costs and increase transparency in the banking sector.

As regards capital markets, the authorities in Chile and Colombia lifted several of the remaining restrictions on foreign investment, in order to strengthen and expand their financial systems. Chile's permanent interest in improving and strengthening its financial system and modernizing its capital market resulted in two Chilean peso bond flotations in 2000, one by the World Bank and the other by Uruguay (for US$ 105 million and US$ 143 million, respectively).

(d) Labour market reforms

The region's Governments placed labour market reform back on the agenda, from which it had been absent for a number of years. Initiatives approved in 2000 included amendments to the principles governing Venezuela's labour market, which were enshrined in the country's new constitution, and alterations to labour laws in Argentina, Costa Rica, Ecuador and Paraguay, with similar initiatives being prepared in Bolivia and Chile.

One of the main characteristics of labour market reform is that the legal amendments involved tend to arouse greater controversy than reforms in other areas. In their proposals, governments seldom manage to balance particular interests, which sometimes conflict, with measures that help to make labour markets more flexible and combine support for new job creation for the unemployed with protection for those in work.

The initiatives adopted in 2000 were no exception. In Venezuela, the new regulatory principles that have been adopted are tending to make labour markets more rigid and push up labour costs. The legislation enacted in Argentina and Ecuador, on the other hand, seeks to relax the rules governing labour relations and reduce labour costs in order to encourage job creation. In Paraguay, labour measures aiming along the same lines were adopted as part of a set of laws designed to modernize public administration. In Costa Rica, meanwhile, the new Worker Protection Act aims to modernize pension funds and strengthen them financially.

(e) The integration process and trade reforms

Until recently, the **Southern Common Market** (Mercosur) was making significant progress in this area, to an extent that many analysts had not expected. Undoubtedly the most eloquent demonstration of this was a trade milestone in 1998, when intra-subregional trade came to account for one quarter of all exports by this subregional grouping's members. Nonetheless, the negative situation affecting member countries since the middle of that year has caused trade between them to decline sharply.

At the eighteenth meeting of the Common Market Council (June 2000), member States discussed the need to reinvigorate Mercosur. They agreed on the crucial need to avoid imposing any kind of restriction on reciprocal merchandise trade; improve application of the common external tariff; harmonize the disciplines applied to fiscal incentives; move towards common macroeconomic objectives and jointly negotiate trade agreements with non-member countries. As regards macroeconomic coordination, concrete steps have been taken towards setting common inflation and public-sector deficit targets, with indices now being calculated using a standard methodology. In addition, the four member countries are engaged in joint negotiations for free trade agreements with the European Union and the Andean Community.

The impact of the Asian crisis and the economic and political difficulties faced by member countries of the **Andean Community** slowed down progress towards the goal of setting up a common market, while disputes among member countries became more frequent because of measures adopted unilaterally to the detriment of intra-subregional trade. Nonetheless, in June 2000 finance ministers acted on their commitment to gradually achieve macroeconomic policy harmonization among member countries, by reducing inflation rates to single-digit levels and setting common fiscal targets.

In keeping with their adherence to the principle of open regionalism, the region's countries have continued their negotiations with third parties. At the meeting of the Presidents of South America (Brasilia, 31 August to 1 September 2000), regional heads of State signed a commitment to establish a free trade zone between the Andean Community and Mercosur by the end of 2002. Negotiations between the Andean Community and the countries of the Central American Northern Triangle (El Salvador, Guatemala and Honduras) have also moved ahead.

During the year, El Salvador and Guatemala, both of which are members of the **Central American Common Market** (CACM), strengthened their bilateral customs union, established in 1996, by agreeing on a unified tariff and free trade for all goods produced in the subregion. In August 2000, the CACM Council of Ministers for Economic Integration admitted Honduras and Nicaragua into this initiative. Member countries are thus gradually moving towards the creation of a common market by means of successive advances in which not all countries necessarily participate simultaneously. Another significant event was the conclusion of negotiations to approve a trade dispute settlement mechanism for intra-subregional trade.

The CACM countries concluded joint negotiations on uniform rules in relation to the agreement with Chile. In addition, members of the Central American Northern Triangle successfully achieved their aim of establishing a free trade agreement with Mexico. Costa Rica is normally the front runner in this type of negotiation, having already signed agreements with Mexico (1995), Chile (1999) and Canada (2001). In addition, since October 2000 the Central American countries, together with those of CARICOM, have been beneficiaries of the Caribbean Basin Trade Partnership Act between the United States and the Caribbean Basin. Although this legislation did not give these countries access on a par with that obtained by Mexico under the North American Free Trade Agreement (NAFTA), it did improve their competitive position in the United States market for export products that are particularly important to them, such as textiles and wearing apparel.

During 2000, the **Caribbean Community** (CARICOM) continued with efforts to develop its single market (CARICOM Single Market and Economy) by incorporating nine protocols in which member States undertook to abolish all restrictions on the free movement of goods, services, capital and people. Most of them are applying the common external tariff, although several of the subregion's smaller economies are facing difficulties caused by the loss of fiscal revenues that this measure entails. There are still some restrictions on merchandise trade.

In March 2000, CARICOM signed a protocol with the Dominican Republic providing for mutual tariff reduction programmes, such that by 2004 it will be possible to establish a free trade zone between the two parties. In addition, in July 2000 CARICOM signed a trade and economic cooperation agreement with Cuba, which envisages a gradual liberalization of reciprocal trade. Lastly, in June 2000, the European Union and the CARICOM countries signed a framework agreement in Cotonou, Benin, as a successor to the Lom é Convention, which provides for specific negotiations to be held with beneficiary country groupings in 2002-2008.

Lastly, the process of negotiating the **Free Trade Area of the Americas** (FTAA) proceeded in accordance with its established timetable. Activities in 2000 also focused on preparing the sixth FTAA Trade Ministerial Meeting and the third Summit of the Americas, which were held in April 2001 in Buenos Aires and Quebec, respectively.

Chapter III

The main real variables

A. Economic activity

The economies of Latin America and the Caribbean recovered in 2000, thanks particularly to the performance of the two largest. Regional GDP grew at an average annual rate of 4.1%, compared to 2.3% in 1998 and just 0.4% in 1999. Given the region's demographic growth, this implies per capita output growth of 2.5% in Latin America, giving a cumulative 16% improvement in this indicator over the last decade (see tables III.1 and III.2).

THE REGION BENEFITED in 2000 from considerable buoyancy in the world economy, which was transmitted through strong external demand, especially from the United States, the destination for over 50% of Latin American exports. World economic growth, at 4%, was the highest of the last decade (see figure III.1).

Domestic demand expanded by 4.5% and made a significant contribution to growth, especially in the form of higher consumption. Total demand and supply both benefited from increased external trade, with exports growing by 11.3% and imports by 12.8%. Foreign direct investment (FDI) fell substantially in 2000, but remained very high in historical terms.

As can be seen in figure III.2, growth held up well for three quarters but then clearly fell off in the fourth.

Table III.1
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	1991-2000
Latin America and the Caribbean [b]	**3.5**	**3.0**	**3.5**	**5.2**	**1.1**	**3.7**	**5.2**	**2.3**	**0.4**	**4.1**	**3.2**
Subtotal (19 countries)	**3.5**	**3.0**	**3.5**	**5.2**	**1.1**	**3.7**	**5.2**	**2.3**	**0.3**	**4.1**	**3.2**
Argentina	10.6	9.6	5.9	5.8	-2.9	5.5	8.0	3.8	-3.4	-0.5	4.1
Bolivia	5.4	1.7	4.3	4.8	4.7	4.5	4.9	5.2	0.5	1.8	3.8
Brazil	1.0	-0.3	4.5	6.2	4.2	2.5	3.1	0.1	0.7	4.5	2.6
Chile	7.3	10.9	6.6	5.1	9.0	6.9	6.8	3.6	-0.1	4.9	6.1
Colombia	1.8	3.6	4.4	5.9	4.9	1.9	3.3	0.8	-3.8	2.3	2.5
Costa Rica	1.6	8.5	7.0	4.7	3.7	0.6	5.6	8.2	8.0	1.7	4.9
Cuba	-12.1	-13.8	-16.0	2.0	3.4	8.7	3.3	1.3	6.8	5.7	-1.5
Ecuador	5.0	3.0	2.2	4.4	3.0	2.3	3.9	1.0	-9.5	2.8	1.7
El Salvador	2.8	7.3	6.4	6.0	6.2	1.8	4.2	3.5	3.4	1.9	4.3
Guatemala	3.7	4.9	4.0	4.1	5.0	3.0	4.4	5.1	3.6	3.1	4.1
Haiti	0.1	-13.8	-2.2	-8.3	5.0	2.8	1.5	3.2	2.6	1.3	-0.9
Honduras	2.7	5.8	7.1	-1.9	3.7	3.7	4.9	3.3	-1.5	4.8	3.2
Mexico	4.2	3.7	1.8	4.4	-6.1	5.4	6.8	5.1	3.7	7.0	3.6
Nicaragua	-0.4	0.8	-0.4	4.0	4.4	5.1	5.4	4.1	7.4	4.7	3.5
Panama	9.0	8.2	5.3	3.1	1.9	2.7	4.7	4.6	3.2	2.8	4.5
Paraguay	2.5	1.7	4.0	3.0	4.5	1.1	2.4	-0.6	-0.1	-0.7	1.8
Peru	2.7	-0.4	4.8	12.8	8.6	2.5	6.8	-0.5	0.9	3.0	4.1
Dominican Republic	0.9	8.0	3.0	4.3	4.7	7.2	8.3	7.3	8.0	7.8	5.9
Uruguay	3.7	8.3	3.5	7.0	-2.3	5.0	5.4	4.3	-3.3	-1.7	2.9
Venezuela	10.5	7.0	-0.4	-3.7	5.9	-0.4	7.4	0.7	-5.8	4.0	2.4
Caribbean subtotal [b]	**1.5**	**0.7**	**0.5**	**3.1**	**2.8**	**2.9**	**1.9**	**2.6**	**4.1**	**3.3**	**2.3**
Antigua and Barbuda	2.7	0.9	5.0	6.2	-4.8	6.0	5.5	3.9	4.5	3.5	3.3
Barbados	-3.7	-5.6	1.0	2.9	2.4	3.3	2.8	5.3	3.1	3.0	1.4
Belize	3.0	9.0	4.3	1.6	3.7	1.3	4.4	2.0	5.9	10.1	4.5
Dominica [c]	2.1	2.3	1.9	1.9	1.2	2.9	2.2	2.8	0.7	...	2.4
Grenada [c]	3.7	1.0	-1.1	3.4	3.1	3.0	4.3	7.6	8.1	...	3.8
Guyana	8.9	9.1	11.5	9.4	3.8	8.6	6.7	-2.2	3.9	3.0	6.2
Jamaica	0.3	2.5	1.8	1.9	1.8	-0.3	-2.2	-1.0	0.7	0.5	0.6
Saint Kitts and Nevis [c]	2.6	3.2	4.6	5.5	1.8	5.7	6.9	0.9	2.2	...	3.6
Saint Vincent and the Grenadines [c]	1.7	6.9	2.0	-2.3	7.8	1.2	3.5	5.8	4.0	...	3.7
Saint Lucia [c]	-0.4	7.5	-1.3	4.6	2.1	0.8	-0.3	2.6	3.5	...	2.7
Suriname [c]	4.0	-1.8	-10.8	-0.9	4.1	13.2	6.1	1.9	-2.4	...	0.8
Trinidad and Tobago	3.5	-1.0	-1.2	4.2	4.2	4.4	4.0	5.3	7.8	5.0	3.6

Source: ECLAC. on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures. [b] Refers only to countries submitting information. [c] Final column refers to 1990-1999.

Table III.2

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT PER CAPITA

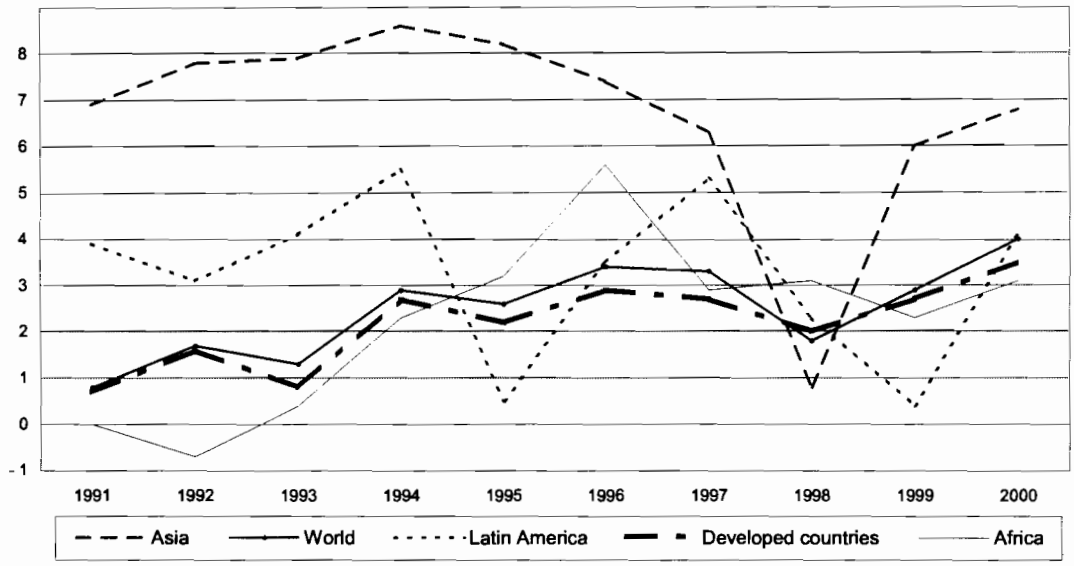
(Annual growth rates)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]	1991-2000
Latin America and the Caribbean [b]	**1.6**	**1.2**	**1.7**	**3.4**	**-0.6**	**2.0**	**3.5**	**0.6**	**-1.1**	**2.5**	**1.6**
Subtotal (19 countries) [b]	**1.6**	**1.2**	**1.8**	**3.4**	**-0.6**	**2.0**	**3.5**	**0.6**	**-1.2**	**2.5**	**1.5**
Argentina	9.2	8.2	4.5	4.4	-4.1	4.1	6.6	2.5	-4.6	-1.7	2.8
Bolivia	3.0	-0.7	1.7	2.3	2.2	2.0	2.4	2.8	-1.8	-0.4	1.3
Brazil	-0.6	-1.8	3.0	4.7	2.7	1.1	1.7	-1.2	-0.7	3.2	1.2
Chile	5.5	9.1	4.8	3.4	7.4	5.4	5.3	2.2	-1.4	3.5	4.5
Colombia	-0.2	1.6	2.4	3.8	2.9	0.0	1.3	-1.1	-5.6	0.5	0.5
Costa Rica	-1.5	5.1	3.7	1.6	0.8	-2.0	2.9	5.6	5.5	-0.6	2.1
Cuba [c]	-12.8	-14.4	-16.5	1.4	2.8	8.1	2.9	0.8	6.4	5.3	-2.0
Ecuador	2.7	0.7	-0.1	2.1	0.8	0.2	1.8	-0.9	-11.2	0.9	-0.4
El Salvador	0.9	5.1	4.2	3.7	4.0	-0.3	2.1	1.4	1.3	-0.1	2.2
Guatemala	1.1	2.2	1.3	1.4	2.2	0.3	1.7	2.4	0.9	0.4	1.4
Haiti	-1.9	-15.4	-4.0	-9.9	3.1	0.9	-0.4	1.3	0.7	-0.6	-2.8
Honduras	-0.4	2.7	4.0	-4.7	0.7	0.8	2.1	0.5	-4.1	2.1	0.3
Mexico	2.2	1.8	-0.1	2.6	-7.8	3.7	5.1	3.4	2.1	5.4	1.8
Nicaragua	-3.1	-2.1	-3.3	0.9	1.5	2.2	2.6	1.3	4.5	1.9	0.6
Panama	6.9	6.2	3.4	1.3	0.1	0.9	2.9	2.9	1.6	1.3	2.7
Paraguay	-0.4	-1.1	1.3	0.4	1.7	-1.6	-0.2	-3.2	-2.6	-3.2	-0.9
Peru	0.9	-2.1	3.0	10.9	6.8	0.7	4.9	-2.2	-0.8	1.3	2.3
Dominican Republic	-1.1	5.9	1.0	2.4	2.8	5.3	6.5	5.5	6.2	6.1	4.0
Uruguay	3.0	7.5	2.8	6.2	-3.0	4.2	4.6	3.5	-4.0	-2.4	2.2
Venezuela	7.9	4.6	-2.7	-5.8	3.7	-2.5	5.2	-1.3	-7.7	2.0	0.2
Caribbean subtotal [b]	**0.8**	**-0.1**	**-0.2**	**2.3**	**2.0**	**2.2**	**1.2**	**1.9**	**3.4**	**2.6**	**1.6**
Antigua and Barbuda	2.1	0.3	4.3	5.5	-5.4	5.3	4.9	3.2	3.9	2.9	2.7
Barbados	-4.1	-5.9	0.6	2.5	2.0	2.9	2.4	4.9	2.7	2.6	1.0
Belize	1.2	7.1	2.4	-0.2	1.8	-0.8	2.2	-0.2	3.6	7.7	2.4
Dominica [c]	2.1	2.3	1.9	1.9	1.2	2.9	2.2	2.8	0.7	...	2.4
Grenada [c]	3.5	0.8	-1.3	3.1	2.9	2.5	3.8	7.1	7.6	...	3.5
Guyana	8.6	8.8	11.1	9.1	3.5	8.1	6.2	-2.7	3.4	2.5	5.8
Jamaica	-0.5	1.7	1.0	1.0	0.9	-1.1	-3.0	-1.9	-0.1	-0.3	-0.2
Saint Kitts and Nevis [c]	3.1	3.7	5.2	6.0	2.3	5.7	6.9	0.9	2.2	...	3.9
Saint Vincent and the Grenadines [c]	0.8	5.9	1.1	-3.2	6.8	0.3	2.6	4.9	3.1	...	2.7
Saint Lucia [c]	-1.6	6.2	-2.5	3.4	0.8	-0.3	-1.5	1.4	2.4	...	1.4
Suriname [c]	3.7	-2.1	-11.1	-1.3	3.7	12.7	5.7	1.5	-2.8	...	0.4
Trinidad and Tobago	2.7	-1.8	-1.9	3.4	3.4	3.9	3.4	4.8	7.3	4.5	2.9

Source: ECLAC. on the basis of official figures converted into dollars at constant 1995 prices.

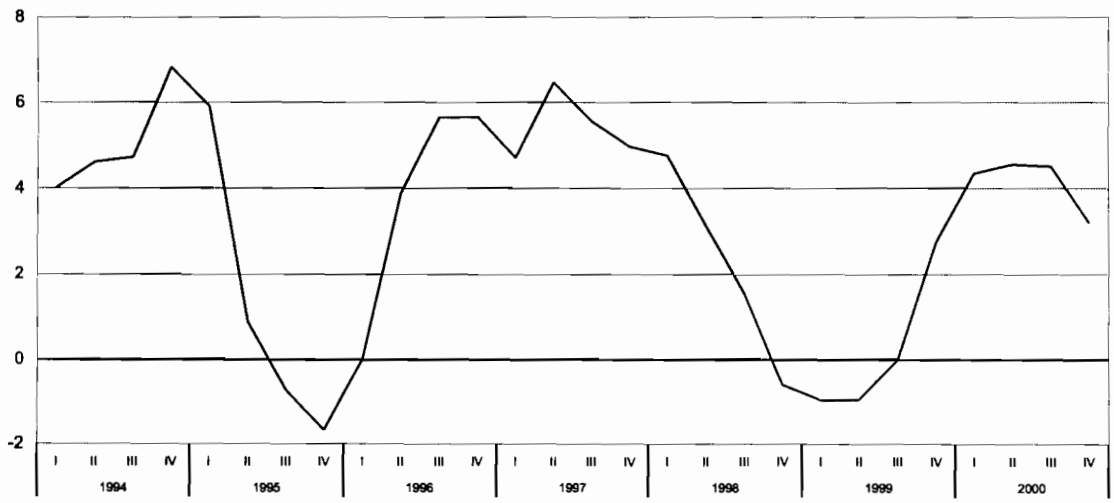
[a] Preliminary figures. [b] Refers only to countries submitting information. [c] Final column refers to 1990-1999.

Figure III.1
WORLD ECONOMIC GROWTH
(Annual rates of change)



Source: United Nations, Global Economic Outlook, 2001, Project Link, Department of Economic and Social Affairs (DESA), New York and Latin America, on the basis of ECLAC estimates.

Figure III.2
LATIN AMERICA: QUARTERLY GROSS DOMESTIC PRODUCT
(Percentage change from the same quarter the previous year)



Source: ECLAC, on the basis of official figures.

1. Output growth

Economic activity in Latin America recovered strongly in 2000, with GDP growth of 4.1%. This was one of the highest rates in the last 10 years, as annual growth averaged 3.2% in the 1990s. This compares with a figure of 1.4% in the 1980s.

Latin America's generally robust economic growth in 2000 conceals significant differences among the countries. On the basis of their growth performance, countries can be divided into the following categories: i) those with growth rates below 3%, including the Southern Cone countries already referred to (Argentina, Paraguay and Uruguay), which posted negative growth, and Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Haiti and Panama, where growth rates were mildly positive; ii) countries with growth rates of between 3% and 5%, namely Brazil, Chile, Guatemala, Honduras, Nicaragua, Peru and Venezuela; and iii) Cuba, the Dominican Republic and Mexico, which were the only countries to grow by more than 5%.

The performance of individual countries in 2000 is also related, however, to their position in the business cycle. One group of countries has grown strongly over recent years, while several others saw a resumption of growth in 2000 following recession in 1999; a third group performed poorly throughout the period.

If the countries are divided into three groups according to their position in the business cycle, the group with high and sustained growth over the last five years is found to include Costa Rica, Cuba, the Dominican Republic, Guatemala, Mexico and Nicaragua. Costa Rica is included here because of its excellent performance over recent years, despite its disappointing results in 2000. The second group of countries, those that experienced recessions in 1999 but recovered in 2000, comprises Chile, Colombia, Ecuador, Honduras and Venezuela. The last group of countries, those that have underperformed the regional average, includes Argentina, Bolivia, Brazil, El Salvador, Haiti, Panama, Paraguay, Peru and Uruguay. Brazil is included in this category despite its strong performance in 2000, as growth there has averaged only around 2% over the last five years.

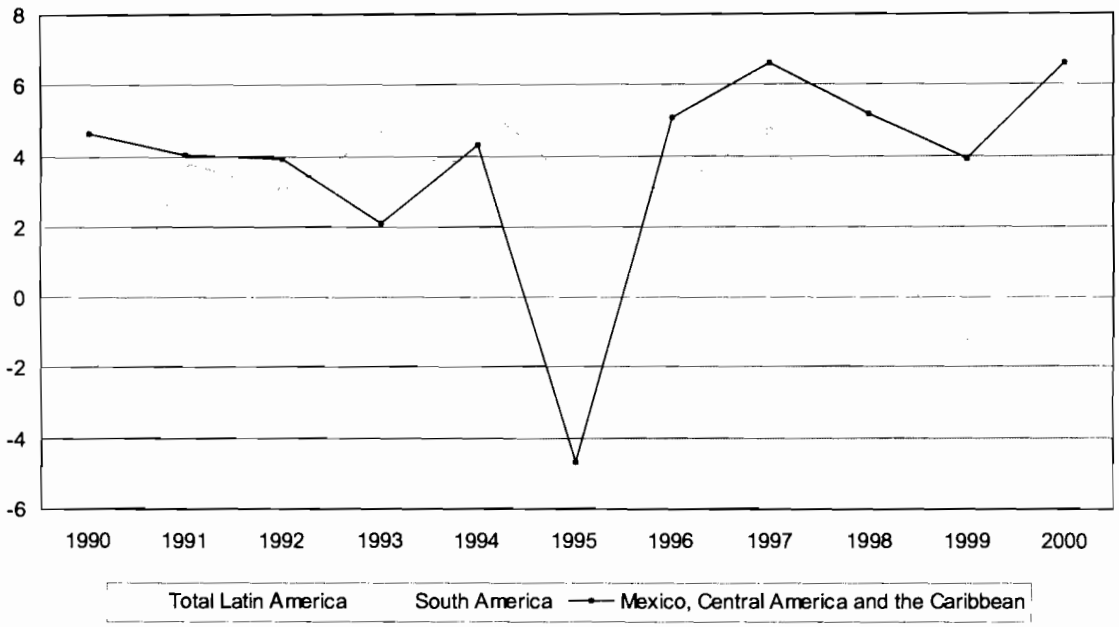
The fact that the group with high and sustained growth consists exclusively of Caribbean and Central American countries, including Mexico, means that growth was geographically very uneven in 2000. Figure III.3 shows that Mexico, Central America and the Caribbean grew by nearly 7%, whereas South America managed just over 3%. If the 2000 result is compared with the trend in the 1990s, two phases can be distinguished from 1992 onward. From 1992 to 1996 South America grew faster, but from 1996 onward Mexico, Central America and the Caribbean performed more strongly (see figure III.3). Bearing in mind that Mexico accounts for a large proportion of output in this group, the performance of Central America and the Caribbean was generally similar to that country's, except in 1995 when Mexico suffered a severe recession. Cuba is a special case, as it went through a deep recession in the first half of the 1990s, then partially recovered in the following five years.

2. Supply and demand

The economies of Latin America and the Caribbean saw increases in nearly all components of supply and demand, which expanded by 5.6%. External demand was the driving force in 2000 (11%), as domestic demand grew by only 4.5% (see table III.3 and figure III.4), barely more than GDP. External supply (imports) increased by 12.8%. Within overall domestic demand, consumption expanded by a very substantial 4.7%, one of the highest rates of recent years.

If the country groups are analysed once again according to their position in the business cycle, those with high and sustained growth show a larger increase in

Figure III.3
LATIN AMERICA AND THE CARIBBEAN: REGIONAL ECONOMIC GROWTH
(Annual rates of change)



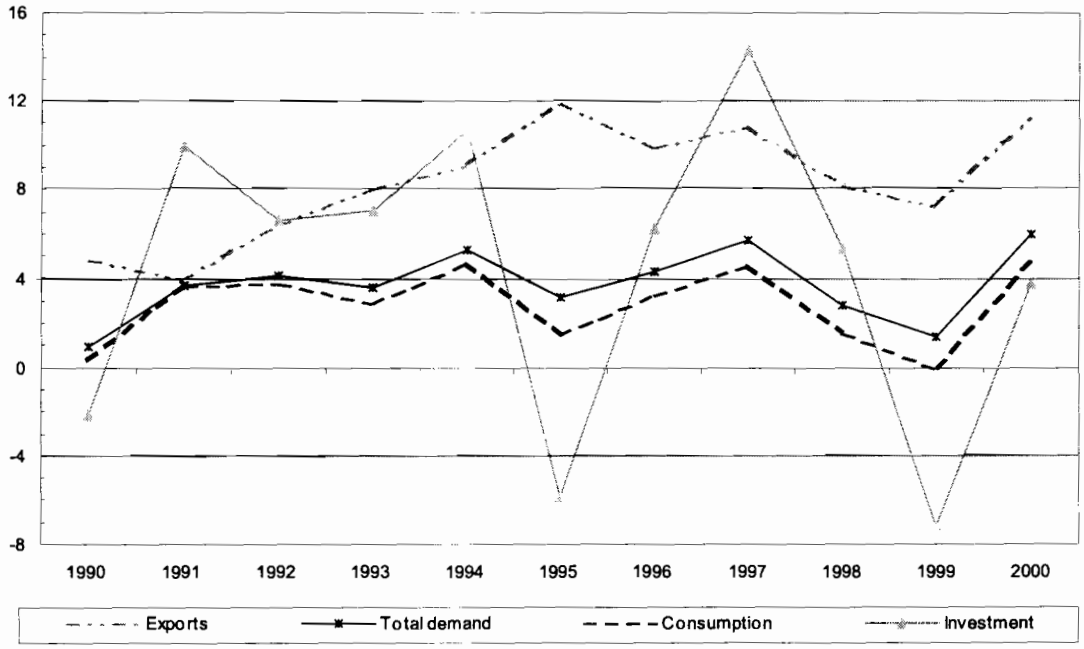
Source: ECLAC, on the basis of official figures.

Table III.3
LATIN AMERICA AND THE CARIBBEAN: MAIN COMPONENTS OF NATIONAL INCOME AND EXPENDITURE
(Annual growth rates)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
1. Total supply (2+3)	4.6	4.2	6.3	1.4	4.7	7.3	3.3	-0.3	5.6
2. Gross domestic product	3.0	3.5	5.2	1.1	3.7	5.2	2.3	0.3	4.1
3. Imports of goods and services	17.1	9.0	13.3	3.1	10.5	18.8	8.4	-3.4	12.8
4. Exports of goods and services	6.4	8.0	9.1	11.9	9.9	10.9	8.2	7.3	11.3
5. Domestic availability of goods and services (2+3-4) = domestic demand (6+7)	4.4	3.8	5.9	-0.1	3.8	6.7	2.4	-1.7	4.5
6. Total consumption expenditure + change in inventories [b]	4.0	3.4	4.8	1.0	3.6	5.1	2.3	-0.9	5.0
7. Gross fixed capital formation [c]	6.1	5.1	10.6	-4.7	5.0	13.3	3.0	-4.9	2.4
8. Factor income	-3.6	13.3	-1.1	6.0	8.0	13.7	11.1	6.2	1.3
9. Real gross national income	3.3	3.1	5.7	1.0	3.9	5.1	1.2	0.1	5.0

Source: ECLAC, on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures. [b] Does not include change inventories in Haiti. [c] Includes change in inventories in Haiti.

Figure III.4
LATIN AMERICA AND THE CARIBBEAN: COMPONENTS OF TOTAL DEMAND
(Annual rates of change)



Source: ECLAC, on the basis of official figures.

fixed investment than those in the recovery phase, whereas low-growth countries saw fixed investment decline. The situation is different when total investment is considered, as this grew rapidly in the recovering countries because of inventory building.

There are also marked differences between these groups in the external sector, with exports of goods and services growing faster in the first group than in recovery and low-growth countries. Import growth was strongest among recovering countries and weakest in low-growth ones.

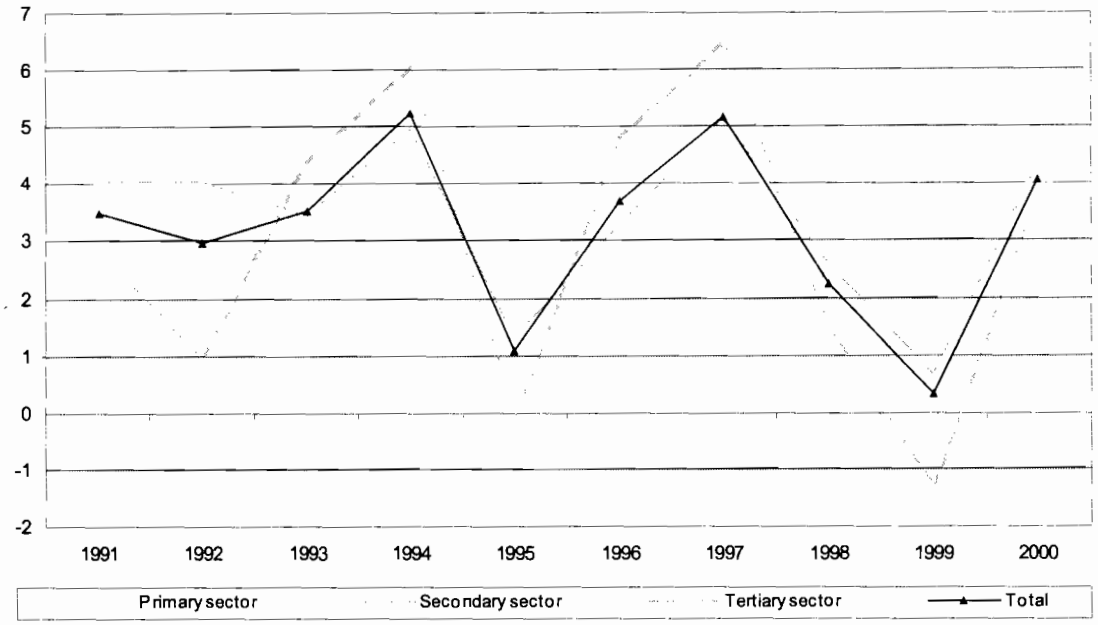
3. The main production sectors

The fastest growing sector was basic services (electricity, gas and water, and transport and communications), confirming the trend of the last 10 years. In terms of recovery, two sectors stood out in 2000: manufacturing and commerce, and restaurants and hotels, both of which grew at rates close to 5% after declining in 1999. Manufacturing industry recovered very strongly in 2000, but despite this the secondary sector remains the most volatile. Mining and quarrying led the way in the primary sector; neither agriculture nor construction grew very vigorously, and there seems to have been a counter-cyclical trend in the farm sector in recent years (see figure III.5 and table III.4).

(a) Agriculture

Even leaving aside climatic factors and the weak international prices that affected a number of important commodities in the region, agriculture followed a trend that set it apart from other production sectors. A particularly strong performance was seen in Chile, Colombia, Cuba, Honduras, Nicaragua and Peru. In

Figure III.5
LATIN AMERICA: GROWTH BY PRODUCTION SECTOR
(Annual rates)



Source: ECLAC, on the basis of official figures.

Table III.4
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT BY BRANCH OF ECONOMIC ACTIVITY
(Annual growth rates)

	1999	2000[a]	1999	2000[a]	1999	2000[a]	1999	2000[a]	1999	2000[a]	1999	2000[a]	1999	2000[a]
Latin America and the Caribbean	**4.2**	**2.7**	**1.7**	**5.0**	**-1.2**	**4.7**	**-4.0**	**0.1**	**-0.4**	**3.5**	**4.5**	**7.9**	**0.8**	**3.4**
Argentina	1.6	-2.7	-5.0	10.0	-7.7	-2.8	-8.3	-11.3	-6.2	-3.8	-0.3	2.2	-1.5	0.4
Bolivia	2.9	3.0	-4.9	19.6	1.5	1.7	-18.1	-9.4	-0.9	3.7	0.9	2.4	5.5	-1.3
Brazil	7.4	3.0	8.9	11.5	-1.8	5.7	-3.2	2.1	0.0	4.4	6.6	8.0	1.0	3.5
Chile	-0.7	7.6	16.2	4.0	-0.7	4.3	-10.0	0.0	1.9	4.1	2.4	11.6	-1.2	3.6
Colombia	0.0	5.2	4.7	-5.8	-12.9	9.7	-24.6	-1.5	-7.9	4.4	-3.1	3.4	-1.7	-0.1
Costa Rica	4.8	0.2	-5.5	1.5	24.5	-2.9	-3.2	4.4	15.1	-1.3	6.2	6.4	4.2	3.1
Cuba	10.4	12.0	1.0	14.0	7.1	5.0	7.5	9.3	7.4	6.4	4.6	7.3	6.2	4.6
Ecuador	-1.3	-5.3	2.6	6.0	-12.2	3.3	-8.0	3.7	-6.8	1.6	-8.4	4.4	-11.4	1.6
El Salvador	6.9	-0.8	3.0	3.0	3.7	4.5	2.2	-2.3	4.5	2.1	7.7	5.4	2.2	1.3
Guatemala	2.0	2.8	-2.0	-5.2	2.5	1.1	11.3	-11.5	2.8	0.9	6.0	7.6	3.6	3.6
Haiti	1.6	-1.3	5.6	2.8	1.5	2.0	8.0	4.6	3.3	0.8	10.3	3.3	1.1	1.6
Honduras	-8.5	7.6	5.4	2.5	2.6	4.9	10.5	4.2	-1.4	5.8	1.9	6.0	0.2	5.8
Mexico	2.0	3.4	-2.1	4.0	4.2	7.1	5.0	5.0	3.7	6.2	7.8	12.0	3.2	6.5
Nicaragua	7.5	8.4	21.7	-20.0	3.7	2.0	47.3	10.4	9.8	6.1	4.4	2.9	4.3	2.7
Panama	-0.4	0.3	3.0	-4.7	-5.8	-4.1	16.0	1.3	0.9	-1.2	11.7	10.1	2.5	2.0
Paraguay	3.2	-4.4	2.2	2.5	0.0	1.0	2.5	2.0	2.1	-1.8	9.2	8.7	-4.2	-1.5
Peru	12.6	6.4	12.9	2.4	-0.5	6.7	-10.5	-4.3	2.5	4.0	2.3	4.4	0.5	2.6
Dominican Republic	6.7	5.0	-1.5	9.2	6.4	9.0	17.7	5.2	9.3	6.8	10.0	13.1	5.9	7.0
Uruguay	-7.5	-2.6	-5.8	-9.8	-8.4	-2.4	8.9	-8.9	-5.5	-3.7	2.4	3.6	1.6	-0.3
	-2.1	2.2	-9.5	5.4	-6.4	1.5	-16.5	-4.9	-8.4	2.4	1.5	8.0	-4.6	2.6

Source: ECLAC. on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures.

Chile and Colombia, recovery was the result of a significant improvement in weather patterns compared to 1999. In Cuba, both sugar and the other crop subsectors expanded, while livestock breeding remained depressed because of a shortage of fodder. One of the key areas of recovery in Honduras was banana production, following the natural disaster of late 1998. The strong results in Peru are attributable to the weather and to investments made in a number of segments (including the coffee, sugar cane and dairy subsectors).

Agricultural activity decreased in Argentina, Ecuador, El Salvador, Haiti, Paraguay and Uruguay, as a result of low international prices and, in particular, poor weather conditions. In Ecuador, the decline occurred exclusively in the fishing sector, which shrank by 44%, owing to persistent phytosanitary problems in shrimp farming.

The spread of foot-and-mouth disease from the middle of the year onward began to affect several countries' herds and meat exports, especially those of Argentina and Uruguay. Attempts are being made to control the infection, which could seriously undermine meat production and exports in several other countries, particularly Brazil and Colombia.

(b) Mining

Growth in this sector benefited from a substantial rise in the oil price in 2000. The region's major oil producers increased production by between 4% and 7%, and natural gas production also expanded in several countries (especially Argentina and Bolivia), driven by growing external demand generated by the increasingly extensive network of gas pipelines linking Argentina, Bolivia, Brazil, Chile and Uruguay, soon to be joined by a number of other countries.

(c) Manufacturing

Manufacturing industry recovered very strongly, growing by 4.7% after its 1.4% decline in 1999. Brazil, Colombia, the Dominican Republic, Mexico and Peru were the countries where growth in the sector was fastest. The most important factors driving the very strong growth seen in the consumer durables sector in Brazil included easier credit owing to an increase in the funds available for lending and lower interest rates on bank deposits. In the case of Colombia, recovery is explained by favourable external circumstances –in particular strong growth in the United States, which absorbs 50% of the country's exports– and economic improvement in Ecuador and Venezuela, countries that buy large amounts of Colombian manufactured goods. The expansion of Mexican manufacturing industry was driven by the maquila sector, where output was up by 15%, and to a lesser extent by domestic demand. In Peru, following two difficult years, industrial recovery was fuelled by manufactures associated with primary activities. The Dominican Republic saw significant industrial growth, thanks to its free trade zones and very buoyant domestic demand.

A negative trend in domestic demand, including sharply lower investment, caused Argentine manufacturing industry to shrink for the second straight year, this time by 2.8%. The trend in Costa Rica was also negative, but this followed industrial output growth of 25% in 1999. Developments in this sector are closely bound up with the high-technology electronics industry, which saw international demand weaken in 2000. Panama and Uruguay also posted negative manufacturing growth.

(d) Construction

The disappointing performance of the construction sector for the second year running has major repercussions, owing to its important role in job creation. Vigorous construction growth was reported only in Cuba (the hotel sector), the Dominican Republic and Mexico (buoyant domestic demand) and Nicaragua (reconstruction following hurricane Mitch in 1998). Sectoral growth was modest in other countries, including Brazil, Costa Rica, Ecuador, Haiti, Honduras, Panama and Paraguay. In some countries construction output fell back by nearly 10% (Argentina, Bolivia, Guatemala and Uruguay).

(e) Services

Services grew broadly in line with GDP, although there were wide variations in the performance of different subsectors. Basic services (electricity, gas and water, and transport, storage and communications) continued the rapid growth they had enjoyed for a decade as a result of privatization and the introduction of new technologies. In these subsectors, expansion was driven by very substantial investments, many of which involved FDI. The commerce, restaurants and hotels subsector grew by 5.7%, partly as the result of a positive trend in tourism in several of the region's countries.

B. Investment and saving[6]

1. Overview

The recovery of investment and economic growth in Latin America and the Caribbean during 2000 was not accompanied by greater external financing, as had been the pattern throughout the 1990s. At constant 1995 prices, the level of investment held steady at just over 22% of GDP, while external saving fell back to 2.8%. The domestic saving rate, at 20% of output, was one of the highest of recent years, matching that recorded in 1997.

Investment in machinery and equipment grew more slowly than GDP in 2000, while investment in construction remained stable relative to output. The most buoyant component of domestic investment was public-sector investment, which had declined until the mid-1990s before stabilizing at just under 4% of GDP.

The international situation made a considerable contribution to economic growth and the recovery of investment, by generating very strong external demand. FDI, although lower than in 1999, remained very high; FDI inflows more than tripled during the 1990s.

In this context, it should be stressed that increasing investment and national saving as part of medium and long-term economic policies, and building up deep, stable financial systems, remain the fundamental objectives that any viable growth and development financing strategy will need to achieve.

2. Investment

Total investment grew in line with GDP during the year, after falling back by 7.2% in 1999 (see table III.5). Fixed investment, which expands production capacity, increased by just 2.4% however (see table III.6). As a percentage of GDP, the region's total investment (including inventory changes) held steady at 22%, while fixed investment edged down from 19.9% to 19.6% of GDP. The behaviour of public-sector investment was slightly more positive than that of its private-sector counterpart, although investment in construction stagnated, while machinery and equipment purchases grew by just under 6%.

Investment is generally one of the components of supply and demand that vary most from country to country, and this was particularly true in 2000, when it grew by 44% in Ecuador but fell by 13% in Nicaragua and Uruguay. In eight of the 19 economies for which data are available, total investment dropped sharply.

Investment behaviour was related to individual countries' positions in the business cycle. In 2000, as mentioned above, growth recovered in a number of countries following recession in 1999 (Chile, Colombia, Ecuador, Honduras and Venezuela). Besides these, there are another two groups of countries: those that have

6 This chapter presents saving and investment series at both current and constant 1995 prices. The saving-investment balance at current prices is a better indicator of financial flows, whereas investment expressed in constant prices more faithfully reflects the expansion of production capacity and growth potential in the economy.

Table III.5

LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS CAPITAL FORMATION

(Annual growth rates)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Latin America and the Caribbean [b]	**6.6**	**7.0**	**10.7**	**-5.9**	**6.3**	**14.3**	**5.4**	**-7.2**	**3.8**
Argentina [c]	32.2	15.1	13.5	-13.0	8.8	17.5	6.7	-12.8	-8.3
Bolivia	5.4	-0.2	-11.0	12.6	18.9	31.1	27.0	-20.0	-0.8
Brazil	-8.5	11.9	12.9	8.1	2.8	7.4	3.2	-7.7	2.2
Chile	20.4	21.3	-0.3	30.8	6.4	11.2	3.2	-24.1	12.5
Colombia	19.2	34.5	24.9	6.1	-12.0	-0.6	-7.3	-32.1	12.3
Costa Rica	28.7	16.9	1.1	-6.4	-10.0	24.9	24.9	-13.6	-4.1
Cuba	-58.3	-39.7	1.9	35.2	22.8	18.0	16.8	2.3	9.0
Ecuador	-2.5	-4.3	5.6	6.3	-11.5	16.9	9.6	-49.8	44.3
El Salvador	26.3	9.6	14.0	14.0	-20.5	6.4	22.3	-5.5	4.3
Guatemala	29.5	-4.7	1.8	-1.6	-15.8	21.6	38.7	-1.4	1.6
Haiti	-40.1	-7.4	-7.1	88.8	-1.6	-1.5	7.4	6.7	1.3
Honduras	12.4	29.2	7.3	3.0	-6.3	8.5	0.3	7.5	3.8
Mexico	13.7	-1.4	10.4	-35.3	26.2	25.8	9.2	4.1	8.8
Nicaragua	5.8	-18.9	26.1	19.1	9.8	19.3	11.0	37.8	-13.3
Panama	38.8	14.0	14.2	10.9	6.0	1.1	11.7	13.2	-0.8
Paraguay	-6.1	3.5	4.3	6.9	0.1	-1.9	-4.3	-3.5	-0.5
Peru	1.3	12.0	32.9	20.0	-4.9	14.8	-1.9	-13.4	-3.8
Dominican Republic	24.7	6.6	-2.8	-5.6	6.6	19.2	30.5	11.1	7.5
Uruguay	13.7	9.8	12.8	3.9	-2.3	7.3	12.5	-8.0	-12.5
Venezuela	38.4	-19.0	-30.1	39.0	-12.3	36.8	0.8	-15.1	10.0

Source: ECLAC. on the basis of official figures converted into dollars at

[a] Preliminary figures. [b] Figure for 1992 does not include change in inventories in Argentina. [c] Figure for 1992 refers to gross fixed capital formation.

Table III.6

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION

(Percentages of GDP)

Country	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Latin America and the Caribbean [b]	**19.0**	**19.3**	**20.3**	**19.1**	**19.4**	**20.9**	**21.0**	**19.9**	**19.6**
Argentina	17.1	18.6	20.0	17.9	18.5	20.1	20.7	18.7	17.2
Bolivia	16.6	16.3	14.3	15.5	16.6	20.2	24.9	21.1	19.6
Brazil	18.7	18.6	20.0	20.5	20.3	21.5	21.2	20.0	19.6
Chile	19.5	21.7	21.6	23.9	24.5	25.4	25.5	21.5	21.2
Colombia [c]	15.9	20.7	23.8	22.9	22.2	21.1	19.3	15.1	14.8
Costa Rica	18.5	19.4	18.9	18.7	17.1	18.7	21.7	19.6	18.4
Cuba	12.7	10.8	7.6	7.8	9.8	9.8	10.3	9.8	10.2
Ecuador	18.9	18.6	18.5	18.6	18.5	18.5	19.4	14.5	15.5
El Salvador	15.3	16.6	17.6	18.7	16.3	16.9	17.7	17.1	17.7
Guatemala	14.4	15.0	14.1	14.5	13.7	16.2	18.5	18.9	18.0
Haiti [c]	8.0	7.6	7.7	13.8	13.2	12.8	13.4	13.9	13.9
Honduras	22.5	28.5	29.0	24.0	24.6	27.1	29.0	31.3	28.4
Mexico	21.8	20.8	21.6	16.2	17.9	20.5	21.2	22.0	22.6
Nicaragua	21.2	19.9	22.1	23.9	24.7	28.0	30.1	39.0	32.8
Panama	17.9	24.0	24.6	26.0	24.6	24.7	27.3	33.4	31.1
Paraguay	22.2	22.1	22.4	23.1	22.8	22.0	21.1	20.3	20.3
Peru	17.1	18.1	21.5	24.1	22.8	24.6	24.4	21.5	19.8
Dominican Republic	25.0	25.9	24.1	21.7	21.6	23.9	29.1	30.0	29.9
Uruguay	12.7	14.1	14.0	13.5	14.0	14.5	15.0	14.6	13.1
Venezuela	21.4	20.2	17.1	16.5	15.3	18.0	17.3	15.4	15.1

Source: ECLAC. on the basis of official figures converted into dollars at constant 1995 prices.

[a] Preliminary figures. [b] Includes change in inventories in Haiti. [c] Includes change in inventories.

performed well over the last five years (Costa Rica, Cuba, the Dominican Republic, Guatemala, Mexico and Nicaragua) and those that have grown slowly over the same period (Argentina, Bolivia, Brazil, El Salvador, Haiti, Panama, Peru, Paraguay and Uruguay).

In the group of countries that were in a recovery situation, total investment grew rapidly after falling very steeply (-23%) in 1999. Much of this growth was generated by restocking. Contrary to expectations, fixed investment did not grow faster in sustained-growth countries than in recovering economies. This is explained by cutbacks in investment in Costa Rica and Nicaragua, where it had attained very high levels in earlier years. Slow-growth countries saw both total and fixed investment decline.

Private-sector investment in the telecommunications and energy sectors boosted investment flows in a significant number of countries in 2000 (Bolivia, Brazil, Mexico, Nicaragua, Paraguay and Venezuela).

Several countries adopted economic policy measures to promote investment. They included Argentina, where the authorities announced cuts in the tax on interest payments, along with changes to VAT reimbursement procedures and to the tax treatment of capital repayments, among other measures. These steps failed to yield the desired results, however, because of a downturn in expectations. Something similar happened in Bolivia, where the economic recovery programme was unsuccessful for a number of reasons, including the private banking sector's conservative lending policy, the conclusion of work on the gas pipeline to Brazil, which had boosted private-sector investment considerably, and social conflict arising from the eradication of coca plantations. In Brazil, investment grew modestly, with machinery and equipment purchases outperforming construction. In this country there were also substantial investments in telecommunications in the wake of privatization and the awarding of concessions to operate cellular telephony systems.

In Mexico, a public-sector investment programme aimed mainly at modernizing, maintaining and expanding the country's energy infrastructure generated investment growth of 10%. FDI exceeded US$13 billion, its highest level ever, with two thirds coming from the United States; manufacturing industry and telecommunications absorbed 80% of the total. Investment slowed in Peru as lending stagnated because of the precarious financial situation of many firms and the cautiousness of a still consolidating banking sector. In Venezuela, investment did no more than recover, especially in the private sector, where growth of under 2% was largely confined to a few sectors such as telecommunications and oil. As a result, total investment was a mere 13.5% of GDP, a level insufficient to maintain a high rate of economic growth.

In Cuba, investment increased in the tourism, energy and agriculture sectors, but it remains very low as a percentage of GDP. In Guatemala, fiscal adjustment and tighter credit reduced investment in the public and private sectors alike. Investment declined in Costa Rica because of high interest rates, low expectations and a lack of progress with structural reform.

Table III.7
LATIN AMERICA AND THE CARIBBEAN: COMPOSITION OF FIXED CAPITAL
(Percentages of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Gross fixed capital formation	18.4	18.4	19.0	19.3	20.3	19.1	19.4	20.9	21.0	19.9	19.6
Construction	10.5	10.7	10.7	11.5	12.0	11.0	11.5	12.0	11.7	11.1	11.1
Machinery and equipment	7.8	7.7	8.3	7.7	8.3	8.2	7.9	8.9	9.3	8.8	8.5
Public sector	5.0	4.7	4.3	4.5	3.6	3.5	3.7	3.8	3.7	3.8	3.7
Private sector	13.4	13.8	14.7	14.8	16.7	15.6	15.6	17.0	17.3	16.1	15.9

Source: ECLAC. on the basis of official figures converted into dollars at constant 1995 prices.
[a] Preliminary figures.

3. Saving

National saving, whether measured at constant or current prices, was higher in 2000 than in 1999. It should be borne in mind when comparing the two series that, for methodological reasons, the level of national saving is higher at constant than at current prices.

Public-sector saving in the region became positive after three years of negative figures. The economic situation in Brazil was decisive in this respect, as the 1999 devaluation allowed much lower interest rates, leading to a significant reduction in the public-sector deficit. Another relevant factor was the additional revenue earned by a number of oil-producing countries, particularly Mexico and Venezuela, thanks to the rise in world oil prices.

(a) External saving and foreign direct investment[7]

External saving slipped to 2.8% of GDP in 2000, while FDI declined after trending upward throughout the 1990s. This occurred in a global context in which overall FDI flows grew by over 10% in 2000 to exceed US$ 1 trillion. In line with a continuing trend towards geographical concentration, the share of FDI going to developed countries, especially Germany and the United States, once again increased. Flows towards developing countries, particularly those of Latin America and the Caribbean and Asia, were virtually unchanged between 1999 and 2000.

In Latin America, the downturn in FDI in 2000 with respect to 1999 is largely explained by one-off factors, so it would be inappropriate to infer a trend on the basis of these figures. The difference between the two years' totals is basically accounted for by just three acquisitions carried out in 1999, namely the takeover of Argentina's Yacimientos Petrolíferos Fiscales by the Spanish firm Repsol, and of Chile's Endesa and Enersis by Endesa España. In Brazil and Mexico, FDI flows were little changed from 1999, while Argentina and Chile experienced steep falls.

Funding for private-sector mergers and acquisitions during 1999-2000 was heavily concentrated in the service sector. The primary sector accounted for a smaller share, and manufacturing for an even smaller one.

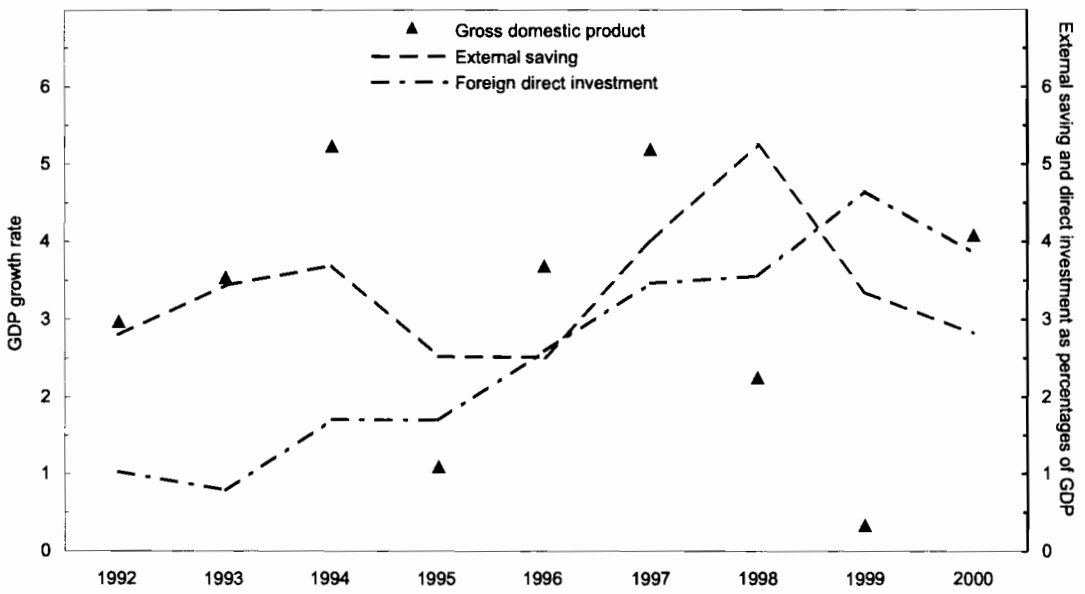
Table III.8
LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS CAPITAL FORMATION
(Percentages of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
1. Domestic saving	20.3	19.2	19.8	20.0	19.8	20.3	18.4	19.3	20.0
2. Factor income	-2.6	-2.6	-2.2	-2.4	-2.4	-2.5	-2.6	-3.1	-2.7
3. Transfers	1.0	0.8	0.8	0.9	0.8	0.8	0.9	1.0	0.9
4. Gross national saving (1+2+3)	18.7	17.4	18.3	18.5	18.2	18.6	16.7	17.2	18.1
Public sector	...	2.7	2.8	0.5	0.4	-0.1	-0.5	-1.3	0.6
Private sector	...	14.8	15.6	18.0	17.9	18.7	17.2	18.5	17.5
5. External saving	2.5	3.2	3.2	2.5	2.3	3.7	4.6	3.4	2.7
6. Gross capital formation (4+5)	21.2	20.7	21.5	21.0	20.6	22.3	21.4	20.6	20.7

Source: ECLAC, on the basis of official figures converted into dollars at current prices.
[a] Preliminary figures.

7 See ECLAC (2001).

Figure III.6
LATIN AMERICA AND THE CARIBBEAN: EXTERNAL SAVING, FOREIGN DIRECT INVESTMENT AND GDP GROWTH
(Percentages of GDP and growth rates)



Source: ECLAC, on the basis of official figures.

C. Prices, employment and wages

1. Prices

In 2000, domestic prices in the countries of Latin America and the Caribbean generally maintained the moderate rates of increase seen in recent years. The regional inflation rate was slightly under 9% in 2000, just below the previous year's figure, which made it the lowest rate for over 50 years. This result was achieved without repressed inflation, despite the sharp rise in the oil price on international markets and large currency devaluations in some countries. Inflation had skyrocketed during the 1980s and early 1990s, with three- and four-digit annual rates and even some episodes of hyperinflation. After that, however, average inflation began to fall rapidly, dropping from 880% in 1993 to 10% in 1997. Although this good performance spanned the region, there were significant differences among countries. Just a few economies achieved really low inflation, a large group posted moderate rates, and the situation was worrying in just two countries, either because prices were still rising fast or because the rate of inflation was accelerating significantly.

Price increases accelerated slightly in a number of low-inflation countries in 2000, but the success of their stabilization programmes did not seem to be in doubt. There were fewer economies with inflation below 5%,

Table III.9
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(December-to-December percentage variations)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001[a]
Latin America and the Caribbean	**414.0**	**877.0**	**333.1**	**25.8**	**18.2**	**10.4**	**10.3**	**9.5**	**8.7**	**7.5**
Argentina	17.5	7.4	3.9	1.6	0.1	0.3	0.7	-1.8	-0.7	-0.3
Barbados	3.3	-1.0	2.1	2.8	1.8	3.6	1.7	2.9	3.8	2.6
Bolivia	10.5	9.3	8.5	10.6	9.9	6.7	4.4	3.1	3.4	2.7
Brazil	1 149.1	2 489.1	929.3	22.0	9.1	4.3	2.5	8.4	5.3	8.1
Chile	12.7	12.2	8.9	8.2	6.6	6.0	4.7	2.3	4.5	3.6
Colombia	25.1	22.6	22.6	19.5	21.6	17.7	16.7	9.1	8.8	7.9
Costa Rica	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.0	10.3	12.1
Ecuador	60.2	31.0	25.3	22.8	25.6	30.6	43.4	60.7	91.0	33.1
El Salvador	20.0	12.1	8.9	11.4	7.4	1.9	4.2	-1.0	4.3	3.5
Guatemala	14.2	11.6	11.6	8.6	10.9	7.1	7.5	4.9	5.1	6.3
Haiti	16.1	44.4	32.2	24.8	14.7	15.6	7.4	9.7	19.0	16.7
Honduras	6.5	13.0	28.9	26.8	25.3	12.8	15.7	10.9	10.0	9.4
Jamaica	40.2	30.1	26.9	25.5	15.8	9.2	7.9	7.0	6.1	7.1
Mexico	11.9	8.0	7.1	52.1	27.7	15.7	18.6	12.3	9.0	6.6
Nicaragua	3.5	19.5	12.4	10.9	12.1	7.3	18.5	7.2	9.9	7.7
Panama	1.6	0.9	1.4	0.8	2.3	-0.5	1.4	1.5	0.7	0.4
Paraguay	17.8	20.4	18.3	10.5	8.2	6.2	14.6	5.4	8.6	6.7
Peru	56.7	39.5	15.4	10.2	11.8	6.5	6.0	3.8	3.8	2.5
Dominican Republic	5.2	2.8	14.3	9.2	4.0	8.4	7.8	5.1	9.1	10.2
Trinidad and Tobago	8.5	13.4	5.5	3.8	4.3	3.5	5.6	3.4	5.6	6.3
Uruguay	59.0	52.9	44.1	35.4	24.3	15.2	8.7	4.2	5.1	4.3
Venezuela	31.9	45.9	70.8	56.6	103.2	37.6	29.9	20.1	13.4	12.5

Source: ECLAC, on the basis of figures provided by official
[a] Variation between July 2000 and June 2001.

but also fewer countries with rates above single figures, and some of these were close to 10%. Thus, 20 of the 22 countries analysed reported single-digit inflation or rates of just over 10%. Inflation was high and accelerating only in Ecuador, where it climbed from 61% in 1999 to 91% in 2000, and in Haiti, where prices rose by 19%, an increase of 10 percentage points over the 1999 level.

The regional index of wholesale prices (or producer prices, as the case may be) rose by 10.9% during the year, 11 percentage points less than in 1999, when it had risen by 22%, but nearly three percentage points above the 8% recorded in 1998. The divergence from consumer prices was smaller than in 1999, and was mainly the result of an adverse performance in Brazil, where the wholesale price index rose by seven percentage points more than the consumer price index (CPI). Wholesale prices also increased faster than consumer prices in all the other countries except Ecuador.

A number of factors explain the behaviour of inflation in 2000. On the demand side, monetary policies generally remained prudent, which helped to restrain price increases, and the deterioration of fiscal accounts seen over recent years was reversed, albeit partially. There were also no major problems of solvency or liquidity in the banking system, which in the past had been one of the main sources of quasi-fiscal expenditure.

Furthermore, the economic recovery that the region experienced in 2000 did not stoke inflationary pressures to any great extent, as it was fairly subdued and took place in a situation of idle production capacity. Regional output growth was moderate, with only two economies seeing a substantial increase in activity.

Supply-side factors influencing the inflation rate in 2000 once again included cost variations associated with exchange-rate levels and the oil price. Wages had a smaller effect, as did public utility prices and the supply-side impact of natural disasters. The exchange rate had opposing effects in different countries; in some it pushed inflation up, while in others it was again the keystone of the stabilization process. In recent years, the greater vulnerability of the external sector has forced changes in stabilization policies. Although the exchange-rate anchor has been abandoned by some countries, it is still used in a number of others. A number of the region's currencies depreciated in 2000, but other than in Ecuador and Haiti this took place at a generally moderate rate, and it was not fully matched by increases in retail prices as domestic demand was not strong

enough for higher import prices to be passed on to consumers.

In other countries, by contrast, nominal exchange rates remained stable or slipped only slightly, which helped control inflation. The best examples of this were Argentina, Honduras, Jamaica, Mexico, Nicaragua, Peru and Venezuela. Moreover, the depreciation of the euro against the dollar lent additional support to anti-inflation efforts in countries that have substantial trade with Europe.

In 2000, the rise in the international oil price stoked inflation in non-oil-exporting countries as domestic fuel prices increased. In oil-producing countries, however, it helped improve the fiscal and foreign-exchange situation. Consequently, their currencies appreciated, and this counteracted inflationary pressures.

Prices were also affected by higher charges for public services, such as electricity and telecommunications. In both these cases, prices rose mainly because the contractual terms under which the companies providing the services were privatized tied rate reviews to the behaviour of specific price indices. Wage rises, meanwhile, were moderate and did not generate inflationary pressures. In some countries that were going through serious economic crises, or where labour-market conditions were deteriorating, they actually rose by less than prices. Lastly, supply-side shocks, such as those stemming from climatic disasters, were not a major factor in 2000.

The region's countries can currently be grouped into three categories: i) low-inflation countries, with price increases below 5% per year; ii) moderate-inflation countries, with annual rates of between 5% and 20%; and iii) high-inflation countries, where prices rose by between 20% and 100%. In 2000, once again, no countries fell into a theoretical fourth group of very high-inflation economies (three- or four-digit annual rates, or hyperinflation).

The low-inflation group currently comprises Argentina, Barbados, Bolivia, Chile, El Salvador, Panama and Peru. Some of these countries have been in this group for several years, while others joined it for the first time in 1998 or 1999. Argentina made significant progress with stabilization after adopting the dollar convertibility regime in 1991; in 2000, it again registered deflation as a result of the recession that began in the second half of 1998. In Panama, inflation has traditionally been low, and in 2000 it came in slightly below the previous year's rate, at 0.7%. In Barbados, another country with a long tradition of stability, inflation edged up by one percentage point to 3.8%, basically because of the higher oil price. The other four countries in this group –Bolivia, Chile, El Salvador and Peru– all consolidated stabilization processes embarked upon several years previously. Nonetheless, in Chile and El Salvador, inflation gathered pace slightly because of higher oil prices.

The moderate-inflation group contains 14 countries. In five of them –Brazil, Guatemala, Jamaica, Trinidad and Tobago and Uruguay– inflation was below 8%, while in a further eight –Colombia, Costa Rica, the Dominican Republic, Honduras, Mexico, Nicaragua, Paraguay and Venezuela– prices rose by between 8% and 13% during the year. The other member of this group is Haiti, where inflation was close to the upper limit of 20%.

In Brazil, where the stabilization process had suffered a setback in 1999 as result of the devaluation in January that year, prices increased only moderately in 2000, despite economic recovery and a weakening of the exchange rate. This more positive result was aided by a smaller fiscal deficit and tight monetary policy. Much of the inflation experienced by the country in 2000 is explained by the sharp increases in the world oil price. In Guatemala, prices rose by just over 5%, one of the lowest rates since 1982, while in Jamaica inflation dropped to 6%, and in Trinidad and Tobago, which has nearly always had very modest price increases, it rose by more than two percentage points. By contrast, in Uruguay, which until recently had high inflation, prices rose by just over 5%. This was only slightly higher than the 1999 figure, which was the lowest for 50 years.

In three countries belonging to this moderate-inflation group –the Dominican Republic, Nicaragua and Paraguay– the stabilization process suffered setbacks despite the slow rate of devaluation. The higher oil price largely explains these negative results. In contrast, Colombia's inflation rate of 8% in 2000 was the lowest for 30 years, and as a result the stabilization process held firm despite the weakening of the exchange rate and the recovery that took place in the economy following the severe recession of 1999. Inflation also slowed in Mexico, falling back to single digits for the first time since 1995. Rates in Costa Rica and Honduras were slightly higher than this, although much the same as the previous year. In Venezuela, meanwhile, inflation fell from 20% to 13%, which means it is no longer one of the region's highest-inflation countries, but is now close to the Latin American and Caribbean average. This result is basically explained by a considerable strengthening of the real exchange rate. In Haiti, on the other hand, inflation continued to accelerate in 2000, this time increasing by 10 percentage points. This was attributable mainly to the fact that the

Government financed itself with loans from the Banque de la République d'Haïti, since it had no access to other sources. Although it applied tight monetary policies, it could not stop the local currency depreciating rapidly or inflation progressively rising.

The only member of the high-inflation group was Ecuador, where price increases accelerated during the year to give a final inflation rate of 91%. In the 12 months to September 2000 inflation was 108%, a level hitherto unknown in the country and the first time any country in the region had seen annual inflation of over 100% since 1995. The causes of this deterioration included rapid currency depreciation and excessive monetary expansion. In the latter months of the year the pace of inflation clearly slackened as a result of dollarization, whereby the local currency was replaced by the United States dollar for all commercial and financial transactions. Nonetheless, the annual rate of inflation exceeded the 1999 figure because of the steep increases recorded in the first half of the year.

2. Employment and wages

(a) Main trends

Despite relatively strong economic growth, regional unemployment fell by just 0.3 percentage points to 8.5%, which is still a very high level by historical standards. This slight reduction was made possible by fairly strong job creation, which helped the employment rate to recover by 0.6 percentage points during the year. Even so, this rate was lower than the 1998 figure, and also below the levels recorded at the beginning of the decade. Although the number of people in work grew faster than at any time in recent years, substantial growth in the labour supply prevented unemployment from falling at a similar rate. In 1999, the labour-market participation rate had declined in the face of markedly worsening job opportunities, but in 2000 it regained its 1998 levels.

Labour-market trends regionwide were clearly determined by results in the two largest Latin American economies, Brazil and Mexico, which have a large influence on the weighted results for the relevant indicators. By contrast with what happened through much of the 1990s, both countries displayed similar and relatively positive trends. This was especially true of job creation, particularly where waged employment was concerned. In the other countries, however, labour-market conditions were much more varied, and in most cases the indicators were less positive. Consequently, the simple average of the employment rate for all the countries of the region fell by 0.2 percentage points, which contrasts with the rise in its weighted average, while the simple average of the unemployment rate fell by 0.2 points, which is less than the fall in the weighted average. Average real wages maintained the upward trend seen throughout the decade, but in most cases the increases were just 1% or so.

The region's labour markets thus displayed mixed results, and the robust economic recovery failed to produce a general improvement in the corresponding indicators. Inter-country differences in labour-market performance are largely explained by their individual economic growth rates. In countries for which relatively complete labour-market information is available, the five with the highest growth rates (Brazil, Chile, the Dominican Republic, Mexico and Nicaragua) each recorded a relatively solid labour-market performance, although there were significant weaknesses, including a low level of job creation in Chile and a drop in real wages in Brazil. At the other extreme, weak economic activity in Argentina, Paraguay and Uruguay resulted in a negative labour-market outcome. Overall, the index of labour-market performance (presented at the end of this chapter) was positive in eight countries and negative in nine.

(b) Unemployment

Although unemployment rose to 8.8% at one stage in 1999, which was even higher than the level seen during the debt crisis of the 1980s, in 2000 this indicator edged down slightly to 8.5% (see table III.10).

The fact that the region's relatively high 4% growth rate had only a minor impact on unemployment in 2000 is nothing new, and is actually consistent with the predominant trend of the 1990s.

As figure III.7 shows, although economic growth helped reduce unemployment during the 1990s, the growth rate required to bring unemployment down settled at the relatively high level of around 4%. When

Table III.10
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT
(Average annual rates)

	1980	1985	1990	1993	1994	1995	1996	1997	1998	1999	2000[a]
Latin America and the Caribbean [b]	**6.2**	**7.3**	**5.8**	**6.5**	**6.6**	**7.5**	**7.9**	**7.5**	**8.1**	**8.8**	**8.5**
Simple average for 22 countries	**...**	**...**	**...**	**10.0**	**9.5**	**10.1**	**10.5**	**9.9**	**9.7**	**10.6**	**10.8**
Argentina											
Urban areas [c]	2.6	6.1	7.4	9.6	11.5	17.5	17.2	14.9	12.9	14.3	15.1
Barbados											
National total [d]	...	...	14.7	24.3	21.9	19.7	15.6	14.5	12.3	10.4	9.2
Bolivia											
Departmental capitals	...	5.8	7.3	5.8	3.1	3.6	3.8	4.4	6.1	8.0	7.6
Brazil											
Six metropolitan areas	6.3	5.3	4.3	5.4	5.1	4.6	5.4	5.7	7.6	7.6	7.1
Chile											
National total [e]	10.4	15.3	7.8	6.5	7.8	7.4	6.4	6.1	6.4	9.8	9.2
Colombia											
Seven metropolitan areas	10.0	13.9	10.5	8.6	8.9	8.8	11.2	12.4	15.3	19.4	20.2
Costa Rica											
Urban total	6.0	6.7	5.4	4.0	4.3	5.7	6.6	5.9	5.4	6.2	5.3
Cuba											
National total	...	...	...	6.2	6.7	7.9	7.6	7.0	6.6	6.0	5.5
Ecuador [d]											
Urban total [f]	5.7	10.4	6.1	8.9	7.8	7.7	10.4	9.3	11.5	15.1	14.1
El Salvador											
Urban total	...	...	10.0	8.1	7.0	7.0	7.5	7.5	7.6	6.9	6.5
Guatemala [g]											
National total	2.2	12.1	6.3	2.6	3.5	3.9	5.2	5.1	3.8	...	...
Honduras											
Urban total	8.8	11.7	7.8	7.0	4.0	5.6	6.5	5.8	5.2	5.3	...
Jamaica [d]											
National total	...	...	15.3	16.3	15.4	16.2	16.0	16.5	15.5	15.7	15.5
Mexico											
Urban areas [c]	4.5	4.4	2.7	3.4	3.7	6.2	5.5	3.7	3.2	2.5	2.2
Nicaragua											
National total	...	3.2	7.6	17.8	17.1	16.9	16.0	14.3	13.2	10.7	9.8
Panama [d]											
Metropolitan region	9.9	15.6	20.0	15.6	16.0	16.6	16.9	15.5	15.2	14.0	15.2
Paraguay											
Urban total [h]	4.1	5.2	6.6	5.1	4.4	5.3	8.2	7.1	6.6	9.4	10.7
Peru											
Lima metropolitan area	7.1	10.1	8.3	9.9	8.8	8.2	8.0	9.2	8.5	9.2	8.5
Dominican Republic [d]											
National total	...	...	...	19.9	16.0	15.8	16.5	15.9	14.3	13.8	13.9
Trinidad and Tobago											
National total [d]	...	...	20.1	19.8	18.4	17.2	16.2	15.0	14.2	13.1	12.5
Uruguay											
Urban total [i]	7.4	13.1	8.5	8.3	9.2	10.3	11.9	11.5	10.1	11.3	13.6
Venezuela											
National total	6.0	13.1	10.4	6.6	8.7	10.3	11.8	11.4	11.3		

Source: ECLAC.. on the basis of official figures.
[a] Preliminary figures. [b] Excludes the Caribbean up to 1990. [c] Represents a large and growing number of urban areas. [d] Includes hidden unemployment. [e] The figure in the 1985 column is for 1984. [f] The 1999 and 2000 figures are for Cuenca. Guayaquil and Quito. [g] Official estimates. [h] The figures up to 1993 are for the Asunción metropolitan area. [i] The 1980 and 1985 figures are for Montevideo.

growth was slower it still had a positive impact, but only to the extent of slowing the rise of unemployment by 0.2 of a percentage point for every point of growth. For the region, therefore, the very slight reduction in unemployment that took place in 2000, when economic growth was 4%, is an unsatisfactory outcome but nonetheless slightly more positive than the trend of the 1990s.

The most significant improvements recorded in 2000 include the first drop in unemployment in Brazil

since 1995 and its continuing fall in Mexico, Nicaragua and Trinidad and Tobago. On the other hand, unemployment rose again in Argentina, Colombia and Uruguay. In the case of Colombia, this trend dates back to 1996.

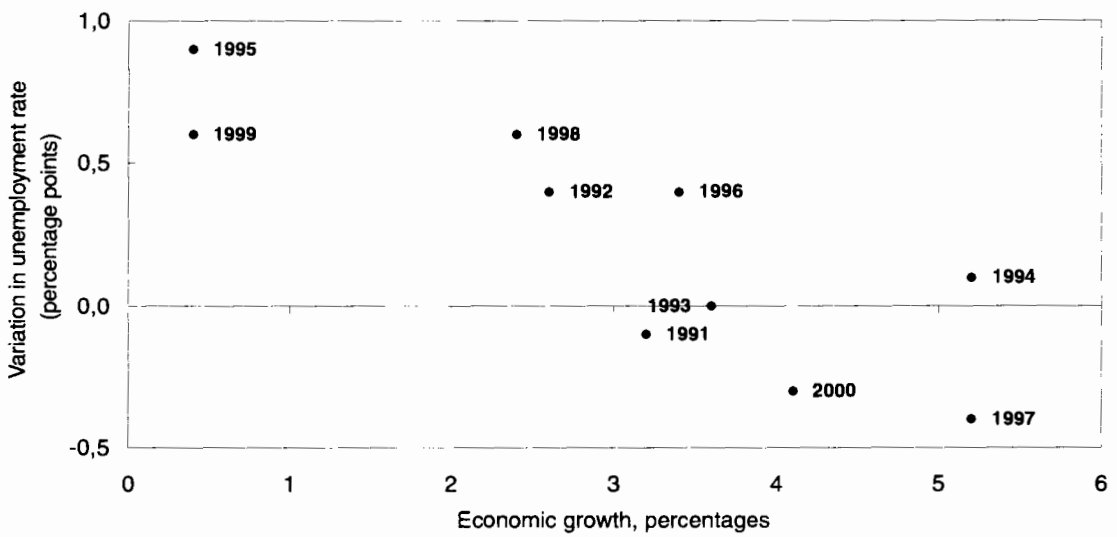
Unemployment trended upward in the 1990s, averaging 6.6% from 1991 to 1995 and 8.2% in the second half of the decade, when it peaked in 1999 before easing off slightly in 2000. Thus, in the course of a decade unemployment ceased to be a temporary manifestation of profound economic crisis and came to reflect –along with underemployment– a situation of general weakness in labour demand in the region's economies.

(c) The labour supply

The labour supply recovered from the previous year's sharp fall, and the total participation rate, measured as a weighted average for 12 countries, climbed back to its 1998 level of 58.3%. This upturn in the regional labour supply largely reflected the behaviour of the participation rate in Brazil, which rose for the first time since 1996 by a substantial 0.9 of a percentage point. Even so, labour-market participation in the main metropolitan areas of the country was still 3.5 points lower in 2000 than at the start of the 1990s. During the course of that decade, this decline in the Brazilian labour supply offset a clearly strengthening trend in the remainder of the region (see figure III.8). In 2000, however, the total participation rate reversed course and fell in seven out of 12 countries, and this caused the simple average to decline as it had in 1999, this time by 0.2 of a percentage point. In a number of countries, particularly Ecuador, labour-supply pressures also eased as a result of large-scale migratory flows.

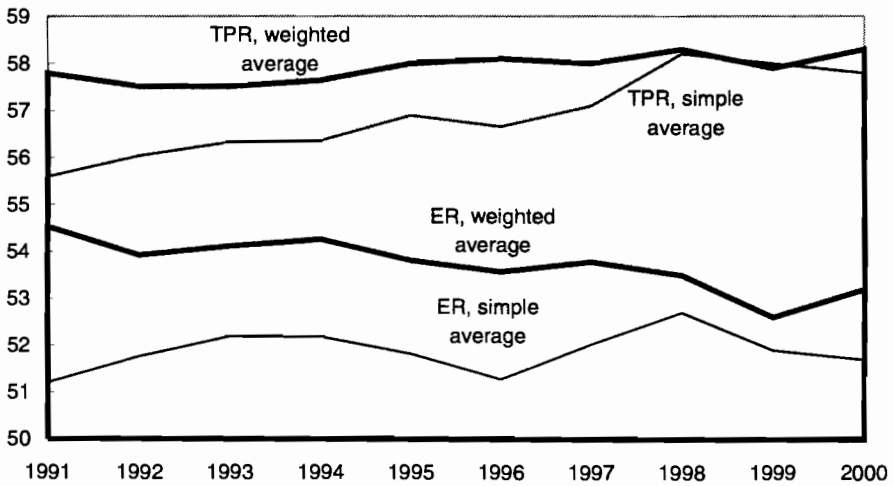
Differences in the behaviour of the labour supply are related to patterns of economic growth. As can be seen in figure III.9, in one group of countries, steady economic growth (the Dominican Republic and Mexico) or a degree of recovery following a period of stagnation or severe economic crisis (Brazil, Colombia and Ecuador) encouraged workers to enter the labour market. Chile was an exception, as a significant upturn in growth failed to generate a matching increase in the demand for labour, so perceptions among unemployed workers potentially willing to enter the labour market did not improve, and the participation rate there actually declined. In a second group (Argentina, Bolivia, Costa Rica, El Salvador, Panama, Peru, Uruguay and Venezuela), growth rates were moderate, low or even negative, which discouraged people from entering the labour market. Labour-market participation thus decreased in all these countries, except in Uruguay where it rose slightly following a sharp fall the previous year. Peru and Venezuela were also special cases, as participation fell in both countries despite an upturn in growth following two years of crisis and

Figure III.7
LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND UNEMPLOYMENT



Source: ECLAC, on the basis of official figures.

Figure III.8
LATIN AMERICA AND THE CARIBBEAN (12 COUNTRIES): TOTAL PARTICIPATION RATE (TPR) AND EMPLOYMENT RATE (ER)[a]



Source: ECLAC, on the basis of official figures.
[a]The TPR and ER are expressed as percentages of the working-age population, as is the weighted average of the regional unemployment rate, represented by the shaded area.

stagnation. In Venezuela, participation fell after two years of robust increases in labour-market participation and in the relative weight of the informal sector in employment, in a context of severe economic crisis and efforts by households to generate additional income by sending more of their members out to work. Reduced labour-market participation in this case could be interpreted as a discouraged-worker effect, since employment fell by 0.7 of a percentage point despite an upturn in growth. In many households this is likely to have generated a negative perception of the chances of finding work.

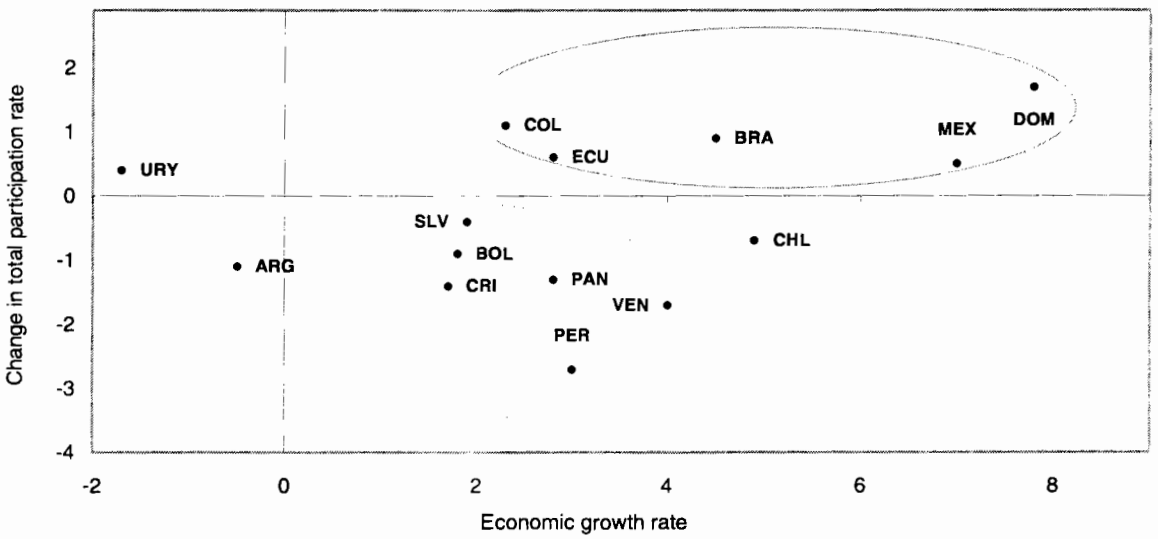
It is interesting to note that the fall in the simple average of the labour-market participation rate in 2000 was caused more by the behaviour of men than of women. The average male participation rate fell sharply, with individual country rates down in 10 out of 13 countries for which gender-specific information is available. Women's participation rates fell in only seven countries, and the simple average remained virtually unchanged (see table III.11). The idea that the secondary labour force (i.e. workers who move in and out of the active labour force according to household needs and perceptions) consists mainly of women is steadily losing its empirical justification, as increasing numbers of women are entering the labour market with the intention of finding long-term work.

Comparing the situation in 2000 with that of the early 1990s, it transpires that the total participation rate, taken as a simple average, increased by a substantial 2.5 percentage points. This reflects the experience of all countries except Brazil and the Dominican Republic, whose rates fell and stagnated, respectively. This development is clearly the result of increased female participation in the labour market, as this rose by about six percentage points to almost 60% of the male rate. Greater female labour-market participation is a phenomenon common to all the countries, although in differing degrees. In contrast, the average male participation rate in 2000 was the same as in the early 1990s, which means it has stayed basically unchanged for 30 years, although rates have risen and fallen in individual countries.

(d) Employment trends

The recovery of employment growth in Brazil and its continuing buoyancy in Mexico boosted the number of jobs in the region as a whole by a considerable 3.1%. This rate is similar to that recorded in 1997, when regional GDP grew much more strongly than in 2000 (5.2%, as compared to 4%). The employment rate thus grew by 0.6 of a percentage point, the largest increase of the decade, but this was not enough to make up for the

Figure III.9
LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND LABOUR-MARKET PARTICIPATION



Source: ECLAC, on the basis of official figures.

previous year's 0.9 point fall (see figure III.8). Most countries were unable to match the positive trends seen in the region's two largest economies, however, and the 0.8 point decline in regional employment that had occurred in 1999 (measured as a simple average for the 12 countries with information available) was compounded by a further 0.2 percentage point drop in 2000.

An analysis of job creation by employment category highlights the buoyancy of waged employment, particularly in the urban areas of Brazil and Mexico, where it expanded by over 4%. This category of employment, excluding domestic service, grew by 3.2% regionwide (see figure III.10), a much faster rate than in previous years.

The heterogeneity of job creation is illustrated by the fact that own-account work, which is less productive on average than waged employment, grew even faster than this (3.8%). It expanded particularly strongly in Colombia, Costa Rica, Ecuador, El Salvador and Venezuela, countries where economic growth was low to moderate. Unpaid work, on the other hand, plummeted by 7.9%. Unpaid family work tends to be the most volatile job category, given its marked seasonality in agriculture and the narrowness of the line that separates it from labour-market inactivity (as in the case of students who occasionally help out in a family business). Notwithstanding the measurement problems to which these characteristics obviously give rise, however, the share of this category in total employment clearly declined over the 1990s. As many as 11 of the 12 countries with up-to-date information available report a decline in this type of employment in 2000. Possible causes may include the pressure exerted by the immediate economic environment, in particular, income problems in the campesino economy and non-farming family businesses, and the existence of remunerative employment alternatives (wage-paying or otherwise) that encourage young people, especially, to leave the family economy.

Waged employment (including domestic service) accounted for 74% of all net new jobs, a high proportion compared to other years in the 1990s. Own-account work absorbed a further 35%, while the sharp decline in unpaid work showed through as a 14% negative contribution (see table III.12).

Job creation by branch of activity varied to a greater or lesser degree from the trends prevailing in the 1990s. Manufacturing employment was buoyant, growing at the same rate as total employment (3.1%) and generating 15% of all new non-agricultural jobs. This result contrasts with low growth rates in 1997 and 1998 and

Table III.11
LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATES[a]

	Total participation rate				Male participation rate				Female participation rate			
	1991	1995	1999	2000[b]	1991	1995	1999	2000[b]	1991	1995	1999	2000[b]
Simple average	**54.5**	**55.3**	**56.8**	**56.6**	**71.9**	**72.3**	**71.8**	**71.4**	**37.5**	**39.0**	**42.8**	42.9
Argentina [c]	40.9	45.1	46.3	45.2	54.9	57.0	56.8	55.9	28.1	34.2	36.7	35.6
Bolivia [d]	51.5	55.0	56.8	55.9	53.2	62.0	63.4	65.0	37.2	43.4	50.4	47.8
Brazil [e]	61.1	55.0	57.1	58.0	80.0	65.0	72.2	72.7	44.3	46.0	43.9	45.2
Chile [f]	52.7	59.3	54.4	53.7	75.7	76.7	74.3	73.3	30.8	43.9	35.3	34.9
Colombia [g]	59.3	54.9	63.8	64.6	75.0	76.7	74.5	73.5	46.3	34.0	54.9	57.1
Costa Rica [f]	52.2	53.9	54.8	53.4	74.9	75.9	75.1	73.5	30.6	32.4	35.5	33.8
Ecuador [h]	56.8	53.9	56.3	56.8	71.3	75.9	68.1	68.3	43.2	32.4	45.2	46.0
El Salvador [i]	51.6	52.4	52.6	52.2	70.6	70.6	68.1	67.7	35.0	36.5	39.1	38.7
Mexico [j]	53.3	55.0	55.8	56.3	73.9	73.9	74.9	74.8	34.5	38.0	38.5	39.6
Panama [k]	57.5	61.7	61.2	59.9	77.3	81.3	79.7	78.8	38.1	42.5	43.2	41.6
Dominican Republic [f]	55.0	51.9	53.5	55.2	72.9	69.0	71.2	70.4	37.5	35.7	36.6	40.6
Uruguay [f]	57.4	59.1	59.3	59.7	73.3	73.8	72.0	71.9	43.8	46.6	48.6	49.3
Venezuela [f]	59.8	61.7	66.3	64.6	81.4	82.0	83.7	81.9	38.1	41.4	48.8	47.3

Source: ECLAC. on the basis of official figures.

[a] The participation rate is calculated as a percentage of the working-age population. except in the case of Argentina where it is calculated as a percentage of the total population. The data are not always comparable. as geographical coverage and the age ranges used for the working-age populationmay vary. [b] Preliminary figures. [c] Greater Buenos Aires. average for April-May and October. [d] Departmental capitals. [e] Six metropolitan areas. annual average. [f] National total. average for the year. [g] Seven metropolitan areas. December. [h] National urban figure. November 1999 and 2000: Cuenca. Guayaquil and Quito. average for the year. [i] National total. average for the year.The figures in the 1991 columns are actually for 199192. [j] National urban figure. average for the year. [k] National total. August.

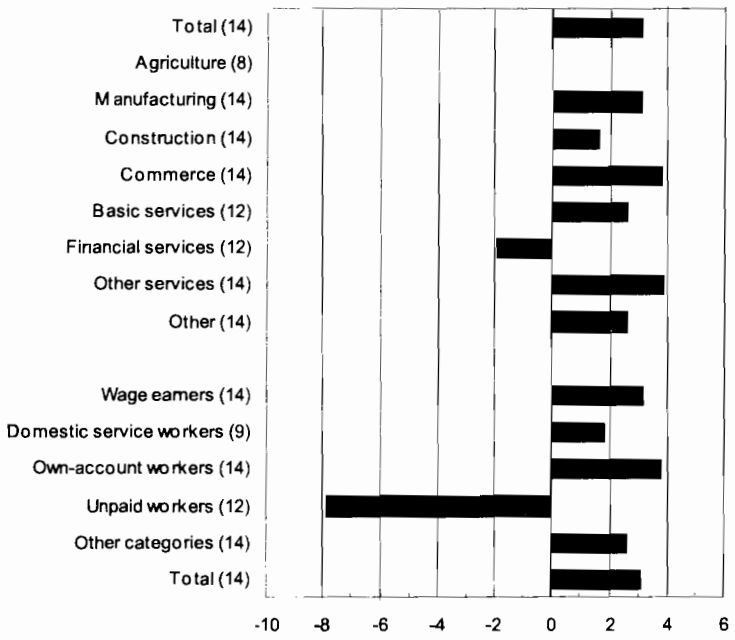
contractions in 1995, 1996 and 1999. Given the importance of this branch of activity in the employment structure, and its robust performance, recent figures are analysed in greater detail in the next section.

Construction employment grew much more slowly, by just 1.6%, owing to very low rates of job creation in countries such as Brazil, Chile and Colombia, and net job losses in Argentina and Peru. In contrast to these countries, job creation in Mexico was vigorous, stimulated by sectoral growth of 5%. Regionwide, construction accounted for just 3% of all new non-agricultural jobs, and the two branches of the secondary sector between them accounted for 18% (see table III.12).

By contrast with what happened in manufacturing industry, agricultural employment in the region was virtually unchanged in 2000, after falling back slightly during the 1990s. The pattern varied across countries, with agricultural employment shrinking in five of the eight countries for which comprehensive information is available (Bolivia, Chile, the Dominican Republic, El Salvador and Panama), but expanding in the other three (Colombia, Costa Rica and Venezuela). The growth of agricultural employment in Colombia was particularly strong, and took place against a background of 5% growth in sectoral output. Although comparable figures are not available, estimates suggest that the demand for agricultural labour may also have increased in Brazil and Mexico on the back of sectoral growth of 5% or more. Nonetheless, there are signs that agribusiness is continuing to become more machinery-intensive. This is reducing labour absorption and the quality of jobs in agriculture; formal employment in the sector grew by just 0.5% in Brazil and actually declined by 5% in Mexico.

As was the case throughout the 1990s, the tertiary sector was again the main job creator in 2000, and community, social and personal services led the way with growth of some 4%. In Brazil, Bolivia and Colombia, this category was particularly buoyant, and employment expanded by about 5%. In some cases, higher employment reflected robust growth in particular service segments, while in others a large proportion of the new jobs were in informal activities, which contribute little to GDP. Colombia seems to be an example of this, as sectoral value added decreased by 1% while employment expanded by over 10%.

Figure III.10
LATIN AMERICA AND THE CARIBBEAN: NET VARIATION IN EMPLOYMENT, 2000
(Percentages)[a]



Source: ECLAC, on the basis of official figures.
[a] The variations shown refer to national rates weighted for the population aged 10 and over and the relative size of each branch of activity and occupationa category. The figures in brackets indicate the number of countries for which information was available.

Table III.12
LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTIONS TO NET JOB CREATION, 2000 [a]
(Percentages)

Contribution of each branch of activity to increase in non-agricultural employment		Contribution of each occupational category to increase in total employment	
Total (13 countries) [a]	100	**Total** (13 countries) [b]	100
Manufacturing	15	Wage earners (includes domestic service)	74
Construction	3	Own-account workers	35
Commerce, restaurants and hotels	22	Unpaid workers	-14
Basic services	9	Other	5
Other services (includes social, community and personal services, and financial, insurance, real estate and business services)	45		
Other	6		

Source: ECLAC, on the basis of official figures.
[a] Figure for basic services covers 11 countries. [b] Figure for unpaid workers covers 11 countries.

The commerce, restaurants and hotels category once again contributed a large proportion of new non-agricultural jobs (22%), with employment growth of 3.8%. Outstanding cases were Brazil, Colombia, the Dominican Republic, Ecuador and Mexico, where employment in this area expanded by over 4%, thanks mainly to robust growth of 5% or more.

Another result that is striking in view of the trends prevailing in the 1990s is the decrease in employment in financial, insurance, real estate and business services, which had been the leading job creator over the decade as a whole. In 2000, employment in this segment shrank in Argentina, Colombia, Costa Rica, Peru and Venezuela, but continued to expand in Bolivia, Chile, the Dominican Republic, Ecuador, El Salvador, Panama and Uruguay, resulting in an overall decrease of 1.9%. In some countries, the interruption of vigorous employment growth in this segment could be explained by the critical situation facing national banking systems, and by the fact that many firms have implemented cost-cutting strategies that may have resulted in less outsourcing.

In contrast to this, employment continued to grow at a satisfactory 2.6% in basic services (electricity, gas and water, and transport, storage and communications), a sector that contributed 9% of new non-agricultural jobs. In Mexico, job creation in these services increased by over 5%.

(e) Manufacturing employment

Manufacturing employment expanded by 3% in 2000. This was a considerable improvement on previous years, as employment in this sector had grown by just 1.2% a year between 1990 and 1999 in the region as a whole, compared to a figure of 2.2% for total employment, and as a result its share of the occupational structure had declined markedly. Manufacturing employment trends in the north of the subcontinent (Mexico, Central America and part of the Caribbean) differ from those in the south, however, owing to differences in the sector's place in the economy. Manufacturing industry in the countries of the north is increasingly integrated into production networks centred on the United States, especially *maquila* activities, whereas South American industrial development in recent decades has been dominated by the processing of natural resources, which uses technology and capital much more intensively than labour. Consequently, median manufacturing employment in six countries to the north of Panama grew by 4.3% during the period as compared to 3.6% growth in total employment, whereas the equivalent rates in nine South American countries were -0.1% and 1.9%.

Table III.13 uses the example of Mexico to show how *maquila* activity has been the driving force behind the expansion of manufacturing jobs in the north of the subcontinent. Employment in formal non-*maquila* manufacturing activities fell steeply between 1990 and 1995, and although it staged a slow recovery after the peso depreciation that followed the 1994-1995 crisis, by 2000 it was still 10% below its 1990 level. Even this is better, however, than the performance over the decade of the leading South American economies for which data are available, as in Argentina, Brazil, Colombia and Peru formal manufacturing employment shrank by between 20% and 30% during the 1990s.

What, then, were the factors that produced relatively strong job creation in manufacturing across the region as a whole in 2000? The first point to make is that the regional result is not indicative of what happened in every country. In fact, in Argentina, Chile, Colombia, Peru and Uruguay –and in Costa Rica too, despite its location in the north of the subcontinent– formal manufacturing employment continued to decline, whereas it expanded in Brazil, Ecuador, Guatemala, Mexico and Nicaragua. Total manufacturing employment, including own-account work and microenterprise, also behaved in different ways in the various countries for which information is available, expanding in Brazil, Colombia, Mexico and Nicaragua, but contracting in Argentina, Chile, Costa Rica, Panama and Venezuela.[8]

Thus, the contrast between the behaviour of manufacturing employment in 2000 and the trends prevailing throughout most of the 1990s mainly stems from the performance of Brazil and, to a lesser extent, Colombia. In the first of these countries, total and formal manufacturing employment both expanded against a backdrop of steep currency depreciation; in Colombia, total manufacturing employment grew but formal employment shrank slightly. In Mexico, formal manufacturing employment expanded in 2000, notably in *maquila* and to a lesser extent in non-*maquila* industries, as it had done throughout the second half of the 1990s. This had repercussions for total employment, where the share of manufacturing increased. The labour-market performance of these three countries is

8 Apart from the countries mentioned, total manufacturing employment expanded in the Dominican Republic, Ecuador and Peru, while shrinking in Bolivia and Uruguay. These countries were not included in table III.13 because the series available for them do not cover a sufficient time period.

Table III.13
LATIN AMERICA AND THE CARIBBEAN: INDICATORS OF MANUFACTURING EMPLOYMENT
(Indices 1990=100)

	1980	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Formal manufacturing employment [b]											
Argentina	...	100.0	95.9	93.6	91.3	86.0	82.7	82.1	79.5	74.3	72.2
Brazil	108.9	100.0	88.4	87.7	87.8	87.7	83.6	82.3	78.8	76.1	78.4
Colombia [c]	111.6	100.0	102.4	103.8	101.2	98.3	94.7	89.5	87.1	77.2	76.0
Costa Rica [d]	...	100.0	102.0	102.7	103.5	103.2	94.3	99.6	102.5	102.8	100.0
Ecuador [e]	...	100.0	97.6	96.2	89.7	84.8	81.0	79.0	77.6	76.4	80.3
Guatemala [f]	81.5	100.0	125.7	130.6	145.3	136.0	124.1	132.4	143.5	158.5	175.8
Mexico											
Non-*maquila*	105.7	100.0	95.0	88.9	86.3	78.5	80.2	84.2	87.3	87.8	88.6
Maquila	26.0	100.0	110.5	118.7	128.1	141.5	164.5	197.2	221.4	249.0	280.5
Nicaragua [g]		100.0	91.4	85.6	84.4	89.5	100.0	112.3	132.7	152.8	182.5
Peru[h]	122.9	100.0	85.2	78.3	77.3	75.4	73.6	74.6	73.1	69.1	68.3
Uruguay [i]	94.5	100.0	85.8	74.6	61.3	54.8	52.2	52.2	49.0	43.2	41.9
Venezuela [j]	91.8	100.0	107.2	105.7	95.3	79.4	87.4	77.7	69.1	49.3	...
Total manufacturing employment [b]											
Argentina [k]	140.9	100.0	102.6	96.4	90.8	85.3	80.3	84.3	82.6	78.4	75.2
Brazil [l]			92.1	91.9	92.0	93.1	89.0	85.6	81.6	79.3	82.0
Chile [m]	74.6	100.0	108.9	118.7	114.8	114.3	116.4	117.5	116.8	103.0	100.5
Colombia [n]	...	100.0	113.9	113.0	113.5	116.8	108.7	103.6	104.6	95.6	101.9
Costa Rica	93.7	100.0	107.7	107.5	111.2	105.3	103.2	104.4	111.2	111.5	104.0
Honduras	...	100.0	124.8	147.9	160.7	162.2	175.5	176.0	183.5	195.9	...
Mexico [o]		100.0	n.a.	105.7	n.a.	104.3	118.2	126.8	141.4	148.2	154.3
Nicaragua	...	100.0	100.1	102.1	105.4	106.5	109.8	113.2	117.9	121.1	123.3
Panama [i]	79.4	100.0	117.3	125.5	133.1	134.9	137.1	139.8	131.7	132.3	121.3
Venezuela	69.6	100.0	116.2	113.7	113.3	117.1	113.4	126.6	137.9	134.0	129.4

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Indices of formal manufacturing employment show the situation in large and medium-sized firms, whereas those for total manufacturing employment include small businesses and microenterprises, together with own-account work. [c] Manufacturing industry excluding coffee threshing. [d] Manufacturing establishments employing 20 or more workers. [e] Manufacturingestablishments employing 10 or more workers. [f] Workers paying social security contributions. Includes mining. [g] Members of the Nicaraguan Social Security Institute. [h] Manufacturing establishments in firms employing 100 or more workers in the Lima metropolitan area. [i] The figure appearing in the 1980column is actually for 1982. [j] Manufacturing establishments employing five or more workers. [k] Formal manufacturing up to 1990, all manufacturing workers in Greater Buenos Aires from 1991 onward, as of October each year. [l] Six metropolitan areas. [m] Metropolitan region. [n] Seven metropolitan areas, fourth quarter of each year. [o] National total. The figure in the 1990 column is actually for 1991.

not surprising, as they are among those where the sector's value added grew most during the year, by 5.7% in Brazil, 9.7% in Colombia and 7.1% in Mexico.

In Mexico, *maquila* activities were once again the driving force behind manufacturing employment growth, with the number of jobs rising by nearly 13% to top 1.3 million by the end of 2000. Employment in the maquila industry also expanded in the Dominican Republic and Nicaragua, by 8% in both cases, to total 24,000 and 206,000 people employed, respectively.

Apart from the *maquila* industry, there were other segments that contributed to the expansion of manufacturing jobs in Mexico, and also in Brazil, where for the first time in the decade there was a clear rise in the level of formal employment in this sector. In Mexico, the manufacturing segment to record the strongest job growth was metal products, machinery and equipment (3.4%), and within this category, automobile production (5.4%); in second place was the non-metallic minerals segment (2%), led by cement and concrete production (over 7%). These results reflect, respectively, buoyant exports and the upturn in construction mentioned earlier. In Brazil, job creation was stimulated by the expansion of domestic demand and currency depreciation, which improved the competitiveness of domestic industry and lowered relative labour costs. The sectors that benefited most were footwear (10.1%) and the mechanical (6.2%), wood (5.5%) and textile (5.4%) industries.

Table III.14
LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE EARNINGS
(Average annual index values, 1995=100)

	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Argentina [b]	128.8	99.1	100.4	101.7	100.4	101.1	100.0	99.9	99.3	99.0	100.1	101.6
Bolivia [c]	57.6	87.6	82.1	85.5	91.2	98.5	100.0	100.5	106.6	110.1	117.0	118.0
Brazil [d]	94.6	104.5	89.0	87.0	95.6	96.3	100.0	107.9	110.8	110.8	105.9	104.8
Chile [e]	77.2	80.9	84.9	88.7	91.8	96.1	100.0	104.1	106.6	109.5	112.1	113.7
Colombia [f]	80.7	94.9	92.4	93.5	97.9	98.8	100.0	101.5	104.2	102.8	105.9	110.0
Costa Rica [g]	104.0	89.8	85.6	89.2	98.3	102.0	100.0	97.9	98.7	104.3	109.2	110.1
Ecuador [h]	88.3	65.4	68.4	74.2	83.5	90.9	100.0	105.4	103.0	98.9	90.7	86.4
Guatemala [g]	88.7	77.1	72.1	82.9	88.8	89.3	100.0	109.7	112.7	116.8	123.5	128.2
Mexico [b]	113.1	88.1	93.8	100.7	109.7	114.9	100.0	90.1	89.1	91.5	92.4	98.0
Nicaragua [i]	390.8	81.8	84.5	100.5	93.3	98.2	100.0	97.9	97.7	104.9	109.6	111.3
Paraguay [j]	89.5	87.7	91.8	90.9	91.7	93.0	100.0	103.1	102.6	100.7	98.6	99.9
Peru [k]	265.0	85.7	98.7	95.2	94.4	109.2	100.0	95.2	94.5	92.7	90.7	91.8
Uruguay	99.5	91.7	95.2	97.3	102.0	102.9	100.0	100.6	100.8	102.7	104.3	102.9
Venezuela [l]	302.4	138.1	130.1	136.5	124.4	104.8	100.0	76.7	96.3	101.5	96.8	90.5

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Manufacturing. [c] Private sector in La Paz. The figure shown in the 1980 column is actually for 1985. [d] Workers covered by social and labour legislation in six metropolitan areas. The 1980 figure is the average for Rio de Janeiro and São Paulo. [e] Up to April 1993, non-agricultural wage earners. From May 1993, general index of hourly earnings. [f] Manufacturing workers. [g] Average declaredearnings of workers covered by the social security system. [h] Non-agricultural enterprises employing 10 or more. The figure shown in the1980 column is actually for 1985. [i] Average wages, not including payments in kind or other benefits. [j] Asunción. [k] Private-sector manual workers in the Lima metropolitan area. [l] Urban clerical and manual workers, second half of each year. The figure shown in the 1980 column is actually for 1982.

(f) Wages

Unlike employment, which varied considerably, real average wages in the formal sector behaved in a relatively uniform way across much of the region, rising slightly (by up to 2%) in seven out of 14 countries, and falling equally moderately in Brazil and Peru (see table III.14).

Colombia, Mexico and Guatemala saw more substantial rises. In the first two cases, wages in formal manufacturing industry grew substantially as the sector experienced strong growth. In Colombia, however, the improvement failed to spread to the labour market as a whole, with real average incomes from work for the active labour force as a whole falling by about 10%. In Mexico, real manufacturing wages recorded their largest increase since 1993, but they are still 14% below their 1994 level.

The two countries where wage trends were clearly negative were Ecuador and Venezuela. In the first case, high inflation caused real losses for the fourth consecutive year, and only in the final quarter of 2000 was there any improvement in real incomes, as a result of wage increases and a slowing of price rises. In Venezuela, real average wages also fell for the second year in a row, despite falling inflation. Median wages in the formal sector rose by 1.2% in the region as a whole, thereby maintaining the rising trend of the decade and giving an average annual increase (again in median terms) of 2.1% a year from 1991 to 2000.

Minimum wages behaved in a more heterogeneous fashion than average pay, as a result of policy differences (see table III.15). In one group of nine countries, policy was aimed at improving the purchasing power of the lowest-income workers, thanks to which minimum wages rose by over 2.5% in real terms, the largest rises being seen in Chile, Honduras, Peru and Venezuela. In another seven countries, policy makers sought broadly to maintain the real value of the minimum wage, and this resulted in increases of no more than 1% and reductions of up to 2%. Larger losses occurred only in El Salvador and Haiti, where the nominal minimum wage was not adjusted in 2000, and in Ecuador, where inflation accelerated during the first nine months of the year, thereby steadily eroding the purchasing power of the minimum wage until the trend was broken in the last quarter of the year. Measured as the median for 19 countries, the regional real minimum wage increased by 0.9%, thus broadly maintaining the stable trend of a decade in which the average increase between 1991 and 2000 was just 0.2% per year.

(g) Economic performance and growth

A country's labour-market performance depends largely on the strength of its economic activity; figure III.11 shows the relationship between these two variables for 17 of the region's countries.

The five fastest growing countries (Brazil, Chile, the Dominican Republic, Mexico and Nicaragua) are among the top six in terms of labour-market performance, although this does not mean they have no weaknesses in this area. In Chile, for example, economic recovery failed to exert a strong positive impact on job creation and, while the number of wage earners grew by 2%, the employment rate declined by 0.2 percentage points.

At the other end of the scale were Argentina, Paraguay and Uruguay, where sluggish economic activity weakened the labour-market situation. Labour-market performance across the region as a whole was not very strong; of the 17 countries for which information is available, the index for 2000 was positive in eight and negative in the other nine.

Table III.15

LATIN AMERICA AND THE CARIBBEAN: REAL URBAN MINIMUM WAGE

(Average annual index values, 1995=100)

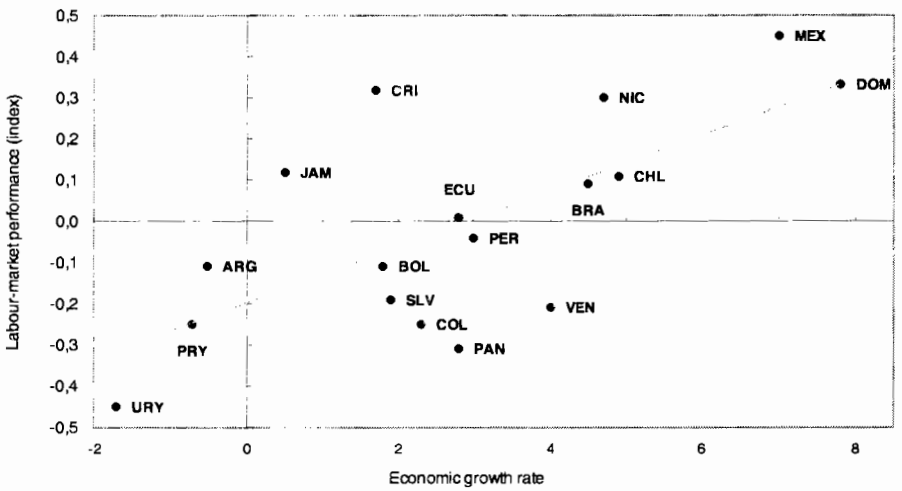
	1980	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
Argentina	132.4	28.4	57.9	74.9	103.4	100.0	99.8	99.3	98.4	99.6	100.5
Bolivia	...	51.5	84.9	92.7	102.1	100.0	96.7	98.6	114.5	123.2	126.8
Brazil	121.5	87.8	90.0	99.2	94.8	100.0	104.3	106.9	111.2	112.2	116.1
Chile	87.9	76.9	87.9	92.2	95.6	100.0	104.2	107.9	114.1	124.4	133.2
Colombia	97.4	104.6	99.4	102.1	100.4	100.0	99.3	101.2	99.6	103.7	104.2
Costa Rica	83.7	101.2	95.4	99.5	102.2	100.0	101.9	105.7	109.3	111.7	111.1
Ecuador[b]	209.8	72.8	63.4	72.8	84.4	100.0	109.7	105.8	98.3	87.7	84.6
El Salvador[c]	278.6	97.0	101.5	101.5	99.6	100.0	96.4	92.2	95.3	97.5	95.4
Guatemala	409.2	197.2	142.9	123.8	109.5	100.0	99.0	90.7	95.3	98.8	102.6
Haiti	157.5	115.6	96.1	74.0	53.2	100.0	82.9	71.3	63.3	58.3	51.4
Honduras	131.3	111.6	121.3	123.0	105.8	100.0	96.0	102.0	105.4	105.8	114.7
Mexico[d]	323.9	128.0	116.4	114.5	114.7	100.0	91.0	90.5	91.1	94.9	95.6
Panama	94.5	93.8	91.3	102.0	100.6	100.0	104.3	103.1	105.9	109.5	113.6
Paraguay[e]	87.5	114.5	99.8	96.0	98.5	100.0	102.4	107.4	105.8	101.5	105.8
Peru[f]	676.1	158.0	107.4	75.5	97.8	100.0	103.2	181.2	200.9	194.2	215.6
Dominican Republic	109.8	83.4	98.4	93.5	99.5	100.0	100.6	102.0	106.3	111.5	111.4
Uruguay	233.9	161.3	141.0	122.3	108.5	100.0	96.6	94.8	98.1	98.5	96.9
Venezuela[g]	184.6	88.3	108.8	95.3	106.8	100.0	94.6	80.7	80.5	82.3	85.5

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Minimum living wage including supplementary allowances. [c] Minimum wage for manufacturing and services in San Salvador. [d] Minimum wage deflated by the consumer price index (CPI) for Mexico City. From 1996, the figures are deflated by the CPI forlow-income groups. [e] Minimum wage in Asunción. [f] Minimum wage in the Lima metropolitan area for non-agricultural activities. [g] National minimum wage for non-agricultural activities; from 1992 onward, includes meal and transport allowances.

Figure III.11

LATIN AMERICA AND THE CARIBBEAN: ECONOMIC GROWTH AND LABOUR-MARKET PERFORMANCE, 2000



Source: ECLAC, on the basis of official figures.

Box III.1

LABOUR-MARKET PERFORMANCE INDEX

The labour-market performance index combines information on the behaviour of unemployment, the employment rate, the share of waged jobs in total employment (as an indicator of the relative strength of labour demand) and some indicator of employment quality and real wages. Subindices were calculated for each of these variables, and the overall labour-market performance index for each country is the average of these five subindices. The job quality indicators were taken from official sources in the countries, so they are not homogeneous.

The subindices contain both absolute and relative elements. A favourable trend is expressed in a positive score and an unfavourable trend in a negative one; the level of the score is calculated by comparing the differences recorded in each country to those seen in the country posting the best or worst performance in relation to the corresponding variable.

Chapter IV

The external sector

The positive international economic climate engendered a substantial improvement on the external front regionwide, although results in individual countries varied. External trade was very buoyant in 2000, and the region's chronic balance-of-payments current-account deficit decreased for the second straight year, falling to just over half the 1998 figure, or 2.4% of GDP. Although financial flows remained volatile, the current-account improvement was accompanied by a strengthening of the capital and financial account, basically thanks to a revival of capital inflows into Brazil.

IMPORT LEVELS rebounded strongly from their 1999 downturn, in response to stronger economic activity. The situation remained auspicious for oil-exporting countries and those selling products to the United States market, while exports from other countries also recovered owing, among other factors, to a revival of intraregional trade and stronger prices for many commodities, especially oil.

All of this resulted in a substantial narrowing of the regional trade gap, reinforced by a further increase of nearly US$ 1 billion in current transfers, mainly remittances. Net factor income payments, particularly interest and profits on foreign capital invested in the region, hardly changed. As prepayment of debts owed to the International Monetary Fund (IMF) partly offset the recovery of capital inflows, the net resource transfer to the region was very small. The funds obtained went on external debt servicing (capital and interest payments) and the remuneration of foreign capital.

The region's reserve assets more than recouped the US$ 6 billion or so loss suffered in 1999, but this was largely due to developments in a single country, Venezuela, which was the main beneficiary of higher oil prices.

1. Foreign trade

The foreign trade of Latin America and the Caribbean enjoyed something of a boom in 2000, thanks to economic recovery in the region and a buoyant world economy. The first of these factors showed through in a 16% expansion in imports of goods and services, the value of which approached US$ 420 billion, while the second resulted in an even larger increase of some 19% in exports, which broke the US$ 400 billion barrier. As a result, the region's balance of payments for goods moved into surplus, although this improvement was marred by a widening of its chronic deficit in services trade.

(a) General determinants of regional trade

As usual, the external setting, both regionally and further afield, was decisive for trade in countries that are as deeply enmeshed in the world economy as those of Latin America and the Caribbean. Prevailing world conditions were reflected in trade prices and volumes, two major developments being the rise in oil prices and the expansion of manufactured goods exports from the region. In contrast, import volumes were mainly affected by the domestic performance of individual economies.

i) Vigorous growth in the world economy

In 2000, Latin America and the Caribbean benefited from vigorous growth in the international economy, which greatly boosted external demand for the region's products and hence the volume of its exports. World economic activity maintained the previous year's expansionary tendency, and the 4% growth rate recorded in 2000 was the highest for over a decade, despite a perceptible slowdown towards the end of the year. Trade was once again the engine of this growth, expanding by 12%, or three times as fast as GDP.

The positive effect of this trend on regional exports was reinforced by their geographical distribution. The pace of economic growth in the United States (5%) was above the world average, and this was crucial for the region since that country absorbs over half of all Latin American and Caribbean exports, the proportions being about 85% in the case of Mexico, 40% for countries that are members of the Andean Community and only slightly less than that for the Central American countries.

In the case of Mercosur, the United States market accounts for just 15% of external sales, while over a

Table IV.1
LATIN AMERICA AND THE CARIBBEAN: VISIBLE EXPORTS AND IMPORTS, FOB[a]
(Annual rates of change in index, 1995=100)

	Exports[b]			Imports[b]		
	Value	Unit value	Volume	Value	Unit value	Volume
1990	10.2	4.4	5.5	12.9	3.7	9.0
1991	0.7	-3.2	4.0	17.7	-4.0	22.6
1992	8.0	0.6	7.4	22.8	1.3	21.2
1993	9.9	-2.1	12.3	11.7	-1.8	13.8
1994	16.2	6.5	9.2	18.8	1.5	17.0
1995	21.2	8.3	11.8	12.0	7.1	4.6
1996	11.6	1.0	10.4	10.9	-0.4	11.4
1997	11.3	-0.9	12.3	18.6	-2.8	22.1
1998	-1.2	-9.0	8.5	6.2	-3.4	9.9
1999	5.8	-1.1	7.0	-3.7	-1.5	-2.2
2000[c]	20.1	8.1	11.1	16.3	2.1	14.0

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Covers 17 Spanish-speaking countries plus Brazil and Haiti. [b] The rates of change shown for the value, unit value and volume indices do not necessarily agree with the equivalent values calculated for the same indices on the basis of the countries' national accounts, owing to differences in methodology and coverage. [c] Preliminary figures.

quarter go to Europe. In 2000, that continent's main economic and trade bloc, the European Union, grew by 3.3%, its highest rate for over a decade. This benefited not only the Mercosur countries but also the Central American ones, which send nearly 20% of their exports to Europe (essentially commodities), and to a lesser extent the Andean countries, where the equivalent proportion is 13%.

Rapid growth of about 7% in the developing Asian countries benefited some Latin American countries, especially those of the Southern Cone. Once again, the slowest-growing Asian country was Japan (1.7%), which is a relatively minor market for the exports of most of the region's countries.

ii) Robust recovery in intraregional trade

Another important destination for Latin American and Caribbean exports is the regional market itself. As growth in the region was similar to that of the world economy as a whole, sales in that market also grew strongly (by two percentage points more than total exports). As a result, the intraregional share of the region's total trade was slightly higher than in the previous year, approaching 15%. Nonetheless, this proportion is still far short of the 19% attained in 1998, as table IV.2 shows.

The relative stability of the intraregional share of total trade in 2000 conceals a significant qualitative difference. The expansion of trade within the region was essentially the result of buoyant sales of manufactured products, while the surge in exports to markets outside the region was heavily influenced by the sharp rise in the value of oil sales, and was largely confined to just a few countries.

This explains why the intraregional trade share recovered in Mercosur and the Central American Common Market (the very two blocs where it is highest, at 21% and 17%, respectively), but failed to pick up in the Andean Community, which comprises major oil exporters including Colombia, Ecuador and Venezuela, or in CARICOM. In the light of this, however, it is particularly significant that Andean Community exports among member countries grew by over 30%, almost the same as their total export growth, including oil.

iii) Favourable trade prices

The strong performance of the world economy put upward pressure on commodity prices, which had been

Table IV.2

LATIN AMERICA AND THE CARIBBEAN: INTRAREGIONAL AND TOTAL EXPORTS

(Millions of dollars and percentage shares)

	1990	1995	1996	1997	1998	1999	2000[a]
Mercosur Within Mercosur	4 127	14 451	17 115	20 478	20 027	15 164	17 711
World	46 403	70 129	74 407	82 596	80 227	76 358	86 372
Mercosur / world (%)	8.9	20.6	23.0	24.8	25.0	19.9	20.5
Andean Community							
Within Andean Community	1 324	4 859	4 698	5 621	5 411	3 940	5 166
World	31 751	39 134	44 375	47 933	38 896	43 208	57 599
Andean Community / world (%)	4.2	12.4	10.6	11.7	13.9	9.1	9.0
LAIA							
Within LAIA	12 302	35 552	38 449	45 484	43 231	34 776	43 195
World	112 694	204 170	229 164	256 714	251 345	273 280	331 87
LAIA / world (%)	10.9	17.4	16.8	17.7	17.2	12.7	13.0
CACM							
Within CACM	624	1 451	1 553	1 863	2 634	2 290	2 537
World	4 435	9 244	9 928	11 729	13 536	14 290	14 679
CACM / world (%)	14.1	15.7	15.6	15.9	19.5	16.0	17.3
CARICOM [b]							
Within CARICOM	469	690	775	785	859	957	1 087
World	3 634	4 511	4 595	4 687	4 651	5 182	6 132
CARICOM / world (%)	12.9	15.3	16.9	16.7	18.5	18.5	17.7
Latin America and the Caribbean [c]							
Intraregional	16 802	42 740	46 562	54 756	51 674	42 624	52 606
World	120 572	216 031	243 687	273 130	269 532	292 752	352 681
Region / world (%)	13.9	19.8	19.1	20.0	19.2	14.6	14.9

Source: ECLAC, on the basis of official figures.

[a] Preliminary estimates. [b] Includes Barbados, Guyana, Jamaica and Trinidad and Tobago. [c] Includes CACM, LAIA, Bahamas, Barbados, Belize, Dominican Republic, Guyana, Haiti, Jamaica, Panama, Suriname and Trinidad and Tobago.

falling since the outbreak of the Asian crisis in 1997 (see figure I.3 in chapter I). The general price index calculated by ECLAC shows the index of non-fuel commodities exported by the region rising by an average of 7% between 1999 and 2000. Nonetheless, the recovery that began in 1999 started to run out of steam towards the end of 2000 because of the world economic slowdown. Furthermore, the index remained far below its 1997 level, and recovery did not extend to all products.

The main exception was coffee, whose average price was more than 10% lower in 2000 than in the previous year, despite attempts by the Association of Coffee Producing Countries to restrict supplies to the world market. Other commodity prices to fall included bananas (2%), soya oil (21%), silver (5%) and lead (10%). In contrast, the region's other major export products saw rises in excess of 30% in the case of sugar, cattle hides, wood pulp and oil; 20% in the case of soya flour and wool; and 10% in the case of metals such as aluminium, copper and steel products.

Low inflation in the industrialized countries and the strength of the United States dollar resulted in a fall in the dollar prices of internationally traded manufactured goods. The unit value index of industrialized country manufactured exports fell for the sixth consecutive year, this time by over 2%, and this had positive repercussions for import costs in the Latin American and Caribbean countries.

Oil deserves a special mention, as it is a key product in trade both globally and for the region, where it accounted for 12% of exports and slightly over 5% of imports in 1998-2000. Crude oil prices rose by almost two thirds on average between 1999 and 2000; this alone meant additional export earnings of around US$22 billion, but also added some US$9.5 billion to import bills. The two categories were distributed very unevenly among the different countries.

Higher oil prices were the main explanation for the substantial improvement in the ratio between export and import prices (or real terms of trade) in the region as a whole. The 6% rise in this variable took it back to its level of 1997, prior to the Asian crisis. Nonetheless, its distribution among countries was very uneven, as most are highly dependent on imported oil and actually saw their terms of trade deteriorate. The beneficiaries were oil exporters, especially Venezuela.

The improvement in the real terms of trade generated an estimated net gain for Latin America and the Caribbean of nearly US$ 18 billion, equivalent to just under 1% of regional GDP. Nonetheless, as can be seen in figure IV.2, while the proportion of GDP concerned was about 8% in Venezuela and 6% in Ecuador, the Central American countries, which are particularly dependent upon coffee exports and oil imports, suffered losses which, in the case of Nicaragua, exceeded 4% of GDP.

(b) Visible exports

As a result of the above and other country-specific factors, including the weather (generally most important in small countries, such as those of the Caribbean), the recovery of exports was widespread across the region. The total value of sales rose by 20%, as the result of an 11% increase in the volume shipped combined with an 8% rise in export prices.

The region's healthier export profile is illustrated in figure IV.3. The few exceptions to this pattern included Costa Rica, where foreign sales are dominated by a single semiconductor manufacturer which saw demand weaken; Haiti, which was hit by a slowdown in *maquila* textile production and falling prices for coffee (like Costa Rica) and cocoa; and Paraguay, where re-exports of tax-free goods to Brazil continued to decline.

In the remaining countries, visible export earnings generally increased, in some cases considerably, thanks to higher prices or increased shipments, or often a combination of the two. In most cases, the improvement was between 10% and 20%, but it was even greater than this in Venezuela and Mexico, countries that exemplify the two key factors influencing exports in the region. In Venezuela, the main beneficiary of higher oil prices, visible export earnings grew by over 60%, while in Mexico they rose by more than 20%, mainly as a result of larger sales volumes. The buoyancy of United States demand, which benefited Mexico, also explains the large increase in shipments from Central American countries, except Costa Rica, as mentioned above.

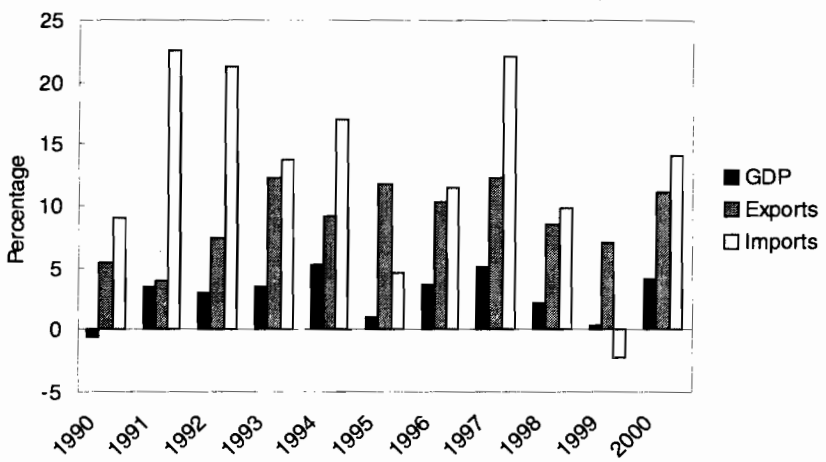
(c) Visible imports

The total value of the region's visible imports increased by a substantial 16%, mainly as a result of growth in volumes, which expanded by 14%. In addition to this, goods purchased were 2% more expensive on average, with lower prices for manufactured goods being more than offset by higher prices for other products, particularly oil.

i) Quantities

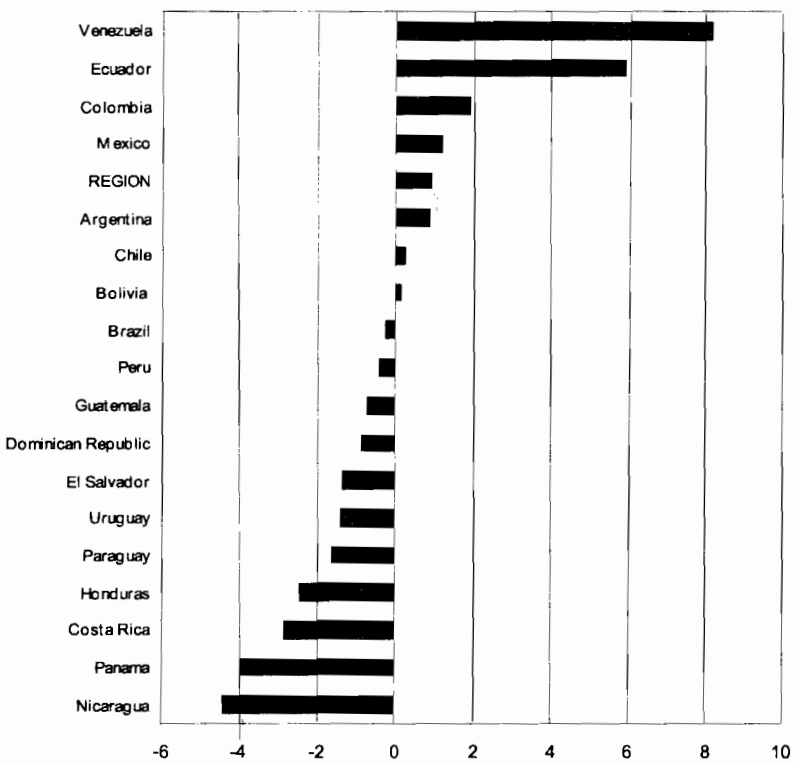
The increase in volume has a number of explanations. Firstly, import volumes responded to the expansion of domestic demand, especially for consumer goods, and there was a close correlation between the

Figure IV.1
LATIN AMERICA AND THE CARIBBEAN: INCREASE IN VOLUME OF MERCHANDISE TRADE AND GDP GROWTH
(Percentages)



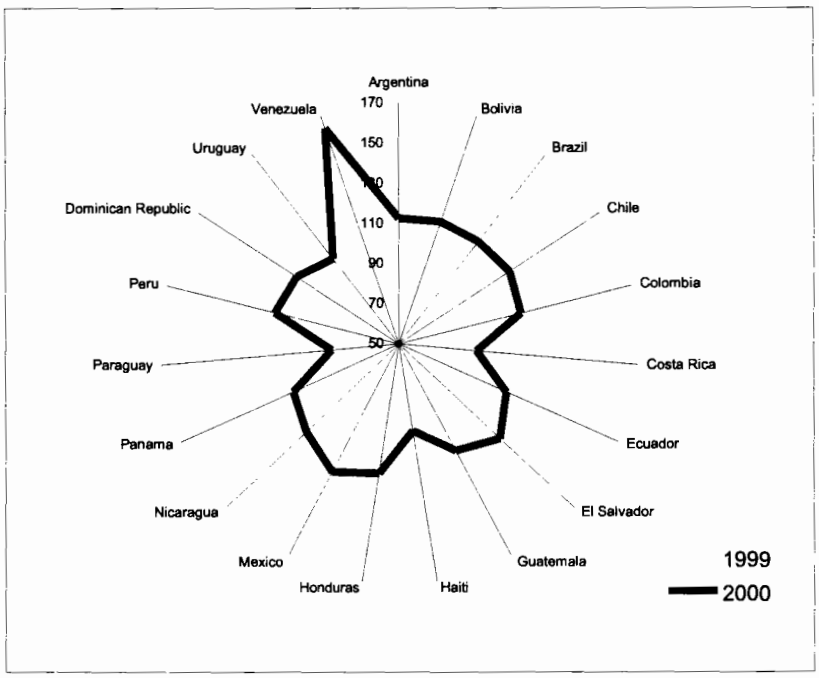
Source: ECLAC, on the basis of official figures.

Figure IV.2
LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN CONSUMER PRICES, 2000
(As percentages of GDP)



Source: ECLAC, on the basis of official figures.

Figure IV.3
LATIN AMERICA AND THE CARIBBEAN: VALUE OF EXPORTS, 2000
(Indices: 1999 =100)



Source: ECLAC, on the basis of official figures.

behaviour of these two variables (see figure IV.4). In the region as a whole, import volumes grew more than three times as fast as either domestic demand or GDP, a pattern essentially similar to that seen at the world level. The relationship between these variations, however, shows significant differences between countries.

In most cases, the percentage variation in imports for each percentage-point change in domestic demand (or the elasticity of imports) ranged between 1.5 and 3 in 2000. This degree of elasticity, together with the level of openness in the different economies (as measured by the share of imports in aggregate supply, which is higher in the north of the region than in the south), meant that 20% to 45% of the increase in domestic demand was met by imported products, in about half of the countries.

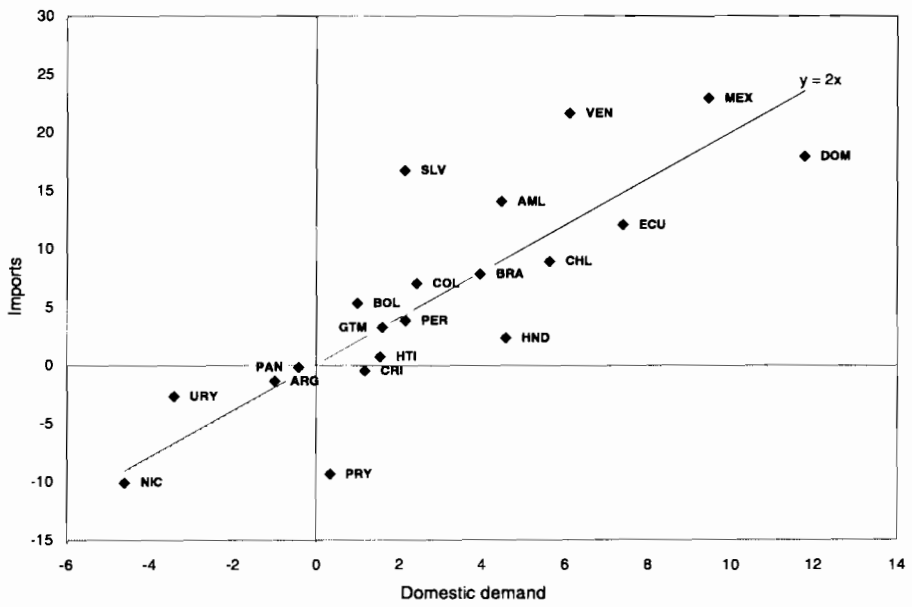
The situation described above may be regarded as typical of the South American countries, although there were a few exceptions whose results, like those of the countries in the north of the region, reveal additional influences on import behaviour.

In countries such as Mexico and many in Central America and the Caribbean that have an export-oriented maquila industry, the output of this sector is based on components supplied from abroad. Consequently, a significant proportion of their imports responds to external rather than domestic demand. External demand strengthened in all the countries mentioned except Costa Rica, where a decline resulted in lower import volumes.

In Panama and Paraguay, the existence of a substantial volume of re-export trade had similar effects. Re-exports and hence imports increased in the former (unlike so-called "national imports", which were held back by flat domestic demand) and fell off in the latter.

The pattern of trade in Paraguay was probably also affected by the appreciation of its currency against the Brazilian real in 1999, which affected Brazilian purchases in that country. In Venezuela, the level to which the exchange rate of the local currency had risen following four straight years of real appreciation could help account for the greater vigour of imports, growth in which absorbed nearly 90% of domestic demand expansion, giving an elasticity ratio of over three. The effects of currency appreciation were also felt in Ecuador.

Figure IV.4
LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN IMPORT VOLUMES AND DOMESTIC DEMAND, 2000
(Percentages)



So urce: ECLAC, on the basis of official figures.

i) Values

As well as rising in volume in most of the region's countries as a result of the factors described above, imported products also became more expensive, to an extent that varied from case to case. As a result, nearly all countries saw their import bill rise compared to the previous year, sometimes by 20% or more (Chile, the Dominican Republic, El Salvador, Mexico and Venezuela). In the continent, only Argentina, Nicaragua and Paraguay spent less on imports, and in all cases this was the result of lower volumes.

In all the countries, by far the largest relative increase was in the value of fuel purchases, as a result of the drastic rise in the price of oil. There were also widespread increases in consumer and intermediate goods purchases; in Mexico, particularly, the former rose by nearly 40%. On the other hand, the weak performance of investment meant that capital goods purchases generally grew by less. In a number of countries, especially Bolivia, Costa Rica and Uruguay, the value of purchases in this category actually declined.

These relative variations explain why nearly three quarters of the overall increase in the import bill related to raw materials and intermediate goods including oil, with 15% corresponding to consumer goods and 11% to capital goods.

(d) Invisible trade

The region's trade in services, like its visible trade, grew strongly in 2000. With few exceptions, countries posted increases in both revenue and expenditure in this category, although in most cases the latter rose by more. For the region as a whole, both sides of the equation increased by approximately 13%, and the outcome was a deficit of about US$17.75 billion, more than US$ 2 billion larger than the previous year's figure.

The growth in invisible trade was concentrated in the two main exporting countries, Brazil and Mexico, which between them accounted in almost equal proportions for the bulk of the regional increase in both exports and imports.

i) Tourism

The positive international economic climate, especially in the United States, combined with the strength of the dollar to generate a substantial 9% increase in the number of tourists visiting Central

America –the subregion which, according to provisional figures from the World Tourism Organization, recorded the highest growth rate– and a 7% increase in visitors to the Caribbean, even though tourism in this subregion was affected by a number of hurricanes (especially in Nevis and Belize). In some countries, these rates were exceeded; the Dominican Republic, for example, received 12% more visitors, and Cuba 11% more than the previous year. Mexico, the main tourist destination in the region and the eighth-ranked in the world, received 20 million visitors, compared to 19 million in 1999.

As a result, travel-related revenue expanded considerably in a number of countries, particularly Brazil, Ecuador, Mexico and other Central American and Caribbean countries, where growth ranged from 10% to 17%. On the other hand, tourist revenue fell by similar proportions in Chile, Paraguay and Venezuela, these being among the few countries to post negative results. In the region as a whole, the travel category registered an increase of 9%.

In addition, nearly all of Latin America and the Caribbean saw a real boom in departures abroad (Chile and Paraguay being the only exceptions), which pushed up regional expenditure in this area by nearly 14%. Nonetheless, as there is generally a large net inflow of visitors to the region, the balance on the travel account improved in most countries. The major exception was Brazil, whose net loss of over US$ 600 million more than accounts for the net loss in the region as a whole.

ii) Transportation

An important component of trade in services is goods transportation. Unlike travel, expenditure in this category easily outstrips revenue in most of the region's economies. Both sides of the equation expanded considerably in nearly all countries (except for Bolivia on both sides and Argentina on the expenditure side), with revenues increasing by nearly 9% and expenditure by 13% overall.

These figures are explained by increases in both freight prices and volumes transported. As regards the former, while changes in freight charges were largely determined by factors such as routes and cargo types, the general pattern, heavily influenced by rising fuel costs, was upward, a movement that in many countries had already begun in 1999. Compared to the averages for that year, the 2000 figures displayed increases ranging from 50% to 80% on some routes.

Higher merchandise export and import volumes generated a parallel increase in transport payments, as nearly all the countries of the region are highly dependent on foreign transport companies. Such payments thus increased most in the countries with the largest rises in volumes, whether of exports (such as Honduras), imports (Dominican Republic and Venezuela) or both (El Salvador and Mexico). All of these countries saw increases of some 10% or more, and this was also true of Chile, Ecuador and Guatemala, where a lengthening of trade routes resulting from the strength of Asian demand may also have played a part.

Revenues received by the region for transport services grew modestly in absolute terms, given their relatively low level. Brazil and Chile –two of the countries with the largest national shipping fleets– between them accounted for 40% of the growth. The Brazilian fleet, totalling over 9 million tons deadweight, dwarfs all others in the region, while Chile's merchant fleet specializes more in transporting foreign cargoes. It is worth mentioning that Panama obtained higher revenues from the Canal in 2000, its first year under local management after being handed over by the United States.

2. The balance-of-payments current account

The regional current-account deficit narrowed moderately from US$ 56 billion in 1999 to US$ 47 billion in 2000, almost entirely thanks to the surplus generated on visible trade, which had been in deficit the previous year. The other components of the balance of payments were virtually unchanged. Large surpluses of around 10% of GDP were achieved in 2000 by Ecuador and Venezuela, whereas the Dominican Republic and Paraguay saw their deficits widen substantially (see tables IV.3 and IV.4).

Current transfers continued to be an important source of funds for a group of countries in the region. In 2000, this flow, consisting mainly of family remittances, amounted to nearly US$ 20 billion. The largest

Table IV.3
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Percentages of GDP)[a]

	Trade balance (goods and services)		Current-account balance		Balance of capital and financial accounts [b]		Overall balance	
	1999	2000[c]	1999	2000[c]	1999	2000[c]	1999	2000[c]
Latin America and the Caribbean	**-1.2**	**-0.7**	**-3.2**	**-2.4**	**2.5**	**3.4**	**-0.7**	**1.0**
Argentina	-1.7	-0.6	-4.4	-3.3	5.1	2.9	0.7	-0.4
Bolivia	-8.2	-7.8	-6.7	-7.2	6.2	4.3	-0.5	-2.9
Brazil	-1.6	-1.4	4.8	-4.1	1.6	5.4	-3.2	1.4
Chile	2.0	1.2	-0.1	-1.4	-1.0	1.7	-1.1	0.3
Colombia	0.6	1.6	0.0	-0.2	-0.3	1.2	-0.4	1.0
Costa Rica	6.4	1.8	-4.6	-5.3	7.7	4.3	3.1	-1.0
Ecuador	8.7	8 9	7.0	10.2	-13.5	-8.6	-6.5	1.6
El Salvador	-12.2	-14.9	-2.0	-3.2	3.6	2.8	1.6	-0.4
Guatemala	-8.5	-8.1	-5.5	-4.6	4.9	8.1	-0.7	3.4
Haiti	-16.4	-19.6	0.2	-1.0	0.4	-0.2	0.5	-1.2
Honduras	-14.2	-13.7	-3.7	-3.4	7.7	3.3	4.0	-0.1
Mexico	-1.5	-1.8	-3.0	-3.1	3.9	4.3	0.9	1.2
Nicaragua	-54.0	-43.3	-49.4	-38.3	45.3	30.2	-4.1	-8.1
Panama	-8.4	-5.7	-14.4	-9.3	12.8	6.0	-1.5	-3.3
Paraguay	-3.8	-7.2	-1.1	-4.2	-2.9	-0.6	-4.0	-4.8
Peru	-2.3	-1,9	-3,5	-3,0	2.0	2.8	-1.5	-0.2
Dominican Republic	-7.5	-10.8	-2.5	-6.4	3.4	5.1	0.9	-1.3
Uruguay	-2.2	-2.3	-2.6	-3.1	2.7	3.9	0.1	0.9
Venezuela	5.0	12.2	3.6	11.1	-2.6	-6.3	1.0	4.8

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Estimates based on figures expressed in dollars at current prices. [b] Includes errors and omissions. [c] Preliminary figures.

Table IV.4
LATIN AMERICA AND THE CARIBBEAN: BALANCE-OF-PAYMENTS CAPITAL AND FINANCIAL ACCOUNT INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
	Billions of dollars								
Current-account balance	-34.2	-45.1	-51.4	-36.7	-38.6	-64.8	-88.0	-55.7	-46.7
Capital and financial account balance [b]	49.1	61.4	42.3	29.8	66.8	85.6	69.7	43.9	66.9
Overall balance	14.9	16.3	-9.2	-6.9	28.2	20.8	-18.3	-11.8	20.1
Reserves and related items	-14.9	-16.3	9.2	6.9	-27.9	-20.3	18.3	11.8	-20.1
Reserve assets [c]	-22.7	-21.1	4.8	-23.2	-26.8	-16.3	9.4	5.9	-6.4
IMF loans and exceptional financing	7.8	4.9	4.4	30.1	-1.1	-4.0	8.9	5.9	-13.7
	Percentages								
LIBOR (nominal)	3.9	3.4	5.1	6.1	5.6	5.8	5.5	5.5	6.6
LIBOR (real)	0.8	0.6	2.7	3.5	3.2	3.7	4.1	4.1	4.1
Yield on United States government bonds	7.0	5.9	7.1	6.6	6.5	6.4	5.3	5.6	6,0

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.
[a] Preliminary figures. [b] Includes errors and omissions. [c] A minus sign indicates an increase in reserve assets.

remittances in absolute terms were sent to Brazil, the Dominican Republic, El Salvador and Mexico. Measured as a proportion of goods and services exports, they were significant in nearly all Central American countries, along with Bolivia and Ecuador; in the case of Ecuador, family remittances grew fivefold between 1996 and 2000. The largest group sending these transfers to the region are Latin American workers in the United States, so they are sensitive to developments in the United States economy. The exception is Brazil, where Brazilians of Japanese descent working in Japan are the leading remitters of such funds.

After widening in 1999, the deficit on the region's factor-income account held steady at the high level of US$ 52.5 billion, with an increase in net profit repatriation offsetting a slight reduction in net interest payments. As a result of direct investment inflows, returns to foreign capital have grown continuously in recent years, apart from a pause in 1999. By 2000, they accounted for almost a third of factor-income payments, up from a quarter in 1995. As regards external debt service, interest payments on bonds have tended to increase, while those on bank loans have fallen in recent years as international banks have cut back their exposure to the region.

3. Capital flows and international reserves

Following the financial crisis unleashed in Asia in mid-1997 and the moratorium declared by Russia in August 1998, Latin America and the Caribbean remained in a cycle of shrinking external funding right up to mid-2001, and episodes of serious volatility are still liable to occur. International banking and bond markets have shown only a modest recovery, and are still far from the levels attained prior to the Asian crisis; in addition, the inflow of foreign direct investment (FDI) has begun to slow in some countries. In 2000, placements of the region's debt were carried out in short cycles linked to the behaviour of technology stocks on United States stock markets.

The stability of international interest rates and the recovery of regional economic activity triggered an upturn in capital inflows to the region in 2000, but from September onward this trend was undermined by other factors, such as a greater perception of risk among international investors owing to the economic difficulties experienced by some of the region's countries, particularly Argentina.

The net inflow of autonomous capital to Latin America and the Caribbean was US$67 billion in 2000. Debt prepayments made by Brazil and Mexico to IMF meant that compensatory capital outflows amounted to nearly US$ 14 billion. As a result, net autonomous and compensatory capital inflows totalled US$ 53 billion, a larger amount than in 1999, but still well below the levels recorded in earlier years. Funds were heavily concentrated on Brazil and Mexico, which attracted 80% of the total, equivalent to nearly 5% of GDP. By contrast, in over half of all Latin American countries these inflows contracted, sometimes very substantially, as in the case of Argentina, while Ecuador and Venezuela saw major short-term capital outflows for the second straight year.

Foreign direct investment dropped back to US$64 billion in 2000, after rising to an exceptional US$77 billion in 1999. Nonetheless, this amount was still greater than the inflows received in the other years of the 1990s. The flow of direct investment towards Latin America remained buoyant and made a significant contribution to current-account financing (see table IV.5). As in the 1998-1999 biennium, FDI inflows into Brazil and Mexico, which remained the leading recipients, were again very large, with Colombia and Venezuela also absorbing considerable sums. In contrast to this, Argentina saw the record inflow of 1999 cut in half; as in the previous year, approximately 50% of the total related to swap operations involving shares in local enterprises controlled by Spanish firms. A significant proportion of such operations generate a counterpart portfolio investment flow in the balance of payments. In Chile, these flows became negative, as the funds entering were insufficient to offset the nearly US$5 billion invested abroad by Chilean residents. Among productive investments, which are estimated at about half of the total, the largest were those that went into the energy sector.

While FDI largely went to the region's leading economies, it was also important in a group of smaller countries, chiefly Bolivia, the Dominican Republic and Honduras. In Central America and Mexico, a significant proportion of these inflows were maquila investments, mainly from the United States. In other countries, the contribution made by FDI to financing the current-account deficit decreased significantly (see figure IV.5).

Table IV.5

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT[a]

(Millions of dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[b]
Latin America and the Caribbean	**12 499**	**10 348**	**23 725**	**24 753**	**39 788**	**56 199**	**59 631**	**77 278**	**63 880**
Argentina [c]	3 218	2 059	2 480	3 756	5 349	5 508	4 958	22 898	10 241
Bolivia	91	125	147	391	472	728	955	1 014	731
Brazil	1 924	801	2 035	3 475	11 666	18 608	26 050	26 888	30 497
Chile [d]	538	600	1 672	2 205	3 445	3 353	1 842	4 367	-1 103
Colombia	679	719	1 298	712	2 784	4 830	2 165	1 210	2 247
Costa Rica	222	243	292	331	421	402	607	615	397
Ecuador	178	469	531	470	491	695	831	636	708
El Salvador	15	16				59	1 104	228	162
Guatemala	94	143	65	75	77	85	673	155	245
Haiti	- 2	- 2	- 3	- 2	4	4	11	30	13
Honduras	48	52	42	69	90	128	99	237	282
Mexico	4 393	4 389	10 973	9 526	9 186	12 830	11 602	11 915	13 162
Nicaragua	42	40	40	75	97	173	184	300	265
Panama	139	156	411	267	410	1 300	1 219	517	393
Paraguay	118	75	138	98	144	230	336	65	119
Peru	150	687	3 108	2 048	3 242	1 697	1 880	1 969	556
Dominican Republic	180	189	207	414	97	421	700	1 338	1 006
Uruguay		102	155	157	137	113	155	229	171
Venezuela	473	- 514	136	686	1 676	5 036	4 262	2 669	3 789

Source: ECLAC, on the basis of figures from official sources and the International Monetary Fund.

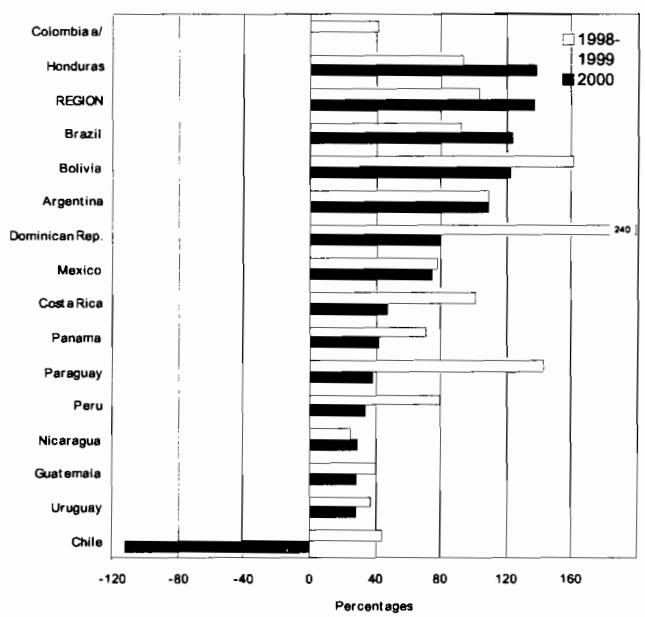
[a] Refers to direct investment in the reporting economy minus direct investment abroad by its residents. This information is not available for some countries. Includes reinvestment of profits. [b] Preliminary figures. [c] FDI in Argentina included substantial portfolio investment swap operations in 1999 and 2000. Excluding these, FDI was US$ 13.3 billion and US$ 6.318 billion in those years, respectively.

[d] Includes almostUS$ 5 billion of FDI abroad in 1999 and 2000.

Figure IV.5

LATIN AMERICA AND THE CARIBBEAN: NET FOREIGN DIRECT INVESTMENT

(Percentage of current account deficit financed)



Source: ECLAC, on the basis of figures provided by the International Monetary Fund.

[a] No percentage is given for 2000 because there was virtually no deficit in that year.

Stimulated by increased buoyancy in the euro market, new bond issues in 2000 totalled US$ 35.6 billion. The funds thus raised continued to be used mainly for repayments due on debts or for Brady bond swaps. This type of capital continued to be extremely volatile, and placements tended to be largely confined to specific months of the year, especially January, February, March and July. Such operations were carried out by Argentina, which was the region's largest issuer for the third year running, together with Brazil, Colombia, Mexico and, for smaller amounts, another seven Latin American and Caribbean countries (see table IV.6). As the perceived risks of investing in Latin America rose following the Asian crisis, international investors have shown a preference for safer securities, and thus for sovereign debt issues. Of issues by firms, which in 2000 totalled US$ 7.5 billion, the largest were carried out by a number of Brazilian banks, Petróleos Mexicanos (Pemex) (US$2 billion), Cementos Mexicanos (Cemex) (US$ 500 million) and the Chilean firm Compañía de Celulosa Arauco y Constitución (US$ 300 million).

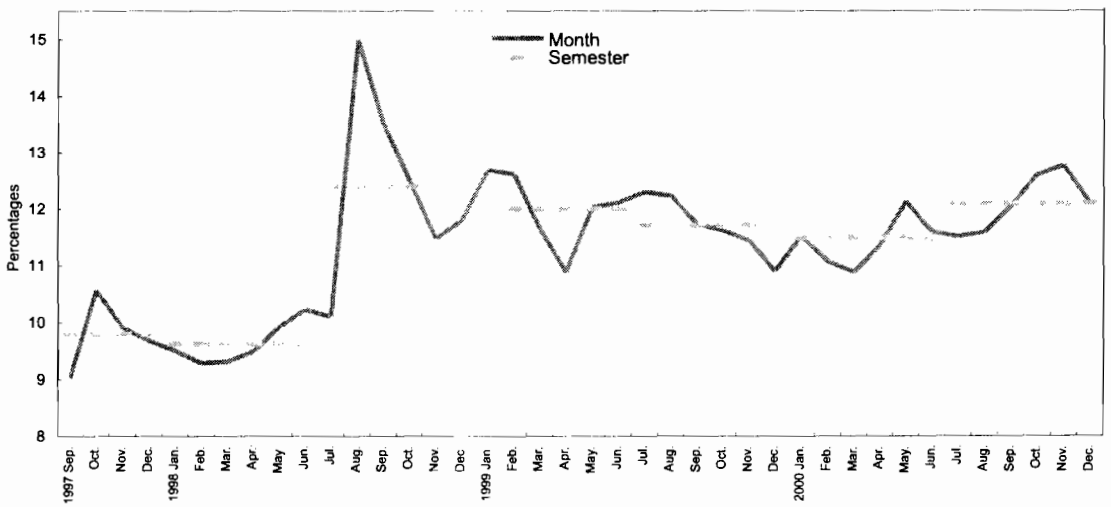
The cost of the region's external financing in the first eight months of 2000 fluctuated fairly closely around 11.5% per year in a range between 8.5% (Chile) and 14.5% (Venezuela). Conditions began to worsen in September, however, and by the end of November annual rates had approached 13%, before easing slightly in December (see figure IV.6). This pattern was caused by a perception that the risk of investing in the region was increasing, particularly where Argentina and Brazil were concerned, given that yields on United States Treasury bonds fell slightly during this period. Having improved significantly in the first quarter, the maturities of bond issues shortened, falling to five years by the end of 2000.

Table IV.6
LATIN AMERICA: INTERNATIONAL BOND ISSUES

	1996	1997	1998	1999	2000[a]
			A. Maturity of new issues (years)		
Region	**7.8**	**15.4**	**8.5**	**6.9**	**9.9**
Argentina	9.2	13.5	10.6	7.5	11.8
Brazil [b]	6.5	16.5	7.9	5.3	10.9
Chile	7.3	35.6	11.0	9.7	6.1
Colombia	6.9	15.0	7.9	7.5	11.2
Costa Rica	-	-	...	10.0	20.0
Ecuador	-	5.0	-	-	-
Mexico	7.4	9.4	9.1	10.0	7.4
Panama	-	19.6	-	30.0	-
Uruguay	-	30.0	5.0	10.0	7.7
Venezuela	7.0	30.0	20.0	...	5.0
			B. Spread		
			(differential between the yield on the bonds issued and the yield on United States Treasury bonds of similar maturities; 100 basis points = 1%)		
Region	**370**	**285**	**500**	**585**	**503**
Argentina	383	298	441	588	574
Brazil [b]	358	327	541	646	562
Chile	86	96	235	269	250
Colombia	188	140	409	563	626
Costa Rica	-	-	...	409	...
Ecuador	-	470	-	-	-
Mexico	393	263	329	413	275
Panama	-	219	-	420	-
Uruguay	-	135	345	309	-
Venezuela	440	325	780	770	-

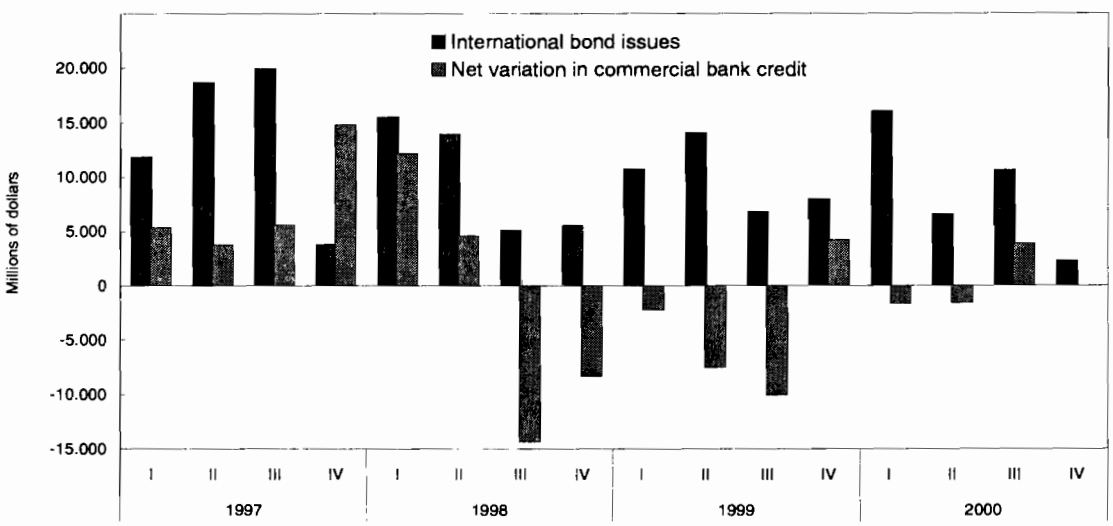
Source: ECLAC, on the basis of figures from official sources and the World Bank.
[a] Preliminary estimates. [b] Includes operations authorized, even if not carried out.

Figure IV.6
LATIN AMERICA: BOND YIELDS ON THE SECONDARY MARKET [a]



Source: ECLAC, on the basis of figures provided by J.P. Morgan.
[a] Weighted average of Eurobonds issued by Argentina, Brazil, Chile, Colombia, Mexico, Panama and Venezuela.

Figure IV.7
LATIN AMERICA: CAPITAL FLOWS



Source: ECLAC, on the basis of figures provided by the International Monetary Fund and the Bank for International Settlements.

Portfolio investment in the region registered net outflows in 2000, although on a smaller scale than in 1999, mainly as a result of company takeovers carried out by means of swap operations in Argentina. Flows were negative in Chile and Venezuela, but moderately positive in Brazil and Mexico. In dollar terms, equity price indices for the region's main stock markets, other than Venezuela, fell after recovering in 1999. In late 2000, the regional index stood at 25%, which is below its mid-1997 level.

Even by the third quarter of 2000, other investment capital (bank loans) had still not shown clear signs of recovery from the massive capital withdrawals seen in 1998-1999, so this category of investment flow remains one of the hardest hit by the Asian crisis (see figure IV.7). This type of capital continued to flow out from Brazil, Colombia and Venezuela, while Chile, Mexico and Uruguay posted the largest increases in inflows. In the other countries, the situation was little changed.

4. Net resource transfer and external debt

The net resource transfer to Latin America and the Caribbean was virtually nil in 2000, having been slightly negative in 1999. Thus concluded a biennium in which the entirety of the gross capital obtained by the region had to go on debt repayments and factor services. During the year, such transfers, measured in relation to goods and services exports, were heavily negative in Ecuador (-39%), Venezuela (-26%) and, to a lesser extent, Chile and Colombia. On the other hand, they were highly positive in Nicaragua and Guatemala (75% and 36%, respectively), and also in Argentina and Brazil (around 7.5%). In terms of cumulative net resource transfers, over the last five years Brazil has received US$36 billion and Argentina US$21 billion; Venezuela, on the other hand, has transferred US$ 23 billion abroad and Ecuador US$5 billion.

In Latin America and the Caribbean, external debt disbursements totalled US$ 738 billion in 2000, which represents the first nominal decline since 1988 (see table IV.7). Part of this result is explained by the appreciation of the dollar, especially against the euro, which reduced liabilities in the main debt components, namely bonds and bank loans.

The level of external debt changed very little in most countries. Those managing to reduce it included Brazil, which made a prepayment to IMF in April; Mexico, which continued its active efforts to improve its external debt profile; and Ecuador and Honduras, which eased their debt burdens by restructuring.

Thanks to this trend and to higher external sales, the ratio of debt to goods and services exports improved across the board in 2000. The regional coefficient was around 180%, down from 220% in 1999, but debt indicators remained high in Argentina, Brazil and Peru (see tables of indicators in the statistical appendix on CD-ROM). The ratio of interest payments to external sales declined modestly.

Bolivia, which in 1998 had been included in the Heavily Indebted Poor Countries (HIPC) Debt Initiative, concluded an agreement in early 2000 qualifying it for the second phase of this scheme. Honduras also satisfied the necessary conditions, becoming a beneficiary of the Initiative in June 2000. In both cases, most of the financing will be provided by multilateral agencies.

In October 1999, Ecuador suspended its external debt service, and less than a year later, in August 2000, the national authorities signed a restructuring agreement with 98% of bondholders. The debt eligible for restructuring, including Brady bonds and eurobonds, totalled US$6.4 billion. This amount was swapped for US$3.95 billion in global bonds, which equated to a 40% reduction in the debt. The conditions attached to this issue are as follows: 68% of the global bonds have a maturity of 30 years and a rate of interest that rises from 4% in 2001 to 10% in 2006; the remaining global bonds have a maturity of 12 years and carry a fixed interest rate of 12% per year.

Table IV.7

LATIN AMERICA AND THE CARIBBEAN: GROSS DISBURSED EXTERNAL DEBT [a]

(Millions of dollars)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[b]
Latin America and the Caribbean	**484 194**	**528 030**	**564 821**	**617 947**	**638 878**	**664 150**	**744 905**	**759 328**	**737 700**
Argentina	62 766	72 209	85 656	98 547	109 756	125 091	141 943	145 955	147 667
Bolivia [c]	3 784	3 777	4 216	4 523	4 366	4 234	4 390	4 327	4 249
Brazil	135 949	145 726	148 295	159 256	179 935	199 998	241 644	241 468	236 151
Chile	18 964	19 665	21 768	21 736	22 979	26 701	31 691	34 167	36 837
Colombia	17 277	18 908	21 855	24 928	29 513	32 036	33 895	33 626	33 264
Costa Rica	4 056	4 011	4 133	4 209	3 663	3 489	3 744	3 950	4 050
Cuba	6 400	8 785	9 083	10 504	10 465	10 146	11 200	11 040	11 100
Ecuador	12 795	13 631	14 589	13 934	14 586	15 099	16 400	16 282	13 564
El Salvador [c]	2 343	1 976	2 056	2 168	2 517	2 689	2 646	2 789	2 795
Guatemala	2 520	2 347	2 895	2 947	3 026	3 197	3 618	3 831	3 929
Guyana	2 054	2 062	2 004	2 058	1 537	1 514	1 500	1 196	1 250
Haiti [c]	873	866	875	898	914	1 025	1 100	1 166	1 170
Honduras	3 538	3 850	4 040	4 243	4 121	4 073	4 404	4 723	4 665
Jamaica	3 678	3 687	3 652	3 452	3 232	3 278	3 300	3 050	3 200
Mexico [d]	116 500	130 500	139 800	165 600	157 200	149 028	160 258	166 381	148 780
Nicaragua [c]	10 792	10 987	11 695	10 248	6 094	6 001	6 287	6 549	6 660
Panama [c]	3 548	5 264	5 505	5 891	5 070	5 051	5 180	5 568	5 604
Paraguay	1 279	1 254	1 271	1 579	1 614	1 660	1 817	2 373	2 491
Peru	26 612	27 447	30 191	33 378	33 805	28 642	29 477	27 966	27 745
Dominican Republic	4 413	4 562	3 946	3 999	3 807	3 572	3 537	3 636	3 676
Trinidad and Tobago	2 215	2 102	2 064	1 905	1 876	1 541	1 430	1 511	1 550
Uruguay [c]	3 392	3 578	4 251	4 426	4 682	4 754	5 195	5 178	5 759
Venezuela	38 447	40 836	40 981	37 519	34 120	31 330	30 250	32 596	31 545

Source: ECLAC, on the basis of official figures.

[a] Includes debt with the International Monetary Fund. [b] Preliminary figures. [c] Refers to public external debt. [d] The public debt does not include investment in government securities by non-residents.

Second part

The countries

ARGENTINA

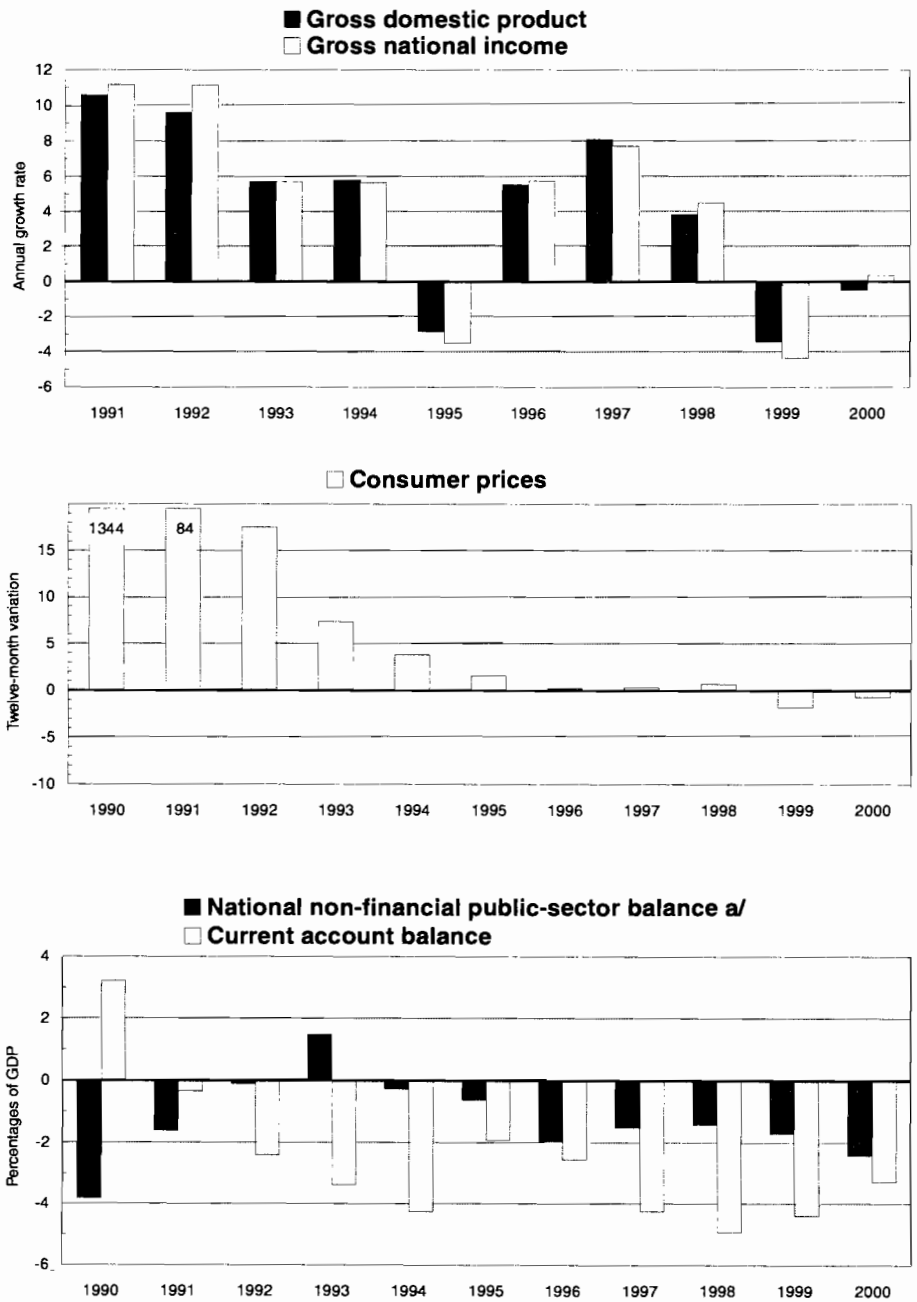
1. General trends

In 2000 the Argentine economy remained mired in the severe crisis that has afflicted it ever since mid-1998. GDP shrank again (this time by 0.5%), employment declined and the unemployment rate soared to 15%. Public financing difficulties became more acute after the government's deficit widened to 2.4% of GDP, and credit access conditions took a turn for the worse. Domestic demand slumped, particularly under the heading of investment, which dropped by 8.3%. Slack demand did, however, help to bring about a 0.7% deflation in consumer prices. Export volumes recovered from the slight fall of 1999 and average prices rebounded (particularly fuel prices). Together with a small decrease in the value of imports, this tipped the merchandise trade balance back into positive figures for the first time in four years. The deficit on the balance-of-payments current account narrowed to less than US$ 9.5 billion (3.2% of GDP). External borrowing requirements were covered by public-sector operations, while net capital inflows to the non-financial private sector were almost nil. Demand for public debt instruments fell sharply during the latter months of the year, prompting the government to negotiate a sizeable financing package with multilateral agencies, banks and foreign governments. This step boosted demand for securities briefly, but bond prices soon dropped again. In the first part of 2001 the attention of the public and policy-makers was focused on the persistent recession, sharp contraction of external credit and fiscal developments.

BOTH POLICY-MAKERS and private decision-makers had a number of difficult problems to deal with in 2000. The decline in average income was accompanied by a perception that future opportunities would also be limited. Many individuals and firms appeared to have more pessimistic expectations regarding sustainable income levels and their variability than before, and this clearly influenced economic agents' propensity to consume, invest and supply credit. The government also faced severe financial constraints. While fiscal retrenchment efforts may buoy securities markets, this could be undermined by their potentially adverse effects on aggregate demand and output, which are the principal determinants of the level of tax receipts. Although policy-makers maintained a stance of budgetary prudence, as economic conditions shifted priority was sometimes placed on adjusting public accounts and sometimes on boosting economic activity by means of fiscal measures.

The economic authorities that took office at the end of March 2001 expressed confidence in the economy's ability to bounce back, although its critical state

Figure 1
ARGENTINA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

[a] Does not include provinces or municipalities.

generated scepticism on the part of many players (especially in the financial markets). The immediate policy objective was to shore up public income and boost competitiveness, initially through sectoral measures. The new authorities also set out to arrange a debt swap in order to improve the country's maturity profile. This operation was conducted in early June and involved the considerable sum of nearly US$30 billion. The annual yield on the new issues verged on 15%. After the debt swap, pressures on the financial market eased.

On 15 June 2001 the government announced a major package of tax measures to reduce distortions and raise tax revenues, together with an infrastructure plan and several measures designed to stimulate consumption and first-home purchases. The most significant step, however, was an alteration of the exchange-rate regime which in practice meant that the price of the dollar for external trade operations (other than those involving petroleum and petroleum products) increased by around 8%. From the very outset, the new authorities had intimated that a change in the convertibility law would be necessary. A bill was introduced to amend that law shortly afterward and was then passed in the second half of June. Under the reform the peso would become convertible at a fixed one-to-one parity to a basket of currencies, consisting in equal parts of dollars and euros, once the dollar-euro rate reaches parity. In the government's view, this step ruled out both dollarization and devaluation, as well as representing an effort to implement a more stable system than the existing one. Along with these measures, a temporary exchange convergence mechanism was put in place in order to take immediate advantage of the euro's depreciation.

A number of major issues of economic organization were raised during 2000, such as the configuration of the monetary regime and of the integration strategies to be pursued within the framework of both Mercosur and the Free Trade Area of the Americas (FTAA) scheme.

2. Economic policy

Late 1999 had seen a slight upturn in the demand for goods against a backdrop of relative calm in financial markets, thanks in part to the incoming government's reaffirmation of the existing monetary scheme. The new authorities' assessment of fiscal trends gave cause for concern, however, and they concluded that the budget deficit would increase and adversely affect interest rates unless corrective measures were taken.

The government adopted several adjustment measures in response to this situation. Income tax exemptions and deductions were reduced, an emergency tax was levied on high-income brackets, the VAT base was widened and proposed cuts in employer contributions were cancelled. Agreements were reached with provincial governments on tax-sharing adjustments, and deficit-reduction programmes were negotiated with several of them. In January 2000 the government concluded an agreement with the International Monetary Fund (IMF) under which a fiscal deficit target of 1.7% of GDP was set (2.7% when the indicative targets for provincial jurisdictions are included).

Aside from their impact on income, these tax measures acted as a further drag on the demand for goods. Although the first quarter's deficit target was met, sluggish receipts in April drove up the risk premiums of public debt. In response, the government took steps to curb spending, including cuts in the higher wage brackets of the civil service. Arrangements were also made to facilitate the payment of overdue taxes in an effort to bring about an immediate increase in receipts.

The nominal reduction of primary spending and the tax moratorium were successful in holding the deficit down to the first-semester target figure. Output failed to pick up, however. In October, the authorities announced measures aimed at boosting investment, including cuts in the tax on interest payments, modifications in VAT rebate procedures and changes in the tax treatment of amortizations. Steps were also taken to accelerate public works being built under concession schemes.

These measures were announced at a time of political turmoil marked by the resignation of the Vice President and signs of discord within the governing coalition. At the same time, the propensity to invest in public securities fell sharply, and yields rose to figures typically seen in periods of crisis. This seriously jeopardized credit access and obliged the government to embark upon strenuous efforts to alleviate the financial situation. The outcome of these steps was a package of "financial armour" which was put together by a number of agencies, including IMF, the World Bank, the

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	9.6	5.7	5.8	-2.8	5.5	8.1	3.9	-3.4	-0.5
Per capita gross domestic product	8.1	4.3	4.5	-4.1	4.2	6.7	2.5	-4.6	-1.7
Gross domestic product, by sector									
Goods	10.0	5.4	5.7	-4.7	5.2	8.4	3.9	-6.1	-3.7
Basic services	11.3	6.9	10.4	3.0	6.3	10.5	8.6	-0.2	2.3
Other services	7.6	5.6	5.9	-2.4	5.3	7.3	4.1	-1.5	0.4
Total consumption [c]	13.2	5.3	5.0	-3.6	5.9	7.9	2.1	-2.1	-0.1
General government									
Private									
Fixed domestic investment	32.6	15.3	13.7	-13.1	8.9	17.7	6.5	-12.8	-8.3
Exports of goods and services	-1.0	4.7	15.1	22.6	7.8	12.0	9.9	-1.4	1.8
Imports of goods and services	65.7	14.9	21.1	-10.0	17.4	26.6	8.1	-11.7	0.2
				Percentages of GDP [d]					
Gross national income	99.2	99.1	99.0	98.3	98.6	98.3	97.4	96.4	97.2
Gross domestic investment	17.1	18.6	20.0	17.9	18.5	20.1	20.7	18.7	17.2
National saving	14.3	14.7	15.2	15.9	15.7	15.3	15.0	13.5	13.4
External saving	2.9	4.0	4.8	2.1	2.8	4.8	5.7	5.2	3.8
				Percentages					
Employment and wages									
Labour force participation rate [e]	40.0	41.3	41.0	42.0	41.5	42.2	42.2	42.6	42.4
Open unemployment rate [f]	7.0	9.6	11.5	17.5	17.2	14.9	12.9	14.3	15.1
Real average wage (index 1995=100) [g]	101.7	100.4	101.1	100.0	99.9	99.3	99.0	100.1	101.6
				Growth rates					
Prices (December-December)									
Consumer prices	17.5	7.4	3.9	1.6	0.1	0.3	0.7	-1.8	-0.7
Wholesale prices	3.2	0.1	5.8	5.9	2.1	-0.9	-6.3	1.2	2.3
External sector									
Terms of trade (index 1995=100) [d]	100.7	104.8	105 6	100.0	108.5	108.9	103.9	98.5	108.8
Nominal exchange rate (pesos per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Real effective exchange rate for imports (index 1995=100)	103.5	95.4	94.6	100.0	101.9	98.6	95.7	89.1	89.6
				Millions of dollars					
Balance of payments									
Current account	-5 488	-8 003	-10 949	-4 938	-6 943	-12 424	-14 708	-12 444	-9 361
Trade balance (goods and services)	-3 859	-5 585	-7 831	-969	-1 775	-6 543	-7 576	-4 866	-1 766
Exports	15 418	16 457	19 451	25 016	28 345	30 852	31 087	27 764	30 828
Imports	19 277	22 042	27 282	25 985	30 121	37 396	38 663	32 630	32 594
Capital and financial accounts [h]	8 631	11 039	11 171	2 920	10 209	15 730	18 800	14 471	8 143
Overall balance	3 143	3 036	222	-2 018	3 266	3 306	4 092	2 027	-1 218
Variation in reserve assets (- indicates an increase)	-3 274	-4 250	-682	102	-3 882	-3 273	-3 438	-1 201	440
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	27.4	30.5	33.2	38.2	40.3	42.7	47.5	51.5	51.8
Net interest (as a percentage of exports) [i]	10.2	10.5	11.2	12.5	13.7	14.0	17.7	21.6	18.1

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Non-financial public sector									
Current income [j]	17.4	21.5	19.3	18.9	17.2	18.6	18.8	19.2	19.5
Current expenditure	16.8	18.7	18.4	18.8	18.2	19.1	19.1	20.8	21.0
Saving	0.6	2.8	0.9	0.1	-0.9	-0.4	-0.3	-1.6	-1.5
Capital expenditure (net)	0.7	1.3	1.2	0.7	1.0	1.1	1.1	0.1	0.9
Financial balance	-0.1	1.5	-0.3	-0.6	-1.9	-1.5	-1.4	-1.7	-2.4
				Growth rates					
Money and credit									
Net domestic credit	15.0	33.8	27.6	5.6	12.6	18.0	19.4	4.2	3.5
To public sector	-21.6	-61.2	-9.6	112.8	14.0	28.9	19.0	9.1	20.9
To private sector	53.5	23.7	8.8	-0.6	9.4	17.0	12.0	-2.8	-4.8
Money (M1)	29.5	-38.8	-46.0	33.8	-1.0	25.5	-17.1	-33.3	-26.5
Local-currency savings and time deposits	62.1	48.8	17.1	-2.4	18.2	24.2	13.0	3.3	2.7
M2	51.5	34.0	13.4	1.7	10.6	14.6	1.0	-2.0	-10.8
Dollar deposits	48.1	29.9	12.0	0.0	4.5	13.7	1.5	1.5	-16.2
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	0.5	3.8	8.2	7.1	6.4	6.6	9.4	9.4
Lending rate	...	3.1	5.7	14.0	10.3	8.7	9.6	12.4	12.2
Equivalent interest rate in foreign currency [k]	...	11.3	8.1	11.9	7.4	8.0	7.6	8.0	8.3

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1986 pesos. [c] Includes changes in stocks. [d] Based on constant 1995 dollars. [e] Percentage of the total population; urban areas. [f] Percentage of the economically active population; urban areas. [g] Refers to manufacturing. [h] Capital pending classification according to the methodology used in the fifth edition of the *Balance of Payments Manual*. Includes the banking sector and the non-financial public and private sectors. Includes errors and omissions. [i] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [j] Includes the national government, the national social security system and public-sector enterprises. Based on final budget figures. [k] Interest rate on deposits, deflated by the variation in the exchange rate.

Inter-American Development Bank (IDB) and private Argentine banks and pension fund administrators.

Under the terms of this agreement, the government pledged to make changes in the social security system and obtained a commitment from the provinces to freeze nominal spending until 2005. Amendments were also made in fiscal solvency legislation in order to provide the central government with greater flexibility in meeting its budget deficit target for 2001, which was set at 6.5 billion pesos (2.3% of GDP).

In early 2001 economic activity was sluggish and fiscal variables were performing poorly. As bond prices continued to slide, the Minister of Economic Affairs resigned. The incoming economic authorities concentrated on reducing public spending and proposed drastic cuts, to become effective immediately, together with structural reforms in the public sector. These measures provoked strong opposition and they were not, in the event, actually implemented. Upon the resignation of the second Minister, Argentina's country-risk spreads reached the highest level to be seen in almost three years.

Against this backdrop, the new economic authorities began to paint a more positive picture of prospects for overcoming the crisis and announced measures to strengthen fiscal accounts and improve the competitiveness of production sectors. The initial measures included tariff changes and the introduction of a tax on current-account debits and credits in the banking

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	6.0	6.9	3.2	-0.4	-2.7	-5.2	-5.1	-0.5	0.5	0.2	-0.5	-2.0	-2.1
Consumer prices (12-month variation, %)	0.8	1.1	1.1	0.7	-0.7	-1.3	-2.0	-1.8	-1.0	-1.1	-0.7	-0.7	-1.0
Exports (millions of dollars)	5 890	7 687	7 027	5 838	5 065	6 395	5 944	5 929	5 724	7 316	6 749	6 620	5 936
Imports (millions of dollars)	7 535	8 214	8 429	7 226	5 840	6 017	6 843	6 808	5 876	6 298	6 606	6 464	5 709
International reserves (millions of dollars)	23 093	24 635	25 646	26 524	25 296	24 753	23 436	27 362	26 186	27 375	26 285	26 491	23 371
Real effective exchange rate [b] (index 1995=100)	95.5	95.5	94.6	97.1	88.6	89.4	88.8	89.7	90.2	89.9	89.8	88.6	89.2
Real interest rates (annualized, %)													
Deposit rate	6.4	5.4	6.9	7.5	8.2	7.9	9.8	11.7	9.3	8.8	8.4	11.2	10.2
Lending rate	9.4	7.1	10.3	11.7	12.1	10.2	12.3	15.1	12.1	11.0	10.6	15.1	14.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

system. The executive branch won congressional approval for special powers that will enable it to alter tax exemptions, reform the Ministries Act and reorganize government agencies. The authorities also announced their intention to develop sector-specific competitiveness plans based on tariff changes and tax cuts.

A delicate institutional situation arose around this time when a parliamentary commission recommended that the chairman of the central bank be removed from office and the President decided to act upon that recommendation. The government also lowered the reserve requirement and amended the charter of the central bank in order to make liquidity requirements more flexible. In addition, in a controversial decision, the government announced plans to alter the foreign-exchange regime by making the peso convertible at a fixed one-to-one parity to a basket of currencies consisting in equal parts of dollars and euros, once the dollar-euro rate reached parity. With this proposal, the government made it clear that it had ruled out dollarization and devaluation and that it was working to set up a more stable system than the existing one. The plan's detractors pointed to the timing of the change and to the fact that the dollar was already firmly established as a unit of account and as a unit of denomination for contracts.

On several occasions, Argentina's country-risk rating soared to figures that had not been seen since the crisis of 1995. The government rejected outright the possibility, as suggested in some financial circles, of obligatory debt reprogramming and announced plans for a sizeable voluntary debt-swap, which was then conducted in early June.

When April tax receipts were lower than expected, the authorities announced further tax measures, including an increase in the rate of the new tax on current-account transactions and the cancellation of VAT exemptions for several activities. The VAT rate on capital goods was halved, however. The terms agreed

upon with IMF were also renegotiated: the deficit target for the year as a whole remained unchanged, but the quarterly figures were altered. The intention of this arrangement was to secure the IMF disbursements envisaged in the "financial armour" package.

(a) Fiscal policy

In 2000 the public-sector deficit was close to 7 billion pesos (2.4% of GDP). Although the primary surplus (which does not include privatizations) was 0.9% of GDP –the highest in six years– the final balance was nonetheless indicative of the strain placed on the government as it strove to balance public accounts while shouldering an increasing burden of debt servicing commitments.

Current income was higher, while primary spending decreased by more than 1 billion pesos (0.4% of GDP) as a result of lower payroll expenditures, transfers and capital spending. Payments made through the social security system remained constant, while interest payments increased by about US$1.5 billion.

The central government's tax ratio rose to its highest level since 1994, although part of this increase was attributable to income from moratoriums and advances. In 2000 receipts from income and personal property taxes increased by 17%. This marked the continuation of a trend observed over the past several years which has raised the revenues from these taxes to over 25% of all receipts, versus 15% in 1995. VAT receipts increased by 1%, despite the decline in the level of economic activity, thanks to the provision of facilities for the payment of tax arrears. By contrast, receipts from the social security system continued to decline due to the effect of previous cuts in contributions and the contraction in the formal wage bill. The proportion of contributions being channelled into the private capitalization-based system remained at around 70% of the total.

During 2000, the central government issued over US$12 billion in bonds on the international market, with an average maturity of 12 years and a mean spread of 530 basis points. Almost half these issues were dollar-denominated, 40% were in euros and the rest in other currencies. The government also sold over US$20 billion in debt paper on the domestic market. In the early months of the year, nominal annual rates on Treasury bills (LETES) varied from 7% to 9%. Yields later began to climb until they peaked in November, after which they began to fall, reaching around 7% in February 2001. In February the government conducted a debt-swap operation for US$4.2 million, with a spread of 700 basis points and a maturity of 7.5 years. In a move to compensate for its lack of access to international markets, in April the government placed US$3.5 billion in securities on the domestic market. Of this amount, banks absorbed US$2 billion in bonds that enabled them to meet liquidity requirements. No international bond issues are provided for in the new financial programme for 2001. In any case, in April and May the rates paid on LETES sold in the domestic market were so high that the situation with respect to public finance grew tense.

(b) Monetary policy and financial markets

The central bank's monetary liabilities decreased in 2000 owing to slacker money demand and thinner bank deposits. External liquid assets continued to be used to cover close to 100% of these liabilities. Reserves declined slightly, and more markedly so in the early months of 2001, partly due to seasonal factors but also to the financial disturbances affecting the country.

The money supply shrank by more than 10%. The downward trend in holdings was steepest in currency outside banks, while current-account deposits increased. Private bank deposits increased slightly; a shift was seen from local-currency deposits to dollar-denominated instruments, which accounted for 67% of the total by the end of the year. The fact that private funds remained in the hands of the banks, in contrast to what occurred in 1995, was a reflection of confidence in the banking system.

Bank loans to the private sector shrank by almost 5% in 2000. Credit supply declined particularly sharply towards the end of the year. The banks made an effort to place loans –especially mortgages– on various occasions but, in general, apart from corporate debt rollovers, the public was reluctant to borrow. Non-performing loan indices worsened slightly in 2000.

Fluctuations in the supply of funds were partly responsible for the large swings in interest rates seen in 2000. In April, the prime rate on short-term corporate loans was 9.2%, with a differential of less than one point with respect to an equivalent dollar-denominated loan. After shooting up in May, rates began to decline again, ending up in September at a level somewhat higher than five months earlier. A shrinking credit supply in the final months of the year drove rates up sharply, with rates verging on 17% on peso loans and 14% on dollar-denominated loans in December. The lending rate in pesos fell steeply in the first two months of 2001, but then climbed to almost 17% again in March.

Bank liquidity was high in the latter part of 2000. The potential conflict between prudential objectives aimed at preventing liquidity problems and those

focusing on facilitating financing for production activities was manifested to differing degrees as conditions changed.

Asset markets were highly variable. In 2000, tighter credit and the lower profits reported by many firms drove the stock index down by over 20%. Argentina's country-risk rating improved in the early months of the year and, despite a surge in April and May, its index remained below the average for emerging economies. Then, after a period of relative calm, the country's risk premium soared to an average of 860 points in November. This sparked widespread unease in the market and reflected economic agents' deep uncertainty regarding Argentina's ability to meet its debt commitments. These apprehensions were also fuelled by political developments and by the absence of any indication that the economy was on the mend or that fiscal affairs were becoming sturdier. The announcement that "financial armour" would be provided brought some relief, but in the first two months of 2001 the rating –at 700 points on average– was still higher than a year earlier. The attitude of bond holders turned strongly negative in the following months, with rates peaking at around 1,300 points on some days in April. Even after the new IMF agreement was announced and debt-swap negotiations began, the country-risk rating continued to hover at around 1,000 points. This trend appeared to point to a deep-seated reluctance to acquire Argentine securities.

(c) Trade and regulatory policy

With trade flows remaining below the levels of earlier years, economic relations within Mercosur were tense. Scepticism regarding this integration scheme grew, and at times there were considerable differences of opinion. In Argentina it was frequently argued that Brazil's foreign-exchange policy was biasing intra-Mercosur trade and that it was using subsidies to lure investments away from its trading partners. In Brazil, meanwhile, it was felt in some circles that Argentina's currency regime was largely to blame for the country's problems and that doubts about the sustainability of its currency board were having a regionwide financial impact. The authorities of the member countries insisted upon their commitment to consolidate Mercosur, but recalcitrant disputes arose over various issues, such as para-tariff policies and market access conditions in some sectors, special regimes for certain industries and investment promotion policies. The countries did, however, make progress in establishing macroeconomic convergence criteria in the areas of fiscal policy and inflation, and reaffirmed their willingness to negotiate as a block with FTAA and the European Union. Nonetheless, as of mid-2001 the future of this integration process appeared unclear, as Brazil maintained that Mercosur should develop into a customs union, while in Argentina there was intense debate on the issue of international positioning strategies.

Regulatory agencies had to intervene in the postal service and in energy and fuel markets on several occasions in the interests of safeguarding competition. The opening of the telecommunications market was completed in November 2000, and the government proposed pro-competition reforms in the health care system. Rules on employment contracts were also modified to facilitate the decentralization of negotiations on wages and working conditions.

3. The main variables

Although prices remained stable in 2000, public and private decisions were taken in a context of macroeconomic volatility that hindered the formation of expectations. The time horizon for projections was shortened, and agents became highly sensitive to data on short-term economic conditions. At times monthly figures on industrial activity or tax receipts appeared to be having a strong influence on attitudes, while daily credit-rating variations also came to be seen as significant. Questions were raised about the economy's trend growth potential and about what form a reactivation might take. In mid-2001, liquidity remained tight, and it seemed clear that economic agents were searching for information on the medium-term outlook as a basis for decision-making.

(a) Economic activity

GDP dropped by 0.5% in 2000, for a cumulative fall of 4.4% since 1998. An upturn in Argentina's terms of trade brought about a slight increase in national income, although at a lower rate than population growth. Within the components of total demand, goods and services exports increased by 1.8% in volume, which made up for the drop of the previous year. Domestic demand flagged by 0.7%, with a considerable slide in fixed investment (8%) and a slight drop in consumption. The capital formation/GDP ratio at constant prices decreased to 17.6%, which was the lowest figure since the start of the series in 1993.

The decline in output was steepest in goods-producing sectors, where the decrease amounted to –3.7%, but the slump was seen across the board, with the sole exception of mining. The most severe decline (–11.3%) was in construction. Manufacturing output decreased by 2.8% and agricultural production fell only slightly. The services sector, by contrast, saw modest growth.

Grain (and particularly cereals) production made a strong recovery in the 1999/2000 season. The soybean harvest was flat, however, and sunflower output was lower. In the 2000/2001 season, the area under grain cultivation decreased slightly, but there were bumper harvests of wheat and particularly soybeans. The agricultural sector's proven ability to sustain high output levels in the face of sagging prices appears to reflect a more intensive use of agrochemicals and high-yield seeds.

Beef cattle herds remained at around 50 million head, while about 12 million animals were slaughtered. Veal prices saw an upturn after dipping sharply in 1999. The livestock industry –which had been exhibiting solid growth prospects and had been particularly successful in keeping foot and mouth disease under control– suffered a severe setback owing to the recurrence of this disease. This coincided with the contraction in European demand associated with the outbreak of bovine spongiform encephalopathy ("mad cow disease"). The authorities gave priority to the struggle to control foot and mouth disease and coordinated their efforts in this area with neighbouring countries that were also affected. The forestry sector was quite buoyant, with considerable pulp- and paper-related investments on the horizon.

Mining output recorded an upturn despite a further decrease (-4%) in petroleum extraction. Output of natural gas continued to expand (5.8%). A number of investments in the production of ethylene, methanol and other products also came on stream in 2001, and new capital flows to the sector are likely to materialize. In addition, progress was made on metal ore mining projects, some of which are large-scale ventures.

The slump in overall industrial output was the net effect of very diverse trends. Production of various consumer durables fell sharply as domestic demand shrank, and the situation with regard to inputs for the construction industry was much the same. Local sales of passenger cars fell significantly despite a system of incentives designed to encourage purchases of new automobiles and the withdrawal of older models from the market. Most of this downturn was accounted for by imported vehicles, however. Automotive exports increased, especially to Brazil. This industry's annual output thus grew by over 10%, although the increase was concentrated in the first semester. A similar phenomenon was witnessed in the case of utility vehicles. Access to external markets also proved significant for suppliers of intermediate goods, as output increased despite weak domestic demand. Iron and steel production rose –steel by almost 18%– with the exception of cold-rolled steel products. There were also major upswings in aluminium refining (27%) and in the output of paper (20%) and various chemicals.

GDP for the first quarter of 2001 was estimated to be around 1% less than in the first quarter of 2000. Industrial output appears to have declined more sharply, with considerable decreases in consumer durables (especially automobiles) and cement. Further increases in output were posted for iron, steel and chemical products.

(b) Prices, wages and employment

Consumer price deflation continued in 2000, with a fall of 0.7%. The sharpest decline was seen in goods (-1.3%), especially food and clothing. The rate of deflation in services was slight, owing to increases in sectors where rates are regulated –including transport, communications and electricity– and in health care. These rises were offset by decreases in other segments, particularly rentals, education and tourism.

Wholesale prices climbed by 2.4%, with increases in agricultural products (which had registered a cumulative decline of over 30% in the preceding three-year period) and locally manufactured articles. The prices of mineral products rose significantly owing to fuel price hikes.

Since the nominal exchange rate is fixed, the reduction in the CPI translated into a cumulative real

depreciation of 8.5% against the dollar since the end of 1997. The peso's real exchange rate against the Brazilian real also rose, although it remained well below the figures recorded prior to 1999. The peso appreciated significantly against the euro, as did the dollar.

Average wages displayed slight variations in a context of declining demand for labour. According to industrial statistics, wages of manual workers in the manufacturing sector decreased by 2% between the fourth quarter of 1999 and the same period of 2000. Social security records, on the other hand, indicate that the average wage in this sector rose by 0.8% over the same period. These figures show a slight increase (0.4%) for the private sector as a whole and a significant drop in unit wages in the civil service. The Greater Buenos Aires household survey shows a drop of 0.9% in average monthly income between the months of October 1999 and October 2000.

The labour force participation rate was 42.7% in October 2000, which was similar to the figure of a year before and higher than all previous records for that month. The employment rate decreased from 36.8% in October 1999 to 36.5% in October 2000, but was still nowhere close to the low levels seen during the recession of the mid-1990s. Net job creation in 2000 is estimated at about 180,000 positions, which was not enough to offset the increase in the labour supply. As a result, the unemployment rate rose from 13.8% in October 1999 to 14.7% in October 2000, with a steeper increase in inland metropolitan areas than in Greater Buenos Aires. The household surveys for May and October recorded an average unemployment rate of 15% (up from 14.2% in 1999). The number of persons enrolled in temporary employment schemes was down in 2000 (137,000 in October 2000 versus 198,000 a year earlier). More than 1.3 million people were underemployed.

The number of jobs reported under the social security system displayed a year-on-year increase of 1.4% in the fourth quarter of 2000. Formal employment declined considerably in manufacturing and construction. In commerce, financial intermediation, real estate, business services and rental activities, however, formal labour demand increased.

(c) The external sector

The current-account deficit's contraction to its lowest figure since 1996 is attributable to the fact that the merchandise trade balance shifted from a deficit to a surplus of US$2.5 billion. The real services deficit widened, mainly because of increased outlays on travel. The smaller negative balance on the profits and dividends account offset an increase in interest payments. This resulted in a small decrease in the income account deficit, although it was nonetheless equivalent to 30% of the country's merchandise exports.

The current-account deficit was covered by a slight decline in reserves and net capital inflows of US$8.5 billion (the lowest figure since 1996). Non-financial private-sector transactions represented substantial sums in various segments, but the net balance was negligible. Although direct investment was down from the extraordinarily high levels of 1999, it was still over US$10 billion. Some of these flows corresponded to swaps of shares in subsidiary firms (banks, telecommunications and petroleum) for shares in the respective parent companies. In a departure from the trend seen since the early 1990s, the non-financial private sector registered a net redemption of bonds floated on foreign markets. This was a clear reflection of the tightening constraints on external credit, in particular during the last quarter of the year, when issues were nil and amortizations verged on US$1.2 billion.

The non-financial public sector received US$8.5 million in capital inflows. More than 80% of net financing was recorded in the first semester. The central government's US$5 billion in net debt issues was also concentrated in the first semester. By contrast, the bulk of the net credit extended to the government by international agencies (US$1.2 billion) was granted in the second half of the year.

The total external debt increased slightly, to US$148 billion, in the first nine months of 2000.The debt/GDP ratio climbed further, but the debt/export ratio decreased, thereby cancelling out most of the increase recorded in 1999. Nevertheless, the indicator was still quite high, with debt equivalent to 5.6 times the value of exports.

The volume of goods exports rose slightly (2%), while prices saw a major upturn (more than 10%) thanks to fuel price increases. Even so, with the exception of 1999, prices were the lowest since 1993. Commodity prices were down slightly, but the prices of agricultural and industrial products rose moderately.

The price effect drove up the value of external fuel sales by almost 60% even though their total volume was lower. Overall, the export values of agricultural products varied quite little, with higher sales of cereals and miscellaneous agricultural products being offset by shrinking exports of oilseeds and oils. A similar phenomenon was seen in the livestock sector, as the

strong performances of wool, leather and hides balanced out a downturn in meat and sundry products. Sales of non-agriculturally-based manufactures increased by 13.6%, which partly made up for the sharp drop posted in 1999. Vehicle exports rebounded by 24% after a steep decline in 1999. After two years of moderate decreases, exports of other manufactured goods expanded by 12.7% to US$8 billion (30% of the total). Mercosur increased its share of Argentina's total exports to 32%, but failed to regain the relative importance as an export destination it had reached in 1995-1998.

Merchandise imports slipped by 1.4%. Imports of capital goods declined to almost US$6 billion, the lowest figure since 1995. Consumer goods imports also shrank, but intermediate goods imports increased slightly.

BOLIVIA

1. General trends and the outlook for 2001

In 2000 the Bolivian economy's external sector turned in a better performance, but domestic demand remained slack. The economy grew by 2.4% in 2000, which was an improvement over the rate for 1999 (0.4%), but per capita output stagnated and the growth rate fell far short of the annual average of 4% recorded in the 1990s.

THE COUNTRY'S ECONOMIC growth was boosted by an upturn in the external sector and was based largely on an increase in natural gas exports to Brazil. Foreign-exchange policy, which provided for a series of mini-devaluations, was applied more actively than at any other time in the last seven years. A 6.7% depreciation of the boliviano in nominal terms, together with the low rate of domestic inflation (3.4%), translated into a real depreciation of 1.7%. This reversed the real appreciation of the exchange rate that had occurred in 1999 in the wake of a major devaluation in Brazil and thus improved the profitability and competitiveness of the external sector. The current-account deficit narrowed slightly to 5.7% of GDP.

As domestic demand stagnated, investment fell by 3% and consumption rose by under 2%, which was the lowest rate since the early 1990s. Credit to the private sector also declined considerably. Social conflicts disrupted the country's production and distribution activities, paralysed commerce and did serious damage to road infrastructure. These disturbances arose partly in response to the continuation of the coca eradication plan and the implementation of customs reforms, both of which had a strong impact on the informal sector and considerably reduced direct employment.

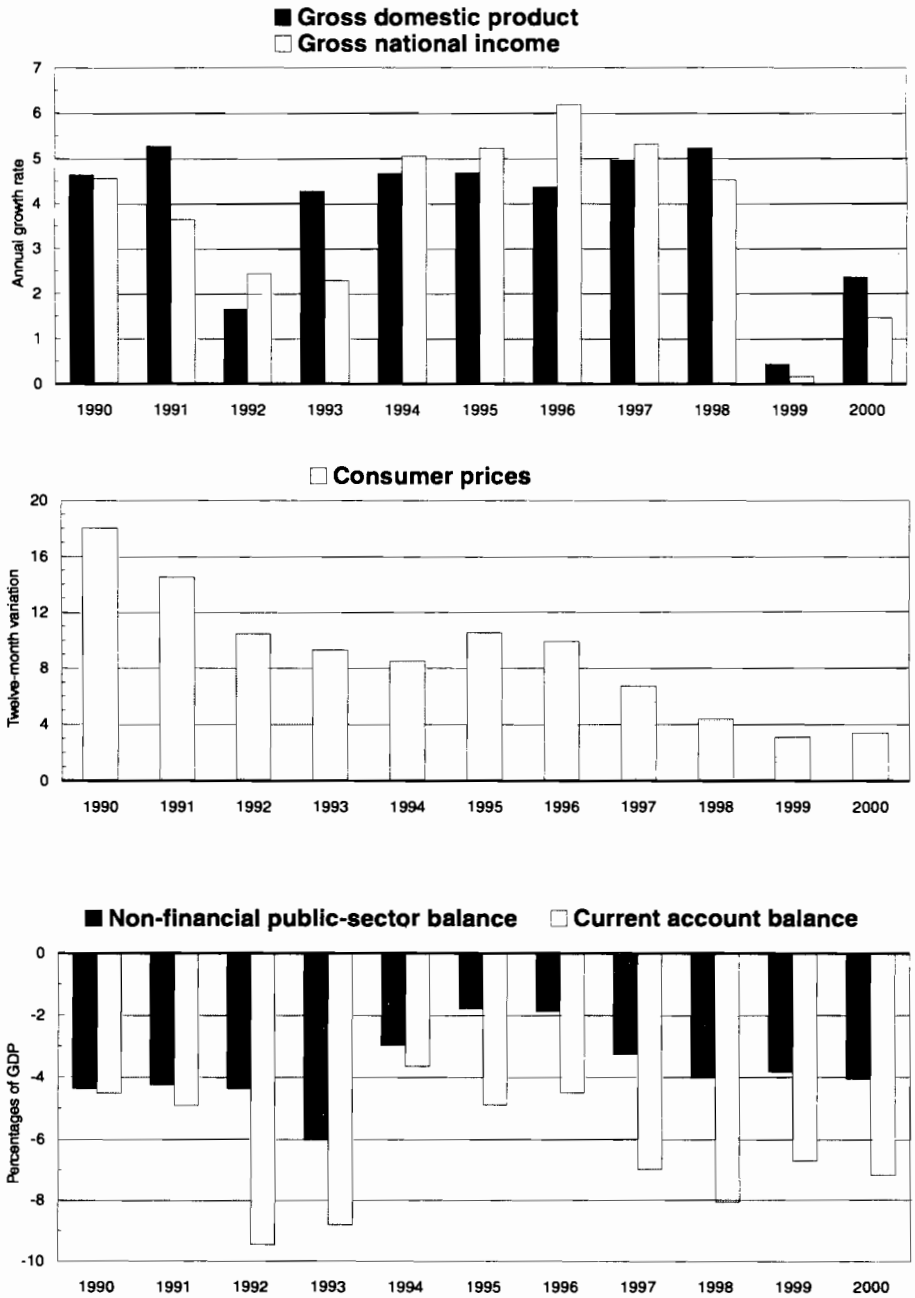
The fiscal deficit widened slightly, to 4.1% of GDP. This was largely due to the cost of pension reforms, since if it had not been for this expenditure the fiscal balance would have shown a small surplus. Open unemployment remained high and the total labour force participation rate declined.

The Central Bank of Bolivia (BCB) is expecting a harsh international environment in 2001 in view of the performance of the United States, which is Bolivia's main trading partner. On the basis of the results for the first quarter of 2001, which included a drop in exports and very low or negative growth in most sectors, the projected growth rate for 2001 has been put at around 1%. These unfavourable trends may be partly offset by the expansion of natural gas exports to Brazil, however.

The rate of inflation for 2001 is expected to be between 3% and 4%. Foreign-exchange policy will probably continue to be directed at keeping production activities profitable and competitive by allowing the nominal exchange rate to depreciate at much the same rate as it did in 2000, within the context of similar or lower rates of inflation. Pension reforms will continue to place increasing pressure on the fiscal deficit, which may reach 4.5% of GDP in 2001.

Figure 1

BOLIVIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy

In March 2000 the government unveiled the Economic Reactivation Programme (ERP) and Emergency Employment Programme (EEP). These initiatives were intended to boost economic growth by means of a number of measures, ranging from infrastructure improvements to a reduction of floating debt and loan rescheduling to improve the financial standing of business firms. The government has found that these programmes have done little to fuel the economic reactivation, however, and the effectiveness of economic policy has been hampered by a higher perceived level of risk as well as slack domestic demand, which was associated with the hard-hit informal sector.

(a) Fiscal policy

Fiscal policy has been a pivotal element in the debate on economic policy. Under the Economic Reactivation Programme, steps have been taken to improve bank financing, boost production and export activities by streamlining the tax system and making it more transparent, and obtain funding for the upkeep, repair and upgrading of roads in different regions of the country. When the results of the Economic Reactivation Programme were assessed, however, it was found, firstly, that the private sector has been slow to respond to the ERP initiatives and, secondly, that a number of programmes have had to be postponed due to delays in approving the corresponding regulations. The public-sector deficit amounted to 4.1% of GDP, which was 0.3% higher than the year before. As in preceding years, most of the deficit was attributable to the cost of pension reforms (4.4% of GDP). In fact, if it had not been for those reforms, the public sector would have recorded a surplus equivalent to 0.4% of GDP, or slightly more than the 1999 surplus (0.3%). Also as in previous years, the deficit was mainly covered by external concessional resources.

Increased receipts from hydrocarbons were one of the main factors that helped boost current income from 30.6% of GDP in 1999 to 31.4% in 2000. Taxes on domestic and external hydrocarbon sales climbed from 5.4% of GDP in 1999 to 7.6% in 2000. The increase in revenues from external sales was associated with the strong expansion of exports to Brazil. Royalties and other taxes on hydrocarbons rose to 5% of GDP and, in total, hydrocarbons contributed 40% of current income. Tax receipts were up slightly, representing 13.4% of GDP. Capital income also expanded strongly, mainly thanks to grants and donations received as part of the Heavily Indebted Poor Countries (HIPC) Debt Initiative. These funds, amounting to about US$100 million, were allocated to alternative development, sanitation and basic infrastructure programmes. Current spending, particularly on goods and services, rose considerably. Between 1999 and 2000 capital expenditure, measured as a percentage of GDP, held steady.

(b) Monetary policy

In view of the country's economic situation, the central bank's monetary policy focused on providing liquidity to the financial system and holding down interest rates in money markets. Thus, while continuing to keep its eye on inflation, the BCB strove to inject resources into the financial system in order to ensure that the money market had the necessary liquidity and to help reactivate financial intermediation in the private sector. Total net BCB domestic credit expanded by 151 million bolivianos due to an increase in lending to the non-financial public sector (NFPS) and the redemption of certificates issued to depositors in banks undergoing liquidation. The BCB also redeemed Bolivian treasury bills (TGNs) and deposit certificates held by the public, which injected an additional 388 million bolivianos into the economy. In addition, banks took in 2.387 billion bolivianos in repo operations, which are the central bank's main instrument for introducing short-term liquidity into the financial system, and 649 million in readily available credits backed by the Liquid Assets Fund. Throughout the year, net international reserves remained at a level that permitted both the international payments system and the highly dollarized financial system to operate smoothly.

In the light of external constraints, the monetary programme for 2000 envisaged that international reserves would decrease by as much as US$127 million. Events bore out this projection until November, but in December capital inflows in the form of bank transfers from abroad, debt disbursements, and grants and donations to the public sector partially offset previous outflows, and reserves consequently decreased by just US$23 million during the year.

Table 1
BOLIVIA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	1.6	4.3	4.7	4.7	4.4	5.0	5.2	0.4	2.4
Per capita gross domestic product	-0.8	1.8	2.2	2.2	1.9	2.5	2.8	-1.8	0.1
Gross domestic product, by sector									
Goods	-0.4	4.6	5.1	5.0	4.2	4.0	3.5	-1.5	5.0
Basic services	4.6	6.0	6.8	6.4	6.3	8.5	8.0	0.6	2.5
Other services	4.1	4.2	3.9	3.1	5.1	7.0	6.0	5.6	-1.3
Consumption	3.6	3.2	3.0	3.4	3.2	5.1	4.3	3.6	1.8
General government									
Private									
Gross domestic investment	5.3	-0.1	-10.6	12.3	18.8	30.2	27.2	-20.1	-0.9
Exports of goods and services	1.1	5.3	15.1	9.1	4.1	-2.1	7.4	-13.3	6.1
Imports of goods and services	9.9	-0.7	-0.6	8.9	7.9	13.5	19.3	-16.9	1.3
				Percentages of GDP [c]					
Gross national income	101.3	99.3	99.6	100.1	101.7	102.1	101.5	101.2	100.8
Gross domestic investment	17.4	16.7	14.2	15.2	17.3	21.7	26.2	20.9	20.3
National saving	9.2	8.2	9.3	10.7	13.4	14.4	14.6	12.0	12.0
External saving	8.2	8.5	4.9	4.6	3.9	7.3	11.6	8.9	8.3
				Percentages					
Employment and wages									
Labour force participation rate [d]	50.7	52.5	53.7	55.1	56.5	52.5	...	...	...
Open unemployment rate [e]	5.4	5.8	3.1	3.6	3.8	4.4	6.1	8.0	7.6
Real average wage									
(index 1995=100)	85.5	91.2	98.5	100.0	100.5	106.6	110.1	117.0	118.0
				Growth rates					
Prices (December-December)									
Consumer prices	10.5	9.3	8.5	10.6	9.9	6.7	4.4	3.1	3.4
External sector									
Terms of trade									
(index 1995=100) [e]	92.0	88.3	102.5	100.0	111.7	115.6	109.9	109.8	112.0
Nominal exchange rate									
(bolivianos per dollar)	3.9	4.3	4.6	4.8	5.1	5.3	5.5	5.8	6.3
Real effective exchange rate									
for imports (index 1995=100)	87.6	92.8	97.8	100.0	93.8	90.3	88.0	87.0	89.6
				Millions of dollars					
Balance of payments									
Current account	-534	-506	-218	-328	-333	-553	-680	-556	-595
Trade balance									
(goods and services)	-579	-537	-244	-334	-399	-649	-845	-678	-648
Exports	773	897	1 216	1 239	1 317	1 413	1 355	1 310	1 444
Imports	1 352	1 433	1 460	1 573	1 716	2 062	2 200	1 989	2 091
Capital and financial accounts [f]	403	525	228	421	624	656	778	514	357
Overall balance	-132	20	10	92	292	103	102	- 42	-238
Variation in reserve assets									
(- indicates an increase)	-41	100	-26	-147	-310	-76	-133	-32	166
				Percentages					
External debt									
Gross debt									
(as a percentage of GDP)	67.0	65.9	70.5	67.4	59.0	53.4	52.1	52.1	51.3
Net interest									
(as a percentage of exports) [g]	24.4	21.2	14.3	16.6	8.7	9.2	7.6	6.1	4.8

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Non-financial public sector									
Current income	30.5	29.4	30.8	30.4	27.6	27.9	29.7	30.5	31.1
Current expenditure	27.7	27.7	27.3	25.9	23.9	25.4	28.7	28.3	29.7
Saving	2.8	1.7	3.6	4.5	3.7	2.5	1.1	2.2	1.4
Capital expenditure (net)	7.1	7.7	6.6	6.3	5.5	5.8	5.1	6.0	5.5
Financial balance	-4.4	-6.0	-3.0	-1.8	-1.9	-3.3	-4.0	-3.8	-4.1
				Growth rates					
Money and credit									
Net international reserves	6.9	8.8	24.4	50.0	97.7	10.1	38.3	33.3	30.1
Net domestic credit to public sector	184.2	29.9	6.0	-84.6	-2.7	96.7	4.8	-35.3	163.2
Domestic credit to private sector	45.7	39.3	24.0	12.6	28.2	21.6	23.4	2.9	-1.2
Money (M1)	19.0	14.6	33.4	23.5	10.6	18.6	7.0	-3.8	4.2
Local-currency savings and time deposits	-19.5	7.8	74.6	-22.4	115.0	15.4	5.6	0.6	3.7
M2	13.9	14.0	37.0	18.3	18.3	18.2	6.8	-3.2	4.2
Dollar deposits	44.2	41.8	18.7	7.5	49.1	19.8	15.3	3.6	6.0
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	12.6	9.8	7.9	5.9	9.5	4.8	9.9	6.1
Lending rate	...	41.8	44.3	37.1	38.6	43.3	30.7	32.5	28.7
Equivalent interest rate in foreign currency [h]	...	22.0	18.3	18.8	19.1	15.8	12.9	12.2	10.9

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1990 bolivianos. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population. [f] Includes errors and omissions. [g] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [h] Interest rate on deposits, deflated by the variation in the exchange rate.

Monetary aggregates, which had slipped in 1999, continued to trend downward during most of 2000 but then picked up late in the year, particularly in December. The money supply (M1), measured in local currency, increased by 4.3%, largely due to the growth of sight deposits. Broad money (M3) expanded by 4.2%. Demand for the boliviano, which was very unstable due to the economy's high degree of dollarization, edged up by just 0.2%. Interest rates on BCB lending and borrowing instruments in both bolivianos and dollars trended down. This BCB interest-rate policy, in combination with excess liquidity in the interbank market, also had the effect of reducing market rates and stabilizing them to some degree. Effective bank lending and deposit rates, however, did not move entirely in step with developments in the money and interbank markets. As the banks were not engaging in portfolio lending, they had a higher level of liquidity and therefore lowered deposit rates in both currencies. Although nominal foreign-currency lending rates declined, the reduction amounted to less than one percentage point and these rates consequently remained above 15% and rose in real terms. Local-currency lending rates also increased and were thus another deterrent to corporate borrowing in bolivianos.

Local-currency bank deposits climbed by 3.7% over the year. Deposits in the financial system grew at rates of 13.2% for sight deposits, 17.9% for savings deposits and just 0.9% for fixed-term deposits. This trend may be attributed, firstly, to unattractive bank rates on term deposits and, secondly, to the fact that many agents chose to hold their assets in more liquid forms in the light of the social disturbances that occurred during the year.

One factor that strongly affected the domestic performance of the Bolivian economy was the considerable decline in bank credit to the private sector, as the financial system's loans to private agents decreased by US$445 million. This trend was a reflection of both supply and demand factors. On the demand side, slack domestic activity meant that production sectors required less financing. Interest rates were not conducive to increased borrowing by the

Table 2
BOLIVIA: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	9.4	7.9	7.2	4.4	2.0	1.5	2.6	3.1	4.6	4.2	5.9	3.4	1.8
International reserves (millions of dollars)	963	854	839	860	812	838	844	917	837	823	767	824	688
Real effective exchange rate[b] (index 1995=100)	87.5	87.6	87.4	89.3	85.7	87.0	87.4	88.1	89.2	89.9	89.8	89.5	90.4
Real interest rates (annualized, %)													
Deposit rate	4.8	4.2	4.9	5.2	9.7	11.1	9.5	9.1	6.9	5.8	5.9	5.8	8.1
Lending rate	33.3	32.4	32.7	24.5	35.3	30.6	33.6	30.5	31.4	30.9	32.1	20.3	16.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

private sector either, as an upturn was seen in real rates on dollar-denominated loans, which are the rates that most affect the payment capacity of firms and households that receive income in local currency. On the supply side, credit contracted, partly because banks –including some international ones– decided to reduce domestic lending. The tightening of credit was also related to the increase in the costs of financial intermediation associated with the expansion of the non-performing portfolio and to lenders' perception of greater credit risk. The portfolio in arrears increased from 6.6% of the total in 1999 to 11.6% in 2000 (excluding agencies that are being liquidated). This trend was attributable to an ill-advised over-expansion of the portfolio —especially consumer credits— in previous years and the fact that lenders' solvency declined in the context of a feeble reactivation of domestic demand. As a result, the banks built up excess liquidity, especially in the first quarter, which prompted them to scale down their domestic and external liabilities and invest abroad throughout the year.

(c) Foreign-exchange policy

The BCB continued with its policy of setting the parity rate by means of mini-devaluations, which it implements by intervening in the exchange market through a mechanism known as the bolsin. Following the devaluation in Brazil in 1999, which translated into a loss of competitiveness for the Bolivian economy, in 2000 the nominal rate of depreciation increased slightly to 6.7% for the year. Owing to this exchange policy and the moderate pace of domestic inflation, in 2000 Bolivia's real exchange rate with its main trading partners depreciated by 2%. This overall gain in competitiveness was the net result of very dissimilar situations, however. Bolivia experienced a loss of competitiveness with Japan and the United Kingdom in terms of its real bilateral exchange rate with these countries, but maintained a stable real exchange rate with Chile, Germany and Brazil and saw its competitiveness increase in relation to Argentina, Peru and the United States.

(d) Structural reform

In early 2000 Bolivia concluded an agreement with international agencies and donor countries on a new external debt reduction package for heavily indebted poor countries. The new initiative, known as the Heavily Indebted Poor Countries Debt Initiative (HIPC) II or the Enhanced HIPC, offers additional relief amounting to a little under US$1 billion at current values. About two thirds of this sum will be provided by multilateral creditors and the rest by bilateral creditors. The allocation of debt-relief resources to priority areas and the monitoring of their use were evaluated by civil society within the framework of a forum known as National Dialogue 2000, which was held between June and August 2000 and provided an opportunity for broad-based public participation in public policy-making, particularly in the area of poverty reduction.

3. The main variables

(a) Economic activity

Bolivia's GDP grew by 2.4%. This was just over half the rate projected at the beginning of the year but was higher than the figure recorded in 1999. This performance can be accounted for by a combination of external and domestic factors. The current-account deficit shrank from 6% to 5.7% of GDP, as exports outperformed imports. The decrease in the current-account deficit would have been larger if it had not been for an increase in profit remittances, however. There was also a major downswing in foreign direct investment (FDI). It is more difficult to identify the domestic factors that played a role in the country's low rates of growth, but they surely include the drastic decrease in coca production brought about by the eradication programme and the customs reforms that were implemented to tighten control over informal trade. These two factors reduced employment and the incomes of numerous households, especially in the informal sector. The political and social disturbances of April, September and October also generated uncertainty and gave rise to adverse expectations among investors.

Total demand saw an upturn in 2000 after a poor performance in 1999, when it had slumped by 4.1%. This result was wholly attributable to private consumption (up by 2.3%) and exports of goods and services (up by 2%), since public consumption stagnated and gross fixed capital formation slipped for the second year running (by 3.2%) owing to lower private investment, especially FDI; public investment, on the other hand, was more dynamic. Other factors associated with the drop in investment were the political and economic uncertainty prevailing during most of the year, tight credit in the domestic financial market and the problems experienced by the public sector in implementing various measures. Goods and services imports rose by a mere 0.6%, while domestic supply increased by 2.4%.

The performance of the different sectors of the economy was mixed. The strongest activities were agriculture and natural gas production. Agricultural output continued to be one of the main drivers of total production, thanks in particular to the high level of food production and improved international prices for some soya products. Mining activities, including the production of crude oil and natural gas, expanded by 19.5% overall. Crude petroleum and natural gas output jumped by 38.5%. This result was entirely accounted for by the considerable upturn in natural gas production associated with the country's increased exports to Brazil, since petroleum output decreased due to the gradual depletion of existing fields, the temporary closure of some wells and the rupture of the oil pipeline to Arica in February. Production of metallic and non-metallic minerals expanded by 1.9%. Industrial output, which accounts for the largest share of total GDP, recorded slight growth based mainly on the production of tradable goods. The performance turned in by the electricity, gas and water, commerce and transport, storage and communications sectors was in line with the country's overall showing. In contrast, the construction industry, especially private construction, saw negative growth (-9.4%). This was a reflection, especially in the first quarter, of problems with the disbursement of funds for the implementation of public works, such as the completion of the gas pipeline to Brazil. Budget execution improved substantially in the second semester, however, and outstripped 1999 levels. Public investment was the most buoyant component of domestic demand. Finance, insurance, real estate and business services posted a major downturn (-8%).

(b) Prices, wages and employment

Inflation was moderate in 2000, thanks to the farm sector's good showing, the modest growth of domestic demand and the central bank's prudent monetary policy. The cumulative rate of inflation was 3.4% –clearly less than the 4% figure projected at the beginning of the year– despite increases in domestic hydrocarbon prices. Social disturbances also affected the price index in April and October.

The modest upturn in economic activity was not enough to bring down unemployment, which rose to 8% from rates of 6%-7% in 1999. Unofficial estimates indicate that the coca eradication programme has been a significant factor in the rising rate of underemployment. In addition, the concentration of economic growth in the formal sector –especially in capital-intensive sectors having low labour requirements– militates against the absorption of unemployed workers or new entrants into the labour force.

(c) The external sector

In the external sector, the current-account deficit on the balance of payments narrowed slightly, from 5.9% in 1999 to 5.7% in 2000. The trade balance improved, as the value of merchandise exports climbed by 17% and imports by only 4%. Increased payments of investment income in the form of profit remittances offset this improvement, however. The current-account deficit was more than covered by FDI flows, which came to US$731 million. The upturn in exports was concentrated in the hydrocarbons sector, as sales of natural gas to Brazil soared from 3.3 million cubic metres in 1999 to 5.7 million in 2000. The value of mineral exports increased due both to the effect of higher prices for most products (with the exception of lead) and the larger volumes exported. Exports of some non-traditional products –including soybean cake, soybean meal and leather– also benefited from good prices, and where this was not the case –e.g., soybeans, wood and chestnuts– larger export volumes made up for the difference.

The balance on medium- and long-term external public debt as of 31 December 2000 was US$4.249 billion, which was US$78 million less than at the end of 1999. The appreciation of the United States dollar against other currencies partly explains this variation. The country received US$111 million in net funds, mainly from multilateral agencies. Within the framework of the HIPC initiative, the country's debt was reduced by almost US$100 million during 2000.

Bolivia arrived at what is known as the "decision point" of the HIPC II programme in February 2000, and the country was found to be eligible for additional debt reduction at that time. The deft relief to be provided is to total approximately US$854 million in net present values as calculated in December 1998. Bolivia will begin to benefit from the HIPC II programme in mid-2001, when the country reaches what is called its "completion point". At that time the international community will begin to provide debt relief through a number of mechanisms. The funds saved by this means will be used to strengthen the government's poverty alleviation plan.

BRAZIL

1. General trends

After two years of stagnation in GDP, and as the exchange-rate turbulence of 1999 faded into the past, the Brazilian economy recovered in 2000, with GDP growing by 4.5% while the unemployment rate fell and inflation declined slightly to just over 5%. The balance-of-payments current-account deficit shrank, while international reserves climbed as the result of a substantial net inflow of capital, especially in the form of direct investment.

THESE POSITIVE results were made possible by a more favourable external situation (less volatility in sovereign bond markets and strong inflows of foreign capital), greater freedom to reduce interest rates, and an improved fiscal situation, thanks to the austerity policy followed in the management of public accounts. These encouraging developments were cut short recently, however, by a significant change in the external situation and deteriorating domestic political conditions arising out of a serious energy crisis. Consequently, prospects for growth in the Brazilian economy have definitely weakened.

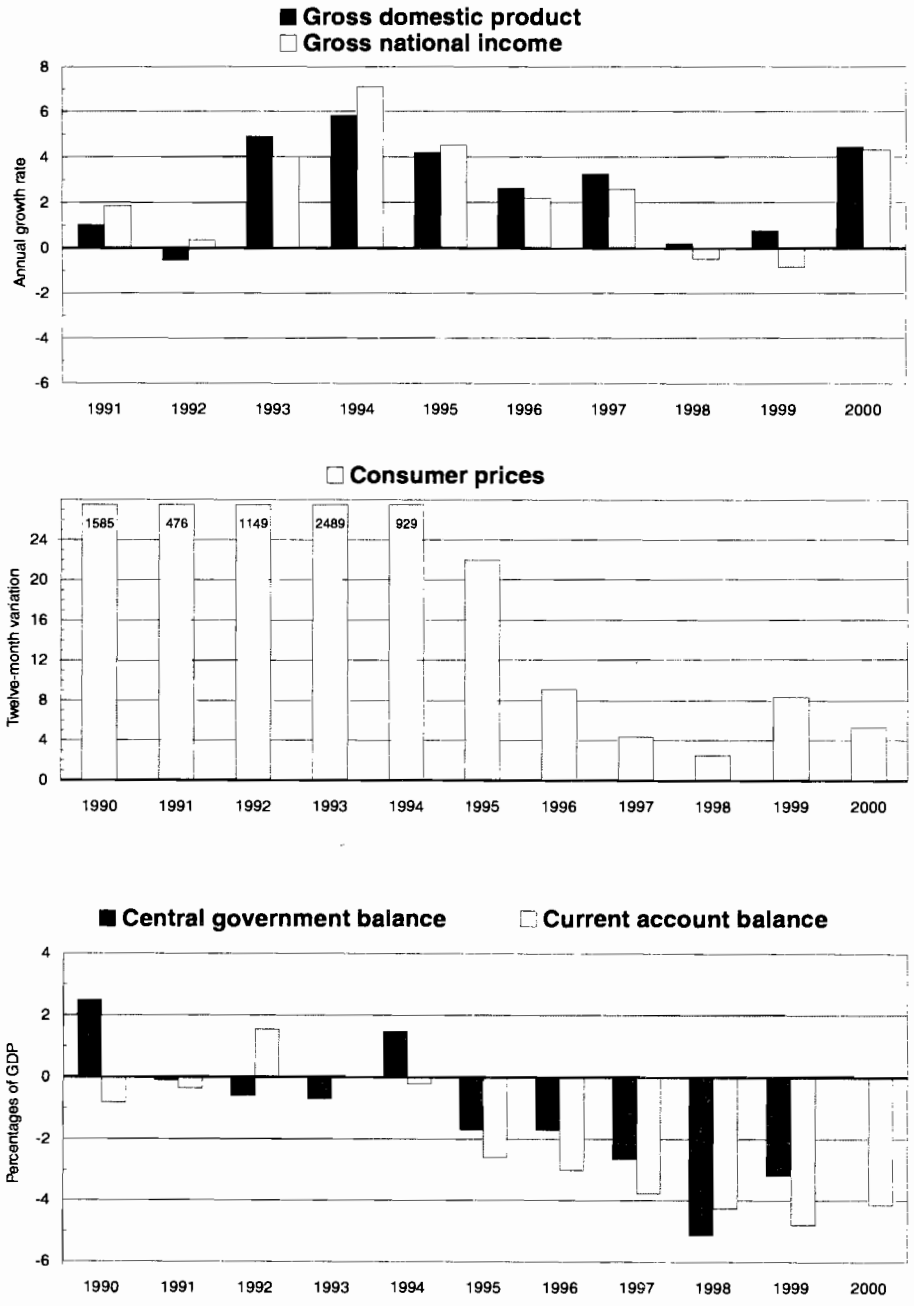
Growth in 2000 was led by consumption, which accounted for two thirds of the increase in GDP. This good performance was due to rising national income, falling domestic interest rates, the expansion of credit, and improved expectations. Exports also made a significant contribution, expanding strongly. This was especially true of manufactured goods, which were stimulated by the high level of the real exchange rate after the sharp devaluation of early 1999. Gross fixed investment, by contrast, edged up only slightly after two years of marked contraction. This investment performance over recent years suggests that the growth seen in 2000 was really due to greater utilization of installed capacity.

Among production sectors, mining and quarrying performed very well, as did transport and communications. Nonetheless, the greatest contribution to GDP growth came from manufacturing industry, which expanded by 5.7%, in contrast to the declines that had characterized the previous two years. In this sector, the branches producing consumer durables and capital goods, which had suffered severely over the previous two years, recorded the most noteworthy performance. Electricity, gas and commerce also made satisfactory gains. Agriculture and livestock achieved moderate growth after excellent results in 1999. Construction grew very little, barely recovering from the previous year's decline.

The current-account deficit was 4.2% of GDP, as compared to a slightly higher figure of 4.7% in 1999. In 2000, the capital-account surplus amply offset the deficit, thanks to a large inflow of foreign direct investment, which at US$33 billion was somewhat higher than in the preceding two years and well above the annual average of US$5 billion seen between 1990 and 1997. The external debt, meanwhile, fell moderately to US$236 billion (39.7% of GDP). The large volume of foreign direct investment was due to the acquisition of businesses, a worldwide trend seen in a variety of economic sectors, although there was also some new investment.

Despite the more favourable results in the external sector, the situation in 2000 shows once again that one of the main barriers to growth in Brazil is still the country's high level of external borrowing with a short-term profile. This vulnerability imposes severe restrictions on monetary policy and on attempts to bring down high domestic interest rates, a key element in economic

Figure 1
BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

recovery. Therefore, despite the significant progress made in the fiscal arena, external constraints mean that efforts to improve the macroeconomic fundamentals are never enough to maintain the confidence of external financial agents.

The year 2001 began with optimistic expectations for continued expansion, with the Government and private agents alike projecting GDP growth of about 4.5%. The manufacturing sector was expected to take the lead once again, but it was anticipated that the growth rates of the different sectors would be more uniform in 2001 than in 2000. Estimates were for the grain harvest to increase by 10%, driving 5% overall growth in agricultural production, similar to that in manufacturing. Indicators for the first few months of the year supported the initial expectations. Manufacturing production expanded by a higher than expected 6.9% in the first quarter, stimulated by the expansion of consumer credit and, to a lesser extent, higher incomes. This performance kept expectations high until April, when, despite an accumulation of difficulties, most public and private institutions were still expecting growth rates of 4% to 4.5% for the year. From May onward, however, these hopes were dashed as external and domestic problems increasingly emerged.

On the external front, not only was there a crisis in Argentina, but there was also a disturbing situation in the merchandise trade balance due to the increase in imports and evidence that the inflow of foreign direct investment was flagging, the latter being expected to fall from nearly US$33 billion in 2000 to US$18 billion in 2001; between January and April 2001, the average monthly total was US$1.25 billion, 37% less than in the same period of 2000. Domestically, political problems in Congress showed that the momentum for reform was very unlikely to be sustained, and at the same time the Central Bank reversed its policy of cutting interest rates and began raising them in March. The consumer credit cycle, in turn, showed signs of weakness in the form of increasing loan defaults. Lastly, the severe electricity crisis was imminent.

The energy crisis broke out in May, and the Government and economic agents began debating the extent, form and consequences of the electricity rationing that had become inevitable. More than 90% of Brazil's electricity comes from hydroelectric sources, and the rainy season, which ends in March, was extremely dry, so that reserves became drastically depleted. The hydroelectricity system relies on a surplus so that droughts can be coped with; but since the country has no such surplus, it faces a very serious problem that may extend beyond 2001. This situation has given rise to the most divergent forecasts for GDP; some say the Government should make a slight downward adjustment in growth projections, while others say GDP growth could be less than 3%, well below the initial estimate. New factors, such as the effects of the crisis on prices, the Central Bank's response (in the form of interest rate changes) to rising economic and financial uncertainty, and the impact on external financing conditions and investment and consumption decisions within the country, should all be taken into consideration.

The supply shock unleashed by the energy crisis and the instability of external markets, especially as a result of the contagion from Argentina and the problems being experienced by the United States market, have not only dampened the expectations of international and domestic agents and thus increased the costs of external financing, but have also forced the Central Bank to exercise greater caution in its policy of cutting interest rates. This, in turn, has undermined the long-term expectations of national producers and discouraged productive investment.

2. Economic policy

The positive results seen in 2000 are due in large measure to the application of consistent macroeconomic policies and a more tranquil international situation than that observed in 1999. Thanks to the fiscal effort that was undertaken during a period of growth, it was possible to increase the primary surplus. Consequently, a more relaxed approach could be taken to monetary policy and domestic interest rates could continue to be cautiously reduced. That, together with a lessening of exchange rate fluctuations, significantly reduced the amount of interest that the public sector had to pay. A virtuous circle was created as the fiscal deficit fell sharply, creating greater leeway for monetary policy.

(a) Fiscal policy

The nominal deficit of the consolidated public sector shrank from 10.3% of GDP in 1999 to 4.5% in

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	-0.5	4.9	5.9	4.2	2.7	3.3	0.2	0.8	4.5
Per capita gross domestic product	-2.1	3.4	4.3	2.7	1.2	1.9	-1.1	-0.5	2.9
Gross domestic product, by sector									
Goods	-2.1	3.6	6.4	2.3	4.1	3.8	1.8	1.9	5.6
Basic services	1.5	5.6	5.7	9.5	5.6	4.6	3.8	3.1	6.1
Other services	-0.7	3.2	3.6	1.9	1.8	3.0	-5.1	0.3	5.5
Consumption	0.1	4.1	5.9	7.0	3.1	3.2	-0.2	1.0	...
General government	2.8	2.3	0.3	1.3	1.4	2.7	-0.4	-5.5	...
Private	-0.7	4.6	7.5	8.7	3.7	3.3	-0.2	3.0	...
Gross domestic investment	-8.6	14.3	13.0	8.1	2.8	7.4	3.2	-7.7	-11.2
Exports of goods and services	16.6	11.7	4.0	-2.0	0.6	11.5	1.3	5.0	...
Imports of goods and services	4.5	26.8	20.3	30.7	5.4	18.5	3.8	-12.4	...
				Percentages of GDP [c]					
Gross national income	98.2	97.8	98.6	98.9	98.6	98.2	97.6	96.1	96.0
Gross domestic investment	18.9	20.2	21.5	22.3	22.4	23.3	24.0	22.0	21.5
National saving	19.6	19.8	20.7	19.3	18.7	18.3	18.7	18.2	18.1
External saving	-0.7	0.4	0.8	3.0	3.7	5.0	5.3	3.8	3.5
				Percentages					
Employment and wages									
Labour force participation rate [d]	59.5	58.6	59.3	59.3	59.6	58.5	58.2	57.1	58.1
Open unemployment rate [e]	5.8	5.4	5.1	4.6	5.4	5.7	7.6	7.6	7.1
Real average wage (index 1995=100) [f]	87.0	95.6	96.3	100.0	107.9	110.8	110.8	105.9	104.8
				Growth rates					
Prices (December-December)									
Consumer prices	1 149.1	2 489.1	929.3	22.0	9.1	4.3	2.5	8.4	5.3
Wholesale prices	...	2 639.0	1 029.4	6.4	8.1	7.8	1.5	28.9	12.2
External sector									
Terms of trade (index 1995=100) [c]	74.2	79.9	91.5	100.0	101.0	106.8	104.6	94.4	91.5
Nominal exchange rate (reales per dollar)	0.002	0.03	0.6	0.9	1.0	1.1	1.2	1.8	1.9
Real effective exchange rate for imports (index 1995=100)	117.0	112.3	112.4	100.0	94.0	93.4	98.4	148.1	137.7
				Millions of dollars					
Balance of payments									
Current account	6 089	20	-1 153	-18 136	-23 255	-30 493	-33 445	-25 396	-24 637
Trade balance (goods and services)	11 897	8 739	5 515	-10 652	-13 518	-15 963	-16 714	-8 237	-8 272
Exports	39 881	43 595	49 010	52 641	52 509	59 176	59 037	55 205	64 470
Imports	27 984	34 856	43 495	63 293	66 027	75 139	75 751	63 443	72 741
Capital and financial accounts [g]	4 550	6 870	7 751	31 105	32 207	22 586	16 145	8 592	32 698
Overall balance	10 639	6 890	6 598	12 969	8 952	-7 907	-17 299	-16 805	8 061
Variation in reserve assets (- indicates an increase)	-14 670	-8 709	-7 215	-12 920	-8 666	7 907	7 970	7 822	2 262
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	34.8	33.1	27.1	22.6	23.2	24.8	30.7	45.6	39.7
Net interest (as a percentage of exports) [h]	18.2	19.3	14.3	16.9	18.2	18.9	21.5	27.8	22.8

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Public sector									
Total revenue	24.2	26.3	28.5	27.2	28.1	28.9	32.1	34.4	38.2
Total expenditure	30.7	33.3	29.3	32.8	32.9	34.1	39.8	44.4	42.7
Operating balance [i]	-1.8	-0.8	1.1	-4.9	-3.9	-4.3	-7.4	-3.4	-1.2
Nominal balance	...	...	...	...	-5.9	-6.1	-7.9	-10.0	-4.6
				Growth rates					
Money and credit									
Net international reserves	152.5	35.6	20.5	33.6	16.0	-13.2	-14.6	-18.4	-9.2
Money (M1)	867.3	2 129.4	-99.0	23.4	4.6	58.9	7.1	23.7	17.9
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	88.2	40.7	-11.8	9.8	17.8	24.1	19.8	10.5
Lending rate	...	209.3	122.2	10.3	27.5	38.2	50.8	49.1	30.0
Equivalent interest rate in foreign currency [j]	...	1 986	2 505	51.2	27.0	26.0	28.6	22.5	17.2

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on reales at preceding-year prices. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population; six urban areas. [e] Percentage of the economically active population; six urban areas. [f] Workers covered by existing social and labour laws. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] Includes operating adjustments. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

2000, the lowest in many years. The ratio of public debt to GDP stabilized as a result of the application of an austere fiscal policy, pushing the primary surplus up to 3.5% of GDP in 2000 (it was 3.2% in 1999). In addition, there was a considerable decline in the amount of interest paid by the public sector, down from 13.5% of GDP in 1999 to 8% in 2000.

The central Government (which includes social security, the Central Bank and federal enterprises) saw its primary surplus fall slightly from 3% of GDP in 1999 to 2.8%, whereas the subnational levels (state and municipal governments) increased their combined surplus from 0.2% to 0.6% of GDP. The latter result is in part attributable to the implementation of the fiscal responsibility law, which imposes strict limits on public spending. The deficit of the general social security system, meanwhile, dipped to 0.9% of GDP. These figures are within the target limits set in the adjustment programme agreed upon with the International Monetary Fund (IMF).

Federal government revenues increased by 5.6% in real terms, to just over 22% of GDP. The enhanced revenues were due primarily to the full enforcement of the tax on financial movements, which was restored in June 1999, resulting in additional receipts of 6.5 billion reais. Also contributing to the expansion of revenues was the growth in output and employment. These increases offset the 50% fall in extraordinary revenues, which had been very significant in 1999 (21.7 billion reais) as a result of new provisions relating to tax on income from financial transactions and the sale of concessions. The social security system also managed to increase its revenues in real terms.

The federal Government kept primary spending practically flat at 11% of GDP, excluding transfers to states and municipalities (3% of GDP). This stability was caused primarily by the fact that unemployment insurance expenditure fell by 10% in real terms, while other spending such as purchases of goods and services and capital expenditure remained unchanged thanks to tight spending caps. In particular, wages and salaries dropped slightly in real terms (-0.6%).

In the first two months of 2001, a primary surplus equivalent to 4.7% of GDP was achieved, a little less than the 4.9% of GDP recorded for the same period in 2000. Meanwhile, the National Treasury's revenues and outgoings rose strongly, by similar amounts. The result is that the Government is meeting the fiscal targets agreed upon with IMF.

Interest payments are still very substantial, however; in the two-month period, they represented 10% of GDP, bringing the nominal deficit to 5.3% of GDP. This increased pressure has been caused by the

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	1.4	1.4	-0.4	-1.4	-0.4	-0.4	0.5	3.4	4.1	4.5	5.1	4.1	3.8
Consumer prices (12-month variation, %)	4.3	4.6	3.2	2.5	3.9	3.1	5.9	8.4	5.8	5.5	7.0	5.3	6.3
Exports (millions of dollars)	11 901	14 067	13 492	11 660	10 045	12 406	12 581	12 979	12 048	14 105	15 246	13 687	13 788
Imports (millions of dollars)	13 416	14 557	15 299	14 286	10 860	12 209	12 734	13 414	12 022	13 272	15 351	15 053	14 466
International reserves (millions of dollars)	68 594	70 898	45 811	44 556	33 848	41 346	42 562	36 342	39 200	28 265	31 431	33 011	34 420
Real effective exchange rate [c] (index 1995=100)	94.8	96.1	98.6	104.0	149.8	140.5	150.2	152.0	137.9	137.8	134.6	140.4	148.0
Money (M1) (change from same quarter of preceding year)	11.9	16.4	12.3	7.1	8.5	4.3	7.0	22.7	17.1	19.5	26.5	19.5	24.0
Real interest rates (annualized, %)													
Deposit rate	26.2	16.3	20.9	33.0	32.2	22.1	14.4	10.4	10.9	12.0	9.5	9.6	8.7
Lending rate	55.9	46.7	47.3	53.1	68.9	55.9	39.6	31.9	33.5	31.4	27.6	27.6	25.5

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures at constant domestic prices. [c] Refers to exchange rate for imports.

continuing devaluation of the real, which has driven up the costs of foreign debt servicing and of securities indexed to the exchange rate.

The Government's strategy of responding to pressure for higher spending only when this can be met from increased revenues, in order to avoid expanding the nominal deficit, is threatened by rising financing costs. A 1% increase in the nominal rate of domestic debt instruments issued by the federal Government represents about 0.36% of GDP, and every additional 1% of devaluation means a rise in the foreign debt amounting to 0.12% of GDP. The devaluation of the first six months of 2001 (more than 20%) and the half percentage point increase in the Central Bank base rate represented a rise in fiscal costs amounting to 1.3% of GDP.

(b) Monetary and exchange-rate policy

When the fiscal picture was positive and the external sector was relatively calm, the Central Bank was able to implement its system of targets for inflation (6% for 2000) and the floating exchange rate. In 2000, the base rate was lowered gradually and cautiously by 3.25 percentage points, taking advantage of the improved opportunities offered by the external environment and the automatic adjustment mechanisms provided by the floating exchange rate system. This process was reversed in March 2001, when the base rate began to climb in response to the deteriorating international situation.

Although interest rates remained very high, bank lending for goods purchasing operations, both to businesses and to individuals, expanded strongly between December 1999 and December 2000. This trend was due to the mitigation of uncertainty about inflation and the enhanced confidence of foreign investors, business executives and consumers, who were encouraged particularly by the improved labour market, which after several years finally showed a fall in unemployment and a rise in formal employment.

The Central Bank did not intervene decisively in the currency market until January 2000, when it repurchased dollars it had sold beforehand because of the year 2000

uncertainty, and in November of the same year, when Banespa was sold to a foreign bank. In December, it once again sold dollars to the financial market for repurchase in January 2001. Open-market operations, meanwhile, were very limited, so the monetary base remained practically unchanged in 2000. Lower primary issuance did not, however, hinder a more rapid expansion of credit (see box 1).

The floating exchange-rate policy that was instituted in January 1999 in response to a severe balance-of-payments crisis remained in effect in 2000. Unlike the previous year, there were no sharp fluctuations in the exchange rate, thanks to the huge influx of foreign direct investment. The nominal exchange rate rose 9% in 2000, less than four percentage points above the domestic inflation rate. The Brazilian currency appreciated in real terms against a basket of currencies, however, primarily due to the weakness of the euro.

In the last few months of the year the exchange rate, which had stabilized at about 1.85 reais to the dollar, rose to around 2 reais as the situation in Argentina deteriorated, oil prices rose, higher international interest rates came to be expected, United States stock markets became more volatile, and the trade deficit persisted. In 2001 the real was devalued further, with the exchange rate rising by more than 20% in the first half. One culprit, once again, was the worsening external scene, coupled with the exacerbation of the domestic political situation.

(c) Structural reform

With the transfer of ownership of two major State-owned banks, the financial system adjustment continued. Most noteworthy was the sale of Banespa to Banco Santander Central Hispano for more than US$3 billion, three times more than the reserve price set by the authorities. The sales of these banks and some State-owned electricity distribution companies highlighted the determination to continue with privatization. Meanwhile, efforts to alter legal standards to allow the sale of federal energy generating companies and sanitation firms continued as well.

3. The main variables

(a) Economic activity

Total supply grew by 4.9%, thus recovering from the poor performance of the previous two years. Imports expanded significantly, while GDP rose by 4.5%. External demand was a key feature of total demand, rising by more than 14%, in contrast to domestic demand, which grew by just 4%. Within the latter category, consumption was satisfactory, as it rose by over 1% more than GDP. Gross fixed investment, on the other hand, rose by a mere 2.2% after two disappointing years; in particular, in 1999, it shrank dramatically (-13%). Investment in construction improved moderately, while investment in machinery and equipment did better.

The mining and quarrying sector accounted for by far the largest share of GDP growth in 2000, expanding by more than 11%. It was followed by transportation and communications, which grew by nearly 7%. Most noteworthy in the latter sector was telecommunications, which is experiencing heavy investment in the wake of privatization and cellular telephony concessions. Manufacturing industry also yielded good results, expanding by 5.7% after negative growth of 3.8% and 1.6% in 1998 and 1999, respectively. Expansion rates differed greatly among the various branches; whereas consumer durables and capital goods saw growth of 20% and 10%, respectively, the figure for intermediate goods was 6.9%, while the consumer semi-durables and non-durables branches contracted by 1%.

One of the most significant factors in the notable expansion of the consumer durables industry was the improvement in the credit situation. Available funds for loans expanded, while interest rates and bank spreads diminished (see box 1). This new situation was made possible by a combination of enhanced macroeconomic conditions and pent-up demand from two years of economic decline. The key role of manufactured goods in the spectacular growth of exports is also noteworthy.

Agriculture posted modest growth of just 2.4%, in contrast to the upward leap of the previous year. The reason for this development is the decline suffered by major crops such as rice, sugar cane, oranges and wheat. Construction also reported an increase which, although small, was nevertheless an improvement on 1998 and

1999. The low expectations of private investors as a result of the Asian crisis were, and still are, a drag on the farm sector. Public investment was also limited, due to public-sector austerity policies implemented to cope with the large budget deficit.

(b) Prices, wages and employment

Thanks to sound fiscal and monetary policy management and the favourable external situation, inflation was reduced from 8.4% in 1999 to 5.3% in 2000, well within the domestic price targets set under the Government's economic policy. Also contributing to this result were the slower rate of devaluation after the great volatility of 1999 and the reduction of real wages, which counteracted the impact of the rise in international oil prices. Moreover, the expansion of GDP and of employment did not generate inflationary pressure in 2000.

In contrast, wholesale prices increased by 12% in 2000, a higher rate than that of consumer prices. The difference is attributed to the greater impact of tradable goods on wholesale price indices. In particular, these prices are more vulnerable to the higher exchange rate and oil prices, and the after-effects of the large 1999 devaluation are still being felt.

Between January and May 2001 consumer prices rose 3.2%, while the goal for the full year is 4%; wholesale prices were up 3.5%. Thus, there is concern that the annual target may be exceeded, in view of the faster rate of devaluation. Food prices increased because of the drought that affected the country in the early months of the year. In addition, the rise in electricity costs is tending to exert pressure on production costs; but on the other hand, demand will probably subside, curbing inflationary pressure. The Government is already responding to this pressure, however; in particular, the Central Bank has stopped cutting interest rates.

The economic expansion contributed to growth in employment, with nearly 500,000 new jobs created. The best result in this regard was seen in formal urban activities, where employment grew (1.8%) for the first time since 1996. Hence, the average unemployment rate fell from 7.5% in 1999 to 7.1% in 2000 (4.6% in São Paulo and 3.3% in Rio de Janeiro), reaching the lowest level in two years in the final quarter. Nevertheless, rising employment did not translate into higher wages. On the contrary, under the pressure of a sharp increase in the economically active population (3.8%), aggregate wages in the main urban centres fell by 7%, which explains the negative performance of sectors manufacturing consumer non-durables. Average real wages in the main metropolitan regions fell in 2000.

In March 2001, the Government raised the minimum wage by 19.2%, from 151 to 180 reais. It is hoped that this rise, which is significant in comparison with the current rate of inflation, will help increase food consumption. It is expected to have only a limited impact on the level of employment, as any negative effect should be more than offset by the positive impact on aggregate consumption.

(c) The external sector

The year 2000 was a relatively calm one in the external sector, since the economy attracted an unprecedented amount of financial resources from abroad. The current-account deficit fell from US$25.4 billion (4.7% of GDP) in 1999 to US$24.6 billion (4.2% of GDP) in 2000. This decrease was due primarily to a US$1 billion fall in the income balance deficit. The merchandise trade deficit fell by nearly US$600 million, while the services deficit rose by a similar amount. The external debt stood at US$236 billion at the end of 2000, slightly less than the US$241 billion posted at the close of 1999.

The decline in the merchandise trade deficit (from US$1.3 billion in 1999 to US$670 million in 2000) can be explained by a greater expansion of exports (nearly 15%) than of imports (13%). Among exports, most noteworthy were manufactured goods (19%), particularly machinery and electrical appliances and transport equipment, while among imports the largest increases were in raw materials (18%) and fuels (49%), partially offset by declines in consumer non-durables (-5.8%).

Part of this performance was due to the exchange-rate policy pursued in recent years. In 2000, the real average exchange rate of the Brazilian currency slid by 7%, but in comparison with the fourth quarter of 1998 (prior to devaluation) it was up 26% as of the fourth quarter of 2000, and against a basket of Latin American currencies (those of Argentina, Chile, and Mexico) it climbed by a similar percentage.

The balance-of-payments capital account yielded a positive net balance of US$29.4 billion in 2000, in contrast to just over US$8 billion in 1999. Foreign direct investment increased to US$32.8 billion, nearly 15% more than in 1999. Medium- and long-term loans, at US$42.5 billion, were lower than 1999 revenues (US$44.3 billion), but a 30% reduction in repayments made possible a net increase in income from this source. Meanwhile, flows of short-term capital and other funds yielded a negative balance.

Between January and April 2001, Brazil's exports were an unprecedented US$18.5 billion, 14% more than during the same period the previous year. Exports of manufactured goods averaged US$2.7 billion a month. At the same time, imports totalled US$19 billion, nearly 19% more than in January-April 2000. Consequently, the deficit for this period was approximately US$560 million.

This result is due above all to the economic recovery and the greater degree of openness in the economy, with capital goods, raw materials and intermediate goods accounting for 82% of the increase in imports. These imports were also stimulated by the January reduction in the tariff on capital goods, the purpose of which was to facilitate industrial modernization, and by the growing share of imported components in exportable goods. For domestically produced goods the tariff fell from 18% to 14%, while for non-domestically produced goods it fell to 4%.

The Brazilian Government, along with the other member States of Mercosur, approved the measures adopted by Argentina in relation to the Common External Tariff (CET): a reduction of the tariffs on capital goods to zero, and an increase in tariffs on consumer goods to 35%. These increases will remain in effect until December 2002.

The merchandise trade deficit is expected to be US$1 billion to US$2 billion, but this figure does not take into account more recent projections of a slowdown in growth prompted by electricity rationing. The merchandise trade balance showed a deficit of US$680 million in the first quarter of 2001, while for the same period the previous year the balance had been practically zero. Exports posted the same growth rate as in 2000, but external purchases expanded by a substantial 20%.

Concern about the persistent trade deficit has prompted the Government to introduce measures to stimulate exports. In November 2000, an 11-point export programme was developed, consisting of the following: a) programme to modernize ports and install cutting-edge technology; b) creation of a uniform tax document for multimodal transportation; c) promotion of credit insurance for exports; d) increased funding for export financing; e) reduction in the rate of income tax for trade promotion activities abroad; f) implementation of the export consignment system; g) changes to value-added taxes; h) establishment of industrial bonded airports; i) creation of a mail export service; j) programme to improve the technological aspects of export products; k) seal of quality for export products. Despite these measures and the devaluation in the first half of 2001, exports have not responded as strongly as expected because of specific short-term problems and the limited growth seen in the external market.

Box 1
BANK LENDING AND MARGINS IN BRAZIL IN 2000

Brazil has the world's highest interest rates on loans, which is explained not only by the high interest rates on deposits, but also by extremely wide bank spreads. For this reason, in October 1999 the Central Bank implemented a broad programme to reduce bank spreads, as well as a vigorous policy aimed at lowering the Central Bank base rate (Special System of Clearance and Custody, SELIC).

In view of the more favourable external situation, the Central Bank was able to reduce the base rate from approximately 19% in December 1999 to around 16% by the close of 2000. This cut was accompanied by a more significant decline in lending rates, which fell on average from 62.3% to 51% during that same period. In addition, loan periods were lengthened considerably.

As spreads diminished, lending expanded, with a nominal increase of 66% recorded in 2000. This was due primarily to a 127% rise in business lending, but personal credits for the purchase of goods and services increased by nearly 47% as well.

Three factors are responsible for most of these improved credit conditions. First, the Central Bank adopted a number of measures to reduce bank spreads by cutting the cost of deposit-taking (lowering reserve requirements) and to improve transparency and competition in the banking industry. Secondly, the more favourable fiscal situation led to an expectation of lower public-sector demand for credit, which increased banks' willingness to allocate more resources to the non-financial private sector. And lastly, the decreased volatility of international markets and stronger growth (which tends to reduce the incidence of non-performing loan portfolios) reduced banks' uncertainty and perceived risk, which has also helped to narrow spreads and increase the supply and repayment periods of loans.

These more relaxed credit conditions were a key factor in Brazil's economic growth in 2000. In 2001, however, there is concern that the deteriorating internal and external economic picture is now causing lending to stagnate or even decline, which will further exacerbate the difficulties of the Brazilian economy.

CHILE

1. General trends

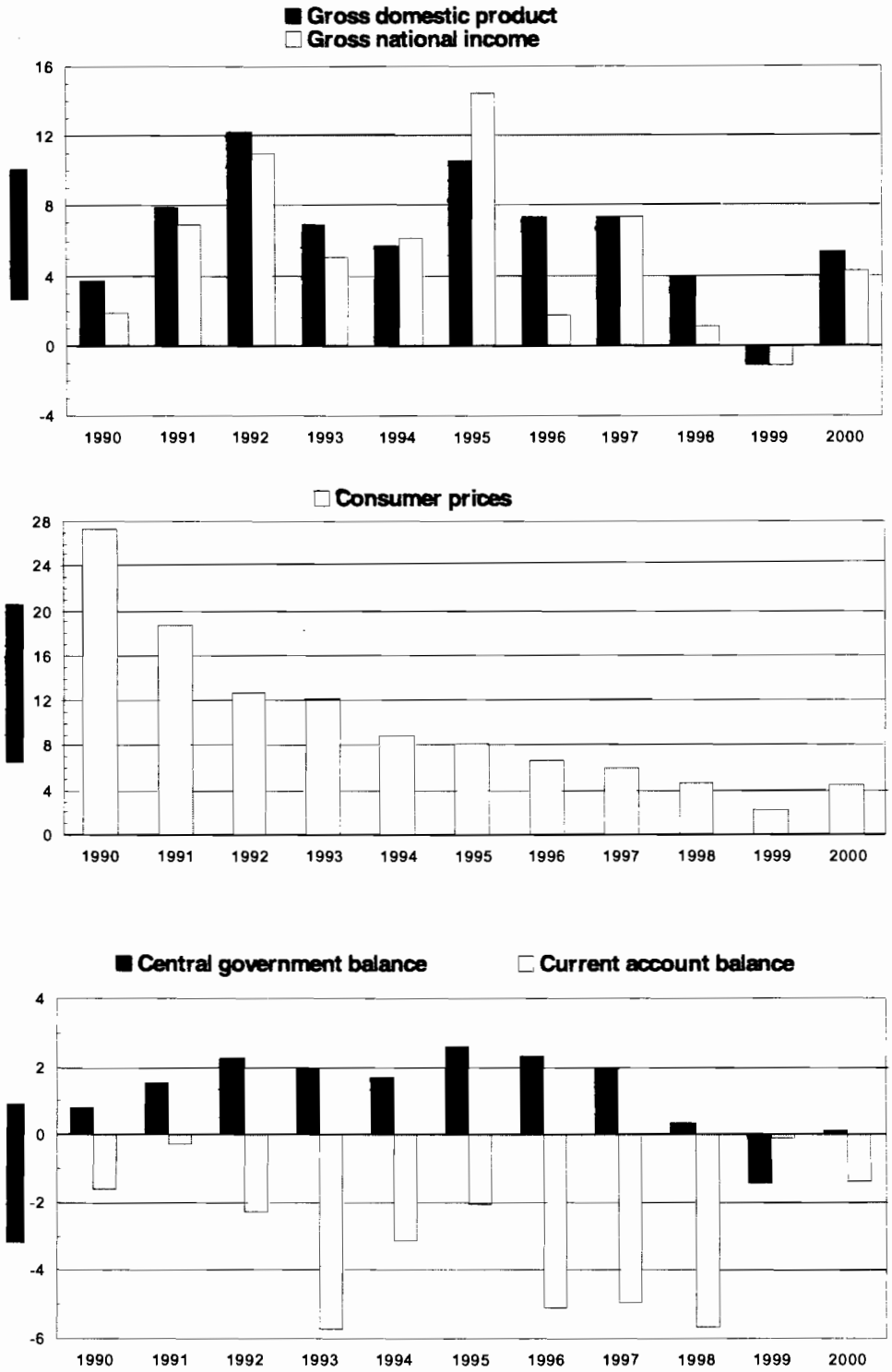
After having been in a recession in 1999, the Chilean economy grew by 5.4% in 2000, with a strong upturn in the first semester and a more modest gain in the second. The highest growth rates were recorded in the primary and basic services sectors, while manufacturing and commerce expanded at a similar rate to overall GDP. The construction sector, which is an important employer, remained very depressed throughout the year. These results, in combination with reduced inflows of foreign capital and the completion of major projects, translated into a hesitant upturn in gross fixed capital formation (4.3%). The terms of trade remained stable, but fluctuations in export prices did make themselves felt. Steadily rising oil prices eroded annual household income by US$800 million, causing private spending to remain sluggish.

HAVING ENDED 1999 with the lowest rate of inflation in recent history, in the first semester of 2000 the authorities focused the country's monetary policy on containing the price pressures generated by rising fuel costs and the demand pressures that were anticipated in view of the encouraging trend of economic activity. The benchmark interest rate was raised twice, by a total of 50 basis points. In May the central bank decided to eliminate the one-year stay requirement that had formerly applied to foreign investments in order to stimulate capital inflows. In addition, the capital gains tax was discontinued for non-residents and the percentage of borrowings that could enter the country as foreign investment was made more flexible. After a record fiscal deficit of 1.4% of GDP was posted in 1999, the growth of public expenditure slowed. The increase in tax receipts generated by the revival of economic activity enabled the central government to balance its accounts. Midway through the year the government reallocated budgeted expenditures so that it could expand its emergency employment programmes.

The upturn began to show signs of weakening in the third quarter, and inflationary threats receded. In response, the central bank lowered the interest rate by 50 basis points and the Ministry of Finance announced measures to improve access to credit, deepen financial integration and make sectoral regulation more flexible. In a bid to strengthen demand, a one-off bonus of about US$18 was awarded to recipients of consolidated household subsidies and welfare pensions, income tax refunds were paid out in advance to one million people and tax debts were renegotiated to relieve the liquidity problems of micro-, small and medium-sized enterprises.

These measures notwithstanding, GDP growth forecasts have been adjusted downward during 2001, from an estimated 5.5% in January to 3.6% in August. The authorities anticipate an upturn in the level of activity in the second semester, although the worsening international outlook may dampen the effects of the monetary measures taken to boost the economy in the first semester. Recent central bank forecasts put the

Figure 1
CHILE: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

external deficit on current account at around 2.2% of GDP, with the price of copper being estimated at around US$0.80 per pound and the price of oil at US$25 per barrel. The authorities intend to finance the deficit through foreign direct investment (FDI) and portfolio investment, which is expected to increase as a result of the recent steps taken to open up the capital market further. Their expectation is that much of the slack will be taken up by exports, with a particularly important contribution, in terms of both volume and value, being made by non-traditional products, which already account for more than one third of the total.

If growth tails off as anticipated, the central government is likely to turn in a fiscal deficit of around 0.5% of GDP instead of the 0.1% originally envisaged, since the budget was prepared on the basis of a 6.2% growth projection. Inflation should not exceed 3% in 2001. In addition to shrinking external demand and the effects this will have on the prices of Chile's main export products, there is still the risk of a moderate surge in inflation following the sharp increases seen in the exchange rate and in fuel prices.

As inflationary pressures have not made themselves felt, policy-makers have concentrated on achieving a reactivation, and as part of that effort they have adopted a series of monetary measures that have brought the benchmark interest rate down to its lowest real level of recent years. This combination of a high real exchange rate and low real interest rates ought to put the country back on a balanced growth path. In the mean time, the fiscal incentives being applied have included such measures as moving up the schedule for public investment programmes, implementing contingency job-creation plans and renegotiating the financial and tax debts of small and medium-sized enterprises (SMEs).

(a) Foreign-exchange policy

Job creation has been an especially prominent issue in the public arena. The Administration that took office in March pledged to create 200,000 new jobs in 2000. It failed to realize that this variable is not readily controllable in the short term, however, and, as it turned out, there was actually a net reduction in jobs, despite the economy's growth. The gain in aggregate labour productivity has been attributed to structural changes, but two other factors are also involved. One is the productivity cycle, since it is known that in its initial stages, an economic reactivation is very slow to make itself felt in the labour market. The second factor is the particular composition of growth in 2000, as sectors that do not create many jobs grew strongly, while the sectors that have a greater potential for absorbing labour stagnated.

The authorities' economic policy lessons have been tough, but unmistakable. Their recent experience has shown how risky it can be to set annual employment targets in an uncertain economic environment. The failure to meet this electoral pledge signalled the end of the "automatic pilot" approach, as the authorities were obliged to embark on more active fiscal and monetary policies, which included the establishment of contingency mechanisms for creating jobs either directly or through labour subsidies.

1. Fiscal policy

The government decided to institute a structural surplus rule, which became effective with the 2001 budget law. The principle of this approach is that if the gap is closed between actual and potential output –defined as a long-term growth rate of 5.7%– and the price of copper is at equilibrium (estimated at US$0.92 per pound), then the general government's accounting surplus will amount to 1% of GDP. In technical terms, the idea is to allow automatic fiscal stabilizers to come fully into play, which entails allowing accounts to run deficits or surpluses caused by unforeseen cyclical variations in tax and copper revenues and abiding by the spending programme as it was passed at the end of the previous year throughout the budgetary period.

Generally speaking, the principle of isolating public spending programmes from fluctuations in the economy and allowing public finances to slip into moderate deficit positions in difficult times has been widely accepted among analysts and international organizations. Chile's fiscal policy enjoys a high degree of credibility and ample manoeuvring room, thanks to more than a decade of sustained reductions which have brought the country's public debt burden down from 47% of GDP in 1990 to 14.2% in 2000.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	12.3	7.0	5.7	10.6	7.4	7.4	3.9	-1.1	5.4
Per capita gross domestic product	10.4	5.2	4.0	8.9	5.9	5.9	2.5	-2.4	4.0
Gross domestic product, by sector									
Goods	8.8	6.8	5.0	8.1	6.5	4.9	2.3	2.1	4.3
Basic services	19.8	5.6	5.6	12.9	6.8	12.4	8.2	2.5	11.1
Other services	11.2	5.8	5.1	9.3	7.1	7.1	4.2	-1.6	4.0
Consumption	12.7	7.0	7.4	9.2	8.8	7.9	4.3	-2.5	4.1
General government	5.6	4.3	1.9	4.2	4.0	5.0	3.8	2.5	3.5
Private	13.8	7.4	8.2	9.8	9.4	8.2	4.3	-3.1	4.1
Gross domestic investment	21.8	21.1	0.8	34.2	5.9	11.8	3.2	-25.5	13.7
Exports of goods and services	13.9	3.5	11.6	11.0	11.8	9.4	5.9	6.9	7.5
Imports of goods and services	21.8	14.2	10.1	25.0	11.8	12.9	5.4	-14.3	10.1
				Percentages of GDP [c]					
Gross national income	92.1	90.9	91.8	96.3	91.7	92.2	90.0	89.1	88.6
Gross domestic investment	19.9	22.7	21.5	25.8	25.7	26.7	26.6	20.2	21.7
National saving	18.0	17.8	18.7	23.7	20.7	21.6	20.9	20.1	20.5
External saving	1.9	4.8	2.8	2.1	5.0	5.1	5.8	0.1	1.2
				Percentages					
Employment and wages									
Labour force participation rate [d]	53.2	55.2	55.4	54.8	54.2	54.2	54.4	54.4	53.7
Open unemployment rate [e]	6.7	6.5	7.8	7.4	6.4	6.1	6.4	9.8	9.2
Real average wage (index 1995=100)	88.7	91.8	96.1	100.0	104.1	106.6	109.5	112.1	113.7
				Growth rates					
Prices (December-December)									
Consumer prices	12.7	12.2	8.9	8.2	6.6	6.0	4.7	2.3	4.5
Wholesale prices	8.9	6.7	7.8	8.2	3.1	1.9	0.3	13.5	7.9
External sector									
Terms of trade (index 1995=100) [c]	81.2	74.2	84.1	100.0	80.7	83.0	73.3	73.5	73.6
Nominal exchange rate (pesos per dollar)	363	404	420	397	412	419	460	509	551
Real effective exchange rate for imports (index 1995=100)	109.1	110.9	107.1	100.0	97.0	91.0	94.5	99.4	100.7
				Millions of dollars					
Balance of payments									
Current account	-958	-2 554	-1 585	-1 345	-3 512	-3 728	-4 144	-78	-989
Trade balance (goods and services)	545	-1 217	583	1 060	-1 352	-1 509	-2 632	1 350	878
Exports	12 365	11 709	14 444	19 359	19 066	20 773	18 948	19 406	22 087
Imports	11 820	12 926	13 861	18 299	20 418	22 281	21 580	18 056	21 209
Capital and financial accounts [f]	3 504	2 984	4 736	2 403	6 016	6 913	2 004	-670	1 223
Overall balance	2 546	430	3 151	1 058	2 505	3 185	-2 140	-748	234
Variation in reserve assets (- indicates an increase)	-2 344	-173	-2 919	-741	-1 107	-3 185	2 140	748	-234
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	45.3	44.2	42.8	33.3	33.5	35.5	43.4	50.5	52.2
Net interest (as a percentage of exports) [g]	7.1	6.1	4.3	3.1	3.5	2.8	3.4	4.0	4.3

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Total revenue	23.9	24.0	23.3	22.9	24.0	23.9	23.5	23.0	24.1
Current income	22.9	23.2	22.5	22.2	23.4	23.3	22.9	22.5	23.7
Tax revenue	17.3	18.1	17.5	17.0	18.4	18.0	17.7	16.9	17.5
Capital income	1.0	0.9	0.8	0.8	0.6	0.6	0.6	0.5	0.4
Total expenditure	21.6	22.0	21.6	20.3	21.7	21.9	23.1	24.4	24.0
Current expenditure	17.9	18.2	17.6	16.7	17.6	17.7	18.8	20.0	20.0
Capital expenditure	3.7	3.8	4.0	3.6	4.1	4.2	4.3	4.4	4.0
Financial balance	2.3	2.0	1.7	2.6	2.3	2.0	0.4	-1.5	0.1
Non-financial public sector									
Current income	37.5	37.1	34.8	33.1	34.1	33.7	33.1	31.2	33.8
Current expenditure	30.4	30.2	28.7	26.3	26.9	27.1	27.9	27.7	29.5
Saving	6.9	6.9	6.1	6.8	7.2	6.6	5.2	3.5	4.3
Capital expenditure (net)	4.4	4.6	4.1	4.1	5.4	5.7	5.9	5.1	4.8
Financial balance	2.7	2.3	2.0	2.7	1.8	0.9	-0.7	-1.6	-0.6
				Growth rates[h]					
Money and credit									
Net international reserves	43.5	41.0	62.5	26.6	31.6	40.9	1.2	28.3	7.5
Net domestic credit[i]	29.0	22.5	11.9	20.8	17.1	14.7	10.8	4.2	12.7
To public sector	-10.1	15.1	-18.1	-11.2	-14.6	-24.2	10.0	49.3	44.3
To private sector	31.3	26.9	14.6	23.1	16.6	11.6	8.6	6.1	10.5
Money (M1)	40.7	20.6	20.6	23.5	10.5	16.6	-5.5	20.4	9.3
Local-currency savings and time deposits	33.0	-6.9	18.9	31.4	26.5	23.4	19.1	9.0	8.7
M2	34.8	-0.1	19.4	29.0	21.8	21.6	12.9	11.4	8.9
Dollar deposits	-17.2	31.3	-20.7	-7.3	-9.9	6.2	...	...	...
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	4.9	3.3	5.1	5.7	5.6	9.5	5.1	5.2
Lending rate	...	10.3	8.0	9.2	9.3	9.0	14.5	9.0	10.5
Equivalent interest rate in foreign currency[j]	...	18.1	15.2	12.8	13.4	13.1	14.8	8.4	9.2

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1986 pesos. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population. [f] Includes errors and omissions. [g] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [h] Owing to changes in the methodology used, the figures given as of 1998 are not strictly comparable with those of previous years. [i] Includes entries under the heading "other" which could not be divided between the public and private categories. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

Given the severe constraints on social spending and widespread shortcomings in infrastructure, the decision to make a budget surplus into a structural objective has proved to be quite controversial. The authorities base their arguments on the importance of having a "fiscal anchor" to reaffirm the credibility of domestic economic policies, on the highly significant role of public-sector saving in generating domestic saving and on the advisability of having funds on hand to deal with future contingent liabilities, such as the anticipated increase in State pension payments and the guarantees given to firms holding public infrastructure concessions.

Because this new "macro-fiscal" rule does not allow the spending programme to be altered during the year, it limits the government's capacity to respond to unforeseen situations. To attenuate this rigidity, in the year 2000 the government established a US$200 million contingency employment fund (the equivalent of about 1% of the country's budget) to finance direct employment for 100,000 people. This fund is activated when the rate of unemployment rises above 9%, which tends to happen in the winter months.

Although the establishment of this mechanism is certainly an important step forward, criticism has arisen

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	8.8	6.3	3.4	-2.5	-2.8	-3.7	-1.8	4.0	5.5	6.0	5.6	4.5	3.3
Consumer prices (12-month variation, %)	5.3	5.4	4.8	4.7	4.0	3.8	2.9	2.3	3.4	3.7	4.3	4.5	3.5
Exports (millions of dollars)	4 040	3 990	3 426	3 439	3 940	3 903	3 678	4 095	4 843	4 338	4 447	4 530	4 802
Imports (millions of dollars)	4 613	4 530	4 490	3 713	3 321	3 358	3 669	3 607	3 971	4 261	4 346	4 145	4 281
International reserves (millions of dollars)	16 937	15 551	15 315	15 992	14 898	15 014	14 615	14 710	14 497	14 597	14 157	14 741	14 545
Real effective exchange rate [c] (index 1995=100)	93.4	93.6	95.5	95.6	96.5	95.4	100.7	105.0	99.0	98.3	103.8	101.6	105.0
Money (M1) d (change from same quarter of preceding year)	10.8	8.2	-5.3	-8.3	-1.6	-0.4	12.7	20.2	10.5	5.6	5.0	2.7	15.3
Real interest rates (annualized, %)													
Deposit rate	6.3	7.2	13.7	10.7	4.7	6.2	3.4	6.1	6.2	6.6	3.2	4.9	1.1
Lending rate	10.8	10.7	20.7	15.7	9.2	10.1	6.9	9.8	10.4	11.0	9.3	11.3	8.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on official figures denominated in the local currency at constant prices. [c] Refers to exchange rate for imports.
[d] Private-sector money.

over the way it has been applied, since initially it did not take regional situations into account (some regions and municipalities consistently record unemployment rates that are well above the 9% threshold, and not only as a result of seasonal problems) nor has provision been made for its activation ahead of time on the basis of projections. Full use of this fund, with some alterations to rectify these problems, was scheduled to start in May 2001 in view of the worsening outlook for job creation in the following months. This measure is expected to bring about a 1.5% reduction in the unemployment rate, which would be a significant improvement over the results of the previous year's job programmes. The question of financing for the programme –some of which is to come from budgetary reallocations and some from the revenues that should be generated by tax reforms– has not yet been fully resolved.

(b) Monetary policy

In the interest of price stability, the central bank pledged to focus monetary policy on keeping inflation within a range of 2%-4% per annum from 2001 onward, without setting explicit targets in terms of GDP growth. The midway figure in this range constitutes the medium-term operational target. Because monetary policy can take quite a long time to have an effect on the rest of the economy –estimated at between one and two years in the case of Chile– the operational target is based on a 24-month horizon. As the consumer price index (CPI) is highly volatile due to variations in food and fuel prices, in the short term the central bank focuses on the underlying or trend CPI, which is the total index excluding vegetables, fruit and fuels.

Open-market operations are Chile's monetary policy-makers' main operational tool. These operations take the form of policy decisions as to the sum of debt instruments that are put up for auction and measures to inject or absorb liquidity in order to stabilize the overnight interbank rate. Preventive action is taken by the authorities if the underlying rate of inflation looks set to rise above 4% or fall below 2%, which are the limits of the permitted range around the target figure, which is midway between the two.

Monetary policy is more likely to succeed in meeting its inflation targets if agents and markets have confidence in the authorities' determination to see it through. Over the last decade, expectations with regard to inflation have gradually fallen into line with the central bank's annual inflation targets, since those targets have consistently been met. As a result, in 2000 the monetary authorities were able to extend the horizon for inflation targets from one year to 24 months without any loss of credibility. This experience has shown that well-earned credibility can be combined with increasing degrees of flexibility in order to deal with unforeseen fluctuations.

(c) Foreign-exchange policy

In September 1999 the authorities discontinued their use of the currency band and the reference exchange rate. The peso devalued at a faster pace in the second semester of 2000, but this did not have a negative impact on inflation. The floating regime now in use has enabled the authorities to combine price stability with the capacity to absorb shocks generated in the world economy.

The currency float is consistent with the medium-term horizon that is being used for monetary policy, as the price effects of currency fluctuations tend to diminish with time horizons of over one year in low-inflation economies. The increasing importance of mechanisms for hedging foreign-exchange risk and the growing perception that short-term exchange-rate fluctuations do not necessarily translate into losses or gains in net assets also tend to mitigate the negative effects of variations in the peso's value.

Thus far Chile's experience, along with those of other countries of the region, indicates that a monetary policy based on both inflation targets and a currency float is feasible in emerging economies. This combination has been effective in maintaining price stability in Chile, despite currency fluctuations and rising import prices. In order for such a policy package to be successful, not only does a country need to have sound macroeconomic fundamentals and to have its fiscal affairs in order, however; the central bank must also prepare its economic analyses in an extremely transparent manner and its projections have to be accurate. Yet another factor is how clearly its response function is defined. All these elements have a bearing on the value that agents will assign to the exchange rate in the future.

(d) Structural reform

During 2000 the government brought three major reform bills before Congress. The first was the unemployment insurance act, which was passed in April 2001 and involves the creation of individual funds. A single operator will manage these funds, which will amount to about US$850 million per annum. This insurance scheme will be fully applicable to new contracts from 2003 onward and will be financed by a contribution equivalent to 3% of wages (0.6% from the employee and 2.4% from the employer). Of this sum, 2.2% will be credited to the employee's individual account and the remaining 0.8% will go to a solidarity fund, which will also receive public financing of US$10 million annually. A worker who becomes unemployed is eligible to receive benefits if s/he has paid into the system for at least 12 months; benefits are then paid out, in gradually decreasing amounts, for a maximum of five months. Workers who have not paid the minimum number of deductions into the fund may complete their individual account with a contribution from the solidarity fund.

The second major reform submitted to Congress in 2000, which was also passed in 2001, was a bill designed to reduce tax evasion and tax avoidance by tightening up enforcement and eliminating a number of exemptions and deductions. There has been some resistance to this move, as some sectors believe it will increase the tax burden. Taking into account the changes made in the bill by Congress before its passage, the measure is expected to generate US$40 million in additional receipts in 2001; this sum is projected to rise to US$800 million by 2005, which would be just over 1% of GDP.

The third measure, which has also been somewhat controversial, is a labour reform bill. Through this legal initiative, the government is seeking to improve the negotiating capacity of the unions by eliminating employers' power to hire staff during strikes and introducing the possibility of undertaking negotiations that would include firms other than only those in which the conflict has arisen. Although these measures may make hiring workers more expensive, the authorities contend that, in the course of the debate, labour reforms have come to be associated with the deterioration of expectations and that, as a result, their impact and scope have been exaggerated beyond the actual costs of the bill being debated in Congress.

3. The main variables

(a) Economic activity

Real gross disposable national income increased by much less than GDP (4.7%) in 2000 as the terms of trade took a turn for the worse. A similar trend was seen in final household and government consumption expenditure (4.1% and 3.5%, respectively). Gross fixed capital formation also grew somewhat less than GDP, and its contribution to output consequently declined once again, though by only a slight amount this time; as a result, it now stands below its average for the 1990s. Because recessions discourage investment spending and thus place constraints on future supply, they tend to have long-lasting effects. Nonetheless, Chile's investment levels remain high in regional terms.

Economic activity picked up in the electricity, gas and water (17.5% growth), fisheries (17%), and transport and communications (9.5%) sectors. Growth rates were similar to GDP in agriculture (5.2%), financial services (4.8%) and commerce, restaurants and hotels (4.6%). Manufacturing, mining and the ownership of dwellings were more sluggish, with rates of 4.3%, 3.9% and 3.6%, respectively, and construction remained stagnant, turning in just as poor a performance as it had in the three preceding years.

(b) Prices, wages and employment

Inflation was 4.5% in 2000, which was more than two percentage points higher than in 1999. The higher rate was chiefly attributable to increases in fuel prices and in the nominal exchange rate, which made imports more expensive. Perishable foods and fuel accounted for almost 70% of the year's inflation rate. Underlying or trend inflation, which excludes these segments, remained in the 3% range projected by the central bank. The wholesale price index (WPI), in which tradables carry greater weight, rose much more (7.9%) than the CPI, mainly because of the prices of oil and other imported goods. These higher costs are unlikely to be passed on to consumers in 2001, however, as the reduction of profit margins on imported goods appears to be a structural process.

Between January and September 2000 the rate of unemployment increased from 8.4% to 10.7% nationwide, but then retreated to 8.3% by the end of December. In the course of the year the real hourly wage index slowed to an overall rise of 1.2%. The real labour cost index held steady, which indicates that business firms were not pressured by wage costs.

With no pressure being generated by either wages or demand, the Ministry of Finance has estimated the GDP gap (the deviation of actual GDP from its potential level) at -3% in 2000. This figure will continue to be negative in 2001 and 2002, and unemployment is also well above its equilibrium rate. In other words, leaving aside the exogenous factors mentioned earlier, trend inflation was below the 2% floor level at the end of the year, which accounts for the succession of interest rate reductions that began in 2000 and continued into 2001. In the past two years Chile has withstood a sharp real devaluation but, even so, has not been troubled by inflationary pressures.

(c) The external sector

The value of merchandise exports climbed by 16.3% in 2000, with an increase of 5.6% in volume and 10.1% in unit values. The rise in the latter was due in large part to the rise in copper prices and in the prices of other traditional export products, such as pulp and methanol. The increase in the real exchange rate strengthened the competitive position of non-traditional exports, which expanded by 9% in volume. Particularly good results in terms of export volumes were recorded for food and beverages (salmon and wine), chemicals (fertilizers and manure, and perfume) and basic metal manufactures.

The value of imports increased by 20%, with rises in volume and prices of 9% and 10%, respectively. Prices remained on the upward trend that had begun in mid-1999 chiefly because of the increase in international oil prices. Low inventory levels in 1999 and the restocking that has been undertaken since then led to an increase of over 20% in imports of consumer goods. Non-fuel intermediate goods increased in volume by over 10% and capital goods by 7.5%.

The merchandise trade balance yielded a surplus of US$1.44 billion, which was US$240 million less than in 1999. The income account turned in a much larger deficit than in previous years due both to higher net interest payments and to an increase in the net outflow of profit

remittances. The current-account deficit amounted to almost US$1 billion, or about 1.3% of GDP.

The current-account balance verged on US$200 million. For the first time ever, foreign direct investment was negative. This was attributable to a sharp downturn in inflows, which dropped from US$9.2 billion in 1999 to US$3.7 billion in 2000, while outflows decreased slightly to US$4.8 billion. This was offset, however, by short-term capital inflows of US$2.3 billion, much of which went to the private and banking sectors.

COLOMBIA

1. General trends

The Colombian economy saw a moderate recovery (2.8%) in 2000, after having suffered its most severe recession of the century in 1999. The urban unemployment rate remained high, however, at 20%. The fiscal deficit, in contrast, fell to 3.5% of GDP; the balance-of-payments current account closed in balance; and the downward trend in inflation continued (8.8%). The devaluation of the last two years brought the real exchange rate to a level not seen in seven years. Industrial production and exports of petroleum and of non-traditional items led the growth of the economy. Although it was slowly making a recovery, the financial sector remained fragile, and this limited the supply of financing available to the real sector of the economy.

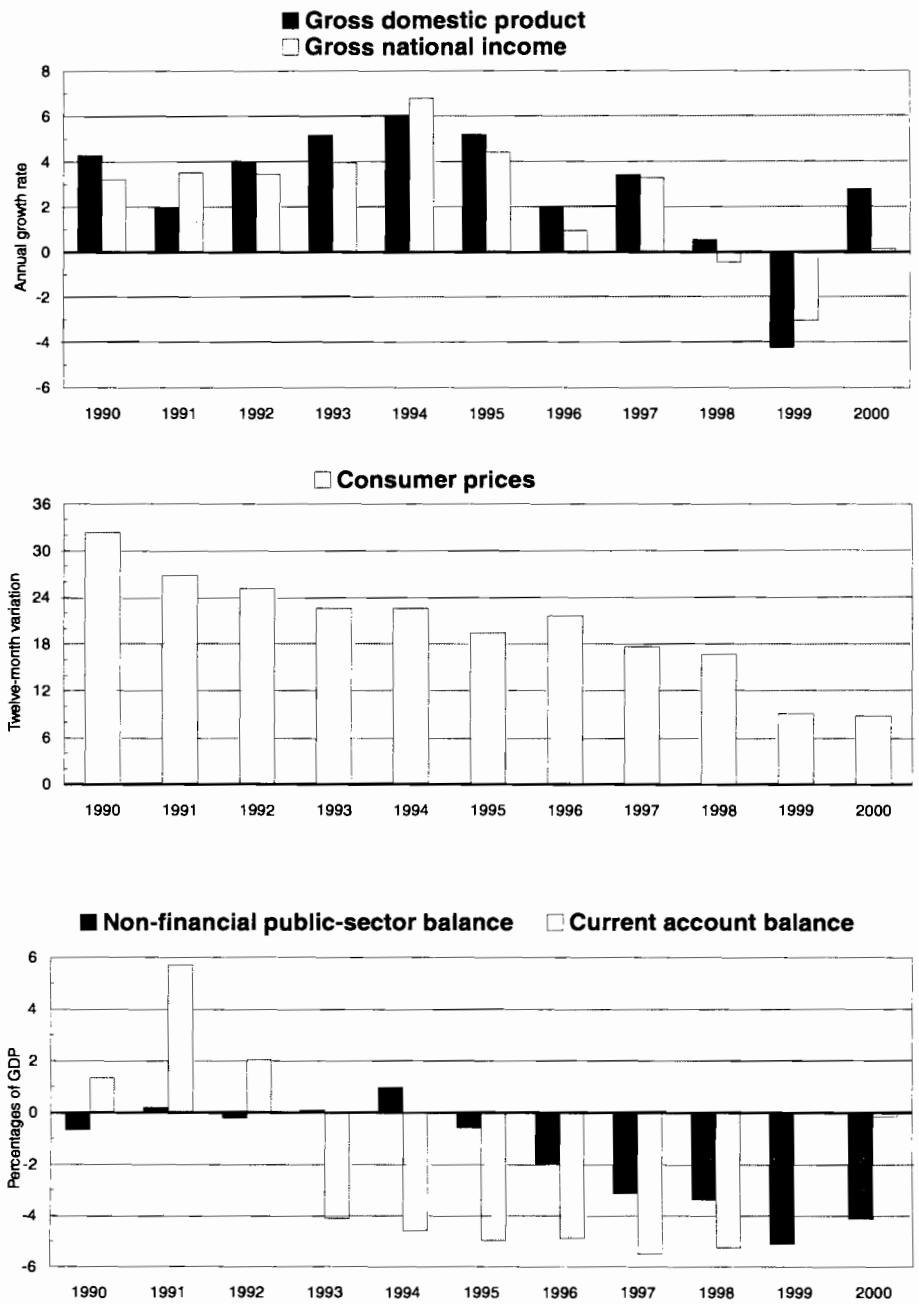
THE RECESSION triggered by the international crisis in 1999 prompted a severe correction of imbalances that had gradually accumulated over the preceding years. In 1999, the impact of the adjustment was greatest in the private sector, as economic activity slumped and the external deficit shrank, both by the equivalent of 4% of GDP. With a view to making the corresponding adjustments in the public sector, an agreement was signed with the International Monetary Fund (IMF) in December 1999 establishing the economic policy goals for 2000-2002. The commitments made under this accord include reducing the fiscal deficit, cutting inflation, restoring the financial sector to health and undertaking various structural reforms to ensure the viability of public finances.

Economic policy in 2000 was aimed at speeding up the pace of the economic recovery while at the same time strengthening or preserving the advances made in regard to inflation, exchange-rate flexibility and the external balance. The idea was to lay the groundwork for sustainable growth, relying particularly on the strength of the private sector. And in fact, the recovery achieved in 2000 was led by the private sector as it responded to strong external demand. Windfall oil revenues resulting from high international prices and the more robust tax revenues generated by the economic recovery made it possible to achieve the country's fiscal goals.

The recovery of economic activity showed some signs of weakening in the second half of 2000 and especially in the first three months of 2001, when the growth rate slipped to 1.7%. The worsening of external conditions caused by the downturn in the world economy and the decline in international oil prices and in national oil production in 2001 appeared to be having an impact on Colombia's economic performance. Certain domestic conditions –such as the stagnation of credit, high lending rates, the prolonged weakness of domestic demand, the high rate of unemployment and sluggish investment– were also taking their toll.

In view of these circumstances, economic authorities restructured the domestic public debt in order to improve its maturity profile and announced a similar operation with respect to the external public debt. In addition, a law modifying the system for transfers to regional and local governments was passed, and this is expected to help stabilize public finances in the medium term.

Figure 1
COLOMBIA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy

Economic policy in 2000 was aimed at reviving production activity without endangering the progress made in terms of macroeconomic stabilization. The country's success in meeting the targets agreed upon with IMF for the reduction of the fiscal deficit made it possible to adopt a more expansionary monetary policy. The increased flexibility in monetary policy resulting from the introduction of a floating exchange rate in September 1999 had a similar effect. Due to the frailty of the financial system, however, the abundance of liquidity did not translate into adequate financing for the real sector. Thus, shortcomings in the area of financial intermediation have continued to be one of the main obstacles to more dynamic economic activity.

(a) Foreign-exchange policy

After the exchange-rate turbulence seen in 1998 and 1999, there were no major upsets in 2000. The two episodes of instability in the exchange rate that occurred during the year were associated with uncertainty on the political scene (April and May) and delays in scheduled privatizations (September). Although pressures on the foreign-exchange market were eased somewhat by bond issues in Europe, as well as by the loan granted by the Andean Development Corporation (ADC), high international oil prices, and the sale of the Sociedad Carbones de Colombia for US$384 million, the exchange rate nonetheless closed out the year with a nominal devaluation of 19%

In the first half of 2000, the Banco de la República modified the international exchange system that governs hedging operations and authorizes stock brokerage firms to act as intermediaries on the foreign-exchange market. In addition, the 10% deposit that was formerly required for residents wishing to take out foreign loans was eliminated as part of the liberalization process.

(b) Monetary policy

One of the objectives of monetary policy was to reduce the inflation rate while at the same time fostering an economic recovery, and the central bank thus had to walk a fine line in pursuing these two conflicting goals. This was made difficult by a monetary strategy based on intermediate targets, which rendered the management of monetary policy excessively mechanical and thus hindered the authorities from responding in a flexible and timely manner. Towards the end of the year, the Banco de la República abandoned this strategy and replaced it with one focused on the inflation target. The prerequisites for this change in strategy had gradually been put in place over the last two years (flexible exchange-rate system, fiscal adjustment and inflation expectations in line with the targets set by the central bank). The idea of "inflation targeting" is based on the establishment of multi-year inflation objectives with a view to keeping economic agents apprised of the central bank's intentions and making monetary policy more transparent and thereby enhancing its credibility. This approach permits policy-makers to manage monetary instruments more flexibly and thus keep in step with trends in inflation and in the economy as a whole.

As in previous years, the main instrument used by the Banco de la República for supplying the necessary liquidity was open-market operations. During the year the dispersion of intervention rates was narrowed in order to reduce the volatility of the interbank rate. In addition, an effort was made to prevent financial intermediaries from immobilizing their resources by using the central bank's auctions instead of lending to the public. To this end, such institutions' access to open-market and repo operations was restricted to a maximum of 15% of their deposits. Then, in December 1999, the average reserve requirement was lowered and its compliance period lengthened; a year later, in December 2000, the reserve requirement applying to Colombian treasury bonds held by the financial system was eliminated altogether.

Growth of the monetary base declined considerably in the initial months of the year and then stabilized at around 15%, after having climbed quite sharply at the end of 1999 to cope with Y2K expectations. The money supply (M1) expanded at a rapid pace and closed out the year up 30%, while the broadest liquidity measure (M3 plus bonds) grew by a mere 3% or so. The growth of the most liquid monetary aggregates overshot projections due to an upswing in the demand for money, primarily as a consequence of the greater preference for liquidity generated by the tax on financial transactions (initially set at 2 per thousand in late 1998 and hiked to 3 per thousand

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	4.0	5.2	6.0	5.2	2.1	3.4	0.6	-4.2	2.8
Per capita gross domestic product	2.0	3.2	4.0	3.2	0.1	1.5	-1.3	-6.0	1.0
Gross domestic product, by sector									
Goods	1.1	1.7	3.9	5.1	-2.7	1.1	0.1	-7.8	4.5
Basic services	4.1	4.3	6.9	5.3	4.1	4.4	2.6	-3.1	3.4
Other services	4.9	6.7	6.2	7.3	7.7	5.0	-0.2	-2.6	0.7
Consumption	4.1	7.6	5.4	5.8	5.2	5.3	0.2	-2.9	1.4
General government	10.6	7.3	11.1	7.3	23.9	15.8	3.4	3.6	-1.4
Private	3.0	7.7	4.4	5.4	1.0	2.4	-0.8	-5.0	2.4
Gross domestic investment	43.0	30.7	34.0	6.1	-12.0	-0.6	-7.3	-32.1	12.3
Exports of goods and services	5.6	6.6	-0.3	3.6	9.6	3.2	8.2	5.4	5.0
Imports of goods and services	41.3	38.7	22.8	7.3	2.3	6.2	-3.0	-17.1	5.7
				Percentages of GDP [c]					
Gross national income	99.1	98.7	99.5	99.1	98.2	98.2	97.0	97.8	95.7
Gross domestic investment	17.1	22.1	26.1	26.3	22.7	21.9	20.1	14.2	15.6
National saving	18.2	18.7	19.8	19.0	15.5	14.0	13.0	12.4	11.6
External saving	-1.1	3.4	6.3	7.3	7.2	7.8	7.1	1.8	4.0
				Percentages					
Employment and wages									
Labour force participation rate [d]	60.8	60.1	60.0	59.9	59.7	59.9	62.2	63.1	64.2
Open unemployment rate [e]	10.2	8.6	8.9	8.8	11.2	12.4	15.3	19.4	20.2
Real average wage (index 1995=100) [f]	93.5	97.9	98.8	100.0	101.5	104.2	102.8	105.9	110.0
				Growth rates					
Prices (December-December)									
Consumer prices	25.1	22.6	22.6	19.5	21.6	17.7	16.7	9.1	8.8
Wholesale prices	...	13.2	20.7	15.4	14.5	17.5	13.5	12.7	11.0
External sector									
Terms of trade (index 1995=100)	87.4	91.0	104.9	100.0	103.8	104.4	95.8	102.6	115.8
Nominal exchange rate (pesos per dollar)	679	787	827	913	1 037	1 141	1 426	1 756	2 166
Real effective exchange rate for imports (index 1995=100)	133.4	125.3	101.9	100.0	92.6	87.4	96.5	109.5	120.2
				Millions of dollars					
Balance of payments									
Current account	901	-2 102	-3 672	-4 599	-4 752	-5 867	-5 186	-20	-132
Trade balance (goods and services)	1 189	-1 458	-3 283	-3 727	-3 283	-4 156	-3 914	519	1 307
Exports	9 246	9 949	10 630	12 294	13 158	14 201	13 408	13 871	15 608
Imports	8 057	11 407	13 914	16 021	16 442	18 357	17 322	13 352	14 301
Capital and financial accounts [g]	374	2 566	3 871	4 595	6 479	6 144	3 796	-299	1 002
Overall balance	1 274	464	199	-4	1 727	277	-1 390	-319	870
Variation in reserve assets (- indicates an increase)	-1 274	-464	-199	4	-1 727	-277	1 390	319	-870
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	39.1	37.2	27.3	26.9	30.4	30.0	34.3	38.8	40.1
Net interest (as a percentage of exports) [h]	9.9	7.4	10.1	10.0	10.7	12.2	12.8	13.3	12.0

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Non-financial public sector									
Current income	25.4	27.1	27.0	30.8	32.3	31.6	27.6	28.8	28.5
Current expenditure	18.5	19.0	19.3	23.6	24.1	24.4	23.6	27.4	25.8
Saving	6.9	8.1	7.7	7.2	8.2	7.2	4.0	1.4	2.7
Capital expenditure (net)	7.1	8.0	6.7	7.8	10.3	10.3	7.3	6.5	6.8
Financial balance	-0.2	0.1	1.0	-0.6	-2.0	-3.1	-3.4	-5.1	-4.1
				Growth rates					
Money and credit									
Net international reserves	29.9	-2.1	-5.6	18.5	18.6	24.8	10.1	34.7	59.5
Net domestic credit	39.1	84.2	25.4	29.6	32.6	24.4	10.3	3.4	-14.5
To public sector	-12.9	27.2	-18.0	-25.4	2.3	82.2	292.5	59.6	35.8
To private sector	37.6	57.8	35.9	35.8	25.3	25.0	12.8	-1.4	-7.9
Money (M1)[i]	39.1	32.8	22.9	19.5	16.0	22.2	1.9	28.1	28.3
Local-currency savings and time deposits	27.4	45.8	50.0	29.9	21.8	26.1	16.9	10.0	-3.1
M2	30.9	41.7	42.0	27.2	20.4	25.2	13.5	13.7	4.1
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	2.8	5.0	9.6	8.8	4.8	11.7	9.2	2.7
Lending rate	...	10.9	14.2	17.4	17.8	13.3	19.8	17.4	15.7
Equivalent interest rate in foreign currency[j]	...	25.7	28.8	31.0	31.1	24.7	31.9	21.0	12.0

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Up to 1994, based on constant 1975 pesos; subsequently based on constant 1994 pesos. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population; seven metropolitan areas. [e] Percentage of the economically active population; seven metropolitan areas. [f] Workers in manufacturing. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] In the private sector. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

in December 2000) and the modest yield of savings accounts as a result of low interest rates on deposits.

At the beginning of the year, interest rates were very low, but they then began to rise later on. Thus, the real deposit rate fell to 1.1% in March 2000 before gradually rising to 4.2% by December, while the real lending rate fell to 12.6% in March but ended the year at 19%. The resultant widening of the interest-rate spread could be interpreted as an attempt by the financial sector –which remains in delicate health despite the measures introduced to strengthen it– to recoup part of the losses sustained in the last three years. The measures implemented to buoy the financial sector and capitalization led to a gradual improvement in the quality of loan portfolios (measured by non-performing loans as a percentage of the entire loan portfolio), which, after having jumped from 7% in early 1998 to a high of 16% in November 1999, had subsided to 11% by the end of 2000. The total portfolio of the financial system continued to decline, however (-10% per annum), although the mortgage portfolio improved slightly, followed by consumer and business loans. Its composition by type of loan also changed, as preferential loans showed stronger growth in the first half of the year and regular and consumer loans did so in the second. At that point preferential loans began to exhibit increasingly negative monthly variations, ending the year with a cumulative descent of nearly 12%. This, together with high lending rates, explains the slowdown in production activity seen in the second half of 1999 and early 2000.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	5.9	1.9	-0.8	-4.4	-5.9	-6.7	-3.3	-0.1	2.4	3.4	3.2	2.3	1.7
Consumer prices (nationwide) (12-month variation, %)	19.3	20.7	17.8	16.7	13.6	9.0	9.4	9.1	9.7	9.7	9.2	8.8	7.8
Exports (millions of dollars)	2 601	2 896	2 664	2 660	2 421	2 797	3 081	3 277	3 122	3 184	3 412	3 302	2 978
Imports (millions of dollars)	3 958	3 950	3 689	3 037	2 506	2 557	2 594	3 001	2 789	2 887	2 880	2 983	3 176
International reserves (millions of dollars)	9 438	9 074	8 790	8 740	8 751	8 392	7 881	8 102	8 257	8 355	8 595	9 004	9 283
Real effective exchange rate[b] (index 1995=100)	96.3	91.8	93.4	104.8	99.7	101.5	117.0	120.0	115.3	117.3	125.3	122.9	124.1
M1 (change from same quarter of preceding year)	12.2	2.2	-1.0	-5.4	-1.7	6.3	14.4	22.1	35.4	34.1	34.4	29.7	15.5
Real interest rates (annualized, %)													
Deposit rate	6.3	10.1	13.7	16.6	12.3	8.7	8.7	7.3	2.1	1.7	3.1	3.9	4.8
Lending rate	14.2	18.8	21.1	25.0	20.3	17.9	15.9	15.7	14.4	12.9	16.4	19.2	21.5

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

(c) Fiscal policy

Fiscal policy remained within the framework agreed upon with IMF and was aimed at cutting the non-financial public sector (NFPS) deficit from 6.1% of GDP in 1999 to 3.6% in 2000. In contrast to the previous year, the cyclical component of the deficit exerted a positive influence in 2000, thus allowing the country's fiscal goals to be met. The NFPS financial balance (-3.5%) was based on a decrease in the central government's deficit and an increase in the decentralized sector's surplus.

The upturn in the decentralized sector's surplus from the equivalent of 1.4% of GDP in 1999 to 2.3% in 2000 was primarily due to the increased revenues derived from higher international oil prices and the improved performance of the electricity sector. In particular, the Petroleum Stabilization and Savings Fund took in additional funds equivalent to 0.5% of GDP, which boosted its balance to 1.5% of GDP. Other beneficiaries were the Empresa Colombiana de Petróleos and regional and local governments. The social security surplus, on the other hand, continued along the downward trend that began in 1997.

The reduction in the government's fiscal deficit was made possible by a 10% real increase in revenues and a slower growth rate in expenditure than in previous years. The 12% upswing in receipts from both domestic and external taxes was attributable to the resurgence of economic activity and the rise in oil prices. Government spending climbed by 5% in real terms; this figure includes interest payments and investment spending, which surged by 21% and 10%, respectively. Operating expenses did not increase. The central government's deficit was financed primarily

with domestic (60%) and foreign (34%) credit, since significant changes had to be made in the government's financial programming to adjust to the lower level of proceeds from rivatisations.

Tax reforms and fiscal reorganization legislation passed in 2000 were expected to have an impact on fiscal accounts beginning in 2001. The tax reform law provides for a permanent tax on financial transactions, raises the general value-added tax rate from 15% to 16%, and makes other adjustments aimed at curbing contraband and tax evasion. The fiscal reorganization law is designed to rationalize the finances of the country's municipalities and departments, especially by cutting operating costs, and to help expand the fiscal scope of subnational levels of government.

3. Main variables

(a) Economic activity

The modest economic recovery that began in the second half of 1999 continued in 2000, resulting in GDP growth of 2.8% after six quarters of negative growth. The economy expanded by 2.5% in the first quarter, and then quickened its pace to 3.5% and 3.2% in the second and third quarters, respectively; in the fourth quarter, however, the economy lost some of its momentum, growing by a mere 2.0%. Activity continued to slacken in the first quarter of 2001, when a 1.7% growth rate was posted. The short duration of the recovery could be the result of an insufficient supply of credit, which would mean that the upturn in production was primarily attributable to an improved utilization of installed capacity. If a new growth cycle is to begin, however, adequate investment financing, among other conditions, will be needed.

The reactivation of private consumption (2.4%), private investment (18.4%), and exports (5%) accounts for the expansion of demand. In contrast, public consumption and investment shrank by 1.4% and 11.2%, respectively. Domestic demand was up by 2.9% after an 8.4% drop the previous year. Total investment rose (12.3%) for the first time in five years, thus regaining part of the ground lost during that period. This improvement was, however, chiefly due to an expansion of inventories, as gross fixed capital formation remained practically unchanged (0.2%).

The most dynamic sector of the economy was manufacturing, which reported a 9.7% gain after a steep slide (-12.5%) in 1999. Two other activities that turned in strong performances were commerce, hotels and restaurants (5.2%) and agriculture (also 5.2%), the latter attributable in large measure to the harvests of the country's coffee and other permanent crops. Construction, whose growth rate was once again negative (-1.5%) but less sharply so than in previous years, showed its first signs of recovery when it posted positive gains in the second half of the year. Downturns were recorded in mining (-5.8%) and in social, community and personal services (-1.1%) owing to a decrease in oil production caused by the reduction of drilling in the country's principal wells and to cutbacks in recreational and government services. After two consecutive years of contraction, in 2000 the financial sector reported flat growth.

(b) Prices, wages and employment

Inflation, measured by the consumer price index (CPI), totalled 8.8% in 2000. This figure, which was not only an improvement over the 9.2% rate reported in 1999 but the lowest rate in recent history, made 2000 the second consecutive year of single-digit inflation. The downturn in inflation was buttressed by an abundant food supply and slack domestic demand, as well as favourable trends in rentals and in the prices of clothing and professional health-care services. Upward pressures came from fuel prices and the elimination of subsidies on public services; the devaluation also generated a very modest degree of pressure via its impact on tradable goods. The producer price index (PPI) rose 11.0% in 2000, down from the 1999 figure of 12.7%. The upward trend that had appeared in mid-1999 weakened significantly in the second half of the year.

The labour market continued to experience difficulties. In 2000, the national unemployment rate was 16.7%, which was slightly above the 16.3% figure recorded in 1999, while urban joblessness (in seven metropolitan areas) levelled off at around 20%. At the same time that unemployment was rising, however, employment was also

picking up thanks to the positive net rate of job creation, but so was the size of the workforce. The total participation rate climbed from 63.1% in 1999 to 64.3% in 2000 owing to the growing number of women and youths joining the economically active population. The recent recovery of industrial production and construction –both major employers– should help to relieve the serious shortfall in jobs. In the course of the year, real average wages in urban areas fell by approximately 10% as compared to 1999, which brought them to their lowest level since 1996. In contrast, industrial wages for non-manual and manual workers showed a real increase of nearly 6% thanks to the fact that the manufacturing industry has a more skilled workforce than other sectors.

(c) The external sector

The external sector benefited from higher international oil prices and a very competitive exchange rate which enabled it to run a trade surplus (equivalent to 3.1% of GDP) for the second year in a row. The balance-of-payments current account posted a deficit of US$ 132 million (0.2% of GDP), which was substantially higher than the US$ 20 million deficit recorded in 1999, while the financial account surplus soared from US$ 36 million to US$ 917 million (1.1% of GDP) during the same period. Consequently, net international reserves rose by US$ 900 million, closing the year with a balance of US$9 billion, or the equivalent of 9.8 months worth of imports.

World economic growth, the growth of the United States economy and the recovery of the Latin American economies were reflected in the strong performance of Colombian exports, which posted a gain of 13% in 2000, compared to one of just under 5% in 1999. The hike in oil prices drove up the value of crude oil exports by 22% even though the volume of exports was trimmed by a quarter. The value of coffee exports, in contrast, was down by 19% as a result of a drop in both the volume of exports and international coffee prices. Non-traditional exports bounced back sharply (17%); this increase was led by the industrial items in this category (23%), which represent nearly 80% of the country's non-traditional exports. Sales to the United States represented the largest share (49%) of Colombia's total exports owing to the dynamic performance of that economy and the devaluation of the Colombian peso. Exports to countries in the Andean Group showed the biggest upswing (33%), with sales to Venezuela and Ecuador, in particular, soaring by more than 40% thanks to the recovery of both these trading partners' economies.

Imports were up by 8% after a steep decline the previous year (-27%). There was an especially notable surge in purchases of raw materials and intermediate goods, whose dollar value rose by 19%. Imports of consumer goods expanded by 8%, while those of capital goods shrank by nearly 7% as a result of sluggish investment in 2000.

The net inflow of long-term funds dropped from US$2.262 billion in 1999 to US$1.957 billion in 2000. Foreign direct investment, followed up two years of declines with an increase of US$2.552 billion in 2000. The reason for this upturn was the privatization of the Sociedad Carbones de Colombia, the capitalization of financial establishments, the entry of new telecommunications companies, and the capitalization of others in order to meet payments on the foreign debt. Inflows of financing were smaller than in 1999, especially in the private sector, mainly because of the high cost of these funds. At the same time, there was a decrease in the outflow of short-term resources, especially in the case of outward portfolio investment.

Colombia's total foreign debt was down slightly, from US$33.624 billion in 1999 to US$33.264 billion in 2000 (40% of GDP). The private sector cut its debt to US$13.015 billion (16% of GDP), while the public sector's debt mounted by US$500 million.

COSTA RICA

1. General trends

The Costa Rican economy suffered a serious external blow that significantly reduced its growth rate. In the second quarter of 1999, economic activity began to flag after two years of growth exceeding 8% a year. This trend became accentuated in 2000, when gross domestic product (GDP) increased by a mere 1.7%. Open unemployment fell, but per capita income contracted slightly. The authorities continued with their policy of mini-devaluations of the exchange rate with a view to preserving external competitiveness, while inflation remained at a level similar to the previous year's (10%) and interest rates came down. Although the management of the public debt improved, public finances weakened.

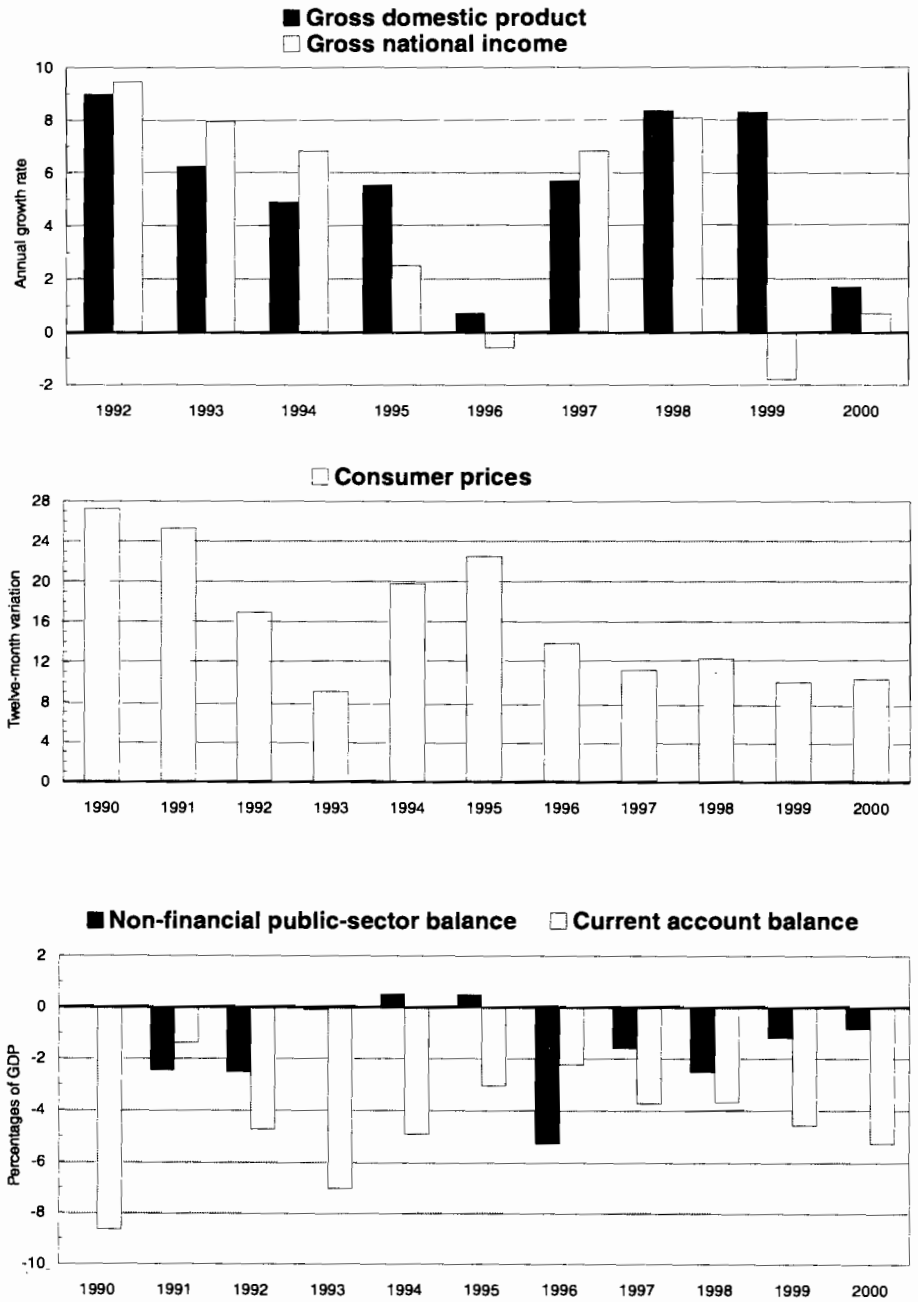
LOWER EXTERNAL demand depressed production, in particular that of manufactured goods and farm products, thus driving down total goods exports. In particular, production in the high technology electronics industry (Intel) fell, as did exports, causing a drop of 1.1 percentage points in the GDP growth rate. Investment also shrank, due to high interest rates, low expectations, and the lack of progress on structural reforms.

The external sector deteriorated owing not only to the decreased volume of goods exports but also to adverse terms of trade (lower international prices for agricultural and electronic products and higher oil prices). As a result, the current-account deficit rose to 5.4% of GDP. Interest payments and profit remittances abroad diminished somewhat but remained very high. Smaller capital inflows, especially foreign direct investment (FDI) and short-term private capital, were not enough to finance this imbalance, the result being that reserves fell by US$154 million. Consequently, international reserves had fallen to the equivalent of just three and a half months of imports by the end of 2000.

Efforts were made to use monetary policy to contain inflationary pressures without undermining production and external stability. The detrimental external situation was dealt with through open-market operations, that is, the issuance of stabilization bonds intended to control the expansion of liquidity, especially in the first half of the year. Later on, production was supported by eliminating restrictions on credit growth. The effects of this policy were a smaller devaluation of the currency and weak domestic demand, which helped curb inflation despite pressures from higher fuel prices.

Fiscal policy was characterized by improved tax administration and debt management; interest payments, particularly on the domestic debt, rose more slowly, although spending climbed faster than revenues. As a result, the central Government's deficit, at 3% of GDP, was greater than it had been in 1999.

Figure 1
COSTA RICA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

Little progress was made on structural reforms, as measures to liberalize the energy and telecommunications sectors failed to win approval. The Worker Protection Act, designed to modernize and strengthen the financial position of pension funds, was passed into law.

Prospects for 2001 point to slow growth. The objectives of the revised monetary programme include inflation of 11% and a small drop in net international reserves. It is estimated that GDP will grow by 2.6% excluding the high technology electronics industry, but by just 0.5% if this industry is included. The consolidated public-sector deficit is expected to be slightly lower than in 2000 (3.3%). Although banana exports may improve thanks to the agreement between the United States and the European Union, coffee will continue to suffer the effects of low international prices. Inflation was 6.6% in the first six months of the year, compared to 12% for the 12 months to June.

2. Economic policy and structural reform

Economic policy focused on stabilization against the backdrop of a deteriorating external environment and low economic growth. Efforts were made to shore up the public finances, but the results were disappointing. In addition, the Central Bank was capitalized, the public debt was restructured, and management of the domestic debt improved. Monetary policy helped contain inflationary pressures and supported the mini-devaluations policy. Structural transformations in the energy and telecommunications sectors had to be halted in the face of strong political opposition.

(a) Fiscal policy

Fiscal policy was based on improved debt administration, but spending proved resistant to cuts, and consequently public finances continued to pose a challenge for stabilization efforts. The consolidated public-sector deficit was 3.6% of GDP, while the non-financial public-sector deficit rose to nearly 2% and the central government deficit to 3%.

The tax burden was 12.6%, slightly higher than in the previous year. The central Government's current revenues grew by 3.4% in real terms, less than in 1999, due to the downturn in the economy and the abolition of selective consumption and asset taxes. Revenues from export taxes plummeted (-62%) owing to the decline in external sales and the abolition of ad valorem export duties. Indirect tax revenues were boosted by the rise in the oil price; the yield of the import tax rose by 9%, and that of the fuel consumption tax also increased. Application of the Tax Standards and Procedures Code and the widening of the tax base that resulted from the abolition of Tax Credit Certificates also bolstered revenues.

Total spending climbed by over 5% in real terms, outstripping revenue growth. Current spending rose by 4% due to transfers to the public sector, specifically the Fund for Social Development and Family Allowances (FODESAF) and the Costa Rican Oil Refinery (RECOPE), and to higher wages and salaries for teachers and public security personnel. The Worker Protection Act pushed up the amount of payments into the Costa Rican Social Security Fund. The coverage of secondary education and rural primary education was expanded.

Current transfers to the private sector fell as a result of the abolition of Tax Credit Certificates. Real investment by the central Government was down 2% at constant prices. Capital transfers to the public sector soared 34%, with payments to the National Highway Council for road maintenance accounting for a large share. The primary surplus fell to 0.8%. The central government deficit was covered by domestic and external financing in equal proportions.

Public debt policy focused on improving debt servicing terms. Net public debt, at 55% of GDP, was slightly higher than at the end of 1999. Interest on the debt fell by 1.6% in real terms, and domestic debt interest was down nearly 4%, although it still represented a major burden (22% of current expenditure). Improved debt administration and the conversion of domestic debt to external debt at lower interest rates contributed to this healthier picture. The Government placed US$250 million in bonds on the international market, with a 20-year term and interest of 9.99%. In August, the credit-rating agency Standard & Poor's raised Costa Rica's debt outlook from stable to positive, which helped lower the interest rate on its bond issues. The net external public debt was US$3.151 billion (20.9% of GDP). In

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment [b]									
Gross domestic product	9.0	6.3	4.9	5.6	0.7	5.7	8.4	8.3	1.7
Per capita gross domestic product	5.6	2.9	1.8	2.6	-1.9	3.1	5.7	5.7	-0.5
Gross domestic product, by sector									
Goods	9.2	6.2	3.7	0.7	1.1	5.5	10.2	16.9	-1.4
Basic services	10.1	11.2	7.2	20.8	-2.9	8.8	11.0	3.4	6.0
Other services	7.6	5.8	5.1	4.0	0.4	5.0	6.0	4.2	3.1
Consumption	8.4	7.4	6.0	6.8	2.0	5.1	5.3	1.9	2.2
General government	2.7	4.8	2.0	-0.3	-0.5	4.7	2.2	2.0	2.0
Private	9.5	7.9	6.7	8.0	2.4	5.1	5.7	1.9	2.3
Gross domestic investment	25.2	19.6	2.4	-12.9	-10.0	24.9	24.9	-13.6	-4.1
Exports of goods and services	16.5	8.2	3.8	11.2	6.2	8.4	26.4	22.0	-1.5
Imports of goods and services	22.7	17.2	4.6	2.7	3.1	14.2	25.0	1.3	-2.8
				Percentages of GDP [c]					
Gross national income	97.5	98.3	100.3	99.2	98.0	99.2	99.0	90.0	89.1
Gross domestic investment	19.0	20.7	20.0	18.1	16.2	19.1	22.1	17.6	16.6
National saving	14.1	13.5	14.6	14.5	12.4	14.2	16.9	12.9	11.5
External saving	4.8	7.2	5.4	3.6	3.7	4.9	5.1	4.8	5.1
				Percentages					
Employment and wages									
Labour force participation rate [d]	51.5	52.6	53.1	53.9	52.2	53.8	55.3	54.8	53.4
Open unemployment rate [e]	4.1	4.1	4.2	5.2	6.2	5.7	5.6	6.0	5.2
Real average wage (index 1995=100)	89.2	98.3	102.0	100.0	97.9	98.7	104.3	109.2	110.1
				Growth rates					
Prices (December-December)									
Local consumer prices	17.0	9.0	19.9	22.6	13.9	11.2	12.4	10.0	10.3
Industrial producer prices [f]	10.5	6.2	19.9	21.9	13.3	10.1	8.8	11.3	10.2
External sector									
Terms of trade (index 1995=100) [c]	81.0	84.5	93.9	100.0	94.9	100.6	103.9	102.8	95.8
Nominal exchange rate (colones per dollar)	135.0	142.0	157.0	179.7	207.7	232.6	257.2	285.7	313.4
Real effective exchange rate for imports (index 1995=100)	102.7	102.7	103.0	100.0	98.4	101.8	104.8	109.5	109.6
				Millions of dollars					
Balance of payments									
Current account	-407	-679	-520	-357	-264	-480	-519	-716	-833
Trade balance (goods and services)	-356	-583	-533	-266	-229	-357	-166	1 004	289
Exports	3 061	3 482	3 815	4 451	4 828	5 349	6 882	8 190	7 651
Imports	3 417	4 065	4 348	4 717	5 056	5 707	7 047	7 186	7 362
Capital and financial accounts [g]	544	703	415	537	186	696	370	1 196	679
Overall balance	137	24	-105	180	-77	216	-150	480	-154
Variation in reserve assets (-indicates an increase)	-137	-24	105	-180	78	-216	150	-480	154
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	47.3	41.6	39.2	36.0	31.0	27.2	26.6	25.3	25.7
Net interest (as a percentage of exports) [h]	4.2	4.2	2.2	2.7	2.2	1.8	1.3	1.1	0.9

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	12.3	12.4	12.0	12.7	12.9	12.8	12.9	12.5	12.7
Current expenditure	12.5	12.3	15.7	14.7	15.5	14.1	14.0	13.9	14.3
Saving	-0.1	0.0	-3.6	-2.0	-2.6	-1.3	-1.1	-1.3	-1.5
Net capital expenditure	1.4	1.6	1.8	1.5	1.4	1.7	1.4	1.0	1.5
Financial balance	-1.5	-1.5	-5.5	-3.5	-4.0	-3.0	-2.5	-2.3	-3.0
Domestic financing	1.3	2.2	5.6	4.3	5.1	3.8	1.1	0.8	1.5
External financing	0.2	-0.7	-0.1	-0.8	-1.0	-0.8	1.4	1.5	1.5
				Growth rates					
Money and credit									
Net international reserves	23.0	4.9	4.6	41.6	-2.0	21.8	-2.4	55.6	-6.8
Net domestic credit	24.3	31.5	27.6	3.3	46.3	17.9	37.6	7.2	34.1
To public sector	-4.3	2.7	28.6	30.8	127.1	32.3	19.5	-21.7	-0.4
To private sector	48.0	36.1	15.7	30.9	18.7	26.2	51.0	18.3	30.1
Money (M1)	36.0	7.8	31.1	-0.4	17.5	43.2	12.3	20.6	16.2
Local-currency savings and time deposits	40.9	40.1	10.6	17.3	30.1	1.7	22.5	13.2	23.1
M2	38.6	25.2	18.7	9.6	25.1	17.2	17.8	16.4	20.0
Dollar deposits	0.2	10.3	20.9	29.6	33.1	22.6	39.7	22.0	23.6
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	6.5	3.8	0.6	-0.2	-0.1	0.9	3.9	2.2
Lending rate	...	18.4	17.3	10.8	7.4	8.2	9.6	14.3	12.6
Equivalent interest rate in foreign currency [i]	...	16.7	17.6	22.7	17.1	14.0	12.6	14.2	13.3

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] For 1991, growth rates were calculated using constant 1966 prices; from 1992 on, they are based on the new series that use constant 1991 prices. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population. [f] In 1993 the use of the wholesale price index was discontinued and was replaced with an industrial producers price index. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. Since 1992, these export figures include the maquila industry. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

general, the terms of the debt are favourable as far as terms, rates and creditors are concerned.

(b) Monetary policy

Monetary policy objectives included achieving a 9% inflation rate and raising the net international reserves of the Central Bank by US$60 million. insofar as this was compatible with renewed growth. During the early months of the year, however, liquidity expanded by much more than GDP at current prices. This was a consequence of bonds issued abroad in 1999, which were monetized at the end of that year, as well as the reduction of the legal reserve requirement in March 2000, the losses sustained by the Central Bank, and the central Government's use of deposits. Monetary policy was tightened in response to this situation. Thus, in the first eight months, the monetary authorities carried out open-market operations in greater amounts than those recorded in the second half of 1999, issuing monetary stabilization bonds (BEMs) through auctions. In June, the outstanding bond total was 23% higher than in December 1999. In the second half of the year, the Government redeemed its debt to the Central Bank, thereby reducing the need to issue stabilization bonds. As a result, the annual value of open-market operations increased only very slightly.

Domestic credit rose slightly during the first six months (16%). In the second half, additional measures were adopted to stimulate private credit, and the 27% limit on the growth of lending by State banks to the private sector was abolished. Private banks, with 41% of

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	1998				1999				2000*				2001*
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	11.9	6.0	8.5	7.6	10.6	8.4	8.4	6.3	3.7	3.4	-0.1	-0.2	-0.5
Consumer prices (12-month variation, %)	11.2	10.8	12.7	12.4	10.7	10.6	8.6	10.0	12.0	10.5	11.5	10.3	10.6
Exports (millions of dollars)	1 220	1 413	1 396	1 495	1 682	1 675	1 635	1 657	1 621	1 548	1 377	1 228	1 303
Imports (millions of dollars)	1 451	1 507	1 536	1 745	1 660	1 531	1 561	1 565	1 812	1 618	1 567	1 583	1 600
International reserves (millions of dollars)	1 152	1 166	969	1 063	1 184	1 440	1 354	1 460	1 440	1282	1363	1318	1 401
Real effective exchange rate [b] (index 1995=100)	104.2	104.8	103.6	106.7	107.1	109.3	110.7	110.7	108.7	109.9	109.9	109.8	108.2
Money (M1) (change from same quarter of preceding year)	44.8	23.6	21.8	12.3	11.9	18.0	23.6	20.6	21.7	22.7	18.5	16.2	15.8
Real interest rates (annualized, %)													
Deposit rate [c]	1.1	1.5	0.1	1.0	2.1	4.0	5.4	4.1	2.2	2.3	1.9	2.4	2.0
Lending rate [d]	9.7	10.0	9.2	9.6	11.6	14.4	16.4	14.8	13.1	12.8	11.5	12.9	12.9

Source: ECLAC, on the basis of official figures.
* Preliminary figures. [b] Refers to exchange rate for imports. [c] 180-day deposits. [d] Short-term loans.

the portfolio, were more active in granting new loans (39%). Thus, by December lending to the private sector had expanded by 30%, mainly in the form of consumer, business and housing loans. The interest rate differentials between dollar and colón loans stimulated foreign currency lending, which rose by 58%. Meanwhile, lending rates fell by 1.75 percentage points and deposit rates by 4.92 points. However, spreads increased due to market concentration. The legal reserve requirement was reduced by 2 percentage points. By the end of the year, broad liquidity had grown by 21%, the money supply (M1) by 16%, and near money by 23%, well above nominal GDP growth of 8.9%.

The implementation of monetary policy, particularly through the issuance of BEMs, led to quasi-fiscal losses by the Central Bank and a deficit amounting to 1.8% of GDP. The central Government redeemed its debt to the Central Bank, which allowed the Bank to be capitalized. Reforms approved in late 1999 to improve the operations of financial intermediaries were put into effect.

(c) Exchange-rate and trade policy

The crawling peg exchange-rate policy (mini-devaluations) was designed to maintain the relative profitability of sectors producing tradable goods. The nominal rate of annual devaluation was 6.7%. In real terms, the exchange rate stayed relatively stable, appreciating slightly over the course of the year.

Trade policy remained oriented towards Costa Rica's integration into the international market through unilateral trade liberalization and measures to improve market access in the form of bilateral trade agreements with the Dominican Republic, Chile, Canada and Panama. The country continued to participate in regional and hemispheric integration activities and negotiations on specific products.

In April 2001, a free trade agreement between Canada and Costa Rica was signed in Quebec. Slow progress was made on the negotiation of the free trade agreement with Panama. In January 2001, the law

ratifying the free trade agreement between Costa Rica and Chile was signed.

The free trade agreement with Mexico enabled the country to increase its exports substantially. In 1995-1999, exports grew by an annual average of 64%, although the bulk of them was accounted for by two companies and two products. Imports rose 20% during that period. There was a major flow of investment from Mexico, making that country the second-largest source of FDI in Costa Rica.

Foreign direct investment was promoted by means of reciprocal investment agreements with the Republic of Korea, Bolivia and Switzerland. Integration with Central America proceeded at a gradual pace. Exports to Central America rose 5% in 2000, and imports dropped by just over 2%. Due to non-economic factors, the integration process has slowed.

(d) Structural reform

The Worker Protection Act was passed, aimed at modernizing the social security system and strengthening the financial position of pension funds. Little progress has been made on structural reforms, since measures designed to liberalize the energy and telecommunications sectors failed to pass in the face of intense social protests.

3. The main variables

External demand fell, as reflected in lower volumes of electronics, banana and sugar exports. Domestic demand, meanwhile, remained virtually stagnant. Total consumption increased (2.2%) as a result of rising waged employment and the steady growth of credit in real terms, which offset the reduction in disposable personal income and the real average and minimum wages. The policy of restraining government spending, meanwhile, kept government consumption in check (2%). Fixed capital investment, especially in machinery and equipment, fell for the second year in a row (4.3%). Private construction, particularly of housing, increased. Foreign investment shrank after the large investments made by Intel in 1997 and 1998, although there were increases in other areas, particularly tourism.

In terms of overall supply, GDP growth slowed sharply to just 1.7%, from 8.3% in 1999. Imports were down 3% in real terms as domestic production fell off.

(a) Economic activity

The economic slowdown primarily affected the production of goods and other services, since basic services were up 6.4%.

After an average increase of 6.5% over the previous two years, farm production stagnated (-0.5%) as a result of lower international prices, adverse weather conditions and the financial problems of producers, who accumulated considerable arrears. The banana industry saw plantations abandoned and productivity and production fall. Depressed coffee prices led to some neglect in agricultural practices, especially fertilization. That, together with the biennial harvest cycle, resulted in lower production. To alleviate the crisis in the foreign marketing of these products, the Government cut export taxes on coffee and bananas.

Agriculture for domestic consumption has been in a crisis for four years. In 2000, maize and bean production fell by 16% and 9.5%, respectively. Rice suffered from smaller yields and high production costs, while beans lost competitiveness in the face of heavy foreign competition. High customs duties and, in the case of beans, high temporary tariffs have been maintained in order to support farmers.

Farmers suffered serious financial problems and loan delinquency, and have had to refinance their debts to the banking system. The Government contributed funding to help with overdue interest, and facilitated the restructuring of delinquent loans.

Manufacturing, which is the largest component in overall GDP, experienced the greatest contraction (-3%) due to the downturn in the high technology electronics industry. Sugar production was off as well, along with that of vehicle parts and accessories, basic chemicals, clothing and shoes. The *maquila* industry contracted for the third year in a row.

In contrast, rubber, glass, primary iron and steel, dairy and other textile products posted the strongest gains. Small businesses and microenterprises increased their share in the manufacturing sector. The State established the Special Mixed Commission on Small and

Medium-Sized Industry for the purpose of formulating a competitiveness strategy for these businesses.

In the first few months of the year, relatively high interest rates and input prices, at a time of economic slowdown, had an adverse effect on the demand for construction. In the second half of the year, housing construction rallied thanks to better credit terms for housing and lower taxes on inputs in that sector. Housing credit expanded by 33%.

Business in general suffered the impact of higher fuel prices, stagnant per capita income and a slight dip in real wages. Restaurants and hotels in the tourism industry continued their steady growth. Tourism expanded, boosting infrastructure investment in San José and on the North Pacific coast.

(b) Prices, wages and employment

Inflation was slightly above target (10.2%) but similar to that of the previous year. The most important factor was the rise in domestic fuel prices, which drove up production and transport costs. Problems with the supply of foodstuffs and increases in taxes, telephone charges, urban transit fares and alcoholic beverage prices also took their toll.

The decline in investment, the moderate growth of consumption and, in particular, monetary and exchange-rate policy were all instrumental in preventing a larger rise in the consumer price index. In the second half of the year, inflationary pressures resumed as oil prices rose and urban transport and electricity charges climbed.

The average wage rose slightly in real terms. The open unemployment rate fell eight tenths of a point (5.2%) to its lowest level in five years, although industrial employment was down, particularly in maquila and free trade zone activities. Meanwhile, the income and expenditure survey revealed that poverty now affected 21.1% of households.

(c) The external sector

Due to adverse external circumstances, such as the fall in worldwide demand for semiconductors, the deficit in the balance-of-payments current account worsened to 5.4% of GDP, despite lower interest payments and profit remittances. Also contributing to this deterioration were worsening terms of trade (9% below the 1995 level). After a decade of steady growth (18% a year), goods exports fell by 11% due to low prices for various products on international markets (prices fell by an average of 7%) and depressed sales of Intel semiconductors. Traditional exports were down 9%, the second consecutive year of decline. Coffee and banana prices sagged on the international market. Non-traditional exports dropped 13%, especially shrimp and fish. Sales to Central America, 10% of the total, rose by 5%. Exports of services increased by 12%, led by a continuing expansion of tourism, with 1.1 million visitors coming into the country.

Imports of goods were similar to those recorded in 1999, as a result of the slower economy, higher oil prices and lower demand for machinery and equipment. Imports of capital goods once again subsided (2.2%) after the major purchases of 1997 and 1998. Imports from Central America were down 2%.

The reduced earnings of the high technology subsector in 2000 pushed down revenues from foreign direct investment which, at US$1.139 billion, was nearly 34% less than the 1999 figure. Interest payments also declined. Payments to employees and transfers continued to grow (17% and 5.6%, respectively) as a result of the hiring of Nicaraguan immigrants. The current-account deficit reached US$833 million, 16% higher than in 1999.

The policy of attracting FDI, along with favourable conditions (infrastructure, legal system, workforce, tax system and macroeconomic environment), has prompted a substantial increase in investment since the mid-1990s. The average for 1998 and 1999 was US$615 million a year. FDI dipped in 2000, as expected, after the US$400 million investment in Intel facilities was completed.

The net public-sector debt mounted with the placement of US$250 million in bonds on the international market. Short-term private financing shrank significantly.

Capital inflows were less than the current-account deficit, so that international reserves fell by US$154 million. By the end of 2000, net international reserves were enough to finance three and a half months of imports.

CUBA

1. General trends

Cuba's gross domestic product (GDP) increased by 5.6% during the year, giving an average annual growth rate of 4.6% for the five-year period 1996-2000. Faced with a chronic shortage of foreign exchange and a sharp increase in the oil bill, the authorities had to curb the rapid growth seen in the first six months. Rising interest payments and, to a lesser extent, the expansion of the trade deficit drove the balance-of-payments current-account deficit upward for the second consecutive year, to the equivalent of 2.1% of GDP. The main reason for the widening trade gap was the continuing deterioration in the terms of trade since, in volume terms, goods exports actually rose faster than imports. Nevertheless, a capital-account surplus made it possible to finance the current-account deficit and increase the country's depleted foreign reserves by a small amount. As regards the monetary and price situation, there were no significant changes; prices fell slightly once again, while the parallel exchange rate remained stable.

ACTIVITY INCREASED in all sectors, especially mining, thanks to higher output of nickel, petroleum and gas. In the farm sector, growth was due to the strong performance of sugar cane and other crops, while in the case of tourism and construction services it was primarily due to projects in the dollarized economy.

In the macroeconomic sphere, faster spending growth increased the budget deficit and kept the cumulative monetary liquidity ratio at a high level. Prices were reduced, however, by an increase in the supply of goods on the open market and higher subsidies for products distributed under the ration book system. Considerable progress was made with the reorganization of the banking and financial system, and with the modernization of this system through the introduction of computerized record-keeping. There was also progress with efforts to improve business practices with a view to giving greater management autonomy to State-owned production companies and thus promoting administrative decentralization, which should gradually reduce the need for subsidies.

GDP is expected to grow by 5% in 2001. Considering the likelihood of a smaller sugar harvest in 2000/2001, primarily because of the drought, economic expansion will depend on continued efforts to improve efficiency in the use of available resources, boost labour productivity and cut energy consumption. Manufacturing output is expected to increase (7%) as a result of advances in non-sugar industries, and rising nickel production should contribute to growth in the mining sector (5%). A fiscal deficit similar to that seen in 2000 is expected (2.5% of GDP), while the amount of money in circulation is expected to remain unchanged.

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	-11.6	-14.9	0.7	2.5	7.8	2.5	1.2	6.2	5.6
Per capita gross domestic product	-12.2	-15.4	0.2	1.9	7.3	2.0	0.8	5.8	5.2
Gross domestic product, by sector									
Goods	-19.2	-16.7	4.2	7.1	11.8	6.0	1.9	7.5	6.9
Basic services	-13.2	-17.2	-0.9	7.0	7.0	4.6	1.2	4.7	7.3
Other services	-5.5	-13.4	-1.2	-1.3	5.2	-0.6	0.7	5.5	4.5
Consumption	-14.4	-5.6	0.8	1.4	3.3	3.0	2.1	...	...
General government	-5.2	-1.1	-1.9	-0.6	4.0	0.6	1.8	...	...
Private	-20.5	-9.3	3.2	3.0	2.7	4.9	2.3	...	...
Gross domestic investment	-58.3	-39.7	1.9	35.2	22.8	18.0	16.8	...	...
Exports of goods and services	-5.9	-24.9	9.1	4.3	24.6	2.7	-3.2	...	...
Imports of goods and services	-45.3	-5.4	19.2	11.5	24.3	10.5	2.9	...	...
				Percentages					
Employment									
Rate of unemployment	6.1	6.2	6.7	7.9	7.6	7.0	6.6	6.0	5.5
				Growth rates					
Prices (December-December)									
Consumer prices	...	...	...	-11.5	-4.9	1.9	2.9	-2.9	-3.0
External sector									
Terms of trade (index 1985=100)	51.5	54.4	65.9	73.9	66.7	68.5	57.3	55.9	49.9
Official exchange rate (pesos per dollar)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Informal exchange rate (pesos per dollar) [c]	35.0	78.0	95.0	32.0	19.2	23.0	21.0	20.0	21.0
				Millions of dollars					
Balance of payments									
Current account	-420	-372	-260	-518	-167	-437	-392	-456	-600
Trade balance (goods and services)	-215	-371	-308	-639	-419	-746	-757	-715	-780
Exports	2 522	1 968	2 542	2 926	3 707	3 873	4 085	4 288	4 807
Imports	2 737	2 339	2 849	3 565	4 125	4 619	4 841	5 003	5 587
Capital and financial accounts	419	356	262	596	174	457	409	486	640
				Percentages					
External debt									
Gross debt (as a percentage of GDP) [d]	47.3	41.6	39.2	36.0	31.0	27.2	26.6	25.3	25.7
				Percentages of GDP					
State income and expenditure									
Total revenue	56.5	57.3	62.6	56.6	50.0	49.5	48.3	48.6	49.7
Total expenditure	86.3	87.7	69.6	60.0	52.3	51.3	50.5	50.8	52.3
Financial balance	-29.7	-30.4	-2.6	-3.3	-2.3	-1.9	-2.2	-2.2	-2.5
Money									
Liquidity	51.0	66.5	48.8	40.2	38.9	38.3	37.5	35.9	35.5
Regular savings deposits	24.9	27.4	17.7	15.4	16.3	16.3	16.6	16.6	16.4
Ordinary savings deposits	26.1	39.0	31.1	24.8	22.7	22.0	21.0	19.3	19.1

Source: ECLAC, on the basis of official figures and ECLAC estimates.
[a] Preliminary figures. [b] Based on series at constant 1981 prices. [c] Average exchange rate. [d] Calculated on the basis of the official rate of 1.00 peso to the dollar.

2. Economic policy and structural reform

The government's programme in 2000 focused on promoting productivity in the public administration and quality in basic services. Progress was made with the introduction of financial planning in public enterprises to replace the old system of material planning.

(a) Fiscal policy

Public revenues improved thanks to an 8.7% rise in current receipts, with capital revenues declining by 9.3%. Non-tax revenues expanded faster (15.2%) than tax revenues (7.2%), while receipts from direct taxes were up by 11.1%. Profit and labour force utilization taxes yielded 17.8% and 17.5% more, respectively, owing to the incorporation of all public enterprises into the new tax system, which took place in 1994, and to rising levels of economic activity and efficiency. Personal income tax receipts were up by only 1.1%, however, owing to the decrease in the total number of own-account workers (from 190,660 in 1999 to 180,160 in 2000). Receipts from private hauliers and farmers increased.

The National Tax Administration Office improved the efficiency of its collection and auditing activities. Under the voluntary tax collection system, compliance by legal and natural persons was 98% and 95%, respectively.

Indirect tax receipts grew by 4.6%. Taxes on circulation and sales yielded 15.6% more, the rise being accounted for primarily by beer and food, since sales of cigars, cigarettes and rum declined. There was also an increase (9.1%) in the yield of taxes on the catering (State-owned restaurants) and hotel industries and on electricity transmission.

The rise in social security contributions (4.9%) did not keep pace with employment and wage growth, and this sector continued to show a deficit equivalent to 2% of GDP. Approximately 1.4 million people (14% of all inhabitants) received pensions in 2000.

Public spending represented 23.8% of GDP. Current expenditure, of which social spending was the largest component, increased as a share of GDP (12.3%), while capital spending declined (12.7%) for the second year in a row. There were large increases in the current expenditure of the defence and public order sectors (24.3%), followed by culture and art (18.3%), science and technology (17.9%) and administration (17.4%). In the social spending category, there were increases in social welfare transfers (17.4%), education (16.1%), health (11.1%) and housing and community services (9.7%). The growth of the wage fund (13.9%) benefited nearly 90,000 public-sector employees, especially defence and public order personnel. Since the fund had also expanded the previous year (26.6%), a total of 880,000 public-sector employees benefited during the period 1999-2000.

Improved output growth and enhanced economic efficiency helped reduce the need for subsidies to loss-making public enterprises and economic aid to basic cooperative production units (UBPC). Of the latter, 75% were profitable in 2000, compared to 65% the year before. Transfers to public enterprises were concentrated mainly in the sugar agro-industry and farming sectors. Indirect subsidies to the public, on the other hand, increased by 19.4% because prices paid on the parallel agricultural market to producers of various goods in the basic family basket were increased, but consumer prices were not.

(b) The monetary and financial sector

Monetary policy was conducted against the backdrop of measures to reorganize the financial system (banking and non-banking), which led to the consolidation of the Central Bank and new financial institutions. In addition, banking operations were automated and all bank branches were networked. Towards the end of the year, the Central Bank established a new system of charges and payments with a view to improving the financial discipline of businesses and further facilitating the turnover of money and the settlement of commercial transactions.

The monetary liquidity ratio (cash in circulation and ordinary savings) remained at approximately 35% of GDP. Net issuance of money increased as the State's monetary revenues and outgoings rose by 6.1% and 7.1%, respectively. Among the former, charges for housing, electricity, gas, and water accounted for the largest gains (11.8%), followed by transportation services (10.5%), with merchandise sales growing more slowly (2.4%). The increase in outgoings was mainly accounted for by wages, salaries and payments to UBPCs, which rose by 6.8%.

Term deposits rose to 700 million pesos (equivalent to 2.4% of GDP) in response to the larger volume of money issued and the rise in peso interest rates, which were higher than those for dollar and convertible peso deposits. The domestic financial system provided producers with US$2 billion in short-term lending, US$500 million more than in 1999. Lending to producers in Cuban pesos also increased, from 5.2 billion pesos in 1999 to 5.5 billion in 2000. The index of problem loans was 2.3%.

Lastly, the parallel exchange rate remained at about 21 Cuban pesos to the dollar, while the official rate remained unchanged (one peso to the dollar).

(c) Structural reforms

Since the first stage of far-reaching reform made necessary by the 1989-1993 crisis, the government has given priority to changes of a more institutional nature, such as reorganizing and modernizing the financial sector, decentralizing the management of public enterprises and adapting tax laws to new circumstances in the production sector. In 2000, these economic reforms were continued in a gradual and selective manner, as the authorities concentrated mainly on managing the current economic situation.

Joint ventures with foreign private-sector companies, combined with the liberalization of some local production activities, were one of the most notable components of the new economic model developed from 1994 onward. By the end of 2000, 394 joint ventures and partnership agreements had created some 33,000 jobs, while investment commitments totalled some US$5 billion. Some 240 businesses were operating in three free trade zones and industrial parks.

In 2000, the greatest progress was made in the reorganization of the banking and non-banking financial system. The corporate development programme –an independent management system based on self-financing of State enterprises– extended to 55 public-sector entities (as compared to just five the previous year), which should result in greater administrative decentralization and lower subsidies. The enterprises involved retain part of their profits which they use on a decentralized basis; they may reinvest to improve workers' living and working conditions and provide incentives to the most efficient. Thanks to this programme, wage levels in the public sector are on the rise. There are still some problems, however, due to shortcomings both in the quality of accounting information and internal controls and in the corporate culture of upper management.

Reciprocal investment promotion and protection agreements are currently being negotiated with 10 countries, in addition to the 51 already in force. Double taxation treaties have also been signed with Spain, Italy, Barbados, Lebanon, Portugal, the Netherlands and the Russian Federation, and similar accords are being negotiated with six other countries. In addition, the Single Window system was established in 2000 to facilitate dealings with foreign investors, and progress was made in creating the first High Technology Industrial Park. No new projects for foreign investment in real estate were approved, but 17 projects now nearing completion will provide 2,300 residential apartments and offices for businesses located in Cuba.

Progress was made with a number of initiatives aimed at integrating Cuba into the region. Thus, a partial-scope agreement was signed with the Caribbean Community (Caricom), covering matters related to trade, services, and intellectual property. Furthermore, negotiations began on a free trade agreement with this subregion. Talks with Mercosur have also begun, with a view to signing an agreement with the four member states ("4+1"), and a similar effort is under way with the Andean Community.

3. Main variables

(a) Economic activity

External demand continued to grow faster than domestic demand. Exports of goods and services rose thanks to higher sales volumes for both traditional products (sugar and nickel) and non-traditional ones (medical equipment, medicines and construction materials).

By contrast with 1999, investment rose faster than consumption in 2000. Capital formation was up in the tourism, energy and farm sectors, and in the industries producing goods and services for the domestic

foreign-currency market. As a percentage of GDP, however, investment was still very low. In general, the shortage of investment resources continued to hamper activities outside the foreign-currency area. Foreign investment went into aqueducts, gas and telephones, and these services improved. Gas and telephone services were installed in 162,000 and 37,200 households, respectively, during the year.

Private consumption continued to grow as a result of increased sales in the regulated State market, in State food centres and in the agricultural market. Consequently, the daily per capita intake of calories and protein improved, although it has not yet been restored to the levels obtaining prior to the 1989 crisis.

Production increased in all sectors, but the best performers were mining (14%), farming (12%), tourism (10%) and construction (9.3%). Growth was also seen in electricity, gas, and water (7.9%), transport, storage, and communications (7%), commerce (5.5%) and manufacturing (5%). Financial services expanded as a result of growth in bank intermediation and insurance activities.

International tourist growth slackened (10%, compared to 13% in 1999), owing to the significant depreciation of the euro against the United States dollar and the rising cost of long-distance air travel. As a result, the hotel occupancy rate rose only very slightly, from 60% in 1999 to 60.7% in 2000. Gross revenues were up 2%, and the imported component of tourist activity fell to 46% (50% the previous year).

The main countries from which tourists to Cuba came were Canada, Germany, Italy, and Spain. This sector provided direct employment for 80,000 people in 30 joint ventures and 50 companies operating under management agreements. The State owns 89% of all hotel rooms, the rest being owned by joint ventures.

Sugar cane and other crops drove growth in the farm sector, while livestock saw no growth because of the shortage of animal feed. The total fishing catch increased, but there were declines in lobster and shrimp.

In manufacturing, the 1999/2000 sugar harvest contributed to the good results, as it allowed raw sugar production to rise by 10%. The non-sugar industry also made gains, thanks to a strong resurgence in 15 of the 22 sectors. Construction industry growth was driven by hotel projects in the foreign-currency economy and by increased road and housing maintenance and repairs. A total of 43,000 homes were built, a slight recovery (2.4%) after three years of decline.

The greater openness of the energy sector to foreign investment resulted in a significant rise in oil extraction, which increased by 26.2% to 2.7 million tons, and in gas production, which climbed 24.9% to 575 million cubic metres. As a result, import requirements were cut by US$410 million. A 2.5-fold expansion of crude oil refining capacity allowed electricity generation to rise by 3.7%. Towards the end of the year, 70% of electricity was being generated from domestically-produced crude oil, compared to 41% the previous year. Consequently, power cuts were less frequent. The electrification of 55,800 new homes in 2000 meant that 95% of the population had electricity.

The value of sales in agricultural markets rose by 16.7%. This was due to higher volumes, as prices were actually lower. Private farming accounted for 53.7% of these sales by value, while the State and cooperative sectors accounted for 43.2% and 3.1%, respectively.

(b) Prices, wages, and employment

The price control policy was maintained in 2000, the result being a rise in State product and price differential subsidies for the third year running (7.3% of GDP). The consumer price index fell once again (-3%), thanks to the stability of regulated prices and the behaviour of open market prices, which were driven down by increased supply.

The average monthly wage rose by 7.3% in nominal terms to 249 pesos, a striking performance considering the rise in labour productivity (4.6%) and the slide in consumer prices. Employment expanded by nearly 1%, with a jobless rate of 5.5%; the eastern provinces suffered the greatest unemployment. Formal self-employment, however, fell by 5.5% as a result of greater competition, stricter oversight and the rigour of the tax system.

(c) The external sector

The balance-of-payments current-account deficit rose to US$600 million, equivalent to 2.1% of GDP, primarily as the result of a renewed deterioration in the terms of trade, since the volume of exports expanded more rapidly than that of imports. However, the capital-account surplus was enough to finance the current-account deficit and increase international reserves somewhat.

Rising international oil prices and falling sugar prices (6%) eroded the terms of trade. The oil bill rose from US$1 billion to US$1.5 billion, even though the amount of oil imported was the same as the previous year. International nickel prices rose for the second year running (44%), and that, together with an increase in the volume of nickel exported, meant that this sector

overtook sugar as the main source of foreign exchange among goods exports.

Non-traditional exports rose by 24%, mainly as a result of higher sales of industrial products with high value added, such as medical equipment and medicines, some of them derived from genetic engineering and biotechnology.

The policy of pursuing geographical diversification of foreign trade continued to show results, as is illustrated by the shares of Europe (46%), the Americas (39%) and Asia (14%) in the year's total trade. Cuba's main trading partners were Spain and Venezuela, followed by Canada, the Russian Federation and China, which also accounted for substantial shares.

Where foreign direct investment is concerned, a particularly successful example is Habanos S.A., a joint venture with a Spanish consortium for the international marketing of Cuban tobacco, with capital commitments of about US$500 million. Also noteworthy are two other projects with Spanish firms, one to build a cement factory in Santiago de Cuba Province and the other to rebuild the Cienfuegos plant. In addition, new hotels were built in the keys with Spanish and Canadian capital, and an agreement was signed with a Chinese corporation to build a hotel in Havana.

The external public debt was reduced by US$11 billion (-0.7%), a modest fall that was due to the depreciation of the euro and other currencies, repayments and accounting adjustments. Of new liabilities, most were government-insured export credits and supplier loans. The external debt amounted to 38% of GDP at the official exchange rate, or 2.3 times annual goods and services exports. The principal creditor nations were Japan, Argentina, Spain and France. The short-term debt to the latter country was paid off in the current fiscal year, and talks with the Paris Club have continued with the aim of renegotiating some US$3.5 billion in debts to its members.

ECUADOR

1. General trends

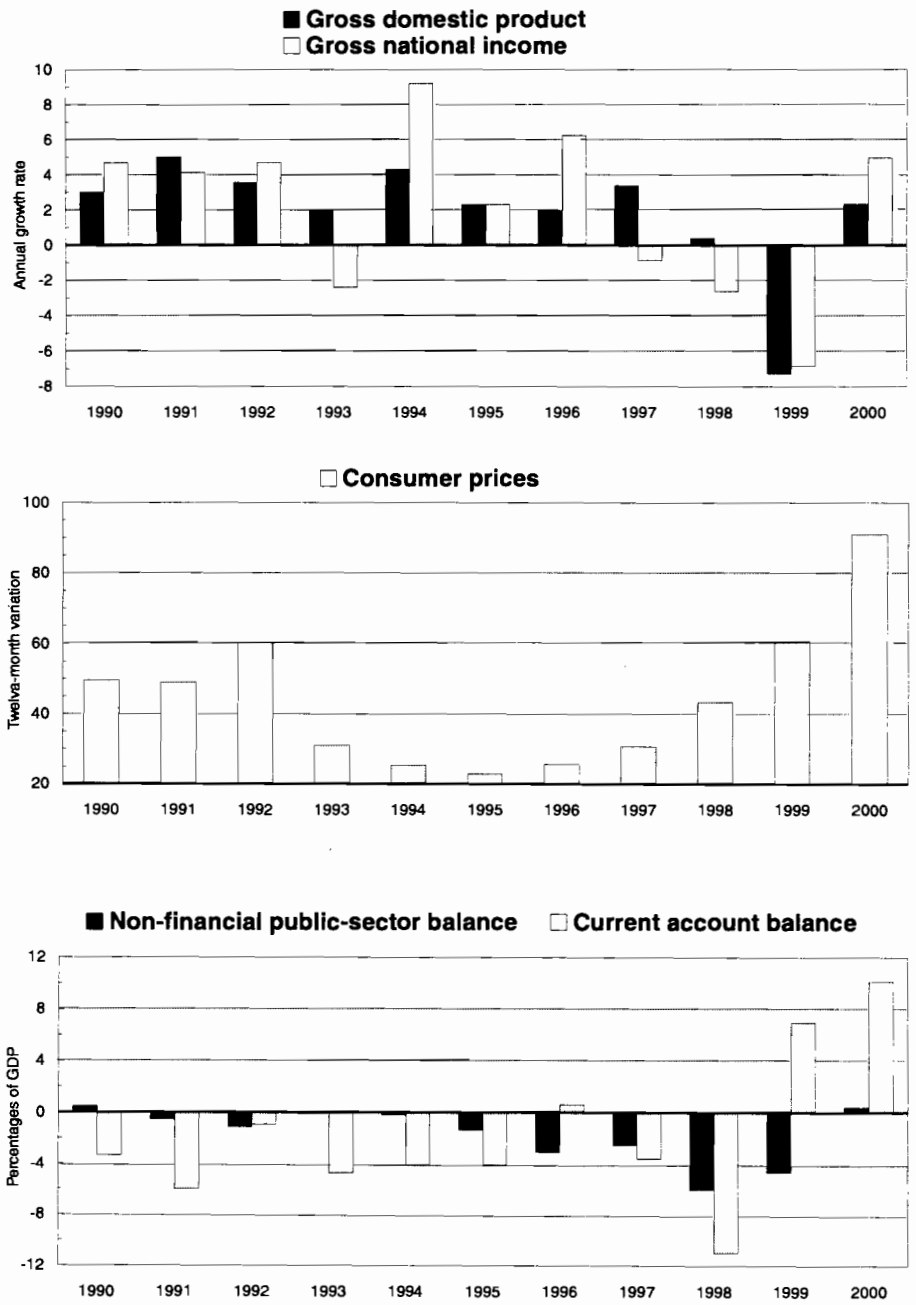
In January 2000, the Ecuadorian authorities decided to formally replace the sucre as legal tender with the United States dollar, in response to the acute crisis of confidence in the currency which had caused its external value to collapse. Although the announcement of this radical change in the economic system exacerbated an already unstable political situation that culminated in the removal of the President, the new authorities continued with the dollarization policy and introduced the new monetary scheme in the course of the year. It was under these circumstances that, after contracting sharply in 1999, the Ecuadorian economy recorded a modest growth rate of 2.3%, which was sustained by an upturn in domestic demand and increased oil exports.

THE LEGAL BASES for dollarization were laid down with the passage of the Ecuadorian Economic Transformation Act in March 2000. The package approved also included reforms to labour and financial and fiscal affairs, and measures relating to privatization. The state of fiscal affairs brightened considerably thanks, particularly, to the high oil price, and the non-financial public sector recorded a small surplus. In August the authorities restructured external public debt owed to private creditors, on the basis of a stand-by arrangement with the International Monetary Fund (IMF). Measures to kick-start the financial system proceeded only slowly, although debt restructuring regulations were issued and the private banks finished releasing the deposits that had been frozen in March 1999. A large proportion of the banking system, however, remains under the control of the Deposit Insurance Agency.

Owing to the sharp depreciation of the sucre prior to dollarization, the measure did not bring about an immediate drop in the rate of inflation, which stood at 91% at the year's end, although by then the rate was trending downwards. Currency depreciation did not boost external sales and an increase of US$400 million in the value of goods exports was exclusively due to a higher oil price. As the deficit on the services and income balance narrowed and remittances from abroad increased, the balance-of-payments current account recorded a surplus of almost US$1.4 billion, despite an upturn in imports.

Economic performance in 2001 is demonstrating the continuity of the slow stabilization and reactivation process. The economy is expected to grow at a rate of 5%, based mainly on the commencement of construction work on a crude oil pipeline, a slight upturn in public investment and, to a lesser extent, an upswing in household consumption. Inflation continues to trend downwards, but is nevertheless likely to end the year at around 20%.

Figure 1
ECUADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy

In 2000, economic policy was directed at establishing and implementing the new monetary scheme. The Ecuadorian Economic Transformation Act was approved in March, clearing the way for the dollar to be adopted as sole legal tender. This legislation contained provisions for the dollar to substitute the sucre as the circulating medium; measures to shore up the banking system, including the creation of a liquidity fund for the financial system and the delineation of conditions for credit portfolio swaps; and regulations on the management of fiscal policy, labour reform and measures to accelerate the privatization process. Subsequently the area of structural reform saw little progress, for political and legal reasons, and banking reform did not proceed at the pace envisaged either.

Relations with external creditors were regularized thanks to a 12-month stand-by arrangement with the IMF, which was approved in April. The normalization process culminated in August when external public debt owed to private creditors was rescheduled. A preliminary agreement was also reached on arrears owed to members of the Paris Club.

(b) Fiscal policy

As part of the dollarization process, the authorities considered it essential to bring the budget deficit under control, and the economic transformation legislation therefore contains precautionary rules for the management of public finances, with caps on current spending and on the deficit. The legislation also forbids Congress to increase the income and expenditure estimates in the budget presented by the executive. Alterations were also made to the stabilization fund which had come into effect in 1999. The main source of income for this fund was a 45% share of any oil revenue in excess of budget estimates. The remaining 55% of such windfall revenues were allocated in advance to specific items in the areas of road infrastructure, regional development and internal security. Much of the Stabilization Fund income arising from the favourable oil price was used at the end of the year to finance part of the deposit insurance liabilities of financial institutions that had been closed down.

The financial results for 2000, however, were largely shaped by three other factors. Firstly, the budget approved for the year raised VAT from 10% to 12% and reintroduced income tax with a top rate of 15%. At the same time, the tax on capital movements, which had been in place since 1999, was lowered from 1% to 0.8% and, in the case of natural persons, began to be counted as an advance payment on income tax. Secondly, collection procedures were made more efficient, especially for VAT. Another important factor in the 2000 fiscal balance was the oil price which, for Ecuador, rose from an annual average of US$15.50 per barrel in 1999 to almost US$25 in 2000.

In consequence, the revenues of the non-financial public sector (NFPS) increased from 25.2% of GDP in 1999 to 28.3% in 2000, which was largely attributable to increases in oil revenues (from 16.7% to 17.8% of GDP) and VAT receipts (from 3.9% to 6%). NFPS expenditure decreased from 30.1% to 27.9% of GDP. The items which most contributed to this decline were interest payments, which decreased from 8.8% to 7.6% of GDP due to restructuring of the public debt, which nevertheless continues to be very sizeable; wages, which fell from 7.1% to 5.4% of GDP, as a result of dollarization at an exchange rate of 25,000 sucres, a decrease which was not offset by the wage increases that took place over the course of the year; and capital expenditure, which decreased from 6.9% to 5.6% of GDP, owing largely to lower investment by public-sector enterprises. The NFPS deficit, which stood at 4.8% of GDP in 1999, thus turned into a modest surplus of 0.4% in 2000.

(b) Monetary and exchange-rate policy

The sucre depreciated rapidly during the latter months of 1999 and the early weeks of 2000, and the real exchange rate rose by an average annualized rate of 41% in 1999 and 7.5% in 2000. This depreciation was due to constraints on external financing, arising from the suspension of external debt payments to private creditors and mounting political uncertainty. The measures taken by the authorities did not succeed in holding back the depreciation and in January it was announced that the United States dollar would replace the sucre as legal tender. The exchange rate for the conversion was set at 25,000 sucres to the dollar, approximately the rate at which the dollar was trading at the beginning of the month. The dollarization announcement was successful

Table 1
ECUADOR: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	3.6	2.0	4.3	2.3	2.0	3.4	0.4	-7.3	2.3
Per capita gross domestic product	1.3	-0.2	2.1	0.2	-0.1	1.3	-1.6	-9.0	0.4
Gross domestic product, by sector									
Goods	3.9	2.8	6.0	2.8	1.8	3.7	-1.0	-3.1	1.2
Basic services	5.3	4.1	4.0	2.1	3.0	3.7	1.6	-7.1	4.5
Other services	2.4	2.9	2.9	2.2	3.2	2.4	0.6	-11.1	0.8
Consumption	1.5	2.0	2.5	2.2	1.6	2.0	1.8	-10.4	1.8
General government	-3.2	-1.2	0.0	1.9	-1.0	-0.3	0.2	-15.5	-1.3
Private	2.3	2.5	2.9	2.2	1.9	2.4	2.0	-9.7	2.2
Gross domestic investment	-1.2	-4.1	6.6	8.5	-11.6	17.1	9.7	-52.9	48.0
Exports of goods and services	9.6	4.2	8.7	5.0	3.6	4.3	-3.2	-0.4	-0.2
Imports of goods and services	1.0	0.8	6.0	9.8	-5.9	8.8	5.5	-39.0	18.7
				Percentages of GDP [c]					
Gross national income	95.2	91.0	95.2	94.6	98.2	93.7	90.3	93.0	95.0
Gross domestic investment	19.1	17.9	18.1	18.7	16.2	18.2	19.7	11.0	15.4
National saving	14.9	10.4	15.6	14.3	18.1	14.5	10.2	16.4	18.9
External saving	4.2	7.5	2.5	4.4	-1.9	3.7	9.5	-5.5	-3.5
				Percentages					
Employment and wages									
Labour force participation rate [d]	58.9	58.0	55.6	55.8	55.8	57.3	58.4	56.3	56.9
Rate of unemployment [e]	8.9	8.9	7.8	7.7	10.4	9.3	11.5	15.1	14.1
Real average wage (index 1995=100)	74.2	83.5	90.9	100.0	105.4	103.0	98.9	90.7	86.4
				Growth rates					
Prices (December-December)									
Consumer prices	60.2	31.0	25.3	22.8	25.6	30.6	43.4	60.7	91.0
Producer prices	...	...	...	...	...	186.9	64.9		
External sector									
Terms of trade (index 1995=100) [c]	116.3	106.4	108.9	100.0	109.6	111.9	99.6	106.2	123.8
Nominal exchange rate (sucres per dollar) [f]	1 534	1 919	2 197	2 564	3 189	3 998	5 447	11 787	25 000
Real effective exchange rate for imports (index 1995=100)	113.4	101.7	97.9	100.0	101.4	102.3	105.9	145.5	163.0
				Millions of dollars					
Balance of payments									
Current account	-122	-678	-681	-735	111	-714	-2 169	955	1 383
Trade balance (goods and services)	905	449	188	-19	885	-18	-1 702	1 190	1 211
Exports	3 718	3 712	4 581	5 257	5 750	6 087	5 007	5 263	5 793
Imports	2 813	3 263	4 393	5 276	4 865	6 105	6 709	4 073	4 582
Capital and financial accounts [g]	-844	54	116	245	-223	657	1 335	-1 846	-1 167
Overall balance	-966	-624	-565	-490	-112	-57	-834	-891	216
Variation in reserve assets (- indicates an increase)	-22	-490	-458	155	-274	-262	395	422	-308
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	101.1	95.3	87.9	77.7	76.6	76.4	83.2	118.9	99.7
Net interest (as a percentage of exports)[h]	22.0	21.0	17.9	14.2	14.7	14.3	19.7	20.6	16.1

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Non-financial public sector									
Current income	25.8	24.9	24.4	25.5	24.4	23.8	20.3	25.2	28.3
Current expenditure [i]	19.6	18.2	18.1	20.3	19.9	20.0	20.5	23.1	22.3
Saving	6.2	6.7	6.3	5.2	4.5	3.7	-0.2	2.5	6.0
Capital expenditure	7.3	6.8	6.5	6.6	7.6	6.3	5.8	6.9	5.6
Financial balance	-1.2	-0.1	-0.2	-1.4	-3.1	-2.6	-6.0	-4.8	0.4
Domestic financing	...	...	-1.3	1.7	0.5	0.4	4.5	0.8	-0.8
External financing	...	...	1.5	-0.3	2.6	2.2	1.5	4.0	0.4
				Growth rates					
Money and credit									
Net international reserves	65.4	50.7	34.8	13.5	68.1	11.5	-3.6	165.3	...
Net domestic credit	50.4	54.6	74.7	59.6	32.9	48.4	62.4	59.5	-11.1
To private sector	62.3	77.0	71.4	52.5	25.3	46.8	35.7	52.1	9.3
Money (M1)	44.5	49.4	35.7	12.7	35.4	29.7	34.8	88.6	...
Local-currency savings and time deposits	60.7	52.2	64.6	41.1	39.7	20.0	29.6	29.1	15.9
M2	53.3	51.0	52.2	30.2	38.3	23.2	31.4	50.0	...
Dollar deposits	139.6	79.8	112.7	143.1	69.8	80.4	72.3	141.9	...
				Annual rates					
Real interest rates (annualized, %) [j]									
Deposit rate	...	-9.6	4.9	16.6	13.9	-2.3	2.6	-2.0	-43.3
Lending rate	...	1.2	13.0	26.6	24.3	9.5	10.3	7.9	-38.9
Equivalent interest rate in foreign currency [k]	...	31.9	33.4	42.0	41.1	28.5	37.6	40.8	7.3

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1975 sucres. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the total urban economically active population. From 1999 on, Cuenca, Guayaquil and Quito. [f] Until 1992, refers to the exchange rate resulting from market intervention. From 1993 on, refers to the free-market exchange rate. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] Includes expenditure on downsizing. [j] The figures for 2000 are not comparable with those of previous years. [k] Interest rate on deposits, deflated by the variation in the exchange rate.

insofar as the exchange rate immediately stabilized at 25,000 sucres.

The Ecuadorian Economic Transformation Act set an extendible time-scale of six months for the dollar to become the sole legal tender; by the year's end, only 2.6% of the sucres issued in January remained to be exchanged. The final deadline for exchanging sucres was ultimately set at 30 June 2001. Since the economic transformation legislation came into effect, the Central Bank has been allowed to issue only fractional currency with the same value as equivalent United States coins, which must be backed by unencumbered reserves.

The new legislation also provided for the existing credit portfolio to be swapped, with maximum lending and deposit rates of 16.82% and 9.35%, respectively, and prohibited the index-linking of debt. An interest rate cap was established for future credits, which was originally set at the London interbank offered rate (LIBOR) plus a margin for country risk based on bond spreads and an operating margin of 4%. From September onward, however, the limit was set at one and a half times the previous week's reference lending rate.

The Ecuadorian Economic Transformation Act required the restructuring of bank debt for credits of up to US$50,000, and in early 2001 regulations were established for restructuring larger loans. An amendment to the provisions of the deposit insurance provided for this to decrease to US$8,000 from the fourth

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)[b]	1.6	0.2	0.1	-0.1	-5.4	-7.2	-8.0	-8.5	-2.2	2.1	3.6	5.9	8.0
Consumer prices (12-month variation, %)	30.5	35.9	37.8	43.4	54.4	52.9	50.3	60.7	80.7	103.4	107.7	91.0	58.5
Exports, f.o.b. (millions of dollars)	1 160	1 097	965	982	1 001	1 117	1 147	1 186	1 250	1 253	1 263	1 154	1 176
Imports, c.i.f. (millions of dollars)	1 314	1 435	1 519	1 308	952	611	695	759	703	788	1 129	1 086	1 107
International reserves (millions of dollars)	1 940	1 878	1 642	1 698	1 178	1 296	1 274	872	778	890	1034	1180	954
Real effective exchange rate[c] (index 1995=100)	101.3	104.3	105.9	112.2	130.5	126.6	140.1	184.7	205.5	163.6	146.9	135.8	120.7
Money (M1) (change from same quarter of preceding year)	25.0	20.2	11.4	34.8	33.9	58.2	89.6	88.6	152.3	...	...	...	
Real interest rates (annualized, %)[d]													
Deposit rate	1.9	2.1	4.6	2.0	5.3	-3.5	-5.1	-4.7	-35.6	-44.6	-47.3	-45.6	-36.2
Lending rate	9.5	8.2	12.6	10.9	12.9	6.6	5.9	6.2	-30.3	-40.4	-43.6	-41.2	-30.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures at constant domestic prices. [c] Refers to the exchange rate for imports. [d] As of 2000, the figures are not comparable with those of previous years.

year following the passing of the law. Two instruments were created to replace the Central Bank as the lender of last resort: a mechanism to recycle liquidity by way of Central Bank distribution operations, and a liquidity fund, financed by means of loans from international institutions and bank contributions equivalent to 1% of all deposits subject to banking reserve regulations.

Despite these measures, the financial system has not yet fully recovered from the deep crisis of 1998, which generated a massive withdrawal of deposits, albeit partially halted by the freeze imposed in March 1999. Financial institutions accounting for two thirds of the system's assets were taken over or closed down, mainly by the Deposit Insurance Agency (AGD), which was created in December 1998. The fiscal cost of the banking crisis –particularly of providing liquidity for banks that came under the control of AGD, and covering the deposit insurance– was some US$3 billion. In 2000, the assets of banks that had been closed down began to be auctioned off to recover funds, and others were merged under the administration of the Agency, with a view to their subsequent privatization.

With dollarization, a single rate was established for the banking reserve, the old rates of 24% and 2% for local-currency and dollar-denominated deposits, respectively, being replaced by a uniform rate of 9%. Later the authorities turned to measures to increase the liquidity of the financial system, including the reduction of the reserve requirement to 8% in December and to 4% in January 2001, and advances on frozen deposits (partly in cash and partly in bonds). As a result, between

December 1999 and December 2000 the percentage of near money held by the banks in the form of restricted deposits decreased from 43% to 13%. To make the banking sector more stable in future, a timetable was established for progressive compliance with prudential standards in line with the Basle Accord, the Banking Superintendency was strengthened and external audits were conducted in order to make the financial system more transparent.

As confidence in the financial system slowly recovered, deposits in private banks (sight deposits plus near money) increased by 26% between December 1999 and December 2000. In contrast, demand for credit was weak and the private banks' unmatured portfolio shrank by 13.6% in the same period. Due to sluggish debt restructuring, at the year's end the non-performing bank portfolio (including those banks that were in the process of liquidating) stood at 47.8% of the total, as compared with a figure of 40.4% at the end of 1999.

Nominal reference rates decreased slightly in the course of the year (with real rates remaining strongly negative due to high inflation), despite expectations that inflation would drop to between 25% and 30% by late 2001. Even so, these rates were much higher than the United States ones.

(c) Reform

The economic transformation legislation and another law promoting investment and citizen participation included some labour reforms, such as the establishment of hourly and fixed-term contracts and wage unification. Some aspects of importance to the electricity and telephone privatization programme were altered; in particular, the share of firms that could be sold to the private sector was increased to 51%, and regulations were simplified. The reforms also made it easier for oil pipelines to be constructed by private firms.

3. The main variables

(a) Economic activity

After the sharp decrease of 7.3% in 1999, GDP recorded a modest upturn driven by domestic demand, which rose by 6.7%, and oil production, which increased by 7%. Gross fixed capital formation by private enterprise increased by 12%, while public investment expanded by 4%. Global gross fixed capital formation, however, remained about 30% lower than the rate achieved in 1998. Household consumption grew by 2% at constant prices, on the back of the unfreezing of bank deposits and growing remittances from abroad, despite a new fall in real wages, though this was attenuated in the second half. Exports did not contribute to economic growth, as they shrank slightly (-0.2%); oil and bananas were the only major products to see export volumes rise. The upturn in domestic demand helped fuel a significant expansion of imports (19%), so that total supply grew by 4.6%.

Apart from the production of crude oil, other sectors to record relatively high growth rates –between 3.7% and 5.2%– were manufacturing; construction; commerce; electricity, gas and water; and transport and communications. With the exception of electricity, gas and water, these sectors had all contracted by over 7% the previous year. Within manufacturing, basic minerals, machinery, equipment and transport material, chemicals and textiles saw the greatest increases in output. This growth was driven mainly by domestic demand, with the exception of vehicle and textile exports, which increased by 140% and 9%, respectively.

In contrast, the output of the agricultural sector fell by over 5%. The sole culprit in this decrease was the fisheries subsector, which shrank by 44% as successive plagues struck shrimp farms. Livestock and forestry output, however, more than made good the contraction of the previous year. Most crops also turned in good results, including a number grown for domestic consumption, such as rice, maize, potatoes and African palm. After expanding strongly the previous year, banana output recorded moderate growth, while the harvest of coffee and grains such as wheat and barley was smaller than in 1999.

The continuing banking crisis was reflected in a contraction of over 8% in financial services; thanks to

modest growth in real-estate activities and business services, however, the segment which includes these three activities shrank by just 2%. Lastly, government services also shrank by 2%, which was attributable in large measure to staff reductions in public administration.

(b) Prices, wages and employment

In 1999, the sharp depreciation of the sucre and a rising money supply in the context of the banking crisis generated strong inflationary pressures, which were not fully reflected in the consumer price index (CPI) that year owing to the contraction of domestic demand. Thus, in late 1999 the CPI was rising at a rate of 60.7%, while the producer price index (PPI) shot up by 186.9%. Although the dollarization scheme put an end to depreciation and the high rate of money supply, the effects of these carried over into 2000 and the annualized rate of inflation increased steadily throughout the first part of the year, peaking at 107.9% in September, when it started to ease back downwards, to stand at 91% at the year's end. The PPI came down to 64.9% in this period as inflationary pressures eased.

After reaching a high of 17% in February 2000, the unemployment rate in the cities of Quito, Guayaquil and Cuenca fell steadily as households with unemployed members began to turn to any kind of work in order to generate some income. By December the unemployment rate had fallen to 10.3%, and the annual average was 14.1%, as compared to 15.1% in 1999. The employment rate, meanwhile, increased from 47.8% to 48.8%. The trend described was reflected in the fact that the portion of the labour market accounted for by the formal sector decreased from 58.6% to 57.7%. One factor which reduced the pressure on employment –and in some regions even engendered a labour shortage– was increased emigration.

Between 1996 and 1999 the real average wage decreased by 14%. The nominal value of the minimum wage was adjusted three times in 2000 and, as a result, in the second half its real value was higher than the same period the previous year. The same thing happened with the real average wage, which was 4.7% lower on average over the year.

(c) The external sector

The balance of payments reflected the modest upturn in domestic demand, but was also affected by the weakness of exports and of international financial relations. Imports grew by 15% after contracting sharply in 1999, with particularly strong growth for consumer goods (18%) and raw materials and intermediate goods (20%), while capital goods imports increased by just 2%.

The value of exports grew by 9%, due almost exclusively to the increase in the price and, to a lesser extent, the volume of exports of petroleum and petroleum derivatives, the sales of which rose by 63% and 78%, respectively. Together, petroleum products came to account for half of the year's total goods exports. This was also partly attributable to the poor performance of other major export sectors. In fact, problems relating to both price (bananas, coffee, flowers) and production (shrimp, coffee, cocoa) contributed to a sharp fall in the value of exports of all these products, so that non-petroleum exports dropped 19% by value. As a result, it was not possible to take advantage of the temporary benefits of the sharp currency depreciation of 1999 and early 2000. Owing to the high rate of inflation that afflicted the economy during most of the year following dollarization, the real exchange rate appreciated by 29% between December 1999 and December 2000, so that these temporary benefits were steadily eroded and the tradable goods sectors became less competitive. The balance of payments for goods recorded a surplus of US$1.6 billion, which was slightly lower than the previous year's figure.

While the deficit on non-factor services increased slightly, the income deficit narrowed thanks to lower interest payments. Transfers from Ecuadorian residents abroad continued to increase, and outstripped the latter deficit by 18%. These inflows increased the current-account surplus to almost US$1.4 billion.

Ecuador was able to normalize its external financial relations following the restructuring of public debt owed to private creditors in August, thanks to a stand-by agreement concluded with IMF. Brady bonds and eurobonds, which the country stopped servicing in October 1999, were exchanged for global bonds maturing in 2012, with interest rates of 12%, and 2030, with step-down, step-up rates of 4% to 10%. The restructuring reduced external public-sector debt from US$13.8 billion (including interest arrears) in December 1999 to US$11.3 billion twelve months later. A preliminary agreement was also reached on debt restructuring with the Paris Club.

The normalization of financial relations helped to bring about a slight increase in capital flows to the public sector. Financial flows to the private sector, in contrast, were negative again, albeit to a lesser degree than the previous year, owing to the precarious situation of the banking sector. Short-term capital continued to flow out of the country, though in smaller volumes. Foreign direct investment grew by 11%, mainly through petroleum

investment, which accounts for over 95% of the total. As the balances on financial account items recording surpluses increased, while those on items recording deficits decreased, the overall financial account deficit (including errors and omissions) narrowed to US$1.17 billion. Given the positive current-account balance, the global balance was thus a surplus of US$216 million. In combination with non-recurrent financing of US$92 million, this made it possible to increase reserves by US$308 million.

EL SALVADOR

1. General trends

For the third consecutive year, economic growth slowed in El Salvador. With real gross domestic product (GDP) increasing by a mere 2%, per capita GDP remained practically flat. The expansion of domestic demand was limited, but income from abroad, in contrast, increased substantially as both family remittances –equivalent to 13% of GDP– and exports of goods rose. Imports, however, also climbed strongly, and at the same time there was a substantial deterioration in the terms of trade, widening the current-account deficit to 3% of GDP. Increased public spending also expanded the fiscal gap. Year-on-year inflation rose by 4.3% after being negative in 1999, while the open unemployment rate dipped slightly and real wages fell.

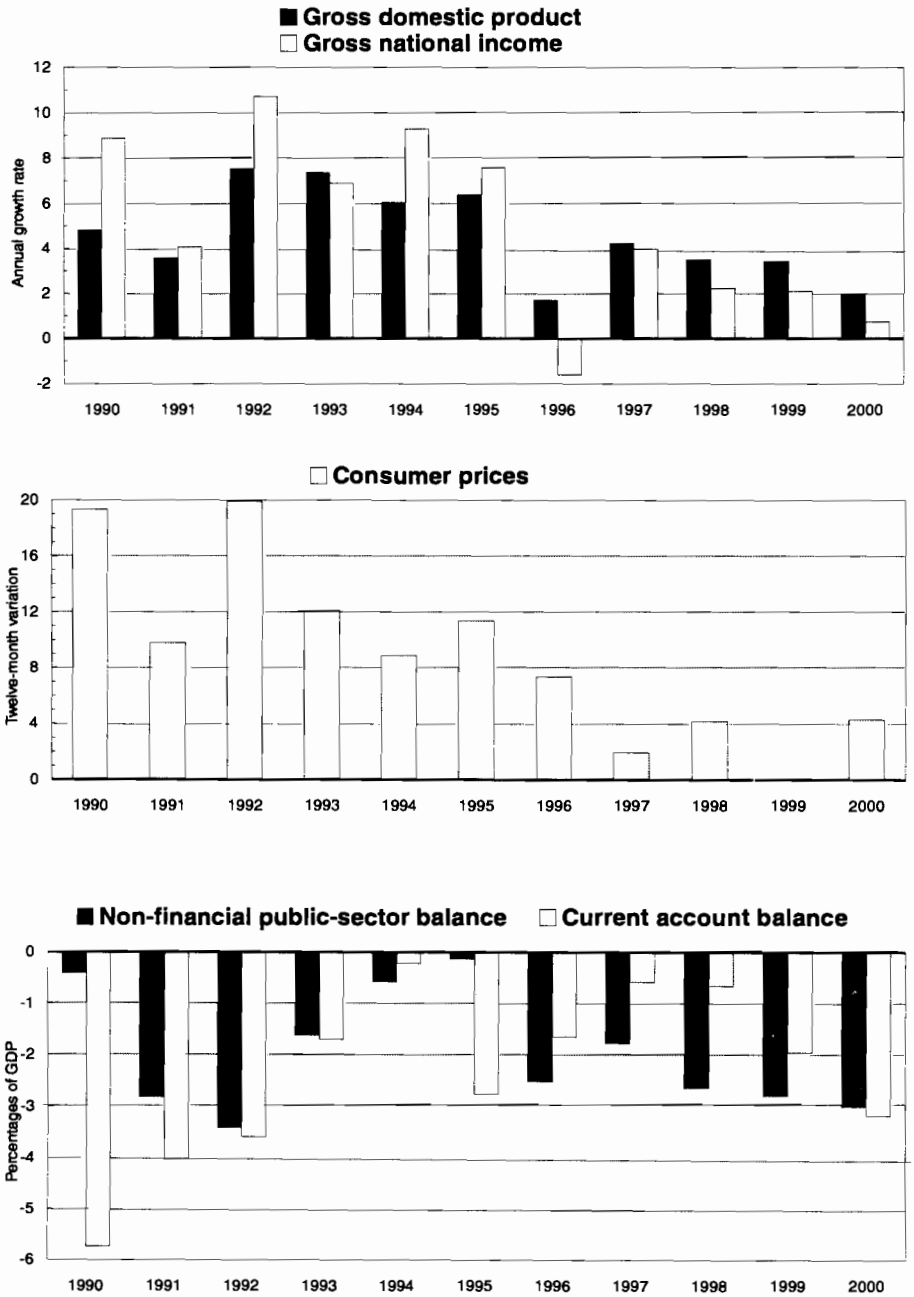
ECONOMIC POLICY in 2000 was still oriented towards controlling the upward trend in prices and preserving exchange-rate stability through tight monetary policy, although this was relaxed in the second half of the year to facilitate monetary integration.

Towards the end of the year there was a major shift in the orientation of economic policy. In November, the Legislative Assembly passed a monetary integration bill that established the dollar as the financial system's unit of account as of January 2001, set the exchange rate at 8.75 colones to the dollar, and allowed the circulation of other currencies. The purpose of the new law is to promote the country's integration and spur economic growth. In recent years, the Salvadoran economy has been characterized by price and exchange-rate stability, strong export growth, a sustainable current-account deficit and a low level of external borrowing.

On 13 January and 13 February 2001, two major earthquakes devastated entire towns and left 1,159 dead, several thousand injured, and additional thousands with damaged or destroyed homes. The two earthquakes caused more than US$1.6 billion worth of damage between them, equivalent to 12% of 2000 GDP. Funds offered or committed by the international community to finance part of the Government's reconstruction plan total US$1.3 billion.

Official estimates for 2001 predict GDP growth of 3%, inflation of 3% and a budget deficit of 4.8% of GDP, although this deficit may come to 7% or more if investment rises significantly and if the figure is taken to include the liabilities that the Central Reserve Bank (BCR) will transfer to the Finance Ministry as the monetary integration process gets under way.

Figure 1
EL SALVADOR: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy and structural reform

The macroeconomic stability goals proposed in the monetary and financial programme for 2000 were not achieved. Inflation rose and the fiscal, trade and current-account deficits widened. The main public finance indicators deteriorated substantially compared to 1999, as public-sector saving turned negative owing to increased current spending and public investment fell, while the domestic public debt rose.

(a) Fiscal policy

On the revenue side, measures were taken to curb tax evasion and avoidance. At the same time, various legal reforms were introduced, such as the abolition of exemptions from value added tax (VAT) enjoyed by medicines and some farm products, and other laws, such as the one to combat smuggling and customs violations and the Tax Code, were passed by the legislature. In addition, the electricity subsidy was gradually lowered.

These reforms had a moderate impact on tax revenues. Direct tax collection rose by 8.4%, lower than the 11.1% achieved the year before, while indirect tax collection was up 4%, just under the rate of inflation, due primarily to the application of VAT to medicines and food as of April. The tax burden amounted to 10.2% of GDP, the same level it has been at since 1998. The tax structure did not change significantly from 1999; VAT remained the most important tax, accounting for 53% of all revenues, while income tax brought in 32%, customs duties 10%, and excise and other taxes 5%. Non-tax revenues posted a substantial gain (21%).

In the central Government, consumption spending and pay rose nearly 5% and represented more than 50% of the total. Current spending expanded more than revenue, resulting in negative current saving, something that had not been seen in 10 years.

Public investment (excluding transfers) slipped 2% to the equivalent of 3% of GDP. There was a fall in central government investment, most of which went into the energy, transportation, warehousing, and communications and social infrastructure subsectors. Non-financial public enterprises also invested less.

At the end of the year, fiscal policy took an expansionary turn. Consequently, the non-financial public-sector (NFPS) deficit rose to 3% of GDP, and that of the central Government went up to 2.3%. The NFPS deficit was financed in equal measure by external and domestic resources.

The scale of the reconstruction spending needed in the wake of the earthquakes requires that an investment plan be executed relatively quickly. Moreover, the payment of more than US$1 billion in pensions that the treasury will have to carry out in the five-year period from 2001 to 2005 is expected to exert further pressure on public finances and on domestic saving and investment capacity. If the current economic stagnation and recent revenue collection trends persist, it is expected that the Government will have to carry out significant restructuring of the public debt in the next five years by taking out new loans with multilateral institutions to finance the widening fiscal gap.

(b) Monetary policy

Just as in previous years, in the first few months of 2000 monetary policy was kept tight in order to regulate and reduce excessive liquidity in the money market, thus keeping inflation close to international levels and ensuring exchange-rate stability. The authorities succeeded in controlling the growth of the main monetary aggregates with a view to restraining the inflationary pressures unleashed by sharply rising fuel prices and electricity rates, the extension of VAT to staple foods and medicines, and the reduction in reserve requirements for deposits with terms of more than one year. BCR securities were issued in open-market operations, allowing the monetary effect of higher net international reserves to be sterilized. Open-market operations did not prove as effective against inflation as in previous years, however. Besides, in the first half alone, the financial cost rose by 18%, equivalent to 1% of GDP, which accentuated fiscal imbalances that were monetary or quasi-fiscal in nature.

In view of this high financial cost and the decline of domestic demand, monetary policy was relaxed in the second half of the year. A smaller amount of discounted monetary administration certificates (CAM-D) was issued, and the 3% additional reserve requirement was eliminated.

Monetary restrictions, plus the passing of the monetary integration law, drove nominal interest rates on local-currency deposits down from 10.7% to 9.3% from December to December, while lending rates dipped

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	7.5	7.4	6.1	6.4	1.7	4.2	3.5	3.4	2.0
Per capita gross domestic product	5.3	5.1	3.8	4.2	-0.4	2.1	1.4	1.4	-
Gross domestic product, by sector									
Goods	8.8	-1.4	4.1	6.0	1.7	5.1	4.2	4.6	2.1
Basic services	9.1	6.8	5.9	5.5	2.9	7.4	4.4	8.3	5.8
Other services	5.8	3.9	6.3	7.2	1.5	3.5	3.1	2.3	1.3
Consumption	7.5	7.7	7.5	9.2	1.6	2.1	1.8	3.8	2.6
General government	0.9	1.0	3.0	7.9	2.8	2.8	2.5	2.8	0.3
Private	8.3	8.4	8.0	9.3	1.5	2.0	1.7	3.9	2.8
Gross domestic investment	28.1	10.0	14.2	15.2	-22.1	6.5	22.9	-5.6	5.3
Exports of goods and services	6.5	30.1	8.4	13.9	8.7	20.3	17.4	6.7	16.5
Imports of goods and services	17.1	21.3	15.0	21.1	-6.1	9.2	15.6	2.7	13.8
				Percentages of GDP [c]					
Gross national income	108.6	109.1	112.5	113.9	110.1	109.9	108.5	107.2	106.0
Gross domestic investment	16.9	17.4	18.7	20.0	15.7	16.0	18.9	17.3	17.7
National saving	14.8	15.6	18.2	17.8	14.1	16.0	16.9	15.2	14.1
External saving	2.0	1.7	0.5	2.2	1.6	0.0	2.0	2.1	3.6
				Percentages					
Employment and wages									
Labour force participation rate [d]	52.2	...	53.4	52.4	51.3	50.9	53.5	52.6	52.2
Open unemployment rate [e]	9.3	9.9	7.7	7.6	7.7	8.0	7.5	7.0	6.7
Real minimum wage (index 1995=100) [f]	101.5	101.5	99.6	100.0	96.4	92.2	95.3	97.5	95.4
				Growth rates					
Prices (December-December)									
Consumer prices	20.0	12.1	8.9	11.4	7.4	1.9	4.2	-1.0	4.3
Wholesale prices, excluding coffee	8.0	1.4	5.0	9.2	4.4	-5.1	-4.1	4.2	4.5
Wholesale prices, including coffee	9.5	2.7	10.5	6.7	4.9	-2.0	-6.6	4.1	2.0
External sector									
Terms of trade (index 1995=100) [c]	61.1	63.7	81.0	100.0	93.6	94.1	91.7	86.9	82.7
Nominal exchange rate (colones per dollar)	8.4	8.7	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Real effective exchange rate for imports (index 1995=100)	125.0	113.7	106.6	100.0	92.9	92.8	91.1	92.0	92.5
				Millions of dollars					
Balance of payments									
Current account	-195	-118	-18	-262	-169	-65	-79	-242	-411
Trade balance (goods and services)	-950	-1 011	-1 212	-1 581	-1 333	-1 282	-1 424	-1 516	-1 920
Exports	975	1 138	1 639	2 044	2 203	2 800	3 018	3 135	3 666
Imports	1 925	2 149	2 851	3 625	3 536	4 081	4 441	4 651	5 586
Capital and financial accounts [g]	61	177	131	408	334	427	382	446	362
Overall balance	-134	59	113	147	165	363	303	204	-49
Variation in reserve assets (- indicates an increase)	-92	-112	-113	-147	-165	-363	-303	-204	...
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	43.1	28.4	25.4	22.8	24.4	24.2	22.1	22.5	21.6
Net interest (as a percentage of exports) [h]	8.0	8.0	4.4	3.4	4.1	5.2	5.1	6.9	6.1

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Non-financial public sector									
Current income	13.6	14.3	16.0	17.1	17.5	15.8	14.8	14.7	14.8
Current expenditure	13.4	13.6	14.0	13.9	15.7	13.9	13.8	14.5	15.4
Saving	0.2	0.8	2.0	3.2	1.8	1.9	1.0	0.2	-0.6
Net capital expenditure	6.7	4.5	4.0	4.2	4.6	3.9	3.8	3.2	3.2
Financial balance	-3.4	-1.6	-0.6	-0.1	-2.5	-1.8	-2.6	-2.8	-3.0
Domestic financing	0.6	-0.3	-1.5	-1.2	0.1	-0.3	2.8	1.5	1.5
External financing	2.8	2.0	2.1	1.3	2.4	2.0	-0.2	1.2	1.5
				Growth rates					
Money and credit									
Net international reserves	26.1	13.7	10.3	-4.5	30.3	31.9	35.3	14.3	0.0
Net domestic credit	37.5	45.5	26.2	15.0	17.5	20.5	8.7	9.2	6.7
To public sector	14.3	3.8	-27.5	-15.8	3.5	-7.8	...	...	...
To private sector	31.0	37.5	27.1	30.4	22.0	27.7	13.3	8.4	-0.3
Money (M1)	31.8	12.4	10.2	4.4	17.5	-1.9	8.6	15.0	-7.3
Local-currency savings and time deposits	31.2	48.6	25.3	9.1	16.5	27.6	15.7	7.7	4.1
M2	31.6	37.7	20.9	10.2	18.6	21.7	14.5	10.6	4.8
Dollar deposits	99.0	1.7	58.3	18.4	45.7	41.4	18.4	10.3	5.6
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	-3.0	2.6	4.0	3.8	6.9	7.6	10.2	6.8
Lending rate	...	0.5	7.5	8.3	8.0	11.0	12.2	14.9	11.3
Equivalent interest rate in foreign currency[j]	...	15.3	13.5	13.5	14.0	12.8	10.3	10.7	9.3

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1990 colones. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population. [f] Real minimum wage in the manufacturing and services sectors in San Salvador. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

from 15.5% to 14% between 1999 and 2000. Real deposit and lending rates fell more markedly due to the acceleration of inflation.

The sluggish economy of the last two years has undermined system profitability and worsened default ratios. In 2000, non-performing loans accounted for 5% of the gross portfolio. Levels of capitalization remain acceptable, however. Oversight and regulation have been improved by the passage of the banking law, which took effect in October. This law created the Deposit Guarantee Institute (IGD) and provides mechanisms for monitoring financial conglomerates, combating illegal deposit-taking, bolstering confidence in the financial system and adapting the legal framework to international standards, especially with regard to prudential norms.

(c) Exchange-rate policy

Since 1993, exchange-rate policy has in practice given priority to a fixed exchange rate. As a result, the BCR has been hamstrung, forced to define its policy in terms of the need to sterilize excessive foreign exchange. This has given rise to a kind of "Dutch disease", and since the mid-1990s the currency has seen a real appreciation of about 20%. Since policy remained the same in 2000, the currency continued to rise in value, with the resultant impact on the external sector.

The monetary integration law, intended to prepare for dollarization of the economy, was announced at the end of the year, and took effect on 1 January 2001. The Government hopes that this plan, by eliminating currency risk and the possibility of devaluation, will

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product[b] (change from same quarter of preceding year)	2.7	4.9	2.7	3.7	3.9	3.4	4.6	1.8	2.3	1.6	1.5	2.6	1.7
Consumer prices (12-month variation, %)	1.5	3.2	1.5	4.2	1.9	-1.3	1.4	-1.0	0.5	3.6	3.3	4.3	4.9
Exports (millions of dollars)	712	640	570	524	641	633	620	619	767	743	730	710	741
Imports (millions of dollars)	947	1 023	997	993	989	1 039	1 040	899	1 122	1 233	1 265	1 328	1 230
International reserves (millions of dollars)	1 705	1 495	1 655	1 613	1 870	1 903	2 023	2 004	2 030	1 938	2 033	1 922	1 863
Real effective exchange rate[c] (index 1995=100)	91.9	90.6	90.7	91.4	90.8	92.1	92.2	92.9	93.0	92.7	92.2	92.1	91.3
Real interest rates (annualized, %)													
Deposit rate	9.3	6.8	7.6	6.7	7.9	12.1	10.5	10.3	9.9	7.0	5.8	4.4	1.3
Lending rate	13.7	11.6	12.2	11.1	12.6	16.7	15.2	15.1	14.9	11.5	10.3	8.6	5.6

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures at constant domestic prices. [c] Refers to exchange rate for imports.

bolster the financial system and other economic agents with dollar debts. It is further hoped that interest rates will gradually decline by some three percentage points. As against this, the change will put added pressure on the public debt, due to the transfer of BCR liabilities, estimated at 9.4% of GDP, to the Finance Ministry.

(d) Structural reform

After the main State enterprises were privatized in 1998, the Government's structural reform objective was to expand and strengthen the process further to ensure institutional transparency and improve conditions for investment and competition. Improvements were needed, on the one hand, in the oversight and operating systems of the financial and pension systems, and on the other hand, in the environment and conditions under which the electricity and telecommunications companies operated. At the same time, actions were taken to boost the efficiency of basic services provision and strengthen the decentralization process and the transfer of resources and responsibilities to the municipalities, which currently receive 6% of the budget.

Furthermore, the private sector was encouraged to participate more actively in infrastructure initiatives, and efforts began to establish a legal framework for this coordination, especially through concessions to provide airport, port and highway services. Despite the progress made with structural reform, the country has begun to suffer the effects of a diminished flow of foreign direct investment now that the privatized companies are no longer capitalizing and reinvesting. Moreover, citizen insecurity indices have risen, and relative productivity has fallen.

With regard to trade policy, one of the most significant achievements of the year was the signing of a free trade agreement between Mexico and the Northern Triangle of Central America (El Salvador, Guatemala

and Honduras), which calls for the gradual elimination of tariff barriers and an immediate end to all non-tariff barriers. It also contains specific provisions on unfair competition and safeguards. In addition, negotiations have concluded for the free trade agreement and protocol with Chile, which is intended to stimulate the expansion and diversification of trade.

Progress was also made in strengthening commercial ties between the Andean Community and the Central American Common Market and in trade negotiations with Canada. Talks continued with Panama with a view to setting up a free trade system emphasizing maritime transport and financial services.

Also noteworthy is the customs union agreement signed by El Salvador and Guatemala in August, under which a model customs system will be established. The accord was extended on the basis of the juxtaposed customs system, and in addition to Guatemala, Honduras and Nicaragua were invited to join the initiative.

3. The main variables

The most striking feature of the economy was the sluggishness of domestic demand, in contrast to the healthy growth of the external sector, attributable to the impulse of the *maquila* industry. Although private investment picked up, especially in machinery and equipment capital formation, private and public consumption lagged behind.

On the supply side, the downward trend in economic growth seen in the last few years continued on the whole. In the second half of the 1990s, economic performance was broadly determined by structural imbalances in production and consumption, and by the behaviour of the external sector. The slow rate of expansion persisted in 2000, and the decline of GDP growth was exacerbated further by downturns in farm production and construction.

(a) Economic activity

Basic services were the most dynamic element, since the production of goods was undermined by depressed farm and construction activity, and other services were sluggish as well.

Indeed, basic services grew by 5.8%, thanks to the continuing health of the transport, warehousing and telecommunications subsectors (up 6.2%). Manufacturing industry registered a 4.5% gain, comprised most notably by expanding production in foods and beverages and textiles, and in maquila services, which grew by 18%. Commerce grew by less than one percentage point (0.8%) as a consequence of flagging domestic demand.

The farm sector slid 0.8% after a strong performance the preceding year (6.9%). As for the main export products, sugar cane production declined markedly, while coffee production was off slightly. By the end of the year, however, coffee exports were up in both value and volume. In the basic grains subsector, maize and gold rice posted heavy losses. In the livestock sector, poultry, milk and egg production showed significant gains, but beef and pork production grew slowly, indicating a persistence of the trend begun three years ago.

Construction reported negative growth in the first three quarters of the year, and new building did not resume the dynamic growth of 1997 and 1998. The decline in public investment for the second consecutive year, after persistent weakness throughout the second half of the 1990s, contributed to this outcome. Investment spending is expected to increase rapidly in the immediate future, however, as reconstruction in the wake of the earthquakes of early 2001 gathers pace.

(b) Prices, wages and employment

Inflation, as measured by the consumer price index (CPI), averaged 2.3% for the year, while the year-on-year rate was 4.3%, both figures higher than the 1999 equivalents. It is estimated that 2.8% of the year-on-year inflation corresponds to the imported or

temporary component of the increase in prices for petroleum derivatives, and the rest to inertial inflation. The most significant price rises were in the areas of housing, health, education and food. The rising cost of electricity and fuels (up 39%), the gradual reduction of the electricity subsidy and the elimination of the VAT exemptions for food and medicines were all factors.

The unemployment rate was 6.6%, one percentage point below the average recorded during the 1994-1999 period (7.6%). Unemployment was a more serious problem in rural than urban areas, and largely reflected disparities in the nation in terms of poverty, income and opportunities. Unofficial estimates put the average rate of underemployment at 30% in 2000.

Minimum wages in the construction sector increased 5% from the 1999 figure, while in other sectors they remained unchanged in nominal terms, and thus fell in real terms.

(c) The external sector

Total goods exports grew by 18%, driven largely by the pick-up in non-traditional exports. The latter currently account for 88% of the total, their main component (21%) being supplied by the maquila industry. In addition, traditional exports rose by 15%, despite declining average international prices for coffee and sugar. In the case of coffee, the volume of exports was up 32%, which offset the drop in prices. Exports to Central America climbed 16%, while those to the rest of the world grew 18%.

Imports were up 21%, with all categories reporting gains. Intermediate goods grew by 23%, largely due to the rise in the oil bill (83%), although agricultural, industrial and construction inputs showed substantial growth as well. There was a 21% upswing in intermediate goods imported by the maquila industry, while consumer goods also gained 21% as durables climbed strongly. Lastly, imports of capital goods registered an increase of 18%, although within that category imports for the farm and construction sectors fell, and those required for manufacturing and transportation rose only slightly. It should be noted that imports from the rest of Central America grew 26%, compared to 9% the year before.

As in previous years, the rising volume of family remittances (US$1.751 billion, equivalent to 13% of GDP) also had a decisive impact on the performance of the external sector, and continued to finance the trade deficit (US$1.708 billion, 11.4% of GDP). The current-account deficit widened, however, to 3% of GDP.

The balance-of-payments financial account was once again affected by a large fall in revenues, which declined to US$252 million, compared to US$615 million in 1999 and US$1.01 billion in 1998. The key factor was the behaviour of foreign direct investment, which totalled a mere US$163 million, a 30% reduction from the 1999 figure. The slide is even more marked when compared to the US$1.104 billion in investments received in 1998. As a result of the diminished flows on the financial account, international reserves shrank for the first time since 1992, albeit by a relatively modest amount. All in all, the BCR held net international assets totalling about US$1.9 billion, equivalent to more than four months of imports.

The external debt totalled US$2.795 billion, or 21% of GDP. Medium- and long-term debt represented 94% of this total; the liabilities of the central Government and autonomous enterprises accounted for 82% of the debt, with the rest corresponding to multilateral organizations. Although the ratio of external debt to GDP may be considered low, total public debt (domestic and external) could rise in the medium term as new loans are taken out to finance the reconstruction effort. Thus, it is possible that the total public debt may rise substantially to reach 38% of GDP by the 2003-2004 biennium.

GUATEMALA

1. General trends

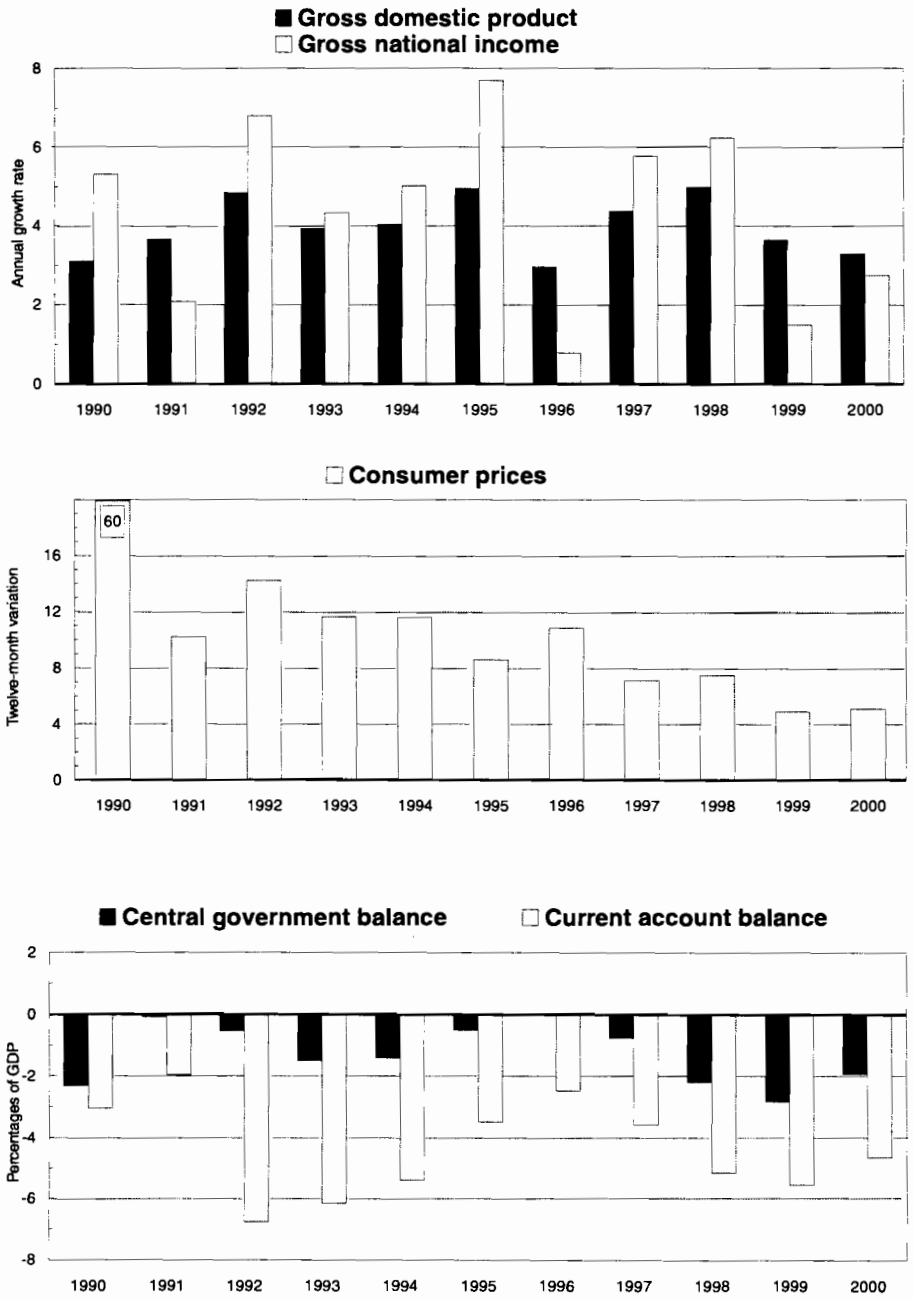
In 2000, Guatemala was able to control the inflationary pressures and exchange-rate instability that had been unleashed the previous year, but it could not stop the economic slowdown that had begun in that same period. Thus, inflation was 5.1%, the budget deficit was 1.9% of gross domestic product (GDP), net international reserves rose by 50%, and the nominal exchange rate ended the year at the same level it had stood at 12 months previously. GDP grew by just 3.3%, however, below the 1999 and 1998 rates (3.6% and 5%, respectively).

THE DECLINE in fixed investment and the deterioration of the terms of trade held back economic activity. Investment fell in both the public and private sectors. In the former, the shrinkage was due to fiscal tightening, whereas in the latter the causes included scarce credit, high interest rates and uncertainty about the new administration's macroeconomic policy. At the same time, questions about fiscal reform, the possibility that the labour code might be amended, and doubts about the previous administration's privatization of public enterprises created an atmosphere that was not very investment-friendly.

The Free Trade Agreement signed between the United Mexican States and the Republics of El Salvador, Guatemala and Honduras provided for the dismantling of barriers to trade and intraregional investment with effect from March 2001. The Free Negotiation of Foreign Exchange Act, passed in December, authorized the unrestricted use of foreign currencies in commercial and financial transactions with effect from May 2001. In addition, in an unprecedented development, the Fiscal Pact: for a Future of Peace and Development was signed in May by representatives of the Government and civil society, with a view to carrying out fiscal reform. The practical application of this pact was largely held in abeyance, however. Public revenues posted a small gain, the tax burden remained very low, and fiscal tightening was carried out primarily by cutting investment.

Projections for 2001 are for GDP to grow by 3.9%, the fiscal deficit to dip to 1.5% of GDP, inflation to be held below 6% a year, liquidity growth to be limited to 14%, and international reserves to remain stable. To achieve these goals, the public finances must be strictly controlled with the support of major reforms, and monetary policy must be kept tight. Moreover, the intermediation function of the banking system must be restored and the growth of domestic public debt must be restrained. Tight credit in the private sector must be alleviated by means of financial reform and, the Free Negotiation of Foreign Exchange Act notwithstanding, the floating exchange-rate policy must be maintained. In the first quarter of 2001, inflation picked up again, but then it fell back to a level similar to that of 2000.

Figure 1
GUATEMALA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy and structural reform

Economic policy in 2000 was aimed at curbing inflationary pressures and the volatility of the exchange rate, which threatened to worsen as external shocks took their toll and the effects of the looser monetary and fiscal policies of 1998-1999 were felt. The results in 2000 were mixed: inflation stayed low, the exchange rate remained stable and the budget deficit shrank, but economic activity continued to flag.

(a) Fiscal policy

The coordination process that had begun a year earlier within the framework of the commitments made under the Peace Agreements culminated on 25 May when the Fiscal Pact: for a Future of Peace and Development was signed by representatives of the Government and civic organizations. The purpose of the pact is to carry out fiscal reform to boost public revenues and ensure efficiency and transparency in public spending. The pact recommends that public investment be at least 4% of GDP, and sets the goals of cutting the budget deficit to 1% of GDP in 2001-2002, expanding the tax burden to 12% of GDP in 2002 and attaining a balanced budget in 2003. It also acknowledges that these goals require that tax exemptions be kept to a minimum and that the tax administration system be revamped.

Implementation of the Fiscal Pact was only partial, and its inconsistent enforcement made it difficult to create the climate of confidence needed to revitalize the economy and investment. In fact, fiscal policy vacillated between austerity, aimed at containing inflation, and an unwillingness to defy extra-economic vested interests that opposed current spending cuts or tax rises. After an extraordinary pay rise was granted to public employees in February, in March Congress agreed to cut the budget approved in 2000 by 10%. This cut was quickly nullified when additional spending increases were authorized. In the final months of the year, discipline was imposed once again when some capital expenditure was suspended. As a result, the central Government's total outlays fell by 4% in real terms.

On the revenue side, measures were taken from July onward to enhance the Government's receipts: the top rate of profit and income tax was raised to 31%, and ceilings were imposed on tax deductions for donations and profit reinvestment. Limitations were placed on the scope for setting losses in one fiscal year against profits in subsequent years, the departure tax was raised to US$30, and in the latter months a special tax on cement sales was levied. Furthermore, due to serious irregularities in legal and administrative procedures, it was not possible to apply the higher tax on alcoholic beverages that Congress had approved.

The central Government's total revenues at constant prices rose by a mere 2%, but as a result of spending cuts the budget deficit was trimmed to 1.9% of GDP, nearly a percentage point lower than the previous year's figure. Thus, external borrowing now played a less important role in financing the deficit. In 1999 it financed 59% of it, but in 2000 it contributed just 21%, thanks to the windfall revenue from privatization of the telephone company, which was enough to cover half the central Government's deficit.

Although the tax burden climbed above 10% of GDP for the first time, it was still one of the lowest in Latin America. There was no progress with tax reform, particularly as regards the rate of value added tax (VAT), which remained at 10%, even though the Fiscal Pact had provided for it to be raised by several points. Consequently, fiscal adjustment had to be based on cuts in spending, in particular capital spending, which plunged 26% in real terms. Current spending was up by 8.5%, in contrast, and wages and salaries by 14.8%. This pattern of fiscal tightening shows great weakness, as productive capacity is reduced and future growth is hampered, while serious obstacles arise in the effort to contain current spending. Moreover, given that the effort to curb public spending was concentrated in the last two months of the year, it has to be asked whether this fiscal rationalization is an ongoing process or the temporary result of postponing spending until fiscal year 2001. These doubts become more significant in view of the fact that no substantial additional income is expected in the near future from privatization, which has been a major source of deficit financing in recent years.

(b) Monetary policy

Monetary policy was characterized by an intensive use of open-market operations to counteract the rise in the money supply, as the Government withdrew deposits from the Bank of Guatemala and international reserves grew. In these operations, the Bank of Guatemala issued certificates valued at more

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	4.8	3.9	4.0	4.9	3.0	4.4	5.0	3.6	3.3
Per capita gross domestic product	2.1	1.2	1.3	2.2	0.3	1.6	2.2	0.9	0.6
Gross domestic product, by sector									
Goods	4.3	2.2	2.5	3.8	2.6	3.5	4.2	2.7	...
Basic services	8.9	6.0	4.5	7.9	4.2	8.2	7.1	6.7	...
Other services	4.4	5.0	5.3	5.3	3.0	4.2	5.1	3.6	...
Consumption	5.1	4.5	4.7	4.8	2.5	4.2	5.1	3.8	3.5
General government	5.6	8.0	3.0	1.3	0.0	6.2	9.7	6.5	4.5
Private	5.0	4.1	4.8	5.2	2.8	4.0	4.6	3.5	3.4
Gross domestic investment	29.6	-5.7	1.5	-1.2	-15.0	20.1	36.3	-1.1	-0.1
Exports of goods and services	8.3	9.6	3.4	12.6	8.7	8.1	2.4	3.6	3.9
Imports of goods and services	37.1	4.2	5.0	7.6	-6.9	19.5	24.5	0.7	2.2
				Percentages of GDP [c]					
Gross national income	99.1	99.3	100.2	102.8	100.6	101.9	103.0	100.9	100.5
Gross domestic investment	17.9	16.4	16.1	15.1	12.3	14.3	18.9	18.0	17.7
National saving	12.0	10.7	10.7	11.6	9.7	10.1	12.4	11.6	12.6
External saving	5.9	5.7	5.4	3.5	2.6	4.3	6.5	6.4	5.2
				Percentages					
Employment and wages									
Open unemployment rate [d]	1.6	2.6	3.5	3.9	5.2	5.1	3.8	...	...
Real average wage (index 1995=100)	82.9	88.8	89.3	100.0	109.7	112.7	116.8	123.5	128.2
				Growth rates					
Prices (December-December)									
Local consumer prices (nationwide)	14.2	11.6	11.6	8.6	10.9	7.1	7.5	4.9	5.1
External sector									
Terms of trade (index 1995=100) [c]	81.6	84.3	89.9	100.0	87.7	94.8	94.3	87.2	84.7
Nominal bank exchange rate (quetzales per dollar)	5.17	5.60	5.80	5.81	6.05	6.07	6.39	7.39	7.75
Real effective exchange rate for imports (index 1995=100)	111.1	112.5	106.7	100.0	96.4	92.4	93.1	106.4	109.2
				Millions of dollars					
Balance of payments									
Current account	-706	-702	-700	-511	-391	-635	-997	-1 015	-884
Trade balance (goods and services)	-955	-947	-938	-920	-767	-1 008	-1 563	-1 549	-1 540
Exports	1 898	2 024	2 287	2 801	2 767	3 180	3 467	3 435	3 783
Imports	2 853	2 970	3 224	3 721	3 534	4 188	5 029	4 984	5 323
Capital and financial accounts [e]	692	901	694	354	567	922	1 240	890	1 538
Overall balance	-14	200	-6	-157	176	287	243	-125	654
Variation in reserve assets (- indicates an increase)	52	-121	-47	157	-176	-315	-243	125	-654
				Percentages					
External debt									
Public debt (as a percentage of GDP)	24.1	20.6	22.3	20.1	19.2	18.0	18.7	20.9	20.6
Net interest (as a percentage of exports) [f]	7.5	4.9	4.2	3.4	4.8	3.5	1.5	2.2	1.8

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	10.1	9.1	7.7	8.8	9.4	9.8	10.2	10.9	10.8
Current expenditure	7.8	7.5	6.9	6.7	6.7	6.7	7.9	8.6	9.1
Saving	2.4	1.5	0.8	2.1	2.7	3.1	2.3	2.2	1.6
Capital expenditure	2.9	3.1	2.3	2.7	2.7	3.9	4.6	5.2	3.6
Financial balance	-0.5	-1.5	-1.4	-0.5	0.0	-0.8	-2.2	-2.8	-1.9
				Growth rates					
Money and credit									
Net international reserves	57.6	19.2	-1.4	-26.5	22.4	66.4	13.8	5.0	61.9
Net domestic credit	11.2	5.8	31.9	25.2	10.9	18.2	12.1	8.6	7.8
To public sector	-31.0	-34.4	-67.1	-59.9	...	...	...	...	...
To private sector	35.1	15.3	15.8	30.5	12.2	18.5	27.3	14.0	9.7
Money (M1)	5.4	21.1	48.7	11.4	12.8	31.3	13.5	14.2	20.4
Local-currency savings and time deposits	27.4	3.4	9.5	16.9	12.2	20.8	11.6	3.0	16.1
M2	19.5	9.0	23.3	14.6	12.4	25.1	12.5	7.9	18.1
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	-0.6	-2.5	-0.7	-3.0	-3.4	-1.3	2.6	4.0
Lending rate	...	10.1	9.3	11.7	10.5	8.8	9.1	13.6	14.1
Equivalent interest rate in foreign currency[g]	...	12.5	9.7	6.8	7.7	6.3	5.3	7.8	10.2

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1958 quetzales. [c] Based on constant 1995 dollars. [d] Percentage of the economically active population. [e] Includes errors and omissions. [f] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [g] Interest rate on deposits, deflated by the variation in the exchange rate.

than 6 billion quetzals, practically tripling the total holdings reported in December 1999. In this process, the average term of these securities was extended. Whereas in January the longest term of such issues was 180 days, by December most of them had terms of more than 300 days.

Despite this effort, liquidity as measured by M1 expanded by 20.4% during the year, nearly twice the target. This expansion of the money supply can be explained by the fact that the deposits of the central Government and public institutions (banks and financial entities) in the Bank of Guatemala declined for the second year in a row, rather than increasing as was originally projected. As of the close of the year, they totalled 4.044 billion quetzals, a drop of 1.148 billion from the level recorded 12 months before. This slide would have been even steeper had it not been for the infusion of 1.3 billion quetzals resulting from the final payment on the privatized telephone company.

The heavy issue of government securities by the Bank of Guatemala has its drawbacks. It is causing operating losses, and the amount is so large that servicing the debt may be very difficult. Moreover, to the extent that private-sector banks choose to acquire securities from the Bank of Guatemala, they tend to restrict credit to private business yet further.

In December, bank lending to the private sector was no higher in real terms than it had been 12 months before. High lending rates are also aggravating the scarcity of credit. In 2000, the average yearly rate was 14.1% in real terms, a half point above the average for 1999. The interest rate on bank deposits, on the other hand, rose by 1.2 points in real terms, with an annual average of 5.9%.

Another cause of the shortage of credit was the persistent problem of non-performing loans, which affected a number of financial institutions even though the Bank of Guatemala continued to channel special funds to some banks to help them resolve liquidity

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Economic activity index (change from same quarter of preceding year)	6.2	6.9	6.8	6.7	4.0	2.5	2.3	3.1	4.4	4.8	4.0	2.8	1.5
Consumer prices (12-month variation, %)	6.1	7.5	5.6	7.5	3.9	4.3	6.8	4.9	8.3	7.2	4.3	5.1	5.8
International reserves (millions of dollars)	1 040	1 035	1 367	1 335	1 220	1 220	1 140	1 189	1 348	1652	1 757	1 746	1 765
Real effective exchange rate[b] (index 1995=100)	92.6	92.2	92.3	95.3	100.8	105.4	109.2	110.4	110.2	107.9	109.7	108.9	105.9
Real interest rates (annualized, %)													
Deposit rate	-1.0	-2.4	-1.5	-0.2	1.6	3.3	2.0	3.6	3.2	2.3	4.9	5.5	3.4
Lending rate	9.4	7.8	8.7	10.6	13.0	14.6	12.9	13.9	13.7	12.4	14.9	15.2	12.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

problems. This support mechanism was not accompanied, however, by adequate oversight to ensure the restructuring and clean-up of bank operations. Moreover, the slowdown of production also dampened demand for credit in the private sector.

(c) Exchange-rate policy

The exchange rate of the quetzal against the dollar proved extremely volatile in the first two months of the year as a result of a number of factors: uncertainty associated with the electoral process, deteriorating terms of trade, and the relative looseness of fiscal policy as the previous administration drew to a close. Later on, the currency market stabilized as capital flowed in and the Bank of Guatemala stepped up open-market operations. In December 2000 the nominal buying rate was 7.72 quetzals to the dollar, compared to 7.66 in the same month of 1999. Consequently, the real exchange rate in relation to the basket of currencies of Guatemala's main trading partners slid 1.4%, comparing the average value of the fourth quarter of 2000 with that of the same period of 1999. The main reason for this was the differential between inflation rates in Guatemala and the United States. This may not appear to be a significant amount, but certain export sectors have expressed concern. If the annual averages are compared, however, the real exchange rate rose 2.5%.

In December, Congress passed the Free Negotiation of Foreign Exchange Act, authorizing the circulation of foreign exchange and the use of foreign currencies in contracts, payments, and other transactions. In addition, it allows financial intermediaries to take deposits and issue securities in foreign currency. The law relieves the Bank of Guatemala of the obligation to hold all foreign exchange, which will help reduce the costs of monetary sterilization and cut the quasi-fiscal deficit. It may also help revive financial intermediation by channelling some of the funds handled by off-shore branches back into the banking system. Furthermore, it may prevent some of the adverse effects that the formal dollarization of El Salvador's economy could have on Guatemala's monetary and financial system, such as the diversion of funds to that market.

(d) Structural reform

In addition to the passing of the Fiscal Pact, important structural reform measures were set in train with the signing of the Free Trade Agreement between the United Mexican States and the Republics of El Salvador, Guatemala and Honduras, as a result of which

tariffs and other barriers to intraregional trade and investment will be gradually reduced from March 2001 onward. The Agreement excludes trade in sugar, coffee and bananas from its provisions. The rules of origin agreed upon stipulate that tariff reductions apply to products with at least 50% regional content, or those whose processing reflects a significant change in their tariff classification. There is provision for agreements to free up trade in services, and possible safeguards, phytosanitary standards and dispute resolution mechanisms are specified. The Agreement opens up export opportunities, but as competition from imports intensifies, national companies oriented towards the domestic market will face challenges.

1. Main variables

(a) Economic activity

GDP growth was modest (3.3%) during the year, as the slowdown that had begun the previous year continued. This sluggish performance is attributable to the weakness of domestic demand (3%), which was not sufficiently offset by exports (3.9%). Although consumption was up 3.5%, domestic investment stagnated. Fixed capital formation in the private sector fell 1.5%, while that of the public sector was down 9%. This latter decline was due partly to the lag that any new administration experiences in getting investment projects off the ground during its first year, but mainly to the effort to bring down the budget deficit. The uncertainty associated with the change of government created a climate unfavourable to investment, aggravated by doubts about the scope of fiscal reform, possible changes in the labour code, and the legitimacy of the privatizations carried out in previous years. High interest rates and scarce credit hampered capital formation in small and medium-sized enterprises. Imports registered a moderate gain (2.2%).

Looking at the various branches of economic activity, only basic services showed a gain (8.9%). In particular, electricity, gas and water grew by 17%, continuing the robust expansion triggered by the change in the regulations governing the electricity industry a few years previously. Other services expanded by 3.5%, goods output grew by a mere 1.2%, and construction and mining shrank substantially (-11% and -5%, respectively). Manufacturing was up slightly (1.1%); without exception, all branches of manufacturing experienced slower growth, entrenching the weakness of the preceding year. The shortage of credit, higher oil prices and weak domestic demand all tended to dampen activity in the non-*maquila* production sectors.

Agriculture expanded at a moderate 2.8%. Grain production for domestic consumption (maize, beans and rice) gained 3% to 4%. Export crops performed poorly in general. The exception was bananas, which rebounded strongly (14%) as a result of the rehabilitation of plantations damaged by Hurricane Mitch the year before. Coffee production was up by a meagre 3%, in contrast, and sugar slid 8.3%, owing to weakness in international markets. Livestock activities registered an upswing of 4.1%, apparently owing to the conversion of areas previously used for crop growing.

(b) Prices, wages and employment

Inflation showed a tendency to rise in the first quarter of the year, in response to external shocks in the petroleum and gas market, which drove up the costs of transportation and some inputs. Added to that were higher telecommunications charges and the 10% rise in nominal wages decreed at the beginning of the year. The nominal depreciation of the quetzal by 5% against the dollar in the final weeks of 1999 and the first two weeks of January 2000 also had an inflationary effect. Afterwards, the sluggish economy, the contraction of the budget deficit and a slight appreciation of the currency combined to bring the inflation rate down to 5.1%, slightly higher than that of 1999, but within the target range. The excessive expansion of monetary liquidity, however, together with the surge in holdings of domestic public debt bonds and the one-off increase in nominal wages, suggest that inflationary pressures have not been entirely eliminated.

Depressed economic activity, especially in construction, manufacturing and some farm sectors, has increased underemployment and informal employment in the labour market. In February, a 10% increase in the minimum wage and a monthly bonus of 200 quetzals for central government employees were declared. In

addition, a scheme was established to link pay rises to labour productivity, and in December another rise of 16% in the minimum wage was authorized for 2001.

(c) The external sector

The balance-of-payments current account showed a deficit of US$883.7 million, equivalent to 4.6% of GDP, which was nearly a point below the 1999 level. Current transfers rose considerably (17%), but the net balance of external income remained virtually unchanged. Since the value of exports of goods and services rose somewhat more than that of imports, the trade deficit shrank slightly to around 8% of GDP.

With regard to the capital account, foreign direct investment rose as a result of payments for the privatized telephone company. Moreover, in contrast to the experience of 1999, a substantial inflow of short-term capital contributed to a slight rise in the exchange rate and an extraordinary accumulation of US$654 million in international reserves. Thus, at the close of the year the net balance was more than 50% higher than it had been 12 months earlier.

Exports of goods gained 10% in value over the 1999 total. The largest increases were seen in non-traditional goods (17%) and *maquila* industry products (22%), which resumed the strong growth they had shown two years before. Among the former, external sales of petroleum were the most noteworthy, nearly doubling their foreign-currency receipts during this 12-month period. Exports of fruits and preserves recovered strongly (25%), as did those of flowers and plants (20%) and shrimp, lobster and fish (24%). In contrast, exports of chemicals (-19%), foodstuffs (-7%) and tobacco (-2.2%) all lost ground. Among the most dynamic exports of the *maquila* industry were wearing apparel and textiles, which saw strong growth despite intense competition from Mexican products (favoured by the North American Free Trade Agreement (NAFTA) since 1995), certain difficulties in securing timely reimbursement of tax credits, and a lack of investment in new plants, with some *maquila* operations being transferred to Honduras.

Sales to Central America, meanwhile, were up nearly 10%, with traditional products gaining 2.2%. Only banana exports posted substantial gains (26%). Coffee and sugar exports, typically the largest source of foreign-currency earnings, fell off 1.4% and 4%, respectively. In the case of coffee, the drop in the average price per ton far outweighed the increase in the volume of exports that was made possible by the abundant harvest in the 1999-2000 season. As for sugar, low international prices and a smaller volume of exports combined to drive down the total.

Imports of goods increased 7% overall, mainly due to a 37.2% jump in oil and lubricants imports. Purchases of other raw materials and intermediate goods climbed 12% as inventories swelled. Capital goods imports were up 4%, while consumer goods dipped by 3%.

At the end of 2000, the external debt stood at US$3.93 billion, slightly higher than the 1999 figure. This was due to an increase in private-sector debt, since the public debt fell by nearly US$30 million to US$2.62 billion. Servicing the public debt cost US$250 million, of which just over half was principal. This debt service amounted to 6.6% of exports, as against 6.9% in 1999. Lower debt servicing charges, added to the expansion of international reserves and the reduction of the current-account deficit as a share of GDP, represent a certain easing of external constraints on Guatemala's economic growth. Nonetheless, the presence of large volumes of short-term capital attracted by the country's interest rates introduces an element of instability where macroeconomic balances are concerned.

HAITI

1. General trends

Preliminary indicators show that the Haitian economy grew by an extremely modest 1.2% in 2000. This figure represented a slide in both per capita output (-0.6%) and gross national income (-0.2%), the latter due to a severe deterioration in the country's terms of trade, albeit mitigated by remittances that remained substantial. The modest achievements in the direction of macroeconomic stability seen in previous years proved too fragile to weather the adverse socio-political environment and suffered significant setbacks. The inflation rate climbed back into two digits (19%), the fiscal deficit widened to almost 3% of gross domestic product (GDP) and the currency depreciated sharply (44%). A rise of almost 80% in the oil import bill severely hurt the Haitian economy and the authorities had no alternative but to increase domestic fuel prices after three years in which they had gone unchanged.

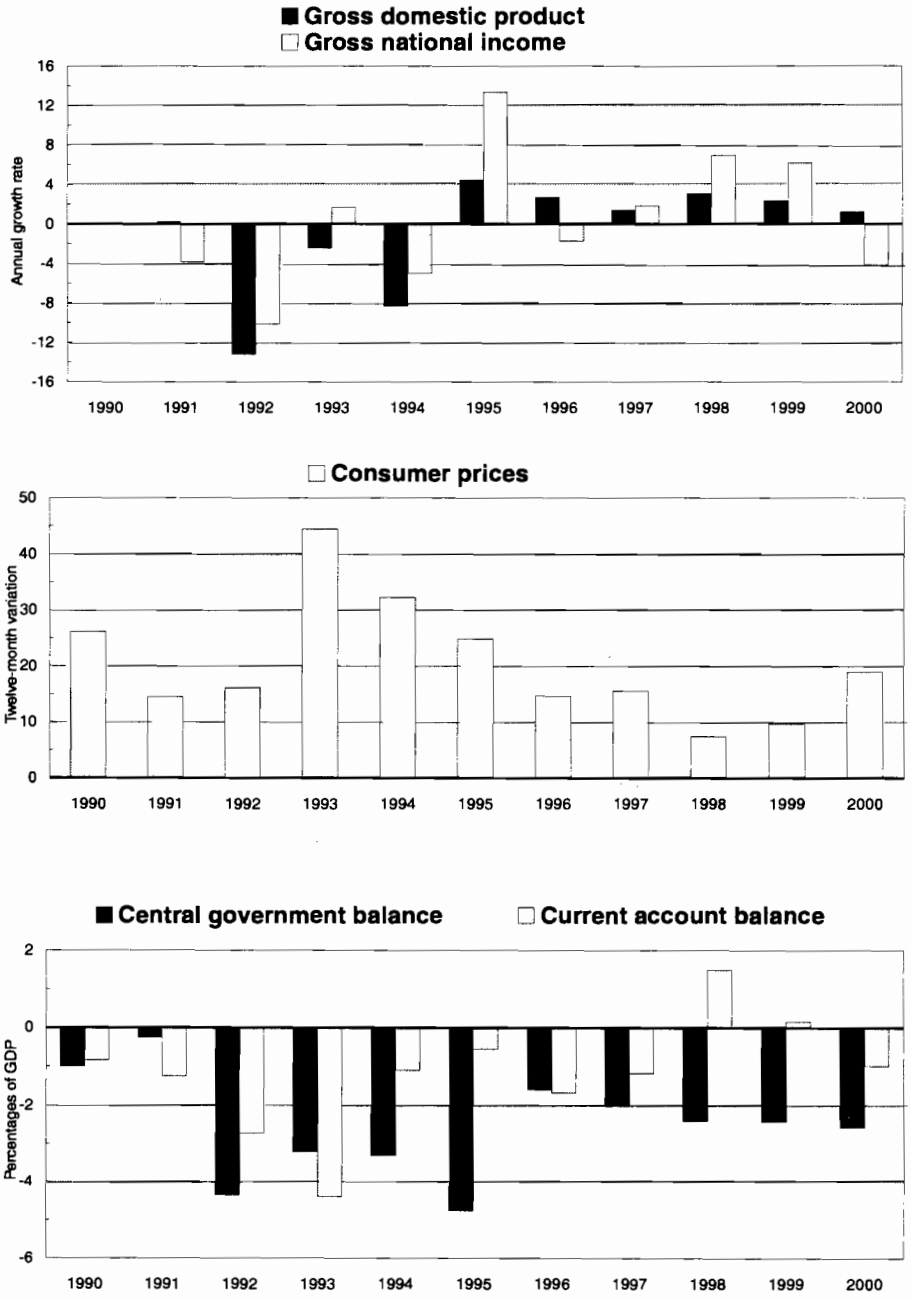
THE REAL ECONOMY was unable to shake off its chronic lethargy, except in construction, which benefited from public spending on infrastructure. External financial constraints tightened and economic agents tended to bide their time, as key political events (legislative and municipal elections in May 2000 and presidential and upper house elections on 26 November) prevented any escape from an impasse that has now prevailed for several years.

Electoral difficulties acted as an impediment to the disbursement of funds by multilateral and bilateral agencies, as the results of the May elections were questioned by the main opposition parties and by the international community –in particular the Organization of American States (OAS) and the European Union (EU)– and, later in the year, the November ballot was boycotted by the main political parties. An increase in remittances and other current transfers was not enough to offset the loss of these resources, which have traditionally played a major role in maintaining equilibrium in the balance of payments and the budget.

The last fiscal year and the economic situation since President Jean-Bertrand Aristide took office on 7 February 2001 do not bode well for an upturn in the economy in the short term, as both economic factors and persistent elements of political instability conspire against such a revival. The country has failed to meet the fiscal and monetary targets of the programme for the 2001 fiscal year supervised by the International Monetary Fund (IMF), which the Haitian authorities signed with the Fund in November but which was not approved.

It is unlikely that the scenarios projected for the current fiscal year will be borne out, in terms of either GDP growth or other macroeconomic indicators such as the inflation rate, fiscal deficit and balance of payments. In February the annualized rate of inflation was 18%, whereas the IMF programme put forward an annual target to September of 14%; net bank credit to the central Government (1.202 billion gourdes) ran at three times the programme targets in the first quarter, and current revenue (2.676 billion gourdes) was less than two thirds of the projections. In addition, net reserves in Haiti's

Figure 1
HAITI: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

central bank, the Banque de la République d'Haïti (BRH), recorded a drop of US$36 million. This situation makes it improbable that the projected GDP growth rate of 2.5% will be achieved, given the slowdown in the United States economy and the categorical refusal of various members of the international community to resume any aid or financing programmes whatsoever until the political situation becomes clearer.

2 Economic policy and structural reform

The very socio-political environment that underlay the economic policy measures deployed in 2000 was a considerable impediment to their implementation. The Government, which had already been called severely into question over the absence of legislative bodies that could endorse its actions, was further constrained by a lack of resources to implement its policies and resorted to domestic borrowing through BRH. The Central Bank attempted to offset the consequent expansionary effects on inflation by further tightening monetary policy, but was unable to prevent the rapid depreciation of the gourde or the increase in the rate of inflation.

(a) Fiscal policy

As had been envisaged since the outset, the 2000 fiscal year closed with a larger deficit than planned (-2.6% of GDP). Government income decreased by 12% in real terms as oil revenue fell, while spending shrank by 8% in real terms. The reduction in public spending was achieved at the expense of operational expenditure and interest payments, which were drastically reduced (-35% and -40%, respectively), since some areas actually recorded substantial real increases, such as wages (11%), non-recurring expenditure (36%) –especially the elections– and capital expenditure (10%).

The reduction in receipts from oil Import duties represented a treasury shortfall of over 1 billion gourdes (over 1% of GDP). Although the tax regime in place since 1995 gives the treasury the power to adjust domestic prices when the total cost varies by more than 5%, the authorities chose to keep prices to the public unchanged until September in a bid to neutralize the major inflationary effects that higher fuel costs result in, given their consequences for the prices of transport and of kerosene, which is widely used in households. In combination with an implicit tax credit to safeguard the profit margins of import and distribution firms, this fuel subsidy had a massive impact on the public sector's fiscal performance. Starting in September, however, the prices of petroleum derivatives were increased by 45% on average and the authorities announced that henceforth adjustments would be made whenever international price fluctuations required them.

Faced with a rapidly widening fiscal deficit, from the second quarter (January-March 2000) onward the national authorities attempted to adjust government expenditure to revenue, through a joint cash administration scheme between the Ministry of Economy and Finance and BRH. From the third quarter (April-June), however, it became increasingly evident that the actual achievements were deviating substantially from the programme agreed with IMF and, in the absence of external resources, BRH undertook to meet almost all the central Government's financing needs. This item came in at almost double the previous year's level in nominal terms (64% in real terms) and exceeded forecasts by 35%.

Continuing external constraints were reflected in a minimal change (0.4%) in net external debt (US$1.17 billion). New disbursements during the period amounted to a mere US$49.8 million –as against an average of US$80 million in the three previous years– while debt servicing and repayments (US$40 million) were similar to other years. Various funds have been committed thus far by multilateral agencies, such as the Inter-American Development Bank (IDB), which has allocated US$200 million, and bilateral agencies, but these funds cannot be released until the approval of the legislature is given.

(b) Monetary policy

In response to the steady rise in inflation that first manifested itself in the final months of the previous financial year, the monetary authorities tightened policy further in an attempt to offset, at least partially, the expansionary effect on liquidity caused by the monetization of the fiscal deficit and the increase in the value of local currency-denominated international

Table 1
HAITI: MAIN ECONOMIC INDICATORS[a]

	1992	1993	1994	1995	1996	1997	1998	1999	2000[b]
				Annual growth rates [b c]					
Growth and investment									
Gross domestic product	-13.2	-2.4	-8.3	4.4	2.7	1.4	3.1	2.4	1.2
Per capita gross domestic product	-14.8	-4.2	-9.9	2.5	0.8	-0.5	1.2	0.5	-0.6
Gross domestic product, by sector									
Goods	-13.3	-5.9	-10.0	-1.4	3.4	1.4	4.0	3.2	0.8
Basic services	-12.1	-2.4	-13.2	13.1	5.3	-0.2	1.4	10.3	3.3
Other services	-10.7	1.1	-4.4	7.1	1.1	0.6	1.9	...	1.4
Consumption	0.6	14.5	-8.1	18.7	-2.4	2.3	4.4	3.4	1.6
Gross domestic investment	-40.1	-7.4	-7.1	88.8	-1.6	-1.5	7.4	6.7	1.3
Exports of goods and services	-47.8	4.2	-15.8	50.9	37.0	5.8	21.8	5.3	2.0
Imports of goods and services	-18.9	60.4	-10.4	78.2	3.1	4.0	13.9	6.2	2.6
				Percentages of GDP [d]					
Gross national income	102.8	106.9	110.8	119.5	114.2	114.6	118.8	122.9	116.3
Gross domestic investment	8.0	7.6	7.7	13.8	13.2	12.8	13.4	13.9	13.9
National saving	7.0	4.4	8.1	14.1	11.3	11.1	15.1	19.0	12.1
External saving	1.0	3.2	-0.4	-0.3	1.9	1.7	-1.7	-5.1	1.8
				Percentages					
Employment and wages									
Real minimum wage (index 1995=100)	96.1	74.0	53.2	100.0	82.9	71.3	63.3	58.3	51.4
				Growth rates					
Prices (December-December)									
Consumer prices	16.1	44.4	32.2	24.8	14.7	15.6	7.4	9.7	19.0
External sector									
Terms of trade (index 1995=100) [d]	92.9	94.1	96.8	100.0	90.6	94.8	96.7	95.3	88.1
Nominal bank exchange rate (gourdes per dollar)	9.1	12.8	13.0	15.1	15.7	16.7	16.8	16.9	22.3
Real effective exchange rate for imports (index 1995=100)	128.9	141.8	120.7	100.0	85.5	73.4	69.3	66.0	74.1
				Millions of dollars					
Balance of payments									
Current account	-42	-68	-23	-13	-46	-36	53	6	-39
Trade balance (goods and services)	-184	-227	-78	-535	-498	-501	-542	-655	-770
Exports	148	163	139	257	330	379	479	518	489
Imports	332	390	317	792	827	880	1 022	1 173	1 258
Capital and financial accounts [e]	14	27	-10	198	0	67	-18	15	-7
Overall balance	-28	-41	-33	185	-46	30	35	21	-46
Variation in reserve assets (- indicates an increase)	-4	1	-8	-176	49	-50	-29	-34	57
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	56.9	55.8	42.5	38.5	33.6	33.1	31.2	29.1	29.8
Net interest (as a percentage of exports) [f]	5.5	7.9	6.1	10.4	3.1	3.2	2.0	2.1	2.6

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[b]
	Percentages of GDP								
Central government									
Current income	7.0	5.5	2.6	6.4	7.4	9.1	8.9	9.0	8.0
Current expenditure	10.8	8.4	5.7	10.9	9.1	9.8	9.3	9.5	8.2
Saving	-3.7	-2.9	-2.9	-4.5	-1.8	-0.7	-0.4	-0.5	-0.2
Capital expenditure	0.6	0.6	0.2	0.8	0.3	1.4	2.1	2.2	2.4
Financial balance	-4.4	-3.2	-3.3	-4.8	-1.6	-2.0	-2.4	-2.4	-2.6
	Growth rates								
Money and credit									
Net domestic credit	26.4	26.3	27.9	-2.1	13.2	18.1	12.2	20.7	23.2
To central government	16.1	7.7	30.9	-4.6	21.7	-2.9	2.5	27.0	26.6
To private sector	4.6	40.0	8.7	59.2	17.0	43.4	16.0	9.0	37.2
Money (M1)	24.8	26.7	21.1	25.9	0.6	11.8	3.4	17.5	19.5
Local-currency savings and time deposits	28.6	35.1	25.8	8.5	1.9	16.3	12.6	12.5	16.6
M2	26.8	31.3	23.8	15.9	1.3	14.2	8.5	14.7	17.9

Source: ECLAC, on the basis of official figures.
[a] Figures to September of each year. [b] Preliminary figures. [c] Based on constant 1976 gourdes. [d] Based on constant 1995 dollars. [e] Includes errors and omissions. [f] Refers to net interest as shown on the balance of payments, divided by exports of goods and services.

reserves. Nonetheless, the monetary base expanded by 25% and broad money (M3) increased still more, by 36%.

Initially the authorities raised the reserve requirements on liabilities denominated in dollars (from 12.5% to 21% between November and September) and in gourdes (from 26.5% to 31%). The time allowed for establishing these reserves was also shortened, from one month to 15 days, and throughout the year yields on BRH bonds climbed steadily (from 10.3% in October 1999 to 26.7% in September 2000 for 91-day instruments). Despite the evidently attractive spread on these assets, commercial banks have gradually diversified their portfolios towards seven-day bonds, which have yields of 14%. Since June, issues have thus shifted towards these shorter-maturity instruments, which clearly reveals strong misgivings on the part of the system with regard to the economy's immediate future.

The cost to the public sector of interest payments on these bonds, which was not reflected in the central Government's accounts, represented almost 20% of government expenditure and exceeded external debt payments by 48%. For the banks, bonds have come to be very low-risk instruments with guaranteed yields, which provide them with a fourth of their net interest earnings.

The increase in liquidity, on the other hand, was driven by the rise in local currency-denominated international reserves (because of the devaluation of the gourde) and the expansion of domestic credit. Overall, net reserves in the banking system expanded by 27%, although they continued to be low (covering barely three months of imports), while Central Bank reserves increased by just 12% and from the third quarter (especially in May 2000) were significantly lower than in the previous financial year.

Bank credit to the Government expanded by 27%, while loans to the private sector increased by 37%, despite the tight monetary policy. The main recipients of private-sector credit continued to be wholesale and retail commerce (35%) and consumption (11%), while manufacturing received a small –and decreasin– share of financing.

Against the backdrop of a highly volatile currency market, an ever larger proportion of credits were denominated in dollars (46%), despite divergent trends in local currency and dollar lending rates. While local currency loans averaged real rates of 11.2%, dollar-denominated rates stood at 2%, a figure which rises to 19.8%, however, once adjusted for currency depreciation.

(c) Exchange-rate policy

The economy thus became more dollarized, with dollar-denominated deposits now accounting for almost 40% of broad liquidity (M3) in the economy after growing by 89%. Despite a marked scarcity of foreign exchange from either external trade or external financing, the strong demand for currency –partly owing to the economy's high import ratio and partly because, despite the clear downward trend of economic activity, food and fuel import requirements remained relatively high– placed constant pressure on the exchange rate which the sporadic Central Bank interventions were insufficient to mitigate.

Unlike the previous financial year, therefore, in 2000 the value of the gourde tumbled against the dollar (43.5%). Seeking to offset this depreciation, the Central Bank intervened in the currency market in March by selling foreign exchange totalling approximately US$17 million. Faced with these reserve losses and the limited effects they generated, in the second quarter BRH abandoned the direct intervention approach. The average monthly slide of the gourde was around 3%, with heavier depreciation in the final two months (August and September), when the local currency depreciated by about 19% and displayed nominal peaks of up to 30 gourdes per dollar.

(d) Structural reform

The process of restructuring public enterprises, which has been ongoing since the Public-Sector Enterprise Modernization Council (CMEP) was created in 1996, does not appear to have moved much further forward. In fact, the privatization of Haiti's telecommunications company (TELECO), national ports authority (APN), airport authority (AAN) and electricity company (EDH) continues to be subject to general policy guidelines from previous years, as the specific sale mechanisms have not been activated. This is chiefly a product of the legislative deadlock of recent years, to which no resolution has yet been found.

Of the two firms which have been restructured, Les Moulins d'Haïti S.A. and Ciment d'Haïti, only the first (which is still 30% State-owned) is at the operational stage. The wheat flour and other wheat derivatives it produces have made it possible to reduce imports in this segment by a substantial 14% (these imports are brought in by means of the donations mechanism provided under the United States Public Law 480 programme).

3. Main variables

(a) Economic activity

Preliminary estimates show GDP growth of just 1.2%. This figure comes as no surprise in an environment marred by political instability and external financing constraints. This virtual stagnation of national output reflects both a depressed rate of consumption (1.6%) and a subdued performance by the export sector (2%). Domestic investment grew by 1.3%, largely thanks to government infrastructure projects, as private investment remained depressed. Imports expanded by 2.6%, which was attributable mainly to a 26% increase in the volume of petroleum imports and to demand for food products, which account for over 40% of total imports.

The most dynamic sectors were construction (4.6%) and manufacturing (2%), by contrast with the agricultural sector –which accounts for nearly a third of the country's output– in which the level of activity declined by 1.3%. Of all production activities, construction was the best performer thanks to the strong input of public works, which accounted for over 50% of the Government's total investment spending. The growth rate of the sector was nonetheless well below the average of previous years, as it outperformed every other sector during the last decade, with an average of 7.4% growth in a context of negative average GDP growth (-0.8%).

The maquila industry continued to be the fastest-growing within the manufacturing sector. The textile segment –its main activity– displayed a downturn, however, both in terms of the value exported (-2.3%) and volume (-5.1%). Maquila enterprises currently account for 70% of the manufacturing total in terms of employment and total exports, and contribute over 90% of the sector's added value.

The decline of the agricultural sector was primarily due to falling international prices of traditional export products, the persistently poor performance of products for domestic consumption and the lack of incentives. The

agricultural sector receives less than 1% of total bank credit, for example.

The bottleneck in the electricity sector remains, as the indicators of gross generation (-1%) show no improvement. The constraints that this places on production in particular continue to be regarded as a major structural obstacle. The rising prices of imported fuel and the high proportion of thermal electricity generation (around 62%) had a major impact on the sector, particularly given that hydroelectric generation decreased by 10%. Diesel oil imports expanded in volume by 20%, while their value increased by 111%.

(b) Prices, wages and employment

Despite some tentative monetary policy measures aimed at controlling inflation, it was not possible to contain the rate of price rises as had been hoped. This was mainly due to key prices –in particular, the exchange rate– which, far from slowing, increased more sharply. Imported inputs came under pressure because of the rise in their prices –the Haitian economy's import ratio is over 50%– and because of adjustments in several sectors (commerce and other services).

When the financial year closed in September, the annual rate of inflation was 15.3%, well above the rate of 9.9% recorded in 1999, while the average for the year was 11.5%. This upward trend was unrelenting from January onward, with the largest increases recorded in March and September, the latter due to the general adjustment of domestic fuel prices, which rose by an average of 45% after three years without change. The Government adopted this measure in response to the increase in the oil bill, the mounting loss of corresponding tax revenue (close to 1 billion gourdes) and the adjustments already made in the Dominican Republic. Levelling fuel prices in the two countries helps to avoid a differential that could generate an increase in smuggling.

Some of the products included in the basket of basic goods recorded price increases even greater than the average, in particular sugar (23%), maize meal (19%) and coal (22%). Despite a 10% increase in the price of wheat flour, the price of bread fell by 7%, which suggests that a major subsidy exists in this segment (through the monetization of the food aid the country receives).

The state of the Haitian economy is reflected in the employment and wage situation. Some of the preliminary results of the 1999-2000 household survey conducted by the Haitian Institute of Statistics and Information Sciences (IHSI) reveal that the informal sector represents over 90% of the non-agricultural economically active population, while wage-earning jobs cover only 25% of this segment; food accounts for 73% of household expenditure; and over two thirds of households have an average annual income 20% lower than the minimum wage. The minimum wage has not changed since 1995 (36 gourdes per day), since when, particularly after the inflationary surge of 2000, it has been eroded by a cumulative 47% in real terms.

(c) The external sector

At the close of the 2000 financial year, the balance of payments recorded a current-account deficit of about US$40 million (1% of GDP). This was due, among other causes, to the low level of external aid resources, which were heavily down on the previous year's figure (-88%). The country recorded capital outflows of US$62 million, as a result of domestic instability and the rise in United States interest rates. The overall deficit was financed mainly with a net reserve loss of US$57 million.

The goods trade deficit increased by 14%, as exports decreased (-6%) and imports expanded (7%). The oil bill doubled during the financial year and accounted for 14% of imports. Despite the potential advantages of sustained growth in the United States economy, maquila exports decreased as the textile subsector declined.

Haiti saw its terms of trade deteriorate by close to 11%. This was attributable, firstly, to increased oil prices and, secondly, to a considerable fall in the international prices of two of the country's main agricultural export products: coffee (-16%) and cacao (-20%).

Remittances, which totalled over US$500 million, have come to play an important role in maintaining balance-of-payments equilibrium. These resources more than offset the decline in external loans and foreign direct investment and were much more substantial than income from tourism (US$162 million), which declined for the second year running.

HONDURAS

1. General trends

The Honduran economy picked up in 2000, and although it has not yet regained the production levels attained in some key sectors prior to Hurricane Mitch, recent economic trends appear to have laid the groundwork for recovery to consolidate in 2001. During this process, a number of social and economic policy measures have been taken to continue dealing in an orderly manner with the pressing problems left by the devastation of late 1998. GDP grew by 4.8% in 2000 and per capita GDP by 2.3%, the best performance since 1995.

GROWTH WAS DRIVEN by agricultural export activities and manufacturing. All other sectors showed great dynamism as well, with the exception of mining and construction, which lost momentum, and the financial sector, which posted the lowest growth rate in the economy. Overall demand and domestic demand both gained ground along with GDP. A sharp rise in inventories and government consumption stands in contrast to the performance of fixed investment, which fell after the healthy expansion of previous years. Due to the heavy influence of the agricultural and manufacturing sectors in the economy, employment showed a recovery from 1999 averages.

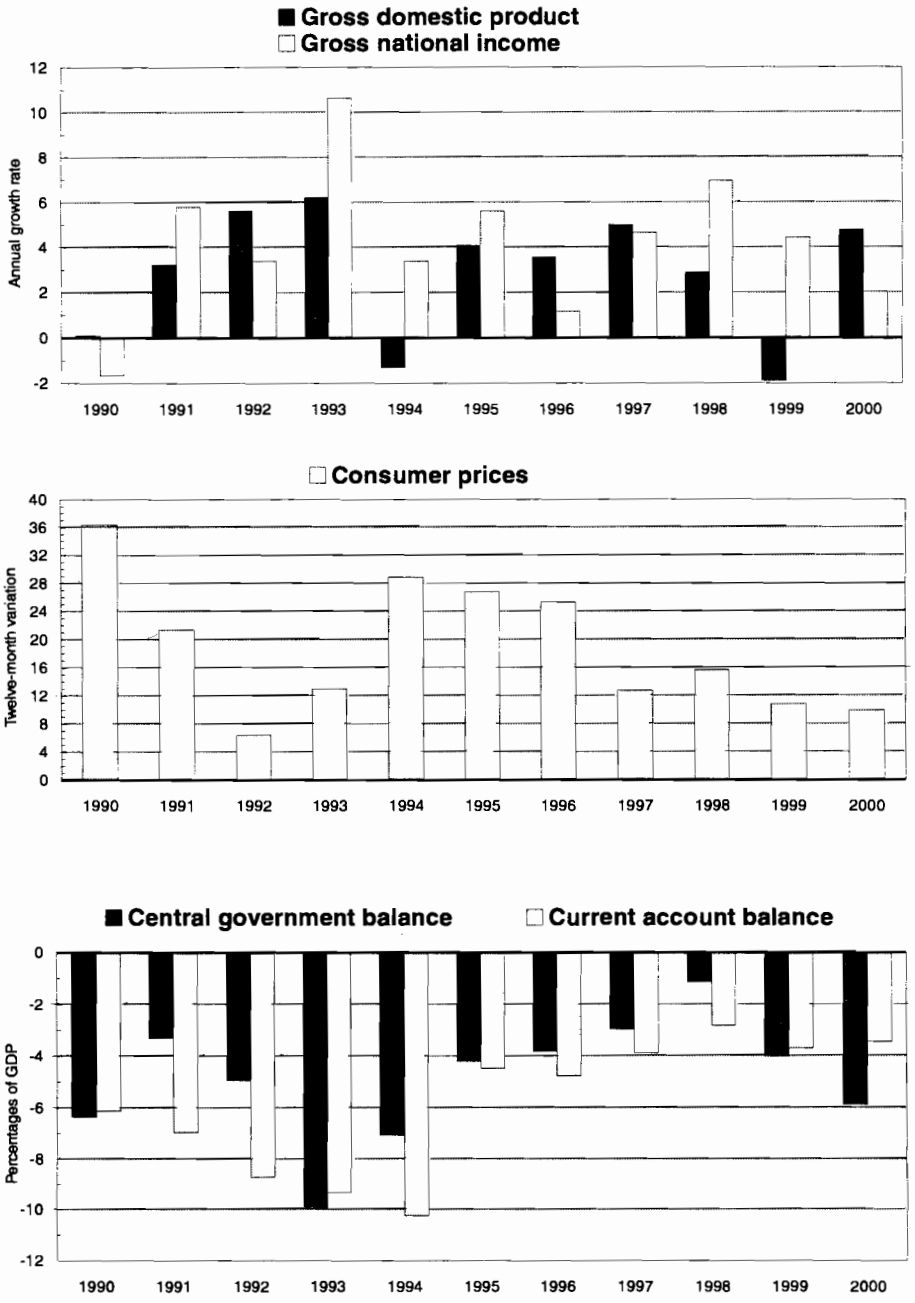
The predominant trend in the macroeconomy was one of relative stability, with inflation below the 1999 level and an exchange rate whose movements were slow to reflect price rises. Exports of goods, which rebounded strongly, contributed 13% more revenue than in the previous year. In addition, international reserves expanded, family remittances continued their upward progression, and the restructuring of the external debt was begun.

No major changes were seen in economic policy. Its objectives and instruments were oriented towards maintaining control over the key balances and promoting recovery, as well as implementing the Poverty Reduction Strategy (PRS), which is a requirement for Honduras to gain full admission to the Heavily Indebted Poor Countries (HIPC) Debt Initiative. Difficulties arose, however, in efforts to manage fiscal accounts, resulting in a widening of the central Government's deficit.

It is expected that this strong performance will be carried into 2001, when projections are for GDP growth to be similar to that of 2000 and for inflation to continue its downward trend. One key factor in propelling and solidifying the recovery will be the maintenance of reconstruction investment spending at levels similar to those of the second half of 2000. The fiscal deficit will be financed with external funds, which were guaranteed in the pacts signed with multilateral organizations.

The effects of the external debt relief programme should be felt more strongly than in 2000, and together with the influx of family remittances, this should keep the balance of payments sustainable. Nevertheless, there is a risk of external pressure if the terms of trade remain unfavourable. In 2001 a number of legislative amendments and reforms are planned with a view to simplifying regulations affecting the economy and accelerating structural change in the electricity sector, the financial system, the public administration and the civil service.

Figure 1
HONDURAS: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy and structural reform

The major objectives of fiscal and monetary policy were to promote the revitalization of production, control inflation and move forward with structural changes. In general, the principal macroeconomic targets for the year were achieved.

(a) Fiscal policy

Economic policy makers found it difficult to maintain the balance of the public finances and to fund spending without fuelling inflation, as the deficit widened and was covered primarily with domestic resources. Moreover, spending allocations in the public sector began to be revised in accordance with the growth and poverty reduction programme.

The fiscal deficit amounted to 5.9% of GDP in 2000, compared to 4% in 1999, due to a fall in revenues of 1.7 percentage points of GDP and a 0.2 percentage point rise in spending. Unlike the previous three years, when the country had relied chiefly on external funding, 58% of this deficit was financed from domestic sources. In 2000, international aid which was intended to alleviate the effects of Hurricane Mitch, and which for one reason or another had not been spent in 1999, continued to flow into Honduras.

Tax policy was conducted along the lines set out in the 1998 reform programme, and income tax rates stayed within the same range (25%). The targets agreed upon with the International Monetary Fund (IMF) included boosting the tax ratio to 18.5% of GDP, but it was difficult to step up tax pressure because of higher fuel prices, the fiscal aftermath of Hurricane Mitch and the 1999 recession.

Receipts from the main taxes fell in real terms (-3.3%); income tax revenues were down 8%, while 3% less was collected from the tax on production, consumption and sales. The import tariff on fuels is set in accordance with a system of bands (the higher the price, the lower the tariff, and vice-versa). Last year the tariff reached its lowest point, causing a loss to the central Government of tax revenues totalling 530 million lempiras (5% of the indirect taxes collected in 2000). In addition, a large number of businesses (around 4,000) stopped paying taxes due to losses attributable to the destruction of assets. Taxes on banana and mineral exports were abolished, pursuant to the IMF's recommendation in that regard. The fiscal impact of this measure was insignificant, since the yield from the two taxes (the last of this type still in place) had been progressively declining in recent years. Thus, if non-tax revenues are included (accounting for less than 10% of all public income), the central Government took in the equivalent of 16.6% of GDP (1.1 percentage points less than in 1999).

Public spending rose 3.7% in real terms, although as a percentage of GDP it remained at practically the same level as in 1999. Current spending grew at a faster pace (8.4%); purchases of goods and services and payment of salaries and wages were the components registering the largest increases (34% and 16%, respectively).

Public-sector capital spending shrank 6.6%, but the central Government invested nearly 6% more than in 1999. This jump reflects the allocation of resources to reconstruction and social programmes under the poverty reduction strategy called for in the Master Plan for Reconstruction and National Transformation, within the framework of the public policies agreed upon with IMF in 1999 (and revised in early 2000). Progress with the reconstruction work has been slow owing to problems of execution, especially in the case of projects financed from external resources.

In December 1999, Honduras joined the HIPC Initiative. In June 2000, IMF and the World Bank agreed that, since Honduras had signed a second pact with IMF, made progress on the privatization of public-sector assets and presented an initial version of the PRS, the country had now met the prerequisites for reaching the so-called "decision point" and becoming a beneficiary of the HIPC Initiative.

Thanks to this decision, the Honduran economy received an initial infusion of US$9.5 million. Formal agreement was reached on the contributions of the World Bank (50% annual debt service relief starting from the second half of 2000) and the Central American Bank for Economic Integration (CABEI), which granted a US$252 million loan on preferential terms to replace commercial debt. The contribution from the Inter-American Development Bank (IDB), which will be similar to the World Bank's, will be formalized in 2001.

(b) Monetary policy

The growth of monetary liabilities in the financial system was 17% in 2000, more than 4 points below the

Table 1
HONDURAS: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	5.6	6.2	-1.3	4.1	3.6	5.0	2.9	-1.9	4.8
Per capita gross domestic product	2.5	3.1	-4.1	1.1	0.7	2.1	0.1	-4.5	2.1
Gross domestic product, by sector									
Goods	7.3	4.0	-2.6	6.3	2.0	4.3	0.6	-2.8	6.1
Basic services	3.4	4.4	-3.9	9.2	7.0	5.2	3.3	1.8	5.0
Other services	5.3	9.7	-0.5	3.4	3.2	5.8	4.8	0.3	5.4
Consumption	3.5	2.5	-0.2	1.2	5.4	2.5	6.3	0.6	5.0
General government	12.9	-9.4	-5.1	-2.8	5.3	-1.0	15.4	9.8	9.1
Private	2.2	4.4	0.5	1.7	5.5	2.9	5.2	-0.6	4.4
Gross domestic investment	12.4	29.2	7.3	3.0	-6.3	8.4	0.3	7.5	3.8
Exports of goods and services	8.0	-1.1	-10.1	13.6	8.1	1.3	1.6	-11.2	4.9
Imports of goods and services	7.5	7.1	1.1	4.0	2.4	-1.4	7.5	4.3	4.4
				Percentages of GDP [c]					
Gross national income	90.2	93.2	98.2	100.0	97.6	97.4	100.8	106.9	104.1
Gross domestic investment	24.1	29.0	31.8	31.6	28.5	29.5	28.6	31.3	31.0
National saving	14.8	19.2	21.9	27.2	24.3	26.2	26.3	28.0	25.1
External saving	9.2	9.8	9.8	4.3	4.3	3.3	2.4	3.3	5.8
				Percentages					
Employment and wages									
Labour force participation rate [d]	48.9	50.2	49.2	49.5	52.2	53.1	52.9	55.7	...
Open unemployment rate [e]	3.8	3.8	2.8	3.7	4.5	3.6	3.5	3.7	...
Real minimum wage (index 1995=100)	121.3	123.0	105.8	100.0	96.0	102.0	105.4	105.8	114.7
				Growth rates					
Prices (December-December)									
Consumer prices	6.5	13.0	28.9	26.8	25.3	12.8	15.7	10.9	10.0
Wholesale prices	9.7	14.0	35.1	21.2	26.6	6.6	11.9	10.3	...
External sector									
Terms of trade (index 1995=100) [c]	82.2	90.3	92.1	100.0	92.8	115.4	118.0	110.2	103.8
Nominal exchange rate (lempiras per dollar)	5.5	6.5	8.6	9.5	11.7	13.0	13.4	14.2	15.0
Real effective exchange rate for imports (index 1995=100)	93.4	102.3	112.6	100.0	102.3	98.2	91.7	88.7	85.8
				Millions of dollars					
Balance of payments									
Current account	-298	-327	-352	-177	-194	-183	-148	-200	-204
Trade balance (goods and services)	-192	-320	-345	-178	-212	-277	-426	-772	-812
Exports	1 041	1 211	1 370	1 735	1 915	2 175	2 430	2 281	2 507
Imports	1 233	1 530	1 714	1 913	2 128	2 452	2 856	3 053	3 319
Capital and financial account [f]	51	135	331	216	297	370	289	415	197
Overall balance	-247	-192	-20	39	103	187	141	216	-7
Variation in reserve assets (- indicates an increase)	-92	105	-17	-136	-174	-295	-230	-474	-118
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	103.5	109.8	117.7	107.1	101.0	86.4	83.7	87.1	78.6
Net interest (as a percentage of exports) [g]	25.0	14.5	14.2	11.5	9.8	7.2	5.7	5.3	3.4

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	17.4	16.9	16.0	18.2	16.6	16.9	18.8	19.3	18.0
Current expenditure	16.6	18.4	16.6	15.6	16.0	16.4	15.9	15.8	16.6
Saving	0.8	-1.5	-0.6	2.6	0.6	0.5	2.9	3.5	1.3
Capital expenditure (net)	5.7	8.8	7.2	7.7	5.1	4.1	4.7	7.8	7.2
Financial balance	-4.9	-9.9	-7.1	-4.2	-3.8	-2.9	-1.1	-4.0	-5.9
Domestic financing	-2.9	0.9	2.5	-0.3	0.6	0.2	-1.1	0.1	3.4
External financing	7.8	9.0	4.6	4.5	3.2	2.7	2.2	3.9	2.5
				Growth rates					
Money and credit									
Net international reserves	109.9	-62.9	79.1	252.5	133.0	82.9	41.8	60.5	13.4
Net domestic credit	18.1	25.8	28.6	9.4	34.5	24.3	6.4	-4.1	24.5
To public sector	-26.6	16.4	14.5	-93.2	...	...	...	...	...
To private sector	24.8	14.9	24.7	21.1	49.2	42.5	34.3	21.2	13.8
Money (M1)	14.2	13.0	37.0	18.3	27.1	33.8	12.7	21.8	4.7
Local-currency savings and time deposits	34.2	5.3	10.1	22.1	33.3	68.7	26.8	25.6	22.6
M2	22.6	8.8	25.1	19.8	38.5	43.3	16.8	21.2	17.0
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	0.9	-7.9	-13.6	-5.7	0.9	4.5	6.9	4.5
Lending rate	...	10.3	2.8	-2.0	4.9	9.9	15.0	16.6	14.3
Equivalent interest rate in foreign currency [h]	...	11.1	11.2	11.0	16.1	22.5	18.5	19.3	15.9

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1978 lempiras. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population, nationwide. [e] Open unemployment rate, nationwide. [f] Includes errors and omissions. [g] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [h] Interest rate on deposits deflated by the variation in the average bank exchange rate (selling rate) for banknotes.

level reported in 1999, but above the GDP growth rate at current prices. This trend was primarily driven by net domestic credit, which came almost entirely from the use of public-sector resources to pay reconstruction costs (translating into a decline in government deposits in the financial sector). Net credit to the private sector posted a year-on-year gain of nearly 14%, similar to that of GDP at current prices. Open-market operations were still the main instrument employed to control liquidity in the economy. Through this means, government bond issues by the end of 2000 were nearly twice what they had been in December 1999.

Although interest rates were moving downward, the cost of money remained high. Bank spreads were just as wide as in the preceding four years, with the maximum monthly level averaging close to 18%.

Credit problems between the agricultural sector and commercial banks, which had been building up since before Hurricane Mitch, came to a head when the non-performing loan portfolio expanded rapidly. Agricultural producers in arrears are estimated to owe an average of five times their capital. To find a solution, the Government promoted talks with a view to setting up an agricultural debt restructuring system, which was finally adopted in early 2001. The renegotiation of non-performing loans will have a fiscal cost estimated at 0.5% of GDP for ten years.

The liquidation of Banco Corporativo was completed during the year, and although it accounted for only a tiny proportion of the deposits on the market, oversight measures had to be strengthened and the Deposit Guarantee Fund was drawn down by nearly 93 million lempiras. This episode highlighted the weakness of the institutional system for enforcing current regulations, and later on it prompted the National Commission on Banking and Insurance to adopt

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	12.3	14.2	13.5	15.7	13.3	10.6	10.7	10.9	10.9	11.9	10.8	10.0	10.2
International reserves (millions of dollars)	699	731	633	818	871	1 094	1 087	1 258	1 376	1 331	1 293	1 313	1 303
Real effective exchange rate[b] (index 1995=100)	95.4	91.7	89.4	90.3	88.9	88.9	89.2	87.9	86.9	85.5	85.8	85.1	84.2
Real interest rates (annualized, %)													
Deposit rate	6.8	3.9	3.3	3.8	4.7	7.4	8.1	7.5	7.0	3.7	3.4	3.9	3.9
Lending rate	17.8	14.5	14.2	13.6	13.8	17.3	18.0	17.1	17.0	14.0	12.9	13.4	12.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

resolutions designed to strengthen the commission's powers to implement prudential norms and regulations effectively. Banks' capitalization and reserve ratios (including their credit risk classification) were better than in 1999.

(c) Exchange-rate policy

Given the relative abundance of foreign exchange coming into the country, the exchange rate continued to strengthen. With inflation at 10.1%, the national currency slipped by 4.4% (comparable to 1998 and 1999, when inflation was at 15.7% and 11%, respectively, and the exchange rate adjusted by 5% and 5.4%). This raised differing degrees of concern among national authorities, multilateral organizations and exporters about the competitiveness of the exchange rate.

(d) Structural reform

At the beginning of the last quarter, tenders were opened in what was to be the conclusion of the bidding for the Honduran Telecommunications Company (Hondutel). The call for bids was declared void because the three offers made were well below the reserve price. Therefore, the strategy to privatize the company was redesigned and the invitation to tender will be reissued in 2001. In the electricity sector, commitments to IMF required that electricity distribution be privatized some time around October 2000. To accomplish this, however, a new Electricity Sector Framework Law had to be enacted, and approval for this is still pending. The country's four international airports were privatized in October.

Legislation on the stock market and the insurance and reinsurance industry was passed in early 2001. The details of social security reform and of the laws on pension funds and deposit insurance have not yet been settled. A new income tax bill is being drafted to cover not only revenue collection, but also goals for transparency, investment promotion and anti-corruption measures.

The tariff reduction programme remained in effect and, as expected, the average tariff on final consumption goods was set at 15% as from January. The countries of the so-called Northern Triangle of Central America (El Salvador, Guatemala and Honduras) signed the Free Trade Agreement with Mexico, the culmination of almost six years of negotiations. The free trade agreement with Chile, the normative part of which was negotiated by the Governments of the five Central American countries in 1999, is in abeyance pending bilateral agreement on particular issues. In the case of Honduras, these relate mainly to certain key products (cooking oil, sugar). Some issues relating to rules of origin have not yet been resolved either. The authorities began or continued trade negotiating rounds (varying in scope) with Panama, Colombia and the Andean Community. It was also decided that Honduras would join the efforts inspired by El Salvador and Guatemala to establish a customs union.

3. Main variables

(a) Economic activity

GDP rose 4.8%, and although there was dynamic growth throughout the economy, most noteworthy was the agricultural sector, which began to recover from the damages wrought by Hurricane Mitch. The aggregate output of this sector (which accounts for nearly a quarter of GDP), after contracting sharply the previous year, increased by 7.6%, bringing it very close to the levels recorded in 1997 and 1998. The upswing in farm activity is largely explained by the resurgence of export crops.

One of the most striking features of performance in this sector was the recovery of banana production. This export crop was hit hard by the natural disaster of late 1998, but the harvest doubled in volume in 2000 thanks to the effort begun in 1999 to rehabilitate the plantations. Other agricultural products with high rates of growth were maize and beans (among crops for domestic consumption) and sugar cane, tobacco and African palm (among export crops). The recovery of the agricultural sector is expected to grow stronger and more widespread in 2001.

Manufactured goods also performed well overall. The growth rate was nearly twice that of the previous year (one of the lowest in recent times), which suggested a return to the average growth rates of the last decade. There were disparities among the different subsectors, however. Production of foodstuffs, beverages and tobacco, which accounts for two fifths of the sector's total by value and is closely linked to the domestic market, edged upward only very slightly. Textiles and wearing apparel, which represent 15% of the manufacturing sector's total output and are a very dynamic component of exports, increased their growth rate to 13% (compared to an average of 8.5% for the 1997-1999 period).

Other sectors that began to pick up after 1999 were transportation, services and commerce. In construction, activity was below what might be expected during a period of rebuilding. The reasons were the downturn in private residential investment and the problems facing the economic system in the transition from rehabilitation –the phase immediately following the natural disaster– to the construction of new infrastructure. This second stage has been delayed both by the technical difficulties inherent in the projects involved, and by the slowness of the procedures for tendering out work and for transferring the external resources required to finance it. The difficulties of the construction sector took their toll on mining output, whose sluggish growth can be explained entirely by a fall in quarrying activity.

The *maquila* industry continued to expand, once again far exceeding the growth rate of the economy as a whole. Calculated in current dollars, the value of its output has increased by nearly 30% a year in recent times.

Against this backdrop, domestic demand reacted favourably (4.6%) to the stimulus provided by higher consumption spending, which had been boosted in the early part of the year by the increase in wages and in subsequent months by institutional spending to replace, repair and create physical infrastructure as part of the reconstruction process. Nearly four fifths of aggregate economic growth came from total consumption spending, and just under two thirds from private consumption alone. Government consumption and inventories expanded notably, while fixed investment fell after rising strongly in previous years. This decline is mainly attributable to the slower pace at which damage was repaired, after very intensive activity in 1999.

(b) Prices, wages and employment

The annual rate of inflation was 10.1%, the lowest in seven years. Prices in general were pushed up by rises in international fuel prices, which had repercussions throughout the economy, and by increases in the minimum wage and electricity prices. The larger domestic supply of agricultural and industrial products that make up the basic consumption basket (maize, beans, coffee, bananas, sugar, milk and vegetable oil) helped somewhat to mitigate the general rate of inflation.

In January 2000, the minimum wage was boosted by 8% across the board, pursuant to an agreement reached in 1999, and in October a second increase of 9.8%, applicable to firms with more than 16 employees, took effect.

The resurgence of production had a positive impact on the demand for labour, especially in the agricultural sector. *Maquila* companies continued to be a major source of employment, creating 6,000 new jobs over the year.

(c) The external sector

The balance-of-payments current-account deficit reached US$204 million, just slightly higher than the 1999 figure. As a proportion of GDP, it dipped from

3.7% to 3.5%. This imbalance was caused by the merchandise trade balance, which was in the red by US$810 million (5% more than in 1999).

The value of goods exported climbed 13% with respect to 1999, but income from foreign sales of merchandise (not including goods produced by the *maquila* industry) remained below the 1997 and 1998 totals. Export growth was sustained by the programme to restore banana-producing areas, which resulted in a threefold increase in foreign sales of this product over the 1999 level (although these sales were still 48% lower than the 1998 figure). Coffee, thanks to a good harvest, made up in volume for the decline in international prices. Sugar was in a similar position.

After an average annual rise of nearly 35% in the previous two years, the value of *maquila* exports expanded by 20% in 2000. This sector contributed one third of the total value of exported goods.

Honduran exports, particularly of industrial products, were adversely affected by the 35% tariff imposed by Nicaragua. This unilateral measure generated losses of about US$30 million, equivalent to 50% of sales to Nicaragua and 12% of those to the Central American Common Market (CACM) as a whole. In 2000, CACM received one fifth of total Honduran goods exports. The country continues to run a trade deficit with the region.

The value of goods and services imports rose by nearly 9%. Most of the increase came from the oil bill, which swelled by US$98 million as a result of higher international prices. This figure represented 52% of the absolute growth of merchandise imports.

The deficit on the balance-of-payments current account was counterbalanced by income from a variety of sources. The importance of family remittances in the Honduran economy was confirmed, as they reached a net total of just over US$400 million, a 28% annual increase. Another dynamic source of income was foreign direct investment, which totalled US$280 million, the highest level in six years.

Foreign transactions boosted international reserves by US$120 million to nearly US$1.5 billion, equivalent to six months of merchandise imports.

MEXICO

1. General trends

The growth rate of the Mexican economy (6.9%) was the highest in almost two decades, exceeding early-year expectations. The main factors behind its strong performance were the economic boom in the United States and high oil prices, in addition to a marked increase in domestic demand despite an increasingly restrictive monetary policy. Higher real wages and employment drove up private consumption by 9.5% while investment increased by 10%.

THE BASIC OBJECTIVE of economic policy was to lower inflation by means of a tight monetary policy, which became increasingly restrictive as the gap between the increase in real wages and labour productivity widened and as domestic expenditure accelerated; this in turn contributed to a real appreciation of the peso, and both of these factors helped bring inflation down to a single digit for the first time since 1994. High oil prices generated fiscal surpluses which facilitated public expenditure and bolstered the economy. Nevertheless, the fiscal deficit target was maintained and was, for all intents and purposes, met (1.1% of GDP). However, because of contingent liabilities that are not counted as part of the public debt but that nonetheless entail fiscal expenditure, public-sector borrowing requirements amounted to more than 3% of GDP.

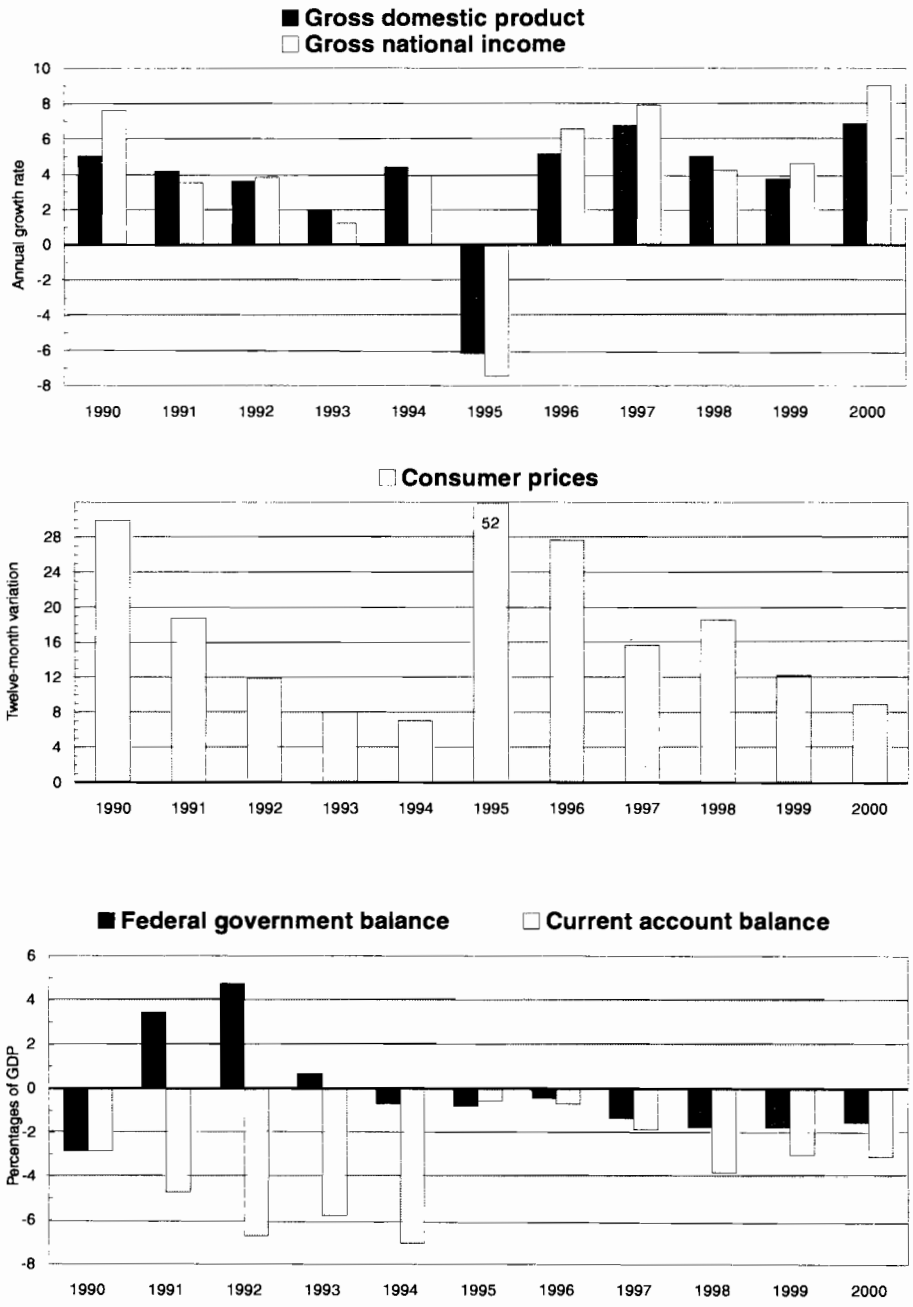
Foreign direct investment topped US$ 13 billion. This was equivalent to 75% of the balance-of-payments current account deficit, which in turn represented 3.1% of GDP. Family remittances amounted to US$ 6.7 billion and external trade was very dynamic. These factors attested to the economy's increasing openness. Its external vulnerability was also on the rise, however, given the notable widening of the trade deficit.

The vibrancy of the economy contrasted with the continuing sluggishness of bank lending. Real interest rates remained high, and repercussions were still being felt from the banking crisis that erupted in 1994-1995. Non-bank mechanisms therefore continued to be used to finance consumption and production, while large companies used external loans as a major source of funding.

Important components of the "financial armour-plating" that had been negotiated with international lending institutions in 1999 and extended in 2000 included the retirement of over US$7 billion in Brady bonds and the settlement of all payments due to the International Monetary Fund, which helped reduce the external public debt balance by US$ 8 billion.

The elections of 2000 introduced a degree of economic uncertainty, given that the four previous changes of Administration had been accompanied by speculative attacks on the peso which had triggered balance-of-payments crises and recessions that underscored the imbalances and vulnerability of the economy. However, a number of unprecedented factors converged to ensure that the political transition did not harm the economy: enhanced credibility of economic policy; solid macroeconomic fundamentals; and a continuingly favourable external environment. Another key feature was the country's increasingly open democratic system, as evidenced by the transparency of the electoral process and the acceptance of the outcome by all candidates and by political and social actors.

Figure 1
MEXICO: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

The deceleration of the United States' economy in late 2000 generated an unfavourable international climate. The year 2001 was expected to see economic growth of 2.2%, inflation of 7%, a fiscal deficit of between 0.7% and 0.9% of GDP, and a current account deficit of 3% of GDP, together with inward foreign direct investment amounting to US$ 13 billion. The central focus of economic policy and reform for 2001 was the Executive's proposal to raise the country's tax burden (currently at less than 11% of GDP) and to increase expenditure in an effort to reduce poverty and social inequality.

2. Economic policy

The fundamental objective of macroeconomic policy was to reduce inflation by adopting a restrictive monetary approach. This policy stance became increasingly rigorous as domestic expenditure accelerated and the external trade deficit widened. Fiscal policy played a supportive role by seeking to maintain a balance between expenditure and income. As it turned out, tax revenue was higher than expected while expenditure fell, so the government was able to come very close to its fiscal target.

The GDP target was surpassed, despite the government having to keep a check on growth to prevent the economy from overheating, especially in the second semester. There has been a noticeable convergence in recent years between economic policy objectives and accomplishments, which has enhanced policy credibility and, as mentioned earlier, contributed to the fact that the political transition of 2000 was not accompanied by a balance-of-payments crisis. In addition, in order to minimize this type of risk, the financial armour-plating put in place in 1999 was subsequently consolidated with an extension of the country's line of credit with official lenders and multilateral financial institutions to US$ 26.44 billion.

(a) Fiscal policy

Public finances were bolstered by the increase in oil prices, and this made it possible to boost expenditure while maintaining the targeted fiscal deficit/GDP ratio. The original growth targets for real income and expenditure were 5.9% and 4.5% for the year 2000. In practice, however, these rates worked out at 13.1% and 12.8%, respectively, which raised the fiscal deficit to 1.1% of GDP, or 0.14 percentage points higher than planned.

The difference between the projected and the actual price of oil (US$ 8.60 per barrel) and the larger volume of oil exports generated a public-sector surplus of almost US$ 6 billion. The extra funds obtained from this source and from enhanced economic activity enabled the authorities to increase allocations to individual states and municipalities, to step up the amortization of the public debt and to set up funds for tax rebates and the stabilization of oil revenues. There were also higher-than-authorized expenditures by public enterprises and agencies, bonus payments for retirees and other pensioners, higher expenditure on education and increased implicit electricity subsidies.

Although the economy was buoyant, real tax revenues rose by only 1.4%. Earnings from value-added and income taxes climbed 15.2% and 7.4% in real terms, respectively, and oil revenues increased by 25.6% to 36.5% of total income (versus 32.5% in 1999). However, this was countered by a 30% fall in excise taxes on gasoline and diesel fuel since, under the special regime applying to Petróleos Mexicanos (PEMEX), hikes in the spot market prices of these commodities are matched by proportionate reductions in excise taxes in order to keep consumer prices level. Total public income represented 21.8% of GDP, tax receipts 10.7% and oil revenues 7.9%.

Net budgetary expenditure rose 12.8% in real terms. Factors contributing to the increase included outlays for special activities such as the preparation and execution of the population and housing census, the organization of federal elections and a one-off bonus payment to pensioners and retirees. Expenditure on education, health, social security and poverty reduction increased 9.5% and represented 61% of total expenditure, the same as in 1999. The 13.9% real growth in public investment was directed mainly towards modernizing, servicing and expanding the electricity grid. The financial cost of the debt was 12% higher and thus amounted to 16% of total budgetary expenditure.

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	3.6	2.0	4.4	-6.2	5.2	6.8	5.0	3.8	6.9
Per capita gross domestic product	1.7	0.1	2.6	-7.8	3.4	5.0	3.3	2.1	5.3
Gross domestic product, by sector									
Goods	3.4	0.7	3.9	-6.5	9.1	7.7	5.9	3.6	6.0
Basic services	5.0	3.8	8.1	-3.9	7.5	9.2	6.0	7.8	11.8
Other services	3.7	2.7	4.3	-6.7	2.1	6.0	4.3	3.1	6.3
Consumption	4.3	1.6	4.4	-8.4	1.8	6.0	5.0	4.2	8.7
General government	1.9	2.4	2.9	-1.3	-0.7	2.9	2.3	3.9	3.5
Private	4.7	1.5	4.6	-9.5	2.2	6.5	5.4	4.3	9.5
Gross domestic investment	13.3	-0.8	10.3	-34.8	25.7	24.8	10.5	4.1	9.0
Exports of goods and services	5.0	8.1	17.8	30.2	18.2	10.7	12.1	12.4	16.0
Imports of goods and services	19.6	1.9	21.3	-15.0	22.9	22.7	16.6	13.8	21.4
				Percentages of GDP [c]					
Gross national income	100.0	99.4	99.0	97.6	98.6	99.6	98.8	99.6	101.4
Gross domestic investment	28.1	27.2	28.8	19.8	23.7	27.9	29.0	29.1	29.6
National saving	20.6	20.3	20.5	19.4	23.1	26.1	25.1	25.8	25.7
External saving	7.5	6.9	8.2	0.4	0.6	1.9	3.9	3.4	3.8
				Percentages					
Employment and wages									
Labour force participation rate [d]	53.8	55.2	54.7	55.4	55.4	56.2	56.5	55.8	56.4
Open unemployment rate [e]	2.8	3.4	3.7	6.2	5.5	3.7	3.2	2.5	2.2
Real average wage (index 1995=100) [f]	100.7	109.7	114.9	100.0	90.1	89.1	91.5	92.4	98.0
				Growth rates					
Prices (December-December)									
Local consumer prices	11.9	8.0	7.1	52.1	27.7	15.7	18.6	12.3	9.0
Industrial producer prices	10.6	4.6	9.1	59.5	25.3	10.5	17.5	12.5	6.4
External sector									
Terms of trade (index 1995=100) [c]	105.0	104.9	103.3	100.0	102.8	104.0	100.4	102.3	107.4
Nominal exchange rate (new pesos per dollar)	3.1	3.1	3.4	6.4	7.6	7.9	9.1	9.6	9.5
Real effective exchange rate for imports (index 1995=100)	69.2	65.9	67.7	100.0	89.1	79.6	82.3	75.5	69.8
				Millions of dollars					
Balance of payments									
Current account	-24 442	-23 400	-29 662	-1 575	-2 330	-7 448	-16 090	-14 325	-17 690
Trade balance (goods and services)	-18 618	-16 010	-21 186	7 154	6 612	94	-8 819	-7 382	-10 372
Exports	55 471	61 402	71 203	89 322	106 899	121 701	128 982	148 083	180 136
Imports	74 089	77 412	92 389	82 168	100 287	121 608	137 801	155 465	190 509
Capital and financial accounts [g]	26 187	30 632	12 465	-14 735	6 190	21 447	19 300	18 602	24 800
Overall balance	1 745	7 232	-17 197	-16 310	3 860	13 998	3 210	4 277	7 110
Variation in reserve assets (- indicates an increase)	-1 173	-6 057	18 398	-9 648	-1 806	-10 512	-2 138	-592	-2 824
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	32.0	32.4	33.2	57.9	47.3	37.2	38.1	34.7	25.9
Net interest (as a percentage of exports) [h]	13.6	14.9	12.8	11.8	9.4	7.8	7.0	6.9	5.7

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Percentages of GDP									
Federal Government									
Current income	17.7	15.5	15.1	15.2	15.7	15.9	14.2	14.7	15.9
Current expenditure	13.7	13.4	13.3	14.1	14.2	15.2	14.2	15.0	15.7
Saving	4.0	2.1	1.9	1.1	1.5	0.7	0.0	-0.3	0.3
Capital expenditure (net)	2.4	1.4	2.3	1.8	1.9	2.0	1.7	1.6	1.7
Financial balance	4.8	0.7	-0.7	-0.8	-0.5	-1.4	-1.7	-1.7	-1.5
				Growth rates					
Money and credit									
Banco de México									
international reserves	7.3	31.8	-57.0	267.5	14.5	64.0	32.0	-2.1	10.5
Net domestic credit	27.9	13.2	27.0	24.8	4.5	32.1	10.5	0.9	...
To central government (net)	-52.3	...	...	...	...	...	8.6	-7.7	...
To private sector	60.9	25.8	36.7	-6.5	-14.9	44.2	18.1	-0.7	-4.1
Money (M1)	14.7	17.9	1.1	2.4	39.6	29.4	16.2	28.5	13.5
Local-currency savings and									
time deposits	13.6	19.8	-7.0	-5.5	51.5	30.6	12.5	20.8	15.0
M2 [i]	20.3	13.4	21.3	38.7	30.1	19.1	21.6	16.8	-3.0
Dollar deposits	28.6	12.3	89.9	85.7	51.4	24.1	38.2	21.1	14.4
				Annual rates					
Real interest rates									
(annualized, %)									
Deposit rate (30 days)	...	8.0	8.0	8.6	-2.6	-1.4	4.5	2.6	3.8
Lending rate	...	11.2	12.5	19.3	1.3	3.1	11.1	7.9	8.0
Equivalent interest rate									
in foreign currency (30 days) [j]	...	18.6	14.9	38.7	31.4	20.2	20.7	19.8	13.7

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1993 pesos. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population; urban areas. [e] Percentage of the economically active population; urban areas. [f] Refers to manufacturing. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] Includes dollar deposits. [j] Interest rate on deposits, deflated by the variation in the exchange rate.

(b) Monetary policy

Monetary austerity continued to be the hallmark of macroeconomic policy, in line with the central objective of reducing inflation. The monetary base expanded 11%, as a net result of significantly higher external assets and a contraction in domestic lending, even though monetary planning had allowed for its expansion. The setting of a minimum nominal interest rate caused real lending rates to remain high, which did little to revive lending activity. What is more, the tighter monetary measures introduced towards the end of the year to counter the resurgence of inflation took the nominal rates even higher. Commercial bank financing for the private sector therefore declined in real terms for the sixth consecutive year.

The authorities' tight monetary policy took the form of successive measures to reduce liquidity and raise interest rates in order to contain expected pressures and prevent the economy from overheating, as the buoyancy of domestic demand was having a heavy impact on the external trade deficit, especially in the second half of the year.

The expansion of the economy gave rise to additional demand for real money balances, while lower inflation spurred the economy's remonetization. The combination of these two factors resulted in a slightly higher nominal increase in the monetary base than had been provided for in the Banco de México's monetary programme.

The nominal gross domestic public debt rose by slightly more than 12%, or more than US$ 71 billion (12.4% of GDP). The government's debt accounted for 83% of the total while 8% corresponded to the Retirement Savings System (SAR) fund. Security issues concentrated on medium- and long-term instruments and, for the first time ever, the government issued bonds on the domestic market with fixed interest rates and

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product [b] (change from same quarter of preceding year)	7.5	4.3	5.3	2.7	2.1	3.5	4.4	5.4	7.7	7.6	7.3	5.1	1.9
Consumer prices (12-month variation, %)	15.3	15.3	15.9	18.6	18.2	17.4	15.8	12.3	10.1	9.4	8.8	9.0	7.2
Exports (millions of dollars)	28.2	29.9	28.6	30.8	29.9	33.6	35.3	37.5	38.1	41.1	43.0	44.2	39.6
Imports (millions of dollars)	30.0	31.0	30.8	33.4	31.1	34.6	36.3	40.0	39.2	42.5	44.9	47.9	41.9
International reserves (millions of dollars)	29.4	29.8	28.5	29.7	30.1	30.2	30.9	30.7	34.0	31.9	31.9	33.6	38.0
Real effective exchange rate [c] (index 1995=100)	79.4	79.4	84.2	86.3	80.8	74.9	73.4	73.1	70.8	71.1	69.0	68.4	69.3
Money (M1) (change from same quarter of preceding year)	25.1	21.4	15.6	16.6	15.8	16.3	23.4	27.2	24.3	26.3	21.1	15.5	13.4
Real interest rates (annualized, %)													
Deposit rate [d]	1.6	1.9	5.2	9.4	6.3	0.6	1.3	2.3	3.8	3.0	3.7	4.8	6.5
Lending rate	6.1	6.0	13.8	18.4	13.4	5.4	6.3	6.5	6.9	7.6	7.7	9.6	10.3

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on series that have not been seasonally adjusted, at constant domestic prices. [c] Refers to the exchange rate for imports.
[d] 30-day deposits.

maturities of between three and five years, bringing the average maturity to 538 days. Less than 3% of the stock of bonds outstanding were held by non-residents, which lessened the risk of speculative attacks, but the high level of interest rates made for expensive servicing of the domestic debt represented by government bonds (about 1.5% of GDP).

Including the liabilities of the Institute for the Protection of Bank Deposits (IPAB), the total balance of the domestic public debt amounted to 25% of GDP, a level that has gradually been falling since 1995, when it stood at 39% of GDP and when some 32% of the total was attributable to the Bank Savings Protection Fund (FOBAPROA). In 1999, the Institute took over the liabilities of the defunct Fund, which had itself acquired assets from a number of distressed banks following the crisis of 1994-1995 in exchange for the issue of promissory notes.

Since 2000, the Institute's strategy for the administration of its liabilities has been to pay the real interest component annually by using budgetary transfers, proceeds from the sale of assets and contributions from the banking sector in order to avert a buildup in the real value of these liabilities. In fact, the Institute's liabilities fell by 7% in real terms in 2000, mainly thanks to financial rehabilitation operations and a reduction in the liabilities of institutions in which the government had had to intervene. The financial cost of the support given to savers and debtors within the banking system represented 1.1% of GDP, with 0.64% of this amount corresponding to the Institute and the rest to other programmes.

The further fall in commercial bank lending to the private sector (-10%) took its balance to less than one quarter of the level posted in 1994. Consequently, borrowers continued to make use of non-bank financing mechanisms, such as supplier credits, especially for the small business sector; external borrowing in the case of medium-sized and large enterprises; and credit from parent companies in the case of multinationals. Fewer

than one quarter of all firms are thought to have taken out commercial bank loans in 2000.

Nevertheless, the banking sector's financial indicators improved in 2000, suggesting progress in its rehabilitation and a possible gradual resumption of its intermediation functions. The arrears rate (non-performing loans as a percentage of the total portfolio) fell from almost 10% to under 6%, basically because the real value of the primary maturity almost halved during the course of the year.

The Mexican stock exchange experienced strong fluctuations, with a 20.7% fall in the index following an 80% increase in 1999. The climate of uncertainty in the run-up to the July elections caused the index to fall from April on, but it bounced back once the outcome was known, albeit not to the levels of early 2000. The ups and downs of United States capital markets towards year's end led to a US$ 2.773 billion outflow from the Mexican equity market in the last quarter; for the year as a whole, the net outflow of foreign investment funds amounted to US$ 1.425 billion.

(c) Foreign exchange policy

Under the country's managed flotation system, the inflow of foreign exchange –higher-than-expected oil revenues and abundant flows of foreign direct investment– was sufficient to sustain a real appreciation of the peso. This helped raise international reserves to US$ 33.555 billion, while net international assets reached US$ 35.629 billion by the end of 2000, for increases over the 1999 figures of almost US$ 3 billion and more than US$ 8 billion, respectively, against 1999. One factor contributing to the increase in reserves was the purchase of more than US$ 1.8 billion by the Banco de México using the system's mechanism for auctioning off put options on dollars among financial institutions, while the upswing in net assets was largely due to the settlement of the country's debt with the International Monetary Fund. The original aim of the Banco de México had been to avoid a fall in assets, but the unexpected inflow of foreign exchange led to a sizeable buildup that prevented the peso from appreciating even further. In all events, the sterilization of these funds was very costly for the central bank.

Under the currency flotation system, the foreign exchange market remained stable, with the rate hovering around 9.5 pesos to the dollar since mid-1999. A month before the presidential elections in July, speculative moves pushed the dollar up to around 10 pesos. Once the elections were over, however, the peso resumed its upward trend, appreciating by an average of 6.6% in real terms over the previous year. As a result, its real value in 2000 came very close to where it had been prior to the exchange crisis of 1994, although in this case with a balance-of-payments current account deficit far lower than the 7% of GDP posted at the time.

(d) Policies of structural change

A free trade treaty was signed with the European Union, and similar commitments with the countries of the northern triangle of Central America (El Salvador, Guatemala and Honduras) and with the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland) took effect in 2001. With these additions, Mexico has now signed 10 trade treaties covering a total of 30 countries. In the area of finance, a new methodology that is in keeping with international standards was introduced for the classification of commercial and development bank loan portfolios. Capitalization requirements were also modified.

Initiatives yet to be completed include the privatization of secondary petrochemical plants owned by PEMEX and reforms in the electricity, financial and fiscal sectors. A fiscal reform bill is currently under review in Congress, and a financial reform law was passed in April 2001.

3. The main variables

(a) Economic activity

All sectors performed well, especially transport and communications, commerce, restaurants and manufacturing, mainly for the export market. Economic activity slackened as the year progressed and particularly in the fourth quarter, but it was still buoyant enough to sustain GDP growth of 6.9% for 2000. The slowdown was a reflection of the United States economy's loss of momentum towards the end of the year and of the introduction of a tighter monetary policy in response to signs of overheating detected by the central bank. The

expansion of demand was driven by exports, although the recovery of domestic expenditure also played a significant role in the aggregate results. Private consumption climbed by 9.5% and gross fixed capital formation by 10%, lifting the investment/GDP index from 19.9% in 1999 to 20.5% in 2000.

Imports rose 21%, thus evidencing the close association that exists between import performance and trends in GDP and exports, especially of manufactures. The fact that the country's external trade in goods and services accounted for more than 72% of GDP demonstrates how vital a role external trade relations play in its economic performance.

The increase in real wages, higher employment and the availability of non-bank consumer credit facilities all contributed to the notable upturn in private-sector spending, with opportunities for obtaining credit on relatively favourable terms increasing as nominal interest rates stabilized and economic expectations improved. One of the credit option that became available was credit card financing for periods of up to one year at zero interest. In addition, department stores and self-service retailers were offering financing at fixed interests rates for terms of more than six months, especially for purchases of consumer durables. Attractive credit plans were also being offered by automotive dealers. As a result, retail sales registered a 10% real increase and motor vehicle sales were up by 28%.

The agriculture, forestry and fisheries sector posted virtually the same growth rate as in 1999 (3.4%), with barley, wheat, maize and sorghum doing particularly well, along with marine products such as clams, lobsters, scallops and shrimps. The best-performing industrial sector was manufacturing (up 7.1%), whose growth was driven by the maquila industry (where production rose 15%) and, to a lesser extent, by domestic demand. Construction recorded the same 5% growth rate as in 1999, thanks to the momentum provided by the economy as a whole, while the mining sector expanded by 4%, mainly because of the strength of the petroleum industry.

Within the manufacturing sector, the performance of the various industries was somewhat uneven and thus served to underscore the disparities existing within the production apparatus, as higher output was recorded in 80% of the sector's 49 branches, while the smaller firms and those producing non-tradable goods posted slow or flat growth. The most dynamic branches of industry were metal products, machinery and equipment, non-metallic minerals and textiles, clothing and footwear, which were boosted by both external demand and the recovery of the domestic market. Total production in the automotive industry climbed to 1.9 million units (26.5% more than in 1999), with domestic sales rising 10.3% while exports were up by 33.6% and accounted for three quarters of the total.

Basic services expanded by almost 12%, mainly because of the strong showing turned in by transport and communications, where there were notable increases in freightage, the number of passengers and in telephone and satellite communications. The 6.3% expansion posted for other services was fueled an 11% upswing in commerce, restaurants and hotels. Financial services were up 4.5%, chiefly because of increased insurance sales.

(b) Prices, wages and employment

Inflation trended downward, with very slight seasonal upturns, against a backdrop of monetary and fiscal austerity and an appreciating peso. The 9% December-to-December increase in consumer prices was below the official target of 10% and three points lower than in 1999, while underlying inflation stood at 7.5% (merchandise, 5.9% and services, 8.9%). The high international prices of hydrocarbons were not reflected in domestic gasoline prices (set by the government) or other petroleum products. On the other hand, the price of natural gas, which is allowed to vary in line with international levels, almost doubled, and this hurt industries that use it as an input or energy carrier (e.g., steel, petrochemicals and glass). Consumer prices of agricultural products rose 10% and education costs climbed 15%.

Monetary policy was tightened in the second half of the year when the downward trend of inflation appeared to be flattening. Among other factors, aggregate demand was seen as being very strong, and the prices managed by the government and those determined through negotiations with the private sector rose by 12.6% during the year, thus overshooting the inflation target. In addition, contractual wage increases diverged from inflationary expectations, and real wages outdistanced labour productivity, which resulted in higher unit labour costs. Real wages rose 6% in the manufacturing sector –the sharpest increase in seven years– and 7% in commercial establishments and in maquila export industries, although they fell by 1.2% in the construction industry.

These factors led private analysts to conclude that the downward trend in inflation would not be as strong in 2001 as it had been in 2000 and to adjust their projections accordingly. In an effort to counter those expectations, in October the Banco de México announced an inflation target of 6.5% for 2001 and stated its intention of using

this figure as the point of reference for wage negotiations. This was in line with the Bank's medium-term strategy for achieving an inflation rate of 3% in 2003. Given the apparent difficulty of achieving this target, however (the private-sector analysts consulted by the Bank at that time were projecting an inflation rate of 7.6% for 2001), contractual wage increases amounted to 12%. This suggests that inflation in 2001 will indeed overshoot the bank's target but will not prevent a further upturn in real wages.

The strength of the economy was reflected in a gradual decline in open unemployment, which had fallen to less than 2% by year's end for the first time since 1985. At the same time, the proportion of the employed population working fewer than 35 hours per week amounted to 16%, or slightly less than in 1999. The number of workers employed in the formal sector of the economy, which is estimated on the basis of the total number of employed persons covered by the Mexican Social Security Institute (IMSS), came to over 15 million by the end of December (6% more than in 1999). This was equivalent to an additional 680 000 persons and suggested that demand was higher, but it also pointed to an expansion of aggregate supply in the economy. Employment in *maquila* export industries rose by 9.3% to over 1.3 million workers, which is equivalent to 30% of total manufacturing-sector employment.

The informal sector continued to absorb large numbers of workers, thus consolidating its role as an option for members of the workforce unable to find employment in the formal economy and as a mechanism for easing tensions in the labour market.

(e) The external sector

International trade was very buoyant, as the continuing economic boom in the United States and the high prices of hydrocarbons buttressed external trade and capital inflows to Mexico. The trade gap widened, however, and this translated into a 23% increase in the deficit on the balance-of-payments current account. As a result, the current account registered a negative balance of almost US$ 17.7 billion, which was the same as in 1999 when measured as a percentage of GDP (3.1%).

This deficit, which was financed chiefly with long-term private loans, was the net result of deficits on the trade, factor services and non-factor services accounts and a surplus balance of external transfers, thanks to the inflow of remittances from persons residing in the United States.

The merchandise trade deficit topped US$ 8 billion, an increase of 44% over 1999 but still only 2.4% of the total value of the country's export trade (against 13.4% in 1994). The balance of non-oil trade showed a deficit of US$ 24.4 billion, up from US$15.5 billion in 1999. The situation in the manufacturing sector (excluding the *maquila* industry) was even more dramatic, as its deficit jumped from less than US$23 billion to over US$36 billion.

Exports and imports rose at comparable rates (22% and 22.9%, respectively). Trade activity was concentrated within the area covered by the North American Free Trade Agreement (NAFTA), now in its seventh year. In fact, Mexico's trade flows with its NAFTA partners amounted to 83% of the total, with the United States absorbing 90% of its exports. Mexico also consolidated its position as the second most important trading partner of the United States, after Canada, and as its third largest supplier, after Canada and Japan.

The value of oil exports rose 68%, essentially because of higher oil prices (up 54%) since export volumes increased by just 9%. This helped raise the terms-of-trade index by 4%, thus continuing the trend of the previous year (3.2%). External sales of manufactures, including *maquila* products, rose 19% and represented 87% of the total. Within this sector, the maquila industry increased its sales by 24% and accounted for about half the total value of exports. The main export items (54% of the total) were motor vehicles, crude oil, cables, tapes and other electrical accessories, textiles, clothing and footwear, computers, motor vehicle engines and parts, chemicals and machine parts.

The buoyancy of domestic demand and the appreciation of the peso led to a 37% increase in imports of consumer goods (9.6% in 1999), which represented only 10% of external purchases. The continued predominance of intermediate goods (76% of total imports) attests to the production apparatus' reliance on these inputs, while imports of capital goods firmed up in response to the growth of exports and the steps taken to modernize this sector.

Favourable economic expectations encouraged foreign direct investment, which totalled a record figure of more than US$13 billion. In contrast, portfolio investment flows were negative. As a result, foreign direct investment provided enough funds to finance three quarters of the balance-of-payments current account deficit. An estimated 6,000 partly or wholly foreign-owned companies (40% *maquila* enterprises) undertook investments in the year 2000, with two thirds of the total coming from the United States and 80% directed towards manufacturing and telecommunications.

The programme that has been established for refinancing Mexico's external public debt helped to reduce its balance to around US$ 84 billion by the end of the year, which, when measured in terms of GDP (14%), was a 25-year low. Over US$21 billion was spent on amortization and some US$8 billion on interest payments. The stable international financial situation and the depreciation of the euro against the dollar facilitated capital market operations, and the federal government issued some US$7 billion in bonds, primarily to refinance the debt. The average maturity of these issues was one year longer than in 1999, and the average weighted spread between yields on these issues and on United States Treasury bonds fell to 171 basis points.

The retirement of more than US$7 billion in Brady bonds enabled the government to make early payment on external obligations and to save funds that it would otherwise have had to spend on servicing the external debt. All pending payments to the International Monetary Fund (US$3 billion) were settled in advance of their scheduled maturities in 2000-2005. This reduced the country's payment obligations and helped to strengthen the peso against the dollar. It also earned Mexico's sovereign debt an investment-grade rating as a reflection of its lower level of country risk. Annual maturities of debt contracted on the market for 2001-2003 average some US$ 2 .445 billion, while maturities on non-market debt amount to US$4.727 billion annually over the same period.

The private external debt came to US$64.722 billion, down by almost US$ 5 billion from 1999, with 82% of this sum being owed to the non-banking sector and the rest to banks.

NICARAGUA

1. General trends

Growth in the Nicaraguan economy slowed dramatically in 2000. Gross domestic product (GDP) rose 4.3%, three percentage points below the previous year's growth rate. In addition, deteriorating terms of trade left national income virtually flat. As domestic demand fell by 4.1%, growth was sustained by a large increase in exports (11.5%).

DOMESTIC DEMAND contracted due to the reduced availability of credit, heavy financing costs and high charges for public services. It was also eroded by the uncertainty that is naturally felt in an election year, and by the tight fiscal and monetary policies that were applied in the face of imbalances in the accounts of the Government and the external sector. The continuing strength of public investment and the upturn in public consumption, however, prevented domestic demand from weakening even further. The open unemployment rate dropped to 9.8%, and the real average wage edged upward.

The public accounts deteriorated and inflation rose slightly (9.9%). The total public-sector deficit grew from 13.7% of GDP in 1999 to 15.2% in 2000. The rise in the nominal exchange rate (6%) was less than that of prices, which meant a real appreciation in the value of the córdoba. The monetary base contracted, and the year-on-year growth rate of the monetary aggregates declined. In the second half of the year, the country faced a financial crisis as a result of the failure of two major banks, which drove up interest rates. In the external sector, the current-account deficit remained quite high, although it did fall from 49% of GDP in 1999 to 38% in 2000. The diminished flow of official and private capital led to a fall in net international reserves, however, and also resulted in a higher rate of default on external obligations.

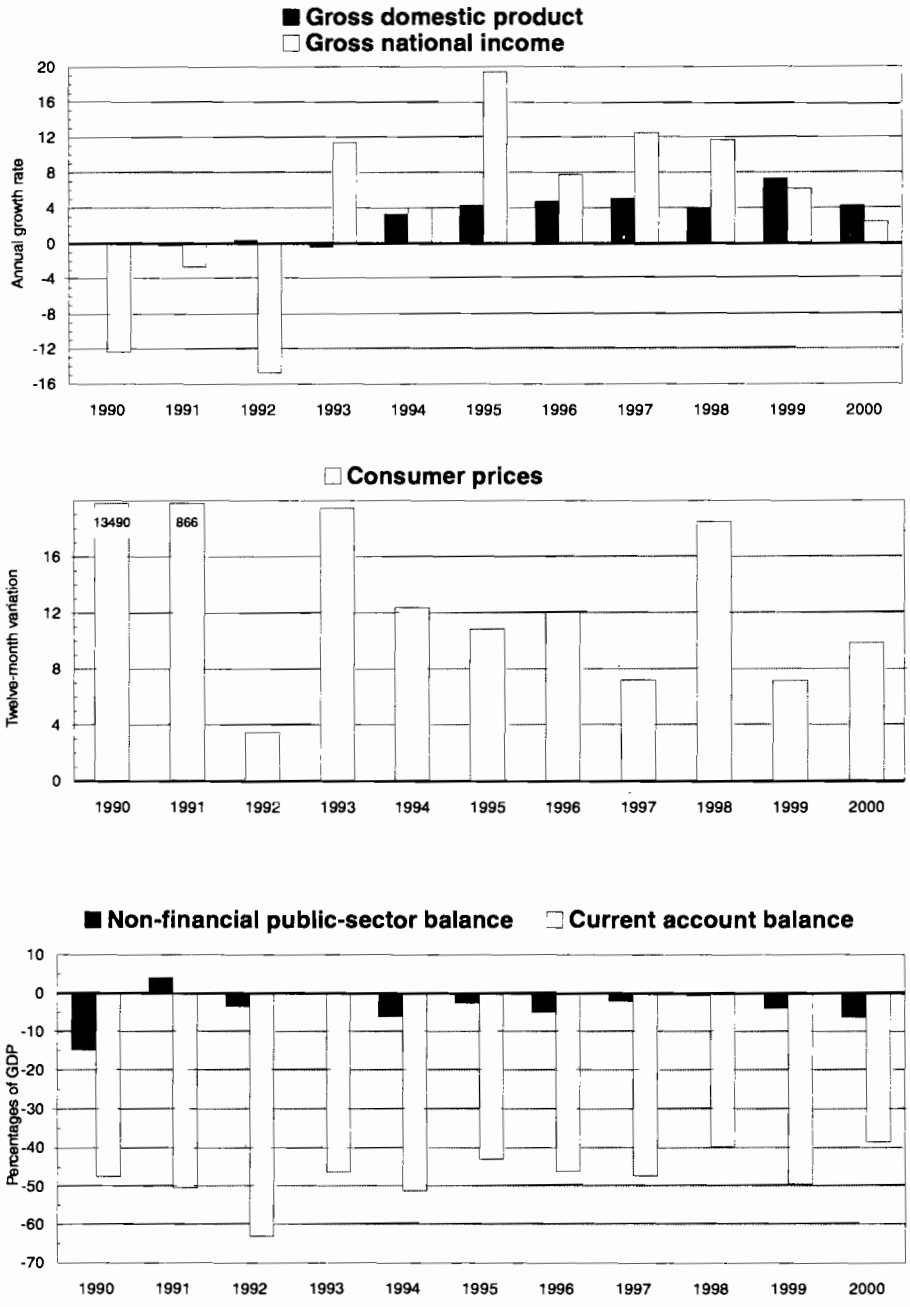
In 2000, Nicaragua managed to reach the so-called "decision point" for inclusion in the Heavily Indebted Poor Countries (HIPC) Debt Initiative sponsored by the International Monetary Fund (IMF) and the World Bank, which should result in a significant reduction of its external debt.

It is estimated that GDP will grow by 4% in 2001 and that the inflation rate will be 10%, with an unemployment rate similar to that of 2000. Due to the expansion of spending, the fiscal deficit is expected to exceed 16% of GDP, while the balance-of-payments current-account deficit may rise to more than 40% of GDP. Achieving these goals depends, however, on whether the presidential and parliamentary elections are carried out relatively smoothly and whether international financial aid flows normally.

2. Economic policy and structural reform

The interaction of a number of domestic factors (costly reconstruction in the wake of Hurricane Mitch, the failure of two major banks) and external ones (depressed export prices and smaller flows of external financing)

Figure 1
NICARAGUA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

threw macroeconomic balances seriously out of kilter in 2000, forcing the Government to revise its economic programme and the targets agreed upon with IMF in the second year of the Poverty Reduction and Growth Facility (PRGF).

(a) Fiscal policy

As revenues weakened and public spending climbed, the saving of the non-financial public sector (NFPS) declined from 8.6% of GDP to 5.7%. Meanwhile, capital spending came down from its previous high rates, but the overall NFPS deficit, excluding donations (equivalent to 7.4% of GDP), rose from 12.5% of GDP in 1999 to 13.6% in 2000. The deficit was financed with external resources and privatization revenue.

The heavy tax burden (30% of GDP) lightened somewhat, primarily as a result of the economic slowdown and tariff reductions. The subsidy granted to the transportation sector, which absorbed some of the rise in fuel prices, had a major impact as well. The main sources of revenue were excise taxes (especially the one on petroleum derivatives), import tariffs, and the general sales tax. As regards the tax structure, income and profit taxes continued to account for a very small share of total revenues.

Public spending did not change in real terms, but there were large variations among the different categories. Outlays increased for the reconstruction of highways and bridges destroyed by rain in the third quarter of 1999, and the cost of constitutional reforms (which increased the size of the Supreme Court of Justice, the Supreme Electoral Council and the Office of the Comptroller-General of the Republic) and pension system reforms rose, as did municipal election spending. Real investment by the central Government increased considerably, but other capital spending fell substantially.

To forestall a larger fiscal deficit, the base for calculating the excise tax on some products was expanded, and charges for basic public services were revised upward. At the same time, measures were taken to curtail spending growth. Capital expenditure financed from domestic resources was trimmed, and wage rises were delayed, except for those of teachers and nurses, which had already been budgeted for.

The total net external public debt reached US$6.66 billion, US$110 million higher than the previous year. The appreciation of the United States dollar against other convertible currencies mitigated the increase, shaving off nearly 2% of the debt expressed in dollars. As regards composition, bilateral creditors accounted for 62% of the debt and multilateral ones for 34%. Disbursements of external loans went primarily to the social sector and the public administration (27.5%), balance-of-payments support (23%), agriculture (17.7%), energy and drinking water (13.2%) and construction (10.2%). To meet its external financing needs, the Government focused its policy principally on obtaining loans on very favourable terms.

Towards the end of the year, Nicaragua managed to reach the so-called "decision point" for inclusion in the HIPC Debt Reduction Initiative sponsored by IMF and the World Bank, which should result in a reduction of its external debt and thereby cap annual debt servicing costs at 15% of goods and services exports. To attain the "completion point" by the end of 2002, however, the Nicaraguan Government will have to strengthen macroeconomic stability, especially by curbing the fiscal deficit and boosting international reserves. It will also have to pursue further structural reforms, and above all, implement a poverty reduction strategy. Moreover, the country will have to move ahead in the renegotiation of its debts with all creditors.

(b) Monetary policy

In response to the financial crisis unleashed by the failure of two major banks, Banco Intercontinental (Interbank) and Banco del Café (Bancafé), monetary policy was gradually tightened in order to maintain confidence in the national financial system, limit the loss of international reserves, prevent the acceleration of inflation and sustain exchange-rate stability. Among the principal measures adopted were the extension of extraordinary liquidity assistance to guarantee the public's deposits; a special issue of debt securities to sterilize the expansion of liquidity resulting from financial assistance; and measures to allow the demand for foreign exchange to be met in full. The intensification of open-market operations drove up interest rates, however, and this had an adverse impact on private investment, production credit and incomes generally. Although NFPS deposits were withdrawn from the Central Bank of Nicaragua (BCN), foreign-exchange income from the sale of State assets prevented further contraction of the monetary base. Although the loss of international reserves was limited, however, financial vulnerability was heightened by the growing liabilities of BCN and quasi-fiscal losses.

In contrast to the 18.8% growth rate recorded in 1999, the monetary base shrank by 0.5% in 2000. At the same time, there was a shift towards narrow money in the local-currency liquidity structure and a switch from saving deposits to demand deposits. It is also worth

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	0.4	-0.4	3.3	4.3	4.8	5.1	4.1	7.4	4.3
Per capita gross domestic product	-2.5	-3.3	0.3	1.3	1.9	2.3	1.3	4.5	1.5
Gross domestic product, by sector									
Goods	-0.3	1.0	6.6	5.2	6.4	7.0	4.4	10.1	5.5
Basic services	2.0	-2.0	1.0	5.4	5.2	5.6	4.1	3.8	2.8
Other services	0.9	-1.8	-0.3	2.9	2.5	2.3	3.6	4.0	2.7
Consumption	2.6	-3.0	1.3	2.5	7.3	6.8	5.0	4.6	-2.1
General government	-10.9	-3.3	-2.7	-0.4	6.4	-0.4	0.1	11.3	2.0
Private	6.6	-2.9	2.3	3.2	7.5	8.4	6.0	3.3	-3.0
Gross domestic investment	4.8	-18.4	26.5	19.6	10.8	18.3	10.8	38.7	-10.9
Exports of goods and services	6.4	6.5	14.7	14.2	6.9	20.3	7.0	8.4	11.5
Imports of goods and services	10.9	-9.6	12.3	11.6	13.7	22.2	9.8	14.9	-8.5
				Percentages of GDP [c]					
Gross national income	65.8	73.6	73.7	84.3	86.5	92.2	98.9	97.8	95.8
Gross domestic investment	21.6	17.6	21.4	24.3	25.4	28.8	30.7	39.4	32.6
National saving	-44.1	-33.6	-31.1	-18.6	-19.6	-16.0	-10.4	-7.8	-3.8
External saving	65.8	51.2	52.5	43.0	45.0	44.8	41.1	47.2	36.4
				Percentages					
Employment and wages									
Open unemployment rate	14.4	17.8	17.1	16.9	16.0	14.3	13.2	10.7	9.8
Real average wage (index 1995=100)	100.5	93.3	98.2	100.0	97.9	97.7	104.9	109.6	111.3
				Growth rates					
Prices (December-December)									
Consumer prices	3.5	19.5	12.4	10.9	12.1	7.3	18.5	7.2	9.9
External sector									
Terms of trade (index 1995=100) [c]	71.9	81.3	95.5	100.0	88.1	83.9	87.4	81.1	77.3
Official exchange rate (gold córdobas per dollar)	5.0	5.6	6.7	7.6	8.4	9.5	10.6	11.8	12.9
Real effective exchange rate for imports (index 1995=100) [d]	84.9	82.3	95.3	100.0	101.6	104.3	105.0	106.4	105.0
				Millions of dollars					
Balance of payments									
Current account	-1 130	-883	-912	-785	-881	-927	-820	-1 092	-919
Trade balance (goods and services)	-645	-477	-489	-488	-652	-813	-834	-1 195	-1 038
Exports	310	364	464	612	644	797	830	838	942
Imports	955	841	953	1 100	1 296	1 610	1 665	2 034	1 981
Capital and financial accounts [e]	40	-91	-250	108	421	1 000	590	1 001	724
Overall balance	-1 090	-975	-1 162	-677	-460	73	-230	-90	-194
Variation in reserve assets (- indicates an increase)	-11	91	-85	12	-53	-173	31	-156	16
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	602.0	574.4	656.4	558.5	317.4	304.9	304.0	296.0	277.9
Net interest (as a percentage of exports) [f]	155.5	115.2	98.2	56.1	43.3	26.5	15.3	16.0	13.9

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	20.3	19.6	20.3	21.5	21.7	24.9	26.9	25.8	24.8
Current expenditure	22.1	20.6	21.5	19.2	19.7	20.4	21.8	20.2	20.8
Current saving	-1.7	-1.0	-1.2	2.4	2.0	4.5	5.1	5.5	4.0
Capital expenditure (net)	5.9	6.3	8.8	11.2	10.4	10.2	10.1	17.9	18.0
Financial balance	-3.4	0.0	-5.2	-0.5	-1.5	-1.3	-1.9	-4.9	-7.8
Domestic financing	-6.1	0.0	-1.2	0.7	-3.6	-0.1	-5.8	-5.0	-2.5
External financing	9.4	0.0	6.4	-0.2	5.1	1.4	7.7	9.9	5.5
				Growth rates					
Money and credit									
Net international reserves	4.1	-51.6	132.6	-10.1	185.6	137.0	-4.5	4.7	-4.8
Net domestic credit	56.4	80.5	54.7	51.4	24.9	25.4	50.5	29.8	11.4
To public sector	794.4	6.3	6.5	-6.1	-17.9	18.2	7.3	7.2	4.4
To private sector	21.7	49.9	33.6	26.6	-8.2	39.8	45.3	39.9	14.2
Money (M1)	16.4	-4.4	36.9	16.3	26.8	30.7	18.1	24.9	6.4
Local-currency savings and time deposits	39.9	48.8	99.2	24.8	29.9	75.7	17.8	30.0	-5.8
M2	21.1	8.0	56.9	19.8	28.1	50.1	18.0	27.5	0.1
Dollar deposits	55.3	70.8	77.6	59.8	61.3	57.2	35.3	19.6	11.5
				Annual rates					
Real interest rates (annualized, %) [gh]									
Deposit rate (savings accounts)	...	-7.2	3.8	0.0	0.0	2.0	-1.9	-0.9	-1.9
Lending rate (short-term)	...	0.0	11.6	7.9	7.5	9.7	7.8	9.8	8.8
Equivalent interest rate in foreign currency [i]	...	2.3	11.5	10.2	12.2	13.4	10.6	10.1	9.3

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1980 new córdobas. [c] Based on constant 1995 dollars. [d] Official exchange rate. [e] Includes errors and omissions. [f] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [g] Does not include the effects of the maintenance-of-dollar-value provision, which affects bank deposit-taking and issue of instruments. [h] These figures represent a simple average of the floor and ceiling rates in the State and private banking systems. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

noting that dollar deposits have risen continuously and now exceed 70% of the total. Credit to the private sector continued to expand, although the 14% growth figure was less than the 40% recorded in 1999. While short-term credit was up 7%, however, long-term credit remained practically stagnant. At the same time, there was an alarming increase in non-performing loans. As regards composition, the only category that did not see lending growth decline sharply was commercial loans; in some cases, such as livestock and industry, the credit balance actually fell. In view of the still fragile condition of the banking system and the substantial increase in the portfolio of non-performing loans, banks raised interest rates and adopted an extremely conservative policy on extending credit and evaluating the quality of assets, which hampered the expansion of credit.

(c) Exchange-rate policy

Inflationary pressure intensified in 2000, forcing the Government to delay reducing (from 6% to 3% a year) the rate of previously announced daily mini-devaluations. Against this backdrop, the real effective exchange rate appreciated slightly (1.3%) against the United States dollar.

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	1998				1999				2000				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	10.9	14.1	12.5	18.5	12.0	8.2	13.6	7.2	14.5	14.0	10.1	9.9	7.7
Exports (millions of dollars)	199.7	158.1	117.5	97.9	160.0	153	105	125	211	164	137	133	160
Imports (millions of dollars)	342.6	357.5	337.1	346.4	378.3	412	480	414	421	416	412	356	397
International reserves (millions of dollars)	378	364	359	350	414	514	488	510	471	473	422	488	424
Real effective exchange rate[b] (index 1995=100)	106.3	103.9	105.9	103.9	104.9	107.1	107.2	106.6	105.0	104.2	105.8	105.1	104.3
Real interest rates (annualized, %)													
Deposit rate	1.6	-2.3	-1.3	-5.6	-3.9	1.0	-1.5	1.0	-1.8	-4.0	-1.8	0.0	0.4
Lending rate	11.4	7.0	8.9	4.1	6.8	12.0	8.6	11.7	8.2	6.3	9.2	11.4	12.5

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

(d) Structural reform

The Pension Savings System Reform Act was passed in 2000. With a view to cutting the losses of the current system, some parameters were altered (such as the retirement age, contribution rates and the minimum contribution period). At the same time, it was decided that a new system of individual accounts should be introduced, enabling the private sector to administer beneficiaries' contributions through pension fund managers (AFPs). A bill was therefore submitted to the National Assembly to establish the Pension Superintendency, which will oversee the institutionalization and operations of AFPs. The Customs Act and the General Directorate of Taxation Act were amended, making the General Directorate of Customs Services and the General Directorate of Taxation independent institutions. In addition, a new Foreign Investment Promotion Act was passed. To preserve depositors' security and their confidence in financial institutions, the Deposit Guarantee Act was also signed into law.

The two distributing arms of the Empresa Nicaragüense de Electricidad (ENEL) were acquired by the Spanish transnational Unión Fenosa. Furthermore, a 25-year lease of the Puerto Cabezas facilities was authorized for the United States firm DELASA, and the National Cement Production Company was leased to the Mexican consortium Cemex. The sale of the power companies did not go through, however, and the privatization of the Empresa Nicaragüense de Telecomunicaciones (ENITEL) suffered another setback.

In the area of trade policy, progress was made in reducing tariffs. The maximum rate of the temporary protection tariff (ATP) was cut from 20% to 15% in January, and then to 10% in July. It should be noted that the ATP on intermediate and capital goods not produced in Central America is 5%. Therefore, the average level of nominal protection fell from 6.8% in January 1999 to 5.1% in December 2000.

In view of the plight of the agricultural sector and the damage to domestic producers caused by falling international prices for their main products, the tariffs on imports of powdered milk, rice, sorghum and yellow maize were raised above the 10% tariff ceiling. At the same time, a minimum domestic price was guaranteed for soybean producers.

Nicaragua signed the Trinational Declaration with El Salvador and Guatemala, which calls upon the participants to create a regional system for economic and

social justice and well-being, establish a customs union, enhance the financial system, strengthen Central America as an economic bloc and promote sustainable development. It is also proposed that an interoceanic intermodal transportation corridor be created.

Lastly, the decision by the United States to designate Nicaragua as a beneficiary of the Caribbean Basin Trade Partnership Act was very important. It should be mentioned, however, that opening up new markets for the country's exports will be contingent upon the revision and enforcement of the Labour Code pursuant to the recommendations of the International Labour Organization (ILO).

3. Main variables

(a) Economic activity

The GDP growth rate flagged in 2000 due to the marked slowdown in construction –which nonetheless still managed to expand at a strong rate– compounded by slower growth in nearly all other sectors. The agricultural sector was a notable exception, improving on the already high rate recorded last year. On the demand side, exports posted major gains, especially those of traditional goods. Domestic demand, on the other hand, suffered a downturn.

The performance of the agricultural sector was all the more impressive considering the difficult circumstances created by poor weather conditions, depressed international prices for its main exports, the high costs of some basic inputs such as petroleum derivatives, and the failure of banks and distribution companies, which played a key role in financing and marketing. Production was up 8.4% in this sector, thanks to the expansion of the area under cultivation and support measures adopted during the year. The 8.6% increase in the number of people employed in this sector (43% of the employed population) was higher than the national rise of 6%, and products of agricultural origin accounted for 56% of all exports.

Overall agricultural production rose by 7.9%. The growth was driven by export crops, most notably coffee, with production for domestic consumption declining 1.2% as the drought reduced planting of non-export crops, resulting in a decline in the area harvested, especially in the case of beans and soybeans. Soybean production also suffered when the closure of a processing plant undermined demand. The livestock sector grew at a rapid pace (10%), thanks to an increase in the number of cattle slaughtered and in exports of live animals. Also contributing were upswings in milk and poultry production. The fishing sector also rebounded, posting a 7.3% gain, as a result of better international prices.

The 2% growth rate in the manufacturing sector was a hefty 1.7 percentage points lower than the previous year. Such growth as there was came from foodstuffs, wood and cork, paper and paper products, chemicals, petroleum derivatives and non-ore minerals. There were significant reductions in the production of beverages and textiles, however, primarily due to the high cost of bank financing, the heavy tax burden, fuel prices and higher charges for basic public services. Another factor contributing to the decline was the difficulty of competing with imported goods owing to the low tariff ceiling for finished goods (10%). In contrast to the overall performance of the industrial sector, manufactured goods produced in free trade zones continued their robust growth.

Construction also reported healthy gains (10%), although well below the remarkable expansion of nearly 50% witnessed the previous year. This slowdown is attributable to the decline in public financial resources earmarked for the special reconstruction programme implemented after Hurricane Mitch in 1998, and to the dip in private investment in non-residential construction as major hotel projects neared completion.

The mining sector was hit hard by falling international prices for precious metals, forcing mining centres to undertake measures to improve the efficiency of gold and silver mining. Non-ore mining also declined sharply because of lower demand and competition from small-scale producers.

Service activities, which as a whole accounted for 43% of GDP, expanded by 2.7%, less than the year before. Commerce reported the biggest slowdown.

(b) Prices, wages and employment

Inflation was 9.9%, higher than the 7.2% reported in 1999. Key factors, especially in the first four months of the year, were higher charges for basic services such as transportation, and price rises for petroleum derivatives and construction materials. In June, the monthly inflation rate began to drop, due primarily to the prices of perishable goods and the relative stability of basic service charges.

Pay adjustments in the public sector and wage rises in some other sectors pushed up the real average wage by a modest 1.5%. The country's economic growth helped bring the jobless rate down from 10.7% to 9.8%, although the underemployment rate rose again to 12.1%. Most jobs were created in agriculture, construction, commerce and social services.

(c) The external sector

Although to a lesser extent than in 1999, the excess of spending over output was once again financed with external savings. The current-account deficit was 38% of GDP, a significant reduction from the 49% recorded the previous year. This reduction came about as the result of a narrowing of the trade deficit and an increase in current transfers (especially family remittances), while the deficit in the services and income account remained virtually unchanged. Reductions in capital inflows widened the balance-of-payments deficit, however, and caused new defaults on external obligations and a net loss of US$38 million in international reserves. Despite this decline, the country continued to receive substantial flows of private capital (especially in the form of foreign direct investment), totalling US$265 million. The main recipients of this capital were the energy sector, hotels, shopping centres, agroindustry, fishing and communications.

Although it is still very large, the merchandise trade deficit (38.8% of GDP) shrank as imports fell (3.3%) and exports posted strong gains (14.2%), including the net exports of companies operating in the free trade zone system.

The expansion of exports was due primarily to the increase (19%) in sales of traditional products (67.8% of all exports), particularly coffee (25%), lobster and shrimp (33%) and meat (22%). The gains in exports of traditional products were due to higher volumes, as prices fell. Exports of non-traditional goods climbed for the second year in a row (6%), driven mainly by the expansion of manufactured goods sales (16%), principally foodstuffs and paper derivatives.

The value of goods imports fell by nearly 4%. Although purchases of petroleum, fuels and lubricants increased sharply (64%), imports of intermediate goods were down slightly (1%) and purchases of capital goods fell 26% as a result of the economic slowdown. Imports of consumer goods, meanwhile, fell 4.6%, especially non-durables, due to the decline in imports of staple foods, medicines and household items after the increases of the previous year in the form of aid for the victims of Hurricane Mitch.

PANAMA

1. General trends

The trend towards slower growth in Panama continued, with the economy expanding by just 2.7%, compared to 4.4% in 1998 and 3% in 1999. As a result, per capita GDP increased by only 1.1%. Economic performance was even lower than had been expected by the authorities at the beginning of the year (3.5%-4%), and this was due to a fall in internal demand, as external demand showed a recovery after two years of decline. The slackening of both investment and consumption drove up the unemployment level. The central government deficit increased slightly owing to reduced tax receipts, but remained at a low level of just over 1% of GDP. Inflation returned to almost zero, despite the increase in international oil prices. The high current-account deficit of the balance of payments was reduced.

THE YEAR 2000 marked a turning point for the Panamanian economy, after the completion of the transfer of the Panama Canal by the United States Government at the end of 1999. This event meant a significant adjustment in the Panamanian economy owing to the loss of income from United States civil and military operations, although the economy was already gradually compensating for this effect.

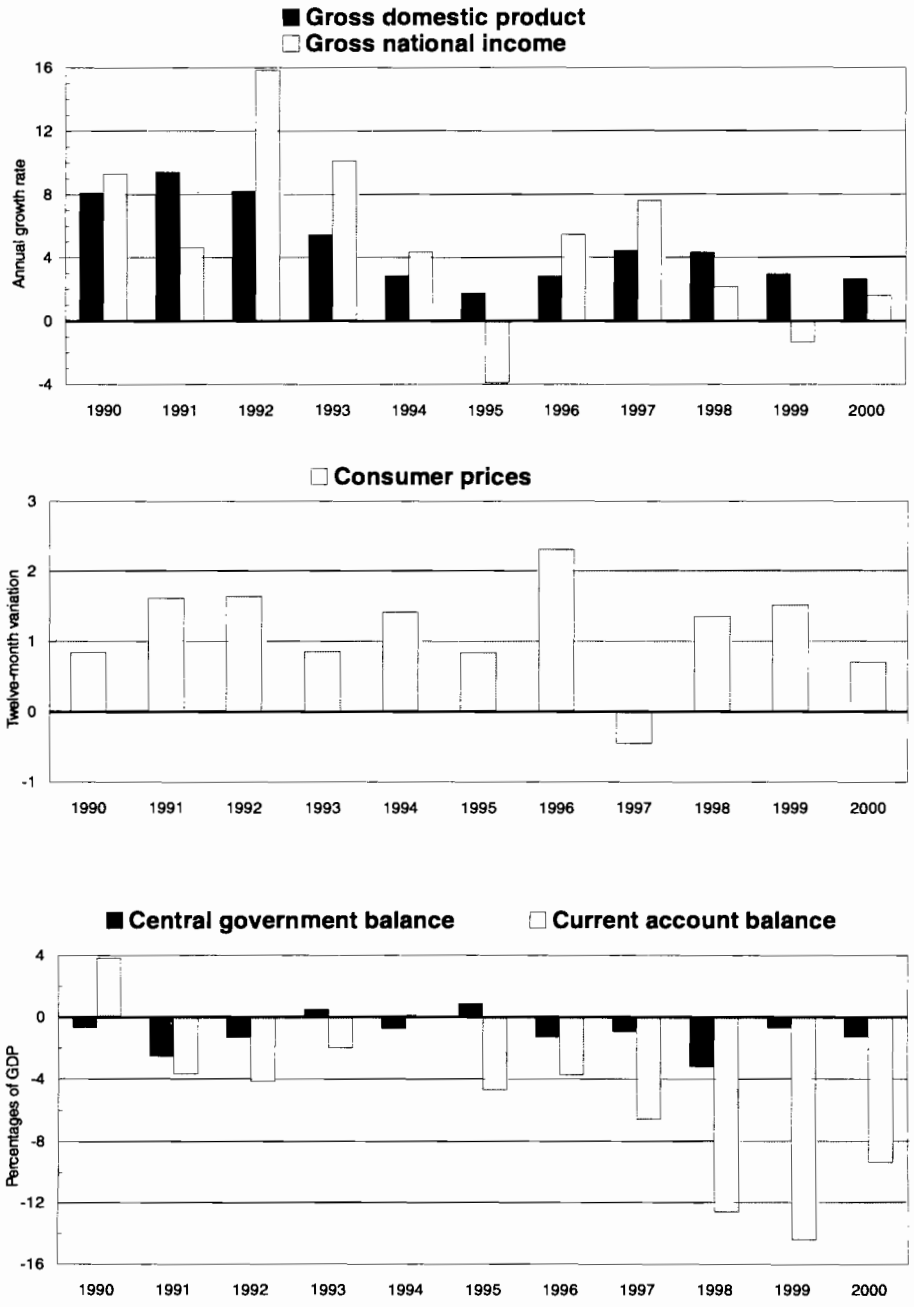
The improved performance of the export sector was mainly the result of a recovery in re-exports from the Colón Free Zone and the continuing expansion of other services for which there was international demand. National exports also increased significantly, despite the fact that banana sales continued to run into difficulties. National imports fell as a result of the drop in internal demand.

After two years of rapid growth, a cycle of public infrastructure construction wound down, as did private construction of commercial, port and hotel buildings. At the same time, an increase in unemployment and the slowing of rapid growth in consumer credit, which had been due to high liquidity and aggressive bank strategies, acted as a drag on private consumption. The uncertainty of economic agents as they awaited economic policy decisions on improvements to the economic programme and tax reform proposals, among other things, also contributed to the sluggishness of internal economic activity.

Sectoral behaviour in productive activity was very heterogeneous. Services for which there was international demand performed better, owing to the sustained level of activity in the Panama Canal, the recovery of operations in the Colón Free Zone, an increase in tourism and steady growth in the handling of cargo containers in the country's ports, among other factors. Basic services, electricity and communications also grew significantly.

The medium-term prospects for the Panamanian economy are positive, judging mainly by the development of various foreign demand-oriented production projects in the areas previously occupied by the United States armed forces. Owing to changes in world economic conditions, however, ECLAC expects economic growth of just 2%.

Figure 1
PANAMA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy and structural reform

Economic policy-making took place within the framework of the precautionary stand-by arrangement signed with the International Monetary Fund (IMF) in June 2000, for a period of 21 months and an amount of US$85 million. In addition to establishing growth targets for the 2000-2001 biennium and for public finances, the agreement included commitments to evaluate the state of the social security system, which is currently in surplus, the strengthening of the banking supervision system, especially for off-shore banking, and the measures being implemented to combat money-laundering.

Economic policy was guided by the need to correct fiscal imbalances and reorder government priorities and objectives. As a result, one of the goals for the year was to reduce the general government deficit by means of a progressive reduction of the burden of external debt. After the major State asset privatizations of previous years, there were relatively few enterprises available to be sold off, so that this source of income had a minimal role in restructuring the public finances. The results achieved differed from those sought by the authorities, as the deficit increased, although not significantly, owing to the fall in tax receipts and the difficulty of controlling current expenses.

(a) Fiscal policy

The central government deficit increased from 0.7% of GDP in 1999 to 1.3% in 2000. This was due to the low rate of growth in current income, which was up by only 1.3% because of the drop in tax revenue, while there was a larger increase in spending (4.7%). In contrast, in the non-financial public sector the deficit decreased from 1.4% of GDP to 0.8%, thanks to higher revenues and slower spending growth owing to the fall in capital expenditure.

Direct taxes were down by 3.7%, owing to the fall in income tax receipts, and indirect taxes fell by 11%. Non-tax income grew by 16.6% owing to the contributions of various public-sector enterprises and joint ventures. Current expenditure rose by 8.8% owing to higher spending on pay (10%), transfers and interest payments on the public debt. On the other hand, capital spending was 27% lower than in the previous year, a period in which it had grown strongly as a number of infrastructure development programmes were completed early.

Net public debt liabilities were US$7.73 billion at the end of 2000, a similar level to that of the previous year. As a proportion of GDP, however, they fell from 81.6% to 76.6% as national output increased at current prices. Public debt servicing was US$760 million, of which US$390 million was for repayments and US$370 million for the payment of interest and commissions.

The external debt, accounting for 72% of total liabilities, remained virtually unchanged at US$5.6 billion. In the last quarter of the year Panama issued US$350 million of global bonds on the international market. Some of the funds (US$250 million) were assigned to the public budget and some were used to repurchase Brady bonds, for a total of US$153 million. The repurchase meant that security deposits for these bonds could be recovered, so that the operation produced a saving of US$31 million.

With regard to the internal debt, 70% (US$2.13 billion) is placed in national public institutions, mainly the Social Security Fund (37%) and official banks. The remaining 30% is in private hands, mainly in the form of recognition bonds (59%) and treasury bills (18%).

(b) The International Banking Centre and lending policy

The activity of the International Banking Centre continued its slow growth. Assets increased by 2.9% to US$38 billion, this being the result of growth in the assets of the national banking system (81% of the total), as those of the international banks fell.

Although the overall level of deposits received by the national banking system stagnated owing to a fall in deposits from abroad, domestic deposits grew by 8.5%. Thus, abundant financing was available in the internal market, resulting in a 4.2% rise in net domestic credit.

Credit to the private sector grew by 6.3%, reflecting a slower rate of expansion after two years of rapid growth. The activity that uses credit the most, commerce, increased by just 2.9%, compared to 18% and 8% in 1998 and 1999, respectively. Another area that suffered a significant slowdown was personal credit, which increased by 14% compared to 40% and 31% in the two previous years. The housing sector maintained its growth (13%), stimulated by a policy of encouraging

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	8.2	5.5	2.9	1.8	2.8	4.5	4.4	3.0	2.7
Per capita gross domestic product	6.2	3.5	1.0	0.0	1.1	2.7	2.7	1.3	1.1
Gross domestic product, by sector									
Goods	10.5	8.8	3.3	2.0	-1.0	4.3	5.5	0.2	-1.4
Basic services	1.2	1.6	4.9	7.4	6.3	4.3	6.7	12.1	10.0
Other services	10.7	4.3	4.4	0.1	3.6	5.0	4.2	2.6	2.1
Consumption	3.3	3.8	-1.2	-3.3	7.9	12.6	8.7	-2.8	-0.3
General government	-8.0	2.8	-0.4	4.6	3.4	7.0	4.3	-2.0	2.5
Private	6.4	4.1	-1.3	-5.2	9.1	14.0	9.8	-3.0	-1.0
Gross domestic investment	38.6	13.8	14.3	10.8	6.1	1.1	11.9	12.6	-0.8
Exports of goods and services	-8.4	-10.4	-3.7	10.2	-9.4	12.7	-2.4	-9.3	7.0
Imports of goods and services	-6.5	-9.1	-3.1	9.0	-4.1	17.2	4.5	-8.1	2.0
				Percentages of GDP [c]					
Gross national income	97.6	102.1	103.3	97.3	100.0	102.8	100.3	95.9	94.8
Gross domestic investment	23.2	25.1	27.8	30.3	31.3	30.2	32.2	35.3	34.0
National saving	18.3	23.7	27.3	24.5	23.4	20.5	14.2	14.0	15.3
External saving	4.9	1.4	0.6	5.8	7.9	9.6	18.0	21.3	18.8
				Percentages					
Employment and wages									
Labour force participation rate [d]	60.2	60.4	60.7	61.7	60.6	61.5	62.2	62.8	59.9
Open unemployment rate [e]	14.7	13.3	14.0	14.0	14.3	13.2	12.7	11.8	13.3
Real minimum wage (index 1995=100)	91.3	102.0	100.6	100.0	104.3	103.1	105.9	109.5	113.6
				Growth rates					
Prices (December-December)									
Consumer prices	1.6	0.9	1.4	0.8	2.3	-0.5	1.4	1.5	0.7
Wholesale prices	...	-0.1	-46.1	1.8	3.5	-3.9	-3.9	6.8	7.2
External sector									
Terms of trade (index 1995=100) [c]	104.0	106.8	110.1	100.0	101.3	103.4	103.3	105.9	99.8
				Millions of dollars					
Balance of payments									
Current account	-273	-143	9	-369	-302	-567	-1 176	-1 376	-927
Trade balance (goods and services)	-81	-36	89	-157	-120	-327	-780	-800	-572
Exports	6 318	6 691	7 448	7 610	7 381	8 320	8 078	7 014	7 515
Imports	6 399	6 727	7 359	7 768	7 501	8 647	8 857	7 814	8 087
Capital and financial accounts [f]	87	-165	-371	32	566	908	713	1 228	599
Overall balance	-186	-308	-362	-337	264	341	-463	-148	-328
Variation in reserve assets (- indicates an increase)	116	-93	-106	-75	-297	-610	103	-185	109

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages					
External debt									
Gross debt									
(as a percentage of GDP) [g]	53.4	72.6	71.2	74.5	62.2	58.3	55.4	58.3	56.3
				Percentages of GDP					
Central government									
Current income	18.3	18.7	17.7	18.6	18.6	18.2	17.8	20.0	19.5
Current expenditure	18.0	16.1	16.3	16.1	17.6	17.4	19.2	18.4	19.3
Saving	0.4	2.5	1.4	2.5	1.0	0.8	-1.4	1.6	0.2
Capital expenditure	1.7	2.1	2.1	1.8	2.4	2.4	2.5	2.4	1.7
Financial balance	-1.3	0.5	-0.7	0.9	-1.3	-0.9	-3.2	-0.7	-1.3
Domestic financing	1.3	-0.5	0.7	-0.9	1.3	0.9	3.2	0.7	1.3
External financing	2.8	1.1	2.2	0.5	-0.2	-1.8	-1.2	-0.9	0.0

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1982 balboas. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population. [f] Includes errors and omissions. [g] Refers to external debt contracted by the public sector; no adjustment has been made for currency fluctuations.

home-buying among the low-income sectors of the population.

Banks with international licences, meanwhile, showed a lower level of operations. Both the deposits they took and their lending abroad contracted, one of the main reasons for this being the difficult economic situation affecting their main Latin American clients, including Colombia, Brazil and Ecuador.

As regards interest rates, both deposit and lending rates for the operations of Panamanian and foreign banks changed only very slightly. Business lending rates rose from 9.93% to 9.97%, while those for personal consumption fell from 13.34% to 13.22%. The local mortgage market reference rate, meanwhile, remained unchanged at 9.81%.

(c) Structural reform and trade agreements

During 2000, the Superintendency of Banks continued its efforts to strengthen the regulatory framework of the Panamanian banking system. New regulations were introduced for asset classification and the evaluation of banking risk. In accordance with these measures, the capital adequacy and loan portfolio quality indices of the banking system were good. The banks had a default reserve ratio of 11.1%, a figure higher than the recommended minimum of 8%. Progress was also made in the stricter regulation of client solvency. Lastly, the authorities introduced various regulations relating to money-laundering.

The banking system continued to go through a process of restructuring which resulted in various closures and mergers, movements which did not significantly alter the institutional landscape. At present there are 48 banks with general licences, 10 less than in 1997. Since that time, the number of banks with international licences has also fallen, from 28 to 25, and the number of banks with agency licences has fallen from nine to eight. There are also two official banks, so that the system currently consists of 83 banks.

The State enterprises scheduled for privatization include the Electricity Transmission Enterprise (ETESA), National Water Works and Sewerage Services (IDAAN) and Tocumen international airport, but no operations of this type were carried out in 2000.

Meanwhile, negotiations continued with the Central American countries to reach a free trade agreement; by contrast, there was no significant movement in the negotiations with Mexico and Chile, although they continued to be held.

3. The main variables

(a) Economic activity

The main momentum in economic activity came from exports of services, with a large proportion consisting of re-exports from the Colón Free Zone, which experienced an upturn after the sharp drop of the two previous years. Domestic demand weakened, after helping to offset lower exports in 1998 and 1999. There was a significant drop in gross fixed investment (-4.1%) and consumption stagnated, as a result of the fall in private consumption. This resulted in a lower level of employment and real income.

The sectors of activity that showed the strongest growth were services, including basic services as well as those related to foreign trade. The production of goods, on the other hand, fell owing to the contraction in manufacturing industry.

Transport and communications maintained their dynamism for the third consecutive year, with a growth rate of 10.6%. With the spread of cellular telephony and related services, a high growth rate was maintained (28%) in communications. The increase in water transport and the operations of the Panama Canal also contributed to this. The supply of electricity, gas and water increased by 8.2%. Other foreign demand-oriented services also performed well, including trade associated with the Colón Free Zone (11.8%) and financial intermediation (2.9%).

In the production of goods, the agricultural sector stagnated owing to the fall in banana production (-15%), which accounts for about 25% of agricultural output. Although there were significant increases for beans and maize, other areas, such as sugar cane and sorghum, fell back. Pig and poultry rearing increased significantly and fishing showed a slight recovery after the decline in production levels the previous year.

Manufacturing output, which contributes only 8% of GDP, diminished for the second consecutive year, this time by 4%, largely as a result of the process of adapting to the trade liberalization that had recently begun. The great majority of manufacturing branches showed a decline, such as food production, which fell by 4%, wearing apparel (by 19%), paper and paper products (33%), oil refining (10%), premixed concrete (14%) and cement (15%). In the last two cases, the decline was due to the completion of highway works which made intensive use of those products.

The level of construction activity rose by only 1%, after very high rates of growth in the previous two years. Investments in residential construction continued to expand, albeit without matching the previous year's strong growth. The number of homes completed dropped from 11,600 to 8,800. The construction of commercial buildings declined by 6%, after the increase of 40% observed in 1999.

Commerce declined by 4% owing to the weakening of general economic activity and the saturation of the credit absorption capacity of certain sectors of the middle class. Hotel and restaurant activity grew by 5%, owing to an increase in the number of tourists coming into the country.

(b) Prices and wages

Despite the large rises in international oil prices, which had a considerable impact on wholesale prices, the consumer price index rose by only 0.7% (1.5% the previous year). There were significant increases in the areas of medical care and health, rents, fuels, electricity and transport and communications. Although the price of petrol was frequently adjusted in line with international prices, public transport fares did not change. These increases were counteracted by the modest level of price rises in sectors with a high weighting in the index, such as food, clothing and footwear. As a result of these changes, the cost of the basic family basket was almost unchanged, at around US$221.

Wholesale prices increased by 8.8%, reflecting in particular the increase in the prices of imported goods (13.1%) and industrial goods (6.2%), whereas agricultural products increased in price by 0.6%.

The slowdown in the growth of productive activity, particularly due to the fall in investment, led to an increase in the unemployment rate from 11.8% to 13.3% between August 1999 and the same month in 2000, according to the results of the household survey. The economic sectors where there were significant reductions in employment included manufacturing, hotels and restaurants, commerce, agriculture and construction. In contrast, employment increased in public administration, education and health services and the financial sector.

Minimum wages, which are reviewed every two years, were increased by 13% in August. Contractual reviews also brought wage increases in various sectors, such as construction, public administration and the banking sector.

(c) The external sector

Owing to the lower rate of growth in productive activity, particularly in the goods-producing sectors, the current-account deficit fell by one third to US$930 million in 2000, so that as a proportion of GDP it declined from 14.4% to 9.4%. This deficit was financed with net inflows of capital from foreign investment (US$390 million), movements of other undetermined flows (errors and omissions) of US$670 million and a fall in reserve assets.

Despite the recovery in re-exports, the trade surplus of the Colón Free Zone fell by 16%. On the other hand, the national trade deficit decreased by 11% owing to the fall in national imports. As a result, the overall goods trade deficit was 8.8% less than in the previous year.

Despite the recovery in re-exports from the Colón Free Zone referred to above (6%, with a value of US$4.71 billion), they still did not reach the level of 1998. National exports also showed a recovery (9%) to reach US$770 million, although the picture varied greatly among different parts of the economy. On the one hand, traditional export products continued to show a decline. For example, banana sales contracted by 21% as a result of various negative factors, such as problems of access to European markets, labour conflicts and the paralysis of the loading port that occurred at the end of the year. Exports of frozen shrimp fell for the second year running (14%) as a result of damage caused by the white spot syndrome virus. Nevertheless, other products performed better, including sales of fresh and frozen fish and lobster, thanks to increased catches, and sales of fish meal. Sugar exports also rose owing to the increase in the quota which could be exported to the United States.

Total imports of merchandise increased by 4.8%, thanks to a 10% increase in purchases made by companies operating in the Colón Free Zone (US$4.24 billion). Nevertheless, the fall in domestic demand (both consumption and investment) was reflected in a decline in national imports, which fell by 2% to US$2.8 billion. Investment goods suffered the greatest reduction. Purchases of transport equipment fell by 30% and those of machinery, appliances and electrical equipment by 16%. There were also significant reductions in purchases of various primary materials and intermediate products, including plastics and rubber (-6%), hides and hide products (-16%), textiles and textile products (-14%), footwear (-8%) and fats and oils (-31%). In contrast, other items increased significantly, such as mineral products (40%).

The services trade balance, which has traditionally been positive, increased by 17% to US$720 million. Revenue from transport, in particular maritime transport through the Panama Canal, increased by 5.5%, while income from travel, particularly tourism-related travel, increased by 17%. The income account balance was US$520 million, compared to US$740 million the previous year, the decline being due to a fall in outflows of profits from foreign direct investment.

The financial account showed a net outflow of US$66 million, a figure which contrasts with the inflow of US$1.37 billion seen in 1999. An important factor in this was the transfer of resources by general licence banks. In 1999 these institutions had brought net assets into the country, so that the "other investment" account had a positive balance of US$1.5 billion. To this was added foreign direct investment income of more than US$500 million. In 2000 these flows were much lower; the "other investment" category had a negative balance of US$270 million, while foreign direct investment was just under US$400 million. The decline in these flows was largely offset by an inflow of US$660 million recorded in the errors and omissions account, which in 1999 had had a negative balance of US$140 million. The global balance was in deficit, for which reason net international reserves fell by US$330 million.

PARAGUAY

1. General trends

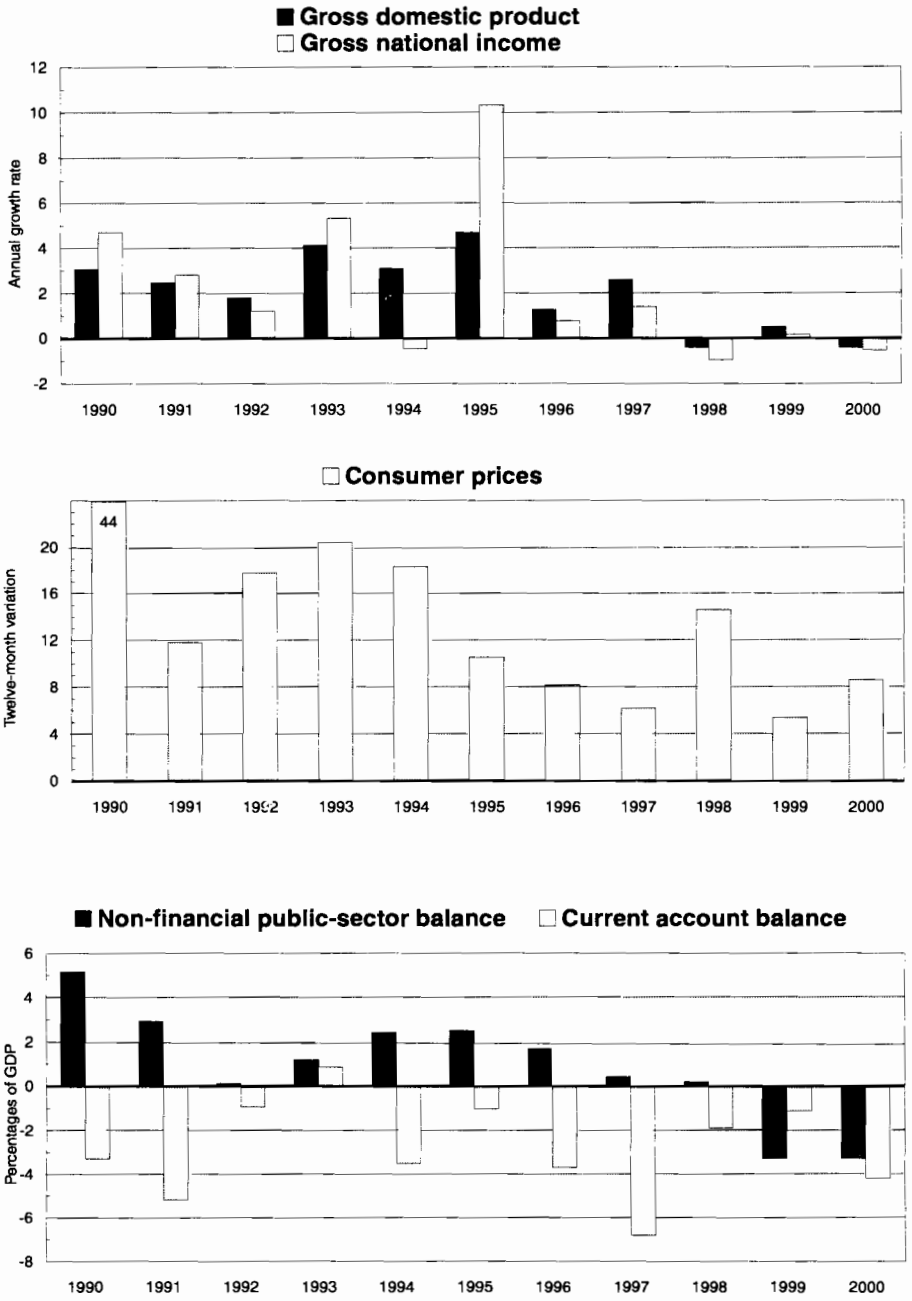
The Paraguayan economy shrank by half a percentage point in 2000, the third consecutive year of GDP stagnation and the fifth of declining per capita GDP. The country was again at the mercy of fluctuations in the agricultural sector and in external demand, which an expansionary economic policy was unable to counter.

ADVERSE WEATHER conditions caused a slump in crop production, with most of the major items suffering reverses, the exception being cotton. Exports declined for the fifth consecutive year, mainly owing to a reduction in informal trade attributable to tighter customs controls in neighbouring countries, especially Brazil.

These external and domestic conditions hindered efforts by the economic authorities to boost activity through an expansionary fiscal policy. This policy became more expansionary than projected at the beginning of the year as revenue was lower than forecast and more substantial external financing failed to materialize. Monetary policy was geared towards revitalizing the economy through interest rate cuts designed to promote investment, and towards maintaining exchange-rate stability in a context of reduced capital flows. Thanks to this exchange-rate stability, the rise in consumer prices did not exceed 8.6%, despite pressure from increases in charges for public services, oil prices and the minimum wage.

Preliminary evaluations indicating a more favourable outlook for the agricultural sector and exports suggest that output growth could improve slightly in 2001. As a result, economic policy should be less expansionary than in 2000. In view of the unexpected increase in the public-sector deficit, Paraguay's central administration is planning to implement a more austere policy involving lower expenditure and an increased tax take. The monetary authority has set itself the goals of keeping inflation down to levels similar to those recorded in 2000 and halting the slide in the country's depleted net international reserves. These goals were presented to the International Monetary Fund (IMF) to win its approval for a Staff-monitored programme for the first time. Cumulative inflation for the first five months was 4.2%, reflecting the increase in prices for some basic services.

Figure 1
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Economic policy

The main economic policy objective in 2000 was to revive the stagnant economy. More emphasis was placed on fiscal policy, since the public sector had access to extraordinary financing received in the second half of 1999 as well as additional extraordinary disbursements made available to it in early 2000. The monetary authority supported the expansionary fiscal policy, while remaining committed to price stability. In fact, open-market operations effected by the Central Bank were instrumental in reducing interest rates. At the same time, the Central Bank managed to ensure a degree of exchange-rate stability through net currency sales on the foreign exchange market, which helped to keep inflation in single digits, despite sharp rises in public service charges and an upward adjustment in the official minimum wage.

The monetary and fiscal authorities are seeking to implement a less expansionary economic policy in 2001. This approach is based on the more favourable outlook for the production sectors, and hence for GDP, and on the need to reduce the public-sector deficit, which increased beyond expectations. Since financing is scarce, the Government plans to cut back on expenditure and obtain higher income through administrative improvements and the anticipated upturn in economic activity. The monetary authorities plan to keep inflation close to the level recorded in 2000. The first quarter has already brought higher rates in open-market operations and a net sale of United States dollars amounting to some US$100 million. For its part, the central administration has reduced expenditure, especially capital investment.

(a) Fiscal policy

As in 1999, fiscal policy was aimed at revitalizing the sluggish economy through support to the productive sector and investments in infrastructure improvements. With public revenue much lower than projected on account of the economic slowdown, the central government fiscal deficit rose to its highest level in two decades (4.4% of GDP). To finance it, the Government made disbursements from the US$90 million loan granted by the Export-Import Bank of Taiwan Province of China for specific purposes, including the development of agricultural cooperatives, support for small and medium-sized enterprises and road construction. The rest of the financing came from public-sector deposits in the Central Bank, accumulated through the placement of bonds backed by the Government of Taiwan Province of China in 1999.

Total central government income declined by half a percentage point of GDP owing to the decrease in current receipts. Of these, non-tax revenue was down, especially contractual revenue from the Itaipú and Yacyretá binational dams. A slight increase in tax revenues was not sufficient to offset this reduction. Although revenue from direct taxes, particularly personal and corporate income and profit taxes, showed a sharp decline, this was counterbalanced by a recovery in indirect tax revenue, following an improvement in three revenue sources. Firstly, revenue from excise taxes on petroleum and petroleum derivatives tripled in tandem with the rise in oil prices. In addition, revenue from customs duties and value added tax also increased, thanks in part to the adoption of administrative measures and to an expansion in registered imports.

Total expenditure increased by 1.5 percentage points of GDP, reflecting higher current spending. Consumption expenditure, which includes goods, services and staff pay, posted an increase, as did interest payments and current transfers to the public and private sectors. Although total capital expenditure was lower owing to a decline in capital transfers, investment in capital formation, as already mentioned, was strong. If the data are broken down by function, the emphases of fiscal policy emerge clearly from the significant budgetary increases received by the ministries of Education and Culture, Agriculture, and Public Works and Communications.

The non-financial public sector closed with a lower deficit than that of the central Government, but one representing the same percentage of GDP (3.3%) as in the preceding financial year. A positive performance by State corporations as a whole, together with a small surplus in the social security system, partially offset the deficit of the central administration.

(b) Monetary and exchange-rate policy

Monetary policy over the year sought to achieve expansionary results, but cautiously. With fiscal policy geared –since the second half of 1999 and throughout 2000– towards reactivating the economy through subsidies to the productive sectors and infrastructure

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	1.8	4.1	3.1	4.7	1.3	2.6	-0.4	0.5	-0.4
Per capita gross domestic product	-0.9	1.4	0.4	2.0	-1.4	-0.1	-3.0	-2.0	-2.9
Gross domestic product, by sector									
Goods	0.8	4.0	0.6	5.9	0.4	3.1	0.6	2.1	-2.0
Basic services	6.0	8.1	11.7	9.1	4.4	3.7	2.2	9.1	8.8
Other services	1.8	3.6	4.1	2.4	1.4	1.8	-2.4	-4.0	-1.4
Consumption	7.2	5.3	8.5	8.1	2.4	3.1	-0.7	-3.6	0.9
General government	7.8	5.3	3.9	12.1	10.0	2.0	0.7	3.7	5.4
Private	7.2	5.3	9.1	7.6	1.6	3.2	-0.8	-4.5	0.3
Gross domestic investment	-6.5	2.3	4.5	7.1	-0.1	-2.0	-4.7	-3.8	-0.7
Exports of goods and services	-4.1	39.6	14.5	8.7	-11.6	-5.9	-7.2	-27.0	-15.8
Imports of goods and services	4.1	31.6	23.4	14.4	-6.1	-4.0	-7.0	-27.1	-6.7
				Percentages of GDP [c]					
Gross national income	100.3	101.6	98.1	103.7	103.3	102.3	102.0	102.2	102.4
Gross domestic investment	23.2	23.1	23.4	23.9	23.7	22.7	21.8	21.1	21.1
National saving	14.6	15.2	7.4	9.9	8.7	7.2	7.1	11.2	10.2
External saving	8.6	7.9	16.0	14.0	15.0	15.5	14.7	9.9	10.9
				Percentages					
Employment and wages									
Labour force participation rate [d]	...	...	59.1	64.8	63.0	61.9	60.6	58.8	...
Open unemployment rate [e]	5.3	5.1	4.4	5.3	8.2	7.1	6.6	9.4	10.7
Real average wage (index 1995=100)	90.9	91.7	93.0	100.0	103.1	102.6	100.7	98.6	99.9
				Growth rates					
Prices (December-December)									
Consumer prices	17.8	20.4	18.3	10.5	8.2	6.2	14.6	5.4	8.6
Producer prices	...	...	...	...	8.3	1.8	18.1	6.8	10.4
External sector									
Terms of trade (index 1995=100) [c]	79.4	87.2	105.1	100.0	100.0	99.9	92.4	87.7	84.2
Nominal exchange rate (guaraníes per dollar)	1 500	1 744	1 912	1 963	2 057	2 178	2 726	3 119	3 548
Real effective exchange rate for imports (index 1995=100)	103.4	107.7	101.3	100.0	96.4	96.2	108.2	106.2	110.3
				Millions of dollars					
Balance of payments									
Current account	-60	59	-274	-92	-353	-650	-160	-86	-315
Trade balance (goods and services)	-91	-74	-411	-397	-645	-864	-343	-291	-539
Exports	2 362	3 298	3 786	4 802	4 397	3 983	4 174	3 242	2 782
Imports	2 453	3 372	4 197	5 200	5 042	4 847	4 517	3 533	3 321
Capital and financial accounts [f]	20	-4	576	137	306	435	177	-227	-43
Overall balance	-40	55	302	45	-47	-216	17	-313	-358
Variation in reserve assets (-indicates an increase)	364	-87	-346	-60	39	206	-23	-104	218
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	19.8	18.2	16.2	17.6	16.8	17.4	21.4	30.7	33.1
Net interest (as a percentage of exports) [g]	3.0	-0.1	-0.1	-0.2	-0.4	-0.4	-0.7	0.4	0.6

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	12.6	12.3	14.5	15.3	14.8	15.6	16.0	16.8	16.2
Current expenditure	11.5	11.1	11.4	11.7	12.4	12.7	13.7	14.7	15.9
Saving	1.1	1.1	3.1	3.7	2.5	2.8	2.4	2.1	0.8
Net capital expenditure	2.4	1.8	2.1	4.0	3.3	4.1	3.3	5.7	-0.2
Financial balance	-1.4	-0.7	1.0	-0.3	-0.8	-1.3	-1.0	-3.6	-4.4
				Growth rates					
Money and credit									
Net international reserves	-11.4	28.3	41.3	-0.4	12.6	-19.8	40.0	42.9	-1.6
Net domestic credit	532.4	19.6	8.2	58.1	37.5	50.5	-8.5	-4.1	11.7
To public sector	...	-2.2	-82.9	...	...	...	-82.0	...	...
To private sector	39.2	35.7	36.7	18.3	22.8	12.3	-2.8	10.6	3.2
Money (M1)	30.5	17.7	32.4	21.1	2.0	13.9	7.4	9.5	17.8
Local-currency savings and time deposits	-3.9	4.1	59.3	22.2	39.4	1.1	-13.6	5.7	-32.8
M2	23.4	9.7	38.4	28.3	15.4	7.2	-2.8	10.9	3.2
Dollar deposits	66.5	53.0	15.3	3.0	39.5	25.8	26.1	25.8	4.8
				Annual rates					
Real interest rates (annualized, %) [h]									
Deposit rate	...	3.3	2.1	6.9	6.7	5.6	4.6	12.1	7.0
Lending rate	...	10.7	12.3	18.2	20.1	19.4	17.1	21.9	16.4
Equivalent interest rate in foreign currency [i]	...	21.9	23.0	20.2	17.0	14.0	16.3	19.5	16.5

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1982 guaraníes. [c] Based on constant 1995 dollars. [d] Percentage of the working-aged population in Asunción. From 1994 on, national total for urban areas. [e] Percentage of the economically active population. Up to 1993, this figure refers to the Asunción metropolitan area. As of 1994, it refers to the national total for urban areas. [f] Includes errors and omissions. [g] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [h] Figures are annual averages. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

projects, the onus was on the monetary authorities to avoid a resurgence in inflation. Already at the beginning of the year, it was anticipated that the consumer price index would be affected by oil price rises and public service price increases which had been postponed since the previous year. Thus, apart from net domestic lending, monetary policy was only slightly expansionary and consequently yielded meagre results.

The expansion of net domestic credit to the public sector was due to the fact that the Government drew on its deposits with the Central Bank to finance the increase in expenditure at a time when access to external financing was limited. This was in contrast to 1999, when the Government resorted exclusively to foreign sources to cover its deficit. In 2000, there was no need to finance the banking system, since responsibility for the management of most banks experiencing difficulties had already been taken over. However, credit to the rest of the private sector increased, with most of the funding coming from commercial banks.

In order to attenuate the expansionary effect of net domestic credit, the authorities reduced international reserves, selling off currency on the market to avert further depreciation of the guaraní against the United States dollar. The decline in total exports and the constraints on capital flows both exerted downward pressure on the guaraní. Central Bank operations led to a moderate nominal depreciation of the guaraní (11%) against the United States dollar. The real effective exchange rate against the currencies of Paraguay's five main trading partners remained relatively stable, rising by just 3%. Nevertheless, the guaraní depreciated by 6% against the Brazilian real, the currency of the country's largest trading partner.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Consumer prices (12-month variation, %)	6.6	10.8	14.9	14.6	9.4	4.5	4.8	5.4	9.6	10.2	9.3	8.6	7.8
Registered exports (millions of dollars)	216	390	282	127	159	287	165	130	184	294	210	183	208
Registered imports (millions of dollars)	611	622	662	575	394	425	423	483	436	499	522	582	533
International reserves (millions of dollars)	595	653	611	774	584	601	1 006	978	888	922	748	761	597
Real effective exchange rate[b] (index 1995=100)	106.6	109.2	108.8	108.1	100.2	103.3	110.8	110.5	112.5	110.9	110.3	107.4	108.5
Real interest rates (annualized, %)													
Deposit rate	5.6	5.7	3.6	3.6	9.9	16.0	11.0	11.4	7.7	4.9	6.4	8.9	7.1
Lending rate	20.5	18.6	15.4	13.8	17.8	25.8	22.3	21.6	19.6	13.8	16.5	15.6	16.9
Equivalent interest rate in foreign currency	12.0	16.0	17.4	19.7	22.3	22.0	16.9	16.8	16.0	15.8	15.2	18.9	15.0

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

Open-market operations were used in an effort to bring down interest rates. In fact, the rates on monetary regulation notes were halved from a nominal 13% in December 1999 to 6% in December 2000, the lowest level in 10 years. In the Paraguayan economy, the rates of these notes are considered as benchmark rates, since loans at the discount rate are not significant. Net issuance of these monetary sterilization securities to December 2000 was 40% lower than in the previous year. Meanwhile, real lending rates fell from 22% in 1999 to 16% in 2000, and real deposit rates from 12% to 7% in the same period.

For the first time in the decade, narrow money showed a slight decline, due to the low level of economic activity and the stagnation of consumption spending. Conversely, sight deposits increased owing to a methodological change in the middle of the year, whereby some current accounts combined with interest-bearing sight deposits, previously classified as M2, were reclassified as M1. Thus, the M1 monetary aggregate (now broadened to include these deposits) grew by 18%, while the rate of expansion of traditional saving and time deposits, saving certificates and foreign currency deposits fell. Because of expectations of depreciation of the national currency, savers continued to prefer foreign currency deposits, although this preference was less pronounced than in 1999. In fact, the broad monetary aggregates, M2 and M3, expanded by as little as 3% and 4%, respectively.

(c) Structural reform

In 2000, little headway was made with the privatization of State corporations. Three of them are at different stages in this process. The sale of the National Telecommunications Authority (Antelco) is planned for the end of 2001. It is still not clear what form the privatization of the water services provider, the Sanitary Works Corporation (Corposana), will take or how the sale of the properties of the now defunct Paraguayan railway operator will be handled.

3. The main variables

(a) Economic activity

Economic activity in Paraguay contracted slightly in 2000, the third consecutive year of stagnation. Contrary to the previous trend, a decline in goods production (2%) put a damper on economic activity that the small expansion in services (1%) was not enough to offset. The agricultural sector, which generates almost two thirds of total goods production, fell back by more than 4%, reflecting a slump in crop farming (8.5%). The harvests of the main crops, other than cotton, were affected to a greater or lesser extent by adverse weather conditions (droughts and frosts). The cotton yield improved, supported by a national recovery programme. Output of soya, the leading export, was down for the first time in 10 years. There were also sharp declines in other crops of importance to the domestic market, such as cassava, maize and sugar cane.

Output of other goods expanded by a mere 1%, the same as the growth rate in the industrial sector, which accounted for around 14% of GDP. The weak performance of industry was due to the virtual stagnation of foodstuffs and beverages production which, in turn, was affected by the decline in crop production and weak demand.

The services sector, which accounts for the other half of GDP, was rescued from a possible decline by the strong performance of basic services. Transport and communications grew by all of 10%, boosted by new investments in telecommunications. The Government also contributed to the strong performance of the services sector by pursuing the economic recovery programme it had started in 1999. Nevertheless, these efforts were countered by the fall in the commerce and finance sector (4.6%) for the third consecutive year, owing to the decline in informal border trade.

As in the four preceding years, overall demand contracted (2%), falling in real terms to levels similar to those recorded in 1993. Once again, it was pulled down by the performance of external demand, which fell by 16% to real values equivalent to those of the late 1980s. The bulk of demand comes from private consumption, but this grew hardly at all. Government policies were reflected in an increase in public consumption (5.4%) and public investments (8.8%). Despite the decline in financing costs, private investment decreased by 1%. Continuing the trend noted in the second half of the 1990s, per capita GDP declined by almost 3%.

(b) Prices, wages and employment

After falling in 1999 to its lowest level in two decades, the consumer price index again moved upward, showing an annual variation of 8.6%, three percentage points more than in the preceding year. This increase reflected sharp rises in oil prices and transport charges in the first half of the year (23% and 28%, respectively) and higher charges for water (up 20%) and electricity (up 25%) in the second half. The 15% increase in the minimum wage decreed in February also had an impact, especially on the prices of non-tradable goods, which rose more significantly than those of tradables.

Among non-tradables, transport costs saw the largest annual increase (25%), followed by education costs, which increased by 12%. Housing and health costs rose by less than average inflation. With respect to tradables, the prices of the main staples included in the basic basket of foodstuffs rose by 8%, which is attributable to the decline in the production of agricultural goods for local consumption and to the increased cost of transporting these.

Producers were most seriously affected, since the cost of their inputs increased particularly sharply (10.4%). The cost of domestic products rose (10%) as a result of the escalation in transport costs, while higher oil prices coupled with depreciation inflated the cost of imported products (11.2%).

The real average wage for formal sector workers increased slightly (1.7%), thanks to wage improvements in manufacturing and commerce. This result may have been influenced by the real increase in the minimum wage and by a reduction in the industrial labour force. By contrast, wages in the basic services sectors and in transport remained at the same real levels as in the previous year. Most affected were workers in construction and services, whose wages declined in real terms.

The downturn in the economy was reflected in a 7.7% rise in total open unemployment, around one percentage point more than in 1999. The urban sector was the most affected, with an unemployment rate of almost 11%, while the rate in rural areas rose only slightly. The lower decline in this case may be attributable to the recovery in cotton production, a labour-intensive activity, which compensated in part for the poor performance of the rest of the crop-farming sector. Visible underemployment, for its part, increased sharply in both urban and rural areas.

(c) The external sector

The reduction in external demand resulted in an expansion of the current-account deficit to over 4% of GDP, or four times the 1999 rate. The capital account showed a small surplus, but this was insufficient to offset this deficit. Thus, as in 1999, extraordinary financing had to be obtained to cover the overall balance-of-payments deficit, which swelled to close to 5% of GDP, including errors and omissions.

The deterioration in the current-account balance was due mainly to the widening of the deficit on the balance of goods and services. This was attributable to an increase of over US$200 million in the trade deficit. Paraguay's total trade (exports and imports) has in fact been gradually declining since 1996, and is now down to around the 1993 level. Re-exports of imported products, and exports and imports not registered with customs, have fallen most as a proportion of total trade. The services balance continued, as usual, to show a surplus, thanks to the royalties received for the binational Itaipú and Yacyretá dams.

Total exports decreased by 16%, reflecting a US$550 million decline in the value of re-exports, following a more than 30% fall in border sales of this type. Brazil, the main purchaser of such re-exports, has been placing limits on the value of products admitted on a duty-free basis and this has led to a decline in these transactions. Registered exports, which accounted for less than 40% of total external sales, were up 18%, since exports of livestock products doubled in value, while cotton exports increased by 35%, reflecting a good harvest as well as a 35% rise in the international price since 1999. By contrast, soybean exports contracted by 7% owing to a fall in production, despite a 10% improvement in prices on the international market.

The bulk of registered exports were shipped to Mercosur member countries, a group whose level of purchases had picked up following the decline recorded in 1999 in the wake of the devaluation of the Brazilian currency. In 2000, Brazil increased its purchases of agricultural products from Paraguay, which became more competitive as the result of a drought that affected the south of Brazil. It should also be noted that exports to Uruguay increased fivefold owing to an increase in sales of soya for re-export.

Paralleling the trend in exports, total imports into Paraguay also declined, albeit less steeply (6%), reflecting the reduced inflow of products for re-export due to the decline of this activity. The decrease in total imports, discernible since 1996, is attributable not only to the decline in so-called triangulation trade, but also to the weakness of domestic demand during the five-year period. In 2000, the rise in the price of petroleum derivatives resulted in a surge in the value of imports (19%). Purchases of consumer goods, especially non-durables, also increased, although to a lesser extent than intermediate goods. The slowdown in economic activity led to a decline in the import of capital goods, especially transport equipment and accessories. Since fuels and lubricants are purchased from Argentina, imports from that country exceeded those from Brazil for the first time.

The decline in the capital-account surplus was attributable to the reduction in disbursements and the increase in public and private external debt repayments. The increased inflows of foreign direct investment in the telecommunications sector, especially mobile telephony, were not sufficient to offset this.

As in 1999, the central Government secured extraordinary loans in order to finance agricultural cooperatives, the development of small and medium-sized enterprises and infrastructure development. Consequently, total external debt increased by close to 5% to US$2.49 billion, or almost 35% of GDP. New disbursements came mainly from the US$90 million credit granted by the Export-Import Bank of Taiwan Province of China. The net private-sector debt was maintained close to the 1999 level. The main creditors were international organizations, which provided just over half of the financing, with the largest proportion coming from the Inter-American Development Bank. The rest of the debt was financed by foreign Governments and their financial institutions, Japan and Taiwan Province of China being the majority creditors.

PERU

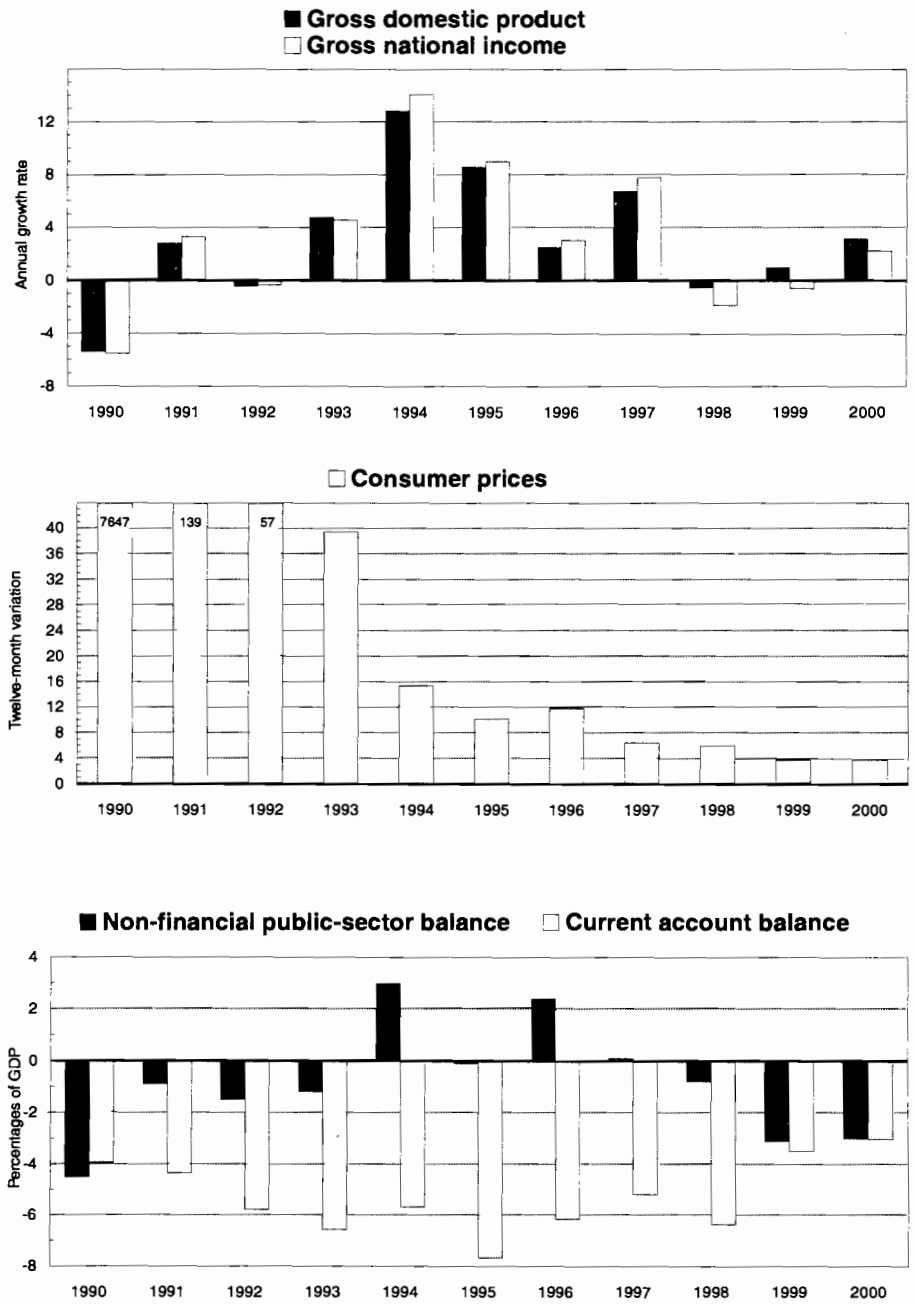
1. General trends

GDP grew by 3.1% in 2000. This rate, less than the average for the decade (3.8%), is modest in comparison with the hopes for a significant recovery that existed at the end of the previous year. In fact, it is disturbing in that it conceals a slowdown. After growing by an annualized average of 5.2% for nine consecutive months, GDP began to lose its momentum in the third quarter of 2000, and a recession began in the fourth quarter. A variety of factors explain this development. Private demand did not pick up, due to political uncertainties, and the supply factors that had been shoring up the primary sectors ran out of steam. Fiscal policy, which played a stabilizing role in 1999 and the early months of 2000, became more austere, as evidenced by the spending cuts instituted in the third quarter for the purpose of containing a persistent fiscal deficit amounting to 3% of GDP. This situation did not affect the achievements of the stabilization policy, however; the current-account deficit was reduced to 3% of GDP, and inflation was held below 4%, in a context of relative exchange-rate stability. Nonetheless, growth was insufficient to improve the labour situation by much.

THE PRIMARY SECTORS remained the driving force of the economy, thanks to a 16% rise in traditional exports and good production conditions. The rest of the economy also showed signs of recovery in the first two quarters of the year, owing particularly to a moderate upturn in private consumption. The construction sector, however, remained mired in a recession, which extended to the other areas of fixed investment, reducing the latter by more than 5% during the year. The climate of uncertainty stemming from the controversial elections and the fact that the country had three different Governments in the space of a year, was the principal reason for this situation, which also affected the reform programme. Despite this, some major operations were still carried out, although privatization goals were not met.

Another key factor in the poor investment performance of the past two years has been the stagnation of credit, attributable to the delicate financial condition of many businesses and the caution shown by a banking sector that is still consolidating after the crisis of 1998. Given these circumstances, the greater liquidity promoted by monetary policy and the decline in interest rates did not translate into more activity.

Figure 1
PERU: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

In the external sector there were mixed results. The decline of the current-account deficit did not offset the fall in net capital inflows, and there was thus a net loss of reserves for the third year in a row, although at a much slower pace than before.

The interim Government, which took office in November 2000 after the ousting of the president left an institutional vacuum, signed an agreement with the International Monetary Fund (IMF) in March 2001. This agreement guarantees that the country's external financing needs will be covered. The circumstances of the first quarter made it necessary for the authorities to make a downward revision in growth targets for 2001 (1.5%), although they hoped to achieve the fiscal deficit goal of 1.5% of GDP. During the second quarter of 2001, however, the climate of uncertainty persisted, whether for domestic or foreign reasons, and this did not bode well for meeting the targets.

2. Economic policy and reform

Economic policy in 2000 was influenced by the electoral cycle in the first half of the year, and by subsequent political developments. The first six months were marked by heavy fiscal spending and campaign declarations suggesting a possible change of course in reform policy. The Government that took office in July 2000 set itself the objectives of controlling the fiscal deficit by means of spending cuts, privatization and franchising, and stimulating the economy by restructuring domestic private debt. Measures to support agriculture and tourism were also announced. A series of political scandals once again clouded the domestic picture from September onward, and culminated in the president's resignation, whereupon new elections were called for April 2001 and a transitional Government was appointed. The transition team's macroeconomic objective was to bequeath a healthy economy to the new Government in July 2001.

(a) Fiscal policy

Fiscal policy was one of the most delicate issues of the period. To prevent domestic demand from contracting even further in 1999, it was decided to allow the deficit to increase. Acting within the constraints of the new fiscal prudence law passed in December 1999, in early 2000 the Government announced its medium-term goals, which included a gradual reduction of the deficit leading up to a balanced budget in 2003.

Fiscal spending expanded in the first half of the year, however; in particular, there was a 13% real rise in current expenditure associated with the electoral cycle. During the second half, an effort was made to counter this trend and cut the public-sector deficit (excluding privatization revenue), with a goal of 2.3% for 2000. On 15 August, emergency decrees were issued to cut public spending by 0.4% of GDP and to boost revenues. The cuts were centred on investment spending, although steps were also taken to control current spending. The special solidarity tax was kept in place for one more year, and at the same time some tax subsidies for investment were eliminated, while other specific taxes were raised.

The central Government's current income amounted to 14.6% of GDP as an annual average, while outlays fell to 17.5% of GDP, the net result of a slight increase in current spending and a decline in capital spending (see table 1). The primary balance was negative for the second straight year, and the financial public sector posted an overall deficit of 3% of GDP.

A total of US$2.2 billion was needed to finance the deficit and make payments on the debt, and it was obtained primarily through external borrowing (60% of the total) and domestic financing (23%, in particular by running down net public-sector deposits in the financial sector), with the remainder coming from the privatization fund.

In the new political environment that emerged in late 2000, the transition authorities negotiated a stand-by agreement with the International Monetary Fund (IMF) in which the target for the non-financial public sector (NFPS) deficit was set at 1.5% for 2001, and spending was frozen at the level recorded in the fourth quarter of 2000.

(b) Monetary and credit policy

The general principles of monetary policy were maintained, which meant reducing and controlling inflation, and for that purpose a monetary aggregate target was set. As underlying inflationary pressure was easing considerably, the Central Bank initially tried to

Table 1
PERU: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	-0.4	4.8	12.8	8.6	2.5	6.7	-0.5	0.9	3.1
Per capita gross domestic product	-2.2	3.0	10.9	6.7	0.7	4.9	-2.3	-0.8	1.4
Gross domestic product, by sector									
Goods	-3.0	7.5	18.0	7.7	2.0	7.3	-0.6	2.8	4.2
Basic services	2.1	6.2	7.9	9.2	5.7	6.9	0.9	2.3	4.3
Other services	0.2	2.8	9.7	8.1	2.6	6.1	-0.9	0.5	2.7
Consumption	0.0	3.4	9.7	9.5	3.2	4.7	-0.5	0.1	4.0
General government	2.8	3.1	8.7	8.5	4.4	7.6	2.5	3.5	5.1
Private	-0.3	3.4	9.8	9.7	3.1	4.3	-0.8	-0.4	3.9
Gross domestic investment	1.3	11.7	33.0	20.3	-4.9	14.9	-2.0	-13.5	-3.7
Exports of goods and services	4.4	3.1	19.4	5.5	8.9	13.1	5.6	7.6	7.9
Imports of goods and services	8.8	3.8	26.6	27.1	0.1	12.2	2.3	-15.2	3.6
				Percentages of GDP [c]					
Gross national income	96.2	96.0	97.1	97.4	97.9	98.9	97.5	96.0	95.3
Gross domestic investment	17.8	19.1	22.5	24.8	23.0	24.8	24.4	21.0	19.6
National saving	12.4	13.3	16.7	16.8	16.5	19.1	17.9	17.7	16.9
External saving	5.5	5.8	5.8	8.0	6.5	5.7	6.6	3.3	2.7
				Percentages					
Employment and wages									
Labour force participation rate [d]	58.8	60.8	59.7	62.4	60.3	63.3	...	...	...
Open unemployment rate [e]	9.4	9.9	8.8	8.2	8.0	9.2	8.5	9.2	8.5
Real average wage (index 1995=100) [f]	95.2	94.4	109.2	100.0	95.2	94.5	92.7	90.7	91.8
				Growth rates					
Prices (December-December)									
Consumer prices	56.7	39.5	15.4	10.2	11.8	6.5	6.0	3.8	3.8
Wholesale prices	50.5	34.1	10.5	8.8	11.4	5.0	6.5	5.5	3.8
External sector									
Terms of trade (index 1995=100) [c]	95.0	89.1	95.7	100.0	96.5	103.2	89.7	83.3	80.9
Nominal exchange rate (new soles per dollar)	1.25	1.99	2.20	2.25	2.45	2.66	2.93	3.38	3.50
Real effective exchange rate for imports (index 1995=100)	94.4	105.7	100.2	100.0	98.7	99.1	101.4	110.4	109.2
				Millions of dollars					
Balance of payments									
Current account	-2 087	-2 289	-2 550	-4 115	-3 429	-3 059	-3 634	-1 817	-1 645
Trade balance (goods and services)	-916	-1 181	-1 499	-2 928	-2 673	-2 488	-3 059	-1 216	-1 026
Exports	4 497	4 354	5 662	6 720	7 312	8 369	7 505	7 635	8 552
Imports	5 413	5 535	7 161	9 648	9 985	10 857	10 564	8 851	9 578
Capital and financial accounts [g]	1 313	2 317	3 917	3 540	4 439	5 621	2 263	1 024	1 513
Overall balance	-774	28	1 367	-575	1 010	2 562	-1 371	-793	-132
Variation in reserve assets (- indicates an increase)	-716	-657	-2 978	-929	-1 932	-1 733	1 006	775	190
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	73.8	78.8	67.2	62.3	60.6	48.6	51.7	53.8	51.1
Net interest (as a percentage of exports) [h]	32.7	34.1	28.6	24.5	16.8	11.0	13.7	14.5	12.6

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	13.5	13.6	14.6	15.2	15.7	15.9	15.7	14.5	14.6
Current expenditure	14.2	13.5	13.7	14.5	13.9	13.2	13.8	14.6	14.9
Saving	-0.7	0.1	0.9	0.7	1.8	2.7	1.9	-0.1	-0.2
Capital expenditure (net)	3.1	3.8	4.1	4.0	3.3	3.6	3.1	3.1	2.5
Financial balance	-3.8	-3.7	-3.2	-3.3	-1.5	-0.9	-1.2	-3.2	-2.7
Non-financial public sector									
Financial balance	-3.9	-3.1	-2.8	-3.1	-1.0	0.2	-0.8	-3.1	-3.2
Domestic financing	0.5	-0.4	-4.7	-1.2	-3.6	-0.7	0.0	2.4	1.2
External financing	3.2	3.0	2.4	2.5	0.8	-0.4	0.4	-0.1	1.2
Privatization revenues	0.2	0.4	5.1	1.8	3.9	0.9	0.5	0.8	0.8
				Millions of new soles					
Money and credit									
Net international reserves	3 953	6 255	13 109	15 461	23 040	21 710	22,472	26 934	26 642
Net domestic credit	3 080	5 699	4 532	7 232	8 335	15 364	18 476	19 487	21 302
To non-financial public sector	-391	-844	-5 754	-7 825	-14 709	-16 535	-18 529	-16 352	-14 132
To private sector	4 852	8 444	13 934	19 834	29 314	38 639	46 745	49 868	49 360
Money (M1)	1 620	2 399	3 792	4 678	5 523	6 590	6 623	7 468	7 397
Local-currency savings and time deposits	845	1 297	2 545	3 785	4 793	6 365	6 021	6 642	7 209
M2	2 465	3 696	6 337	8 463	10 316	12 955	12 644	14 110	14 606
Foreign-currency deposits (millions of dollars)	2 803	3 841	5 185	6 161	8 100	8 867	8 985	9 205	9 444
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	-22.6	-11.4	-1.3	-1.2	1.6	3.4	7.9	5.3
Lending rate	...	29.9	24.9	22.5	17.9	20.5	23.6	30.3	24.7
Equivalent interest rate in foreign currency[i]	...	14.9	9.9	8.7	10.0	11.4	10.7	11.7	9.8

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1979 new soles. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population; Lima metropolitan area. [f] Private-sector workers in Lima. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] Interest rate on deposits, deflated by the variation in the exchange rate.

adjust the level of market liquidity to match the expected upturn in economic activity. The initial goal for annual primary expansion was set at 8% to 10%.

Over the course of the year, new measures were taken to stimulate the economy, and in late August the Central Bank released an average of 3% of foreign currency reserves. The marginal local currency reserve also declined, from 7% to 6%. During times of pressure on the exchange rate, however, the Central Bank tried to restrict local currency liquidity by issuing certificates of deposit. The amount of these instruments outstanding climbed from 399 million soles in December 1999 to 1.36 billion soles by the end of 2000.

In the first half of 2000, primary money grew by more than 10% in comparison with the same period the previous year, but the demand for money was less than expected and the rate of expansion slowed. On average, in 2000 the monetary base expanded by 6% less than the initial target, while private credit shrank.

The December figures show an annual drop of 1% in M1, offset by an 8.5% increase in local currency near money and a 2.6% rise in foreign currency deposits (the latter represent 82% of the total). Broad money liabilities, on the other hand, were up slightly (3% in nominal terms), and for the first time in the decade liquidity ratios fell.

Table 2
PERU: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year) [b]	2.6	-2.7	0.7	-2.4	-0.4	1.2	-1.5	4.6	5.4	5.6	3.3	-1.7	-2.4
Consumer prices (12-month variation, %)	8.2	8.7	6.6	6.0	3.4	2.9	3.4	3.8	3.9	3.2	3.9	3.8	3.6
Exports (millions of dollars)	1 198	1 339	1 564	1 655	1 412	1 409	1 585	1 712	1 651	1 681	1 847	1 849	1 648
Imports (millions of dollars)	2 076	2 172	2 046	1 928	1 549	1 614	1 694	1 893	1 786	1 836	1 781	1 946	1 828
Net international reserves (millions of dollars)	10 248	10 399	10 064	9 183	8 822	8 704	8 627	8 404	8 803	8 710	8 744	8 180	8 111
Real effective exchange rate [c] (index 1995=100)	98.1	99.0	101.4	107.0	112.3	109.9	108.1	111.4	111.2	110.4	107.6	107.6	107.0
Money (M1) (change from same quarter of preceding year)	15.8	14.4	0.4	0.5	-2.7	-3.5	13.3	12.7	8.4	8.6	-0.8	-0.9	-0.2
Real interest rates (annualized, %)													
Deposit rate	2.0	1.9	3.7	6.1	8.4	9.8	7.9	5.6	5.7	5.6	4.9	5.1	4.8
Lending rate	21.4	21.6	22.8	28.6	30.7	32.7	31.4	26.5	26.5	26.0	24.0	22.2	20.8
Central government economic result (as a percentage of GDP)	0.4	0.8	-0.4	-4.7	-0.4	-2.6	-4.8	-4.4	-2.4	-2.3	-2.7	-3.1	0.2

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on local currency figures at constant 1979 prices. [c] Refers to exchange rate for imports.

This monetary liability situation was accompanied by a slight dip (-1.6%) in external assets and a 7.5% expansion of domestic credit, entirely attributable to the decline in public-sector deposits. The private component of domestic credit fell by 1%, despite the downward trend in lending interest rates over the year. Average rates for local currency loans dropped from 32.0% to 26.5% between December 1999 and the same month in 2000. Rates for foreign currency loans went down from 14.8% to 12.6%.

The inter-bank interest rate for soles fluctuated widely early in the year, both because of the structural instability of demand for the sol owing to the high degree of dollarization in the Peruvian economy, and because of the ups and downs of the currency market. The lowest rate was recorded in February (9.6%), and the highest rate in May (15.8%); in the latter month, the exchange rate exceeded the threshold of 3.50 soles to the dollar for the first time in 2000, owing to electoral uncertainties. After falling once again, it went back above that barrier in September, when the political crisis hit. On average, the real exchange rate was 1% lower over the year.

Despite the fall in average rates, the credit market became increasingly segmented, so that good credit risks received preferential rates much lower than the average for the market, with differentials of 100 basis points for local currency loans and 80 points for dollar loans. The steady deterioration in the quality of banks' asset portfolios explains this segmentation to a great extent. The ratio of non-performing loans in banks' portfolios was 9.8% in December 2000, 1.5 points higher than the figure at the end of the previous year. Most non-performing loans were for small amounts; in fact,

20% of loans for than 500,000 soles fell into this category, as contrasted with just 2% of loans for more than 10 million soles.

The banking sector is currently going through a process of consolidation, which stems from the crisis of late 1998. The process has been supported by a public programme that first ensured the liquidity of the system and then concentrated on improving the quality of banks' loan portfolios and asset structure. This financial programme was complemented by measures to restructure business debt.

In 2000, the programme to strengthen business received public-sector support amounting to US$100 million for agriculture and US$400 million for other sectors. In order to receive funding, businesses had to meet certain conditions. The programmes have not yielded the desired results, mainly due to low expectations for the short term and businesses' aversion to committing their own funds. The political turbulence of the final quarter of the year led to a run on the banks, which resulted in two weak banks being taken into administration.

The rest of the financial market was also affected by the domestic economic situation and the unfavourable assessments made by rating agencies. The stock market ended the year 34% lower than it had begun it, and pension funds suffered losses.

(c) Reform

The privatization and concession programme fell victim to the climate that prevailed in the country in 2000, and the goal of US$650 million was not met (US$380 million came in, of which US$229 million was foreign direct investment). At the same time, progress was made with concessions for new cellular telephony bands and electricity lines. Two operations are particularly noteworthy: the awarding of two segments of the Camisea Complex for drilling and transporting gas, which should attract an annual influx of US$1 billion, and the Lima Airport concession, which became official in February 2001. The concession process for five regional ports was held in abeyance pending the outcome of the 2001 election.

The new mining laws enacted in July 2000 reduced incentives for investors. The agricultural sector, in contrast, was bolstered by tax cutting measures. In the area of services, the regulatory framework governing banks and insurance companies was expanded to include private pension funds. The programme to promote transparency in macroeconomic policy management was implemented during the year, with widespread publicity about monetary and fiscal targets and periodic updating. The provisional Government made progress in keeping the citizenry apprised of government activities.

3. The main variables

External demand continued to be the most dynamic component, driving exports up by 7.9%. Domestic demand recovered (2.8%), despite a new decline in fixed investment (-3.7%). Private domestic consumption picked up again (4%), while public consumption kept expanding at a high average rate (5.1%) despite year-end adjustments. As a result, and due to the rebuilding of inventories, imports rose by 3.6% in volume, showing a partial recovery from the sharp drop of 15% posted in 1999. The investment ratio fell to 22%, measured in current prices.

As for supply, the primary sectors were once again the driving force in production, with an expansion of 5%. This figure masks a gradual loss of momentum, however, since the growth rate of the previous year was 13%.

Aside from weather factors and the implementation of a planting support programme, which yielded excellent results in the first six months of 2000, the agricultural sector is reaping the benefits of investments made in a number of areas, including coffee, sugar cane and milk production. Fishing was up 8%, back to a more normal growth level after the extraordinary 29% recorded in 1999 as the industry recovered from the aftermath of El Niño.

Mining activity grew by just 3.8%, as compared to 14% in 1999. This modest growth was due to the fact that some deposits are becoming depleted and the major investments of previous years have reached their production potential, while new mining projects (Altamina) are not yet in full production.

Despite the rise in the oil price, production continued to fall in this sector, a reflection of the depletion of some reserves. Natural gas production is still heavily dependent on electricity generation, and it fell in 2000 because of competition from hydroelectricity. This subsector therefore shrank by 6.5%.

Primary goods manufacturing expanded by 9%. Other branches of manufacturing began to recover in the third quarter of 1999 and continued to expand until the third quarter of 2000. Much of this growth was due to recovery –still only partial– from the low rates of activity reported in past years. Exceptions are the food and beverages industry, which has spearheaded growth in the sector in the past two years, and textile activities, which have benefited from an expansion of exports. Producers of inputs for the construction industry, on the other hand, have suffered from the continued decline of the latter, which sank 4.3%. Commerce profited from the recovery of private consumption, growing 4.6%. Other services expanded slightly (2.3%), the highest growth being in the area of telecommunications (4.3%).

(a) Prices, wages and employment

A 3.8% rise in the consumer price index (CPI) meant that inflation was unchanged from 1999, but it also reflected a consolidation of the stabilization process, since the underlying rate of inflation (excluding foods, fuels and transportation) was 3.2%, as compared to 4.6% in December 1999. The change in the wholesale price index reflects this trend (3.8% to December 2000, 5.5% in 1999).

Weak growth in domestic demand, the abundant supply of food and the relative stability of the exchange rate made it possible to keep consumer prices under control. Prices of foodstuffs, which account for nearly 60% of the CPI, remained stable (0.3%). Fuel costs, by contrast, increased 30% in 2000, pushing up the overall index once again.

Open unemployment was down to 6.5% in the fourth quarter, compared to 7.2% in the same period the previous year, owing to a fall in the participation rate (64%, as opposed to 67% in 1999), especially among women. Underemployment was about 43%.

The minimum wage was raised by 18.8% in March, to 410 soles. For 2000 as a whole, this increase resulted in a real annual rise of 11%. Average wages followed a trend similar to that of inflation, while the purchasing power of wages improved by 4.2%.

(b) The external sector

Revenues from goods exports climbed faster than import spending (15% and 9%, respectively), thereby narrowing the goods trade gap to just over US$330 million. The terms of trade for goods continued to move in a negative direction (-1.7%), but to a lesser extent than in the preceding two years, when they fell 20%. The services deficit expanded slightly, despite a good performance for tourism.

Traditional exports rose by 16% in 2000, and non-traditional ones by 9%. Among the former, which represent nearly 70% of the total, most important are mining products, which posted a gain of 7%, and fishing products, which continued to recover from the crisis of 1998, rising by close to 60% in 2000. In the area of non-traditional goods, the boom in textiles continued (up 22%), making this activity one of the most dynamic in the medium term.

The rise in fuel prices explains much of the 9% increase in imports in 2000. Aside from this group of products, whose total value increased by 70%, and other inputs, which grew by 8%, external purchases remained flat, as in the case of consumer products, or even shrank, as in the case of capital goods.

Growth in net payments for factor services was partially offset by an upsurge in unilateral transfers, as a result of which the current-account deficit, in keeping with the improved balance of trade, fell to US$1.645 billion (3% of GDP), the lowest figure since 1992.

Long-term capital inflows were not as great as in previous years. In the private sector, the total fell by 45% to US$1.126 billion, including US$556 million in direct investment. Financial flows to the public sector were US$277 million. Net outflows of short-term bank capital, which had reached US$1.67 billion in 1999, plunged to US$329 million in 2000. These outflows were more than offset by unregistered short-term inflows (US$439 million). Altogether, capital inflows were not enough to close the current-account deficit, so international reserves once again declined, by US$190 million. By the end of the year, they totalled US$8.18 billion, 144% of the sum of the current-account deficit and the short-term debt.

Medium- and long-term external debt totalled US$23.708 billion at the end of 2000, of which US$19.205 billion was NFPS debt. Short-term debt has been declining since 1997, and in 2000 it was just US$4.037 billion. In particular, the short-term external debt of commercial banks was cut by close to 50%, after peaking at US$3.32 billion in 1997.

DOMINICAN REPUBLIC

1. General trends

The economy of the Dominican Republic maintained the strong growth it had been displaying since 1996. Stimulated mainly by private consumption and by exports, the country's GDP grew by 7.8%, a rate close to the average for the previous five years. The most serious threat to economic performance was the rise in international oil prices, a problem of external origin that affected tax receipts, external trade and the inflation rate. Inflation almost doubled to 9% after the increase in domestic fuel prices ordered by the new Administration that took office in August.

COMBINED WITH LOWER public expenditure, this measure enabled the government to achieve a budget surplus (1% of GDP). Previously, in the first half of the year, the fall in revenue from the oil price differential tax had been offset by financing from the central bank and the Banco de Reservas. The monetary authorities had to take restrictive measures to counteract the resultant effects on liquidity, and international reserves were run down to meet the oil bill. From October onward these measures were relaxed in order to avoid a slowdown in economic activity.

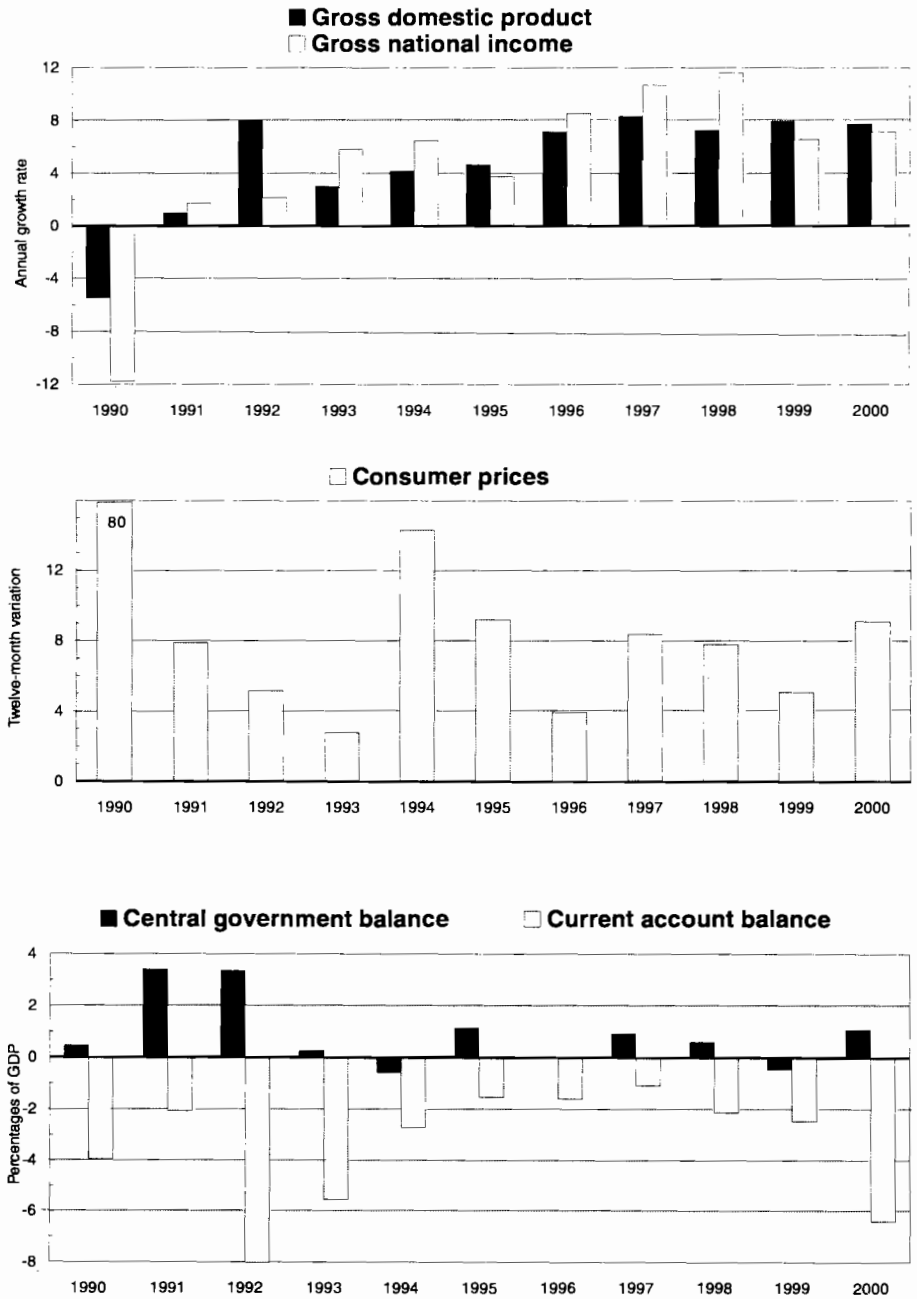
The external sector ended the year with a current-account deficit of more than 5% of GDP, largely as a result of oil purchases, which accounted for 23% of total imports. The deficit was no larger than this because exports increased by 12%, driven by the good performance of the customs-free zones, which were helped by the expansion of the benefits of the Caribbean Basin Initiative (CBI) that came into force in October. There was a balance-of-payments deficit of US$48 million.

2. Economic policy

Economic policy went through three phases. In the first seven months of the year, prior to the rise in international oil prices, the government tolerated a fiscal deficit of about 4% of GDP in order to maintain spending levels and hold down domestic fuel prices, thereby increasing its debt with the central bank. The consequent money supply growth was offset by restrictive monetary measures.

In the second stage, beginning in August, retail fuel prices were adjusted and the tax rate on fuel was increased. These measures had a positive impact on the fiscal accounts, while reducing the real income of consumers, which led to a decline in aggregate demand and helped to reduce the external gap. This tendency was reinforced by restrictive monetary policy in the form of higher interest rates.

Figure 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

At the end of the year, lastly, the authorities eased policy and greater liquidity was injected into the money market so that an undesirable slowdown in output growth could be avoided.

(a) Fiscal policy

The central government recorded a surplus of 1.1% of GDP in budgetary terms and a deficit of 0.1% in cash flow terms. These results were obtained by cutting expenditure by enough to offset a fall in tax receipts of almost one percentage point of GDP (from 14.5% in 1999 to 13.7% in 2000) caused by the increase in international fuel prices, which reduced receipts from the oil price differential tax.

Between the first half of 1999 and the first half of 2000, the share of total tax revenue provided by these receipts fell from 13% to 4%. It began to increase again in August, however, thanks to the implementation of a system of fuel differentials denominated in pesos per gallon and to a simultaneous rise in differentials by fuel type. Thus, from September to December receipts averaged 426 million pesos, more than four times the amount collected in the period from February to August (91 million pesos). For other tax revenue, the pattern was similar to that of the previous year.

From 1999 to 2000, total expenditure declined from 16% to 15% of GDP, mainly owing to a fall in capital spending (from 5% to 3.6% of output) that was partly due to the reduction of subsidies for State enterprises and of funding for construction projects and agricultural plantations. Current spending continued at the previous year's level (11% of GDP), mainly because an increase in the wages and salaries component, whose share of current spending rose to 50% from 46% the previous year, offset reductions in other areas, particularly current transfers. The latter decreased because of the capitalization process undergone by State enterprises.

Interest payments on domestic debt increased from 0.08% of GDP in 1999 to 0.17% in 2000, owing in part to payment of interest accrued on bonds issued the year before. Interest was paid on 30% of domestic debt, the rest being non-interest-bearing administered debt. Despite the rise in interest payments, total outstanding domestic debt ended the year unchanged at an estimated 7.7% of GDP.

The vulnerability of the country's finances to external shocks, combined with the far from negligible size of the domestic debt, highlighted the need for tax reform. The reform that was duly enacted in December 2000 aimed to offset the lower taxes on foreign trade provided for in a new tariff reform law, which was passed at the same time with the objective of opening up the economy and bringing Dominican trade policy into line with multilateral rules. To achieve its objective, the tax reform changed the tax bands and rates applicable to the income of natural and legal persons. A monthly advance payment of 1.5% was also stipulated for current-year income, although farms were exempted from this requirement, and the goods and services transfer tax (ITBIS) was increased from 8% to 12%.

The tariff reform law simplified the structure of import duties and lowered the tariff ceiling. Its implementation is expected to reduce revenue from taxes on foreign trade by 20%.

External public debt totalled US$3.676 billion, equivalent to 18% of GDP (21% in 1999) and 41% of goods and services exports (46% in 1999). Measured in terms of goods and services exports, debt servicing charges also fell between 1999 and 2000, from 7.2% to 4.7%.

(b) Monetary policy

Monetary policy was kept tight in the first nine months of the year to contain aggregate demand growth and thus preserve exchange-rate and price stability. In the first half of the year this policy was implemented in part through a 60% reduction in international reserves from their December 1999 level. Temporary restrictions were also placed on the loan portfolios of commercial banks, which had a negative impact on bank lending growth. Lastly, treasury certificates were issued with repurchase agreements to sterilize the effects of monetizing the fiscal deficit.

In October, the new authorities eased monetary policy in order to inject liquidity into the system and stimulate economic activity. This made it possible to redeem half of the treasury certificates with repurchase agreements held by commercial banks. International reserves also began to recover, thanks in part to seasonal factors and high interest rates, which did not react to the change of course in monetary policy. Thus, by December net international reserves had returned to the level recorded at the beginning of the year (US$442 million).

Remonetization of the economy resulted in a rise in the monetary aggregates in the last quarter of 2000. Over the whole year, the monetary base grew by 15% and broad money by more than 13%. In contrast, narrow money contracted by almost 12%, as did cash and demand deposits, as high interest rates over the year (16.8% and 18.5% in real terms in the last quarters of 1999 and 2000, respectively) led to the composition of monetary liabilities in the commercial banking system shifting towards higher-yielding deposits. They also prompted banks to seek financing abroad, reinforcing a

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	8.0	3.0	4.2	4.7	7.2	8.3	7.3	8.0	7.7
Per capita gross domestic product	5.9	1.1	2.3	2.8	5.3	6.5	5.5	6.2	6.1
Gross domestic product, by sector									
Goods	10.2	0.8	5.6	3.9	7.1	8.2	6.7	9.3	6.8
Basic services	13.9	7.0	5.5	7.8	10.1	12.9	13.6	10.0	13.1
Other services	4.5	4.1	2.8	4.6	6.4	7.1	6.0	5.9	7.0
Consumption	8.0	-7.9	...	...	9.3	7.6	8.6	3.0	8.0
General government	5.7	-1.9	...	...	10.6	1.3	6.4	3.8	-1.6
Private	8.3	-8.7	...	...	9.1	8.5	8.9	2.9	9.3
Gross domestic investment	23.9	18.7	...	...	9.2	18.4	26.1	13.5	6.6
Exports of goods and services	9.8	134.9	...	...	4.4	9.0	6.5	7.2	7.2
Imports of goods and services	26.8	100.4	...	...	8.5	12.8	18.1	4.0	6.9
				Percentages of GDP [c]					
Gross national income	97.9	100.7	102.8	101.9	103.2	105.5	109.7	108.3	107.7
Gross domestic investment	25.1	26.0	24.2	21.9	21.8	23.9	29.1	30.0	29.9
National saving	13.3	21.0	21.8	20.3	20.1	22.8	26.7	27.1	22.3
External saving	11.8	5.0	2.5	1.5	1.6	1.2	2.4	2.9	7.7
Employment and wages									
Open unemployment rate	20.3	19.9	16.0	15.8	16.5	15.9	14.3	13.8	13.9
Real minimum wage (index 1995=100)	98.4	93.5	99.5	100.0	100.6	102.0	106.3	111.5	111.4
				Growth rates					
Prices (December-December)									
Consumer prices	5.2	2.8	14.3	9.2	4.0	8.4	7.8	5.1	9.1
External sector									
Terms of trade (index 1995=100) [c]	96.2	90.7	95.6	100.0	97.7	102.0	103.1	104.0	102.0
Nominal exchange rate (pesos per dollar)	12.8	12.7	13.2	13.6	13.8	14.3	15.3	16.0	16.6
Real effective exchange rate for imports (index 1995=100)	109.5	106.6	103.1	100.0	94.3	97.4	103.4	107.8	106.0
				Millions of dollars					
Balance of payments									
Current account	-708	-533	-283	-183	-213	-163	-338	-429	-1 269
Trade balance (goods and services)	-818	-730	-584	-406	-656	-720	-1 435	-1 302	-2 150
Exports	1 911	4 748	5 240	5 731	6 193	7 060	7 482	7 987	8 974
Imports	2 729	5 478	5 824	6 137	6 848	7 780	8 917	9 289	11 124
Capital and financial accounts [d]	644	35	-142	251	183	258	351	592	1 014
Overall balance	-64	-498	-425	68	-30	95	13	163	-255
Variation in reserve assets (-indicates an increase)	-64	-156	387	-131	15	-40	-98	-194	347
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	50.0	47.5	37.8	33.5	28.6	23.7	22.3	20.9	18.5
Net interest (as a percentage of exports) [e]	6.3	4.4	3.0	3.2	2.6	1.8	1.6	1.3	1.3

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	15.3	15.9	15.0	14.8	14.2	15.9	15.9	15.3	14.8
Current expenditure	6.0	8.2	7.6	7.8	8.1	10.9	11.1	11.2	11.3
Saving	9.4	7.8	7.3	7.0	6.1	4.9	4.7	4.1	3.5
Capital expenditure	6.5	8.1	8.5	6.5	6.4	4.3	4.4	5.0	3.6
Financial balance	3.4	0.3	-0.6	1.1	0.0	0.9	0.6	-0.5	1.1
Domestic financing	-2.0	1.4	1.9	-0.1	1.0	0.1	0.1	0.7	0.0
External financing	-1.4	-1.6	-1.3	-1.1	-1.0	-1.0	-0.7	-0.2	-1.1
				Growth rates					
Money and credit									
Net international reserves	53.8	45.3	-91.4	409.7	1.4	37.9	-6.7	64.0	-70.3
Net domestic credit	24.4	17.4	40.6	11.9	22.9	21.4	21.3	21.6	18.3
Money (M1)	15.3	25.1	2.3	16.9	26.5	22.2	7.8	19.7	-11.6
Local-currency savings and time deposits	38.9	30.3	15.8	19.4	13.5	23.6	32.1	25.7	28.3
M2	27.1	27.9	9.8	18.4	18.8	23.0	21.5	23.3	13.3
Dollar deposits	94.7	-71.4	-8.4	101.3	164.0	8.2	-50.6	76.9	-86.4
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	...	...	2.4	8.0	4.8	12.2	9.0	9.3
Lending rate	...	...	...	16.2	17.4	11.8	19.9	17.4	17.7
Equivalent interest rate in foreign currency[f]	...	...	...	14.2	13.9	14.5	17.5	16.1	17.6

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1970 pesos. [c] Based on constant 1995 dollars. [d] Includes errors and omissions. [e] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. From 1993 on, export figures include *maquila* exports. [f] Interest rate on deposits, deflated by the variation in the exchange rate.

process of foreign borrowing that led to an increase of over US$200 million in the foreign liabilities of commercial banks. This could increase currency risk and be an obstacle to the stated objective of lowering interest rates.

Apart from this potential source of vulnerability, which has been partially neutralized by new regulations and prudential controls, the banking sector as a whole maintained a solid liquidity position, with the ratio of liquid assets to total deposits actually rising from 29% to 33% between 1999 and 2000. Similarly, bank solvency as measured by the degree of capital adequacy was 11.4%, which is above the minimum required. Lastly, the credit risk coefficient continued to decrease. Real growth in bank lending fell from 20% to 14%.

(c) Foreign-exchange policy

From February to August, the official exchange rate remained unchanged at 16.05 pesos to the dollar. In September, a managed float strategy was adopted in order to close the gap between the official and open markets, which had shown a tendency to widen since May. Although the exchange rate moved from 16.05 to 16.53 pesos to the dollar between August and December, the currency appreciated in real terms in 2000.

The open market exchange rate remained relatively stable (rising by only 3.6%), partly thanks to the flow of international reserves from foreign currency-generating sectors and to the restrictive monetary policy applied, which reduced the absorptive capacity of the economy and raised interest rates.

(d) Structural reforms

The privatization of State firms continued during the year, with a more active role being played by the State Enterprise Reform Commission (Comisión de Reforma de la Empresa Publica). The securities market act and new banking standards for asset valuation were also approved.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	1998				1999				2000*				2001*
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	6.7	6.6	7.4	8.2	5.5	6.1	12.2	8.4	11.6	10.0	6.9	3.6	-1.5
Consumer prices (12-month variation, %)	5.3	4.6	2.9	7.8	7.7	6.4	5.3	5.1	5.7	7.3	12.7	9.1	11.1
International reserves (millions of dollars)	356	306	329	502	457	537	613	689	542	494	429	626	552
Real effective exchange rate[b] (index 1995=100)	99.6	104.4	104.3	105.3	107.8	107.9	108.9	106.4	106.7	107.3	106.3	103.6	102.7
Real interest rates (annualized, %)													
Deposit rate	8.6	13.4	15.8	11.2	10.0	9.1	8.4	8.6	10.3	10.1	7.4	9.2	6.9
Lending rate	15.6	21.5	23.9	18.5	18.2	17.5	17.4	16.8	17.8	18.2	16.4	18.5	14.9

Source: ECLAC, on the basis of official figures.
* Preliminary figures. [b] Refers to exchange rate for imports.

With regard to trade policy, the gradual process of liberalization was continued by three measures. Firstly, the provisions of the export promotion act were approved (1999). Then the trade agreement between the Dominican Republic and the Caribbean Community (Caricom), dating from August 1998, was ratified in early 2001. Lastly, tariff and tax reforms were enacted. Under the new tariff provisions, the taxes applicable to 57% of all tariff items were set at between 0% and 3%. The tax reforms, meanwhile, established a new customs valuation method based on the transaction price of goods, which will begin to be applied in July 2001.

3. The main variables

(a) Economic activity

Aggregate demand rose by more than 7%, driven mainly by private consumption and goods and services exports, which grew by more than 9% and 7%, respectively. Private consumption responded to rising incomes, whose sources were both domestic and external (remittances). Gross domestic investment grew more slowly (by less than 7% in 2000 and less than 14% in 1999) owing to the rise in interest rates, which reduced lending to the private sector. Goods and services exports were boosted by external demand and greater access to the United States market.

The rise in aggregate demand was associated with growth of 7.8% in GDP and 7% in goods and services imports, which benefited from the appreciation of the real exchange rate.

Growth in agricultural and construction activities slowed down, although it was still about 5% in both cases. In the former sector the main factors were slowdowns in forestry and fishing. Agriculture as a whole recovered thanks to technological improvements

that increased the output of some staple crops, favourable weather conditions and an increase in the growing area, and to the rehabilitation and upgrading of some plantations after the passage of Hurricane Georges.

The significant slowdown in construction industry growth was caused by high interest rates and a reduction in bank lending. Sales of the main inputs also grew more slowly as a result of this decline.

Performance in all the other sectors improved. Manufacturing grew by 9% owing to the good results achieved by customs-free zones and local industry. Sugar refineries benefited from investments made as a result of the company leasing process. As for the local non-sugar industry, its growth was helped by the good performance of agriculture, the greater availability of raw material inputs and the expansion and improved utilization of production capacity.

The output of the customs-free zones recovered significantly in relation to the previous year, partly because of higher external demand and the expectations generated by the introduction of expanded CBI benefits. This recovery also led to higher installed capacity utilization and a 4% increase in the number of people employed.

Growth in the energy sector (11%) was due to the positive performance of independent private-sector producers (46% of the total electricity supply). The expansion of transport and telecommunications activities (14%) reflected a rise in the net volume of fixed-line telephones, beepers and cellphones. Growth in the tourism sector (almost 16%) was driven by expansion and diversification of hotel provision and by investment in infrastructure. The hotel occupancy rate rose from 67% to 70% between 1999 and 2000.

(b) Prices, wages and employment

The cumulative inflation rate was 9% (almost double the 1999 level) owing to the adjustment of domestic fuel prices at the end of August; this was immediately reflected in the monthly inflation rate for September (3.85%), which accounts for over 40% of the annual rate. The items contributing most to inflation were transport (38%), miscellaneous goods and services (15%), housing (13%) and food (13%).

The increase in prices eroded the real income of workers, whose nominal wages did not rise accordingly. Nonetheless, the public-sector payroll increased by more than 4% owing to staff recruitment by some decentralized and autonomous agencies and the creation or restructuring of government institutions. Despite the buoyancy of the economy, the unemployment rate remained virtually unchanged from the previous year, at just under 14%.

(c) The external sector

The overall balance of payments was negative (US$48 million), which means that the surplus in the capital and financial account was not enough to make up for the deficit in the current account (5.2% of GDP).

Goods exports rose by 12% and imports by 18%. The dynamism of the former was due to the good export performance of the customs-free zones, whose external sales grew by 10% and accounted for 83% of the total. Other exports (i.e., those by domestic companies) grew by 20%, reflecting a significant increase in traditional exports (26%), the most successful of which was ferronickel, boosted by a rise in its international price in the first half of the year. Growth in the other traditional exports was achieved by volume, as their international prices fell (at least in the case of coffee and cocoa).

The good export performance of the customs-free zones resulted in higher capacity utilization among the companies located there (of which there were 481 at the end of 2000). Most of them (57%) were textile firms, accounting for 72.5% of total textile industry employment. The customs-free zones brought in a net US$1.708 billion in foreign exchange (14% more than in 1999).

Imports grew largely because expenditure on oil, which accounted for 23% of total external purchases, increased by 72%. Other factors were the rise in the real exchange rate and the vigour of domestic demand.

The non-factor services account surplus rose by 16% to over US$1.85 billion. This good result was due to the increase in tourist revenue (15%) and the performance of telecommunications. Unilateral transfers were almost 3% higher than in the previous year.

The capital and financial account closed with a surplus of almost US$1.6 billion, sustained by foreign direct investment (FDI) flows that were lower than in the previous year, but more in line with the long-term trend. The bulk of FDI came from the United States, Spain and Canada, which contributed 21%, 20% and 14% of the total, respectively. The main beneficiaries of these flows were the energy, tourism and trade sectors, which accounted for 74% of the total.

URUGUAY

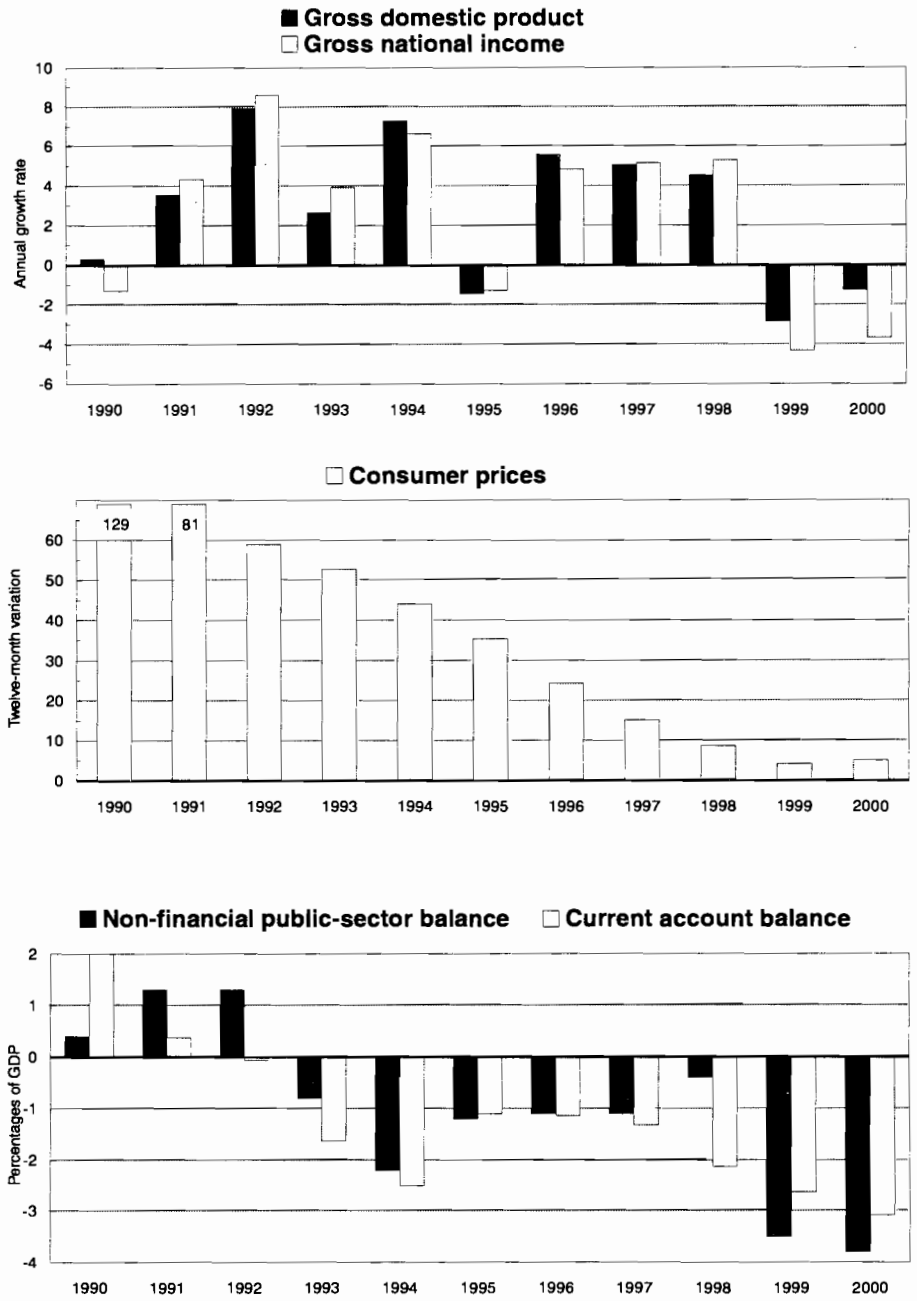
1. Recent trends

The Uruguayan economy failed to emerge from the recession that has afflicted it since mid-1998. Gross domestic product (GDP) shrank by more than 1% in 2000, after falling by 3% in 1999. This persistent recession had pushed the unemployment rate up to 14% by the end of the year, while the consolidated public-sector deficit, which is closely associated with the economic cycle, remained above 4% of GDP. A sharp rise in the international oil price counteracted the effect of an incipient upturn in exports, so that the external deficit widened to 3% of GDP while inflation rose by one percentage point to an annual rate of 5%. The country continued to finance its fiscal deficit by means of domestic and external borrowing in foreign currency, which increased the net debt burden of the public sector to over 40% of GDP by the end of 2000.

IN MID-1998, the favourable external conditions that had sustained the rapid expansion of the Uruguayan economy at an annual rate of 4.5% during the 1990s took a turn for the worse. Judging the change in the trend of external variables to be merely a temporary setback, in 1999 the public sector took a counter-cyclical approach and increased spending even though revenue was shrinking in real terms. This proved insufficient to offset the loss of external momentum, however, with the result that economic activity fell back and the fiscal deficit widened. As the deficit was financed with external resources and the currency continued to devalue at the same pace as before, inflation remained at an annual rate of around 4%. As the external environment continued to worsen, the new administration entering office in March 2000 had to act, and it did so by abandoning the counter-cyclical policy of the preceding year and cutting public spending in order to curb the deficit, which had reached 4.7% of GDP (twelve months to May 2000) owing to the combined impact of a real fall in revenue and the residual effects of the previous policy. As well as persevering with price stabilization, the Government continued with the announced policy of currency devaluation consistent with the inflation target and the financing of the fiscal deficit by means of foreign currency borrowing.

The new fiscal policy had the effect of gradually reducing the consolidated public-sector deficit, but the implementation of a fiscal tightening under adverse external conditions helped to prolong the recession. In early 2001, external conditions improved as international interest rates took a downward turn and the outlook for the Brazilian economy improved. Against this new backdrop, the financial programme for 2001 targeted GDP growth in the order of 2%; a reduction of the balance-of-payments current-account deficit to a little under 2.5% of GDP, based on an upturn in the performance of exports; and a rapid narrowing of the fiscal deficit to 2.8% of output. All this would make it possible to keep the annual rate of price rises in the range of 3.5% to 5.5%, and would continue to improve external

Figure 1
URUGUAY: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

competitiveness through real exchange rate depreciation at a rate similar to that recorded in 2000.

The economic crisis in Argentina early in the year and its reverberations in the Brazilian economy, however, fuelled the uncertainty of economic agents, so that private investment and consumption failed to show signs of an upturn during the first half of the year. After trending upward during the early months of the year, in the second quarter exports were affected by a widespread outbreak of foot-and-mouth disease, which paralysed sales of beef, and by the substantial devaluation of the Brazilian currency in April and May. Foot-and-mouth disease spread rapidly, obliging the authorities to embark upon a large-scale programme of cattle vaccination. This means that Uruguay is no longer regarded as foot-and-mouth-free without vaccination, and will thus see its beef exports restricted for a number of years. This new situation will undoubtedly dampen growth expectations.

2. Economic policy

The new Government's financial programme targeted two main objectives in 2000: price stability and a gradual improvement in external competitiveness. On the supposition that the external environment would see a substantial improvement over the year, the authorities projected output growth of around 2.5%, which would have partially offset the downturn of 1999. Under these circumstances, and with measures being taken to cut public spending, it was hoped that the fiscal deficit could be reduced considerably (to 1.8% of GDP). Had it been met, this ambitious target would have reduced domestic and external borrowing requirements and thus helped to maintain price stability. The plan was gradually to improve external competitiveness by maintaining an annual rate of currency devaluation of around 7.5%, which was higher than the projected increase in domestic prices (4% to 5% annually).

Contrary to expectations, however, the external environment continued to deteriorate. Despite economic growth in Brazil, Uruguayan sales to the Brazilian market slid once again, while exports to Argentina failed to recover the levels achieved two years earlier. The appreciation of the United States dollar against the euro eroded the competitiveness of the Uruguayan currency in the important European market, as the peso moves only slowly against the dollar. In addition, the United States Federal Reserve raised interest rates, which had the effect of increasing public spending on debt servicing, while the terms of trade again had a negative impact on national income due to the combined effect of decreasing export prices and the rising oil price. Agricultural supply was affected by weather problems that continued through the first half of the year and an outbreak of foot-and-mouth disease in the last quarter.

Early in the second half it became obvious that the proposed targets could not be met. Given that the public borrowing situation posed no threat to the investment-grade credit rating of the country's sovereign debt, the economic authorities choose to finance the extra public-sector deficit through increased domestic and external foreign currency borrowing. Although the financial programme's fiscal target was not met, therefore, inflation was kept within its projected range, and some of the currency appreciation recorded the previous year was neutralized.

(a) Fiscal policy

The recession had a considerable effect on public administration. Although spending restrictions reduced central government outlays by 3% in real terms, real revenue decreased by 4%. Public-sector enterprises turned in poorer results than in previous years, as prices for petroleum-based fuels increased by less than the world oil price, and greater use had to be made of thermal electricity generation as hydroelectric power generation was limited by the drought of the early months of the year.

The public-sector spending constraints mainly affected central government capital outlays, which decreased by 26%, and non-wage expenditure, which dropped by 11%. By contrast, real increases were recorded in both transfers to agencies in deficit and, particularly, interest payments (which rose by 14%), as both interest rates and outstanding borrowings increased. Wages in the public sector also rose, although by a very small amount. Spending on social security remained stable, as revenues and outgoings fell by similar amounts.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	7.9	2.7	7.3	-1.4	5.6	5.0	4.5	-2.8	-1.3
Per capita gross domestic product	7.2	1.9	6.5	-2.2	4.8	4.3	3.8	-3.6	-2.0
Gross domestic product, by sector									
Goods	5.5	-5.7	6.9	-0.9	5.2	1.5	4.1	-6.4	-3.3
Basic services	12.8	8.1	11.8	6.5	7.0	6.2	6.3	2.6	3.3
Other services	5.0	4.4	3.6	-2.8	4.5	5.8	4.3	1.6	-0.4
Consumption	12.3	5.1	8.3	-3.2	7.8	5.4	6.4	-1.3	-0.9
General government	1.5	0.9	4.5	0.2	5.0	2.3	4.0	0.6	-3.5
Private	14.4	5.8	8.9	-3.7	8.3	5.9	6.8	-1.5	-0.5
Gross domestic investment	14.4	9.3	12.8	4.6	-1.0	8.3	12.1	-9.8	-12.7
Exports of goods and services	9.1	8.6	15.1	-1.9	10.3	13.0	0.3	-7.4	4.0
Imports of goods and services	25.1	17.2	18.3	-3.0	11.3	13.2	7.6	-5.8	-0.9
				Percentages of GDP [c]					
Gross national income	98.1	98.5	98.2	99.2	99.0	98.8	99.8	98.7	96.7
Gross domestic investment	13.0	13.7	14.5	15.4	14.3	14.6	15.8	15.0	13.3
National saving	12.9	12.2	12.0	14.2	13.1	13.2	13.3	12.0	10.1
External saving	0.1	1.6	2.5	1.2	1.2	1.4	2.4	3.0	3.2
				Percentages					
Employment and wages									
Labour force participation rate [d]	57.4	56.6	58.1	59.1	58.2	57.7	60.5	59.3	59.6
Open unemployment rate [e]	9.0	8.3	9.2	10.3	11.9	11.5	10.1	11.3	13.6
Real average wage (index 1995=100)	97.3	102.0	102.9	100.0	100.6	100.8	102.7	104.3	102.9
				Growth rates					
Prices (December-December)									
Consumer prices	59.0	52.9	44.1	35.4	24.3	15.2	8.7	4.2	5.1
Wholesale prices	44.4	31.1	41.0	27.7	23.5	13.3	3.3	-0.3	9.5
External sector									
Terms of trade (index 1995=100) [c]	96.2	94.6	94.7	100.0	96.7	96.4	103.1	94.9	86.2
Nominal exchange rate (new pesos per dollar) annual average	3.0	4.0	5.1	6.4	8.0	9.4	10.5	11.3	12.3
Real effective exchange rate for imports (index 1995=100)	128.2	114.4	104.7	100.0	99.3	98.7	100.8	94.6	96.5
				Millions of dollars					
Balance of payments									
Current account	-9	-244	-438	-213	-233	-288	-476	-551	-618
Trade balance (goods and services)	150	-105	-237	-62	-127	-169	-336	-451	-468
Exports	2 632	2 760	3 248	3 507	3 847	4 217	4 136	3 530	3 680
Imports	2 482	2 865	3 485	3 568	3 974	4 386	4 472	3 981	4 148
Capital and financial accounts [f]	147	437	547	440	386	686	836	564	789
Overall balance	138	193	109	228	152	399	360	13	171
Variation in reserve assets (- indicates an increase)	-186	-179	-99	-218	-141	-390	-521	-13	-171
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	26.3	23.8	24.3	22.9	22.9	21.9	23.2	24.8	28.7
Net interest (as a percentage of exports)	7.1	5.3	6.2	5.0	4.0	4.0	3.4	4.4	5.1

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	17.0	17.0	17.3	17.4	17.8	19.0	19.5	19.2	19.4
Current expenditure	15.2	15.9	16.8	17.3	17.9	18.7	18.5	20.6	21.6
Saving	1.8	1.0	0.6	0.2	-0.1	0.3	1.1	-1.4	-2.3
Capital expenditure	1.5	2.0	2.5	2.1	1.7	1.9	2.2	2.4	1.8
Financial balance	0.3	-1.0	-1.9	-1.9	-1.8	-1.6	-1.2	-3.8	-4.1
				Growth rates					
Money and credit									
Net international reserves	45.8	25.5	39.2	45.0	33.5	18.5	10.2	33.8	22.8
Net domestic credit	49.4	38.9	37.4	22.7	38.9	35.9	28.3	14.0	7.5
To public sector	60.1	31.4	46.5	10.1	-5.8	-22.9	...	...	51.9
To private sector	70.2	46.8	40.1	50.2	36.2	35.0	28.7	16.9	9.3
Money (M1)	70.1	58.4	39.6	31.7	26.4	21.4	13.1	9.3	-5.6
Local-currency savings and time deposits	44.1	35.2	24.6	54.7	29.4	19.8	30.4	4.8	9.0
M2	58.3	48.8	34.0	39.8	27.5	20.8	19.9	7.4	0.5
Dollar deposits	45.7	29.5	39.2	30.4	38.6	29.6	20.8	24.7	35.3
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	-9.7	-5.5	-3.0	-0.4	-0.3	3.8	8.1	7.0
Lending rate	...	27.9	34.5	39.7	48.8	42.9	42.4	45.8	42.3
Equivalent interest rate in foreign currency [g]	...	38.8	36.3	36.9	27.7	20.6	14.9	14.2	12.0

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1983 new pesos. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population; urban areas, nationwide. [e] Percentage of the economically active population; urban areas, nationwide. [f] Includes errors and omissions. [g] Interest rate on deposits, deflated by the variation in the exchange rate.

The drive to curb spending proved insufficient to reduce the deficit as planned, since revenue –a variable that is closely linked to the economic cycle– recorded a decrease. Tax receipts from external trade saw a heavy fall of 16% in real terms, due to the contraction of imports of consumption goods and the process of reducing tariffs on goods acquired from other Mercosur countries. Although to a lesser extent, direct and indirect taxes on domestic activity also declined (by 3% in real terms).

In order to finance the public-sector deficit without placing pressure on the money supply, external debt securities were issued to the value of US$635 million, and a further US$170 million in bonds was issued on the domestic market. The first issue of US$300 million was placed on the international market in May, with a 10-year maturity and a spread of 300 basis points over United States government bonds. A second bond issue took place in September, this time in euros, for the equivalent of US$195 million, with a five-year maturity and a spread of 195 basis points over German government bonds. The third debt issue was in November, consisting of six-and-a-half-year instruments in Chilean pesos, indexed to Chilean inflation, with a spread of 100 basis points over Chilean sovereign debt.

In 2001 the administration has continued its strategy of financing the deficit by means of increased borrowing. During the first five months of the year, a total of US$400 million in bonds was issued on the international market: US$257 million in yen, with a five-year maturity and a spread of 143 basis points over Japanese government bonds, and US$150 million in 10-year bonds denominated in Chilean pesos, indexed to Chilean inflation.

(b) Exchange-rate policy

The new Government announced that it would continue to keep the currency within a band of 3% around a pre-announced dollar exchange rate which

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product[b] (change from same quarter of preceding year)	7.3	1.8	5.6	3.3	0.7	-0.2	-6.5	-4.5	0.8	-3.1	-1.0	-1.0	-1.1
Consumer prices (nationwide) 12-month variation, %)	12.4	10.3	10.1	8.7	7.2	6.1	4.1	4.2	4.5	4.8	5.4	5.1	4.7
Exports, f.o.b. (millions of dollars)	669	745	728	627	509	554	556	618	566	565	614	551	589
Imports, c.i.f. (millions of dollars)	899	926	970	1 016	792	796	841	928	897	823	833	913	805
International reserves (millions of dollars)	1 673	1 746	1 664	2 073	1 959	2 033	2 040	2 080	2 151	2 312	2 523	2 447	2 667
Real exchange rate [c] (index 1995=100)	101.0	101.1	101.0	100.3	93.5	94.1	95.7	95.0	96.4	96.0	97.6	95.8	96.6
Money (M1) (change from same quarter of preceding year)	18.6	17.1	16.5	14.4	6.3	6.7	7.6	9.2	3.5	0.5	-1.9	-3.9	0.5
Real interest rates (annualized, %)													
Deposit rate	2.9	3.7	3.8	4.7	6.5	6.9	9.2	9.8	8.6	7.4	6.0	6.0	6.1
Lending rates (non-preferential)	42.3	45.5	41.2	40.7	49.1	43.6	43.3	47.1	45.6	42.5	41.2	39.7	41.8

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Based on figures that have not been seasonally adjusted, at constant domestic prices. [c] Refers to exchange rate for imports.

would be adjusted at a rate of 7.5% a year. With this scheme in operation, the currency depreciated as planned against the dollar during 2000. Given that domestic prices increased at a slower rate, the real exchange rate –calculated on the basis of a basket of the currencies of the country's main trading partners– depreciated by over 2%. The Uruguayan peso thus only partly reversed the appreciation that had resulted from the Brazilian currency crisis and the depreciation of the euro against the dollars.

(c) Monetary and financial policy

The financial programme was directed at expanding the M1 money supply in line with output growth and inflation targets. As no change was planned in international reserves, net domestic Central Bank credit was to have a slightly expansionary effect. Contrary to expectations, however, international reserves increased by US$171 million, as a result of substantially larger public-sector borrowings in the domestic banking system and on the international market. Given that the Government and the private banking system increased their deposits with the Central Bank, the contraction of Central Bank domestic credit exceeded the expansion of international reserves. Unlike in previous years, therefore, when real balances were re-established, in 2000 the money supply shrank by 4% in nominal terms. This trend was also partly attributable to changes in the economy's system of payments, as banking services were expanded and the use of credit cards became more widespread. Time deposits in local currency increased by around 12% in real terms, but broad money (M2) contracted in real terms.

By contrast, foreign currency deposits expanded by a considerable 6% in real terms. Such deposits were made largely by non-residents, at a rate which

accelerated markedly in late 2000 and held steady during the first half of 2001, as is common when uncertainty mounts in Argentina.

Lending by the banking system to the resident private sector stagnated, largely because of a contraction in consumer credit (-7%) and agricultural credit (-9%). The fall in credit was accounted for entirely by the Banco de la República, which is an official institution, as private bank lending expanded slightly.

Banking assets and liabilities are highly dollarized in Uruguay; indeed, almost 90% of time deposits and two thirds of loans to residents are dollar-denominated. Given this situation, the most relevant interest rates are those applied to foreign currency operations, and these shadowed LIBOR very closely. Local currency rates took a downward turn, although lending rates are still high in real terms.

(d) Trade policy

In the wake of the Brazilian devaluation of early 1999, trade among the Mercosur countries saw significant changes. Firstly, Uruguay's exports to Brazil decreased considerably as a direct effect of the new bilateral price ratio, shrinking by over 40% over the last two years. Secondly, trade disputes among Mercosur members became more frequent, which also clogged the wheels of regional trade. The regional situation has been altered by Argentina's recent unilateral decision to increase the tariff on imports of consumer goods from non-member countries to 35% and abolish the tariff on extra-regional purchases of capital goods, a move which contravenes Mercosur common external tariff provisions. This comes in a period in which the possible adoption of a new regional agreement on external trade is being considered, the aim being to include all the countries of the continent (FTAA).

3. The main variables

(a) Economic activity

A slow recovery in exports (4% in real terms) was not sufficient to offset the subdued performance of the domestic market. In fact, the sharp contraction of consumer credit, falling income, the increasing unemployment rate and adverse expectations on the part of economic agents continued to act as disincentives to private consumption, which retreated slightly. The persistent recession particularly affected private investment, which fell by over 14%. Public spending cuts reduced government consumption and public investment, both by 3%. As a result, GDP decreased again, this time by over 1%. As in 1999, negative terms of trade combined with increasing interest payments to external creditors to reduce national income yet further (by 3%), making for a cumulative decline of 7% over the last two years.

Goods output fell by 3%. Agricultural output fell as, once again, did industrial activity (both by around 3%), and construction plunged by 9%. The commerce, hotels and restaurants sector also shrank significantly (by almost 5%), while communications and electricity generation continued to display an upward trend.

The fall in the international prices of major agricultural export products and the persistent drought that affected the country in the second half of 1999 and the first half of 2000 led to a reduction in the areas sown and reduced yields, particularly for rice and wheat. The drought early in the year also adversely affected the output of the cattle sector, with herds recording lower birth rates, although beef production outstripped the previous year's figure. Dairy output was hurt by problems similar to those of the meat sector, and milk production was lower than in 1999. Owing to the reduction of sheep stock as a result of falling international wool prices in previous years, the volume of wool produced continued to decrease. The international price of wool, however, has displayed an interesting upturn thus far in 2001.

Manufacturing continued to decline. In the first nine months of the year, economic activity in export segments increased by almost 4%, which was sustained

particularly by the refrigeration and automobile assembly industries. In that period, however, the rest of manufacturing (excluding petroleum refining) shrank by almost 9%. During the last quarter the level of industrial activity fell by almost 5%, this time due mainly to declining external demand. Food manufacturing was affected by grain supply problems during the early part of the year, owing to the drought, and by the halt of slaughter for export during the outbreak of foot-and-mouth disease in the fourth quarter. Construction was badly hurt by capital expenditure cuts in the public sector and by the postponement of private sector investments, given the drop in revenue and the deteriorating outlook in both Uruguay and Argentina (much resort construction in Uruguay caters to tourists from Argentina).

(b) Prices, wages and employment

Falling domestic demand and the slow rise in the exchange rate kept consumer price increases within the projected range. The increase in petroleum-based fuel prices, however, added about one percentage point to the overall consumer price index, which rose by 5% in 2000.

Owing to the recession affecting the Uruguayan economy, the rate of unemployment rose to more than two percentage points above the previous year's figure, as a drop in the employment rate coincided with an increase in the labour force participation rate. The employment rate was 1% lower than the year before, which placed the average annual rate two and a half percentage points below the 1998 figure. The labour force participation rate increased slightly and thus unemployment, which is determined by the interaction of the two variables, increased from 11.3% in 1999 to 13.6% in 2000. The rate of unemployment climbed steadily to peak at 14.4% at the beginning of the fourth quarter of 2000. At the end of the year urban unemployment was slightly over 14%. The period of joblessness (30 weeks) continued to be longer than the period covered by social security (24 weeks).

Real wages slipped by more than one percentage point in both the public and private sectors. Measurements of real household income point to an even sharper contraction, of around 3%.

(c) The external sector

The balance-of-payments current-account deficit increased by almost half a percentage point of GDP. This larger deficit appeared to be attributable to a lower rate of private-sector saving, as the public-sector deficit was similar to the previous year's.

The negative balance on goods trade increased again. Sales to Asia and member countries of the North American Free Trade Agreement (NAFTA) increased, but the value of overall goods exports posted only a slight rise (3%) after the heavy fall of the previous year (19%), as the main factors to hurt trade in 1999 –lack of competitiveness with Brazil and Europe, weak demand in Argentina and a downward trend in international prices– carried over into 2000, as did supply constraints in some major export sectors (rice and beef). The rise in the value of exports was mainly a reflection of increased shipments, as prices were slightly lower than the year before.

Another factor that contributed to widening the goods trade deficit was the steep rise in the international oil price, which increased the cost of hydrocarbon purchases by over 40%. This contrasts with a fall in imports of consumer goods (-3%) and capital goods (-13%). Imports of other intermediate goods expanded by 4%.

The net balance of the tourism sector remained unchanged, but net outward payments increased because of higher external borrowing and the rise in international interest rates. In 2000, the burden of interest payments by the public sector was equivalent to 11% of goods and services exports, which was two percentage points higher than the figure recorded two years previously.

As in previous years, the external deficit was financed by increased borrowing. Capital inflows were more than sufficient to cover the current-account deficit and international reserves therefore expanded again, this time by almost one percentage point of GDP. Net inflows of foreign capital to the public sector stood at about US$430 million, which was equivalent to over 2% of output. Capital inflows to the private sector –of which almost US$200 million went to the non-financial sector– were slightly higher. By contrast with previous years, net errors and omissions posted a negative balance, which points to the existence of unregistered imports or unrecorded outflows of private capital.

VENEZUELA

1. General trends

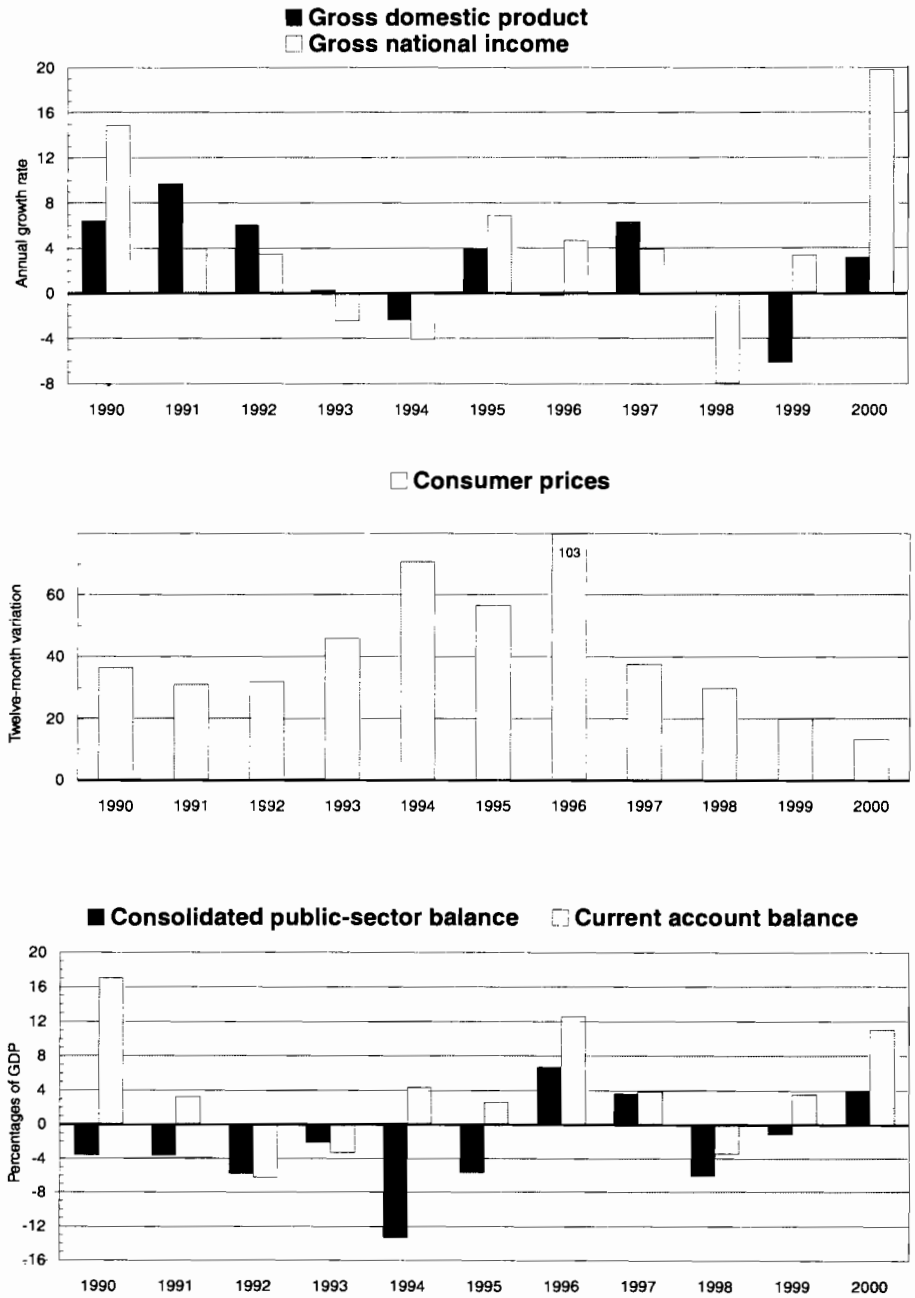
The soaring price of petroleum boosted Venezuela's gross national income by a substantial 20% or so, thanks to a nearly 50% improvement in the real terms of trade. Economic activity accelerated during the year, and a 3.2% rise in gross domestic product (GDP) helped recoup part of the more than 6% decline suffered in 1999, bringing the high unemployment rate down slightly. The recovery was based primarily on growth in the oil sector, and to a lesser extent on an expansionary fiscal policy sustained by higher revenue from oil sales. As the external situation eased, the balance-of-payments current account posted a hefty surplus and the crawling peg exchange-rate policy helped to contain pressure on domestic prices. The inflation rate dropped for the fourth year in a row, to 13.4%.

ONE CRUCIAL aspect of the economic picture was the Government's drive to channel higher national income into public spending in order to stimulate domestic production in sectors other than petroleum, in view of the persistent weakness of private spending. A significant proportion of this income was deposited in the newly created Macroeconomic Stabilization Investment Fund (FIEM). On the other hand, private spending suffered the adverse effects of the high cost of consumer credit, the uncertainty caused by a prolonged election timetable (which culminated early in the second half of the year), and the institutional and legal reforms undertaken when the new constitution of the Bolivarian Republic was approved in December 1999.

Expectations for the economy were tied to key issues that have yet to be resolved, particularly with respect to property rights, the labour market and the new social security system announced by the previous administration. This climate, together with the structural dependence of public spending on oil prices, prompted a considerable outflow of capital. This was more than offset, however, by the surplus in current operations.

The subsequent decline in oil prices in 2001 reduced the State's ability to stimulate the economy. In the absence of a more decisive recovery in private demand, GDP growth softened in the first quarter to an estimated 3.5%, while inflation continued to trend downward, reaching a year-on-year rate of less than 13% by the end of June. Economic growth in 2001 could be close to the 3.5% figure, given the limits imposed on oil production by OPEC, which ordered two supply cuts in the first quarter of the year.

Figure 1
VENEZUELA: MAIN ECONOMIC INDICATORS



Source: ECLAC, on the basis of official figures.

2. Macroeconomic policy

Macroeconomic policy had a twofold objective: to bring the economy back to health after the steep recession of 1999, and to keep inflation on a downward path. Economic recovery was based primarily on an expansionary fiscal policy, accompanied by a monetary policy which, when the bonds issued by the Central Bank of Venezuela matured during the first half of the year, opened up the possibility of government bond issues. The monetary authorities allowed the expansion of revenues of external origin to translate into greater domestic liquidity, while continuing to rely on exchange-rate policy as the tool for controlling inflation. That these policies could be implemented was essentially due to the strength of the external sector.

(a) Fiscal policy

Thanks to the surpluses generated by the State-owned Petróleos de Venezuela, S.A. (PDVSA), equivalent to over 18% of GDP, the public sector's total revenues swelled by more than seven percentage points of GDP. This enabled the authorities to expand public spending by some two percentage points and to turn the previous year's deficit of more than 1% of GDP into a surplus of over 4%. Part of this surplus was earmarked for the FIEM, whose holdings climbed to US$ 4.373 billion (equivalent to 3.6% of GDP).

The extra spending was mainly carried out by the central Government, whose outgoings recovered from the falls of the previous two years to climb to over 21% of GDP, a level similar to the averages of the 1990s. Current spending accounted for most of the increase, principally in the form of a 20% rise in wages and pensions decreed on 1 May, which translated into higher transfers to administrative entities and social security.

The central Government's accounts closed with a deficit equivalent to 1.7% of GDP, less than the percentages of the preceding two years because of higher revenues. The growth in revenues was due entirely to petroleum, as all the main components of non-petroleum revenue declined significantly as a share of GDP. The recent weakness of the economy was largely to blame for this decline, since it eroded the income tax base. Other factors were a one percentage point reduction in the rate of value added tax in August, and the exemption from this tax awarded to designated free ports and free trade zones. This development reinforced the public sector's dependence on oil revenues, which came to represent more than half of total income.

The Government's financing needs were mainly met through domestic borrowing (in the form of national public debt bonds, most of which were issued early in the year), although this was much more modest than in the previous year (2.3% of GDP, as opposed to 3.4%). Consequently, the domestic public debt rose as a share of GDP for the second consecutive year, to more than 8%. Moreover, the Government turned to the foreign capital markets for the first time since 1998, issuing five-year bonds for the sum of 500 million euros. The external debt continued to shrink as a proportion of GDP, however, falling to about 20% by the end of the year (after peaking at around 60% in 1994).

(b) Monetary policy

The public sector's surplus resulted in a large increase in its deposits in the Central Bank of Venezuela (BCV). In addition, during the second quarter when the election process was under way, PDVSA transferred a large part of its private-sector bank deposits to BCV, which drained liquidity from the financial system and counterbalanced pressure on the bolívar. For the year as a whole, however, the shrinkage of the monetary base resulting from the increase in deposits in BCV only partially offset the expansion caused by the increase in international reserves, and above all by the retirement of the monetary stabilization bonds previously issued by BCV.

The retirement of these bonds in the middle of the year meant that in the second half, sales of securities (national public debt bonds and treasury bills) were designed not to influence the money market but to finance the central Government. National public debt bonds were issued with a view to regulating short-term liquidity by means of repo operations with private banks.

The 18% growth in the monetary base that took place over the year as a whole was concentrated in the last two months. A resurgence in the demand for money and in bank lending translated into a sizeable increase (41% over the year) in demand deposits, revealing active creation of secondary money which boosted liquidity (M1) by 31%.

Table 1
VENEZUELA: MAIN ECONOMIC INDICATORS

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Annual growth rates [b]					
Growth and investment									
Gross domestic product	6.1	0.3	-2.3	4.0	-0.2	6.4	0.2	-6.1	3.2
Per capita gross domestic product	3.6	-2.0	-4.5	1.7	-2.3	4.2	-1.8	-7.9	1.2
Gross domestic product, by sector									
Goods	6.0	2.1	-1.4	4.9	2.3	8.0	-0.7	-8.5	2.6
Basic services	5.1	1.4	-2.2	3.1	1.6	7.9	4.7	1.5	7.5
Other services	5.5	-1.7	-2.7	0.9	-3.9	2.0	-0.1	-3.8	2.5
Consumption	6.9	-0.7	-4.7	1.2	-4.9	5.0	0.1	-3.2	4.8
General government	-0.2	-5.2	-5.9	2.6	-7.6	4.2	1.4	3.0	5.6
Private	8.3	0.1	-4.5	0.9	-4.4	5.1	-0.1	-4.3	4.6
Gross domestic investment	38.2	-18.7	-29.3	36.5	-11.0	34.0	1.4	-15.1	10.0
Exports of goods and services	-2.0	12.0	8.1	6.3	7.8	9.4	4.2	-10.8	5.8
Imports of goods and services	26.2	-6.5	-18.5	23.9	-11.2	33.9	9.4	-14.6	19.5
				Percentages of GDP [c]					
Gross national income	98.9	96.9	96.6	97.4	102.4	99.1	90.5	99.3	114.7
Gross domestic investment	20.8	21.4	22.6	21.0	21.5	23.4	24.1	22.3	22.2
National saving	17.3	15.9	17.9	21.0	28.8	25.1	15.8	23.8	38.3
External saving	6.1	3.1	-4.1	-2.8	-12.9	-4.8	4.5	-5.5	-18.9
				Percentages					
Employment and wages									
Labour force participation rate [d]	59.6	58.2	59.1	61.6	62.2	63.8	65.1	66.3	64.7
Open unemployment rate [e]	7.8	6.6	8.7	10.3	11.8	11.4	11.3	14.9	14.0
Real average wage (index 1995=100) [f]	136.5	124.4	104.8	100.0	76.7	96.3	101.5	96.8	90.5
				Growth rates					
Prices (December-December)									
Consumer prices	31.9	45.9	70.8	56.6	103.2	37.6	29.9	20.1	13.4
Wholesale prices	26.0	47.4	89.5	43.6	105.8	17.3	23.3	13.6	15.8
External sector									
Terms of trade (index 1995=100) [c]	108.0	100.9	100.0	100.0	115.6	110.8	79.9	107.0	157.4
Nominal exchange rate (bolívares per dollar)	68	91	149	177	417	489	548	606	691
Real effective exchange rate for imports (index 1995 =100)	125.2	121.5	126.4	100.0	119.4	92.5	82.0	73.3	71.6
				Millions of dollars					
Balance of payments									
Current account	-3 749	-1 993	2 541	2 014	8 914	3 467	-3 253	3 689	13 350
Trade balance (goods and services)	-1 629	90	4 520	3 829	10 501	6 019	-1 214	5 137	14 656
Exports	15 514	16 119	17 679	20 753	25 280	25 192	19 037	22 122	35 239
Imports	17 143	16 029	13 159	16 924	14 779	19 173	20 251	16 985	20 583
Capital and financial accounts [g]	2 699	2 262	-3 901	-3 400	-2 387	63	338	-2 640	-7 544
Overall balance	-1 050	269	-1 360	-1 386	6 527	3 530	-2 915	1 049	5 806
Variation in reserve assets (- indicates an increase)	845	144	1 173	1 910	-6 274	-2 624	3 380	-593	-5 301
				Percentages					
External debt									
Gross debt (as a percentage of GDP)	63.6	68.0	70.2	48.5	48.4	35.3	31.6	31.6	26.2
Net interest (as a percentage of exports) [h]	9.2	9.2	9.4	8.4	5.6	6.5	5.7	4.4	0.8

Table 1 (concluded)

	1992	1993	1994	1995	1996	1997	1998	1999	2000[a]
				Percentages of GDP					
Central government									
Current income	17.2	16.5	17.1	15.7	19.2	23.0	16.4	16.6	19.6
Current expenditure	16.0	14.7	17.5	15.7	15.1	17.2	16.5	16.0	17.7
Saving	1.2	1.8	-0.3	0.0	4.1	5.8	-0.1	0.6	1.9
Capital expenditure (net)	2.9	2.8	2.4	2.8	2.1	3.0	3.3	2.8	2.8
Net loans granted	2.2	1.9	4.6	1.4	1.4	0.9	0.7	0.3	0.8
Financial balance	-3.8	-2.9	-7.2	-4.3	0.6	1.9	-4.1	-2.6	-1.7
				Billions of bolívares					
Money and credit									
Net international reserves	825	1 013	1 419	1 964	6 035	8 260	8 209	10 062	11 591
Domestic credit[i]	1 401	1 705	3 004	4 905	5 590	7 839	9 431	10 371	11 823
To public sector	291	484	1 869	3 277	2 836	1 668	2 373	2 116	1 362
To private sector	1 110	1 221	1 135	1 628	2 754	6 171	7 058	8 255	10 461
Money (M1)	396	438	1 007	1 340	2 523	4 633	4 938	6 096	8 016
Local-currency savings and time deposits	925	1 223	1 588	2 196	2 971	4 323	5 684	6 645	8 269
M2	1 321	1 661	2 596	3 536	5 494	8 956	10 622	12 741	16 285
				Annual rates					
Real interest rates (annualized, %)									
Deposit rate	...	12.1	-11.1	-22.1	-35.3	-24.4	0.2	-2.7	-1.3
Lending rate	...	17.1	-1.7	-13.1	-29.1	-19.4	6.8	6.0	6.9
Equivalent interest rate in foreign currency[j]	...	53.9	35.6	14.9	18.0	15.6	36.0	20.4	14.8

Source: ECLAC, on the basis of official figures.

[a] Preliminary figures. [b] Based on constant 1984 bolívares. [c] Based on constant 1995 dollars. [d] Percentage of the working-age population. [e] Percentage of the economically active population. [f] As of June 1992, includes food and transport allowances. [g] Includes errors and omissions. [h] Refers to net interest as shown on the balance of payments, divided by exports of goods and services. [i] In addition to loans to the public and private sectors, includes the net amount of "Other accounts". [j] Interest rate on deposits, deflated by the variation in the exchange rate.

Increased liquidity allowed nominal interest rates to continue their downward trend in the context of falling inflation. The monthly average lending rate went down by more than six percentage points to just under 22% annually. The almost four point drop in borrowing rates brought them down to 13.5%. Thus, the wide spread between the cost and yield of money was narrowed.

In real terms, however, interest rates did not fall, and deposit rates remained negative until the last quarter. Furthermore, the nominal averages cited here are not representative of all credit transactions. Some lending rates, especially for consumer loans, remained very high, while saving accounts yielded annual rates averaging just 3.35%, less than half the figure for the previous year and well below the rise in prices. As a result, the growth of near money was limited, so the broad money supply (M2) grew somewhat less (28%) than M1. The wide gaps between the different rates reflected the high costs of banking reform, which also explain why, despite the expansion of credit, the level of financial intermediation shrank while banks' investments in securities increased.

(c) Exchange-rate policy

The bolívar stayed at all times within the exchange-rate band of 7.5% around the central rate set by BCV. The strength of the national currency, backed by substantial petroleum revenues, was reflected in the fact that it remained below this central rate which, expressed in bolívares per United States dollar, was devalued at a rate of 1.28% a month. Thus, the nominal value of the bolívar declined less than 8% during the year, and the currency once again appreciated in real terms and helped to anchor domestic prices.

This function of exchange-rate policy was reaffirmed on 1 January 2001, when BCV cut the devaluation rate to 7% a year, in keeping with the new inflation target, while the central parity was reduced to

Table 2
VENEZUELA: MAIN QUARTERLY INDICATORS

	1998				1999				2000[a]				2001[a]
	I	II	III	IV	I	II	III	IV	I	II	III	IV	I
Gross domestic product (change from same quarter of preceding year)	9.7	2.0	-5.1	-4.7	-8.5	-7.4	-4.3	-4.1	1.0	2.7	2.9	6.1	3.5
Consumer prices (12-month variation, %)	38.2	39.1	34.4	29.9	27.6	23.4	21.2	20.1	17.6	16.5	16.0	13.4	12.5
International reserves (millions of dollars)	15 796	15 499	13 006	14 849	13 442	14 357	13 989	15 379	16 125	17 371	19 443	20 471	20 901
Real effective exchange rate[b] (index 1995=100)	85.2	81.9	82.2	78.8	74.0	73.3	73.0	73.0	72.9	72.5	71.5	69.7	69.6
M1 (change from same quarter of preceding year)	69.1	39.0	18.8	6.6	-1.6	3.1	10.4	23.4	32.7	29.9	30.4	31.5	32.1
Real interest rates (annualized, %)													
Deposit rate	-10.5	-4.7	9.2	6.6	0.9	-2.1	-6.7	-3.1	-2.0	-1.5	-1.2	-0.5	-0.9
Lending rate	-4.2	0.3	19.8	11.3	6.5	4.7	5.9	6.9	7.9	6.6	6.8	6.4	7.9
Equivalent interest rate in foreign currency	22.7	32.6	48.4	40.2	30.4	21.2	13.8	16.3	15.8	15.4	14.3	13.6	10.9

Source: ECLAC, on the basis of official figures.
[a] Preliminary figures. [b] Refers to exchange rate for imports.

700 bolívares to the dollar. This level was the lower limit of the previous band and was the rate at which the currency actually traded on the last day of December 2000.

(d) Structural reform

During the year, the many bills required to apply the principles set forth in the new constitution of December 1999 began to be drafted. The most noteworthy development in this regard was the passing of the constitutional law on public-sector financial administration. In addition to regulating the functioning of State financial institutions, the law establishes important principles that will have to be given substance in regulations, including the principles of multi-year budgeting and macroeconomic coordination between the Government and BCV. Both principles are enshrined in the constitution, as is the principle of BCV independence, the subject of a bill now being drafted. The idea is for macroeconomic coordination to lead to an annual policy agreement between the Finance Ministry and BCV in which targets for growth, the external balance and inflation will be set and then submitted to the National Assembly.

In November 2000 the monopoly of the already privatized Compañía Anónima Nacional de Teléfonos de Venezuela (CANTV) came to an end. Opening up the telecommunications sector to competition paved the way for a considerable increase in foreign investment in this area.

3. The main variables

The expansionary policy made possible by high oil revenues brought the economy out of recession without interrupting the downward trend in inflation, in a context of favourable external conditions. The recovery was nevertheless slow, given the unenthusiastic response of private investors to the stimuli provided by public-sector demand, and the limits imposed on oil production by OPEC's quota policy. These circumstances, together with lagging public investment, hampered the creation of new jobs. Behind these results, however, there is evidence of a gradual improvement in the situation over the course of the year.

(a) Economic activity

The public sector's consumption expenditure, primarily in the first half of the year, coupled with investment spending in the second half after the delays in the public works programme had been overcome, gave rise to a gradual recovery in aggregate domestic demand. Total consumption grew by about 5%, although the private component, which represents more than half of GDP, was held back by high interest rates and rose by somewhat less than this.

Investment, in contrast, hardly improved at all. This is especially true of private investment, which gained less than 2% and was concentrated in just a few sectors such as telecommunications and petroleum. Thus, total investment amounted to a mere 13.5% of GDP. This was the third straight year in which investment had fallen as a percentage of output, and the decline is a long-term one that accelerated in the mid-1980s when investment fell to below 20% of GDP, a level that has never been recovered. Whereas in the 1970s the average was 31%, it dropped to 21% in the 1980s and a mere 15% in the 1990s. The level of public investment remained above that of private investment, another characteristic of this past decade.

Exports grew by less than 6% in real terms, although the income they generated provided a stimulus to public spending. Output of oil, the main export item, dipped slightly in the first quarter and then began to climb as a result of supply increases agreed upon by OPEC. Oil production thus averaged about 3.2 million barrels a day in 2000, a slight increase on the 3.1 million recorded in 1999.

The nearly 6% boost in aggregate demand translated into a nearly 20% expansion of imports, and a smaller increase in GDP (3.2%). Consequently, per capita GDP rose by just over 1%, although it still stood at the second-lowest level in the decade and more than 6% below the average for the 1990s.

GDP growth picked up throughout the year, as is shown by the successive quarterly figures of 1%, 2.7%, 2.9% and 6.1%. Over the year as a whole, the oil sector grew more quickly (3.4%) than the rest of the economy (2.7%), where the main beneficiaries of the stimulus provided by domestic demand were commerce, which expanded by more than 5%, and the transportation, warehousing and communications subsector, whose growth of over 9% also reflected the introduction of competition into the telecommunications sector. Agricultural production, which accounts for a small fraction of GDP, gained just over 2% on the previous year's total. The manufacturing sector expanded at a faster rate (3.6%), but growth was concentrated in just a few branches: steel products and motor vehicles, and vehicle tyres. Production fell in other manufacturing categories, even though in many cases exports rose, something that highlights the concentration and sluggishness of domestic demand.

The worst performance was delivered by the construction sector, the only one that shrank (down 5%). Its performance improved over the year, however, and in the third quarter it managed to emerge from the recession that had begun in the third quarter of 1998 and reached its greatest intensity in 1999.

(b) Prices, wages and employment

The moderate rate of the bolívar's nominal depreciation kept import prices from rising excessively and dampened inflation which, as measured by the consumer price index (CPI), stood at an annual 13.4% at the end of 2000, the lowest figure in 14 years. This was the fourth straight year of declining inflation after the three-digit rate (103%) seen in 1996.

The rise in tradable goods prices and producer prices (which exclude services) was substantially lower. Prices of domestically-produced goods rose more strongly as a result of the increase in domestic demand, even though price pressures were attenuated by low levels of installed capacity utilization and a major shift in spending towards

cheaper imports. The largest price rises were in the area of services, mainly communications, housing rentals and services, and educational services, all of which gained some 20%, as did prices in the health sector. Inflation continued to trend downward in the first half of 2001, by the end of which the year-on-year rise in the CPI was 12.5%.

On average, wages rose more than 8% in nominal terms, but inflation eroded their purchasing power for the second year in a row, this time by nearly 7%. Public-sector employees were the exception, as they saw their nominal average earnings rise by about 20%.

Despite this situation, job creation took a while to respond to the economic recovery, and was concentrated in the latter months of the year. By the end of the year, there had been net growth of about 450,000 jobs. Most of them were in the formal private sector of the economy, so that the share of informal employment in the total fell, although it was still over 53% at year's end. Net hiring took place in every sector except agriculture, where about 380,000 jobs were lost. Services accounted for the largest portion of new jobs, especially community, social and personal services.

This development meant that the high rate of unemployment came down, from an average of 14.6% in the first half of the year to 13.2% in the second half. The monthly rate, which fluctuates greatly because of seasonal influences, fell to 10.2% in December, slightly below the rate recorded one year earlier. The jobless rate quickly rose again to stand at 14.2% in February 2001, but this was still lower than the figure for February 2000.

(c) The external sector

The external accounts were dominated by the influx of foreign exchange from oil sales, which created the conditions for a large current-account surplus of US$ 13.35 billion, equivalent to 11% of GDP. As a result, it became possible to finance a larger deficit in capital operations and still end the year with a surplus of US$ 5.8 billion.

Oil exports soared to a record high of over US$ 28.7 billion, primarily due to the rise in prices from an average of US$ 16 per barrel in 1999 to nearly US$ 26 per barrel in 2000. The average number of barrels exported per day rose from 2.78 million to 2.82 million. Other external sales partially recovered from the steep slide of the previous year, thanks to the aggregate effect that the recovery of external markets, particularly Colombia's, had on all the main export categories. The total value of merchandise exports exceeded US$ 34 billion, reflecting a gain of more than 10% in the volume of exports and nearly 50% in their average unit value.

Imports of goods, helped by the real appreciation of the bolívar, also recovered strongly and exceeded US$ 16 billion, 22% more than in 1999. This development was entirely attributable to increased volume. Purchases of consumption goods, raw materials and intermediate goods all rose. The only imports to lose ground were capital goods (with the exception of transport equipment), which was consistent with the poor performance of investment.

The financial balance and the errors and omissions account closed the year with a deficit of over US$ 7.5 billion, due mainly to payments on the external debt and outflows of private capital, the latter especially in the first half of the year. The external debt shrank by about US$ 1 billion during the year, to just over US$ 31.5 billion. This was due to the reduction of public-sector debt, which is 78% of the total, as private-sector debt actually increased. Foreign direct investment, although substantial (more than US$ 4 billion), was not enough to offset outflows of other kinds of capital. By the end of December, BCV held international reserves totalling about US$ 16 billion, equivalent to three quarters' worth of imports. The nearly US$ 4.6 billion accumulated in the FIEM should be added to this figure.

Third part

Caribbean countries

GENERAL TRENDS AND OUTLOOK

Member countries of the Organization of Eastern Caribbean States (OECS)[1]

The economic performance of the countries belonging to the Organization of Eastern Caribbean States was varied in 2000, as they reacted differently to the external stimuli of globalization, adverse prices trends in main export crops and a slump in tourist arrivals that was largely due to a preference for cheaper destinations. In 2000 real growth ranged from a decline of 1.9% in Montserrat to a gain of 7.5% in Grenada.

Real GDP growth was lower than the figure for 1999 and marked a levelling off in economic activity. Sectoral performances also varied: while tourism flagged in Anguilla, Antigua and Barbuda, Dominica, Grenada, and Saint Kitts and Nevis, the sector improved its output in Montserrat, Saint Lucia, and Saint Vincent and the Grenadines. Real output in construction slipped in Anguilla, despite the fact that renovation and rehabilitation activity was stepped after Hurricane Lenny struck in November 1999. This downturn was associated with the completion of a major hotel on the island in 1999.

1 Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

Table 1
OECS COUNTRIES: MAIN STATISTICAL INDICATORS

	Anguilla		Antigua and Barbuda		Dominica		Grenada		Montserrat		Saint Kitts and Nevis		Saint Lucia		Saint Vincent and the Grenadines	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
Real GDP growth rate (%)	8.7	-0.7	4.2	3.1	1.6	0.2	7.5	6.4	-12.8	-1.9	3.7	7.5	3.5	0.7	4.2	2.1
Inflation rate (%)	2.2	6.5	1.1	0.6	0.0	1.1	1.0	3.5	4.6	0.5	3.4	2.1	6.1	0.2	1.0	0.2
Inflation rate (%) period average	...	...	...	...	...	...	...	...	...	...	...	...	3.5	3.6	-1.8	1.4
Central government current account balance (in millions of EC dollars)			-41.5	-56.7		11.5	42.7	66.5	-31.2	-22.1	-8.8	-39.5	120.6	125.7	30.8	24.1
Central government current account																
Balance as a percentage of nominal GDP			-2.8	-3.6	-0.8	-1.6	5.1	7.4	-38.9	-29.1	-1.3	-5.2	7.9	8.1	4.1	3.1
Current account (balance of payments)			-168.5	-187.6	-111.0	-174.7	-82.9	-174.7	-19.1	-24.2	-188.7	-280.8	-229.3	-201.4	-156.6	-59.8
Balance-of-payments current account as a percentage of GDP			-2.4	-3.1	-18.2	-28.5	-9.9	-19.3	-23.8	-31.8	-27.2	-36.8	-15.1	-12.9	-20.9	-7.8
Nominal GDP at factor cost (in millions of EC dollars)			1 498.2	1 561.7	609.7	613.9	834.0	904.6	80.3	76.0	693.3	763.0	1 518.2	1 560.1	749.1	766.6

Source: ECLAC, based on official data from the Eastern Caribbean Central Bank.

Rates of inflation ranged from 0.2% in Saint Lucia and Saint Vincent and the Grenadines to 6.5% in Anguilla, where the rate was partly a reflection of the direct transitivity of inflation imported from trading partners.

Other Caribbean countries[2]

The larger countries such as Barbados, Jamaica, Suriname, and Trinidad and Tobago, which have more diversified production structures, were able to react to developments in the international economy. With the exception of Suriname, all these countries recorded real GDP growth. Inflation rates were well under 5%, except in Jamaica, which recorded a rate of about 6%, and Suriname, where it was over 80%.

In **Bahamas**, policy was directed at containing inflation and creating favourable credit conditions, which helped to boost customer confidence and created a positive environment for investment and employment.

Although national accounts figures were not available, the economy continued to perform positively in 2000. The construction sector saw output stagnate in 2000 as a number of projects in the tourism sector came to an end. A mild increase in inflation was observed as the retail price index moved from a growth rate of 1.3% in 1999 to 1.6% in 2000.

2 Bahamas, Barbados, Belice, Jamaica, Suriname and Trinidad and Tobago.

In **Barbados**, the government's ongoing policy directed at containing unemployment bore fruit, as growth in 2000 was accompanied by the lowest unemployment rate on record. Unemployment also eased in Jamaica in 2000, with a decrease from 15.7% in 1999 to 15.5% in 2000. This was chiefly attributable to a reduction in the size of the labour force, however.

As the agriculture and manufacturing sectors continued to face difficulties arising from developments in the international economy, their economic growth projections for 2001 were lower than for the previous year. Non-tradables are therefore likely to lead growth. The government appears set to keep its fiscal deficit around 2% of GDP through the prudent management of spending.

In **Belize** the economy experienced growth in excess of 8%, despite the damage wreaked by Hurricane Keith in October 2000, a downturn in the terms of trade and the appreciation of the dollar against the euro. This growth was driven mainly by public- and private-sector investment, which was accomplished without generating significant inflationary pressures.

The government obtained funding to finance a portion of its investment programme, which facilitated its policy of stimulating growth by means of demand-oriented investment. The means to repay the loans are expected to come from vigorous export growth, coupled with the narrowing or elimination of fiscal imbalances. The success of this plan is contingent on the country improving its competitive position in the global market. The government continued to pursue a policy of investment in housing as a means of improving the quality of life of middle- and low-income households. To this end, a partnership was forged with the private sector to build over 1,500 new homes in 2000 as the government strove towards its target of completing 10,000 homes during its term in office. In 2001 the government is likely to continue with this housing policy and step up efforts to improve the performance of the tourism sector through more proactive arrangements.

Stabilization efforts in **Guyana** were successful in containing inflation and exchange-rate depreciation by means of prudent fiscal and monetary policies, which generated a small increase in the central government deficit. Thanks to these policies, in 2000 the rate of inflation was down to 5.9% and the currency depreciated by just 2%. Official policies shielded the population from the full impact of oil price rises, wage pressures and rate hikes in the communications and electricity sectors. Domestic considerations concerning the exchange rate determined the main target of monetary policy, which was to absorb excess liquidity through competitive bidding for Treasury bills and thus control monetary expansion as a means of offseting exchange-rate and wage pressures and paving the way for increased credit to the private sector.

The outlook for 2001 is promising. Modest economic growth is forecast, as a number of production sectors are expected to perform well. Fiscal and monetary policies will continue to target inflation and pursue exchange-rate stability, while seeking to cultivate a macroeconomic environment conducive to growth and development.

The **Jamaican** economy grew by 0.8% in real terms in 2000 after shrinking by 0.4% in 1999. This was the first year of positive growth since 1995, when the economy had expanded by 1%. In current prices GDP rose from J$268 billion in 1999 to J$299 billion in 2000. Since 1995, economic performance had been suffering the effects of supply shocks, financial distress and adverse international developments, and these impacts carried over into 2000, especially in agriculture.

The government's macroeconomic policy framework was set out in an International Monetary Fund (IMF) staff-monitored programme which addressed a number of objectives. These were to consolidate fiscal affairs in order to reduce the fiscal deficit by means of more efficient tax collection systems; streamline expenditures and reduce interest rates; control inflation through the management of the monetary base and the exchange rate; restructure the financial sector; improve efficiency and competitiveness by means of other structural reform measures; and make further reforms to the social safety net.

The sustained downward trend in interest rates will help to turn around adverse debt dynamics and create an attractive investment climate that is more conducive to long-term investment. The main goods production sectors and the economy as a whole will remain vulnerable to domestic and external shocks, however. Prospects for the bauxite and alumina industries are good in Jamaica. The re-opening of the Gramercy plant in Louisiana will call for increased output and exports in 2001.

Although official figures were not available for **Suriname** at the time of writing, indications are that real GDP, including the informal sector, declined by around 5.5% in 2000. Informed opinion suggests that the formal sector may have slumped even further. Output sagged in all sectors except mining. Bauxite production, which accounts for half of value added in the mining sector, was down by 3% in 2000. Petroleum production increased by 5%. Both public and private investment slid in response to lower levels of economic activity. The employment rate also appeared to have slipped in 2000, although no firm statistics were available.

In early 2000 fiscal and monetary policy was ill-defined and electoral uncertainties caused the exchange premium in the parallel market to rise from 23% at the end of 1999 to 113% by September 2000. Over this period the official exchange rate depreciated from Sf 860 to Sf 1,162 per United States dollar, then slid again in September 2000 to Sf 2,200 per dollar. In the first half of 2000 fiscal policy remained expansionary, with the Central Bank financing the deficit. During this time government raised public-sector wages and stepped up efforts to conclude a number of high-profile investment projects. Government expenditure was therefore high in the first seven months of 2000. A new government took office in August and adopted measures to address the situation. The new administration devalued the guilder and eliminated various special exchange-rate facilities for import duties, rice exports and petroleum imports. Rates of electricity and water utilities were also raised and modest lump-sum increases afforded to public-sector wages and to pensions. The new policy stance was to keep current spending in check by postponing capital expenditure and introducing new tax measures in September 2000.

Suriname began to phase in the common external tariff in 1996 and 1997, after joining CARICOM in 1996. The ceiling tariff was lowered to 30% in 1996 and to 25% in 1997. No further reductions were made following strong objections from the domestic manufacturing association.

Trinidad and Tobago enjoyed economic growth for the seventh year running, largely thanks to rises in oil prices, which helped to generate a balance-of-payments surplus and increased government revenues, resulting in a surplus on the fiscal account. The consumer price index rose by 3.6% in 2000 compared with 3.4% in 1999. This reflected slight increases in import prices against the background of a relatively stable exchange rate.

The monetary policy framework continued to be directed at liquidity management and exchange rate stability, in order to ensure domestic and external price stability. The pace of economic expansion is expected to increase in 2001 as the petroleum sector should overcome the problems it faced in 2000 and turn in a higher level of activity. Non-petroleum industries are also likely to be more resilient and competitive in the face of a changing global environment.

Employment opportunities should continue to expand in 2001 as labour-intensive sectors such as construction, wholesale and retail are projected to grow.

Table 2
LARGER CARIBBEAN COUNTRIES: MAIN STATISTICAL INDICATORS

	Bahamas		Barbados		Belize		Jamaica		Suriname		Trinidad and Tobago	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
Real GDP growth rate (%)	...	...	2.4	3.7	6.4	8.2	-0.4	0.8	-4.1	-5.5	5.1	4.0
Inflation rate (%)	1.3	1.6	1.5	2.4	-1.2	0.6	6.8[a]	6.1	113	82	3.4	3.6
Central government current account balance (in millions of dollars)	-70.7	-38.0	-31.9	-19.5	15.1	16.7	-281.2	-209.7	-34.6	-7.6	-0.15	0.32
Central government current account balance as a percentage of nominal GDP	...	...	-1.3	-0.7	2.2	2.3	-4.2	-2.8	...	...	-2.2	4.0
Nominal GDP at factor cost (in millions of dollars)	...	...	2 456.7	b2 602.4	b676.6	727.7	6 704.0	7 467.1			6 602.2[b]	8 127.5

Source: Various publications and data provided by ECLAC.
[a] December-December. The annual average was 6% in 1999 and 8.2% in 2000. [b] At market prices.

Economic performance

OECS countries

The OECS countries, which are often viewed as homogeneous in economic structure and their response to external stimuli, reported mixed performances in 2000. Real growth in 2000 varied from a decrease of 1.9% in Montserrat to a positive 7.5% in Grenada. Real GDP growth in 2000 was lower than the figure for 1999. Sectoral performance also varied among the OECS countries. Tourism, for example, flagged in Anguilla, Antigua and Barbuda, Dominica, Grenada and Saint Kitts and Nevis, but turned in improved performances in Montserrat, Saint Lucia and Saint Vincent and the Grenadines. In Anguilla real output in construction slipped, despite the fact that renovation and rehabilitation activity was stepped up in the wake of Hurricane Lenny, which hit the island in November 1999. The sag was associated with the completion of a major hotel in 1999. In Montserrat, a slump in construction reflected a combination of three factors: the completion of a number of major projects, a slower rate of implementation of projects under the Public Sector Investment Programme (PSIP), and a reduction in capital spending.

While public-sector construction activity concerned mainly the restructuring of utilities, private-sector activity was involved largely in residential construction. A similar pattern in the construction sector was observed in Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. In these countries most construction activity fell into the categories of public investment in public works or private investment in residential construction.

Most OECS countries have a small manufacturing sector consisting chiefly of food and beverages production and light industries. The sector generally caters to the domestic market, which is now open to foreign competition. Manufacturing expanded by 11% on average in 2000, with the exception of Saint Lucia and Saint Vincent and the Grenadines, which experienced declines of 4% and 14%, respectively. Tourism was down in the OECS countries, with the exception of Saint Lucia and Montserrat, mainly in response to a fall in the number of hotel visitors, especially from the United States, whose economy was slowing. In Nevis, the sector performed poorly, due to the temporary closure of two major hotels that sustained damage from Hurricanes Georges and Lenny.

Fiscal operations reflected the governments' concern to keep expenditure, especially current spending, in line with current revenues.

Table 3
OECS COUNTRIES: CENTRAL GOVERNMENT FISCAL OPERATIONS
(In millions of Eastern Caribbean dollars)

	Anguilla		Antigua and Barbuda		Grenada		Montserrat		Saint Kitts and Nevis		Saint Lucia		Saint Vincent and the Grenadines	
	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000
Current revenue	66.09	71.67	347.1	325	271.8	297.2	26.8	27.4	252	254.2	482.4	493.4	256.02	261.7
Tax revenue	53.83	58.56	302.4	283.7	236.3	265	24.3	25.5	183.5	188.1	414.8	437	215.1	217.3
Non-tax revenue	12.26	13.11	44.7	41.3	35.5	32.1	2.5	1.9	68.4	66.1	67.7	56.4	40.9	44.5
Current expenditure	60.44	71.59	388.6	381.7	229.2	230.7	57.9	49.6	260.8	293.6	361.8	367.7	225.2	237.7
Current account balance before grants	5.64	0.08	-41.5	-56.7	42.7	66.5	-31.2	-22.1	-8.8	-39.5	120.6	125.7	30.8	24.1
Capital expenditure	12.81	20.03	47.5	47.9	106.4	135.2	13.8	19.9	87.4	99	125.8	184	63.6	50.8
Overall balance after grants	-4.65	-10.19	-78.2	-95.5	-28.9	-35.4	1.7	3.7	-87.4	-126.8	60.7	-54.5	-15.3	-15.6
Financing	4.65	10.19	78.2	95.5	28.9	35.4	-1.7	-3.7	87.4	126.8	-60.7	54.5	15.3	15.6
Domestic	2.82	11.9	66.1	29.5	-9.1	30.3	-1.9	-3.3	50.6	117.1	-61.9	-8.8	9.4	5.9
External	-0.21	0.33	16.2	4.2	28.1	21.3	0.2	-0.4	36.7	9.8	0.8	57.3	5.9	9.7

Source: ECLAC, based on data provided by the Eastern Caribbean Central Bank.

Other Caribbean countries

The economy of Bahamas remained positive and strong in 2000, despite lower growth in the output of the tourism and construction sectors. Preliminary indicators for the tourism sector suggested strong growth in arrivals, but a more modest increase in expenditures. Hotel room revenues increased by 18.3% in 2000, which was largely attributable to an increase of 12.3% in the average room rate to about $ 150 per night, and an increase of 5.3% in the number of room nights sold. The number of rooms available increased, however, and the occupancy rate therefore decreased from 68.6% in 1999 to 67.2% in 2000.

Money supply (M3) contracted from 11.8% in 1999 to 9.3% in 2000, with overall stock of $3.5 billion at the end of 2000, compared to $ 3.2 billion at the end of the previous year. The economy's fiscal performance resulted in a surplus of $12.5 million in the first half of fiscal year 2000-2001, following a $ 16 million deficit in the same period of the previous year. Government revenue increased by 5.1% which, in combination with spending that was 1.4% lower than expected, contributed to the surplus recorded for the first six months of fiscal year 2000-2001. Current expenditures were stable at $391.9 million despite wage rises for civil servants, the police and the judiciary. Outlays for capital development projects dropped by 19.9% to $31.4 million. Government-guaranteed public-sector borrowings decreased by 3.1% to $356.9 million, which scaled national debt down by $6.3 million to $1.88 billion by the end of 2000.

Preliminary data for the first nine months of 2000 indicate a slowdown in activity in the construction sector, evidenced by reduced investments in commercial and residential projects. Building starts increased in value by around 16%, but the value of projects completed during the period contracted by 11.1%.

The rate of inflation rose from 1.3% in 1999 to 1.6% in 2000. The cost of education contributed significantly to this rise, with an increase of 11.9%. Strong upward pressure was also exerted by oil price rises, through higher transport and communications costs, and increased prices for food and beverages. More moderate price increases were observed in medical and health care and furniture and household operations.

In 2000 the economy of Barbados registered its eighth consecutive year of real growth accompanied by a record low rate of unemployment and its highest level of net international reserves ever. Real growth was around 3.3%, compared with 2.9% in 1999 and average growth of 2.9% over the preceding five-year period. This growth was led by tradables –particularly sugar and tourism– which performed relatively strongly with a growth rate of 4.8% as against 2.7% in non-tradables. An upturn was recorded in tourism (7.7% growth) in 2000 after a decline of 1.5% the previous year. This sector's performance reflected an enhanced marketing thrust by the Barbados Tourism Authority and increased airlift capacity from the United Kingdom. Fewer tourist arrivals were recorded from Germany and other European countries, with a drop of 17% and 15.2%, respectively. Arrivals from CARICOM countries increased by 1.9%, which was a substantially smaller gain than the average rate of 11% for the period 1996-2000.

The globalization trend and the move to a tariff-only regime exposed the manufacturing industry to regional and international competition. Real output in the sector declined for the second year running. Despite a slow start in the first half of the year, real value added in the construction sector grew by 4% in 2000, though this was less than the growth rate of 5.7% recorded in 1999.

Inflation increased to a rate of 2.4% in 2000, as against 1.5% in 1999. This rise was led by the higher cost of fuel, electricity and transport resulting from oil price hikes. Price increases in education, recreation and housing also contributed to the higher rate of inflation, though to a lesser extent. Price decreases were observed in the household operations and clothing and footwear sectors. The upward trend in unemployment was broken as the rate eased from 10.4% in 1999 to 9.2% in 2000.

The fiscal deficit for 2000 was estimated at 2.4% of current GDP as spending increased at a faster rate than the revenue growth that was generated by a higher level of economic activity.

In 2000, Belize achieved real growth of 8.2%, despite the damage wreaked by Hurricane Keith in October, declining terms of trade and the appreciation of the dollar against the euro. The previous year's growth rate was 6.4%. The rate of inflation was around 0.6%, which was largely attributable to increases in the cost of fuel and in domestic demand. Investment was instrumental in propelling the increase in economic activity, in both the public and private sectors. Private-sector investment was concentrated in housing

construction, aquaculture, agriculture and tourism, while public investment went to roads, housing and agriculture. The main driver of growth in 2000 was manufacturing, which grew by 22.4%, a rate that was significantly higher than the figure of 4.2% recorded in 1999. Construction grew by 20% thanks to investment in road infrastructure, housing and reconstruction in the wake of Hurricane Keith. Growth in agriculture slackened to 3.4% in 2000 after a 9% expansion the previous year. This was a reflection of Hurricane Keith damage to sugar cane, corn, rice and livestock. The output of citrus, bananas, red kidney beans, peppers and papayas, however, more than compensated for this. Citrus shipments increased by 19% to 6.7 million crates, as young groves came into production. Banana production increased for the second year running, this time to 65,783 tons, which was an increase of 17.1% over output in 1999. This performance was attributable to improved management practices and to new groves, which represented an increase of 16.6% in acreage.

Commercial fishing output increased by 7% in 2000 as the production of conch, shrimp and lobster expanded. The sector's output was hurt slightly by salinity problems and minor outbreaks of disease in some farms.

Tourism continued to be the country's leading foreign-exchange earner, followed by citrus and sugar. The tourism sector grew by 5% in 2000 despite a slackening of activity in the final quarter of 2000 following Hurricane Keith. Tourist arrivals by air increased by 8.4% above the 1999 figure. The number of passengers on cruise ships grew by 70% to 58,131 in 2000.

The rate of unemployment fell from 12.8% in 1999 to 11.5% in 2000, thanks to the upturn in the level of economic activity. Belize's unemployment problem is structural in nature, however, as significant shortages of skilled workers are reported.

The Guyanese economy shrank by 0.8% in 2000, following growth of 3% in 1999. This poor performance was attributable mainly to real decreases in the output of the agriculture, forestry and manufacturing sectors. Real output from the mining (gold and bauxite segments) and services sectors was not sufficient to offset the decline in the sectors that recorded negative growth. Inflation and exchange-rate depreciation were contained by means of prudent fiscal and monetary policies, which also resulted in an inflation rate of 5.9% and currency depreciation of 2% in 2000.

High expenditures caused the public sector's cash basis performance to deteriorate in 2000. The central government deficit increased as current and capital expenditures outstripped revenues. The overall surplus of the non-financial enterprises diminished as current expenditures rose significantly while the export earnings of the Guyanese Sugar Corporation slipped.

The monetary authorities' prime objective was to absorb excess liquidity through competitive bidding for treasury bills. In this way monetary growth would be checked, reducing exchange-rate and wage pressures. Broad money grew by 10.9% in 2000, partly due to a cautious lending policy that resulted in a slackening of credit to the private sector.

The Jamaican economy expanded by 0.8% in 2000, which was the first sign of growth since 1995. This was achieved by means of a set of policies designed to maintain a stable macroeconomic environment in order to enhance long-term planning, in combination with various sector-specific investment promotion measures. The services sectors recorded strong growth in 2000, while the output of the goods production sectors decreased by 2.3%, as the structure of the economy continued to shift away from goods and towards services. The services sectors saw output swell by 4.4% and came to account for around 84% of GDP, up from 81.1% in 1999. Among the components of the services sector, basic services and financial institutions continued to grow, albeit at a slower rate than in previous years. Activity in the electricity segment increased in response to higher demand from some segments of the manufacturing sector and increased household consumption. By contrast, real GDP in the water segment decreased by some 9.8% in 2000, largely because of the drought conditions that affected the country. Real growth of 11.4% in the communications segment reflected an increased demand for telephone services, especially mobile telephony. The sector of other services expanded by 3.6% in 2000, with growth in all segments except government services (-1.3%), and household and private non-profit organizations (-1.6%). The financial sector grew by 10.6%, by comparison with a figure of 18% in 1999 and declines in the preceding four years.

By contrast with the manufacturing and processing sector and the construction and installation sector, which both reverted their negative growth trend to record increases of 0.7% and 0.1%, respectively, the agriculture and mining sectors saw output decline. This poor performance was due to a number of negative developments that were carried over on both the domestic and international fronts, such as drought, the effect of the Gramercy explosion on bauxite production and the depreciation of the euro.

The real output of the distribution sector grew by 1% during 2000, which compares with a decline of 0.9% in

1999. The sector's performance was influenced by a number of factors such as higher import expenditures, especially on capital goods; an upturn in the output of the manufacturing sector; increased wholesale and retail sales in most distribution categories; an increase in the stock of loans and advances outstanding to the sector; and the continued growth of own-account employment in the wake of restructuring in the larger enterprises.

On the demand side, overall GDP growth was driven by a significant increase in investment spending and by higher export receipts. Gross fixed capital investment rose by 16.1%, following a sag of 5% in 1998 and an increase of 1.2% in 1999. Increased inventories reflected an upturn in business investment expenditure. Investment came to account for 26.8% of GDP. Exports of goods and services expanded by 16.9% in 2000, which was the largest increase in this account since 1995, when this item turned in a growth rate of 23.1%. Goods and services imports expanded by 18%, which was largely due to the increase in oil prices, either directly or indirectly through the prices of imported goods affected by rising oil prices.

The labour force decreased by 1.2% with respect to 1999. Net employment also slid by 1.1%. The unemployment rate thus fell by 0.2 percentage points to 15.5%, with rates of 10.2% and 22.3% for men and women, respectively.

The government of Jamaica has called for restraint in wage demands, in order to maintain low inflation and facilitate macroeconomic stability. Public-sector wage rises were accordingly kept to single-digit rates, with average settlements of 4%.

Suriname saw a decline of 7.5% in real GDP in 2000, with output falling across almost all sectors, especially manufacturing, financial services, construction and agriculture. Bauxite production, which accounts for half of value added in the mining sector, dropped by 3%, in addition to the segment's fall of 5% in 1999. By contrast, crude petroleum production increased by 5% in 2000 as new fields came on stream, following an increase of 14% in 1999. Aluminium output slid by 19% in 2000 in the wake of a smelter closure in April 1999. This closure resulted in a drop of 12% in demand for water, gas and electricity the following year. Agricultural production decreased by 10% in 2000, as the principal crops –rice and bananas– both recorded lower output. Reduced acreage planted with rice and storm damage to banana crops contributed to the reduction in output of these major commodities. Construction saw a decline in 2000, which was attributable to the completion of a large bridge in 1999.

In 2000 the rate of inflation was high, at 8.2%, with price increases observed across all sections of the consumer price index. The main upward pressures on the inflation rate were generated by the Central Bank's financing of the budget deficit, increases in rates for electricity, gas and water, and higher food prices.

Trinidad and Tobago saw its seventh consecutive year of economic growth, largely on the back of increased petroleum prices, which contributed to a surplus on the balance of payments and increased government revenues, and was reflected in a surplus on the fiscal account. The economy expanded by around 4% in 2000, which marked a slowdown with respect to the previous year's performance. Real GDP in the non-petroleum sectors grew by 5%. Sectors that performed well included distribution (9.2%), construction (8%) and transport, storage and communications (7.3%). The agricultural sector reverted its two-year decline to post a growth rate of 2.4% in 2000, as sugar production and refining expanded by 56.2% and 14%, respectively. Positive growth trends were recorded across all the other sectors of the economy.

Real output increased by just 0.8% in the petroleum sector, by contrast with an expansion rate of 3.7% in the petrochemical segment as a new methanol plant came on stream in 2000. This added output capacity marginally offset the declines recorded in the production of nitrogenous fertilizer, as protracted negotiations for a new natural gas contract between one firm and the National Gas Company continued.

Despite work stoppages caused by industrial unrest, output and sales of iron and steel products improved significantly over the previous year's performance. The production of direct reduced iron and steel billets grew by 17.9% and 2.7%, respectively. The production of wire rods, however, fell by 1.2% to 630,800 tonnes, which was largely attributable to industrial action.

In the agriculture sector, sugar output bounced back as raw sugar production totalled 107,000 tonnes in 2000, which was an increase of 56.2% with respect to 1999. This was the best performance recorded since 1995 and was aided by the fact that the country was almost free of unplanned cane fires and pest infestation.

Economic expansion between 1994 and 1999 helped to bring about a significant drop in the number of unemployed. The unemployment rate fell from 18.4% in 1994 to 13.1% in 1999. This trend carried over into 2000, when the rate decreased to 12.5% in the first quarter of the year, which represented the creation of over 16,000 jobs.

The external sector

All the OECS countries reported negative trade balances. Deficits ranged from EC$59.1 million in Montserrat to EC$829.8 million in Antigua and Barbuda. All these countries turned in a current-account deficit on the balance of payments. The highest deficit was recorded in Saint Kitts and Nevis and the lowest in Montserrat. Saint Lucia recorded the largest surplus on the capital and financial account, while Montserrat again recorded the lowest. Overall balances were all negative, with the exception of Anguilla, Saint Lucia and Saint Vincent and the Grenadines (see table 4).

Provisional estimates indicate that Bahamas' current-account deficit widened substantially to $560.3 million in 2000, from $406.1 million in 1999. The goods trade deficit increased by 10%, mainly due to a considerable expansion of imports of construction materials and petroleum price rises. While export earnings were relatively stable at $535.8 million in 2000, non-petroleum goods imports increased by 0.8% to $1.6067 billion as reconstruction activity in the wake of Hurricane Floyd, coupled with economic expansion, pushed up demand for imported goods. Due in part to higher world prices for crude petroleum, the oil bill climbed by 55.1% to $273 million in 2000. The net balance on the services account, which recorded a surplus of $936.5 million in 1999, shrank by 2%. This was chiefly attributable to a sharp reversal on net inflows for insurance services. The surplus on services transactions was also down in 2000, as net non-goods insurance remittances were $44.4 million, which was substantially less than the net settlement receipts of $89.1 million recorded in 1999. This decrease offset the effect on the account of net tourism receipts, which increased by $112.2 million to stand at $1.3849 billion. Net factor income payments rose by 34% to $173.8 million in 2000, as net labour income remittances climbed to $51.1 million and net investment income payments expanded by 38.4% to $122.8 million. The capital and financial account surplus was $403 million, down from $583.6 million in 1999. Capital transfers on behalf of migrant workers rose by 20.6% to $16.4 million in 2000. Net inflows on the financial account fell back to $419.5 million, from a figure of $597.2 million in 1999. As a result of the movements on the balance -of-payments account, the overall balance of payments as measured by the change in external reserves moved from a surplus of $65.3 million in 1999 to a deficit of $61.5 million in 2000.

In Barbados, the effect of international transactions in 2000 was an increase in net international reserves of BDS$355.9 million. The current account recorded a deficit of BDS$223.8 million, as imports outstripped

Table 4
OECS COUNTRIES: SHORT ANALYSIS OF THE BALANCE OF PAYMENTS
(In millions of Eastern Caribbean dollars)

	Goods trade balance		Current account balance		Capital and financial account		Overall balance	
	1999	2000	1999	2000	1999	2000	1999	2000
Anguilla	-210.5	-215.6	-140.4	-103.7	...	...	4.8	1.0
Antigua and Barbuda	-869.7	-829.8	-168.5	-187.6	196.5	170.9	28.0	-16.7
Dominica	-186.4	-212.3	-111.0	-174.7	140.9	162.1	...	-12.6
Grenada	-297.6	-361.0	-82.9	-174.7	93.7	193.2	10.9	-18.4
Montserrat	-60.4	-59.1	-19.1	-24.2	-9.5	14.4	-28.6	-9.8
Saint Kitts and Nevis	-245.2	-335.2	-191.0	-275.8	...	170.2	7.4	-11.8
Saint Lucia	-692.1	-696.5	-229.3	-201.4	249.6	223.6	20.3	22.3
Saint Vincent and the Grenadines	-343.7	-248.7	-156.6	-59.8	167.0	93.9	10.4	34.1

Source: ECLAC, on the basis of official data.

exports. The services account turned in a surplus of BDS$1.2939 billion, which was a reflection of earnings from tourism, which were partially offset by net outward payments on the transport account. A surplus of BDS$140.2 million was recorded on the current transfers account, which exceeded the previous year's surplus by BDS$6.1 million. The capital and financial account stood at BDS$542.3 million at the end of 2000, in comparison with BDS$288.9 million a year earlier. These movements generated an overall balance of BDS$401.5 million, which was reflected in the country's reserve movements.

In Belize, the trade deficit expanded by 50% to $200 million in 2000, as imports increased and exports shrank. Imports climbed by 19.4% to $403 million as a result of higher oil prices and increased demand, particularly for capital goods for investment projects and for inputs for reconstruction efforts in the wake of Hurricane Keith. Exports contracted by 0.5% to $203 million in 2000, due to Hurricane Keith damage to some export crops and to farmed shrimp output, and the effects of the dollar's appreciation against the euro. The net services balance shrank by 1.2% in 2000, to stand at $50.4 million, which reflected higher net transport costs generated by growth in import volumes. The current-account deficit widened by $58 million to $135 million in 2000. The deficit was financed by inflows of foreign direct investment, portfolio investments and net borrowing. The capital and financial account recorded a surplus of $186.5 million. This more than offset the deficit of $134.8 million on the current account and contributed to an increase in international reserves of $51.6 million in 2000, which represented about 2.5 months of import cover. Import cover in 1999 was 1.6 months.

In Guyana, the overall balance-of-payments position became stronger in 2000, mainly as a result of improvements in the capital account as private capital inflows increased. By contrast, the deficit on current account widened as the country's terms of trade took a turn for the worse. Export earnings fell as a result of the depreciation of the euro, and the import bill increased in response to oil price rises.

Jamaica's balance-of-payments position improved in 2000, with net international reserves growing by $519.3 million. This represented a decline of $131.8 million with respect to the 1999 figure. At the end of 2000, the stock of net international reserves stood at $969.5 million with gross reserves at $1.0488 billion, which was equivalent to about 4.5 months of imports. The balance of payments was positive, thanks to large inflows on the capital and financial account, while the current-account deficit widened. Higher import prices in the wake of oil price rises partly accounted for the widening of the goods trade and current-account deficits (to $1.346 billion and $212.7 million, respectively). Trade policy sought to revive export growth by means of reduced interest rates and funding for producers, which was released from cash reserves and channelled through a development fund created for the purpose. Government policy also sought to develop micro- and small businesses.

Exports of traditional agricultural products (except coffee) declined by 0.1%. Banana exports fell by 23.2% as production of the crop declined. Non-traditional manufactured exports increased by 1.8% to $344.2 million.

In Suriname, the current-account deficit decreased to 17% of GDP in 2000, following a figure of 20% 1999. This was thanks to an increase of 12% in the value of alumina exports –largely attributable to an increase in prices– and the effect of reduced demand for imports. Exports of aluminium ceased after the closure of the smelter in 1999. Alumina exports accounted for about 82% of total exports in 2000, which was the highest contribution of this item to the total since 1996. Net payments for services expanded in 2000 in response to reduced demand for travel and transport. Net income payments also increased in 2000, while net current transfers decreased. The balance on the capital and financial account flagged. Net international reserves in the Central Bank dropped by $7.5 million and represented less than a third of one month of imports at the end of 2000.

Trinidad and Tobago recorded an overall balance-of-payments surplus of $441 million (5.6% of GDP) –more than twice the surplus achieved in 1999– mainly as a result of international oil price rises, increased shipments of liquefied natural gas (LNG) and the receipt of $350 million from two eurobond issues in June 2000. The country's gross international reserves expanded to almost $1.94 billion by the end of 2000, which was equivalent to 5.4 months of imports.

Exports grew by 68%, on the back of rises in crude petroleum prices and increased shipments of liquefied natural gas. Imports –which had declined in 1999 as a result of fewer imports of capital goods purchases following the completion of major energy sector projects– also climbed sharply as petroleum imports for refining became more expensive. According to estimates, the visible trade balance, which turned in a surplus of $63.6 million in 1999, increased to $1.2 billion by the end of 2000. The current account displayed a similar increase, to reach

a surplus of $990.6 million, which was equivalent to 12.4% of GDP.

The capital account slipped into deficit in 2000 following four consecutive years of surplus. Although export earnings increased considerably, this did not generate an expansion of foreign-exchange reserves in the domestic banking system, as there were also large outflows of private capital. This generated disequilibria in the foreign-exchange market. Trinidad and Tobago continued to receive capital inflows from abroad in the form of foreign direct investment, trade-related financing and two international bond issues. According to reports from the commercial banks, in 2000 net foreign assets increased by $133.3 million to a record $278.9 million.

Table 5
EXCHANGE RATES

	1995	1996	1997	1998	1999	2000	Currency
Anguilla	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Antigua and Barbuda	2.700	2.700	2.700	2.700	2.700	2.700	$ec
Aruba	1.790	1.790	1.790	1.790	1.790	1.790	Afl.
Bahamas	1.000	1.000	1.000	1.000	1.000	1.000	$BS
Barbados	2.000	2.000	2.000	2.000	2.000	2.000	$BDS
Belize	2.000	2.000	2.000	2.000	2.000	2.000	$BZE
Dominica	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Grenada	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Guyana	143.420	141.840	143.280	147.000	177.000		$G
Jamaica	38.900	37.020	35.580	37.200	41.400	45.500	$J
Montserrat	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Saint Kitts and Nevis	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Saint Lucia	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Saint Vincent and the Grenadines	2.700	2.700	2.700	2.700	2.700	2.700	$EC
Suriname	407.000	401.000	401.000	401.000	401.000		Sf.
Trinidad and Tobago	5.947	6.035	6.285	6.298	6.300	6.300	$TT

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ECONOMIC SURVEY OF LATIN AMERICA AND THE CARIBBEAN, 2000-2001

STATISTICAL APPENDIX

(Electronic version 4.0.7)

INTRODUCTION

As in the last five editions of the *Survey*, this year's issue includes a statistical appendix on CD-ROM which provides ready access to data for recent years. The same methodology as the year before has been used for the presentation of this statistical information.

The CD-ROM contains the complete set of statistical tables used in preparing the *Economic Survey for Latin America and the Caribbean 2000-2001*. A number of these tables are also included in the printed version.

In order to facilitate access to the data, a query system by subject area and by country has been incorporated.

Refinements made after the *Economic Survey's* copy deadline in the historical series for the public sector in some countries are reflected in the CD-ROM version of the tables. Several errors that were subsequently detected in tables contained in the printed document have also been corrected.

USING THE TABLE DISPLAY PROGRAM

This is the second application to be produced jointly by the ECLAC Documents and Publications Division and the Economic Development Division. It is experimental in nature and will be improved upon in subsequent editions. The program allows the user to select tables by country or by subject area, view them on screen, and print them and/or export them to the hard disk or to a specific directory in spreadsheet format (Microsoft Excel 4.0 or higher).

INSTALLATION

The program is accessed by opening the CD-ROM file **<Economic Survey 2000-2001.htm>** using the browser of your choice. The program can be worked with directly on the CD-ROM or by copying all the files to a user-specified directory (approximately 7.2 Mb).

The program works with any browser you choose (Internet Explorer, Netscape, etc.). Internet Explorer 4.0 and the Adobe Acrobat Reader 3.0 software needed to view the PDF files have been included on the CD-ROM.

NOTE

As in the preceding *Survey*, this edition also includes folders containing the statistical figures and the print version in Acrobat PDF format.

Some of these files and programs will soon be available on the ECLAC Web site (www.eclac.cl) as well.