South America

Argentina

Economic activity continued to make a recovery in 2004. GDP growth exceeded 8%, for a cumulative increase of over 18% since the low recorded in 2002. Aggregate output is approximately 3% below the annual high posted prior to the severe crisis of the early years of this decade. Unemployment is still high, especially if the jobs provided under special assistance plans are not taken into account, but there has nonetheless been a significant decrease in the jobless rate, which now stands at a comparable level to the rate registered prior to the most serious phase of the crisis. This, in conjunction with a partial recovery of real wages, has contributed to a slight decline in the country's high poverty and indigence rates. The annual rate of inflation (measured according to the consumer price index) has risen somewhat but, at about 6%, is still moderate.

The expansion of economic activity has been buoyed by the maintenance of a high real exchange rate and an improvement in the terms of trade, which has also helped to back up fiscal policy (thanks to export tax receipts). Another factor has been the perception that, despite the existence of unresolved issues in the aftermath of the crisis (such as the public debt), the economy is getting back to normal. This feeling has paved the way for production and spending decisions based on time horizons that, while still limited, appear to be gradually growing longer.

The trade account has once again yielded a hefty surplus, although it is smaller than the figure posted for the preceding biennium. The current account is also registering a positive balance equivalent to around 2% of GDP (even after computing the interest arrears on the external public debt). This outcome, together with the downward trend in the outflow of capital from the private sector, has generated a persistent excess supply of foreign exchange which has been absorbed by public-sector purchases (a build-up of reserves by the central bank and acquisitions paid for with the national government's financial surpluses). This policy is one of the factors that has helped to hold the nominal exchange rate steady, which has translated into a moderate appreciation in real terms.

The central bank has issued bonds at lower interest rates in order to sterilize a portion of the money created by these acquisitions. The means of payment have continued to expand, although more slowly than the year before. The broader monetary aggregates have increased substantially, even though the low rate of return on time deposits has dampened the private sector's demand for these instruments. In contrast, public-sector deposits are up sharply, and banks have been moving out of their deficit positions and maintaining their liquidity. Furthermore, despite the weakness of private-sector credit demand, the volume of bank financing has rebounded.

Fiscal management has proceeded smoothly. The public sector has generated the largest primary surplus (measured in terms of GDP) to be recorded in recent decades and is posting a sizeable financial surplus as well. This trend has been underpinned by a steep upswing in revenues, with significant increases in receipts from taxes on domestic activity (in a 10-month time span, revenues from the profits tax jumped by over 60% and VAT receipts by more than 50%) and on imports; collections of export duties have also risen, but less sharply. Government expenditure has been reconfigured and has been kept under control. The national public sector's primary expenditures (measured in terms of GDP) have climbed owing to an increase in transfers to the provinces, adjustments in retirement pensions and a sizeable upturn in capital expenditure.

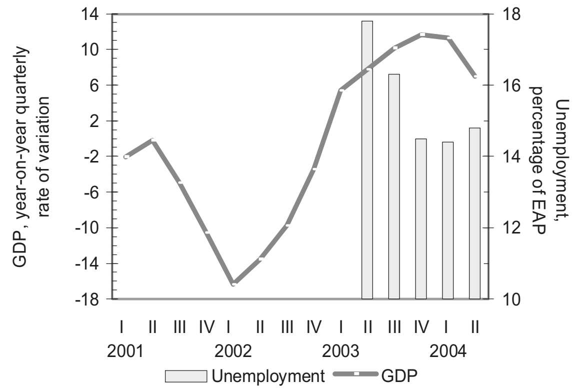
A portion of the external assets built up by public agencies has had to be used to pay off credits owed to the International Monetary Fund (IMF). Relations between the Argentine government and the Fund have had visible ups and downs, even though the country has fully met its fiscal targets. The authorities did not concur with some of the demands made by the Fund (one of which was for the government to generate even larger primary surpluses in the future) and, given the lack of agreement among the parties, the existing arrangement was suspended. A new programme is to be negotiated in 2005.

The government drew up a proposal for a bond swap in order to replace the securities that it had stopped servicing in late 2001 (this outstanding debt, including interest, totals somewhat more than US$ 100 billion). This proposal called for substantial debt reductions in both the debt principal and interest but, unlike the proposal put forward the year before, it recognized the interest arrears that have accumulated since payments were suspended. The projected service on the restructured debt would amount, over time, to more than 3% of GDP, which is quite a high figure in terms of Argentina's past fiscal record. The government secured a swap agreement with local pension fund managers, but the formal submission of the offer to all creditors has been postponed until early 2005.

In addition to the restructuring of the public debt, which will surely have an influence on the future economic outlook, other contractual issues which arose as a result of the crisis remain pending. These issues include those now under litigation in the wake of the conversion of debts into peso-denominated obligations. The Supreme Court has ratified the constitutionality of these measures, but this has apparently not laid the legal controversy to rest.

Another topic of debate has been the operation of privatized public utilities and, in particular, the outlook in terms of future energy supplies, after signs of possible shortages appeared midway through the year. In response, the government decided to create a public enterprise (with some shares perhaps to be held by private investors) in this sector. The authorities also announced their intention to take advantage of higher fiscal revenues and other resources to boost investment in infrastructure. Talks on the subject with the Government of China have covered plans for investments in such sectors as railroads, housing, hydrocarbons and communications. Be that as it may, the vast majority of basic services are provided by the private sector, and although a number of temporary agreements have been reached regarding privately-operated utilities, systems that define future terms and conditions regarding regulatory schemes, investments, and rates and prices are yet to be established.

ARGENTINA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Trends in aggregate demand in 2004 have reflected a steep increase in private consumption, which is thus outpacing GDP growth. Public consumption has risen very little, however, so the domestic savings/GDP ratio appears either to have held more or less steady or may perhaps have continued to rise. Investment has rebounded in all the components of the capital formation process and has apparently topped 18% of GDP. Construction has expanded once again (although less than in 2003) thanks to the use of liquidity built up by the private sector, in addition to higher public investment. At the same time, an appreciable increase has been seen in acquisitions of capital goods, especially in the agricultural sector and in smaller businesses; a less marked rise in such acquisitions has also been observed among large enterprises.

A larger amount of land was planted with soybeans for the 2003/2004 crop year, but the harvest was smaller owing to bad weather. The area planted with soybeans for the 2004/2005 crop year is expected to be about the same as last year's, in view of the fact that international prices for this crop have declined. Wheat output has risen considerably in 2004 and, although maize production is down, the area planted with maize for the current crop year is expected to have increased considerably.

Manufacturing output has risen by an estimated 10%, thereby regaining levels comparable to those recorded in 1999. Activity in this sector slowed during the second quarter (perhaps, in part, owing to reductions in energy supplies), but then picked up again. Noteworthy increases in production have been seen in the automotive, mechanical engineering, construction materials and chemical industries. The oil refining and iron and steel industries, on the other hand, have posted slight variations and have been operating at close to capacity.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	-10.8	8.7	8.2
Consumer prices	41.0	3.7	5.4 [b]
Real wages [c]	-13.9	-1.5	9.1 [d]
Money (M1)	43.6	43.2	35.3 [e]
Real effective exchange rate [f]	137.8	-6.9	3.9 [e]
Terms of trade	-0.6	8.6	6.5
	Annual average percentages		
Urban unemployment rate	...	17.3	13.8 [g]
National government overall balance / GDP	-0.3	0.3	1.3
Nominal deposit rate	39.3	10.5	2.5 [h]
Nominal lending rate	53.0	19.1	7.1 [h]
	Millions of dollars		
Exports of goods (f.o.b.) and services	28 684	33 231	38 622
Imports of goods (f.o.b.) and services	13 135	18 485	27 578
Current account	9 627	7 941	3 653
Capital and financial account	-25 339	-17 153	-10 853
Overall balance	-15 712	-9 212	-7 200

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

Employment levels have continued to rise, thanks to their elastic response to the upswing in activity. This response may in part reflect the influence exerted by the fact that labour has become relatively less expensive since the currency's depreciation. In the second quarter, the employment rate reached 39.4%, thus outstripping the high recorded for the 1990s. Even if the computations factor out the people whose main source of employment is one of the assistance plans implemented in this area (who account for 2% of the population), the employment coefficient is still comparatively high. The unemployment rate amounted to 14.8% in the second quarter (17.4% if the beneficiaries of job plans who are actively seeking work are not counted as employed) and is thought to have declined later in the year. Following a steep drop in real wages during the crisis, stronger labour demand in the private sector has fuelled a recovery that has benefited both registered and informal workers. Nominal wages have slipped somewhat in the public sector, but have remained in step with price variations.

The consumer price index (CPI) amounts to about 6% for 2004 as a whole. As a result of higher domestic spending levels, rate hikes for privately-operated services have outpaced the general rate of price increases. The real exchange rate has dipped slightly from its formerly high levels. Late in the year, the Argentine peso's real parity with the dollar has been nearly twice as high as it was when the convertibility regime came to an end. The multilateral exchange rate has been even higher, given the dollar's cumulative depreciation against the euro and the Brazilian real.

The country's surplus on the balance-of-payments current account has narrowed considerably, but the fact that it has maintained a positive balance during an upswing in the business cycle is a noteworthy development. The surplus on the merchandise trade account is smaller than it was the year before, but nonetheless appears to have topped US$ 11 billion (nearly 7.5% of GDP). The deficit on the services trade account has risen somewhat. A significant increase in inbound tourism has boosted revenues, but there has also been an offsetting rise in Argentine residents' expenditures in other countries. An upturn in profit remittances has influenced the result on the income account. Private capital flows are close to their equilibrium point, with a net outflow of some US$ 500 million being recorded for the first nine months of the year, versus an outflow of US$ 5.5 billion during the same period of 2003. In all, foreign-exchange movements have resulted in a sizeable build-up in reserves.

In terms of value, exports are up by nearly 13%. The predominant factor in this result is the increase in prices, although towards the end of the year there have been some signs of a slowdown in this trend while volumes have apparently been picking up. Clear differences are to be observed among the various categories of goods. In the first nine months of the year, exports of agricultural manufactures (especially dairy products and meat) were considerably higher, while exports of industrial manufactures rose by 17%. Merchandise imports, for their part, jumped by more than 60%. A particularly striking increase has been seen in imports of capital goods, which soared by almost 140% in the first nine months of 2004.

MERCOSUR has strengthened its position as an importer of Argentine goods to some degree, but even so, its share amounts to less than 20% and is therefore much smaller than it was a few years ago. On the other hand, with a 37% share, MERCOSUR retained its traditional position as a major supplier of Argentine imports. As a result, Argentina has run a deficit on its trade within the MERCOSUR area.

China's growing importance as a market for the country's exports (9% in the first nine months of 2004) has been one of the hallmarks of this period. The Argentine government has sought to expand trade with this country, and letters of intent have been submitted that herald the opening of export markets. In addition, China has now been granted market-economy status (a step that has given rise to apprehension in some local industrial sectors).

Bolivarian Republic of Venezuela

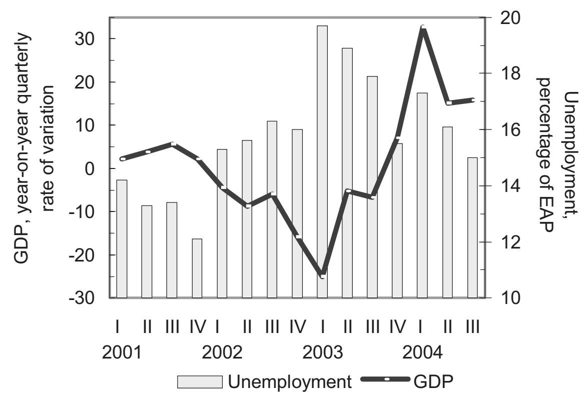
The political turmoil that had been observed in the Bolivarian Republic of Venezuela in 2003 carried over into 2004. The result of the recall referendum held on 15 August confirmed that the current President will remain in office until the end of his term in early 2007. At the same time, strong economic growth over the year (18%) came close to restoring economic activity to the levels seen prior to the general strike that was called in late 2002. The upswing was observed in all sectors, and its magnitude exceeded initial estimates. However, the value of GDP is still trailing its 2001 level.

The budget submitted in October 2004 projects a growth rate of about 5% in 2005. The authorities announced that as of 1 January 2005 the local currency would be devalued from 1,920 to 2,150 bolívares per United States dollar.

A number of factors were at work in the expansion of economic activity in 2004. First, the 2004 rate reflects a considerable statistical effect, since the first quarter of 2003 represented a very low basis for comparison, as shown by the fact that GDP in the first quarter of 2004 was up by a dramatic 32.8% over its level in the year-earlier period. Second, growth was boosted by the economic policies implemented in 2004.

Fiscal policy continued to be openly expansionary; in the first half of the year public spending by the central government was up by about 60% in nominal terms in relation to its level in the same period of 2003. Nonetheless, the overall fiscal deficit was slightly smaller than the year-earlier figure of about 4% of GDP. This was made possible by a large jump in ordinary revenues as a result of high crude oil prices and by an upsurge in tax receipts due to the economic upturn.[1] Added to this were the measures taken to reduce tax evasion, which helped to raise the intake of VAT and other taxes, and an across-the-board rise in the prices of goods and services subject to consumption taxes. In view of this situation, the government lowered the VAT rate from 16% to 15% as from 1 September 2004. The tax on business assets

BOLIVARIAN REPUBLIC OF VENEZUELA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

was eliminated as from the same date. The consequent drop in revenue from these sources was offset by the rise in receipts from oil sales and from other domestic taxes.

For the year as a whole the fiscal deficit of the narrowly defined public sector should come in at about 3.5% of GDP. This shortfall was financed through domestic borrowing and an increase in the foreign-exchange profits turned over to the government by the central bank. In 2004 the central bank continued the process of refinancing and restructuring the national public debt.

1 In the first 11 months of 2004 the average per-barrel price of the basket of Venezuelan crude was US$ 33.77, which was 31% higher than the 2003 average of US$ 25.76.

In the domain of exchange-rate policy, the government devalued the bolívar by 20% in nominal terms in February 2004, to a rate of 1,920 bolívares per dollar. Exchange-rate controls remained in place, but were loosened slightly.[2] This was reflected in the parallel exchange market, in which the local currency tended to appreciate.[3]

In 2004 nominal interest rates continued on the downward trend begun in 2003. There was a sizeable upturn in private credit extended by the banking system, the amount of which, in nominal terms, was 60% higher up to September 2004 than it had been up to December 2003. Monetary aggregates continued to expand in nominal terms, though at much slower rates than in 2003. By October 2004 currency in circulation (M1) had risen by 18.4% and broad money, by 23.1%, over their December 2003 levels (following increases of 74.7% and 57.5%, respectively, in 2003). Deposits in the banking system increased at a similar pace, with the exception of time deposits, which recorded an increase of 43% up to September 2004, compared to 22% in 2003.

The upturn in activity took place more or less across the board. The economy expanded by 20.4% in the first three months of the year, driven by a 20% increase in non-petroleum activity (the fastest-growing sectors were manufacturing, construction, commerce, transport and financial services) and by a sharp rise in import duties (68.1%). Petroleum activity grew by 18.6% over the same period. This smaller increase was due to the fact that production in 2004 showed no variation with respect to the final months of 2003. Manufacturing also recorded a significant upswing in the first seven months of 2004 in comparison to the same period of 2003 (38%); the largest increases were seen in sectors linked to construction, machinery and equipment production and motor vehicle manufacturing.

Domestic demand also improved, rising by 28.6% in the first three quarters of 2004 in comparison to its level in the same period of 2003. The upturn was driven by the rebound in investment, which was seen in both gross fixed investment and the replenishment of stocks. Consumption was up by about 15%.

Inflation, measured by the consumer price index, posted a substantial drop in relation to 2003, with a cumulative rate of 17.3% between January and November 2004, as against 27.1% in 2003. This was attributable to the real appreciation of the exchange rate, developments in exchange-rate policy, the maintenance of price controls and the wider availability of goods as a result of the increased imports made possible by the release of larger amounts of foreign exchange. The index of core inflation rose by 19.4% in the same period of 2004.[4]

With respect to the labour situation, the rate of unemployment dropped, to stand at 14.5% in September 2004 (down from 19.1% in January). The rate of informal employment out of the total remained above 50%, however. The general wage index was 14% higher in the first half of 2004 than it had been in December 2003; this represented a small rise in real terms. The increase was mainly the result of wage hikes in the public sector (30% in the period), since private-sector wages rose by only 8.6%.

BOLIVARIAN REPUBLIC OF VENEZUELA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	-8.9	-9.7	18.0
Consumer prices	31.2	27.1	19.5 [b]
Real wages [c]	-10.0	-16.7	-3.6 [d]
Money (M1)	8.0	58.0	53.7 [e]
Real effective exchange rate [f]	31.1	11.8	0.8 [e]
Terms of trade	6.5	12.7	12.1
	Annual average percentages		
Urban unemployment rate	15.8	18.0	15.3 [g]
Central government overall balance / GDP	-3.5	-4.3	-3.3
Nominal deposit rate	28.8	17.2	12.4 [h]
Nominal lending rate	38.4	25.7	17.5 [h]
	Millions of dollars		
Exports of goods (f.o.b.) and services	27 841	27 738	39 217
Imports of goods (f.o.b.) and services	17 329	13 834	19 629
Current account	7 599	11 524	15 594
Capital and financial account	-12 026	-6 081	-15 596
Overall balance	-4 427	5 443	-3

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Private sector.
[d] Estimate based on data from January to September.
[e] Data to October.
[f] A negative rate indicates an appreciation on the currency in real terms.
[g] Estimate based on data from January to October.
[h] Average from January to October, annualized.

2 Foreign exchange became easier to obtain in the controlled market because the list of products that could legally be imported was lengthened and the travel quota was increased. The maximum allowable amount of remittances abroad also increased. In addition, the Foreign Exchange Board (CADIVI) significantly increased the amount of foreign currency released daily.

3 In 2004 the price of the bolívar in relation to the dollar moved from 3,240 in February to 2,550 in September.

4 The central bank defines the index of core inflation as an alternative measurement of consumer prices. The prices used in calculating the index are those of processed foods, textiles and clothing, non-energy industrial goods and services, as well as goods and services not subject to price controls.

External trade rallied strongly in 2004, with sharp increases in both exports and imports of goods. The steep rise in exports (48.9% in the first three quarters of the year compared to the same period of 2003) was essentially due to the increase in international oil prices. The upturn in merchandise imports (62.7% in the same period) reflected the low figures recorded in 2003, the wider availability of foreign exchange and a brighter economic outlook. Even though imports climbed strongly in 2004, the robust performance of exports was enough to swell the merchandise trade surplus significantly (to US$ 23.2 billion, compared to US$ 16.25 billion in 2003). As a result, in 2004 the current account surplus amounted to US$ 15.5 billion, or 14.6% of GDP (up from US$ 11.524 billion, or 13.5% of GDP, in 2003).

In October 2004 the central bank's international reserves stood at US$ 22.68 billion, including the resources available in the macroeconomic stabilization fund. These resources expanded to US$ 24 billion in July 2004, then declined as a result of the decision by Petróleos de Venezuela S.A. (PDVSA), with the agreement of the central bank, to institute a new foreign-currency account, in combination with the company's external debt buy-back operations and the increased flexibility of the regime regulating the sale of foreign exchange.

Bolivia

Bolivia's political and social situation remained relatively stable throughout the year. In July a referendum was held on the management of hydrocarbons, but progress towards the passage of a new law in that area has been stalled in the legislature, where this issue has been the subject of much debate. The uncertainty surrounding the regulations governing this key sector of the economy has reopened conflicts within the region and has hindered the drafting of the budget bill for 2005, as part of the projected revenues will not be available until the hydrocarbons law has been adopted. The level of activity, the fiscal situation and the balance-of-payments current account improved in relation to 2003. Nevertheless, the country has not yet come close to emerging from the low-growth phase that began in 1998 or to overcoming the severe constraints it faces in the fiscal and monetary spheres. According to ECLAC estimates, GDP expanded by 3.8% in 2004 (compared to 2.4% in 2003). The prospects for 2005 depend to a large extent on the consolidation of political and institutional stability, as well as a favourable international context, which was a decisive factor in 2004.

The country's fiscal situation was significantly better in 2004 than it had been in 2003, when the non-financial public sector had run a fiscal deficit equivalent to 7.9% of GDP. The pension system's deficit –which accounts for most of this shortfall– stood at 4.9% of GDP in 2004. About 69% of the fiscal deficit was covered through the use of external financing, particularly soft loans. At the beginning of the year the country's fiscal situation was critical, prompting the government to seek exceptional external financing in February. As this initiative was unsuccessful, expenditure had to be contained and new taxes created. The Congress adopted a financial transactions tax, which came into force in July and provided for certain exceptions. Tax receipts increased owing to the growth of hydrocarbons exports and to the exceptional revenues received between March and May as a result of a tax amnesty programme ("perdonazo"). This additional income, which exceeded the programmed amount, was used to increase public investment in infrastructure. In the first eight months of 2004 current income rose by 26.8% and tax revenues, by 37.2%. Over that period, restrictions on current expenditure led to a 12.6% decline in goods and services purchases and limited the growth of outlays for personal services to just 7.7%. Investment rose by 45.8% and interest payments, by 24%. Owing to the delay in the disbursement of external funds, the treasury resorted to liquidity credits from the central bank, though without exceeding the limits agreed upon previously. The complex fiscal deficit problem led to an increase in total public debt, which, according to estimates, amounted to US$ 8.032 billion, or 91% of GDP, as of late September; domestic debt has also grown rapidly and accounts for 39.7% of that sum. Originally, the draft budget for 2005 envisaged a downturn in the deficit (to 5.5% of GDP) and additional revenues from the financial transactions tax, the hydrocarbons law and an increase in gas exports, as well as further spending restrictions. In late November, however, the Congress returned the bill to the executive branch for redrafting.

The debate on the financial transactions tax and the referendum on hydrocarbons triggered another wave of deposit withdrawals, which reached a peak at the end of June (when deposits were down by US$ 300 million, or 11.6%, in relation to their level of late December). By October the situation had begun to turn around, with the recovery of about US$ 60 million. Owing to slack demand and the downturn in deposits, the credit portfolio also diminished (by US$ 160 million, or 6.3%, between late December and late October). Non-performing loans continued to represent about 18% of the total. The central bank reacted to the deposit withdrawals by raising interest rates and injecting liquidity through guarantee credits and repo operations. Between February and August the liquidity squeeze set off increases in virtually the entire interest rate structure; subsequently, these hikes were partially reversed. As savings accounts in bolivianos are exempt from the financial transactions tax, there was an incipient de-dollarization of the monetary aggregates. Accordingly, the proportion of total M2 denominated in bolivianos went from 27.7% to 35.3% between December 2003 and October 2004. This positive effect of the tax is a first step towards reducing the economy's high level of dollarization, which is the focus of measures currently being devised by the authorities.

As of late October the rate of nominal devaluation within the crawling-peg exchange-rate regime was much slower than in 2003, owing to the stabilization of the currencies of some of Bolivia's main trading partners. By the end of October the boliviano had depreciated against the dollar by 2.8% in real terms and by 4.4% in effective terms in relation to its value at the end of 2003.

In the first half of 2004 there was an upturn in activity, as shown by strong export growth and the stabilization of private consumption and gross capital formation. These two variables, especially the latter, had suffered a serious deterioration in 2003. In the first half of the year GDP and overall demand registered year-on-year increases of 3.3% and 4.4%, respectively. The recovery scarcely involved domestic demand, which rose by only 1.2%, while exports grew by 15%. Hydrocarbon extraction and refining and food production accounted for much of the expansion. Agriculture was beset by weather-related and sanitary problems; for example, a drought reduced soybean yields. In 2005 economic activity will continue to depend on external conditions, including the possible expansion of gas exports to Argentina and the behaviour of soybean prices, which have been slipping since the first quarter of 2004.

BOLIVIA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	2.7	2.4	3.8
Consumer prices	2.5	3.9	4.9 [b]
Money (M1)	5.6	14.3	12.5 [c]
Real effective exchange rate [d]	-2.2	9.2	7.5 [c]
Terms of trade	0.5	2.4	8.6
	Annual average percentages		
Urban unemployment rate	8.7	9.5	...
Non-financial public-sector overall balance / GDP	-9.0	-7.9	-6.1
Nominal deposit rate [e]	2.7	1.8	2.0 [f]
Nominal lending rate [e]	10.9	9.1	8.2 [f]
	Millions of dollars		
Exports of goods (f.o.b.) and services	1 555	1 872	2 350
Imports of goods (f.o.b.) and services	2 072	1 976	2 209
Current account	-352	35	225
Capital and financial account	50	42	-227
Overall balance	-302	78	-2

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Data to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Average annual rate in dollars.
[f] Average from January to October, annualized.

At the end of November the inflation rate with regard to December 2003 prices was 4.0%, which was higher than the target of 3.5%. The rise in prices reflected shortages in the supply of agricultural products.

In the first half of the year the balance-of-payments current account recorded a surplus of some US$ 140 million, but the increase in deposit withdrawals resulted in a net outflow of capital. These flows made a partial recovery late in the third quarter, with the result that the level of reserves stabilized. Foreign direct investment inflows were very meagre. Exports, meanwhile, jumped by 39% between January and August and will probably exceed US$ 2 billion for the year as a whole (as against US$ 1.571 billion in 2003). The export boom was concentrated in a very narrow range of products: gas, fuels and soybeans, which account for two thirds of the growth posted in the first eight months of the year. Some manufactured products (clothing, wood manufactures) grew briskly, but still represent only a small proportion of the export supply. Tin and zinc benefited from higher international prices and regained some of their former pre-eminence as a share of external sales. In line with the weakness of domestic demand, import growth was slight.

Brazil

In 2004 Brazil's economy will post its best out-turn since 1994, with GDP growth of over 5%. This growth is particularly significant in that it was achieved together with a current account surplus and in a framework of fiscal austerity and inflation control.

The merchandise trade balance will show a surplus of US$ 33 billion, with an expansion of about 30% over the year in terms of both exports and imports of goods. Despite the large deficit on the income account, this outcome generated an unprecedented balance-of-payments current account surplus of some US$ 11 billion (1.6% of GDP). In the first three quarters of 2004 household consumption was up by 4% in relation to the year-earlier period, whereas in the first nine months of 2003 it had shown a cumulative decline of 2.4% in relation to the same period of 2002. The fiscal accounts will post a public-sector primary surplus equal to 4.5% of GDP, bringing the nominal deficit below 3% of GDP and reducing net public debt to 54% of GDP, from 58.7% at the end of 2003. For the first time in two years cumulative inflation for the year as a whole, measured using the extended consumer price index (IPCA), will be as low as 7.5%, which is within the target range for 2004.

More stable expectations and lower interest rates paved the way for an expansion of consumer credit, which set off a cycle that was favourable for domestic sales. This effect, combined with the impetus provided by external demand, boosted domestic output, with positive repercussions for employment and wage levels. The manufacturing industry grew by 8% over the first nine months of 2004. The economy added 1.7 million new jobs in the formal sector, and the unemployment rate eased from more than 13% in May 2004 to 10.5% the following October. After having fallen off sharply in previous years, the employed population's average income began to climb in the course of 2004, with the result that its level in the period July-October 2004 was 1.9% higher than it had been in the same period of 2003.

Completing this positive cycle, investment expanded by about 12%, improving considerably on its sluggish performance in 2003. However, there is still no guarantee that gross capital formation will continue to expand, for two reasons. First, in order to reach its inflation target for 2005, the central bank recently raised interest rates to bring the growth of demand into line with its assessment of the economy's output potential, thereby forestalling the emergence of inflationary pressures. Second, a number of structural reform initiatives aimed at improving the regulatory framework for infrastructure investment (to boost public-private partnerships, for example) or at facilitating the granting of credit and the definition of guarantees (a new legal framework for bankruptcies, for example) have yet to be adopted by the Congress.

For 2005 the central bank has announced that the inflation target, originally set at 4.5%, will instead be 5.1%, with an allowable deviation of two and a half points. This revision was made in response to supply shocks and to the higher prices of fuels and derivatives and their expected impact on administered prices.

In 2004 the country's economic policy continued to be geared to maintaining fiscal austerity and meeting the inflation target. In terms of fiscal policy, the government changed the public sector's primary surplus target by a quarter of a point, raising it to 4.5% of GDP, as a result of an increase in revenue (specifically, a real cumulative rise of 11% up to October) attributable to the economy's expansion and higher receipts of taxes and contributions. Particularly significant in this regard were the decision to make imports subject to the Contribution to the Financing of the Social Security System (COFINS) tax and the introduction of a new methodology, as part of the tax reform adopted in 2003, to reduce this tax's "cascade" effect.

The social insurance system continues to account for most of the fiscal deficit. Up to October its primary deficit amounted to 1.6% of GDP, slightly exceeding the 1.5% observed in the same period of 2003. Total federal government expenditure rose by almost 8% in real terms up to October, mainly because primary current expenditure (not including personal expenditure) increased by nearly 20% in real terms.

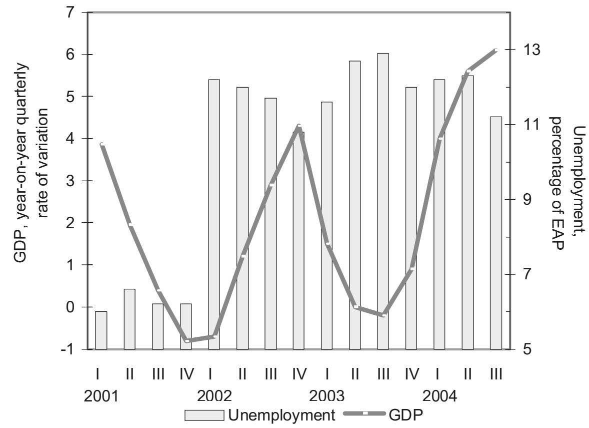
The salient feature of monetary policy was the expansion of the means of payment (M1), which grew by about 30% in the 12 months ending in October 2004 (after having dwindled by 3.7% in the year-earlier period). The behaviour of monetary liquidity in 2004 was linked to the expansion of total credit, which swelled by 19.7% in the 12 months ending in October, with increases of 26% in personal loans and 27% in business loans. Directed credit using mandatory funds expanded by 12.8% over the same period.

In January 2004, for reasons related to its management of the inflation targeting system, the central bank halted the downward trend of the economic policy interest rate. At the time, this rate stood at 16.5% per year, compared to 26.5% per year in February 2003. In March and April 2004 the declining trend resumed as the rate was reduced to 16% per year. In September, however, the central bank reacted to the increase in the level of activity and to the pressures that international price hikes were exerting on fuel and derivative prices by announcing that it would begin a process of raising the economic policy interest rate; as a result, the rate stood at 17.5% per year in November.

The third pillar of Brazil's economic policy was the maintenance of the floating exchange-rate regime, with limited central bank intervention. The bank purchased foreign exchange in the amount of some US$ 2.6 billion in January 2004 and carried out smaller-scale operations in the remaining months. Over the first 10 months of 2004 the country accumulated US$ 4 billion in reserves, which brought its total reserves, net of IMF liabilities, to US$ 22.2 billion. In November the government announced that it would purchase some US$ 3 billion on the market so that it could meet its outstanding external debt obligations up to June 2005 without drawing on international reserves.

The improvement in the performance of productive activity spread to all sectors. Agriculture continued its expansionary cycle, growing by 5.6% in the first three quarters of 2004 in comparison to the same period of 2003. The biggest increase was observed in the manufacturing sector, which expanded by 7.4% in that period. The segments of the manufacturing sector that achieved the largest increases in output were consumer durables and capital goods (26%), whose growth far outstripped that of intermediate goods (7.4%) and non-durable consumer goods (3.1%). Growth in the service sector was led by commerce, which expanded by 8.1%, followed by other services, which were up by 5.5%.

BRAZIL: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Household consumption was up by 3.9% between January and September 2004 in comparison to the same period of 2003, thus returning to the level recorded in 2000. Starting in the second quarter, this upward trend was accompanied by a steady increase in consumer confidence indices, which continued into the final quarter.

There was also a hike in gross fixed capital formation, whose level was 11.8% higher in the first three quarters of 2004 than it had been in the same period of 2003. The rise was attributable both to increased investment in machinery and equipment (23%) and to an upswing in the construction sector (5.9%). As a percentage of GDP at current prices, the investment rate is expected to stand at between 19% and 19.5%, thus recovering from the low level recorded in 2003 (17.8%, one of the lowest figures of the past few decades).

Employment fared well in 2004. In October the unemployment rate in the main metropolitan areas fell to 10.5%, after having reached an unprecedented 13.1% in April. There was an across-the-board increase in employment, with upturns of 6.5% in industry, 6.6% in construction, 5.7% in services and 1.2% in commerce. The earnings of formal-sector employees increased slightly in real terms in the course of the year.

The trade balance will end the year with an estimated surplus of US$ 33 billion. This impressive performance is due to a 30% rise in export value (which reached US$ 95 billion), and particularly to increases in commodity exports (by a cumulative 36% up to October 2004 in comparison to the same period of 2003) and manufactures exports (by 31.4% in the first

BRAZIL: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	1.5	0.6	5.2
Consumer prices	12.5	9.3	7.2 [b]
Real wages [c]	-2.1	-8.7	0.3 [d]
Money (M1)	20.2	8.7	14.4 [e]
Real effective exchange rate [f]	12.2	0.3	-4.1 [e]
Terms of trade	-1.3	-1.4	2.8
	Annual average percentages		
Urban unemployment rate	11.7	12.3	11.5 [g]
Federal government operating balance / GDP	-0.3	-1.0	-1.0
Nominal deposit rate	19.0	23.3	16.1 [h]
Nominal lending rate	44.4	49.8	41.2 [h]
	Millions of dollars		
Exports of goods (f.o.b.) and services	69 913	83 552	106 994
Imports of goods (f.o.b.) and services	61 749	63 851	78 492
Current account	-7 637	4 016	11 094
Capital and financial account	-3 542	-289	-6 693
Overall balance	-11 178	3 726	4 401

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Workers covered by social and labour legislation.
[d] Estimate based on data from January to September.
[e] Data to October.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Estimate based on data from January to October.
[h] Average from January to October, annualized.

10 months of 2004 in comparison to the year-earlier period). Three main factors account for this performance: an upsurge in sales to non-traditional markets such as China, Eastern Europe and other Latin American countries such as Mexico and Chile; increases in international commodity prices and in the volume of manufactures exports; and the renewed vigour of sales to Argentina.

Imports will reach US$ 62 billion, exceeding their 2003 level by 28.5%. In the period January-October the biggest upturns were seen in imports of fuel (47%) and consumer durables (28%). Significant increases were also observed in imports of intermediate goods (27%) and capital goods (14%), as the level of economic activity rallied.

The current account balance will stand at an estimated US$ 11 billion (1.6% of GDP), reflecting the combined effects of the trade surplus and the expected widening of the deficit on the income account (to US$ 20.6 billion, from US$ 18.55 billion in 2003). This larger deficit is due to the higher amount of net profit remittances, which totalled US$ 7.2 billion in 2004, as against US$ 5.1 billion in 2003.

The capital and financial account went from a US$ 334-million surplus in 2003 to a US$ 6.7-billion deficit in 2004. Net foreign investment fell from US$ 9.9 billion in 2003 to US$ 7.1 billion in 2004 as a result of a large jump in Brazilian investments abroad, which amounted to US$ 9 billion.

Although Brazil's international bond issues remained at the same level as in 2003 (about US$ 11 billion), the country's private sector posted a net payment of external debt that reduced its international liabilities from US$ 75 billion in December 2003 to US$ 68 billion in August 2004. In that month Brazil's total external debt fell to US$ 203 billion, of which US$ 20.5 billion corresponded to short-term debt (taking into account inter-company loans, total debt amounts to US$ 221 billion).

Debt indicators have therefore improved; the ratio of external debt to merchandise exports fell to 2.5 in June 2004, as against 4.7 in 1999. Brazil's trade negotiations with the European Union, through MERCOSUR, did not come to fruition in 2004. However, it signed an agreement with the Andean Community to consolidate the effort to strengthen South American integration. It also sought to expand its markets through trade agreements (such as the ones signed with China and Viet Nam) and trade missions to countries in Asia, Africa and the Middle East.

Chile

In 2004 the Chilean economy turned in its best performance since 1997, driven once again by the continued buoyancy of exports, particularly copper, which did well in terms of both price and volume. GDP grew at an estimated rate of 6% in real terms, almost doubling its 2003 growth of 3.3%. The terms of trade were up by a substantial 19.6%, compared to only 5.8% the preceding year. Record-high copper prices (US$ 1.49 per pound in October) were the main source of the expansion in the terms of trade and easily counteracted the negative effect of higher prices for petroleum, of which Chile is a net importer.

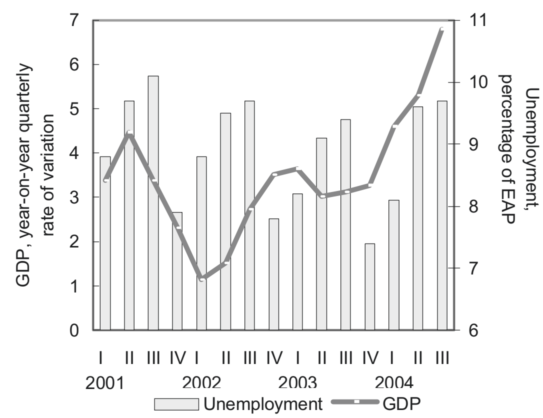
Inflation remained low, thus affording monetary policy makers additional degrees of freedom. Although annual inflation was below the floor of the 2%-to-4% band established by the central bank, this authority raised the monetary policy interest rate twice, in line with trends in the rate controlled by the United States Federal Reserve.

Unemployment was still high, at 9.4% of the labour force in the period August-October 2004 (quarterly moving average). This figure exceeded the 8.8% recorded in the same period of 2003.

Rising exports have been the main engine of GDP growth over the last five years. In 2004 exports are estimated to have increased by about 14.5%, while domestic demand rose by more than 7%. This latter development is attributable to a surge in investment, which jumped by about 10%, although this was not enough to bring it back to the record levels seen in the period up to 1998, when it had been equivalent to 27% of GDP. In 2004 investment represented 24% of GDP.

Economic policy in 2004 was directed mainly at averting fiscal, external and price imbalances. Within this framework, Chile achieved faster growth than in previous years, thanks to highly favourable terms of trade and strong international demand for its export products, in combination with a monetary policy geared towards economic expansion. The most significant note of caution comes from the unstable international situation, since a deterioration of the currently propitious external conditions could affect Chile's future expansion.

CHILE: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

The main objective of fiscal policy continued to be the maintenance of a structural surplus equivalent to 1% of GDP. The 2004 budget was based on GDP growth of 4.4% and a copper price of US$ 0.83 per pound, but these assumptions fell short of the levels actually achieved. Accordingly, instead of a deficit of 0.1% of GDP, the central government's fiscal accounts are

CHILE: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	2.0	3.3	5.8
Consumer prices	2.8	1.1	2.5 [b]
Real wages [c]	2.1	0.8	2.0 [d]
Money (M1)	14.2	19.1	19.7 [e]
Real effective exchange rate [f]	0.8	5.6	-7.6 [g]
Terms of trade	4.2	5.8	19.6
	Annual average percentages		
Urban unemployment rate	9.0	8.5	8.8 [d]
Central government overall balance / GDP	-1.2	-0.4	1.9
Nominal deposit rate	4.1	3.2	2.3 [h]
Nominal lending rate	14.4	13.0	11.0 [h]
	Millions of dollars		
Exports of goods (f.o.b.) and services	22 509	25 851	37 319
Imports of goods (f.o.b.) and services	20 909	23 602	28 672
Current account	-885	-594	2 908
Capital and financial account	1 083	228	-3 065
Overall balance	199	-366	-157

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] General hourly wage index.
[d] Estimate based on data from January to October.
[e] Data to November.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Data to October.
[h] Average January to October, annualized.

estimated to have run a surplus of about 1.9%. The government used the increased revenues from copper, as well as funds raised through the issuance of sovereign bonds, to prepay debt incurred at rates higher than the ones available today.

Monetary policy was implemented in a context of below-target inflation, highly favourable terms of trade and external demand, a swelling surplus on the merchandise trade balance, voluminous capital inflows and low country risk. The central bank's inflation target is 3%, with an allowable range of 2% to 4%. Given the manoeuvring room afforded by the low rate of inflation (which was below the floor of the band up to October), the central bank lowered the monetary policy interest rate to help boost the economy. However, it raised the rate to 2% in September and 2.25% in November, a few weeks after the United States Federal Reserve increased its interest rates.

The 12-month rate of variation in the supply of money held by private individuals was 19.2% in real terms in October 2004, while 12-month inflation was 1.9%. The nominal annual rate of interest on one- to three-year deposits was 3.6% in October, and the 12-month expansion of bank credit was 10.9% in August. The proportion of non-performing loans in the financial system's portfolio decreased from 1.6% in December 2003 to 1.4% in October 2004.

In the course of the year the nominal exchange rate fluctuated between 559 and 650 pesos to the dollar, with no significant market intervention by the central bank. The multilateral exchange rate (where 1998=100) showed a variation of 1.8% in 2004, and international reserves slipped from US$ 15.851 billion in December 2003 to US$ 15.704 billion in October 2004.

Low interest rates provided the impetus for an upswing in construction and rises in durable goods consumption and investment. Employment increased only slightly, however, by 1.3% in the first three quarters with respect to the same period of the preceding year, and was therefore the principal weak spot in the economy's performance. Wage employment grew at a faster rate of 2.7%, but this was partially offset by a decline in own-account employment. The behaviour of real wages mirrored that of inflation, with larger increases early in the year and smaller ones in the second half, when price rises became sharper. On average, real wages went up by 2% over the year as a whole.

As regards the external sector, the current account posted a surplus of US$ 2.268 billion in the third quarter, while the trade balance (f.o.b.) showed a surplus of nearly US$ 7.5 billion in October. Up to that month, imports expanded by 22.9% and exports, by 49.3%. Volume increases accounted for 12.3% of the growth in exports, while price increases accounted for 33%.

Colombia

In 2004 the Colombian economy performed well, buoyed in particular by private investment and external demand. Between January and September real GDP grew by 3.5%, equalling the rate observed in the same period of 2003. For 2004 as a whole, real GDP will grow by about 3.3%.[1]

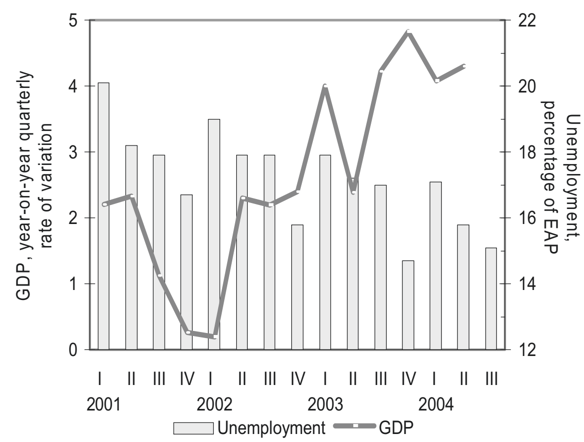
Fiscal affairs remained the primary focus of debate, with the discussion of reform proposals aimed at creating conditions for reducing the country's high level of debt. In May negotiations began on the conclusion of a free trade agreement between the United States, Colombia, Peru and Ecuador.

The government has submitted a new social security reform proposal to the Congress. The proposal has four main provisions, all of which are intended to enhance the system's financial viability. These provisions would eliminate special retirement regimes, end the practice of paying a fourteenth monthly pension benefit each year for new pensioners, establish a ceiling equivalent to 25 times the minimum wage for public-sector retirement pensions and bar workers from using collective bargaining to obtain social security conditions that are more advantageous than those provided under the general regime.

The fiscal accounts have behaved as programmed at the beginning of the year and are expected to meet the target for the consolidated public sector's deficit, of 2.5% of GDP at the end of 2004 (compared to the 2.7% recorded in 2003). A larger central government deficit is expected (5.6% of GDP at the close of 2004, compared to 4.8% in 2003), but the decentralized sector's surplus is also likely to be bigger (3.1% of GDP, compared to 2.5% in 2003).

Net borrowing by the non-financial public sector amounted to 50% of GDP in June, which was slightly lower than the figure recorded at the end of 2003 (51.5% of GDP). External debt represented about 53% of total debt at mid-year. The authorities conducted a number of transactions during the year to improve the maturity profile of the country's domestic and external debt.

COLOMBIA: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

The intervention interest rate was reduced from 7.25% to 6.75% in the first quarter of the year and was kept stable in the following months, so that real interest rates remained at historically low levels. By October the real deposit rate had reached 1.7% (12-month average), while the lending rate stood at 8.6%. In November the growth of the means of payment (M1) was somewhat slower than it had been in the year-earlier period (12.1%, compared to 16% in 2003). Over the same period, the broad monetary aggregate (M3) expanded slightly more than in 2003 (12%, as against 11% in 2003). The financial sector enjoyed faster growth and a higher-quality loan portfolio, especially for business and consumer loans.

1 The eradication of illicit crops reduced the percentage growth rate of GDP by 0.16.

COLOMBIA: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	2.7	4.1	3.3
Consumer prices	7.0	6.5	5.8 [b]
Real wages [c]	2.7	-0.1	0.8 [d]
Money (M1)	18.8	16.4	12.1 [e]
Real effective exchange rate [f]	3.1	13.1	-8.3 [g]
Terms of trade	-1.9	2.9	12.3
	Annual average percentages		
Urban unemployment rate [h]	17.6	16.7	15.5 [i]
National central government overall balance / GDP	-5.0	-4.8	-5.6
Nominal deposit rate	8.9	7.7	7.7 [j]
Nominal lending rate	16.3	15.2	15.1 [j]
	Millions of dollars		
Exports of goods (f.o.b.) and services	14 182	15 527	18 303
Imports of goods (f.o.b.) and services	15 409	16 642	19 128
Current account	-1 452	-1 345	-1 267
Capital and financial account	1 590	1 161	2 799
Overall balance	139	-184	1 532

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Manufacturing-sector workers.
[d] Estimate based on average from January to August.
[e] Data to November.
[f] A negative rate indicates an appreciation of the currency in real terms.
[g] Data to October.
[h] Includes hidden unemployment.
[i] Estimate based on data from January to October.
[j] Average from January to October, anualized.

The peso has continued to appreciate since the last quarter of 2003, owing largely to an increase in net capital inflows (foreign direct investment and asset movements), better terms of trade and higher volumes and values of exports and remittances. The monetary authorities adopted various measures over the year to slow down the peso's revaluation. By November the nominal exchange rate had appreciated by 8%.

Twelve-month inflation subsided from 6.5% in December 2003 to 5.4% in May 2004, partly because of a smaller increase in tradable goods prices as a result of the peso's appreciation, but rose again in subsequent months. Over the 12-month period ending in November inflation amounted to 5.8%, which was within the target range established by the monetary authorities (between 5% and 6%).

The conditions prevailing in 2004 were conducive to growth in the Colombian economy, which was driven mainly by private investment and external demand. In the third quarter, however, there was a slowdown in GDP growth because of the poor performance of agriculture and of mining and quarrying. The fastest-growing sector was construction (8.6%), which was boosted by an upswing in building construction; next in importance were industry (5%), commerce (5%) and the financial sector (4%). Investment was the main domestic factor propelling GDP growth, while private consumption, fuelled by an increase in durable goods consumption, made a recovery.

The unemployment rate, though still high, showed a tendency to decline. The average for urban areas (13 metropolitan areas) in the first 10 months of the year was 15.5%, compared to 16.7% one year previously. The labour-force participation rate diminished (from 64.4% to 62.9%) and employment stagnated (53%). The underemployment rate fell from 32% to 30.7%. Nationwide, the downturn in unemployment was more modest (from 14.4% to 13.9%), while the employment rate was down from 53.1% to 52.4% and the labour-force participation rate, from 62% to 60.9%.

Exports grew faster in 2004 thanks to high commodity prices and dynamic global demand, with the recovery of the Bolivarian Republic of Venezuela being particularly significant. In the first nine months of the year total exports swelled by 22%. The biggest boost came from non-traditional exports to the Bolivarian Republic of Venezuela (147%) and, to a lesser degree, from those to Ecuador (20%). Traditional exports (coffee, oil, coal and ferronickel) benefited from higher international prices. The United States was once again the main destination for Colombian exports (40% of the total), followed by the Andean Community countries (19%) –primarily the Bolivarian Republic of Venezuela (9%)– and the European Union (14%). Meanwhile, total imports grew by 17% in the first nine months of the year. Most of this increase was accounted for by raw materials and intermediate goods for industry (24%), followed by capital goods for industry (12%). Purchases of consumer goods increased by 14%, with consumer durables up by 23%.

The current account deficit is expected to close the year at 1.4% of GDP, improving on the 1.7% posted in 2003. The deficit on the non-factor services balance and higher external debt payments are estimated to have been offset by an increase in net transfers, especially family remittances, and by the trade surplus.

The balance-of-payments capital and financial account should close the year with a surplus on the order of US$ 2.8 billion (2.6% of GDP), which will be enough to finance the current account deficit of US$ 1.3 billion and to increase international reserves by US$ 1.5 billion. There were substantial capital inflows, in the form of both short- and long-term debt, and a smaller outflow of assets abroad, in both the public and private sectors. In turn, thanks to higher levels of investment in petroleum, hydrocarbons and mining, foreign investment inflows amounted to US$ 2.3 billion.

The extension of the country's IMF programme, which expires in January 2005, will boost confidence still further and will help Colombia to consolidate the progress it has made in fiscal and financial matters.

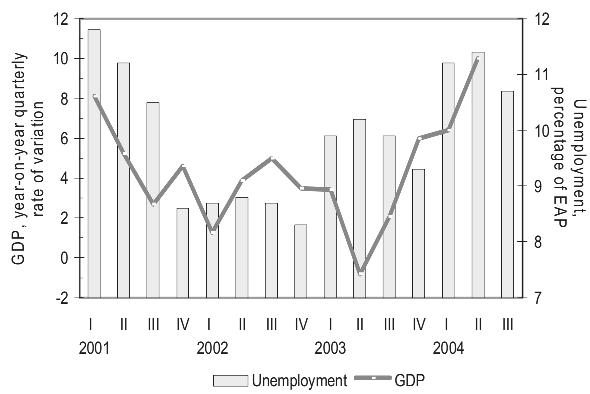
Ecuador

The Ecuadorian economy grew briskly in 2004, reflecting an increase in oil extraction by private companies. According to ECLAC projections, GDP growth amounted to 6.3% in 2004 and will reach 3.5% in 2005. The expected slowdown is due to projections of lower growth in private-sector oil production. The rapid expansion brought about a modest improvement in the employment situation. In addition, inflation continued to fall in 2004, reaching levels similar to the ones seen in developed countries. This, together with the depreciation of the dollar on international markets, resulted in an improvement in the country's exchange-rate competitiveness.

In the first half of 2004 the non-financial public sector recorded an overall surplus of US$ 358.9 million, thanks to a 15.4% increase in revenues compared to the figure posted in the first half of 2003, notwithstanding an 18.5% rise in expenditure. In particular, there was a 32.7% increase in oil export revenues and a 22.1% upturn in income tax receipts. With respect to expenditure, it should be noted, first, that there was a nominal 18.8% rise in payroll expenditure compared to the level observed in the first half of 2003. That year the proportion of total public spending under this item was the highest in the last 10 years (34.7%), and this proportion is unlikely to diminish significantly in the near future, with the result that the authorities will have less budget flexibility. Second, pension outlays increased in the first half of 2004: central government transfers rose by 48%, while other public-sector entities' transfers to the private sector climbed by 55.1%. In addition, in mid-2004 the Ecuadorian Social Security Institute raised pension levels and the Congress increased the minimum pension. Third, Ecuador's continued dependence on oil revenues is a cause of concern. Lastly, the decision to resort to domestic borrowing to finance the fiscal deficit entailed a significant increase (50.6%) in interest payments under this heading, albeit from a low initial level.

Following the expiration of its stand-by arrangement with the International Monetary Fund in April 2004, Ecuador did not enter into another arrangement with the Fund because the reforms required by that institution could not be implemented, mainly for political reasons.

ECUADOR: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Inflation eased and bank liquidity rose substantially (the sum of sight deposits and quasi-money in private banks increased by 15.3% between October 2003 and October 2004). By September 2004 benchmark interest rates on loans and deposits had declined to 11.7% and 3.5%, respectively. Financial-sector credit to the private sector increased by 19.8% between October 2003 and the same month of 2004.

ECUADOR: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	3.8	2.3	6.3
Consumer prices	9.4	6.1	2.0 [b]
Money (M1)	27.0	0.7	16.9 [c]
Real effective exchange rate [d]	-11.4	-2.5	4.3 [c]
Terms of trade	2.6	3.4	2.9
	Annual average percentages		
Urban unemployment rate [e]	8.6	9.8	11.0 [f]
Central government overall balance / GDP	-0.8	-0.9	-1.7
Nominal deposit rate	5.1	5.3	4.1 [g]
Nominal lending rate	14.1	12.6	10.5 [g]
	Millions of dollars		
Exports of goods (f.o.b.) and services	6 121	7 095	8 618
Imports of goods (f.o.b.) and services	7 828	7 858	8 892
Current account	-1 358	-455	128
Capital and financial account	1 230	592	326
Overall balance	-127	136	454

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Data to October.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Includes hidden unemployment.
[f] Estimate based on data from January to October.
[g] Average from January to October, annualized.

The upward trend witnessed in 2003 in the proportion of non-resident securities (including United States treasury bonds) in private banks' portfolios reached a peak in May 2004, then started to slide in July. As of October 2004 private banks kept 9.8% of their total assets (US$ 835 million) in non-resident securities. Similarly, deposits held abroad as a percentage of total assets reached a maximum (12.7%) in January 2004, after which they declined to 10.3%. At the same time, private banks increased the supply of credit in 2004, possibly owing to the steady increase in funds available for lending, as well as to the more attractive returns on loans (particularly consumer loans) in comparison to foreign asset holdings.

In the first half of 2004 GDP was 8.2% higher than it had been in the same period of 2003, mainly because of an increase in oil production by private companies following the coming on stream of a heavy crude oil pipeline in September 2003. Other sectors that enjoyed robust growth in 2004 were financial intermediation (after several years of stagnation following the 1999 crisis) and services other than commerce.

Inflation continued to trend downward in 2004; between November 2003 and the same month of 2004 the consumer price index went up by only 2%. Relatively similar rates of inflation are expected in 2005.

The depreciation of the dollar on international markets in 2004 in the context of substantial fiscal and current account imbalances in the United States, together with the significant decline in inflation in Ecuador, brought about an improvement in the country's exchange-rate competitiveness, measured by its real effective exchange rate. Thus, in the first 10 months of 2004 this rate increased (depreciated) by an average of 4.3% to stand at a level 6% lower than the historical average for the period January 1992 to December 1998 (prior to the 1999 crisis).

As a result of faster economic growth, the employment rate increased slightly, from 48.8% in the first 10 months of 2003 to 49.4% in the same period of 2004. At the same time, the underemployment rate declined. Nevertheless, owing to an increase in the labour-force participation rate, the unemployment rate rose to an average of 11.1% in the first 10 months of 2004.

With respect to the external sector, the balance-of-payments current account, which had started to improve in the last quarter of 2003, continued to strengthen. The balance on this account moved from a deficit of US$ 233 million in the first half of 2003 to a surplus of US$ 70.3 million in the same period of 2004. In the first 10 months of 2004 exports were 25.7% higher than they had been in the same period of 2003. The performance of oil sales more than offset the downturn in non-oil exports. Among the non-oil exports that did increase were shrimp (11.2%), after a number of bad years, and fresh flowers (9.5%), while exports of bananas and manufactures diminished. This pattern consolidates the position of crude oil as the country's chief export. Oil sales leapt by 47.1% in terms of volume and 74.3% in terms of value as a result of the hike in the price of crude. The value of imports rose by 16.7%, reflecting higher prices for various products, as well as higher volumes in several categories. In addition, in the first half of 2004 the balance-of-payments financial account deteriorated sharply, from a surplus of US$ 215.9 million to a deficit of US$ 268.4 million. This essentially reflected a sudden 50% slump in foreign direct investment (from US$ 1.0285 billion to US$ 513 million), which, in turn, was due largely to the completion of the heavy crude oil pipeline. Foreign direct investment in mining and quarrying also declined, albeit slightly. These decreases were observed despite the extremely favourable conditions for petroleum activity: soaring oil prices and excess transport capacity through the above-mentioned pipeline.

Lastly, there was an increase in outflows under the heading of errors and omissions, from US$ 67.8 million in the first half of 2003 to US$ 238.9 million in the same period of 2004. The net result of the financial movements described above was a slight increase (US$ 56.4 million) in freely available reserves in the first half of the year.

Paraguay

In 2004 the Paraguayan economy grew at a rate provisionally estimated at about 2.8%. The country thus completed its second consecutive year of growth, and this positive trend is expected to continue in 2005, with an expansion of about 3.5%. The upturn in the level of economic activity was accompanied by a decline in the inflation rate.

This solid performance by the real sector of the economy has taken place in an orderly macroeconomic environment sustained by significantly healthier fiscal accounts and the prudent management of monetary policy.

The central government's primary surplus at the end of 2004 is estimated at some 1.9% of GDP, which represents a substantial improvement over the figure posted at the end of 2003 (a surplus of 0.9% of GDP). In comparison to their levels in the first 10 months of 2003, tax receipts in the same period of 2004 showed a positive nominal variation of 36.8% and the central government's total expenditure showed an increase of 11.7%.

The higher level of activity and the introduction of administrative and legislative improvements (including a new customs code) decisively influenced the fiscal accounts by leading to robust increases in receipts of taxes on value added (32%), net income and profits (44%) and external trade (17%). These three taxes –together with the fuel tax, receipts of which rose by 51%, reflecting the oil price hike– accounted for almost 90% of the increase in tax revenues.

From the standpoint of the monetary and financial markets, the consolidation of a process of public confidence-building, which began when the current administration took office, had a positive effect on the demand for money. As the expansion of this demand was enough to absorb the increase in the amount of money issued by the central bank, there was a slowdown in the growth of monetary regulation instruments and, in particular, a sharp decline in their yields, from 12.85% per year in late 2003 to 4.28% in October 2004. The driving force behind the expansion of the monetary base was the upsurge in international reserves, which totalled nearly US$ 1.2 billion; this was more than double the value recorded in mid-2002, when reserves had reached their lowest ebb (some US$ 530 million).

However, the fact that this increase in demand has been relatively concentrated in more liquid assets, such as notes and coins and demand deposits, poses a problem in terms of channelling these resources into the financing of productive activity. Although the real downturn in bank credit to the private sector –which had continued for more than three years– has now been halted, there are no clear signs that this trend is reversing itself. This situation undoubtedly constitutes a significant constraint on the economic recovery process.

Central bank intervention in the foreign-exchange market stabilized the value of the guaraní and kept its real parity at an appropriately competitive level. The real effective exchange rate appreciated in the first few months of the year, but this was more than offset by a depreciation that began in June and continued until October, when the real parity of the guaraní was 4% above its level at the end of 2003. In relation to the dollar, the currency depreciated by less than 2% in real terms, but in relation to the currencies of Paraguay's MERCOSUR partners, the real exchange rate increased by somewhat more than 7% in the same period.

The estimated 2004 growth rate is attributable primarily to the performance of goods-producing sectors, especially those that produce agricultural goods. Upturns in livestock activity and in certain crops made up for the negative effects of the weather problems that affected soybean production early in the year, whose repercussions on total GDP are calculated at more than a full percentage point. Industrial activity, driven by the

PARAGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004 [a]
	Annual growth rates		
Gross domestic product	-1.6	3.8	2.8
Consumer prices	14.6	9.3	2.1 [b]
Real wages	-6.4	-2.0	-3.7 [c]
Money (M1)	4.7	25.7	26.4 [d]
Real effective exchange rate [e]	9.0	5.6	-5.8 [d]
Terms of trade	-3.5	5.0	2.9
	Annual average percentages		
Urban unemployment rate	14.7	11.2	...
Central administration overall balance / GDP	-3.0	-0.4	0.2
Nominal deposit rate	12.3	10.2	3.2 [f]
Nominal lending rate	34.3	30.5	22.5 [f]
	Millions of dollars		
Exports of goods (f.o.b.) and services	2 426	2 850	3 230
Imports of goods (f.o.b.) and services	2 488	2 869	3 625
Current account	73	146	-223
Capital and financial account	-197	85	432
Overall balance	-124	231	209

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

performance of the meat-packing segment, followed the general trend of the agricultural subsector. The performance of the service sector, whose growth is estimated to have fallen short of the overall average, was based essentially on an increase in electricity generation and on more vigorous activity in the areas of commerce and finance, as these activities account for a large proportion of the total.

The cumulative variation in the consumer price index (CPI) reached 1.3% over the first 10 months of the year, as against the 6.9% recorded in the same period of 2003. The behaviour of overall inflation in the course of the year was influenced by the opposing trends observed in two groups of products: downward pressure from food prices (especially for fresh foods) and upward pressure from fuel prices. For the year as a whole the CPI variation is estimated to have ranged from 2% to 2.3%, while the average of the monthly CPI values posted in 2004 was about 4.3% higher than the corresponding average for 2003.

In the first 10 months of the year exports were up by 28% in relation to their level in the same period of 2003 and by 14% in relation to their level for 2003 as a whole. This buoyancy in external sales can be traced to international price hikes and the maintenance of a high real exchange rate. However, exports were highly concentrated in terms of both the products that make up the export basket and their target markets. These circumstances tend to accentuate the Paraguayan economy's vulnerability.

Imports grew even faster than exports, presumably spurred by the upswing in economic activity. Total external purchases in the first 10 months of 2004 were 40% higher than the figure for the year-earlier period and 17% higher than the figure for the whole of 2003. As a result, in the first 10 months of the year the trade balance registered a deficit of US$ 756 million, whereas in the same period of 2003 the deficit had stood at US$ 433 million.

Although no employment data are available for 2004, that year's estimated growth and the prospects for 2005 can be expected to result in a decline in the unemployment rate and a degree of improvement in the country's high poverty indices. In the medium term, however, Paraguay's economy will have to meet a more demanding target, considering that, between now and 2010, it needs to grow by more than 4% a year just to bring per capita GDP back to 1995 levels.

Peru

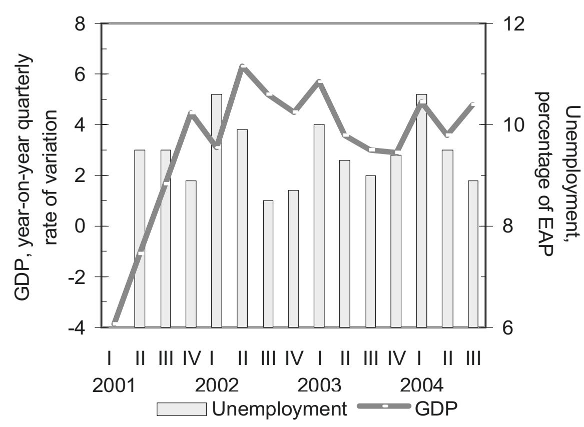
The Peruvian economy grew by 4.6% in 2004, surpassing both its 2003 performance and the expectations that had prevailed early in the year. This outcome was due to extremely favourable external conditions and the macroeconomic stability achieved in recent years. The expansion was led by exports and private investment, which grew by 12.5% and 8.7%, respectively, over the first three quarters. As a result of the export boom, the merchandise trade surplus widened and the balance-of-payments current account deficit narrowed to 0.3% of GDP. Private consumption, the biggest component of overall demand, expanded more moderately (by 3.1%), given that employment increased only slightly and average real income held steady. Inflation slightly overshot the upper limit of the band set by the central bank, mainly because of the high price of oil.

In 2005 export growth will probably slow down, but private investment, which is still low in historical terms, is expected to pick up and private consumption is likely to expand faster, with the result that GDP growth will again come in at about 4%.

Fiscal policy was slightly countercyclical, given that, in view of the high level of public debt (44.1% of GDP in September), the authorities took advantage of favourable economic conditions to build up the primary surplus (to approximately 1% of GDP for the whole year) and bring down the deficit of the non-financial public sector (from 1.8% of GDP to about 1%). This was made possible mainly by the behaviour of central government revenue, which rose by some 8% in real terms (in the first three quarters) as a result of higher receipts from general sales tax (following a rate increase in August 2003) and income tax, as well as the imposition of a financial transactions tax beginning in March. Public spending grew very moderately in the first six months and, despite an upturn later in the year, declined as a proportion of GDP for 2004 as a whole.

To finance the deficit and outstanding amortization payments, the government resumed the issuance of bonds on international markets (for a total of US$ 500 million) in April and floated its first euro-denominated bond issue (for 650 million euros) in October.

PERU: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

The authorities predict that the tax burden will continue to rise in 2005 (to 13.5% of GDP) and that the non-financial public-sector deficit will stand at 1.0% of GDP.

Monetary policy maintained the inflation-targeting system, under which the target was set at 2.5%, within a band of one point in either direction. Around the middle of the year cumulative 12-month inflation exceeded the upper limit of the band; in response to this and to external trends, the authorities raised the benchmark interest rate in August and October by a total of half a point, bringing it to 3.0% in October.

Thanks to macroeconomic stability and the solid performance of the external sector, the local currency strengthened and, between December 2003 and October 2004, the bilateral and multilateral real exchange rates fell by 4.2% and 3.8%, respectively. The massive inflow of foreign exchange contributed to an increase in the monetary base (24% as of late October), even though the authorities intervened by buying dollars and applying a sterilization policy that consisted of issuing certificates of deposit, the total balance of which grew from 4.1 billion to 7.4 billion nuevos soles between December 2003 and October 2004.

Trade policy continued to be geared to improving integration with other markets through measures such as an agreement between the Andean Community and the Southern Common Market (MERCOSUR) and negotiations (in conjunction with Colombia and Ecuador) on a free trade agreement with the United States. On the other hand, temporary safeguards were applied to textiles.

One of the most buoyant sectors was the manufacturing industry, which posted growth of 5.6% during the first three quarters, largely as a result of an increase in textile exports and an upturn in fishmeal production, but also thanks to a rise in domestic-market-oriented production. The mining and hydrocarbons sector continued to benefit from booming external demand, and recorded growth similar to its 2003 rate. Investment in this sector and in construction generated a rise in gross fixed capital formation. Moreover, the Camisea natural gas field came on stream and began to reverse the downturn in hydrocarbons production. The fishing sector recovered from the sharp contraction it had suffered in 2003, with growth of 24% in the first nine months of the year. Over the same period construction, services and the production of electricity, gas and water grew at rates of over 4%. Since the upturn in private consumption was moderate, commerce grew by only 3%, while agriculture declined by 2% as a result of adverse weather conditions.

In the first half of the year the consumer price index (CPI) rose faster on account of higher prices for oil and other commodity imports (such as wheat), along with the impact of the drought on food prices. In July year-on-year inflation reached a peak of 4.6%. Inflation subsequently fell to 3.95% in November, and is expected to approach the upper limit of the band set by the monetary authorities (3.5%) towards the end of the year. This downward trend is expected to continue in 2005. In November core inflation stood at 2.9%.

PERU: MAIN ECONOMIC INDICATORS

	2002	2003	2004[a]
	Annual growth rates		
Gross domestic product	4.9	3.8	4.6
Consumer prices	1.5	2.5	4.1[b]
Real wages	4.6	1.6	-1.1[c]
Money (M1)	13.6	10.6	17.8[d]
Real effective exchange rate[e]	-0.3	3.6	2.2[f]
Terms of trade	3.0	3.8	11.6
	Annual average percentages		
Urban unemployment rate	9.4	9.4	9.5[g]
Central government overall balance / GDP	-2.1	-1.8	-1.3
Nominal deposit rate	3.5	3.1	2.4[h]
Nominal lending rate	20.8	21.0	24.6[h]
	Millions of dollars		
Exports of goods (f.o.b.) and services	9 267	10 664	14 157
Imports of goods (f.o.b.) and services	9 946	10 864	12 610
Current account	-1 127	-1 061	-16
Capital and financial account	2 095	1 585	545
Overall balance	968	525	529

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Average from November 2003 to October 2004 with respect to the preceding 12 months.
[d] Data to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Data to October.
[g] Estimate based on data from January to October.
[h] Average from January to October, annualized.

The impact of economic growth on the labour market was muted. In the first nine months of the year formal-sector urban employment grew by 2.4%, which helped to push up the employment rate slightly. However, as labour-force participation also rose, the unemployment rate again showed little change. Although average labour income went up slightly, it lost purchasing power owing to the increase in inflation.

Export value shot up by more than a third, to US$ 12 billion. Traditional and non-traditional exports posted similar growth. The leading traditional exports were minerals, sales of which soared by about 50% thanks to sharp price hikes and, in the case of some products (such as copper and lead), volume increases. The expansion in non-traditional exports was across the board, with significant upturns in agricultural and fishing products, textiles and chemicals. Favourable trends in the prices of the country's export products offset the rise in the price of petroleum, with the result that the terms of trade improved for the third year running. Imports swelled by 15%, owing mainly to increased purchases of inputs such as fuel and, to a lesser extent, capital goods for the manufacturing industry. As a result, the merchandise trade balance expanded considerably, and is estimated at about US$ 2 billion for the year as a whole, compared to US$ 730 million in 2003. Although the impact of this development on the current account was limited by an increase in profit remittances, the current account deficit nonetheless shrank from 1.7% of GDP to a slightly negative balance. The overall balance therefore closed the year with an estimated surplus of 0.8% of GDP, despite a slight reduction in the financial account surplus (including errors and omissions). At the end of October international reserves exceeded US$ 12 billion, as against US$ 10.2 billion in late 2003.

Public and private external debt declined as a percentage of GDP to stand at 45.4% in September (compared to 49.1% at the end of 2003). Peru's relatively low country-risk rating improved its conditions of access to bond markets, given that the spread on its debt instruments (January-October average) was 368 basis points, down from an average of 429 basis points in 2003.

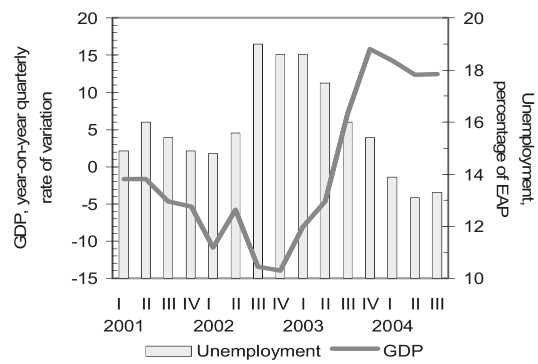
Uruguay

The new administration that will take office in March 2005 as a result of the October 2004 elections, in which it received 50.5% of the vote, will have a parliamentary majority but limited room for manoeuvre in terms of economic policy, which will continue along the same lines in 2005. In conjunction with the national elections, the citizenry also voted (65%) for mandatory State control of drinking-water and sanitation services.

The new administration undertook to devise a package of measures to deal with the urgent social problems besetting the country. In 2004 Uruguay's growth again surpassed the most optimistic expectations, yet some 76,300 of its 3.4 million inhabitants live in indigence; poverty has doubled over the past four years, bringing the poor population to 850,000; and 40% of the country's workers have no social security coverage. The President-elect has announced that his administration's first action will be to adopt a national social emergency plan (costing an estimated US$ 100 million) aimed at reintegrating drop-outs into the educational system and guaranteeing the entire population a basic level of food security.[1]

Economic activity registered solid growth throughout the year, buoyed by favourable regional and international conditions. In contrast to the situation in 2003, growth was driven by both exports and domestic demand, which were up by 18.8% and 15.9%, respectively, in the first nine months of the year in relation to the year-earlier period. The fastest-growing component of domestic demand was gross investment, which swelled by 31.2%, while final consumer spending went up by 14.2% and private consumption, by 16.3%. The higher level of private spending was financed with private savings and a recovery in the credit-card segment, as bank credit has yet to rebound. The upturn was observed in all sectors, with particularly strong growth in manufacturing (25.1%) and in commerce, restaurants and hotels (22.7%). The growth estimate for 2004 stands at about 12%.

URUGUAY: GROSS DOMESTIC PRODUCT AND UNEMPLOYMENT



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

Growth is predicted to reach about 6% in 2005, since the Uruguayan economy will be hurt by the slowdown in Argentina and the somewhat less favourable international environment (interest-rate hikes and high crude oil prices).

Fiscal policy was eased somewhat in 2004, given the recovery of government revenues as a result of increased economic activity and stricter control of tax evasion. In August the authorities adopted major changes to the tax regime, including reductions in the tax rates applicable to industrial and commercial income (IRIC), agricultural income (IRA), commissions (ICOM) and contributions to social security financing (COFIS), and

1 Data collected in 1999 showed that 48% of the country's young people between the ages of 15 and 19 had left school.

eliminated the increases in payroll tax (IRP) that had been announced in 2002.

In September 2004 the public sector's primary surplus amounted to 3.5% of GDP, as against 3% in 2003. Noteworthy in this connection was the improvement in the central government's accounts, which ran a surplus equivalent to 1.4% of GDP, after having posted a 0.2% deficit in 2003. This positive change took place at the expense of public enterprises, whose surplus shrank from 3.4% of GDP in 2003 to 2.1% in 2004, mostly because of larger outlays on energy purchases.

In the context of the fifth review under the country's standby arrangement with IMF, completed in October 2004, the authorities undertook to raise the public sector's primary surplus target from 3.3% to 3.4% of GDP; by September this target had, in fact, been met. The overall public-sector balance was equivalent to -1.5% of GDP, which represented an improvement over the -3.1% recorded in 2003 and the target of -2.9% agreed upon with IMF. By the end of September gross public debt had dropped to 96% of GDP.

With respect to fiscal policy, the authorities do not plan to increase the tax burden, but they will have to deal with a number of outstanding issues, including reform of the tax system and of pension funds for police, military and bank personnel, as well as the Large Taxpayer Unit to be set up within the Tax Administration Department.

In the second quarter of 2004, with a view to making monetary policy more contractionary (to achieve the inflation target) and also more flexible, the central bank adopted a target range rather than a precise target figure for the monetary base. The authorities, in turn, made more active use of repo operations (introduced in April) and began to offer forward contracts for the purchase and sale of dollars on the market. In the third quarter the monetary base amounted to 12.848 billion pesos, which was practically in the middle of the target range, and continued to follow a downward trend. The means of payment (M1), in contrast, were up by 8.8% in real terms with respect to the same period of 2003. In October the Banco República began to repay in advance the third tranche of reprogrammed deposits (US$ 773 million, or 40% of total deposits), which had originally been scheduled for repayment starting in June 2005.

In terms of exchange-rate policy, Uruguay continued to implement a flexible exchange-rate regime. As the monetary authority purchased all the foreign exchange needed for the year during the first six months, the price of the dollar increased until June. Subsequently, lower

URUGUAY: MAIN ECONOMIC INDICATORS

	2002	2003	2004[a]
	Annual growth rates		
Gross domestic product	-12.7	3.0	12.0
Consumer prices	25.9	10.2	8.2[b]
Real wages	-10.7	-12.5	-0.4[c]
Money (M1)	-2.2	23.0	20.7[d]
Real effective exchange rate [e]	23.7	24.1	3.6[d]
Terms of trade	-2.4	-12.1	0.9
	Annual average percentages		
Urban unemployment rate	17.0	16.9	13.0[c]
Central government overall balance / GDP	-4.9	-4.6	...
Nominal deposit rate	43.8	28.1	...
Nominal lending rate	92.0	121.0	50.3
	Millions of dollars		
Exports of goods (f.o.b.) and services	2 693	3 051	3 828
Imports of goods (f.o.b.) and services	2 492	2 707	3 509
Current account	322	52	28
Capital and financial account	-4 236	828	56
Overall balance	-3 914	880	84

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to November 2004.
[c] Estimate based on data from January to October.
[d] Data to October.
[e] A negative rate indicates an appreciation of the currency in real terms.

demand brought the nominal exchange rate down by 6%. Over the first eight months of the year, the country's competitiveness, as measured by its real effective exchange rate, dipped by 6%.

Following the entry into force of its free trade agreement with Mexico, Uruguay signed a reciprocal investment protection agreement with the United States. This agreement covers most sectors of activity, including the financial sector. The Uruguayan government also proposed that the two countries should work out an agreement to avoid double taxation.

In September 12-month inflation returned to single-digit levels. Price variations were negative in October (0.33%) and November (0.26%), with the result that inflation over the 12 months ending in November stood at 8.20%. Given that no public utility rate increases were foreseen for the rest of the year, the authorities probably met their 2004 inflation target of between 7% and 9%. In October wholesale prices of domestically produced goods fell for the third consecutive month (by 0.32%), having accumulated a 6.4% increase since the beginning of the year and a 7.8% increase over the previous 12 months. The average wage index climbed by 10.7% over the 12 months ending in October.

Employment figures also showed positive signs. The faster growth of employment between August and October (when the employment rate stood at 51.2%) reduced the unemployment rate (moving average for August-October) to 12.5%, as against 16.1% in October

2003. This suggests that employment levels are finally responding to the growth in output.

In the external sector, data up to August show that export value in dollars (f.o.b.) rose by 32.8% with respect to the same period of 2003, totalling US$ 2.121 billion, while import value (c.i.f.) climbed by 40.8%, reaching US$ 2.215 billion. Meat, which remained the chief export product in 2004 (24.9% of the total), surged by 65% in current values. Lastly, Uruguay benefited from the upgrading of its credit rating from B- to B by the risk-rating agencies Fitch and Standard & Poor's.