2009-2010

Economic Survey
of Latin America and the Caribbean

The distributive impact of public policies

United Nations

ECLAC

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The *Economic Survey of Latin America and the Caribbean* is issued annually by the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC). This 2009-2010 edition was prepared under the supervision of Osvaldo Kacef, Director of the Division; Jürgen Weller was responsible for its overall coordination.

In the preparation of this edition, the Economic Development Division was assisted by the Statistics and Economic Projections Division, the Division of International Trade and Integration, the ECLAC subregional headquarters in Mexico City and Port of Spain, and the country offices of the Commission in Bogota, Brasilia, Buenos Aires, Montevideo and Washington, D.C.

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The economic projections were prepared by Claudio Aravena, Fernando Cantú and Sandra Manuelito. Alejandra Acevedo, Vianka Aliaga, Leandro Cabello, Jazmín Chiu and Karen Martínez were responsible for the processing and presentation of the statistical data.

The version of the document used for this print run has not undergone graphic revision or proofing of final corrections.

Notes

In this publication, the term "country" is used to refer to territorial entities, whether these are States as understood by international law and practice or simply territories for which statistical data are maintained on a separate and independent basis.

The word "dollars" refers to United States dollars, unless otherwise specified.

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 point is used to indicate decimals.

United Nations Publication
ISBN: 978-92-1-121741-4
ISSN printed version: 0257-2184   ISSN CD-ROM: 1811-6191
LC/G.2458-P
Sales No.: E.10.II.G.3
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Printed in Santiago, Chile

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Presentation

The sixty-second edition of the *Economic Survey of Latin America and the Caribbean*, covering 2009-2010, analyses three phases in the economic performance of Latin America and the Caribbean. In late 2008 the region was buffeted by the severest global economic crisis since the Great Depression, cutting short a period of growth whose duration and characteristics were unprecedented in its recent history. The region has experienced an unexpectedly strong recovery since the second half of 2009, but for a variety of reasons, both external and internal, growth rates are expected to cool in 2011.

The first part of this *Economic Survey* analyses the factors explaining the strength of the recovery and the differing roles they have played in the various countries and subregions. Alongside other factors, public policies played a preponderant role in alleviating the impact of the crisis and contributed to the recovery in many countries. The effects of the crisis on economic activity, employment indicators and international trade and finance are also shown, as is the reflection of the improved economic performance of 2009 in these indicators. Likewise emphasized are the uncertainty characterizing the global economy, the resulting risks for the region's growth and the domestic factors that have lowered expectations for 2011. This first part of the *Economic Survey* is based on an extensive statistical annex.

The second part of this *Economic Survey* addresses an issue that is vital for the region's economic and social development: the reduction of inequality in a context of high and sustained growth. Specifically, it analyses what public policies can do to strengthenthe link between economic growth and distributive equity. With this in view, four chapters look at the distributive impact of growth and macroeconomic volatility, their effects on labour markets and policies to deal with them, and the ways in which tax policy and social spending can protect the most vulnerable in society as part of a broader strategy to bring about more inclusive development in the region's countries.

Lastly, the situation in the countries of Latin America and the Caribbean during 2009 and the first half of 2010 is analysed. The individual country notes are accompanied by tables showing the evolution of the main economic indicators. These notes, like the specific statistical annexes for each country, are published on the CD-ROM included with the print version and on the ECLAC website (www.eclac.org). The tables in the statistical annex can be used to obtain a rapid overview of the information for the last few years and to create spreadsheets. The disk also contains the first and second parts in electronic format.

The cut-off date for the statistical information in this publication was 30 June 2010.

Executive summary

In 2009, the economies of Latin America and the Caribbean suffered the onslaught of the global financial crisis and, as a result, the region's GDP shrank by 1.9%. In the second half of the year, however, most of the region's countries were experiencing a robust recovery that has been consolidated in 2010, paving the way for regional GDP to expand by 5.2%. This makes Latin America and the Caribbean, together with the emerging economies of Asia, one of the most dynamic regions in the world.

Both internal and external factors are underpinning this positive performance. The most notable external factors include the continued buoyancy of certain key Asian economies, whose sustained demand for the region's products has led to a significant recovery of both the prices and volumes of exports, especially commodities such as metals and minerals, petroleum and certain grains in the case of South America. The —albeit sluggish— recovery of the United States economy, meanwhile, has improved the situation for Mexico and Central America and, inasmuch as it has boosted tourism demand, possibly for the Caribbean as well. For the same reasons, remittances sent by migrant Latin American and Caribbean workers from the United States are also expected to pick up slightly. The growth figures for Europe, however, though positive, will be far lower, and the fiscal consolidation efforts now under way will keep them that way.

The internal factors include the fiscal and monetary policy space that several of the region's countries had built up during the six previous years of booming commodity prices and sustained growth, which enabled them to deploy countercyclical measures during the crisis. Countries had also steadily reduced their external debt burdens, posted steady improvements in their fiscal accounts and increased their international reserves, which meant that at all times, except at the very peak of the crisis, they had access to resources on the international capital markets.

The implementation of programmes to stimulate domestic demand against a backdrop of receding uncertainty, the return to relative normality on the financial markets and greater access to credit, combined with the gathering upturn in the international economy, created the conditions for economic activity to recover gradually over the course of the year, as reflected in the rises recorded in private consumption and investment and, to a lesser extent, in exports.

There are, however, certain and, in some instances, quite notable exceptions within this generally positive picture. A number of Central American and Caribbean countries, as net importers of food, fuel, metal and minerals, suffered rather than benefited from the upturn in commodity prices. For the same reason, they were unable to improve substantially their fiscal standing or their external debt position (although those covered by the Highly Indebted Poor Countries (HIPC) debt reduction initiative recorded improvements in the latter). This has made these countries highly vulnerable to fluctuations in the global economy.

The favourable situation in which the region now finds itself, however, rests in part on transitory factors that are unlikely to recur in 2011, and this needs to be taken into account. The region was able to respond dynamically to external demand and the countercyclical stimuli by taking advantage of pre-existing idle capacity, but that possibility could be exhausted during the present recovery. At the same time, governments are facing a waning capacity to keep the current countercyclical measures in place and to introduce new stimuli without sacrificing the achievements of several years of effort in terms of maintaining macroeconomic equilibriums. In light of these considerations, growth estimates for 2011 are 3.8% for the region as a whole.

In short, once the recovery is well established, the main challenges involved in the pursuit of steady growth will return: how to create the conditions needed to increase public and private investment and productivity; in other words, the conditions for greater growth in the future. Simultaneously, the region must continue boosting public finances to expand and improve social programmes, particularly those with a redistributive impact, so as to be able to achieve growth with greater equity.

In this regard, the second part of this edition of the Economic Survey discusses the contribution that public policies can make to strengthening the link between economic growth and distributive equity, a link that has proven elusive in the economic history of Latin America and the Caribbean. Four chapters are thus devoted to the analysis of the distributive impact of macroeconomic volatility, its repercussions in labour markets and the policies that can be deployed to tackle it, as well as to the ways in which tax policy and social spending can help protect the most vulnerable sectors of the population within a broader strategy aimed at attaining a more inclusive form of development in the region.

Part 1

The economic situation in Latin America and the Caribbean in 2009-2010

Chapter I

Regional overview

A. Introduction

In keeping with the expectations discussed by ECLAC in earlier reports, in 2010 the region has consolidated the recovery that began in the second half of 2009, and this year's growth will be at rates similar to those of the period preceding the onset of the crisis. Regional GDP growth for 2010 is projected to be 5.2%, implying a rise of 4.1% in per capita GDP. For different reasons that will be set out in this chapter, growth rates are expected to slow towards the second half of the year, so that while the region is expected to continue expanding in 2011, it will do so more slowly. Regional growth of some 3.8% is anticipated for the coming year, which equates to a rise of 2.7% in per capita output.

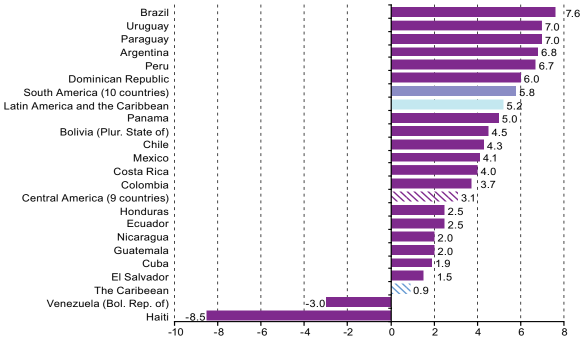
As figure I.1 shows, recovery has taken hold right across the region although, as in the 2003-2008 period, the highest rates are observed in South America. Notably, this time it is the largest economy, Brazil, which heads the growth ranking, followed by Uruguay, Paraguay, Argentina and Peru.

Another characteristic of the current situation, which is essentially one of rapid recovery from a crisis of proportions seldom seen in modern economic history (see box I.1), has been the importance of public policies. The macroeconomic solidity of most Latin American and Caribbean countries in the years leading up to the international crisis marked a major change from the financial difficulties the region had customarily faced in episodes of crisis. In a way they had not previously managed, the countries took advantage of an exceptional upsurge in the international economy and finances to strengthen their public accounts, reduce their indebtedness and improve their debt profile, and increase their international reserve holdings. This created greater scope for public policy action, allowing for unprecedented activism to counteract the negative effects of the deteriorating international situation and laying the groundwork for the recovery that began in the second half of 2009.

Figure I.1

LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH, 2010

(Percentages)



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

The implementation of fiscal and monetary stimulus programmes, at a time when uncertainty had lessened, financial markets had more or less normalized, access to credit had eased and some dynamism had returned to the international economy, prepared the way for a progressive recovery in economic activity over the year. This upturn was consolidated in 2010, thanks to private-sector consumption, investment and, to a lesser degree, exports.

The higher level of activity has had a positive effect on the capacity of the region's economies to generate jobs, leading to estimates that the unemployment rate will drop to 7.8% in 2010. This is four tenths of a percentage point below last year's rate, although somewhat higher than the pre-crisis rate (the estimated unemployment rate in 2008 was 7.3%).

Box I.1

LATIN AMERICA AND THE CARIBBEAN: CRISIS AND RECOVERY IN 2008-2009

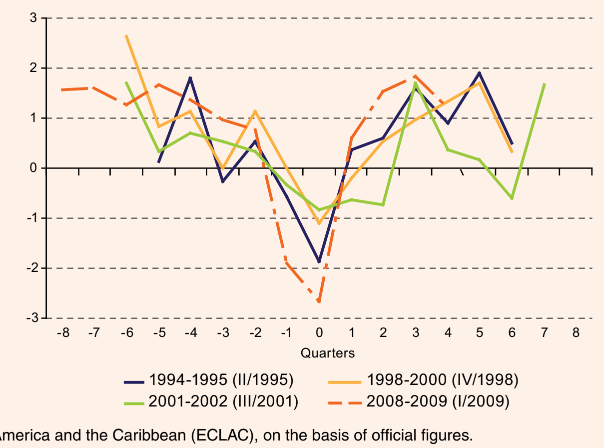
The consequences of the global financial crisis and the way the region confronted it have a number of striking features. Undoubtedly, one such feature is the fact, not that the crisis bore down so hard on growth in the region —this was only to be expected given the scale of world events— but that the region's economies recovered so quickly.

The figure below gives seasonally adjusted quarterly GDP figures for the quarters immediately before and after the trough of economic activity in the crises of the 1990s and the early years of the 2000s. When the dynamic of the economic crisis that confronted Latin America and the Caribbean in 2008-2009 is compared with earlier ones, what is remarkable is that, while economic activity in the region actually fell furthest during the current crisis, it also recovered the most quickly. Within two quarters, the region was back to growth rates similar to those seen prior to the crisis.

Internationally, when a similar comparative analysis is done between different regions of the world, it transpires that with the exception of the transition economies, Latin America and the Caribbean was the region where the negative impact of the international crisis on economic activity was most strongly felt (the second figure). Nonetheless, once the series bottom out, it is this region, along with developing Asia, that recovers most quickly.

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT, QUARTERLY RATES OF VARIATION, SEASONALLY ADJUSTED [a]

(Percentages and dollars at constant 2000 prices)



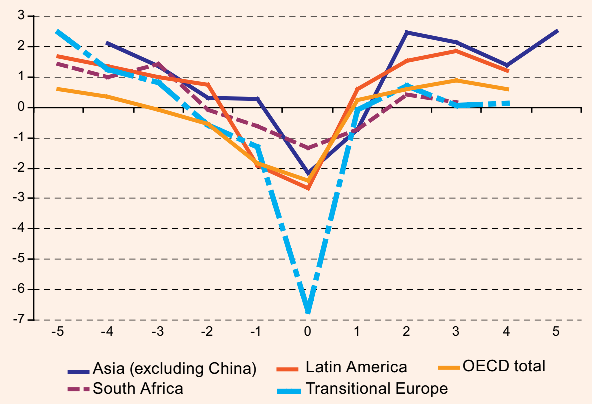
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Quarter 0 is the quarter when seasonally adjusted quarterly GDP reached its trough in the economic crises affecting Latin America in 1994-1995, 1998-2000, 2001-2002 and 2008-2009. Other quarters are numbered by the number of quarters separating them from quarter 0 in each of the crises. To define the different crisis periods, the criterion used was the number of quarters in which the region's economic activity slowed sharply, up to the point where it bottomed out in each of the crises, followed by the quarters in which economic activity picked up until the pre-crisis growth rate was restored.

Box I.1 (concluded)

SELECTED WORLD REGIONS: VARIATION IN GROSS DOMESTIC PRODUCT, SEASONALLY ADJUSTED [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures; the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF).

[a] The measurement runs from the last quarter of 2007 to the first quarter of 2010. Quarter 0 is the first quarter of 2008 for all the subregions, except for Asia (not including China), where it corresponds to the fourth quarter of 2008.

Although the recovery has been quite rapid, largely because of the internal strengths built up by the region's countries, there are still major concerns about developments in the global economy that could darken the region's medium-term outlook. The crisis some European economies are going through could lead to substantial changes in the international situation which, albeit perhaps not immediately, could have negative repercussions on export volumes and prices, as well as on remittance inflows into certain Latin American and Caribbean countries. Meanwhile, there is still concern over certain Caribbean economies made vulnerable by very high levels of indebtedness.

The following sections contain, first, a brief analysis of the situation the international economy is going through, with particular emphasis on the problems affecting certain European economies. Section C is devoted to analysing the behaviour of the main macroeconomic aggregates in the past year and a half, while section D reviews the macroeconomic policies the region's countries have implemented to cope with the crisis. The last section of this chapter evaluates the impact the European situation could have on Latin America and the Caribbean and considers the region's economic growth prospects.

B. The international economy

After contracting by 2.1% in 2009 because of the global financial crisis, in 2010 the projection is for world GDP to grow by around 3.3%, a remarkable 5% growth turnaround in a recovery that has proved far more rapid than originally expected. A number of factors help to explain why the global economy is performing better than in earlier crises: the resilience of growth in emerging countries, particularly China and India, the promptness of the countercyclical response in both developed and developing countries, and the effectiveness and scale of the financial rescue packages, especially in the United States.

These measures were successful in removing the danger of a global depression and laid the groundwork for a progressive recovery in trade and global industrial production and for the normalization of financial flows during 2009. This was followed by the beginnings of renewed confidence in future growth which, in conjunction with monetary and fiscal policy stimulus, has resulted in increased demand. Following deep and rapid destocking during the contractionary phase of the crisis, inventories are being rebuilt in the present cyclical phase as demand normalizes, and this has become one of the main drivers of the upturn in production.

Nonetheless, there are still marked differences between the world's regions in the growth rates estimated for 2010 and 2011. Emerging and developing countries as a group will lead global growth, expanding by 6.3% in 2010. Of these, China and India are expected to continue growing at high rates (between 8.5% and 10%), thanks to their own internal dynamism. Brazil is also exhibited to exhibit high growth in 2010 (7.6%).

The developed countries are expected to grow by just over 2%, with the United States proving more dynamic (2.9%) than Europe (1%). This difference can be accounted for by both temporary and structural factors. The former include larger-scale countercyclical action in the United States and financial system rescue packages that are further-reaching in their results than those implemented by European countries.

Structural factors include, first, the fact that corporate financing in Europe relies far more on bank borrowing than on tradable debt issues (i.e., bonds), whose value by definition varies with the cycle. The opposite is the case in the United States, so that the drop in the value of financial assets during the crisis, while it affected the capital of financial institutions, permitted an ex post improvement (or lesser deterioration) in the balance sheets of non-financial firms, which were thus better placed to take advantage of the upturn in demand.[1] Second, a number of European countries are faced with a need for fiscal consolidation to ensure the sustainability of their sovereign debt. This will be expressed in lower fiscal spending and higher taxes that will depress domestic demand, at least temporarily. In addition, output is projected to drop in 2010 in a number of major economies in that region.

The differences in the situation facing developed countries were made apparent by the difficulties that arose at the Group of Twenty (G-20) meeting held in Canada in late June. On the one hand, the United States and emerging economies agreed on the need to refrain from very harsh adjustment programmes entailing sharp cutbacks in fiscal stimulus. On the other, the European countries, whose economies are experiencing difficulties that are affecting the stability of their currency, argued that there was not much choice given the lack of financing to sustain expansionary policies, particularly in countries that have large deficits in their public and external accounts and, in some cases, high levels of debt. As the analysis in the following section will show, these choices disregard some important aspects as regards the situation and capacity for action of less affected European economies, Germany in particular.

1. The European crisis

Prompt action by governments and monetary authorities in the wake of the Lehman Brothers episode marked a significant shift in economic management that successfully deactivated the mechanisms working to aggravate and spread the worst global financial crisis since the Great Depression. This did entail certain costs, however. The measures taken to contain potential losses, restore confidence in the markets via guarantees and clean up portfolios through purchases of compromised assets by State or semi-State bodies transferred risk away from the private sector at the cost of increasing the risk levels of public debt. As the following chart shows, this was reflected in the evolution of sovereign debt risk premiums, which rose substantially after September 2008.[2]

This would subsequently be compounded by the deterioration in public finances that predictably accompanies recessions as tax revenues fall and spending rises through the operation of countercyclical policies or automatic stabilizers. Thus, everything pointed to the public debt of a number of developed countries rising to levels where its sustainability would be at risk. Attention centred on a group of countries (Greece, Ireland, Italy, Portugal and Spain) that looked particularly vulnerable.

The deterioration of the public finances and the consequent rise in debt can be attributed in part to the effect of the financial system rescue operations. Nonetheless, and particularly in the cases of Greece and Ireland, the

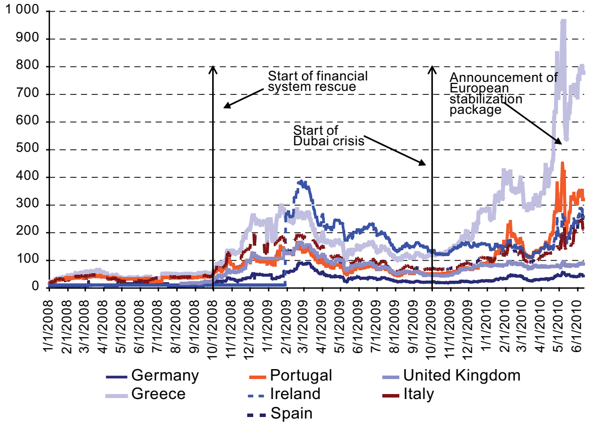
1 As of mid-2010, a far-reaching reform of financial regulation and oversight is in the process of approval. Among other things, the reform will extend the oversight and regulation framework to a number of financial institutions that were used in the past to avoid solvency controls, while also establishing curbs on financial derivatives issuance and trading and limiting risk-taking via asset securitization.

2 The European Central Bank (ECB) publication argues that private-sector risk was transformed directly into higher levels of risk on sovereign debt. See European Central Bank (ECB), *Monthly Bulletin 07/2009,* July 2009.

projected deficits had a dynamic of their own, being the outcome of revenue and expenditure trends that foreshadowed a permanent increase in borrowing rather than a temporary rise resulting from the crisis. Doubts about macroeconomic sustainability were heightened yet further in those cases, such as Greece and to a lesser extent Portugal and Spain, where the growth of the public-sector fiscal deficit was accompanied by a large balance-of-payments current account deficit. Meanwhile, the upward trend in fiscal and external deficits has been accompanied, other than in Ireland, by a steady decline in saving in the rest of the economy.

The Dubai debt crisis of late 2009 made it plain that not all the dangers had been neutralized and that the market did not possess full information on the debt position and risk exposure of some countries. This was particularly true of Greece (see figure I.2), where the effects of the financial crisis on the economy and the macroeconomic imbalances already referred to were compounded by a crisis of confidence regarding the true scale of its debt commitments and the real level of the public-sector fiscal deficit. Nonetheless, other countries in the region, while better placed, posed a potentially greater systemic risk for the euro zone because of the greater relative size of their economies and external borrowings. Thus, the sovereign debt risk premiums of countries such as Spain, Portugal and Italy rose considerably and their credit ratings, in the first two cases, were lowered. Doubts arose about the viability of the euro as the area's single currency, and it began to lose value against other reserve currencies.

Figure I.2
CREDIT DEFAULT SWAPS SPREADS
(Basis points)



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

Given the obvious deterioration of expectations for key euro zone economies, the ECB headed an operation to cope with the short-term liquidity needs of the region's institutions resulting from the Greek debt crisis[3] while, in collaboration with the International Monetary Fund (IMF) and European Union, measures were taken to ease the country's external debt servicing over the next two years and agree on internal adjustment policies to restore fiscal solvency. These measures were supplemented by the creation of a fund, contributed to by the leading euro zone economies and IMF, to cover repayments falling due immediately and thus provide a two-year breathing space for internal adjustment.

Although in the short term the rescue operation made it possible for Greece to cope with its immediate debt servicing obligations, the challenge of strengthening its macroeconomic base is no small one, and this has contributed to continuing uncertainty about the possibilities of success unless the country's debt level is reduced. The risks of this alternative do not stem primarily from the specific case of Greece, a relatively small economy, but from the possibility of financial contagion affecting other economies, with the potential for systemic implications and the emergence of similar debt sustainability situations.

Appreciating that the challenge of stabilizing the financial markets goes beyond the immediate task of containing the Greek debt crisis, the European Union and ECB have created a stabilization mechanism whose purpose is to assist in the financing of balance-of-payments needs and stabilize credit markets in the event of a sovereign debt crisis or severe disruption in credit markets. The plan provides for funding totalling 750 billion euros.

As with the Greek crisis, the purpose of these measures is to prevent crises of confidence, restore market liquidity and support debt refinancing. The idea is to create a breathing space for fiscal consolidation to make public debt sustainable and allow the markets to function without the assistance of emergency measures. It needs to be pointed out that the duration and scale of the adjustment will largely depend on the behaviour of countries that are not in such a serious position and potentially have some leeway to offset the drop in domestic demand that is going to be experienced in the economies most directly affected. As was argued at the recent G20 meeting, if richer countries with a less compromised fiscal position adjust their economies too quickly, the scale of the effort that will be required from crisis-hit countries could make the strategies followed unviable, and the crisis could worsen and spread.

3 In consequence, the ECB became a major holder of Greek debt.

C. Recent major developments in the Latin American and Caribbean economies

1. Macroeconomic aggregates

The GDP of Latin America and the Caribbean declined by 1.9% in 2009, so that per capita GDP fell by 3%. This is the largest decline in regional GDP since 1983, when there was a contraction of 2.5%. In 2000 dollar terms, disposable gross national income in the region fell by 3.4% because of a decline in the terms of trade and net current transfers received by the region's countries, despite a smaller negative balance on the income account.

South America registered a decline of 0.2%, owing to negative GDP growth in Chile, Paraguay, Brazil and the Bolivarian Republic of Venezuela. This subregion was affected by a decline in exports and a substantial drop in domestic investment and private-sector consumption. The greatest impact on economic activity was seen in the fourth quarter of 2008 and the first quarter of 2009, with large falls in industrial production and commerce. The drought in the earlier part of the year also had an adverse effect on the agricultural sector in Brazil, Uruguay, Argentina and Paraguay.

In Central America (including the Spanish- and French-speaking countries of the Caribbean), growth was 0.8%. A group of countries had positive growth rates (Panama, Dominican Republic, Cuba, Haiti, Guatemala), while others saw economic activity contract (Costa Rica, El Salvador, Honduras, Nicaragua). The economies that grew in 2009 account for some 70% of the subregion's total GDP.

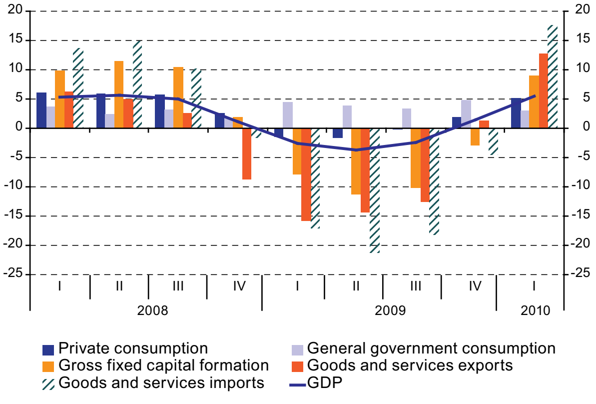
The Caribbean registered a decline of 2.3% owing to the negative impact of the crisis on the tourism sector and on external demand for raw materials. Other than Guyana (3.3%), Suriname (2.2%) and Belize (0.0%), all the countries experienced a decline in GDP. Guyana benefited from favourable weather conditions that allowed agricultural production to expand, particularly in the cases of sugar and rice. This was assisted by the expansion of production capacity in the farm sector (the country's most important, accounting for some 30% of GDP), higher gold production and greater dynamism in the commerce sector. Suriname experienced growth in agriculture and construction and, like Guyana, in the commerce sector.

The international crisis that broke out in September 2008 led to a large shift in the expectations of economic agents which, in a context of great uncertainty and financing difficulties, translated into a decline in total spending. Uncertainty about future employment prospects and falling remittances from emigrants also contributed to the shrinking of household consumption, all of which was reflected in a downturn in the commercial sector in many of the region's countries. Gross fixed capital formation dropped as investment projects were put on hold, with machinery and equipment investment in particular suffering the consequences.[4]

Figure I.3

LATIN AMERICA: GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND COMPONENTS, YEAR-ON-YEAR QUARTERLY VARIATION, 2008-2010

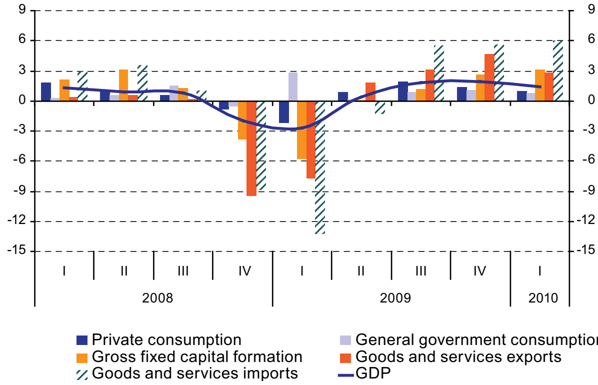
(Percentage variation)



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

[4] In 2009, the value of capital goods imports fell in most countries compared to 2008 levels: Argentina (29.9%), Brazil (-17.4%), Colombia (-9.6%), Mexico (-54.9%), Peru (-25.9%) and the Bolivarian Republic of Venezuela (-17%).

Figure I.4
LATIN AMERICA: GROSS DOMESTIC PRODUCT AND AGGREGATE DEMAND COMPONENTS, VARIATION ON PREVIOUS QUARTER, 2008-2010
(Percentage variation, seasonally adjusted)



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

This situation began to change in the second, or in some cases the third, quarter of 2009. The recovery in economic activity was driven by stimulus programmes implemented by the authorities, lower interest rates, higher real wages in most of the region's countries because of the sharp reduction in inflation rates, the gradual normalization of activity in the financial sector and changing expectations about the international economy.

Industrial production for both domestic and external markets recovered, albeit from very low levels, driven too by the end of the destocking process and by construction, commerce (accompanied by an improvement in consumer confidence indices) and an incipient recovery in export volumes. In most countries, nonetheless, the improvements seen in the second half of 2009 were not enough to reverse the negative results of the year's first half. In the early part of 2010 the economic recovery trend already seen in the second half of 2009 continued, thanks to the strength of gross capital formation, private consumption and goods and services exports.

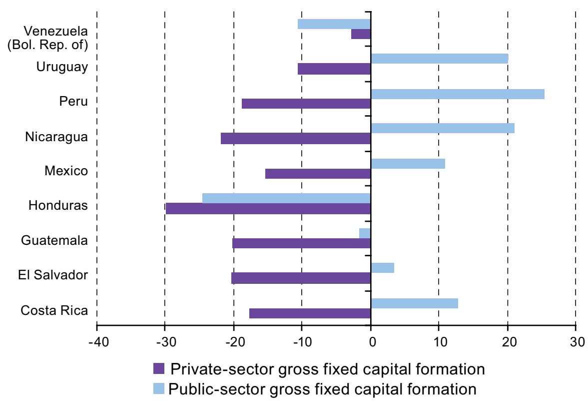
Regional growth in goods and services export volumes has essentially been due to the strength of this aggregate in Brazil and Mexico. In the case of Mexico, this is the most dynamic component of the economy and is due to the recovery of automotive production and maquila exports to the United States.[5] In the other countries, this component has been less dynamic than economic activity overall (Argentina, Peru, Uruguay) or has actually registered a decline (Chile, Colombia, the Bolivarian Republic of Venezuela).

Private consumption has been increasing, with quite strong growth in Argentina, Brazil, Chile and Uruguay, so much so that in some cases it has started to generate a degree of concern about the pressure it might exert on inflation. By contrast with the situation throughout 2009, on the other hand, public-sector consumption is still growing but is the least dynamic component of demand. Much the same is true of public investment, so far as can be observed from those countries for which quarterly data are available (Mexico, Peru, Uruguay).

The corollary of dynamic domestic demand has been a strong upturn in the volume of goods and services imported, particularly consumer durables and capital goods. The behaviour of goods and services exports and imports means that the contribution of net exports to growth in 2010 can be expected to be negative. Indeed, while goods exports are growing strongly in value terms, this is mainly due to better export prices.

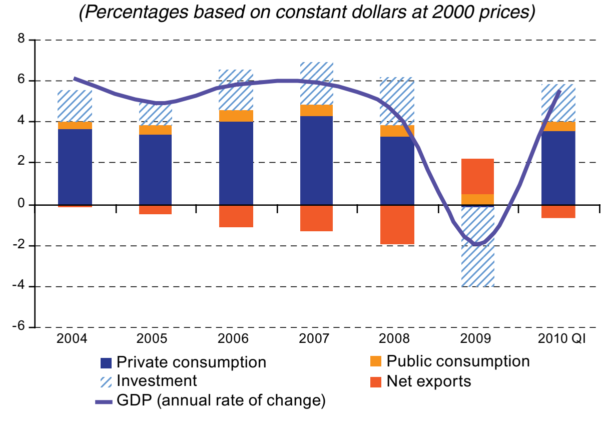
Favourable terms of trade for commodity exporting countries and the recovery of remittance inflows have resulted in national income recovering from 2009 levels.

Figure I.5
LATIN AMERICA (SELECTED COUNTRIES): GROSS FIXED CAPITAL FORMATION BY INSTITUTIONAL SECTOR, 2009
(Annual percentage variation in local currency at constant prices)



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

Figure I.6
LATIN AMERICA: GDP GROWTH AND CONTRIBUTION OF GLOBAL DEMAND COMPONENTS
(Percentages based on constant dollars at 2000 prices)



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

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5 In the January-April 2010 period, exports from Mexico to the United States rose by 35.5% over the same period in 2009.

2. Wages and the labour market

The main labour market indicators for 2009 signalled the end of a period of gradual improvements in employment, unemployment and underemployment. Regionally, the employment rate fell by 0.5 percentage points from its 2008 level for the year as a whole. This decline was seen in most places (see table A-22). Thus, for the region as a whole the close correlation between economic growth and changes in the employment rate that was a feature of previous years continued to be observed.

In consequence, the urban unemployment rate increased by almost one percentage point from 7.3% to 8.2%, representing some 2 million additional people seeking work and not finding it. Once again, the situation was similar almost everywhere, the only exception being Uruguay (see table A-21).

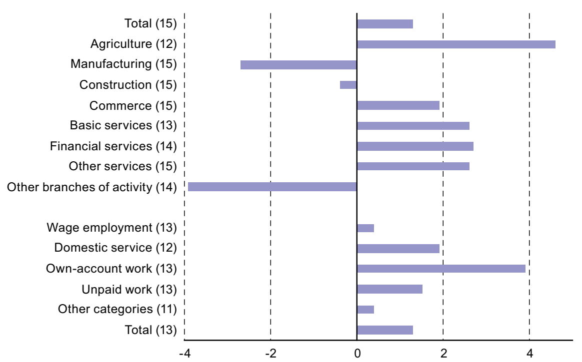
In many countries, unemployment would have risen still further had the participation rate not declined. The participation rate held steady at the regional level, with female participation in the workforce increasing on the one hand, so that this long-term trend was maintained, while the male participation rate fell on the other (see table A-20). This latter development was partly due to lower participation by the young, a substantial proportion of whom chose to carry on studying in the face of a labour market environment in which job opportunities were scarce.[6]

In the region as a whole, despite this fall in the employment rate, total employment grew by 1.3%, a result that divides into a small expansion of wage employment (0.4%) and stronger growth in other categories, especially own-account working (see chart). Wage employment growth was mainly accounted for by public-sector employment (a weighted average increase of 2% for 10 countries), while private-sector employment remained practically unchanged (0.2%).[7] Manufacturing industry and construction shed labour, while tertiary industries recorded a small expansion, reflecting the growth of informal employment and countercyclical policies.

The relative deterioration of employment quality in 2009 compared to the year before was also expressed in rising underemployment in terms of hours worked, which was seen almost everywhere (see table A-24), with the sole exceptions of Brazil and Uruguay.

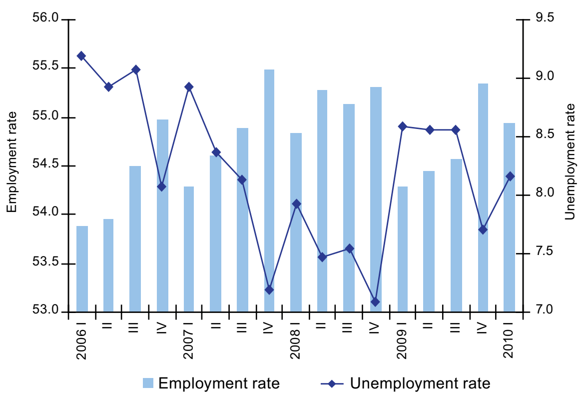
In most of the countries, wage increases slowed by less than inflation, so that wages grew in real terms. This was aided by minimum wage policies, which generally set out to prevent real-term losses. The weighted average of the countries on which information is available shows average real wages in the formal sector rising by 1.9%. This had a stabilizing effect on the income of many households, thus partly counteracting the negative evolution of employment.

Figure I.7
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN EMPLOYMENT BY BRANCH OF ACTIVITY AND OCCUPATIONAL CATEGORY, 2009
(Percentages) [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
Note: The figures in parentheses are the number of countries considered.
[a] Preliminary figures.

Figure I.8
LATIN AMERICA (NINE COUNTRIES): QUARTERLY EMPLOYMENT AND UNEMPLOYMENT RATES
(Percentages)



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

6 For a more detailed analysis of these processes and of the differences between countries as regards labour market adjustments, see Economic Commission for Latin America and the Caribbean/International Labour Organization (ECLAC/ILO), "Crisis, stabilization and reactivation: performance of the labour market in 2009", *ECLAC/ILO Bulletin The employment situation in Latin America and the Caribbean*, No. 3, Santiago, Chile, June 2010.

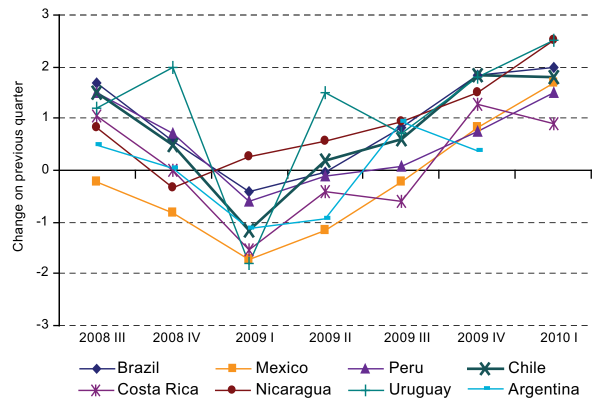
7 This is largely due to expansion in Brazil, while in a number of countries private-sector wage employment declined (Argentina, Costa Rica, Dominican Republic, Ecuador, Mexico, Panama, Bolivarian Republic of Venezuela).

In the early part of 2010, the region's labour markets continued the recovery that had begun in the latter half of the previous year. Reflecting the upturn in economic growth, the employment rate across the nine countries with quarterly labour market information rose by 0.7 percentage points in comparison with the same period the year before. This rate thus recovered the whole of the decline that took place between the first quarters of 2008 and 2009, ending slightly above its level of early 2008.

In the first quarter, formal employment (measured by the number of social security contributors) consolidated the trend that had begun towards the end of the previous year, with growth accelerating. In parallel with this, real wage growth has been moderating as a period of declining inflation has come to an end and nominal increases have tailed off.

For the year as a whole, a small reduction in the unemployment rate of some 0.4 percentage points is expected, bringing this down to 7.8%. The difference between the relatively strong impact of the pick-up in employment and the more moderate decrease in unemployment is due to the rise in workforce participation, reflecting the perception of renewed job opportunities. The largest declines in the unemployment rate were seen in Brazil, Chile and Uruguay, while in Argentina, Colombia and Peru they were smaller. In Ecuador, Mexico and the Bolivarian Republic of Venezuela, conversely, unemployment is higher than it was in the first quarter of 2009.

Figure I.9
LATIN AMERICA (SELECTED COUNTRIES): EMPLOYMENT, THIRD QUARTER OF 2008 TO FIRST QUARTER OF 2010 [a]
(Quarterly rates of variation, in percentages)



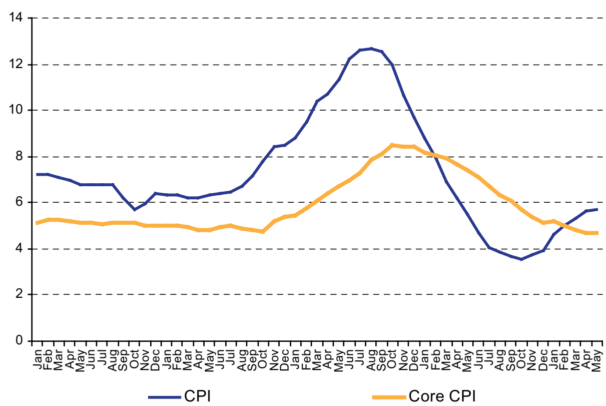
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Seasonally adjusted series.

3. Inflation

As noted earlier, inflation in Latin America and the Caribbean fell from 8.2% in 2008 to 4.6% in 2009. As a simple average, regional inflation dropped from 10.2% in 2008 to 4% in December 2009. With the exception of Argentina and the Dominican Republic, the inflation rate fell from its 2008 level in all the countries. In 2009, as in 2008, the Bolivarian Republic of Venezuela was the country with the highest inflation in the region and the only one where it was in double digits (26.9%).

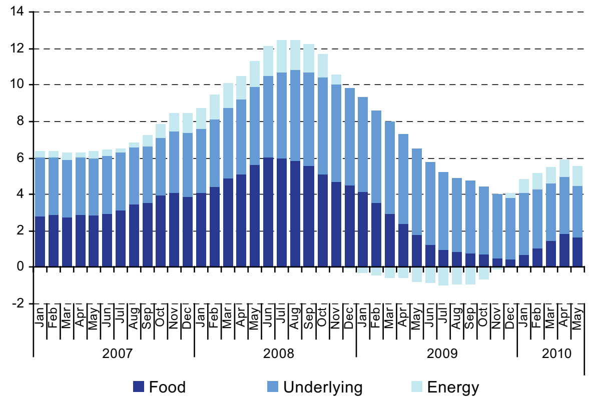
The sharp falls in inflation in most of the countries from October 2008 onward reflected the large decline in international prices for foods (cereals, oilseeds and oils) and fuels (petrol and other oil derivatives and natural gas) that took place in the closing months of 2008. This was accompanied by the decline in domestic demand resulting from the international crisis. The appreciation of some of the region's currencies mitigated the impact on national price indices of the increase in international fuel prices that occurred over the course of 2009.

Figure I.10
LATIN AMERICA: INFLATION AND CORE INFLATION RATES, 12-MONTHS VARIATION
(Percentages)



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

Figure I.11
LATIN AMERICA: CONTRIBUTIONS TO MONTHLY INFLATION, 12-MONTHS VARIATION
(Percentages)



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

As in Latin America, inflation in the Caribbean countries fell, dropping from 7.2% in the 12 months to December 2008 to 2% in the 12 months to December 2009, with prices actually falling in Belize, Grenada and Saint Vincent and the Grenadines.[8] The general decline in inflation rates is accounted for by the same factors as in Latin America, namely lower food and fuel prices. In the case of Bahamas, there was also the impact of lower prices for construction materials.

As of May 2010, a change can be observed in the 2009 tendencies described. Regional inflation picked up slightly from its 2009 levels in all the countries. The average regional inflation rate in the 12 months to May 2010 was 5.9%. The Bolivarian Republic of Venezuela remains the country with the highest inflation (32% in the 12 months to May 2010).

The increase in inflation in the early months of 2010 has been largely contributed to by the food and drink and energy categories, owing to rising international prices for these products and the withdrawal of former subsidies for fuel and specific foodstuffs. This trend is most striking in the Central American countries and Mexico. In the early months of 2010, core inflation continues to move downward.

4. The external accounts

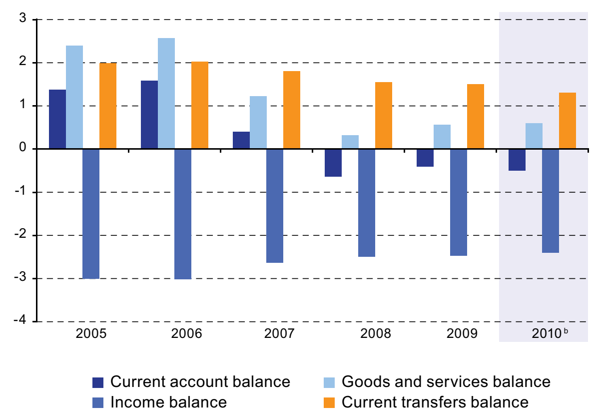
(a) The balance-of-payments current account

At the regional level, the current account posted a deficit of around US$ 16.5 billion in 2009, equivalent to 0.4% of regional GDP, which was slightly smaller than the 2008 deficit of 0.6%. The narrower deficit is attributable chiefly to the larger surplus of the balance of goods and services trade, which widened from 0.3% to 0.6% of GDP, owing in turn to a larger contraction in imports (24.8%) than in exports (22%).

The improvement in the current account balance was fairly widespread across the region, with the exception of the group of energy-exporting countries (the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia) whose combined surplus fell from 5.4% to 0.6% of GDP, as a result of plummeting international fuel prices. The counterpart of this was a substantial upturn in the countries that depend on imports of energy products: the deficit narrowed from 9.1% to 2.7% of GDP in Central America and from 10.6% to 6.1% of GDP in the Caribbean (excluding Trinidad and Tobago).

The current account deficit is projected to expand slightly in 2010 since, although terms-of-trade gains will boost exports, rising domestic demand will drive imports up at a higher rate and erode the trade surplus. Inflows of remittances are also projected to climb slowly, although this will be offset by larger outflows of profits and income.

Figure I.12
LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT STRUCTURE, 2005-2010 [a]
(Percentages of GDP)



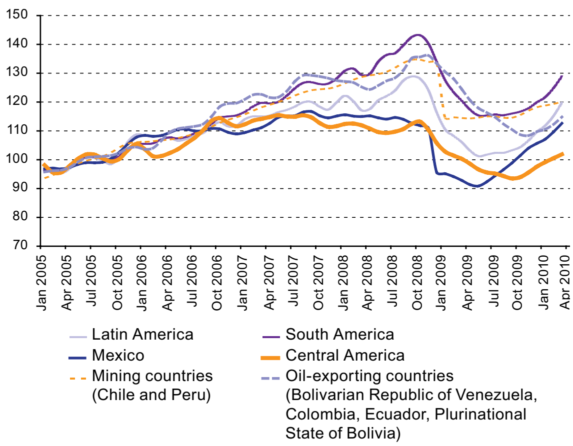
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Data for 2010 are projections, does not include Cuba.
[b] Data for 2010 are projections.

[8] Simple average for the countries of the subregion.

(i) Goods and services balance

Global trade volumes shrank by around 12.9%, 15.5% in the developed economies and 9.8% in the emerging economies. The Latin American region was no exception, since the volume of merchandise trade contracted by 13.5% with respect to 2008, with a fall of 23.3% in value terms. As shown in figure I.13, trade deteriorated rapidly from mid-2008 in all the subregions of Latin America. After accelerating in early 2009, this downturn was gradually reverted and month-on-month variation turned positive in mid-2009. The upswing in Mexico's exports was particularly notable, with volume growth of around 16% year-on-year in the first quarter of 2010.

Figure I.13
LATIN AMERICA: EXTERNAL TRADE, TREND-CYCLE SERIES [a]
(Volume index: 2005=100)

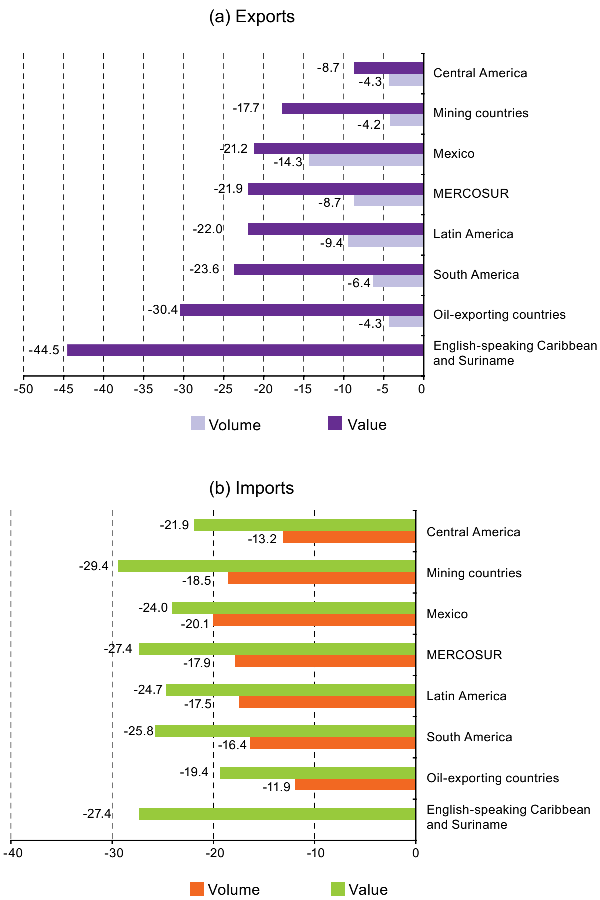


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from United Nations, Commodity Trade Database (COMTRADE) and United Nations Conference on Trade and Development (UNCTAD), "Commodity Price Statistics" [online database] http://www.unctad.org/templates/Page.asp?intItemID=1889&lang=1.

[a] Estimates based on official values deflated by weighted price indexes of exports and imports.

The fall in international commodity prices translated into a fall in trade values, especially in those countries whose export basket contains a large proportion of these products. Accordingly export values contracted by 30.4% in the group of exporters of energy products (the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia), as shown in figure I.14a). This effect is also clearly visible in Trinidad and Tobago. This country's exports, of which fuels made up 80% in 2009, fell by 50.9%. The volume of exports has also been impacted by slackening demand, especially in Mexico, where it contracted by 14.3% given the country's strong ties with the United States economy, which accounts for 80% of its exports.

Figure I.14
LATIN AMERICA AND THE CARIBBEAN: VARIATION IN EXPORTS AND IMPORTS, BY VOLUME AND VALUE, 2009 [a]
(Percentages)



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

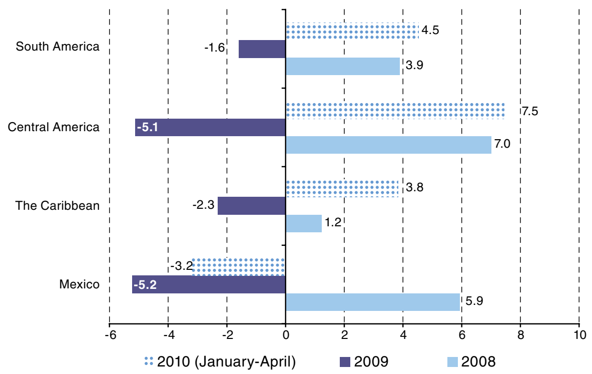
[a] Preliminary data.

The World Trade Organization (WTO) forecasts an upturn of around 9.5% in global trade in 2010, with growth of 7.5% for the developed countries and 11% for the developing and transition economies. Latin America is already showing signs of an upswing, not only in values but also in volumes. As well as the case of Mexico's exports noted above, those of Brazil and, to a lesser extent, of Argentina and Peru, have rallied strongly.

In terms of destination markets, the information available for April 2010 shows that imports from Latin America by China, the United States and Europe expanded by 43.8%, 36.7% and 22.5%, respectively, in current values in relation to the same month of 2009. Exporters of commodities, in particular, benefited from economic recovery in China, whose market accounts for just over 5% of the region's total exports on average.

The crisis hit the tourism industry hard, as is apparent in figure I.15, especially in Mexico[9] and Central America. In the Caribbean, where revenues from tourist consumption provided 17.3% of GDP in 2008, this downturn was particularly damaging. Data from the first four months of 2010 indicate a trend shift for most of the countries, since tourist arrivals rose 3.8% in the Caribbean, 7.5% in Central America and 4.5% in South America. By contrast, arrivals in Mexico were down by 3.2% compared with the same period in 2009, when this sector had still been dynamic. The World Tourism Organization projects a rise of between 2% and 4% in tourist arrivals for the Americas.

Figure I.15
LATIN AMERICA AND THE CARIBBEAN: YEAR-ON-YEAR VARIATION IN INTERNATIONAL TOURIST ARRIVALS, 2008-2010
(Percentages)



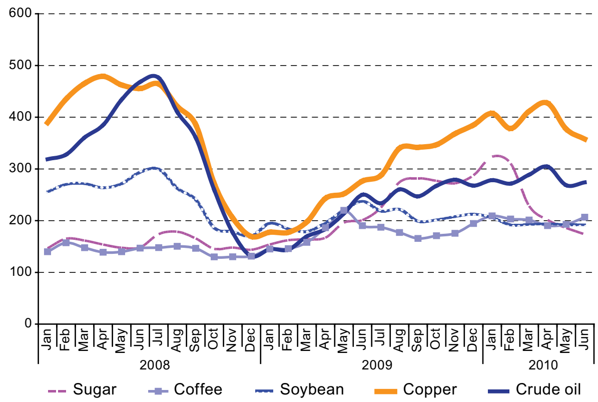
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from World Tourism Organization (UNWTO).

(ii) International prices and the terms of trade

The slump in international commodity prices as of late 2008 had a major impact on the region's trade. As figure I.16 shows, these prices trended back upward throughout 2009 but remained, on average, well below those registered in 2008, although higher than those for 2007.

The volatility of international commodity prices was reflected in the region's terms of trade. As figure I.17 shows, falling international prices, especially for energy products, benefited Central America, the only subregion to see an upturn in its terms of trade (6.2%). Commodity-exporting countries, on the other hand, suffered terms-of-trade losses, which were especially severe (as much as 22.4%) in the case of fuels exporters (the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia).

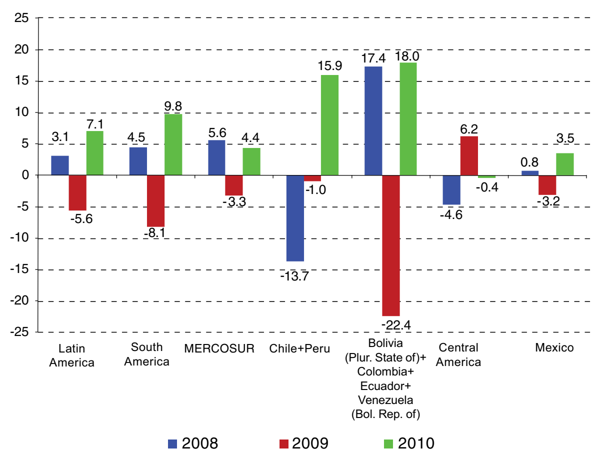
Figure I.16
SELECTED COMMODITY PRICE INDEXES, 2008-2010
(Index: 2000=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United Nations Conference on Trade and Development (UNCTAD).

For 2010, the region's terms of trade are projected to rise by 7.1%. Significant gains are expected for two groups: the Bolivarian Republic of Venezuela, Colombia, Ecuador and the Plurinational State of Bolivia (18.0%) and Chile and Peru (15.9%). Central America will be see terms-of-trade losses (-0.4%), while the MERCOSUR countries and Mexico are expected to see rises of 4.4% and 3.5%, respectively.

Figure I.17
LATIN AMERICA: ESTIMATED VARIATION IN THE TERMS OF TRADE, 2008-2010 [a]
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the United Nations Conference on Trade and Development (UNCTAD), the International Monetary Fund (IMF), Bloomberg and the World Bank.

[a] Preliminary data for 2008 and 2009; projections for 2010.

(iii) The factor income and transfer balances

The deficit on the factor income account of Latin America and the Caribbean fell from about US$ 108 billion to just under US$ 100 billion. There was a decline in net

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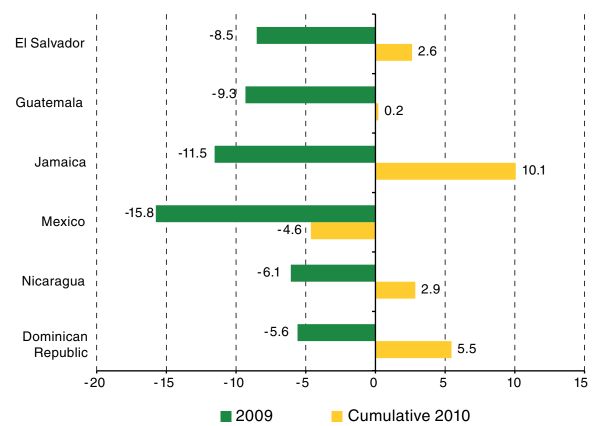
9 In the case of Mexico, this was compounded by the effects of the influenza A(H1N1) outbreak.

outflows of both profits and dividends, owing to lower interest rates and company profits. The improvement in the regional deficit can be attributed in large part to smaller deficits in Brazil, Mexico, Chile and Peru as profit payments diminished. The expectation for 2010 is that profit and remittance outflows in the region will rise along with international interest rates and resident foreign companies' profits, owing to higher international commodity prices.

The region's surplus on its current transfers account fell by 9.7% in absolute terms to the equivalent of 1.5% of GDP (the same as in 2008). The most important component of transfers are the remittances sent by emigrants to their home countries. These flows are a major source of hard currency, particularly for the countries of Central America and the Caribbean. As can be seen in figure I.18, remittances fell in all the countries for which information is available, with a reduction of 10% estimated for the whole region.

Remittance income is expected to rise by about 5% in 2010. As can be seen in figure I.18, most of the countries saw inflows rise in the first five months of 2010 by comparison with the same period in 2009. There was positive growth in the Dominican Republic (5.4%; taking account of figures for the first quarter in this case), Nicaragua (2.9%), El Salvador (2.6%), Guatemala (0.2%) and Jamaica (10.1%). Nonetheless, the increase projected for 2010 will not be enough to offset the losses of 2009. This could be due to the weakness of developed-country labour markets and the economic difficulties being experienced by a number of European countries this year.

Figure I.18
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): VARIATION IN EMIGRANTS' REMITTANCES, 2009-2010
(Seasonally adjusted series, percentages)



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

A substantial portion of the remittances reaching Latin America and the Caribbean come from the United States and Spain, two countries where unemployment rose sharply during the crisis. In the United States, the unemployment rate increased from 5.8% in 2008 to 9.3% in 2009 and stood at 9.5% in June 2010, while employment of personnel of Hispanic or Latin origin fell by 3.4% in 2009 but recovered by 0.7% in the first semester of 2010. In Spain, the unemployment rate rose from 11.2% in 2008 to 18.2% in 2009 and 20% in the first quarter of 2010, while the number of foreign workers from Latin America in employment contracted by 11.4% between 2008 and 2009 before declining by a more moderate 5.2% between the first quarter of 2009 and the first quarter of 2010.

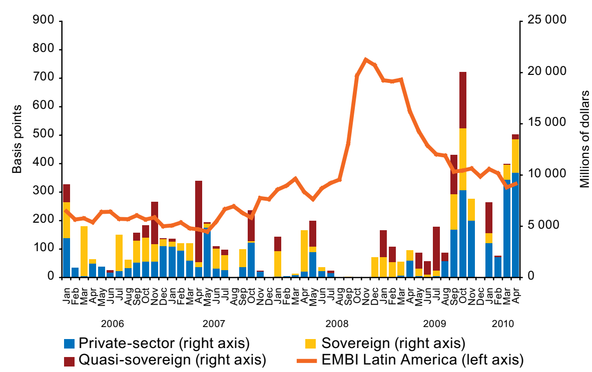
(b) The capital and financial accounts

The region ran only a small current account deficit (0.4% of GDP) in 2009 and experienced highly favourable external financing conditions, and this, in combination with the policies adopted to confront the crisis, paved the way for an earlier recovery than expected and for improvements in its risk indicators.

The fact is that, following the most critical point of the global financial crisis in late 2008, during 2009 the region experienced a continuous recovery in access to international financial markets, in the dynamism of foreign direct investment and in the build-up of reserves.

These tendencies have been sustained during 2010, and risk indicators have continued to decline, falling in some cases to levels lower than those prior to the crisis, even as the amounts of debt issued by the region's countries in international capital markets have hit record levels (figure I.19). In particular, there has been a remarkable increase in the issuance of private-sector debt by the region, reflecting better access to these markets than in earlier periods.

Figure I.19
LATIN AMERICA AND THE CARIBBEAN: EXTERNAL BOND ISSUES AND COUNTRY RISK
(Millions of dollars and basis points)



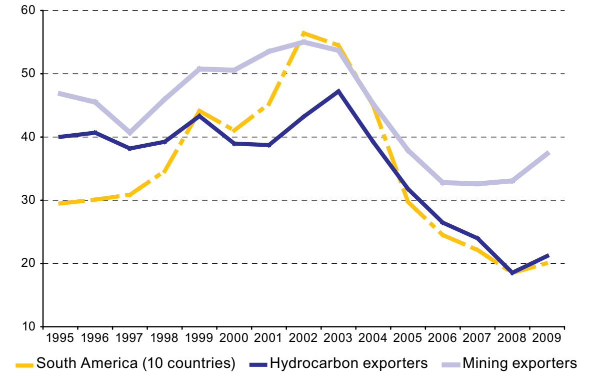
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from LatinFinance, Bonds database; JP Morgan and Merrill Lynch.

It is important, nonetheless, to be aware of the ways in which the external financing behaviour of the various country groupings has been influenced by the different factors underlying the evolution of their current accounts. The following chart illustrates the evolution of external debt in two groups of countries that benefited from the dynamic of external commodity prices between 2003 and 2008, hydrocarbon exporters and mining product exporters.[10] As can be seen, these countries exhibit a steady reduction in their level of external borrowings as a proportion of GDP since the start of the positive price cycle in 2002.[11] This is explained both by the dynamism of regional GDP during this phase and by the greater role of local financial markets as a source of funding, the result in some important cases being an absolute reduction in external debt levels. Consequently, the South America region now has a much lower level of debt than a number of developed countries currently experiencing turbulence because of uncertainty about the sustainability of their sovereign debt.

By contrast with the raw material exporters analysed above, a common feature of the countries of Central American and the Caribbean is that they were not net beneficiaries of the external price cycle that affected their terms of trade during the first decade of the century from 2003 onward. The effects on the debt levels of these two regions can be partially appreciated in the following chart. Central America evinces a steady decline in relative debt levels as a result of the Heavily Indebted Poor Countries (HIPC) initiative in the cases of Honduras and Nicaragua and the maintenance of low external debt levels in the cases of Costa Rica and Guatemala.

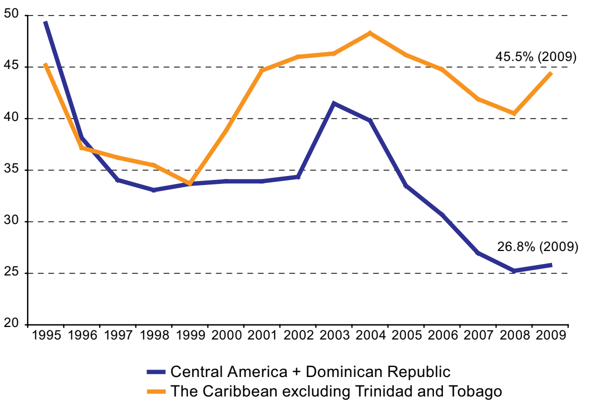
By contrast, the Caribbean does not yet show a sustained tendency towards debt reduction, and its debt to GDP ratio is the region's highest, highlighting its vulnerability in this area. Furthermore, the weighted average conceals large differences that it is important to be aware of (table I.1).

Figure I.20
SOUTH AMERICA: EXTERNAL BORROWING
(Percentages of GDP)



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

Figure I.21
CENTRAL AMERICA AND THE CARIBBEAN: EXTERNAL BORROWING
(Percentages of GDP)



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

Table I.1
THE CARIBBEAN: GROSS EXTERNAL BORROWING
(Percentages of GDP)

	2005	2006	2007	2008	2009
Antigua and Barbuda	36.6	31.7	43.4	43.5	45.2
Bahamas	5.1	4.8	4.6	6.1	10.4
Barbados	89.7	93.7	90.7	86.1	93.1
Belize	87.0	81.2	76.2	70.5	76.3
Dominica	73.8	71.2	64.1	58.1	58.2
Grenada	72.5	85.2	82.3	75.6	88.2
Guyana	92.3	71.5	41.3	43.4	46.1
Jamaica	48.1	48.5	47.4	45.3	53.1
Saint Kitts and Nevis	70.8	62.8	58.2	54.0	57.5
Saint Lucia	40.8	39.2	39.2	36.9	39.3
Saint Vincent and Grenadines	51.9	44.2	39.6	39.9	43.6
Suriname	28.3	24.3	16.2	13.7	10.9
Trinidad and Tobago	8.3	6.9	6.7	5.6	6.1
Caribbean (weighted average)	32.2	30.3	28.1	25.6	30.1
Caribbean (excluding Trinidad and Tobago)	45.8	44.5	41.8	40.5	45.5

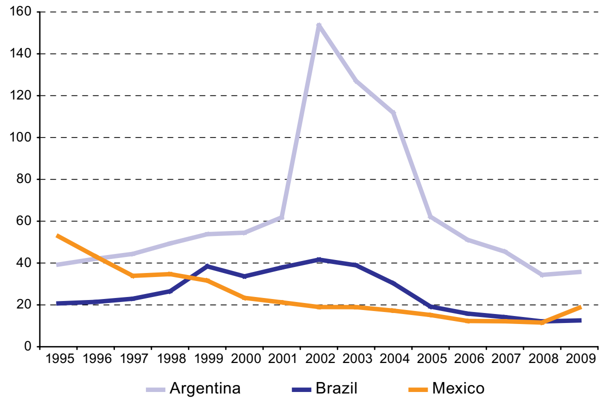
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

10 Hydrocarbon exporters include the Bolivarian Republic of Venezuela, Colombia, Ecuador, the Plurinational State of Bolivia and Trinidad and Tobago. Mining exporters include Chile and Peru.

11 The 2002 peak in the external debt to GDP ratio was strongly influenced by the Argentine sovereign debt crisis of late 2001 and the subsequent devaluation of the country's currency.

Lastly, the importance for the overall picture of the region's three largest economies and their marked differences from the other countries make it appropriate to analyse developments there separately. As the following chart shows, external debt as a share of GDP in these three countries has been on a declining trend that, in the case of Mexico, dates back more than 14 years. As the decade draws to a close, Argentina and Brazil have arrived by different means (debt restructuring, substitution of domestic for external debt and sustained growth) at a situation in which external debt levels are well below their 2002 peaks and lower than in a number of developed countries.

Figure I.22
ARGENTINA, BRAZIL AND MEXICO: EXTERNAL BORROWING
(Percentages of GDP)



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

D. Macroeconomic policies

As noted earlier, one of the distinctive features of the recent situation has been the capacity of the region's countries for applying economic policy measures to address it. These can be broadly divided into measures intended to restore confidence and activate financial markets and measures intended to shore up weakened aggregate demand and job creation capacity.[12]

Initially, the region's central banks introduced a number of measures of different kinds to ensure an adequate level of liquidity in local financial markets. The general decline in inflation, helped by lower food and energy prices, allowed for greater monetary policy flexibility, both in countries that practise explicit inflation targeting and in those that follow some monetary aggregate or other operational criterion. Cuts in monetary policy benchmark rates were accompanied by an easing of liquidity requirements and increased monetary expansion, especially as regards domestic credit, while reserve asset levels declined, a situation that gradually reversed over the course of 2009.

Nonetheless, low levels of monetization and the shallowness of the region's financial markets, plus the uncertainty that characterized financial activity in late 2008 and throughout much of 2009, limited the effect of these measures on activity levels. In some cases, efforts were made to compensate for the inadequate supply of financing by giving an active role to the public-sector banking system, an instrument whose effectiveness depends on the scale of credit in the economy and the share of public-sector banks in total lending, making it significant in only a limited number of countries. Brazil is the leading example here, owing to the importance of the public-sector banking system in the country's credit market.

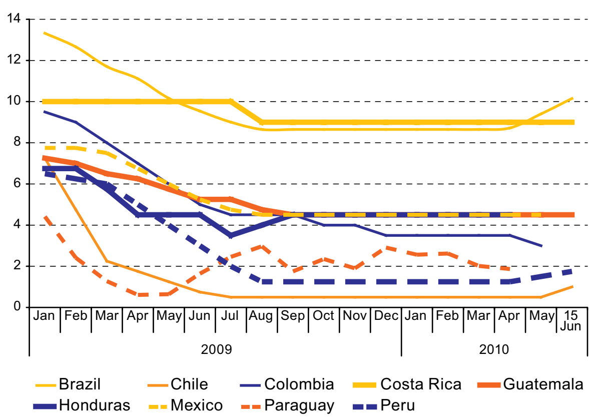
More generally, and particularly from the first quarter of 2009, the countries announced and gradually implemented a strategy based on increasing the fiscal stimulus in their economies. This involved both temporary selective tax reductions and higher public spending, the latter focused chiefly on current spending, usually in the form of direct transfers, and to a lesser extent on capital spending.

[12] See Economic Commission for Latin America and the Caribbean (ECLAC), *The Reactions of the Governments of the Americas to the International Crisis: an Overview of Policy Measures up to 31 December 2009* (LC/L.3025/Rev.6), Santiago, Chile, December 2009; Economic Commission for Latin America and the Caribbean/ International Labour Organization (ECLAC/ILO), "Crisis and the labour market", *ECLAC/ILO Bulletin The employment situation in Latin America and the Caribbean*, No. 1, Santiago, Chile, June 2009; "Crisis in the labour markets and countercyclical responses", *ECLAC/ILO Bulletin The employment situation in Latin America and the Caribbean*, No. 2, Santiago, Chile, September 2009; and "Crisis, stabilization and reactivation: performance of the labour market in 2009", *ECLAC/ILO Bulletin The employment situation in Latin America and the Caribbean*, No. 3, Santiago, Chile, June 2010.

1. Monetary and exchange-rate policies

In 2009, all the countries in the region with inflation targeting regimes (Brazil, Chile, Colombia, Paraguay and Peru) other than Mexico, or with a target range for inflation (Costa Rica, Guatemala and Honduras), had inflation rates within or below the target band set by their central banks. This reduction in both price rises and inflationary expectations increased the scope for conducting expansionary monetary policy, so that central banks sought to assist the efforts being made by the fiscal authorities to alleviate the effects of the external shock. In the countries referred to, this led in the first eight months of 2009 to large reductions in the monetary policy benchmark rate. Owing to the size of the downward price adjustment, intense activity on the part of the issuing authorities was followed by a period in which they adopted a watchful stance and left benchmark rates unchanged (see figure I.23).

Figure I.23
COUNTRIES WITH INFLATION TARGETING: MONETARY POLICY RATE
(Annual percentage)



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

As of April 2010, annual inflation was continuing to decline in Colombia, Mexico and Peru, while in the remaining countries it had picked up slightly, although it remained below the target range (Chile, Colombia and Perú) or in the middle of the band (Brazil and Paraguay).

As was to be expected, monetary policy has begun to change as the recovery in the region's economies has taken hold. Thus, the central banks of Brazil, Chile and Peru have all increased their benchmark rates. The Central Bank of Brazil raised its from 8.65% to 9.4% in May and then to 10.15% in June, the Central Reserve Bank of Peru raised its from 1.25% to 1.5% in mid-May and the Central Bank of Chile raised its own from 0.5% to 1% in mid-June and then to 1.5%. According to the issuing authorities concerned, these decisions were motivated by the rise in spending indicators in the first half of the year.

In May, conversely, the Bank of the Republic of Colombia decided to cut its benchmark rate from 3.5% to 3% in the light of indicators that showed core inflation continuing to fall, the smaller than expected impact of El Niño, and the appreciation of the peso. It is important to emphasize that these considerations weighed more than the signs of recovery being shown by the Colombian economy.

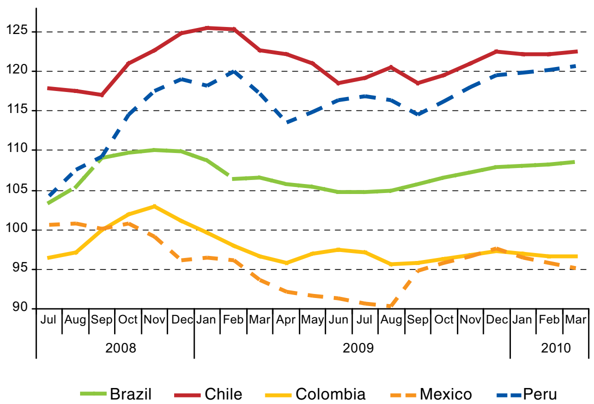
In the second half of 2010, the region's central banks will carefully monitor not just the evolution of internal indicators but also the risks in the international economy associated with the solvency issues of the European economies and the evolution of the United States economy and monetary policy.

Other countries without explicit inflation targets have also applied an expansionary monetary policy. The Central Bank of Uruguay cut its benchmark rate from 10% to 6.25% over the course of 2009, while the Bolivian monetary authority cut its own from 13% to 3%. In Trinidad and Tobago, the central bank cut the benchmark rate successively from 8.75%, its level in February 2009, to 5% in January 2010, a historic low. In Jamaica, meanwhile, monetary policy began to be loosened in the second half of 2009, with the rate of return on central bank open market operations falling from 17% to 10% between March 2009 and March 2010. This policy was underpinned by greater confidence in the financial system after the agreement signed with the International Monetary Fund (IMF).

These cuts in benchmark rates were reflected in commercial bank rates, but not to the same degree, and the spread between lending and deposit rates widened. Although this can be put down in part to the increased uncertainty resulting from the upheaval in international markets, some characteristics of the region's financial markets are also responsible, such as the wide (by international standards) spread between lending and deposit rates, and between the benchmark rate and lending rates.

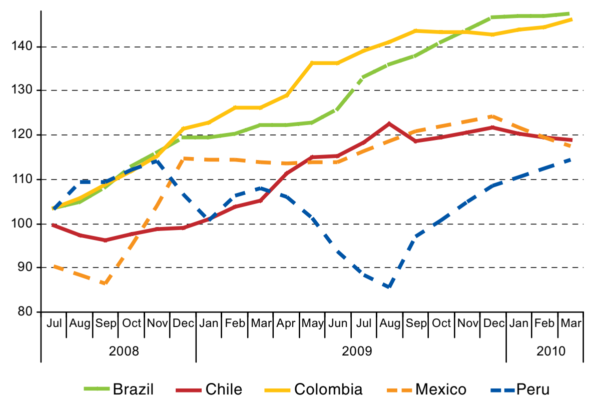
At the same time, the increase in liquidity did not translate into a greater supply of credit. As the chart shows, real-term private-sector bank lending in a group of selected countries first stagnated and then decreased significantly from late 2008, despite the efforts of central banks to increase liquidity in their financial systems. In the countries analysed, private-sector bank lending only started to recover in the second half of 2009, with the exception of Colombia, where there was little change.

Figure I.24
LATIN AMERICA (SELECTED COUNTRIES): REAL-TERM PRIVATE-SECTOR BANK LENDING
(Index: first semester 2008=100)



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

Figure I.25
REAL-TERM PUBLIC-SECTOR BANK LENDING
(Indices: first half of 2008=100)



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

As noted earlier, and as can be seen in the chart, public-sector banks increased their lending to counteract this effect, thus becoming a very important instrument of countercyclical strategy. The importance of this instrument, however, depends on the share of total lending carried out by official banks. Brazil is the prime example in this regard among the countries analysed, as the share of public-sector banks in the first half of 2008 (i.e., before the crisis worsened) was 35%, together with Chile and Mexico to a lesser degree, as the share in these countries was about 13%. In the other two cases analysed, the share was rather small and this limited the potency of this instrument. It must be noted, lastly, that much as with monetary policy, the activity of public-sector banks has tended to stabilize as private-sector bank lending has normalized.

As has been noted, the region's countries built up their reserves during 2009, in some cases by very substantial proportions of GDP.[13] The reserves build-up process slowed in Latin America generally during the first five months of 2010, and in some cases there were actually declines. The latter has been the case most particularly in the Bolivarian Republic of Venezuela,[14] where reserves have fallen by more than anywhere else in the region.

Despite the buying activity of central banks in the currency markets, reflected in the build-up of reserves, the extraregional real effective exchange rate of Latin America and the Caribbean appreciated by an average of 2.7% between December 2008 and December 2009. Exchange-rate behaviour differed by subregion. While South America saw a 9% appreciation, there was a 3.9% depreciation in Central America, Mexico and the Caribbean.

During the first five months of 2010, the average effective extraregional exchange rate appreciated by 1.8%, while the South American average depreciated by 1.5%, owing to the impact of the devaluation of the bolívar fuerte. If the Bolivarian Republic of Venezuela is excluded from the calculation, Latin America and the Caribbean experienced an average appreciation of 4.5% and South America one of 3.8%. Similarly, the average appreciation for Central America, Mexico and the Caribbean was 4.5%.

Only two countries experienced real effective currency depreciation during the first five months of 2010, most strikingly the Bolivarian Republic of Venezuela (66.3%). The chief development during this period was the real-term depreciation of the euro against a number of currencies, notably the United States dollar and all the region's currencies[15] (other than that of the Bolivarian Republic of Venezuela), against the background of the problems in Greece and uncertainty in the financial markets about the fiscal and general economic situation of countries such as Greece, Spain, Portugal, Italy and Ireland.

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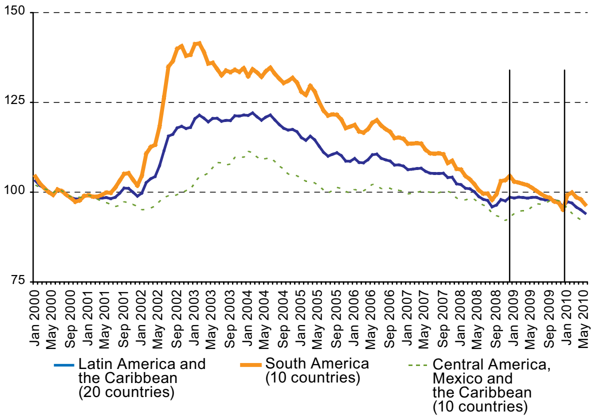
13 The build-up of reserves includes the allocation of Special Drawing Rights (SDRs) by the IMF to the region's countries.

14 According to data from the Central Bank of the Bolivarian Republic of Venezuela, which are not comparable with those of the International Financial Statistics (IFS), international reserves fell by US$ 7.968 billion between 31 December 2009 and 31 May 2010, of which US$ 6 billion were transfers to the National Development Fund (FONDEN), leaving a balance of US$ 27.032 billion at the end of that period.

15 The region's currencies appreciated by between 10% and 20% against the euro in real terms between December 2009 and May 2010, with the exception of the Bolivarian Republic of Venezuela, as mentioned above (45% depreciation), and of Chile (9% appreciation).

Figure I.26

LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL EFFECTIVE EXTRAREGIONAL EXCHANGE RATES



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

Table I.2

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN INTERNATIONAL RESERVES

(Millions of dollars and percentages of GDP)

Country	2009 (millions of dollars)	PIB 2009 (percentages)	May 2010 (millions of dollars)
Argentina	1 238.4	0.4	862.5
Bolivia (Plurinational State of)	656.4	3.8	-193.7 [a]
Brazil	44 520.0	2.8	11 194.8
Chile	2 209.5	1.4	-465.7 [a]
Colombia	1 268.9	0.6	549.1
Costa Rica	267.5	0.9	-37.4
Guatemala (April)	501.7	1.3	372.3
Mexico	4 463.1	0.5	3 940.6
Nicaragua	432.2	7.0	-47.9 [a]
Paraguay (April)	994.1	6.7	-1.9
Peru	1 741.1	1.3	1 461.6 [a]
Dominican Republic (April)	613.5	1.3	-442.0
Uruguay	1 675.8	5.3	-390.2 [a]
Venezuela (Bolivarian Republic of)	-11 395.1	-3.5	-6 993.1 [a]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the International Monetary Fund (IMF), International Financial Statistics (IFS), and national figures.

[a] Estimates based on data from the central banks of the countries concerned.

2. Fiscal policy

In the 2003-2008 period, the particular combination of a more favourable macroeconomic environment and more prudent macroeconomic policy management led to a reduction in public borrowing levels and a consequent increase in fiscal space in many of the region's countries, especially in South America.

The impact of the international crisis, however, affected the performance of the public accounts in Latin America and the Caribbean. For one thing, the lower level of activity significantly impacted fiscal revenues, which in the case of commodity exporting economies were also affected by the behaviour of natural resource prices. Secondly, public spending increased because of the implementation of measures to sustain aggregate demand and offset the impact of the crisis on the most vulnerable sectors.

In addition, to compensate for the loss of revenue and thus be able to finance their crisis measures, those countries with fiscal rules limiting their structural balances (Chile) or spending and changes in debt levels (Argentina, Brazil and Peru) loosened the targets associated with these rules in the 2008-2009 period.

Primary balances at the central government level moved from a surplus of 1.2% of GDP in 2008 to a deficit of some 1.0%, measured as a simple average. If the overall balance is taken (including public-sector debt interest payments), the deficit increased from 0.4% of GDP to 2.8%. This deterioration in the region's average fiscal balance reflects a widespread situation in the fiscal accounts of its countries, since in 2009 just six Latin American countries, or 32% of the total, registered a primary surplus.

Although spending measures were the most commonly used, some countries in the region implemented tax measures to address the crisis, examples being Argentina, Brazil, Chile, Costa Rica, Mexico and Peru. The largest temporary tax reductions were seen in Brazil and Chile, with a fiscal cost of some 0.8% of GDP.[16] In Argentina, the scale of personal allowances reductions for the profits tax was abolished and export retentions were reduced, while in Peru the rate for tax rebates to exporters was temporarily increased. Measures with less of an impact on revenue levels were applied in Costa Rica and Mexico, such as the accelerated depreciation system for income tax in the first case and tariff cuts in the second.

Meanwhile, a number of countries implemented fiscal stimulus measures on the expenditure side by stepping up social assistance programmes and spending more on infrastructure. Current expenditure was increased by more than capital expenditure. Just eight countries increased the latter as a share of GDP.

Consequently, after several years of successive decreases, the ratio of public debt to GDP rose by about two points from the previous year's level and ended up back where it was in 2007. The average central government debt to GDP ratio in 19 countries increased from 28.2% in 2008 to 30.2% in 2009. In some cases, this ratio increased by over five points of GDP, examples being Brazil, El Salvador and Nicaragua. Where the non-financial public sector is

[16] For further details, see *Preliminary Overview of the Economies of Latin America and the Caribbean*, 2009 (LC/G-2424-P), Santiago, Chile, December 2009. United Nations publication, Sales No. E.09.II.G.149.

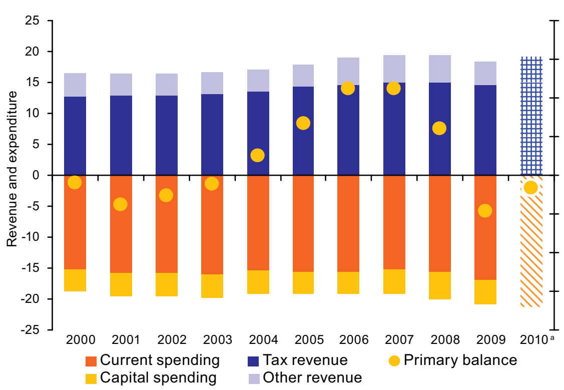
concerned, the country where the public debt to GDP ratio increased the most was Mexico, with a rise of eight points of national output.

Given the recovery in economies and raw material prices, the expectation for 2010 is that fiscal revenues will increase by some 1% of GDP on average in the region. For countries with information on tax revenues in 2010, indeed, a substantial recovery can be seen to have taken place during the first quarter of the year, averaging 13% in real terms. Again, since many stimulus measures on the expenditure side will be maintained during 2010, spending can be expected to rise slightly as a proportion of GDP. Thus, the primary deficit will tend to narrow on average in the region, while the overall deficit (i.e., after interest payments on the public debt) is expected to fall from 2.8% to roughly 2.1% of national output.

Figure I.27

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT REVENUE, EXPENDITURE AND FISCAL BALANCES, 2000-2010 [a]

(Percentages of GDP)



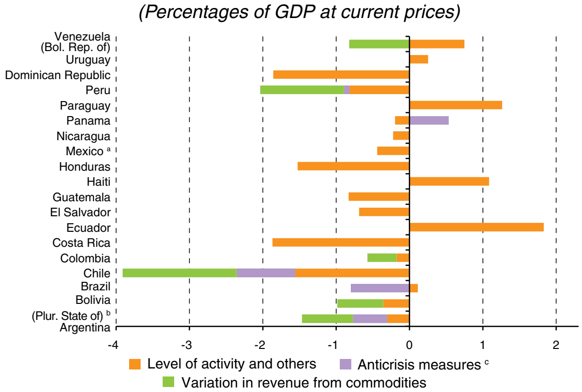
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

[a] Coverage refers to central government, except for the Plurinational State of Bolivia where it refers to general government. The data for 2010 are projections.

Figure I.28

LATIN AMERICA: CHANGES IN CENTRAL GOVERNMENT TAX REVENUES (EXCLUDING SOCIAL SECURITY)

(Percentages of GDP at current prices)



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

[a] Non-oil tax revenues only.

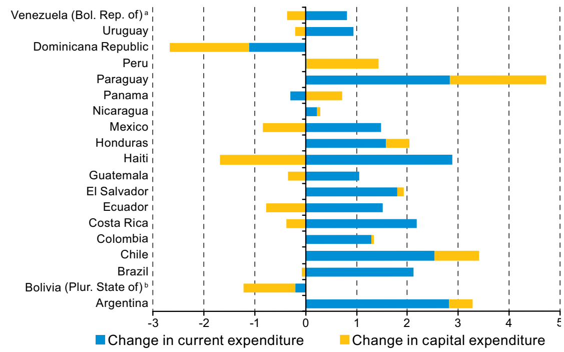
[b] General Government.

[c] It was not possible to ascertain the revenue impact of the system of accelerated depreciation in Costa Rica or of the tariff cut in Mexico.

Figure I.29

LATIN AMERICA: CHANGES IN CURRENT AND CAPITAL EXPENDITURE, 2008-2009

(Percentage points of GDP)



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

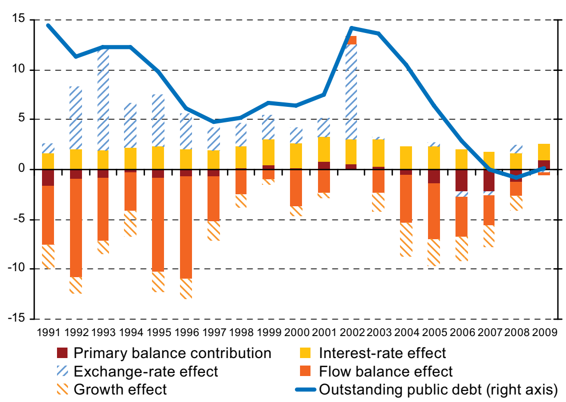
[a] Preliminary figures estimated by the Central Bank of Venezuela.

[b] General government.

Figure I.30

LATIN AMERICA: CHANGES IN PUBLIC DEBT, 1991-2009

(Percentages of GDP)

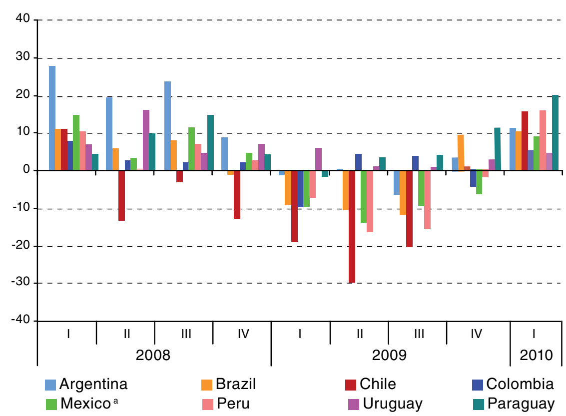


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

Figure I.31

LATIN AMERICA (SELECTED COUNTRIES): YEAR-ON-YEAR VARIATION IN REAL-TERM CENTRAL GOVERNMENT TAX REVENUE, EXCLUDING SOCIAL SECURITY

(Percentages)



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

[a] Non-oil tax revenues.

E. Overview and prospects

1. Possible effects of the European crisis on the region

The three main channels via which the effects of the debt crisis currently affecting some European countries could be transmitted to Latin America and the Caribbean are as follows:

- Trade, which is the traditional crisis transmission channel, in which case the effects will depend on: (i) the intensity with which the European countries implement policies to improve their fiscal position that in turn reduce demand for the region's exports; (ii) the relative weight of exports to Europe in each country's total exports; (iii) the possibility of redirecting those exports elsewhere; and (iv) the possible increased competitiveness of European goods in markets in which the region also competes.
- Remittances from migrant workers in Europe.
- The price of the region's commodity exports, which could suffer as a result of lower demand in Europe and changes in the dollar/euro exchange rate. The latter will depend on the interest rate differentials between the euro zone and the United States and changes in perceptions of the relative risk between the two financial centres.

The analysis of the impact of external crises usually also includes the financial channel, which refers to the effects on access to external financing and on the inflow of resources and foreign direct investment.

Almost one quarter of total FDI inflows in the region come from Europe, mainly Spain (9%), France, Germany and the United Kingdom (5% each). At the individual country level, the United States is the main investor, accounting for 37% of total FDI. The main recipients in 2005-2009 were Brazil, Mexico, Chile and Colombia. In GDP terms, FDI flows to the English-speaking Caribbean are highly significant and in several cases exceed 15% of GDP.

As a result of the global crisis, FDI to the region contracted sharply in 2009, plummeting by 41.8% since the previous year owing to tighter credit in the countries of origin, the worsening of domestic market growth expectations in Latin America and the Caribbean and the downturn in the prices for the raw materials that the region exports. As mentioned earlier, these factors, which play a determining role in FDI, have in general undergone major positive changes since the second half of 2009 and throughout 2010, and FDI flows are now expected to recover significantly.

It is difficult to gauge the extent to which this anticipated recovery might be affected by the turmoil seen in some European economies because opposing forces are now at work. The recovery of the financial systems in Europe has been relatively slower than in the United States, and the financial conditions for FDI from Europe are therefore not as favourable as they were prior to the crisis. The positive growth projections for the region's domestic markets and for the volumes and prices of its exports constitute a strong incentive for FDI, however, and could outweigh the disincentive of less propitious financial conditions in the short term.[17] Meanwhile, although the strong presence of European-based banks in the region has been singled out as a possible channel of contagion, the effects transmitted via this route are not likely to be significant given that their funding depends mostly on domestic deposits and to a far lesser extent on external credit lines.

In short, although the region is not immune to the changes under way in the international financial realm, it is unlikely, this time, to suffer contagion effects as intensely as it did during the debt crises that hit Russia and Turkey at the end of the twentieth century. The risk exposure of Latin America and the Caribbean is lower now, and the major economic policy changes introduced in the wake of the Asian crisis mean that the region is far better prepared to withstand external shocks than before.

(a) Risks posed by the possible effects on trade

Up to the first quarter of 2010, the economies of Latin America and the Caribbean were recovering from the financial crisis against a backdrop of sustained demand for raw materials (driven primarily by the buoyancy of the

[17] This applies in particular to strategically-oriented FDI that aims to ensure a company's market position and protect or increase its market share. One reason that motivated foreign conglomerates to invest in certain sectors throughout almost all the region, especially in banking, was the inverse correlation between the business cycles of Europe and Latin America. The global diversification of investment made it possible to stabilize the conglomerate's profits. The region is therefore still attractive to foreign investors despite the turmoil in their countries of origin. See Alvaro Calderón and Ramón Casilda Béjar, "The Spanish banks' strategies in Latin America", *CEPAL Review*, No. 70 (LC/G.2095-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), April 2000.

Chinese economy), the beginnings of an economic upturn in the United States and a slower recovery in Europe. Recovery in Europe is likely to be even slower now, in the wake of the debt crises that have unfolded in some European countries: several governments have announced measures to reduce the fiscal debt over the next few years that will lead to a contraction of the economy or curtail growth in private spending. These lower growth prospects are likely to lead private investors to revise their investment and their durable goods consumption plans.

In principle, the risks associated with less economic growth in Europe should pose a threat mainly to the economies in which exports to Europe make up a larger proportion of total exports. On average, in 2008, 13.9% of the region's exports were destined for Europe, and 40.7% for the United States. In regional terms, Latin America and the Caribbean are thus more vulnerable to fluctuations in the United States market than anywhere else, which at the moment is a partial advantage. For the region as a whole, an eventual slowdown in Europe could be more than offset by greater growth in the United States and in intraregional trade. Mexico, in particular, would benefit far more than the rest of the region under this scenario owing to the weight of the United States as a market for its exports. The greatest risk for the region as a whole would be for the current crisis to spread to all the developed economies.

Table I.3

LATIN AMERICA AND THE CARIBBEAN: GOODS EXPORTS BY DESTINATION, 2008

(Percentages)

	Intraregional exports	United States	Europe	China	Japan	Rest of the world	Exports to Europe (percentages of GDP)
Panama	14.5	39.2	31.6	4.3	0.4	10.0	21.2
Chile	19.2	11.3	24.6	14.3	10.5	20.1	9.4
Costa Rica	25.4	38.2	17.4	6.3	0.9	11.7	7.5
Uruguay	39.0	3.7	19.3	2.9	0.7	34.4	5.2
Peru	20.4	18.6	17.6	12.0	5.9	25.4	4.1
Argentina	39.2	7.9	18.8	9.1	0.7	24.4	4.1
Nicaragua	30.0	40.5	8.8	0.2	0.7	19.8	4.0
Paraguay	68.9	1.7	8.4	2.1	2.0	16.9	4.0
Ecuador	35.7	45.3	11.3	2.1	0.6	5.2	3.4
Dominican Republic	14.3	60.9	13.8	2.1	0.7	8.2	3.1
Brazil	22.6	14.0	23.5	8.3	3.1	28.6	2.7
Colombia	33.6	38.0	12.8	1.2	1.0	13.4	2.1
Bolivia (Plurinational State of)	65.0	6.9	6.1	1.9	3.1	17.0	1.9
Mexico	6.7	80.3	5.9	0.7	0.7	5.7	1.7
El Salvador	41.9	48.1	7.0	0.2	0.4	2.4	1.6
Guatemala	44.1	39.4	5.6	0.4	1.5	9.0	1.3
Venezuela (Bolivarian Republic of)	5.7	32.0	7.0	0.3	0.0	54.9	1.3
Latin America	18.2	40.7	13.9	4.8	2.2	20.2	
Mexico, Central America and the Caribbean	10.4	75.1	6.8	1.0	0.7	6.1	
South America	23.9	18.5	18.4	7.2	3.2	28.8	
Hydrocarbon exporters	14.5	32.7	7.7	0.7	0.3	44.1	
Mining products exporters	19.6	13.5	22.5	13.6	9.1	21.8	

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from United Nations, Commodity Trade Database (COMTRADE).

In subregional terms, the South American countries are the most exposed to a slowdown in Europe, especially Chile, Uruguay, Peru and Argentina, in which exports to Europe equal at least 4% of GDP. Commodities make up a high proportion of these exports, however, and could be redirected towards other markets more easily than manufacturing exports, for example, whose characteristics and commercialization are more closely linked to specific features of the destination market. In Central America, Costa Rica's exports to Europe also represent a significant proportion of the country's GDP, making it equally vulnerable to falls in external demand.

(b) Risks posed by the possible effects on remittances

As seen on previous occasions, fluctuations in the labour markets in developed countries have a huge impact on remittances and hence on the incomes of poorer families in some of the region's countries that affects both domestic demand levels and the external balance.

Although only limited information on the subject is available. Table I.4 provides some indication of the importance of remittances in selected countries. The countries are ordered by the weight of remittances from Europe in their GDP (right-hand column).[18]

Given the importance of the United States as a destination for migrant workers from Mexico and the countries of Central America and the Caribbean, these countries are probably more vulnerable to fluctuations in the United States labour market than to downturns in Europe. Remittances from Europe are most important in the Jamaica and Ecuador where they account for close to 3% of GDP.

Table I.4

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): REMITTANCES BY WEIGHT IN GDP AND COUNTRY OF ORIGIN

Countries (percentages of GDP)		Share in total by country of origin (percentages)					Remittances from Europe (percentages of GDP)
		United States	Europe	Spain	Rest of Europe	Other sources	
Jamaica	13.8	54.5	21.2	….	21.2	24.3	2.9
Ecuador	5.2	41.4	54.9	44.6	10.3	3.7	2.8
Paraguay	2.0	35.0	56.4	50.7	5.7	8.6	1.1
Colombia	2.0	32.4	50.0	40.9	9.1	17.6	1.0
Honduras	21.0	95.2	0.6	…	…	4.2	0.1
Mexico	2.3	97.0	2.0	…	…	1.0	0.0
Brazil	0.2	40.2	…	…	…	59.8	…
Guatemala	11.3	97.9	…	…	…	2.1	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the countries; World Bank and International Organization for Migration (IOM).

(c) The risks posed by the possible effects on commodity prices

Most analyses of commodity export prices concur that three factors lie behind the rise in commodity prices: (i) the sudden emergence of China and India as major and steady drivers of global demand for raw materials; (ii) the development of a financial products market in which commodities are used as underlying assets and for risk coverage and portfolio diversification, which has introduced new sources of volatility and pressure on prices in the commodities market; and (iii) global monetary conditions that reduced the relative value of the dollar against other reserve currencies.

At the moment, the first two of these factors are still at work, although relatively sluggish growth in Europe could dampen demand and thus lower commodity prices slightly. The greatest risk in this regard is that the low levels of growth in Europe and the United States diminish demand for Chinese and Indian exports because this would depress commodity prices even further.

As a result of the debt crisis in certain European countries, two opposing factors will determine forthcoming variations in the value of the dollar in relation to other reserve currencies: on the one hand, the interest rate differential between the euro zone and the United States, generated by efforts to improve fiscal standing and control inflation at a time when the monetary policy measures taken to tackle the financial crisis are still in force in both regions may cause the euro to rise against the dollar; and on the other, perceptions of country risk, particularly in the wake of the discovery of flaws in the information presented by several European countries on their deficit and public debt levels, may push up the value of the dollar against the euro. The possible strengthening of the euro against the dollar could hamper the competitiveness of European exports, and hence undermine economic growth and the generation of the resources needed to service the burgeoning debt. This introduces an additional element of uncertainty into the equation.

Given the behaviour and size of the financial markets, the uncertainty factor will probably predominate in the short term and lower the value of the euro and commodity prices in the process. Further ahead, once the uncertainty has been dispelled, the euro's recovery, by virtue of the interest rate differential in the euro zone's favour, may become the most influential factor. The upward impact on commodity prices, however, might be diminished by the foreseeably less buoyant growth of the euro zone economies.

In short, the expected interplay of these factors suggests that Latin America and the Caribbean will face a new period of fluctuation on the external front, both in demand for the region's exports in volume terms and in the continuing variability of the prices for its exports as a result of the anticipated instability of the euro/dollar exchange rate. Financial contagion risks, meanwhile, are lower than on previous occasions thanks to the stronger fiscal and external positions the region's countries have maintained as a lesson learned from previous crises in the global financial market.

[18] Estimated on the basis of the participation of remittances in GDP and the participation of Europe in remittances.

Box I.2

CHANGES AT THE INTERNATIONAL MONETARY FUND AND THEIR IMPACT ON THE FUND'S RELATIONS WITH THE COUNTRIES OF LATIN AMERICA

The recent international crisis has both revealed important weaknesses in how the International Monetary Fund (IMF) is managed and created an opportunity to redefine the Fund's role and move ahead with corresponding reforms. From the Latin American and Caribbean perspective, these reforms might help improve a relationship that, although historically close, has been far from harmonious and stable. Indeed, the ties between IMF and the countries of the region have varied considerably and have not been impervious to conflict.

Discussions on the proposed reforms have mainly centred on the following issues:

- The current governance structure has been harshly criticized because of the greater relative representation and voting power of high-income countries.
- Loan programmes have gradually incorporated a series of conditionalities that countries must fulfil in order to draw down disbursements, and as they have evolved these conditionalities have increasingly called for structural reforms. Conditionality has, then, been associated with a stigma on the institutional and political strength and creditworthiness of countries that have turned to IMF and been criticized for imposing a single economic policy model to which all countries had to adapt regardless of their specific characteristics. One of the consequences of these conditionalities that is most frequently called into question is the procyclical bias of the proposed adjustments policies.
- Although there have been attempts to adapt to members' needs, many of these attempts have done little more than tweak a structure created more than 50 years ago. Until a few months back, standby arrangements, first introduced in 1952, continued to be the main instrument to support middle-income countries.
- The low access limit is a restriction on the financing that countries may receive and has thus become an effective impediment during international crises.
- The crisis has exposed notable shortcomings with regard to oversight, which stem from its differing strictness. This has been exemplified by the more lax requirements for relatively more developed countries, including several in which the current crisis originated.

Through the Fund's reform process, these concerns have been approached by means of efforts to modify the governance structure, eliminate structural conditionality, simplify loan facilities —by eliminating seldom used instruments, making standby operations more flexible, developing a flexible credit line (FCL), and creating new instruments for low-income countries— raise access limits and boost available resources.

From the Latin American and Caribbean viewpoint, the IMF reform has had several effects:

- Some countries gained access to new facilities such as the Flexible Credit Line (FCL), "precautionary" standby arrangements and the rapid-access component of the Exogenous Shocks Facility (ESF).
- The 11 agreements signed in 2009 were under the following modalities: Costa Rica, the Dominican Republic, El Salvador and Guatemala signed precautionary standby agreements; Colombia and Mexico accessed the FCL; Dominica, Saint Lucia and Saint Vincent and the Grenadines received ESF credits; and Belize and Saint Kitts and Nevis accessed the Emergency Natural Disaster Facility.
- In the first half of 2010, El Salvador and Jamaica signed non-precautionary standby agreements, Grenada increased its Poverty Reduction and Growth Facility and Mexico extended the FCL that it received in 2009.

It is too early to evaluate the impact of the reform on relations between the Fund and the region and to determine whether the changes will make it possible to overcome the stigma for countries that have agreements with it. It is now apparent, however, that any improvement in relations will depend on various factors, in particular: the introduction of a more equitable distribution of decision-making power in the governance structure; the avoidance of the discretionary use of the new conditionality framework and access to the new FCLs; higher access limits for low-income countries; and the correction of the efforts to avoid asymmetries in the intensity of supervision among different regions and countries. A properly functioning IMF is essential for the countries of the region and for emerging countries in general, as it will allow them to rely less on "self-insurance" and more on international agencies and hence use their own resources more efficiently and equitably.

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J.P. Jiménez and F. Lorenzo (2010) "Los cambios en el FMI y el impacto en su relación con los países de América Latina", *Pensamiento iberoamericano*, No. 6, forthcoming, 2010.

2. Growth prospects for Latin America and the Caribbean

As anticipated, the post-crisis recovery has been relatively swift thanks to the strong fiscal positions that the countries of Latin America and the Caribbean have built up through the implementation of sound macroeconomic policies that created space for what has been, at least in recent economic history, an unprecedented deployment of countercyclical policies. As the recovery takes hold, public policies are relinquishing the leading role they played in the initial stages and, gradually, private consumption and investment are taking over as the driving forces of the rise in demand.

As was noted at the beginning of the chapter, these factors will enable much of the region to post growth of 5.2% this year. The pace of that growth is expected to slow however, with a few exceptions, in the second part of 2010 and into 2011. Several economies in the region, most notably, those of South America will be hit by the negative repercussions of the situation in the euro zone, mainly in the form of waning export growth. A possible slowdown in the United States economy could also hamper the recovery of Mexico, Central America and some Caribbean countries.

The speed of the recovery has raised concerns about a possible rise in inflation, and these could spawn a shift in macroeconomic policy in the region. Although the counter-crisis measures taken in Latin America and the Caribbean have not been as costly or as intense as those implemented in the developed countries,[19] in due course some countries in the region may face the challenge of gradually eliminating their fiscal stimuli, as required by the domestic situation in each country.

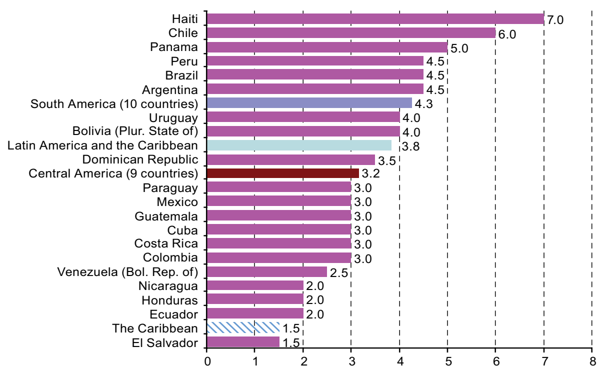
With the possible exception of certain Caribbean economies, sustainability problems in the region have not been of the same order or magnitude as in other crisis episodes or as those suffered by the developed countries in this crisis. Efforts should be undertaken to ensure the region does not lose the gains recently made through prudent macroeconomic management and the maintenance of certain fundamental balances. The main challenges on the fiscal front would now seem to be related to short-term macroeconomic management measures to lower the pressure on the real exchange rate and to help prevent the overheating of the economy where necessary.

As noted earlier, however, it is likely that central banks throughout the region will begin to adopt tougher stances. Depending on what happens in the international financial markets, central banks might find themselves once again faced with having to choose between prioritizing price stability and containing currency appreciation. Currency appreciation has been a recurrent phenomenon in recent years and has led, in some cases, to restrictions being imposed on capital flows in an attempt to increase the manoeuvring room of monetary policy by reducing the impact of the real exchange rate, which is a very important variable for resource allocation.

Both the anticipated developments on the external front and the action of macroeconomic policy are thus expected to rein in growth as of the second half of 2010 and to reduce the expansion of the region's economies to 3.8% in 2011. With the exception of a few countries, including Chile and —especially— Haiti, whose 2011 performance will benefit from reconstruction efforts following the earthquakes which struck in 2010, growth is expected to be slower across the region, most notably in South America, where the rate is projected to fall from 5.9% in 2010 to 4.3% in 2011.

If these predictions hold true, unemployment will decline slowly and could return to pre-crisis levels within three years. The impact of the labour market on the well-being of the population underscores the need to maintain public policies that protect the most vulnerable sectors within a broader strategy that covers not only social issues but also macroeconomic and production policies, in order to make development in the region more inclusive. This is the message that ECLAC sought to transmit at its thirty-third session in the document "Time for equality: closing gaps, opening trails" and the topic to which the rest of this survey is devoted, with an analysis of the distributive impact of macroeconomic policies.

Figure I.32
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH PROJECTIONS, 2011
(Percentages)



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

A more long-term analysis, such as that provided in the aforementioned document, leads to the conclusion that in order to close the social gaps in Latin America and the Caribbean, the region will have to diversify its production structure by building in more innovation and know-how. This will require greater investment in physical and human capital to narrow the productivity gap and pave the way for sustainable and inclusive economic growth.

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[19] See International Monetary Fund (IMF), "Navigating the fiscal challenges ahead", *Fiscal Monitor Series*, 14 May 2010.

Part 2

Distributive impact of public policy

Introduction

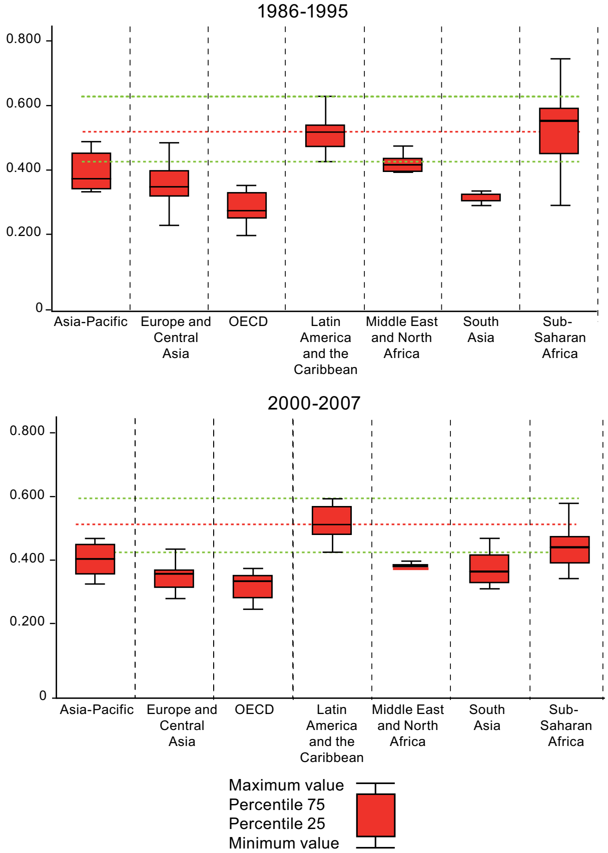
The purpose of this part of the document is to contribute to discussions of the impact that public policy can have in strengthening the link between economic growth and distributive equity, a link which has been quite elusive in the region's economic history. The difficulties encountered in Latin America and the Caribbean in terms of consolidating that link are reflected in the idea of an empty box, taken from a work by Fernando Fajnzylber (Torres Olivos, 2007). In the early 1990s, Fajnzylber constructed a double-entry table in which he placed the Latin American countries according to their performance in respect of two variables: the income concentration index and the growth rate. Only one box remained empty, the one which combined high growth with low inequality; that was the source of the idea of the "empty box" as a chronic deficit in the region and a challenge which still faces its analysts and policymakers.

The chronic inequality affecting Latin America and the Caribbean has its roots in the region's history, going back to the privileges of the elite during colonial times, and the denial of rights to the great majority of the population according to racial and class categories. This situation reduced most of the people of the continent to slavery at that time. During the republican period, privilege continued to be reproduced through other means such as unequal access to land ownership, concentration of movable wealth, scant development of public education and health care, and racial discrimination; lastly, the pattern of development and modernization perpetuated socio-economic gaps based on racial and ethnic origin, social class and gender. Productive structures and educational opportunities reinforced patterns of reproduction of inequality, and to a great extent are still doing so.

The region shows levels of inequality in personal income distribution which are much higher than in the other regions of the world, with an average Gini coefficient of 0.53; as can be seen in figure 1, this has remained practically unchanged for 20 years. The information contained in figure 2 confirms the situation of serious inequality in the region, where all the Latin American countries have Gini indices above 0.4; in most of them the indicator is over 0.5. The region's least unequal country is more unequal than any of the Organisation for Economic Co-operation and Development (OECD) countries or any State in the Middle East or North Africa.

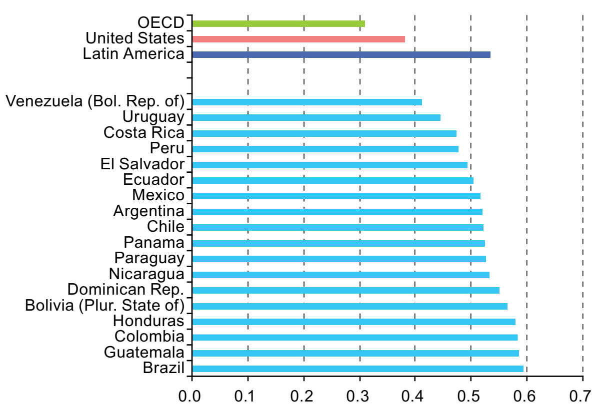
A distinctive feature of the inequality in the region is the large fraction of total income captured by the highest stratum, that is, the richest decile of households, as shown in figure 3. That decile averages 35% of total income, although there is considerable variation around this value. While in the Bolivarian Republic of Venezuela and Uruguay the share of the top decile is 28% of the total, the figure exceeds 40% in Brazil and Colombia. At the opposite extreme, the stratum consisting of the poorest 40% of households averages 15% of total income. The lowest figure is for Honduras, where it is below 10%. While the gaps between intermediate deciles are less pronounced, there is a very clear discrepancy between the highest-income decile and the second. In the European countries the income of the tenth decile is 20% to 30% more than that of the ninth, in Latin America that gap tends to be over 100% and in some cases it comes close to 200%.

Figure 1
GINI COEFFICIENTS BY GROUPS OF COUNTRIES



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

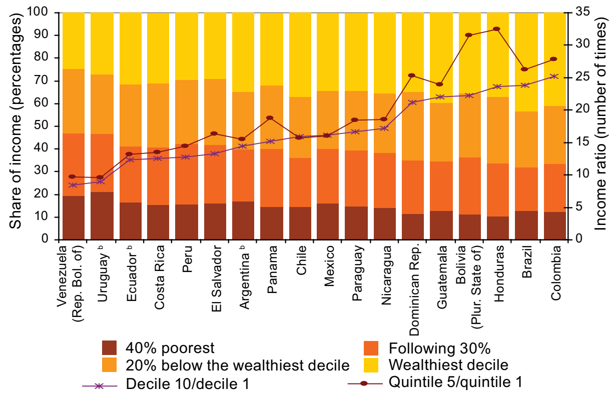
Figure 2
OECD AND LATIN AMERICA: GINI INEQUALITY INDICES 2003-2008



Source: Economic Commission for Latin America and the Caribbean (ECLAC) and Organisation for Economic Co-operation and Development (OECD).

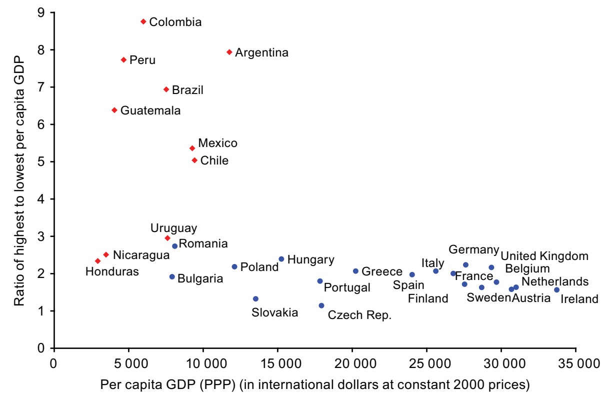
A further dimension of inequality in Latin America, of particular interest for policy design, is the level of geographical inequality. To illustrate, figure 4 compares the per capita GDP gap in the richest and poorest geographical areas with per capita GDP for a series of European and Latin American countries. With the exception of the smallest Central American countries and Uruguay (the latter having the best indicators of equity and a clearly unitary organization), the gaps are very large, unequalled in any European country. The per capita GDP of Europe's richest area is almost double that of the lowest-income area in the same country, in Latin America that ratio is about six.

Figure 3
LATIN AMERICA (18 COUNTRIES): INCOME DISTRIBUTION BY DECILE, AROUND 2007 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Social Panorama of Latin America, 2008* (LC/G.2402-P), Santiago, Chile, March 2009. United Nations publication, Sales No. E.08.II.G.89.
[a] Households ordered by per capita income.

Figure 4
LATIN AMERICA AND EUROPE (SELECTED COUNTRIES): RATIO OF HIGHEST TO LOWEST PER CAPITA GDP WITHIN THE SAME GEOGRAPHICAL AREA AND PER CAPITA GDP



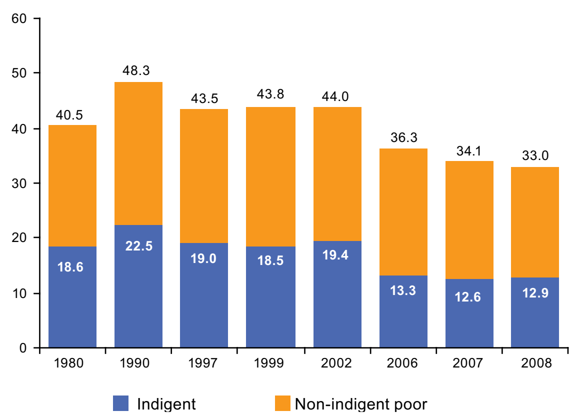
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Oscar Cetrángolo, "Búsqueda de cohesión social y sostenibilidad fiscal en los procesos de descentralización", *Políticas sociales series*, No. 131 (LC/L.2700-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2007. United Nations publication, Sales No. S.07.II.G.50.

These indicators reflect the difficulty of the task of improving equity and cohesion and show the complexity of achieving that aim by means of decentralized policies, since the poorest areas are exactly those which have the lowest tax bases for funding the priorities of local public spending (such as infrastructure, health care and education).

Levels of poverty are another important variable in seeking to understand the situation of the Latin American countries, in terms of their ability to generate resources for meeting the needs of the population and designing public policies to contribute to greater equity. According to the *Social Panorama of Latin America, 2008* (ECLAC, 2008), the latest available estimates for the Latin American countries show that in 2008, 33% of the population were living in poverty. Extreme poverty (indigence) affected 12.9% of the population. The total number of people living in poverty was 182 million, of whom 71 million were indigent.

Poverty indicators vary substantially among the countries of the region. The lowest levels of poverty are to be found in Argentina, Chile, Costa Rica and Uruguay, with poverty rates below 22% and indigence rates between 3% and 7%, whereas the countries with the highest levels of poverty and indigence, exceeding 50% and 30%, respectively, are Guatemala, Haiti, Honduras, Nicaragua, Paraguay and the Plurinational State of Bolivia. The high rates of poverty and indigence in these countries have a major impact on the ability of the public sector to collect taxes, and this restricts the availability of resources for implementing policies to meet the basic needs of the poorest segments of society.

Figure 5
LATIN AMERICA: POVERTY AND INDIGENCE, 1980-2008
(Percentages)

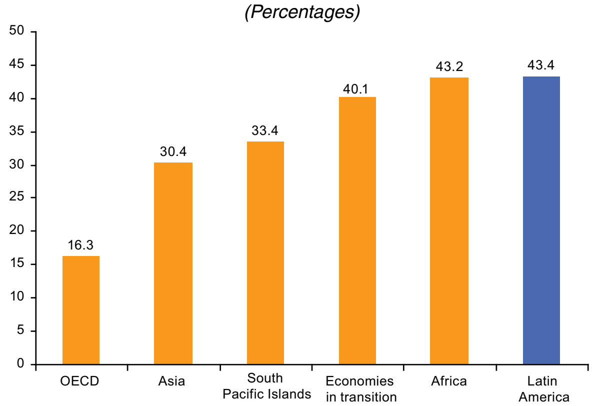


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of special tabulations of household surveys conducted in the respective countries.

[a] Estimate relating to 18 Latin American countries, plus Haiti. The figures in the upper parts of the bars represent the percentage of poor people (indigent plus non-indigent poor).

An additional dimension to be taken into account is the weight of informality in the economy, an indicator which can reflect the composition of employment and the extent to which various groups are protected, as well as the issue of tax evasion. According to estimates by Schneider and Enste (2000), Latin America has the highest level of informal economic activity of all the world's regions; it is even higher than that in other developing regions.[1]

Figure 6
THE WORLD: THE INFORMAL SECTOR, AVERAGES FOR 2002-2003
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Friedrich G. Schneider, "Shadow economies and corruption all over the world: what do we really know?", *Economics Working Papers*, No. 2006-17, Department of Economics, Johannes Kepler University, Linz, 2006.

As the Economic Commission for Latin America and the Caribbean (ECLAC) has noted in other publications, the period of sustained growth in the region from 2003 to 2008 saw poverty and indigence fall by eleven and six percentage points, respectively, while income concentration also fell slightly. These improvements were brought about mostly by labour-market forces and, to a lesser extent, by trends in demographic variables (falling dependency rates), as well as increases in transfers received by households. Beyond these positive data, the evidence shows that there are still broad social gaps based on two major dimensions: first, the capacity of the labour market to generate income which can sustain the members of society, and second, the capacity of States to support and protect dependants, that is, those who have no income or whose employment incomes are insufficient.

The countries with the smallest social divides are those which have high GDP, lower demographic dependency rates, less informality in their labour markets, and greater social security coverage. The public sector also plays a greater role in those countries, in terms of the provision

[1] Scheider and Enste note that studies seeking to measure the underground economy are faced, first, with the difficulty of defining it. The underground economy, also known as the parallel or informal economy, includes not only illicit activities but also undeclared income from the production of lawful goods and services, involving monetary transactions and barter.

of health services (smaller proportions of out-of-pocket expenditure) and in relation to social spending, which is greater not only in per capita terms, but also as a percentage of GDP.

Direct intervention by the State through the level and structure of its tax receipts, as well as monetary transfers to low-income groups, has a significant incidence on income distribution and poverty. In the OECD countries, the estimated Gini coefficient before taxes and transfers is 0.45, but it falls to 0.31 following the redistributive action of the State. On the other hand, ECLAC (2010) shows that in some Latin American countries the equivalent variation of the Gini index is between half and a third of that observed in the developed countries.

This is because most Latin American countries have low tax burdens, regressive tax structures and inappropriate orientation of public social spending. The countries of the region are faced with the challenges of boosting the receipts they collect and also of improving the impact of taxation on income distribution, increasing the burden on the wealthier sectors. At the same time, it is hoped that the structure of the spending financed with those resources can help to construct more cohesive societies, increasing the legitimacy of public policy and therefore of paying the taxes intended to finance them. Demand for more public spending is not limited to the social sphere, however; it can include other areas which, like public investment or productive development policies, have an impact on competitiveness, on production profiles, and consequently on growth rates and the way in which their fruits are distributed.

As will be seen in chapter I of this part of the document, although there can be no doubt that macroeconomic stability is necessary for the region to be able to grow more and share better, that stability goes beyond ensuring low and stable inflation rates; it must take account of the need to reduce real instability. To achieve this, macroeconomic policy design should consider the need to deal with the fluctuations associated with economic cycles, avoiding excessive instability in the level and quality of services provided by the State, and of key variables such as the real exchange rate and interest rates. Furthermore, it is a very important goal for low-income groups, whose spending is restricted by their low saving capacity and limitations on their access to the financial market.

The opportunity that many of the countries of the region have had recently to implement a variety of measures to alleviate the impact of the worldwide crisis on economic activity and the social situation has revalued the role of the State and of active policies; however, at the same time, it exposed the huge differences between the countries of the region in terms of their capacity to implement those policies. This has underlined the importance of broadening the public policy domain, strengthening instruments to follow up the agreed goals, ensuring the availability of any resources needed for financing the initiatives to be put into practice and strengthening the institutions responsible for implementing them.

This document will focus on the distributive impact of a limited set of public policies. Chapter I will consider the consequences for income distribution of macroeconomic volatility, the way in which the latter affects the labour market, and policy options for dealing with it. Chapter II is dedicated to analysis of the distributive impacts of tax policy, and chapter III deals with social spending. Lastly, chapter IV will take stock and draw overall conclusions.

The fact that the analysis focuses on certain aspects of public policy imposes certain constraints. First, the distributive effects of other elements of public spending aside from social spending will not be considered; neither will the indirect effects of general fiscal strategy or other macroeconomic areas such as interest-rate or exchange-rate policies. The second limitation of the analysis is that distributive incidence and impacts will always be dealt with in a static manner and from the viewpoint of partial equilibrium. The analysis of the distributive impact of education or health-care spending, for example, does not consider its possible effects on the potential future earnings of the recipients. Also not taken into account are the possible interactions among the various policies analysed, nor between them and the behaviour of economic agents and their subsequent distributive impacts.

Chapter I

Macroeconomic volatility, employment and income distribution

Macroeconomic policy analysis makes little reference to distributive issues, yet this area of policymaking often has major implications for distribution, which generate complex dilemmas between actions which have different impacts on various social groups. It is therefore important to consider the possible distributive impacts of the different tools of macroeconomic policy, such as the management of monetary aggregates, the level and composition of public spending, or the proportion of revenue obtained from different types of taxation.

As mentioned above, the concern of ECLAC with macroeconomic stability is not limited to the need to achieve the lowest and most stable inflation possible; it is also aware of the huge costs of real instability in Latin America, not only from the growth perspective, but also in terms of its impact on poverty and inequality. Thus, as Raúl Prebisch wrote more than 60 years ago: "Anti-cyclical policies must be included in any programmes of economic development if there is to be an attempt, from a social point of view, to raise real income. The spread of the cyclical fluctuations of the large centres to the Latin-American periphery means a considerable loss of income to these countries. If this could be avoided, it would simplify the problem of capital formation. Attempts have been made to evolve an anti-cyclical policy, but it must be admitted that, as yet, but little light has been thrown on this subject" (Prebisch, 1950).

A. Characteristics of volatility in Latin America and the Caribbean

An analysis of aggregate fluctuations in Latin America and the Caribbean shows that the region has shown very high volatility compared with more developed countries. The variance of the growth rate in 1951-2008 in Latin America is 50% higher than in Europe and the United States (Kacef and Jiménez, 2010).

At the same time, as figure I.1 shows, there have frequently been episodes which may be described as crises, some of which have sharply curtailed growth or even caused a production collapse, that is, a drop in the absolute value of per capita GDP.[1] There have also been frequent shocks which altered long-term trends, contrasting with temporary turmoil which, by definition, is followed by a return to the mean.

Economists who subscribe to structuralist theories have argued repeatedly that fluctuations in the region's economies are closely related to external shocks (such as sudden trend reversals in capital flows or sharp variations in the terms of trade).[2] Such fluctuations tend to be accompanied by changes in the sustainability prospects for public and external debt and increased fragility in the financial system. They have often led to adjustment processes, often including major shifts in relative prices (and, therefore, in income distribution) and in the organizational structures of economic activity (private contracts, public regulation, property rights).

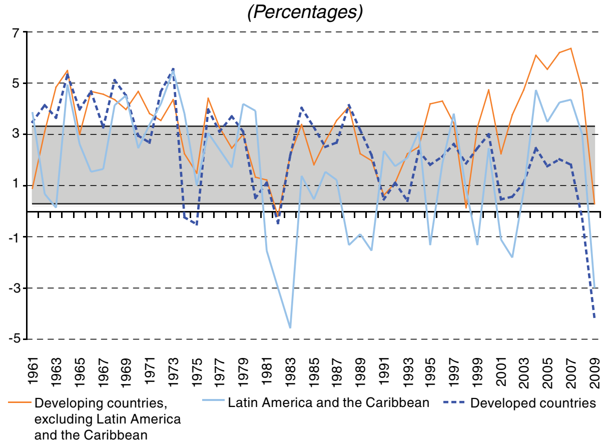
Macroeconomic volatility, as a source of or the reflection of underdevelopment (Chang, Kaltani and Loayza, 2009) has therefore been a subject of particular interest in analysing the external performance of the Latin American and Caribbean region. Level of macroeconomic volatility is associated with a variety of elements, which differ according to each country's specific features, including its pattern of international integration, productive structure, economic policy, vulnerability to natural disasters and institutional framework (ECLAC, 2004, 2008).

A number of studies have found a negative correlation between volatility and GDP growth. While the channels interconnecting these variables are not easy to identify, there is a degree of consensus that sharp variations in investment play a key role.[3] Given the imperfect credit markets common in peripheral economies, the fall in investment during the recessionary phase of the cycle exceeds the upturn that ensues during the expansionary phase, resulting in a negative balance. Increased risk aversion among investors during turbulent periods in the region, when crises involve several countries at the same time, can put abrupt an end to slow-maturing projects, damaging investment efficiency.

Figure I.1

NORMAL VOLATILITY AND EXTREME VOLATILITY (CRISIS) IN PER CAPITA GDP GROWTH, 1961-2009 [a]

(Percentages)



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

[a] Volatility is considered to be extreme when per capita GDP varies by a percentage which is less than the worldwide figure minus one standard deviation during the period under consideration. This range corresponds to the shaded area in the figure.

Another stylized fact is that consumption is more volatile than GDP in Latin America and the Caribbean (Toledo, 2008). The high volatility of consumption means that poverty rates are also very changeable, particularly when there is a high density of households with per capita incomes close to the poverty line. In these circumstances, falling incomes and consumption can leave large numbers of people below the poverty or indigence line.

1 ECLAC (2008) offers a number of relevant definitions.

2 ECLAC has emphasized these links since its beginnings (see Prebisch, 1949 and Rodríguez, 2006).

3 See ECLAC (2008) and the bibliography quoted therein.

B. The consequences of volatility [4]

1. For well-being

The impact of volatility on well-being is measured in terms of falling per capita consumption resulting from slower economic growth. Volatility causes creation and destruction of wealth through changes in relative prices and in property rights. The uncertainty this causes discourages investment and holds down growth and employment.

When consumption is more volatile than income, as is the case in the region, the same is true of the impact on well-being.[5] Furthermore, as mentioned above, highly volatile consumption means highly volatile poverty, especially where there are many households with per capita incomes close to the poverty line. In these conditions, a relatively sharp fall in consumption can leave many people below the minimum income level needed in order to satisfy their needs. Two examples illustrate this connection: Mexico, where the crisis of 1995 raised the percentage of poor from 45.1% in 1994 to 52.9% in 1996; and Argentina, where the 2002 crisis pushed up urban poverty from 23.7% in 1999 to 45.4% in 2002 (ECLAC, 2007).

2. For the labour market and income distribution

In a region which, like Latin America and the Caribbean, is characterized by sharp inequalities and marked unevenness in the access of different social groups to the goods and services produced in the economy, equity cannot be increased without considering the differential impacts of volatility on the well-being of different income groups. From a macroeconomic perspective, this unevenness has a number of dimensions, beyond the vulnerability, as mentioned of the lowest income groups to fluctuations in consumption due to their proximity to the subsistence level. One of these dimensions has to do with the differential impacts of volatility on employment (Weller, 2010).

Both theoretical arguments and empirical evidence show that high volatility in economic growth is counterproductive, both for the generation of quality employment and for equality.[6] The literature on human capital notes that in many cases, workers' skills are acquired by practice, during the actual production process. Some of that increased human capital is specific to the post and to the technology of the particular place of work, so it is likely to lose its value when the worker changes jobs. As a result, high rotation resulting from high macroeconomic volatility has a depressing effect on workforce productivity and income.

Even in periods of relative macroeconomic stability, however, the region's labour markets show high levels of rotation.[7] It is sometimes argued that this facilitates reassignment of the workforce from declining enterprises and sectors towards new sectors and expanding businesses. Empirical data, however, show that during the structural reform period, intersectoral labour migrations in Latin America and the Caribbean did not take place from low-productivity to high-productivity segments, but the reverse (Pagés, Pierre and Scarpetta, 2009).

Not all workers are hit equally hard by job losses during periods of economic instability. Businesses are usually more interested in keeping their more highly-skilled workers but, with regard to less-skilled workers, tend to adopt profit-maximizing strategies involving increased use of short-term contracts and outsourcing. Thus, at the microeconomic level, the speed of rotation is inversely related to the skill levels of the workforce (Cowan and Micco, 2005), and less educated workers suffer greater income instability than their more skilled colleagues (Beccaria and Groisman, 2006).

4 For more detail, see Kacef and Jiménez (2010).

5 Pallage and Robe (2001) note that the volatility of consumption has a high cost for developing countries. To bring that volatility to the same level as in the developed countries would be equivalent to increasing the GDP growth rate by 0.34 percentage points in perpetuity.

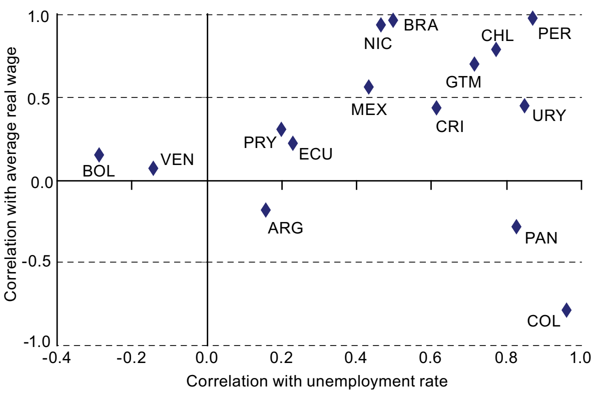
6 See Farber (1999), Auer, Berg and Coulibaly (2005) and Perry and others (2006).

7 See Calderón-Madrid (2000), Cowan and others (2005) and SPTyEL (2005).

Comparison of the volatility of economic growth with that of real wages and unemployment rates for the period from the early 1990s to 2006 shows a number of patterns of labour-market adjustment among the Latin American countries. Figure I.2 shows that in Chile, Guatemala and Peru, there are strong correlations both between the volatility of economic growth and that of the unemployment rate, and between the volatility of the growth rate and that of real wages. In Costa Rica and Uruguay the correlation is greater in the case of unemployment (adjustment resting more on variations in employment levels); this is also the case in Colombia and Panama, where the correlation in the case of wages is actually negative.

In Brazil, Mexico and Nicaragua the correlation is high for wages but somewhat lower for employment (more adjustment via real wages). Lastly, Argentina, the Bolivarian Republic of Venezuela, Ecuador, Paraguay and the Plurinational State of Bolivia show low or negative correlations in both cases. In those countries, the labour-market adjustment apparently takes place through the informal labour market or emigration.[8]

Figure I.2
LATIN AMERICA (15 COUNTRIES): CORRELATION BETWEEN VOLATILITY IN ECONOMIC GROWTH AND IN UNEMPLOYMENT AND AVERAGE REAL WAGES

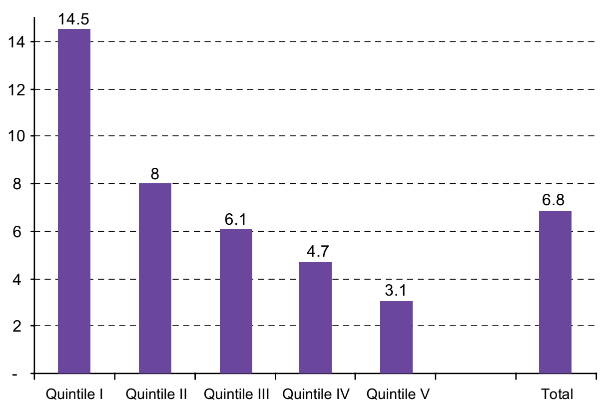


Source: Jürgen Weller, "La flexibilidad del mercado de trabajo en América Latina y el Caribe. Aspectos del debate, alguna evidencia y políticas", *Macroeconomía del desarrollo series*, No. 61 (LC/L.2848-P/E), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2007. United Nations publication, Sales No. S.07.II.G.171.

Another dimension of the distributive impact of volatility involves types and levels of market integration (between formality and informality, for example), because of sharp disparities in the effects of policies on different groups. In Latin America and the Caribbean, at times of high volatility the incomes of poorer households fluctuate more severely and unemployment is worse among the poorer strata (see figure I.3); and that lack of employment opportunities pushes workers towards informality (see figure I.4). Those impacts are often long-lasting, since crisis episodes have consequences in terms of employment, poverty and inequity which are remedied only slowly during expansionary periods. Crises also lead many young people from lower-income households to leave the educational system and enter the labour market. This tends to reinforce the perpetuation of poverty and inequality.

The unevenness is also reflected in differences in access to markets, particularly financial markets and, as a result, unequal ability to cushion the impact of volatility. These characteristics imply that high-income and low-income groups have widely differing ranges of choices available to them. In particular, given their capacity for saving and generating stocks of wealth, the high-income groups can diversify their risk-taking in order to protect their capital from internal volatility; they can also use their assets or, possibly, their access to credit, to moderate the impact of income fluctuations on consumption.[9] In relatively high-inflation economies, they are better able to avoid the resulting tax on cash assets by moving their capital to alternative assets whose value is better protected from the effects of inflation. Low-income groups, on the other hand, are constrained in their opportunities to anticipate and prevent shocks and therefore suffer strong impacts when they occur (Krusell, Kuruscu and Smith, 2002).

Figure I.3
LATIN AMERICA (18 COUNTRIES): UNEMPLOYMENT RATE, AROUND 2008
(Percentages of the economically active population)

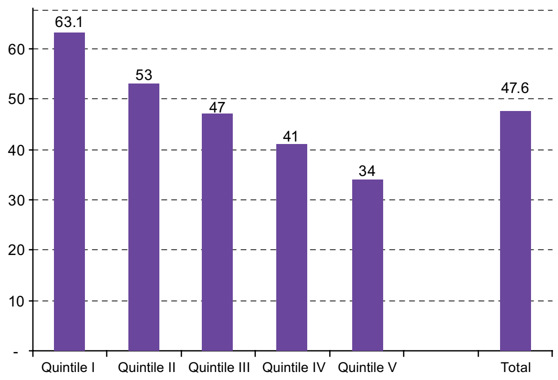


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information from the respective countries.

8 Other authors, agreeing that there is a variety of adjustment mechanisms in the labour market, have found other patterns. For example, Ros (2006) shows three distinct ways in which, during the period 1990-2002, the countries of the region adapted to the insufficient creation of formal employment: (i) through the expansion of informal jobs (Brazil, Colombia, Honduras, Mexico and Peru); (ii) through the expansion of informality and the growth of unemployment (Bolivarian Republic of Venezuela and Costa Rica); (iii) mainly through higher unemployment (Chile, Ecuador and Uruguay). Ros also mentions that falls in real wages during the same period were not part of the adjustment mechanism.

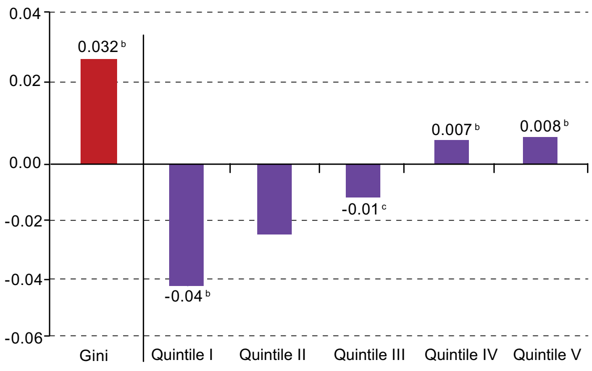
9 Indeed, given the high concentration of wealth, they have a greater capacity to influence volatility directly through the impact of their own decisions on saving, investment and the composition of their investment portfolios.

Figure I.4
LATIN AMERICA (18 COUNTRIES): RATE OF EMPLOYMENT INFORMALITY IN THE URBAN SECTOR, AROUND 2008
(Percentages of total urban employed)



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

Figure I.5
THE WORLD (75 COUNTRIES): VOLATILITY AND INCOME DISTRIBUTION, 1975-2005 [a]
(Logarithm of Gini coefficient and percentage points)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of César Calderón and Eduardo Levy-Yeyati, "Zooming in: from aggregate volatility to income distribution", *Policy Research Working Paper series*, No. 4895, World Bank, 2009.

[a] These are panel estimates on 75 countries for 1975-2005, with five-year intervals. The dependent variable is the logarithm of the Gini coefficient and the income share per quintile and the independent variable is the deviation of GDP growth. The control variables included are the Gini coefficient (t-1), real income per person, the square of real income per person, the rate of secondary educational enrolment, the rate of inflation and government spending as a percentage of GDP.

[b] Statistically significant at 5%.

[c] Statistically significant at 10%.

Through these channels, volatility generates higher inequality (see figure I.5). According to a study by Calderón and Levy-Yeyati (2009) for 75 countries, the Gini coefficient is positively and significantly associated with macroeconomic volatility. At the same time, macroeconomic volatility is negatively correlated with incomes in the first three quintiles of income distribution but positively correlated with income in the two highest quintiles.

3. For the macroeconomic policy space

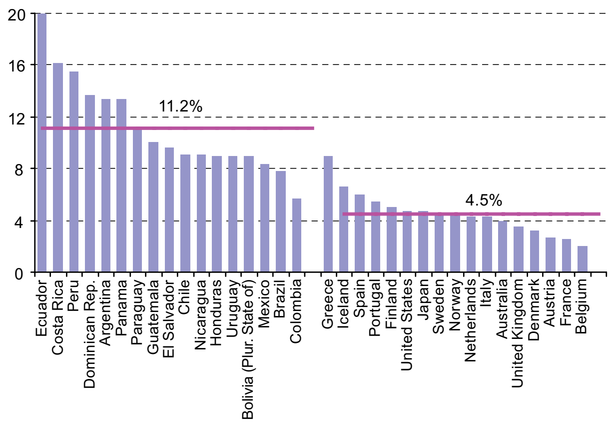
In the Latin America and Caribbean region, the magnitude of policy space can change very quickly after a shock. Macroeconomic volatility shapes the policy area not only by influencing resources, but also by determining the intensity with which other policies compete with those of stabilization, and because it often limits the quantity of policy tools available (for example, during crises the market for new public borrowing may disappear). When a negative shock occurs, as in 2008-2009, demand from the affected sectors increases and there is intensified competition for the use of both resources and policy instruments, which are structurally scarce in the region.

These factors create a two-way relationship between the fiscal function of stabilization and macroeconomic imbalances and shocks: fiscal policies seek to correct imbalances opened up by shocks, but shocks and imbalances constrain policymaking capacity by leaving less room for manoeuvre. Fiscal policy is a good example of this effect. As GDP falls, tax receipts are reduced and the borrowing capacity of the public sector often suffers where access to capital markets is procyclical.

As can be seen in figure I.6, tax receipts in the region are highly volatile —volatility is almost three times higher, on average, than in the developed countries, as measured by the standard deviation of these revenues (Gómez-Sabaini and Jiménez, 2009). This volatility has a greater impact on the most vulnerable population segments, through the fluctuations it produces in public social spending. In many countries, tax receipts are doubly affected by external shocks (directly, and also indirectly through the level of economic activity).

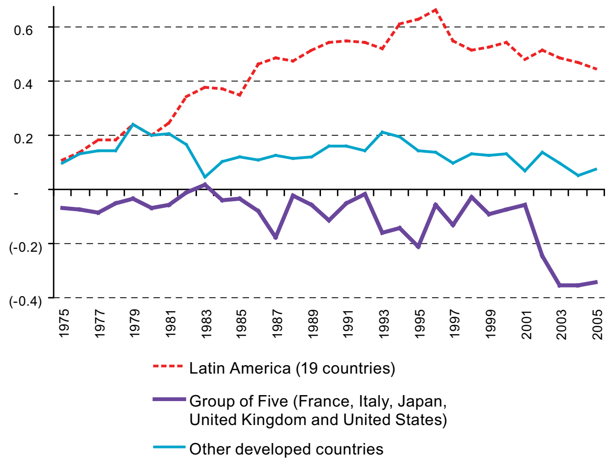
All this is worsened by the highly procyclical nature of access to financing for the countries of the region. Together with the combination of scarce and volatile resources and unmet social needs, this generates procyclical spending policies. This is confirmed by the data in figure I.7, which shows the 30-year trend in the coefficient of correlation between government spending and GDP. Spending is seen to be increasingly procyclical (at least up to the late 1990s), unlike what has occurred in the developed economies. This implies that in Latin America and the Caribbean the State's capacity to provide welfare assistance falls during recessionary periods (ECLAC, 2006), adding a further element of volatility to the consumption of the poor (de Ferranti and others, 2002) whose incomes are significantly supplemented by social spending (see figure I.8).

Figure I.6
LATIN AMERICA AND OECD COUNTRIES: STANDARD DEVIATION OF THE GROWTH OF TAX RECEIPTS (NOT INCLUDING SOCIAL SECURITY), 1980-2008
(Percentages and dollars at constant 2000 prices)



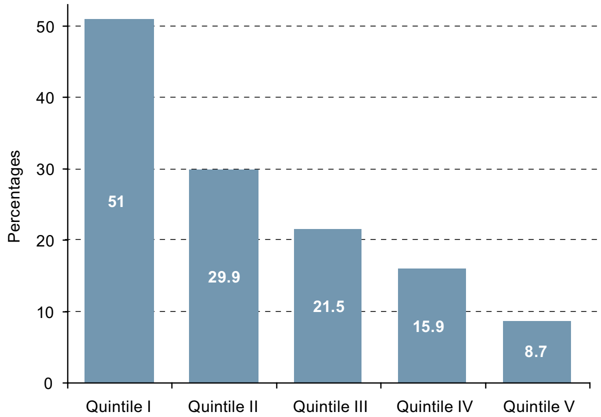
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Figure I.7
LATIN AMERICA: PROCYCLICITY OF GOVERNMENT SPENDING COMPARED WITH THAT OF DEVELOPED COUNTRIES, 1975-2005 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] For each country, correlation coefficients were calculated between the variation of government spending and that of economic growth, for 15-year moving windows; subsequently, the average of the coefficients was calculated for the countries of each region.

Figure I.8
LATIN AMERICA (SIMPLE AVERAGE): IMPACT OF SOCIAL SPENDING ON PRIMARY HOUSEHOLD INCOME, BY PRIMARY PER CAPITA INCOME QUINTILES, 1997-2004
(Percentages)



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

4. Macroeconomic volatility and public policies

As described above, macroeconomic volatility affects the growth and stability of consumption and gives rise to sudden, undesirable changes in income distribution and in the allocation of property rights; as a result, it generally leads to distributive conflicts. Such situations tend to be worsened by the negative impact of macroeconomic volatility on the quantity and quality of public policies. One set of policies may gain ascendance over others, damaging the governance of economic activity (ECLAC, 2008).

This impact of volatility on well-being, income distribution and the macroeconomic domain will affect the political and social situation and produce social tension and distributive conflicts, worsening the instability. Following Alesina and Perotti (1996), who established a causal link between equity, stability in democratic institutions and growth, it could be said that real volatility has an impact at both ends (equity and growth) and creates a vicious cycle which may damage democratic governance. This is why a strategy to improve income distribution must include the generation of fiscal space for implementing policies on the basis of resource saving and asset accumulation or the generation of borrowing capacity.

C. Characteristics of growth and its distributive impact

Some 80% of household income is derived from employment (waged or own-account). For this reason, labour market determines much of income distribution and the economy's capacity to generate employment and the characteristics of the jobs created are vitally important.[10]

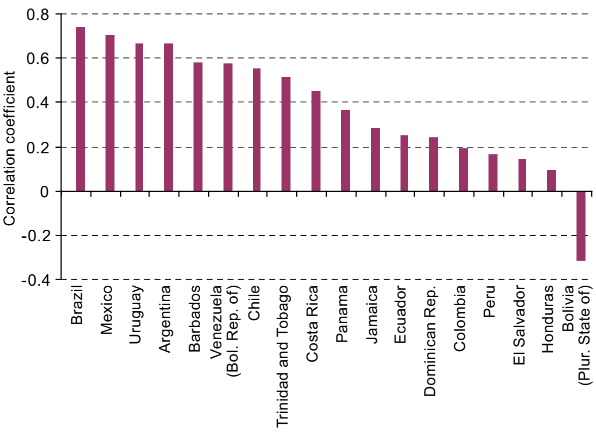
In the region, the creation of jobs, especially waged and formal jobs, is closely associated with economic growth. But since many households need to generate labour income simply to subsist, when economic activity levels are low or falling —and demand for labour is consequently weak— self-employment operates as an adjustment and adaptation mechanism in avoidance of open unemployment (ECLAC and ILO, 2010). Thus, a proportion of employment in the region arises out of labour supply pressure caused by subsistence needs. Comparison between countries tends to reveal a high correlation between demographic change and the variation of the number of employed persons (Weller, 2000, p. 77).

Since the employment rate for the region as a whole reacts strongly to growth pattern changes, Latin America and the Caribbean clearly does not offer an example of "jobless growth". On the contrary, many Latin American and Caribbean countries have in the past evidenced a process of "growthless jobs", in other words, employment creation amid very low growth (Pagés, Pierre and Scarpetta, 2009). These jobs tend to be low-productivity and low-waged jobs and have negative distributive impacts.

When the behaviours of the employment and economic growth rates are analysed in relation to each other, a group of countries emerges with a positive correlation of over 0.5 between changes in the two variables: Argentina, Barbados, the Bolivarian Republic of Venezuela, Brazil, Chile, El Salvador, Mexico, Trinidad and Tobago and Uruguay. On the other hand, the correlation is low in Colombia, the Dominican Republic, Ecuador, Honduras, Jamaica and Peru, and actually negative in the Plurinational State of Bolivia (see figure I.9).

Figure I.9

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): COEFFICIENT OF CORRELATION BETWEEN ECONOMIC GROWTH AND CHANGES IN THE EMPLOYMENT RATE, 1985-2009



Source: Jurgen Weller, "Contexto macro, empleo e impacto distributivo", document presented in the workshop on distributive impact in public policies, Economic Commission for Latin America and the Caribbean (ECLAC), Santiago, Chile, 28- 29 April 2010.

The fact that the correlation coefficients are higher in countries with higher average incomes, while the countries with lower coefficients are typically those with lower per capita GDP, appears to be consistent with the hypothesis described above. In the second group of countries, the pressure of labour supply is inflexible in relation to the cycle, and subsistence needs force households to generate employment income regardless of variations in demand.

[10] For a simple average of 17 Latin American countries in 2005, employment income determined 77.3% of the Gini coefficient of total income; with the exception of Uruguay, the countries were all within the 70%-90% range. In the same year, the Gini coefficient for employment income averaged 0.536, ranging from 0.452 in Costa Rica to 0.587 in Honduras (Medina and Galván, 2008).

This type of self-generated jobs is characterized by low productivity and quality. On the other hand, as mentioned in the previous chapter, countries with relatively high per capita incomes tend to have a more formal labour market, higher levels of social protection and lower rates of poverty and indigence (Uthoff, 2010).[11]

As discussed so far, economic growth and its volatility, as well as demographic change, affect the pressure of labour supply and have a major impact on the generation of employment and on its composition. But other variables, many related to the nature of economic growth, also influence equality outcomes in the labour market. These include the diversity of the productive structure and of the workforce, biases in labour demand by educational level, the quality of employment in terms of social protection, and the possession of attributes which are the object of discrimination (such as gender, religion and country of origin).

1. Distributive aspects of the production structure

It follows from the discussion in the previous section that the creation of jobs in sectors of widely varying productivity levels has a major impact on income distribution. The employment structure deteriorated during the 1990s and up to the early 2000s (though this was partly reversed in the mid-2000s), with the share of low-productivity sectors in urban employment growing from 47.2% in 1990 to 50.8% in 2002, before falling back to 47.4% in 2007.[12]

The relative weakness in the creation of productive jobs in the 1990s was also reflected in a widening of the income gap between enterprises of different sizes. The ratio of average wages in microenterprises to those in small, medium-sized and large enterprises fell from 73% in the early 1990s to 62% around 2002. There was an even greater fall in the incomes of non-technical own-account workers, whose incomes fell from 99% to 73% of average wages for small, medium-sized and large businesses. During the following years (data up to 2006), however, when there was an increase in waged job creation jobs in formal enterprises, those gaps narrowed somewhat, to 66% in the case of microenterprises and to 75% for own-account workers (ECLAC, 2010b).

As mentioned above, therefore, it may be concluded that because of structural productive heterogeneity, a low-growth phase tends to worsen income distribution, whereas faster growth provides a more favourable context for cutting inequalities. Likewise, it is possible to identity sectoral patterns of job creation which favour or threaten poverty reduction efforts.[13]

2. The impact on wage inequalities of shifts in the composition of labour supply and demand

Wage inequality is partly due to the gap between workers with different skill levels. One notable outcome is that, for comparable occupations, the wage gap between more and less skilled employees has been found to be wider in the poorer countries (Freeman and Oostendorp, 2000).

Contrary to the expectations generated by the main schools of economic thought in the 1990s, both national case studies and comparative analyses have shown that, just as in the more developed countries, Latin America and the Caribbean saw a widening of the wage gap.[14] Despite improvements in the educational structure of the workforce, which provided more skilled workers, the incomes of the most highly qualified increased in relation to parts of the workforce with fewer years of formal education. The income gap between those with least schooling and workers with intermediate educational levels has not widened, perhaps because of the strong increase in the supply of labour with secondary education.

11 Means of generating resources to fund public policies for improved equality are dealt with in the next chapter.

12 Simple average of 15 countries (calculated on the basis of ECLAC (2010b), table 18 of the statistical appendix).

13 Gutierrez and others (2007) found that intensive growth of employment in manufacturing industry fostered poverty reduction, whereas the same trend in agriculture led to increased poverty.

14 See national examples in Robbins (1994), Pavcnik and others (2002), Altimir, Beccaria and González Rosada (2002) and Arabsheibani, Carneiro and Henley (2003); and comparative studies in Behrman, Birdsall and Szekely (2000), IDB (2003) and Contreras and Gallegos (2007).

There were expectations in Latin America and the Caribbean that economic reforms, especially trade and financial liberalization, as well as the deregulation of labour markets, would promote the use of the most abundant factor, presumably less-skilled workers, thereby increasing their employment and their income. Since the empirical evidence has contradicted that hypothesis, a number of explanations have been offered for the failure of the conventional theory:

- A worldwide technological change tending to favour skilled workers, facilitated by trade liberalization and the growth of foreign direct investment, which has changed the composition of factors in the region's productive structure through imports of capital goods. This caused labour demand to lean towards the higher-skilled strata, widening the income gap between different categories of the workforce.[15]
- The comparative advantages of many of the countries of the region are based not on abundant unskilled labour, as had been suggested, but on their natural-resource assets (de Ferranti and others, 2002).
- Massive competition on world markets from countries with large reserves of unskilled, low-waged labour put global pressure on the wages of workers in this category (Freeman, 2005a).
- It has also been argued that macroeconomic policies, particularly exchange-rate and monetary policies, have sometimes worked unfavourably on relative prices, by raising the cost of labour in relation to capital (Lora and Olivera, 1998; Ramírez and Núñez, 2000). Since capital and skilled labour are usually complementary factors, as long as capital and unskilled labour can substitute each other, these policies would have a regressive impact on distribution.
- Institutional factors such as a falling or stagnant real minimal wage and the weakening of trade unions may also have been important (Cortéz, 2001).

In recent years the widening of the wage gap appears to have stopped, and indeed to have reversed itself partially. The relative incomes of workers with the most schooling have fallen in relation to those of the most unskilled, but have not returned to the levels of the early 1990s. It should also be noted that —with very small variations during both phases— between the early 1990s and 2006-2008, the gap between the least skilled and the group with nine to twelve years' schooling narrowed (with the coefficient rising from 68.1% to 72.6% for waged workers and from 54.7% to 70.0% for all employed persons) (ECLAC, 2010b). In light of developments with respect to education, one interpretation for this is that the increase in the supply of labour with intermediate and, in the 2000s, higher educational credentials has had a hand in reducing those groups' relative income.[16]

3. Macroeconomic volatility and the quality of employment

The greater or lesser availability of quality jobs (defined as full-time jobs, without a predetermined end date, and with some degree of social protection) is partly determined by the level and volatility of economic growth.

As mentioned above, between the mid-1990s and the early 2000s, when the unemployment rate rose with each crisis but failed to fall to its pre-crisis level during boom periods, workers displaced from the formal system resorted increasingly to informality and precarious and self-generated employment. In addition, labour reforms in some countries facilitated the use of fixed-term employment contracts, creating additional flexibility at the periphery which caused increased instability and insecurity in formal employment.

On the other hand, the experience of recent years demonstrates how important a favourable economic situation is in underpinning a process of improvement in employment quality. Together with falls in unemployment and in the proportion of jobs in low-productivity sectors, there was an increase in the percentage of the urban population enjoying some level of social protection.

Between 2000 and 2007, the percentage of the urban employed with pension or health protection, or both, rose from 54.5% to 60.8% (weighted average) (ILO 2009, table 8-A). As well as economic growth and rising formal-sector employment, this was partly due to a fall in informal employment by formal businesses during that period of relatively high growth.[17] In a number of countries, more stringent inspection practices played a significant part in this.[18]

15 See Robbins (1996), Feenstra and Hanson (1997), Sánchez-Páramo and Schady (2003) and Jaumotte, Lall and Papageorgiou (2008).

16 Monsueto, Machado and Golgher (2006), as well as Castro Lugo and Huesca Reynoso (2007) and Airola and Juhn (2008) reported for Brazil and Mexico, respectively, recent reductions in wage inequality by educational level.

17 Between 2005 and 2007, taking an average of five countries, informal wage employment in the formal sector fell from 36.9% to 31.6% (ILO, 2008).

18 For the case of Brazil see Simão (2009).

4. Inequalities reflecting patterns of labour market participation by disadvantaged groups

Lastly, some specific groups encounter particular problems in the labour market. On the one hand, there are constraints on labour-market access —on both supply and demand sides— for women, for example, particularly those with little schooling. On the other hand, horizontal and vertical occupational segmentation and wage discrimination lead to workers with similar characteristics —except for the trait that occasions the discrimination— receiving unequal benefits. Gender and ethnic origin are the main grounds for discrimination.

Analysis of the statistics shows that the participation rate of women living in urban areas rose significantly in the 1990s, but has increased only slightly in recent years. Much of the rise was due to improved educational levels among the female workforce; this improved their labour-market integration, owing to the strong correlation between women's educational levels and their labour-market participation. On the other hand, participation by women with fewer years of schooling increased only moderately, and has recently slowed (ECLAC, 2010b).

The female urban unemployment rate has reflected economic trends in the region, rising sharply between 1990 and around 2003, then dropping back to a level comparable to that of the early 1990s. The unemployment gap between men and women widened during both periods.

As in the case of unemployment, women's employment in low productivity sectors reflected developments in the region's economy, rising in the early 1990s and subsequently falling. Here, the gender gap narrowed during the first phase, perhaps as a result of sociocultural pressure on many men (as, traditionally, the principal breadwinners in the household) to accept any employment they could find, even in very low-productivity sectors.

The income gap between men and women narrowed in the 1990s (both for wage earners and for the broader employed population), both overall and for each of the three educational groups. In the 2000s, however, the gap has narrowed very slightly at the aggregate level while widening in some educational groups (ECLAC, 2010b).

In sum, although some of the gender gaps in the labour market have narrowed, access to that market and to productive employment is still highly unequal for the two sexes. This inequality is partly due to sociocultural factors which attribute to women a specific role centred on reproduction and unpaid domestic work, and also to differential access to assets (especially human capital) and to labour-market institutions designed according to the traditional model of the male breadwinner.

Other discrimination mechanisms persist in labour markets. Studies indicate that there is still wage discrimination against members of ethnic minorities;[19] they have also identified a wage gap based on workers' socio-economic origin.[20]

[19] Atal, Ñopo and Winder (2009) report that the wage gap between persons belonging to ethnic groups which have difficulties with labour-market integration and the rest of the population is 37.8%. If observable variables affecting relative wages are taken into account, that gap falls to 12.9%, showing that a large part of the gap is due to problems with access to productive employment that are related to factors external to the labour market.

[20] See Núñez and Gutiérrez (2004) and Gaviria, Medina and Palau (2007).

Box I.1

SOCIAL SPENDING AND THE BUSINESS CYCLE IN LATIN AMERICA

Public spending on education, health care, social security and housing has major impacts in Latin America, especially owing to the lacks of a significant proportion of the population in these areas. The work of Bello and Ruiz del Castillo (2010) looks at the short- and long-term relationship between social spending and levels of economic activity for a number of countries in the region. Much literature has looked at the relationship between aggregate public spending and GDP both over the business cycle and from a trend perspective, and the main conclusion has been that fiscal policy is procyclical, contrary to the situation case in the countries of the Organisation for Economic Co-operation and Development (OECD).

To estimate the output elasticity of various items of fiscal spending, this work uses annual frequency series for the period 1980-2006, for various components of GDP, public spending, and public social spending, valued in dollars at 2000 prices, for 11 Latin American countries: Argentina, the Bolivarian Republic of Venezuela, Chile, Colombia, the Dominican Republic, Ecuador, Mexico, Panama, Paraguay, Peru and Uruguay.

The main findings are derived from two estimates, the first of which arises from the following equation:[a]

$$(1)\quad \Delta\ log\ (SS_{it}) = \alpha + \beta * \Delta\ log\ (GDP_t) + \varepsilon_t$$

Where: SS_{it} : level of spending of the i-th component of social spending for the period “t”

GDP_t : level of the country’s gross domestic product in the period “t”

The estimated coefficient, β, is the short-term output elasticity of the corresponding spending component. The results show that health-care and education spending were procyclical for eight countries, in seven of them simultaneously, and in all eight both social spending and total public spending were procyclical. Housing expenditure was procyclical in five countries. In Argentina, all areas of spending were procyclical; in Colombia and Mexico five areas were. In Chile and Ecuador, however, public spending was acyclical.

To determine whether short-term analysis produces a biased estimate of β by failing to consider a probable long-term relationship between the variables, the authors made a new estimate based on the conditional error correction model. The new estimated equation is:

$$(2)\quad \Delta\, log\ (SS_{it}) = \alpha + \beta * \Delta\, log(GDP_t) + \gamma *\ log\ (SS_{it}) - \varphi *\ log\ (GDP_t) + \varepsilon_t$$

Where: φ is equal to $\gamma * \delta$,

γ represents the speed of adjustment of elasticity at its long-term value

δ is the long-term elasticity of the expenditure component

The main results for the estimated coefficient of the speed of adjustment, long-term elasticity and short-term elasticity are as follows:

- When the coefficient (γ) is statistically significant, it is negative and less than unity. This indicates dynamic stability, so that there is a long-term relationship between the variables. For all the countries, at least one of the types of spending has a long-term relationship with GDP. For the Bolivarian Republic of Venezuela, Chile, Colombia, Panama and Uruguay, GDP is cointegrated with five types of spending, whereas for the Dominican Republic, Ecuador and Peru that long-term relationship exists for only one expenditure item. In these cases, equation (2) must be used instead of (1) in order to obtain a proper specification of short-term elasticity.
- In equations whose dependent variable is education spending, elasticities are greater than unity. Something similar occurs in cases where the dependent variable is health-care spending. This implies that in the long term, these items of spending grow faster than GDP.
- Lastly, in the case of Chile, elasticities are not statistically different from zero for any of the social spending variables, which indicates that social spending behaves acyclically.

Source: Omar Bello and Ramiro Ruiz del Castillo, “Gasto social en América Latina: relación con el ciclo y opciones para reducir la volatilidad económica”, document presented in the workshop on distributive impact in public policies, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 28- 29 April 2010.

[a] The Phillips and Perron unit root test was performed for the variables expressed in logarithms. All the variables but one (the health-spending logarithm for Peru) were found to be integrated of order one.

Chapter II

The distributive impact of public policy and financing

The levels of inequality found in the countries of the Latin American and Caribbean region make State action through distributive policies especially important. Public provision of goods and services can change income distribution through programmes whose beneficiaries do not bear the burden of financing (or bear it only in part) and whose impact depends on the level and quality of social spending. But in societies as unequal as those of Latin America, redistributive policy based on public spending is not enough. It is important to examine how this provision is financed and how tax systems work to achieve more equitable income distribution. Not only must a certain amount of resources be generated to finance public spending (especially social spending). It is also necessary to consider which segments of the population are providing those funds.

Terms such as "equitable distribution of income", "equal opportunities" and "universal entitlement to economic, social and cultural rights" have long —and legitimately— been expressions that shape public and fiscal policy discourse (Basombrío, 2009). But the quest for greater equity is not without ambiguity. As seen in ECLAC (2010b), equity and equality are multi-dimensional, value-laden concepts. Examining their reach can provide an understanding of how they are related to fiscal policy.

Implementing the principle of equity in public sector actions poses special difficulties because of the need to provide conceptual content for the notions of equal and unequal treatment and circumstances and to assess how much the fiscal system is expected to contribute to the attainment of certain redistributive goals. Beyond conceptual debates, though, what is needed is a pragmatic, operative position in the quest for a more just society that will address the most glaring, troublesome inequalities.

The principle of tax equity is rooted in two basic ideas employed to justify the collection and distribution of taxes. One is benefit, which concerns the need to establish taxes on the basis of the benefits that individuals receive from the State. The other is payment capacity, which focuses on the economic capacity of taxpayers and can be used to justify applying progressive criteria (J.P. Jiménez and Ruiz-Huerta, 2009). Equitable distribution of the tax burden among the members of society requires weighing the different circumstances of each taxpayer and gives rise to the criteria of horizontal equity (equal treatment for those in equal circumstances) and vertical equity (appropriately unequal treatment for those in differing circumstances).

This chapter focuses on three elements that are essential to developing a tax policy that improves equity in the countries of Latin America: level of revenue, tax structure and degree of compliance. Unfortunately, the vast majority of countries in the region suffer from significant weaknesses in each of these key areas. The tax burden is low, the tax structure is biased towards regressive taxes and there are significant levels of non-compliance (J.P. Jiménez, Gómez Sabaini and Podestá, 2010).

In taxation, there are no absolute rules for achieving greater equity, and some criteria are ambiguous in that they can work both for and against equity in tax systems at the same time. So, as noted by Musgrave and Musgrave (1992), “Tax policy is an art no less than a science; and equity is to be sought as a matter of degree rather than as an absolute norm”.

A. Taxation as a distributive policy tool

The ability of fiscal policy to modify the distribution of income determined by market forces has changed over time and differs markedly among regions. Studies have shown that the levels of inequality prior to State intervention in countries of Latin America are similar to those in other, more developed countries and that inequality is often greater in the latter (Barreix, Roca and Villela, 2006; Gómez Sabaini, 2006).

But, as emerges from a study by Chu, Davoodi and Gupta (2000), while taxes and spending effectively improve distribution in the industrialized countries, developing countries lack appropriate distributive policies for attaining a comparable degree of equality. Indeed, studies available in Latin America and the Caribbean show that the tax system usually has a regressive effect and that spending programmes only partially offset tax regressiveness. There are even cases in which taxes and transfers not only do not correct inequality —they exacerbate it.

There are two ways in which tax policy can influence a country’s income distribution structure. First, it can capture resources to finance public spending aimed at creating and strengthening human capital through health care, education and sanitation programmes, among others. Tax policy thus becomes a factor that contributes to the formation of human capital. By improving market income, it improves “primary distribution”, that is, the distribution of income before resources are taxed and transferred. Second, tax policy can act on the income distribution structure through progressive taxes geared to modify “secondary distribution”, i.e., the distribution of income after taxes. Income and property taxes, among others, play a key role in this regard (Gómez Sabaini, 2006).

The three main factors that limit the redistributive role of the State in Latin America are a low tax burden, regressive taxation and poorly targeted public spending (Goñi, López and Servén, 2008). There is disagreement, however, as to whether these factors should be modified. There is broad consensus regarding the need to step up efforts to ensure greater progressivity in public spending. As for the need to increase the tax burden, however, agreement is substantial but more limited. Support for more progressive reforms is weaker.

Experts clearly disagree on taxation’s potential as a redistributive tool. Nevertheless, the persistence of this regressive tax structure over the years reveals that the dominant view —at least among those experts in a position to influence tax policy— is that redistribution can be achieved most effectively through social spending, while tax policy should focus on efficiency (Jorratt, 2009).

The magnitude of inequality in Latin America and the Caribbean is such that the potential of taxation as a redistributive tool should not be ignored. It is thus useful to examine why income tax collection levels are so low in the region. Among the main reasons are low legal rates (and even lower effective rates) and narrow tax bases. These and other particularities are related to high tax evasion, as do the tax privileges and loopholes that characterize tax systems in the region. In such an environment, the basic prerequisites of equity —namely, that those with the same payment capacity pay the same (horizontal equity) and those with greater payment capacity pay more (vertical equity)— go unfulfilled.

Equity, both horizontal and vertical, faces significant practical challenges in the countries of Latin America. This compromises the legitimacy of the region’s tax systems and ultimately affects their ability to collect revenue. Thus, the countries of the region find themselves trapped in a vicious circle of regressive taxation and scant resources, unequal distribution of income and delegitimization of public institutions and of the role of the State (Gómez Sabaini and O’Farrell, 2009).

Direct taxation must therefore be strengthened, and the balance between direct and indirect taxation must be improved. As noted by Jorratt (2009) in his study of taxation in Chile, if the redistributive impact of the tax system is to be increased, income and property taxes must be redesigned to ensure that they account for a greater share of overall revenue. They must also be made more progressive. He also points out that curbing tax evasion and avoidance is essential, as these practices are among the chief causes of inequity.

Along the same lines, Roca (2009) points out that, while personal income taxes may be designed to produce a given redistributive effect, they will not actually achieve their objective if evasion significantly reduces revenue. As for tax rates, he notes the dichotomy surrounding corporate income tax in most Latin American countries: though nominal tax rates are high (28% on average in 2006), effective rates are significantly lower, due to a variety of tax benefits. Thus, fewer resources are available for progressive social spending; horizontal inequity increases, and opportunities for evasion and avoidance multiply.

1. Level of revenue

Several studies have shown that the region's potential level of tax revenue is significantly higher than its effective level (Perry et al., 2006; Agosin, Barreix and Machado, 2005). There is thus room for improving the redistributive capacity of the State by providing more revenue. However, as noted by Musgrave and Musgrave, (1992), "a high, moderately progressive tax burden can have a greater impact on the distribution of income than a low, strongly progressive one".

Differences between the countries of the region notwithstanding, their tax burden is generally low, both compared with countries in other regions and relative to their own level of development. More developed countries generally have a larger public sector and thus a higher tax burden. Figure II.1 compares 121 countries, using a cross-section regression analysis that focuses on the relationship between tax burden and the per-capita GDP logarithm.[1]

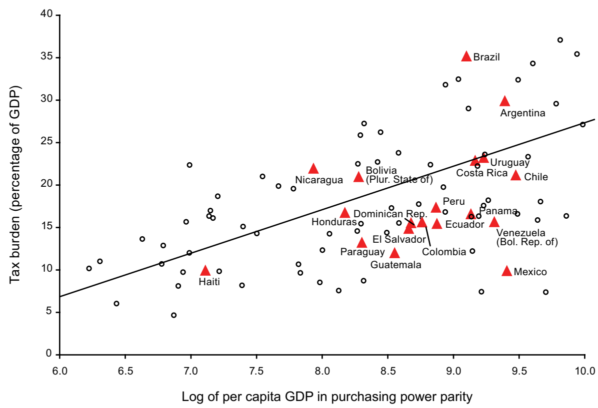
Only four of the nineteen Latin American countries studied are above the regression line. The tax burden in Argentina, Brazil, Nicaragua and the Plurinational State of Bolivia may be described as high in comparison with their per-capita GDP. Costa Rica and Uruguay are very close to the regression line, that is, their tax burden would appear to be adequate in relation to their level of development. The tax burden of the remaining 13 countries is clearly lower than it should be according to their level of development.

This simple exercise shows that most of the countries could increase their tax burden. In aggregate terms, given the level of economic development of the region, the tax burden could be increased by an average of three points of GDP. However, excluding the four countries whose effective tax burden exceeds the potential tax burden brings the average up to five points of GDP.

Figure II.1

COMPARISON OF TAX BURDEN AND PER CAPITA GDP IN PURCHASING POWER PARITY

(Percentage of GDP and logarithms)



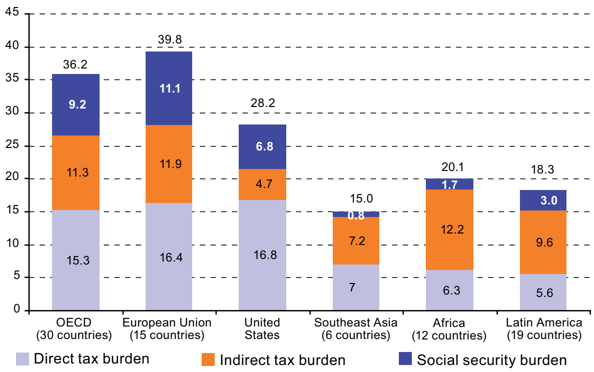
Source: J.C. Gómez Sabaini, J.P. Jiménez and A. Podestá, "Tributación, evasión y equidad en América Latina", *Evasión y equidad en América Latina,* Project document No. 309 (LC/W.309), J.C. Gómez Sabaini, J.P. Jiménez and A. Podestá (comps.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2010.

The average gap between potential and effective tax burden hides significant differences between countries. The Bolivarian Republic of Venezuela, Ecuador, Guatemala, Mexico and Panama could increase their tax burden to make it more consistent with their GDP per capita. With the exception of Guatemala, these countries generate significant revenues from non-tax sources (oil or the Panama Canal, for example) that partially offset their low tax collections.

[1] It should be noted that this simple exercise is not intended as an analysis of the factors that determine the tax burden in each country. In order to develop such a model, other important variables would have to be examined.

Another simple way of demonstrating the low tax burden in Latin America is to compare it with tax burdens in other regions around the world. Figure II.2 shows that the average tax burden of Latin American countries is virtually half that of the member countries of the Organisation for Economic Co-operation and Development (OECD).

Figure II.2
INTERNATIONAL COMPARISON OF THE LEVEL AND STRUCTURE OF THE TAX BURDEN
(Percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF).

Note: The average for Latin America refers to the central government, except for Argentina, Brazil, Chile, Costa Rica and the Plurinational State of Bolivia, where it refers to the general government.

However, the graph also clearly shows that the region's low tax burden is primarily a result of low direct tax collection (income and property taxes) in terms of GDP. On average, the direct tax burden in developed countries is ten GDP points above that of Latin America. Moreover, revenue from income and property taxes (in relation to GDP) in Latin America is the lowest in the world. Even African countries generate higher revenues from such taxes, on average, than do Latin American countries.

Another significant difference in relation to developed countries lies in lower social security revenues, while taxes on goods and services in Latin America are comparable to those in OECD countries.

As mentioned earlier, one way of improving the distribution of income is through the level of tax revenues that can be earmarked to finance social spending. It is telling that the three countries with the highest tax revenues (Argentina, Brazil and Uruguay) are also those with the highest level of social spending (J.P. Jiménez, Gómez Sabaini and Podestá, 2010).

However, the tax burden is not the only factor that influences the distribution of income in a country. The composition of the tax burden is also important. In other words, it is not simply a question of how much revenue is collected, but also how it is collected. This issue is discussed in the following subsection.

2. Tax structure

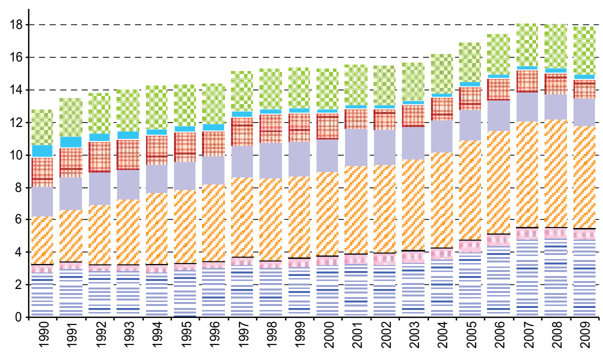
The second factor to be examined is the origin of tax revenues, bearing in mind the criteria of equity. Studies by Perry et al. (2006), Agosin et al. (2004) and Gómez Sabaini (2006) have noted that the main cause of the gap between potential and effective revenue is a shortfall in direct taxation —more specifically, personal income tax. Virtually no such gap exists with regard to consumption taxes in most of the countries in the region.

Figure II.3 illustrates the evolution of the region's average tax structure, which is characterized by the following:

- Declining international trade taxes as a percentage of total revenue. This change was brought about by the creation of economic unions (free trade zones, MERCOSUR), falling nominal import tariffs and the lifting of export taxes (Argentina is the most noteworthy exception to this latter trend).
- Sustained growth in value-added taxes (VAT) throughout the region. Brazil adopted this tax in 1967 and Argentina and Ecuador implemented it in the 1970s, but not until more recently did it expand throughout the region and become a strategically important source of revenue.
- Significant growth in income tax revenues. However, income tax focuses on corporations, and this growth is associated with an increase in revenue from mining and oil companies. The greater potential for transferring makes the distributive impact of corporate income tax lower than with personal income tax.
- Personal income tax is essentially a tax on income from formal waged employment.
- Significant decrease in the number of taxes applied, especially selective taxes that now fall only on goods and services with a relatively inelastic demand (such as tobacco, alcoholic beverages and fuel).

- Appearance of extraordinary tax schemes applying to, for example, bank withdrawals and deposits, financial transaction taxes and the like.
- Unresolved issues, both in designing regulations and in administering the tax system, caused by growing market informality during the 1990s, especially in the labour market and in self-generated employment.
- Low, stagnant property taxes despite the existence of a wide variety of taxes that target property in some way.[2] One of the unresolved challenges in the region has to do with strengthening such taxes, mainly at the subnational government level. Improving cadastral records is essential for ensuring property tax equity and efficiency.

Figure II.3
LATIN AMERICA AND THE CARIBBEAN (SIMPLE AVERAGE): TAX STRUCTURE, 1990-2008
(Percentage of GDP)



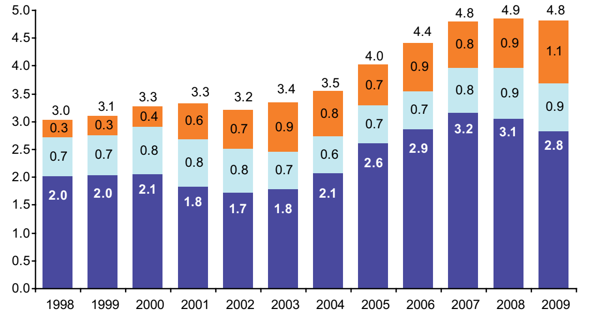
Source: Economic Commission for Latin America and the Caribbean (ECLAC).

Income tax revenue grew by more than 70% across the region between 1990 and 2008, rising from 2.8 to 4.8 points of GDP, on average, during that period. As mentioned above, however, this figure is very low by international standards and is not enough to improve income distribution in the region.

The low relative importance of income taxes is apparent in almost every country in the region. Only the Bolivarian Republic of Venezuela, Brazil, Chile and Peru succeeded in generating income tax revenue equivalent to 6 to 8 points of GDP in 2008. Income tax revenue in Argentina, Colombia, Mexico and Nicaragua is also above the regional average, hovering at approximately 5% of GDP. As explained earlier, income tax revenue is primarily from income earned by corporations engaged in productive activities related to the exploitation of non-renewable natural resources.

[2] See the detailed study of property taxes in Latin America, in De Cesare and Lazo Marín (2008).

Figure II.4
LATIN AMERICA: CORPORATE AND INDIVIDUAL INCOME TAX
(Percentage of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
Note: "Non-classifiable" corresponds to data where official figures are not broken down between individuals and companies.

As shown in table II.1, Latin America is close to the average for developed countries in terms of corporate income tax (3.4 versus 3.9 points of GDP, respectively). With regard to personal income tax, however, it lags far behind OECD countries. Latin American countries generate only 1.5% of GDP, on average, from personal income taxes (even in Brazil, the country with the highest percentage, it is only 2.6 percentage points), compared with OECD economies, where it is more than 9 percentage points of GDP. Moreover, most personal income tax revenue in the region is obtained from wage earners, mainly because self-employed persons have greater access to evasion and avoidance strategies and because of the preferential tax treatment accorded to capital income in most countries.

The structure in Latin American countries is therefore the inverse of the structure in OECD countries. In the former, corporate income tax collections account for 70% —the same percentage that in OECD countries is from individual income tax.[3]

In short, the structure of the region's tax systems is one of the factors behind the region's on-going disparities in income distribution. Reforms in this area must therefore focus on increasing the impact of tax policy on income distribution, raising the tax burden on wealthier sectors of society. This can be accomplished, for example, through personal income taxes.

[3] According to Cetrángolo and Gómez Sabaini (2007), two factors explain why families or individuals account for a larger share of income tax revenue in developed countries than do corporations. First, the tax authorities of those countries have a greater capacity to track large numbers of taxpayers. Second, per capita (or family) income in developed countries is higher, making a larger percentage of the population subject to income tax. In Latin America, on the other hand, a large portion of the population falls below the minimum tax threshold.

Table II.1
LATIN AMERICA: AVERAGE INCOME TAX COLLECTIONS
(Percentages of GDP)

Country	Companies	Individuals	Total	Companies/ individuals	Income/ consumption
Argentina (2007)	3.6	1.6	5.4	2.3	0.4
Bolivia (Plurinational State of) (2007)	3.0	0.2	3.3	14.4	0.3
Brazil (2007)	5.1	2.6	7.7	2.0	0.5
Chile (2007)	7.3	1.2	8.4	6.3	0.9
Dominican Republic (2002)	1.3	1.8	3.1	0.7	0.4
Ecuador (2006)	2.3	0.8	3.1	3.1	0.5
El Salvador (2007)	2.7	1.9	4.6	1.4	0.6
Guatemala (2007)	2.9	0.3	3.4	8.5	0.5
Honduras (2004)	3.7	1.6	5.3	2.3	0.5
Haiti (2006)	1.0	1.1	2.1	0.9	0.6
Mexico (2005)	2.4	2.2	4.6	1.1	1.2
Nicaragua (2001)	3.1	2.0	5.1	1.6	0.5
Panama (2006)	2.9	2.0	5.0	1.5	1.8
Peru(2007)	5.9	1.4	7.2	4.2	1.0
Latin America (14)	3.4	1.5	4.9	2.3	0.7
OECD (2006)	3.9	9.2	13.0	0.4	1.2
United States (2006)	3.3	10.2	13.5	0.3	2.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of J. Roca, "Tributación directa en Ecuador. Evasión, equidad y desafíos de diseño", *Macroeconomía del desarrollo series*, No. 85 (LC/L.3057-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.55 for Ecuador; M. Cabrera, "La tributación directa en América Latina, equidad y desafíos: el caso de El Salvador", *Macroeconomía del desarrollo series*, No. 87 (LC/L.3066-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.60, for El Salvador and Guatemala; D. Álvarez Estrada, "Tributación directa en América Latina, equidad y desafíos. Estudio del caso de México", *Macroeconomía del desarrollo series*, No. 91 (LC/L.3093-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.77, for Mexico; and O. Cetrángolo and J.C. Gómez Sabaini "La tributación directa en América Latina y los desafíos a la imposición sobre la renta", *Macroeconomía del desarrollo series*, No. 60 (LC/L.2838-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2007. United Nations publication, Sales No. S.07.II.G.159 for Honduras, Nicaragua and Dominican Republic.

3. Degree of compliance

Tax compliance is the third factor to bear in mind when examining the distributive impact of tax policy. Without low delinquency and evasion levels, neither the level of revenue nor the tax structure is sustainable. Curbing evasion generates greater resources for social spending. And, as explained above, it is crucial in developing an equitable and progressive tax structure.

Available estimates show that individual and corporate income tax evasion is far deeper than VAT evasion despite the very close relationship between the two taxes (see table II.2).[4] In recent years, the tax authorities seem to have focused much more on fighting VAT evasion than on evasion related to direct taxes.

ECLAC studies estimate income tax non-compliance at a very high 40% to 65%. This represents an average gap of 4.6% of GDP. Such high levels of non-compliance work against the redistributive impact of income tax. Evasion jeopardizes horizontal equity, since evaders pay fewer taxes than taxpayers with the same payment capacity. It also reduces vertical equity, since the incentive to evade becomes stronger as tax rates increase. Moreover, wealthier individuals have greater access to professional advice, which often includes tax avoidance strategies or reduces the risks of non-compliance. Curbing tax evasion and avoidance is therefore essential for improving the distributive impact of tax systems.

[4] This is why the studies compiled by J.P. Jiménez, Gómez Sabaini and Podestá (2010) make a significant effort to estimate the level of income tax non-compliance in seven Latin American countries. Direct taxation has also been thoroughly analyzed, and the main issues that affect distributive equity have been identified.

Table II.2

LATIN AMERICA: VALUE-ADDED TAX (VAT) AND INCOME TAX NON-COMPLIANCE RATES

(Percentages)

	VAT		Income tax	
	Gap	Estimate year	Gap	Estimate year
Argentina	21.2	2006	49.7	2005
Chile	10.0	2006	47.4	2003
Dominican Republic	31.2	2006	…	…
Ecuador	21.2	2001	63.8	2005
El Salvador	27.8	2006	45.3	2005
Guatemala	37.5	2006	63.7	2006
Mexico	20.0	2006	41.6	2004
Nicaragua	26.0	2006	…	…
Panama	33.8	2006	…	…
Peru	…	…	48.5	2006
Uruguay	26.3	2006	…	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of O. Cetrángolo and J.C. Gómez Sabaini “La tributación directa en América Latina y los desafíos a la imposición sobre la renta”, *Macroeconomía del desarrollo series*, No. 60 (LC/L.2838-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2007. United Nations publication, Sales No. S.07.II.G.159; M. Jorratt De Luis, “La tributación directa en Chile: equidad y desafíos”, *Macroeconomía del desarrollo series*, No. 92 (LC/L.3094-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.78; J. Roca, “Tributación directa en Ecuador. Evasión, equidad y desafíos de diseño”, *Macroeconomía del desarrollo series*, No. 85 (LC/L.3057-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.55; M. Cabrera and V. Guzmán, “La tributación directa en América Latina, equidad y desafíos: El caso de El Salvador”, *Macroeconomía del desarrollo series*, No. 87 (LC/L.3066-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.60; M. Cabrera, “La tributación directa en América Latina, equidad y desafíos: el caso de Guatemala”, *Macroeconomía del desarrollo series*, No. 89 (LC/L.3081-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.68; D. Álvarez Estrada, “Tributación directa en América Latina, equidad y desafíos. Estudio del caso de México”, *Macroeconomía del desarrollo series*, No. 91 (LC/L.3093-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.77; L. Arias Minaya, “La tributación directa en América Latina, equidad y desafíos. El caso de Perú”, *Macroeconomía del desarrollo series*, No. 95 (LC/L.3108-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009. United Nations publication, Sales No. S.09.II.G.89.

Box II.1

EQUITY IN VALUE-ADDED TAX (VAT) AND IN INCOME TAX

Tax design is the most direct way in which tax policy affects the distribution of income. Each tax can be progressive, proportional or regressive. Combined, they can have an aggregate redistributive effect. The two basic principles of tax equity are vertical equity (an individual with a higher tax payment capacity should pay proportionally more taxes than one with a lower payment capacity), and horizontal equity (individuals with similar tax payment capacities should be taxed similarly). The study discussed in this box assesses the vertical and horizontal equity of the two main taxes that affect households —value-added tax (VAT) and income tax— in three countries: Ecuador, Guatemala and Paraguay.

The methodology used involves comparing the distribution of household income before and after taxes. The unit of analysis is the household; family income is the variable chosen as the indicator of well-being. Equivalence-scale-adjusted per-capita income is used to compare households with different numbers of members. Equivalent income, Ye, is thus defined as

Ye = Y / na;

where Y: nominal household income;

n: number of household members;

a: factor reflecting household economies of scale (given the existence of semi-fixed costs).

To determine the feasibility of improving tax system progressivity and horizontal equity, selected equity indicators were applied to simulated reforms. The outcomes of the reforms were then compared with those of the system in place.

The VAT reforms considered were:

- Repeal exemptions, except those that apply to financial services;
- Transfer the increased revenue from non-exempt VAT to the three poorest deciles.

The simulated income tax reforms were:

- Keep the existing income tax, but repeal the tax expenditures;
- Flat income tax: Replace the personal income tax rate scale with a scale that has two brackets (one that is exempt and one that is subject to a single marginal rate). The corporate income tax rate is also changed. The rate and the exempt bracket are chosen in order to match revenue in exercise (a);
- Dual income tax: keep the existing rate scale for income from waged work, with a single rate for capital income and own-account work. Adjust the flat rate to obtain the same revenue as in the first exercise;
- Family income tax: the unit of taxation is not the individual but the household. Maintain the existing rate structure; the basis of assessment is equivalent income Ye;
- These four reforms were then evaluated, assuming that the increased revenue is transferred to the three poorest deciles.

These exercises yielded interesting conclusions for the three countries. Regarding VAT, the noteworthy outcomes were:

- VAT is vertically regressive in the three countries, but transferring revenue to the three poorest deciles improves income distribution compared with the current situation;
- Horizontal equity remained at similar levels in Ecuador and Guatemala and decreased somewhat in Paraguay;
- Broadening the tax base by eliminating exemptions increased both vertical and horizontal inequity.

Some of the key outcomes regarding income tax were:

- Income tax is progressive in the three countries and has a high degree of horizontal inequity, especially in Guatemala and Paraguay;
- Broadening the base (repealing tax expenditures) and redistributing the increased revenue would bring the Gini coefficient down by a range of 0.03 points (Ecuador) to 0.06 points (Guatemala);
- The family income tax is the one that achieves the greatest redistributive impact in all three countries, as well as the best horizontal equity performance;
- Repealing tax expenditures is more progressive than the flat- and dual-rate alternatives. But the loss of progressivity with the latter two options is not of a magnitude such that would bar considering them on the basis of their advantages in terms of simplicity and efficiency.

Source: M. Jorratt De Luis, “La tributación en América Latina: equidad en el IVA y el impuesto a la renta. Estudios de casos de países”, 2009, unpublished.

Chapter III

Distributive impact of social policies

A. Social policy focus in the region

1. Social policy focus and evolution of social spending in Latin America

The debt crisis of the early 1980s brought significant restrictions in both the magnitude and the composition of social spending in the region. Redefining the role of the public sector in the economy was part of wide-ranging structural reforms, as were, *inter alia*, trade liberalization, opening the economy up to foreign investment, price deregulation, market deregulation, greater labour market flexibility and privatization of public enterprises (ECLAC, 1998).

There were two main drivers behind State reform. The first was the need to reformulate the types of intervention as the prevailing model of the State as benefactor faced increased difficulties. The second was the financial restrictions imposed by the crisis. To cover the fiscal deficit, policy was geared to reduce public spending, particularly its social component. This weakened the social role of the State in providing and regulating certain goods and services. In some countries, social spending was cut, and some social services were privatized —pension and health care systems among them. In other cases, they were decentralized and removed from the purview of the central government under schemes that did not always take appropriate sectoral planning criteria or distributive impact into consideration.

In the case of pensions and following a long tradition of pay-as-you-go regimes and inter- and intra-generational solidarity with varying degrees of coverage, it was sought to tie individual benefits more closely to individual contributions. The goal was to buttress the financial solvency of contributory systems, foster broader coverage (by making the contributions seem more like savings and less like taxes) and, no less important, remove from the sphere of public policy the challenge posed by demographic transition, which required ever-increasing rises in contributions to cover the needs of a growing number of pensioners.

As for health care, private insurance (which usually closely links health risks to the contributions a person must make to cover them) was promoted. So, in a departure from tradition, solidarity was not a key organizational principle in this very restrictive approach to public intervention focused on serving the most disadvantaged segments of society. Moreover, the decentralization of education and public health systems was encouraged, with the resulting problems in financing and providing services at the subnational level (as will be seen below). Social policies for reducing poverty emphasized programmes focused on the neediest.

In the late 1990s, these trends slowly began to reverse as the value of public action in the social sphere was re-evaluated and solidarity reappeared as an organizational principle. This gave impetus to policies oriented to channelling more resources to the poorest sectors, and the role of social development in fostering productive development and economic growth was acknowledged. It was in this scenario that ECLAC advocated a reformulation of the fiscal covenant that would make the new proposals sustainable (ECLAC, 1998).

The trend since then has clearly been towards increasing social public spending in both absolute and relative terms. But this change in the amount of resources allocated to social policy did not go hand-in-hand with a radical change in guiding principles. It was not until the turn of the century that the idea of the social role of the State began to shift towards a more integrated vision.

During the 2000s, public policy focused more on the universal nature of certain rights, the principle of solidarity in financing, protection in the event of loss of family income and situations of poverty and exclusion. This turning point is in line with the idea of equal rights, not only equal opportunities. It is precisely the universal nature of rights that shifts the approach from one that favours individual capacities and private provision for old age and health risks (relegating solidarity and state provision to a distant second place) towards one that integrates both components (ECLAC, 2006).

In the case of pension systems, the private pillars based on individual savings should be seen as complementing a public solidarity pillar with explicit solidarity features for those who lack sufficient savings capacity, and another, non-contributory pillar for those who do not have access to social security benefits. In turn, health care systems based on individual insurance should be progressively complemented by insurance pools and guarantees of universal coverage. In the fight against poverty, conditional transfer programmes gain predominance, linking cash transfers to certain behaviours, such as school attendance, medical check-ups, vaccinations and booster doses —i.e., human capital improvement. This is based on the idea that, since the strategies used by the poorest to deal with the vagaries of economic activity can lead to negative human capital savings and perpetuate poverty, action that targets both the causes and the consequences of poverty can halt its intergenerational reproduction (Villatoro, 2007).

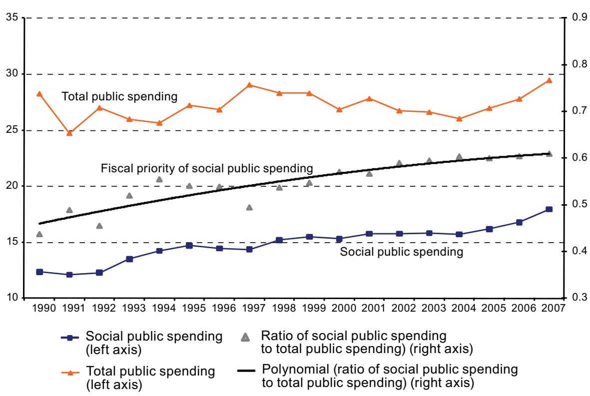
Nevertheless, despite the change in approach and the upward trend in resources available for social policy, the availability of public resources is still severely restricted by persistent low tax burdens, tax collection difficulties and growth volatility.

In this new state of affairs and after five years of successful outcomes in reducing poverty, unemployment and income inequality, the world financial crisis and its impacts have given new meaning to the role of the State as regulator and intervenor in the face of market failures and asymmetries. But this return to certain organizational principals for social policy in the region has come with innovations in both practice and theory that have brought the concepts of social capital, cohesion and security against risk back into the debate. On the practical level, the adoption of information and communication technologies by governments has, for example, made it possible to expand conditional transfer programmes for the neediest households and administer taxes with higher redistributive effects whose complexity was previously considered an obstacle to achieving their goal at a reasonable cost. Conceptually, there is renewed concern about inequality while recognizing the obvious limitations of the contributions that individuals and the market can make to solve such problems. In short, the State acquires greater strategic weight in the quest to address the problems caused by inequality and the lack of well-being.

As the approach to the issue and the policies put in place evolved, social spending rose by more than five percentage points of GDP between 1990 and 2008 and increased significantly as a percentage of total public spending (see figure III.1). In absolute terms, social public spending per inhabitant nearly doubled in 2006-2007 compared with 1990-1991 and reached US$ 820 (at 2000 prices), i.e., an 18% increase over 2004-2005. These increases revealed a marked difference between countries —as much as 20 times more in countries with higher per-capita spending than in those with lower spending levels.

The largest omcreases were in social security, education and social assistance. Overall, the information available indicates that education, health care and social assistance are the functions thar effectively generate progressive distribution (see figure III.2). Specifically, targeted social assistance, primary education and primary health care are progressive. Although higher education and hospital care are progressive with regard to the primary distribution of income, they remain regressive when considered separately (ECLAC, 2010a).

Figure III.1
LATIN AMERICA (21 COUNTRIES): SOCIAL PUBLIC SPENDING AND TOTAL PUBLIC SPENDING, 1990-2008 [a]
(Percentages of GDP)

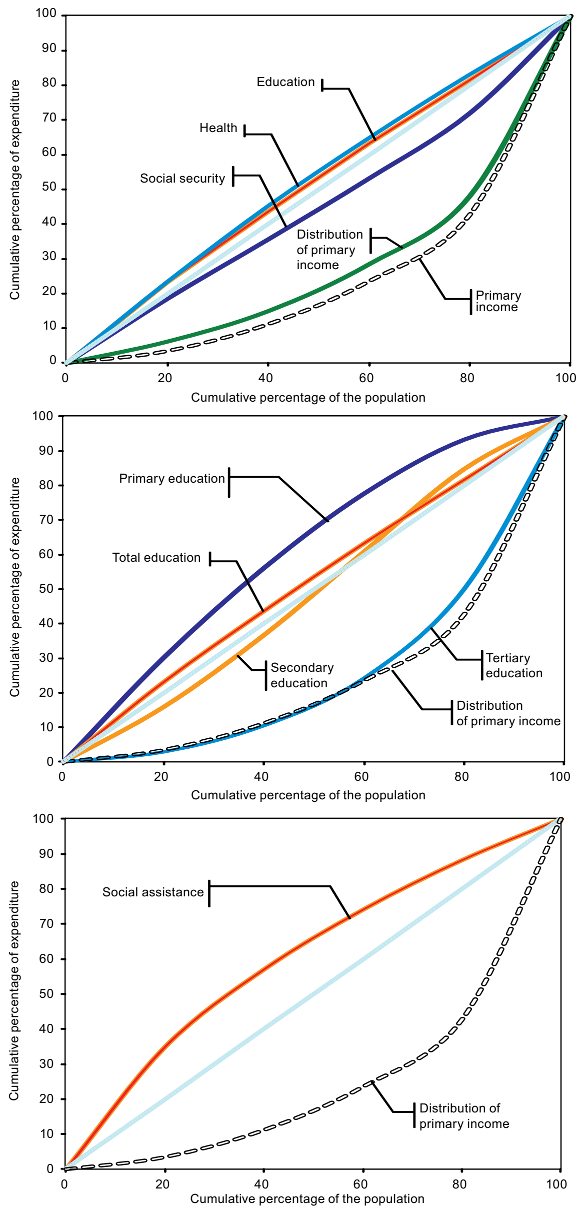


Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] Weighted average.

As box I.1 shows, one of the problems with social spending in the region is its highly procyclical nature. This explains the marked impact of crises and growth slowdowns on poverty and vulnerability, because segments with fewer resources needed to address these deficiencies. It was not until the past decade that some countries began to take a countrercyclical approach to social spending, recognizing the role that positive emplyment and household income dynamics play in narrowing gaps and consolidating well-being. Moreover, the current financial crisis and its effects on the real economy have led the governments of the region to redouble and diversify their countercyclical social spending.

But despite these advances, the redistributive content of social spending is still insufficient and should be enhanced in order to narrow even further the gaps in health, education, housing and social conditions in general that lead to the intergenerational transmission of inequality and poverty. The current debate has highlighted three key areas for redistributive policy and for ending the intergenerational transmission of poverty and its conditioning factors, in which social policy is very effective: reducing poverty during childhood and old age, and reducing the effects of unemployment.

Figure III.2
LATIN AMERICA (18 COUNTRIES): DISTRIBUTION OF SOCIAL PUBLIC SPENDING BY PRIMARY INCOME QUINTILE, 1997-2004
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), based on *Social Panorama of Latin America 2007* (LC/G.2423-P), Santiago, 2007. United Nations publication, Sales No.: S.07.II.G.124.

2. Transfers to address childhood poverty and precarious old age and to protect the unemployed

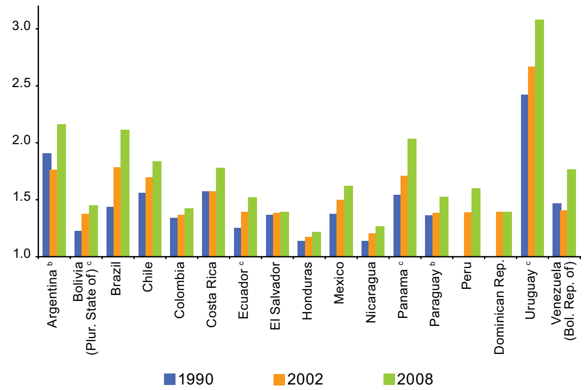
In Latin America, the poverty rate among children is far higher than in the adult population. Measures taken in the past few years to address this situation include cash transfers and reformed family allowance systems that not only seek to ensure a minimum family income but are also conditional on keeping children in school and complying with certain periodic health care protocols (vaccinations, check-ups).[1] These programmes are relevant redistribution instruments geared to level out conditions for children and other vulnerable groups. Between 60% and 75% of these transfer expenses are captured by the poorest 40% of the population (see figure III.4). However, spending on such programmes accounts for, on average, only 0.25% of GDP and 2.3% of social spending in the region. And they are far from attaining satisfactory coverage.

A recent ECLAC study shows that a cash transfer to children under five years of age equivalent to the value of one poverty line would decrease the number of poor households by a maximum of 7.4% in Guatemala and a minimum of 2% in Uruguay and would mean substantial progress at the regional level. For certain more developed countries, this would involve resources equal to 0.8% to 1.6% of GDP and would thus be achievable within a very few years. By contrast, in the poorest countries it would mean as much as 6.4% of GDP annually; this shows the serious challenge that these countries face (ECLAC, 2010b).

At the other end of the age range, despite substantial pension system reform efforts centred mostly on more closely linking contributions and benefits, there are still problems in preventing poverty among the aged. These problems arise from structural limitations associated with the characteristics of the region's labour market: high degree of informality and frequent periods of unemployment; low labour participation rates among poor women; inadequate reach of formal schemes in rural areas; and, perhaps most important, low wages in broad segments of the productive apparatus (ECLAC, 2006; Tokman, 2006; Cetrángulo and Grushka, 2004; Jiménez and Cuadros, 2003).

Figure III.3

LATIN AMERICA (17 COUNTRIES): CHILD POVERTY RATIOS AROUND 1990, 2002 AND 2008; CHILDREN AGED 0-14 COMPARED WITH THOSE OVER 14 [a]



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Time for equality: closing gaps, opening trails* (LC/G.2432(SES.33/3)), Santiago, Chile, 2010.

[a] The year of the survey used differs from one country to the next. The data for 1990 correspond to the available survey closest to that year. The data for 2002 correspond to the most recent surveys available between 2000 and 2002, and those for 2008 are from surveys available between 2004 and 2008.

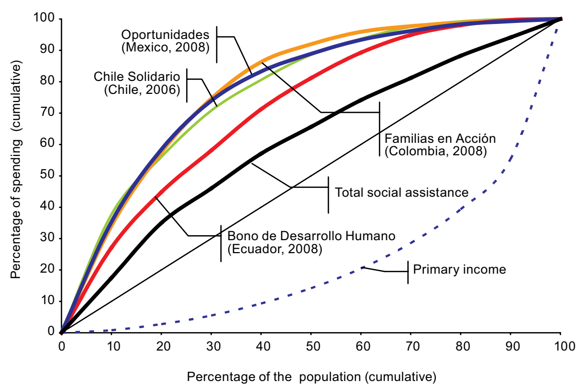
[b] Metropolitan area.

[c] Urban area.

Figure III.4

LATIN AMERICA (15 COUNTRIES): DISTRIBUTION OF PUBLIC EXPENDITURE ON SOCIAL WELFARE AND EXAMPLES OF DIRECT CASH TRANSFERS UNDER SELECTED CONDITIONAL TRANSFER PROGRAMMES, BY PRIMARY INCOME QUINTILE, 2005-2008 [a]

(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Time for equality: closing gaps, opening trails* (LC/G.2432 (SES.33/3)), Santiago, Chile, 2010.

[a] Simple average.

[1] Chile Solidario, Bolsa Família (Brazil) and Oportunidades (Mexico) are examples of conditional transfer programmes.

These factors together mean that a significant number of persons participating in private systems would not accumulate enough resources to draw a minimum pension, especially in the case of less skilled workers and women. And there is still a need to prevent poverty in old age for large groups that do not participate (due to rurality or informality) but would in the future press for government support for their survival. In response, a new wave of reforms is seeking to create or strengthen a solidarity pillar funded by a pool of contributions while putting new emphasis on non-contributory schemes financed by taxes.

Willmore (2006) analysed what the cost of a universal, uniform pension would be in the countries of the region.[2] More recently, ECLAC (2010a) estimated the cost of transferring the equivalent of one poverty line to all persons over 65 under a universal scheme or of targeting benefits to members of vulnerable households. With the universal scheme, the cost ranges between 1.8% and 5.7% of GDP per annum; for the targeted scheme it varies from 0.3% to 4.2% of annual GDP. Again, these figures are more onerous for countries with a higher poverty rate and lower per-capita GDP.

Beyond the difficulty of establishing the order of causality between poverty and unemployment, there is no denying that unemployment has a greater impact on poor households, makes systems of saving for old age less effective and often means the loss of social benefits, such as access to protection from health risks, that often come only with a contractual employment relationship.

To mitigate these consequences, some of the countries of the region have established unemployment insurance that provides compensatory, transitory income while improving prospects for productive reinsertion. But only seven countries in Latin America and the Caribbean have such an instrument. Coverage and benefits are usually limited and apply only to workers in the formal sector —and, among these, to those who have a certain degree of job stability because entitlement to benefits hinges on remaining for a minimum period of time in the job from which contributions to the system are made (Velásquez, 2010). During the recent crisis some of these schemes have been reformulated to make them more countercyclical by, for example, making access to them easier or combining them with training mechanisms. Nevertheless, their dissemination and institutionalization are still limited in most of the countries of the region.

The challenge of improving the efficiency and redistributive effect of unemployment insurance lies in broadening its coverage, linking it more closely to active labour market policies and integrating it with other protection mechanisms such as severance pay and non-contributory systems that provide support for low-income families. In view of the limited coverage provided by unemployment insurance, many countries have emergency employment programmes that are activated, above all, during crises and help cover the income needs of persons in the informal sector or rural areas. An alternative to such a regime could be the creation of non-contributory unemployment insurance systems that would broaden protection; benefits could, perhaps, be conditional on training programmes or other measures geared to improve employability.

B. Social policies in the areas of pensions, health and education

The impact of social policies on distribution does not depend solely on the initiative involved or how a programme is designed, on the magnitude of the public resources involved or on the coverage of the beneficiary population. It also depends on how they are financed. This section will highlight the distributive impact of social policy financing. The debate on the formulation and financing of social policies entails two key lines of discussion. The first has to do with contributory versus non-contributory financing of social protection. The other involves a necessary stock-taking of the region's experience with decentralization over the past 30 years and the advisability (and feasibility) of ensuring the local origin of that financing as well as the consequences thereof for equity and fiscal consistency.

2 See details on the relevance of this alternative for poor countries in Willmore (2006).

1. Pension systems

In the case of contributory pay-as-you-go pension systems, demographic transition (which invariably increased the number of pensioners with relation to contributors), the failure to adjust contribution rate parameters or eligibility requirements, the presence of sectoral privileges and a voluntaristic definition of replacement rates led to designs that did not ensure the solvency of the system over time. Later came the tensions deriving from globalization, which resulted in certain cases in rising open unemployment rates and the reassignment of the workforce to less productive sectors or self-employment. This helped spur different kinds of reform that, to varying degrees, sought a closer link between contributions and benefits.

Pension system reforms can be classed in two major groups: structural reforms and parametric reforms. The former include the adoption of three alternative models: (i) the pure substitution model, with individual funding being the only option; (ii) the parallel model, which retains a reformed (public) pay-as-you-go regime alongside the individually funded model and allows workers to opt for one or the other; and (iii) the mixed model, in which the worker contributes simultaneously to both systems. In practice, there is no pure model; almost all of the countries have some kind of assistance transfer system for old age or complementary private schemes. Parametric reform, as the name suggests, retains the general profile or basic structure of the pre-existing system but changes the calculation algorithms and the values for strategic variables (contribution rates, legal retirement age and replacement rates, among others).

However, the reforms carried out did not resolve all of the complex problems of the region's pension systems.[3] Unlike what was expected, introducing capitalization components did not lead to an increase in contributory participation or to complete self-funding of benefits for most of those enrolled in these systems. Under such a regime contributions would be more like savings than like taxes, but lower-income groups, tending to prioritize present consumption over future consumption, often remain outside the system. The result is that effective coverage is no broader than under the previous scheme. At the same time, the higher incidence of unemployment and informality in lower-income groups is reflected in their lower contribution density, leading to lower accumulation of savings. And even for those low-income groups that manage to stay active in the new system and attain an adequate contribution density, low income means little accumulation of resources and will likewise make them candidates for subsidies to bring them up to the minimum pensions guaranteed by the State. In short, such systems are not likely to overcome the exclusions that characterize the region's labour market. On the contrary: adding individually-funded accounts removed a good deal of the solidarity inherent to pay-as-you go systems, turning employment inequities into welfare inequities (Cuadros and Jiménez, 2004).

As stated above, the region now faces a scenario characterized by marked social segmentation in the labour sphere (formal workers, informal workers and the unemployed) and, therefore, in the area of social protection. Low collections because of growing informality, combined with the demand for additional resources arising from the financial imbalances of pre-existing pay-as-you-go pension systems that are still paying their beneficiaries, have often displaced other social policies geared to channel resources to lower-income sectors. Generally speaking, financial sustainability and fiscal deficit problems remained in those countries that introduced substitute individual funding schemes, because the transition costs were higher and more persistent than expected.[4] As a result, in some countries a gap is opening between total spending on pensions and the spending that has redistributive effects, as figure III.5 shows for Argentina and Chile.

The main lesson to be learned from these reforms is that the reality of the region's labour markets does not allow basing a pension system on the contributory component alone. Because of labour market exclusions and segmentation, this would lead to marked inequalities and undersaving for old age that the State will have to address more sooner than later. The contributory component will have to be reinforced by incorporating solidarity mechanisms in the funding of benefits. This is, in part, the approach taken by recent pension system reforms in the region. Noteworthy among them is the pension reform in Chile discussed in box III.1.

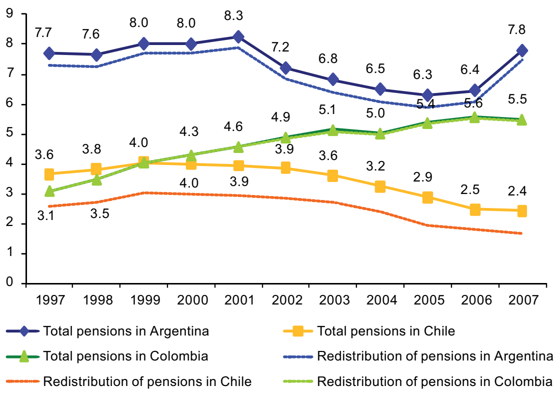
[3] See Cetrángolo and Grushka (2004), Jiménez and Cuadros (2003) and Mesa-Lago (2004).

[4] See the discussion of the fiscal costs of substitutive reform in Rodríguez Herrera and Durán Valverde (2000).

Figure III.5

ARGENTINA, CHILE AND COLOMBIA: TOTAL AND REDISTRIBUTIVE PENSION SPENDING, 1997-2007

(Percentages of GDP)



Source: Óscar Cetrángolo, "La seguridad social en América Latina y el Caribe. Una propuesta metodológica para su medición y aplicación a los casos de Argentina, Chile y Colombia", project documents, No. 258 (LC/W.258), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009.

Box III.1

THE RECENT PENSION REFORM IN CHILE

Up to 1979, Chile's contributory pension system was a public pay-as-you-go system, with many special regimes. It was replaced with an individual funding regime based on compulsory defined contributions (made by the worker for an equivalent of up to 10% of wages) managed by pension fund managers (AFPs) that charge a fee to cover administrative costs and provide disability and survival insurance and are subject to regulation and oversight by the Superintendency of AFPs.

In addition to creating a new pension scheme —in which participation was voluntary for those who had been paying in to the previous system and compulsory for those joining the labour force in or after 1983— the Institute of Social Security Standardization was created in the framework of the public contributory system. It was an independent agency with its own capital created to manage the pension systems that had been the responsibility of the previous pension entities (Provident Funds), among other functions.

A novel structural reform for improving the pension system was approved in 2008, and implementation began that same year. The reform had a broader scope: add a solidarity pillar by creating a basic solidarity-based pension and providing a publicly-funded pension top-up for low-income pensioners; grant a set benefits designed to redress the status of women; create incentives for young persons to pay in to the system; gradually require own-account workers to participate; apply new regulations geared to improve the efficiency and transparency of the pension fund administration company industry; redesign the institutional framework of the pension system and formulate a funding policy consistent with fiscal commitments.

This reform is so extensive that it can be considered structural —not only does it improve the existing system but it brings in new components that recognize and institutionalize the mixed nature of its sources of funding, as the table below shows.

CHILE: CHANGES IN THE PENSION SYSTEM

Before 1980		Substitutive structural reform (1980)		Comprehensive structural reform (2008)	
Contributory regime	Non-contributory regime	Contributory regime	Non-contributory regime	Contributory regime	Non-contributory regime
Public pay-as-you-go system and special regimes	Pension assistance programme (PASIS)	State-guaranteed privately funded system, with the public system being phased out	PASIS	State-guaranteed privately-funded system, with the public system being phased out and a solidarity pillar added	PBS (basic solidarity pension)

Source: M. Velásquez Pinto, "El caso de Chile", *La seguridad social en América Latina y el Caribe.Una propuesta metodológica para su medición y aplicación a los casos de Argentina, Chile y Colombia,* project documents, No. 258 (LC/W.258) O. Cetrángolo (ed.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009.

Some of the principle components of the reform are described below.

(i) Solidarity benefit: This is a publicly-funded benefit granted to those who are entitled to a pension lower than the maximum pension funded by solidarity contributions. It supplements and is inversely proportional to the self-funded pension that an individual receives.

(ii) Child bonus: All women over 65 who begin to draw a pension on or after 1 July 2009 will receive a bonus for each live-born child, equal to 12 months of social security contributions based on 10% of the minimum wage, funded in accordance with the return on pension fund C.

(iii) Greater coverage for young workers: Two tax-funded contributions will be paid: a hiring subsidy for employers who hire young workers (age 18 to 35 who receive up to 1.5 minimum wages), equivalent to 50% of the minimum-wage-based social security contribution, for the first 24 contributions (continuous or discontinuous); and a contribution subsidy paid directly by the State to the young worker's individually-funded account, in the same amount as the subsidy described above. This benefit is effective from 1 July 2011.

Source: M. Velásquez Pinto, "El caso de Chile", *La seguridad social en América Latina y el Caribe. Una propuesta metodológica para su medición y aplicación a los casos de Argentina, Chile y Colombia,* project documents, No. 258 (LC/W.258) O. Cetrángolo (ed.), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2009.

2. Health care systems

As discussed in ECLAC (2009b), social protection systems in the region are highly dissimilar, with the differences between countries depending on the relative weight of State, market and family contributions to welfare. The smaller the weight of the State, the more important out-of-pocket spending becomes, and the ability to weather volatile economic cycles is exposed to market forces and family income. This is particularly relevant in the case of health care systems, where the need to incur out-of-pocket expenses to obtain care or medication is a significant source of inequity. The larger the contribution made by public spending the more equitable and redistributive health care spending will be, while a greater proportion of private spending is indicative of a smaller degree of solidarity within the system (ECLAC, 2006; Uthoff, 2010).

Health care system segmentation is present in practically all of the countries of Latin America and the Caribbean. There is a wide variety of health care system institutions and mechanisms for financing, insuring, regulating and providing services that, in general, combine a specialized public system with certain functions of the social security systems and the private sector. The working of the system as a whole depends on how these three subsectors are related.

The public sector is usually the only mechanism for covering the population with no contributory capacity (that is, the uninsured population uses the public network of providers). Some social security systems, in addition to paying pensions, operate health care services, cover formal workers and may have their own network of hospitals and providers. And the private sector usually serves the higher-income population under insurance arrangements and a private- provider structure. As a rule, households in the highest quintiles report a greater degree of participation in insurance systems; families in the first and second quintiles are usually covered by the public system.

Institutional arrangements in the region vary widely, ranging from public services funded exclusively by general revenues, to systems where contributory funding and the national budget are integrated to a certain degree, to the other extreme in countries with little or no connection between the two, as can be seen in box III.1 (ECLAC, 2006).

One group of countries has health care systems that provide uniform public benefits for the entire population, funded exclusively by general revenues. This group includes the countries of the English-speaking Caribbean, Brazil and Cuba.

The prevailing system in the countries of the English-speaking Caribbean is one in which funding is essentially non-contributory and is based on taxes, with no explicit separation between procurement, insurance and the provision of services (the private sector plays a subsidiary, complementary role to the public sector). There are both public and private providers of health care services. The Cuban health care system is similar to these, but services are provided by the public system alone.

In Brazil, with adoption of the 1988 Constitution the right of workers to health care provided under social security was made universal and comprehensive. That was the starting point for the creation of a single public health care system funded out of general revenues that integrated almost all of the social security schemes. The Brazilian system thus comprises just two subsectors: public and private.

Costa Rica is an example of another kind of system, which combines funding from general revenues and the contributory system. Unlike Brazil, Costa Rica kept wage-based contributions earmarked for an agency (the Costa Rican Social Security Fund) that also receives fiscal contributions to serve those who have no contributory capacity.[5] The fund operates like an insurance system and provides uniform coverage for all participants. Integrating the different income groups (that use the same facilities and receive the same level of services) has been the main factor behind the success of Costa Rica's health care policy.[6]

Another group of countries comprises those in which the different sources of funding are integrated but coverage is differentiated on the basis of whether the funding is contributory or not. Antigua and Barbuda, Colombia and the Dominican Republic are examples, as Uruguay will be once the reform under way is in place. Colombia is especially interesting, with its health care reform that began in 1993, and is discussed in box III.2.

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5 State participation in funding is through three different channels: (i) the State makes a minor contribution that supplements the one paid in by employees and employers; (ii) it covers nearly 50% of the contribution for independent workers and voluntary participants; and (iii) it covers 100% of the contribution for the poorest segment of the population, which lacks contributory capacity.

6 However, over the past few years persons with greater resources have tended more and more to use private primary care and specialized services instead of public services. This has not affected the system's solidarity because this group continues to pay in to social security, but it does create incentives for contributor evasion.

Box III.2

THE COLOMBIAN HEALTH CARE SYSTEM: ACHIEVEMENTS AND LIMITATIONS OF THE 1993 REFORM

In 1993 Colombia radically changed its health care system and began to transition from the traditional three-tier format seen in many countries in Latin America (public health care system funded by taxes, for the population segment unable to pay; social security system funded by wage-based contributions for formal workers; and private medical care for higher-income segments) towards a universal insurance system. The purpose of the new system is to ensure that the entire population has access to a single package of health care services —the compulsory subsidized health plan (POSS)— regardless of socio-economic status or risk level. In practice, the reform led to the appearance of several subsystems that are far less segmented than in the previous system. However, differences in access and quality of service do persist, depending on the subsystem and beneficiary population involved.

In the General System of Social Security in Health (SGSSS) inaugurated with the 1993 reform, public and private insurance and service providers coexist and the population is free to choose the insurer. The new arrangement includes the following subsystems:

- Public health care system for the uninsured
- Contributory regime
- Subsidized regime
- Exempt regimes
- Private services for the uninsured

The public health care system is seen as a transitional arrangement for the segment of the population that is still uninsured. It is funded by national taxes and, to a lesser extent, by local taxes. In 2008 this subsystem served 14% of the population. The contributory regime is geared to the population segment that is able to pay, and its participants are entitled to care under the compulsory subsidized health plan. This regime covered approximately 39% of the population in 2008. Contributors pay in 12.5% of their wages, with 1.5 percentage points being channelled to the subsidized regime to fund the system's solidarity component. In addition, the Health Promotion Agencies (EPSs) receive risk-adjusted capitation payments, which adds other redistributive components: income level, age and health status.

The subsidized regime serves the insured population that is unable to pay, subject to a means test for eligibility. In this subsystem, members are entitled to care under the compulsory subsidized health plan, which is more limited than under the contributory regime. In 2008 nearly 44% of the population belonged to this system. Funding comes from the solidarity contribution made by members of the contributory regime (approximately 34% of the subsidized regime's budget revenues in 2009) and from national and local taxes (which accounted for 64% of revenues that same year).

In addition to these subsystems, there are the so-called exempt regimes. These regimes receive contributions from members and have their own mechanisms for engaging health care system providers. The average contribution is higher than for the other regimes and the services provided are better, with the resulting inequities. These regimes offer coverage for members of the armed forces and the national police force, employees of the Colombian Petroleum Company (ECOPETROL) and other closed groups of public servants. It is estimated that 3% of the population belonged to these regimes in 2008.

High-income individuals usually belong to private plans for complementary coverage; approximately 6% of the population does so. To keep participation in such plans from draining resources from the general system, participation in the contributory regime is a requisite for joining an additional, private coverage plan.

Despite the successful outcomes of the reform, there are still barriers to health care access in Colombia and inequities therefore persist. The reasons for the remaining segmentation lie in the attempt to preserve the status quo, both by the beneficiaries of the old social security system and by other groups and institutions (public and private health care organizations, medical associations and others).

Source: Úrsula Giedion and Olga Lúcia Acosta, "El impacto distributivo de la reforma colombiana de 1993", document presented in the workshop on distributive impact in public policies, Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 28-29 April 2010.

Among the systems with a certain degree of integration is Chile's, as a unique variant that could be classed as a dual, partially integrated model. One of the salient features of the reform initiated in 1981 was segmentation, with compulsory contributions to the health care system that could be earmarked, at the contributor's choice, for a sort of public health insurance plan —the National Health Fund (FONASA)— or for private health insurance institutions (ISAPRE). If the compulsory contribution is earmarked for the National Health Fund, the contributor is a member of the public system. If the contribution is channelled to a private health insurance institution, the member is covered by one of the health plans it offers, depending on payment capacity and risk. In this system, the public sector and social security are linked through the National Health Fund and the Universal Access with Explicit Guarantees (AUGE plan).[7] The National Health Fund is funded by contributions from members and fiscal contributions out of general revenues, to provide coverage for those with no contributory capacity. Within the National Health Fund, access to AUGE plan benefits is not tied to contributions. At this basic level, then, there is solidarity among contributors and noncontributors. For access to other National Health Fund services, however, there are co-payments that vary depending on the beneficiary's income bracket and the cost of the service. Despite this solidarity mechanism, the duality of the system as a whole and the individual nature of private insurance coverage hamper the complete integration of funding and work against equality.

Unlike Colombia, where there are risk compensation mechanisms, private insurance in Chile leads to discrimination based on individual contributors' health risks and thus to situations that run contrary to the goals of rights-based social policy. First, the marked difference between health programme premiums discriminates against women of child-bearing age and older adults, because of their higher health risks. Second, this difference leads, in practice, to private

7 The AUGE plan covers a set of health conditions for which care is guaranteed by both the public system and the private system.

insurers screening participants based on risk, accepting those with a lower risk profile and shunting riskier, less profitable groups to the public system.

Another group consists of those countries in the region that have systems where public funding and social security are not integrated. Generally speaking, in this group fairly fragmented social security systems coexist with multiple institutions; there are no mechanisms for coordination and little solidary funding.[8]

To make a health care system more equitable, moving toward universal coverage should be a priority. The minimum requirements for attaining this goal are reconciling the subsystems (public, social security and private medicine); integrating contributory and non-contributory sources of funding by incorporating explicit, transparent solidarity features; and lowering the barriers to health care access for lower-income population segments, ensuring efficient and quality care.

Table III.1

LATIN AMERICA AND THE CARIBBEAN: COMBINATIONS OF PUBLIC FUNDING AND SOCIAL SECURITY CONTRIBUTIONS IN THE HEALTH SECTOR [a]

Type 1	Type 2	Type 3
Countries with health care systems financed by general revenues	Countries with health care systems financed by a combination of general revenues and social security contributions	Countries that do not combine general revenues and social security contributions for financing health care
Services are structurally varied: different types of relationship exist between the public and private sectors.	In all cases, there is a certain degree of explicit separation between financing and the provision of services. The degree to which financing is integrated varies as well.	Services are structurally varied: different types of relationship exist between the public and private sectors
Countries with public and private services: Bahamas, Barbados, Belize, Bolivarian Republic of Venezuela, Brazil, Dominica, Grenada, Guyana, Haiti,[b] Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago Countries with services provided by the public system only: Cuba	Antigua and Barbuda, Dominican Republic,[c] Costa Rica, Colombia, Chile, Uruguay	Argentina, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Panama, Plurinational State of Bolivia

Source: Economic Commission for Latin America and the Caribbean (ECLAC), *Shaping the Future of Social Protection: Access, Financing and Solidarity* (LC/G.2294(SES.31/3)/E), Santiago, Chile, February 2006.

[a] In all countries, except Cuba, there is also a private subsector that provides health services.

[b] In Haiti there is practically no social security, and the provision and financing of health services are undertaken principally by the public sector and non-governmental organizations.

[c] The Dominican Republic is in a transition period, implementing health reforms aimed at greater integration of financing.

3. Education systems

It is generally agreed that education furthers inclusive development. A society with good education outcomes that extend to most of the population tends to have less income dispersion. This is due to increasing income from work and the positive impact in terms of health, the integration of the population into networks and access to decision-making levels.

According to the Universal Declaration of Human rights, everyone has the right to free education (at least in the elementary and fundamental stages), and education shall be compulsory.[9] But, beyond coverage, there is concern as to the quality of education services provided. From a rights-based point of view, a quality education enables students not only to acquire knowledge and skills but also to develop values, attitudes and behaviours (UNESCO and OREALC, 2008).

In this sense, education coverage in the countries of the region has improved considerably since 1990. School attendance among primary-school age children is almost universal. Access for children and young people at higher levels has increased thanks to expanded school coverage and better education system retention capacity (ECLAC, 2007). But the significant progress made in

[8] The countries in this group are Argentina, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[9] United Nations, 1948.

access to education is still marred by the high degree of inequality in terms of education received and learning skills acquired that has its root in the unequal social structure of the countries of the region.

Generally speaking, public and private education systems coexist in the Latin American and Caribbean countries. Public education is financed for the most part by central or national government budget resources, by intermediate governments (such as provinces and states), or by local or municipal governments, as well as by private-sector resources (such as donations and transfers). Private education is financed by payments from users.

The relative importance of private financing has increased in the region, as has family spending on education. This has an effect on distributive impact (ECLAC and UNESCO, 2004). If spending is proportional to a family's budget and its elasticity depends on the resources or savings at the family's disposal, it is to be expected that an increase in private spending favours the concentration of more resources in higher-income groups where education outcomes in terms of years of schooling and effective learning are already better than for the rest of society. Family contributions account for most private spending on education, so consideration must be given to their impact on equity, that is, on the equality of opportunities for access and attainment and on the education system for girls and boys from different socio-economic groups, ethnicities and localities. If increasing the family contribution has a direct impact on the quality of education that the children receive, there is a clear risk that the gap in education outcomes among social strata will tend to grow rather than decrease.

There are two types of public financing: (i) resources channelled to the education sector by supply mechanisms; and (ii) those based on demand, via subsidies for students and their families. In Latin America, the dominant models are those in which resources are allocated directly on the basis of supply, depending on the specific features of each school. Chile, on the other hand, is an example of a demand-oriented mechanism. Between 1980 and 1986, approximately, Chile underwent one of the most radical reforms that have ever taken place in the region. Education was decentralized and made the responsibility of municipalities, and the groundwork was laid for a marked increase in the role of private education in providing services to the system. But this scheme had a regressive distributive bias that democratic administrations sought to correct with successive reforms.[10]

A strategy for achieving equality in education must give priority to expanding coverage at the preschool level and lengthening the school day in public schools, improving secondary completion rates in socio-economic sectors with lower achievement levels (considering that coverage and completion are now almost universal for primary education in the region) and reducing the learning and knowledge gaps built up over the education cycle from preschool to the end of the secondary cycle) (ECLAC, 2010b).

C. Assigning functions to different levels of government

An additional factor to consider when assessing the distributive impact of social policies has to do with the level of government responsible for providing them. Over the past 30 years, the Latin American and Caribbean region has seen the decentralization of many competencies and functions that have been reassigned from the central government to subnational levels.

This devolution of responsibilities to intermediate and local governments entailed a substantial increase in public spending at the subnational level in the past few decades. Table III.2 shows the marked rise in subnational government spending in some countries, such as Argentina, Colombia, Ecuador, Mexico, and the Plurinational State of Bolivia. The level of subnational spending is closely linked to the

[10] Chile's education finance system consists of a portable, demand-side per-student subsidy that is given to the establishment where the student is enrolled. Over the past few years, the system has changed considerably from its original design. Legislation enacted in 1993 authorized co-payments by parents to subsidized establishments. To address the increasingly regressive nature of the education system, in 2007 Congress passed the Preferential School Subsidy Act targeting priority or vulnerable students. New programmes were implemented as well; the level and structure of teacher pay scales were changed, and other, minor payments were added based on the characteristics of each establishment. Further changes were made over time without altering the core of the system —a fully portable per-student subsidy— despite the fact that the underlying problem with the system was its highly regressive nature. See Romaguera and Gallegos (2010).

institutional framework of the country in question and is more than eight percentage points of GDP in federal countries (averaging 13% of GDP in Argentina and Brazil) and in decentralized unitary countries like Colombia. In such countries, subnational governments account for 25% to 45% of total non-financial public sector spending. Moreover, these countries are usually those with a larger geographical area and greater internal disparities, making decentralization more of a governance tool than an option for public policy and for organizing social services.

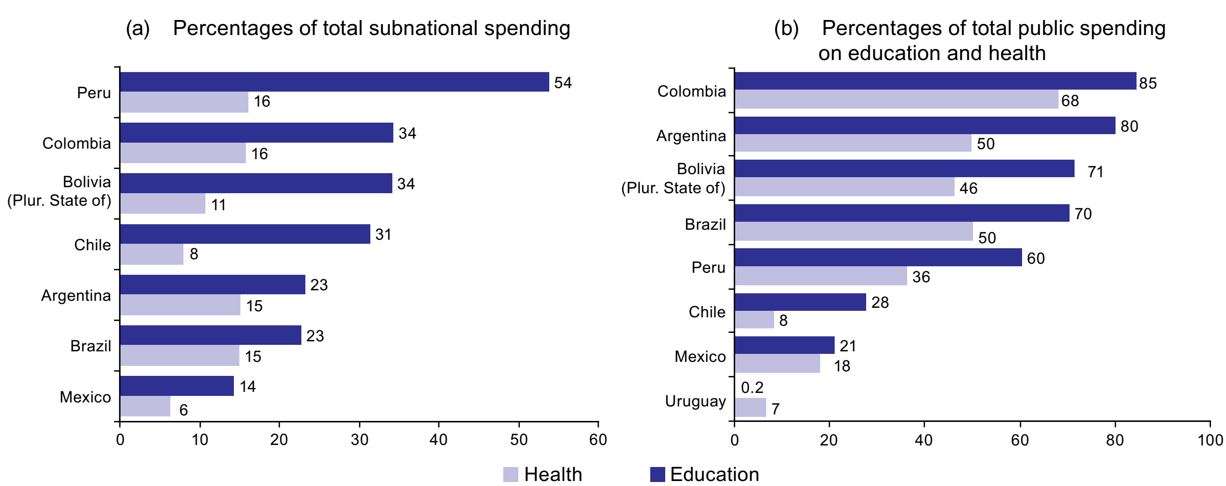
The increase in subnational government spending took place mainly in the education and health sectors, which became a priority in the region's more decentralized countries and account for more than 40% of total subnational government spending (di Gropello and Cominetti, 1998; Cetrángolo, 2007). In Argentina, Brazil, Colombia and the Plurinational State of Bolivia, subnational governments execute more than 70% of total public spending on education and approximately one half of public spending on health (see figure III.6).

Table III.2
LATIN AMERICA: SUBNATIONAL GOVERNMENT SPENDING [a]
(Percentages of GDP and of total non-financial public sector or central government spending)

	1985-1990	1991-1995	1996-2000	2001-2005	2006-2008	1991-1995	1996-2000	2001-2005	2006-2008
	(percentage of GDP)					(percentages of total non-financial public sector or central government spending)			
Argentina	8.7	11.0	11.9	12.0	14.0	44.7	44.8	45.1	45.3
Bolivia (Plurinational State of)	2.8	5.6	6.9	7.8	10.7	15.4	19.9	22.1	26.5
Brazil	…	…	12.2	12.3	12.6	…	33.0	31.4	31.5
Chile	2.3	2.3	3.0	3.0	2.6	7.3	9.5	9.0	7.9
Colombia [b]	5.2	5.0	7.3	7.7	8.2	23.3	23.5	24.4	26.6
Costa Rica	0.8	0.6	0.7	0.8	0.9	2.6	2.9	2.9	3.6
Ecuador	…	1.8	2.2	3.7	4.3	7.5	9.1	15.6	14.2
Mexico	3.8	4.6	6.2	7.9	8.4	21.9	30.0	37.1	37.3
Paraguay	0.4	0.3	0.3	0.4	0.4	1.0	0.9	1.1	1.3
Peru	…	1.8	2.0	2.1	3.0	9.2	9.8	10.9	16.3
Average for Latin America	…	…	5.3	5.8	6.5	…	18.4	20.0	21.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC).
[a] The data on subnational governments in Argentina are for provinces; for the Plurinational State of Bolivia they refer to prefectures and municipalities; in Brazil, they are for states and municipalities; in Chile, they are for municipalities; in Colombia, they refer to departments and municipalities; in Costa Rica, they are for local governments; in Ecuador, they refer to provincial councils and municipalities; in Mexico, they are for state governments and the Federal District; in Paraguay, they refer to Governor's Offices; and in Peru they are for local governments.
[b] The data in the first column refer to 1986-1990.

Figure III.6
LATIN AMERICA: SUBNATIONAL GOVERNMENT SPENDING ON EDUCATION AND HEALTH
(Percentages)



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

To appropriately weight the importance of subnational governments in the application of social policies, the features of programmes geared to improve social protection and fight poverty must be borne in mind. It is usually held that for reasons of efficiency and equity, central governments should be responsible for designing and funding such programmes. In practice, however, either circumstances or ongoing decentralization are making programmes executed by intermediate and local governments increasingly widespread. Box III.3 classes social protection and anti-poverty programmes on the basis of the level of government executing them.

Classifying these programmes in Latin America reveals how difficult it really is to distribute functions among jurisdictions on the basis of theory and regulations. Table III.3 summarizes the proposed classification, with examples from each case. Initiatives to combat poverty and improve social protection are being implemented across the region by different levels of government. Particularly noteworthy is the existence of many central government programmes that deal with decentralized issues. Even more striking are the local programmes that address issues associated with centralized policies. Some attempts at comprehensive policies linking initiatives at different levels of government were identified, but this has not always been the case. In any event, it is clear that the enormous diversity of situations in the region requires a major effort to coordinate the different levels of government at times of increased demand for these programmes.

Table III.3
LATIN AMERICA: CLASSIFICATION OF PROGRAMMES BY LEVEL OF GOVERNMENT

Programmes	Responsibility of central government	Responsibility of local government
Traditionally centralized	• Income transfers: Chile Solidario; Unemployed Heads of Household Plan or PJJHD (Argentina); development strategy for depressed and conflict areas (Colombia) • Food programmes: Emergency Hunger Programme (Argentina); Zero Hunger (Brazil); family assistance and nutrition programme (Colombia); supplemental food programme (Peru); school meal and child nutrition programme (Guatemala) • Employment: Getting to Work (Argentina); programme to eradicate child labour (Brazil); employment and job training programme (Colombia)	• Employment and job training: Girasoles Programme (Montevideo); provincial employment programmes (Argentina) • Programmes coordinated with other levels of government: Local food security, nutritional analysis and education project, Corral de Bustos municipality (Argentina)
Traditionally decentralized	• Distribution of material for decentralized functions: book distribution (Brazil); Remediar programme (Argentina) • Guaranteed minimum spending: Fund for the Maintenance and Development of Primary Education and for Teacher Development (FUNDEF) (Brazil) • Support for local capacities: fiscal decentralization and municipal financial management, and decentralization of public services (Honduras) • Programmes coordinated with local programmes: Emergency Housing Programme (Argentina) • Urban development: Urban quality of life programme (Colombia); subsidy for drinking water and sanitation service bills (Chile); Guatemalan Housing Fund (Guatemala)	• Provision of decentralized services: Family Health Programme (Brazil); mobile health programme (Lima) • Assistance programs: Summer programme for street children, and neighbourhood snack and meal centres (Montevideo) • Urban development: multi-sector investment programmes (Brazil); subsidy for public transit tickets and suspension of property taxes owed by lower-income homeowners (Montevideo)
Comprehensive initiatives	• National strategies: strengthening local development (Honduras); Poverty Reduction Strategy, or ERP (Nicaragua)	• Programa Crecer (Rosario, Argentina); creation of municipal agencies (Lurin, Peru); Committee to Fight Poverty (Villa María del Triunfo, Peru)

Source: O. Cetrángolo, "Búsqueda de cohesión social y sostenibilidad fiscal en los procesos de descentralización", *Políticas sociales series*, No. 131 (LC/L.2700-P), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2007. United Nations publication, Sales No. S.07.II.G.50 S.07.II.G.50.

Beyond the theoretical grounding of and the specific rationale underlying each national experience with decentralization, it is important to note that the devolution of functions to subnational levels of government is subject to a set of conditioning factors and limitations of such consequence that they have sparked considerable tension between decentralization and other policy objectives. Particular attention should be paid to conflicts with fiscal sustainability andterritorial and social cohesion.

The decentralization of functions increases the demand for resources by subnational governments so they can provide social services, and it can trigger fiscal tensions. In addition, increased local autonomy generates pressure in wealthier regions to stop contributing to the maintenance of public policies in poorer areas, thus jeopardizing social and territorial cohesion. So, while there have been many attempts to introduce varying degrees of decentralization, the outcomes unquestionably reflect the strengths and weaknesses of each country and, above all, the financing mechanisms accompanying each process (Arredondo, Orozco and De Icaza, 2005).

It is thus important to bear in mind the factors that substantially condition attainment of the objectives pursued by public decentralization policies. The first factor, mentioned in chapter II, has to do with the difficulties that the countries of the region face in collecting adequate tax revenues. Second, the high and unequal territorial distribution of tax bases makes it very difficult to fulfil the fiscal co-responsibility goals that many of the ongoing decentralization processes would require.

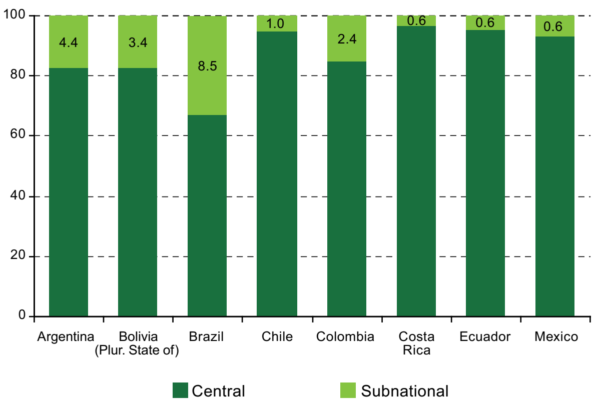
While the main source of financing for the public sectors is taxes, these are concentrated mainly at central government levels. As figure III.7 shows, in the more decentralized countries subnational governments contribute nearly 20% of total tax revenue. In Brazil, states and municipalities collect approximately one third of the total, due mainly to revenue from the sales tax on merchandise and services (ICMS), which is in the purview of the states and the federal district. In more centralized countries such as Chile, Costa Rica and Ecuador, on the other hand, subnational governments collect less than 6% of the total. Although Mexico is a federal country, tax collection is centralized at the federal government level; states and municipalities account for just 6% of tax collections.[11]

Total subnational government tax revenues have grown substantially over the past 10 years. However, this is due essentially to the growing importance of transfers from central governments, not to an increase in their own fiscal resources. As figure III.8 shows, transfers as a percentage of subnational government revenue rose substantially between 1997 and 2008 while their own tax revenues just went from 2.1% of GDP to 2.6% of GDP during the same period.

A country-by-country analysis of the revenue structure at these levels of government shows that transfers are substantial in most of them. In Argentina, Mexico and the Plurinational State of Bolivia, they exceed seven percentage points of GDP; in Colombia and Ecuador they are in the area of 4% of GDP. In Ecuador and Mexico, transfers received by intermediate and local levels of government are the main source of funding, at 70% of total revenue.

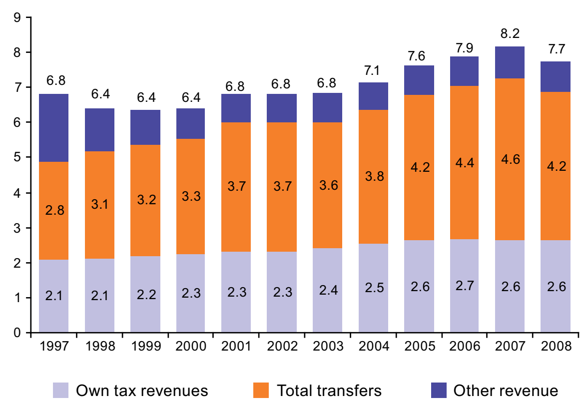
Factors ranging from the high degree of productive disparity in the region to weak subnational tax collection agencies are behind the slow growth of subnational revenues and the high degree of dependence on intergovernmental transfers (Cetrángolo and J.P. Jiménez, 2009). As stated earlier, tax collections by subnational governments have stagnated over the past 11 years and the gaps in subnational tax pressure among the countries of Latin America have remained constant.[12] The poor evolution of subnational tax collections in the countries of the region is related to the inadequate level and structure of subnational taxes, which are, in turn, related to the available tax base.

Figure III.7
LATIN AMERICA: TAX COLLECTION STRUCTURE BY LEVEL OF GOVERNMENT, 2008
(Percentages of total collections and of GDP)



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

Figure III.8
LATIN AMERICA: AVERAGE STRUCTURE OF SUBNATIONAL REVENUES, 1997-2008
(Percentages of GDP)



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

[11] For more details, see J.P. Jiménez and Podestá (2009).

[12] The only countries in which the subnational tax burden has increased are Brazil and the Plurinational State of Bolivia. In Brazil, however, as highlighted by Afonso (2004), the sales tax on merchandise and services has increased less than indirect federal taxes have, because of fiscal competition between the states concerning this tax.

Because the rationale and logic behind the territorial assignment of functions differ from those that have shaped the distribution of taxation authority, the countries usually exhibit varying degrees of imbalance between receipts and payments.[13] They are reflected in the gap between resources and spending at the different levels of government (vertical imbalance), or in the gap between the fiscal capacities of subnational governments at the same level (horizontal imbalance), rooted in productive disparities at the regional level. These imbalances are usually covered by financial transfers (Ahmad and Craig, 1997).

Given the horizontal imbalance, the more advanced the decentralization of functions, the larger the vertical imbalance will be. This does not mean that decentralization impedes the pursuit of greater social cohesion, only that it highlights the need for mechanisms to coordinate sectoral policies that provide for compensating needier regions. That is the only way to craft decentralization policies that maintain social cohesion and are fiscally sustainable over the medium term.

Also, the more centralized taxation is the greater the need for basic transfers to finance activities that are in the hands of subnational governments. Since they are so dependent on attainment of the social cohesion goals of the transfer system in question, it is impossible to evaluate decentralization processes and the likelihood of local governments being able to carry out their functions without considering interjurisdictional financial transfer schemes. Indeed, the fiscal impact will be very different depending on the modality adopted in each case.

There is considerable diversity among transfer schemes in the region, depending on the level of government, making it very difficult to identify common traits that might reveal a pattern. Among the systems in place there are (i) unconditional transfers, which give local governments greater authority and seek to lessen the differences between the financial capacities of the states; the magnitude of the transfers depends on central government collections and thus is highly procyclical and more problematic from a fiscal sustainability point of view; (ii) conditional transfers, which are usually present when the central government targets a particular policy objective and the resources transferred are tailored to central government priorities, usually due to the incomplete decentralization of a certain function; and (iii) transfers with a counterparty, which are of particular interest because they involve incentives for subnational governments to fulfil certain decentralized policy goals defined by the central government for the sectoral policy in question.

In any event, even if the requisite financial resources are available, the serious disparities existing at the territorial level limit the availability of human resources and, in general, of management capacities. This means that, in addition to the transfer of monetary resources, training and capacity transfers are needed as well. There is therefore no denying the need to continue to re-think the hierarchical role of central governments in decentralized countries, implementing sectoral policies that provide for interregional compensation and make it possible to guarantee basic social services for the entire population.

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[13] For further details, see Cetrángolo, Goldschmit and J.P. Jiménez (2009).

Chapter IV

Conclusions and challenges for the future

To improve distributive impacts and promote equality and social cohesion in Latin America and the Caribbean, effective public policies will be required in a variety of key areas. First, public policy needs to achieve the greatest possible results in terms of economic growth and employment, since without steady, sustained growth in the economy the demand for social assistance proliferates while the resources needed to finance the necessary State actions are hard to obtain. Second, modernization of social policies is vital, and this includes both education and vocational training policies designed to increase people's capabilities and policies constituting a rights-based social protection paradigm. Furthermore, these can have a positive feedback effect on economic growth.

There is conclusive empirical evidence for the impact that macroeconomic crises and high levels of volatility have on the relative situation of the poorest sectors of the population. It is they who bear the brunt when incomes fall, and they lack the resources to cushion the negative effects of macroeconomic shocks, characterized as these are by falling incomes, job losses and reduced social benefits.

Recognizing that stability is a necessary condition for stronger growth and better distribution means setting out from broadly defined macroeconomic policy goals that are not confined to inflation control but encompass the need to reduce real-term volatility through measures, policies and institutions capable of smoothing the fluctuations caused by external and internal shocks and those originating in macro policy and its impacts.

In a region characterized by a highly heterogeneous production structure, reflected in the labour market by large productivity and earnings divides, the rate and characteristics of growth have a strong influence on income distribution and on the kind of access different social groups have to the goods and services produced in the economy. From this perspective, the way different groups participate in markets (the labour market, for instance) entails significant differences in the extent to which policies affect them. Again, aggregate volatility generates greater fluctuations in the incomes of poorer households, especially when, as in our region, unemployment is higher in the poorer strata and this lack of job opportunities drives people into informality. As ECLAC has often argued, crises have consequences in terms of employment, poverty and inequity which are not quickly reversed during upturns and whose effects on inequality are lasting and may even become permanent if the educational careers of young people from poor families are cut short.

The decline in the social assistance capacity of the State during periods of recession in the region, owing to the procyclical character of public social spending, adds a further element of volatility to the consumption of the poor, exposing them to an additional policy risk. This highlights the need for greater policy space so that, in the particular case in hand, instruments are in place to protect the neediest at the time when this is generally most necessary, in the downturns of the economic cycle.

One of the keys to creating this policy space is the development of countercyclical fiscal capacities or fiscal positions that are sustainable over time so that programmes to counteract the social effects of recessions, such as unemployment and increased poverty, can be strengthened as required. This does not just mean trying to balance public spending and revenue, however. An increasingly important development has been the demand for public action that is more efficient and transparent, while at the same time offering scope for greater citizen involvement. This would contribute to the legitimacy of public policies and of the taxes needed to sustain them over time, while making it possible to break the vicious circle whereby States are unable to collect taxes in part because their activities do not enjoy the necessary legitimacy among citizens, whether because of shortcomings and gaps in their mode of action or because of a lack of financing.

The region's fiscal systems share three common characteristics: (i) low tax pressure, (ii) regressive taxation and (iii) poorly directed public spending. On the revenue side, the level of taxation, tax structures and large-scale fraud and tax avoidance all have major effects on equity. For one thing, citizens' social needs are impossible to meet without financial resources. For another, evasion poses a serious problem of equity in that the failure to meet tax obligations results in other taxpayers having to pay more and/or in public goods and services being forfeited.

While there has been some progress in these areas in recent years, the situation is still generally characterized by tax structures that rely heavily on consumption taxes, by high levels of evasion and avoidance and low yields from direct taxes such as income tax, especially the portion payable by natural persons (particularly when compared with levels in developed countries), and by low or non-existent property taxes.

There are two basic reasons for the low relative level of direct taxation in the region, namely narrow tax bases and high levels of non-payment. The end result is taxation rates that are too low to achieve economic effects of any considerable scale. Both of these phenomena are also a consequence of the tax breaks and loopholes characteristic of the region's taxation systems. Not only does this situation fail to meet the basic requirements of equity, i.e., that people with the same payment capacity should pay the same amount of tax (horizontal equity) and that people with a greater payment capacity should pay proportionally more (vertical equity), but it gives rise to economic distortions in resource allocation that impair the overall efficiency of the economy.

As noted earlier, public spending that was oriented towards the creation of more cohesive societies would make a huge contribution to the legitimacy of the State and people's willingness to finance its activities by paying tax. Where social policy is concerned it must be realized that, contrary to the claims made until a few years ago, the labour market is not enough by itself to guarantee social integration. Consequently, as analysed in earlier documents (ECLAC, 2006 and 2010b), social protection cannot rely exclusively on the capacity of contributory systems associated with employment, which means there is a need to give fresh thought and importance to solidarity mechanisms. Better distribution is not just the outcome of higher public social spending but also depends on the ability to incorporate and improve solidarity transfer mechanisms as part of the benefits provided. This in no way invalidates the importance of strategies to formalize employment relationships by extending labour institutions, with all the rights and duties entailed for both workers and employers. Other labour market policies to address aspects of inequality in this area are unemployment insurance, training mechanisms (especially for workers with an intermediate or low education level) and income policies.

Where health systems are concerned, priority must be given to the process of universalizing basic benefits by making the system more equitable, combining contributory and non-contributory financing and bringing in solidarity transfer schemes and/or risk compensation mechanisms to minimize the barriers to health service access for the less well-off. A number of preliminary tasks need to be performed before this goal can be reached, however, such as coordinating public subsystems, social security and the private sector while at the same time consolidating the two types of financing (contributory and non-contributory).

Regarding education, there is general agreement as to its contribution to more inclusive development and as to the significant increase in coverage achieved in the region's countries. There is still a great deal of work to be done, however, when it comes to expanding coverage in areas such as preschool education, evening out the quality of the education provided by reducing segmentation in education systems, and improving the generation of capabilities that can bring about greater equality in our societies while at the same time enhancing the ability of our economies to compete in a globalized world.

Analysis of public-sector education and health service provision needs to be taken down to the territorial level, particularly in view of the region's characteristics. Over the past 25 years, the region has seen a far-reaching process of decentralization of powers and functions to subnational governments. This process, encompassing almost all the Latin American countries, has varied greatly in characteristics and scope. Apart from the avowed goals of each reform, they have all had significant effects on macroeconomic performance, income distribution and the public accounts. Different circumstances have often given rise to severe strains between these policy objectives. These strains have manifested themselves differently in each case, and have usually had a significant impact on the relations between different levels of government in each country.

The advantages of having different levels of government are connected with the benefits of centralizing decision-making for matters requiring national policies and allowing public choices to be made locally when this is more advantageous. The situation can vary greatly depending on the public good or service being decentralized. Decisions about the organization of decentralized public services are taken in diffuse and complex ways, as they do not depend on the decision to decentralize as such but on a whole array of circumstances and decisions among which determinations relating to sectoral and territorial policies are to the fore.

The expected benefits of decentralization need to be evaluated in the light of the conditions under which reform is being implemented, and it is indispensable here to recognize a number of peculiarities characterizing Latin America and the Caribbean, such as the high level of distributive inequality, the territorial inequality resulting from highly unbalanced development and the public policy constraints imposed by low levels of tax pressure. Throughout the region, these characteristics affect the capacity of governments to raise the desired amounts of tax revenue locally and make it harder to achieve the goals pursued by public-sector decentralization policies.

Once the impossibility of achieving full decentralization with financially autonomous local governments has been accepted, consideration must be given to the need for large-scale intergovernmental financial transfers to deal with the vertical and horizontal imbalances of subnational governments and facilitate the attainment of social cohesion goals. To achieve this objective, it is necessary to reassess the role of central governments, giving greater importance to the task of balancing out differences between regions and coordinating public policies that have a common core, even if they are decentralized to different degrees.

To synthesize, the region's countries are faced with a common challenge that entails the necessity of "moving towards greater equality in access, especially in fields such as education, health, employment, housing, basic services, environmental quality and social security" (ECLAC, 2010b, p. 11). The reforms needed to close the social divides that characterize the region require a high degree of consensus and political will, as well as the institutional and administrative capacity to oversee the quality of social spending.

In summary, public policies must secure the financing needed to improve citizen access to social provision in a way that combines efficiency with solidarity, relevance and universality, all at the most appropriate level of government. This should be the basis for the new fiscal covenant that is needed. Achieving it will require an unremitting effort to build increasing consensus on each of the aspects involved, at a time of rising demands for transparency in the use of resources and higher standards of accountability. Public policies commensurate with the challenges facing the region require a constant effort to learn and rethink the kinds of intervention needed to overcome poverty and inequality and to increase people's sense of belonging to a growing economy.

South America

Argentina

1. General trends

The Argentine economy slowed sharply in 2009. Towards the end of the year, however, signs of a pick-up in activity could be observed, and a strong macroeconomic upturn is accordingly expected in 2010. According to official statistics, aggregate GDP rose slightly in 2009. Goods-producing sectors contracted significantly, however (3.5%). This result was mainly due to a decline in agricultural output and a contraction in demand, affecting exports, durable goods consumption and investment. The gross domestic investment rate was about 21.2% of GDP and this, while a lower figure than in 2008, translated into a substantial increase in real assets. Exports fell considerably and imports by even more, the result being an increase in the trade surplus. Declining external trade flows and weakened domestic economic activity affected tax revenues, even though public resources were boosted by the unification of the pensions system under the unfunded State pay-as-you-go scheme. In consequence of this and of strong growth in government spending, the country's fiscal performance worsened. The national public sector registered a financial deficit of 0.8% of GDP and provincial governments one of 0.4%, with some of the latter struggling to meet their spending commitments. Average inflation for the year was lower in 2009 than 2008. According to national statistics, real wages rose considerably and poverty indices declined substantially despite weaker demand for labour, especially in manufacturing. Towards the end of the year, provision was made for families not covered by the formal benefits regime to receive a subsidy for each of their children provided these attended school. This measure will have a large impact on groups in extreme poverty.

The rapid rate of economic growth seen in earlier years was affected by the external shocks that came with the international financial crisis. The terms of trade deteriorated as a result, although they were still high by the standards of the past. The economic and political uncertainties in the country, meanwhile, were reflected in large outflows of private capital and in the higher interest rates required to make Argentine bonds attractive relative to the values observed in other emerging economies. There were no severe shocks in the banking system or currency market, however. The central bank retained its ability to control movements in the currency market, and in fact there was only a moderate build-up of reserves over the year. Meanwhile, the exchange rate against the dollar rose by about 10%. Economic policy was geared towards sustaining activity and demand.

In the second half of the year, the absence of severe financial strains and the signs of improvement in the international situation translated into a slower build-up of private-sector external assets. The risk premiums implicit in bond prices fell back from their high levels of earlier years. At the same time, exports showed signs of recovery. These conditions contributed to an upturn in aggregate spending, which translated into a recovery in activity levels. Higher demand and lower supply, as seen in the meat market following a period in which beef cattle stocks were run down, led to a rise in prices in the first quarter of 2010. Wage negotiations reflected expectations of inflation considerably in excess of that recorded by the consumer price index (CPI), approximating to 10% a year.

Public-sector financing, the use of international reserves and the institutional framework for monetary policy were the subject of intensive debate between late 2009 and early 2010. The government focused on restoring access to external credit, which had been very restricted. Accordingly, it made a swap offer to bondholders who had declined to participate in the 2005 restructuring. The result of the swap was a take-up rate of about 70% of eligible bonds. As a signal that obligations close to maturity would be honoured, furthermore, in late 2009 the government decreed the creation of a fund to which the central bank was to transfer some of its international reserves. This measure was controversial because of its economic and legal ramifications and led to the dismissal of the central bank president. The new monetary authorities expressed their intention of aligning the actions of the central bank with those of the central government macroeconomic authorities and promoting lending to stimulate economic activity and investment.

2. Economic policy

Government spending rose strongly in 2009. The government was concerned to mobilize the resources transferred to the public sector by the pension system reform and use them for lending, especially to producers of consumer durables and the construction sector. Firms were also given assistance to facilitate payment of wages, subject to personnel numbers being maintained. Payroll taxes were reduced and a moratorium was introduced for social security and tax obligations, including disclosure of undeclared assets. The monetary base expanded by about 12%, while interest rates fell considerably over the year. The appreciation of a number of trading partners' currencies translated into a significant increase in the multilateral exchange rate. The authorities continued to apply domestic price regulation measures in the form of agreements with producers of certain goods and services and restrictions on food exports. At the same time, import regulation instruments were employed with the aim of channelling spending towards local producers.

(a) Fiscal policy

Because the primary surplus fell from 3.1% of GDP in 2008 to 1.5% in 2009, the national public sector recorded an overall deficit of 0.6% of GDP in 2009, the first since 2002. This development reflected a substantial rise in primary spending from 18.1% to 21.2% of GDP that was not offset by higher revenues, even though the total tax burden reached a record high, exceeding 30% of GDP. In absolute terms, total spending increased by 30.7% from 2008. There were rises across the board, but particularly in capital spending, pay, goods and services purchases, interest payments and social security benefits. Current transfers grew by less, owing to a reduction in subsidies to the private sector.

The current revenues of the national public sector grew by 19% in 2009, thanks to an allocation of US$ 10 billion in International Monetary Fund (IMF) Special Drawing Rights (SDRs) and to US$ 7.7 billion of revenues from the financial assets of the National Social Security Administrator (ANSES). Domestic fiscal receipts (which include revenue-sharing resources and transfers to provinces) increased by 13.2%, or slightly more than nominal GDP. Tax revenues rose by 5%, while social security contributions increased by over 40% in consequence of the abolition of the funded regime. Revenues from the major domestic earnings and business taxes, i.e., value added tax (VAT) and income tax, increased by less than GDP. Meanwhile, revenue from taxes on international trade (export and import duties) declined in nominal terms because of lower trade volumes and export prices.

The strong recovery of the economy in the first quarter of 2010 resulted in a general improvement in revenues (almost 24%) compared to the year before. Thus, taxes on external trade (chiefly import duties) and VAT and income tax revenues increased by over 20% on the previous year. Meanwhile, revenues from social security contributions rose by approximately 25%. Primary spending maintained a year-on-year growth rate of over 30% across almost all expenditure items (pay, goods and services, social security benefits). Universal child benefit payments drove growth in current transfers to the private sector (40.3% year on year), although spending on subsidies was moderate.

The public debt increased slightly over the previous year's level to US$ 147,119 million by the end of 2009 (about 50% of GDP). The restructuring of public debt not included in the 2005 swap is not expected to affect the stock of liabilities greatly.

(b) Monetary and exchange-rate policies

During the first half of 2009, monetary and exchange-rate policies were designed to counteract the adverse effects of international economic uncertainty and pre-electoral caution on local business activity and lending. The central bank sought to maintain greater stability by participating actively in market operations with a view to a reduction of interest rates, using the managed currency float regime to prevent excessive fluctuations and deploying mechanisms to shore up bank liquidity and balance sheets. This stability only really began to be achieved in the third quarter of the year. The recovery in the monetary and credit market consolidated in late 2009 and early 2010.

In 2009, there was a rise of some 15% in monetary aggregates held by the private sector. Issues of securities by the monetary authority rose by about 18% in nominal terms. Those of longer-term paper fell by more than half, while those of shorter-term paper virtually tripled during the year. Lending to the private sector (up by about 10%) expanded by less than deposits (15%). Nominal deposit and lending values maintained their upward trend in the early months of 2010.

Interest rates showed a declining trend over the course of 2009, albeit with fluctuations, and this continued into the early months of 2010. By April 2010, yields on fixed-term deposits were around 9%, some three percentage points below the figure of a year earlier. Lending interest rates presented a similar pattern, but at higher levels. In the securities markets, the share price index more than doubled over the course of 2009, and the upward tendency continued during the first four months of 2010. The interest rate spread between sovereign bonds and similar instruments in the United States was 660 basis points as of late 2009, a large reduction from the spread of more than 3,000 basis points in late 2008.

The monetary authority intervened actively to reduce exchange-rate volatility, the outcome being a movement of about 11% in the dollar exchange rate in 2009. The multilateral real exchange rate was considerably higher in early 2010 than at the beginning of the decade, but it has been reduced significantly since then.

3. The main variables

(a) Economic activity

GDP increased by an average of 0.9% in 2009. It declined somewhat in the fourth quarter of 2008 and the first quarter of 2009 with respect to the previous quarter, but picked up substantially in the last three months of 2009. Economic activity in Argentina contracted sharply from 2008 before bottoming out in mid-2009, after which there was a substantial recovery. The contraction in aggregate demand (-1.6%) was concentrated in exports and fixed investment, with the latter falling by 10%. Public-sector consumption, on the other hand, rose substantially (7%), while private-sector consumption also experienced a small increase despite declining sales volumes for a number of consumer durables. The investment to GDP ratio fell, although it remained above 20%. Investment in durable production equipment fell by most (-19%), with imports particularly affected. Investment in construction fell by 3.6%.

Where individual sectors are concerned, agriculture experienced the largest contraction (about 16%). The area sown during the 2008-2009 agricultural cycle fell

Table 1

ARGENTINA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	0.9
Per capita gross domestic product	-5.4	-11.8	7.8	8.0	8.1	7.4	7.6	5.7	-0.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.1	-2.3	6.9	-1.5	11.1	2.6	9.8	-2.5	-15.7
Mining and quarrying	4.7	-3.7	3.7	-0.4	-0.2	3.0	-0.5	1.1	-1.1
Manufacturing	-7.4	-11.0	16.0	12.0	7.5	8.9	7.6	4.5	-0.5
Electricity, gas and water	1.1	-3.0	6.9	6.5	5.0	5.0	5.7	3.4	0.9
Construction	-11.6	-33.4	34.4	29.4	20.4	17.9	9.9	3.7	-3.8
Wholesale and retail commerce, restaurants and hotels	-7.8	-16.8	11.7	12.4	9.5	7.9	10.7	7.9	-0.1
Transport, storage and communications	-4.6	-7.9	8.2	13.4	14.8	13.5	13.7	12.1	6.5
Financial institutions, insurance, real estate and business services	-4.4	-9.6	-1.1	2.2	7.1	8.2	8.1	9.3	3.1
Community, social and personal services	-0.1	-3.3	2.8	4.4	5.6	5.4	5.0	4.9	4.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	-5.2	-12.8	7.0	8.3	8.5	7.4	8.8	6.6	1.5
Government consumption	-2.1	-5.1	1.5	2.7	6.1	5.2	7.6	6.9	7.2
Private consumption	-5.7	-14.4	8.2	9.5	8.9	7.8	9.0	6.5	0.5
Gross capital formation [c]	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	9.1	-10.2
Exports (goods and services)	2.7	3.1	6.0	8.1	13.5	7.3	9.1	1.2	-6.4
Imports (goods and services)	-13.9	-50.1	37.6	40.1	20.1	15.4	20.5	14.1	-19.0
					Percentages of GDP				
Investment and saving [d]									
Gross capital formation [c]	15.6	10.9	14.1	18.7	20.9	23.0	24.2	25.1	21.2
National saving	14.2	19.4	20.4	20.8	23.8	26.7	27.0	27.3	24.9
External saving	1.4	-8.6	-6.3	-2.1	-2.9	-3.6	-2.8	-2.2	-3.7
					Millions of dollars				
Balance of payments									
Current account balance	-3 780	8 767	8 140	3 211	5 275	7 768	7 383	7 090	11 292
Goods balance	7 385	17 178	16 805	13 265	13 087	13 958	13 456	15 464	18 621
Exports, f.o.b.	26 543	25 651	29 939	34 576	40 387	46 546	55 980	70 021	55 750
Imports, f.o.b.	19 158	8 473	13 134	21 311	27 300	32 588	42 525	54 557	37 130
Services trade balance	-3 863	-1 460	-1 193	-1 331	-992	-501	-459	-943	-758
Income balance	-7 727	-7 491	-7 976	-9 284	-7 304	-6 150	-5 941	-7 550	-9 272
Net current transfers	424	540	504	561	484	459	328	119	2 701
Capital and financial balance [e]	-17 625	-22 158	-17 177	-10 163	2 144	6 441	4 216	-10 389	-14 793
Net foreign direct investment	2 005	2 776	878	3 449	3 954	3 099	4 969	8 335	4 216
Other capital movements	-19 630	-24 934	-18 055	-13 612	-1 811	3 342	-753	-18 723	-19 009
Overall balance	-21 405	-13 391	-9 037	-6 952	7 418	14 208	11 600	-3 299	-3 501
Variation in reserve assets [f]	12 070	4 516	-3 581	-5 319	-8 857	-3 529	-13 098	-9	-1 346
Other financing	9 335	8 876	12 618	12 271	1 439	-10 679	1 499	3 309	4 848
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	96.0	228.3	208.3	214.0	213.7	218.0	213.8	201.6	210.0
Terms of trade for goods	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(index: 2000=100)	99.3	98.7	107.2	109.2	106.9	113.4	117.5	133.2	127.1
Net resource transfer (millions of dollars)	-16 016	-20 773	-12 535	-7 175	-3 722	-10 388	-226	-14 630	-19 218
Total gross external debt (millions of dollars)	166 272	156 748	164 645	171 205	113 799	108 864	124 560	124 923	117 808
					Average annual rates				
Employment									
Labour force participation rate [h]	56.0	55.8	60.1	60.3	59.9	60.3	59.5	58.8	59.3
Open unemployment rate [i]	17.4	19.7	17.3	13.6	11.6	10.2	8.5	7.9	8.7
Visible underemployment rate [j]	18.9	24.0	20.7	17.5	14.2	12.5	10.4	9.5	11.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	7.2	7.7
Variation in wholesale prices (December-December)	-3.4	113.7	2.0	7.9	10.6	7.2	14.6	8.8	10.3
Variation in nominal exchange rate (annual average)	-0.0	209.9	-4.9	-0.2	-0.6	5.2	1.3	1.5	17.9
Variation in average real wage	-1.2	-19.4	12.2	9.2	7.4	8.9	9.1	8.8	11.7
Nominal deposit rate [k]	16.3	39.3	10.5	2.7	3.9	6.5	7.9	11.1	12.0
Nominal lending rate [l]	28.6	40.7	16.8	10.8	10.5	12.9	14.0	19.8	21.3

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Percentages of GDP				
Central national administration									
Total revenue	14.3	14.2	16.1	16.3	16.7	17.2	18.2	19.4	20.9
Current revenue	14.2	14.1	16.1	16.2	16.5	17.0	18.1	19.3	20.8
Tax revenue	12.9	12.1	14.5	15.4	15.8	16.0	17.2	18.1	18.2
Capital revenue	0.1	0.0	0.1	0.1	0.2	0.2	0.1	0.1	0.2
Total expenditure	18.3	14.8	15.9	14.4	16.3	16.2	17.5	18.7	22.0
Current expenditure	17.4	14.1	15.1	12.9	14.3	13.6	15.3	16.4	19.3
Interest	4.0	2.1	1.9	1.3	1.9	1.7	2.1	2.1	2.3
Capital expenditure	0.9	0.7	0.8	1.5	2.0	2.6	2.2	2.2	2.7
Primary balance	0.0	1.5	2.1	3.2	2.3	2.7	2.7	2.8	1.2
Overall balance	-4.0	-0.6	0.2	2.0	0.4	1.0	0.6	0.7	-1.0
National administration debt [m]	53.7	145.9	138.2	126.4	72.8	63.6	55.7	48.5	48.5
Domestic	22.3	52.8	59.4	52.7	38.3	37.4	31.8	30.0	30.4
External	31.5	93.0	78.8	73.8	34.5	26.1	23.9	18.5	18.2
Money and credit [n]									
Domestic credit	32.6	43.2	37.9	32.7	24.9	20.7	17.1	15.8	16.0
To the public sector	18.8	48.8	42.2	38.0	29.5	22.0	17.4	15.3	17.5
To the private sector	20.8	15.3	10.8	10.5	11.7	13.0	14.5	13.7	13.5
Others	-7.1	-20.9	-15.1	-15.8	-16.2	-14.3	-14.7	-13.2	-15.0
Liquidity (M3)	24.9	21.9	24.9	24.7	25.8	25.8	26.1	22.4	24.1
Currency outside banks and local-currency deposits (M2)	8.5	21.2	23.5	23.0	23.8	23.5	23.5	19.7	20.7
Foreign-currency deposits	16.5	0.7	1.4	1.7	2.0	2.3	2.6	2.7	3.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Gross capital formation does not include changes in stocks.
[d] Based on figures in local currency expressed in dollars at current prices.
[e] Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population, urban areas.
[i] Percentage of the economically active population, urban areas.
[j] Percentage of the working population, urban areas.
[k] Fixed-term deposits, all maturities.
[l] Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.
[m] As from 2005, this does not include unswapped debt.
[n] The monetary figures are end-of-year stocks.

by 6.5% because of poor weather and lower expected returns. There was a particularly sharp decline in the areas sown with wheat and maize (exports of which were subject to major restrictions) and with sunflower. Conversely, there was a small increase in the area of soy planted. Nonetheless, a sharp decline in yields was reflected in a large reduction (28%) in the soy harvest. This came in at just 33 million tons, the smallest volume since the 2003-2004 agricultural cycle. In the case of wheat, output was down to 8.3 million tons, half the harvest of the 2007-2008 agricultural cycle and the lowest volume since the late 1980s. The volume of maize produced was the lowest of the decade. Because of the more favourable weather conditions, the 2009-2010 agricultural cycle showed a significant recovery for almost all crops (wheat was the exception). The maize harvest is expected to come in at over 20 million tons again, a rise of over 50%. A record soy crop of over 52 million tons is also expected.

Stockbreeding in 2009 was marked by a substantial rise in the number of beef cattle slaughtered (11%), outstripping replacement with new animals. Consequently, the national stock of cattle fell to just over 50 million head (6 million fewer than two years before). This development was due both to unfavourable weather conditions and to policies aimed at reducing prices to favour the domestic market. Meat consumption was in excess of 70 kilograms per capita. However, the reduction in stocks and better weather conditions led to an upturn in the stockbreeding cycle from the fourth quarter of 2009 and to large price rises. The steer price per kilogram was almost 60% higher in May 2010 than six months earlier, while beef production in the first quarter of the year was 17% down on the same period of 2009.

Manufacturing output contracted in 2009. This was mainly due to a slump in activity in late 2008, with the industrial cycle apparently bottoming out in early 2009. Averaged over the period, the downturn was deepest in the metallurgical sectors (iron and steel, the automotive industry and capital goods). By contrast, there were some increases in production volumes for food, paper and chemicals. Over 2009 and the early months of 2010, however, there was a strong upturn in industrial activity. In February, manufacturing output indices signalled

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.5	7.8	6.9	4.1	2.0	-0.8	-0.3	2.6	6.8	...
Goods exports, f.o.b. (millions of dollars)	16 008	17 464	21 308	15 264	11 916	15 462	13 799	14 491	13 197	12 701 [c]
Goods imports, c.i.f. (millions of dollars)	12 849	15 327	16 502	12 736	8 311	9 056	10 507	10 906	11 065	8 675 [c]
Gross international reserves (millions of dollars)	50 039	47 918	47 072	46 198	46 933	46 026	45 348	47 967	47 460	49 000
Real effective exchange rate (index: 2000=100) [d]	211	208	200	187	195	209	217	220	208	205 [c]
Open unemployment rate	8.4	8.0	7.8	7.3	8.4	8.8	9.1	8.4	8.3	...
Consumer prices (12-month percentage variation)	8.8	9.3	8.7	7.2	6.3	5.3	6.2	7.7	9.7	10.7 [c]
Wholesale prices (12-month percentage variation)	15.7	13.8	11.7	8.8	7.1	5.6	6.8	10.3	13.8	15.2 [c]
Average nominal exchange rate (pesos per dollar)	3.15	3.12	3.05	3.33	3.54	3.73	3.83	3.81	3.84	3.90
Average real wage (variation from same quarter of preceding year)	6.4	8.2	9.8	10.4	15.1	12.5	10.5	9.2	9.6	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	8.4	10.2	11.0	14.9	12.5	12.1	11.9	10.6	9.5	9.1 [f]
Lending rate [g]	14.5	18.2	19.5	27.1	24.5	21.9	20.8	17.9	15.9	15.4 f
Interbank rate [h]	8.1	8.9	9.0	11.7	10.9	10.8	10.2	9.3	9.1	9.1 [c]
Sovereign bond spread (basis points) [i]	581	614	953	1 704	1 894	1 062	784	660	646	821
Stock price index (national index to end of period, 31 December 2000 = 100)	505	506	383	259	270	381	498	557	570	524
Domestic credit (variation from same quarter of preceding year)	12.9	34.2	33.3	17.0	3.2	-0.7	-3.5	12.7	43.5	43.6 [f]
Non-performing loans as a percentage of total credit	2.2	2.0	1.7	1.9	2.0	2.1	2.1	2.1	2.0	1.9 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Fixed-term deposits, all maturities.
[f] Data to April.
[g] Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.
[h] Buenos Aires interbank offered rate (BAIBOR).
[i] Measured by JP Morgan's EMBI+ index to end of period.

year-on-year growth of some 11%, with strong increases in the metallurgical sectors and most particularly the automotive industry, as a result of higher sales in the local market and increased external demand, especially from Brazil.

(b) Prices, wages and employment

The pace of price increases moderated in 2009. According to national statistics, the CPI as measured in Greater Buenos Aires was up by 7.7% in December. According to the National Institute of Statistics and Censuses (INDEC), the economic upturn in the early part of 2010 resulted in a cumulative rise of 4.3% in the first four months of the year.

Taking the average for the year, the employment rate was a little over 42% while the unemployment rate averaged 8.7% (less than one percentage point above the rate of a year before), peaking at 9.1% in the third quarter. Manufacturing industry registered a large drop in the number of workers employed (3.6% for the year as a whole) and hours worked (6.1%). During the first quarter of 2010, the hours worked indicator registered a year-on-year increase of 3%.

Cumulative wage growth in 2009 was some 17%. The pay of workers in the informal sector grew by more than the average (21.5%). Meanwhile, the wage per worker in manufacturing industry rose by nearly 21% between the fourth quarter of 2008 and the same period in 2009. In the first three months of 2010, wages for formal and informal private-sector workers and public-sector workers rose by an average of 5.3%.

(c) The external sector

The balance-of-payments current account registered a surplus of US$ 11.3 billion in 2009. The figure includes (under the current transfers item) an allocation of IMF Special Drawing Rights worth approximately US$ 2.5 billion. Leaving out this operation, the surplus would still have been greater (by some US$ 1.5 billion) than the previous year's. In 2009, the trade surplus increased to over US$ 18 billion owing to a sharp contraction in external trade flows, although there were clear signs of recovery by the end of the year. Meanwhile, capital flows generated a large outflow of funds. The outflow of non-financial private-sector funds was large again, although smaller than the year before (US$ 7.5 billion in 2009 as compared to US$ 9.5 billion in 2008). Thus, by early May 2010 international reserves had increased by US$ 1.35 billion to US$ 48 billion.

The value of goods exports fell in 2009, owing to both lower prices (-20.4%) and lower volumes (-4.3%). The reduction in unit values was seen right across the major product categories. The export price index was 10% in early 2010, down on the 2008 figure but higher than the 11.5% seen in 2007. Export volumes also fell in 2009, with commodities worst affected (-32%), while in the case of manufactured goods (both agricultural and industrial in origin) they held up fairly well. As regards geographical distribution, sales to the rest of the Latin America region fell by proportionately less than the average. Exports expanded by 10% (7% in price and 3% in volume) in the first quarter of 2010, with industrial manufactures seeing a large increase (36% in price and 46% in volume).

Average import prices fell by 12%, and in general imports responded very flexibly to the downturn in economic activity. At the same time, administrative measures were applied to channel demand towards local products. The reduction in imports by value in 2009 (a cumulative 32%) was led by intermediate goods (38%) and vehicles (35%). Capital goods purchases dropped by 30%. Year-on-year changes were positive from November, with the rate of increase picking up in the early part of 2010 (33% in the first quarter and 52% in March).

The services account of the balance of payments posted a deficit of some US$ 750 million (smaller than in 2008), while investment income was in deficit by US$ 9.2 billion. The non-financial public sector recorded a small capital outflow. There was a particularly substantial build-up of external assets by the private sector in early 2009. In the second half of the year, the sector's net financial outflows fell back to low levels. Foreign direct investment inflows fell to US$ 3.3 billion in the first nine months of 2009, as compared to US$ 7.6 billion in the same period the year before.

Bolivarian Republic of Venezuela

1. General trends

The Venezuelan economy contracted by 3.3% in 2009, and the rate of inflation was 25.1%. The country's level of economic activity is expected to slow down further in 2010, with real GDP projected to fall by about 3%. It is also expected that inflation will remain high given the limited availability of foreign currency for importing goods and services at the official rates of exchange despite the recovery of oil prices during the second half of 2009 and early 2010. This limited availability is due to an imbalance between supply of and demand for foreign currency.

During 2009 and the first few months of 2010 the government continued its efforts to transform the country's economy into a socialist system. In this connection, the process of nationalizing some companies in the banking, oil, food, manufacturing, commerce and other sectors is worthy of particular note.

2. Economic policy

(a) Fiscal policy

The Bolivarian Republic of Venezuela's fiscal situation deteriorated significantly in 2009 as compared with 2008. The central government's primary deficit was 4% of GDP in 2009; the overall deficit was 5.4% of GDP. These figures contrast with the primary deficit and the overall deficit for 2008, at 0.9% and 2.2% of GDP, respectively.

The increasing central government deficit is due mainly to a drop in government revenues, which fell from 24% of GDP in 2008 to 21.4% of GDP in 2009, owing largely to the decrease in the volume of petroleum exported and the decline of petroleum prices. In April 2009, the government raised the value added tax rate from 9% to 12%.

Despite the decline in revenues, central government expenditure increased from 26.2% of GDP to 26.8% of GDP . The increase in expenditure was attributable entirely to current expenditure, which rose by 1.2% of GDP to reach 21.6% of GDP. This is higher than total central government revenues and 1.5 times more than the central government's non-petroleum revenues (13.8% of GDP). A substantial portion of the rise in current expenditure was due to an increase in public sector wages, transfers to the public and private sectors, and in the minimum wage. On the other hand, capital expenditure decreased from 4.3% of GDP in 2008 to 3.8% of GDP in 2009.

The central government's fiscal deficit was financed in large part by increased domestic borrowing. Domestic public debt went from 4.6% of GDP in 2008 to 7.6% of GDP in 2009, due primarily to the placement of national public debt bonds and, to a lesser extent, of treasury notes. External debt increased as well, going from 9.6% of GDP in 2008 to 10.8% of GDP in 2009.

The National Development Fund (FONDEN) received US$ 12.945 billion in contributions in 2009.

Of this amount, US$ 12.299 billion was from central bank reserves, US$ 619 million was from Petróleos de Venezuela SA (PDVSA) and US$ 27 million was from the petroleum windfall profits tax.

As of May 2010 there were no official figures available on the country's fiscal result for the first five months of 2010.

(b) Monetary policy

In early 2009 the central bank adopted measures to boost bank lending; these included lowering the lending rate ceilings and the minimum borrowing rates for bank deposits. The banks were also required to maintain financing for the industrial manufacturing sector at year-end 2009 at a volume equal to at least 10% of their gross portfolio.

In early 2009 the central bank lowered the reference rates for takeovers. It also decreased the legal reserve applied to the total amount of the marginal balances of financial institutions. Between December 2008 and December 2009 the monetary base expanded by a nominal 18% but declined in real terms because this was less than the rate of inflation. Between December 2009 and April 2010 the monetary base grew by just 1.8%, while cumulative inflation for the period was 11.3%. This signalled a hardening of monetary conditions, as the actual amount of money decreased. It is reflected as well in the growth of the broad money supply (M3): in 2009 this aggregate rose by a nominal 21.2% (less than inflation), and during the first three months of 2010 it increased by only 2.1%.

In 2009 and the early part of 2010, the government intervened in 12 banks and one savings and loan institution. Four of these banks were subsequently closed down. Some of the intervened banks were merged with each other or with other financial institutions. For example, Bicentenario Banco Universal was created as a public bank resulting from the merger of the state-owned Banfoandes with the private banks Banco Confederado, Bolívar Banco, Central Banco Universal and, subsequently, BaNorte. By early June 2010 the National Securities Commission had intervened in 36 stockbroking houses and begun the process of closing down two of them.

(c) Exchange-rate policy

The fixed exchange-rate regime established in 2003 with its strict exchange controls was maintained throughout 2009, and the nominal rate of exchange was held at 2.15 bolivares fuertes (BsF) per United States dollar. Given the high rate of inflation, the effective real exchange rate of the Bolivarian Republic of Venezuela as of December 2009 was 52% below the average for the past 20 years and the lowest appreciation recorded during that period —both of which are indicative of a significant exchange rate gap.

So that goods could be imported at the official exchange rate of BsF 2.15 per United States dollar, the Foreign Exchange Administration Commission (CADIVI) had to issue foreign currency purchase authorizations allowing potential importers to acquire foreign currency for imports of priority goods, such as food and medicine. Owing particularly to the declining supply of foreign currency from oil exports, the daily average sales of foreign currency authorized by CADIVI at the official exchange rate and effectively surrendered by the central bank were, on average, 39.3% lower than in 2008. This exerted intense pressure on the exchange rate in a context of excess demand for dollars.

As a result, in January 2010 the government set up a dual exchange rate system allowing the purchase of dollars at the rate of BsF 2.6 per United States dollar for certain goods, chiefly food, medicine, goods for education, and machinery and equipment.[1] The rate for imports of other goods, as well as for the proceeds of PDVSA oil exports, is BsF 4.3 per United States dollar. In certain cases, a certificate of insufficient production or a certificate of no domestic production issued by the relevant authority must be submitted to obtain dollars from CADIVI at one of the two official exchange rates.

Despite the devaluation of the bolívar fuerte, which led to an 87% devaluation of the real effective exchange rate between December 2009 and January 2010, pressure on the exchange rate intensified in early 2010. To alleviate this pressure, the central bank was authorized to buy and sell foreign-currency denominated securities. To this end, during the first four months of 2010, 11 auctions of Venezuelan foreign exchange bonds with a maturity of 90 days (for a total of US$ 521 million) took place in order to reduce pressure on the official exchange rate.[2] Nevertheless, in view of the continuing excess demand for dollars and its impact on the parallel exchange rate, the law on illegal currency transactions was amended in May to restrict trading in dollar-denominated securities. Like the purchase and sale of foreign currency in cash, such transactions are centralized by the central bank.

As a result of the exchange policy and the transfer of reserves to FONDEN, central bank reserves fell from US$ 42.299 billion (13.6% of GDP) in December 2008 to US$ 35.000 billion (10.7% of GDP) in December 2009 and stood at US$ 28.356 billion in March 2010.

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1 This exchange rate also applies to outward family remittances, payments to pensioners abroad and some other transactions.

2 The bonds issued in January 2010 matured in April 2010, so this amount is the gross issue volume, not the net issue volume.

3. The main variables

(a) Economic activity

The 3.3% drop in the Bolivarian Republic of Venezuela's GDP in 2009 was not limited to the petroleum sector, which posted a 7.2% decline over 2008; the level of activity in the rest of the economy fell as well (by 2%). In the non-petroleum sector, there was a notable 6.4% decline in the manufacturing sector and an 8.3% drop in commerce and repair services. The government goods and services sector grew by 2.4%, less than in 2008 because the government had fewer available resources. On the expense side, investment dropped off sharply, with gross fixed capital formation declining by 8.2% and private consumption and exports falling by 3.2% and 12.9%, respectively. The contraction of aggregate private sector demand, the limited fiscal stimulus and uncertainty in the private sector as to the government's policies for transforming the economy had a negative impact on the country's economic growth.

In the fourth quarter of 2009 there were serious electricity and water supply problems caused by the drought that hit the country (which, among other things, reduced power generating capacity at the Guri dam) and by a growing demand for electricity that outstripped supply. The demand for electricity had already far outpaced supply for several years, with peak demand on the national electric system increasing faster than the installed capacity. This continued to be the case until the third quarter of 2009, when the government began to address the power shortage by implementing measures geared to reduce demand. These measures included electric power rationing for the companies Alcasa (58 MW), Venalum (300 MW) and Sidor (200 MW).

According to data from the Organization of Petroleum Exporting Countries (OPEC), petroleum output in the Bolivarian Republic of Venezuela fell by an average 7% between 2008 and 2009. During this period the natural decline of the older PDVSA oil wells (such as Maracaibo Lake, which accounts for a substantial portion of PDVSA output) continued and the level of investment is not sufficient to increase the extraction rate. As evidence of this, Baker Hughes has indicated that the number of operating drilling rigs fell by an average of 22.1% between 2008 and 2009. The number of drilling rigs during the first four months of 2010 was 7.2% lower than during the same period in 2009. In addition, at year-end 2008 OPEC cut output quotas for all of its members, including the Bolivarian Republic of Venezuela.

GDP is expected to fall by another 3% in 2010 after shrinking 5.8% during the first quarter of 2010 as compared with the same period in 2009, owing especially to the decline in the manufacturing and commerce sectors. Despite the relative recovery of petroleum prices from their low in early 2009, the country's economy is projected to continue contracting. The lack of private sector investment, coupled with uncertainty, power shortages, a sluggish petroleum industry and the foreign exchange market situation with a substantial excess demand for foreign currency at the official exchange rate, all point to challenges that the economy of the Bolivarian Republic of Venezuela will face in 2010.

(b) Prices, wages and employment

In 2009, the annual rate of inflation, measured using the national consumer price index (INPC), was 25.1%. Inflation accelerated during the first four months of 2010, for an annual rate of 30.4% in April 2010 and a cumulative rate of 11.3% for the first four months of the year.

In this inflationary context, and with several components of the basic basket subject to price controls, there have been some food product shortages and price increases. In response, in February 2010 the National Assembly passed a partial reform of the Act on the protection of people's access to goods and services, which expands the government's ability to monitor and punish violations of this Act.

The average unemployment rate increased during the period, from 7.3% in 2008 to 7.8% in 2009, as the level of economic activity deteriorated. There was a substantial worsening in the second half of 2009. The quality of employment also deteriorated between 2008 and 2009, as the number of formal jobs dropped significantly and informal jobs were created. Formal employment fell by an average of 0.7% during the last two quarters of 2009 compared with the same period in 2008, with informal employment rising by 5.1%.

Lastly, despite nominal wage increases in 2009, including an increase in the minimum wage, real wages fell by 6.6% because of high inflation during the period.

Table 1
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
				Annual growth rates [b]					
Gross domestic product [c]	3.4	-8.9	-7.8	18.3	10.3	9.9	8.2	4.8	-3.3
Per capita gross domestic product [c]	1.5	-10.5	-9.4	16.2	8.4	8.0	6.3	3.0	-4.9
Gross domestic product, by sector [c]									
Agriculture, livestock, hunting, forestry and fishing	2.0	-0.8	-1.3	4.4	9.8	1.0	...	...	...
Mining and quarrying	2.6	-12.9	-0.3	9.6	2.8	-1.9	...	...	...
Manufacturing	0.3	-13.7	-7.4	23.9	-6.9	8.3	7.4	1.4	-6.4
Electricity, gas and water	4.8	2.1	-0.5	8.5	11.2	4.9	-1.5	5.7	4.2
Construction	13.5	-8.4	-39.5	25.1	20.0	30.6	15.5	3.7	0.2
Wholesale and retail commerce, restaurants and hotels [d]	4.2	-12.4	-9.8	28.1	7.5	15.7	16.7	4.6	-8.3
Transport, storage and communications	2.8	-4.4	-6.5	18.7	18.4	18.9	16.6	11.4	1.8
Financial institutions, insurance, real estate and business services	3.4	-3.1	-3.3	15.9	13.9	18.3	9.2	0.2	-2.1
Community, social and personal services	2.4	-0.2	3.4	10.6	8.1	6.9	7.3	6.7	2.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.2	-6.2	-2.3	15.2	14.6	14.3	16.2	7.0	-2.2
Government consumption	6.9	-2.5	5.7	14.2	10.7	9.6	6.1	6.7	2.3
Private consumption	6.0	-7.1	-4.3	15.4	15.7	15.5	18.7	7.1	-3.2
Gross capital formation	13.6	-34.0	-35.5	91.3	30.3	36.5	23.0	2.5	-20.0
Exports (goods and services)	-3.5	-4.0	-10.4	13.7	3.8	-3.0	-7.0	-2.7	-12.9
Imports (goods and services)	14.1	-25.2	-20.9	57.7	35.2	34.8	29.9	3.8	-19.6
				Percentages of GDP					
Investment and saving [e]									
Gross capital formation	27.5	21.2	15.2	21.8	23.0	26.9	29.2	25.9	24.8
National saving	29.2	29.5	29.6	35.9	40.8	41.6	37.3	38.1	27.4
External saving	-1.6	-8.3	-14.4	-14.1	-17.8	-14.7	-8.1	-12.2	-2.6
				Millions of dollars					
Balance of payments									
Current account balance	1 983	7 599	11 796	15 519	25 447	26 462	18 063	37 392	8 561
Goods balance	7 456	13 421	16 747	22 647	31 708	31 995	22 979	45 656	19 153
Exports, f.o.b.	26 667	26 781	27 230	39 668	55 716	65 578	69 010	95 138	57 595
Imports, f.o.b.	19 211	13 360	10 483	17 021	24 008	33 583	46 031	49 482	38 442
Services trade balance	-3 305	-2 909	-2 634	-3 383	-3 997	-4 410	-6 952	-8 354	-7 617
Income balance	-2 020	-2 756	-2 337	-3 673	-2 202	-1 045	2 467	698	-2 652
Net current transfers	-148	-157	20	-72	-62	-78	-431	-608	-323
Capital and financial balance [f]	-3 812	-12 027	-6 342	-13 364	-20 023	-21 558	-23 420	-27 936	-19 360
Net foreign direct investment	3 479	-244	722	864	1 422	-2 032	978	-924	-4 939
Other capital movements	-7 291	-11 783	-7 064	-14 228	-21 445	-19 526	-24 398	-27 012	-14 421
Overall balance	-1 829	-4 428	5 454	2 155	5 424	4 904	-5 357	9 456	-10 799
Variation in reserve assets [g]	2 027	4 428	-5 454	-2 155	-5 424	-4 904	5 357	-9 456	10 799
Other financing	-198	0	0	0	0	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	95.3	125.1	141.2	139.0	142.2	132.5	118.7	96.8	73.4
Terms of trade for goods (index: 2000=100)	82.2	87.6	98.7	118.1	154.4	184.4	202.1	249.5	181.7
Net resource transfer (millions of dollars)	-6 030	-14 783	-8 679	-17 037	-22 225	-22 603	-20 953	-27 238	-22 012
Total gross external debt (millions of dollars)	35 398	35 460	40 456	43 679	46 427	44 735	53 361	49 087	63 580
				Average annual rates					
Employment									
Labour force participation rate [i]	66.5	68.7	69.3	68.5	66.3	65.4	64.9	64.9	65.3
Open unemployment rate [j]	13.3	15.8	18.0	15.3	12.4	10.0	8.4	7.3	7.8
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9
Variation in wholesale prices (December-December)	10.2	49.4	48.4	23.1	14.2	15.9	17.2	32.4	24.8
Variation in nominal exchange rate (annual average)	6.5	60.5	38.7	17.0	11.8	1.9	0.0	0.0	0.0
Variation in average real wage	6.9	-11.0	-17.6	0.2	2.6	5.1	1.2	-4.5	-6.6
Nominal deposit rate [k]	14.7	28.8	17.2	12.6	11.7	10.1	10.6	16.0	15.6
Nominal lending rate [l]	24.8	38.4	25.7	17.3	15.6	14.6	16.7	22.8	20.6

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Percentages of GDP				
Central government									
Total revenue	20,8	22,2	23,4	24,0	27,5	29,8	29,1	24,9	21,6
Tax revenue	11,4	10,6	11,3	12,7	15,3	15,7	16,2	13,6	13,5
Total expenditure [m]	25,1	26,1	27,8	25,9	25,9	29,8	26,0	26,1	26,7
Current expenditure	20,3	20,3	22,1	20,4	19,6	22,6	20,0	20,0	20,8
Interest	2,9	4,6	4,7	3,7	2,9	2,1	1,5	1,3	1,3
Capital expenditure	4,4	5,1	5,5	5,0	5,8	6,7	5,9	5,8	5,5
Primary balance	-1,5	0,6	0,3	1,8	4,6	2,1	4,6	0,1	-3,7
Overall balance	-4,4	-4,0	-4,4	-1,9	1,6	0,0	3,1	-1,2	-5,1
Central-government debt	30,4	42,4	46,3	38,1	32,8	24,1	19,5	14,2	18,4
Domestic	12,4	15,1	17,8	14,0	11,1	9,2	7,4	4,6	7,6
External	18,0	27,3	28,4	24,2	21,7	14,9	12,1	9,6	10,8
Money and credit [n]									
Domestic credit [o]	15,9	15,0	18,9	19,1	20,8	33,6	32,7	29,0	...
To the public sector	3,3	4,1	4,0	4,5	3,3	6,3	4,4	2,4	...
To the private sector	11,6	9,6	8,6	10,7	12,7	16,5	23,1	21,1	...
Others	1,0	1,3	6,3	3,9	4,7	10,8	5,2	5,5	...
Liquidity (M3)	19,1	18,2	23,0	21,8	23,3	30,4	31,5	29,1	33,6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1997 prices.
[c] As of 2007, figures were estimated on the basis of the quarterly figures at constant 1997 prices, published by the Central Bank of Venezuela.
[d] As of 2007 does not include restaurant and hotel activities, which are included in total GDP.
[e] Based on figures in local currency expressed in dollars at current prices.
[f] Includes errors and omissions.
[g] A minus sign (-) denotes an increase in reserves.
[h] Annual average, weighted by the value of goods exports and imports.
[i] Economically active population as a percentage of the working-age population, nationwide total.
[j] Percentage of the economically active population, nationwide total.
[k] 90-day deposits.
[l] Average lending rate of the country's six major commercial and universal banks.
[m] Includes extraordinary expenditure and net lending.
[n] The monetary figures are end-of-year stocks.
[o] Refers to domestic credit of the country's six major commercial and universal banks.

(c) The external sector

The current-account surplus for 2009 was the equivalent of 2.6% of GDP; this is significantly lower than the surplus of 12% of GDP posted in 2008. The first quarter of 2009 saw a balance of goods deficit as falling petroleum prices led the value of petroleum exports to plummet. However, starting in the second quarter the balance of goods posted a surplus and gradually improved in subsequent months as petroleum prices recovered, to end the year with a surplus equivalent to 5.9% of GDP. The balance of goods surplus was still substantially lower than the surplus of 14.7% of GDP recorded in 2008.

The value of goods exports fell by 39.5% in 2009 compared with the previous year, going from 30.6% of GDP in 2008 to 17.7% of GDP in 2009. The value of petroleum exports declined by 39.2%, from 28.7% of GDP in 2008 to 16.6% of GDP in 2009. This was because of the decline in the price of Venezuelan petroleum (which was, on average, 34.1% lower than in 2008) and the fall in crude output. The value of non-petroleum exports contracted by 43.5%. Imports of goods dropped by 22.3%, going from 15.9% of GDP in 2008 to 11.8% in 2009. Private sector imports fell by 25%. Behind the decline in imports is not only the decrease in demand caused by a decline in GDP but also, above all, the lower availability of foreign exchange from CADIVI at the official exchange rate.

The balance of services deficit was smaller in 2009 (2.3% of GDP) than in 2008 (2.7% of GDP), owing especially to lower shipping expenses. However, the income balance also deteriorated, going from a surplus equivalent to 0.2% of GDP in 2008 to a 0.8% deficit in 2009, because of rising interest payments on portfolio investment, including public debt.

The capital and financial account posted a deficit equal to 4.3% of GDP for 2009. As a result of the nationalization of some companies by the Venezuelan governmentthe country's foreign direct investment surplus, equal to 0.1% of GDP in 2008, became a deficit of 0.1% of GDP in 2009. As for portfolio investment, the increase in public liabilities resulting from the issuance of dollar-denominated public debt securities in the amount of US$ 4,991,900,000 (equivalent to 1.5% of GDP) in October 2009 is worthy of note. Other investments include the equivalent of US$ 3.484 billion (1.1% of GDP) in Special Drawing Rights allocated by the International Monetary Fund (IMF) in the third quarter of 2009, which increased public sector liabilities. Non-financial private sector deposits increased as well, which led to a decrease in public sector assets upon the sale of debt securities equivalent to 5.8% of GDP on the secondary market in 2009

Table 2
BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	4,9	7,2	3,8	3,5	0,5	-2,6	-4,6	-5,8	-5,8	...
Goods exports, f.o.b. (millions of dollars)	22 341	30 310	31 760	10 727	9 840	14 560	16 445	16 750	16 424	...
Goods imports, f.o.b. (millions of dollars)	10 909	11 408	12 425	14 740	11 155	10 055	8 822	8 410	6 883	...
Gross international reserves (millions of dollars)	31 946	34 335	39 206	43 127	28 992	30 750	33 697	35 830	29 186	28 801
Real effective exchange rate (index: 2000=100) [c]	105,6	102,1	96,0	83,6	77,4	75,2	72,2	69,0	120,2	114,6 [d]
Unemployment rate	8,9	7,8	8,0	6,9	7,9	8,3	7,5	6,9	7,6	...
Consumer prices (12-month percentage variation)	29,1	32,2	36,0	31,9	28,5	27,4	28,9	26,9	28,2	32,0 [d]
Average nominal exchange rate (bolívares per dollar)	2 147	2 147	2 147	2 147	2 147	2 147	2 147	2 147	4 090	4 295
Average real wage (variation from same quarter of preceding year)	-3,4	-2,3	-3,5	-8,9	-5,4	-8,7	-5,1	-4,0	-1,6	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	2,9	2,8	2,5	4,6	4,3	4,0	3,9	3,8	3,6	3,7 [d]
Lending rate [f]	23,0	23,0	22,9	22,5	22,5	21,1	19,4	19,4	18,6	17,9 [d]
Sovereign bond spread (basis points) [g]	638	591	930	1 862	1 567	1 186	884	1 017	881	1 230
Stock price index (national index to end of period, 31 December 2000 = 100)	514	546	556	514	640	653	738	807	855	954
Non-performing loans as a percentage of total credit	1,5	1,7	2,0	1,8	2,4	2,5	2,8	3,3	…	…

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1997 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] 90-day deposits.
[f] Average lending rate of the country's six major commercial and universal banks.
[g] Measured by JP Morgan's EMBI+ index to end of period.

Brazil

1. General trends

Economic activity in Brazil began to pick up in the second half of 2009, which reduced the initial impact of the international financial crisis of late 2008. Over the whole year, however, GDP growth was -0.2%. In 2010, the economic indicators are expected to be back to pre-crisis levels. Employment and investment are also expected to expand, giving estimated GDP growth of 7.6%, an improvement on the 6% observed in the 12 months to September 2008.

The economic recovery was primarily due to developments in the domestic market, where both government and household consumption continued to expand, driven by growth in domestic credit provided mainly by public-sector financial institutions. The process was assisted by good employment indicators, higher real wages and subsidies for durable goods consumption. Fiscal policy, meanwhile, adopted a strongly countercyclical stance in the form of lower taxes on consumer durables and higher public investment, combined with efforts to increase financing provision by allocating public resources to private-sector investments. In line with these measures, monetary policy was oriented towards guaranteeing liquidity in the early stages of the crisis, so that the base rate was cut to unprecedentedly low nominal levels. Capital inflows in the form of portfolio investment helped to finance the Brazilian balance of payments, which was affected by the slowdown in world trade and lower foreign direct investment, which translated into high levels of international reserves.

The policies adopted and the international economic recovery helped bring about an improvement in the main variables of the Brazilian economy between 2009 and the early months of 2010, particularly when compared to the situation in other parts of the region and other emerging countries. Formal employment expanded by 1.7 million new jobs between January 2009 and May 2010, while the average real wage increased by 1.95% in the 12 months to May 2010 and the unemployment rate returned to the levels seen before the crisis (7.5% in May 2010). Inflation, meanwhile, stayed within its target range. Following a large depreciation in the early months of the crisis, the exchange rate returned to its earlier nominal levels.

The background to the Brazilian economic recovery, however, is a changed international scene in which there is greater volatility and less local infrastructure or production capacity to meet growing domestic demand. The sharp rise in imports and the burgeoning current account deficit reflect rapid growth in economic activity. Consequently, inflationary expectations have become more negative. In this context, the central bank started to raise the base rate in April 2010, increasing it by almost two percentage points to an annual 10.25% in June 2010. Where the external accounts are concerned, the current account deficit in the first four months of 2010 was US$ 16.7 billion, an increase of 246.1% over the same period in 2009. The larger deficit was offset by higher inflows of foreign capital, totalling US$ 27.8 billion in the same period, or 332.4% more than in 2009. This increase was largely due to investment in shares (US$ 8.5 billion) and public debt securities (US$ 8.1 billion).

2. Economic policy

Over the course of 2009, Brazilian economic policy was oriented towards mitigating the effects of the international crisis. Monetary policy focused on preventing lending in the economy from seizing up, while fiscal policy was designed to shore up production in specific sectors and, most particularly, investment projects by applying tax expenditure and direct expenditure policies. As a consequence of the policies implemented, the national treasury capitalized the Brazilian Development Bank (BNDES) to the amount of 180 billion reais (5.7% of GDP) between 2009 and 2010.

The policy measures adopted in 2009 were reversed in the early months of 2010. The central bank discontinued a number of foreign-currency credit lines and raised the interest rate. Where fiscal policy was concerned, one of the main measures was the ending of previous reductions of the tax on automobile sales. At the same time, taxes on the production of capital goods and a number of construction inputs were cut or frozen.

In the face of uncertainty about the global economic situation and the country's capacity to expand production, the aim of Brazilian economic policy was to efficiently manage the rate of demand growth, whose evolution affects the external accounts, with a view to increasing investment and exports.

(a) Fiscal policy

In 2009, the fiscal results of Brazil reflected the countercyclical policies adopted by the authorities. The primary surplus fell from 3.54% of GDP in 2008 (or 4.01% of GDP if the sovereign fund is included) to 2.05% of GDP in 2009, translating into a rise in the nominal deficit from 1.9% to 3.3% of GDP. All levels of government registered smaller primary surpluses, and federal State enterprises, excluding Petrobras group, registered their first annual primary deficit since this indicator began to be calculated in 1996.

The combination of lower tax revenues and higher direct spending accounts for these results. In 2009, the federal tax take totalled 23.5% of GDP, slightly below the 23.8% of GDP recorded in 2008. However, revenues from taxes and contributions other than those of the social insurance system fell by 1.15% of GDP, owing to the lower level of activity and the reduction in contribution rates for some sectors. In real terms, annual revenue from the manufactured products tax shrank by 26.8%. These reductions were partially offset by an increase in revenues from social insurance system contributions, which grew by 0.3% of GDP to 5.79% of GDP, and by the payment of a record 26 billion reais of dividends by State-owned firms and banks (0.8% of GDP).

Primary federal spending rose by 15% in 2009, chiefly owing to higher outgoings for wages and salaries (15.9%), social insurance benefits (12.7%) and other current and capital expenditure (16.9%). Investment spending rose by 20.8%, maintaining the pace of growth of the past few years, because of Growth Acceleration Programme (PAC) projects. The amount of these investments (34.1 billion reais) represented just 6% of all primary federal government expenditure.

In 2010, the fiscal results of the federal government have also been affected by rising expenditure. Between January and April 2010, this grew by 18.5% over the same period in 2009. Payroll spending increased by about 7%, while federal government investment spending rose by 89%. Revenues expanded strongly over the same period (18.3%) owing to faster economic growth and the reversal of tax cuts for specific sectors (automobiles and household electrical appliances). In this context, and given expectations of lower spending pressure, the government estimates a total primary surplus of 3.3% of GDP for 2010.

(b) Monetary and exchange-rate policies

In March 2009, the central bank cut the Special System of Clearance and Custody (SELIC) interest rate to 8.75%, bringing it down to its lowest ever nominal level. Prior to this reduction, the central bank had reduced compulsory deposits and offered special credit lines with a view to facilitating operations between financial institutions and refinancing the external debts of Brazilian companies. The expansion of lending by public institutions was the main countercyclical measure, however. Total lending was 45% of GDP in 2009, as compared to 40.8% in 2008. This expansion was mainly due to lending by public-sector banks, which rose from 14% to 18.7% of GDP over the course of 2009. The increase was seen both in consumer credit operations (36.6%) and in those undertaken to support firms and investment by the Brazilian Development Bank (BNDES), whose lending increased by 35% in 2009, exceeding 283 billion reais. Lending by Brazilian private-sector banks, which account for some 40% of total credit, expanded by 17.8%, while lending by foreign banks grew by just 0.9%.

In February 2010, the central bank announced that compulsory deposit amounts would be returning to pre-crisis levels, a move that by late April had entailed the withdrawal of 70 billion reais. In April the SELIC interest rate began to be increased, first from 8.75% to 9.5% and then to 10.25% in June. According to the minutes of central bank meetings, the process of increasing the interest rate is to continue throughout the year with a view to bringing inflation down towards its target of 4.5% in 2011. According to financial market projections up to June, inflation is forecast to reach 5.55% in 2010.

The Brazilian currency appreciated significantly in nominal terms in 2009 (25.5%), while in the first half of 2010 it depreciated slightly (2%). Considering the cumulative rise in the wholesale price index between May 2009 and April 2010, the real appreciated by 9.7% against the dollar, 10.2% against the currencies of the member countries of the Latin American Integration Association (LAIA) and 8.5% against a basket of 13 currencies. To mitigate the impact of this, in November 2009 the authorities applied a tax of 2% to capital brought into the country to purchase fixed-income securities or shares on the stock exchange.

3. The main variables

(a) Economic activity

Over the course of 2009, the authorities concentrated on restoring economic activity after the impact caused by the international financial crisis in the fourth quarter of 2008. GDP contracted by 2.9% in that quarter compared to the previous one, while industrial output shrank by 8.1%. Among the leading economic policy measures adopted to mitigate the impact of the international financial crisis on the sectors most dependent upon credit (manufacturing, exports, construction and commerce) were tax cuts and the implementation of specific credit lines.

The automotive industry benefited especially from this combination of policies. After virtually seizing up during the fourth quarter of 2008, car sales recovered to 3.1 million units in 2009 thanks to the cut in the manufactured products tax and the expansion of credit to buyers. Over 2009 as a whole, consequently, the sector's output was just 1% lower than in 2008.

Other industrial sectors also benefited from the improvements in the domestic environment, but struggled in their external markets. Production of consumer durables, construction materials and capital goods were granted certain tax benefits with a view to supporting domestic consumption and exports. Although the tax cut for a number of durable goods such as automobiles was reversed in the first half of 2010, the incentives for industries producing capital goods were kept in place. Exports of manufactures fell by 27.9% in 2009, but in the first five months of 2010 they were up by 21.3% on the same period of 2009.

In 2010, production showed great dynamism in response to the expansion of domestic demand, and pre-crisis activity levels were exceeded as a result. GDP grew by 9% in the first quarter compared to the same quarter in 2009. Besides the continually growing consumption of families and the government, investment also recovered and was up by 26% in the first quarter of 2010 compared to the same period in 2009. The continuation of the Growth Acceleration Programme (PAC), which meant a rise in public investment, was also a factor in the increase of private-sector investment thanks to the expansion of civil engineering works and rising purchases of capital goods. Capital goods manufacturing output grew by 28.7% in the first four months of 2010 over the same period in 2009, while construction expanded by 14.9% in the first quarter compared to the same period in 2009.

The agriculture sector expanded by 5.1% in the first quarter of 2010, following a 5.2% contraction in 2009. Commerce and services grew by a record 15.2% and 12.4%, respectively, over the same period. Given the great dynamism of domestic demand, GDP growth of close to 7.6% is expected for 2010.

(b) Prices, wages and employment

The Brazilian labour market reflected developments in production sectors, especially the urban industrial sector. The unemployment rate of the main metropolitan regions in the early months of 2009 reflected layoffs in industry, rising to 9% from the average of 7.3% recorded in the last quarter of 2008. Over the year, however, it fell to an average of 8.1%, as compared to 7.9% in 2008. The mean unemployment rate in the first five months of 2010 was 7.4%.

Wages held up well despite the crisis. According to data from the Inter-Union Department of Statistics and Socio-economic Research (DIEESE), wage agreements in 2009 provided for above-inflation increases in 80% of negotiations as compared to 97% in 2008. In this context, 995,000 new formal jobs were created in 2009, compared to 1.4 million in 2008. The national wage bill increased by 6.9% in the 12 months to March 2010.

Table 1
BRAZIL: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	1.3	2.7	1.1	5.7	3.2	4.0	6.1	5.1	-0.2
Per capita gross domestic product	-0.1	1.2	-0.2	4.4	1.9	2.8	5.0	4.1	-1.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.1	6.6	5.8	2.3	0.3	4.8	4.8	5.7	-5.2
Mining and quarrying	2.2	11.6	4.7	4.3	9.3	4.4	3.7	4.9	-0.2
Manufacturing	-0.4	2.5	2.2	8.5	1.5	1.4	5.6	3.2	-7.0
Electricity, gas and water	-6.2	2.9	4.0	8.4	3.0	3.5	5.4	4.8	-2.4
Construction	-2.1	-2.2	-3.3	6.6	1.8	4.7	4.9	8.2	-6.3
Wholesale and retail commerce, restaurants and hotels	-0.4	0.5	0.4	6.8	3.7	5.9	4.9	6.1	-1.2
Transport, storage and communications	3.6	3.7	0.1	5.7	3.7	1.9	6.1	5.5	2.3
Financial institutions, insurance, real estate and business services	3.4	3.5	-0.1	3.8	4.9	5.4	9.5	7.1	4.0
Community, social and personal services	1.5	4.3	1.8	4.7	3.1	3.6	3.3	2.8	4.2
Gross domestic product, by type of expenditure									
Government consumption	2.7	4.7	1.2	4.1	2.3	2.6	5.1	1.6	3.7
Private consumption	0.7	1.9	-0.8	3.8	4.5	5.2	6.1	7.0	4.1
Gross fixed capital formation	0.4	-5.2	-4.6	9.1	3.6	9.8	13.9	13.4	-9.9
Exports (goods and services)	10.0	7.4	10.4	15.3	9.3	5.0	6.2	-0.6	-10.3
Imports (goods and services)	1.5	-11.8	-1.6	13.3	8.5	18.4	19.9	18.0	-11.4
					Percentages of GDP				
Investment and saving [c]									
Gross fixed capital formation	18.0	16.2	15.8	17.1	16.2	16.8	18.3	19.9	16.5
National saving	13.8	14.7	16.5	18.9	17.8	18.0	18.4	18.2	15.0
External saving	4.2	1.5	-0.8	-1.8	-1.6	-1.3	-0.1	1.7	1.5
					Millions of dollars				
Balance of payments									
Current account balance	-23 215	-7 637	4 177	11 679	13 985	13 643	1 551	-28 192	-24 334
Goods balance	2 650	13 121	24 794	33 641	44 703	46 457	40 032	24 836	25 347
Exports, f.o.b.	58 223	60 362	73 084	96 475	118 308	137 807	160 649	197 942	152 995
Imports, f.o.b.	55 572	47 240	48 290	62 835	73 606	91 351	120 617	173 107	127 647
Services trade balance	-7 759	-4 957	-4 931	-4 678	-8 309	-9 640	-13 219	-16 690	-19 260
Income balance	-19 743	-18 191	-18 552	-20 520	-25 967	-27 480	-29 291	-40 562	-33 684
Net current transfers	1 638	2 390	2 867	3 236	3 558	4 306	4 029	4 224	3 263
Capital and financial balance [d]	19 764	-3 542	-451	-5 073	13 606	16 927	85 934	31 161	70 985
Net foreign direct investment	24 715	14 108	9 894	8 339	12 550	-9 380	27 518	24 601	36 033
Other capital movements	-4 951	-17 650	-10 345	-13 412	1 056	26 307	58 415	6 560	34 953
Overall balance	-3 450	-11 178	3 726	6 607	27 590	30 569	87 484	2 969	46 651
Variation in reserve assets [e]	-3 307	-302	-8 496	-2 244	-4 319	-30 569	-87 484	-2 969	-46 651
Other financing	6 757	11 480	4 769	-4 363	-23 271	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	120.1	132.6	131.1	123.8	100.5	88.9	82.7	80.1	81.4
Terms of trade for goods (index: 2000=100)	99.6	98.4	97.0	97.9	99.2	104.4	106.6	110.4	107.8
Net resource transfer (millions of dollars)	6 778	-10 252	-14 234	-29 955	-35 633	-10 553	56 642	-9 401	37 301
Total gross external debt (millions of dollars)	209 935	210 711	214 929	201 373	169 451	172 589	193 219	198 340	198 192
					Average annual rates				
Employment									
Labour force participation rate [g]	56.4	56.7	57.1	57.2	56.6	56.9	56.9	57.0	56.7
Open unemployment rate [h]	6.2	11.7	12.3	11.5	9.8	10.0	9.3	7.9	8.1
Visible underemployment rate [i]	…	4.1	5.0	4.6	3.7	4.1	3.6	3.1	3.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3
Variation in wholesale prices (IPA-Media) (December-December)	11.9	33.6	7.6	15.1	-1.0	4.4	9.2	10.8	-4.4
Variation in nominal exchange rate (annual average)	28.5	24.3	5.3	-4.9	-16.7	-10.8	-10.5	-5.7	8.9
Variation in average real wage	-4.9	-2.1	-8.8	0.7	-0.3	3.5	1.5	2.1	1.3
Nominal deposit rate [j]	8.6	9.2	11.1	8.1	9.2	8.3	7.7	7.9	6.9
Nominal lending rate [k]	41.1	44.4	49.8	41.1	43.7	40.0	34.5	38.8	40.4
					Percentages of GDP				
Central government									
Total revenue	20.7	21.6	20.9	21.5	22.7	22.9	23.2	23.8	23.5
Total expenditure	22.8	22.8	25.3	23.4	26.3	25.8	25.1	25.0	27.0
Current expenditure	18.4	18.4	21.7	19.6	22.1	21.4	20.6	20.3	22.4
Interest [l]	3.8	3.4	6.6	4.4	6.1	4.9	4.1	3.6	4.9
Capital expenditure	4.5	4.4	3.5	3.8	4.2	4.3	4.5	4.7	4.6
Primary balance [l]	1.7	2.2	2.3	2.6	2.5	2.1	2.2	2.4	1.3
Overall balance	-2.1	-1.2	-4.3	-1.9	-3.6	-2.9	-1.9	-1.2	-3.6

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Federal-government and central bank public-debt	31,6	37,9	34,0	31,0	30,9	31,0	30,7	24,2	29,7
Domestic	23,7	24,6	24,6	24,5	28,8	33,0	38,8	36,1	39,6
External [m]	7,9	13,4	9,4	6,4	2,2	-2,0	-8,1	-11,9	-10,0
Money and credit [n]									
Domestic credit	72,5	74,6	75,5	73,7	78,3	86,2	91,0	99,9	104,2
To the public sector	39,6	41,8	43,6	41,7	41,3	42,4	39,9	40,0	39,6
To the private sector	32,5	32,5	31,8	32,0	37,0	43,8	51,0	59,8	64,5
Others	0,4	0,2	0,1	0,0	0,0	0,0	0,1	0,1	0,1
Liquidity (M3)									
Currency outside banks and local-currency deposits (M2)	24,7	26,9	24,3	25,4	27,1	27,9	29,4	35,7	37,1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Index based on the previous year's prices in local currency.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; six metropoplitan areas.
[h] Percentage of the economically active population; six metropolitan areas.
[i] Percentage of the working population; six metropolitan areas.
[j] Interest rate on savings.
[k] Pre-set corporate rate.
[l] Based on the "below-the-line" criterion. Central Bank of Brazil.
[m] Refers to net public external debt.
[n] The monetary figures are end-of-year stocks.

The labour market displayed great dynamism in 2010, as over 1.2 million formal jobs were generated in the first five months of the year, a considerable increase on the mere 180,000 jobs created in the same period of 2009. The real average wage was stable, increasing by 0.7%.

In 2009, the annual inflation rate as measured by the extended national consumer price index (IPCA) was 4.3%, and thus below the 4.5% target. The inflation rate accelerated to an average of 0.6% a month in the first five months of 2010, as against 0.4% in the same period of 2009. Higher prices rises for some basic inputs such as steel and the ending of fiscal incentives for a number of products contributed to the increase in inflation, as did costlier food and price increases for educational services. According to estimates by the monetary authorities, inflation is likely to be above the 4.5% target in 2010, although still within the target range. This is because of anticipated rises in the prices of some services and the impact on consumer prices of higher raw material and labour costs, reflecting the growth of domestic demand.

(c) The external sector

The results of the external accounts were vital in providing leeway for the countercyclical policy implemented in 2009 and in restoring pre-crisis conditions. Despite the general decline in international trade, Brazil registered a trade surplus of US$ 25 billion. Exports fell by 22.7% and imports by 39.4%, the result being a current account deficit of US$ 24 billion. As of October 2008, the international reserves of the Central Bank of Brazil totalled over US$ 200 billion. Net revenue on the capital account in 2009 was US$ 71 billion, of which US$ 36 billion was net foreign direct investment. The availability of foreign currency not only facilitated the appreciation of the real after it had devalued by over 40% in the early months of the crisis, but also allowed international reserves to be increased to US$ 239 billion as of December 2009.

The external accounts deteriorated in the first four months of 2010. Rapid domestic growth, associated with a loss of export competitiveness owing to relative price movements, led to a reduction of 66% in the trade surplus. Exports increased by 25% (15.2% in price and 8.5% in volume), while imports grew by 41.8%.

Commodity exports increased by 30.4% (20.5% in price and 11.6% in volume), while those of semi-manufactured and manufactured products expanded by 30.7% (27.1% in price and 3% in volume) and 18% (8.6% in price and 8.4% in volume), respectively. Import prices were remarkably stable, while import volumes rose by 41.2% over the same period in 2009. The volume of imports of all types of goods was heavily influenced by the increase of 78.2% in consumer durables, 49.9% in intermediate goods and 39.6% in fuels. The trade balance was also influenced by the trend in the exchange rate of the real in the early part of the year. The current transactions deficit up to April was US$ 16,728 million (2.68% of GDP), as against US$ 4,832 million in the first four months of 2009 (1.26% of GDP).

Table 2
BRAZIL: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.3	6.4	7.1	0.8	-2.1	-1.6	-1.2	4.3	9.0	...
Goods exports, f.o.b. (millions of dollars)	38 690	51 955	60 215	47 082	31 178	38 774	41 846	41 197	39 230	49 958
Goods imports, c.i.f. (millions of dollars)	35 933	43 416	51 826	41 804	28 190	27 854	34 572	37 099	38 350	42 959
Gross international reserves (millions of dollars)	195 232	200 827	206 494	193 783	190 388	201 467	221 629	238 520	243 762	253 114
Real effective exchange rate (index: 2000=100) [c]	77.2	75.0	74.3	94.0	92.4	83.9	76.6	72.5	72.7	70.6 [d]
Urban unemployment rate	8.4	8.1	7.8	7.3	8.6	8.6	7.9	7.2	7.4	...
Consumer prices (12-month percentage variation)	4.7	6.1	6.3	5.9	5.6	4.8	4.3	4.3	5.2	5.2 [d]
Wholesale prices (IPA-Media) (12-month percentage variation)	11.3	17.1	14.9	10.8	5.6	-0.6	-3.0	-4.4	0.5	3.4 [d]
Average nominal exchange rate (reais per dollar)	1.74	1.65	1.67	2.28	2.32	2.08	1.87	1.74	1.80	1.80
Average real wage (variation from same quarter of preceding year)	-0.8	0.0	4.6	4.4	4.5	2.7	0.6	-1.8	1.0	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	6.8	7.4	8.5	8.9	7.7	6.9	6.7	6.4	6.2 [f]	...
Lending rate [g]	35.2	36.6	39.1	44.4	43.0	41.8	39.4	37.4	37.4	37.5 [d]
Interbank interest rate [h]	11.1	11.6	12.8	13.5	12.5	10.2	8.7	8.6	8.6	9.0 [d]
Sovereign bond spread (basis points) [i]	284	228	331	428	425	284	234	192	185	248
Stock price index (national index to end of period, 31 December 2000=100)	400	426	325	246	268	337	403	449	461	421
Domestic credit (variation from same quarter of preceding year)	17.9	20.2	19.6	23.9	15.3	12.5	13.1	9.1	19.6	19.6 [j]
Non-performing loans as a percentage of total credit	3.0	3.1	2.8	3.2	3.7	4.3	4.5	4.3	4.0	3.9 [j]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Index based on the previous year's prices in local currency.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Interest rate on savings.
[f] Data to February.
[g] Pre-set corporate rate.
[h] Certificates of interbank deposit rate, overnight.
[i] Measured by JP Morgan's EMBI+ index to end of period.
[j] Data to April.

The deficit on the income balance increased to US$ 11,311 million in the first four months of 2010, exceeding the negative result of US$ 8,229 million recorded between January and April 2009. Net interest payments showed a deficit of US$ 3,551 million (US$ 3,178 million in the same period the year before). Meanwhile, net dividend and profit payments rose from US$ 5,273 million between January and April 2009 to US$ 7,931 million in the same period of 2010.

The surplus on the capital and financial account increased significantly between January and April 2010 (US$ 27,759 million) compared to the same period in 2009 (US$ 6,419 million). This result was chiefly due to a rise in portfolio investment, which moved from a deficit of US$ 2,993 million in the first four months of 2009 to a surplus of US$ 16,091 million in the same period of 2010. The "other investments" item rose from US$ 2,472 million between January and March 2009 to US$ 9,065 million between January and April 2010. Net foreign direct investment fell from US$ 6,351 million to US$ 2,317 million.

In total, the balance-of-payments surplus increased from US$ 624 million between January and April 2009 to US$ 9,653 million in the first four months of 2010. International reserves totalled US$ 247,316 million in late April 2010, equivalent to 21 months' imports.

In 2009, the total external debt remained stable at US$ 198 billion. When inter-firm credit is considered, however, it rose by 5.6% to US$ 277,565 million in December 2009. In April 2010 the total external debt was US$ 211,611 million (US$ 290,690 million considering inter-firm credit). This result covers medium- and long-term debt, which rose from US$ 167 billion to US$ 177 billion, and short-term debt, which rose from US$ 30 billion to US$ 36 billion in April 2010.

Nonetheless, the country's external indicators are mixed. Between December 2009 and April 2010, the ratio between debt service and exports rose from 28.5% to 28.7%, the ratio between debt interest and exports fell from 9.1% to 8.2%, the ratio between total debt and GDP fell from 12.6% to 11.6% and the ratio between international reserves and short-term debt fell from 455.1% to 425.8%

Chile

1. General trends

In 2009, Chile's economy contracted by 1.5% as a result of the global financial crisis that broke out in the last quarter of 2008. From then through the first few months of 2009, the worsening market outlook in developed countries and especially in the international financial system led to a precipitous drop in both the price and the volume of exports. Expectations for growth, employment and income worsened, and private spending on investment and consumer durables fell sharply. The GDP growth rate thus slowed considerably, resulting in a drop in production and inventories and higher unemployment.

In these adverse circumstances, the government drew on the countercyclical capacities it had built up during years of high export prices and implemented measures geared to stimulate spending and stave off further drops in employment and income for the poorest households. In a context of negative inflation, the central bank cut monetary policy interest rates drastically, in order to help maintain financial market liquidity and revive lending. Starting in the second quarter of 2009, exports began to climb again thanks to the buoyancy of emerging Asian economies, with prices showing an upturn and volumes growing at a faster pace. As a result, the Chilean economy began to recover in the second half of 2009, further bolstered by increased public spending, favourable domestic credit conditions and an improved external environment. Production rates rose and unemployment levels fell, making it possible to forecast 4.5% GDP growth for 2010.

At the end of February 2010, however, when the Chilean economy was in full recovery, the country was hit by an earthquake and tsunami —considered to be the fifth strongest and most extensive since measurements began. The worst effects of the earthquake were concentrated in three regions of south-central Chile that account for 16% of GDP and nearly 9% of exports, principally wood, pulp and pulp products, and fishmeal. The first output measurements after the earthquake and tsunami showed marked declines in March and April, with a slight upturn in the following months. Accordingly, GDP growth projections for 2010 have been revised down to 4%. The final outcome will depend, among other factors, on the reconstruction plan deployed by the new administration that took office in March, since the effect of this effort on production rates will start to become apparent during the second half of the year.

2 Economic policy

(a) Fiscal policy

Fiscal policy in 2009 continued to target a structural surplus equivalent to 0.5% of GDP. However, the countercyclical policies implemented and the 23.2% drop in tax revenues resulting from the slowdown in economic activity and lower copper prices led to a deficit of 4.5% of GDP, equivalent to a structural deficit of 0.9%

of output. Total central government debt (domestic and external) went from 5.2% of GDP in 2008 to 6.3% in 2009 (US$ 11.095 billion). Nevertheless, the reserves accumulated in previous high-surplus years enabled the government to maintain a net creditor position that reached 3% of GDP in 2009, despite making withdrawals of US$ 9.277 billion (equivalent to 46%) from the Economic and Social Stabilization Fund (ESSF) to deal with fallout from the global financial crisis.

The fiscal policy target for 2010 is a structural balance of 0% of GDP. The budget act originally projected a 4.3% rise in public spending (consolidated central government total) over 2009, with an effective deficit of 1.1% of GDP. However, lower growth in the wake of the earthquake and tsunami are expected to push tax receipts below the amount originally budgeted while the reconstruction effort will drive spending over the original budget, especially from the second half of the year on. These trends in the direction of a larger effective deficit will be offset in part by greater public revenue from copper, whose international prices have risen significantly from the 2009 average.

The new administration has not spelled out a reconstruction spending programme, but has estimated that a total of total US$ 8.431 billion will be needed in public spending between 2010 and 2013 and has proposed a three-part plan for financing this increased expenditure.

The first part calls for US$ 700 million in budget reallocations. Second, a package of tax measures proposed to congress consists of temporarily increasing tax withholdings on the earnings of large corporations, permanently eliminating certain home purchase and voluntary retirement savings subsidies, raising tobacco and real estate taxes, amending the copper reserve law that earmarks 10% of the sales of the National Copper Corporation (CODELCO) for the armed forces, and offering mining companies the option of voluntarily paying a higher royalty in exchange for extending their tax invariability benefit. Incentives also were proposed in the form of a new, simplified tax regime for medium-sized companies and a permanent reduction in the tax on credits. Together, these tax measures would net US$ 1.75 billion between 2010 and 2013. Third, the government will issue two bonds on the external markets, one in local currency for the equivalent of US$ 500 million and another denominated in dollars for US$ 1 billion. An additional withdrawal of some US$ 4.45 billion from accumulated ESSF funds would also be necessary —and is entirely feasible since the balance in the fund as of first-quarter 2010 was approximately US$ 11.130 billion and the expected rise in copper prices during the year should make replenishment possible.

(b) Monetary policy

Monetary policy continued to target annual inflation of 3% per year on average for the medium term. As of January 2009, given the marked slowdown of inflation and in order to address the liquidity needs triggered by the crisis, the central bank implemented a series of deep cuts in the monetary policy rate, taking the annual rate to 0.5% by July 2009 —down 775 basis points from the September 2008 high of 8.25%. These interest rate cuts were accompanied by a series of measures designed to boost liquidity.

The central bank held the monetary policy rate at 0.5% until June 2010. However, there is now a greater risk of higher inflation, both because of the damage wrought to production capacities by the earthquake and tsunami and because of the drop in inventories resulting from the 2008-2009 recessionary cycle and the pressures on spending expected for the second half of 2010. Accordingly, the central bank raised the monetary policy rate to 1% to keep the economy from overheating.

In early 2009 the central bank also began to withdraw quantitative monetary measures, in response to signs of incipient recovery and with a view to meeting the inflation target.

As a result of these measures, lending rates began to come down from mid-2009 on, and credit conditions improved. Loan placements, which had remained below 2008 levels throughout 2009, were thus showing signs of recovery at the end of the first half of 2010.

(c) Exchange-rate policy

In the context of Chile’s deep integration with international markets and its low country risk, the central bank has, for several years, maintained a floating exchange-rate policy and generally refrained from intervening significantly in the foreign-exchange market. Since early 2009, as access to international financial markets gradually returned to normal and the perception of risk eased, the currency regained a trend towards nominal appreciation. Nevertheless, although the central bank has not ruled out other measures in the future, it has not, in practice, attempted to counteract exchange market trends other than by explaining its position, on the basis that there is little evidence of real exchange rate misalignment from its equilibrium value.

3. The main variables

(a) Economic activity

The evolution of domestic demand during 2009 tracked the severe adjustment in expectations. Domestic demand contracted by between 9% and 10% in the second and third quarters, reflecting a sharp fall in consumption of durable goods (-8.4%) and investment (-15.3%), particularly in machinery and equipment (-24.2%). By contrast, government consumption expanded at an annual rate of 6.8%, in the framework of the countercyclical policies aimed at boosting demand. As a result, domestic demand, especially the private consumption component, began to show some recovery towards the end of the year.

Amid extreme uncertainty as to the depth of the crisis during much of 2009, current demand was met by drawing down inventories rather than increasing supply through domestic production or imports. The resulting steep falls in imports of durable and capital goods, associated with the heavy drop in those components of domestic spending, meant that net external demand made a positive contribution to growth despite the contraction in export volumes.

At the sectoral level, activity levels in the fishing industry contracted as a result of the crisis caused by infectious salmon anaemia. The sharpest downturn occurred in sectors associated mainly with durables consumption and investment in machinery and equipment (textiles, apparel, furniture, metal products, machinery and construction).

Domestic demand has seen a considerable upturn during 2010, despite the adverse effects of the earthquake early in the year. Private consumption and investment have started to trend up on the basis of improving expectations, favourable financial conditions and the reconstruction effort. This, along with low inventories following the preceding year's adjustments, has driven a rise in imports and boosted domestic production. Exports have grown at a similar rate to that of the second half of 2009, thanks to continuing demand from emerging countries, especially China. Nevertheless, turmoil in Europe has created some uncertainty as to the behaviour of exports during the second half of the year.

The damage to the salmon industry caused by infectious anaemia appears to have peaked, so no further declines in this sector's production are anticipated. Exports of fishmeal, production of wood and pulp, and the activities of the iron and steel and fuel refinery industries are all centred in the regions hit hardest by the earthquake and slumped heavily. The upturn in consumption and investment (including the replenishment of inventories) should boost growth in the manufacturing, transport, commerce, construction, communications and basic service sectors, and demand did in fact rise in several of those sectors up to the fourth quarter of the year. Mining is likely to perform similarly to the second half of 2009, driven by continuing external demand.

So, bearing in mind that production contracted in the first quarter in the aftermath of the earthquake, GDP is projected to post moderate growth of 4% in 2010. The possibility of attaining higher growth will depend on the short-term effectiveness of efforts to rebuild production capacity in the hardest hit areas and on rising external demand. This remains a possibility, even after a disappointing first quarter, since some signs now point to faster-than-expected recovery.

(b) Prices, wages and employment

Twelve-month inflation to December 2009 was -1.4%, due to three different factors. First, the downturn in domestic demand helped contain and reduce domestic prices, as shown by the very low levels of the non-tradable component of the consumer price index (CPI) throughout the year. Some tradables whose prices are driven by domestic demand, like food, registered negative price variations because of increased supply. Second, the peso showed a certain tendency to appreciate, particularly in the final quarter of the year, as reflected in the real effective exchange rate index. Third, the world financial crisis pushed relevant 12-month external inflation into negative territory from mid-2009 until March 2010.

In January 2010 the National Statistical Institute changed the methodology for calculating the CPI, which now has national coverage. During the first quarter of the year the index was nearly flat and core 12-month inflation indicators remained in negative territory. But certain imported components, such as fuel, were significantly higher than a year earlier.

Inflation is projected to be higher in 2010 than in 2009 mainly because of the destruction of idle production capacity in the earthquake, the low level of inventories and rising domestic demand. Surveys show that private-sector expectations for inflation centre on the central bank's target range.

Table 1
CHILE: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	0.0	3.4	2.2	3.9	6.0	5.6	4.6	4.6	3.7
Per capita gross domestic product	2.2	1.0	2.8	4.9	4.5	3.5	3.5	2.6	-2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.5	6.8	2.6	11.0	7.0	4.0	0.9	4.1	0.5
Mining and quarrying	5.7	-4.2	5.5	6.1	-3.9	0.7	3.3	-5.6	-1.4
Manufacturing	0.6	1.9	3.3	7.0	6.0	3.9	3.0	1.4	-7.0
Electricity, gas and water	1.5	3.3	4.3	2.8	3.0	7.6	-28.8	-1.9	15.7
Construction	4.1	2.5	4.3	3.2	10.1	4.0	4.6	10.1	-5.2
Wholesale and retail commerce, restaurants and hotels	2.6	0.9	4.9	7.3	8.5	6.9	6.2	4.8	-2.7
Transport, storage and communications	7.4	5.3	5.8	5.5	6.9	6.9	8.7	6.7	-0.5
Financial institutions, insurance, real estate and business services	3.0	2.8	2.8	6.4	7.0	4.2	8.0	3.3	-0.3
Community, social and personal services	2.8	2.5	2.6	3.1	3.5	3.6	4.4	3.7	2.2
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.9	2.5	4.0	7.0	7.1	7.0	7.0	4.0	1.8
Government consumption	2.9	3.1	2.4	6.1	5.9	6.4	7.1	0.5	6.8
Private consumption	2.9	2.4	4.2	7.2	7.4	7.1	7.0	4.6	0.9
Gross capital formation	0.8	2.2	7.8	9.0	21.7	6.2	9.2	18.7	-26.1
Exports (goods and services)	7.2	1.6	6.5	13.3	4.3	5.1	7.6	3.1	-5.6
Imports (goods and services)	4.1	2.3	9.7	18.4	17.2	10.6	14.5	12.2	-14.3
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	21.2	20.8	21.1	20.0	22.2	20.1	20.5	25.1	19.0
National saving	19.6	20.0	20.1	22.2	23.4	24.9	25.0	23.6	21.6
External saving	1.6	0.9	1.1	-2.2	-1.2	-4.9	-4.5	1.5	-2.6
					Millions of dollars				
Balance of payments									
Current account balance	-1 100	-580	-779	2 074	1 449	7 154	7 458	-2 513	4 217
Goods balance	1 843	2 386	3 723	9 585	10 775	22 780	23 941	8 848	13 982
Exports, f.o.b.	18 272	18 180	21 664	32 520	41 267	58 680	67 972	66 464	53 735
Imports, f.o.b.	16 428	15 794	17 941	22 935	30 492	35 900	44 031	57 617	39 754
Services trade balance	-844	-701	-618	-746	-621	-631	-987	-871	-1 074
Income balance	-2 526	-2 847	-4 489	-7 837	-10 487	-18 401	-18 625	-13 423	-10 306
Net current transfers	427	583	605	1 072	1 783	3 406	3 129	2 934	1 616
Capital and financial balance [d]	504	779	413	-2 265	267	-5 157	-10 672	8 957	-2 569
Net foreign direct investment	2 590	2 207	2 701	5 610	4 801	4 556	9 961	7 194	4 719
Other capital movements	-2 086	-1 428	-2 288	-7 875	-4 534	-9 713	-20 633	1 764	-7 288
Overall balance	-596	199	-366	-191	1 716	1 997	-3 214	6 444	1 648
Variation in reserve assets [e]	596	-199	366	191	-1 716	-1 997	3 214	-6 444	-1 648
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	111.8	109.4	114.5	108.5	103.1	100.9	102.8	102.4	106.1
Terms of trade for goods (index: 2000=100)	93.3	97.2	102.8	124.9	139.8	183.2	189.5	164.8	166.7
Net resource transfer (millions of dollars)	-2 022	-2 068	-4 076	-10 102	-10 220	-23 558	-29 297	-4 466	-12 876
Total gross external debt (millions of dollars)	38 527	40 504	43 067	43 515	46 211	49 497	55 733	64 318	74 041
					Average annual rates				
Employment									
Labour force participation rate [g]	53.9	53.7	54.4	55.0	55.6	54.8	54.9	56.0	55.9
Open unemployment rate [h]	9.9	9.8	9.5	10.0	9.2	7.7	7.1	7.8	9.7
Visible underemployment rate [i]	7.1	6.2	6.5	8.4	8.5	8.5	8.0	9.0	10.8
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	2.6	2.8	1.1	2.4	3.7	2.6	7.8	7.1	-1.4
Variation in wholesale prices (December-December)	3.1	10.4	-1.0	7.8	3.2	7.9	14.0	22.7	-14.9
Variation in nominal exchange rate (annual average)	7.1	9.3	10.8	10.0	9.1	7.0	1.0	1.9	8.9
Variation in average real wage	1.7	2.0	0.9	1.8	1.9	1.9	2.8	-0.2	4.8
Nominal deposit rate [j]	6.5	4.1	3.2	2.4	4.5	5.5	5.9	7.8	2.4
Nominal lending rate [j]	16.7	14.4	13.0	11.0	13.5	14.4	13.6	15.2	12.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Percentages of GDP				
Total central government									
Total revenue	21.7	21.0	20.7	22.0	23.8	25.8	27.4	26.2	20.0
Tax revenue	18.0	18.1	17.3	17.0	18.3	18.3	20.2	19.9	16.1
Total expenditure	22.2	22.3	21.2	19.9	19.3	18.1	18.6	21.0	24.4
Current expenditure	18.9	18.8	17.9	16.8	16.1	15.1	15.4	17.2	19.7
Interest	1.2	1.2	1.1	1.0	0.8	0.7	0.6	0.5	0.5
Capital expenditure	3.4	3.4	3.3	3.1	3.1	3.0	3.2	3.8	4.7
Primary balance	0.7	-0.1	0.7	3.1	5.4	8.4	9.4	5.7	-3.9
Overall balance	-0.5	-1.2	-0.5	2.1	4.6	7.7	8.8	5.2	-4.4
Central government public debt [k]	14.9	15.7	13.0	10.7	7.3	5.3	4.1	5.2	6.1
Domestic	10.4	9.9	7.5	5.9	4.0	2.4	2.0	3.1	4.7
External	4.5	5.7	5.5	4.8	3.3	2.9	2.1	2.1	1.4
Money and credit [l]									
Domestic credit	65.8	61.9	61.5	60.1	59.8	55.1	60.7	64.9	66.7
To the public sector	0.2	-3.9	-1.1	-2.2	-4.5	-8.5	-9.0	-14.4	-2.5
To the private sector	65.6	65.9	62.7	62.3	64.3	63.7	69.7	79.3	69.2
Liquidity (M3)	54.2	54.6	48.8	50.3	53.3	53.2	58.1	69.0	64.4
Currency outside banks and local-currency deposits (M2)	47.8	48.6	43.4	45.5	48.6	48.6	53.2	60.1	57.3
Foreign-currency deposits	6.3	5.9	5.4	4.9	4.7	4.7	4.8	9.0	7.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices. Up to 2003, based on figures in local currency at constant 1996 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Percentage of the working population; nationwide total.
[j] Non-adjustable 90-360 day operations.
[k] Does not include publicly guaranteed debt.
[l] The monetary figures are December averages.

The international financial crisis took its toll on growth and employment. Despite plans implemented to moderate the decline in employment and output, the unemployment rate averaged 9.6% in 2009 compared with a yearly average of 7.8% in 2008. In 2010 the National Statistical Institute began to publish a new, nationwide unemployment index with increased coverage. This new measurement showed that the national unemployment rate reached 11% in 2009 but fell during the second half of the year. There are no records for 2008.

So far in 2010, unemployment figures are trending down after peaking at 11.6% in July and August 2009. Employment levels dropped as a result of the earthquake's impact on production capacity, particularly in the regions where the worst damage to capacity and infrastructure occurred. Nevertheless, reconstruction efforts have helped to turn this situation around and a more rapid recovery could bring unemployment down from the previous year's levels.

In the context of a sluggish labour market, nominal wages grew only slowly, at a lower rate than in 2008. Real wage indices, however, rose considerably as a result of successive months of negative inflation. Wages are not expected to exert pressure on costs in 2010, because they tend to lag the prior-year inflation rate (which was negative in 2009) and because the labour market will continue to perform modestly during the year.

(c) The external sector

The external prices of the commodities that Chile imports and exports fluctuated significantly in 2009. After raw materials prices plummeted in the final four months of 2008 owing to the international financial crisis, prices for Chile's principal exports recovered strongly in 2009. Even so, average unit export values for the year were down by 18%. Similarly, the average unit value for imports fell by 16%. Export volumes dropped by 5% while import volumes, particularly of durable goods, machinery and capital goods, declined 19%. This resulted in a current-account surplus of around 2.6% of GDP.

International reserves rose slightly in 2009, to US$ 25.371 in December, thanks to the recent allocation of special drawing rights (SDRs) to Chile, continuing foreign direct investment flows, the resumption of corporate bond issues on the international markets and renewed lending to Chilean banks by external creditors.

The external prices of Chile's exports rose again in 2010, attaining record highs and nearing or exceeding pre-crisis levels in certain cases. Oil prices rose, too, albeit to levels that are still far from pre-crisis highs. Export prices have turned volatile again, however, owing to international market turmoil stoked by concerns surrounding the sovereign debt of some European countries.

Table 2
CHILE: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.7	5.1	5.2	0.7	-2.1	-4.5	-1.4	2.1	1.0	...
Goods exports, f.o.b. (millions of dollars)	19 277	18 423	16 419	12 336	11 482	12 914	14 050	15 290	16 240	16 323
Goods imports, c.i.f. (millions of dollars)	14 004	16 233	17 786	13 880	9 568	9 664	10 911	12 285	12 306	13 941
Gross international reserves (millions of dollars)	17 898	20 251	24 204	23 162	23 382	23 448	26 040	25 371	25 631	25 175
Real effective exchange rate (index: 2000=100) [c]	95	97	103	115	110	106	106	103	102	102 [d]
Unemployment rate	7.6	8.4	7.8	7.5	10.6	11.5	11.2	10.0	9.0	...
Consumer prices (12-month percentage variation)	8.5	9.5	9.2	7.1	5.0	1.9	-1.1	-1.4	0.2	1.5 [d]
Wholesale prices (12-month percentage variation)	10.4	13.7	19.4	22.7	15.5	2.5	-6.4	-14.9	-6.3	-1.4 [d]
Average nominal exchange rate (pesos per dollar)	463	472	517	642	607	566	546	518	519	531
Average real wage (variation from same quarter of preceding year)	0.6	-0.2	-1.1	-0.2	1.8	3.6	6.4	7.3	2.7	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	9.3	9.7	9.8	10.1	8.9	6.3	5.0	4.3	4.0	3.8 [d]
Lending rate [e]	16.7	17.3	17.3	17.5	16.6	13.4	11.7	10.4	9.9	9.6 [d]
Interbank rate [f]	9.5	9.7	9.9	9.8	8.6	6.0	4.3	3.7	3.3	3.3 [d]
Stock price index (national index to end of period, 31 December 2000=100)	268	277	254	219	229	285	311	330	347	380
Domestic credit (variation from same quarter of preceding year)	8.0	7.2	10.8	7.7	5.9	-1.5	-13.0	-15.6	-14.7	-14.4 [g]
Non-performing loans as a percentage of total credit	3.9	3.9	4.1	4.0	4.5	4.6	4.5	4.1	4.4	4.4 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Non-readjustable 90-360 day operations.
[f] Overnight.
[g] Data to April.

Export volumes are projected to expand in 2010 thanks to steady growth in main destination markets, especially China. Imports are also expected to recover strongly —even more than exports— on the back of rising domestic demand in a context of low inventories, the partial destruction of domestic production capacity by the earthquake and tsunami, which has made it necessary to source externally to meet normal production and consumption needs, and higher spending driven by the reconstruction effort.

International reserves remained stable through the first quarter of 2010, at levels similar to those posted in December 2009. Conditions for accessing the international financial markets also remained unchanged despite the turmoil arising from uncertainty as to sovereign debt sustainability in several European countries.

Colombia

1. General trends

Amid uncertainty about the solidity of the signs of improvement in Colombia, the country's economy grew by 0.8% in 2009, making it a leading performer in a region whose overall economy contracted. The economy's weak performance at the end of 2008 continued into early 2009. However, positive signs of improvement in the third quarter of 2009 were confirmed in the early months of 2010 when manufacturing and trade picked up and consumers and industry began to regain confidence. Given this situation, ECLAC projects growth of close to 3.5% for 2010.

The sectors that contracted most during the year as a result of the international financial crisis were manufacturing, commerce and agriculture. Loss of confidence among consumers and investors led to a sharp drop in private-sector consumption and investment. The value of exports declined significantly. In order to counter the effects of the crisis, the government decided to implement a macroeconomic stimulus policy that increased spending, particularly on infrastructure and social benefits, thereby moderating the decline in demand and GDP at the cost of a larger deficit and increased public debt. This strategy was supplemented by an expansionary monetary policy involving a series of cuts in the intervention rate in a context of low inflation (the inflation rate was just 2% at year's end). In 2009 and early 2010, economic recovery was hampered by the trade restrictions imposed on Colombian products by the Bolivarian Republic of Venezuela, which led to a 33.5% drop in sales to that country for the year.

Some signs of recovery in Colombian economic activity began to show up in the third quarter of 2009. The sectors most affected by the crisis rallied and there was a significant upturn in private consumption. There were also improvements in confidence indices and lower inflation and interest rates. As a result of the strong performance of public works (33.9%), attributable to government action, there was a respectable increase in investment (3.2%).

At the sectoral level, construction and mining recorded strong growth of 14.6% and 9.6%, respectively, by the end of the year. Confidence picked up in early 2010, leading to an upturn in private consumption and a stronger performance for industry and commerce. Flows of foreign direct investment (FDI) are projected to increase and commodity prices to rally, which would have a positive effect on the terms of trade. Among other urgent tasks, the new government that will take office on 7 August 2010 will have to consolidate the economic recovery at a time of fiscal hardship exacerbated by rising demand for resources, particularly in the health sector, while normalizing trade relations with the Bolivarian Republic of Venezuela.

2. Economic policy

(a) Fiscal policy

In order to counter the effects of the international financial crisis on the Colombian economy, the government decided to implement a countercyclical policy that maintained the planned level of spending with a view to preventing a greater drop in demand and GDP, an approach that has led to larger national central government and consolidated public-sector deficits. Spending was focused primarily on infrastructure and social programmes and production incentives, and was made possible by the continuing availability of financing.

At year-end 2009, the national central government recorded a deficit equivalent to 4.1% of GDP, compared with 2.3% in 2008. This deterioration can basically be attributed to stronger expenditure growth, with a rise of 13.6%, while revenues increased by only 2.8%. Tax receipts rose by 1.3% and their share of GDP dropped by 0.5% compared to the previous year. The consolidated public sector ran a deficit of 2.8%, as against 0.1% in 2008. This result was due not only to an increase in the deficit of the national central government, but also to a 0.8% reduction in the surplus of decentralized authorities, regional and local governments in particular. Central-government debt rose to 35.0% of GDP from 33.5% in 2008, owing primarily to higher domestic borrowing.

The Colombian authorities have undertaken to ensure the sustainability of the public finances through medium-term fiscal planning. The increase in the fiscal deficit in 2009 resulting from the countercyclical policy implemented has accordingly necessitated measures on both the revenue and expenditure sides to redress the larger fiscal imbalance. Limits were imposed on certain tax exemptions in late 2009 to increase tax revenue (Act No. 1,370 of 2009). Furthermore, the government had to cut 5.8 billion pesos (more than 1 percentage point of GDP) from planned general budget expenditure because of the lower revenue expected for 2010; however, this measure will not affect the main public investment programmes and projects. The consolidated public-sector deficit is still projected to reach 3.7% of GDP and that of the national central government 4.5% of GDP.

The government will have to address various challenges in relation to the public finances in the short term. Spending pressures in the health sector will have to be relieved by allocating more resources to it, in accordance with the provisions of a bill currently before Congress. In addition, the outgoing government made a commitment to allocate public resources equivalent to just over 5% of GDP to priority projects (roads, energy and telecommunications) up to 2027, which will give future governments less budgetary flexibility.

(b) Monetary policy

In keeping with the countercyclical strategy, an expansionary monetary policy was adopted in 2009. In order to boost aggregate demand, and private consumption in particular, the intervention rate of the Bank of the Republic was reduced gradually from 10% to 3% starting in December 2008 (700 basis points in a little over a year).

As a result of the reduction in the intervention rate, market rates also dropped relatively quickly with a few exceptions, such as the rate applied to microcredit. The average annual nominal deposit rate fell from 10.1% in December 2008 to 4.1% in December 2009, while the average nominal lending rate decreased from 17.7% to 9.9% during the same period. Consumer, commercial and mortgage lending picked up slightly towards the end of 2009; taking the year as a whole, however, there was still a significant slowdown in real terms. Commercial and consumer lending dropped by 1.6% and 0.4%, respectively, while mortgage lending expanded by 9.2%. This expansion was due not only to an increase in the number of loans, but also to the government's countercyclical policy, which included an interest-rate subsidy on certain home loans for medium- and low-income strata.

Monetary aggregates recorded positive nominal growth, although at lower rates than the previous year. M1 grew by 7.5% and M2 and M3 by 5.4% and 7.1%, respectively, owing to the growth of cash and the dynamism of bond investments and current and saving accounts.

The monetary aggregates have continued to expand at a steady pace in the early months of 2010, while total gross lending has carried on improving slowly, led by home loans. Interest rates are still trending downward, but at a slower pace than in 2009.

(c) Exchange-rate policy

Exchange-rate policy was influenced by volatile exchange rates throughout 2009. Nevertheless, the Colombian peso, like other Latin American currencies, appreciated for most of the year as a result of the weakening dollar and rising commodity prices. In nominal terms there was an average annual depreciation of 9.39%, owing primarily to the behaviour of the exchange rate during the first two months of the year. Between December 2008 and the end of December 2009, by contrast, the currency experienced a nominal annual appreciation equivalent to 9.11%. The undertaking by the government and the Colombian Petroleum Company (ECOPETROL) not to monetize foreign currency in the closing months of 2009 helped to curb the appreciation, which reversed again towards the end of the year.

The Colombian peso experienced an average annual real-term depreciation of 5.7% in 2009 before appreciating again in early 2010 in both nominal and real terms.

(d) Trade policy

In 2009, the Bolivarian Republic of Venezuela announced that it was breaking off trading relations with Colombia. Trade flows also diminished as a result of the international financial crisis, which has put industry in a difficult situation. The government and private sector are seeking substitutes for the Venezuelan market; however, their efforts are unlikely to show results in the short term. Nevertheless, some products, especially from the agricultural and mining sectors, have achieved a greater presence in non-traditional markets.

Colombia concluded its negotiations over a free trade agreement with the European Union and has entered into discussions with Panama and the Republic of Korea with a view to signing new agreements. In late 2009, in view of the delay in approving its agreement with Colombia, the United States once again extended preferential tariff treatment to the country under the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

3. The main variables

(a) Economic activity

The Colombian economy grew by 0.8% in 2009. Given the signs of recovery in the second part of the year, and especially the last quarter, growth of some 3.5% is projected for 2010. The sectors that contracted most were industry (-5.9%), commerce (-2.3%) and agriculture (-0.4%). Meanwhile, there was positive growth in construction (14.6%), mining (9.6%) and financial institutions (3.1%). The stronger performance of construction and mining was mainly due to government-funded infrastructure projects (public works) and higher oil production, respectively.

The private component of demand (both investment and consumption) was the worst affected by the international financial crisis and was not fully offset by the growth of the public component. Consumption grew by only 1.3% (private consumption by 1.1% and public consumption by 2.6%) and investment by just 3.2%. The investment components that were hit hardest were machinery and equipment, construction and building, and transport equipment. Public works grew significantly as a result of the government's countercyclical policy. Loss of confidence among the business community and the contraction of domestic and external demand are the factors that best explain the weakening of investment. Exports and imports fell by 3.9% and 9.0%, respectively.

As of early 2010, both consumer and business confidence indices have improved significantly. Combined with lower interest rates and inflation, this has led to a resurgence of private consumption, which is expected to be the engine of growth this year. The trade restrictions imposed by the Bolivarian Republic of Venezuela and the slowdown in that country's economy are hampering improvements in trade flows. Given the reduced fiscal space, public consumption and investment will grow only moderately in 2010.

(b) Prices, wages and employment

Following two consecutive years in which the inflation target was not met, the inflation rate for 2009 was the lowest in 50 years at 2.0%, which is the lower limit of the range set by the Bank of the Republic as its long-term target. This left households with more disposable income and contributed to the recovery of private consumption and the reactivation of economic

Table 1
COLOMBIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	1.8	2.5	4.6	5.3	5.0	7.1	6.3	2.7	0.8
Per capita gross domestic product	0.1	0.9	2.3	3.7	3.4	5.5	4.7	1.2	-0.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.7	0.7	3.7	3.9	2.8	2.4	3.5	-0.6	-0.4
Mining and quarrying	-8.6	-3.4	0.9	-0.9	4.0	2.9	2.0	7.0	9.6
Manufacturing	2.8	1.0	3.5	7.5	3.8	7.4	6.7	-4.2	-5.9
Electricity, gas and water	4.7	0.5	7.3	3.7	5.0	4.5	4.8	0.1	1.4
Construction	5.7	13.4	10.1	10.2	6.7	12.9	10.2	3.0	14.6
Wholesale and retail commerce, restaurants and hotels	3.2	1.9	4.2	6.7	3.7	9.0	7.3	2.5	-2.3
Transport, storage and communications	2.5	2.9	4.1	7.8	7.1	9.1	11.5	5.3	0.0
Financial institutions, insurance, real estate and business services	1.8	1.6	2.9	4.4	5.0	4.8	4.6	8.5	3.1
Community, social and personal services	2.9	2.6	1.4	3.7	4.4	5.1	3.1	2.5	1.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	2.1	1.9	2.8	4.4	4.5	7.4	6.5	2.3	1.3
Government consumption	1.8	-1.3	1.3	5.8	7.2	4.9	4.3	2.5	2.6
Private consumption	2.2	2.7	3.2	4.1	3.9	7.9	7.0	2.0	1.1
Gross capital formation	8.9	10.0	11.7	10.4	13.4	16.8	14.0	4.8	3.2
Exports (goods and services)	3.4	-2.7	6.3	9.6	4.6	7.7	7.2	8.8	-3.9
Imports (goods and services)	10.2	0.3	8.8	10.3	10.6	20.3	15.1	8.8	-9.0
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	16.7	17.2	18.9	20.1	21.6	24.3	24.3	25.0	24.2
National saving	15.5	15.8	17.8	19.3	20.3	22.5	21.5	22.3	22.0
External saving	1.1	1.4	1.1	0.8	1.3	1.8	2.8	2.8	2.2
					Millions of dollars				
Balance of payments									
Current account balance	-1 067	-1 289	-973	-906	-1 882	-2 983	-5 819	-6 713	-5 146
Goods balance	600	306	556	1 346	1 595	322	-596	976	2 560
Exports, f.o.b.	12 869	12 384	13 813	17 224	21 729	25 181	30 577	38 531	34 026
Imports, f.o.b.	12 269	12 077	13 258	15 878	20 134	24 859	31 173	37 556	31 466
Services trade balance	-1 412	-1 435	-1 439	-1 680	-2 102	-2 119	-2 607	-3 140	-2 680
Income balance	-2 609	-2 867	-3 398	-4 297	-5 456	-5 929	-7 847	-10 063	-9 644
Net current transfers	2 354	2 706	3 309	3 724	4 082	4 743	5 231	5 514	4 619
Capital and financial balance [d]	2 286	1 427	789	3 447	3 610	3 005	10 532	9 351	6 493
Net foreign direct investment	2 526	1 277	783	2 873	5 590	5 558	8 136	8 346	4 177
Other capital movements	-240	151	6	574	-1 980	-2 553	2 396	1 004	2 316
Overall balance	1 218	138	-184	2 541	1 729	23	4 714	2 638	1 347
Variation in reserve assets [e]	-1 218	-138	184	-2 541	-1 729	-23	-4 714	-2 638	-1 347
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	104.1	105.8	119.5	107.0	94.7	96.1	85.7	82.2	86.8
Terms of trade for goods (index: 2000=100)	94.2	92.5	95.2	102.3	111.0	115.2	124.4	138.1	118.8
Net resource transfer (millions of dollars)	-323	-1 439	-2 609	-850	-1 846	-2 924	2 686	-712	-3 151
Total gross external debt (millions of dollars)	39 163	37 382	38 065	39 497	38 507	40 103	44 553	46 374	53 797
					Average annual rates				
Employment									
Labour force participation rate [g]	64.4	64.8	65.0	63.6	63.3	62.0	61.8	62.6	64.6
Open unemployment rate [h]	18.2	18.1	17.1	15.8	14.3	13.1	11.4	11.5	13.0
Visible underemployment rate [i]	16.3	16.8	15.3	15.2	13.8	11.9	10.0	9.1	9.5
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.7	2.0
Variation in producer prices (December-December)	9.0	3.8	10.2	5.2	3.0	5.3	1.3	9.0	-2.2
Variation in nominal exchange rate (annual average)	10.0	9.0	14.7	-8.7	-11.6	1.6	-12.0	-5.2	9.6
Variation in average real wage	-0.3	3.0	-0.7	1.7	1.5	3.8	-0.3	-2.0	1.1
Nominal deposit rate [j]	12.4	8.9	7.8	7.8	7.0	6.2	8.0	9.7	6.3
Nominal lending rate [k]	20.7	16.3	15.2	15.1	14.6	12.9	15.4	17.2	13.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Percentages of GDP				
Non-financial public sector									
Total revenue	29.1	28.6	29.6	31.0	29.5	29.9	30.0	...	...
Current revenue	29.1	28.6	29.6	31.0	29.5	29.9	30.0	...	...
Tax revenue	14.5	14.3	14.8	15.5	16.5	17.3	17.5	...	...
Total expenditure [l]	32.5	31.5	31.8	31.8	29.8	30.7	31.1	...	...
Current expenditure	25.4	24.8	25.1	25.5	25.0	25.2	24.7	...	...
Interest	4.0	3.7	4.0	3.7	3.3	3.9	3.8	...	...
Capital expenditure	7.0	6.7	6.7	6.4	4.8	5.5	6.4	...	...
Primary balance	0.6	0.8	1.8	2.9	3.1	3.0	2.8	...	...
Overall balance [l]	-3.4	-2.9	-2.2	-0.8	-0.3	-0.8	-1.0	0.0	-2.5
Consolidated non-financial public-sector debt	51.6	58.4	56.5	51.6	50.1	47.3	43.8	42.9	45.1
Domestic	29.7	33.7	32.5	32.3	34.4	32.3	30.7	29.5	31.5
External	21.9	24.7	24.0	19.3	15.6	15.1	13.1	13.4	13.6
Money and credit [m]									
Domestic credit	29.5	29.3	29.5	29.3	30.2	31.1	32.1	33.9	35.1
To the public sector	8.5	9.9	10.3	10.3	10.3	8.1	6.0	6.3	9.2
To the private sector	21.0	19.4	19.1	19.0	19.9	23.1	26.1	27.6	26.0
Currency outside banks and local-currency deposits (M2)	27.4	27.1	27.4	28.7	30.6	31.8	33.4	35.4	35.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based in the new quarterly national accounts figures published by the country, base year 2005.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, thirteen cities.
[h] Percentage of the economically active population, thirteen cities.
[i] Percentage of the working population, thirteen cities.
[j] 90-day fixed-term certificates of deposit for banks and corporations.
[k] Total lending rate of the system (weighted average of all lending rates).
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.

activity. Food was the component that contributed most to lower inflation, with prices falling by 0.3% over the year. At the end of 2009, the inflation rates for tradable, non-tradable and regulated goods were 1.4%, 4.4% and 2.5%, respectively.

The Bank of the Republic has set an inflation target of between 2% and 4% for 2010. Year-on-year inflation was 2.47% at the end of June, slightly higher than in the same month of 2009. Although demand is not expected to place upward pressure on prices, inflation could rise principally because of dearer food prices (attributable to the weather events that have afflicted the country) and higher than expected commodity prices.

There was a marked deterioration in the labour market in 2009, which was a source of concern for the economic authorities and became a priority issue for debate in Colombia. The incoming government will have to carry out reforms to boost employment. The main proposals include reducing both payroll taxes (non-wage costs) and incentives for capital investment, developing temporary or emergency employment programmes, creating unemployment benefits and strengthening labour intermediation systems (National Training Service). Measures to boost certain key sectors that are vital for job creation, such as infrastructure, housing and agriculture, are also being considered.

The labour participation rate increased to 61.3% in 2009, almost 3 percentage points higher than in 2008. This can be explained by the fact that family members other than heads of household are seeking to join the labour market to compensate for loss of family income. The employment rate rose from 51.9% to 53.9%. While wage employment was stagnant, own-account employment increased, owing to deteriorating employment quality and growth in informal jobs. The national unemployment rate was 12.0% in 2009, compared with 11.3% in 2008, while urban unemployment rose from 11.5% in 2008 to 13.0% in 2009.

While there are clear signs of a recovery in economic activity, these have not yet translated into improvements in the labour market. The figures for the first quarter of 2010 show an increase in unemployment (13.0% nationally and 13.7% in urban areas). Non-wage employment has continued to account for most of the growth in the employment rate. These trends could affect household confidence and private consumption. An upturn in aggregate demand alone will not reduce the unemployment figures to their previous levels; for this, the country will need more extensive labour-market reforms.

Table 2
COLOMBIA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.4	3.3	3.4	-1.1	-0.9	0.1	0.7	3.4	4.4	...
Goods exports, f.o.b. (millions of dollars)	8 657	10 405	10 210	8 353	7 577	7 908	8 368	9 000	9 135	7 002 [c]
Goods imports, c.i.f. (millions of dollars)	8 882	10 050	10 648	10 089	7 973	7 601	8 469	8 855	9 135	6 675 [c]
Gross international reserves (gross) (millions of dollars)	21 789	22 485	23 725	23 672	23 475	23 356	24 756	24 992	25 140	26 026
Real effective exchange rate (index: 2000=100) [d]	80.9	75.6	80.9	91.3	94.0	88.6	82.2	82.4	76.1	76.3 [c]
Unemployment rate	12.3	11.6	11.5	10.8	14.0	12.8	12.9	12.3	13.7	...
Consumer prices (12-month percentage variation)	5.9	7.2	7.6	7.7	6.1	3.8	3.2	2.0	1.8	2.1
Average nominal exchange rate (pesos per dollar)	1 907	1 767	1 906	2 293	2 419	2 228	2 013	1 966	1 945	1 957
Average real wage (variation from same quarter of preceding year)	-0.6	-1.1	-2.7	-3.6	-2.2	0.0	2.7	3.7	3.4	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	9.3	9.7	9.8	10.1	8.9	6.3	5.0	4.3	4.0	3.8 [c]
Lending rate [f]	16.7	17.3	17.3	17.5	16.6	13.4	11.7	10.4	9.9	9.6 [c]
Interbank interest rate [g]	9.5	9.7	9.9	9.8	8.6	6.0	4.3	3.7	3.3	3.3 [c]
Sovereign bond spread (basis points) [h]	258	221	318	498	487	301	223	196	172	230
Stock price index (national index to end of period, 31 December 2000=100)	1 120	1 146	1 154	944	1 001	1 233	1 405	1 448	1 513	1 561
Domestic credit (variation from same quarter of preceding year)	13.2	14.9	15.9	17.1	19.2	16.4	10.0	9.6	...	...
Non-performing loans as a percentage of total credit	3.9	3.9	4.1	4.0	4.5	4.6	4.5	4.1	4.4	4.4 [i]

Source: Economic Commission for Latin America and the Caribbean (ECLAC). on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2005 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] 90-day fixed-term certificates of deposit for banks and corporations.
[f] Total lending rate of the system (weighted average of all lending rates).
[g] Overnight.
[h] Measured by JP Morgan's EMBI+ index to end of period.
[i] Data to April.

(c) The external sector

The current account deficit decreased from 2.8% of GDP in 2008 to 2.2% in 2009, owing mainly to the fall in international prices, downturns in the economies of the country's main trading partners and more sluggish trade flows generally. Exports fell 11.7% by value, with external sales of traditional goods decreasing by 10.3% and those of non-traditional goods by 15.4%. The decline in non-traditional exports is attributable largely to lower sales of ready-made clothing, metals and manufactures, leather, and live animals and animal products. Sales to the Bolivarian Republic of Venezuela and the United States, the country's main trading partners, fell by 33.5% and 8.5%, respectively. The volume of traditional exports actually rose as a result of increased production and sales of oil, coal and ferronickel, which offset the decline in coffee production and exports. There was a significant contraction in imports (17.1%), which particularly affected electrical and sound and image recording equipment and appliances, vehicles and vehicle parts, and iron and steel.

The trade outlook for 2010 remains unclear since the Bolivarian Republic of Venezuela, a major destination for Colombian goods, closed its market. Between January and May 2010, the value of exports was up 26.6% on the same period a year earlier. Exports of traditional goods expanded by some 58.1%, while those of non-traditional goods fell by 4.6%. Where destinations are concerned, sales to the United States rose by 61.5% in the first five months of the year, while those to the Bolivarian Republic of Venezuela fell by 71.4%.

Unsurprisingly, foreign direct investment (FDI) inflows declined by 32%, from US$ 10.6 billion in 2008 to US$ 7.201 billion in 2009. Despite this, FDI in the mining and quarrying sector increased significantly (by 72%) as a result of investments in coal mining. The outlook for 2010 is more positive and FDI inflows are projected to return to the levels of previous years, especially in the mining and hydrocarbons sector. Remittances fell by 14.4% from US$ 4.842 billion in 2008 to US$ 4.145 billion in 2009. In 2010, rising employment in other economies such as the United States is expected to lead to a recovery in remittances too. Nevertheless, high unemployment in Spain and the poor performance of the Venezuelan economy, an important source of Colombian remittances, are a cause for concern in this area.

Ecuador

1. General trends

In 2009, as a result of the international financial crisis, the fall in oil prices, a drop in remittances and slacker domestic demand, the Ecuadorian economy grew by 0.4%, well below the rate of 7.2% seen in 2008 but above the regional average. Conditions improved in late 2009 and there were clear signs of an upturn. Consequently, a stronger economic performance is expected for 2010, with growth projected at 2.5%.

The balance-of-payments current account closed 2009 with a negative balance for the first time since 2004, and the non-financial public sector (NFPS) also posted an overall deficit. As there had been no twin deficits during the 2000s up to that point, this is evidence of the negative effect of the international crisis on the Ecuadorian economy. Employment indicators also weakened over the year as a result.

Various legal changes have been introduced since the new Constitution of Ecuador came into force in October 2008, some of which give the State a more prominent role in economic affairs. In addition to legislation abolishing the independence of the central bank, laws targeting specific sectors, such as mining and hydrocarbons, have been passed or are being drafted.

2. Economic policy

(a) Fiscal policy

Total NFPS income decreased from 39.9% of GDP in 2008 to 35.1% in 2009 as the result of a 41.7% nominal decline in oil export revenues. Non-oil revenue increased by 3.8% in 2009 on the back of increased receipts from income tax and the tax on outward foreign-currency transfers. Receipts from the special consumption tax (ICE) shrank significantly because of the decline in imports. Total NFPS expenditure remained constant in relative terms (40.7% of GDP). In nominal terms, current spending decreased by 3.5% and capital spending by 5.9%. Non-oil revenues covered only 85.5% of current spending, which was less than the target set in the country's fiscal regulations. The overall NFPS deficit widened significantly from 0.9% of GDP in 2008 to 5.5% in 2009. A third of this deficit was financed from external resources (including an advance sale of oil to PetroChina, loans from international bodies and allocations of Special Drawing Rights) and the remainder from domestic resources (NFPS deposits at the Central Bank of Ecuador, transfers of central bank profits and floating debt).

In October 2009, a stimulus plan to counter the effects of the international financial crisis was unveiled, with US$ 2.555 billion (4.9% of GDP) to be used to finance housing, municipal works, microlending and infrastructure investment. The financing is being sourced from central bank profits and the repatriation of some international discretionary reserves, and is being channelled into the economy mainly through the public-sector banking system.

Having decided to go into debt services default on its 2012 and 2030 global bonds, representing between them a debt of US$ 3.24 billion, the Ecuadorian government held a modified Dutch auction in May 2009 in which bondholders submitted bids to trade in their bonds for cash. The government set a floor price of 29.5% plus 50 basis points over nominal value. As a result of this measure, a price of 35% was set and in June 81.3% of the 2012 global bonds and 92.8% of the 2030 global bonds were withdrawn from the market. In December, an additional 4% of the 2012 bonds and 1.3% of the 2030 bonds were bought back. The holders of these bonds had not participated in the first auction because of domestic regulations in their countries. Although the operation led to a reduction of over 30% in the external public debt of Ecuador, which decreased from 18.6% of GDP in 2008 to 14.2% in 2009, it represented an outlay of US$ 1.10 billion and reduced the country's external financing options. It should be noted that this measure did not extend to the 2015 global bonds, which still represent a commitment of US$ 650 million.

As a result of the reduced income from oil exports and the outlay associated with the bond buyback, international discretionary reserves dropped from US$ 4.473 billion in December 2008 to US$ 2.675 billion in June 2009. Subsequently, a US$ 480 million loan from the Latin American Reserve Fund, a rise in oil prices, the receipt of US$ 1 billion from an advance sale of oil to PetroChina and other factors led to a recovery in international discretionary reserves, which rose to US$ 5.237 billion in November. Nevertheless, the repatriation of reserves as part of the stimulus plan resulted in a significant drop in that amount in December 2009 and the account closed the year with a balance of US$ 3.792 billion.

Although the rise in oil prices, the expected upturn in domestic demand and continued success in tackling tax evasion augur well for public-sector revenue, the ambitious investment budget for 2010 and its impact on economic performance will depend to a large extent on the availability of financing.

(b) Monetary policy

There were no major changes to the ceiling for lending rates in 2009. For example, the rates for corporate and housing loans were limited to 9.3% and 11.3%, respectively. However, the ceiling for consumer credit interest rates was raised from 16.3% to 18.9% in June 2009 to discourage imports. This rate reverted to its previous level in February 2010. The average deposit rate decreased from 5.6% in June 2009 to 4.4% in June 2010.

In 2009, total deposits in private-sector banks rose by an average of 5.3% compared to 2008, with a particularly significant increase from November 2009. This trend continued into 2010. In May, total deposits were up by 17.1% compared with the same month in 2009. This was partly because the liquidity injected into the economy through the stimulus programme and channelled mainly through the public-sector banking system was deposited in private-sector banks pending implementation of the financing and investment measures announced. This increase in private-sector bank assets was not reflected in higher lending, however. In the first half of 2009, lending by private-sector banks to the private sector contracted before stagnating for the rest of the year. This trend began to reverse from March 2010, and in May lending was 10.3% higher than in the same month of 2009. The 2009 performance may be attributed mainly to slack demand for credit in the domestic economy, the interest-rate caps applied and the preference of banks for liquidity. Despite domestic liquidity requirements and the tax on assets held abroad, however, private-sector banks did not reduce the proportion of their assets held in other countries, which rose from 24.2% of the total in January 2009 to 25.4% in April 2010.

In late December 2009, the 33 banks that had shut down as a result of the international financial crisis of 1998 went into liquidation. The process was completed for 28 of them in accordance with the timetable laid down, and by the end of the first quarter of 2010 only one bank remained to be liquidated.

(c) Other policies

As a dollarized economy, Ecuador is unable to use exchange-rate policy to address trade imbalances. Therefore, in response to the drop in the value of exports from the end of 2008 and the consequent trade deficit, the authorities introduced tariff measures approved by the World Trade Organization (WTO) on 627 subheadings as balance-of-payments safeguards. The measures were applied from January 2009 for an initial period of one year to imports from all countries, including those with which Ecuador has trade agreements. The process of phasing out these measures began in January 2010 and will be completed in July. It is proposed that these measures subsequently be replaced by permanent tariffs within WTO-approved frameworks.

The real effective appreciation of 2008, when the United States dollar strengthened against the currencies in which the bulk of Ecuadorian trade is conducted, was partly reversed from the second quarter of 2009. Overall, Ecuador recorded a real effective depreciation of 4.1% between December 2008 and December 2009. As a consequence of real bilateral appreciation against the Colombian peso in 2008, and with the authorization of the Andean Community, specific tariffs were levied on imports from Colombia under an exchange-rate safeguard arrangement. This measure applied until February 2010.

3. The main variables

(a) Economic activity

The Ecuadorian economy expanded by only 0.4% in real terms in 2009, in sharp contrast to its strong growth in 2008 (7.2%). Goods and services exports and gross fixed capital formation contracted by 5.9% and 4.3%, respectively. Inventories also fell substantially (30.8%). Private consumption, which had been very buoyant in 2008, decreased by 0.7% in constant terms. The positive growth rate can be attributed to the large contraction in imports and increased public-sector consumption. In terms of individual sectors, construction expanded by 5.4% (well down on the 13.8% of 2008), public administration by 5.4% and the production of petroleum derivatives by 3.1%. On the other hand, there was a significant contraction in the mining and quarrying (3.3%), commerce (2.3%) and manufacturing (1.5%) sectors. It should be noted that these rates were calculated using the new national accounts methodology, which has greatly changed the accounting treatment of oil extraction and refining.

In late 2009, low rates of investment in electricity generation and a significant drop in the flow of the Paute River, on which the country's main hydroelectric plant is located, led to a severe problem of energy rationing. Imports of emergency generators, additional imports of electricity from neighbouring countries and the completion of small electricity generation projects combined to alleviate the situation, even though these measures probably had a negative impact on the performance of certain sectors, such as manufacturing and trade.

The mining and quarrying sector contracted in 2009, mainly owing to a 4% decline in crude oil output. Although PETROECUADOR, the State-owned oil company, increased output by 5.3%, this was not enough to offset the 14.4% decrease among private-sector companies. Faced with uncertainty about the coming hydrocarbons legislation and concession contracts, private-sector companies have reduced their investments, which has led to a decline in output. As it is possible that this trend will continue in the short term, a further drop in oil output is projected for 2010. Indeed, production contracted by 4.8% in the first five months of 2010 compared with the same period in 2009.

GDP growth of 2.5% is projected for 2010, driven by an upswing in external demand and higher oil prices. In addition, more favourable conditions for domestic demand are predicted as a result of more buoyant private consumption and the impact of the government's stimulus programme. Nevertheless, that growth is dependent above all on the programme's success in increasing employment and investment, on oil prices remaining high and on the global economy sustaining the rate of improvement seen since late 2009, as this would sustain demand for Ecuadorian products and boost remittances. Adequate financing for public investment projects is another precondition for growth.

Data for the first quarter of 2010 show the economy growing by a meagre 0.6% with respect to the first quarter of 2009. Private consumption and investment are showing slight upturns, however. By sector, manufacturing, commerce, financial intermediation and fishing are the fastest growing, while mining and petroleum refining are continuing to contract.

(b) Prices, wages and employment

The year-on-year inflation rate dropped from 8.8% in 2008 to 4.3% in 2009. Inflation declined for almost all components of the consumer price index. The greatest reduction was for food and beverages. Although a change in this downward trend was observed at the end of 2009, in early 2010 inflation once again slowed, probably because of the gradual phasing out of the tariffs imposed by Ecuador as balance-of-payments safeguards. This factor and the expected rise in international prices will

Table1
ECUADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	4.8	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4
Per capita gross domestic product	3.4	2.2	2.1	7.6	4.6	3.6	1.0	6.1	-0.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.4	5.4	5.6	1.9	7.8	5.1	4.1	5.4	1.5
Mining	3.3	-4.6	9.3	37.5	1.7	3.6	-8.3	-0.0	-3.3
Manufacturing	-2.7	-0.4	0.7	5.1	6.8	6.0	3.8	8.1	-1.0
Electricity, gas and water	0.6	8.2	1.2	-8.7	1.3	0.5	15.5	20.2	-12.2
Construction	19.7	20.0	-0.7	4.0	7.3	3.8	0.1	13.8	5.4
Wholesale and retail commerce, restaurants and hotels	6.4	2.4	3.1	4.2	5.8	5.2	3.2	-1.8	-2.3
Transport, storage and communications	1.9	1.2	4.3	4.8	8.9	7.2	5.7	5.4	3.7
Financial institutions, insurance, real estate and business services	3.6	7.9	2.7	6.2	9.0	7.3	5.3	-7.1	3.2
Community, social and personal services	0.4	-0.4	2.3	2.7	2.5	3.6	5.3	14.0	5.3
Gross domestic product, by type of expenditure									
Consumption	5.8	6.3	4.6	4.5	6.8	5.2	3.9	7.4	-0.1
General government	-0.6	4.3	1.4	3.6	3.5	3.7	6.1	11.5	4.0
Private	6.8	6.5	5.1	4.6	7.2	5.4	3.7	6.9	-0.7
Gross capital formation	42.5	20.3	-16.7	16.8	10.9	4.7	5.7	15.7	-8.6
Exports (goods and services)	-0.8	-0.8	10.1	15.1	8.6	8.8	2.3	3.3	-5.9
Imports (goods and services)	26.8	18.3	-4.8	11.4	14.1	9.1	7.9	9.9	-11.6
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	24.8	26.8	21.0	23.3	23.6	23.8	24.3	27.9	23.3
National saving	21.8	21.7	19.5	21.6	24.4	27.4	27.8	29.7	22.7
External saving	3.1	5.1	1.5	1.7	-0.8	-3.6	-3.5	-1.8	0.6
					Millions of dollars				
Balance of payments									
Current account balance	-654	-1 271	-422	-542	288	1 510	1 575	1 002	-311
Goods balance	-356	-902	80	284	758	1 768	1 823	1 371	75
Exports, f.o.b.	4 821	5 258	6 446	7 968	10 468	13 176	14 870	19 147	14 344
Imports, f.o.b.	5 178	6 160	6 366	7 684	9 709	11 408	13 047	17 776	14 269
Services trade balance	-572	-716	-744	-954	-1 130	-1 305	-1 371	-1 641	-1 390
Income balance	-1 364	-1 305	-1 528	-1 902	-1 942	-1 950	-2 047	-1 590	-1 439
Net current transfers	1 639	1 652	1 769	2 030	2 601	2 997	3 170	2 862	2 443
Capital and financial balance [d]	341	1 144	558	823	378	-1 641	-188	-68	-2 337
Net foreign direct investment	539	783	872	837	493	271	194	996	312
Other capital movements	-198	360	-313	-14	-115	-1 912	-382	-1 065	-2 648
Overall balance	-313	-127	136	281	666	-131	1 387	934	-2 647
Variation in reserve assets [e]	105	66	-152	-277	-710	124	-1 497	-952	681
Other financing	208	62	17	-4	43	7	111	18	1 966
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	70.8	61.9	60.3	61.7	64.7	65.4	68.1	68.4	65.0
Terms of trade for goods (index: 2000=100)	84.6	86.8	89.8	91.5	102.4	109.9	113.0	124.0	109.7
Net resource transfer (millions of dollars)	-816	-100	-953	-1 084	-1 520	-3 584	-2 124	-1 640	-1 809
Total gross external debt (millions of dollars)	14 376	16 236	16 756	17 211	17 237	17 099	17 445	16 838	13 359
					Average annual rates				
Employment									
Labour force participation rate [g]	63.1	58.3	58.2	59.1	59.5	59.1	61.3	60.1	58.9
Unemployment rate [h]	10.4	8.6	9.8	9.7	8.5	8.1	7.4	6.9	8.5
Visible underemployment rate [i]	12.6	10.2	9.8	8.1	7.3	6.3	11.3	10.6	11.8
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	22.4	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3
Variation in producer prices (December-December)	-5.6	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	33.0
Variation in minimum urban wage	11.5	0.9	6.1	2.4	3.0	3.3	3.9	8.5	3.6
Nominal deposit rate [j]	6.6	5.1	5.3	4.0	3.8	4.4	5.3	5.5	5.4
Nominal lending rate [j]	15.5	14.1	12.6	10.2	8.7	8.9	10.1	9.8	9.2
					Percentages of GDP				
Non-financial public-sector									
Total revenue	23.3	25.7	24.3	25.0	24.8	27.0	29.6	39.9	35.1
Tax revenue	16.4	19.3	18.1	17.8	18.6	20.0	21.0	22.1	23.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Total expenditure	23.3	24.9	22.7	23.0	24.0	23.7	27.4	40.8	40.7
Current expenditure	16.6	18.5	17.6	18.0	19.1	19.1	19.9	27.8	28.0
Interest	4.7	3.4	2.9	2.4	2.2	2.1	1.9	1.3	0.7
Capital expenditure	6.6	6.4	5.1	4.9	5.0	4.7	7.5	12.9	12.7
Primary balance	4.7	4.2	4.5	4.5	2.9	5.4	4.0	0.5	-4.8
Overall balance	0.0	0.8	1.6	2.1	0.7	3.3	2.1	-0.9	-5.5
Public-sector debt	62.7	54.7	49.5	43.7	38.9	32.0	30.2	25.0	19.5
Domestic [k]	13.2	11.2	10.6	10.7	10.0	7.9	7.1	6.7	5.5
External	49.5	43.5	38.9	33.0	28.9	24.2	23.1	18.3	14.0
Money and credit [l]									
Domestic credit	26.5	20.6	17.4	16.6	16.9	17.1	18.1	17.4	20.8
To the public sector	-0.1	-0.3	-2.6	-4.5	-6.1	-6.7	-7.0	-9.0	-7.1
To the private sector	26.6	20.9	19.9	21.1	23.0	23.9	25.0	26.4	27.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, three cities.
[h] Percentage of the economically active population, urban total. Up to 2003, the figures relate to Cuenca, Guayaquil and Quito. Includes hidden unemployment.
[i] Percentage of the working population, urban total. Up to 2006, the figures relate to Cuenca, Guayaquil and Quito.
[j] Reference rate in dollars, monthly average.
[k] Refers to the domestic debt of the central government.
[l] The monetary figures are end-of-year stocks.

have a moderate impact on the average rate of inflation in 2010, forecast at 4.5%.

The unemployment rate has increased significantly since mid-2008 and reached 9.1% in the third quarter of 2009. While it fell slightly at the end of the year, it rose back to 9.1% during the first quarter of 2010. This took place in a context of persistent underemployment and a low level of labour-force participation, which decreased from 60.2% in the first quarter of 2009 to 59.1% in the same period of 2010. The real average minimum wage in 2009 increased by 3.6% compared with 2008. A 10.1% increase in the nominal minimum wage was agreed for 2010, representing a greater real gain than in the previous year.

(c) The external sector

After posting a surplus for four consecutive years, the balance-of-payments current account closed 2009 with a deficit of US$ 311 million (0.6% of GDP). The annual deficit was due entirely to the negative balance in the first quarter of the year. During the rest of the year, the change in the oil price trend, the decline in imports as a result of low domestic demand and the introduction of the safeguard measures generated moderately positive results. The downward trend in investment income continued, resulting in a smaller negative balance on the income account than in 2008. In addition, the effects of the international financial crisis on labour markets in Spain and the United States meant that remittances from Ecuadorian emigrants fell by 11.6% in 2009 compared with 2008. In relative terms, remittances were down from 5.2% of GDP in 2008 to 4.8% in 2009. They began to recover in the second quarter of 2009, however, and the year-on-year growth rate turned positive at the end of the year.

Foreign direct investment (FDI) in Ecuador totalled a mere US$ 311.7 million (0.6% of GDP). FDI flows went mainly to manufacturing industry and transport and communications services. There was a decline in the mining and quarrying sector. Portfolio investments posted a negative balance of US$ 3.142 billion, owing mainly to the reduction in liabilities during the second quarter as a result of the withdrawal of the 2012 and 2030 global bonds. There was consequently a balance-of-payments deficit of US$ 2.647 billion, which was financed using US$ 1.966 billion of “exceptional funds” (the difference between the nominal value of the withdrawn bonds and the final amount paid for them). Reserve assets were down by US$ 681 million.

Ecuadorian exports fell 25.5% by value in 2009, in contrast to the 29.3% increase the previous year. The performance of exports varied greatly by product type. The value of oil exports fell by 40.5%, mainly because prices

Table 2
ECUADOR: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.6	9.5	8.9	4.0	2.8	0.5	-1.2	-0.5	0.6	...
Goods exports, f.o.b. (millions of dollars)	4 623	5 497	5 178	3 213	2 664	3 296	3 785	4 054	4 111	2 876 [c]
Goods imports, c.i.f. (millions of dollars)	3 747	4 508	5 374	5 058	3 669	3 388	3 745	4 292	4 213	3 149 [c]
Freely available International reserves (millions of dollars)	4 144	6 103	6 477	4 473	3 244	2 675	4 625	3 792	4 007	4 104
Real effective exchange rate (index: 2000=100) [d]	70.1	70.2	68.9	64.3	62.8	64.1	66.1	67.1	63.1	62.8 [c]
Unemployment rate	6.9	6.4	7.1	7.3	8.6	8.3	9.1	7.9	9.1	...
Consumer prices (12-month percentage variation)	6.6	9.7	10.0	8.8	7.4	4.5	3.3	4.3	3.3	3.2 [c]
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.9	5.8	5.3	5.1	5.2	5.5	5.6	5.4	5.1	4.7 [c]
Lending rate [e]	10.6	10.0	9.4	9.2	9.2	9.2	9.2	9.2	9.1	9.1 [c]
Interbank interest rate [f]	1.7	1.1	1.0	0.6	0.9	0.7	0.2	0.3	0.2	0.2 [c]
Sovereign bond spread (basis points) [g]	662	596	1.001	4.731	3.568	1.322	940	769	817	1.013
Stock price index (national index to end of period, 31 December 2000=100)	353	347	341	349	342	302	275	292	297	299
Domestic credit (variation from same quarter of preceding year)	2.1	-5.4	-2.9	14.8	16.1	40.2	18.1	14.5	17.0	22.1 [h]
Non-performing loans as a percentage of total credit	9.3	8.5	8.0	7.7	8.8	9.0	9.0	8.2	8.6	8.3 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Reference rate in dollars, monthly average.
[f] Interbank market, weighted average.
[g] Measured by JP Morgan's EMBI+ index to end of period.
[h] Data to April.

dropped by 35.4%, although the volume exported was also down by 7.6%. The value of non-oil exports remained almost unchanged. Exports of traditional products grew by 18.4%. The export performance of bananas (21.7%), cacao and cacao products (52.8%) and tuna and other fish (24.3%) was particularly strong. Non-traditional exports fell by 13.5%, in particular metal manufactures (27.4%), marine products (22%) and flowers (6.8%). A much more favourable trend was recorded in the first five months of 2010, with a 45.8% rise in the value of total exports over the same period in 2009. This result was due mainly to a 85.5% increase in petroleum products (wholly attributable to price fluctuations, as the volume exported decreased by 5.1%) and a 16.9% increase in traditional exports. This trend will probably continue as goods export prices recover and global demand rallies.

Imports decreased by 19.2% in 2009. A contraction was recorded in all sectors. Imports of petroleum products dropped by 27.5% because of price fluctuations, even though the volume imported rose by 13.6%. Imports of consumer goods fell by 20.3%. There was a similar drop in imports of durable and non-durable goods. Lastly, imports of raw materials and capital goods contracted by 19.8% and 12.8%, respectively. These trends are expected to reverse, given the abolition of the measures taken to reduce the trade deficit and the expected recovery in domestic demand. Already in the first five months of 2010, imports were up by 24.0% over the same period in 2009. This increase was due mainly to the strong performance of petroleum products (65.3%), attributable to their price, and of raw materials (22.4%) and consumer goods (23.6%). Imports of capital goods rose by 5.8%.

Paraguay

1. General trends

Following six years of positive growth, Paraguay's GDP fell by 3.8% in 2009, which was equivalent to a 5.5% drop in per capita GDP. Despite having implemented an expansionary fiscal policy to mitigate the negative effects of the international crisis, the government achieved a small public accounts surplus of about 0.1% of GDP. A fiscal stimulus of some 3.9% of GDP provided through public spending compensated in part for the downturn in private consumption. The intense drought that hit the country in 2009 caused a sharp 25% decline in the activity of the agricultural sector, which is the largest sector of the Paraguayan economy. Inflation came down from 7.5% in 2008 to 1.9% in 2009. A similar drop was seen in most of the region's countries and may be attributed to falling international commodity prices associated with the global economic slowdown. The nominal exchange rate against the dollar rose by 14.4% because of the dollar's appreciation and the slack performance of Paraguay's external sector. The current account deficit narrowed to US$ 196 million (1.4% of GDP). In 2010, the economy is projected to expand on the back of higher external and domestic demand and a more buoyant agricultural sector. ECLAC forecasts GDP growth of around 7%.

2. Economic policy

(a) Fiscal policy

At the end of 2009 the fiscal accounts showed a small surplus of approximately 45 billion guaraníes, equivalent to 0.1% of GDP, with a primary surplus of 0.7% of GDP. Paraguay was thus was one of the few countries in the region to run a surplus, despite having implemented a countercyclical fiscal policy. That policy largely took the form of higher spending (26.4%) aimed at countering the drop in private consumption. In absolute terms, the largest increase was seen in physical investment expenditure, which rose to 2.06 trillion guaraníes, 66.9% up on the amount for 2008 (when that category of investment fell by 18.3%). Much of the increase in physical investment was driven by spending on public works, which rose by 103% as the result of the expansion of labour-intensive infrastructure programmes (one of the main elements of the government's countercyclical policy). Capital spending increased by a total of 63.7%. Current expenditure, which made up approximately three quarters of total encumbered expenditure, rose by 18.3%, with the largest increases in public sector wages, current transfers and spending on goods and services. Even with the economy in recession, the government increased total revenues by 8.9%. Within non-tax revenue (up by 14.9%), there was a significant rise in the contractual revenue from the Itaipú and Yacyretá binational entities (21.1%). Tax receipts also rose (6.4%) thanks to higher receipts from taxes on net income and profits (39.4%), which offset the decreases in other components of tax revenue, including value added tax (VAT) and revenue derived from foreign trade. In the first five months of 2010, receipts were up by 21.7% over the year-earlier period. The revenue of the National Customs Department rose by 37.4%, pointing to an upturn in the external sector. During the same period, budget implementation totalled 4.237 billion guaraníes, or 24% of the financial plan for 2010.

With regard to financing, the government issued bonds on the domestic market twice in 2009, raising a total of 682 billion guaraníes (equivalent to approximately US$ 137 million), and secured US$ 300 million from multilateral agencies to finance its economic recovery programme. The central government's public debt widened by 11.7% to US$ 2.403 billion, equivalent to 15.7% of GDP, which is still considered to be low. Domestic debt grew by 54.7% (to 3.2% of GDP) as a result of the bond issues, while external debt rose by 3.9%, to reach US$ 1.896 billion (11.9% of GDP).

In 2009, for the third time in a row and against the explicit recommendation of the government, congress postponed the introduction of personal income tax, arguing that the introduction of a new tax during a recession was inadvisable. Paraguay therefore continues to be the only country in Latin America without such a tax, which is reflected in the low tax burden (estimated at 14.5% of GDP).

(b) Monetary policy

The Central Bank of Paraguay implemented an expansionary monetary policy with a view to mitigating the negative repercussions of the international financial crisis and providing sufficient liquidity to the domestic financial market. In February 2009, the reserve requirement was lowered to 0% for local currency deposits of over one year and foreign currency deposits of over 541 days, thereby freeing up some 116.416 billion guaraníes and US$ 16.2 million, respectively. In March, a short-term liquidity facility was provided through repo options on the central bank's monetary regulation instruments (IRM), national treasury bonds and Development Finance Agency bonds. The average balance of IRMs dropped by 45% over the year and the reference yields on these instruments fell from 5.9% in 2008 to 2.1% in 2009 and to 1.9% in May 2010. The first signs of recovery were seen in July 2009 when the financial system once again offered medium-term IRMs, indicating increased confidence in the local market.

Interest rates fluctuated in line with the rates on IRMs. Average lending rates decreased from 29.5% to 26.2% in local currency and from 13.2% to 9.8% in foreign currency between December 2008 and December 2009. As at April 2010, no significant changes had occurred in that regard. The expansionary trend in bank credit to the private sector continued in 2009, but at a slower rate: 31.8% in 2009 compared with 51.5% in 2008. As in 2008, local-currency lending expanded at a higher rate than foreign-currency lending (34.5% and 27.8%, respectively).

(c) Exchange-rate policy

In 2009, the guaraní depreciated by 14.4% in nominal terms against the dollar. This was due mainly to the appreciation of the dollar following the outbreak of the financial crisis, which drove up demand for lower-risk assets, a decline in export volumes (exacerbated by the falling prices for the main export products) and the decrease in inward remittances. The central bank also accumulated a significant amount of international reserves. This situation changed as of July 2009 and the guaraní started to regain value month by month, but did not make up the losses sustained during the second semester of 2008. In February 2010, however, the currency began to depreciate again and the nominal exchange rate showed a cumulative monthly rise of 2.0% up to May 2010.

The real effective exchange rate climbed by 9.5% in 2009, owing chiefly to the effect of the dollar. In 2009, the central bank scaled back its interventions in the exchange market; as a result its net purchases amounted to US$ 289.1 million in cumulative terms as at December. Net international reserves expanded by 34.8% to reach a new high of US$ 3.861 billion, equivalent to 26.2% of GDP. No major changes were made to exchange-rate policy in the first five months of 2010.

(d) Other policies

In the context of the economic recovery plan, the government implemented various sectoral measures, including efforts to boost agricultural development, production, industrial development and employment. A job creation programme based on construction works was implemented in the six poorest departments. Social measures included the expansion of the conditional transfer programme to help families living in extreme poverty. As at December 2009, some 88,000 families were covered by the programme (compared with 13,000 at the beginning of the year). The government intends to expand the scheme's coverage to 120,000 families, equivalent to some 600,000 individuals, in 2010.

3. The main variables

(a) Economic activity

Following six consecutive years in which annualized growth averaged 4.7%, GDP fell by 3.8% in 2009, equivalent to a 5.5% drop in per capita GDP. This performance largely reflected a 25.0% decline in the agricultural sector, which was hurt by the drought in 2009 and the fall in international prices for agricultural products. Agricultural production plummeted, with the largest drop in soybean (38.9%), the sector's main product. It is estimated that Paraguay's GDP would have risen by 1.5% had the agricultural sector not suffered such a severe contraction. Goods production fell by 10.9% overall in 2009 as a result of the downturn in agriculture, as well as a 4.3% contraction in forestry and a 0.8% drop in industry. Positive growth was recorded in livestock and fishing (4.8% and 1.5%, respectively) and in mining (3%) and construction (1%). Services output was up by 2.3%, with transport and commerce the only sectors to register a contraction (10.5% and 3.4%, respectively), because of their close ties with goods production. Government services were up by 15.2%, followed by business services (12.4%). Crucially, government spending rose by 9.4%, owing to the implementation of countercyclical policies. Lower household income and poorer consumer expectations led to a contraction of 3% in private consumption, which contributed to a drop of 1.8% in total consumption. Gross fixed capital formation slid by 12.5% while inventories shrank by 19.8%. Slacker demand from Paraguay's largest trade partners (MERCOSUR countries whose economies were also slowing heavily) was reflected in a 12.8% drop in exports. With lower private consumption keeping domestic demand sluggish, imports fell by 13.2% compared with 2008.

The behaviour of the monthly index of economic activity (IMAEP), a short-term trend indicator published by the central bank, shows the effects of the international crisis being felt keenly in the first months of 2009. From April onwards, the indicator began to climb month-on-month and has been up on the year-earlier period since October. In April 2010 the variation in the IMAEP was 10.19%. The economy is projected to pick up significantly in 2010, led by growth in the agricultural sector. With weather conditions better than in 2009, the Ministry of Agriculture and Livestock projects an increase of about 73% in production of soybean, 18.7% in wheat and 16% in maize. The economy is forecast to grow by about 7% in 2010, following a year-on-year rate of 10.9% in the first quarter that was driven principally by a strong upturn in agriculture (28%).

(b) Prices, wages and employment

Annual inflation was 1.9% in 2009, which was lower than both the long-term target range and the previous year's rate (7.5%). The drop in inflation was due in large part to the fall in international commodity prices that had begun in late 2008. Although these prices began to pick up from mid-2009 on, the annual averages were still below the highs of 2008. At the national level, prices increased most for agricultural food products, especially vegetables (20.1%) and sugar (37.3%). The fruit and vegetables price index rose by 20.8%, owing chiefly to losses in the agricultural sector. The core inflation rate, which excludes fruit and vegetables, ended the year at 0.7%, compared with 6.9% in 2008. Core inflation X1, which further excludes regulated services, came in at 1.3%, compared with 7.2% in 2008. In the first semester of 2010 prices trended upwards, especially for food and, within that category, for fruit and vegetables. In June, the 12-month variation in both the consumer price index (CPI) and in core inflation was 4.3%

The wages and salaries index rose by 6.5% between June 2008 and June 2009, with the largest increases in the financial intermediation (11.1%) and transport (9.0%) sectors. The smallest rise occurred in the electricity and water sector (2.0%), below the inflation rate for the same period (3.3%), which resulted in a real decrease in wages in that sector. The legal minimum wage increased from 1.3 million guaraníes in 2008 to 1.4 million guaraníes in May 2009, equivalent to an increase of 0.7% in real terms.

Table 1
PARAGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	2.1	-0.0	3.8	4.1	2.9	4.3	6.8	5.8	-3.8
Per capita gross domestic product	-0.0	-2.0	1.8	2.1	0.9	2.4	4.8	3.9	-5.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.6	4.2	8.0	3.9	-0.1	3.6	14.3	9.2	-16.7
Mining	-8.3	-9.1	15.6	2.7	7.8	-2.2	3.5	5.0	3.0
Manufacturing	-0.7	-1.4	0.7	3.3	2.7	2.5	-1.2	2.0	-1.9
Electricity, gas and water	1.9	1.1	4.6	3.6	2.8	8.5	5.9	3.5	4.2
Construction	-1.4	-8.9	14.4	2.1	4.5	-3.5	7.2	11.0	1.0
Wholesale and retail commerce, restaurants and hotels	0.0	-1.6	5.5	5.1	2.4	5.5	5.1	4.2	-3.6
Transport, storage and communications	2.1	2.0	0.7	9.6	7.2	10.7	10.7	5.2	-1.4
Financial institutions, insurance, real estate and business services	1.2	0.8	-4.9	2.1	4.0	4.0	3.8	7.9	7.7
Community, social and personal services	-5.1	-1.1	0.5	2.7	5.9	4.3	3.0	3.9	11.0
Gross domestic product, by type of expenditure									
Consumption	1.4	-6.7	2.4	4.6	4.7	5.0	6.1	6.2	-1.8
General government	-8.6	-3.2	-2.0	6.0	11.5	4.0	5.3	1.2	9.4
Private	2.6	-7.1	2.9	4.4	3.9	5.1	6.2	6.8	-3.0
Gross capital formation	11.0	-13.7	8.5	11.9	-11.1	4.3	12.5	17.9	-13.0
Exports (goods and services)	-9.6	15.9	4.4	1.8	12.1	14.6	9.6	10.5	-12.8
Imports (goods and services)	-6.1	-6.2	3.6	6.2	9.0	16.5	10.8	15.9	-13.2
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	18.7	18.7	19.9	19.2	19.8	19.6	18.0	18.1	15.5
National saving	14.6	20.5	22.3	21.3	20.0	21.0	19.5	15.8	14.1
External saving	4.1	-1.8	-2.3	-2.1	-0.2	-1.4	-1.5	2.3	1.4
					Millions of dollars				
Balance of payments									
Current account balance	-266	93	129	143	16	128	184	-385	-196
Goods balance	-614	-280	-276	-244	-462	-621	-533	-1 174	-1 052
Exports, f.o.b.	1 890	1 858	2 170	2 861	3 352	4 401	5 652	7 772	5 784
Imports, f.o.b.	2 504	2 138	2 446	3 105	3 814	5 022	6 185	8 946	6 835
Services trade balance	165	214	245	327	313	414	499	546	702
Income balance	16	43	-4	-134	-58	-92	-155	-162	-345
Net current transfers	167	116	165	194	224	426	373	405	500
Capital and financial balance [d]	220	-213	105	128	144	255	539	763	1 152
Net foreign direct investment	78	12	22	32	47	167	199	171	281
Other capital movements	141	-225	83	96	97	89	340	593	870
Overall balance	-47	-121	234	271	160	383	723	379	956
Variation in reserve assets [e]	45	84	-301	-179	-146	-387	-727	-378	-956
Other financing	2	37	67	-92	-14	4	5	-0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	102.7	106.3	113.0	106.2	118.4	106.3	95.8	85.1	93.6
Terms of trade for goods (index: 2000=100)	100.2	96.7	101.4	104.3	97.4	95.5	100.1	107.3	105.0
Net resource transfer (millions of dollars)	237	-134	168	-98	72	168	388	601	806
Total gross external debt (millions of dollars)	2 654	2 900	2 951	2 901	2 700	2 739	2 868	3 191	3 497
					Average annual rates				
Employment									
Labour force participation rate [g]	59.2	61.2	59.8	63.4	61.8	60.1	60.8	61.7	...
Open unemployment rate [h]	10.8	14.7	11.2	10.0	7.6	8.9	7.2	7.4	...
Visible underemployment rate [i]	8.3	9.5	8.8	8.3	7.5	5.6	5.8	6.6	...
Prices					Annual percentages				
Variation in consumer prices (December-December)	8.4	14.6	9.3	2.8	9.9	12.5	6.0	7.5	1.9
Variation in nominal exchange rate (annual average)	17.6	39.2	13.3	-7.6	3.3	-8.7	-10.8	-13.5	14.3
Variation in average real wage	1.4	-5.0	-0.8	1.7	1.1	0.6	2.4	-0.7	4.5
Nominal deposit rate [j]	16.0	21.7	15.5	5.7	6.1	9.8	5.9	6.2	3.4
Nominal lending rate [k]	28.3	34.3	30.5	21.2	15.3	16.6	14.6	14.6	15.6
					Percentages of GDP				
Central Administration									
Total revenue	18.8	17.5	17.0	18.4	18.3	18.3	17.6	17.3	19.6
Current revenue	18.7	17.3	16.9	18.3	18.1	18.2	17.2	16.9	19.2
Tax revenue	12.0	11.2	11.3	12.9	13.0	13.1	12.6	13.0	14.5

Table I (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Capital revenue	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.4
Total expenditure [l]	20.0	20.7	17.4	16.8	17.5	17.8	16.7	14.8	19.6
Current expenditure	16.5	16.3	14.0	12.9	13.5	13.7	12.9	12.2	15.0
Interest	1.4	1.5	1.3	1.1	1.2	1.0	0.8	0.6	0.6
Capital expenditure	3.5	4.4	3.7	4.0	4.1	4.2	3.8	2.7	4.6
Primary balance	0.2	-1.7	0.9	2.7	2.0	1.5	1.8	3.1	0.7
Overall balance	-1.2	-3.2	-0.4	1.6	0.8	0.5	1.0	2.5	0.1
Central-government debt	41.1	59.2	44.4	38.0	31.4	23.8	16.9	14.5	15.7
Domestic	6.4	8.2	5.0	4.1	3.0	2.7	2.5	2.2	3.3
External	34.7	51.0	39.5	33.9	28.4	21.1	14.4	12.3	12.4
Money and credit [m]									
Domestic credit [n]	-6.6	-9.4	-10.7	-11.7	-11.0	-10.6	-12.6	-12.5	-17.3
To the public sector	3.3	5.7	3.1	3.3	3.1	1.5	0.1	-1.5	-2.7
To the banking sector	-3.1	-2.7	-4.1	-4.8	-3.9	-3.3	-4.7	-4.9	-8.7
Others	-6.8	-12.4	-9.8	-10.2	-10.2	-8.9	-8.0	-6.0	-6.0
Liquidity (M3)	35.3	31.9	29.1	28.3	27.5	26.8	30.0	31.3	39.8
Currency outside banks and local-currency deposits (M2)	15.4	13.4	14.2	15.2	15.9	16.2	19.2	19.2	25.7
Foreign-currency deposits	19.9	18.4	14.8	13.1	11.7	10.6	10.7	12.1	14.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; urban total.
[i] Percentage of the working population; urban total.
[j] Weighted average of effective interest rates on time deposits.
[k] Weighted average of effective interest rates on loans in national currency, excluding overdrafts and credit cards.
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.
[n] Refers to the credit extended to the banking sector by the Central Bank of Paraguay.

(c) The external sector

The external sector was badly hit by the international crisis. The contraction in external demand was worsened by the drop in prices of the main export products and the poor weather conditions. Exports shrank by 15.4% in volume terms and 25.6% in value. Imports were down by 15.1% in constant terms, equivalent to a drop of 23.6% in value terms, as a result of slacker domestic demand. The terms of trade were down by 2.2%, after significant gains in previous years. Remittances also declined by an estimated 0.6%. The deficit on the goods trade balance narrowed, while the services surplus expanded as imports fell more sharply than exports. The current account deficit narrowed from US$ 385 million dollars to US$ 196 million, equivalent to 1.2% of GDP. There was an upswing in direct investment, particularly in the form of reinvested earnings, and in other financial investments. Taking that into account, the net transfer of resources into Paraguay rose from US$ 601 million to US$ 806 million, equivalent to 4.8% of GDP. External trade is expected to rally in 2010. In the first five months of the year, exports increased by 39.5% in comparison with the year-earlier period, while imports were up 49.3%.

Table 2
PARAGUAY: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.9	9.0	2.2	5.3	-5.4	-7.0	-2.4	-0.7	10.9	...
Goods exports, f.o.b. (millions of dollars) [c]	960	1 480	1 274	750	882	826	779	681	1 114	857 [d]
Goods imports, f.o.b. (millions of dollars) [c]	1 761	2 111	2 661	1 973	1 439	1 372	1 676	2 010	1 970	1 458 [d]
International reserves (millions of dollars)	2 638	3 197	2 999	2 864	2 870	3 183	3 552	3 861	3 855	3 885 [d]
Real effective exchange rate (index: 2000=100) [e]	91.7	83.2	80.1	85.4	91.0	93.8	95.1	94.5	90.2	90.8 [d]
Consumer prices (12-month percentage variation)	12.3	13.4	9.1	7.5	3.4	1.9	2.3	1.9	4.1	4.5 [d]
Average nominal exchange rate (guaraníes per dollar)	4 639	4 096	3 974	4 689	5 075	5 043	4 968	4 793	4 685	4 736
Nominal interest rates (annualized percentages)										
Deposit rate [f]	5.6	6.4	5.5	7.2	4.3	2.1	3.6	3.8	2.1	1.2 [g]
Lending rate [h]	13.7	13.6	13.6	17.4	18.5	15.5	14.6	13.8	13.7	13.3 [g]
Domestic credit (variation from same quarter of preceding year)	26.1	-2.5	18.8	34.8	39.0	39.8	66.1	32.8	24.4	19.6 [g]
Non-performing loans as a percentage of total credit	1.3	1.2	1.1	1.1	1.5	1.8	1.8	1.6	1.6	1.7 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Refers to registered trade only.
[d] Data to May.
[e] Quarterly average, weighted by the value of goods exports and imports.
[f] Weighted average of effective interest rates on time deposits.
[g] Data to April.
[h] Weighted average of effective interest rates on loans, excluding overdrafts and credit cards.

Peru

1. General trends

Peru's GDP grew by 0.9% in 2009, showing a marked slowdown in economic activity compared with 2002-2008, when the country's economy grew at an annual average rate of 6.8%. The impact of the international economic and financial crisis on the national economy resulted in a steep drop in external demand, which in turn led to a decline in industrial production, heavy inventory adjustments and a marked decrease in private investment because of lower demand and the uncertainty as to the course of the world economy that prevailed in late 2008 and throughout 2009. To temper the impact of the global crisis on the domestic economy, the government implemented a set of measures geared towards sustaining internal demand.

Economic activity began to recover in the third quarter of 2009, bolstered by the completion of inventory adjustments, a fiscal stimulus package, expansionary monetary policy and the improving expectations of economic agents. Economic activity continued to recover during the first four months of 2010, as the monthly indicator of economic activity expanded 6.9% over the same period in 2009 as consumption and public investment picked up.

GDP is expected to grow by about 6.7% in 2010 thanks to rising private consumption, recovering private investment as investment projects that were put on hold in 2009 are resumed and increasing external demand. The authorities have announced that exports of natural gas from the Camisea gasfield will begin in 2010.

Regional government elections will be held in October 2010, and presidential elections are slated for April 2011.

2. Economic policy

(a) Fiscal policy

In late 2008, to mitigate the impact of the international crisis on internal economic activity, at year-end 2008 the government announced a major economic stimulus package, emphasizing measures to expand and accelerate public investment and others targeting specific sectors. The implementation of the package took place mostly in the latter part of the year; as of December 2009 approximately 69% of the public investments that were budgeted had been executed. The public investment programme has continued into 2010; by May some 26% of the budgeted resources had been committed.

With regard to the central government's fiscal revenues in 2009, nominal current revenue was down by 10.7% on the previous year. Overall revenue was down 9.7%

because of falls in income tax revenue (down 15.7%), especially corporate income tax (24.8%) and the general tax on sales of imported goods (23%), as well as takings from non-tax sources (16.1%). The decline in non-tax receipts is due to the drop in revenue from petroleum royalties and the oil tax and surtax, caused by falling international oil prices.

In 2009, total central government spending rose by 13.4% owing chiefly to the increase in non-financial expenditure (15.1%), particularly capital spending (66.2%). The increase in current spending was due to growing procurement of goods and services (23.1%) and a 9.2% increase in government payroll costs. The rise in capital expenditure was, in turn, caused by higher spending on fixed capital formation (44.5%) and the significant jump in capital transfers (145%), mostly from the central government to the local governments. The total increase in expenditure was moderated by lower debt interest payments, mainly for external debt, which fell 5.2% overall. In 2009, the central government thus posted a total fiscal deficit of 1.8% (0.6% primary deficit) compared with a 2.2% surplus in 2008 (3.6% primary surplus). The non-financial public sector posted a 0.6% primary deficit and a total deficit of -1.9%.

In January to April 2010, compared with the same period in 2009, central government nominal current revenue had risen steeply (23.6%), with rises in tax and non-tax revenue of 21.8% and 35.7%, respectively. Total spending was up 18.9% over the same interval, as a result of which the economic outturn was once again in surplus.

To cover financing needs for 2009 and 2010, the government issued, first in March 2009, the 10-year, US$ 1 billion Bono Perú 19, bearing a coupon rate of 7.125%; then in July, Bono Perú 25 for the same amount, maturing in 16 years with a coupon rate of 7.35%. In April 2010 the government replaced or partially bought back global dollar bonds 2012, 2015 and 2016 and global euro bond 2014 in order to reduce total debt and improve the public debt maturity profile and amortization payments. In February 2010 the government issued 550 million new soles in 32-year sovereign bonds that were placed at a rate of 6.85%. The proceeds of these issues will be used to finance public investment projects.

A financial transaction tax cut will take effect in 2010, with the rate going from 0.06% en 2009 to 0.05% en 2010. In the second half of 2010 a tariff drawback decrease will take effect; the rate will fall from 8% to 6.5%. In view of the significant recovery of private sector economic activity in the closing months of 2009 and first few months of 2010, in May 2010 the government introduced an urgent decree imposing measures to curb fiscal expenditure. This restricted fiscal expenditure growth in 2010 to no more than 3% of the nominal amount executed in 2009 (with some exceptions defined in the decree), held down to 25% the execution of public investment projects that, although budgeted, had not begun by May, limited the use of funds from the contingency reserve; and suspended new public borrowing even where it had been previously authorized.

(b) Monetary and exchange rate policy

In response to the international financial crisis, the monetary authorities initially took policy measures to ensure liquidity in the local financial market, both in new soles and in dollars, in order to stabilize both the money and currency markets.

Monetary policy was expansionary throughout 2009. Between January and August 2009 the central bank cut the monetary policy benchmark interest rate from 6.5% to 1.25% and held it unchanged for several months. Because of the sharp drop in interest rates throughout 2009, the banking system's average fixed local-currency lending rate fell from 17.2% in December 2008 to 14.95% in December 2009 and then to 14.39% in April 2010. The average fixed lending rate in dollars decreased over the same period, from 10.1% to 8.61% and subsequently to 8.1% in April 2010. As economic activity gained traction, the authorities took the preventive measure of increasing the benchmark rate to 1.5% in May 2010 and then to 1.75% in June.

The central bank also announced that from July, the legal minimum reserve rates in both national and foreign currency would be raised from 6% to 7%, and the marginal reserve rate for foreign-currency reserves would go up from 30% to 35% (which implies returning to pre-financial crisis levels).

Despite the economic situation, lending by the financial system to the private sector grew slowly throughout 2009, albeit more slowly than in 2007 and 2008, when bank lending to the private sector had soared by nearly 40%. Local-currency lending rose 17.6% between December 2008 and October 2009, spurred by increased lending to micro-enterprises and mortgage lending. Dollar-denominated lending to the private sector increased by only 2.4% during the same period. As a result, total lending was up 5.6% in 2009. With local-currency lending rising faster, the dollarization ratio dropped from 52% in December 2008 to 46% in December 2009. The percentage of non-performing loans rose from 1.3% to 1.6% between December 2008 and December 2009, with the greatest increase in loans to micro-enterprises.

Total lending picked up during the first four months of 2010: dollar lending in April was up 9.4% over the same month in 2009, and local-currency lending was 13.5% higher. Total lending expanded 8.9% during the period. As of March 2010, the non-performing loan portfolio accounted for 1.7% of total lending.

As for exchange rate policy, the central bank continued to intervene in the currency market throughout 2009, buying and selling dollars in order to curtail exchange-rate volatility. Liquidity injection mechanisms were used, such as repo operations for up to one year, currency swaps and deposit certificate buybacks. In January and March 2010, the central bank intervened in the foreign exchange market by purchasing a total of US$ 2.34 billion.

To boost external financing with long-term funds from financial institutions, in January 2010 the authorities implemented a 35% reserve rate for new and renewed foreign loans with terms of less than two years. Furthermore, profits from non-residents' transactions with financial derivatives maturing in less than 60 days with the underlying asset linked to the rate of exchange between the local currency and a foreign currency were to be subject to a 30% income tax starting in 2010. This measure seeks to equalize the tax treatment of residents and non-residents.

Between December 2008 and December 2009, the new sol appreciated in nominal terms by 8.7% against the dollar, whereas the real bilateral exchange rate appreciated less (6.3%). The real effective exchange rate depreciated by 0.8% over the same period.

(c) Trade policy

The free trade agreement with China entered into effect on 1 March 2010, and a free trade agreement with the European Union was signed in May.

3. The main variables

(a) Economic activity

Peru's GDP grew by 0.9% in 2009, a significant slowdown compared with previous years. This result reflected, above all, contractions in non-primary manufacturing (-8.5%), fisheries (-7.9%) and commerce (-0.4%). The construction sector, by contrast, was the fastest-growing, at 6.1%, thanks to the public investment programmes.

On the spending side, internal demand shrank as a result of the sharp drop in investment (down 18.1%), despite a 3.9% increase in consumption. Declining private investment and the notable decrease in inventories contributed considerably to the drop-off in investment. Public investment grew by over 25%. Public investment projects targeted the transportation and communication sector and, to a lesser extent, education and agriculture. Both private and public consumption increased in 2009, by 2.4% and 16.5%, respectively. Net exports contributed positively to GDP performance: the exported volume of goods and services fell 3.9%, and the volume of imported goods and services was down 16.2%. The significant drop in the volume of goods imported reflects the decline in gross fixed private investment and the inventory adjustments that the economy underwent in the first three quarters of 2009.

Economic activity continued to recover in the first four months of 2010, with a 6.9% increase over the same period in 2009 spurred by construction (17.9%), commerce (8.9%) and manufacturing (9.5%), particularly that based on the non-primary sector. In the first quarter of 2010, compared with the first quarter of 2009, internal demand increased 8.1% thanks to a strong recovery in investment (19.9%) and consumption (3.9%). The volume of goods and services exports remained relatively stagnant (0.2%), while the volume of goods and services imports rose (10.6%), owing to the recovery of internal demand.

(b) Prices, wages and employment

The inflation rate as measured by the Lima consumer price index declined significantly in 2009 compared with 2008, standing at 0.2% for the 12 months to December 2009 (6.7% in 2008). This reflected the drop in international food and hydrocarbon prices, which helped lower the prices of transport, domestic fuels and electric power. The 12-month cumulative inflation rate was 1.04% as of May 2010.

The average unemployment rate for 2009 was 8.4%, the same as in 2008. Expressed as annual averages, urban employment in companies with more than 10 employees was 1.3% higher in 2009 than in 2008, while overall urban

Table 1
PERU: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9
Per capita gross domestic product	-1.2	3.6	2.6	3.6	5.5	6.4	7.6	8.5	-0.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.1	6.1	2.3	0.1	5.3	8.0	3.5	7.2	1.7
Mining	9.9	12.0	5.5	5.3	8.4	1.4	2.7	7.6	0.6
Manufacturing	0.7	5.7	3.6	7.4	7.5	7.5	11.1	9.1	-7.2
Electricity, gas and water	1.6	5.5	3.7	4.5	5.6	6.9	8.5	7.8	1.2
Construction	-6.5	7.7	4.5	4.7	8.4	14.8	16.6	16.5	6.1
Wholesale and retail commerce, restaurants and hotels	0.7	3.2	2.9	5.9	6.0	10.3	9.5	12.4	0.2
Transport, storage and communications	-0.4	3.7	4.9	6.4	8.5	9.2	18.9	10.0	0.4
Financial institutions, insurance, real estate and business services	-1.2	4.9	4.1	3.9	6.5	7.5	9.4	10.2	5.1
Community, social and personal services	-0.0	3.7	5.0	3.8	5.3	5.8	4.5	5.1	6.8
Gross domestic product, by type of expenditure									
Consumption	1.2	4.4	3.4	3.7	5.1	6.6	7.9	8.0	3.9
General government	-0.8	-0.0	3.9	4.1	9.1	7.6	4.3	2.1	16.5
Private	1.5	4.9	3.4	3.6	4.6	6.4	8.3	8.7	2.4
Gross capital formation	-7.1	3.0	4.7	4.5	8.9	26.5	26.3	29.5	-18.1
Exports (goods and services)	6.8	7.5	6.2	15.2	15.2	0.8	6.1	9.9	-3.9
Imports (goods and services)	2.9	2.3	4.2	9.6	10.9	13.1	21.3	26.2	-16.2
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	18.8	18.4	18.4	18.0	17.9	20.0	22.9	27.2	22.5
National saving	16.5	16.4	16.9	18.0	19.3	23.2	24.2	23.6	22.7
External saving	2.2	2.0	1.5	-0.0	-1.4	-3.1	-1.3	3.7	-0.2
					Millions of dollars				
Balance of payments									
Current account balance	-1 203	-1 110	-949	19	1 148	2 872	1 363	-4 723	247
Goods balance	-179	321	886	3 004	5 286	8 986	8 287	3 090	5 873
Exports, f.o.b.	7 026	7 714	9 091	12 809	17 368	23 830	27 882	31 529	26 885
Imports, f.o.b.	7 204	7 393	8 205	9 805	12 082	14 844	19 595	28 439	21 011
Services trade balance	-963	-994	-900	-732	-834	-737	-1 191	-1 962	-1 112
Income balance	-1 101	-1 457	-2 144	-3 686	-5 076	-7 562	-8 359	-8 774	-7 371
Net current transfers	1 040	1 019	1 209	1 433	1 772	2 185	2 626	2 923	2 856
Capital and financial balance [d]	1 626	2 078	1 473	2 397	223	310	8 961	8 179	1 660
Net foreign direct investment	1 070	2 156	1 275	1 599	2 579	3 467	5 425	6 188	4 364
Other capital movements	556	-78	198	798	-2 356	-3 156	3 536	1 991	-2 704
Overall balance	423	968	525	2 417	1 371	3 183	10 324	3 456	1 907
Variation in reserve assets [e]	-275	-852	-516	-2 443	-1 471	-3 210	-10 391	-3 512	-1 943
Other financing	-148	-116	-9	26	100	27	67	57	36
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	98.2	95.9	99.9	100.0	101.1	104.0	104.1	100.4	98.6
Terms of trade for goods (index: 2000=100)	95.6	98.4	102.2	111.3	119.4	152.1	157.6	136.7	129.1
Net resource transfer (millions of dollars)	377	505	-679	-1 262	-4 753	-7 224	669	-539	-5 674
Total gross external debt (millions of dollars)	27 195	27 872	29 587	31 244	28 657	28 897	32 894	34 838	35 629
					Average annual rates				
Employment									
Labour force participation rate [g]	65.5	62.9	63.2	62.3	62.5	64.0	63.5	66.4	68.5
Open unemployment rate [h]	9.3	9.4	9.4	9.4	9.6	8.5	8.4	8.4	8.4
Visible underemployment rate [i]	12.8	11.8	9.8	9.6	9.5	9.4	9.5	8.9	9.3
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	-0.1	1.5	2.5	3.5	1.5	1.1	3.9	6.7	0.2
Variation in wholesale prices (December-December)	-2.2	1.7	2.0	4.9	3.6	1.3	5.2	8.8	-5.1
Variation in nominal exchange rate (Annual average)	0.5	0.3	-1.1	-1.9	-3.4	-0.7	-4.4	-6.5	2.9
Variation in average real wage	-0.9	4.6	1.6	1.1	-1.9	1.2	-1.8	2.2	0.3
Nominal deposit rate [j]	...	3.2	2.9	2.4	2.7	3.4	3.5	3.3	2.9
Nominal lending rate [j]	26.1	23.3	20.2	18.7	17.9	17.1	16.5	16.7	16.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
				Percentages of GDP					
Central government									
Total revenue	14.5	14.5	15.0	15.0	15.8	17.6	18.2	18.1	15.6
Current revenue	14.3	14.3	14.8	14.9	15.7	17.4	18.1	18.0	15.5
Tax revenue	12.4	12.1	12.8	13.1	13.6	15.0	15.6	15.4	13.4
Capital income	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Total expenditure	17.3	16.6	16.7	16.2	16.5	16.1	16.4	15.9	17.4
Current expenditure	15.0	14.6	14.8	14.4	14.7	14.1	14.2	13.6	13.6
Interest	2.1	2.0	2.0	1.8	1.8	1.8	1.6	1.4	1.2
Capital expenditure	2.2	2.0	1.9	1.8	1.9	2.0	2.1	2.4	3.8
Primary balance	-0.6	-0.2	0.2	0.6	1.1	3.2	3.5	3.5	-0.6
Overall balance	-2.8	-2.1	-1.7	-1.3	-0.7	1.5	1.8	2.2	-1.8
Central government public debt	34.5	43.2	43.4	40.1	36.9	30.1	26.2	24.1	23.4
Domestic	...	6.7	6.4	6.3	7.7	6.9	8.3	8.1	8.2
External	34.5	36.5	36.9	33.7	29.2	23.2	17.9	16.0	15.2
Money and credit [k]									
Domestic credit	14.8	13.4	13.2	12.9	13.9	14.6	17.8	14.7	18.5
To the public sector	-4.4	-4.8	-4.1	-4.3	-3.4	-3.6	-5.3	-7.1	-5.7
To the private sector	30.4	30.1	28.7	27.0	28.7	28.6	33.1	33.6	35.5
Others	-11.2	-11.8	-11.4	-9.9	-11.3	-10.5	-10.0	-11.7	-11.3
Liquidity (M3)	26.1	26.1	24.7	24.0	25.8	24.3	26.8	29.9	30.4
Currency outside banks and local-currency deposits (M2)	8.7	9.1	9.4	10.8	11.7	12.0	14.5	15.9	16.9
Foreign-currency deposits	17.4	17.1	15.3	13.2	14.1	12.4	12.4	14.0	13.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, Lima metropolitan area.
[h] Percentage of the economically active population, Lima metropolitan area.
i Percentage of the working population, Lima metropolitan area.
[j] Fix-weighted average interest rate.
[k] The monetary figures are end-of-year stocks.

employment rose from 62.4% in 2008 to 62.7% in 2009. Average employment income improved in 2009, and was 7.8% up on 2008. To stimulate household demand, workers in the formal economy were temporarily allowed to use seniority compensation funds in 2009, and withholdings on twice-yearly bonuses paid to formal wage earners were waived. The recovery of economic activity had a positive effect on labour indicators in the first quarter of 2010 as compared with the first quarter of 2009: the unemployment rate fell slightly, from 9.3% to 9.2%; the employment rate increased from 61.8% to 65.0%, and average employment income rose 4.7% during the period.

(c) The external sector

Exports of goods slumped by 14.7% during 2009 (down 12.5% in prices and 2.5% in volume), owing to falling international prices for the country's main export commodities (crude oil and its by-products, and metals and minerals) and to the decline in the volume of exports of fishmeal and non-traditional products. This is despite the rising value of gold exports, resulting from increases in both prices and the volume exported. Imports of goods were affected by the decline in domestic demand and fell by 26.1% (7.4% in prices and 20.2% in volume). As a result, the goods balance rose in 2009 (from US$ 3.09 billion in 2008 to US$ 5.873 billion in 2009). This, combined with a lower income balance deficit (US$ 1.112 billion in 2009 compared with US$ 1.962 billion in 2008) translated into a US$ 247 million current account surplus (US$ 4.723 billion in 2008), equivalent to 0.2% of GDP.

The trade balance for 2009 reflected the sharp drop in the terms of trade, which averaged 12.5% lower than in 2008. A reversal of this decline is expected in 2010; the country's terms-of-trade index for the first quarter of the year was up 44% over the same period in 2009 and 22% higher than the average for 2009.

Foreign direct investment flows, which had grown by 26% in 2008, fell by approximately 30% in 2009 compared with the previous year. This was due primarily to the marked decrease in contributions and other capital transactions, which were down 76% from 2008.

Exports and imports of goods in the first quarter of 2010 reflected the recovery of internal economic activity

Table 2
PERU: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	10.3	11.7	10.7	6.4	1.9	-1.2	-0.6	3.4	6.0	...
Goods exports, f.o.b. (millions of dollars)	7 771	8 470	8 814	6 474	5 396	6 161	7 169	8 159	7 832	4 984 [c]
Goods imports, c.i.f. (millions of dollars)	6 265	7 550	7 976	6 648	4 883	4 827	5 330	5 971	6 321	4 324 [c]
International reserves (millions of dollars)	33 608	35 550	34 732	31 233	30 961	30 822	32 163	33 175	35 305	35 382
Real effective exchange rate (index: 2000=100) [d]	101.2	100.6	101.4	98.3	99.8	97.9	98.7	98.1	94.5	93.6 [c]
Unemployment rate	9.3	7.9	8.5	7.8	9.3	8.5	7.8	7.9	9.2	...
Consumer prices (12-month percentage variation)	5.5	5.7	6.2	6.7	4.8	3.1	1.2	0.2	0.8	1.0 [c]
Average nominal exchange rate (nuevos soles per dollar)	2.9	2.8	2.9	3.1	3.2	3.0	3.0	2.9	2.9	2.8
Average real wage (variation from same quarter of preceding year)	...	2.7	...	1.7	...	-0.4	...	...	...	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	3.5	3.2	3.1	3.3	3.5	3.2	2.6	2.1	1.7	1.7 [c]
Lending rate [e]	16.5	16.5	16.7	17.1	17.2	16.3	15.6	15.0	14.6	14.3 [c]
Interbank interest rate	4.9	5.5	6.2	6.6	6.4	4.2	1.6	1.2	1.1	1.3 [c]
Sovereign bond spread (basis points) [f]	223	199	310	509	425	272	205	165	149	215
Stock price index (national index to end of period, 31 December 2000=100)	1 439	1 348	931	583	764	1 081	1 253	1 172	1 252	1 172
Domestic credit (variation from same quarter of preceding year)	27.3	11.4	9.0	-7.1	-12.5	7.0	18.0	30.6	37.7	36.8 [c]
Non-performing loans as a percentage of total credit	1.4	1.2	1.2	1.3	1.4	1.6	1.6	1.6	1.7	1.7 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Fix-weighted average interest rate.
[f] Measured by JP Morgan's EMBI+ index to end of period.
[g] Data to April.

and greater external demand. Exports of goods rose by 43.2% compared with the same period in 2009 (a 44% increase in prices and a 0.6% decrease in volume) as the international prices of metals, minerals and petroleum and its by-products increased sharply over the levels posted in early 2009. Imports for the same period were up 29.4% (13.6% in prices and 13.9% in volume), spurred by rising imports of consumer and intermediate goods and of transport equipment.

The central bank's net international reserves stood at US$ 35.049 billion in April 2010 (US$ 33.135 billion in December 2009). In December 2009, external public and private debt totalled US$ 35.629 million (equivalent to 28% of GDP).

Plurinational State of Bolivia

1. General trends

In 2009, despite the international financial crisis, the economy of the Plurinational State of Bolivia continued to expand and both on external and fiscal accounts remained in positive territory. GDP grew by 3.4%, a rate 2.7 percentage points lower than in 2008. Prices rose by 0.26%. In the fourth quarter of 2009, the unemployment rate in the main cities[1] stood at 7.4%. The non-financial public sector (NFPS) posted a surplus equivalent to 0.1% of GDP. The balance of payments registered a surplus of US$ 326 million, which represented a drop of some US$ 2.048 billion (86%) with respect to 2008. Net international reserves held by the central bank increased by US$ 858 million, totalling US$ 8.58 billion, well above the figure for 2008 (US$ 2.4 billion).

This performance reflects the impact of the international financial crisis, which eroded the value of exports as a consequence of both lower average prices for the country's main export products (soybean, natural gas and mining products) and smaller export volumes of soybean and natural gas. Having only limited integration with international capital markets, the country's financial system remained unaffected by the crisis. For 2010, ECLAC projects economic growth of approximately 4.5%.

On the political front, elections were held in April 2010 for governors and other regional government officials. Following the election of the president in December 2009, these were the only officials remaining to be elected under the new constitutional framework approved by referendum in January 2009.

Two of the main challenges facing the Government of the Plurinational State of Bolivia are, first, the implementation of the regime of autonomous entities recognized under the new Constitution —departments, municipalities, regions and the various groups of indigenous peoples— and, second, falling demand for natural gas in Brazil and Argentina. The recovery or replacement of those markets is expected to be a priority for the authorities, given the important role that this sector has played in the country's economy over the past 10 years.

[1] The Plurinational State of Bolivia has been collecting official statistics on employment and unemployment trends since the introduction of the Quarterly Employment Survey in 2009. The survey is conducted in the nine departmental capitals and in the city of El Alto.

2. Economic policy

(a) Fiscal policy

In 2009, the NFPS posted a surplus for the fourth consecutive year, this time equivalent to approximately 0.1% of GDP. The general government surplus of 4.1% —accounted for by the regional governments— was offset by the deficit posted by State-owned enterprises as a result of falling gas revenues, reflecting the administration's dependence on hydrocarbon taxes.

The external public debt rose by US$ 155 million (6%) in 2009, mainly as a result of loans from multilateral agencies as bilateral debt actually decreased. At the end of 2009 the external public debt totalled US$ 2.593 billion, or 15% of GDP. Domestic debt rose by US$ 265 million (9.6%) with respect to 2008. Thanks to transparency in the execution of public policies and the performance of the national economy, in May 2010 Standard and Poor's raised the country's foreign and local currency debt rating from B-/C to B/B.

(b) Monetary and financial policy

In 2009, the central bank continued to pursue its objective of maintaining a low, stable inflation rate. To that end, it continued to apply a monetary policy based on a system of intermediate quantitative targets, establishing a ceiling on the expansion of net domestic credit in order to keep the money supply consistent with public demand for money. The inflation reference rate used by the central bank for the year was 3%. The rate for 2010 was set at 4%.

In March 2010, the central bank and the Ministry of Economy and Public Finance signed an agreement to implement the country's 2010 fiscal-financial programme, the aim of which is to ensure stability and economic growth through coordinated efforts. This is the fifth consecutive year in which such an agreement has been signed, demonstrating the transparency that characterizes the relationship between the two institutions. The agreement is formulated so as to ensure that the monetary programme, and therefore the central bank's net domestic credit target, will take into account the objectives established under the annual fiscal programme. It also sets explicit quarterly targets for the NFPS deficit and its domestic financing, for domestic credit from the central bank to the NFPS and for the accumulation of net international reserves by the central bank, which allows for coordinated programming of public debt security issues.

In line with lower inflationary expectations, and in order to address the effects of the international financial crisis, the 2009 financial programme provided for a further expansion of liquidity and more financing for the NFPS than in previous years, by setting less ambitious goals for the accumulation of net international reserves and reducing net domestic credit to both the financial sector and the NFPS. The central bank narrowed domestic credit to the financial sector through a policy of facilitating the net redemption of securities, thereby reducing total open-market operations by US$ 658 million (29.9%) with respect to December 2008. This policy has been maintained in 2010, and in late April open-market operations were down by US$ 1.226 billion (55%) on the previous year's figure, with a cumulative reduction of US$ 543 million (35.2%) in 2009. Net domestic credit to the NFPS fell by 0.9% in 2009, substantially less than in 2008 (48%). The contraction would have been larger but for deposits made by the NFPS in the central bank during the year.

This expansionary monetary policy translated into a decrease in the central bank's repo rate, which was cut four times in 2009, from 13% to 3%, where it remained at the end of April 2010. As a result, the monetary base expanded strongly in real terms in 2009, unlike M1, M2 and M3.[2]

The combination of these factors had a strong impact on the financial system. The reduction of open-market operations during the year translated into a net injection of liquidity into the system and a fall in intermediation rates. With the exception of the 30-day rate, all domestic currency lending rates fell between December 2008 and December 2009. Deposit rates also fell for all maturities, even more sharply than lending rates, as a result of which the spread increased. For example, between December 2008 and December 2009, 60-day deposit rates fell by 3.73 percentage points, while lending rates for the same period declined by 2.3 percentage points. In 2009, the portfolio of domestic currency loans experienced real growth of approximately 10.3%, far more than in 2008. Thus, the international crisis did not affect the financial system of the Plurinational State of Bolivia, which is not integrated into the global financial system, nor did it affect the country's small stock market. Two factors contributed to this situation: the growth of the Bolivian economy and the changes in the reserve requirement introduced in June 2009, which provided for a reduction of the local currency reserve requirement providing that the gross local currency portfolio exceeded the balance of 30 June 2009.

[2] These aggregates include only payments in local currency.

The decline in total open-market operations has freed up space for financing of the National Treasury in the domestic market. In 2009, the Treasury's securities holdings increased by US$ 255 million (29.8%), while up to April 2010 they had grown by US$ 136 million (12.2%). The Treasury has benefited not only from greater opportunities for financing, but also from the decline in interest rates.

(c) Exchange-rate policy

Thus far in 2010, the central bank has kept the benchmark rates for both the purchase and sale of dollars fixed at 6.97 and 7.07 bolivianos, respectively. This policy has been in effect since September 2008, its objective being to prevent the exchange rate from overreacting to the uncertainties caused by the international financial crisis. However, although the exchange rate is in practice fixed, the monetary authorities have never formally committed to maintaining it and, in fact, have maintained the exchange-rate policy applied by the central bank for more than 20 years, namely: small unannounced depreciations or appreciations of the boliviano against the dollar.

The maintenance of a stable nominal exchange rate has been possible thanks to the substantial net international reserves held by the central bank. In order to avoid any uncertainty that might result from external financial turbulence, the central bank maintained a daily supply of US$ 50 million, which was consistently sufficient to meet demand. In December 2008, with a view to promoting growth of the local currency lending portfolio, the board of directors of the central bank approved an amendment to its exchange position regulations, reducing limits on the long position in foreign exchange and in Housing Development Units (UFV) to 60% and 15%, respectively.

The real exchange rate index for the Plurinational State of Bolivia rose by 15.9% in 2009. At the end of March 2010 it remained at levels similar to those of late 2009.

(d) Other policies

On 1 May 2010 the government nationalized the following companies: Empresa Eléctrica Corani (50% of which was owned by Ecoenergy International); Guaracachi (whose majority shareholder was the British firm Rurelec PLC); Empresa de Luz y Fuerza Eléctrica de Cochabamba (ELFEC), which was not in foreign hands but was owned by its employees; Cooperativa Mixta de Teléfonos de Cochabamba (COMTECO); and Valle Hermoso (50% of which was owned by The Bolivian Generating Group, a unit of Panamerican of Bolivia). The State will thus become the majority owner of all these companies. A period of 120 days was allotted for carrying out appraisals and paying the respective groups of shareholders.[3]

With regard to labour issues, the government issued a series of supreme decrees, one of which, on 1 May 2010, raised the minimum wage in the public and private sectors by 5%, as provided for under the budget law of 2010. The increase, which was made retroactive to 1 January, brought the monthly minimum wage to 679.5 bolivianos. Since 2006, as a result of successive annual decrees, the minimum wage has risen cumulatively by 54.3%. Another decree guaranteed job security in all sectors of the economy for workers who have children.

3. The main variables

(a) Economic activity

In 2009 GDP grew by 3.4%, a rate which was 2.7 percentage points less than in 2008, but nevertheless represented one of the best performances among countries of the region, whose economies felt the impacts of the recession occurring in the developed economies. The three areas of economic activity posting the highest growth rates were construction (10.8%), metallic and non-metallic minerals (9.9%) and government services (6.5%). These activities accounted for 0.34, 0.62 and 0.57 percentage points of total GDP growth, respectively. The crude oil and natural gas sector, meanwhile, contracted by 13.5%, largely as a result of the decline in demand from Brazil.

On the demand side, growth was driven by government final consumption expenditure (3.8%), followed by the final consumption expenditure of households and non - profit institutions serving households (NPISHs) (3.7%) and gross fixed capital formation (2.9%). Growth in the final government consumption was similar to the level posted

[3] Under the Constitution of the Plurinational State of Bolivia, management and oversight of strategic sectors of the economy is a State function.

Table 1
PLURINATIONAL STATE OF BOLIVIA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	1.7	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4
Per capita gross domestic product	-0.4	0.4	0.7	2.2	2.5	2.9	2.7	4.3	1.6
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	3.5	0.4	8.7	0.2	5.0	4.3	-0.5	2.6	3.7
Mining and quarrying	-1.5	2.5	5.0	9.4	13.1	5.4	7.0	22.9	-2.0
Manufacturing	2.7	0.3	3.8	5.6	3.0	8.1	6.1	3.7	4.8
Electricity, gas and water	0.7	2.2	2.9	3.1	2.7	4.0	4.3	3.6	6.1
Construction	-7.0	16.2	-23.7	2.2	6.4	8.2	14.3	9.2	10.8
Wholesale and retail commerce, restaurants and hotels	1.1	2.0	1.8	3.5	2.4	3.4	4.8	4.0	4.3
Transport, storage and communications	3.0	4.3	3.9	4.0	2.9	3.9	3.5	4.0	5.6
Financial institutions, insurance, real estate and business services	0.2	-3.1	-3.3	-1.5	0.4	5.4	6.3	4.7	4.1
Community, social and personal services	2.6	3.0	2.9	3.3	3.0	3.3	3.7	3.5	5.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.5	2.2	2.1	2.9	3.3	4.0	4.1	5.3	3.7
Government consumption	2.9	3.5	3.6	3.1	3.4	3.3	3.8	3.9	3.8
Private consumption	1.3	2.0	1.9	2.9	3.3	4.1	4.2	5.5	3.7
Gross capital formation	-17.5	17.9	-12.8	-11.8	26.9	-5.1	11.1	29.3	3.9
Exports (goods and services)	8.4	5.7	12.2	16.6	8.3	11.3	3.1	2.2	-10.8
Imports (goods and services)	-5.0	13.1	0.9	5.5	14.8	5.2	4.4	9.4	-10.2
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	14.3	16.3	13.2	11.0	14.3	13.9	15.2	17.6	17.0
National saving	10.9	11.8	14.3	14.9	20.8	25.4	27.3	29.6	21.6
External saving	3.4	4.5	-1.0	-3.8	-6.5	-11.5	-12.1	-12.1	-4.6
					Millions of dollars				
Balance of payments									
Current account balance	-274	-352	85	337	622	1 318	1 591	2 015	801
Goods balance	-295	-340	100	421	609	1 243	1 215	1 807	761
Exports, f.o.b.	1 285	1 299	1 598	2 146	2 791	3 875	4 458	6 448	4 848
Imports, f.o.b.	1 580	1 639	1 498	1 725	2 183	2 632	3 243	4 641	4 087
Services trade balance	-164	-177	-187	-190	-194	-350	-400	-540	-500
Income balance	-211	-205	-302	-385	-376	-397	-489	-536	-674
Net current transfers	396	369	474	491	584	822	1 266	1 284	1 213
Capital and financial balance [d]	238	9	-147	-265	-185	-112	346	359	-475
Net foreign direct investment	703	674	195	83	-291	284	362	508	426
Otros movimientos de capital	-465	-665	-341	-347	106	-396	-16	-149	-901
Overall balance	-36	-343	-62	73	437	1 206	1 938	2 374	326
Variation in reserve assets [e]	33	303	-152	-157	-463	-1 286	-1 938	-2 374	-326
Other financing	3	40	214	85	26	80	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	101.2	95.4	104.0	109.5	116.8	119.5	118.6	110.4	100.6
Terms of trade for goods (index: 2000=100)	95.8	96.2	98.5	104.1	111.8	139.8	142.1	143.9	139.4
Net resource transfer (millions of dollars)	366	175	279	213	358	1 077	1 037	1 156	971
Gross external public debt (millions of dollars)	6 861	6 970	7 734	7 562	7 666	6 278	5 403	5 930	6 033
					Average annual rates				
Employment									
Labour force participation rate [g]	67.8	64.6	67.6	64.9	62.8	66.3	64.8	...	...
Open unemployment rate [h]	8.5	8.7	9.2	6.2	8.1	8.0	7.7	6.7	7.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	0.9	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3
Variation in nominal exchange rate (annual average)	7.4	8.5	6.7	3.8	1.6	-0.8	-1.9	-7.8	-2.8
Variation in real minimum wage	10.8	4.7	0.8	-4.2	-5.1	4.5	-1.3	-1.5	8.2
Nominal deposit rate [i]	...	2.7	1.8	2.0	1.7	2.4	2.4	3.6	1.6
Nominal lending rate [i]	13.7	10.9	9.1	8.2	8.2	7.8	8.2	8.9	8.3
					Percentages of GDP				
Non-financial public sector									
Total revenue	30.4	27.5	28.8	27.4	31.7	39.1	43.6	48.4	...
Current revenue	28.0	25.3	25.9	24.9	29.5	37.3	42.0	47.1	...
Tax revenue	15.2	15.4	14.8	17.0	18.4	17.9	18.1	19.2	...
Capital revenue	2.4	2.3	2.9	2.5	2.1	1.8	1.6	1.2	...

Table I (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Total expenditure	37.2	36.3	36.7	33.0	33.9	34.6	41.9	45.1	...
Current expenditure	28.9	28.0	28.6	23.9	23.9	24.4	29.1	32.4	...
Interest	2.1	2.1	2.6	2.6	2.7	1.8	1.3	0.9	0.9
Capital expenditure	8.4	8.4	8.1	9.1	10.0	10.2	12.7	12.6	...
Primary balance	-4.7	-6.7	-5.3	-2.9	0.4	6.3	3.0	4.1	1.0
Overall balance	-6.8	-8.8	-7.9	-5.5	-2.2	4.5	1.7	3.2	0.1
Public debt [j]	76.7	80.2	89.5	83.9	78.1	52.4	40.0	36.8	39.5
Domestic [k]	26.0	28.6	30.7	31.5	30.9	26.9	24.0	22.7	24.4
External	50.7	51.5	58.8	52.3	47.2	25.5	16.0	14.1	15.1
Money and credit [l]									
Domestic credit	67.4	66.6	63.7	58.0	53.4	44.1	42.0	39.4	43.5
To the public sector	14.2	15.5	15.9	15.9	14.1	9.2	8.0	8.3	9.6
To the private sector	53.2	51.1	47.8	42.1	39.3	34.8	34.0	31.1	33.9
Liquidity (M3)	52.9	49.4	47.7	42.3	43.0	42.4	47.8	46.5	58.7
Currency outside banks and local-currency deposits (M2)	7.9	7.7	8.3	9.3	12.2	15.6	23.9	26.1	34.3
Foreign-currency deposits	45.0	41.7	39.4	33.1	30.9	26.7	23.9	20.3	24.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, urban total.
[h] Percentage of the economically active population, urban total.
[i] Bank operations (61-90 days), in dollars.
[j] Publicly guaranteed private debt is not included.
[k] Domestic debt refers to central government debt.
[l] The monetary figures are end-of-year stocks.

in 2008; in the other two it was slower. The trend of government consumption reflected the counter-cyclical policies introduced by the government to mitigate the effects of the external situation. Gross capital formation would have slowed even further had there not been an upturn in public investment.

(b) Prices, wages and employment

The inflation rate in 2009 was 0.3%, 11.5 percentage points lower than in 2008, which was attributable to two main factors. The first was a drop in food prices linked, in turn, to both lower commodity prices in international markets (which had been the principal source of inflationary pressure since the third quarter of 2007) and an expansion in the domestic food supply due to more favourable climatic conditions than in previous years, when food production suffered from the impact of El Niño and La Niña weather phenomena. The second was domestic policies such as the central bank's fixing of the nominal exchange rate against the dollar, which further reduced inflationary expectations.

The item in the consumer price index (CPI) to register the largest price decline was food and alcoholic beverages, whose prices fell 3.1%. This is also the item that accounts for the largest share of the CPI (27%).

Cumulative inflation in the first four months of 2010 was 0.3%, while 12-month inflation was 1.2%. Those figures represent an increase of 0.9 percentage points and a decline of 4.1 percentage points compared to the respective year-earlier periods, and reflect the sharp drop in inflation in 2009. Indeed, inflation was negative for every month from March to September 2009, before turning positive as of October. The acceleration observed in 2010 is not cause for alarm, however, as it may be interpreted as a normalization of price growth towards positive values, indicating that inflation may be stabilizing around the medium-term target of 4% set by the central bank.

According to information from the National Statistical Institute (INE), the unemployment rate reached 7.4% by the end of the fourth quarter of 2009. No comparisons can be made with previous years because this figure comes from a survey that was introduced in 2009. With regard to wages, the CPI for unskilled workers rose by 4.2% in 2009, while the increase for skilled workers was 2.4%.[4] The index for both measures rose by 3.8%. These wage indices have continued to lag behind the trend shown by the CPI.

4 These wage indicators are calculated by the central bank on the basis of CPI service items.

Table 2
PLURINATIONAL STATE OF BOLIVIA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6,6	6,7	6,8	6,1	2,1	4,2	3,3	...	...	...
Goods exports, f.o.b. (millions of dollars)	1 561	1 740	1 895	1 705	1 160	1 286	1 473	1 493	1 489	1 100 [c]
Goods imports, c.i.f. (millions of dollars)	1 036	1 234	1 359	1 380	1 052	977	1 135	1 303	1 168	862 [c]
Gross international reserves (millions of dollars)	6 232	7 118	7 809	7 722	7 762	7 955	8 453	8 580	8 449	8 537
Real effective exchange rate (index: 2000=100) [d]	120	117	111	93	92	98	104	108	106	106 [c]
Consumer prices (12-month percentage variation)	14,1	17,3	14,5	11,8	6,6	2,1	0,6	0,3	0,7	1,4 [c]
Average nominal exchange rate (bolivianos per dollar)	7,56	7,31	7,07	7,00	7,00	7,03	7,04	7,05	7,03	7,02
Nominal interest rates (annualized percentages)										
Deposit rate [e]	2,8	3,5	4,0	4,1	2,9	1,7	0,8	0,5	0,5	0,3 [c]
Lending rate [e]	8,1	8,2	9,3	9,8	9,6	8,8	7,9	6,8	5,9	5,4 [c]
Interbank rate [f]	4,8	6,9	7,9	11,2	7,5	4,1	1,4	0,7	0,7	2,0 [g]
Domestic credit (variation from same quarter of preceding year)	6,4	4,8	8,5	10,1	11,4	12,4	10,6	11,2	11,4	...
Non-performing loans as a percentage of total credit	5,7	5,2	5,0	4,3	4,8	4,4	4,2	3,5	3,8	3,5 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Bank operations (61-90 days); three-month average, in dollars.
[f] Repurchase rate, in dollars.
[g] Data to April.

(c) The external sector

In 2009, the balance of payments posted a surplus of US$ 326 million, some US$ 2.048 billion (86.3%) less than in 2008. The current account surplus narrowed by US$ 1.214 billion to stand at US$ 801 million at the year's end. The balance on the capital and financial account declined by US$ 407 million, turning negative by US$ 28 million by the end of the year.

The current account balance reflects a US$ 1.046 billion (57.9%) reduction in the surplus on the goods trade balance with respect to 2008. This fall was equivalent to 86% of the current account balance, the main channel through which the international recession has been transmitted to the domestic economy. Commodities such as soybeans, natural gas and mining products make up approximately 90% of the country's exports. A drop in the price of these commodities in 2009 resulted in a decline in export prices. The price of soybeans, for example, decreased by 16.6%, while soybean oil and natural gas prices dropped by 32.5% and 55.5%, respectively, and overall export volumes shrank by 16.1%. Reduced demand for natural gas in the principal export markets, Brazil and Argentina, was an important factor in this decline. The value of exports fell by US$ 1.6 billion. Despite the growth in economic activity, imports were down by US$ 554 million (11.9%), with intermediate goods showing the greatest decline. Family remittances posted very similar levels to those for 2008, decreasing by US$ 70 million (6.5%).

At the end of 2009, net international reserves held by the central bank amounted to US$ 8.58 billion, an increase of US$ 858 million (11.1%) over the 2008 figure. Since 2003 —when hydrocarbon prices began to rise— the central bank's net international reserves have grown steadily and by the close of 2009 had reached an all-time year-end high.

Uruguay

1. General trends

Uruguay posted a 2.9% rise in GDP in 2009, making it one of the few economies in the region to remain on a growth path despite the international financial crisis. This growth was driven by private and public consumption, public investment and external demand, which offset the steep drop in private investment. The most buoyant sectors were once again transport, storage and communications, while industry contracted sharply owing to lower exports. A countercyclical fiscal policy was operated throughout 2009 to restrain demand and output. The non-financial public sector (NFPS) fiscal deficit rose to 1.6% of GDP, while the gross debt to GDP ratio of the NFPS reached 47%. Annual inflation was 5.9%, which was within the target range established in the monetary programme.

The current account improved significantly as imports fell sharply while exports rose by 9.7%. This was partly the result of lower oil prices, increased hydroelectric power output and higher tourism revenue. There was a strong inflow of foreign capital in the form of foreign direct investment (FDI) and financial capital, although it was not as great as in 2008. Reserves once again increased, despite the lowering of banking system reserve requirements.

GDP is projected to grow by close to 7% in 2010, and inflation is expected to be at the upper end of the 4% to 6% target range set by the authorities. A primary fiscal surplus of about 2% of GDP and an overall deficit of about 1.1% of GDP are expected.

2. Economic policy

In 2009, economic policy focused on restraining domestic demand in a context of slowing external demand growth and lower private investment. In view of the higher fiscal deficit, the government drew down special unconditional credit lines provided by multilateral lending institutions. In addition, some US$ 500 million in debt instruments were issued on domestic and foreign markets. Towards the end of the year, the Macroeconomic Coordination Committee set an annual inflation target of 5% until September 2011, with a 1% margin of tolerance.

(a) Fiscal policy

The public sector played a larger role in the economy in 2009, measured by the tax take and spending as a share of GDP. NFPS revenue rose from 26.2% of GDP in 2008 to 27.7% in 2009, while primary expenditure increased from 25.1% of GDP to 27%. In this context, and given the slight improvement in the primary balance of municipal governments and the Banco de Seguros del Estado, the NFPS primary surplus declined from 1.5% of GDP in

2008 to 1.2% in 2009. The fiscal deficit in 2009 was thus 1.6% of GDP after debt servicing (2.8% of GDP), compared with 1.3% in 2008, when debt servicing was also equivalent to 2.8% of GDP.

Where revenues were concerned, the Tax Administration Department (DGI) took in the equivalent of 17% of GDP and the Social Insurance Bank (BPS) the equivalent of 7.1%. Profits transferred from State-owned enterprises to the government and customs duties totalled 1.3% and 1% of GDP, respectively. Without adjusting for inflation, total NFPS revenues increased 9% from 2008, owing to increases of 4.8% in DGI revenues, 13% in BPS revenues and 65% in profits transferred from State-owned enterprises.

Public-sector spending consisted of current primary spending (23.7% of GDP) and investment (3.4% of GDP). At the end of 2009, pensions represented 8.7% of GDP, transfers 6.4%, wages 5% and operating expenses 3.6%. The first three components totalled 20.1% of GDP in 2009, compared with 18.2% the previous year. These items were some of the mainstays of domestic demand and hence of economic growth during the year. The share of GDP corresponding to operating expenses remained unchanged from 2008. Another mainstay of growth was public investment which, adjusted for inflation, rose by 6.9% year on year in 2009 owing to the strength of road-building and construction and the acquisition of machinery and equipment by State-owned enterprises.

The overall fiscal situation of Uruguay improved in early 2010, with a deficit equivalent to 1.1% of GDP at the end of the first quarter, mainly as a result of higher revenues. Official projections put the public-sector deficit at 1.1% of GDP at year-end.

NFPS gross debt had risen to US$ 17.03 billion, or 47% GDP, by the end of 2009. Most of this increase is attributable to higher domestic debt. NFPS gross external debt held steady at about 33% of GDP.

(b) Monetary policy and the financial sector

The interbank overnight (call) rate, which governs local-currency interbank loans, once again served as the main instrument of control in 2009, following the financial turbulence in the international markets in 2008. The annual rate was set at 10% in early 2009 but dropped to 9% in March, 8% in June and 6.25% in December, where it was held until June 2010 in the light of domestic prices movements in the early months of the year.

At the same time, the legal reserve requirement continued to be lowered and was set at 12% on local-currency deposits of less than 30 days from 1 January, compared with the 20% applied until the end of 2009. For foreign-currency deposits, the reserve was to be lowered to 15% on deposits of less than 180 days and to 9% on longer-term deposits from July 2010. This measure and foreign-currency purchases by the Central Bank of Uruguay to stabilize the exchange rate became the main drivers of liquidity growth. The central bank was able to contain these permanent increases by issuing monetary regulation bonds and paper denominated in pesos and Indexed Units.

The financial system remained stable despite the international crisis. Credit to the resident private sector increased in the fourth quarter of 2009, raising total lending by 6% by year's end. This translated into a US$ 3.031 billion increase in assets in the financial system. Non-financial private-sector deposits in both local and foreign currency continued to grow, ending 2009 with an increase equivalent to US$ 1,981 million, implying an annual rate of 16% after adjusting for the exchange-rate effect.

The interest rate on dollar-denominated loans stood at 5.6% at the end of 2009, a record low. Rates on local-currency loans to businesses and households averaged 16.7% and 32.3%, having declined following the increase that began in September 2008. Credit arrears remained stable at historically low levels (about 1% of all loans and 2.9% of local-currency loans to households). The dollar-denominated term deposit interest rate stood at 0.55% in December 2009, while the rate on peso-denominated term deposits declined towards the end of the year and averaged 4.9% for the year as a whole owing to the high level of liquidity in the money market.

(c) Exchange-rate policy

A floating exchange-rate regime was maintained throughout 2009. Nevertheless, the State actively intervened in the currency market to stabilize the peso-dollar exchange rate. The exchange rate seen up until the end of 2008, about 24 pesos to the dollar, remained unchanged until April. Thereafter, however, the peso strengthened against the dollar before broadly stabilizing, ending the year at a rate of some 19.50 on 31 December. In 2009, therefore, the peso appreciated by 20.1% against the dollar in nominal terms, in contrast with the 13.4% decline the previous year. The real bilateral exchange rate against the dollar appreciated by 21.4% between December 2008 and December 2009. This nominal exchange rate remained broadly stable in the first four months of 2010. In addition, it was announced that the Ministry of Economics and Finance would be intervening in the currency market from June to restore the nominal exchange rate to its equilibrium level.

The real effective exchange rate indicator for 2009 was down by an average of 2.4% on the previous year, reflecting the strengthening of the local currency in the second half. This decline in the indicator reflected a loss of competitiveness vis-à-vis both Southern Common Market (MERCOSUR) members and other countries.

3. The main variables

(a) Economic activity

Transport, storage and communications grew by 9.5% in 2009 and spearheaded overall GDP growth, to which they contributed 1.1 percentage points. Other growth sectors were services (3.6%), electricity, gas and water (41.9%), construction (4.8%), agriculture (2.0%) and commerce, restaurants and hotels (0.8%). These sectors accounted for 0.8, 0.6, 0.3 and 0.2 percentage points of GDP growth, respectively. Manufacturing contracted by 3.7%, lowering GDP growth by 0.6%.

The rise in GDP in 2009 resulted from higher domestic consumption (2%), with public-sector consumption climbing by 5.2% (adding 0.6 percentage points to GDP) and private-sector consumption by 1.5% (1 percentage point). Public spending (on consumption and investment) grew by 9.5% in 2009, accounting for half the year's GDP increase.

Gross capital formation decreased by 10.7% in 2009, subtracting 2.5 percentage points from GDP. This was partly because of the 4% contraction in gross fixed capital formation, which represented a 0.8 percentage point drag on GDP, as well as inventory fluctuations. Nevertheless, gross fixed capital formation still stood at 19.1% of GDP in 2009, the second-highest level in the past 15 years.

External demand was also a driver of economic activity. Exports were up 2.5%, raising GDP by 0.8 percentage points, while imports contracted by 8.6%, a 3 percentage point gain. The Uruguayan economy continued to improve in the first quarter of 2010. Seasonally adjusted GDP rose by 1.7% compared with the same quarter the previous year. First quarter growth was 8.9% year on year. Measured in volume terms, domestic demand grew on the strength of higher expenditures for final consumption (7.7%) and gross capital formation (26.4%) owing to rising fixed investment and inventories. The net external balance was positive, although its impact was smaller than in the first quarter of 2009, as exports rose by 3.8% and imports by 10.1%.

(b) Prices, wages and employment

The consumer price index rose by 5.9% in 2009, a sharp reduction from the 9.2% increase in 2008. The items with the largest increases in 2009 were education (12.3%), housing costs (11.6%), medical care (8.7%) and other consumer spending (16.6%). The national producer price index was up 10.6% for the year.

Cumulative inflation from January to April 2010 was 2.8%, while the 12-month figure to April was 7.09%. Annual inflation to June was 6.4%.

The labour market remained generally stable. The nationwide average unemployment rate stood at 7.3%. The employment rate increased by nearly one percentage point nationwide in 2009, to an annual average of 58.5%. The participation rate of the working-age population was 63.2% in 2009. The trend towards formalization of the labour market continued, and the proportion of unregistered workers averaged 23%. Real wages rose by an average of 7.3% in 2009, with similar increases for public- and private-sector workers. Nationwide, household purchasing power rose by an average of 5.2% year on year.

(c) The external sector

Over the course of 2009, the current account went from deficit to a surplus of over US$ 250 million. Almost all this turnaround was attributable to the trade balance, which moved from a US$ 926 million deficit in 2008 to a US$ 796 million surplus in 2009 owing to the contraction in trade in goods and services and the lower value of both exports (8%) and imports (24%). The trade balance in goods was in deficit by US$ 275 million at the end of 2009, this being offset by a similar increase in exports of tourism services.

Table 1
URUGUAY: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-3.4	-11.0	2.2	11.8	6.6	4.3	7.5	8.5	2.9
Per capita gross domestic product	-3.6	-11.0	2.2	11.9	6.6	4.1	7.2	8.2	2.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-7.1	5.1	10.6	10.6	4.6	3.9	-6.1	5.7	2.0
Mining and quarrying	-5.2	-37.6	14.1	7.2	4.4	...	...	...	...
Manufacturing	-7.6	-13.9	4.7	20.8	10.1	8.1	7.1	17.3	-3.7
Electricity, gas and water	1.7	-0.6	-7.4	1.8	5.8	-28.6	57.8	-52.6	41.9
Construction	-8.7	-22.0	-7.1	7.5	4.2	9.2	6.2	8.5	4.8
Wholesale and retail commerce, restaurants and hotels	-3.2	-24.5	-1.0	21.3	10.1	6.8	13.4	11.3	0.8
Transport, storage and communications	0.3	-9.1	3.1	11.5	11.1	8.2	19.6	34.6	9.5
Financial institutions, insurance, real estate and business services	1.7	-0.9	-5.3	-1.7	-3.5	0.6	3.5	4.4	2.9
Community, social and personal services	-2.3	-3.3	0.7	3.2	1.4	3.3	3.8	4.8	3.6
Gross domestic product, by type of expenditure									
Final consumption expenditure	-2.1	-15.9	1.1	9.5	4.0	5.9	7.1	8.1	2.0
Government consumption	-2.9	-9.3	-4.8	2.5	0.0	6.7	6.5	6.8	5.2
Private consumption	-2.0	-16.9	2.0	10.6	4.5	5.8	7.2	8.4	1.5
Gross capital formation	-9.1	-34.5	18.0	22.0	7.6	16.8	6.3	27.5	-10.7
Exports (goods and services)	-9.1	-10.3	4.2	30.4	16.3	3.2	7.4	10.1	2.5
Imports (goods and services)	-7.1	-27.9	5.8	26.8	10.8	15.3	5.7	21.0	-8.6
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	17.8	14.8	16.2	16.9	16.2	19.4	19.4	22.7	17.9
National saving	15.1	17.9	15.5	16.9	16.4	17.4	18.4	17.9	18.8
External saving	2.6	-3.0	0.8	-0.0	-0.2	2.0	0.9	4.8	-0.8
					Millions of dollars				
Balance of payments									
Current account balance	-498	382	-87	3	42	-392	-220	-1 503	259
Goods balance	-775	48	183	153	21	-499	-545	-1 730	-275
Exports, f.o.b.	2 139	1 922	2 281	3 145	3 774	4 400	5 100	7 077	6 389
Imports, f.o.b.	2 915	1 874	2 098	2 992	3 753	4 898	5 645	8 807	6 664
Services trade balance	316	153	135	325	372	409	703	804	1 071
Income balance	-68	109	-488	-588	-494	-428	-516	-727	-679
Net current transfers	30	72	83	113	144	126	137	150	142
Capital and financial balance [d]	775	-4 314	1 048	302	753	2 791	1 231	3 736	1 330
Net foreign direct investment	291	180	401	315	811	1 495	1 240	1 839	1 126
Other capital movements	485	-4 494	647	-12	-58	1 296	-9	1 896	204
Overall balance	278	-3 932	961	306	796	2 399	1 010	2 233	1 589
Variation in reserve assets [e]	-278	2 328	-1 380	-454	-620	15	-1 005	-2 232	-1 588
Other financing	0	1 604	420	149	-175	-2 414	-5	-0	-0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	101.3	117.6	149.9	152.3	134.0	128.4	127.7	121.0	118.1
Terms of trade for goods (index: 2000=100)	104.0	102.6	103.5	99.9	90.7	88.6	88.7	94.1	96.9
Net resource transfer (millions of dollars)	707	-2 601	979	-137	84	-52	710	3 008	650
Total gross external debt (millions of dollars) [g]	8 937	10 548	11 013	11 593	11 418	10 560	12 218	12 021	13 935
					Average annual rates				
Employment									
Labour force participation rate [h]	60.8	59.3	58.1	58.5	58.5	60.9	62.7	62.6	63.4
Open unemployment rate [i]	15.3	17.0	16.9	13.1	12.2	11.4	9.6	7.9	7.7
Visible underemployment rate [j]	15.3	18.4	19.3	15.8	17.1	13.6	12.9	10.8	9.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.6	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9
Variation in producer prices, local products (December-December)	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	10.5
Variation in nominal exchange rate (annual average)	9.9	58.9	33.3	1.9	-14.7	-1.8	-2.4	-10.8	7.8
Variation in average real wage	-0.3	-10.7	-12.5	0.0	4.6	4.3	4.7	3.6	7.3
Nominal deposit rate [k]	61.7	28.4	5.5	2.3	1.7	2.3	3.2	4.0	4.0
Nominal lending rate [l]	38.1	116.4	56.6	26.0	15.3	10.7	10.0	13.1	16.6

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Central government									
Total revenue	20.2	20.7	20.9	21.1	21.3	21.4	20.5	20.0	20.4
Tax revenue	17.0	17.1	18.1	18.0	18.3	18.8	18.0	17.8	18.0
Total expenditure	24.6	25.4	25.4	23.5	22.9	22.4	22.1	21.1	21.8
Current expenditure	22.9	24.0	24.1	22.0	21.5	21.0	20.6	19.3	20.3
Interest	2.4	4.0	5.5	4.8	4.3	4.2	3.7	2.8	2.7
Capital expenditure	1.8	1.4	1.3	1.5	1.3	1.4	1.5	1.8	1.6
Primary balance	-2.0	-0.8	1.0	2.4	2.7	3.2	2.1	1.7	1.3
Overall balance	-4.4	-4.7	-4.5	-2.4	-1.6	-1.0	-1.6	-1.1	-1.5
Non-financial public sector debt	45.6	103.3	97.9	76.9	68.6	61.1	52.1	51.1	47.0
Domestic	15.2	24.7	18.4	14.8	14.7	13.7	10.2	11.6	13.9
External	30.3	78.6	79.5	62.1	53.9	47.4	41.9	39.4	33.1
Money and credit [m]									
Domestic credit	44.1	52.8	29.7	17.5	14.0	18.9	14.8	12.9	10.9
To the public sector	6.6	22.7	14.4	12.1	6.0	7.5	1.3	3.0	3.6
To the private sector	66.2	73.4	45.4	30.3	26.6	25.9	24.5	29.4	22.6
Others	-28.7	-43.3	-30.0	-24.8	-18.7	-14.4	-11.0	-19.6	-15.2
Liquidity (M3)	91.6	87.7	81.1	66.0	59.1	57.1	49.5	56.2	49.6
Currency outside banks and local-currency deposits (M2)	10.1	8.8	9.4	8.9	10.6	11.3	12.6	12.7	13.4
Foreign-currency deposits	81.5	78.8	71.6	57.1	48.5	45.8	36.9	43.6	36.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2005 prices. Up to 2005, based on figures in local currency at constant 1983 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Figures include the private sector and do not include memorandum items on external liabilities and assets.
[h] Economically active population as a percentage of the working-age population, urban total.
[i] Percentage of the economically active population, urban total.
[j] Percentage of the working population, urban total.
[k] Average rate for fixed-term deposits, 30-61 days.
[l] Business credit, 30-367 days.
[m] The monetary figures are end-of-year stocks.

The capital and financial accounts recorded net capital inflows of US$ 1,529 million, a considerable drop on the previous year's US$ 2.8 billion. However, there was a major shift in the destination of these inflows: 75% of the total was for private-sector purposes in 2008, compared with 40% in 2009. Although FDI flows decreased in 2009, they remained above US$ 1.1 billion.

The Central Bank of Uruguay held US$ 7.9 billion in reserve assets as of December 2009, giving a US$ 1.6 billion increase over the same month in 2008. This increase stemmed from foreign-currency purchases over the year, expanding government accounts and, to a lesser extent, the government's foreign-currency surplus. However, the foreign-currency deposits of financial institutions decreased by more than US$ 500 million because of lower bank reserve requirements. The sovereign risk of Uruguay declined by 8.8% to 227 basis points between the fourth quarter of 2009 and May 2010.

Goods exports other than those from free-trade zones dropped to US$ 5,495 million in 2009, or 8.7% below the 2008 figure[1]. The items that accounted for the largest share of total exports were frozen beef (13.6%), soy (8.3%), rice (8.2%), wheat (5.8%) and fresh or refrigerated beef (3.9%). Exports to MERCOSUR countries totalled US$ 1.55 billion in 2009, a 4% year-on-year decrease. Exports to Argentina and Paraguay contracted by 32% and 19%, respectively, while exports to Brazil jumped 12.3%. MERCOSUR accounted for 28.2% of all Uruguayan exports in 2009, compared with 15% for the European Union countries.

General imports other than those into free-trade zones totalled US$ 4,623 million in 2009, while the value of goods imported on a temporary admission basis was US$ 598 million, a decline from 2008 of 18% and 31%, respectively. Automobiles, cellular phones and cargo vehicles

1 The disaggregation of foreign trade data by goods type and destination or origin country is based on data from the Customs Registry, which do not include exports and imports from free-trade zones.

accounted for the largest import shares. Argentina is the largest exporter of goods to Uruguay (US$ 1,188 million), followed by Brazil (US$ 1.15 billion).

Prices for Uruguayan commodity exports recovered in the first quarter of 2010 compared with the same period in 2009. In the first four months of 2010, goods exports totalled US$ 2,029 million, a 25.3% year-on-year increase. Brazil was the leading destination for Uruguayan products in this period, with exports to the country totalling US$ 424 million (20% of the total), a 23% year-on-year increase. The second-largest destination, Argentina, accounted for 7.1% of the total, followed by China and the Russian Federation with about 5% each.

The real exchange rate continued to decrease in the first quarter of 2010, to reach -14.3% compared with the same period in 2009. This was the outcome of a large decrease against currencies outside the region and a smaller one against currencies within the region.

Table 2
URUGUAY: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	7.7	10.0	9.1	7.4	2.5	1.1	3.0	4.6	8.9	...
Goods exports, f.o.b. (millions of dollars)	1 297	1 667	1 637	1 348	1 079	1 478	1 451	1 376	1 290	571 [c]
Goods imports, c.i.f. (millions of dollars)	1 959	2 686	2 371	2 053	1 485	1 656	1 884	1 783	1 751	621 [c]
Gross international reserves (millions of dollars)	4 993	6 101	6 344	6 360	6 965	7 438	8 068	7 987	8 061	7 509
Real effective exchange rate (index: 2000=100) [d]	123.8	120.0	117.1	123.2	118.6	123.5	119.9	110.4	101.6	99.5 [e]
Urban unemployment rate	5.3	4.6	4.7	3.9	5.0	5.1	5.8	...	...	...
Consumer prices (12-month percentage variation)	8.0	8.4	7.5	9.2	7.5	6.5	6.9	5.9	7.1	7.1 [e]
Average nominal exchange rate (pesos per dollar)	20.91	19.75	19.60	23.36	23.50	23.68	22.70	20.27	19.61	19.46
Average real wage (variation from same quarter of preceding year)	4.3	4.0	1.9	4.0	6.2	8.4	8.4	6.1	4.0	...
Nominal interest rates (annualized percentages)										
Deposit rate [f]	2.9	2.8	2.5	4.6	4.3	4.0	3.9	3.8	3.6	3.7 [c]
Lending rate [g]	11.1	11.2	12.2	18.0	18.0	17.0	15.8	15.5	13.0	12.5 [c]
Interbank rate	7.0	7.2	7.2	19.0	9.4	8.9	7.9	7.9	6.2	6.2 [e]
Sovereign bond spread (basis points) [h]	310	265	376	578	586	341	282	221	163	229
Domestic credit (variation from same quarter of preceding year)	-7.1	1.1	6.6	1.2	1.8	5.3	-15.8	-7.7	10.5	...
Non-performing loans as a percentage of total credit	14.3	20.2	20.0	16.5	14.8	13.6	14.7	7.6	7.5	7.5 [e]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2005 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] Average rate for fixed-term deposits, 30-61 days.
[g] Business credit, 30-367 days.
[h] Measured by the Uruguay Bond Index to end of period.

Mexico and Central America

Costa Rica

1. General trends

Costa Rica's economy contracted by 1.1% in 2009 —the first yearly decline in the past two decades— and per capita GDP fell by 2.3%. The 30% drop in gross domestic investment and the 6.4% decline in external demand were offset in part by a 2.1% rise in consumption. The unemployment rate rose to 7.8%. The central government deficit posted a substantial increase, to 3.4% of GDP. The annual inflation figure at the end of 2009, 4%, was considerably less than the previous year's, and the current account deficit fell to the equivalent of 2.2% of GDP.

In 2009, Costa Rica's economy suffered the effects of the global economic slowdown and, particularly, the contraction of the U.S. economy. The main channels of transmission were falling tourist arrivals and external demand for goods, as well as weakening flows of foreign direct investment. Countercyclical central government policies and the recovery of exports during the final quarter of the year helped slow the pace of contraction, so the decline was smaller than had been expected at the beginning of the year.

ECLAC estimates that GDP will grow by 4% in 2010, driven by recovering external demand. It is expected that the economic recovery and rising international fuel prices will push inflation up to nearly 6% at year end (in line with the central bank's target rate of 5% with a tolerance range of one percentage point). The fiscal deficit is expected to be between 4% and 5% of GDP. The current account deficit will edge up as imports revive.

Presidential elections were held on 7 February 2010. Laura Chinchilla, the candidate of the party in power, the National Liberation Party (PLN) won with 46.8% of the votes. The composition of the new parliament is fragmented, with 24 of the 57 seats held by PLN. The new president took office on 8 May. Economic policy continuity is expected, with emphasis on managing public finances and promoting economic and social development.

2. Economic policy

In 2009 the central government took an active countercyclical fiscal policy stance despite a substantial decrease in tax revenues. Monetary and exchange-rate policy continued to be directed towards a flexible exchange rate, creating the conditions for interest rates to work as a monetary policy tool and keeping inflation low and stable.

(a) Fiscal policy

The central government balance was negative, after two years of surplus (0.6% and 0.2% in 2007 and 2008, respectively), and the primary balance was negative for the first time in 10 years. The overall balance of the public sector, which includes the non-financial public sector and the central bank, posted a deficit equivalent to 3.9% of GDP (compared to a deficit of 0.2% in 2008).

Current central government revenues were down 12% in real terms (contrasting with 4.3% growth in 2008) as economic activity contracted and purchases from abroad fell. Income tax and foreign trade tax revenues posted the sharpest drops and were down by 7.5% and 30%, respectively. The administration negotiated temporary authorization from the Legislative Assembly to finance current expenditures by borrowing. The tax burden went from 15.6% in 2008 to 13.8% in 2009, reversing the progress made over the previous four years.

Prudent management of public finances and debt reduction in previous years left room for a substantial increase (10.7% in real terms) in central government spending in 2009. Throughout the year the government implemented the "Plan Escudo" rescue package to deal with the international crisis. Noteworthy among the measures in the package are an increase in non-contributory pensions, wage hikes for public employees and greater social spending on housing, education and health-care programmes. The line item for remunerations thus went up by 25.6% and the item for transfers rose 11.2%.

The rest of the non-financial public sector showed a positive balance equivalent to 0.3% of GDP (-0.4% in 2008), reflecting accounting adjustments to remove the Costa Rican Electricity Institute from these public accounts following liberalization of the telecommunications sector. The central bank deficit was larger than in the previous year (0.8% of GDP compared with 0.2% in 2008), owing mainly to a decline in income from financial assets held abroad.

Total public debt rose by 2 percentage points to the equivalent of 42.6% of GDP, reflecting weaker public finances and the contraction of real activity. External public debt decreased by 1.3 percentage points to stand at 11.3% of GDP, thanks to the amortization of capital. Several lines of credit with multilateral organizations for dealing with the crisis were announced during the year, but they were barely used. The fiscal deficit was financed mainly by issuing domestic debt on the stock exchange, auctioning securities and negotiating directly with the public banking system; domestic public debt thus increased from 28.0% of GDP in 2008 to 31.3% in 2009.

Countercyclical policies, particularly increases in pensions and public sector remunerations, entailed long-term commitments that will put pressure on public finances over the coming years. The cumulative deficit for the first five months of 2010 was equivalent to 1.9% of GDP. The new government has announced its intention to turn to external debt to cover the shortfall in the short term, but that it also will seek reforms and administrative improvements in order to boost revenue.

(b) Monetary and exchange-rate policy

In 2009, monetary and exchange-rate policy continued to be directed towards price stability and migration towards a flexible exchange-rate scheme. The central bank found less need to adjust the exchange-rate band or intervene to protect the band limits than in 2008, because there was less financial turbulence and pressure in the currency market. The only change was on 23 January, when the initial sell rate was set at 563.25 colones to the dollar and the nominal rate of depreciation rose from 6 to 20 cents per day.

During the first seven months of 2009 the exchange rate was often at the ceiling of the band, but the currency began appreciating gradually in the second week of August and there were no further central bank interventions. The nominal exchange rate ended the year at 561 colones to the dollar, 10 cents higher than at the end of 2008. This variation nudged the real bilateral exchange rate down by 1% (December to December), reversing a three-year trend. As part of the exchange policy, the number of participants in the exchange market was increased by launching the MONEX (wholesale dollar market) system in order to promote more efficient operation of this market.

The monetary policy interest rate remained unchanged during the first half of 2009 despite the contraction of economic activity, in order to check a potential upswing in inflation. On 15 July the rate underwent a one-time adjustment for the year, from 10% to 9%. The financial system's average deposit rate ended 2009 at 8.8%, compared with 10.4% in 2008, but it returned to positive territory in real terms (4.6%) thanks to slowing inflation. The average nominal lending rate for the year ended 2009 at 23.2%, very similar to the 24% posted in 2008, but the real lending rate climbed nearly 10 percentage points to 18.4%.

Private-sector credit growth decelerated significantly (3.5% compared with 32% in 2008) as a result of the slowing economy, rising real rates and the financial system's reaction to the crisis. Credit for the construction, tourism and manufacturing sectors even shrank, by 7.4%, 3.6% and 1.1%, respectively. Consumer credit braked hard, growing by 0.5% compared with 29.9% in 2008.

The monetary aggregate M1, which includes currency in circulation and current account deposits, posted a real decrease of 0.4%, in keeping with the behaviour of economic activity. Time deposits in national currency increased 17.6%, thanks to rising real deposit rates. Foreign-currency deposits increased from 47% of the broad money supply (M3) in 2008 to 48.2% in 2009. This process of financial dollarization partially reversed towards the end of the year because of the higher yield on savings in colones.

The net international reserves held by the central bank increased by US$ 267 million to reach US$ 4.066 billion, which is equivalent to 1.9 times the monetary base. The main reason for the increase was the allocation of special drawing rights.

The inflow of capital put downward pressure on the exchange rate during the first few months of 2010. The exchange rate neared the floor of the band (509 colones to the dollar) in early May, but still without central bank intervention. There was no change in the monetary policy interest rate during the first five months of the year.

(c) Trade policy

Trade policy continued to be geared to creating conditions conducive to export diversification. In 2009 there were two rounds of negotiations for an association agreement between Central America and the European Union, as well as four rounds of Central American coordination meetings and three rounds of technical trade talks. Negotiations resumed in early 2010 after a temporary suspension because of the political crisis in Honduras, and the agreement was signed in May, setting the ratification process into motion.

Negotiations on a free trade agreement with China began in 2009, and it was signed on 8 April 2010. It is a far-reaching document that covers access to markets for trade in merchandise, investment and intellectual property, among other items. Negotiations on a free trade agreement with Singapore, which also began in 2009, concluded with signature of the agreement on 6 April 2010.

The amendment to the Free Zone Act was approved in 2009, fulfilling commitments entered into with the World Trade Organization. The amendment seeks to de-link corporate income tax exemptions from export performance, and it grants similar incentives to companies operating in strategic sectors or locating to less-developed areas. It also creates incentives to promote investment, job creation, production chains and training at companies operating under this regime.

3. The main variables

(a) Economic activity

Aggregate demand fell 6.6%, dragged down by the sharp contraction in gross investment and external demand. Private investment and investment in machinery and equipment were off 17.6% and 18.4%, respectively, owing to the economic slowdown and tight credit. Inventories also declined substantially. Public investment slowed but still grew at a healthy pace (12.8% compared with 35.2%) thanks to projects begun or approved in previous years. Government consumption expanded at a brisk 6.3% as a result of the countercyclical policies applied. Private consumption rose 1.6% despite the economic contraction, thanks to those very policies and real wage recovery.

The commerce, restaurant and hotel sector shrank by 5.1% because of the slowdown in economic activity and a drop-off in tourism. The other service sectors weathered the economic crisis better and posted positive rates of growth. The construction sector was impacted by falling demand for housing for foreigners and for tourist developments, and by the credit crunch. The manufacturing industry was hit by falling external demand and dropped 2.6%. Agriculture shrank by 2.5%, due mainly to adverse weather events and pests.

The behaviour of economic activity fell into three sharply distinct periods in 2009. According to data from the monthly index of economic activity, the decline in activity that began in October 2008 worsened during the first two months of the year. The turning point came in March, when the economic contraction began to ease; and in September the economy returned to positive year-on-year rates of growth. Fluctuations in the international economy and in external demand contributed significantly to this evolution.

In the first five months of 2010, the monthly index of economic activity posted positive year-on-year variations averaging 5.2%, maintaining the rate of recovery seen in the closing months of 2009. A slight slowing of the growth rate is expected for the rest of 2010, owing to less vigorous external demand.

(b) Prices, wages and employment

Declining domestic demand, falling international prices for food and fuel, and a restrictive monetary policy held inflation, measured in terms of the consumer price index, to its lowest rate since 1971 (4%) after two years of double digits. Indeed, the food and beverage price index posted an annual drop of 1.5%.

Table 1
COSTA RICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
					Annual growth rates[b]				
Gross domestic product	1.1	2.9	6.4	4.3	5.9	8.8	7.9	2.8	-1.1
Per capita gross domestic product	-1.0	0.8	4.3	2.4	4.1	7.1	6.4	1.5	-2.3
Gross domestic product, by sector									
Agriculture, livestrock, hunting, forestry and fishing	1.4	-3.3	7.4	0.7	4.3	12.7	5.6	-2.3	-2.5
Mining and quarrying	6.4	-3.1	4.2	7.7	7.6	25.7	-1.5	-7.8	-10.0
Manufacturing	-9.1	3.4	8.4	4.0	10.8	10.8	7.0	-3.2	-2.6
Electricity, gas and water	4.1	5.3	5.8	4.0	5.9	6.1	2.4	0.2	-1.3
Construction	14.4	-1.5	4.8	6.3	-0.2	18.2	21.5	12.9	-5.0
Wholesale and retail commerce, restaurants and hotels	1.9	1.6	3.4	3.9	4.0	4.8	6.6	3.6	-5.1
Transport, storage and communications	9.2	12.0	13.7	12.0	9.6	10.5	9.8	7.1	3.3
Financial institutions, insurance, real estate and business services	6.8	4.8	7.1	6.6	5.4	11.1	9.3	8.4	4.1
Community, social and personal services	2.0	3.0	3.0	1.4	3.3	2.3	3.4	4.5	3.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	1.5	3.0	2.8	2.9	3.9	5.4	6.9	3.9	2.1
Government consumption	3.6	2.3	-0.3	1.3	0.2	2.9	2.3	4.3	6.4
Private consumption	1.2	3.1	3.2	3.1	4.4	5.7	7.5	3.9	1.6
Gross capital formation	31.5	9.8	-4.7	10.9	11.3	13.9	-1.2	18.1	-30.0
Exports (goods and services)	-9.6	3.6	12.1	8.2	12.8	10.3	9.9	-1.7	-6.4
Imports (goods and services)	1.3	6.9	0.9	9.1	12.4	8.1	4.3	6.3	-16.7
					Percentages of GDP				
Investment and saving[c]									
Gross capital formation	20.3	22.6	20.6	23.1	24.3	26.4	24.7	27.5	13.8
National saving	16.6	17.5	15.6	18.9	19.4	21.9	18.4	18.3	11.6
External saving	3.7	5.1	5.0	4.3	4.9	4.5	6.3	9.2	2.2
					Millions of dollars				
Balance of payments									
Current account balance	-603	-857	-880	-791	-981	-1 023	-1 646	-2 754	-634
Goods balance	-820	-1 278	-1 089	-1 421	-2 159	-2 727	-2 985	-5 014	-2 024
Exports, f.o.b.	4 923	5 270	6 163	6 370	7 099	8 102	9 299	9 554	8 847
Imports, f.o.b.	5 743	6 548	7 252	7 791	9 258	10 829	12 285	14 569	10 871
Services trade balance	746	685	776	857	1 116	1 351	1 734	2 253	2 158
Income balance	-679	-440	-776	-440	-209	4	-865	-434	-1 097
Net current transfers	151	175	209	212	270	349	470	442	329
Capital and financial balance[d]	616	1 020	1 219	872	1 374	2 053	2 794	2 406	895
Net foreign direct investment	451	625	548	733	904	1 371	1 634	2 015	1 316
Other capital movements	165	395	671	139	470	682	1 160	390	-421
Overall balance	13	163	339	80	393	1 031	1 148	-348	260
Variation in reserve assets[e]	-13	-163	-339	-80	-393	-1 031	-1 148	348	-260
Other external-sector indicators									
Real effective exchange rate (index: 2000=100)[f]	97.9	98.9	104.8	106.5	107.6	106.5	103.9	100.1	100.0
Terms of trade for goods (index: 2000=100)	98.4	96.9	95.5	91.9	88.3	85.8	84.9	81.7	84.4
Net resource transfer (millions of dollars)	-63	580	443	432	1 166	2 058	1 929	1 971	-203
Gross external public debt (millions of dollars)	5 265	5 310	5 575	5 710	6 485	6 994	8 341	8 857	8 036
					Average annual rates				
Employment									
Labour force participation rate[g]	55.8	55.4	55.5	54.4	56.8	56.6	57.0	56.7	56.5
Open unemployment rate[h]	5.8	6.8	6.7	6.7	6.9	6.0	4.8	4.8	7.6
Visible underemployment rate[i]	11.3	12.3	15.2	14.4	14.6	13.5	11.5	10.5	11.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	11.0	9.7	9.9	13.1	14.1	9.4	10.8	13.9	4.0
Variation in industrial producer prices (December-December)	8.6	8.4	11.0	17.7	12.1	13.7	14.6	23.5	-1.2
Variation in nominal exchange rate (annual average)	7.1	9.3	10.8	10.0	9.1	7.0	1.0	1.9	8.9
Variation in average real wage	1.0	4.1	0.4	-2.6	-1.9	1.6	1.4	-2.0	7.7
Nominal deposit rate[j]	13.4	14.0	12.6	11.5	12.1	11.4	7.1	5.4	8.7
Nominal lending rate[k]	26.7	26.8	26.2	23.4	24.0	22.7	17.3	16.7	21.6

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
	Percentages of GDP								
Non-financial public sector									
Total revenue	25.5	24.7	25.0	24.4	25.2	25.8	26.6	26.8	26.0
Current revenue	24.8	24.8	24.7	24.4	25.2	25.8	26.6	26.9	26.0
Tax revenue	19.6	19.8	19.9	19.7	20.2	20.7	22.1	22.8	21.3
Capital revenue	0.7	-0.1	0.4	-0.0	-0.0	-0.0	-0.0	-0.1	0.0
Total expenditure[l]	27.1	28.6	27.4	26.4	25.6	24.5	24.8	26.9	30.6
Current expenditure	22.2	23.3	22.8	22.2	21.8	21.0	20.7	21.1	24.1
Interest	4.0	4.3	4.3	4.1	4.2	3.8	3.1	2.2	2.2
Capital expenditure	4.8	5.2	4.5	4.1	3.8	3.5	4.1	5.3	6.4
Primary balance	2.4	0.4	1.9	2.1	3.8	5.2	4.9	2.1	-2.5
Overall balance	-1.6	-3.9	-2.4	-2.0	-0.4	1.3	1.8	-0.1	-4.6
Non-financial public sector debt	43.2	45.1	45.6	46.9	42.9	38.4	31.8	29.9	34.1
Domestic	28.1	28.7	27.0	27.6	25.5	23.4	19.6	18.1	23.0
External	15.2	16.4	18.6	19.3	17.4	15.0	12.2	11.8	11.1
Money and credit[m]									
Domestic credit	27.5	31.2	33.3	36.1	36.8	36.3	39.6	45.0	44.9
To the public sector	3.8	5.6	6.5	9.0	6.7	4.4	2.2	2.2	3.4
To the private sector	23.5	25.4	26.5	26.7	29.4	31.1	36.5	41.7	40.4
Other	0.1	0.1	0.3	0.4	0.7	0.8	0.9	1.1	1.1
Liquidity (M3)	33.8	36.3	37.1	42.6	44.0	44.3	43.8	46.8	49.5
Currency outside banks and local-currency deposits (M2)	19.1	20.4	20.9	21.0	22.3	23.5	25.6	24.8	25.6
Foreign-currency deposits	14.7	16.0	16.2	21.6	21.7	20.8	18.1	22.0	23.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Percentage of the working population; nationwide total.
[j] Average deposit rate in the financial system (net).
[k] Average lending rate in the financial system.
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.

The national open unemployment rate rose sharply (by 2.9 percentage points), following three years of decline. The impact of rising unemployment on economic activity was tempered by increased social spe nding. The real minimum wage index increased by 3.9%, aided by lower inflation.

The labour market is starting to reflect the recovery of economic activity in the last few months of 2009 and the first few months of 2010: the number of workers registered with the Costa Rican Social Security Fund showed a year-on-year average variation of 3.7% in the opening months of 2010. The recovering economy and rising international fuel prices also impacted inflation, which stood at 6.3% in June.

(c) The external sector

Exports of goods fell 7.4% in 2009, with sales to North America dropping by 13.2% and those to Central America off by 8.6%. Exports to the European Union posted a slight 1.7% decline while exports to China jumped 13%. Exports of traditional products fell by 13.7%, with sharp declines in coffee and banana exports (23.9% and 9.9%, respectively). Exports of non-traditional products declined more slowly (6.8%). Free trade zone exports shrank by a modest 3.9% and actually improved in the last few months of 2009. Some 30% of the decline in exports was due to falling exported volume, and the rest to lower prices.

The contraction in economic activity and the decrease in international food and fuel prices led to a 25.4% decline in imports and a correction of the external imbalance: the goods and services balance closed the year with a small surplus (equivalent to 0.5% of GDP), compared with a 9.3% deficit in 2008. There was a marked contraction in imports of intermediate goods, particularly fuels and lubricants (35.4%) and construction materials (37.5%). Imports of consumer durables fell by 37.9%. The terms of trade improved by 3.8%, which contrasts with the trend for the past 10 years.

Exports of services were also impacted by the international situation and fell 8.1%. Income from transport and travel services dropped by 21% and 9.2%, respectively, reflecting the decline in merchandise trade and tourism.

Table 2
COSTA RICA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	6.5	3.6	3.1	-1.8	-4.5	-2.4	-0.2	2.9	5.1	...
Goods exports, f.o.b. (millions of dollars)	2 408	2 521	2 404	2 171	2 081	2 241	2 211	2 244	2 394	1 625 [c]
Goods imports, c.i.f. (millions of dollars)	3 610	4 105	4 087	3 569	2 530	2 740	2 896	3 228	3 164	2 233 [c]
Gross international reserves (millions of dollars)	4 891	4 334	3 814	3 799	4 167	3 936	4 059	4 066	4 155	4 057
Real effective exchange rate (index: 2000=100) [d]	98.5	101.0	103.9	96.9	96.2	100.1	102.6	101.1	93.2	88.0 [c]
Consumer prices (12-month percentage variation)	11.0	12.8	15.8	13.9	12.3	8.2	4.8	4.0	5.8	6.2 [c]
Average nominal exchange rate (colones per dollar)	496	508	547	554	562	574	585	572	551	528
Average real wage (variation from same quarter of preceding year)	-6.1	0.8	-3.5	1.2	13.6	7.8	8.8	11.2	-4.0	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.0	3.7	5.1	7.6	8.5	8.5	9.4	8.0	6.4	6.4 [c]
Lending rate [f]	15.3	14.6	16.7	20.2	21.4	22.0	22.1	20.8	19.9	20.1 [c]
Interbank interest rate	2.9	2.7	6.8	4.8	4.4	6.4	6.1	4.0	3.6 [g]	...
Stock price index (national index to end of period, 31 December 2000=100)	235	232	209	177	114	116	123	139	137	135
Domestic credit (variation from same quarter of preceding year)	28.3	31.4	32.4	31.4	26.2	19.7	13.6	6.6	2.9	2.8
Non-performing loans as a percentage of total credit	1.3	1.2	1.3	1.5	1.9	2.1	2.2	2.1	2.2	2.4 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Average deposit rate in the financial system (net).
[f] Average lending rate in the financial system.
[g] Data to February.

Exports of business services are thought to have risen, however, thanks to the arrival of new businesses seeking to lower costs.

Income from family remittances totalled US$ 489 million for the year, a 16% drop compared with the previous year. Outward remittances, mainly to Nicaragua, closed the year at US$ 224 million, 12% less than in 2008. The financial account balance closed at US$ 688 million, compared with US$ 2.375 billion in 2008. However, in absolute terms this surplus was larger than the current account deficit.

Foreign direct investment inflows totalled US$ 1.323 billion, down from US$ 2.021 billion in 2008. Construction and tourism were particularly hard hit by the international economic situation and, unlike in 2008, there were no major acquisitions of Costa Rican companies by companies with foreign capital.

The external balance is expected to deteriorate in 2010 —albeit considerably less than in 2008— as economic activity recovers and international fuel prices rise. Exports, which have been back in positive growth territory since November 2009, posted a year-on-year average growth of 12.5% in the first five months of 2010. Imports have picked up also, and are outpacing the growth of exports: they showed an average increase of 26.8% for the first five months of 2010. As the international economy improves in 2010, exports of services and foreign direct investment flows also should grow.

El Salvador

1. General trends

In 2009, the world financial crisis took a heavy toll on economic activity in El Salvador, as overall GDP contracted by 3.5% and per capita GDP by 4%. The economy is expected to recover slightly in 2010, by about 1.5%.

Domestic demand decreased by 10%, while external demand was down 16.7%. As a result of the sharp drop in domestic demand, imports plummeted by 23.7%. This mitigated the contraction in GDP, cutting the current account deficit from 7.6% of GDP in 2008 to 1.8% in 2009. Given the upswing in domestic demand, the current account deficit is expected to stand at about 3% in 2010.

Average inflation dropped from 7.3% in 2008 to just 0.5% in 2009. A rekindling of inflation is expected in 2010, with the 12-month inflation rate projected to stand at about 2.5% by the end of the year.

As a result of the economic slowdown, and despite the steps taken to mitigate growth in public spending, the fiscal deficit —including pensions and trust funds— rose to 5.6% of GDP in 2009, up from 3.1% in 2008. Consequently, non-financial public sector (NFPS) debt climbed from 35.9% of GDP to 44.2%. The fiscal deficit is expected to decline in 2010, falling to 4.7% of GDP.

Although the solvency and profitability of several banks worsened slightly, the financial system has remained stable. Real lending rates have remained relatively high, and were just shy of 8% until mid-2010. Bank credit to the private sector once again contracted, and unless this situation improves, a stronger economic recovery is unlikely.

2. Economic policy

(a) Fiscal policy

The economic slowdown throughout 2009 caused tax revenue (including social security contributions) to fall by 8.9%, which lowered the tax burden from 14.6% of GDP in 2008 to 14% in 2009.

The new government which took office in June 2009 responded by expanding the austerity measures introduced by the previous government. This included a 15% cut in the national budget, restrictions on public sector hiring and the postponement of several investment projects. According to official estimates these measures, in conjunction with a reduction in the transportation subsidy, resulted in savings equivalent to 1% of GDP in 2009.

Part of the saving was used to finance the new government's anti-crisis plan, which will remain in effect until 2011. The plan includes a temporary employment programme and loan guarantees for the construction of low-cost housing, eliminates health service co-payments and provides uniforms and meals for low-income students.

As a result, real growth in NFPS current spending (including transfers to pensions and trust funds) fell to 4.3% from 5.1% in 2008 —owing to a 1.1% contraction in current transfers— and capital expenditure declined by 3.3%.

Despite the spending cuts, the NFPS deficit (including pensions and trust funds) rose from 3.1% to 5.6% of GDP. In the first three months of 2010, the government financed the budget shortfall by issuing US$ 300 million in short-term debt on the domestic market and rechannelled US$ 650 million in loans from the Inter-American Development Bank (IDB) originally intended to amortize a bond that comes due in 2011.

In September 2009, a possible standby agreement with the International Monetary Fund was announced, increasing the government's access to fresh funds from the World Bank and IDB. A 10-year, US$ 800 million sovereign bond was then placed on the international market in November, in order to replace short-term debt.

In December 2009, the legislative assembly passed a tax reform to augment tax revenue by 0.7% of GDP by increasing certain selective taxes, introducing new ones and eliminating certain tax exemptions. Along with the tax reform, various administrative measures were introduced to strengthen revenue-raising capacity.

Because of worsening public finances, total NFPS debt reached 44.2% of GDP in 2009 compared with 35.82% in 2008. Total public debt rose to 53% of GDP, nine percentage points higher than in 2008. External liabilities accounted for 66.8% of total NFPS debt and 58.6% of total public debt.

The IMF standby agreement signed in 2010, replacing the January 2009 agreement, is precautionary, and calls for a US$ 800 million, 36-month arrangement.

For 2010, the goal of fiscal policy is to lower the NFPS deficit, including pensions and trust funds, to 4.7% of GDP. This goal seems reasonable, given that in the first half of 2010 fiscal indicators have performed above the targets set in the IMF agreement.

(b) Financial policy

The uncertainty surrounding the March 2009 presidential elections was exacerbated by the international financial crisis, leading to a steep hike in nominal interest rates starting in September 2008. The six-month deposit rate rose, in real terms, from -0.1% at the end of 2008 to 3.9% at the end of 2009. In contrast with 2008, when the deposit balance remained constant, in 2009 it grew by a nominal 1.2%.

The real lending rate on loans of up to one year rose from 3.9% to 8.6% over 2009, reaching 11.2% in August. Along with the worsening situation in the credit markets, the hike in real interest rates led to reduced lending to the private sector for the second consecutive year. The balance was US$ 8.194 billion at the end of 2009, nearly US$ 520 million (6%) less than in 2008. The hardest-hit sectors were construction and housing, commerce and personal loans.

Non-performing loans in proportion to total lending reached 3.7% in December 2009, up from 2.8% twelve months earlier. This has required the establishment of continually higher reserves for loan losses. The loan-loss coverage of the non-performing portfolio stood at 109.9% in late 2009.

The gross intermediation margin in the financial system —measured as the difference between revenue and costs as a proportion of gross productive assets— rose slightly from 2008 to 2009. Taking operating expenses, loan loss provisions and taxes into account, the net intermediation margin declined sharply, standing at 0.36% in late 2009, while financial system profitability fell from 7.9% to 2.6%.

Nevertheless, bank capitalization stood at 16.5% in December 2009, well above the legal requirement of 12%. Since December 2008, when the requirement for an additional 3% on the liquidity reserve began to be phased out, excess reserves have been held. Reserves were around US$ 500 million in mid-2009 and ended the year at US$ 220 million. This is attributed to a preference for liquidity in light of the perception of risk by financial institutions.

Net international reserves stood at US$ 2.949 billion in late 2009, equivalent to nearly five months' imports and approximately 35% of M2. The 17.5% growth from 2008 is largely the result of the allocation of nearly US$ 200 million in special drawing rights by IMF in August.

3. The main variables

(a) Economic activity

The real economic growth rate was negative in 2009 (-3.5%) owing to a sharp contraction in domestic and external demand. Although government final consumption was up by 4.4%, overall consumption shrank by 9.9% while gross capital formation was down 17.4%. By asset type, investment in construction contracted by 0.9% and investment in machinery and equipment by 22%. As a result of the international financial crisis and the consequent fall in external demand, exports of goods and services dropped by 16.7% from 2008. This decrease was, however, more than offset by the 23.7% plunge in imports of goods and services during the same period.

All productive sectors except housing rentals and government services —which account for a combined 13% of GDP— contracted in 2009.

Value added in the agricultural sector fell for the first time in eight years (-2.2%), mainly as result of tropical storm Ida, which struck the country in late 2009.

The manufacturing sector, which accounts for more than a fifth of the country's GDP and which had posted average growth of 4% over the past 15 years, shrank by 3.4% as a result of lower demand for goods.

The construction sector, hard hit since 2008 by tight credit, experienced negative growth for the third year running and ended 2009 with a 0.7% contraction. This performance —an improvement over the 3.2% and 5.4% declines posted in 2007 and 2008— resulted from the boost given to the sector by the low-cost housing programme "Housing for Everyone" and the construction work carried out to repair the damage caused by floods in late 2009. By contrast, mining activity declined steadily, and in 2009 value added in the sector dropped by 14.4%.

As a result of waning private consumption, commercial activity was down 5.2% and the value added of basic services declined by 3.7%. Although housing rentals and government services posted slight gains, other services dropped by 3.4%.

In the early months of 2010 economic activity improved somewhat. According to the economic activity index, average 12-month growth was positive in the first quarter of 2010, although it was merely 0.2% in April.

The economy is expected to grow by close to 1.5% in 2010, as a result of a slight upswing in domestic demand resulting from a moderate increase in remittances and increased credit access. This upturn is expected to provide a boost to the services sector. The agricultural sector is expected to bounce back from the effects of tropical storm Agatha, which struck in June 2010. In addition, the manufacturing sector stands to benefit from the recovery of the country's leading trading partners.

(b) Prices, wages and employment

Influenced by international food and fuel prices as well as the sharp contraction in domestic demand, 12-month inflation declined throughout 2009, falling to -1.6% in October. This trend levelled off in the fourth quarter of 2009, owing to the upturn in some international prices as well as the rise in some food prices because of damage to harvests from storms and floods in November 2009. Year-on-year inflation at the end of 2009 was -0.2%, while average inflation for the year was 0.5%.

In January 2010, the baseline for the national consumer price index was updated to December 2009. As measured with the updated baseline, inflation rose in the first months of 2010, reaching 0.9% in the first quarter owing to selective tax hikes, increased charges for electric power and the targeted use of some subsidies, especially the gas subsidy.

Although inflation rose at a lower rate in the second quarter, the economic rebound, the upswing in some international prices and the lower reference point for the second half of 2009 are expected to translate into a 12-month inflation of close to 2.5% at the end of 2010.

The real urban minimum wage rose by 9.4% in 2009, up from 0.2% in 2008. The unemployment rate, which dropped to its lowest level in nearly two decades (5.9%) in 2008, is expected to have risen in 2009.

The number of private sector workers who contributed to the Salvadoran Social Security Institute fell by nearly 18,000 (3.8%), and in December 2009 the number stood at a level similar to that seen in late 2006. The sectors that shed the most jobs were manufacturing, commerce and construction, with a combined total of nearly 16,500 job losses.

(c) The external sector

The current account deficit fell from 7.6% of GDP in 2008 to 1.8% in 2009. This sharp reduction stemmed mainly

Table 1
EL SALVADOR: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
					Annual growth rates [b]				
Gross domestic product	1.7	2.3	2.3	1.9	3.3	4.2	4.3	2.4	-3.5
Per capita gross domestic product	1.2	1.9	2.0	1.5	2.9	3.8	3.9	2.0	-4.0
Gross domestic product, by sector									
Agriculture, livestrock, hunting, forestry and fishing	-2.6	0.4	0.9	2.8	5.1	5.7	8.5	7.3	-2.2
Mining and quarrying	11.4	5.7	3.4	-16.0	5.3	4.4	-2.1	-6.7	-14.4
Manufacturing	4.0	2.9	2.2	1.0	1.5	3.0	3.5	2.7	-3.4
Electricity, gas and water	4.6	7.4	4.5	3.4	3.8	4.7	2.8	2.4	-1.4
Construction	9.6	6.6	3.2	-9.8	4.0	6.5	-3.2	-5.4	-0.7
Wholesale and retail commerce, restaurants and hotels	1.9	1.5	2.7	2.4	4.4	4.9	4.3	1.4	-5.2
Transport, storage and communications	4.3	5.0	3.4	5.4	6.7	6.9	4.8	2.1	-3.9
Financial institutions, insurance, real estate and business services	-0.8	2.7	2.6	2.5	2.7	2.6	3.0	0.9	-2.1
Community, social and personal services	-0.3	-0.6	0.5	1.3	0.8	2.8	3.8	2.1	-0.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.2	1.5	1.9	2.8	4.8	4.8	7.9	3.9	-9.0
Government consumption	4.6	0.1	-0.3	1.1	2.1	2.2	-2.0	5.6	4.4
Private consumption	3.1	1.6	2.1	2.9	5.0	5.0	8.7	3.8	-9.9
Gross capital formation	5.1	-2.7	7.8	-3.9	4.4	15.5	-5.5	-4.7	-17.4
Exports (goods and services)	-0.2	6.0	4.7	3.6	-0.9	5.4	6.9	5.5	-16.7
Imports (goods and services)	4.2	1.5	4.8	2.6	3.4	9.4	8.4	4.7	-23.7
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	16.7	16.4	17.0	16.2	15.8	17.0	15.9	14.9	13.1
National saving	15.6	13.6	12.3	12.1	12.3	12.8	9.9	7.3	11.3
External saving	1.1	2.8	4.7	4.1	3.5	4.2	6.0	7.6	1.8
					Millions of dollars				
Balance of payments									
Current account balance	-150	-405	-702	-642	-610	-783	-1 221	-1 682	-374
Goods balance	-1 933	-1 865	-2 287	-2 660	-2 938	-3 533	-4 105	-4 394	-2 845
Exports, f.o.b.	2 892	3 020	3 153	3 339	3 447	3 759	4 039	4 611	3 861
Imports, f.o.b.	4 824	4 885	5 439	6 000	6 385	7 291	8 144	9 004	6 706
Services trade balance	-250	-240	-107	-79	-128	-192	-291	-584	-425
Income balance	-266	-323	-423	-458	-579	-531	-576	-536	-664
Net current transfers	2 298	2 023	2 114	2 555	3 035	3 472	3 750	3 832	3 561
Capital and financial balance [d]	-27	282	1 019	589	551	855	1 502	2 016	802
Net foreign direct investment	289	496	123	366	398	268	1 408	719	562
Other capital movements	-316	-214	895	224	153	587	93	1 297	240
Overall balance	-178	-124	316	-52	-59	72	280	334	429
Variation in reserve assets [e]	178	124	-316	53	59	-72	-280	-334	-429
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	99.8	99.6	100.2	98.9	100.8	101.4	102.7	104.4	101.8
Terms of trade for goods (index: 2000=100)	102.5	101.6	97.7	96.8	96.8	95.5	94.6	91.9	94.9
Net resource transfer (millions of dollars)	-293	-42	595	132	-28	324	925	1.480	138
Gross external debt (millions of dollars) [g]	3 148	3 987	7 917	8 211	8 761	9 586	9 075	9 711	9 710
					Average annual rates				
Employment									
Labour force participation rate [h]	53.3	51.2	53.4	51.7	52.4	52.6	62.1	62.7	62.8
Open unemployment rate [i]	7.0	6.2	6.2	6.5	7.3	5.7	5.8	5.5	7.1
Visible underemployment rate [j]	3.8	4.3	4.8	4.5	6.2	4.9	5.3	6.3	7.7
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	1.4	2.8	2.5	5.4	4.3	4.9	4.9	5.5	-0.2
Variation in wholesale prices (December-December)	...	0.3	2.6	6.8	7.5	3.9	10.8	-6.9	2.7

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
Variation in real minimum wage	-3.6	-1.8	2.1	-1.4	-4.5	-0.7	2.5	0.2	9.5
Nominal deposit rate [k]	5.5	3.4	3.4	3.3	3.4	4.4	4.7	4.2	4.6
Nominal lending rate [l]	9.6	7.1	6.6	6.3	6.9	7.5	7.8	7.9	9.3
	Percentages of GDP								
Non-financial public sector									
Total revenue [m]	14.9	15.5	16.2	16.3	16.2	17.3	18.0	18.2	17.0
Current revenue	14.4	14.7	15.7	16.0	15.9	17.1	17.7	17.9	16.5
Tax revenue	12.3	13.0	13.3	13.3	14.0	14.9	15.0	14.6	14.0
Capital revenue	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure [n]	19.3	19.9	19.9	18.7	19.2	20.2	19.9	21.3	22.5
Current expenditure	14.8	15.0	16.3	16.3	16.4	17.1	17.0	17.6	19.4
Interest	1.4	1.7	2.0	2.1	2.2	2.4	2.5	2.4	2.5
Capital expenditure	4.5	4.9	3.7	2.3	2.8	3.1	2.8	3.0	3.0
Primary balance	-2.9	-2.7	-1.7	-0.3	-0.8	-0.5	0.5	-0.7	-3.0
Overall balance	-4.4	-4.4	-3.7	-2.4	-3.0	-2.9	-1.9	-3.1	-5.6
Non-financial public sector debt	33.6	38.6	40.3	40.5	39.4	39.5	36.5	35.8	44.2
Domestic	11.7	11.6	11.4	12.0	12.6	10.7	10.6	11.3	14.7
External	21.9	27.0	28.9	28.6	26.8	28.8	25.9	24.5	29.6
Money and credit [o]									
Domestic credit	40.4	42.1	40.1	39.4	38.0	38.1	38.7	36.9	34.6
To the public sector	1.5	0.9	0.9	1.0	1.3	0.6	1.4	1.7	0.9
To the private sector	40.2	44.5	42.3	42.1	41.9	42.3	42.1	40.8	40.5
Others	-1.3	-3.4	-3.1	-3.7	-5.1	-4.7	-4.8	-5.6	-6.7
Currency outside banks and local-currency deposits (M2)	44.9	42.0	40.2	39.2	36.9	37.8	40.9	42.4	45.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Based on figures in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Figures refer to total external debt; up to 2002, figures refer to public external debt.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentages of the economically active population; nationwide total.
[j] Percentages of the economically active population; urban total.
[k] Reference rate for deposits of up to 180 days in the financial system.
[l] Reference rate for 1-year loans in the financial system.
[m] Includes grants.
[n] Includes net lending.
[o] The monetary figures are end-of-year stocks.

from the decline in the trade deficit from 22.5% to 15.5% of GDP in the same period. The relative improvement in the trade balance offset the higher income balance deficit as well as the lower surplus in the transfers balance.

After rising by 14.2% in 2008, goods exports plummeted by 16.5% in 2009 as a result of falling demand from the country's leading trading partners. By destination, exports outside Central America declined by 17.6% while those to the rest of Central America dropped by 14.8%.

The hardest hit category of products was maquila exports, which fell by 22.9%, owing largely to lower demand in the United States. Exports of non-traditional products, which account for more than half of all exports, contracted by 12.9%. Traditional exports fell by just 4.7%, because the 11% reduction in coffee exports was partially offset by sharply higher sugar prices, thanks to which the value of sugar exports climbed by 17%.

Lower goods exports were offset by a substantial fall in imports (25.6%). More than a third of this reduction stemmed from the fall in international oil prices, which lowered the oil bill from US$ 1.865 billion (8.4% of GDP) to US$ 1.085 billion (5.1% of GDP).

Despite fewer visits by Salvadorans residing abroad, in 2009 the services balance rallied somewhat, partly owing to lower transport costs, and ended the year with a surplus of 2% of GDP.

The deficit in the income balance rose by 0.7% to 3.1% of GDP, owing to the higher profits repatriation and dividend payments to foreign firms as well as lower interest received.

Table 2
EL SALVADOR: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.3	3.0	2.1	1.3	-1.7	-3.5	-4.1	-4.9	-0.5	...
Goods exports, f.o.b. (millions of dollars)	1.055	1.249	1.195	1.050	968	956	965	908	1.084	718 [c]
Goods imports, c.i.f. (millions of dollars)	2.309	2.660	2.598	2.187	1.763	1.778	1.799	1.915	1.988	1.409 [c]
Gross international reserves (millions of dollars)	2.275	2.305	2.263	2.545	2.524	2.788	2.751	2.987	2.608	2.684
Real effective exchange rate (index: 2000=100) [d]	105.5	106.4	105.2	100.6	99.2	100.7	102.8	104.4	102.8	103.8 [c]
Consumer prices (12-month percentage variation)	6.0	9.0	8.7	5.5	3.3	0.2	-1.3	-0.2	0.9	0.1 [c]
Wholesale prices (12-month percentage variation)	14.9	17.7	11.9	-6.9	-11.4	-14.7	-12.6	2.7	4.8	4.8 [e]
Average nominal exchange rate (colones per dollar)	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75	8.75
Nominal interest rates (annualized percentages)										
Deposit rate [f]	3.8	3.8	4.2	5.0	5.2	4.9	4.2	3.7	3.5	3.2 [c]
Lending rate [g]	7.6	7.3	7.5	9.1	9.6	9.5	9.3	8.9	8.5	8.0 [c]
Interbank rate	...	3.6	4.0	5.6	...	...	...	...	...	0.7 [c]
Domestic credit (variation from same quarter of preceding year)	10.3	11.4	11.6	3.5	0.4	-1.5	-4.1	-10.5	-7.4	-7.3 [c]
Non-performing loans as a percentage of total credit	2.4	2.4	2.8	2.9	3.2	3.8	4.2	3.8	4.0	4.3 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to April.
[f] Reference rate for deposits of up to 180 days in the financial system.
[g] Reference rate for 1-year loans in the financial system.

As a result of the jump in the Hispanic unemployment rate in the United States, which reached 13.1% in October, remittance receipts were down US$ 322.8 million, or a nominal 9%, in 2009. The transfers balance fell to US$ 3.55 billion (16.8% of GDP).

In 2009, the capital account increased by close to US$ 50 million owing mainly to transfers related to the Millennium Fund (FOMILENIO), an entity created by the government of El Salvador to administer cooperation funds provided by the United States to develop the north of the country.

The financial account surplus fell from 7.4% of GDP in 2008 to 4% in 2009, as a result of a significant reduction in bank liabilities, as banks utilized the excess liquidity to pay down their external debt. FDI inflows totalled US$ 430.7 million in 2009, or US$ 350 million less than in 2008. A third of this amount corresponds to FDI in the form of inter-company loans, while much of the remainder went to the financial sector (US$ 95.2 million), the maquila industry (US$ 71.7 million) and manufacturing (US$ 55.9 million).

The impact of the international financial crisis on international food and fuel prices meant that terms of trade for El Salvador improved by close to 10% in the 12 months ending in October 2009. Given the low rate of inflation, both the real effective exchange rate and the bilateral exchange rate with the United States dollar appreciated by approximately 2% in 2009 following a depreciation of close to 4% in 2008.

Guatemala

1. General trends

In 2009, the Guatemalan economy faced serious challenges as attempts were made to mitigate the impact of the global financial crisis, and in particular the impact of the recession in the United States. As result of the fall in exports, remittances, FDI and tourism, real GDP grew by only 0.6%, down from 3.3% in 2008, while per capita GDP contracted by 1.9%. The increase in the trade deficit (to 9.8% of GDP) was offset by the inflow of remittances (10.5% of GDP), notwithstanding the decline in the latter. The balance-of-payments current account deficit (0.6% of GDP) was partially financed with incoming FDI (1.6% of GDP), which, although lower than in 2008, was significant given the international economic crisis.

Year-on-year inflation as of December was -0.3%, owing to lower international oil and food prices, the economic slowdown and the management of monetary policy. Public finance was strained by lower tax receipts, which stood at 10.7% of GDP, or one percentage point lower than in 2008. The central government's deficit thus doubled from the previous year's level to 3.2% of GDP.

In two and a half years in office, President Álvaro Colom has been faced with the challenge of keeping his commitment to maintain macroeconomic stability and award more priority to social policy and rural development amid an acute global economic crisis. Legislative changes are required to increase the amount of fiscal resources that can be used to meet the country's urgent economic and social needs.

In 2010, the economy is expected to experience moderate growth (about 2%). Although stronger demand for export manufactures and agricultural products is projected, the eruption of the Pocaya volcano and tropical storm Agatha are expected to lead to lower output. Annual inflation is expected to stand at about 5%, as a result of the economic recovery in the United States and increased external flows. Authorities project a central government fiscal deficit of close to 3% of GDP.

2. Economic policy

(a) Fiscal policy

For 2009, Congress approved a solidarity tax, which took effect in January of that year, replacing the temporary extraordinary tax equivalent to 1% of GDP levied to support the peace agreement. Nevertheless, a year and a half after the executive submitted a bill to overhaul the tax system and collect an additional 1% of GDP, its attempts to persuade Congress and top business leaders reached an impasse. Deliberations on the proposed reform continued in the first half of 2010.

In May 2009, because of the global financial crisis, the economic slowdown and declining real tax receipts, the budget was cut in accordance with the Rules for Adjusting the Budget Performance in Fiscal Year 2009, to limit the budget shortfall to about 2% of GDP.

Total central government revenue fell by 5.9%, in real terms, in 2009, as a result of the economic downturn. Tax collection —excluding social contributions— fell by 6.2%, mainly because of the drop in indirect revenue (down by 8.1%), in particular value added tax (down by 8.6%) and import tax (down by 13.4%) receipts. Revenue from direct taxes decreased by 1.7% as a consequence of a 3.7% drop in income tax receipts. All told, the tax burden stood at 10.7% of GDP, one percentage point lower than in 2008.

Total spending in real terms rose by 6.5%. Current spending increased by 12.9%, driven by higher wages (up by 18.4%) and transfers and other income (up by 13.9%). Social spending rose by 23.6%. Nevertheless, capital expenditures fell by 6.7%. Hence, the central government's deficit rose from 1.6% of GDP in 2008 to 3.2% in 2009.

In 2010, public finance is expected to come under a certain amount of pressure. At the end of 2009, the failure to approve the budget made it necessary to adjust expenditures. In April 2010, a 4.5 billion quetzal bond issue to narrow the financing gap was approved. In addition, new public investment is needed in the wake of the natural disasters that hit the country in May and June 2010, and the government therefore negotiated additional loans of US$ 85 million in May with the World Bank.

The external public debt had risen, in nominal, year-on-year terms, by 12.5% as of December 2009. It thus stood at 13.2% of GDP, two percentage points higher than in 2008, and remains among the lowest in the region. The domestic debt climbed by 16.7% and stood at 10% of GDP at the end of 2009. Total indebtedness as a percentage of GDP increased from 20.1% in 2008 to 23.3% in 2009. It is expected to fall slightly in 2010 owing to the improved economic situation.

Throughout 2009, the leading rating agencies maintained their assessment of Guatemala's long-term sovereign debt unchanged with a stable outlook.

In 2009, the country received loans from the World Bank (disbursements of US$ 200 million) and the Inter-American Development Bank (US$ 650 million of which US$ 280 was disbursed in 2009), as well as precautionary funding from a standby agreement with the International Monetary Fund in April (US$ 935 million, due in 18 months) to finance various development programmes and ensure external liquidity to weather the economic crisis.

In early 2009, the start up of the National Emergency Economic Recovery Programme was announced. The programme aims to boost the anti-cyclical stimulus of public spending, provide social protection to at-risk sectors, make the budget more fiscally sustainable and promote competitiveness. Nevertheless, the programme failed to sufficiently mitigate the harmful effects of the crisis on poverty and inequality owing to the lack of financing caused by the failure to pass fiscal reform.

(b) Monetary and exchange-rate policies

In December 2009, in a context of lower inflation and waning external demand because of the global financial crisis, the authorities reduced the monetary-policy interest rate on seven-day deposit certificates to 4.5% from the 7.25% rate that had prevailed in 2008. The rate remained unchanged in the first six months of 2010 because the macroeconomic situation was perceived as stable.

In 2009, the nominal quetzal-dollar exchange rate saw intermittent volatility as a result of the international crisis and the dwindling sources of external financing. Over the course of the year, the real bilateral exchange rate with the United States dollar depreciated 5.0% in comparison with the 2008 average. The Monetary Board responded to the international financial crisis by changing the rule on exchange-rate interventions in order to afford the Bank of Guatemala greater discretion to counter the unusual volatility in the nominal exchange rate. The Board also authorized the central bank to inject up to US$ 290 million in liquidity into the banking system until 31 May 2009. In addition, the band in which moving average of the flexible exchange-rate system is allowed to fluctuate was broadened from 0.50% to 0.75%, which alleviated exchange-rate uncertainty. Starting in February 2010, the Monetary Board also authorized the transfer of pension funds invested in private financial companies to the banking system, where they would be classified as scheduled savings deposits.

The money supply (M1) increased by 5.7%, in nominal, year-on-year terms in 2009, while M2 increased by 7.5%. The broad money supply (M3) expanded by 10%, driven by a 26% growth in foreign-currency deposits. These trends point to the private sector's preference for safer assets, in light of global financial uncertainty and exchange-rate instability.

Average nominal lending rates rose by one half of a percentage point from 2008, to 13.9%, while deposit rates climbed from 5.2% in 2008 to 5.6% in 2009. Private sector credit grew by only 1%, in nominal, year-on-year, terms, ten percentage points lower than the growth in 2008. Hence, it GDP terms, credit slipped from 29.5% in 2008 to 29% in 2009. This is explained by financial institutions' more rigorous examination of potential lenders in addition to lower demand as a consequence of the economic slowdown. Public sector lending diminished by 53%. Net international reserves increased from 29% to 39% because of revenue and disbursements from international financial agencies, which rose to US$ 4.65 billion, or the equivalent of 4.5 months of goods and services imports.

The strengthening of the legal and regulatory framework in 2002, as well as the lack of close ties with the United States' financial system, enabled Guatemala's banking system to emerge from the global economic crisis relatively unscathed. In December 2009, the country's banks reported declining profits, a narrowing financial intermediation margin and a rising ratio of non-performing loans to total lending (from 2.3% in 2008 to 2.7% in 2009) within a context of higher costs for funding and greater difficulties in obtaining it. Provisions on portfolio losses were also raised, which reduced financial market uncertainty. The banking system is expected to see growth once again in 2010 as private sector lending resumes.

(c) Trade policy

Guatemala continued trade negotiations with Canada in 2009. The country's free trade agreement with Chile took effect in March 2010, and in May Central America and the European Union concluded negotiations and signed an association agreement.

According to the World Economic Forum's Global Enabling Trade Report, the business climate in Guatemala worsened between 2009 and 2010 as the country dropped from fifty-eighth place to sixty-ninth out of 121 countries. The categories in which the country declined the most were regulatory environment and physical security. Still, it improved in six international-comparison indexes, moving up, for example, from eighty-fourth to eightieth place in competitiveness.

The country's severe food crisis was further aggravated by drought in 2009. The European Union said that it would donate some US$ 50 million in 2010 and 2011 to bolster food security in rural areas. In 2010, the European Union and the Central American Bank for Economic Integration signed agreements for US$ 2.3 million to promote economic and social development in Guatemala. With these and other funds, in 2009 and 2010 the Government of Guatemala was able to attend to families' most urgent needs and has prepared sustainable development community projects.

The Executive Board of the International Monetary Fund concluded Article IV Consultation with Guatemala in February 2010.

3. The main variables

(a) Economic activity

Real GDP rose by only 0.6% in 2009 as a result of the severe (16.8%) contraction of gross fixed investment and the slight increase (0.7%) in private consumption that was only partially offset by the 8.8% growth in public consumption (8.8%). Consequently, per capita GDP fell by 1.9%. In 2010, real GDP is expected to grow by about 2%, causing per capita GDP to once again decline.

Agricultural output grew by 1.7% in 2009, as the near stagnation that began in the sector the previous year continued. Traditional crop production saw 9.1% growth, but non-traditional crops contracted by 0.4%, while livestock, forestry and fishing production increased by 1.8%. Output in basic services increased by 3.8%, far below the 11.8% growth in 2008. Other services, such as commerce, restaurants, finance and community and social services, grew by 3%, one and a half percentage points lower than in 2008. Industrial growth remained lacklustre (1%), while mining output fell by 1.1% and construction by 13.4% owing to the deteriorating business climate and scarce credit for private projects.

The monthly index of economic activity pointed to a slight recovery starting in July 2009. For April 2010, the index rose by an annualized 2.6%, half a percentage point higher than in April 2009.

Table 1
GUATEMALA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	2.3	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.6
Per capita gross domestic product	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.2	5.4	2.5	4.2	2.1	1.3	5.9	0.9	1.7
Mining and quarrying	0.8	16.0	-6.0	-11.9	-3.2	17.6	13.9	-4.3	-1.1
Manufacturing	1.1	1.1	2.5	4.9	2.6	3.8	3.0	2.0	0.9
Electricity, gas and water	-3.0	5.1	4.9	3.6	2.7	3.0	6.3	1.6	0.1
Construction	12.2	15.4	-3.7	-8.9	4.5	13.1	8.8	-0.8	-13.4
Wholesale and retail commerce, restaurants and hotels	2.7	2.0	1.5	3.1	3.2	3.9	4.1	2.0	-1.6
Transport, storage and communications	6.8	7.8	10.0	15.4	11.3	18.6	22.8	14.6	4.7
Financial institutions, insurance, real estate and business services	0.3	5.0	5.9	5.5	5.3	6.0	5.5	4.9	4.0
Community, social and personal services	3.5	3.1	1.4	0.5	2.3	5.4	6.0	5.7	5.0
Gross domestic product, by type of expenditure									
Consumption	4.0	3.0	3.3	2.8	4.0	4.7	5.7	5.0	-0.9
General government	5.4	-0.1	-1.5	-6.6	1.7	5.7	8.3	11.3	5.0
Private	3.8	3.4	3.9	3.9	4.3	4.6	5.5	4.4	-1.5
Gross capital formation	1.8	9.3	-3.1	-1.2	4.3	15.7	5.0	-6.2	-7.0
Exports (goods and services)[)]	-4.0	0.7	-0.5	8.2	-2.1	4.8	9.4	-0.2	-6.0
Imports (goods and services)	6.9	2.0	0.5	5.7	-0.6	6.5	7.2	-5.7	-8.0
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	19.7	20.6	20.3	20.8	19.7	20.8	20.8	16.4	16.8
National saving	13.2	14.5	15.6	16.0	15.2	15.8	15.6	11.8	16.2
External saving	6.5	6.1	4.7	4.9	4.6	5.0	5.2	4.5	0.6
					Millions of dollars				
Balance of payments									
Current account balance	-1 211	-1 262	-1 020	-1 165	-1 241	-1 524	-1 786	-1 773	-217
Goods balance	-2 212	-2 837	-2 960	-3 632	-4 191	-4 852	-5 487	-5 575	-3 301
Exports, f.o.b.	4 111	4 224	4 526	5 105	5 460	6 082	6 983	7 847	7 330
Imports, f.o.b.	6 322	7 061	7 486	8 737	9 650	10 934	12 470	13 421	10 632
Services trade balance	-146	-251	-263	-244	-142	-260	-310	-276	-370
Income balance	-68	-275	-303	-410	-485	-680	-843	-927	-948
Net current transfers	1 215	2 102	2 506	3 122	3 577	4 268	4 854	5 004	4 402
Capital and financial balance [d]	1 686	1 269	1 554	1 769	1 479	1 776	2 002	2 106	690
Net foreign direct investment	488	183	218	255	470	552	720	737	543
Other capital movements	1 198	1 085	1 337	1 514	1 009	1 225	1 283	1 368	147
Overall balance	475	7	535	604	239	252	216	333	473
Variation in reserve assets [e]	-475	-7	-535	-604	-239	-252	-216	-333	-473
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	96.1	88.7	88.6	85.8	79.3	76.9	76.3	72.5	75.1
Terms of trade for goods (index: 2000=100)	96.7	95.8	93.0	92.1	91.3	89.6	87.9	85.6	92.9
Net resource transfer (millions of dollars)	1 618	993	1 251	1 359	995	1 096	1 160	1 179	-258
Gross external public debt (millions of dollars)	2 925	3 119	3 467	3 844	3 723	3 958	4 226	4 382	4 928
					Average annual rates				
Employment									
Labour force participation rate [g]	…	61.5	61.4	56.1	…	…	...	...	...
Open unemployment rate [h]	...	5.4	5.2	4.4	…	...	...	...	...
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	8.9	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3
Variation in nominal exchange rate (annual average)	1.0	-0.2	1.3	0.4	-3.9	-0.5	0.9	-1.2	7.4
Variation in average real wage	0.5	-0.9	0.4	-2.2	-4.0	-1.1	-1.6	-2.6	0.1
Nominal deposit rate [i]	8.8	7.1	5.2	4.5	4.6	4.7	4.9	5.2	5.6
Nominal lending rate [j]	19.0	16.9	15.0	13.8	13.0	12.8	12.8	13.4	13.8
					Percentages of GDP				
Central administration									
Total revenue	12.4	12.8	12.5	12.3	12.0	12.7	12.8	12.0	11.2
Tax revenue	11.1	12.2	11.9	11.8	11.5	12.1	12.3	11.5	10.7
Total expenditure	14.5	13.9	15.1	13.4	13.7	14.7	14.3	13.6	14.3
Current expenditure	10.3	9.7	10.1	9.2	9.1	9.4	9.5	9.2	10.2
Interest	1.6	1.4	1.3	1.4	1.4	1.4	1.5	1.4	1.4

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Capital expenditure	4.2	4.2	5.1	4.3	4.6	5.3	4.8	4.5	4.1
Primary balance	-0.6	0.3	-1.3	0.3	-0.3	-0.6	0.0	-0.3	-1.7
Overall balance	-2.1	-1.1	-2.6	-1.1	-1.7	-1.9	-1.4	-1.6	-3.2
Central-government public debt	20.2	18.4	20.9	21.4	20.8	21.7	21.3	20.1	23.3
Domestic	6.3	5.0	6.3	6.7	7.9	8.8	9.2	8.9	10.1
External	13.9	13.3	14.6	14.7	12.8	12.9	12.1	11.3	13.2
Money and credit [k]									
Domestic credit	18.3	18.1	18.4	17.7	21.4	25.4	27.6	26.5	27.2
To the public sector	-3.8	-3.1	-2.9	-3.9	-2.5	-2.3	-2.6	-2.8	-2.0
To the private sector	20.6	20.0	20.4	20.9	23.2	27.1	29.9	29.0	29.0
Others	1.5	1.1	0.9	0.7	0.6	0.7	0.4	0.4	0.2
Liquidity (M3)	32.1	31.7	33.5	34.0	35.7	38.3	37.0	35.2	37.6
Currency outside banks and local-currency deposits (M2)	30.7	29.6	30.7	30.3	31.8	34.0	32.3	30.4	31.7
Foreign-currency deposits	1.4	2.0	2.8	3.7	3.9	4.3	4.7	4.8	5.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2001 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total.
[i] Average rate for deposits in the banking system.
[j] Weighted average lending rates.
[k] The monetary figures are end-of-year stocks.

(b) Prices, wages and employment

As of December 2009, the consumer price index had declined by 0.3%, year-on-year, compared with a 9.4% increase in 2008. The cost of educational services fell by 4.4%, while prices for food and non-alcoholic beverages dropped by 2.8% and medical care and transportation and communication costs rose moderately (4.4% and 3.4%, respectively). On average, prices rose by an annual rate of 1.7%. The government set an annual inflation target of 4%-6% for 2010. As of June, the year-on-year price increase was 4.1%.

In 2009, the minimum wage rose by 10.6% for agricultural workers and by 7.2% for others except those in the maquila sector. Because of the negative rate of inflation, real wages increased on average by 6.2% —the first increase in four years. No official information has been released on unemployment since March 2008. For 2010, a number of analysts are predicting an unemployment rate of 5%, down from the 7% estimated rate in 2009, owing to the improved economic outlook. An adjustment setting a uniform daily minimum wage of 56 quetzals in both agricultural and non-agricultural activities took effect in January 2010. Nominal farm wages thus rose by 7.7%, and maquila wages rose from 47.8 to 51.8 quetzals per day, that is, by a nominal 8.5%.

(c) The external sector

The goods and services trade deficit narrowed from 15.0% of GDP in 2008 to 10.1% in 2009. The economic slowdown and the current-transfers surplus (12.1% of GDP) helped to mitigate the commercial deficit. Hence, the deficit of the balance-of-payments current account thus stood at 0.6% of GDP, four percentage points lower than in 2008. For the first time in ten years, the terms of trade in goods improved, rising by 6.7%. However, when services are factored in, the overall terms of trade improved by 5.2%. For 2010, the global economic recovery is expected to lead to higher rates of growth of exports and imports and a current account deficit of close to 3% of GDP.

Total exports fell by 6.6% from 2008 to 2009. Traditional exports rose by 4.6%, driven mainly by stronger exports of cardamom (46.2%), bananas (34.9%) and sugar (34.5%). Non-traditional exports declined by 10.2%, including, most notably, lower sales of natural rubber (-30%), wood and manufactures (-18.5%), garments (-15.3%), food products (-15.2%) and chemicals (-14.6%). Exports to Central America declined by 15.9%, led by the drop in manufactures. Exports to the rest of the world fell by 4.5%. Exports rose by 17.7% between May 2009 and May 2010.

Table 2
GUATEMALA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	2.8	2.0	1.3	2.7	1.4	2.3	2.7	1.5	3.1	...
Goods exports, f.o.b. (millions of dollars)	1 879	2 111	2 069	1 679	1 841	1 858	1 718	1 796	2 163	1 462 [c]
Goods imports, c.i.f. (millions of dollars)	3 490	3 996	3 822	3 238	2 632	2 765	2 949	3 185	3 055	2 298 [c]
Gross international reserves (millions of dollars)	4 338	4 771	4 745	4 659	5 030	5 137	5 087	5 213	5 547	...
Real effective exchange rate (index: 2000=100) [d]	76.0	74.2	71.3	68.4	71.3	74.5	76.5	78.2	75.8	74.0 [c]
Consumer prices (12-month percentage variation)	9.1	13.6	12.7	9.4	5.0	0.6	0.0	-0.3	3.9	3.5 [c]
Average nominal exchange rate (quetzales per dollar)	7.7	7.6	7.5	7.6	7.9	8.1	8.2	8.3	8.2	8.0
Nominal interest rates (annualized percentages)										
Deposit rate [e]	5.0	5.1	5.3	5.4	5.6	5.7	5.7	5.6	5.6	5.6 [c]
Lending rate [f]	12.9	13.3	13.6	13.8	13.9	13.8	13.9	13.7	13.5	13.4 [c]
Domestic credit (variation from same quarter of preceding year)	19.5	15.2	8.6	8.5	6.3	14.3	11.1	5.5	9.7	...
Non-performing loans as a percentage of total credit	2.9	2.6	2.6	2.4	2.6	3.0	3.2	2.7	2.7	2.7 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Monthly index of economic activity – year-on-year variation of the quarterly average.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Average rate for deposits in the banking system.
[f] Average rate for loans by the banking system.
[g] Data to April.

Total imports decreased by 20.8% between 2008 and 2009, mainly because of the 24.2% decline in intermediate goods purchases. The oil bill accounted for 17.6% of total imports (5.9% of GDP in 2009 versus 7.2% in 2008). The next largest decline was in capital goods imports, which were down 22%, followed by consumer goods, which fell by 12.1%. In May 2010, imports were up 21.6%, year-on-year.

The external deficit in factor income and transfers rose by 2.3% owing to the continued repatriation of profits abroad (US$ 785 million) and to interest payments (US$ 400 million). Despite declining by 12%, current transfers —mostly family remittances— continued to mitigate the current-account deficit. Family remittances stood at US$ 3.91 billion, 9.3% lower than in 2008. Remittances are expected to climb in 2010 as a result of the rekindling of the United States economy.

In 2009, the financial and capital accounts not including errors and omissions of the balance of payments posted a US$ 92 million deficit —in a sharp downturn from the US$ 1.22 billion surplus in 2008. FDI declined by 24.9%, to 1.6% of GDP, one-half percentage point lower than in 2008. The bulk of FDI went to communications (reinvestments by telephone operators), energy and services (calls centres). Because of the recession, net capital inflows (including errors and omissions) exceeded the current account deficit, such that the balance of payments had a positive balance of US$ 473 million.

Honduras

1. General trends

The Honduran economy contracted by 1.9% in 2009, owing to both the adverse effects of the international financial crisis and the political crisis in the country. Manufacturing output declined and activity in the agricultural and construction sectors slowed. Inflation was 3%, the lowest rate since 1987. The fiscal deficit increased from 2.5% of GDP in 2008 to 6.2% at the end of 2009.

The economic slowdown in Honduras in 2008 worsened in the first quarter of 2009 owing to a sharp drop in external demand and a decline in domestic demand as foreign-exchange inflows from remittances fell. This was magnified by the adverse effects of the domestic political crisis caused by the expulsion from office of President Zelaya in late June 2009, which heightened political and economic uncertainty.

The political crisis severely damaged relations with the international community and led to the withdrawal of financial support by the International Monetary Fund (IMF) and multilateral banks, causing both public and private investment to decline yet further and domestic consumption to fall.

However, since presidential elections were held on 29 November 2009 and President Porfirio Lobo Sosa took office at the beginning of 2010, relations between Honduras and the international community and multilateral financial bodies have gradually been re-established.

By May 2010, relations with IMF, the World Bank, the Inter-American Development Bank (IDB) and the Central American Bank for Economic Integration (CABEI) had been restored. In May, Honduras was a signatory to the free trade agreement with the European Union. Honduras has also entered into negotiations with the United States with a view to extending the temporary protected status (TPS) of Honduran migrants for the ninth time. Against the backdrop of a recovering international economy, the country's trade within and beyond the region is projected to improve and investment and consumption are expected to pick up as family remittance flows and foreign trade are re-established. The economy is accordingly forecast to grow by about 2.5% in 2010, while inflation could be close to the target set by the Central Bank of Honduras (6%, with a margin of 1% either side).

In view of the increase in the public-sector deficit at the end of 2009, the National Congress passed an act for the enhancement of revenues, social equity and rationalization of public expenditure, by virtue of which the deficit is supposed to fall to 4.4% of GDP by the end of 2010. This could negatively impact economic recovery efforts, although the adverse effects may be counteracted by the possible signing in the third quarter of 2010 of an agreement with the IMF enabling the World Bank and IDB to grant additional loans worth approximately US$ 300 million.

2. Economic policy

(a) Fiscal policy

Fiscal policy remained expansionary in 2009, the result being a fiscal deficit of 6.2% of GDP, compared with 2.5% at the end of 2008. Spending increased to 63,669.1 million lempiras (23.5% of GDP), an 8.5% rise in nominal terms from the level of December 2008. A policy of public-sector wage increases continued to be applied, unsustainable though this was in the face of falling tax revenues. There was a large drop in public investment (26.2%), in contrast with the 16.3% growth seen in 2008. The rise in spending was financed mainly from central bank lending. This was expected to be short-term, but the maturity had to be extended to 10 years because of the political crisis, the continuing decline in fiscal revenues and the suspension of external financing.

As a result of the crisis, tax pressure fell by more than 3 billion lempiras to 39.035 billion lempiras (14.5% of GDP). As a result, according to official central bank figures, the fiscal deficit, including floating debt, stood at 16.662 billion lempiras at the end of 2009 (6.2% of GDP). Since international credit was no longer available, the deficit was financed primarily with domestic credit, causing total domestic debt (including the debt owed to the Central Bank of Honduras) to rise to 21.017 billion lempiras (7.7% of GDP).

The total deficit of the non-financial public sector rose to 11.734 billion lempiras (4.3% of GDP) as receipts from sales of goods and services fell, mainly owing to a drop in revenues at the National Electric Power Company (ENEE) and a rise in current expenditures, particularly wages.

The Act for the enhancement of revenues, social equity and rationalization of public expenditure was recently passed with a view to correcting the fiscal imbalance in 2010. The Act introduces significant reforms to the Honduran tax system, including some income tax changes; for example, it provides for the temporary solidarity contribution to be raised to 10.0% and then reduced annually until it is phased out completely in the 2015 tax year. It also reintroduces the dividend tax at a flat rate of 10.0%. The reforms likewise include changes to the sales tax and the introduction of a selective vehicle import tax of between 10% and 60%. Lastly, the Act provides for measures to rationalize public expenditure and improve tax collection. With the new legislation the authorities hope to reduce the central government deficit to 4.4% of GDP by the end of 2010.

(b) Monetary and exchange-rate policies

The central bank maintained an expansionary monetary policy during the first half of 2009 in order to stimulate lending to the private sector, which had dropped because of the international financial crisis. Among the main measures adopted were the establishment of differential reserve requirements, with a 0% requirement for banks providing housing loans, and reduction of the monetary policy rate by 5.5 percentage points to 3.5% by the end of the semester. Seven-day open market operations were suspended and the interest rate on central bank bills with 4- to 12-month maturities was cut to 2.0% at the end of July 2009. These measures were intended to encourage lending to businesses. Among the countercyclical policies adopted was the approval in early 2009 of the BANHPROVI trust fund underwritten by the Honduran Bank for Production and Housing (BANHPROVI) and the central bank to spur lending to the private sector. This policy was unsuccessful because of the absence of a complementary industrial policy and technical support programmes for micro and small enterprises. What is more, no programmes were created to support domestic demand. While domestic political uncertainty dampened demand for consumer credit, the steep drop in external demand had the same effect on business borrowing.

One of the main measures taken by the central bank in 2010 was its review of the financial conditions of the BANHPROVI trust fund with a view to stimulating lending to the sectors that can generate the most value added in the economy in the shortest time, namely housing, production and microcredit.

The fall in demand for credit (as a result of lower demand in the production sector and higher real interest rates), the lack of other investment assets (because of the suspension of seven-day open market operations) and the cut in the interest rate applied to auctions of central bank instruments forced the treasurers of banking institutions to change their strategy for attracting deposits and cut the deposit rate by 3.71%, the result being an 8.65 percentage point increase in the interest-rate spread.

There was a change in the distribution of lending, with 49.5% going to enterprises and 50.5% to households.

The monetary authorities are expecting an increase of about 6% in the outstanding private-sector credit balance in 2010 on account of the upturn in demand and reduced risk aversion on the part of banking institutions as the country's political and economic situation stabilizes.

To keep inflation down, the exchange rate was held steady at 18.8951 lempiras per United States dollar. In a climate of uncertainty, this exchange-rate rigidity led to an increase in the velocity of money that resulted in lower demand for local currency. In combination with an expansionary monetary policy, this exacerbated a loss of reserves that had amounted to US$ 343.7 million by the end of 2009. Net international reserves stood at US$ 2,116.3 million, covering approximately three months of imports. The monetary authorities set themselves the target of increasing reserves by US$ 62 million in 2010 (0.6 months of imports).

Inflation remained relatively low (3.0%) as a result of the drop in domestic demand and the absorption of liquidity caused by the loss of reserves. The exchange rate appreciated by 0.9% in real terms over the course of 2009 compared with December 2008.

In May 2009 the central bank revised its monetary policy for the second semester with a view to stabilizing the economy, resuming open market operations and setting a unified reserve requirement of 6.0%. In keeping with the decisions taken, the deposit rate increased by 1.24% during the second semester, and although the lending rate continued to rise, it did so by only 1.19%. The goal of monetary policy for 2010 is to keep inflation down to 6%, with a 1% margin in either direction. Since prices had risen 2.7% by May, the expectation is that the central bank's inflation target will be met.

(c) Trade policy

Trade policy was affected by the political situation, with Brussels suspending negotiations on the free trade agreement with Europe because of the events that led to the departure from office of President Zelaya. However, the country did sign the agreement in May 2010 once presidential elections had been held and President Lobo had taken office. In 2010, efforts are focused on harnessing the benefits of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and seeking early ratification of the agreement with the European Union.

3. The main variables

(a) Economic activity

Real GDP contracted by 1.9% in 2009, owing to the effects of the international financial crisis and the political events of mid-2009, which had negative repercussions for investment, exports and consumption.

Supply-side developments were dominated by a 7.1% drop in manufacturing, which continues to represent a large proportion of GDP (19.7%). The manufacturing sector was affected by the slowdown in the maquila industry because of the crisis in the United States economy and a decrease in financial intermediation as a result of the significant slowdown in lending to the private sector, which grew by 2.9% in 2009 as compared to 11.6% in 2008 and 32.7% in 2007. There was a sharp contraction in construction (9.8%), commerce (9.5%) and agriculture (1.7%) because of the fall in international coffee, African palm and banana prices, which discouraged harvesting and production activities.

As to spending, private consumption shrank by 2.8%, owing mainly to the 11.8% fall in family remittances and higher unemployment in urban areas. This had a significant effect on domestic demand, which declined by 12.4%, being influenced too by a 32.4% contraction in gross fixed capital formation (compared with modest growth of 4.1% in 2008) and substantial destocking. Particularly striking was the decline of private-sector investment (33.4%),

Table1
HONDURAS: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	2.7	3.8	4.5	6.2	6.1	6.6	6.3	4.0	-1.9
Per capita gross domestic product	0.6	1.7	2.5	4.1	3.9	4.4	4.2	1.9	-3.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.1	4.5	2.3	7.2	-2.3	7.6	5.5	0.5	-1.7
Mining	34.5	-5.8	8.5	-5.6	-0.6	-3.5	-13.1	-9.8	-1.3
Manufacturing	3.8	7.8	6.4	4.0	7.0	4.5	5.0	3.0	-7.1
Electricity, gas and water	-14.0	-13.6	-20.6	6.2	52.4	22.6	21.8	1.5	-1.5
Construction	-7.8	-11.5	3.8	1.2	-2.3	9.4	6.6	6.5	-9.8
Wholesale and retail commerce, restaurants and hotels	1.2	3.3	2.1	4.2	5.4	5.5	3.8	3.0	-8.0
Transport, storage and communications	2.9	2.4	11.5	13.5	16.6	11.6	12.7	14.2	6.4
Financial institutions, insurance, real estate and business services	9.7	9.7	8.6	12.4	12.3	15.1	15.4	7.8	0.8
Community, social and personal services	5.4	5.4	4.0	5.8	5.4	6.0	6.6	6.0	7.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.8	4.0	4.3	5.0	6.8	7.9	7.2	4.9	-0.7
Government consumption	6.4	3.1	3.7	5.4	10.1	3.9	12.8	5.3	9.5
Private consumption	4.5	4.2	4.4	5.0	6.1	8.7	6.1	4.8	-2.8
Gross capital formation	-3.9	-4.6	4.9	21.9	-1.2	7.2	24.5	7.1	-44.9
Exports (goods and services)	4.0	10.0	8.7	13.2	5.3	1.6	2.5	3.6	-12.6
Imports (goods and services)	3.6	5.9	7.9	16.2	3.6	4.1	10.7	6.0	-26.0
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	26.0	24.3	25.3	29.7	27.6	28.3	33.2	35.5	19.6
National saving	19.7	20.7	18.6	22.0	24.6	24.6	24.2	22.6	16.5
External saving	6.3	3.6	6.7	7.6	3.0	3.7	9.0	12.9	3.1
					Millions of dollars				
Balance of payments									
Current account balance	-479	-282	-553	-678	-290	-404	-1 116	-1 800	-449
Goods balance	-729	-637	-1 020	-1 293	-1 497	-2 027	-3 104	-4 052	-2 471
Exports, f.o.b.	3 423	3 745	3 754	4 534	5 048	5 277	5 784	6 458	5 090
Imports, f.o.b.	4 152	4 382	4 774	5 827	6 545	7 303	8 888	10 509	7 560
Services trade balance	-207	-190	-162	-204	-229	-291	-288	-310	-143
Income balance	-258	-301	-362	-446	-460	-537	-395	-420	-487
Net current transfers	715	846	991	1 265	1 895	2 450	2 671	2 982	2 652
Capital and financial balance [d]	419	272	358	1 040	477	687	930	1 633	24
Net foreign direct investment	301	269	391	553	599	669	926	901	500
Other capital movements	117	3	-32	487	-122	19	4	732	-475
Overall balance	-60	-10	-194	362	187	283	-186	-167	-424
Variation in reserve assets [e]	-101	-106	97	-510	-346	-282	109	78	354
Other financing	161	115	98	149	159	-1	78	89	71
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	97.2	97.0	98.5	101.0	100.6	98.1	97.9	95.2	88.3
Terms of trade for goods (index: 2000=100)	94.8	92.0	88.0	87.2	87.2	83.2	81.6	76.6	81.9
Net resource transfer (millions of dollars)	322	86	94	743	177	149	612	1 303	-392
Gross external debt (millions of dollars)	4 757	5 025	5 343	6 023	5 135	3 935	3 190	3 464	3 338
					Average annual rates				
Employment									
Labour force participation rate [g]	52.5	51.7	50.0	50.6	50.9	50.7	50.7	51.0	53.1
Open unemployment rate [h]	5.9	6.1	7.6	8.0	6.5	4.9	4.0	4.1	4.9
Visible underemployment rate [i]	3.8	4.7	5.9	6.5	6.9	5.4	4.3	3.5	4.2
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	8.8	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0
Variation in nominal exchange rate (annual average)	4.3	6.3	5.5	5.1	3.4	0.4	0.0	0.0	-0.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Variation in real minimum wage	2.5	2.1	8.6	0.8	5.8	5.1	2.8	0.2	70.4
Nominal deposit rate [j]	14.5	13.7	11.5	11.1	10.9	9.3	7.8	9.5	10.8
Nominal lending rate [k]	23.8	22.7	20.8	19.9	18.8	17.4	16.6	17.9	19.4
					Percentages of GDP				
Central government									
Total revenue [l]	16.7	16.4	16.5	17.2	17.6	18.1	19.1	19.7	17.4
Current revenue	15.2	15.3	15.6	16.4	16.4	16.6	17.5	17.6	15.5
Tax revenue	13.6	13.3	13.7	14.5	14.5	15.2	16.3	16.0	14.4
Total expenditure [m]	21.1	20.3	21.3	19.8	19.8	19.2	22.2	22.2	23.5
Current expenditure	14.7	15.2	16.2	14.8	15.3	16.0	18.0	17.4	19.0
Interest [n]	1.0	1.0	1.0	1.1	1.1	1.0	0.7	0.6	0.7
Capital expenditure	5.7	4.2	4.6	5.0	4.5	3.3	4.1	4.8	5.2
Primary balance	-3.4	-2.9	-3.7	-1.5	-1.1	-0.1	-2.4	-1.9	-5.4
Overall balance	-4.4	-3.9	-4.7	-2.6	-2.2	-1.1	-3.1	-2.5	-6.2
Central government debt	53.9	55.5	60.7	59.6	44.7	28.7	17.3	19.9	24.3
Domestic	3.8	3.9	6.3	4.6	3.8	3.3	2.8	4.8	8.5
External	50.1	51.6	54.4	55.0	40.9	25.4	14.5	15.1	15.8
Money and credit [o]									
Domestic credit [p]	25.3	23.7	26.7	24.0	23.7	27.2	34.1	33.0	34.0
To the public sector	-1.9	-2.3	0.4	-1.0	-0.9	-2.6	-2.1	-1.1	1.5
To the private sector	36.7	36.1	37.7	38.5	39.7	45.2	52.8	52.1	52.6
Others	-9.4	-10.1	-11.4	-13.6	-15.0	-15.4	-16.7	-18.1	-20.1
Liquidity (M3)	44.9	46.5	47.2	49.2	50.8	55.0	56.6	52.6	51.6
Currency outside banks and local-currency deposits (M2)	33.1	34.0	34.5	35.4	37.3	41.3	42.6	38.7	37.8
Foreign-currency deposits	11.7	12.4	12.5	13.6	13.4	13.8	14.0	13.9	13.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; urban total.
[i] Percentage of the working population; urban total.
[j] Weighted average rate on time deposits.
[k] Weighted average rate on loans.
[l] Includes grants and recovery of interest.
[m] Includes net lending.
[n] Central bank data include accrued interest on the public debt.
[o] The monetary figures are end-of-year stocks.
[p] Includes securities issued for monetary regulation and short- and long-term external loans.

which followed moderate growth in 2008 (2.4%), and of public investment (26.0%), whose growth in 2008 was 16.3%. This reflected the authorities' limited scope for action owing to lower tax revenues, loss of access to international credit and the need to implement the wage increases to which they were committed.

(b) Prices, wages and employment

Despite vigorous monetary and fiscal expansion, year-on-year inflation, as measured by the consumer price index, was just 3.0% in December 2009 (the lowest rate in two decades) because of lower domestic demand and international food and fuel prices, with subsidies for electricity and some basic foodstuffs also a factor.

Among the measures it adopted in December 2008 to offset the effects of the crisis, the government announced an increase in the minimum wage, which was set at 5,500 lempiras per month in urban areas and 4,055 lempiras per month in rural areas. President Lobo has indicated that he will not decree any wage adjustments in 2010. Negotiations between workers and employers were still in progress at the end of May. This factor will certainly influence inflation, which stood at 3.0% at the end of December. The inflation target set by the central bank for 2010 was 6.0%, with a 1% margin.

Table 2
HONDURAS: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Goods exports, f.o.b. (millions of dollars) [b]	767	795	620	505	635	648	548	473	747	246 [c]
Goods imports, c.i.f. (millions of dollars)	1 988	2 374	2 430	2 030	1 535	1 574	1 466	1 558	1 728	634 [c]
Gross international reserves (millions of dollars)	2 736	2 780	2 590	2 690	2 784	2 658	2 261	2 174	2 250	2 203 [d]
Real effective exchange rate (index: 2000=100) [e]	98.3	98.0	94.9	89.4	87.4	88.3	88.3	89.0	88.3	87.8 [d]
Consumer prices (12-month percentage variation)	9.2	12.2	13.7	10.8	8.8	5.4	3.1	3.0	4.0	4.4 [d]
Average nominal exchange rate (lempiras per dollar)	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9	18.9
Nominal interest rates (annualized percentages)										
Deposit rate [f]	8.3	8.8	9.6	11.2	12.1	10.7	10.0	10.6	10.7	10.5 [c]
Lending rate [g]	16.6	17.1	18.4	19.7	19.8	19.8	19.2	19.0	19.0	19.0 [c]
Interbank interest rate	8.0	8.4	9.8	10.1	7.2	5.6	6.4	5.9	5.7	5.4 [d]
Domestic credit (variation from same quarter of preceding year)	30.6	29.6	21.6	9.2	4.9	0.6	-2.6	5.6	9.1	8.7 [c]
Non-performing loans as a percentage of total credit	1.7	1.5	1.5	1.7	2.2	2.1	1.8	1.9	1.8	1.8 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Does not include maquila activities.
[c] Data to April.
[d] Data to May.
[e] Quarterly average, weighted by the value of goods exports and imports.
[f] Weighted average rate on time deposits.
[g] Weighted average rate on loans.

Another important factor in wage negotiations was the rise in open unemployment in urban areas from 3.9% in May 2008 to 4.9% in May 2009. This rise is attributable to the loss of about 40,000 jobs in maquila firms producing textiles and wiring assemblies for the automotive industry and about 20,000 jobs in small enterprises because of reduced access to credit, lower domestic demand and higher costs resulting from the increase in the minimum wage for workers in urban areas at the end of 2008.

(c) The external sector

Goods exports contracted by 21.2% in 2009 to US$ 5,089.6 million because of reduced volumes, a consequence of the fall-off in external demand, and lower international prices for coffee, African palm and bananas. A decline in maquila contracts for both textiles and wiring assemblies for the automotive industry, which fed through into a 22.0% drop in maquila industry exports, had the largest impact on goods exports. Imports fell by 28.1% to US$ 7,560.2 million dollars as a result of lower domestic consumption and manufacturing output and a drop in oil revenues as the average price per barrel fell.

However, these trends began to reverse in early 2010. Year-on-year exports in the first quarter were up 13.4%, boosted by the recovery in external sales of coffee (43.5%), bananas (14.6%) and products from the maquila industry (9.4%). Imports rose by 11.8% in the first quarter of 2010 compared with the same period in 2009. This increase was due mainly to higher imports of raw materials (15.5%), fuel (45.4%) and maquila industry inputs (5.9%).

In 2009, over 90% of the trade deficit was financed by remittance inflows from abroad, which were 11.8% down on the 2008 figure but still totalled US$ 2,475.7 million. The current account deficit dropped from 13.9% of GDP at the end of 2008 to 3.1% at the end of 2009. This is not a positive result, however, since it is due to the downturn in economic activity.

As a result of operations in the external sector, net international reserves had decreased by US$ 343.7 million to US$ 2,116.3 million by the end of 2009. By June 2010, net international reserves had increased by US$ 99.6 million owing to higher exports, foreign-exchange inflows from family remittances and US$ 40.8 million in donations from the Millennium Challenge Account.

Mexico

1. General trends

In 2009, the Mexican economy shrank by 6.5% and per capita GDP by 7.5%, owing to the weakening of aggregate demand caused by the global recession, which had an immediate impact on exports, foreign direct investment (FDI) and remittance flows from migrant workers. The recession also led to a drop in employment and the real wage bill, triggering a fall in consumption, which was simultaneously undermined by decreased bank lending. Measures to tackle the epidemic of influenza A (H1N1) also played a part in the economic contraction.

Public revenues fell as the economy slowed. Public spending was boosted slightly in an effort to cushion the social impact of the recession, but the monetary authorities believed that their low revenues precluded the application of more drastic countercyclical measures in response to the impact of external shocks on economic activity and employment. They adopted a strategy aimed at keeping a rein on the fiscal deficit and public borrowing, and this reduced the scope for countercyclical policies that might have had a greater impact on aggregate demand.

Annual inflation ran at 3.6% in 2009, as a result of falling prices for raw materials and energy and sluggish domestic demand.

Economic activity picked up in the first five months of 2010, owing mainly to the upturn in the United States economy. Growth of just over 4% of GDP is projected for the year, in connection with expected increases in exports, as well as consumption and investment. An incipient upswing in gross capital formation is attributable to the transfer to Mexico of certain segments of production chains, especially in the automobile sector.

The international financial crisis took a serious toll on the Mexican economy and highlighted its structural shortcomings, close ties with the United States economy (especially the heavy concentration of exports in that market), a low tax burden as a proportion of GDP and dependence on oil revenue, as well as the limited ability of the development banking system to boost economic activity and employment. Thus, the sheer magnitude of the external shocks, combined with the constraints on the implementation of higher-impact countercyclical measures, led to the sharpest economic slowdown seen in Mexico in the post-war period.

2. Economic policy

(a) Fiscal policy

Total public-sector budgetary revenue [1] fell by 6.5% in real terms in 2009 because of declines in both oil revenue and non-oil tax receipts (down 21.4% and 11.5%, respectively) which were too large to be offset by the rises in non-petroleum revenue and non-oil non-tax revenue (2.2% and 142.3%, respectively). The large increase in this last item was due mainly to the central bank's operating profits, the transfer of resources from the oil revenue stabilization fund, resources generated by the oil price hedging programme, and the redemption

[1] The total public sector comprises the federal government as well as State agencies and corporations.

of the transition bond issued to cover part of the cost of reforming the pension scheme of the Social Security and Social Services Institute for State Workers (ISSSTE).

The drop in oil revenues was a result of decreased production (owing to structural problems arising from diminished reserves and insufficient exploratory activities) and lower prices and exports. Tax receipts fell because of weaker aggregate demand: VAT receipts dropped by 15.3% compared with 2008, the income-tax take by 9.8% and flat-rate business tax (IETU) receipts by 9.0%.

In response to the revenue shortfall, the authorities cut projected spending by the equivalent of 0.9% of GDP for the year. Approximately 80% of the cut fell on current expenditure. Social programmes were left untouched by the budget cuts thanks to non-recurring revenue totalling 247.9 billion pesos, equivalent to 2.1% of GDP. The cuts affected real budgetary spending, which rose by only 2.2% in 2009, reflecting rises of 8.7% in capital spending and 3.5% in current spending, combined with falls of 6.2% in non-budgeted expenditure and 15.7% in equity holdings. As a result, the deficit grew from 0.1% of GDP in 2008 to 2.3% of GDP in 2009.[2]

The net external debt of the federal public sector[3] rose from 2.7% of GDP in 2008 to 9.8% of GDP in 2009, mainly owing to the borrowings of State agencies and enterprises. Total net external public-sector debt increased by US$ 31.233 billion between 2008 and 2009. Net domestic public-sector debt rose to 20.5% of GDP. Starting in 2009, both figures include debt on Projects with a Deferred Impact on Public Expenditure Recording (PIDIREGAS), which raised the debt-to-GDP ratio from 21.4% in 2008 to 30.3% in 2009.

The federal government's net domestic debt represented 20.0% of GDP in 2009 (0.8% more than in 2008). Despite this, net domestic debt (138.595 billion pesos) was lower than the amount authorized under the Federal Revenue Act (380 billion pesos).

The net external debt of the federal government increased from 4.2% of GDP in 2008 to 4.9% in 2009. Net external debt totalled US$ 6.908 billion, well above the US$ 5 billion allowed under the Federal Revenue Act. While net external debt exceeded the approved amount, domestic debt was well below the original ceiling. Indeed, the US$ 1.908 excess in external debt far from outweighed the US$ 7.696 billion of unused domestic borrowing. Taking into account the international financial crisis, the authorities opted to avoid taking on further debt and widening the fiscal deficit, even though these measures could have increased the magnitude and scope of countercyclical policies and their potential to boost economic activity.

In April 2009, in order to counter the effects of the international crisis, the government announced a one-year, US$ 47 billion contingent line of financing from the International Monetary Fund (IMF). Although this credit was not used, it was renewed for another year in March 2010. Similarly, in late November 2009, the government secured a one-year credit line of US$ 1.504 billion with the World Bank to mitigate the impact of the financial crisis and improve the conditions for growth in the medium term.

As a result of the sharp drop in public revenue in 2009 and a larger-than-projected fiscal deficit, in 2010 new taxes were introduced and others were raised. As of 1 January 2010, a new 3% levy was imposed on telecommunications. In addition, the maximum individual and corporate income tax rate was raised temporarily from 28% to 30%; VAT was increased from 15% to 16%; and the tax on gaming and lotteries jumped from 20% to 30%. Levies on tobacco, beer and other alcoholic beverages were also raised temporarily. Receipts are projected to increase by a little over 1% of GDP in 2010 owing to these measures. In the first quarter, an 8.0% increase in revenue in real terms was recorded compared with the first quarter of 2009. Expenditure was up by 0.3% compared with the same period in 2009.

(b) Monetary policy

Monetary policy in 2009 was somewhat expansionary. As a consequence of the global recession, falling international prices for raw materials and the freeze on certain energy prices (and some services such as the supply of electric power and water), inflationary pressures eased, which led to a lowering of the benchmark interest rate. In the first seven months of 2009, the central bank lowered that rate by 375 basis points to 4.5%, resulting in a slightly negative real rate.

The average market deposit rate was also negative in real terms, while lending rates remained relatively high in both nominal and real terms. For example, the total annual cost of credit card borrowing ranged between 18% and 91.9% for different banks, while mortgage interest varied between 14.1% and 16.1% in nominal terms. The average cost of credit was 10.4%, remaining positive in real terms. The spread between lending and deposit rates remained high, in part because of the concentration of the commercial banking sector and its efforts to increase profitability and manage risk. The benchmark rate remained unchanged from August 2009 to April 2010.

2 If investment in Petróleos Mexicanos (PEMEX) is discounted, a public deficit of 0.2% of GDP was posted, compared with a 0.5% surplus in 2008.

3 Net external federal public-sector debt includes the net debt of the federal government, State agencies and enterprises, and development banking.

Bank lending to the private sector did not help to end the recession in the Mexican economy. In December 2009, total lending to the private sector by commercial banks contracted by 4.7% in real terms. Consumer loans fell by 22.6%. Lending to non-financial companies and self-employed workers declined slightly, to 1.1%. By contrast, there was a 17.9% increase in lending by the development banking sector during the same period. While loans to companies increased by 18.5%, their impact on demand was relatively limited since the amount loaned represented only 2.9% of the total credit portfolio of the national banking system.

The delinquency index in commercial banking reached about 3% at the end of 2009, identical to its 2008 level, and half a percentage point higher than the index for December 2007.

(c) Exchange-rate policy

After appreciating in real terms from 2005 to August 2008, the peso depreciated abruptly (17% in real terms) against the dollar in October 2008 and continued falling until March 2009, before stabilizing in subsequent months. On average, the peso devalued by 15% in real terms in 2009 compared with 2008.

In February 2009 the central bank responded to speculative pressure by injecting dollars into the currency market; in March it began holding daily auctions for US$ 100 million. The central bank also left open the possibility of conducting special sales of hard currency if market conditions made it necessary. The US$ 47 billion contingent line of financing from the International Monetary Fund (IMF) secured in April also helped to relieve pressure on the peso. As a result, the authorities reduced the amount of the daily auction from US$ 100 million to US$ 50 million in May 2009, and suspended the auctions entirely in October. In addition, the amount of the daily auction offered in the event of a peso slide of more than 2% from one business day to the next, was reduced from US$ 300 million to US$ 250 million in May 2009. This mechanism was scrapped in April 2010.

There were two stages to the situation in relation to international reserves. The first seven months of 2009 were marked by a downward trend. From August they began to recover and stood at nearly US$ 91 billion at the end of the year. In early 2010, the Foreign Exchange Commission announced that the central bank would hold monthly auctions to buy dollars, and international reserves consequently reached US$ 100.096 billion by mid-year.

In the first three months of 2010, the peso appreciated by 13.0% in real terms against the dollar, owing mainly to the inflow of short-term foreign capital as a result of the interest-rate spreads in Mexico compared to those in developed countries. In the first four months of 2010 there was a 64% increase in public securities held by non-residents compared with the same period in 2009. There was also a noteworthy increase in treasury certificates held by non-residents, which went from 11.526 billion pesos in January 2010 to approximately 62 billion pesos in April 2010. This trend may be affected by the uncertainty in European stock markets in connection with the crisis in Greece.

3. The main variables

(a) Economic activity

The Mexican economy entered into a period of recession in the last quarter of 2008, which continued in 2009. The scale of the contraction reflects the economy's vulnerability to external shocks, its close ties to the United States economy, and the limited capacity of fiscal and monetary policy to counter the adverse effects of external shocks on productive activity and employment.

Economic activity contracted by about 9% in the first half of 2009, by an annualized rate of 6.1% in the third quarter, and by 2.3% in the last quarter, which translated into an average downturn of 6.5% for the year overall. This trend began to change in the fourth quarter, however, leading to the economic upturn seen in early 2010.

There were sharp contractions of 14.5% and 7.5% in the commerce and construction sectors, respectively. Industrial output fell for 16 consecutive months to November 2009, resulting in a 10.2% contraction in the manufacturing sector at the end of the year. The motor vehicle industry was the hardest hit within the manufacturing sector because of its strong ties to the United States economy, and in 2009, output of motor vehicles fell by 28.3% and exports by 26.4%, in real terms.

In 2009, there was expansion only in the sectors of agriculture, livestock, forestry, fisheries and hunting

Table 1
MEXICO: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-0.0	0.8	1.4	4.1	3.3	4.8	3.4	1.5	-6.5
Per capita gross domestic product	-1.3	-0.5	0.2	2.9	2.1	3.7	2.3	0.5	-7.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.9	-0.9	3.8	2.9	-0.7	3.8	5.3	2.1	1.8
Mining and quarrying	1.5	0.4	3.7	1.3	-0.3	1.4	-0.6	-1.4	1.0
Manufacturing	-3.8	-0.7	-1.3	3.9	3.5	5.8	1.9	-0.5	-10.2
Electricity, gas and water	2.3	1.0	1.5	4.0	2.0	12.2	3.7	-2.3	1.2
Construction	-5.7	2.1	3.3	5.3	3.9	7.8	4.4	0.6	-7.5
Wholesale and retail commerce, restaurants and hotels	-1.2	0.0	1.5	6.4	4.0	5.7	4.7	2.0	-13.8
Transport, storage and communications	3.8	1.8	5.0	7.5	5.4	7.6	6.0	2.6	-8.1
Financial institutions, insurance, real estate and business services	4.5	4.2	3.9	4.9	5.6	5.1	5.3	5.8	-4.1
Community, social and personal services	-0.3	0.9	-0.6	0.4	2.0	2.2	2.5	0.8	-1.1
Gross domestic product, by type of expenditure									
Consumption	1.9	1.4	2.1	4.4	4.5	5.1	3.9	1.7	-5.0
General government	-2.0	-0.3	0.8	-2.8	2.5	1.9	3.1	0.9	2.3
Private	2.5	1.6	2.2	5.6	4.8	5.6	4.0	1.9	-6.1
Gross fixed capital formation	-5.6	-0.6	0.4	8.0	7.5	9.9	6.9	4.4	-10.1
Exports (goods and services)	-3.6	1.4	2.7	11.5	6.8	10.9	5.7	0.5	-14.8
Imports (goods and services)	-1.6	1.5	0.7	10.7	8.5	12.6	7.1	2.8	-18.2
					Percentages of GDP				
Investment and saving [c]									
Gross fixed capital formation	23.3	23.0	22.9	24.7	24.1	25.9	25.6	26.9	22.4
National saving	20.7	21.0	21.9	24.1	23.6	25.5	24.8	25.4	21.8
External saving	2.6	2.0	1.0	0.7	0.5	0.5	0.8	1.5	0.6
					Millions of dollars				
Balance of payments									
Current account balance	-17 683	-14 137	-7 190	-5 177	-4 369	-4 375	-8 399	-15 889	-5 238
Goods balance	-9 617	-7 633	-5 779	-8 811	-7 587	-6 133	-10 074	-17 261	-4 677
Exports, f.o.b.	158 780	161 046	164 766	187 999	214 233	249 925	271 875	291 343	229 707
Imports, f.o.b.	168 396	168 679	170 546	196 810	221 820	256 058	281 949	308 603	234 385
Services trade balance	-3 558	-4 048	-4 601	-4 607	-4 713	-5 736	-6 305	-7 079	-8 025
Income balance	-13 847	-12 725	-12 313	-10 521	-14 207	-18 455	-18 435	-17 010	-14 053
Net current transfers	9 338	10 269	15 503	18 762	22 138	25 949	26 415	25 461	21 517
Capital and financial balance [d]	25 008	21 227	16 628	9 235	11 533	3 372	18 685	23 327	10 572
Net foreign direct investment	23 045	22 158	15 183	19 249	15 448	13 558	19 054	22 013	3 819
Other capital movements	1 963	-931	1 445	-10 014	-3 915	-10 186	-369	1 314	6 753
Overall balance	7 325	7 090	9 438	4 058	7 164	-1 003	10 286	7 438	5 334
Variation in reserve assets [e]	-7 325	-7 090	-9 438	-4 058	-7 164	1 003	-10 286	-7 438	-5 334
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	94.3	94.1	104.5	108.3	104.5	104.6	105.8	108.8	124.1
Terms of trade for goods (index: 2000=100)	97.4	97.9	98.8	101.6	103.6	104.1	105.1	105.9	102.5
Net resource transfer (millions of dollars)	11 161	8 502	4 315	-1 286	-2 674	-15 083	250	6 317	-3 481
Total gross external debt (millions of dollars)	144 526	134 980	132 524	130 925	128 248	116 792	124 433	125 233	162 753
					Average annual rates				
Employment									
Labour force participation rate [g]	58.1	57.8	58.3	58.9	59.5	60.7	60.7	60.4	60.2
Open unemployment rate h	3.6	3.9	4.6	5.3	4.7	4.6	4.8	4.9	6.7
Visible underemployment rate [i]	…	…	…	…	7.5	6.9	7.2	6.9	9.3
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6
Variation in the national producer price index (December-December)	1.3	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.1
Variation in nominal exchange rate (annual average)	-1.3	3.5	11.7	4.6	-3.5	0.1	0.2	2.1	21.1
Variation in average real wage	6.7	1.9	1.3	0.3	0.3	1.4	1.0	2.2	0.6
Nominal deposit rate [j]	11.0	6.2	5.1	5.4	7.6	6.1	6.0	6.7	5.1
Nominal lending rate [k]	12.8	8.2	6.9	7.2	9.9	7.5	7.6	8.7	7.1

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Non-financial public sector									
Total revenue	20.0	20.2	21.2	20.7	21.1	21.9	22.2	23.7	23.9
Tax revenue	10.3	10.6	10.1	9.0	8.8	8.6	9.0	8.2	9.6
Total expenditure	20.6	21.3	21.8	20.9	21.2	21.8	22.2	23.8	26.2
Current expenditure	18.2	18.4	19.2	17.9	18.3	18.7	18.6	19.4	21.1
Interest	2.3	2.0	2.1	1.9	2.0	2.0	1.9	1.6	2.0
Capital expenditure	2.4	2.9	2.6	3.0	3.0	3.1	3.6	4.4	5.1
Primary balance [l]	1.7	0.9	1.6	1.7	1.9	2.1	1.9	1.6	-0.4
Overall balance [l]	-0.7	-1.1	-0.6	-0.2	-0.1	0.1	0.0	-0.1	-2.3
Public-sector debt	24.1	25.7	26.1	24.2	22.9	22.6	22.9	27.0	35.2
Domestic [m]	12.6	13.8	14.4	13.8	14.5	16.8	17.5	20.7	24.5
External	11.5	11.8	11.8	10.4	8.4	5.8	5.4	6.4	10.7
Money and credit [n]									
Domestic credit	38.2	39.0	36.8	33.3	32.1	33.0	34.0	32.1	36.3
To the public sector	11.1	11.4	10.9	10.4	8.7	8.5	8.3	8.2	11.2
To the private sector	12.9	14.3	14.0	13.2	14.4	16.8	18.4	17.3	18.6
Others	14.2	13.3	12.0	9.7	9.0	7.7	7.3	6.7	6.5
Liquidity (M3)	43.3	44.4	45.6	45.0	48.5	49.3	50.2	54.5	59.4
Currency outside banks and local-currency deposits (M2)	41.6	42.9	44.4	43.6	47.0	47.9	48.9	53.1	57.7
Foreign-currency deposits	1.7	1.5	1.2	1.4	1.5	1.4	1.3	1.4	1.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices; up to 2003, based on figures in local currency at constant 1993 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population, urban areas.
[h] Percentage of the economically active population, urban areas.
[i] Percentage of the working population, nationwide total.
[j] Cost of term deposits in local currency in the multibanking system.
[k] Lending rate published by IMF.
[l] Does not Include non-budgeted expenditure.
[m] Federal-government domestic debt.
[n] The monetary figures are end-of-year stocks.

(1.8%), mining (1.0%) and electric power, water and mains gas distribution (1.2%). By contrast, the temporary accommodation and food and beverage preparation sectors contracted by a significant 9.6%, owing in part to measures adopted in relation to the A (H1N1) influenza epidemic that hit the country in April 2009.

In terms of spending, private consumption and investment decreased by 6.1% and 10.1%, respectively, in 2009. There was a sharp drop in inventories, equivalent to 2% of GDP. Goods and services exports declined by 14.8% in real terms, while imports were down 18.2% in the same period.

In addition to the impact of the recession in the United States, the Mexican economy was also hit by the epidemic of influenza A (H1N1). ECLAC estimates that the impact was equivalent to a loss of about 0.7% of GDP. Sectors associated with tourism (commerce, restaurants and hotels) were the hardest hit.

In late 2009 and early 2010, there was an upturn in various sectors, especially basic metal manufactures, led by the motor vehicle sector, as a result of increased demand in the United States. Some 522,441 vehicles were produced in Mexico in the first quarter of 2010, 79% more than in the same period in 2009.

As to the petroleum industry, whose revenues currently represent 31% of public revenue, crude oil output dropped by 6.8% in 2009 compared with 2008, and by 2.2% in annual terms in the first four months of 2010. The situation of Petróleos Mexicanos (PEMEX) remains precarious because of the drop in production at the Cantarell oil field, low proven oil reserves and weak investment in the industry. The latter is attributable to greater legal restrictions, which makes it difficult to attract investment in the sector, for example, for deep-sea exploration activities to replenish reserves.

The first quarter of 2010 saw a marked upturn in economic activity, with real growth of 4.3% compared with the same period in 2009. Private consumption rose by 2.5%, while government consumption increased by only 0.5%. Gross fixed capital formation decreased by 1.2%, with a 2.1% decline in the public component and 1% in the private component. Lastly, exports of goods and

Table 2
MEXICO: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	2.6	3.0	1.6	-1.1	-7.9	-10.0	-6.1	-2.3	4.3	...
Goods exports, f.o.b. (millions of dollars)	70 084	79 403	78 467	63 389	49 996	54 338	58 162	67 211	66 596	49 669 [c]
Goods imports, f.o.b. (millions of dollars)	71 732	80 268	84 894	71 709	51 957	53 562	61 307	67 559	66 225	49 388 [c]
Gross international reserves (millions of dollars)	91 134	94 045	98 863	95 302	85 636	81 476	87 806	99 893	101 606	103 861 [c]
Real effective exchange rate (index: 2000=100) [d]	106.7	104.8	102.7	121.0	130.2	122.1	122.9	121.1	115.4	112.9 [c]
Unemployment rate	4.9	4.4	5.2	5.1	6.1	6.5	7.6	6.3	6.5	...
Consumer prices (12-month percentage variation)	4.2	5.3	5.5	6.5	6.0	5.7	4.9	3.6	5.0	3.9 [c]
National producer price index (12-month percentage variation)	7.5	10.4	7.6	7.8	7.1	3.8	5.3	4.1	3.9	3.9 [c]
Average nominal exchange rate (pesos per dollar)	10.8	10.4	10.3	13.1	14.4	13.3	13.3	13.1	12.8	12.6
Average real wage (variation from same quarter of preceding year)	1.4	1.8	3.1	2.6	1.8	-0.5	0.7	0.6	-0.5	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	6.4	6.5	6.9	7.2	6.7	5.2	4.2	4.1	4.2	4.1 [c]
Lending rate [f]	7.9	7.9	8.5	10.5	9.9	7.3	5.7	5.5	5.3	...
Interbank rate	7.9	8.0	8.5	8.7	8.0	5.9	4.9	4.9	4.9	4.9 [c]
Sovereign bond spread (basis points) [g]	168	172	252	376	379	247	201	164	130	179
Stock price index (national index to end of period, 31 December 2000 = 100)	547	520	440	396	347	431	517	568	589	576
Domestic credit (variation from same quarter of preceding year)	4.2	8.2	2.5	2.4	13.4	5.6	9.0	10.1	2.8	...
Non-performing loans as a percentage of total credit	2.5	2.8	3.0	3.2	3.4	3.8	3.4	3.1	2.8	2.9 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Data to May.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Cost of term deposits in local currency in the multibanking system.
[f] Lending rate published by IMF.
[g] Measured by JP Morgan's EMBI+ index to end of period.
[h] Data to April.

services surged by 23.6%, owing mainly to the increase in sales of manufactured and agricultural goods. Goods and services imports rose by 19.3%.

Growth of slightly over 4% of GDP is projected for 2010, spurred on by an expected upturn in oil exports (on the back of a hike in crude oil prices) and non-oil exports, consumption and investment. The transfer to Mexico of certain production-chain segments, especially in the motor vehicle sector, has given impetus to capital formation.

(b) Prices, wages and employment

The annual inflation rate as measured by the consumer price index was 3.6% in 2009, but rose to 3.9% in May 2010. This was due to rising taxes, the reinstatement of the policy allowing gradual increases in energy prices, the increased cost of some services such as the metro system and water, and the atypical rise in the prices of some agricultural produce as a result of adverse weather conditions. The central bank's monetary programme for 2010 expects that the annual inflation target of 3% will be met towards the end of 2011.

The fall in output took a toll on the labour market. The open unemployment rate continued to trend upward, rising from 3.9% in September 2007 to 4.3% a year later and 6.4% in September 2009. The unemployment rate subsequently decreased and stood at 5.1% in May 2010.

(c) The external sector

Exports were the main channel of transmission of the international financial crisis. Since they account for a high proportion of GDP (35%), the repercussions of the fall in exports spread quickly and forcefully. Their total value fell by 21.2%, while that of imports was down 24.0%. Consumer goods imports contracted the most (31.5%), followed by intermediate goods (22.9%) and capital goods (21.6%), owing to falling private consumption and investment. In addition, the dwindling volume of petroleum exports and falling international prices led to a 39% fall in petroleum-related exports and a 40.8% drop in crude oil exports. Non-oil exports contracted by 17.4%, while agricultural exports slipped by 1.2%, mining and quarrying exports fell by 25% and manufacturing exports by 17.9%. As a result, the trade deficit decreased by just over US$ 12.5 billion compared with 2008, to US$ 4.677 billion (0.5% of GDP).

The share of Mexican exports in the United States market increased by one percentage point in 2009 (11.4%) compared with 2008 (10.3%). The proportion of Mexican exports going to the United States market went from 88.7% in 2000 to 80.5% in 2009, while the proportion going to China increased from 0.1% to 1% during the same period. There has been an even greater change in the breakdown of Mexican imports by country of origin. Imports from the United States represented 73.1% of all imports in 2000 but only 48% in 2009. China's share of imports has increased significantly: in 2000, imports from China represented 1.7% of the total, but they now make up about 13.9%.

The upturn in the United States economy in late 2009 had a beneficial knock-on effect on Mexican exports. The value of total exports increased by 38% in the first five months of 2010 compared with the same period in 2009. Oil exports rose by 68.8% (thanks to higher oil prices) and non-oil exports by 33.8%. There was an expansion in exports from the motor vehicle (77.8%), mining and quarrying (60.4%) and agricultural (16.8%) sectors. Total imports increased by 34.5% during the same period. Imports of intermediate goods grew the most (40.9%), followed by consumer goods (38.9%). Imports of capital goods dropped by 3.5% because of lower investment.

The financial crisis in the United States also had an impact on remittances to Mexico from that country. These totalled US$ 21.181 billion in 2009, 15.7% less than in 2008. In the first four months of 2010, remittances dropped by 9% in annualized terms, reflecting labour-market problems in the United States. The unemployment rate among Mexicans in the United States is higher than the national average.

Foreign direct investment (FDI) totalled US$ 11.418 billion, which was 50.7% less than in 2008. FDI is expected to recover in 2010 and rise to an estimated US$ 15 billion to US$ 17 billion.

Nicaragua

1. General trends

In 2009, the Nicaraguan economy posted 1.5% negative GDP growth after 15 years of uninterrupted expansion, and per capita GDP was down 2.7% compared with its 1.4% growth in 2008. Falls in gross investment, consumption and goods exports were partly made up for by rising services exports and international cooperation from the Bolivarian Republic of Venezuela. Pressure on inflation declined, and the national figure ended 2009 at 0.9%. The current account deficit was significantly smaller than the previous year, at 13% of GDP. The central government deficit, however, was higher (2.3% of GDP) and unemployment rose (8.2%).

The Nicaraguan economy was hit hard in 2009 by the slowdown in the world economy, and particularly the recession in the United States. The crisis spread to Nicaragua mainly through a drop in external demand for goods, as well as falls in remittances and foreign direct investment (FDI).

A fiscal reform was adopted in December 2009 in response to the slide in fiscal revenues. The main objectives were to make the tax system more equitable, to generalize the collection of taxes and to modernize and simplify tax payment procedures. The new law came into effect in 2010, and is expected to bring in an additional US$ 46 million in revenue (equivalent to 0.7% of GDP) to cover part of the 2010 budget deficit.

GDP is expected to grow by an estimated 2% in 2010, driven by a recovery in external demand, remittances and FDI flows, and this will boost consumption and gross investment. There will be upward inflationary pressure because of rising world fuel prices, as well as falling supply of agricultural products caused by weather phenomena which have hit the country. The inflation figure is therefore expected to be around 7% by the end of the year. Rising oil prices, together with stronger internal demand, will be reflected in greater growth of imports and a rise in the current account deficit. Improved levels of economic activity will boost fiscal revenue in the framework of a policy of moderate increases in spending.

2. Economic policy

Three times in the course of 2009 the government had to adjust its budget downwards owing to falling fiscal revenue. In early 2009, the government announced a series of countercyclical measures, but the lack of resources obstructed their implementation. A variety of external factors significantly slowed the pace of price rises, which had been under considerable upward pressure in the previous two years.

(a) Fiscal policy

Total government revenue was down 3.9% in real terms in 2009 because the growth of economic activity had slowed. The largest falls were in import taxes (17.8%), caused by a drop in purchases of consumer durables and capital goods, and in grants (16.9%), owing to reduced international cooperation from the member countries of the Budget Support Group. The tax burden diminished from 18% in 2008 to 17.7% in 2009. These figures do not include cooperation from the Bolivarian Republic of Venezuela, which the central bank estimated at US$ 443 million in 2009, equivalent to 7.2% of GDP, compared to 7.4% in 2008. The main components of that cooperation, classified as financial resources provided to the private sector, were energy assistance in the framework of the PETROCARIBE Energy Cooperation Agreement, direct energy-sector investments and bilateral grants.

Total central government spending was up 0.7% in real terms in 2009, after a 1% fall in 2008. Current spending rose by 4.5% owing to increases in wages (8.9%), transfers (6.1%) and interest payments (26.9%). Capital spending fell by 10% as a result of reduced investment (-0.2%) resulting from constraints on resources and delays in project execution, as well as a decline in transfers (-18.8%). In the course of the year, the authorities responded to falling revenue by making significant budget cuts, mainly through reductions in purchases of goods and services and a temporary freeze on the filling of vacant posts and on wage reviews.

In January 2009 the government announced a set of measures to counteract the effects of the crisis by supporting production and private investment and promoting employment and financial stability. The implementation of some of these measures, however, was held back by the aforementioned fall in fiscal revenue.

The central government deficit excluding grants stood at 4.8% of GDP, 0.6 percentage points above the 2008 figure. The fiscal deficit after grants stood at 2.3% of GDP (1.3% in 2008), with a fall in external budget support from 3% of GDP in 2008 to 2.5% in 2009. The remainder of the fiscal deficit was mainly financed with loans from multilateral bodies, pushing the external public debt up by US$ 150 million to 59.5% of GDP (56.2% in 2008). The internal public debt closed at 19% of GDP (17.4% in 2008). Following the second and third revisions of the agreements in the framework of the economic and financial programme, the International Monetary Fund (IMF) disbursed US$ 38 million to support the balance of payments.

In the first quarter of 2010, thanks to the economic recovery, central government revenue was up 11.5% in real terms compared with the same period in 2009. This improvement was due to higher receipts from taxes on external trade, value added tax and selective consumption taxes. Total spending rose by 8.8% over the same period in 2009, easing the pressure on public finances.

(b) Monetary and exchange-rate policy

In 2009, monetary policy did not deviate from the goal of stabilizing price levels and ensuring the currency's convertibility. The central bank continued to use the exchange rate as a nominal anchor for prices and held the crawling-peg rate at 5% per year, so the nominal exchange rate closed the year at 20.8 córdobas to the dollar. The real bilateral exchange rate with the dollar depreciated by 0.9% following five years of real appreciation.

The legal reserve requirement remained at 16.25%, but the actual level remained above that rate throughout the year. Excess reserves stood at 5.4% in national currency and 4.1% in foreign currency, on average. Open-market operations were more widely used in 2009 in order to manage international reserves, mostly owing to high liquidity in the financial system. Adjusted net international reserves rose by US$ 101.7 million, above what had been agreed with the International Monetary Fund, owing to central government deposits in the central bank resulting from rising receipts towards the end of the year and the increase in reserve deposits. In late 2009, gross international reserves were equivalent to 2.6 times the monetary base, exceeding the minimum coefficient set by the central bank (2.0 times), and equivalent to 4.8 months of imports.

The nominal deposit interest rate for national-currency deposits stood at 5.6% in December, 130 basis points above its level at the end of 2008. The nominal lending rate in national currency was up by 70 basis points, standing at 14.3%. With the steep drop in inflation, the real deposit rate showed positive values from May 2009, following a number of years of negative values, and stood at 4.7% at the end of the year. Similarly, the real lending rate rose steadily in 2009 to stand at 13.2% in December, compared with -0.2% in December 2008.

Credit unions' loan portfolios contracted by 6.3%, after having enjoyed double-figure annual growth rates for the previous seven years. This was due to rising real interest rates and constraints on borrowing. Particularly hard hit were personal loans (-28%), credit cards (8.4%), and credit to the livestock sector (-7.5%) and farming sector (-7.4%).

In late 2009, the amount of currency in circulation and current-account deposits (M1) showed an annual growth rate of 10.8%, owing to the economic recovery towards the end of the year and the arrival of resources from international cooperation. Deposits in foreign currency grew at a greater rate (19.7%) than deposits in national currency (6.4%), leading to a greater dollarization of the economy (70.1% of broad money), owing to outlays of resources from external cooperation.

Lower real interest rates are expected in 2010, following the upturn in inflation and the downwards adjustment of nominal rates. Nonetheless, the adoption in February 2010 of the Moratorium Act, which grants favourable conditions to delinquent borrowers, could discourage the recovery of credit supply.

(c) Trade policy

In 2009, trade policy remained focused on establishing or strengthening trade agreements with the country's main trade partners. As for Central American integration, the National Assembly approved the framework agreement for the establishment of a Central American Customs Union and progress was made in the negotiation of requirements and guidelines for facilitating intraregional trade in agricultural products.

15 January 2009 saw the signing of the bilateral protocol with Panama, in the framework of its free-trade agreement with the rest of Central America. In order to continue with export diversification, progress was made in trade and cooperation relations with the member countries of the Bolivarian Alliance for the Peoples of Our America (ALBA). Negotiations also continued for the adoption of trade treaties with Canada and Chile. Negotiations with the latter were completed in May 2010.

Efforts continued for the signing of an association agreement between Central America and the European Union, and significant advances were made in areas such as market access, rules of origin and intellectual property. Negotiations restarted in early 2010 after they had been temporarily suspended because of the political crisis in Honduras. Lastly, the Agreement was signed in May, so the ratification process should be getting under way.

3. The main variables

(a) Economic activity

The country's GDP declined in real terms as a result of lower gross domestic investment (-22.3%) and total consumption (-1.2%). Private consumption was down 0.5% despite the increase in the minimum wage, owing to the fall in remittances and rising unemployment. Public consumption, hit by significant central government spending cuts, fell by 7.4%. Private investment (-22%) and construction (-4.1%) felt the effects of shrinking credit and the decline in inflows from foreign direct investment. Contrary to expectations in light of the international situation, goods and services exports recorded a real-terms increase of 3.8%. This was due to increased trade with the Bolivarian Republic of Venezuela and rising tourism income.

During 2009, the variation of the monthly index of economic activity behaved in a variety of ways. In the first four months the rate was increasingly negative, following the trend begun in the last few months of 2008. The rate of fall began to slow down from May 2009 and the index reached a positive rate of increase as of December, impelled by recovering external demand.

Agricultural output did not grow in real terms, compared to its 6.7% expansion in 2008. Production was held down by the El Niño phenomenon and the low phase of the two-year coffee-growing cycle. Manufacturing was down 2.7% owing to lower internal demand and falling exports from the free zones. Construction experienced a fall which was smaller (4.1%) than that of 2008 (6.7%). Services as a whole declined by 0.5%. Contractions in commerce and restaurants (down 2.7%) and financial services (1.3%) were partly made up for by relatively strong performances in the energy (2%), transport (1.8%) and government services (3.3%) sectors.

In the first four months of 2010, the monthly index of economic activity averaged increases of 1.7%, compared with a fall of 2.8% during the same period in 2009. This recovery was mainly due to growth in manufacturing, livestock breeding and commerce.

(b) Prices, wages and employment

At the national level, year-on-year inflation measured by the Consumer Price Index ended 2009 at 0.9%, the lowest level in over 30 years, following two years of double-digit inflation. This change was due to the contraction of internal demand and falls in world prices for foodstuffs and fuels, despite the crawling peg and the rise in real wages. The food and beverages segment even showed an annual fall of 6.1%.

The national unemployment rate jumped for the second consecutive year, from 6.1% in 2008 to 8.2% in 2009, owing to decreased economic activity. Urban unemployment stood at 10.5% (8% in 2008). The nationwide proportion of people employed in the informal sector

Table 1
NICARAGUA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	3.0	0.8	2.5	5.3	4.3	4.2	3.1	2.8	-1.5
Per capita gross domestic product	1.4	-0.6	1.2	4.0	2.9	2.8	1.7	1.4	-2.7
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.7	-0.3	1.9	5.7	4.6	2.5	-2.8	6.7	0.0
Mining and quarrying	13.6	5.6	-10.5	20.0	-10.5	2.7	-6.3	-5.6	-10.5
Manufacturing	5.9	2.1	2.4	9.0	5.6	6.4	6.8	1.1	-2.7
Electricity, gas and water	8.3	1.4	5.1	4.4	3.6	1.5	2.0	4.0	2.0
Construction	2.1	-13.3	2.7	12.1	7.3	-3.2	-4.8	-6.7	-4.1
Wholesale and retail commerce, restaurants and hotels	1.6	3.3	1.4	4.6	2.3	4.9	4.4	2.7	-2.7
Transport, storage and communications	3.7	2.7	9.7	4.8	6.7	7.2	7.5	3.8	1.8
Financial institutions, insurance, real estate and business services	3.9	2.3	6.8	7.2	4.0	4.9	7.9	3.3	-1.3
Community, social and personal services	5.1	2.0	2.4	2.2	4.0	4.2	3.3	3.6	1.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.1	3.6	2.1	2.1	3.6	2.7	4.1	3.3	-1.2
Government consumption	-2.9	-4.6	5.6	3.2	6.9	-0.5	4.8	6.2	-7.4
Private consumption	4.9	4.5	1.8	2.0	3.3	3.1	4.0	3.1	-0.5
Gross capital formation	-8.4	-7.1	-1.0	10.7	11.3	-0.1	11.4	2.4	-22.3
Exports (goods and services)	7.4	-3.5	9.2	17.1	7.7	12.5	9.2	2.2	3.8
Imports (goods and services)	0.7	-0.1	3.5	8.2	8.6	4.4	13.2	3.2	-7.7
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	28.2	26.1	25.9	28.0	30.1	30.8	33.2	33.6	23.4
National saving	8.7	7.6	9.7	13.5	15.0	17.2	15.3	9.4	10.5
External saving	19.5	18.5	16.2	14.5	15.1	13.6	17.9	24.2	12.9
					Millions of dollars				
Balance of payments									
Current account balance	-805	-744	-663	-649	-734	-710	-1 001	-1 513	-796
Goods balance	-910	-939	-971	-1 088	-1 302	-1 451	-1 759	-2 211	-1 540
Exports, f.o.b.	895	914	1 056	1 369	1 654	2,034	2,336	2 538	2 387
Imports, f.o.b.	-1 805	-1 853	-2 027	-2 457	-2 956	-3 485	-4,094	-4 749	-3 927
Services trade balance	-141	-130	-119	-123	-140	-134	-182	-209	-85
Income balance	-240	-206	-198	-192	-150	-129	-135	-161	-190
Net current transfers	486	530	625	755	857	1 003	1 075	1 068	1 018
Capital and financial balance [d]	542	531	441	531	670	772	1 093	1 499	1 004
Net foreign direct investment	150	204	201	250	241	287	382	626	434
Other capital movements	-141	335	75	389	187	427	287	-51	-4
Overall balance	-263	-213	-222	-118	-64	62	92	-14	208
Variation in reserve assets [e]	110	-69	-55	-160	-6	-186	-173	-30	-262
Other financing	153	282	278	278	70	124	80	45	54
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	101.1	103.3	106.9	107.7	110.2	108.2	110.9	106.8	108.9
Terms of trade for goods (index: 2000=100)	88.4	87.0	84.1	82.5	81.4	79.4	78.6	75.2	82.4
Net resource transfer (millions of dollars)	455	607	520	616	590	768	1 039	1 383	868
Gross external public debt (millions of dollars)	6 374	6 363	6 596	5 391	5 348	4 527	3 385	3 512	3 661
					Average annual rates				
Employment									
Labour force participation rate [g]	57.5	…	53.7	53.1	53.8	51.4	53.4	53.3	51.8
Open unemployment rate [h]	11.3	11.6	10.2	9.3	7.0	7.0	6.9	8.0	10.5
					Annual percentages				
Prices									
Variation in consumer prices (December-December) [i]	...	...	6.7	8.9	9.7	10.2	16.2	12.7	1.8
Variation in nominal exchange rate (annual average)	9.0	6.5	5.4	5.6	3.4	6.1	6.3	5.0	5.0
Variation in average real wage	1.0	3.5	2.1	-2.2	0.1	2.2	-2.2	-4.0	5.8
Nominal deposit rate [j]	11.6	7.8	5.6	4.7	4.0	4.9	6.1	6.6	6.0
Nominal lending rate [k]	18.6	18.3	15.5	13.5	12.1	11.6	13.0	13.2	14.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Non-financial public sector									
Total revenue [l]	23.0	24.3	26.6	28.9	29.6	32.1	33.4	32.4	32.7
Current revenue	20.1	21.2	22.8	25.3	26.2	27.7	29.3	29.2	29.2
Tax revenue	17.2	18.0	19.9	20.6	21.7	23.1	24.1	23.8	24.0
Total expenditure	29.6	26.3	28.9	30.3	30.6	31.4	32.1	33.1	34.1
Current expenditure	23.7	20.7	22.2	22.9	24.1	26.3	26.8	28.7	29.2
Interest	2.2	2.2	3.1	2.1	1.9	1.9	1.5	1.2	1.4
Capital expenditure	6.0	5.6	6.6	7.4	6.5	5.1	5.2	4.4	4.9
Primary balance	-4.4	0.3	0.8	0.8	1.0	2.5	2.8	0.5	-0.1
Overall balance	-6.6	-1.9	-2.3	-1.4	-1.0	0.7	1.3	-0.8	-1.5
Non-financial public sector debt	111.3	134.1	138.0	100.7	92.8	70.0	44.0	40.1	45.3
Domestic	...	21.5	22.5	21.5	21.1	19.1	17.1	14.5	15.2
External	111.3	112.6	115.5	79.3	71.7	50.8	26.9	25.6	30.2
Money and credit [m]									
Domestic credit	78.0	79.7	80.7	71.4	67.3	63.6	62.5	57.4	46.9
To the public sector	74.7	72.7	68.2	56.4	48.1	40.3	33.7	29.9	30.7
To the private sector	17.7	19.6	22.9	25.4	29.3	34.1	39.9	38.3	34.3
Others	-14.4	-12.5	-10.4	-10.4	-10.1	-10.8	-11.1	-10.6	-18.1
Liquidity (M3)	37.4	40.0	41.8	43.0	41.3	39.9	41.9	38.2	43.1
Currency outside banks and local-currency deposits (M2)	12.4	12.1	13.4	14.4	13.5	13.7	14.5	12.1	12.9
Foreign-currency deposits	25.0	27.9	28.4	28.6	27.8	26.1	27.4	26.1	30.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population, urban total.
[i] Consumer price index in the Managua metropolitan area.
[h] Weighted average rate on 30-day deposits.
[k] Weighted average rate on short-term loans.
[l] Includes grants.
[m] The monetary figures are end-of-year stocks.

rose by 1.4 percentage points to 64.9%. Lower inflation resulted in a significant increase in the average real wage (up 8.5%, or 6.5% among those insured by the Nicaraguan Social Security Institute).

Cumulative inflation for the first six months of 2010 was 3.8% (0.15% in the same period in 2009). This upswing was caused by the economic recovery and a further rise in world prices for foodstuffs and fuels. The food and beverages segment has contributed 1.98 percentage points to total cumulative inflation, while transport accounted for 0.22 percentage points.

(c) The external sector

The balance-of-payments current account deficit declined sharply as a percentage of GDP (down 11.3 percentage points), because of the sharp drop in imports (17.3%). The downturn in economic activity and falls in international prices had a particular impact on imports of oil and fuels (-31.6%), raw materials for construction (-34.2%) and consumer durables (-24.9%).

Goods exports fell in nominal terms (by 5.9%), but more slowly than imports. The decline in external demand affected the three major export segments: the free zones (down 4.3%); traditional exports (down 5.1%) and other exports (-9%). Within traditional exports, the biggest falls were in coffee (down 14.9%), shellfish (13.9%) and cattle on the hoof (33.7%). Some 45% of the variation in the value of exports was due to lower volumes, and the remainder to falling prices.

In the first half of 2009, exports recorded the highest rates of year-on-year contraction, whereas in the last two months of the year, the variation was actually positive. The United States remains the largest export market (32.4% of total exports), followed by El Salvador (14.3%). The Bolivarian Republic of Venezuela became the third largest market following a significant increase in the past year (US$ 119.2 million, compared with US$ 30.2 million in 2008). The main exports to that country were coffee, fluid milk, bovine meat and black beans. The terms of trade improved by 9% following eight consecutive years of downward trend, resulting from declining prices for fuels and raw materials.

The goods and services trade balance showed a deficit of US$ 1.625 billion, 33% lower than the 2008 figure. This was equivalent to 26.4% of GDP and reflected mainly

Table 2
NICARAGUA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	3.2	4.1	3.9	0.3	-3.0	-3.8	0.8	0.1	4.0	...
Goods exports, f.o.b. (millions of dollars)	399	413	385	292	354	362	370	305	478	146 [c]
Goods imports, c.i.f. (millions of dollars)	1 010	1 165	1 158	1 005	803	875	848	952	799	265 [c]
Gross international reserves (millions of dollars)	1 073	1 123	1 165	1 141	1 078	1 143	1 394	1 573	1 485	1 553
Real effective exchange rate (index: 2000=100) [d]	109.3	108.1	106.5	103.2	103.8	107.7	110.8	113.5	107.7	108.5 [e]
Consumer prices (12-month percentage variation)	18.9	22.7	23.0	12.7	7.1	1.1	-0.6	1.8	5.1	5.4 [e]
Average nominal exchange rate (córdobas per dollar)	19.0	19.3	19.5	19.7	20.0	20.2	20.5	20.7	21.0	21.2
Average real wage (variation from same quarter of preceding year)	-5.0	-5.6	-7.0	2.6	-0.2	13.6	9.2	3.5	7.0	...
Nominal interest rates (annualized percentages)										
Deposit rate [f]	6.7	6.5	6.4	6.7	6.5	6.4	5.4	5.6	3.9	3.0 [c]
Lending rate [g]	13.6	12.6	13.1	13.4	14.3	14.2	13.9	13.8	13.9	13.9 [c]
Interbank rate	9.6	10.1	11.3	11.2	11.6	11.1	8.3	5.8	5.4	5.2 [c]
Domestic credit (variation from same quarter of preceding year)	8.0	7.2	10.8	7.7	5.9	-1.5	-13.0	-15.6	-14.7	-14.4 [c]
Non-performing loans as a percentage of total credit	2.3	2.0	2.3	2.6	2.6	2.7	2.9	2.8	2.8	2.7 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1994 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] Weighted average rate on 30-day deposits.
[g] Weighted average rate on short-term loans.

trade in goods, since the services trade deficit narrowed in 2009 to US$ 85 million, thanks to an upturn in the travel segment.

Family remittances diminished by 6.1%, owing to the contraction of economic activity in the two main countries of origin, Costa Rica and the United States. As a proportion of GDP, remittances stood at 12.5% in 2009 compared with 13.1% in 2008.

The capital and financial account balances were positive, at US$ 430 million and US$ 470 million, respectively. These amounts, together with inflows of remittances, financed the deficit on the goods and services trade balance. In 2009, FDI inflows totalled US$ 434 million (equivalent to 7.1% of GDP), US$ 192 million below the record level set in 2008, but above the average for the previous 10 years. Investment inflows to the telecommunications and energy sectors were seriously affected by the international economic situation. The largest source of FDI was, for the first time, the Bolivarian Republic of Venezuela (32%), followed by the United States (18%) and Mexico (16%).

External trade flows are expected to pick up in 2010, reflecting the economic upturn in both Nicaragua and the global economy. Imports will show stronger growth than exports, owing to rising world prices for fuels and raw materials and the great elasticity of imports in relation to income variations, and this will widen the current account deficit. Inflows of FDI and family remittances will also increase.

Panama

1. General trends

Panama's economy posted GDP growth of 2.4% in 2009. The international financial crisis led to this break in the growth rate, which had averaged 9.6% in 2005-2008. The non-financial public sector recorded a slight deficit equivalent to 1.0% of GDP, as against a 0.4% surplus in 2008. The current account was balanced at the end of 2009, compared with a deficit equivalent to 11.5% of GDP in 2008. Unlike 2008, when inflation reached 6.8%, the annual rate for 2009 was more in line with historical levels, at 1.9%.

Overall demand contracted by 3.6%, driven by falling gross domestic investment (down 6.3%). The strongest effects of the crisis were felt in gross fixed investment, particularly in machinery and equipment, which went from an annual average growth rate of 27.4% in 2005-2008 to a 15.5% contraction in 2009.

The sectors that continued to grow in 2009, albeit at a far slower pace than the previous year, were transport, storage and communications (8.3%), fuelled by 38.5% growth in telecommunications. The electric power, gas and water sector grew at a brisk 7.1% in 2009 as more power was generated and its price fell. The construction sector advanced 4.5%, attributable essentially to the non-residential sector and public infrastructure projects. The sharpest contractions were seen in agriculture (down 6.5%) and commerce (-3.7%).

To counter the sluggish growth of economic activity, the government implemented a series of countercyclical measures, some of which involved active participation by the private sector. Infrastructure works focused on projects including the widening of the Panama Canal, the project to clean up the Bay of Panama, widening the coastal beltway and building hydropower plants. Several social programmes were implemented, and there were substantial minimum-wage hikes.

The non-financial public sector deficit reached 1.0% of GDP as central government current expenditure and capital expenditure rose. This was offset in part by an increase in tax revenues from a slightly larger tax burden. In addition, laws were enacted to improve tax collection.

In 2010, the credit rating agencies Fitch Ratings, Standard and Poor's and Moody's gave Panama an investment grade rating, which will make it easier for the country to obtain financing on international markets.

In December 2009 the new government of President Martinelli, who took office on 1 July 2009, presented to the nation its strategic plan for 2010-2014. The plan focuses on three high-priority sectors: logistical services, tourism and agriculture. It calls for substantial investment in public infrastructure projects over the next five years, including building the Panama City metro and the third set of locks in the Panama Canal, as well as launching private electric power generation projects.

Panama's economy is expected to grow by around 5% in 2010, spurred by increasing investment in public infrastructure. This will exert pressure on the current account, with increasing imports of capital goods, such as machinery and inputs needed for projects, and rising interest payments because of new debt issued. The fiscal deficit is also likely to widen despite the projected gain in fiscal revenue yielded by increased tax collections.

2. Economic policy

(a) Fiscal policy

The non-financial public sector posted a deficit of US$ 253.2 million in 2009. This is equivalent to 1.0% of GDP and contrasts with a surplus equivalent to 0.4% of GDP in 2008. Tax receipts were up US$ 200 million, a 5.7% increase in real terms over 2008 and equivalent to 10.8% of GDP, compared with 10.5% in 2008. This rise in tax collections was largely due to Act No. 45 of July 2009, which granted delinquent taxpayers a grace period for paying their taxes. Non-financial public sector spending totalled US$ 5.663 billion, up US$ 465.6 million (6.4% in real terms) over the previous year. This increase was the result of expanding current expenditure (6.6%) and capital expenditure (6.0%).

Current expenditure rose as the government reinforced social programmes, among them "Red Oportunidades", in which 69,670 families had enrolled by December 2009; the "100 para los 70" programme, which gives US$ 100 dollars a month to 72,000 older adults who receive no pension; and wage hikes for seniority. The increase in capital expenditure was primarily the result of outlays for infrastructure investment, such as for the coastal beltway and the Madden to Colón highway.

Act No. 32 was enacted in June 2009 to amend the previous fiscal responsibility act. The new deficit ceiling for 2009 was set at 2.5% of GDP; it will decrease 0.5 percentage points each year from 2009 to 2012 until it reaches 1%, with exceptions for sluggish growth domestically and in the United States.

Several laws to expand tax collection have been enacted over the past few months. Noteworthy among these measures was an increase in the goods and services tax (equivalent to a value added tax) from 5% to 7%, an extension of this tax to previously exempt goods and services, and a decrease in the personal and corporate income tax rate. It is estimated that these measures together will increase the tax burden by 1.5% of GDP in 2010.

Public debt totalled US$ 10.972 billion in 2009 (equivalent to 45.1% of GDP, similar to the previous year), and its composition changed. Until December 2008 81.2% of public debt was external and the remaining 18.8% was domestic. By December 2009, external debt had climbed to 92.5% of the total and domestic debt had dropped to 7.5%. The US$ 1.673 billion rise in public sector external debt was due mainly to an increase in private sources (US$ 1.374 billion) and to US$ 288 million from multilateral organizations (Inter-American Development Bank and World Bank).

The fiscal deficit is expected to be higher in 2010 than in 2009, owing to greater infrastructure and welfare expenses and interest payments in excess of the expected increase in tax receipts.

(b) Monetary and exchange-rate policy

Lending by the national banking system was off 2.6% in real terms in 2009. The credit contraction had a procyclical effect and was an additional factor behind the GDP slowdown. This evolution was uneven: the sharpest credit contractions were seen in the sectors of fisheries (down 49.9%), mining and quarrying (29.0%), financial institutions and insurance (22.3%), manufacturing (17.5%) and commerce (8.8%) sectors. The construction and mortgage sectors posted the largest real increases, at 16.4% and 8.5%, respectively. Lending to these two sectors expanded because, despite the onset of the financial crisis, many projects were well under way and the banks decided to continue financing them.

Deposits were up 5.3% in real terms compared with December 2008, resulting from an increase in deposits from individuals and foreigners that was partially offset by a decline in foreign bank deposits. The increase in the former was likely caused by the fragility of the United States' financial system during the crisis, while deposits from foreign banks appear to have declined because parent companies needed to maintain sufficient liquidity in their countries of origin.

Despite the crisis, Panama's national banking system remains profitable and sound. Bank system earnings dropped by a nominal 31.8% in 2009, but the return on equity remained high, at a nominal 12.2% in 2009 versus 15.7% in 2008. The proportion of past-due loans to total loan portfolio edged up, to 1.9% as of December 2009 compared with 1.4% for December 2008. Real lending and borrowing rates returned to positive territory in 2009 after turning negative in 2008 because of high inflation.

(c) Trade policy

A government trade-policy priority for 2010 is to have Panama removed from the list of countries classified as tax havens. To this end, the new administration set in motion an agenda for signing double-taxation treaties, mainly with member countries of the Organisation for Economic Co-operation and Development. By May 2010 treaties had been signed with Barbados, Belgium, Italy and Mexico. Preliminary talks with France and the Netherlands began in April 2010. It is expected that treaties with 12 countries will be signed by late 2010; this also should prompt ratification of the bilateral agreement with the United States, pending since June 2007.

Industrial Promotion Act No. 76 was enacted in November 2009 to encourage the development of manufacturing industries already established or to be established in Panama. This Act created the Industrial Promotion Certificate, a non-transferable, nominative tax-exempt document that the beneficiary company can use during an eight-year period to pay national taxes and levies. Among the activities eligible for these certificates are research and development, management and quality control, and human resource training. Expenses associated with these activities will also be entitled to a 35% rebate of amounts disbursed. The other industrial activities referred to in the Act will be eligible for 25%.

Act No. 82 was promulgated in December 2009, primarily to bolster farm export competitiveness. This law created Agricultural Promotion Certificates, a stimulus measure that will return to exporters 10% to 15% of the average marketing costs incurred in packaging, packing, transport and inland freight.

3. The main variables

(a) Economic activity

Decelerating growth in 2009 was the result of widespread slower growth in some economic sectors combined with a contraction in others. In the previous three years, construction and mining had been growing at brisk yearly averages of 23.6% and 24.0%, respectively, but in 2009 those rates had fallen to only 4.5% and 4.9%. The agriculture, manufacturing and commerce, and hotels and restaurants sectors contracted by 6.5%, 0.3% and 2.8%, respectively.

A sector that retained some of its bounce was transport, storage and communications with 8.3% growth (this sector generates 22.2% of total GDP). This expansion was fuelled by two new companies, Digicel and Claro, entering the mobile phone market. Electrical power grew at a brisk 7.7%, of which 4.1 percentage points were due to increased residential consumption. Growth in the construction sector (4.5%) was a result of the widening of the Panama Canal, the project to clean up the Bay of Panama, the construction of the second stage of the coastal beltway, and other non-residential public investments.

Panama Canal activity was slightly hurt by the world financial crisis and the ensuing drop-off in international trade. Canal traffic stood at 14,342 vessels with 299.1 million of total tonnage in 2009, down 2.4% and 3.4%, respectively. The sharpest contraction was in the container ship segment, which was down 5.0%. Nevertheless, Panama Canal toll revenue rose a nominal 9.2% over the previous year, thanks to the increase in transit fees.

One sector that was particularly hard hit in 2009 was agriculture, livestock, hunting and forestry (down 6.5% in real terms), owing to the impact of adverse weather phenomena for crops and fisheries. Rice was one of the worst affected crops. A decrease in the area under cultivation led to a 4.8% drop in output, and the government had to increase the import contingent to ensure supply. Fruit production, especially melons, watermelons and bananas, also was severely impacted by bad weather. The sector was also hurt by the loss of European Union tariff preferences, which will probably not be restored until late 2010.

The growth of Panama's economy is expected to be in the 4.5% to 5.0% range in 2010. The sectors that are expected to pick up are construction and tourism, thanks to the large number of public infrastructure works in development and the increase in tourism projects.

(b) Prices, wages and employment

Inflation measured by the consumer price index slowed substantially in 2009, to an annual 1.9%, after closing 2008 at 6.8%. The steepest increases were in household equipment (6.2%) and food and beverages (5.8%). By contrast, there were marked declines in electrical rates (21.2%) thanks to state subsidies, and in transport (27.4%) owing to falling oil prices. The 2010

Table 1
PANAMA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	0.6	2.2	4.2	7.5	7.2	8.5	12.1	10.7	2.4
Per capita gross domestic product	-1.3	0.4	2.3	5.6	5.3	6.7	10.2	8.9	0.8
Gross domestic product by sector									
Agriculture livestock hunting forestry and fishing	6.5	3.3	9.3	1.4	2.6	4.2	0.6	7.9	-6.5
Mining and quarrying	-4.1	18.1	35.4	12.5	0.1	17.2	24.0	30.9	4.9
Manufacturing	-6.3	-2.6	-3.4	2.1	4.2	3.9	5.6	4.0	-0.3
Electricity gas and water	-4.7	6.9	1.4	6.1	5.6	3.3	8.2	3.5	7.1
Construction	-21.8	-7.1	32.5	13.9	1.0	18.4	21.8	30.7	4.5
Wholesale and retail commerce restaurants and hotels	3.7	-0.9	2.4	11.9	9.2	11.2	11.3	7.4	-2.8
Transport storage and communications	2.5	2.0	10.9	14.9	11.8	13.7	17.0	18.5	8.3
Financial institutions insurance real estate and business services	-0.5	-0.2	0.5	3.3	10.0	9.1	12.1	9.6	1.6
Community social and personal services	3.9	4.5	1.8	3.3	0.9	3.3	6.5	4.8	3.0
Gross domestic product by type of expenditure									
Final consumption expenditure	3.9	7.3	7.3	3.9	8.1	4.2	1.4	6.1	1.7
Government consumption	8.1	9.1	0.4	1.9	4.1	3.1	4.1	2.6	3.0
Private consumption	3.1	6.9	8.7	4.3	8.8	4.4	0.9	6.7	1.5
Gross capital formation	-24.2	-5.4	19.0	9.9	2.8	13.5	38.9	24.2	-1.0
Exports (goods and services)	0.3	-2.5	-10.1	18.5	11.3	11.1	22.0	10.3	1.5
Imports (goods and services)	-4.3	0.7	-3.5	14.4	11.2	7.4	18.1	10.3	-3.0
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	17.6	15.7	19.0	18.7	18.4	19.5	24.1	27.4	24.5
National saving	16.2	15.0	14.8	11.6	11.8	16.8	17.0	15.9	24.5
External saving	1.4	0.8	4.1	7.1	6.6	2.6	7.1	11.5	0.0
					Millions of dollars				
Balance of payments									
Current account balance	-170	-96	-537	-1 003	-1 022	-448	-1 407	-2 677	-4
Goods balance	-696	-1 035	-1 202	-1 537	-1 558	-1 715	-3 190	-4 546	-2 026
Exports, f.o.b.	5 992	5 315	5 072	6 080	7 375	8 475	9 334	10 323	10 904
Imports, f.o.b.	6 689	6 350	6 274	7 617	8 933	10 190	12 524	14 869	12 931
Services trade balance	890	968	1 240	1 337	1 420	2 273	2 836	3 205	3 272
Income balance	-590	-272	-809	-1 020	-1 126	-1 258	-1 306	-1 574	-1 460
Net current transfers	226	244	234	217	242	253	253	238	210
Capital and financial balance [d]	803	241	269	608	1 697	620	2 029	3 262	614
Net foreign direct investment	467	99	818	1 019	918	2 557	1 777	2 402	1 773
Other capital movements	336	143	-548	-411	779	-1 937	252	860	-1 159
Overall balance	633	146	-267	-395	675	172	622	585	610
Variation in reserve assets [e]	-622	-138	267	396	-521	-162	-611	-579	-610
Other financing	-11	-8	1	-1	-154	-10	-10	-5	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	103.1	101.3	103.3	108.4	110.9	112.7	114.3	113.3	108.6
Terms of trade for goods (index: 2000=100)	102.7	101.6	97.2	95.3	93.5	90.8	90.0	85.9	90.0
Net resource transfer (millions of dollars)	202	-39	-539	-414	418	-648	712	1 683	-846
Gross external public debt (millions of dollars)	6 263	6 349	6 504	7 219	7 580	7 788	8 276	8 477	10 150
					Average annual rates				
Employment									
Labour force participation rate [g]	60.5	62.6	62.8	63.3	63.6	62.6	62.7	63.9	64.1
Unemployment rate [h]	14.0	13.5	13.1	11.8	9.8	8.7	6.4	5.6	6.6
Visible underemployment rate [i]	…	…	…	4.4	4.6	3.4	2.7	2.1	2.1
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	0.0	1.9	1.4	-0.2	3.4	2.2	6.4	6.8	1.9
Variation in real minimum wage	7.0	-1.2	0.7	0.9	-2.8	3.4	-1.7	2.7	-2.4
Nominal deposit rate [j]	6.8	5.0	4.0	2.2	2.7	3.8	4.8	3.5	3.5
Nominal lending rate [k]	10.6	9.2	8.9	8.2	8.2	8.1	8.3	8.2	8.3

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Percentages of GDP				
Central government									
Total revenue [l]	17.7	16.8	15.4	14.4	15.2	18.6	19.2	19.7	18.3
Current revenue	17.2	16.1	15.2	14.3	15.1	18.5	18.9	18.2	18.0
Tax revenue	8.8	8.6	8.7	8.5	8.7	10.3	10.6	10.5	10.9
Capital revenue	0.5	0.7	0.3	0.1	0.0	0.1	0.1	1.1	0.2
Total expenditure	19.4	18.8	19.2	19.8	19.1	18.4	18.0	19.4	19.8
Current expenditure	16.7	16.1	16.1	16.6	16.6	15.9	14.0	13.8	13.5
Interest	4.2	4.1	4.3	4.2	4.4	4.2	3.4	3.1	2.9
Capital expenditure	2.7	2.7	3.1	3.2	2.5	2.5	4.0	5.6	6.3
Primary balance	2.6	2.2	0.5	-1.2	0.5	4.4	4.6	3.4	1.4
Overall balance	-1.7	-1.9	-3.8	-5.4	-3.9	0.2	1.2	0.3	-1.5
Central government debt	70.1	69.0	66.6	69.6	65.1	60.3	52.3	44.4	44.5
Domestic	17.7	17.7	16.7	18.9	16.8	15.0	10.6	8.0	2.9
External	52.4	51.3	49.9	50.6	48.4	45.3	41.7	36.4	41.5
Money and credit [m]									
Domestic credit	99.0	91.1	88.8	90.3	90.3	90.6	87.8	85.4	83.0
To the public sector	-9.6	-6.4	-3.9	-0.0	-3.7	-3.2	-7.7	-8.9	-8.9
To the private sector	108.6	90.4	87.1	85.1	87.1	88.4	90.6	89.4	87.1
Others	0.0	7.1	5.6	5.2	6.9	5.5	5.1	5.0	4.8
Liquidity (M3)	85.6	80.9	79.5	78.3	78.0	86.1	87.5	84.5	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population; nationwide total; includes hidden unemployment.
[i] Percentage of the working population; total of urban areas.
[j] Six-month deposits in the local banking system.
[k] Interest rate on 1-year trade credit.
[l] Includes grants.
[m] The monetary figures are end-of-year stocks.

inflation figure is expected to pick up slightly but should not exceed an annual 3.5%.

Executive Decree No. 263 of December 2009 raised hourly minimum wages, effective 1 January 2010. On the basis of 208 hours worked per month and depending on the branch of economic activity, the minimum wage for small companies rose by between US$ 20.80 and US$ 29.10 a month, increases of between 4.6% and 7.5% in real terms over 2008. The hike was US$ 54.00 dollars for large companies, which is 14% in real terms over 2008. In some economic sectors the wage increase was even higher, as much as 26.8% in real terms. This measure will improve the economic situations of 250,000 Panamanians who earn the minimum wage.

The unemployment and open unemployment rates stood at 6.6% and 5.2%, respectively. In both cases this is an increase of one percentage point over 2008. One of the sectors posting net job creation in 2009 was construction, boosted by hotel and tourism projects and public infrastructure works. These projects helped temper the impact of the international crisis on employment, and should, along with new projects which are at the planning stage, continue to do so in 2010.

(c) The external sector

The current account posted a US$ 3.5 million deficit in 2009, compared with a US$ 2.677 billion deficit in 2008. This reflected a significant drop in the goods balance deficit, driven by a sharp contraction in imports. The services balance was stable, with a surplus of US$ 3.272 billion, 2.1% higher than in 2008.

The decrease in the goods balance deficit resulted from a 13.0% drop in imports for the year and a 5.6% increase in exports. The dip in imports was triggered by a 15.9% decline in intermediate goods (including construction materials), a 14.9% drop in capital goods, and a 9.7% decline in consumer goods. Colón Free Zone exports rose by 12.2%, driven by medicines, manufactured goods and electrical equipment. National exports fell sharply (-28.3%) because of the financial crisis, weather and disease problems that impacted farm output, and the loss of European Union tariff preferences.

The services balance closed with a US$ 3.272 billion surplus. This was 1.8% higher than the 2008 figure, thanks to a US$ 120.7 million rise in Panama Canal toll revenue, an increase of 9.2%.

Table 2
PANAMA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	11.1	13.9	10.2	8.1	3.3	2.1	0.8	3.5	4.9	...
Gross international reserves (millions of dollars)	1 965	2 419	2 125	2 512	2 758	2 606	2 346	2 836	2 781	4 104 [c]
Real effective exchange rate (index: 2000=100) [d]	115.7	116.3	113.9	107.3	106.2	107.8	109.2	111.1	109.9	109.4 [e]
Consumer prices (12-month percentage variation)	8.8	9.6	10.0	6.8	3.7	1.8	0.5	1.9	2.7	3.2 [e]
Nominal interest rates (annualized percentages)										
Deposit rate [f]	4.0	3.5	3.4	3.3	3.6	3.6	3.5	3.3	3.3	3.3 [c]
Lending rate [g]	8.2	8.3	8.2	8.1	8.3	8.2	8.3	8.3	8.3	8.2 [c]
Sovereign bond spread (basis points) [h]	245	218	306	540	481	277	214	171	171	220
Domestic credit (variation from same quarter of preceding year)	13.6	14.1	17.1	13.9	7.6	7.6	2.2	1.9	4.8	5.9 [c]
Non-performing loans as a percentage of total credit [i]	2.3	2.0	2.3	2.6	2.6	2.7	2.9	2.8	2.8	2.7 [c]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1996 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] Six-month deposits in the local banking system.
[g] Interest rate on 1-year trade credit.
[h] Measured by JP Morgan's EMBI+ index.
[i] Includes credit in arrear.

The financial account ended 2009 with a surplus of US$ 1.242 billion, 57.3% lower than in 2008. There are several reasons for this decrease. First, the foreign direct investment balance fell by 26.2% to US$ 1.773 billion, owing essentially to a US$ 486.7 million drop in the reinvestment of bank earnings. Second, the balance for other investments went from a US$ 1.034 billion surplus in 2008 to a US$ 989.3 million deficit in 2009. The reason is that while Panamanian banks continued to increase the number of loans in 2009, lending volume was far lower than in the previous year. Moreover, deposits by foreigners in Panamanian banks contracted sharply, probably because of liquidity concerns and uncertainty born of the financial crisis. In contrast, there was a US$ 458.9 million portfolio investment surplus in 2009, compared with a deficit of US$ 526.6 million the previous year, resulting from the issuance and placement of US$ 1 billion for early repayment of domestic debt.

Greater pressure on the current account is expected for 2010, resulting from an upturn in the economy, the related expansion of capital goods imports for infrastructure works, and higher interest payments on new sovereign debt issued to finance them.

The Caribbean

Bahamas

1. General trends

Recessionary conditions in the Bahamas deepened in 2009, with real GDP falling by 4.3%. Weakened tourism demand in major markets led to a decline in stay-over arrivals and reduced average spending. Value added in offshore financial services was also down due to the recession in major markets. The slump in activity caused unemployment to increase sharply to 14.2%. Inflation moderated to 1.3% because of declining oil and other commodity prices.

The present fiscal situation poses a challenge to the Bahamas owing to the sharply expanded deficit resulting from countercyclical stimulus measures designed to mitigate the effects of the downturn on growth and employment. With external reserves high, owing in part to sluggish credit growth, the central bank's benchmark discount rate and the commercial bank prime lending rate remained at existing levels. The current account deficit narrowed as a result of a fall in fuel prices and lower demand for imports by households and firms.

The economic contraction is expected to ease in 2010 as stay-over tourism rebounds due to the recovery in the United States. The country will remain in recession, however, with growth projected at -0.5%. The fiscal deficit and debt levels are expected to increase as tax receipts remain weak and capital spending expands. The balance-of-payments current account deficit will widen, owing to higher oil prices and increased imports due to improved household incomes.

2. Economic policy

(a) Fiscal policy

The fiscal position deteriorated in calendar year 2009 as the downturn in activity squeezed revenues while the government increased expenditures through countercyclical spending and unemployment relief payments. As a result, the overall deficit remained unchanged at 3.2% of GDP in 2009. Total revenues declined by 7.2% to B$ 1,334 million, an amount that was less than expected for the year. Tax receipts, which represent 80% of total revenue, were hard hit by the slump in domestic demand, reduced imports and a fall in tourism tax revenues. Meanwhile, non-tax revenues rose by 71% to B$ 271 million, buoyed by the sale of a business entity and dividends from a public corporation.

Total expenditure increased by 1.6% to B$ 1,584 million, reflecting countercyclical fiscal stimulus and higher outlays for debt interest costs. In contrast, capital spending fell by 6.2% to B$ 161 million owing to a 55% decline in spending on asset acquisitions and a modest drop in allocations for infrastructure projects.

The public-sector debt, including government-guaranteed debt, expanded sharply from B$ 3,213.1 million

Table 1
BAHAMAS: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-0.6	2.2	0.7	1.6	5.0	3.5	1.9	-1.7	-4.3
Per capita gross domestic product	-1.9	0.9	-0.6	0.3	3.8	1.9	0.7	-2.8	-5.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-1.4	17.2	16.8	-10.2	-6.6	-7.6	-15.2	9.5	-18.9
Mining and quarrying	3.0	2.2	13.1	2.8	-3.1	28.5	-1.4	25.6	3.8
Manufacturing	-26.6	-8.2	31.0	33.0	58.6	-32.1	-14.9	-7.0	-15.0
Electricity, gas and water	6.9	4.5	5.7	-0.2	9.7	-4.6	7.3	31.2	-12.6
Construction	-19.7	1.5	7.2	-17.3	25.2	35.7	-3.7	-9.5	-18.4
Wholesale and retail commerce, restaurants and hotels	6.9	-6.2	-1.1	0.5	8.7	1.1	-8.6	-1.3	-12.6
Transport, storage and communications	-11.8	102.3	0.9	-2.5	5.4	5.1	-13.5	-7.6	-11.4
Financial institutions, insurance, real estate and business services	-0.1	-8.9	9.9	8.3	5.4	-0.7	5.5	4.1	-9.8
Community, social and personal services	-0.5	0.4	-5.5	0.3	3.3	-4.6	-3.5	1.0	2.1
Gross domestic product, by type of expenditure									
Final consumption expenditure	4.7	-1.8	-0.5	-0.7	6.4	9.8	3.0	-0.3	-4.8
Government consumption	2.8	-1.3	-10.4	-3.3	3.9	2.4	0.1	7.8	6.0
Private consumption	5.3	-1.9	2.4	-0.0	7.0	11.7	3.6	-2.0	-7.4
Gross capital formation	-9.4	-4.9	1.6	-6.0	26.3	22.5	1.8	-15.4	-6.0
Exports (goods and services)	-5.4	8.9	-0.9	13.0	1.4	1.1	2.2	-3.9	-4.9
Imports (goods and services)	-4.1	-4.3	1.7	5.4	18.8	15.3	-3.1	-6.5	-12.7
					Millions of dollars				
Balance of payments									
Current account balance	-594	-298	-321	-171	-651	-1 374	-1 315	-1 165	-927
Goods balance	-1 340	-1 213	-1 231	-1 348	-1 763	-2 033	-2 154	-2 243	-1 875
Exports, f.o.b.	423	422	427	477	549	694	802	956	666
Imports, f.o.b.	1 764	1 635	1 657	1 826	2 312	2 727	2 956	3 199	2 540
Services trade balance	835	1 057	1 014	1 068	1 230	825	1 020	1 140	1 074
Income balance	-199	-184	-152	-141	-203	-218	-232	-118	-210
Net current transfers	110	42	49	251	85	52	52	56	82
Capital and financial balance [c]	564	359	432	354	562	1 295	1 269	1 274	1 180
Net foreign direct investment	192	209	247	443	563	706	746	839	654
Other capital movements	372	150	185	-89	-1	588	523	435	526
Overall balance	-30	61	111	184	-89	-79	-46	109	253
Variation in reserve assets [d]	30	-61	-111	-184	89	79	46	-109	-253
Net resource transfer	366	175	279	213	358	1077	1037	1156	971
Gross external public debt	328	310	364	345	338	334	337	443	767
					Average annual rates				
Employment									
Unemployment rate [e]	6.9	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2
Prices					**Annual percentages**				
Variation in consumer prices (December-December)	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.6	1.3
Nominal deposit rate [f]	...	...	3.9	3.8	3.2	3.4	3.7	3.9	3.8
Nominal lending rate [g]	...	...	12.0	11.2	10.3	10.0	10.6	11.0	10.6
					Percentages of GDP				
Central government [h]									
Total revenue	15.4	15.9	16.0	17.3	18.6	19.1	19.3	18.1	19.0
Current revenue	15.4	15.9	15.7	17.1	18.6	19.1	19.3	18.1	18.7
Tax revenue	13.8	14.3	14.1	15.4	16.7	17.2	17.2	15.5	16.8
Capital revenue	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.3
Total expenditure	17.9	18.4	18.2	19.0	19.4	20.7	20.6	21.4	22.2
Current expenditure	16.1	16.9	16.8	17.5	17.5	18.4	18.2	19.5	19.4
Interest	1.8	1.8	1.9	2.0	1.8	1.8	1.9	2.1	2.4
Capital expenditure	1.9	1.5	1.4	1.5	1.9	2.4	2.4	1.9	2.8
Primary balance	-0.7	-0.8	-0.3	0.2	1.0	0.2	0.6	-1.1	-0.9
Overall balance	-2.6	-2.5	-2.2	-1.7	-0.8	-1.6	-1.3	-3.3	-3.2

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Money and credit [i]									
Domestic credit	81.7	84.4	81.7	84.5	87.6	94.1	100.3	107.8	108.4
To the public sector	13.8	15.3	14.8	14.7	14.3	15.3	16.4	18.7	19.4
To the private sector	67.8	69.1	66.9	69.8	73.3	78.8	83.8	89.1	89.1
Liquidity (M3)	65.3	65.9	65.9	71.8	71.9	72.3	75.9	80.7	81.3
Currency outside banks and local-currency deposits (M2)	63.6	64.3	64.2	70.1	69.7	70.0	73.2	77.9	78.2
Foreign-currency deposits	1.6	1.6	1.7	1.6	2.2	2.3	2.7	2.8	3.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2006 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Percentage of the economically active population; nationwide total, Includes hidden unemployment.
[f] Deposit rate, weighted average.
[g] Lending and overdraft rate, weighted average.
[h] Fiscal years, from July to June.
[i] The monetary figures are end-of-year stocks.

(42.5% of GDP) in calendar year 2008 to B$ 3,901.3 million (53.6% of GDP) in 2009. This spike in the debt is a concern for the government and it has programmed a primary surplus of about 3% of GDP over the medium term to bring the debt level down to around 45% of GDP. Nevertheless, Standard and Poor's has downgraded the long-term sovereign credit rating of the Bahamas one notch to BBB+.

In fiscal year 2009/2010, the overall deficit is expected to overshoot its target of 3.9% of GDP and reach 5.7% of GDP because of a B$ 94 million shortfall in revenue associated with the weakness of economic activity and a modest increase in total expenditure due to continued fiscal stimulus measures. Meanwhile, the budget for 2010/2011 projects a significant fall in the deficit from the previous 5.7% of GDP to 3% of GDP. This improvement is expected to result from cuts in the salaries of parliamentarians, reduced outlays on goods and services and constraints on capital spending growth. Consequently, public-sector debt is expected to remain stable in 2011.

(b) Monetary and exchange-rate policy

Monetary policy was aimed at sustaining reserves to support the stability of the pegged exchange rate. Despite the sharp slowdown in the economy in 2009 and lower than average inflation that would have provided some leverage, the Central Bank of the Bahamas did not provide any monetary stimulus in 2009. The Bank kept its benchmark discount rate constant at 5.25% and the commercial bank prime lending rate also held steady at 5.5%.

The liquidity and foreign reserves of the banking system rose sharply in 2009, bolstered by sluggish credit growth and inflows from the government's foreign currency borrowings. Amid growing uncertainty and weakened private sector demand, growth in domestic credit slowed to 1.5% in 2009, compared with 6.5% in 2008. Notably, all categories of consumer credit, which accounts for the bulk of private-sector lending, experienced declines as individuals focused on reducing their debt levels. Growth in the broad money supply slowed to 1.8%, compared with 5.2% in 2008, mainly on account of a 2.4% decline in savings deposits stemming from a drop in incomes, a rise in unemployment and a switch to higher interest-earning time deposits.

The net foreign assets of the banking system were bolstered in 2009, reversing the position from 2008. Reserves were boosted by US$ 178.8 million under the International Monetary Fund (IMF) global initiative to combat the recession. Although the banking system remained fairly stable in 2009, commercial banks' credit quality deteriorated as the decline in disposable income and rising unemployment impinged on the ability of customers to service their debt. By February 2010, total non-performing loans (those in arrears for more than 90 days on which banks had stopped accruing interest) had increased by 1.7% to B$ 595.8 million.

In 2009, the central bank brought in a programme to improve the administration of exchange controls in order to promote capital account liberalization, including overseas investment by the National Insurance Board. The central bank abolished the requirement for manual completion of forms for foreign currency sales and for current transactions below a certain dollar threshold. The exchange rate remained stable in 2009, with the banks buying and selling United States dollars from and to commercial banks at US$ 1 to B$ 1 and US$ 1 to B$ 1.0025, respectively.

3. The main variables

(a) Economic activity

The recession in the United States led to a fall in stay-over tourist arrivals in the Bahamas and this adversely affected economic activity. Real output contracted by 4.3% in 2009, as compared to a decline of 1.7% in 2008. Value added in the mainstay tourism sector, which represents about 40% of GDP, fell sharply (-12.6%) owing to a 9.3% decline in the higher-spending stay-over visitors, despite some cushion provided by the hosting of the Miss Universe pageant and an International Federation of Association Football (FIFA) World Cup meeting.

Real value added in tourism was also affected by rate discounting and other incentive packages, leading to a decline in average daily room rates of 8.3%. Average occupancy rates fell by 4.7 percentage points to 49.4% and total visitor expenditure contracted by 10%, compared with a decline of 1.8% in 2008.

Activity in construction (6% of GDP) slumped in 2009 (-18.9%), continuing a worsening trend that began in 2007 and that reflects reduced investor appetite for risk in the wake of the global recession.

Indications are that activity in the offshore financial services sector was down in 2009. The number of bank and trust licences increased by one, and the number of private trust companies was up by 12 to 50. Trusts increased by nine, a development influenced by firms' compliance with the consolidated supervision of banks and trust companies. Nevertheless, offshore companies reduced their local spending in the economy.

The economy is expected to moderate somewhat in 2010, with growth of -0.5%. Stopover tourist arrivals will increase marginally as the recovery continues in the United States; construction will pick up as foreign investment strengthens, and offshore financial services are expected to rebound.

(b) Prices, wages and employment

Reflecting lower housing costs and the pass-through effects of lower international prices for fuel and other commodities, the end-of-year rate of inflation stood at 1.3% in 2009, as against 4.6% in 2008. Housing costs, the most heavily weighted item in the index, fell by 0.3% after rising by 3.2% in 2008. This drop is partially due to lower building material costs. A welcome development was the substantial moderation in the growth of food prices (1%, compared to 9.1% in 2008). This reduction eased the burden on households in an environment of reduced employment and income. Inflation is expected to pick up in 2010, propelled by higher fuel prices and a nascent recovery stimulating internal demand.

The slump in economic activity caused unemployment to spike from 8.7% in 2008 to 14.2% in 2009. As the recession deepened, job losses were experienced across a number of sectors, including hotel and restaurants, construction and wholesale and retail trade. The labour force participation rate fell from 76.3% in 2008 to 73.4% in 2009.

(c) The external sector

Falling import demand because of reduced purchasing power and lower fuel and other commodity prices caused the current account deficit of the balance of payments to narrow by US$ 238 million to 12.5% of GDP in 2009 from 15.9% of GDP in 2008. The trade deficit contracted by 16.4% to US$ 1,875 million, four times the decline in 2008, largely because of a 42.7% drop in fuel imports to US$ 667.9 million. The total import bill also benefited from lower food and other commodity prices and from sluggish demand for non-oil imports in the context of the recession.

With the downturn in tourism activity, the services account surplus shrank by 6% to US$ 1,074 million. The 9.3% decline in stopover visitors contributed to an 8.2% fall in net travel receipts. Meanwhile, in a sluggish environment, offshore companies reduced local spending, while government payments for stimulus-related infrastructure projects increased.

The capital and financial account surplus contracted by 7.3% as foreign direct investment (FDI) slumped by 22% to US$ 654 million owing to reduced equity investments and land purchases as investors waited out the adverse economic developments. Meanwhile, miscellaneous investments increased by US$ 88.7 million, propelled by the proceeds from a US$ 300 million government bond issue and an allocation of US$ 178.8 million in Special Drawing Rights (SDRs) under the IMF global initiative to help countries deal with the recession. At the end of 2009, external reserves amounted to US$ 815.9 million, providing cover for 5 months of goods and services imports.

The current account is projected to worsen in 2010 as the modest recovery and higher oil prices lead to higher imports, expected to more than offset a tepid recovery in tourism receipts. The capital and financial account is also expected to remain relativelystable as FDI slowly recovers.

Barbados

1. General trends

Barbados experienced continued economic contraction in 2009, with GDP declining by 3.6%. This reflected the slowdown in most economic sectors during the year, with modest improvements during the first quarter of 2010, when the rate of decline improved to 0.1%. The economic slowdown reflected a 6.6% fall in sectoral GDP from tourism, a pivotal sector in the Barbadian economy. However, reduced growth in other sectors also contributed to the weakened economy, with mining and quarrying falling by 20.0% and construction down by 10.0%. The manufacturing sector also declined, by 5.0%.

The government embarked upon an expansive fiscal strategy in response to the economic contraction, supporting the tourism sector to maintain competitiveness, protecting jobs and implementing social programmes to minimize the impact of the downturn. However, this strategy led to a sharp rise in the fiscal deficit and further increased public debt to over 94% of GDP by the end of 2009.

Looking ahead, the government plans to implement additional mechanisms through to 2016 that include containing fiscal spending and improving the efficiency of revenue collection. These efforts have already begun to bear fruit, as current account spending was reduced by roughly 23% in the first quarter of 2010 compared to the same period last year. However, economic growth for the new year is projected to remain flat at roughly 1%, and until there is renewed growth in the tourism sector, additional measures will include modest external borrowing, judicious fiscal support for foreign exchange-earning sectors and social measures to protect the most vulnerable in the Barbadian economy.

2. Economic policy

(a) Fiscal policy

The fiscal performance of Barbados worsened sharply in 2009, with the overall deficit as a percentage of GDP increasing to 9.2% from 6.4% in 2008. This deterioration was driven by an 8.1% increase in government expenditure in 2009 compared with 2008. Consistent with the government's job retention policy, this increase was principally absorbed by public-sector staff costs, which grew by 12.4% over the period. Expenditure to service interest on the debt also grew by 7.75%, while transfers and subsidies increased by 5.7%.

At the same time, government revenues increased by only 1.6% over the period. Increases of 13.3% in direct taxes and of 60.1% in non-tax revenues and grants were the principal drivers of government revenue growth.

Table1

BARBADOS: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
				Annual growth rates [b]					
Gross domestic product	-4.6	0.7	1.9	4.8	3.9	3.2	3.4	0.5	-3.6
Per capita gross domestic product	-4.2	0.7	1.5	4.4	3.9	2.8	3.0	0.5	-4.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-9.5	-4.2	-4.0	-7.3	8.2	-5.8	2.2	0.3	1.0
Mining and quarrying	8.0	6.4	-16.0	9.5	8.5	-3.1	-5.9	-7.9	-20.0
Manufacturing	-30.9	1.0	-1.6	2.1	2.2	1.1	-2.9	-2.3	-5.0
Electricity, gas and water	-4.5	3.6	2.9	1.8	-0.5	9.8	1.1	-0.4	-1.0
Construction	6.8	7.7	0.6	2.8	14.0	-0.4	0.1	-7.9	-10.0
Wholesale and retail commerce, restaurants and hotels	-4.4	-0.6	5.3	7.5	1.2	3.7	4.7	-0.1	-6.0
Transport, storage and communications	0.1	-3.0	3.0	5.3	5.0	5.2	5.6	2.7	-2.0
Community, social and personal services [c]	-0.6	1.5	0.7	4.9	4.1	4.3	4.2	2.7	0.0
				Millions of dollars					
Balance of payments									
Current account balance	-111	-168	-170	-337	-367	-252	-183	-421	-218
Goods balance	-681	-702	-801	-971	-1 070	-1 003	-1 084	-1 242	-917
Exports, f.o.b.	271	253	264	293	359	510	524	488	379
Imports, f.o.b.	952	955	1 066	1 264	1 429	1 513	1 607	1 730	1 295
Services trade balance	570	550	647	668	765	810	911	895	797
Income balance	-93	-102	-107	-122	-128	-142	-67	-121	-140
Net current transfers	93	86	92	88	65	83	56	47	42
Capital and financial balance [d]	333	144	237	180	390	231	359	326	243
Net foreign direct investment	17	17	58	-16	119	200	256	223	
Other capital movements	316	127	179	196	272	30	104	103	
Overall balance	222	-24	67	-157	23	-21	177	-96	25
Variation in reserve assets [e]	-223	24	-68	157	-23	21	-177	96	-25
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	986	1 004	1 049	1 078	1 060	1 041	1 050	1 047	1 000
Net resource transfer (millions of dollars)	241	42	131	58	263	89	293	204	102
Gross external debt (millions of dollars)	2 267	2 321	2 475	2 435	2 695	2 991	3 130	3 050	3 294
				Average annual rates					
Employment									
Labour force participation rate [g]	69.5	68.4	69.3	69.4	69.6	67.9	67.8	67.6	67.0
Unemployment rate [h]	9.9	10.3	11	9.8	9.1	8.7	7.4	8.1	10
				Annual percentages					
Prices									
Variation in consumer prices (December-December)	-0.3	0.9	0.3	4.3	7.4	5.6	4.7	7.3	4.4
(annual average)	2.8	-4.6	4.6	1.6	6.1	7.3	4.0	8.1	3.6
Nominal deposit rate [i]	...	...	2.8	3.0	3.8	5.0	5.5	4.9	3.4
Nominal lending rate [j]	...	...	7.6	7.4	8.5	10.0	10.4	9.7	8.7
				Percentages of GDP					
Non-financial public sector									
Total revenue [k]	34.2	34.6	34.2	33.6	33.6	35.7	35.4	34.9	35.5
Tax revenues	32.0	32.0	32.0	32.2	31.4	34.1	33.4	32.9	32.3
Total expenditure [l]	37.7	40.9	37.2	35.8	37.9	37.7	37.2	41.3	44.7
Current expenditure	31.6	33.7	32.2	32.0	32.6	31.9	33.7	37.3	40.7
Interest	5.4	5.4	5.0	4.8	4.8	5.1	4.6	5.6	6.0
Capital expenditure	5.8	7.2	5.0	3.8	3.9	4.2	2.9	3.5	3.5
Primary balance	1.9	-1.0	2.0	2.6	0.5	3.1	2.7	-0.8	-3.2
Overall balance	-3.5	-6.4	-3.0	-2.2	-4.3	-2.0	-1.8	-6.4	-9.2
				Percentages of GDP					
Money and credit [m]									
Domestic credit	58.7	72.8	70.5	79.1	86.4	89.2	89.4	96.3	100.1
To the public sector	7.8	17.1	19.2	20.8	18.2	16.7	17.2	19.0	20.6
To the private sector	51.0	55.7	51.4	58.4	68.1	72.5	72.2	77.4	79.5
Liquidity (M3)	83.2	96.8	95.1	105.1	108.1	110.8	118.6	118.9	120.2
Currency outside banks and local-currency deposits (M2)	91.5	109.3	105.8	115.8	124.6	122.0	138.4	133.7	131.5
Nonresidents foreign-currency deposits (minus)	8.3	12.5	10.7	10.7	16.4	11.3	19.8	14.8	11.3

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

[a] Preliminary figures.
[b] Based on figures in local currency at constant 1974 prices.
[c] Includes financial institutions, insurance, real estate and business services.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports.
[g] Economically active population as a percentage of the working-age population.
[h] Percentage of the economically active population. Includes hidden unemployment.
[i] Interest rate for savings.
[j] Prime lending rate.
[k] Includes grants.
[l] Includes net lending.
[m] The monetary figures are end-of-year stocks.

However, a 13% fall in indirect taxes and a 20% fall in post office revenues dampened government income growth, resulting in a worsening of the fiscal deficit.

Public debt [1] increased by 13.7 percentage points to 94.6% of GDP in 2009, up from 80.9% of GDP in 2008. The external debt stock stood at BDS$ 2,203 million in 2009, representing an increase from BDS$ 1,982 million in 2008. Over 69.2% of the overall current debt was domestic.

This trend represents a continued fiscal challenge as Barbados strives to strengthen public infrastructure and the tourism sector. Furthermore, looming debt repayments, for example on a US$ 100 million capital development loan contracted in 2000, will place additional pressure on the country's foreign reserves over the short term.

(b) Monetary and exchange-rate policy

Given the fixed exchange rate regime of Barbados, the principal objectives of monetary policy were to manage liquidity and credit during 2009. With respect to credit, domestic lending increased to 100.1% of GDP in 2009 from 96.3% in 2008. The private sector absorbed most of this (79.5% of GDP) in 2009, with the remainder (20.6% of GDP) going to the public sector. Given tight economic conditions, liquidity (M3) also increased to 120.2% of GDP, representing an increase of 3.7% of GDP from 2008.

Considering interest rates, the weighted average benchmark rate declined from 9% to 8.1% between 2008 and 2009. The treasury bill rate also declined marginally by 0.5 percentage points to 3.8% in 2009 after averaging 4.3% in 2008. However, there was a more significant decline (3.5 percentage points) in commercial bank rates from 11.5% to 8%, possibly reflecting growing liquidity in the Barbados economy over the period.

There was no increase in credit demand during the first quarter of 2010 and this, alongside stagnating growth in deposits, resulted in a slight increase in commercial bank liquidity. Treasury bill rates also fell only slightly (0.5 percentage points), while commercial bank rates remained unchanged.

The Barbados dollar remained pegged to the United States dollar at a rate of US$ 0.5 to BDS$ 1 in 2009. This exchange rate was sustained by adjustments to net international reserves, which declined by 14.6% between January 2008 and 2009.

3. The main variables

(a) Economic activity

The global recession continued to be felt in the Barbadian economy, resulting in real declines in the traded and non-traded sectors in 2009. Tourism remains the principal economic driver in Barbados, contributing 14.7% of GDP in 2008, with a slight decline to 14.5% in 2009. Stay-over arrivals, which contribute far more to the local economy than cruise passengers, amounted to 518,564 visitors in 2009, representing a fall of 8.7% from 2008. This resulted in a 6.6% decline in sector earnings over the same period. The sector stabilized in the first quarter of 2010, as stay-over arrivals grew by 2% compared to the same period in 2009. While this growth was fuelled by arrivals from the United States and Canada, visitors from the United Kingdom, the largest source market, remained down on account of continued sluggishness in that country's job market. Resulting declines in sector earnings have forced hotels to engage in deep discounting in order to remain competitive. Tourism sector growth is likely to remain weak during 2010, with improvement prospects closely linked to growth in source markets during 2011.

Closely related to the tourism sector is the construction sector, which contributed roughly 8.3% of GDP in 2008 and which also declined in 2009 as investment in tourism slowed. Value added fell by 10.0% during 2009, compared to a drop of 7.9% in 2008, and the continued underperformance of this sector reflects the slowdown in both public- and private-sector activity during the period. Related to the fall-off in construction activity, domestic

[1] This represents gross central government debt inclusive of public private partnership-guaranteed debt.

cement consumption fell by 18.4% while the value of imported building materials declined by 22.5%. Prospects for a small boost to the construction sector improved during the first quarter of 2010 with the government's financing loan guarantee of US$ 65 million for the previously stalled Four Seasons Hotel and Villas.

In the agricultural sector, 32,000 tons of sugar were produced during the first six months of 2009. This represented an improvement of 1.2% over the corresponding harvest period in 2008 and was largely attributable to ideal weather conditions.

The impact of the global financial crisis continues to be felt in the financial services sector, which suffered a 37% drop in the registration of new business during 2009. This sector [2] contributed 18.1% of the country's GDP in 2008. Preliminary evidence suggests that the sector has stabilized, with first quarter sector earnings of 0.7% of GDP being the same for both 2009 and 2010.

Moreover, the collapse of Colonial Life Insurance Company (CLICO) has prompted government efforts to protect investor interests in the local subsidiary, CLICO Holdings Barbados. As a way of securing medium-term investor confidence, the government has proposed to lengthen the maturity period of CLICO's liabilities.

The decline in the Barbadian manufacturing sector continued, with the sector contributing only 4.9% of GDP in 2009. This is a 5.0% decline from 2008. Significant loss of market share to other regional manufacturers was cited as the principal reason for this decline.

(b) Prices, wages and employment

The annual average inflation rate was 3.6% in 2009, having fallen from 8.1% in 2008. The reduction is due to the fall in global commodity prices, and especially energy prices, during the year. This downward inflationary trend has been sustained into 2010, with an average first quarter rate of 2.7%.

Wages rates also remained largely unchanged during the period. Moreover, an intense national debate over a government-proposed public-sector wage freeze intended to restrain the fiscal deficit and temper rising public-sector debt levels resulted in the decision to pay only the normal wage increments associated with performance appraisals. This decision has so far had no impact on overall wage rates.

The unemployment rate for the second quarter of June 2009 was 9.9%, an increase of 1.3 percentage points over the corresponding quarter of 2008. This increase was due to the deepening economic recession. Female unemployment remained higher (9.5%) than male unemployment (6.9%) during 2008, but by the final quarter of 2009 the situation had been reversed, with female unemployment at 8.1% and male at 10.5%.

Overall, unemployment increased during 2009, with the number of jobless rising from 11,686 in 2008 to 14,237 in 2009, representing a loss of roughly 2,550 jobs. The most significant job losses occurred in the construction (19.6%), transportation and communication (13.8%) and tourism (4.8%) sectors, respectively.

(c) The external sector

Barbados improved its current account deficit substantially from BDS$ 421 million to BDS$ 218 million between 2008 and 2009, corresponding to a fall from 5.3% to 2.3% of GDP. This was achieved primarily though a reduction in import values, reflecting the fall in global commodity prices during 2009. Merchandise imports fell from 24.1% of GDP in 2008 to 18.6% of GDP in 2009, a decline of approximately 5.5 percentage points. At the same time, export values declined slightly from 1.7% to 1.5% of GDP over the 2008-2009 period. Sugar and rum remained the principal exports, earning BDS$ 20 million and BDS$ 29 million, respectively, in 2009. Earnings from tourism, while remaining significant, also fell by 10.5% from BDS$ 1,601 million to BDS$ 1,432 million between 2008 and 2009.

Net current transfers declined by 10.6% over the period, from BDS$ 47 million to BDS$ 42 million, while the income balance fell by 15.7%, reflecting the tightened global economic conditions.

The financial account balance improved from BDS$ 165 million to BDS$ 308 million in 2009 as Barbados accessed US$ 90 million of International Monetary Fund (IMF) Special Drawing Rights (SDRs). This resulted in an overall balance-of-payments surplus of US$ 21 million in 2009.

Given all the above and the weak prospects for a revival of international tourism in the coming year, projections are for economic growth of between 0.5% and 1% in 2010. The government's proposed medium-term fiscal deficit management strategy should be critical in stimulating growth in the Barbadian economy over this timeframe.

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[2] Includes international businesses and domestic financial services.

Belize

1. General trends

The continued impact of the floods of 2008 and the contagion from recessionary conditions in major markets led to a retreat from sound growth in 2008 (3.8%) to no growth (0%) in 2009. Nevertheless, this leaves Belize as one of the better performers in the Caribbean, given the pervasive downturn in the region. The primary goods and services sectors took the brunt of the impact, with contractions of 2.4% and 1.4%, respectively. Owing to lower fuel and food prices and sluggish internal demand, Belize experienced deflation of 0.4% in 2009 following price rises of 4.4% in 2008.

Despite recessionary conditions, the government had very little flexibility to implement countercyclical fiscal policy given high debt levels and the anticipated ratcheting up of interest rates on its adjustable-rate debt in the near term. Therefore, capital spending actually contracted by 20% and was not a source of stimulus as it was in some other countries of the region. In spite of the economic slowdown, monetary policy was neutral in 2009 as benchmark rates were held steady. The current account deficit contracted as a result of a sharp fall in imports due to lower fuel and other commodity prices, which offset reduced inflows from tourism and current transfers.

The economy is expected to improve in 2010, with growth of around 1.5% driven by an improvement in agriculture, a rebound in stay-over tourism and an expansion in oil production. The national budget of March 2010 projected an overall deficit of 2.8% of GDP for fiscal year 2009/2010,[1] up from the budgeted 1.7% of GDP, as a result of lower revenue inflows. The balance-of-payments current account deficit will expand to 8.3% of GDP in 2010, reflecting higher oil prices, as Belize is a net oil importer, and also rising import demand.

2. Economic policy

(a) Fiscal policy

The overall fiscal[2] balance moved from a surplus of 1.5% of GDP in 2008 to a deficit of 2.9% of GDP in 2009. A significant shortfall in revenue stemming from lower petroleum revenues associated with a slump in petroleum prices and reduced customs receipts due to fewer imports were the major causes of the deficit increase. Tax receipts declined by 6.4% to US$ 577 million, partly due to a US$ 18.1 million fall in petroleum tax revenue.

Growth in total expenditure was contained to 2%, as an increase in current spending was partly offset by a sharp fall in capital expenditure. Current spending increased by 7.1%, owing in large part to a 9.3% rise in the wage bill that resulted from the resumption of incremental increases to civil servant pay in 2009. Outlays on goods

1 The fiscal year in Belize runs from April to March.
2 Fiscal data are calculated on an annual basis.

Table 1
BELIZE: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	5.0	5.1	9.3	4.6	3.0	4.7	1.2	3.8	-0.0
Per capita gross domestic product	2.5	2.7	6.9	2.3	0.8	2.5	-1.2	1.7	-2.0
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-0.4	0.5	38.9	9.5	3.0	-6.4	-20.7	0.1	…
Mining and quarrying	3.3	-5.4	0.0	5.7	-6.5	3.4	15.6	19.2	…
Manufacturing	-0.4	1.5	-0.6	12.2	0.9	30.5	3.8	4.9	…
Electricity, gas and water	0.3	2.7	8.5	-1.5	-0.5	41.3	2.4	3.0	…
Construction	1.3	3.7	-17.8	4.5	-3.6	-1.9	-3.0	35.8	…
Wholesale and retail commerce, restaurants and hotels	8.4	3.7	3.8	1.6	5.2	0.8	2.3	2.6	…
Transport, storage and communications	11.9	11.3	8.6	5.0	8.8	3.5	13.1	2.5	…
Financial institutions, insurance, real estate and business services	6.2	17.8	16.9	5.5	3.5	8.2	5.1	7.7	…
Community, social and personal services	4.2	3.9	5.8	2.1	2.5	-2.0	4.2	4.0	…
Gross domestic product, by type of expenditure									
Final consumption expenditure	9.2	7.6	3.5	-0.3	-0.9	-2.3	4.8	-0.5	...
Government consumption	6.1	13.1	5.3	-0.9	4.0	-0.8	11.1	5.1	...
Private consumption	9.7	6.7	3.2	-0.2	-1.8	-2.6	3.6	-1.7	...
Gross capital formation	-6.2	-5.3	-14.0	-5.4	8.0	1.8	5.0	37.0	...
Exports (goods and services)	4.9	9.6	13.2	5.7	7.7	15.2	-6.2	2.8	...
Imports (goods and services)	-0.8	2.6	2.1	-7.5	6.7	0.5	-0.3	13.5	...
					Millions of dollars				
Balance of payments									
Current account balance	-184	-166	-176	-156	-151	-25	-52	-132	-93
Goods balance	-209	-187	-207	-173	-231	-185	-216	-308	-239
Exports, f.o.b.	269	310	316	307	325	427	426	480	382
Imports, f.o.b.	478	497	522	481	556	612	642	788	621
Services trade balance	43	44	70	88	143	211	234	217	183
Income balance	-67	-69	-85	-117	-114	-125	-159	-153	-117
Net current transfers	48	47	46	46	51	74	97	112	80
Capital and financial balance [c]	181	160	146	125	139	75	75	190	141
Net foreign direct investment	61	25	-11	111	126	108	142	188	95
Other capital movements	120	135	158	13	13	-33	-67	2	46
Overall balance	-3	-5	-30	-31	-12	50	23	58	47
Variation in reserve assets [d]	3	5	30	31	12	-50	-23	-58	-47
Other external-sector indicators									
Net resource transfer	15	15	14	14	14	14	14	14	14
Gross external public debt	495	652	822	913	970	985	973	958	1,016
					Average annual rates				
Employment									
Unemployment rate [e]	9.1	10.0	12.9	11.6	11.0	9.4	8.5	8.2	13.1
					Annual percentages				
Prices									
Variation in consumer prices (November-November)	...	3.2	2.3	3.1	4.2	2.9	4.1	4.4	...
Nominal deposit rate [f]	4.4	4.3	4.8	5.2	5.4	5.8	5.9	6.2	-0.4
Nominal lending rate [g]	15.5	14.8	14.4	13.9	14.2	14.2	14.3	14.2	14.1
					Percentages of GDP				
Central government									
Total revenue [h]	27.7	30.4	22.8	24.3	23.9	24.8	30.0	29.5	26.3
Current revenue	26.2	28.9	21.6	21.4	22.9	23.3	25.5	26.8	24.6
Tax revenue	23.9	26.5	19.0	19.3	20.5	21.2	22.6	22.7	21.7
Capital revenue	0.7	0.2	0.9	1.3	0.3	0.4	1.1	0.3	0.4
Total expenditure	39.2	34.0	31.8	30.6	30.7	26.7	31.2	27.9	29.1
Current expenditure	30.6	26.8	20.0	22.4	25.2	22.7	24.9	22.7	24.9
Interest	10.1	6.3	4.0	5.8	6.7	5.9	5.3	3.9	3.6
Capital expenditure	8.7	7.1	11.9	8.2	5.5	4.0	6.3	5.2	4.3
Primary balance	-1.5	2.8	-5.0	-0.5	-0.1	3.9	4.1	5.4	0.8
Overall balance	-11.6	-3.6	-9.0	-6.3	-6.8	-1.9	-1.2	1.5	-2.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Money and credit [i]									
Domestic credit	56.6	51.0	57.2	64.1	63.3	64.8	70.5	71.1	75.2
To the public sector	11.9	3.2	5.7	10.6	9.3	8.9	9.3	7.5	7.6
To the private sector	44.6	47.8	51.5	53.5	54.0	55.8	61.2	63.6	67.6
Liquidity (M3)	59.7	57.0	55.7	59.1	59.6	62.0	68.0	72.4	78.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Percentage of the economically active population, nationwide total.
[f] Rate for savings.
[g] Weighted average rate for loans.
[h] Includes grants.
[i] The monetary figures are end-of-year stocks

and services also expanded amid higher payments to contractors for materials and supplies.

With the sharp fall in the primary surplus from 5.4% of GDP in 2008 to 0.8% of GDP in 2009, the savings required for capital projects were not available. Combined with difficulties in drawing down funds to implement some externally funded projects, this led to a 20% fall in capital spending. The capital spending that did occur was focused on infrastructure works, including the completion of the Southern Highway and housing.

The overall deficit, including grant receipts, improved markedly from 9.1% of GDP in the first quarter of 2009 to 4% of GDP in the first quarter of 2010, owing to a sharp increase in revenues and a moderate decline in spending. For calendar year 2010, the overall fiscal deficit is projected to be 2.7% of GDP, but if the pattern for the first quarter continues, the deficit could exceed this projection.

High public-sector debt remains a major challenge, leaving the government with limited fiscal headroom. In 2009, public debt increased by 4.6% to 87.2% of GDP (US$ 2,361.2 million), up from 83.1% of GDP in 2008. External debt increased by over 6% to 75% of GDP.

(b) Monetary and exchange-rate policy

The country's monetary policy stance remained neutral despite the slowdown in activity. Surging excess liquidity in the banking system meant that a change in the policy-based cash and liquid asset reserve requirements was expected to have little effect on commercial bank interest rates. Indeed, the weighted average interest rate spread increased by 11 basis points as the weighted average deposit rate fell by 23 basis points to 6.12%, exceeding the 12 basis point decline in the weighted average lending rate to 13.98%.

With economic activity sluggish, growth in the broad money supply slowed to 6.4% in 2009, half the pace of 2008. Credit to the private sector increased by 4.1%, the smallest rise in 17 years, and this credit was mainly allocated to construction, electricity generation and beverage production. Foreign assets expanded by 32.8%, bolstered by inflows from bilateral and multilateral sources, including loans from the Caribbean Development Bank (CDB) and the Inter-American Development Bank (IDB) and BZ$ 56.1 million in new Special Drawing Rights (SDRs) under the International Monetary Fund (IMF) global initiative to assist countries during the recession.

The banking system in Belize had limited exposure to the risky instruments that helped to trigger the global financial crisis. Accordingly, it remains largely stable and sound and experienced only a nominal increase in non-performing loans from 10.7% of the total loan portfolio in 2008 to 10.8% in 2009.

In 2009, the central bank implemented the first phase of its monetary policy reform aimed at improving its ability to manage liquidity in the banking system and allowing a gradual move away from reliance on reserve requirements towards open market operations. Two important measures were implemented: liberalization of the short-term yield on treasury bills, and the setting of a ceiling on the interbank lending rate of 11%, thus allowing banks to trade below this rate. Moreover, the pegged exchange rate depreciated marginally, averaging BZ$ 1.97 to US$ 1 between end-December 2009 and 27 June 2010.

3. The main variables

(a) Economic activity

The lingering effects of the 2008 floods on agricultural output and the fallout from the global recession led to stagnant growth of 0% in 2009. The bulk of the impact was felt during the first half of the year, with the economy staging a mild recovery in the second half. Activity in wholesale and retail trade contracted as a result of a fall-off in trade in the Commercial Free Zone[3] and weak domestic consumption due to reduced remittance inflows and increased unemployment. The hotel and restaurant sector was affected by a 5.6% decline in stay-over tourist arrivals (to 221,654) and a fall in the number of nights spent in the country. This led to a 15.6% slump in hotel room revenue, a direct result of weakened demand from the United States market, which accounts for about two thirds of visitors to Belize. During the first quarter of 2010, however, stay-over and cruise passenger visitors were up by 3.7% and 43.5% respectively, pointing to some recovery in tourism.

Agriculture (11.7% of GDP) posted a decline of 2.5% in 2009, the largest contraction in the last four years. Performance was dampened by the fallout from the floods of 2008, which led to a decline in value added for the major export crops. Sugar cane output fell by 6.3% to 917,728 long tons, the smallest harvest in 22 years, and citrus output was down by 7.7%. Only fisheries reported higher value added in 2009, with output rising by 9.4% on the back of increased production of farmed shrimp and conch.

Manufacturing output (12% of GDP) improved amid a 24.3% expansion in petroleum production to 1,608,864 barrels, an average of 4,390 barrels a day, as three additional wells were brought on line.

(b) Prices, wages and employment

Inflation moderated significantly from its 2008 level of 4.4%, resulting in deflation of 0.4% in 2009. Food prices declined by 4.5% following an increase of 15.5% in 2008. This decline was partially due to a fall in commodity prices associated with lower demand. Transport and communications costs rose by 8.6%, reflecting the increase in fuel prices from September to November after a decline of 57% between January and August.

Sluggish internal and external demand led to an increase in unemployment from 8.2% in May 2008 to 13.1% in April 2009, reversing a five-year decline. Nevertheless, the recovery in activity in the second half of 2009 resulted in a 4.7% increase in jobs, causing unemployment to fall to 12.6% by September 2009.

(c) The external sector

The balance-of-payments current account deficit narrowed from US$ 132.4 million (9.7% of GDP) in 2008 to US$ 93.3 million (7% of GDP) in 2009. The decline in the trade deficit and profit outflows more than offset lower net tourism and current transfer inflows.

The trade deficit contracted by 22.6% to US$ 238.7 million, owing to a 21.3% fall in imports that outweighed the 20.5% decline in exports. Imports decreased owing to a tapering off of capital imports for projects that occurred in 2008 and a fall in fuel and other commodity prices. Merchandise exports plummeted because of lower export volumes and values for agricultural exports and lower sales in the Commercial Free Zone. Petroleum exports expanded by 23.2% to 1,261,600 barrels, but an average price decline of 57% led to a sharp cut in receipts to US$ 120.6 million. Nevertheless, petroleum remained the main export earner.

The services account surplus narrowed by 15.5% to US$ 183.2 million (13.8% of GDP) as tourism receipts diminished with the fall in stay-over tourist numbers and the drop in inflows from transportation and business services.

A 50% drop in foreign direct investment in petroleum, tourism and agriculture plus net external loan repayments by the private sector resulted in a 26% fall in the capital and financial account surplus. Gains in inflows came from the IMF disaster assistance loan and US$ 28.1 million SDR allocation. Gross international reserves rose to US$ 313.7 million, covering 4.8 months of goods and services imports.

The current account deficit is expected to widen to US$ 115.1 million (8.3% of GDP) in 2010 as import growth stemming from higher domestic demand and fuel prices outstrips growth in exports of goods and tourism services.

[3] The Commercial Free Zone is an export processing zone that is outside the national customs territory, with restricted access for nationals of Belize.

Cuba

1. General trends

The Cuban economy slowed sharply in 2009 as it struggled to counteract the effects of the international crisis. As the year went on and the global recession continued to worsen, the government had to make adjustments to the country's economic plan and its growth target, reducing the latter from 6% to 2.5% and then to 1.7%. GDP growth was 0.8% in the first half and, after a modest upturn in the second half, averaged 1.4% for the year. This represented a continuation of the slackening trend revealed by the growth figures for the past three years: 12.1% in 2006, 7.3% in 2007 and 4.1% in 2008.

The adjustments took the form of lower investment, which had to prioritize currency-generating initiatives (tourism, nickel and high value added services) or import substitution. Social investment also declined. Procedures for implementing the investment project cycle were strengthened by ensuring that the necessary currency, financing, inputs and environmental impact studies, among other requirements, were put in place in advance.

By contrast with earlier years, in 2009 and 2010 so far the external sector has lost the role it played in spearheading growth, both because the unfavourable conditions under which Cuban external trade operates (in terms of access to markets and financing) have worsened again, and because of the growth slowdown in the international economy and trade.

The consumer price index (CPI) remained virtually unchanged, as in 2008, with a barely perceptible downward movement of 0.1%. As an annual average, consumer prices dropped by 1.2%.[1]

The unemployment rate rose from 1.6% of the economically active population in 2008 to 1.7% in 2009. The fiscal deficit fell from 6.9% of GDP in 2008 to 4.8% in 2009, having been held just below 4% in recent years.

The Cuban economy felt the impact of the international crisis through three main channels whose interaction had the effect of reducing economic activity and employment.

[1] The CPI covers only products priced in Cuban pesos.

The Cuban financial sector was not badly affected, largely because of a lack of depth and exposure to international financial flows and the absence of a capital market.

In the first place, rising international prices for basic grains, inputs and food products, combined with the loss of crops due to the hurricanes that struck Cuba in 2008, increased the country's already large outlays on food. Although food prices dropped in 2009, they were still 60% higher than in the early 2000s.

In the second place exports declined sharply the value of because of falling demand and, to a lesser extent, supply constraints and the inability of the production system to respond easily to the prevailing volatility with new products and services. The international price of nickel, the country's most important export, fell by about 40% in 2009. It is estimated that the terms of trade index fell by 9% over the year, returning to its 2000 level.

Lastly, already difficult external financing conditions worsened further and there was a reduction in credit from suppliers, who are estimated to be owed between US$ 600 million and US$ 1 billion. According to the government, payment retentions accumulating since August 2009 have been reduced in 2010, while there are plans to reschedule debt payments with suppliers.

The Cuban economy is passing through a difficult period in which internal and external factors have combined to thwart the consolidation of high and sustained growth. An important internal factor is the slowness of progress

Table 1
CUBA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
					Annual growth rates[b]				
Gross domestic product	3.2	1.4	3.8	5.8	11.2	12.1	7.3	4.1	1.4
Per capita gross domestic product	2.9	1.2	3.6	5.6	11.1	12.0	7.2	4.1	1.4
Gross domestic product by sector									
Agriculture livestock hunting forestry and fishing	0.9	-2.5	2.4	0.2	-11.6	-6.0	18.0	0.6	3.4
Mining and quarrying	-3.5	12.4	1.8	-4.7	0.1	1.9	3.4	1.1	-2.6
Manufacturing	-0.6	0.2	-2.0	2.5	1.2	2.7	9.9	5.7	-0.3
Electricity gas and water	1.1	2.4	3.1	-2.5	-1.6	3.4	7.9	0.6	0.8
Construction	-5.3	-2.4	4.4	10.0	18.9	37.7	-8.6	2.4	1.3
Wholesale and retail commerce restaurants and hotels	4.4	2.0	5.0	0.7	4.8	22.7	0.5	-0.9	2.0
Transport storage and communications	8.4	0.0	2.7	4.8	8.2	9.2	6.7	6.7	3.2
Financial institutions insurance real estate and business services	5.4	1.2	0.2	4.9	1.0	2.8	8.1	3.5	0.9
Community social and personal services	5.6	3.4	7.7	14.2	29.6	8.9	14.5	7.4	3.1
Gross domestic product by type of expenditure									
Final consumption expenditure	3.7	2.7	6.5	3.7	3.6	15.0	4.4	-0.3	1.2
Government consumption	3.3	4.1	7.3	8.6	10.4	7.9	10.5	2.6	1.7
Private consumption	3.8	2.1	6.2	1.5	0.4	18.7	1.5	-1.8	0.9
Gross capital formation	0.8	-10.8	-9.6	13.5	33.0	26.0	2.4	21.9	-23.9
Exports (goods and services)	-3.6	-3.8	5.8	19.0	47.5	1.3	13.8	11.6	4.1
Imports (goods and services)	-3.8	-7.3	12.1	13.0	25.8	20.4	-1.1	7.4	-17.7
					Percentages of GDP				
Investment and saving[c]									
Gross capital formation	11.5	9.2	8.5	8.8	10.8	11.7	10.2	...	...
National saving	9.6	8.2	8.6	9.1	11.1	11.3	11.0	...	...
External saving	1.9	1.0	-0.1	-0.3	-0.3	0.4	-0.8	...	...
					Millions of dollars				
Balance of payments									
Current account balance	-605	-343	20	116	140	-215	488	...	...
Goods balance	-2 847	-2 388	-2 574	-2 918	-5 235	-6 331	-6 253	...	...
Exports f.o.b.	1 622	1 422	1 671	2 180	2 369	3 167	3 830	...	...
Imports f.o.b.	4 469	3 810	4 245	5 098	7 604	9 498	10 083	...	...
Services trade balance	1 931	1 825	2 329	2 710	6 375	6 456	7 900	...	...
Income balance	-502	-600	-650	-650	-633	-618	-960	...	...
Net current transfers	813	820	915	974	-367	278	-199	...	...
Capital and financial balance[d]	595	300	200	800	...	...	...	...	...
Overall balance	-11	-43	220	916	...	...	...	...	...
Variation in reserve assets[e]	11	43	-220	-916	...	...	...	...	...
Other external-sector indicators									
Real effective exchange rate (index: 2000=100)[f]	90.6	94.2	99.8	106.2	105.1	112.2	115.1	126.1	126.0
Nominal exchange rate (cuban convertible pesos per dollar)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Implicit nominal exchange rate (cuban pesos per dollar)	26.00	26.00	26.00	26.00	24.00	24.00	24.00	24.00	24.00
Terms of trade (index: 2000=100)	114	105	121	133	130	164	172	113	103
Gross external public debt (millions of dollars)[g]	10 893	10 900	11 300	5 806	5 898	7 794	8 908	…	…
					Average annual rates				
Employment									
Labour force participation rate[h]	70.9	71.0	70.9	71.0	72.1	72.1	73.7	74.7	75.4
Unemployment rate[i]	4.1	3.3	2.3	1.9	1.9	1.9	1.8	1.6	1.7
Prices					**Annual percentages**				
Variation in consumer prices[j] (December-December)	-1.4	7.3	-3.8	2.9	3.7	5.7	10.6	-0.1	-0.1
Variation in average real wage	-3.8	9.3	2.5	6.3	13.0	11.6	-1.5	0.1	4.1
Nominal lending rate[k]	...	...	9.6	9.7	9.8	9.4	9.1	9.0	9.3
					Percentages of GDP				
Central government									
Total revenue	34.4	35.0	35.7	33.8	44.0	43.2	46.0	49.1	48.5
Current revenue	33.5	33.9	34.4	32.8	42.5	41.7	43.7	47.3	46.7
Tax revenue[l]	25.9	26.6	26.9	23.3	28.7	30.0	27.7	23.3	21.2
Capital revenue	0.8	1.2	1.3	1.1	1.5	1.5	2.3	1.8	1.8

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
Total expenditure	36.7	38.0	38.7	37.6	48.6	46.4	49.2	56.0	53.3
Current expenditure	28.2	30.7	31.7	30.2	38.9	33.6	38.3	45.1	42.4
Interest	0.9	0.7	0.7	0.7	1.2	1.2	1.4	1.4	1.4
Capital expenditure	6.3	5.8	5.8	6.0	7.2	9.1	8.3	8.1	8.2
Primary balance	-1.5	-2.3	-2.2	-3.0	-3.3	-2.0	-1.8	-5.5	-3.5
Overall balance	-2.3	-3.0	-3.0	-3.7	-4.6	-3.2	-3.2	-6.9	-4.8
Liquidity [m]									
Currency outside banks and local-currency deposits (M2)	39.0	40.6	37.7	38.0	46.6	38.6	37.2	41.9	41.5
Domestic credit to the private sector	...	...	...	...	9.2	15.0	21.0	24.1	25.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of official figures.
[a] Preliminary figures.
[b] On the basis of figures in national currency at constant 1997 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Provisional figures. Yearly calculation by ECLAC based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.
[g] From 2004 refers only to active external debt; excludes long-term debt 60.2% of which is official external debt with the Paris Club.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[h] Percentage of the economically active population nationalwide total.
[j] Local-currency markets.
[k] Corporate lending rate in cuban convertible pesos.
[l] After devolutions.
[m] The monetary figures are end-of-year stocks.

with competitiveness and productivity, which has led the authorities to recognize that remedying structural shortcomings in this area is a priority. The volatility of the international economy and the cumulative consequences of the embargo and the lack of external financing have come together to exacerbate external constraints and create the current environment of slow growth and low productivity. Everything would seem to indicate that, going forward, economic policy will continue to give priority to improving the workings of the production system, relying substantially on a high value added services exporting sector that needs to become larger and more dynamic so that its multiplying effects can spread to the rest of the economy.

Some important changes were made in the country's economic cabinet in 2009 and a stronger role was given to the Ministry of Economic Affairs and Planning in the running of the economy and in the task of coordinating, promoting and overseeing the implementation of actions to meet whatever targets may be set for 2015. The measures announced since late 2009 by the President of the Council of State, Raúl Castro, are designed to infuse efficiency and competitiveness into the economy on the basis of a long-term vision, in what has been termed a process of economic modernization.

Economic difficulties have persisted in 2010, and the government has accordingly indicated that investment planning will continue to pursue export promotion and import substitution. The intention is to persevere with the creation of a production base that accords with the Cuban model of social development. Priority is being given to food production to reduce dependence on external supplies, and financing facilities for farm producers are being enhanced.

Another proposal is to decentralize production to local areas so that local governments become more involved in management and so that provision can be organized at the municipal level.

Also on the table is the creation of an inputs market where producers can acquire the resources they need for agricultural production, replacing the current centralized allocation mechanism. Another proposed measure would give priority to the biofertilizer development programme.

The government projects growth of 1.9% in 2010, with the public-sector deficit estimated to fall to 3.5% of GDP as superfluous spending is reduced and public resources are applied more efficiently.

The 2010 State budget is 2.9% lower than that of 2009 and provides for a reduction in the financing of current expenditure on budgeted activities, in spending on the system of enterprises and in funding for investment (-33%). Although the State budget devotes 1.98 billion current pesos to sustaining sales of regulated products to the population, abolition or drastic curtailment of the rationing system (ration card) is being contemplated.

As indicated in the guidelines for preparation of the 2010 plan, the anticipated volume of foreign-currency expenditure is less than the revenue the country expects to receive. Cuts are planned in social spending, among other things, since the economy is not in a position to afford these large subsidies. This is a far-reaching decision for the Cuban system, entailing rationalization even in the use of medical and hospital services and medicines. Meanwhile, the foreign-currency budget for 2010 has had to include substantial provision for repayment of bilateral debt falling due and sums owed to suppliers.

2. Economic policy

(a) Fiscal policy

Fiscal revenues were reduced by the crisis. Conversely, spending increased in the first half of 2009 because of the need for assistance and reconstruction in the aftermath of the hurricanes that struck the country in 2008 and caused losses estimated by the government at some 20% of GDP. In the face of this situation, the government adopted a restrictive policy in the second half of the year and in April it carried out an exhaustive review of budgeted spending and revenue to identify saving measures and implement an adjustment plan. The smaller deficit in 2009 was achieved thanks to a far-reaching programme of energy saving, reductions in subsidies to State-owned firms and health expenditure, and cutbacks in investment (-16%) and imports (-37.3%). Fiscal policy was also affected to some extent by the availability and orientation of bilateral external financing sources. Reforms to tax law meant that 150,000 wage earners in the countryside were able to start paying into the social insurance system for the first time.

In 2009, the creation of the Comptroller General of the Republic was approved. The function of this body will be to oversee the operation of all the country's political, administrative and economic structures. Subsidies and free provision in the areas of culture, sport and food, among others, are also being reviewed with an eye to better targeting and cost reductions. The items included in the ration card are being reviewed as well.

During 2009 and 2010 so far, some far-reaching measures have been successively introduced in different areas. In particular, they include giving State-owned firms greater independence (to manage foreign currency, for example), creating greater scope for non-State economic activity, withdrawing the subsidy for canteens in public-sector organizations and enterprises, reiterating the need to put the public finances on a sound footing by making savings on the expenditure side and collecting taxes effectively, providing incentives for agricultural production and productivity, chiefly in the form of bank loans for producers and the granting of land usage rights, and extending work in the construction industry to two shifts to speed up implementation of investments in the sector. Meanwhile, owners of microenterprises can now rent public premises, pay taxes and contributions to the social security system, set their own prices and take out loans from commercial banks at real interest rates.

By mid-2010, 250,000 employees at various workplaces, mainly foreign currency-generating organizations, had lost the right to a daily free lunch. Instead, each employee is being given 14.40 convertible Cuban pesos (CUC) a month, covering approximately half the cost of what was formerly provided in kind. Pay canteens are still operating in workplaces; however, the service is no longer provided by the organizations on whose premises they are located but by different enterprises created for the purpose. In addition, 125,000 recipients of student grants will now have to pay for their own food, and consideration is being given to the best way of providing access to education in rural schools with few children (1,700 schools with just one pupil have been identified) that until very recently had a full teaching staff and distance learning services.

Other measures were also adopted, one example being electricity rationing, which adversely affected economic growth because it affected both firms and the population at large. A second budgetary adjustment was carried out in July, the result being a new and more stringent electricity rationing plan and a reduction in the provision of food items to families.

In 2009, Cuba struggled not only to obtain new loans but even to service its existing debt. Under these circumstances, the government has sought to renegotiate the external debt, defer payments and obtain extensions from creditors. The financial situation was relieved somewhat by a loan of some US$ 600 million from China.

(b) Monetary and exchange-rate policy

Monetary and exchange-rate policies were oriented towards maintaining internal balance in a context of severe external imbalances. This goal was achieved insofar as prices and the nominal exchange rate remained unaltered. A new system of foreign-currency spending controls was announced, the plan being for such spending to be managed on a decentralized basis by different ministries instead of the Currency Approval Committee. In the second half of 2009, the central bank authorized payment of arrears on about 600 supplier accounts on condition that the suppliers concerned continued to do business with Cuba.

Costa Rica and El Salvador re-established diplomatic ties with Cuba after almost 50 years. The United States government eased some of its economic embargo measures, which had been tightened under the previous administration. Restrictions on travel to the island by Cuban-Americans were reduced and it was made easier to send family remittances and some items for personal use. Nonetheless, remittances are estimated to have fallen because of the financial and economic crisis in the United States, coinciding with a drop in sales at foreign-currency stores in Cuba.

3. The main variables

(a) Economic activity

Consumption rose by 1.2%, driven by the 1.7% rise in government consumption, which was what tipped the economy into positive growth. By contrast, gross fixed investment plunged by 24%. Goods and services exports (in constant Cuban pesos) registered positive growth (4.1%) and imports negative growth (-17.7%). By sectors, value added in goods production rose by 0.4% while in basic services it rose by 2.9%.

Agriculture was the only sector where growth was close to the authorities' estimate, with output rising by 3.4%. Short-cycle crops posted positive output growth, whereas longer-cycle crops (bananas, oranges, lemons and pineapples), which are Cuba's main agricultural exports, experienced slower growth. Additionally, over 100,000 people were given usage rights over some State land, which should lift agricultural production from 2010 onward. A total of 116,000 people had benefited as of April this year, 8% of them women, and 54% of idle land had been allocated. The government has identified the farming sector as one of those which most urgently need to raise their output and productivity, and one where the measures are starting to show results, such as higher output of milk, vegetables and some tubers.

The hope is that these alterations can help to reduce the country's dependence on food imports, estimated at US$ 1.4 billion or about 60% of total external purchases. In 2010, the government has announced investments in agroindustrial production to replace some food imports, including those required by the tourism sector.

Manufacturing output fell by 0.3% because of the decline in imports of manufacturing inputs. Production of nickel, which generates foreign-currency revenue on a level with tourism, was also adversely affected by the fall in international demand and the price of the metal, which has started to recover in 2010.

Construction grew by just 1.3% because of a shortage of workers and the suspension of many investment projects, but this was partially offset by reconstruction projects in hurricane-affected areas. Communications performed well because restrictions on mobile telephone purchases were lifted, while renewal of the public-sector vehicle fleet spurred growth in the transport sector. Government services continued to grow, albeit at a slower rate than in previous years.

Cuba received 2.429 million tourists in 2009, 3.5% more than in 2008. The main countries of origin were Canada (37.7% of the total), the United Kingdom (7%), Spain (5.3%), Italy (4.9%) and Germany (3.9%). Revenues fell by 10.2% owing to a decline in the average spend because of the global economic crisis and exchange-rate effects. These tourists included 296,000 Cubans resident abroad (12% of the total), a record. In April 2010, the government announced that it was continuing to expand the number of hotel rooms and a modest recovery in tourism currency revenues was expected for the year. There are projects to build five five-star hotels this year and next in Holguín, Trinidad, Cayo Coco and Varadero.

(b) Prices, wages and employment

The average monthly wage increased by 2.9% from 415 pesos in 2008 to 427 pesos in 2009. The government announced an increase in the monthly pay of the 545,000 teachers and employees in the education sector, effective from September. This rise of between 93 pesos and 166 pesos (between US$ 4 and US$ 7.20) represents an annual cost to the government of 820 million pesos (US$ 35.4 million).

Inflation was negative in markets where the domestic currency (Cuban peso) is used, while the unemployment rate remained low. Labour productivity is estimated to have fallen by 1.1% because of underemployment and overstaffing in most of the country's activities. This led to a decision by the authorities to allow workers to hold more than one job, and is one of the issues the government will have to address as part of its production strategy for 2010.

(c) The external sector

The value of imports fell 37.4% as a consequence of reduced economic activity and the cancellation of non-essential imports. Exports fell by 21.4% because of lower sales of nickel and citrus fruits. Falling prices in the international market were one reason for the decline in trade, although in the case of imports volumes also fell because of the plan adjustments. Higher international sugar prices could not be taken advantage of because of low production levels. The terms of trade deteriorated sharply for the second year running, by almost 9%.

The country's international trade strategy has been promoting exports of services, which now account for some 70% of the total; indeed, the service sector produces 75% of GDP. Leading exports in this category include professional services, which are being promoted with a view to capitalizing on the competitive advantages of Cuba relative to Caribbean competitors in areas such as health care, engineering, software, studies and projects. Biotechnology in particular is a high-productivity sector, although its linkages with the wider production system are few. Gross currency earnings per employee are calculated to be twice as high in the biotechnology sector as in tourism and six times as high as in the sugar complex.

Industry and agriculture have not proved able to embark upon a modernizing path in the way professional services have succeeded in doing. However, the latter's exports do not have the linkages and multiplying effect in the domestic economy of sugar agroindustry and tourism, for example, the drivers of growth in earlier decades.

Foreign direct investment flows are estimated to have declined in 2009, although by somewhat less than the Latin American average, partly because of the emergence of major partners such as Brazil, which is now the fifth-largest investor in the country behind the Bolivarian Republic of Venezuela, China, Canada and Spain.

Dominican Republic

1. General trends

Despite the international financial crisis, the Dominican economy grew by 3.5% in 2009 (2.1% per capita). This growth reflects a significant upturn in economic activity starting in the fourth quarter of 2009, associated with the fiscal impulse financed with multilateral resources under a new agreement signed with the International Monetary Fund (IMF).

In spite of the fiscal stimulus, and as a result of previous adjustments, the central government's primary deficit narrowed from 1.9% to 1.5% of GDP. Owing to higher spending on interest payments, however, the overall deficit remained at a similar level to that recorded in 2008, at 3.4%. Starting in the second half of 2010, the administration intends to implement a fiscal consolidation plan to lower the central government deficit to 2.6% of GDP.

The sharp deterioration in domestic demand, which grew by a mere 1.2%, compared with 8.1% in 2008, and the improvement seen in the terms of trade led to a drop in the current account deficit from 9.9% in 2008 to 5% in 2009.

With a view to mitigating the effects of the international financial crisis, the central bank significantly reduced its reference rate in 2009. However, 12-month inflation came in at 5.8%, lower than the target set forth in the monetary programme because of lower domestic demand and the drop in international food and fuel prices.

Although GDP grew by 7.5% during the first quarter of 2010, economic activity is projected to slow from the second half of the year as a result of fiscal consolidation. Consequently, ECLAC projects GDP growth of close to 6% for 2010.

2. Economic policy

(a) Fiscal policy

After a substantial increase in 2008, government spending decreased significantly in the first nine months of 2009 because of a loss of buoyancy in economic activity and difficulties in securing financing.

In October 2009, the government announced the signing of a 28-month, US$ 1.7 billion drawing rights agreement with IMF. The agreement helped to provide a fiscal stimulus equivalent to approximately 1% of GDP from the fourth quarter, according to official estimates.

The central government's fiscal deficit was 3.4% of GDP, similar to that posted in 2008. The tax burden fell from 15% to 13.1% of GDP because of a 7.6% decline, in real terms, in indirect tax revenues. For the second consecutive year, non-tax revenue fell by more than 40% in real terms, owing to the sharp drop in ferronickel exports.

Current spending declined by 3.1% in real terms as a result of the 17.9% reduction in current transfers caused, in turn, by cuts in subsidies to the electricity sector and falling international fuel prices. Debt interest payments

Table1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
					Annual growth rates[b]				
Gross domestic product	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5
Per capita gross domestic product	0.2	4.2	-1.8	-0.2	7.7	9.1	6.9	3.8	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.5	2.5	1.8	-2.5	5.9	8.6	1.2	-3.4	12.5
Mining and quarrying	-13.5	7.7	8.8	5.8	-0.1	11.0	-1.4	-30.3	-51.9
Manufacturing	-1.9	4.9	0.9	2.4	6.3	3.2	2.4	2.6	-1.2
Electricity, gas and water	15.1	9.7	-6.9	-23.8	4.8	6.3	9.7	10.3	3.0
Construction	-3.9	4.6	-17.1	-2.3	9.2	24.6	3.2	-0.4	-3.9
Wholesale and retail commerce, restaurants and hotels	-1.0	4.5	-2.3	-1.2	12.5	8.3	9.3	4.3	-3.1
Transport, storage and communications	19.8	15.1	5.7	6.5	18.9	17.8	12.5	15.5	10.6
Financial institutions, insurance, real estate and business services	7.4	7.7	3.9	-1.6	2.0	9.0	11.0	7.3	5.2
Community, social and personal services[c]	2.1	4.1	3.5	2.7	-1.2	5.8	4.5	3.5	5.7
Gross domestic product, by type of expenditure									
Gasto de consumo final	3.5	5.7	-4.9	3.1	15.4	12.0	8.9	7.8	4.9
Consumo del gobierno	9.2	8.0	-12.6	3.8	10.2	11.0	10.0	7.7	-3.4
Consumo privado	3.3	5.6	-4.6	3.1	15.7	12.0	8.9	7.8	5.2
Gross capital formation	-3.9	3.5	-28.0	-2.3	13.1	20.8	12.4	9.2	-14.7
Exports (goods and services)	-6.1	2.0	10.6	3.6	-1.2	0.7	3.2	-4.0	-7.4
Imports (goods and services)	-4.7	1.5	-12.9	5.3	11.3	8.2	6.8	4.7	-9.8
					Percentages of GDP				
Investment and saving[d]									
Gross capital formation	21.1	21.2	15.0	14.9	16.5	18.4	18.9	18.3	14.8
National saving	18.0	18.0	20.1	19.7	15.1	14.8	13.6	8.4	9.8
External saving	3.0	3.2	-5.2	-4.8	1.4	3.6	5.3	9.9	5.0
					Millions of dollars				
Balance of payments									
Current account balance	-741	-798	1 036	1 041	-473	-1 288	-2 167	-4 529	-2 327
Goods balance	-3 503	-3 673	-2 156	-1 952	-3 725	-5 564	-6 437	-9 245	-6 820
Exports, f.o.b.	5 276	5 165	5 471	5 936	6 145	6 610	7 160	6 748	5 463
Imports, f.o.b.	8 779	8 838	7 627	7 888	9 869	12 174	13 597	15 993	12 283
Services trade balance	1 826	1 757	2 249	2 291	2 457	2 985	3 052	2 962	3 088
Income balance	-1 092	-1 152	-1 393	-1 825	-1 902	-1 853	-2 183	-1 759	-1 890
Net current transfers	2 028	2 269	2 336	2 528	2 697	3 144	3 401	3 513	3 296
Capital and financial balance[e]	1 256	243	-1 583	-862	1 178	1 482	2 794	4 203	2 736
Net foreign direct investment	1 079	917	613	909	1 123	1 085	1 563	2 971	2 158
Other capital movements	177	-674	-2 196	-1 771	55	397	1 231	1 232	578
Overall balance	515	-555	-546	179	705	194	627	-326	410
Variation in reserve assets[f]	-519	527	358	-542	-1 109	-344	-683	309	-641
Other financing	4	28	189	363	404	150	56	17	232
Other external-sector indicators									
Real effective exchange rate (index: 2000=100)[g]	96.5	98.6	131.4	125.6	90.4	96.3	96.5	98.9	102.7
Terms of trade for goods (index: 2000=100)	100.9	101.5	97.9	96.7	95.8	94.9	98.0	93.6	101.3
Net resource transfer (millions of dollars)	168	-881	-2 787	-2 324	-321	-221	666	2 461	1 078
Total gross external debt (millions of dollars)[h]	4 176	4 536	5 987	6 380	5 847	6 296	6 556	7 226	8 200
					Average annual rates				
Employment									
Labour force participation rate[i]	54.3	55.1	54.7	56.3	55.9	56.0	56.1	55.6	53.8
Open unemployment rate[j]	15.6	16.1	16.7	18.4	17.9	16.2	15.6	14.1	14.9
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	4.4	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.8
Variation in nominal exchange rate (annual average)	2.2	9.4	63.7	38.2	-26.9	12.4	-0.3	4.3	4.3
Variation in real minimum wage	5.7	-0.5	-9.2	-15.0	18.7	-7.1	4.8	-6.5	7.0
Nominal deposit rate[k]	16.1	16.4	20.6	21.1	12.7	9.8	7.0	10.3	8.1
Nominal lending rate[l]	20.0	21.3	27.8	30.3	21.4	15.7	11.7	16.0	12.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
	Percentages of GDP								
Central government									
Total revenue [m]	14.5	14.6	13.2	14.0	15.7	16.1	17.7	15.9	13.7
Current revenue	14.4	14.3	13.1	13.9	15.4	15.9	17.3	15.7	13.5
Tax revenue	14.0	13.8	12.1	12.9	14.6	14.9	16.0	15.0	13.1
Capital revenue	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	15.6	16.2	16.1	16.6	16.8	17.2	17.6	19.5	16.9
Current expenditure	10.5	10.5	10.2	12.5	12.6	13.0	13.0	14.4	13.3
Interest	0.8	1.1	1.6	1.8	1.3	1.4	1.2	1.6	1.9
Capital expenditure	5.0	5.7	5.9	4.1	4.3	4.2	4.6	5.1	3.6
Primary balance	-1.1	-0.2	-2.7	-1.6	0.7	0.3	1.4	-1.9	-1.5
Overall balance [n]	-1.9	-1.3	-4.3	-3.4	-0.6	-1.1	0.1	-3.5	-3.4
Central-government debt	...	...	...	...	22.0	20.4	18.4	24.4	28.0
Domestic	...	...	...	...	3.3	2.6	2.0	8.2	10.3
External	...	...	...	...	18.6	17.7	16.4	16.2	17.7
Money and credit [o]									
Domestic credit [p]	37.0	36.9	51.3	36.3	30.6	26.7	26.2	24.8	26.2
To the public sector	1.0	1.5	1.6	5.9	10.4	17.9	17.4	18.0	19.1
To the private sector	32.7	33.6	37.1	23.4	23.3	19.6	21.6	20.9	21.3
Others	3.3	1.8	12.6	7.0	-3.2	-10.8	-12.8	-14.1	-14.2
Liquidity (M3)	37.9	35.7	49.8	39.1	37.3	33.8	34.5	31.4	33.4
Currency outside banks and local-currency deposits (M2)	32.1	28.2	40.2	32.5	30.0	27.3	28.0	25.3	27.1
Foreign-currency deposits	5.8	7.5	9.6	6.6	7.3	6.5	6.5	6.1	6.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Includes gas supply and business services.
[d] Based on figures in local currency expressed in dollars at current prices.
[e] Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports. Owing to lack of data, the period 2002-2009 has been weighted using trade figures for 2001.
[h] Public and guaranteed private external debt.
[i] Economically active population as a percentage of the working-age population; nationwide total.
[j] Percentage of the economically active population; nationwide total.
[k] 90-day certificates of deposit.
[l] Average of the benchmark rate.
[m] Includes grants.
[n] Includes residuals.
[o] The monetary figures are end-of-year stocks.
[p] Figures refers to the Harmonized monetary and banking indicators.

rose by 24.9% in real terms, owing in part to the need to borrow on the domestic market in the first nine months of the year.

Despite the strong economic upturn in the fourth quarter, capital expenditures declined by 26.8% in real terms in 2009, reflecting the more than 30% fall in fixed investment.

The non-financial public sector's total debt stood at US$ 13.239 billion (28.6% of GDP), nearly 18% higher than in 2008 in nominal terms. The consolidated public debt, which includes the financial public sector's foreign debt and the central bank's non-monetary liabilities, stood at 36.6% of GDP.

Starting in the second half of 2010, the central government will implement a fiscal consolidation plan to lower its deficit to 2.6% of GDP, equivalent to a 0.4% primary deficit.

The main measures to be applied include scaling back subsidies —in particular those for the electricity sector— strengthening the tax administration, placing ceilings on current spending growth and extending the time allowed for recapitalizing the central bank from 10 to 15 years. The savings generated from the cuts in electricity sector subsidies have been used to finance capital expenditures, with a particular focus on social investment.

In view of the improvement in the country's credit rating, the Dominican government issued a 10-year, US$ 750 million global bond in April 2010.

(b) Monetary and exchange-rate policy

With regard to monetary policy, as the international financial crisis got worse, the central bank reduced the reference rate by 550 basis points to 4% between January and August 2009.

Furthermore, it reduced the reserve requirement for universal banks from 20% to 17% and allowed for

Table 2
DOMINICAN REPUBLICMAIN: QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	5.7	9.6	-0.6	6.5	1.0	1.8	3.4	7.5	7.5	...
Goods exports, f.o.b. (millions of dollars)	1 671	1 842	1 779	1 455	1 284	1 429	1 415	1 361	1 419	522 [c]
Goods imports, f.o.b. (millions of dollars)	3 184	3 747	3 743	2 896	2 180	2 391	2 544	2 843	2 832	1 123 [c]
Gross international reserves (millions of dollars)	2 917	2 605	2 654	2 662	2 542	2 498	2 673	3 307	2 738	2 799 [c]
Real effective exchange rate (index: 2000=100) [d]	99.5	99.6	98.3	98.1	100.2	102.9	103.4	104.1	95.6	96.0 [e]
Consumer prices (12-month percentage variation)	9.7	12.2	14.6	4.5	2.4	0.3	-1.6	5.8	7.4	7.9 [e]
Average nominal exchange rate (pesos per dollar)	33.80	34.15	34.69	35.24	35.60	35.97	36.10	36.15	36.31	36.77
Nominal interest rates (annualized percentages)										
Deposit rate [f]	6.7	8.5	12.5	13.7	12.0	7.9	6.6	4.7	4.4	4.5 [e]
Lending rate [g]	11.2	12.5	18.8	21.5	19.4	12.3	10.4	9.4	9.0	7.9 [e]
Interbank rate	9.0	10.4	14.1	15.5	11.5	7.6	7.6	5.6	5.9	6.1 [e]
Domestic credit (variation from same quarter of preceding year)	20.2	18.3	19.8	10.8	10.2	9.6	10.2	9.5	15.3	14.3 [e]
Non-performing loans as a percentage of total credit	4.3	3.8	3.9	3.5	4.4	4.3	4.4	4.1	4.2	3.9 [e]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] 90-day certificates of deposit.
[g] Average of the benchmark rate.

greater flexibility in reserve composition with a view to directing resources towards productive activities. As an additional measure, as of September no further certificates of deposit were issued directly to the public.

As a result of these measures, nominal rates declined. Lending rates dropped from 23.94% to 13.82% over the 12 months ending in December 2009, and average deposit rates declined from 13.49% to 4.57% in the same period.

Given the progressive decrease in inflation, real interest rates remained relatively high until the third quarter. The average real lending rate between January and September was 18.48%, while the average real deposit rate was 7.68%. As inflation rose towards the end of the year, the real lending rate dropped to close to 8%, while the deposit rate turned negative (-1.2%) in December.

The drop in rates boosted lending to the private sector, which grew by 3.5% in 2009, after having contracted by 2% in real terms in 2008. Personal loans (40% of all lending) grew by 26.6% in real terms, while credit to the agricultural sector increased by 45.9% thanks to the intervention of the Agricultural Bank of the Dominican Republic. However, lending to the manufacturing and construction sectors contracted by 8% and 10.2%, respectively.

Although the fall in real interest rates was small during the first half of 2010, average real lending rates came down to around 3%, enough to keep up the rate of lending to the private sector, which grew by 2% in real terms during this period. Average real deposit rates fell to -3%, notwithstanding which the deposit balance increased by 6%.

Amid buoyant economic activity, the 12-month inflation rate reached 7.0% during the first half of 2010. Since the pace of economic activity is projected to slow as of the third quarter, which would ease inflationary pressure, the central bank may raise its reference rate to ensure that inflation ends the year within the target range of between 6% and 7%.

In part as a result of the central bank's intervention to reduce exchange-rate volatility, the nominal exchange rate depreciated by an average of 4.1% in 2009 (2.2% in real terms). In the first five months of 2010, the exchange rate against the dollar remained stable.

(c) Other policies

Under the constitutional reform adopted in January 2009, the government put forward the National Development Strategy of the Dominican Republic 2010-2030. The

Strategy establishes development goals and priorities for 2010-2030, focused on strengthening State institutions, social cohesion, economic development and environmental sustainability. A consultation process was carried out in the first half of 2010, with a bill to be submitted to Congress in August.

Given the damage to Haiti's infrastructure caused by the earthquake of January 2010, a large proportion of the personnel and materials going to that neighbouring country have passed through Santo Domingo airport. This situation has boosted the export of services. Beyond the initial impact of the disaster on exports from free zones, the humanitarian effort has brought with it renewed demand for some Dominican export products. In the medium term, the reconstruction of Haiti is expected to have a positive impact both on certain sectors of the Dominican economy and on bilateral relations.

3. The main variables

(a) Economic activity

The adverse effects of the international financial crisis on the Dominican economy were channelled through weak external demand and difficulties in securing financing in the international market, which resulted in fiscal policy turning effectively procyclical during the first three quarters of 2009.

As a consequence, economic activity slowed significantly in 2009, culminating in growth of 3.5% (2.1% per capita) at the end of the year. Although this result compares favourably with the performance of the other countries in the region, it represented a substantial slowdown compared with previous years.

Economic activity picked up from the fourth quarter of 2009, spurred on by a strengthening performance by local manufacturing and by commerce and communications, which led to growth of 7.5% during the last quarter of 2009 and the first quarter of 2010.

According to ECLAC estimates, growth will slow in the second half of the year as the fiscal consolidation plan is implemented and output gaps are closed. Growth of close to 6% is expected in 2010.

The rate of growth of private consumption fell from 7.8% to 5.2%, while government consumption was down by 3.4%, compared with a gain of 7.7% in 2008. Growth in final consumption thus dropped by nearly two percentage points in 2009, to 4.9%. The slowdown in private consumption reflected an almost 7% reduction in real terms in flows of remittances, which represent approximately 6.5% of GDP. In addition, investment was badly hit and fell 14.7% because of the worsening growth prospects for the first months of the year.

As a result of slacker external demand, exports of goods and services posted negative growth for the second year in a row, dropping by 7.4%. However, given the lower domestic demand, this decline was easily offset by the 9.8% drop in imports.

By branch of activity, the agricultural sector performed well with 12.5% growth in 2009 compared with a 3.4% downturn in 2008. The sector benefited from government support in the form of technical assistance and inputs from the Ministry of Agriculture. It also secured resources totalling 7.168 billion pesos (0.4% of GDP) from the Agricultural Bank.

The mining sector contracted for the third consecutive year and declined by 51.9% as against 30.3% in 2008. The significant increases in copper, gold and silver production were not enough to offset this performance, which was attributable to the halt in ferronickel production following the drop in international ferronickel prices.

The activity of the manufacturing sector in the free zones, which has yet to recover from the impact of the expiry of the Multifibre Arrangement in 2005, contracted for the fourth straight year, shrinking by 14.6%. Construction was down by 3.9% owing to the uncertainty introduced by the crisis and the more than 10% fall, in real terms, in lending to the sector. This came on top of the 0.4% contraction posted in 2008.

Although growth in local manufacturing slowed significantly, the sector posted a modest upturn of 1%, thanks to the performance of food production.

In keeping with its trend in recent years, the services sector was the most buoyant, posting 4.9% growth, mainly because of the 14% expansion of the communications sector. Commerce contracted by 2.8% as a result of lower private consumption, while the hotels, bars and restaurants sector declined by 3.5% owing to a drop of nearly 1% in foreign tourist arrivals.

(b) Prices, wages and employment

Amid falling international food and fuel prices and slackening domestic demand, 12-month inflation figures decreased gradually and turned negative during the third quarter of 2009.

The inflation rate turned positive again as of the fourth quarter, however, and in December the year-on-year rate was 5.8%, slightly below the 6%-7% target range set forth in the monetary programme. Average inflation was just 1.4%, compared with 10.6% in 2008.

Despite the uptick in the first half of 2010, and taking into account the slower economic activity projected for the second half of the year, it is estimated that inflation will end the year at 7% , at the ceiling of the central bank's target range.

Real minimum wages in the public sector shot up by 31.5%, on top of the 32.7% increase in 2008. In the private sector, real minimum wages went up by 2.8%, while in free-zone companies they fell by 4.5%, to reach a level similar to that of end-2007.

As a result of the economic slowdown, the labour market participation rate fell from 55.7% in the first half of 2008 to 54% in the second half of 2009. The broad unemployment rate, meanwhile, reached 14.9%.

One of the measures implemented to mitigate the effects of the international financial crisis among the most vulnerable population groups was the expansion of the conditional transfer programme in the fourth quarter of 2009 to include 17,000 families living in extreme poverty.

(c) The external sector

The current account deficit declined by nearly five percentage points to 5% of GDP in 2009, owing mainly to the reduction in the trade deficit from 20.2% to 14.6%.

More than a third of the drop in exports was attributable to the sharp fall in ferronickel exports, which plunged by 99.2% following the suspension of mining activities as a result of low international prices. Crop exports surged by 30% because of rising international prices and the support received by the agricultural sector during the year.

Exports from free zones, which represented 69.3% of total exports, contracted for the fourth year in a row, this time by 13.1%, which was a far sharper fall than the 3.8% posted in 2008. In addition to the clothing and textiles sector, which continues to lose ground in the United States to Asian products, exports of electrical products and jewellery were the segments worst affected.

Merchandise imports declined by 23.2% because of the fall in fuel prices. The price of crude oil and petroleum products averaged US$ 32.40 per barrel, which translated into a 15.5% contraction in intermediate goods imports. Imports of consumer goods dropped by 32.2%, owing mainly to lower demand for vehicles. Capital goods imports fell by 25.5% because of lower demand in the transport and construction sectors. Lastly, given the weaker demand for maquila products, imports of goods for processing decreased by 4.3%.

Despite the 0.9% drop in foreign tourist arrivals, the services balance posted a surplus equivalent to 6.6% of GDP. This was attributable to the strong performance of services exports, especially in transport, communications and government services. The deficit on the income account increased by close to US$ 130 million to end the year at 4% of GDP. This deterioration is mainly attributable to the drop in interest generated abroad. Given the high level of unemployment in the United States and Spain, the flow of remittances shrank by 5.6%, which led to a 6.2% drop in the transfers balance.

The current account deficit was offset by the surplus in the capital and financial accounts. The financial account posted a surplus of US$ 2.574 billion (5.5% of GDP), reflecting foreign direct investment (FDI) inflows of US$ 2.158 billion. More than a third of FDI went to the mining sector, 18.6% to the real estate sector and 13.7% to telecommunications.

The balance-of-payments surplus and loan disbursements from the World Bank and the Inter-American Development Bank (IDB) enabled the central bank to increase net international reserves by US$ 686.5 million. Net international reserves stood at US$ 2.852 billion at the end of 2009, equivalent to nearly 2.4 months of import cover or 20.4% of M2.

Reflecting stronger economic activity and higher fuel prices, the current account deficit increased by close to US$ 400 million during the first quarter of 2010 compared with the year-earlier period. This deficit was financed in part using reserves. A current account deficit equivalent to 6% of GDP is projected for 2010, which will be offset by a larger services surplus, increased inflows of FDI (approximately US$ 2 billion), funding from multilateral agencies under the agreement signed with IMF and domestic debt issues.

Guyana

1. General trends

Guyana was one of the few countries in the Caribbean to experience robust growth in 2009. Recent estimates suggest that the economy grew by 3.3% in 2009 and 2% in 2008. Fairly robust primary commodity prices in world markets were one of the main reasons for the country's performance. Growth of 4.3% is anticipated for 2010.

Much of the economy relies on buoyant primary commodity prices, as the principal contributors to GDP are rice, sugar, gold, diamonds and bauxite. Illustrating this point, agriculture, forestry and fishing together with mining and quarrying contributed 31.7% of GDP in 2009. The main challenge facing Guyana in 2010 is to improve competitiveness. In addition, concessionary loans and credits from multilateral donors will be used to correct infrastructure weaknesses. Meanwhile, an easing of the international recession will help to boost exports and improve the flow of remittances to Guyana.

Central to Guyana's prospects is its strategy of low-carbon economic development. The key focus areas of the strategy will be investments in low-carbon economic infrastructure, high-potential low-carbon sectors and climate change adaptation. An important part of this approach has been the signing of a memorandum of understanding with Norway to implement the strategy jointly; this is expected to lead to the receipt of US$ 250 million in performance-based payments by 2015.

2. Economic policy

(a) Fiscal policy

Guyana's fiscal performance showed no significant improvement in 2009, since the overall deficit as a percentage of GDP was 3.7% in 2008 and 3.8% in 2009.[1] The projection for 2010, premised on expenditure restraint and improved revenue collection, is for the deficit to decline to 3.3%. Tax revenues in 2009 contributed G$ 89.1 billion, or 93.9% of current revenue, which was a slight decline on the previous year. Government tax revenue from the self-employed grew by 24%. In addition, revenues from customs and trade taxes increased by 2.8% in 2009. Other revenue increases came from the excise duty on motor vehicles and the restoration of the excise duty on fuel. As expected, depressed domestic demand led to value added tax revenue declining by 3.1%.

[1] These figures assume nominal GDP of G$ 391.505 billion in 2008 and G$ 413.114 billion in 2009.

Table 1
GUYANA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	1.6	1.1	-0.6	1.6	-2.0	5.1	7.0	2.0	3.3
Per capita gross domestic product	1.5	0.9	-0.9	1.3	-2.1	5.1	7.0	2.1	3.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-11.4	24.1	-1.7	3.2	-13.7	6.5	0.6	-2.9	1.3
Mining	4.2	-6.9	-8.7	-6.5	-17.8	-21.6	14.7	-0.1	-2.9
Manufacturing [c]	86.7	-45.2	-2.2	0.0	12.0	5.2	3.0	-4.4	4.3
Construction	2.0	-3.9	5.6	4.1	9.4	12.0	7.3	2.2	0.5
Wholesale and retail commerce, restaurants and hotels	0.5	-0.9	-2.6	1.9	15.0	10.1	8.7	4.5	9.8
Transport, storage and communications	5.4	4.5	4.9	3.6	9.4	10.0	16.3	7.7	1.3
Financial institutions, insurance, real estate and business services	-3.5	-0.8	1.6	1.0	6.3	8.4	0.1	7.8	8.5
Community, social and personal services	-2.9	-0.8	1.1	1.2	3.2	3.4	6.6	4.3	4.8
					Millions of dollars				
Balance of payments									
Current account balance	-91	-62	-45	-20	-158	-250	-189	-321	-220
Goods balance	-56	-24	-17	-8	-233	-300	-365	-522	-401
Exports, f.o.b.	485	490	508	584	551	585	698	802	768
Imports, f.o.b.	541	514	525	592	784	885	1 063	1 324	1 169
Services trade balance	-20	-24	-15	-47	-53	-98	-100	-113	-102
Income balance	-59	-55	-55	-39	-39	-69	-11	-15	-17
Net current transfers	44	40	43	74	167	216	287	329	300
Capital and financial balance [d]	71	84	59	41	166	293	188	327	454
Net foreign direct investment	56	44	26	30	77	102	110	178	164
Other capital movements	15	41	33	11	89	191	78	149	290
Overall balance	-19	22	14	21	8	43	-1	6	234
Variation in reserve assets [e]	35	-13	-5	-10	-24	-61	-37	-43	-271
Other financing	-16	-9	-9	-11	16	18	39	38	37
Other external-sector indicators									
Net resource transfer	-3	20	-6	-10	143	242	215	350	474
Gross external public debt	1 197	1 247	1 085	1 071	1 215	1 043	718	834	933
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	1.5	6.0	...	...	8.2	4.2	14.1	6.4	3.7
Variation in nominal exchange rate (annual average)	2.7	1.8	1.7	2.3	0.8	0.2	1.1	0.6	0.2
Nominal deposit rate [f]	6.7	4.3	3.8	3.4	3.4	3.3	3.2	3.1	2.8
Nominal lending rate [g]	17.3	17.3	16.6	16.6	15.1	14.9	14.1	13.9	14.0
					Percentages of GDP				
Central government									
Total revenue [h]	23.2	25.4	23.4	24.8	26.4	27.4	26.0	25.4	27.2
Current revenue	19.5	20.2	19.8	20.7	21.4	21.4	22.8	21.1	23.0
Tax revenue	17.8	18.5	18.1	19.4	20.2	20.1	22.0	20.2	21.6
Capital revenue [i]	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Total expenditure	29.9	28.9	29.1	29.1	34.9	35.6	30.5	29.2	30.8
Current expenditure	22.1	21.8	21.6	20.1	21.6	21.3	18.4	20.0	19.5
Interest	5.5	4.8	3.9	3.1	2.8	2.4	1.8	1.7	1.6
Capital expenditure	7.8	7.1	7.5	9.0	13.4	14.3	12.2	9.2	11.4
Primary balance	-1.2	1.3	-1.9	-1.2	-5.7	-5.8	-2.8	-2.1	-2.1
Overall balance	-6.7	-3.6	-5.7	-4.3	-8.5	-8.2	-4.5	-3.8	-3.7
					Percentages of GDP				
Money and credit [j]									
Domestic credit	12.2	13.2	11.0	15.0	15.2	14.8	12.8	15.3	11.5
To the public sector	-11.4	-10.0	-5.8	-0.4	-1.2	-3.6	-5.4	-4.7	-8.0
To the private sector	27.2	26.6	21.2	19.4	19.9	21.2	20.8	22.8	22.8
Others	-3.5	-3.4	-4.4	-4.0	-3.6	-2.8	-2.6	-2.8	-3.4
Liquidity (M3)	43.7	44.5	46.3	46.0	47.2	49.2	46.4	47.0	48.9

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2006 prices. Up to 2006, based on figures in local currency at constant 1988 prices.
[c] Includes electricity, gas and water.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Small savings rate.
[g] Weighted average prime rate.
[h] Includes grants.
[i] In 2001 includes grants.
[j] The monetary figures are end-of-year stocks.

On the expenditure side, total spending was G$ 127.4 billion, 11% up on the 2008 figure, largely because of a 30.7% increase in investment expenditure and a small rise in recurrent expenditure. Interest payments in 2009 totalled G$ 6.6 billion: G$ 3.3 billion on external debt and G$ 3.3 billion on domestic debt. There was also a significant increase in the disbursement of project grants, which grew to G$ 17.3 billion in 2009, a rise of 4.4% on the 2008 figure.

In 2009, the country's public enterprises had an overall surplus of G$ 1.8 billion, compared to a deficit of G$ 2.9 billion in 2008. This turnaround was due to lower current and capital expenditure and a reduction in the fuel component of operating costs.

There is increasing concern about the growth of external debt despite assistance from multilateral institutions. The country's external debt had grown by 12% to US$ 933 million by the end of 2009 and stood at more than 64% of GDP. Even in the context of benefits from debt reductions as part of the Heavily Indebted Poor Countries (HIPC) Debt Initiative and other initiatives, keeping debt repayments under control will be a challenge.

The stock of domestic debt grew as well, increasing by 16% in 2009 to G$ 87 billion owing to the issuance of treasury bills. On the other hand, domestic debt service costs decreased by 28.7% in 2009 to G$ 4.3 billion.

(b) Monetary policy

The focus of monetary policy was on maintaining stable prices and exchange rates while facilitating access to credit for the private sector. Private-sector credit increased by 5.7% in 2009, a sharp decline in growth when compared to the 21.8% increase in 2008. The rise was led by agriculture with 29.3%, real estate with 24.4% and other services with 21%.

Where interest rates are concerned, the 91-day treasury bill rate declined by 1 basis point to 4.18% in 2009. On the other hand, the weighted average time deposit rate increased by 6 basis points even as the weighted average lending rate declined by 17 basis points to 12.17%. There was thus a decline of 23 basis points in the spread between the two rates and this may have helped to expand private-sector credit, even though the gap is still large. The easing of monetary policy was the result of a relatively stable exchange rate and lower inflation.

(c) Exchange-rate policy

Exchange rates were relatively stable in 2009, with the Guyana dollar appreciating by 0.97% against the United States dollar. There was also a slight decrease in the value of transactions on the foreign exchange market: volumes fell by 2.8% to US$ 4.7 billion, in line with the drop in transactions on the external current account.

3. The main variables

(a) Economic activity

The Guyanese economy is largely based on primary products, especially mining and agriculture, and its recent positive economic performance has been due to improved prices for some commodities such as gold. Taken together, agriculture, forestry, fishing and hunting contributed 21.2% of GDP, with mining at 10.5% and construction at 9.7%. Besides these, the manufacturing sector contributed 7% of GDP and transport, storage and communication 14.2%.

Sugar is a major contributor to output (5.9% of GDP) and foreign exchange earnings, and production increased by 3.3% in 2009 to 233,736 tons. It is reported that while the first crop was 19.3% below the output for the same period of 2008, the second crop was a remarkable 22.3% larger owing to favourable weather conditions.

The rice industry achieved production of 359,789 tons in 2009, an expansion of 9.2% and the second-largest annual crop in the industry's history. The rest of the agricultural sector grew by 1.4%, partly because of campaigns encouraging farmers to grow more food and partly because a bridge was built across the Berbice River, making it easier for them to transport their produce.

In the mining and quarrying sector, low global demand for bauxite and alumina meant that production declined by 29%. Diamond declarations also declined by 14.8% as producers shifted their efforts to the more lucrative gold mining sector. Because of rising gold prices, gold declarations increased by 14.7% and the overall decline in the sector was limited to 2.9%.

The manufacturing sector had mixed results, but overall growth was 4.3%, which was considerably better than the decline of 4.4% in 2008. There was some strong growth in manufacturing subsectors such as aerated beverages, mineral or distilled water and stock feed.

Financial services and other services grew by 10.7% and contributed 3.8% of GDP, while government services experienced no growth in 2009 but contributed 8.6% of GDP.

The rebased GDP estimates suggest an overall growth rate of 4.4%, with the non-sugar sector expected to grow by 3.4% in 2010. Budget projections anticipate improved performance in all sectors, but sugar is expected to be the top performer with growth of 19.8%, thanks to increased acreages and a stable industrial climate. The rice industry is expected to grow by 4.6% and mining and quarrying by 9.1%.

(b) Prices, wages and employment

The inflation rate was 3.7% in 2009, reflecting subdued economic conditions abroad that moderated inflationary pressures. In addition, the rate of excise tax on fuel products was lowered twice in 2009, helping to dampen price increases. There were small wage increases of 6% across the board for public servants, teachers, members of the armed services and government pensioners, but this will not have raised aggregate demand significantly. Inflation for 2010 has been projected at 4% on the assumption of moderate increases in commodity prices.

Preliminary data suggest that employment growth in the public and private sectors was marginal and that labour unrest increased in 2009. Employment in the public sector increased by 2.1%, while employment in public corporations declined by 0.9%. In addition, the minimum wage for certain private sector workers increased.

(c) The external sector

The current account deficit in 2009 was US$ 219.7 million or 15.2% of GDP, an improvement on the 22.8% of GDP recorded in 2008. This was largely due to a contraction in the total value of imports. Merchandise imports, for example, declined by 12% to US$ 1,169 million, partly owing to lower fuel prices. Meanwhile, merchandise export earnings declined moderately from US$ 802 million in 2008 to US$ 768 million in 2009. This was the result of lower prices for major exports.

For example, while the volume of sugar exports increased, the average export price declined because of European price cuts in October 2009. As a result, export earnings for sugar were US$ 118.9 million, or 10.8% below the 2008 value. Similarly, rice exports increased in 2009 but the average export price declined by 27.3% relative to 2008. As a consequence, export earnings were US$ 114.1 million, or 3.3% below the 2008 level. Export earnings from bauxite also fell by some 39.3%, while earnings from gold, for which average prices increased, rose by 38.3%.

Net transfers declined by 9.1%, while remittances also fell by 4.3% to US$ 299.6 million. This was a result of the uncertain economic conditions abroad, especially in the United States, where most Guyanese emigrants reside. The capital and financial account balance strengthened from US$ 327 million to US$ 454 million, boosted by inflows of Special Drawing Rights (SDRs) from the IMF and net private investment inflows. Consequently, the overall balance of payments recorded a surplus of US$ 234.4 million in 2009, or 16.1% of GDP.

As a result of this, the overall external reserve position of the Bank of Guyana improved to US$ 628 million in 2009. A small deficit of US$ 11 million was projected for the 2010 balance of payments as a result of higher import costs stemming from rising oil prices, higher worker remittances and lower foreign direct investment flows.

Haiti[1]

1. General Trends

The earthquake measuring 7.3 on the Richter scale that struck Haiti on 12 January 2010 has had far-reaching repercussions on economic and social conditions in the country and on its growth prospects for the future. GDP is expected to contract by 8.5% in 2010. The earthquake left more than 220,000 persons dead and approximately 300,000 injured, while 1.3 million have sought refuge in temporary shelters; in addition, more than half a million people fled the worst affected areas. Some 105,000 dwellings were totally destroyed, as were 1,300 educational establishments and more than 50 hospitals. A substantial number of public and community buildings were destroyed or shut down, including the national palace, ministries, decentralized agencies, the port and the airport. According to the post-disaster needs assessment (PDNA), damage and losses totalled US$ 7.8 billion, 20% above the GDP figure for 2009, with sizeable losses in both the private sector (70% of the total, mostly in housing, which sustained 40% of total damage) and the public sector.

2. Economic policy

This situation brought home to national authorities and the international community the need to implement a post-disaster action plan (Action Plan for the Reconstruction and National Development of Haiti) and a broader national programme for territorial, economic, social and institutional development and reconstruction.

Despite the external shocks caused by the international financial crisis, macroeconomic indicators were relatively favourable in 2009. Real GDP growth stood at 2.9%, annual average inflation at 3.4% and the fiscal deficit was equivalent to 1.3% of GDP. Exports increased by 9.9% and imports by 5.8%. There was an improvement in terms of trade (31%), while remittances totalled US$ 1.241 billion, 1% lower than in 2008. As a result, the current account deficit decreased from 4.4% of GDP in 2008 to 3.5% of GDP in 2009. Furthermore, certain sectors of the economy picked up to some extent, with growth in agriculture (5.2%), manufacturing (3.7%) and construction (3.1%).

1 The period under consideration encompasses fiscal years 2009 (October 2008-September 2009) and 2010 (October 2009-September 2010); however, in some cases, statistics relating to the calendar year have been used for ease of comparison with regional data.

Table 1
HAITI: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
					Annual growth rates[b]				
Gross domestic product	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.3	0.8	2.9
Per capita gross domestic product	-2.7	-1.8	-1.2	-5.0	0.2	0.6	1.7	-0.8	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	0.9	-3.7	0.2	-4.8	2.6	1.4	2.3	-7.5	5.2
Mining and quarrying	-4.9	2.2	0.7	-5.0	4.5	7.1	0.0	6.7	6.3
Manufacturing	0.1	1.6	0.4	-2.5	1.6	2.3	1.3	-0.1	3.7
Electricity, gas and water	-27.1	2.0	3.3	11.1	7.1	-22.7	-1.7	-8.8	30.8
Construction	0.7	1.0	1.9	-2.7	3.0	2.9	2.6	5.2	3.1
Wholesale and retail commerce, restaurants and hotels	0.4	2.9	0.6	-6.4	1.4	3.0	6.1	5.7	1.1
Transport, storage and communications	2.2	-0.2	1.6	0.8	3.2	4.5	8.1	6.3	2.5
Financial institutions, insurance, real estate and business services	-0.7	-1.5	0.2	-0.8	1.3	2.0	1.8	3.2	0.1
Community, social and personal services	-2.6	1.1	-1.4	-3.2	1.6	1.5	4.6	4.9	0.3
Gross domestic product, by type of expenditure									
Final consumption expenditure	-1.6	-1.2	0.9	-3.7	5.8	1.2	2.2	1.7	3.9
Gross capital formation	-1.2	2.5	3.1	-3.2	1.4	2.2	3.1	2.8	3.2
Exports (goods and services)	-2.2	-2.1	7.2	9.8	0.0	7.2	-2.9	13.6	9.9
Imports (goods and services)	-2.1	-1.2	3.2	-1.1	6.6	1.9	0.5	5.3	5.8
					Percentages of GDP				
Investment and saving [c]									
Gross capital formation	25.9	25.1	30.7	27.3	27.4	29.3	30.5	28.8	27.4
National saving	22.0	22.3	29.1	25.8	27.6	27.6	29.0	24.3	23.8
External saving	3.8	2.8	1.6	1.5	-0.2	1.7	1.4	4.5	3.6
					Millions of dollars				
Balance of payments									
Current account balance	-134	-89	-44	-56	7	-85	-86	-289	-232
Goods balance	-750	-706	-782	-833	-849	-1 053	-1 182	-1 618	-1 481
Exports, f.o.b.	305	274	334	377	460	495	522	490	551
Imports, f.o.b.	1 055	980	1 116	1 210	1 309	1 548	1 704	2 108	2 032
Services trade balance	-124	-123	-164	-204	-399	-399	-423	-403	-399
Income balance	-9	-14	-14	-12	-35	7	2	6	13
Net current transfers	750	754	917	993	1 290	1 361	1 517	1 726	1 635
Capital and financial balance [d]	131	8	36	91	27	179	284	387	388
Net foreign direct investment	4	6	14	6	26	161	75	30	38
Other capital movements	127	3	22	85	1	18	209	357	350
Overall balance	-2	-81	-8	35	34	94	198	98	156
Variation in reserve assets [e]	-5	49	25	-50	-22	-109	-208	-171	-246
Other financing	7	32	-17	15	-12	15	10	73	90
Other external-sector indicators									
Terms of trade for goods (index: 2000=100)	101.2	100.2	98.7	96.0	92.4	88.9	86.4	62.1	80.4
Net resource transfer (millions of dollars)	129	26	5	94	-20	201	296	465	491
Gross external public debt (millions of dollars)[j]	1 189	1 229	1 316	1 376	1 335	1 484	1 628	1 917	1 272
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	8.1	14.8	40.4	20.2	14.8	10.2	9.3	10.1	2.1
Variation in nominal exchange rate (annual average)	14.8	18.3	38.0	-8.8	9.3	0.3	-7.2	6.3	2.1
Variation in average real wage	-11.6	-8.9	33.5	-14.7	-13.2	-11.8	-7.8	-12.9	28.0
Nominal deposit rate [f]	13.6	8.2	14.0	10.9	3.5	6.0	5.2	2.4	1.7
Nominal lending rate [g]	28.6	25.5	30.7	34.1	27.1	29.5	31.2	23.3	21.6
					Percentages of GDP				
Central government [h]									
Total income [i]	7.8	8.3	8.9	8.9	10.9	10.7	11.3	10.8	12.1
Current income	7.4	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7
Tax income	7.4	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7
Total expenditure	10.0	11.0	12.0	12.0	11.5	10.8	12.9	12.1	13.3
Current expenditure	8.2	9.0	8.7	9.2	10.2	9.8	10.2	9.7	12.6
Interest	0.3	0.1	0.4	0.7	1.0	1.2	0.3	0.3	0.5
Capital expenditure	1.8	2.0	3.3	2.8	1.2	0.9	2.7	2.4	0.7
Primary balance	-1.9	-2.6	-2.7	-2.4	0.4	1.2	-1.3	-1.0	-0.8
Overall balance	-2.2	-2.7	-3.1	-3.1	-0.5	-0.0	-1.6	-1.3	-1.3

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009[a]
Central government debt	46.2	60.2	57.5	46.7	44.1	36.2	33.6	36.8	38.6
Domestic	14.8	17.4	17.2	14.8	13.5	10.7	8.9	8.3	8.8
External	31.5	42.7	40.4	31.8	30.6	25.5	24.7	28.5	29.9
Money and credit[j]									
Domestic credit	30.1	35.6	34.5	29.8	28.6	24.3	22.3	21.4	20.3
To the public sector	14.6	17.3	16.8	14.3	12.8	9.8	8.1	6.6	3.9
To the private sector	15.6	18.4	17.7	15.4	15.7	14.4	14.2	14.9	16.4
Liquidity (M3)	38.7	45.4	47.8	42.5	42.1	38.5	37.3	38.1	39.3
Currency outside banks and local-currency deposits (M2)	25.6	27.9	27.7	26.0	24.1	22.6	21.4	21.4	21.1
Foreign-currency deposits	13.1	17.6	20.0	16.6	18.0	15.9	15.8	16.7	18.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1986-1987 prices, fiscal years, October to September.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Average of highest and lowest rates on time deposits, commercial banks.
[g] Average of highest and lowest lending rates, commercial banks.
[h] Fiscal years.
[i] Includes grants.
[j] The monetary figures are end-of-year stocks.

These figures, the prospect of recovery in the world economy and in the United States in 2010, public and private investment programmes and disbursements of external funds, all augured well for stronger growth in 2010. The picture, however, changed completely following the earthquake.

Cooperation from abroad will play a fundamental part in Haiti's economic recovery. At the donors' conference in March 2010, assistance totalling US$ 3.5 billion was pledged for 2010, of which US$ 940 million represented restructured funds. Cash disbursements and cash pledges account for only 25% of the total.

In the short term (at the close of the 2010 fiscal year) the country will rely heavily on inflows of budgetary assistance to help finance its increased fiscal deficit (7% of GDP) without resorting to central bank financing, and to carry out a series of projects, failing which the government's plan of action will be difficult to bring to fruition either in terms of both content and time frames.

An upturn in production is expected only in those sectors that were least affected by the earthquake (agriculture), or those, such as construction, whose resurgence will stem from priority earthquake recovery activities (reconstruction of housing, public buildings and infrastructure). This impetus will not be enough to boost the rest of the economy, however, owing to limited absorption capacity and demand-side constraints. Some key sectors such as commerce, which account for about a third of GDP, will in fact continue to suffer from households' loss of capital and from the process of physical demolition and clearing work.

Systematic increases in investment will require feasibility studies because a host of parameters (environmental, physical and financial) that used to be considered for executing such projects will probably have to be revised in light of the scale of the earthquake. Indeed, the priority objectives and the new territorial approach proposed by the authorities may make it necessary to redefine them altogether.

The magnitude of the disaster has heightened the social challenges facing by the country. The government views this new environment as an opportunity to make changes in some areas, including the very structure of basic and social services, in its medium- and long-term plans. Providing educational and health services was considered a priority since for the most part (75%) such services are handled by private or non-governmental organizations and are seldom in line with public policies.

2. Economic policy

The economic policy of the past three years was based mainly on the Poverty Reduction and Growth Facility (PRGF), now superseded by the Extended Credit Facility (ECF) of the International Monetary Fund (IMF).

Immediately following the earthquake, IMF established a line of credit for US$ 114 million. The Haitian authorities also benefited from other multilateral and bilateral contributions (Inter-American Development Bank (IDB),

Table 2
HAITI: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross international reserves (millions of dollars)	524	558	537	587	602	561	749	733	920	...
Consumer prices (12-month percentage variation)	15.6	15.0	19.1	10.1	1.1	-1.0	-4.7	2.1	6.1	6.4 [b]
Average nominal exchange rate (gourdes per dollar)	37.7	38.8	39.9	39.8	40.1	40.0	39.7	39.8	39.7	39.7
Nominal interest rates (annualized percentages)										
Deposit rate [c]	2.1	2.3	2.8	2.7	1.9	1.5	1.5	1.7	1.2	1.1 [b]
Lending rate [d]	23.1	24.0	23.1	22.8	22.4	22.3	21.0	20.8	19.4	20.2 [b]
Domestic credit (variation from same quarter of preceding year)	10.8	9.6	3.4	9.4	6.6	12.3	17.8	0.7	-8.0	...
Non-performing loans as a percentage of total credit	10.2	10.0	9.7	10.5	10.5	10.1	8.5	8.6	12.3	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Data to April.
[c] Average of highest and lowest rates on time deposits, commercial banks.
[d] Average of highest and lowest lending rates, commercial banks.

World Bank, the Bolivarian Republic of Venezuela), and debt cancellation commitments, which would represent a substantial reduction in the debt balance and servicing.

In this context, the financial authorities in Haiti placed emphasis on obtaining a direct budgetary contribution from international counterparts, in order to finance the increased fiscal deficit which followed the earthquake.

(a) Fiscal policy

In 2009, the central government deficit (on a cash basis, excluding externally financed extrabudgetary programmes and projects) stood at 1.3% of GDP; the valuation on an accrual basis, including external contributions, was 4.4% of GDP.

Fiscal revenues were up by 13.5% in real terms thanks to stricter tax control policies and a larger tax base. As for indirect taxes, value added tax (VAT) was up 7.3% and duties and permits by 49.1%. Tariffs rose by 10.1% and direct taxation by 3.1%.

Total spending from internally generated revenues increased by 13.3%, and although the investment component fell by 68.7%, this was partially offset by the variation in current expenditure (33.7%). Accrued public investment, two thirds of which proceeded from external funds, was up by 49%. Resources from the PETROCARIBE programme enabled the authorities to implement emergency programmes to the tune of US$ 197 million.

Budget projections for 2010 were adjusted substantially following the earthquake. The fiscal deficit is estimated to reach about 7% of GDP, as a result of a sharp nominal reduction in revenues (20%) and a 10% increase in some expenditure items (extraordinary subsidies and operating expenses). International resources (US$ 350 million requested) or funds from the central bank could help to narrow the gap.

The fall in revenue is due to the overall reduction in economic activity and to the resulting decrease in VAT receipts. The metropolitan area of Port-au-Prince accounts for 95% of total fiscal resources; moreover, 75% of direct and indirect taxes comes from a small group of taxpayers (20 out of the 100 leading entities). The decline in collections was exacerbated by the temporary closure of the tariff collection centres (at the port and airport), the use of temporary facilities in the customs compounds on the land border with the Dominican Republic, and the fact that collection offices were only partially operational.

It is hoped that fiscal pressure will be increased in the medium term, even with the unfavourable conditions caused by the earthquake, through the implementation of a series of other measures, in particular fiscal reform and stricter tax enforcement, in addition to tariff increases since October 2009, which brought national tariffs more in line with those applied in the Caribbean Community (CARICOM).

Government expenditure on most projects will depend particularly on external financing for their implementation. This financing should help to pay for operating expenses (25%) (in particular, transfers and subsidies for the electric power sector) and capital expenditure. In terms of the latter, the allocation of resources (US$ 100 million) for school and housing reconstruction programmes was considered a priority (40% of total investment).

(b) Monetary policy

In 2009, the authorities partially relaxed their policy of monetary restraint. The monetary base grew by 20% in real terms and net domestic credit, which had been shrinking over the previous three years, picked up by 22% thanks to the upturn in the public component (33%) and in private credit markets (20%).

Net international reserves (US$ 587 million, equivalent to 3.5 months' imports) expanded by almost US$ 300 million, despite net sales of US$ 66 million by the central bank to prevent a further real exchange-rate depreciation.

The fall in inflation, including a series of price cuts in 2009, together with persistently high nominal lending rates (20%) translated into real lending rates of about 18%. Deposit rates were lowered, averaging -1% in real terms, with savers being penalized.

Damage and losses to the banking system through direct impacts (destruction of property and buildings) and indirect repercussions (their clients) were estimated at US$ 450 million.

In response, the central bank and the Ministry of Economic Affairs and Finance adopted a prudent approach. Precautionary measures were put in place, including capitalization of the banking system, guarantee funds and venture capital, in order to curb the deterioration in arrears indicators (from 8.5% in October to 12.3% in March).

Support for these measures will be received from multilateral finance organizations (IDB, World Bank) and others, in the shape of traditional formal agreements with banking entities and more informal arrangements with microfinance institutions (microcredit and savings banks), which account for 15% of the assets of the financial system.

In 2009, the banking system's gross loan portfolio stood at US$ 885 million, of which 80% corresponded to commerce, while deposits amounted to US$ 2.311 billion; that is an investment rate of barely 38%.

In the aftermath of the earthquake there should be no shortage of liquidity, but rather a lack of venture capital. Furthermore, the monetary authorities face the challenge of boosting and diversifying lending to sectors that have traditionally been ignored. Reactivation of productive sectors, mostly consisting of small and medium-sized enterprises, and reviving the housing and tourist sectors were identified as priority tasks.

Following the earthquake, net domestic credit to the public and private sectors fell (by 26% and 18%, respectively), but the money supply expanded with the influx of external resources, which boosted reserves.

Some monetary policy measures planned for the 2010 fiscal year, including the launch of Haitian treasury bonds to replace the central bank bonds, will probably be postponed.

(c) Exchange-rate policy

In 2009, the nominal and real exchange rate of the gourde against the United States dollar depreciated by 6.3% and 2.8%, respectively, compared with 2008. The central bank's margin for manoeuvre with respect to its reserves enabled it to make net foreign exchange sales to curb the most severe fluctuations in the exchange rate, even though foreign exchange was less readily available owing to a decline in grants and sluggish inflows of remittances. At the same time, demand for imports was relatively strong, although imports were lower in value terms than in the previous year thanks to the fall in price for some key commodities such as hydrocarbons and food.

During the current fiscal year, thanks to growing inflows of foreign exchange in the form of remittances and international cooperation funds following the earthquake, cumulative fluctuations (to March 2010) reveal a nominal appreciation in the local currency (5.4%). The central bank increased its net reserves through the acquisition of US$ 61 million (April 2010). With the expectation of further inflows of foreign exchange and with the prospect that inflation will be kept under control (average annual variation of 8.5%), the gourde will continue to appreciate (10% in March) during the rest of 2010.

3. The main variables

In 2009, the 2.9% and 1.2% growth in GDP and per capita GDP, respectively, were insufficient to meet structural needs and rebuild a severely eroded production base, which is barely equivalent to that of 30 years ago. The adverse effects of the earthquake have aroused much concern as to the capacity of the national economy to reverse this lag and, at the same time, revive the most seriously affected sectors (housing, basic education and health services, public services and commerce).

(a) Economic activity

The favourable results of 2009 were achieved thanks to growth in agricultural activity (5.2%), supported by public-sector investments (equipment, infrastructure, enhancement of fertilizer and seed subsidy programmes).

Following its lacklustre performance in 2008, manufacturing picked up by 3.7% in 2009. Construction grew by 3.1% and transport and communications by 2.5%. Manufacturing was boosted by the maquila industry, while construction benefited from infrastructure works to repair damage caused by hurricanes in 2008. For the first time in three years, there was a remarkable upswing in the electric power sector (30%), fuelled by substantial public subsidies (close to US$ 80 million).

On the demand side, investment rose by 3.2%, consumption by 3.9% and exports by 9.9%, thanks to public and private investment (for example, US$ 50 million invested in the cruise-ship pier at Labadie), steady remittance flows and the upturn in maquila exports.

The 8.5% contraction in GDP in 2010 will stem from all sectors, except agriculture and construction, for which the outlook is positive because the direct impact of the earthquake on agriculture was smaller and because of the reconstruction of housing and various other buildings.

On the other hand, a contraction is expected in the services sectors (commerce, financial services, basic services and government services) as well as in manufacturing.

However, the outcome will depend on the level and pace of reconstruction driven by both national efforts and international contributions. Indeed, the latter will determine the effective rehabilitation of various activities, according to their degree of autonomy, the participation of public stakeholders (public administration and basic infrastructure services), and subsidy requirements (education and health).

Despite a substantial reduction (20%) in export volumes in the second quarter, cumulative results in 2010 showed a certain revival of the maquila industry —thanks to the land corridor with the Dominican Republic and the gradual restart of port and airport operations— with a performance close to that of 2009 (variations of -1.3% and 1.6% in volume and value, respectively). These activities will also benefit from additional trade preferences under the Haiti Economic Lift Program Act (HELP) adopted by the United States Congress in May 2010.

The strategies employed by the Ministry of Economic Affairs and Finance would appear to place emphasis, in the short term, on schemes for boosting demand (through employment programmes in construction and infrastructure works) and subsequently in the medium and long terms to direct efforts on the supply side (agricultural production, tourist services).

(b) Prices, wages and employment

In 2009, average annual inflation stood at just 3.4% with a negative year-on-year variation (-4.7%), reflecting falls in the world prices of oil (-47%) and foodstuffs (-19%). Some of the most representative items in the basic basket dropped sharply, for example, rice (-20.5%), edible oils (-27.6%), sugar (-7.2%), coal (-10%) and kerosene (-33%).

These indicators do not point to any improvement in the minimum wage in real terms (70 gourdes per day since 2003), which lost 28% of its purchasing power in 2003-2008. However, following lengthy negotiations, the minimum wage was adjusted to 150 gourdes (almost US$ 4) with effect from October 2009.

Structurally, the level of activity in the Haitian economy has had very little impact in terms of sustained creation of formal-sector jobs. Indeed, even with some degree of improvement on the cards, as in 2009, this component continued to show a considerable deficit, lessened temporarily by some labour-intensive programmes. In addition to the agricultural sector (40%), a third of the labour supply is engaged in low-productivity, low-paid, small-scale commercial activities, which are for the most part informal, a situation which prevails in almost all other sectors.

As a result of the earthquake, the Ministry of Economic Affairs and Finance has stated that the country must adopt a development strategy centred on job creation if it wishes to undo this vicious cycle.

The inflation rate, which averaged 6% in the months following the earthquake (January-April 2010), has been brought more or less under control. Despite the foreseeable fluctuations in the first few months, caused by shortages, speculation and higher transaction costs, a higher rate than the pre-disaster forecasts (8%) is expected, but within a range slightly above 10% at the close of the 2010 fiscal year. Certain categories that carry a lower weighting, for example, housing (17.1%), are expected to have much sharper rises.

The asymmetry in the basket between imported goods (8.7%) and local goods (4.3%) and to an even greater extent in the case of foodstuffs (11% compared with 1.7%) comes as no surprise, bearing in mind factors such as higher transport costs, extraordinary expenditure (storage), new trends in consumption patterns and lower demand for local products (because of the income effect and competition from products supplied by humanitarian aid).

(c) The external sector

Without the impact of external shocks, which depleted the current account in 2008 (4.4% of GDP), the deficit was reduced in 2009 to 3.5% of GDP, including official grants totalling US$ 395 million. The deficit on the trade balance fell to US$ 1.9 billion, down by 7% with respect to 2008, despite a 12.4% increase in exports and a 3.6% reduction in imports, as the nominal value of imports was more than three times higher than that of exports. The improvement in the terms of trade (29.5%) was due to the significant fall in the prices of hydrocarbons and foodstuffs.

In 2010, despite the drastic effects of the earthquake, the deterioration in the trade balance caused by rising imports and a marginal fall in exports is expected to be offset by remittances and grants. This forecast is based on an increase in remittances of over 15% and pledges of external funds.

Debt totalling US$ 893 million was cancelled in 2009. In 2010, the capital account may benefit from similar initiatives in response to the disaster, to the tune of US$ 817 million from donors both bilateral (Bolivarian Republic of Venezuela, Canada, Spain and United States) and multilateral (IDB and World Bank).

Foreign direct investment (FDI), which expanded by 27% in 2009, may continue to grow with the reactivation of projects that were under way (electric power generation, tourism, free zones), and new investments in housing, now an attractive segment as a result of the devastation caused by the earthquake, both in terms of volumes and in terms of facilities that may be provided, despite the remaining obstacles in the corresponding national legislation.

The privatization of the semi-public telephone company TELECO was completed in December 2009. The company was sold to Viettel Telecom, a Vietnamese investment group. The transaction, worth US$ 59 million and a 60% share of the firm's capital, was concluded in April 2010.

The lag between pledges of aid and the date of the actual payments has prompted the national authorities to put in place alternative mechanisms. In this context, just as the sum of US$ 196 million from the PETROCARIBE funds was used in 2009 to defray the costs of the 2008 post-hurricane emergencies, the government has drawn US$ 41.2 million from these funds to cover expenses resulting from the earthquake.

Jamaica

1. General trends

The Jamaican economy deteriorated in 2009, forcing the government to enter a 27-month International Monetary Fund (IMF) stand-by arrangement which will provide US$ 1.2 billion over the period. The agreement, which was signed in February 2010, was designed to restore confidence in the Jamaican economy. While the proximate cause of the economic problems was the global recession and its impact on export demand, deeper issues lay in the cumulative effects of an expanding public debt, relatively large current account and fiscal deficits, and falling investor confidence.

In 2009, the economy contracted by 2.7% owing to weak external and domestic demand and a weak investment climate. In these circumstances, inflation moderated to 10.2% as compared to 16.9% the year before. It is anticipated that under the stand-by arrangement, inflation will decline to between 7.5% and 9.55% in fiscal year 2010/2011.[1] The figures for the quarter ending in March 2010 show that the consumer price index (CPI) increased by 4.1%, which was higher than the 2.8% for the quarter ending in December 2009. Meeting the inflation target of between 7.5% and 9.5% will depend on whether or not additional taxes are imposed and fuel prices remain stable. After experiencing moderate fluctuation during the first few months of 2009, the exchange rate stabilized as a result of inflows from a number of multilateral institutions.

The low demand for exports due to the recession abroad resulted in lower foreign exchange inflows, especially from mining, combined with lower inflows from remittances and private investment. The impact of declining output and cuts in the public-sector workforce caused the unemployment rate to inch up from 10% in October 2008 to 11.6% in October 2009.

Under the government's medium-term economic programme[2] approved as part of the stand-by arrangement, it is expected that growth will be 0.5% in fiscal year 2010/2011 and will increase to 2% in each year from fiscal year 2011/2012 through to 2013/2014. This growth rate projection is based on the country meeting tight fiscal and monetary policies designed to adjust the Jamaican economy within the context of IMF scrutiny and review. From the first review of the targets under the programme it appears that all the targets were met, including a variety of structural reforms, and as a result the IMF will disburse Special Drawing Rights (SDR) 63.7 million to Jamaica.

[1] The fiscal year runs from April to March.

[2] This programme runs to fiscal year 2013/2014.

Table 1
JAMAICA: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	1.3	1.0	3.5	1.4	1.0	2.7	1.5	-0.9	-2.7
Per capita gross domestic product	0.5	0.2	2.7	0.7	0.3	2.1	1.0	-1.4	-3.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	6.7	-6.8	7.0	-11.2	-6.8	16.2	-5.8	-5.2	12.1
Mining	2.9	2.1	5.0	2.2	2.8	0.9	-2.6	-2.5	-50.2
Manufacturing	-0.8	-2.0	-0.5	1.4	-4.4	-2.2	0.7	-1.4	-5.0
Electricity, gas and water	0.7	4.6	4.7	-0.1	4.2	3.2	0.6	0.9	2.2
Construction	-0.2	-1.0	5.1	8.4	7.5	-1.9	4.6	-6.7	-4.6
Wholesale and retail commerce, restaurants and hotels	-0.5	0.4	2.2	2.1	2.1	3.9	1.4	0.4	-0.6
Transport, storage and communications	4.8	6.2	4.0	1.4	0.9	4.4	3.3	-2.3	-4.4
Financial institutions, insurance, real estate and business services	3.4	3.5	4.6	2.4	0.4	2.0	3.3	1.0	0.6
Community, social and personal services	1.0	1.4	1.5	0.9	1.1	1.8	1.6	0.1	-0.0
					Millions of dollars				
Balance of payments									
Current account balance	-759	-1 074	-773	-509	-1 009	-1 183	-2 038	-3 223	-912
Goods balance	-1 618	-1 871	-1 943	-1 945	-2 581	-2 943	-3 841	-4 981	-3 123
Exports, f.o.b.	1 454	1 309	1 386	1 602	1 664	2 134	2 363	2 761	1 386
Imports, f.o.b.	3 073	3 180	3 328	3 546	4 246	5 077	6 204	7 742	4 510
Services trade balance	383	315	552	572	670	628	425	355	752
Income balance	-438	-605	-571	-583	-676	-616	-662	-680	-586
Net current transfers	914	1 087	1 189	1 446	1 578	1 749	2 040	2 083	2 046
Capital and financial balance [c]	1 624	832	342	1 203	1 238	1 413	1 598	3 118	869
Net foreign direct investment	525	407	604	542	582	797	751	1 361	670
Other capital movements	1 099	425	-263	661	656	616	847	1 757	199
Overall balance	865	-242	-432	694	229	230	-440	-105	-44
Variation in reserve assets [d]	-847	261	448	-686	-228	-230	440	105	44
Other financing	-18	-19	-16	-8	-1	0	0	0	0
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [e]	101.8	101.9	116.7	113.5	104.4	105.6	109.1	102.3	113.8
Net resource transfer (millions of dollars)	1 168	208	-246	612	561	797	937	2 438	283
Gross external public debt (millions of dollars)	4 146	4 348	4 192	5 120	5 376	5 796	6 123	6 344	6 594
					Average annual rates				
Employment									
Labour force participation rate [f]	63.0	65.8	64.4	64.3	64.2	64.7	64.8	65.4	63.8
Unemployment rate [g]	15.0	14.2	11.4	11.7	11.3	10.3	9.8	10.6	11.4
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	8.6	7.3	13.8	13.6	12.6	5.6	16.8	16.9	10.2
Variation in nominal exchange rate (annual average)	7.9	5.8	18.1	6.2	2.2	6.0	4.8	5.7	21.2
Nominal deposit rate [h]	9.4	9.1	8.3	6.7	5.9	5.3	5.0	5.1	5.8
Nominal lending rate [h]	29.4	26.1	25.1	25.1	23.2	22.0	22.0	22.3	22.6
					Percentages of GDP				
Central government [i]									
Total income [j]	24.5	25.0	27.6	27.9	26.8	26.9	28.7	27.1	29.9
Current income	23.3	23.4	26.2	26.2	25.5	26.3	27.2	26.2	28.3
Tax income	21.6	22.0	24.2	24.3	23.4	24.0	24.6	24.2	26.7
Capital income	0.7	1.4	1.3	0.9	1.2	0.4	1.0	0.2	0.7
Total expenditure [k]	29.6	31.8	32.9	32.2	29.9	31.5	32.9	34.5	37.1
Current expenditure	27.1	30.1	31.9	30.4	27.6	28.6	28.3	30.5	33.3
Interest	12.2	13.3	16.2	15.0	12.7	12.4	11.4	12.3	14.6
Capital expenditure	2.4	1.7	1.0	1.8	2.2	3.0	4.6	4.1	3.7
Primary balance	7.1	6.5	10.9	10.7	9.7	7.8	7.2	4.9	7.4
Overall balance	-5.1	-6.8	-5.3	-4.3	-3.0	-4.7	-4.2	-7.4	-7.2

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Money and credit [l]									
Domestic credit	35.6	35.4	40.5	35.7	34.7	30.3	30.3	35.4	34.0
To the public sector	29.3	26.7	29.6	23.4	21.2	14.9	12.8	15.8	16.3
To the private sector	8.3	10.0	12.5	13.3	14.1	15.8	18.2	20.4	19.3
Others	-2.0	-1.3	-1.7	-1.1	-0.6	-0.4	-0.6	-0.8	-1.6
Liquidity (M3)	34.9	35.2	33.8	34.1	33.2	32.6	33.6	30.8	29.6
Currency outside banks and local-currency deposits (M2)	26.1	25.5	22.7	22.8	22.7	23.1	22.7	20.7	19.9
Foreign-currency deposits	8.7	9.8	11.1	11.3	10.5	9.6	10.9	10.1	9.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Annual average, weighted by the value of goods exports and imports.
[f] Economically active population as a percentage of the working-age population.
[g] Percentage of the economically active population; nationwide total. Includes hidden unemployment.
[h] Average rates.
[i] Fiscal years, from April to March.
[j] Includes grants.
[k] Includes statistical discrepancy.

2. Economic policy

(a) Fiscal policy

The budget for fiscal year 2009/2010 was geared to reducing the fiscal deficit to 5.5% of GDP from 7.3% of GDP in fiscal year 2008/2009. However, this target was far too ambitious and the overall deficit was substantially higher than planned at 7.2% of GDP.

In order to arrest the deterioration in the public finances, the government was forced to introduce new fiscal measures that raised a variety of tax rates in September 2009 and January 2010. These measures included increasing the special consumption tax on fuels and raising the general consumption tax rate to 17.5% from 16.5%. The outcome for fiscal year 2009/2010 was an increase in revenue of 18.2%, representing an increase from 27.1% to 29.9% of GDP. Expenditure underwent a similar increase, which suggests that no major fiscal adjustments occurred.

This lack of adjustment also translated into a higher debt burden. The total stock of debt by December 2009 was 123.3% of GDP, up from 109.9% of GDP in 2008. By December 2009, the domestic and external portions of the debt were 69.1% and 54.2% of GDP, respectively, up from 59.8% and 45.3% of GDP, at the end of 2008. The rapid increase in these ratios was the reason for the downgrading of Jamaica's credit rating earlier in the year.

Debt servicing of J$ 120 million constituted 47% of the expenditure budget, but this was less than the 60% share of the year before. The relative importance of debt service payments can be seen in relation to other expenditures. For example, education services were 14.2% of the expenditure budget, while national security and health services were 7.5% and 6.2%, respectively. Despite the limited fiscal space, in 2009 the government increased the amount allocated to social safety net programmes by some 56% in the face of the global recession and has plans to expand these programmes by a further 16% in fiscal year 2010/2011.

To address the difficulties in the fiscal accounts, significant structural fiscal policy changes were expected to occur under the stand-by arrangement. One such change was the introduction of a fiscal consolidation strategy focused on streamlining the public sector, including the divestment of some public bodies. Other changes include reforms to the financial system and a comprehensive debt management strategy. With respect to fiscal consolidation, the government passed legislation to establish a fiscal responsibility framework. In addition, Air Jamaica, the Sugar Company of Jamaica, the Port of Kingston, Norman Manley International Airport and a number of other public entities were to be divested. For the first time, the consolidated accounts of public

Table 2
JAMAICA: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	0.3	-0.9	-0.3	-1.1	-3.1	-3.7	-2.3	-2.2	...	...
Gross international reserves (millions of dollars)	2 106	2 477	2 281	1 795	1 663	1 661	2 007	1 752	2 414	2 527
Real effective exchange rate (index: 2000=100) [c]	105.4	103.7	99.9	100.3	111.2	115.3	114.8	113.8	105.7	103.0 [d]
Consumer prices (12-month percentage variation)	19.9	24.0	25.3	16.9	12.4	9.0	7.2	10.2	13.3	14.1 [d]
Average nominal exchange rate (Jamaica dollars per dollar)	71.26	71.37	72.12	76.77	86.24	88.92	88.91	89.24	89.62	88.47
Nominal interest rates (annualized percentages)										
Deposit rate [e]	4.9	4.7	5.5	5.5	5.9	5.9	5.9	5.4	4.2	4.0 [f]
Lending rate [e]	22.2	21.8	22.3	23.0	22.5	23.3	22.7	21.9	21.4	21.5 [f]
Stock price index (national index to end of period, 31 December 2000 = 100)	372	380	353	277	273	280	277	288	298	301
Domestic credit (variation from same quarter of preceding year)	6.9	20.4	17.5	32.9	28.6	17.1	12.7	3.0	-7.3	-3.5 [f]
Non-performing loans as a percentage of total credit	2.1	2.2	2.4	2.6	2.8	3.6	3.7	4.2	5.1	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2003 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Average rates.
[f] Data to April.

entities were reported as part of the annual budget and it was anticipated that there would be a public sector wage freeze. These changes, coupled with a variety of quantitative performance criteria, were expected to create the conditions for fiscal consolidation while reducing the crowding-out effects these public entities had on the private sector.[3]

(b) Monetary and exchange-rate policy

The main objective of monetary policy in 2009 was to restore foreign exchange stability and contain inflation. The most important aspect of this policy initiative was the need to respond to the increasing demand for foreign exchange. In the first quarter of 2009, the primary tools of the Bank of Jamaica's monetary policy were the use of certificates of deposit and an increase in the cash reserve requirement. These tools were designed to reduce liquidity in the domestic banking system.

At the end of March 2009, the interest rate on 30-day Bank of Jamaica repos[4] stood at 17% and that on 90-day repos at 18%. Increased bidding for foreign exchange forced the government to issue higher-cost debt instruments and this helped to restore some stability in the foreign exchange markets. Monetary policy was eased later in the year in response to improved confidence in local financial markets and as a result, interest rates on all open market instruments declined by 450 basis points. By the end of September, for example, interest rates had fallen as markets began to adjust in anticipation of an IMF agreement. By the end of March 2010, the 30-day repo rate stood at 10% and all remaining tenors were withdrawn. Rates on other instruments also tended to decline late in 2009. For example, the average yield on three- and six-month treasury bills dropped from 22.01% and 24.45%, respectively, in December 2008 to 15.95% and 16.8%, respectively, at the

3 The targets related to the primary balance of the central administration, overall balance for public entities, central government direct debt, cumulative net increase in central government-guaranteed debt, the central government accumulation of net arrears, central government accumulation of tax arrears and central government accumulation of external arrears.

4 Repos are monetary policy tools used by the Bank of Jamaica. A repo involves the central bank selling a government security it owns and agreeing to buy back the same security at a specified rate at an agreed future date.

end of 2009. Despite the decline in interest rates, lending to the private sector rose by only 0.9% in 2009, compared with growth of 28% in 2008.

In January 2010, the government launched the Jamaica Debt Exchange, the purpose of which was to trade in high-cost debt for new instruments of longer duration, and this led to a decline in the three- and six-month treasury bill rates to 10.18% and 10.49%, respectively. The success of this programme helped to ease the pressure of meeting immediate interest payment obligations. During 2009, nominal growth in M1 was 7.2%, as against 5% in 2008. In addition, there was slower growth in point of sale transactions with credit cards as households were concerned about servicing their debt. Lending to the private sector increased by only 0.9% in 2009, reflecting the generally depressed economic conditions.

The foreign exchange market was relatively stable in 2009, with a small nominal depreciation of 0.78%, and since the stand-by arrangement the currency has actually appreciated slightly, reflecting the increased foreign exchange inflows from multilateral institutions. For example, the weighted average selling rate of the Jamaica dollar moved from J$ 89.6 per US$ 1 at the end of December 2009 to J$ 89.51 per US$ 1 at the end of March 2010, a small appreciation of 0.1%.

The central bank's monetary policy stance in 2010 will continue to focus on moderating inflation and maintaining a stable nominal exchange rate in line with the medium-term programme. It is also anticipated that the IMF agreement will help to boost investor confidence and improve domestic investment.

3. The main variables

(a) Economic activity

The 2.7% decline in the Jamaican economy in 2009 was the result of a combination of factors that included weak external and domestic demand, tighter credit conditions in the first part of the year and lower consumption and investment spending. On the external side, the uncertainty in the world economy and recession among major trading partners affected demand. On the domestic side, falling incomes, rising unemployment, lower remittance inflows and tight credit conditions earlier in the year restricted domestic demand. When the sectors are broadly disaggregated into services and goods, it transpires that while the goods sector contracted by 10.3%, the service sector declined by only 0.6%. The main industries that showed some decline were mining and quarrying, manufacturing, transport, storage and communication, and construction; together these sectors represent some 30% of GDP.

At the sectoral level, the most significant decline was in mining and quarrying, which contracted by 50.2% in 2009, so that the sector's share of GDP fell to 2%. This decline was due to lower international demand for alumina and the closure of three alumina companies operating in Jamaica. Apart from alumina, capacity utilization at the lone bauxite plant fell to 71.1% in 2009 from nearly 90% the year before. Mining and quarrying is also an important foreign exchange earner and bauxite's and alumina's contributions to traditional domestic export earnings fell by 25.4% and 70.1%, respectively, between 2008 and 2009. It is anticipated that there will be greater activity in both industries this year as world demand for these commodities revives.

Manufacturing declined by 5% in 2009 to 8.3% of GDP. This decline was far greater than that seen in 2008 (1.4%) and was mainly due to falling food and beverage production. Manufacturing suffered from weak external and domestic demand due to lower incomes.

A noteworthy performance was rendered by the agriculture, forestry and fishing, which improved by 12.1% in 2009 and contributed 5.6% of GDP. Because of weak domestic demand, the construction sector declined by 4.6% in 2009 to 8% of GDP. Both private and public sector investments were affected and this showed up in lower cement sales.

The electricity and water sector grew by 2.2% to 3.6% of GDP because of increased generating capacity. There was also the return to normal levels of electricity generation after the disruption from tropical storm Gustav. Alongside electricity, water production also improved.

The hotel and restaurant sector contracted marginally by 0.8% in 2009 to account for 25.1% of GDP, a slight change from the previous year's growth of 0.2%. However, this sector performed relatively well, especially considering that it contracted sharply in almost all other Caribbean countries. The decline in growth was a reflection of weak international demand for travel consequent on lower incomes in major travel markets abroad and lower demand for restaurant services at home. However, this slower growth was moderated by the normalization of the industry after the tropical storm in 2008 and the fallout from Mexico due to the influenza A (H1N1) virus there, and by heavy discounting on the part of Jamaican tourist operators to increase capacity utilization. As a result, total stopovers actually increased by 3.6% in 2009.

(b) Prices, wages and employment

Headline inflation declined to 10.2% in 2009, well down from the 16.9% inflation rate of the previous year. This decline was due to moderate price increases for imported food and an improvement in agricultural production. Significant increases occurred in the Greater Kingston Metropolitan Area and other urban centres, where prices rose by 11% and 11.6%, respectively, while the rate of increase was less in rural areas.

Price increases were largely due to developments in the categories of housing; water, gas, electricity and other fuels; food and alcoholic beverages; and miscellaneous goods and transport, which saw rises of 23%, 12.9%, 8.1% and 6.1%, respectively. These sectors accounted for 77.1% of the overall price increase. Prices were also pushed higher by a number of revenue-raising measures, such as an increase in the general consumption tax rate and the special consumption tax on fuels.

Under the stand-by arrangement with the IMF, it is anticipated that inflation will decline to between 7.5% and 9.55% in fiscal year 2010/2011. The figures for the quarter ending in March 2010 show that the CPI rose by 4.1%, which was an increase on the 2.8% for the December 2009 quarter and 1.3% higher than in the March 2009 quarter. These increases have been linked to tax rises that have impacted transportation and other household costs.

In 2009, the global recession and lower production at home impacted employment. The employed labour force declined from 1,174,500 in 2008 to 1,113,400 in 2009 and the average unemployment rate was 11.4%. During this period, the unemployment rate for men rose from 8.1% to 8.7%, while for women it rose from 14.5% to 15.1%. It appears that the decline in women's employment occurred mostly in the female-dominated retail sector, which was affected by lower domestic demand. The largest loss of jobs in 2009 (7,500 workers) occurred in this sector. It is anticipated that with wage restraint under the IMF arrangement and an easing of the international recession, business activity will improve in 2010 and employment will increase.

(c) The external sector

In 2009, the current account deficit of the balance of payments narrowed from US$ 3,223 million (23% of GDP) in 2008 to US$ 911.9 million, or 7.3% of GDP. This improvement was due to an amelioration in the balance on the combined goods and services accounts of the balance of payments, whose deficit declined from 33% to 19% of GDP in 2009. In particular, imports of goods declined from 55% of GDP in 2008 to 36% of GDP in 2009 (a 42% drop in imports). Remittances from abroad, which are an important element in the current transfers balance, fell from US$ 2,021.3 million in 2008 to US$ 1,791.5 million in 2009. As a share of GDP, however, remittances remained constant at 14.4%. There seems to have been some improvement since then, as remittances increased by 9.7% year-on-year from January to March 2010, whereas over the same period in 2009 they declined by 15%.

The income balance registered a smaller deficit, moving from US$ 680 million in 2008 to US$ 586 million in 2009, while the capital and financial account balance had a smaller surplus, down from US$ 3,118 million (22.2% of GDP) to US$ 868 million (7.0% of GDP) in 2009. This result was partly due to the decline in investment from abroad.

However, net private and official inflows were not sufficient to cover the current account deficit, and the net international reserves of the Bank of Jamaica declined by US$ 43.6 million to US$ 1.57 billion in December 2009.

By March 2010, gross reserves were US$ 2.4 billion, or 17 weeks of goods and services imports. Gross reserves were buoyed up by the receipt of US$ 640 million from the IMF as part of the stand-by arrangement plus an additional US$ 200 million from the Inter-American Development Bank and a further US$ 199.5 million from the World Bank. It is projected that as international demand improves, the current account deficit may decline to about 5.5% of GDP.

Suriname

1. General trends

Strong performances in the oil and gold sectors and continued infrastructure development contributed to real GDP growth of 2.2% in 2009. While this growth was slower than the 2008 rate of 4.3%, it still meant that Suriname was one of the few Caribbean countries to post positive growth during the year.

The overall fiscal surplus increased to 3.7% of GDP in 2009. The central bank maintained its domestic currency cash reserve requirement, and both deposit and lending rates remained stable. Domestic credit to the private sector also continued to expand. The year-end inflation rate stood at 1.3% (9.4% in 2008). Following a decline in export revenues, the external sector current account surplus shrank by 39%, the first decrease in five years, to stand at 9.2% of GDP.

Desi Bouterse's coalition party took the most seats in general elections held on 25 May 2010. His election to office may strain relations with the Netherlands, an important source of donor funds, given that he led a military regime in his last tenure as president.

The overall economic policy mix is aimed at containing inflation through monetary channels, facilitating economic growth and export growth, particularly through fiscal channels, and maintaining sustainable debt levels. In 2010, GDP is expected to grow by 2.4%.

2. Economic policy

(a) Fiscal policy

Fiscal accounts remained in surplus for 2009 as total revenue increased by 25% to 49.1% of GDP. A 138% rise in the dividend from Staatsolie, the state oil company, and a 44% increase in royalty payments from gold producer IAMGOLD raised these companies' contributions to tax revenue from 11.5% of total revenue in 2008 to 22.4% in 2009. The recession prompted the largest aluminium producer, BHP Billiton, to leave Suriname in 2009. Revenue was bolstered by greater efficiency in the collection of sales taxes and import duties. Total tax revenue rose by 8.5% to reach 31.1% of GDP, and grants increased by 45% to reach 5.9% of GDP.

Total expenditure expanded by 23% to 45.4% of GDP, with current expenditure growing by 21% to stand at 35.2% of GDP and capital expenditure increasing by 30% to 10.1% of GDP. The most costly item of expenditure was infrastructure (including the Paranam-Albina road project), while the highest profile issue was the first phase of the new automated civil service function system (Functie Informatie-Systeem Overheid, FISO), a public sector wage reform programme. The first phase of FISO raised the wage and salary bill from 12% to 15.5% of GDP in 2009, and the second phase, scheduled for late 2010, is expected to increase expenditure on wages and salaries to 19.6% of GDP. Even with this expanded expenditure, the primary surplus improved by 31% to 8.1% GDP and the overall surplus increased by 52% to 3.7% of GDP. However, with further expenditure on FISO and expectations of a weaker oil dividend, a fiscal deficit equivalent to 15% of GDP is predicted for 2010.

Table 1
SURINAME: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	5.7	2.7	6.8	0.5	7.2	3.9	5.1	4.3	2.2
Per capita gross domestic product	4.2	1.2	5.5	-0.9	5.9	2.8	4.1	3.3	1.2
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	11.5	-3.8	3.6	1.0	-5.0	5.2	5.6	-5.0	5.3
Mining and quarrying	25.0	-8.3	0.3	30.0	15.3	7.6	18.2	4.7	-12.3
Manufacturing	12.5	-3.7	5.5	10.8	10.2	1.8	-2.2	-2.6	-0.7
Electricity, gas and water	5.0	11.6	-1.3	9.9	3.5	8.4	6.3	7.2	6.4
Construction	4.5	0.6	17.0	10.1	8.6	5.3	15.4	4.3	7.3
Wholesale and retail commerce, restaurants and hotels	-14.6	8.5	32.0	8.9	11.7	7.2	9.3	15.7	7.9
Transport, storage and communications	28.8	12.3	3.0	7.7	7.9	-1.8	2.7	2.6	0.0
Financial institutions, insurance, real estate and business services	0.7	3.3	2.5	5.3	4.4	1.7	1.6	3.1	2.1
Community, social and personal services	1.1	0.2	0.7	0.1	4.7	4.0	0.1	1.2	1.2
					Millions of dollars				
Balance of payments									
Current account balance	-84	-131	-159	-137	-100	221	335	344	210
Goods balance	140	47	30	42	70	272	314	358	109
Exports, f.o.b.	437	369	488	782	997	1 175	1 359	1 708	1 404
Imports, f.o.b.	297	322	458	740	928	903	1 045	1 350	1 296
Services trade balance	-115	-128	-136	-130	-151	-33	-65	-123	1
Income balance	-108	-42	-49	-63	-41	-54	8	21	5
Net current transfers	-1	-9	-5	14	22	36	77	87	94
Capital and financial balance [c]	162	112	166	175	123	-125	-160	-292	16
Net foreign direct investment	-27	-74	-76	-37	28	-163	-247	-234	0
Other capital movements	189	186	242	212	95	39	86	-58	16
Overall balance	78	-19	7	38	24	96	175	52	226
Variation in reserve assets [d]	-78	19	-7	-38	-24	-96	-175	-52	-226
Other external-sector indicators									
Net resource transfer	54	70	118	112	83	-179	-152	-271	22
Total gross external public debt	350	371	382	384	390	391	299	316	238
					Average annual rates				
Employment									
Unemployment rate [e]	14.0	10.0	7.0	8.4	11.2	12.1	...	...	...
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	...	...	...	...	15.8	4.7	8.3	9.4	1.3
Variation in nominal exchange rate (annual average)	64.7	7.7	10.8	5.1	-0.1	0.4	0.0	0.0	0.0
Nominal deposit rate [f]	11.9	9.0	8.3	8.3	8.0	6.7	6.4	6.3	6.4
Nominal lending rate [f]	25.7	22.2	21.0	20.4	18.1	15.7	13.8	12.2	11.7
					Percentages of GDP				
Central government									
Total revenue	41.1	30.7	31.6	37.4	37.3	39.4	46.6	37.2	49.1
Current revenue	39.2	29.4	30.0	35.5	35.0	35.8	38.3	33.4	43.3
Tax revenue	34.1	24.2	25.2	29.1	27.8	28.2	30.6	27.1	31.1
Grants	1.9	1.3	1.6	1.9	2.3	3.6	8.3	3.9	5.9
Total expenditure	40.7	35.7	30.7	38.5	38.1	40.0	38.6	34.9	45.4
Current expenditure	35.6	32.2	27.3	33.3	31.8	33.0	32.6	27.6	35.2
Interest	2.3	2.7	2.3	2.2	2.5	2.3	1.9	1.0	1.5
Capital expenditure	4.2	3.3	3.1	5.1	6.4	6.9	5.9	7.4	10.1
Overall balance	0.4	-5.0	0.8	-1.1	-0.8	-0.6	8.0	2.3	3.7

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
	Percentages of GDP								
Money and credit [g]									
Domestic credit	24.6	30.4	24.9	32.1	30.0	28.7	26.9	25.9	33.9
To the public sector	7.7	12.0	7.3	13.6	11.8	9.1	5.2	0.0	6.4
To the private sector	16.9	18.3	19.7	25.2	25.5	27.7	32.7	35.3	42.4
Others	0.0	0.0	-2.2	-6.7	-7.3	-8.1	-11.0	-9.4	-15.0
Liquidity (M3)	65.0	55.8	51.0	64.6	58.0	61.0	68.2	61.3	80.3
Currency outside banks and local-currency deposits (M2)	39.6	34.1	27.1	32.9	30.4	31.9	35.5	32.9	43.5
Foreign-currency deposits	25.4	21.7	23.9	31.7	27.6	29.2	32.6	28.4	36.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1990 prices.
[c] Includes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Percentage of the economically-active population, nationwide total.
[f] Deposit and loan rates published by IMF.
[g] The monetary figures are end-of-year stocks.

Debt sustainability remained a key priority, especially with the accumulation of higher public sector domestic debt to finance FISO. The sizeable debt owed to Brazil was officially cleared in 2009 with US$ 118 million repaid and US$ 47 million forgiven. Suriname hopes to clear US$ 37 million in debt to the United States by year's end, before the Staatsolie refinery upgrade programme[1] begins. Most of the domestic debt contracted was used to finance the FISO project and represented approximately 14.6% of GDP, up from 12.5% in 2008. As debt is mostly long term, there are no foreseeable problems in the short to medium term. However, uncertainty about the long term sources of funds and the prospect of trade deficits in the near future are cause for concern.

(b) Monetary and exchange-rate policy

Liquidity (M2) expanded by more than 25% to reach 43.5% of GDP, while net domestic credit expanded by 24% to reach 33.9% of GDP. Private-sector domestic credit expanded more slowly (by 13%) in 2009 to stand at 42.4% of GDP, compared with 35.3% in 2008. While home construction is still increasing, the slower growth resulted from the collapse (due to a lack of demand) of the low-income home loan assistance programme that the government had launched in 2008. Credit to the central government expanded significantly from 0.0% of GDP in 2008 to 6.4% in 2009 owing to the financing of infrastructure projects and FISO.

The central bank seeks to balance inflation and growth in an effort to maintain the official exchange rate at $2.75 Suriname dollars (SRD) to the United States dollar. The main policy tool, the Suriname dollar reserve requirement, was unchanged at 25%, as were the reserve requirements for the euro and the United States dollar at 33.33.%. Market interest rates[2] continued to decline in order to keep credit accessible. The lending rate fell from 12.0% to 11.6% and deposit rates remained stable at 6.2% in 2009, down slightly from 6.3% in 2008.

The official United States dollar exchange rate remained unchanged at approximately SRD 2.75 to the US$ 1 throughout 2009, but was traded in parallel markets at rates as high as SRD 3.15 to US$1. Many domestic transactions for imported durable goods are denominated in United States dollars, which fuels additional demand for the currency. In addition, Chinese retailers buy United States dollars at a premium from Surinamese nationals to finance their own imports and loan repayments. The central bank intervened early in 2009 by increasing the official band of the exchange rate from SRD 2.71-2.80 per United States dollar to SRD 2.71-2.85 per United States dollar, but felt that any further intervention to rebalance the market would not be the best use of foreign exchange resources because Surinamese nationals hold US$ 800 million in foreign banks, 23% more than the country's official international reserves. Interestingly, after the central bank intervened in April 2009 to defend the exchange rate, deposits to these foreign accounts increased by an amount similar to the level of intervention.

The conservatism of the Surinamese financial system was considered vital in the country for avoiding contagion from the financial crisis. CLICO Suriname was taken over by local entities after the collapse of its parent company, and there was no lasting damage to the financial sector. Nevertheless, expectations of fiscal and balance-of-payment deficits in the near future raise red flags concerning a potential requirement for adjustments to current monetary policy, especially as inflationary pressure may require upward adjustments to the reserve requirement to defend the exchange rate.

1 Some US$ 400 million will be borrowed to finance this project.

2 End-of-year rates.

3. The main variables

(a) Economic activity

GDP grew by 2.2% in 2009, with growth in the construction, agriculture and service sectors leading the way.

With the virtual halt in aluminium production, the mining and quarrying sector shrank by 12.3% to 7.2% of GDP. Strong gold and oil production failed to offset the fall in aluminium. Manufacturing declined by 0.7% to 10.6% of GDP as activity relating to the processing of aluminium slowed. The expected increase in manufacturing coming from the government's creation of a state aluminium company, Alumsur, did not materialize, and negotiations with Suriname Aluminium Company (Suralco) are ongoing.

Output in the construction sector was up by 7.3% in 2009 and reached 6% of GDP. This increase was fuelled by government construction programmes, infrastructure development programmes, hotel construction, and a growing number of individual homebuilding projects. Donor-driven infrastructure projects provided a significant buffer for Suriname against the effects of the global recession.

The services sector grew by 4.2% to 69% of GDP, led by growth of 9.3% in the wholesale and retail trade sector to reach 18.2% of GDP. Wholesale and retail trade continued increasing in tandem with demand for housing and consumer durables.

Sustained construction activity related to housing and infrastructure and expected increases in gold production are forecast to fuel a growth rate of 2.4% in 2010, compared with 2.2% in 2009.

(b) Prices, wages and employment

With food and fuel prices down sharply as a result of the global recession, inflation dropped markedly in 2009, ending the year at an annual rate of 1.3%, much lower than the 2008 rate of 9.4. This indicator had peaked at an annual rate of 7.8% in January 2009, but the period May-October 2009 saw an average year-on-year rate of -3.5%. The year-on-year rise in the consumer price index (CPI) for April 2010 was 2.7%.

The new wage programme, FISO, was originally intended for central government employees but union action forced the government to extend it to all civil servants. Even with the change in government, it appears that the subsequent phases of the programme will be implemented as expected. However, serious concerns remain regarding the sustainability of current levels of public expenditure, especially in light of projections of a fiscal deficit in 2010.

The unemployment rate continues to be estimated at 12% although no new studies on this variable have been undertaken since 2006. The massive negative shock sustained by the aluminium industry with the exit of BHP Billiton and the fall in Suralco's output is expected to push up unemployment, especially as it is doubtful that ongoing infrastructural projects are adding enough jobs, given the influx of Chinese workers for these projects.

(c) The external sector

The current account surplus decreased for the first time since 2004, reflecting lower export prices and diminished output. Although imports decreased by 4% to 59.5% of GDP, the value of exports fell by 18% to 64.4% of GDP, the first decline in exports since 2001. The current account surplus decreased by 39% in 2009 to stand at 9.6% of GDP. Services registered a surplus for the first time since 1990, moving from a deficit of US$ 123 million to a slight surplus of US$ 1 million. This change is the result of the downturn in international service-sector activity in Suriname following the recession, and the subsequent departure of multinational engineering services companies. Tighter international capital markets saw the International Monetary Fund (IMF) increase its allocations of special drawing rights (SDR) and Suriname benefited with an allocation worth US$ 123 million or 5.6% of GDP. As a result, the capital and financial accounts (including errors and omissions) moved from a deficit of 12.1% of GDP in 2008 to a small surplus of 0.7% of GDP in 2009. Net international reserves increased by 37% to reach 29% of GDP, which increased total import cover (including services) from 3 months in 2008 to 5 months in 2009.

As the world economy is expected to recover slightly in 2010, a current account deficit is still considered improbable. Nevertheless, the idea that world economic growth may once again slow down, adversely affecting commodity prices, has not been lost on the Surinamese authorities, and there are concerns that chronic balance-of-payment deficits may await Suriname beyond 2011.

Trinidad and Tobago

1. General trends

The international economic crisis closed a cycle of robust growth and massive twin surpluses in Trinidad and Tobago, a country which had benefited greatly from the escalation in international oil prices in recent years. Sharp contractions in the construction and commerce sectors led to a 0.9 percentage point decline in GDP compared with 2008, the first dip since 1993. From the fourth quarter, however, there were tepid signs of a recovery, which continued throughout the first quarter of 2010, in tandem with a rally in the energy sector spurred by more buoyant international prices. The central bank forecasts 2% growth for 2010.

In fiscal year 2008/2009,[1] the fiscal deficit stood at 5.3% of GDP, in sharp contrast with the surplus of 7.8% recorded in the preceding fiscal year. This outcome is attributable to a substantial reduction in tax receipts, coming mainly from the energy sector. The budget for fiscal year 2009/2010 foresees a deficit equivalent to 5.4% of GDP.

The current account surplus contracted dramatically from US$ 8.519 billion in 2008 (32.6% of GDP) to US$ 1.759 billion in 2009 (8.3%). The performance of the current account in 2010 will be closely linked to movements in energy prices in the international market.

In 2009, the economic policy mix consisted of expansionary fiscal and monetary measures against the backdrop of a quasi-fixed exchange-rate regime and was designed to boost economic activity. Since the recovery observed from the fourth quarter of 2009 to mid-2010 has been slow, this combination of policies has remained in place and should continue to the end of the year, unless a resurgence in inflation, which had spiked in the early months of 2010, forces the central bank to adopt a contractionary monetary policy.

The general elections were moved up to May 2010 and the former opposition coalition, the People's Partnership, triumphed following three consecutive administrations by the People's National Movement. The principal challenge for the new administration will be to pursue efforts to diversify the production base in order to reduce the country's reliance on the energy sector. Indeed, in 2009, this sector accounted for more than 40% of GDP, over 42% of tax receipts and 80% of goods exports.

[1] The fiscal years runs from 1 October to 30 September in Trinidad and Tobago.

Table 1
TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	4.2	7.9	14.4	8.0	5.4	14.4	4.6	2.3	-0.9
Per capita gross domestic product	3.8	7.5	14.1	7.5	5.1	14.0	4.2	1.9	-1.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.7	8.7	-15.3	-34.2	-5.4	-10.1	8.6	10.7	-1.0
Mining and quarrying [c]	5.6	13.5	31.4	8.2	6.1	24.2	1.7	-0.5	1.6
Manufacturing	9.8	3.8	12.2	8.1	13.5	13.1	14.0	5.2	2.8
Electricity, gas and water	4.1	8.7	5.3	3.2	6.2	-0.4	6.5	3.0	-1.1
Construction [d]	10.3	-5.1	23.4	8.1	16.1	6.2	8.9	3.1	-14.9
Wholesale and retail commerce, restaurants and hotels	-2.5	1.4	1.8	0.4	4.5	15.1	3.3	9.8	-12.7
Transport, storage and communications	7.7	9.6	5.4	-0.8	7.7	5.8	5.7	-4.1	-6.1
Financial institutions, insurance, real estate and business services	0.8	11.5	7.3	21.7	-2.4	1.0	10.4	3.9	1.0
Community, social and personal services	-0.4	4.3	2.8	5.9	1.1	1.3	2.7	-1.3	-0.3
					Millions of dollars				
Gross domestic product, by type of expenditure									
Consumption	1.2	27.8	-10.4	15.1	-29.9	33.1	23.3	2.0	...
General government	1.9	-0.8	0.1	9.2	5.5	5.1	30.2	-20.2	...
Private	1.1	33.9	-12.0	16.2	-35.7	40.7	21.9	6.9	...
Gross fixed capital formation	43.0	-12.4	60.6	-10.2	53.5	-40.3	-2.6	9.1	...
Exports (goods and services)	0.2	-8.9	28.8	13.4	28.3	22.2	-7.3	28.0	...
Imports (goods and services)	8.8	6.1	5.3	14.2	5.5	6.2	3.7	12.3	...
Balance of payments									
Current account balance	416	76	985	1 647	3 594	7 271	5 364	8 519	1 759
Goods balance	718	238	1 293	1 509	3 948	7 700	5 721	9 064	2 202
Exports, f.o.b.	4 304	3 920	5 205	6 403	9 672	14 217	13 391	18 686	9 175
Imports, f.o.b.	3 586	3 682	3 912	4 894	5 725	6 517	7 670	9 622	6 973
Services trade balance	204	264	314	480	...	...	...	...	...
Income balance	-539	-480	-681	-397	-760	-936	-964	-1.202	-1 220
Net current transfers	33	55	59	56	50	55	60	47	55
Capital and financial balance [e]	86	39	-663	-912	-1 701	-6 152	-3 824	-5 813	-2 472
Net foreign direct investment	685	684	583	973	599	513	830	1 638	509
Other capital movements	-599	-645	-1 246	-1 885	-2 300	-6 665	-4 654	-7 451	-2 980
Overall balance	502	116	321	735	1 893	1 119	1 541	2 706	-713
Variation in reserve assets [f]	-502	-116	-321	-734	-1 893	-1 119	-1 541	-2 706	713
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	94.5	90.2	90.9	93.1	92.0	90.2	88.6	84.1	77.7
Net resource transfer (millions of dollars)	-453	-441	-1.344	-1 309	-2 461	-7 087	-4 787	-7 016	-3 691
Gross external public debt (millions of dollars)	1 666	1 549	1 553	1 364	1 329	1 261	1 392	1 445	1 281
					Average annual rates				
Employment									
Labour force participation rate [h]	60.7	60.9	61.6	63.0	63.7	63.9	63.5	63.5	62.7
Unemployment rate [i]	10.8	10.4	10.5	8.4	8.0	6.2	5.6	4.6	5.3
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	3.2	4.3	3.0	5.6	7.2	9.1	7.6	14.5	1.3
Variation in nominal exchange rate (annual average)	-1.2	-0.6	0.6	0.6	1.3	0.3	0.1	-0.6	0.7
Nominal deposit rate [j]	5.3	3.5	2.9	2.4	2.4	2.4	2.4	2.4	2.0
Nominal lending rate [k]	15.6	13.4	11.0	9.4	9.1	10.2	10.5	12.3	12.5
					Percentages of GDP				
Central government [l]									
Total revenue	24.4	24.6	23.6	24.7	29.4	33.6	31.1	34.8	28.5
Tax revenue [m]	20.9	20.5	20.6	21.9	26.4	30.3	28.0	31.9	24.7
Capital revenue	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Total expenditure	24.5	25.3	22.2	22.9	24.5	26.9	26.0	27.4	34.1
Current expenditure	22.9	24.1	21.1	20.9	21.7	22.9	20.6	21.4	28.2
Interest	4.0	4.3	3.5	2.8	2.5	2.1	2.0	1.8	2.6
Capital expenditure [n]	1.6	1.2	1.1	1.9	2.8	4.0	5.4	5.9	6.0
Primary balance	4.0	3.7	4.9	4.6	7.5	8.8	7.1	9.2	-3.0
Overall balance	-0.1	-0.6	1.3	1.8	5.0	6.7	5.1	7.4	-5.6
Public-sector external debt	20.6	18.9	17.2	13.8	10.8	8.8	6.9	6.1	-5.8
Money and credit [o]									
Domestic credit	27.4	28.3	21.6	17.1	13.8	8.7	16.4	10.1	18.1
To the public sector	-0.8	-1.7	-4.2	-9.5	-13.0	-18.4	-12.2	-16.3	-12.7
To the private sector	28.3	30.0	25.9	26.6	26.8	27.1	28.6	26.4	30.8
Liquidity (M3)	40.3	40.9	32.2	33.3	35.1	37.4	37.2	35.7	...
Currency outside banks and local-currency deposits (M2)	31.3	31.1	26.1	24.9	27.8	28.3	28.2	25.8	39.8
Foreign-currency deposits	9.1	9.8	6.0	8.4	7.3	9.1	9.0	9.9	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Refers only to the oil industry.
[d] Includes quarrying.
Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentage of the economically active population; nationwide total. Includes hidden unemployment.
[j] Savings rate average.
[k] Prime lending rate.
[l] Fiscal year, from October to September.
[m] Refers to tax revenues from the non-petroleum sector.
[n] Includes net lending.
[o] The monetary figures are end-of-year stocks.

2. Economic policy

(a) Fiscal policy

In fiscal year 2008/2009, the central government recorded a deficit equivalent to 5.3% of GDP, its first since 2002. The sudden reversal in the fiscal situation from the surplus of 7.8% of GDP in the preceding fiscal year was due more to a fall in revenues than to an increase in expenditure. Indeed, while total expenditure expanded by less than 2% in relation to fiscal year 2007/2008, total fiscal revenues contracted by 33% (from 36.5% to 27.2% of GDP),[2] owing especially to a 47.6% reduction in revenues from the oil sector.

International oil and gas prices exceeded the forecasts used in the adjusted budget estimates for fiscal year 2008/2009. Nevertheless, revenues from the energy sector were down by 44% from the preceding year's level (from 20.9% of GDP to 13% of GDP). This was because tax collections in fiscal year 2007/2008 were exceptionally high owing to soaring prices for hydrocarbons in international markets. Non-energy revenues were also down (by 18%), halting the growing trend observed during the nine preceding years. More than a quarter of this reduction was due to decreased value added tax (VAT) receipts due to the more sluggish economic activity and faltering domestic demand.

The deficit was financed mainly with resources from the Infrastructure Development Fund, complemented by domestic loans. The fiscal position continued to be sound with close to 14% of GDP accumulated in the Heritage and Stabilisation Fund. The public debt reached 18.8% of GDP. Indeed, unlike the situation elsewhere in the Caribbean, public indebtedness is not a major problem for the economy of Trinidad and Tobago. The external public debt accounts for approximately one third of the total.

The central government budget for the fiscal year 2009-2010 is based on international prices of US$ 55 per barrel of oil and an average price for natural gas of US$ 2.75 per million cubic feet. It also provides for an increase in current expenditure, designed to support the economic recovery and job creation through a fiscal stimulus package which would result in a deficit equivalent to 5.4% of GDP. Given their behaviour during the last quarter of

2 Revenues from the profits tax collected from the energy sector fell by more than 50% in comparison with 2008. In 2009, this tax represented 78% of receipts from the energy sector and 32.7% of total receipts.

Table 2
TRINIDAD AND TOBAGO: MAIN QUARTERLY INDICATORS

	2008				2009 [a]				2010 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	2.7	2.9	4.2	-1.1	-4.7	-3.1	-5.8	0.8	...	...
Gross international reserves (millions of dollars)	7 337	8 734	8 737	9 380	8 958	8 802	8 935	8 652	...	...
Real effective exchange rate (index: 2000=100) [c]	88.2	88.3	83.6	76.2	75.4	76.8	78.5	80.0	77.8	75.0 [d]
Consumer prices (12-month percentage variation)	9.8	11.3	14.8	14.5	11.3	8.4	4.9	1.3	5.1	7.3 [e]
Average nominal exchange rate (Trinidad and Tobago dollars per dollar)	6.31	6.25	6.22	6.26	6.26	6.28	6.31	6.34	6.34	6.35
Nominal interest rates (annualized percentages)										
Deposit rate [f]	2.4	2.4	2.4	2.4	2.4	1.9	1.5	...	...	...
Lending rate [g]	11.5	12.3	12.6	13.0	13.0	12.6	11.6	...	...	...
Interbank rate	10.2	10.3	10.6	10.8	10.7	10.0	8.8	...	...	...
Domestic credit (variation from same quarter of preceding year)	14.4	-27.9	-23.4	-23.8	-3.9	41.4	155.2	46.0	57.8	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 2000 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Data to April.
[f] Special saving rates.
[g] Prime lending rate.

2009 and the first two quarters of 2010, international energy prices are now expected to exceed expectations and the deficit should therefore be lower than projected. With revenues 4.1% higher and total expenditure 16.5% lower than projected, the deficit for the period October 2009-February 2010 stood at 2.153 billion Trinidad and Tobago dollars (TT$), more than 60% lower than the budgetary projection (TT$ 5.878 billion).

(b) Monetary policy

The economic downturn in 2009, coupled with the steady decline in inflation, led the central bank to adopt an expansionary monetary policy during the year. The principal instrument of monetary policy was the the repo rate, which was cut back eight times since March 2009 and stood at 5.25% in December, down from 8.75% in February of the same year. By January 2010, it had fallen to 5%, a historic low. This level was maintained through May. Providing inflation remains within the target range set by the authorities (5%-6%), authorities will probably continue to gear monetary policy towards boosting the tepid recovery observed up to mid-2010.

Excess liquidity, measured as the commercial banks' reserves above the required levels stored with the central bank, increased substantially. It was fuelled by fiscal injections totalling TT$ 16.447 billion between October 2008 and September 2009 and by the fall in domestic demand for credit. The central bank sought to absorb liquidity basically by selling off foreign exchange, which amounted to over TT$ 10 billion during this period. Despite the new fiscal injections, which amounted to TT$ 8.64 billion between October 2009 and March 2010, excess liquidity on the financial market diminished significantly to stand at TT$ 1.830 billion last March, thanks to the fact that liquidity absorption measures exceeded fiscal injections by over 13%. In addition, in November 2009, the central bank requested the commercial banks to deposit a total of TT$ 2 billion in its vaults in interest-bearing accounts. In December the issuing agency extended the maturity date for similar deposits for TT$ 1.5 billion, which were scheduled to fall due in that month.

In general, in cases such as the current situation in Trinidad and Tobago, where there is excess liquidity in the financial system, movements in the repo rate act mainly as a mechanism for sending signals to the market, since the banks do not need to obtain credit from the central bank. Thus, reductions in the reference rate do not automatically translate into reductions in market interest rates. The base prime rate declined from 13% per year in the first quarter of 2009 to 10.8% in the fourth quarter of the year. Although credit was cheaper, domestic credit to the private sector was down by 4.6% in 2009 from the 2008 level owing to weak demand. This trend held into the first few months of 2010. Households and corporations alike have continued to reduce their liabilities amid uncertainty as to how intense and how rapid the economic recovery will be.

Given the climate of uncertainty and the weakness of domestic demand, domestic credit to the private sector diminished by 2.6% in March 2010, compared with the same month of the preceding year, following earlier contractions (4.1% and 3.6% respectively) in January and February. Credit to consumers and businesses declined over 12 months by 2.5% and 2.9%, respectively. The persistent excess liquidity depressed short-term interest rates, so that the interest rate on three-month treasury bonds dropped from 1.36% in January to 1.11% on 25 May.

In 2009, the monetary aggregates M1, M2 and M3 expanded by 16.4%, 10.1% and 13.7%, respectively, over the 2008 levels. The expansion in M1 was due to the buoyancy of demand deposits, while M2 was fuelled by the increase in M1 and the expansion in savings deposits. The higher demand for foreign currency deposits contributed to the expansion in M3.

(c) Exchange-rate policy

Despite speculative attacks in the first quarter of 2009, associated with the global economic crisis and the collapse of the financial group Caribbean Life Insurance Company (CLICO),[3] the quasi-fixed exchange-rate regime that prevailed in Trinidad and Tobago remained unchanged. This stability may be attributed to the central bank's sound reserve position, which at the end of 2008 stood at US$ 9.8 billion or the equivalent of 12.3 months of goods imports, a level more than sufficient to shore up the exchange-rate regime. The latter was maintained throughout the first half of 2010 and is expected to be maintained in the future, and thus the exchange-rate policy will remain basically unchanged. At the close of the first quarter of 2010, the country's international reserves reached US$ 8.878 billion.

With the fall in energy prices on international markets, foreign-exchange inflows into the country slackened and both purchases and sales to the public by authorized intermediaries diminished with respect to 2008. Total purchases in 2009 amounted to US$ 3.8 billion, 34% less than in the previous year. Similarly, with demand for imports flagging, total sales stood at US$ 5.63 billion, 12.8% less than in 2008. In this context, the central bank substantially increased its interventions in the foreign-exchange market, selling US$ 1.9 billion to authorized agents in 2009, more than double the 2008 level.

The rally in international energy prices in the first quarter of 2010 boosted export earnings in foreign currency, relieving some of the pressure on foreign-exchange markets. Accordingly, the central bank intervened less, selling US$ 325 million to authorized agents, compared with US$ 473 million in the first quarter of 2009.

The nominal exchange rate remained stable at around TT$ 6.3 to the United States dollar, although with a slight tendency to trend upwards. In 2009, the average nominal exchange rate reflected a 0.7% depreciation compared with the 2008 average. Exchange rate stability was maintained in the first half of 2010.

3. The main variables

(a) Economic activity

The international economic crisis marked the end of 15 years of continuous growth in the economy of Trinidad and Tobago. Indeed, its effects had already been felt since 2008, when the economic activity slowed significantly and growth slowed from 4.6% in 2007 to 2.2% in 2008. In 2009, GDP contracted by 0.9%. While it was expected that the energy sector would bear the brunt of the crisis, owing to the slump in international prices, it was the non-energy sector which sustained the sharpest impact. In fact, the energy sector grew by 1.6% in 2009 compared with 2008, while the non-energy sector contracted by 2.5% in the same period.

Construction (6.9% of GDP) and commerce (11.4% of GDP) were the hardest hit. The former declined by 14.9% owing to the completion or winding down of major projects and the latter contracted by 12.7% as sluggish domestic demand, reflected in weaker demand for imports, led to a drop in both wholesale and retail sales.

Despite the fall in international prices, crude oil production rose slightly in 2009 compared with 2008. Average production rose 2.4% over 2008 to reach just over 117,012 barrels per day, more than 19% short of the

[3] On 30 January 2009, the monetary authorities bailed out CLICO investment bank, owned by CL Financial Ltd., a conglomerate with operations in several Caribbean countries, in a bid to safeguard the stability of the financial system.

peak attained in 2005. The increase in crude oil output was associated with a rise of 2.3% in export volumes. This performance was accompanied by increases in natural gas production (11.9%), natural gas liquids (23.4%), fertilizers (8.4%) and methanol (6.6%). The robust expansion in the production of natural gas liquids is attributable to the sole local producer, Phoenix Park Gas Processors Limited (PPGPL), which continued to dominate Caribbean as well as Central American and North American markets. Indeed, in 2009, the volume of these exports grew by more than 15% compared with 2008.

On the demand side, although official national accounts do not give a breakdown per category of expenditure for 2009, public consumption appears to be the only component of aggregate demand that expanded in 2009. This may be inferred from the fact that all other components declined: goods exports and imports fell sharply in value terms compared with 2008 (51% and 28%, respectively, according to balance-of-payment figures); the value of imports of consumer goods were down (17.3%) as were capital goods (2.6%); the same applies to the construction sector, domestic credit to the private sector (4.6%), and revenues from value added tax (down 19.4% in fiscal 2008/2009 with respect to the preceding fiscal year); central government current expenditure expanded (7.4%), while capital expenditure decreased (17.7%). Assuming an increase in the GDP deflator of between 2.5% and 3.5% in 2009 and given an average domestic inflation —excluding food (most of which is imported)— of 4.2%, public consumption would have probably expanded by between 4% and 5% in real terms.

The recovery observed since the last quarter of 2009 is expected to gain momentum during the remainder of 2010, driven by the upturn in international energy prices and the fiscal and monetary stimulus measures. Against this backdrop, the economy of Trinidad and Tobago should grow by 2% in 2010.

(b) Prices, wages and employment

The fall in international food prices, combined with weak domestic demand, resulted in a historic low in the twelve-month inflation rate: 1.3% (down from 14.5% in December 2008). Food prices were the crucial factor in this result, having fallen by 0.2% in contrast with a 30.6% rise in December 2008. The prices of the other components of the consumer basket increased by 2.2%.

Nevertheless, in the early months of 2010, 12-month inflation surged to 7.2% in April, as food prices were pushed up by supply constraints due to severe drought, which slashed local crop production. The 12-month food price inflation stood at 12.7% in April, led by fruit prices which skyrocketed (60.1%) in relation to April 2009. Twelve-month inflation, excluding food items, stood at 4.4%. This, together with an increase in international food prices, is the main inflationary risk with respect to the rest of 2010.

Nominal wages tended to keep pace with price levels. Thus real wages declined by 0.4% in the 12 months ending in September 2009. However, if energy sector workers, who benefited from a substantial wage increase in the first nine months of 2009, are excluded, real wages for workers in all other sectors actually fell by 7.7% during this period.

The contraction in economic activity led to an increase in the unemployment rate. The historic low of 3.9% reached in December 2008 was reversed during 2009, and by September the rate had reached 5.8%. Despite an increase in the jobless figure by 3,700 persons, the number of persons classified as unemployed increased by only 2,900 due to a contraction in the labour force. The participation rate fell slightly from 63.3% in the first nine months of 2008 to 62.9% in the same period of 2009. Job losses were concentrated in the manufacturing sectors (3,800 jobs) and construction (2,400 jobs).

(c) The external sector

Goods exports shrank by over 50% in value terms, from US$ 18.686 billion in 2008 to US$ 9.175 billion in 2009, reflecting lower international energy prices. The weakness in domestic demand also generated a marked reduction in the demand for imported goods in the same period, from US$ 9.622 billion to US$ 6.973 billion. As a result, the commercial surplus plummeted from US$ 9.064 billion in 2008 (34.7% of GDP) to US$ 2.202 billion in 2009 (10.4% of GDP). The insignificant variation in absolute terms in the services, income and current transfers balance, coupled with the decline in the merchandise trade balance surplus, caused the current account surplus to contract from US$ 8.518 billion in 2008 (32.6% of GDP) to US$ 1.759 billion in 2009 (8.3% of GDP).

For the first time since 1992, the deficit on the capital and financial account (including errors and omission) exceeded the surplus on the capital account, leaving a negative balance-of-payments deficit of US$ 713 million in 2009. Thus, at the close of 2009, gross official reserves stood at US$ 8.652 billion, equivalent to 14.9 months of goods imports. Given the variation in reserves, the balance of payments recorded a surplus of US$ 137 million during the first quarter of 2010. In all likelihood, this positive figure was linked to the upturn in international energy prices in the fourth quarter of 2009. The external accounts balance for the year as a whole will depend entirely on the evolution of these prices during the remainder of 2010.

Eastern Caribbean Currency Union

1. General trends

Economic activity in the member countries of the Eastern Caribbean Currency Union (ECCU) shrank by 7.3% in 2009, compared with growth of 1.9% in 2008. This 9.2 percentage-point decline was the steepest since the GDP series was introduced and exceeded that of any non-ECCU Caribbean nation. All ECCU member countries recorded lower GDP figures with the exception of Montserrat, which reported 1% GDP growth. The sharpest contractions were recorded in Anguilla (-24.4%), Antigua and Barbuda (-10.9%), Grenada (-7.7%), Saint Kitts and Nevis (-8.0%) and Saint Lucia (-4.6%). Moderate decreases were reported in Dominica (-0.9%) and Saint Vincent and the Grenadines (-2.8%). These results were attributable to the dramatic fall, triggered by the global economic crisis, in stayover tourist arrivals and in construction linked to foreign direct investment (FDI).

The overall fiscal deficit worsened to 5.1% of GDP at the end of December 2009 up from 3.3% of GDP for the same period in 2008 as total government revenue plunged amid weakened economic activity. The worsening fiscal situation forced many governments to seek financing for budgetary and balance-of-payment support from the International Monetary Fund (IMF), the Caribbean Development Bank (CDB) and the Bolivarian Alliance for the Peoples of Our America (ALBA) As a result, total public debt ballooned to 95.6% of GDP at the end of December 2009, compared with 88.4% of GDP at the end of 2008.

The reduction in imports due to the slowdown in economic activity gave rise to an improvement in the current account deficit to 28.2% of GDP in 2009, compared with 36.8% of GDP in the previous year. Inflation continued on a downward trajectory in 2009, reaching 1.2% following a drop in domestic demand and a fall in international commodity prices, which began in 2008.

In 2010, ECCU is projected to remain in recession with negative growth projected at 2.3%. This is based on the expectation that employment and consumption will remain sluggish in the main trading partners, the United States and Europe, despite some positive signs of economic recovery.

2. Economic policy

(a) Fiscal policy

The downturn in economic activity hampered fiscal performance in the ECCU economies. For the calendar year that ended in December 2009, the Union reported an increase in the overall fiscal deficit from 3.3% of GDP in 2008, to 5.1% of GDP in 2009. The marginal primary surplus of 0.1% of GDP recorded in 2008 gave way to a

Table 1
EASTERN CARIBBEAN CURRENCY UNION: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates [b]				
Gross domestic product	-1.2	0.7	3.3	3.9	5.5	6.6	5.6	1.9	-7.3
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-8.4	7.0	-4.4	-0.9	-12.1	5.0	4.1	6.9	2.8
Mining and quarrying	-6.3	-1.5	6.7	-6.2	16.3	36.9	21.5	3.2	-22.8
Manufacturing	-0.4	-0.7	1.7	-2.6	9.0	1.2	2.7	-4.6	-9.3
Electricity, gas and water	5.6	1.9	2.9	2.8	1.4	3.0	7.2	0.4	2.0
Construction	-1.5	-2.5	3.8	5.2	19.3	12.4	6.2	1.7	-28.7
Wholesale and retail commerce, restaurants and hotels	-5.3	-0.4	8.4	4.1	4.7	5.9	3.2	0.1	-12.4
Transport, storage and communications	-1.2	-0.6	2.9	8.0	6.2	5.5	7.1	2.1	-4.6
Financial institutions, insurance, real estate and business services	0.8	3.3	2.6	6.5	7.8	11.0	7.8	2.4	2.3
Community, social and personal services	2.3	3.0	2.0	3.0	3.4	4.1	6.7	4.9	1.5
					Millions of dollars				
Balance of payments									
Current account balance	-510	-574	-681	-523	-815	-1 246	-1 545	-1 745	-1 245
Goods balance	-997	-979	-1 176	-1 233	-1 481	-1 832	-2 087	-2 249	-1 789
Exports, f.o.b.	309	299	259	342	370	359	378	470	473
Imports, f.o.b.	1 306	1 278	1 435	1 576	1 851	2 191	2 465	2 719	2 262
Services trade balance	574	526	604	763	710	638	628	619	608
Income balance	-198	-218	-238	-267	-234	-216	-236	-277	-229
Net current transfers	110	98	129	215	190	164	149	162	166
Capital and financial balance [c]	577	633	722	633	799	1 338	1 591	1 726	1 303
Net foreign direct investment	372	340	553	449	632	1 106	1 229	982	737
Other capital movements	205	293	169	184	167	232	362	744	566
Overall balance	67	59	41	110	-16	92	47	-20	58
Variation in reserve assets [d]	-67	-61	-41	-110	16	-92	-47	20	-58
Other external-sector indicators									
Gross external public debt (millions of dollars)	1 458	1 763	2 060	2 250	2 098	2 230	2 122	2 077	2 128
					Average annual rates				
Prices									
Variation in consumer prices (December-December)	2.4	-0.1	1.7	2.7	4.1	1.5	5.5	3.9	1.2
Nominal deposit rate [e]	4.3	3.7	4.6	3.2	3.2	3.2	4.3	4.5	4.5
Nominal lending rate [e]	11.4	11.0	12.8	10.4	10.2	9.9	11.3	10.3	11.3
					Percentages of GDP				
Central government									
Total revenue [f]	27.2	28.4	29.0	30.1	35.7	30.7	30.5	31.5	30.6
Current revenue	24.5	25.3	25.6	26.2	26.4	27.5	28.0	28.1	27.5
Tax revenues	21.1	21.8	22.3	23.1	23.8	24.8	25.3	25.2	24.8
Capital revenue	0.1	0.5	0.4	0.4	0.4	0.2	0.4	0.8	0.3
Total expenditure	34.3	36.9	34.0	33.7	33.5	35.3	34.4	34.8	35.7
Current expenditure	26.4	27.2	26.5	26.9	25.7	25.8	25.5	26.3	28.3
Interest	3.4	4.1	4.0	4.4	3.5	3.7	3.5	3.4	3.1
Capital expenditure [g]	7.9	9.7	7.5	6.8	7.8	9.5	8.9	8.4	7.4
Primary balance	-3.8	-4.4	-0.9	0.8	5.7	-0.9	-0.4	0.1	-2.0
Overall balance	-7.1	-8.5	-5.0	-3.6	2.2	-4.6	-3.9	-3.3	-5.1
					Percentages of GDP				
Money and credit [h]									
Domestic credit	79.1	79.3	75.9	75.8	79.2	82.6	90.8	94.7	106.5
To the public sector	-0.9	-1.1	-2.7	-2.2	-0.3	-1.6	-0.5	0.6	3.1
To the private sector	80.0	80.4	78.5	78.0	79.6	84.2	91.3	94.1	103.4
Liquidity (M3)	80.6	83.8	86.9	91.6	92.3	92.5	92.4	94.5	104.1
Currency outside banks and local-currency deposits (M2)	70.3	72.3	75.4	78.7	78.1	76.4	76.4	79.5	87.8
Foreign-currency deposits	10.2	11.4	11.5	12.9	14.2	16.1	16.1	15.0	16.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in Eastern Caribbean dollars at constant 1990 prices.
[c] ncludes errors and omissions.
[d] A minus sign (-) denotes an increase in reserves.
[e] Weighted averages.
[f] Includes grants.
[g] Includes net lending.
[h] The monetary figures are end-of-year stocks.

primary deficit of 2% of GDP in 2009. The worsening of the overall fiscal deficit was mainly the result of an 8.7% reduction in current revenue. Tax revenue collections declined by 8%, to 24.8% of GDP after growing at 6% during the previous year. This change primarily reflected falling revenues from the domestic goods and services tax (12%) and from the tax on international trade transactions (8.8%). Grant receipts remained relatively unchanged at approximately 3% of GDP.

Current expenditure increased slightly, by 0.2%, to reach 28.3% of GDP in 2009. Outlays on wages and salaries, and transfers and subsidies increased by 2% and 13% respectively, while outlays on goods and services and interest payments declined by 6% and 14% respectively. The higher expenditure on transfers and subsidies is attributable to the increased allocation for safety net programmes designed to cushion the impact of the global crisis on the most vulnerable, while the lower interest payments are attributable to the accumulation of arrears in Antigua and Barbuda. Capital expenditure decreased by approximately 18% on account of the decline in public sector construction activity.

On a country-by-country basis, overall fiscal performance was disparate; Dominica recorded a slight improvement in the fiscal deficit to 2.7% of GDP, Saint Lucia shifted from a minimal surplus to a deficit equivalent to 2.5% of GDP, while Antigua and Barbuda, Grenada and Saint Vincent and the Grenadines recorded larger deficits of almost 11%, 6.2% and 3% of GDP, respectively. Saint Kitts and Nevis moved from a marginal deficit to a marginal surplus of 0.7% of GDP.

The Eight-Point Stabilization and Growth Programme[1] is expected to guide fiscal policy in 2010. According to budget estimates Grenada is expected to record a primary surplus of 1% of GDP for fiscal year 2009/2010[2] as the authorities broaden the tax base by implementing a value added tax (VAT) of 15% in February 2010. Saint Lucia and Saint Kitts and Nevis are also expected to introduce VAT in 2010/2011. Budget estimates for Saint Lucia indicate a shift from a primary surplus to a primary deficit of 2.5% of GDP in fiscal year 2009/2010 following an increase in non-grant financial public expenditure. In Antigua and Barbuda, the government has undertaken an aggressive fiscal consolidation programme, which should lead to a fiscal primary surplus of about 3.6% of GDP in 2009/2010.

Total public-sector debt continued to pose a serious challenge for the ECCU economies as the high debt level limited fiscal flexibility. At the end of December 2009, the public debt to GDP ratio was 95.6%, higher than the 88.4% recorded for the comparable period in 2008. The external debt stock increased by 2.5% to 48.3% of GDP, owing to increased borrowing from IMF, CDB and ALBA, while domestic debt stock decreased marginally, by 0.9%, to 47.4% of GDP following the restructuring of some commercial bank debt in Antigua and Barbuda. The debt to GDP ratios were in excess of 100% in Grenada (113%) and Saint Kitts and Nevis (179%) and ranged from 70% to 90% in Antigua and Barbuda, Dominica, Saint Lucia and Saint Vincent and the Grenadines. Debt service payments increased from 8.5% of GDP in 2008, to 10% of GDP in 2009, primarily reflecting a 23% rise in principal payments due to the maturity of treasury bills issued by Grenada and Saint Vincent and the Grenadines on the Regional Government Securities Market (RGSM).

In 2010, total public debt is expected to increase further as countries continue to borrow from IMF. In April 2010, IMF approved financing of US$13.3 million for Grenada under the Extended Credit Facility and in June 2010 the IMF Executive Board approved a three-year, US$117.8 million stand-by-arrangement with Antigua and Barbuda.

(b) Monetary and exchange-rate policy

The principal objective of the ECCU monetary policy is to maintain the stability of the Eastern Caribbean dollar. During 2009, the main policy instruments, namely the discount rate and required reserve ratio of commercial banks, remained unchanged at 6.5% and 6%, respectively. The interbank market rate also remained stable at around 6.6%. The nominal deposit rate was at the same level as it was in 2008 (4.5%), while the nominal lending rate increased by 1 percentage point to 11.3%, reflecting banks' increased risk aversion given the lack of optimism concerning the economic outlook. The official exchange rate remained at EC$ 2.7 to the United States dollar, but reflected a 4% depreciation in real terms against this currency.

In 2009, the monetary liabilities of ECCU increased slightly (2.5%), the same rate as in 2008, reflecting the sluggishness in economic activity. M1 contracted by 4.2% following a decline in demand deposits, while liquidity (M2) expanded by 2.8% owing to increased savings

1 The Eight Point Stabilization and Growth Programme was signed by ECCU Heads of Government in December 2009. The programmes to be implemented are fiscal reform, debt management, public sector investments, social safety net and financial sector safety net programmes, amalgamation of the indigenous commercial banks and rationalization, development and regulation of the insurance sector. According to the Eastern Caribbean Central Bank (ECCB), the main advantage of the programme is its potential to halt the decline in economic activity and to lay the foundations for growth and transformation of the economies.

2 Fiscal year: Antigua and Barbuda and Grenada: January to December; Saint Lucia: April to March.

deposits (5.2%) and fixed deposits (5.4%). In addition, foreign currency deposits were up by 0.8%. On the other hand, domestic credit rose by 4.6%, to 106% of GDP, a much slower pace than in 2008 (11.2%) due to a more limited expansion in credit to the private sector (2.3% in 2009, relative to 9.8% in 2008). The behaviour of private sector credit is attributable to slower growth in business credit (4%) and credit to households (1.9%) compared with growth of 11.5% and 10.1%, respectively, in 2008. This slowing is linked mainly to changes in commercial bank practices, such as more rigid policies on collateral requirements and underwriting procedures,[3] resulting in a 51% increase in excess reserves. Conversely, net lending to the government increased by 22% as governments accessed credit from commercial banks to help finance their overall fiscal deficit.

Activity on the RGSM intensified in 2009. The number of auctions rose from 36 in 2008 to 42 in 2009 (36 treasury bills and 6 bonds) with a 7.2% increase in value to EC$ 739 million. However, with confidence at a low ebb following the global economic crisis, investor demand for government securities was weak and, as a result, eight issues were undersubscribed. Thus, governments were unable to raise the required financing and sought financing elsewhere or curtailed their fiscal operations.

The intervention by the Eastern Caribbean Central Bank (ECCB) in the Bank of Antigua and the collapse of Colonial Life Insurance Company Ltd (CLICO) and British-American Insurance Company Ltd (BAICO) had adverse consequences on business confidence, employment and personal wealth in these economies. The consolidated exposure of member countries to these companies was approximately EC$ 2.2 billion, representing 18% of GDP. To ameliorate the situation, BAICO was placed under judicial management, while CLICO has been mandated to cease the issuance of new policies. The authorities have also put in place stricter measures to regulate the non-bank financial sector. This sector includes credit unions, money services and insurance companies.

3. The main variables

(a) Economic activity

Real GDP contracted by 7.3% in 2009, compared with growth of 1.9% in 2008 as a result of declines in construction, tourism and manufacturing. These sectors are the main drivers of economic growth and contributed 12%, 8%, and 4% to GDP, respectively.

Value added in the construction sector diminished by approximately 29% in 2009, in comparison with 1.7% growth in 2008. Tourism activity declined by about 13% compared with a 1% drop in the previous year. The contraction in construction was due mainly to difficulty in accessing financing for public and private sector projects. The slump was particularly sharp in Anguilla and Grenada at 59% and 50% respectively, while in Dominica, St Kitts and Nevis and Saint Lucia, it ranged between 20% and 25%. In Saint Vincent and the Grenadines, the drop was minimal at 8.5%. The sluggish performance in the tourism sector was due to a 12% fall in the higher-end stay-over visitors despite an 18% rise in cruise ship passengers. The decline in stay-over visitors was most pronounced in Saint Kitts and Nevis (27%) and Anguilla (18%). However, there are positive signs as tourism data for the first quarter of 2010 indicate a 3.3% increase in tourist arrivals in ECCU member countries over the same period in 2009.[4]

Value added in the manufacturing sector declined by 9.3% owing to slack external demand. Manufacturing output was down in Saint Kitts and Nevis (electronics components), Dominica (beverages and soaps), Grenada (flour, rum and beer) and St Vincent and the Grenadines (beer, rice and animal feed).

Increased value added was reported in agriculture (2.8%), financial and real estate business (2.3%), electricity, gas and water (2.0%) and other services (1.5%). Agricultural activity expanded thanks to increased crop production (root crops, cocoa, mace and tropical fruits) and fishing. However, the production of bananas, an

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4 Eastern Caribbean Central Bank (ECCB), *Business Outlook Survey*, July to December 2009.

4 Caribbean Tourism Organization (CTO).

important export crop, fell by 17%, owing mainly to the Sigatoka leaf spot disease.

(b) Prices, wages and employment

Annual inflation had fallen to 1.2% in December 2009 from 3.9% a year earlier. This reduction is attributable to the fall in food and oil prices on the global market and depressed domestic demand due to higher unemployment. Consumer prices are expected to rally in 2010 as the global economy and the price of commodities rebound. Moreover, the implementation of VAT in Grenada in February 2010 and the reduction in the basket of zero-rated items in Antigua and Barbuda in January 2010 will contribute to a rise in consumer prices. Monthly country data for 2010 indicated higher inflation rates from January to February in Antigua and Barbuda, Grenada, Saint Kitts and Nevis, and Saint Vincent and the Grenadines, while there were decreases in Dominica and Saint Lucia.

Civil servants received salary increases in Dominica (2%), Saint Lucia (4.1%) and St Vincent and the Grenadines (3%). In Grenada, the police service received a 2% raise.

Although no official up-to-date labour market data are available for ECCU, reliable sources report that labour market conditions weakened in 2009.[5] This was due to the sharp decline in stay-over visitor arrivals in the tourism sector and the contraction in construction activity and manufacturing, all of these sectors being major employers. In Antigua and Barbuda, most of the companies owned by Allen Stanford were closed (at least 1,200 people lost their jobs), leading to a fall in employment levels. In Saint Lucia, the unemployment rate in the last quarter of 2009 was 20.5%, up from 16.8% for the corresponding period in 2008. In response, the government has launched job creation initiatives, such as the Holistic Opportunities for Personal Empowerment (HOPE),[6] which have mitigated the severity of the global crisis on the labour market.

(c) The external sector

The external account balance improved in 2009 as the economic downturn led to a steep decline in imports and thus an improvement in the current account deficit to 28.2% of GDP,[7] down from a deficit of 36.8% of GDP in the previous year. Import payments declined by nearly 17% to 51.3% of GDP owing to the decline in capital goods consistent with slower activity in tourism and construction, and to lower prices for oil and food. Exports of goods were less buoyant than in 2008 and increased by a mere 0.6% in 2009, compared with 24% in 2008. This small rise in exports is attributable mainly to a slight increase in re-exports of machinery and petroleum products.

The surplus on the services account continued to diminish, in this case by 1.6% to 13.7% of GDP, as the improvement in net receipts from transportation and other services was not sufficient to offset the reduction in net travel receipts caused by the decline in stay-over visitors. Despite the 9.3% decrease in remittances to 3.3% of GDP, net current transfers expanded by 2% thanks to increased transfers to the government. The deficit on the income account improved marginally to 5.2% of GDP, down from 5.8% in the previous year. This improvement was due to the decline in repatriated profits, reinvested earnings and interest on government transactions.

On the capital and financial accounts, the surplus shrank by 20% to stand at US$ 1.303 million or 29% of GDP (including errors and omissions), as net direct inward investment declined by 25% to 16.7% of GDP. This decline resulted from the stoppage of a number of externally financed tourism-related construction projects and a drop in land sales to foreigners. Government receipts of external financing resulted in a better outturn on the capital and financial accounts despite the fall-off in FDI. The better current account performance contributed to an overall balance-of-payment surplus of 1.3% of GDP in 2009, as against a deficit of 0.4% of GDP in 2008. This led to an increase in the central bank's net international reserves of approximately 6%, to US$ 799 million at the end of December 2009, covering three months' imports of goods and services.

The current account deficit is expected to contract further to 28% of GDP in 2010 as economic activity is projected to remain sluggish.

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5 Eastern Caribbean Central Bank (ECCB), *Annual and Economic Review*, 2009.

6 HOPE is a central government initiative executed through the Saint Lucia Social Development Fund in collaboration with the National Skills Development Centre to provide employment, training and economic opportunities for participants.

7 Real GDP at 1990 constant prices was US$ 4,734 million in 2008 and US$ 4,408 million in 2009.

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Statistical annex

Table A-1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
					Annual growth rates				
Gross domestic product [b]	0.3	-0.3	2.2	6.1	4.9	5.8	5.8	4.2	-1.9
Per capita gross domestic product [b]	-1.0	-1.7	0.9	4.7	3.6	4.5	4.7	3.0	-3.0
Consumer prices [c]	6.1	12.2	8.5	7.4	6.1	5.0	6.5	8.2	4.6
					Percentages				
Urban open unemployment [d]	10.2	11.1	11.0	10.3	9.1	8.6	7.9	7.3	8.2
Total gross external debt/GDP [e]	36.4	20.6	20.6	17.9	13.0	10.9	10.2	9.1	10.7
Total gross external debt/ exports of goods and services [f]	181	177	169	138	102	84	83	73	100
					Millions of dollars				
Balance of payments [f]									
Current account balance	-53 929	-16 422	9 264	22 287	37 086	50 182	14 871	-27 349	-16 412
Merchandise trade balance	-7 416	20 044	41 375	56 864	79 057	97 238	68 254	43 363	51 976
Exports of goods f.o.b.	354 280	357 746	390 504	481 277	580 552	694 321	779 410	906 316	701 095
Imports of goods f.o.b.	361 696	337 702	349 130	424 413	501 496	597 082	711 155	862 953	649 118
Services trade balance	-16 914	-11 973	-10 383	-10 576	-14 617	-15 861	-22 588	-29 655	-29 539
Income balance	-56 095	-54 420	-59 744	-69 357	-80 708	-95 246	-97 859	-108 036	-99 344
Net current transfers	26 496	29 927	38 016	45 356	53 355	64 051	67 072	66 978	60 495
Capital and financial balance [g]	38 295	-9 410	1 593	-8 434	21 539	11 231	110 482	65 577	61 375
Net foreign direct investment	66 122	50 504	37 806	49 745	54 703	31 192	90 214	94 731	64 621
Other capital movements	-27 827	-59 913	-36 214	-58 178	-33 164	-19 961	20 268	-29 154	-3 246
Overall balance	-15 634	-25 832	10 856	13 854	58 626	61 413	125 353	38 228	44 962
Variation in reserve assets [h]	-614	3 421	-29 486	-22 711	-37 256	-48 734	-127 281	-41 866	-52 299
Other financing	-15 021	-29 253	40 343	36 565	95 882	110 147	252 634	80 094	97 261
Net transfer of resources	-1 552	-41 419	-39 521	-68 933	-80 539	-96 694	14 551	-38 821	-30 636
International reserves [f]	163 177	164 784	197 615	225 668	262 168	319 045	459 152	512 240	566 961
					Percentages of GDP				
Fiscal sector [i]									
Overall balance	-3.1	-2.9	-3.0	-1.9	-1.1	0.0	0.3	-0.4	-2.8
Primary balance	-0.8	-0.5	-0.2	0.5	1.3	2.2	2.2	1.2	-1.0
Total revenue	16.4	16.5	16.6	17.0	18.0	18.9	19.5	19.6	18.4
Tax revenue	12.8	12.9	13.0	13.5	14.3	14.6	15.1	15.0	14.6
Total expenditure	19.5	19.4	19.5	18.8	19.1	19.0	19.2	20.0	21.2
Capital expenditure	3.6	3.5	3.6	3.5	3.5	3.5	3.9	4.3	4.2
Central-government public debt	44.9	58.2	57.3	50.9	42.8	35.8	29.9	28.2	30.2
Public debt of the non-financial public-sector (NFPS)	48.5	62.7	61.4	54.2	46.5	39.6	33.6	31.6	33.2

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

[a] Preliminary figures.

[b] Based on official figures expressed in 2000 dollars.

[c] December - December variation.

[d] The data for Argentina and Brazil have been adjusted to allow for changes in methodology in 2003 and 2002, respectively.

[e] Estimates based on figures denominated in dollars at current prices. Does not include Cuba.

[f] Does not include Cuba.

[g] Includes errors and omissions.

[h] A minus sign (-) indicates an increase in reserve assets.

[i] Central government, except for the Plurinational State of Bolivia, where coverage corresponds to general government. Simple averages. Includes information from 19 Latin American and Caribbean countries: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

Table A-2

LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT

(Millions of current dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean	**2 065 612**	**1 854 071**	**1 922 188**	**2 218 565**	**2 688 411**	**3 164 231**	**3 726 380**	**4 328 416**	**4 023 949**
Antigua and Barbuda	696	713	753	815	867	1 011	1 155	1 203	1 098
Argentina	268 831	102 042	129 596	153 129	183 196	214 267	262 451	328 469	308 740
Bahamas	5 659	5 912	5 942	6 189	6 797	7 280	7 498	7 564	7 421
Barbados	2 554	2 476	2 695	2 817	3 006	3 191	3 452	3 541	3 538
Belize	872	933	988	1 056	1 115	1 213	1 277	1 359	1 331
Bolivia (Plurinational State of)	8 142	7 905	8 082	8 773	9 549	11 452	13 120	16 674	17 340
Brazil	554 188	506 041	552 383	663 733	882 044	1 089 397	1 366 853	1 638 636	1 574 034
Chile	68 840	67 532	73 990	95 653	118 250	146 774	164 317	170 850	163 305
Colombia [b]	98 752	98 375	94 911	117 148	146 605	162 912	207 369	242 400	232 910
Costa Rica	16 404	16 844	17 518	18 595	19 965	22 526	26 322	29 848	29 303
Cuba	31 682	33 591	35 901	38 203	42 644	52 743	58 604	60 806	62 279
Dominica	266	255	263	285	299	316	344	374	378
Ecuador	21 271	24 718	28 409	32 646	36 942	41 705	45 504	54 209	52 022
El Salvador	13 813	14 307	15 047	15 798	17 214	18 749	20 377	22 107	21 101
Grenada	422	437	480	469	554	564	610	678	615
Guatemala	18 703	20 777	21 918	23 965	27 211	30 231	34 113	39 139	37 322
Guyana	1 136	1 158	1 185	1 256	1 315	1 458	1 740	1 923	2 026
Haiti	3 508	3 215	2 827	3 660	4 154	4 880	5 971	6 408	6 511
Honduras	7 653	7 860	8 234	8 871	9 757	10 917	12 392	13 969	14 318
Jamaica	9 104	9 677	9 399	10 135	11 165	11 957	12 908	13 995	12 313
Mexico	681 762	711 103	700 325	758 577	846 094	949 330	1 022 830	1 086 444	872 087
Nicaragua	4 125	4 026	4 102	4 465	4 872	5 230	5 599	6 248	6 149
Panama	11 807	12 272	12 933	14 179	15 465	17 137	19 794	23 184	24 315
Paraguay	6 446	5 092	5 552	6 950	7 473	9 275	12 222	16 873	14 240
Peru	53 955	56 775	61 356	69 701	79 389	92 319	107 524	129 107	130 355
Dominican Republic	24 512	24 913	20 045	21 582	33 542	35 660	41 013	45 523	46 598
Saint Kitts and Nevis	342	351	362	400	439	487	513	570	545
Saint Vincent and the Grenadines	349	370	387	421	446	498	554	582	585
Saint Lucia	687	700	738	799	858	931	958	986	946
Suriname	665	955	1 122	1 114	1 376	1 610	1 850	2 305	2 192
Trinidad and Tobago	8 825	9 008	11 305	13 280	15 982	18 369	20 904	25 968	21 125
Uruguay	19 036	12 591	11 477	13 555	17 040	19 802	23 952	31 178	31 511
Venezuela (Bolivarian Republic of)	120 605	91 147	81 963	110 343	142 785	180 037	222 289	305 296	325 399

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

[a] Preliminary figures.

[b] Based in the new quarterly national accounts figures published by the country, base year 2005.

Table A-3
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT
(Annual growth rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**0.3**	**-0.4**	**2.2**	**6.1**	**4.9**	**5.8**	**5.8**	**4.2**	**-1.9**
Antigua and Barbuda	2.0	2.5	5.2	7.0	4.2	13.3	9.1	0.2	-10.9
Argentina	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	6.8	0.9
Bahamas	-0.6	2.2	0.7	1.6	5.0	3.5	1.9	-1.7	-4.3
Barbados	-4.6	0.7	1.9	4.8	3.9	3.2	3.4	0.5	-3.6
Belize	5.0	5.1	9.3	4.6	3.0	4.7	1.2	3.8	-0.0
Bolivia (Plurinational State of)	1.7	2.5	2.7	4.2	4.4	4.8	4.6	6.1	3.4
Brazil	1.3	2.7	1.1	5.7	3.2	4.0	6.1	5.1	-0.2
Chile	3.4	2.2	3.9	6.0	5.6	4.6	4.6	3.7	-1.5
Colombia [c]	1.8	2.5	3.9	5.3	5.0	7.1	6.3	2.7	0.8
Costa Rica	1.1	2.9	6.4	4.3	5.9	8.8	7.9	2.8	-1.1
Cuba	3.2	1.4	3.8	5.8	11.2	12.1	7.3	4.1	1.4
Dominica	-3.8	-4.0	2.2	6.3	3.4	6.3	4.9	3.5	-0.9
Ecuador	4.8	3.4	3.3	8.8	5.7	4.8	2.0	7.2	0.4
El Salvador	1.7	2.3	2.3	1.9	3.3	4.2	4.3	2.4	-3.5
Grenada	-3.9	2.1	8.4	-6.5	12.0	-1.9	4.5	0.9	-8.3
Guatemala	2.3	3.9	2.5	3.2	3.3	5.4	6.3	3.3	0.6
Guyana	1.6	1.1	-0.6	1.6	-2.0	5.1	7.0	2.0	3.3
Haiti	-1.0	-0.3	0.4	-3.5	1.8	2.3	3.3	0.8	2.9
Honduras	2.7	3.8	4.5	6.2	6.1	6.6	6.3	4.0	-1.9
Jamaica	1.3	1.0	3.5	1.4	1.0	2.7	1.5	-0.9	-2.7
Mexico	-0.0	0.8	1.4	4.1	3.3	4.8	3.4	1.5	-6.5
Nicaragua	3.0	0.8	2.5	5.3	4.3	4.2	3.1	2.8	-1.5
Panama	0.6	2.2	4.2	7.5	7.2	8.5	12.1	10.7	2.4
Paraguay	2.1	-0.0	3.8	4.1	2.9	4.3	6.8	5.8	-3.8
Peru	0.2	5.0	4.0	5.0	6.8	7.7	8.9	9.8	0.9
Dominican Republic	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5
Saint Kitts and Nevis	2.0	1.0	0.5	7.6	5.6	5.5	2.0	4.6	-11.1
Saint Vincent and the Grenadines	2.2	3.8	3.1	6.6	2.1	9.5	8.6	1.3	-2.8
Saint Lucia	-5.9	2.0	4.1	5.6	4.3	5.9	2.2	0.8	-4.6
Suriname	5.7	2.7	6.8	0.5	7.2	3.9	5.1	4.3	2.2
Trinidad and Tobago	4.2	7.9	14.4	8.0	5.4	14.4	4.6	2.3	-0.9
Uruguay	-3.4	-11.0	2.2	11.8	6.6	7.0	7.5	8.5	2.9
Venezuela (Bolivarian Republic of)	3.4	-8.9	-7.8	18.3	10.3	9.9	8.2	4.8	-3.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on official figures expressed in 2000 dollars.
[c] Based in the new quarterly national accounts figures published by the country, base year 2005.

Table A-4

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT

(Annual growth rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**-1.0**	**-1.7**	**0.9**	**4.7**	**3.6**	**4.5**	**4.7**	**3.0**	**-3.0**
Antigua and Barbuda	-0.5	1.3	3.9	5.7	1.7	11.9	7.8	-1.0	-11.9
Argentina	-5.4	-11.8	7.8	8.0	8.1	7.4	7.6	5.7	-0.2
Bahamas	-1.9	0.9	-0.6	0.3	3.8	1.9	0.7	-2.8	-5.4
Barbados	-4.2	0.7	1.5	4.4	3.9	2.8	3.0	0.5	-4.0
Belize	2.5	2.7	6.9	2.3	0.8	2.5	-1.2	1.7	-2.0
Bolivia (Plurinational State of)	-0.4	0.4	0.7	2.2	2.5	2.9	2.7	4.3	1.6
Brazil	-0.1	1.2	-0.2	4.4	1.9	2.8	5.0	4.1	-1.1
Chile	2.2	1.0	2.8	4.9	4.5	3.5	3.5	2.6	-2.5
Colombia [c]	0.1	0.9	2.3	3.7	3.4	5.5	4.7	1.2	-0.6
Costa Rica	-1.0	0.8	4.3	2.4	4.1	7.1	6.4	1.5	-2.3
Cuba	2.9	1.2	3.6	5.6	11.1	12.0	7.2	4.1	1.4
Dominica	-3.8	-4.0	2.2	6.3	4.9	6.3	4.9	3.5	-0.9
Ecuador	3.4	2.2	2.1	7.6	4.6	3.6	1.0	6.1	-0.7
El Salvador	1.2	1.9	2.0	1.5	2.9	3.8	3.9	2.0	-4.0
Grenada	-3.9	1.1	8.4	-6.5	11.0	-1.9	4.5	-0.1	-8.3
Guatemala	-0.1	1.3	0.0	0.6	0.7	2.8	3.7	0.8	-1.9
Guyana	1.5	0.9	-0.9	1.3	-2.1	5.1	7.0	2.1	3.5
Haiti	-2.7	-1.8	-1.2	-5.0	0.2	0.6	1.7	-0.8	1.2
Honduras	0.6	1.7	2.5	4.1	3.9	4.4	4.2	1.9	-3.8
Jamaica	0.5	0.2	2.7	0.7	0.3	2.1	1.0	-1.4	-3.1
Mexico	-1.3	-0.5	0.2	2.9	2.1	3.7	2.3	0.5	-7.5
Nicaragua	1.4	-0.6	1.2	4.0	2.9	2.8	1.7	1.4	-2.7
Panama	-1.3	0.4	2.3	5.6	5.3	6.7	10.2	8.9	0.8
Paraguay	-0.0	-2.0	1.8	2.1	0.9	2.4	4.8	3.9	-5.5
Peru	-1.2	3.6	2.6	3.6	5.5	6.4	7.6	8.5	-0.3
Dominican Republic	0.2	4.2	-1.8	-0.2	7.7	9.1	6.9	3.8	2.1
Saint Kitts and Nevis	-0.1	1.0	-1.6	5.4	5.6	3.4	2.0	2.6	-12.8
Saint Vincent and the Grenadines	2.2	3.8	3.1	5.6	2.1	9.5	8.6	1.3	-2.8
Saint Lucia	-7.1	1.4	2.8	4.3	3.7	4.6	0.9	0.3	-5.8
Suriname	4.2	1.2	5.5	-0.9	5.9	2.8	4.1	3.3	1.2
Trinidad and Tobago	3.8	7.5	14.1	7.5	5.1	14.0	4.2	1.9	-1.3
Uruguay	-3.6	-11.0	2.2	11.9	6.6	6.8	7.2	8.2	2.5
Venezuela (Bolivarian Republic of)	1.5	-10.5	-9.4	16.2	8.4	8.0	6.3	3.0	-4.9

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

[a] Preliminary figures.

[b] Based on official figures expressed in 2000 dollars.

[c] Based in the new quarterly national accounts figures published by the country, base year 2005.

Table A-5
LATIN AMERICA AND THE CARIBBEAN: COMPONENTS OF TOTAL DEMAND [a]
(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Total supply	**100.8**	**99.3**	**100.4**	**108.0**	**115.1**	**123.3**	**132.3**	**139.0**	**132.5**
Gross domestic product	100.3	99.9	102.1	108.3	113.7	120.2	127.4	132.8	130.3
Imports of goods and services	99.9	94.3	95.6	109.3	122.1	139.7	157.4	170.5	144.2
Total demand	**100.8**	**99.3**	**100.4**	**108.0**	**115.1**	**123.3**	**132.3**	**139.0**	**132.5**
Total consumption	101.0	100.7	102.6	107.8	113.9	120.7	128.5	134.3	134.6
Private consumption	100.9	100.2	102.1	107.9	114.3	121.6	129.8	136.1	135.3
Government consumption	101.2	102.9	104.6	107.8	112.3	116.5	122.7	126.0	131.1
Gross capital formation	101.0	91.6	86.9	98.2	106.8	119.5	133.4	147.9	124.6
Gross fixed capital formation	97.2	90.8	90.7	102.2	113.9	128.7	144.7	157.2	142.1
Domestic demand	101.0	98.8	99.3	105.8	112.4	120.4	129.5	137.1	132.5
Exports of goods and services	100.0	102.1	106.2	119.2	128.8	138.3	146.5	148.5	132.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Based on official figures expressed in 2000 dollars. Includes information on 20 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[b] Preliminary figures.

Table A-6
LATIN AMERICA AND THE CARIBBEAN: GROSS DOMESTIC PRODUCT BY ECONOMIC SECTOR [a]
(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Gross domestic product at market prices	**100.4**	**100.0**	**102.2**	**108.4**	**113.8**	**120.4**	**127.5**	**132.8**	**130.3**
Agriculture, livestock, forestry, hunting and fishing	104.0	106.7	111.5	114.0	116.7	121.5	127.8	131.8	128.1
Mining and quarrying	102.1	100.6	104.6	109.2	111.3	114.0	113.8	115.0	114.1
Manufacturing	97.5	96.1	98.3	105.6	109.9	115.4	121.0	123.4	115.4
Construction	97.2	93.6	93.9	102.3	109.9	121.8	129.8	135.5	130.1
Electricity, gas, water and sanitation services	98.8	100.6	104.0	109.9	114.2	120.4	124.6	127.8	128.4
Transport, storage and communications	102.8	104.3	108.1	116.7	125.4	135.2	147.0	156.6	155.8
Wholesale and retail trade, restaurants and hotels	98.9	96.6	99.0	106.3	112.4	120.6	128.2	133.8	125.9
Financial establishments, insurance, real estate and business services	102.4	104.0	105.8	110.6	117.0	124.4	133.7	142.0	142.6
Community, social and personal services	101.0	102.7	104.4	108.5	113.1	117.6	122.5	126.5	130.3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Based on official figures expressed in 2000 dollars. Includes information on 33 countries of Latin America and the Caribbean: Antigua and Barbuda, Argentina, Barbados, Belize, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Plurinational State of Bolivia, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Surinam, The Bahamas, Trinidad and Tobago and Uruguay.
[b] Preliminary figures.

Table A-7

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL FORMATION [a]

(Percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Latin America and the Caribbean	**18.0**	**16.8**	**16.5**	**17.5**	**18.6**	**19.8**	**21.0**	**21.9**	**20.2**
Argentina	14.3	10.2	12.9	15.9	17.9	19.5	20.4	20.9	18.6
Bahamas	28.4	26.5	26.9	24.8	30.0	35.8	35.8	30.6	30.0
Belize	25.6	23.1	18.1	16.4	17.2	16.7	17.4	22.9	...
Bolivia (Plurinational State of)	13.8	16.0	13.9	13.2	13.4	14.0	15.1	16.9	16.8
Brazil	16.6	15.4	14.5	15.0	15.0	15.9	17.0	18.4	16.6
Chile	19.9	19.8	20.2	20.9	24.5	24.0	25.5	29.2	25.1
Colombia	14.0	14.7	16.0	17.4	19.9	21.8	23.4	23.9	23.4
Costa Rica	18.0	18.7	18.8	18.0	17.7	18.0	19.7	21.1	18.7
Cuba	11.2	10.0	9.0	9.2	9.9	12.8	12.2	12.6	10.5
Ecuador	23.6	27.2	26.3	25.3	26.6	26.3	26.4	28.6	27.3
El Salvador	16.9	17.1	17.1	15.9	15.7	17.0	16.8	15.6	13.3
Guatemala	19.0	20.0	18.9	18.1	18.3	20.1	19.8	18.0	16.6
Haiti	27.3	28.0	28.8	28.9	28.8	28.8	28.7	29.3	29.4
Honduras	24.3	21.7	22.1	25.7	23.8	25.4	29.4	29.5	20.3
Mexico	20.2	19.9	19.7	20.5	21.3	22.3	23.1	23.7	22.8
Nicaragua	26.4	24.5	24.1	24.4	25.7	25.2	25.3	26.0	22.2
Panama	15.7	14.4	17.1	17.4	17.3	18.6	23.3	26.4	27.2
Paraguay	16.1	15.0	15.5	15.6	16.4	16.2	17.3	19.3	17.2
Peru	18.5	17.5	17.8	18.3	19.2	21.2	24.0	28.8	26.2
Dominican Republic	19.3	19.1	15.3	14.8	15.4	16.9	17.5	18.2	14.9
Trinidad and Tobago	23.0	18.7	26.2	21.8	31.8	16.6	15.5	16.5	...
Uruguay	15.8	12.0	10.4	12.1	13.4	15.7	15.9	17.4	16.3
Venezuela (Bolivarian Republic of)	23.1	20.7	14.1	17.9	22.4	26.4	30.6	28.3	26.9

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

[a] On the basis of figures expressed in constant 2000 dollars.

[b] Preliminary figures.

Table A-8

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS DOMESTIC INVESTMENT [a]

(Percentages of GDP)

	Gross domestic investment				National saving				External saving			
	2006	2007	2008	2009 [b]	2006	2007	2008	2009 [b]	2006	2007	2008	2009 [b]
Latin America and the Caribbean	**21.5**	**22.1**	**23.4**	**19.6**	**23.0**	**22.5**	**22.7**	**19.3**	**-1.5**	**-0.4**	**0.7**	**0.4**
Argentina	23.0	24.2	25.1	21.2	26.7	27.0	27.3	24.9	-3.6	-2.8	-2.2	-3.7
Bolivia (Plurinational State of)	13.9	15.2	17.6	17.0	25.4	27.3	29.6	21.6	-11.5	-12.1	-12.1	-4.6
Brazil	16.8	18.3	19.9	16.5	18.0	18.4	18.2	15.0	-1.3	-0.1	1.7	1.5
Chile	20.1	20.5	25.1	19.0	24.9	25.0	23.6	21.6	-4.9	-4.5	1.5	-2.6
Colombia	24.3	24.3	25.0	24.2	22.5	21.5	22.3	22.0	1.8	2.8	2.8	2.2
Costa Rica	26.4	24.7	27.5	13.8	21.9	18.4	18.3	11.6	4.5	6.3	9.2	2.2
Cuba	11.7	10.2	14.8	10.3	11.3	11.0	14.8	10.3	0.4	-0.8	...	...
Ecuador	23.8	24.3	27.9	23.3	27.4	27.8	29.7	22.7	-3.6	-3.5	-1.8	0.6
El Salvador	17.0	15.9	14.9	13.1	12.8	9.9	7.3	11.3	4.2	6.0	7.6	1.8
Guatemala	20.8	20.8	16.4	16.8	15.8	15.6	11.8	16.2	5.0	5.2	4.5	0.6
Haiti	29.3	30.5	28.8	27.4	27.6	29.0	24.3	23.8	1.7	1.4	4.5	3.6
Honduras	28.3	33.2	35.5	19.6	24.6	24.2	22.6	16.5	3.7	9.0	12.9	3.1
Mexico	25.9	25.6	26.9	22.4	25.5	24.8	25.4	21.8	0.5	0.8	1.5	0.6
Nicaragua	30.8	33.2	33.6	23.4	17.2	15.3	9.4	10.5	13.6	17.9	24.2	12.9
Panama	19.5	24.1	27.4	24.5	16.8	17.0	15.9	24.5	2.6	7.1	11.5	0.0
Paraguay	19.6	18.0	18.1	15.5	21.0	19.5	15.8	14.1	-1.4	-1.5	2.3	1.4
Peru	20.0	22.9	27.2	22.5	23.2	24.2	23.6	22.7	-3.1	-1.3	3.7	-0.2
Dominican Republic	18.4	18.9	18.3	14.8	14.8	13.6	8.4	9.8	3.6	5.3	9.9	5.0
Uruguay	19.4	19.4	22.7	17.9	17.4	18.4	17.9	18.8	2.0	0.9	4.8	-0.8
Venezuela (Bolivarian Republic of)	26.9	29.2	25.9	24.8	41.6	37.3	38.1	27.4	-14.7	-8.1	-12.2	-2.6

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

[a] Based on values calculated in national currency and expressed in current dollars.

[b] Preliminary figures.

Table A-9

LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS

(Millions of dollars)

	Exports of goods f.o.b.			Exports of services			Imports of goods f.o.b.			Imports of services		
	2007	2008	2009 [c]	2007	2008	2009 [c]	2007	2008	2009 [c]	2007	2008	2009 [c]
Latin America and the Caribbean [d]	**766 018**	**887 630**	**691 919**	**100 495**	**115 120**	**103 907**	**703 485**	**853 331**	**642 145**	**123 630**	**145 383**	**134 169**
Antigua and Barbuda	76	78	72	517	564	523	649	671	589	283	271	248
Argentina	55 980	70 021	55 750	10 347	12 087	10 954	42 525	54 557	37 130	10 806	13 030	11 711
Bahamas	802	956	666	2 599	2 543	2 272	2 956	3 199	2 540	1 580	1 403	1 197
Barbados	524	488	379	1 517	1 601	1 432	1 607	1 730	1 295	606	705	635
Belize	426	480	382	398	386	345	642	788	621	164	170	162
Bolivia (Plurinational State of)	4 458	6 448	4 848	499	500	515	3 243	4 641	4 087	900	1 039	1 015
Brazil	160 649	197 942	152 995	23 954	30 451	27 750	120 617	173 107	127 647	37 173	47 140	47 011
Chile	67 972	66 464	53 735	8 962	10 785	8 507	44 031	57 617	39 754	9 950	11 656	9 581
Colombia	30 577	38 531	34 026	3 636	4 047	4 191	31 173	37 556	31 466	6 243	7 187	6 871
Costa Rica	9 299	9 554	8 847	3 552	4 146	3 812	12 285	14 569	10 871	1 818	1 893	1 654
Cuba	3 830	...	...	8 192	...	...	10 083	...	...	292	...	...
Dominica	39	44	38	109	108	104	172	217	205	66	70	64
Ecuador	14 870	19 147	14 344	1 200	1 313	1 214	13 047	17 776	14 269	2 572	2 954	2 604
El Salvador	4 039	4 611	3 861	1 130	1 041	835	8 144	9 004	6 706	1 420	1 625	1 260
Grenada	41	41	39	147	153	140	328	339	253	111	113	93
Guatemala	6 983	7 847	7 330	1 731	1 873	1 513	12 470	13 421	10 632	2 041	2 149	1 883
Guyana	698	802	768	173	212	170	1 063	1 324	1 169	272	325	272
Haiti	522	490	551	257	343	382	1 704	2 108	2 032	680	746	781
Honduras	5 784	6 458	5 090	781	877	938	8 888	10 509	7 560	1 069	1 187	1 081
Jamaica	2 363	2 761	1 386	2 707	2 777	2 736	6 204	7 742	4 510	2 282	2 421	1 984
Mexico	271 875	291 343	229 707	17 489	18 040	14 767	281 949	308 603	234 385	23 794	25 119	22 792
Nicaragua	2 336	2 538	2 387	373	399	470	4 094	4 749	3 927	555	608	555
Panama	9 334	10 323	10 904	4 958	5 826	5 438	12 524	14 869	12 931	2 122	2 621	2 166
Paraguay	5 652	7 772	5 784	962	1 142	1 233	6 185	8 946	6 835	463	596	531
Peru	27 882	31 529	26 885	3 152	3 649	3 653	19 595	28 439	21 011	4 343	5 611	4 765
Dominican Republic	7 160	6 748	5 463	4 798	4 922	4 935	13 597	15 993	12 283	1 746	1 960	1 847
Saint Kitts and Nevis	58	69	58	174	160	131	242	286	266	102	123	115
Saint Vincent and the Grenadines	51	57	55	162	153	145	288	329	294	114	110	107
Saint Lucia	101	166	183	356	364	347	542	605	475	188	216	186
Suriname	1 359	1 708	1 404	253	285	287	1 045	1 350	1 296	318	407	285
Trinidad and Tobago	13 391	18 686	9 175	...	...	...	7 670	9 622	6 973	...	...	...
Uruguay	5 100	7 077	6 389	1 833	2 215	2 162	5 645	8 807	6 664	1 130	1 411	1 091
Venezuela (Bolivarian Republic of)	69 010	95 138	57 595	1 767	2 162	2 005	46 031	49 482	38 442	8 719	10 516	9 622

Table A-9 (continued)

	Trade balance			Income balance			Current transfers balance			Current account balance		
	2007	2008	2009 [c]	2007	2008	2009 [c]	2007	2008	2009 [c]	2007	2008	2009 [c]
Latin America and the Caribbean [d]	**39 398**	**4 034**	**19 515**	**-96 896**	**-106 834**	**-98 124**	**67 011**	**66 932**	**60 440**	**9 506**	**-35 868**	**-18 171**
Antigua and Barbuda	-340	-301	-242	-64	-69	-34	24	15	15	-379	-354	-262
Argentina	12 996	14 521	17 863	-5 941	-7 550	-9 272	328	119	2 701	7 383	7 090	11 292
Bahamas	-1 135	-1 103	-800	-232	-118	-210	52	56	82	-1 315	-1 165	-927
Barbados	-172	-347	-120	-67	-121	-140	56	47	42	-183	-421	-218
Belize	17	-91	-55	-159	-153	-117	97	112	80	-52	-132	-93
Bolivia (Plurinational State of)	815	1 267	261	-489	-536	-674	1 266	1 284	1 213	1 591	2 015	801
Brazil	26 813	8 146	6 087	-29 291	-40 562	-33 684	4 029	4 224	3 263	1 551	-28 192	-24 334
Chile	22 954	7 976	12 907	-18 625	-13 423	-10 306	3 129	2 934	1 616	7 458	-2 513	4 217
Colombia	-3 203	-2 165	-121	-7 847	-10 063	-9 644	5 231	5 514	4 619	-5 819	-6 713	-5 146
Costa Rica	-1 251	-2 761	134	-865	-434	-1 097	470	442	329	-1 646	-2 754	-634
Cuba	1 647	...	...	-960	...	...	-199	...	...	488	...	...
Dominica	-90	-135	-127	-16	-20	-14	21	19	18	-85	-136	-123
Ecuador	452	-270	-1 315	-2 047	-1 590	-1 439	3 170	2 862	2 443	1 575	1 002	-311
El Salvador	-4 395	-4 978	-3 270	-576	-536	-664	3 750	3 832	3 561	-1 221	-1 682	-374
Grenada	-251	-259	-167	-34	-47	-45	24	37	37	-261	-269	-175
Guatemala	-5 797	-5 851	-3 671	-843	-927	-948	4 854	5 004	4 402	-1 786	-1 773	-217
Guyana	-465	-635	-502	-11	-15	-17	287	329	300	-189	-321	-220
Haiti	-1 605	-2 021	-1 880	2	6	13	1 517	1 726	1 635	-86	-289	-232
Honduras	-3 392	-4 362	-2 613	-395	-420	-487	2 671	2 982	2 652	-1 116	-1 800	-449
Jamaica	-3 417	-4 626	-2 372	-662	-680	-586	2 040	2 083	2 046	-2 038	-3 223	-912
Mexico	-16 379	-24 340	-12 703	-18 435	-17 010	-14 053	26 415	25 461	21 517	-8 399	-15 889	-5 238
Nicaragua	-1 941	-2 420	-1 625	-135	-161	-190	1 075	1 068	1 018	-1 001	-1 513	-796
Panama	-354	-1 341	1 246	-1 306	-1 574	-1 460	253	238	210	-1 407	-2 677	-4
Paraguay	-34	-628	-350	-155	-162	-345	373	405	500	184	-385	-196
Peru	7 095	1 128	4 761	-8 359	-8 774	-7 371	2 626	2 923	2 856	1 363	-4 723	247
Dominican Republic	-3 385	-6 283	-3 733	-2 183	-1 759	-1 890	3 401	3 513	3 296	-2 167	-4 529	-2 327
Saint Kitts and Nevis	-112	-179	-192	-32	-35	-33	33	33	40	-110	-181	-185
Saint Vincent and the Grenadines	-189	-230	-199	-21	-23	-22	20	24	23	-190	-228	-198
Saint Lucia	-272	-291	-131	-68	-72	-69	14	16	13	-327	-347	-187
Suriname	250	236	110	8	21	5	77	87	94	335	344	210
Trinidad and Tobago	6 268	9 674	2 923	-964	-1 202	-1 220	60	47	55	5 364	8 519	1 759
Uruguay	158	-926	796	-516	-727	-679	137	150	142	-220	-1 503	259
Venezuela (Bolivarian Republic of)	16 027	37 302	11 536	2 467	698	-2 652	-431	-608	-323	18 063	37 392	8 561

Table A-9 (concluded)

	Capital and finantial balance [a]			Overall balance			Reserve assets (variation) [b]			Other financing		
	2007	2008	2009 [c]	2007	2008	2009 [c]	2007	2008	2009 [c]	2007	2008	2009 [c]
Latin America and the Caribbean [d]	**114 305**	**71 390**	**63 846**	**123 812**	**35 523**	**45 675**	**-125 740**	**-39 160**	**-53 011**	**1 929**	**3 638**	**7 333**
Antigua and Barbuda	380	348	233	1	-6	-30	-1	6	30	0	0	0
Argentina	4 216	-10 389	-14 793	11 600	-3 299	-3 501	-13 098	-9	-1 346	1 499	3 309	4 848
Bahamas	1 269	1 274	1 180	-46	109	253	46	-109	-253	0	0	0
Barbados	359	326	243	177	-96	25	-177	96	-25	0	0	0
Belize	75	190	141	23	58	47	-23	-58	-47	0	0	0
Bolivia (Plurinational State of)	346	359	-475	1 938	2 374	326	-1 938	-2 374	-326	0	0	0
Brazil	85 934	31 161	70 985	87 484	2 969	46 651	-87 484	-2 969	-46 651	0	0	0
Chile	-10 672	8 957	-2 569	-3 214	6 444	1 648	3 214	-6 444	-1 648	0	0	0
Colombia	10 532	9 351	6 493	4 714	2 638	1 347	-4 714	-2 638	-1 347	0	0	0
Costa Rica	2 794	2 406	895	1 148	-348	260	-1 148	348	-260	0	0	0
Cuba	...	...	...	...	...	...	...	...	...	...	...	...
Dominica	84	133	131	-1	-3	8	1	3	-8	0	0	0
Ecuador	-188	-68	-2 337	1 387	934	-2 647	-1 497	-952	681	111	18	1 966
El Salvador	1 502	2 016	802	280	334	429	-280	-334	-429	0	0	0
Grenada	271	261	183	11	-8	8	-11	8	-8	0	0	0
Guatemala	2 002	2 106	690	216	333	473	-216	-333	-473	0	0	0
Guyana	188	327	454	-1	6	234	-37	-43	-271	39	38	37
Haiti	284	387	388	198	98	156	-208	-171	-246	10	73	90
Honduras	930	1 633	24	-186	-167	-424	109	78	354	78	89	71
Jamaica	1 598	3 118	869	-440	-105	-44	440	105	44	0	0	0
Mexico	18 685	23 327	10 572	10 286	7 438	5 334	-10 286	-7 438	-5 334	0	0	0
Nicaragua	1 093	1 499	1 004	92	-14	208	-173	-30	-262	80	45	54
Panama	2 029	3 262	614	622	585	610	-611	-579	-610	-10	-5	0
Paraguay	539	763	1 152	723	379	956	-727	-378	-956	5	0	0
Peru	8 961	8 179	1 660	10 324	3 456	1 907	-10 391	-3 512	-1 943	67	57	36
Dominican Republic	2 794	4 203	2 736	627	-326	410	-683	309	-641	56	17	232
Saint Kitts and Nevis	117	196	198	7	15	13	-7	-15	-13	0	0	0
Saint Vincent and the Grenadines	188	225	190	-2	-3	-8	2	3	3	0	0	0
Saint Lucia	345	336	197	19	-11	10	-19	11	-10	0	0	0
Suriname	-160	-292	16	175	52	226	-175	-52	-226	0	0	0
Trinidad and Tobago	-3 824	-5 813	-2 472	1 541	2 706	-713	-1 541	-2 706	713	0	0	0
Uruguay	1 231	3 736	1 330	1 010	2 233	1 589	-1 005	-2 232	-1 588	-5	0	0
Venezuela (Bolivarian Republic of)	-23 420	-27 936	-19 360	-5 357	9 456	-10 799	5 357	-9 456	10 799	0	0	0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Includes errors and omissions.
[b] A minus sign (-) indicates an increase in reserve assets.
[c] Preliminary figures.
[d] Does not include Cuba and Trinidad and Tobago.

Table A-10
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, f.o.b.
(Indices 2000=100)

	Value			Volume			Unit value		
	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**210.4**	**243.8**	**190.2**	**141.8**	**142.5**	**129.0**	**148.4**	**171.1**	**147.4**
Argentina	212.5	265.8	211.6	155.6	155.8	149.1	136.6	170.6	142.0
Bolivia (Plurinational State of)	357.8	517.5	389.0	180.1	242.6	198.3	198.6	213.3	196.2
Brazil	291.6	359.3	277.7	195.0	190.2	169.7	149.6	189.0	163.6
Chile	353.8	346.0	279.7	156.0	153.8	146.3	226.9	224.9	191.2
Colombia	222.2	280.0	247.3	143.3	149.2	164.7	155.1	187.6	150.1
Costa Rica	160.0	164.4	152.2	167.3	168.5	166.0	95.6	97.5	91.7
Cuba	228.6	...	...	98.1	...	...	232.9	...	...
Ecuador	294.1	378.6	283.7	192.6	200.0	194.6	152.7	189.3	145.8
El Salvador	136.3	155.6	130.3	121.1	133.0	116.0	112.5	117.0	112.3
Guatemala	176.3	198.1	185.1	148.0	151.1	146.2	119.1	131.1	126.6
Haiti	157.4	147.8	166.1	136.7	124.0	126.7	115.2	119.2	131.1
Honduras	173.0	193.1	152.2	174.3	180.2	152.7	99.2	107.2	99.7
Mexico	163.7	175.4	138.3	126.5	126.9	108.8	129.4	138.2	127.1
Nicaragua	265.2	288.2	271.0	249.3	250.8	244.4	106.4	114.9	110.9
Panama	159.9	176.8	186.8	145.2	153.0	164.9	110.1	115.6	113.3
Paraguay	242.7	333.7	248.3	202.4	235.9	199.5	119.9	141.5	124.5
Peru	400.9	453.3	386.6	179.5	193.1	188.2	223.4	234.7	205.4
Dominican Republic	124.8	117.6	95.2	103.3	91.8	79.9	120.9	128.1	119.2
Uruguay	213.9	296.9	268.0	172.9	181.8	196.8	123.7	163.3	136.2
Venezuela (Bolivarian Republic of)	205.8	283.7	171.8	84.5	85.0	77.2	243.6	333.8	222.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.
[b] Does not include Cuba.

Table A-11
LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, f.o.b.
(Indices 2000=100)

	Value			Volume			Unit value		
	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**192.3**	**233.4**	**175.8**	**152.8**	**165.7**	**136.8**	**125.9**	**140.9**	**128.5**
Argentina	178.0	228.4	155.4	153.2	178.3	139.1	116.2	128.1	111.7
Bolivia (Plurinational State of)	201.4	288.2	253.8	144.1	194.5	180.3	139.8	148.2	140.8
Brazil	216.2	310.3	228.8	154.1	181.3	150.7	140.3	171.2	151.8
Chile	257.6	337.1	232.6	215.1	247.0	202.8	119.7	136.5	114.7
Colombia	281.1	338.7	283.7	225.5	249.3	224.6	124.6	135.9	126.3
Costa Rica	203.9	241.8	180.5	181.1	202.6	166.1	112.6	119.4	108.6
Cuba	210.3	...	...	155.8	...	...	135.0	...	...
Ecuador	356.7	486.0	390.1	264.0	318.3	293.7	135.1	152.7	132.8
El Salvador	173.2	191.5	142.6	145.5	150.4	120.4	119.0	127.3	118.4
Guatemala	224.3	241.4	191.2	165.5	157.6	140.3	135.5	153.1	136.3
Haiti	156.8	194.0	187.0	117.7	101.1	114.7	133.2	191.9	163.1
Honduras	222.9	263.5	189.6	183.3	188.5	155.8	121.6	139.8	121.7
Mexico	161.6	176.9	134.4	131.2	135.5	108.3	123.2	130.5	124.0
Nicaragua	227.3	263.6	218.0	168.0	172.4	162.0	135.3	152.9	134.5
Panama	179.4	213.0	185.2	146.6	158.3	147.2	122.3	134.6	125.8
Paraguay	215.8	312.1	238.5	180.1	236.8	201.1	119.8	131.8	118.6
Peru	266.3	386.5	285.6	187.9	225.0	179.5	141.7	171.8	159.1
Dominican Republic	143.5	168.7	129.6	116.4	123.3	110.1	123.3	136.9	117.7
Uruguay	170.5	266.0	201.3	122.3	153.2	143.1	139.4	173.6	140.6
Venezuela (Bolivarian Republic of)	272.9	293.4	227.9	226.4	219.3	186.0	120.5	133.8	122.6

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.
[b] Does not include Cuba.

Table A-12

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS f.o.b. / f.o.b.

(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**96.3**	**96.6**	**98.6**	**103.5**	**108.6**	**115.2**	**117.9**	**121.5**	**114.7**
Argentina	99.3	98.7	107.2	109.2	106.9	113.4	117.5	133.2	127.1
Bolivia (Plurinational State of)	95.8	96.2	98.5	104.1	111.8	139.8	142.1	143.9	139.4
Brazil	99.6	98.4	97.0	97.9	99.2	104.4	106.6	110.4	107.8
Chile	93.3	97.2	102.8	124.9	139.8	183.2	189.5	164.8	166.7
Colombia	94.2	92.5	95.2	102.3	111.0	115.2	124.4	138.1	118.8
Costa Rica	98.4	96.9	95.5	91.9	88.3	85.8	84.9	81.7	84.4
Cuba	114.0	105.1	121.0	133.3	129.8	164.0	172.6	...	...
Ecuador	84.6	86.8	89.8	91.5	102.4	109.9	113.0	124.0	109.7
El Salvador	102.5	101.6	97.7	96.8	96.8	95.5	94.6	91.9	94.9
Guatemala	96.7	95.8	93.0	92.1	91.3	89.6	87.9	85.6	92.9
Haiti	101.2	100.2	98.7	96.0	92.4	88.9	86.4	62.1	80.4
Honduras	94.8	92.0	88.0	87.2	87.2	83.2	81.6	76.6	81.9
Mexico	97.4	97.9	98.8	101.6	103.6	104.1	105.1	105.9	102.5
Nicaragua	88.4	87.0	84.1	82.5	81.4	79.4	78.6	75.2	82.4
Panama	102.7	101.6	97.2	95.3	93.5	90.8	90.0	85.9	90.0
Paraguay	100.2	96.7	101.4	104.3	97.4	95.5	100.1	107.3	105.0
Peru	95.6	98.4	102.2	111.3	119.4	152.1	157.6	136.7	129.1
Dominican Republic	100.9	101.5	97.9	96.7	95.8	94.9	98.0	93.6	101.3
Uruguay	104.0	102.6	103.5	99.9	90.7	88.6	88.7	94.1	96.9
Venezuela (Bolivarian Republic of)	82.2	87.6	98.7	118.1	154.4	184.4	202.1	249.5	181.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] Preliminary figures.
[b] Does not include Cuba.

Table A-13

LATIN AMERICA AND THE CARIBBEAN: NET RESOURCE TRANSFER [a]

(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Latin America and the Caribbean [c]	**-1 552**	**-41 419**	**-39 521**	**-68 933**	**-80 539**	**-96 694**	**14 551**	**-38 821**	**-30 636**
Antigua and Barbuda	48	49	85	56	136	260	316	280	199
Argentina	-16 016	-20 773	-12 535	-7 175	-3 722	-10 388	-226	-14 630	-19 218
Bahamas	366	175	279	213	358	1 077	1 037	1 156	971
Barbados	241	42	131	58	263	89	293	204	102
Belize	115	91	61	8	25	-50	-84	38	23
Bolivia (Plurinational State of)	30	-156	-235	-565	-535	-428	-143	-177	-1 149
Brazil	6 778	-10 252	-14 234	-29 955	-35 633	-10 553	56 642	-9 401	37 301
Chile	-2 022	-2 068	-4 076	-10 102	-10 220	-23 558	-29 297	-4 466	-12 876
Colombia	-323	-1 439	-2 609	-850	-1 846	-2 924	2 686	-712	-3 151
Costa Rica	-63	580	443	432	1 166	2 058	1 929	1 971	-203
Cuba	92	-300	-450	150	-633	-618	-960	...	...
Dominica	39	36	32	23	64	49	68	113	117
Ecuador	-816	-100	-953	-1 084	-1 520	-3 584	-2 124	-1 640	-1 809
El Salvador	-293	-42	595	132	-28	324	925	1 480	138
Grenada	67	109	83	30	131	170	237	214	138
Guatemala	1 618	993	1 251	1 359	995	1 096	1 160	1 179	-258
Guyana	-3	20	-6	-10	143	242	215	350	474
Haiti	129	26	5	94	-20	201	296	465	491
Honduras	322	86	94	743	177	149	612	1 303	-392
Jamaica	1 168	208	-246	612	561	797	937	2 438	283
Mexico	11 161	8 502	4 315	-1 286	-2 674	-15 083	250	6 317	-3 481
Nicaragua	455	607	520	616	590	768	1 039	1 383	868
Panama	202	-39	-539	-414	418	-648	712	1 683	-846
Paraguay	237	-134	168	-98	72	168	388	601	806
Peru	377	505	-679	-1 262	-4 753	-7 224	669	-539	-5 674
Dominican Republic	168	-881	-2 787	-2 324	-321	-221	666	2 461	1 078
Saint Kitts and Nevis	84	95	71	43	23	74	85	161	165
Saint Vincent and the Grenadines	30	18	55	99	70	108	167	202	168
Saint Lucia	73	75	115	45	62	261	277	264	128
Suriname	54	70	118	112	83	-179	-152	-271	22
Trinidad and Tobago	-453	-441	-1 344	-1 309	-2 461	-7 087	-4 787	-7 016	-3 691
Uruguay	707	-2 601	979	-137	84	-52	710	3 008	650
Venezuela (Bolivarian Republic of)	-6 030	-14 783	-8 679	-17 037	-22 225	-22 603	-20 953	-27 238	-22 012

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures from the International Monetary Fund (IMF) and national sources.
[a] The net resource transfer is calculated as total net capital income minus the income balance (net payments of profits and interest). Total net capital income is the balance on the capital and financial accounts plus errors and omissions, plus loans and the use of IMF credit plus exceptional financing. Negative figures indicate resources transferred outside the country.
[b] Preliminary figures.
[c] Does not include Cuba.

Table A-14

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

(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Latin America and the Caribbean	**66 122**	**50 504**	**37 806**	**49 745**	**54 703**	**31 192**	**90 214**	**94 731**	**64 621**
Antigua and Barbuda	98	66	166	80	214	374	356	173	130
Argentina	2 005	2 776	878	3 449	3 954	3 099	4 969	8 335	4 216
Bahamas	192	209	247	443	563	706	746	839	654
Barbados	17	17	58	-16	119	200	256	223	...
Belize	61	25	-11	111	126	108	142	188	95
Bolivia (Plurinational State of)	703	674	195	83	-291	284	362	508	426
Brazil	24 715	14 108	9 894	8 339	12 550	-9 380	27 518	24 601	36 033
Chile	2 590	2 207	2 701	5 610	4 801	4 556	9 961	7 194	4 719
Colombia	2 526	1 277	783	2 873	5 590	5 558	8 136	8 346	4 177
Costa Rica	451	625	548	733	904	1 371	1 634	2 015	1 316
Dominica	17	20	31	26	33	27	53	57	52
Ecuador	539	783	872	837	493	271	194	996	312
El Salvador	289	496	123	366	398	268	1 408	719	562
Grenada	59	54	89	65	70	85	174	142	91
Guatemala	488	183	218	255	470	552	720	737	543
Guyana	56	44	26	30	77	102	110	178	164
Haiti	4	6	14	6	26	161	75	30	38
Honduras	301	269	391	553	599	669	926	901	500
Jamaica	525	407	604	542	582	797	751	1 361	670
Mexico	23 045	22 158	15 183	19 249	15 448	13 558	19 054	22 013	3 819
Nicaragua	150	204	201	250	241	287	382	626	434
Panama	467	99	818	1 019	918	2 557	1 777	2 402	1 773
Paraguay	78	12	22	32	47	167	199	171	281
Peru	1 070	2 156	1 275	1 599	2 579	3 467	5 425	6 188	4 364
Dominican Republic	1 079	917	613	909	1 123	1 085	1 563	2 971	2 158
Saint Kitts and Nevis	88	80	76	46	93	110	158	178	134
Saint Vincent and the Grenadines	21	34	55	66	40	109	110	159	110
Saint Lucia	59	52	106	77	78	234	253	161	157
Suriname	-27	-74	-76	-37	28	-163	-247	-234	...
Trinidad and Tobago	685	684	583	973	599	513	830	1 638	509
Uruguay	291	180	401	315	811	1 495	1 240	1 839	1 126
Venezuela (Bolivarian Republic of)	3 479	-244	722	864	1 422	-2 032	978	-924	-4 939

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

[a] Corresponds to direct investment in the reporting economy after deduction of outward direct investment by residents of that country. Includes reinvestment of profits.

[b] Preliminary figures.

Table A-15

LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES [a]

(Millions of dollars)

	2001	2002	2003	2004	2005 [b]	2006 [c]	2007 [d]	2008 [e]	2009 [f]	2010	
										I [g]	II
Latin America and the Caribbean	**38 503**	**20 208**	**37 906**	**36 383**	**45 054**	**44 647**	**41 176**	**18 466**	**61 950**	**21 792**	**17 370**
Argentina	2 711	-	100	200	540	1 896	3 256	65	500	475	500
Bahamas	-	-	-	-	-	-	-	100	300	-	-
Barbados	150	-	-	-	325	215	-	-	450	-	190
Belize	-	125	100	-	-	-	-	-	-	-	-
Bolivia (Plurinational State of)	-	-	-	108	-	-	-	-	-	-	-
Brazil	13 010	6 857	19 364	11 603	15 334	19 079	10 608	6 400	25 745	9 776	6 562
Chile	1 515	1 694	3 200	2 350	1 000	1 062	250	-	2 773	500	750
Colombia	4 329	695	1 545	1 545	2 435	3 177	3 065	1 000	5 450	-	792
Costa Rica	250	250	490	310	-	-	-	-	-	-	-
Cuba	-	-	-	-	-	400	200	-	-	-	-
Ecuador	-	-	-	-	650	-	-	-	-	-	-
El Salvador	354	1 252	349	286	375	925	-	-	800	-	-
Grenada	-	100	-	-	-	-	-	-	-	-	-
Guatemala	325	-	300	380	-	-	-	30	-	-	-
Jamaica	812	300	-	814	1 050	930	1 900	350	750	775	-
Mexico	11 016	6 505	7 979	13 312	11 703	9 200	10 296	5 835	15 359	9 916	7 826
Panama	1 100	1 030	275	770	1 530	2 076	670	686	1 323	-	-
Peru	-	1 000	1 250	1 305	2 675	733	1 827	-	2 150	350	-
Dominican Republic	500	-	600	-	160	675	605	-	-	-	750
Trinidad and Tobago	-	-	-	-	100	500	-	-	850	-	-
Uruguay	856	400	-	350	1 062	3 679	999	-	500	-	-
Venezuela (Bolivarian Republic of)	1 575	-	2 354	3 050	6 115	100	7 500	4 000	5 000	-	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of figures from the International Monetary Fund (IMF), Merrill-Lynch and J.P. Morgan and Latin Finance.

[a] Includes sovereign, bank and corporate bonds.

[b] Does not include US$ 584 million issued by the Andean Development Corporation (ADC) and US$ 200 million issued by the Central American Bank for Economic Integration (CABEI).

[c] Does not include US$ 250 million issued by the Andean Development Corporation (ADC), US$ 250 million issued by the Latin American Reserve Fund (FLAR) and US$ 567 million issued by the Central American Bank for Economic Integration (CABEI).

[d] Does not include US$ 539 million issued by the Andean Development Corporation (ADC).

[e] Does not include US$ 447 million issued by the Andean Development Corporation (ADC).

[f] Does not include US$ 1 billiion issued by the Andean Development Corporation (ADC), US$ 500 million issued by the Central American Bank for Economic Integration (CABEI) and US$ 1,300 million issued by the NII Holdings.

[g] Does not include US$ 50 million issued by the Andean Development Corporation (ADC).

Table A-16

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

(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Latin America and the Caribbean [c]	**739 695**	**728 604**	**757 138**	**758 441**	**668 676**	**657 438**	**726 451**	**744 181**	**808 180**
Antigua and Barbuda	388	434	497	532	317	321	501	524	496
Argentina	166 272	156 748	164 645	171 205	113 799	108 864	124 560	124 923	117 808
Bahamas [d]	328	310	364	345	338	334	337	443	767
Barbados	2 267	2 321	2 475	2 435	2 695	2 991	3 130	3 050	3 294
Belize [d]	495	652	822	913	970	985	973	958	1 016
Bolivia (Plurinational State of)	6 861	6 970	7 734	7 562	7 666	6 278	5 403	5 930	6 033
Brazil	209 935	210 711	214 929	201 373	169 451	172 589	193 219	198 340	198 192
Chile	38 527	40 504	43 067	43 515	46 211	49 497	55 733	64 318	74 041
Colombia	39 163	37 382	38 065	39 497	38 507	40 103	44 553	46 369	53 746
Costa Rica	5 265	5 310	5 575	5 710	6 485	6 994	8 341	8 857	8 036
Cuba [d e]	10 893	10 900	11 300	5 806	5 898	7 794	8 908	…	…
Dominica [d]	178	205	223	209	221	225	221	217	219
Ecuador	14 376	16 236	16 756	17 211	17 237	17 099	17 445	16 838	13 359
El Salvador [f]	3 148	3 987	7 917	8 211	8 761	9 586	9 075	9 711	9 710
Grenada	154	262	279	331	401	481	502	513	542
Guatemala [d]	2 925	3 119	3 467	3 844	3 723	3 958	4 226	4 382	4 928
Guyana [d]	1 197	1 247	1 085	1 071	1 215	1 043	718	834	933
Haiti [d]	1 189	1 229	1 316	1 376	1 335	1 484	1 628	1 917	1 272
Honduras	4 757	5 025	5 343	6 023	5 135	3 935	3 190	3 464	3 338
Jamaica [d]	4 146	4 348	4 192	5 120	5 376	5 796	6 123	6 344	6 594
Mexico	144 526	134 980	132 524	130 925	128 248	116 792	124 433	125 233	162 753
Nicaragua [d]	6 374	6 363	6 596	5 391	5 348	4 527	3 385	3 512	3 661
Panama [d]	6 263	6 349	6 504	7 219	7 580	7 788	8 276	8 477	10 150
Paraguay	2 654	2 900	2 951	2 901	2 700	2 739	2 868	3 191	3 497
Peru	27 195	27 872	29 587	31 244	28 657	28 897	32 894	34 838	35 629
Dominican Republic [d]	4 176	4 536	5 987	6 380	5 847	6 296	6 556	7 226	8 200
Saint Kitts and Nevis	214	265	317	317	311	306	299	308	303
Saint Vincent and the Grenadines	168	168	195	219	231	220	219	232	255
Saint Lucia [d]	204	246	324	344	350	365	375	364	375
Suriname [d]	350	371	382	384	390	391	299	316	238
Trinidad and Tobago [d]	1 666	1 549	1 553	1 364	1 329	1 261	1 392	1 445	1 281
Uruguay	8 937	10 548	11 013	11 593	11 418	10 560	12 218	12 021	13 935
Venezuela (Bolivarian Republic of)	35 398	35 460	40 456	43 679	46 427	44 735	53 361	49 087	63 580

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

[a] Includes debt owed to the International Monetary Fund.

[b] Preliminary figures.

[c] Does not include Cuba.

[d] Refers to external public debt.

[e] From 2004 on refers only to active external debt; excludes other external debt, 60.2% of which is official debt owed to the Paris Club.

[f] Up to 2002 corresponds to public external debt.

Table A-17

LATIN AMERICA AND THE CARIBBEAN: GROSS INTERNATIONAL RESERVES

(Millions of dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
										I	II [a]
Latin America and the Caribbean	**163 177**	**164 784**	**197 615**	**225 668**	**262 168**	**319 045**	**459 152**	**512 240**	**566 961**	**560 358**	**563 270**
Antigua and Barbuda [b]	80	88	114	120	127	143	144	138	108	128	...
Argentina	15 318	10 420	13 820	19 299	27 262	31 167	45 711	46 198	47 967	47 460	49 000 [c]
Bahamas	312	373	484	668	579	500	454	563	816	819	...
Barbados	571	518	555	389	418	444	622	523	563	574	540 [c]
Belize	...	...	...	...	...	95	99	156	210	203	208 [c]
Bolivia (Plurinational State of)	1 129	897	1 096	1 272	1 798	3 193	5 319	7 722	8 580	8 449	8 537
Brazil	35 866	37 823	49 296	52 935	53 799	85 839	180 334	193 783	238 520	243 762	253 114
Chile	14 400	15 351	15 851	16 016	16 963	19 429	16 910	23 162	25 371	25 631	25 175
Colombia	9 956	10 540	10 608	13 220	14 634	15 109	20 607	23 672	24 992	25 140	26 026
Costa Rica	1 384	1 502	1 839	1 922	2 313	3 115	4 114	3 799	4 066	4 155	4 057
Dominica [b]	31	45	48	42	49	63	60	55	64	...	...
Ecuador [d]	...	...	...	...	2 147	2 023	3 521	4 473	3 792	4 007	4 104
El Salvador	1 712	1 591	1 910	1 893	1 833	1 908	2 198	2 545	2 987	2 608	2 684
Grenada [b]	64	88	83	122	94	100	110	104	112	...	...
Guatemala	2 359	2 381	2 932	3 529	3 783	4 061	4 310	4 659	5 213	5 547	...
Guyana	285	280	272	225	251	277	313	356	628	608	652 [c]
Haiti	191	139	112	166	187	305	494	587	733	920	...
Honduras	1 578	1 687	1 609	2 159	2 526	2 824	2 733	2 690	2 174	2 250	2 203 [c]
Jamaica	1 903	1 643	1 196	1 882	2 169	2 399	1 906	1 795	1 752	2 414	2 527
Mexico	44 814	50 674	59 028	64 198	74 110	76 330	87 211	95 302	99 893	101 606	103 861 [c]
Nicaragua	383	454	504	670	730	924	1 103	1 141	1 573	1 485	1 553
Panama [f]	1 092	1 183	1 011	631	1 211	1 335	1 935	2 424	3 028	2 803 [f]	...
Paraguay	723	641	983	1 168	1 293	1 703	2 462	2 864	3 861	3 855	3 885 [c]
Peru	8 838	9 690	10 206	12 649	14 120	17 329	27 720	31 233	33 175	35 305	35 382
Dominican Republic	1 341	829	279	825	1 929	2 251	2 946	2 662	3 307	2 738	2 799 [e]
Saint Kitts and Nevis [b]	57	66	65	78	71	89	96	110	123	...	...
Saint Vincent and the Grenadines [b]	61	52	50	74	69	78	86	83	75	...	...
Saint Lucia [b]	87	92	105	130	114	132	151	140	151	...	...
Suriname [f]	119	106	106	129	126	215	401	433	659	642	652 [e]
Trinidad and Tobago	...	...	...	2 539	4 015	5 134	6 674	9 380	8 652	...	...
Uruguay	...	772	2 087	2 512	3 078	3 091	4 121	6 360	7 987	8 061	7 509
Venezuela (Bolivarian Republic of)	18 523	14 860	21 366	24 208	30 368	37 440	34 286	43 127	35 830	29 186	28 801

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

[a] Balance as of June.
[b] Net international reserves.
[c] Balance as of May.
[d] Freely available International reserves.
[e] Balance as of April.
[f] Does not include gold.
[g] Balance as of February.

Table A-18

LATIN AMERICA AND THE CARIBBEAN: STOCK EXCHANGE INDICES

(National indices to end of period, 31 December 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	
										I	II
Argentina	71	126	257	330	370	502	516	259	557	570	524
Brazil	89	74	146	172	219	291	419	246	449	461	421
Chile	109	92	137	166	181	248	281	219	330	347	380
Colombia	134	206	291	542	1 187	1 393	1 335	944	1 448	1 513	1 561
Costa Rica	113	117	104	88	96	169	193	177	139	137	135
Ecuador	130	195	178	216	272	353	329	349	292	297	299
Jamaica	117	157	234	390	362	348	374	277	288	298	301
Mexico	113	108	156	229	315	468	523	396	568	589	576
Peru	97	115	202	307	397	1 066	1 450	583	1 172	1 252	1 172
Trinidad and Tobago	98	124	157	243	242	220	222	191	173	185	187
Venezuela (Bolivarian Republic of)	96	117	325	439	299	765	555	514	807	855	954

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

Table A-19

LATIN AMERICA AND THE CARIBBEAN: OVERALL REAL EFFECTIVE EXCHANGE RATES [a]

(Indices 2000=100, deflacted by CPI)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]	2010 [b c]
Latin America and the Caribbean [d]	**99.2**	**111.1**	**120.6**	**119.6**	**111.9**	**108.8**	**105.3**	**98.8**	**98.0**	**95.9**
Argentina	96.0	228.3	208.3	214.0	213.7	218.0	213.8	201.6	210.0	206.6
Barbados	98.6	100.4	104.9	107.8	106.0	104.1	105.0	104.7	100.0	100.7
Bolivia (Plurinational State of)	101.2	95.4	104.0	109.5	116.8	119.5	118.6	110.4	100.6	105.9
Brazil	120.1	132.6	131.1	123.8	100.5	88.9	82.7	80.1	81.4	71.9
Chile	111.8	109.4	114.5	108.5	103.1	100.9	102.8	102.4	106.1	101.9
Colombia	104.1	105.8	119.5	107.0	94.7	96.1	85.7	82.2	86.8	76.2
Costa Rica	97.9	98.9	104.8	106.5	107.6	106.5	103.9	100.1	100.0	91.1
Cuba [e]	90.6	94.2	99.8	106.2	105.1	112.2	115.1	126.1	126.0	...
Dominica	99.7	102.1	104.8	108.4	111.1	113.3	116.8	118.0	117.2	116.7
Ecuador	70.8	61.9	60.3	61.7	64.7	65.4	68.1	68.4	65.0	63.0
El Salvador	99.8	99.6	100.2	98.9	100.8	101.4	102.7	104.4	101.8	103.2
Guatemala	96.1	88.7	88.6	85.8	79.3	76.9	76.3	72.5	75.1	75.1
Honduras	97.2	97.0	98.5	101.0	100.6	98.1	97.9	95.2	88.3	88.1
Jamaica	101.8	101.9	116.7	113.5	104.4	105.6	109.1	102.3	113.8	104.6
Mexico	94.3	94.1	104.5	108.3	104.5	104.6	105.8	108.8	124.1	114.4
Nicaragua	101.1	103.3	106.9	107.7	110.2	108.2	110.9	106.8	108.9	108.0
Panama	103.1	101.3	103.3	108.4	110.9	112.7	114.3	113.3	108.6	109.7
Paraguay	102.7	106.3	113.0	106.2	118.4	106.3	95.8	85.1	93.6	90.5
Peru	98.2	95.9	99.9	100.0	101.1	104.0	104.1	100.4	98.6	94.1
Dominican Republic [f]	96.5	98.6	131.4	125.6	90.4	96.3	96.5	98.9	102.7	95.8
Trinidad and Tobago	94.5	90.2	90.9	93.1	92.0	90.2	88.6	84.1	77.7	76.7
Uruguay	101.3	117.6	149.9	152.3	134.0	128.4	127.7	121.0	118.1	100.8
Venezuela (Bolivarian Republic of)	95.3	125.1	141.2	139.0	142.2	132.5	118.7	96.8	73.4	117.9

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

[a] Annual averages. A country's overall real effective exchange rate index is calculated by weighting its real bilateral exchange rate indices with each of its trading partners by each partner's share in the country's total trade flows in terms of exports and imports. The extraregional real effective exchange rate index excludes trade with other Latin American and Caribbean countries. A currency depreciates in real effective terms when this index rises and appreciates when it falls.

[b] Preliminary figures, weighted by trade in 2008.

[c] January-May average.

[d] Simple average of the extraregional real effective exchange rate for 20 countries. It excludes Barbados and Dominica.

[e] Preliminary figures. Yearly calculation by ECLAC, based on consumer price data and nominal exchange rates provided by the National Statistical Office of Cuba.

[f] Owing to lack of data, the period 2002-2010 has been weighted using trade figures for 2001.

Table A-20

LATIN AMERICA AND THE CARIBBEAN: PARTICIPATION RATE

(Average annual rates)

			2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]		**Total**	**59.7**	**59.5**	**59.7**	**59.9**	**60.0**	**60.0**	**60.8**	**61.2**	**61.5**
		Female	**45.7**	**45.6**	**46.6**	**46.7**	**47.0**	**47.2**	**48.0**	**48.6**	**49.1**
		Male	**74.4**	**74.1**	**73.6**	**73.9**	**73.7**	**73.6**	**74.6**	**74.7**	**74.8**
Argentina [c]	Urban areas	Total	56.0	55.8	60.1	60.3	59.9	60.3	59.5	58.8	59.3
		Female	42.6	43.3	49.2	49.0	48.3	49.0	47.7	47.2	48.0
		Male	71.4	70.3	72.9	73.2	73.2	73.3	73.0	72.0	72.1
Bolivia (Plurinational State of)	National total	Total	67.8	64.6	67.6	64.9	62.8	66.3	64.8	...	...
		Female	60.1	56.3	60.1	57.2	54.8	58.7	56.2	...	...
		Male	75.9	73.2	75.4	73.3	71.5	74.2	74.2	...	...
Brazil [c]	Six metropolitan areas	Total	56.4	56.7	57.1	57.2	56.6	56.9	56.9	57.0	56.7
		Female	43.9	43.9	47.8	48.3	47.7	48.1	48.5	48.7	48.6
		Male	71.0	70.5	67.7	67.3	66.7	66.8	66.5	66.5	66.0
Chile	National total	Total	53.9	53.7	54.4	55.0	55.6	54.8	54.9	56.0	55.9
		Female	35.0	35.0	36.6	38.1	39.2	38.5	39.1	40.9	41.3
		Male	73.4	73.0	73.0	72.3	72.6	71.7	71.4	71.8	71.0
Colombia	Thirteen metropolitan areas	Total	64.4	64.8	65.0	63.6	63.3	62.0	61.8	62.6	64.6
		Female	55.5	55.3	56.9	54.9	54.9	53.5	53.5	54.0	56.6
		Male	74.6	74.7	74.2	73.3	72.8	71.6	71.2	72.1	73.5
Costa Rica	National total	Total	55.8	55.4	55.5	54.4	56.8	56.6	57.0	56.7	56.5
		Female	38.6	38.2	38.5	36.8	40.4	40.7	41.6	41.7	42.1
		Male	73.7	73.2	73.3	72.9	73.9	73.5	73.2	72.5	71.5
Cuba [d]	National total	Total	70.9	71.0	70.9	71.0	72.1	72.1	73.7	74.7	75.4
		Female	53.7	53.9	54.2	54.4	55.6	56.7	59.3	60.2	61.0
		Male	86.7	86.6	86.0	86.1	87.0	86.0	86.7	87.8	88.4
Ecuador	Urban total	Total	63.1	58.3	58.2	59.1	59.5	59.1	61.3	60.1	58.9
		Female	52.5	46.7	47.0	47.9	48.6	47.7	50.9	49.6	48.4
		Male	74.0	70.2	69.8	70.8	70.9	71.2	72.5	71.3	70.0
El Salvador [e]	National total	Total	53.3	51.2	53.4	51.7	52.4	52.6	62.1	62.7	62.8
		Female	39.5	38.6	40.4	38.6	39.5	40.4	46.7	47.3	47.6
		Male	69.2	65.8	68.3	66.5	67.4	67.0	81.0	81.4	81.0
Honduras	National total	Total	52.5	51.7	50.0	50.6	50.9	50.7	50.7	51.0	53.1
		Female	34.7	32.5	33.0	32.7	33.2	33.5	33.3	34.4	35.9
		Male	71.8	72.3	68.4	70.0	70.0	69.7	70.1	69.3	72.3
Jamaica [f]	National total	Total	63.0	65.8	64.4	64.3	64.2	64.7	64.8	65.4	63.8
		Female	53.6	57.3	55.4	55.8	55.5	56.4	56.5	57.3	55.9
		Male	73.0	74.7	73.7	73.3	73.3	73.5	73.6	73.9	72.0
Mexico	Urban areas	Total	58.1	57.8	58.3	58.9	59.5	60.7	60.7	60.4	60.2
		Female	40.9	40.6	41.5	42.9	44.1	45.8	46.2	46.1	46.4
		Male	77.3	76.9	76.8	76.7	76.9	77.6	77.3	76.7	75.8
Nicaragua	National total	Total	57.5	…	53.7	53.1	53.8	51.4	53.4	53.3	51.8
		Female	40.2	…	…	…	39.4	…	...	...	...
		Male	75.6	…	…	…	69.2	…	...	...	...
Panama	National total	Total	60.5	62.6	62.8	63.3	63.6	62.6	62.7	63.9	64.1
		Female	41.7	45.1	45.9	46.6	47.4	45.8	46.8	47.2	48.3
		Male	79.5	80.1	79.9	80.6	80.3	79.9	79.3	81.5	80.9
Paraguay	National total	Total	59.2	61.2	59.8	63.4	61.8	60.1	60.8	61.7	...
		Female	45.5	45.8	45.7	50.4	48.6	46.1	48.0	47.9	...
		Male	73.3	76.9	74.3	76.6	75.1	74.0	73.9	75.8	...
Peru	Metropolitan Lima	Total	65.5	62.9	63.2	62.3	62.5	64.0	63.5	66.4	68.5
		Female	55.9	51.8	54.2	49.9	52.3	53.4	51.7	56.4	57.9
		Male	76.1	75.3	72.9	75.6	73.4	75.4	76.1	77.0	80.0
Dominican Republic	National total	Total	54.3	55.1	54.7	56.3	55.9	56.0	56.1	55.6	53.8
		Female	40.0	42.1	41.0	43.7	43.1	43.6	43.2	43.5	40.3
		Male	69.2	68.3	68.6	69.2	68.8	68.6	69.3	67.9	67.4
Uruguay	Urban total	Total	60.8	59.3	58.1	58.5	58.5	60.9	62.7	62.6	63.4
		Female	51.0	49.4	48.9	48.7	49.5	51.9	53.7	54.3	55.2
		Male	72.2	70.7	69.0	70.0	69.3	71.7	73.6	72.7	73.2
Venezuela (Bolivarian Republic of)	National total	Total	66.5	68.7	69.3	68.5	66.3	65.4	64.9	64.9	65.3
		Female	50.9	54.3	55.5	54.5	51.5	50.6	50.0	50.1	51.1
		Male	82.0	83.5	83.0	82.6	81.2	80.4	79.9	79.9	79.6

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

[a] Preliminary figures.

[b] The data relating to the different countries are not comparable owing to differences in coverage and in the definition of the working age population. The regional series are simple averages of national data (excluding Nicaragua and the Plurinational State of Bolivia) and include adjustments for lack of information and changes in methodology.

[c] New measurements have been used since 2003; the data are not comparable with the previous series.

[d] In Cuba, the working-age population is measured as follows: for males, 17 to 59 years and for females, 15 to 54 years.

[e] New measurements have been used since 2007; the data are not comparable with the previous series.

[f] New measurements have been used since 2002; the data are not comparable with the previous series.

Table A-21
LATIN AMERICA AND THE CARIBBEAN: OPEN URBAN UNEMPLOYMENT
(Average annual rates)

		2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]		**10.2**	**11.1**	**11.0**	**10.3**	**9.1**	**8.6**	**7.9**	**7.3**	**8.2**
Argentina [c]	Urban areas	17.4	19.7	17.3	13.6	11.6	10.2	8.5	7.9	8.7
Bahamas [d]	National total	6.9	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2
Barbados [d]	National total	9.9	10.3	11.0	9.8	9.1	8.7	7.4	8.1	10.0
Belize [d]	National total	9.1	10.0	12.9	11.6	11.0	9.4	8.5	8.2	13.1
Bolivia (Plurinational State of)	Urban total	8.5	8.7	9.2	6.2	8.1	8.0	7.7	6.7	7.9
Brazil [e]	Six metropolitan areas	6.2	11.7	12.3	11.5	9.8	10.0	9.3	7.9	8.1
Chile	National total	9.9	9.8	9.5	10.0	9.2	7.7	7.1	7.8	9.7
Colombia [d]	Thirteen metropolitan areas	18.2	18.1	17.1	15.8	14.3	13.1	11.4	11.5	13.0
Costa Rica	Urban total	5.8	6.8	6.7	6.7	6.9	6.0	4.8	4.8	7.6
Cuba	National total	4.1	3.3	2.3	1.9	1.9	1.9	1.8	1.6	1.7
Ecuador [d]	Urban total [f]	10.4	8.6	9.8	9.7	8.5	8.1	7.4	6.9	8.5
El Salvador [g]	Urban total	7.0	6.2	6.2	6.5	7.3	5.7	5.8	5.5	7.1
Guatemala	Urban total	...	5.4	5.2	4.4	...	...	...	...	...
Honduras	Urban total	5.9	6.1	7.6	8.0	6.5	4.9	4.0	4.1	4.9
Jamaica [d e]	National total	15.0	14.2	11.4	11.7	11.3	10.3	9.8	10.6	11.4
Mexico	Urban areas	3.6	3.9	4.6	5.3	4.7	4.6	4.8	4.9	6.7
Nicaragua	Urban total	11.3	11.6	10.2	9.3	7.0	7.0	6.9	8.0	10.5
Panama [d]	Urban total	17.0	16.5	15.9	14.1	12.1	10.4	7.8	6.5	7.9
Paraguay	Urban total	10.8	14.7	11.2	10.0	7.6	8.9	7.2	7.4	...
Peru	Metropolitan Lima	9.3	9.4	9.4	9.4	9.6	8.5	8.4	8.4	8.4
Dominican Republic [d]	National total	15.6	16.1	16.7	18.4	17.9	16.2	15.6	14.1	14.9
Suriname	National total	14.0	10.0	7.0	8.4	11.2	12.1	...	...	...
Trinidad and Tobago [d]	National total	10.8	10.4	10.5	8.4	8.0	6.2	5.6	4.6	5.3
Uruguay	Urban total	15.3	17.0	16.9	13.1	12.2	11.4	9.6	7.9	7.7
Venezuela (Bolivarian Republic of)	National total	13.3	15.8	18.0	15.3	12.4	10.0	8.4	7.3	7.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] The data for Argentina and Brazil have been adjusted to reflect changes in methodology in 2003 and 2002, respectively.
[c] New measurements have been used since 2003; the data are not comparable with the previous series.
[d] Includes hidden unemployment.
[e] New measurements have been used since 2002; the data are not comparable with the previous series.
[f] Up to 2003, the figures refer to Cuenca, Guayaquil and Quito.
[g] New measurements have been used since 2007; the data are not comparable with the previous series.

Table A-22
LATIN AMERICA AND THE CARIBBEAN: EMPLOYMENT RATE [a]
(Average annual rates)

		2001	2002	2003	2004	2005	2006	2007	2008	2009 [b]
Latin America and the Caribbean [c]		**52.5**	**52.1**	**52.5**	**53.1**	**53.6**	**54.2**	**54.8**	**55.1**	**54.6**
Argentina [d]	Urban areas	47.4	45.9	49.8	52.0	52.9	54.1	54.5	54.2	54.2
Barbados	National total	62.7	61.4	61.6	62.7	63.2	61.9	62.7	62.1	60.3
Bolivia (Plurinational State of)	Urban total	55.4	53.0	54.9	55.0	51.2	54.0	52.7	...	...
Brazil [d]	Six metropolitan areas	52.9	48.7	50.1	50.6	51.0	51.2	51.6	52.5	52.1
Chile	National total	48.6	48.4	49.3	49.5	50.4	50.5	51.0	51.7	50.5
Colombia	Thirteen metropolitan areas	52.7	53.2	54.1	53.7	54.3	53.9	54.8	55.3	56.2
Costa Rica	National total	52.4	51.8	51.8	50.9	53.0	53.3	54.4	53.9	52.1
Cuba	National total	68.0	68.6	69.2	69.7	70.7	70.7	72.4	73.6	74.2
Ecuador	Urban total	56.2	52.9	51.5	53.5	54.4	54.3	56.8	56.0	53.9
El Salvador [e]	National total	49.8	48.0	49.7	48.2	48.3	49.2	58.1	59.0	58.2
Honduras	National total	50.3	49.7	47.4	48.6	48.6	49.0	49.2	49.4	51.5
Jamaica [f]	National total	53.5	56.4	57.1	56.8	57.0	58.0	58.6	58.5	56.3
Mexico	Urban areas	56.0	55.5	55.6	55.8	56.7	57.9	57.8	57.5	56.2
Nicaragua	National total	51.0	...	49.5	49.6	50.8	48.8	48.6	50.1	47.6
Panama	National total	52.0	54.1	54.6	55.9	57.3	57.2	58.7	60.3	59.9
Paraguay	National total	54.7	54.6	55.0	58.8	58.2	55.4	57.4	58.2	...
Peru	Metropolitan Lima	60.5	62.0	61.1	61.6	60.7	61.8	63.0	62.4	62.7
Dominican Republic	National total	45.8	46.2	45.4	46.0	45.9	46.9	47.4	47.7	45.8
Trinidad and Tobago	National total	53.8	54.6	55.2	57.8	58.6	59.9	59.9	60.6	59.4
Uruguay	Urban total	51.4	49.1	48.3	50.9	51.4	53.9	56.7	57.7	58.5
Venezuela (Bolivarian Republic of)	National total	57.6	57.8	56.8	58.1	58.1	58.9	59.5	60.2	60.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Employed population as a percentage of the working-age population.
[b] Preliminary figures.
[c] Weighted average adjusted for lack of information and changes in methodology.
[d] New measurements have been used since 2003; the data are not comparable with the previous series.
[e] New measurements have been used since 2007; the data are not comparable with the previous series.
[f] New measurements have been used since 2002; the data are not comparable with the previous series.

Table A-23

LATIN AMERICA AND THE CARIBBEAN: FORMAL EMPLOYMENT INDICATORS

(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Argentina [b]	101.0	93.1	96.2	107.0	118.7	128.9	139.6	148.8	148.2
Brazil [c]	102.9	101.6	104.2	109.5	115.7	121.3	127.5	135.6	138.5
Chile [b]	101.6	103.4	105.9	109.6	118.2	125.7	135.8	145.7	147.4
Costa Rica [d]	97.6	104.0	106.9	110.9	116.1	123.9	134.4	144.3	143.4
El Salvador [d]	101.7	100.9	102.5	104.9	108.6	113.9	119.8	123.3	119.3
Guatemala [d]	102.2	104.9	105.5	108.9	110.4	113.0	118.2	118.1	119.9
Jamaica [e]	98.0	97.4	96.3	97.9	99.0	100.0	101.4	103.4	102.4
Mexico [d]	99.5	98.6	98.2	99.6	102.8	107.7	112.2	114.5	102.4
Nicaragua [d]	101.8	101.0	103.7	112.9	123.2	136.2	148.8	159.9	163.6
Panama [f]	95.5	89.7	95.7	99.4	108.5	115.9	132.3	136.7	142.0
Peru [e]	98.1	98.1	99.8	102.5	107.1	115.0	124.3	134.7	136.5
Uruguay [g]	97.7	92.1	93.9	99.8	110.7	120.5	130.9	141.0	145.2

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

[a] Preliminary figures.

[b] Dependent workers paying into pension schemes.

[c] Workers covered by social and labour legislation.

[d] Workers with social security coverage.

[e] Workers of medium-sized and large firms.

[f] Private-sector workers with social security coverage. From 2008 on, refers to workers in small, medium-sized and large businesses in manufacturing, commerce and services.

[g] Employement positions generating social security contributions.

Table A-24

LATIN AMERICA: VISIBLE UNDEREMPLOYMENT BY HOURS

(Percentages of employed workers)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Argentina [b]	18.9	24.0	20.7	17.5	14.2	12.5	10.4	9.5	11.1
Brazil [c]	…	4.1	5.0	4.6	3.7	4.1	3.6	3.1	3.1
Chile [d]	7.1	6.2	6.5	8.4	8.5	8.5	8.0	9.0	10.8
Colombia [e]	16.3	16.8	15.3	15.2	13.8	11.9	10.0	9.1	9.5
Costa Rica [f]	11.3	12.3	15.2	14.4	14.6	13.5	11.5	10.5	11.9
Ecuador [g]	12.6	10.2	9.8	8.1	7.3	6.3	11.3	10.6	11.8
El Salvador [h]	3.8	4.3	4.8	4.5	6.2	4.9	5.3	6.3	7.7
Honduras [i]	3.8	4.7	5.9	6.5	6.9	5.4	4.3	3.5	4.2
Mexico [j]	…	…	…	…	7.5	6.9	7.2	6.9	9.3
Panama [k]	…	…	…	4.4	4.6	3.4	2.7	2.1	2.1
Paraguay [l]	8.3	9.5	8.8	8.3	7.5	5.6	5.8	6.6	...
Peru [m]	12.8	11.8	9.8	9.6	9.5	9.4	9.5	8.9	9.3
Uruguay [k]	15.3	18.4	19.3	15.8	17.1	13.6	12.9	10.8	9.1

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

[a] Preliminary figures.

[b] Employed persons who work less than 35 hours per week and wish to work more hours; total urban areas.

[c] Employed persons who work less than 40 hours per week and wish to work more hours; six metropolitan areas.

[d] Employed persons who work less than 35 hours per week and who wish to work more; national total; third quarter of each year. The figures up to 2005 and since 2006 are not directly comparable since the sample changed.

[e] Employed persons who work less than 48 hours per week and wish to work more hours; 13 metropolitan areas.

[f] Employed persons who work less than 47 hours per week and wish to work more hours; national total.

[g] Employed persons who work less than 40 hours per week and wish to work more hours. Up to 2006, Cuenca, Guayaquil and Quito; since 2007, urban national.

[h] Employed persons who work less than 40 hours per week and wish to work more hours; total urban areas. New measurements have been used since 2007; the data are not comparable with the previous series.

[i] Employed persons who work less than 36 hours per week and wish to work more hours; total urban areas.

[j] Employed workers wishing to work more than their current job permits, national total.

[k] Employed persons who work less than 40 hours per week and wish to work more hours; total urban areas.

[l] Employed persons who work less than 30 hours per week and wish to work more hours; total urban areas.

[m] Employed persons who work less than 35 hours per week and wish to work more hours; Metropolitan Lima.

Table A-25

LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

(Average annual Index, 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Argentina [b]	98.8	79.6	89.3	97.5	104.8	114.1	124.5	135.4	151.3
Bolivia (Plurinational State of) [c]	105.8	109.3	111.1	114.1	110.0	101.2	98.4	...	...
Brazil [d]	95.1	93.1	84.9	85.5	85.2	88.2	89.5	91.4	92.6
Chile [e]	101.7	103.7	104.6	106.5	108.5	110.6	113.7	113.5	118.9
Colombia [b]	99.7	102.7	102.0	103.7	105.3	109.3	109.0	106.9	108.0
Costa Rica [f]	101.0	105.1	105.5	102.8	100.8	102.4	103.8	101.7	109.5
Cuba	96.2	105.1	107.8	114.6	129.5	144.5	142.3	142.5	148.3
El Salvador [g]	95.1	94.4	93.5	90.3	88.2	88.5	86.4	83.7	86.6
Guatemala [f]	100.5	99.6	100.0	97.8	93.9	92.9	91.4	89.0	89.1
Mexico [b]	...	108.7	110.1	110.4	110.7	112.3	113.4	115.9	116.6
Nicaragua [f]	101.0	104.5	106.7	104.3	104.4	106.7	104.4	100.2	106.0
Panama [h]	98.8	95.8	95.3	94.5	93.4	95.3	96.5	95.9	95.5
Paraguay	101.4	96.3	95.6	97.2	98.2	98.8	101.1	100.4	104.9
Peru [i]	99.1	103.7	105.3	106.5	104.4	105.7	103.8	106.1	106.4 [j]
Uruguay	99.7	89.0	77.9	77.9	81.5	85.0	89.0	92.2	98.9
Venezuela (Bolivarian Republic of)	106.9	95.1	78.4	78.6	80.7	84.8	85.8	81.9	76.5

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Manufacturing. From 2005, registered private-sector workers.
[c] Private-sector average wage index.
[d] Workers covered by social and labour legislation. Since 2003, private sector only.
[e] General index of hourly wages.
[f] Average wages declared by workers covered by social security.
[g] Gross salary.
[h] Average wages declared by workers covered by social security. From 2008 on, refers to workers in small, medium-sized and large businesses in manufacturing, commerce and services.
[i] Private sector workers in the Lima metropolitan area.
[j] Estimate based on data for June.

Table A-26

LATIN AMERICA AND THE CARIBBEAN: REAL MINIMUM WAGE

(Indices 2000=100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Argentina	101.1	81.3	84.0	129.8	171.1	193.2	219.6	253.3	292.1
Bolivia (Plurinational State of)	110.8	116.0	116.9	112.0	106.3	111.1	109.7	108.0	116.9
Brazil	109.8	114.3	117.4	121.4	128.5	145.3	154.8	160.8	172.7
Chile	103.8	106.8	108.3	111.3	113.4	116.3	118.5	118.3	124.7
Colombia	101.2	101.9	102.0	103.8	105.0	107.9	108.6	106.9	110.2
Costa Rica	100.2	99.5	99.2	97.6	97.8	99.5	100.8	99.5	103.3
Cuba	89.6	94.3	92.4	94.4	206.6	196.6	183.6	180.6	182.8
Ecuador	111.5	112.5	119.3	122.2	125.9	130.0	135.1	146.7	152.0
El Salvador	96.4	94.6	96.7	95.3	91.1	90.5	92.7	92.9	101.7
Guatemala	108.3	108.6	117.3	117.6	115.9	119.6	117.7	105.7	111.1
Haiti	88.4	80.5	107.5	91.7	79.6	70.2	64.8	56.4	72.2
Honduras	102.5	104.6	113.6	114.5	121.2	127.4	130.9	131.1	223.5
Mexico	100.4	101.2	100.4	99.1	99.0	99.0	98.3	96.2	94.8
Nicaragua	102.1	105.9	109.2	113.5	118.1	128.5	131.6	141.6	165.5
Panama	107.0	105.8	106.5	107.5	104.5	108.1	106.3	109.2	106.5
Paraguay	103.7	102.9	105.8	102.4	104.4	106.7	103.9	101.3	102.0
Peru	101.2	101.0	102.2	106.9	105.1	112.0	111.7	114.5	111.2
Dominican Republic	105.7	105.1	95.5	81.2	96.4	89.6	93.8	87.7	93.9
Uruguay	98.7	88.7	77.7	77.5	131.9	153.2	159.6	176.9	194.3
Venezuela (Bolivarian Republic of)	100.0	94.5	83.3	92.7	103.7	113.9	114.4	107.1	99.4

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

Table A-27

LATIN AMERICA AND THE CARIBBEAN: MONETARY BASE

(End-of-year balances as percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Antigua and Barbuda	13.3	13.7	16.4	15.7	15.6	14.8	13.2	12.1	13.2
Argentina	4.5	9.3	12.3	11.7	10.3	12.2	12.2	10.6	10.4
Bahamas	7.3	7.9	8.2	10.6	9.0	8.1	9.1	8.8	9.4
Barbados	12.7	18.3	20.1	13.7	12.9	13.0	16.1	16.0	15.8
Belize	11.9	10.3	10.3	10.9	11.5	13.3	13.2	14.1	16.1
Bolivia (Plurinational State of)	8.3	8.2	8.5	8.3	10.2	12.2	16.9	18.5	24.3
Brazil	4.1	5.0	4.3	4.6	4.7	5.1	5.5	4.9	5.3
Chile	4.2	4.2	4.1	4.1	4.4	4.5	4.3	4.8	5.2
Colombia	5.1	5.7	6.0	6.3	6.7	7.0	7.5	7.8	7.8
Costa Rica	5.4	5.2	5.7	5.9	6.4	6.7	7.6	7.3	7.2
Cuba	32.2	32.5	27.8	31.6	31.6	26.0	23.6	31.1	...
Dominica	12.7	18.9	17.7	15.2	15.1	17.2	16.8	13.1	14.8
Ecuador	...	...	...	...	...	...	10.0	11.3	13.3
El Salvador	11.8	9.9	11.6	10.4	9.8	9.2	10.2	10.4	10.8
Grenada	15.9	18.2	18.1	25.9	16.9	17.2	18.4	15.7	16.4
Guatemala	9.5	10.0	9.8	10.0	10.2	11.1	10.9	9.7	10.4
Guyana	15.3	16.4	17.3	17.4	18.5	17.3	15.5	15.5	17.5
Haiti	19.9	22.0	24.0	22.7	21.1	20.4	20.3	21.0	22.2
Honduras	8.3	8.5	8.4	9.1	8.9	9.6	11.3	11.4	10.5
Jamaica	8.2	7.6	7.5	7.3	7.1	7.4	7.3	7.0	7.4
Mexico	3.5	3.8	4.0	4.0	4.1	4.3	4.4	4.8	5.4
Nicaragua	6.1	6.3	7.3	7.5	7.8	8.8	9.5	8.6	9.9
Panama	0.9	6.0	6.0	5.6	5.2	4.9	5.1	4.4	5.2
Paraguay	8.4	8.8	9.7	9.8	9.2	9.2	10.5	10.3	14.4
Peru	3.2	3.4	3.5	3.9	4.5	4.6	5.3	5.9	6.0
Dominican Republic	9.3	8.3	12.5	8.7	9.1	9.0	9.0	8.5	8.2
Saint Kitts and Nevis	16.6	18.9	16.7	19.6	16.3	18.3	18.7	17.8	24.3
Saint Vincent and the Grenadines	18.2	15.4	15.3	14.9	14.4	14.5	15.5	14.5	11.7
Saint Lucia	13.3	13.3	14.2	15.7	12.9	13.4	14.1	14.4	15.7
Suriname	24.8	21.1	15.4	17.4	15.2	17.2	19.5	17.6	24.4
Trinidad and Tobago	8.8	8.1	6.6	5.7	7.0	7.2	7.0	8.6	13.9
Uruguay	3.9	4.1	4.3	4.0	5.0	4.5	5.6	5.5	5.5
Venezuela (Bolivarian Republic of)	7.3	7.1	8.4	7.8	7.6	11.4	13.2	12.5	14.1

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

Table A-28

LATIN AMERICA AND THE CARIBBEAN: MONEY SUPPLY (M3) [a]

(End-of-year balances as percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Antigua and Barbuda	83.2	87.2	101.4	98.6	100.3	95.5	93.6	91.8	100.3
Argentina	24.9	21.9	24.9	24.7	25.8	25.8	26.1	22.4	24.1
Bahamas	65.3	65.9	65.9	71.8	71.9	72.3	75.9	80.7	81.3
Barbados	83.2	96.8	95.1	105.1	108.1	110.8	118.6	118.9	120.2
Belize	59.7	57.0	55.7	59.1	59.6	62.0	68.0	72.4	78.6
Bolivia (Plurinational State of)	52.9	49.4	47.7	42.3	43.0	42.4	47.8	46.5	58.7
Brazil [b]	24.7	26.9	24.3	25.4	27.1	27.9	29.4	35.7	37.1
Chile	54.2	54.6	48.8	50.3	53.3	53.2	58.1	69.0	64.4
Colombia [c]	27.4	27.1	27.4	28.7	30.6	31.8	33.4	35.4	35.2
Costa Rica	33.8	36.3	37.1	42.6	44.0	44.3	43.8	46.8	49.5
Cuba [d]	39.0	40.6	37.7	38.0	46.6	38.6	37.2	41.9	...
Dominica	76.5	87.7	90.9	87.7	86.7	90.3	90.8	87.2	95.5
Ecuador	...	...	...	...	...	...	26.1	34.2	38.1
El Salvador	44.9	42.0	40.2	39.2	36.9	37.8	40.9	42.4	45.0
Grenada	99.7	104.2	101.7	125.6	101.4	99.6	102.3	95.7	109.2
Guatemala	32.1	31.7	33.5	34.0	35.7	38.3	37.0	35.2	37.6
Guyana	43.7	44.5	46.3	46.0	47.2	49.2	46.4	47.0	48.9
Haiti	38.7	45.4	47.8	42.5	42.1	38.5	37.3	38.1	39.3
Honduras	44.9	46.5	47.2	49.2	50.8	55.0	56.6	52.6	51.6
Jamaica	34.9	35.2	33.8	34.1	33.2	32.6	33.6	30.8	29.6
Mexico	43.3	44.4	45.6	45.0	48.5	49.3	50.2	54.5	59.4
Nicaragua	37.4	40.0	41.8	43.0	41.3	39.9	41.9	38.2	43.1
Panama	85.6	80.9	79.5	78.3	78.0	86.1	87.5	84.5	...
Paraguay	35.3	31.9	29.1	28.3	27.5	26.8	30.0	31.3	39.8
Peru	26.1	26.1	24.7	24.0	25.8	24.3	26.8	29.9	30.4
Dominican Republic	37.9	35.7	49.8	39.1	37.3	33.8	34.5	31.4	33.4
Saint Kitts and Nevis	93.8	96.6	100.4	111.1	107.5	110.4	117.2	107.2	123.0
Saint Vincent and the Grenadines	76.7	77.2	75.5	77.4	76.5	72.6	70.6	68.2	68.0
Saint Lucia	70.4	71.1	72.8	73.3	77.6	85.7	89.1	92.6	97.0
Suriname	65.0	55.8	51.0	64.6	58.0	61.0	68.2	61.3	80.3
Trinidad and Tobago	40.3	40.9	32.2	33.3	35.1	37.4	37.2	35.7	...
Uruguay	91.6	87.7	81.1	66.0	59.1	57.1	49.5	56.2	49.6
Venezuela (Bolivarian Republic of) [e]	19.1	18.2	23.0	21.8	23.3	30.4	31.5	29.1	33.6

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

[a] According to the ECLAC definition, this corresponds to M1 plus savings and time deposits in national currency plus foreign currency deposits.

[b] According to the country's definition, this corresponds to M1 plus special interest-bearing deposits, savings deposits and securities issued by deposit institutions.

[c] According to the country's definition, this also includes deposits of entitites in liquidation and term deposit certificates of special entities and demand deposits of non-bank entities.

[d] Refers to M2 (M1 plus fixed-term deposits).

[e] Does not include foreign-currency deposits.

Table A-29

LATIN AMERICA AND THE CARIBBEAN: FOREIGN CURRENCY DEPOSITS

(End-of-year balances as percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Antigua and Barbuda	5.5	7.6	9.0	7.8	8.3	8.6	10.8	8.3	13.7
Argentina	16.5	0.7	1.4	1.7	2.0	2.3	2.6	2.7	3.4
Bahamas	1.6	1.6	1.7	1.6	2.2	2.3	2.7	2.8	3.1
Barbados	8.3	12.5	10.7	10.7	16.4	11.3	19.8	14.8	11.3
Bolivia (Plurinational State of)	45.0	41.7	39.4	33.1	30.9	26.7	23.9	20.3	24.4
Chile	6.3	5.9	5.4	4.9	4.7	4.7	4.8	9.0	7.1
Costa Rica	14.7	16.0	16.2	21.6	21.7	20.8	18.1	22.0	23.9
Dominica	2.2	3.2	6.1	3.7	1.4	1.4	1.1	1.5	1.4
Grenada	6.6	6.8	7.4	7.2	7.1	5.3	7.8	6.9	8.1
Guatemala	1.4	2.0	2.8	3.7	3.9	4.3	4.7	4.8	5.9
Haiti	13.1	17.6	20.0	16.6	18.0	15.9	15.8	16.7	18.2
Honduras [a]	11.7	12.4	12.5	13.6	13.4	13.8	14.0	13.9	13.8
Jamaica	8.7	9.8	11.1	11.3	10.5	9.6	10.9	10.1	9.8
Mexico	1.7	1.5	1.2	1.4	1.5	1.4	1.3	1.4	1.6
Nicaragua	25.0	27.9	28.4	28.6	27.8	26.1	27.4	26.1	30.2
Paraguay	19.9	18.4	14.8	13.1	11.7	10.6	10.7	12.1	14.1
Peru	17.4	17.1	15.3	13.2	14.1	12.4	12.4	14.0	13.4
Dominican Republic [b]	5.8	7.5	9.6	6.6	7.3	6.5	6.5	6.1	6.3
Saint Kitts and Nevis	25.7	25.3	27.4	29.5	29.0	31.9	32.9	25.9	26.4
Saint Vincent and the Grenadines	1.0	1.1	1.0	2.4	1.2	2.4	2.7	2.3	1.9
Saint Lucia	1.4	1.3	1.6	1.9	2.7	8.8	5.8	6.0	5.6
Suriname	25.4	21.7	23.9	31.7	27.6	29.2	32.6	28.4	36.8
Trinidad and Tobago	9.1	9.8	6.0	8.4	7.3	9.1	9.0	9.9	...
Uruguay	81.5	78.8	71.6	57.1	48.5	45.8	36.9	43.6	36.3

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

[a] Term deposits in foreign currency.

[b] Series corresponding to harmonized monetary indicators.

Table A-30

LATIN AMERICA AND THE CARIBBEAN: DOMESTIC CREDIT TO THE PRIVATE SECTOR

(End-of-year balances as percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Antigua and Barbuda	73.0	77.4	76.9	71.8	75.1	75.5	75.2	78.8	85.7
Argentina	20.8	15.3	10.8	10.5	11.7	13.0	14.5	13.7	13.5
Bahamas	67.8	69.1	66.9	69.8	73.3	78.8	83.8	89.1	89.1
Barbados	51.0	55.7	51.4	58.4	68.1	72.5	72.2	77.4	71.5
Belize	44.6	47.8	51.5	53.5	54.0	55.8	61.2	63.6	67.6
Bolivia (Plurinational State of)	53.2	51.1	47.8	42.1	39.3	34.8	34.0	31.1	33.9
Brazil	32.5	32.5	31.8	32.0	37.0	43.8	51.0	59.8	64.5
Chile	65.6	65.9	62.7	62.3	64.3	63.7	69.7	79.3	69.2
Colombia	21.0	19.4	19.1	19.0	19.9	23.1	26.1	27.6	26.0
Costa Rica	23.5	25.4	26.5	26.7	29.4	31.1	36.5	41.7	40.4
Cuba [b]	...	...	...	...	9.2	15.0	21.0	24.1	...
Dominica	62.3	63.9	60.2	59.5	60.1	63.2	60.8	60.5	64.5
Ecuador	26.6	20.9	19.9	21.1	23.0	23.9	25.0	26.4	27.9
El Salvador	40.2	44.5	42.3	42.1	41.9	42.3	42.1	40.8	40.5
Grenada	81.2	80.6	75.9	81.2	74.5	81.6	86.5	87.2	100.5
Guatemala	20.6	20.0	20.4	20.9	23.2	27.1	29.9	29.0	29.0
Guyana	27.2	26.6	21.2	19.4	19.9	21.2	20.8	22.8	22.8
Haiti	15.6	18.4	17.7	15.4	15.7	14.4	14.2	14.9	16.4
Honduras	36.7	36.1	37.7	38.5	39.7	45.2	52.8	52.1	52.6
Jamaica	8.3	10.0	12.5	13.3	14.1	15.8	18.2	20.4	19.3
Mexico	12.9	14.3	14.0	13.2	14.4	16.8	18.4	17.3	18.6
Nicaragua	17.7	19.6	22.9	25.4	29.3	34.1	39.9	38.3	34.3
Panama	108.6	90.4	87.1	85.1	87.1	88.4	90.6	89.4	87.1
Paraguay [c]	-3.1	-2.7	-4.1	-4.8	-3.9	-3.3	-4.7	-4.9	-8.7
Peru	30.4	30.1	28.7	27.0	28.7	28.6	33.1	33.6	35.5
Dominican Republic	32.7	33.6	37.1	23.4	23.3	19.6	21.6	20.9	21.3
Saint Kitts and Nevis	75.1	72.4	79.0	80.8	79.4	79.7	84.7	80.7	91.1
Saint Vincent and the Grenadines	65.2	64.2	62.0	59.6	57.6	58.6	60.1	59.0	59.6
Saint Lucia	93.5	92.8	85.1	86.3	92.2	104.5	129.1	138.2	145.4
Suriname	16.9	18.3	19.7	25.2	25.5	27.7	32.7	35.3	42.4
Trinidad and Tobago	28.3	30.0	25.9	26.6	26.8	27.1	28.6	26.4	30.8
Uruguay	66.2	73.4	45.4	30.3	26.6	25.9	24.5	29.4	22.6
Venezuela (Bolivarian Republic of)	11.6	9.6	8.6	10.7	12.7	16.5	23.1	21.1	...

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

[a] Preliminary figures.

[b] Includes credit, services and agricultural production cooperative production units, private farmers and individuals.

[c] Credit granted to the private sector by the banking sector.

Table A-31

LATIN AMERICA AND THE CARIBBEAN: REPRESENTATIVE LENDING RATES

(Annual average of annualized monthly rates)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Antigua and Barbuda [a]	...	...	...	11.5	10.7	10.7	10.3	10.1	9.5
Argentina [b]	28.6	40.7	16.8	10.8	10.5	12.9	14.0	19.8	21.3
Bahamas [c]	...	...	12.0	11.2	10.3	10.0	10.6	11.0	10.6
Barbados [d]	...	...	7.6	7.4	8.5	10.0	10.4	9.7	8.7
Belize [e]	15.5	14.8	14.4	13.9	14.2	14.2	14.3	14.2	14.1
Bolivia (Plurinational State of) [f]	13.7	10.9	9.1	8.2	8.2	7.8	8.2	8.9	8.3
Brazil [g]	41.1	44.4	49.8	41.1	43.7	40.0	34.5	38.8	40.4
Chile [h]	16.7	14.4	13.0	11.0	13.5	14.4	13.6	15.2	12.9
Colombia [i]	20.7	16.3	15.2	15.1	14.6	12.9	15.4	17.2	13.0
Costa Rica [j]	26.7	26.8	26.2	23.4	24.0	22.7	17.3	16.7	21.6
Cuba [k]	...	...	9.6	9.7	9.8	9.4	9.1	9.0	9.3
Dominica [a]	...	...	...	8.9	9.4	9.5	9.2	9.1	10.0
Ecuador [l]	15.5	14.1	12.6	10.2	8.7	8.9	10.1	9.8	9.2
El Salvador [m]	9.6	7.1	6.6	6.3	6.9	7.5	7.8	7.9	9.3
Grenada [a]	...	...	...	10.3	9.8	9.8	9.7	9.4	10.7
Guatemala [a]	19.0	16.9	15.0	13.8	13.0	12.8	12.8	13.4	13.8
Guyana [d]	17.3	17.3	16.6	16.6	15.1	14.9	14.1	13.9	14.0
Haiti [n]	28.6	25.5	30.7	34.1	27.1	29.5	31.2	23.3	21.6
Honduras [a]	23.8	22.7	20.8	19.9	18.8	17.4	16.6	17.9	19.4
Jamaica [o]	29.4	26.1	25.1	25.1	23.2	22.0	22.0	22.3	22.6
Mexico [p]	12.8	8.2	6.9	7.2	9.9	7.5	7.6	8.7	7.1
Nicaragua [q]	18.6	18.3	15.5	13.5	12.1	11.6	13.0	13.2	14.0
Panama [r]	10.6	9.2	8.9	8.2	8.2	8.1	8.3	8.2	8.3
Paraguay [s]	28.3	34.3	30.5	21.2	15.3	16.6	14.6	14.6	15.6
Peru [t]	26.1	23.3	20.2	18.7	17.9	17.1	16.5	16.7	16.0
Dominican Republic [d]	20.0	21.3	27.8	30.3	21.4	15.7	11.7	16.0	12.9
Saint Kitts and Nevis [a]	...	...	...	10.0	9.5	9.2	9.3	8.6	8.6
Saint Vincent and the Grenadines [a]	...	...	...	9.7	9.6	9.7	9.6	9.5	9.1
Saint Lucia [a]	...	...	...	10.8	10.3	10.5	9.9	9.3	9.0
Suriname [o]	25.7	22.2	21.0	20.4	18.1	15.7	13.8	12.2	11.7
Trinidad and Tobago [d]	15.6	13.4	11.0	9.4	9.1	10.2	10.5	12.3	12.5
Uruguay [u]	38.1	116.4	56.6	26.0	15.3	10.7	10.0	13.1	16.6
Venezuela (Bolivarian Republic of) [v]	24.8	38.4	25.7	17.3	15.6	14.6	16.7	22.8	20.6

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

[a] Weighted average lending rates.
[b] Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.
[c] Interest rate on loans and overdrafts, weighted average.
[d] Prime lending rate.
[e] Rate for personal and business loans, residential and other construction; weighted average.
[f] Nominal dollar rate for 60-91-day banking operations.
[g] Preset lending rate for legal persons.
[h] Lending rate for 90-360-day periods, non-adjustable operations.
[i] Total lending rate of the system (weighted average of all lending rates).
[j] Average lending rate in the financial system.
[k] Corporate lending rate in convertible pesos.
[l] Benchmark dollar lending rate.
[m] Basic lending rate for up to 1 year.
[n] Average of minimum and maximum lending rates.
[o] Average lending rate.
[p] Lending rate published by the International Monetary Fund.
[q] Weighted average of the weekly lending rate for loans in national currency in the system.
[r] Interest rate on 1-year trade credit.
[s] Weighted average of effective lending rates in national currency, not including overdrafts or credit cards.
[t] Average lending rate, constant structure.
[u] Business credit, 30-367 days.
[v] Average rate for loan operations for the six major commercial banks.

Table A-32
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variation December – December)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 [a]
Latin America and the Caribbean [b]	**6.1**	**12.2**	**8.5**	**7.4**	**6.1**	**5.0**	**6.5**	**8.2**	**4.6**	**5.9**
Antigua and Barbuda	...	...	...	...	...	0.0	5.2	0.7	2.4	3.5 [c]
Argentina	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	7.2	7.7	10.7
Bahamas	2.9	1.9	2.4	1.9	1.2	2.3	2.8	4.6	1.3	0.9 [c]
Barbados	-0.3	0.9	0.3	4.3	7.4	5.6	4.7	7.3	4.4	5.2 [d]
Belize	...	3.2	2.3	3.1	4.2	2.9	4.1	4.4	...	...
Bolivia (Plurinational State of)	0.9	2.4	3.9	4.6	4.9	4.9	11.7	11.8	0.3	1.4
Brazil	7.7	12.5	9.3	7.6	5.7	3.1	4.5	5.9	4.3	5.2
Chile	2.6	2.8	1.1	2.4	3.7	2.6	7.8	7.1	-1.4	1.5
Colombia	7.6	7.0	6.5	5.5	4.9	4.5	5.7	7.7	2.0	2.1
Costa Rica	11.0	9.7	9.9	13.1	14.1	9.4	10.8	13.9	4.0	6.2
Cuba [e]	-1.4	7.3	-3.8	2.9	3.7	5.7	10.6	-0.1	-0.1	...
Dominica	1.1	0.5	2.8	-7.2	2.7	1.8	6.0	2.0	3.3	4.2 [c]
Ecuador	22.4	9.3	6.1	1.9	3.1	2.9	3.3	8.8	4.3	3.2
El Salvador	1.4	2.8	2.5	5.4	4.3	4.9	4.9	5.5	-0.2	0.1
Grenada	-0.7	2.3	-7.1	2.5	6.2	1.7	7.4	5.2	-2.4	3.9 [c]
Guatemala	8.9	6.3	5.9	9.2	8.6	5.8	8.7	9.4	-0.3	3.5
Guyana	1.5	6.0	...	...	8.2	4.2	14.1	6.4	3.7	...
Haiti	8.1	14.8	40.4	20.2	14.8	10.2	9.3	10.1	2.1	6.4 [f]
Honduras	8.8	8.1	6.8	9.2	7.7	5.3	8.9	10.8	3.0	4.4
Jamaica	8.6	7.3	13.8	13.6	12.6	5.6	16.8	16.9	10.2	14.1
Mexico	4.4	5.7	4.0	5.2	3.3	4.1	3.8	6.5	3.6	3.9
Nicaragua	...	...	6.7	8.9	9.7	10.2	16.2	12.7	1.8	5.4
Panama	0.0	1.9	1.4	-0.2	3.4	2.2	6.4	6.8	1.9	3.2
Paraguay	8.4	14.6	9.3	2.8	9.9	12.5	6.0	7.5	1.9	4.5
Peru	-0.1	1.5	2.5	3.5	1.5	1.1	3.9	6.7	0.2	1.0
Dominican Republic	4.4	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.8	7.9
Saint Kitts and Nevis	...	...	...	...	...	7.9	2.1	7.6	1.0	0.5 [c]
Saint Vincent and the Grenadines	5.5	-0.7	0.5	3.5	5.2	9.6	0.0	3.8	1.0	2.7 [d]
Saint Lucia	-0.2	0.4	2.7	...	...	4.8	8.3	8.7	-1.6	-0.8 [d]
Suriname	...	...	...	...	15.8	4.7	8.3	9.4	1.3	3.1 [f]
Trinidad and Tobago	3.2	4.3	3.0	5.6	7.2	9.1	7.6	14.5	1.3	7.3 [f]
Uruguay	3.6	25.9	10.2	7.6	4.9	6.4	8.5	9.2	5.9	7.1
Venezuela (Bolivarian Republic of)	12.3	31.2	27.1	19.2	14.4	17.0	22.5	31.9	26.9	32.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Twelve-month variation to May 2010.
[b] The only English-speaking Caribbean countries included are Barbados, Jamaica and Trinidad and Tobago.
[c] Twelve-month variation to March 2010.
[d] Twelve-month variation to February 2010.
[e] Refers to national-currency markets.
[f] Twelve-month variation to April 2010.

Table A-33
LATIN AMERICA AND THE CARIBBEAN: WHOLESALE PRICES
(Percentage variation December – December)

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 [a]
Argentina	WPI	-3.4	113.7	2.0	7.9	10.6	7.2	14.6	8.8	10.3	15.2
Brazil	IPA-Media	11.9	33.6	7.6	15.1	-1.0	4.4	9.2	10.8	-4.4	3.4
Chile	WPI	3.1	10.4	-1.0	7.8	3.2	7.9	14.0	22.7	-14.9	-1.4
Colombia	PPI	9.0	3.8	10.2	5.2	3.0	5.3	1.3	9.0	-2.2	1.3
Costa Rica	IND-PPI	8.6	8.4	11.0	17.7	12.1	13.7	14.6	23.5	-1.2	0.7
Ecuador	PPI	-5.6	17.7	4.5	4.3	21.6	7.2	18.2	-28.3	33.0	11.9
El Salvador	WPI	...	0.3	2.6	6.8	7.5	3.9	10.8	-6.9	2.7	4.8 [b]
Mexico	NPPI	1.3	9.2	6.8	8.0	3.4	7.3	5.4	7.8	4.1	3.9
Peru	WPI-NP	-2.2	1.7	2.0	4.9	3.6	1.3	5.2	8.8	-5.1	2.0
Uruguay	PPI-NP	3.8	64.6	20.5	5.1	-2.2	8.2	16.1	6.4	10.5	4.7
Venezuela (Bolivarian Republic of)	WPI-VAT	10.2	49.4	48.4	23.1	14.2	15.9	17.2	32.4	24.8	32.8

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Twelve-month variation to May 2010.
[b] Twelve-month variation to April 2010.
Abbreviations:
WPI: Wholesale price index; IPA-Media: Wholesale price index (acronym in Portuguese); PPI: Producer price index; IND-PPI: Industrial producer price index; NPPI: National producer price index ; WPI-NP: Wholesale price index, national products; PPI-NP: Producer price index, national products; WPI-VAT: Wholesale price index, includes value added tax.

Table A-34
LATIN AMERICA AND THE CARIBBEAN: PUBLIC-SECTOR BALANCE
(Percentages of GDP)

	Central government						Non-financial public sector					
	Primary balance			Overall balance			Primary balance			Overall balance		
	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]
Latin America and the Caribbean (33 countries) [b]	**2.1**	**1.3**	**-0.6**	**-0.5**	**-1.3**	**-3.4**	**...**	**...**	**...**	**1.1**	**-0.3**	**-3.6**
Latin America and the Caribbean (19 countries) [c]	**2.2**	**1.2**	**-1.0**	**0.3**	**-0.4**	**-2.8**	**3.8**	**2.3**	**...**	**1.3**	**0.1**	**-3.2**
Caribbean (13 countries) [d]	**-3.1**	**2.0**	**0.3**	**-1.6**	**-2.1**	**-4.0**	**...**	**...**	**...**	**...**	**...**	**...**
Antigua and Barbuda	-3.1	-3.6	-9.0	-6.4	-6.8	-10.6	...	...	...	...	...	...
Argentina [e]	2.7	2.8	1.2	0.6	0.7	-1.0	3.2	2.6	...	0.7	0.3	...
Bahamas	0.6	-1.1	-0.9	-1.3	-3.3	-3.2	...	...	...	...	...	...
Barbados	2.7	-0.8	-3.2	-1.8	-6.4	-9.2	2.7	-0.8	-3.2	-1.8	-6.4	-9.2
Belize	4.1	5.4	0.8	-1.2	1.5	-2.9	...	...	...	...	...	...
Bolivia (Plurinational state of) [f]	3.5	0.8	1.1	2.3	-0.0	0.2	3.0	4.1	1.0	-1.7	3.2	0.1
Brazil [g]	2.2	2.4	1.3	-1.9	-1.2	-3.6	3.5	3.5	2.1	-2.8	-1.9	-3.3
Chile	9.4	5.7	-3.9	8.8	5.2	-4.4	11.7	6.8	...	10.8	5.9	...
Colombia [h]	1.0	0.9	-1.1	-2.7	-2.3	-4.1	2.8	...	...	-1.0	0.0	-2.5
Costa Rica	3.7	2.4	-1.3	0.6	0.2	-3.4	4.9	2.1	-2.5	1.8	-0.1	-4.6
Cuba	-1.8	-5.5	-3.5	-3.2	-6.9	-4.8	...	...	...	...	...	...
Dominica	4.0	-0.8	-1.3	1.0	-3.2	-2.7	...	...	...	...	...	...
Ecuador	1.9	0.3	-4.2	-0.1	-1.1	-5.1	4.0	0.5	-4.8	2.1	-0.9	-5.5
El Salvador	2.2	1.7	-1.2	-0.2	-0.6	-3.7	0.5	-0.7	-3.0	-1.9	-3.1	-5.6
Grenada	-4.6	-4.2	-3.5	-6.6	-6.1	-6.2	...	...	...	...	...	...
Guatemala	0.0	-0.3	-1.7	-1.4	-1.6	-3.2	...	...	...	...	...	...
Guyana	-2.8	-2.1	-2.1	-4.5	-3.8	-3.7	...	...	...	...	...	...
Haiti	-1.3	-1.0	-0.8	-1.6	-1.3	-1.3	...	...	...	...	...	...
Honduras [i]	-2.4	-1.9	-5.4	-3.1	-2.5	-6.2	...	...	...	...	...	...
Jamaica	7.2	4.9	7.4	-4.2	-7.4	-7.2	...	...	...	...	...	...
Mexico [j]	-0.5	-0.2	-0.5	-2.0	-1.6	-2.2	1.9	1.6	-0.4	0.0	-0.1	-2.3
Nicaragua	2.0	0.0	-0.9	0.4	-1.2	-2.3	2.8	0.5	-0.1	1.3	-0.8	-1.5
Panama	4.6	3.4	1.4	1.2	0.3	-1.5	6.9	3.5	1.9	3.5	0.4	-1.0
Paraguay	1.8	3.1	0.7	1.0	2.5	0.1	3.9	4.0	...	2.8	3.3	...
Peru	3.5	3.5	-0.6	1.8	2.2	-1.8	4.9	3.7	-0.6	3.1	2.1	-1.9
Dominican Republic [k]	1.4	-1.9	-1.5	0.1	-3.5	-3.4	...	...	...	...	...	...
Saint Kitts and Nevis [l]	6.0	8.1	9.0	-2.4	-0.3	0.7	...	...	...	...	...	...
Saint Vincent and the Grenadines	-0.6	2.2	-0.1	-3.6	-0.8	-3.1	...	...	...	...	...	...
Saint Lucia	0.9	3.0	1.0	-2.2	0.1	-2.5	...	...	...	...	...	...
Suriname	5.7	5.8	8.1	8.0	2.3	3.7	...	...	...	...	...	...
Trinidad and Tobago	7.1	9.2	-3.0	5.1	7.4	-5.6	...	...	...	...	...	...
Uruguay	2.1	1.7	1.3	-1.6	-1.1	-1.5	3.6	1.5	1.2	-0.1	-1.3	-1.6
Venezuela (Bolivarian Republic of)	4.6	0.1	-3.7	3.1	-1.2	-5.1	-1.0	-1.2	-6.7	-2.7	-2.7	-8.2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Simple averages of the figures for 33 countries.
[c] Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[d] Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago. The simple average for the central government includes the primary balance and the overall balance of the non-financial public sector of Barbados.
[e] The central government coverage corresponds to national public administration.
[f] The central government coverage corresponds to general government.
[g] The figures are derived from the primary balance based on the below-the-line criterion and nominal interest.
[h] The central government coverage corresponds to the central national government. The central government balance does not include the cost of financial restructuring.
[i] The central government coverage corresponds to the central administration.
[j] The central government coverage corresponds to the federal government. The coverage of the non-financial public sector refers to the public sector.
[k] The overall balance includes the residue.
[l] The central government coverage corresponds to the federal government.

Table A-35

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL REVENUE

(Percentages of GDP)

	Total revenue			Current revenue			Capital revenue		
	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]
Latin America and the Caribbean (33 countries) [b]	**25.0**	**25.1**	**24.4**	**23.6**	**23.6**	**23.1**	**0.3**	**0.4**	**0.3**
Latin America and the Caribbean (19 countries) [c]	**19.5**	**19.6**	**18.4**	**18.9**	**19.0**	**17.9**	**0.1**	**0.2**	**0.2**
Caribbean (13 countries) [d]	**31.5**	**31.3**	**31.4**	**28.9**	**28.6**	**28.9**	**0.4**	**0.5**	**0.3**
Antigua and Barbuda	24.0	23.8	20.2	23.2	22.7	20.1	0.2	0.2	0.1
Argentina	18.2	19.4	20.9	18.1	19.3	20.8	0.1	0.1	0.2
Bahamas	19.3	18.1	19.0	19.3	18.1	18.7	0.0	0.0	0.3
Barbados [e]	35.4	34.9	35.5	35.3	34.8	35.5	...	...	...
Belize	30.0	29.5	26.3	25.5	26.8	24.6	1.1	0.3	0.4
Bolivia (Plurinational State of) [f]	32.7	32.7	31.7	31.1	31.5	30.7	0.0	0.0	0.0
Brazil	23.2	23.8	23.5	23.2	23.8	23.5	...	...	...
Chile [g]	27.4	26.2	20.0	27.4	26.2	19.9	0.0	0.0	0.1
Colombia [h]	15.0	15.7	15.3	13.5	13.6	13.0	1.5	2.1	2.3
Costa Rica	15.5	15.9	14.1	15.5	15.8	14.0	0.0	0.0	0.0
Cuba	46.0	49.1	48.5	43.7	47.3	46.7	2.3	1.8	1.8
Dominica	41.8	41.2	40.6	33.6	33.4	34.5	0.1	0.0	0.0
Ecuador	18.7	25.5	22.3	18.7	25.5	22.3	0.0	0.0	0.0
El Salvador	14.6	14.7	13.5	14.3	14.4	13.1	0.0	0.0	0.0
Grenada	27.2	28.2	26.0	26.0	25.4	24.2	0.0	0.0	0.0
Guatemala	12.8	12.0	11.2	12.8	12.0	11.2	0.0	0.0	0.0
Guyana	26.0	25.4	27.2	22.8	21.1	23.0	0.0	0.1	0.0
Haiti	11.3	10.8	12.1	10.8	10.6	11.7	0.0	0.0	0.0
Honduras	19.1	19.7	17.4	17.5	17.6	15.5	0.0	0.0	0.0
Jamaica	28.7	27.1	29.9	27.2	26.2	28.3	1.0	0.2	0.7
Mexico	15.3	17.0	17.0	15.3	17.0	17.0	0.0	0.0	0.0
Nicaragua	23.7	22.3	21.5	19.9	19.4	19.1	0.0	0.0	0.0
Panama	19.2	19.7	18.3	18.9	18.2	18.0	0.1	1.1	0.2
Paraguay	17.6	17.3	19.6	17.2	16.9	19.2	0.0	0.0	0.4
Peru	18.2	18.1	15.6	18.1	18.0	15.5	0.1	0.1	0.1
Dominican Republic	17.7	15.9	13.7	17.3	15.7	13.5	0.0	0.0	0.0
Saint Kitts and Nevis [i]	41.9	41.1	42.7	37.2	35.3	36.7	2.6	4.0	1.9
Saint Vincent and the Grenadines	30.5	35.0	33.1	28.8	31.2	29.3	0.1	1.0	0.1
Saint Lucia	27.4	30.0	30.3	27.1	29.0	29.3	0.0	0.3	0.0
Suriname	46.6	37.2	49.1	38.3	33.4	43.3	0.0	0.0	0.0
Trinidad and Tobago	31.1	34.8	28.5	31.1	34.8	28.5	0.0	0.0	0.0
Uruguay	20.5	20.0	20.4	20.5	20.0	20.4	0.0	0.0	0.0
Venezuela (Bolivarian Republic of)	29.1	24.9	21.6	29.1	24.9	21.6	0.0	0.0	0.0

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

[a] Preliminary figures.

[b] Simple averages of the figures for 33 countries.

[c] Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[d] Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

[e] Non-financial public sector.

[f] General government.

[g] Total revenue corresponds to revenue plus sales of physical assets.

[h] Total revenue includes special funds and incorporates accrued revenues.

[i] Federal government.

Table A-36

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT FISCAL EXPENDITURE

(Percentages of GDP)

	Total expenditure			Current expenditure			Capital expenditure			Interest		
	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]	2007	2008	2009 [a]
Latin America and the Caribbean (33 countries) [b]	**25.6**	**26.3**	**27.8**	**20.1**	**20.7**	**22.3**	**5.4**	**5.5**	**5.4**	**2.7**	**2.5**	**2.7**
Latin America and the Caribbean (19 countries) [c]	**19.2**	**20.0**	**21.2**	**15.3**	**15.7**	**17.0**	**3.9**	**4.3**	**4.2**	**2.0**	**1.7**	**1.8**
Caribbean (13 countries) [d]	**33.1**	**33.3**	**35.4**	**25.6**	**26.1**	**28.5**	**7.4**	**7.1**	**6.9**	**4.0**	**3.9**	**4.1**
Antigua and Barbuda	30.5	30.5	30.8	24.0	23.6	24.9	6.4	6.9	5.9	3.3	3.2	1.6
Argentina	17.5	18.7	22.0	15.3	16.4	19.3	2.2	2.2	2.7	2.1	2.1	2.3
Bahamas	20.6	21.4	22.2	18.2	19.5	19.4	2.4	1.9	2.8	1.9	2.1	2.4
Barbados [e]	37.2	41.3	44.7	33.7	37.3	40.7	2.9	3.5	3.5	4.6	5.6	6.0
Belize	31.2	27.9	29.1	24.9	22.7	24.9	6.3	5.2	4.3	5.3	3.9	3.6
Bolivia (Plurinational State of) [f]	30.5	32.7	31.5	18.7	21.8	21.6	11.7	10.9	9.9	1.3	0.8	0.9
Brazil	25.1	25.0	27.0	20.6	20.3	22.4	4.5	4.7	4.6	4.1	3.6	4.9
Chile [g]	18.6	21.0	24.4	15.4	17.2	19.7	3.2	3.8	4.7	0.6	0.5	0.5
Colombia [h]	17.7	18.1	19.4	15.8	15.8	17.1	1.8	2.3	2.3	3.7	3.2	3.0
Costa Rica	14.9	15.7	17.5	13.6	13.5	15.7	1.3	2.2	1.8	3.1	2.2	2.1
Cuba	49.2	56.0	53.3	38.3	45.1	42.4	8.3	8.1	8.2	1.4	1.4	1.4
Dominica	40.8	44.4	43.3	28.7	29.2	28.4	12.1	15.2	14.9	3.0	2.4	1.4
Ecuador	18.8	26.6	27.3	13.0	15.7	17.2	5.8	10.9	10.2	2.0	1.5	0.9
El Salvador	14.8	15.3	17.2	12.3	12.6	14.4	2.6	2.7	2.9	2.4	2.3	2.5
Grenada	33.8	34.3	32.2	21.0	22.6	25.1	12.8	11.7	7.1	2.0	1.9	2.7
Guatemala	14.3	13.6	14.3	9.5	9.2	10.2	4.8	4.5	4.1	1.5	1.4	1.4
Guyana	30.5	29.2	30.8	18.4	20.0	19.5	12.2	9.2	11.4	1.8	1.7	1.6
Haiti	12.9	12.1	13.3	10.2	9.7	12.6	2.7	2.4	0.7	0.3	0.3	0.5
Honduras	22.2	22.2	23.5	18.0	17.4	19.0	4.1	4.8	5.2	0.7	0.6	0.7
Jamaica	32.9	34.5	37.1	28.3	30.5	33.3	4.6	4.1	3.7	11.4	12.3	14.6
Mexico [i]	17.3	18.5	19.2	14.3	15.0	16.5	3.0	3.5	2.7	1.4	1.4	1.7
Nicaragua	23.3	23.5	23.8	19.5	20.7	20.9	3.8	2.8	2.9	1.5	1.2	1.4
Panama	18.0	19.4	19.8	14.0	13.8	13.5	4.0	5.6	6.3	3.4	3.1	2.9
Paraguay	16.7	14.8	19.6	12.9	12.2	15.0	3.8	2.7	4.6	0.8	0.6	0.6
Peru	16.4	15.9	17.4	14.2	13.6	13.6	2.1	2.4	3.8	1.6	1.4	1.2
Dominican Republic	17.6	19.5	16.9	13.0	14.4	13.3	4.6	5.1	3.6	1.2	1.6	1.9
Saint Kitts and Nevis [j]	44.3	41.4	42.0	36.1	34.8	36.7	8.2	6.6	5.3	8.4	8.4	8.3
Saint Vincent and the Grenadines	34.1	35.8	36.2	25.3	27.5	29.4	8.8	8.3	6.7	3.0	3.0	3.0
Saint Lucia	29.6	29.8	32.8	21.2	23.2	25.0	8.4	6.8	7.8	3.1	2.9	3.5
Suriname	38.6	34.9	45.4	32.6	27.6	35.2	5.9	7.4	10.1	1.9	1.0	1.5
Trinidad and Tobago	26.0	27.4	34.1	20.6	21.4	28.2	5.4	5.9	6.0	2.0	1.8	2.6
Uruguay	22.1	21.1	21.8	20.6	19.3	20.3	1.5	1.8	1.6	3.7	2.8	2.7
Venezuela (Bolivarian Republic of) [k]	26.0	26.1	26.7	20.0	20.0	20.8	5.9	5.8	5.5	1.5	1.3	1.3

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

[a] Preliminary figures.

[b] Simple averages of the figures for 33 countries.

[c] Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[d] Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

[e] Non-financial public sector.

[f] General government.

[g] Total expenditure refers to expenditure plus investment, capital transfers and fixed capital consumption.

[h] Includes accrued expenditure and floating debt.

[i] Current expenditure, capital expenditure and interest correspond to federal government expenditure.

[j] Federal government.

[k] Total expenditure includes extrabudgetary.

Table A-37

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX BURDEN INCLUDING SOCIAL SECURITY CONTRIBUTIONS

(Percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean (33 countries) [b]	**18.2**	**18.1**	**18.4**	**19.0**	**19.6**	**20.2**	**20.9**	**20.5**	**20.5**
Latin America and the Caribbean (19 countries) [c]	**15.4**	**15.4**	**15.6**	**16.0**	**16.7**	**17.3**	**17.9**	**17.8**	**17.7**
Caribbean (13 countries) [d]	**21.7**	**21.5**	**21.8**	**22.9**	**23.0**	**23.7**	**24.7**	**24.3**	**24.5**
Antigua and Barbuda [e]	16.9	18.1	18.9	19.4	19.5	20.8	22.1	21.3	19.3
Argentina [f]	20.9	19.9	23.4	26.4	26.8	27.4	29.1	30.7	31.6
Bahamas [e]	15.4	13.6	13.8	13.8	14.1	15.6	16.3	17.3	15.3
Barbados [e]	32.0	32.0	32.0	32.2	31.4	34.1	33.4	32.9	32.3
Belize [e]	18.5	19.0	18.7	19.8	20.5	21.2	22.6	22.7	21.7
Bolivia (Plurinational State of) [f]	17.0	17.3	17.2	19.2	20.6	20.0	20.6	21.7	22.6
Brazil [f]	31.3	31.9	31.4	32.2	33.3	33.5	33.9	34.4	34.3
Chile	18.1	18.0	17.3	17.0	18.3	18.3	20.2	19.9	16.1
Colombia	13.3	13.2	13.5	14.3	14.7	15.5	15.7	15.5	15.0
Costa Rica	13.2	13.2	13.3	13.3	13.6	14.0	15.2	15.6	13.8
Cuba	25.9	26.6	26.9	23.3	28.7	30.0	27.7	23.3	21.2
Dominica [e]	22.7	23.5	25.3	26.7	28.4	29.1	30.7	30.4	31.6
Ecuador	13.3	14.2	13.0	12.8	13.1	13.9	14.4	16.0	17.9
El Salvador	12.3	13.0	13.3	13.3	14.0	14.9	15.0	14.6	14.0
Grenada [e]	22.5	22.2	23.0	22.1	23.0	23.6	24.4	23.7	22.9
Guatemala	11.1	12.2	11.9	11.8	11.5	12.1	12.3	11.5	10.7
Guyana [e]	17.8	18.5	18.1	19.4	20.2	20.1	22.0	20.2	21.6
Haiti [e]	7.4	8.2	8.8	8.9	9.7	10.4	10.8	10.6	11.7
Honduras	16.6	15.4	15.5	15.5	15.7	16.2	17.6	16.3	15.7
Jamaica [e]	21.6	22.0	24.2	24.3	23.4	24.0	24.6	24.2	26.7
Mexico	12.2	12.5	12.1	10.8	10.6	10.3	10.6	9.8	11.2
Nicaragua	16.0	16.8	18.6	19.3	20.3	21.6	22.4	22.1	22.2
Panama	15.2	14.8	14.6	14.4	14.3	15.7	16.4	16.5	17.0
Paraguay	12.0	11.2	11.3	12.9	13.0	13.1	12.6	13.0	14.5
Peru	14.3	13.8	14.5	14.7	15.2	16.7	17.1	17.2	15.2
Dominican Republic	13.1	13.0	12.0	12.8	14.6	15.0	16.0	15.0	13.1
Saint Kitts and Nevis [e]	20.9	22.3	23.8	25.9	28.9	28.3	28.4	27.0	26.6
Saint Vincent and the Grenadines [e]	24.4	27.3	26.1	25.6	25.5	26.9	26.7	28.6	27.1
Saint Lucia [e]	21.4	21.4	21.6	23.0	23.3	24.0	25.5	27.2	28.1
Suriname [e]	33.0	23.4	24.4	31.8	26.7	27.5	30.0	25.7	30.6
Trinidad and Tobago [e g]	15.4	15.8	13.4	14.0	13.8	13.3	14.1	14.3	14.1
Uruguay	22.8	21.9	21.9	22.0	23.0	23.7	23.3	24.2	25.1
Venezuela (Bolivarian Republic of)	12.2	11.2	11.9	13.3	15.9	16.4	17.1	14.3	14.5

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

[a] Preliminary figures.

[b] Simple averages of the figures for 33 countries.

[c] Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.

[d] Simple averages. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.

[e] Does not include social security contributions.

[f] General government.

[g] Refers to non-petroleum sector.

Table A-38

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT TAX BURDEN AND COMPOSITION OF TAX REVENUES

(Percentages of GDP)

	Total		Social security contributions		Direct taxes		Income tax and capital gains tax		Property tax		Other direct taxes	
	2008	2009 [a]	2008	2009 [a]	2008	2009 [a]	2008	2009 [a]	2008	2009 [a]	2008	2009
Latin America and the Caribbean (33 countries) [b]	**20.5**	**20.5**	**2.7**	**2.9**	**6.5**	**6.6**	**6.0**	**6.1**	**0.6**	**0.6**	**0.1**	**0.1**
Latin America and the Caribbean (19 countries) [c]	**17.8**	**17.7**	**2.7**	**2.9**	**5.6**	**5.5**	**4.9**	**4.8**	**0.7**	**0.6**	**0.0**	**0.0**
Caribbean (13 countries) [d]	**24.3**	**24.5**	**...**	**...**	**8.0**	**8.5**	**7.9**	**8.5**	**0.5**	**0.6**	**0.2**	**0.1**
Antigua and Barbuda [e]	**21.3**	**19.3**	...	...	3.9	3.8	3.4	3.3	0.4	0.5	0.0	0.0
Argentina [f]	**30.7**	**31.6**	5.1	6.7	8.5	8.1	5.3	5.0	3.2	3.1	0.0	0.0
Bahamas [e]	**17.3**	**15.3**	...	...	1.3	1.5	...	...	1.3	1.5	...	...
Barbados [e]	**32.9**	**32.3**	...	...	13.9	15.7	10.7	12.3	1.7	2.2	1.4	1.2
Belize [e]	**22.7**	**21.7**	...	...	7.6	7.8	7.4	7.6	0.2	0.2	0.0	0.0
Bolivia (Plurinational State of) [f]	**21.7**	**22.6**	1.8	1.8	5.2	7.4	4.0	6.2	1.2	1.2	0.0	0.0
Brazil [f]	**34.4**	**34.3**	8.5	9.1	10.3	10.1	7.9	7.6	1.9	1.9	0.6	0.6
Chile	**19.9**	**16.1**	1.4	1.5	7.3	5.0	7.3	5.0	...	...	0.0	0.0
Colombia	**15.5**	**15.0**	2.0	2.0	6.5	6.6	5.1	5.6	1.3	1.0	0.0	0.0
Costa Rica	**15.6**	**13.8**	0.3	0.3	5.0	4.8	4.4	4.1	0.6	0.7	0.0	0.0
Cuba	**23.3**	**21.2**	4.2	4.5	3.7	2.8	3.3	2.4	...	...	0.4	0.4
Dominica [e]	**30.4**	**31.6**	...	...	6.2	6.4	5.2	5.5	1.0	0.9	0.0	0.0
Ecuador	**16.0**	**17.9**	3.9	3.9	4.5	5.1	4.3	4.8	0.2	0.2	0.0	0.0
El Salvador	**14.6**	**14.0**	1.6	1.7	4.6	4.6	4.5	4.5	0.1	0.1	0.0	0.0
Grenada [e]	**23.7**	**22.9**	...	...	6.6	6.4	5.2	5.3	1.4	1.1	0.0	0.0
Guatemala	**11.5**	**10.7**	0.3	0.3	3.3	3.2	3.3	3.2	0.0	0.0	0.0	0.0
Guyana [e]	**20.2**	**21.6**	...	...	8.4	8.4	8.0	8.1	0.3	0.3	0.0	0.0
Haiti [e]	**10.6**	**11.7**	...	...	2.0	2.0	2.0	2.0	0.0	0.0	0.0	0.0
Honduras	**16.3**	**15.7**	1.2	1.2	5.2	4.8	5.0	4.6	0.2	0.1	0.0	0.0
Jamaica [e]	**24.2**	**26.7**	...	...	10.5	10.9	10.5	10.9	0.0	0.0	0.0	0.0
Mexico	**9.8**	**11.2**	1.6	1.7	5.3	5.2	5.2	5.0	0.2	0.2	0.0	0.0
Nicaragua	**22.1**	**22.2**	4.1	4.5	5.8	6.3	5.8	6.3	0.0	0.0	0.0	0.0
Panama	**16.5**	**17.0**	5.7	5.7	5.5	6.0	4.7	5.3	0.5	0.5	0.2	0.2
Paraguay	**13.0**	**14.5**	1.2	1.4	2.1	3.1	2.1	3.1	0.0	0.0	0.0	0.0
Peru	**17.2**	**15.2**	1.8	1.8	7.2	5.9	6.9	5.6	0.3	0.2	0.0	0.0
Dominican Republic	**15.0**	**13.1**	0.1	0.1	4.8	4.1	3.7	3.2	1.1	0.9	0.0	0.0
Saint Kitts and Nevis [e]	**27.0**	**26.6**	...	...	8.9	9.9	8.4	9.3	0.4	0.6	0.0	0.0
Saint Vincent and the Grenadines [e]	**28.6**	**27.1**	...	...	7.2	7.2	7.0	7.0	0.1	0.2	0.0	0.0
Saint Lucia [e]	**27.2**	**28.1**	...	...	8.6	8.9	8.5	8.8	0.1	0.2	0.0	0.0
Suriname [e]	**25.7**	**30.6**	...	...	13.2	16.1	12.8	15.7	0.0	0.0	0.4	0.5
Trinidad and Tobago [e g]	**14.3**	**14.1**	...	...	8.0	7.9	8.0	7.8	0.1	0.1	0.0	0.0
Uruguay	**24.2**	**25.1**	6.4	7.1	5.9	6.3	4.7	4.9	1.2	1.3	0.0	0.0
Venezuela (Bolivarian Republic of)	**14.3**	**14.5**	0.8	1.0	6.9	5.6	5.9	5.6	0.9	0.0	0.0	0.0

Table A-38 (concluded)

	Indirect taxes		General goods and services taxes		Specific goods and services taxes		Tax on trade and international transactions		Other indirect taxes		Othe taxes	
	2008	2009 [a]	2008	2009 [a]	2008	2009 [a]	2008	2009 [a]		2009 [a]	2008	2009
Latin America and the Caribbean (33 countries) [b]	**12.3**	**11.8**	**7.1**	**6.9**	**1.7**	**1.8**	**3.0**	**2.9**	**0.4**	**0.4**	**0.3**	**0.3**
Latin America and the Caribbean (19 countries) [c]	**9.5**	**9.1**	**6.6**	**6.3**	**1.5**	**1.7**	**1.3**	**1.2**	**0.0**	**0.0**	**0.3**	**0.3**
Caribbean (13 countries) [d]	**16.0**	**15.7**	**7.5**	**7.6**	**2.0**	**2.1**	**5.7**	**5.5**	**1.1**	**1.0**	**0.3**	**0.3**
Antigua and Barbuda [e]	17.4	15.5	8.7	8.3	0.0	0.0	6.9	6.2	1.8	1.0	0.0	0.0
Argentina [f]	16.7	16.3	10.7	11.0	1.7	1.8	4.4	3.5	0.0	0.0	0.4	0.5
Bahamas [e]	12.4	10.9	0.0	0.0	1.8	1.9	10.5	9.0	...	...	3.7	3.0
Barbados [e]	19.1	16.6	...	...	...	...	3.0	2.6	2.0	2.2	...	...
Belize [e]	15.1	13.9	...	...	9.1	7.9	6.0	6.0	...	...	...	...
Bolivia (Plurinational State of) [f]	14.2	12.5	10.0	9.1	3.0	2.4	1.2	1.0	0.0	0.0	0.5	0.9
Brazil [f]	15.1	14.5	13.0	12.7	1.5	1.1	0.6	0.5	0.1	0.2	0.5	0.6
Chile	10.5	9.2	8.9	7.7	1.3	1.4	0.3	0.2	0.0	0.0	0.7	0.4
Colombia	6.8	6.2	5.7	5.1	0.3	0.3	0.9	0.8	0.0	0.0	0.2	0.1
Costa Rica	10.3	8.6	6.0	4.9	3.1	2.8	1.2	0.9	0.0	0.0	0.0	0.0
Cuba	13.9	13.1	12.6	11.9	1.3	1.2	0.0	0.0	0.0	0.0	1.4	0.9
Dominica [e]	24.2	25.2	17.4	18.3	0.0	0.0	6.8	6.9	0.0	0.0	0.0	0.0
Ecuador	7.5	8.9	5.2	5.8	0.9	0.9	1.5	2.2	0.0	0.0	0.1	0.0
El Salvador	8.1	7.4	6.6	5.9	0.7	0.8	0.8	0.7	0.0	0.0	0.3	0.4
Grenada [e]	17.1	16.5	9.0	8.4	0.9	1.0	6.9	6.8	0.3	0.3	0.0	0.0
Guatemala	7.9	7.1	5.5	4.9	1.1	1.2	0.9	0.8	0.4	0.2	0.1	0.2
Guyana [e]	11.7	13.0	6.1	5.6	3.4	5.2	2.0	2.0	0.2	0.2	0.2	0.2
Haiti [e]	6.9	7.5	3.3	3.4	0.5	0.7	3.2	3.4	0.0	0.0	1.7	2.2
Honduras	9.9	9.7	6.2	5.3	2.5	3.6	1.1	0.8	0.0	0.0	0.0	0.0
Jamaica [e]	13.6	15.8	4.0	4.3	0.5	0.8	6.6	8.2	2.6	2.5	0.0	0.0
Mexico	2.7	4.2	3.8	3.5	-1.4	0.5	0.3	0.3	0.0	0.0	0.2	0.2
Nicaragua	12.2	11.4	7.4	7.1	3.7	3.5	1.0	0.8	0.0	0.0	0.0	0.0
Panama	5.1	5.1	2.3	2.3	1.0	1.2	1.8	1.6	0.0	0.0	0.2	0.1
Paraguay	9.5	9.8	6.1	6.3	1.9	2.1	1.4	1.4	0.0	0.0	0.2	0.1
Peru	8.1	7.3	6.5	5.7	1.0	1.1	0.5	0.4	0.1	0.2	0.2	0.2
Dominican Republic	10.2	9.0	4.7	4.2	3.9	3.5	1.6	1.3	0.0	0.0	0.0	0.0
Saint Kitts and Nevis [e]	18.2	16.7	8.0	7.1	1.5	1.0	6.5	6.2	2.1	2.3	0.0	0.0
Saint Vincent and the Grenadines [e]	21.4	19.9	13.9	13.3	0.0	0.0	5.7	5.4	1.9	1.2	0.0	0.0
Saint Lucia [e]	18.7	19.2	7.3	9.1	2.4	1.7	7.9	7.6	1.1	0.8	0.0	0.0
Suriname [e]	12.5	14.5	4.0	5.3	4.4	5.3	4.1	3.9	0.0	0.0	0.0	0.0
Trinidad and Tobago [e g]	6.2	6.2	4.3	4.2	0.6	0.6	1.3	1.4	0.0	0.0	0.0	0.0
Uruguay	11.4	11.2	8.6	8.4	1.7	1.8	1.1	1.0	0.0	0.0	0.5	0.5
Venezuela (Bolivarian Republic of)	6.7	7.9	4.7	5.9	0.9	1.1	1.1	0.9	0.0	0.0	0.0	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Simple averages of the figures for 33 countries.
[c] Simple averages. Includes information on 19 countries of Latin America and the Caribbean: Argentina, Bolivarian Republic of Venezuela, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Plurinational State of Bolivia and Uruguay.
[d] Simple average. Includes information on 13 Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname and Trinidad and Tobago.
[e] Does not include social security contributions.
[f] General government.
[g] Refers to non-petroleum sector.

Table A-39

LATIN AMERICA AND THE CARIBBEAN: CENTRAL GOVERNMENT GROSS PUBLIC DEBT

(Percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**44.9**	**58.2**	**57.3**	**50.9**	**42.8**	**35.8**	**29.9**	**28.2**	**30.2**
Argentina [c]	53.7	145.9	138.2	126.4	72.8	63.6	55.7	48.5	48.5
Bolivia (Plurinational State of) [d]	72.7	77.4	86.7	81.1	75.4	49.6	37.1	34.0	36.3
Brazil [e]	31.6	37.9	34.0	31.0	30.9	31.0	30.7	24.2	29.7
Chile [f]	14.9	15.7	13.0	10.7	7.3	5.3	4.1	5.2	6.1
Colombia [g]	36.7	41.6	42.4	38.9	39.1	37.4	32.9	33.5	35.0
Costa Rica	43.2	43.6	41.3	41.0	37.5	33.3	27.6	24.9	27.4
Ecuador	56.8	50.7	46.2	40.8	36.1	29.5	27.7	22.9	17.4
El Salvador [d]	30.7	35.2	37.2	38.1	37.3	37.3	34.5	33.4	41.7
Guatemala [d]	20.2	18.4	20.9	21.4	20.8	21.7	21.3	20.1	23.3
Haiti [h]	46.2	60.2	57.5	46.7	44.1	36.2	33.6	36.8	38.6
Honduras	53.9	55.5	60.7	59.6	44.7	28.7	17.3	19.9	24.3
Mexico [i]	20.5	21.9	22.1	20.7	20.3	20.6	21.1	24.5	28.3
Nicaragua	109.9	133.7	137.7	100.6	92.6	69.5	43.1	39.0	44.1
Panama [j]	70.1	69.0	66.6	69.6	65.1	60.3	52.3	44.4	44.5
Paraguay	41.1	59.2	44.4	38.0	31.4	23.8	16.9	14.5	15.7
Peru	34.5	43.2	43.4	40.1	36.9	30.1	26.2	24.1	23.4
Dominican Republic	...	...	...	...	22.0	20.4	18.4	24.4	28.0
Uruguay	40.8	96.2	91.9	72.7	65.4	57.8	48.9	47.7	43.3
Venezuela (Bolivarian Republic of) [k]	30.4	42.4	46.3	38.1	32.8	24.1	19.5	14.2	18.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Simple averages.
[c] National public administration. As from 2005, does not include debt not presented for swap.
[d] Does not include publicly guaranteed private debt.
[e] Net public debt. Federal government and central bank.
[f] Consolidated.
[g] Central national government.
[h] Does not include public sector commitments to commercial banks.
[i] Federal government.
[j] Does not include domestic floating debt.
[k] Non-financial public sector.

Table A-40

LATIN AMERICA AND THE CARIBBEAN: NON-FINANCIAL PUBLIC-SECTOR GROSS PUBLIC DEBT

(Percentages of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 [a]
Latin America and the Caribbean [b]	**48.5**	**62.7**	**61.4**	**54.2**	**46.5**	**39.6**	**33.6**	**31.6**	**33.2**
Argentina [c]	64.8	184.4	156.9	143.3	87.6	76.3	66.7	57.8	57.3
Bolivia (Plurinational State of) [d]	76.7	80.2	89.5	83.9	78.1	52.4	40.0	36.8	39.5
Brazil [e]	52.2	60.6	54.9	50.6	38.5	47.0	45.1	38.4	42.8
Chile [f]	20.2	22.1	19.5	16.8	13.0	10.6	9.1	12.0	12.7
Colombia [g]	51.6	58.4	56.5	51.6	50.1	47.3	43.8	42.9	45.1
Costa Rica	43.2	45.1	45.6	46.9	42.9	38.4	31.8	29.9	34.1
Ecuador [d]	62.7	54.7	49.5	43.7	38.9	32.0	30.2	25.0	19.5
El Salvador [d]	33.6	38.6	40.3	40.5	39.4	39.5	36.5	35.8	44.2
Guatemala [d]	21.7	19.6	22.0	22.4	21.5	21.9	21.6	20.4	23.6
Haiti [h]	50.7	66.5	63.5	51.1	47.5	38.7	35.9	37.8	28.4
Honduras	53.5	55.1	59.9	59.4	44.8	30.0	18.2	18.9	22.6
Mexico [i]	24.1	25.7	26.1	24.2	22.9	22.6	22.9	27.0	35.2
Nicaragua	111.3	134.1	138.0	100.7	92.8	70.0	44.0	40.1	45.3
Panama	71.1	69.4	67.0	70.4	66.2	61.0	52.9	45.0	45.1
Paraguay	44.0	63.0	46.9	41.7	32.8	24.8	19.9	17.3	17.8
Peru [j]	44.2	45.7	47.4	41.8	38.2	31.3	27.2	24.5	23.8
Dominican Republic [k]	19.7	23.1	39.7	25.2	26.5	23.7	21.5	25.3	28.6
Uruguay	45.6	103.3	97.9	76.9	68.6	61.1	52.1	51.1	47.0
Venezuela (Bolivarian Republic of)	30.4	42.4	46.3	38.1	32.8	24.1	19.5	14.2	18.4

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Simple averages.
[c] Up to 2002 the figures refer to national public-sector debt plus provincial debt. From 2003 on, the figures are consolidated.
[d] Refers to the external debt of the non-financial public-sector and central-government domestic debt.
[e] Net public debt. Public sector.
[f] Consolidated.
[g] Consolidated non-financial public sector.
[h] Does not include public sector commitments to commercial banks.
[i] Includes public sector external debt and federal government domestic debt.
[j] Includes local and regional government debt owed to Banco de la Nación.
[k] Public sector.

Table A-41

LATIN AMERICA AND THE CARIBBEAN: SUBNATIONAL GOVERNMENT FISCAL INDICATORS

(Percentages of GDP)

		2001	2002	2003	2004	2005	2006	2007	2008 [a]
Argentina	**Provinces**								
	Total revenue	11.2	10.4	11.3	12.8	13.4	13.5	13.9	13.9
	Total expenditure	13.6	10.9	10.9	11.8	13.1	13.4	14.0	14.4
	Primary balance	-1.5	-0.0	0.9	1.4	0.7	0.5	0.2	-0.3
	Overall balance	-2.4	-0.5	0.4	1.0	0.3	0.1	-0.1	-0.5
	Public debt	11.2	21.9	18.8	16.8	14.8	12.8	11.0	9.2
Bolivia (Plurinational State of)									
	Regional governments								
	Total revenue	7.8	8.2	7.7	8.5	10.2	12.1	12.3	11.3
	Total expenditure	7.9	7.9	7.3	8.0	8.1	10.2	11.2	10.8
	Primary balance	0.1	0.5	0.6	0.7	2.3	2.1	1.3	0.7
	Overall balance	-0.2	0.3	0.4	0.6	2.1	1.9	1.1	0.5
	Public debt	0.9	1.1	1.2	1.5	1.5	1.2	1.1	1.1
Brazil	**States**								
	Ingreso total	12.9	12.8	12.3	12.3	12.8	12.9	12.9	13.9
	Gasto total	12.7	12.7	12.0	11.9	12.3	12.5	12.2	13.1
	Resultado primario [b]	0.3	0.3	0.6	0.7	0.7	0.6	0.9	0.9
	Resultado global [b]	-0.4	-0.4	-0.1	0.1	0.0	-0.1	0.4	0.4
	Deuda pública [c]	17.6	19.8	18.6	18.1	16.3	15.4	14.0	13.8
Chile	**Municipalities**								
	Total revenue	3.2	3.3	3.1	2.7	2.9	2.7	2.7	2.9
	Total expenditure	3.2	3.3	3.1	2.8	2.8	2.5	2.6	2.8
	Primary balance	0.0	0.0	0.0	-0.0	0.2	0.2	0.1	0.0
	Overall balance	0.0	0.0	0.0	-0.0	0.2	0.2	0.1	0.0
Colombia	**Departments and municipalities**								
	Total revenue	7.2	7.9	8.2	8.2	8.3	8.1	8.1	8.1
	Total expenditure	7.2	7.8	7.9	7.5	8.0	8.3	8.6	7.8
	Primary balance	0.4	0.4	0.5	0.9	0.5	-0.0	-0.3	0.5
	Overall balance	0.1	0.1	0.3	0.7	0.3	-0.2	-0.5	0.3
	Public debt	3.4	3.1	2.4	1.8	1.7	1.5	1.6	1.4
Costa Rica	**Local governments**								
	Total revenue	0.9	0.8	0.8	0.8	0.8	0.9	0.9	0.9
	Total expenditure	0.8	0.8	0.8	0.8	0.8	0.8	0.9	1.1
	Primary balance	0.1	0.1	0.1	0.0	-0.0	0.1	0.0	-0.2
	Overall balance	0.0	0.0	0.1	-0.0	-0.1	0.0	-0.0	-0.2
Cuba	**Local governments**								
	Total revenue	15.9	17.3	17.5	17.9	20.8	21.3	21.3	23.4
	Total expenditure	15.9	17.3	17.5	17.9	20.8	21.3	21.3	23.4
	Primary balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Overall balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ecuador	**Provincial councils and municipalities**								
	Total revenue	3.9	4.0	3.7	4.3	4.0	4.1	7.0	3.7
	Total expenditure	3.3	3.8	3.4	4.2	3.7	4.1	4.5	4.4
	Primary balance	0.6	0.2	0.3	0.1	0.3	0.1	2.6	-0.7
	Overall balance	0.6	0.2	0.3	0.1	0.3	0.0	2.5	-0.7
Mexico	**State governments and federal district**								
	Total revenue	7.7	7.7	8.0	7.8	8.2	8.4	8.4	8.9
	Total expenditure	7.8	7.9	7.9	7.6	8.0	8.2	8.3	8.8
	Primary balance	0.0	-0.1	0.1	0.2	0.2	0.3	0.2	0.2
	Overall balance	-0.0	-0.2	0.0	0.1	0.1	0.2	0.1	0.1
	Public debt [d]	1.6	1.7	1.6	1.5	1.6	1.5	1.8	2.0
Paraguay	**Provincial governments**								
	Total revenue	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.4
	Total expenditure	0.4	0.2	0.3	0.5	0.5	0.5	0.4	0.3
	Primary balance	0.0	0.0	-0.0	0.0	-0.0	-0.0	0.1	0.1
	Overall balance	0.0	0.0	-0.0	0.0	-0.0	-0.0	0.1	0.1
Peru	**Local governments**								
	Total revenue	2.1	2.1	2.2	2.3	2.5	2.7	3.7	3.6
	Total expenditure	2.0	2.0	2.1	2.2	2.2	2.6	2.6	3.6
	Primary balance	0.1	0.1	0.2	0.1	0.3	0.1	1.1	0.0
	Overall balance	-0.0	0.1	0.1	0.1	0.3	0.1	1.1	0.0

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] The primary and overall balances do not include financial resources (credit operations and disposal of assets).
[c] Includes states and municipalities.
[d] Includes federal and municipal entities.

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Revista CEPAL / *CEPAL Review*

La Revista se inició en 1976 como parte del Programa de Publicaciones de la Comisión Económica para América Latina y el Caribe, con el propósito de contribuir al examen de los problemas del desarrollo socioeconómico de la región. Las opiniones expresadas en los artículos firmados, incluidas las colaboraciones de los funcionarios de la Secretaría, son las de los autores y, por lo tanto, no reflejan necesariamente los puntos de vista de la Organización.

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